



Parsoli Corporation Limited

In Touch with Your Investment Needs

Indian Equities
Oil & Gas

Quarterly Update

Indraprastha Gas Limited

BUY

Gunjan Poddar

Email: gunjan@parsoli.com

Tel: +91-22-4095 3786

CMP	Rs 161
Target Price	Rs 196
Sensex	16,064
Nifty	4,766

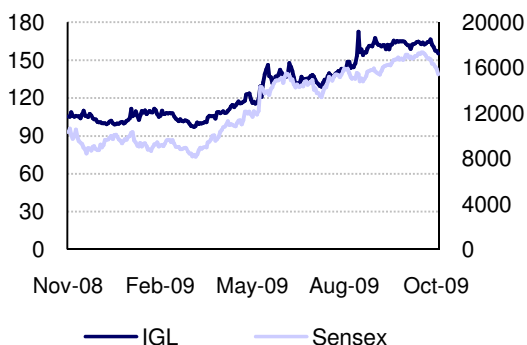
Stock Details

BSE Code	532514
NSE Code	IGL
Reuters Code	IGAS.BO
Bloomberg Code	IGL IN
Market Cap (Rs Cr)	2255.40
Beta	0.27
52 W High / Low (Rs)	182.00 /95.40
Avg Daily Volume	1,18,400
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

Volume growth resulted in 26.4% revenue growth

In Q2FY2010, Indraprastha Gas (IGL) reported a topline growth of 22.6% yoy to Rs 273.9cr. This was due to the volume growth and higher realization from CNG and PNG supply. CNG volumes jumped by 15.0% yoy to 134.4mn kg in Q2FY2010 from 116.9mn kg in Q2FY2009 and PNG volumes surged by 28.0% yoy to 17.0mmscm from 13.3mmscm in Q2FY2009. The volumes expanded mainly due to increased rate of conversion of private vehicles to CNG.

Gas supply pact with RIL signed

During August 2009, IGL signed Gas Sale and Purchase Agreement (GSPA) with RIL for gas supply of 0.3mmscmd from KG basin. This additional gas supply will increase the secure gas allocation from 2.2mmscmd to 2.5mmscmd.

Outlook and Valuation

At the current market price of Rs 161, IGL is trading at 9.6x FY2010E earnings and 8.6x FY2011E earnings. On EV/EBIDTA basis, the stock is trading at 4.8x FY2010E and 4.0x FY2011E. Considering the increased rate of conversion of private vehicles into CNG, expected addition of 2,000 CNG buses before Commonwealth Games 2010 and additional gas supply from RIL, we believe that the company is on a strong growth path. **Thus, we maintain our BUY recommendation on this stock with a 12-month target price of Rs 196.**

Exhibit 1: Quarterly Analysis

Particulars	Q2FY2010	Q2FY2009	YoY(%)	Q1FY2010	QoQ(%)
Net Sales	273.9	216.7	26.4	233.9	17.1
Other Income	4.3	5.4	(20.4)	5.0	(14.2)
Total Income	278.1	222.1	25.3	238.9	16.4
Total Expenditure	173.1	130.1	33.1	147.7	17.2
EBIDTA	100.7	86.6	16.3	86.3	16.8
EBIDTA Margin (%)	36.8	40.0	-	36.9	-
Depreciation	19.4	16.9	14.8	18.6	4.2
Profit before Tax	85.7	75.1	14.0	72.7	17.8
Tax	28.8	24.9	15.7	24.4	18.2
Profit After Tax	56.8	50.2	13.2	48.3	17.7
PAT Margin (%)	20.7	23.2	-	20.6	20.7
EPS	4.1	3.6	-	3.4	-

Source: Company, Parsoli Research



Top line growth of 26.4% was on account of volume growth and higher price realization

Key Updates

Revenue growth of 26.4% due to volume growth and improved realization

During Q2FY2010, CNG volumes jumped by 15.0% yoy to 134.4mn kg in Q2FY2010 from 116.9mn kg in Q2FY2009 and PNG volumes surged by 28.0% yoy to 17.0mmscm from 13.3mmscm in Q2FY2009. The volumes expanded due to increased rate of conversion of private vehicles to CNG and geographical expansion. Moreover, with effect from June 16, 2009, CNG retail prices in Delhi were increased from Rs 18.9/kg to Rs 21.0/kg which, in turn, boosted the price realization. The healthy volume growth and increased price realization resulted into an overall net sales growth of 26.4% yoy to Rs 273.9cr.

Exhibit 2: Segmental Break-up

	Q2FY2010	Q2FY2009	% chg	Q1FY2010	% chg
Revenues (Rs cr)					
CNG	275.1	220.1	25.0	229.5	19.9
PNG	32.2	23.5	37.0	32.0	0.5
Gross sales	307.3	243.6	26.2	261.5	17.5
Volume					
CNG (mn kg)	134.4	116.9	15.0	120.5	11.5
PNG (mmscm)	17.0	13.3	28.0	17.5	(2.9)
Realizations					
CNG (Rs/kg)	20.5	18.8	8.7	19.0	7.5
PNG (Rs/scm)	18.9	17.7	7.0	18.3	3.5

Source: Company, Parsoli Research

OPM declined by 320bps to 36.8%

During Q2FY2010, other operating expenses increased by 45.5% yoy to Rs 41.9cr due to additional expenditure on new CNG stations and expanded network in Noida and Greater Noida. During the quarter, increased raw material purchase price and other operating expenses led to 320bps decline in operating profit margin to 36.8% from 40.0% in Q2FY2009. The raw material price has been higher due to increased purchase of high priced Re-gasified LNG (R-LNG). Going forward, the allocation of additional 0.3mmscmd KG basin gas from RIL would sideline concerns of excess purchase of R-LNG. Although, during the quarter, operating margin has declined but the operating profit has jumped up by 14.2% yoy to Rs 100.7cr.

Exhibit 3: Cost Analysis

	Q2FY2010	Q2FY2009	bps	Q1FY2010	bps
Raw Materials consumed	45.4	44.3	112.4	44.5	89.6
Employee Cost	2.5	2.5	7.0	2.7	(12.3)
Other Expenses	15.3	13.3	200.3	16.0	(66.3)
Total Expenditure	63.2	60.0	317.5	63.1	9.7

Source: Company, Parsoli Research

The decline in OPM was primarily due to payment towards excess purchase of R-LNG to meet increasing demand



Depreciation increased by 14.8% yoy to Rs 19.4cr due to increased number of CNG stations and expanded PNG network

IGL is expected to register growth at a CAGR of 16.8% in revenues and 15.0% in net profit during FY2009 and FY2012E

We maintain a BUY recommendation on this stock with target price of Rs 196

PAT surged despite higher depreciation and decline in other income

During Q2FY2010, depreciation increased by 14.8% yoy to Rs 19.4cr from Rs 16.9cr in Q2FY2009 due to increased number of CNG stations and expanded PNG network whereas other income declined 20.4% to Rs 4.3cr. Despite higher depreciation and decline in other income, the PAT, supported by volume growth and increased realization, grew by 13.2% yoy to Rs 56.8cr from Rs 50.2cr in Q2FY2009.

Outlook and Valuation

With a strong demand growth of CNG due to the expected addition of 2,000 CNG buses before the Commonwealth Games 2010 and land allocations for 50 new CNG stations in the pipeline, CNG is expected to be the major contributor to IGL volumes. Alongside, the marketing exclusivity of IGL till 2012 is expected to strengthen its footprints across the NCR of Delhi in both, CNG and PNG segments. The increase in number of CNG stations to cover the full NCR of Delhi and price reduction in CNG kits would encourage private vehicles to prefer CNG as a fuel. Moreover, the allocation of 0.3mmscmd of 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. We expect the company to register growth at a CAGR of 16.8% in revenues and 15.0% 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 21.7%. At the current market price of Rs 161, IGL is trading at P/E of 9.6x FY2010E and 8.6x FY2011E earnings, P/BV of 2.3x FY2010E and 1.9x FY2011E net worth and EV/EBIDTA of 4.8x FY2010E and 4.0x FY2011E.

Exhibit 4: Valuation Summary

Particulars	Fair Value (Rs)	Upside (%)
DCF	197.6	22.6
Relative Valuation	194.6	20.8
Average	196.1	21.7

Source: Parsoli Research

Considering the increased rate of conversion of private vehicles to CNG, expected addition of 2,000 CNG buses before Commonwealth Games 2010 and additional gas supply from RIL, we believe the company is on a strong growth path. Thus, we maintain our BUY recommendation on this stock with a 12-month target price of Rs 196.



Financial Statements

Exhibit 5: Profit & Loss Statement					Rs cr
Particulars	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	706.0	852.8	1,016.9	1,164.8	1,360.7
<i>% chg</i>	15.0	20.8	19.3	14.5	16.8
Total Expenditure	406.0	552.8	655.3	724.4	868.0
<i>% chg</i>	13.4	36.2	18.5	10.5	19.8
EBIDTA	300.0	300.0	361.7	440.4	492.8
<i>Margin (%)</i>	42.5	35.2	35.6	37.8	36.2
Other Income	23.4	26.2	21.7	25.9	33.5
Depreciation & Amortization	62.6	67.4	79.8	116.1	135.2
PBT	260.9	258.9	303.6	350.2	391.1
<i>Margin (%)</i>	37.0	30.4	29.9	30.1	28.7
Total Tax	86.4	86.4	101.2	115.6	129.1
<i>(% of PBT)</i>	33.1	33.4	33.3	33.0	33.0
PAT	174.5	172.5	202.4	234.6	262.0
<i>% chg</i>	26.5	(1.1)	17.4	15.9	11.7
<i>Margin (%)</i>	24.7	20.2	19.9	20.1	19.3

Source: Company, Parsoli Research



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