

Confidence Petroleum India

CMP : ₹31.85 | Face Value : ₹1 | Target price: ₹50 | HP* : Two years

About The Company

Our Pearl Pick for the month of December is Confidence Petroleum India Limited (CPIL). The company operates in four divisions: sale of packed cylinders, bottling division, cylinder manufacturing and ALDS (for public transportation). The Confidence Group is India's largest private sector LPG bottler with network of 58 bottling plants. The group's prime clientele are PSU oil companies and private players. It is Asia's largest cylinder manufacturer with capacity of ~50 lakh units per annum.

Why to Invest -

Favourable rural-urban mix :

As we see, 90% of total LPG demand comes from residential consumers. Over 68% of total population resides in rural areas where gas pipeline cannot reach. Also, the demand for LPG is set to increase by ~10% considering the fact that the government is targeting three crore connections in FY18 and four crore connections in FY19. This would help reach the LPG coverage to ~95% of the population (currently 73%).

Subsidy rate cut to strengthening 'Go Gas' brand :

CPIL sells light-weight cylinders in the range of 2, 5, 10 and 22 kg. Also, it is engaged in fuelling station through its ALDS (Auto LPG Dispensing System) division for public transportation. The Company operates its Go Gas brand under both the divisions, i.e. CPIL and ALDS. Recently, the government ordered raising of LPG rate by Rs 4 per month up to March 2018 to eliminate all the subsidies. The de-subsidised prices will provide a level playing field for private LPG players vis-à-vis the PSUs and this will help private players to foray into the huge domestic LPG market.

Untapped market in auto industry :

We believe LPG will wipe out the CNG use in the auto industry in the near term. When compared with LPG, CNG costs Rs 8 per litre more than LPG. Also, CNG requires laid pipeline for transportation (thus few CNG stations per city) unlike LPG, which can be made available anywhere. The states of Karnataka, Tamil Nadu and Telangana have passed laws for mandatory use of LPG in three-wheelers. Considering this growth potential, the company plans to increase gas stations from the current 112 to 200 by FY19.

Investing in the stock

CPIL belongs to Oil Marketing and Distribution industry. The company has a share capital of 25.88 crore shares with 53.6% promoter holding. Therefore, available free float comes to 12 crore shares. Average daily traded quantity comes around 2.9 lakh shares. We do not expect any shortage in market to fulfil your orders. CPIL belongs to the oil marketing and distribution industry. Investors can enter the stock at its current price of Rs 32 and allocate 5-7% of their total portfolio. Any price correction between 3-7% would be advantageous to accumulate and averaging the price.

* HP : Holding Period

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DSJ INVESTMENT ADVISORY UNIT (CRU)

Financial Performance

The company has reported significant revenue CAGR of 27% over FY14-17. In FY17, its net sales came in at Rs 485 crore, registering 38% YoY growth. Its PAT for FY17 came in at Rs 5.35 cr., a YoY growth of 186%. For H1FY18, the company has cleared its long-term debt by 26% and it is virtually debt-free. Keeping pace with nation's requirements, the company is constantly fuelling its growth by commissioning various expansions across all its divisions.

Valuation and Outlook

The company is trading at TTM P/E of 61.8 x with TTM EPS of Rs 0.52. On the back of aggressive marketing strategy, we estimate that in the next 1-2 years, on a consolidated basis, CPIL would be in a niche position to clock a growth of 45-50%. We see an upside of 56% with a target price of Rs 50 over the next one to two years.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	496.90	354.69	306.48	268.57	316.23
Total Income	498.68	356.16	308.20	270.25	318.58
Total Expenditure	456.51	320.05	274.27	231.49	275.35
PBIDT	42.17	36.12	33.93	38.76	43.22
PAT	4.74	1.08	-22.97	1.88	2.27
Adj. EPS(Rs)	0.18	0.04	-0.89	0.07	0.08

