

Indraprastha Gas

| | |
|-------------------|--------------|
| STOCK INFO. | BLOOMBERG |
| BSE Sensex: 9,686 | IGL IN |
| | REUTERS CODE |
| S&P CNX: 2,940 | IGAS.BO |

25 January 2006

Not Rated
Previous Recommendation: Not Rated

Rs135

| | |
|-----------------------|-----------|
| Equity Shares (m) | 140.0 |
| 52-Week Range | 146/92 |
| 1,6,12 Rel. Perf. (%) | -2/-1/-16 |
| M.Cap. (Rs b) | 18.9 |
| M.Cap. (US\$ b) | 0.4 |

| YEAR | NET SALES | PAT | EPS | EPS | P/E | P/BV | ROE | ROCE | EV/ | EV/ |
|--------|-----------|--------|------|------------|------|------|------|------|-------|--------|
| END | (RS M) | (RS M) | (RS) | GROWTH (%) | (X) | (X) | (%) | (%) | SALES | EBITDA |
| 03/05A | 4,500 | 927 | 6.6 | 12.9 | 20.4 | 6.0 | 32.8 | 38.3 | 4.3 | 10.5 |
| 03/06E | 5,176 | 1,020 | 7.3 | 10.1 | 18.5 | 5.0 | 29.7 | 36.9 | 3.6 | 8.9 |
| 03/07E | 5,945 | 1,246 | 8.9 | 22.1 | 15.2 | 4.2 | 30.1 | 36.5 | 3.1 | 7.3 |

- Indraprastha Gas reported net profit of Rs293m, up 32.5% YoY. CNG and PNG volume growth drove profits.
- CNG volumes were up 7.1% YoY, while PNG volumes were up 95% YoY.
- EBITDA margin was up 380bp YoY, thanks to the price increase effected in 2QFY06 and a prior period raw material credit of Rs21.1m (220bp increase, adjusted for this credit).
- The stock trades at 15.2x FY07E EPS and EV/EBITDA of 7.3x FY07E. While potential upside exists from the possible LCV conversion mandate and NCR region expansion, near term, the recent commissioning of line 3 of Delhi Metro Rail could impact volumes. The stock is currently **not rated**.

QUARTERLY PERFORMANCE

(RS MILLION)

| Y/E MARCH | FY05 | | | | FY06 | | | | FY05 | FY06E |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4QE | | |
| Net Sales | 1,064 | 1,146 | 1,180 | 1,167 | 1,140 | 1,341 | 1,370 | 1,324 | 4,557 | 5,176 |
| Change (%) | | | 5.2 | 4.2 | 7.2 | 17.1 | 16.1 | 13.5 | 7.3 | 13.6 |
| Raw Material Consumed | 435 | 482 | 494 | 482 | 521 | 599 | 579 | 484 | 1,894 | 2,183 |
| Staff Cost | 26 | 16 | 25 | 27 | 21 | 26 | 29 | 22 | 93 | 98 |
| Other Exp (incl Stock Adj) | 173 | 180 | 205 | 168 | 161 | 179 | 181 | 265 | 725 | 786 |
| EBITDA | 430 | 468 | 457 | 490 | 437 | 538 | 582 | 552 | 1,849 | 2,109 |
| % of Net Sales | 40.5 | 40.9 | 38.7 | 42.0 | 38.3 | 40.1 | 42.4 | 41.7 | 40.5 | 40.7 |
| % Change | | | (0.4) | 13.3 | 1.6 | 14.9 | 27.4 | 12.8 | 9.1 | 14.1 |
| Depreciation | 114 | 118 | 122 | 127 | 134 | 138 | 143 | 210 | 480 | 624 |
| Interest | 8 | 8 | 8 | 7 | 7 | 6 | 6 | 12 | 31 | 31 |
| Other Income | 4 | 7 | 16 | 51 | 8 | 10 | 7 | 58 | 78 | 83 |
| PBT | 312 | 349 | 343 | 407 | 305 | 404 | 440 | 388 | 1,411 | 1,537 |
| Tax | 115 | 139 | 122 | 110 | 103 | 133 | 147 | 133 | 485 | 516 |
| Rate (%) | 36.7 | 39.8 | 35.5 | 27.0 | 33.7 | 33.1 | 33.4 | 34.4 | 34.4 | 33.6 |
| PAT | 198 | 210 | 221 | 297 | 202 | 270 | 293 | 254 | 926 | 1,020 |
| Change (%) | | | 3.9 | 24.6 | 2.3 | 28.7 | 32.5 | -14.3 | 12.8 | 10.2 |

E: MOST Estimates, FY05 sales on this table not matching P&L on account of restatement

EBITDA in line with expectation

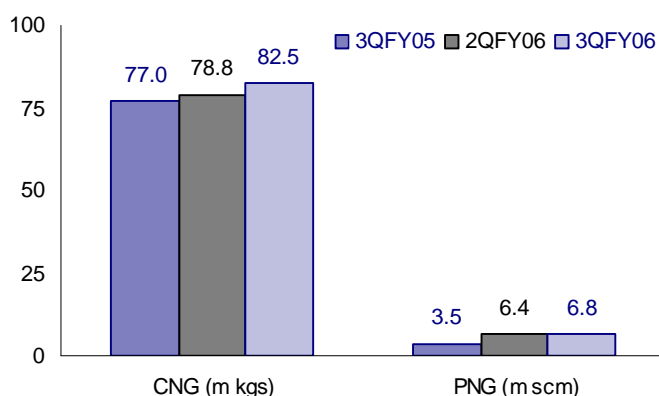
IGL reported net profit of Rs293m, up 32.5% YoY. Both CNG and PNG volumes drove profit growth. EBITDA at Rs582m, was up 27.4% YoY, in line with our expectation, adjusting for the prior period raw material credit of Rs21.1m.

Robust volume growth continues

CNG sales volume was up 7.1% YoY at 82.5m kg, primarily driven by voluntary conversion of passenger cars. According to IGL, passenger car conversion rates remain robust and have exceeded all expectations. IGL had indicated at the beginning of the year that the conversion rate is expected to be about 500 vehicles per month. We believe the run rate is about 1,000 vehicles per month.

PNG volumes are up 95% YoY at 6.8m SCMs, driven by an increase in sales to commercial segment consumers. IGL indicates that growth in domestic consumer connections is on target to achieve a year-end target of 50,000 connections.

SALES VOLUME

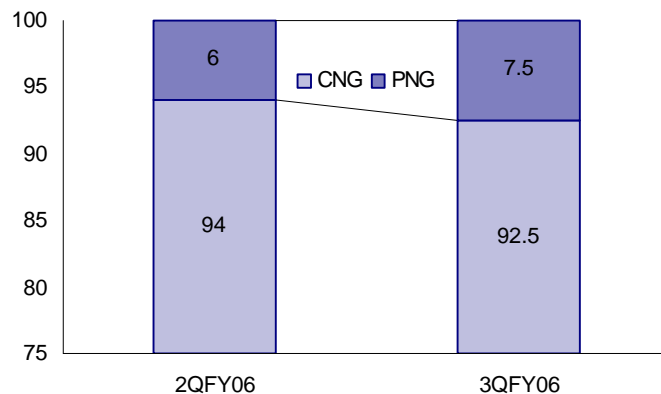


Source: Company/Motilal Oswal Securities

Share of PNG rising

Share of PNG in the sales mix is on a rise. The proportion of PNG in sales mix is up from about 6% in 2QFY06 to 7.5%. This is on account of a sharp increase in sales to the large commercial segment.

SALES MIX (%)



Source: Company/Motilal Oswal Securities

Operating margin improves

EBITDA margin for the quarter was up 380bp YoY, on the back of the CNG price increase effected in 2QFY06 and a prior period raw material credit of Rs21.1m.

IGL had raised the retail price of CNG by Rs1.12/kg to Rs18/kg effective July 2005. While the price increase was primarily on account of an increase in gas price (GAIL's natural gas prices for power, fertilizer and city gas end-use were raised to Rs3,200/mscm from Rs2,850/mscm, effective July 2005), this also contributed to margin improvement.

The prior period raw material credit was on account service tax (on transportation) credit for 2QFY06. Adjusting the raw material cost for credit, EBITDA margin was up 220bp YoY and down 76bp QoQ.

Large growth drivers exist

Long term growth outlook is robust, with large growth drivers in the form of expansion into NCR, voluntary conversion of passenger cars, LCVs and PNG growth. We estimate that these factors could drive a 6.5%-7.5% CAGR in volumes over the next decade. Mandatory conversion order for LCVs and RLNG supply to industrial customers in the National Capital Territory (NCT) could add to the growth.

Delhi Metro could impact growth rates

Delhi's Metro Rail could have a significant negative impact on the near and long term growth for IGL. The recent commissioning of Line 3 of Delhi Metro's Phase-1 (32.1km) is likely to impact CNG sales to Delhi Transport Corporation (DTC) as the number of passenger-km is set to fall. While the change in traffic pattern to the hub and spoke model (effectively, passenger travels more km than he earlier did!) would cushion the absolute fall in traffic, the decline in passenger-km for DTC is likely to be significant. DTC consumption currently constitutes nearly two-thirds of CNG sales (CNG sales currently is 92.5% of total gas sales).

Preparation of Delhi's Metro Phase II to cover more segments and also link NCR towns like Gurgaon, Noida etc. is in progress. Phase II, if implemented could eat into IGL's long term CNG volume growth rates significantly.

Gas price increase too could slow down growth

Possible complete deregulation of gas prices could have a significant impact on the growth rate as voluntary conversion rates could slow down significantly.

Valuation and view

The stock is trading at a P/E of 15.2x FY07E and an EV/EBITDA of 7.3x FY07E. The stock is currently **not rated**.

Indraprastha Gas: an investment profile

Company description

Indraprastha Gas Ltd. (IGL) is a joint venture of GAIL (India) Ltd., BPCL and the Government of the National Capital Territory of Delhi. IGL was incorporated to implement the Compressed Natural Gas (CNG) distribution and Piped Natural Gas (PNG) project in Delhi.

Key investment arguments

- ✍ Voluntary conversion of passenger cars, LCVs, sharp growth in PNG and expansion to the NCR region is set to drive a CAGR of 6.5%-7.5% over the next decade.
- ✍ Upside to this growth exists in the form of mandatory conversion of over 40,000 LCVs (CAGR of ~3.5%), and potential RLNG distribution to the industrial sector.

Key investment risks

- ✍ Traffic growth of 3%-5% p.a. is consensus growth built into IGL's future estimates. However, starting of the Metro Rail in Delhi will have a negative impact on traffic growth.
- ✍ The cost advantage could narrow, if gas prices rise, thus pushing up the payback period, which could pull down the conversion rate.

Recent developments

- ✍ IGL raised retail prices by Rs1.12/kg effective July 2005, on account of gas price increase.
- ✍ IGL has signed an MoU with BPCL for RLNG supply. BPCL has allocated 25,000SCMD to start with.

Valuation and view

- ✍ The stock currently trades at 15.2x FY07E EPS and EV/EBITDA of 7.3 x FY07E.
- ✍ The stock is currently not rated.

Sector view

- ✍ There is a very large latent demand for gas across applications, as gas is preferred over fossil fuels. Gas supply has been the key constraint in the past and this is set to change with new supplies from LNG as well as new gas discoveries within the country.

COMPARATIVE VALUATIONS

| | | GAIL | IGL |
|---------------|-------|------|------|
| P/E (x) | FY06E | 9.6 | 18.5 |
| | FY07E | 11.6 | 15.2 |
| P/BV (x) | FY06E | 2.2 | 5.0 |
| | FY07E | 2.0 | 4.2 |
| EV/Sales (x) | FY06E | 1.4 | 3.6 |
| | FY07E | 1.4 | 3.1 |
| EV/EBITDA (x) | FY06E | 6.3 | 8.9 |
| | FY07E | 5.7 | 7.3 |

EPS: INQUIRE FORECAST VS CONSENSUS (RS)

| | INQUIRE FORECAST | CONSENSUS FORECAST | VARIATION (%) |
|------|------------------|--------------------|---------------|
| FY06 | 7.3 | 7.5 | -2.1 |
| FY07 | 8.9 | 8.9 | 0.1 |

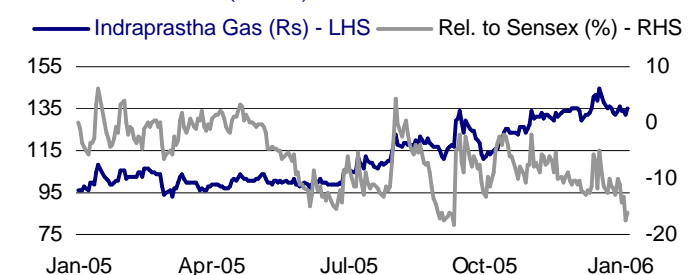
TARGET PRICE AND RECOMMENDATION

| CURRENT PRICE (RS) | TARGET PRICE (RS) | UPSIDE (%) | RECO. |
|--------------------|-------------------|------------|-----------|
| 135 | - | - | Not Rated |

SHAREHOLDING PATTERN (%)

| | DEC.05 | SEP.05 | DEC.04 |
|-----------------------|--------|--------|--------|
| Promoters | 50.0 | 50.0 | 45.0 |
| Domestic Institutions | 13.7 | 13.4 | 21.0 |
| FII's/FDIs | 22.7 | 20.9 | 2.6 |
| Others | 13.6 | 15.7 | 31.4 |

STOCK PERFORMANCE (1 YEAR)



| INCOME STATEMENT | | | | | | (Rs Million) | | | | |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--|--|--|--|
| Y/E MARCH | 2004E | 2005 | 2006E | 2007E | 2008E | | | | | |
| Net Sales | 4,194 | 4,500 | 5,176 | 5,945 | 6,816 | | | | | |
| Change (%) | 36.7 | 7.3 | 6.0 | 14.9 | 14.6 | | | | | |
| Total Income | 4,194 | 4,500 | 5,176 | 5,946 | 6,817 | | | | | |
| Raw Materials Cons | 1,777 | 1,894 | 2,182 | 2,444 | 2,751 | | | | | |
| Employee Costs | 89 | 93 | 98 | 103 | 108 | | | | | |
| Other Exp (incl Stock Adj) | 634 | 665 | 787 | 878 | 980 | | | | | |
| EBITDA | 1,694 | 1,849 | 2,109 | 2,521 | 2,978 | | | | | |
| % of Net Sales | 40.4 | 41.1 | 40.7 | 42.4 | 43.7 | | | | | |
| Depreciation | 420 | 480 | 624 | 732 | 858 | | | | | |
| Interest | 75 | 35 | 31 | 46 | 116 | | | | | |
| Other Income | 86 | 78 | 83 | 133 | 237 | | | | | |
| PBT | 1,285 | 1,412 | 1,537 | 1,877 | 2,242 | | | | | |
| Tax | 464 | 484 | 516 | 630 | 753 | | | | | |
| Rate (%) | 36.1 | 34.3 | 33.6 | 33.6 | 33.6 | | | | | |
| PAT | 821 | 927 | 1,020 | 1,246 | 1,489 | | | | | |
| Adjusted PAT | 821 | 927 | 1,020 | 1,246 | 1,489 | | | | | |
| Change (%) | 49.5 | 12.9 | 10.1 | 22.1 | 19.5 | | | | | |

| BALANCE SHEET | | | | | | (Rs Million) | | | | |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--|--|--|--|
| Y/E MARCH | 2004E | 2005 | 2006E | 2007E | 2008E | | | | | |
| Share Capital | 1,400 | 1,400 | 1,400 | 1,400 | 1,400 | | | | | |
| Reserves | 1,118 | 1,729 | 2,354 | 3,125 | 3,979 | | | | | |
| Net Worth | 2,518 | 3,129 | 3,754 | 4,525 | 5,379 | | | | | |
| Loans | 622 | 537 | 171 | 888 | 1,691 | | | | | |
| Deferred Tax | 369 | 383 | 515 | 677 | 869 | | | | | |
| Capital Employed | 3,508 | 4,049 | 4,441 | 6,090 | 7,940 | | | | | |
| Gross Fixed Assets | 4,248 | 5,084 | 6,365 | 7,465 | 8,385 | | | | | |
| Less: Depreciation | 858 | 1,338 | 1,962 | 2,694 | 3,551 | | | | | |
| Net Fixed Assets | 3,390 | 3,746 | 4,403 | 4,771 | 4,833 | | | | | |
| Capital WIP | 379 | 486 | 100 | 150 | 150 | | | | | |
| Curr. Assets, L & Adv. | | | | | | | | | | |
| Inventory | 120 | 130 | 140 | 150 | 150 | | | | | |
| Debtors | 105 | 130 | 149 | 170 | 192 | | | | | |
| Cash & Bank Balance | 47 | 50 | 225 | 1,500 | 3,350 | | | | | |
| Loans & Advances | 267 | 275 | 275 | 275 | 275 | | | | | |
| Other Current Assets | 28 | 30 | 30 | 30 | 30 | | | | | |
| Current Liab. & Prov. | | | | | | | | | | |
| Liabilities | 589 | 548 | 631 | 706 | 791 | | | | | |
| Provisions | 239 | 250 | 250 | 250 | 250 | | | | | |
| Net Current Assets | -261 | -183 | -62 | 1,169 | 2,956 | | | | | |
| Misc. Expenses | 0 | 0 | 0 | 0 | 0 | | | | | |
| Application of Funds | 3,508 | 4,049 | 4,441 | 6,090 | 7,940 | | | | | |

E: MOS Estimates

| RATIOS | | | | | |
|---------------------------------|------------|------------|------------|------------|-------------|
| Y/E MARCH | 2004 | 2005 | 2006E | 2007E | 2008E |
| Basic (Rs) | | | | | |
| EPS | 5.9 | 6.6 | 7.3 | 8.9 | 10.6 |
| Cash EPS | 8.9 | 10.1 | 11.7 | 14.1 | 16.8 |
| Book Value | 18.0 | 22.4 | 26.8 | 32.3 | 38.4 |
| DPS | 15 | 2.0 | 2.5 | 3.0 | 4.0 |
| Payout | 25.6 | 30.2 | 34.3 | 33.7 | 37.6 |
| Valuation (x) | | | | | |
| P/E | | 20.4 | 18.5 | 15.2 | 12.7 |
| Cash P/E | | 13.4 | 11.5 | 9.6 | 8.1 |
| EV / EBITDA | | 10.5 | 8.9 | 7.3 | 5.8 |
| EV / Sales | | 4.3 | 3.6 | 3.1 | 2.5 |
| Price / Book Value | | 6.0 | 5.0 | 4.2 | 3.5 |
| Dividend Yield (%) | | 15 | 19 | 2.2 | 3.0 |
| Profitability Ratios (%) | | | | | |
| RoE | 36.9 | 32.8 | 29.7 | 30.1 | 30.1 |
| RoCE | 42.1 | 38.3 | 36.9 | 36.5 | 33.6 |
| Turnover Ratios | | | | | |
| Debtors (No. of Days) | 28 | 25 | 24 | 24 | 25 |
| Asset Turnover (x) | 0.8 | 0.8 | 0.8 | 0.7 | 0.6 |
| Leverage Ratio | | | | | |
| Debt / Equity (x) | 0.2 | 0.2 | 0.0 | 0.2 | 0.3 |

| CASH FLOW STATEMENT | | | | | | (Rs Million) | | | | |
|------------------------------|--------------|--------------|--------------|---------------|--------------|--------------|--|--|--|--|
| Y/E MARCH | 2004 | 2005 | 2006E | 2007E | 2008E | | | | | |
| OP/(Loss) before Tax | 1,694 | 1,849 | 2,109 | 2,521 | 2,978 | | | | | |
| Interest Paid | -75 | -35 | -31 | -46 | -116 | | | | | |
| Direct Taxes Paid | -304 | -471 | -384 | -469 | -560 | | | | | |
| (Inc)/Dec in Wkg. Capital | -275 | -75 | 54 | 44 | 63 | | | | | |
| CF from Op. Activity | 1,041 | 1,268 | 1,747 | 2,051 | 2,364 | | | | | |
| Others | -26 | -36 | -46 | -56 | -74 | | | | | |
| (Inc)/Dec in FA & CWIP | -744 | -943 | -894 | -1,150 | -920 | | | | | |
| Inc from Invst | 86 | 78 | 83 | 133 | 237 | | | | | |
| CF from Inv. Activity | -658 | -865 | -811 | -1,017 | -683 | | | | | |
| Inc / (Dec) in Debt | -195 | -85 | -365 | 717 | 802 | | | | | |
| Dividends Paid (incl. tax) | -210 | -280 | -350 | -420 | -560 | | | | | |
| CF from Fin. Activity | -405 | -365 | -715 | 297 | 242 | | | | | |
| Inc / (Dec) in Cash | -48 | 2 | 176 | 1,275 | 1,850 | | | | | |
| Add: Opening Balance | 95 | 48 | 50 | 225 | 1,500 | | | | | |
| Closing Balance | 47 | 50 | 226 | 1,500 | 3,350 | | | | | |



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Disclosure of Interest Statement

Indraprastha Gas

- | | |
|--|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |

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