

Missed on top-line, witnessed margin improvement

CMP: INR 622

Rating: BUY

Target Price: INR 892

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)	1,926
52w H/L (INR)	1,153 / 597
Avg Yearly Volume (in 000')	110.5

Shareholding Pattern %

(As on Dec, 2022)

Promoters	61.02
DII	3.75
FII	1.22
Public & Others	34.00

Stock Performance (%)	3m	6m	12m
IGL	-22.3	-22.3	-29.9
NIFTY	-1.0	1.8	2.8

IGL vs Nifty



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India Glycols Ltd (IGL) reported numbers, Q3FY23 revenue stood at INR 554cr (-30.4% YoY/-17.3% QoQ); below our estimates of INR 672cr. Gross Profit stood at INR 251Cr (+10.3% YoY/+2.7% QoQ), above our estimates of INR 215cr. Gross margins increased by 1670 bps to 45.3% vs 28.6% in Q3FY22. 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 54.7% vs 71.4% in Q3FY22. EBITDA stood at INR 69cr (+24.7% YoY/+1.9% QoQ); vs our estimates of INR 71cr. EBITDA margin improved by 552 bps to 12.5% vs 7% in Q3FY22. PAT stood at INR 22cr (+0.05% YoY/-7.1% QoQ); vs our estimates of INR 26cr. PAT margin improved by 120 bps to 4% vs 2.8% in Q3FY22. The exceptional items of INR 28cr are excluded.

Key Highlights

BSPC segment impacted due to discontinuation of low margin business: Bio-based specialties and performance chemicals revenue stood at INR 324cr (-44.8% YoY/-26.7% QoQ); EBIT Stood at INR 30cr (+19.3% YoY/+4.8% QoQ). EBIT margin improved by 494 bps YoY (up by 276 bps QoQ) to 9.2% vs 4.3% in Q3FY22. Revenue was impacted due to discontinued low-margin business partly, because of operational changes to scale down production and not having to push volumes at low margins. The company is focused on value-added products, and specialties plants are expected to commission in Q1FY24.

Steady growth was witnessed in potable spirits segments: Potable Spirits revenue stood at INR 188cr (+7.2% YoY/+7.3% QoQ); EBIT Stood at INR 28cr (+28% YoY/+19.8% QoQ). EBIT margin improved by 239 bps YoY (up by 154 bps QoQ) to 14.7% vs 12.3% in Q3FY22. Amazing vodka is picking up and witnessing traction in UP, Uttarakhand, and Delhi. Delhi excise policy is expected to change in Apr-2023 which provides business visibility going forward. The stabilization of ENA prices will improve the margins in FY24.

Ennature Biopharma revenue backed by Thiocolchicoside: Ennature Biopharma revenue stood at INR 42cr (+27.4% YoY/-20.8% QoQ); EBIT Stood at INR 10cr (+28.7% YoY/-22.8% QoQ). EBIT margin improved by 25 bps YoY (down by 64 bps QoQ) to 24.8% vs 24.6% in Q3FY22. The company has increased its domestic market share for Thiocolchicoside by acquiring orders from major key accounts. Thiocolchicoside plants are modified to reduce costs and increase outputs.

Cost reduction initiatives by Grain based plants and Captive power: The grain-based distillery plants are running at full capacity. The company is further evaluating Capex for grain-based plants and to become completely Atmanirbhar & import independent. Grain-based distilleries are expected to reduce ethanol costs. The company has executed an agreement with Renew Green to procure captive wind and solar hybrid power. It's expected to start next year and will result in cost savings as well as green energy strengthening sustainability.

Outlook & Valuation: IGL revenue is expected to revamp backed by Delhi excise policy changes in April-2023 and high value-added business. Specialities plants are expected to be commissioned in Q1FY24 which is expected to additional revenue going forward. The grain-based ingredients will bring down the ethanol costs, Capex in new specialties, setting up new R&D centers, 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 622 per share, the stock is trading at a P/E multiple of 14.6x/14.1x/9.8x its FY23E/FY24E/FY25E EPS of INR 42.7/44.1/9.8 respectively. We maintain our "BUY" rating at a TP of INR 892 per share; valued at a PE multiple of 14.1x and its FY25E EPS of INR 63.3; an upside of 43.4%.

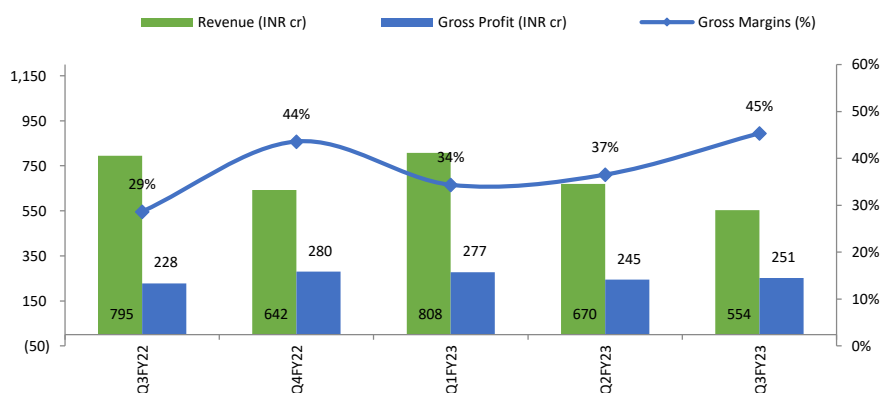
Q3FY23 Results

Income statement summary

Particular (INR cr)	Q3FY22	Q2FY23	Q3FY23	YoY (%)	QoQ (%)
Revenue	795	670	554	-30.4%	-17.3%
Net Raw Materials	568	425	303	-46.7%	-28.8%
Power & Fuel	81	90	94	16.1%	4.6%
Employee Cost	24	20	23	-3.3%	13.1%
Other Expenses	67	67	65	-3.6%	-2.4%
EBITDA	55	68	69	24.7%	1.9%
EBITDA Margin (%)	7.0%	10.1%	12.5%	+552 bps	+236 bps
Depreciation	19	21	21		
Interest expense	15	24	27		
Other income	8	6	7		
Share of profits associate & JV	-	3	(2)		
Profit before tax	29	31	25	-14.0%	-20.0%
Taxes	7	8	3		
PAT	22	24	22	0.0%	-7.1%
PAT Margin (%)	2.8%	3.5%	4.0%	+120 bps	+43 bps
Other Comprehensive income	0	(0)	0		
Net profit	22	23	22	0.3%	-6.1%
EPS (INR)	7	8	16		

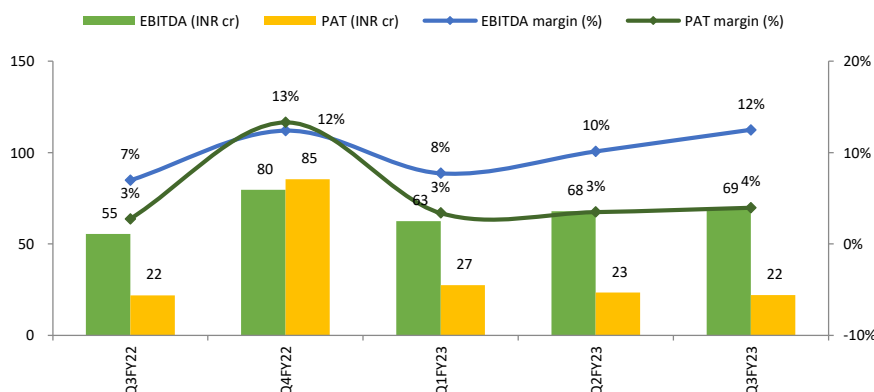
Source: Company Reports, Arianth Capital Research, exceptional items of INR 28cr excluded in Q3FY23.

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



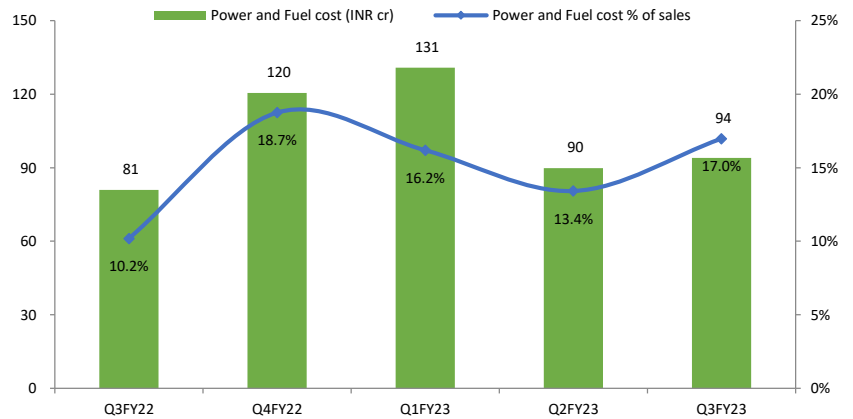
Source: Company Reports, Arianth Capital Research

Exhibit 2: Margin expansion witnessed at bottom levels, however power & fuel costs remain elevated.



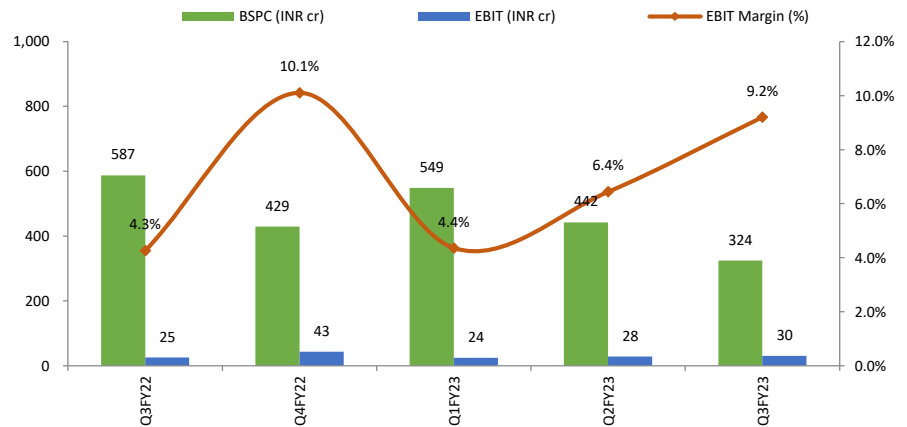
Source: Company Reports, Arianth Capital Research
Exceptional items are excluded

Exhibit 3: power & fuel costs remain elevated. The company signed agreement with Renew Green to procure captive wind and solar hybrid power. It will reduce power cost going forward.



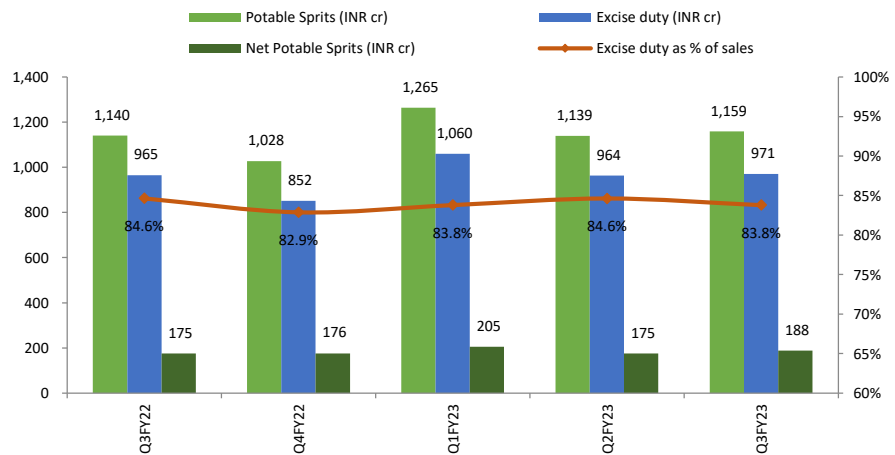
Source: Company Reports, Aриhant Capital Research

Exhibit 4: Margins were improved and grain based distilleries would reduce the ethanol costs going forward.



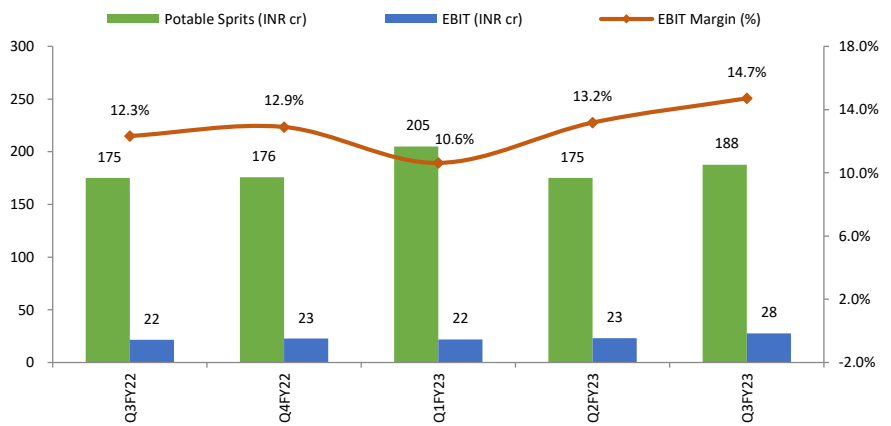
Source: Company Reports, Aриhant Capital Research
BSPC - Bio-based Specialities and Performance Chemicals

Exhibit 5: Excise duty remain elevated.



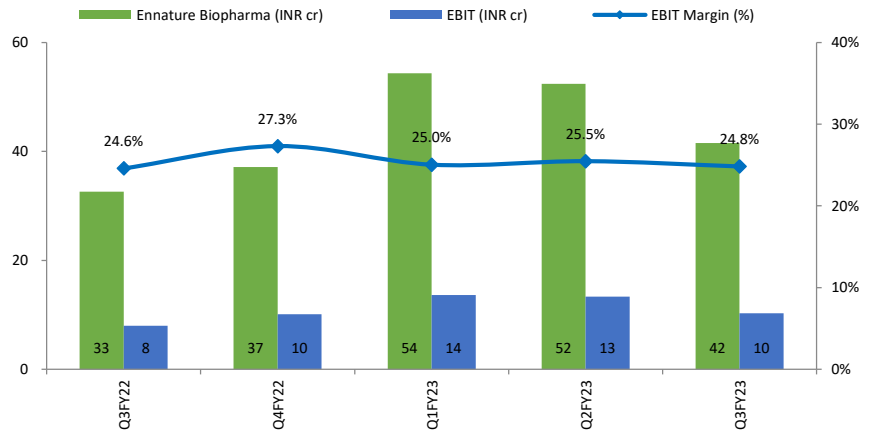
Source: Company Reports, Aриhant Capital Research

Exhibit 6: Margins were improved due to improved due to stabilization of packing costs and ENA costs.



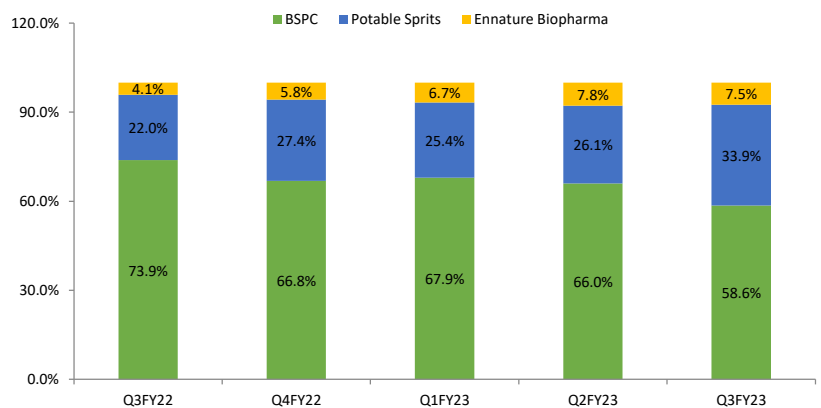
Source: Company Reports, Arianth Capital Research

Exhibit 7: Healthy growth backed by Thiocolchicosides, and margins were improved.



Source: Company Reports, Arianth Capital Research

Exhibit 8: Segmental revenue mix



Source: Company Reports, Arianth Capital Research

Q3FY23 Concall Highlights

- The company has discontinued low-margin and high-volume businesses. The company has sold some of the volumes at a lower realization.
- In the JV agreement, out of INR 190cr, the company has received INR 55cr as of now and is expected to receive an additional amount as per the agreement.
- The Capex is expected to be INR 400cr going forward.
- The debt is expected INR 800cr in FY23, which is including INR 350cr for working capital requirements.
- The cost of funds is around 9.1% in Q3FY23, including debt and working capital.
- Delhi government excise policy is expected in Apr-2023.
- Ethanol is the main feedstock, ethanol prices were INR 30 – 35 per liter 1.5 years ago and currently trading above INR 60.
- Ethanol prices continued at a higher price, Grain-based ethanol plants are running at full capacity. The company is evaluating further expansion for grain-based ethanol.
- The company is focused on value-added products, and specialties amines plants are expected to commission in Feb and May.
- Glycol ether did not do well, especially in export markets due to Butyl and Propyl base alternatives.
- The company continued to maintain market leadership in branded country liquor in UP, Uttarakhand. Amazing Votka is picking up and witnessing traction in the UP, Uttarakhand, and Delhi markets.
- The nicotine segment witnessing a slowdown on some of the contracts, the company is focused on pharma-based nicotine derivatives.
- ENA sales accounted for INR 120cr in 9MFY23, it's part of B2B business.
- Bioethanol significantly goes for bio fuel and the remaining goes for potable spirits.
- The company is investing INR 82cr for NSU.
- 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 company is working on several products which include Specialities Amines, Oil Field Plasticizers, Green solvents, and others.
- Revenue was also impacted, one quarter of sales was part of JV.
- Feedstock prices and energy prices went up.

Financial Statements

Income statement summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	2,735	2,317	2,868	2,666	2,953	3,357
Net Raw Materials	1,846	1,499	1,921	1,684	1,911	2,162
Power & Fuel	250	214	332	385	384	420
Employee Cost	93	83	89	79	80	87
Other Expenses	267	253	444	254	269	296
EBITDA	279	268	81	264	310	392
EBITDA Margin (%)	10.2%	11.6%	2.8%	9.9%	10.5%	11.7%
Depreciation	(78)	(80)	(80)	(85)	(86)	(92)
Interest expense	(97)	(83)	(70)	(64)	(56)	(56)
Other income	9	15	22	24	15	17
Exceptional Items	-	-	221	28	-	-
Share of profits associate & JV	(0)	1	21	-	-	-
Profit before tax	113	120	195	168	182	262
Taxes	(38)	(11)	(39)	(36)	(46)	(66)
PAT	75	109	156	132	137	196
PAT from discontinued operations	40	22	10	-	-	-
PAT	115	132	166	132	137	196
PAT Margin (%)	4.2%	5.7%	5.8%	5.0%	4.6%	5.8%
Other Comprehensive income	(1)	3	(0)	-	-	-
Net profit	113	135	166	132	137	196
EPS (INR)	37	43	53	43	44	63

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	1,880	2,008	2,194
Net worth	1,034	1,169	1,792	1,911	2,039	2,225
Minority Interest	-	-	(19)	(19)	(19)	(19)
Provisions	14	9	8	4	4	5
Debt	1,335	1,444	1,367	1,067	1,022	962
Other non-current liabilities	613	619	527	480	517	571
Total Liabilities	2,996	3,241	3,675	3,442	3,563	3,743
Fixed assets	2,201	2,171	2,303	2,642	2,799	2,961
Capital Work In Progress	172	126	243	143	154	166
Other Intangible assets	2	2	2	2	2	2
Investments	83	83	456	320	295	336
Other non current assets	33	27	19	16	18	20
Net working capital	354	684	362	91	151	145
Inventories	682	610	693	531	550	533
Sundry debtors	569	362	399	329	340	368
Loans & Advances	26	26	26	27	30	34
Other current assets	167	564	201	183	178	184
Sundry creditors	(722)	(581)	(642)	(658)	(710)	(772)
Other current liabilities & Prov	(369)	(297)	(314)	(320)	(236)	(201)
Cash	92	98	102	176	91	56
Other Financial Assets	60	51	188	53	53	57
Total Assets	2,996	3,241	3,675	3,442	3,563	3,743

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	195	168	182	262
Depreciation	78	80	80	85	86	92
Tax paid	(38)	(11)	(39)	(36)	(46)	(66)
Working capital Δ	(41)	(330)	322	271	(60)	6
Operating cashflow	111	(141)	558	488	162	293
Capital expenditure	(148)	(4)	(330)	(323)	(254)	(266)
Free cash flow	(37)	(145)	228	165	(92)	28
Equity raised	41	26	486	-	(0)	-
Investments	(3)	0	(374)	136	25	(40)
Others	(20)	14	(128)	137	(2)	(6)
Debt financing/disposal	81	110	(97)	(300)	(45)	(60)
Dividends paid	(44)	(0)	(18)	(13)	(8)	(10)
Other items	(40)	1	(93)	(52)	37	54
Net Δ in cash	(24)	6	4	74	(85)	(34)
Opening Cash Flow	116	92	98	102	176	91
Closing Cash Flow	92	98	102	176	91	56

Source: Company Reports, Arianth Capital Research

Ratio analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)						
Revenue growth	-18.5%	-15.3%	23.8%	-7.1%	10.8%	13.7%
Op profit growth	-33.1%	-3.9%	-69.6%	225.0%	17.1%	26.7%
Net profit growth	-13.5%	14.8%	26.1%	-20.4%	3.4%	43.4%
Profitability ratios (%)						
OPM	10.2%	11.6%	2.8%	9.9%	10.5%	11.7%
Net profit margin	4.2%	5.7%	5.8%	5.0%	4.6%	5.8%
RoCE	6.1%	7.4%	0.6%	5.2%	5.9%	7.6%
RoNW	7.5%	9.9%	10.5%	7.1%	6.9%	9.2%
RoA	2.5%	3.4%	4.2%	3.8%	3.8%	5.2%
Per share ratios (INR)						
EPS	36.6	43.5	53.5	42.7	44.1	63.3
Dividend per share	14.3	0.1	5.9	4.3	2.6	3.2
Cash EPS	49.2	61.1	76.2	70.1	71.8	93.0
Book value per share	333.9	377.4	578.8	617.2	658.7	718.8
Valuation ratios (x)						
P/E	17.0	14.3	11.6	14.6	14.1	9.8
P/CEPS	12.6	10.2	8.2	8.9	8.7	6.7
P/B	1.9	1.6	1.1	1.0	0.9	0.9
EV/EBITDA	11.1	11.9	33.6	9.4	8.3	6.4
Payout (%)						
Dividend payout	59.2%	0.4%	11.8%	10.0%	6.0%	5.0%
Tax payout	33.6%	9.4%	20.2%	21.2%	25.1%	25.1%
Liquidity ratios						
Debtor days	59	73	48	50	41	38
Inventory days	131	157	124	133	103	91
Creditor days	109	116	80	99	94	91
WC Days	82	115	92	84	50	39
Leverage ratios (x)						
Interest coverage	2.1	2.3	0.0	2.8	4.0	5.4
Net debt / equity	1.2	1.2	0.7	0.5	0.5	0.4
Net debt / op. profit	4.5	5.0	15.6	3.4	3.0	2.3

Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 9: Revenue growth is expected to slow down in FY23 due to impact of low margin and high volume business divestment.

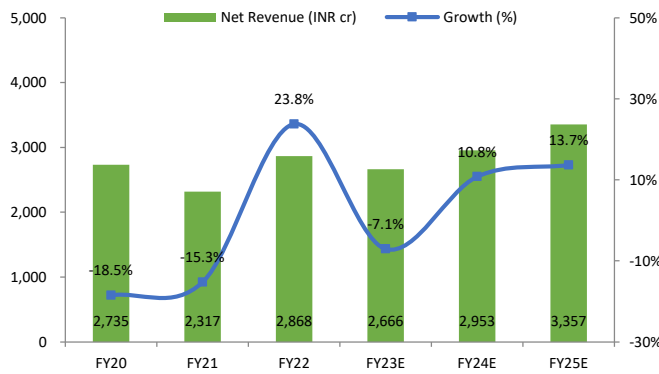


Exhibit 10: Moderation of RM costs would lead to better margins.

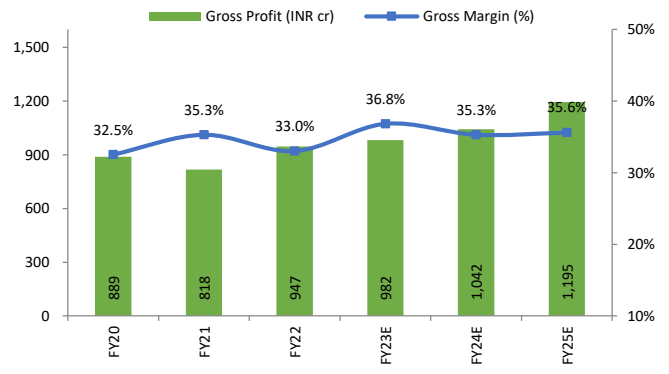


Exhibit 11: The company is signed agreement with Renew Green to procure captive wind and solar hybrid power will reduce costs going forward.

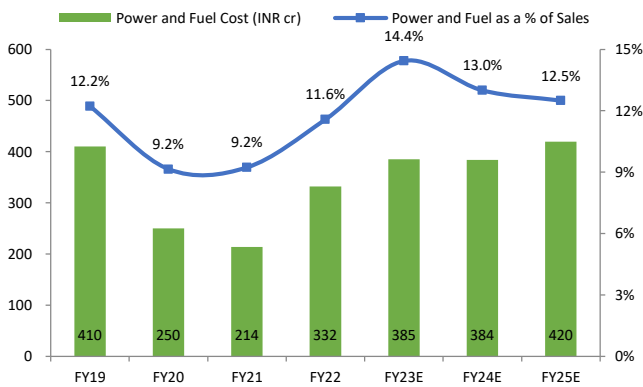


Exhibit 12: Growth in EBITDA & PAT levels.

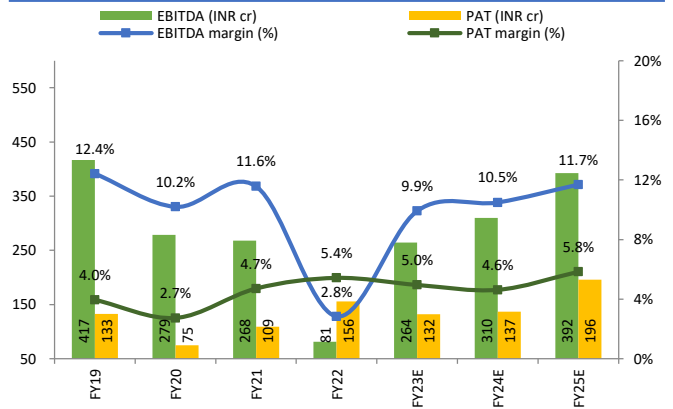


Exhibit 13: Working capital days to be improve

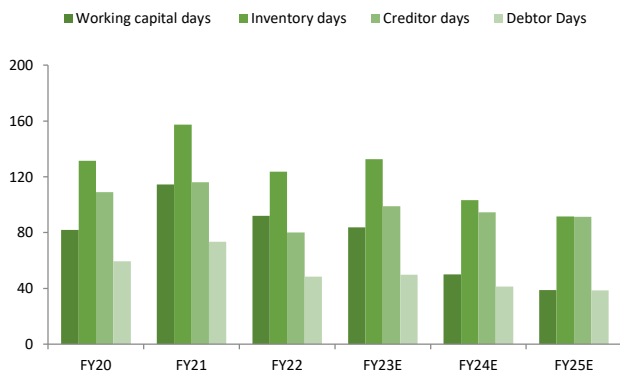
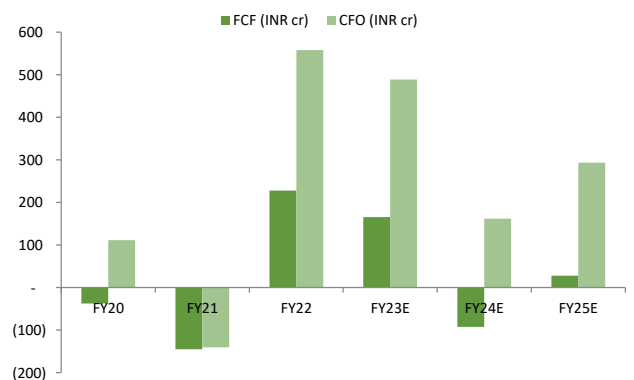


Exhibit 14: Cash flows to be improve



Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 15: Return ratios to be improve.

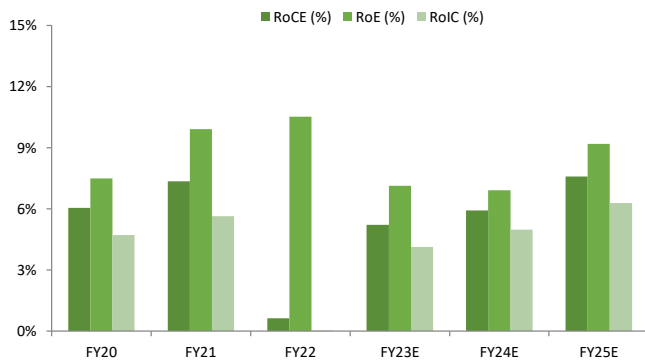


Exhibit 16: Working capital has reduced in terms of sales.

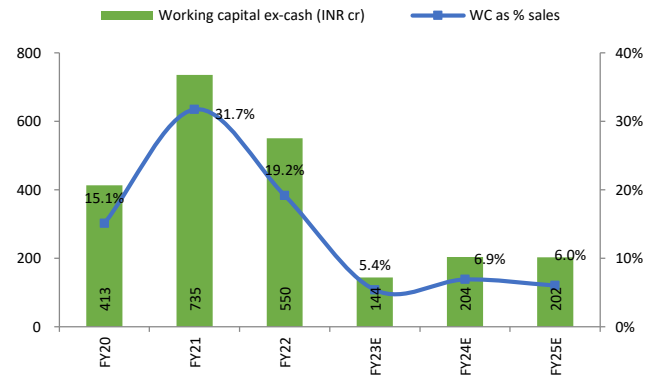


Exhibit 17: Cash conversion cycle to be reduce.

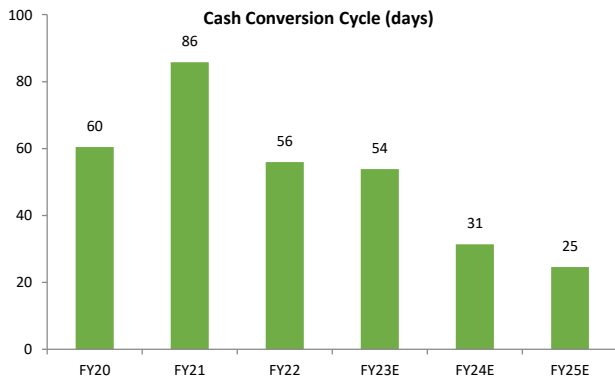


Exhibit 18: Net debt reduction is expected going forward.

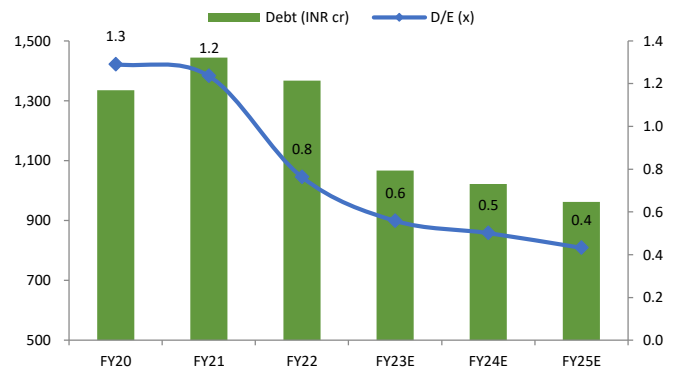


Exhibit 19: Potable spirits is expected to grow double digit going forward.

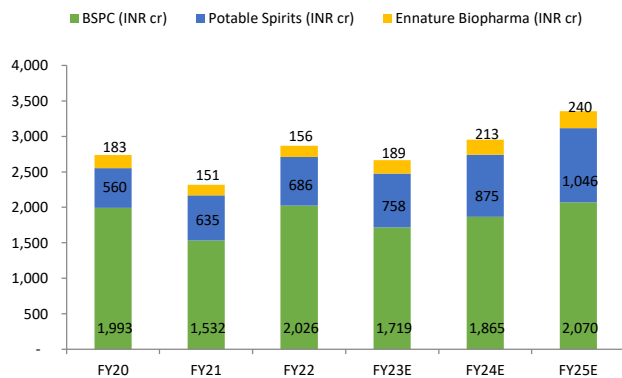
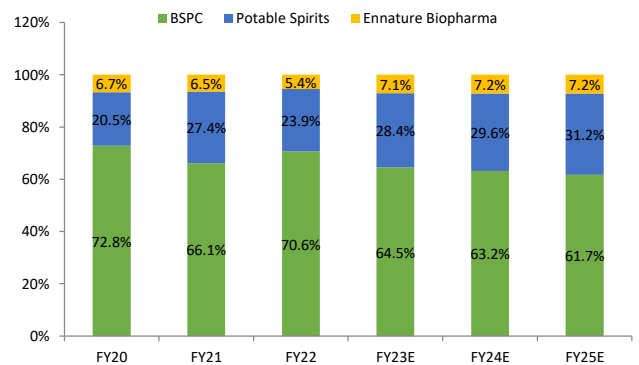


Exhibit 20: Potable spirits revenue share is expected to increase going forward.



Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 21: Carriage and freight cost is expected to be ~2.5% of sales.

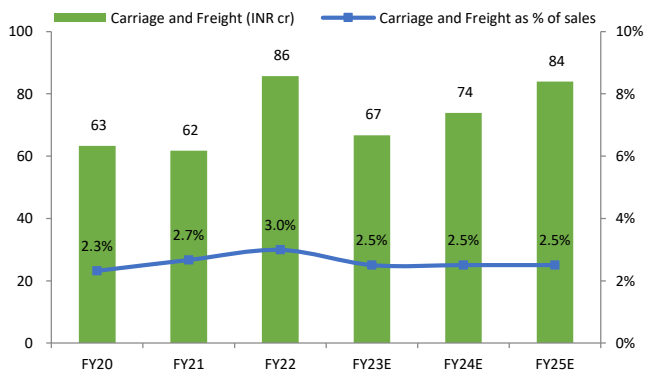


Exhibit 22: Stores and spares cost is expected to be ~1.5% of sales.

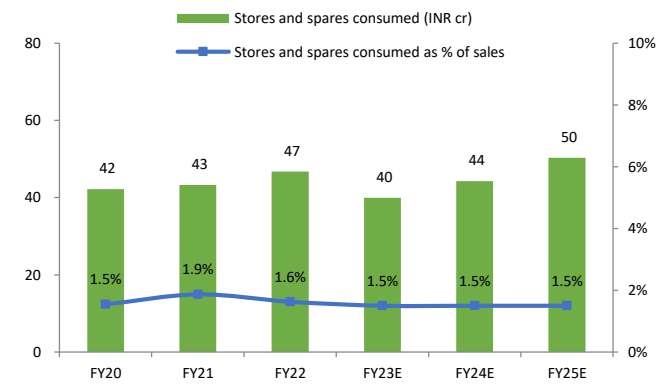


Exhibit 23: Repairs and maintenance cost is expected to be ~1.5% of sales.

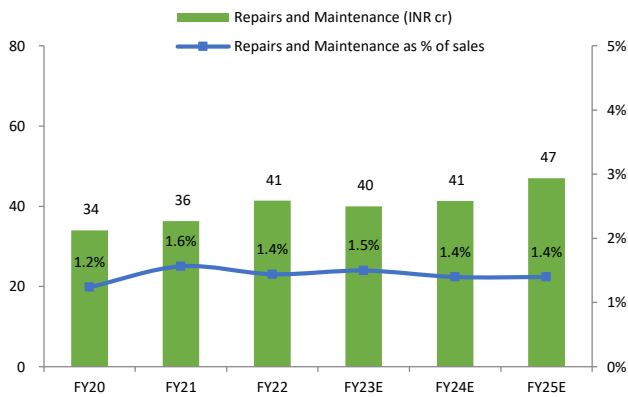
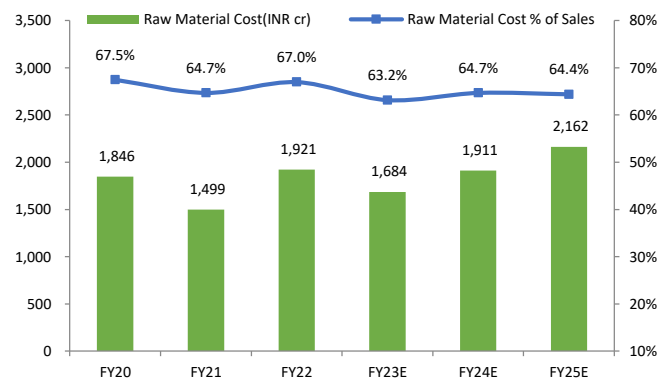
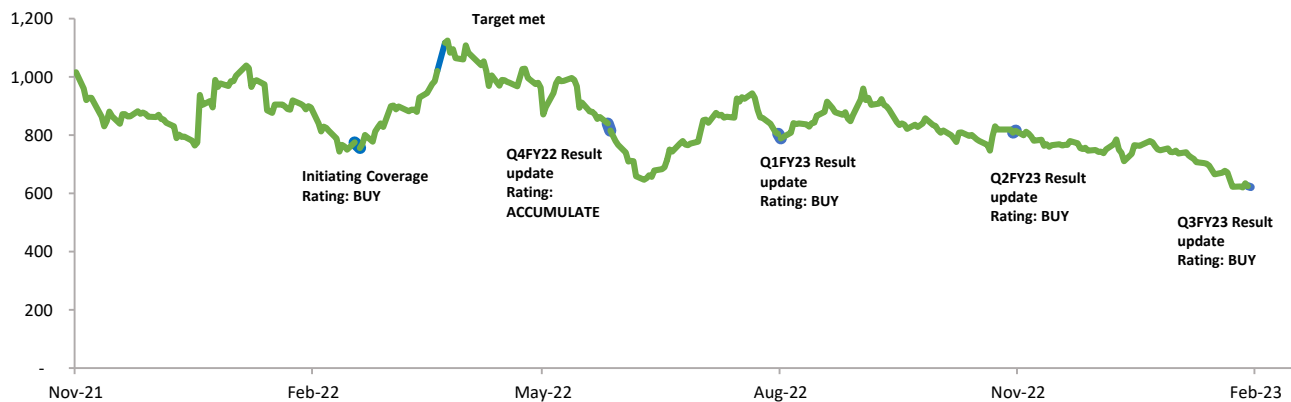


Exhibit 24: Raw material cost is expected to reduce going forward.



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
15-Nov-22	Q2FY23 Result update	800	1,056	BUY	https://bit.ly/3TDtaDK

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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%

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