

CMP: INR 800

Rating: BUY

Target Price: INR 1,056

Stock Info

BSE	500201
NSE	INDIAGLYCO
Bloomberg	IGLY:IN
Reuters	IGLY.NS
Sector	Chemicals
Face Value (INR cr)	10
Equity Capital (INR cr)	31
Mkt Cap (INR cr)	2,477
52w H/L (INR)	1,153 / 597
Avg Yearly Volume (in 000')	144.6

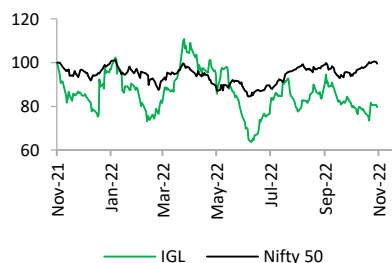
Shareholding Pattern %

(As on Sep, 2022)

Promoters	61.02
DII	3.76
FII	1.31
Public & Others	33.92

Stock Performance (%)	3m	6m	12m
IGL	0.5	-16.0	-20.4
NIFTY	2.1	11.5	-0.4

IGL Vs Nifty



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India Glycols Ltd (IGL) reported numbers, Q2FY23 revenue stood at INR 670cr (-14.1% YoY/-17.1% QoQ); below our estimates of INR 736cr. Gross Profit stood at INR 245Cr (+1.5% YoY/-11.9% QoQ), and Gross margins increased by 76 bps to 15% vs 14.2% in Q2FY22. The margin improvement is mainly because of the raw material cost decrease in terms of sales. The raw material cost in terms of sales stood at 63.5% vs 69.1% in Q2FY22. EBITDA stood at INR 68cr (+2.6% YoY/+8.5% QoQ); below our estimates of INR 71cr. EBITDA margin improved by 165 bps to 10.1% vs 8.5% in Q2FY22. PAT stood at INR 24cr (-36.7% YoY/-14.5% QoQ); PAT margin contracted by 126 bps to 3.5% vs 4.8% in Q2FY22.

Investment Rationale

Production has started at grain-based distillery plants: The grain-based distillery plants with capacities of 180 KLPD and 110 KLPD at the Kashipur and Gorakhpur sites respectively, have started production. The company uses grains that are broken rice, Maize Wheat, etc. Boiler and turbine are yet to install in grain-based distilleries. The installation is expected to complete by Jun-23. IGL is expected to meet 40% of its ethanol requirement through grain-based distilleries which are expected to reduce ethanol costs.

Bio-based Specialities and Performance Chemicals (BSPC) growth subdued due to lower demand from glycol ethers: In Q2FY23, Bio-based Specialities and Performance Chemicals has de-grew by 19.8% YoY (-19.4% QoQ) to INR 442cr, driven by lower demand for glycols ethers, bio-fuels, and sanitizer. Biofuel sales are expected to improve from Q3FY23 onwards. The biopolymers and ENA sales witnessed healthy growth and expected to continue at the same pace. The margins remain under pressure due to an increase in ethanol and energy costs. The NSU Phase 1 project is progressing as per plan and 1st product is commercialized.

Country liquor impacted potable spirits growth: In Q2FY23, the Potable Spirits segment de-grew by 5.1% YoY (-14.6% QoQ) to INR 175cr, due to country liquor conversion of certain markets to Tetra pack. The margins were impacted due to an escalation in ENA, utilities, and packaging costs. The company has launched Zumba Lemoni in UP and Uttarakhand. Whiskey sales witnessed traction in Delhi and Rum sales are expected to pick up from Q3FY23 onwards.

Maintained market share and leadership in Ennature Biopharma: In Q2FY23, the Ennature Biopharma segment grew by 19.2% YoY (-3.6% QoQ) to INR 52cr, driven by an increase in API sales. The company maintains market share in international markets and an increasing customer base in domestic markets. IGL has launched premium nutraceutical ingredients.

Outlook & Valuation: The grain-based ingredients will bring down the ethanol costs, Capex in new specialities, setting up new R&D center, new product launches, government initiatives for biofuels and ethanol blending program, and future scope of carbon smart products are expected to drive the business going forward. At the CMP of INR 800 per share, the stock is trading at a P/E multiple of 22.9x/14.6x/10.2x its FY23E/FY24E/FY25E EPS of INR 35.0/54.7/78.2 respectively. We maintain our "BUY" rating at a TP of INR 1,056 per share; valued at a PE multiple of 13.5x and its FY24E EPS of INR 78.2; an upside of 32%.

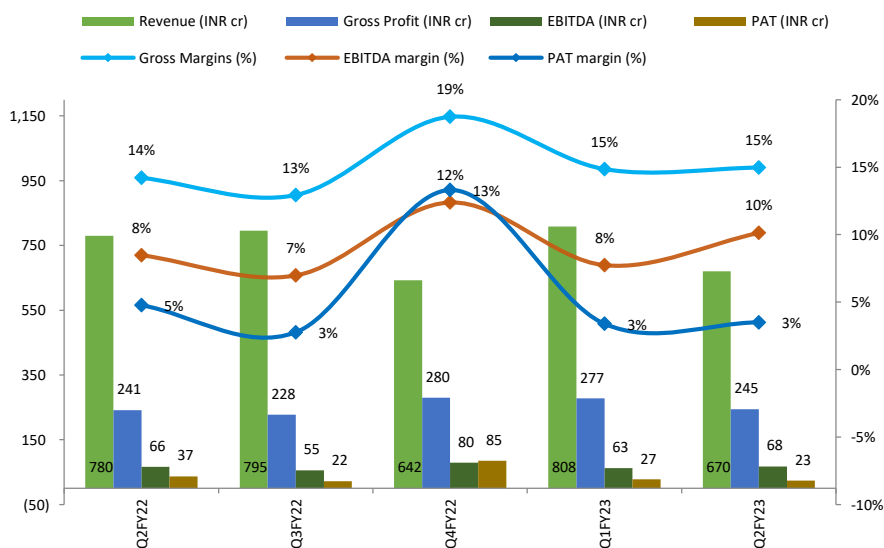
Q2FY23 Results

Income statement summary

Particular (INR cr)	Q2FY22	Q1FY23	Q2FY23	YoY (%)	QoQ (%)
Revenue	780	808	670	-14.1%	-17.1%
Net Raw Materials	539	531	425	-21.1%	-19.9%
Power & Fuel	75	131	90	19.3%	-31.3%
Employee Cost	25	19	20	-18.8%	6.2%
Other Expenses	74	65	67	-10.6%	2.4%
EBITDA	66	63	68	2.6%	8.5%
EBITDA Margin (%)	8.5%	7.7%	10.1%	+165 bps	+239 bps
Depreciation	20	21	21	9.1%	0.5%
Interest expense	17	22	24	45.0%	9.9%
Other income	8	6	6		
Share of profits associate & JV	9	9	3		
Profit before tax	47	35	31	-33.0%	-9.4%
Taxes	10	7	8		
PAT	37	28	24	-36.7%	-14.5%
PAT Margin (%)	4.8%	3.4%	3.5%	-126 bps	+11 bps
PAT from discontinued operations	-	-	-		
Reported Netprofit	37	28	24	-36.7%	-14.5%
Reported Netprofit Margin (%)	4.8%	3.4%	3.5%	-126 bps	+11 bps
Other Comprehensive income	(0)	(0)	(0)		
Net profit	37	27	23	-37.0%	-14.5%
EPS (INR)	12	9	8		

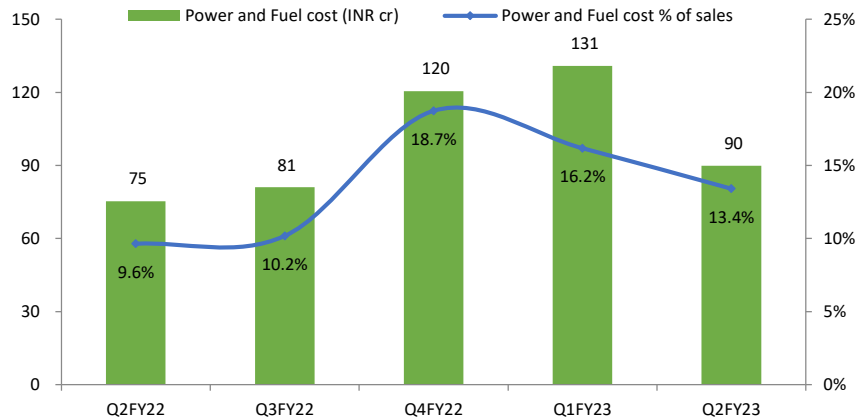
Source: Company Reports, Arianth Capital Research

Exhibit 1: Margins were improved due to decrease in raw material and power costs.



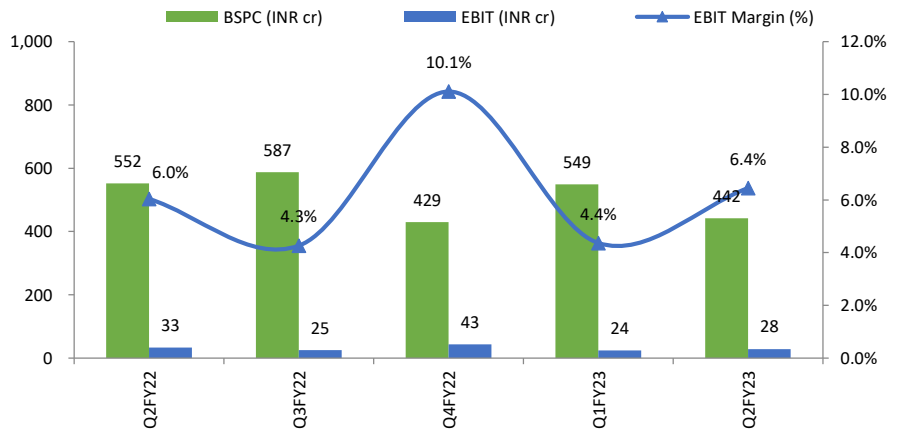
Source: Company Reports, Arianth Capital Research
Exceptional items are excluded

Exhibit 2: The softening of coal prices led to decrease in power and fuel costs in terms of sales.



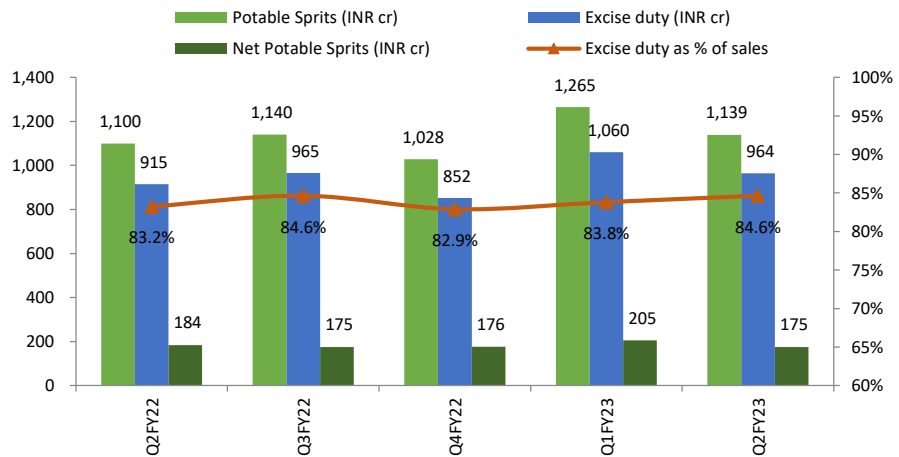
Source: Company Reports, Aриhant Capital Research

Exhibit 3: Margins were improved and grain based distilleries would reduce the ethanol costs going forward.



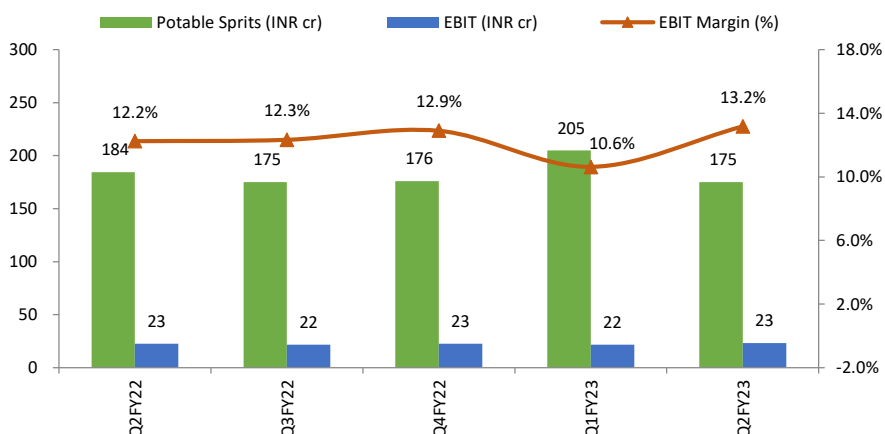
Source: Company Reports, Aриhant Capital Research
BSPC - Bio-based Specialities and Performance Chemicals

Exhibit 4: Excise duty remain elevated.



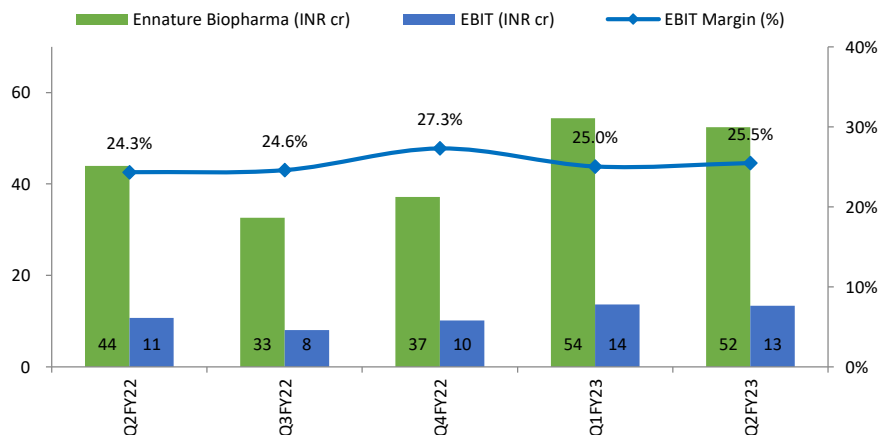
Source: Company Reports, Aриhant Capital Research

Exhibit 5: Margins were improved due to improved product mix in IMFL segment.



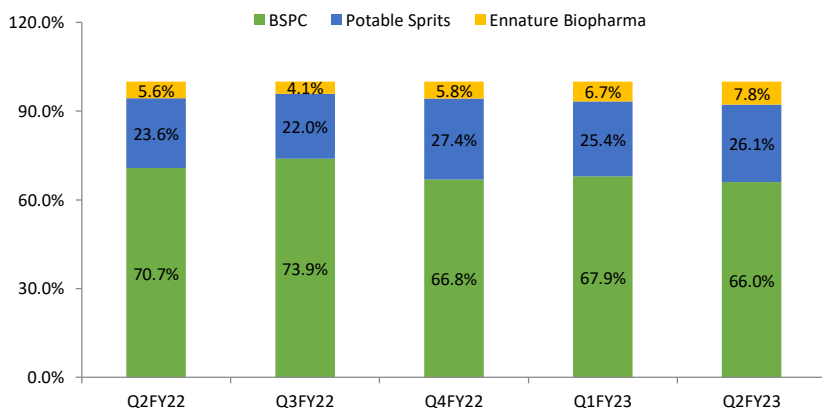
Source: Company Reports, Arianth Capital Research

Exhibit 6: Healthy growth backed by API and Nicotine sales, and margins were improved.



Source: Company Reports, Arianth Capital Research

Exhibit 7: Segmental revenue mix



Source: Company Reports, Arianth Capital Research

Raw material and Freight trends

Exhibit 8: Coal prices has doubled in last 1 year

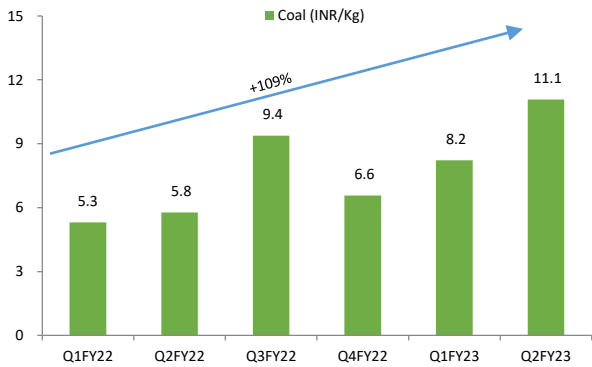


Exhibit 9: Ethanol prices has increased by 59% in last 1 year.

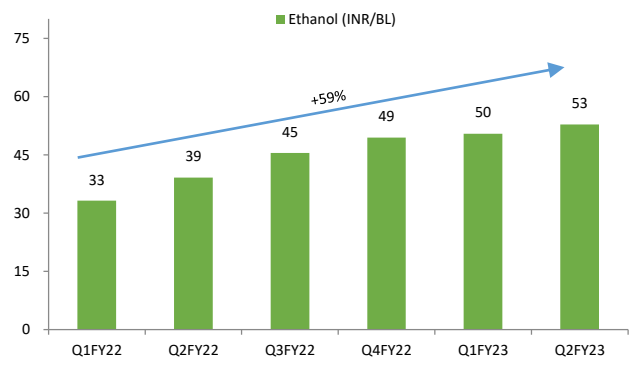


Exhibit 10: Mild steel has increased by 32% in last 1 year.

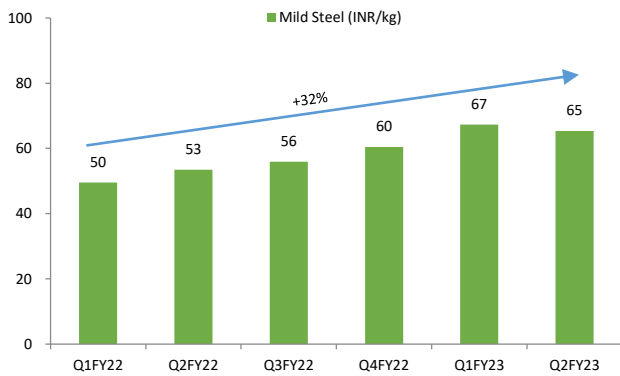


Exhibit 11: Acetic Acid has decreased by 58% in last 1 year.

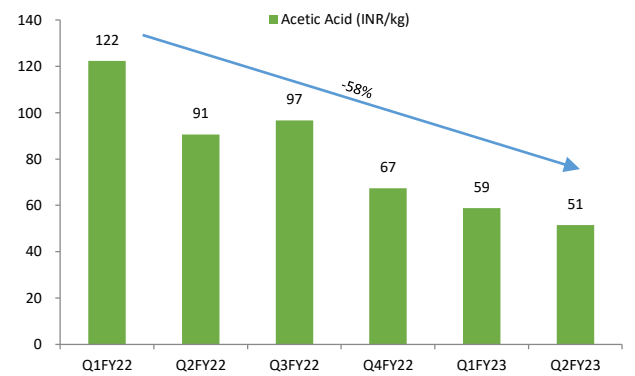


Exhibit 12: The company bought ethanol lower than spot prices.

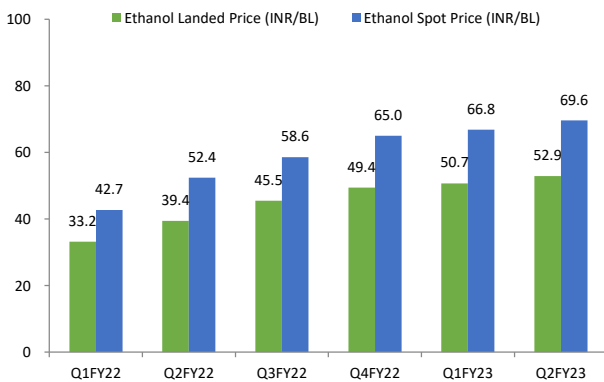
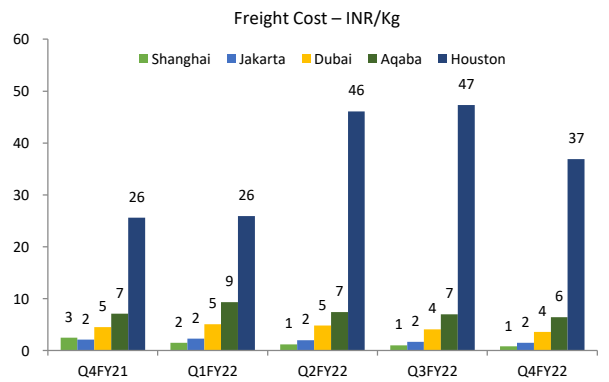


Exhibit 13: Freight cost has started to moderate.



Source: Company Reports, Arianth Capital Research

Concall Highlights

- The grain-based distillery plants with capacities of 180 KLPD and 110 KLPD at the Kashipur and Gorakhpur sites respectively have started production. The company uses grains that are broken rice, Maize and Wheat etc. Boiler and turbine are yet to install in grain-based distilleries. the installation is expected to complete by Jun-23.
- In the JV agreement, out of INR 190cr, the company has received INR 40cr in Jun-2022 and INR 40cr is expected to be received by FY23 and the remaining amount is expected to be received by FY24.
- JV performances were impacted due to lower demand from textiles, agro, and oil fields. The domestic demand is impacted and exports demand remains stable and margins are better.
- The company has completed Capex and evaluating further Capex going forward. There is no further significant Capex in FY23.
- The realization difference between bio-based MEG and crude-base MEG is around 2x. Around 5 years back, 95% of revenue comes from one customer and currently, around 15 customers are there. The customers are from Japan, Korea, and Taiwan. The volumes were down by 60%, while values are down by 20%. The new customer pipeline remains robust.
- The packaging costs remain elevated, glass prices went up by 30% and natural gas prices went up by 45%. Continue to face challenges in packaging costs for IMFL business. The company is in talks with vendors for cost reductions.
- The company is working on several products which include Specialities Amines, Oil Field Plasticizers, Green solvents, and others.
- The government is pushing to make ethanol and encouraging blending. The blended rate is expected to be around 20% to 25% over the medium term.
- The net debt is expected to be around ~1,000cr in FY23 which is including INR 350cr for working capital requirements.
- In the exports, The Butyl and Propyl prices in the glycols ether space have come down which put pressure on pricing.
- Power costs and ethanol prices have impacted the business.
- The grains are majorly produced in Ukraine, which was impacted due to the Russia-Ukraine war.
- Acetic Acid is coming down, however, it's a smaller part of RM.
- In country liquor, The company is in talks with the UP government for a price hike. Some updates are expected by December or January.
- ENA is sold for beverages and pharma applications. The government has announced molasses-based ENA for blending. The company uses molasses-based ENA for liquors. The ENA blending for portable alcohol is 96.4% and petrol blending is around 29.9%.

Financial Statements

Income statement summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	2,735	2,317	2,868	2,998	3,363	3,855
Net Raw Materials	1,846	1,499	1,921	1,943	2,176	2,483
Power & Fuel	250	214	332	420	437	482
Employee Cost	93	83	89	81	91	100
Other Expenses	267	253	270	282	303	335
EBITDA	279	268	255	273	356	455
EBITDA Margin (%)	10.2%	11.6%	8.9%	9.1%	10.6%	11.8%
Depreciation	(78)	(80)	(80)	(80)	(86)	(92)
Interest expense	(97)	(83)	(70)	(67)	(62)	(59)
Other income	9	15	22	18	17	19
Exceptional Items	-	-	221	-	-	-
Share of profits associate & JV	(0)	1	21	-	-	-
Profit before tax	113	120	369	145	226	323
Taxes	(38)	(11)	(39)	(36)	(57)	(81)
PAT	75	109	330	108	169	242
PAT from discontinued operations	40	22	10	-	-	-
PAT	115	132	340	108	169	242
PAT Margin (%)	4.2%	5.7%	11.8%	3.6%	5.0%	6.3%
Other Comprehensive income	(1)	3	(0)	-	-	-
Net profit	113	135	339	108	169	242
EPS (INR)	37	43	110	35	55	78

Source: Company Reports, Arianth Capital Research

Balance sheet summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	31	31	31	31	31	31
Reserves	1,003	1,138	1,761	1,858	2,018	2,248
Net worth	1,034	1,169	1,792	1,889	2,049	2,279
Minority Interest	-	-	(19)	(19)	(19)	(19)
Provisions	14	9	8	4	5	5
Debt	1,335	1,444	1,367	1,167	1,117	987
Other non-current liabilities	613	619	527	540	589	655
Total Liabilities	2,996	3,241	3,675	3,581	3,739	3,907
Fixed assets	2,201	2,171	2,303	2,647	2,805	2,967
Capital Work In Progress	172	126	243	143	154	166
Other Intangible assets	2	2	2	2	2	2
Investments	83	83	456	360	336	385
Other non current assets	33	27	19	18	20	23
Net working capital	354	684	362	185	239	215
Inventories	682	610	693	612	626	612
Sundry debtors	569	362	399	370	387	422
Loans & Advances	26	26	26	30	34	39
Other current assets	167	564	201	205	203	211
Sundry creditors	(722)	(581)	(642)	(672)	(741)	(838)
Other current liabilities & Prov	(369)	(297)	(314)	(360)	(269)	(231)
Cash	92	98	102	166	123	84
Other Financial Assets	60	51	188	60	61	66
Total Assets	2,996	3,241	3,675	3,581	3,739	3,907

Source: Company Reports, Arianth Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	113	120	369	145	226	323
Depreciation	78	80	80	80	86	92
Tax paid	(38)	(11)	(39)	(36)	(57)	(81)
Working capital Δ	(41)	(330)	322	177	(54)	24
Change in Goodwill	-	-	-	-	-	-
Operating cashflow	111	(141)	732	365	201	358
Capital expenditure	(148)	(4)	(330)	(323)	(254)	(266)
Free cash flow	(37)	(145)	402	41	(53)	93
Equity raised	41	26	312	(0)	-	-
Investments	(3)	0	(374)	96	23	(49)
Others	(20)	14	(128)	129	(3)	(8)
Debt financing/disposal	81	110	(97)	(200)	(50)	(130)
Dividends paid	(44)	(0)	(18)	(11)	(10)	(12)
Other items	(40)	1	(93)	8	49	67
Net Δ in cash	(24)	6	4	64	(43)	(39)
Opening Cash Flow	116	92	98	102	166	123
Closing Cash Flow	92	98	102	166	123	84

Source: Company Reports, Arianth Capital Research

Ratio analysis

Particular	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)						
Revenue growth	-18.5%	-15.3%	23.8%	4.5%	12.2%	14.6%
Op profit growth	-33.1%	-3.9%	-4.8%	6.9%	30.7%	27.6%
Net profit growth	-13.5%	14.8%	158.2%	-68.1%	56.2%	43.0%
Profitability ratios (%)						
OPM	10.2%	11.6%	8.9%	9.1%	10.6%	11.8%
Net profit margin	4.2%	5.7%	11.8%	3.6%	5.0%	6.3%
RoCE	6.1%	7.4%	6.1%	5.1%	6.9%	8.9%
RoNW	7.5%	9.9%	22.3%	5.9%	8.6%	11.2%
RoA	2.5%	3.4%	9.0%	3.0%	4.5%	6.2%
Per share ratios (INR)						
EPS	36.6	43.5	109.6	35.0	54.7	78.2
Dividend per share	14.3	0.1	5.9	3.5	3.3	3.9
Cash EPS	49.2	61.1	132.4	60.7	82.3	107.9
Book value per share	333.9	377.4	578.8	610.3	661.7	736.0
Valuation ratios (x)						
P/E	21.9	18.4	7.3	22.9	14.6	10.2
P/CEPS	16.3	13.1	6.0	13.2	9.7	7.4
P/B	2.4	2.1	1.4	1.3	1.2	1.1
EV/EBITDA	13.0	14.0	12.9	11.4	8.8	6.6
Payout (%)						
Dividend payout	59.2%	0.4%	5.6%	10.0%	6.0%	5.0%
Tax payout	33.6%	9.4%	10.7%	25.1%	25.1%	25.1%
Liquidity ratios (days)						
Debtor days	59	73	48	47	41	38
Inventory days	131	157	124	123	104	91
Creditor days	109	116	85	88	86	85
WC Days	82	115	87	81	59	45
Leverage ratios (x)						
Interest coverage	2.1	2.3	2.5	2.9	4.4	6.2
Net debt / equity	1.2	1.2	0.7	0.5	0.5	0.4
Net debt / op. profit	4.5	5.0	5.0	3.7	2.8	2.0

Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 14: Strong recovery in FY22.

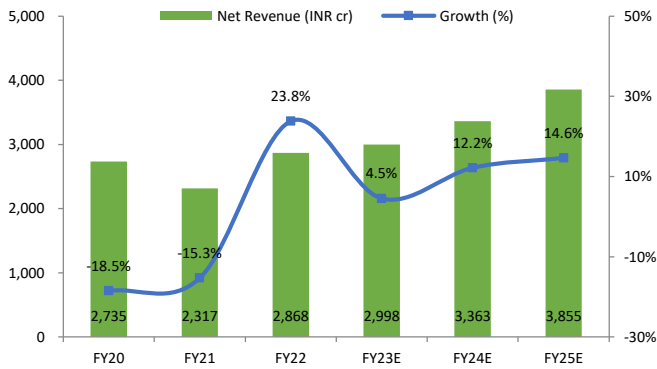


Exhibit 15: Moderation of RM costs would lead to better margins.

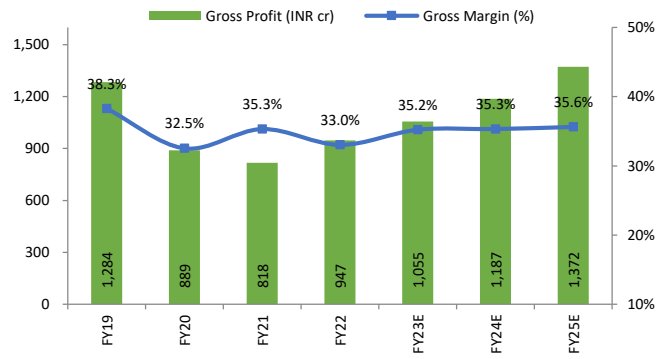


Exhibit 16: Sharp escalation in coal prices led to higher power & fuel cost.

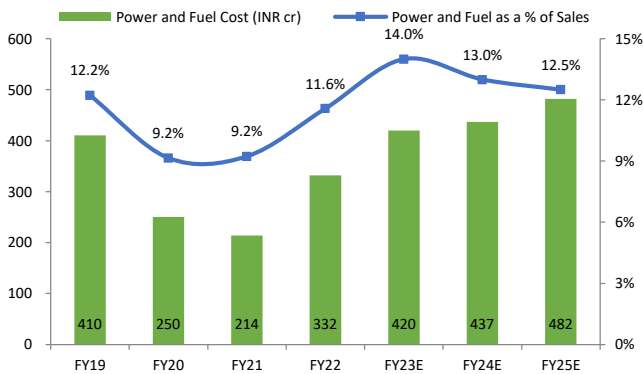


Exhibit 17: Growth in EBITDA & PAT levels.

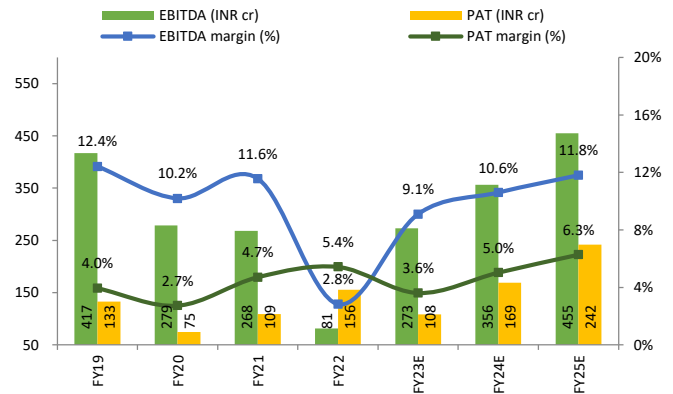


Exhibit 18: Working capital days to be improve

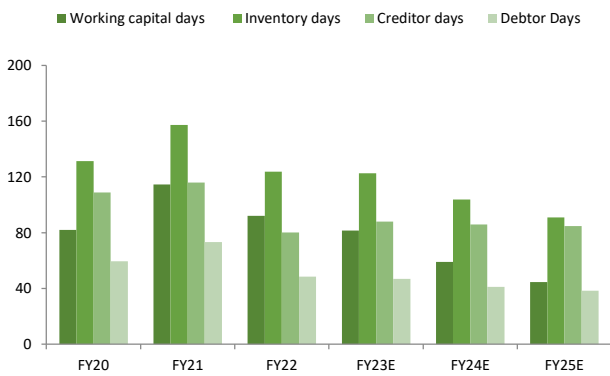
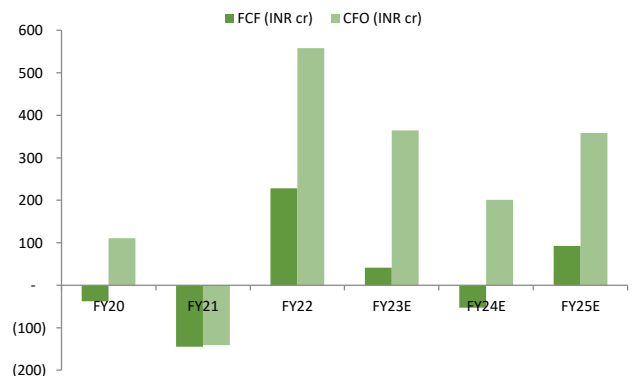


Exhibit 19: Cash flows to be improve



Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 20: Return ratios to be improve.

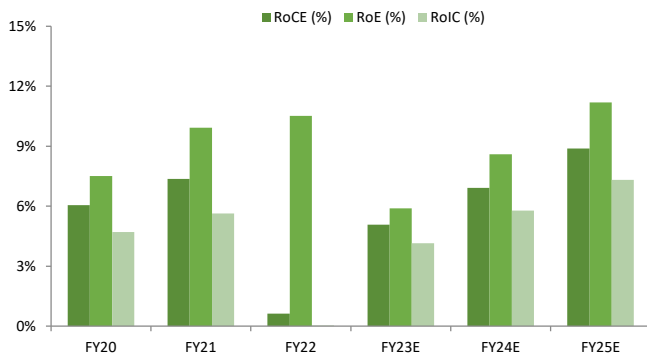


Exhibit 21: Working capital has reduced in terms of sales.

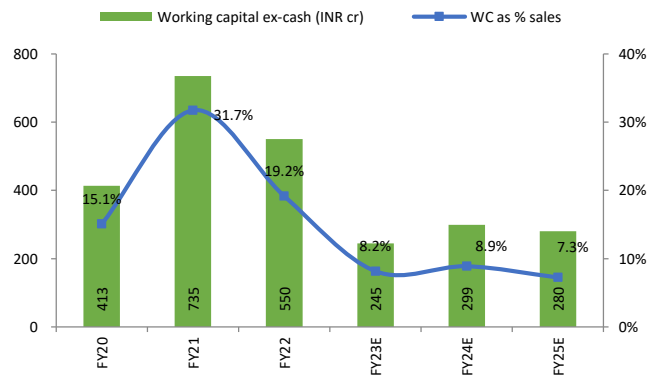


Exhibit 22: Cash conversion cycle to be reduce.

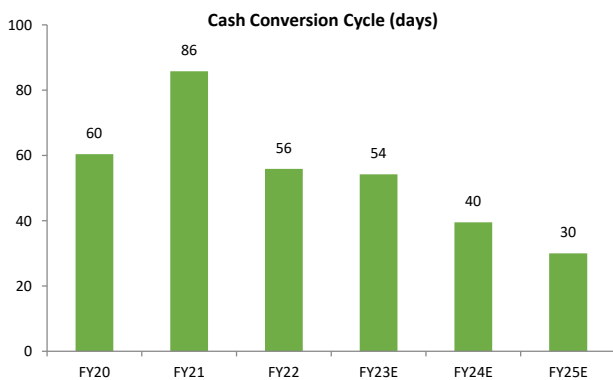


Exhibit 23: Net debt reduction is expected going forward.

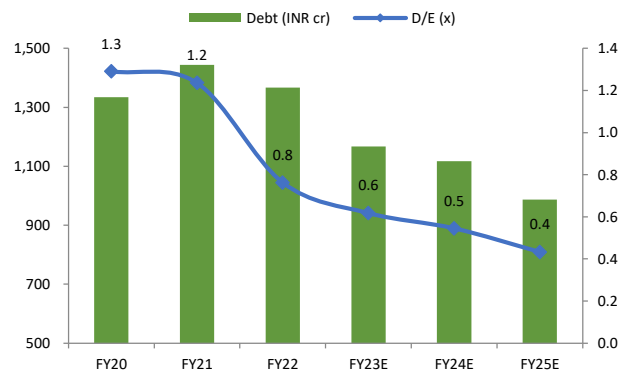


Exhibit 24: Potable spirits is expected to grow double digit going forward.

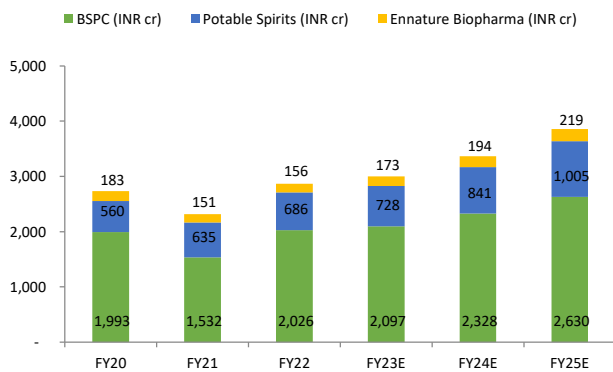
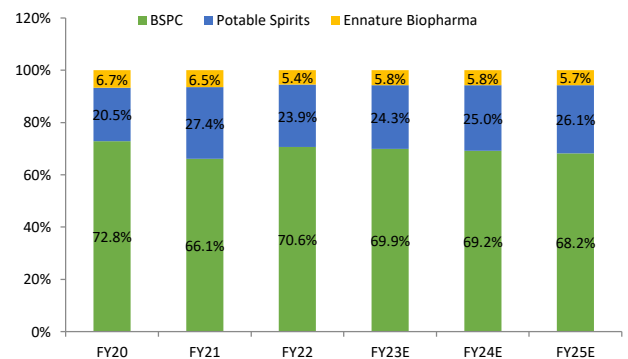


Exhibit 25: Potable spirits revenue share is expected to increase going forward.



Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 26: Carriage and freight cost is expected to be ~2.5% of sales.

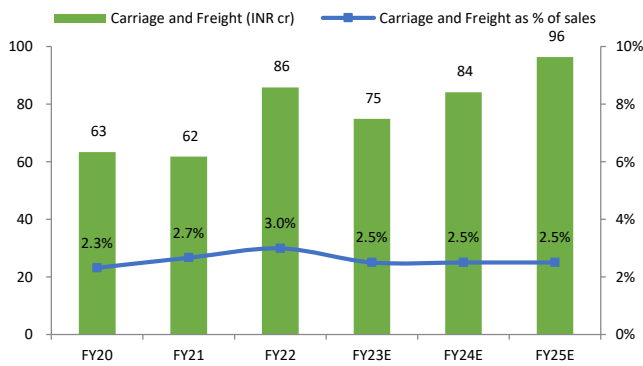


Exhibit 27: Stores and spares cost is expected to be ~1.5% of sales.

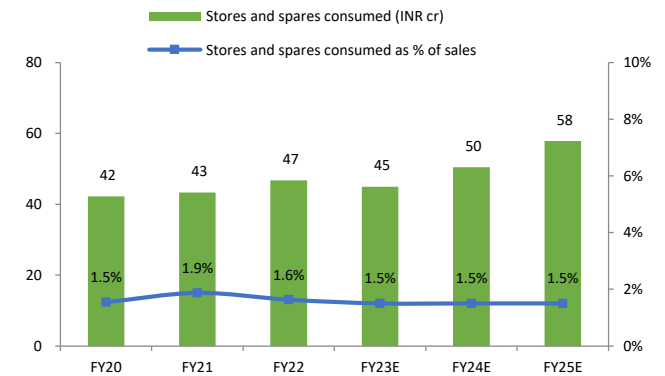


Exhibit 28: Repairs and maintenance cost is expected to be ~1.5% of sales.

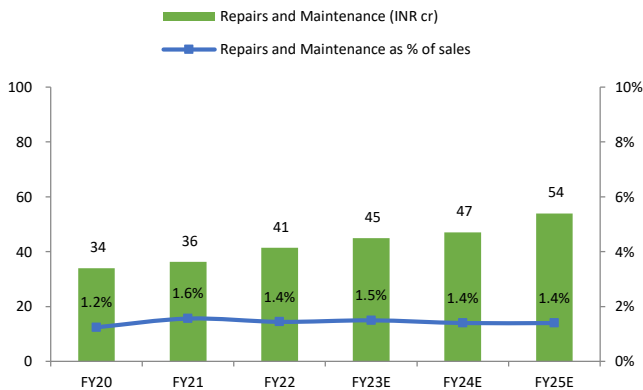
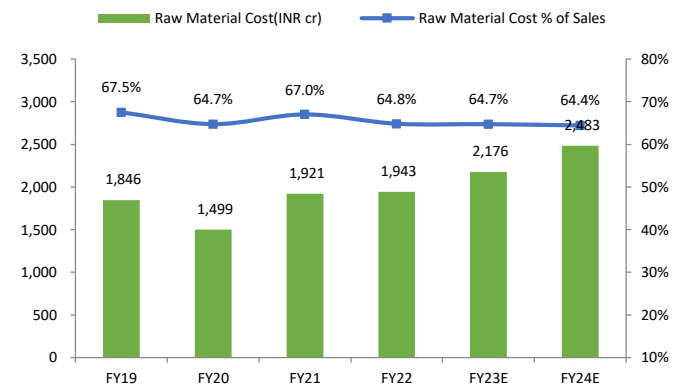
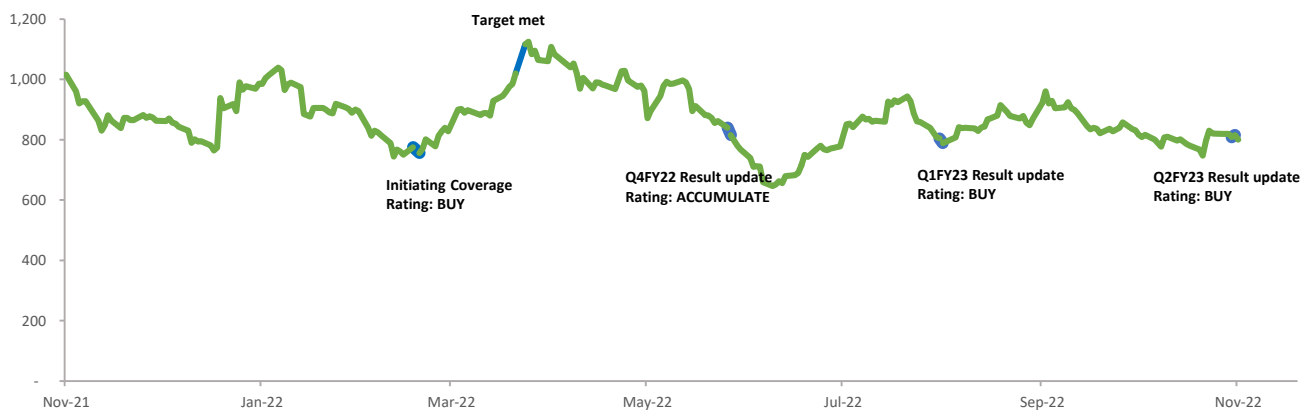


Exhibit 29: Raw material cost is expected to reduce going forward.



Analyst Coverage



Date	Report Type	Recom Price (INR)	Target Price (INR)	Rating	Report
02-Mar-22	IC	763	1,071	BUY	https://bit.ly/3M7PstE
01-Jun-22	Q4FY22 Result update	868	1,027	ACCUMULATE	https://bit.ly/3wYJtSs
12-Aug-22	Q1FY23 Result update	799	1,056	BUY	https://bit.ly/3QtQ2ou

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
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