

May 28, 2009

Rating	Reduce
Price	Rs132
Target Price	Rs125
Implied Upside	(-) 4.8%
Sensex	14,110

(Prices as on May 27, 2009)

Trading Data

Market Cap. (Rs bn)	18.4
Shares o/s (m)	140.0
Free Float	55.0%
3M Avg. Daily Vol ('000)	96.9
3M Avg. Daily Value (Rs m)	11.2

Major Shareholders

Promoters	45.0%
Foreign	17.2%
Domestic Inst.	23.2%
Public & Others	14.6%

Stock Performance

(%)	1M	6M	12M
Absolute	13.5	27.7	5.1
Relative	(16.4)	(29.5)	18.6

Price Performance (RIC: IGAS.BO, BB: IGL IN)



Source: Bloomberg

■ **Consistent volume growth:** Indraprastha Gas' (IGL's) revenues surged by 21.3% YoY to Rs2.3bn (Rs1.9bn) on the back of healthy CNG and PNG volume growth; this was slightly higher than our expectations. CNG volumes jumped by 19.2% YoY to 121.1m kgs (101.6m kgs), while PNG volumes scaled much higher by 27.3% YoY to 15.4mmscm (12.1mmscm). The volume growth is in line with the healthy car conversion rate experienced by the company in the last few quarters.

■ **Incremental gas at market price:** IGL's gas requirement is exceeding its APM gas limit of 2.0mmscmd. The incremental gas is being purchased at the market price. However, since the retail prices haven't been changed, the company is taking a hit on its EBITDA margins. Natural gas purchase costs jumped by 42.8% YoY to Rs1.16bn (Rs0.81bn), thus denting the EBITDA margins. Staff costs and other operating expenses also jumped significantly due to rising scale of operations. The EBITDA margins, thus, declined drastically by 1,030bps to 31.5% (41.8%) in Q4FY09. Hence, even though the revenues jumped significantly, the operating profit declined by 8.4% YoY to Rs717m (Rs783m).

■ **Profitability impacted by gas prices:** Higher gas prices further affected the profits of the company which plunged 16.3% YoY to Rs403m (Rs482m), significantly below our expectation of Rs511m.

■ **Valuations:** EBITDA margins of IGL (which were extraordinarily high at about 40%) are coming down with the incremental gas received by IGL at the market price. We believe that EBITDA margins will contract over the next couple of years. However, IGL will be able to increase its selling price of CNG and PNG with a rise in the gas purchase costs. We believe this will alleviate the overhang of APM pricing, higher OPMs and higher return ratios. We maintain our 'Reduce' rating on the stock.

Key financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	7,060	8,528	10,119	11,757
Growth (%)	15.0	20.8	18.7	16.2
EBITDA (Rs m)	3,000	3,001	3,504	3,770
PAT (Rs m)	1,745	1,725	1,854	1,950
EPS (Rs)	12.5	12.3	13.2	13.9
Growth (%)	26.5	(1.1)	7.5	5.2
Net DPS (Rs)	4.0	4.0	5.0	5.0

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	42.5	35.2	34.6	32.1
RoE (%)	33.4	27.4	25.2	23.1
RoCE (%)	42.8	35.2	33.2	30.4
EV / sales (x)	2.4	2.0	1.6	1.3
EV / EBITDA (x)	5.7	5.7	4.7	4.2
PE (x)	10.6	10.7	9.9	9.5
P / BV (x)	3.2	2.7	2.3	2.0
Net dividend yield (%)	3.0	3.0	3.8	3.8

Source: Company Data; PL Research

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Q4FY09 Result Overview

(Rs m)

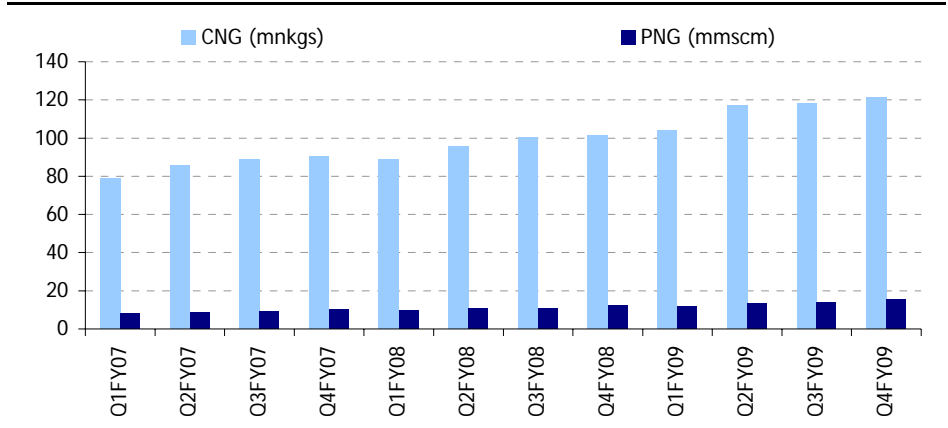
Y/e March	Q4FY09	Q4FY08	YoY gr. (%)	Q3FY09	FY09	FY08	YoY gr. (%)
Net Sales	2,274	1,874	21.3	2,194	8,528	7,060	20.8
Expenditure							
Raw material	1,157	810	42.7	1,148	4,108	3,029	35.6
<i>% of net sales</i>	<i>50.9</i>	<i>43.2</i>		<i>52.3</i>	<i>48.2</i>	<i>42.9</i>	
Personnel cost	65	42	53.1	63	235	153	54.3
<i>% of net sales</i>	<i>2.8</i>	<i>2.3</i>		<i>2.9</i>	<i>2.8</i>	<i>2.2</i>	
Other operating expenses	336	239	40.8	305	1,184	878	34.9
<i>% of net sales</i>	<i>14.8</i>	<i>12.7</i>		<i>13.9</i>	<i>13.9</i>	<i>12.4</i>	
EBITDA	717	783	(8.4)	678	3,001	3,001	0.0
<i>Margin (%)</i>	<i>31.5</i>	<i>41.8</i>		<i>30.9</i>	<i>35.2</i>	<i>42.5</i>	
Depreciation	176	151	16.5	166	674	626	7.8
EBIT	541	632	(14.4)	512	2,326	2,375	(2.0)
Other Income	64	89	(27.6)	66	262	234	11.9
PBT	605	721	(16.0)	578	2,589	2,609	(0.8)
Total taxes	202	239	(15.5)	195	864	864	0.0
<i>ETR (%)</i>	<i>33.4</i>	<i>33.2</i>		<i>33.7</i>	<i>33.4</i>	<i>33.1</i>	
FBT	-	-		-	-	1	
PAT	403	482	(16.3)	383	1,725	1,745	(1.1)

Segmental break-up

(Rs m)

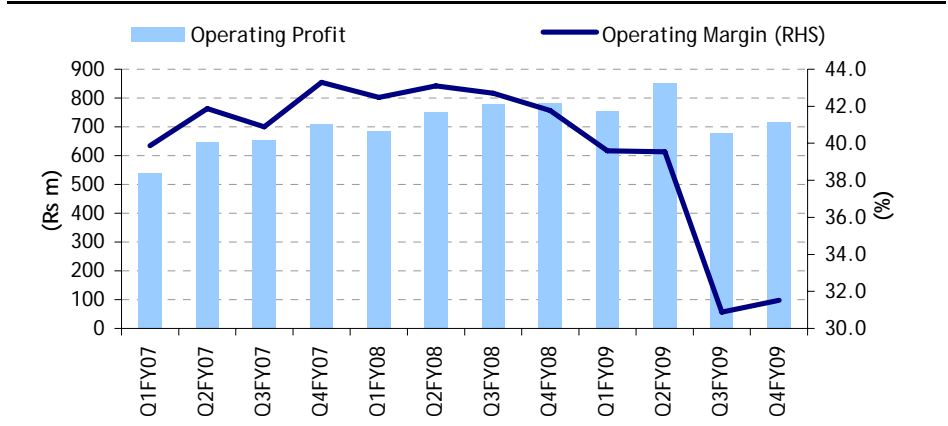
Y/e March	Q4FY09	Q4FY08	YoY gr. (%)	Q3FY09	FY09	FY08	YoY gr. (%)
CNG	2,260	1,927	17.3	2,214	8,619	7,340	17.4
PNG	300	214	40.4	262	1,003	760	32.0
Gross Sales	2,560	2,141	19.6	2,476	9,622	8,100	18.8
Volumes							
CNG (mn kgs)	121	102	19.2	118	460	386	19.2
PNG (mmscm)	15	12	27.3	14	54	43	26.6
Realisations							
CNG (Rs/ kg)	18.7	19.0	(1.6)	18.7	18.7	19.0	(1.5)
PNG (Rs/ scm)	19.5	17.7	10.4	18.7	18.5	17.7	4.3

CNG and PNG volumes



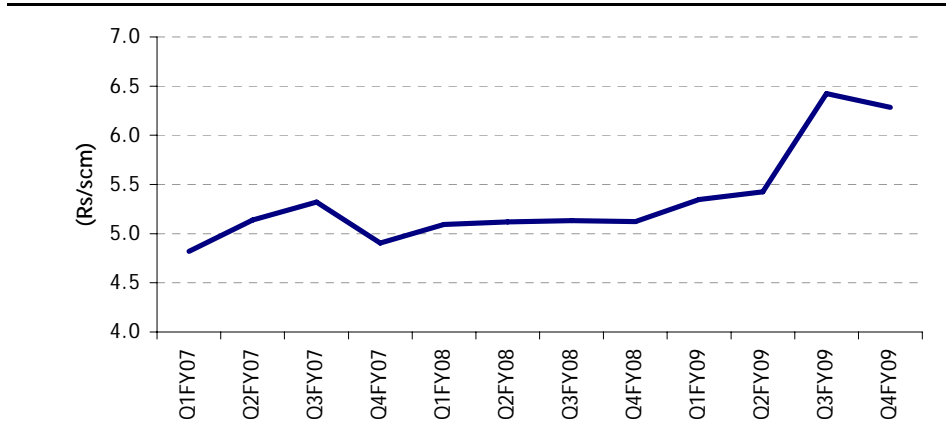
Source: Company Data, PL Research

Operating performance



Source: Company Data, PL Research

Natural gas price



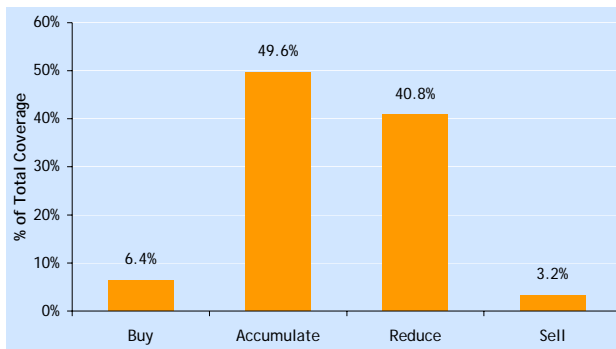
Source: Company Data, PL Research

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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