

Industry	Oil & Gas
Bloomberg	IGL IN
BSE CODE	532514

## Strong volume growth but margin pressure continues

### Key Highlights-

- Revenue has grown by 26% YoY to Rs. 1569 Cr vs PAT has grown by 11% YoY to Rs. 187 Cr. in Q2 FY19.
- EBITDA margins have declined by 300bps YoY and 150bps QoQ to 46.3% in the last quarter due to hike in the gas cost and lower realization.
- CNG volume has grown by 13% YoY to 407 MMSCM where as the CNG realization has remain almost flat.
- PNG volume has grown by 13% YoY to 136 MMSCM where as the PNG realization has grown by 8% on sequential basis.

### Q2 FY19 result update:

IGL has posted good set of numbers with revenue growth of 26% YoY to Rs. 1569 Cr. vs PAT growth of 11% YoY to Rs.187 Cr in Q2 FY19. Company has not taken any significant price hike in CNG segment (~70% contribution in total sales) where as in PNG segment price hike of 8% is taken in the last quarter. Gross margin of the company has declined by 150bps sequentially to 46.3% in Q2 FY19. On the volume front, CNG sales has volume has grown by 13% YoY to 407 MMSCM and PNG volume has increased by 5% YoY to 136 MMSCM in the last quarter.

### View and valuation:

IGL is going through short term margin pressure from the last four quarters. This is because in the last one year gas prices have surged by almost 25% where as the realization of IGL in CNG segment (major segment) has improved by 8% approximately. Generally the company takes one-two quarters to pass on hike in gas cost on its customers. But in the last two quarters, realization in CNG has remained almost flat, resulting in 150bps QoQ impact on the gross margins in the last quarter. With the stabilization of natural gas prices, the lag effect on realizations will fade and so the margins will reverse to its previous levels. However, on the volume front IGL is expanding its network in adjoining areas of Delhi NCR which gives us long term volume growth visibility in upcoming years. Company is expected to clock volume growth with the CAGR of 9-10% over FY18-20e. Factoring in the lag effect and consequent margin pressure, we reduce our PAT estimates by 8% for FY20. We continue to remain positive in the long run, however, post the recent run-up of 10-12% over last 1 month leaves limited upside from current levels and thus we recommend HOLD.

**We value IGL at 25x FY20e EPS to arrive at a target price of Rs 293.**

### Key Risks to our rating and target

- Decline in the price of alternate fuel
- Hike in price of domestic gas
- Slow rate of conversion of vehicles into CNG

<b>RATING</b>	<b>HOLD</b>
<b>CMP</b>	<b>275</b>
<b>Price Target</b>	<b>293</b>
<b>Potential Upside</b>	<b>7%</b>

<b>Rating Change</b>	<b>↓</b>
<b>Estimate Change</b>	<b>↓</b>
<b>Target Change</b>	<b>↓</b>

### Stock Info

52wk Range H/L	344/215
Mkt Capital (Rs Cr)	19278
Free float (%)	55%
Avg. Vol 1M (,000)	2,404
No. of Shares (Cr)	70
Promoters Pledged %	0%

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KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	4064	4223	5072	6199	7013
EBITDA	775	964	1113	1130	1249
EBIT	619	797	932	943	1056
PAT	419	571	671	713	821
EPS (Rs)	6	8	10	10	12
EPS growth (%)	-4%	36%	17%	6%	15%
ROE (%)	17%	20%	19%	17%	17%
ROCE (%)	25%	27%	27%	23%	22%
BV	36	42	50	59	70
P/B (X)	3	5	6	5	4
P/E (x)	19	25	31	29	25

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**2Q FY 19**  
**Results above expectation**
**Good performance**

<i>Financials</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY17</i>	<i>FY18</i>	<i>YoY %</i>
Net Sales	1245	1308	1357	1422	1569	<b>26.0%</b>	<b>10.3%</b>	4223	5072	<b>20.1%</b>
Other Income	25	33	27	26	33	<b>32.8%</b>	<b>26.4%</b>	65	102	<b>56.6%</b>
COGS	593	673	677	742	842	<b>42.1%</b>	<b>13.6%</b>	2084	2491	<b>19.6%</b>
Gross Margin	52%	49%	50%	48%	46%	<b>-6.1%</b>	<b>-1.5%</b>	51%	51%	<b>0.2%</b>
Employee Cost	26	27	28	31	30	<b>16.2%</b>	<b>-3.2%</b>	92	106	<b>15.6%</b>
Other Expenses	226	221	237	219	241	<b>6.8%</b>	<b>9.8%</b>	676	881	<b>30.5%</b>
EBITDA	282	263	291	295	308	<b>9.4%</b>	<b>4.5%</b>	964	1113	<b>15.5%</b>
EBITDA%	23%	20%	21%	21%	20%	<b>-3.0%</b>	<b>-1.1%</b>	23%	22%	<b>-0.9%</b>
Depreciation	45	45	47	47	50	<b>11.7%</b>	<b>6.4%</b>	167	181	<b>8.5%</b>
EBIT	237	218	244	247	258	<b>8.9%</b>	<b>4.2%</b>	797	932	<b>17.0%</b>
Interest	0	0	1	1	1	<b>55.6%</b>	<b>0.0%</b>	1	2	<b>39.7%</b>
PBT	261	250	270	273	290	<b>11.2%</b>	<b>6.3%</b>	861	1032	<b>20.0%</b>
Exceptional	-	-	-	-	-			-	0	
Tax	92	84	96	98	103	<b>11.6%</b>	<b>5.6%</b>	290	362	<b>24.9%</b>
PAT	169	166	175	176	187	<b>10.9%</b>	<b>6.7%</b>	571	671	<b>17.5%</b>
PAT Margin	14%	13%	13%	12%	12%	<b>-1.6%</b>	<b>-0.4%</b>	14%	13%	<b>-0.3%</b>

**CNG Volume Growth**

CNG volume has grown by 13% YoY to 407 MMSCMD in Q2 FY19. Going forward this growth momentum is expected to be continued on the back of higher CNG conversion rate of nearly 3,000-4,000 private cars and 1,000 taxis every month. To fulfill this upcoming demand IGL has planned to open around 10 new CNG stations every year. Further the, Company has entered into collaboration with a renowned market player in Iran to introduce retro-fittment of CNG kit in the 2-wheelers segment. The Company has completed the pilot project of installation of CNG kit in 2-wheelers successfully. This gives us volume growth visibility of 10-12% in FY19.

**PNG Volume Growth**

PNG volume has grown by 13% YoY to 136 MMSCM in Q2 FY19. In the last quarter, company has added 50,680 new PNG customers leading total count to 9.74 lakh PNG connections and 450 commercial and industrial customers. Further, in this segment company targets to add 1.5 lakh new connections every year. Industrial and commercial customers in NCR towns of Noida, Greater Noida and Ghaziabad offer huge potential in the next few years, as PNG network is still being laid in few belts in these areas and many such units are still to be connected. We expect PNG volume may grow gradually over period of 3-4 years and help the company to increase volume by around 8-10% annually for the next 2-3 years.

**Expansion in New Geographies**

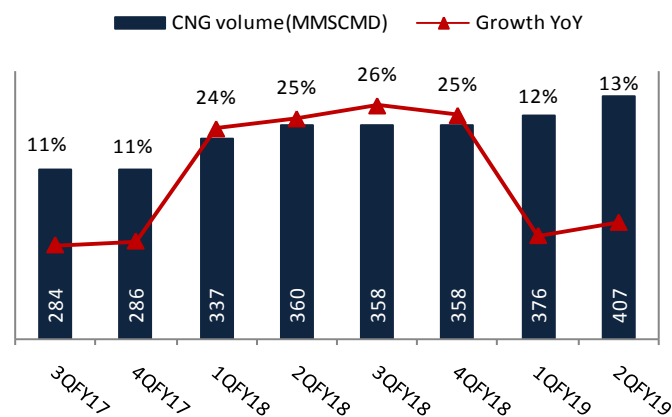
Recently IGL has taken over supply of gas in Gurugram district from Haryana Gas. Being an existing gas supplier to Haryana Gas, IGL is unlikely to gain significant revenue from this segment. However this acquisition will help the company to reduce cost of distribution resulting to improvement in margins. Further, the company has already received permission from Director of Industries & Commerce, Haryana to lay CGD network in Gurugram in the area lying between west side of Sohna Road and National Highway-8 of Gurugram. The entry of IGL in Gurugram offers vast potential of business growth. The company has already won the marketing authorization for Meerut city and is expected to commence supply of gas within two years from now.

**Short term pressure on Margins**

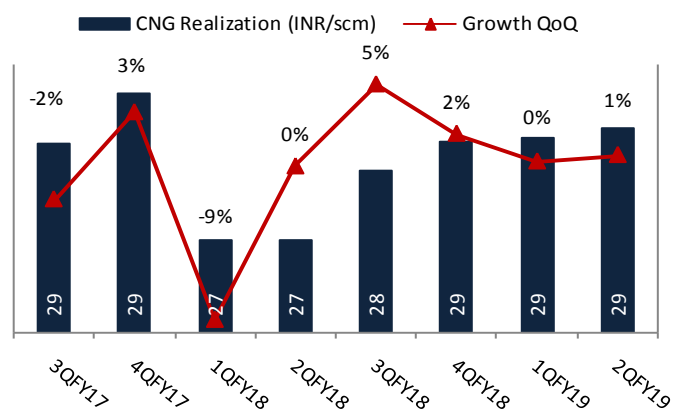
In October 2018, natural gas price has further increased by 10% from USD 3.06/ MMBTU to USD 3.36/ MMBTU but in the same period company has raised prices of CNG and PNG to the extent of 5% which is likely to extend pressure on margins in coming one-two quarters. With the stabilization of natural gas prices, the lag effect on realizations will fade and so the margins will reverse to its previous levels.

**Exhibit: CNG Volume trend**

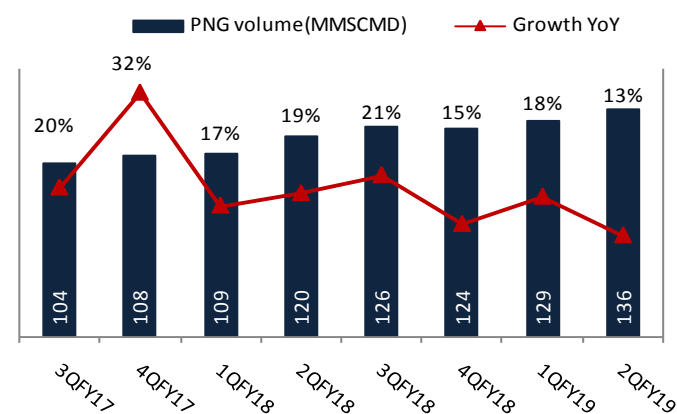
CNG volumes has increased significantly on account of higher prices of petrol


**Exhibit: CNG Realization trend**

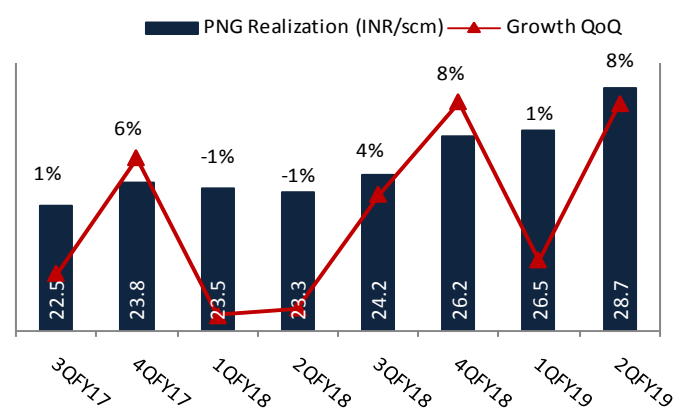
Company has not taken any hike in prices in the last quarter


**Exhibit: PNG Volume trend**

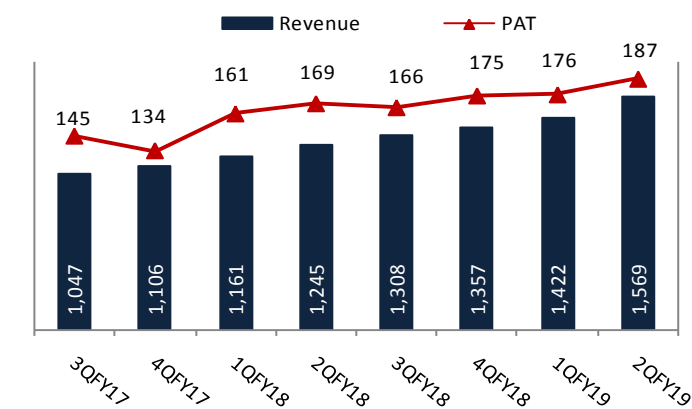
Company has added about 50,000 new PNG connections in the last Q2, resulting 13% volume growth


**Exhibit: PNG Realization trend**

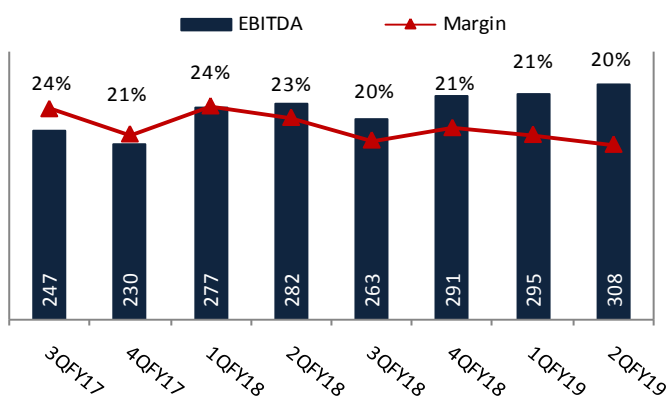
Company has taken price hike in PNG segment in the last quarter


**Exhibit: Revenue (Rs. Crore) and PAT trend**

Revenue is increasing constantly on account of robust volume growth


**Exhibit: EBITDA (Rs. Crore) and EBIDA margin**

From the last four quarters, margins of the company has came under pressure due to rising gas cost



## Financial Details

## Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	140	140	140	140	140	140	140	140
Reserves	1353	1623	1958	2376	2787	3373	4012	4747
<b>Networth</b>	<b>1493</b>	<b>1763</b>	<b>2098</b>	<b>2516</b>	<b>2927</b>	<b>3513</b>	<b>4152</b>	<b>4887</b>
Debt	349	321	145	0	0	0	0	0
Total Capital Employed	3335	3848	4342	5033	5853	7026	8303	9775
<b>Net Fixed Assets (incl CWIP)</b>	<b>2139</b>	<b>2158</b>	<b>2210</b>	<b>2286</b>	<b>2469</b>	<b>2818</b>	<b>2893</b>	<b>2958</b>
Non Current Investments	0	69	250	259	259	258	258	258
Other Non Current Assets	0	0	0	11	18	46	46	46
Non Current Assets	2144	2238	2472	2570	2756	3146	3221	3285
<b>Inventory</b>	<b>40</b>	<b>37</b>	<b>41</b>	<b>58</b>	<b>52</b>	<b>52</b>	<b>64</b>	<b>72</b>
Debtors	179	220	235	251	201	226	276	313
Cash & Bank	51	251	231	453	126	204	570	582
Other Current Assets	12	20	16	31	27	22	32	37
Current Assets	484	614	601	811	1330	1783	2471	3343
<b>Creditors</b>	<b>212</b>	<b>184</b>	<b>189</b>	<b>161</b>	<b>274</b>	<b>339</b>	<b>374</b>	<b>423</b>
Provisions	98	100	116	0	0	0	0	0
Other Current Liabilities	392	387	397	29	35	39	48	54
Curr Liabilities	694	663	692	685	959	1176	1290	1460
<b>Net Current Assets</b>	<b>-210</b>	<b>-49</b>	<b>-90</b>	<b>126</b>	<b>371</b>	<b>606</b>	<b>1180</b>	<b>1883</b>
<b>Total Assets</b>	<b>2628</b>	<b>2852</b>	<b>3073</b>	<b>3381</b>	<b>4086</b>	<b>4928</b>	<b>5692</b>	<b>6629</b>

## Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Revenue from Operation</b>	<b>3,367</b>	<b>3,914</b>	<b>4,060</b>	<b>4,064</b>	<b>4,223</b>	<b>5,072</b>	<b>6,199</b>	<b>7,013</b>
Change (%)	34%	16%	4%	0%	4%	20%	22%	13%
Other Income	13	21	35	30	65	102	162	216
<b>EBITDA</b>	<b>758</b>	<b>782</b>	<b>793</b>	<b>775</b>	<b>964</b>	<b>1113</b>	<b>1130</b>	<b>1249</b>
Change (%)	20%	3%	1%	-2%	24%	16%	2%	10%
Margin (%)	23%	20%	20%	19%	23%	22%	18%	18%
Depr & Amor.	187	220	149	156	167	181	187	193
<b>EBIT</b>	<b>571</b>	<b>563</b>	<b>644</b>	<b>619</b>	<b>797</b>	<b>932</b>	<b>943</b>	<b>1056</b>
Int. & other fin. Cost	56	44	30	10	1	2	0	0
Other Income	13	21	35	30	65	102	162	218
<b>EBT</b>	<b>528</b>	<b>540</b>	<b>649</b>	<b>639</b>	<b>861</b>	<b>1032</b>	<b>1106</b>	<b>1273</b>
Exp Item	-	-	-	0	-	0	-	-
<b>Tax</b>	<b>174.06</b>	<b>180</b>	<b>211</b>	<b>219</b>	<b>290</b>	<b>362</b>	<b>393</b>	<b>452</b>
Minority Int & P/L share of Ass.								
Reported PAT	354	360	438	419	571	671	713	821
<b>Adjusted PAT</b>	<b>354</b>	<b>360</b>	<b>438</b>	<b>419</b>	<b>571</b>	<b>671</b>	<b>713</b>	<b>821</b>
Change (%)	<b>16%</b>	<b>2%</b>	<b>22%</b>	<b>-4%</b>	<b>36%</b>	<b>17%</b>	<b>6%</b>	<b>15%</b>
Margin(%)	11%	9%	11%	10%	14%	13%	12%	12%

## Financial Details

## Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	24%	20%	21%	17%	20%	19%	17%	17%
ROCE	32%	27%	29%	25%	27%	27%	23%	22%
Asset Turnover	1.6	1.8	1.8	1.8	1.7	1.8	2.1	2.4
Debtor Days	19	20	21	23	17	16	16	16
Inv Days	4	3	4	5	4	4	4	4
Payable Days	23	17	17	14	24	24	22	22
Int Coverage	0.1	0.1	0.0	0.0	0.0	-	-	-
P/E	11	12	13	19	25	31	29	25
Price / Book Value	2.6	2.4	2.8	3.2	4.9	5.8	5.0	4.3
EV/EBITDA	5	5	7	10	15	18	18	16
FCF per Share	-	-	-	-	-	-	-	-
Div Yield	2.0%	1.8%	1.4%	1.3%	1.1%	0.3%	0.4%	0.4%

## Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	528	540	649	638	861	1032	1106	1272
(inc)/Dec in Working Capital	31	31	41	60	245	84	-61	35
Non Cash Op Exp	187	220	149	156	167	181	187	193
Int Paid (+)	56	44	30	10	1	0	0	0
Tax Paid	-153	-170	-177	-187	-269	-330	-393	-451
others	-6	-17	-28	-24	-57	-88	0	0
<b>CF from Op. Activities</b>	<b>643</b>	<b>648</b>	<b>664</b>	<b>653</b>	<b>948</b>	<b>879</b>	<b>839</b>	<b>1048</b>
(inc)/Dec in FA & CWIP	-372	-248	-214	-232	-271	-470	-262	-258
Free Cashflow	272	399	449	422	677	409	576	791
(Pur)/Sale of Inv	0	-69	-181	-10	-482	132	0	0
others	9	17	31	67	-361	-380	0	0
<b>CF from Inv. Activities</b>	<b>-362</b>	<b>-300</b>	<b>-364</b>	<b>-175</b>	<b>-1114</b>	<b>-717</b>	<b>-262</b>	<b>-258</b>
inc/(dec) in NW								
inc/(dec) in Debt	-81	-106	-207	-145	0	0	0	0
Int. Paid	-56	-45	-30	-10	-1	0	0	0
Div Paid (inc tax)	-81	-90	-90	-101	-160	-84	-74	-86
others								
<b>CF from Fin. Activities</b>	<b>-218</b>	<b>-241</b>	<b>-327</b>	<b>-256</b>	<b>-161</b>	<b>-84</b>	<b>-74</b>	<b>-86</b>
Inc(Dec) in Cash	63	106	-27	223	-328	78	502	705
<b>Add: Opening Balance</b>	<b>130</b>	<b>193</b>	<b>299</b>	<b>231</b>	<b>453</b>	<b>126</b>	<b>558</b>	<b>1060</b>
Closing Balance	193	299	272	453	126	204	1060	1765

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**Disclosure of Interest Statement-**

Analyst's ownership of the stocks mentioned in the Report	NIL
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Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300002407, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFIRegistered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited-MCX/NCDEX Commodities Broker: INZ000051636 || Narnolia Velox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited-IRDA Licensed Direct Insurance Broker (Life & Non-Life) License No.134 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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