



Indian Equities
Oil & Gas

Quarterly Update

Indraprastha Gas Limited

BUY

Gunjan Poddar

Email: gunjan@parsoli.com

Tel: +91-22-4091 2786

CMP	Rs 200
Target Price	Rs 238
Sensex	16,780
Nifty	5,008

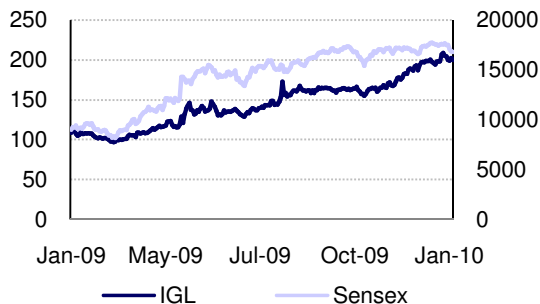
Stock Details

BSE Code	532514
NSE Code	IGL
Reuters Code	IGAS.BO
Bloomberg Code	IGL IN
Market Cap (Rs Cr)	2798.60
Beta	0.38
52 W High / Low (Rs)	212.80 /95.40
Avg Daily Volume	1,58,206
Face Value (Rs)	10

Shareholding Pattern (%)

Promoters	45.00
MF/Banks/Indian FIs	18.20
FII / NRIs / OCBs	15.74
Government	5.00
Non-Institutions	4.73
Indian Public	11.33

Price Chart



Performance Highlights

Revenue growth led by higher volumes and price realization: In Q3FY2010, Indraprastha Gas (IGL) reported a topline growth of 29.9% yoy to Rs 286.3cr. This was on an account of volume growth in, both, CNG and PNG supply and higher price realization from CNG distribution. During the quarter, CNG volumes jumped up by 15.3% yoy to 136.0mn kg from 118.0mn kg in Q3FY2009 and PNG volumes were up by 16.4% yoy to 16.3mmscm from 14.0mmscm in Q3FY2009. The volume expansion was mainly on account of increased rate of conversion of private vehicles to CNG.

Net profit surges by 53.9% yoy: The decline in raw material cost and employee cost as a percentage of sales resulted into 52.9% jump in operating profit to Rs 105.1cr. Healthy operating performance during the quarter led to 53.9% surge in net profit to Rs 58.9cr.

Valuation

At the current market price of Rs 200, IGL is trading at 12.5x FY2010E earnings and 10.7x FY2011E earnings. On EV/EBIDTA basis, the stock is trading at 6.7x FY2010E and 5.4x FY2011E earnings. Considering healthy volume growth supported by addition of new CNG stations, increasing conversion of private vehicles to CNG and rollout of PNG network, we expect the company to sustain a healthy volume growth over the next few years. **Thus, we maintain our BUY recommendation on the stock with target price of Rs 238.**

Exhibit 1: Quarterly Analysis

Particulars	Q3FY2010	Q3FY2009	YoY(%)	Q2FY2010	QoQ(%)
Net Sales	286.3	220.4	29.9	273.9	4.5
Other Income	3.6	5.7	(37.0)	4.3	(16.1)
Total Income	289.9	226.1	28.2	278.1	4.2
Total Expenditure	181.2	151.7	19.5	173.1	4.7
EBIDTA	105.1	68.7	52.9	100.7	4.3
EBIDTA Margin (%)	36.7	31.2	-	36.8	-
Depreciation	19.7	16.6	18.4	19.4	1.7
Profit before Tax	89.0	57.8	54.0	85.7	3.9
Tax	30.1	19.5	54.2	28.8	4.2
Profit After Tax	58.9	38.3	53.9	56.8	3.8
PAT Margin (%)	20.7	23.2	-	20.6	-
EPS	4.1	3.6	-	3.4	-

Source: Company, Parsoli Research



Topline growth of 29.9% was on account of volume growth and higher price realization

Key Updates

Revenue growth of 29.9% due to higher volume and improved realization

During Q3FY2010, CNG volumes jumped by 15.3% yoy to 136.0mn kg from 118.0mn kg in Q3FY2009 due to increased number of conversion of private vehicles to CNG and the company's geographical expansion across NCR. In addition, PNG volumes during the quarter also increased by 16.4% yoy to 16.3mmscm from 14.0mmscm in Q3FY2009. Moreover, the company raised CNG prices from Rs 18.8/kg to Rs 20.9/kg in Delhi during Q1FY2010 which boosted the price realization by 11.4% yoy. The healthy volume growth and increased price realization resulted in topline growth of 29.94% yoy to Rs 286.3cr.

Exhibit 2: Segmental Break-up

	Q3FY2010	Q3FY2009	% chg	Q2FY2010	% chg
Revenues (Rs cr)					
CNG	284.3	221.4	28.4	275.1	3.3
PNG	31.3	26.2	19.5	32.2	(2.7)
Gross sales	315.6	247.6	27.5	307.3	2.7
Volume					
CNG (mn kg)	136.0	118.0	15.3	134.4	1.2
PNG (mmscm)	16.3	14.0	16.4	17.0	(4.1)
Realizations					
CNG (Rs/kg)	20.9	18.8	11.4	20.5	2.1
PNG (Rs/scm)	19.2	18.7	2.6	18.9	1.5

Source: Company, Parsoli Research

Decline in raw material cost boosts operating profit by 52.9%

During Q3FY2010, other operating expenses as percentage of sales increased by 185bps yoy to 15.7% due to additional expenditure on new CNG stations and expanded network in Noida and Greater Noida. This increase was partially offset by the decline in employee cost with respect to sales. During the quarter, employee cost as a percentage of sales declined by 11bps and raw material cost as a percentage of sales declined by 714bps. This increased the operating profit by 52.9% to Rs 105.1cr from Rs 68.7cr in Q3FY2009. The raw material purchase price was substantially high during the quarter due to increased purchase of high priced Re-gasified LNG (R-LNG) which restricted the operating profit margin to expand by 550bps to 36.7%. Going forward, the allocation of additional 0.3mmscmd RIL's KG basin gas would sideline concerns of excess purchase of R-LNG.

Exhibit 3: Cost Analysis

	Q3FY2010	Q3FY2009	bps chg	Q2FY2010	bps chg
Raw Materials cost	44.9	52.1	(714.4)	45.4	(44.9)
Employee Cost	2.8	2.9	(11.0)	2.5	21.4
Other Expenses	15.7	13.9	184.5	15.3	39.9
Total Expenditure	63.3	68.8	(552.5)	63.2	7.1

Source: Company, Parsoli Research

During the quarter, operating profit increased by 52.9% and the OPM expanded by 550bps to 36.7%



Depreciation increased by 18.4% yoy to Rs 19.7cr due to increased number of CNG stations and expanded PNG network

We expect IGL to register growth at a CAGR of 18.8% in revenues and 20.0% in net profit during FY2009 and FY2012E

PAT surged despite higher depreciation and decline in other income

During Q3FY2010, depreciation increased by 18.4% yoy to Rs 19.7cr from Rs 16.6cr in Q3FY2009 due to increased number of CNG stations and expanded PNG network whereas other income declined 37.0% to Rs 3.6cr. Despite higher depreciation and the decline in other income, the PAT grew by 53.9% to Rs 58.9cr from Rs 38.3cr in Q3FY2009 on account of healthy operating performance.

Outlook and Valuation

The marketing exclusivity of IGL in city gas distribution till 2012 is likely to strengthen its footprints across the NCR of Delhi in both, CNG and PNG segments. We expect the volume growth to remain strong due to increasing conversion of private vehicles to CNG as CNG has cost advantage over other liquid fuels. We believe that the Commonwealth Games 2010 will further boost the volume growth. Moreover, the allocation of 0.3mmscmd of RIL's KG basin gas supply to IGL, which is further expected to increase to 0.7mmscmd by the end of FY2010, would sideline the concern of excess withdrawal of gas. The capacity addition at the existing stations and the new stations which are coming up is likely to boost the revenues. We expect the company to register growth at a CAGR of 18.8% in revenues and 20.0% in net profit during FY2009 and FY2012E.

We have valued IGL using relative and DCF valuation methodology. Averages of relative valuations and DCF show an upside of 18.6%. At the current market price of Rs 200, IGL is trading at P/E of 12.5x FY2010E and 10.7x FY2011E earnings, P/BV of 3.3x FY2010E and 2.7x FY2011E net worth and EV/EBIDTA of 6.7x FY2010E and 5.4x FY2011E earnings.

Exhibit 4: Valuation Summary

Particulars	Fair Value (Rs)	Upside (%)
DCF	241.3	20.7
Relative Valuation	233.8	17.0
Average	237.6	18.8

Source: Parsoli Research

IGL's quarterly results were in line with our expectations. Considering healthy sequential volume growth supported by addition of new CNG stations, increasing conversion of private vehicles to CNG and rollout of PNG network, we expect the company to sustain a healthy volume growth over the next few years. Thus, we maintain our BUY recommendation on the stock with a target price of Rs 238.



Financial Statements

Exhibit 5: Profit & Loss Statement					Rs cr
Particulars	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	706.0	852.8	1,091.4	1,262.2	1,493.4
<i>% chg</i>	15.0	20.8	28.0	15.6	18.3
Total Expenditure	406.0	552.8	697.7	783.4	950.4
<i>% chg</i>	13.4	36.2	26.2	12.3	21.3
EBIDTA	300.0	300.0	393.8	478.7	543.0
<i>Margin (%)</i>	42.5	35.2	36.1	37.9	36.4
Other Income	23.4	26.2	18.8	27.1	35.4
Depreciation & Amortization	62.6	67.4	75.8	114.8	133.3
PBT	260.9	258.9	337.3	391.0	445.1
<i>Margin (%)</i>	37.0	30.4	30.9	31.0	29.8
Total Tax	86.4	86.4	113.0	129.0	146.9
<i>(% of PBT)</i>	33.1	33.4	33.5	33.0	33.0
PAT	174.5	172.5	224.3	262.0	298.2
<i>% chg</i>	26.5	(1.1)	30.0	16.8	13.8
<i>Margin (%)</i>	24.7	20.2	20.5	20.8	20.0

Source: Company, Parsoli Research



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