

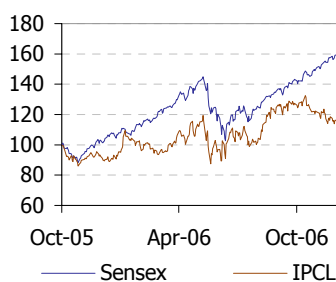
IPCL

 Relative to sector: **Outperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

 No. of shares : 301mn
 Market cap : Rs.87bn
 52 week high/low : Rs.325/ Rs.185
 Avg. daily vol. (6mth) : 2.5mn shares
 Bloomberg code : IPCL IN
 Reuters code : IPCL.BO

Shareholding (%) Sep-06 QoQ chg

Shareholder	Shareholding (%)	QoQ chg
Promoters	46.5	0.5
FII's	15.4	2.3
MFs / UTI	5.3	1.6
Banks / FIs	9.7	(2.4)
Others	23.1	(1.9)

SET FOR A TRANSFORMATION

In the 37th AGM of IPCL, the Chairman Mr. Mukesh Ambani hinted that the management has charted a balanced plan to make IPCL a sizeable global asset. Although the speech did not spell out a detailed future strategy, the message was clear; **IPCL is in the process of a radical transformation**, and is on its path to **shrug off its "commodity polymer" profile**. Key takeaways from the AGM:

Next "RIL" in the making

Sharing his vision for IPCL, the Chairman in his speech said, **"...RIL is committed to enhance IPCL's reputation as a global leader in the petrochemical space."** The strategy is to have a counter-balancing portfolio, and eliminate the cyclicity in the earnings-model, similar to the flagship company Reliance Industries (RIL). For eg, the recent merger of the 6 polyester companies aims not only at extending IPCL's value chain up to polyesters, but also counter balancing the product portfolio. Over the next three years, the management targets to secure a globally competitive feedstock for IPCL, and has hinted at a radical transformation.

Eyeing inorganic growth opportunities...

The management averred that given IPCL's strong cash flows and un-leveraged balance sheet, it could now explore the inorganic growth initiatives both domestically as well as overseas. The focus however during such initiatives would be on – (1) feedstock integration and, (2) counter balancing portfolio.

... And also expanding capacity

IPCL, in the meanwhile, is also **addressing the concerns over volume growth** by increasing the cracker and MEG capacity by investing close to Rs.3.5bn. The capex aims to increase the **cracker capacity by almost 8%** (78KTA; Vadodara 12KTA and Gandhar 65KTA), and MEG capacity (at Gandhar) by ~10% (20KTA). These projects are scheduled to be completed by mid-FY08.

Financial summary

Y/E Mar	Sales (Rs.mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	BV (Rs.)
2005	83,010	8,477	-	34.0	103	-	23.3	22.3	-	161
2006U	109,596	10,434	-	36.2	6	-	20.7	24.7	-	211
2007E	119,507	14,285	40.4	47.6	31	6.1	20.9	26.5	3.6	253
2008E	117,985	14,124	29.2	47.1	(1)	6.1	17.3	23.4	3.1	292

Source: *Consensus broker estimates, Company, ENAM estimates

Trades near book value, maintain sector Outperformer

IPCL's current valuations seem to factor in the near-term visible earnings only and largely ignore the potential opportunity of organic/ inorganic growth initiatives. **Given the management's commitment to scale up the business we believe that IPCL offers an excellent opportunity to participate in the making of a global petrochemical asset at an early stage.** Further, as IPCL trades near its book value, it offers a relatively favourable risk reward scenario. We maintain sector **Outperformer** rating on the stock.

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