

IG Petrochemicals Limited

Initial signs of margin recovery

27th May 2024

In Q4 FY24, IGPL's revenue de-grew by ~8% on a YoY basis, majorly driven by price correction in Phthalic Anhydride (PAN), however, we are able to see initial signs of recovery. On a QoQ basis, the Company saw a revenue growth of 14% and EBITDA margins improved from -1.2% to 4.7%. Spreads between PAN and OX are on a gradual recovery. In addition to this, in Feb 2024, the Company started commercial production of PA-5, bringing its total PAN capacity to ~275,000 MTPA.

Capacity expansion

The Company is actively pursuing capex for downstream operations. This new capacity is expected to come online by September 2025. The new plant is expected to add a net revenue of Rs. 5 Bn and a PAT of Rs. 500-700 Mn. The expansion will make the Company the third-largest plasticizer player in the Indian market, with a total capacity of 75,000 MTPA. With this expansion, it will enable the Company to reduce its revenue concentration from PAN.

Initial signs of margin recovery

The Company reported EBITDA margins of 4.7% for Q4 FY24, an improvement of 593 Bps on a QoQ basis. According to management, the spreads are gradually improving and are now in the range of \$120-150 per Ton.

MAN prices have improved slightly sequentially but continue to quote at a discount of 10-15% of PAN prices compared to the historical average of trading at a premium of 10-20% of PAN prices. This is largely because of excess capacity in China, which is likely to be 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 it at a 5-year median PE of 8x on FY26E EPS, giving a target price of ~Rs. 754, implying an upside of ~52%. The new capacity addition of 53,000 MTPA of PAN and improving the spread of PAN and OX will lead to sales growth and improvement in EBITDA margin, leading to strong growth in PAT.

BUY

CMP Rs. 496

TARGET Rs. 754 (+52%)

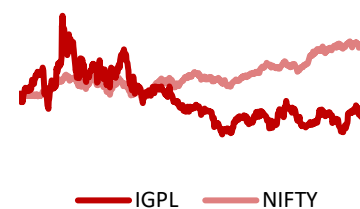
Company Data

Bloomberg Code	IGPL IN
MCAP (Rs. Mn)	15,282
O/S Shares (Mn)	31
52w High/Low	589/407
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	34

Shareholding Pattern %

	Mar-24	Dec-23	Sep-23
Promoters	68.7	68.7	68.7
FIIIs	3	3.4	3.7
DIIIs	1.8	1.8	1.8
Non-Institutional	26.5	26.1	25.7

IGPL vs NIFTY



May, 21 May, 22 May, 23 May, 24

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY23	FY24	FY25E
Revenue	23,523	20,991	25,189
EBITDA	3,177	1,054	2,544
Net Profit	2,000	395	1,402
Total Assets	19,919	21,350	23,555
ROCE (%)	17%	5%	11%
ROE (%)	17%	3%	11%

Source: Company, Keynote Capitals Ltd Estimates

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IGPL | Quarterly Update

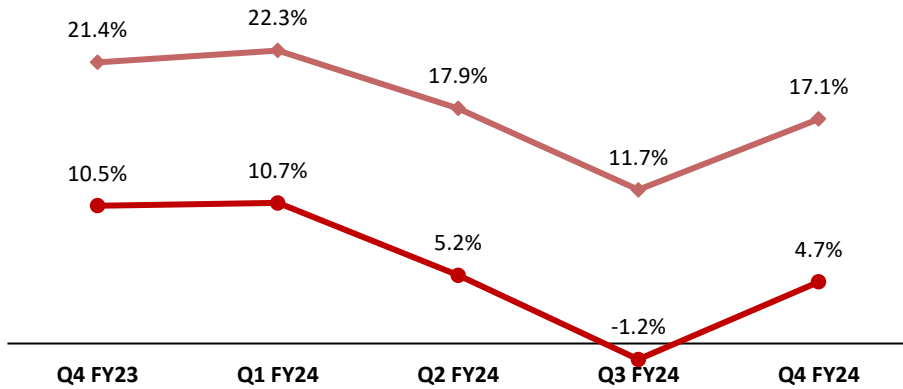
Q4FY24 Result Update

Result Highlights (Rs. Mn)

Particulars	Q4 FY24	Q4 FY23	Change % (Y-o-Y)	Q3 FY24	Change % (Q-o-Q)	FY24	FY23	Change % (Y-o-Y)
Revenue from Operation	5,540	6,050	-8%	4,880	14%	20,991	23,523	-11%
Gross Profit	947	1,296	-27%	571	66%	3,653	5,706	-36%
Gross Profit %	17.1%	21.4%	-432 Bps	11.7%	541 Bps	17.4%	24.3%	-685 Bps
Employee Cost	212	211	1%	186	14%	812	817	-1%
Other Expenses	473	449	5%	444	7%	1,787	1,712	4%
EBITDA	262	636	-59%	-59	-545%	1,054	3,177	-67%
EBITDA %	4.7%	10.5%	-579 Bps	-1.2%	593 Bps	5.0%	13.5%	-849 Bps
Depreciation	147	122	20%	125	17%	521	474	10%
EBIT	115	513	-78%	-184	-162%	533	2,703	-80%
EBIT %	2.1%	8.5%	-641 Bps	-3.8%	584 Bps	2.5%	11.5%	-895 Bps
Finance Cost	95	65	46%	82	16%	304	239	27%
Other Income	93	59	58%	66	40%	306	219	39%
PBT	112	507	-78%	-200	-156%	534	2,683	-80%
Tax Expenses	22	126	-82%	-47	-147%	139	683	-80%
PAT attributable to shareholders	90	381	-76%	-152	-159%	395	2,000	-80%
EPS	2.93	12.39		-4.95		12.83	64.94	

Source: Company, Keynote Capitals Ltd.

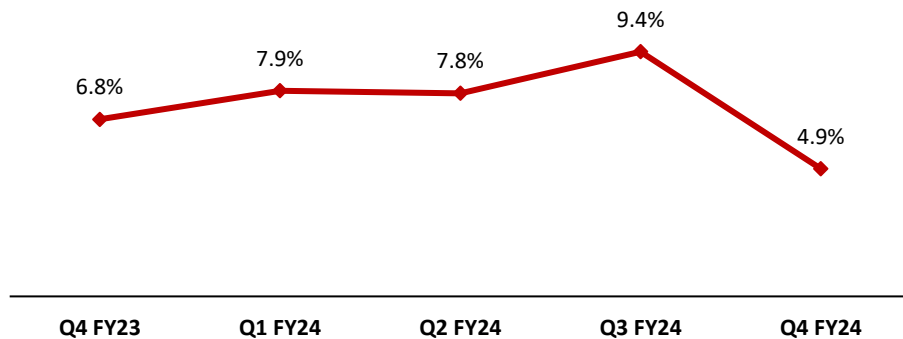
Quarterly Business Progression



Margins on recovery phase

Source: Company, Keynote Capitals Ltd.

Non PAN as a % of revenue



Source: Company, Keynote Capitals Ltd.

Q4 FY24 Conference Call Takeaways

General highlights

- Management reported that while demand from the end-user market remains mixed, the paints and pigments segments are exhibiting signs of recovery.
- The Company is witnessing a gradual improvement in the spread between the prices of PAN and OX, with the spread moving towards the range of \$120-150 per MTPA.
- As the PA-5 plant ramps up its capacity, the Company expects to realize some efficiency gains, leading to a marginal improvement in profitability.
- Internationally, when the spread between PAN and OX prices falls below \$100 per ton, there is an expectation of temporary or permanent capacity shutdowns.
- Two plants are expected to undergo maintenance this year.
- The boilers are to be inspected every 3-4 years.

PAN

- The expected growth in demand for PAN remains within the range of 5-7%.
- Internationally, the spreads between PAN and OX prices are slightly lower than domestic spreads.
- Naphtha-based PAN plants operate only when there is a substantial price difference between naphtha and OX, as manufacturing PAN from naphtha is not an efficient process.
- The paints, plasticizers, and pigments segments account for 50-60% of the demand for PAN in India.
- The incremental revenue from the PA-5 plant is expected to be Rs. 5 Bn.

Plasticizer

- The Company is actively pursuing capex for downstream operations. This new capacity is expected to come online by September 2025.
- The cost of this capex project is estimated to be Rs. 1.65 Bn.
- Out of the Company's total PAN capacity of 53,000 MTPA (PA-5), 30,000-35,000 MTPA will be diverted towards manufacturing plasticizers.
- The new plant is expected to add a net revenue of Rs. 5 Bn.
- The plasticizer segment is projected to have a PAT margin of 5-7%, translating to a PAT of Rs. 500-700 Mn.
- With this expansion, the Company will become the third-largest player in the Indian market, with a total capacity of 75,000 MTPA.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Net Sales	18,828	23,523	20,991	25,189	31,487
Growth %		25%	-11%	20%	25%
Raw Material Expenses	12,397	17,817	17,338	19,648	23,300
Employee Expenses	751	817	812	982	1,228
Other Expenses	1,656	1,712	1,787	2,015	2,361
EBITDA	4,023	3,177	1,054	2,544	4,597
Growth %		-21%	-67%	141%	81%
Margin%	21%	14%	5%	10%	15%
Depreciation	443	474	521	620	674
EBIT	3,579	2,703	533	1,924	3,923
Growth %		-24%	-80%	261%	104%
Margin%	19%	11%	3%	8%	12%
Interest Paid	129	239	304	404	404
Other Income & exceptional	113	219	306	350	350
PBT	3,563	2,683	534	1,870	3,869
Tax	918	683	139	467	967
PAT	2,645	2,000	395	1,402	2,902
Others (Minorities, Associates)	0	0	0	0	0
Net Profit	2,645	2,000	395	1,402	2,902
Growth %		-24%	-80%	255%	107%
Shares (Mn)	30.8	30.8	30.8	30.8	30.8
EPS	85.89	64.95	12.84	45.54	94.22

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Cash, Cash equivalents & Bank	1,275	1,916	1,836	1,798	3,905
Current Investments	725	1,065	886	886	886
Debtors	3,468	3,245	3,367	3,778	4,723
Inventory	1,521	1,649	1,996	2,947	3,495
Short Term Loans & Advances	37	111	83	83	83
Other Current Assets	90	123	275	275	275
Total Current Assets	7,117	8,111	8,443	9,768	13,368
Net Block & CWIP	8,542	10,658	11,878	12,759	13,585
Long Term Investments	85	750	555	555	555
Other Non-current Assets	768	400	473	473	473
Total Assets	16,512	19,919	21,350	23,555	27,981
Creditors	2,950	3,709	3,772	4,635	5,723
Provision	21	9	9	9	9
Short Term Borrowings	423	545	1,385	1,385	1,385
Other Current Liabilities	530	677	429	429	429
Total Current Liabilities	3,924	4,940	5,594	6,457	7,546
Long Term Debt	1,143	1,692	2,261	2,261	2,261
Deferred Tax Liabilities	778	853	952	952	952
Other Long Term Liabilities	45	85	75	75	75
Total Non Current Liabilities	1,966	2,630	3,287	3,287	3,287
Paid-up Capital	308	308	308	308	308
Reserves & Surplus	10,313	12,041	12,161	13,504	16,841
Shareholders' Equity	10,621	12,349	12,469	13,812	17,148
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	16,512	19,919	21,350	23,555	27,981

Source: Company, Keynote Capitals Ltd. Estimate

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	3,563	2,683	534	1,870	3,869
Adjustments	486	537	546	674	728
Change in Working Capital	-2,169	-282	-624	-500	-404
Total Tax Paid	-788	-613	-84	-467	-967
Cash flow from operating Activities	1,093	2,325	372	1,577	3,226
Net Capital Expenditure	-985	-2,395	-1,733	-1,500	-1,500
Change in investments	-120	-284	386	0	0
Other investing activities	49	125	202	350	350
Cash flow from investing activities	-1,056	-2,554	-1,146	-1,150	-1,150
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	169	747	980	0	0
Dividend (incl. tax)	-226	-303	-308	-60	435
Other financing activities	-131	-237	-193	-404	-404
Cash flow from financing activities	-188	206	479	-464	31
Net Change in cash	-152	-23	-295	-37	2,107

Valuation Ratios

	FY22	FY23	FY24	FY25E	FY26E
Per Share Data					
EPS	86	65	13	46	94
Growth %		-24%	-80%	255%	107%
Book Value Per Share	345	401	405	449	557
Return Ratios					
Return on Assets (%)	18%	11%	2%	6%	11%
Return on Equity (%)	28%	17%	3%	11%	19%
Return on Capital Employed (%)	26%	17%	5%	11%	17%
Turnover Ratios					
Asset Turnover (x)	1.3	1.3	1.0	1.1	1.2
Sales / Gross Block (x)	1.5	1.8	1.4	1.5	1.7
Working Capital / Sales (x)	11%	14%	14%	12%	15%
Receivable Days	53	52	57	52	49
Inventory Days	44	32	38	46	50
Payable Days	75	68	77	74	79
Working Capital Days	21	17	19	23	20
Liquidity Ratios					
Current Ratio (x)	1.8	1.6	1.5	1.5	1.8
Interest Coverage Ratio (x)	28.7	12.2	2.8	5.6	10.6
Total Debt to Equity	0.2	0.2	0.3	0.3	0.2
Net Debt to Equity	0.0	0.0	0.1	0.1	0.0
Valuation					
PE (x)	8.2	10.8	38.5	10.9	5.3
Earnings Yield (%)	12%	9%	3%	9%	19%
Price to Sales (x)	1.1	0.9	0.7	0.6	0.5
Price to Book (x)	2.0	1.0	1.2	1.1	0.9
EV/EBITDA (x)	5.5	4.2	14.9	6.2	3.4
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%
27 th May 2024	BUY	496	+52.0%

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
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