

# Indraprastha Gas Limited (INDGAS)

**Rs 227**

## WHAT'S CHANGED...

PRICE TARGET .....	Changed from Rs 219 to Rs 229
EPS (FY11E) .....	Changed from Rs 16.6 to Rs 16.1
EPS (FY12E) .....	Rs 17
RATING.....	Unchanged

## Steady performance

Indraprastha Gas (IGL) has declared its Q4FY10 results. Revenues for the quarter increased by 26.8% to Rs 289.8 crore and were in line with our estimates. The reported net profit increased by 27.6% to Rs 51.5 crore in Q4FY10 on account of higher gas sales volume and realisations. We recommend ADD rating on the stock with a price target of Rs 229.

### ■ Increase of 16.6% YoY in gas sales volume

IGL reported a 16.6% increase in the gas sales volume from 174 mmscm in Q4FY09 to 202.8 mmscm in Q4FY10. The CNG and PNG gas sales volume increased by 12.1% and 62.3% YoY to 177.8 mmscm and 25 mmscm, respectively, in Q4FY10. Other natural gas sales (included in PNG sales volume) to Adani Gas and Haryana City Gas stood at 6.5 mmscm in Q4FY10. We expect the total sales volume to increase from 772.1 mmscm in FY10 to 896.5 mmscm and 1004.1 mmscm in FY11E and FY12E, respectively.

### ■ Realisations improve YoY on CNG sales volume

CNG realisations improved YoY on the back of price increases taken in Q2FY10. CNG and PNG realisations stood at Rs 16.1 per scm and Rs 15.6 per scm, respectively, for Q4FY10. We expect IGL to pass on the increase in gas costs to CNG and PNG customers in future. The gas costs would increase on account of revision in APM gas prices from Rs 3,840 per tscm to Rs 7500 per tscm. We expect CNG prices to increase 22.5% from Rs 21 per kg (Rs 16.1 per scm) in Q4FY10 to Rs 25.7 per kg (Rs 19.7 per scm) from Q2FY11 onwards.

## Valuation

We have valued the stock based on the SOTP methodology: Rs 194 for IGL's Delhi business (DCF with WACC – 12.7%, terminal growth – 3%) and Rs 35 for potential authorisation in new areas (Noida, Greater Noida, Ghaziabad, Faridabad and Gurgaon) to arrive at a price target of Rs 229.

### Exhibit 1: Performance Highlights

(Rs Crore)	Q4FY10A	Q4FY10E	Q4FY09	Q3FY10	YoY Gr.(%)	QoQ Gr.(%)
<b>Revenues</b>	289.8	295.1	228.4	286.3	26.8	1.2
<b>EBITDA</b>	94.4	106.7	72.7	105.1	29.8	-10.2
<b>EBITDA Margin (%)</b>	32.6%	36.2%	31.8%	36.7%	80 bps	-410 bps
<b>Depreciation</b>	19.8	20.5	17.6	19.7	12.7	0.7
<b>Interest</b>	0.0	0.0	0.0	0.0	NA	NA
<b>Reported PAT</b>	51.5	60.0	40.3	59.0	27.6	-12.7
<b>EPS (Rs)</b>	3.7	4.3	2.9	4.2	27.6	-12.7

Source: Company, ICICIdirect.com Research

### Rating matrix

Rating	: Add
Target	: Rs 229
Target Period	: 12 months
Potential Upside	: 1%

### Key Financials

(Rs Crore)	FY09	FY10E	FY11E	FY12E
Revenues	857.1	1083.8	1496.9	1761.5
EBITDA	304.5	386.5	425.0	458.6
Net Profit	172.5	215.5	225.3	238.0

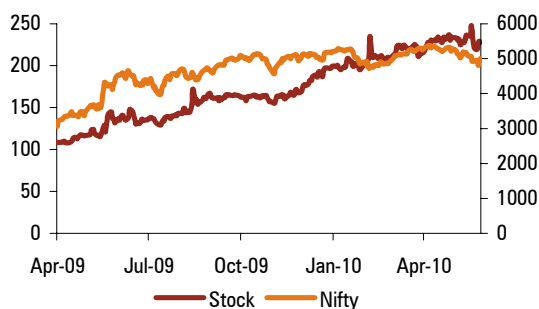
### Valuation summary

	FY09	FY10E	FY11E	FY12E
EPS (Rs)	12.3	15.4	16.1	17.0
PE (x)	18.4	14.7	14.1	13.4
Target PE (x)	18.5	14.8	14.2	13.4
EV to EBITDA (x)	10.0	7.9	7.2	6.6
Price to book (x)	4.7	3.9	3.3	2.8
RoNW (%)	25.2	26.1	23.2	21.1
RoCE (%)	34.7	37.5	33.0	30.2

### Stock data

Market Cap.	Rs 3178 Crore
Debt (FY09)	Rs 0 Crore
Cash + Liq. Invsts (FY09)	Rs 250.3 Crore
EV	Rs 2927.7 Crore
52 week H/L	256 / 126
Equity capital	Rs 140 Crore
Face value	Rs 10
MF Holding (%)	13.7
FII Holding (%)	15.3

### Price movement (Stock vs. Nifty)



### Analyst's name

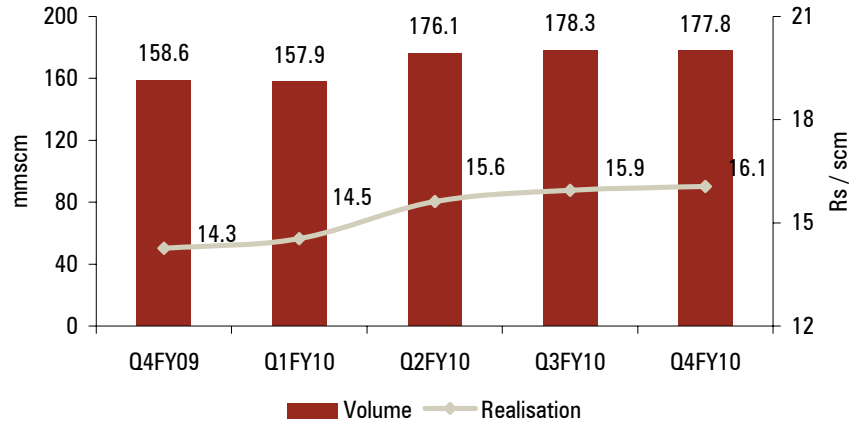
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**Result Analysis**

Revenues increased from Rs 228.4 crore in Q4FY09 to Rs 289.8 crore in Q4FY10 on account of a 16.6% increase in gas sales volume YoY and 8.6% increase in blended gas sales realisations YoY. The profitability increased by 27.6% YoY from Rs 40.3 crore in Q4FY09 to Rs 51.5 crore in Q4FY10 on account of higher gas sales volumes and realisations.

**Exhibit 2: CNG gas sales volume and realisations**

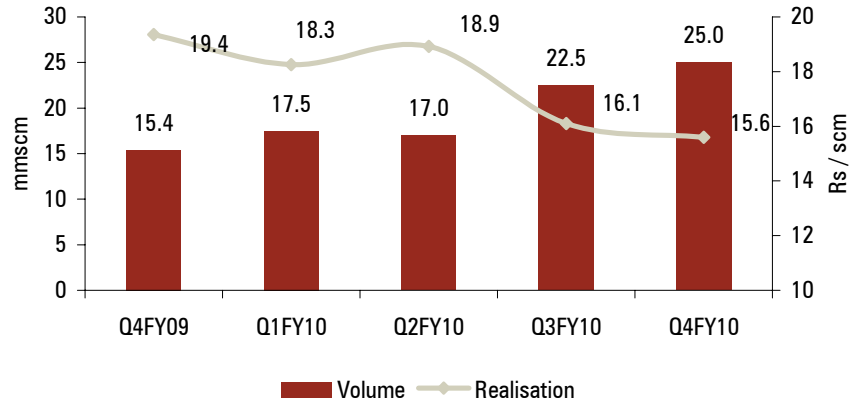
CNG gas sales volumes increased 12.1% YoY from 158.6 mmscm in Q4FY09 to 177.8 mmscm in Q4FY10 on account of higher conversion of private vehicles to CNG and addition of new CNG stations



Source: Company, ICICIdirect.com Research

**Exhibit 3: PNG gas sales volume and realisations**

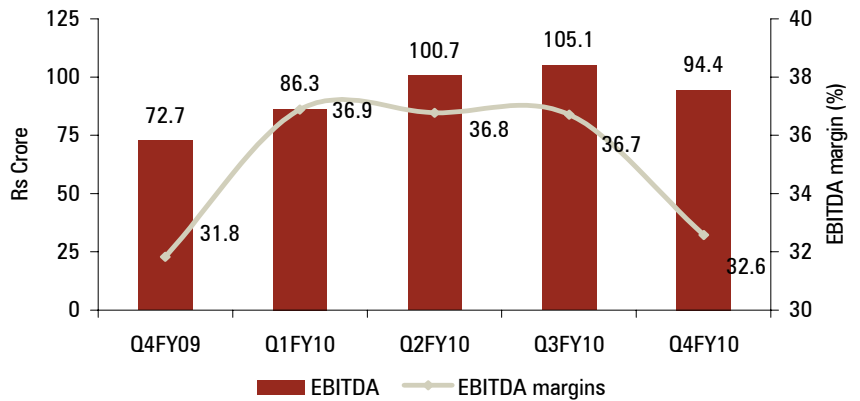
PNG gas sales volumes increased 62.3% YoY from 15.4 mmscm in Q4FY09 to 25 mmscm in Q4FY10. However, realisations declined on account of natural gas sales of ~6.5 mmscm to Adani Gas and Haryana City Gas from Q3FY10 onwards



Source: Company, ICICIdirect.com Research

**Exhibit 4: Revenue and EBITDA analysis**

The EBITDA margin improved ~10 bps YoY. However, it declined QoQ on account of higher KG basin gas costs and higher other expenditure



Source: Company, ICICIdirect.com Research

Profitability growth stood at 27.8% YoY to Rs 51.5 crore on account of lower raw material costs, which stood at 47.7% of revenues in Q4FY10 against 50.6% of revenues in Q4FY09. However, we expect costs to increase on account of revision in APM gas prices

Exhibit 5: P/L A/c		(Rs Crore)		
	Q4FY10	Percent. (%)	Q4CY09	Percent. (%)
Revenues	289.8	100.0	228.4	100.0
Consumption of raw materials	138.2	47.7	115.7	50.6
Employee Costs	9.6	3.3	6.5	2.8
Other Expenditure	47.5	16.4	33.6	14.7
Total Expenditure	195.4	67.4	155.7	68.2
EBITDA	94.4	32.6	72.7	31.8
Depreciation	19.8	6.8	17.6	7.7
EBIT	74.6	25.7	55.1	24.1
Interest	0.0	0.0	0.0	0.0
Other Inc /Exp /Extra Ordinary Item	2.5	0.9	5.4	2.4
PBT	77.1	26.6	60.5	26.5
Total Tax	25.6	8.8	20.2	8.8
PAT	51.5	17.8	40.3	17.7

Source: Company, ICICIdirect.com Research

### Outlook and Valuations

We believe IGL would report robust volumes of 16.2% in FY11E to 896.5 mmscm on account of Commonwealth Games in October 2010 and increasing conversion of private vehicles to CNG. We expect IGL to pass on the high gas costs to CNG customers. Also, the Delhi High Court has recently given the ruling to PNGRB ordering them not to issue any CNG and PNG licenses for cities. The High Court has also directed PNGRB to hear IGL's application and cancelled public notices inviting bids for Ghaziabad city. The final hearing in favour of IGL could potentially add 0.2-0.3 mmscmd of volumes in the next two to three years. We have valued the stock based on the SOTP methodology: Rs 194 for IGL's Delhi business (DCF with WACC – 12.7%, terminal growth – 3%) and Rs 35 for potential authorisation in new areas (Noida, Greater Noida, Ghaziabad, Faridabad and Gurgaon) to arrive at a price target of Rs 229.

### Exhibit 6: Valuation Table

Year	Sales (Rs Crore)	Sales Gr. (%)	EPS (Rs)	EPS Gr. (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY09	857.1	20.2	12.3	-1.1	18.4	10.0	25.2	34.7
FY10E	1083.8	26.5	15.4	24.9	14.7	7.9	26.1	37.5
FY11E	1496.9	38.1	16.1	4.5	14.1	7.2	23.2	33.0
FY12E	1761.5	17.7	17.0	5.7	13.4	6.6	21.1	30.2

Source: ICICIdirect.com Research

### Exhibit 7: DCF based valuation

WACC	12.7%
Present Value of Cash Flows till FY14E	562.3
Terminal Growth Rate	3.0%
Terminal Value	3512.5
Present Value of Terminal Cash Flows	1936.2
Total Present Value of the Firm	2498.5
Less: Net Debt (FY11E)	-211.0
Total Present Value of Equity	2709.6
Number of Outstanding shares (In Crore)	14.0
DCF for Delhi Business (Rs per share)	194
Add: Value for new areas (Rs per share)	35
Sum Of Total Parts (Rs per share)	229

Source: ICICIdirect.com Research

**ICICIdirect.com Coverage Universe**

<b>Indraprastha Gas Ltd</b>			<b>Sales(Rs Cr.)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
Idirect Code	INDGAS CMP	227 FY09	857.1	12.3	18.4	10.0	25.2	34.7
	Target	229 FY10E	1083.8	15.4	14.7	7.9	26.1	37.5
		FY11E	1496.9	16.1	14.1	7.2	23.2	33.0
MCap	3178.0 Upside (%)	0.7 FY12E	1761.5	17.0	13.4	6.6	21.1	30.2

<b>Gujarat Gas</b>			<b>Sales(Rs Cr.)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
Idirect Code	GUJGAS CMP	285.0 CY08	1301.3	12.4	11.5	15.4	22.3	26.7
	Target	286.0 CY09	1419.7	13.5	21.1	13.0	22.4	29.8
		CY10E	1742.7	19.7	14.5	8.7	26.0	36.4
MCap	3655.1 Upside (%)	0.4 CY11E	1863.0	22.1	12.9	7.9	23.8	32.1

<b>Guj. State Petronet Ltd</b>			<b>Sales(Rs Cr.)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
Idirect Code	GSPL CMP	90.8 FY09	487.5	2.2	41.4	14.7	10.2	10.8
	Target	99.0 FY10E	1009.3	7.5	12.1	6.8	26.6	24.4
MCap	5104.0 Upside (%)	9.0 FY11E	1034.1	6.4	14.2	6.9	19.1	19.6

<b>Petronet LNG Ltd</b>			<b>Sales(Rs Cr.)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
Idirect Code	PETLNG CMP	81.1 FY09	8428.7	6.9	11.7	8.6	26.1	18.7
	Target	87.0 FY10E	10649.1	5.4	15.0	9.4	18.1	15.5
		FY11E	13831.8	6.3	13.0	8.7	18.6	14.5
		FY12E	18743.5	6.7	12.1	8.5	17.8	14.0
MCap	6082.5 Upside (%)	7.3 FY13E	25558.8	7.7	10.5	6.7	18.1	16.1

## RATING RATIONALE

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Strong Buy: 20% or more;

Buy: Between 10% and 20%;

Add: Up to 10%;

Reduce: Up to -10%

Sell: -10% or more;

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