

CMP Rs.337

Recommendation BUY

Target Price Rs.401

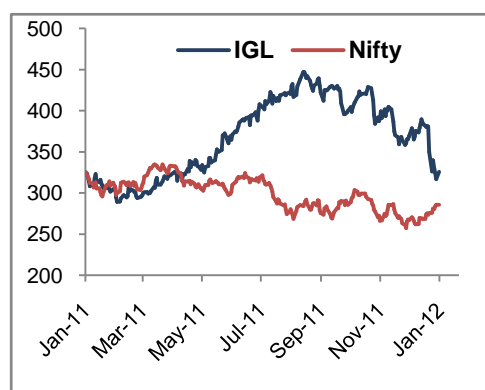
Sector: Oil & Gas

Key Data

Market Cap (Rs, mn)	47,159
Market Cap (US\$ mn)	944
O/S Shares, mn	140
Face Value, Rs	10
2 Wk Avg Vol, NSE	376k
52 Wk High	427.8
52 Wk Low	285.1
Rs/US\$	49.97
Bloomberg	IGL IN
Reuters	IGAS.BO
NSE	IGL
BSE	532514

Shareholding Pattern %

	Q3 FY11	Q3 FY12
Promoters	45.0	45.0
FII	17.0	19.9
Inst Inv	22.4	23.8
Public	15.6	11.4



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Q3 FY12 Result Update

High input cost and depreciation in rupee impacts operating efficiency

Indraprastha Gas Ltd. (IGL) continues to post highest ever quarterly net sales. In Q3 FY12 IGL reported net sales and other operating income of Rs.6.63 bn (*our estimate Rs.6.7 bn*) up by 45.1% YoY and 11% QoQ. The growth in sales was led by 25.2% YoY and 2.2% QoQ growth in volume and price hike in CNG in October 2011. In the quarter the company faced severe margin compression due to increase of high cost LNG in the source mix and depreciation in Rupee/US\$. The gross margin in the quarter stood at 36.2% vs. 43.2% YoY and 40.1% QoQ. The EBITDA for the quarter stood at Rs.1.5 bn (*our estimate Rs.1.7 bn*) up 16.4% YoY however down by -4.8% QoQ. The operating margin was also impacted due to 21% hike in minimum wages for IGL and 20% hike in power tariff in NCT of Delhi. IGL reported net profit of Rs.691 mn (*our estimate Rs.792 mn*) vs. Rs.672 mn YoY and Rs.772 mn QoQ. The net profit margin and EPS for the quarter stood at 10.4% and Rs.4.9 respectively.

Volume growth on track

IGL has reported total sales volume of 314 million standard cubic meters (mscm) in Q3 FY12 which is higher by 25.2% YoY and 2.2% QoQ. The strong volume growth was backed by 16.8% YoY growth in CNG sales and 65.8% YoY growth in PNG sales volume. The average sales volume for the quarter stood at 3.41 mmscmd and for the 9M FY12 stood at 3.3 mmscmd vs. 2.64 mmscmd in 9M FY11. The CNG sales for Q3 FY12 was 242 mscm up only 1.2% QoQ as the CNG off take from buses and auto was low due to 6 days holiday in schools on occasion of Christmas. The company has witnessed robust growth in PNG segment backed by strong industrial demand.

Price hikes to mitigate pressure on operating margins

The company has exhausted its allocation of natural gas at APM and for the incremental demand the company has to rely on the high cost imported gas (LNG) which it sources through GAIL. To mitigate the impact of incremental share of high cost LNG in the source mix and the impact of depreciation in rupee the company has hiked CNG prices to Rs.32/kg in NCT of Delhi, an increase of Rs.2/kg on 1st Oct 2011. IGL has taken another price hike of Rs.1.75/kg from 1st Jan 2012 and the CNG price now stands at Rs.33.75/kg. The petroleum ministry has asked PNGRB to take a look into the marketing margins that a marketer of gas can charge. However, we believe that the government may regulate the marketing margins charged by gas upstream and transmission companies however the marketing margins for CGD companies may not be regulated in near future.

Valuation & Outlook

IGL continue to post high sales volume growth backed by strong demand in CNG across the region and PNG in the industrial belt on NCR. We expect IGL to maintain its robust growth trajectory and expect it to post a YoY volume growth of 26.8% in FY12 and 17.8% in FY13.

We have maintained our FY12E net sales, however has revised upwards FY13E sales by 2.1%. We have revised downwards our FY12E / FY13E net profit by 7.9% and 2.8% respectively.

Based on the weighted average stock price thus arrived {based on three valuation parameters DCF (50%), EV/EBITDA (25%) and PE (25%)}, we downgrade our target price to Rs.401 per share (earlier Rs.419). Due to the recent sharp fall in the stock we upgrade our recommendation to **BUY** with an investment horizon of 12 months and upside potential of 19%.



Quarterly Performance

Exhibit 1: Standalone quarterly income statement

Particulars, Rs. mn	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12	YoY	QoQ
Net Sales	4,547	5,093	5,364	5,969	6,615	45.5%	10.8%
Other Operating Income	24	15	10	6	16	-33.5%	168.3%
Net Sales & Othr. Op. Inc.	4,571	5,108	5,374	5,975	6,631	45.1%	11.0%
Raw Materials	2,598	3,026	3,004	3,581	4,230	62.8%	18.1%
Gross Profit	1,973	2,082	2,370	2,394	2,402	21.7%	0.3%
Gross Margin	43.2%	40.8%	44.1%	40.1%	36.2%	-	-
Other Expenses	581	623	687	715	791	36.0%	10.6%
Employee Cost	99	90	99	100	107	7.9%	6.8%
EBITDA	1,293	1,370	1,583	1,579	1,504	16.4%	-4.8%
EBITDA Margin	28.3%	26.8%	29.5%	26.4%	22.7%	-	-
Depreciation	262	297	322	344	368	40.7%	6.8%
EBIT	1,031	1,073	1,261	1,235	1,136	10.2%	-8.0%
Other Income	7	8	13	15	15	120.4%	-1.5%
Interest	41	70	90	118	135	228.3%	15.1%
PBT	997	1,010	1,185	1,133	1,016	1.9%	-10.3%
PBT Margin	21.8%	19.8%	22.0%	19.0%	15.3%	-	-
Tax	325	320	384	360	324	-0.1%	-10.0%
Tax Rate	32.6%	31.7%	32.4%	31.8%	31.9%	-	-
PAT	672	690	801	772	691	2.9%	-10.5%
NPM	14.7%	13.5%	14.9%	12.9%	10.4%	-	-
EPS, Rs.	4.8	4.9	5.7	5.5	4.9	2.9%	-10.5%

Source: Company, SIHL Research

Exhibit 2: Sales volume and margin

Particulars		Q3 FY11	Q2 FY12	Q3 FY12	YoY	QoQ
Sales Volume MSCM	CNG	207	239	242	16.8%	1.2%
	PNG	43	68	72	65.8%	5.6%
	Total	251	307	314	25.2%	2.2%
Sales Rs. Mn	CNG	4,250	5,243	5,692	33.9%	8.6%
	PNG	840	1,389	1,644	95.7%	18.3%
	Total	5,090	6,632	7,336	44.1%	10.6%
Average Realization Rs. /SCM	CNG	20.5	21.9	23.5	14.7%	7.3%
	PNG	19.4	20.4	22.9	18.0%	12.1%
	Total	20.3	21.6	23.4	15.1%	8.2%
Raw Material Consumed, Rs. Mn	Total	2,598	3,581	4,230	62.8%	18.1%
Average Cost Rs./SCM		10.4	11.7	13.5	30.0%	15.6%
Gross Margin, Rs./SCM		7.8	7.8	9.9	27.1%	27.3%

Source: Company, SIHL Research

Financials

Exhibit 3: Standalone annual income statement

Particulars, Rs. mn	FY 10	FY 11	FY 12E	FY 13E
Net Sales	10,876	17,441	25,102	33,664
Expenditure :				
Raw Material Consumed	4,949	10,120	15,232	21,943
Employee Cost	302	379	427	623
Other Op Expense	1,788	2,304	3,037	3,871
Total Expenditure	7,038	12,803	18,696	26,438
EBITDA	3,838	4,638	6,406	7,227
Depreciation	775	1,029	1,418	1,818
EBIT	3,063	3,609	4,987	5,409
Other Income	211	95	58	81
Interest	30	132	502	593
PBT	3,244	3,572	4,543	4,896
Provision for Tax	1,089	1,259	1,463	1,591
PAT	2,155	2,313	3,080	3,305
EPS, Rs.	15.4	16.5	22.0	23.6

Source: Company, SIHL Research

Exhibit 4: Standalone balance sheet statement

Particulars, Rs. mn	FY 10	FY11	FY12E	FY13E
Source of Funds:				
Share Capital	1,400	1,400	1,400	1,400
Total Reserves	6,854	8,639	10,833	13,172
Shareholder's Funds	8,254	10,039	12,233	14,572
Secured Loans	-	3,022	5,746	6,746
Unsecured Loans	552	1,611	1,437	1,687
Total Debts	552	4,633	7,183	8,433
Total Liabilities	8,807	14,672	19,416	23,005
Application of Funds				
Net Fixed Assets	8,340	15,018	19,599	22,781
Investments	170	416	416	416
Total Current Assets	2,572	2,233	3,143	4,394
Total Current Liabilities	2,038	2,587	3,335	4,179
Net Current Assets	534	(355)	(192)	215
Deferred Tax Assets / Liab	(238)	(408)	(408)	(408)
Total Assets	8,807	14,672	19,416	23,005

Source: Company, SIHL Research

Exhibit 5: Standalone cash flow statement

Particulars, Rs mn	FY 10	FY 11	FY 12E	FY 13E
Net Income +Depreciation	2,929	3,341	4,498	5,123
Non-Cash Adjustments	287	-	-	-
Change in Working Capital	244	(228)	(244)	(196)
Cash Flow from Operation	3,460	3,113	4,255	4,927
Capital Expenditure	3,905	7,706	6,000	5,000
Change in Investment Dec/(Inc)	(33)	(246)	-	-
Other Items	4	-	-	-
Cash Flow used in Investing	3,876	7,460	6,000	5,000
Issue of Equity	-	-	-	-
Issue/(Repay Debt)	-	2,900	2,550	1,250
Dividend Paid	665	805	886	966
Other Financing Cash Flows	-	-	-	-
Cash Flow from Financing	(665)	2,095	1,665	284
Net Cash	(1,081)	(2,252)	(81)	211

Source: Company, SIHL Research

Exhibit 6: DuPont analysis

Particulars	FY 10	FY 11	FY 12E	FY 13E
Profit Margin	19.8%	13.3%	12.3%	9.8%
Asset Turnover, x	1.2	1.2	1.3	1.5
Equity Multiplier, x	1.1	1.5	1.6	1.6
ROE	26.1%	23.0%	25.2%	22.7%

Source: Company, SIHL Research

Exhibit 7: Ratio analysis

Particulars	FY 10	FY 11	FY 12E	FY 13E
ROCE	34.8%	24.6%	25.7%	23.5%
ROE	26.1%	23.0%	25.2%	22.7%
D/E, x	0.1	0.5	0.6	0.6
PER, x	21.9	20.4	15.3	14.3
P/B, x	5.7	4.7	3.9	3.2
EV/EBITDA, x	12.1	11.0	8.4	7.6
MCap/Sales, x	4.3	2.7	1.9	1.4
Net Profit Margin	19.8%	13.3%	12.3%	9.8%
EBITDA Margin	35.3%	26.6%	25.5%	21.5%
Sales Growth	26.4%	60.4%	43.9%	34.1%
EPS Growth	24.9%	7.3%	33.2%	7.3%

Source: Company, SIHL Research



Technical Corner



IGL has formed a “Bearish price” channel on the daily chart where the upper trend line acted as resistance and the lower trend line acted as support and as long as prices decline and trade within the channel, the trend will remain bearish. However, we have observed that there has been some unusual volume activity taken place this time at the lower trend line of the price channel indicating a possible warning of trend change. We strongly feel that once the stock starts trading above the middle trend line it will gradually move on the upside and break the upper trend line giving a fresh Price Breakout. Investor can buy IGL at CMP of 337 with the stop loss of 300 for the price targets of 375 & 420.

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