



IG PETROCHEMICALS LIMITED

Investor Presentation – May 2017

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company overview

COMPANY OVERVIEW



Flagship Company of the
Dhanuka Group

One of the world's largest &
India's largest Phthalic
Anhydride (PAN) manufacturer

Incorporated in 1988 and began
Commercial production in 1992

Scaled from 45,000 MTPA PAN
manufacturing capacity to
1,69,250 MTPA

ISO 9001:2008 for quality
management system

ISO 14001:2004 for
environment certification from
Bureau Veritas

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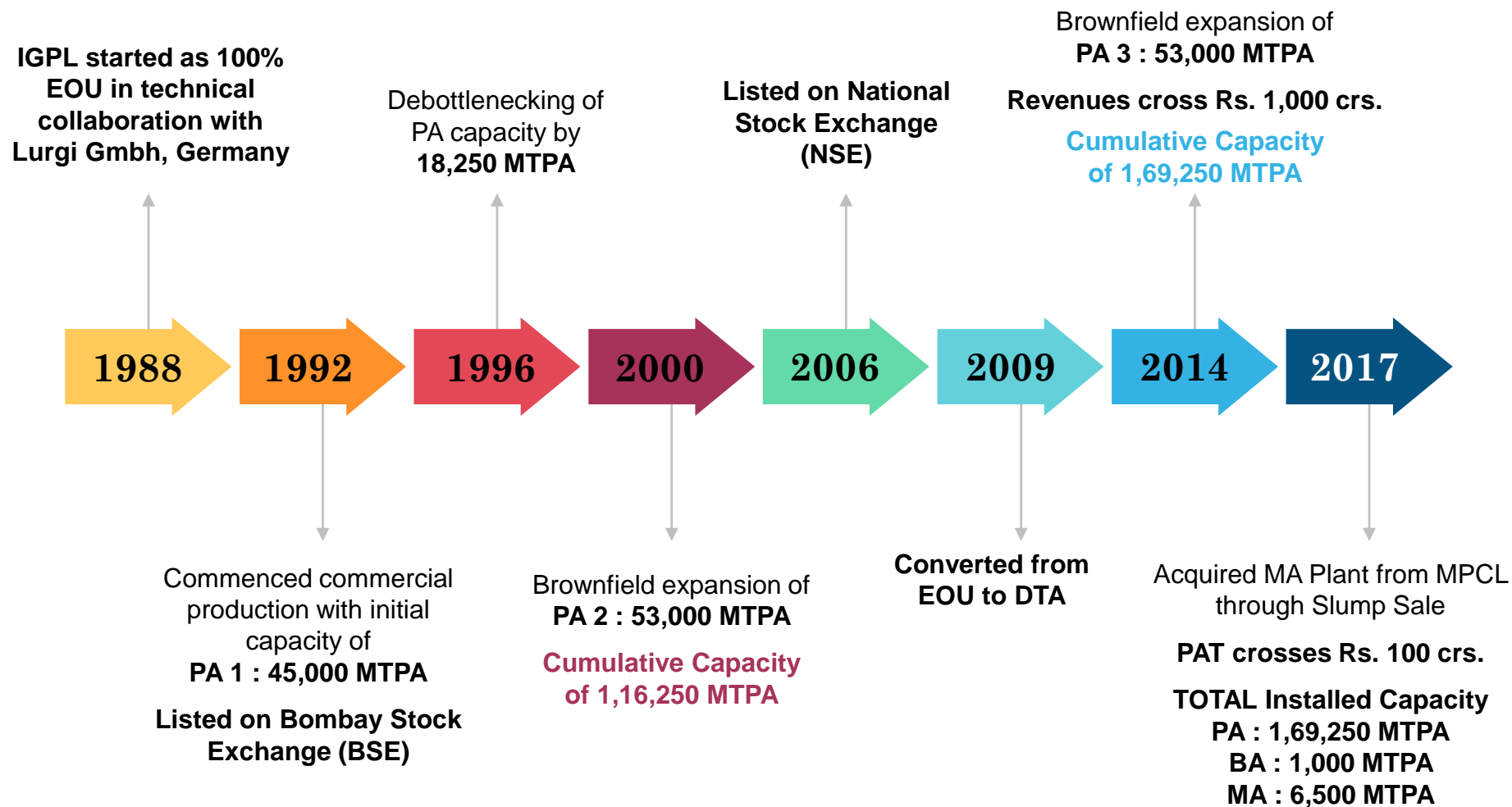
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One of the Lowest Cost
Producer of Phthalic
Anhydride in the world

Three Phthalic Anhydride
manufacturing units at
MIDC, Taloja in Raigad
district (Maharashtra, India)

CREDIT RATING (2016)
Long-Term Rating - 'IND A'
Outlook is Stable

JOURNEY SO FAR



MANAGEMENT TEAM



Mr. M M Dhanuka: Chairman

- ❑ Aged 68 years, a B.E. (Chem) and a founder member of the Company along with Late Shri Shyam Sundar Dhanuka
- ❑ Possesses over 35 years of varied experience and expertise in technical, production and marketing
- ❑ True Entrepreneur who made a turnaround in business through his far sightedness and effective decision making

Mr. Nikunj Dhanuka: Managing Director & CEO

- ❑ Aged 50 years, a Commerce and a Management Graduate. Possesses diverse experience in handling overseas business and an extensive knowledge on the functioning of Chemical Industries
- ❑ In charge of the overall affairs of the Company and specifically supervises the finance, banking and operations of the Company

Mr. J K Saboo: Executive Director

- ❑ B.Com., LL.B with over 40 years of experience
- ❑ Currently in charge of the overall activities at Taloja and is associated with the Company since 1992

Mr. R Chandrasekaran: CFO

- ❑ C.A. and CS with over 30 years of experience
- ❑ Responsible for all the financial related activities and is associated with the Company since 1999

Mr. S N Maheshwari: President (Fin. & Accs.)

- ❑ C.A with over 35 years of experience
- ❑ Currently is responsible for financial, accounts and taxation matters

Mr. G V R Reddy: President (Technical)

- ❑ M.Sc. Engg (Electrical & Instrumentation) and has around 35 years experience
- ❑ Currently he is in-charge of the Plant at Taloja

Mr. A S Pawan Kumar : Sr. Gen. Manager

- ❑ B.Tech (Mechanical) with 22 years of experience
- ❑ Currently in charge of the technical activities at Taloja

Mr. Sudhir Singh : Company Secretary

- ❑ CS with over 20 years of experience
- ❑ Responsible for all the legal, secretarial and compliance related activities



business overview

PHTHALIC ANHYDRIDE



Organic
Chemistry

01

PA is a downstream product of Orthoxylene (OX) a basic Petrochemical

PA is a versatile intermediate in organic chemistry

Intermediate

02

PA is used as an intermediate for the production of Plasticizers, Unsaturated Polyester Resins, Alkyd Resins & Polyols

Varied
Applications

03

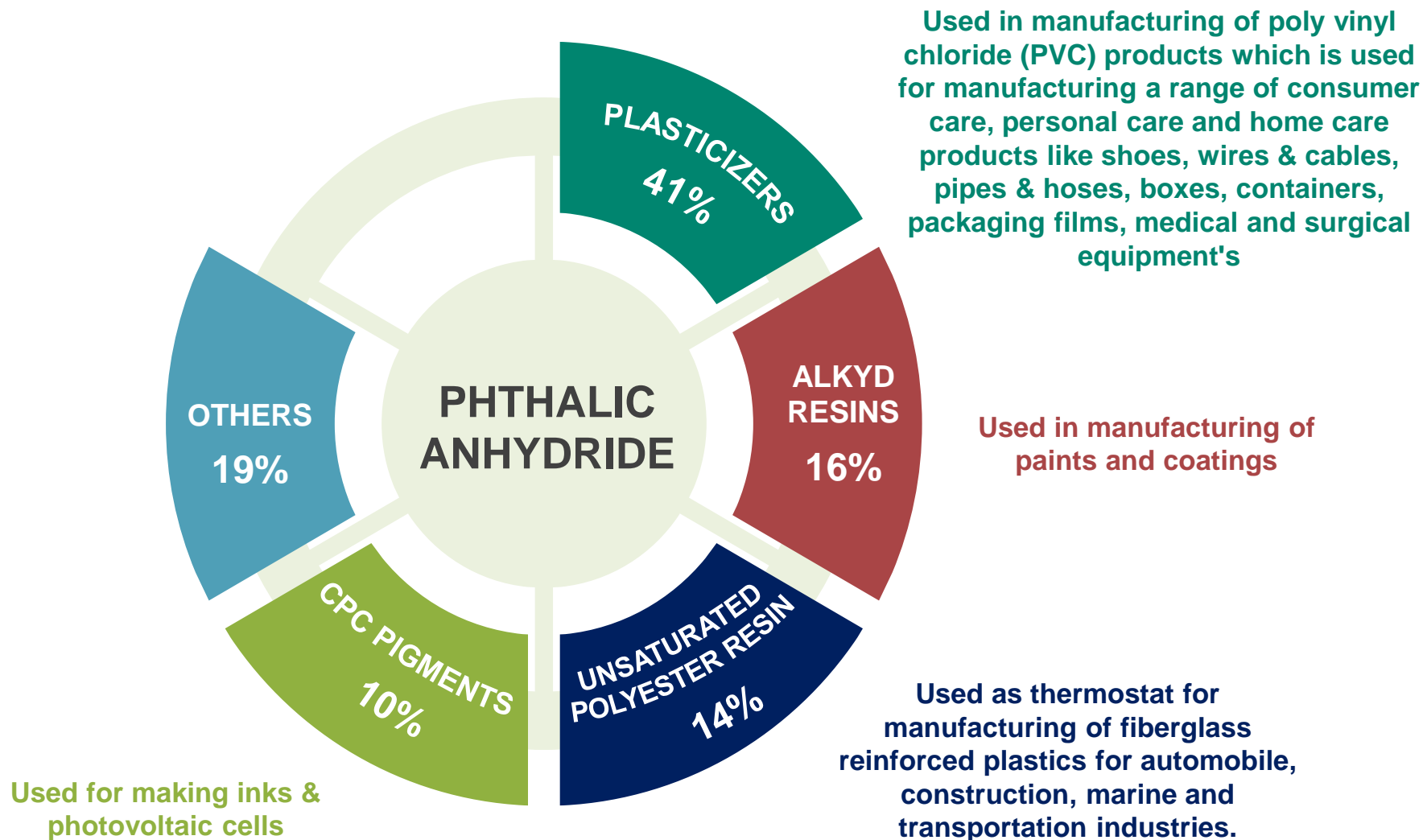
PA is used in a variety of application in both consumer durables to non consumer durables

Increase in
Usages

04

Applications for PA are increasing rapidly, driven by new Research & Innovation

END USER INDUSTRY & APPLICATION



KEY CUSTOMERS



Over Two Decades of Strong Customer Relationships with Key Customers

PLASTICIZERS



PAINTS



UPR



DEP



CPC PIGMENT



Low Client Concentration Risk

STATE OF THE ART FACILITIES



**50 kms. away from
Jawaharlal Nehru Port
Trust (JNPT), Nhava Sheva,
Mumbai, Maharashtra**

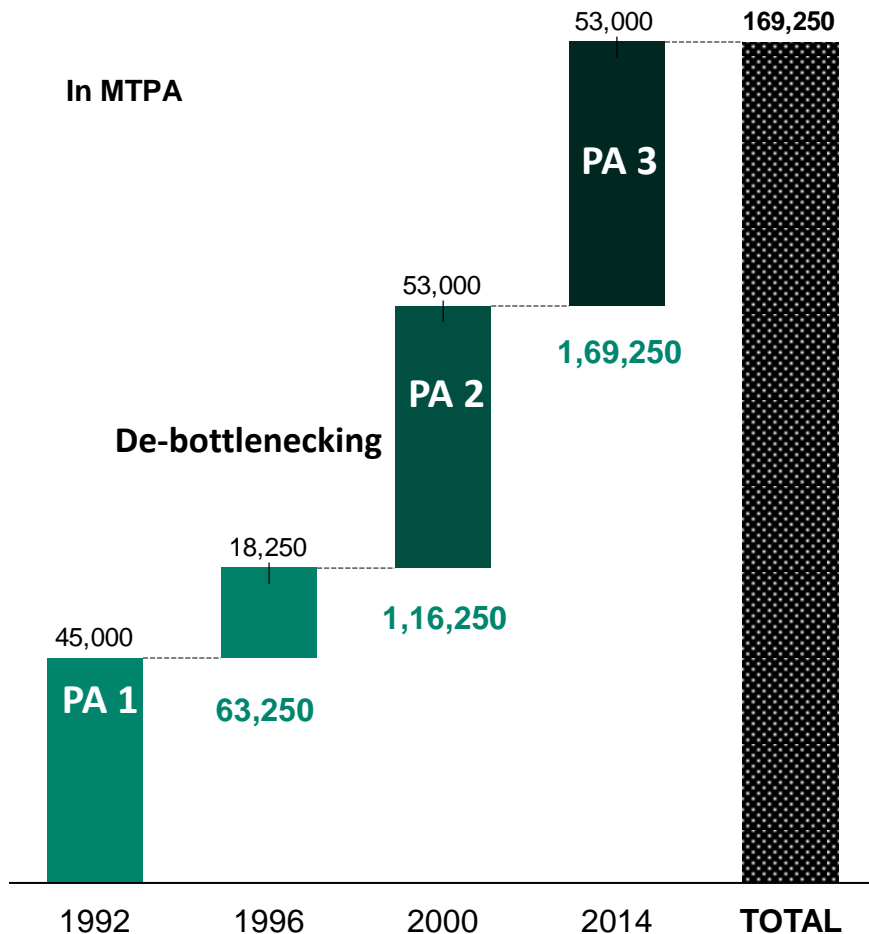
**Located at MIDC, Taloja in
Raigad District,
Maharashtra**



**3 reactors at Single
Location Plant - Proximity
to India's Chemical Hub**



SCALING UP OF CAPACITY



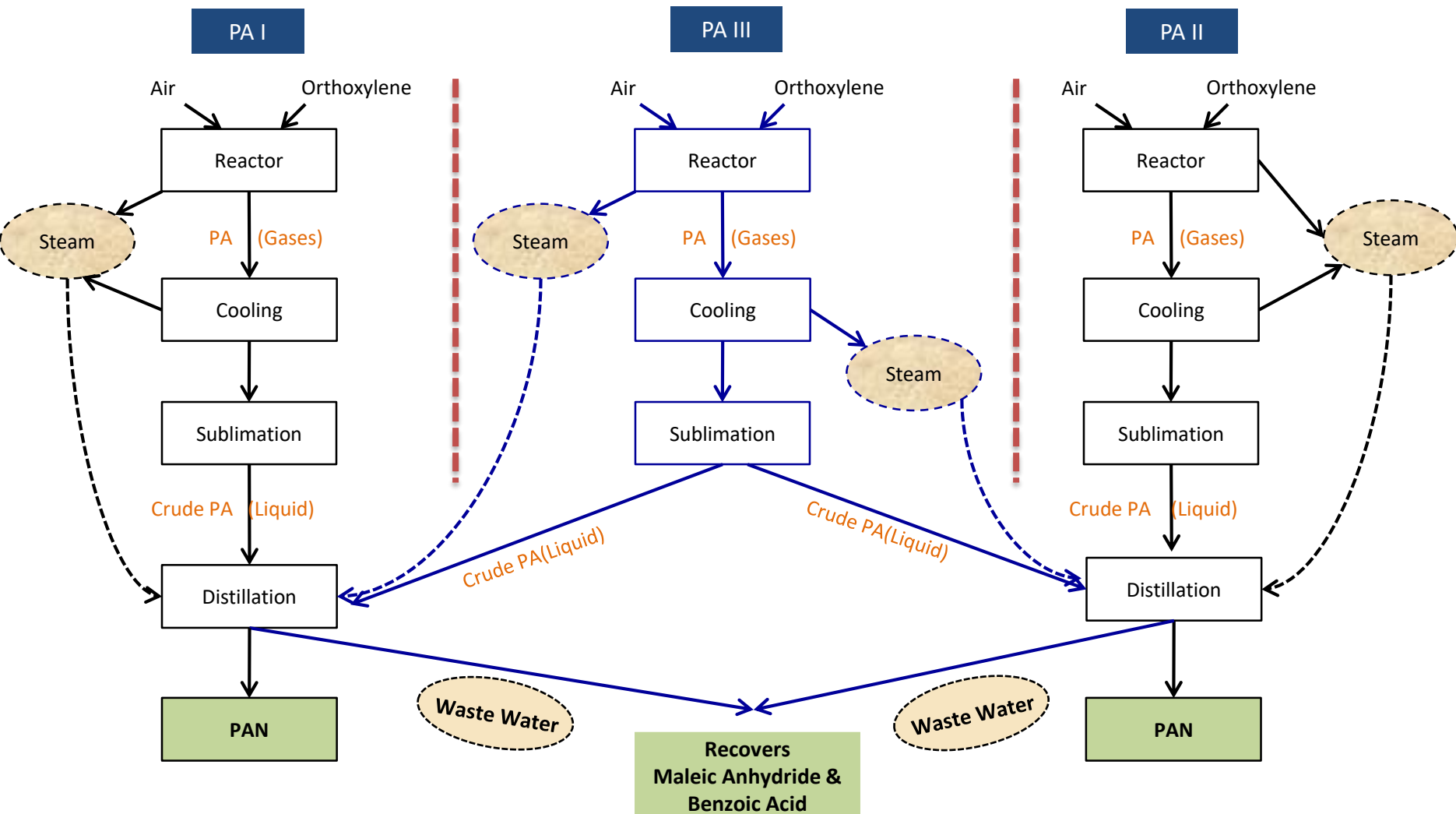
Plants are engineered with **latest internationally acclaimed technological advancement with Lurgi technology** and are designed on the low energy based processes.

Company also undertook **significant process enhancement initiatives** through investment in modern technologies

Steam generated from the production process meets the Company's entire power requirements

One of the lowest cost producers of PAN in the world

PRODUCTION PROCESS



With a thrust on green initiatives, IGPL operates a zero discharge plant

STRATEGICALLY LOCATED PLANT....



Majority of domestic sales is within Western India



Enjoys the advantage of being in close proximity to ports for exports, chemical belt in western India where majority of downstream industries are located including procurement of Orthoxylene



Inventory lead time - Amongst, the lowest in the industry

50 Kms

Radius within which JNPT and Mumbai ports are located

 **IGPL Plant at MIDC - Talaja, Maharashtra**

 **RIL – Jamnagar Plant – Supplier of Ox in India**

● **Branch Offices** ● **Depot**

 **Chemical Belt in Western India**

INDUSTRY

Indian Market Size for Maleic Anhydride (MA) is ~45,000 MTPA.

The raw material used is En-Butene (gas derivative) which is not available in India. Therefore MA is completely imported.

USER - APPLICATIONS

Spandex (Elastics)

Unsaturated Polyester Resins (UPR)

Lubricating Oil Additives

Food Industry uses

Personal Care Products

Maleic anhydride is also a precursor to compounds used for water treatment detergents, insecticides and fungicides.

MERGER

Acquisition of Maleic Anhydride (MA) Business from Mysore Petro Chemicals Limited (MPCL)

MA business is acquired by IGPL as a going concern on a Slump Sale basis

Lumpsum consideration of Rs. 74.48 crores payable over 5 years

The effective date of the acquisition was 1st April, 2017

SYNERGY BENEFITS

MPCL is the only manufacturer of MA in India

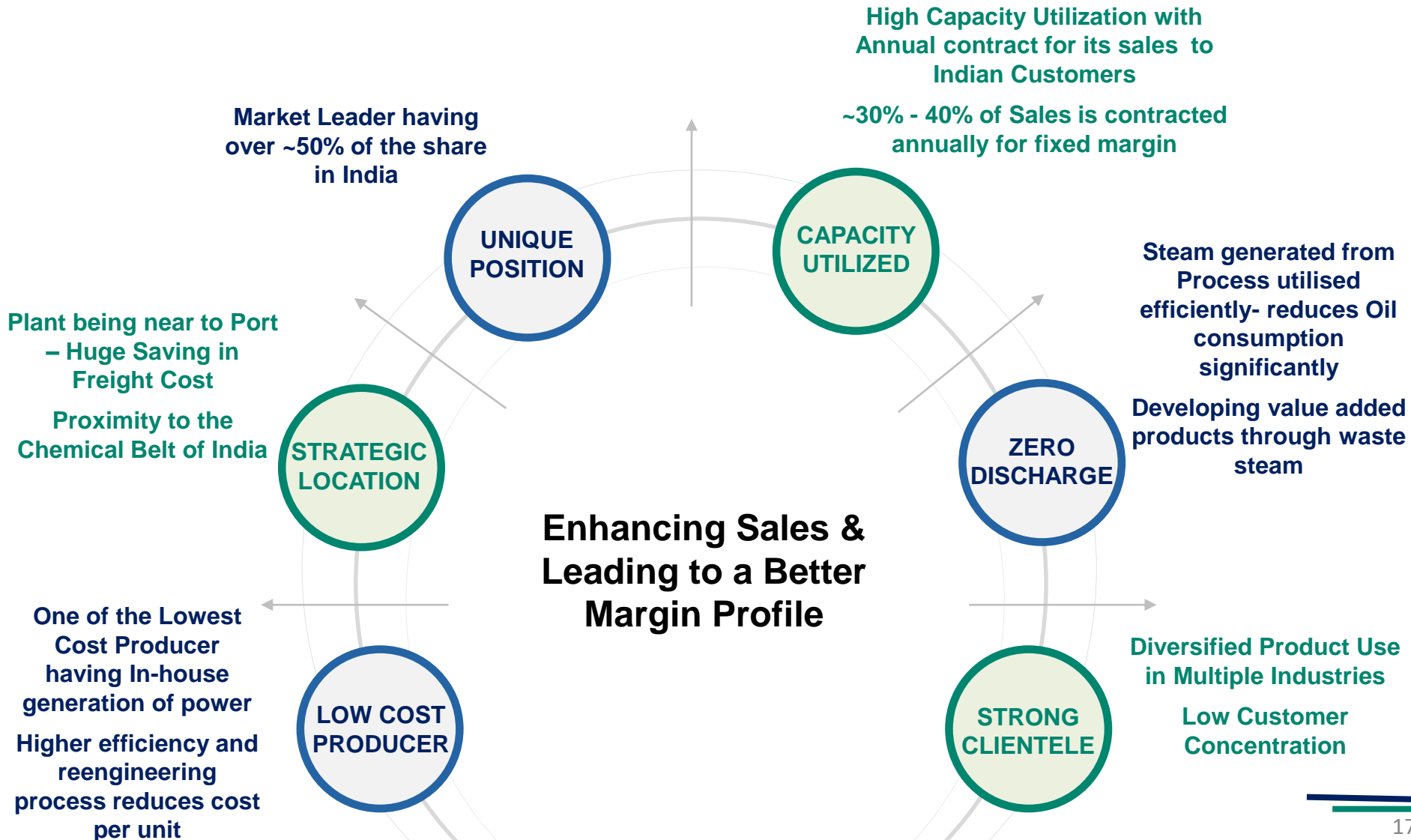
IGPL is the only source of raw material i.e. wash water for MPCL

Both Plants of IGPL and MPCL are at common location in Taloja



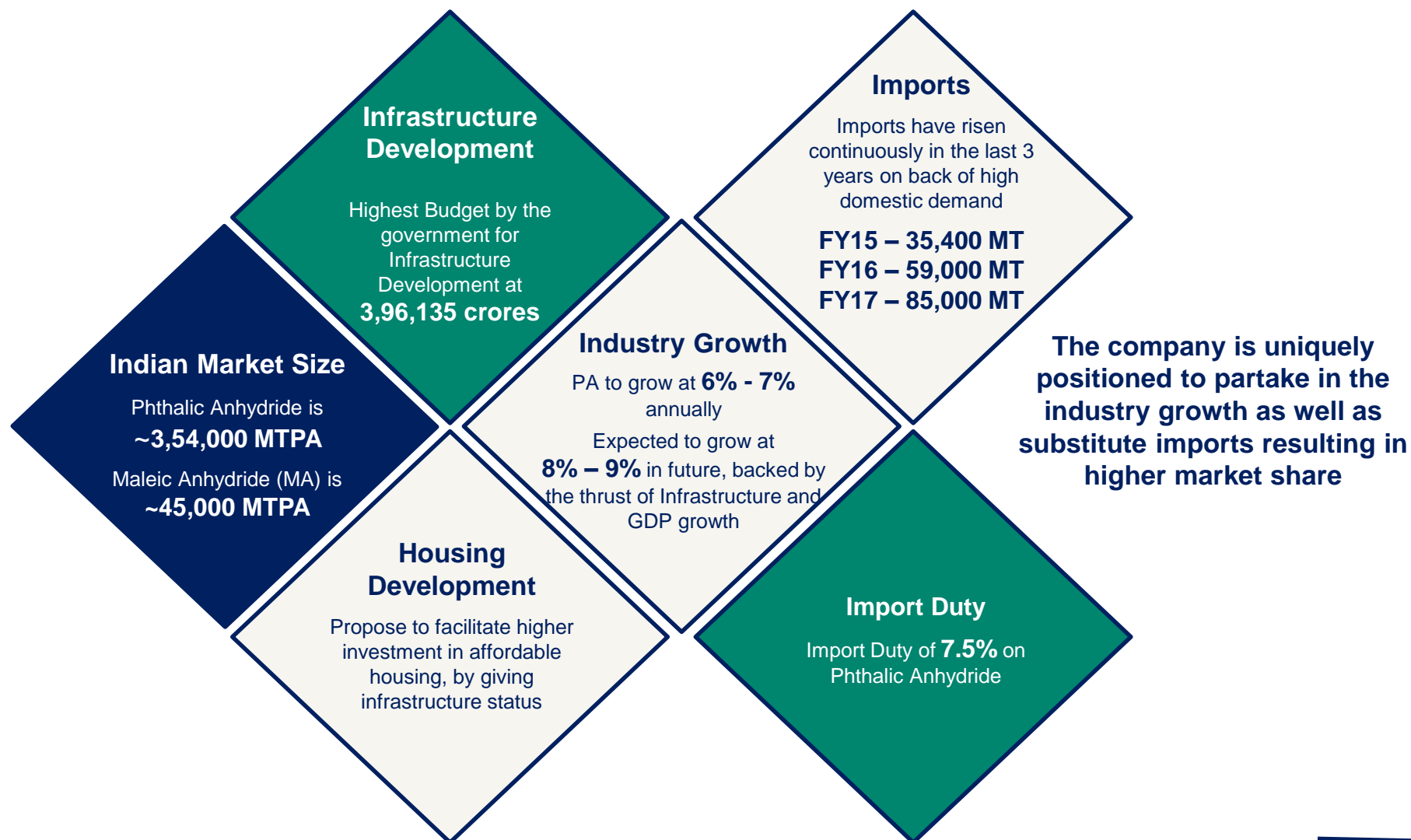
key strengths and strategies

KEY COMPETITIVE STRENGTHS

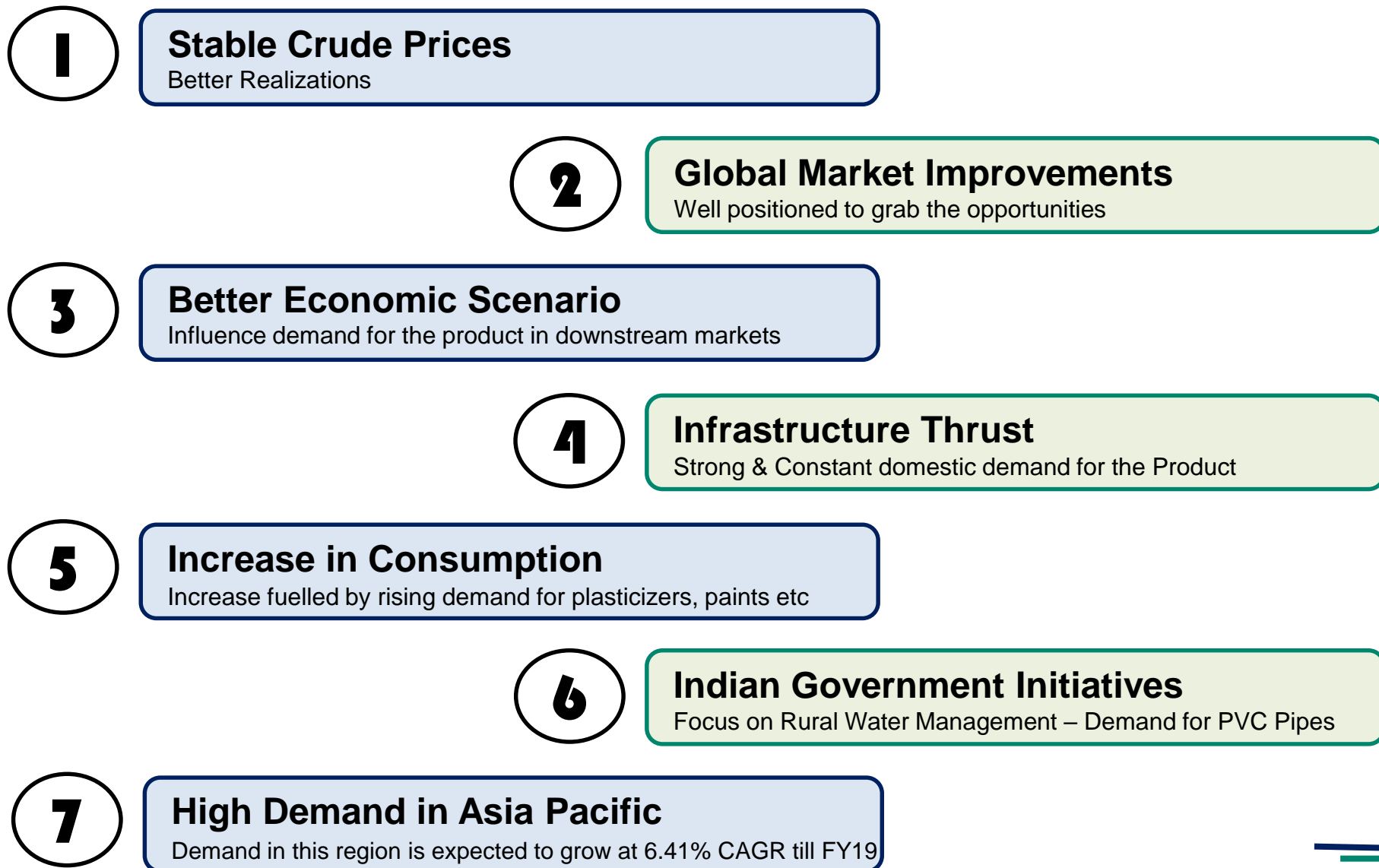




industry overview



Consumption Pull for Phthalic Anhydride



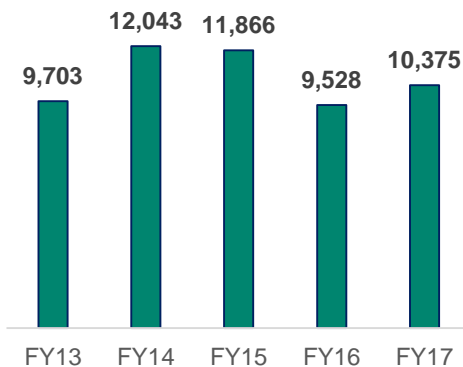


financial overview

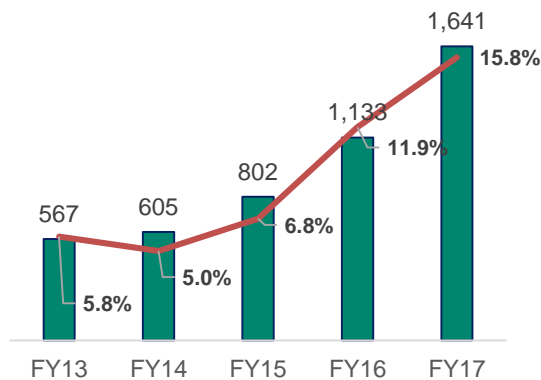
FINANCIAL HIGHLIGHTS



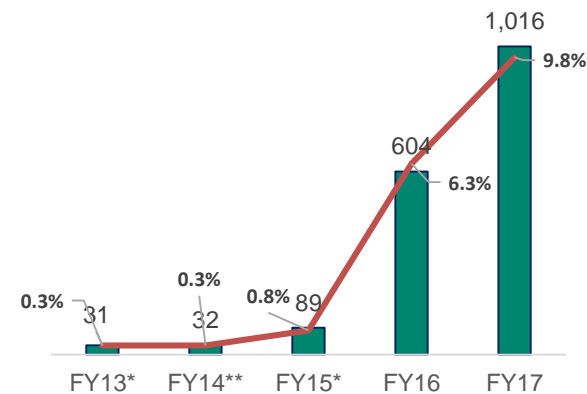
Revenue (Rs. Mn)#



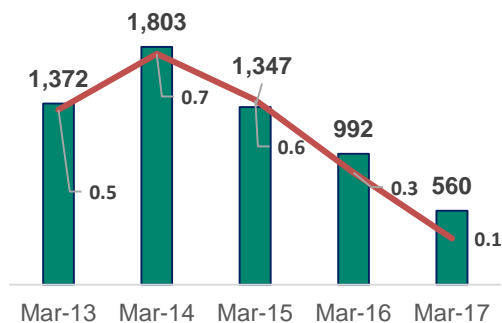
EBITDA (Rs. Mn) and Margin %



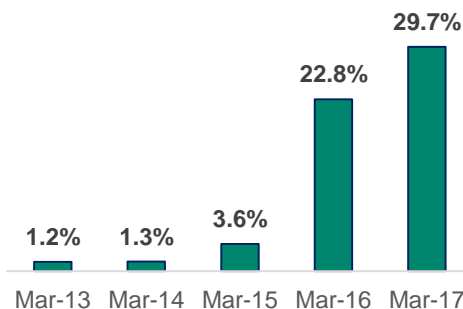
PAT (Rs. Mn) and Margin %



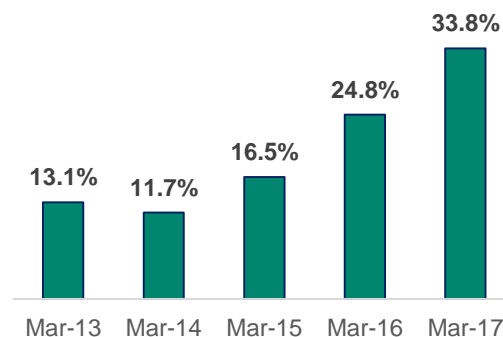
Net Debt (Rs. Million) & Net Debt / Equity



ROE %



ROCE %



Linked to Crude

* Includes Extraordinary Loss of Rs. 276 Mn. in FY13 and Rs. 211 Mn. in FY15 ** Includes Exceptional Expense of Rs. 179 Million

ROE & ROCE have been calculated on the basis of average equity and average capital employed respectively.

BALANCE SHEET



Particulars (Rs. Mn)*	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17
Share Capital	308	308	308	308	308
Total Reserves	2,272	2,265	2,080	2,610	3,625
Shareholder's Funds	2,580	2,573	2,388	2,918	3,933
Long-Term Borrowings	1,231	1,408	1,078	922	600
Deferred Tax Liabilities	-	-	-	-	386
Long Term Provisions	17	21	16	18	20
Total Non-Current Liabilities	1,248	1,429	1,094	940	1,006
Short Term Borrowings	359	439	226	3	24
Trade Payables	1,839	2,862	1,963	1,542	1,710
Other Current Liabilities	198	339	319	298	283
Short Term Provisions	0	0	51	86	16
Total Current Liabilities	2,396	3,640	2,559	1,929	2,034
Total Liabilities	6,223	7,643	6,041	5,787	6,973
ASSETS					
Fixed Assets	3,433	3,769	3,276	3,266	3,283
Non Current Investments	1	1	1	3	185
Long Term Loans & Advances	47	19	204	214	516
Total Non-Current Assets	3,481	3,789	3,480	3,484	3,984
Inventories	822	1,415	866	896	1,045
Trade Receivables	1,243	1,743	1,452	1,088	1,498
Cash and Bank	346	285	182	169	301
Short Term Loans and Advances	331	411	61	150	146
Total Current Assets	2,742	3,854	2,560	2,303	2,990
Total Assets	6,223	7,643	6,041	5,787	6,973

* Standalone

PROFIT & LOSS STATEMENT



Particulars (Rs. Mn)*	FY13	FY14	FY15	FY16	FY17
Total Revenue	9,703	12,043	11,866	9,528	10,375
Raw Material Consumed	8,237	10,484	10,012	7,341	7,512
Employee Cost	244	251	285	298	397
Other Expenses	655	703	767	756	825
EBITDA	567	605	802	1,133	1,641
EBITDA Margin (%)	5.8%	5.0%	6.8%	11.9%	15.8%
Other Income	53	97	67	36	28
Depreciation	138	180	164	175	172
EBIT	482	522	705	993	1,497
EBIT Margin (%)	5.0%	4.3%	5.9%	10.4%	14.4%
Interest	167	304	381	227	180
Profit Before Taxation & Exceptional and Extraordinary Items	315	219	324	766	1,317
Exceptional Income / Expenses	-	-179	-	-	-
Profit Before Taxation & Extraordinary Items	315	40	324	766	1,317
Extraordinary item	276	-	211	-	-
Profit Before Tax	39	40	113	766	1,317
Provision for Tax	8	8	24	163	301
Profit After Tax	31	32	89	604	1,016
PAT Margin (%)	0.3%	0.3%	0.8%	6.3%	9.8%
EPS (Before extraordinary item)	1.00	1.02	9.74	19.60	32.98

* Standalone

PROFIT & LOSS STATEMENT – Q4 FY17

Particulars (Rs. Mn)*	Q4 FY17	Q4 FY16	Y-o-Y	Q3 FY17	Q-o-Q	FY17	FY16	Y-o-Y
Net Sales	2,876	2,134		2,364		10,316	9,476	
Other Operating Income	16	10		13		58	52	
Revenue from Operations	2,893	2,144	35%	2,377	22%	10,375	9,528	9%
Total Raw Material	2,079	1,664		1,727		7,512	7,341	
Employee Expenses	140	77		65		397	298	
Other Expenses	217	171		210		825	756	
EBITDA	456	233	96%	376	21%	1,641	1,134	45%
EBITDA Margin (%)	15.8%	10.9%		15.8%		15.8%	11.9%	
Other Income	6	17		7		28	36	
Depreciation	41	46		44		172	175	
EBIT	421	203	107%	339	24%	1,497	994	51%
EBIT Margin (%)	14.5%	9.5%		14.2%		14.4%	10.4%	
Finance Cost	40	51		43		180	227	
Profit before Tax	381	152	151%	295	29%	1,317	767	72%
Tax	100	32		64		301	164	
Profit After Tax	281	120	134%	232	21%	1,016	604	68%
PAT Margin (%)	9.7%	5.6%		9.7%		9.8%	6.3%	
EPS	9.11	3.89		7.52		32.98	19.60	

For further information, please contact

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I.G. Petrochemicals

Sharp turnaround in fortunes



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Rating	BUY
Price	Rs513
Target Price	Rs709
Implied Upside	38.2%
Sensex	32,186
Nifty	10,079

(Prices as on September 13, 2017)

Trading data

Market Cap. (Rs m)	15,799.4
Shares o/s (m)	30.8
3M Avg. Daily value (Rs m)	53.4

Major shareholders

Promoters	72.22%
Foreign	0.10%
Domestic Inst.	0.15%
Public & Other	27.53%

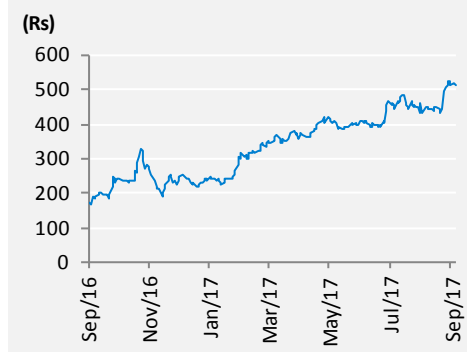
Stock Performance

(%)	1M	6M	12M
Absolute	19.7	48.4	206.3
Relative	16.6	37.2	192.8

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	47.9	43.2	10.9
2019	53.3	51.7	3.3

Price Performance (RIC: IGPT.BO, BB: IGPL IN)



Source: Bloomberg

■ **Structural play:** IGPL is world's third largest Phthalic Anhydride (PAN) player with a capacity of 169,110MT. PAN is a versatile industrial chemical with diversified usage across plastics, paints, autos, pigments etc. Healthy downstream demand, along with muted capacity addition globally, has put IGPL in a sweet spot. Closure of Asian Paints' 29,796MT plant capacity, benign raw material prices and tight D-S has pushed PAN gross margins to Rs25/kg in Q1FY18, double of last decade average. Structural tailwind of demand-supply mismatch is likely to sustain in the medium term; we have factored in FY18-20E gross margins of ~Rs20/kg.

■ **Capacity addition to address domestic opportunity:** India is one of the fastest growing PAN markets. With demand growing at around 8% and with limited capacity addition, imports are set to increase to 150,000MT in FY19E against ~39,000MT in FY12. To capitalise on increased demand opportunities, IGPL has lined up aggressive growth plans; IGPL plans to increase PAN capacity by 50,000MT at a capex of Rs3bn which will come on stream by Q1FY20. They also plan to add ~6,000MT PAN capacity by debottlenecking in FY18 and have already added 6,000MT of Maleic Anhydride (MA) post acquisition of Mysore Petrochemicals for Rs750mn. IGPL also plans to set up value-added downstream plasticiser capacity of 40,000MT at a capex of Rs1bn to be commissioned in FY19E.

■ **Multiple growth drivers:** IGPL, with its market leading capacity, is well placed to capitalise on growth opportunities. Supported by healthy margin trend and increased capacities, we expect 26% earnings CAGR over FY17-20E. Well-capitalised balance sheet and healthy ROEs of ~26% are other positives. We initiate coverage with a 'BUY' and PT of Rs709 based on 8x EV/E FY20E which translates to 13.3/10.8x P/E FY19/20E.

Key financials (Y/e March)	2016	2017	2018E	2019E
Revenues (Rs m)	9,528	10,375	11,671	12,063
Growth (%)	(19.8)	8.9	12.5	3.4
EBITDA (Rs m)	1,134	1,641	2,296	2,392
PAT (Rs m)	604	1,016	1,476	1,643
EPS (Rs)	19.6	33.0	47.9	53.3
Growth (%)	578.6	68.3	45.3	11.3
Net DPS (Rs)	—	—	—	—

Profitability & Valuation	2016	2017	2018E	2019E
EBITDA margin (%)	11.9	15.8	19.7	19.8
RoE (%)	22.8	29.7	31.6	26.4
RoCE (%)	20.0	26.9	25.8	20.6
EV / sales (x)	1.7	1.6	1.3	1.2
EV / EBITDA (x)	14.6	9.8	6.7	5.9
PE (x)	26.2	15.5	10.7	9.6
P / BV (x)	5.4	4.0	2.9	2.2
Net dividend yield (%)	—	—	—	—

Source: Company Data; PL Research

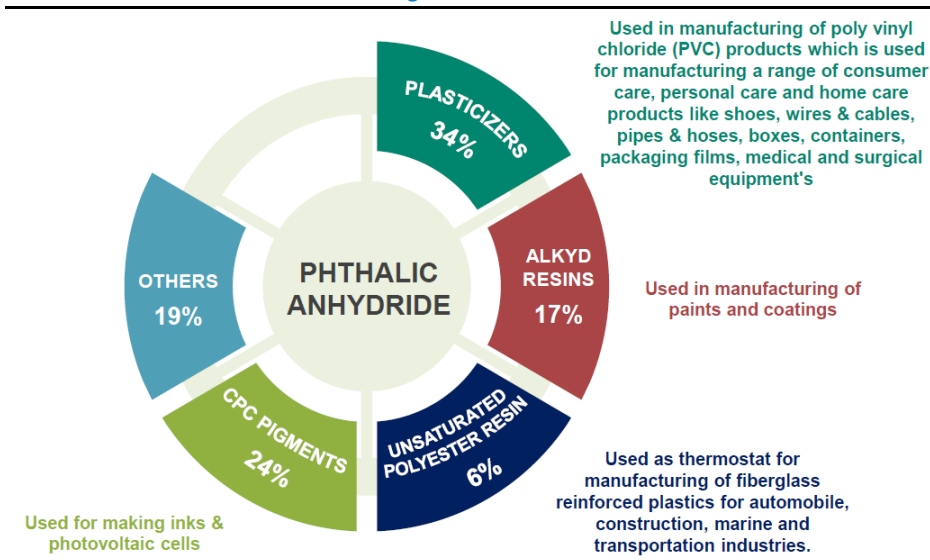
Investment Arguments

Structural factors in play

PAN is a versatile intermediate in organic chemistry and is used for the production of Plasticisers, Paints, Plastic pipes and products, etc. Plasticisers account for bulk of PAN demand as they are used in production of polyvinyl chloride (PVC). Rising private and government spending in infrastructure has pushed up demand for PVC, which in turn, has spurred PAN demand.

Asia Pacific has been leading the global plasticizers market because of private and government spending on social and industrial infrastructure. North America and Europe, on the other hand, are likely to witness a sluggish progress in the next few years, as both the markets are near maturation.

Exhibit 1: PA has a well-diversified usage



Source: Company Data, PL Research

Global PAN consumption stands at ~5mn tons with Asia Pacific consumption accounting for over 60% of the world consumption. The domestic PAN market stands at 0.35mn MT and is catered by IGPL (0.17mn tons) and *Thirumalai Chemicals* (0.14mn tons), while the balance is met by imports. Imports have been on the rise and are expected to rise to ~0.15mn MT by FY19E on the back of limited capacity addition by domestic players along with strong demand trend.

Exhibit 2: Domestic PAN capacity by players

(MT)	FY11	FY12	FY13	FY14	FY15	FY16	FY17
IGPL	116,110	116,110	116,110	166,110	166,110	166,110	169,250
Thirumalai chemicals	140,000	140,000	140,000	140,000	140,000	140,000	140,000
Asian Paints	29,796	29,796	29,796	29,796	29,796	29,796	29,796
Mysore petrochemicals	12,000	12,000	12,000				
SI Group	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Total	307,906	307,906	307,906	345,906	345,906	345,906	349,046

Source: Crisil, Company Data

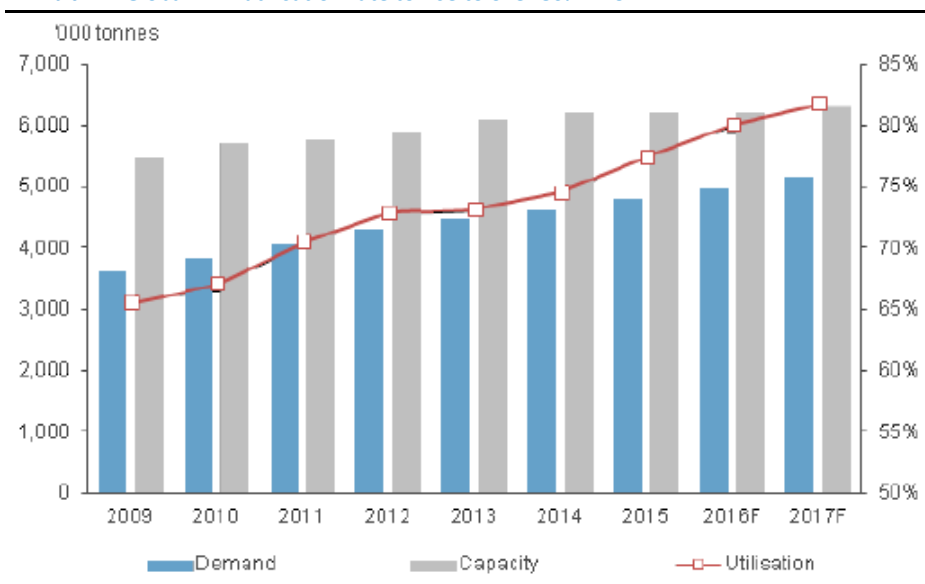
Exhibit 3: India PAN demand-supply dynamics

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
India Production (Tonnes)	298,000	298,000	298,000	309,000	309,000	362,000	349,000	349,000	349,000	335,000	335,000	385,000
Implied India demand	202,721	240,517	295,761	263,901	285,509	295,752	305,716	345,355	369,530	395,397	423,075	452,690
Exports (MT)	41,744	19,581	18,480	24,993	12,812	23,182	38,634	40,448	40,448	40,448	40,448	40,448
Imports (MT)	37,465	28,098	61,241	38,894	44,321	54,934	52,350	79,803	103,978	122,845	150,523	108,138

Source: Ministry of Commerce, PL Research

Tight demand-supply has pushed margins

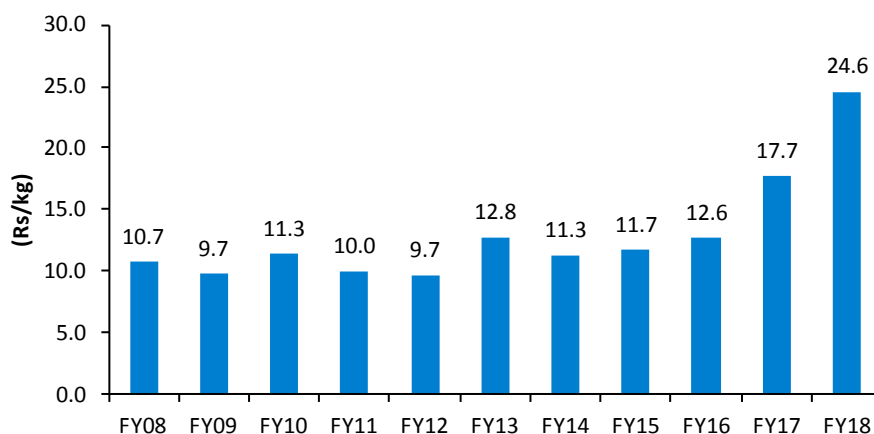
PAN, with its diversified usage, has seen limited global capacity addition due to capital-intensive nature of the business. Even as capacity addition remains muted, healthy demand trend from downstream industries indicates that global PAN utilisation rates are to rise to over 80% in CY17E. (**Source: CRISIL**).

Exhibit 4: Global PAN utilisation rate to rise to over 80% in CY17


Source: Company Data, Crisil

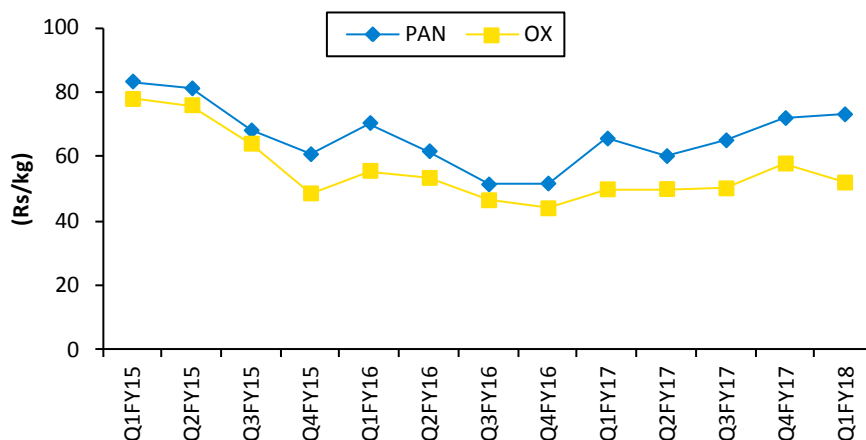
Increased capacity utilisation rate has also pushed PAN gross margins to Rs25/kg, which is double of last decades' average. PAN gross margins have also been supported by benign prices of Orthoxylene (OX). OX prices are likely to remain benign led by new capacity addition of 125KTPA in China, Taiwan and Singapore, thus, increasing global capacity by 4%. Supported by healthy demand along with benign OX prices, PAN spreads are likely to remain firm in the medium term.

Exhibit 5: PAN gross margins have been on an upswing



Source: Company Data, PL Research

Exhibit 6: OX prices have corrected due to new supplies



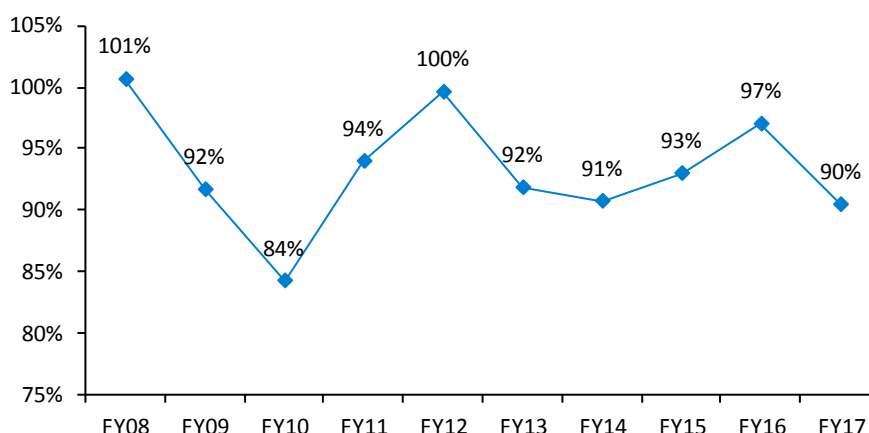
Source: Company Data, PL Research

In a sweet spot

IGPL has gradually ramped-up its capacity to be the third largest PAN player globally. IGPL has a huge operating leverage as it has three plants at Taloja, Maharashtra. Also, the company sources bulk of its raw material, OX, from RIL's Jamnagar refinery. That, coupled with easy access to user industries, ensures low working capital cycle of ~45 days. Besides, IGPL's cost operation is also supported by self-sufficiency in steam/power which has reduced use of expensive furnace oil for operation. The company has also developed deep relationship with key customers like *Berger Paints*, *Aarti Industries* and *AkzoNobel* over the years which ensure steady demand off take.

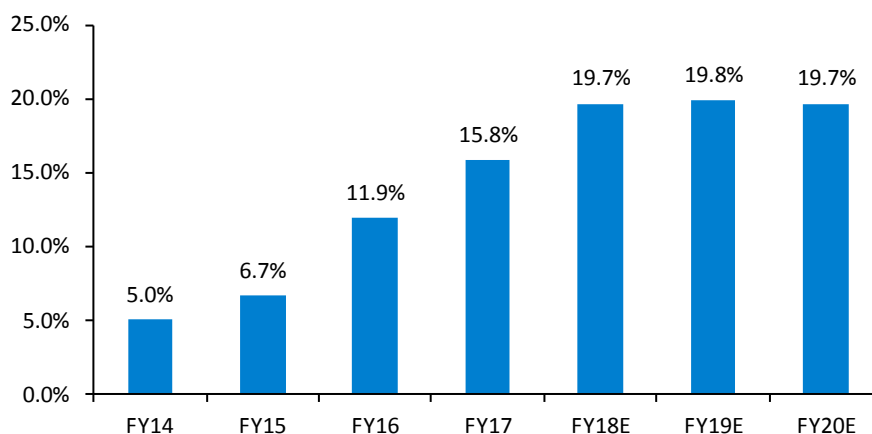
To optimise on strong demand trend, IGPL has operated its plant at around 90%. However, operating margins for the company has fluctuated, given volatile raw material prices and high imports in the absence of duty protection.

Exhibit 7: IGPL's PAN capacity utilisation rate has been over 90% in last decade

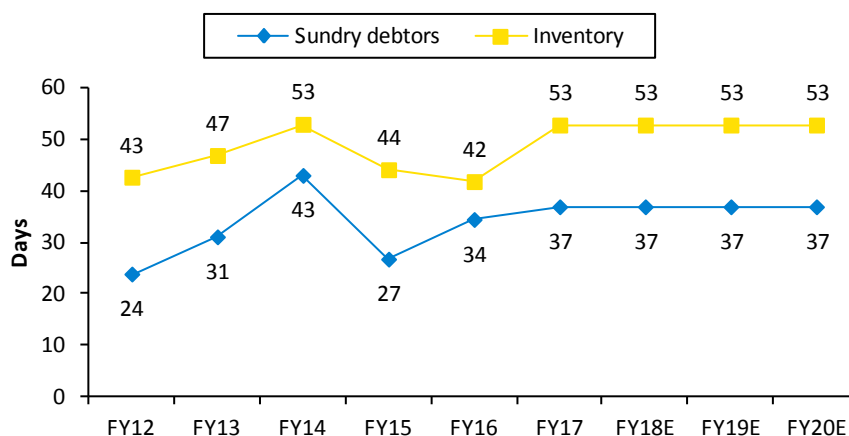


Source: Company Data, PL Research

Margin profile, however, has steadily improved to 23.5% for Q1FY18 from 5.2% in FY15 led by stable raw material prices, cost optimisation from expansion and high-end user prices, given strong demand trends. Supported by demand traction and stable raw material prices, margins are expected to sustain at ~20% for FY18-20E.

Exhibit 8: IGPL's OPMs have been on an upward trajectory


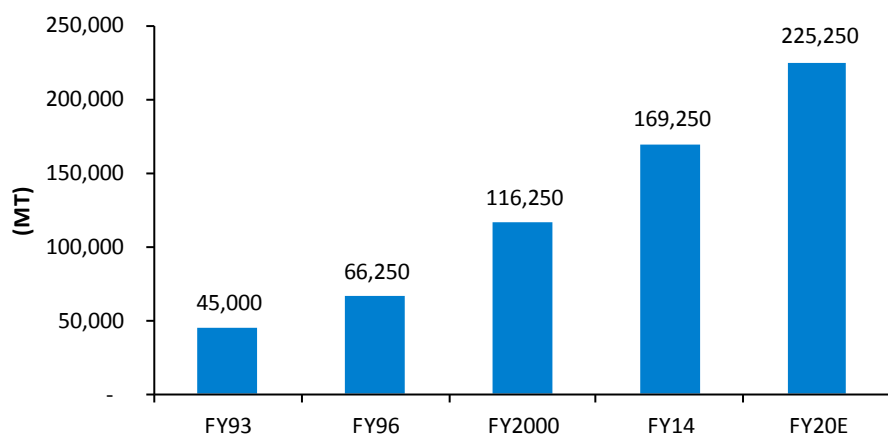
Source: Company Data, PL Research

Exhibit 9: IGPL has a low working capital cycle


Source: Company Data, PL Research

High value capacity addition on cards

IGPL has steadily ramped-up its PAN volumes in stages to optimise on cost, given limited scope of innovation in this space. With plants operating at near-full capacity, to meet rising demand, IGPL is adding 6,000tons by way of de-bottlenecking in FY18. Further, they plan to invest an additional Rs3bn to increase capacity by 50,000 tons which is likely to come on-stream by Q1FY20 and could generate revenues of ~Rs4bn. We believe capacity addition will further tighten the hold of IGPL on fast-growing PAN market and create more margin levers.

Exhibit 10: IGPL has steadily ramped-up volumes


Source: Company Data, PL Research

Forward integration to add value

IGPL has recently acquired the Maleic Anhydride (MAN) business of Mysore Petrochemicals (MPCL) for Rs744.8mn to be paid equally over the next five years. MAN is used in manufacture of resins, paints, food items and personal care products. The domestic MAN market stands at Rs4bn and has registered 5% CAGR. Domestic consumption has increased from ~36000 MTPA in FY09 to ~51000 MTPA by end of FY16.

MAN is used for manufacturing *Spandex* which has wide usage including swimwear, sportswear, lingerie etc. Spandex consumption in India is set to rise with changing lifestyle and demand for western fashion clothes. Despite rising demand, domestic MAN production is hit because of unavailability of n-butane. Bulk of domestic MAN requirement is met through imports.

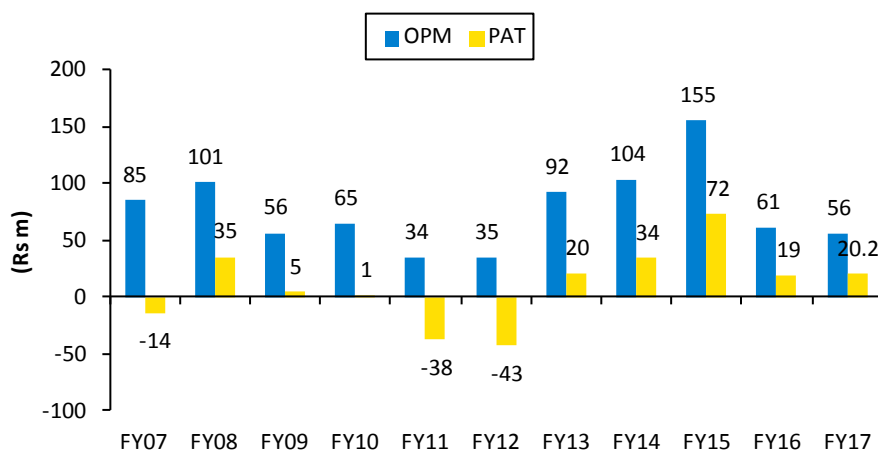
Exhibit 11: Domestic MAN requirement is met through imports

Maleic Anhydride - Qty ('000 MT)	FY11	FY12	FY13	FY14	FY15	FY16
Installed Capacity	23	23	23	5	6	6
Production	3	3	2	3	3	4
Capacity Utilisation (%)	12	11	11	54	50	55
Consumption	41	37	39	40	42	51
Deficit/Surplus In Domestic Production	38	-35	-37	37	38	47
Imports as % of Total Consumption (%)	93	93	94	93	92	93

Source: Company Data, PL Research

IGPL's acquisition of *Mysore petrochemicals* will help the company add more value-added products. Also, there is high operating leverage from this acquisition, given that raw material wash water is supplied by IGPL.

Exhibit 12: Mysore petrochemicals financials



Source: Company Data, PL Research

Uneasy past but prospects have improved

Global PAN market had been in a surplus scenario since last one decade and this had resulted in depressed prices. Inverted duty structure too did not help the industry as basic custom duty on OX, the key raw material to manufacture PAN, was 2.5%, while the basic custom duty on PAN was low at 7.5%.

The duty was negligible for few countries such as Korea, Japan, Indonesia and Thailand, with which India has free trade agreements. This resulted in low-to-negative conversion margins of OX to PAN for the domestic players. However, in the current budget, the government reduced the basic custom duty on OX from 2.5% to 0% from FY18 to make the domestic manufacturers competitive.

Exhibit 13: PAN duty structure has been rectified recently

PAN duty structure	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Customs	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Excise	10.0	12.0	12.0	12.0	12.5	12.5	12.5
OX duty structure							
Customs	5.0	5.0	5.0	2.5	2.5	2.5	0.0
Excise	10.0	12.0	12.0	12.0	12.5	12.5	12.5

Source: Company Data, PL Research

Exhibit 14: Anti-dumping duty range

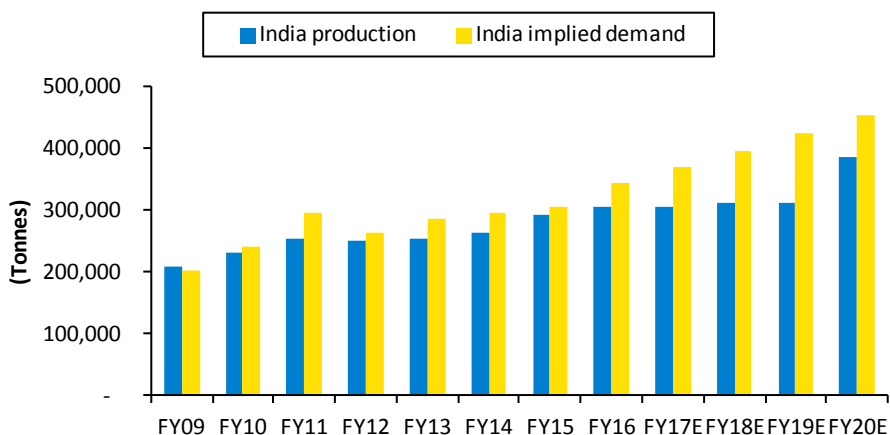
Country	Duty range (\$/ton)	Validity
Korea-RP	91.12	Dec 2017
Taiwan	63-150.88	Dec 2017
Israel	17.99-139.76	Dec 2017
Japan	126.17	Dec 2020
Russia	106.3-159.43	Dec 2020

Source: Company Data, PL Research

Imports rise to make up for higher demand

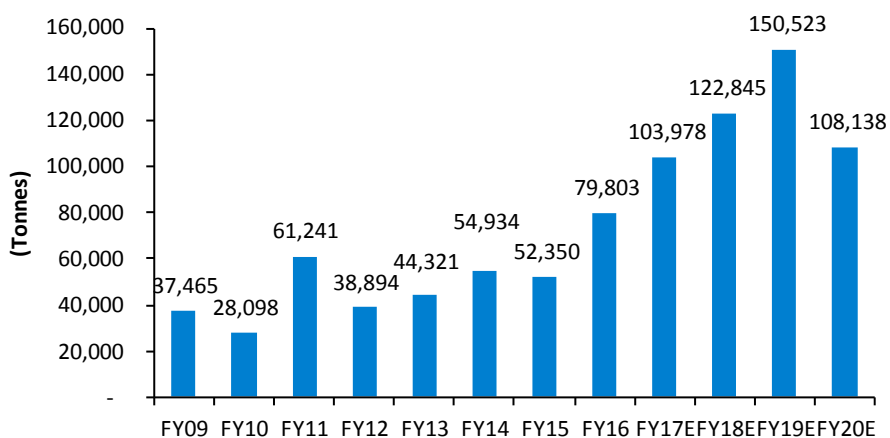
Indian PAN imports have been on a rise led by steady demand improvement and limited capacity addition. With a steady demand growth of ~7%, domestic PAN consumption is expected to rise to 0.45mn MT by FY20E. This is against domestic capacity of 0.38mn MT post capacity expansion of 50,000MT by IGPL. To meet increased demand, Indian imports are likely to rise to ~108,000 tons in FY20E against only ~39,000 tons in FY12.

Exhibit 15: Domestic PA demand to surge sharply



Source: Company Data, PL Research

Exhibit 16: Indian PA imports have been on a rise

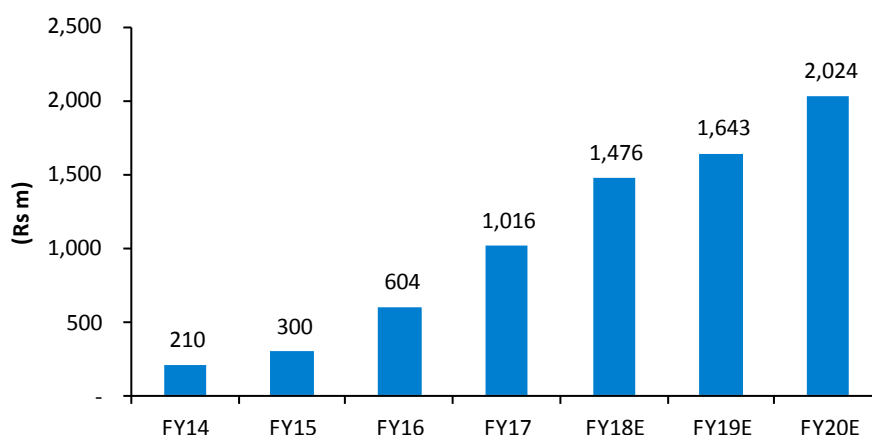


Source: Company Data, PL Research

Profits on an upswing

Supported by healthy demand trend and cost optimisation, IGPL's earnings were at Rs1.01bn for FY17 against Rs600mn for FY16. Supported by healthy operating leverage, along with new capacities coming on stream, we expect IGPL's earnings to increase 26% over FY17-20E.

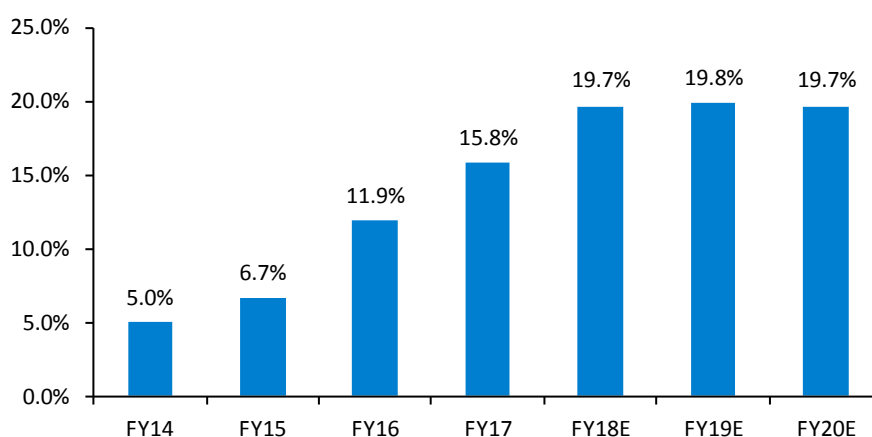
Exhibit 17: IGPL's earnings set for a steep jump



Source: Company Data, PL Research

Operating profit margins are expected to improve, given structural tailwind. Buoyed by margin improvement, operating profit margins have improved to 23.5% in Q1FY18 against 15.8% in FY17 and 5% in FY14. With spreads likely to sustain in the medium term, we have factored in OPM of ~20% for FY18/19E.

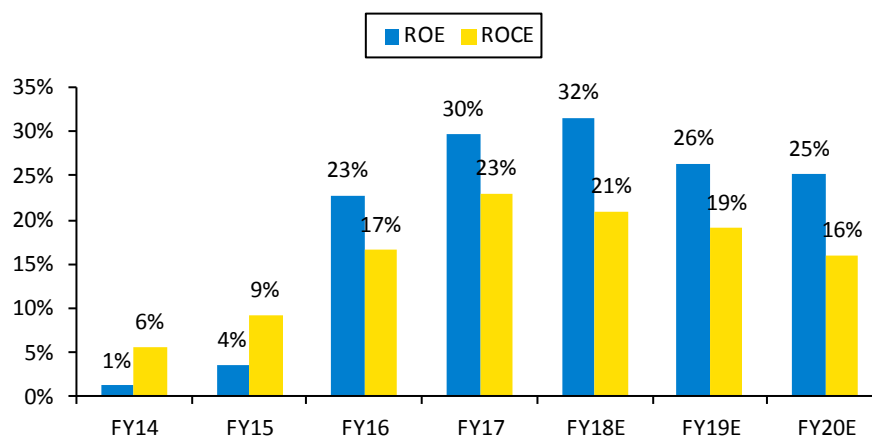
Exhibit 18: Operating margins set to improve sharply



Source: Company Data, PL Research

IGPL's return ratios are likely to stay healthy supported by improved operating performance and lower finance charges. We estimate the company to generate ROEs of ~25-30% over FY18-20E against 23% in FY17.

Exhibit 19: IGPL's return ratios are likely to stay healthy

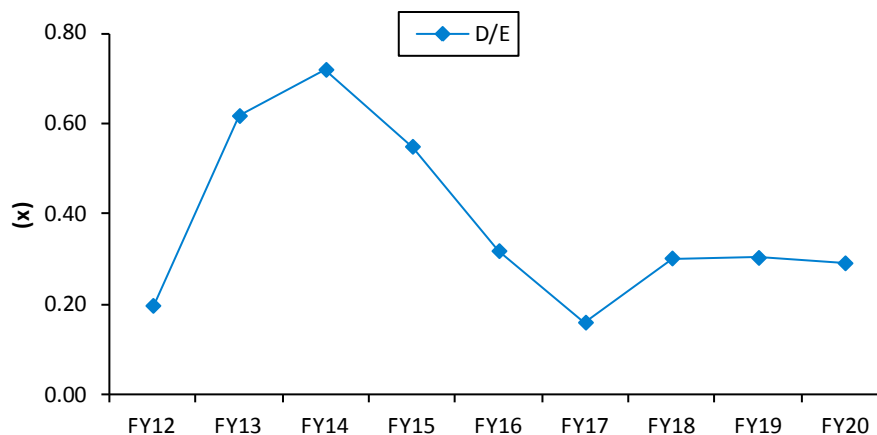


Source: Company Data, PL Research

Low gearing adds to positives

IGPL has a low D/E of 0.16x for FY17 and the gearing is likely to remain comfortable, given healthy cash-flows from operation. We estimate D/E to be at 0.3x for FY18/19E post funding for new capex of Rs3bn for expansion of PA capacity by 50,000 tons.

Exhibit 20: D/E of IGPL to remain benign



Source: Company Data, PL Research

Key risks and sensitivity

Commodity price factor: PA and OX are linked to commodity prices and any sharp contraction in margins is likely to impact profitability of IGPL. Our estimates factor in ~19.8% EBITDA margin for FY18/19E against 23.5% in Q1FY18.

Exhibit 21: IGPL earnings sensitivity to EBITDA margins

	FY19E EBITDA margins				
	15.0%	18.0%	19.8%	22.0%	25.0%
FY19E EPS (Rs.)	39.9	48.4	53.3	55.8	67.6

Source: Company Data, PL Research

Delay in project commissioning: IGPL's earnings are likely to be impacted by any delay in project commissioning. We have factored in expansion of 50,000tpa PA capacity to come on-stream in Q1FY20E.

Valuation and View

IGPL is expected to report 26% CAGR earnings growth over FY17-20E on the back of **1)** 50,000tpa PA capacity expansion **2)** contribution from Mysore Petrochemicals which will add 6,920MTPA capacity of MAN and **3)** contribution from value-added downstream plasticiser capacity of 40,000MT at a capex of Rs1bn in FY19E. We initiate coverage with a **“BUY”** and PT of Rs709 based on 8x EV/E FY20E which translates to 13.3/10.8x P/E FY19/20E.

Exhibit 22: IGPL's valuation framework

EV/E	7.0	8.0	9.0
EV FY20E	20,377	23,288	26,199
Less net debt	(1,465)	(1,465)	(1,465)
Equity value	18,912	21,822	24,733
No of share-m	31	31	31
Value	614	709	803
P/E at PT	9.3	10.8	12.2

Source: Company Data, PL Research

Exhibit 23: Comparative valuation comparable

	P/E (x)			ROE (%)			EV/E (x)		
	2017	2018E	2019E	2017	2018E	2019E	2017	2018E	2019E
SRF	17.4	18.5	14.5	17.3	14.1	16.2	11.0	10.2	8.4
ATUL	20.4	18.0	14.4	12.5	15.9	17.2	12.0	12.3	9.9
AARTI INDUSTRIES	22.0	19.8	15.4	25.3	18.2	18.7	13.1	12.0	9.8
VINATI ORGANICS	36.8	30.9	24.0	22.8	20.9	21.8	23.3	19.3	15.8
CAMLIN FINE SCIENCES	-53.6	27.8	13.2	-7.4	10.9	18.2	25.1	11.0	7.2
BODAL CHEMICALS LTD	15.1	14.7	12.0	43.3	29.1	27.0	9.2	8.7	7.2
THIRUMALAI CHEMICALS LTD	20.8	15.9	11.7	27.4	23.8	24.3	9.5	7.3	5.9
AEKYUNG PETROCHEMICAL CO LTD	7.0	4.8	4.8	22.2	26.1	21.5	4.3	3.2	3.1
IGPL	11.0	9.9	8.0	29.7	31.6	26.4	10.1	6.9	6.1

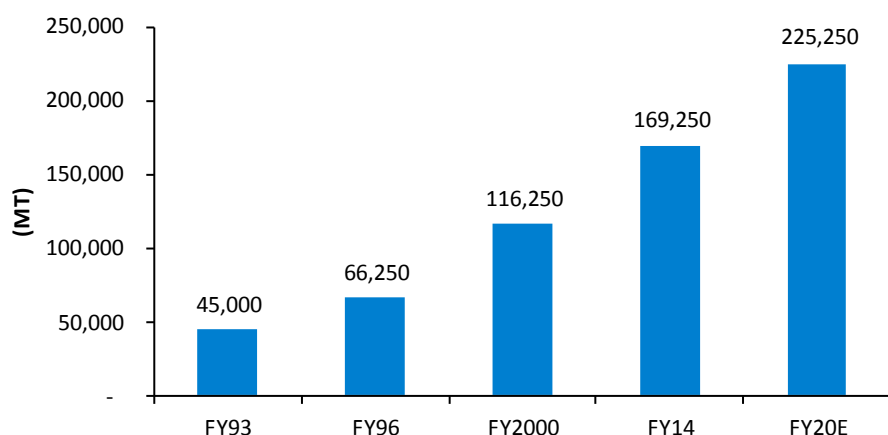
Source: Company Data, PL Research

Company background

IGPL is the third largest global PAN player with a capacity of 169,110MT. It is promoted by the *Dhanuka Group* in technical collaboration with *Lurgi GmbH, Germany*. The company has steadily increased its capacity over the last ten years. It started PAN production with an initial capacity of 45,000 mtpa in 1993, which was later increased by 21,250 mtpa through a debottlenecking exercise. Later, in 2000 the company carried out a brownfield expansion to raise its capacity by a further 50,000 mtpa. In the last quarter of 2013-14, the company added another 53,000 mtpa of capacity, taking its total PAN manufacturing capacity to 169,250 mtpa as on March 2016. IGPL plans to further increase PAN capacity by ~56,000MT through debottlenecking and new capacity expansion by FY20.

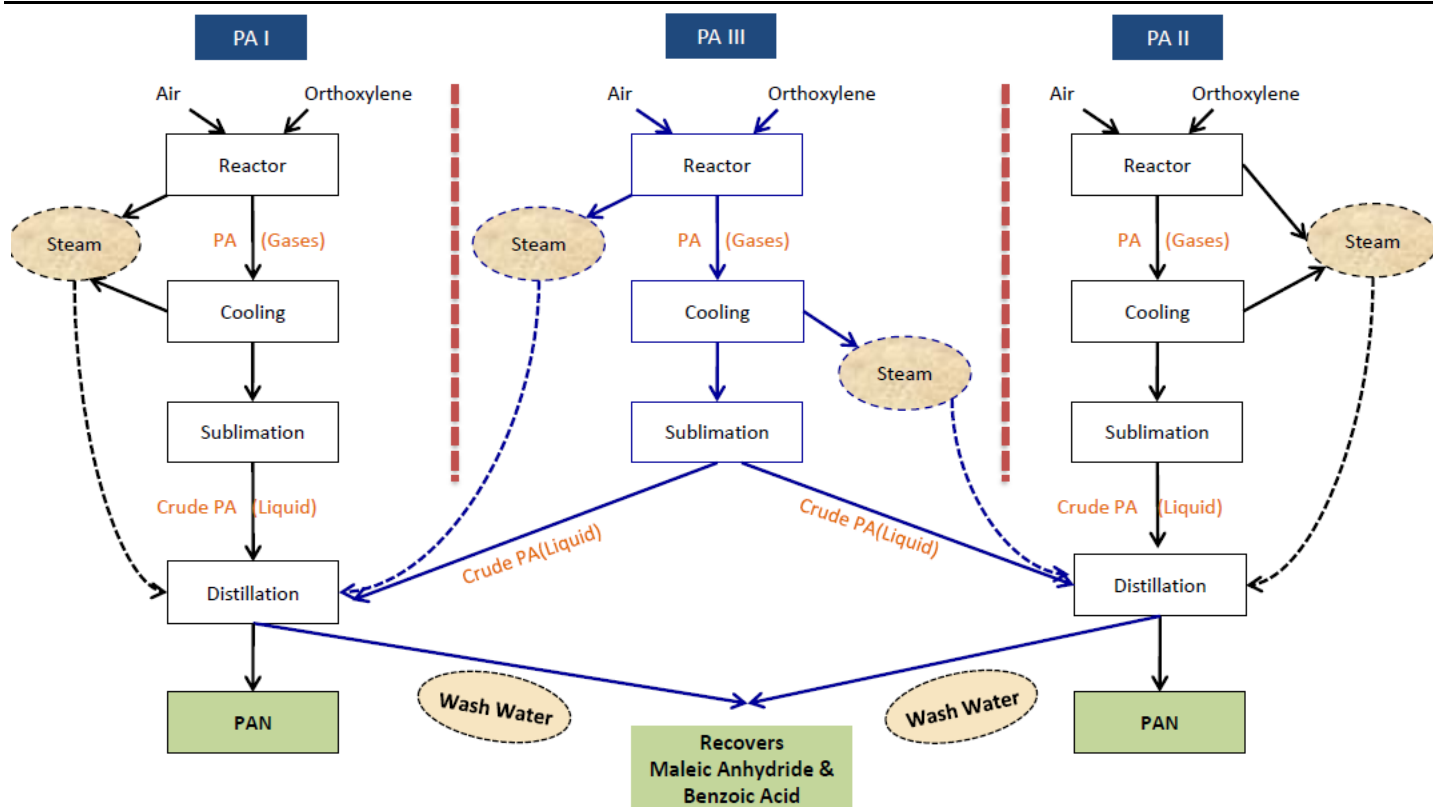
IGPL has created all the capacities at a single place thereby significantly creating economies of scale. The expansion plans are also in the same location and this will further improve the competitiveness.

Exhibit 24: IGPL's PAN capacity expansion over the years



Source: Company Data, PL Research

Exhibit 25: IGPL's production process



Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2016	2017	2018E	2019E
Net Revenue	9,528	10,375	11,671	12,063
Raw Material Expenses	7,341	7,512	7,870	8,093
Gross Profit	2,188	2,863	3,801	3,969
Employee Cost	298	397	489	528
Other Expenses	756	825	1,015	1,049
EBITDA	1,134	1,641	2,296	2,392
Depr. & Amortization	175	172	174	188
Net Interest	227	180	32	42
Other Income	36	28	113	291
Profit before Tax	767	1,317	2,203	2,452
Total Tax	164	301	727	809
Profit after Tax	604	1,016	1,476	1,643
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	604	1,016	1,476	1,643
Avg. Shares O/S (m)	30.8	30.8	30.8	30.8
EPS (Rs.)	19.6	33.0	47.9	53.3

Cash Flow Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
C/F from Operations	695	355	250	690
C/F from Investing	(64)	(157)	(974)	(709)
C/F from Financing	(644)	(573)	823	296
Inc. / Dec. in Cash	(13)	(375)	99	277
Opening Cash	182	169	301	1,950
Closing Cash	169	(207)	400	2,227
FCFF	491	299	1,002	795
FCFE	107	(2)	2,005	1,298

Key Financial Metrics

Y/e March	2016	2017	2018E	2019E
Growth				
Revenue (%)	(19.8)	8.9	12.5	3.4
EBITDA (%)	43.5	44.7	39.9	4.2
PAT (%)	578.6	68.3	45.3	11.3
EPS (%)	578.6	68.3	45.3	11.3
Profitability				
EBITDA Margin (%)	11.9	15.8	19.7	19.8
PAT Margin (%)	6.3	9.8	12.6	13.6
RoCE (%)	20.0	26.9	25.8	20.6
RoE (%)	22.8	29.7	31.6	26.4
Balance Sheet				
Net Debt : Equity	0.3	0.1	(0.1)	(0.2)
Net Wrkng Cap. (days)	10	20	32	33
Valuation				
PER (x)	26.2	15.5	10.7	9.6
P / B (x)	5.4	4.0	2.9	2.2
EV / EBITDA (x)	14.6	9.8	6.7	5.9
EV / Sales (x)	1.7	1.6	1.3	1.2
Earnings Quality				
Eff. Tax Rate	21.3	22.9	33.0	33.0
Other Inc / PBT	4.6	2.1	5.1	11.8
Eff. Depr. Rate (%)	2.5	2.4	2.4	2.2
FCFE / PAT	17.7	(0.2)	135.9	79.0

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	2,918	3,933	5,409	7,052
Total Debt	925	624	1,627	2,129
Other Liabilities	18	406	937	1,550
Total Liabilities	3,861	4,963	7,973	10,731
Net Fixed Assets	3,266	3,282	4,195	5,007
Goodwill	—	2	—	—
Investments	3	185	185	185
Net Current Assets	591	1,496	3,592	5,539
<i>Cash & Equivalents</i>	<i>169</i>	<i>301</i>	<i>1,950</i>	<i>3,861</i>
<i>Other Current Assets</i>	<i>2,348</i>	<i>3,205</i>	<i>3,807</i>	<i>3,929</i>
<i>Current Liabilities</i>	<i>1,926</i>	<i>2,010</i>	<i>2,165</i>	<i>2,250</i>
Other Assets	—	—	—	—
Total Assets	3,861	4,964	7,973	10,731

Quarterly Financials (Rs m)

Y/e March	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Net Revenue	2,537	2,377	2,893	2,959
EBITDA	330	376	456	696
% of revenue	13.0	15.8	15.8	23.5
Depr. & Amortization	44	44	42	51
Net Interest	47	43	40	52
Other Income	6	7	6	10
Profit before Tax	245	296	381	603
Total Tax	55	64	100	212
Profit after Tax	191	232	281	391
Adj. PAT	191	232	281	391

Source: Company Data, PL Research.

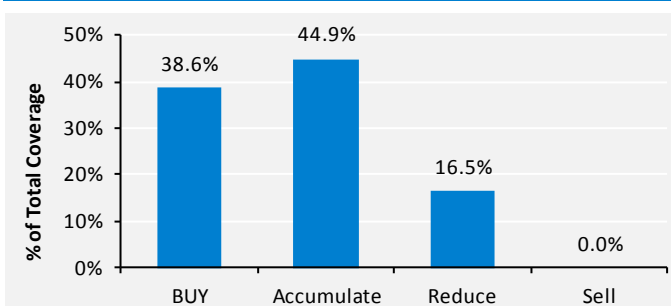


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BP WEALTH

IG Petrochemicals Ltd

Initiating Coverage

Introduction of
High margin
products

Higher
utilization level
backed by
strong domestic
demand

Steady Path Ahead

July 2017



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Company Overview

IG Petrochemicals Limited being the flagship Company of the Dhanuka Group, is the largest manufacturer of Phthalic Anhydride (PAN) in India. It is one of the Lowest Cost producer of Phthalic Anhydride globally. PAN is a downstream product of Orthoxylene (OX) a basic Petrochemical. PAN is a versatile intermediate in organic chemistry. PAN is used as an intermediate for the production of Plasticizers, Unsaturated Polyester Resins, Alkyd Resins & Polyols. PAN is used in a variety of application in both consumer durables to non consumer durables. Applications for PAN are increasing rapidly, driven by new Research & Innovation. The company has 3 manufacturing facilities at a single location at Taloja in Maharashtra. The annual installed capacity is 1,69,250 MT.

Investment Rationale

Well placed in domestic PAN Industry

IG Petrochemicals is the largest manufacturer of phthalic anhydride (PAN), controlling 48% of India's production capacity. PAN is a chemical compound, which finds its applications in flexible plastics. The advantages that the company has over its competitors are difficult for competitors to replicate and therefore, create high entry barriers for new players. The Company's plant is strategically located which provides multiple advantages. On the supply side, the major source of raw material for manufacture of PAN comes from the same region, creating compelling cost savings in transportation. On the demand side, more than 70% PAN produced in India is used in western India. With 90% sales locally, the plant located at an ideal position enables the Company to be in close proximity to its customers. Complementing an ideal location is the judicious procurement strategy for Ortho-xylene (OX) - the single raw material required for the manufacture of PAN. The Company has a tie-up with the largest petrochemicals company (Reliance Industries Ltd) in the country for almost 70% of its requirement of OX. These ensure steady and uninterrupted supply of raw material. We modeled 3% volume growth in PAN with 5% realization growth which will leads to 8.2% overall PAN growth over FY17-19E. Further, we expect incremental revenue from MA and DEP in FY18/19 respectively which will aid revenue CAGR of 12.4% over FY17-19E.

PAN demand expected to grow at a CAGR of ~7 per cent over FY 2016-2021

As per CRISIL research report domestic PAN demand expected to grow at a CAGR of 7% over 2016-21 which is mainly driven by healthy growth in the plasticizers and UPR & others segments. Plasticizers accounted for 41% of PAN consumption in India in 2015-16. It is mainly used to increase plasticity or fluidity of plastics (flexible polyvinyl chloride) which has major applications in the automobile, housing and construction sector. Dyes and Pigments constituted about 20% of total demand consumption for PAN in 2015-16. Dyes and pigments have applications in sectors like paints, textiles, plastics etc. We expect growth to be moderate at 4-6% CAGR in these sectors over 2020-21 compared to 3-4% CAGR growth over the last five years. The marginal improvement in growth is mainly because of slowing imports due to stringent government regulations on the environmental front in foreign markets which has led to capacity additions and improved utilisation rates in the industry. Alkyd resins accounted for about 19% of domestic PAN consumption in 2015-16. Alkyd resins mostly goes in the manufacturing of oil based paints. The demand for oil based paints is gradually slowing down due to shift to water based paints because water based paints have higher margins and contain low levels of volatile organic compounds which are hazardous to health and environment. As a result it is expected to grow at a slow pace of around 3-4% CAGR over 2020-21. Unsaturated polyester resins (UPR) and others constituted about 20% of the total PAN consumption in 2015-16. UPR are known for their commercial usage in fiberglass reinforced plastics (FRP) as well as in applications and products, such as boat and ship building, manufacturing of wind blades, electrical windmills etc. With these sectors expected to grow at a fast pace in the long term, we expect a demand growth of 7-8% from UPR and others segments.

Stock Rating

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

Sector Outlook

Positive

Stock

CMP (Rs)	435
Target Price (Rs)	602
BSE code	500199
NSE Symbol	IGPL
Bloomberg	IGPL IN
Reuters	IGPT.BO

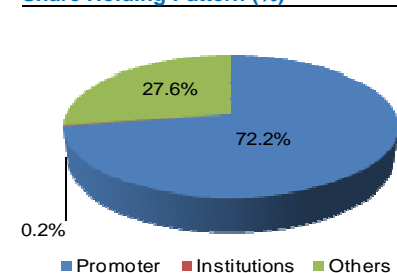
Key Data

Nifty	9,638
52 Week H/L (Rs)	440/137
O/s Shares (Mn)	31
Market Cap (Bn)	13.4
Face Value (Rs)	10

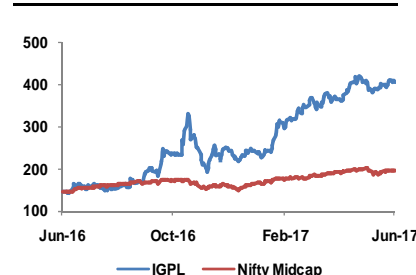
Average volume

3 months	67,232
6 months	83,480
1 year	1,18,997

Share Holding Pattern (%)



Relative Price Chart



Research Analyst

Nikhil Shetty

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022-61596408

IG Petrochemicals Ltd.

Initiating Coverage

New products launch to provide more scope for margin improvement

The company has acquired the maleic anhydride (MA) business of Mysore Petro Chemicals Ltd (MPCL) for Rs 745mn as a part of new product introduction. MPCL is the only company engaged in the manufacture of maleic anhydride in India. Under the current economic scenario, it is considered viable to acquire the MA business from MPCL to optimise the end realization. The global maleic anhydride market is projected to be worth USD 5.08 Billion by 2020, registering a CAGR of 6.8% between 2015 and 2020. This high growth is owed to the increasing demand for UPR (unsaturated polyester resin) and 1,4 butane diol. More than 50% of maleic anhydride is used in the manufacture of UPR. Also, the rapid growth of the end use industries in emerging nations is one of the factors driving the growth of the market. The UPR application dominated the maleic anhydride market, and is projected to register the highest growth rate in the overall market. The growing end-use industries such as automotive, construction & manufacturing, and marine are expected to drive the increasing demand for the maleic anhydride in the emerging nations. The improved living standards in emerging economies are contributing to the growth of the global market. Currently, India is net importer of maleic anhydride which provides huge scope for maleic anhydride business. Moreover, MA is high EBITDA margin business and can add significant to the bottom-line going forward. We expect MA to add Rs 450mn to the revenue with Rs 250mn EBITDA in FY18 and expected grow at in line with industry rate of 8% going forward.

Financial performance to improve further

RoCE and RoE have witnessed robust improvement from 9.2% and 5.4% respectively in FY11 to 37.2% and 29.6%, respectively, in FY17. Going forward, we expect return ratios to decline for next two years due to ongoing capex plan. With high margin products introduction and increase in PAN/OX spread leads to maintain margin uptrend. Further, the company is converting high cost debt into low cost debt which results into interest cost reduction. Over the period IGPL managed to deliver above 2x asset turnover; we expect this to continue going forward. The company continues to be a positive Free Cash Flow company despite of large capex due to strong operating cash flows and controlled working capital requirements. We expect debt level to be remain at same level and we think that the existing cash flows are sufficient to fund the existing capex requirements.

We have valued this stock by assigning 12x to its FY19 earning estimates. We arrive at a target price of Rs 602 (potential upside of 38% from CMP) for an investment horizon of 12-15 months.

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 brown field expansion and higher capacity utilization with domestic demand likely to remain robust. We expect Revenue/EBITDA/PAT to clock 12%/18%/23% CAGR during FY17-19E. Though IGPL is a commodity player, large entry barriers, margin improvement trend and large Indian market share could result in further rerating of the stock going forward. At the current market price (of Rs 435) the company is trading at 10.1x its FY18E EPS of Rs 43.2 and 8.7x its FY19E EPS of Rs 50.2. We believe the valuations are attractive and the stock can give decent returns in the future. We initiate coverage on the stock & recommend 'BUY' rating by assigning 12x to its FY19E earning. We arrive at a target price of Rs 602 (potential upside of 38% from CMP) for an investment horizon of 12-15 months.



IG Petrochemicals Ltd.

Initiating Coverage

Key Financials							
YE March (Rs. mn)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Revenue	9,703	12,043	11,866	9,528	10,375	11,670	13,116
Revenue Growth (Y-o-Y)	9.5%	24.1%	(1.5%)	(19.7%)	8.9%	12.5%	12.4%
EBITDA	544	605	803	1,134	1,641	1,991	2,300
EBITDA Growth (Y-o-Y)	58.9%	11.2%	32.7%	41.2%	44.7%	21.3%	15.5%
Net Profit	31	31	89	604	1,016	1,330	1,545
Net Profit Growth (Y-o-Y)	(76.8%)	1.7%	184.2%	578.5%	68.2%	31.0%	16.1%
Diluted EPS	1.0	1.0	2.9	19.6	33.0	43.2	50.2
Diluted EPS Growth (Y-o-Y)	-76.8%	1.7%	184.2%	578.5%	68.2%	31.0%	16.1%
No of Diluted shares (mn)	31	31	31	31	31	31	31
Key Ratios							
EBITDA (%)	5.6%	5.0%	6.8%	11.9%	15.8%	17.1%	17.5%
NPM (%)	0.3%	0.3%	0.7%	6.3%	9.8%	11.4%	11.8%
RoE (%)	11.9%	8.1%	12.1%	22.8%	29.6%	29.4%	26.5%
RoCE (%)	11.5%	10.0%	16.2%	26.8%	37.2%	37.5%	34.4%
Tax Rate %	20.8%	20.0%	21.0%	21.3%	22.9%	23.0%	23.0%
Book Value Per share (Rs.)	83.8	83.5	77.5	94.7	127.7	166.5	211.5
Valuation Ratios							
P/E (x)			44.6x	22.2x	13.2x	10.1x	8.7x
EV/EBITDA			18.1x	12.5x	8.4x	6.6x	5.8x
P/BV (x)			5.6x	4.6x	3.4x	2.6x	2.1x
Market Cap. / Sales (x)			1.1x	1.4x	1.3x	1.1x	1.0x

Source: Company, BP Equities Research

DuPont Analysis							
YE March	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
EBIDTA/Sales (%)	6%	5%	7%	12%	16%	17%	17%
Sales/Operating Assets (x)	2.74	2.83	3.02	2.67	2.62	2.42	2.18
EBIDTA/Operating Assets (%)	15%	14%	20%	32%	42%	41%	37%
Operating Assets/ Net Assets (x)	0.97	0.98	0.96	0.94	0.90	0.87	0.88
Net Earnings/ EBIDTA (%)	57%	35%	37%	53%	62%	67%	67%
Net Assets/ Equity (x)	1.41	1.67	1.63	1.41	1.27	1.21	1.16
Return on Equity (%)	12%	8%	12%	22%	29%	28%	26%

Source: Company, BP Equities Research

IG Petrochemicals Ltd.

Initiating Coverage

Investment Rationale

Well placed in domestic PAN Industry

IG Petrochemicals is the largest manufacturer of phthalic anhydride (PAN), controlling 48% of India's production capacity followed by Thirumalai Chemicals holding close to 40% of total capacity. PAN is a chemical compound, which finds its applications in flexible plastics such as cables, pipes, leather products, packaging films and paints industry. While traditionally industry growth tends to mirror the GDP growth, in coming few years, the growth could be higher on account of increasing usage of plastics helped by changing lifestyle, urbanisation and innovative product applications like new forms of packaging etc. 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 therefore, 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 Taloja, 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 manufacture of PAN comes from the same region, creating compelling cost savings in transportation. On the demand side, more than 70% PAN produced in India is used in western India. With 90% sales locally, the plant's location just 50kms. from Mumbai enables the Company to be in close proximity 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 judicious procurement strategy for Ortho-xylene (OX) - the single raw material required for the manufacture of PAN.

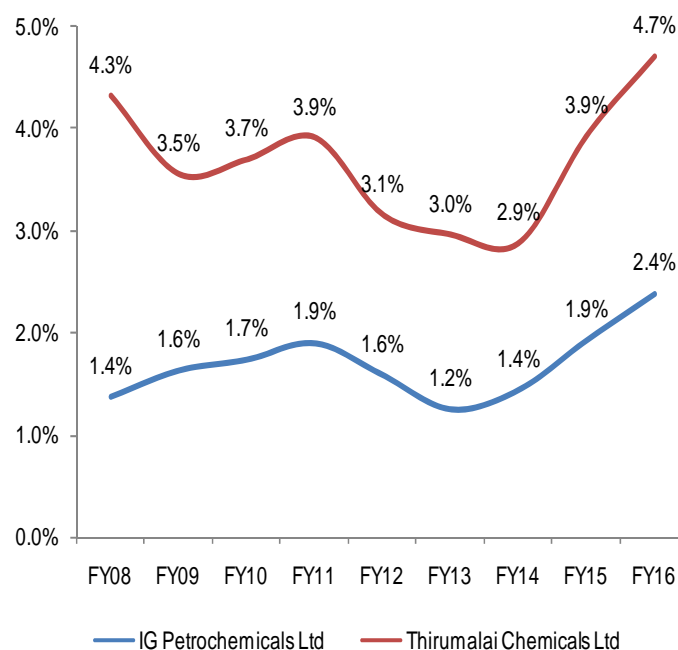
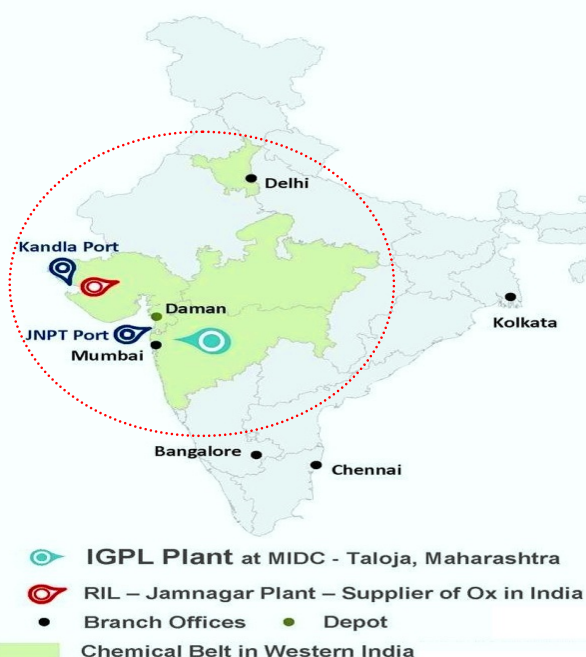
Market Share In PAN (India)

IG Petrochemicals	48%
Thirumalai Chemicals	40%
Asian Paints	9%
SI Group	3%

Asian Paints expected to close its PAN plant in Ankleshwar to expand its paint capacity. We expect this will rise domestic PAN demand by ~30,000TPA. Which will help domestic PAN producer to gain market share and volume growth. Since, It is difficult to quantify incremental volume growth for IGPL we have not consider any incremental volume growth in our model.

Strategically located plant

Lower Freight and Forwarding charges to Revenue



Source: Company, BP Equities Research

Source: environmentclearance.nic.in Prefeasibility Report

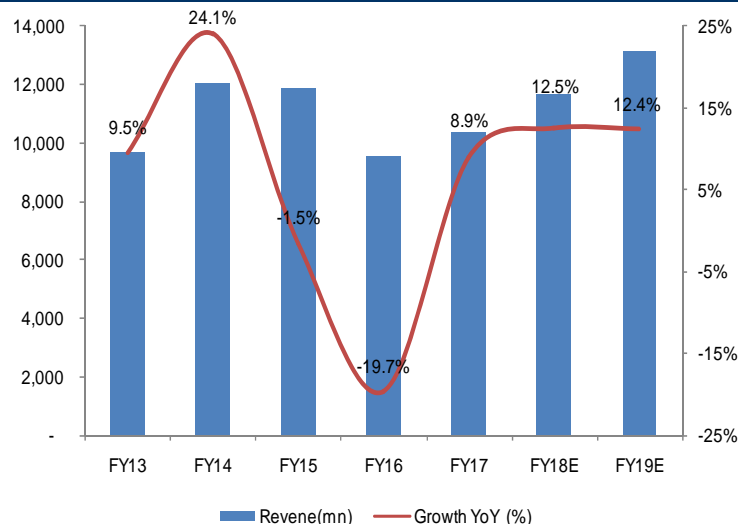
IG Petrochemicals Ltd.

Initiating Coverage

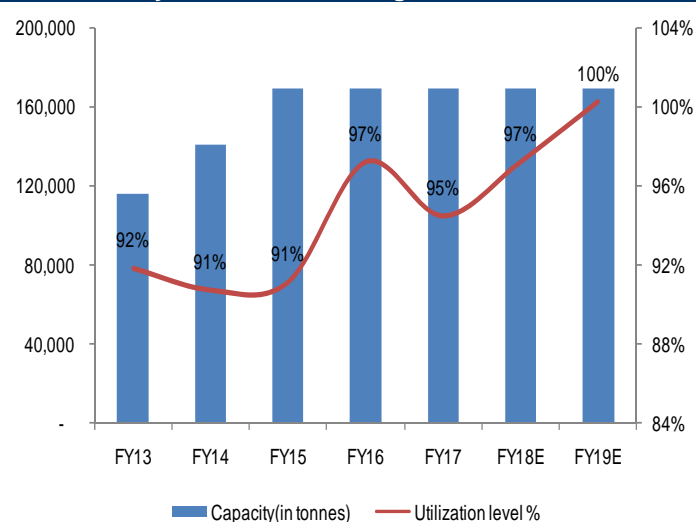
The Company has a tie-up with the largest petrochemicals company(Reliance Industries Ltd) in the country for almost 70% of its requirement of OX. This ensure steady and uninterrupted supply of raw material. The balance 30% of OX is procured from other sources, giving the Company a unique procurement advantage of steady supply and best prices. Further, with a daunting capacity of 1,69,250 MTPA from its two plants in the same location, IG Petrochemicals has one of the world's largest capacity for PAN. Not only is the Company one of the largest single location producer of PAN in the world, it is also one of the lowest cost producers of PAN in the world. In a business that is increasingly becoming commoditised, the Company has the dual advantage of volumes and costs, making it a leading player in the PAN space in the country. We modeled 3% volume growth in PAN with 5% realization growth which will leads to 8.2% overall PAN growth over FY17-19E. Further, we expect incremental revenue from MA and DEP in FY18/19 respectively which will aid revenue CAGR of 12.4% over FY17-19E.

Reliance Industries Ltd is the only OX manufacturer in India. IGPL procure 70% of its RM from Reliance and remaining is met by import.

Revenue CAGR of 12.4% over FY17-19E

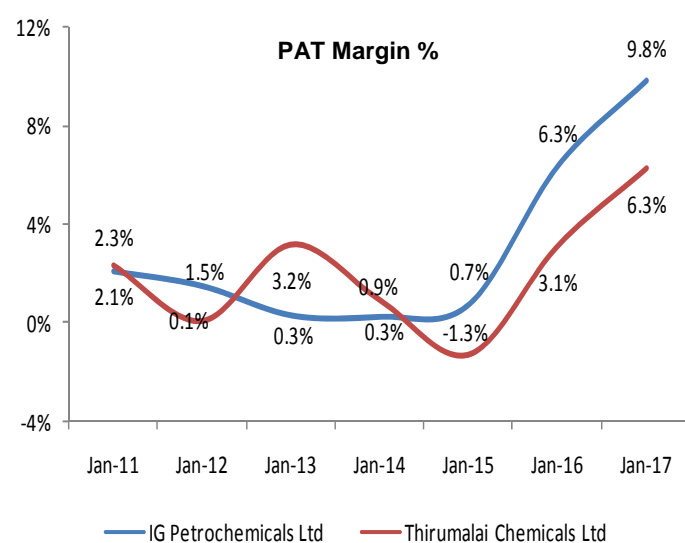
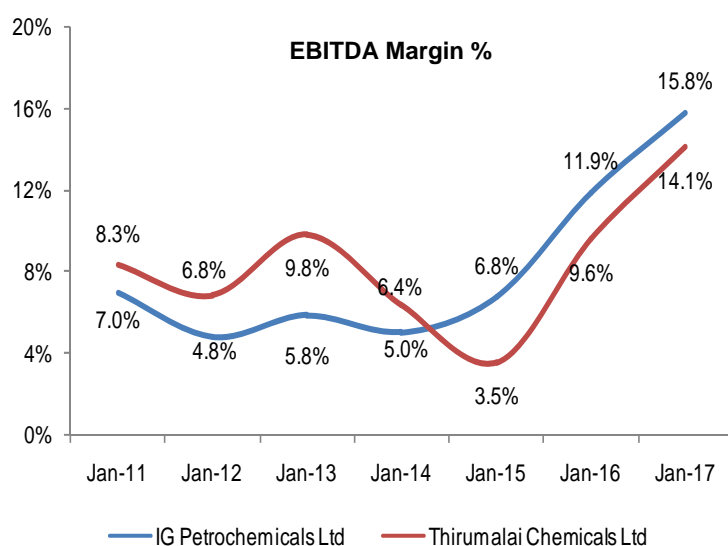


Healthy demand leads to higher utilization level



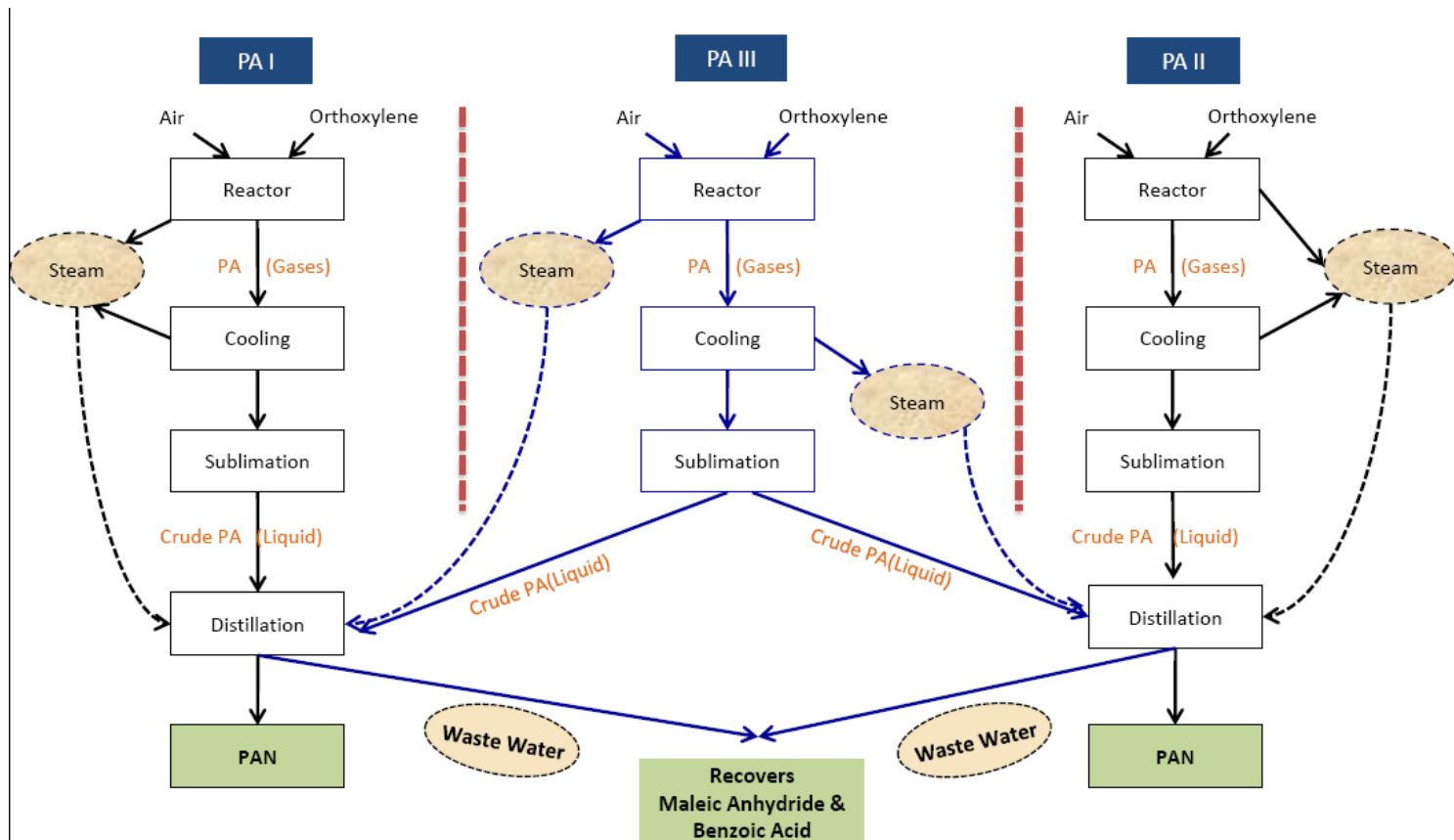
Source: Company, BP Equities Research

Consistently improving margins compared to peer



Source: Company, BP Equities Research

Production Process of Phthalic Anhydride and Maleic Anhydride



Source: Company

Key Customers

PLASTICIZERS



Payal Group
Driven by a Committed Vision



PAINTS



KANSAI NEROLAC
PAINTS LIMITED



UPR

ASHLAND
With good chemistry great things happen.

AOC
World Leader in Resin Technology

DEP

AARTI INDUSTRIES LIMITED

CPC PIGMENT

MOL
CHEMISTRY OF SUCCESS AT WORK

AsahiSongwon

MAZDA

Source: Industry, BP Equities Research

IG Petrochemicals Ltd.

Initiating Coverage

PAN demand expected to grow at a CAGR of ~7 per cent over FY 2016-2021

As per CRISIL research report domestic PAN demand expected to grow at a CAGR of 7% over 2016-21 which is mainly driven by healthy growth in the plasticizers and UPR & others segments. Below are the major end use segments and their growth drivers:

Plasticisers: Plasticisers accounted for 41% of PAN consumption in India in 2015-16. These colourless, odourless liquids are produced by a simple chemical reaction between an alcohol and phthalic anhydride. It is mainly used to increase plasticity or fluidity of plastics (flexible polyvinyl chloride) which has major applications in the automobile, housing and construction sector.

Dyes and Pigments: Dyes and Pigments constituted about 20% of total demand consumption for PAN in 2015-16. It is used to manufacture certain dyes like anthraquinone, phthalein, rhodamine, phthalocyanine, fluorescein, and xanthene dyes. Dyes and pigments have applications in sectors like paints, textiles, plastics etc. We expect growth to be moderate at 4-6% CAGR in these sectors over 2020-21 compared to 3-4% CAGR growth over the last five years. The marginal improvement in growth is mainly because of slowing imports due to stringent government regulations on the environmental front in foreign markets which has led to capacity additions and improved utilisation rates in the industry.

Alkyd resins: Alkyd resins accounted for about 19% of domestic PAN consumption in 2015-16. Alkyd resins mostly goes in the manufacturing of oil based paints. They are used in making protective coatings with good weathering properties and are important ingredients in many synthetic paints due to their versatility and low cost.

The demand for oil based paints is gradually slowing down due to shift to water based paints. As compared to oil based paints, water based paints have higher margins and they also contain low levels of volatile organic compounds which are hazardous to health and environment. As a result it is expected to grow at a slow pace of around 3-4% CAGR over 2020-21.

UPR and others: Unsaturated polyester resins (UPR) and others constituted about 20% of the total PAN consumption in 2015-16. UPR are known for their commercial usage in fiberglass reinforced plastics (FRP) as well as in applications and products, such as boat and ship building, manufacturing of wind blades, electrical windmills, automotive applications etc. With these sectors expected to grow at a fast pace in the long term, we expect a demand growth of 7-8% from UPR and others segments.

Past trend of User Industry

(tonnes)	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17# CAGR %
Plasticisers	99,948	108,943	117,114	127,069	134,439	145,194	156,935 7.80%
Dyes and pigments	52,934	57,910	60,921	63,784	66,336	69,652	73,553 5.60%
Alkyd resins	53,071	55,194	57,402	59,382	60,867	62,388	64,447 3.30%
Others	30,753	33,828	37,211	40,188	42,519	45,921	49,732 8.30%
UPR	18,223	18,362	18,829	23,429	23,756	27,200	29,458 8.30%
Total	254,929	274,238	291,478	313,852	327,916	350,355	374,125 6.60%

Source: CRISIL Report,# assumed numbers

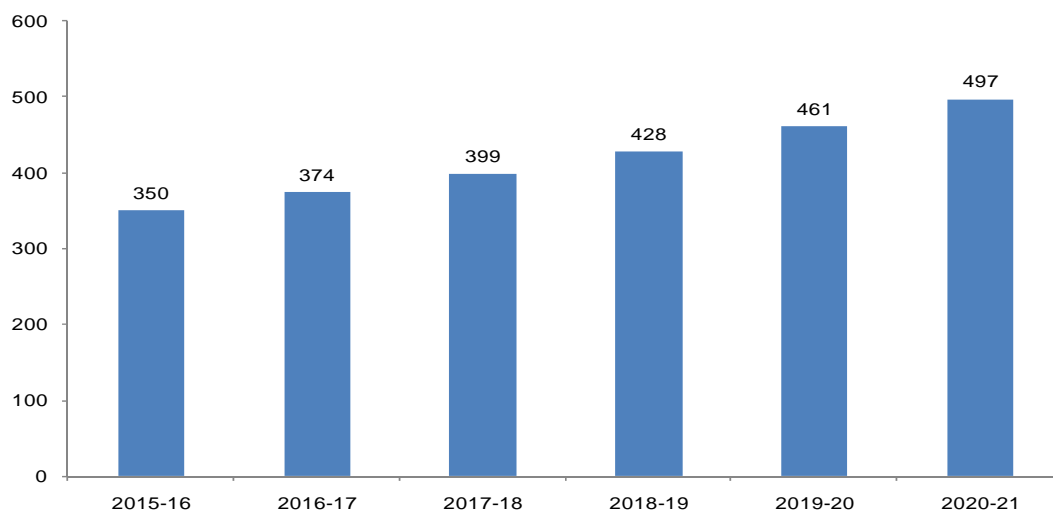
IG Petrochemicals Ltd.

Initiating Coverage

tonnes	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	CAGR %
Capacity	307,906	307,906	307,906	345,906	345,906	345,906	354,208	2.4%
Operating rate(%)	67%	84%	84%	82%	91%	90%	92%	
Production	206,500	258,527	259,969	282,100	314,200	311,000	324,100	7.8%
Imports	61,241	38,894	44,321	54,934	52,350	79,803	92,058	7.0%
Exports	18,480	24,993	12,812	23,182	38,634	40,448	42,033	14.7%
Consumption / Demand	249,261	272,428	291,478	313,852	327,916	350,355	374,125	7.0%

Source: CRISIL Report, # assumed numbers

Domestic demand forecast (in 000 tonnes)



As per CRISIL research report domestic PAN demand expected to grow at a CAGR of 7% over 2016-21 which is mainly driven by healthy growth in the plasticizers and UPR & others segments

Source: CRISIL Report, BP Equities Research

India PAN: Top 5 exporting and importing countries

Country	Import (%)	Country	Export (%)
Korea-RP	38.1%	Saudi Arab	40.8%
Taiwan	19.5%	UAE	33.2%
Thailand	8.4%	Egypt	8.5%
Iran	6.9%	U S A	3.0%
Russia	5.1%	Kuwait	1.9%

Anti- Dumping Duty List

Country	Duty Range(\$/tonne)	Valid Till
Korea-RP	91.12	December, 2017
Taiwan	63-150.88	December, 2017
Israel	17.99-139.76	December, 2017
Japan	126.17	December, 2020
Russia	106.3-159.43	December, 2020

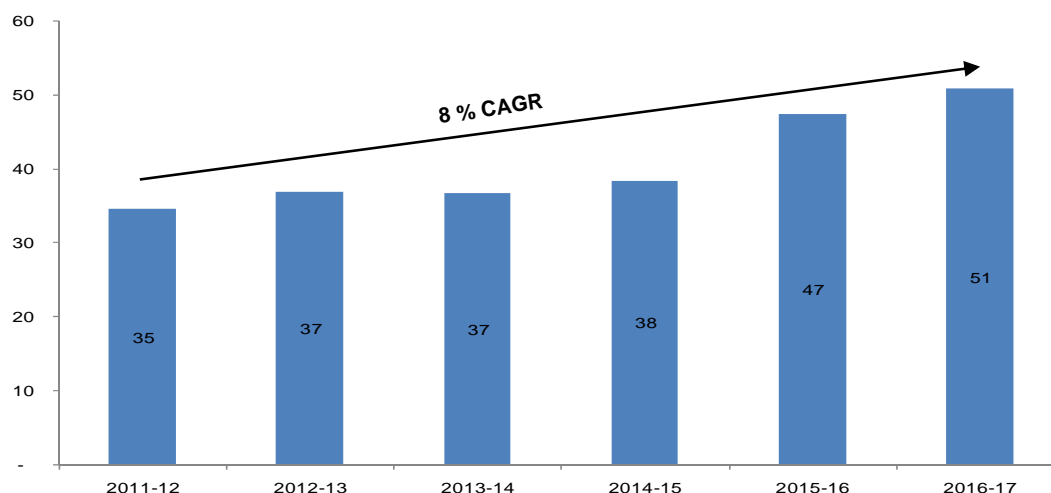
Source: CRISIL report ,DGFT, BP Equities Research

IG Petrochemicals Ltd.

Initiating Coverage

New products launch to provide more scope for margin improvement

The company has acquired the maleic anhydride (MA) business of Mysore petro chemicals ltd (part of same promoter group) for Rs 745mn as a part of new product introduction. Mysore Petro Chemicals Ltd (MPCL), which is the only company engaged in the manufacture of maleic anhydride in India, procures wash water (a raw material required for the production of MA) from IG Petrochemicals. Being toxic chemical, disposal of wash water is subject to the stringent norms. Under the current economic scenario, it is considered viable to acquire the MA business from MPCL to optimise the end realization. The global maleic anhydride market is projected to be worth USD 5.08 Bn by 2020, registering a CAGR of 6.8% between 2015 and 2020. This high growth is owed to the increasing demand for UPR (unsaturated polyester resin) and 1,4 butane diol. More than 50% of maleic anhydride is used in the manufacture of UPR. Also, the rapid growth of the end use industries in emerging nations is one of the factors driving the growth of the market. The UPR application dominated the maleic anhydride market, and is projected to register the highest growth rate in the overall market. The growing end-use industries such as automotive, construction & manufacturing, and marine are expected to drive the increasing demand for the maleic anhydride in the emerging nations. The improved living standards in emerging economies are contributing to the growth of the global market. Currently, India is net importer of maleic anhydride which provides huge scope for maleic anhydride business. Moreover, MA is high EBITDA margin business and can add significant to the bottom-line going forward. We expect MA to add Rs 450mn to the revenue with Rs 250mn EBITDA in FY18 and expected grow at in line with industry rate of 8% going forward.

Domestic demand of MA (in 000 tonnes)

Source: DGFT, BP Equities Research

⇒ Increasing PAN OX spreads to aid margin improvement

In 2016-17, the fall in Orthoxylene (OX) prices declined sharper than Phthalic Anhydride (PAN) prices on account of minimal capacity additions as well as improving utilization levels for PAN. In fact, numbers of o-xylene capacity expansion are expected in China, Taiwan and Singapore in the range of 125 -130 thousand tonnes thus increasing the global capacity by 4%. Due to improved PAN prices and subdued OX prices we expect PAN-Ox margins to rise by 10-12% over FY18-19. We have modeled 4%/6% increase in PAN OX spread in FY18/19E respectively.

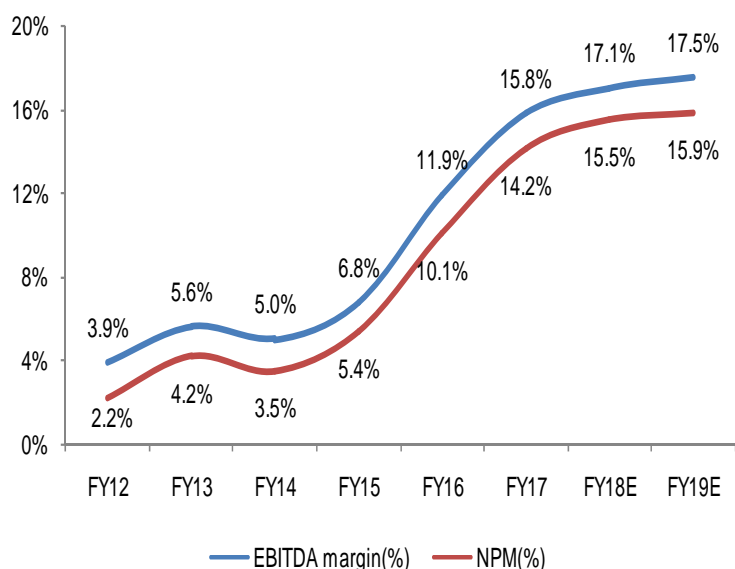
IG Petrochemicals Ltd.

Initiating Coverage

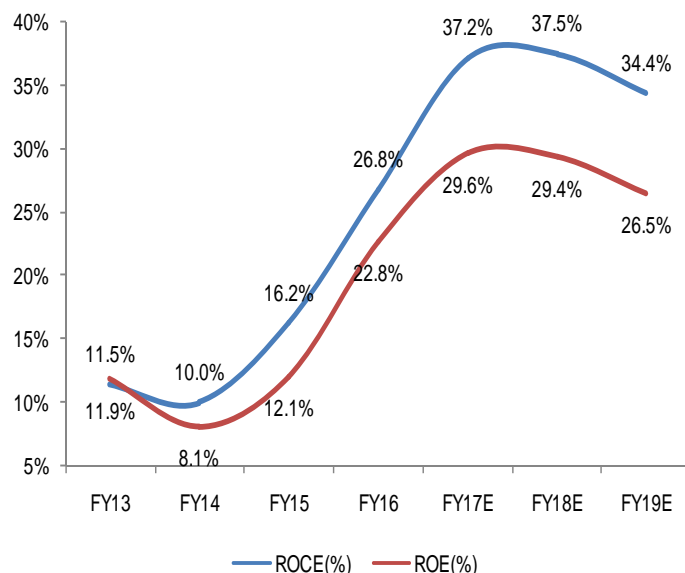
Financial performance to improve further

RoCE and RoE have witnessed robust improvement from 9.2% and 5.4% respectively in FY11 to 37.2% and 29.6%, respectively, in FY17. Going forward, we expect return ratios to decline for next two years due to ongoing capex plan. With high margin products introduction and increase in PAN/OX spread leads to maintain margin uptrend. Further, the company is converting high cost debt into low cost debt which results into interest cost reduction. Over the period IGPL managed to deliver above 2x asset turnover; we expect this to maintain going forward. IGPL continues to be a positive Free Cash Flow company despite of large capex due to strong operating cash flows and controlled working capital requirements. We expect debt to remain at same level, as we think that the existing cash flows are sufficient to fund the existing capex requirements.

Margins to accelerate further

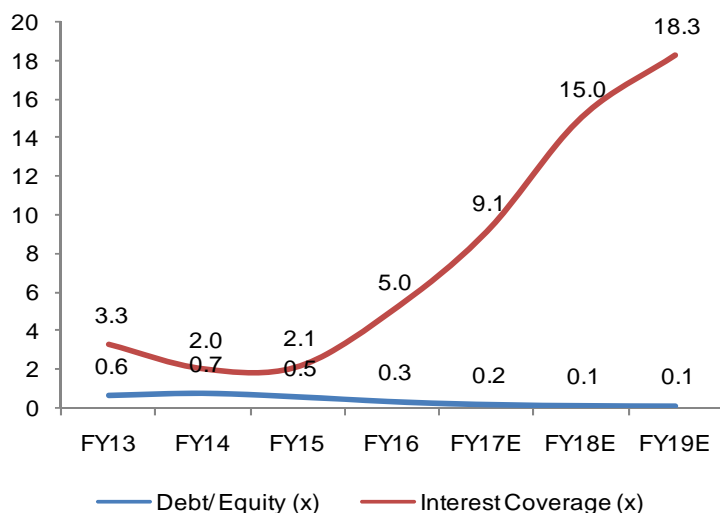


RoCE and RoE to remain above 25% over FY17-FY19

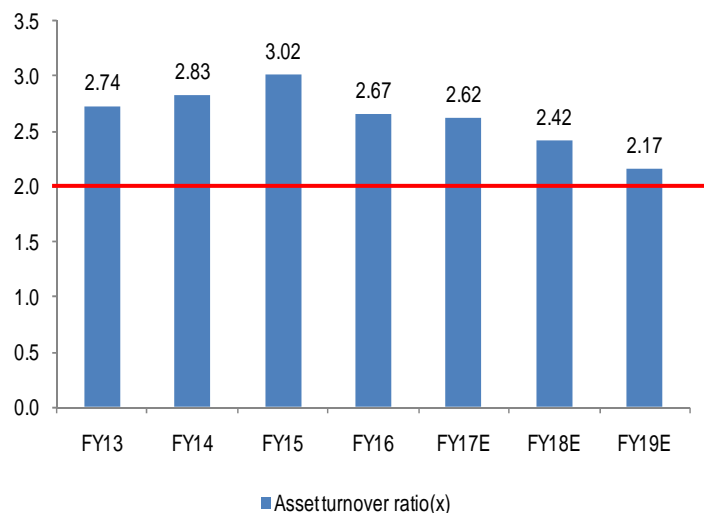


Source: Company, BP Equities Research

Comfortable financial leverage ratios



Asset turnover to remain above 2x



Source: Company, BP Equities Research

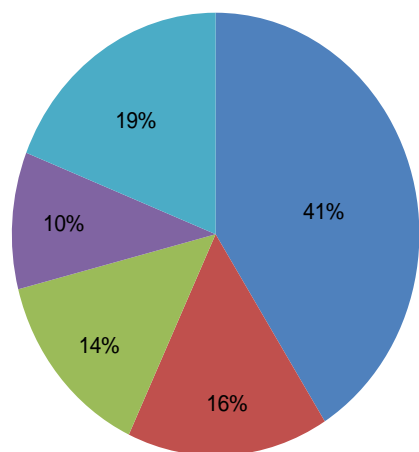
IG Petrochemicals Ltd.

Initiating Coverage

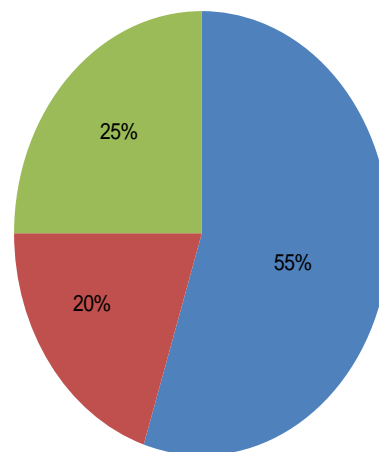
Company Background

IG Petrochemicals Limited being the flagship Company of the Dhanuka Group, is the largest manufacturer of Phthalic Anhydride (PAN) in India. It is one of the Lowest Cost producer of Phthalic Anhydride globally. PA is a downstream product of Orthoxylene (OX) a basic Petrochemical. PAN is a versatile intermediate in organic chemistry. PAN is used as an intermediate for the production of Plasticizers, Unsaturated Polyester Resins, Alkyd Resins & Polyols. PAN is used in a variety of application in both consumer durables to non consumer durables. Applications for PAN are increasing rapidly, driven by new Research & Innovation. The company has 3 manufacturing facilities at a single location at Taloja in Maharashtra. The annual installed capacity is 1,69,250 MT.

PAN Enduser industry Mix



Global PA consumption

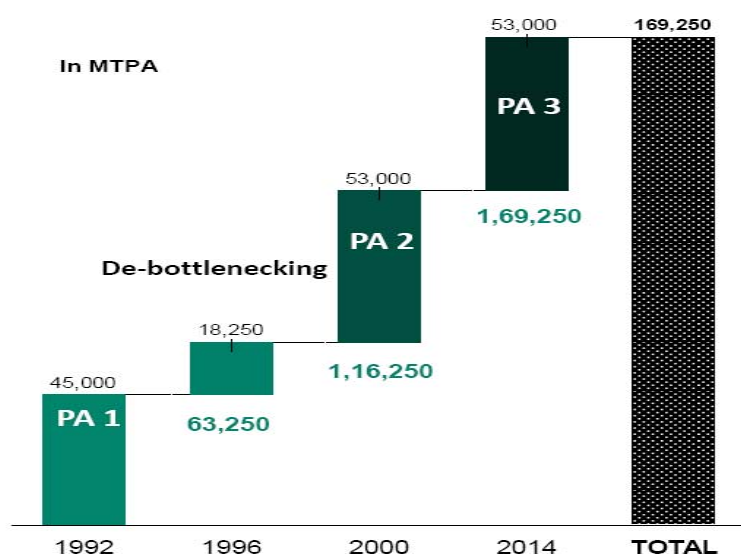


■ Plasticizers ■ Alkyd Resins ■ UPR ■ CPC Pigments ■ Others

■ Plasticizers ■ UPR ■ Others

Source: Company, BP Equities Research

Past trend of capacity addition in PAN



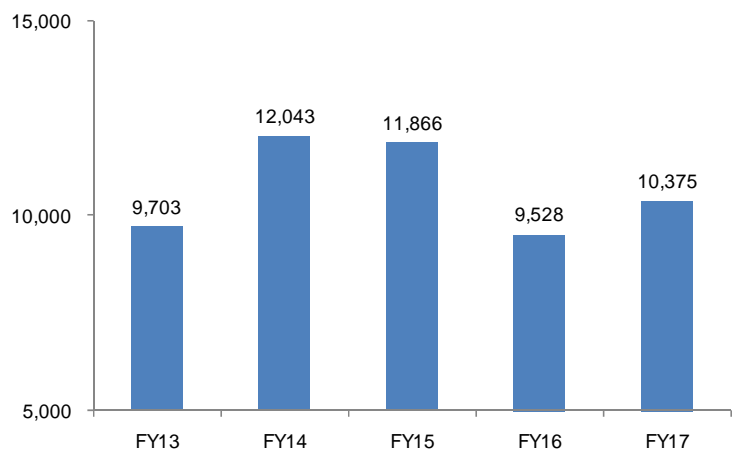
Source: Company, BP Equities Research

IG Petrochemicals Ltd.

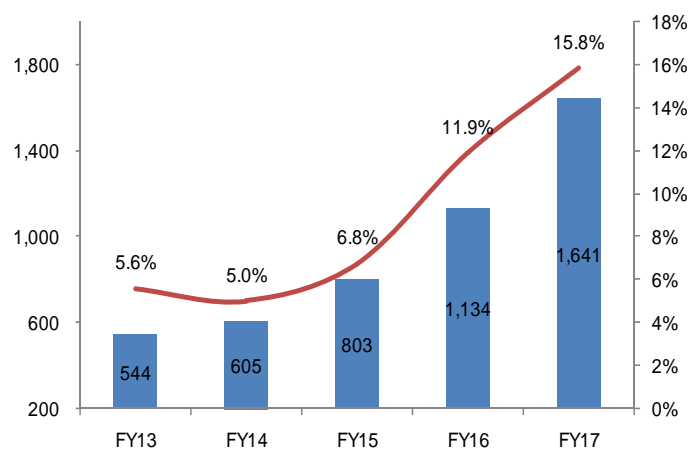
Initiating Coverage

Financial Highlights

Revenue (Rs in mn)

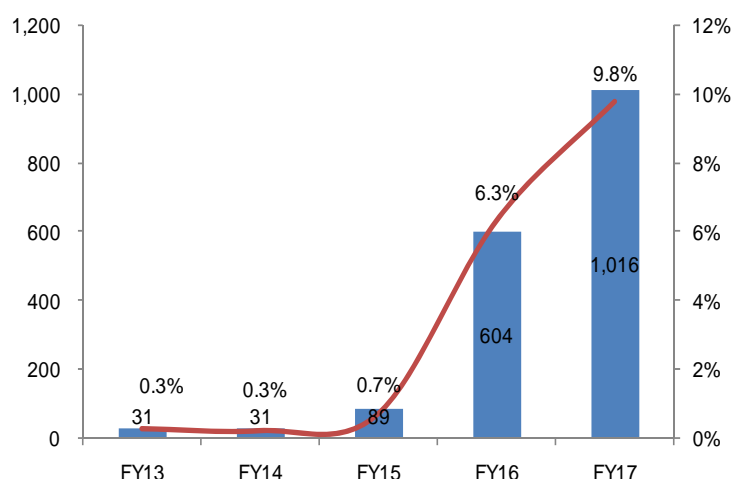


EBITDA (Rs in mn) and Margin %

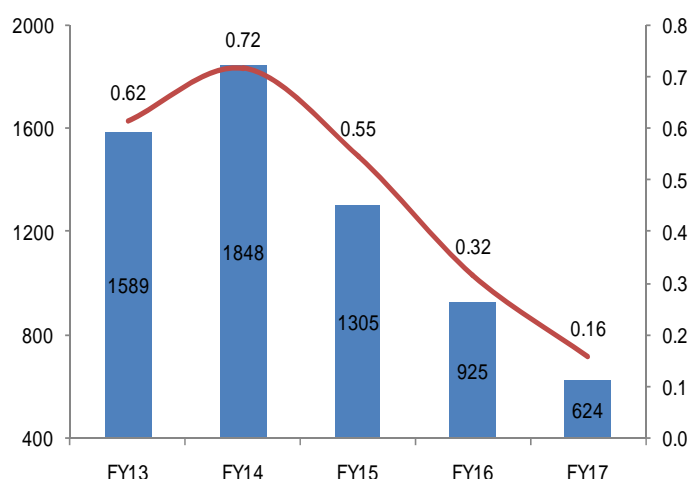


Source: Company, BP Equities Research

PAT (Rs in mn) and Margin %

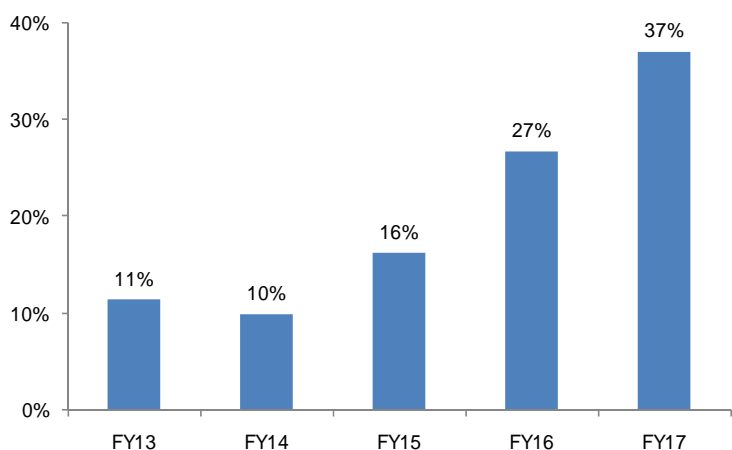


Debt (Rs in mn) and Debt to Equity Ratio

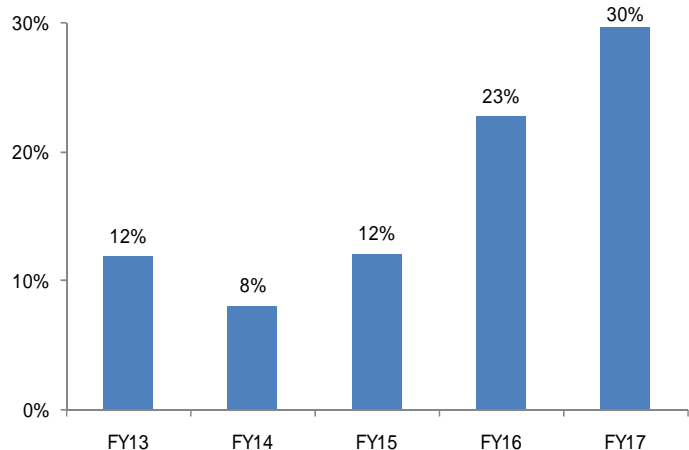


Source: Company, BP Equities Research

ROCE



ROE %

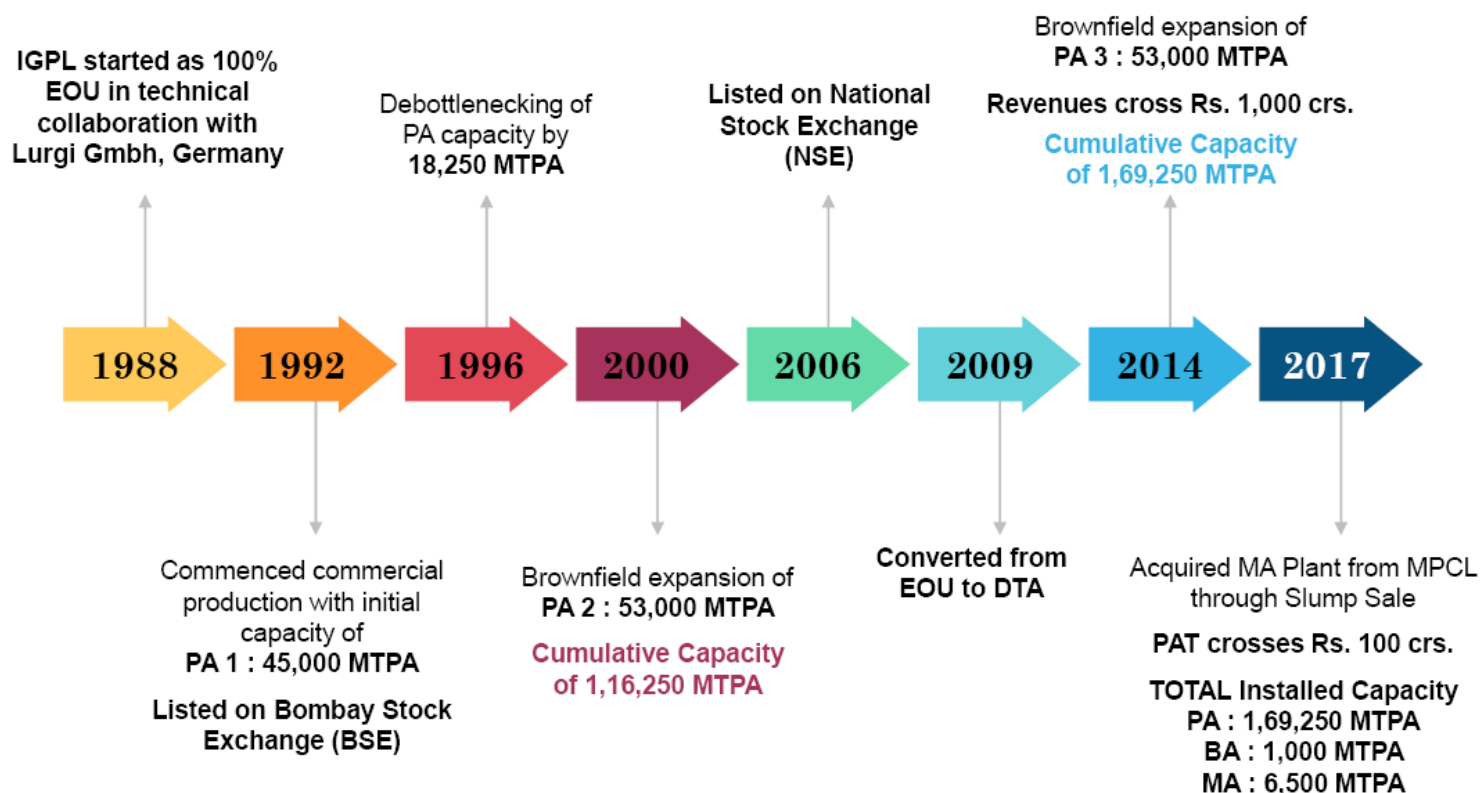


Source: Company, BP Equities Research

IG Petrochemicals Ltd.

Initiating Coverage

Key Milestones



Source: Company, PA-Phthalic Anhydride; MA-Maleic Anhydride; BA- Benzonc Acid ; MTPA– Metric Tonnes per annum; MPCL-Mysore Petro Chemicals Ltd.

IG Petrochemicals Ltd - Management Details

Name	Designation	Details
M M Dhanuka	Promoter, Chairman	He is B.E.(Chem) and possesses over 35 years of varied experience and expertise in Technical, Production and Marketing
Nikunj Dhanuka	Promoter, Managing Director	He is a Commerce and a Management Graduate and possesses diverse experience in handling Overseas Business and an extensive knowledge on the functioning of Chemical Industries and in charge of the overall affairs of the Company
J K Saboo	Executive Director	A Commerce and Law Graduate and is associated with the Company since 1991 and Has more than 35 years of experience in the Petrochemical industry and is in charge of the operations of the Company's Plant situated at Talaja
R Chandrasekaran	CFO	He is a CA & CS with 27 years of experience and responsible for all the financial related activities and is associated with the company since 1999

Source: Company, BP Equities Research

IG Petrochemicals Ltd.

Initiating Coverage

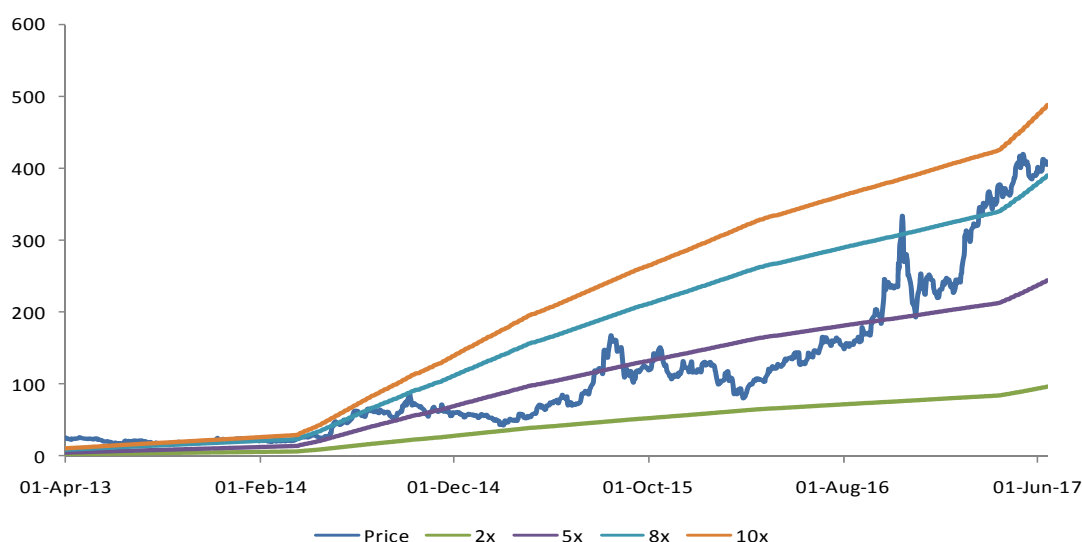
⇒ Peer group comparison

Company	CMP	M Cap	P/E		EPS		EV/EBITDA		RoE (%)	
	(Rs.)	(Rs. Bn)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
IG Petrochemicals Ltd	435	13.4	10.1	8.7	43	50	6.6	5.8	29	27
Thirumalai Chemicals Ltd	1009	10.3	10.3	8.0	98	126	4.5	3.7	25	24

Source: BP Equities Research

⇒ PE Band

PE Band– IG Petrochemicals Ltd.



Source: BP Equities Research, Ace Equity

Key Risks and concerns:

- ⇒ Since PAN is derived from ortho-xylene, any increase in ortho-xylene prices coupled with decrease in PAN prices is likely to impact the gross margins of the company.
- ⇒ The company derives ~10% of its gross sales from exports making it susceptible to foreign exchange risk. Increased dumping of PAN from other countries could also lead to decline in volumes and prices.

IG Petrochemicals Ltd.

Initiating Coverage

Valuation and Outlook

Valuation	Basis	FY17	FY18	FY19
IG Petrochemicals Ltd				
EPS		33	43	50
Growth in EPS (YoY %)		68%	31%	16%
Implied PE		13.2	10.1	8.7
Assigned PE	(11x PE)	12	12	12
Target Price				
(Implied PEG Ratio considering next 2 years: 0.5)				
CMP				602
Upside Potential (%)				38%

Source: Company, BP Equities Research

We have valued this stock by assigning 12x to its FY19 earning estimates. We arrive at a target price of Rs 602 (potential upside of 38% from CMP) for an investment horizon of 12-15 months.

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 brown field expansion and higher capacity utilization with domestic demand likely to remain robust. We expect Revenue/EBITDA/PAT to clock 12%/18%/23% CAGR during FY17-19E. Though IGPL is a commodity player, large entry barriers, margin improvement trend and large Indian market share could result in further rerating of the stock going forward. At the current market price (of Rs 435) the company is trading at 10.1x its FY18E EPS of Rs 43.2 and 8.7x its FY19E EPS of Rs 50.2. We believe the valuations are attractive and the stock can give decent returns in the future. We initiate coverage on the stock & recommend 'BUY' rating by assigning 12x to its FY19E earning. We arrive at a target price of Rs 602 (potential upside of 38% from CMP) for an investment horizon of 12-15 months.



IG Petrochemicals Ltd.

Initiating Coverage

Profit & Loss A/c (Standalone)							
YE March (Rs. mn)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Revenue	9,703	12,043	11,866	9,528	10,375	11,670	13,116
Growth %	9.5%	24.1%	-1.5%	-19.7%	8.9%	12.5%	12.4%
Total Revenue	9,703	12,043	11,866	9,528	10,375	11,670	13,116
Less:							
Raw Material Consumed	8,237	10,484	10,012	7,341	7,512	8,327	9,306
Employee Cost	244	251	285	298	397	437	481
Other Expenses	678	703	767	756	825	916	1,029
Total Operating Expenditure	9,159	11,438	11,064	8,395	8,734	9,680	10,817
EBIDTA	544	605	803	1,134	1,641	1,991	2,300
Growth %	40.9%	11.2%	32.7%	41.2%	44.7%	21.3%	15.5%
Less: Depreciation	138	180	164	175	172	180	218
EBIT	406	425	639	958	1,469	1,810	2,082
Growth %	71.4%	4.5%	50.5%	50.0%	53.3%	23.2%	15.0%
Interest Paid	167	304	382	227	180	133	126
Non-operating Income	76	97	67	36	28	50	50
Extraordinary Income	(277)	(179)	(211)	0	0	0	0
Profit Before tax	39	39	113	767	1,317	1,727	2,006
Tax	8	8	24	164	301	397	461
Net Profit	31	31	89	604	1,016	1,330	1,545
Adjusted Profit	307	210	300	604	1,016	1,330	1,545
Reported Diluted EPS Rs	1.0	1.0	2.9	19.6	33.0	43.2	50.2
Growth %	-76.8%	1.7%	184.2%	578.5%	68.2%	31.0%	16.1%
Adjusted Diluted EPS Rs	10.0	6.8	9.7	19.6	33.0	43.2	50.2
Growth %	131.3%	-31.7%	43.0%	101.2%	68.2%	31.0%	16.1%

Source: Company, BP Equities Research

Common Sized Profit & Loss Account							
YE March (Rs. mn)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Less:							
Raw Material Consumed	84.9%	87.1%	84.4%	77.0%	72.4%	71.4%	71.0%
Employee Cost	2.5%	2.1%	2.4%	3.1%	3.8%	3.7%	3.7%
Other Expenses	7.0%	5.8%	6.5%	7.9%	7.9%	7.8%	7.8%
Total Operating Expenditure	94.4%	95.0%	93.2%	88.1%	84.2%	82.9%	82.5%
EBIDTA	5.6%	5.0%	6.8%	11.9%	15.8%	17.1%	17.5%
Depreciation	1.4%	1.5%	1.4%	1.8%	1.7%	1.5%	1.7%
Interest Paid	1.7%	2.5%	3.2%	2.4%	1.7%	1.1%	1.0%
Non-operating Income	0.8%	0.8%	0.6%	0.4%	0.3%	0.4%	0.4%
Extraordinary Items	-2.9%	-1.5%	-1.8%	0.0%	0.0%	0.0%	0.0%
Profit Before Tax	0.4%	0.3%	0.9%	8.1%	12.7%	14.8%	15.3%
Current tax	0.1%	0.1%	0.2%	1.7%	2.9%	3.4%	3.5%
Profit After Tax	0.3%	0.3%	0.7%	6.3%	9.8%	11.4%	11.8%
Adjusted Profit	3.2%	1.7%	2.5%	6.3%	9.8%	11.4%	11.8%

Source: Company, BP Equities Research



IG Petrochemicals Ltd.

Initiating Coverage

	Cash Flows (Standalone)						
YE March (Rs. Mn)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
PAT	30.8	31.3	89.0	603.6	1,015.6	1,330.2	1,544.7
(Less)/Add: Extraordinary Income/Expense	276.6	178.6	211.1	0.0	0.0	0.0	0.0
Less: Non Operating Income	(75.8)	(96.8)	(66.7)	(35.7)	(28.1)	(50.0)	(50.0)
Add: Depreciation	137.5	180.3	163.9	175.4	171.9	180.3	217.7
Add: Interest Paid	166.7	303.6	381.7	226.7	180.5	132.7	125.9
Tax Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	535.8	597.0	779.0	970.1	1,339.8	1,593.2	1,838.3
(Inc)/Dec in Current Assets	(360.2)	(518.1)	579.0	274.3	(405.3)	(205.3)	(229.1)
Inc/(Dec) in Current Liabilities	561.5	1,164.8	(868.8)	(406.7)	83.9	582.9	291.3
Changes in Inventory	(247.1)	(592.6)	549.3	(30.0)	(149.8)	(130.5)	(145.7)
Net Cash Generated From Operations	490.0	651.1	1,038.6	807.6	868.6	1,840.3	1,754.8
Cash Flow from Investing Activities							
(Inc)/Dec in Fixed Assets	(11.6)	(2,253.2)	671.7	(122.4)	(120.3)	(1,000.0)	(1,700.0)
(Inc)/Dec in Capital Work In Progress	(1,531.4)	1,709.7	(1.3)	(36.4)	(68.0)	0.0	0.0
(Inc)/Dec in Investment (Strategic)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Inc)/Dec in Investment (Others)	98.1	(34.1)	(122.7)	(10.1)	(301.7)	(64.4)	(58.0)
Add: Non Operating Income	75.8	96.8	66.7	35.7	28.1	50.0	50.0
(Inc)/Dec in Intangible Assets	0.0	0.0	0.0	(2.6)	(181.6)	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	(1,369.1)	(480.8)	614.4	(135.8)	(643.5)	(1,014.4)	(1,708.0)
Cash Flow from Financing Activities							
Inc/(Dec) in Total Loans	1,093.3	262.5	(549.2)	(376.7)	87.1	0.0	0.0
Inc/(Dec) in Reserves & Surplus	(38.6)	(38.9)	(242.7)	(12.5)	103.6	0.0	(0.0)
Inc/(Dec) in Equity	0.0	0.0	0.0	0.0	(0.0)	0.0	0.0
Dividend Paid	0.0	0.0	(30.8)	(61.6)	(103.6)	(135.7)	(157.6)
Less: Interest Paid	(166.7)	(303.6)	(381.7)	(226.7)	(180.5)	(132.7)	(125.9)
Adjustments	313.1	27.7	(340.5)	(7.6)	0.0	(0.0)	(0.0)
Exceptional Item	(276.6)	(178.6)	(211.1)	0.0	0.0	0.0	0.0
Net Cash Flow from Financing Activities	924.6	(231.0)	(1,756.0)	(685.2)	(93.3)	(268.4)	(283.5)
Net Inc/Dec in cash equivalents	45.5	(60.7)	(103.0)	(13.4)	131.7	557.5	(236.7)
Opening Balance	300.4	345.9	285.2	182.2	168.8	300.6	858.1
Closing Balance Cash and Cash Equivalents	345.9	285.2	182.2	168.8	300.6	858.1	621.3

Source: Company, BP Equities Research



IG Petrochemicals Ltd.

Initiating Coverage

Balance Sheet (Standalone)							
YE March(Rs. mn)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Liabilities							
Equity Capital	308	308	308	308	308	308	308
Reserves & Surplus	2,272	2,265	2,080	2,610	3,625	4,820	6,207
Equity	2,580	2,573	2,388	2,918	3,933	5,128	6,515
Net Worth	2,580	2,573	2,388	2,918	3,933	5,128	6,515
Minority Interest							
Net Deferred tax liability/(Asset)	17	21	15	18	406	406	406
Total Loans	1,589	1,848	1,305	925	624	624	624
Capital Employed	4,187	4,442	3,708	3,861	4,963	6,158	7,545
Assets							
Gross Block	5,373	7,626	6,954	7,077	7,197	8,197	9,897
Less: Depreciation	3,655	3,863	3,687	3,854	4,026	4,207	4,424
Net Block	1,718	3,763	3,268	3,222	3,171	3,990	5,473
Capital WIP	1,716	6	8	44	112	112	112
Investments	47	81	204	214	516	580	638
Others - A	1	1	1	3	185	185	185
Current Assets							
Inventories	822	1,415	866	896	1,045	1,176	1,322
Sundry Debtors	1,243	1,743	1,452	1,088	1,498	1,685	1,893
Cash and Bank Balance	346	285	182	169	301	858	621
Loans and Advances	331	349	61	150	146	165	185
Other Current Assets	0	0	0	0	0	0	0
Total Current Assets	2,742	3,792	2,560	2,303	2,990	3,883	4,021
Less: Current Liabilities & Provisions							
Sundry Creditors	1,838	2,862	1,963	1,542	1,710	2,285	2,569
Provisions	0	0	51	86	16	16	16
Other Current Liabilities	198	339	319	298	283	291	299
Total Current Liabilities & Provisions	2,037	3,201	2,333	1,926	2,010	2,593	2,884
Capital Applied	4,187	4,442	3,708	3,861	4,963	6,158	7,545

Source: Company, BP Equities Research



IG Petrochemicals Ltd.

Initiating Coverage

Key Ratios (Standalone)							
YE March (Rs. mn)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Key Operating Ratios							
EBITDA Margin (%)	5.6%	5.0%	6.8%	11.9%	15.8%	17.1%	17.5%
Tax / PBT (%)	20.8%	20.0%	21.0%	21.3%	22.9%	23.0%	23.0%
Net Profit Margin (%)	0.3%	0.3%	0.7%	6.3%	9.8%	11.4%	11.8%
RoE (%)	11.9%	8.1%	12.1%	22.8%	29.6%	29.4%	26.5%
RoCE (%)	11.5%	10.0%	16.2%	26.8%	37.2%	37.5%	34.4%
Current Ratio (x)	1.3x	1.2x	1.1x	1.2x	1.5x	1.5x	1.4x
Dividend Payout (%)	0.0%	0.0%	34.6%	10.2%	10.2%	10.2%	10.2%
Book Value Per Share (Rs.)	83.8	83.5	77.5	94.7	127.7	166.5	211.5
Financial Leverage Ratios							
Debt/ Equity (x)	0.6x	0.7x	0.5x	0.3x	0.2x	0.1x	0.1x
Interest Coverage (x)	3.3x	2.0x	2.1x	5.0x	9.1x	15.0x	18.3x
Growth Indicators %							
Growth in Gross Block (%)	0.2%	41.9%	(8.8%)	1.8%	1.7%	13.9%	20.7%
Sales Growth (%)	9.5%	24.1%	(1.5%)	(19.7%)	8.9%	12.5%	12.4%
EBITDA Growth (%)	58.9%	11.2%	32.7%	41.2%	44.7%	21.3%	15.5%
Net Profit Growth (%)	(76.8%)	1.7%	184.2%	578.5%	68.2%	31.0%	16.1%
Diluted EPS Growth (%)	(76.8%)	1.7%	184.2%	578.5%	68.2%	31.0%	16.1%
Turnover Ratios							
Debtors Days	47	53	45	42	53	53	53
Creditors Days	69	87	60	59	71	71	71
Inventory Days	31	43	27	34	37	37	37

Source: Company, BP Equities Research

Valuation Ratios					
YE March (Rs. mn)	FY15	FY16	FY17	FY18E	FY19E
P/E (x)	44.6x	22.2x	13.2x	10.1x	8.7x
P/BV (x)	5.6x	4.6x	3.4x	2.6x	2.1x
EV/EBIDTA (x)	18.1x	12.5x	8.4x	6.6x	5.8x
EV/Sales	1.2x	1.5x	1.3x	1.1x	1.0x
Market Cap./ Sales (x)	1.1x	1.4x	1.3x	1.1x	1.0x
Dividend Yield (%)	0.2%	0.5%	0.8%	1.0%	1.2%

Source: Company, BP Equities Research



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IG Petrochemicals

14 September 2017

Reuters: IGPL.BO; Bloomberg: IGPL IN

We had a meeting recently with Mr. R. Chandrasekaran, chief financial officer (CFO) of IG Petrochemicals (IGPL) to understand the company's business model and growth prospects. IGPL is a leading manufacturer of phthalic anhydride (PA) and maleic anhydride (MA) in India. PA is a downstream product of orthoxylene (OX), a basic petrochemical. PA is used as an intermediate for production of plasticisers, unsaturated polyester resin, alkyd resin and polyol. PA is a widely used chemical used in consumer durables and non-consumer durables. As a part of strategic initiative, IGPL acquired maleic anhydride (MA) business from Mysore Petrochemicals (MPL) as a going concern on slump sales basis for a lumpsum consideration of Rs744.8mn payable over five years. MA is a chemical intermediary widely used in the production of unsaturated polyester resin, coating, pharmaceuticals and surfactants. MA is also a precursor to compounds for water treatment detergents, insecticides and fungicides. IGPL is a domestic leader in PA with a market share of 50%. The company is among the top five players globally with total capacity of 1,69,110tpa. With the acquisition of MA business from MPL, IGPL has become the only manufacturer of MA in India and is among the leading manufacturers of wash water, the raw material for producing MA.

Domestic leadership in phthalic anhydride or PA: Incorporated in 1988, IGPL steadily expanded its PA capacity from 45,000tpa in 1992 to 1,69,110tpa in 2017. Current consumption of PA in India stands at 0.35mtpa. IGPL and Thirumalai Chemicals are the only two manufacturers of PA in India with a combined capacity of ~0.27mtpa. The rest of domestic requirement is met through imports. Anti-dumping duty on PA from Taiwan, Korea, Russia, Japan and Israel stands at ~7.5%. Domestic PA market is growing at a healthy rate of 7%-8% per annum. PA is used in plasticisers (34%), CPC pigment (24%), alkyd resin (17%), unsaturated polyester resin (6%) and others (19%). With the government's increased infrastructure thrust, rising demand for plasticisers, paints, etc because of increased consumption, and increased demand for PVC pipes because of the focus on rural water management the demand for PA increased continuously since the past three years. Imports have risen continuously in the past three years from 52,000tpa to 85,000tpa over FY15-FY17. The management believes that IGPL has a firm footing in domestic market. Looking at healthy domestic demand for PA, the company will be going for brownfield capacity expansion for PA from 0.17mtpa to 0.23mtpa with a capex of Rs3,000mn. Expected incremental sales from this capacity expansion is Rs6,000mn per annum.

Sole manufacturer of maleic anhydride or MA in India: The raw material used for manufacturing MA is en-butene (a gas derivative) which is not available in India. As a result, 100% of India's consumption of MA (51,000tpa) is currently met through imports. IGPL acquired MA business of MPL as a going concern on slump basis for a consideration of ~Rs750mn on 1 April 2017. With the acquisition of MA business from MPL, IGPL has become the sole manufacturer of MA in India. IGPL uses wash water created from the manufacturing process of PA to recover MA and benzoic acid. Current capacity of MA is 4,500tpa. With less than 10% of market share in domestic market and being a sole manufacturer in India, IGPL believes there is enough opportunity to grow in MA business. Current MA capacity generates Rs350mn-Rs450mn of annual sales with EBITDA/PAT of Rs200mn/Rs120mn, respectively. The company intends to increase its MA capacity from 4,500tpa to 6,300tpa by 2019. Major applications of MA are in spandex (elastics), unsaturated polyester resin (UPR), food industry, insecticides, fungicides, water treatment, personal care products and lubricant oil additives.

NOT RATED

CMP: Rs516

Sector: Chemicals

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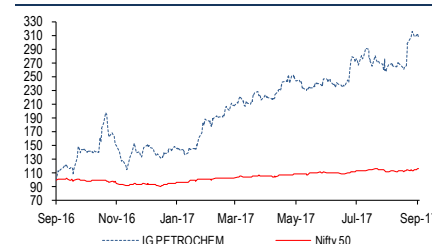
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Key Data

Current Shares O/S (mn)	30.8
Mkt Cap (Rsbn/US\$mn)	15.8/246.6
52 Wk H / L (Rs)	540/162
Daily Vol. (3M NSE Avg.)	95,259

One-Year Indexed Stock



Price Performance (%)

	1 M	6 M	1 Yr
IG Petrochemicals	14.3	45.0	172.8
Nifty Index	2.9	10.9	15.5

Source: Bloomberg

Other key takeaways from the meeting

Global market for PA: Global market for PA stands at 3.3mtpa valued at US\$6.9bn in 2013. It is expected to touch US\$9.6bn by 2020. Asia-Pacific is the biggest consumer of PA accounting for ~65% of total global consumption followed by Europe (~15%), North America (~9%) and Rest of World (~11%). UPC Technology Corp., Exxon Mobil and Aekyung Petrochemicals are some of the big players in PA industry. Combined capacity in Europe and North America stands at 1.5mtpa-2.0mtpa. PA in these markets is supplied in molten form (140 degree C) because of availability of better infrastructure, while in Asia it is supplied in granule form to customers.

New product pipeline: The management is contemplating the manufacture of a few new products, mainly DOP, DEP and DMP. Supply of these new products is expected to start in 2019-20. With incremental growth from PA, MA and new products, the management expects the company's sales to touch Rs20,000mn by 2020.

Sales segmentation: 80% of IGPL's sales are in domestic market and the rest 20% in export markets. Most of domestic sales are in West India. Middle East countries are export markets for IGPL.

Raw material sourcing: Orthoxylene (OX) is a key raw material for manufacturing PA. IGPL procures its raw material from Reliance Industries or RIL. IGPL has a long-term relationship with RIL. Raw material for MA is wash water which is manufactured by the company.

Contract pricing and client concentration: IGPL has ~50 clients and no client contributes more than 8%-10% to its total sales. 30% of the contracts are on cost-plus basis while the balance 70% contracts are priced on spot basis.

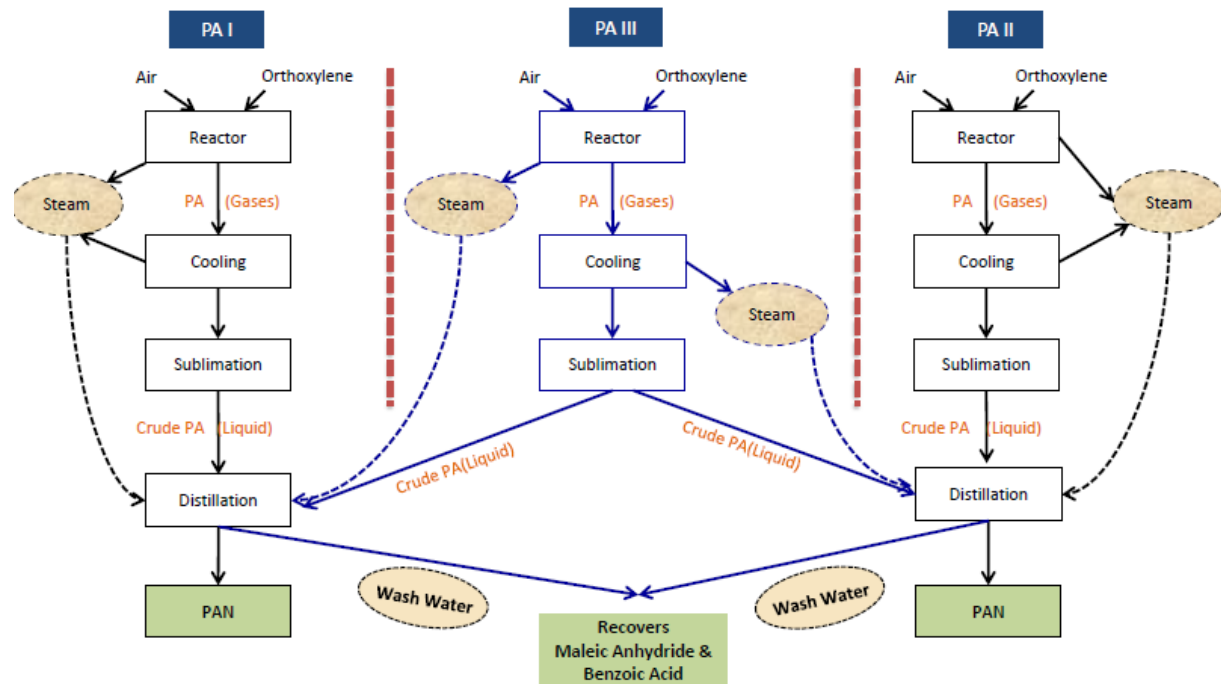
High gestation period: PA and MA fall under the hazardous chemicals category. Setting up a plant requires approval from the environment ministry which takes around one year. Total time required to set up a new facility can take around two years.

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY13	FY14	FY15	FY16	FY17
Revenues	9,703	12,043	11,881	9,528	10,375
YoY (%)	9.5	24.1	(1.3)	(19.8)	8.9
EBITDA	567	605	790	1,132	1,639
EBITDA (%)	5.8	5.0	6.7	11.9	15.8
Adjusted PAT	250	174	256	602	1,012
Reported PAT	31	31	89	602	1,012
Adjusted EPS (Rs)	8	6	8	20	33
YoY (%)	87.9	(30.2)	46.9	135.3	68.1
RoE (%)	10.9	7.5	10.8	22.7	29.6
RoCE (%)	12.8	10.5	15.9	25.4	35.0
P/E (x)	65	93	63	27	16
Price/sales (x)	2	1	1	2	2
EV/EBITDA (x)	31	29	22	15	10

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Production Process

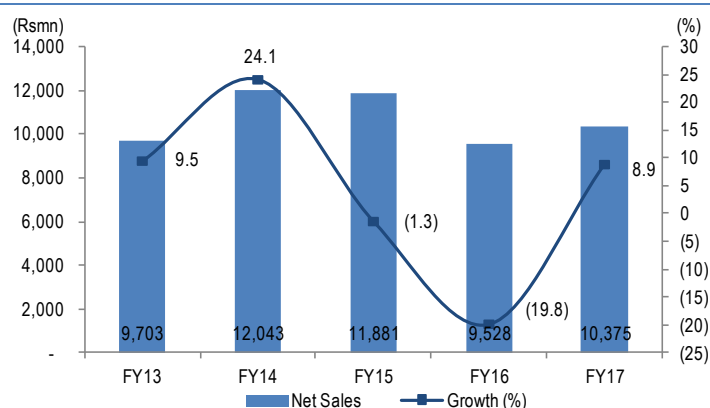


Source: Company, Nirmal Bang Institutional Equities Research

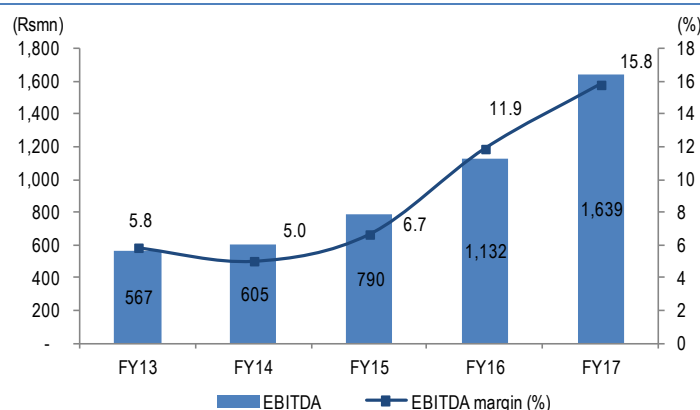
Exhibit 3: Peer Comparison

Company	Market Cap (Rs mn)	Revenue (Rs mn)			EBITDA (Rs mn)			EBITDA Margin (%)			Adjusted Net Profit (Rs mn)			Operating Cash Flow (Rs mn)			Free Cash Flow (Rs mn)			ROE (%)			ROCE (%)		
		FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17
IG Petrochemicals	16,212	11,881	9,528	10,375	790	1,132	1,639	6.7	11.9	15.8	256	602	1,012	675	946	869	569	780	608	10.8	22.7	29.6	15.9	25.4	35.0
Thirumalai Chemicals	15,529	10,723	9,442	10,328	380	978	1,580	3.5	10.4	15.3	-137	322	705	1,210	1,059	1,016	996	778	709	-7.1	14.7	23.8	5.6	24.4	39.9

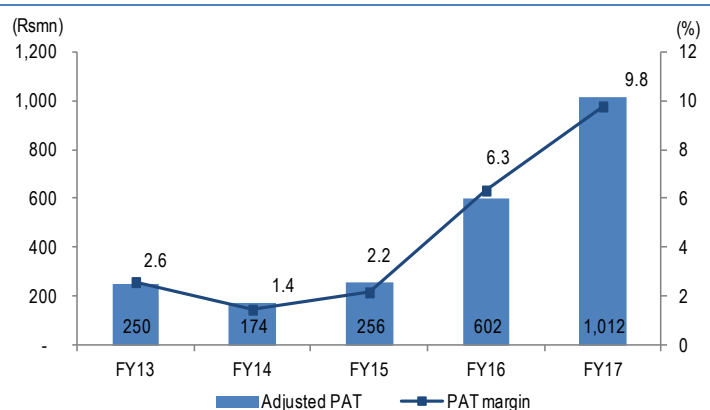
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Net Sales & Growth


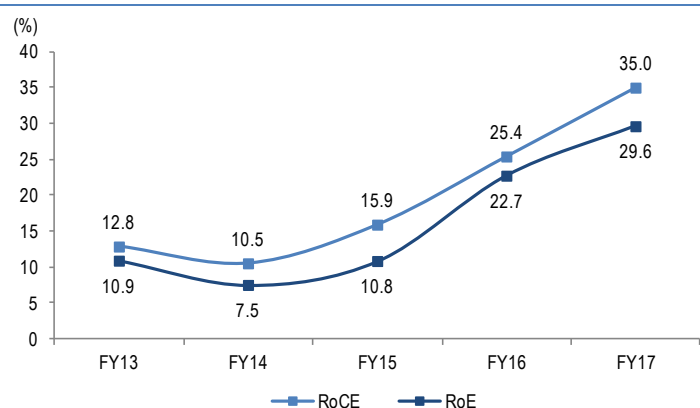
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: EBITDA & EBITDA Margin


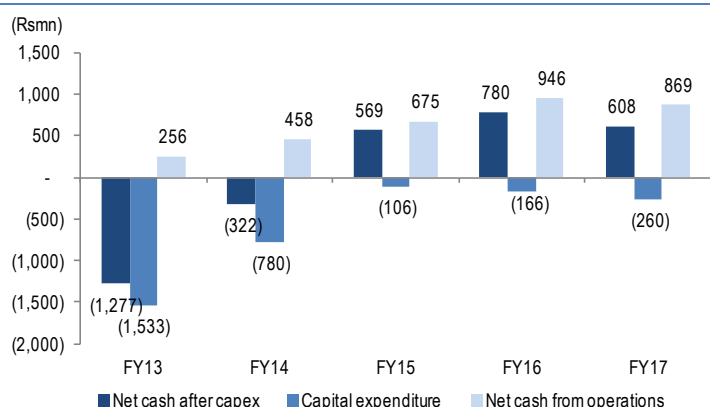
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: PAT & PAT Margin


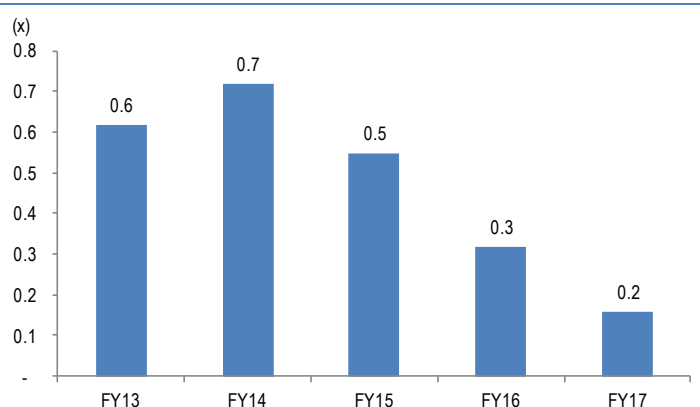
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: RoCE & RoE


Source: Company, Nirmal Bang Institutional Equities Research

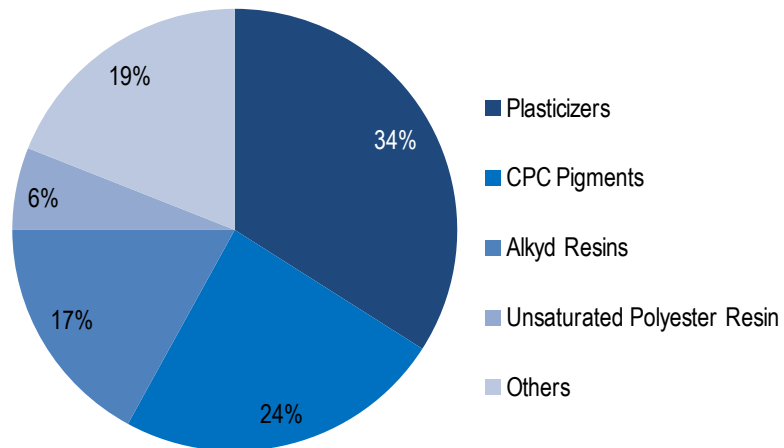
Exhibit 8: CFO Vs FCF


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Debt-Equity


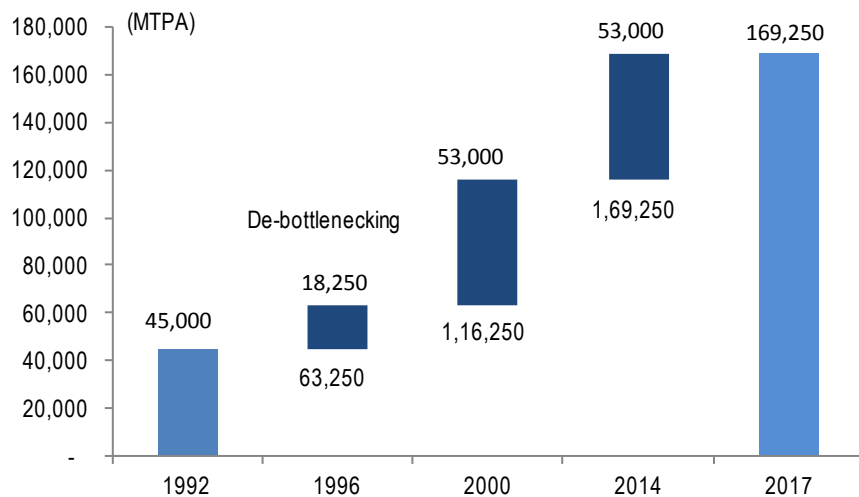
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Uses



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Capacity



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Clients

Plasticizers	KLJ, Payal group
Paints	Berger, Kansai Nerolac
UPR	Ashland, Aarti Industries
CPC Pigment	MOL, Mazda

Source: Company, Nirmal Bang Institutional Equities Research

Financials (consolidated)

Exhibit 13: Income statement

Y/E March (Rsmn)	FY13	FY14	FY15	FY16	FY17
Net Sales	9,703	12,043	11,881	9,528	10,375
Growth (%)	9.5	24.1	(1.3)	(19.8)	8.9
Raw Materials	8,237	10,484	10,012	7,341	7,512
Employee Expenses	244	251	285	298	397
Other expenses	655	703	793	758	827
Total expenditure	9,137	11,438	11,090	8,397	8,736
EBITDA	567	605	790	1,132	1,639
Growth (%)	34.2	6.7	30.7	43.2	44.8
EBITDA margin (%)	5.8	5.0	6.7	11.9	15.8
Other income	53	97	79	36	27
Interest Costs	167	304	382	227	181
Depreciation	138	180	164	175	172
Exceptional Items	(277)	(179)	(211)	-	-
PBT	39	39	113	765	1,313
Tax	8	8	24	164	301
Effective tax rate (%)	20.8	20.0	21.0	21.4	22.9
PAT	31	31	89	602	1,012
Exceptional Items	(219)	(143)	(167)	-	-
Adjusted PAT	250	174	256	602	1,012
Growth (%)	-	(30.2)	46.9	135.3	68.1
Adjusted EPS (Rs)	8.1	5.7	8.3	19.5	32.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Balance sheet

Y/E March (Rsmn)	FY13	FY14	FY15	FY16	FY17
Equity	308	308	308	308	308
Reserves	2,272	2,265	2,080	2,608	3,616
Net worth	2,580	2,573	2,388	2,916	3,924
Minority Interest	-	-	-	-	-
Short-term Loans	359	439	230	3	24
Long-term Loans	1,231	1,408	1,078	922	600
Total Loans	1,589	1,848	1,308	925	624
Deferred tax liabilities	-	-	-	-	386
Other non-current liabilities	17	21	17	18	19
Total Liabilities	4,187	4,442	3,714	3,859	4,954
Net Block	1,717	3,763	3,267	3,222	3,243
Capital WIP	1,716	6	8	44	112
Goodwill	-	-	-	-	-
Long-term investments	1	1	1	1	80
Other non-current assets	62	82	70	214	517
Current Investments	-	-	-	-	-
Inventories	822	1,415	866	896	1,045
Debtors	1,243	1,743	1,432	1,088	1,498
Cash & Bank	346	285	182	170	325
Cash and cash equivalents	-	-	-	-	-
Bank Balance	-	-	-	-	-
Other current assets	316	349	211	150	154
Total Current Assets	2,727	3,792	2,691	2,304	3,022
Creditors	1,838	2,862	1,963	1,542	1,721
Other current liabilities/provisions	198	339	359	383	299
Total current liabilities	2,037	3,201	2,323	1,926	2,020
Net current assets	690	590	368	378	1,002
Total Assets	4,187	4,442	3,714	3,859	4,954

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Cash flow

Y/E March (Rsmn)	FY13	FY14	FY15	FY16	FY17
EBIT	206	343	494	992	1,493
(Inc.)/Dec in working capital	(27)	39	119	(22)	(469)
Cash flow from operations	179	382	613	970	1,025
Other income	(53)	(97)	(79)	(36)	(27)
Depreciation	138	180	164	175	172
Tax paid	(8)	(8)	(24)	(164)	(301)
Net cash from operations	256	458	675	946	869
Capital expenditure	(1,533)	(780)	(106)	(166)	(260)
Net cash after capex	(1,277)	(322)	569	780	608
Other investing activities	137	78	91	(109)	(356)
Cash from financial activities	1,186	184	(763)	(683)	(97)
Opening cash	300	346	285	182	170
Closing cash	346	285	182	170	325
Change in cash	45	(61)	(103)	(12)	155

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Key ratios

Y/E March	FY13	FY14	FY15	FY16	FY17
Per share (Rs)					
EPS	8.1	5.7	8.3	19.5	32.9
Book value	84	84	78	95	127
Valuation (x)					
P/E	65	93	63	27	16
P/sales	2	1	1	2	2
P/BV	6	6	7	6	4
EV/EBITDA	31	29	22	15	10
EV/sales	2	1	1	2	2
Return ratios (%)					
RoCE	12.8	10.5	15.9	25.4	35.0
RoE	10.9	7.5	10.8	22.7	29.6
Margins (%)					
Gross margin	14.2	15.1	12.9	15.7	23.0
EBITDA margin	5.8	5.0	6.7	11.9	15.8
EBIT margin	4.4	3.5	5.3	10.0	14.1
PBT margin	0.4	0.3	0.9	8.0	12.7
PAT margin	2.6	1.4	2.2	6.3	9.8
Turnover ratio					
Asset turnover ratio (x)	2.3	2.7	3.2	2.5	2.1
Avg inventory days	28	36	38	38	41
Avg. collection period (days)	43	45	49	48	45
Avg. payment period (days)	65	75	79	76	68
Solvency ratios (x)					
Debt-equity	0.6	0.7	0.5	0.3	0.2
Growth (%)					
Sales	9.5	24.1	(1.3)	(19.8)	8.9
EBITDA	34.2	6.7	30.7	43.2	44.8
PAT	87.9	(30.2)	46.9	135.3	68.1

Source: Company, Nirmal Bang Institutional Equities Research

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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