

Historically best quarter/ year : Maintain Buy

IG Petrochemicals Ltd (IGPL) has reported a seller margin performance led by a sharp surge in PAN/OX spread and optimum utilization at newly commissioned capacity during the quarter. Revenue grew by 58.1% YoY to INR 4244mn mainly driven by higher realization due to short supply during Q4 as there is a healthy demand in the Paints, Plasticizers and other user industries. EBITDA surged by ~8x YoY to INR 1448mn (est INR 1178mn) with 2815bps YoY expansion in margin from 6% in Q4FY20 to 34.1% in Q4FY21 (est. 30%). This was mainly driven by 2687bps expansion in gross margin (47% vs 20.1% in Q4FY20) supported by improved PAN/OX spreads. Currently, PAN/OX spread is hovering between \$250-\$350 compared to a 10-year avg of \$215 vs ~\$320 in FY21 (as per our calculation). Since last few months, we observed high volatility in the PAN prices possibly due to short term demand supply mismatch. However, we believe volume growth can continue to remain favourable in the medium term on the back of healthy demand in the end-user industries. Net profit grew by 23.7x to INR 999mn (est. INR 783mn) driven by operationally strong performance and lower tax expense (25.5% vs 32.1% in Q4FY20) due to the adoption of the new tax regime. As per management, commercial production of Advanced Plasticizer to start from July 2021 (from earlier date of Apr 2021). We modeled INR 500mn incremental revenue from Advanced Plasticizer in FY22E with a better margin profile.

Greenfield Capex to support the next phase of growth

To meet growing demand and faster absorption of recently commissioned capacity PA4 (utilization 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 5bn over FY22-23 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 1-3% P.A, therefore will not affect profitability to a large extent. During FY21, IGPL repaid long term debt of INR 570 mn, including prepayment of INR 420 mn of term loan obtained for PA-4 unit.

Stock Rating

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

Sector Outlook

Positive

Stock

CMP (INR)	590
Target Price (INR)	712
BSE code	500199
NSE Symbol	IGPL
Bloomberg	IGPL IN
Reuters	IGPT.BO

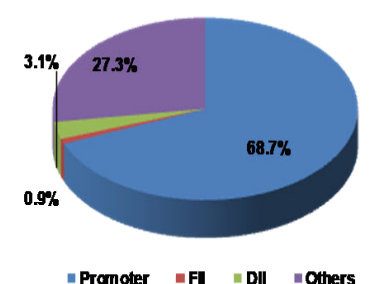
Key Data

Nifty	15,301
52WeekHL(INR)	618/115
O/s Shares (Mn)	30.7
Market Cap (INR bn)	18
Face Value (INR)	10

Average volume

3 months	102,714
6 months	85,418
1 year	84,074

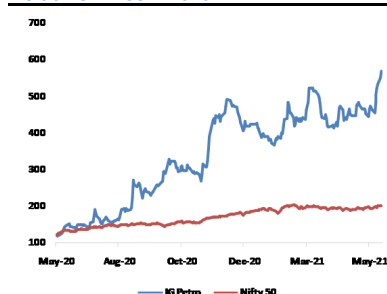
Share Holding Pattern (%)



Key Financials					
YE March (INR. mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	13,037	10,586	11,236	15,413	15,679
Growth %	14%	-19%	6%	37%	2%
EBIDTA	2,227	717	2,986	3,628	3,651
Growth%	-17%	-68%	317%	22%	1%
Net Profit	1,165	210	1,881	2,440	2,436
Growth %	-20%	-82%	794%	30%	0%
Diluted EPS	38	7	61	79	79
Growth %	-20%	-82%	794%	30%	0%
Profitability & Valuation					
EBIDTA (%)	17.1%	6.8%	26.6%	23.5%	23.3%
NPM (%)	8.9%	2.0%	16.7%	15.8%	15.5%
RoE (%)	21.8%	3.4%	25.9%	26.2%	21.1%
RoCE (%)	30.8%	5.6%	30.2%	30.4%	25.3%
P/E (x)	15.6	86.3	9.7	7.4	7.5
EV/EBITDA (x)	8.7	27.0	6.3	4.3	3.8
P/BV (x)	2.9	2.9	2.2	1.7	1.4

Source: Company, BP Equities Research

Relative Price Chart



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Variance Analysis

YE March (Rs. mn)	Q4 FY21	Q3 FY21	Q-o-Q change %	Q4 FY20	Y-o-Y change %
Net Sales	4,244	3,148	34.8%	2,685	58.1%
Other Operating Income	0	0		0	
Total Revenue	4,244	3,148	34.8%	2,685	58.1%
Less:					
Raw Material Cost	2,250	1,719	30.9%	2,145	4.9%
Operating & Manufacturing Expenses	291	311	(6.3%)	218	33.7%
Employee Cost	255	154	65.5%	162	57.2%
Total Expenditure	2,796	2,184	28.0%	2,525	10.7%
EBIDTA	1,448	963	50.3%	160	804.2%
Less: Depreciation	105	77	35.8%	74	41.1%
EBIT	1,343	886	51.6%	86	1466.3%
Less: Interest	12	50	(75.4%)	42	(70.1%)
Add: Other income	9	7		19	
Exceptional item	0	0			
Profit before tax	1,340	843	58.9%	64	2002.2%
Adjusted Profit before Tax	1,340	843	58.9%	64	2002.2%
Less: Total Tax	341	214	59.1%	20	1569.5%
Profit After Tax	999	629	58.8%	43	2206.4%
Adjusted Profit After Tax	999	629	58.8%	40	2374.7%
Diluted EPS (Rs.)	32.4	20.4	58.8%	1.4	2206.4%
Adjusted Diluted EPS	32.4	20.4	58.8%	1.3	2374.7%
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 INR783mn, mainly due to operationally strong performance and lower tax expense (25.5% vs 32.1% in Q4FY20) due to adoption of the new tax regime.

Margin Analysis %			Change in bps		Change in bps
Gross margin %	47.0%	45.4%	161	20.1%	2,687
EBIDTA Margin %	34.1%	30.6%	351	6.0%	2,815
EBIT Margin %	31.6%	28.2%	349	3.2%	2,845
NPM %	23.5%	20.0%	355	1.6%	2,192
Effective Tax Rate %	25.5%	25.4%	3	32.1%	-660

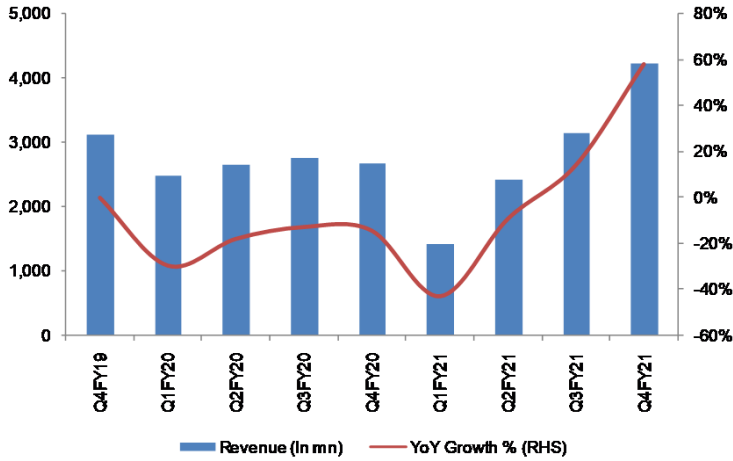
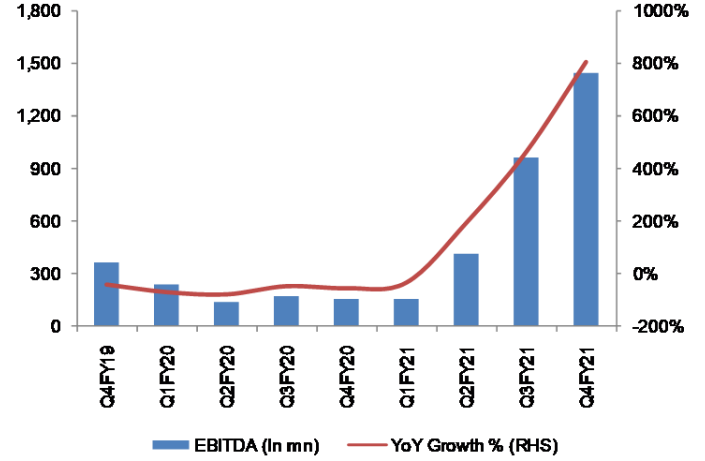
The EBITDA margin, at 34.1% was above our estimate of 30%, supported by improved PAN/OX spread

Source: Company, BP Equities Research

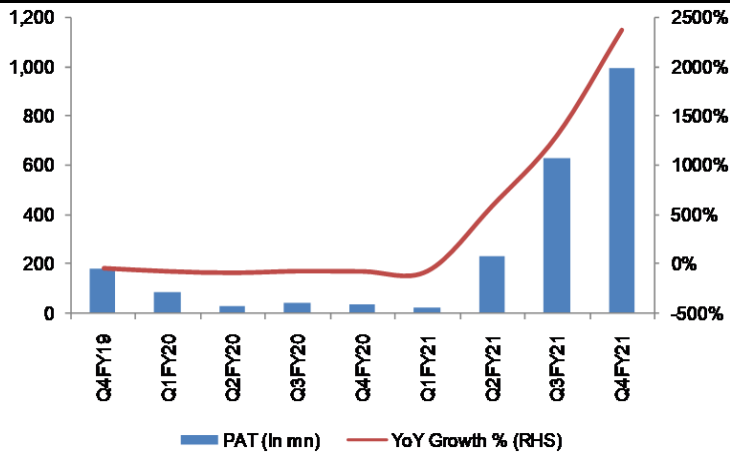
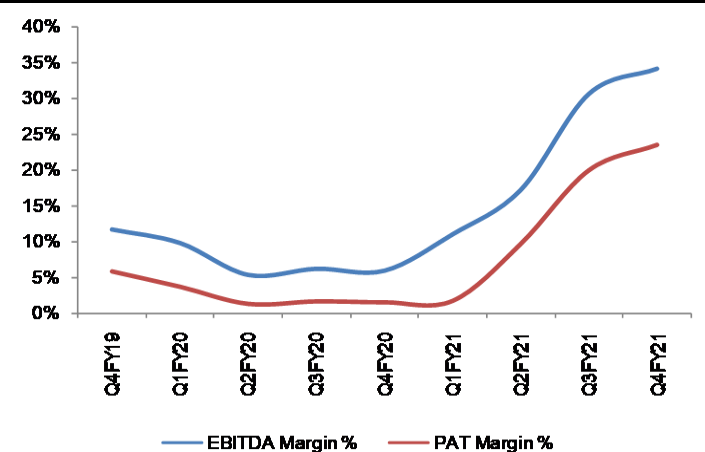
Valuation and Outlook

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 some contraction in margin going forward as stabilization of PAN/OX spread from elevated levels (between \$350-\$450) of Q4FY21. Considering better volume growth visibility, we raise our earnings estimate for FY22 and FY23 by 58% and 54% respectively. We maintain our 'BUY' rating with an upward revised target price of INR 712 (earlier INR 566) per share, valuing the company at 9x of its FY23e earnings.

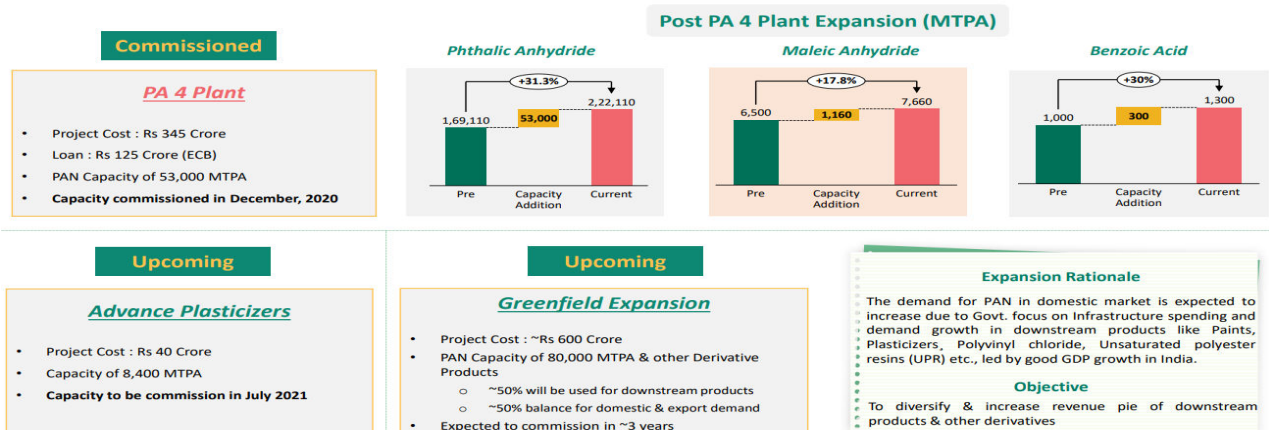
Key Risk: Adverse movement in PAN/OX spread

Revenue growth trend

EBITDA surged by ~804% YoY


Source: Company, BP Equities Research

PAT expanded by ~23.8x (YoY)

EBITDA and PAT Margin Trend


Source: Company, BP Equities Research

Capacity Expansion & Strategies


Source: Company Presentation



Profit & Loss A/c					
YE March (INR. Mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	13,037	10,586	11,236	15,413	15,679
Growth %	13.9%	-18.8%	6.1%	37.2%	1.7%
Total Revenue	13,037	10,586	11,236	15,413	15,679
Less:					
Raw Material Consumed	9,128	8,172	6,514	9,595	9,737
Employee Cost	618	602	707	778	855
Other Expenses	1,064	1,096	1,029	1,411	1,436
Total Operating Expenditure	10,810	9,869	8,250	11,784	12,028
EBITDA	2,227	717	2,986	3,628	3,651
Growth %	-16.7%	-67.8%	316.7%	21.5%	0.6%
Less: Depreciation	265	299	341	355	383
EBIT	1,962	418	2,645	3,273	3,268
Growth %	-18.8%	-78.7%	533.3%	23.8%	-0.2%
Interest Paid	114	160	146	63	63
Non-operating Income	110	66	33	50	50
Extraordinary Income	-95	-3	-6	0	0
Profit Before tax	1,863	321	2,526	3,260	3,255
Tax	698	110	645	821	819
Net Profit	1,165	210	1,881	2,440	2,436
Adjusted Profit	1,260	213	1,887	2,440	2,436
Reported Diluted EPS	37.8	6.8	61.1	79.2	79.1
Growth %	-20.2%	-81.9%	793.9%	29.7%	-0.2%
Adjusted Diluted EPS	40.9	6.9	61.3	79.2	79.1
Growth %	-13.7%	-83.1%	784.4%	29.3%	-0.2%

Source: Company, BP Equities Research

Cash Flows Statement					
YE March (INR. Mn)	FY19	FY20	FY21	FY22E	FY23E
PAT	1,164.8	210.4	1,881.1	2,439.7	2,435.7
(Less)/Add: Extraordinary Income/Expense	95.0	2.9	6.2	0.0	0.0
Less: Non Operating Income	(110.2)	(65.6)	(33.3)	(50.0)	(50.0)
Add: Depreciation	264.6	299.0	341.0	355.1	383.2
Add: Interest Paid	114.4	159.5	145.6	63.0	63.0
Tax Adjustment	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	1,528.6	606.3	2,340.6	2,807.7	2,831.8
(Inc)/Dec in Current Assets	(803.8)	978.6	(381.1)	(741.4)	(47.4)
Inc/(Dec) in Current Liabilities	750.6	(126.6)	378.9	2,339.9	110.9
Changes in Inventory	(350.6)	343.6	(487.6)	(534.7)	(34.2)
Net Cash Generated From Operations	1,124.8	1,802.0	1,850.7	3,871.6	2,861.2
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	25.6	(1,081.6)	(2,643.5)	(500.0)	(1,000.0)
(Inc)/Dec in Capital Work In Progress	(1,274.7)	(511.5)	1,353.7	0.0	0.0
(Inc)/Dec in Investment (Strategic)	0.0	0.0	0.0	0.0	0.0
(Inc)/Dec in Investment (Others)	31.2	(45.1)	35.9	(31.4)	(34.5)
Add: Non Operating Income	110.2	65.6	33.3	50.0	50.0
(Inc)/Dec in Intangible Assets	(239.8)	(2.0)	216.3	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	(1,347.5)	(1,574.5)	(1,004.3)	(481.4)	(984.5)
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	774.4	236.9	(315.0)	0.0	0.0
Inc/(Dec) in Reserves & Surplus	(32.1)	(95.1)	228.8	0.0	0.0
Inc/(Dec) in Equity	0.0	0.0	(0.0)	0.0	0.0
Dividend Paid	(123.2)	(61.6)	(231.0)	(231.0)	(231.0)
Less: Interest Paid	(114.4)	(159.5)	(145.6)	(63.0)	(63.0)
Adjustments	(153.1)	(38.5)	(0.0)	(0.0)	(0.0)
Exceptional Item	(95.0)	(2.9)	(6.2)	0.0	0.0
Net Cash Flow from Financing Activities	256.7	(120.7)	(469.0)	(293.9)	(293.9)
Net Inc/Dec in cash equivalents	34.0	106.7	377.5	3,096.3	1,582.8
Opening Balance	217.3	251.3	358.0	735.5	3,831.9
Closing Balance Cash and Cash Equivalents	251.3	358.0	735.5	3,831.9	5,414.6

Source: Company, BP Equities Research



Balance Sheet					
YE March(INR. mn)	FY19	FY20	FY21	FY22E	FY23E
Liabilities					
Equity Capital	308	308	308	308	308
Reserves & Surplus	5,979	6,033	7,912	10,121	12,325
Equity	6,287	6,341	8,220	10,429	12,633
Net Worth	6,287	6,341	8,220	10,429	12,633
Minority Interest					
Others	822	869	830	830	830
Total Loans	1,346	1,536	1,259	1,259	1,259
Capital Employed	8,455	8,746	10,310	12,518	14,723
Assets					
Gross Block	8,420	9,502	12,145	12,645	13,645
Less: Depreciation	4,528	4,789	5,130	5,485	5,868
Net Block	3,892	4,713	7,016	7,161	7,778
Capital WIP	2,161	2,672	1,319	1,319	1,319
Investments	305	350	314	345	380
Others - A	434	436	220	220	220
Current Assets					
Inventories	1,294	951	1,438	1,973	2,007
Sundry Debtors	1,828	1,433	1,987	2,726	2,773
Cash and Bank Balance	251	358	736	3,832	5,415
Current Investments	698	116	100	100	100
Loans and Advances	184	171	7	10	10
Other Current Assets	84	95	102	102	102
Total Current Assets	4,340	3,124	4,370	8,743	10,407
Less: Current Liabilities & Provisions					
Sundry Creditors	2,300	1,996	2,397	4,478	4,555
Provisions	16	22	10	20	40
Other Current Liabilities	361	532	522	771	784
Total Current Liabilities & Provisions	2,676	2,550	2,928	5,268	5,379
Capital Applied	8,455	8,746	10,310	12,518	14,723

Source: Company, BP Equities Research

Key Ratios					
YE March (INR. mn)	FY19	FY20	FY21	FY22E	FY23E
Key Operating Ratios					
EBITDA Margin (%)	17.1%	6.8%	26.6%	23.5%	23.3%
Tax / PBT (%)	37.5%	34.4%	25.5%	25.2%	25.2%
Net Profit Margin (%)	8.9%	2.0%	16.7%	15.8%	15.5%
RoE (%)	21.8%	3.4%	25.9%	26.2%	21.1%
RoCE (%)	30.8%	5.6%	30.2%	30.4%	25.3%
Current Ratio (x)	1.6x	1.2x	1.5x	1.7x	1.9x
Dividend Payout (%)	10.6%	29.3%	12.3%	12.3%	12.3%
Book Value Per Share (INR.)	204.1	205.9	266.9	338.6	410.2
Financial Leverage Ratios					
Debt/ Equity (x)	0.2x	0.2x	0.2x	0.1x	0.10x
Interest Coverage (x)	19.5x	4.5x	20.5x	57.6x	58.0x
Growth Indicators %					
Growth in Gross Block (%)	(0.3%)	12.8%	27.8%	4.1%	7.9%
Sales Growth (%)	13.9%	(18.8%)	6.1%	37.2%	1.7%
EBITDA Growth (%)	(16.7%)	(67.8%)	316.7%	21.5%	0.6%
Net Profit Growth (%)	(20.2%)	(81.9%)	793.9%	29.7%	(0.2%)
Diluted EPS Growth (%)	(20.2%)	(81.9%)	793.9%	29.7%	(0.2%)
Turnover Ratios					
Debtors Days	51	49	65	65	65
Creditors Days	78	74	106	106	106
Inventory Days	36	33	47	47	47

Source: Company, BP Equities Research

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