

# I G Petrochemicals Ltd.

## Pain factored in the price, Growth outlook visible post FY24

The company reported weak operational performance. Revenue grew by ~2.2% YoY & declined by ~9% QoQ. Sequential weakness is owing to decline in volumes of PAN & softening of realization of PAN and MAN. Although, increased contribution from advance plasticizer business cushioned some impact but smaller pie in overall revenues couldn't shift the business. The company witnessed contraction in spreads of PAN-Ox which impacted the gross margins. We feel the spreads should improve from hereon & considering demand uptick and stability in crude oil prices. Inching up of non phthalic business revenue share (i.e 7.5% of 9MFY23 revenue) might provide some stability in the margins, it remains a key factor of company's further expansion in downstream derivatives which would further magnify the non phthalic business by FY25E. Post Q2FY23 results the stock has witnessed correction of ~17%, hence there is valuation comfort. However, absence of volume growth from PAN business, volatile PAN-Ox spreads & declining MAN realization are a cause of concern, but considering the attractive valuations we feel the worst has been factored in the price and improvement in demand might provide support to the PAN-Ox spreads in the coming quarters, hence, we upgrade to BUY rating on the stock.

### Demand hiccups led pain, green shoots visible in demand to benefit going ahead

- Demand hiccups in international markets in dyes & UPR segment impacted the revenues as PAN & MAN prices declined in Q3FY23. However, with demand resuming normal in major geographies & anticipated softening of raw material prices like Ortho-xylene might provide some solace to the gross margins going ahead.
- In Q3FY23, volumes declined owing to 25 days shutdown which will improve or normalize in the coming quarter along with lower other expenses thereby improving the margins.

### Contraction in gross margins mainly due to decline in PAN-Ox spreads, to improve in the coming quarter

- The company reported gross margin contraction of 1206bps YoY & 508bps QoQ to 21.3% in Q3FY23. The margin contraction is majorly due to decline in the spreads of PAN-Ox & lower realization of MAN.
- For the quarter spreads stood at \$100/ton which led to sharp decline in gross margins. However, current month spreads are at \$170-180/ton and if these spreads sustain the gross margins will improve. We believe that PAN-OX spreads will sustain between \$150-250/ton in the long term, considering robust demand and wider applications of PAN in end user industries.

### Valuation

- Currently, the stock is trading at FY25E P/E of ~7x. We roll forward our target multiples to FY25E & also upgrade our target multiple to 9x (earlier 8.5x) owing to anticipated improvement in spreads, demand pickup & increasing downstream contribution, thereby, arriving at target price of Rs 579 per share which offers upside of 32% from current valuations.
- Therefore, we upgrade to **BUY** rating from earlier **ACCUMULATE** rating on the stock.

Y/E Mar (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
<b>Revenue</b>	<b>5,183</b>	<b>5,070</b>	<b>2.2</b>	<b>5,691</b>	<b>-8.9</b>
Operating cost	4,693	3,949	18.9	4,837	-3.0
<b>EBITDA</b>	<b>490</b>	<b>1121</b>	<b>-56.3</b>	<b>854</b>	<b>-42.6</b>
EBITDA margin (%)	9.5	22.1	(1266) bps	15.0	(555) bps
Depreciation	117	109	7.0	116	0.6
Interest	91	32	181.8	47	95.2
Other Income	62	19	222.5	57	9.4
Exceptional Items	0	0	NA	0	NA
<b>PBT</b>	<b>344</b>	<b>999</b>	<b>-65.5</b>	<b>748</b>	<b>-54.0</b>
Taxes paid	89	256	-65.1	194	-54.0
<b>Reported PAT</b>	<b>255</b>	<b>744</b>	<b>-65.7</b>	<b>554</b>	<b>-54.0</b>

Source: Company, SMIFS Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	11,236	6.1	2,986	26.6	1,886	794.2	61.2	25.9	21.5	4.8	2.8
FY22	18,828	67.6	4,066	21.6	2,645	40.3	85.9	28.1	24.7	7.8	5.1
FY23E	23,271	23.6	3,248	14.0	2,001	-24.3	65.0	17.4	16.1	6.8	4.5
FY24E	20,780	-10.7	2,955	14.2	1,675	-16.3	54.4	12.9	12.1	8.1	5.0
FY25E	21,755	4.7	3,364	15.5	1,982	18.4	64.4	13.7	12.9	6.8	4.9

Source: Company, SMIFS Research Estimates



Rating: **BUY** Upside: **32%**  
 Current Price: **440** Target Price: **579**

**Earlier recommendation**  
 Previous Rating: **ACCUMULATE**  
 Previous Target Price: **551**  
 Source: SMIFS Research

**Market data**  
 Bloomberg: **IGPL: IN**  
 52-week H/L (Rs): **828/429**  
 Mcap (Rs bn/USD bn): **13.4/0.16**  
 Shares outstanding (mn): **30.8**  
 Free float: **25.7%**  
 Daily vol. (3M Avg.): **0.03mn**  
 Face Value (Rs): **10**  
 Source: Bloomberg, SMIFS Research

**Shareholding pattern (%)**

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	68.7	68.7	68.7	68.7
FIIIs	3.6	3.4	3.4	3.2
DIIIs	2.0	2.1	2.0	1.9
Public/others	25.7	25.8	25.9	26.2

**Pro. Pledging**

	Dec-22	Sep-22	Jun-22	Mar-22
Pledging	0.0	0.0	0.0	0.0

Source: BSE

**Price performance (%)\***

	1M	3M	12M	36M
NIFTY 50	-2.1	-1.1	1.7	53.0
NIFTY 500	-3.8	-3.4	-1.2	55.0
IGPL	-16.9	-15.9	-41.1	153

\*as on 03<sup>rd</sup> Feb 2023; Source: AceEquity, SMIFS Research

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## Analyst Call Highlights

- **Demand outlook:** The demand has witnessed hiccups led by decline in pigments & UPR business at the global level. US imposed an ADD on UPR imports of 400% which led to higher inventory at global level & China imposed ADD on CPC & pigments which impacted PAN demand. However, US has subsequently removed its ADD on December 22 foreseeing global impact and since china is re-opening the demand is set to improve which might mitigate the impact of its ADD imposition. The demand in domestic market is ~4.5-5 lakh tonnes and is expected to grow around 6-8% in the coming years.
- **Advance plasticizers (DEP) business update:** The advanced plasticizer capacity of 8,400 TPA has reached around 80-85% utilization for the quarter. This business generated revenues of Rs150mn during the quarter.
- **PAN-Ox Spread:** The spreads of PAN-Ox took a beating in Q3FY23 owing to global demand challenges & inventory destocking. The spreads witnessed were \$100/ton in Q3FY23. Thereafter, spreads rebounded factoring in improvement in global demand and increased offtake of volumes in China after re-opening from covid restrictions. 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 hasn't provided any guidance on the future PAN-Ox spreads, however they assume sustainable spreads to be around \$150-250/ton.
- **New brownfield PAN capacity expansion:** The company is commissioning a new brownfield expansion of Phthalic Anhydride capacity by 53,000 TPA which would be named as PA5 unit. The total project cost is Rs3.5bn of which 50% of construction work is complete to the tune of Rs1.5bn and is expected to be completed by March 2024 assuming no delay. The rationale for capacity expansion is to be the leading producer of PAN and with this expansion the company could then plan to further expand into downstream chemistries which would use in-house PAN as a raw material.
- **Non-Phthalic business revenue to inch up:** The company from the non phthalic business contributed Rs350-400mn for Q3FY23 (7% of revenues in Q3FY23) & Rs1.3bn in 9MFY23 (7.5% of revenues in 9MFY23). In Q3FY23, value added contribution was lower because of lower MAN contribution because of lower volumes & realizations.
- **Focus on downstream business is a positive sign:** The company has approved Rs1-1.5bn capex in downstream chemistries, however, they are yet to apply for environmental clearances. Management would like to comment further once the company gets complete clearances from the authorities.

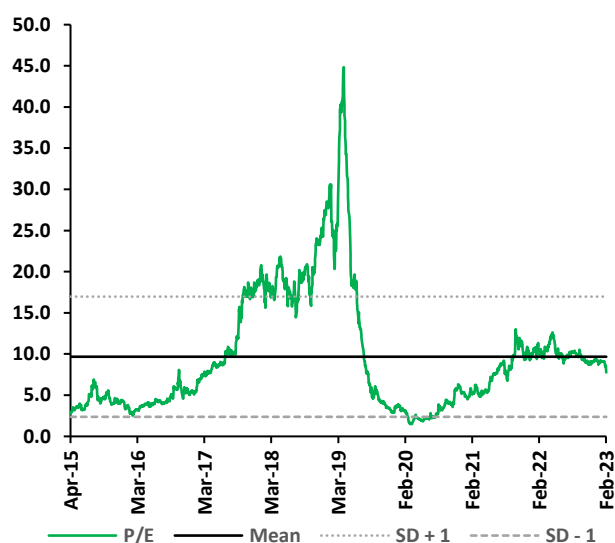
## Valuation and Recommendations

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Therefore, we upgrade to **BUY** rating from earlier **ACCUMULATE** rating on the stock.

Risk to our call is unforeseen impact on the demand and sharp decline in spread.

Fig 1: 1-year forward P/E



Source: AceEquity, SMIFS Research

Fig 2: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS Research

Fig 3: Change in Estimates

	New Estimates		Old Estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	20780	21755	20780	21910	0%	-1%
EBITDA	2955	3364	3118	3358	-5%	0%
EBITDA Margin	14.2%	15.5%	15.0%	15.3%	(78) bps	14 bps
PAT	1675	1982	1796	1978	-7%	0%
EPS (Rs)	54	64	58	64	-7%	0%

Source: Company, SMIFS Research Estimates

## Quarterly financials, operating metrics, key performance indicators & story in charts

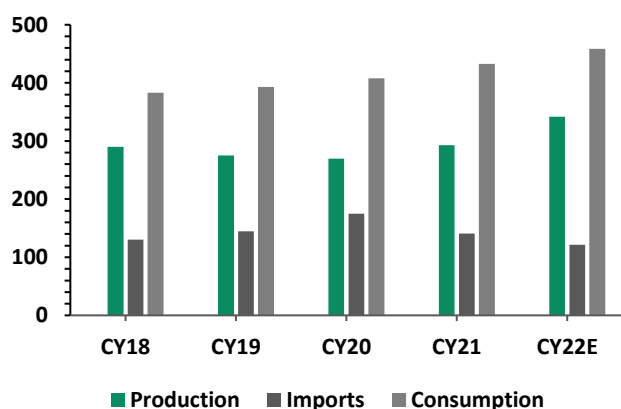
**Fig 4: Quarterly Financials**

Y/E March (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Net Sales</b>	<b>4244</b>	<b>3875</b>	<b>4711</b>	<b>5070</b>	<b>5172</b>	<b>6599</b>	<b>5691</b>	<b>5183</b>
Raw Materials	2250	2459	3201	3379	3358	4793	4191	4080
Employee Costs	255	182	174	211	185	203	204	200
Other Expenditure	291	397	361	358	498	406	443	413
<b>EBITDA</b>	<b>1448</b>	<b>838</b>	<b>975</b>	<b>1121</b>	<b>1132</b>	<b>1198</b>	<b>854</b>	<b>490</b>
Depreciation	105	113	106	109	115	119	116	117
Interest	12	45	16	32	35	36	47	91
Other Income	9	11	20	19	19	42	57	62
<b>PBT</b>	<b>1340</b>	<b>690</b>	<b>873</b>	<b>999</b>	<b>1000</b>	<b>1084</b>	<b>748</b>	<b>344</b>
Exceptional items	0	0	0	0	0	0	0	0
<b>PBT After Exceptional Items</b>	<b>1340</b>	<b>690</b>	<b>873</b>	<b>999</b>	<b>1000</b>	<b>1084</b>	<b>748</b>	<b>344</b>
Tax	341	176	223	256	264	274	194	89
<b>Tax rate (%)</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>26</b>	<b>26</b>	<b>25</b>	<b>26</b>	<b>26</b>
<b>Reported PAT</b>	<b>999</b>	<b>515</b>	<b>650</b>	<b>744</b>	<b>736</b>	<b>810</b>	<b>554</b>	<b>255</b>
<b>Adjusted PAT</b>	<b>999</b>	<b>515</b>	<b>650</b>	<b>744</b>	<b>736</b>	<b>810</b>	<b>554</b>	<b>255</b>
<b>YoY Growth (%)</b>								
Revenue	58.1	172.7	94.4	61.1	21.9	70.3	20.8	2.2
EBITDA	804.2	433.6	133.5	16.4	-21.8	43.0	-12.4	-56.3
Adj PAT	2311.9	1894.0	180.8	18.3	-26.3	57.4	-14.9	-65.7
<b>QoQ Growth (%)</b>								
Revenue	34.8	-8.7	21.6	7.6	2.0	27.6	-13.8	-8.9
EBITDA	50.3	-42.1	16.4	15.0	0.9	5.8	-28.7	-42.6
Adj PAT	58.8	-48.4	26.3	14.3	-1.0	10.0	-31.7	-54.0
<b>Margin (%)</b>								
Gross	47.0	36.5	32.1	33.3	35.1	27.4	26.4	21.3
EBITDA	34.1	21.6	20.7	22.1	21.9	18.1	15.0	9.5
Adj PAT	23.5	13.3	13.8	14.7	14.2	12.3	9.7	4.9
Employee cost as % of sales	6.0	4.7	3.7	4.2	3.6	3.1	3.6	3.9
Other expenses as % of sales	6.9	10.2	7.7	7.1	9.6	6.2	7.8	8.0

Source: Company, SMIFS Research

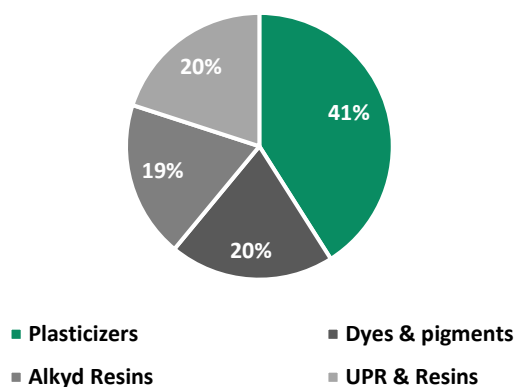
**Fig 5: PAN demand supply & consumption**

(In '000 MT)



Source: SMIFS Research

**Fig 6: PAN end usage Industries**



Source: SMIFS Research

## Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenues</b>	<b>11,236</b>	<b>18,828</b>	<b>23,271</b>	<b>20,780</b>	<b>21,755</b>
Raw Materials	6,514	12,397	17,409	15,282	15,678
% of sales	58.0	65.8	74.8	73.5	72.1
Personnel	707	751	803	849	898
% of sales	6.3	4.0	3.4	4.1	4.1
Other Expenses	1,029	1,614	1,811	1,693	1,815
% of sales	9.2	8.6	7.8	8.1	8.3
<b>EBITDA</b>	<b>2,986</b>	<b>4,066</b>	<b>3,248</b>	<b>2,955</b>	<b>3,364</b>
Other Income	33	70	116	104	109
Depreciation & Amortization	341	443	456	590	606
<b>EBIT</b>	<b>2,678</b>	<b>3,692</b>	<b>2,908</b>	<b>2,469</b>	<b>2,867</b>
Finance cost	146	129	202	199	185
<b>Core PBT</b>	<b>2,499</b>	<b>3,493</b>	<b>2,590</b>	<b>2,167</b>	<b>2,573</b>
Exceptional items	6	0	0	0	0
<b>PBT</b>	<b>2,526</b>	<b>3,563</b>	<b>2,707</b>	<b>2,270</b>	<b>2,682</b>
Tax-Total	645	918	706	596	700
Tax Rate (%) - Total	25.5	25.8	26.1	26.2	26.1
<b>PAT</b>	<b>1,881</b>	<b>2,645</b>	<b>2,001</b>	<b>1,675</b>	<b>1,982</b>
Share of Profit/Loss of Asso.	0	0	0	0	0
<b>Adjusted PAT</b>	<b>1,886</b>	<b>2,645</b>	<b>2,001</b>	<b>1,675</b>	<b>1,982</b>

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23E	FY24E	FY25E
<b>Growth Ratio (%)</b>					
Revenue	6.1	67.6	23.6	-10.7	4.7
EBITDA	315.7	36.2	-20.1	-9.0	13.8
Adjusted PAT	794.2	40.3	-24.3	-16.3	18.4
<b>Margin Ratios (%)</b>					
Gross Profit	42.0	34.2	25.2	26.5	27.9
EBITDA	26.6	21.6	14.0	14.2	15.5
EBIT	23.8	19.6	12.5	11.9	13.2
Core PBT	22.2	18.6	11.1	10.4	11.8
PBT	22.5	18.9	11.6	10.9	12.3
Adjusted PAT	16.8	14.0	8.6	8.1	9.1
<b>Return Ratios (%)</b>					
ROE	25.9	28.1	17.4	12.9	13.7
ROCE	21.5	24.7	16.1	12.1	12.9
<b>Turnover Ratios (days)</b>					
Gross block turn ratio (x)	1.0	1.5	1.8	1.4	1.3
Adj OCF / Adj PAT (%)	91.6	56.3	108.3	158.4	112.3
Inventory	80.6	44.8	45.0	45.0	50.0
Debtors	64.6	67.2	65.0	65.0	65.0
Creditors	123.8	86.9	90.0	90.0	90.0
Cash conversion cycle	21.4	25.2	20.0	20.0	25.0
<b>Solvency Ratio (x)</b>					
Debt-equity	0.2	0.2	0.2	0.1	0.1
Net debt/equity	0.1	0.0	-0.1	-0.1	-0.2
Gross debt/EBITDA	0.6	0.4	0.7	0.7	0.6
Current Ratio	1.3	1.8	1.8	1.8	2.1
Interest coverage ratio	18.4	28.7	14.4	12.4	15.5
<b>Dividend</b>					
DPS	7.5	10.0	10.0	10.0	10.0
Dividend Yield (%)	2.6	1.5	2.3	2.3	2.3
Dividend Payout (%)	12.2	11.6	15.4	18.4	15.5
<b>Per share (Rs)</b>					
Basic EPS (reported)	61.1	85.9	65.0	54.4	64.4
Adjusted EPS	61.2	85.9	65.0	54.4	64.4
CEPS	61.2	85.9	65.0	54.4	64.4
BVPS	266.9	344.9	399.8	444.2	498.6
<b>Valuation (x)*</b>					
Adj P/E	4.8	7.8	6.8	8.1	6.8
P/BV	1.1	1.9	1.1	1.0	0.9
EV/EBITDA	2.8	5.1	4.5	5.0	4.9
EV / Sales	0.7	1.1	0.6	0.7	0.8
Adj Mcap / Core PBT	3.2	5.3	4.0	4.8	3.4
Adj Mcap / Adj OCF	4.7	12.4	4.8	3.9	4.0

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Source of funds</b>					
Capital	308	308	308	308	308
Reserves & Surplus	7,912	10,313	12,006	13,373	15,047
<b>Shareholders' Fund</b>	<b>8,220</b>	<b>10,621</b>	<b>12,314</b>	<b>13,681</b>	<b>15,355</b>
<b>Total loan funds</b>	<b>1,651</b>	<b>1,726</b>	<b>2,123</b>	<b>1,988</b>	<b>1,853</b>
Other liabilities	827	821	843	1081	1111
<b>Total Liabilities</b>	<b>10,698</b>	<b>13,168</b>	<b>15,281</b>	<b>16,750</b>	<b>18,319</b>
<b>Application of funds</b>					
<b>Gross Block</b>	<b>12,023</b>	<b>12,553</b>	<b>12,903</b>	<b>16,703</b>	<b>17,153</b>
<b>Net Block</b>	<b>6,978</b>	<b>7,333</b>	<b>7,228</b>	<b>10,437</b>	<b>10,281</b>
Capital WIP	1,319	1,180	1,925	390	260
Investments	158	811	561	561	561
Other non current assets	513	796	1,004	1,054	1,072
Inventories	1,438	1,521	2,146	1,884	2,148
Sundry Debtors	1,987	3,468	4,144	3,701	3,874
Cash and bank balances	736	1,275	2,683	2,657	4,150
Other current assets	109	127	142	147	157
<b>Total Current Assets</b>	<b>4,270</b>	<b>6,392</b>	<b>9,115</b>	<b>8,389</b>	<b>10,329</b>
Sundry Creditors	2,209	2,950	4,293	3,768	3,866
Other current liabilities	330	393	259	313	318
<b>Total Current Liabilities</b>	<b>2,540</b>	<b>3,343</b>	<b>4,551</b>	<b>4,081</b>	<b>4,184</b>
<b>Net Current Assets</b>	<b>1,731</b>	<b>3,048</b>	<b>4,564</b>	<b>4,307</b>	<b>6,145</b>
<b>Total Assets</b>	<b>10,698</b>	<b>13,168</b>	<b>15,281</b>	<b>16,750</b>	<b>18,319</b>

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Operating profit before WC changes</b>	<b>2,989</b>	<b>3,989</b>	<b>3,364</b>	<b>3,059</b>	<b>3,473</b>
Changes in working capital	-529	-1,634	-290	388	-363
Tax Paid	-627	-788	-706	-596	-700
<b>Cash flow from operating activities</b>	<b>1,833</b>	<b>1,568</b>	<b>2,369</b>	<b>2,852</b>	<b>2,411</b>
<b>Adj. OCF</b>	<b>1,727</b>	<b>1,490</b>	<b>2,167</b>	<b>2,653</b>	<b>2,226</b>
Capital expenditure	-706	-825	-350	-3,800	-450
Adj. FCF	1,020	665	1,817	-1,147	1,776
<b>Cash flow from investing activities</b>	<b>-725</b>	<b>-1,584</b>	<b>-845</b>	<b>-2,265</b>	<b>-320</b>
Debt	-637	169	393	-105	-105
Dividend	-60	-226	-308	-308	-308
Interest and lease	-106	-78	-202	-199	-185
<b>Cash flow from financing activities</b>	<b>-803</b>	<b>-135</b>	<b>-117</b>	<b>-612</b>	<b>-598</b>
<b>Net change in cash</b>	<b>304</b>	<b>-152</b>	<b>1,407</b>	<b>-25</b>	<b>1,493</b>

Source: Company, SMIFS Research Estimates

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Analyst holding in stock: **NO**

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