

Margin recovery continues, Multiple tailwinds to accelerate earnings growth going forward

IG Petrochemicals Ltd (IGPL) reported strong margin performance on the back of favourable PAN/OX spread during the quarter. Revenue de-grew by 9.1% YoY to INR 2424mn (est INR 2621mn) mainly impacted by lower realization due to soft crude oil prices. However, demand is fully recovered in Paints and Plasticizers to pre-COVID levels. EBITDA surged by 191.5% YoY to INR 418mn (est INR 235mn) with 1186bps YoY expansion in margin from 5.4% in Q2FY20 to 17.2% in Q2FY21 (est. 9%). This was mainly due to 1134bps expansion in gross margin (33.4% vs 22.4% in Q2FY20) on account of improvement in PAN/OX spread. Currently, PAN/OX average (avg) spread is around \$200 (vs avg \$150 in Q1FY21) compared to 10-year avg of \$200 vs \$100 in FY20. We believe spreads can continue to remain favourable in the near term on the back of healthy demand in the Paint and Plasticizer industries. Net profit grew by 588% to INR234mn (est. INR86mn) driven by operationally strong performance and lower tax expense (23.9% vs 32.7% in Q2FY20) due to the adoption of the new tax regime. During July 2020, the Government imposed a Provisional Duty of 7.5% on PAN import from Korea (50% share in domestic import) to safeguard domestic PAN producers till 21st Jan 2021, which has then extended to two years as per DGTR filings dated 28/09/2020. Moreover, the shutdown of LG Chem's PAN capacity (50,000 TPA) in South Korea can be a good opportunity for Korean PAN manufacturers in the domestic market, which otherwise would have exported to countries like India. 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.

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 a better margin (EBITDA ~20-25%) 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.

Stock Rating

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

Sector Outlook **Positive**

Stock

CMP (INR)	350
Target Price (INR)	405
BSE code	500199
NSE Symbol	IGPL
Bloomberg	IGPL IN
Reuters	IGPT.BO

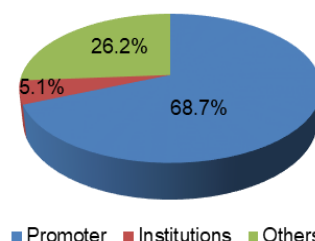
Key Data

Nifty	12,655
52WeekHL(INR)	355/81
O/s Shares (Mn)	30.8
Market Cap (INR bn)	11
Face Value (INR)	10

Average volume

3 months	1,01,600
6 months	70,918
1 year	54,245

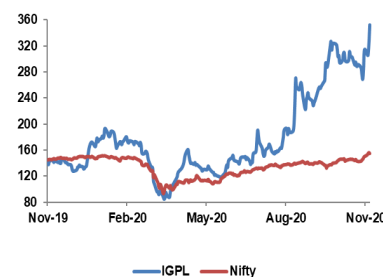
Share Holding Pattern (%)



Key Financials					
YE March (INR. mn)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	10,375	11,442	13,037	10,586	10,782
Growth %	10%	14%	-19%	2%	24%
EBIDTA	2,673	2,227	717	1,446	2,011
Growth%	63%	-17%	-68%	102%	39%
Net Profit	1,461	1,165	210	780	1,248
Growth %	44%	-20%	-82%	271%	60%
Diluted EPS	47	38	7	25	41
Growth %	44%	-20%	-82%	271%	60%
Profitability & Valuation					
EBIDTA (%)	23.4%	17.1%	6.8%	13.4%	15.1%
NPM (%)	12.8%	8.9%	2.0%	7.2%	9.4%
RoE (%)	31.8%	21.8%	3.4%	11.6%	16.3%
RoCE (%)	48.4%	30.8%	5.6%	13.9%	19.0%
P/E (x)	7.4	9.3	51.2	13.8	8.6
EV/EBITDA (x)	4.2	5.3	16.7	7.8	5.1
P/BV (x)	2.0	1.7	1.7	1.5	1.3

Source: Company, BP Equities Research

Relative Price Chart



Research Analyst

Nikhil Shetty
nikhilshetty@bpwealth.com
022-61596408



IG Petrochemicals Ltd Q2FY21 Quarterly Result

YE March (INR. Mn)	Q2 FY21	Q1 FY21	Q-o-Q change %	Q2 FY20	Y-o-Y change %
Net Sales	2,424	1,421	70.6%	2,666	(9.1%)
Other Operating Income	0	0		0	
Total Revenue	2,424	1,421	70.6%	2,666	(9.1%)
Less:					
Raw Material Cost	1,606	939	71.0%	2,069	(22.4%)
Operating & Manufacturing Expenses	244	183	33.2%	312	(21.9%)
Employee Cost	156	142	9.9%	141	10.2%
Total Expenditure	2,006	1,264	58.7%	2,523	(20.5%)
EBIDTA	418	157	166.0%	143	191.5%
Less: Depreciation	79	80	(1.5%)	73	8.0%
EBIT	339	77	340.1%	70	382.0%
Less: Interest	41	42	(0.5%)	33	25.9%
Add: Other income	10	11		13	
Exceptional item	0	-6			
Profit before tax	308	40	662.1%	51	508.4%
Adjusted Profit before Tax	308	47	561.2%	51	508.4%
Less: Total Tax	73	16	351.7%	17	343.7%
Profit After Tax	234	24	871.3%	34	588.4%
Adjusted Profit After Tax	234	30	673.7%	34	588.4%
Diluted EPS (Rs.)	7.6	0.8	871.3%	1.1	588.4%
Adjusted Diluted EPS	7.6	1.0	673.7%	1.1	588.4%
Diluted No of Share (mn)	30.8	30.8		30.8	
Margin Analysis %			Change in bps		Change in bps
Gross margin %	33.7%	33.9%	-19	22.4%	1,134
EBIDTA Margin %	17.2%	11.0%	618	5.4%	1,186
EBIT Margin %	14.0%	5.4%	856	2.6%	1,134
NPM %	9.7%	1.7%	797	1.3%	839
Effective Tax Rate %	23.9%	40.3%	-1,640	32.7%	-886

Source: Company, BP Equities Research

Revenue were below our estimates of INR 2,621mn, mainly impacted by lower realization due to soft crude oil price

Adj. PAT came above our estimate of INR86mn, mainly due to operationally strong performance and lower tax expense (23.9% vs 32.7% in Q2FY20) due to adoption of the new tax regime.

The EBITDA margin, at 17.2.0% was above our estimate of 9%, supported by improved PAN/OX spread

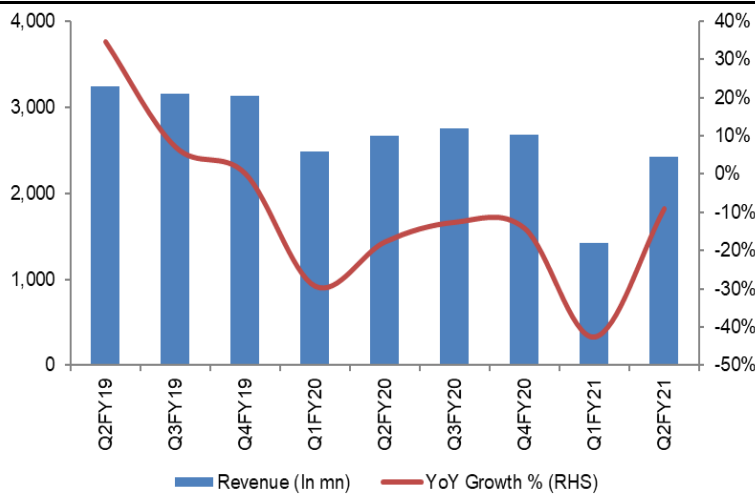
Valuation and Outlook

IGPL continues to be a market leader in the domestic PAN industry with a strong clientele, healthy balance sheet, and expansion in value-added products (downstream speciality plasticizers). Moreover, we could see further margin enhancement going forward as PAN/OX spreads improve further. Considering superior growth visibility, we rise our earnings estimate for FY21 and FY22 by 62% and 46% respectively. At the current market price (of INR 350), the stock is available at 8.6x FY22E EPS of INR40.5. We keep our positive stance on future growth prospects of the company on the back of better visibility over PA4 commissioning with an expected sharp recovery in earnings. We value IGPL by assigning a P/E of 10x to its FY22E earnings and arrive at an upward revised target price of INR 405 (earlier INR 278).

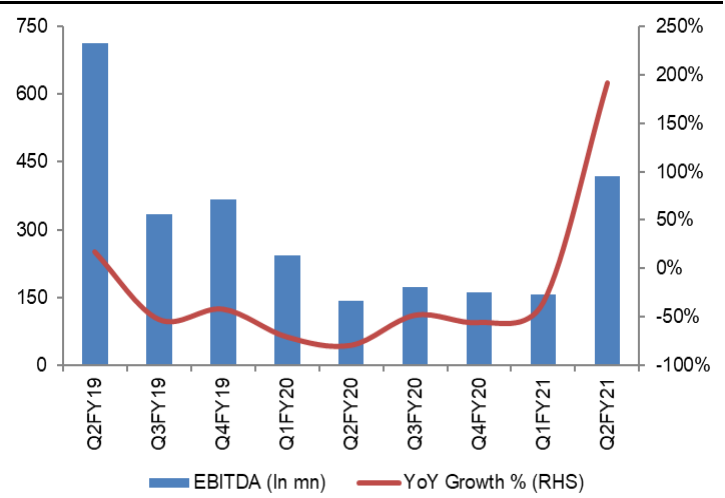
Key Risks: Slow ramp-up of PA4 and adverse movement in PAN/OX spread



Revenue growth trend

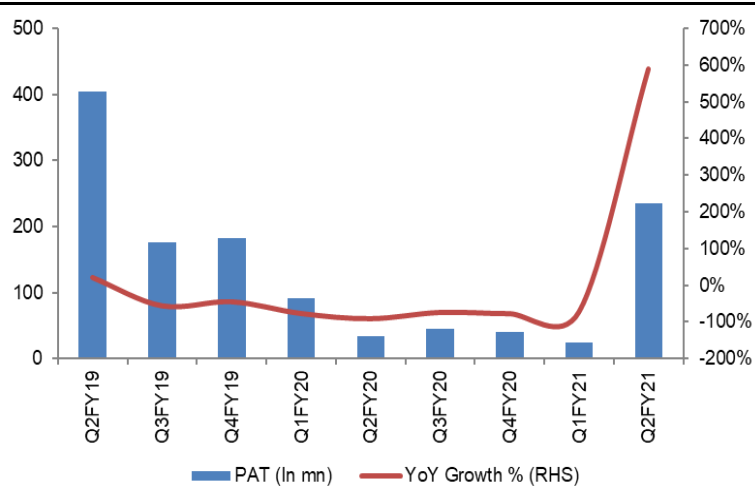


EBITDA surged by ~192% YoY

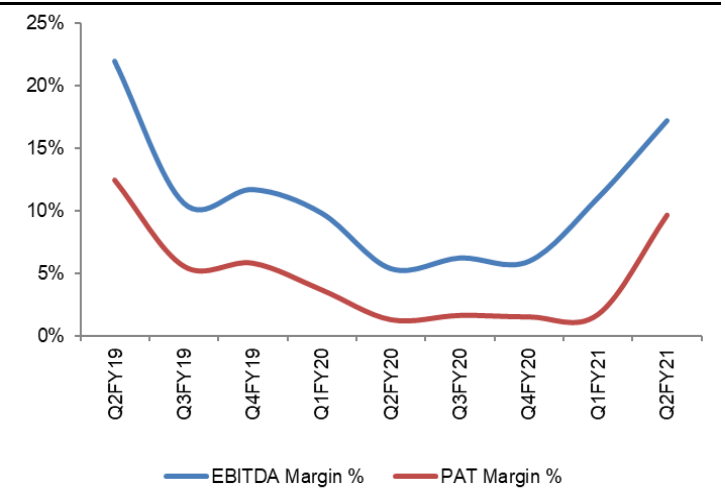


Source: Company, BP Equities Research

PAT expanded by ~588% YoY

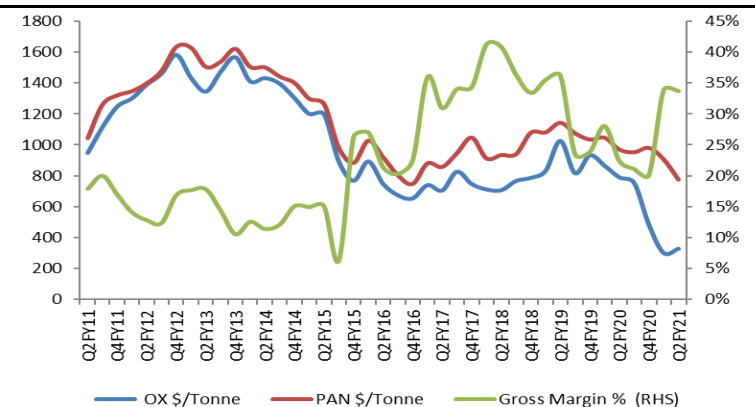


EBITDA and PAT Margin Trend

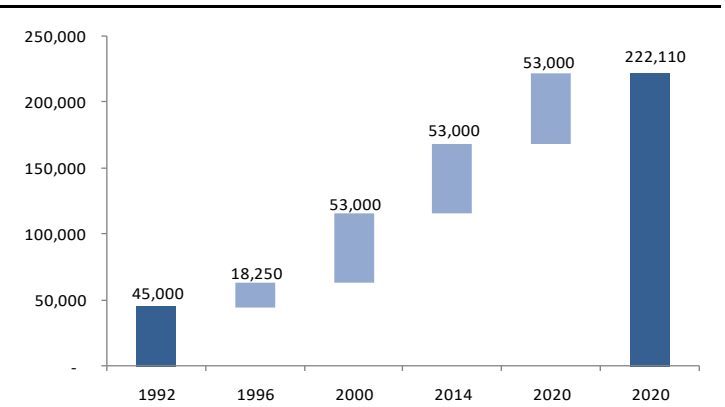


Source: Company, BP Equities Research

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	10,782	13,348
<i>Growth %</i>	10.3%	13.9%	-18.8%	1.9%	23.8%
Total Revenue	11,442	13,037	10,586	10,782	13,348
Less:					
Raw Material Consumed	7,275	9,128	8,172	7,558	9,227
Employee Cost	558	618	602	662	728
Other Expenses	936	1,064	1,096	1,116	1,382
Total Operating Expenditure	8,769	10,810	9,869	9,336	11,337
EBITDA	2,673	2,227	717	1,446	2,011
<i>Growth %</i>	63.1%	-16.7%	-67.8%	101.8%	39.1%
Less: Depreciation	257	265	299	320	336
EBIT	2,416	1,962	418	1,126	1,675
<i>Growth %</i>	64.7%	-18.8%	-78.7%	169.6%	48.7%
Interest Paid	149	114	160	134	57
Non-operating Income	37	110	66	50	50
Extraordinary Income	0	-95	-3	0	0
Profit Before tax	2,304	1,863	321	1,042	1,668
Tax	843	698	110	262	420
Net Profit	1,461	1,165	210	780	1,248
Adjusted Profit	1,461	1,260	213	780	1,248
Reported Diluted EPS	47.4	37.8	6.8	25.3	40.5
<i>Growth %</i>	44.3%	-20.2%	-81.9%	270.7%	60.0%
Adjusted Diluted EPS	47.4	40.9	6.9	25.3	40.5
<i>Growth %</i>	44.3%	-13.7%	-83.1%	265.6%	60.0%

(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	780.1	1,248.3
(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	320.1	336.1
Add: Interest Paid	149.3	114.4	159.5	133.6	56.8
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	1,183.8	1,591.2
(Inc)/Dec in Current Assets	(355.5)	(803.8)	978.6	(29.8)	(388.9)
Inc/(Dec) in Current Liabilities	(76.8)	750.6	(126.6)	194.7	669.9
Changes in Inventory	22.2	(350.6)	343.6	(17.6)	(230.4)
Net Cash Generated From Operations	1,420.0	1,124.8	1,802.0	1,331.1	1,641.7
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	(200.0)	(200.0)
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)	(133.6)	(56.8)
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)	(395.2)	(318.4)
Net Inc/Dec in cash equivalents	(81.4)	34.0	106.7	450.9	834.9
Opening Balance	298.7	217.3	251.3	358.0	808.9
Closing Balance Cash and Cash Equivalents	217.3	251.3	358.0	808.9	1,643.8



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	6,752	7,938
Equity	5,278	6,287	6,341	7,060	8,246
Net Worth	5,278	6,287	6,341	7,060	8,246
Minority Interest					
Others	774	822	869	869	869
Total Loans	619	1,346	1,536	1,336	1,136
Capital Employed	6,671	8,455	8,746	9,264	10,251
Assets					
Gross Block	8,446	8,420	9,502	10,002	10,502
Less: Depreciation	4,416	4,528	4,789	5,109	5,445
Net Block	4,029	3,892	4,713	4,893	5,057
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	968	1,199
Sundry Debtors	1,388	1,828	1,433	1,460	1,807
Cash and Bank Balance	217	251	358	809	1,644
Current Investments	407	698	116	116	116
Loans and Advances	35	184	171	174	216
Other Current Assets	159	84	95	95	95
Total Current Assets	3,151	4,340	3,124	3,622	5,077
Less: Current Liabilities & Provisions					
Sundry Creditors	1,498	2,300	1,996	2,180	2,699
Provisions	8	16	22	22	44
Other Current Liabilities	419	361	532	542	671
Total Current Liabilities & Provisions	1,925	2,676	2,550	2,744	3,414
Capital Applied	6,671	8,455	8,746	9,264	10,251

(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%	13.4%	15.1%
Tax / PBT (%)	36.6%	37.5%	34.4%	25.2%	25.2%
Net Profit Margin (%)	12.8%	8.9%	2.0%	7.2%	9.4%
RoE (%)	31.8%	21.8%	3.4%	11.6%	16.3%
RoCE (%)	48.4%	30.8%	5.6%	13.9%	19.0%
Current Ratio (x)	1.6x	1.6x	1.2x	1.3x	1.5x
Dividend Payout (%)	8.4%	10.6%	29.3%	29.3%	29.3%
Book Value Per Share (INR.)	171.4	204.1	205.9	229.2	267.8
Financial Leverage Ratios					
Debt/ Equity (x)	0.1x	0.2x	0.2x	0.2x	0.1x
Interest Coverage (x)	17.9x	19.5x	4.5x	10.8x	35.4x
Growth Indicators %					
Growth in Gross Block (%)	13.9%	(0.3%)	12.8%	5.3%	5.0%
Sales Growth (%)	10.3%	13.9%	(18.8%)	1.9%	23.8%
EBITDA Growth (%)	63.1%	(16.7%)	(67.8%)	101.8%	39.1%
Net Profit Growth (%)	44.3%	(20.2%)	(81.9%)	270.7%	60.0%
Diluted EPS Growth (%)	44.3%	(20.2%)	(81.9%)	270.7%	60.0%
Turnover Ratios					
Debtors Days	44	51	49	49	49
Creditors Days	62	78	74	74	74
Inventory Days	30	36	33	33	33



Research Desk

Tel: +91 22 61596406

Institutional Sales Desk

Tel: +91 22 61596403/04/05

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Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001

BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591

BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392