

### Contraction in spread led to subdued Q1 earnings

IG Petrochemicals Ltd (IGPL) Q1FY22 result was below our consensus estimates on key parameters. The decline in realization, contraction in the spread, and lower production days at PA2 weighed on Q1FY22 earnings performance compared to Q4FY21. However, on a positive note, the management expects it to rebound strongly going forward, healthy demand for PAN in the domestic market with fast absorption of newly added PAN capacity. On a low base of Q1FY21, the company's revenue increased by 173% YoY to INR 3875mn, which was 6% below our estimate of INR 4,132mn. The revenue was impacted by lower realization in PAN, lesser production days (not operational for 25 days) at Unit 2 due to catalyst change and maintenance work. EBITDA surged by 434% YoY to INR 838mn (est INR 1,248mn) with 1057bps YoY expansion in margin from 11% in Q1FY21 to 21.6% in Q1FY22 (est. 30%). On a sequential basis, EBITDA margin contracted by 1250bps due to a decline in PAN/OX spreads and expense of INR 60mn related to catalyst change. PAN/OX spread is currently hovering between \$200-\$350 compared to a 10-year avg of \$215 vs ~\$320 in FY21 (as per our calculation). Since the 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. Adjusted PAT came in at INR515mn (-48.4% QoQ, +2033% YoY) v/s our expectation of INR853m. As per management, commercial production of Advanced Plasticizer is to start from Sep 2021 (from the earlier date of Apr 2021). We modelled 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 4.5bn 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)	623
Target Price (INR)	603
BSE code	500199
NSE Symbol	IGPL
Bloomberg	IGPL IN
Reuters	IGPT.BO

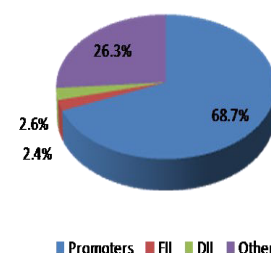
### Key Data

Nifty	16,258
52WeekH/L(INR)	738/180
O/s Shares (Mn)	30.7
Market Cap (INR bn)	19
Face Value (INR)	10

### Average volume

3 months	2,00,380
6 months	1,55,450
1 year	1,17,840

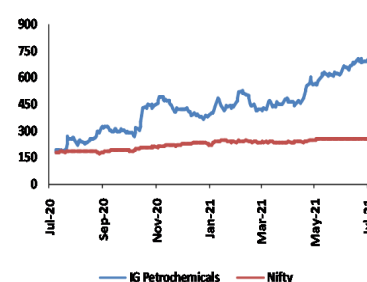
### Share Holding Pattern (%)



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	3,133	3,154
Growth%	-17%	-68%	317%	5%	1%
Net Profit	1,165	210	1,881	2,069	2,063
Growth %	-20%	-82%	794%	10%	0%
Diluted EPS	38	7	61	67	67
Growth %	-20%	-82%	794%	10%	0%
Profitability & Valuation					
EBIDTA (%)	17.1%	6.8%	26.6%	20.3%	20.1%
NPM (%)	8.9%	2.0%	16.7%	13.4%	13.2%
RoE (%)	21.8%	3.4%	25.9%	22.6%	18.8%
RoCE (%)	30.8%	5.6%	30.2%	26.3%	22.4%
P/E (x)	16.5	91.2	10.2	9.3	9.3
EV/EBITDA (x)	9.1	28.4	6.6	5.4	5.0
P/BV (x)	3.1	3.0	2.3	1.9	1.6

Source: Company, BP Equities Research

### Relative Price Chart



### Research Analyst

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## Variance Analysis

YE March (INR. Mn)	Q1 FY22	Q4 FY21	Q-o-Q change %	Q1 FY21	Y-o-Y change %
Net Sales	3,875	4,244	(8.7%)	1,421	172.7%
Other Operating Income	0	0		0	
<b>Total Revenue</b>	<b>3,875</b>	<b>4,244</b>	<b>(8.7%)</b>	<b>1,421</b>	<b>172.7%</b>
Less:					
Raw Material Cost	2,459	2,250	9.3%	939	161.8%
Operating & Manufacturing Expenses	397	291	36.2%	183	116.4%
Employee Cost	182	255	(28.8%)	142	28.3%
<b>Total Expenditure</b>	<b>3,037</b>	<b>2,796</b>	<b>8.6%</b>	<b>1,264</b>	<b>140.3%</b>
<b>EBIDTA</b>	<b>838</b>	<b>1,448</b>	<b>(42.1%)</b>	<b>157</b>	<b>433.6%</b>
Less: Depreciation	113	105	7.7%	80	41.3%
<b>EBIT</b>	<b>725</b>	<b>1,343</b>	<b>(46.0%)</b>	<b>77</b>	<b>841.4%</b>
Less: Interest	45	12	265.9%	42	9.2%
Add: Other income	11	9		11	
Exceptional item	0	0		-6	
<b>Profit before tax</b>	<b>690</b>	<b>1,340</b>	<b>(48.5%)</b>	<b>47</b>	<b>1382.5%</b>
<b>Adjusted Profit before Tax</b>	<b>690</b>	<b>1,340</b>	<b>(48.5%)</b>	<b>47</b>	<b>1382.5%</b>
Less: Total Tax	176	341	(48.6%)	16	979.0%
<b>Profit After Tax</b>	<b>515</b>	<b>999</b>	<b>(48.4%)</b>	<b>24</b>	<b>2033.1%</b>
<b>Adjusted Profit After Tax</b>	<b>515</b>	<b>999</b>	<b>(48.4%)</b>	<b>30</b>	<b>1599.1%</b>
<b>Diluted EPS (Rs.)</b>	<b>16.7</b>	<b>32.4</b>	<b>(48.4%)</b>	<b>0.8</b>	<b>2033.1%</b>
<b>Adjusted Diluted EPS</b>	<b>16.7</b>	<b>32.4</b>	<b>(48.4%)</b>	<b>1.0</b>	<b>1599.1%</b>
Diluted No of Share (mn)	30.8	30.8		30.8	

Revenue came below estimate due to lower realization in PAN, lesser production days (not operational for 25 days) at Unit 2 due to catalyst change and maintenance work.

Margin Analysis %			Change in bps		Change in bps
Gross margin %	36.5%	47.0%	-1,045	33.9%	263
EBIDTA Margin %	21.6%	34.1%	-1,250	11.0%	1,057
EBIT Margin %	18.7%	31.6%	-1,294	5.4%	1,328
NPM %	13.3%	23.5%	-1,024	1.7%	1,159
Effective Tax Rate %	25.4%	25.5%	-4	34.9%	-951

Source: Company, BP Equities Research

On a sequential basis, EBITDA margin contracted by 1250bps due to a decline in PAN/OX spreads and expense of INR 60mn related to catalyst change.

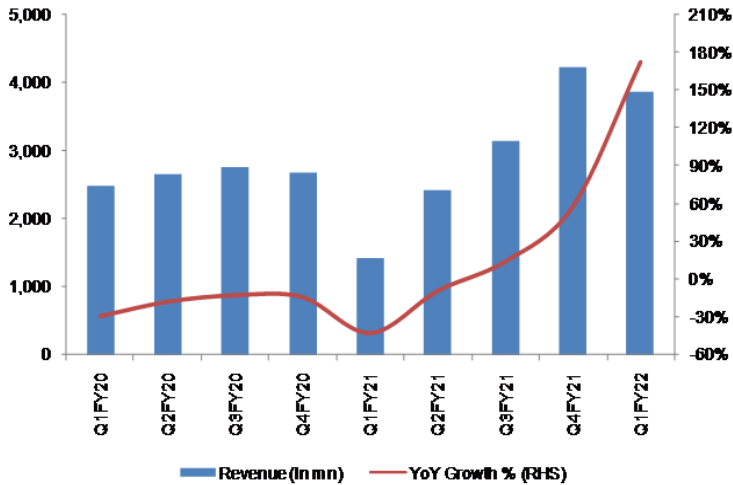
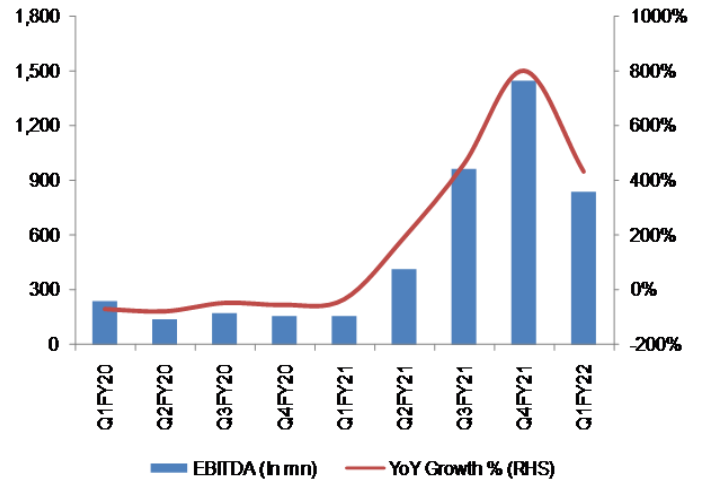
## Update on Anti-dumping duty (ADD)

The government of India has imposed ADD on Phthalic Anhydride (PAN) originating in or exported from China PR, Indonesia, Korea RP and Thailand and imported into India (ref pg 4). We believe this move should help domestic PAN producers (IGPL and Thirumalai chemicals) quickly absorb their newly added capacities.

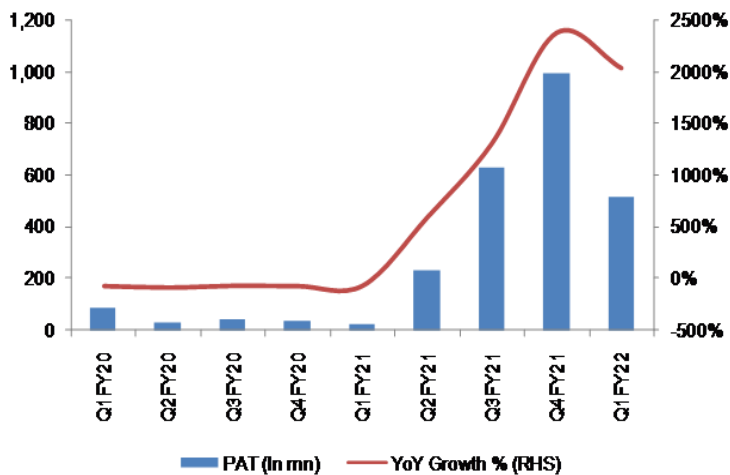
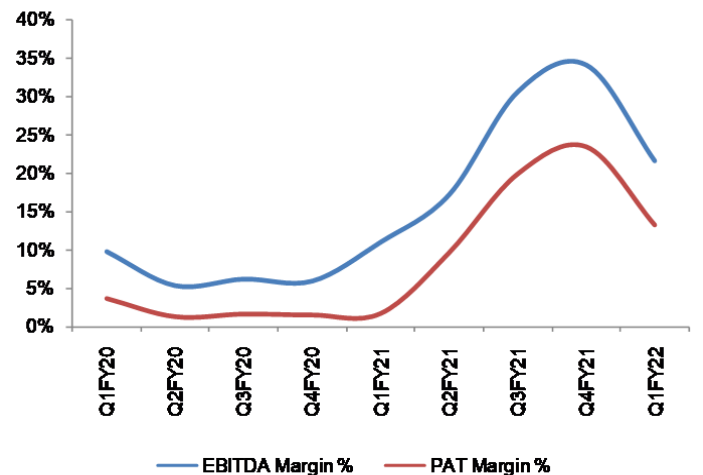
## Valuation and Outlook

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 margin contraction in FY22e as stabilization of PAN/OX spread from elevated levels (Q1FY22: \$ 200-\$250 vs Avg \$320 in FY21). Considering higher than expected contraction in the PAN/OX spread, we lower our earnings estimates for FY22/FY23 by 15%/15%, respectively. Subsequently, we downgrade our rating to Hold, with a revised price target of INR 603 (earlier INR 712), based on 9x FY23e earnings.

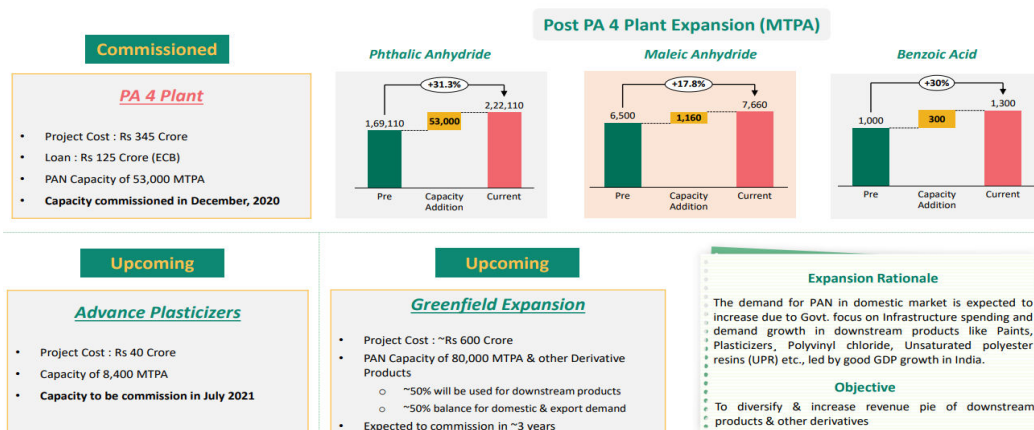
**Key Risk:** Adverse movement in PAN/OX spread

**Revenue growth trend**

**EBITDA surged by ~434% YoY**


Source: Company, BP Equities Research

**PAT expanded by ~20.3x (YoY)**

**EBITDA and PAT Margin Trend**


Source: Company, BP Equities Research

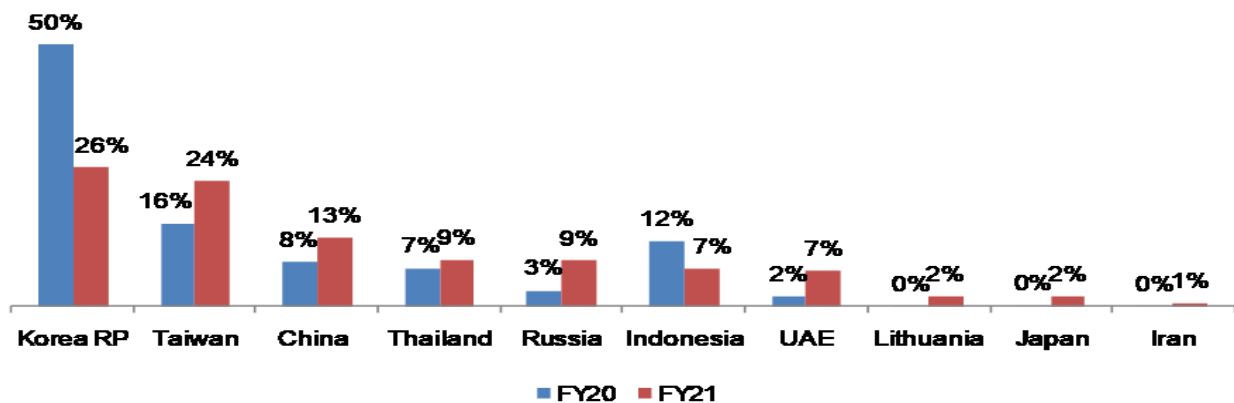
**Capacity Expansion & Strategies**


Source: Company Presentation

**ADD table: Around \$40-\$140 per MT**

S.No.	Tariff item	Description of subject goods	Country of origin	Country of export	Producer	Amount	Unit	Currency
1	29173500	Phthalic Anhydride	China PR	Any country including China PR	Any	40.08	MT	US\$
2	29173500	Phthalic Anhydride	Any country other than Indonesia, Korea RP and Thailand	China PR	Any	40.08	MT	US\$
3	29173500	Phthalic Anhydride	Indonesia	Any country including Indonesia	P.T. Petrowidada	59.83	MT	US\$
4	29173500	Phthalic Anhydride	Indonesia	Any country including Indonesia	Any other	90.11	MT	US\$
5	29173500	Phthalic Anhydride	Any country other than China PR, Korea RP and Thailand	Indonesia	Any	90.11	MT	US\$
6	29173500	Phthalic Anhydride	Korea RP	Any country including Korea RP	Aekyung Petrochemical	41.26	MT	US\$
7	29173500	Phthalic Anhydride	Korea RP	Any country including Korea RP	Hanwha Solution Corporation	41.64	MT	US\$
8	29173500	Phthalic Anhydride	Korea RP	Any country including Korea RP	Any other	140.17	MT	US\$
9	29173500	Phthalic Anhydride	Any country other than China PR, Indonesia and Thailand	Korea RP	Any	140.17	MT	US\$
10	29173500	Phthalic Anhydride	Thailand	Any country including Thailand	Continental Petrochemicals Co Limited	63.06	MT	US\$
11	29173500	Phthalic Anhydride	Thailand	Any country including Thailand	Any other	134.91	MT	US\$
12	29173500	Phthalic Anhydride	Any country other than China PR, Korea RP and Indonesia	Thailand	Any	134.91	MT	US\$

Source: CBIC.GOV

**PAN exporting countries with export market share in India's market**


Source: Ministry of commerce



Profit & Loss A/c					
YE March (INR. Mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Revenue</b>	<b>13,037</b>	<b>10,586</b>	<b>11,236</b>	<b>15,413</b>	<b>15,679</b>
Growth %	13.9%	-18.8%	6.1%	37.2%	1.7%
<b>Total Revenue</b>	<b>13,037</b>	<b>10,586</b>	<b>11,236</b>	<b>15,413</b>	<b>15,679</b>
<b>Less:</b>					
Raw Material Consumed	9,128	8,172	6,514	10,090	10,235
Employee Cost	618	602	707	778	855
Other Expenses	1,064	1,096	1,029	1,411	1,436
<b>Total Operating Expenditure</b>	<b>10,810</b>	<b>9,869</b>	<b>8,250</b>	<b>12,279</b>	<b>12,526</b>
<b>EBITDA</b>	<b>2,227</b>	<b>717</b>	<b>2,986</b>	<b>3,133</b>	<b>3,154</b>
Growth %	-16.7%	-67.8%	316.7%	4.9%	0.7%
Less: Depreciation	265	299	341	355	383
<b>EBIT</b>	<b>1,962</b>	<b>418</b>	<b>2,645</b>	<b>2,778</b>	<b>2,771</b>
Growth %	-18.8%	-78.7%	533.3%	5.0%	-0.3%
Interest Paid	114	160	146	63	63
Non-operating Income	110	66	33	50	50
Extraordinary Income	-95	-3	-6	0	0
<b>Profit Before tax</b>	<b>1,863</b>	<b>321</b>	<b>2,526</b>	<b>2,765</b>	<b>2,758</b>
Tax	698	110	645	696	694
<b>Net Profit</b>	<b>1,165</b>	<b>210</b>	<b>1,881</b>	<b>2,069</b>	<b>2,063</b>
<b>Adjusted Profit</b>	<b>1,260</b>	<b>213</b>	<b>1,887</b>	<b>2,069</b>	<b>2,063</b>
<b>Reported Diluted EPS</b>	<b>37.8</b>	<b>6.8</b>	<b>61.1</b>	<b>67.2</b>	<b>67.0</b>
Growth %	-20.2%	-81.9%	793.9%	10.0%	-0.3%
<b>Adjusted Diluted EPS</b>	<b>40.9</b>	<b>6.9</b>	<b>61.3</b>	<b>67.2</b>	<b>67.0</b>
Growth %	-13.7%	-83.1%	784.4%	9.6%	-0.3%

Source: Company, BP Equities Research

Cash Flows Statement					
YE March (INR. Mn)	FY19	FY20	FY21	FY22E	FY23E
<b>PAT</b>	<b>1,164.8</b>	<b>210.4</b>	<b>1,881.1</b>	<b>2,069.1</b>	<b>2,063.5</b>
(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
<b>Operating Profit before Working Capital Changes</b>	<b>1,528.6</b>	<b>606.3</b>	<b>2,340.6</b>	<b>2,437.2</b>	<b>2,459.6</b>
(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)
<b>Net Cash Generated From Operations</b>	<b>1,124.8</b>	<b>1,802.0</b>	<b>1,850.7</b>	<b>3,501.1</b>	<b>2,489.0</b>
<b>Cash Flow from Investing Activities</b>					
(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
<b>Net Cash Flow from/(used in) Investing Activities</b>	<b>(1,347.5)</b>	<b>(1,574.5)</b>	<b>(1,004.3)</b>	<b>(481.4)</b>	<b>(984.5)</b>
<b>Cash Flow from Financing Activities</b>					
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
<b>Net Cash Flow from Financing Activities</b>	<b>256.7</b>	<b>(120.7)</b>	<b>(469.0)</b>	<b>(293.9)</b>	<b>(293.9)</b>
<b>Net Inc/Dec in cash equivalents</b>	<b>34.0</b>	<b>106.7</b>	<b>377.5</b>	<b>2,725.8</b>	<b>1,210.5</b>
<b>Opening Balance</b>	<b>217.3</b>	<b>251.3</b>	<b>358.0</b>	<b>735.5</b>	<b>3,461.3</b>
<b>Closing Balance Cash and Cash Equivalents</b>	<b>251.3</b>	<b>358.0</b>	<b>735.5</b>	<b>3,461.3</b>	<b>4,671.8</b>

Source: Company, BP Equities Research



Balance Sheet					
YE March( INR. mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>					
Equity Capital	308	308	308	308	308
Reserves & Surplus	5,979	6,033	7,912	9,750	11,583
<b>Equity</b>	<b>6,287</b>	<b>6,341</b>	<b>8,220</b>	<b>10,058</b>	<b>11,891</b>
<b>Net Worth</b>	<b>6,287</b>	<b>6,341</b>	<b>8,220</b>	<b>10,058</b>	<b>11,891</b>
Minority Interest					
Others	822	869	830	830	830
<b>Total Loans</b>	<b>1,346</b>	<b>1,536</b>	<b>1,259</b>	<b>1,259</b>	<b>1,259</b>
<b>Capital Employed</b>	<b>8,455</b>	<b>8,746</b>	<b>10,310</b>	<b>12,148</b>	<b>13,980</b>
<b>Assets</b>					
Gross Block	8,420	9,502	12,145	12,645	13,645
Less: Depreciation	4,528	4,789	5,130	5,485	5,868
<b>Net Block</b>	<b>3,892</b>	<b>4,713</b>	<b>7,016</b>	<b>7,161</b>	<b>7,778</b>
Capital WIP	2,161	2,672	1,319	1,319	1,319
<b>Investments</b>	<b>305</b>	<b>350</b>	<b>314</b>	<b>345</b>	<b>380</b>
Others - A	434	436	220	220	220
<b>Current Assets</b>					
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	3,461	4,672
Current Investments	698	116	100	100	100
Loans and Advances	184	171	7	10	10
Other Current Assets	84	95	102	102	102
<b>Total Current Assets</b>	<b>4,340</b>	<b>3,124</b>	<b>4,370</b>	<b>8,372</b>	<b>9,664</b>
<b>Less: Current Liabilities &amp; Provisions</b>					
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
<b>Total Current Liabilities &amp; Provisions</b>	<b>2,676</b>	<b>2,550</b>	<b>2,928</b>	<b>5,268</b>	<b>5,379</b>
<b>Capital Applied</b>	<b>8,455</b>	<b>8,746</b>	<b>10,310</b>	<b>12,148</b>	<b>13,980</b>

Source: Company, BP Equities Research

Key Ratios					
YE March (INR. mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Key Operating Ratios</b>					
EBITDA Margin (%)	17.1%	6.8%	26.6%	20.3%	20.1%
Tax / PBT (%)	37.5%	34.4%	25.5%	25.2%	25.2%
Net Profit Margin (%)	8.9%	2.0%	16.7%	13.4%	13.2%
RoE (%)	21.8%	3.4%	25.9%	22.6%	18.8%
RoCE (%)	30.8%	5.6%	30.2%	26.3%	22.4%
Current Ratio (x)	1.6x	1.2x	1.5x	1.6x	1.8x
Dividend Payout (%)	10.6%	29.3%	12.3%	12.3%	12.3%
Book Value Per Share (INR.)	204.1	205.9	266.9	326.6	386.1
<b>Financial Leverage Ratios</b>					
Debt/ Equity (x)	0.2x	0.2x	0.2x	0.1x	0.11x
Interest Coverage (x)	19.5x	4.5x	20.5x	49.8x	50.1x
<b>Growth Indicators %</b>					
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%	4.9%	0.7%
Net Profit Growth (%)	(20.2%)	(81.9%)	793.9%	10.0%	(0.3%)
Diluted EPS Growth (%)	(20.2%)	(81.9%)	793.9%	10.0%	(0.3%)
<b>Turnover Ratios</b>					
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

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

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