

Maintained steady performance: Reiterate BUY

IG Petrochemicals Ltd (IGPL), for Q2FY19, reported a decent set of numbers. Revenue grew at 34.6% YoY to Rs 3,242mn (est Rs 2,752mn). EBITDA grew by 16.9% YoY to Rs 713mn (est Rs581mn) with 334bps YoY decline in margin from 25.3% in Q2FY18 to 22% in Q2FY19 (est. 21.15) mainly due to depressed gross margins and higher other expenses. During Q2FY19, production of PAN volume has shown a 10% decline on a sequential basis from 40,000 in Q1FY19 to 36,000 in Q2. Lower production volume was due to the production shutdown in one unit for 23 days to change catalyst. On a sequential basis, gross margin showed improvement on the back of favorable PAN/OX spread. However, we noticed ~14% decline in PAN/OX spread on a sequential basis which could result in a contraction of gross margin in Q3FY19. IGPL Net profit grew by 20.4% to Rs405mn (est. Rs 308mn), the healthy growth was due to decent performance on the operational front.

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

In order to meet growing demand and limited headroom for volume growth (capacity utilization 91%), IGPL has proposed to set up a new plant through Brownfield expansion (PA4) and increase its capacity by 53,000(TPA), taking its total capacity to 2,28,250 TPA. PA4 is expected to get commissioned in 2H FY20. The company added 6,000TPA capacity (3.5% of total capacity) through debottlenecking during Q2FY18, which has provided scope for volume growth in FY19. We modeled 4% volume growth (earlier 7%) in PAN during FY19, due to the bottleneck of capacity and removal of anti-dumping duty on PAN. We expect to see double-digit volume growth lead by commissioning of capacity and healthy growth in the user industry.

Revised Estimate: Removal of Anti-dumping duty could slowdown volume/realization growth

We cut our PAN volume growth estimates for FY19/20 to 4%(vs 7%) and 10% (vs 12%) with the flat realization growth. Change in estimate is mainly due to a removal of anti-dumping duty on PAN which could further intensify competition and result in slower than expected volume growth for IGPL. Import data suggest a 41.7% increase in import of PAN during FY18 compared to 18.8% CAGR over FY12-17. However, IGPL prices are largely in line with import prices making it competitive.

Valuation and Outlook

IGPL has a leadership position in terms of capacity and costs in the domestic PAN market. The company is well positioned to witness steady revenue and profitability growth going forward in the business through brownfield expansion and higher capacity utilization with domestic demand likely to remain robust. We expect Revenue/EBITDA/PAT to clock 9.3%/3%/15.9% CAGR during FY18-20E. At the current market price (of Rs 432) the company is trading at 8.7x, it's FY19E EPS of Rs 49.7 and 6.8x its FY20E EPS of Rs 63.7. Recent correction from the top provides a good entry opportunity in the stock. We maintain our positive view with 'BUY' rating by assigning 15x to its FY20E earnings to arrive at a revised target price of Rs 955.

Stock Rating

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

Sector Outlook

Positive

Stock

CMP (Rs)	432
Target Price (Rs)	955
BSE code	500199
NSE Symbol	IGPL
Bloomberg	IGPL IN
Reuters	IGPT.BO

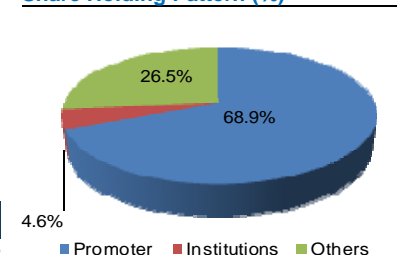
Key Data

Nifty	10,617
52 Week H/L (Rs)	840/340
O/s Shares (Mn)	31
Market Cap (Bn)	13.4
Face Value (Rs)	10

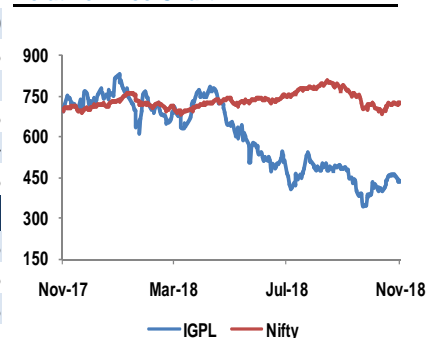
Average volume

3 months	65,753
6 months	59,002
1 year	58,495

Share Holding Pattern (%)



Relative Price Chart



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Key Financials

YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	9,528	10,375	11,442	12,188	13,671
Growth %	-20%	9%	10%	7%	12%
EBIDTA	1,134	1,639	2,673	2,680	2,839
Growth%	41%	45%	63%	0%	6%
Net Profit	604	1,012	1,461	1,531	1,961
Growth %	579%	68%	44%	5%	28%
Diluted EPS	20	33	47	50	64
Growth %	579%	68%	44%	5%	28%

Profitability & Valuation

EBIDTA (%)	12%	16%	23%	22%	21%
NPM (%)	6%	10%	13%	13%	14%
RoE (%)	23%	30%	32%	26%	26%
RoCE (%)	27%	37%	48%	38%	32%
P/E (x)	22.0	13.1	9.1	8.7	6.8
EV/EBITDA (x)	12.4	8.3	5.1	4.8	4.3
P/BV (x)	4.6	3.4	2.5	2.0	1.6

Source: Company, BP Equities Research

IG Petrochemicals Ltd.

Result Update

IG Petrochemicals Ltd Q2FY19 Quarterly Result

YE March (Rs. mn)	Q2 FY19	Q1 FY19	Q-o-Q change %	Q2 FY18	Y-o-Y change %
Net Sales	3,242	3,509	(7.6%)	2,409	34.6%
Other Operating Income	0	0		0	
Total Revenue	3,242	3,509	(7.6%)	2,409	34.6%
Less:					
Raw Material Cost	2,067	2,262	(8.6%)	1,425	45.1%
Operating & Manufacturing Expenses	298	236	26.2%	252	18.4%
Employee Cost	165	164	0.3%	123	34.0%
Total Expenditure	2,530	2,663	(5.0%)	1,799	40.6%
EBIDTA	713	847	(15.8%)	610	16.9%
Less: Depreciation	65	63	3.1%	65	(0.5%)
EBIT	648	784	(17.4%)	545	18.9%
Less: Interest	48.4	24.9	94.6%	35.1	38.1%
Add: Other income	16	14		6	
Profit before tax	616	774	(20.4%)	516	19.3%
Adjusted Profit before Tax	616	774	(20.4%)	516	19.3%
Less: Total Tax	211	276	(23.7%)	180	17.3%
Profit After Tax	405	497	(18.6%)	336	20.4%
Other comprehensive Income	0	0		0	
Minority Interest	0	0		0	
Adjusted Profit After Tax	405	497	(18.6%)	336	20.4%
Diluted EPS (Rs.)	13.1	16.1	(18.6%)	10.9	20.4%
Adjusted Diluted EPS	13.1	16.1	(18.6%)	10.9	20.4%
Diluted No of Share (mn)	30.8	30.8		30.8	
Margin Analysis %			Change in bps		Change in bps
EBIDTA Margin %	22.0%	24.1%	(215)	25.3%	(334)
EBIT Margin %	20.0%	22.3%	(236)	22.6%	(264)
NPM %	12.5%	14.2%	(169)	14.0%	(147)
Effective Tax Rate %	34.3%	35.7%	(147)	34.9%	(61)

Source: Company, BP Equities Research

Revenue were above our estimates of Rs 2,752mn

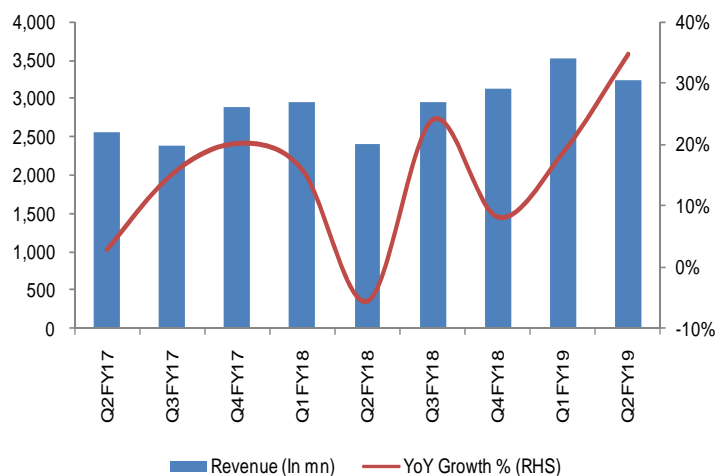
Adj. PAT came above our estimate of Rs 308mn

The EBITDA margin, at 22% was inline with our estimate of 21.1%

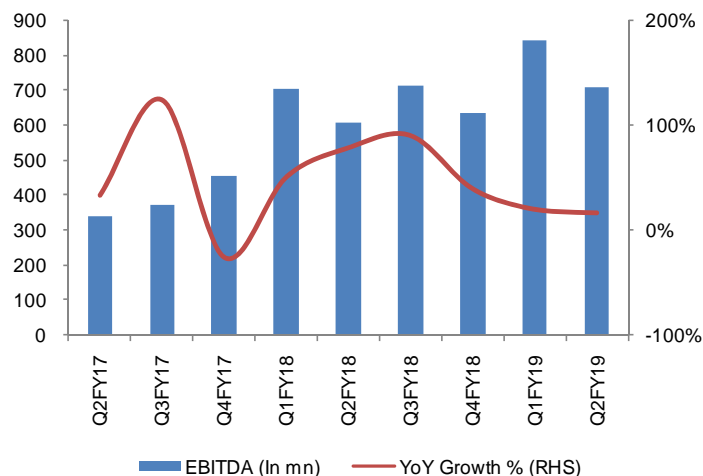
IG Petrochemicals Ltd.

Result Update

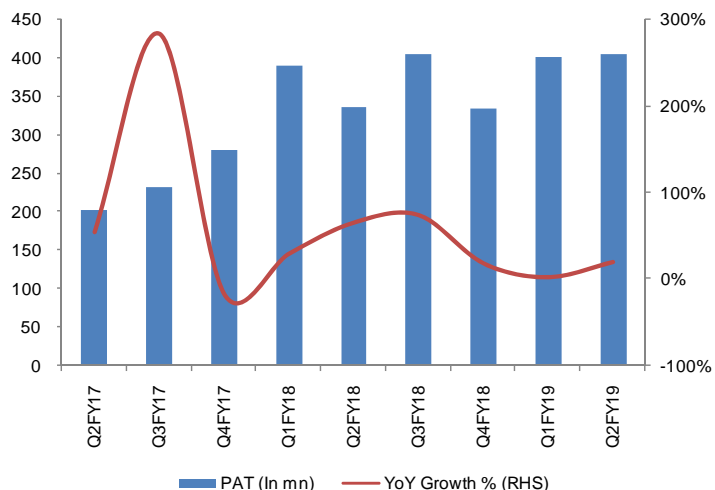
Revenue growth trend



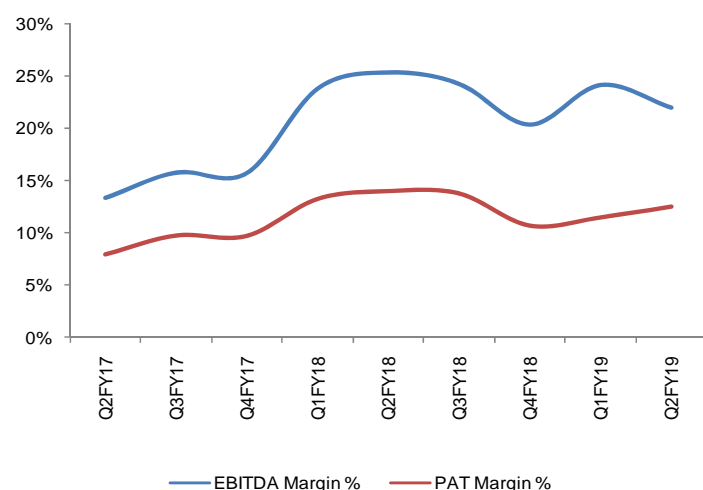
EBITDA showed a growth of 16.9% YoY



PAT showed growth of 20.4% YoY

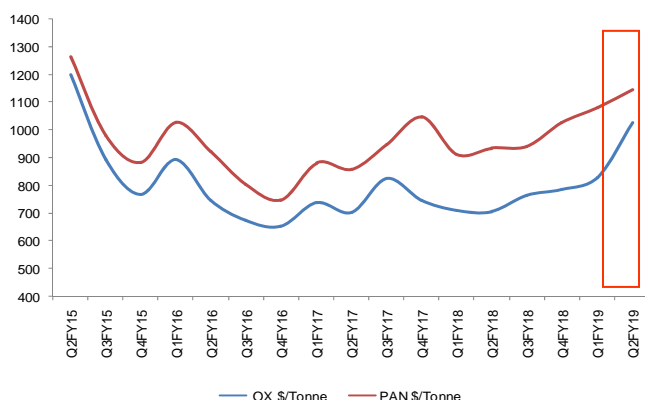


EBITDA and PAT Margin Trend



Source: Company, BP Equities Research

PAN and OX price trend



Source: Company, BP Equity Research

IG Petrochemicals Ltd.

Result Update

Profit & Loss A/c					
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	9,528	10,375	11,442	12,188	13,671
Growth %	-19.7%	8.9%	10.3%	6.5%	12.2%
Total Revenue	9,528	10,375	11,442	12,188	13,671
Less:					
Raw Material Consumed	7,341	7,512	7,275	7,874	9,013
Employee Cost	298	397	558	641	705
Other Expenses	756	827	936	993	1,114
Total Operating Expenditure	8,395	8,736	8,769	9,508	10,832
EBITDA	1,134	1,639	2,673	2,680	2,839
Growth %	41.2%	44.6%	63.1%	0.3%	5.9%
Less: Depreciation	175	172	257	246	282
EBIT	958	1,467	2,416	2,434	2,557
Growth %	50.0%	53.1%	64.7%	0.8%	5.0%
Interest Paid	227	181	149	120	114
Non-operating Income	36	27	37	40	40
Extraordinary Income	0	0	0	0	0
Profit Before tax	767	1,313	2,304	2,355	2,483
Tax	164	301	843	824	521
Net Profit	604	1,012	1,461	1,531	1,961
Adjusted Profit	604	1,012	1,461	1,531	1,961
Reported Diluted EPS Rs	19.6	32.9	47.4	49.7	63.7
Growth %	578.5%	67.6%	44.3%	4.8%	28.1%
Adjusted Diluted EPS Rs	19.6	32.9	47.4	49.7	63.7
Growth %	101.2%	67.6%	44.3%	4.8%	28.1%

Source: Company, BP Equities Research

Cash Flows Statement					
YE March (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
PAT	603.6	1,011.9	1,460.5	1,530.6	1,961.3
(Less)/Add: Extraordinary Income/Expense	0.0	0.0	0.0	0.0	0.0
Less: Non Operating Income	(35.7)	(26.6)	(36.8)	(40.0)	(40.0)
Add: Depreciation	175.4	171.9	257.0	245.6	282.0
Add: Interest Paid	226.7	180.5	149.3	119.7	113.9
Tax Adjustment	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	970.1	1,337.7	1,830.0	1,855.9	2,317.2
(Inc)/Dec in Current Assets	274.3	(412.8)	(338.9)	(76.1)	(201.8)
Inc/(Dec) in Current Liabilities	(406.7)	94.3	(94.7)	472.5	261.7
Changes in Inventory	(30.0)	(149.8)	101.6	(61.6)	(122.3)
Net Cash Generated From Operations	807.6	869.4	1,498.0	2,190.7	2,254.8
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(122.4)	(190.1)	(1,179.0)	(1,000.0)	(1,400.0)
(Inc)/Dec in Capital Work In Progress	(36.4)	(68.0)	(779.9)	0.0	0.0
(Inc)/Dec in Investment (Strategic)	0.0	0.0	0.0	0.0	0.0
(Inc)/Dec in Investment (Others)	(10.1)	(301.7)	179.9	(33.6)	(36.9)
Add: Non Operating Income	35.7	26.6	36.8	40.0	40.0
(Inc)/Dec in Intangible Assets	(2.6)	(77.0)	(107.9)	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	(135.8)	(610.2)	(1,850.1)	(993.6)	(1,396.9)
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	(376.7)	87.1	363.1	0.0	0.0
Inc/(Dec) in Reserves & Surplus	(12.5)	97.6	16.7	0.0	0.0
Inc/(Dec) in Equity	0.0	0.0	0.0	0.0	0.0
Dividend Paid	(61.6)	(103.3)	(123.4)	(129.3)	(165.7)
Less: Interest Paid	(226.7)	(180.5)	(149.3)	(119.7)	(113.9)
Adjustments	(7.6)	(3.7)	137.0	(0.0)	0.0
Exceptional Item	0.0	0.0	0.0	0.0	0.0
Net Cash Flow from Financing Activities	(685.2)	(102.7)	244.0	(249.0)	(279.6)
Net Inc/Dec in cash equivalents	(13.4)	156.5	(108.1)	948.1	578.2
Opening Balance	182.2	168.8	325.4	217.3	1,165.4
Closing Balance Cash and Cash Equivalents	168.8	325.4	217.3	1,165.4	1,743.6

Source: Company, BP Equities Research

IG Petrochemicals Ltd.

Result Update

Balance Sheet					
YE March(Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Liabilities					
Equity Capital	308	308	308	308	308
Reserves & Surplus	2,610	3,616	4,970	6,371	8,167
Equity	2,918	3,924	5,278	6,679	8,475
Net Worth	2,918	3,924	5,278	6,679	8,475
Minority Interest					
Net Deferred tax liability/(Asset)	18	406	774	774	774
Total Loans	925	624	619	619	619
Capital Employed	3,861	4,954	6,671	8,072	9,868
Assets					
Gross Block	7,077	7,267	8,446	9,446	10,846
Less: Depreciation	3,854	4,023	4,416	4,662	4,944
Net Block	3,222	3,244	4,029	4,784	5,902
Capital WIP	44	112	892	892	892
Investments	214	516	336	369	406
Others - A	3	80	188	188	188
Current Assets					
Inventories	896	1,045	944	1,005	1,128
Sundry Debtors	1,088	1,498	1,388	1,478	1,658
Cash and Bank Balance	169	325	217	1,165	1,744
Current Investments			407	407	407
Loans and Advances	150	154	35	181	203
Other Current Assets	0	0	159	0	0
Total Current Assets	2,303	3,022	3,151	4,237	5,139
Less: Current Liabilities & Provisions					
Sundry Creditors	1,542	1,721	1,498	2,083	2,336
Provisions	86	16	8	16	17
Other Current Liabilities	298	283	419	299	307
Total Current Liabilities & Provisions	1,926	2,020	1,925	2,398	2,660
Capital Applied	3,861	4,954	6,671	8,072	9,868

Source: Company, BP Equities Research

Key Ratios					
YE March (Rs. mn)	FY16	FY17	FY18E	FY19E	FY20E
Key Operating Ratios					
EBITDA Margin (%)	11.9%	15.8%	23.4%	22.0%	20.8%
Tax / PBT (%)	21.3%	22.9%	36.6%	35.0%	21.0%
Net Profit Margin (%)	6.3%	9.8%	12.8%	12.6%	14.3%
RoE (%)	22.8%	29.6%	31.7%	25.6%	25.9%
RoCE (%)	26.8%	36.7%	47.9%	37.9%	32.0%
Current Ratio (x)	1.2x	1.5x	1.6x	1.8x	1.9x
Dividend Payout (%)	10.2%	10.2%	8.5%	8.5%	8.5%
Book Value Per Share (Rs.)	94.7	127.4	171.4	216.9	275.2
Financial Leverage Ratios					
Debt/ Equity (x)	0.3x	0.2x	0.1x	0.1x	0.1x
Interest Coverage (x)	5.0x	9.1x	17.9x	22.4x	24.9x
Growth Indicators %					
Growth in Gross Block (%)	1.8%	2.7%	16.2%	11.8%	14.8%
Sales Growth (%)	(19.7%)	8.9%	10.3%	6.5%	12.2%
EBITDA Growth (%)	41.2%	44.6%	63.1%	0.3%	5.9%
Net Profit Growth (%)	578.5%	67.6%	44.3%	4.8%	28.1%
Diluted EPS Growth (%)	578.5%	67.6%	44.3%	4.8%	28.1%
Turnover Ratios					
Debtors Days	42	53	44	44	44
Creditors Days	59	72	62	62	62
Inventory Days	34	37	30	30	30

Source: Company, BP Equities Research



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