

# INDRAPRASTHA GAS

## Growth trajectory still intact

India Equity Research | Oil, Gas and Services



Edelweiss  
Ideas create, values protect

We recently met the management of Indraprastha Gas (IGL). Post our interaction, we are enthused about IGL's growth story, driven by: a) volume growth through DIMTS, blue-line buses and new auto rickshaw licenses and b) margins (lower LNG spot prices and strengthening INR). Thus, we are increasing our FY13E/14E EPS to INR23.0/25.0 from INR18.9/20.5 earlier to incorporate higher contribution margins. We maintain 'BUY' with a revised target price of INR320/share (INR311).

### Management expects 18% CAGR for CNG volume in next 2-3 years

Aggressive plans of DIMTS (Delhi Integrated Multi-Modal Transit) to add buses and the Delhi government's move to introduce new blue-line buses (last mile connectivity for Delhi Metro) will lead to CNG volume growing at 2-3 year CAGR of 18%. Formation of queues outside CNG stations hints at a volume growth potential (In April 2012, 58 out of total 308 stations were non-operational) hence our model now assumes 14% CAGR growth in CNG sales volume for FY12-FY14. The management indicated that overall EBITDA margins will be maintained at INR4.8-5.0/scm. Recent correction in spot LNG prices and INR appreciation will also assist IGL which may not need to hike CNG prices. We have assumed CNG gross margins at INR9.0/scm against INR8.25/scm earlier while estimating the overall EBITDA margins at INR4.9/scm.

### Slowdown in capex post- FY14 to result in positive FCF thereafter

We believe that IGL currently is in a sweet spot as its "super-capex" mode seems to be over (INR6.8 bn/year average during FY11-FY12). Since most of the capex was for expanding network in Ghaziabad and Greater Noida, we believe benefits of higher volume will gradually flow in. Capex guidance for FY13/14 stands at INR4.5/3.5bn. As per management, post FY14, the capex run-rate is likely to fall to ~INR3.5bn levels.

### Outlook & valuations: Regulatory uncertainty prevails; maintain 'BUY'

We have given a higher WACC of 13% in our DCF based target price to incorporate risks of regulation. We have revised our target price upwards to INR320/share (offering 23% upside from CMP levels). We maintain **BUY/Outperformer**. At CMP, the stock is trading at 11.3x/10.4x of our FY13/FY14 EPS estimates, much below its normal range of 16-17x before the PNGRB order in April 2012.

#### Financials

(INR mn)

Year to March	FY11	FY12	FY13E	FY14E
Net revenue	17,461	25,187	37,758	45,891
EBITDA	4,943	6,345	7,100	7,749
Net profit	2,598	3,064	3,216	3,496
Diluted EPS (INR)	18.6	21.9	23.0	25.0
Diluted PE (x)	14.0	11.9	11.3	10.4
EV/EBITDA (x)	7.9	6.4	5.6	4.9

#### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

#### MARKET DATA (R: IGAS.BO, B: IGL IN)

CMP	: INR 260
Target Price	: INR 320
52-week range (INR)	: 437 / 170
Share in issue (mn)	: 140.0
M cap (INR bn/USD mn)	: 36/ 694
Avg. Daily Vol.BSE/NSE('000)	: 1,723.0

#### SHARE HOLDING PATTERN (%)

	Current	Q4FY12	Q3FY12
Promoters %	45.0	45.0	45.0
MF's, FI's & BK's	19.0	19.0	21.9
FII's	15.0	15.0	17.8
others	21.0	21.0	15.2
* Promoters pledged shares (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW O & G Index
1 month	5.1	6.9	1.2
3 months	11.5	10.8	7.8
12 months	(37.7)	15.3	1.2

Niraj Mansingka, CFA  
+91 22 6623 3315  
niraj.mansingka@edelcap.com

Kunal Gupta  
+91 22 6623 3482  
kunal.gupta@edelcap.com

October 8, 2012

**Table 1: Change in Estimates**

	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	37,758	37,732	0.1	45,891	51,405	(10.7)	
EBITDA	7,100	6,196	14.6	7,749	6,834	13.4	Higher contribution margins
EBITDA Margin	18.8	16.4		16.9	13.3		
Core profit	3,216	2,645	21.6	3,496	2,867	22.0	Higher contribution margins
PAT Margin	8.5	7.0		7.6	5.6		

## Company Description

IGL is a joint venture, promoted by GAIL, BPCL, and the Delhi government. Incorporated in 1998, the company has pioneered the commercialization of CNG for the automotive sector in Delhi. IGL operates in two business segments - CNG and PNG. The CNG business involves distribution of CNG to automobiles through gas stations. Through its PNG business, the company supplies natural gas to homes and commercial and industrial establishments. As on FY12 end, it was selling ~3.3 mmscmd of gas.

## Investment Theme

Natural gas is cheap, environment friendly, and is likely to be the most preferred fuel in future. Factors such as low current penetration of natural gas in automobiles in the Delhi region and growing demand of automobiles are expected to drive IGL's CNG and PNG growth. With its natural monopoly in Delhi and the adjoining areas, IGL has gained the first-mover advantage by investing in gas infrastructure across Delhi. The Delhi government's approval to stop the registration of diesel-run mini trucks and other LCVs in the state would help drive gas sales by ~5% over the next eight years. Also, the PNG business represents a long-term opportunity with low penetration of ~1% in the domestic segment and ~18% in the small commercial segment. This opportunity is likely to boost IGL's sales, as it increases its geographical presence in Greater Noida, Ghaziabad, Sonapat, and Panipat.

## Key Risks

Difficulty in passing on higher prices of gas sourced from RLNG could impact its margins and financials. Fall in crude prices or decrease in duties on petroleum products could impact the CNG demand, as auto fuels would then be more competitive than CNG.

## Financial Statements

### Key Assumptions

Year to March		FY10	FY11	FY12	FY13E	FY14E
<b>Macro -</b>	GDP(Y-o-Y %)	8.4	8.4	6.5	5.8	6.5
	Inflation (Avg)	3.6	9.9	8.8	7.8	6.0
	Repo rate (exit rate)	5.0	6.8	8.5	7.5	6.8
	USD/INR (Avg)	47.4	45.6	47.9	53.5	52.0
<b>Sector -</b>	Crude Price	70	87	115	105	115
	Under recovery (INR bn)	460	782	1,385	1,200	1,359
	% sharing by Govt	56.5	52.5	60.3	57.7	58.1
	% sharing by upstream	31.2	38.7	39.7	39.0	39.0
	% sharing by OMCs	12.3	8.8	0.0	3.3	2.9
	USD/INR (Avg)	47.5	45.6	47.9	53.5	52.5
<b>Company -</b>	CNG Sales (mn kgs)	529	622	713	829	927
	PNG sales (mmscm)	87	180	283	361	421
	Reported net CNG realisation	17.7	22.7	26.6	33.5	36.6

### Income statement

(INR mn)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Net revenue	10,781	17,461	25,187	37,758	45,891
Materials costs	4,949	9,835	15,392	26,485	33,322
Operating expenses	2,025	2,683	3,450	4,174	4,820
EBITDA	3,808	4,943	6,345	7,100	7,749
Depreciation & Amortization	775	1,029	1,432	1,809	2,145
EBIT	3,033	3,914	4,913	5,290	5,604
Other income	211	74	67	182	275
Interest expenses	-	132	479	709	699
Profit before tax	3,244	3,857	4,501	4,764	5,180
Provision for tax	1,089	1,259	1,437	1,548	1,683
Net profit	2,155	2,598	3,064	3,216	3,496
Profit after minority interest	2,155	2,598	3,064	3,216	3,496
Shares outstanding (mn)	140	140	140	140	140
Diluted EPS (INR)	15.4	18.6	21.9	23.0	25.0
Dividend per share (INR)	4.5	5.0	5.0	4.6	5.0
Dividend payout (%)	29.2	26.9	22.8	20.0	20.0

### Common size metrics - as % of net revenues

Year to March	FY10	FY11	FY12	FY13E	FY14E
Gross margin	54.1	43.7	38.9	29.9	27.4
EBITDA margins	35.3	28.3	25.2	18.8	16.9
EBIT margins	28.1	22.4	19.5	14.0	12.2
Net profit margins	20.0	14.9	12.2	8.5	7.6

### Growth ratios (%)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Rev. growth (%)	26.4	62.0	44.2	49.9	21.5
EBITDA	26.9	29.8	28.4	11.9	9.1
Net profit	24.9	20.5	18.0	4.9	8.7
EPS growth (%)	24.9	20.5	18.0	4.9	8.7

Balance sheet					(INR mn)
As on 31st March	FY10	FY11	FY12	FY13E	FY14E
Equity capital	1,400	1,400	1,400	1,400	1,400
Reserves & surplus	6,854	8,639	10,889	13,358	16,041
Shareholders funds	8,254	10,039	12,289	14,758	17,441
Borrowings	-	3,465	5,818	7,500	5,500
Deferred tax liability	238	408	627	865	1,124
<b>Sources of funds</b>	<b>8,493</b>	<b>13,911</b>	<b>18,735</b>	<b>23,123</b>	<b>24,066</b>
Net block	6,514	11,594	15,796	19,017	21,178
Capital work in progress	1,826	3,423	3,751	3,116	2,394
Total fixed assets	8,340	15,018	19,547	22,132	23,571
Investments	170	416	984	1,000	1,000
Inventories	278	359	374	521	629
Sundry debtors	335	745	1,298	2,077	2,524
Cash and equivalents	1,213	173	320	2,908	2,942
Loans and advances	686	815	610	906	1,055
Other current assets	60	141	95	189	229
Total current assets	2,572	2,233	2,696	6,601	7,380
Sundry creditors and others	1,814	2,897	3,623	3,066	3,814
Others current liabilities	776	859	870	3,544	4,072
Total current liabilities & provisions	2,590	3,755	4,493	6,610	7,886
Net current assets	(18)	(1,523)	(1,796)	(9)	(506)
<b>Uses of funds</b>	<b>8,493</b>	<b>13,911</b>	<b>18,735</b>	<b>23,123</b>	<b>24,066</b>
Book value per share (INR)	59.0	71.7	87.8	105.4	124.6

Free cash flow					(INR mn)
Year to March	FY10	FY11	FY12E	FY13E	FY14E
Net profit	2,155	2,598	3,064	3,216	3,496
Depreciation	775	1,029	1,432	1,809	2,145
Deferred tax	29	170	219	238	259
Others	(217)	29	2,112	527	424
Gross cash flow	2,742	3,825	6,828	5,790	6,325
Less: Changes in WC	(531)	(387)	706	(373)	(531)
Operating cash flow	3,273	4,213	6,121	6,163	6,855
Less: Capex	3,905	7,706	6,118	4,395	3,584
<b>Free cash flow</b>	<b>(632)</b>	<b>(3,494)</b>	<b>4</b>	<b>1,768</b>	<b>3,271</b>

Cash flow metrics					
Year to March	FY10	FY11	FY12E	FY13E	FY14E
Operating cash flow	3,273	4,213	6,121	6,163	6,855
Investing cash flow	(3,739)	(7,626)	(6,056)	(4,228)	(3,310)
Financing cash flow	(655)	2,620	650	653	(3,511)
Net cash flow	(1,121)	(793)	715	2,588	34
Capex	(3,905)	(7,706)	(6,118)	(4,395)	(3,584)
Dividends paid	(655)	(735)	(814)	(747)	(813)

**Profitability & efficiency ratios**

Year to March	FY10	FY11	FY12	FY13E	FY14E
ROAE (%)	28.6	28.4	27.4	23.8	21.7
ROACE (%)	42.4	35.9	31.4	26.8	24.8
Inventory day	19	12	9	6	6
Debtors days	11	11	15	16	18
Payable days	108	87	77	34	38
Cash conversion cycle (days)	(78)	(64)	(54)	(11)	(13)
Current ratio	1.0	0.6	0.6	1.0	0.9
Debt/Equity	-	0.3	0.5	0.5	0.3
Interest coverage	-	29.7	10.3	7.5	8.0

**Operating ratios**

Year to March	FY10	FY11	FY12	FY13E	FY14E
Total asset turnover	1.4	1.6	1.5	1.8	1.9
Fixed asset turnover	2.0	1.9	1.8	1.8	2.0
Equity turnover	1.4	1.9	2.3	2.8	2.9

**Valuation parameters**

Year to March	FY10	FY11	FY12	FY13E	FY14E
Diluted EPS (INR)	15.4	18.6	21.9	23.0	25.0
Y-o-Y growth (%)	24.9	20.5	18.0	4.9	8.7
CEPS (INR)	21.1	27.1	33.7	37.6	42.1
Diluted PE (x)	16.9	14.0	11.9	11.3	10.4
Price/BV (x)	4.4	3.6	3.0	2.5	2.1
EV/Sales (x)	3.2	2.2	1.6	1.1	0.8
EV/EBITDA (x)	9.2	7.9	6.4	5.6	4.9
Dividend yield (%)	1.7	1.9	1.9	1.8	1.9

**Peer comparison valuations**

Gas companies	Price	Market Cap (INR bn)	P/E		P/BV		ROE	
			FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
GAIL	385	488	11.7	11.4	1.8	1.6	15.8	14.8
<b>IGL</b>	<b>260</b>	<b>36</b>	<b>11.3</b>	<b>10.4</b>	<b>2.5</b>	<b>2.1</b>	<b>23.8</b>	<b>21.7</b>
PLNG	161	120	12.2	11.9	2.8	2.4	25.3	21.6
GSPL	81	46	9.8	11.0	1.6	1.5	17.7	14.1
Global utility companies median	NA	NA	16.8	15.5	1.7	1.7	10.0	10.5

Source: Bloomberg, Edelweiss research

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aban Offshore	REDUCE	SU	H	Bharat Petroleum Corporation	BUY	SO	M
Cairn India	HOLD	SO	M	Chennai Petroleum Corporation	BUY	SO	H
Essar Oil	BUY	SO	H	GAIL (INDIA)	HOLD	SP	L
Gujarat State Petronet	HOLD	SP	M	Hindustan Petroleum Corporation	BUY	SO	L
Indian Oil Corporation	BUY	SO	M	Indraprastha Gas	BUY	SO	M
ONGC	BUY	SO	L	Petronet LNG	BUY	SO	L
Reliance Industries	BUY	SO	M				

### ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

### RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

### RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

### SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



**Edelweiss Securities Limited**, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.  
Board: (91-22) 4009 4400, Email: [research@edelcap.com](mailto:research@edelcap.com)

Vikas Khemani	Head Institutional Equities	vikas.khemani@edelcap.com	+91 22 2286 4206
Nischal Maheshwari	Co-Head Institutional Equities & Head Research	nischal.maheshwari@edelcap.com	+91 22 4063 5476
Nirav Sheth	Head Sales	nirav.sheth@edelcap.com	+91 22 4040 7499

### Coverage group(s) of stocks by primary analyst(s):

Aban Offshore, Bharat Petroleum Corporation, Cairn India, Essar Oil, GAIL (INDIA), Gujarat State Petronet, Hindustan Petroleum Corporation, Indraprastha Gas, Indian Oil Corporation, Chennai Petroleum Corporation, ONGC, Petronet LNG, Reliance Industries

### Recent Research

Date	Company	Title	Price (INR)	Recos
08-Oct-12	<b>Oil and Gas</b>	GRMs dip marginally but still remain strong; <i>Sector Update</i>		
05-Oct-12	<b>Oil and Gas</b>	GRMs dip marginally but still remain strong; <i>Sector Update</i>		
04-Oct-12	<b>Petronet LNG</b>	Capex to drive earnings; <i>Visit Note</i>	162	Buy

### Distribution of Ratings / Market Cap

#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	113	53	19	186
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	114	58	14	

### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period



## DISCLAIMER

### General Disclaimer:

This document has been prepared by Edelweiss Securities Limited (Edelweiss). Edelweiss, its holding company and associate companies are a full service, integrated investment banking, portfolio management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Edelweiss or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, group companies, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Edelweiss and affiliates/ group companies to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Edelweiss reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Edelweiss is under no obligation to update or keep the information current. Nevertheless, Edelweiss is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Edelweiss nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this document are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. Edelweiss Securities Limited generally prohibits its analysts, persons reporting to analysts and their dependents from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. The information provided in these documents remains, unless otherwise stated, the copyright of Edelweiss. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright Edelweiss and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders. Edelweiss might be engaged or may seek to do business with companies covered in its research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should take informed decision and use this document for assistance only and must not alone be taken as the basis for their investment decision.

### Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Analyst holding in the stock: No.

### Additional Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved

Access the entire repository of Edelweiss Research on [www.edelresearch.com](http://www.edelresearch.com)