

Well positioned to tap import substitution opportunity in PA

With 53,000 TPA expansion, IGPL to become largest PA manufacturer globally (followed by Nan Ya Plastics and UPC technologies) in terms of production volume for commercial sale. With over 1,40,000 MT of import of PA in India (in FY19), we believe IGPL is well placed to capture import substitution opportunity. Three years post announcement of capacity expansion by IGPL, PA4 (new capacity) is expected to get a commission in the second half of March 20. During this period, due to production shortage PA import risen significantly with a pace of CAGR 22% compared to CAGR 11.4% over FY11-19. In order to meet growing demand and limited headroom for volume growth (capacity utilization 91%), IGPL has set up a new plant through Brownfield expansion (PA4) and taking its total capacity to 2,22,100 TPA. As per management, PA4 is expected to reach 70-75% utilization level in first year of commissioning. With capacity coming on stream, management believes they will substitute PAN import by ~30%. Currently Indian companies PAN import stands at ~15,000tn/ month which is ~24% higher than FY19 import of ~12,100tn/month. However, we have noticed sharp fall in average monthly import from ~18,500tn/month to ~14,600tn/month level. As we have better clarity over PA4 commissioning timeline, we increase our volume growth estimate for FY21 from 10% to 20% (assuming ~60% utilization in PA4) on the back of export substitution opportunity and steady demand growth in the end user industries.

Maleic Anhydride: Only manufacturer in India

Due to non-availability of key raw material such as N-Butane (a gas derivative) for manufacturing MA (Maleic anhydride), 94% of India's consumption of MA (~70,000MT) is currently met through imports (mainly from Malaysia (29%), China (26%) and Taiwan (25%)). IGPL uses wash water created from the manufacturing process of PA to recover MA and Benzoic acid (MA/PAN yield 0.03x). With less than 6% of market share in the domestic market and being a sole manufacturer in India, IGPL believes there is enough opportunity to grow in MA business. Current MA capacity generates INR420mn of annual sales with EBITDA margin of 90% with overall revenue/EBITDA contribution of 3% /38% respectively. The ongoing PA4 expansion result into additional wash water, which will be used to generate more MA capacity for the Company (currently 6920MT to 8420Mt). With higher MA capacity, IGPL is all set to grow its foothold in the MA business. Major applications of MA are in, unsaturated polyester resin (UPR), spandex (elastics), food industry, insecticides, fungicides, water treatment, personal care products and lubricant oil additives. With higher MA capacity, IGPL is all set to grow its foothold in the domestic MA market. We expect MA volume to grow 23%/20% in FY21/22E respectively to INR640mn by FY22E.

Stock Rating

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

Sector Outlook

Positive

Stock

CMP (Rs)	92
Target Price (Rs)	223
BSE code	500199
NSE Symbol	IGPL
Bloomberg	IGPL IN
Reuters	IGPT.BO

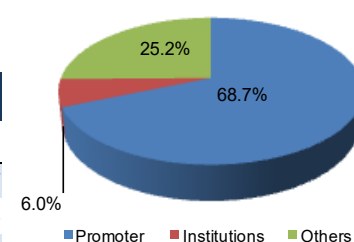
Key Data

Nifty	8,469
52 Week H/L (INR)	348/92
O/s Shares (Mn)	30.7
Market Cap (Bn)	2.8
Face Value (INR)	10

Average volume

3 months	55,550
6 months	41,450
1 year	31,800

Share Holding Pattern (%)



Relative Price Chart



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Key Financials

YE March (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	11,442	13,037	12,418	15,214	16,197
Growth %	10%	14%	-5%	23%	6%
EBIDTA	2,673	2,225	995	1,408	1,654
Growth%	63%	-17%	-55%	42%	18%
Net Profit	1,461	1,165	365	622	771
Growth %	44%	-20%	-69%	70%	24%
Diluted EPS	47	38	12	20	25
Growth %	44%	-20%	-69%	70%	24%

Profitability & Valuation

EBIDTA (%)	23.4%	17.1%	8.0%	9.3%	10.2%
NPM (%)	12.8%	8.9%	2.9%	4.1%	4.8%
RoE (%)	31.8%	21.8%	5.7%	9.2%	10.4%
RoCE (%)	48%	31%	9%	13%	15%
P/E (x)	1.9	2.4	7.8	4.6	3.7
EV/EBITDA (x)	1.2	1.8	4.5	3.0	2.1
P/BV (x)	0.5	0.5	0.4	0.4	0.4

Source: Company, BP Equities Research

Foray into advanced plasticizer to provide scope for margin improvement

IGPL also foray into downstream product by introducing new product in specialty plasticizer DEP (Di-Ethyl Phthalate), since the compound is a suitable solvent for many organic molecules, it is often used to bind cosmetics and fragrances. DEP was reported as an ingredient in 67 cosmetic formulations, including bath preparations (oils, tablets, and salts), eye shadow, toilet waters, perfumes and other fragrance preparations, hair sprays, wave sets, nail polish and enamel removers, nail extenders, bath soaps, detergents, aftershave lotions, incense sticks, and skin care preparations. Post commissioning in June 20, the company is planning to cross sell this products to existing plasticizer clients since DEP carry better margin (EBITDA ~25%) increase in contribution from this product to further strengthen the overall margin of the company. We modelled INR 250mn incremental revenue from DEP in FY20E and INR350mn in FY22E.

Spreads at multi year low level; higher possibility of margin recovery

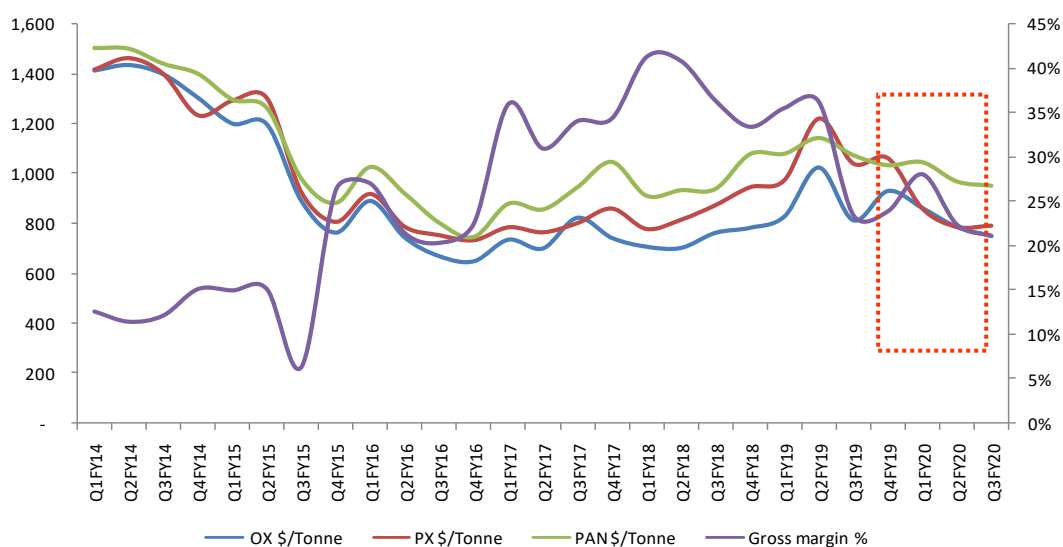
Gross margins were also depressed since last few quarters and touched sixteen quarter low level in Q3FY20 on account of reduction in PAN/OX spread due to volatility in raw material prices. However, spread improved during January and February from average \$70 to \$100-110 levels, if it able to maintain current level we could see better margin performance in Q4. Apart from spread, cost of production to reduce to \$90/ton from \$100/ton post PA4 commissioning. Overall, we expect to see gross margin to reach at 24.1% and 25.2% in FY21E and FY22E.

Valuation and Outlook

IGPL continues to be a market leader in domestic PA industry (~50% market share), muted capacity expansion globally has led to IGPL to expand capacities, strong clientele, healthy return ratios, expansion in value added products (downstream specialty plasticizers). 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 for FY20. 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 and we could see positive reversal in margin going forward as spreads improve. At the current market price (of INR97) the stock is available at 4.8x FY21E EPS of INR20.2. We keep our positive stance on future growth prospects of the company on the back of better visibility over PA4 commissioning with expected recovery in earnings. We value IGPL based on 15 year average P/E of 11x to its FY21E earnings and arrive at a target price of INR 223.

Key Risks: Slow ramp up of PA4 and adverse movement in PAN/OX spread

PAN /OX spread at multi year low levels coinciding with gross margin

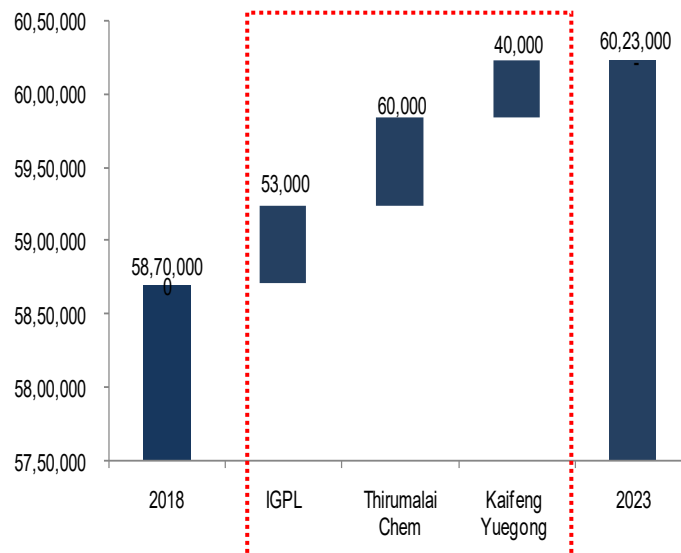
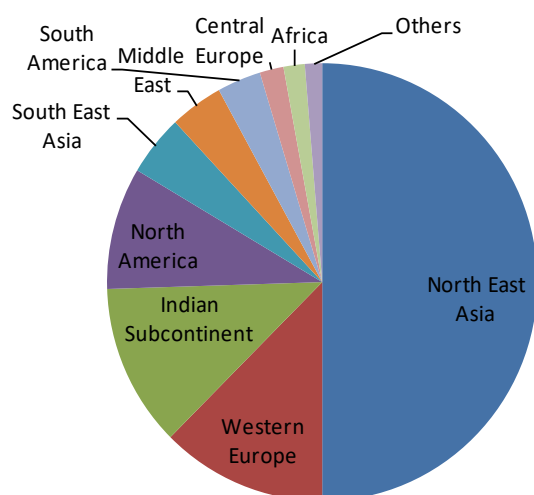


Source: Bloomberg , OX= Ortho Xylene , PX= Para Xylene, PAN= Phthalic Anhydride

Phthalic Anhydride Import trend (In MTPA)

Global PA market: Asia command ~70% market share

Upcoming PA capacity addition globally



Source: Global Data , Industry , BP Equities Research

India looks to lead capacity additions, with a capacity of 1,13,000 MT from two planned plants. The entire capacity additions from the IG Petrochemicals Taloja Phthalic Anhydride Plant 4 and Thirumalai Chemicals Dahej Phthalic Anhydride Plant, contributing a capacity of 53,000 MT and 60,000 MT, respectively. China is the only other country to expand capacity of ~40,000 MT by Kaifeng Yuegong Chemical kaifeng Phthalic Anhydride Plant. Thirumalai Chemicals Ltd, IG Petrochemicals Ltd and Kaifeng Yuegong Chemical Co Ltd together account for the planned and announced capacity additions of 1,53,000 MT by 2023.

IGPL: largest PA manufacturer globally by production volume for commercial sale

Top 4 PAN Producers	Country	Installed Capacity (000 tonnes)	Captive requirement	Commercial supply	Available for Commercial supply
UPC Technology Corporation	Taiwan	600	80%	20%	120
Nan Ya Plastics	Taiwan	280	34%	66%	185
IG Petrochemicals	India	222	3%	97%	215
Aekyung Petrochemical	South Korea	200	50%	50%	100

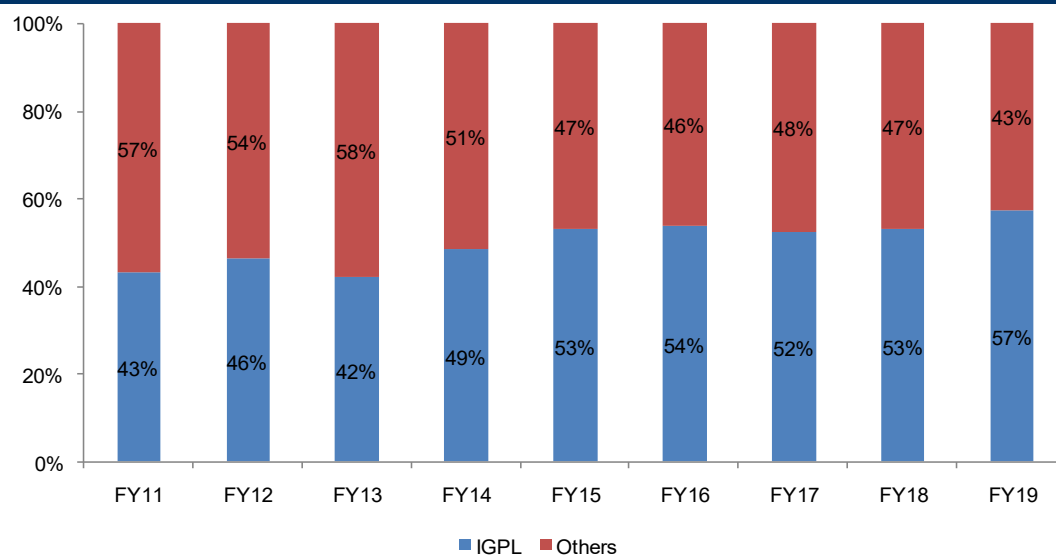
Source: Industry , BP Equities Research

Phthalic Anhydride Import grew by 22% compared to 4.5% growth in consumption in Last 3 Years

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY11-19 (CAGR %)	3 Year CAGR %
Installed Capacity (MT in 000)	308	308	308	346	349	349	349	349	349	1.6%	0.0%
PA Production (MT in 000)	253	250	254	264	292	306	297	290	275	1.0%	-3.5%
Operating rate (%)	82%	81%	82%	76%	84%	88%	85%	83%	79%		
Import (MT in 000)	61	39	44	55	52	80	92	130	145	11.4%	22.0%
Export (MT in 000)	18	25	13	23	39	40	42	38	26	4.6%	-13.2%
Consumption / Demand (MT in 000)	296	264	286	296	305	345	347	383	393	3.6%	4.5%

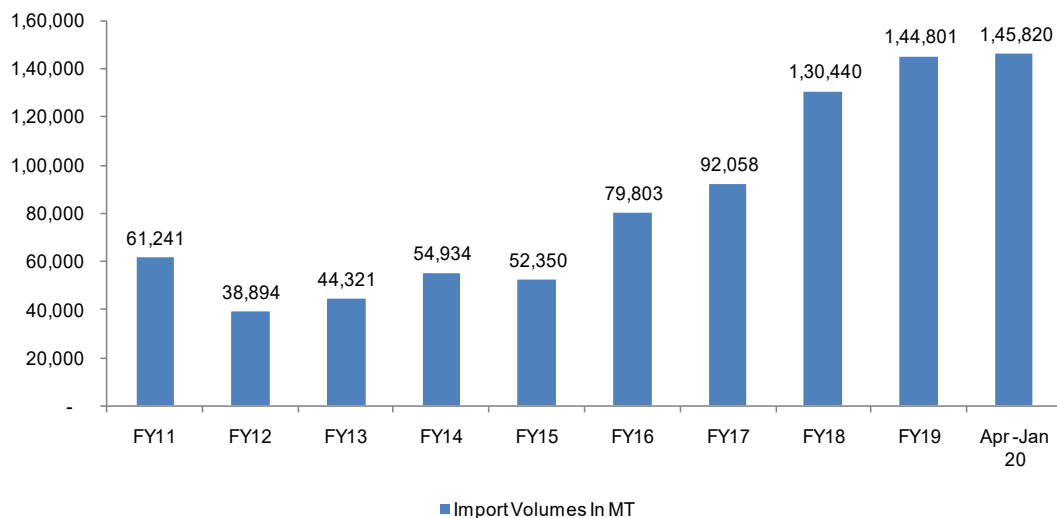
Source: Department of Chemicals & Petrochemicals, BP Equities Research

Phthalic anhydride's domestic market size is about 393,000 MT, wherein IG Petrochemicals and Thirumalai Chemicals cater to ~70% of the domestic requirements. Since last three years phthalic anhydride imports have significantly risen (22% percent CAGR 2016-19) and currently about 30% of demand is met through net imports. Further, capacity shutdown by Asian Paints (29,796 MT) in early FY 18 has added to the tightness in a domestic supply situation. This provides an opportunity for existing Indian manufacturers to expand capacity.

Consistently improving domestic PA production share


Source: Company, BP Equities Research

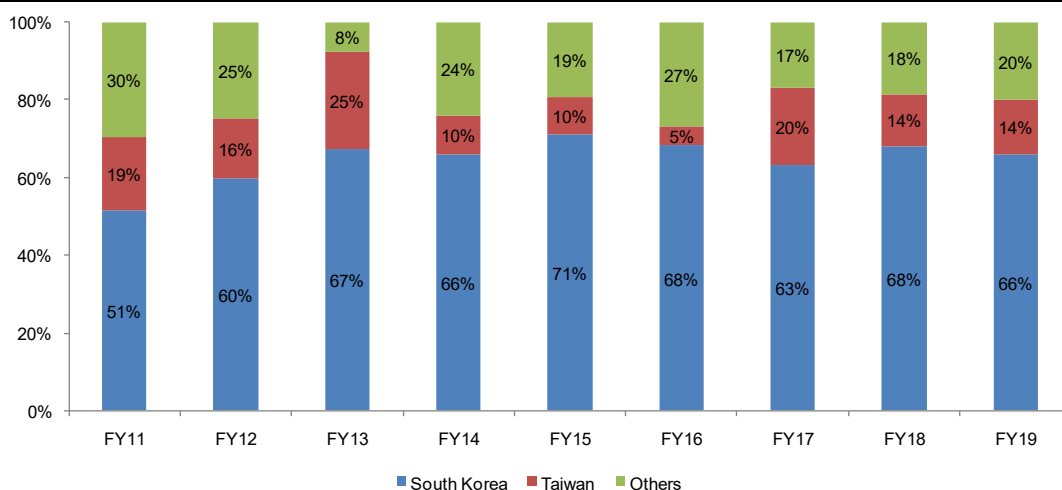
Phthalic Anhydride Import trend (In MT)



Due to production shortage in domestic market, PA import risen significantly at a pace of CAGR 22% in last three years compared to CAGR 11.4% over FY11-19

Source: Department of Commerce , BP Equities Research

Over 80% Phthalic Anhydride Imported from South Korea and Taiwan (In %)



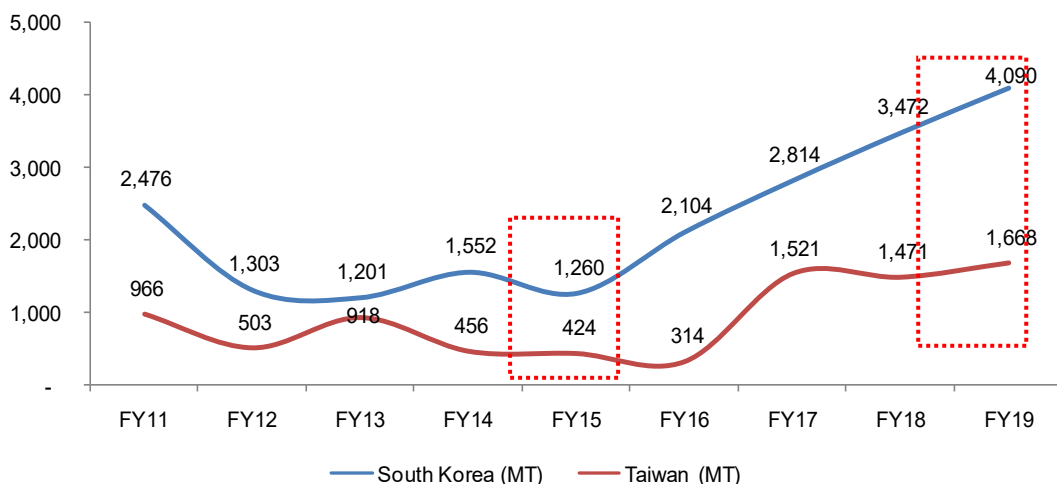
Since significant imports of PA are already made at a price lower than domestic industry prices, so practically domestic industry would be forced to reduce product prices without anti-dumping protection (Dumping duty removed on Sep 2018).

After complaints by the domestic industry of severe injury to them, the government has decided to probe the increase in imports of phthalic anhydride from South Korea.(October 2019).

Possible ADD on South Korea coupled with fresh capacity addition to drive volume growth for domestic PA manufacturers.

Source: Department of Commerce , BP Equities Research

~3-4x increase in average monthly import from South Korea and Taiwan from FY15 to FY19



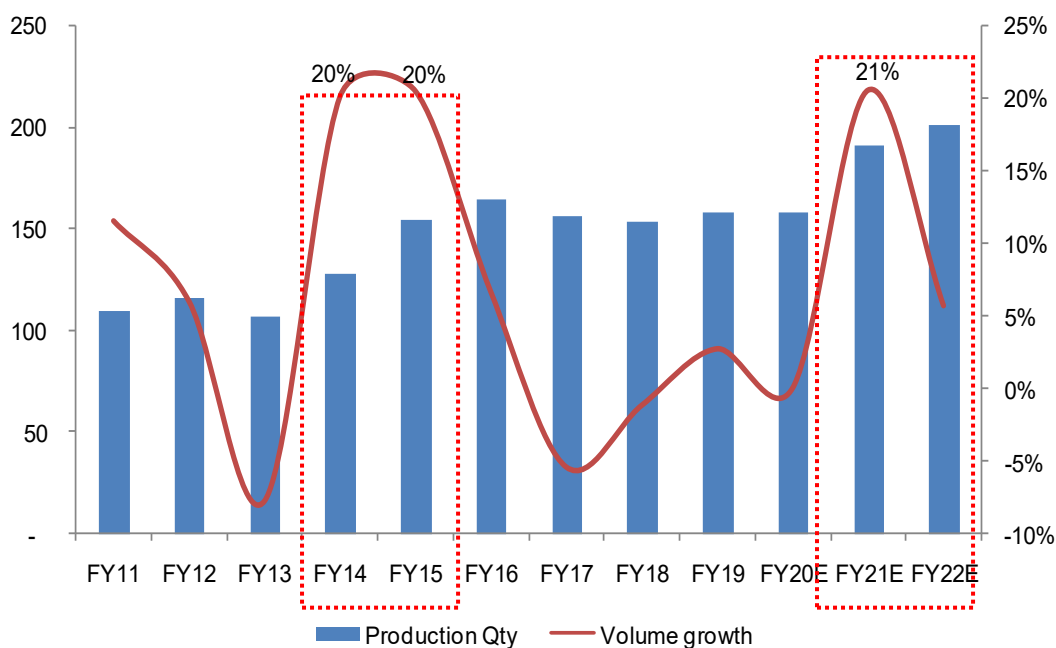
Aekyung Petrochemical constituted half of total exports to India from South Korea.

Source: Department of Commerce , BP Equities Research

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With 53,000 TPA expansion, IGPL to become largest PA manufacturer globally (followed by Nan Ya Plastics and UPC technologies) in terms of production volume for commercial sale. With over 1,40,000 MT of import of PA in India, we believe IGPL is well placed to capture import substitution opportunity. Three years post announcement of capacity expansion by IGPL, PA4 (new capacity) is expected to get a commission in the second half of March 20. During this period, due to production shortage PA import risen significantly with a pace of CAGR 22% compared to CAGR 11.4% over FY11-19. In order to meet growing demand and limited headroom for volume growth (capacity utilization 91%), IGPL has set up a new plant through Brownfield expansion (PA4) and taking its total capacity to 2,22,100 TPA. As per management, PA4 is expected to reach 70-75% utilization level in first year of commissioning. With capacity coming on stream, management believes they will substitute PAN import by ~30%. Currently Indian companies PAN import stands at ~15000tn/ month which is ~24% higher than FY19 import of ~12100tn/month. However, we have noticed sharp fall in average monthly import from ~18500tn/month to ~14600tn/month level. As we have better clarity over PA4 commissioning timeline, we increase our volume growth estimate for FY21 from 10% to 20% (assuming ~60% utilization in PA4) on the back of export substitution opportunity and steady demand growth in the end user industries.

Historically volume growth remain high post expansion

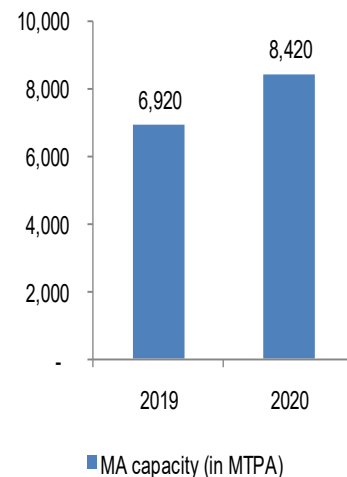


Source: Company, BP Equities Research

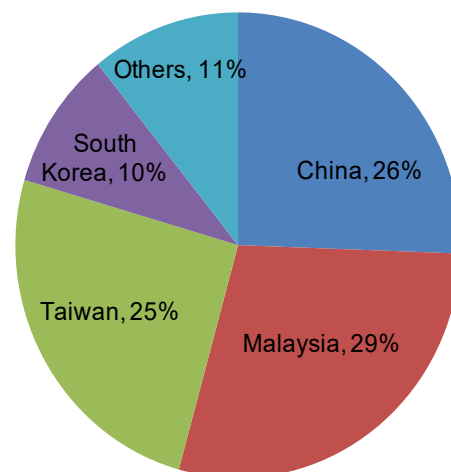
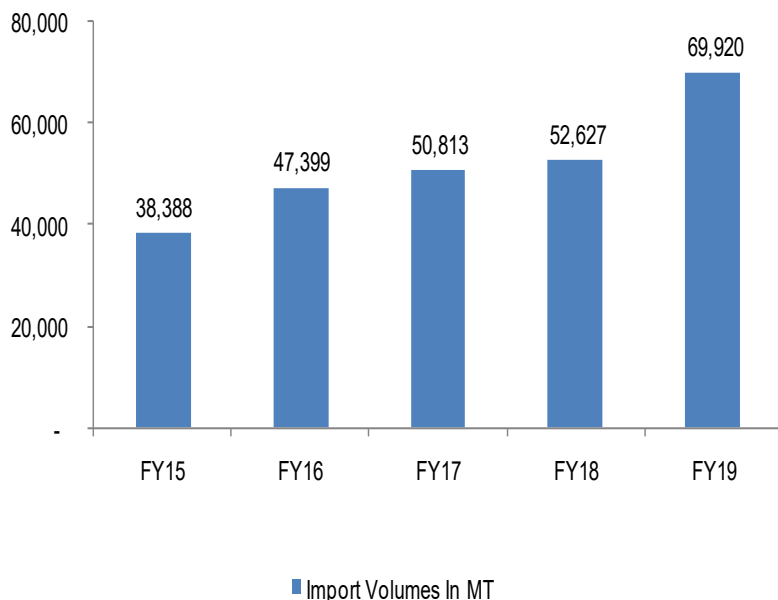
Based on our observation, In FY14 IGPL added 53,000MT capacity with import substitution opportunity of ~55,000MT. Currently, PA import stands at ~1,50,000. With IGPL is adding 53,000 and Thirumalai Chemicals adding 20,000 in first phase its seems there is enough volume growth scope available for both of these players can tap most of import substitution opportunity.

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Capacity addition to provide further scope for volume growth


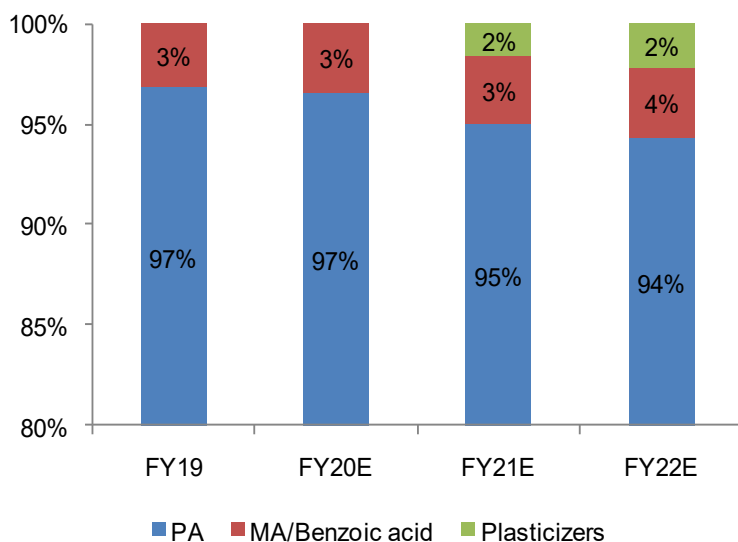
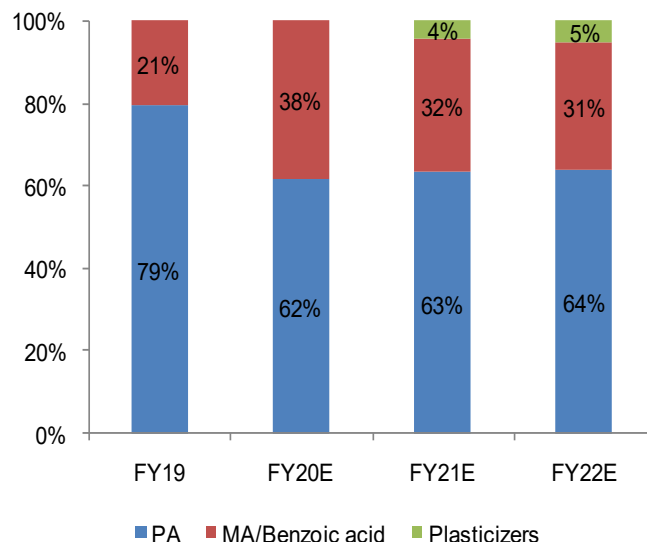
Source: Company, BP Equities Research

MA Import grew at 16.2% CAGR over FY15-19
Three countries dominate ~80% MA import share


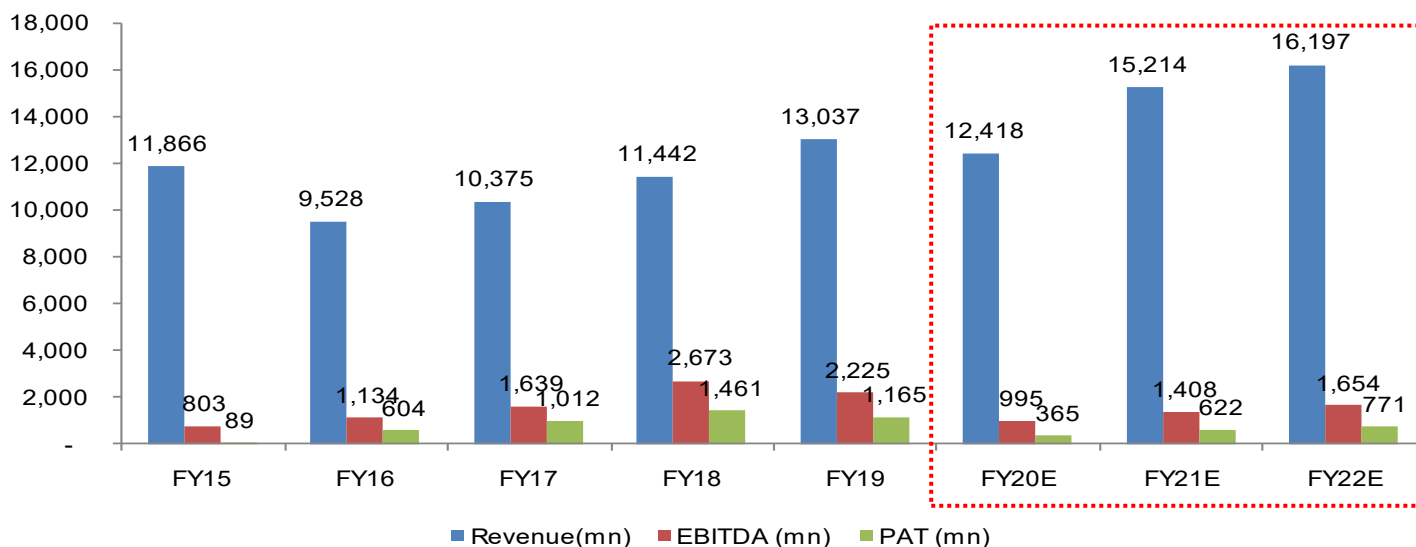
Source: Department of Commerce, BP Equities Research

Foray into advanced plasticizer to provide scope for margin improvement

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Product diversification effect visible post FY21

MA and Plasticizers carries superior margin


Source: Company, BP Equities Research

Revenue /EBITDA/PAT trend


Source: Company, BP Equities Research

Valuation and Outlook

Valuation	FY20	FY21	FY22
EPS	11.9	20.2	25.0
Growth in EPS (YoY %)	-69%	70%	24%
Implied PE	8.4	4.9	4.0
Assigned PE	11	11	11
Target Price	130	223	275
CMP	100	100	100
Upside Potential (%)		123%	

Source: Company

We have valued IGPL by assigning 11x to its FY21 estimated earnings. We arrive at a target price of INR 223 (potential upside of 129% from CMP) for an investment horizon of 12 months.

IGPL continues to be a market leader in domestic PA industry (~57% market share), muted capacity expansion globally and strong domestic demand led to capacity expansion, strong clientele, healthy return ratios, expansion in value added products (downstream specialty plasticizers). 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 for FY20. 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 and we could see positive reversal in margin going forward as spreads improve. At the current market price (of INR 97) the stock is available at 4.9x FY21E EPS of INR20.2. We keep our positive stance on future growth prospects of the company on the back of better visibility over PA4 commissioning with expected recovery in earnings. We value IGPL based on 15 year average P/E of 11x to its FY21E earnings and arrive at a target price of INR 223.

Key Risks:

- ⇒ Since PAN is derived from ortho-xylene, any increase in ortho-xylene prices coupled with decrease in PAN prices is likely to impact the gross margins of the company.
- ⇒ Slower ramp up of PA4 could affect volume growth
- ⇒ The company derives ~10% of its gross sales from exports making it susceptible to foreign exchange risk. Increased dumping of PAN from other countries could also lead to decline in volumes and prices



Profit & Loss A/c						
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Revenue	10,375	11,442	13,037	12,418	15,214	16,197
Growth %	8.9%	10.3%	13.9%	-4.7%	22.5%	6.5%
Total Revenue	10,375	11,442	13,037	12,418	15,214	16,197
Less:						
Raw Material Consumed	7,512	7,275	9,128	9,512	11,549	12,113
Employee Cost	397	558	618	680	748	823
Other Expenses	827	936	1,065	1,232	1,509	1,607
Total Operating Expenditure	8,736	8,769	10,812	11,424	13,807	14,543
EBITDA	1,639	2,673	2,225	995	1,408	1,654
Growth %	44.6%	63.1%	-16.7%	-55.3%	41.5%	17.5%
Less: Depreciation	172	257	265	347	365	382
EBIT	1,467	2,416	1,961	647	1,043	1,272
Growth %	53.1%	64.7%	-18.8%	-67.0%	61.1%	22.0%
Interest Paid	181	149	114	135	135	136
Non-operating Income	27	37	112	50	50	50
Extraordinary Income	0	0	-95	0	0	0
Profit Before tax	1,313	2,304	1,863	562	957	1,186
Tax	301	843	698	197	335	415
Net Profit	1,012	1,461	1,165	365	622	771
Adjusted Profit	1,012	1,461	1,260	365	622	771
Reported Diluted EPS Rs	32.9	47.4	37.8	11.9	20.2	25.0
Growth %	67.6%	44.3%	-20.2%	-68.6%	70.4%	23.9%
Adjusted Diluted EPS Rs	32.9	47.4	40.9	11.9	20.2	25.0
Growth %	67.6%	44.3%	-13.7%	-71.0%	70.4%	23.9%

Source: Company, BP Equities Research

Cash Flows						
YE March (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E	FY22E
PAT	1,011.9	1,460.5	1,164.8	365.2	622.4	771.2
(Less)/Add: Extraordinary Income/Expense	0.0	0.0	95.0	0.0	0.0	0.0
Less: Non Operating Income	(26.6)	(36.8)	(111.7)	(50.0)	(50.0)	(50.0)
Add: Depreciation	171.9	257.0	264.6	347.2	364.7	382.2
Add: Interest Paid	180.5	149.3	114.4	135.5	135.5	135.6
Tax Adjustment	0.0	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	797.9	1,072.6	1,239.0
(Inc)/Dec in Current Assets	(396.1)	(355.5)	(899.0)	89.9	(433.9)	(152.5)
Inc/(Dec) in Current Liabilities	76.3	(76.8)	750.6	340.1	675.7	253.5
Changes in Inventory	(70.4)	22.2	(350.6)	61.4	(277.6)	(97.6)
Net Cash Generated From Operations	947.5	1,420.0	1,028.1	1,289.2	1,036.8	1,242.5
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	(337.9)	(1,031.3)	25.6	(1,500.0)	(500.0)	(501.0)
(Inc)/Dec in Capital Work In Progress	(68.0)	(774.0)	(1,274.7)	0.0	0.0	0.0
(Inc)/Dec in Investment (Strategic)	0.0	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)	(36.2)
Add: Non Operating Income	26.6	36.8	111.7	50.0	50.0	50.0
(Inc)/Dec in Intangible Assets	(164.7)	(26.0)	(239.8)	0.0	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)	(487.2)
Cash Flow from Financing Activities						
Inc/(Dec) in Total Loans	(279.4)	729.6	864.5	500.0	0.0	1.0
Inc/(Dec) in Reserves & Surplus	78.6	24.7	(32.1)	0.0	0.0	0.0
Inc/(Dec) in Equity	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Paid	(92.4)	(123.2)	(123.2)	(123.2)	(123.2)	0.0
Less: Interest Paid	(180.5)	(149.3)	(114.4)	(135.5)	(135.5)	(135.6)
Adjustments	149.7	(16.5)	(153.1)	0.0	0.0	0.0
Exceptional Item	0.0	0.0	(95.0)	0.0	0.0	0.0
Net Cash Flow from Financing Activities	(323.9)	465.3	346.8	241.3	(258.7)	(134.6)
Net Inc/Dec in cash equivalents	129.8	(81.4)	34.0	50.6	295.2	620.7
Opening Balance	168.8	298.7	217.3	251.3	301.9	597.1
Closing Balance Cash and Cash Equivalents	298.7	217.3	251.3	301.9	597.1	1,217.8

Source: Company, BP Equities Research



Balance Sheet						
YE March(Rs. mn)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Liabilities						
Equity Capital	308	308	308	308	308	308
Reserves & Surplus	3,608	4,970	5,979	6,221	6,721	7,492
Equity	3,916	5,278	6,287	6,529	7,029	7,800
Net Worth	3,916	5,278	6,287	6,529	7,029	7,800
Minority Interest						
Others	39	774	822	822	822	822
Total Loans	624	619	1,436	1,936	1,936	1,937
Capital Employed	4,580	6,671	8,545	9,287	9,786	10,559
Assets						
Gross Block	7,415	8,446	8,420	9,920	10,420	10,921
Less: Depreciation	4,176	4,416	4,528	4,875	5,240	5,622
Net Block	3,239	4,029	3,892	5,045	5,180	5,299
Capital WIP	112	886	2,161	2,161	2,161	2,161
Investments	164	336	299	329	362	399
Others - A	168	188	434	434	434	434
Current Assets						
Inventories	966	944	1,294	1,233	1,511	1,608
Sundry Debtors	1,498	1,388	1,828	1,741	2,133	2,271
Cash and Bank Balance	299	217	251	302	597	1,218
Current Investments		407	698	698	698	698
Loans and Advances	54	35	189	186	228	242
Other Current Assets	83	159	174	174	174	174
Total Current Assets	2,899	3,151	4,435	4,334	5,341	6,212
Less: Current Liabilities & Provisions						
Sundry Creditors	1,707	1,498	2,325	2,670	3,271	3,482
Provisions	9	8	16	16	16	32
Other Current Liabilities	286	419	336	330	405	431
Total Current Liabilities & Provisions	2,002	1,925	2,676	3,016	3,692	3,945
Capital Applied	4,580	6,671	8,545	9,287	9,786	10,559

Source: Company, BP Equities Research

Key Ratios						
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Key Operating Ratios						
EBITDA Margin (%)	15.8%	23.4%	17.1%	8.0%	9.3%	10.2%
Tax / PBT (%)	22.9%	36.6%	37.5%	35.0%	35.0%	35.0%
Net Profit Margin (%)	9.8%	12.8%	8.9%	2.9%	4.1%	4.8%
RoE (%)	29.6%	31.8%	21.8%	5.7%	9.2%	10.4%
RoCE (%)	37.2%	48.4%	30.5%	8.7%	12.9%	14.7%
Current Ratio (x)	1.4x	1.6x	1.7x	1.4x	1.4x	1.6x
Dividend Payout (%)	9.1%	8.4%	10.6%	10.6%	10.6%	10.6%
Book Value Per Share (Rs.)	127.1	171.4	204.1	212.0	228.2	253.3
Financial Leverage Ratios						
Debt/ Equity (x)	0.2x	0.1x	0.2x	0.3x	0.3x	0.2x
Interest Coverage (x)	9.1x	17.9x	19.5x	7.3x	10.4x	12.2x
Growth Indicators %						
Growth in Net Block (%)	4.8%	13.9%	(0.3%)	17.8%	5.0%	4.8%
Sales Growth (%)	8.9%	10.3%	13.9%	(4.7%)	22.5%	6.5%
EBITDA Growth (%)	44.6%	63.1%	(16.7%)	(55.3%)	41.5%	17.5%
Net Profit Growth (%)	67.6%	44.3%	(20.2%)	(68.6%)	70.4%	23.9%
Diluted EPS Growth (%)	67.6%	44.3%	(20.2%)	(68.6%)	70.4%	23.9%
Turnover Ratios						
Debtors Days	53	44	51	51	51	51
Creditors Days	71	62	78	78	78	78
Inventory Days	34	30	36	36	36	36

Source: Company, BP Equities Research

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Disclaimer Appendix

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

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