

Mixed set of numbers, contraction in PAN/OX spread visible: Revise to Sell

IG Petrochemicals Ltd (IGPL) reported a mixed set of numbers in Q2FY22 compared to our estimates. The company has posted revenue of INR4,711mn with 21.6% YoY growth which was 12.2% above our estimate of INR 4,198mn. Revenue beat was mainly driven by optimum utilization of PA4 and a sharp increase in the MA realization. Despite increased contribution from high margin product (MA), gross margin witnessed 449bps contraction on QoQ basis, and 167 bps decline on YoY basis due to contraction in PAN/OX spread. EBITDA surged by 133% YoY to INR 975mn (est INR 1062mn) with 347bps YoY expansion in margin from 17.2% in Q2FY21 to 20.7% in Q2FY22 (est. 25.3%). On a sequential basis, the EBITDA margin declined by 92bps due to a fall in the gross margin. PAN/OX spread is currently hovering between \$200-\$250 compared to a 10-year avg of \$215 vs ~\$320 in FY21 (as per our calculation). Since the last few months, we have observed high volatility in the PAN prices, possibly due to short term demand-supply mismatch driven by container unavailability related issues. However, we believe volume growth can remain favourable in the medium term on the back of healthy demand in the end-user industries. Adjusted PAT came in at INR 650mn (+26.3% QoQ, +177.5% YoY) v/s our expectation of INR 690mn.

Capacity expansion to drive 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 brownfield expansion in the same plant with the PAN capacity of 53,000 TPA (PA5), which increases its total capacity to 2,75,110 TPA by CY24. The total Capex outlay for this project is INR 3.45bn, with the duration proposed being 24-30 months. 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, Polyvinylchloride, Unsaturated polyester resins (UPR), etc., supported by strong GDP growth in India. As per our estimate, IGPL can generate FCF of INR 3.34bn over FY22-23 based on healthy operational performance. According to management, commercial production of Advanced Plasticizer (production capacity of 8,400 MTPA at Talaja) is started this week. We modelled INR 500mn incremental revenue from Advanced Plasticizer in FY22E with a better margin profile.

Stock Rating

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

Sector Outlook **Positive**

Stock

CMP (INR)	806
Target Price (INR)	691
BSE code	500199
NSE Symbol	IGPL
Bloomberg	IGPL IN
Reuters	IGPT.BO

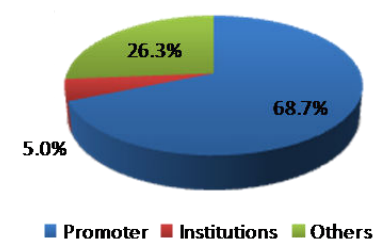
Key Data

Nifty	17,917
52WeekH/L(INR)	1018 / 266
O/s Shares (Mn)	30.7
Market Cap (INR bn)	24.8
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

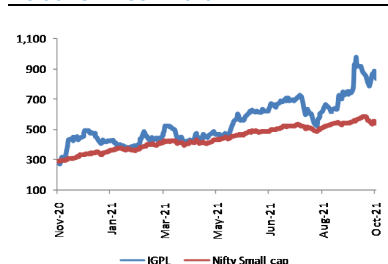
YE March (INR. Mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	13,037	10,586	11,236	15,582	15,850
Growth %	14%	-19%	6%	39%	2%
EBIDTA	2,227	717	2,986	2,775	2,794
Growth%	-17%	-68%	317%	-7%	1%
Net Profit	1,165	210	1,881	1,791	1,773
Growth %	-20%	-82%	794%	-5%	-1%
Diluted EPS	38	7	61	58	58
Growth %	-20%	-82%	794%	-5%	-1%

Profitability & Valuation

EBIDTA (%)	17.1%	6.8%	26.6%	17.8%	17.6%
NPM (%)	8.9%	2.0%	16.7%	11.5%	11.2%
RoE (%)	21.8%	3.4%	25.9%	19.9%	16.8%
RoCE (%)	30.8%	5.6%	30.2%	23.0%	19.9%
P/E (x)	21.3	118.0	13.2	13.9	14.0
EV/EBITDA (x)	11.6	36.3	8.5	8.4	8.2
P/BV (x)	3.9	3.9	3.0	2.5	2.2

Source: Company, BP Equities Research

Relative Price Chart



Research Analyst

Nikhil Shetty
nikhilshetty@bpwealth.com
022-61596408

Variance Analysis

YE March (INR. Mn)	Q2 FY22	Q1 FY22	Q-o-Q change %	Q2 FY21	Y-o-Y change %
Net Sales	4,711	3,875	21.6%	2,424	94.4%
Other Operating Income	0	0		0	
Total Revenue	4,711	3,875	21.6%	2,424	94.4%
Less:					
Raw Material Cost	3,201	2,459	30.2%	1,606	99.3%
Operating & Manufacturing Expenses	361	397	(8.9%)	244	48.1%
Employee Cost	174	182	(4.3%)	156	11.6%
Total Expenditure	3,736	3,037	23.0%	2,006	86.2%
EBIDTA	975	838	16.4%	418	133%
Less: Depreciation	106	113	(5.9%)	79	35.0%
EBIT	869	725	19.9%	339	156.4%
Less: Interest	16	45	(65.2%)	41	(61.8%)
Add: Other income	20	11		10	
Exceptional item	0	0		0	
Profit before tax	873	690	26.5%	308	183.5%
Adjusted Profit before Tax	873	690	26.5%	308	183.5%
Less: Total Tax	223	176	26.8%	73	202.9%
Profit After Tax	650	515	26.3%	234	177.5%
Adjusted Profit After Tax	650	515	26.3%	234	177.5%
Diluted EPS (Rs.)	21.1	16.7	26.3%	7.6	177.5%
Adjusted Diluted EPS	21.1	16.7	26.3%	7.6	177.5%
Diluted No of Share (mn)	30.8	30.8		30.8	

Margin Analysis %			Change in bps		Change in bps
Gross margin %	32.1%	36.5%	-449	33.7%	-167
EBIDTA Margin %	20.7%	21.6%	-92	17.2%	347
EBIT Margin %	18.4%	18.7%	-26	14.0%	446
NPM %	13.8%	13.3%	52	9.7%	413
Effective Tax Rate %	25.5%	25.4%	7	23.9%	163

Revenue came above our estimate due optimum utilization of PA4 and a sharp increase in the MA realization

On a sequential basis, EBITDA margin contracted by 92bps due to decline in PAN/OX spreads

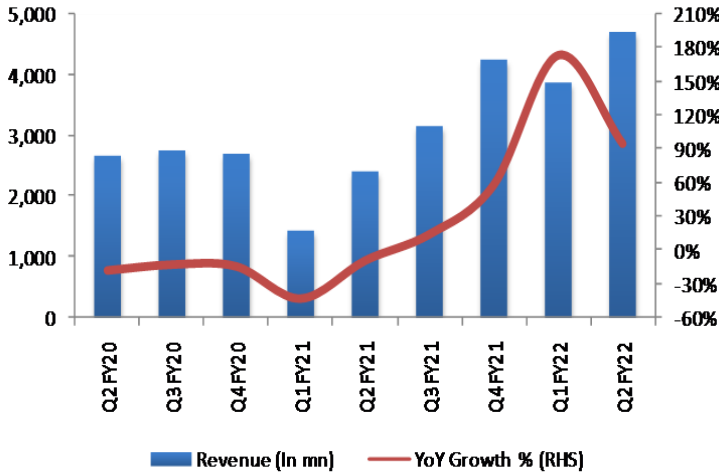
Source: Company, BP Equities Research

Valuation and Outlook

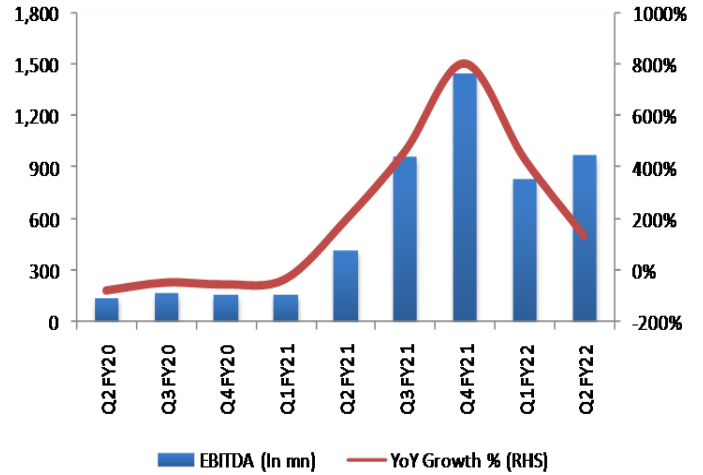
IGPL continues to be a market leader in the domestic PAN industry with a strong clientele, healthy balance sheet, and expansion in value-added products (downstream speciality plasticizers). However, we could see some margin contraction in H2FY22e as stabilization of PAN/OX spread from elevated levels (H1FY22: \$200-\$250 vs Avg \$320 in FY21). Moreover, as IGPL is already operating at optimum utilization level, the following capacity addition is 24 to 30 months away (assuming no delay). Therefore, we expect a minimal scope for volume growth in FY23-24. Considering a higher than expected contraction in the PAN/OX spread, we lower our earnings estimates for FY22/FY23 by 13.2%/14.1%, respectively. Subsequently, we downgrade our rating to Sell, with a revised price target of INR 691 (earlier INR 603), based on 12x FY23e earnings.

Key Risk: Adverse movement in PAN/OX spread

Revenue growth trend

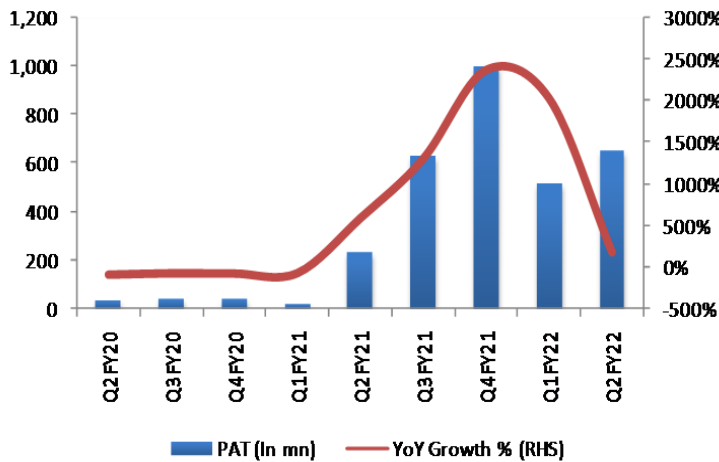


EBITDA surged by ~133% YoY

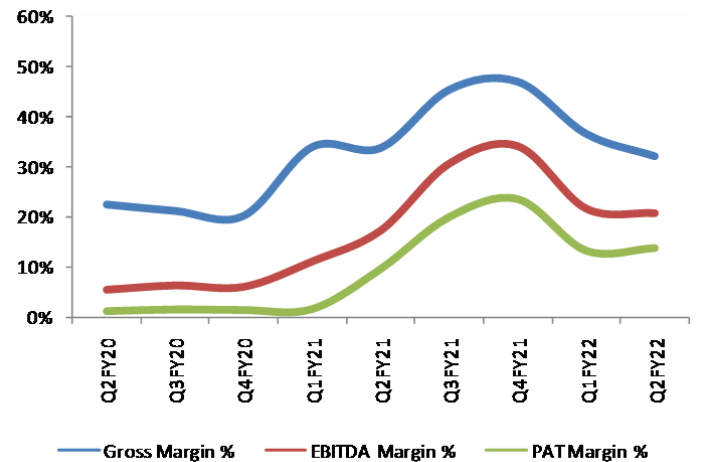


Source: Company, BP Equities Research

PAT expanded by ~177% (YoY)

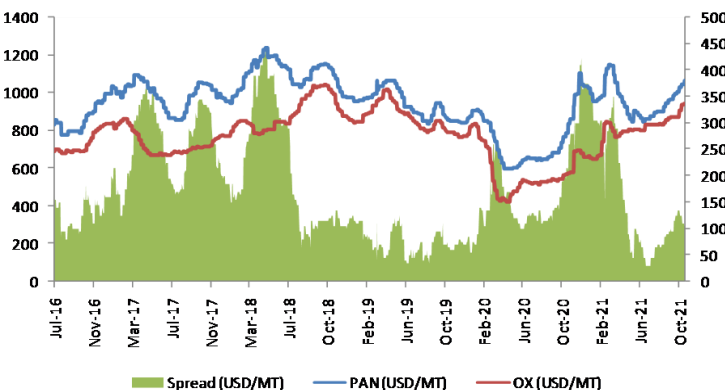


Gross /EBITDA / PAT Margin Trend



Source: Company, BP Equities Research

PAN and OX price trend



Source: Industry, Note: Above PAN and OX prices are SE Asia prices

Capacity Expansion & Strategies

PA 4 Plant

- PAN Capacity of 53,000 MTPA
- Capacity commissioned in Dec 2020

→ Commissioned

Advance Plasticizers (DEP)

- Capacity of 8,400 MTPA
- Commercial production started in Nov, 2021

→ Commissioned

Phthalic Anhydride
Capacity Post PA 5 Expansion (MTPA)

Expansion of PA5 unit is a brownfield Project

PA 5 Plant

- Project Cost : Rs 345 Crore
- PAN Capacity of 53,000 MTPA
- PA5 unit is expected to commence in FY24

→ Upcoming

Source: Company Presentation



Profit & Loss A/c

YE March (INR. Mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	13,037	10,586	11,236	15,582	15,850
Growth %	13.9%	-18.8%	6.1%	38.7%	1.7%
Total Revenue	13,037	10,586	11,236	15,582	15,850
Less:					
Raw Material Consumed	9,128	8,172	6,514	10,603	10,749
Employee Cost	618	602	707	778	855
Other Expenses	1,064	1,096	1,029	1,427	1,451
Total Operating Expenditure	10,810	9,869	8,250	12,807	13,056
EBITDA	2,227	717	2,986	2,775	2,794
Growth %	-16.7%	-67.8%	316.7%	-7.1%	0.7%
Less: Depreciation	265	299	341	369	411
EBIT	1,962	418	2,645	2,406	2,383
Growth %	-18.8%	-78.7%	533.3%	-9.0%	-1.0%
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	2,393	2,370
Tax	698	110	645	602	597
Net Profit	1,165	210	1,881	1,791	1,773
Adjusted Profit	1,260	213	1,887	1,791	1,773
Reported Diluted EPS	37.8	6.8	61.1	58.1	57.6
Growth %	-20.2%	-81.9%	793.9%	-4.8%	-1.0%
Adjusted Diluted EPS	40.9	6.9	61.3	58.1	57.6
Growth %	-13.7%	-83.1%	784.4%	-5.1%	-1.0%

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	1,790.8	1,773.4
(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	369.1	411.2
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	2,172.9	2,197.6
(Inc)/Dec in Current Assets	(803.8)	978.6	(381.1)	(771.5)	(47.5)
Inc/(Dec) in Current Liabilities	750.6	(126.6)	378.9	2,397.8	111.2
Changes in Inventory	(350.6)	343.6	(487.6)	(556.4)	(34.3)
Net Cash Generated From Operations	1,124.8	1,802.0	1,850.7	3,242.7	2,227.0
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	25.6	(1,081.6)	(2,643.5)	(1,000.0)	(1,500.0)
(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)	(981.4)	(1,484.5)
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	1,967.4	448.6
Opening Balance	217.3	251.3	358.0	735.5	2,702.9
Closing Balance Cash and Cash Equivalents	251.3	358.0	735.5	2,702.9	3,151.5

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	9,472	11,014
Equity	6,287	6,341	8,220	9,780	11,322
Net Worth	6,287	6,341	8,220	9,780	11,322
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	11,869	13,412
Assets					
Gross Block	8,420	9,502	12,145	13,145	14,645
Less: Depreciation	4,528	4,789	5,130	5,499	5,910
Net Block	3,892	4,713	7,016	7,647	8,735
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	1,995	2,029
Sundry Debtors	1,828	1,433	1,987	2,756	2,804
Cash and Bank Balance	251	358	736	2,703	3,152
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	7,666	8,196
Less: Current Liabilities & Provisions					
Sundry Creditors	2,300	1,996	2,397	4,527	4,605
Provisions	16	22	10	20	40
Other Current Liabilities	361	532	522	779	793
Total Current Liabilities & Provisions	2,676	2,550	2,928	5,326	5,437
Capital Applied	8,455	8,746	10,310	11,869	13,412

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%	17.8%	17.6%
Tax / PBT (%)	37.5%	34.4%	25.5%	25.2%	25.2%
Net Profit Margin (%)	8.9%	2.0%	16.7%	11.5%	11.2%
RoE (%)	21.8%	3.4%	25.9%	19.9%	16.8%
RoCE (%)	30.8%	5.6%	30.2%	23.0%	19.9%
Current Ratio (x)	1.6x	1.2x	1.5x	1.4x	1.5x
Dividend Payout (%)	10.6%	29.3%	12.3%	12.3%	12.3%
Book Value Per Share (INR.)	204.1	205.9	266.9	317.5	367.6
Financial Leverage Ratios					
Debt/ Equity (x)	0.2x	0.2x	0.2x	0.1x	0.11x
Interest Coverage (x)	19.5x	4.5x	20.5x	44.1x	44.4x
Growth Indicators %					
Growth in Gross Block (%)	(0.3%)	12.8%	27.8%	8.2%	11.4%
Sales Growth (%)	13.9%	(18.8%)	6.1%	38.7%	1.7%
EBITDA Growth (%)	(16.7%)	(67.8%)	316.7%	(7.1%)	0.7%
Net Profit Growth (%)	(20.2%)	(81.9%)	793.9%	(4.8%)	(1.0%)
Diluted EPS Growth (%)	(20.2%)	(81.9%)	793.9%	(4.8%)	(1.0%)
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

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

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP Equities Pvt. Ltd. (Institutional Equities).

General Disclaimer

This report has been prepared by the research department of BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice. BP EQUITIES Pvt. Ltd or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. BP EQUITIES Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

BP EQUITIES Pvt. Ltd and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP EQUITIES Pvt. Ltd or any of its affiliates to any registration or licensing requirement within such jurisdiction.

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