

IG Petrochemicals Limited

Looking beyond short-term hiccups

16th February 2024

In Q3 FY24, IGPL's revenue de-grew by 5.8% and 2.7% on a YoY and QoQ basis, majorly driven by price correction in Phthalic Anhydride (PA). Further, it has resulted in a contraction in gross and EBITDA margins by 960 Bps and 1066 Bps, respectively, on a YoY basis. EBITDA margins have turned negative during Q3 FY24 at -1.2%. In Feb 2024, the Company has started commercial production of PA-5, bringing its total PA capacity to 275,111 MTPA.

Capacity expansion

In Feb 2024, the Company commercialized the brownfield expansion of the PA-5 plant, which has enhanced capacity of PA by 53,000 MTPA, MAN by 1500 MTPA and BA by 300 MTPA. This new capacity has the potential to generate Rs. 5 Bn revenue at optimal utilization. More than 50% of PA will be used in-house for downstream manufacturing of plasticizers.

The Company has also announced a greenfield capacity of Plasticizers for Rs. 1.65 Bn to be operational by September 2025, with a net revenue potential of Rs. 5 Bn and IRR of more than 20%. With this expansion, it will enable the Company to diversify away from PA and reduce its concentration.

Temporary headwinds

The Company has reported negative EBITDA margins of -1.2% for Q3FY24, resulting from a negative spread between PA and OX prices. As per management, this spread has improved from a negative spread to \$100-150 currently. If this is sustained, the Company could report much better margins in Q4 FY24.

Prices of MAN have improved slightly sequentially but continue to quote at discount of 10-15% of PAN prices compared to historical average of trading at premium of 10-20% of PAN prices. This is largely because of excess capacity in China which is likely to get absorbed post Jan 2025. We expect MAN prices to remain subdued until then.

View & Valuation

We have revised our estimates and maintained a BUY rating on IGPL valuing at 5-year median PE of 8x on FY26E EPS, giving a target price of ~Rs. 793, implying an upside of 73%. 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. 459

TARGET Rs. 793(+73%)

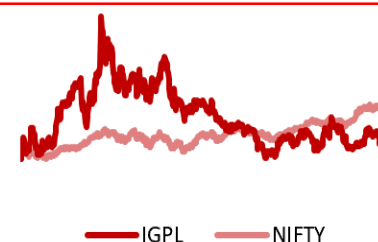
Company Data

Bloomberg Code	IGPL IN
MCAP (Rs. Mn)	14,143
O/S Shares (Mn)	31
52w High/Low	589/393
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	27.1

Shareholding Pattern %

	Dec-23	Sep-23	Jun-23
Promoters	68.74	68.74	68.74
FIIIs	3.42	3.74	3.81
DIIIs	1.79	1.80	1.69
Non-Institutional	26.06	25.74	25.78

IGPL vs NIFTY



Feb, 21 Feb, 22 Feb, 23 Feb, 24
Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY23	FY24E	FY25E
Revenue	23,523	20,701	24,841
EBITDA	3,177	911	2,757
Net Profit	2,000	396	1,732
Total Assets	19,919	20,650	22,637
ROCE (%)	17%	5%	13%
ROE (%)	17%	3%	13%

Source: Company, Keynote Capitals Ltd Estimates

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IGPL | Quarterly Update

Q3FY24 Result Update

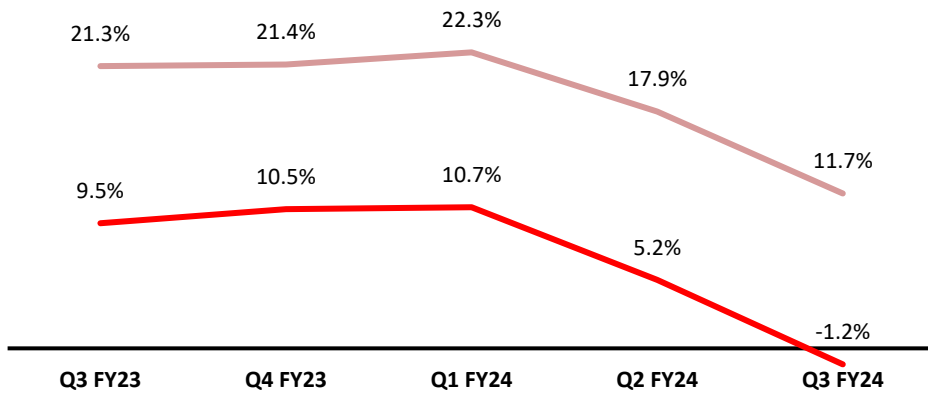
Result Highlights (Rs. Mn)

Particulars	Q3FY24	Q3FY23	Change % (Y-o-Y)	Q2FY24	Change % (Q-o-Q)	9MFY24	9MFY23	Change % (Y-o-Y)	FY23
Revenue	4,880	5,183	-5.8%	5,018	-2.7%	15,451	17,474	-12%	23,523
COGS	4,310	4,080	6%	4,121	5%	12,745	13,063	-2%	17,817
Gross Profit	571	1,103	-48%	896	-36%	2,706	4,410	-39%	5,706
Gross Profit %	11.7%	21.3%	-960 Bps	17.9%	-618 Bps	17.5%	25.2%	-773 Bps	24.3%
Employee Cost	186	200	-7.2%	189	-2%	600	607	-1%	817
Other expenses	444	413	7.3%	448	-1%	1,314	1,262	4%	1,712
EBITDA	-59	490	-1066 Bps	259	-637 Bps	792	2,541	-69%	3,177
EBITDA %	-1.2%	9.5%	-1066 Bps	5.2%	-637 Bps	5.1%	14.5%	-942 Bps	13.5%
Depreciation	125	117	7%	127	-1%	374	352	6%	474
EBIT	-184	373	-1097 Bps	132	-641 Bps	418	2,189	-81%	2,703
EBIT %	-3.8%	7.2%	-1097 Bps	2.6%	-641 Bps	2.7%	12.5%	-983 Bps	11.5%
Finance Cost	82	91	-10%	66	24%	209	174	20%	239
Other Income	66	62	6%	73	-10%	213	161	33%	219
PBT	-200	344	140	140	422	2,176	-81%	2,683	
Tax	-47	89	39	117	557	-79%	683		
Share of Associate	0	0	0	0	0	0	0		
PAT	-152	255	101	305	1,619	-81%	2,000		
EPS	-4.95	3.27	8.28	9.90	52.56	64.94			

Source: Company, Keynote Capitals Ltd.

Quarterly Business Progression

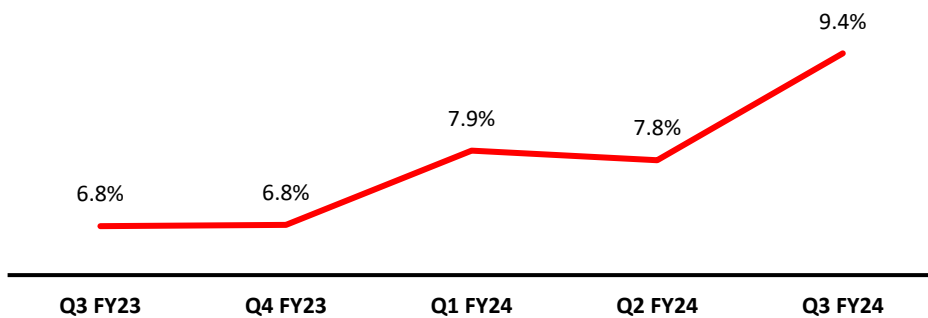
Gross & EBITDA Margins



Consistent decline in margins due to declining spreads between PA & OX

Source: Company, Keynote Capitals Ltd.

Non PAN contribution to revenue %



Increasing contribution of non-PAN products. Management aims to bring it to 30% by FY26

Source: Company, Keynote Capitals Ltd.

Q3 FY24 Conference Call Takeaways

Industry Outlook

- The industry has seen erratic demand in the last three quarters for key chemicals, which resulted in the growth momentum of many chemical companies getting impacted as the end-user industry is holding back on purchases.
- Red sea crisis has further prolonged the travel time for goods and increased the freight cost. Freight cost has increased from \$60 to \$250.
- Domestic demand for Phthalic Anhydride (PA) is 450,000-480,000 tons, which is growing at 5-6%. Plasticizers and paint account for 35-40% of demand.

Capacity Expansion

- The Company has commenced commercial production of the PA-5 plant at Taloja from 12th February 2024, as per the scheduled timeline. PA-5 will enhance the production capacity of PAN by 53,000 MT, Maleic Anhydride (MAN) by 1,500 MT and Benzoic Acid (BA) by 300 MT. This new capacity has the potential to generate incremental revenue of Rs. 5 Bn. More than 50% of the capacity of the new plant will be used in-house for downstream products - plasticizers.
- The Company plans to add a new greenfield plant for Plasticizer with an investment of Rs. 1.65 Bn at Taloja. It will be funded via a mix of debt and internal accruals. It will commence production in Sep 2025. The Company expects an IRR of more than 20% from this capex. Plasticizers typically average 5-6% PAT margin and 10-12% on the higher side. This new plant has the potential to generate a net revenue of Rs. 5 Bn.

Business Updates

- Revenue contribution from non-Phthalic business stood at Rs. 460 Mn for Q3 FY24, which is ~9% of revenue.
- Revenue contribution from export market stood at ~16% for Q3 FY24.
- EBITDA for the quarter was compressed mainly due to negative spread and inventory losses (Rs. 260 Mn). But spreads have improved from negative spread to \$100-150. At \$150-200, the EBITDA margin for PA is around 15-16%. Further, MA prices are generally 10-20% higher than PA prices, but currently, they are trading 10-15% lower than PA prices.
- Volume for Q3 FY24 is at ~47-48K tons, similar to Q2 FY24.
- MA prices are subdued because of excess capacity in China. This excess capacity is expected to be absorbed from Jan 2025 onwards.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	18,828	23,523	20,701	24,841	31,051
Growth %		25%	-12%	20%	25%
Raw Material Expenses	12,397	17,817	17,181	19,127	22,978
Employee Expenses	751	817	807	969	1,211
Other Expenses	1,656	1,712	1,801	1,987	2,329
EBITDA	4,023	3,177	911	2,757	4,533
Growth %		-21%	-71%	203%	64%
Margin%	21%	14%	4%	11%	15%
Depreciation	443	474	515	557	580
EBIT	3,579	2,703	396	2,200	3,954
Growth %		-24%	-85%	456%	80%
Margin%	19%	11%	2%	9%	13%
Interest Paid	129	239	290	290	290
Other Income & exceptional	113	219	423	400	405
PBT	3,563	2,683	528	2,310	4,069
Tax	918	683	132	577	1,017
PAT	2,645	2,000	396	1,732	3,051
Others (Minorities, Associates)	0	0	0	0	0
Net Profit	2,645	2,000	396	1,732	3,051
Growth %		-24%	-80%	337%	76%
Shares (Mn)	30.8	30.8	30.8	30.8	30.8
EPS	85.89	64.95	12.87	56.26	99.09

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	1,275	1,916	875	1,006	3,078
Current Investments	725	1,065	1,065	1,065	1,065
Debtors	3,468	3,245	3,105	3,726	4,658
Inventory	1,521	1,649	2,577	2,869	3,447
Short Term Loans & Advances	37	111	111	111	111
Other Current Assets	90	123	123	123	123
Total Current Assets	7,117	8,111	7,856	8,900	12,482
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	20,650	22,637	27,139
Creditors	2,950	3,709	4,346	4,661	5,653
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	5,577	5,892	6,884
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	12,134	13,807	17,316
Shareholders' Equity	10,621	12,349	12,442	14,115	17,624
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	16,512	19,919	20,650	22,637	27,139

Source: Company, Keynote Capitals Ltd. Estimate

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	3,563	2,683	528	2,310	4,069
Adjustments	486	537	382	447	465
Change in Working Capital	-2,169	-282	-150	-598	-516
Total Tax Paid	-788	-613	-132	-577	-1,017
Cash flow from operating Activities	1,093	2,325	629	1,581	3,000
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	423	400	405
Cash flow from investing activities	-1,056	-2,554	-1,077	-1,100	-1,095
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	169	747	0	0	0
Dividend (incl. tax)	-226	-303	-303	-60	458
Other financing activities	-131	-237	-290	-290	-290
Cash flow from financing activities	-188	206	-593	-350	167
Net Change in cash	-152	-23	-1,041	131	2,072

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	86	65	13	56	99
Growth %		-24%	-80%	337%	76%
Book Value Per Share	345	401	404	458	572
Return Ratios					
Return on Assets (%)	18%	11%	2%	8%	12%
Return on Equity (%)	28%	17%	3%	13%	19%
Return on Capital Employed (%)	26%	17%	5%	13%	18%
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	1.9
Working Capital / Sales (x)	11%	14%	13%	11%	14%
Receivable Days	53	52	56	50	49
Inventory Days	44	32	45	52	50
Payable Days	75	68	81	85	80
Working Capital Days	21	17	20	18	20
Liquidity Ratios					
Current Ratio (x)	1.8	1.6	1.4	1.5	1.8
Interest Coverage Ratio (x)	28.7	12.2	2.8	9.0	15.0
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	0.0
Valuation					
PE (x)	8.2	10.8	35.7	8.2	4.6
Earnings Yield (%)	12%	9%	3%	12%	22%
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	16.0	5.3	3.2
EV/Sales (x)	1.2	0.6	0.7	0.6	0.5

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
2 nd January 2024	BUY	500	+64.0%
16 th February 2024	BUY	459	+73.0%

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd./Rating & Fair value under Review/Keynote Capitals Ltd. has suspended coverage

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