I G Petrochemicals Ltd: Returns to the black

By Devdas Mogili

I G Petrochemicals Ltd (IGPL) is a 25-year old Panaji (Goa) - based company established in 1988 to manufacture Pthalic Anhydride. The company was promoted by Mysore Petrochemicals Ltd (MPCL) together with its associate companies in technical and financial collaboration with Lurgi of Germany. The company's plant is located at Taloja in Maharashtra. Mr. M. M. Dhanuka is the chairman while Nikunj Dhanuka is the managing director of the company.

It started as a 100% Export Oriented Unit (EOU) and commenced production in 1992-93. Pthalic Anhydride (PA) an important industrial chemical that finds application in the manufacture of plasticisers for PVC cables, leather cloth, PVC footwear, etc. It is also used for manufacturing alkyd resins in the paint industry and the production of certain varieties of dyes and pigments.

Some of the more visible and recognised consumer products made with PA include plastic cards, food containers, shoes and plastic furniture. On the industrial side, PA is the key component in the manufacture of paints as a solvent for protective coating. PA is primarily used as a chemical intermediate for plasticiser for making Poly Vinyl Chloride (PVC), which is the base material for making a variety of consumer products ranging from packaging films, boxes, containers, bags, pipes, home and personal care products, medical and surgical equipments and various industrial products. PA is the second most important raw material in the manufacture of paints and coatings as it is an intermediate for Alkyd Resin, the vital component in paints. A more recent application of PA is in the manufacture of Unsaturated Polyester Resins (UPR). UPRs are extensively used as thermosets for making fiberglass reinforced plastics (FRP) and have diverse applications in construction, marine and transportation.

Expansion: The company completed the expansion project at its Taloja plant and is one of the lowest cost producers of Pthalic Anhydride (PA) in the world with a capacity of 1,66,110 TPA.

Performance: The company had a chequered history in the past. Due to a fall in the price of PA in the global market, the company incurred a heavy loss and had at one point of time turned into a Sick unit. However, the company recovered from its problems and returned to the back black soon thereafter. The company is now profitable and paid an interim dividend for the year 2015-16 in August 2015.

The company posted total income of Rs.1189.33 crore with a net profit of Rs.8.90 crore posting an EPS of Rs.10.51 before extraordinary item and Rs.2.89 after extraordinary item.

Latest Performance: The company's sales declined 17.73% to Rs.282.49 crore in Q4FY15 as against Rs.343.39 crore in Q4FY14. However, net profit of I G Petrochemicals jumped 170.45% to Rs.29.29 crore in Q4FY15 as against Rs.10.83 crore in Q4FY14.

Financials: The company has an equity base of Rs.30.80 crore with a share book value of Rs.77.54. It has a debt:equity ratio of 0.83 with a RoCE of 12.27% and RoNW of 7.49%.

Share Profile: The company's share with a face value of Rs.10 is listed and traded on the NSE and the BSE under the B group and its BSE code is 500199 while the NSE Symbol as IGPL. Its share price hit a 52-week high/low of Rs.156.70/40. At its current market price of Rs.147.05, it has a market capitalization of Rs.452.84 crore against total revenues of Rs.1189 indicating an attractive market cap:-sales ratio.

Dividend: The company paid dividends a shown below.

FY15-10% (15/8/15 Record date), FY07-7%, FY97-15%

Shareholding: The promoters hold 72.22% equity while the balance 27.78% is with non-corporate promoters and the investing public.

Prospects: Over 70% of all PA produced in the country is consumed by end-users in western India, which has one of the highest concentration of large, small and medium-sized units manufacturing a range of products that use PA as the key raw material. These units include plastic utensils, paints, tyres, PVC pipes, pharmaceuticals, flexi-glasses, toys, shoes, industrial textiles, backpacks, and many more. 90% of all PA produced by the Company is sold locally.

Further, there is an immense potential for growth in the PA market. Increase in demand from segments viz. plasticizers, resins and Unsaturated Polyester Resins (UPR), as well as increasing demand from alkyd resins, pigments and dyes are expected to drive the PA business to higher gains in terms of both volume and value. According to the latest reports, the global consumption of PA is expected to grow at an annual rate of 3% from 2013-2019 and reach USD 9.58 billon by 2019. In comparison to world consumption of PA, India is still way behind in per capita consumption. In terms of the end-usage of PA, India is much below the global average.

Products made with PA are superior in many respects. Foremost, they are lightweight and therefore, have immense benefits in handling and transportation. Secondly, products made with PA are much more durable and hence, the replacement costs are almost negligible.

Driven by rapid changes in R&D and scientific advances, the end-use of PA is multiplying at a faster rate than ever before. New applications and new processes are opening up new usages for PA in infrastructure, transportation, interior and home decor, sporting equipments and many others. In many industries, Fiber-glass reinforced materials produced with Unsaturated Polyester Resins (UPR) are increasingly being used in a variety of applications due to the unique advantage of light weight and strength. This will propel the growth of the PA industry which is used to manufacture UPR.

Copper Phthalocyanine (CPC): CPC pigments are used for the manufacture of inks, photovoltaic cells, coatings and many plastic products and also certain sensitive applications such as colouring medical equipments.

Other Innovative Applications of PA: PA is increasingly being used for the manufacture of: Plastic Currency, Leisure Boats, Bath Tubs etc. These developments augur well for the PA industry in general and IG Petrochemicals in particular. As one of the largest producer of PA in the world, offering multiple advantages of lowest costs, top of-the-line quality, world-class plant and fastest delivery, IG Petrochemicals is in a leadership position in the PA industry.

The outlook for the future is exciting. Demand for plasticizers, which accounts for over half of all PA consumption, is forecast to remain strong. Unsaturated Polyester Resins (UPR) and Alkyd Resins – the other two large users of PA, are also estimated to have firm demand, driven by expected resurgence in construction and automobile sectors. On the domestic front, the Indian economy is expected to bounce back in the years to come with a much better performance on the back of higher manufacturing and industrial growth. Looking ahead, IGPL is confident of yet another excellent performance in FY16.

India features low in terms of production and usage of PA but is one of the fastest growing geographies in the PA space. The total domestic demand for PA is estimated to be 280,000 TPA of which 80% or 2,24,000 TPA is largely concentrated in western India where most of the end-users of PA are located. PA is used by a variety of end-users in India for an almost endless array of applications. These range from paints, PVC, construction, textile dyes, pigments and inks, leisure boats, pipes and transportation. All these end-user industries of PA are experiencing robust growth, driven by long-term prospects and a strong consumption story in the country. According to RBI estimates, the Indian GDP is expected to register a growth of between 5% and 6% in the years to come. Since PA is used by a wide range of industries and has a wide array of applications ranging from industrial to consumer goods, the outlook for the PA industry remains firm and optimistic.

Conclusion: IG Petrochemicals Ltd has been a pioneer in the PA business. Today, it is one of the lowest cost producers and one of the largest producers of PA in the world. At its current market price of Rs.147.05, its share price is discounts less than 15.4 times its 1st quarter EPS of Rs.9.51 against the industry average P/E multiple of around 19 indicating scope for further appreciation in its share price. Considering improvements in its profitability margins, leadership status, stiff entry barriers, and wide usage for its PA, attractive market cap:sales ratio and bright prospects going ahead, the share is a turnaround story and may be included in one's portfolio for good returns in the medium-to-long-term.

Financial Highlights: (Rs. in Lakh)

Particulars	Q1FY16	Q1FY15	FY15
Total Income	**28406.64**	**34366.87**	**118932.99**
Total Expenses	24062.44	32269.99	112542.53
Other Income	78.39	257.43	663.03
Finance Cost	699.20	984.24	3816.53
Extraordinary Item	-	-	2111.10
Tax Expense	794.63	287.17	236.19
Net Profit	**2928.76**	**1082.90**	**889.67**
Equity (FV: Rs.10)	3079.81	3079.81	3079.81
Reserves	-	-	20801.29
EPS (Rs.)			
Before Extraordinary item	**9.51**	**3.52**	**10.51**
After Extraordinary item	**9.51**	**3.52**	**2.89**