

Maintaining leadership position in domestic PAN market

During our visit to IG Petrochemicals Ltd (IGPL) plant at Talaja (one of the largest capacity of PAN at a single location), we interacted with Mr. Pramod Bhandari (CFO). This plant is engineered with Technical collaboration with Lurgi GmbH, Germany and designed on the low energy-based processes. IGPL is the largest manufacturer of Phthalic anhydride (PAN) and only manufacturer of Maleic anhydride in India. Post expansion IGPL currently produces around 2,22,110 MTPA of PAN, 7,660 MTPA of Maleic Anhydride (MA) and 1,500 MTPA of benzoic acid and 8,400 MTPA of plasticizers at its Talaja complex.

Following are the key takeaways from plant visit

⇒ Strategically located

IG Petrochemicals has several advantages over its competitors that ensure it leads and dominates the PAN space in India. These advantages combine to create unique strengths that are difficult for competitors to replicate and create high entry barriers for new players. One of the critical success factors is location. An ideal location should be close to both the source of raw material as well as customers. The Company's plant is located at Talaja, about 50 kms. from Mumbai, the commercial capital of India. This location results in multiple advantages for the Company. On the supply side, the major source of raw material for the manufacture of PAN comes from the same region, creating compelling cost savings in transportation. On the demand side, more than 70% of PAN produced in India is consumed in western India. With 90% sales locally, the plant's location is just 50kms. from Mumbai enables the Company to be close to its customers. Moreover, the port of Mumbai is a gateway to all major export markets for the Company, ensuring quicker transit times for its products. Complementing an ideal location is the wise procurement strategy for Ortho-xylene (OX) - the single raw material required to manufacture PAN. Post the commissioning of PA4 plant, the company's integration across four PAN manufacturing units has resulted in a substantial reduction in the cost of conversion to about \$90/tn (vs \$140/tn-150/tn with a single PA1 plant) due to improved operating leverage which is aiding the company's profitability.

⇒ Only producer of MA in India

Due to the non-availability of key raw material such as N-Butane (a gas derivative) for manufacturing MA (Maleic anhydride), 90% of India's consumption of MA (~60,000-65,000MTPA) is currently met through imports (mainly from Malaysia, China and Taiwan. Food grade MA consists of half of the MA consumption in India, and the rest 50% is consumed in Non-food grade products (IGPL is into non-food grade MA). IGPL uses wash water created from the manufacturing process of PA to recover MA and Benzoic acid (MA/PAN yield 0.03x). With less than 6% of the market share in the domestic market and being a sole manufacturer in India, IGPL believes there is enough opportunity to grow in the MA business. In FY21, MA generated INR572mn of annual sales with an EBITDA margin of 90%. Recent PA4 expansion results in additional wash water used to create more MA capacity for the Company (currently 7,660 MTPA). With higher MA capacity, IGPL is all set to grow its foothold in the MA business. Major applications of MA are in unsaturated polyester resin (UPR), spandex (elastics), insecticides, fungicides, water treatment and lubricant oil additives.

⇒ Foray into advanced plasticizer to provide scope for margin stability

IGPL also forayed into the downstream product by introducing speciality plasticizer DEP (Di-Ethyl Phthalate). The company commenced commercial production of DEP (in Nov 21) with a capacity of 8,400 MTPA with a 50% increasing possibility at a minimum Capex. Since the compound is a suitable solvent for many organic molecules, it is often used to bind cosmetics and fragrances (mainly incense sticks and attar). Domestic demand for DEP is 22,000 MTPA with almost the same in terms of supply. 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.

⇒ Future outlook

Management is aspiring to achieve INR25bn topline by FY25. Moreover, they intend to diversify their product portfolios by getting into other downstream derivatives and other speciality chemicals with aiming to have 30% of its revenue from non-phthalic products.

Stock Rating

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

Sector Outlook **Positive**

Stock

CMP (INR)	738
Target Price (INR)	691
BSE code	500199
NSE Symbol	IGPL
Bloomberg	IGPL IN
Reuters	IGPT.BO

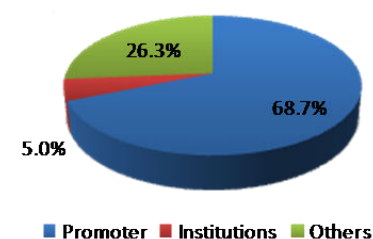
Key Data

Nifty	17,536
52WeekH/L(INR)	1018 / 355
O/s Shares (Mn)	31
Market Cap (INR bn)	22.7
Face Value (INR)	10

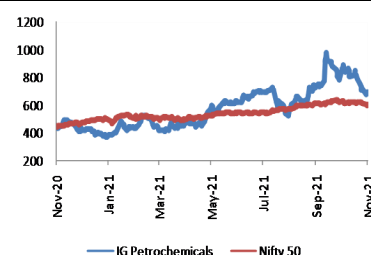
Average volume

3 months	1,62,980
6 months	1,88,460
1 year	1,35,700

Share Holding Pattern (%)



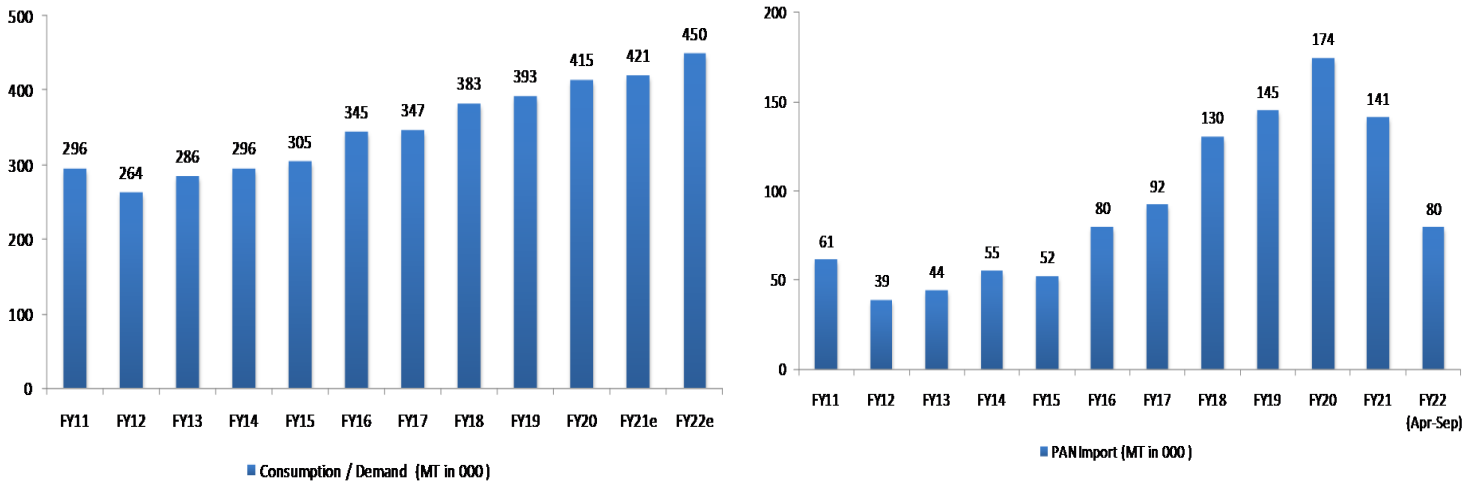
Relative Price Chart



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Phthalic Anhydride Consumption and Import trend (of Domestic market)

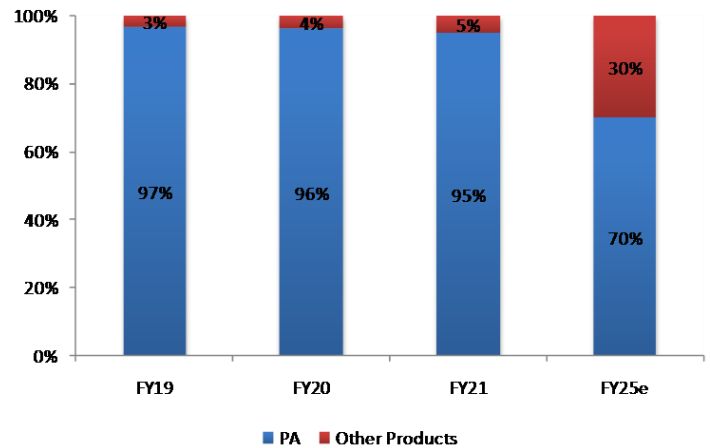
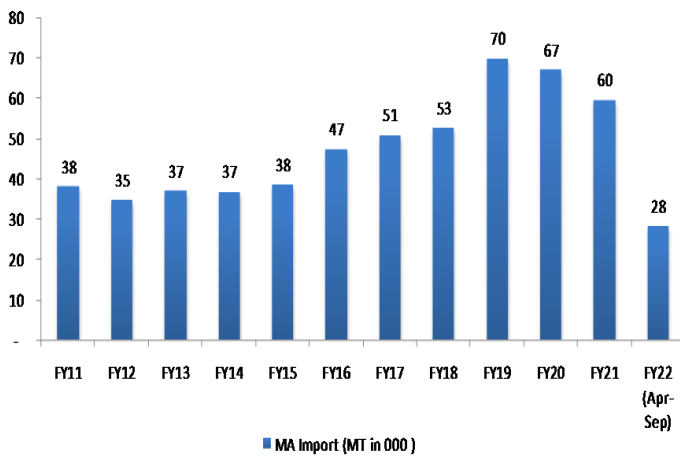


Source: Industry, BP Equities Research (estimates)

As per our calculation, In FY21 the Indian market consumed approximately 35,000 Mt per month of Phthalic anhydride and growing at a rate of about 6-8% per annum. There was an import of Phthalic anhydride of almost ~12,000 MT per month, which can be substituted by the local Manufacturers like IG Petrochemicals Ltd and M/s. Thirumalai Chemicals Ltd. More so with the fact that there is an anti-dumping duty imposed on most countries against imports into India. Thus, there is a huge opportunity going forward to increase the capacities in India, thereby reducing the cost of production, which will make domestic players more competitive in India and the global markets.

MA import trend

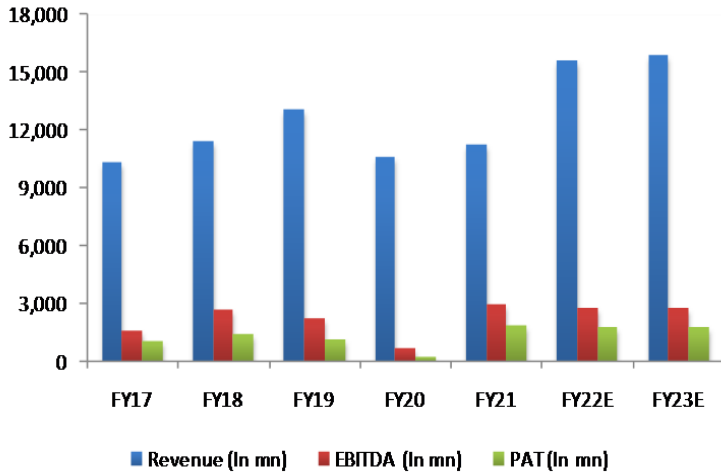
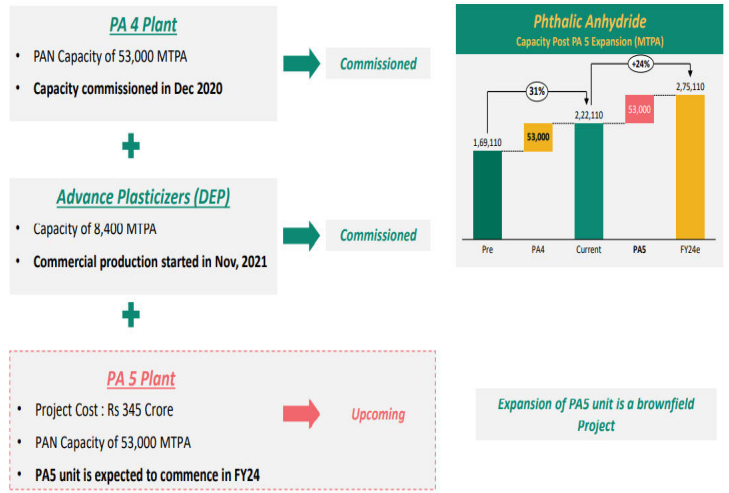
Contribution from Non PAN products to reach 30% by FY25



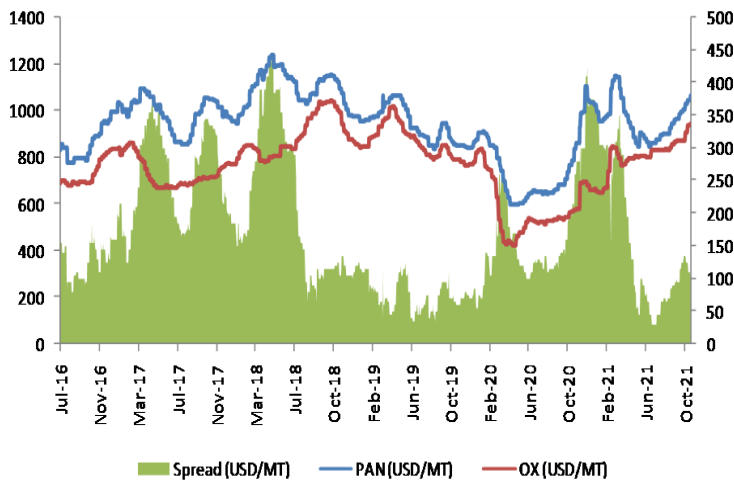
Source: Company, Industry, BP Equities Research (estimates)

Capacity expansion to drive the next phase of growth

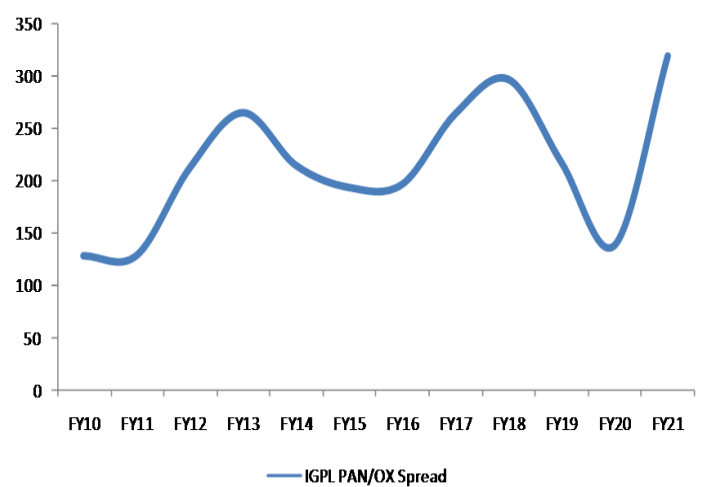
To meet growing demand and post faster absorption of recently commissioned capacity PA4 (utilization 90%), IGPL plans to set up a new plant through brownfield expansion in the same plant with the PAN capacity of 53,000 TPA (PA5), which increases its total capacity to 2,75,110 TPA by CY24. The total Capex 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 Taloja) is started this week. We modeled INR 500mn incremental revenue from Advanced Plasticizer in FY22E with a better margin profile.

Revenue/EBITDA/PAT trend

Capacity Expansion & Strategies


Source: Company, BP Equities Research

PAN and OX price trend


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

Average PAN/Ox spread over FY10 to FY21: US\$215


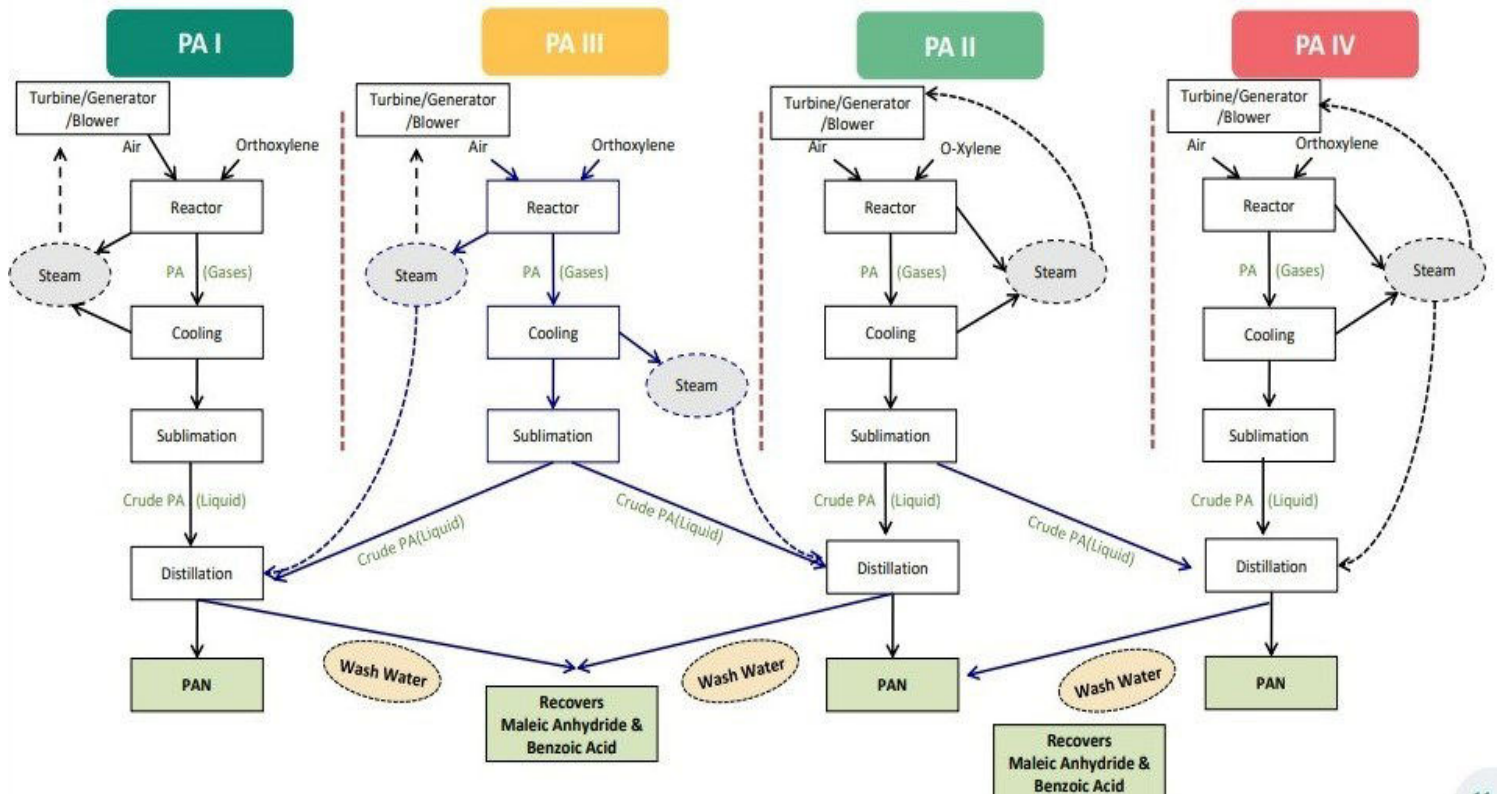
Source: BP Equities Research

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. Therefore, we maintain our Sell rating on the stock with a price target of INR 691 based on 12x FY23e earnings.

Key Risk: Adverse movement in PAN/OX spread

Production Process of Phthalic Anhydride and Maleic Anhydride



Source: Company

Key Customers

PLASTICIZERS	PAINTS	UPR	CPC PIGMENT

Source: Company



IG Petrochemicals Ltd

Plant Visit Note

Profit & Loss A/c

YE March (INR. Mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	13,037	10,586	11,236	15,582	15,850
<i>Growth %</i>	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
<i>Growth %</i>	-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
<i>Growth %</i>	-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
<i>Growth %</i>	-20.2%	-81.9%	793.9%	-4.8%	-1.0%
Adjusted Diluted EPS	40.9	6.9	61.3	58.1	57.6
<i>Growth %</i>	-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

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