IG Petro, Thirumalai Gain from Shortage of a Key Raw Material

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ET Intelligence Group: Investors in manufacturers of phthalic anhydride (PAN) such as IG Petro and Thirumalai Chemicals have gained after the chemical went into short supply. PAN is used in making paints.

In the March quarter, Thirumalai reported net profit of ₹23.5 crore against ₹4.5 crore in the December quarter. Strong profit in FY16 versus FY15, helped Thirumalai cut debt by 45% to ₹52.5 crore. This will improve its profit margins in subsequent quarters. IG Petro, which is yet to announce its quarterly results, is a larger player and has shown more stability in its earnings.

The surge in Thirumalai's profits can be attributed to a boost in the margins. The gross margins per tonne for the quarter jumped to around \$125 from below \$100 level in last quarter.

CHEAP VALUATIONS

Thirumalai is available at 11 times its FY16 earnings and IG petro at 8 times FY16 earnings

The improved profit was on account of lower import of PAN (which reduced supply) and higher crude price. PAN attracts 7.5% import duty from all countries except Korea and Japan with which India has trade agreements.

Korean companies, which are large producers of PAN, have been dumping their products in India following a dip in Chinese demand. But lower prices of PAN in India made it unsustainable for them to sell here. Crude derivatives are raw material for PAN.

When crude dips, paint companies slow down their purchase of PAN in anticipation that the price of the chemical would soften. The reverse happens when crude price hardens.

Till now in the June quarter, crude prices have risen 29%, which will benefit IG Petro and Thirumalai even though revival of imports could partly offset the gain. But since the demand in China could stay subdued for the next few quarters, earnings of PAN manufacturing companies may remain volatile.

Thirumalai and IG Petro are available at 11 times and 8 times their FY16 earnings, respectively. These valuations appear cheap, but for the stocks to go up, the earnings momentum will have to sustain.