IG Petrochemicals Ltd

BP WEALTH

Chemical| Q2FY20 Result Update — **20th November, 2019**

Margins at a three year low due to volatility in RM prices, sharp import led to volume decline: Maintain 'BUY'

IG Petrochemicals Ltd (IGPL), for Q2FY20, continued disappointing performance on all fronts. Revenue de-grew by 17.8% YoY to INR 2,666mn (est INR 2,461mn). EBITDA declined 79.9% YoY to INR 143mn (est INR 274mn) along with a 1661bps YoY contraction in margin from 22% in Q2FY19 to 5.4% in Q2FY19 (est. 11.1%). Gross margins were also depressed (22.4% vs 36.2% in Q2FY19) on account of reduction in PAN/OX spread due to extreme volatility in raw material prices and unforeseen events such as 50% water supply cut in MIDC area along with multiple time power issues which affected 8 days production volume. Overall one time expenses related to plant restart to reach optimum utilization level along with repair & maintenance was ~INR 80mn (included in other operating expense). During H1FY20, production of PAN volume de-grew by 8.8% on a sequential and 5.3% on a yearly basis. Net profit declined by 91.6% to INR34mn (est. INR 133mn), due to an operationally weak performance.

Capacity ramp up coupled with healthy demand scenario to provide volume push in FY21

In order to meet growing demand and limited headroom for volume growth (capacity utilization 91%), IGPL has proposed to set up a new plant through Brownfield expansion (PA4) and increase 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 85-90% utilization level in first year of commissioning. With capacity coming in online, management believes they will substitute PAN import by ~25%. PAN import is growing at 21.4% CAGR over FY14-19 compared to a 2.7% growth in exports during the same period. We modeled flat volume growth (earlier 5%) in PAN during FY20, due to sharp increase in imports in the first half of FY20 (~19,000/ month vs ~12,000/month). On a conservative basis we are assuming 30% utilization level for PA4 in FY21 and expect overall volume growth of 10% led by ramp up in commissioned capacity and steady demand growth in the end user industries.

Valuation and Outlook

We are concerned about continued uncertainty over RM prices resulting into fluctuations in spread which leave us to take a cautious approach on profitability front. However, we observed current gross margin and EBITDA margins are at multi-year lows. Therefore, we believe the possibility of further contraction in margin is minimal. At the current market price (of INR144) the stock is available at 11.7x FY20E EPS of INR12.3 and 8.7x FY21E EPS of INR16.6. We remain cautiously optimistic about future growth prospects of the company and maintain our 'BUY' rating. However, due to volatility in spread resulting into lack of clarity on margin and profitability front, we revise our earning expectation downwards for FY20 and 21 and value IGPL based on 15 year average P/E of 11x to its FY21E earnings and arrive at a target price of INR183.

Key Financials					
YE March (INR. mn)	**FY17**	**FY18**	**FY19**	**FY20E**	**FY21E**
Net Sales	10,375	11,442	13,037	12,414	13,924
Growth %	9%	10%	14%	-5%	12%
EBIDTA	1,639	2,673	2,225	1,014	1,236
Growth%	45%	63%	-17%	-54%	22%
Net Profit	1,012	1,461	1,165	378	511
Growth %	68%	44%	-20%	-68%	35%
Diluted EPS	33	47	38	12	17
Growth %	68%	44%	-20%	-68%	35%
Profitability & Valuation					
EBIDTA (%)	15.8%	23.4%	17.1%	8.2%	8.9%
NPM (%)	9.8%	12.8%	8.9%	3.0%	3.7%
RoE (%)	29.6%	31.8%	21.8%	5.9%	7.5%
RoCE (%)	37%	48%	31%	9%	11%
P/E (x)	4.4	3.0	3.8	11.7	8.7
EV/EBITDA (x)	2.9	1.8	2.5	6.0	4.6
P/BV (x)	1.1	0.8	0.7	0.7	0.6

Source: Company, BP Equities Research

Stock Rating

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

Sector Outlook — **Positive**

Stock

CMP (INR)	144
Target Price (INR)	183
BSE code	500199
NSE Symbol	IGPL
Bloomberg	IGPL IN
Reuters	IGPT.BO

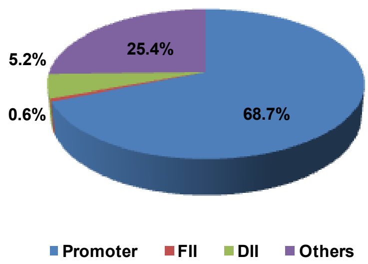
Key Data

Nifty	11,940
52WeekH/L(INR)	487/130
O/s Shares (Mn)	30.7
Market Cap (INR bn)	4.4
Face Value (INR)	10

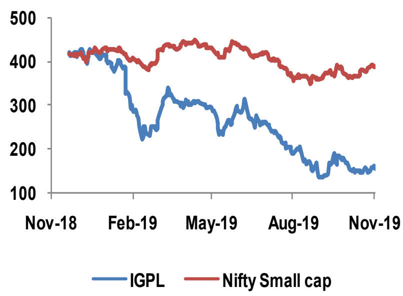
Average volume

3 months	37,490
6 months	28,550
1 year	29,580

Share Holding Pattern (%)



Relative Price Chart



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IG Petrochemicals Ltd Q2FY20 Quarterly Result

YE March (Rs. mn)	Q2 FY20	Q1 FY20	Q-o-Q change %	Q2 FY19	Y-o-Y change %
Net Sales	**2,666**	**2,479**	***7.5%***	**3,242**	***(17.8%)***
Other Operating Income	**0**	**0**		**0**	
Total Revenue	**2,666**	**2,479**	*7.5%*	**3,242**	***(17.8%)***
Less:					
Raw Material Cost	2,069	1,783	*16.0%*	2,067	*0.1%*
Operating & Manufacturing Expenses	312	308	*1.2%*	298	*4.8%*
Employee Cost	141	144	*(1.8%)*	165	*(14.1%)*
Total Expenditure	**2,523**	**2,236**	***12.8%***	**2,530**	***(0.3%)***
EBIDTA	**143**	**243**	***(41.1%)***	**713**	***(79.9%)***
Less: Depreciation	73	79	*(7.1%)*	65	*12.6%*
EBIT	**70**	**165**	***(57.3%)***	**648**	***(89.2%)***
Less: Interest	32.8	44.2	*(25.8%)*	48.4	*(32.2%)*
Add: Other income	13	21		16	
Profit before tax	**51**	**141**	***(64.1%)***	**616**	***(91.8%)***
Adjusted Profit before Tax	**51**	**141**	***(64.1%)***	**616**	***(91.8%)***
Less: Total Tax	17	50	*(67.0%)*	211	*(92.1%)*
Profit After Tax	**34**	**91**	***(62.5%)***	**405**	***(91.6%)***
Other comprehensive Income	**0**	**0**		**0**	
Minority Interest	**0**	**0**		**0**	
Adjusted Profit After Tax	**34**	**91**	***(62.5%)***	**405**	***(91.6%)***
Diluted EPS (Rs.)	**1.1**	**2.9**	***(62.5%)***	**13.1**	***(91.6%)***
Adjusted Diluted EPS	**1.1**	**2.9**	***(62.5%)***	**13.1**	***(91.6%)***
Diluted No of Share (mn)	**30.8**	**30.8**		**30.8**	
Margin Analysis %			***Change in bps***		***Change in bps***
EBIDTA Margin %	**5.4%**	**9.8%**	***(444)***	**22.0%**	***(1,661)***
EBIT Margin %	2.6%	6.6%	*(401)*	20.0%	*(1,735)*
NPM %	**1.3%**	**3.7%**	***(239)***	**12.5%**	***(1,121)***
Effective Tax Rate %	32.7%	35.6%	*(288)*	34.3%	*(153)*

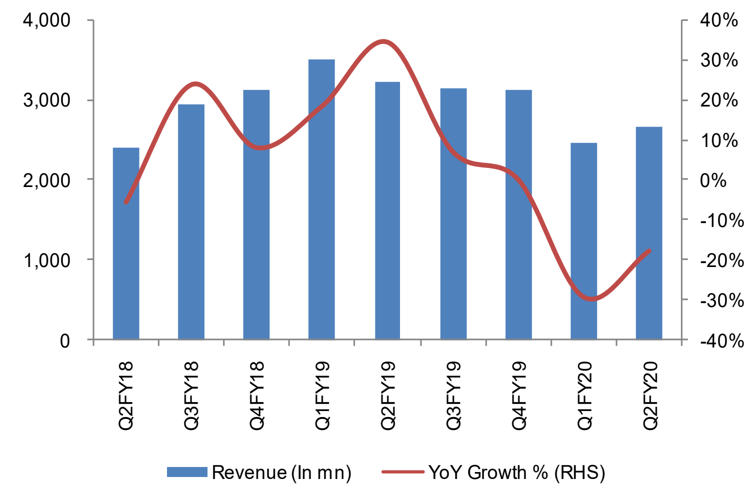
Source: Company, BP Equities Research

Revenue were above our estimates of INR 2461mn due to slight improvement in realization on sequential basis

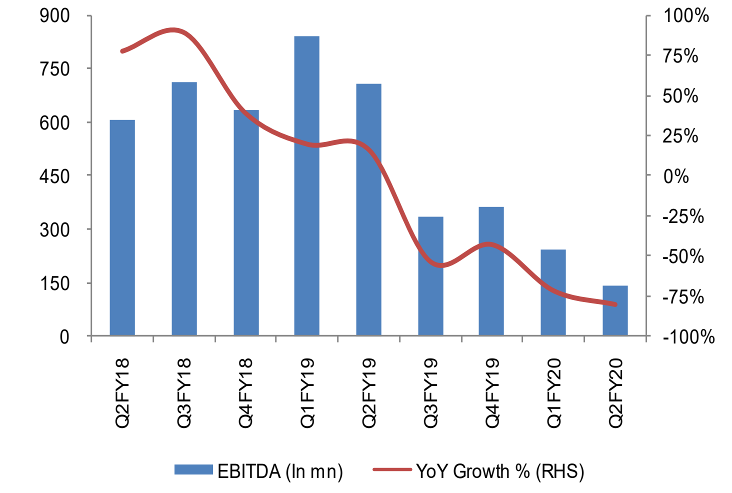
Adj. PAT came below our estimate of INR 133mn, mainly due to operationally weak performance

The EBITDA margin, at 5.4% was below our estimate of 11.1% , due to reduction in PAN/OX spread due to extreme volatility in raw material prices and unforeseen events such as 50% water supply cut in MIDC area along with multiple time power issues which affected 8 days production volume. Overall one time expenses related to plant restart to reach optimum utilization level along with repair & maintenance was ~INR 80mn (included in other operating expense).

Revenue growth trend

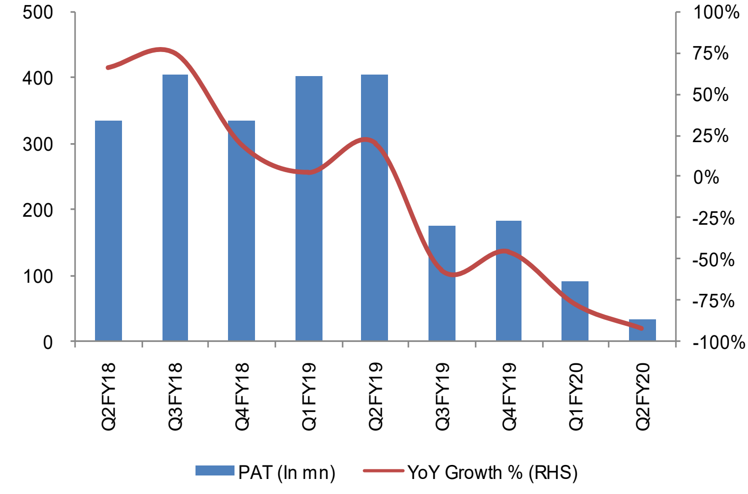


EBITDA de-grew by 79.9% YoY

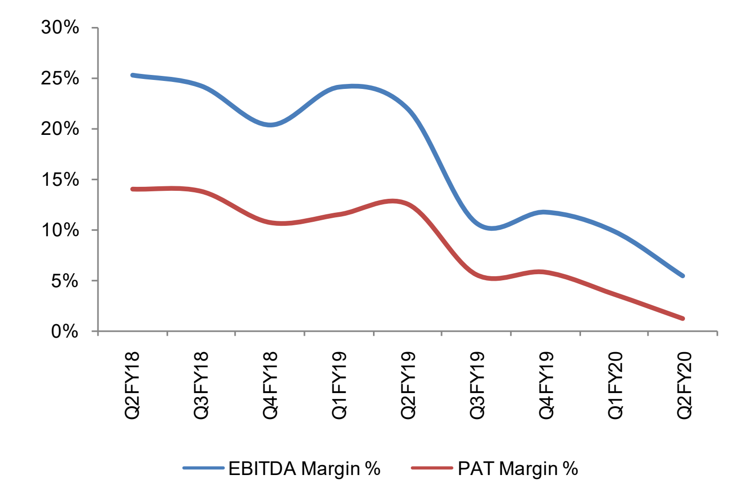


Source: Company, BP Equities Research

PAT declined by 91.6% YoY

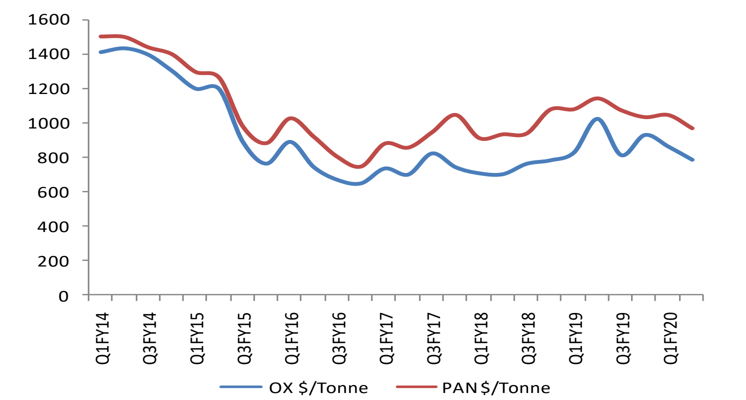


EBITDA and PAT Margin Trend

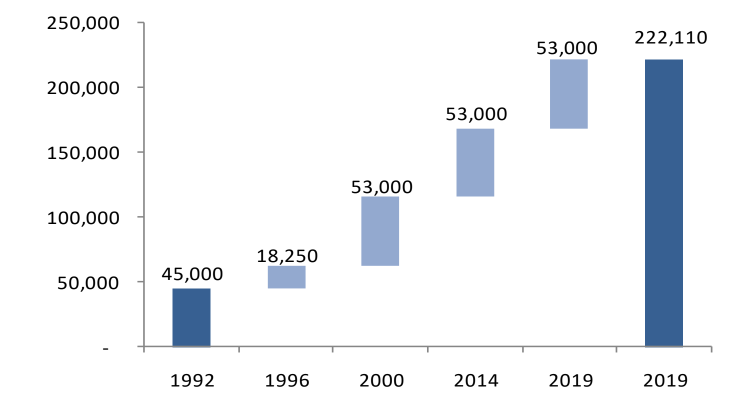


Source: Company, BP Equities Research

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**
Revenue	**10,375**	**11,442**	**13,037**	**12,414**	**13,924**
Growth %	*8.9%*	*10.3%*	*13.9%*	*-4.8%*	*12.2%*
Total Revenue	**10,375**	**11,442**	**13,037**	**12,414**	**13,924**
Less:					
Raw Material Consumed	7,512	7,275	9,128	9,512	10,584
Employee Cost	397	558	618	680	748
Other Expenses	827	936	1,065	1,208	1,355
Total Operating Expenditure	**8,736**	**8,769**	**10,812**	**11,400**	**12,687**
EBITDA	**1,639**	**2,673**	**2,225**	**1,014**	**1,236**
Growth %	*44.6%*	*63.1%*	*-16.7%*	*-54.5%*	*22.0%*
Less: Depreciation	172	257	265	347	365
EBIT	**1,467**	**2,416**	**1,961**	**666**	**872**
Growth %	*53.1%*	*64.7%*	*-18.8%*	*-66.0%*	*30.8%*
Interest Paid	181	149	114	135	135
Non-operating Income	27	37	112	50	50
Extraordinary Income	0	0	(95)	0	0
Profit Before tax	**1,313**	**2,304**	**1,863**	**581**	**786**
Tax	301	843	698	203	275
Net Profit	**1,012**	**1,461**	**1,165**	**378**	**511**
Adjusted Profit	**1,012**	**1,461**	**1,260**	**378**	**511**
Reported Diluted EPS Rs	**32.9**	**47.4**	**37.8**	**12.3**	**16.6**
Growth %	*67.6%*	*44.3%*	*-20.2%*	*-67.6%*	*35.3%*
Adjusted Diluted EPS Rs	**32.9**	**47.4**	**40.9**	**12.3**	**16.6**
Growth %	*67.6%*	*44.3%*	*-13.7%*	*-70.0%*	*35.3%*

(Source: Company, BP Equities Research)

Cash Flows Statement					
YE March (Rs. Mn)	**FY17**	**FY18**	**FY19**	**FY20E**	**FY21E**
PAT	**1,011.9**	**1,460.5**	**1,164.8**	**377.6**	**511.0**
(Less)/Add: Extraordinary Income/Expense	0.0	0.0	95.0	0.0	0.0
Less: Non Operating Income	(26.6)	(36.8)	(111.7)	(50.0)	(50.0)
Add: Depreciation	171.9	257.0	264.6	347.2	364.7
Add: Interest Paid	180.5	149.3	114.4	135.5	135.5
Tax Adjustment	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	**1,337.7**	**1,830.0**	**1,527.1**	**810.3**	**961.2**
(Inc)/Dec in Current Assets	(396.1)	(355.5)	(899.0)	96.4	(233.6)
Inc/(Dec) in Current Liabilities	76.3	(76.8)	750.6	328.6	363.7
Changes in Inventory	(70.4)	22.2	(350.6)	61.9	(149.9)
Net Cash Generated From Operations	**947.5**	**1,420.0**	**1,028.1**	**1,297.1**	**941.4**
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(337.9)	(1,031.3)	25.6	(1,500.0)	(500.0)
(Inc)/Dec in Capital Work In Progress	(68.0)	(774.0)	(1,274.7)	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)	36.4	(29.9)	(32.9)
Add: Non Operating Income Income	26.6	36.8	111.7	50.0	50.0
(Inc)/Dec in Intangible Assets	(164.7)	(26.0)	(239.8)	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	**(493.7)**	**(1,966.6)**	**(1,340.9)**	**(1,479.9)**	**(482.9)**
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	(279.4)	729.6	864.5	500.0	0.0
Inc/(Dec) in Reserves & Surplus	78.6	24.7	(32.1)	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)	(114.4)	(135.5)	(135.5)
Adjustments	149.7	(16.5)	(153.1)	0.0	0.0
Exceptional Item	0.0	0.0	(95.0)	0.0	0.0
Net Cash Flow from Financing Activities	**(323.9)**	**465.3**	**346.8**	**241.3**	**(135.5)**
Net Inc/Dec in cash equivalents	**129.8**	**(81.4)**	**34.0**	**58.5**	**323.0**
Opening Balance	**168.8**	**298.7**	**217.3**	**251.3**	**309.8**
Closing Balance Cash and Cash Equivalents	**298.7**	**217.3**	**251.3**	**309.8**	**632.8**

Balance Sheet					
YE March(Rs. mn)	**FY17**	**FY18**	**FY19**	**FY20E**	**FY21E**
Liabilities					
Equity Capital	308	308	308	308	308
Reserves & Surplus	3,608	4,970	5,979	6,234	6,745
Equity	**3,916**	**5,278**	**6,287**	**6,542**	**7,053**
Net Worth	**3,916**	**5,278**	**6,287**	**6,542**	**7,053**
Minority Interest					
Others	39	774	822	822	822
Total Loans	**624**	**619**	**1,436**	**1,936**	**1,936**
Capital Employed	**4,580**	**6,671**	**8,545**	**9,300**	**9,811**
Assets					
Gross Block	7,415	8,446	8,420	9,920	10,420
Less: Depreciation	4,176	4,416	4,528	4,875	5,240
Net Block	**3,239**	**4,029**	**3,892**	**5,045**	**5,180**
Capital WIP	112	886	2,161	2,161	2,161
Investments	**164**	**336**	**299**	**329**	**362**
Others - A	168	188	434	434	434
Current Assets					
Inventories	966	944	1,294	1,233	1,382
Sundry Debtors	1,498	1,388	1,828	1,741	1,952
Cash and Bank Balance	299	217	251	310	633
Current Investments		407	698	698	698
Loans and Advances	54	35	189	180	202
Other Current Assets	83	159	174	174	174
Total Current Assets	**2,899**	**3,151**	**4,435**	**4,335**	**5,042**
Less: Current Liabilities & Provisions					
Sundry Creditors	1,707	1,498	2,325	2,669	2,994
Provisions	9	8	16	16	16
Other Current Liabilities	286	419	336	320	359
Total Current Liabilities & Provisions	**2,002**	**1,925**	**2,676**	**3,005**	**3,368**
Capital Applied	**4,580**	**6,671**	**8,545**	**9,300**	**9,811**

(Source: Company, BP Equities Research)

Key Ratios					
YE March (Rs. mn)	**FY17**	**FY18**	**FY19**	**FY20E**	**FY21E**
Key Operating Ratios					
EBITDA Margin (%)	15.8%	23.4%	17.1%	8.2%	8.9%
Tax / PBT (%)	22.9%	36.6%	37.5%	35.0%	35.0%
Net Profit Margin (%)	9.8%	12.8%	8.9%	3.0%	3.7%
RoE (%)	29.6%	31.8%	21.8%	5.9%	7.5%
RoCE (%)	37.2%	48.4%	30.5%	8.9%	10.8%
Current Ratio (x)	1.4x	1.6x	1.7x	1.4x	1.5x
Dividend Payout (%)	9.1%	8.4%	10.6%	10.6%	10.6%
Book Value Per Share (Rs.)	127.1	171.4	204.1	212.4	229.0
Financial Leverage Ratios					
Debt/ Equity (x)	0.2x	0.1x	0.2x	0.3x	0.3x
Interest Coverage (x)	9.1x	17.9x	19.5x	7.5x	9.1x
Growth Indicators %					
Growth in Gross Block (%)	4.8%	13.9%	(0.3%)	17.8%	5.0%
Sales Growth (%)	8.9%	10.3%	13.9%	(4.8%)	12.2%
EBITDA Growth (%)	44.6%	63.1%	(16.7%)	(54.5%)	22.0%
Net Profit Growth (%)	67.6%	44.3%	(20.2%)	(67.6%)	35.3%
Diluted EPS Growth (%)	67.6%	44.3%	(20.2%)	(67.6%)	35.3%
Turnover Ratios					
Debtors Days	53	44	51	51	51
Creditors Days	71	62	78	78	78
Inventory Days	34	30	36	36	36

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