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Indraprastha Gas Ltd

High cost LNG squeeze margin

Result Update

January 24, 2012

Reco	**Previous Reco**
Accumulate	Accumulate
CMP	**Target Price**
Rs.336	Rs.401

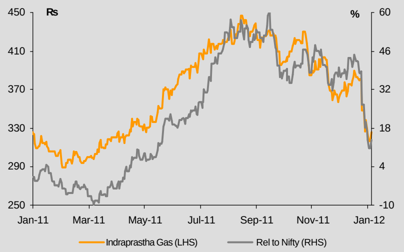
EPS change FY12E/13E (%)	-10/-4.8
Target Price change (%)	-5.6
Nifty	5,127
Sensex	16,996

Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	(17)	(17)	3
Rel. to Nifty	(16)	(17)	(10)	15

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Oil & Gas
Bloomberg	IGL@IN
Equity Capital (Rs mn)	1400
Face Value (Rs)	10
No of shares o/s (mn)	140
52 Week H/L (Rs)	453/285
Market Cap (Rs bn/USD mn)	47/939
Daily Avg Vol (No of shares)	323091
Daily Avg Turnover (US$ mn)	2.4

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	45.0	45.0	45.0
FII/NRI	19.7	17.2	16.8
Institutions	17.4	18.5	18.0
Private Corp	5.1	6.7	7.5
Public	12.7	12.6	12.8

Source: Capitaline

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- Results were below our estimates, with revenue at Rs6.6bn, growth of 45% YoY and PAT at Rs.0.69bn, growth of 2.9% YoY
- Volume increased by 27% YoY to 312mmscm in Q3 FY12. CNG and PNG volumes increased by 16.1% to 179.8mnkg and 64% to 71.1mmscm respectively, YoY
- Blended margin stood at Rs.4.8/scm, decline of 8.5% YoY, mainly due to rupee depreciation and stoppage of KG D6 gas, resulting in high input cost
- The recent news on proposed cap on gas marketing margin which is to be decided by PNGRB would keep the stock under pressure until any clarity emerges. Maintain accumulate with TP of Rs. 401

Highlights of the results

IGL reported results which were below our estimates at bottom line. Revenue for the quarter was at Rs6.6.bn, growth of 45.1% YoY, mainly on account of higher volume growth with better realization in both CNG segment. EBITDA during the quarter was at Rs. 1.5bn, growth of 16.4% YoY. EBIDTA margin has declined by 559.6bps to 22.7%, mainly on account of higher cost of raw material. Interest cost increased by 15% sequentially to Rs0.13bn, mainly on raising loans in the previous quarter for funding its capex plans in NCR region. During the quarter company reported net profit of Rs.0.69bn, growth of 2.9% on YoY basis.

CNG volumes and realisation/kg increased by 16.1% and 15.5% respectively, YoY

During the quarter CNG volumes has increased by 16.1% to 179.8mn kgs. CNG realisation stood at Rs.31.7/kg, growth of 15.5% YoY, on account of revision in the selling price of CNG during the Quarter (Rs2//Kg on 1st Oct 2011). After the recent hike of Rs1.75/kg, currently CNG prices stands at 33.75/kg in Delhi and Rs37.90/Kg in Noida, Greater Noida and Ghaziabad.

PNG volumes and realisation/scm increased by 64% and 18.9% YoY respectively

During the quarter PNG volumes has increased by 64% to 71.1mmscm mainly due to increased offtake by commercial and industrial customers and addition of new domestic connection to some extant. PNG realisation stood at Rs.23.1/scm as against Rs.19.4/scm, growth of 18.9% YoY.

EBIDTA margin declined by 375bps QoQ to 22.7% led by higher input cost

Three major reason behind squeeze in EBIDTA margin a) Rupee depreciated by 11% to 50.8 during the quarter b) higher cost of LNG at $14-16/mmbtu and c) stoppage of KG D6 supply from mid December 2011

Financial Snapshot (Rs.mn)

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10A	10838	3865	35.7	2155	15.4	24.9	28.6	26.0	14.1	6.8
FY11E	17504	4987	28.5	2598	18.6	20.6	28.4	21.6	11.2	5.6
FY12E	23117	6815	29.5	3380	24.1	30.1	30.1	16.6	8.3	4.5
FY13E	27558	7346	26.7	3513	25.1	3.9	25.8	15.9	7.8	3.8

Financial Snapshot

Rs mn	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12	YoY (%)	QoQ (%)	9M FY12	9M FY11	YoY (%)
Revenue	4570.9	5108.0	5373.9	5974.9	6631.3	45.1	11.0	17980	12397	45.0
Expenditure	3278.1	3736.1	3790.0	4395.4	5126.9	56.4	16.6	13312	8782	51.6
as % of sales	*71.7*	*73.1*	*70.5*	*73.6*	*77.3*	7.8	5.1	*74*	*71*	
Consumption of RM	2597.8	3024	3004.4	3580.8	4229.6	62.8	18.1	10815	6811	58.8
as % of sales	*56.8*	*59.2*	*55.9*	*59.9*	*63.8*	12.2	6.4	*60*	*55*	
Employee Cost	99.0	89.7	99.4	100.0	106.8	7.8	6.8	306	289	5.8
as % of sales	*2.2*	*1.8*	*1.8*	*1.7*	*1.6*	-25.7	-3.8	*2*	*2*	
Other expenditure	581.3	622.7	686.2	714.6	790.5	36.0	10.6	2191	1681	30.4
as % of sales	*12.7*	*12.2*	*12.8*	*12.0*	*11.9*	-6.3	-0.3	*12*	*14*	
EBITDA	1292.8	1371.9	1583.9	1579.5	1504.4	16.4	-4.8	4668	3615	29.1
Depreciation	261.5	297.3	322.0	344.4	367.9	40.7	6.8	1034	731	
EBIT	1031.3	1074.6	1261.9	1235.1	1136.5	10.2	-8.0	3634	2884	26.0
Other Income	6.7	7.9	13.5	15.0	14.7	119.7	-1.9	43	23	
Interest	41.16	70.3	90.0	117.5	135.2	228.5	15.1	343	61	
PBT	996.8	1012.2	1185.4	1132.6	1016.0	1.9	-10.3	3334	2845	17.2
Total Tax	324.8	320.4	384.0	360.2	324.4	-0.1	-9.9	1069	939	
Adjusted PAT	672.0	691.8	801.4	772.4	691.6	2.9	-10.5	2265	1906	18.8
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
APAT after MI	672.0	691.8	801.4	772.4	691.6	2.9	-10.5	2265	1906	
Extra ordinary items	0	0	0	0	0			0	0	
Reported PAT	672.0	691.8	801.4	772.4	691.6	2.9	-10.5	2265	1906	
Reported EPS	4.8	4.94	5.72	5.52	4.94	2.9	-10.5	16	14	18.8

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	28.3	26.9	29.5	26.4	22.7	-559.6	-374.9	26.0	29.2	-319.9
EBIT	22.6	21.0	23.5	20.7	17.1	-542.3	-353.3	20.2	23.3	-305.2
EBT	21.8	19.8	22.1	19.0	15.3	-648.6	-363.4	18.5	23.0	-440.9
PAT	14.7	13.5	14.9	12.9	10.4	-427.2	-249.7	12.6	15.4	-277.8
Effective Tax rate	32.6	31.7	32.4	31.8	31.9	-65.4	12.5	32.1	33.0	-94.8

Revised Estimates

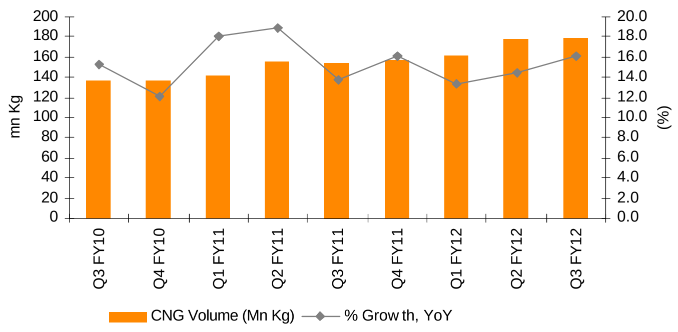
We have tweaked/adjusted our estimates for FY12E & FY13E based on the recent price hike by the company and higher input cost assumption.

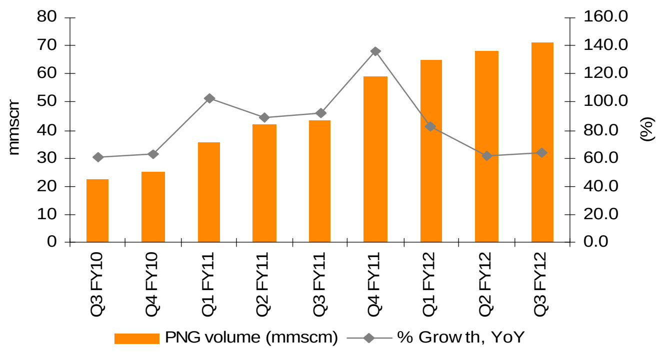
Rs. Mn	FY12E			FY13E		
	Old	New	% Change	Old	New	% Change
Net Sales	23117.0	25227	9.1	27558.0	31239.7	13.4
EBIDTA	6815.0	6318	-7.3	7346.0	7342.5	0.0
EBIDTA %	*29.5*	*25.0*	-443.7bps	*26.7*	*23.5*	-315.3bps
PAT	3380.0	3023	-10.6	3513.0	3349.7	-4.6
EPS	24.1	21.6	-10.4	25.1	23.9	-4.8

Outlook and Valuations

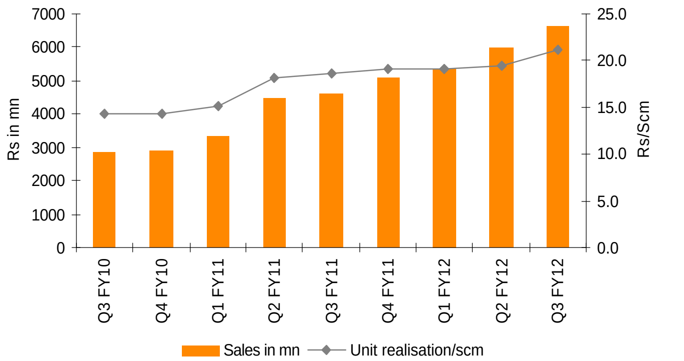
Dec11 Qtr results were broadly inline with market expectations. Our EPS estimate of Rs.21.6 and Rs23.9 for FY12E and FY13E respectively, imply earning CAGR of 14% over FY11-13E. However the recent news on proposed cap on gas marketing margin which is to be decided by PNGRB would keep the stock under pressure until any clarity emerges. Currently, stock trades at 13.9x FY13E EPS and 3.3x P/BV, we maintain ACCUMULATE ratings with the revised TP of Rs.401.

CNG & PNG volume growth

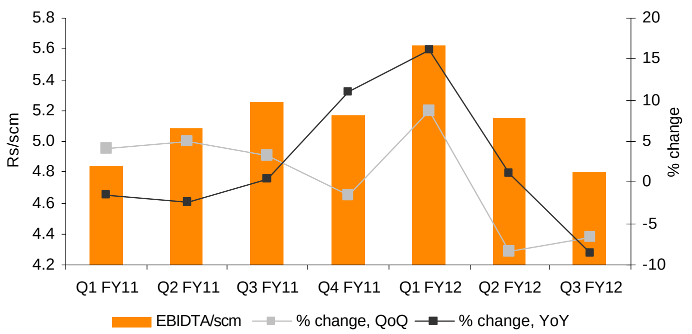




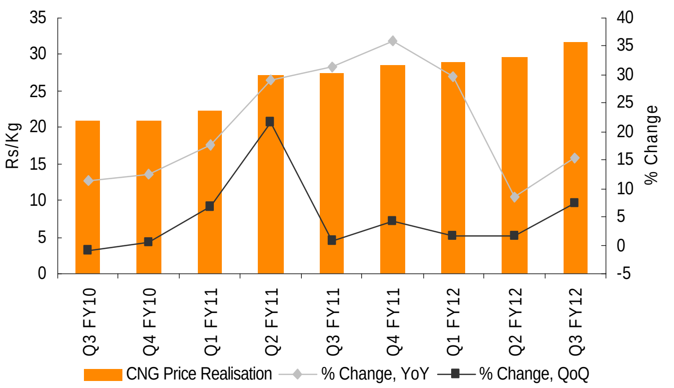
Sales & Unit realisation/scm



EBIDTA/scm



CNG & PNG Price Realisation



Key Financials

Income statement

Y/E Mar (Rsmn)	FY10	FY11	FY12E	FY13E
Net Sales	10838	17504	25227	31540
Growth (%)	26.5	61.5	44.1	25.0
Expenditure	6973	12518	18909	24197
Materials Consumed	4949	9835	15350	19965
Employee Cost	308	379	466	568
Other Exp	1717	2303	3094	3665
EBITDA	3865	4987	6318	7342
Growth (%)	27.0	29.0	26.7	16.2
EBITDA margin (%)	35.7	28.5	25.0	23.3
Depreciation	775	1029	1418	1692
EBIT	3090	3958	4899	5651
EBIT margin (%)	29.9	22.8	19.7	18.1
Other Income	154	31	59	67
Interest expenses	0	131	493	755
PBT	3244	3857	4465	4962
Tax	1089	1259	1442	1613
Effective tax rate (%)	33.6%	32.6%	32.3%	32.5%
Adjusted PAT	2155	2598	3023	3350
Growth (%)	24.9	20.6	16.3	10.8
Net Margin (%)	19.9	14.8	12.0	10.6
(Profit)/loss from JVs/Ass/MI				
Adjusted PAT AfterJV/ MI	2155	2598	3023	3350
E/O items				
Reported PAT	2155	2598	3023	3350
PAT after MI	2155	2598	3023	3350
Growth (%)	24.9	20.6	16.3	10.8

Balance Sheet

Y/E Mar (Rsmn)	FY10	FY11	FY12E	FY13E
Equity share capital	1400	1400	1400	1400
Reserves & surplus	6853	8632	10672	12875
Net worth	8253	10032	12072	14275
Minority Interest	0	0	0	0
Secured Loans	0	1500	3012	5601
Unsecured Loans	0	0	0	0
Loan Funds	0	1500	3012	5601
Net deferred tax liability	474	474	474	474
Total Liabilities	8727	12006	15558	20350
Gross Block	11053	13053	15053	17053
Less: Depreciation	4539	5568	6986	8678
Net block	6514	7485	8067	8376
Capital work in progress	1421	4421	7921	11421
Investment	1042	1042	1042	1042
Current Assets	1595	2625	4136	6690
Inventories	317	398	464	530
Sundry debtors	403	651	938	1172
Cash & bank balance	307	773	1623	3599
Loans & advances	542	761	1051	1314
Other current assets	26	42	60	75
Current lia & Prov	1844	3566	5607	7178
Current liabilities	1007	2048	3279	4274
Provisions	837	1518	2328	2904
Net current assets	-249	-942	-1472	-488
Misc. exp	0	0	0	0
Total Assets	8727	12006	15558	20350

Cash Flow

Y/E Mar (Rsmn)	FY10A	FY11E	FY12E	FY13E
PBT (Ex-Other income)	3244	3857	4465	4962
Depreciation	775	1029	1418	1692
Interest Provided	0	131	493	755
Other Non-Cash items	1	2	3	3
Chg in working cap	150	1159	1379	992
Tax paid	1089	1259	1442	1613
Operating Cashflow	**3068**	**4917**	**6314**	**6788**
Capital expenditure	-3485	-5000	-5500	-5500
Free Cash Flow	**-418**	**-83**	**814**	**1288**
Other income	0	0	0	0
Investments	0	0	0	0
Investing Cashflow	**-3485**	**-5000**	**-5500**	**-5500**
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	0	1500	1512	2589
Interest Paid	0	-131	-493	-755
Dividend paid (incl tax)	-737	-819	-983	-1147
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	**-737**	**550**	**36**	**687**
Net chg in cash	**-1155**	**467**	**849**	**1976**
Opening cash position	1462	307	773	1623
Closing cash position	**307**	**773**	**1623**	**3599**

Key Ratios

Y/E Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	35.7	28.5	25.0	23.3
Net Margin	19.9	14.8	12.0	10.6
ROCE	40.5	38.5	36.0	31.8
ROE	28.6	28.4	27.4	25.4
RoIC	62.1	67.5	91.2	122.0
Per Share Data (Rs)				
EPS	15.4	18.6	21.6	23.9
CEPS	20.9	25.9	31.7	36.0
BVPS	58.9	71.7	86.2	102.0
DPS	4.5	5	6	7
Valuations (x)				
PER	21.8	18.1	15.5	14.0
P/CEPS	16.0	12.9	10.6	9.3
P/BV	5.7	4.7	3.9	3.3
EV / Sales	4.2	2.7	1.9	1.5
EV / EBITDA	11.8	9.3	7.5	6.5
Dividend Yield (%)	2.1	1.5	1.8	2.1
Gearing Ratio (x)				
Net Debt/ Equity	0.0	0.0	0.0	0.1
Net Debt/EBIDTA	-0.1	-0.1	0.1	0.1
Working Cap Cycle (days)	-9.7	-20.9	-27.2	-29.8

Recommendation History: Indraprastha Gas Ltd – IGL IN

Date	Reports	Reco	CMP	Target
19/10/2011	Indraprastha Gas Q2FY12 Result Update	Accumulate	396	425
01/08/2011	Indraprastha Gas Q1FY12 Result Update	Accumulate	412	425
31/05/2011	Indraprastha Gas Q4FY11 Result Update	Accumulate	330	382
11/01/2011	Indraprastha Gas Q3FY11 Result Update	Accumulate	330	382

Recent Research Reports

Date	Reports	Reco	CMP	Target
24/01/2012	GAIL Q3FY12 Result Update	Accumulate	368	449
23/01/2012	Reliance Industries Q3FY12 Result Update	Accumulate	792	913
30/11/2011	Oil and Gas Sector Update			
14/11/2011	Gujarat State Petronet Q2FY12 Result Update	Buy	98	120

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