

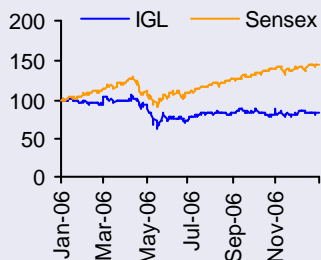
Indraprastha Gas Ltd (Q3 FY07) - Investment Update

Recommendation	BUY
CMP Rs	Rs118
Target Price	Rs148
Upside	26.7
Sensex	14,091
52 Week H/L	Rs154/Rs86.3
Average Vol.(3M)	100921
Market Cap	Rs16bn
Face Value	Rs10
BSE Code	532514
NSE Code	IGL
Reuters Code	IGAS.BO
Bloomberg Code	IGL@IN

Share holding pattern

Dec '06	(%)
Foreign	21.2
Institutions	15.4
Govt Holding	5.0
Non Promoter Corp Holding	2.9
Promoters	45.0
Public and Others	10.5

Share price chart



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Indraprastha Gas Ltd (IGL) reported Q3 FY07 results, much in line with our expectations except for marginally lower PNG sales when compared to our estimates. Net sales surged by 16.7%yoy to Rs1,599mn driven by 7.6%yoy CNG volume growth, 33.8%yoy PNG volume growth and 7.3%yoy jump in CNG realization. Operating profit growth was however, muted at 12.4% as the company had taken a one time CENVAT credit (pertaining to Q1 and Q2 FY06) of Rs20mn in Q3 FY06. 228% jump in other income, more than compensated the 160bps fall in operating margins. As a result, PAT surged by 21%yoy to Rs355mn.

During Q3 FY07 more than 7,000 private cars were added to the CNG fleet on the streets of Delhi. This is very much in line with the estimates provided by the management of IGL of about 2,000-2,500 vehicles conversions per month. However, there have not been many conversions of LGVs.

We are revising our estimates on the downside with indications of slower than earlier anticipated PNG growth. On our revised estimate for FY09E EPS of Rs12.3 and 12 times P/E multiple, the target price works out to Rs148 providing an upside of 26.7% from the current levels. We continue to maintain BUY despite lowering of price target.

Revision in estimates

(Rs Mn)	Earlier Estimates			Revised Estimates		
	FY07 P	FY08 P	FY09 P	FY07 P	FY08 P	FY09 P
Sales	6,575	7,480	8,404	6,489	7,269	8,001
Operating Profit	2,727	3,153	3,590	2,674	3,024	3,346
PAT	1,387	1,634	1,899	1,351	1,547	1,722
EPS (Rs)	9.9	11.7	13.6	9.6	11.1	12.3

Source: India Infoline Research

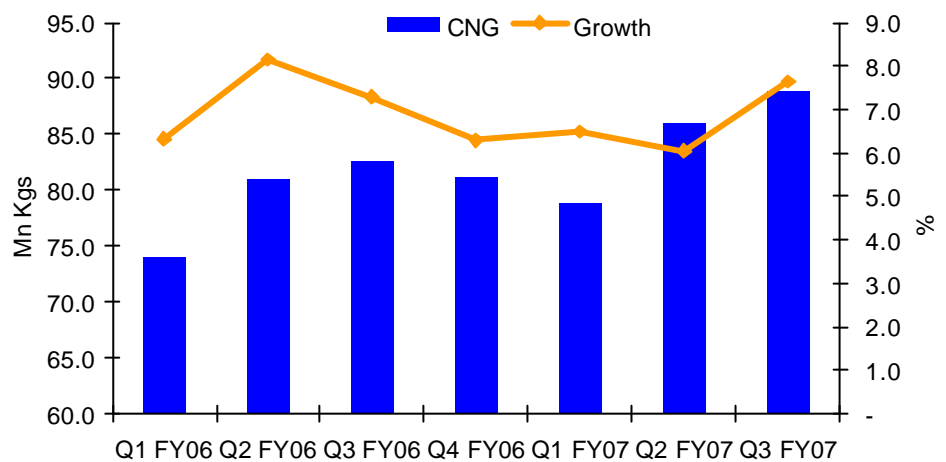
Quarterly Financials

(Rs mn)	Q3 FY07	Q3 FY06	Growth (%)	9m FY07	9m FY06	Growth (%)
Net Sales	1,599	1,370	16.7	4,498	3,852	16.8
Total expenditure	(945)	(789)	19.8	(2,658)	(2,295)	15.8
Operating Profit	654	582	12.4	1,840	1,557	18.2
Other Income	24	7	227.8	68	26	166.6
Interest	-	(6)	(100.0)	-	(19)	(100.0)
Depreciation	(150)	(143)	4.8	(450)	(414)	8.6
PBT	528	440	19.9	1,459	1,149	27.0
Tax	(173)	(147)	17.9	(480)	(383)	25.3
PAT	355	293	21.0	979	766	27.8
Extraordinary Items	-	-	-	-	-	-
APAT	355	293	21.0	979	766	27.8
Equity	1,400	1,400	-	1,400	1,400	-
OPM (%)	40.9	42.4	(1.6)	40.9	40.4	0.5
EPS (Rs Annualized)	10.1	8.4	20.2	9.3	7.3	27.3
CMP	118.0			118.0		
P/E	11.6			12.7		

Strong volume growth coupled with rise in realizations drive CNG sales

IGL registered a growth of 15.4%yoy in gross sales from the CNG segment to Rs1,686mn. The key drivers for the growth were conversions of more than 7,000 private cars to CNG and 7.2% yoy jump in CNG realizations. The growth was marginally marred by lower than expected registrations of new LGVs. The management had earlier indicated of about 2500-3000 vehicles per annum, in other words about 200-250 vehicles per month. However, in Q3 FY07 only about 50 vehicles were registered. However, we feel that the conversions should pickup in the near term.

Quarterly trend in CNG sales

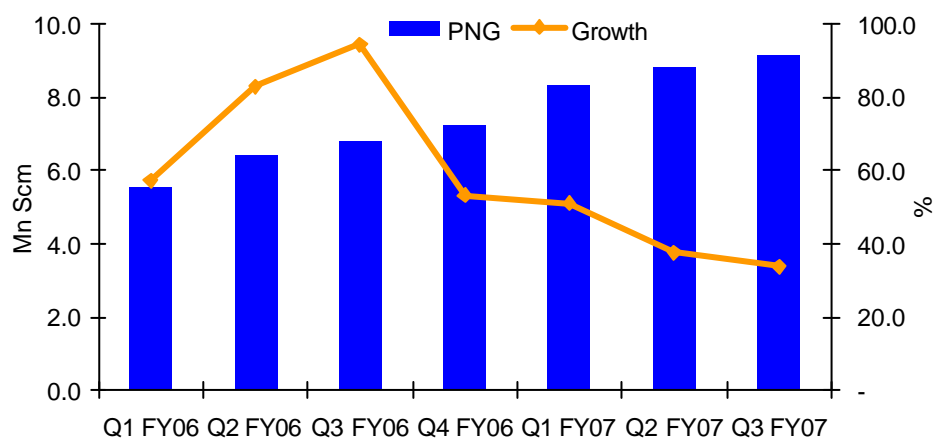


Source: Company

Lower than expected growth in PNG sales

PNG volumes rose by 33.8%yoy to 9.1mn scm in Q3 FY07 which was lower than our expectations of above 40% growth. As per the management, high growth of over 45% cannot be sustained over the longer term and growth over the next couple of years would be in the range of 30-35%. We have revised our estimates accordingly and have assumed 37%yoy, 35%yoy and 30%yoy growth in FY07, FY08 and FY09 respectively. Realizations too have dropped as proportion of commercial customers increase in the total pie.

Quarterly trend in PNG sales

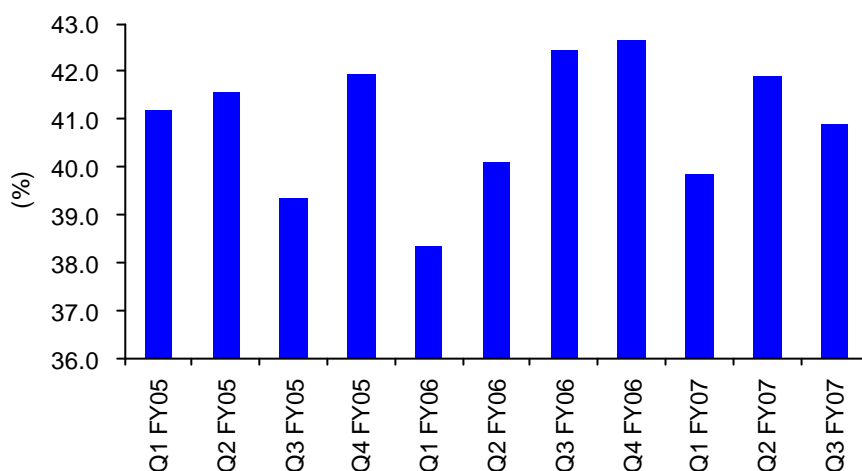


Source: Company

Operating margins decline... due to one time CENVAT credit in Q3 FY06

During Q3 FY07, operating profit for IGL grew by 12.4%yoy to Rs654mn and OPM declined by 160bps to 40.9%. The fall in margins was primarily on account of Rs20mn one-time CENVAT credit, which the company received in Q3 FY06. The amount was pertaining to Q1 and Q2 FY06 which led to lower raw material costs. The margins were also impacted by the fact that the company did not pass on the entire gas price hike to the PNG customers, which is done as per the company's policy to maintain the price at around 20% lower than LPG.

Quarterly trend in Operating Margins



Source: Company, India Infoline Research

Higher other income boosts offsets dip in operating margins

Other income, during Q3 FY07, surged by 228%yoy to Rs24mn primarily on back of higher interest income on investment of surplus funds. This translated into a PAT growth of 21%yoy to Rs355mn. Annualized EPS for Q3 FY07 stood at Rs10.1.

Valuations

We have revised our estimates based on lower PNG volume growth and slightly lower realizations. On the revised EPS of Rs12.3 for FY09 and P/E multiple of 12x our one year target price works out to Rs148, providing an upside of 26.7%.

Financials

Projected Income Statement

Period to (Rs in mn)	FY05 (12)	FY06 (12)	FY07P (12)	FY08P (12)	FY09P (12)
Net Sales	4,500	5,209	6,489	7,269	8,001
Operating expenses	(2,652)	(3,066)	(3,816)	(4,245)	(4,656)
Operating profit	1,848	2,143	2,674	3,024	3,346
Other income	78	53	50	75	100
PBIDT	1,926	2,196	2,724	3,099	3,446
Interest	(35)	(27)	(20)	-	-
Depreciation	(480)	(565)	(687)	(790)	(875)
Amortisation					
Profit before tax (PBT)	1,411	1,604	2,016	2,309	2,570
Tax	(484)	(540)	(665)	(762)	(848)
Profit after tax (PAT)	927	1,064	1,351	1,547	1,722
Extraordinary / prior period items		(2)			
Adjusted profit after tax (APAT)	927	1,062	1,351	1,547	1,722

Projected Balance Sheet

Period to (Rs in mn)	FY05 (12)	FY06 (12)	FY07P (12)	FY08P (12)	FY09P (12)
Sources					
Equity Share Capital	1,400	1,400	1,400	1,400	1,400
Other reserves	1,725	2,387	3,179	4,008	4,933
Net Worth	3,125	3,787	4,579	5,408	6,333
Loan Funds	480	0	0	0	0
Def Tax liability	383	352	330	310	290
Total	3,988	4,139	4,909	5,718	6,623
Uses					
Gross Block	4,774	5,558	6,758	8,158	9,558
Accd Depreciation	(1,338)	(1,903)	(2,590)	(3,380)	(4,255)
Net Block	3,436	3,655	4,167	4,778	5,302
Capital WIP	310	299	400	350	350
Total Fixed Assets	3,747	3,954	4,567	5,128	5,652
Investments	610	425	597	750	1,152
Total Current Assets	562	789	987	1,154	1,227
Total Current Liabilities	(931)	(1,029)	(1,243)	(1,313)	(1,408)
Net Working Capital	(369)	(240)	(255)	(159)	(181)
Total	3,988	4,139	4,909	5,718	6,623

Projected Cash Flow Statement

	FY05	FY06	FY07P	FY08P	FY09P
Pre Tax income from operations	1,333	1,551	1,966	2,234	2,470
Depreciation	480	565	687	790	875
Deferred Tax Asset/liability	14	(31)	(22)	(20)	(20)
Pre tax cash from operations	1,828	2,085	2,632	3,004	3,326
Other income/prior period ad	78	51	50	75	100
Net cash before tax	1,906	2,136	2,682	3,079	3,426
Tax	(484)	(540)	(665)	(762)	(848)
Cash profits	1,421	1,596	2,016	2,317	2,577
(Inc)/Dec in trade working capital					
-Inventories	(61)	(4)	(83)	(32)	(30)
-Sundry debtors	(3)	(81)	12	(21)	(20)
-Sundry crs	(19)	0	253	98	92
-Others	91	93	(32)	(22)	3
Net trade working capital	7	9	151	23	45
Operating activities	1,428	1,604	2,167	2,340	2,622
(Add)/Dec in fixed assets	(458)	(772)	(1,301)	(1,350)	(1,400)
(Add)/Dec in Investments	(610)	185	(172)	(153)	(402)
(Inc)/Dec in Loans/advances	99	(95)	(95)	(87)	(126)
Investing activities	(968)	(682)	(1,568)	(1,590)	(1,928)
Inc/(Dec) in debt	(120)	(480)	0	0	0
Direct add/(red) to reserves-Spl.item	0	(0)	0	(697)	(776)
Dividends	(320)	(399)	(559)	(21)	(22)
Financing activities	(440)	(879)	(559)	(718)	(798)
Cash generated/(utilised)	20	43	40	32	(104)
Cash at start of the year	47	68	110	150	182
Cash at end of the year	68	110	150	182	79

Key Ratios

	FY05 (12)	FY06 (12)	FY07P (12)	FY08P (12)	FY09P (12)
Per share ratios (Rs)					
EPS	6.6	7.6	9.6	11.1	12.3
Div per share	2.0	2.5	3.5	4.5	5.0
Book value per share	22.3	27.0	32.7	38.6	45.2
Valuation ratios (x)					
P/E	17.8	15.6	12.2	10.7	9.6
P/BV	5.3	4.4	3.6	3.1	2.6
M Cap/Sales	3.7	3.2	2.5	2.3	2.1
EV/EBIDTA	8.8	7.5	6.0	5.3	4.8
Profitability ratios (%)					
OPM	41.1	41.1	41.2	41.6	41.8
PAT	20.6	20.4	20.8	21.3	21.5
ROCE	40.1	43.1	44.5	42.7	40.6
RONW	29.7	28.0	29.5	28.6	27.2
Liquidity ratios					
Current ratio	0.6	0.8	0.8	0.9	0.9
Debtors days	8.8	10.0	10.0	10.0	10.0
Inventory days	14.6	15.0	15.0	15.0	15.0
Creditors days	45.8	46.0	46.0	46.0	46.0
Leverage ratios (x)					
Debt / Total equity	0.15	0.00	0.00	0.00	0.00
Component ratios (%)					
Raw material	42.1	43.3	43.5	43.3	43.1
Staff cost	2.1	2.1	2.1	2.1	2.1
Other expenditure	14.8	13.5	13.2	13.0	13.0
Payout ratios (%)					
Dividend payout	34.5	37.6	41.3	46.4	46.3
Tax payout	34.3	33.7	33.0	33.0	33.0
Du-pont Analysis					
NPM (%)	20.6	20.4	20.8	21.3	21.5
Net Sales / Total Assets (x)	1.1	1.3	1.32	1.27	1.21
Total Assets/Equity (x)	1.3	1.1	1.07	1.06	1.05
RONW (%)	29.7	28.0	29.5	28.6	27.2



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