



Company Name	: India Glycol
BSE Code	: 500201
Time Duration	: 2 year
CMP	: ₹189 (as on 03 August, 2017)
Target Price	: ₹285

Our Upstream Pick for the month of August is India Glycols Ltd. (IGL). It is one of the leading manufacturer of glycols, ethylene oxide derivatives, ethyl alcohol, natural gum and industrial gases. These products have wide applications across various industries. IGL's products have demand not only in domestic market but also in international market. The company earns 35-40% of its revenue from exports.

The company manufactures bio-MEG made from molasses and ethanol, which generates better margins as against its peer products. It has capacity of manufacturing 1,75,000 MTPA of finished products that gives it a competitive advantage over other players in the market.

We see IGL as an Upstream Pick as the company has shown a major turnaround in its operations in FY17. It has generated profits in FY17 after incurring recurring losses since past four years up to FY16. The company has paid off its major debt portion, thereby reducing its interest cost and thus improved its margins. We believe that if the company continues to lower its finance cost, profit margins would rise and would give higher returns to the stakeholders.

Turnaround in debt and profits

On a consolidated basis, the company's long-term borrowings in FY16 stood at Rs 195.42 crore. The company paid major chunk of the debt and thus the borrowings in FY17 stood at Rs 29.66 crore. The short term borrowings reduced to Rs 879.84 crore from Rs 1016.10 crore. The interest cost reduced to Rs 121.81 crore from Rs 132.82 crore. This turnaround has enabled the company to generate profits in FY17 which earlier had to bear losses due to higher interest costs. It has no plans to raise any capital or borrow more debt. If the company continues to maintain its interest costs at lower levels, the margins and profitability are bound to increase. It is also focusing on minimising its cost of production by adopting various cost reduction measures.

Revival in growth of exports

The company exports its products to around 65 countries. In FY16, the company's exports contributed to ~38% of its total revenue. Its exports have declined since FY14 as sales of glycol ether and acetates have declined due to drop in realisations and slowdown in China's market. Its major international markets include South East Asia, Middle East and China. The company has logistics opportunities in these countries. It exports the chemical products to more than 40 countries and plans to promote bio-MEG and bio EODs in Europe, USA, Japan and Latin America. If these products fix their base in these countries, then exports would see revival and revenue will boost up going forward.

Diversified product portfolio

The company operates under three segments, namely, industrial chemicals, ethyl alcohol and others, which includes high sulphur alcohol, hydro chloric acid, natural gum, industrial gases etc. In FY16, the segmental contribution to revenue was industrial chemicals 63%, ethyl alcohol 35% and others 2% respectively. In FY17, the proportion changed to 60%, 36% and 4% respectively. We see that demand for alcohol and other products like acid and gums is increasing due to its wide applications. The company has gained position of premium quality supplier of extra neutral alcohol in the international markets. It has licence to operate for alcohol in states of Uttar Pradesh and Uttarakhand. It has launched premium products under brand name of 'V2 O Vodka' with flavours of orange, green apple and smooth in Vodka category and Soulmate in whisky category. Beach House premium rum for Indian defence forces has also been launched.

The company is planning to develop new products and make applications in textile chemicals, oil field chemicals, paper chemicals, home care and personal care.

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Wide applications across industries

Glycol is used in oil and gas industry in the form of performance chemical which is used for crude oil demulsification. It can be used as an agro-chemical for application in multiple toxicants. Glycol has many applications in textile and polyester industry. IGL produces guar gum, which is used in toothpastes, cosmetics, shampoos, hair dyes and other such personal care products. Guar gum products are also used in coal mining and concentration of ores. It is used in food processing industry with products like dairy and frozen foods, bakery, canned foods and beverages. It has wide applications in paper, pulping and paint industry. Bio-MEG has application in making PET bottles, used for packaging of beverage products and polyester films.

IGL has become a qualified supplier for natural colours, nutraceuticals, health supplements and plant-based active pharmaceuticals ingredients (APIs). In FY16, the company's Ennature Bio-Pharma division grew by 16% by expanding its customer base in India and in international market.

Financial performance

FY17 has been a turnaround year for the company because the company was generating losses since FY14. In FY17, the company's revenue grew by 6.5% to Rs 2473.41 crore YoY. Its EBITDA increased by 82.5% YoY in FY17 to Rs 231.49 crore from Rs 126.82 crore in FY16, while EBITDA margin rose from 5.46% in FY16 to 9.47% in FY17. The net profit in FY17 was Rs 44.52 crore as against net loss of Rs 34.16 crore in FY16, while net profit margin in FY17 stood at 1.8%. The company has reduced debt in FY17, thereby reducing the debt-equity ratio to 1.1x from 2.64x in FY16. Interest coverage ratio has improved from 0.62x in FY16 to 2.5x in FY17. The company has declared dividend of Re 1 per share for FY17.

Valuation

The company is trading at TTM P/E of 13.66x with TTM EPS of Rs 14.38. It has delivered ROC and ROCE of 5.26% and 20.07%, respectively for FY17. We see that the company has shown huge revival in its performance and is expected to deliver robust set of numbers in the upcoming years. The chemical industry has bright prospects with growing demand in both domestic and international markets. This would augur well for the company and hence we expect a potential upside of 48% with target price of Rs 285 from the current level within a period of two years.

Inc/Exp Statement(Standalone)(Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	3583.22	2322.23	2557.41	2885.00	3333.83
Total Income	3590.15	2335.30	2615.54	2921.63	3367.26
Total Expenditure	3346.70	2135.33	2420.61	2675.64	2966.50
PBIDT	243.45	199.97	194.93	245.98	400.76
PAT	44.52	-34.16	-61.34	-119.54	120.94
Dividend %	10.00			10.00	60.00
Adj. EPS(Rs)	14.38	-11.03	-19.81	-38.61	39.06

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201703	201612	Q on Q Var%	201603	Y on Y Var%
Net Sales	888.81	529.66	67.81	802.02	10.82
Total Expenditure	821.49	472.11	74.00	788.11	4.24
PBIDT (Excl OI)	67.32	64.13	4.97	13.91	383.97
PAT	15.85	8.92	77.69	-26.50	159.81
PBIDTM% (Excl OI)	7.57	7.83	-3.32	1.73	337.57
PBIDTM%	7.93	7.98	-0.63	1.78	345.51
PATM%	1.78	1.09	63.30	-3.30	153.94
Adj. EPS(Rs)	5.12	2.88	77.78	0.00	0.00

