

Operationally back on track; court verdict to set future course

After weak Q3 results IGL got back on track in Q4 with EBITDA/scm improving from Rs4.9/scm in Q3 to Rs5.4/scm in Q4. The improvement was attributed to two price hikes effected during the quarter – from Rs32.0/kg to Rs33.8/kg on January 1 and the other from Rs33.8/kg to Rs35.5/kg from March 5. Pressure was felt from natural gas sourcing cost due to higher LNG prices and rupee depreciation. The company thus reported PAT of Rs808mn against Rs692mn in Q3. IGL's network tariffs and compression charges were notified by the PNGRB regulator on April 9 which were significantly below the calculations submitted by the company. The company thus filed a writ petition against the order and the matter is currently subjudice. After two hearings in the interim period, the next hearing is scheduled on May 22. Devoid of clarity on the tariffs, we have kept IGL's rating under review.

- **CNG price hike leads to revenue jump:** Two CNG price hikes affected during Q4 led to 8.8% sequential jump in revenues to Rs7.2bn. CNG volumes remained flat QoQ while it jumped 14.3% YoY and PNG volumes jumped 9.7% QoQ and 32.0% YoY. PNG volume growth continued to remain robust due to commercial demand.
- **EBITDA/scm claws back above Rs5/scm:** Two CNG price hikes helped IGL to reinstate its EBITDA/scm back above Rs5/scm. The company thus reported EBITDA/scm of Rs5.4/scm during Q4 despite pressure from higher natural gas sourcing cost. Natural gas sourcing cost was up 5.7% QoQ and 28.0% YoY owing to higher LNG prices and rupee depreciation. Higher EBITDA/scm led to a jump in operating profit by 12.6% QoQ and 23.5% YoY to Rs1.7bn.

Y/E March (Rsmn)	Q4FY12E	Q4FY11	YoY (%)	Q3FY12	QoQ (%)	Q4FY12E	Var(%)
Net sales	7,212	5,108	41.2	6,631	8.8	7,066	2.1
Operating profit	1,695	1,372	23.5	1,504	12.6	1,765	(4.0)
OPM (%)	23.5	26.9	(3.4)	22.7	0.8	25.0	(1.5)
PBT	1,179	1,012	16.5	1,016	16.1	1,245	(5.3)
PAT (adjusted)	808	692	16.8	692	16.8	834	(3.2)
Operating metrics							
CNG (mn kgs)	180.0	157.5	14.3	179.8	0.1	180.0	-
PNG (mmscm)	78.0	59.1	32.0	71.1	9.7	73.2	6.5
CNG (Rs/ kg)	34.0	28.6	19.0	31.7	7.2	34.2	(0.6)
PNG (Rs/ scm)	23.8	19.6	21.5	23.1	3.4	23.1	3.2
Avg gas price (Rs/scm)	14.6	11.4	28.0	13.8	5.7	14.1	3.1

Source: Company, Centrum Research

- **Depreciation, interest cost in line:** Additional capex on network expansion and new CNG stations led to depreciation increasing by 8.0% QoQ and 33.7% YoY. Interest cost remained flattish sequentially yet jumped 93.4% YoY due to higher debt for funding capex.
- **Court verdict to set future course:** IGL's operational performance was in line during Q4. However, the verdict of court over network tariffs and compression charges against PNGRB is likely to set the course for IGL's future earnings. If the revised tariffs are applied retrospectively, IGL's networth (about Rs10bn) could get completely eroded and if the tariffs are applicable prospectively then IGL's earnings are at a serious risk. Devoid of clarity on the tariffs, we keep IGL's rating under review (we have not taken revised tariffs in our estimates for FY13E and FY14E).

Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	RoE (%)	RoCE (%)	EPS	PE (x)	PB (x)	EV/EBITDA (x)
FY10	10,781	26.4	3,808	35.3	2,155	24.9	28.6	37.1	15.4	13.5	3.5	7.3
FY11	17,441	61.8	4,923	28.2	2,598	20.5	28.4	32.3	18.6	11.2	2.9	6.6
FY12E	25,192	44.4	6,362	25.3	3,072	18.3	27.7	28.4	21.9	9.5	2.4	5.3
FY13E	34,742	37.9	6,880	19.8	3,278	6.7	24.8	25.6	23.4	8.9	2.0	4.8
FY14E	40,728	17.2	7,754	19.0	3,785	15.5	24.4	26.5	27.0	7.7	1.7	4.1

Source: Company, Centrum Research Estimates

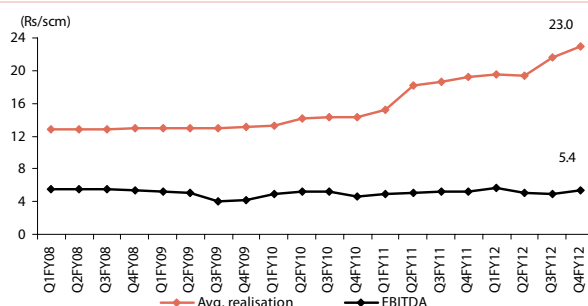
Key Data

Recco (Prev)	Underreview(Buy)	Bloomberg Code	IGL IN
Target (Prev)	-- (Rs433)	Reuters Code	IGAS.BO
CMP	Rs208*	Current Shares O/S (mn)	140.0
Up/Downside (%)	--	Diluted Shares O/S(mn)	140.0
Price Performance (%)*		Mkt Cap (Rsbn/USDmn)	29.1/540.4
	1M	6M	1Yr
IGL	(8.7)	(51.4)	(38.5)
NIFTY	(5.8)	(4.7)	(11.5)
		Daily Vol. (3M NSE Avg.)	2,344,355
		Face Value (Rs)	10
		USD = Rs50.1	

*as on 14 May 2012

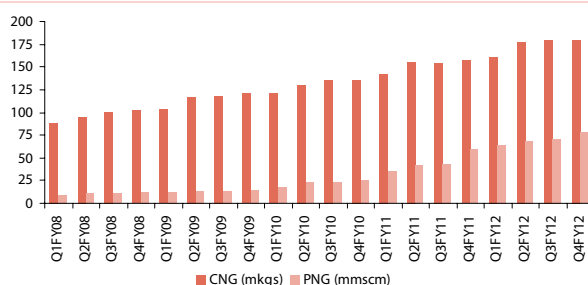
Source: Bloomberg, Centrum Research

Average realisations and EBITDA/scm



Source: Company, Centrum Research

CNG and PNG distribution volumes



Source: Company, Centrum Research

Rohit Nagraj

rohit.nagraj@centrum.co.in
+91 22 4215 9854

Financials

Exhibit 1: Income Statement

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
Revenues	10,781	17,441	25,192	34,742	40,728
Y-o-Y growth (%)	26.4	61.8	44.4	37.9	17.2
Raw Materials	4,949	9,843	15,401	23,311	27,638
% of net sales	45.9	56.4	61.1	67.1	67.9
Sales & Dist. Exp	456	523	655	903	1,059
% of net sales	4.2	3.0	2.6	2.6	2.6
Employee Costs	308	379	426	695	815
% of net sales	2.9	2.2	1.7	2.0	2.0
Manufacturing Exp	488	686	831	1,077	1,263
% of net sales	4.5	3.9	3.3	3.1	3.1
Others	773	1,087	1,517	1,876	2,199
% of net sales	7.2	6.2	6.0	5.4	5.4
EBITDA	3,808	4,923	6,362	6,880	7,754
Y-o-Y growth (%)	26.9	29.3	29.2	8.1	12.7
EBITDA Margin (%)	35.3	28.2	25.3	19.8	19.0
Depreciation & Amortisation	775	1,029	1,432	1,653	1,901
EBIT	3,033	3,894	4,930	5,227	5,853
Interest expenses	0	132	479	446	346
Other Income	211	95	61	75	100
EBT before Prior period items	3,244	3,857	4,512	4,856	5,607
Prior period (expenses)/income	0	0	0	0	0
EBT	3,244	3,857	4,512	4,856	5,607
Provision for tax	1,089	1,259	1,440	1,578	1,822
Effective tax rate (%)	33.6	32.7	31.9	32.5	32.5
Net Profit	2,155	2,598	3,072	3,278	3,785
Y-o-Y growth (%)	24.9	20.5	18.3	6.7	15.5
Adjusted Net Profit Margin (%)	20.0	14.9	12.2	9.4	9.3

Source: Company, Centrum Research Estimates

Exhibit 2: Balance Sheet

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
Equity Share Capital	1,400	1,400	1,400	1,400	1,400
Reserves	6,854	8,639	10,731	12,866	15,345
Shareholders' fund	8,254	10,039	12,131	14,266	16,745
Debt	-	3,465	5,465	4,465	3,465
Deposits from Cust.	552	1,168	1,618	2,018	2,418
Deferred Tax Liability	238	408	408	408	408
Total Capital Employed	9,045	15,079	19,622	21,157	23,035
Total Fixed Assets	6,514	11,594	15,663	18,010	20,109
CWIP	1,826	3,423	3,423	3,423	3,423
Investments	170	416	416	416	416
Inventories	278	359	855	1,295	1,535
Sundry Debtors	335	745	840	1,158	1,358
Cash & bank balances	1,213	173	895	707	882
Other current assets	60	141	141	141	141
Loans and advances	686	815	815	815	815
Total current assets	2,572	2,233	3,545	4,116	4,730
Current liabilities & provisions	2,038	2,587	3,425	4,809	5,643
Net current assets	534	(355)	120	(692)	(913)
Total Assets	9,045	15,079	19,622	21,157	23,035

Source: Company, Centrum Research Estimates

Exhibit 3: Cash flow

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
PBT	3,244	3,857	4,512	4,856	5,607
Interest	-	132	479	446	346
Dep. & amounts written off	775	1,029	1,432	1,653	1,901
Other income	(211)	(95)	(61)	(75)	(100)
Op. pr. before working capital changes	3,808	4,923	6,362	6,880	7,754
Dep. accepted during the yr	287	616	450	400	400
Change in working capital	272	(150)	247	625	394
Tax (Including FBT)	(1,060)	(1,090)	(1,440)	(1,578)	(1,822)
Cash flow from operations	3,307	4,298	5,619	6,327	6,727
Change in fixed assets	(3,891)	(7,704)	(5,500)	(4,000)	(4,000)
Change in investments	872	(246)	-	-	-
Other income	211	95	61	75	100
Cash flow from investments	(2,808)	(7,856)	(5,439)	(3,925)	(3,900)
Free cash flow	287	(3,652)	119	2,327	2,727
Change in equity capital	-	0	-	-	-
Change in borrowings	-	3,465	2,000	(1,000)	(1,000)
Dividends paid (incl. of tax)	(735)	(814)	(979)	(1,143)	(1,306)
Interest paid	-	(132)	(479)	(446)	(346)
Others	(13)	(2)	0	0	(0)
Cash flow from financing	(748)	2,518	542	(2,589)	(2,652)
Net cash flow	(249)	(1,039)	722	(187)	174
Op. cash as per Bal Sheet	1,462	1,213	173	895	707
Closing cash balance	1,213	173	895	707	882

Source: Company, Centrum Research Estimates

Exhibit 4: Key Ratios

Y/E March	FY10	FY11	FY12E	FY13E	FY14E
Margin Ratios (%)					
EBITDA Margin	35.3	28.2	25.3	19.8	19.0
PBIT Margin	28.1	22.3	19.6	15.0	14.4
PBT Margin	30.1	22.1	17.9	14.0	13.8
PAT Margin	20.0	14.9	12.2	9.4	9.3
Growth Ratio (%)					
Revenue	26.4	61.8	44.4	37.9	17.2
EBITDA	26.9	29.3	29.2	8.1	12.7
Net Profit	24.9	20.5	18.3	6.7	15.5
Return Ratios (%)					
ROE	28.6	28.4	27.7	24.8	24.4
ROCE	37.1	32.3	28.4	25.6	26.5
ROIC	34.7	31.8	32.2	28.9	27.3
Turnover Ratios					
Asset turnover ratio (x)	1.0	1.0	1.1	1.3	1.4
Avg. collection period (days)	11.2	15.4	0.0	12.0	12.0
Avg. payment period (days)	88.5	61.3	55.0	55.0	55.0
Per share Ratios (Rs)					
Basic EPS	15.4	18.6	21.9	23.4	27.0
Fully diluted EPS	15.4	18.6	21.9	23.4	27.0
Book value	59.0	71.7	86.7	101.9	119.6
Cash earnings per share	20.9	25.9	32.2	35.2	40.6
Dividend per share	4.5	5.0	6.0	7.0	8.0
Gearing Ratio (x)					
Debt-equity	0.0	0.3	0.5	0.3	0.2
Interest coverage ratio	nm	29.6	10.3	11.7	16.9
Valuation (x)					
P/E (Fully Diluted)	13.5	11.2	9.5	8.9	7.7
P/BV	3.5	2.9	2.4	2.0	1.7
EV/EBITDA	7.3	6.6	5.3	4.8	4.1
EV/Sales	2.6	1.9	1.3	0.9	0.8
M-cap/Sales	2.7	1.7	1.2	0.8	0.7

Source: Company, Centrum Research Estimates

Appendix A

Disclaimer

Centrum Broking Limited ("Centrum") is a full-service, Stock Broking Company and a member of The Stock Exchange, Mumbai (BSE) and National Stock Exchange of India Ltd. (NSE). Our holding company, Centrum Capital Ltd, is an investment banker and an underwriter of securities. As a group Centrum has Investment Banking, Advisory and other business relationships with a significant percentage of the companies covered by our Research Group. Our research professionals provide important inputs into the Group's Investment Banking and other business selection processes.

Recipients of this report should assume that our Group is seeking or may seek or will seek Investment Banking, advisory, project finance or other businesses and may receive commission, brokerage, fees or other compensation from the company or companies that are the subject of this material/report. Our Company and Group companies and their officers, directors and employees, including the analysts and others involved in the preparation or issuance of this material and their dependants, may on the date of this report or from, time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. Centrum or its affiliates do not own 1% or more in the equity of this company. Our sales people, dealers, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. We may have earlier issued or may issue in future reports on the companies covered herein with recommendations/ information inconsistent or different those made in this report. In reviewing this document, you should be aware that any or all of the foregoing, among other things, may give rise to or potential conflicts of interest. We and our Group may rely on information barriers, such as "Chinese Walls" to control the flow of information contained in one or more areas within us, or other areas, units, groups or affiliates of Centrum. Centrum or its affiliates do not make a market in the security of the company for which this report or any report was written. Further, Centrum or its affiliates did not make a market in the subject company's securities at the time that the research report was published.

This report is for information purposes only and this document/material should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this document nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. This document does not solicit any action based on the material contained herein. It is for the general information of the clients of Centrum. Though disseminated to clients simultaneously, not all clients may receive this report at the same time. Centrum will not treat recipients as clients by virtue of their receiving this report. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Similarly, this document does not have regard to the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The securities discussed in this report may not be suitable for all investors. The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Persons who may receive this document should consider and independently evaluate whether it is suitable for his/her/their particular circumstances and, if necessary, seek professional/financial advice. Any such person shall be responsible for conducting his/her/their own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this document.

The projections and forecasts described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections and forecasts were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time. All projections and forecasts described in this report have been prepared solely by the authors of this report independently of the Company. These projections and forecasts were not prepared with a view toward compliance with published guidelines or generally accented accounting principles. No independent accountants have expressed an opinion or any other form of assurance on these projections or forecasts. You should not regard the inclusion of the projections and forecasts described herein as a representation or warranty by or on behalf of the Company, Centrum, the authors of this report or any other person that these projections or forecasts or their underlying assumptions will be achieved. For these reasons, you should only consider the projections and forecasts described in this report after carefully evaluating all of the information in this report, including the assumptions underlying such projections and forecasts.

The price and value of the investments referred to in this document/material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. Future returns are not guaranteed and a loss of original capital may occur. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Centrum does not provide tax advice to its clients, and all investors are strongly advised to consult regarding any potential investment. Centrum and its affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk. Certain transactions including those involving futures, options, and other derivatives as well as non-investment-grade securities give rise to substantial risk and are not suitable for all investors. Please ensure that you have read and understood the current risk disclosure documents before entering into any derivative transactions.

This report/document has been prepared by Centrum, based upon information available to the public and sources, believed to be reliable. No representation or warranty, express or implied is made that it is accurate or complete. Centrum has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. The opinions expressed in this document/material are subject to change without notice and have no obligation to tell you when opinions or information in this report change.

This report or recommendations or information contained herein do/does not constitute or purport to constitute investment advice in publicly accessible media and should not be reproduced, transmitted or published by the recipient. The report is for the use and consumption of the recipient only. This publication may not be distributed to the public used by the public media without the express written consent of Centrum. This report or any portion hereof may not be printed, sold or distributed without the written consent of Centrum.

This report has not been prepared by Centrum Securities LLC. However, Centrum Securities LLC has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Neither Centrum nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

This document does not constitute an offer or invitation to subscribe for or purchase or deal in any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is strictly confidential and is being furnished to you solely for your information, may not be distributed to the press or other media and may not be reproduced or redistributed to any other person. The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this report comes should inform themselves about, and observe any such restrictions. By accepting this report, you agree to be bound by the foregoing limitations. No representation is made that this report is accurate or complete.

The opinions and projections expressed herein are entirely those of the author and are given as part of the normal research activity of Centrum Broking and are given as of this date and are subject to change without notice. Any opinion estimate or projection herein constitutes a view as of the date of this report and there can be no assurance that future results or events will be consistent with any such opinions, estimate or projection.

This document has not been prepared by or in conjunction with or on behalf of or at the instigation of, or by arrangement with the company or any of its directors or any other person. Information in this document must not be relied upon as having been authorized or approved by the company or its directors or any other person. Any opinions and projections contained herein are entirely those of the authors. None of the company or its directors or any other person accepts any liability whatsoever for any loss arising from any use of this document or its contents or otherwise arising in connection therewith.

Centrum and its affiliates have not managed or co-managed a public offering for the subject company in the preceding twelve months. Centrum and affiliates have not received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for service in respect of public offerings, corporate finance, debt restructuring, investment banking or other advisory services in a merger/acquisition or some other sort of specific transaction.

As per the declarations given by them, Mr Rohit Nagraj, research analyst and/or any of his family members do not serve as an officer, director or any way connected to the company/companies mentioned in this report. Further, as declared by him, he has not received any compensation from the above companies in the preceding twelve months. Our entire research professionals are our employees and are paid a salary. They do not have any other material conflict of interest of the research analyst or member of which the research analyst knows of has reason to know at the time of publication of the research report or at the time of the public appearance.

While we would endeavor to update the information herein on a reasonable basis, Centrum, its associated companies, their directors and employees are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Centrum from doing so.

Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or Centrum policies, in circumstances where Centrum is acting in an advisory capacity to this company, or any certain other circumstances

Key to Centrum Investment Rankings

Buy: Expected to outperform Nifty by >15%, Accumulate: Expected to outperform Nifty by +5 to 15%, Hold: Expected to outperform Nifty by -5% to +5%, Reduce: Expected to underperform Nifty by 5 to 15%, Sell: Expected to underperform Nifty by >15%

Centrum Broking Limited

Member (NSE, BSE, MCX-SX), Depository Participant (CDSL) and SEBI registered Portfolio Manager

Registration Nos.

CAPITAL MARKET SEBI REGN. NO.: BSE: INB011454239, NSE: INB231454233

DERIVATIVES SEBI REGN. NO.: NSE: INF231454233 (TRADING & SELF CLEARING MEMBER)

CDSL DP ID: 12200. **SEBI REGISTRATION NO.:** IN-DP-CDSL-20-99

PMS REGISTRATION NO.: INP000000456

MCX – SX (Currency Derivative segment) REGN. NO.: INE261454236

Website: www.centrum.co.in

Investor Grievance Email ID: investor.grievances@centrum.co.in

Compliance Officer Details :

Mr. Praveen Malik; Tel: (022) 42159703; Email ID: praveen.malik@centrum.co.in

Registered Office Address

Bombay Mutual Building ,2nd Floor, Dr. D. N. Road, Fort, Mumbai - 400 001

Correspondence Address

Centrum House
6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai 400 098.
Tel: (022) 4215 9000