Indian Equities
Oil & Gas

Quarterly Update

Indraprastha Gas Limited

BUY

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CMP	**Rs 232**
Target Price	**Rs 270**
Sensex	16,572
Nifty	4,970

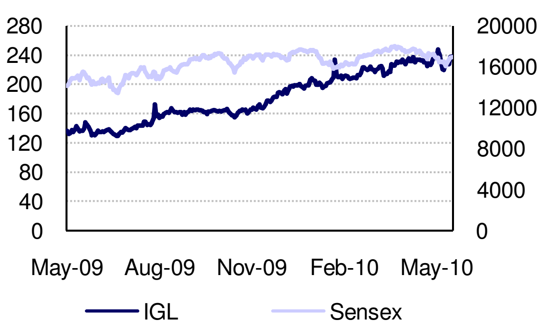
Stock Details

BSE Code	532514
NSE Code	IGL
Reuters Code	IGAS.BO
Bloomberg Code	IGL IN
Market Cap (Rs Cr)	2798.60
Beta	0.46
52 W High / Low (Rs)	256.70 /126.05
Avg Daily Volume	1,88,869
Face Value (Rs)	10

Shareholding Pattern (%)

Promoters	45.00
MF/Banks/Indian FIs	19.42
FII / NRIs / OCBs	11.90
Government	5.00
Non-Institutions	7.95
Indian Public	10.73

Price Chart



Performance Highlights

Higher volumes and price realization boosts revenue: In Q4FY2010, Indraprastha Gas (IGL) reported a topline growth of 26.8% yoy to Rs 289.8cr. 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 12.1% yoy to 135.7mn kg from 121.1mn kg in Q4FY2009 and PNG volumes were up by 62.3% yoy to 25.0mmscm from 15.4mmscm in Q4FY2009. The volume expansion was mainly on account of increased rate of conversion of private vehicles to CNG.

Net profit up by 27.7% yoy: The decline in raw material cost as a percentage of sales resulted into 29.8% jump in operating profit to Rs 94.4cr. Healthy operating performance during the quarter led to 27.7% increase in net profit to Rs 51.5cr.

Outlook and Valuation: At the current market price of Rs 232, IGL is trading at 12.1x FY2011E earnings and 10.2x FY2012E earnings. On EV/EBIDTA basis, the stock is trading at 6.2x FY2011E and 5.0x FY2012E earnings. On May 19, 2010, the government has increased Administered Pricing Mechanism (APM) gas prices to US$ 4.2/mmbtu from earlier US$ 1.8/mmbtu inorder to match the gas prices to that of market level. To curtail the effect of the increased gas cost, the company is planning to raise CNG prices, which is also expected increase the realizations. Going forward, the 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 270.**

Exhibit 1: Quarterly Analysis — **Rs cr**

Particulars	**Q4FY2010**	**Q4FY2009**	***YoY(%)***	**Q3FY2010**	***QoQ(%)***
Net Sales	289.8	228.5	*26.8*	286.3	*1.2*
Other Income	2.5	5.4	*(53.7)*	3.6	*(30.6)*
Total Income	292.3	233.8	*25.0*	289.9	*0.8*
Total Expenditure	195.3	155.7	*25.4*	181.2	*7.8*
EBIDTA	94.4	72.7	*29.8*	105.1	*(10.2)*
EBIDTA Margin (%)	*32.6*	*31.8*	-	*36.7*	-
Depreciation	19.8	17.6	*12.6*	19.7	*0.7*
Profit before Tax	77.1	60.5	*27.4*	89.0	*(13.4)*
Tax	25.6	20.2	*26.8*	30.1	*(14.8)*
Profit After Tax	51.5	40.3	*27.7*	58.9	*(12.6)*
PAT Margin (%)	*17.8*	*17.6*	-	*20.6*	-
EPS	3.7	2.9	-	4.2	-

Source: Company, Parsoli Research

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Key Updates

Revenue growth of 26.8% due to higher volume and improved realization

Topline growth of 26.8% was on account of volume growth and higher price realization

During Q4FY2010, CNG volumes increased 12.1% yoy to 135.7mn kg from 121.1mn kg in Q4FY2009 due to an increase in the conversion of private vehicles to CNG and the company's geographical expansion across NCR. In addition, PNG volumes during the quarter also increased by 62.3% yoy to 25.0mmscm from 15.4mmscm in Q4FY2009 due to expansion in PNG supply network to new areas of Delhi, Faridabad and Noida. The company raised CNG prices from Rs 18.8/kg to Rs 20.9/kg in Delhi on June 16, 2009, which boosted the price realization by 12.5% yoy to 21.0/kg in Q4FY2010. The healthy volume growth and higher price realization resulted in topline growth of 26.8% yoy to Rs 289.8cr.

Exhibit 2: Segmental Break-up

	Q4FY2010	Q4FY2009	*% chg*	Q3FY2010	*% chg*
Revenues (Rs cr)					
CNG	285.0	226.0	*26.1*	284.3	*0.2*
PNG	39.0	30.0	*30.0*	31.3	*24.6*
Gross sales	**324.0**	**256.0**	***26.6***	**315.6**	***2.7***
Volume					
CNG (mn kg)	135.7	121.1	*12.1*	136.0	*(0.2)*
PNG (mmscm)	25.0	15.4	*62.3*	16.3	*53.4*
Realizations					
CNG (Rs/kg)	21.0	18.7	*12.5*	20.9	*0.5*
PNG (Rs/scm)	15.6	19.5	*(19.9)*	19.2	*(18.8)*

Source: Company, Parsoli Research

Decline in raw material cost boosts operating profit by 29.8%

During the quarter, operating profit increased by 29.8% and the OPM expanded marginally to 32.6%

During Q4FY2010, other operating expenses as percentage of sales increased by 169bps yoy to 16.4% 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 increased marginally by 50bps and raw material cost as a percentage of sales declined by 308bps. This increased the operating profit by 29.8% to Rs 94.4cr from Rs 72.7cr in Q4FY2009. The raw material purchase price was substantially high during the quarter thereby restricting the operating profit margin to marginally expand from 31.8% in Q4FY2009 to 32.6% in Q4FY2010. 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 — % of sales

	Q4FY2010	Q4FY2009	*bps chg*	Q3FY2010	*bps chg*
Raw Materials cost	47.6	50.7	*(308.0)*	44.9	*263.0*
Employee Cost	3.3	2.8	*49.5*	2.8	*56.4*
Other Expenses	16.4	14.7	*168.6*	15.7	*68.6*
Total Expenditure	67.4	68.2	*(75.4)*	63.3	*412.3*

Source: Company, Parsoli Research

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PAT up by 27.7% on healthy operational performance

PAT increased by 27.7% yoy to Rs 51.5cr on account of healthy operational performance

During Q4FY2010, depreciation increased by 12.6% yoy to Rs 19.8cr from Rs 17.6cr in Q4FY2009 due to increased number of CNG stations and expanded PNG network whereas other income declined 53.7% to Rs 2.5cr. Despite higher depreciation and the decline in other income, the PAT grew by 27.7% to Rs 51.5cr from Rs 40.3cr in Q4FY2009 on account of healthy operating performance.

Outlook and Valuation

We expect IGL to register growth at a CAGR of 20.0% in revenues and 22.5% in net profit during FY2009 and FY2012E

On May 19, 2010, the government has increased APM gas prices to US$ 4.2/mmbtu from earlier US$ 1.8/mmbtu inorder to match the gas prices to that of market level. To curtail the effect of the increased gas cost, the company is planning to raise CNG prices which is also expected to increase the realizations. Going forward, 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 20.0% in revenues and 22.5% in net profit during FY2009-12E.

We have valued IGL using relative and DCF valuation methodology. Averages of relative valuations and DCF show an upside of 16.4%. At the current market price of Rs 232, IGL is trading at P/E of 12.1x FY2011E and 10.2x FY2012E earnings, P/BV of 3.1x FY2011E and 2.5x FY2012E net worth and EV/EBIDTA of 6.2x FY2011E and 5.0x FY2012E earnings.

We maintain our BUY recommendation on the stock with a target price of Rs 270

Exhibit 4: Valuation Summary

Particulars	Fair Value (Rs)	*Upside (%)*
DCF	272.8	*17.6*
Relative Valuation	267.5	*15.3*
Average	**270.2**	***16.4***

Source: Parsoli Research

IGL's quarterly results were lower than our expectations due to higher gas cost. However, considering the 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 270.**

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Financial Statements

Exhibit 5: Profit & Loss Statement — Rs cr

Particulars	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net Sales	706.0	852.8	1,083.8	1,291.0	1,570.5
% chg	*15.0*	*20.8*	*27.1*	*19.1*	*21.7*
Total Expenditure	406.0	552.8	697.4	801.5	998.8
% chg	*13.4*	*36.2*	*26.2*	*14.9*	*24.6*
EBIDTA	300.0	300.0	386.5	489.5	571.7
Margin (%)	*42.5*	*35.2*	*35.7*	*37.9*	*36.4*
Other Income	23.4	26.2	15.4	26.9	36.0
Depreciation & Amortization	62.6	67.4	77.5	115.3	134.1
PBT	260.9	258.9	324.4	401.0	473.6
Margin (%)	*37.0*	*30.4*	*29.9*	*31.1*	*30.2*
Total Tax	86.4	86.4	108.9	132.3	156.3
(% of PBT)	*33.1*	*33.4*	*33.6*	*33.0*	*33.0*
PAT	174.5	172.5	215.5	268.7	317.3
% chg	*26.5*	*(1.1)*	*25.0*	*24.7*	*18.1*
Margin (%)	*24.7*	*20.2*	*19.9*	*20.8*	*20.2*

Source: Company, Parsoli Research

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