

August 01, 2018

IG Petrochemicals Ltd.

Capacity expansion of PAN will be the key trigger going ahead

Revenue grew strongly, however, profits stood in-line despite providing for one time exceptional item

The company's revenue grew by 18.6% y-o-y & 12.2% q-o-q to INR 3509.4 million. EBITDA grew by 20.3% y-o-y & 32.9% q-o-q to INR 847 million. EBITDA margins stood at 24.1% in Q1FY19, an expansion 30 bps from Q1FY18. Margin expansion is attributable to increase in spreads due to increased demand of Phthalic Anhydride, better recovery processes and operational efficiencies. Also, increased thrust on Infrastructure with good demand traction lead to increased demand of PAN across sectors.

Expansion of PAN capacity will be the key trigger going ahead

The company has proposed new brownfield expansion plan to increase its capacity by approx. 59,000 MTPA to 2,28,250 MTPA from the current 1,69,110 MTPA. This expansion will create strong visibility of IGPL in the Phthalic Anhydride(PAN) space and the company will control more than 50% market share in the Phthalic Anhydride space. We expect the PAN demand growth to be around 6-7% by FY20E along with tight supply in the foreign market. With no new capacity addition coming up in the next 2-3 years we expect the gap of ortho-xylene and PAN will widen, thereby witnessing significant increase in margins going ahead.

Maleic anhydride will contribute significant to the bottom-line going ahead

The company acquired Maleic Anhydride(MA) business of Mysore Petrochemicals(MPCL) for INR 744.8 million. Acquisition of Maleic Anhydride business will help the company to add more value added products and diversify itself from being only a PAN player to diversified business model. Maleic Anhydride is a high margin business with margins hovering around 50% in FY18. The company uses wash water as the raw material (captively sourced from PAN facility), hence insulated from any price increase.

Valuations

IGPL is the market leader in the Phthalic Anhydride(PAN) market in terms of capacity and cost control. Strong demand of PAN in domestic market, tight supply of PAN from domestic players, capacity expansion of IGPL and large entry barriers could lead to re-rating of the stock from current levels.

At the CMP of INR 450 the stock trades at 7x FY20E EPS of INR 64.1. We assign a target multiple of 10x and arrive at a target price of INR 649 indicating 44.1% upside from current valuations.

Financial Snapshot

(INR Millions)	FY16	FY17	FY18	FY19E	FY20E
Revenue	9,528	10,375	11,442	13,153	14,848
Growth%		9%	10%	15%	13%
EBITDA	1,132	1,639	2,673	3,246	3,387
Growth%		45%	63%	21%	4%
PAT	602	1,012	1,460	1,830	1,973
Growth%		68%	44%	25%	8%
EPS (INR)	19.5	32.9	47.4	59.4	64.1
P/B (x)	1.1	3.0	2.8	1.9	1.5
P/E (x)	5.3	11.5	10.1	7.6	7.0

Source: NSPL Research

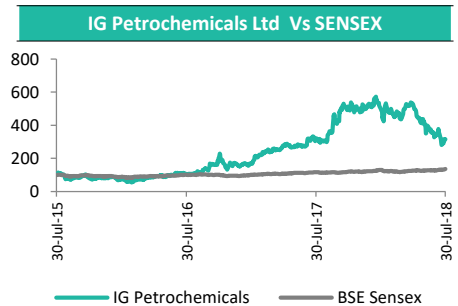
* Read last page for disclaimer & rating rationale

STRONG BUY*



Stock Details	
Industry	Speciality chemicals
Sensex	37494
Nifty	11320
Bloomberg Code	IGPL:IN
Eq. Cap. (INR. Mn.)	308
Face Value (INR.)	10
52-w H/L	836/391
Market Cap (INR. Mn.)	13860

	Valuation Data		
	FY18	FY19E	FY20E
P/E (x)	10.1	7.6	7.0
P/B (x)	2.8	1.9	1.5



	Shareholding Pattern (in %)		
	Jun'18	Mar'18	Jun'17
Promoters	72.22	72.22	23.32
FIIIs	1.79	2.99	1.74
DIIIs	0.37	0.23	0.14
Retail	25.62	24.57	25.91
Total	100.0	100.0	100.0

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Q1FY19 Result Analysis

(INR Millions)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Revenue	3509	2959	3128	18.6%	12.2%
COGS	2262	1894	2082	19.4%	8.6%
Employee Expenses	164	125	155	31.3%	5.6%
Other Expenses	236	236	253	0%	-6.7%
Total Expenses	2662	2255	2491	18.1%	6.9%
EBITDA	847	704	637	20.3%	32.9%
Depreciation	62	59	68	4.9%	-8.8%
Other Income	14	10	13	43%	8.3%
EBIT	799	655	582	22%	37.2%
Finance Cost	25	52	28	-52.3%	-10.5%
PBT	774	603	555	28.5%	39.6%
Exceptional items	95	0	0	-	-
PBT(Including exceptional items)	679	603	555	12.7%	22.5%
Taxes	276	212	220	30.6%	25.3%
Net Profit	403	391	334	3%	20.6%
EPS in INR	13.1	12.7	10.8	2.9%	20.5%

- The company reported sales growth of 18.6% y-o-y & 12.2% q-o-q to INR 3509 million in Q1FY19.
- Cost of goods sold (COGS) reported growth of 19.4% y-o-y & 8.6% q-o-q to INR 2262 million in Q1FY19. We believe rise in crude prices has led the ortho-xylene prices at elevated levels.
- EBITDA reported growth of 20.3% y-o-y & 32.9% q-o-q to INR 847 million in Q1FY19.
- EBITDA margins stood at 24.1% in Q1FY19 as compared to 23.8% in Q4FY18 & 20.4% in Q1FY18.
- PBT reported growth of 28.5% y-o-y & 39.6% q-o-q to INR 774 million in Q1FY19.
- The company has provided for a one time exceptional loss of INR 95 million which represents the amount written-off to the extent of the value of investments in Joint Venture by its subsidiary IGPL (FZE) as the Project is called off due to it being economically unviable.
- PAT reported growth of 3.0% y-o-y & 20.6% q-o-q to INR 403.2 million in Q1FY19.
- The company has an installed capacity of 175110 MTPA of PAN as on FY18.
- The utilization is hovering around 90-95% for the PAN capacity.
- The company is expanding the capacity from 175110 MTPA in FY18 to 228110 MTPA by FY20E.
- We expect significant visibility for the company going ahead on the back of strong demand of PAN growing at 6-8% annually.
- The current prices of PAN are hovering around INR 84 per kg and ortho-xylene prices are around INR 53-54 per kg.
- The company sources 90% of its ortho-xylene requirement from Reliance Industries Ltd.
- With the tight supply of PAN in global markets and increasing domestic demand we expect the gap of ortho-xylene and PAN to widen and improve the margins of the company going ahead.
- The total domestic consumption of PAN in India is 360-370 KTPA. Out the total domestic demand approx. 100 KTPA is met through imports.
- With IGPL increasing capacity by FY20E the company is making itself much stronger player in the domestic market and will gain significant visibility going ahead.
- End users of PAN are majorly the plasticizers which include the PVC, paints & coating etc. The PVC market is growing at 6% per annum and may go to 8-9% as well if government investments to boost infrastructure and housing is continued.
- We do not anticipate any major disruption from the Anti-dumping duty which is to be reviewed on December 2018. Even if the government removes the duty still no capacity are coming up globally in the next 2-3 years and global capacities are already running on optimum utilization. Hence, there cannot be flushing of PAN imports in the domestic market even if the duty is removed. And if the duty persists then the domestic manufacturers can optimize their capacity to optimum levels.

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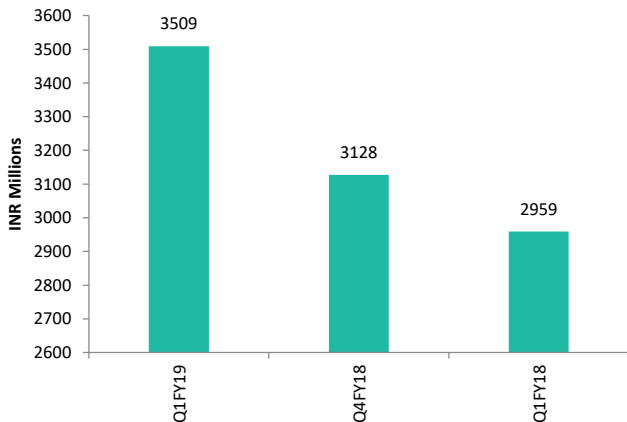
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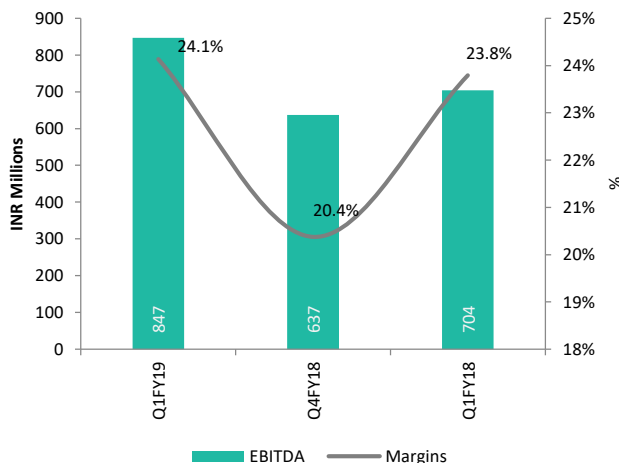
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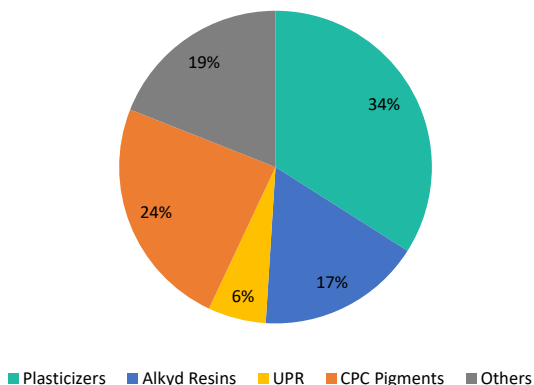
Revenue show a growth trend



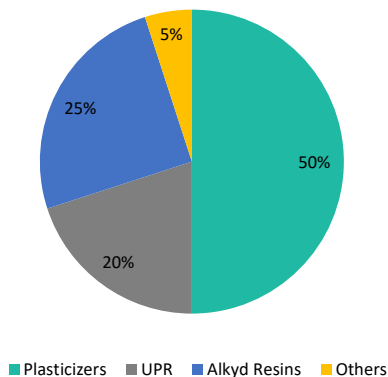
EBITDA margins improved yearly & sequentially



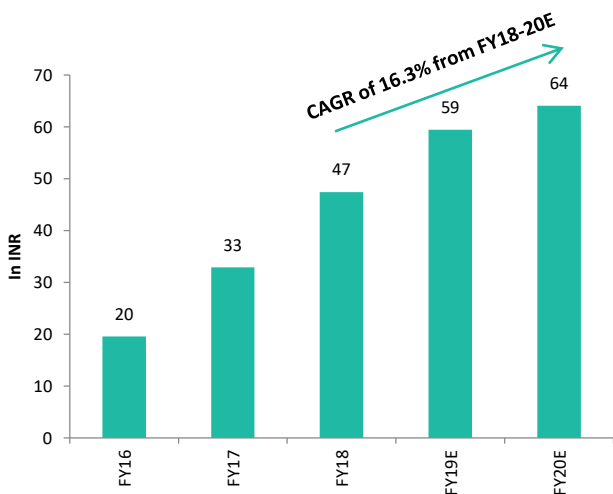
Domestic PAN applications



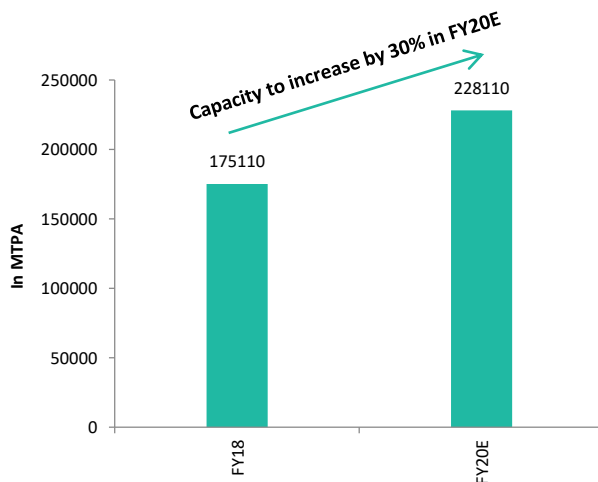
Global PAN applications



EPS growth to remain robust going ahead



Capacity addition trend to be strong going ahead



Source: NSPL Research



Profit & Loss (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
Net sales	9,528	10,375	11,442	13,153	14,848
COGS	7,341	7,512	7,275	8,143	9,291
Employee Expenses	298	397	558	624	746
Other Expenses	758	827	936	1,139	1,424
EBITDA	1,132	1,639	2,673	3,246	3,387
D&A	175	172	257	323	328
Other income	36	27	37	34	38
EBIT	992	1,493	2,453	2,957	3,097
Interest Expense	227	181	149	135	157
PBT	765	1,313	2,303	2,822	2,940
Exceptional Items	0	0	0	95	0
PBT(Including exceptional items)	765	1,313	2,303	2,727	2,940
Tax	164	301	843	897	967
PAT	602	1,012	1,460	1,830	1,973
EPS in INR	19.5	32.9	47.4	59.4	64.1

Balance Sheet (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
Share Capital	308	308	308	308	308
Reserves & Surplus	2,608	3,608	4,970	6,800	8,773
Shareholder's Funds	2,916	3,916	5,278	7,108	9,081
Long term borrowings	922	600	292	562	312
Long term provisions	18	19	28	28	28
Deferred tax liabilities	0	20	371	371	371
Other non-current liabilities	0	0	375	375	375
Total Non-current liabilities	940	640	1,066	1,336	1,086
Short term borrowings	3	24	327	562	312
Trade payables	1,528	1,707	1,498	1,785	2,164
Other financial liabilities	0	211	286	286	286
Other current liabilities	298	75	133	153	173
Short-term provisions	86	9	8	9	10
Current liabilities	1,915	2,026	2,252	2,795	2,944
Total Equity and Liabilities	5,771	6,582	8,596	11,239	13,112

Fixed Assets	3,222	3,244	4,008	6,185	6,057
Capital work in progress	44	112	886	489	182
Goodwill	0	0	20	20	20
Non current Investments	1	80	87	87	87
Loans	214	247	444	444	444
Total Non-current Assets	3,481	3,683	5,445	7,226	6,790
Inventories	896	966	944	1,115	1,273
Current Investments	0	0	407	407	407
Trade receivables	1,088	1,498	1,388	1,622	1,831
Cash and cash equivalents	170	299	217	646	2,559
Short term loans & advances	150	137	195	223	252
Total Current Assets	2,304	2,899	3,151	4,014	6,322
Total Assets	5,785	6,583	8,596	11,239	13,112

Source: NSPL Research



Cash Flow (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
PBT	765	1313	2303	2822	2940
Operating profit before working capital changes	1095	1538	2286	3280	3425
Operating profit after working capital changes	864	1264	1621	3132	3409
Less income tax paid	(171)	(282)	(757)	(897)	(967)
Cash Flow from Operating	694	981	864	2235	2442
(Incr)/ Decr in Gross PP&E	(94)	(336)	(764)	(2177)	128
Cash Flow from Investing	(62)	(348)	(791)	(2177)	128
(Decr)/Incr in Debt	(221)	(324)	(308)	270	(250)
Finance costs	(164)	(104)	(149)	(135)	(157)
Cash Flow from Financing	(644)	(479)	(154)	370	(657)
Incr/(Decr) in Balance Sheet Cash	(12)	155	(81)	428	1913
Cash at the Start of the Year	182	144	299	217	646
Cash at the End of the Year	170	299	217	646	2559

RATIOS	FY16	FY17	FY18	FY19E	FY20E
Profitability					
Return on Capital (%)	26%	33%	42%	36%	32%
Return on Equity (%)	21%	26%	28%	26%	22%
Margin Trend					
EBITDA Margin (%)	12%	16%	23%	25%	23%
Net profit Margin (%)	6%	10%	13%	14%	13%
Solvency					
Total Debt / Equity	0.3	0.2	0.1	0.2	0.1
Valuation Ratios					
P/E	5	11	10	8	7
P/B	1	3	3	2	2

Source: NSPL Research

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IG Petrochemicals Ltd				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
August 01, 2018	450	649	Strong Buy	Buy	5% - 15%
				Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO

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