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# COMPANY UPDATE

## IG Petrochemicals Ltd

March 19, 2024



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# IG Petrochemicals Ltd

PAN-Ox spreads bottomed out, New capex gives visibility of growth beyond FY26E

*Incorporated in 1988, IG Petrochemicals (IGPL) is the largest manufacturer of Phthalic Anhydride (PAN) in India commanding 55% domestic market share with a capacity of ~2,75,110 TPA (Last month commercialized recent capacity expansion of 53,000 TPA). Our faith in company growth stems from the fact that (A) Bottoming out PAN-Ox spreads provides comfort that most negatives are factored in (B) Strong double digit volume growth of 10% CAGR from FY24E-26E (C) Forward integration into plasticizer business will improve margins going ahead (D) Diversification more into non-phthalic business de-risks itself from mere dependency on highly volatile PAN business. Despite reporting PAN-Ox spreads of \$5-10/ton in Q3FY24, current spreads are quoting much higher because of upward movement in PAN prices. We feel the company has witnessed the worst ever PAN-Ox spreads & no new negative surprise is further expected. Recently, the company started commercialization on its PA5 capacity of 53,000 tonnes which will support stronger volume growth going ahead. Inching up of non-phthalic business revenue share by ~30% of revenues by FY27E (vs ~8.5% of 9MFY24 revenue) might provide some stability in the margins which remains a key factor of company's further expansion in downstream derivatives of non-phthalic businesses. The company has announced new leg of business growth - a greenfield project of Advance Plasticizers of ~1 lakh tons capacity with a capex of Rs1.65bn. The company has also stated its intent to venture into new businesses like green chemicals, ethanol derivatives, CBG etc however specific details have not been shared. We feel most negatives have been factored in PAN-Ox spreads, new leg of capex gives visibility beyond FY26E, although demand uncertainty & declining MAN realization still remain a cause of concern but we feel it's mostly transitory in nature. The concerns should subside in a couple of quarters, post which we see a blue sky scenario, hence, we maintain BUY rating on the stock.*

### Recently commercialized PAN capacity expansion provides headroom for growth

- Considering diverse end use applications & stronger demand of PAN, the company had announced in 2021 another leg of PAN capacity expansion to set up 53,000 TPA with a total capex of ~Rs3.5bn in its existing plant which was financed partly through debt & remaining by internal accruals.
- Recently, the company had announced the commercialization of this capacity which will lead to stronger volume growth going ahead. We anticipate the capacity to reach at peak utilization levels in 6-8 months' timeframe.
- At peak utilization levels, this capacity will generate Rs4.5-5bn revenue & considering normalized spreads of \$150-200/ton will generate EBITDA of ~Rs600-800mn (~12-17% margins) & ROCE of 12-18%.

### Next leg of capex into plasticizer increases growth visibility beyond FY26E, de-risking from PAN is on the cards

- The company is already into the manufacturing of plasticizers particularly DEP (Diethyl Phthalate) with an installed capacity of 8400 TPA operating at peak utilization levels. Diethyl Phthalate is a plasticizer largely used in the manufacture of perfumery compounds, agarbatti (incense sticks) and as a fixative in the manufacture of perfumes, attars, etc.
- In order to de-risk itself from mere PAN dependency, the company is planning to set up a mega unit of advance plasticizers with a capacity of 1 lakh tonnes at a capex of Rs1.65bn. At peak utilization levels this will generate Rs6-7bn sales with an EBITDA margin of 15-20%.
- Post commissioning of its mega unit, the company is planning to cross-sell this product to existing plasticizer clients since plasticizers carries better margin than PAN & increase in contribution from this product will strengthen the overall margin of the company further.

### Bottoming out PAN-Ox spreads, most negatives factored in the price

- At its upper band, spreads generally peaked around \$400-500/ton & at the bottom end it witnessed negative \$50-100/ton. Generally, once in 3-4 year spreads ranges from peak to trough or vice-versa.
- Recent quarter Q3FY24 was very weak and spreads reported were the lowest in last 4 years of around \$5-10/ton. Thereafter, current spreads has witnessed swift revival led by rise in PAN prices.
- We had witnessed PAN spreads were in continually declining mode after peaking in FY22 & seems it is now standing at the bottom with most negatives factored in.
- The company continues to make higher-than-normal spreads because of cost efficiencies and extra operating efficiency benefit of conversion from Ox to PAN. Due to volatile nature, management assumes sustainable spreads to be around \$150-250/ton over the long term.

### Valuation

- IGPL is a net cash company with strong foothold in domestic market focussing on forward integration, diversified clientele set, long decadal experience & growth focussed management.
- We expect IGPL to report CAGR of 10%/74%/131% at Revenue/EBITDA/PAT over FY24E-26E. Robust volume growth, improvement in PAN-Ox spreads & robust demand are the key triggers.
- The stock is trading at P/E of ~7.6x on FY26E EPS. We upgrade our multiple to 12x (earlier 11x) and arrive at target price of Rs 654 per share which offers upside of ~58% from current valuations.**

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	Adj P/E (x)	EV/EBITDA (x)
FY21	11,236	6.1	2,986	26.6	1,886	794.2	61.2	22.9	21.5	4.8	2.8
FY22	18,828	67.6	4,066	21.6	2,645	40.3	85.9	24.9	24.7	7.8	5.1
FY23	23,523	24.9	3,177	13.5	2,000	-24.4	64.9	16.2	16.0	8.7	5.9
FY24E	20,671	-12.1	985	4.8	315	-84.3	10.2	2.5	3.7	40.6	13.6
FY25E	23,839	15.3	2,095	8.8	1,034	228.3	33.6	7.9	8.1	12.4	6.1
FY26E	24,939	4.6	2,993	12.0	1,679	62.4	54.5	11.6	11.4	7.6	4.6

Source: Company, SMIFS Research Estimates



Rating: **BUY** Upside: **~58%**  
 Current Price: **Rs 415** Target Price: **Rs 654**

#### Earlier recommendation

Previous Rating: BUY  
 Previous Target Price: 580  
 Source: Company, SMIFS Research

#### Market data

Bloomberg: IGPL: IN  
 52-week H/L (Rs): 589/402  
 Mcap (Rs bn/USD bn): 12.8/0.15  
 Shares outstanding (mn): 30.79  
 Free float: 28.0%  
 Daily vol. (3M Avg.): 0.06mn  
 Face Value (Rs): 10

Source: Bloomberg, SMIFS Research

#### Shareholding pattern (%)

	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	68.7	68.7	68.7	68.7
FIIs	3.4	3.7	3.8	3.7
DIIIs	1.8	1.8	1.7	2.0
Public/others	26.1	25.8	25.8	25.6

#### Pro. Pledging

Pledging 0.0 0.0 0.0 0.0  
 Source: BSE

#### Price performance (%)\*

	1M	3M	12M	36M
NIFTY 50	-1.4	1.7	8.4	48.0
NIFTY 500	-3.1	2.3	36.0	59.3
IGPL	-10.1	-10.4	-3.2	-5.2

\*as on 19th Mar 2024; Source: AceEquity, SMIFS Research

#### 3 Year Price Chart



Source: AceEquity

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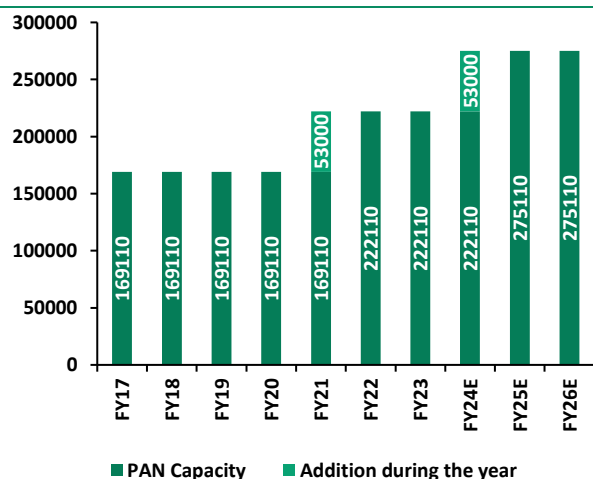
## Investment Rationale

### Commercialization of PAN capacity provides headroom for volume growth

- Since, PAN has multiple & diversified end user applications, the demand generally grows in tandem with the GDP growth.
- With supply remaining tight & good demand growth in sight, domestic manufacturers resort for capacity expansions in a bid to replace imports & cater to increasing demand of PAN.
- To capitalise this opportunity, IG Petro had announced PAN brownfield expansion at its existing site at Taloja, Maharashtra with a capacity of 53,000 TPA at a capex of Rs3.45bn.
- The company recently had announced the commercialization of this capacity & current capacity post expansion stood at 2,75,110 TPA. With this capacity expansion, IGPL has maintained its leadership position in domestic market.
- We anticipate the capacity to reach at peak utilization levels in 6-8 months' timeframe.
- At peak utilization levels, this capacity will generate topline of Rs4.5-5bn & considering normalized spreads of \$150-200/ton will generate EBITDA of ~Rs600-800mn (~12-17% margins) & ROCE of 12-18%.

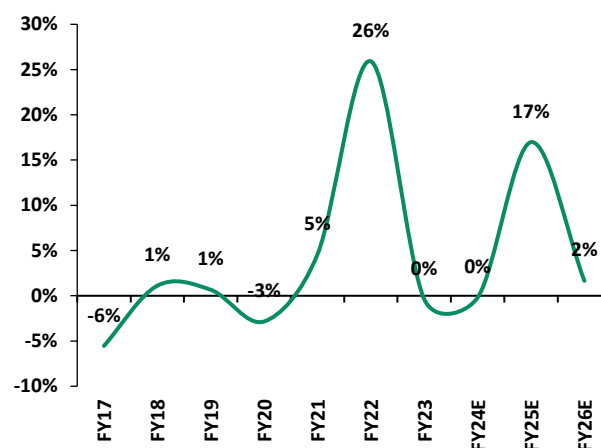
Fig 1: PAN Capacity addition

(in Metric Tonnes)



Source: Company, SMIFS Research Estimates

Fig 2: IGPL PAN production volume growth (%)



Source: Company, SMIFS Research Estimates

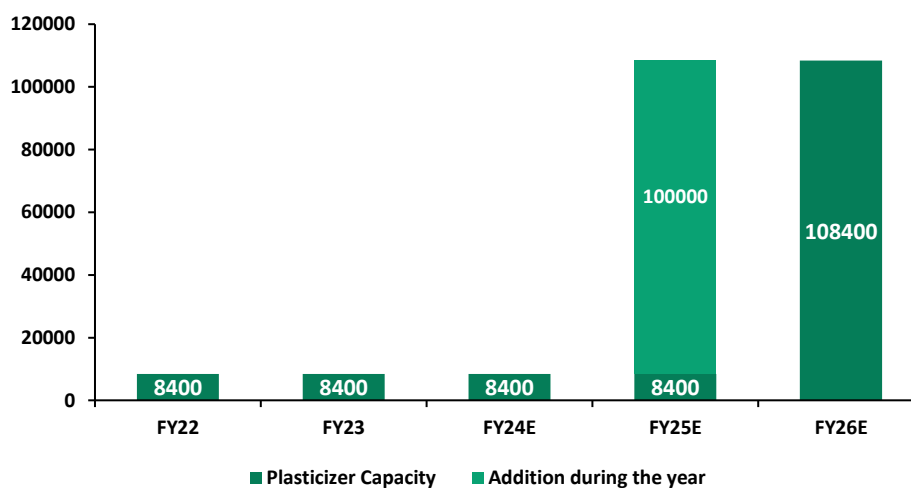
- In recent time, PAN business volumes has grown at CAGR of 8% from FY21-24E. With recent commercialization of 53,000 TPA, we anticipate CAGR volume growth of 10% from FY24E-26E.
- Since, PAN is used to make plasticizer, the company uses almost 4-5% of its PAN volumes captively for manufacturing plasticizers.
- Also, steam generated inside the plant is used as a source of power. The company only uses external power in the case of plant shutdown or change in catalyst.
- PAN is utilized as an intermediate in production of Plasticizers, Alkyd Resins, Unsaturated Polyester Resins (UPR) and Copper Phthalocyanine (CPC). It is also used in a broad spectrum of industries like plastics, PVC pipes, paints & coatings automobile, pigments, building & constructions, electrical & electronics amongst others.

## Next leg of capacity expansion into Advance Plasticizers (DEP) provides visibility of growth beyond FY26E

- In order to reduce its dependency on a single product PAN, the company is forward integrating into Advance Plasticizers (DEP) business which increases its business visibility & diversify into newer end user industries.
- Di-Ethyl Phthalate (DEP) is widely used in consumer goods, cosmetics, polymers, and plastics & packaging industries. It is also used in the manufacture of perfumery compounds, agarbatti (incense sticks) & for processing of cellulose Acetate & denaturant for Ethyl Alcohol.
- The company is already into the manufacturing of plasticizers particularly DEP (Diethyl Phthalate) with an installed capacity of 8400 TPA operating at peak utilization levels. The company can also debottleneck this capacity to ~12K with a very minimal capex.
- However, since the existing plant of Advance Plasticizers is mere pilot one, the company is planning to set up a mega unit of plasticizers with a capacity of 1 lakh tonnes at a capex of Rs1.65bn.
- Also, in this expansion the company is going to introduce new grades like Di-Octyl Phthalate (DOP), Di- Butyl Phthalate (DBP) & other plasticizers which makes it more diverse.
- At peak utilization levels this will generate Rs5-6bn sales with an EBITDA margin of 15-20%.
- Post commissioning of its mega unit, the company is planning to cross-sell this product to existing plasticizer clients. Since plasticizers carries better margin than PAN, increase in contribution from this product will strengthen the overall margin of the company further.

**Fig 3: Advanced Plasticizers Capacity Addition**

*(in Metric Tonnes)*



Source: Company, SMIFS Research Estimates

- The leading manufacturing players for plasticizer manufacturing in India are KLI Plasticizer & Payal Group.
- Generally speaking, Plasticizers are organic materials which on addition to plastic increases flexibility, toughness and process ability.
- Flexible polyvinyl chloride (PVC) accounts for 80–90% of global plasticizer consumption. Flexible PVC is found in the applications like construction (flooring, wall coverings), electrical (wire and cable jacketing), consumer goods (toys, footwear, etc.), packaging, transportation (inside and outside of vehicles), furnishings, and medical uses (tubing, blood bags). Continued global demand for flexible PVC will lead to continued growth for plasticizers.

## Shift from commoditized business to non-phthalic business will stabilize the margins going ahead

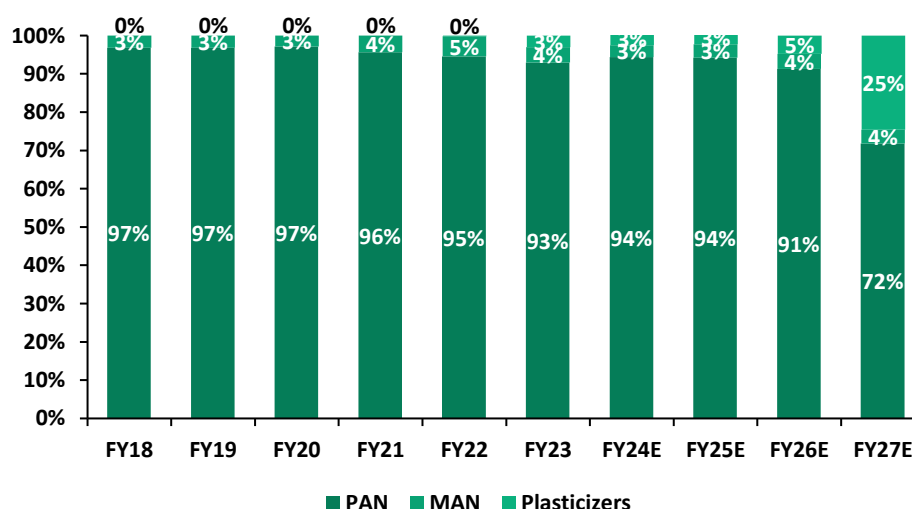
- Over the years, the company had very high dependency on Phthalic business contributing around 97-98% of total revenues till FY20.
- This over dependency has led to very volatile margins in the past with highest margins of ~23% in FY18 & lowest margins of ~7% in FY20.
- However, with increase in non-phthalic business over the last 3 years led by increased contribution from Maleic Anhydride & Advanced Plasticizers, the company has been reduced its exposure slightly on its phthalic business.
- As per our calculations, phthalic business contributed around 98% in FY17 which has been reduced to ~94% in FY24E & management target is of ~70% as and when advance plasticizers reach peak utilization levels.
- Management has stated that they target almost 30% diversification into non-phthalic business by FY26E. However, we are with the view that that the target can be achieved by mid of FY27E once it's newly slated expansion of Advanced Plasticizers reaches peak utilization levels.
- Also, apart from Advanced Plasticizers, management has stated its intent to venture into biofuels such as compressed biogas plants to maximize India's CBG potential. Also, the company is focussing to produce ethanol through the rice husk or molasses and then produce further downstream chemicals which will add more value. However, management stated that they are still evaluating the proposals & there is no yet concrete plan before the company.

**Fig 4: Non-Phthalic business contribution of 30% is realistic target**

Particulars	Capacity Approved (in tonnes)	Peak Contribution to topline
Maleic Anhydride	9500	4%
Advanced Plasticizers	108400	25%
Benzoic Acid	1250	1%
<b>Total</b>		<b>30%</b>

Source: Company, SMIFS Research

**Fig 5: Non-Phthalic business to constitute ~30% of consolidated revenues by FY27E**



Source: Company, SMIFS Research Estimates

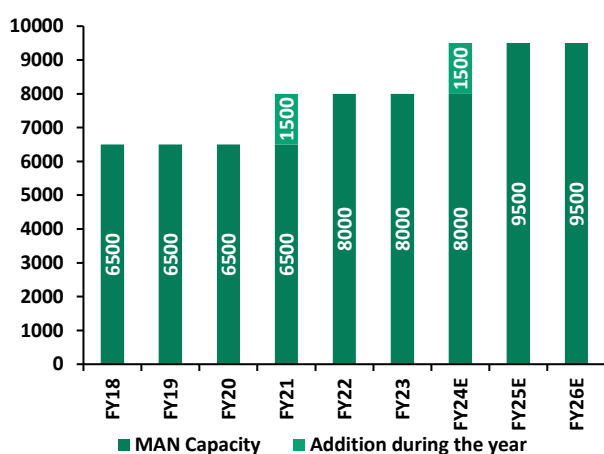
- Advanced Plasticizers command 15-20% incremental margins over commoditized PAN. As company diversify itself into non-phthalic business, it (A) Increases overall margin profile (B) Provides long term stability to its overall business (C) Increases visibility & reach of the company.

## Maleic Anhydride (MAN) business to report stronger volume growth going ahead

- IGPL had acquired Maleic Anhydride (MAN) business of Mysore Petrochemicals at a value of Rs744mn in April 2017.
- MAN finds application in a wide array of industries ranging from Unsaturated Polyester Resins (UPR), paints & coatings, pharmaceuticals, plastics etc. The domestic consumption of MAN stands at ~70,000-75,000 TPA while the entire demand was met through imports due to unavailability of its raw material (n-butane).
- Around 60-65% of world maleic anhydride output is used in the manufacture of (UPR). Chopped glass fibers are added to UPR to produce fiberglass reinforced plastics that are used in a wide range of applications such as bathroom fixtures, automobiles, tanks and pipes.
- The company produces MAN from wash water which is obtained as a by-product in the PAN manufacturing process. Due to this, the company MAN business is highly profitable.
- The company is the sole producer of MAN in India with an installed capacity of 8,000 TPA as of FY23. However, with recent PAN capacity expansion, MAN capacity has also been expanded by approx. 1,500 TPA. Hence, the total capacity post expansion will be 9500 TPA as on FY24E.

**Fig 6: MAN capacity addition**

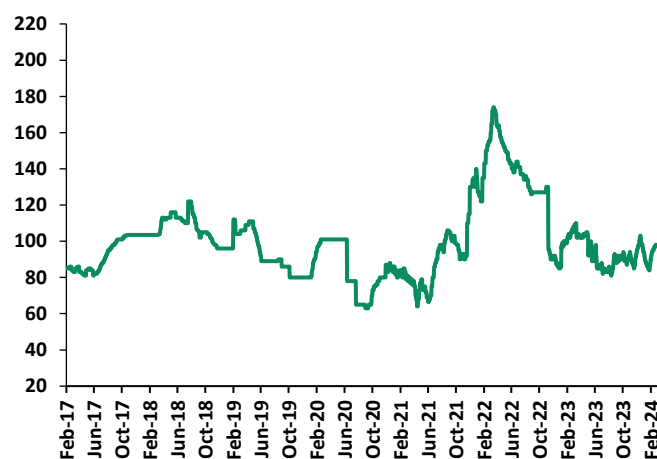
(in Metric Tonnes)



Source: Company, SMIFS Research Estimates

**Fig 7: MAN prices trend**

(in Rs per kg)



Source: Industry, SMIFS Research

- Overall we expect maleic anhydride volumes to grow at 10% CAGR from FY24E-26E, almost in line with the PAN volume growth.
- Generally, Maleic prices & spreads are ~15% higher than that of PAN. However, current scenario is bleak because of higher inventory arising from China impacting global prices. Current prices of MAN are ~10% lower than PAN. Our analysis suggest that Chinese inventory has started to deplete & there are higher chance that prices can regain back their original levels. Hence, we feel current weakness is temporary & is transitory in nature.
- Global producers of maleic anhydride are numerous, and even the largest producer, Huntsman which accounts for a little more than 6% of the world market. However, the company has the largest share of the combined US and Western European market, with about 35% of the total. There are many producers in China but mostly with relatively small capacities. Nevertheless, China is the largest global producer of maleic anhydride, and production is becoming more concentrated in the hands of a small number of large-scale producers.

## High entry barriers and competitive strength of IG Petro puts it ahead in the stage

- At first, to set up a PAN manufacturing unit, it requires lengthy government approvals, setting up effluents treatment plants, technical expertise of handling raw materials. We believe there are strong entry barriers in PAN manufacturing business which is nearly impossible for any other new player to replicate.
- We list below some of the parameters which justifies our high entry barrier argument:
  - Long gestation period for setting up new plant:** It takes nearly 15-25 months for a new capacity to come on stream and extremely difficult for a new player to gain visibility & trust across all end user industries which IGPL has developed over time.
  - Short supply of its raw material:** To manufacture PAN, Ortho-Xylene (Ox) is the single largest raw material used & is in short supply. In India, Ox is only procured from Reliance Industries (RIL) & complete volumes of its Ox are already contracted. Also, imports of Ox in India is 30-40% costlier than RIL price, hence dependency on RIL is a must & IGPL has developed very strong 2 decade relationship with RIL which gives it reliability in supply of Ox.
  - Not a very big market, leaves very little scope for new player to foray:** The domestic market of phthalic anhydride is mere Rs46bn (~\$0.55bn) & majority of the market is controlled by 2 players viz. IGPL & Thirumalai Chemicals. The estimated demand growth of PAN is 5-6% which can easily be catered by capacity expansion undertaken by both these manufacturers & imports from international countries. Imports are around ~15% of total demand which will continue to maintain going ahead. Hence, we feel the market is not very huge & nobody would disrupt a highly volatile commodity business.
  - High capital requirements make it difficult for small player:** Although, PAN is characterized as a commodity chemical but its manufacturing is capital intensive. Phthalic business offers potential asset turnover of 1-1.5x along with very volatile prices & spreads which sometimes lead to losses at the EBITDA. Thus, phthalic manufacturer must have the appetite to withstand volatile market condition & sometimes absorb losses which only a stronger balance sheet company like IGPL can fight.
  - Strong R&D requirement:** As company diversify itself, it will be required to invest in R&D & develop solid products as per customer requirement & needs. Recently, company has planned to set up mega scale Advanced Plasticizers business wherein multiple grade of plasticizers products like DOP, DBP would be developed which will require investment in R&D.
  - Mandatory requirement of marquee clients:** Since, PAN is used in more than 25+ end user requirements, it requires to develop strong relationship with multiple clients & understand their requirements which IGPL has developed over time
  - Setting up ETP plant a must:** IGPL has in house ETP installed which treats harmful effluents. In FY17-21, IGPL invested cumulative Rs410mn in Effluent Treatment Plant. Investment in ETP increases the overall capex of the business.
- Considering the above entry barrier argument, we feel that it is very difficult to dislocate player like IGPL in PAN business.

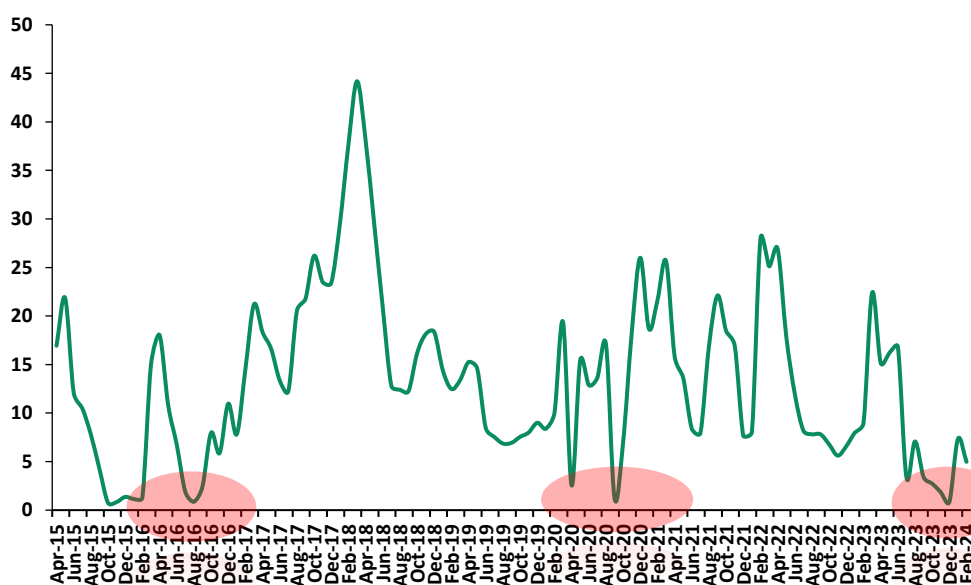


## Bottomed out PAN-Ox spreads, most negatives priced in

- Phthalic business generally works on spreads basis i.e (Output of PAN minus Input Ox) multiplied by yield benefit.
- Approximately 95-97% of the total Ox production globally is utilized in manufacturing of PAN due to which the spot pricing scenario of the two are closely linked.
- Historically, spreads has remained quite volatile & has seen ups and downs led by global demand supply factors.
- At its upper band, spreads generally peaked around \$400-500/ton & at the bottom end it witnessed negative \$50-100/ton. Negative spreads are made when PAN prices drops below Ox prices because of factors like higher supply, lower demand etc.
- Generally, we see once in 3-4 year spreads ranges from peak to trough or vice-versa.
- Recent quarter Q3FY24 was very weak and spreads reported were the lowest in last 6-7 years of around \$5-10/ton. Thereafter, spreads has witnessed revival majorly led by rise in PAN prices.
- We had witnessed PAN spreads were in continually declining mode after peaking in FY22 & seems it is now standing at the bottom with most negatives factored in.
- The company continues to make much higher-than-normal spreads because of cost efficiencies and extra operating efficiency benefit of conversion from Ox to PAN. Due to volatile nature, management assumes sustainable spreads to be around \$150-250/ton over the long term.
- As per our calculations, if spreads goes below \$70-80/ton, phthalic anhydride players starts incurring losses & many international players in China, South Korea & Taiwan will shut down production.
- We expect spreads to improve from here on largely because (A) Good visibility on demand growth (viz. Global demand growth is expected to grow by 4-5% & domestic growth is expected to grow by 6-7%) (B) Increasing use cases of PAN (viz. PAN has found new use cases in UPR) (C) Since, PAN is a commoditized product, spreads do not remain depressed for a longer period of time (D) Global higher demand growth (3% growth over CY23-26E) & lower capacity addition (growth of 1% over CY23-26E) to support global spreads.
- Even if the spreads revert to near normal levels, it gives good visibility on operating profit of the company for the next 2-3 years. Plus, expected higher spreads from MAN & Advanced Plasticizers will incrementally benefit the company.

**Fig 8: PAN-Ox Spreads hovering near lows**

*(in Rs per kg)*



Source: Company, SMIFS Research

## Anti-Dumping Duty (ADD) to benefit PAN producers led by lower imports

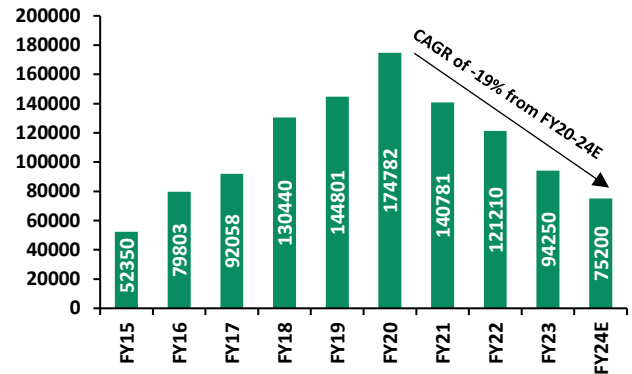
- In a bid to counter cheap imports or dumping from international players, India has imposed Anti-Dumping Duty (ADD) on imports of PAN from China, Indonesia, South Korea and Thailand.
- The ADD rates range from \$40.08-\$140.17/tonne. The ADD is valid for a period of 5 years & is upto 2027.

**Fig 9: ADD imposed by government of India against cheap imports**

Country	Company	Add rate (\$/tonne)
China	All exporters	40.08
Indonesia	PT Petrowidada	59.83
Indonesia	All other exporters	90.11
South Korea	Aekyung Petrochemical	41.26
South Korea	Hanwha Solutions	41.64
South Korea	All other exporters	140.17
Thailand	Continental Petrochemicals	63.06
Thailand	All other exporters	134.91

Source: Government, SMIFS Research

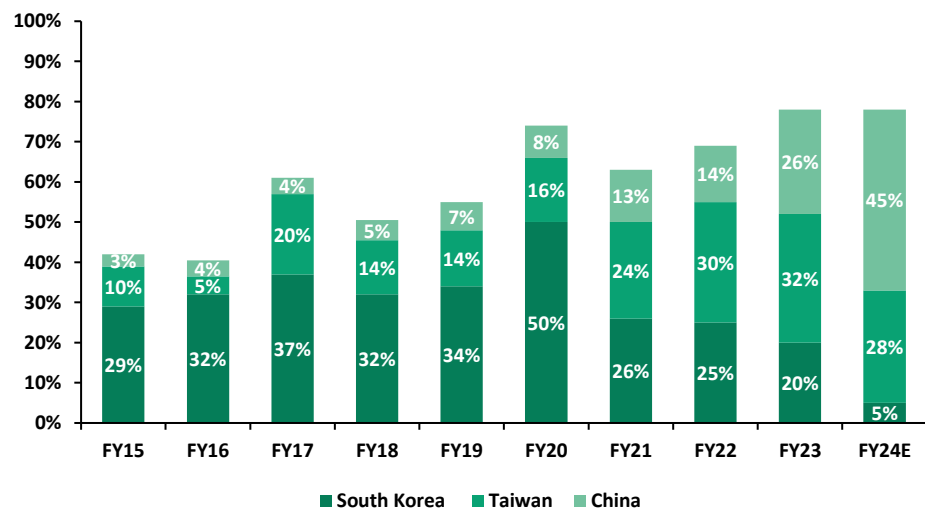
**Fig 10: PAN imports witnessed decline of 19% CAGR from FY20-24E**  
(In Metric Tonnes)



Source: Government, SMIFS Research

- Imports in India which peaked in FY20 to ~1.74 lakh tonnes is witnessing gradual reduction of ~19% CAGR & is anticipated at ~75.2k as on FY24E. Factors leading to lower imports are (A) Imposition of ADD (B) Expansion of capacities in domestic market, leading to import substitution (C) Supply chain diversification to minimize etc.
- Also, there has been quite a lot of changes on imports front as South Korea which earlier was the largest importer of PAN in India until FY20 is now down to single digit imports as on 9MFY24. China has piped South Korea as the largest importer commanding 45% of import share. Increase in China imports is largely because of new capacity creation. As per our channel checks China alone added 4-4.5 lakh tonnes of capacity in 2023.
- However, overall imports as a % of demand which peaked in 35% on FY20 is now down to 13% as on 9MFY24. We feel imports will likely remain at these levels as domestic manufacturers are resorting for further capacity expansions, hence we may not see imports going up from the current levels.

**Fig 11: Chinese PAN imports increased significantly from FY20-24E, ditching South Korea as largest importer of PAN**

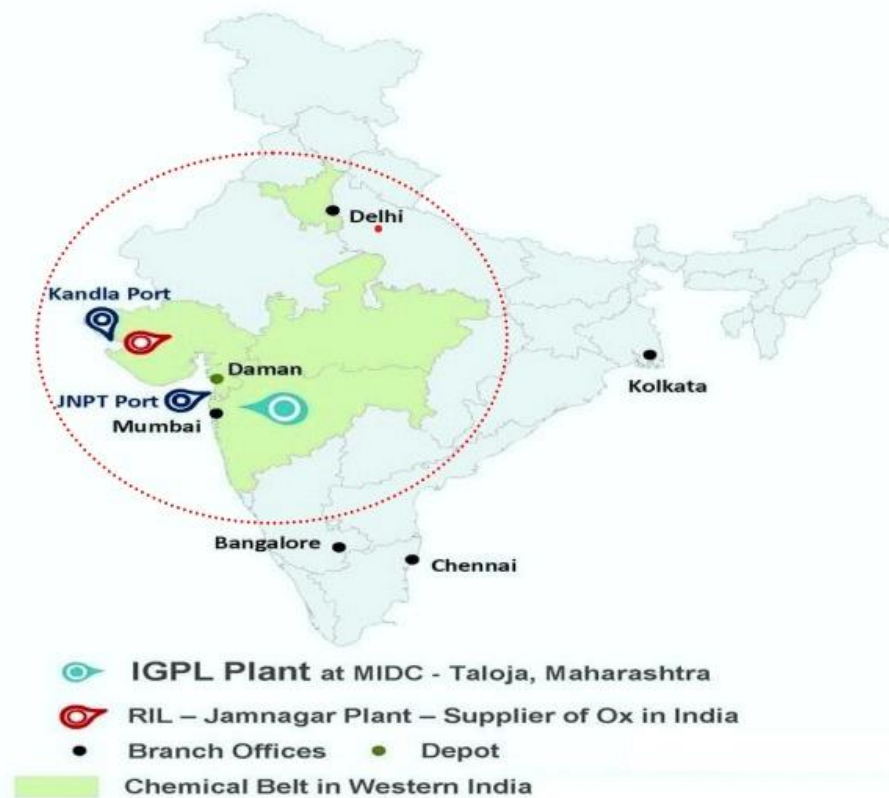


Source: Company, SMIFS Research Estimates

## Lowest cost producer, best in class technology & well placed in domestic PAN industry

- IGPL is the largest manufacturer of Phthalic Anhydride (PAN), controlling 55-60% of India's production capacity followed by Thirumalai Chemicals.
- PAN is a chemical compound, which finds its applications in flexible plastics such as cables, pipes, leather products, packaging films and paints industry.
- The company has several advantages over its competitors like better yield, best in class technology that ensure it leads and dominates the PAN space in India. The company operates its plant based on the processes of the licensor M/s Wacker Chemie GmbH, Germany.
- These advantages 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 Talaja, about 50 kms from Mumbai. This location results in multiple advantages for the company like (A) Major customers are in the vicinity of the chemical belt in western India where majority end users are located. (ii) Close proximity to JNPT port where 90% of PAN exports happen. We believe this leads to significant reduction in logistical cost thereby, benefitting margins.
- The company procures ~90% of raw material Ortho-Xylene (Ox) from Reliance Industries (RIL) and has developed very strong long term relationships.
- The company also has in-house establishment of captive solar power plant. Also, lower operating conversion cost due to state of art technology which provides better yield and efficiency in usage of energy. The recent PAN capacity expansion (PA5) of 53,000 TPA will likely save \$10-20/ton of conversion cost as all its 5 manufacturing units of phthalic anhydride is at the same location in Talaja, Maharashtra.

**Fig 12: Easy access to port & road facilities benefitting IG Petrochemicals**



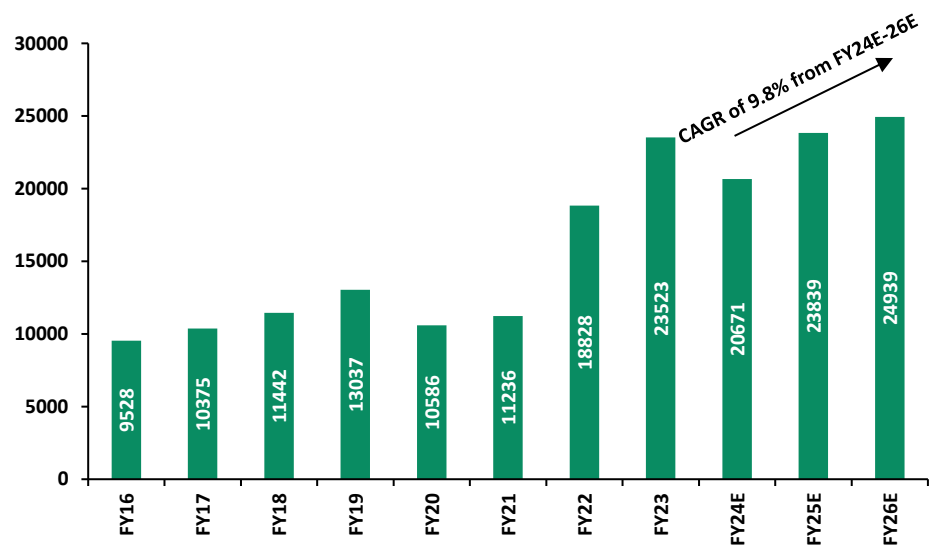
Source: Company, SMIFS Research

## Revenue growth to remain robust primarily driven by volume growth

- Over the years, the company reported stronger revenue growth of ~30% CAGR from FY20-23. The growth was driven by ~11% volume growth & realization growth of ~19%.
- The company expanded capacity of PAN by 53,000 TPA in 2021 & commercialization of Advanced Plasticizers business from 2022 which led to stronger volume growth from FY21-23E.
- Since most of the capacities reached peak utilization levels in FY23, volume growth remained flattish in FY24E. However, recent PAN capacity commissioning & starting of mega project of Advanced Plasticizers business by mid of FY25E gives stronger volume growth visibility is in sight.
- The recent PAN capacity addition of 53,000 TPA would have added Rs4.5-5bn to the topline but majority portion of this will go as raw material for manufacturing in house plasticizers, hence we expect PAN volumes of 35,000 TPA as internal consumption from this new capacity which will net add around Rs1.2-1.5bn to topline. Also, new capex announcement of Rs1.65bn into Advanced Plasticizers will add Rs4.5-5bn at peak utilization levels. Hence cumulatively there is a very stronger visibility of Rs6-7bn of topline addition over the next 3 years. (Almost 30% incremental topline on base of FY24E).
- The recent addition of PAN capacity will reach peak utilization in 3-6 months timeframe & Advanced Plasticizers will reach take 6-8 months to reach optimum utilization levels.
- Overall we expect revenue growth of ~10% CAGR majorly led by volume growth of ~10% CAGR from FY24E-26E.

**Fig 13: Revenue to report ~10% CAGR growth of FY24E-26E**

(Rs in mn)

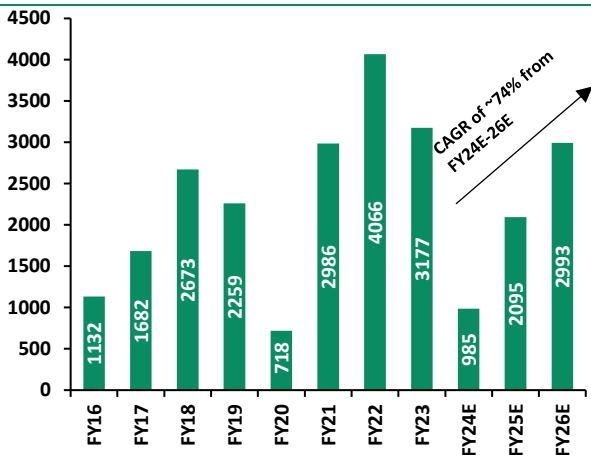


Source: Company, SMIFS Research Estimates

## EBITDA to grow by nearly 3x over FY24E-26E led by improving PAN-ox spreads & operating leverage benefits

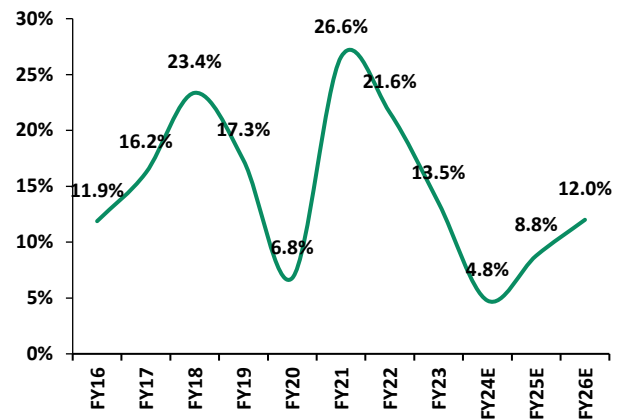
- Over FY21-24E, EBITDA declined by ~31% CAGR because of declining spreads of PAN-Ox despite stronger volume growth of ~10% in the same period.
- As on FY24E, the company will be reporting lowest ever spreads of PAN-Ox as compared with last 7-8 years & we feel it has nearly bottomed out & most negatives have been factored in.
- Also, wide applications of PAN in end user industries will keep domestic demand growth in mid-single digit coupled with exports demand revival & inventory restocking will lead to revival in spreads from current depressed levels.
- Hence, we expect EBITDA to grow by ~75% CAGR from FY24E-26E on the back of improving PAN-Ox spreads & operating leverage benefits.

**Fig 14: EBITDA to report growth of ~74% from FY24E-26E (Rs in mn)**



Source: Company, SMIFS Research Estimates

**Fig 15: EBITDA margins to inch upto ~12% by FY26E**

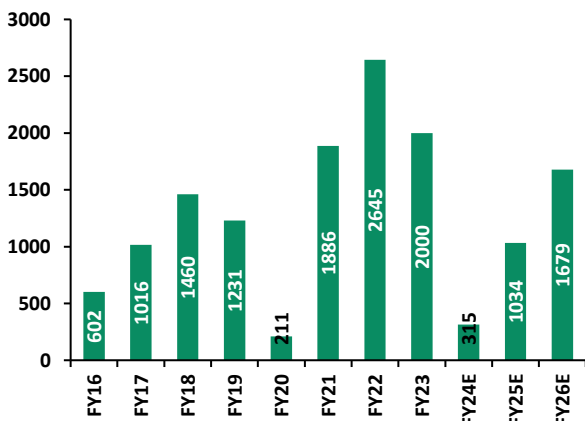


Source: Company, SMIFS Research Estimates

## PAT to grow nearly 5x over FY23-26E on lower base & capacity expansion benefits

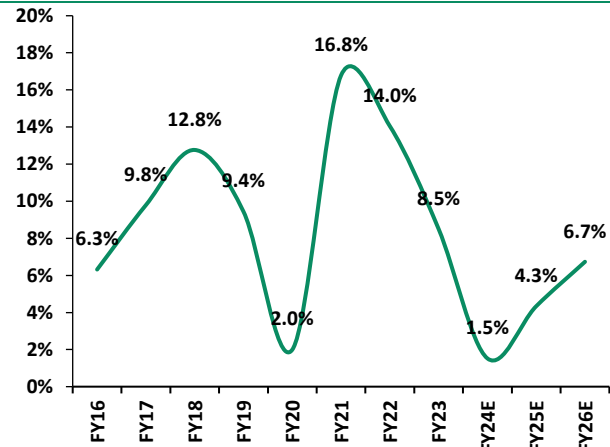
- Over FY21-24E, PAT declined by ~45% CAGR because of declining EBITDA & higher interest outgo in the same period (Interest cost was Rs146mn in FY21 & stood at Rs350mn in FY24E). Increase in interest cost was because of increase in debt, since, company funded its plasticizers capacity addition in 2022 & recent PAN capacity expansion via debt & mix of internal accruals.
- Since, PAT for FY24E will be depressed, the base has become lower, and hence, going ahead PAT is expected to grow by ~131% from FY24E-26E.

**Fig 16: PAT to report growth of ~131% from FY24E-26E (Rs in mn)**



Source: Company, SMIFS Research Estimates

**Fig 17: PAT margins to inch upto ~7% by FY26E**

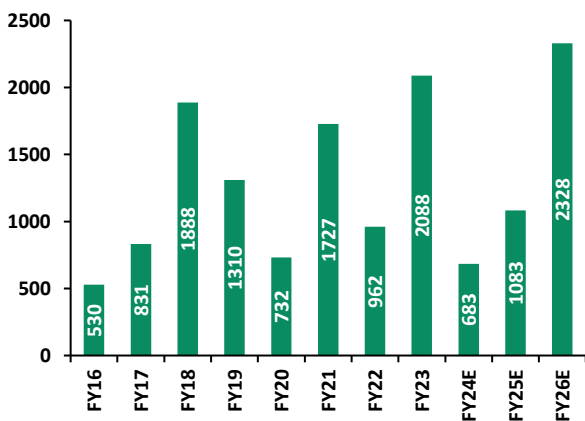


Source: Company, SMIFS Research Estimates

### Strong operating cash flow augurs well

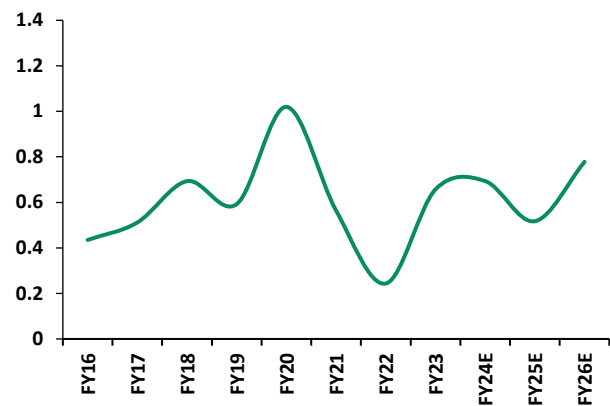
- The company operating cash flow has been quite strong for the past several years. There is not even a single year from FY13-23 wherein the company has recorded negative operating cash flow. This gives us confidence in the company's business model and cash flow generation. As IGPL expands, the cash flow quantum will further increase.
- The company has generated cumulative EBITDA of Rs15.87bn from FY18-23. OCF generation during the same period stood at Rs7.5bn. This indicates the company has been able to generate ~50% of its EBITDA to operating cash.
- Owing to higher capex to the tune of ~Rs7.9bn in the last 5 years, FCF has been mostly negative. Going ahead, company will remain in capex mode till FY26E but it will be moderate, hence, we expect company to start generating FCF likely from FY26E.

**Fig 18: Strong cash flow generation augurs well (Rs in mn)**



Source: Company, SMIFS Research Estimates

**Fig 19: CFO / EBITDA to improve going ahead (x times)**

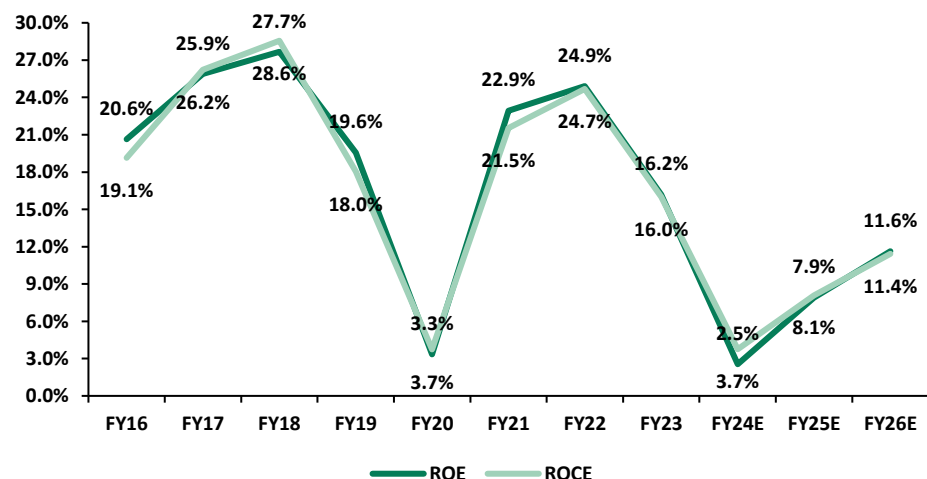


Source: Company, SMIFS Research Estimates

### Return ratios witnessed steep decline in current fiscal, to improve going ahead

- Return ratios has witnessed steep decline in FY24E owing to steep contraction in PAN-Ox spreads. Post tax ROCE stood at ~4% in FY24E similar to FY20 levels.
- We expect major brunt of negative factors has already been taken by the company and there is enough room for strong growth for the company.
- With robust volume growth in sight, improvement in PAN-Ox spreads & operating leverage benefits will lead to improvement in ROCE to ~12% in FY26E & will further expand in subsequent years as full benefit of Plasticizers expansion benefit will kick in by FY27E.

**Fig 20: Return ratios on improving trajectory, negatives factored in**

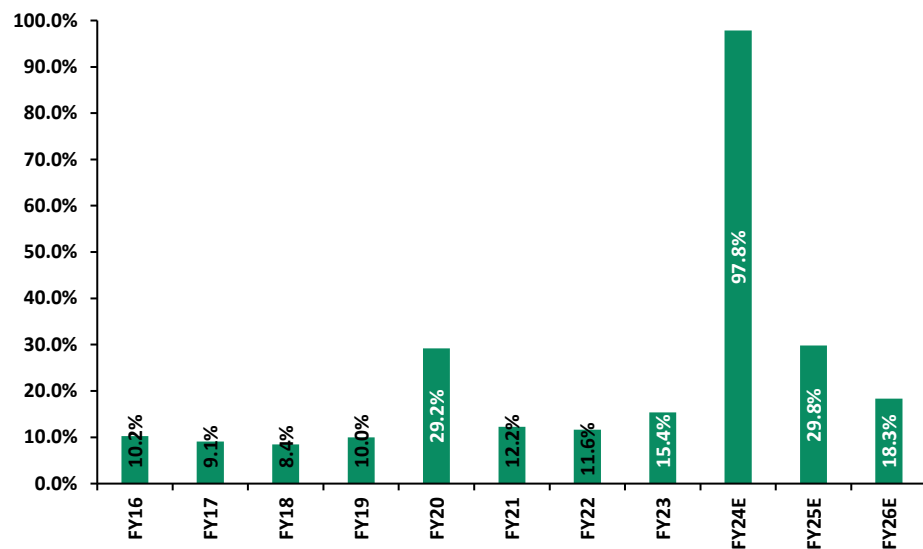


Source: Company, SMIFS Research Estimates

## Continued dividend payment instills confidence

- Despite swinging profits owing to volatile nature of business, continued payment of dividends instil confidence in the company's management.
- Dividend payout over the last 3 years is around 12-15% & average dividend yield is around 1.5-2%.
- In FY24E, despite expectation of very minimal profit of Rs315mn, the company dividend outflow would be around Rs308mn, virtually leaving zero profit to be carried on the balance sheet. We want to highlight here that company has very consistent policy of dividend payout & rewarding its shareholders.
- We expect the dividend payout to remain around 15-20% by FY26E.

**Fig 21: Dividend Payout will be at ~18% by FY26E, on an average to its historical average**



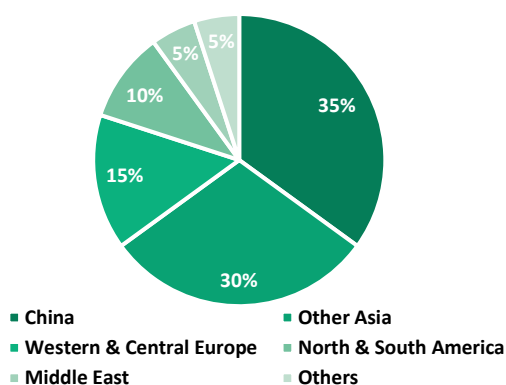
Source: Company, SMIFS Research Estimates

## Industry Snapshot

### PAN Industry to register growth of 5%-6% in the coming years

- PAN is a versatile intermediate in organic chemistry and a downstream product of a basic petrochemical, Orthoxylene (Ox).
- It is used as an intermediate to produce Plasticizers, Unsaturated Polyester Resins, and Alkyd Resins & Polyols.
- The PAN market is anticipated to register growth of 5%-6% owing to the following factors: (A) The growth in the demand and consumption of plasticizers used in the production of polyvinyl chloride (PVC), specifically in the Asia-Pacific region based on rising construction spending in emerging economies including China and India owing to favorable government support to improve domestic infrastructure is expected to increase the importance of PVC. (B) Increasing use of glass fiber-reinforced polymers and capacity expansion for PAN derivatives are projected to act as an opportunity for the market. (C) Growing consumption of alkyd resins in developing economies, due to the rising paints and coatings industry, are, in turn, increasing the demand for the PAN market. (D) Rising popularity of lightweight automotive parts in vehicles to improve fuel economy is expected to promote industry growth for UPR. All above factors are expected to drive PAN demand.
- Also, emerging applications of PAN such as flame retardants, which finds applications in forms of furniture, electronics products, and car seats among others, are expected to fuel high demand from automotive, home furnishing, and electrical and electronics industry and augment the growth of PAN market.

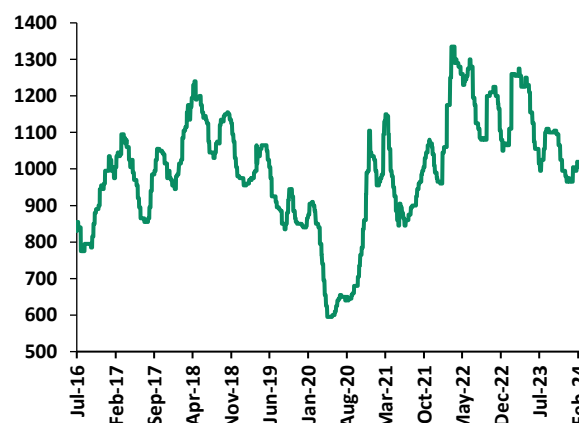
**Fig 22: Global consumption of PAN country-wise**



Source: Industry, SMIFS Research

**Fig 23: SE Asia PAN prices**

(in USD/MT)



Source: Industry, SMIFS Research

**Fig 24: Domestic demand supply dynamics of PAN**

(in Metric Tonnes)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E
Installed Capacity	349000	349000	349000	349000	349000	442000	442000	442000	495000
Production	305780	296070	290100	275070	269640	292960	340340	353600	356400
Capacity Utilization Rate (%)	88%	85%	83%	79%	77%	66%	66%	67%	59%
Import	79803	92058	130440	144801	174782	140781	121210	94250	75250
Export	349000	349000	349000	349000	349000	442000	442000	442000	495000

Source: Industry, SMIFS Research

**Fig 25: Global demand supply dynamics of PAN**

(in Million Metric Tonnes)

	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Installed Capacity	5.5	5.6	5.6	6.0	6.2	6.3	6.5	6.7	7.1	7.1	7.3
Production	4.8	5	5.2	5.5	5.7	5.8	6.0	6.2	6.2	6.4	6.6
Capacity Utilization Rate (%)	87%	89%	93%	91%	92%	91%	92%	92%	87%	90%	91%
Industry Size (in Bn \$)	8.6	8.9	9.2	9.5	9.9	10.0	10.3	10.6	10.6	10.9	11.2

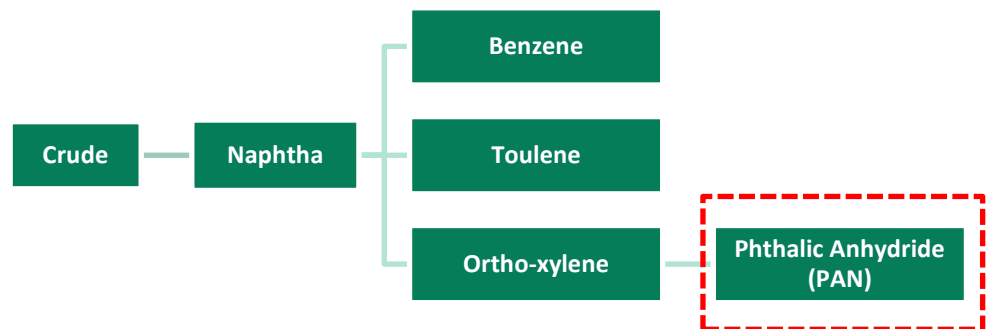
Source: Industry, SMIFS Research



## Diversified end user applications of PAN gives it greater visibility

- Plasticizers:** Plasticisers accounted for 40% of PAN consumption in India. 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:** This segment constituted about 20% of total consumption of PAN. 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 2023-26.
- Alkyd resins:** This segment accounted for about ~20% of domestic PAN consumption. 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 in the coming years.
- Unsaturated polyester resins (UPR):** This segment constituted about 20% of the total PAN consumption. 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. This segment is expected to grow at a fast pace in the long term of 7-8% over the coming years.

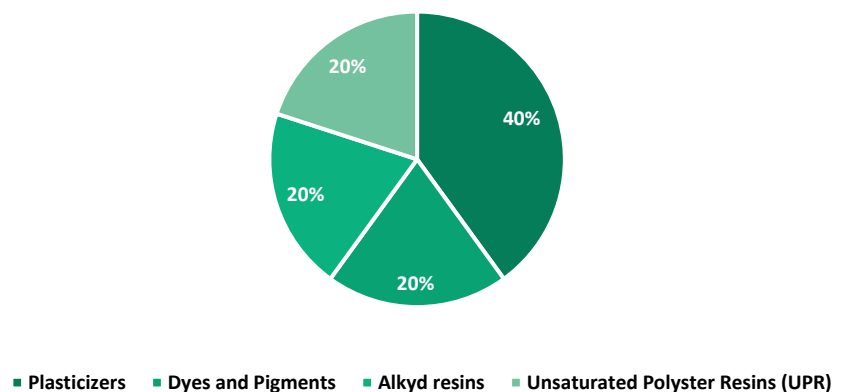
**Fig 26: Phthalic Anhydride (PAN) value chain**



Source: Company, SMIFS Research

- Phthalic Anhydride is a downstream product of Ortho-xylene. Ortho-xylene is the 3<sup>rd</sup> derivative of crude and is the single raw material required in the production of PAN. The company procures 90% of raw material requirements from Reliance Industries.

**Fig 27: End user applications of PAN**

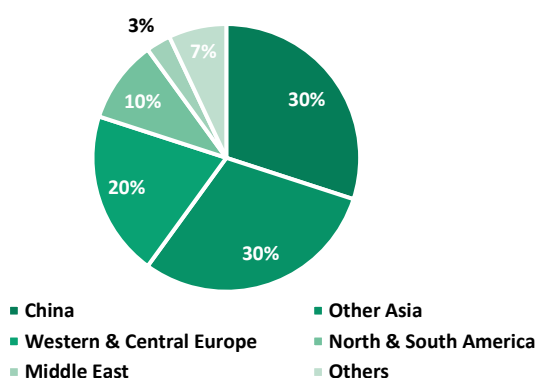


Source: Company Investor Presentation, SMIFS Research

## Ortho-Xylene domestic supply remained tight,

- Ortho-xylene (Ox) is an aromatic compound that is commonly derived from crude oil sources. It is found in the mixed xylenes stream, which is a mixture of Ortho-xylene (Ox), Meta-xylene (MX), and para-xylene (PX). While very similar in structure, these three isomers have very different chemical properties and applications. Ox is the second-most-consumed component obtained from the mixed xylenes stream.
- The 10 largest Ox producers many of+ which are in Asia, accounted for about 69% of total capacity globally in 2023, the Ox market is therefore relatively concentrated.
- Most of these producers are international oil companies, national oil companies, or large refiners and petrochemical producers. In 2023, the world’s largest OX producers were SINOPEC, ExxonMobil, and Formosa.
- Ortho-xylene is used primarily to manufacture PAN, a key component in the manufacture of plasticizers. PAN can also be produced from naphthalene in some regions especially in China. Over the past five years, global Ox consumption has remained same after a decline, driven down by the increasing use of naphthalene as a phthalic anhydride feedstock in mainland China, as well as the overall stagnant demand for PAN globally.
- Overall, India has an installed capacity of 5,11,000 TPA of Ox which was working at 100% capacity utilization. Reliance Industries is the largest manufacturer of Ox in India, with a capacity of 450,000 TPA.

**Fig 28: Ortho-Xylene consumption country wise**



Source: Industry ,SMIFS Research

**Fig 29: Indian Ortho-Xylene price**

(in Rs per kg)



Source: Industry, SMIFS Research

**Fig 30: Demand Supply dynamics of Ortho-Xylene**

(In 000' Metric Tonnes)

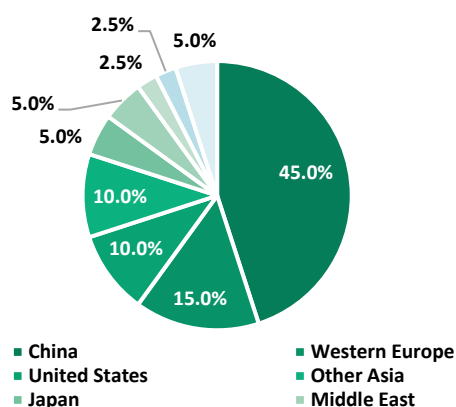
	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	YTD FY24
Installed Capacity	420	420	420	420	420	511	511	511	521
Production	500	445	449	407	386	521	511	511	521
Capacity Utilization Rate (%)	119%	106%	107%	97%	92%	102%	100%	100%	102%

Source: Industry, SMIFS Research

## MAN Industry to grow in mid-single digit in the coming years

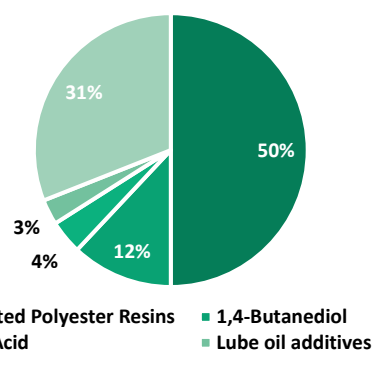
- The Maleic Anhydride market size is projected to grow at a CAGR of 5-6% in the coming years.
- Increasing demand for Unsaturated Polyester Resins (UPR) and 1,4-Butanediol (BDO) is expected to augment market growth for Maleic Anhydride in the coming years. These chemicals are widely used in engineering plastics, fibers, medicines, artificial leather, cosmetics, pesticides, hardener, plasticizers, solvent, and rust remover.
- Some key factors contributing to MAN industry growth are: (A) Increasing applicability of the resin in various industry verticals, owing to its high-strength fiber-based properties and easy availability. (B) The increasing demand for heat-resistant tanks and pipes for chemical storage is a crucial factor contributing to the rise in demand for UPR, thus fuelling the maleic anhydride market in this segment. (C) Maleic Anhydride is converted into fumaric and maleic acid and acts as a flavour enhancer in beverages. It prevents microbial and fungal growth and commonly used preservative in food industry. (D) Growing penetration of spandex in medical textiles, compression stockings, and sportswear coupled with the increasing disposable income are factors that are projected to surge the demand for 1, 4-butanediol which in turn will result in the rise in the demand of maleic anhydride.
- Also, increasing popularity of using the maleic anhydride with the feedstock polymers that are bio-based are positively impacting the market.

**Fig 31: MAN global consumption country wise (In %)**



Source: Industry, SMIFS Research

**Fig 32: MAN end user industry wise applications (in %)**



Source: Industry, SMIFS Research

**Fig 33: Maleic Anhydride demand-supply dynamics (In Metric Tonnes)**

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E
Installed Capacity	6500	6500	6500	6500	6500	8000	8000	8000	8000
Production	3250	3250	3250	4395	3575	4360	6800	7200	7600
Capacity Utilization Rate (%)	50%	50%	50%	68%	55%	55%	85%	90%	95%
Domestic Import	47399	50813	52627	69920	66942	59533	74467	82414	87158
Domestic Export	80	232	233	87	167	50	114	133	333
Domestic Demand	50859	53781	55644	74228	70350	63843	81153	89481	94425

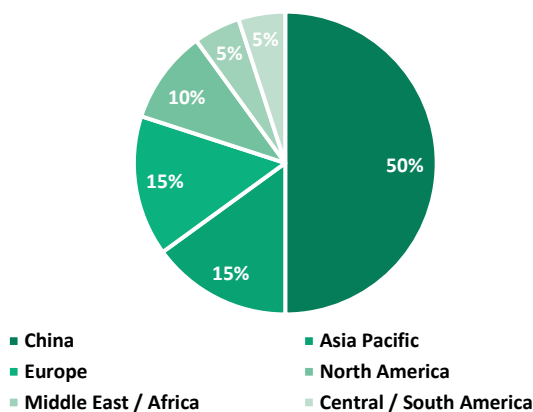
Source: Industry, SMIFS Research

- The global MAN industry witnessed headwinds in 2023 due to a decline in demand by key end user industries & excess supply arising out of China, resulting in decline in MAN prices. However, prices seems to have found a bottom & is recovering from bottom levels.

## Plasticizers market to remain robust led by healthy growth in downstream segments

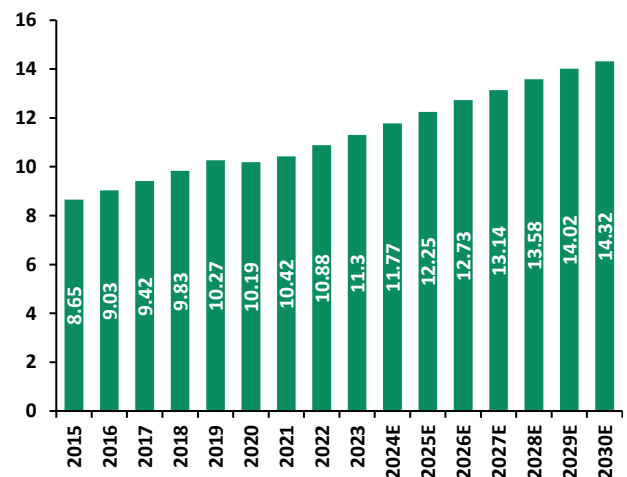
- A plasticizer is an additive that is added to increase the materials flexibility & durability. These additives when combined with plastics enhance their thermoplasticity and boost fabrication quality. Plasticizers act as a lubricant between segments of the polymer chain for greater mobility. Many polymers would become too brittle and rigid if used without a plasticizer.
- Diethyl phthalate is a chemical compound that belongs to the phthalate ester family and is a diethyl ester of phthalic acid. Diethyl phthalate is a colorless liquid that is clear and slightly denser than water. Diethyl phthalate is not easily flammable. In the industry, diethyl phthalate is also known as solvanol. Diethyl phthalate is synthesized by reacting phthalic anhydride with ethanol in presence of concentrated sulfuric acid as a catalyst. Diethyl phthalate purity typically ranges from 98% to 99.5%.
- Plasticizers play a vital role in making PVC soft by imparting the necessary flexible and durable properties. PVC products that are softened by plasticizers are known as flexible PVC. These flexible PVCs open up new application markets due to their durability property with the high performance of up to 50 years.
- Flexible polyvinyl chloride (PVC) accounts for 80–90% of global plasticizer consumption. Flexible PVC is found in the applications like construction (flooring, wall coverings), electrical (wire and cable jacketing), consumer goods (toys, footwear, etc.), packaging, transportation (inside and outside of vehicles), furnishings, and medical uses (tubing, blood bags). Continued global demand for flexible PVC will lead to continued growth for plasticizers.
- China is the single largest plasticizer market in the world, accounting for over half of world consumption. Overall, global plasticizer consumption will grow at a rate of about 3.5% per year in the next few years.
- Diethyl phthalate is a chemical compound is a diethyl ester of phthalic acid that belongs to the phthalate ester family. It is a clear, colourless liquid that is slightly denser than water and has low volatility. It is commonly synthesized via the Ox processes.

**Fig 34: Plasticizer global consumption country wise (In %)**



Source: Industry ,SMIFS Research

**Fig 35: Global Plasticizer Market Volume (In MMT)**



Source: Industry, SMIFS Research

- The Automobile industry is the most vital consumer of Plasticizers. It is used to soften and lighten plastics used in automobiles and is projected to drive the Global Plasticizers market. PVCs used in cars are treated with plasticizers for making them soft, and as a result, the plastics get excellent water resistance.

## Manufacturing process of Phthalic Anhydride, Maleic Anhydride & Benzoic Acid

### Manufacturing Process of PAN:

- Phthalic Anhydride is manufactured by the reaction of Ortho-Xylene with air in the presence of catalyst. The reaction is exothermic.
- The generated heat is utilized to produce steam. The gaseous product is separated by de-sublimation. The impurities are carried away by the excess air.
- The de-sublimated Phthalic Anhydride is melted and collected as crude Phthalic Anhydride. It is purified by distillation to get pure Phthalic Anhydride.
- Pure Phthalic Anhydride is bagged in the form of flakes. The uncondensed off gases are scrubbed with re-circulating water in a multi stage wet scrubber. The waste products are dissolved in water. The solution formed is called as Scrubber solution.
- The power will be generated from steam produce by the exothermic reaction of Phthalic Anhydride manufacturing process. Same will be used in PA/MA/benzoic acid manufacturing process.
- The production Phthalic Anhydride by the reaction of oxygen with O-Xylene is accompanying by number of side reactions as well as the formulation of intermediate compounds. The by-products are limited according the reaction process where it has largely to Maleic anhydride and benzoic acid.

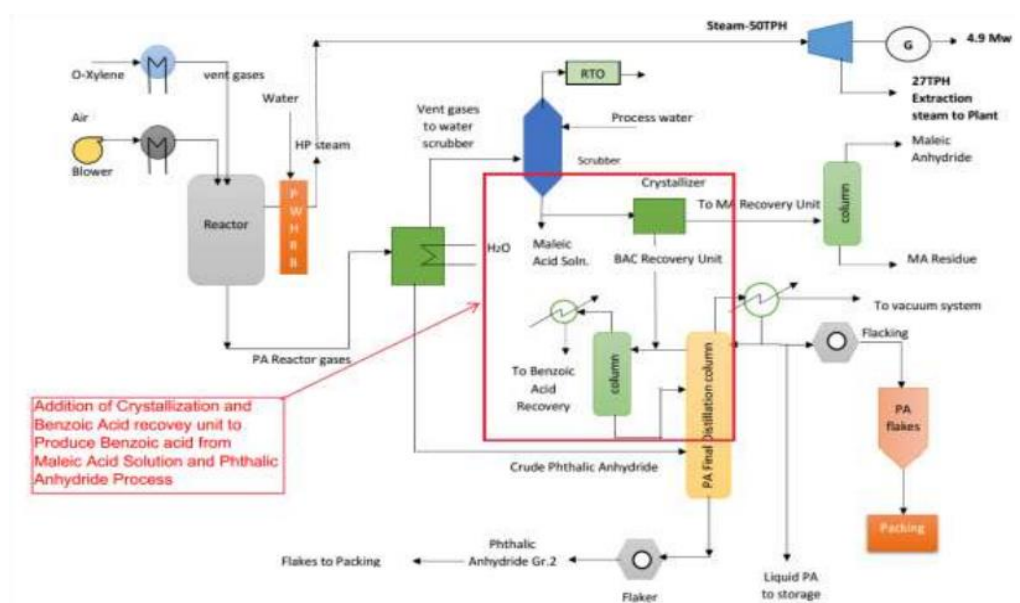
### Manufacturing Process of MAN:

- During the catalytic oxidation reaction of o-xylene and Air in reactor conversion take place of Phthalic anhydride with partially maleic anhydride conversion which is obtain as maleic acid solution from water Scrubbing unit.
- The remaining Maleic acid solution then be taken for MA recovery unit to produce Maleic Anhydride.

### Manufacturing Process of Benzoic Acid:

- The wash water (Maleic Acid solution) from scrubber containing Phthalic Anhydride and Benzoic Acid crystals will be separated by Crystallization and vacuum rotary filter in form of BA +PA cake. The cake of crystals sent to the BA Separation column.
- Organic Low boiler from Forerunning columns of Distillation unit & molten material from Crystallizer will be fed to Benzoic Acid Separation column to Produce Benzoic Acid.

**Fig 36: Process diagram of PAN, MAN & Benzoic Acid**



Source: Environmental Clearance, SMIFS Research

## Key risks to our thesis

### Aggressive pricing by competitors

- The company's major competitors are in China, South Korea & Taiwan. In order to protect domestic manufacturers against cheap imports the industry has the support of ADD but if there is excess built up of capacity in any of these countries, the international players might undercut the ADD & can dump their excess supply leading to lower margins & profitability for Indian manufacturers.

### Unforeseen volatility in raw material cost

- The major raw material for the company is Ortho-Xylene which is directly related to crude oil prices.
- Though, the company passes on the incremental raw material pricing impact to the end with a lag, still any unforeseen and sudden change in prices might impact the company's short term working capital requirement and gross margins.

### Weak demand leading to slow ramp up of expanded capacity

- Since, IGPL has recently expanded its PAN capacity & any slowdown in paints, plasticizers, UPR's etc might possibly lead to deferment of volumes and slow ramp up in utilization, thereby, hurting the revenues and profitability of the company.

## Corporate Governance

We believe that good corporate governance is necessary for enhancing the trust of the shareholders. Hereby, we present a detailed framework on corporate governance for the comfort of the investors of I G Petrochemicals considering board of directors, remuneration of key managerial personnel, contingent liability etc.

### Promoters' Shareholding

The promoters currently hold ~69% of the equity capital. Vincent India Ltd, Mysore Petro Chemicals Ltd and Shekhavati Investment Corporation Ltd together holds the highest equity capital (~40.2%) in the company. The details of the shareholding and its movement are indicated in the following table and chart:

**Fig 37: Latest Promoter Shareholding**

Particulars	% Holding
Vincent India Limited	15.4%
Mysore Petro Chemicals Limited	13.2%
Shekhavati Investment Corporation Limited	11.6%
Kamrup Enterprises Limited	9.6%
Gembel Trade Enterprises Private Limited	7.6%
Savita Investment Company Ltd	6.6%
Bihariji Constructions (India) Limited	1.8%
Mayank Dhanuka	1.3%
Shogun Vinimay (P) Ltd	1.2%
Madan Mohan Dhanuka	0.3%
Bina Devi Dhanuka	0.1%
Nikunj Dhanuka	0.1%
Umang Dhanuka	0.03%
<b>Total</b>	<b>68.74%</b>

Source: Company Shareholding Q3FY24, SMIFS Research

**Fig 38: Promoter Shareholding**



Source: Company Annual Report, SMIFS Research

## Promoter Compensation

The promoter compensation is at ~14% of PBT in FY23. The average promoter remuneration is 13%-14%. We had done analysis and found that this higher remuneration is majorly because of commission which is variable in nature and linked to profits. The basic salary of promoters are minimal which is giving us comfort.

**Fig 39: Remuneration of promoter**

(Rs in mn)

	FY19	FY20	FY21	FY22	FY23
<b>Shri M M Dhanuka</b>	<b>17.6</b>	<b>3.3</b>	<b>24.2</b>	<b>50.6</b>	<b>38.0</b>
Commission	17.2	3.0	23.5	49.9	37.4
Sitting Fees	0.4	0.4	0.7	0.7	0.7
<b>Shri Nikunj Dhanuka</b>	<b>37.2</b>	<b>17.3</b>	<b>52.5</b>	<b>68.5</b>	<b>58.8</b>
Salary	6.0	8.8	9.0	13.1	17.3
Commission	28.7	4.9	39.1	55.4	41.5
Perquisites	2.6	3.5	4.4	0.0	0.0
<b>Total Remuneration</b>	<b>54.8</b>	<b>20.6</b>	<b>76.6</b>	<b>119.1</b>	<b>96.9</b>
<b>As a % of PBT</b>	<b>7.9%</b>	<b>18.7%</b>	<b>11.9%</b>	<b>13.0%</b>	<b>14.2%</b>

Source: Company Annual Reports, SMIFS Research

## Independent Director's Compensation

As on FY23, I G Petrochemicals Ltd board constituted of 3 independent directors. Independent directors were paid cumulative ~Rs14mn which is 1.5% of PBT as on FY23.

**Fig 40: Remuneration of Independent Director**

(Rs in mn)

Name	FY23 Compensation (Rs in mn)	As % to PBT (FY23)
Shri J K Saboo	8.0	0.9%
Shri Rajesh Muni	2.0	0.2%
Dr. A K A Rathi	1.9	0.2%
Dr. Vaijayanti Pandit	1.9	0.2%
<b>Total</b>	<b>13.9</b>	<b>1.5%</b>

Source: Company Annual Report FY23, SMIFS Research

## Board Composition

In FY23, Independent directors constitute ~50% of the board composition.

The details are given below:

**Fig 41: Board Composition**

	FY19	FY20	FY21	FY22	FY23
Chairman, Managing Director & CEO	2	2	2	2	2
Executive Directors	1	1	1	1	1
Non-Executive & Independent Directors	4	4	3	3	3

Source: Company Annual Reports, SMIFS Research. \* Shri M M Dhanuka is also the Non-Executive Director of the company and Shri Nikunj Dhanuka is also the Executive Director of the company. Shri P H Ravikumar was the Non-Executive and Independent Director and resigned w.e.f. 30<sup>th</sup> July, 2019.



## Contingent Liabilities

The company's contingent liability as a % of net worth is ~7.6% in FY23 and it has reduced from ~13.8% in FY19. A major portion of contingent liabilities is safe items which we have taken into consideration in calculating total liability.

**Fig 42: Contingent Liability**

(Rs in mn)

	FY19	FY20	FY21	FY22	FY23
Disputed Excise & Service tax matters	181.2	200.0	182.0	171.2	171.2
Claim against the Company not acknowledged as Debt.	3.0	3.0	18.9	21.0	22.0
Income Tax matters under dispute for various years due to additions/disallowances	555.9	574.2	598.4	591.1	462.7
Electricity Duty Disputed, writ petition has been filed before the Mumbai High	131.0	160.6	195.0	235.6	276.6
<b>Total</b>	<b>871.1</b>	<b>937.8</b>	<b>994.3</b>	<b>1018.8</b>	<b>932.4</b>
<b>As a % of Net Worth</b>	<b>13.8%</b>	<b>14.8%</b>	<b>12.1%</b>	<b>9.6%</b>	<b>7.6%</b>

Source: Company Annual Reports, SMIFS Research

## Related Party Transaction

As per our analysis of RPT, nothing specific has come to our notice. Nearly Rs200-250mn is the actual related party transaction which is very miniscule. The overall transactions figure includes Remuneration, Directors sitting fees, Balances & Amount payables at year end which are not materialistic.

**Fig 43: Related Party Transaction**

Related Party Transaction (in Rs mn)	FY21	FY22	FY23
<b>Income</b>			
Sale of Goods (Including Taxes)	254.5	234.7	207.9
Rent Received (Including Taxes)	1.5	1.8	2.1
<b>Overall Transactions</b>	<b>433.4</b>	<b>442.4</b>	<b>373.6</b>

Source: Company Annual Reports, SMIFS Research

## Key management personnel

**Fig 44: Details of promoter and director**

Name	Designation	Profile
<b>Shri M M Dhanuka</b>	Non-executive Chairman	Shri M M Dhanuka is a B.E. (Chem) and a founder member of the Company along with his brother Late Shri Shyam Sunder Dhanuka. Possesses varied experience and expertise in Chemical Industries, sales, marketing, commercial, board governance, production and technical.
<b>Shri Nikunj Dhanuka</b>	Managing Director & CEO	Shri Nikunj Dhanuka is a Management Graduate and is associated with the Company since 1998. In charge of the overall affairs of the Company. Under his leadership, the overall performance of the Company has been growing at a brisk pace with significant improvement in margins during the last few years.
<b>Shri J K Saboo</b>	Executive Director	Shri J K Saboo is a Commerce & Law Graduate and is associated with the Company since 1991. Has more than 40 years of experience in the petrochemical industry & is in charge of the operations of the Company's Plant situated at Taloja.
<b>Shri Rajesh R Muni</b>	Non-Executive and Independent	Shri Rajesh R Muni is a fellow member of The Institute of Chartered Accountants of India. He is a senior partner of M/s R.R. Muni & Co., Practicing Chartered Accountants and has more than 44 years of vast experience in audit and taxation.
<b>Dr. A K A Rathi</b>	Non-Executive and Independent	Dr. A K A Rathi is a B.E. (Hons) Chemical, M.E. (Chemical), Ph.D. (Engineering), Diploma in Management, Diploma in Integrated Coastal Zone Management. Been a Professor at CEPT University in the Faculty of Planning and Public Policy. He was Director (Environment) and Chief Technical Adviser to Govt of Gujarat.
<b>Dr. Vaijayanti Pandit</b>	Non-Executive and Independent	Dr. Vaijayanti Pandit is MA, Ph. D in Management studies from JBIMS. She was Vice President at Ad factors Group and headed FICCI West as the Sr. Director and was Secretary to Indian Merchants' Chamber.

Source: Company Investor Presentation, SMIFS Research

## CSR Activities

I G Petrochemicals Ltd has been actively involved in CSR activities for the betterment of the society. The company has spent ~Rs32mn in FY22 and ~Rs44mn in FY23. The spend as % of prescribed limit is above 100% for both FY22 and FY23.

**Fig 45: CSR spend**

(Rs in mn)

Company	Avg Net Profit (last 3 Yrs)	Prescribed Expenditure	Total Spends	Spend as % of prescribed limit
FY23	2183.5	43.7	43.7	100.1%
FY22	1574.8	31.5	33.7	107.0%
FY21	1497.4	29.9	20.3	67.7%

Source: Company Annual Reports, SMIFS Research

## Auditors

I G Petrochemicals Ltd appointed M/s S M M P & Company and M/s K A & Associates as the statutory auditor. The auditors have given a true and fair view for the results of the financial year 2022-23.

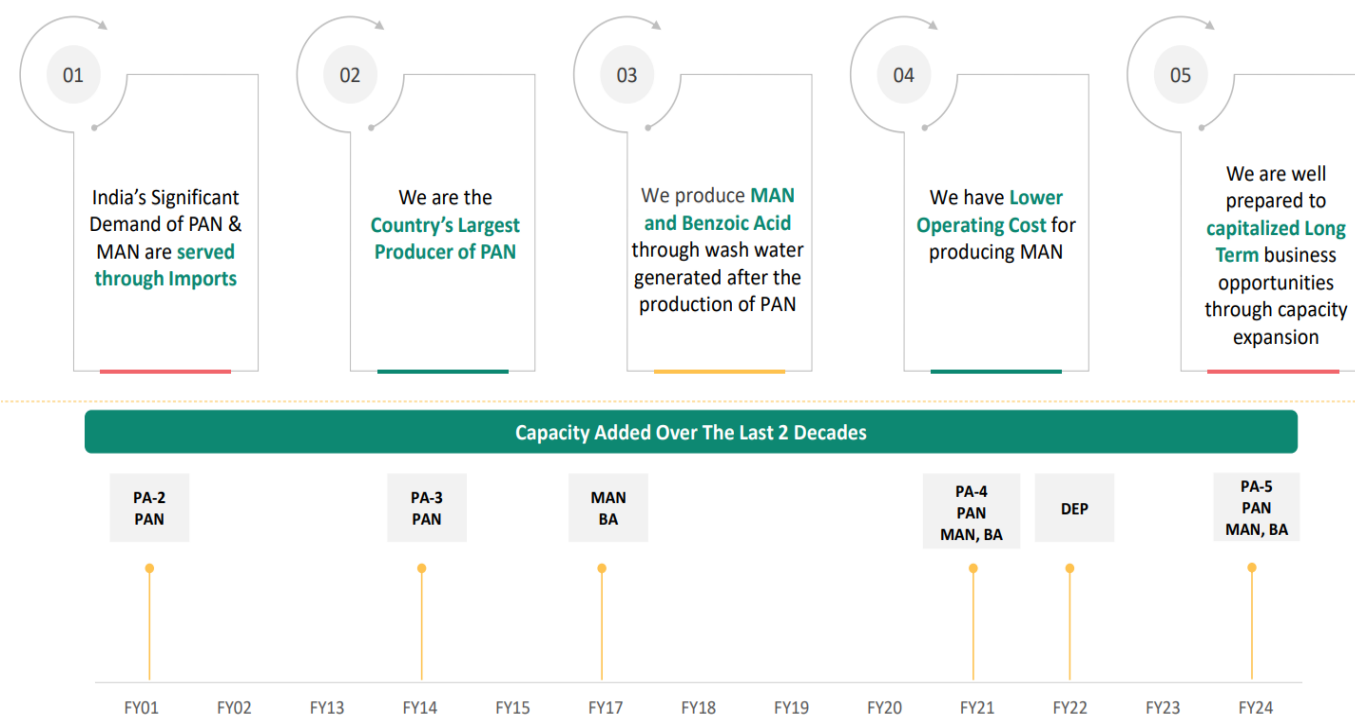
**Fig 46: Auditor fee**

Auditor Name	Type	Auditor Fees (Rs mn)	As a % of PBT
M/s S M M P & Company and M/s M S K A & Associates	Statutory Auditor	3.6	0.4%

Source: Company Annual Reports, SMIFS Research

## Key milestones

**Fig 47: Key Milestones of I G Petrochemicals**



Source: Company Investor Presentation, SMIFS Research

## Company Background

### What is I G Petrochemicals all about?

- IG Petrochemicals 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.
- The company commands more than 55-60% domestic market share in PAN segment. The company is the world's largest manufacturer of Phthalic Anhydride (PAN) at single location and also India's only manufacturer of Maleic Anhydride (MAN).
- The company has also forward integrated into manufacturing of Diethyl Phthalate (DEP) from in house raw material PAN.
- The company has manufacturing facilities at a single location at Taloja in Maharashtra in different units. The combined annual installed capacity is 2,94,510 TPA
- The company is promoted by Shri M M Dhanuka and Shri Nikunj Dhanuka. Shri M M Dhanuka is the Promoter, Chairman & Non-Executive Director and Shri Nikunj Dhanuka is the Promoter, Managing Director & CEO.

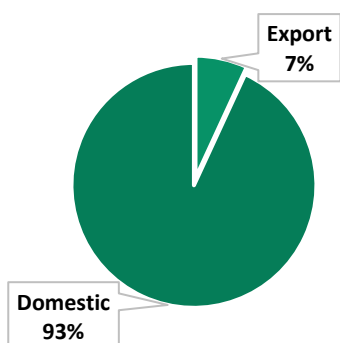
**Fig 48: IGPL capacity breakup details**

Location	No. of Units	Capacity (In MTPA)	Product name
Taloja	5	2,75,110	Phthalic Anhydride
Taloja	1	9,500	Maleic Anhydride
Taloja	1	1,500	Benzoic Acid
Taloja	1	8,400	Diethyl Phthalate
<b>Total</b>	<b>8</b>		

Source: Industry, SMIFS Research

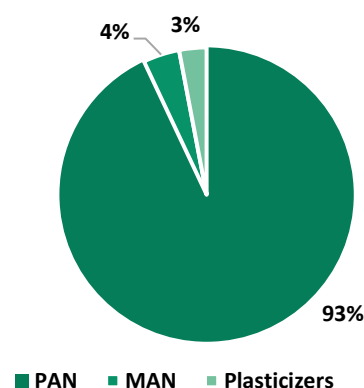
- The company has more than 120 customers along with long standing relationship with majority of clients and hence the domestic business commands ~93% of overall business.
- The company enjoys logistical advantage with access to port and road facilities in the proximity with the manufacturing facilities.
- The company's 40% volume offtake of PAN is consumed by plasticizers and rest by other end user industries.
- The revenue breakup forms ~93% from phthalic anhydride, ~4% from maleic anhydride & ~3% from plasticizers as on FY23.

**Fig 49: Revenue Breakup (FY23)**



Source: Company, SMIFS Research

**Fig 50: Segmental revenue break-up (FY23)**

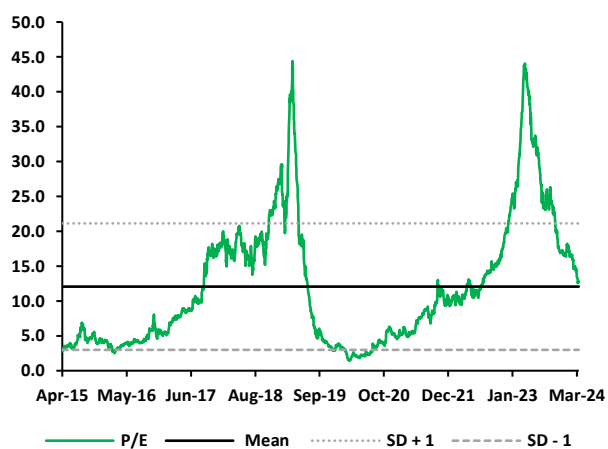


Source: Company, SMIFS Research

## Valuation and Recommendations

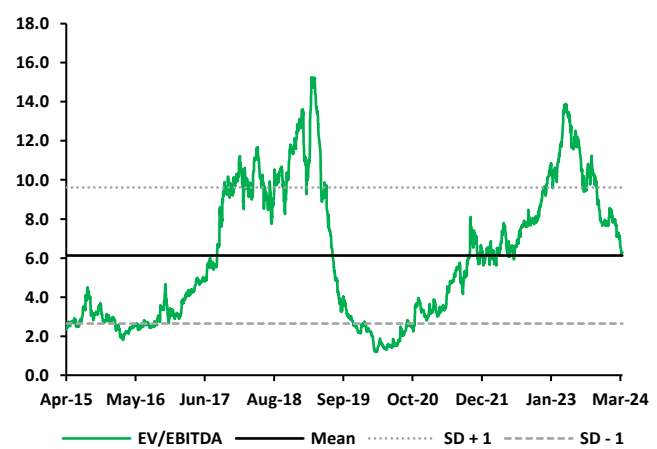
- IGPL is a net cash company with strong foothold in domestic market focussing on forward integration, diversified clientele set, long decadal experience & growth focussed management.
- We expect IGPL to report CAGR of 10%/74%/131% at Revenue/EBITDA/PAT over FY24E-26E. Robust volume growth, improvement in PAN-Ox spreads & robust demand are the key triggers.
- The stock is trading at P/E of ~7.6x on FY26E EPS. We upgrade our multiple to 12x (earlier 11x) and arrive at target price of Rs 654 per share which offers upside of ~58% from current valuations.

**Fig 51: 1-year forward P/E**



Source: AceEquity, SMIFS Research

**Fig 52: 1-year forward EV/EBITDA**



Source: AceEquity, SMIFS Research

## Quarterly financials, operating metrics and key performance indicators

**Fig 53: Quarterly Financials**

Y/E March (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Net Sales</b>	<b>5172</b>	<b>6599</b>	<b>5691</b>	<b>5183</b>	<b>6050</b>	<b>5553</b>	<b>5018</b>	<b>4880</b>
Raw Materials	3358	4793	4191	4080	4754	4314	4121	4310
Employee Costs	185	203	204	200	211	225	189	186
Other Expenditure	498	406	443	413	449	422	448	444
<b>EBITDA</b>	<b>1132</b>	<b>1198</b>	<b>854</b>	<b>490</b>	<b>636</b>	<b>592</b>	<b>259</b>	<b>-59</b>
Depreciation	115	119	116	117	122	122	127	125
Interest	35	36	47	91	65	61	66	82
Other Income	19	42	57	62	59	74	73	66
<b>PBT</b>	<b>1000</b>	<b>1084</b>	<b>748</b>	<b>344</b>	<b>507</b>	<b>482</b>	<b>140</b>	<b>-200</b>
Exceptional items	0	0	0	0	0	0	0	0
<b>PBT after exceptional items</b>	<b>1000</b>	<b>1084</b>	<b>748</b>	<b>344</b>	<b>507</b>	<b>482</b>	<b>140</b>	<b>-200</b>
Tax	264	274	194	89	126	125	39	-47
Tax rate (%)	26	25	26	26	25	26	28	24
<b>Reported PAT</b>	<b>736</b>	<b>810</b>	<b>554</b>	<b>255</b>	<b>381</b>	<b>356</b>	<b>101</b>	<b>-152</b>
<b>Adjusted PAT</b>	<b>736</b>	<b>810</b>	<b>554</b>	<b>255</b>	<b>381</b>	<b>356</b>	<b>101</b>	<b>-152</b>
<b>YoY Growth (%)</b>								
Revenue	21.9	70.3	20.8	2.2	17.0	-15.9	-11.8	-5.8
EBITDA	-21.8	43.0	-12.4	-56.3	-43.8	-50.6	-69.6	-112.0
Adj PAT	-26.3	57.4	-14.9	-65.7	-48.2	-56.0	-81.8	-159.8
<b>QoQ Growth (%)</b>								
Revenue	2.0	27.6	-13.8	-8.9	16.7	-8.2	-9.6	-2.7
EBITDA	0.9	5.8	-28.7	-42.6	29.8	-6.9	-56.2	-122.7
Adj PAT	-1.0	10.0	-31.7	-54.0	49.6	-6.6	-71.7	-251.3
<b>Margin (%)</b>								
Gross Profit	35.1	27.4	26.4	21.3	21.4	22.3	17.9	11.7
EBITDA	21.9	18.1	15.0	9.5	10.5	10.7	5.2	NA
Adj PAT	14.2	12.3	9.7	4.9	6.3	6.4	2.0	NA
Employee cost as % of sales	3.6	3.1	3.6	3.9	3.5	4.1	3.8	3.8
Other expenses as % of sales	9.6	6.2	7.8	8.0	7.4	7.6	8.9	9.1

Source: Company, SMIFS Research

## Industry Comparison

**Fig 54: Domestic Industry Comparison**

(In Rs mn)

Company Name	Net Sales				EBITDA				PAT				EBITDA Margin (%)				PAT Margin (%)			
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
I G Petrochemicals	23,523	20,671	23,839	24,939	3,177	985	2,095	2,993	2,000	315	1,034	1,679	13.5%	4.8%	8.8%	12.0%	8.5%	1.5%	4.3%	6.7%
Galaxy Surfactants	44,452	38,410	42,890	47,893	5,683	4,794	5,397	6,071	3,810	2,992	3,438	3,925	12.8%	12.5%	12.6%	12.7%	8.6%	7.8%	8.0%	8.2%
PCBL	57,741	61,313	68,624	76,550	7,312	9,974	10,538	11,543	4,418	5,469	5,818	6,578	12.7%	16.3%	15.4%	15.1%	7.7%	8.9%	8.5%	8.6%
NOCIL	16,166	14,547	15,243	17,298	2,527	2,022	2,386	2,983	1,492	1,226	1,493	1,953	15.6%	13.9%	15.7%	17.2%	9.2%	8.4%	9.8%	11.3%
Navin Fluorine Intl	20,774	20,995	26,904	32,928	5,503	4,252	6,390	8,393	3,752	2,443	3,942	5,134	26.5%	20.3%	23.8%	25.5%	18.1%	11.6%	14.7%	15.6%
Aarti Industries	66,186	64,643	85,403	1,02,415	10,890	9,816	14,934	18,411	5,452	4,205	6,992	9,361	16.5%	15.2%	17.5%	18.0%	8.2%	6.5%	8.2%	9.1%
Fine Organic Industries	30,231	20,556	22,185	24,651	8,311	5,079	5,326	5,962	6,181	3,894	4,046	4,629	27.5%	24.7%	24.0%	24.2%	20.4%	18.9%	18.2%	18.8%
Deepak Nitrite	79,721	76,526	86,550	98,342	12,894	11,697	15,840	19,416	8,520	7,881	10,487	12,927	16.2%	15.3%	18.3%	19.7%	10.7%	10.3%	12.1%	13.1%

Source: Bloomberg & SMIFS Research Estimates

Company Name	CAGR FY23-26E (%)				ROE (%)				Dividend Yield (%)				P/E (x)				EV/EBITDA (x)			
	Rev	EBITDA	PAT	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	
I G Petrochemicals	2.0%	-2.0%	-5.7%	16.2%	2.5%	7.9%	11.6%	1.8	2.4	2.4	2.4	8.7	40.6	12.4	7.6	5.9	13.6	6.1	4.6	
Galaxy Surfactants	2.5%	2.2%	1.0%	22.0%	14.9%	15.2%	15.4%	0.8	1.0	1.1	1.3	26.0	31.1	27.0	23.7	17.6	19.0	16.9	14.8	
PCBL	9.9%	16.4%	14.2%	16.2%	18.2%	17.5%	17.8%	4.5	2.1	2.3	2.5	10.4	19.3	18.2	16.1	7.4	11.0	10.2	9.1	
NOCIL	2.3%	5.7%	9.4%	10.0%	7.7%	9.0%	11.0%	1.2	1.2	1.3	1.5	27.2	36.7	30.1	23.0	15.0	20.6	17.2	13.4	
Navin Fluorine Intl	16.6%	15.1%	11.0%	18.6%	10.5%	15.0%	17.8%	0.3	0.4	0.4	0.6	56.3	61.6	39.0	28.9	37.5	36.9	24.6	18.7	
Aarti Industries	15.7%	19.1%	19.7%	11.6%	8.3%	12.6%	14.9%	0.4	0.4	0.4	0.4	47.1	57.2	34.4	25.7	26.0	27.4	18.4	15.0	
Fine Organic Industries	-6.6%	-10.5%	-9.2%	49.4%	22.9%	19.9%	19.2%	0.2	0.4	0.5	0.6	21.4	32.3	31.0	27.8	14.2	23.2	22.2	19.8	
Deepak Nitrite	7.2%	14.6%	14.9%	22.9%	17.8%	20.3%	20.4%	0.4	0.4	0.4	0.5	29.5	36.5	27.4	22.3	18.7	24.2	17.9	14.6	

Source: Bloomberg & SMIFS Research Estimates

## Financial Statements (Consolidated)

Income Statement					
YE March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenues</b>	<b>18,828</b>	<b>23,523</b>	<b>20,671</b>	<b>23,839</b>	<b>24,939</b>
Raw Materials	12,397	17,817	17,110	18,882	18,830
% of sales	65.8	75.7	82.8	79.2	75.5
Personnel	751	817	788	860	972
% of sales	4.0	3.5	3.8	3.6	3.9
Other Expenses	1,614	1,712	1,787	2,002	2,144
% of sales	8.6	7.3	8.6	8.4	8.6
<b>EBITDA</b>	<b>4,066</b>	<b>3,177</b>	<b>985</b>	<b>2,095</b>	<b>2,993</b>
Other Income	70	219	302	273	277
Depreciation & Amortization	443	474	503	627	669
<b>EBIT</b>	<b>3,692</b>	<b>2,922</b>	<b>784</b>	<b>1,740</b>	<b>2,601</b>
Finance cost	129	239	350	335	320
<b>Core PBT</b>	<b>3,493</b>	<b>2,464</b>	<b>132</b>	<b>1,132</b>	<b>2,003</b>
Exceptional items	0	0	0	0	0
<b>PBT</b>	<b>3,563</b>	<b>2,683</b>	<b>434</b>	<b>1,405</b>	<b>2,281</b>
Tax-Total	918	683	119	371	602
Tax Rate (%) - Total	25.8	25.5	27.4	26.4	26.4
<b>Reported PAT</b>	<b>2,645</b>	<b>2,000</b>	<b>315</b>	<b>1,034</b>	<b>1,679</b>
Share of Profit/Loss of Associates	0	0	0	0	0
<b>Adjusted PAT</b>	<b>2,645</b>	<b>2,000</b>	<b>315</b>	<b>1,034</b>	<b>1,679</b>

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth Ratio (%)</b>					
Revenue	67.6	24.9	-12.1	15.3	4.6
EBITDA	36.2	-21.9	-69.0	112.6	42.9
Adjusted PAT	40.3	-24.4	-84.3	228.3	62.4
<b>Margin Ratios (%)</b>					
Gross Profit	34.2	24.3	17.2	20.8	24.5
EBITDA	21.6	13.5	4.8	8.8	12.0
EBIT	19.6	12.4	3.8	7.3	10.4
Core PBT	18.6	10.5	0.6	4.7	8.0
Adjusted PAT	14.0	8.5	1.5	4.3	6.7
<b>Return Ratios (%)</b>					
ROE	24.9	16.2	2.5	7.9	11.6
ROCE	24.7	16.0	3.7	8.1	11.4
<b>Turnover Ratios (days)</b>					
Gross block turnover ratio	1.5	1.9	1.4	1.4	1.4
Adj CFO / Adj PAT (%)	36.4	104.4	217.0	104.8	138.7
Inventory	29.5	25.6	25.0	30.0	30.0
Debtors	67.2	50.4	50.0	55.0	55.0
Creditors	57.2	57.5	55.0	60.0	60.0
Cash conversion cycle	39.5	18.4	20.0	25.0	25.0
<b>Solvency Ratio (x)</b>					
Debt-equity	0.2	0.2	0.3	0.2	0.2
Net debt/equity	0.0	-0.1	-0.1	0.0	-0.1
Gross debt/EBITDA	0.4	0.8	3.2	1.5	1.0
Current Ratio	1.8	1.6	1.9	1.7	1.8
Interest coverage ratio	28.7	12.2	2.2	5.2	8.1
<b>Dividend</b>					
DPS	10.0	10.0	10.0	10.0	10.0
Dividend Yield (%)	1.5	1.8	2.4	2.4	2.4
Dividend Payout (%)	11.6	15.4	97.8	29.8	18.3
<b>Per share Ratios (Rs)</b>					
Basic EPS (reported)	85.9	64.9	10.2	33.6	54.5
Adj EPS	85.9	64.9	10.2	33.6	54.5
Adj CEPS	100.3	80.3	26.6	53.9	76.2
Adj BV	344.9	401.0	401.2	424.8	469.3
<b>Valuation (x)*</b>					
Adj P/E	7.8	8.7	40.6	12.4	7.6
P/BV	1.9	1.4	1.0	1.0	0.9
EV/EBITDA	5.1	5.9	13.6	6.1	4.6
EV/Sales	1.1	0.8	0.6	0.5	0.6
Adj Mcap / Core PBT	5.3	5.6	68.0	8.6	4.4
Adj Mcap / Adj OCF	19.2	6.6	13.1	9.0	3.8

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Source of funds</b>					
Equity Share Capital	308	308	308	308	308
Reserves & Surplus	10,313	12,041	12,048	12,774	14,145
<b>Shareholders' Fund</b>	<b>10,621</b>	<b>12,349</b>	<b>12,356</b>	<b>13,082</b>	<b>14,453</b>
<b>Total loan funds</b>	<b>1,726</b>	<b>2,537</b>	<b>3,182</b>	<b>3,047</b>	<b>2,912</b>
Other Liabilities	821	900	967	1002	1133
<b>Total Liabilities</b>	<b>13,168</b>	<b>15,786</b>	<b>16,505</b>	<b>17,131</b>	<b>18,498</b>
<b>Application of funds</b>					
<b>Gross Block</b>	<b>12,554</b>	<b>12,705</b>	<b>16,505</b>	<b>16,955</b>	<b>19,105</b>
Net Block	7,334	7,097	10,394	10,217	11,698
Capital WIP	1,180	3,485	509	1,528	382
Quasi Cash Investments	85	750	700	700	700
<b>Other Investments</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>
<b>Other Non-Current Assets</b>	<b>790</b>	<b>471</b>	<b>446</b>	<b>499</b>	<b>519</b>
Inventories	1,521	1,649	1,416	1,959	2,050
Sundry Debtors	3,468	3,245	2,832	3,592	3,758
Cash & bank balances	1,275	1,916	2,043	1,244	2,155
Current investments	725	1,065	1,065	1,065	1,065
Other current assets	127	234	462	497	529
<b>Total Current Assets</b>	<b>7,117</b>	<b>8,111</b>	<b>7,817</b>	<b>8,357</b>	<b>9,557</b>
<b>Sundry Creditors</b>	<b>2,950</b>	<b>3,709</b>	<b>3,115</b>	<b>3,919</b>	<b>4,100</b>
Other current liabilities	393	424	251	257	263
<b>Total Current Liabilities</b>	<b>3,343</b>	<b>4,133</b>	<b>3,366</b>	<b>4,176</b>	<b>4,362</b>
<b>Net Current Assets</b>	<b>3,774</b>	<b>3,977</b>	<b>4,451</b>	<b>4,182</b>	<b>5,194</b>
<b>Total Assets</b>	<b>13,168</b>	<b>15,786</b>	<b>16,505</b>	<b>17,131</b>	<b>18,498</b>

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Operating profit before WC changes</b>	<b>4,049</b>	<b>3,220</b>	<b>1,287</b>	<b>2,367</b>	<b>3,270</b>
Net changes in working capital	-2,169	-282	-135	-578	-19
Tax Paid	-788	-613	-119	-371	-602
<b>Cash flow from operating activities</b>	<b>1,093</b>	<b>2,325</b>	<b>1,033</b>	<b>1,419</b>	<b>2,649</b>
<b>Adj. OCF</b>	<b>962</b>	<b>2,088</b>	<b>683</b>	<b>1,083</b>	<b>2,328</b>
Capital expenditure	-825	-229	-3,800	-450	-2,150
Adj FCF	137	1,859	-3,117	633	178
<b>Cash flow from investing activities</b>	<b>-1,056</b>	<b>-2,554</b>	<b>-776</b>	<b>-1,470</b>	<b>-1,004</b>
Debt	169	747	528	-105	-105
Dividend	-226	-303	-308	-308	-308
Interest and Lease	-131	-237	-350	-335	-320
<b>Cash flow from financing activities</b>	<b>-188</b>	<b>206</b>	<b>-130</b>	<b>-748</b>	<b>-733</b>
<b>Net change in cash</b>	<b>-152</b>	<b>-23</b>	<b>127</b>	<b>-799</b>	<b>912</b>

Source: Company, SMIFS Research Estimates

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