

INDRAPRASTHA GAS LTD.

ACCUMULATE

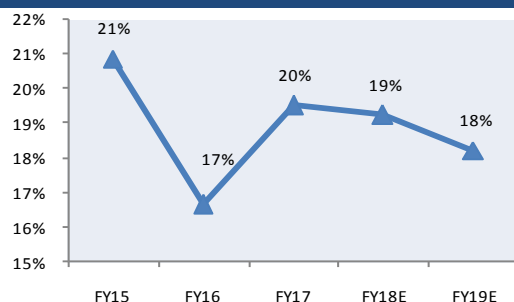
23-Feb-18

INDUSTRY - Oil & Gas
BLOOMBERG- IGL IN
BSE Code - 532514
NSE Code - IGL
NIFTY - 10382

Company Data

CMP	292
Target Price	319
Previous Target Price	304
Upside	9%
52wk Range H/L	344/193
Mkt Capital (Rs Cr)	20,555
Av. Volume (,000)	134

RoE to maintain at 18% in FY19E

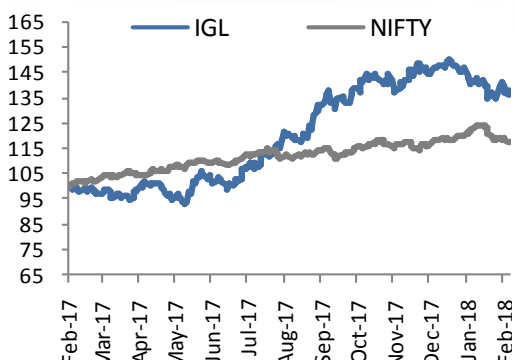


Shareholding patterns %

	3QFY18	2QFY18	1QFY18
Promoters	45.0	45.0	45.0
Public	55.0	55.0	55.0
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	(5.6)	(5.3)	39.9
Rel.to Nifty	(1.1)	(5.9)	20.7



Key Highlights of the Report:

- ✓ Recently IGL has won City gas distribution authorization in Karnal which will add significant volume to the company going ahead.
- ✓ IGL has posted stellar performance in Q3 FY18 with the revenue growth of 25% YoY to Rs.1308 Cr. PAT has also grown by 15% YoY to Rs.166 Cr
- ✓ In Q3 FY18, CNG and PNG volume has grown by 11% and 21% YoY respectively.
- ✓ IGL expects distribution of CNG and PNG in Gurugram to comence within one year.
- ✓ Currently the stock is trading at 30x FY19e EPS. Considering the network expansion in new geographies, which will increase the volume growth going ahead, we increase our valuation multiple to 32x FY19e EPS and increase our target price to Rs. 319. We revise our rating from NEUTRAL to ACCUMULATE.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	4,060	4,064	4,223	4,855	5,313
EBITDA	793	775	964	1,048	1,110
EBIT	644	619	797	886	934
PAT	438	419	571	636	677
EPS (Rs)	6	6	8	9	10
EPS growth (%)	22%	-4%	36%	11%	6%
ROE (%)	21%	17%	20%	19%	18%
ROCE (%)	29%	25%	27%	27%	25%
BV	30	36	42	47	53
P/B (X)	2.8	3.2	4.9	6.2	5.5
P/E (x)	13.4	19.0	25.2	32.2	30.3

MANAGEMENT / RECENT HIGHLIGHTS:

- ✓ Received permission to gas distribution network in Karnal for both CNG & LNG.
- ✓ IGL and Mahindra & Mahindra join hands to set up plants stop stubble
- ✓ Nearly 3,000-4,000 private cars and 1,000 taxis getting converted into compressed natural gas (CNG) per month.
- ✓ Management expects challenges in industrial segment going ahead because of natural gas not being included in goods and services tax (GST).
- ✓ IGL plans to set up around 10 CNG stations and 10,000 LNG connections in one year which will add 0.5 Million SCM of CNG in the sales and Rs.150 Cr in the revenue in a year.
- ✓ On tariff front, management is not expecting any big increase in the gas cost going forward in this year.

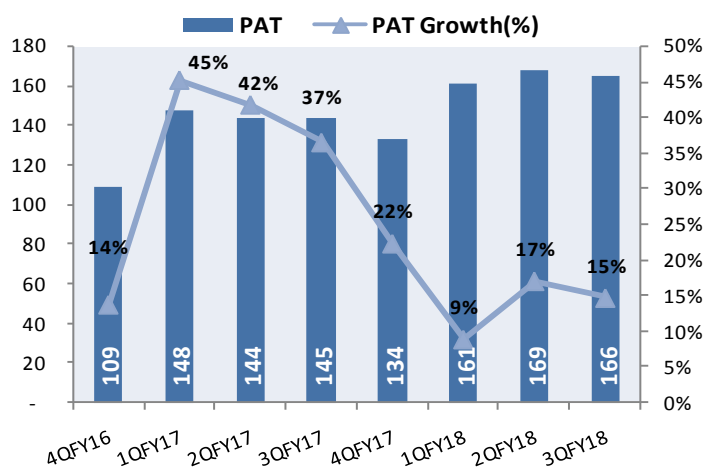
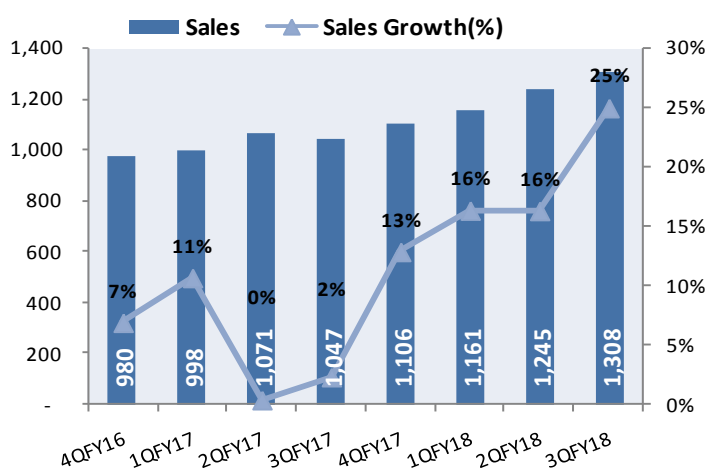
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Quarterly Performance

Financials	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY %	QoQ%	FY16	FY17	YoY %
CNG Volume(MSCM)	283.8	286.2	304.7	392.3	315.7	11%	-20%	1,049	1,131	8%
PNG Volume(MSCM)	104.0	108.0	109.0	120.0	126.0	21%	5%	343	406	18%
Net Sales	1,047	1,106	1,161	1,245	1,308	25%	5%	4,064	4,223	4%
Other Income	15	21	18	25	33	114%	30%	30	65	118%
COGS	518	553	549	593	673	30%	13%	2,276	2,084	-8%
Employee Cost	26	18	25	26	27	6%	6%	78	92	17%
Other Expenses	156	200	198	226	221	42%	-2%	557	676	21%
EBITDA	247	230	277	282	263	7%	-7%	775	964	24%
Depreciation	48	43	44	45	45	-5%	1%	156	167	7%
Interest	-	1	0	0	0			10	1	-88%
PBT	214	207	251	261	250	17%	-4%	639	861	35%
Tax	70	73	90	92	84	21%	-9%	219	290	32%
PAT	145	134	161	169	166	15%	-2%	419	571	36%

Results are better than our expectation, lead by higher CNG volume growth

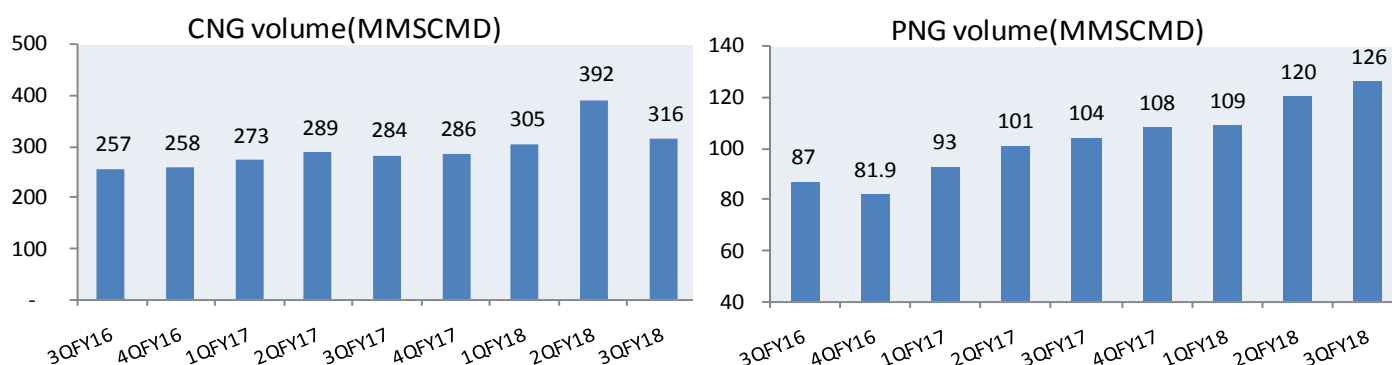
- ✓ Sales grew by 25% YoY backed by CNG volumes which grew by 11% driven by continued bus additions and increase in CNG conversion following partial lifting of ban on spurious kits.
- ✓ CNG vehicles in Delhi NCR has grown by 9% YoY as per the IGL estimates. This is led by the strong growth in the number of CNG busses by 18% YoY.
- ✓ Number of PNG users has also increased by 21% YoY to 838,238 and commercial users has grown by 16% YoY to 3224 in Q3 FY18.
- ✓ Capex during the 9 months of FY18 is Rs. 273 Cr.
- ✓ Operating expenses has increased from Rs.156 Cr to Rs. 221 Cr in Q3. We believe that higher repairs and maintenance cost and higher rent payments to DDA, increases these expenses.
- ✓ Natural gas volume has increased by 26% due to the higher addition of commercial customers in Q3 FY18.
- ✓ EBITDA margin declined by 346bps to 20% due to the spurt in domestic gas cost.
- ✓ PAT has increased by 15% YoY to Rs.165 Cr on account of higher revenue.



Investment Arguments:

- ✓ **Volume growth:** Strong volume growth in both CNG and PNG segment on the back of higher CNG conversion rate of nearly 3,000-4,000 private cars and 1,000 taxis every month and in PNG segment company targets to add 1 lakh new connections every year, which gives us volume growth visibility of 10-12% in FY19.
- ✓ **Commercialization in Rewari:** IGL plans to set up around 10 CNG stations and distribute 10,000 LNG connections in one year which will add about 0.5 Million SCM of volume in a year.
- ✓ **SC direction to reduce pollution-** In Feb 2017, Supreme Court has directed Centre to reduce usage of pet coke in industries which may improve the IGL's industrial gas volume in future.
- ✓ **On-going lease disagreement with DDA-** Delhi development authority has demanded Rs.155 Cr for the period from 1 April 2007 to 31 March 2014. The matter is pending with High court and accordingly no provision has been made till date. We expect that if the High court decision will be in favour of IGL, then IGL can save Rs.155 Cr for the FY08-14 but IGL has to pay lease amount for FY15-17 which is around Rs.22 Cr.
- ✓ **Expanding Network around Delhi-** IGL has bidden for CNG network under the eight round of bidding in which the government has set ambitious target to supply clean fuel to cities like Karnal, Ambala, Baghpat and Bulandshahr and has won authorization for Karnal. The government also has this new policy of green corridors where in the government want to have at least one CNG station every 50 km along highways connecting Delhi. This will increase the volume significantly in forth coming years.
- ✓ **Higher operating expenses-** We expect that higher expenses on account of increased lease charges by Delhi Development Authority, higher maintenance and repair cost may hamper the margins going forward.

Volume Trend



View & Valuation

IGL has posted robust set of numbers in Q3 FY18. Revenue was higher by 25% YoY to Rs.1308 Cr. backed by strong volume and realization growth in CNG segment. PNG segment is also improving gradually on the back of increasing domestic PNG connections as well as industrial customers.

Recently IGL has won authorization for City gas distribution in Karnal. This will help company to expand its reach in un-tapped market. At current, the company has 8.3 Lakh domestic connections (30% of potential customer base) which give us volume growth visibility for next 3-5 years. Company targets to add about 1 Lakh new PNG connections every year. This will lead to 10-12% CAGR volume growth for upcoming years.

On the CNG front, nearly 3,000-4,000 private cars and 1,000 taxis are getting converted into CNG every month. This will lead to volume growth of 10-12% annually in next two years.

Currently the stock is trading at 30x FY19e EPS. Considering the network expansion in new geographies like Gurugram and Karnal, which will increase the volume growth going ahead, we increase our valuation multiple to 32x FY19e EPS and increase our target price to Rs. 319. We revise our rating from NEUTRAL to ACCUMULATE.

Financials Snap Shot

Income Statement in Rs Crores				
Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	4,064	4,223	4,855	5,313
Change (%)	0%	4%	15%	9%
EBITDA	775	964	1,048	1,110
Change (%)	-2%	24%	9%	6%
Margin (%)	19%	23%	22%	21%
Depr & Amor.	156	167	162	176
EBIT	619	797	886	934
Int. & other fin. Cost	10	1	-	-
Other Income	30	65	73	87
EBT	639	861	959	1,021
Exp Item	-	-	-	-
Tax	219	290	323	343
Minority Int & P/L share of Ass.				
Reported PAT	419	571	636	677
Adjusted PAT	419	571	636	677
Change (%)	-4%	36%	11%	6%
Margin(%)	10%	14%	13%	13%

Balance Sheet in Rs Crores				
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	140	140	140	140
Reserves	2,376	2,787	3,169	3,575
Networth	2,516	2,927	3,309	3,715
Debt	-	-	-	-
Total Capital Employed				
Net Fixed Assets (incl CWIP)	5,033	5,853	6,618	7,430
Non Cur Investments	2,286	2,469	2,669	2,746
Other Non Cur Asst	259	259	259	259
Non Curr Assets	11	18	18	18
Inventory	2,570	2,756	2,957	3,033
Debtors	58	52	59	65
Cash	251	201	208	253
Bank Balance	453	126	272	540
Other Curr Assets	31	27	19	21
Curr Assets	811	1,330	1,722	2,055
Creditors	161	274	315	345
Provisions	-	-	68	-
Other Curr Liab	29	35	40	44
Curr Liabilities	685	959	1,170	1,206
Net Curr Assets	126	371	553	849
Total Assets	3,381	4,086	4,679	5,088

Cash Flow Statement in Rs Crores				
Y/E March	FY16	FY17	FY18E	FY19E
PBT	638	861	959	1,021
(inc)/Dec in Working Capital	781	972	959	1,021
Non Cash Op Exp	156.3	167.1	-	-
Int Paid (+)	9.92	1.21	-	-
Tax Paid	187.5	268.7	322.8	343.5
others				
CF from Op. Activities	653	948	837	658
(inc)/Dec in FA & CWIP	(175)	(1,114)	(200)	(77)
Free Cashflow	478.9	(166.4)	636.2	581.2
(Pur)/Sale of Inv	-	-	-	-
others				
CF from Inv. Activities	(175)	(1,114)	(200)	(77)
inc/(dec) in NW				
inc/(dec) in Debt	(145.3)	-	-	-
Int. Paid	(9.9)	(1.2)	-	-
Div Paid (inc tax)	(101)	(160)	(255)	(271)
others				
CF from Fin. Activities	(256)	(161)	(255)	(271)
Inc(Dec) in Cash	223	(328)	382	310
Add: Opening Balance	231	453	609	990
Closing Balance	453.3	125.6	990.2	1,300.3

Key Ratios

	FY16	FY17	FY18E	FY19E
ROE	17%	20%	19%	18%
ROCE	25%	27%	27%	25%
Asset Turnover	1.8	1.7	1.8	1.9
Debtor Days	23	17	17	17
Inv Days	5	4	4	4
Payable Days	14	24	24	24
Int Coverage	0	0	-	-
P/E	19	25	32	30
Price / Book Value	3.2	4.9	6.2	5.5
EV/EBITDA	10	15	19	18
FCF per Share	7	(2)	9	8
Div Yield	1.3%	1.1%	1.2%	1.3%

Key Assumptions

	FY16	FY17	FY18E	FY19E
CNG Volume(MMSCM)	1,049	1,131	1,318	1,417
PNG Volume(MMSCM)	342	406	472	514



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