

**Buy****Indraprastha Gas Ltd.**

Industry: Oil &amp; Gas

Industry View: Neutral

**“Profit above estimate, maintain BUY”**

IGL's Q3 FY12 net profit exceeded our expectations on the back of lower than estimated gas cost in spite of a sharp rise in spot LNG prices and swift depreciation of the rupee.

**Q3 FY12 sales at 3.49 mmscmd, 3% ahead of estimate**

The company sold 313.8 mmscm during the quarter comprising of 179.8 mn kg of CNG and 71.1 mmscm of PNG. Total sales improved by 6.1 mmscm q-o-q & 64.6 mmscm y-o-y. CNG sales came in 5.3% ahead of our estimate, which resulted in actual sales volumes being 3.2% ahead of our expectations. While CNG sales were flat sequentially, PNG sales improved 4.3% sequentially.

**Q3 FY12 EBITDA/scm at Rs 4.8/scm, 4% ahead of estimate**

EBITDA/scm for Q3 FY12 came in at Rs 4.79/scm, compared to Rs 5.13/scm in Q2 FY12 & Rs 5.19/scm in Q3 FY11. This pressure on margins was due to increased dependence on costlier spot R-LNG and was exacerbated by the swift depreciation of the rupee. However, raw material cost at Rs 13.5/scm was 4% lower than our estimate of Rs 14/scm, leading to better than expected EBITDA/scm.

**Revenue at Rs 6,631 mn, in line with estimates**

Q3 FY12 revenue came in at Rs 6,631.3 mn, 1.4% ahead of our estimate. While CNG sales of Rs 4,934.4 mn was 4.2% ahead of our estimate, PNG sales at Rs 1,638.8 mn disappointed by coming in 9.2% lower than expected. Sales increased 45% y-o-y on account of higher sales volumes and price hikes. Q-o-q growth of 11% was primarily due to the price hike in CNG on Oct 1, 2011.

**EBITDA at Rs 1,504 mn, 7% ahead of estimate**

Q3 FY12 EBITDA stood at Rs 1,504.4 mn, up 16.4% y-o-y but down 4.8% sequentially. While the y-o-y rise was due to price hikes taken during the year, the q-o-q drop is reflective of the squeeze on margins due to the steep depreciation in the rupee and higher proportion of spot R-LNG.

**Depreciation & interest expense on expected lines**

While depreciation was up 6.8% q-o-q at Rs 368 mn, interest expense was up 15.1% q-o-q at Rs 135.3 mn; which were as per expectation. The y-o-y jump of 40.7% & 228.7% in depreciation & interest expense respectively is due to the heavy capex being incurred and debt raised for the same.

**PAT at Rs 691 mn, 9% ahead of estimates**

Consequently, Q3 FY12 PAT stood at Rs 691.5 mn, up 2.9% y-o-y but down 10.5% q-o-q. EPS for the quarter was Rs 4.9 compared to Rs 4.8 in Q3 FY11.

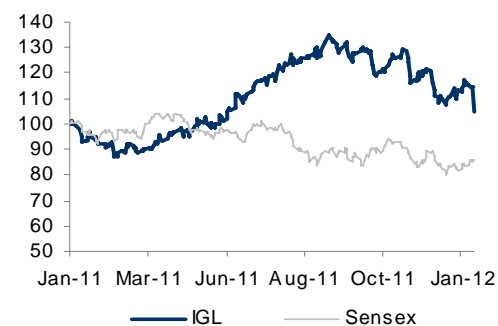
**Stock Data**

Current Market Price (₹)	350
Target Price (₹)	405
Potential upside (%)	16
Reuters	IGAS.CO
Bloomberg	IGL IN

**Key Data**

Market Cap (₹bn)	60
52-Week Range (₹)	453 / 285
Avg. Daily Trading Value last 6 months (₹mn)	146
Promoters (%)	45
FII Holding (%)	20
DII Holding (%)	24
Public & Others Holding (%)	11

Fiscal YE	FY 11	FY 12E	FY 13E	FY 14E
Revenues (₹mn)	17,441	24,708	32,652	36,424
EBITDA (%)	28.2	25.0	21.4	21.6
PAT (%)	14.9	11.5	9.6	9.7
EPS (₹)	18.6	20.4	22.4	25.4
EPS growth (%)	21	10	10	13
P/E (x)	18.9	17.2	15.6	13.8
P/B(x)	4.9	4.1	3.4	2.9
EV/EBITDA (x)	10.3	8.5	7.5	6.5
ROCE(%)	33	28	26	26
ROE(%)	28	26	24	23

**Relative Price Performance****One Year Indexed**

(%)	1 Month	3 Months	12 Months
Absolute	(3)	(18)	5
BSE Relative	(4)	13	20

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## Financial Highlights

(₹mn)	Q3 FY12	Q2 FY12	% QoQ	Q3 FY11	% YoY	9M FY12	9M FY11	% YoY
<b>Net Sales</b>	<b>6,631</b>	<b>5,975</b>	<b>11.0%</b>	<b>4,571</b>	<b>45.1%</b>	<b>17,980</b>	<b>12,397</b>	<b>45.0%</b>
Change in inventory	(3)	(3)	na	(1)	na	(8)	(4)	na
Consumption of gas	4,233	3,584	18.1%	2,599	62.9%	10,823	6,815	58.8%
Other expenses	897	815	10.2%	680	31.9%	2,498	1,970	26.8%
<b>Operating profit</b>	<b>1,504</b>	<b>1,580</b>	<b>-4.8%</b>	<b>1,293</b>	<b>16.4%</b>	<b>4,667</b>	<b>3,615</b>	<b>29.1%</b>
OPM	22.7%	26.4%	-3.7%	28.3%	-5.6%	26.0%	29.2%	-3.2%
Other income	15	15	-1.5%	7	120.4%	43	23	88.1%
DD&A	368	344	6.8%	262	40.7%	1,034	731	41.4%
Interest	135	118	15.1%	41	228.7%	343	61	459.1%
Taxes	324	360	-10.0%	325	-0.1%	1,069	939	13.8%
<b>PAT</b>	<b>692</b>	<b>772</b>	<b>-10.5%</b>	<b>672</b>	<b>2.9%</b>	<b>2,264</b>	<b>1,906</b>	<b>18.8%</b>
EPS	4.9	5.5	-10.5%	4.8	2.9%	16.2	13.6	18.8%

Source: Company, LKP Research

	Q3 FY12	Q2 FY12	q-o-q (%)	Q3 FY11	y-o-y (%)
<b>Gross Sales (Rs mn)</b>	<b>7,336.0</b>	<b>6,630.0</b>	<b>10.6</b>	<b>5,090.0</b>	<b>44.1</b>
-CNG	5,697.2	5,240.0	8.7	4,250.0	34.0
-PNG	1,638.8	1,390.0	17.9	840.0	95.1
<b>Volumes (mmscm)</b>	<b>313.8</b>	<b>307.7</b>	<b>2.0</b>	<b>249.2</b>	<b>25.9</b>
-CNG (mn kg)	179.8	177.4	1.4	154.8	16.1
-PNG (mmscm)	71.1	68.2	4.3	43.3	64.2
<b>Realizations (Rs/scm)</b>	<b>21.1</b>	<b>19.4</b>	<b>8.8</b>	<b>18.2</b>	<b>15.9</b>
-CNG (Rs/kg)	31.7	29.5	7.5	27.5	15.3
-PNG (Rs/scm)	23.0	20.4	12.7	19.4	18.6
<b>Gas cost (Rs/scm)</b>	<b>13.5</b>	<b>11.6</b>	<b>16.4</b>	<b>10.4</b>	<b>29.8</b>
<b>EBITDA/scm (Rs/scm)</b>	<b>4.8</b>	<b>5.1</b>	<b>(5.9)</b>	<b>5.2</b>	<b>(7.7)</b>

### Marketing margin to be capped?

Media reports indicate that the central government has entrusted PNGRB with the determination of quantum of marketing margin chargeable on sale of natural gas to end consumers by a marketing entity on the basis of marketing costs incurred by it. Currently, GAIL charges marketing margin of ~\$ 0.18/mmbtu on PMT, ~\$ 0.12/mmbtu on APM gas and ~\$ 0.7/mmbtu on non-APM gas and LNG. RIL charges \$ 0.135/mmbtu for KG D6 gas. Petronet LNG charges ~\$ 0.4/mmbtu as marketing margin for spot LNG cargoes. Prices charged for CNG & PNG by IGL also include a marketing margin component.

### Scope of regulations limited to domestic gas

The primary target for capping marketing margins would be domestic gas producers & marketers since customers for domestic gas are earmarked & allocated by the Govt. Thus, there are no marketing costs incurred in the process. However, it is not clear whether the current set of rules & regulations are applicable on CGD & LNG terminals. Importing spot LNG from the global market requires an ability to source competitively priced LNG. Also, the company makes its own efforts for identifying customers and signing offtake agreements with the same, which involves considerable resources. CGD companies have to make investments in pipelines, CNG stations, spur lines to ensure last mile connectivity to reach out to new areas and add more customers. Hence, we believe that LNG terminals & CGD companies would not be treated similar to passive sellers of domestic gas.

### **Implementation to take time**

The PNGRB is yet to be fully constituted only after which it can pursue long pending issues related to authorization of transmission networks, transmission tariffs (GSPL), CGD rollout; besides the latest issue of linking marketing margins to marketing costs. PNGRB would also likely invite the various companies to present their case and evaluate the same. Meanwhile, it would also obtain opinions from other Govt. agencies on the scope and ambit of the current regulatory structure. Ultimately, the whole process would take a lot of time.

### **Outlook & Valuation**

We had initiated coverage on IGL in Oct 2011 with a contra-consensus SELL call, citing risks to continuance of the past rosy growth & margin scenario. Subsequently, the stock has corrected from Rs 426 at the time of our initiation to as low as Rs 317. Subsequently, we had come up with an event update wherein we upgraded our recommendation to a BUY with a target price of Rs 366.

As rupee has appreciated by ~5.7% in Jan 2012 and spot LNG prices have come down from ~\$ 16/mmBtu to ~\$14/mmBtu, we expect the coming quarters to be significantly better. We roll forward our valuation to Mar 2013 and maintain BUY with a revised target price of Rs 405 which translates into an upside of ~15% to the CMP of Rs 350.

## Financial Summary

### Income statement

YE Mar (₹mn)	FY11	FY12E	FY13E	FY14E
<b>Revenue</b>	<b>17,441</b>	<b>24,708</b>	<b>32,652</b>	<b>36,424</b>
Cost of natural gas	9,843	15,144	21,543	23,734
Operating Exp	1,387	1,676	1,996	2,387
Other Exp	1,287	1,720	2,128	2,426
<b>Operating Profit</b>	<b>4,923</b>	<b>6,169</b>	<b>6,985</b>	<b>7,876</b>
<i>Operating Margin(%)</i>	<i>28.2</i>	<i>25.0</i>	<i>21.4</i>	<i>21.6</i>
Other Income	95	84	89	94
Depreciation	1,029	1,493	1,887	2,243
<b>EBIT</b>	<b>3,989</b>	<b>4,759</b>	<b>5,187</b>	<b>5,727</b>
<i>EBIT Margin(%)</i>	<i>22.9</i>	<i>19.3</i>	<i>15.9</i>	<i>15.7</i>
Interest	132	506	506	429
<b>PBT</b>	<b>3,857</b>	<b>4,253</b>	<b>4,681</b>	<b>5,298</b>
<i>PBT Margin(%)</i>	<i>22.1</i>	<i>17.2</i>	<i>14.3</i>	<i>14.5</i>
Tax	1,259	1,403	1,545	1,748
<b>PAT</b>	<b>2,598</b>	<b>2,849</b>	<b>3,136</b>	<b>3,549</b>
<i>PAT Margin(%)</i>	<i>14.9</i>	<i>11.5</i>	<i>9.6</i>	<i>9.7</i>

### Key Ratios

YE Mar (mn)	FY11	FY12E	FY13E	FY14E
<b>Per Share Data (₹)</b>				
EPS	18.6	20.4	22.4	25.4
CEPS	25.9	31.0	35.9	41.4
BVPS	71.7	86.2	102.8	122.4
Cash per share	1.2	1.7	2.1	2.7
<b>Growth Ratios(%)</b>				
Revenue	61.8	41.7	32.2	11.6
EBITDA	29.2	25.3	13.2	12.8
PAT	20.5	9.7	10.1	13.2
Cash PAT	23.8	19.8	15.7	15.3
<b>Valuation Ratios (X)</b>				
PE	18.9	17.2	15.6	13.8
P/CEPS	13.5	11.3	9.8	8.5
P/BV	4.9	4.1	3.4	2.9
EV/Sales	3.0	2.1	1.6	1.4
EV/EBITDA	10.3	8.5	7.5	6.5
<b>Turnover Ratios (Days)</b>				
Receivable Days	11.3	11.2	11.2	11.2
Inventory Days	430.9	467.4	480.3	490.9
Payable Days	55.4	60.0	60.0	60.0
<b>Profitability Ratios (%)</b>				
ROCE	33.1	28.3	26.1	25.7
ROE	28.4	25.8	23.7	22.5

Source: Company, LKP Research

### Balance sheet

YE Mar (₹mn)	FY11	FY12E	FY13E	FY14E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	1,400	1,400	1,400	1,400
Reserves & Surplus	8,639	10,674	12,997	15,733
Total Networth	10,039	12,074	14,397	17,133
Total debt	3,465	4,622	4,622	3,922
Deferred tax liability	408	408	408	408
Deposit from customers	1,168	1,480	1,694	1,934
<b>Total Liabilities</b>	<b>15,079</b>	<b>18,584</b>	<b>21,121</b>	<b>23,396</b>
<b>APPLICATION OF FUNDS</b>				
Gross Block	17,160	22,660	27,660	32,160
Accumulated Dep.	5,566	7,059	8,946	11,190
Net Block	11,594	15,601	18,714	20,971
Capital WIP	3,423	3,423	3,423	3,423
Investments	416	416	416	416
<b>Current Assets</b>				
Cash and Bank	173	239	291	374
Inventories	359	409	459	509
Sundry Debtors	745	758	1,002	1,118
Loan, Adv & others	956	1,086	1,216	1,346
<b>Current Liab &amp; Prov</b>				
Current liabilities	1,729	2,489	3,541	3,902
Provisions	859	859	859	859
<b>Net Current Assets</b>	<b>(355)</b>	<b>(857)</b>	<b>(1,433)</b>	<b>(1,414)</b>
<b>Total Assets</b>	<b>15,079</b>	<b>18,584</b>	<b>21,121</b>	<b>23,396</b>

### Cash Flow

YE Mar (₹mn)	FY11	FY12E	FY13E	FY14E
PAT	2,598	2,849	3,136	3,549
Depreciation	1,029	1,493	1,887	2,243
Interest	132	506	506	429
Chng in working capital	150	(568)	(628)	(64)
Other operating activities	(785)	(312)	(214)	(240)
<b>CF from operations (a)</b>	<b>4,261</b>	<b>5,223</b>	<b>5,865</b>	<b>6,097</b>
Capital expenditure	7,706	5,500	5,000	4,500
Chng in investments	246	0	0	0
<b>CF from investing (b)</b>	<b>(7,952)</b>	<b>(5,500)</b>	<b>(5,000)</b>	<b>(4,500)</b>
<b>Free cash flow</b>	<b>(3,313)</b>	<b>229</b>	<b>1,371</b>	<b>2,026</b>
Equity raised/(repaid)	0	0	0	0
Inc/dec in borrowings	3,465	1,157	0	(700)
Dividend paid (incl. tax)	814	814	814	814
Adj in R&S	0	0	0	0
<b>CF from financing (c)</b>	<b>2,651</b>	<b>343</b>	<b>(814)</b>	<b>(1,514)</b>
<b>Net chng in cash (a+b+c)</b>	<b>(1,039)</b>	<b>66</b>	<b>52</b>	<b>83</b>
<b>Closing cash &amp; cash equiv</b>	<b>173</b>	<b>239</b>	<b>291</b>	<b>374</b>

## LKP

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