

### Margin contraction due to volatility in RM prices, recovery in Q4 visible: Reiterate BUY

IG Petrochemicals Ltd (IGPL), for Q3FY19, reported a underwhelming performance. Revenue grew at 7.1% YoY to Rs 3,154mn (est Rs 2,718mn). EBITDA decline by 53.1% YoY to Rs 335mn (est Rs560mn) with 1,362bps YoY contraction in margin from 24.2% in Q3FY18 to 10.6% in Q3FY19 ( est. 20.6%) mainly due to depressed gross margins led by reduction in PAN/OX spread due to extreme volatility in Raw material prices and inventory draw down by customers and higher other expenses due to catalyst change (Rs 4-5cr). Next catalyst change is expected to be in Apr-May19, during which plant will be shutdown at average 5-6 days per plant. During Q3FY19, production of PAN volume has grown by 3.6% on a sequential basis from 36,000MTn in Q2FY19 to 37,296MTn in Q3. However, on yearly basis, PAN volume declined by 4.4% due to customers postponed the buying decision till stabilization in commodity prices. As we noticed stabilization in crude oil in recent months, we expect volume growth to pickup in coming months. We have noticed improving trend PAN/OX spread in favour of PAN of around 18% from Sep to Dec. As it takes three-month lag to pass change in prices, we expect improvement in margin to reflect in Q4. Net profit declined by 56.5% to Rs176mn (est. Rs 358mn), due to weak performance on the operational front.

### Capacity ramp up coupled with healthy demand scenario to boost profitability from Q4FY20

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 2,22,100 TPA. As per management, PA4 is expected to get commissioned in Q4FY20 and expected to reach 80-90% utilisation level in first year of commissioning. We modeled flat volume growth (earlier 4%) in PAN during FY19, due to removal of anti-dumping duty on PAN and customer destocking in Q3. We expect to see double-digit volume growth in FY20 lead by commissioning of capacity and healthy demand growth in the end user industries.

### Valuation and Outlook

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 growth through brownfield expansion and higher capacity utilization on the back of healthy demand in end user industry. However, we are concerned about recent volatility in RM prices which lead to sharp decline in spread, which leave us to follow cautious approach on profitability front. We expect Revenue/EBITDA/PAT to clock 11%/-6.3%/3.9% CAGR during FY18-20E. At the current market price (of Rs 249) the company is trading at 6.1x, it's FY19E EPS of Rs 40.9 and 4.9x its FY20E EPS of Rs 51.2. Recent correction from the top provides a good entry opportunity in the stock. We maintain our positive view with 'BUY' rating. However, due to volatility in spread resulting into lack of clarity on margin and profitability front. Hence, we revise our P/E multiple to 10x from 15x to its FY20E earnings to arrive at a revised target price of Rs 512(earlier Rs 955).

### Stock Rating

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

Sector Outlook **Positive**

### Stock

CMP (Rs)	249
Target Price (Rs)	512
BSE code	500199
NSE Symbol	IGPL
Bloomberg	IGPL IN
Reuters	IGPT.BO

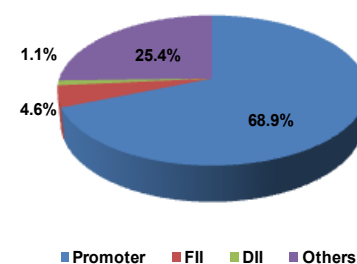
### Key Data

Nifty	10,944
52WeekH/L(Rs)	795/245
O/s Shares (Mn)	31
Market Cap (Rs bn)	7.7
Face Value (Rs)	10

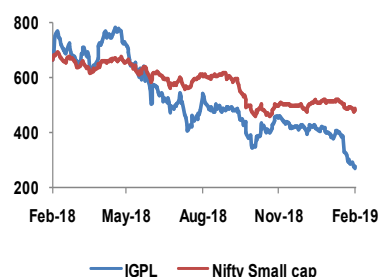
### Average volume

3 months	29,723
6 months	47,396
1 year	46,427

### Share Holding Pattern (%)



### Relative Price Chart



### Research Analyst

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Key Financials					
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	9,528	10,375	11,442	12,707	14,105
Growth %	-20%	9%	10%	11%	11%
EBIDTA	1,134	1,639	2,673	2,277	2,345
Growth%	41%	45%	63%	-15%	3%
Net Profit	604	1,012	1,461	1,259	1,578
Growth %	579%	68%	44%	-14%	25%
Diluted EPS	20	33	47	41	51
Growth %	579%	68%	44%	-14%	25%
Profitability & Valuation					
EBIDTA (%)	11.9%	15.8%	23.4%	17.9%	16.6%
NPM (%)	6.3%	9.8%	12.8%	9.9%	11.2%
RoE (%)	22.8%	29.6%	31.8%	21.5%	22.1%
RoCE (%)	27%	37%	48%	32%	27%
P/E (x)	12.7	7.6	5.3	6.1	4.9
EV/EBITDA (x)	7.4	4.9	3.0	3.4	3.0
P/BV (x)	2.6	2.0	1.5	1.2	1.0

Source: Company, BP Equities Research

## IG Petrochemicals Ltd Q3FY19 Quarterly Result

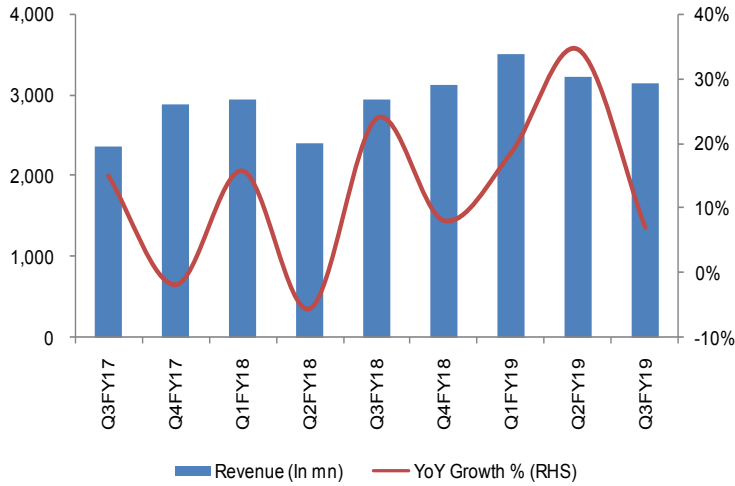
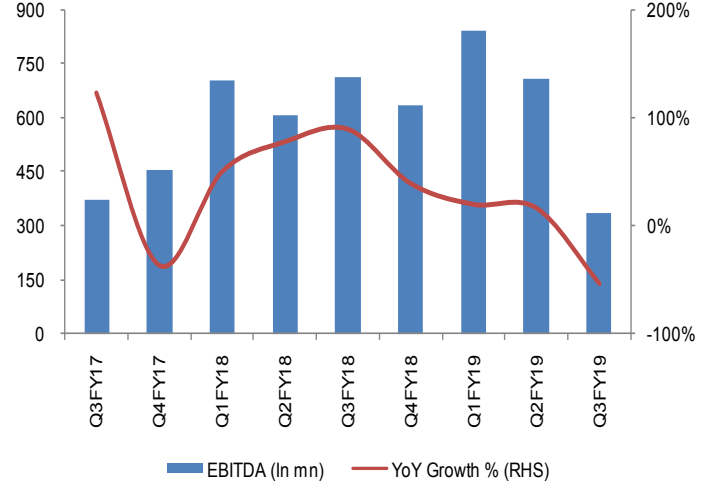
YE March (Rs. mn)	Q3 FY19	Q2 FY19	Q-o-Q change %	Q3 FY18	Y-o-Y change %
Net Sales	3,154	3,242	(2.7%)	2,946	7.1%
Other Operating Income	0	0		0	
<b>Total Revenue</b>	<b>3,154</b>	<b>3,242</b>	<b>(2.7%)</b>	<b>2,946</b>	<b>7.1%</b>
Less:					
Raw Material Cost	2,415	2,067	16.8%	1,874	28.9%
Operating & Manufacturing Expenses	261	298	(12.4%)	204	28.2%
Employee Cost	144	165	(12.8%)	154	(7.0%)
<b>Total Expenditure</b>	<b>2,819</b>	<b>2,530</b>	<b>11.5%</b>	<b>2,232</b>	<b>26.3%</b>
<b>EBIDTA</b>	<b>335</b>	<b>713</b>	<b>(53.0%)</b>	<b>714</b>	<b>(53.1%)</b>
Less: Depreciation	68	65	4.7%	55	22.3%
<b>EBIT</b>	<b>267</b>	<b>648</b>	<b>(58.8%)</b>	<b>659</b>	<b>(59.4%)</b>
Less: Interest	16.6	48.4	(65.8%)	34.0	(51.2%)
Add: Other income	24	16		11	
<b>Profit before tax</b>	<b>274</b>	<b>616</b>	<b>(55.4%)</b>	<b>636</b>	<b>(56.8%)</b>
<b>Adjusted Profit before Tax</b>	<b>274</b>	<b>616</b>	<b>(55.4%)</b>	<b>636</b>	<b>(56.8%)</b>
Less: Total Tax	99	211	(53.3%)	231	(57.4%)
<b>Profit After Tax</b>	<b>176</b>	<b>405</b>	<b>(56.6%)</b>	<b>404</b>	<b>(56.5%)</b>
Other comprehensive Income	0	0		0	
Minority Interest	0	0		0	
<b>Adjusted Profit After Tax</b>	<b>176</b>	<b>405</b>	<b>(56.6%)</b>	<b>404</b>	<b>(56.5%)</b>
<b>Diluted EPS (Rs.)</b>	<b>5.7</b>	<b>13.1</b>	<b>(56.6%)</b>	<b>13.1</b>	<b>(56.5%)</b>
<b>Adjusted Diluted EPS</b>	<b>5.7</b>	<b>13.1</b>	<b>(56.6%)</b>	<b>13.1</b>	<b>(56.5%)</b>
Diluted No of Share (mn)	30.8	30.8		30.8	
<b>Margin Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>
<b>EBIDTA Margin %</b>	<b>10.6%</b>	<b>22.0%</b>	<b>(1,136)</b>	<b>24.2%</b>	<b>(1,362)</b>
EBIT Margin %	8.5%	20.0%	(1,151)	22.4%	(1,389)
<b>NPM %</b>	<b>5.6%</b>	<b>12.5%</b>	<b>(691)</b>	<b>13.7%</b>	<b>(816)</b>
Effective Tax Rate %	35.9%	34.3%	168	36.4%	(44)

Source: Company, BP Equities Research

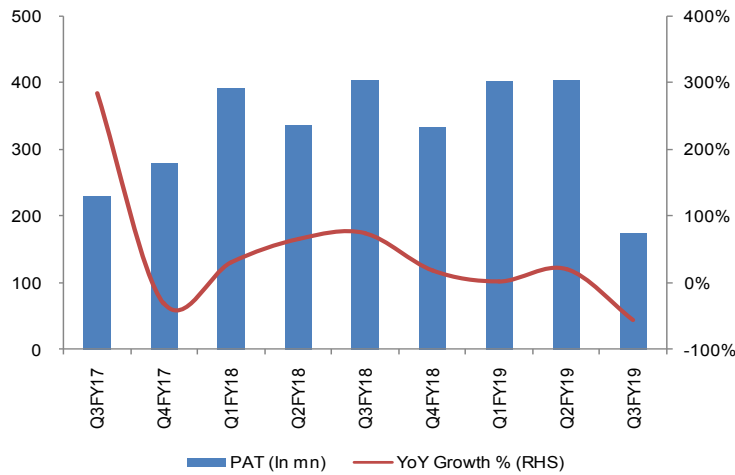
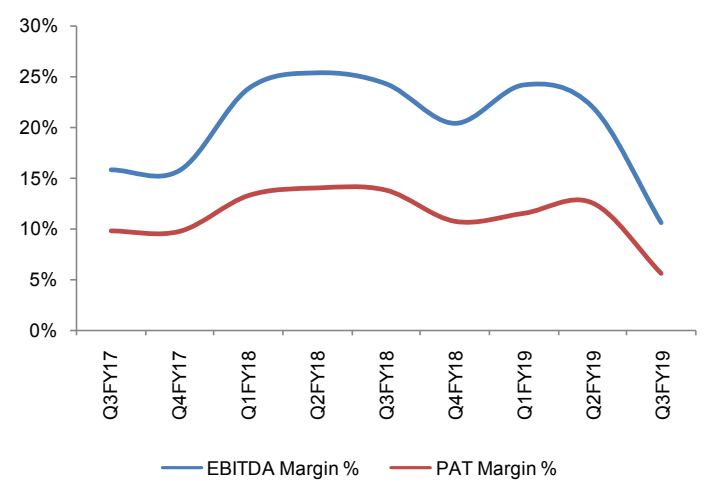
Revenue were above our estimates of Rs 2,718mn due to better realization

Adj. PAT came below our estimate of Rs 358mn, mainly due to operationally weak performance

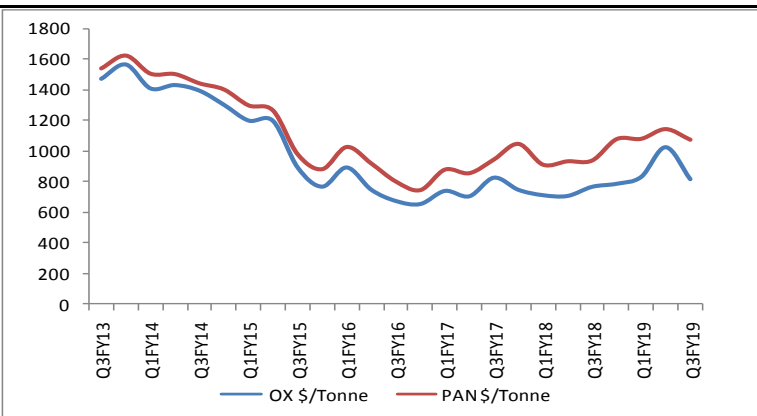
The EBITDA margin, at 10.6% was below our estimate of 20.6% , due to sharp increase in Raw material (OX) prices due to volatility in crude prices and increase in paraxylene (PX) prices while the Phthalic Anhydride (PAN) prices remained stagnant.

**Revenue growth trend**

**EBITDA de-grew by 53.1% YoY**


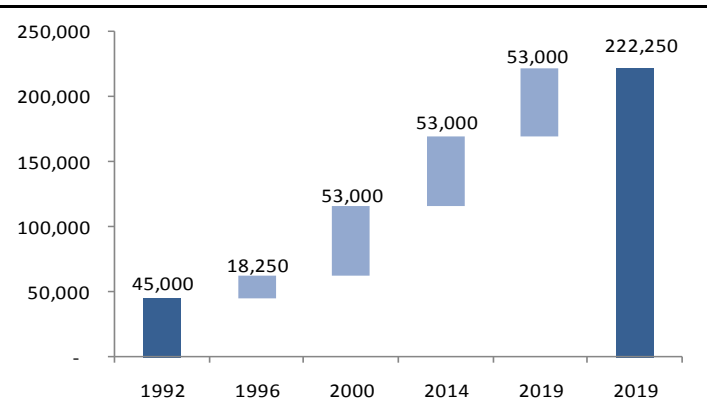
Source: Company, BP Equities Research

**PAT declined by 56.5% YoY**

**EBITDA and PAT Margin Trend**


Source: Company, BP Equities Research

**PAN and OX price trend**


Source: Bloomberg, BP Equities Research

**Capacity Expansion Trend**




Profit & Loss A/c					
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Revenue</b>	<b>9,528</b>	<b>10,375</b>	<b>11,442</b>	<b>12,707</b>	<b>14,105</b>
<i>Growth %</i>	-19.7%	8.9%	10.3%	11.1%	11.0%
<b>Total Revenue</b>	<b>9,528</b>	<b>10,375</b>	<b>11,442</b>	<b>12,707</b>	<b>14,105</b>
<b>Less:</b>					
Raw Material Consumed	7,341	7,512	7,275	8,754	9,906
Employee Cost	298	397	558	641	705
Other Expenses	756	827	936	1,035	1,149
<b>Total Operating Expenditure</b>	<b>8,395</b>	<b>8,736</b>	<b>8,769</b>	<b>10,430</b>	<b>11,760</b>
<b>EBITDA</b>	<b>1,134</b>	<b>1,639</b>	<b>2,673</b>	<b>2,277</b>	<b>2,345</b>
<i>Growth %</i>	41.2%	44.6%	63.1%	-14.8%	3.0%
Less: Depreciation	175	172	257	256	271
<b>EBIT</b>	<b>958</b>	<b>1,467</b>	<b>2,416</b>	<b>2,021</b>	<b>2,074</b>
<i>Growth %</i>	50.0%	53.1%	64.7%	-16.4%	2.6%
Interest Paid	227	181	149	123	117
Non-operating Income	36	27	37	40	40
Extraordinary Income	0	0	0	0	0
<b>Profit Before tax</b>	<b>767</b>	<b>1,313</b>	<b>2,304</b>	<b>1,937</b>	<b>1,997</b>
Tax	164	301	843	678	419
<b>Net Profit</b>	<b>604</b>	<b>1,012</b>	<b>1,461</b>	<b>1,259</b>	<b>1,578</b>
<b>Adjusted Profit</b>	<b>604</b>	<b>1,012</b>	<b>1,461</b>	<b>1,259</b>	<b>1,578</b>
<b>Reported Diluted EPS Rs</b>	<b>19.6</b>	<b>32.9</b>	<b>47.4</b>	<b>40.9</b>	<b>51.2</b>
<i>Growth %</i>	578.5%	67.6%	44.3%	-13.8%	25.3%
<b>Adjusted Diluted EPS Rs</b>	<b>19.6</b>	<b>32.9</b>	<b>47.4</b>	<b>40.9</b>	<b>51.2</b>
<i>Growth %</i>	101.2%	67.6%	44.3%	-13.8%	25.3%

(Source: Company, BP Equities Research)

Cash Flows Statement					
YE March (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
<b>PAT</b>	<b>603.6</b>	<b>1,011.9</b>	<b>1,460.5</b>	<b>1,259.4</b>	<b>1,577.9</b>
(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	256.0	271.1
Add: Interest Paid	226.7	180.5	149.3	123.4	116.5
Tax Adjustment	0.0	0.0	0.0	0.0	0.0
<b>Operating Profit before Working Capital Changes</b>	<b>970.1</b>	<b>1,337.7</b>	<b>1,830.0</b>	<b>1,598.8</b>	<b>1,925.6</b>
(Inc)/Dec in Current Assets	274.3	(396.1)	(355.5)	(107.7)	(176.9)
Inc/(Dec) in Current Liabilities	(406.7)	76.3	(76.8)	556.9	247.4
Changes in Inventory	(30.0)	(70.4)	22.2	(104.4)	(115.4)
<b>Net Cash Generated From Operations</b>	<b>807.6</b>	<b>947.5</b>	<b>1,420.0</b>	<b>1,943.6</b>	<b>1,880.7</b>
<b>Cash Flow from Investing Activities</b>					
(Inc)/Dec in Fixed Assets	(122.4)	(337.9)	(1,031.3)	(1,400.0)	(1,000.0)
(Inc)/Dec in Capital Work In Progress	(36.4)	(68.0)	(774.0)	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)	50.2	(172.1)	(33.6)	(36.9)
Add: Non Operating Income	35.7	26.6	36.8	40.0	40.0
(Inc)/Dec in Intangible Assets	(2.6)	(164.7)	(26.0)	0.0	0.0
<b>Net Cash Flow from/(used in) Investing Activities</b>	<b>(135.8)</b>	<b>(493.7)</b>	<b>(1,966.6)</b>	<b>(1,393.6)</b>	<b>(996.9)</b>
<b>Cash Flow from Financing Activities</b>					
Inc/(Dec) in Total Loans	(376.7)	(279.4)	729.6	0.0	0.0
Inc/(Dec) in Reserves & Surplus	(12.5)	89.5	24.9	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)	(106.4)	(133.3)
Less: Interest Paid	(226.7)	(180.5)	(149.3)	(123.4)	(116.5)
Adjustments	(7.6)	149.7	(16.5)	0.0	0.0
Exceptional Item	0.0	0.0	0.0	0.0	0.0
<b>Net Cash Flow from Financing Activities</b>	<b>(685.2)</b>	<b>(323.9)</b>	<b>465.3</b>	<b>(229.8)</b>	<b>(249.8)</b>
<b>Net Inc/Dec in cash equivalents</b>	<b>(13.4)</b>	<b>129.8</b>	<b>(81.4)</b>	<b>320.1</b>	<b>633.9</b>
<b>Opening Balance</b>	<b>182.2</b>	<b>168.8</b>	<b>298.7</b>	<b>217.3</b>	<b>537.4</b>
<b>Closing Balance Cash and Cash Equivalents</b>	<b>168.8</b>	<b>298.7</b>	<b>217.3</b>	<b>537.4</b>	<b>1,171.3</b>



Balance Sheet					
YE March( Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Liabilities</b>					
Equity Capital	308	308	308	308	308
Reserves & Surplus	2,610	3,608	4,970	6,123	7,567
<b>Equity</b>	<b>2,918</b>	<b>3,916</b>	<b>5,278</b>	<b>6,431</b>	<b>7,875</b>
<b>Net Worth</b>	<b>2,918</b>	<b>3,916</b>	<b>5,278</b>	<b>6,431</b>	<b>7,875</b>
Minority Interest					
Others	18	39	774	774	774
<b>Total Loans</b>	<b>925</b>	<b>624</b>	<b>619</b>	<b>619</b>	<b>619</b>
<b>Capital Employed</b>	<b>3,861</b>	<b>4,580</b>	<b>6,671</b>	<b>7,824</b>	<b>9,269</b>
<b>Assets</b>					
Gross Block	7,077	7,415	8,446	9,846	10,846
Less: Depreciation	3,854	4,176	4,416	4,672	4,944
<b>Net Block</b>	<b>3,222</b>	<b>3,239</b>	<b>4,029</b>	<b>5,173</b>	<b>5,902</b>
Capital WIP	44	112	886	886	886
<b>Investments</b>	<b>214</b>	<b>164</b>	<b>336</b>	<b>369</b>	<b>406</b>
Others - A	3	168	188	188	188
<b>Current Assets</b>					
Inventories	896	966	944	1,048	1,164
Sundry Debtors	1,088	1,498	1,388	1,541	1,711
Cash and Bank Balance	169	299	217	537	1,171
Current Investments			407	407	407
Loans and Advances	150	54	35	66	74
Other Current Assets	0	83	159	83	83
<b>Total Current Assets</b>	<b>2,303</b>	<b>2,899</b>	<b>3,151</b>	<b>3,683</b>	<b>4,610</b>
<b>Less:Current Liabilities &amp; Provisions</b>					
Sundry Creditors	1,542	1,707	1,498	2,171	2,410
Provisions	86	9	8	9	9
Other Current Liabilities	298	286	419	302	311
<b>Total Current Liabilities &amp; Provisions</b>	<b>1,926</b>	<b>2,002</b>	<b>1,925</b>	<b>2,482</b>	<b>2,730</b>
<b>Capital Applied</b>	<b>3,861</b>	<b>4,580</b>	<b>6,671</b>	<b>7,824</b>	<b>9,269</b>

(Source: Company, BP Equities Research)

Key Ratios					
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Key Operating Ratios</b>					
EBITDA Margin (%)	11.9%	15.8%	23.4%	17.9%	16.6%
Tax / PBT (%)	21.3%	22.9%	36.6%	35.0%	21.0%
Net Profit Margin (%)	6.3%	9.8%	12.8%	9.9%	11.2%
RoE (%)	22.8%	29.6%	31.8%	21.5%	22.1%
RoCE (%)	26.8%	37.2%	48.4%	32.1%	27.4%
Current Ratio (x)	1.2x	1.4x	1.6x	1.5x	1.7x
Dividend Payout (%)	10.2%	10.2%	8.5%	8.5%	8.5%
Book Value Per Share (Rs.)	94.7	127.1	171.4	208.8	255.7
<b>Financial Leverage Ratios</b>					
Debt/ Equity (x)	0.3x	0.2x	0.1x	0.1x	0.1x
Interest Coverage (x)	5.0x	9.1x	17.9x	18.4x	20.1x
<b>Growth Indicators %</b>					
Growth in Gross Block (%)	1.8%	4.8%	13.9%	16.6%	10.2%
Sales Growth (%)	(19.7%)	8.9%	10.3%	11.1%	11.0%
EBITDA Growth (%)	41.2%	44.6%	63.1%	(14.8%)	3.0%
Net Profit Growth (%)	578.5%	67.6%	44.3%	(13.8%)	25.3%
Diluted EPS Growth (%)	578.5%	67.6%	44.3%	(13.8%)	25.3%
<b>Turnover Ratios</b>					
Debtors Days	42	53	44	44	44
Creditors Days	59	71	62	62	62
Inventory Days	34	34	30	30	30

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

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CIN No: U67120MH1997PTC107392