

2nd April 2019

IOL Chemicals & Pharmaceuticals Ltd- Buy

CMP : 204
Target Price : 272
Upside : 34%
Stop Loss : 172 (closing basis)

About the Company:

IOL Chemicals and Pharmaceuticals Limited (IOLCP) a one of the largest players in Specialty Organic Chemicals and Bulk Drugs (API's), headquartered in Ludhiana (Punjab). IOLCP operates in two business segments, Specialty organic chemicals and Bulk Drugs with its manufacturing facility at Barnala (Punjab). IOLCP has its footprints in 56 counties and regularly supplying its high quality products to major pharmaceutical players like Sanofi Aventis (India and Hungary), Aristo Pharmaceuticals, Prati Donaduzzi E Cia Ltda (Brazil), Cipla, BASF (USA), UPL, Abbot India and ZIBO XINUA-Perrigo Pharmaceutical (China). With its backward integrated USFDA accredited Ibuprofen plant, IOLCP has emerged as favorable supplier abroad.

Investment Thesis

Capex plan for next two years

IOL plans to invest Rs.200 crore over the next two years on capacity expansion. 100 cr capex in FY20 cr from internal accrual and 40 cr from equity, 40 cr from promoter (interest free loan) in terms of percentage 20% from internal accruals, 40% equity & 40% soft loan, 350 crs debt till September 2019, repayment 75 crs in FY19. It plans to expand its flagship product- Ibuprofen's capacity from 8,000 TPA to 12,000 TPA, keeping in view the recent approvals from USA and Europe. It also plans to enhance the capacity of its backward integrated products i.e. ISO butyl benzene from 9,000 TPA to 12,000 TPA, MCA from 7,200 TPA to 10,500 TPA and Acetyl Chloride from 5,200 TPA to 8,400 TPA. Ethyl installed capacity 87000, current volumes 75000.

Ibuprofen Demand Outlook

The Ibuprofen demand worldwide has grown from 30330 TPA in FY12 to 33211 TPA in FY14 and further to 36800 TPA in FY17 as against installed capacity worldwide is 31350 TPA as on FY17. We expect the demand for Ibuprofen to grow further to 40000 TPA in FY19E creating shortage of 4000 TPA in FY18 & 4800 TPA in FY19E. To cater to this growing demand IOLCPL is geared up for further expansion by adding additional capacities. Also offlate in the last 6 months Ibuprofen prices have increased by 25-40% by around Rs 65-75 per kg. The company expects that it is confident of a average 25% increase in coming year even after prices cool off but these prices will still be higher than last year enabling higher EBIDTA margins in FY18 and some improvement has been visible in H1 of FY18 already. Pace of stores addition is going forward Improve.

Strong financial performance - topline growth and margin expansion

However from coming year that is FY19 onwards we expect operating profitability to improve significantly on the back of higher Ibuprofen prices and better operating leverage kicking in hence we expect the leverage to reduce to around 1.30 levels over the next 2 years. In fact we expect that by FY20E the ROE to touch 24% from 2% currently while ROCE is also expected to increase to 16% from 10% in FY17.

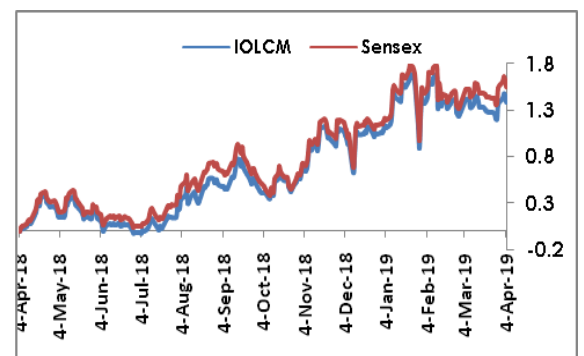
Spurt in Prices of Ibuprofen

Ibuprofen prices last year increased by 20-25% due to Plant closure by BASF which is a major manufacturer of Ibuprofen. With no capacity addition happening globally, prices have tightened due to supply demand mismatch. At the end of FY18, the demand for Ibuprofen was for nearly 40,000 TPA and the global capacity was at roughly 35,000 TPA.

Stock Details	
Market Cap (RsCr)	1,077.74
BSE Code	524164
NSE Code	IOLCP
Sector/Index	B / S&P BSE small cap
Year End	March
52 w.High/Low	225/78
Shares in Issue (cr)	5.6
BSE Sensex	38,684.72
NSE Nifty	11,598.00

Shareholding Pattern	
Indian Promoters	41%
DII's	-
FII's	9%
Others	50%

Key Ratios	
Div Yield	0.00
TTM PE	7.44x
ROE	13%
TTM EPS (INR)	25.76



Key Metrics

Shortage of Ibuprofen in market and most of companies shutdown or stopped production due to environmental problems in Chinese market so there is increase in demand and Ibuprofen prices have gone up 25 to 40%.European markets price increase almost 50%.

Financials

During the past 5 years, revenue of IOLCP grew at a CAGR of 18.7% while PAT grew at a CAGR of 63.8% in the same period.

Particulars	FY16	FY17	FY18	FY19E	FY20E
Net sales	580	711	1001	1401	2032
EBITDA	51	102	124	182	252
EBITDA margin	9%	14%	12%	13%	12%
Net profit	-40	4	28	73	125
Net Profit Growth	-40%	-111%	555%	163%	72%
Net profit margin	-7%	1%	3%	5%	6%
ROE	-22%	2%	13%	25%	30%
ROCE	4%	12%	16%	22%	26%
EPS	-7	1	5	13	22
P/E	-29	271	41	16	9

Key Business Highlights

Pharmaceuticals

Industry overview, Indian pharmaceutical sector is estimated to account for 3.1 – 3.6 per cent of the global pharmaceutical industry in value terms and 10 per cent in volume terms. It is expected to grow to US\$100 billion by 2025. The market is expected to grow to US\$ 55 billion by 2020, thereby emerging as the sixth largest pharmaceutical market globally by absolute size. The sector is expected to generate 58,000 additional job opportunities by the year 2025. India's pharmaceutical exports stood at US\$ 16.8 billion in 2016-17 and are expected to grow by 30 per cent over the next three years to reach US\$ 20 billion by 2020.

IOLCP is a major player in Ibuprofen manufacturing, accounting nearly 30% of global capacity. IOLCP has world's second largest Ibuprofen manufacturing facility and is only company that has backward integration. It has recently de bottlenecked its manufacturing facility and has increased the capacity from 7200 TPA to 10,000 Tons per Annum.

Company has set up third manufacturing unit to expand capacities for Fenofibrate, Clopidogrel Lamotrigine by investing 17 Crs. IOLCP has also set up fourth manufacturing plant for Metformin with an 2880 TPA capacity and capital outlay of 10 Crs. The Ibuprofen manufacturing facility is USFDA approved and has CEP, EUGMP and WHOGMP accreditation.

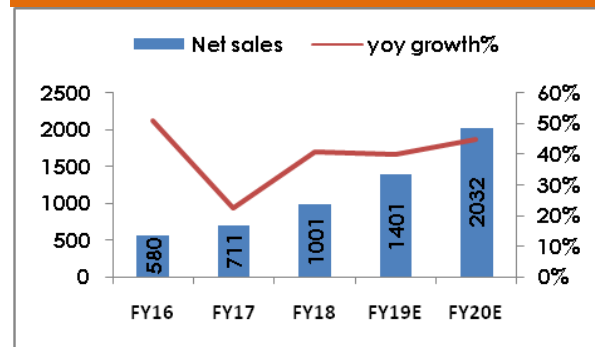
Chemicals

Industry overview, Indian chemical industry is the 3rd largest producer in Asia and 7th by output in the world. By 2025, the Indian chemical industry is projected to reach USD403 billion. The chemical industry in India is a key constituent of Indian economy, accounting for about 2.11 per cent of the GDP. More than 70,000 commercial products such as petrochemicals & basic chemicals are covered under chemical sector India accounts for approximately 16 per cent of the world production of dyestuff and dye intermediates, particularly for reactive acid and direct dyes. India is currently the world's third largest consumer of polymers and third largest producer of agrochemicals. India specialty chemical market is expected to reach USD70 billion by 2020.

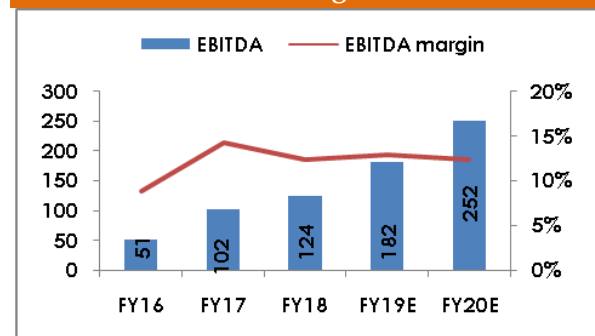
IOLCP started its business with Ethyl Acetate production and is one of the largest producer in the world with 87,000 TPA. Its Iso Butyl Benzene has global market share of 30% and is key ingredient for manufacturing of Ibuprofen. IBB capacity is at 9000 TPA. Its Mono Chloride Acetate and Acetyl Chloride capacity are at 7200 TPA and 5200 TPA respectively.

Graphs & Charts

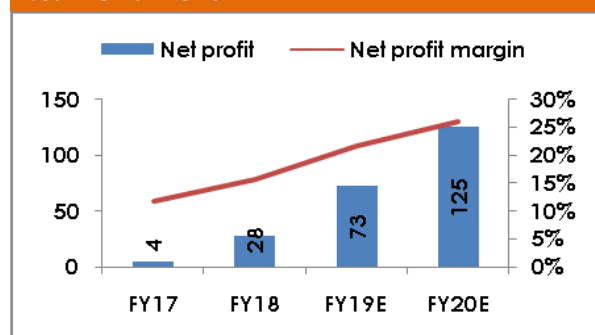
Net Sales Trend



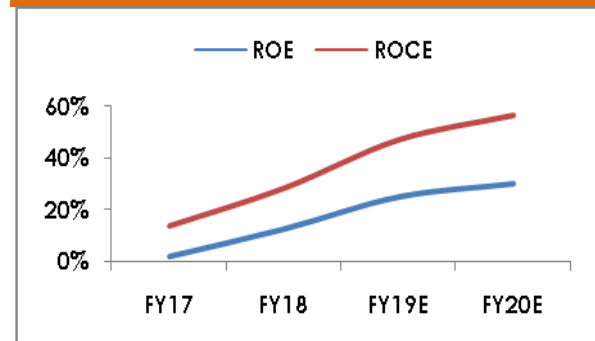
EBITDA & EBITDA Margin Trend



Net Profit Trend



Performance Ratio %



Risk & Concern

Currently there is no further capacity addition by peers; But Capacity addition by peers in future may hamper the demand/supply curve of products.

IOLCPL is already highly leveraged, in case debt further goes up and operating margins come under pressure then the company could face a pressure on its bottomline growth

Valuation

Value the company as an EV/EBITDA multiple, as currently stock is trading at 5.4 multiple. Expect that the company will trade at EV/EBITDA multiple of 7.4x FY20E EBITDA. Stock with buy recommendation with a target price of Rs 272.

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