IGPL | Initiating Coverage Report

KEYNOTE

High Conviction Report

I G Petrochemicals Limited

Looking beyond short-term hiccups

2nd January 2024

I G Petrochemicals Limited (IGPL), serving as the flagship Company within the Dhanuka Group, is the largest manufacturer of Phthalic Anhydride (PAN) in India. The Company is one of the most cost-efficient producers of PAN globally. PAN is a downstream product derived from Orthoxylene (OX), a fundamental petrochemical. Functioning as a versatile intermediate in organic chemistry, PAN plays a pivotal role in the production of Plasticizers, Unsaturated Polyester Resins, Alkyl Resins, and Polyols. Presently, the spread between PAN and OX has narrowed from its decadal average of ~$150-200 per MT to ~$90 per MT. We anticipate that this deviation will normalize, fostering robust growth in gross profit. To further grow its sales, the Company is expanding its PAN capacity by ~24% (from 222,110 MTPA to 275,110 MTPA) as it is working at ~90% capacity utilization.

Capacity expansion

To grow its sales, IGPL is currently executing its brownfield capacity expansion plan, which will lead to an increase in its PAN capacity from 222,110 MT to 275,110 MT, along with an increase in its Maleic Anhydride (MAN) and benzoic Acid capacity from 7,660 MT to 9,160 MT and 1,000 MT to 1,250 MT, respectively. The Company is spending Rs. 3.5Bn, which will generate sales of Rs. 4.5-5Bn at optimum capacity utilization. This capacity is expected to be completed in Q4 FY24.

Furthermore, the Company has initiated the process of obtaining environmental clearance for the production of downstream derivatives of PAN, specifically Advance Plasticizer. Currently, the management is evaluating the project, and the expansion is subject to the Company's board approval; IGPL has outlined a capital expenditure of ~Rs. 1.5-2Bn dedicated to the establishment of a greenfield facility for this purpose. According to management projections, this expansion will have a revenue potential of ~Rs. 8-9Bn.

Lowest cost producer

IGPL's plants are strategically located in MIDC, Taloja. This location enables the Company to procure raw materials from the largest supplier of OX efficiently, offering a cost advantage compared to competitors who incur additional transportation expenses. The majority of their sales come from the western chemical belt of India; IGPL acts as the nearest source of PAN for the customer, thereby minimizing freight costs. Moreover, the consolidation of all plants in a single location presents a distinct advantage for IGPL, allowing for the equitable distribution of fixed costs among its four facilities. Additionally, the utilization of steam generated during the PAN manufacturing process contributes to a reduction in power and fuel expenses for the Company.

View & Valuation

We initiate coverage on IGPL with a high conviction BUY rating at 5-year median PE of 8x on FY26E EPS, giving a target price of ~Rs. 819, implying an upside of 64%. The new capacity addition of 53,000 MTPA of PAN and improving the spread of PAN & OX will lead to sales growth and improvement in EBITDA margin, leading to strong growth in PAT.

BUY

CMP Rs. 500

TARGET Rs. 819 (+64%)

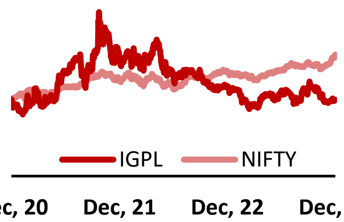
Company Data

Bloomberg Code	IGPL IN
MCAP (Rs. Mn)	15,397
O/S Shares (Mn)	31
52w High/Low	589/393
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	17.6

Shareholding Pattern %

	Sep-23	Jun-23	Mar-23
Promoters	68.74	68.74	68.74
FIIs	3.74	3.81	3.71
DIIs	1.80	1.69	1.95
Non-Institutional	25.74	25.78	25.61

IGPL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

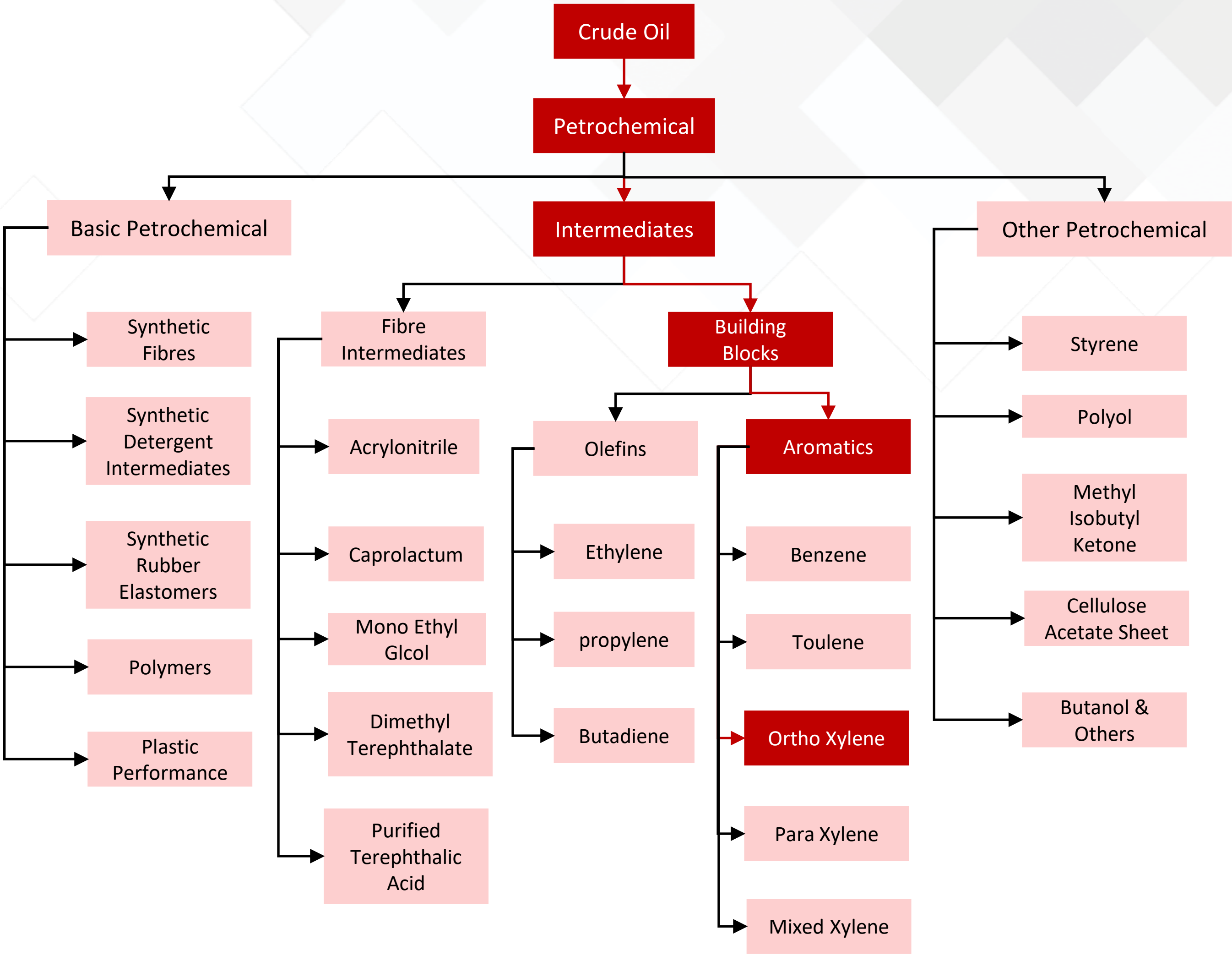
(Rs Bn)	FY23	FY24E	FY25E
Revenue	24	20	24
EBITDA	3	2	3
Net Profit	2	1	2
Total Assets	20	21	23
ROCE (%)	17%	7%	12%
ROE (%)	17%	6%	11%

Source: Company, Keynote Capitals Ltd.

Chirag Maroo, *Research Analyst*
Chirag@keynotecapitals.net

KEYNOTE

Petrochemical Industry



Source: Department of Chemicals & Petrochemicals, Keynote Capitals

The chemical industry is the backbone of industrial and agricultural development of the country and provides building blocks for several downstream industries, such as textiles, papers, paints, soaps, detergents, pharmaceuticals, varnish etc. It is one of the most diversified sector of all industrial sectors covering thousands of commercial products. Indian chemical industry comprises of both small scale as well as large scale units. With initiatives like "Make in India" programme gaining steam, investments, innovation and infrastructure are going to be the major thrust areas for chemical industry players. The industry is important as it has several linkages with other sectors of an economy. Petrochemicals have backward linkages with other industries in petroleum refining, natural gas processing and forward linkages with industries dealing variety of downstream products. Also, the industry offers alternatives, which serve as substitutes for natural products and therefore, it has the capacity to meet the constantly growing demand that would otherwise strain the natural resources. The value additions in the petrochemicals chain offer immense possibilities and cater to the need of textiles and clothing, agriculture, packaging, infrastructure, healthcare, furniture, automobiles, information technology, power, electronics and telecommunication, irrigation, drinking water, construction needs and host of other articles of daily and specialized usage, amidst other emerging areas.

Petrochemical are broadly divided into Basic Petrochemical, Intermediates and Other Petro based Chemicals. Intermediates are further divided into two parts: i) Fibre Intermediates and ii) Building Blocks. Building blocks are even further divided into two: i) Olefins and ii) Aromatics.

Olefins

Olefin, also called as alkenes contains one or more pairs of carbon atoms linked by a double bond. Examples include ethylene, propylene and butadiene. Both ethylene and propylene are used in the industrial production of chemicals, plastics and plastics products while butadiene is used in the industrial production of synthetic rubber.

Aromatics

Aromatics are hydrocarbons derived from petroleum, characterized by a ring-like molecular structure. Examples include benzene, toluene, and xylene. Benzene is used in making dyes as well as synthetic detergents. A combination of benzene and toluene are used in making isocyanates which are required in making polyurethanes while xylenes are used in the industrial production of both plastics and synthetic fibres.

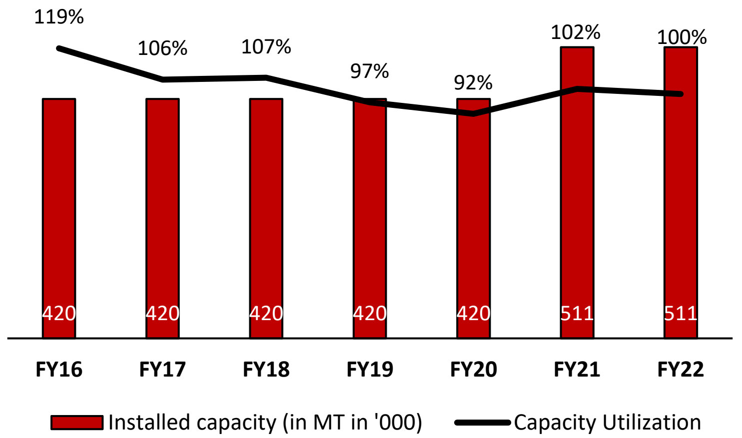
Ortho-Xylene (OX)

OX is an aromatic hydrocarbon. It is majorly used for manufacturing Phthalic Anhydride (PAN), which is used to make plasticizers used in compounding Polyvinyl Chloride (PVC) resins, unsaturated polyesters used in glass-reinforced thermoset engineering applications, and alkyd resins used mainly for surface coatings. It can be substituted for toluene in thinning paints and varnishes, where slower drying is necessary. It is also necessary in the production of plastic bottles and polyester clothing. Small quantities are used in solvent applications (which are declining) and to make bactericides, soya bean herbicides and lube oil additives. A new outlet is in the production of Polyethylene Naphthalate (PEN) polymer, which is a high-performance polyester used in film and rigid packaging where performance needs are more rigorous than polyethylene terephthalate products.

As of 2022, India has an installed capacity of 511,000 MT 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 MT.

Note: India is a net exporter of OX

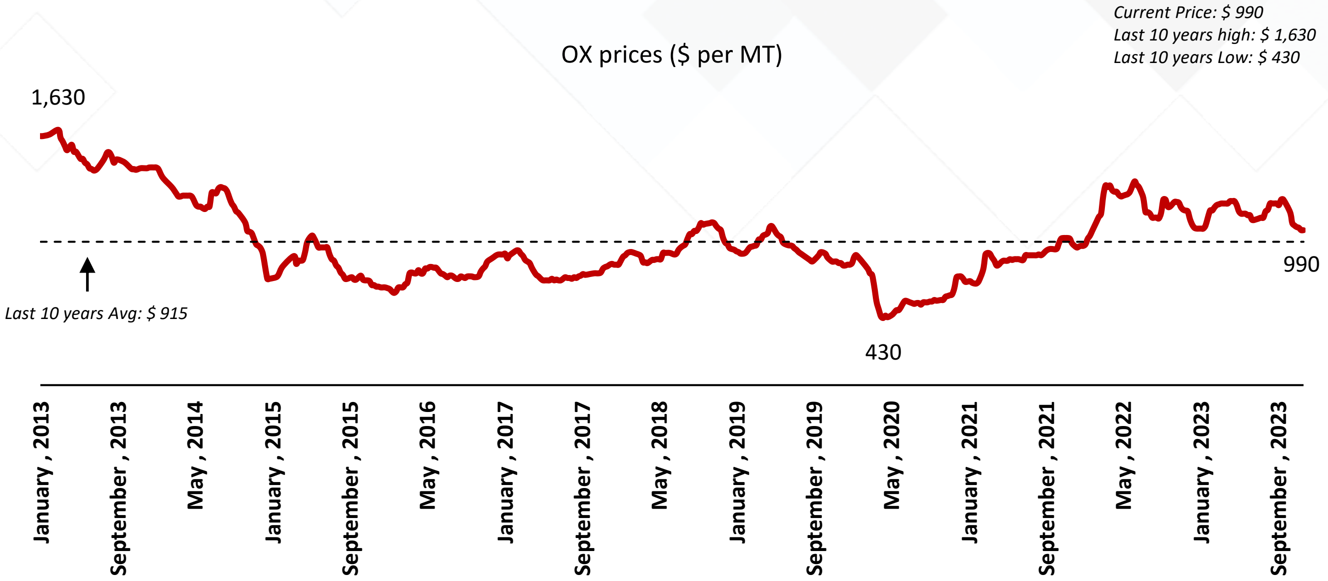
India's capacity of OX & its utilization



Source: Ministry of Chemicals & Fertilizers (Department of Chemicals & Petrochemicals), Keynote Capitals Ltd.

As a commodity, the fluctuations in OX prices are intricately linked to the supply of crude oil and the demand for PAN.

In Q4 FY22, Pramod Bhandari (CFO – IGPL) mentioned: "*In FY22, prices of key raw material followed by crude oil have been really volatile and sold rapidly due to the various factors like global supply chain disruption, unprecedented events like cyclones at few developed countries.*"

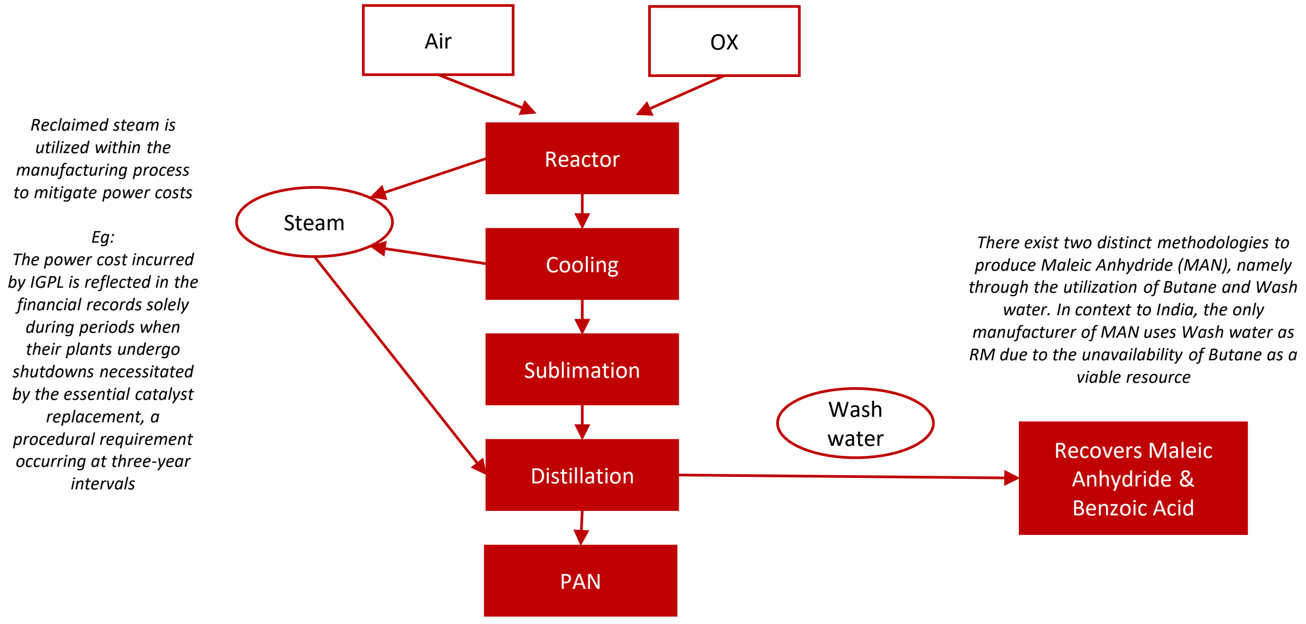


Source: Bloomberg, Keynote Capitals Ltd.

Phthalic Anhydride (PAN)

PAN is a downstream product of OX which finds application in multiple industries. Globally, PAN is manufactured by two ways: 1) through naphthalene 2) through OX. 90%+ of world's PAN manufacturing is done through OX route.

Manufacturing process of PAN through OX



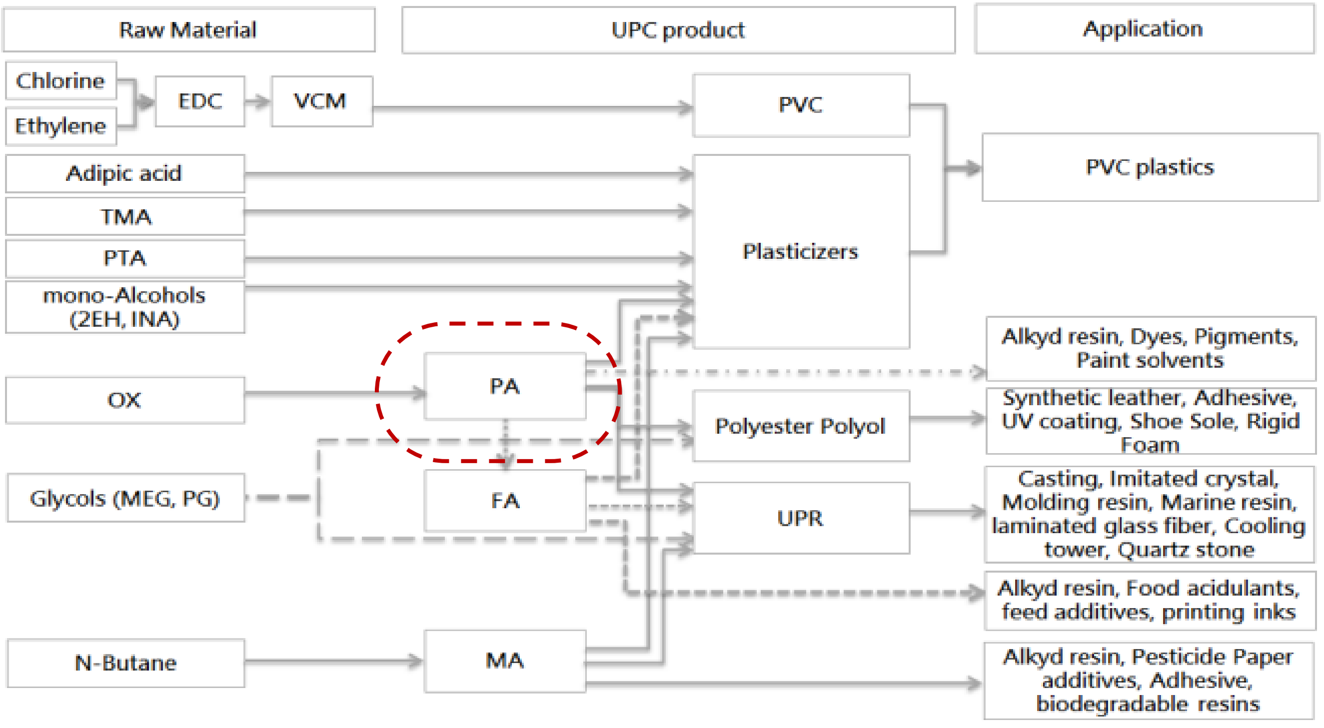
Source: Company, Keynote Capitals Ltd.

Manufacturing PAN from OX offers advantages such as better process efficiency, higher yield, and reduced environmental impact compared to using naphthalene. OX-based production often involves milder reaction conditions, leading to lower energy consumption and fewer by-products. Additionally, OX is derived from more readily available feedstocks, contributing to a more sustainable and cost-effective production process.

Supply Chain of PAN

Historically, PAN as an intermediate was used in industries such as paints, plasticizers, Unsaturated Polyester Resin (UPR) and CPC pigments.

Currently, industry is facing headwinds due to lower demand from CPC pigments



Source: UPC Technology Corporation, Keynote Capitals Ltd.

EDC: Ethylene Dichloride, VCM: Vinyl Chloride Monomer, PVC: Polyvinyl Chloride, TMA: Trimethylamine, PTA: Purified Terephthalic Acid, FA: Ferulic Acid, UPR: unsaturated polyester , MA: Maleic Anhydride, PA: Phthalic Anhydride

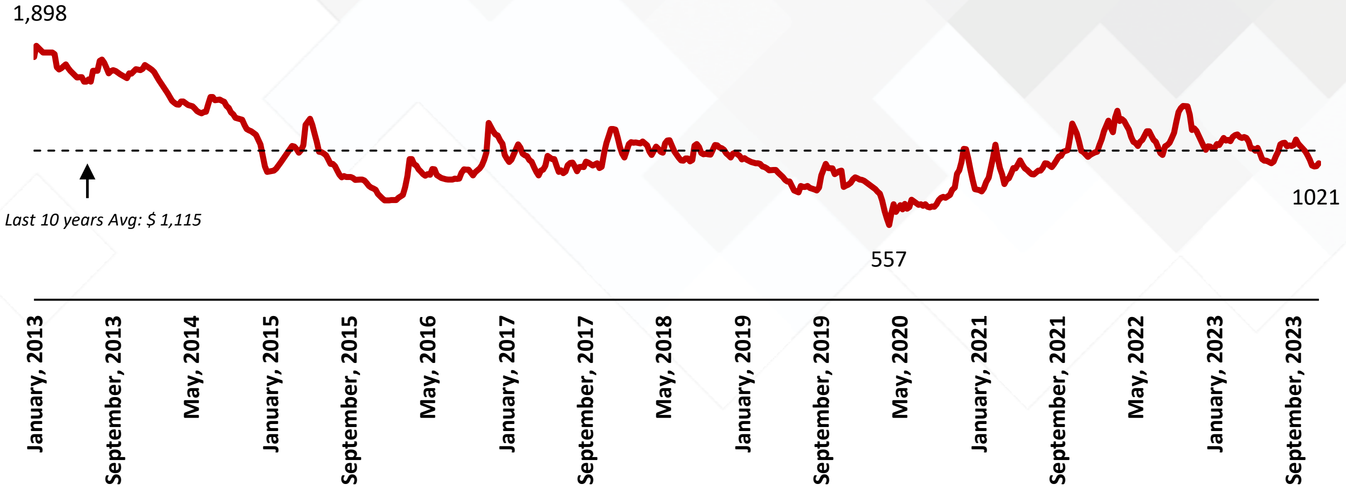
However, over the years, its application has expanded widely to multiple industries. Today, PAN is also used in the production of speciality chemicals, agrochemicals, specialized polymers, electric vehicles & electronic products, insect repellents and urethane polyester polyols. It is also being innovatively used for making plastic currency, paper boards, leisure boats and sail of windmills etc.

PAN usage has increased from 5-10 to 20+ industries

In Q4 FY22, Pramod Bhandari (CFO-IGPL) said "Phthalic anhydride is a downstream product of orthoxylene, the consumption of PAN and its derivatives is growing rapidly over the past few years. The consumption of phthalic anhydride was historically concentrated in the paint, plasticizer and CPC industry. We have witnessed a lot of changes in the last few years and many other industries had increased the application of PAN."

Current Price: $ 1,021
Last 10 years high: $ 1,898
Last 10 years Low: $ 557

PAN Prices ($ per Ton)



Source: Bloomberg, Keynote Capitals Ltd.

Over the last decade, the price spread between PAN and OX has been ~$150-200 per ton. At its upper limit, this differential has exceeded $500 per ton. It is noteworthy that there have been instances where PAN prices were lower than OX prices. Over the past decade, the lowest spread recorded was ~-$90, this situation occurs due to supply and demand mismatch.

Note: Correlation between PAN & OX prices for last 10 years is 0.9, suggesting a strong positive correlation.

As per IGPL management, if the spread goes down any further, a lot of plants in China, Korea and Taiwan will close.

India's PAN capacity

PAN Capacity in India (in MT)	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Installed capacity	3,49,000	3,49,000	3,49,000	3,49,000	4,02,000	4,02,000	4,02,000
Production	3,06,000	2,97,000	2,90,000	2,75,000	2,70,000	2,93,000	3,40,000
Capacity Utilization	*88%*	*85%*	*83%*	*79%*	*67%*	*73%*	*85%*
Import	79,803	92,057	1,30,440	1,44,800	1,74,482	1,40,780	1,21,210
Export	40,448	42,032	37,869	26,495	28,898	23,296	32,492

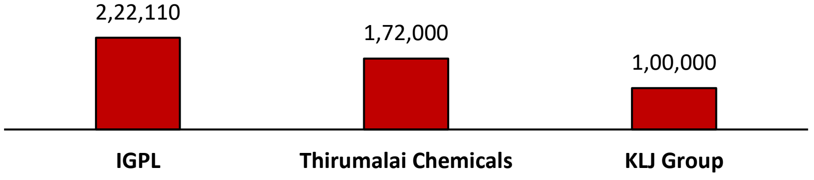
Source: Ministry of Chemicals & Fertilizers (Department of Chemicals & Petrochemicals), commerce.gov.in, Keynote Capitals Ltd.

Presently, India is a net importer of PAN, with a significant share sourced from Taiwan & Korea, supplemented by smaller volumes originating from China, Indonesia & Thailand.

As of FY22, 89% of total imported PAN comes from 5 countries: 30% from Taiwan, 25% from Korea, 14% from China, 12% from Indonesia & 8% from Thailand.

India's PAN market operates within an oligopolistic structure. Presently, three major players dominate the industry, namely IGPL, Thirumalai Chemicals, and the KLJ group (who uses PAN primarily for internal consumption). The manufacturing process involves intricate and critical chemistry, contributing to substantial entry barriers for potential new entrants. As of FY23 India's market size of PAN is ~450,000-480,000 MT and is expected to grow at 6-8%.

Top 3 players capacity (in MT) in India (FY23)



About the Company

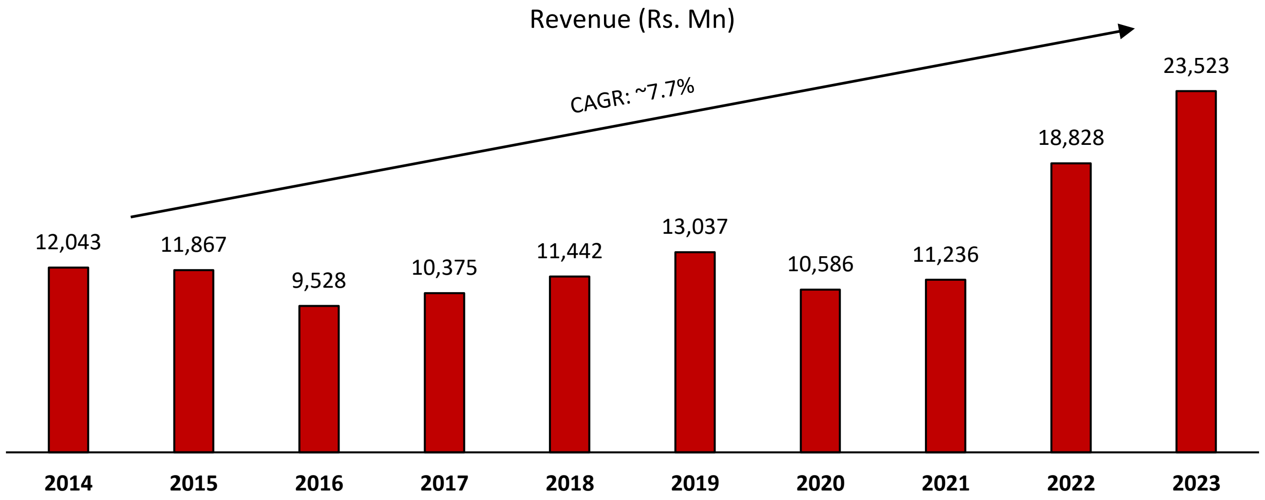
Founded in the year 1988, I G Petrochemicals Ltd. (IGPL) is promoted by Dhanuka Group and headquartered in Mumbai. The Company has emerged as a prominent global player in the petrochemical industry. Renowned for its status as a leading and lowest cost manufacturer, IGPL specializes in the production of PAN. With a remarkable market presence, the Company commands an impressive market share of 50%+ in India.

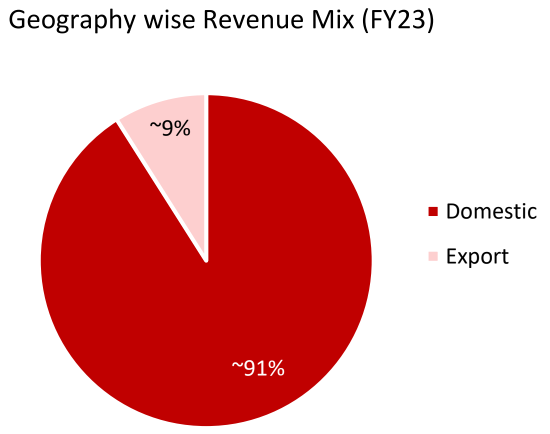
IGPL operates with a robust production capacity 222,110 MTPA. In addition to its primary focus on manufacturing PAN, over years, the Company has progressively diversified its product portfolio and started manufacturing products like Maleic Anhydride (MAN), Benzoic Acid, and Diethyl Phthalate (DEP). This strategic expansion underscores IGPL's commitment to delivering a comprehensive range of high-quality petrochemical products to meet diverse market demands.

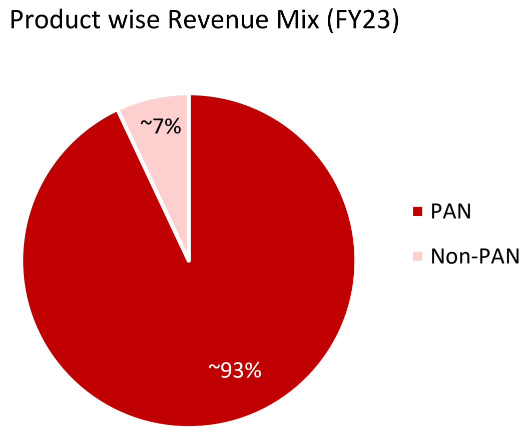
Note: IGPL is country's largest manufacturer of PAN and the only producer of MAN.

IGPL's facility was designed through technical collaboration with Lurgi GmbH, Germany, with the objective of achieving enhanced efficiencies that position IGPL as one of the most cost-effective producers of PAN. The utilization of an advanced catalyst in IGPL's generator further contributes to increased yield in Phthalic production, thereby elevating overall production efficiency.

At present, IGPL operates four state-of-the-art manufacturing plants that adhere to international standards. The catalyst of each plant necessitates replacement every three years, resulting in an annual occurrence of additional expenses and a temporary shutdown of the plant for a 25-30 days during a quarter of the year and cost ~Rs. 120-150Mn.



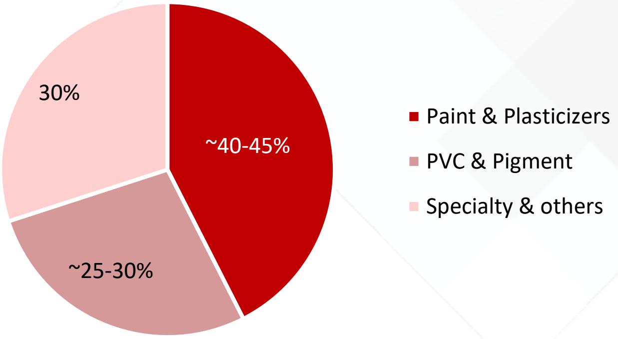




Source: Company, Keynote Capitals

Note: Non-PAN includes MAN, Benzoic Acid & DEP.

End User Industry wise Revenue Mix (FY23)



Source: Company, Keynote Capitals Ltd.

Product portfolio & its application

PAN

PAN is a crucial chemical compound widely used in the production of various industrial and consumer goods. It is an organic compound and is classified as an anhydride of phthalic acid. This white crystalline solid is notable for its significance in the synthesis of plasticizers, resins, and dyes.

One of the primary applications of PAN is in the manufacturing of phthalate esters, commonly employed as plasticizers to enhance the flexibility and durability of plastics. These plasticizers find extensive use in the production of PVC (polyvinyl chloride) products, such as cables, pipes, and vinyl flooring.

Additionally, PAN serves as a key building block for the synthesis of alkyd resins, which are essential components in the formulation of coatings, paints, and varnishes. The compound also plays a role in the production of certain polyester resins and dyes.

PAN is a downstream product of OX (a petrochemical). Currently, ~85-90% of the Company's demand for raw materials is sourced from the domestic market, and the balance quantity is imported.

The Company has very strong relations with largest supplier of OX in India, as they are procuring OX from them since FY98.

As of FY23, IGPL has a capacity of 222,110 MTPA, working at a utilization level of ~90%. The Company owns 55%+ of the PAN capacity in India.

End User Industry

Plasticizers

Alkyd Resins & Paints

Unsaturated Polyester Resins

CPC Pigments

Source: Company, Keynote Capitals

MAN

In 2017, IGPL acquired MAN business from Mysore Petro Chemicals Limited (MPCL) as a going concern on a 'Slump Sale Basis' at a lump sum consideration for Rs. 745 Mn payable over 5 years. Moreover, both plants of IGPL and MPCL, are at a common location in Taloja. Therefore, this acquisition yielded benefits for IGPL (as raw material to manufacture MAN is available with them) along with an enhanced presence in the domestic market.

MAN is alternatively produced using Butane, resulting in an enhanced product suitable for various consumption purposes. However, due to the unavailability of Butane within the Indian market, ~85-90% of the MAN consumed in India is imported.

IGPL produces MAN from wash water, which is derived while manufacturing PAN. There is hardly any additional cost required for manufacturing MAN, leading it to become a highly profitable business for IGPL. The Company is the only producer of MAN in India, with a capacity of 7,660 MTPA as of FY23.

Based on the capacity size of MAN & PAN of IGPL, we believe that the yield of MAN would be ~3%

MAN Capacity in India (in MT)	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Installed capacity	6,400	6,400	6,400	7,660	7,660	7,660	7,660
Production	3,540	3,530	3,310	4,560	5,020	5,380	6,330
Capacity Utilization	55%	55%	52%	60%	66%	70%	83%
Import	47,399	50,813	52,627	69,920	66,942	59,533	74,467
Export	80	232	233	87	167	50	114

Source: Ministry of Chemicals & Fertilizers (Department of Chemicals & Petrochemicals), commerce.gov.in, Keynote Capitals Ltd.

End User Industry

MAN is a chemical intermediary, used in practically every field of industrial chemistry like production of UPR, manufacture of coatings, pharmaceutics and surfactants, additive of plastics, lubricating oil additives and agricultural chemicals (Precursor to compounds used for water treatment detergents, insecticides and fungicides).

Lubricant Additive

Agro Chemicals

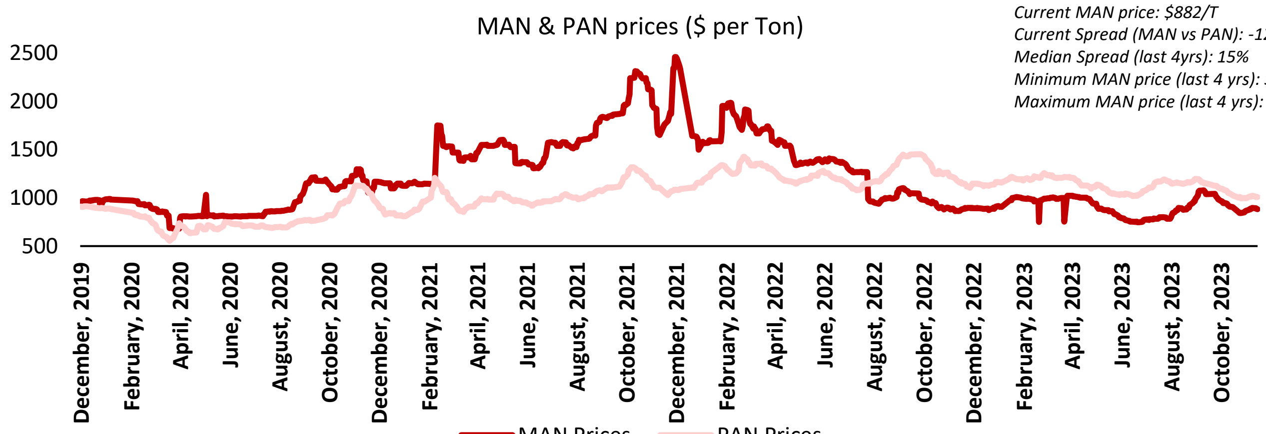
Plastics

Unsaturated Polyester Resins

Source: Company, Keynote Capitals Ltd.

The global market for MAN experienced a deceleration in the latter half of 2022 due to a decrease in downstream UPR demand, resulting in a decline in MAN prices. Furthermore, the resurgence in production capacity in China leads to an increase in the supply of MAN in the international market.

As of FY22, 98% of total imported MAN comes from 5 countries: 49% from China, 20% from Taiwan, 13% from Malaysia, 4% from Indonesia & 3% from Korea.



Current MAN price: $882/T
Current Spread (MAN vs PAN): -12%
Median Spread (last 4yrs): 15%
Minimum MAN price (last 4 yrs): $680
Maximum MAN price (last 4 yrs): $2,455

Source: Bloomberg, Keynote Capitals Ltd.

KEYNOTE

Benzoic Acid

IGPL also produces Benzoic Acid from wash water which is derived while manufacturing PAN. As of FY23, the Company has a capacity of 1,000 MTPA. Benzoic Acid finds its application in pharmaceuticals, perfumes & fragrances, industrial application, etc.

As of FY23, IGPL generates <2% of revenue from Benzoic Acid

Perfume

Insect Repellent

Speciality Chemicals

Source: Company, Keynote Capitals Ltd.

DEP

DEP is a downstream derivative of PAN. IGPL forayed in the manufacturing of DEP in FY22. As of FY23, the Company has a capacity of 8,400 MTPA and working at a capacity utilization of ~55-60%. This product is primarily used in industries like incense sticks, personal care products, cosmetics, toiletries, plastic, aromatic.

Incense Stick

Perfume

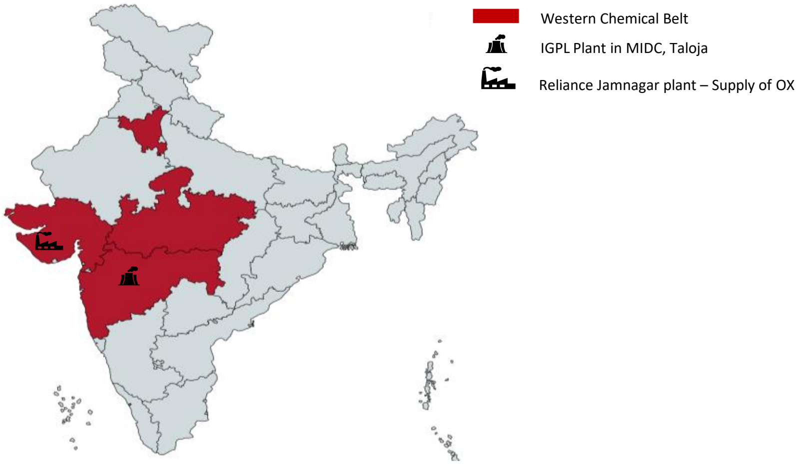
Personal Care

Source: Company, Keynote Capitals Ltd.

Plant & its Capacity

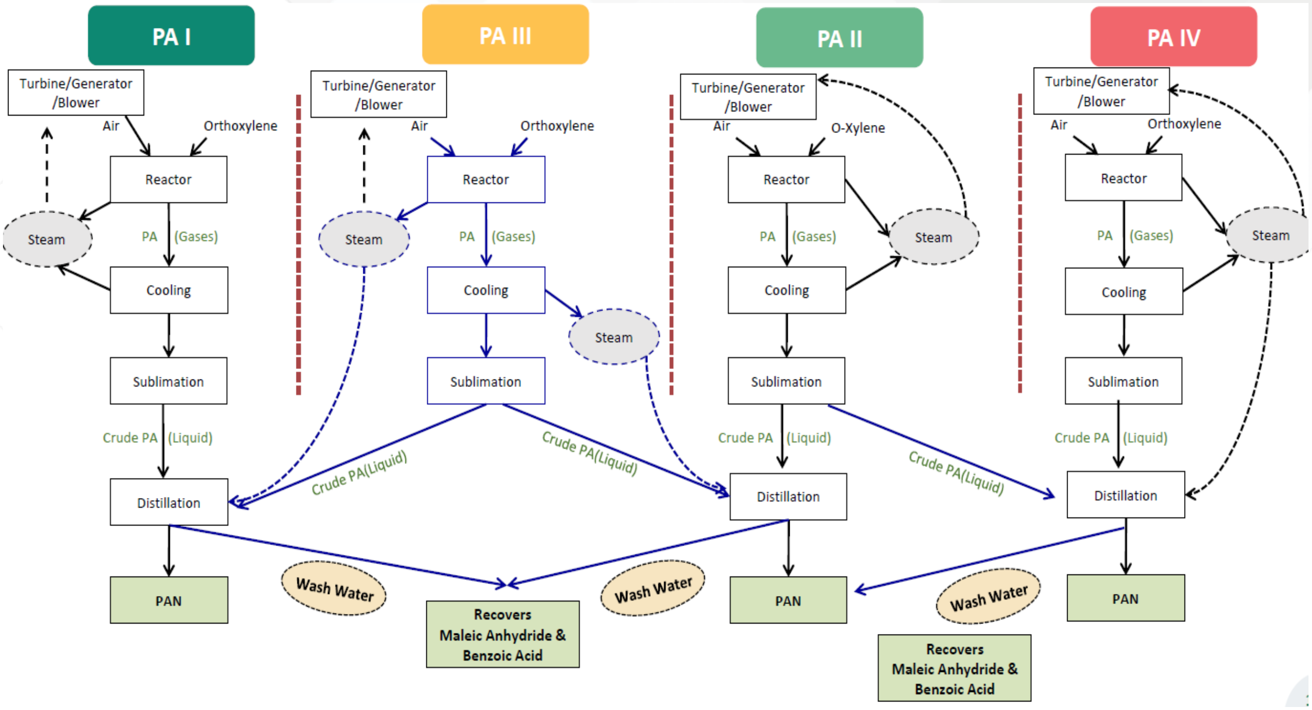
Being a commodity business, we believe that an ideal site should be strategically located in proximity to both the raw material source and the customer base. This advantageous location yields several benefits for the Company. On the supply side, the primary raw material for PAN production is readily available within the vicinity, leading to significant cost efficiencies in transportation. The Company also has a selling advantage due to its strategic location in the western chemical belt of India.

Note: All the four plants are situated in Taloja.



Source: Company, Keynote Capitals Ltd.

IGPL's Plant Structure

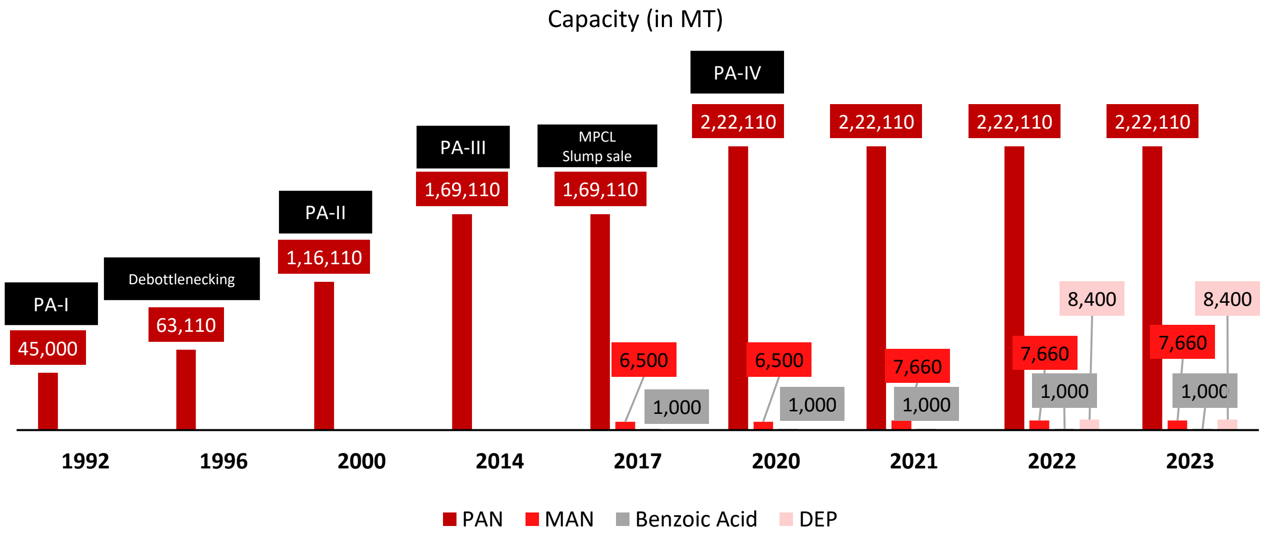


Source: Company, Keynote Capitals Ltd.

The steam generated inside the plant are used as a source of power. The Company only uses external power in the case of plant shutdown or change in catalyst.

Note: IGPL's entire complex is fully insured and secured not only for the normal policy but also for the loss of profit also and all the policies whether it is a marine policy, stock policy

Capacity Addition (Over Years)



Source: Company, Keynote Capitals Ltd.

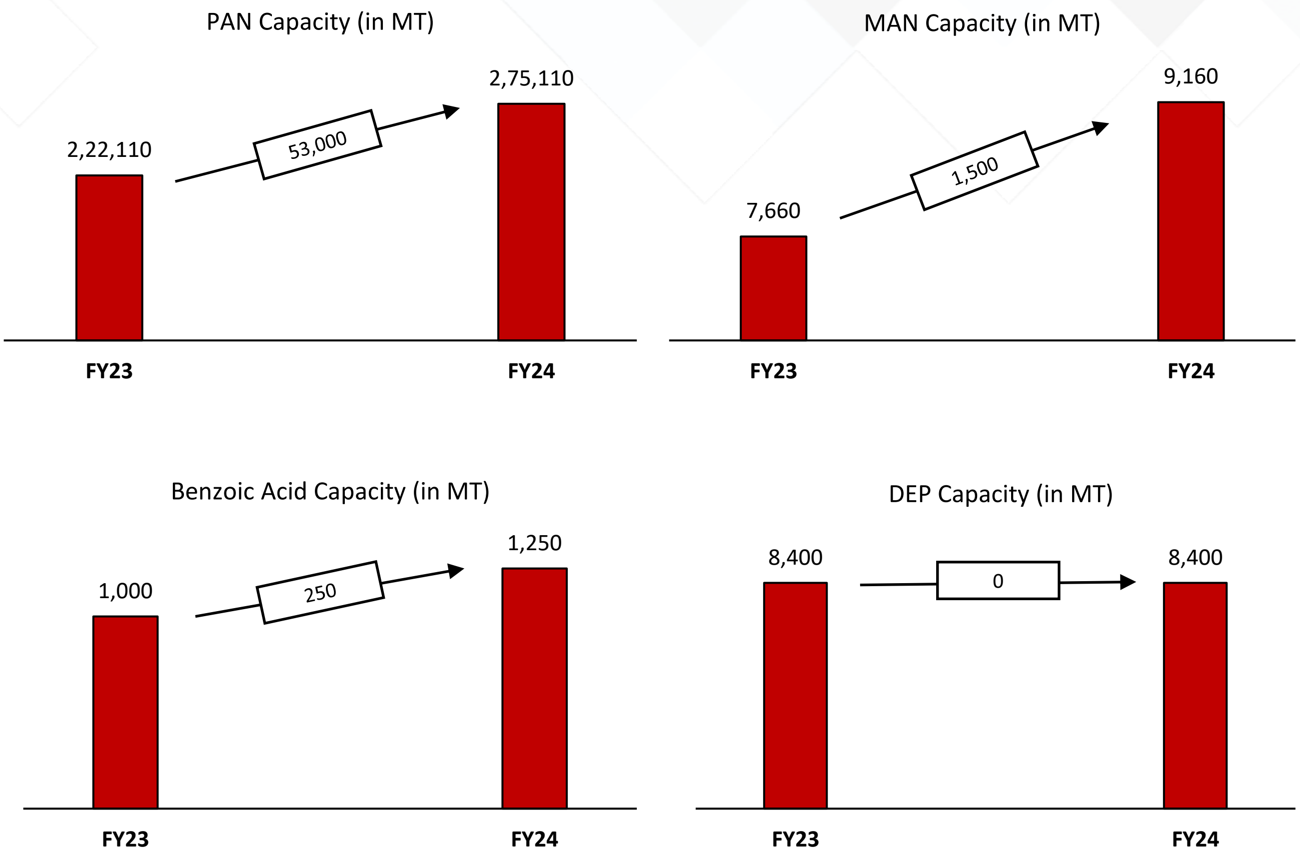
KEYNOTE

Capacity Expansion

IGPL is doing a brownfield capacity expansion. The Company is spending Rs. 3.5Bn for setting up PA-V plant. As per management, this expansion is on track is expected to be completed in Q4 FY24. Revenue potential from this plant at optimum capacity utilization would be Rs. 4.5-5Bn.

Management says if this would have been a greenfield capex, it would require Rs. 6Bn for same capacity.

Capacity Post Expansion



Source: Company, Keynote Capitals Ltd.

In addition to this, the Company has applied for an environmental clearance for downstream derivatives of PAN (Advance Plasticizer). Currently, the management is evaluating the project, and the expansion is subject to the Company's board approval; IGPL has planned for a capex of ~Rs. 1.5-2Bn for this greenfield capacity. As per management, this expansion will have a revenue potential of ~Rs. 8-9Bn.

Peer Analysis

Thirumalai Chemicals Ltd (TCL) is a peer of IGPL. It also manufactures PAN, MAN, DEP, Maleic Acid and Fumaric Acid. It is the second-largest player in India. Unlike IGPL, TCL has global presence with operational facilities in Malaysia, the Netherlands, and the USA (under construction). TCL manufactures MAN through Butane in its Malaysian plant. It has a PAN capacity of 172,000 MT and further going to expand it by 90,000 MT. In addition to this, it has a 40,000 MT capacity of MAN.

Peer Comparison	IGPL					TCL				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Revenue (in Rs Mn)	13,037	10,586	11,236	18,828	23,523	12,610	10,848	10,857	19,982	21,322
G%		-19%	6%	68%	25%		-14%	0%	84%	7%
Common Sizing of P&L										
Gross Profit	**30%**	**23%**	**42%**	**34%**	**24%**	**34%**	**28%**	**40%**	**40%**	**28%**
Power & Fuel Cost	2%	2%	2%	2%	2%	4%	5%	3%	3%	4%
Employee Cost	5%	6%	6%	4%	3%	4%	5%	5%	4%	4%
Operating & Manufacturing Expenses	2%	3%	3%	3%	2%	4%	4%	4%	3%	4%
General & Administration Expenses	1%	2%	1%	1%	1%	1%	1%	2%	1%	2%
Selling & Distribution Expenses	2%	2%	3%	2%	2%	4%	5%	5%	6%	5%
Miscellaneous Expenses	0%	1%	1%	1%	1%	1%	2%	2%	1%	1%
EBITDA	**17%**	**7%**	**26%**	**21%**	**14%**	**16%**	**7%**	**20%**	**22%**	**9%**
Depreciation	2%	3%	3%	2%	2%	3%	4%	5%	3%	3%
Interest Cost	1%	2%	1%	1%	1%	1%	2%	2%	1%	1%
Other Income	1%	1%	0%	1%	1%	1%	2%	1%	1%	1%
PBT (incl. OI & Exceptional)	**14%**	**3%**	**22%**	**19%**	**11%**	**13%**	**4%**	**14%**	**19%**	**6%**
PAT (incl. OI & Exceptional)	**9%**	**2%**	**17%**	**14%**	**9%**	**9%**	**2%**	**11%**	**14%**	**4%**

Source: Company, Thirumalai Chemicals, Keynote Capitals Ltd.

Note: The green color cell suggests that it is better than its peer, Yellow color cell suggests that it is equivalent

Based on our assessment, within a commodity-driven industry, the entity with robust cost management practices is positioned as a more competitive player. Notably, Thirumalai Chemicals Ltd (TCL) outperforms IGPL in terms of gross margin, primarily attributable to a marginally distinct product mix. However, the pivotal factor contributing to IGPL's superior cost control, and a more favourable EBITDA margin is its manufacturing operations in India, particularly within the western chemical belt of India. This strategic positioning affords IGPL advantages such as lower power costs, reduced freight expenses, and decreased repairs and maintenance outlays.

Peer Comparison	IGPL					Thirumalai Chemicals				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Return Ratios										
ROE	20.2%	3.3%	25.9%	28.1%	17.4%	18.3%	3.5%	16.3%	29.8%	7.9%
ROCE	28.8%	5.7%	29.0%	33.3%	21.5%	26.0%	6.8%	19.6%	35.5%	11.2%
ROA	11.7%	1.8%	15.1%	17.8%	11.0%	10.7%	2.0%	9.3%	17.6%	4.3%
Turnover Ratios										
Total Asset Turnover	1.3	0.9	0.9	1.3	1.3	1.2	0.9	0.9	1.3	1.0
Gross Block Turnover	1.5	1.2	1.0	1.5	1.8	3.0	1.9	1.6	2.6	2.4
Working Capital Cycle	16.6	6.2	12.9	21.0	16.8	25.1	-19.3	-33.6	-17.6	-20.1
Leverage Ratios										
Financial Leverage	1.7	1.8	1.7	1.6	1.6	1.7	1.8	1.8	1.7	1.9
Debt/Equity	0.3	0.4	0.2	0.2	0.2	0.2	0.3	0.2	0.1	0.4
Operational Ratios										
Receivables as % of sales	14.0%	13.5%	17.7%	18.4%	13.8%	8.9%	8.3%	8.0%	7.8%	4.8%
Inventory as % of sales	9.9%	9.0%	12.8%	8.1%	7.0%	15.2%	13.5%	12.1%	12.1%	15.0%

Source: Company, Thirumalai Chemicals, Keynote Capitals Ltd.

Note: The green color cell suggests that it is better than its peer, Yellow color cell suggests that it is equivalent

Management Analysis

The Management team of IGPL consists of a proper mix of promoter family members and professionals.

Name	Designation	Promoter / Professional	Experience with IGPL (Yrs.)
Mr. M M Dhanuka	Chairman	Promoter	35+
Mr. Nikunj Dhanuka	MD & CEO	Promoter	25+
Mr. JK Saboo	Executive Director	Professional	25+
Mr. Pramod Bhandari	CFO	Professional	5+

Source: Company, Keynote Capitals Ltd.

Promoter Holding and Management Compensation

Particulars	FY19	FY20	FY21	FY22	FY23
% Promoter Holding (~)	68.9%	68.7%	68.7%	68.7%	68.7%
*Promoter Salary (Rs Mn)	54.8	20.6	76.7	11.9	96.8
As a % of PAT (~)	4.7%	9.9%	4.1%	4.5%	4.8%

Source: Company, Keynote Capitals Ltd.
** Promoters include Mr. M M Dhanuka, Mr. Nikunj Dhanuka*

The compensation received by the promoter group of IGPL has always been in the range of 4-5% (except in 2020 where it was closer to 10%).

Top Shareholders with more than 1% stake (%)

Particulars	FY19	FY20	FY21	FY22	FY23
Investor Education & Protection Fund Authority	2.50%	2.50%	2.50%	2.50%	3.30%
Aditya Birla Sun Life Trustee Pvt Ltd	4.60%	4.80%	3.00%	1.70%	1.70%
Ajay Upadhyaya			1.10%	1.10%	1.10%
Anil Goel	1.90%	1.90%	1.20%		

Source: Company, Keynote Capitals Ltd.

Opportunities

Capacity expansion

To grow its sales, IGPL is currently executing its brownfield capacity expansion plan, which will lead to an increase in its PAN capacity from 222,110 MT to 275,110 MT, along with an increase in its MAN & Benzoic Acid capacity from 7,660 MT to 9,160 MT and 1,000 MT to 1,250 MT, respectively. The Company is spending Rs. 3.5Bn, which will generate sales of Rs. 4.5-5Bn at optimum capacity utilization. This capacity is expected to be completed in Q4 FY24.

Furthermore, the Company has initiated the process of obtaining environmental clearance for the production of downstream derivatives of PAN, specifically Advance Plasticizer. Currently, the management is evaluating the project, and the expansion is subject to the Company's board approval; IGPL has outlined a capital expenditure of ~Rs. 1.5-2Bn dedicated to the establishment of a greenfield facility for this purpose. According to management projections, this expansion will have a revenue potential of ~Rs. 8-9Bn.

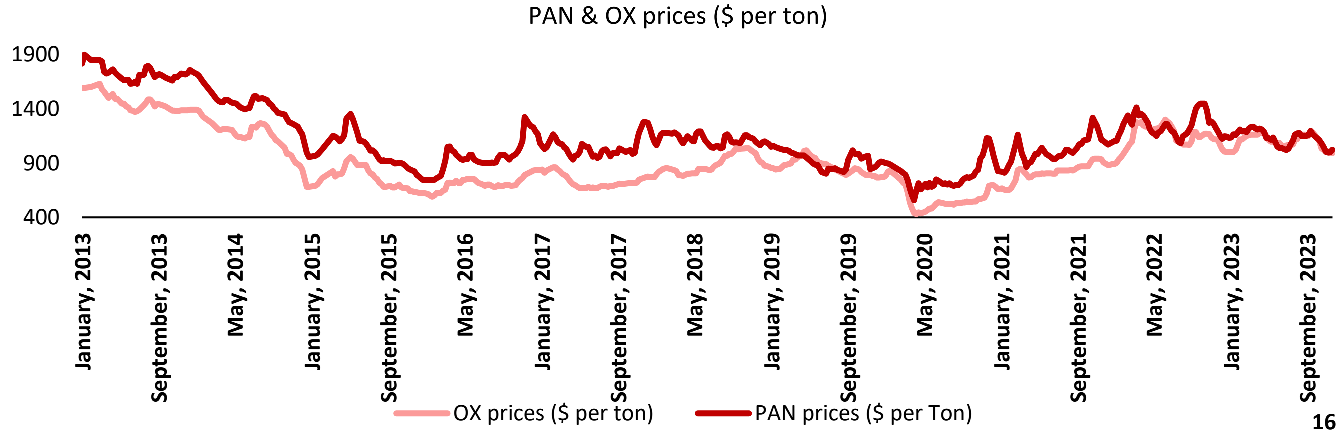
Lowest cost producer

IGPL's plants are strategically located in MIDC, Taloja. This location enables the Company to procure raw materials from the largest supplier of OX efficiently, offering a cost advantage compared to competitors who incur additional transportation expenses. The majority of their sales come from the western chemical belt of India; IGPL acts as the nearest source of PAN for the customer, thereby minimizing freight costs.

Moreover, the consolidation of all plants in a single location presents a distinct advantage for IGPL, allowing for the equitable distribution of fixed costs among its four facilities. Additionally, the utilization of steam generated during the PAN manufacturing process contributes to a reduction in power and fuel expenses for the Company.

Room for improvement in PAN/OX spread

Over the last decade, the average spread between PAN and OX in the last decade has been ~$150-200 per ton. At its upper limit, this differential has exceeded $500 per ton. Notably, there have been instances where PAN prices were lower than OX prices. Based on Q2 FY24, the spread is in the range of $80-100 per ton. An improvement in demand can lead to average spread levels of ~$150-200 per ton.



Source: Company, Keynote Capitals Ltd.

Challenges

Lack of pricing power

The product manufactured by IGPL, namely PAN and its raw material which is OX, are inherently commoditized. While a significant positive correlation exists in the price movement of PAN and OX, the spread between their prices experiences fluctuations based on prevailing demand and supply dynamics. This dynamic implies that IGPL does not possess substantial pricing power, and the gross margins of the business are predominantly contingent on the industry's demand and supply conditions. Historical data indicates that over the past decade, the spread between the prices of these two products averaged ~$150-200 per ton. Presently, this spread has contracted to ~$90 per ton.

Significant increase in PAN capacity in India

A substantial increase in PAN capacity of IGPL, TCL, and KLJ Group by 53,000 (expected to be added in FY24), 90,000, and 100,000 (added in FY23) MTPA, respectively can lead to a potential risk of excess capacity creation. As a result, it can lead to disparity between demand and supply, consequently causing a contraction in the spread of PAN and OX. It is crucial to acknowledge that while KLJ Group's capacity is intended for self-consumption, its existence in the market as a client of IGPL may influence the volume sales of the latter.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	**18,828**	**23,523**	**20,230**	**24,276**	**30,345**
Growth %		25%	-14%	20%	25%
Raw Material Expenses	12,397	17,817	16,184	18,693	22,000
Employee Expenses	751	817	850	971	1,214
Other Expenses	1,656	1,712	1,659	1,942	2,276
EBITDA	**4,023**	**3,177**	**1,537**	**2,670**	**4,855**
Growth %		-21%	-52%	74%	82%
Margin%	21%	14%	8%	11%	16%
Depreciation	443	474	515	557	580
EBIT	**3,579**	**2,703**	**1,022**	**2,113**	**4,276**
Growth %		-24%	-62%	107%	102%
Margin%	19%	11%	5%	9%	14%
Interest Paid	129	239	290	290	290
Other Income & exceptional	113	219	220	220	220
PBT	**3,563**	**2,683**	**952**	**2,043**	**4,205**
Tax	918	683	238	511	1,051
PAT	**2,645**	**2,000**	**714**	**1,532**	**3,154**
Others (Minorities, Associates)	0	0	0	0	0
Net Profit	**2,645**	**2,000**	**714**	**1,532**	**3,154**
Growth %		-24%	-64%	115%	106%
Shares (Mn)	30.8	30.8	30.8	30.8	30.8
EPS	**85.89**	**64.95**	**23.19**	**49.76**	**102.42**

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	1,275	1,916	1,137	1,189	3,312
Current Investments	725	1,065	1,065	1,065	1,065
Debtors	3,468	3,245	3,035	3,641	4,552
Inventory	1,521	1,649	2,428	2,804	3,300
Short Term Loans & Advances	37	111	111	111	111
Other Current Assets	90	123	123	123	123
Total Current Assets	7,117	8,111	7,899	8,934	12,463
Net Block & CWIP	8,542	10,658	11,643	12,586	13,506
Long Term Investments	85	750	750	750	750
Other Non-current Assets	768	400	400	400	400
Total Assets	**16,512**	**19,919**	**20,692**	**22,670**	**27,120**
Creditors	2,950	3,709	4,071	4,577	5,399
Provision	21	9	9	9	9
Short Term Borrowings	423	545	545	545	545
Other Current Liabilities	530	677	677	677	677
Total Current Liabilities	3,924	4,940	5,302	5,807	6,630
Long Term Debt	1,143	1,692	1,692	1,692	1,692
Deferred Tax Liabilities	778	853	853	853	853
Other Long Term Liabilities	45	85	85	85	85
Total Non Current Liabilities	1,966	2,630	2,630	2,630	2,630
Paid-up Capital	308	308	308	308	308
Reserves & Surplus	10,313	12,041	12,452	13,924	17,551
Shareholders' Equity	10,621	12,349	12,760	14,232	17,859
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	**16,512**	**19,919**	**20,692**	**22,670**	**27,120**

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	3,563	2,683	952	2,043	4,205
Adjustments	486	537	585	627	650
Change in Working Capital	-2,169	-282	-205	-478	-584
Total Tax Paid	-788	-613	-238	-511	-1,051
Cash flow from operating Activities	**1,093**	**2,325**	**1,094**	**1,682**	**3,220**
Net Capital Expenditure	-985	-2,395	-1,500	-1,500	-1,500
Change in investments	-120	-284	0	0	0
Other investing activities	49	125	220	220	220
Cash flow from investing activities	**-1,056**	**-2,554**	**-1,280**	**-1,280**	**-1,280**
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	169	747	0	0	0
Dividend (incl. tax)	-226	-303	-303	-60	473
Other financing activities	-131	-237	-290	-290	-290
Cash flow from financing activities	**-188**	**206**	**-593**	**-350**	**183**
Net Change in cash	-152	-23	-779	52	2,123

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	86	65	23	50	102
Growth %		-24%	-64%	115%	106%
Book Value Per Share	345	401	414	462	580
Return Ratios					
Return on Assets (%)	18%	11%	4%	7%	13%
Return on Equity (%)	28%	17%	6%	11%	20%
Return on Capital Employed (%)	26%	17%	7%	12%	19%
Turnover Ratios					
Asset Turnover (x)	1.3	1.3	1.0	1.1	1.2
Sales / Gross Block (x)	1.5	1.8	1.5	1.6	1.8
Working Capital / Sales (x)	11%	14%	14%	12%	15%
Receivable Days	53	52	57	50	49
Inventory Days	44	32	46	51	51
Payable Days	75	68	84	83	81
Working Capital Days	21	17	19	19	19
Liquidity Ratios					
Current Ratio (x)	1.8	1.6	1.5	1.5	1.9
Interest Coverage Ratio (x)	28.7	12.2	4.3	8.0	15.5
Total Debt to Equity	0.2	0.2	0.2	0.2	0.1
Net Debt to Equity	0.0	0.0	0.1	0.1	-0.1
Valuation					
PE (x)	8.2	10.8	19.6	9.1	4.4
Earnings Yield (%)	12%	9%	5%	11%	23%
Price to Sales (x)	1.1	0.9	0.7	0.6	0.5
Price to Book (x)	2.0	1.0	1.1	1.0	0.8
EV/EBITDA (x)	5.5	4.2	9.4	5.4	3.0
EV/Sales (x)	1.2	0.6	0.7	0.6	0.5

Source: Company, Keynote Capitals Ltd. estimates

IGPL's valuation

Valuation	
(in Rs., otherwise stated)	**FY26E**
PAT (Rs. Mn)	3,154
EPS	102.4
Median PE Multiple (x)	8
Target Price	819
Current Market Price	500
% Upside/(Downside)	+64%

Source: Company, Keynote Capitals Ltd. Estimates

We initiate coverage on IGPL with a high conviction BUY rating at 5-year media PE of 8x on FY26E EPS, giving a target price of ~Rs. 819, implying an upside of 64%. The new capacity addition of 53,000 MTPA of PAN and improving the spread of PAN & OX will lead to sales growth and improvement in EBITDA margin, leading to strong growth in PAT.

We believe that the spread between PAN and OX will again normalize to its long-term average of $150-200 per ton.

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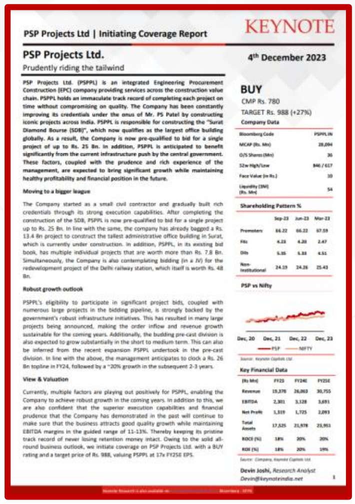

PSP Projects Ltd.

ESDM Industry Report

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NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
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Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

Registered Office: 9th Floor, The Ruby, Senapati Bapat Marg, Dadar West, Mumbai – 400028, Maharashtra. Tel: 022 – 68266000.

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