

**Indraprastha Gas Ltd.****Rs 230****PNGRB slashed tariffs, severe impact on profits & margins of IGL****Sell**

The Petroleum & Natural Gas Regulatory Board (PNGRB) has asked IGL to lower its network tariff to Rs38.58/mmbtu and compression charge to Rs 2.75/kg. Company had sought network tariff of Rs 104 /mmbtu and compression charge of Rs 6.66/kg. The regulator has asked that its order is to be implemented immediately.

	IGL	PNGRB	Cut
Network Tariff (Rs/mmbtu)	104	38.58	-63%
Compression Charges (Rs/kg)	6.6	2.75	-58%

This is a major negative for the stock and operating profits of the company are expected to decline by more than 50% as compared to our earlier estimates. At the net profit level, fall is expected to be much sharper with expected 80% downgrade in F13 PAT estimates.

**Potential impact of lower tariffs on profitability**

	Before	After
Gross Margins (Rs/scm)	8	5
Opex (Rs/scm)	2.9	2.9
EBITDA(Rs/Scm)	5.1	2.1
Potential Decline		-58.8%

**Impact On other companies**

A drastic reduction in tariffs for IGL, apart from raising concerns for the company, may raise concerns for possible tariff cuts for networks where tariffs are not yet determined. We note that investor interest in gas stocks in particular Gujarat Gas and Gujarat State Petronet Ltd would likely wane with such decisions.

**Price cut – A necessity**

As per our estimates, the immediate reduction would imply IGL cutting CNG prices by ~20% (including 14.4% excise duty) and PNG prices by 8% for residential, 5% for industrial. Price cut in products would be only after court gives direction on the case the company has filed in Delhi High Court. We expect the CNG business that contributes nearly 75% to EBITDA would be hurt severely if prices were to be cut so drastically. The profitability of the fast-growing PNG business would also sharply decline.

**Valuation**

Based on valuation of the IGL on DCF basis we lower our target Price from Rs 428 to Rs 192. We also lower our EPS estimates for FY13 by 70%. We now assume a regulator approved tariff with additional marketing margin. We believe relief from either Appellate Tribunal or any superior court will be an upside risk to the share price.

**Key Financials of IGL**

Rs in crore	FY10	FY11	FY12E	FY13E
Sales	1078.0	1750.4	2467.8	2682.5
EBITDA	383.4	498.6	630.6	385.2
PAT	215.1	259.8	310.6	93.5
EPS	15.4	18.6	22.2	6.7
OPM (%)	35.6%	28.5%	25.6%	14%
NPM (%)	20.0%	14.8%	12.6%	3.5%

Source: KRChoksey Research

Target Price (TP): Rs 192

Potential downside : 17%

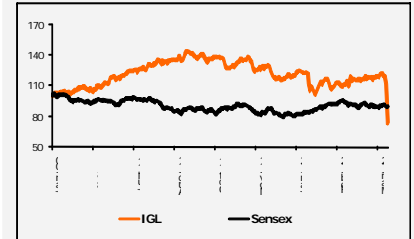
Previous Target : Rs 428

**Market Data**

Equity sh O/S (cr)	140
MCAP (Rs cr)	3220
52 Wk H/L (Rs)	435/170
Avg Vol (3m avg)	4,52,142
Fee float (%)	50%
Face Value (Rs)	10
Bloomberg Code	IGL IN

**Market Info:**

SENSEX	17,243
NIFTY	5,243

**Price Performance****Share holding pattern (%)**

	Dec11	Sep11	Change (%)
Promoter	45.0	45.00	0.0
FII's	19.9	19.44	2.1
DII	23.8	22.41	6.2
Others	11.4	13.15	-13.6
Total	100.0	100.0	

Source: BSE

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IGL				Rating Legend	
Date	CMP	Target	Recommendation	Our Rating	Upside
10-Apr-12	230	192	SELL	BUY	More than 15%
27-Jan-12	347	428	BUY	ACCUMULATE	5% to 15%
21-Oct-11	396	428	HOLD	HOLD	Nil to 5%
03-Aug-11	415	428	HOLD	REDUCE	0 to (-)5%
				SELL	More than (-)5%

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