

## INDRAPRASTHA GAS

INR 119

Usual quarter

BUY



IGL's Q3FY07 revenues were in line with our expectations. Revenues grew 17% Y-o-Y due to increase in the gas sales (9.2% Y-o-Y) and increase in gas realisation (6.8% Y-o-Y).

CNG sales volumes grew by 7.7% Y-o-Y and 3.4% Q-o-Q, which we attribute to increase in CNG car population with addition of ~6300 cars in Q3FY07. This is in line with IGL management's earlier estimates of CNG car additions at 2200-2500 cars/month.

PNG sales volumes grew by 34% Y-o-Y and 3.4% Q-o-Q. The lower sequential growth was a result of a higher base effect and also lower than expected additions in the domestic segment.

Our new FY07 and FY08 EPS estimates stand at INR 9.9 and INR 11.9 (reduction by 2.5%). Conversion of commercial vehicles has not gathered pace, which we believe is due to high conversion cost and purchase of new LCV being made from neighboring states. We have reduced our sales projections to incorporate lower LCV conversions.

IGL's growth story looks attractive with current triggers being CNG car conversions; long-term being conversions of LCVs to CNG and geographical expansion. We expect IGL to clock 6% CAGR increase in gas sales over the next five years (FY07-11) and ~15% CAGR PAT growth over the next 2 years. This makes the stock look attractive from a growth perspective. At INR 119, IGL trades at 12.0x and 10.0x FY07 and FY08 EPS estimates. On an EV/EBITDA basis the stock trades at 6.2x and 4.9x FY07E and FY08E earnings. We believe that IGL's free cash flow allows the firm to increase dividend payout in the near future. IGL trades at dividend yield of 3.4% and 5.9% for FY07 and FY09, respectively. We maintain our 'BUY' recommendation on the stock.

\* **Net revenues grew by 16.7% Y-o-Y driven by increase in sales and realisation**

Net revenues were higher by 16.7% Y-o-Y, primarily driven by increase in the total gas volumes by 9.2% Y-o-Y. Gas sales realisation increased by 6.8% Y-o-Y due to CNG gas price increase in June 2006.

Total gas sales at 124 MMSCM, increased 9.2% Y-o-Y, driven by 34% increase in PNG gas sales. PNG sales volume share in Q3FY07 was at 7.4% compared to 6.0% in Q3F06. CNG gas volumes increased by 7.7% Y-o-Y.

Revenue share of PNG in Q3FY07 was 9.5% compared with 8.6% in Q3FY06.

#### Financials

Year to March	Q3FY07	Q3FY06	% change	Q2FY07	% change	FY07E	FY08E
Revenue (INR mn)	1,599	1,370	16.7	1,542	3.7	6,144	6,713
EBITDA (INR mn)	654	582	12.4	645	1.3	2,571	2,947
Net profit (INR mn)	355	293	21.0	348	2.0	1,383	1,665
EPS (INR)	2.5	2.1	21.0	2.5	2.0	9.9	11.9
P/E (x)						12.0	10.0
EV/EBITDA						6.2	4.9

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Reuters : IGAS.BO  
Bloomberg : IGL IN

#### Market Data

52-week range (INR) : 154 / 86  
Share in issue (mn) : 140.0  
M cap (INR bn/USD mn) : 16.6 / 376.1  
Avg. Daily Vol. BSE/NSE ('000) : 232.4

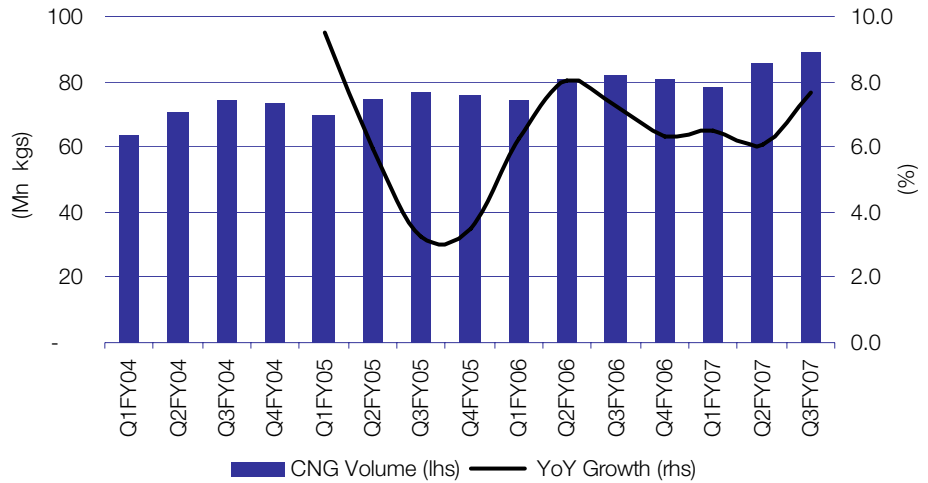
#### Share Holding Pattern (%)

Promoters : 45.0  
MFs, Fls & Banks : 20.4  
Fls : 21.0  
Others : 13.6

**\* CNG revenues grew by 15.5% Y-o-Y**

CNG revenues grew by 15.5% due to increase in realisation and sales volumes. Realisation increased by 6.9% Y-o-Y due to increase in CNG gas prices in June 6, 2006. Sales volumes grew by 7.7% Y-o-Y due increase in the CNG car population to ~41500 cars, addition of ~6300 cars (tentative estimate by management) in this quarter. This is inline with management's estimated CNG car conversions at 2200-2500/month.

**Chart 1: CNG sales volumes**



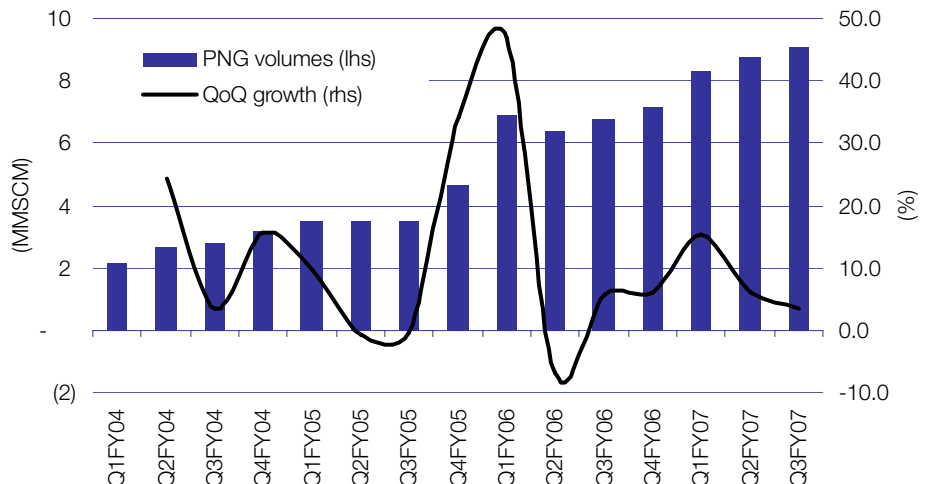
Source: Company

**\* PNG revenues growth at 29.4% Y-o-Y and 6.4% Q-o-Q**

PNG revenues grew by 6.4% Q-o-Q and volumes by 3.4% Q-o-Q. A slower sequential volume growth was a result of a higher base effect, lower than expected additions (6.8% Q-o-Q) in the domestic segment. We believe that there is huge potential of 3.5 mn LPG connections that can shift to PNG. We believe that IGL needs to be aggressive in pushing its potential customers to adopt PNG.

Consumer addition was lower than expected during the quarter. Domestic consumers grew by 6.8% Q-o-Q and 53.4% Y-o-Y, Small commercial consumers grew by 8.9% Q-o-Q and 42.0% Y-o-Y, and large commercial consumers grew by 21.1% Y-o-Y.

**Chart 2: PNG sales volumes**

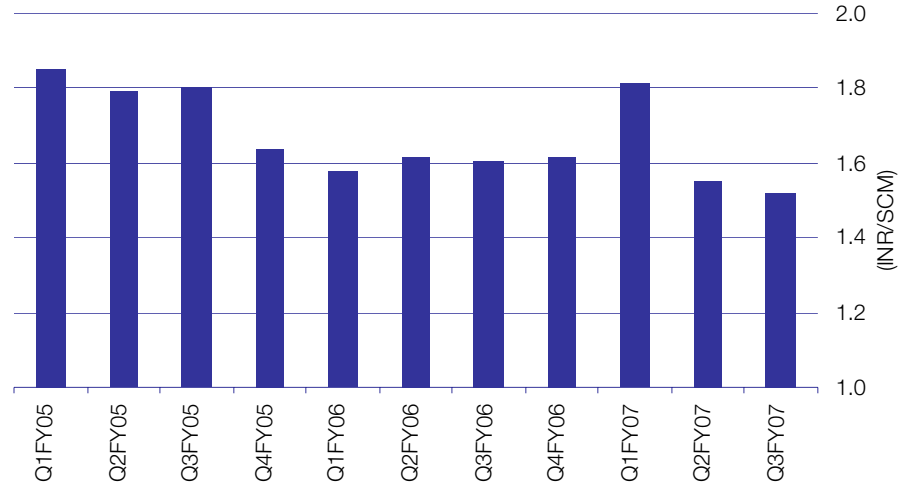


Source: Company

**\* Further reduction in operating expenses**

Operating costs decreased from INR 1.6/SCM in Q3FY06 and INR 1.55/SCM in Q2FY07 to INR 1.52/SCM in Q3FY07. Apart from economies of scale, the improvement in operating costs is a result of reduction in the number of faulty meters and lower expenses on patrolling which IGL used to incur in the past. Going forward, we expect further savings of INR 5.0 mn/qtr due to reduction in rental costs as IGL has shifted to its own premises.

**Chart 3: Operating expenses**



Source: Company, Edelweiss research

**\* Valuations are attractive; re-iterate 'BUY'**

Our new FY07 and FY08 EPS estimates stand at INR 9.9 and INR 11.9 (reduction by 2.5%). Conversion of commercial vehicles has not gathered pace, which we believe is due to high conversion cost and purchase of new LCV being made from neighboring states. We have reduced our sales projections to incorporate lower LCV conversions.

IGL's growth story looks attractive with current triggers being CNG car conversions; long-term being conversions of LCVs to CNG and geographical expansion. We expect IGL to clock 6% CAGR increase in gas sales over the next five years (FY07-11) and ~15% CAGR PAT growth over the next 2 years. This makes the stock look attractive from a growth perspective. At INR 119, IGL trades at 12.0x and 10.0x FY07 and FY08 EPS estimates. On an EV/EBITDA basis the stock trades at 6.2x and 4.9x FY07E and FY08E earnings. We believe that IGL's free cash flow allows the firm to increase dividend payout in the near future. IGL trades at dividend yield of 3.4% and 5.9% for FY07 and FY09, respectively. We maintain our **'BUY'** recommendation on the stock.

**Financials snapshot**

<b>Year to March</b>	<b>Q3FY07</b>	<b>Q3FY06</b>	<b>% change</b>	<b>Q2FY07</b>	<b>% change</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>
Net revenues	1,599	1,370	16.7	1,542	3.7	5,209	6,144	6,713
Raw material costs	721	579	24.5	675	6.8	2,254	2,674	2,851
Gross profit	878	792	10.9	867	1.3	2,955	3,469	3,862
Employee expenses	36	29	26.8	36	1.9	115	143	154
Other expenses	188	181	3.6	186	1.3	697	756	761
SG&A expenses	224	210	6.8	221	1.4	812	898	915
EBIDTA	654	582	12.4	645	1.3	2,143	2,571	2,947
Interest	-	6	(100.0)	-	NA	27	-	-
Depreciation	150	143	4.8	150	(0.4)	565	599	600
Other income	24	7	227.8	23	4.6	53	91	137
Profit before tax	528	440	20.0	518	1.9	1,603	2,063	2,485
Current taxes	189	155	21.8	185	1.9	569	727	820
Deferred taxes	(16)	(8)	103.4	(15)	4.0	(31)	(49)	-
Other taxes	1	-	-	-	-	2	2	-
Tax	173	147	17.9	170	1.7	540	679	820
Adjusted net profit	355	293	21.0	348	2.0	1,064	1,383	1,665
Extra / Non-recurring items	-	-	NA	-	NA	-	-	-
Net profit	355	293	21.0	348	2.0	1,064	1,383	1,665
Equity capital (FV INR 10)	1,400	1,400	(0.0)	1,400	-	1,400	1,400	1,400
No. of shares (mn)	140	140	(0.0)	140	-	140	140	140
EPS (INR)	3	2	21.0	2	2.0	8	10	12
PE (x)						16	12	10
EV/EBITDA (x)						8	6	5
<b>as % of net revenues</b>								
Direct costs	45.1	42.2	NA	43.8	NA	43.3	43.5	42.5
Gross profit	54.9	57.8	NA	56.2	NA	56.7	56.5	57.5
SG&A	14.0	15.3	NA	14.4	NA	15.6	14.6	13.6
EBITDA	40.9	42.4	NA	41.9	NA	41.1	41.8	43.9
Profit before tax	33.0	32.1	NA	33.6	NA	30.8	33.6	37.0
Net profit	22.2	21.4	NA	22.6	NA	20.4	22.5	24.8
Tax rate	32.8	33.4	NA	32.9	NA	33.7	32.9	33.0

## Company Description

Indraprastha Gas Ltd (IGL) is a joint venture promoted by GAIL, BPCL and the Delhi Government. It was incorporated in 1998 and pioneered the commercialization of compressed natural gas (CNG) for the automotive sector in Delhi. IGL operates in two business segments - CNG and PNG. CNG contributes about 94% to its total revenues. The CNG business involves distribution of compressed natural gas to automobiles through gas stations and the PNG business involves the supply of natural gas to homes and commercial & industrial establishments.

## Investment Thesis

Natural gas is cheap, environment friendly and would be the preferred fuel, in future. The low current penetration of natural gas in automobiles in Delhi region and growing demand of automobiles are expected to drive growth for IGL. A natural monopoly in Delhi and the adjoining areas, IGL has gained the first mover advantage by investing in gas infrastructure across Delhi. Delhi government's approval to stop the registration of diesel-run mini-trucks in the state would help drive gas sales by 4.6% over the next 8 years. Also the PNG business represents a long-term opportunity with low PNG penetration at 1.1% in the domestic segment and about 18% in the small commercial segment would boost sales as IGL increases its geographical presence in Greater Noida, Ghaziabad, Sonapat and Panipat.

## Risks to Investment Thesis

IGL buys natural gas from GAIL at administered rates fixed by the Government of India (GOI) which is 50% lower than the market price of gas. Though IGL has succeeded in the past in passing on gas price hikes to consumers any move by the government to link IGL gas prices to market determined prices could affect IGL's volumes and margins.

Fall in crude prices or decrease in duties on petroleum products could impact CNG demand.

## Financial Statements

<b>Income statement</b>					(INR mn)
<b>Year to March</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>
Income from operations	4,500	5,209	6,144	6,713	7,097
Materials costs	1,893	2,254	2,674	2,851	3,055
Staff costs	93	115	143	154	166
S G & A expenses	666	697	756	761	815
Total operating expenses	2,652	3,066	3,573	3,766	4,036
EBITDA	1,848	2,143	2,571	2,947	3,061
Interest	35	27	0	0	0
Depreciation & amortisation	480	565	599	600	542
Other income	78	53	91	137	195
Extraordinary items	0	2	0	0	0
Profit before tax	1,411	1,601	2,063	2,485	2,714
Provision for tax	484	540	679	820	896
Profit after tax	927	1,061	1,383	1,665	1,819
Shares outstanding (mn)	140	140	140	140	140
EPS (INR)	6.6	7.6	9.9	11.9	13.0
Dividend per share	2.0	2.5	4.0	5.0	7.0
Dividend payout (%)	30.2	33.0	40.5	42.0	53.9

### Common size metrics- (% net revenues)

<b>Year to March</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>
Operating expenses	58.9	58.9	58.2	56.1	56.9
Depreciation	10.7	10.9	9.8	8.9	7.6
Interest expenditure	0.8	0.5	0.0	0.0	0.0
EBITDA margins	41.1	41.1	41.8	43.9	43.1
Net profit margins	20.2	20.2	22.2	24.3	24.9

### Growth metrics (%)

<b>Year to March</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>
Revenues	7.3	15.7	17.9	9.3	5.7
EBITDA	9.0	15.9	20.0	14.6	3.9
PBT	9.7	13.5	28.8	20.5	9.2
Net profit	12.8	14.5	30.3	20.3	9.2
EPS	12.8	14.5	30.3	20.3	9.2

### Cash flow statement

<b>Cash flow statement</b>					(INR mn)
<b>Year to March</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>
Cash flow from operations	1,421	1,596	1,933	2,265	2,361
Cash for working capital	93	(94)	4	17	28
Net operating cash flow (A)	1,514	1,502	1,938	2,281	2,389
Net purchase of fixed assets	(458)	(772)	(1,005)	(191)	(305)
Net purchase of investments	(610)	185	(318)	(1,300)	(977)
Net CF from investing (B)	(1,067)	(588)	(1,323)	(1,491)	(1,282)
Proceeds from LTB/STB	(106)	(472)	12	14	18
Dividend payments	(319)	(399)	(639)	(798)	(1,117)
Net CF from financing (C)	(426)	(871)	(627)	(784)	(1,100)
<b>Free cash flow (A+B+C)</b>	<b>21</b>	<b>43</b>	<b>(12)</b>	<b>6</b>	<b>7</b>

<b>Balance sheet</b>					<b>(INR mn)</b>
<b>As on 31st March</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>
Equity capital	1,400	1,400	1,400	1,400	1,400
Reserves & surplus	1,725	2,387	3,132	3,998	4,700
Shareholders funds	3,125	3,787	4,532	5,398	6,100
Secured loans	480	0	0	0	0
Unsecured loans	35	43	55	69	87
Borrowings	515	43	55	69	87
Deferred tax liability (Net)	383	352	303	303	303
<b>Sources of funds</b>	<b>4,023</b>	<b>4,182</b>	<b>4,889</b>	<b>5,770</b>	<b>6,489</b>
Gross block	4,774	5,558	6,277	6,808	7,206
Depreciation	1,338	1,903	2,502	3,102	3,644
Net fixed assets	3,436	3,655	3,774	3,705	3,562
Capital work In progress	310	299	585	245	152
Total fixed assets	3,747	3,954	4,359	3,950	3,714
Investments	610	425	743	2,043	3,020
Inventories	180	184	229	241	260
Accounts receivables	108	190	228	242	257
Cash and bank balances	68	110	99	105	112
Loans and advances	196	291	362	384	409
Other current assets	10	14	16	17	19
Total current assets	562	789	934	989	1,057
Sundry creditors	572	578	686	724	781
Provisions	323	407	461	489	520
Total current liabilities & prov.	896	986	1,147	1,213	1,302
Net current assets	(333)	(197)	(213)	(223)	(245)
<b>Uses of funds</b>	<b>4,023</b>	<b>4,182</b>	<b>4,889</b>	<b>5,770</b>	<b>6,489</b>
BV per share (INR/share)	22.3	27.0	32.4	38.6	43.6

**Ratios**

<b>Year to March</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>
ROE (%)	36.8	34.0	36.5	36.7	33.7
ROCE (%)	46.1	44.7	53.9	54.2	49.6
Inventory days	34.8	29.8	31.2	30.9	31.1
Debtors days	8.8	13.3	13.6	13.2	13.2
Fixed assets t/o (x)	1.3	1.4	1.6	1.8	2.0
Debt/Equity (x)	0.2	0.0	0.0	0.0	0.0

**Valuations parameters**

<b>Year to March</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>
EPS (INR.)	6.6	7.6	9.9	11.9	13.0
EPS Y-o-Y growth (%)	12.8	14.5	30.3	20.3	9.2
CEPS (INR)	10.1	11.6	14.2	16.2	16.9
P/E (x)	17.9	15.7	12.0	10.0	9.1
Price/BV(x)	5.3	4.4	3.7	3.1	2.7
EV/Sales (x)	3.7	3.1	2.6	2.2	1.9
EV/EBITDA (x)	8.9	7.5	6.2	4.9	4.4
1-year PEG (x)	1.2	0.5	0.6	1.1	(1.5)

## Edelweiss Securities

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Naresh Kothari – 2286 4246

Head, Institutional Equities

Vikas Khemani – 2286 4206

Head, Institutional Equities

### INDIA RESEARCH

### SECTOR

### INSTITUTIONAL SALES

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Priyanko Panja - 2286 4300	Infrastructure, Engineering, Telecom	Nikhil Garg - 2286 4282
Hitesh Zaveri - 2286 4424	Information Technology	Swati Khemani - 2286 4266
Parul Inamdar - 2286 4355	Information Technology	Neha Shaha - 2286 4276
Priyank Singhal - 2286 4302	Media, Retail	Priya Ramchandran - 2286 4389
Prakash Kapadia - 2286 4432	Mid Caps	Anubhav Kanodia - 2286 4361
Niraj Mansingka - 2286 4304	Oil & Gas, Petrochemicals	Tushar Mahajan - 2286 4439
Nimish Mehta - 2286 4295	Pharmaceuticals, Agrochemicals	Harsh Biyani - 2286 4419
Manika Preamsingh - 4019 4847	Economist	Nirmal Ajmera - 2286 4258
Sunil Jain - 2286 4308	Alternative & Quantitative	Ankit Doshi - 2286 4671
Yogesh Radke - 2286 4328	Alternative & Quantitative	Ravi Pilani - 4009 4533
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*unless otherwise specified*

### RATING INTERPRETATION

<b>Buy</b>	Expected to appreciate more than 20% over a 12-month period	<b>Reduce</b>	Expected to depreciate up to 10% over a 12-month period
<b>Accumulate</b>	Expected to appreciate up to 20% over a 12-month period	<b>Sell</b>	Expected to depreciate more than 10% over a 12-month period
<b>Trading Buy</b>	Expected to appreciate more than 10% over a 45-day period	<b>Trading Sell</b>	Expected to depreciate more than 10% over a 45-day period

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