



Indrapratha Gas

DOLAT CAPITAL

CMP: Rs 402**Target Price: Rs 455****View: Accumulate**

BSE Sensex	18,181
NSE Nifty	5,488

Scrip Details

Equity	Rs.1400mn
Face Value	Rs.10/-
Market Cap	Rs.56bn
	USD 1247mn
52 week High/Low	Rs. 416 / 285
Avg. Volume (no)	335,512
BSE Code	532514
NSE Symbol	IGL
Bloomberg Code	IGL IN
Reuters Code	IGAS.BO

Shareholding Pattern as on June'11(%)

Promoter	45.0
MF/Banks/FIs	23.5
FII's	16.9
Public / Others	14.6

IGL's aggressive expansion augurs well

IGL annual report of FY11 highlights the changing business dynamics due to increase in the input cost and regulatory changes that happened during the fiscal. The increase in the selling prices of gas, going for borrowings to support expansion, tie up with OMCs and long term supply agreements with customers were the highlights in FY11.

The resilience of Indraprastha Gas's (IGL) business model was at its demonstrable best during FY11. The challenging environment, arising out of regulatory developments and a higher-than-expected increase in gas cost, was addressed adequately from structure perspective. The traction in gas volumes, along with stability in gross spreads, will ensure long-term profitability growth.

IGL demonstrated its pricing power in both segments — compressed natural gas (CNG) and piped natural gas (PNG). The acceptance of price hikes by users ensured that IGL maintained its gross spreads in absolute terms.

The strategic developments in FY10-11 — such as the tie up with DTC, extension of agreement with oil marketing companies (OMCs) and getting authorisation for Ghaziabad — justified IGL's valuations. At CMP of Rs 402, the stock trades at 17.3x FY12E and 14.1x FY13E earnings. We retain our positive view and recommend **Accumulate** on the stock with a DCF-based price target of Rs 455, at which it will trade at 16x FY13E earnings.

Key developments

- Ministry of petroleum & natural gas authorised IGL for city gas distribution (CGD) in the Ghaziabad territory. The area is vital as it offers high industrial potential.
- IGL has entered into a long-term gas supply agreement of 10 years with Delhi Transport Corporation (DTC), its biggest consumer.
- IGL has extended its tie-up with OMCs for five years, enabling it to sell gas for CNG through their distribution network.
- IGL is promoting wider usage of natural gas through usages such as gas geysers. It has tied up with Racold and Venus (water geyser manufacturers) to promote PNG usage for water heating.
- IGL has covered 55 of the 70 areas in Delhi for the PNG segment.

View

The aggressive expansion in all areas of the National Capital Region (NCR) and the economics of gas usage (compared to alternate fuels) will drive IGL's volume growth. RLNG's access to support volume growth will not pose any supply-side issues. The key is IGL's ability to pass on the hike in input costs and maintain gross spreads, which it demonstrated in FY10-11. At CMP of Rs 402, the stock trades at 17.3x FY12E and 14.1x FY13E earnings. We retain our positive view and recommend **Accumulate** on the stock with a DCF-based price target of Rs 455, at which it will trade at 16x FY13E earnings.

Financials

Year	Net Sales	% Growth	EBIDTA	OPM %	PAT	NPM %	EPS (Rs.)	% Growth	PER (x)	ROANW (%)	ROACE (%)
FY10	10,781	26.4	3,866	35.7	2,155	19.9	15.4	25.0	26.1	28.6	39.7
FY11	17,441	61.8	4,987	28.5	2,598	14.8	18.6	20.5	21.7	28.4	33.1
FY12E	24,328	39.5	6,470	26.5	3,258	13.4	23.3	25.4	17.3	28.9	31.7
FY13E	31,891	31.1	7,998	25.0	3,983	12.5	28.4	22.3	14.1	28.3	33.1

Figure in Rs.mn

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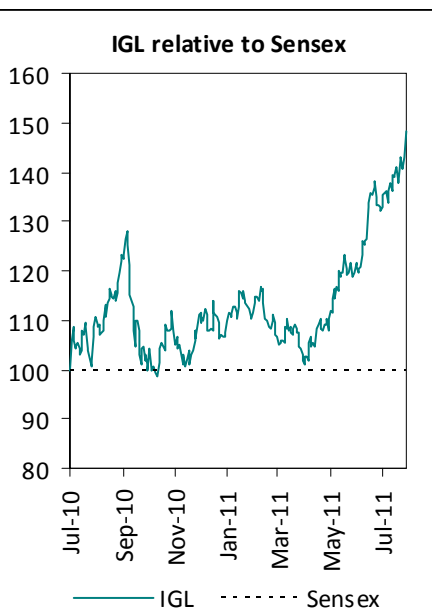
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August 1, 2011



Operational performance analysis

Gas distribution is IGL's sole business, under two categories — compressed natural gas (CNG) and piped natural gas (PNG). The growth traction continues with aggressive expansion in both the segments.

CNG: The increase in number of gas stations from 241 to 278 and in compression capacity by 41% to 51 lakh kg per day will support growth in this segment. Of these 278 stations, 240 are in Delhi and 38 in adjoining regions.

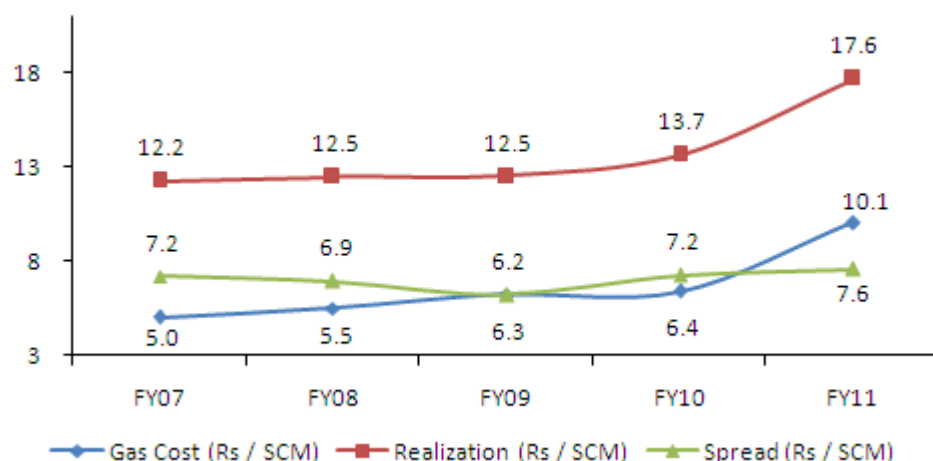
The extension of its tie up with OMCs was critical for IGL as 49% of the gas stations are of OMCs. The agreement has been extended for five more years and will negate, to a large extent, any possible competitive threat post-marketing exclusivity period.

Category	No. of Stations
IGL	101
DTC	40
OMCs	137

The management's future outlook seems to be pretty optimistic in terms of volume growth in the CNG segment, driven by CNG's fuel economics as compared to petrol and diesel. The launch of more CNG variants by vehicle-makers will be a positive for IGL. The new concept of private bus clusters introduced by the Delhi government will add to volumes.

The CNG segment's realisations increased to counter the input cost, with an objective to maintaining the spreads, which improved by 4.8% in FY11 over FY10. Considering the economics of CNG, we feel IGL will be able to maintain spreads in the CNG segment at current levels.

CNG Segment Performance



Source: Company, Dolat Research

PNG: This segment witnessed a volume growth of 106% in FY11 as compared to FY10. The aggressive expansion enabled IGL to cover 50 of the 70 areas in Delhi. Pipeline expansion was the major thrust area for IGL in FY11.

The number of domestic PNG connections increased by 62,918 to 244,924 in FY11. IGL surpassed PNGRB's target of 35,000 connections in Delhi, providing 42,289 connections in Delhi.

During FY11, IGL emphasised heavily on the industrial segment and the number of industrial customers increased from 14 in FY10 to 68 in FY11. The commercial segment also witnessed decent growth, with the number of customers increasing from 355 in FY10 to 463 in FY11.

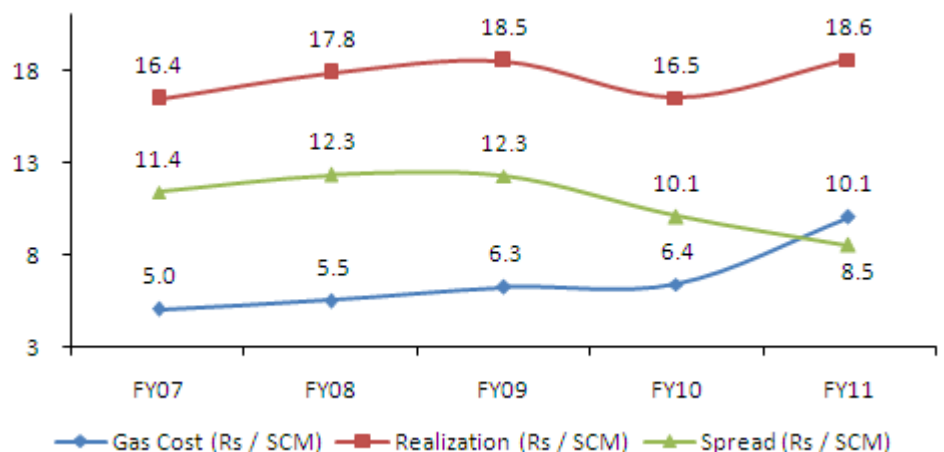
With the Ghaziabad territory being authorised to IGL for CGD operations, industrial volume growth will show significant growth as the industrial area of Sahibabad in Ghaziabad offers high growth potential.

Aggressive expansion will continue in FY12 and the management is confident of strong growth in the PNG segment. The new usages, such as gas water heaters in the domestic segment, will further propel volume growth. IGL has planned to exploit the significant industrial and commercial potential of regions such as Noida, Greater Noida and Ghaziabad.

The spreads declined despite regular price hikes in PNG as the proportion of industrial segment increased. The spreads are lower in the industrial segment as compared to the commercial, domestic and CNG segments.

Price hikes were taken to counter the increase in input cost. However, we feel spreads in the PNG segment will decline from current levels.

PNG Segment Performance



Source: Company, Dolat Research

Financial performance analysis

IGL declared dividend of Rs 5 (50%) per share in FY11 as compared to Rs 4.5 in FY10. Dividend payout stood at 27% — lowest since FY05.

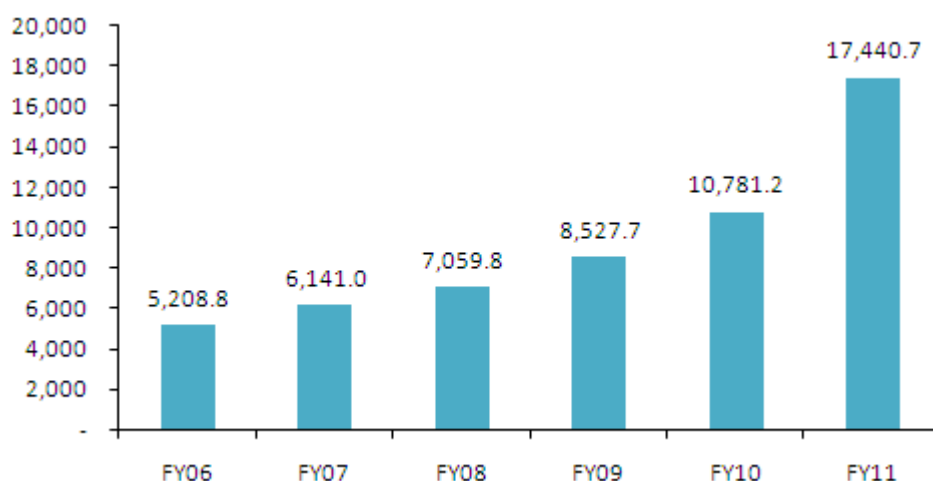
IGL was a debt-free company from 2006 to 2010. However, considering the aggressive expansion plan in order to maximise its reach before the end of its marketing exclusivity, IGL had to resort to debt in FY11. It has borrowed Rs 3bn as secured loan and Rs 0.4bn as unsecured loan. The other amount of Rs 1.17bn — deposit from customers of PNG connection — is also a source of funds.

Revenue

Revenue growth of 62% in FY11 over FY10 was driven by volume growth of 26.8% and 27.4% improvement in realisation. We expect revenue to grow at a CAGR of 31% over FY11-14, driven by volume as well as realisation growth.

Considering the higher growth rate in the PNG segment (driven by the industrial category), the proportion of PNG in the revenue mix will increase from 18% in FY11 to 32% in FY13.

Net Sales (in millions)

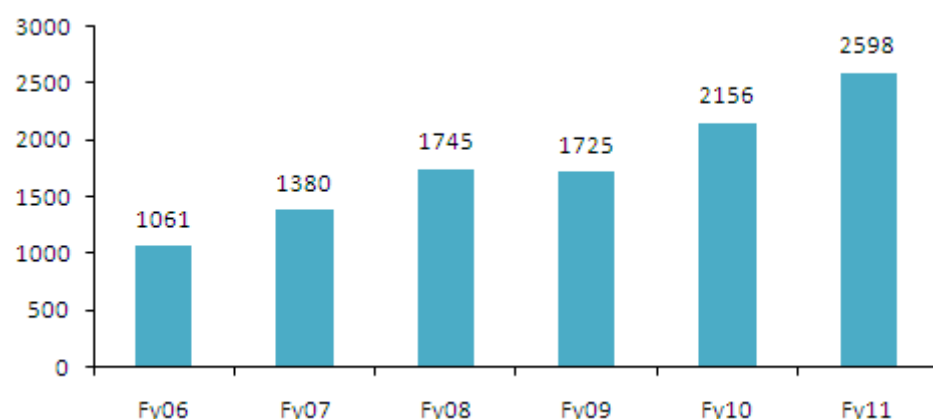


Source: Company, Dolat Research

Profitability

Profit growth lagged revenue growth due to the increase in raw material cost as well as interest in FY11 due to borrowings. Profits increased 21% in FY11 over FY10. We expect net profit to increase at a CAGR of 20.7% over FY11-14.

Net Profit (Rs.mn)



Source: Company, Dolat Research

Working Capital

IGL had a negative working capital of Rs 355mn in FY11. It had positive working capital since FY08 and we expect it to again become positive from FY12 onwards. IGL always had a negative non-cash working capital and the trend continued in FY11.

Loan funds

IGL resorted to debt of up to Rs 3.46bn to support its aggressive expansion plan – both in the CNG and PNG segments. Deposits from PNG customers – at Rs 1.16bn – also acted as a source of funds.

Cash flow

IGL has not been free cash flow positive for the past two years as it continues its aggressive capacity expansion. Its gross block has more than doubled from Rs 8.2bn at the end of FY09 to Rs 17.2bn by the end of FY11. We feel IGL was at the peak of its capex cycle in FY11 and it will normalise in coming years. IGL added Rs 6.1bn in gross block in FY11. The IGL management has guided for a capex of Rs 5bn in FY12.

Key ratios

- IGL has a comfortable debt-equity ratio at 0.46. This has come up due to the loan taken in FY11. The interest coverage ratio was very comfortable at 38x.
- The return on capital employed declined from 39.7% in FY10 to 33.1% in FY11. We expect that pressure to continue in FY12. However, the fall will be much lower.
- The return on net worth declined marginally from 28.6 in FY10 to 28.4 in FY11. We expect this to remain stable in coming years.
- The fixed assets turnover remained stable at 1x in FY11. We expect this to gradually improve in coming years.

Contingent liabilities

- IGL has some appeals against the income tax department at various stages. The department has disallowed certain claims and set offs availed by IGL and has demands of Rs 121mn in total for the period from FY02 to FY09. IGL has deposited Rs 94mn under protest. The adjustments to past carried forward losses stand at Rs 29mn.
- IGL's total liability towards un-expired bank guarantees stands at Rs 455mn.

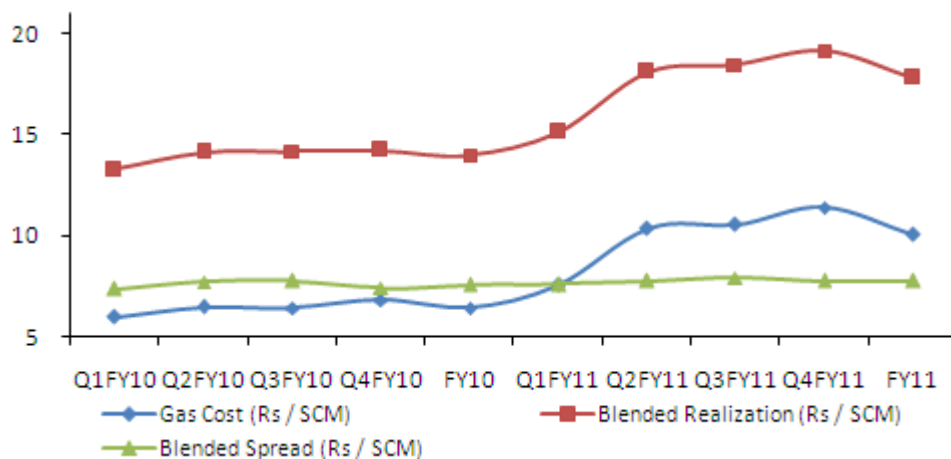
Accounting policies

IGL maintained its accounting policies in FY11 for revenue recognition, inventory valuation, depreciation policy, fixed assets, etc as the same in FY10.

View

Considering the economics of gas usage, IGL's strategy to focus on the industrial segment and develop new usages of gas such as hot water geysers will drive volume growth. The challenge of rising input cost has been handled by IGL prudently through regular price hikes. IGL demonstrated its pricing power and has maintained the spreads in absolute terms.

Gross Spreads (in Rs / SCM)



Source: Company, Dolat Research

Considering the volume even as and ability to maintain spreads, IGL will be on a growth trajectory. Operating margins decline. However, cash flow generation will be strong. We retain our positive long-term view on IGL and the city gas distribution space.

At CMP of Rs 402, the stock trades at 17.3x FY12E and 14.1x FY13E earnings. We recommend **Accumulate** on the stock with a DCF-based price target of Rs 455, at which it will trade at 16x FY13E earnings.

INCOME STATEMENT					Rs.mn	CASH FLOW				
Particulars	Mar10	Mar11	Mar12E	Mar13E		Particulars	Mar10	Mar11	Mar12E	Mar13E
Net Sales	10,781	17,441	24,328	31,891		Profit before tax	3,244	3,857	4,906	5,998
Other Operational income	57	64	69	76		Depreciation & w.o.	775	1,029	1,440	1,977
Total Income	10,838	17,505	24,398	31,967		Net Interest Exp	0	132	258	240
Total Expenditure	6,973	12,518	17,927	23,969		Direct taxes paid	(1,126)	(1,141)	(1,648)	(2,015)
Raw Material	4,949	9,835	14,228	18,803		Chg. in Working Capital (Non Cash)	259	(228)	495	395
Employee Expenses	308	379	529	693		Other	121	564	(425)	(9)
Power, Oil & Fuel	270	337	487	638		(A) CF from Operating Activities	3,273	4,213	5,026	6,587
Selling & Administrative Expenses	884	1,182	1,703	2,232		Capex {Inc./ (Dec.) in FA n WIP}	(3,905)	(7,706)	(2,777)	(4,000)
Provisions & Write Offs	5	8	8	8		Free Cash Flow	(632)	(3,494)	2,249	2,587
Other Expenses	558	777	973	1,595		Inc./ (Dec.) in Investments	167	81	(100)	(100)
Other Income	154	31	134	218		Other			(11)	(11)
EBIDTA (Excl. Other Income)	3,866	4,987	6,470	7,998		(B) CF from Investing Activities	(3,739)	(7,626)	(2,888)	(4,111)
EBIDTA (Incl. Other Income)	4,019	5,018	6,604	8,216		Issue of Equity/ Preference	0	0	0	0
Interest	0	132	258	240		Inc./ (Dec.) in Debt	0	3,452	(43)	(350)
Gross Profit	4,019	4,886	6,347	7,975		Interest exp net	0	(98)	(258)	(240)
Depreciation	775	1,029	1,440	1,977		Dividend Paid (Incl. Tax)	(655)	(735)	(819)	(819)
Profit Before Tax & EO Items	3,245	3,857	4,906	5,998		(C) Cash Flow from Financing	(655)	2,620	(1,120)	(1,409)
Extra Ordinary Exps/(Income)	0					Net Change in Cash	(1,121)	(793)	1,018	1,067
Profit Before Tax	3,245	3,857	4,906	5,998		Opening Cash balances	2,503	1,383	589	1,607
Tax	1,089	1,259	1,648	2,015		Closing Cash balances	1,383	589	1,607	2,674
Net Profit	2,155	2,598	3,258	3,983		E-estimates				
Minority Interest										
Net Profit	2,155	2,598	3,258	3,983						
BALANCE SHEET						IMPORTANT RATIOS				
Particulars	Mar10	Mar11	Mar12E	Mar13E		Particulars	Mar10	Mar11	Mar12E	Mar13E
Sources of Funds						(A) Measures of Performance (%)				
Equity Capital	1,400	1,400	1,400	1,400		Contribution Margin				
Other Reserves	6,854	8,639	11,077	14,241		EBIDTA Margin (excl. O.I.)	35.7	28.5	26.5	25.0
Net Worth	8,254	10,039	12,477	15,641		Interest / Sales	0.0	0.8	1.1	0.8
Secured Loans	0	3,022	3,222	2,672		Gross Profit Margin	37.1	27.9	26.0	24.9
Unsecured Loans	552	1,611	1,368	1,568		Tax/PBT	33.6	32.7	33.6	33.6
Loan Funds	552	4,633	4,590	4,240		Net Profit Margin	19.9	14.8	13.4	12.5
Deferred Tax Liability	238	408	387	368						
Total Capital Employed	9,045	15,079	17,454	20,249		(B) As Percentage of Net Sales				
						Excise Duty % of Gross Sales	11.1	10.6	9.9	9.1
Applications of Funds						Raw Material	45.9	56.4	58.5	59.0
Gross Block	11,053	17,160	22,160	26,360		Employee Expenses	2.9	2.2	2.2	2.2
Less: Accumulated Depreciation	4,539	5,566	7,006	8,983		Power, Oil & Fuel	2.5	1.9	2.0	2.0
Net Block	6,514	11,594	15,154	17,377		Selling & Administrative Expenses	8.2	6.8	7.0	7.0
Capital Work in Progress	1,826	3,423	1,200	1,000		Other Expenses	5.2	4.5	4.0	5.0
Investments	170	416	516	616						
Current Assets, Loans & Advances						(C) Measures of Financial Status				
Inventories	278	359	667	786		Debt / Equity (x)	0.1	0.5	0.4	0.3
Sundry Debtors	335	745	933	1,223		Interest Coverage (x)		38.1	25.6	34.2
Cash and Bank Balance	1,213	173	1,607	2,674		Average Cost Of Debt (%)	0.0	5.1	5.6	5.4
Loans and Advances	686	815	895	995		Debtors Period (days)	11	16	14	14
Other Current Assets	60	141	148	155		Inventory Turnover Ratio (x)	38.8	48.6	36.5	40.6
<i>sub total</i>	<i>2,572</i>	<i>2,233</i>	<i>4,249</i>	<i>5,833</i>		Fixed Assets Turnover (x)	1.0	1.0	1.1	1.2
Less : Current Liabilities & Provisions						Working Capital Turnover (x)	20.2	(49.2)	41.7	25.4
Current Liabilities	1,262	1,729	2,807	3,709		Non Cash Working Capital (Rs Mn)	(678)	(528)	(1,023)	(1,418)
Provisions	776	859	859	869						
<i>sub total</i>	<i>2,038</i>	<i>2,587</i>	<i>3,665</i>	<i>4,578</i>		(D) Measures of Investment				
Net Current Assets	534	(355)	584	1,255		EPS (Rs.)	15.4	18.6	23.3	28.4
Misc Expenses						CEPS (Rs.)	20.9	25.9	33.6	42.6
Total Assets	9,045	15,079	17,454	20,249		DPS (Rs.)	4.5	5.0	5.0	5.0
E-estimates						Dividend Payout (%)	29.2	26.9	21.5	17.6
						Book Value (Rs.)	59.0	71.7	89.1	111.7
						RoANW (%)	28.6	28.4	28.9	28.3
						RoACE (%)	39.7	33.1	31.7	33.1
						(E) Valuation Ratios				
						CMP (Rs.)	402	402	402	402
						P/E (x)	26.1	21.7	17.3	14.1
						Market Cap. (Rs. Mn.)	56,280	56,280	56,280	56,280
						MCap/ Sales (x)	5.2	3.2	2.3	1.8
						EV (Rs. Mn.)	55,620	60,740	59,263	57,846
						EV/Sales (x)	5.2	3.5	2.4	1.8
						EV/EBDITA (x)	14.4	12.2	9.2	7.2
						P/BV (x)	6.8	5.6	4.5	3.6
						Dividend Yield (%)	1.1	1.2	1.2	1.2
						E-estimates				



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BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside up to 5%
SELL	Negative Returns

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