

Volumes and margin surprise positively

Consolidated volumes up 34.2% YoY led by growth across all territories

Consolidated revenue grew 24.6% YoY to ₹2.36bn, led by strong volume growth of 34.2% to 272,153 cylinders (highest till date). The volumes grew 24.5% YoY in India to 174,900 cylinders, 30% YoY in UAE to 72,000 cylinders, 81.5% YoY in the US to 472 cylinders, and four-fold in China to 24,900 cylinders. The growth in India was led by better off-take in CNG cylinders (up 40.9% YoY) led by revival in demand from OEMs.

For the full year FY11, the volumes grew 27.5% YoY to 876,000 cylinders mainly driven by India (up 21% YoY) to 572,000 cylinders and UAE (up 49.2% YoY) to 234,000 cylinders.

EBIDTA margin at 19.7% led by better product-mix in India

The consolidated EBIDTA margin stood at 19.7% against loss in 4QFY10 and 19% in 3QFY11. The sequential margin expansion was mainly driven by India (up 1290bps to 9%) led by better product-mix and operating break-even in China.

For the full year FY11, EBIDTA margin grew 840bps YoY to 17% and EBIDTA grew more than two-fold to ₹1.3bn. EBIDTA per cylinder stood at ₹1,575, against ₹813 in FY10.

Significant improvement in balance-sheet

There was significant improvement in balance-sheet with sharp reduction in net debt and inventory. The net debt as on 31 March 2011 stood at ₹3.2bn against ₹4.4bn same period last year. The concerns with respect to high inventory no longer remain with sharp reduction in inventory days from 232 days in FY10 to 142 days in FY11.

Outlook

The company expects to sustain growth momentum especially in India driven by a) favourable cost economics with increase in crude oil prices and petrol price de-regulation, and b) expected ramp-up of CGD networks with Supreme court allowing PNGRB to issue new licenses. In US, after two years of stagnancy, the company received new orders in 4QFY11 and current carry forward order book stand at US\$26mn. The capacity utilisation in China is expected improve with opening of office in Thailand to cater local demand. Consequently, the consolidated EBIDTA margin is expected to improve with better product-mix India, turnaround of US operations and break-even in China operations

Valuation and view

We maintain **Strong Buy** with revised target price of ₹117/share and upgrade FY12E and FY13E EPS by ~10% each to factor ~150bps margin expansion (at consolidated level). The stock currently trades at 10.7x FY12E EPS and 8.7x FY13E EPS.

Financial summary

Yr-end March (₹ mn)	FY09A	FY10A	FY11E	FY12E	FY13E
Net sales	8,547	6,497	7,763	9,337	10,387
Net profit	1,374	416	703	857	1,053
EPS (Rs)	13.6	4.1	6.5	8.0	9.8
RoCE (%)	16.8	2.2	6.9	8.0	9.3
RoE (%)	25.0	6.7	10.1	10.7	12.0
P/E (x)	16.5	20.7	13.0	10.7	8.7
EV/EBITDA (x)	10.5	23.3	9.3	7.0	5.5
P/BV (x)	3.7	1.4	1.2	1.1	1.0

Source: Alchemy Research, Company

STRONG BUY

Sector view: Overweight

Sector relative view: Marketperform

TP: ₹117 (38%)

CMP: ₹85

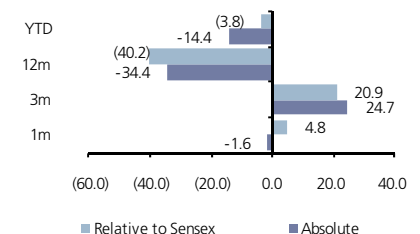
Company data

Shares outstanding	107mn
Market cap	₹09bn/US\$0.20bn
52-wk high/low	₹142/63
Avg. daily traded volume	0.51(mn shrs)

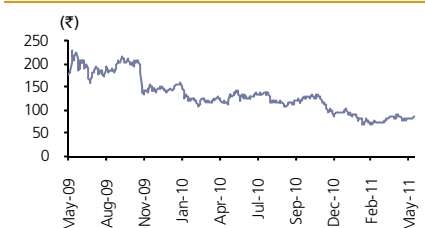
Shareholding pattern (%)

Promoter	FII	DII	Others
57.4	9.5	8.9	24.2

Performance (%)

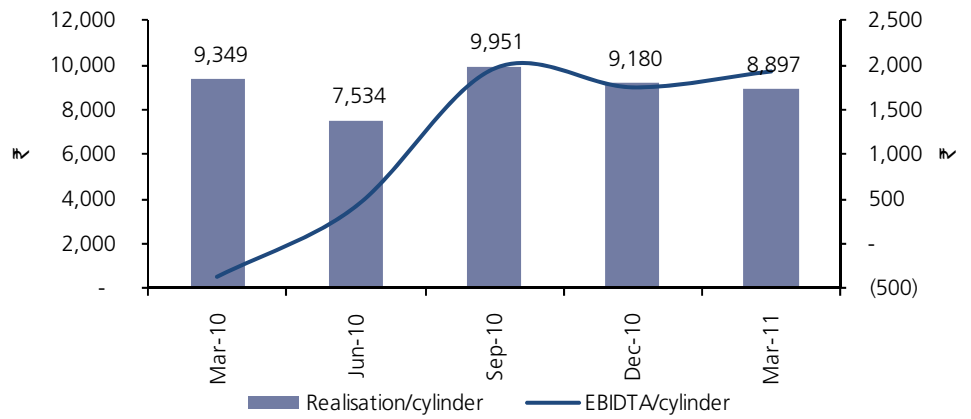


Share price movement



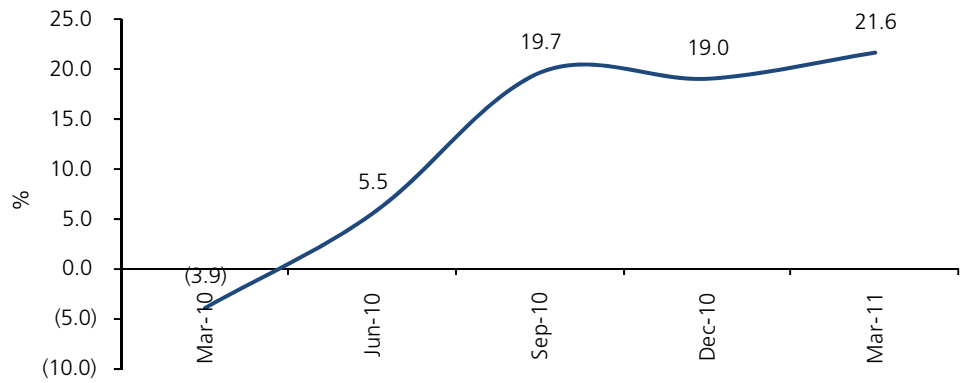
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Exhibit 1: Realisation and EBITDA



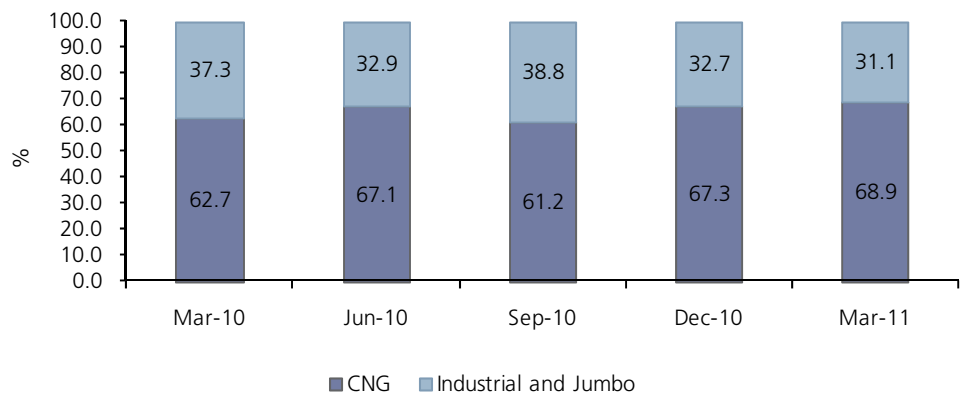
Source: Company, Alchemy Research

Exhibit 2: EBITDA margin



Source: Company, Alchemy Research

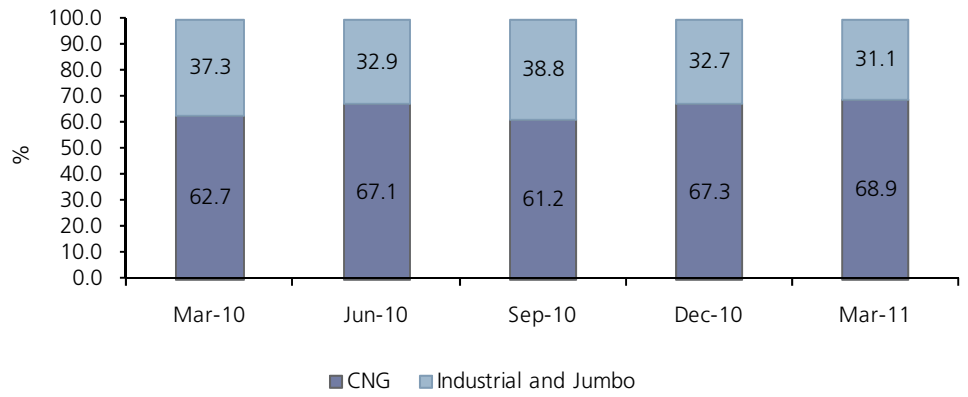
Exhibit 3: Volume mix



Source: Company, Alchemy Research

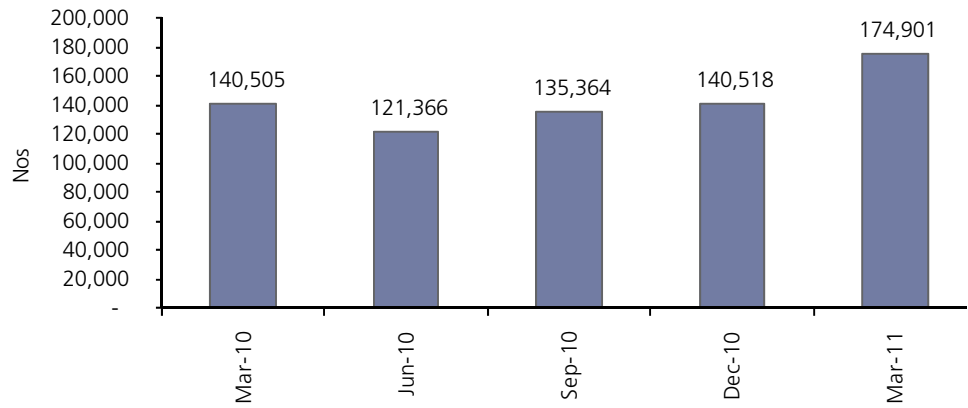
Exhibit 4: Volume mix

Improving product-mix with increasing proportion of CNG cylinders



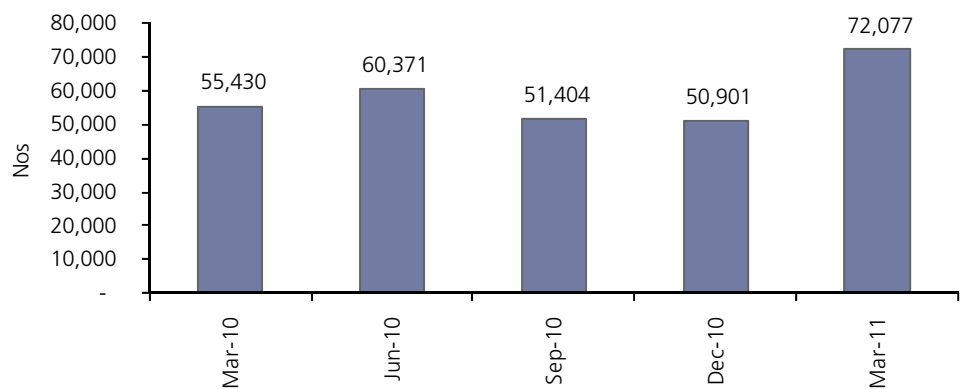
Source: Company, Alchemy Research

Exhibit 5: Indian volumes



Source: Company, Alchemy Research

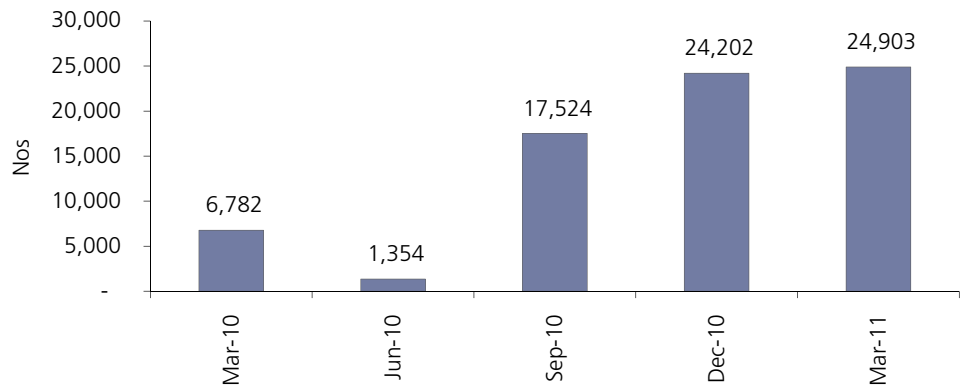
Exhibit 6: Dubai volumes



Source: Company, Alchemy Research

Exhibit 7: China volumes

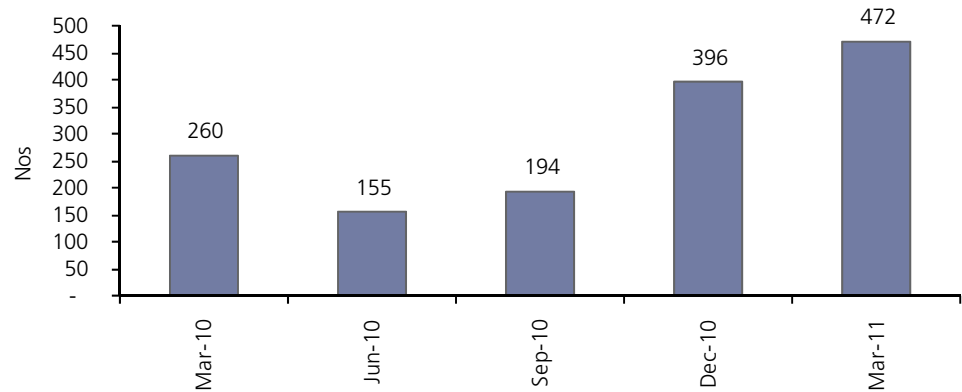
All time high volumes in China



Source: Company, Alchemy Research

Exhibit 8: USA volumes

Highest volumes since last two years



Source: Company, Alchemy Research

Exhibit 9: Consolidated quarterly results

Rs mn, yearend - 31 March	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Net sales	1,898	1,381	2,035	1,983	2,365
YoY (%)	(3.2)	(9.8)	40.4	17.1	24.6
QoQ (%)	12.0	(27.3)	47.4	(2.5)	19.3
Total expenditure	1,972	1,304	1,635	1,606	1,899
Raw material consumed	994	789	831	920	1,227
Stock adjustment	343	47	228	71	64
Purchase of traded goods	149	-	-	24	(2)
% of sales	78.3	60.5	52.1	51.2	54.5
YoY (%)	36.2	5.8	24.2	(3.2)	(13.3)
QoQ (%)	41.7	(43.8)	26.8	(4.2)	26.9
Employee expenses	193	182	186	229	231
% of sales	10.2	13.2	9.1	11.6	9.8
YoY (%)	33.0	3.1	(6.1)	8.8	19.3
QoQ (%)	(8.3)	(6.1)	2.4	23.3	0.6
Other expenses	292	287	389	361	380
% of sales	15.4	20.8	19.1	18.2	16.0
YoY (%)	(7.2)	23.2	64.4	62.4	29.9
QoQ (%)	31.4	(1.9)	35.9	(7.3)	5.1
EBIDTA	(74)	76	400	378	466
EBIDTAM (%)	(3.9)	5.5	19.7	19.0	19.7
YoY (bps)	(2478.2)	(1611.2)	851.5	654.2	2362.1
YoY (%)	(118.1)	(76.9)	147.7	78.4	(730.3)
Forex (loss)/gain	104	(112)	99	21	19
Other income	(30)	14	32	15	59
Interest	19	30	19	18	14
YoY (%)	(64.7)	(18.7)	(34.8)	(32.8)	(25.7)
Depreciation	(16)	159	166	161	153
YoY (%)	(107.8)	(14.5)	(16.6)	(19.4)	(1061.6)
PBT	(3)	(211)	346	234	377
Tax	(7)	(92)	82	4	49
Tax / PBT (%)	191.2	43.6	23.8	1.9	13.1
Prior period adjustments	286	-	(18)	-	19
PAT	289	(119)	246	230	346
NPM (%)	15.2	(8.6)	12.1	11.6	14.6
YoY (%)	38.0	(171.7)	(546.4)	1518.3	19.8
QoQ (%)	1935.9	(141.2)	(306.3)	(6.4)	50.7
Equity	202.3	203.3	214.3	214.3	214.3
EPS (Rs)	2.9	(1.2)	2.3	2.1	4.8
Face Value	2.0	2.0	2.0	2.0	3.0

Source: Company, Alchemy Research

Strong revenue growth mainly driven by Indiaan operations

EBIDTA margin improve led by better product-mix in India

Exhibit 10: Quarterly segmental results

Segmental results	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
India	902	771	1,169	806	1,026
YoY (%)	23.2	17.9	25.9	(20.0)	13.7
UAE (Dubai)	766	585	719	780	989
YoY (%)	(19.9)	32.0	167.1	128.8	29.1
China	26	23	122	154	158
YoY (%)	45.6	(77.1)	(30.6)	338.9	501.9
USA and Hungary	376	86	167	283	311
YoY (%)	21.5	(78.3)	(34.1)	(21.2)	(17.4)
Total	2,070	1,465	2,177	2,023	2,483
less: intersegment	47	85	142	48	110
Net sales	2,023	1,381	2,035	1,974	2,374
EBIT					
India	(36)	(88)	170	46	91
YoY (%)	(18300.0)	(275.6)	511.9	42.9	(349.7)
UAE (Dubai)	50	144	178	305	284
YoY (%)	(79.0)	18.4	2441.4	1229.7	468.3
China	(8)	(33)	(32)	(52)	(21)
YoY (%)	(22.4)	290.6	403.2	48.7	175.0
USA	(96)	(98)	(65)	(82)	(120)
YoY (%)	635.9	700.0	29.8	(4650.0)	24.8
EBITM (%)					
India	(4.0)	(11.4)	14.5	5.7	8.9
UAE (Dubai)	6.5	24.7	24.7	39.0	28.7
China	(29.0)	(141.9)	(26.0)	(33.8)	(13.3)
USA	(25.6)	(113.6)	(38.7)	(28.9)	(38.7)
Total	(4.4)	(5.1)	11.5	10.7	9.4
Capital employed					
India	6,100	6,140	6,163	6,042	6,149
UAE (Dubai)	1,290	1,256	1,044	1,004	1,161
China	1,274	1,311	1,271	1,393	1,434
USA	2,657	2,540	2,444	2,467	2,381
Unallocable	(5,112)	(4,206)	(3,766)	(3,461)	(3,557)
Total	6,210	7,042	7,156	7,444	7,581

Source: Company, Alchemy Research

Financial statements and assumptions

Profit and loss account

Yr-end March (₹ mn)	FY09A	FY10A	FY11E	FY12E	FY13E
Net sales	8,547	6,497	7,763	9,337	10,387
Raw materials	3,897	4,178	4,199	5,018	5,557
Employee cost	661	778	828	910	1,001
Other expenses	1,284	982	1,417	1,699	1,814
Total expenditure	5,842	5,938	6,443	7,628	8,372
EBITDA	2,705	559	1,321	1,709	2,015
Other income	(101)	309	147	28	31
Interest	315	114	82	68	50
Depreciation	693	569	639	690	792
PBT	1,596	471	747	980	1,204
Total tax	219	55	44	122	150
PAT	1,374	416	703	857	1,053
Less: Adjustments	—	—	—	—	—
Adjusted PAT	1,374	416	703	857	1,053

Key assumptions

Yr-end March	FY09A	FY10A	FY11E	FY12E	FY13E
Volumes	691,478	687,212	876,071	1,009,525	1,157,725
YoY (%)	7	(1)	27	15	—
EBITDA (Rs/cylinder)	3,912	813	1,575	1,693	1,740
YoY (%)	58	(79)	94	7	3
Volume mix (%)					
CNG and Jumbo	69	63	66	65	64
Industrial	32	40	34	35	36

Balance sheet

Yr-end March (₹ mn)	FY09A	FY10A	FY11E	FY12E	FY13E
Equity capital	202	202	215	215	215
Reserves & surplus	5,994	6,007	7,438	8,119	8,996
Net worth	6,196	6,209	7,654	8,335	9,212
Minority interest	(2)	2	2	2	2
Total debt	6,221	5,015	3,765	3,265	2,765
Total	12,414	11,227	11,422	11,602	11,979
Net block	5,324	5,446	5,208	6,668	6,276
Capital WIP	1,983	1,624	1,774	24	24
Total fixed assets	7,308	7,071	6,982	6,692	6,301
Investments	23	45	345	345	345
Net working capital	4,685	3,624	3,538	4,200	4,686
Current assets	7,132	5,662	5,770	6,613	7,586
Inventories	4,885	3,391	2,659	3,709	4,126
Debtors	981	928	1,170	1,279	1,423
Cash & bank	393	597	666	474	756
Other current assets	874	746	1,276	1,151	1,281
Current liabilities & provisions	2,054	1,442	1,567	1,939	2,144
Creditors	1,398	1,045	1,035	1,237	1,370
Other liabilities	452	194	336	403	447
Provisions	205	203	195	299	327
Net deferred tax assets	6	(109)	(109)	(109)	(109)
Miscellaneous exp.	—	—	—	—	—
Total	12,415	11,227	11,422	11,602	11,979

Source: Alchemy Research, Company

Ratios

Yr-end March	FY09A	FY10A	FY11E	FY12E	FY13E
Percentage of net sales					
Raw material costs	45.6	64.3	54.1	53.8	53.5
Employee costs	7.7	12.0	10.7	9.7	9.6
Total expenses	68.4	91.4	83.0	81.7	80.6
EBITDA	31.6	8.6	17.0	18.3	19.4
PAT	16.1	6.4	9.1	9.2	10.1
Asset-based ratios (%)					
RoCE	16.8	2.2	6.9	8.0	9.3
RoE	25.0	6.7	10.1	10.7	12.0
Turnover ratios (days)					
Debtor days	39	52	49	48	47
Inventory days	165	232	142	124	138
Creditor days	102	107	90	83	86
Working capital days	199	261	198	174	178
Growth ratios (%)					
Net sales	61.9	(24.0)	19.5	20.3	11.3
EBITDA	69.1	(79.4)	136.4	29.4	17.9
EPS	31.9	(69.7)	58.8	22.0	22.9
CEPS	64.5	(52.4)	28.0	15.3	19.3
Per share (Rs)					
EPS	13.6	4.1	6.5	8.0	9.8
CEPS	20.4	9.7	12.5	14.4	17.1
BV	61.3	61.4	71.1	77.4	85.6
DPS	1.2	1.2	1.2	1.4	1.4
Valuations (x)					
P/E	16.5	20.7	13.0	10.7	8.7
P/CEPS	11.0	8.7	6.8	5.9	5.0
P/BV	3.7	1.4	1.2	1.1	1.0
Yield (%)	0.5	1.4	1.4	1.6	1.6
EV/EBITDA	10.5	23.3	9.3	7.0	5.5
EV/sales	3.3	2.0	1.6	1.3	1.1
Solvency ratios					
Current ratio	3.5	3.9	3.7	3.4	3.5
Quick ratio	0.2	0.4	0.4	0.2	0.4
D/E ratio	1.0	0.8	0.5	0.4	0.3
Interest coverage ratio	5.2	2.3	9.5	13.5	21.8

Cash flow statement

Yr-end March (₹ mn)	FY09A	FY10A	FY11E	FY12E	FY13E
PAT	1,374	416	703	857	1,053
Add: Depreciation	693	569	639	690	792
Add: Interest expense	315	114	82	68	50
Less: Other income	101	(309)	(147)	(28)	(31)
Change in working capital	(1,080)	1,062	86	(662)	(486)
Others	—	—	—	—	—
Cash flow from operations	1,403	1,851	1,363	924	1,378
Change in fixed assets	(5,148)	(332)	(550)	(400)	(400)
Change in investments	99	(22)	(300)	—	—
Other income	(101)	309	147	28	31
Others	—	—	—	—	—
Cash flow from investing activities	(5,149)	(45)	(703)	(372)	(369)
Change in debt	3,835	(1,205)	(1,250)	(500)	(500)
Dividend & dividend tax	(142)	(142)	(151)	(176)	(176)
Change in equity & share premium	—	—	893	—	—
Interest paid	(315)	(114)	(82)	(68)	(50)
Other adjustments	(51)	115	—	—	—
Cash flow from financing activities	3,326	(1,346)	(591)	(744)	(727)
Change in cash & cash equivalents	(420)	461	69	(192)	282
Opening cash & cash equivalents	647	393	597	666	474
Closing cash & cash equivalents	227	853	666	474	756

Source: Alchemy Research, Company

The ratings are based on the absolute upside of our target price from the current price.

Upside >25%	Strong Buy	Sector relative call		Sector weight
Upside between 15% and 25%	Buy	Outperform	>5% upside to sector benchmark	Overweight
Upside up to 15%	Accumulate	Marketperform	+5% to -5% of sector benchmark	Equal weight
Downside up to 15%	Reduce	Underperform	>5% downside to sector benchmark	Underweight
Downside >15%	Sell			

Sales

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Trade execution

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