

Maintaining strong performance: Reiterate BUY

IG Petrochemicals Ltd (IGPL), for Q1FY19, reported operationally strong performance. Revenue grew at 18.6% YoY to Rs 3509mn (est Rs3576mn). EBITDA has shown growth of 21.7% YoY to Rs 847mn (est Rs830mn) with 62bps YoY improvement in margin from 23.5% in Q1FY18 to 24.1% in Q1FY19 mainly due to favorable PAN/OX spread. During Q1FY19, production of PAN volume has shown 8.1% growth on the sequential basis from 37,000 in Q4FY18 to 40,000 in Q1. On a sequential basis EBITDA margin shown solid improvement (20.4% in Q4FY18) due to the higher gross margin of 35.5% compared to 33.4% during the last quarter. IGPL Net profit grew by 2.9% to Rs 402mn (est. Rs 490mn), the sharp dip in growth was mainly lead by impairment of its investments in JV with DUGAS by its subsidiary IGPL(FZE) of Rs 95mn and higher tax rate (40.7% vs 35.1% in Q1FY18).

Capacity ramp up coupled with healthy demand scenario to boost profitability in FY20

In order to meet growing demand and limited headroom for volume growth (capacity utilization 91%), IGPL has proposed to set up a new plant through Brownfield expansion (PA4) and increase its capacity by 53,000(TPA), taking its total capacity to 2,28,250 TPA. PA4 expected to get a commission in end of 2HFY20. The company added 6,000TPA capacity (3.5% of total capacity) through debottlenecking during Q2FY18, which has provided scope for volume growth in FY19. We modeled 7% volume growth in PAN with 4.7% realization growth (Average FY11-18) which will lead to 11.9% overall PAN growth over FY18-20E. Further, we expect incremental revenue from MA and DEP/DMP in 2HFY20 respectively which will aid revenue CAGR of 14.2% over FY18-20E.

Revised Estimate: Expected delay in capacity commissioning to impact volume growth

IGPL has expected to commission PA4 expansion of 53,000 TPA in 2HFY20 from the earlier timeline of a beginning of Q1FY20. We accordingly, cut our volume growth estimate from 7.9% to 7%, result of that -1.7%/-2%/-2.3% change in Revenue/ EBITDA/ PAT estimate of FY20.

Why we like this stock & valuation methodology

IGPL has a leadership position in terms of capacity and costs in the domestic PAN market. The company is well positioned to witness steady revenue and profitability growth going forward in the business through brownfield expansion and higher capacity utilization with domestic demand likely to remain robust. We expect Revenue/EBITDA/PAT to clock 14.2%/11%/25.3% CAGR during FY18-20E. Though IGPL is a commodity player, large entry barriers, stability in the margin and large Indian market share could result in further re-rating of the stock going forward. At the current market price (of Rs 540) the company is trading at 10.2x its FY19E EPS of Rs 52.7 and 7.3x its FY20E EPS of Rs 74.5. Recent correction from top provides good entry opportunity in the stock. We remain positive on the stock & recommend 'BUY' rating by assigning 15x to its FY20E earnings. We arrive at a target price of Rs 1,117 (based on revised estimate) for an investment horizon of 15-18 months

Key Financials

YE March (Rs. mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	9,528	10,375	11,442	12,741	14,916
Growth %	-20%	9%	10%	11%	17%
EBITDA	1,134	1,639	2,673	2,882	3,293
Growth%	41%	45%	63%	8%	14%
Net Profit	604	1,012	1,461	1,623	2,293
Growth %	579%	68%	44%	11%	41%
Diluted EPS	20	33	47	53	74
Growth %	579%	68%	44%	11%	41%

Profitability & Valuation

EBITDA (%)	12%	16%	23%	23%	22%
NPM (%)	6%	10%	13%	13%	15%
RoE (%)	23%	30%	32%	27%	29%
RoCE (%)	27%	37%	48%	40%	37%
P/E (x)	27.6	16.4	11.4	10.2	7.3
EV/EBITDA (x)	15.3	10.3	6.5	6.1	4.7
P/BV (x)	5.7	4.2	3.2	2.5	1.9

Source: Company, BP Equities Research

Stock Rating

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

Sector Outlook

Positive

Stock

CMP (Rs)	540
Target Price (Rs)	1,117
BSE code	500199
NSE Symbol	IGPL
Bloomberg	IGPL IN
Reuters	IGPT.BO

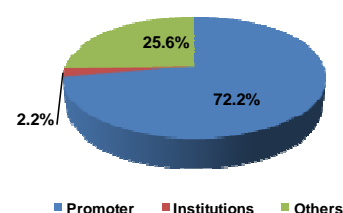
Key Data

Nifty	11,387
52 Week H/L (Rs)	840/395
O/s Shares (Mn)	31
Market Cap (Bn)	16.6
Face Value (Rs)	10

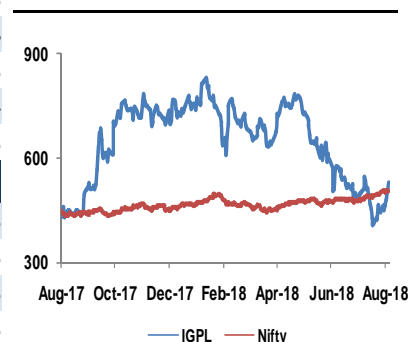
Average volume

3 months	47,432
6 months	44,755
1 year	87,884

Share Holding Pattern (%)



Relative Price Chart



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IG Petrochemicals Ltd.

Result Update

IG Petrochemicals Ltd Q1FY19 Quarterly Result

YE March (Rs. mn)	Q1 FY19	Q4 FY18	Q-o-Q change %	Q1 FY18	Y-o-Y change %
Net Sales	3,509	3,128	12.2%	2,959	18.6%
Other Operating Income	0	0		0	
Total Revenue	3,509	3,128	12.2%	2,959	18.6%
Less:					
Raw Material Cost	2,262	2,082	8.6%	1,894	19.4%
Operating & Manufacturing Expenses	236	253	(6.7%)	244	(3.3%)
Employee Cost	164	155	5.6%	125	31.3%
Total Expenditure	2,663	2,491	6.9%	2,263	17.6%
EBIDTA	847	637	32.9%	696	21.7%
Less: Depreciation	63	68	(7.8%)	51	22.6%
EBIT	784	569	37.8%	645	21.6%
Less: Interest	24.9	27.7	(10.1%)	52.1	(52.2%)
Add: Other income	14	13		10	
Exceptional Item	(95)				
Profit before tax	679	554	22.4%	603	12.6%
Adjusted Profit before Tax	774	554	39.5%	603	28.4%
Less: Total Tax	276	220	25.3%	212	30.6%
Profit After Tax	402	334	20.4%	391	2.9%
Other comprehensive Income	0	0		0	
Minority Interest	0	0		0	
Adjusted Profit After Tax	497	334	48.9%	391	27.2%
Diluted EPS (Rs.)	13.1	10.8	20.4%	12.7	2.9%
Adjusted Diluted EPS	16.1	10.8	48.9%	12.7	27.2%
Diluted No of Share (mn)	30.8	30.8		30.8	
Margin Analysis %			Change in bps		Change in bps
EBIDTA Margin %	24.1%	20.4%	377	23.5%	62
EBIT Margin %	22.3%	18.2%	415	21.8%	56
NPM %	11.5%	10.7%	78	13.2%	(175)
Effective Tax Rate %	40.7%	39.8%	96	35.1%	561

Source: Company, BP Equities Research

Revenue were slightly below our estimates of Rs 3,576mn

Impairment of its investments in JV with DUGAS by its subsidiary IGPL (FZE) of Rs 95mn, impacted profit

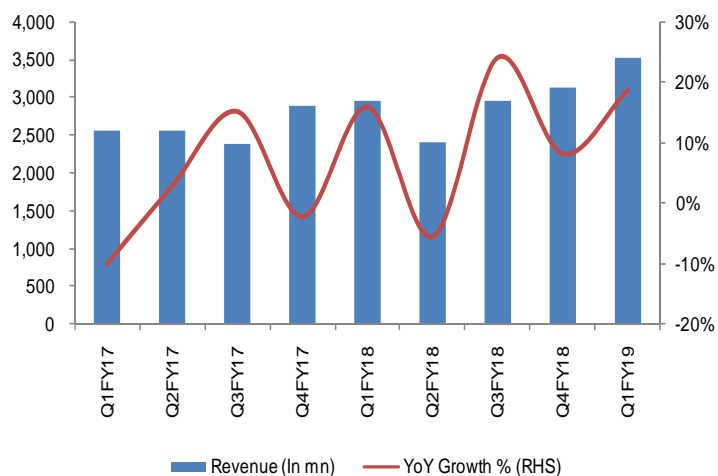
Adj. PAT came inline with our estimate of Rs 490mn

The EBITDA margin, at 24.1% was above our estimate of 23.2% mainly due to improvement in gross margin

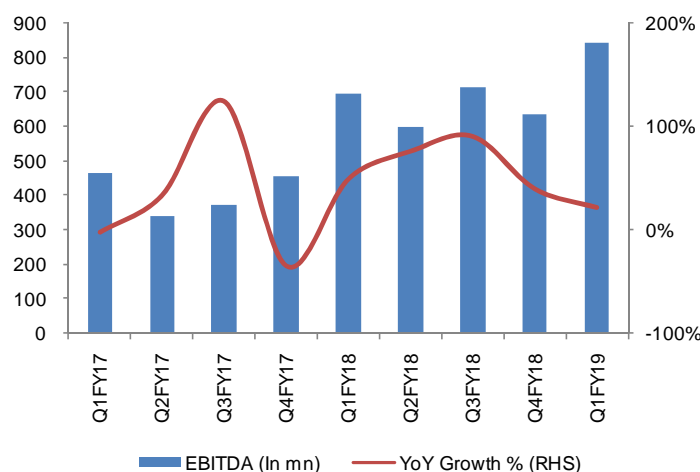
IG Petrochemicals Ltd.

Result Update

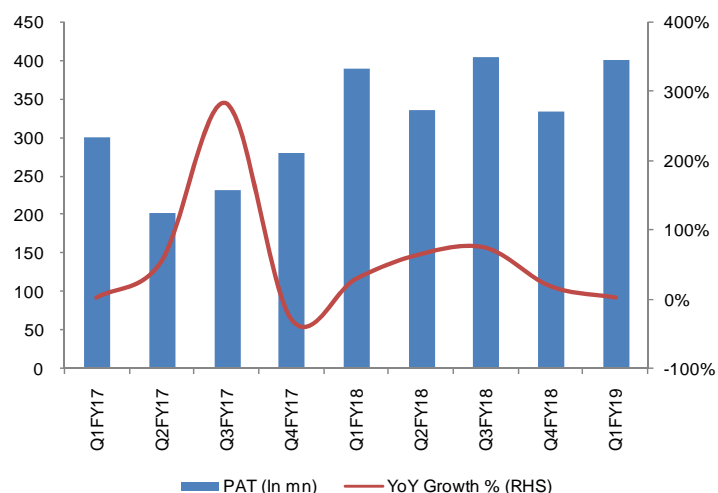
Revenue growth trend



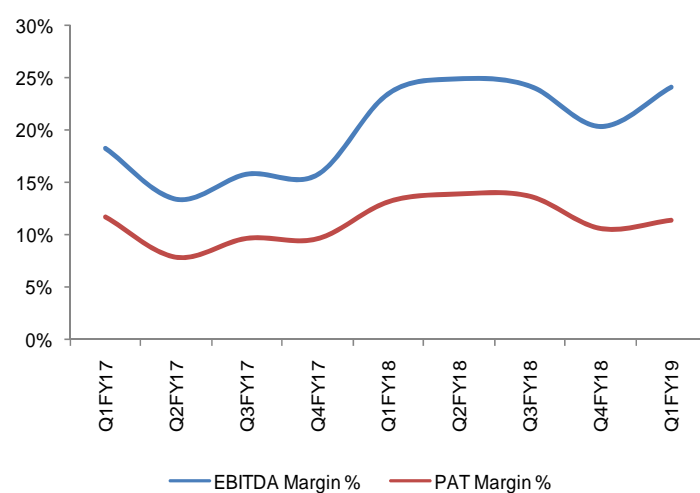
EBITDA showed a growth of 21.7% YoY



PAT showed growth of 2.9% YoY

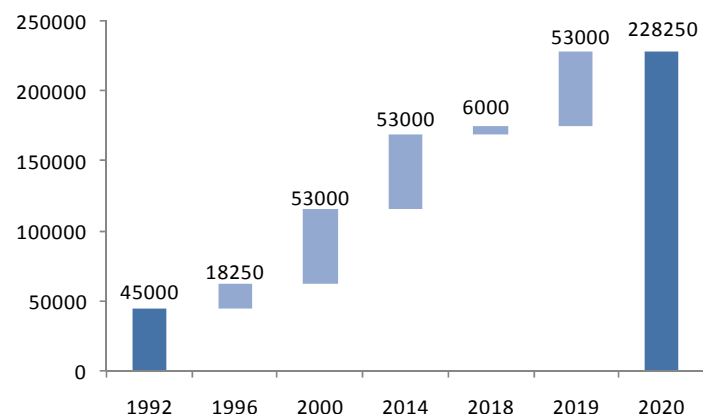


EBITDA and PAT Margin Trend



Source: Company, BP Equities Research

Trend of capacity addition in PAN



Source: Company, BP Equity Research

IG Petrochemicals Ltd.

Result Update

Profit & Loss A/c					
YE March (Rs. mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	9,528	10,375	11,442	12,741	14,916
Growth %	-19.7%	8.9%	10.3%	11.4%	17.1%
Total Revenue	9,528	10,375	11,442	12,741	14,916
Less:					
Raw Material Consumed	7,341	7,512	7,275	8,180	9,702
Employee Cost	298	397	558	641	705
Other Expenses	756	827	936	1,038	1,215
Total Operating Expenditure	8,395	8,736	8,769	9,859	11,622
EBITDA	1,134	1,639	2,673	2,882	3,293
Growth %	41.2%	44.6%	63.1%	7.8%	14.3%
Less: Depreciation	175	172	257	273	281
EBIT	958	1,467	2,416	2,609	3,013
Growth %	50.0%	53.1%	64.7%	8.0%	15.5%
Interest Paid	227	181	149	152	150
Non-operating Income	36	27	37	40	40
Extraordinary Income	0	0	0	0	0
Profit Before tax	767	1,313	2,304	2,497	2,903
Tax	164	301	843	874	610
Net Profit	604	1,012	1,461	1,623	2,293
Adjusted Profit	604	1,012	1,461	1,623	2,293
Reported Diluted EPS Rs	19.6	32.9	47.4	52.7	74.5
Growth %	578.5%	67.6%	44.3%	11.1%	41.3%
Adjusted Diluted EPS Rs	19.6	32.9	47.4	52.7	74.5
Growth %	101.2%	67.6%	44.3%	11.1%	41.3%

Source: Company, BP Equities Research

Cash Flows Statement					
YE March (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
PAT	603.6	1,011.9	1,460.5	1,623.1	2,293.0
(Less)/Add: Extraordinary Income/Expense	0.0	0.0	0.0	0.0	0.0
Less: Non Operating Income	(35.7)	(26.6)	(36.8)	(40.0)	(40.0)
Add: Depreciation	175.4	171.9	257.0	272.9	280.7
Add: Interest Paid	226.7	180.5	149.3	152.4	150.1
Tax Adjustment	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	970.1	1,337.7	1,830.0	2,008.4	2,683.8
(Inc)/Dec in Current Assets	274.3	(412.8)	(338.9)	(151.4)	(296.0)
Inc/(Dec) in Current Liabilities	(406.7)	94.3	(94.7)	567.0	379.9
Changes in Inventory	(30.0)	(149.8)	101.6	(107.2)	(179.4)
Net Cash Generated From Operations	807.6	869.4	1,498.0	2,316.8	2,588.4
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(122.4)	(190.1)	(1,027.9)	(2,200.0)	(300.0)
(Inc)/Dec in Capital Work In Progress	(36.4)	(68.0)	(794.1)	0.0	0.0
(Inc)/Dec in Investment (Strategic)	0.0	0.0	0.0	0.0	0.0
(Inc)/Dec in Investment (Others)	(10.1)	(301.7)	179.9	(33.6)	(36.9)
Add: Non Operating Income Income	35.7	26.6	36.8	40.0	40.0
(Inc)/Dec in Intangible Assets	(2.6)	(77.0)	(107.9)	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	(135.8)	(610.2)	(1,713.2)	(2,193.6)	(296.9)
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	(376.7)	87.1	363.1	0.0	0.0
Inc/(Dec) in Reserves & Surplus	(12.5)	97.6	16.7	0.0	0.0
Inc/(Dec) in Equity	0.0	0.0	(0.0)	0.0	0.0
Dividend Paid	(61.6)	(103.3)	(123.4)	(137.2)	(193.8)
Less: Interest Paid	(226.7)	(180.5)	(149.3)	(152.4)	(150.1)
Adjustments	(7.6)	(3.7)	0.0	(0.0)	(0.0)
Exceptional Item	0.0	0.0	0.0	0.0	0.0
Net Cash Flow from Financing Activities	(685.2)	(102.7)	107.1	(289.5)	(343.9)
Net Inc/Dec in cash equivalents	(13.4)	156.5	(108.1)	(166.3)	1,947.6
Opening Balance	182.2	168.8	325.4	217.3	50.9
Closing Balance Cash and Cash Equivalents	168.8	325.4	217.3	50.9	1,998.5

Source: Company, BP Equities Research

IG Petrochemicals Ltd.

Result Update

Balance Sheet					
YE March(Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Liabilities					
Equity Capital	308	308	308	308	308
Reserves & Surplus	2,610	3,616	4,970	6,456	8,555
Equity	2,918	3,924	5,278	6,764	8,863
Net Worth	2,918	3,924	5,278	6,764	8,863
Minority Interest					
Net Deferred tax liability/(Asset)	18	406	399	399	399
Total Loans	925	624	994	994	994
Capital Employed	3,861	4,954	6,671	8,157	10,256
Assets					
Gross Block	7,077	7,267	8,295	10,495	10,795
Less: Depreciation	3,854	4,023	4,280	4,552	4,833
Net Block	3,222	3,244	4,015	5,942	5,962
Capital WIP	44	112	906	906	906
Investments	214	516	336	369	406
Others - A	3	80	188	188	188
Current Assets					
Inventories	896	1,045	944	1,051	1,230
Sundry Debtors	1,088	1,498	1,388	1,545	1,809
Cash and Bank Balance	169	325	217	51	1,999
Current Investments			407	407	407
Loans and Advances	150	154	195	189	221
Other Current Assets	0	0	0	0	0
Total Current Assets	2,303	3,022	3,151	3,243	5,666
Less: Current Liabilities & Provisions					
Sundry Creditors	1,542	1,721	1,498	2,177	2,549
Provisions	86	16	9	16	17
Other Current Liabilities	298	283	419	299	307
Total Current Liabilities & Provisions	1,926	2,020	1,925	2,492	2,872
Capital Applied	3,861	4,954	6,671	8,157	10,256

Source: Company, BP Equities Research

Key Ratios					
YE March (Rs. mn)	FY16	FY17	FY18E	FY19E	FY20E
Key Operating Ratios					
EBITDA Margin (%)	11.9%	15.8%	23.4%	22.6%	22.1%
Tax / PBT (%)	21.3%	22.9%	36.6%	35.0%	21.0%
Net Profit Margin (%)	6.3%	9.8%	12.8%	12.7%	15.4%
RoE (%)	22.8%	29.6%	31.7%	27.0%	29.3%
RoCE (%)	26.8%	36.7%	47.9%	40.4%	36.6%
Current Ratio (x)	1.2x	1.5x	1.6x	1.3x	2.0x
Dividend Payout (%)	10.2%	10.2%	8.5%	8.5%	8.5%
Book Value Per Share (Rs.)	94.7	127.4	171.4	219.6	287.8
Financial Leverage Ratios					
Debt/ Equity (x)	0.3x	0.2x	0.2x	0.1x	0.1x
Interest Coverage (x)	5.0x	9.1x	17.9x	18.9x	21.9x
Growth Indicators %					
Growth in Gross Block (%)	1.8%	2.7%	14.1%	26.5%	2.9%
Sales Growth (%)	(19.7%)	8.9%	10.3%	11.4%	17.1%
EBITDA Growth (%)	41.2%	44.6%	63.1%	7.8%	14.3%
Net Profit Growth (%)	578.5%	67.6%	44.3%	11.1%	41.3%
Diluted EPS Growth (%)	578.5%	67.6%	44.3%	11.1%	41.3%
Turnover Ratios					
Debtors Days	42	53	44	44	44
Creditors Days	59	72	62	62	62
Inventory Days	34	37	30	30	30

Source: Company, BP Equities Research



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