January 25, 2012

Indraprastha Gas (INDGAS)

₹ 336

Rating matrix

Rating	:	Hold
Target	:	₹ 359
Target Period	:	12-15 months
Potential Upside	:	7%

Key Financials

(₹ Crore)	FY10	FY11	FY12E	FY13E
Revenues	1083.8	1750.4	2515.1	3193.0
EBITDA	386.5	498.6	637.9	714.7
Net Profit	215.5	259.7	308.7	336.3

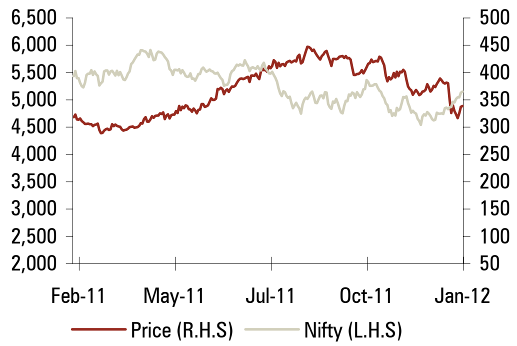
Valuation summary

	FY10	FY11	FY12E	FY13E
EPS (₹)	15.4	18.6	22.1	24.0
PE (x)	21.8	18.1	15.2	14.0
Target PE (x)	23.3	19.4	16.3	14.9
EV to EBITDA (x)	11.9	10.1	8.0	7.1
Price to book (x)	5.7	4.7	3.8	3.2
RoNW (%)	26.1	25.9	25.3	23.0
RoCE (%)	37.4	29.3	30.2	28.0

Stock data

Market Cap.	₹ 4704 Crore
Debt (FY11)	₹ 346.5 Crore
Cash + Liq. Invsts (FY11)	₹ 58.9 Crore
EV	₹ 4991.6 Crore
52 week H/L	453 / 285
Equity capital	₹ 140 Crore
Face value	₹ 10
MF Holding (%)	13.9
FII Holding (%)	19.9

Price movement



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WHAT'S CHANGED...

PRICE TARGET.. Changed from ₹ 408 to ₹ 359
EPS (FY12E).. Changed from ₹ 23 to ₹ 22.1
EPS (FY13E).. Changed from ₹ 24.1 to ₹ 24.0
RATING..Unchanged

Rupee and higher costs impact profitability…

Indraprastha Gas (IGL) declared its Q3FY12 results with revenues of ₹ 663.1 crore, EBITDA of ₹ 150.4 crore and PAT of ₹ 69.1 crore. The profitability was lower than our estimates mainly on account of higher gas costs due to higher LNG prices and stoppage of gas supplies from RIL. Also, the depreciation of the rupee and inability of the company to pass on higher costs to customers led to lower than expected profits. However, we believe results would be better in Q4FY12 as IGL has now increased CNG prices to ₹ 33.75/kg and spot LNG prices have declined in the global markets. In Q3FY12, blended sales prices were increased by 14.5% YoY to ₹ 23.4/scm, mainly to pass on increased raw material costs. The increased sales volumes in the CNG segment and natural gas sales volume to industrial and commercial customers contributed to the 25.9% YoY increase in volumes to 313.8 mmscm (3.4 mmscmd). We expect IGL's volumes to increase to 1220 mmscm and 1412 mmscm in FY12E and FY13E, respectively. We recommend a HOLD rating on the stock with a price target of ₹ 359.

- **YoY increase of 25.9% in gas sales volume**

  IGL reported a 25.9% increase in gas sales volume from 249.2 mmscm in Q3FY11 to 313.8 mmscm in Q3FY12. CNG and PNG gas sales volume increased 16.1% and 64.2% YoY to 242.7 mmscm and 71.1 mmscm, respectively, in Q3FY12. We expect 14.4% and 21.5% increase in CNG and PNG sales volume, respectively, in FY13E.

- **Prices increased to pass on higher costs**

  The realisations improved YoY mainly on the back of the price increases taken in the CNG segment. However, IGL was unable to completely pass on higher costs to customers. CNG and PNG realisations stood at ₹ 31.7/kg and ₹ 23.1/scm, respectively, for Q3FY12. The impact of the price hike in the CNG segment to ₹ 33.75/kg would be visible from the current quarter.

Valuation

We expect IGL to report steady growth on account of higher capex, an increasing pipeline network and higher conversion to CNG vehicles. We have valued the stock based on DCF methodology with a price target of ₹ 359 (WACC – 11.8%, terminal growth – 3%).

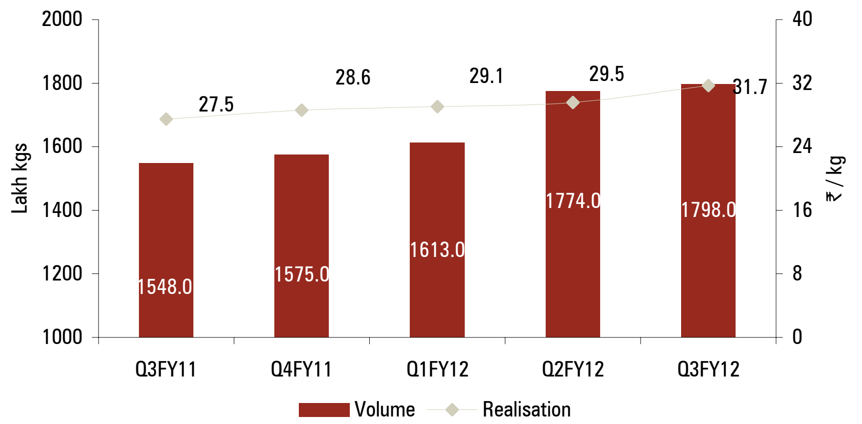
Exhibit 1: Financial Performance

(₹ Crore)	Q3FY12A	Q3FY12E	Q3FY11	Q2FY12	YoY Gr.(%)	QoQ Gr.(%)
Revenues	663.1	677.5	457.1	597.5	45.1	11.0
EBITDA	150.4	167.8	129.3	157.9	16.4	-4.7
EBITDA Margin (%)	22.7	24.8	28.3	26.4	(560) bps	(370) bps
Depreciation	36.8	36.6	26.2	34.4	40.7	6.9
Interest	13.5	12.6	4.1	11.8	228.4	15.1
Reported PAT	69.1	81.3	67.2	77.2	2.9	-10.5
EPS (₹)	4.9	5.8	4.8	5.5	2.9	-10.5

Source: Company, ICICIdirect.com Research

CNG gas sales volumes increased 16.1% YoY from 1548 lakh kg in Q3FY11 to 1798 lakh kg in Q3FY12 on account of higher conversion of private vehicles to CNG. Realisations increased to ₹ 31.7/kg in Q3FY12 on account of an increase in CNG prices

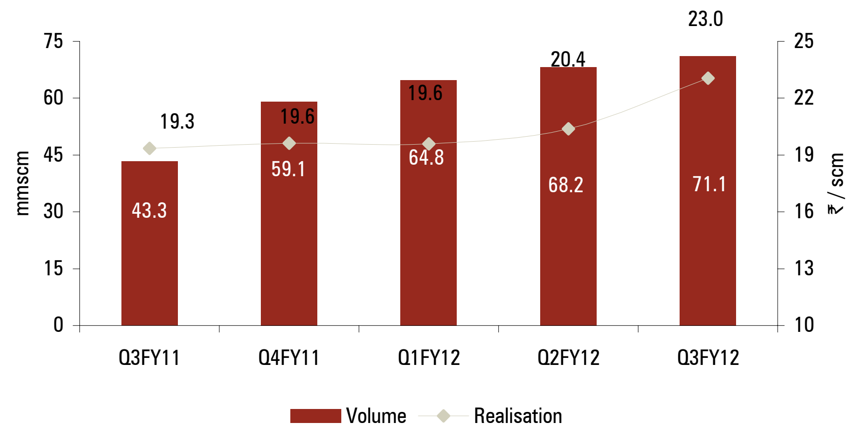
Exhibit 2: CNG gas sales volume and realisations trend



Source: Company, ICICIdirect.com Research

The PNG gas sales volume increased 64.1% YoY from 43.3 mmscm in Q3FY11 to 71.1 mmscm in Q3FY12. Realisations stood at ₹ 23/scm on higher proportion of spot LNG

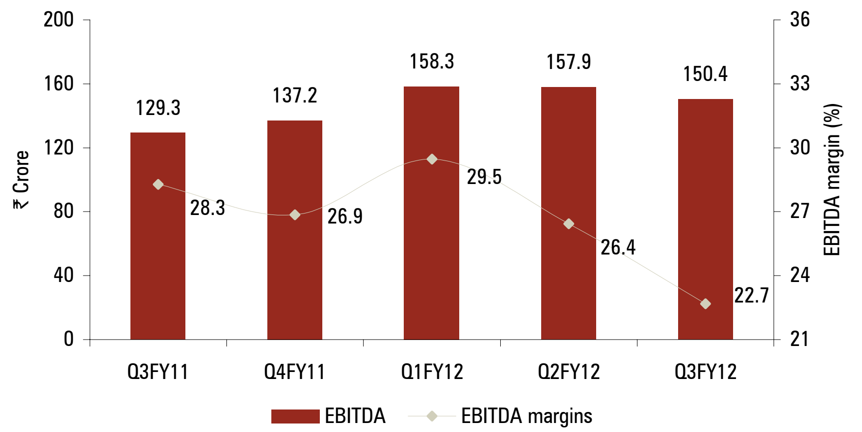
Exhibit 3: PNG gas sales volume and realisations trend



Source: Company, ICICIdirect.com Research

The EBITDA margin declined ~560 bps YoY on account of higher gas costs mainly on account of an increase in LNG prices and rupee depreciation

Exhibit 4: EBITDA and EBITDA margin trend



Source: Company, ICICIdirect.com Research

The profitability growth stood at 2.9% YoY from ₹ 67.2 in Q3FY11 to ₹ 69.1 crore in Q3FY12. Higher loans on account of increased capex have led to interest costs of ₹ 13.5 crore in Q3FY12

Exhibit 5: Quarterly profit and loss account (₹ Crore)

(₹ Crore)	Q3FY12	Percent. (%)	Q3FY11	Percent. (%)
Revenues	663.1	100.0	457.1	100.0
Consumption of raw materials	423.0	63.8	259.8	56.8
Employee Costs	10.7	1.6	9.9	2.2
Other Expenditure	79.1	11.9	58.1	12.7
Total Expenditure	512.7	77.3	327.8	71.7
EBITDA	150.4	22.7	129.3	28.3
Depreciation	36.8	5.5	26.2	5.7
EBIT	113.6	17.1	103.1	22.6
Interest	13.5	2.0	4.1	0.9
Other Inc /Exp /Extra Ordinary Item	1.5	0.2	0.7	0.1
PBT	101.6	15.3	99.7	21.8
Total Tax	32.4	4.9	32.5	7.1
PAT	69.1	10.4	67.2	14.7

Source: Company, ICICIdirect.com Research

Valuations

We expect IGL to report steady growth on account of higher capex, increasing pipeline network and higher conversion to CNG vehicles. We have valued the stock based on DCF methodology with a price target of ₹ 359 (WACC – 11.8%, terminal growth – 3%).

Exhibit 6: Valuation Table

Year	Sales (₹ Crore)	Sales Gr. (%)	EPS (₹)	EPS Gr. (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY09	857.1	20.2	12.3	-1.1	27.3	15.0	25.2	34.7
FY10	1083.8	26.5	15.4	24.9	21.8	11.9	26.1	37.4
FY11	1750.4	61.5	18.6	20.5	18.1	10.1	25.9	29.3
FY12E	2515.1	43.7	22.1	18.9	15.2	8.0	25.3	30.2
FY13E	3193.0	27.0	24.0	8.9	14.0	7.1	23.0	28.0

Source: Company, ICICIdirect.com Research

Exhibit 7: DCF valuation

WACC	11.8%
Present Value of Cash Flows till FY16E	783.8
Terminal Growth Rate	3.0%
Terminal Value	8028.0
Present Value of Terminal Cash Flows	4592.6
Total Present Value of the Firm	5376.4
Less: Net Debt (FY13E)	348.5
Total Present Value of Equity	5027.9
Number of Outstanding shares (In Crore)	14.0
DCF (₹ per share)	359

Source: ICICIdirect.com Research

Financial summary

Profit and loss statement

(₹ Crore)

(Year-end March)	FY10	FY11	FY12E	FY13E
Revenue	1,083.8	1,750.4	2,515.1	3,193.0
Growth (%)	26.5	61.5	43.7	27.0
Raw material Costs	494.9	983.5	1,521.2	2,018.5
Employee Costs	30.8	37.9	47.8	76.6
Other Expenditure	171.7	230.4	308.1	383.2
Op. Expenditure	697.3	1,251.8	1,877.1	2,478.2
EBITDA	386.5	498.6	637.9	714.7
Growth (%)	27.0	29.0	27.9	12.0
Depreciation	77.5	102.9	142.0	173.5
EBIT	309.1	395.8	495.9	541.3
Interest	0.0	13.2	46.8	49.1
Other Income	15.4	3.1	6.0	5.3
PBT	324.5	385.7	455.1	497.4
Growth (%)	25.3	18.9	18.0	9.3
Tax	108.9	126.0	146.3	161.2
Reported PAT	215.5	259.7	308.7	336.3
Growth (%)	24.9	20.5	18.9	8.9
Adjustments	0.0	0.0	0.0	1.0
Adj. Net Profit	215.5	259.7	308.7	335.3

Source: Company, ICICIdirect.com Research

Cash flow statement

(₹ Crore)

(Year-end March)	FY10	FY11	FY12E	FY13E
Profit after Tax	215.5	259.7	308.7	336.3
Less: Dividend Paid	73.5	81.4	90.1	98.3
Add: Depreciation	77.5	102.9	142.0	173.5
Add: Others	2.9	17.0	15.0	15.0
Cash Profit	222.4	298.2	375.7	426.5
Increase/(Decrease) in CL	50.1	55.0	102.4	80.3
(Increase)/Decrease in CA	-22.9	-70.0	-118.2	-96.7
CF from Operating Activities	249.6	283.2	359.8	410.0
Purchase of Fixed Assets	390.4	770.6	495.7	500.0
(Inc)/Dec in Investments	87.2	-24.6	16.6	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-303.2	-795.3	-479.1	-500.0
Inc/(Dec) in Loan Funds	28.7	408.1	150.0	110.0
Inc/(Dec) in Sh. Cap. & Res.	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	28.7	408.1	150.0	110.0
Change in cash Eq.	-24.9	-104.0	30.8	20.0
Op. Cash and cash Eq.	146.2	121.3	17.2	48.0
Cl. Cash and cash Eq.	121.3	17.2	48.0	68.0

Source: Company, ICICIdirect.com Research

Balance sheet

(₹ Crore)

(Year-end March)	FY10	FY11	FY12E	FY13E
Source of Funds				
Equity Capital	140.0	140.0	140.0	140.0
Preference capital	3.0	4.0	5.0	6.0
Reserves & Surplus	685.5	863.8	1,082.5	1,320.5
Shareholder's Fund	825.5	1,003.8	1,222.5	1,460.5
Loan Funds	0.0	346.5	421.5	471.5
Deferred Tax Liability	23.8	40.8	55.8	70.8
Minority Interest	0.0	0.0	1.0	2.0
Source of Funds	904.5	1507.9	1891.5	2254.5
Application of Funds				
Gross Block	1,105.3	1,716.1	2,266.1	2,816.1
Less: Acc. Depreciation	453.9	556.6	702.9	876.4
Net Block	651.4	1,159.5	1,563.2	1,939.7
Capital WIP	182.6	342.3	292.3	242.3
Total Fixed Assets	834.0	1,501.8	1,855.5	2,182.0
Investments	17.0	41.6	25.0	25.0
Inventories	27.8	35.9	55.1	70.0
Debtor	33.5	74.5	117.1	161.8
Cash	121.3	17.2	48.0	68.0
Loan & Advance, Other CA	74.7	95.6	151.9	189.1
Total Current assets	257.2	223.2	372.2	488.9
Current Liabilities	126.2	172.9	261.8	332.4
Provisions	77.6	85.9	99.3	109.0
Total CL and Provisions	203.8	258.7	361.1	441.4
Net Working Capital	53.4	-35.5	11.0	47.5
Miscellaneous expense	0.0	0.0	1.0	2.0
Application of Funds	904.5	1,507.9	1,891.5	2,254.5

Source: Company, ICICIdirect.com Research

Key ratios

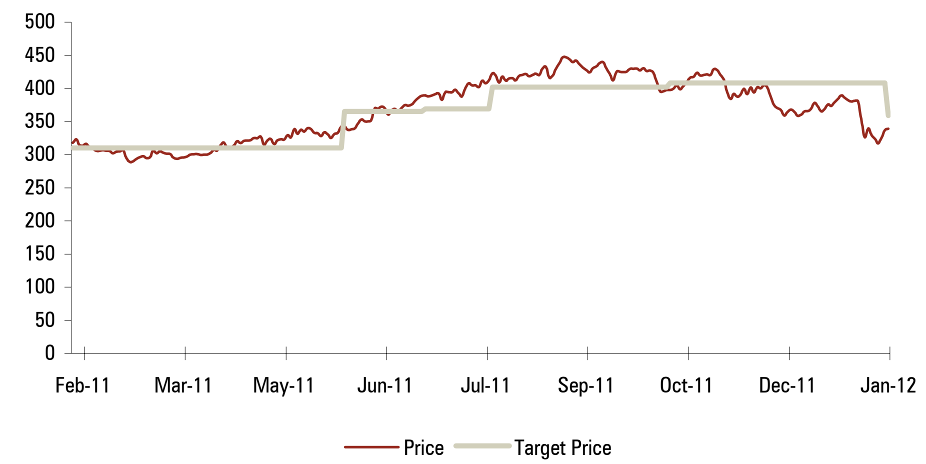
(Year-end March)	FY10	FY11	FY12E	FY13E
Per share data (₹)				
Book Value	59.0	71.7	87.3	104.3
Cash per share	9.9	4.2	5.2	6.6
EPS	15.4	18.6	22.1	24.0
Cash EPS	20.9	25.9	32.2	36.4
DPS	4.5	5.0	5.5	6.0
Profitability & Operating Ratios				
EBITDA Margin (%)	35.7	28.5	25.4	22.4
PAT Margin (%)	19.9	14.8	12.3	10.5
Fixed Asset Turnover (x)	1.3	1.2	1.4	1.5
Inventory Turnover (Days)	9.4	7.5	8.0	8.0
Debtor (Days)	11.3	15.5	17.0	18.5
Current Liabilities (Days)	42.5	36.0	38.0	38.0
Return Ratios (%)				
RoE	26.1	25.9	25.3	23.0
RoCE	37.4	29.3	30.2	28.0
RoIC	45.0	30.6	31.6	29.4
Valuation Ratios (x)				
PE	21.8	18.1	15.2	14.0
Price to Book Value	5.7	4.7	3.8	3.2
EV/EBITDA	11.9	10.1	8.0	7.1
EV/Sales	4.2	2.9	2.0	1.6
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.3	0.3	0.3
Interest Coverage (x)	NA	30.0	10.6	11.0
Debt to EBITDA (x)	0.0	0.7	0.7	0.7
Current Ratio	1.3	0.9	1.0	1.1
Quick ratio	1.1	0.7	0.9	0.9

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

Gujarat Gas					Sales(₹ Cr.)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	GUJGAS	CMP	384.0	CY08	1301.3	12.4	15.4	20.8	22.3	26.7
		Target	410.0	CY09	1419.7	13.5	28.5	17.6	22.4	29.8
				CY10	1849.3	20.0	19.2	11.8	30.2	42.1
				CY11E	2462.5	23.5	16.3	10.8	31.1	39.8
MCap	4924.8	Upside (%)	6.8	CY12E	3307.3	27.6	13.9	8.9	30.9	41.2
Guj. State Petronet Ltd										
Idirect Code	GSPL	CMP	81.0	FY09	487.5	2.2	36.9	13.4	10.2	10.8
		Target	118.0	FY10	1000.9	7.4	11.0	6.2	26.5	25.0
				FY11E	1046.5	9.0	9.0	6.2	25.3	24.1
				FY12E	1157.0	9.9	8.2	5.7	22.5	22.5
MCap	4555.8	Upside (%)	45.7	FY13E	1174.2	10.3	7.8	5.4	19.7	21.3
Indraprastha Gas Ltd										
Idirect Code	INDGAS	CMP	336	FY09	857.1	12.3	27.3	15.0	25.2	34.7
		Target	359	FY10	1083.8	15.4	21.8	11.9	26.1	37.4
				FY11	1750.4	18.6	18.1	10.1	25.9	29.3
				FY12E	2515.1	22.1	15.2	8.0	25.3	30.2
MCap	4704.0	Upside (%)	6.8	FY13E	3193.0	24.0	14.0	7.1	23.0	28.0
Petronet LNG Ltd										
Idirect Code	PETLNG	CMP	162.0	FY09	8428.7	6.9	23.4	15.3	26.1	18.7
		Target	175.0	FY10	10649.1	5.4	30.0	16.9	18.1	14.5
				FY11	13197.3	8.3	19.6	12.5	23.1	17.5
				FY12E	21749.0	13.4	12.1	8.4	28.9	21.3
MCap	12150.0	Upside (%)	8.0	FY13E	27040.4	13.7	11.8	8.2	24.0	20.3

Exhibit 8: Recommendation History



Source: ICICIdirect.com Research

Exhibit 9: Recent Releases

Date	Event	CMP	Target Price	Rating
11-Jan-11	Q3FY11 Result Update	330	352	ADD
1-Jun-11	Q4FY11 Result Update	334	365	HOLD
5-Jul-11	Event Update	389	369	HOLD
2-Aug-11	Q1FY12 Result Update	412	402	HOLD
20-Oct-11	Q2FY12 Result Update	396	408	HOLD
25-Jan-12	Q3FY12 Result Update	336	359	HOLD

Source: ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: >15%/20% for large caps / midcaps, respectively, with high conviction;
Buy: > 10%/ 15% for large caps / midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

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