

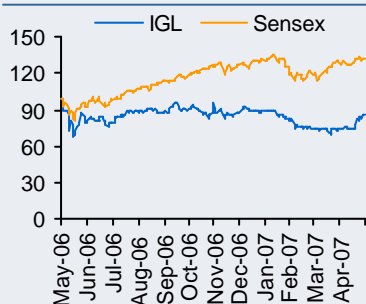
Indraprastha Gas Ltd (Q4 FY07) - Investment Update

Recommendation	Maintain BUY
CMP	Rs119
Target Price	Rs154
Upside	26.1%
Sensex	14,508
52 Week H/L	Rs134.9/Rs86.2
Average Vol (3M)	123350
Market Cap	Rs16bn
Face Value	Rs10
BSE Code	532514
NSE Code	IGL
Reuters Code	IGAS.BO
Bloomberg Code	IGL@IN

Share Holding Pattern

Mar '07	(%)
Foreign	20.8
Institutions	14.8
Govt Holding	5.0
Non Promoter Corp Holding	3.4
Promoters	45.0
Public and Others	11.0

Share Price Chart



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Indraprastha Gas Ltd reported a stellar performance in Q4 FY07 on back of stronger than expected volume growth in the CNG segment. The PNG segment too witnessed robust growth on increased domestic connections. Going ahead with expansion into new territories such as Greater Noida, Ghaziabad, Sonipat and Panipat, the volumes of both CNG and PNG could spur up. We are revising our estimates to build in higher growth expectations of CNG volumes, lower growth expectations of PNG volumes and better efficiency in operations leading to better operating margins. We maintain our BUY rating with a target price of Rs154, based on 12x P/E multiple on FY09 estimated earnings of Rs12.8, yielding an upside of 26.1%.

Result Analysis

Financial highlights

(Rs mn)	Q4 FY07	Q4 FY06	Growth (%)	FY07	FY06	Growth (%)
Net Sales	1,643	1,357	21.1	6,141	5,209	17.9
Total expenditure	(932)	(776)	20.0	(3,589)	(3,071)	16.9
Operating Profit	711	581	22.5	2,552	2,138	19.4
Other Income	34	27	23.6	102	53	93.1
Interest	-	(3)	(100.0)	-	(22)	(100.0)
Depreciation	(149)	(151)	(1.6)	(598)	(565)	5.8
PBT	596	454	31.3	2,056	1,604	28.2
Tax	(196)	(157)	25.1	(676)	(540)	25.2
PAT	401	298	34.6	1,380	1,064	29.7
Extraordinary Items	-	(2)	-	-	(2)	-
APAT	401	295	35.6	1,380	1,062	30.0
Equity	1,400	1,400	-	1,400	1,400	-
OPM (%)	43.3	42.8	0.5	41.6	41.0	0.5
EPS (Rs Annualized)	11.4	8.4	-	9.9	7.6	-
CMP	119.0	-	-	119.0	-	-
P/E	10.4	-	-	12.1	-	-

Strong CNG volumes spur up topline... Outlook remains strong

IGL reported 11.6% yoy volume growth in the CNG segment to 90.5mn kgs in Q4 FY07. The growth reported is highest at least in the last 8 quarters. The growth was on back of higher conversions of private vehicles against the earlier indications of around 2,000-2,500 vehicles per month. The fact that the private taxi fleet operating for call centres in Delhi, which was so far using diesel has now commenced using CNG has provided further boost to topline. Out of 4,000 such taxis on the streets of Delhi, only a few has so far been converted. Hence there is still a huge potential provided by this fleet. Further, the LCV conversions has not yet picked up pace which further provides huge potential. Also the momentum of private vehicles conversion which has picked up sharply in the current quarter is likely to continue as higher inter state transport demand will be serviced by IGL as it expands into Greater Noida and Sonipat in FY08 and further to Ghaziabad and Panipat in FY09.

PNG volumes recover

PNG volumes has recovered from a poor show in the last couple of quarters and clocked a growth of 44.4% yoy to 10.4mn scm for Q4 FY07. IGL targets to add another 70,000 domestic customers in FY08 and expects around 30% volume growth for the segment. We believe that the company should be able to clock the growth it aims for the segment as the real estate boom in the capital will warrant additional demand for PNG connections.

Operating margin expands on higher operating leverage

During Q4 FY07, operating profit for IGL surged by 22.5% yoy to Rs711mn and OPM expanded by 50bps to 43.3%. The jump in margins was on back of improved utilization of excess compressing capacity with the company. The compression capacity with IGL is currently twice of its existing sales. This cushion will help the company, to maintain if not improve its operating margins in the near future as the element of fixed costs gets spread over increased volumes.

PAT for Q4 FY07 was up by 34.6% yoy to Rs401mn as gains at operating level were transferred to bottomline and also on account of 23.6% higher other income.

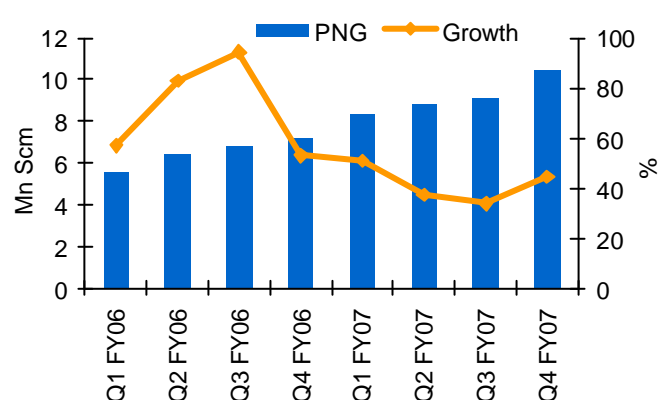
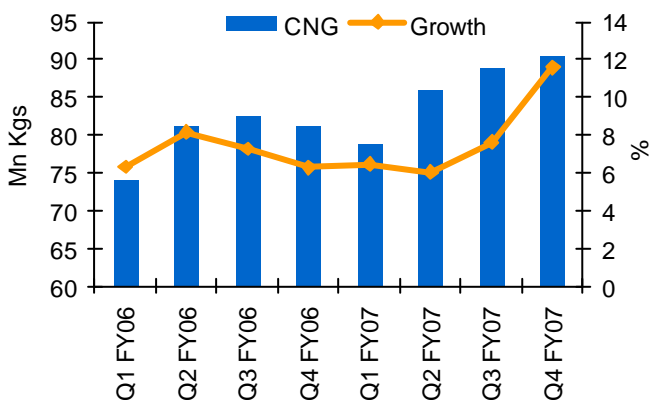
Cost Analysis

As a % of Sales	Q4 FY07	Q4 FY06	Inc/(Dec)	FY07	FY06	Inc/(Dec)
Raw Material	42.4	42.7	(0.3)	43.6	43.3	0.3
Staff costs	2.3	2.1	0.2	2.3	2.2	0.1
Other Expenditure	12.0	13.4	(1.3)	12.6	13.5	(0.9)
Total Expenditure	56.7	58.1	(1.4)	58.4	59.0	(0.5)

Valuations

At CMP of Rs119 the stock is available at 10.4x and 9.3x on estimated earnings of Rs11.4 for FY08 and Rs12.8 for FY09 respectively. We believe that with CNG growth likely to be at higher levels than in the past, the stock can trade at 12x FY09 estimated earnings to give a target price of Rs154, providing an upside of 26.1%. We maintain our BUY rating on the stock.

Charts: Growth trend in CNG and PNG volumes



Source: Company



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	6,142	7,003	7,850
Operating expenses	(2,652)	(3,066)	(3,590)	(4,065)	(4,542)
Operating profit	1,848	2,143	2,552	2,938	3,309
Other income	78	53	102	100	100
PBIDT	1,926	2,196	2,654	3,038	3,409
Interest	(35)	(27)	-	-	-
Depreciation	(480)	(565)	(598)	(656)	(731)
Profit before tax (PBT)	1,411	1,604	2,056	2,382	2,678
Tax	(484)	(540)	(676)	(786)	(884)
Profit after tax (PAT)	927	1,064	1,380	1,596	1,794
Extraordinary / prior period items		(2)			
Adjusted profit after tax (APAT)	927	1,062	1,380	1,596	1,794

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	3,209	4,087	5,083
Net Worth	3,125	3,787	4,609	5,487	6,483
Loan Funds	480	0	0	0	0
Def Tax liability	383	352	330	310	290
Total	3,988	4,139	4,939	5,797	6,773
Uses					
Gross Block	4,774	5,558	6,758	7,858	9,358
Accd Depreciation	(1,338)	(1,903)	(2,501)	(3,157)	(3,888)
Net Block	3,436	3,655	4,256	4,701	5,470
Capital WIP	310	299	370	800	700
Total Fixed Assets	3,747	3,954	4,626	5,501	6,170
Investments	610	425	597	732	770
Total Current Assets	562	789	940	843	1,223
Total Current Liabilities	(931)	(1,029)	(1,224)	(1,280)	(1,389)
Net Working Capital	(369)	(240)	(284)	(437)	(167)
Total	3,988	4,139	4,939	5,796	6,773



Key Ratios

	FY05 (12)	FY06 (12)	FY07P (12)	FY08P (12)	FY09P (12)
Per share ratios (Rs)					
EPS	6.6	7.6	9.9	11.4	12.8
Div per share	2.0	2.5	3.5	4.5	5.0
Book value per share	22.3	27.0	32.9	39.2	46.3
Valuation ratios (x)					
P/E	18.0	15.7	12.1	10.4	9.3
P/BV	5.3	4.4	3.6	3.0	2.6
M Cap/Sales	3.7	3.2	2.7	2.4	2.1
EV/EBIDTA	9.2	7.7	6.5	5.6	5.0
Profitability ratios (%)					
OPM	41.1	41.1	41.6	42.0	42.1
NPM	20.6	20.4	22.5	22.8	22.9
ROCE	40.1	43.1	44.6	43.4	41.3
RONW	29.7	28.0	29.9	29.1	27.7
Liquidity ratios					
Current ratio	0.6	0.8	0.8	0.7	0.9
Debtors days	8.8	13.3	10.0	10.0	10.0
Inventory days	14.6	12.9	15.0	15.0	15.0
Creditors days	45.8	39.5	46.0	46.0	46.0
Cash Conversion Cycle	(21.7)	(12.6)	(20.2)	(20.3)	(20.1)
Leverage ratios (x)					
Debt / Total equity	0.15	0.00	0.00	0.00	0.00
Component ratios (%)					
Raw material	42.1	43.3	43.6	43.2	43.0
Staff cost	2.1	2.2	2.3	2.3	2.3
Other expenditure	14.8	13.4	12.6	12.6	12.6

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