

Indraprastha Gas

BSE SENSEX	S&P CNX
34,345	10,430
Bloomberg	IGL IN
Equity Shares (m)	700
M.Cap.(INRb)/(USDb)	184.3 / 2.7
52-Week Range (INR)	344 / 194
1, 6, 12 Rel. Per (%)	-11/-16/21
Avg Val, INRm	655.0
Free float (%)	55.0

Financials & Valuations (INR b)

Y/E March	2018	2019E	2019E
Net Sales	45.9	49.8	55.8
EBITDA	11.1	12.6	14.0
PAT	7.0	8.0	9.0
EPS (INR)	10.1	11.4	12.9
Gr. (%)	16.5	13.3	12.9
BV/Sh (INR)	50.2	59.2	68.6
RoE (%)	20.8	20.8	20.1
RoCE (%)	19.6	19.7	19.2
P/E (x)	26.2	23.1	20.5
P/BV (x)	5.2	4.4	3.8

Estimate change



TP change



Rating change


CMP: INR263
TP: INR384(46%)
Buy

EBITDA in-line; strong volume growth continues

- IGL reported EBITDA of INR2.8b (+20% YoY, +11% QoQ), in line with our estimate. During the quarter, the company reversed a provision of INR160m on account of negotiation with OMCs for trade margin payable to them for sale of CNG for the earlier period. Adjusting for that, EBITDA/scm increased to INR5.7 (v/s our estimate of INR5.6; INR5.4 in 3QFY18, INR5.6 in 4QFY17). PBT rose 30% YoY (+8% QoQ) to INR2.7b (est. of INR2.6b). PAT stood at INR1.75b (in-line; +30% YoY, +5% QoQ).
- Strong CNG/PNG volume growth continues:** CNG volumes grew 10% YoY (+2% QoQ) to 3.98mmcmd, while PNG volumes rose 15% YoY (+1% QoQ) to 1.38mmcmd. Total volumes grew 11% YoY (+2% QoQ) to 5.36mmcmd.
- PAT for IGL's subsidiaries (CUGL and MNGL) stood at INR340m (IGL's share: ~50% at INR170m in 4QFY18).
- For FY18, EBITDA and PAT grew by 16% YoY to INR11b and INR7.2b, respectively. Total volume grew 13% YoY to 5.2mmcmd and EBITDA/scm stood at INR5.8 in FY18.

Valuation view

- Due to the strong focus on curbing pollution in the NCR, CNG sales volume is likely to grow strongly. The expected restriction on the usage of dirty fuel would propel volume further for the company. We model FY19/20 volume growth at 12%/12% and EBITDA/scm at INR5.9/5.9.
- We believe (a) IGL's consistent operational outperformance, (b) the government's thrust for the usage of gas and (c) sustainable high-growth market warrant premium valuations. We reduce our valuation multiple by ~10%, in line with global gas peers' valuation multiple. We value IGL at 27x average FY20E EPS to arrive at a fair value of INR384. Maintain **Buy**.

Quarterly performance

Y/E MARCH	(INR m)											
	FY17				FY18				FY17	FY18	FY18	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	vs Est
Net Sales	8,970	9,624	9,467	10,019	10,492	11,261	11,839	12,329	38,081	45,921	12,226	0.8%
Change (%)	-0.3	-0.3	2.1	13.1	17.0	17.0	25.1	23.1	3.5	20.6	22.0	
EBITDA	2,570	2,575	2,554	2,262	2,773	2,816	2,631	2,754	9,961	10,973	2,764	-0.4%
EBITDA (Rs/scm)	6.5	6.1	6.0	5.2	6.2	5.9	5.4	5.7	6.0	5.8	5.6	1.6%
% of Net Sales	28.7	26.8	27.0	22.6	26.4	25.0	22.2	22.3	26.2	23.9	22.6	
% Change	32.7	37.0	38.0	27.2	7.9	9.4	3.0	21.7	33.8	10.2	14.1	
Depreciation	466	483	479	244	439	450	453	470	1,671	1,813	486	-3.1%
Interest	0	0	0	12	4	4	4	6	12	17	0	
Other Income	106.5	251.4	152.4	208.8	178.8	249.7	325.5	267.3	719.1	1,021.3	336.2	-20.5%
PBT before EO	2,211	2,344	2,227	2,215	2,509	2,612	2,499	2,545	8,997	10,165	2,615	-2.7%
EO	0	-167	-83	-140	0	0	0	160	-390	160	0	
PBT after EO	2,211	2,177	2,144	2,075	2,509	2,612	2,499	2,705	8,607	10,325	2,615	3.4%
Tax	731	735	696	734	897	923	840	957	2,896	3,617	889	7.7%
Rate (%)	33.1	33.8	32.5	35.4	35.7	35.3	33.6	35.4	33.7	35.0	34.0	
PAT	1,480	1,442	1,448	1,341	1,613	1,689	1,659	1,747	5,711	6,708	1,726	1.2%
Adj. PAT	1,480	1,552	1,504	1,431	1,613	1,689	1,659	1,644	5,969	6,604	1,726	-4.8%
EPS (INR)	2.1	2.2	2.1	2.0	2.3	2.4	2.4	2.3	8.5	9.4	2.5	-4.8%

E: MOSL Estimates

Swarnendu Bhushan – Research analyst (Swarnendu.Bhushan@MotilalOswal.com); +91 22 6129 1529

Abhinil Dahiwalé – Research analyst (Abhinil.Dahiwalé@MotilalOswal.com); +91 22 3980 4309

Investors are advised to refer through important disclosures made at the last page of the Research Report.

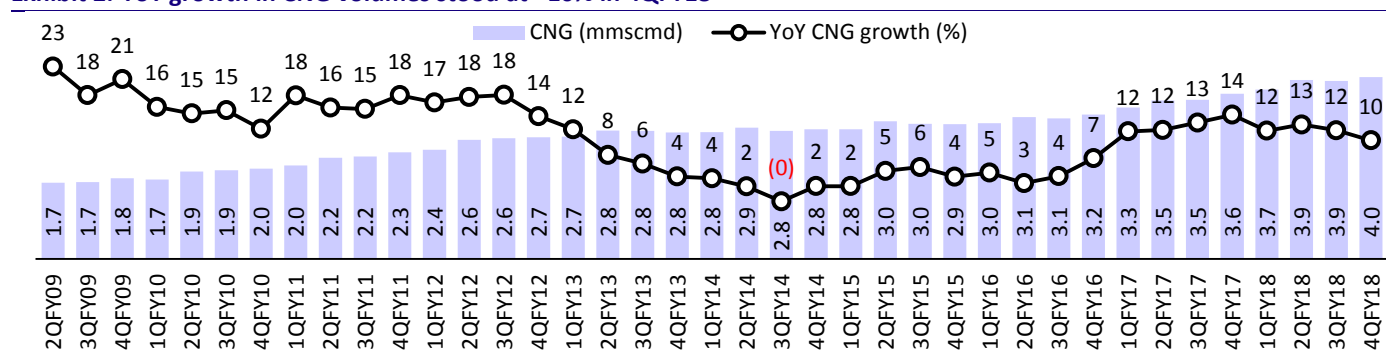
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: IGL: Operational Highlights

INR Million	FY16				FY17				FY18			4QFY18		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q YoY (%)	QoQ (%)	
Net sales	8,994	9,658	9,269	8,856	8,970	9,624	9,467	10,019	10,492	11,261	11,839	12,329	23.1	4.1
Realization (INR/scm)	25.8	25.8	25.1	23.7	22.7	22.9	22.3	23.1	23.5	23.5	24.5	25.6	10.6	4.6
Total raw material	5,587	6,240	5,685	5,249	4,774	5,348	5,181	5,535	5,486	5,930	6,727	6,770	22.3	0.6
Gas cost (INR/scm)	16.0	16.6	15.4	14.1	12.1	12.7	12.2	12.8	12.3	12.4	13.9	14.0	9.9	1.1
Gross Margin	3,407	3,419	3,584	3,607	4,197	4,277	4,286	4,484	5,006	5,331	5,112	5,559	24.0	8.8
Gross Margin (INR/scm)	9.8	9.1	9.7	9.7	10.6	10.2	10.1	10.4	11.2	11.1	10.6	11.5	11.4	9.2
EBITDA	1,938	1,880	1,850	1,779	2,570	2,575	2,554	2,262	2,773	2,816	2,631	2,754	21.7	4.7
EBITDA (INR/scm)	5.6	5.0	5.0	4.8	6.5	6.1	6.0	5.2	6.2	5.9	5.4	5.7	9.4	5.1
PAT	1,018	1,016	1,051	1,091	1,480	1,442	1,448	1,341	1,613	1,689	1,659	1,747	30.3	5.3
PAT (INR/scm)	2.9	2.7	2.8	2.9	3.8	3.4	3.4	3.1	3.6	3.5	3.4	3.6	17.1	5.7
Volumes														
CNG (MMSCMD)	3.0	3.1	3.1	3.2	3.3	3.5	3.5	3.6	3.7	3.9	3.9	4.0	10.2	2.2
PNG (MMSCMD)	0.9	1.0	0.9	0.9	1.0	1.1	1.1	1.2	1.2	1.3	1.4	1.4	14.8	0.6
Total (MMSCMD)	3.8	4.1	4.0	4.1	4.3	4.6	4.6	4.8	4.9	5.2	5.3	5.4	11.3	1.8

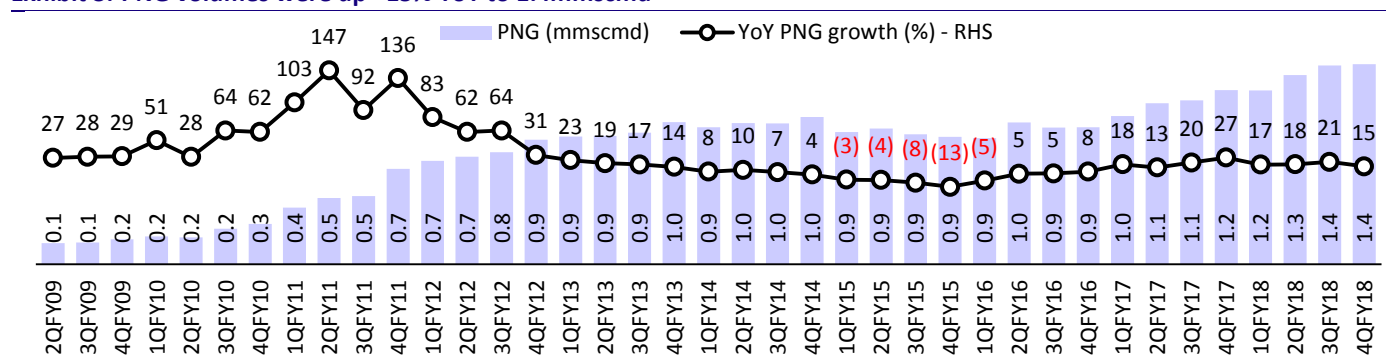
Source: Company, MOSL

Exhibit 2: YoY growth in CNG volumes stood at ~10% in 4QFY18



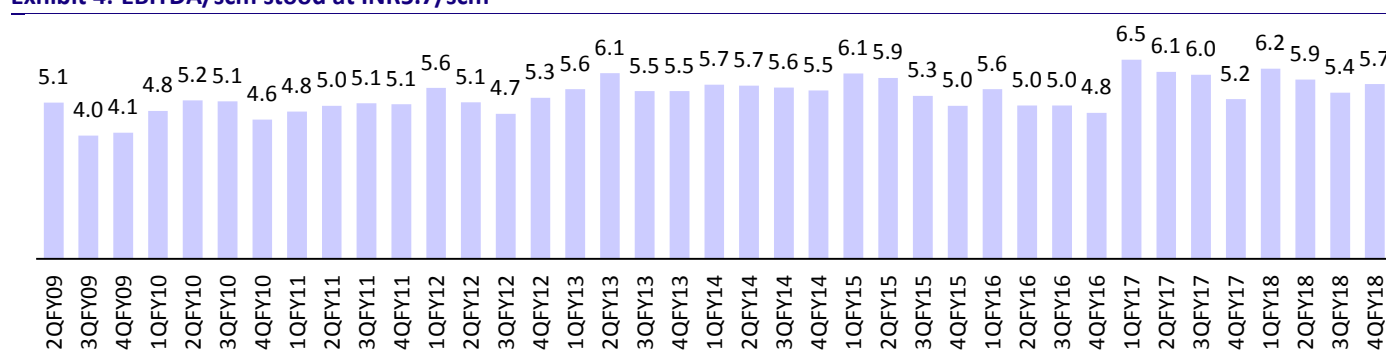
Source: Company, MOSL

Exhibit 3: PNG volumes were up ~15% YoY to 1.4mmscmd



Source: Company, MOSL

Exhibit 4: EBITDA/scm stood at INR5.7/scm



Source: Company, MOSL

Valuation and view

- IGL has received permission from the Haryana government to lay a city gas distribution network in a part of the Gurugram district. We believe more such permissions in other areas of Gurugram can boost IGL's prospects.
- Led by the strong focus on curbing pollution in the NCR, CNG sales volume is likely to grow strongly. The expected restriction on the usage of dirty fuel would propel volume further for the company. We model FY19/20 volume growth at 12%/12% and EBITDA/scm at INR5.9/5.9/scm.
- We believe (a) IGL's consistent operational outperformance, (b) the government's thrust for the usage of gas and (c) sustainable high-growth market warrant premium valuation. We reduce our valuation multiple by ~10%, in line with global gas peers' valuation multiple. We value IGL at 27x average FY20E EPS to arrive at a fair value of INR384. Maintain **Buy**

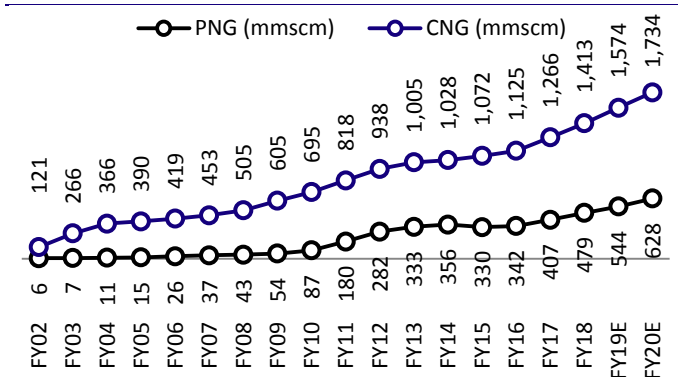
Exhibit 5: IGL - Key Assumptions

Y-End: March (INRm)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Exchange Rate (INR/US\$)	45.3	47.9	54.5	60.6	60.0	65.4	67.0	64.7	67.5	67.7
Gas sales										
CNG realization (INR/kg)	26.5	31.1	37.6	42.0	37.3	36.9	35.4	35.4	36.0	36.2
PNG realization (INR/scm)	18.6	21.8	26.5	30.1	31.7	28.5	22.2	22.2	22.4	22.7
Gas volumes										
CNG volumes (mmscm)	818	938	1,005	1,028	1,072	1,125	1,266	1,413	1,574	1,734
PNG volumes (mmscm)	180	282	333	356	330	342	407	479	544	628
Total sales volume (mmscm)	998	1,220	1,338	1,384	1,402	1,466	1,673	1,892	2,119	2,363
Gas purchase volumes (mmscmd)										
APM / PMT	2.20	2.20	2.70	2.87	3.24	3.38	3.94	4.56	5.12	5.84
LNG	0.67	1.28	1.11	1.05	0.73	0.77	0.80	0.80	0.88	0.85
Total	2.87	3.48	3.81	3.92	3.97	4.15	4.74	5.36	6.00	6.69
EPS	3.7	4.4	5.1	5.1	6.3	6.0	8.8	10.2	11.4	12.9

Source: Company, MOSL

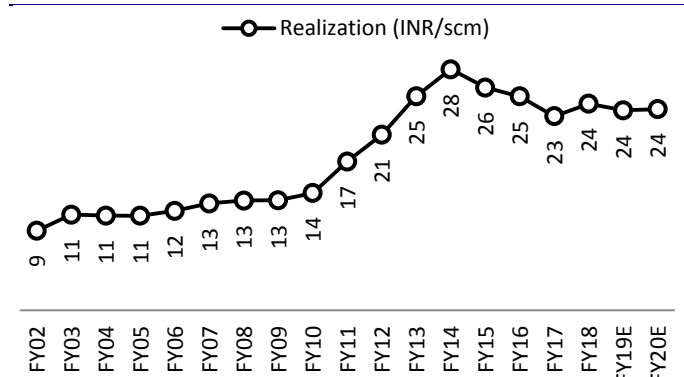
Story in charts

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



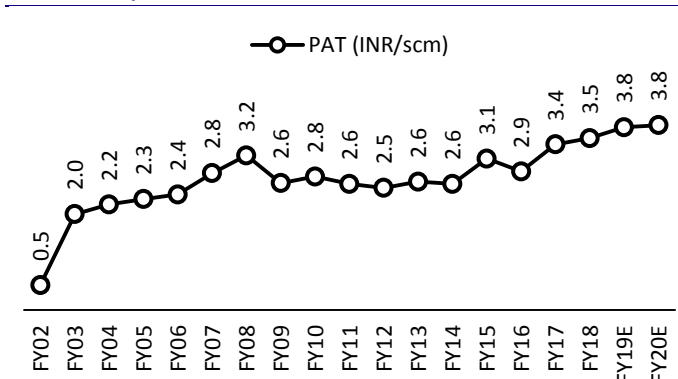
Source: Company, MOSL

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



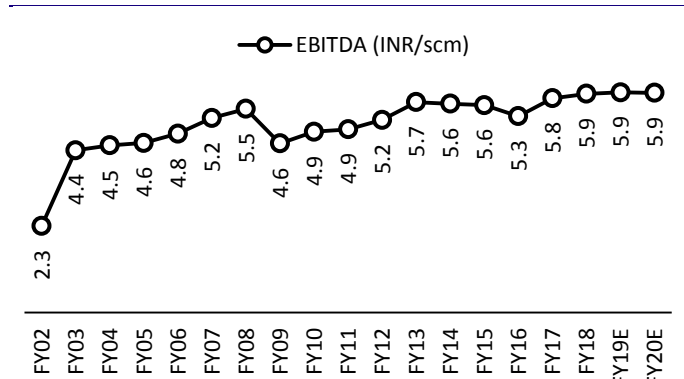
Source: Company, MOSL

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



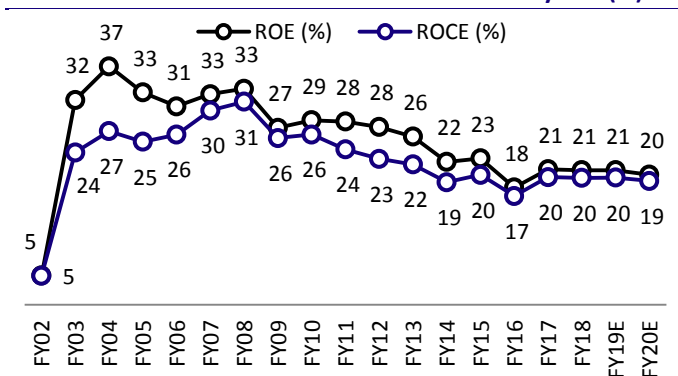
Source: Company, MOSL

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



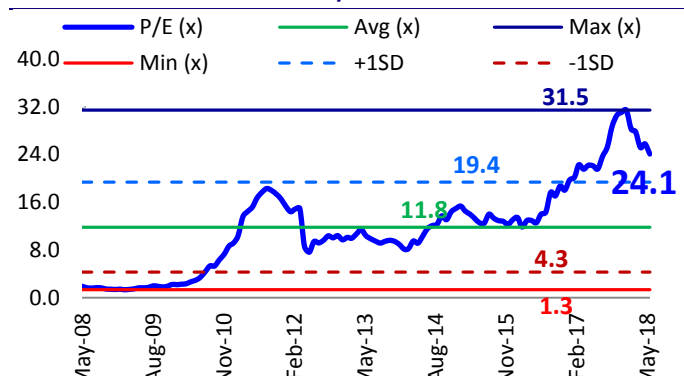
Source: Company, MOSL

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



Source: Company, MOSL

Exhibit 11: IGL 1 Yr forward P/E



Source: Company, MOSL

Financials and Valuations

Income Statement								(INR m)
Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Net Sales	33,661	39,174	36,699	36,858	38,148	45,921	49,790	55,844
Change (%)	33.8	16.4	-6.3	0.4	3.5	20.4	8.4	12.2
Raw Materials Cons	21,970	26,815	23,816	22,761	20,837	24,914	27,307	30,423
Employee Costs	567	596	660	784	917	1,061	1,220	1,403
Other Exp (incl Stock Adj)	3,551	3,990	4,404	5,566	6,756	8,813	8,713	10,052
EBITDA	7,572	7,773	7,820	7,747	9,638	11,133	12,550	13,966
% of Net Sales	22.5	19.8	21.3	21.0	25.3	24.2	25.2	25.0
Depreciation	1,867	2,195	1,487	1,563	1,671	1,813	2,009	2,190
Interest	562	441	298	99	12	17	0	0
Other Income	138	259	456	299	652	1,021	1,551	1,870
Prior Period Inc./ (Exp.)	0	0	0	0	0	0	0	0
PBT	5,282	5,395	6,490	6,385	8,607	10,325	12,092	13,646
Tax	1,741	1,795	2,113	2,194	2,896	3,617	4,111	4,640
Rate (%)	33.0	33.3	32.6	34.4	33.6	35.0	34.0	34.0
PAT	3,541	3,600	4,377	4,191	5,711	6,708	7,981	9,007
Adj. PAT	3,541	3,600	4,377	4,191	6,156	7,156	7,981	9,007
Change (%)	15.3	1.7	21.6	-4.3	46.9	16.2	11.5	12.9

Balance Sheet								(INR m)
Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Share Capital	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Reserves	13,530	16,232	19,581	23,764	27,866	33,729	40,072	46,621
Net Worth	14,930	17,632	20,981	25,164	29,266	35,129	41,472	48,021
Loans	3,491	3,212	1,453	0	0	0	0	0
Deferred Tax	843	963	1,272	1,650	1,806	2,253	2,253	2,253
Capital Employed	19,264	21,807	23,706	26,815	31,072	37,382	43,725	50,274
Gross Fixed Assets	27,186	29,733	31,761	33,752	36,402	41,364	44,402	48,402
Less: Depreciation	8,713	10,780	12,203	13,560	15,231	17,044	19,053	21,243
Net Fixed Assets	18,473	18,953	19,558	20,192	21,172	24,320	25,349	27,159
Capital WIP	2,913	2,624	2,541	2,669	3,518	3,860	3,860	3,860
Investments	1,426	1,173	2,909	2,592	6,770	11,477	11,477	11,477
Curr. Assets, L & Adv.								
Inventory	397	371	409	576	517	524	786	880
Debtors	1,789	2,196	2,352	2,511	2,014	2,261	3,253	3,644
Cash & Bank Balance	510	2,514	2,315	4,538	6,086	5,580	9,212	14,708
Loans & Advances	654	493	489	80	103	149	103	103
Other Current Assets	119	197	163	655	682	1,110	682	682
Current Liab. & Prov.								
Liabilities	6,032	5,712	5,866	6,847	9,580	11,690	10,787	12,029
Provisions	984	1,001	1,163	151	210	210	210	210
Net Current Assets	-3,548	-943	-1,302	1,362	-388	-2,275	3,038	7,778
Application of Funds	19,264	21,808	23,706	26,815	31,072	37,382	43,725	50,274

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Basic (INR)								
EPS	5.1	5.1	6.3	6.0	8.8	10.2	11.4	12.9
Cash EPS	7.7	8.3	8.4	8.2	11.2	12.8	14.3	16.0
Book Value	21.3	25.2	30.0	35.9	41.8	50.2	59.2	68.6
DPS	5.5	5.5	6.0	6.0	2.0	2.5	2.0	3.0
Payout	108.7	106.9	96.0	100.2	22.7	24.4	17.5	23.3

Valuation (x)

P/E	52.1	51.2	42.1	44.0	29.9	25.8	23.1	20.5
Cash P/E	34.1	31.8	31.4	32.0	23.6	20.6	18.5	16.5
EV / EBITDA	24.7	23.8	23.5	23.2	18.5	16.1	14.0	12.1
EV / Sales	5.6	4.7	5.0	4.9	4.7	3.9	3.5	3.0
Price / Book Value	12.3	10.5	8.8	7.3	6.3	5.2	4.4	3.8
Dividend Yield (%)	2.1	2.1	2.3	2.3	0.8	0.9	0.8	1.1

Profitability Ratios (%)

RoE	26.0	22.1	22.7	18.2	21.0	20.8	20.8	20.1
RoCE	21.7	19.0	20.1	16.8	19.8	19.6	19.7	19.2
RoIC	29.9	26.0	29.1	25.8	36.1	43.1	44.8	45.7

Turnover Ratios

Debtors (No. of Days)	22	20	16	15	17	21	18	16
Asset Turnover (x)	1.9	1.9	1.6	1.5	1.3	1.3	1.2	1.2

Leverage Ratio

Net Debt / Equity (x)	0.2	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.3
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Cash Flow Statement

(INR m)

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
OP/(Loss) before Tax	5,282	5,398	6,490	6,385	8,607	10,325	12,092	13,646
Depreciation	1,867	2,195	1,487	1,563	1,671	1,813	2,009	2,190
Others	506	283	19	99	12	17	0	0
Direct Taxes Paid	-1,530	-1,698	-1,770	-1,812	-2,735	-3,169	-4,111	-4,640
(Inc)/Dec in Wkg. Capital	309	297	411	-440	3,298	1,382	-1,682	756
CF from Op. Activity	6,433	6,476	6,638	5,795	10,852	10,367	8,308	11,953
(Inc)/Dec in FA & CWIP	-3,716	-2,493	-2,148	-2,119	-3,499	-5,304	-3,038	-4,000
Free Cash Flow	2,716	3,982	4,490	3,676	7,353	5,063	5,269	7,953
(Pur)/Sale of Investments	0	-692	-1,805	317	-4,179	-4,707	0	0
Others	-347	180	316	766	0	0	0	0
CF from Inv. Activity	-4,063	-3,005	-3,637	-1,036	-7,678	-10,011	-3,038	-4,000
Issue of Shares	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	-806	-1,060	-2,072	-1,453	0	0	0	0
Dividends Paid (incl.tax)	-814	-901	-901	-983	-1,310	-2,040	-1,638	-2,457
Interest paid	-561	-451	-299	-99	-12	-17	0	0
Others	0	0	0	0	-304	1,195	0	0
CF from Fin. Activity	-2,180	-2,411	-3,272	-2,535	-1,626	-862	-1,638	-2,457
Inc / (Dec) in Cash	190	1,060	-271	2,223	1,548	-506	3,631	5,496
Add: Opening Balance	320	510	2,514	2,315	4,538	6,086	5,580	9,212
Closing Balance	510	1,569	2,242	4,538	6,086	5,580	9,212	14,708

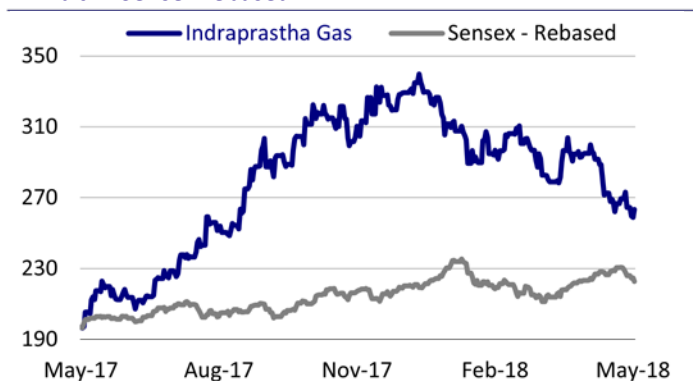
E: MOSL Estimates

Corporate profile

Company description

Indraprastha Gas Limited (IGL), incorporated in 1998, processes and distributes CNG and LPG. The Company has been jointly promoted by BPCL and GAIL with each having 22.5% stake. Its steel pipeline network is 631Kms, and MDPE network is 7,783Kms.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-18	Dec-17	Mar-17
Promoter	45.0	45.0	45.0
DII	21.2	18.6	19.3
FII	21.3	24.8	24.8
Others	12.5	11.6	11.0

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
LIFE INSURANCE CORPORATION OF INDIA	5.3
GOVT OF NCT OF DELHI	5.0
KOTAK CAPITAL PROTECTION ORIENTED SCHEME - SERIES 3	2.2
HDFC STANDARD LIFE INSURANCE COMPANY LIMITED	1.5
UTI - LONG TERM EQUITY FUND (TAX SAVING)	1.3

Source: Capitaline

Exhibit 4: Top management

Name	Designation
S Ramesh	Chairman
E S Ranganathan	Managing Director
S K Jain	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Manoj Jain	Varsha Joshi
V Nagarajan	Raghu Nayyar
Sudha Sharma	S S Rao
Santosh Kumar	V Ranganathan

*Independent

Exhibit 6: Auditors

Name	Type
Chandra Wadhwa & Co	Cost Auditor
V K Sharma & Co	Secretarial Audit
Walker Chandiok & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	11.4	13.3	-14.6
FY20	12.9	13.1	-1.3

Source: Bloomberg

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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