ENAM Securities
India Research

Rs.118
Target Price: Rs.167
Potential Upside: 41%

VISIT NOTE

Indraprastha Gas

Relative to sector: **Outperformer**

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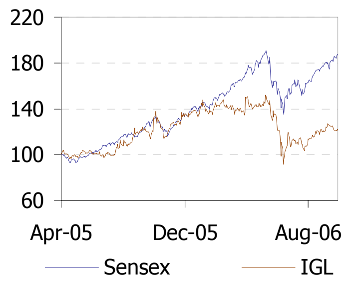
Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 140mn
Market cap	: Rs.16.5bn
52 week high/low	: Rs.154/ Rs.86
Avg. daily vol. (6mth)	: 156,800 shares
Bloomberg code	: IGL IN
Reuters code	: IGAS.BO

Shareholding (%)		Jun-06	QoQ chg
Promoters	:	45.0	0.0
FIIs	:	23.1	0.1
MFs / UTI	:	11.9	0.4
Banks / FIs	:	7.8	0.4
Others	:	12.2	(1.0)

ROBUST VOLUME GROWTH AHEAD

We recently met the management of Indraprastha Gas (IGL) for an update. Key takeaways from the visit:

Volumes set to explode

- IGL is experiencing robust volume growth in the NCT region. The growth is primarily on account of conversion of private cars from liquid fuel to CNG. The run rate for the conversion has been in the region of 1,500-2,000 cars/ month. It is worth noting that these conversions are in spite of increase in CNG prices and most importantly, without any regulatory impetus - enhancing the "value proposition" of the conversion.
- At the current run rate of conversion, IGL could achieve at least an incremental volume growth of ~2-3% p.a. Further, given the low level of CNG penetration (<2%) currently in the private car segment and associated economic benefits, this could trigger conversions at an accelerated pace.
- In July-06, the Delhi Government issued a directive making mandatory for a LGV registered in Delhi to run on CNG. Although as of now, the directive is only for newly registered vehicles, the management believes that even the existing fleet is likely to come under the purview of directive issued. The management believes that this could result in conversion of ~4,000 LGVs p.a., translating into incremental ~5% volume growth.

Thrust on low cost capacity upgrades

- At present, IGL's CNG sales average 0.8mn kg/ day, while it has a compression capacity of 1.9mn kg/ day. Although this represents adequate "buffer" against an unexpected pickup in CNG volumes, the management intends to maintain this "buffer" at current levels to avoid any delays in dispensing.

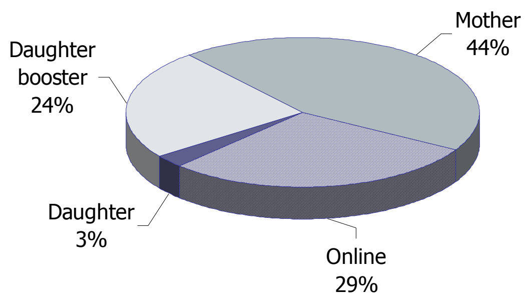
Financial summary

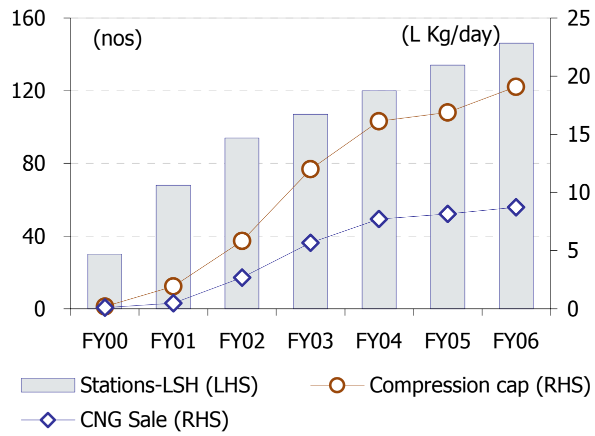
Y/E Mar	Sales (Rs.mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2005	4,580	877	-	6.3	17	-	27.4	37.1	-	2.0
2006	5,209	1,063	-	7.6	21	-	27.8	39.7	-	2.5
2007E	6,224	1,280	9.0	9.1	20	12.9	28.2	42.7	6.1	3.1
2008E	7,095	1,466	10.8	10.5	15	11.2	27.2	41.0	5.1	3.6

Source: *Consensus broker estimates, Company, ENAM estimates

- IGL therefore, is gearing up for the "explosive volume growth" lined up over the next couple of years. In addition to the planned roll out of ~10 stations, it is targeting capacity upgrades of its existing dispensing stations. For eg, in FY06, IGL added 12 new stations while upgraded/ modernized existing 10 stations, by incurring a capex of ~Rs.400mn (incremental compression capacity of ~11%). If IGL were to increase capacity by ~11% by way of new rollouts, it would have to roll out 17 stations entailing a capex of ~Rs.550mn.

Break-up of existing CNG network and details of compression capacity





Source: Company, ENAM Research

Update on PNG business

- PNG business continues to grow as per plan, where the management targets ~30,000 additions in the domestic segment. Although at present, this business constitutes ~7% of the overall revenues, given the low penetration of PNG among the household segment (<5%), growth potential remains attractive.
- Going ahead, IGL strategically intends to expand the network of PNG before it experiences a significant ramp up in volumes. For this, the management has budgeted a capex of Rs.430 mn p.a.

Earnings outlook, capex

- IGL has budgeted a capex of Rs1.2bn in FY07 and FY08 each, reflecting the management's strong volume growth outlook. Given the strong free cash flows, we expect financing to be largely funded through internal accruals. Further, given IGL's track record in project execution, we do not expect any delays/ cost over runs. In fact, looking at historical trends, the capex is likely to be lower than the budgeted amount.
- We expect IGL's CNG volumes to post a volume growth of 8% in FY07 and 12% in FY08, on the back of ramp up in conversion of private cars and regulatory impetus. Our volume growth estimates factor in conversion of ~18,000 cars in FY07 as well as in FY08. We also factor in conversion of 2,000 LGVs in FY07 and 3,500 in FY08 respectively in our volume growth

forecast. On the PNG business, we expect volumes to post an average growth of 30% through FY07 and FY08. Our volume growth estimate, however, does not factor in any upside from the geographical expansion.

- In Q1FY07, IGL passed on the increase in gas prices in the form of higher CNG and PNG prices to its consumers. This price hike also builds in escalation in the O&M expenses; hence we believe that IGL would be able to maintain its operating matrix.

Cheapest "Oil and Gas" stock, maintain sector Outperformer

At CMP (Rs.118), the stock trades at 13x FY07E EPS of Rs.9.1 and 11.2x FY08E EPS of Rs.10.5. Given the "quality" of earnings, no regulatory uncertainty and superior profitability, we believe that IGL is the cheapest stock in the sector. We maintain our sector **Outperformer** rating on the stock.