

Indraprastha Gas

 BSE SENSEX
 29,319

 S&P CNX
 9,105

CMP: INR1,044 TP: INR1,023 (-2%)
Neutral


Stock Info

Bloomberg	IGL IN
Equity Shares (m)	140.0
52-Week Range (INR)	1071/556
1, 6, 12 Rel. Per (%)	3/23/70
M.Cap. (INR b)	146.2
M.Cap. (USD b)	2.2
12M Avg Val (INR M)	600
Free float (%)	55.0

Financials Snapshot (INR b)

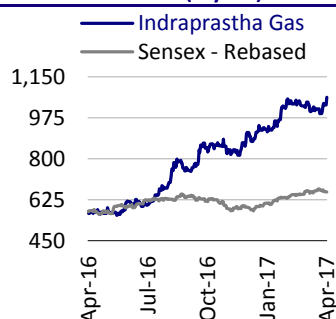
Y/E Mar	2017E	2018E	2019E
Sales	37.2	43.6	48.4
EBITDA	10.2	10.4	11.4
Adj. PAT	6.1	6.1	6.9
Adj. EPS (INR)	43.3	43.8	49.4
EPS Gr. (%)	45.5	1.2	12.8
BV/Sh.(INR)	205.3	238.6	276.3
RoE (%)	22.3	19.7	19.2
RoCE (%)	21.6	18.7	18.4
P/E (x)	24.1	23.8	21.1
P/BV (x)	5.1	4.4	3.8

Shareholding pattern (%)

As On	Dec-16	Sep-16	Dec-15
Promoter	45.0	45.0	45.0
DII	19.1	19.5	21.7
FII	22.6	21.5	20.5
Others	13.3	14.1	12.9

FII Includes depository receipts

Stock Performance (1-year)



Moving in the right direction, but fairly valued

We recently met management of Indraprastha Gas (IGL). Key takeaways:

CNG segment to see 8-10% growth

- At peak, Delhi Transport Corporation (DTC) had a fleet of 5,500 buses. However, due to the phasing out of older buses and the inability to add newer ones, the fleet size has narrowed to 4,000 buses, of which only ~3,500 are operational. Some growth though is expected to come from addition of cluster buses, as well as feeder buses for metros. Most aggregator cabs have converted fully to CNG. Around 40-50,000 cabs with all-India permits are expected to convert to CNG once their current licenses expire. The restriction on approved CNG kits still exists, leading to monthly conversions coming down to 1,500 from 3,000-4,000/month. The company guides for CNG growth of 8-10%. It has ~420 CNG stations and plans to add ~25 each year.

Expect >100,000 household connections every year

- IGL added 76,000 household connections in FY16 and another 100,000+ in FY17. In NCR, there are 4m LPG connections, of which 2-2.2m could be potentially converted to PNG-residential. Of these, the company has cumulatively connected ~0.8m households. It targets 25-40,000 connections in defense areas. It is also exploring new avenues like universities/state houses.

Rewari to commence operations in FY18

- IGL intends to open two CNG retail outlets in early FY18 and then two more by fiscal-end. It aims to add further 4-6 CNG stations in FY19. It also intends to connect 300 PNG-residential. Volumes are expected to be less than 0.1mmscmd in FY18 from Rewari. In 4-5 years, peak sales volume would be 0.4-0.5mmscmd.

FO/petcoke ban could add 0.2mmscmd

- A ban on usage of FO/petcoke in NCR is being discussed. If the ban is implemented and no industries shift out of NCR, then current industrial sales volume of 0.44mmscmd could increase by maximum of 0.2mmscmd. It has also bid for three nearby areas in CGD round 8, two of which have potential of 0.5mmscmd and the third has potential of 0.2mmscmd.

Fairly valued; maintain Neutral

- With EBITDA/scm of INR5.6 in FY18/19 and overall volume growth of 11%/9%, we estimate standalone EPS of INR49.4 for FY19. Our SOTP-based fair value stands at INR1,023.
- We do not see much upside, and thus maintain our **Neutral** rating.

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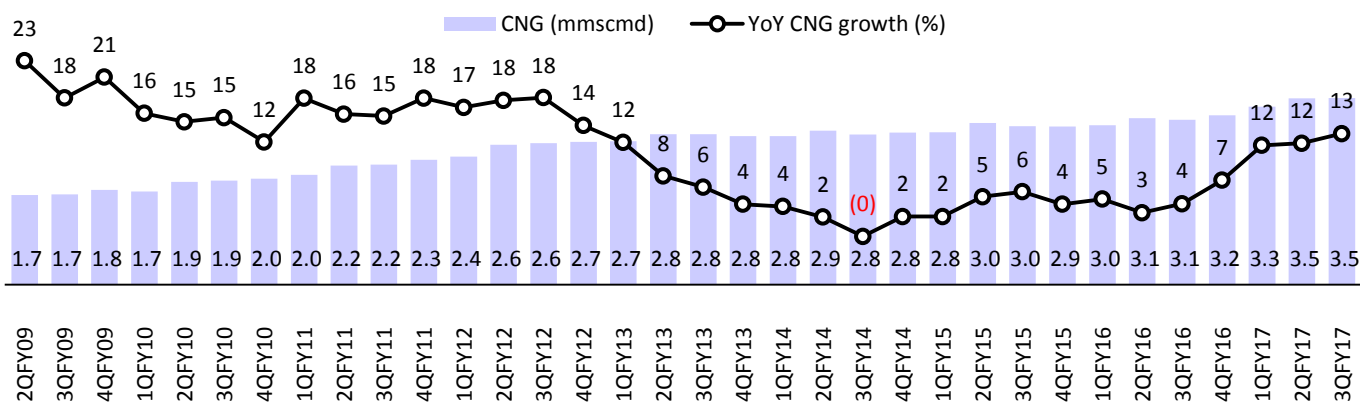
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Exhibit 1: IGL - Operational highlights

INR Million	FY15				FY16				FY17		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Net sales	8,672	9,489	9,410	9,129	8,994	9,658	9,269	8,816	8,970	9,624	9,429
Realization (INR/scm)	25.4	26.1	26.6	26.5	25.8	25.8	25.1	23.6	22.7	22.9	22.2
Total raw material	5,420	6,095	6,255	6,045	5,587	6,240	5,685	5,249	4,774	5,348	5,181
Gas cost (INR/scm)	15.9	16.8	17.7	17.6	16.0	16.6	15.4	14.1	12.1	12.7	12.2
Gross margin	3,252	3,393	3,155	3,084	3,407	3,419	3,584	3,566	4,197	4,277	4,248
Gross Margin (INR/scm)	9.5	9.3	8.9	9.0	9.8	9.1	9.7	9.6	10.6	10.2	10.0
EBITDA	2,068	2,147	1,886	1,720	1,938	1,880	1,850	1,929	2,570	2,575	2,515
EBITDA (INR/scm)	6.1	5.9	5.3	5.0	5.6	5.0	5.0	5.2	6.5	6.1	5.9
PAT	1,140	1,196	1,082	959	1,018	1,016	1,051	1,076	1,480	1,442	1,448
PAT (INR/scm)	3.3	3.3	3.1	2.8	2.9	2.7	2.8	2.9	3.8	3.4	3.4
Volumes											
CNG (MMSCMD)	2.8	3.0	3.0	2.9	3.0	3.1	3.1	3.2	3.3	3.5	3.5
PNG (MMSCMD)	0.9	0.9	0.9	0.9	0.9	1.0	0.9	0.9	1.0	1.1	1.1
Total (MMSCMD)	3.7	3.9	3.8	3.8	3.8	4.1	4.0	4.1	4.3	4.6	4.6
Per unit realizations											
CNG (INR/scm)	27.4	28.2	28.2	28.3	27.9	27.9	27.1	26.7	26.3	26.4	25.3
CNG (INR/kg)	36.5	37.7	37.6	37.4	37.2	37.3	36.6	36.5	35.7	35.8	34.4
PNG (INR/scm)	30.1	31.0	33.0	32.7	30.4	29.8	29.4	24.4	21.7	22.2	22.5

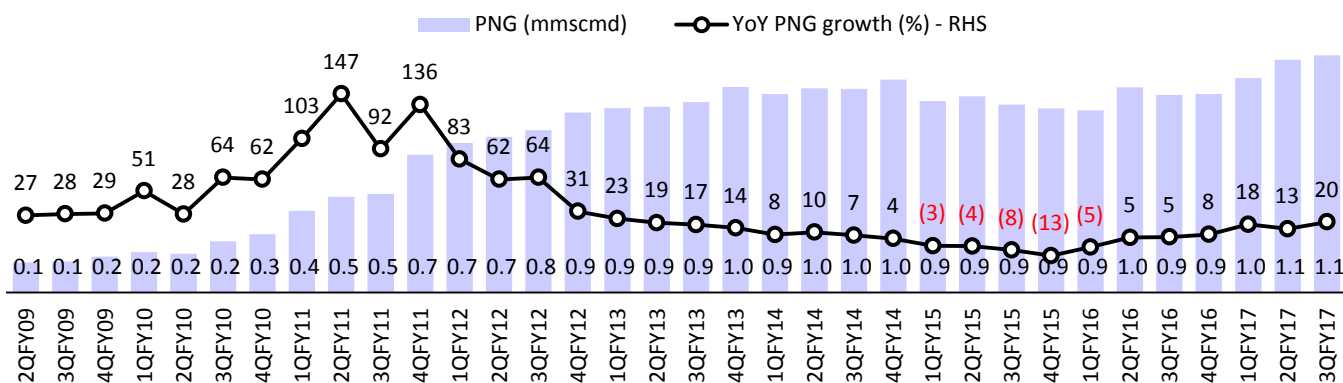
Source: Company, MOSL

Exhibit 2: YoY growth in CNG volumes stood at ~13% in 3QFY17

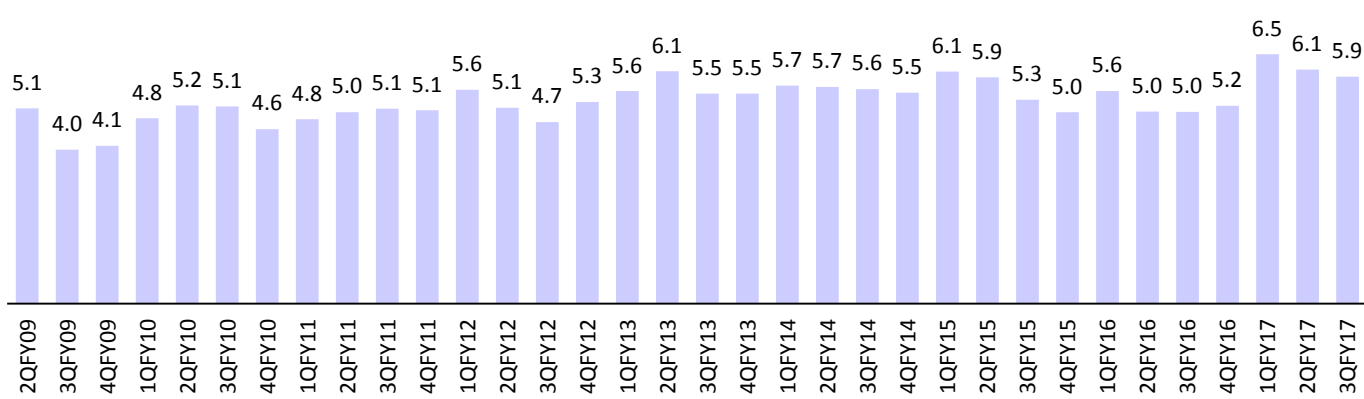


Source: Company, MOSL

Exhibit 3: PNG volumes were up ~20% YoY to 1.1mmscmd



Source: Company, MOSL

Exhibit 4: Lower pass-through of decline in gas costs led to YoY increase in EBITDA/scm to INR5.9

Source: Company, MOSL

Valuation and view

- Given comparatively high CNG/PNG penetration in Delhi, IGL management is moving its focus toward newer cities, as seen from its investments in Central UP Gas (Kanpur-based) and Maharashtra Natural Gas (Pune-based). These entities are expected to be value-accretive, given high growth in the respective geographies.
- Revival in CNG car conversion (led by odd-even scheme in Delhi) should result in volume growth over the near-to-medium term. Separately, sharp margin improvement is a function of lower gas cost as well as operating leverage.
- We model FY18/FY19 volume growth of 11%/9%, and EBITDA per scm of INR5.6.
- Continued pollution issues in Delhi should increase demand for lesser polluting fuel (e.g. CNG). This, in turn, should keep volume growth strong for IGL and help it sustain current valuations, in our view. Our SOTP-based fair value stands at INR1,023. Maintain **Neutral**.

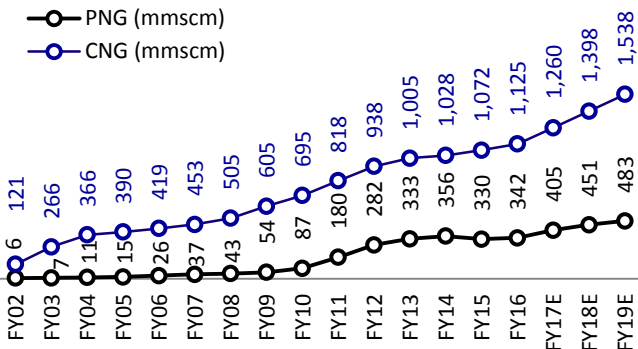
Exhibit 5: IGL - Key assumptions

Y-End: March (INR m)	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Gas sales									
CNG realization (INR/kg)	26.5	31.1	37.6	42.0	37.3	36.9	35.0	36.7	37.4
PNG realization (INR/scm)	18.6	21.8	26.5	30.1	31.7	28.5	21.8	21.8	22.0
Gas volumes									
CNG volumes (mmscm)	818	938	1,005	1,028	1,072	1,125	1,260	1,398	1,538
PNG volumes (mmscm)	180	282	333	356	330	342	405	451	483
Total (mmscm)	998	1,220	1,338	1,384	1,402	1,466	1,665	1,849	2,021
Gas purchase volumes (mmscmd)									
APM	2.20	2.20	2.70	2.87	3.24	3.38	3.92	4.44	4.84
LNG	0.67	1.28	1.11	1.05	0.73	0.77	0.80	0.80	0.88
Total	2.87	3.48	3.81	3.92	3.97	4.15	4.72	5.24	5.72
EPS	18.5	21.9	25.3	25.7	31.3	29.7	43.3	43.8	49.4

Source: Company, MOSL

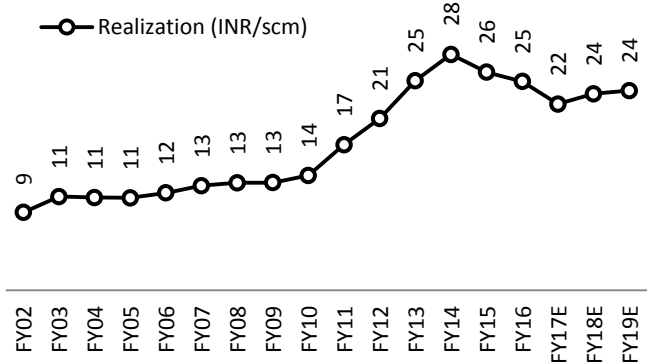
Story in charts

Exhibit 6: CNG sales growth had stagnated in recent years; expect growth to gain momentum



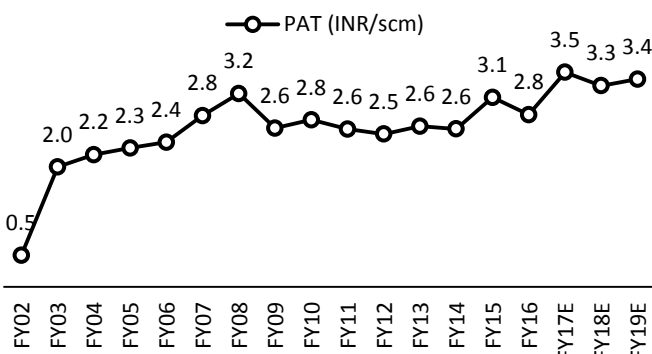
Source: Company, MOSL

Exhibit 7: IGL passes any cost increase to maintain its margins through CNG/PNG consumer prices



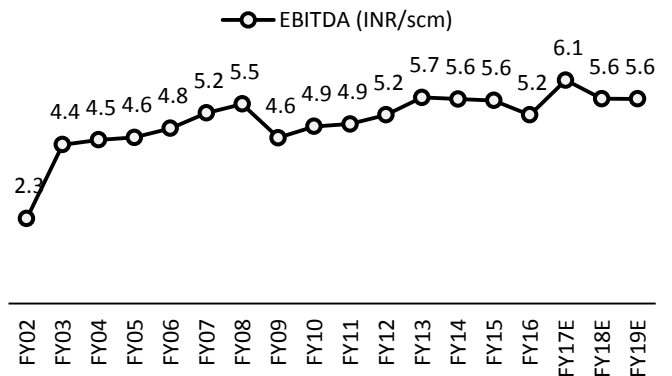
Source: Company, MOSL

Exhibit 8: IGL has been able to maintain profitability (PAT in INR/scm)



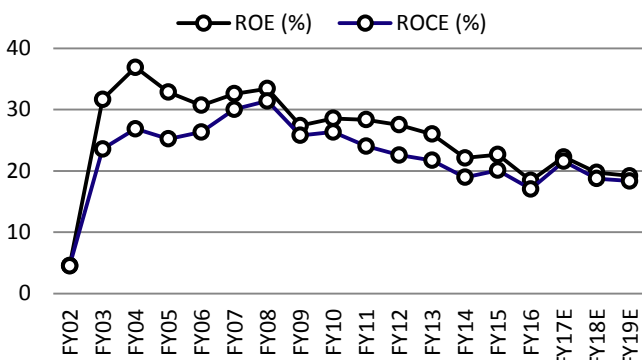
Source: Company, MOSL

Exhibit 9: Price pass-through ensures stable EBITDA/scm for IGL



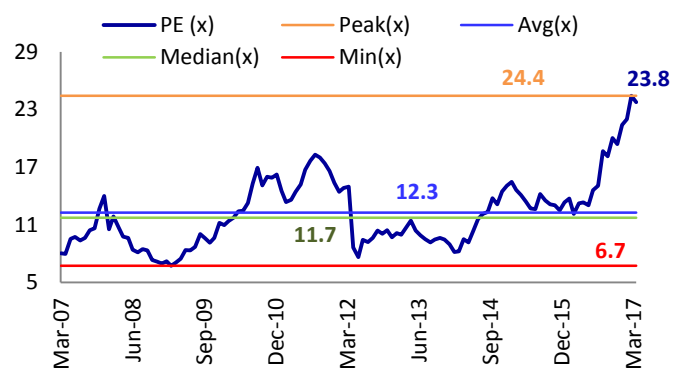
Source: Company, MOSL

Exhibit 10: IGL's return ratios declined in recent years (%)



Source: Company, MOSL

Exhibit 11: IGL 1-year forward P/E



Source: Company, MOSL

Financials and Valuations

Income Statement

(INR Million)

Y/E March	2012	2013	2014	2015	2016	2017E	2018	2019
Net Sales	25,151	33,661	39,174	36,699	36,737	37,220	43,589	48,425
Change (%)	44.2	33.8	16.4	-6.3	0.1	1.3	17.1	11.1
Raw Materials Cons	15,392	21,970	26,815	23,816	22,761	20,339	25,163	28,347
Employee Costs	426	567	596	660	796	915	1,053	1,210
Other Exp (incl Stock Adj)	3,013	3,551	3,990	4,404	5,584	5,753	6,974	7,506
EBITDA	6,320	7,572	7,773	7,820	7,597	10,213	10,399	11,361
% of Net Sales	25.1	22.5	19.8	21.3	20.7	27.4	23.9	23.5
Depreciation	1,432	1,867	2,195	1,487	1,577	1,905	2,035	2,165
Interest	479	562	441	298	91	0	0	0
Other Income	103	138	259	456	420	725	925	1,285
Prior Period Inc./ (Exp.)	0	0	0	0	0	-250	0	0
PBT	4,512	5,282	5,395	6,490	6,349	8,783	9,290	10,481
Tax	1,440	1,741	1,795	2,113	2,187	2,893	3,159	3,564
Rate (%)	31.9	33.0	33.3	32.6	34.4	32.9	34.0	34.0
PAT	3,072	3,541	3,600	4,377	4,162	5,890	6,131	6,918
Adj. PAT	3,072	3,541	3,600	4,377	4,162	6,057	6,131	6,918
Change (%)	18.4	15.3	1.7	21.6	-4.9	45.5	1.2	12.8

Balance Sheet

(INR Million)

Y/E March	2012	2013	2014	2015	2016	2017E	2018	2019
Share Capital	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Reserves	10,889	13,530	16,232	19,581	22,761	27,341	31,998	37,277
Net Worth	12,289	14,930	17,632	20,981	24,161	28,741	33,398	38,677
Loans	3,890	3,491	3,212	1,453	0	0	0	0
Deferred Tax	627	843	963	1,272	1,647	1,647	1,647	1,647
Capital Employed	16,807	19,264	21,807	23,706	25,807	30,387	35,044	40,324
Gross Fixed Assets	22,673	27,186	29,733	31,761	33,876	36,626	39,126	41,626
Less: Depreciation	6,877	8,713	10,780	12,203	13,780	15,684	17,719	19,884
Net Fixed Assets	15,796	18,473	18,953	19,558	20,097	20,942	21,407	21,743
Capital WIP	3,751	2,913	2,624	2,541	2,949	2,000	2,000	2,000
Investments	984	1,426	1,173	2,909	2,592	2,592	2,592	2,592
Curr. Assets, L & Adv.								
Inventory	374	397	371	409	472	494	580	645
Debtors	1,298	1,789	2,196	2,352	2,400	2,668	3,130	3,479
Cash & Bank Balance	320	510	2,514	2,315	4,566	7,081	11,947	17,355
Loans & Advances	610	654	493	489	460	489	489	489
Other Current Assets	95	119	197	163	154	163	163	163
Current Liab. & Prov.								
Liabilities	5,551	6,032	5,712	5,866	6,720	4,619	5,672	6,383
Provisions	870	984	1,001	1,163	1,162	1,422	1,590	1,758
Net Current Assets	-3,725	-3,548	-943	-1,302	171	4,854	9,045	13,990
Application of Funds	16,807	19,264	21,808	23,706	25,807	30,387	35,044	40,324

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2012	2013	2014	2015	2016	2017E	2018	2019
Basic (INR)								
EPS	21.9	25.3	25.7	31.3	29.7	43.3	43.8	49.4
Cash EPS	32.2	38.6	41.4	41.9	41.0	56.9	58.3	64.9
Book Value	87.8	106.6	125.9	149.9	172.6	205.3	238.6	276.3
DPS	5.0	5.5	5.5	6.0	6.0	8.0	9.0	10.0
Payout	22.8	21.7	21.4	19.2	20.2	18.5	20.6	20.2
Valuation (x)								
P/E				33.4	35.1	24.1	23.8	21.1
Cash P/E				24.9	25.5	18.4	17.9	16.1
EV / EBITDA				18.6	18.6	13.6	12.9	11.3
EV / Sales				4.0	3.9	3.7	3.1	2.7
Price / Book Value				7.0	6.0	5.1	4.4	3.8
Dividend Yield (%)				0.6	0.6	0.8	0.9	1.0
Profitability Ratios (%)								
RoE	27.5	26.0	22.1	22.7	18.4	22.3	19.7	19.2
RoCE	22.6	21.7	19.0	20.1	17.1	21.6	18.7	18.4
RoIC	32.1	29.9	26.0	29.1	26.7	35.2	32.9	37.5
Turnover Ratios								
Debtors (No. of Days)	25	22	20	16	15	15	15	15
Asset Turnover (x)	1.7	1.9	1.9	1.6	1.5	1.3	1.3	1.3
Leverage Ratio								
Net Debt / Equity (x)	0.3	0.2	0.0	0.0	-0.2	-0.2	-0.4	-0.4

Cash Flow Statement

(INR Million)

Y/E March	2012	2013	2014	2015	2016	2017E	2018	2019
OP/(Loss) before Tax	4,501	5,282	5,398	6,490	6,349	8,783	9,290	10,481
Depreciation	1,432	1,867	2,195	1,487	1,577	1,905	2,035	2,165
Others	476	506	283	19	91	0	0	0
Direct Taxes Paid	-984	-1,530	-1,698	-1,770	-1,812	-2,893	-3,159	-3,564
(Inc)/Dec in Wkg. Capital	696	309	297	411	779	-2,168	674	464
CF from Op. Activity	6,121	6,433	6,476	6,638	6,983	5,627	8,840	9,546
(Inc)/Dec in FA & CWIP	-6,117	-3,716	-2,493	-2,148	-2,523	-1,802	-2,500	-2,500
Free Cash Flow	4	2,716	3,982	4,490	4,461	3,826	6,340	7,046
(Pur)/Sale of Investments	0	0	-692	-1,805	317	0	0	0
Others	-507	-347	180	316	0	0	0	0
CF from Inv. Activity	-6,624	-4,063	-3,005	-3,637	-2,206	-1,802	-2,500	-2,500
Inc / (Dec) in Debt	1,947	-806	-1,060	-2,072	-1,453	0	0	0
Dividends Paid (incl.tax)	-814	-814	-901	-901	-983	-1,310	-1,474	-1,638
Interest paid	-484	-561	-451	-299	-91	0	0	0
CF from Fin. Activity	650	-2,180	-2,411	-3,272	-2,526	-1,310	-1,474	-1,638
Inc / (Dec) in Cash	147	190	1,060	-271	2,251	2,515	4,865	5,408
Add: Opening Balance	173	320	510	2,514	2,315	4,566	7,081	11,947
Closing Balance	320	510	1,569	2,242	4,566	7,081	11,947	17,355

E: MOSL Estimates

NOTES

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