

IG PETROCHEMICALS

COMMODITY CHEMICALS

Q1FY19: Strong Operating performance continues leading to profitable growth

IG Petrochemicals (IGPL) in Q1FY19 posted revenues of Rs. 351 Cr (↑ 19%/12% YoY/QoQ) due to steady production of Phthalic Anhydride (PA) led by strong demand in end user industries. EBITDA Margin expanded 60bps YoY to 24.1% in Q1FY19 led by increase in spreads due to higher demand of PA and Maleic Anhydride (MA), better recovery processes and operational efficiencies. Reported PAT was Rs 40.2 Cr in Q1FY19 (↑2.9%/20.2% YoY/QoQ respectively). Due to impairment of Rs. 9.5 Cr by its subsidiary IGPL (FZE) in JV with DUGAS impacted PAT growth in Q1FY19.

Key triggers for earnings growth over FY19/FY20 are 1) IGPL's capacity and cost leadership in domestic PA market, 2) encouraging downstream expansion to Specialty Plasticizers and 3) PA4 expansion. Correction in the stock price from its high's provides a good entry point for long term investors as we retain our BUY rating on the stock. **While we maintain our Revenues/PAT estimates, we revise our TP to Rs. 672 valuing it at 10.5x FY20EEPS (earlier 12.5x). We retain our BUY.**

Valuation & Outlook

- Outlook:** We maintain our Revenue/EBITDA/PAT estimates for FY18-20 for IGPL at a CAGR of 10%/13%/ 16% owing to strong end-user industry demand in domestic market. Besides, IGPL continues to be a market leader in domestic PA industry (~50% market share), muted capacity expansion globally has led to IGPL to expand capacities, sticky clientele, healthy return ratios, expansion in value added products (downstream specialty plasticizers). However, the company missed on our PAT estimates in Q1FY19 on account of impairment by subsidiary IGPL (FZE) in JV DUGAS.
- Valuation:** At CMP, IGPL trades at undemanding 7.5x FY20E P/E multiple given the strong growth over FY18-20E. However, we revise our Target Price to Rs. 672 valuing it at 10.5x (earlier 12.5x) mainly due to delay in commercialization of PA4 expansion now from H2FY20E as guided by the management (vs. H1FY20E earlier). **A sharp correction from high's of April 2018 provide a good entry point in the stock thereby making us believers in the stock. We maintain our BUY.**

Key Highlights

- Revenue growth sustained in Q1FY19:** The total capacity of PA and MA stands at 1.69 lakh MTPA and 6,920 MTPA respectively. In Q1FY19, IGPL's volumes came in higher on a YoY basis aided by strong demand from end-user industries. The capacity utilization for both PA & MA was better in Q1FY19 vis-à-vis Q1FY18. During the quarter under review, exports revenues constituted ~17% for Phthalic Anhydride.

FINANCIAL SUMMARY (Consolidated)

Y/E March	Sales (Rs Cr)	EBITDA (Rs. Cr)	PAT (Rs Cr)	EPS (Rs)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS
FY17	1,037	164	102	33.0	68.7	-	29.7	35.7	-	0.0
FY18	1,144	267	146	47.4	43.8	-	31.4	45.0	-	3.0
FY19E	1,217	298	168	54.4	14.8	9.4	27.4	37.8	4.7	3.0
FY20E	1,386	344	197	64.0	17.5	8.0	25.2	34.8	3.4	3.0

Source: Company and Axis Direct Research, CMP as on 3rd Sept, 2018

4 SEPT 2018

Quarterly Update

BUY

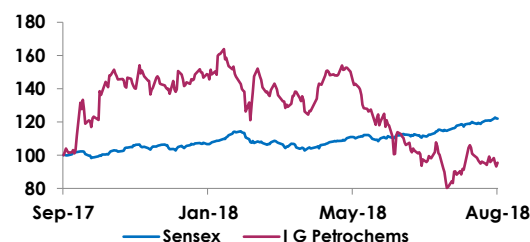
Target Price: Rs. 672

CMP	: Rs 486
Potential Upside	: 39%
Relative to Sector	: Positive

MARKET DATA

No. of Shares	: 3.08 Cr.
FV (Rs)	: 10
Market Cap	: Rs. 1,498 Cr.
52-week High / Low	: Rs 840/ Rs 395
Avg. Daily vol. (6mth)	: 30,229 shares
Bloomberg Code	: IGPL.IN
Reuters Code	: IGPT.NS
BSE Code	: 500199
NSE Code	: IGPL

PRICE PERFORMANCE



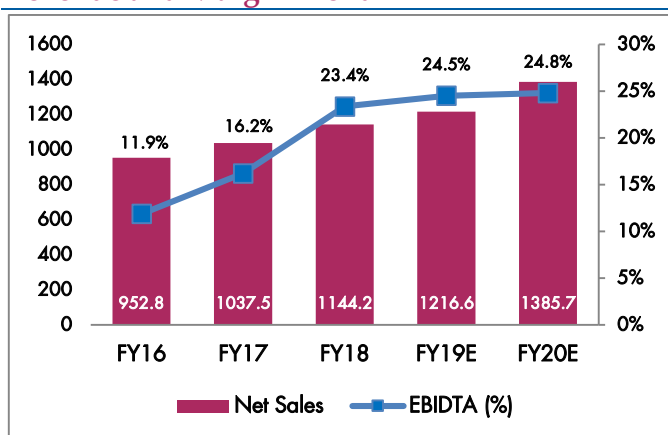
Suvarna Joshi

suvarna.joshi@axissecurities.in

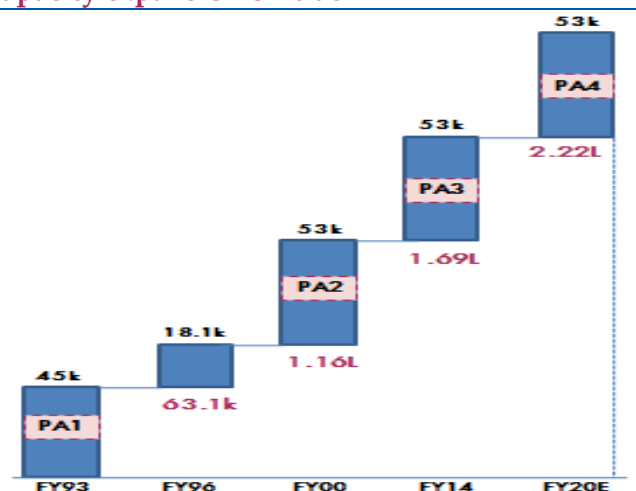
Key Highlights (Cont'd)

- Increased demand for PA and MA led to margin increase:** In Q1FY19, the EBITDA of the company increased by 22% to Rs. 85Cr. (vs. Rs. 47 Cr Y-o-Y) mainly on account of increase in spreads due to increased demand of Phthalic Anhydride (PA) and Maleic Anhydride (MA), better recovery processes and operational efficiencies. This is reflected in the **raw material cost as a % of revenues trend** which declined from 87% in FY14 to 64% in Q1FY19. The EBITDA Margin for Q1FY19 stood at 24.1% vs. 23.5% in Q1FY18. Phthalic Anhydride raw material Orthoxylene being a crude derivative, the margins have not been impacted by rise in crude prices, as the company has been able to pass on the price rise to its consumers.
- Brownfield expansion to address increased demand:** The domestic PA industry which stands at ~3.75L MTPA is expected to grow at 5-6% p.a over the next few years owing to steady growing demand in end-user industries. Also imports of PAN have reached ~1L tonnes in Q1FY19. This along with muted capacity addition globally has resulted in a huge demand supply mismatch. Subsequently, IGPL is planning to increase its capacity by ~30% in PA4 plant (53,000 MTPA) at existing location (Taloja) which is expected to be completed in H2FY20E (earlier Q2FY20). Thus IGPL would have a total capacity of 2.22L MTPA for PA by FY20E. The total project cost in Rs. 300-350Cr and **it could help generate annual revenues worth Rs 400-450 Cr** for IGPL with an asset turnover of ~2x. Post PA4 expansion, IGPL will be amongst the top 3 PA manufacturers in the world and the company has the vision of being the largest manufacturer of Phthalic Anhydride in the world by 2025.
- Increased capacity utilization and product portfolio expansion to result in better margins:** IG Petrochemicals' capacity utilization in the last 5 years (FY14-FY18) has been 90%+ which was maintained even in Q1FY19. Going forward over FY18-20E we expect a similar trend to continue in terms of capacity utilization. We expect 40% capacity utilization for the PA4 capacity in FY20E once it is operationalized in H2FY20 and expect it to ramp up faster due to steadily growing demand. IGPL is working on bringing in efficiencies across major cost heads with clear focus on adopting the best practices across all area of its operations. The company aims to become the lowest cost producer of Phthalic Anhydride after the brownfield expansion by FY20E. IGPL is now the sole manufacturer of Maleic Anhydride in India which will aid revenue and margin growth going forward. We expect Maleic Anhydride utilizations levels to improve over the coming years. IGPL also plans to foray into downstream products, introducing new products in specialty plasticizers like DEP, DOP, DMAP etc. We expect a substantial impact of PA4 capacity and advanced plasticizers on revenues to be seen in FY21E.

Revenue and Margin Trend



Capacity expansion on-track



Source: Company, Axis Securities

Results Update (Consolidated)

(Rs. cr)	Quarterly Performance					Financial Year Ending			
	Q1FY19	Q1FY18	% Change (YoY)	Q4FY18	% Change (QoQ)	FY18	FY19E	FY20E	2 Yr. CAGR
Sales	350.9	295.9	18.6	312.8	12.2	1,144.2	1,216.6	1,385.7	10.1%
Other Op. Inc	0.0	0.0		0.0		0.0	0.0	0.0	
Total Revenue	350.9	295.9	18.6	312.8	12.2	1,144.2	1,216.6	1,385.7	
Expenditure									
Net Raw Material	226.2	189.4	19.4	208.2	8.6	702.5	736.1	834.2	
Employee expenses	16.4	12.5	31.3	15.5	5.6	55.8	58.4	65.8	
Other Exp	23.6	24.4	(3.4)	25.3	(3.4)	93.6	99.5	114.3	
Total Expenditure	266.3	226.3	17.6	249.1	6.9	876.9	918.3	1042.1	
EBIDTA	84.7	69.6	21.7	63.7	33.0	267.3	298.3	343.7	13.4%
OPM (%)	24.1%	23.5%		20.4%		23.4%	24.5%	24.8%	
Oth. Inc.	1.4	1.0		1.3		3.7	4.0	4.0	
Interest	2.5	5.2	(52.2)	2.8	(10.2)	14.9	21.4	21.4	
Depreciation	6.3	5.1	22.6	6.8	(7.8)	25.7	26.9	27.8	
Exceptional Item	9.5	0.0		0.0		0.0	0.0	0.0	
PBT	67.9	60.2	12.6	55.4	22.4	230.4	254.0	298.5	
Tax	27.6	21.2		22.0		84.3	86.4	101.5	
PAT	40.2	39.1	2.9	33.4	20.4	146.0	167.7	197.0	16.1%
NPM (%)	11.5%	13.2%		10.7%		12.8%	13.8%	14.2%	
Share of profit of Associates	0.0	0.0		0.0		-0.1	0.0	0.0	
Adjusted PAT	40.2	39.1	2.9	33.4	20.4	145.9	167.7	197.0	
EPS (Rs.)	13.1	12.7		10.8		47.4	54.4	64.0	

Source: Company, Axis Direct Research.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We Suvama Joshi, MBA (Finance), author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period.

Any holding in stock – No

5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.
6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:
 - i. Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;
 - ii. Managed or co-managed public offering of the securities from the subject company of this research report and / or;
 - iii. Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Term& Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, Corporate office: Unit No. 2, Phoenix Market City, 15, LBS Road, Near Kamani Junction, Kurla (west), Mumbai-400070, Tel No. – 18002100808, Regd. off.- Axis House, 8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-42671582.