Narnolia
Advance Strategy · Simple Solutions

IGL

NEUTRAL

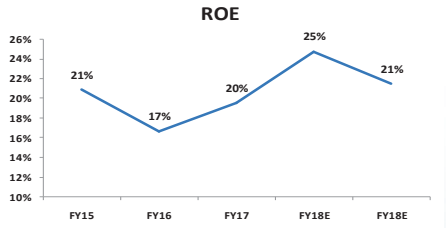
30-Jun-17

INDUSTRY -	Gas Distribution
BSE Code -	532514
NSE Code -	IGL
NIFTY -	9504

Company Data

CMP	1052
Target Price	**950**
Previous Target Price	
Upside	**-10%**
52wk Range H/L	1126/592
Mkt Capital (Rs Cr)	14,749
Av. Volume (,000)	24

RoE to maintain over 20% in FY19E

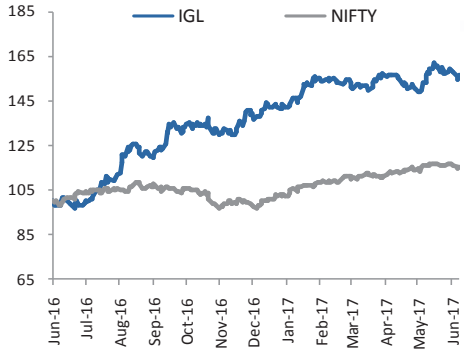


Shareholding patterns %

	4QFY17	3QFY17	2QFY17
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	(0.8)	74.0	27.1
Rel.to Nifty	0.3	56.6	15.6



Key Highlights of the Report:

- ☑ Strong volume growth of 14% in FY17 on account of 100000 new PNG connections and increased number of busses.
- ☑ CNG Gas distribution in Rewari district has commenced with 2 CNG stations and PNG distribution will commence soon.
- ☑ IGL is contesting legal case against DDA regarding lease payment of Rs.155 Cr for the period FY08-FY14.
- ☑ Higher maintenance cost and increased lease amount may hamper the margin in upcoming months.
- ☑ At current the stock is trading at 4.9x times FY17 P/B.

Financials/Valuation	FY15	FY16	FY17	FY18E	FY19E
Net Sales	4,060	4,064	4,223	4,382	4,522
EBITDA	793	775	964	1,426	1,472
EBIT	644	619	797	1,250	1,277
PAT	438	419	571	882	907
EPS (Rs)	31	30	41	63	65
EPS growth (%)	22%	-4%	36%	54%	3%
ROE (%)	21%	17%	20%	25%	21%
ROCE (%)	29%	25%	27%	35%	30%
BV	150	180	209	255	302
P/B (X)	2.8	3.2	4.9	4.0	3.4
P/E (x)	13.4	19.0	25.2	16.3	15.8

RECENT DEVELOPMENT:

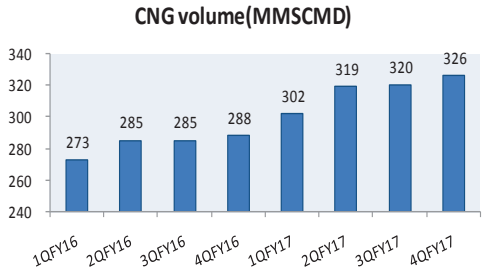
- ✓ CNG distribution in Rewari district has commenced 2 stations in Q4FY17 and has targeted 6-8 stations in FY18 and 1,000 residential connections by FY18 end.
- ✓ Recent orders of Supreme Court to the Centre to reduce usage of fuel oil and petcoke in order to reduce pollution in Delhi is also a welcome step towards possible increase in industrial volumes.
- ✓ IGL has participated in bids for new geographical areas of Ambala & Kurukshetra, Karnal and Bulandshahr.
- ✓ Have tied up long term contract for RLNG to meet PNG Industrial & Commercial demand.

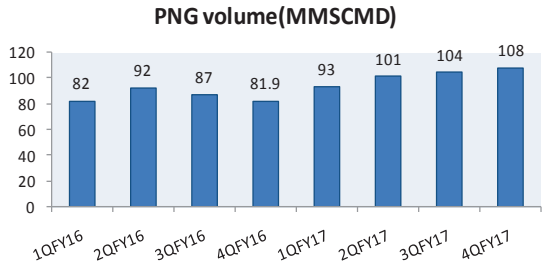
ADITYA GUPTA
aditya.gupta@narnolia.com

Investment Arguments:

- ✓ **CNG volume growth:** IGL expects volume to grow on the back increased number of busses by Noida Transport Corporation by 300-400 buses which will gradually boost volumes. Further around 40,000 All India Taxis which are yet to convert to CNG in next 3-4 years on the expiry of their permits. This will improve the CNG volume by around 8% in FY18.
- ✓ **Commercialization in Rewari:** IGL has commenced 2 stations in Q4FY17 and has targeted 6-8 stations in FY18 and 1,000 residential connections by FY18 end.
- ✓ **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 bidded 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. IGL management expects to get at least two or three of these. 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 strong 14% volume growth in FY17. As per IGL estimates about 40,000 vehicles are yet to convert to CNG in next 3-4 years and CNG volumes to grow further on the back of network expansion by Noida Transport Corporation which gives us visibility for volume growth in upcoming years. With the declining cost of gas, IGL has managed to improve gross margin to 50% in FY17 from 44% in FY16. Apart from that IGL is commissioning CNG and PNG distribution network in Rewari District which may escalate repairs and maintenance cost in upcoming months, we expect operations in Rewari to be stabilized in next 4-5 months which may hamper margins for couple of quarters. At current the stock is trading at 4.9x times FY17 P/B. Considering the current market rally, valuation seems quite higher and hence we remain Neutral with the target price of Rs.950.

Financials Snap Shot

Income Statement

in Rs Crores

Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	4,064	4,223	4,382	4,522
Change (%)	*0%*	*4%*	*4%*	*3%*
EBITDA	775	964	1,426	1,472
Change (%)	*-2%*	*24%*	*48%*	*3%*
Margin (%)	19%	23%	33%	33%
Depr & Amor.	**156**	**167**	**176**	**195**
EBIT	*619*	*797*	*1,250*	*1,277*
Int. & other fin. Cost	10	1	-	-
Other Income	*30*	*65*	*80*	*89*
EBT	639	861	1,329	1,366
Exp Item	-	-	-	-
Tax	219	290	447	460
Minority Int & P/L share of As:	-	-	-	-
Reported PAT	419	571	882	907
Adjusted PAT	*419*	*571*	*882*	*907*
Change (%)	**-4%**	**36%**	**54%**	**3%**
Margin(%)	*10%*	*14%*	*20%*	*20%*

Balance Sheet

in Rs Crores

Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	**140**	**140**	**140**	**140**
Reserves	**2,376**	**2,787**	**3,428**	**4,088**
Networth	2,516	2,927	3,568	4,228
Debt	-	-	-	-
Total Capital Employed	**2,516**	**2,927**	**3,568**	**4,228**
Net Fixed Assets (incl CWIP)	*2,286*	*2,469*	*2,641*	*2,708*
Non Cur Investments	259	259	259	259
Other Non Cur Asst	*11*	*18*	*18*	*18*
Non Curr Assets	*2,570*	*2,756*	*2,928*	*2,995*
Inventory	*58*	*52*	*54*	*55*
Debtors	*251*	*201*	*209*	*216*
Cash	**453**	**126**	**223**	**761**
Bank Balance	0	483	922	953
Other Curr Assets	*31*	*27*	*32*	*33*
Curr Assets	3,381	4,086	4,811	5,434
Creditors	**161**	**274**	**284**	**293**
Provisons	-	-	*68*	-
Other Curr Liab	29	35	36	37
Curr Liabilities	685	*959*	*1,062*	*1,026*
Net Curr Assets	126	371	821	1,413
Total Assets	3,381	4,086	4,811	5,434

Cash Flow Statement

in Rs Crores

Y/E March	FY16	FY17E	FY18E	FY19E
PBT	629	861	1,329	1,366
(inc)/Dec in Working Capital	781	1,029	1,506	1,561
Non Cash Op Exp	157.7	167.1	176.2	195.1
Int Paid (+)	9.05	1.21	-	-
Tax Paid	(187.5)	(289.6)	(447.4)	(459.8)
others	68	178	(4)	1
CF from Op. Activities	661	500	1,122	1,035
(inc)/Dec in FA & CWIP	(241)	(350)	(172)	(67)
Free Cashflow	420.6	149.7	949.9	967.7
(Pur)/Sale of Inv	*(10)*	-	-	-
others	26	-	-	-
CF from Inv. Activities	(225)	(350)	(172)	(67)
inc/(dec) in NW				
inc/(dec) in Debt	(145.3)	-	-	-
Div Paid (inc tax)	(101.1)	(155.6)	(240.3)	(247.0)
others	(9)	1	-	-
CF from Fin. Activities	(255)	(154)	(240)	(247)
Inc(Dec) in Cash	181	(5)	710	721
Add: Opening Balance	272	453	126	223
Closing Balance	453	449	835	944

Key Ratios

	FY16	FY17	FY18E	FY19E
ROE	17%	20%	25%	21%
ROCE	25%	27%	35%	30%
Asset Turnover	1.2	1.0	0.9	0.8
Debtor Days	23	17	17	17
Inv Days	5	4	4	4
Payable Days	**14**	**24**	**24**	**24**
Int Coverage	*62*	*658*	-	-
P/E	*19*	*25*	*16*	*16*
Price / Book Value	3.2	4.9	4.0	3.4
EV/EBITDA	10	15	10	9
FCF per Share	**30**	**11**	**68**	**69**
Div Yield	1%	1%	1%	1%

Key Assumptions

	FY16	FY17	FY18E	FY19E
CNG Volume(MMSCM)	1,131	1,267	1,317	1,340
PNG Volume(MMSCM)	343	406	463	501