

#### Stellar performance; All-time high EBITDA margin: Maintain Buy

IG Petrochemicals Ltd (IGPL) has reported a strong margin performance backed by a sharp surge in PAN/OX spread during the quarter. Revenue grew by 14% YoY to INR 3148mn mainly driven by better realization due to short supply during Q3 as there is a healthy demand in the Paints and Plasticizers industry. EBITDA surged by 4.6x YoY to INR 963mn (est INR 962mn) with 2438bps YoY expansion in margin from 6.2% in Q3FY20 to 30.6% in Q3FY21 (est. 27.7%). This was mainly due to the 2428bps expansion in gross margin (45.4% vs 21.1% in Q3FY20) due to the PAN/OX spread improvement. PAN/OX spread is currently hovering between \$250-\$300 (similar to Q3FY21) compared to a 10-year avg of \$200 vs \$100 in FY20. We believe spreads can continue to remain favourable in the near term because of healthy demand in the end-user industries. Net profit grew by 13x to INR629mn (est. INR637mn) 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. As per management, commercial production of DEP to start from Apr 2021. We modeled INR 400mn incremental revenue from DEP in FY22E.

#### Greenfield Capex to support the next phase of growth

To meet growing demand and faster absorption of recently commissioned capacity PA4 (utilization 85-90%), IGPL plans to set up a new plant through Greenfield expansion in Gujarat with the PAN capacity of 80,000 TPA, which increases its total capacity to 3,02,110 TPA by CY24. The demand for Phthalic Anhydride in the domestic market is expected to increase due to Govt. focus on Infrastructure spending and demand growth in downstream products like Paints, Plasticizers, Polyvinyl chloride, Unsaturated polyester resins (UPR), etc., supported by strong GDP growth in India. Out of the 80,000 TPA of PAN, 50% will be used for PAN derivatives, 30% for the export market, and the remaining 20% for the domestic market. IGPL to incur INR 6bn on this greenfield Capex funded through debt (INR 2bn) and internal accruals (INR 4bn). As per our estimate, IGPL can generate FCF of INR 4bn over FY21-23 based on healthy operational performance. Moreover, INR 2bn debt will be largely low-cost foreign debt for equipment imported from Germany at an interest cost of 1% P.A, therefore will not affect profitability to a large extent.

#### Stock Rating

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

Sector Outlook **Positive**

#### Stock

CMP (INR)	442
Target Price (INR)	566
BSE code	500199
NSE Symbol	IGPL
Bloomberg	IGPL IN
Reuters	IGPT.BO

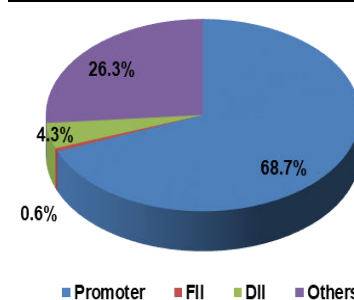
#### Key Data

Nifty	15,163
52WeekH/L(INR)	504/81
O/s Shares (Mn)	30.8
Market Cap (INR bn)	13.6
Face Value (INR)	10

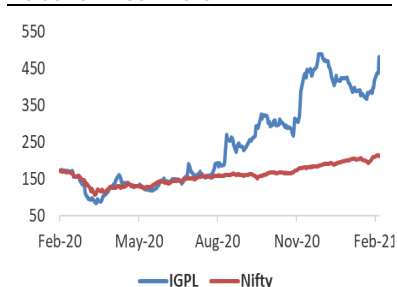
#### Average volume

3 months	70,240
6 months	85,640
1 year	58,470

#### Share Holding Pattern (%)



#### Relative Price Chart



#### Research Analyst

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#### Key Financials

YE March (INR. mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	13,037	10,586	10,657	13,869	15,266
Growth %	14%	-19%	1%	30%	10%
EBIDTA	2,227	717	2,388	2,375	2,452
Growth%	-17%	-68%	233%	-1%	3%
Net Profit	1,165	210	1,487	1,538	1,585
Growth %	-20%	-82%	607%	3%	3%
Diluted EPS	38	7	48	50	51
Growth %	-20%	-82%	607%	3%	3%

#### Profitability & Valuation

EBIDTA (%)	17.1%	6.8%	22.4%	17.1%	16.1%
NPM (%)	8.9%	2.0%	14.0%	11.1%	10.4%
RoE (%)	21.8%	3.4%	21.2%	18.3%	16.1%
RoCE (%)	30.8%	5.6%	25.0%	21.7%	19.4%
P/E (x)	11.7	64.7	9.2	8.8	8.6
EV/EBITDA (x)	6.6	20.6	5.7	5.1	4.4
P/BV (x)	2.2	2.1	1.8	1.5	1.3

Source: Company, BP Equities Research

**Variance Analysis**

YE March (INR. Mn)	Q3 FY21	Q2 FY21	Q-o-Q change %	Q3 FY20	Y-o-Y change %
<b>Net Sales</b>	<b>3,148</b>	<b>2,424</b>	<b>29.9%</b>	<b>2,756</b>	<b>14.2%</b>
<b>Other Operating Income</b>	<b>0</b>	<b>0</b>		<b>0</b>	
<b>Total Revenue</b>	<b>3,148</b>	<b>2,424</b>	<b>29.9%</b>	<b>2,756</b>	<b>14.2%</b>
<b>Less:</b>					
Raw Material Cost	1,719	1,606	7.0%	2,174	(20.9%)
Operating & Manufacturing Expenses	311	244	27.3%	256	21.4%
Employee Cost	154	156	(1.0%)	154	0.2%
<b>Total Expenditure</b>	<b>2,184</b>	<b>2,006</b>	<b>8.9%</b>	<b>2,584</b>	<b>(15.5%)</b>
<b>EBIDTA</b>	<b>963</b>	<b>418</b>	<b>130.7%</b>	<b>172</b>	<b>461.2%</b>
Less: Depreciation	77	79	(1.9%)	73	5.7%
<b>EBIT</b>	<b>886</b>	<b>339</b>	<b>161.6%</b>	<b>99</b>	<b>799.0%</b>
Less: Interest	50	41	21.7%	41	22.8%
Add: Other income	7	10		10	
Exceptional item	0	0			
<b>Profit before tax</b>	<b>843</b>	<b>308</b>	<b>173.8%</b>	<b>68</b>	<b>1142.4%</b>
<b>Adjusted Profit before Tax</b>	<b>843</b>	<b>308</b>	<b>173.8%</b>	<b>68</b>	<b>1142.4%</b>
Less: Total Tax	214	73	191.9%	23	827.5%
<b>Profit After Tax</b>	<b>629</b>	<b>234</b>	<b>168.2%</b>	<b>45</b>	<b>1305.2%</b>
<b>Adjusted Profit After Tax</b>	<b>629</b>	<b>234</b>	<b>168.2%</b>	<b>45</b>	<b>1305.2%</b>
<b>Diluted EPS (Rs.)</b>	<b>20.4</b>	<b>7.6</b>	<b>168.2%</b>	<b>1.5</b>	<b>1305.2%</b>
<b>Adjusted Diluted EPS</b>	<b>20.4</b>	<b>7.6</b>	<b>168.2%</b>	<b>1.5</b>	<b>1305.2%</b>
Diluted No of Share (mn)	30.8	30.8		30.8	

Revenue growth was combined effect of better realization and volume growth

Adj. PAT came above our estimate of INR637mn, mainly due to operationally strong performance and lower tax expense (25.4% vs 34.1% in Q3FY20) due to adoption of the new tax regime.

Margin Analysis %			Change in bps		Change in bps
Gross margin %	45.4%	33.7%	1,165	21.1%	2,428
EBIDTA Margin %	30.6%	17.2%	1,338	6.2%	2,438
EBIT Margin %	28.2%	14.0%	1,418	3.6%	2,458
NPM %	20.0%	9.7%	1,030	1.6%	1,835
Effective Tax Rate %	25.4%	23.9%	157	34.1%	-864

The EBITDA margin, at 30.6% was above our estimate of 27.7%, supported by improved PAN/OX spread

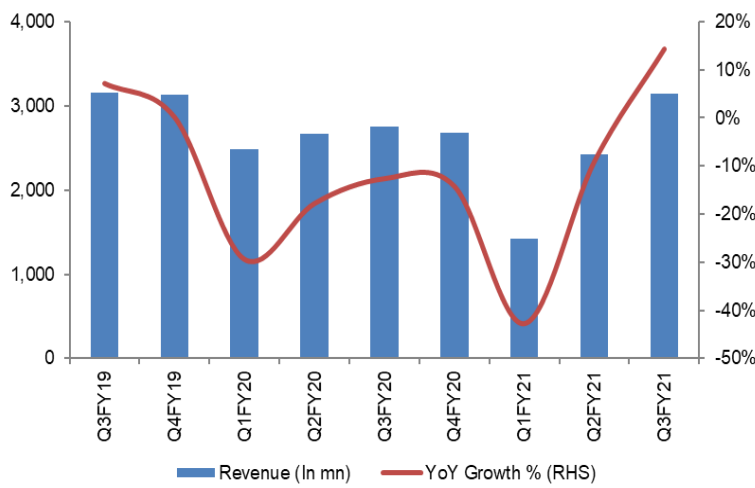
Source: Company, BP Equities Research

**Valuation and Outlook**

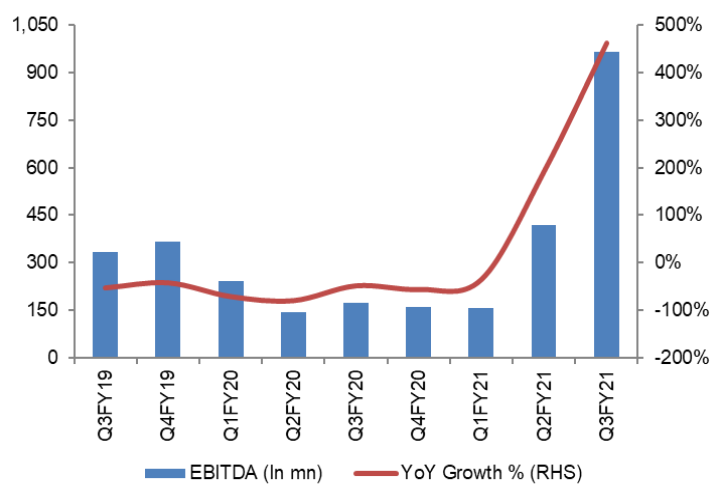
IGPL continues to be a market leader in the domestic PAN industry with a strong clientele, healthy balance sheet, and expansion in value-added products (downstream speciality plasticizers). However, we could see stabilization in margin enhancement going forward as PAN/OX spread is hovering between 250-300 levels. We believe Q4 performance can be in line with Q3 performance mainly on the profitability front backed by strong volume growth on account of PA4 commercialization. Considering better growth visibility, we rise our earnings estimate for FY21 and FY22 by 91% and 23% respectively. Additionally, we roll forward our target price to FY23e EPS of INR 51.5 to arrive at a revised target price of INR 566 (earlier INR 405), valuing the stock at 11x P/E (in line with 5 years Avg P/E) and maintain our BUY rating.

**Key Risk:** Adverse movement in PAN/OX spread

**Revenue growth trend**

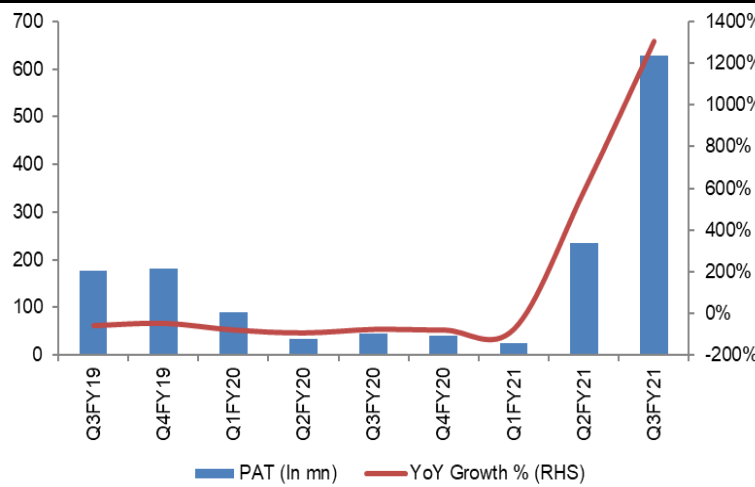


**EBITDA surged by ~461% YoY**

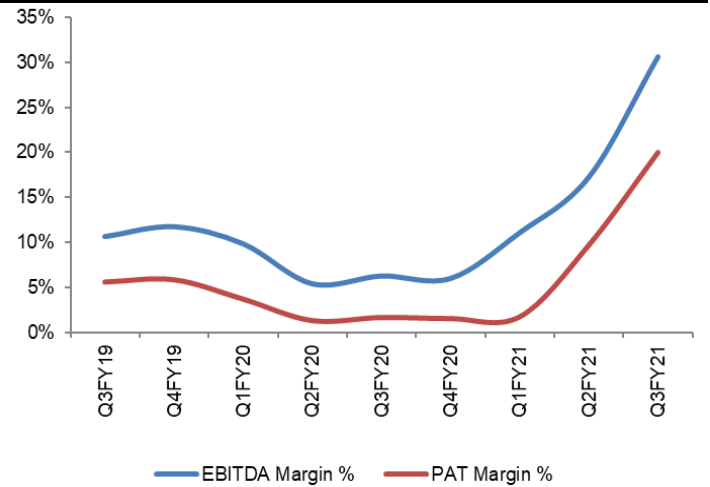


Source: Company, BP Equities Research

**PAT expanded by ~13x (YoY)**

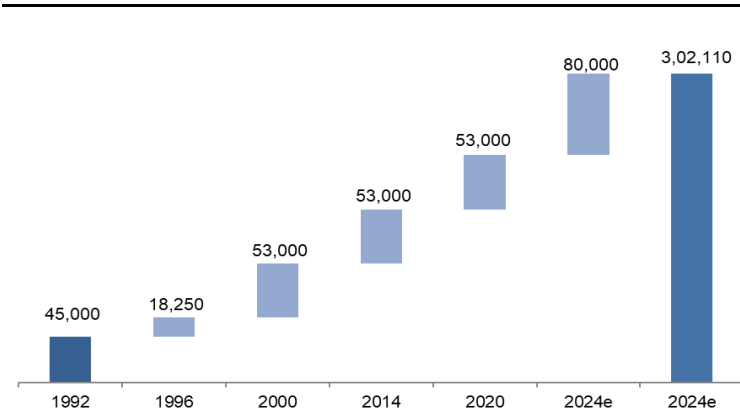


**EBITDA and PAT Margin Trend**



Source: Company, BP Equities Research

**Phthalic Anhydride (PAN) Capacity Expansion Trend (in TPA)**



Source: Company, BP Equities Research



Profit & Loss A/c					
YE March (INR. Mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>13,037</b>	<b>10,586</b>	<b>10,657</b>	<b>13,869</b>	<b>15,266</b>
<i>Growth %</i>	13.9%	-18.8%	0.7%	30.1%	10.1%
<b>Total Revenue</b>	<b>13,037</b>	<b>10,586</b>	<b>10,657</b>	<b>13,869</b>	<b>15,266</b>
<b>Less:</b>					
Raw Material Consumed	9,128	8,172	6,504	9,331	10,433
Employee Cost	618	602	662	728	801
Other Expenses	1,064	1,096	1,103	1,436	1,580
<b>Total Operating Expenditure</b>	<b>10,810</b>	<b>9,869</b>	<b>8,269</b>	<b>11,494</b>	<b>12,814</b>
<b>EBITDA</b>	<b>2,227</b>	<b>717</b>	<b>2,388</b>	<b>2,375</b>	<b>2,452</b>
<i>Growth %</i>	-16.7%	-67.8%	233.2%	-0.5%	3.3%
Less: Depreciation	265	299	320	336	352
<b>EBIT</b>	<b>1,962</b>	<b>418</b>	<b>2,067</b>	<b>2,039</b>	<b>2,100</b>
<i>Growth %</i>	-18.8%	-78.7%	395.0%	-1.4%	3.0%
Interest Paid	114	160	130	33	33
Non-operating Income	110	66	50	50	50
Extraordinary Income	-95	-3	0	0	0
<b>Profit Before tax</b>	<b>1,863</b>	<b>321</b>	<b>1,987</b>	<b>2,056</b>	<b>2,118</b>
Tax	698	110	500	517	533
<b>Net Profit</b>	<b>1,165</b>	<b>210</b>	<b>1,487</b>	<b>1,538</b>	<b>1,585</b>
<b>Adjusted Profit</b>	<b>1,260</b>	<b>213</b>	<b>1,487</b>	<b>1,538</b>	<b>1,585</b>
<b>Reported Diluted EPS</b>	<b>37.8</b>	<b>6.8</b>	<b>48.3</b>	<b>50.0</b>	<b>51.5</b>
<i>Growth %</i>	-20.2%	-81.9%	606.6%	3.5%	3.0%
<b>Adjusted Diluted EPS</b>	<b>40.9</b>	<b>6.9</b>	<b>48.3</b>	<b>50.0</b>	<b>51.5</b>
<i>Growth %</i>	-13.7%	-83.1%	596.9%	3.5%	3.0%

(Source: Company, BP Equities Research)

Cash Flows Statement					
YE March (INR. Mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>PAT</b>	<b>1,164.8</b>	<b>210.4</b>	<b>1,487.0</b>	<b>1,538.5</b>	<b>1,584.7</b>
(Less)/Add: Extraordinary Income/Expense	95.0	2.9	0.0	0.0	0.0
Less: Non Operating Income	(110.2)	(65.6)	(50.0)	(50.0)	(50.0)
Add: Depreciation	264.6	299.0	320.1	336.1	352.1
Add: Interest Paid	114.4	159.5	130.3	32.6	32.6
Tax Adjustment	0.0	0.0	0.0	0.0	0.0
<b>Operating Profit before Working Capital Changes</b>	<b>1,528.6</b>	<b>606.3</b>	<b>1,887.4</b>	<b>1,857.1</b>	<b>1,919.4</b>
(Inc)/Dec in Current Assets	(803.8)	978.6	(10.8)	(486.9)	(211.8)
Inc/(Dec) in Current Liabilities	750.6	(126.6)	160.2	832.3	396.9
Changes in Inventory	(350.6)	343.6	(6.4)	(288.5)	(125.5)
<b>Net Cash Generated From Operations</b>	<b>1,124.8</b>	<b>1,802.0</b>	<b>2,030.4</b>	<b>1,914.0</b>	<b>1,979.0</b>
<b>Cash Flow from Investing Activities</b>					
(Inc)/Dec in Fixed Assets	25.6	(1,081.6)	(500.0)	(500.0)	(500.0)
(Inc)/Dec in Capital Work In Progress	(1,274.7)	(511.5)	0.0	0.0	0.0
(Inc)/Dec in Investment (Strategic)	0.0	0.0	0.0	0.0	0.0
(Inc)/Dec in Investment (Others)	31.2	(45.1)	(35.0)	(38.5)	(42.3)
Add: Non Operating Income	110.2	65.6	50.0	50.0	50.0
(Inc)/Dec in Intangible Assets	(239.8)	(2.0)	0.0	0.0	0.0
<b>Net Cash Flow from/(used in) Investing Activities</b>	<b>(1,347.5)</b>	<b>(1,574.5)</b>	<b>(485.0)</b>	<b>(488.5)</b>	<b>(492.3)</b>
<b>Cash Flow from Financing Activities</b>					
Inc/(Dec) in Total Loans	774.4	236.9	(450.0)	0.0	0.0
Inc/(Dec) in Reserves & Surplus	(32.1)	(95.1)	0.0	0.0	0.0
Inc/(Dec) in Equity	0.0	0.0	0.0	0.0	0.0
Dividend Paid	(123.2)	(61.6)	(123.2)	(123.2)	(123.2)
Less: Interest Paid	(114.4)	(159.5)	(130.3)	(32.6)	(32.6)
Adjustments	(153.1)	(38.5)	(0.0)	(0.0)	(0.0)
Exceptional Item	(95.0)	(2.9)	0.0	0.0	0.0
<b>Net Cash Flow from Financing Activities</b>	<b>256.7</b>	<b>(120.7)</b>	<b>(703.5)</b>	<b>(155.8)</b>	<b>(155.8)</b>
<b>Net Inc/Dec in cash equivalents</b>	<b>34.0</b>	<b>106.7</b>	<b>842.0</b>	<b>1,269.8</b>	<b>1,330.9</b>
<b>Opening Balance</b>	<b>217.3</b>	<b>251.3</b>	<b>358.0</b>	<b>1,200.0</b>	<b>2,469.7</b>
<b>Closing Balance Cash and Cash Equivalents</b>	<b>251.3</b>	<b>358.0</b>	<b>1,200.0</b>	<b>2,469.7</b>	<b>3,800.6</b>



Balance Sheet					
YE March( INR. mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>					
Equity Capital	308	308	308	308	308
Reserves & Surplus	5,979	6,033	7,397	8,812	10,274
<b>Equity</b>	<b>6,287</b>	<b>6,341</b>	<b>7,705</b>	<b>9,120</b>	<b>10,582</b>
<b>Net Worth</b>	<b>6,287</b>	<b>6,341</b>	<b>7,705</b>	<b>9,120</b>	<b>10,582</b>
Minority Interest					
Others	822	869	869	869	869
<b>Total Loans</b>	<b>1,346</b>	<b>1,536</b>	<b>1,086</b>	<b>1,086</b>	<b>1,086</b>
<b>Capital Employed</b>	<b>8,455</b>	<b>8,746</b>	<b>9,660</b>	<b>11,075</b>	<b>12,536</b>
<b>Assets</b>					
Gross Block	8,420	9,502	10,002	10,502	11,002
Less: Depreciation	4,528	4,789	5,109	5,445	5,797
<b>Net Block</b>	<b>3,892</b>	<b>4,713</b>	<b>4,893</b>	<b>5,057</b>	<b>5,205</b>
Capital WIP	2,161	2,672	2,672	2,672	2,672
<b>Investments</b>	<b>305</b>	<b>350</b>	<b>385</b>	<b>423</b>	<b>465</b>
Others - A	434	436	436	436	436
<b>Current Assets</b>					
Inventories	1,294	951	957	1,246	1,371
Sundry Debtors	1,828	1,433	1,443	1,878	2,067
Cash and Bank Balance	251	358	1,200	2,470	3,801
Current Investments	698	116	116	116	116
Loans and Advances	184	171	172	224	247
Other Current Assets	84	95	95	95	95
<b>Total Current Assets</b>	<b>4,340</b>	<b>3,124</b>	<b>3,983</b>	<b>6,028</b>	<b>7,697</b>
<b>Less: Current Liabilities &amp; Provisions</b>					
Sundry Creditors	2,300	1,996	2,155	2,805	3,087
Provisions	16	22	22	44	89
Other Current Liabilities	361	532	533	693	763
<b>Total Current Liabilities &amp; Provisions</b>	<b>2,676</b>	<b>2,550</b>	<b>2,710</b>	<b>3,542</b>	<b>3,939</b>
<b>Capital Applied</b>	<b>8,455</b>	<b>8,746</b>	<b>9,660</b>	<b>11,075</b>	<b>12,536</b>

(Source: Company, BP Equities Research)

Key Ratios					
YE March (INR. mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Key Operating Ratios</b>					
EBITDA Margin (%)	17.1%	6.8%	22.4%	17.1%	16.1%
Tax / PBT (%)	37.5%	34.4%	25.2%	25.2%	25.2%
Net Profit Margin (%)	8.9%	2.0%	14.0%	11.1%	10.4%
RoE (%)	21.8%	3.4%	21.2%	18.3%	16.1%
RoCE (%)	30.8%	5.6%	25.0%	21.7%	19.4%
Current Ratio (x)	1.6x	1.2x	1.5x	1.7x	2.0x
Dividend Payout (%)	10.6%	29.3%	29.3%	29.3%	29.3%
Book Value Per Share (INR.)	204.1	205.9	250.2	296.1	343.6
<b>Financial Leverage Ratios</b>					
Debt/ Equity (x)	0.2x	0.2x	0.1x	0.1x	0.1x
Interest Coverage (x)	19.5x	4.5x	18.3x	72.9x	75.3x
<b>Growth Indicators %</b>					
Growth in Gross Block (%)	(0.3%)	12.8%	5.3%	5.0%	4.8%
Sales Growth (%)	13.9%	(18.8%)	0.7%	30.1%	10.1%
EBITDA Growth (%)	(16.7%)	(67.8%)	233.2%	(0.5%)	3.3%
Net Profit Growth (%)	(20.2%)	(81.9%)	606.6%	3.5%	3.0%
Diluted EPS Growth (%)	(20.2%)	(81.9%)	606.6%	3.5%	3.0%
<b>Turnover Ratios</b>					
Debtors Days	51	49	49	49	49
Creditors Days	78	74	74	74	74
Inventory Days	36	33	33	33	33

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