

Industry	Oil & Gas
Bloomberg	IGL IN
BSE CODE	532514

Pricing action helped in lowering margin erosion, expect bounce back

RATING	BUY
CMP	299
Price Target	359
Potential Upside	20%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	344/215
Mkt Capital (Rs Cr)	20891
Free float (%)	55%
Avg. Vol 1M (,000)	2,404
No. of Shares (Cr)	70
Promoters Pledged %	0%

Research Analyst

ADITYA GUPTA
aditya.gupta@narnolia.com
+91-22-62701231

3QFY19 Result update

- ❑ Company has reported strong revenue growth of 29% YoY to Rs.1665 Cr and PAT growth of 19% YoY to Rs. 198 Cr. This is mainly led by the growth in total sales volume (CNG+PNG) by 12% YoY to 543 Million SCM.
- ❑ CNG volume has grown by 13% YoY to 405 million SCM in the last quarter. This growth is led by the growing number of CNG vehicles and economic feasibility of gas over petrol.
- ❑ In the last quarter, PNG volume has increased by 9% to 138 million SCM. The company has added around 79,000 new PNG connections in Q3 FY19, resulting in gradual increase in the PNG sales volume.
- ❑ Company's realization has increased by 7% QoQ basis in CNG segment and 4% QoQ basis in PNG segment in the last quarter.
- ❑ EBITDA /SCM has increased to 5.9 in Q3 FY19 vs 5.4 in the corresponding period of the previous year.
- ❑ In the last quarter, company has added 13 new CNG stations.
- ❑ IGL subsidiaries CUGL and MNGL have reported combined profit of Rs.54 Cr in Q3 FY19 and out of this IGL's share is Rs. 27 crores.

View and valuation:

IGL was going through the margin pressure from the last three quarters(Q1 to Q3 FY19) due to the sharp rise in the gas cost. In Oct 2018, domestic gas cost has further increased by 10% to 3.36 USD/MMBTU. Following spurt in the gas cost company has taken price hike in both CNG and PNG segment which helped the company in lowering the impact on margins in the last quarter. Recently the crude oil price has corrected sharply and hence we do not expect any significant rise in the gas cost in up-coming months. This will ease the pressure on the margins of the company going ahead. On the volume front, growing number of CNG vehicles and economic feasibility of CNG over petrol gives us visibility of gradual growth in volume of CNG for next couple of years. In PNG segment, company is adding around 1.5lakh plus domestic connections every year which gives us volume growth visibility to the tune of 9-10% for next couple of quarters. We are positive on the stock and maintain our BUY rating.

We value the stock at 30x FY20e EPS to arrive at a target price of Rs. 359/share

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

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	4064	4223	5072	6335	7226
EBITDA	775	964	1113	1224	1310
EBIT	619	797	932	1037	1109
PAT	419	571	671	760	837
EPS (Rs)	6	8	10	11	12
EPS growth (%)	-4%	36%	17%	13%	10%
ROE (%)	17%	20%	19%	18%	17%
ROCE (%)	25%	27%	27%	25%	23%
BV	36	42	50	59	70
P/B (X)	3	5	6	5	4
P/E (x)	19	25	31	28	25

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3Q FY 19 Results above expectation

Better performance

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	1294	1357	1422	1569	1665	28.6%	6.1%	4223	5072	20.1%
Other Income	33	27	26	33	40	23.8%	21.5%	65	102	56.6%
COGS	673	677	742	842	907	34.9%	7.7%	2084	2491	19.6%
Gross Margin	48%	50%	48%	46%	46%	-2.5%	-0.8%	51%	51%	0.2%
Employee Cost	27	28	31	30	35	26.8%	15.5%	92	106	15.6%
Other Expenses	206	237	219	241	249	20.4%	3.2%	676	881	30.5%
EBITDA	263	291	295	308	318	20.8%	3.2%	964	1113	15.5%
EBITDA%	20%	21%	21%	20%	19%	-1.2%	-0.5%	23%	22%	-0.9%
Depreciation	45	47	47	50	51	13.1%	1.9%	167	181	8.5%
EBIT	218	244	247	258	267	22.4%	3.4%	797	932	17.0%
Interest	0	1	1	1	1	152.8%	62.5%	1	2	39.7%
PBT	250	270	273	290	306	22.4%	5.4%	861	1032	20.0%
Exceptional	-	-	-	-	-			-	0	
Tax	84	96	98	103	108	28.5%	4.8%	290	362	24.9%
PAT	166	175	176	187	198	19.3%	5.7%	571	671	17.5%
PAT Margin	13%	13%	12%	12%	12%	-0.9%	0.0%	14%	13%	-0.3%

Strong growth in CNG volumes

CNG volume has grown by 13% YoY to 405 MMSCMD in Q3 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 continuously opening new CNG stations, in the last one year company has opened around 38 new CNG stations. With the increasing awareness of gas and its economic feasibility more customers are now installing CNG kits in their cars. Further the, Company is also planning to expand in 2-wheelers segment and 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&20e.

CNG Business	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY%	QoQ%
Revenue(Cr)	843	901	962	989	1022	1076	1172	1248	26%	6%
Vol.(Mn SCM)	286	337	360	358	358	376	407	405	13%	0%
Stations(Nos)	421	421	425	425	446	447	450	463	9%	3%

Gradual growth in PNG volumes

Company is continuously expanding its pipeline network and adding higher number of domestic PNG gas connections. Company has set target of adding about 1.5plus new CNG connections every year in order reap benefit out of lower PNG penetration level in Delhi NCR. Further 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 to 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.

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY%	QoQ%
Revenue(Cr)	257	256	279	305	325	342	390	413	35%	6%
Volume(Mn)										
>Industrial	46	45	51	54	53	58	64	61	13%	-5%
>Domestic	24	24	26	28	31	27	27	31	11%	15%
>Natural gas	37	40	43	44	40	44	45	46	5%	2%
PNG	0.74	0.78	0.80	0.84	0.89	0.92	0.97	1.05	26%	8%

Turnaround in margins is expected

In October 2018, natural gas price has further increased by 10% from USD 3.06/ MMBTU to USD 3.36/ MMBTU but company has raised prices of CNG and PNG to ease margin pressure. We expect, with the stabilization of natural gas prices, due to decline in crude price, 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

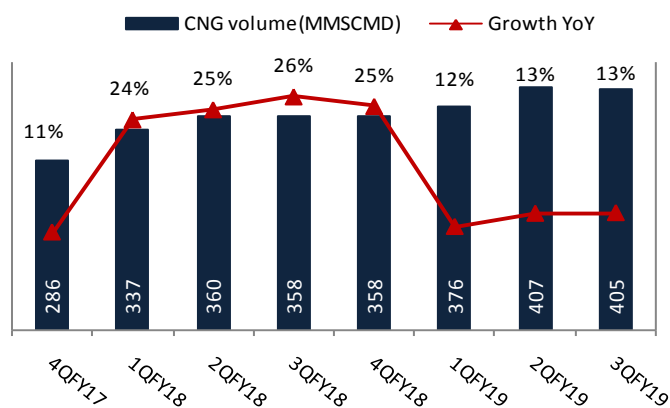


Exhibit: CNG Realization trend

Company has taken prices hike in the last quarter to pass on the gas cost on its customers

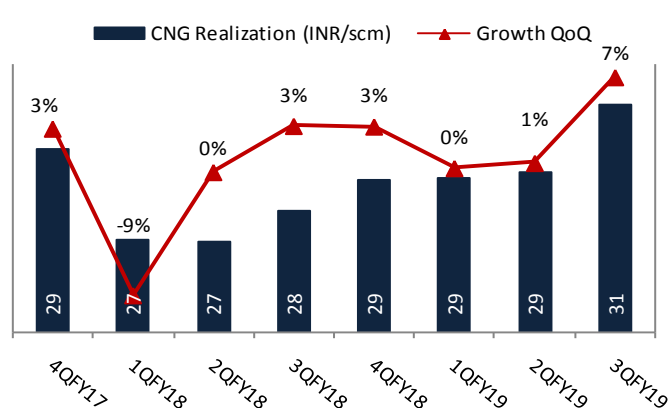


Exhibit: PNG Volume trend

Company has added about 80,000 new PNG connections in the last Q3, resulting 10% volume growth

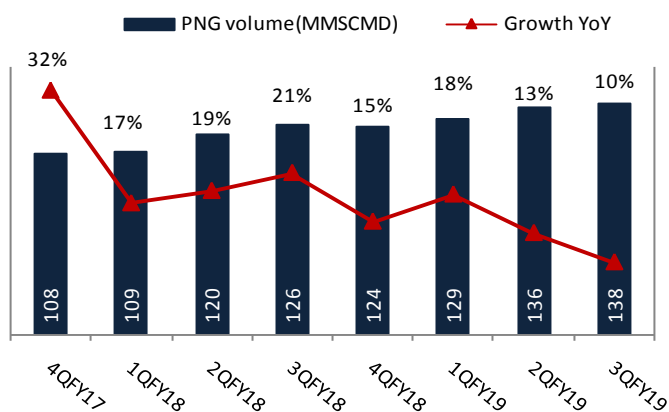


Exhibit: PNG Realization trend

Company has taken prices hike in the last quarter to pass on the gas cost on its customers

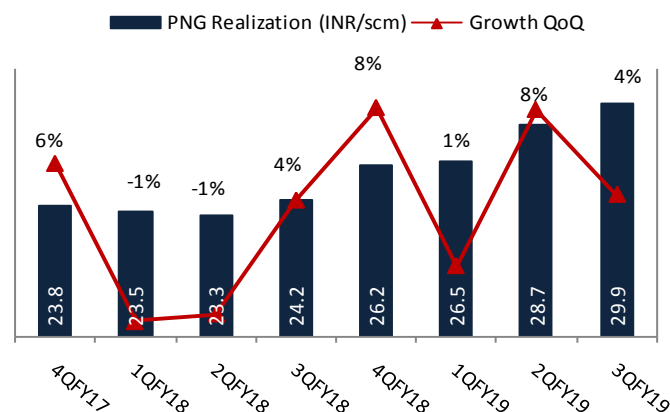


Exhibit: Revenue (Rs. Crore) and PAT trend

Revenue is increasing constantly on account of robust volume growth

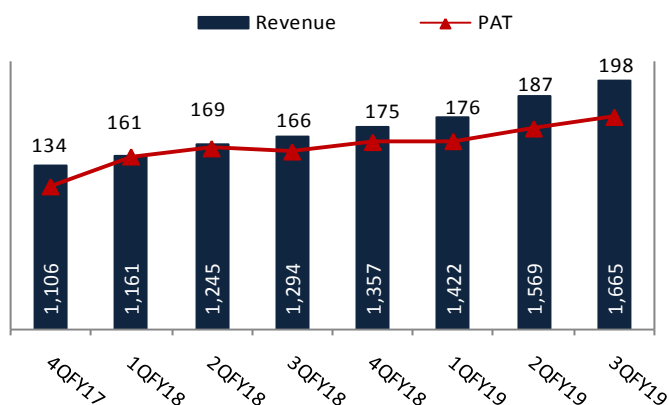
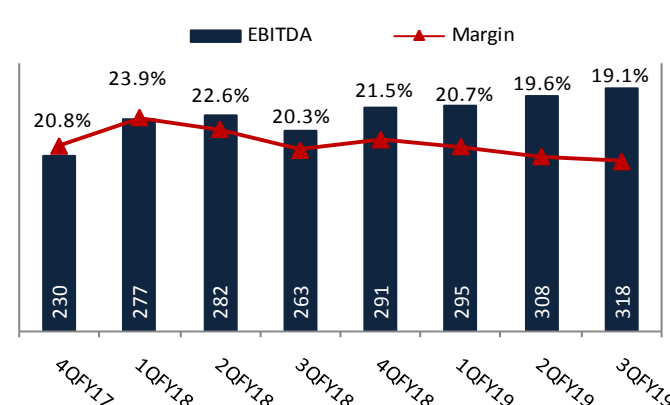


Exhibit: EBITDA (Rs. Crore) and EBIDA margin

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	3993	4746
Networth	1493	1763	2098	2516	2927	3513	4133	4886
Debt	349	321	145	0	0	0	0	0
Total Capital Employed	3335	3848	4342	5033	5853	7026	8266	9772
Net Fixed Assets (incl CWIP)	2139	2158	2210	2286	2469	2818	2993	3050
Non Current Investments	0	69	250	259	259	258	258	258
Other Non Current Assets	0	0	0	11	18	46	51	51
Non Current Assets	2144	2238	2472	2570	2756	3146	3326	3384
Inventory	40	37	41	58	52	52	65	75
Debtors	179	220	235	251	201	226	282	322
Cash & Bank	51	251	231	453	126	204	559	538
Other Current Assets	12	20	16	31	27	22	33	38
Current Assets	484	614	601	811	1330	1783	2363	3244
Creditors	212	184	189	161	274	339	382	436
Provisions	98	100	116	0	0	0	0	0
Other Current Liabilities	392	387	397	29	35	39	49	56
Curr Liabilities	694	663	692	685	959	1176	1319	1504
Net Current Assets	-210	-49	-90	126	371	606	1044	1740
Total Assets	2628	2852	3073	3381	4086	4928	5689	6628

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	3,367	3,914	4,060	4,064	4,223	5,072	6,335	7,226
Change (%)	34%	16%	4%	0%	4%	20%	25%	14%
Other Income	13	21	35	30	65	102	142	184
EBITDA	758	782	793	775	964	1113	1224	1310
Change (%)	20%	3%	1%	-2%	24%	16%	10%	7%
Margin (%)	23%	20%	20%	19%	23%	22%	19%	18%
Depr & Amor.	187	220	149	156	167	181	187	200
EBIT	571	563	644	619	797	932	1037	1109
Int. & other fin. Cost	56	44	30	10	1	2	2	0
Other Income	13	21	35	30	65	102	142	184
EBT	528	540	649	639	861	1032	1177	1293
Exp Item	-	-	-	0	-	0	-	-
Tax	174.06	180	211	219	290	362	417	456
Minority Int & P/L share of Ass.								
Reported PAT	354	360	438	419	571	671	760	837
Adjusted PAT	354	360	438	419	571	671	760	837
Change (%)	16%	2%	22%	-4%	36%	17%	13%	10%
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%	18%	17%
ROCE	32%	27%	29%	25%	27%	27%	25%	23%
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	28	25
Price / Book Value	2.6	2.4	2.8	3.2	4.9	5.8	5.1	4.3
EV/EBITDA	5	5	7	10	15	18	17	16
FCF per Share	3.9	5.7	6.4	6.0	9.7	5.8	7.7	11.8
Div Yield	2.0%	1.8%	1.4%	1.3%	1.1%	0.3%	0.7%	0.4%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	528	540	649	638	861	1032	1177	1293
(inc)/Dec in Working Capital	31	31	41	60	245	84	-48	46
Non Cash Op Exp	187	220	149	156	167	181	187	200
Int Paid (+)	56	44	30	10	1	0	0	0
Tax Paid	-153	-170	-177	-187	-269	-330	-417	-456
others	-6	-17	-28	-24	-57	-88	0	0
CF from Op. Activities	643	648	664	653	948	879	899	1083
(inc)/Dec in FA & CWIP	-372	-248	-214	-232	-271	-470	-362	-258
Free Cashflow	272	399	449	422	677	409	537	825
(Pur)/Sale of Inv	0	-69	-181	-10	-482	132	0	0
others	9	17	31	67	-361	-380	0	0
CF from Inv. Activities	-362	-300	-364	-175	-1114	-717	-362	-258
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	-140	-84
others								
CF from Fin. Activities	-218	-241	-327	-256	-161	-84	-140	-84
Inc(Dec) in Cash	63	106	-27	223	-328	78	397	742
Add: Opening Balance	130	193	299	231	453	126	558	954
Closing Balance	193	299	272	453	126	204	955	1696

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, A/C Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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