


Rating
Hold

Asia
India

Energy
Oil & Gas

Company
**Indraprastha Gas
Alert**

Reuters
IGAS.NS

Bloomberg
IGL IN

Exchange
NSI
Ticker
IGAS

Date
22 August 2016

Forecast Change

Price at 22 Aug 2016 (INR)	729.70
Price target - 12mth (INR)	595.00
52-week range (INR)	729.70 - 457.55
Bombay Stock Exchange (BSE 30)	28,077

Visibility for growth remains weak beyond FY17, maintain Hold

Growth expected to be strong in FY17 but likely to taper off

Indraprastha Gas (IGL) reported strong 1QFY17 result with EBITDA +27% YoY driven by 13% growth each in volumes and per unit EBITDA margin. We have raised our FY17-18 EPS estimates by 5-8% and target price by 14% to INR595 to factor in higher volumes and margins. However, at FY18 P/E of 16x (vs 3 years' range of 8-16x) and P/BV of 3x (RoE 21%), valuations largely discount the likely growth in earnings and we therefore retain our Hold rating. While we factor a 12% volume growth in FY17 aided by government (odd-even rule) and regulatory actions (requirement to convert app-based taxis to CNG etc), the visibility of double digit volume growth beyond FY17 is weak. We estimate the stock currently factors 10% CAGR in volume for the next eight years.

1QFY17 result: Beats estimate driven by strong margins

IGL reported strong 1Q result with net profit up 44% YoY to INR1.5bn (27% above DBE) and EBITDA up 27% YoY to INR2.6bn (+18% DBE) driven by a positive surprise in margins. Per unit EBITDA margin rose 12% YoY to INR6.5/scm helped by lower gas cost (-25% YoY) and is the highest ever. Volume growth was also strong at 13% YoY (highest in 4 years) with CNG +12% YoY and PNG +18% YoY. IGL's associate companies CUGL and MNGL reported a combined 1Q net profit of INR340mn with IGL's share at INR170mn which is 11% of its standalone net profit.

Figure 1: Quarterly results summary

INRmn	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	YoY %	QoQ %
Net sales	9,018	9,692	9,292	8,856	8,997	-0.2%	1.6%
EBITDA	2,043	1,914	1,873	1,969	2,596	27.1%	31.8%
Net profit	1,025	1,016	1,051	1,076	1,480	44.4%	37.5%
Volumes and per unit financials							
Sales volume (mmscmd)	3.8	4.1	4.0	4.1	4.3	13.2%	4.7%
CNG	3.0	3.1	3.1	3.2	3.3	11.9%	4.1%
PNG	0.9	1.0	0.9	1.0	1.0	17.7%	7.0%
Net realisation (INR/scm)	25.8	25.8	25.1	23.6	22.7	-11.9%	-3.9%
Cost of gas (INR/scm)	16.0	16.6	15.4	14.1	12.1	-24.5%	-14.1%
EBITDA (INR/scm)	5.8	5.0	5.0	5.2	6.5	12.5%	25.8%

Source: Company data, Deutsche Bank

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Key changes

Price target 520.00 to 595.00 ↑ 14.4%

Source: Deutsche Bank

Stock data

Market cap (INRm)	102,158
Market cap (USDm)	1,524
Shares outstanding (m)	140.0
Major shareholders	GAIL, BPCL (45%)
Free float (%)	50
Avg daily value traded (USDm)	5.4

Source: Deutsche Bank

Key data

FYE 3/31	2015A	2016E	2017E
Sales (INRm)	36,810	36,858	42,668
Net Profit (INRm)	4,518.8	4,641.3	6,101.3
DB EPS (INR)	32.28	33.15	43.58
PER (x)	12.1	22.0	16.7
Yield (net) (%)	1.5	0.8	1.1

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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