

IG Petrochemicals Ltd. ₹ 61**PANtastic Story!****Buy**

Jun 27, 2014

Company Background

IG Petrochemicals (IG Petro) was incorporated in the year 1988 and is promoted by the Dhanuka Group through Mysore Petro Chemicals Limited & other group companies in technical collaboration with Lurgi GmbH of Germany. It commenced production in the year 1992 and is among the top three producers of Phthalic Anhydride (PAN) in the world at a single plant location. It is also one of the leading producer of PAN in India. IG Petro's plant is located at MIDC, Taloja in Raigad District, Maharashtra, India, 50 Km away from Jawaharlal Nehru Port Trust. Phthalic Anhydride (PAN) is used in manufacturing plasticizers, which are most essential in making PVC products, shoe soles, cables, pipes and hoses, leather cloth, films for packaging and other products. It is also used to manufacture alkyd resins used in paints and in the production of unsaturated polyester resins for building materials and plastic products. Phthalic Anhydride is also useful in manufacturing textiles and printing inks.

Key Highlights

- ➔ A Research Report by RNR Market Research states that Asia Pacific would be the largest market of Phthalic Anhydride consuming more than 3/5th of the total global demand. It also states that IG Petro would be among the top companies to be benefitted till 2018.
- ➔ The Company is in the process of expanding its capacity at Taloja with a third PAN plant as a brown-field expansion. Compared to a green-field expansion, there will be no additional capex required for land and other utilities. The additional capacity will be to the tune of 50,000 tpa. At a cost of Rs. 2.25 bn, funded partly with internal accruals and low cost overseas debt, this expansion will result in it having one of the lowest conversion cost in the world. The third plant is expected to commence production during the year 2014.
- ➔ The major use of PAN is as a plasticizer to make plastic coupled with the fact that India still consumes just 5 kg per capita plastic against the global average of 25 kg plus driven by the fact that the plastic industry is supposed to grow at 8% in Indian & China the 100% EOU has been converted to a DTA Unit which will benefit the company to sell locally.

Key Financials

Year Ended 31 st	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	6,337.5	8,979.8	9,770.4
Rev. growth (%)	15.40	41.69	8.80
EBITDA (INR mn)	519.0	661.2	433.3
Net profit (INR mn)	132.3	132.9	30.8
Shares outstanding (mn)	30.8	30.8	30.8
EPS (INR)	4.3	4.3	1.0
EPS growth (%)	(51.57)	0.45	(76.82)
P/E (x)	6.6	5.5	24.0
RONW (%)	4.8	2.6	12.4
ROCE (%)	3.9	2.1	8.3

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Info Codes

Reuters	: IGPT.BO
Bloomberg	: IGPL@IN
NSE	: IGPL
BSE	: 500199

Market Data

52 Wk Range (₹)	: 16 / 61
Shares in Issue (mn)	: 30.8
Mkt. Cap (₹ bn)	: 1.89
BSE 2 Wk Avg Vol	: 20000

Share Holding Pattern (%)

Promoters	: 71.96
FII's	: 0.01
DII's	: 0.05
Others	: 27.98

Investment Theme

IG Petrochemicals Ltd. is India's leading company in Phthalic Anhydride, The company's manufacturing operations at Taloja make it one of the largest and lowest cost producers of PAN globally. IG Petro has expanded its capacity in light of the strong demand momentum in the end users sectors. The product produced is of International Quality and is sold to various MNC's. The company is well placed to benefit from the boom in the end user sectors like flexible PVC, Plastics, Paints, Construction, Transport and Marine. Both the units of the company have been operating at optimum capacity and the company has long term arrangements with suppliers and price reset clauses with its clients. This growing demand from various sectors and sound financials make us bullish on IG Petrochemicals Ltd.

At its 52 week high!
But still a Good Buy!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	6808.8	9553.8	40.32	10671.9	11.70
Other Income	40.3	114.2	183.37	(200.7)	(275.74)
Change in Stocks	233.9	(43.8)	(118.73)	71.1	(262.33)
Raw Material Con.	5344.5	7555.9	41.38	8317.0	10.07
Employee Exp.	158.0	186.8	18.23	244.4	30.84
Indirect Taxes	516.6	698.8	35.27	982.9	40.66
Other Exp.	547.1	523.7	(4.28)	567.8	8.42
Operating Exp.	6332.3	9009.0	42.27	10041.0	11.46
Operating Profit	476.5	544.8	14.33	630.9	15.80
Total Interest	145.8	233.9	60.43	213.6	(8.68)
Gross Profit	371.0	425.1	14.58	216.6	(49.05)
Net Dep.	205.8	259.1	25.90	177.8	(31.38)
Total Taxation	32.9	33.1	0.61	8.0	(75.83)
Net Profit/Loss	132.3	132.9	0.45	30.8	(76.82)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 10	Mar 11	Mar 12	Mar 13
SOURCES OF FUNDS	2,556.7	2,537.5	2,792.5	4,034.6
Equity Share capital	307.9	307.9	307.9	307.9
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1,712.6	1,844.9	1,977.8	2,008.6
Long Term Loans	437.9	289.9	445.5	1,650.8
Short Term Loans	98.3	94.8	61.3	67.3
USES OF FUNDS	2,556.7	2,537.5	2,792.5	4,034.6
Gross Block	5,080.2	5,177.9	5,361.3	5,372.9
Less : Revaluation Reserves	380.1	341.5	302.3	263.7
Less : Accumulated Depreciation	2,847.7	3,028.1	3,204.6	3,655.1
Net Block	1,852.4	1,808.3	1,854.4	1,454.1
Capital Work in Progress	147.5	185.1	184.7	1,716.1
Investments	0.6	0.6	0.7	0.7
Current Assets	1,230.7	1,783.5	2,257.1	2,788.9
Less : Current Liabilities	674.5	1,240.0	1,504.4	1,925.2
Total Net Current Assets	556.2	543.5	752.7	863.7
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	0.4	0.4	0.5	0.5
Mkt Val. Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	2,361.2	3,126.1	4,036.3	2,790.2
Dividend (%)	0	0	0	0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 13	Sep 13	Dec 13	Mar 14
Net Sales	2,443.30	2,551.60	3,411.00	3,637.00
Cost Of Sales	2,456.90	2,529.30	3,281.90	3,365.00
Operating Profit	(13.60)	22.30	129.10	272.00
Recurring Income	20.10	7.60	22.10	63.70
Adjusted PBDIT	6.50	29.90	151.20	335.70
Financial Expenses	42.00	50.30	85.10	126.30
Depreciation	30.00	36.30	54.30	59.80
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	(65.50)	(56.70)	11.80	149.60
Tax Charges	0.00	0.00	0.00	7.80
Adjusted PAT	(65.50)	(56.70)	11.80	141.80
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	(65.50)	(56.70)	11.80	141.80

52 Week Index Relative Percentage Appreciation

IG Petro vs SENSEX
Risks Associated
➔ Risk of Environmental Laws

Since the company operates in the chemical sector the most important risk is of the Environmental Laws, Any change in the environmental laws of the state or country of the country of export would damage the current business position of the company..

➔ Increase in Raw Material Prices

Major raw materials to the company are always under inflationary pressure this is usually due to supply and demand of the raw materials coupled with the fact that 90% of the competition is locally confined to just 2 states in India Gujarat & Maharashtra.

➔ The Fluctuating Rupee

Considering the fact that many of its products are exported the risk return of sale is tied up to the fluctuating Rupee any appreciation in the Currency would bring in pressures on margins.

➔ Competition

Being a global player, the company is also exposed to competition not only from domestic players but also large international players. Cheap imports especially from countries like China could pose problems, which would have to be faced appropriately.

In a Nutshell

IG Petro is the leading player in the Phthalic Anhydride sector in India. Given the multitude of advantages it enjoys, it is well placed to benefit from the upside apparent in the key-end user sectors like flexible PVC, plastics, paints, construction, transportation and marine. Its manufacturing facility is the one of the largest in the world at a single location. The world-class scale of operation is optimized to deliver superior and sustainable earnings. The manufacturing facility being located in Western India is in close proximity to both key suppliers and key customers, thereby presenting IG Petro with significant cost and logistical advantages. IG Petro's strategy, operations and processes are designed to sustain lower working capital requirements. The Company therefore has an edge over its peers. Given the numerous operating advantages under its fold, it commands the best conversion margins in the industry compared to even other global players. A propensity for growth with healthy financial backing has enabled the Company to focus on internal expansion, along with a keen eye on Acquisitions / takeover opportunities in the domestic and international arena. Going forward, there will be substantial increase in margins due to reduction in conversion cost on account of expanded capacities. Moreover, the company has taken proactive steps to ally with key customers for protecting its sales margins by aligning the same with raw material cost fluctuation to limit any potential downside risk to performance. With a healthy Balance sheet situation and strong visibility of earnings and growth IG Petro stands to deliver a very exciting growth performance from here on.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months	Reduce : Expected to depreciate up to 10% over 12-months
Accumulate : Expected to appreciate 10% to 20% over 12-months	Sell : Expected to depreciate 10% or more over 12-months
Trade Buy : Expected to appreciate more than 10% over 45-days	Trade Sell : Expected to depreciate more than 10% over 45-days

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