

Positive reversal in the margin, volume growth to accelerate post Q2FY21

IG Petrochemicals Ltd (IGPL) reported better margin performance on the back of favourable PAN/OX spread during the quarter. Revenue de-grew by 42.7% YoY to INR 1,421mn (est INR 1,898mn) mainly impacted by production loss of 32 days led by nationwide lockdown due to COVID 19. However, demand is gradually recovering in Paints and Plasticizers to reach pre-COVID levels. EBITDA declined by 35.5% YoY to INR 157mn (est INR 155mn) with 124bps YoY improvement in margin from 9.8% in Q1FY20 to 11% in Q1FY21 (est. 8.2%). This was mainly due to 585bps expansion in gross margin (33.9% vs 28% in Q1FY20) on account of improvement in PAN/OX spread. Currently, PAN/OX average (avg) spread is around \$150 compared to 10-year avg of \$200 vs \$60-\$100 in FY20. Under exceptional items, the company recorded expenses related to impairment in the value of the investment in subsidiary INR 6.16mn as the project was abandoned since viability was not established during the appraisal of the Project (The Subsidiary was liquidated on 12th Apr, 2020). Net profit declined by 73.4% to INR24mn (est. INR38mn) due to weak revenue and higher tax expense (40.3% vs 35.6% in Q1FY20). During July 2020, the Government imposed Provisional Duty of 7.5% on PAN import from Korea (50% share of domestic import) to safeguard domestic PAN producers till 21st Jan 2021. We believe duty on Korean players will help IGPL to remain competitive in the domestic market; therefore, it can lead to the fast absorption of fresh capacity (PA4). Since June, capacity utilization is at optimum levels. Based on the promising outlook for FY21, management is planning to prepay domestic debt (~INR 414mn) in the next 12 to 18 months to reduce finance cost further.

Well-positioned to tap import substitution opportunity in PA

With 53,000 TPA expansion, IGPL became the largest PA manufacturer globally (followed by Nan Ya Plastics and UPC technologies) in terms of production volume for commercial sale. With over 1,74,000 MT of import of PA in India (in FY20), 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 start commercial production by the end of September 2020 (earlier guided for August 2020). During this period, due to production shortage PA import rose significantly with a pace of CAGR 22% compared to CAGR 12% over FY11-20. 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 the first year of commissioning. With capacity coming on stream, management believes that they will substitute PAN import by ~30%. In FY20, Indian companies PAN import stood at ~14,500tn/ month, which was ~20% higher than FY19 import of ~12,100tn/month. However, we have noticed a sharp fall in average monthly import from ~14,500tn/month to ~8,800tn/month level (possibly due to COVID situation). As we have better clarity over PA4 commissioning timeline, we modelled volume growth of 15.5% for FY21 (assuming ~55% utilization in PA4) on the back of export substitution opportunity and steady demand growth at the end-user industries.

Stock Rating

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

Sector Outlook **Positive**

Stock

CMP (INR)	224
Target Price (INR)	278
BSE code	500199
NSE Symbol	IGPL
Bloomberg	IGPL IN
Reuters	IGPT.BO

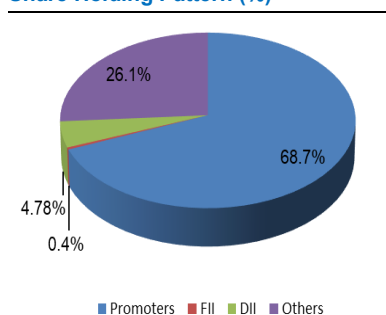
Key Data

Nifty	11,408
52WeekHL(INR)	232/81
O/s Shares (Mn)	30.8
Market Cap (INR bn)	7.0
Face Value (INR)	10

Average volume

3 months	44,454
6 months	32,403
1 year	38,568

Share Holding Pattern (%)



Relative Price Chart



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Key Financials

YE March (INR. mn)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	10,375	11,442	13,037	10,586	12,655
Growth %	10%	14%	-19%	20%	14%
EBIDTA	2,673	2,227	717	1,164	1,758
Growth%	63%	-17%	-68%	62%	51%
Net Profit	1,461	1,165	210	481	857
Growth %	44%	-20%	-82%	129%	78%
Diluted EPS	47	38	7	16	28
Growth %	44%	-20%	-82%	129%	78%

Profitability & Valuation

EBIDTA (%)	23.4%	17.1%	6.8%	9.2%	12.2%
NPM (%)	12.8%	8.9%	2.0%	3.8%	6.0%
RoE (%)	31.8%	21.8%	3.4%	7.3%	12.0%
RoCE (%)	48.4%	30.8%	5.6%	10.6%	16.6%
P/E (x)	4.7	5.9	32.8	14.3	8.1
EV/EBITDA (x)	2.7	3.6	11.3	6.6	4.0
P/BV (x)	1.3	1.1	1.1	1.0	0.9

Source: Company, BP Equities Research

IG Petrochemicals Ltd Q1FY21 Quarterly Result

YE March (INR. mn)	Q1 FY21	Q4 FY20	Q-o-Q change %	Q1 FY20	Y-o-Y change %
Net Sales	1,421	2,685	(47.1%)	2,479	(42.7%)
Other Operating Income	0	0		0	
Total Revenue	1,421	2,685	(47.1%)	2,479	(42.7%)
Less:					
Raw Material Cost	939	2,145	(56.2%)	1,783	(47.3%)
Operating & Manufacturing Expenses	183	218	(15.9%)	308	(40.6%)
Employee Cost	142	162	(12.7%)	144	(1.5%)
Total Expenditure	1,264	2,525	(49.9%)	2,236	(43.5%)
EBIDTA	157	160	(2.0%)	243	(35.5%)
Less: Depreciation	80	74	7.5%	79	1.9%
EBIT	77	86	(10.2%)	165	(53.3%)
Less: Interest	42	42	0.1%	44	(6.1%)
Add: Other income	11	19		21	
Exceptional item	-6	-3			
Profit before tax	40	61	(33.5%)	141	(71.3%)
Adjusted Profit before Tax	47	64	(26.9%)	141	(67.0%)
Less: Total Tax	16	20	(20.4%)	50	(67.6%)
Profit After Tax	24	40	(40.2%)	91	(73.4%)
Adjusted Profit After Tax	30	43	(30.0%)	91	(66.6%)
Diluted EPS (Rs.)	0.8	1.3	(40.2%)	2.9	(73.4%)
Adjusted Diluted EPS	1.0	1.4	(30.0%)	2.9	(66.6%)
Diluted No of Share (mn)	30.8	30.8		30.8	
Margin Analysis %			Change in bps		Change in bps
EBIDTA Margin %	11.0%	6.0%	508	9.8%	124
EBIT Margin %	5.4%	3.2%	222	6.6%	-123
NPM %	1.7%	1.5%	20	3.7%	-196
Effective Tax Rate %	40.3%	33.6%	664	35.6%	466

Revenue were below our estimates of INR 1,898mn due to production loss of 32 days led by nationwide lockdown due to COVID 19

Adj. PAT came below our estimate of INR38mn, mainly due to weak revenue growth, exceptional item of INR 6mn and higher tax rate

The EBITDA margin, at 11.0% was above our estimate of 8.2%, supported by improved PAN/OX spread

Source: Company, BP Equities Research

Foray into advanced plasticizer to provide scope for margin improvement

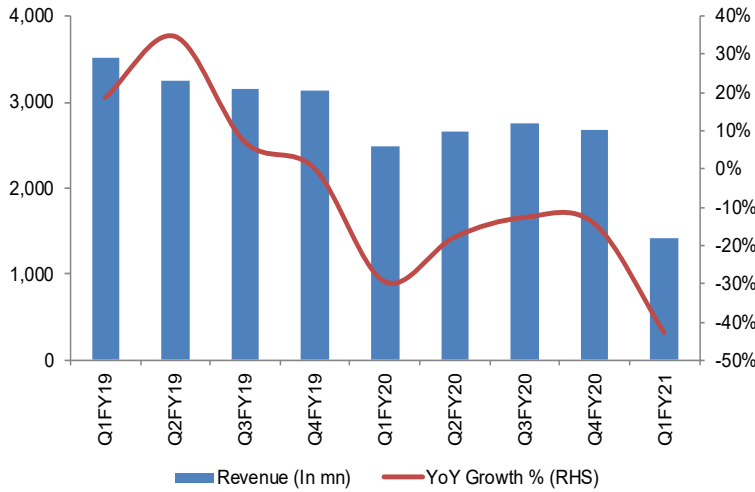
IGPL also forays into the downstream product by introducing a new product in speciality plasticizer DEP (Di-Ethyl Phthalate). Since the compound is a suitable solvent for many organic molecules, it is often used to bind cosmetics and fragrances. DEP was reported as an ingredient in 67 cosmetic formulations, 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 on 21st Mar the company is planning to cross-sell this product to existing plasticizer clients since DEP carries better margin (EBITDA ~25%) increase in contribution from this product to strengthen the overall margin of the company further. We modelled INR 350mn incremental revenue from DEP in FY22E.

Valuation and Outlook

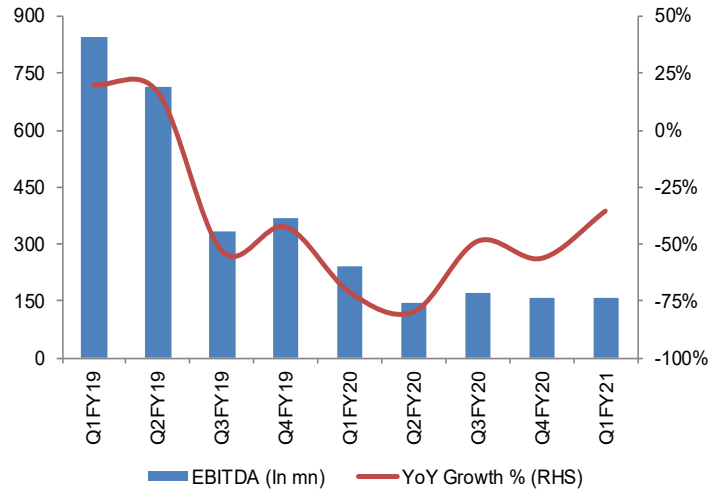
IGPL continues to be a market leader in the domestic PA industry with a strong clientele, healthy balance sheet and expansion in value-added products (downstream speciality plasticizers). Moreover, we could see a positive reversal in margin going forward as PAN/OX spreads improve further. At the current market price (of INR 224), the stock is available at 8.1x FY22E EPS of INR27.8. We keep our positive stance on future growth prospects of the company on the back of better visibility over PA4 commissioning with an expected recovery in earnings. We value IGPL by assigning P/E of 10x (earlier 9x) to its FY22E earnings and arrive at an upward revised target price of INR 278 (earlier INR 238).

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

Revenue growth trend

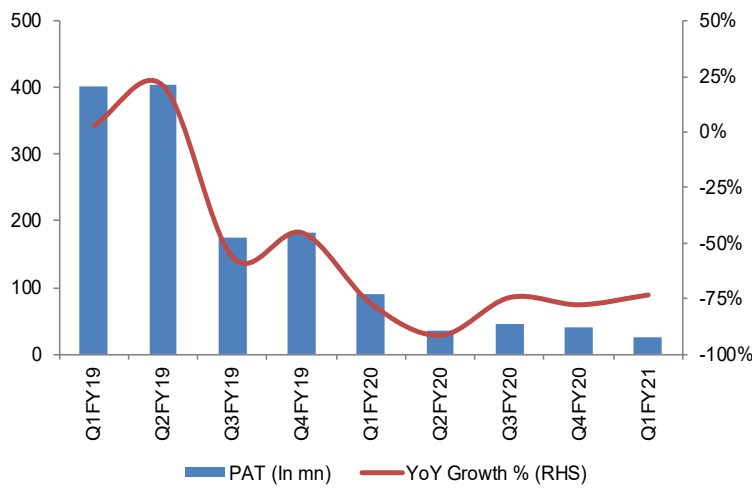


EBITDA de-grew by 35.5% YoY

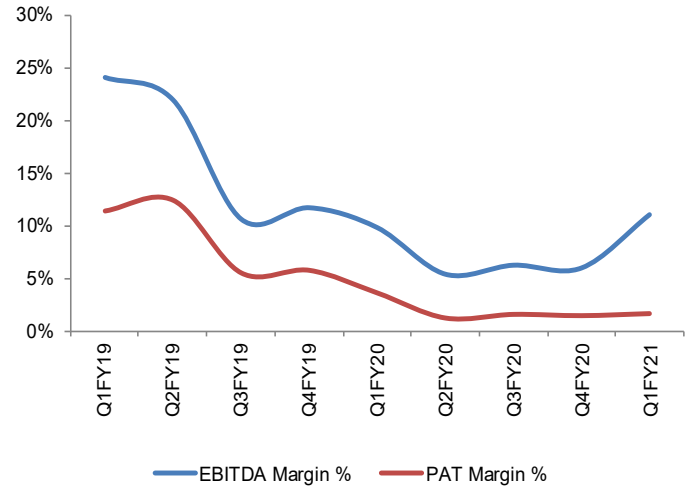


Source: Company, BP Equities Research

PAT declined by 73.4% YoY

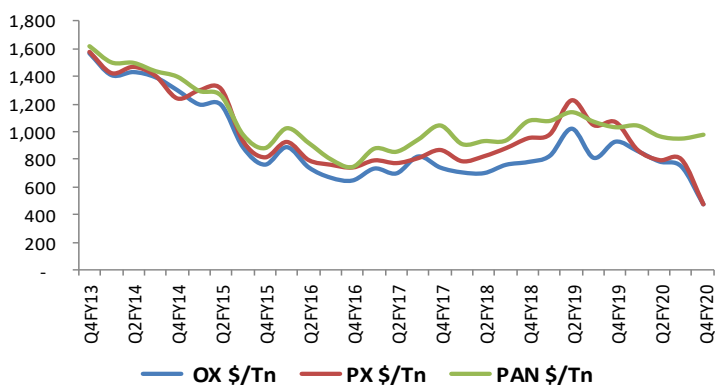


EBITDA and PAT Margin Trend

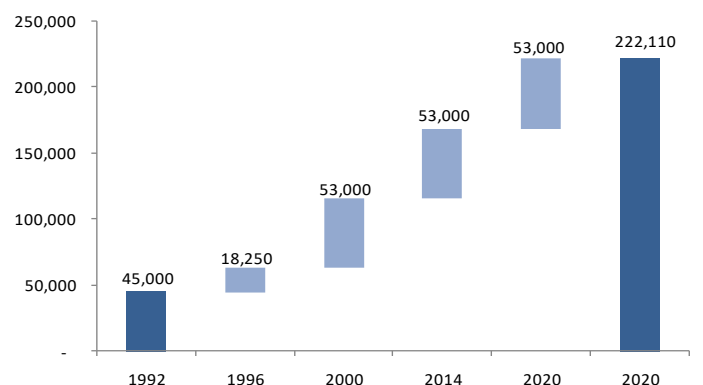


Source: Company, BP Equities Research

OX,PX and PAN price trend



Capacity Expansion Trend



Source: Bloomberg, BP Equities Research



Profit & Loss A/c					
YE March (INR. mn)	FY18	FY19	FY20	FY21E	FY22E
Revenue	11,442	13,037	10,586	12,655	14,393
<i>Growth %</i>	10.3%	13.9%	-18.8%	19.5%	13.7%
Total Revenue	11,442	13,037	10,586	12,655	14,393
Less:					
Raw Material Consumed	7,275	9,128	8,172	9,519	10,417
Employee Cost	558	618	602	662	728
Other Expenses	936	1,064	1,096	1,310	1,490
Total Operating Expenditure	8,769	10,810	9,869	11,490	12,635
EBITDA	2,673	2,227	717	1,164	1,758
<i>Growth %</i>	63.1%	-16.7%	-67.8%	62.5%	51.0%
Less: Depreciation	257	265	299	315	330
EBIT	2,416	1,962	418	850	1,428
<i>Growth %</i>	64.7%	-18.8%	-78.7%	103.4%	68.0%
Interest Paid	149	114	160	160	160
Non-operating Income	37	110	66	50	50
Extraordinary Income	0	-95	-3	0	0
Profit Before tax	2,304	1,863	321	740	1,318
Tax	843	698	110	259	461
Net Profit	1,461	1,165	210	481	857
Adjusted Profit	1,461	1,260	213	481	857
Reported Diluted EPS Rs	47.4	37.8	6.8	15.6	27.8
<i>Growth %</i>	44.3%	-20.2%	-81.9%	128.6%	78.1%
Adjusted Diluted EPS Rs	47.4	40.9	6.9	15.6	27.8
<i>Growth %</i>	44.3%	-13.7%	-83.1%	125.5%	78.1%

(Source: Company, BP Equities Research)

Cash Flows Statement					
YE March (INR. Mn)	FY18	FY19	FY20	FY21E	FY22E
PAT	1,460.5	1,164.8	210.4	481.1	856.8
(Less)/Add: Extraordinary Income/Expense	0.0	95.0	2.9	0.0	0.0
Less: Non Operating Income	(36.8)	(110.2)	(65.6)	(50.0)	(50.0)
Add: Depreciation	257.0	264.6	299.0	314.7	330.5
Add: Interest Paid	149.3	114.4	159.5	159.5	159.5
Tax Adjustment	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	1,830.0	1,528.6	606.3	905.4	1,296.8
(Inc)/Dec in Current Assets	(355.5)	(803.8)	978.6	(313.6)	(263.5)
Inc/(Dec) in Current Liabilities	(76.8)	750.6	(126.6)	667.6	461.0
Changes in Inventory	22.2	(350.6)	343.6	(185.8)	(156.1)
Net Cash Generated From Operations	1,420.0	1,124.8	1,802.0	1,073.5	1,338.2
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(1,031.3)	25.6	(1,081.6)	(500.0)	(500.0)
(Inc)/Dec in Capital Work In Progress	(774.0)	(1,274.7)	(511.5)	0.0	0.0
(Inc)/Dec in Investment (Strategic)	0.0	0.0	0.0	0.0	0.0
(Inc)/Dec in Investment (Others)	(172.1)	31.2	(45.1)	(35.0)	(38.5)
Add: Non Operating Income	36.8	110.2	65.6	50.0	50.0
(Inc)/Dec in Intangible Assets	(26.0)	(239.8)	(2.0)	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	(1,966.6)	(1,347.5)	(1,574.5)	(485.0)	(488.5)
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	729.6	774.4	236.9	0.0	0.0
Inc/(Dec) in Reserves & Surplus	24.7	(32.1)	(95.1)	0.0	0.0
Inc/(Dec) in Equity	0.0	0.0	0.0	0.0	0.0
Dividend Paid	(123.2)	(123.2)	(61.6)	(61.6)	(61.6)
Less: Interest Paid	(149.3)	(114.4)	(159.5)	(159.5)	(159.5)
Adjustments	(16.5)	(153.1)	(38.5)	(0.0)	(0.0)
Exceptional Item	0.0	(95.0)	(2.9)	0.0	0.0
Net Cash Flow from Financing Activities	465.3	256.7	(120.7)	(221.1)	(221.1)
Net Inc/Dec in cash equivalents	(81.4)	34.0	106.7	367.4	628.6
Opening Balance	298.7	217.3	251.3	358.0	725.4
Closing Balance Cash and Cash Equivalents	217.3	251.3	358.0	725.4	1,354.0



Balance Sheet					
YE March(INR. mn)	FY18	FY19	FY20	FY21E	FY22E
Liabilities					
Equity Capital	308	308	308	308	308
Reserves & Surplus	4,970	5,979	6,033	6,453	7,248
Equity	5,278	6,287	6,341	6,761	7,556
Net Worth	5,278	6,287	6,341	6,761	7,556
Minority Interest					
Others	774	822	869	869	869
Total Loans	619	1,346	1,536	1,536	1,536
Capital Employed	6,671	8,455	8,746	9,165	9,961
Assets					
Gross Block	8,446	8,420	9,502	10,002	10,502
Less: Depreciation	4,416	4,528	4,789	5,103	5,434
Net Block	4,029	3,892	4,713	4,899	5,068
Capital WIP	886	2,161	2,672	2,672	2,672
Investments	336	305	350	385	423
Others - A	188	434	436	436	436
Current Assets					
Inventories	944	1,294	951	1,137	1,293
Sundry Debtors	1,388	1,828	1,433	1,714	1,949
Cash and Bank Balance	217	251	358	725	1,354
Current Investments	407	698	116	116	116
Loans and Advances	35	184	171	205	233
Other Current Assets	159	84	95	95	95
Total Current Assets	3,151	4,340	3,124	3,991	5,039
Less: Current Liabilities & Provisions					
Sundry Creditors	1,498	2,300	1,996	2,559	2,911
Provisions	8	16	22	22	44
Other Current Liabilities	419	361	532	636	724
Total Current Liabilities & Provisions	1,925	2,676	2,550	3,217	3,678
Capital Applied	6,671	8,455	8,746	9,165	9,961

(Source: Company, BP Equities Research)

Key Ratios					
YE March (INR. mn)	FY18	FY19	FY20	FY21E	FY22E
Key Operating Ratios					
EBITDA Margin (%)	23.4%	17.1%	6.8%	9.2%	12.2%
Tax / PBT (%)	36.6%	37.5%	34.4%	35.0%	35.0%
Net Profit Margin (%)	12.8%	8.9%	2.0%	3.8%	6.0%
RoE (%)	31.8%	21.8%	3.4%	7.3%	12.0%
RoCE (%)	48.4%	30.8%	5.6%	10.6%	16.6%
Current Ratio (x)	1.6x	1.6x	1.2x	1.2x	1.4x
Dividend Payout (%)	8.4%	10.6%	29.3%	29.3%	29.3%
Book Value Per Share (INR.)	171.4	204.1	205.9	219.5	245.3
Financial Leverage Ratios					
Debt/ Equity (x)	0.1x	0.2x	0.2x	0.2x	0.2x
Interest Coverage (x)	17.9x	19.5x	4.5x	7.3x	11.0x
Growth Indicators %					
Growth in Gross Block (%)	13.9%	(0.3%)	12.8%	5.3%	5.0%
Sales Growth (%)	10.3%	13.9%	(18.8%)	19.5%	13.7%
EBITDA Growth (%)	63.1%	(16.7%)	(67.8%)	62.5%	51.0%
Net Profit Growth (%)	44.3%	(20.2%)	(81.9%)	128.6%	78.1%
Diluted EPS Growth (%)	44.3%	(20.2%)	(81.9%)	128.6%	78.1%
Turnover Ratios					
Debtors Days	44	51	49	49	49
Creditors Days	62	78	74	74	74
Inventory Days	30	36	33	33	33

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