

## Margin contraction led by volatility in RM prices impacted earnings: Reiterate BUY

IG Petrochemicals Ltd (IGPL), for Q4FY19, reported depressed performance. Revenue growth remains flat at 0.1% YoY to INR 3,131mn (est INR 3,221mn). EBITDA decline by 42.5% YoY to INR 367mn (est INR440mn) with 866bps YoY contraction in margin from 20.4% in Q4FY18 to 11.7% in Q4FY19 (est.13.6%) mainly due to decline in gross margins led by reduction in PAN/OX spread due to extreme volatility in raw material prices. During Q4FY19, production of PAN volume has grown by 11.6% on a sequential basis from 37,296MTn in Q3FY19 to 41,617MTn in Q4. However, on yearly basis, PAN volume grew by 7.3% due to customers resume buying which they had postponed during Q3 as stabilization in commodity prices. As we noticed stabilization in crude oil in recent months, we expect better volume uptick in going forward with improvement in margins on the back of increasing PAN/OX spread in favour of PAN. Net profit declined by 45.5% to INR182mn (est.INR 235mn), due to weak performance on the operational front.

## Capacity ramp up coupled with healthy demand scenario to boost profitability from Q4FY20

In order to meet growing demand and limited headroom for volume growth (capacity utilization 93%), IGPL is setting up a new plant through Brownfield expansion (PA4) and increasing its capacity by 53,000(TPA), taking its total capacity to 2,22,100 TPA. As per management, PA4 is expected to get commissioned in Q4FY20 and expected to reach 80-90% utilisation level in first year of commissioning. We modeled 30% utilization of increased capacity(53,000tpa) in Q4FY20 and 80% utilization for the same in FY21. This leads to 12.5% volume CAGR for FY19-21E. Our volume growth assumption is partially due to import substitute (1/3 PAN demand met by import) and healthy demand growth in the end user industries.

## Valuation and Outlook

IGPL has a leadership position in terms of capacity and costs in the domestic PAN market. The company is well positioned to witness steady revenue growth through brownfield expansion and higher capacity utilization on the back of healthy demand in end user industry. However, we are concerned about recent volatility in RM prices which lead to sharp decline in spread, which leave us to follow cautious approach on margin front. We expect Revenue/EBITDA/PAT to clock 14.2%/5.8%/16.2% CAGR during FY19-21E. At the current market price (of INR 293) the company is trading at 7.2x, it's FY20E EPS of INR 40.9 and 5.7x its FY21E EPS of INR 51.2. Recent correction from the top provides a good entry opportunity in the stock. We maintain our positive view with 'BUY' rating with the target price of INR 512 (based on 10x of its FY21E earnings).

## Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook **Positive**

## Stock

CMP (INR)	293
Target Price (INR)	512
BSE code	500199
NSE Symbol	IGPL
Bloomberg	IGPL IN
Reuters	IGPT.BO

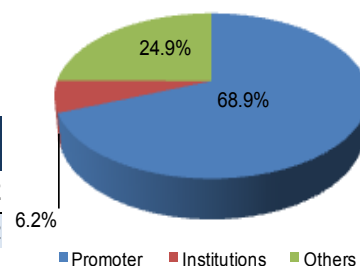
## Key Data

Nifty	11,925
52WeekHL(INR)	643/216
O/s Shares (Mn)	31
Market Cap (INR bn)	8.95
Face Value (INR)	10

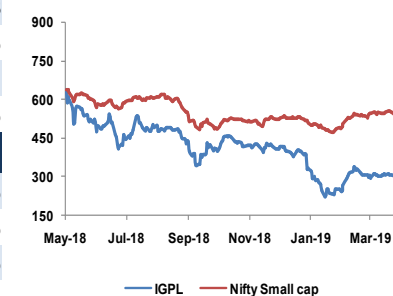
## Average volume

3 months	22,075
6 months	29,972
1 year	43,962

## Share Holding Pattern (%)



## Relative Price Chart



## Research Analyst

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## Key Financials

YE March (INR. mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	10,375	11,442	13,037	14,468	16,992
Growth %	9%	10%	14%	11%	17%
EBIDTA	1,639	2,673	2,259	2,086	2,530
Growth%	45%	63%	-15%	-8%	21%
Net Profit	1,012	1,461	1,169	1,261	1,578
Growth %	68%	44%	-20%	8%	25%
Diluted EPS	33	47	38	41	51
Growth %	68%	44%	-20%	8%	25%

## Profitability & Valuation

EBIDTA (%)	15.8%	23.4%	17.3%	14.4%	14.9%
NPM (%)	9.8%	12.8%	9.0%	8.7%	9.3%
RoE (%)	29.6%	31.8%	21.6%	18.4%	19.2%
RoCE (%)	37%	48%	29%	21%	23%
P/E (x)	8.9	6.2	7.7	7.2	5.7
EV/EBITDA (x)	5.7	3.5	4.6	4.8	3.4
P/BV (x)	2.3	1.7	1.4	1.2	1.0

Source: Company, BP Equities Research

## IG Petrochemicals Ltd Q4FY19 Quarterly Result

YE March (INR. mn)	Q4 FY19	Q3 FY19	Q-o-Q change %	Q4 FY18	Y-o-Y change %
Net Sales	3,131	3,154	(0.7%)	3,128	0.1%
Other Operating Income	0	0		0	
<b>Total Revenue</b>	<b>3,131</b>	<b>3,154</b>	<b>(0.7%)</b>	<b>3,128</b>	<b>0.1%</b>
<b>Less:</b>					
Raw Material Cost	2,384	2,415	(1.3%)	2,082	14.5%
Operating & Manufacturing Expenses	235	261	(10.0%)	253	(7.2%)
Employee Cost	146	144	1.6%	155	(6.1%)
<b>Total Expenditure</b>	<b>2,764</b>	<b>2,819</b>	<b>(2.0%)</b>	<b>2,491</b>	<b>11.0%</b>
<b>EBIDTA</b>	<b>367</b>	<b>335</b>	<b>9.4%</b>	<b>637</b>	<b>(42.5%)</b>
Less: Depreciation	69	68	2.1%	68	1.7%
<b>EBIT</b>	<b>297</b>	<b>267</b>	<b>11.3%</b>	<b>569</b>	<b>(47.7%)</b>
Less: Interest	24.5	16.6	47.6%	27.7	(11.7%)
Add: Other income	22	24		13	
<b>Profit before tax</b>	<b>295</b>	<b>274</b>	<b>7.4%</b>	<b>554</b>	<b>(46.9%)</b>
<b>Adjusted Profit before Tax</b>	<b>295</b>	<b>274</b>	<b>7.4%</b>	<b>554</b>	<b>(46.9%)</b>
Less: Total Tax	112	99	14.1%	220	(49.0%)
<b>Profit After Tax</b>	<b>182</b>	<b>176</b>	<b>3.6%</b>	<b>334</b>	<b>(45.5%)</b>
Other comprehensive Income	0	0		0	
Minority Interest	0	0		0	
<b>Adjusted Profit After Tax</b>	<b>182</b>	<b>176</b>	<b>3.6%</b>	<b>334</b>	<b>(45.5%)</b>
<b>Diluted EPS (Rs.)</b>	<b>5.9</b>	<b>5.7</b>	<b>3.6%</b>	<b>10.8</b>	<b>(45.5%)</b>
<b>Adjusted Diluted EPS</b>	<b>5.9</b>	<b>5.7</b>	<b>3.6%</b>	<b>10.8</b>	<b>(45.5%)</b>
Diluted No of Share (mn)	30.8	30.8		30.8	
<b>Margin Analysis %</b>			<b>Change in bps</b>	<b>Change in bps</b>	
<b>EBIDTA Margin %</b>	<b>11.7%</b>	<b>10.6%</b>	<b>109</b>	<b>20.4%</b>	<b>(866)</b>
EBIT Margin %	9.5%	8.5%	102	18.2%	(869)
<b>NPM %</b>	<b>5.8%</b>	<b>5.6%</b>	<b>24</b>	<b>10.7%</b>	<b>(486)</b>
Effective Tax Rate %	38.2%	35.9%	225	39.8%	(159)

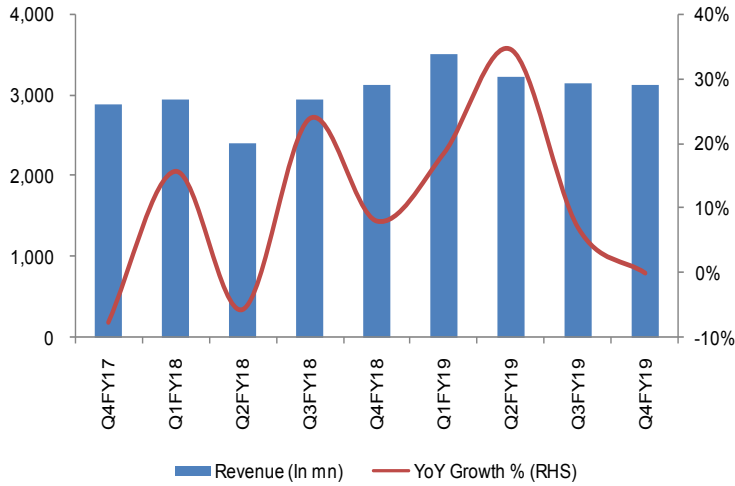
Source: Company, BP Equities Research

Revenue were below our estimates of INR 3,221mn due to lower realization

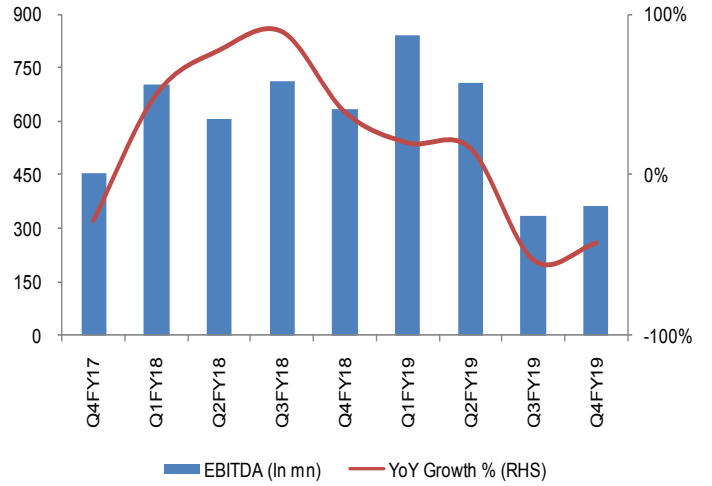
Adj. PAT came below our estimate of INR 235mn, mainly due to operationally weak performance

The EBITDA margin, at 11.7% was below our estimate of 13.6% , due to sharp increase in Raw material (OX) prices due to volatility in crude prices and increase in paraxylene (PX) prices while the Phthalic Anhydride (PAN) prices remained stagnant.

**Revenue growth trend**

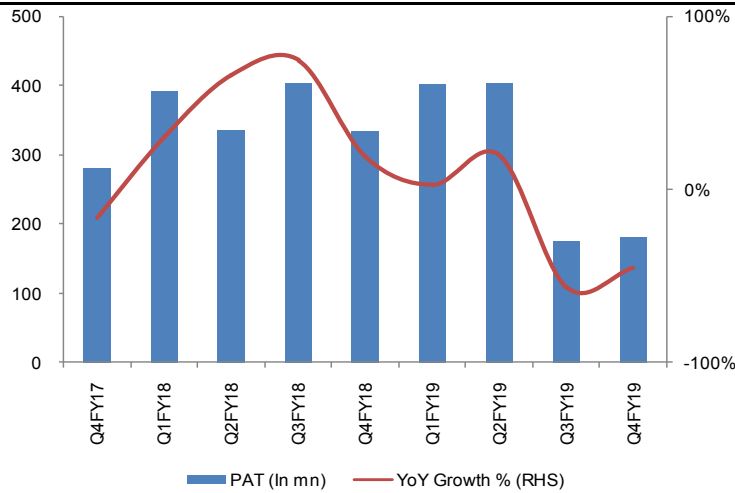


**EBITDA de-grew by 42.5% YoY**

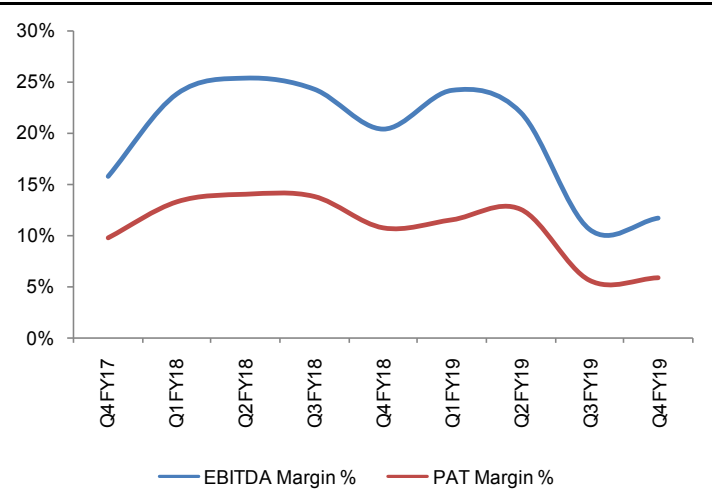


Source: Company, BP Equities Research

**PAT declined by 45.5% YoY**

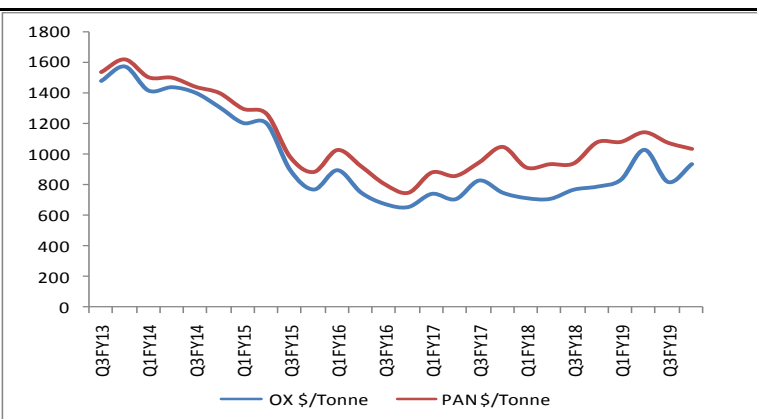


**EBITDA and PAT Margin Trend**

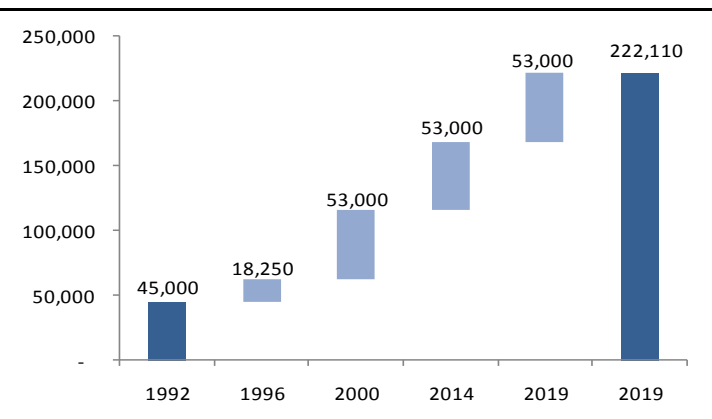


Source: Company, BP Equities Research

**PAN and OX price trend**



**Capacity Expansion Trend**



Source: Bloomberg, BP Equities Research



Profit & Loss A/c					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue</b>	<b>10,375</b>	<b>11,442</b>	<b>13,037</b>	<b>14,468</b>	<b>16,992</b>
<i>Growth %</i>	8.9%	10.3%	13.9%	11.0%	17.4%
<b>Total Revenue</b>	<b>10,375</b>	<b>11,442</b>	<b>13,037</b>	<b>14,468</b>	<b>16,992</b>
<b>Less:</b>					
Raw Material Consumed	7,512	7,275	9,128	10,557	12,369
Employee Cost	397	558	618	680	748
Other Expenses	827	936	1,032	1,145	1,345
<b>Total Operating Expenditure</b>	<b>8,736</b>	<b>8,769</b>	<b>10,778</b>	<b>12,381</b>	<b>14,462</b>
<b>EBITDA</b>	<b>1,639</b>	<b>2,673</b>	<b>2,259</b>	<b>2,086</b>	<b>2,530</b>
<i>Growth %</i>	44.6%	63.1%	-15.5%	-7.7%	21.3%
Less: Depreciation	172	257	265	311	327
<b>EBIT</b>	<b>1,467</b>	<b>2,416</b>	<b>1,994</b>	<b>1,775</b>	<b>2,204</b>
<i>Growth %</i>	53.1%	64.7%	-17.5%	-11.0%	24.1%
Interest Paid	181	149	121	121	121
Non-operating Income	27	37	77	50	50
Extraordinary Income	0	0	(83)	0	0
<b>Profit Before tax</b>	<b>1,313</b>	<b>2,304</b>	<b>1,867</b>	<b>1,704</b>	<b>2,132</b>
Tax	301	843	698	443	554
<b>Net Profit</b>	<b>1,012</b>	<b>1,461</b>	<b>1,169</b>	<b>1,261</b>	<b>1,578</b>
<b>Adjusted Profit</b>	<b>1,012</b>	<b>1,461</b>	<b>1,252</b>	<b>1,261</b>	<b>1,578</b>
<b>Reported Diluted EPS Rs</b>	<b>32.9</b>	<b>47.4</b>	<b>37.9</b>	<b>40.9</b>	<b>51.2</b>
<i>Growth %</i>	67.6%	44.3%	-20.0%	7.9%	25.2%
<b>Adjusted Diluted EPS Rs</b>	<b>32.9</b>	<b>47.4</b>	<b>40.6</b>	<b>40.9</b>	<b>51.2</b>
<i>Growth %</i>	67.6%	44.3%	-14.3%	0.7%	25.2%

(Source: Company, BP Equities Research)

Cash Flows Statement					
YE March (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
<b>PAT</b>	<b>1,011.9</b>	<b>1,460.5</b>	<b>1,168.7</b>	<b>1,260.7</b>	<b>1,577.8</b>
(Less)/Add: Extraordinary Income/Expense	0.0	0.0	82.9	0.0	0.0
Less: Non Operating Income	(26.6)	(36.8)	(76.8)	(50.0)	(50.0)
Add: Depreciation	171.9	257.0	264.6	311.1	326.5
Add: Interest Paid	180.5	149.3	121.4	121.4	121.4
Tax Adjustment	0.0	0.0	0.0	0.0	0.0
<b>Operating Profit before Working Capital Changes</b>	<b>1,337.7</b>	<b>1,830.0</b>	<b>1,560.9</b>	<b>1,643.2</b>	<b>1,975.7</b>
(Inc)/Dec in Current Assets	(396.1)	(355.5)	(893.8)	(201.3)	(355.1)
Inc/(Dec) in Current Liabilities	76.3	(76.8)	750.9	832.9	609.7
Changes in Inventory	(70.4)	22.2	(350.6)	(142.0)	(250.6)
<b>Net Cash Generated From Operations</b>	<b>947.5</b>	<b>1,420.0</b>	<b>1,067.3</b>	<b>2,132.8</b>	<b>1,979.7</b>
<b>Cash Flow from Investing Activities</b>					
(Inc)/Dec in Fixed Assets	(337.9)	(1,031.3)	(107.4)	(1,500.0)	(500.0)
(Inc)/Dec in Capital Work In Progress	(68.0)	(774.0)	(1,939.8)	0.0	0.0
(Inc)/Dec in Investment (Strategic)	0.0	0.0	0.0	0.0	0.0
(Inc)/Dec in Investment (Others)	50.2	(172.1)	49.1	(28.7)	(31.5)
Add: Non Operating Income	26.6	36.8	76.8	50.0	50.0
(Inc)/Dec in Intangible Assets	(164.7)	(26.0)	168.8	0.0	0.0
<b>Net Cash Flow from/(used in) Investing Activities</b>	<b>(493.7)</b>	<b>(1,966.6)</b>	<b>(1,752.5)</b>	<b>(1,478.7)</b>	<b>(481.5)</b>
<b>Cash Flow from Financing Activities</b>					
Inc/(Dec) in Total Loans	(279.4)	729.6	1,191.1	0.0	0.0
Inc/(Dec) in Reserves & Surplus	78.6	24.7	(32.5)	0.0	0.0
Inc/(Dec) in Equity	0.0	0.0	(0.0)	0.0	0.0
Dividend Paid	(92.4)	(123.2)	(123.2)	(123.2)	0.0
Less: Interest Paid	(180.5)	(149.3)	(121.4)	(121.4)	(121.4)
Adjustments	149.7	(16.5)	0.0	(0.0)	0.0
Exceptional Item	0.0	0.0	(82.9)	0.0	0.0
<b>Net Cash Flow from Financing Activities</b>	<b>(323.9)</b>	<b>465.3</b>	<b>831.1</b>	<b>(244.6)</b>	<b>(121.4)</b>
<b>Net Inc/Dec in cash equivalents</b>	<b>129.8</b>	<b>(81.4)</b>	<b>145.9</b>	<b>409.5</b>	<b>1,376.7</b>
<b>Opening Balance</b>	<b>168.8</b>	<b>298.7</b>	<b>217.3</b>	<b>363.1</b>	<b>772.6</b>
<b>Closing Balance Cash and Cash Equivalents</b>	<b>298.7</b>	<b>217.3</b>	<b>363.1</b>	<b>772.6</b>	<b>2,149.3</b>



Balance Sheet					
YE March( Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
<b>Liabilities</b>					
Equity Capital	308	308	308	308	308
Reserves & Surplus	3,608	4,970	5,983	7,120	8,698
<b>Equity</b>	<b>3,916</b>	<b>5,278</b>	<b>6,291</b>	<b>7,428</b>	<b>9,006</b>
<b>Net Worth</b>	<b>3,916</b>	<b>5,278</b>	<b>6,291</b>	<b>7,428</b>	<b>9,006</b>
Minority Interest					
Others	39	774	822	822	822
<b>Total Loans</b>	<b>624</b>	<b>619</b>	<b>1,762</b>	<b>1,762</b>	<b>1,762</b>
<b>Capital Employed</b>	<b>4,580</b>	<b>6,671</b>	<b>8,875</b>	<b>10,013</b>	<b>11,590</b>
<b>Assets</b>					
Gross Block	7,415	8,446	8,553	10,053	10,553
Less: Depreciation	4,176	4,416	4,681	4,992	5,319
<b>Net Block</b>	<b>3,239</b>	<b>4,029</b>	<b>3,872</b>	<b>5,061</b>	<b>5,235</b>
Capital WIP	112	886	2,826	2,826	2,826
<b>Investments</b>	<b>164</b>	<b>336</b>	<b>287</b>	<b>315</b>	<b>347</b>
Others - A	168	188	5	5	5
<b>Current Assets</b>					
Inventories	966	944	1,294	1,436	1,687
Sundry Debtors	1,498	1,388	1,828	2,029	2,383
Cash and Bank Balance	299	217	363	773	2,149
Current Investments		407	698	698	698
Loans and Advances	54	35	6	7	8
Other Current Assets	83	159	352	352	352
<b>Total Current Assets</b>	<b>2,899</b>	<b>3,151</b>	<b>4,541</b>	<b>5,294</b>	<b>7,277</b>
<b>Less: Current Liabilities &amp; Provisions</b>					
Sundry Creditors	1,707	1,498	2,325	3,121	3,665
Provisions	9	8	16	16	16
Other Current Liabilities	286	419	336	373	438
<b>Total Current Liabilities &amp; Provisions</b>	<b>2,002</b>	<b>1,925</b>	<b>2,676</b>	<b>3,509</b>	<b>4,119</b>
<b>Capital Applied</b>	<b>4,580</b>	<b>6,671</b>	<b>8,875</b>	<b>10,013</b>	<b>11,590</b>

(Source: Company, BP Equities Research)

Key Ratios					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
<b>Key Operating Ratios</b>					
EBITDA Margin (%)	15.8%	23.4%	17.3%	14.4%	14.9%
Tax / PBT (%)	22.9%	36.6%	37.4%	26.0%	26.0%
Net Profit Margin (%)	9.8%	12.8%	9.0%	8.7%	9.3%
RoE (%)	29.6%	31.8%	21.6%	18.4%	19.2%
RoCE (%)	37.2%	48.4%	29.3%	21.1%	22.6%
Current Ratio (x)	1.4x	1.6x	1.7x	1.5x	1.8x
Dividend Payout (%)	9.1%	8.4%	10.5%	10.5%	10.5%
Book Value Per Share (Rs.)	127.1	171.4	204.3	241.2	292.4
<b>Financial Leverage Ratios</b>					
Debt/ Equity (x)	0.2x	0.1x	0.3x	0.2x	0.2x
Interest Coverage (x)	9.1x	17.9x	18.6x	17.2x	20.8x
<b>Growth Indicators %</b>					
Growth in Gross Block (%)	4.8%	13.9%	1.3%	17.5%	5.0%
Sales Growth (%)	8.9%	10.3%	13.9%	11.0%	17.4%
EBITDA Growth (%)	44.6%	63.1%	(15.5%)	(7.7%)	21.3%
Net Profit Growth (%)	67.6%	44.3%	(20.0%)	7.9%	25.2%
Diluted EPS Growth (%)	67.6%	44.3%	(20.0%)	7.9%	25.2%
<b>Turnover Ratios</b>					
Debtors Days	53	44	51	51	51
Creditors Days	71	62	79	79	79
Inventory Days	34	30	36	36	36

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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