

# Indraprastha Gas

**BSE SENSEX** 31,214  
**S&P CNX** 9,711

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Bloomberg	IGL IN
Equity Shares (m)	140
M.Cap.(INRb)/(USDb)	170.2 / 2.7
52-Week Range (INR)	1282 / 666
1, 6, 12 Rel. Per (%)	11/9/67
Avg Val, INRm	604
Free float (%)	55.0

## Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	38.1	45.0	50.6
EBITDA	9.6	11.3	12.5
PAT	6.2	7.0	7.9
EPS (INR)	44.0	49.9	56.3
Gr. (%)	46.9	13.4	12.9
BV/Sh (INR)	209.0	247.2	290.7
RoE (%)	21.0	21.9	20.9
RoCE (%)	19.8	20.7	20.0
P/E (x)	27.7	24.4	21.6
P/BV (x)	5.8	4.9	4.2

Estimate change	↔
TP change	↔
Rating change	↔

**CMP: INR1,216**

**TP: INR1,152(-4%)**

**Neutral**

## EBITDA above estimate; volume growth strong

- IGL reported EBITDA of INR2.8b (+8% YoY; +15% QoQ), ahead of our estimate of INR2.5b, led by lower gas cost. EBITDA/scm was INR6.2/scm v/s our estimate of INR5.6/scm (INR5.6/scm in 4QFY17 and INR6.5/scm in 1QFY17). PBT at INR2.5b (+13% YoY; +6% QoQ) was ahead of our estimate of INR2.3b; the differential at PBT level declined due to lower other income at INR179m (+68% YoY, -14% QoQ; our estimate was INR280m). Reported PAT was INR1.6b (+9% YoY, +20% QoQ; our estimate was INR1.5b) due to higher tax rate at 35.7% (35.4% in 4QFY17, 33.1% in 1QFY17; our estimate: 34%).
- **Strong CNG/PNG volumes:** CNG volumes grew 12% YoY and 1% QoQ to 3.71mmcmd and PNG volumes grew 17% YoY and 1% QoQ to 1.20mmcmd. Total volumes grew 13% YoY and 1% QoQ to 4.90mmcmd.
- PAT for IGL's subsidiaries (CUGL and MNGL) was INR360m (IGL's share: ~50% at INR180m in 1QFY18).

## Valuation and view

- IGL had received permission from the Haryana government to lay a city gas distribution network in a part of Gurugram district. We believe more such permissions in other areas of Gurugram can boost the company's prospects.
- Led by strong focus on curbing pollution in the National Capital Region, CNG sales volume is likely to grow strongly. Expected restriction on the usage of dirty fuel would propel volume further for the company. We model FY18/19 volume growth at 12%/11% and EBITDA/scm at INR6/scm.
- Our SOTP-based fair value stands at INR1,152 (18.6x FY19E EPS + JV earnings post 20% discount). The stock trades at 21.6x FY19E EPS of INR56.3. Peaking valuations leave little upside. Maintain **Neutral**.

## Quarterly performance

Y/E MARCH	(INR Million)											
	FY17				FY18E				FY17	FY18E	FY18	Variance
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	vs Est
Net Sales	8,970	9,624	9,467	10,019	10,492	11,224	11,301	12,028	38,081	45,046	10,577	-0.8%
Change (%)	-0.3	-0.3	2.1	13.1	17.0	16.6	19.4	20.1	3.5	18.3	17.9	
EBITDA	2,570	2,575	2,554	2,422	2,773	2,878	2,827	2,904	10,121	11,382	2,481	11.8%
EBITDA (Rs/scm)	6.5	6.1	6.0	5.6	6.2	6.2	6.0	5.9	6.1	6.1	5.6	10.5%
% of Net Sales	28.7	26.8	27.0	24.2	26.4	25.6	25.0	24.1	26.6	25.3	23.5	
% Change	32.7	37.0	38.0	36.2	7.9	11.8	10.7	19.9	35.9	12.5	-3.5	
Depreciation	466	483	479	244	439	463	463	487	1,671	1,853	463	-5.2%
Interest	0	0	0	12	4	0	0	0	12	4	0	
Other Income	106.5	251.4	152.4	208.8	178.8	280.0	280.0	403.8	719.1	1,142.6	280.0	-36.1%
PBT before EO	2,211	2,344	2,227	2,375	2,509	2,695	2,643	2,820	9,157	10,668	2,298	9.2%
EO	0	-167	-83	-300	0	0	0	0	-550	0	0	
PBT after EO	2,211	2,177	2,144	2,075	2,509	2,695	2,643	2,820	8,607	10,668	2,298	9.2%
Tax	731	735	696	734	897	916	899	959	2,896	3,671	781	14.8%
Rate (%)	33.1	33.8	32.5	35.4	35.7	34.0	34.0	34.0	33.7	34.4	34.0	
PAT	1,480	1,442	1,448	1,341	1,613	1,779	1,745	1,861	5,711	6,997	1,517	6.3%
Adj. PAT	1,480	1,552	1,504	1,535	1,613	1,779	1,745	1,861	6,076	6,997	1,517	6.3%
EPS (INR)	10.6	11.1	10.7	11.0	11.5	12.7	12.5	13.3	43.4	50.0	10.8	6.3%

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

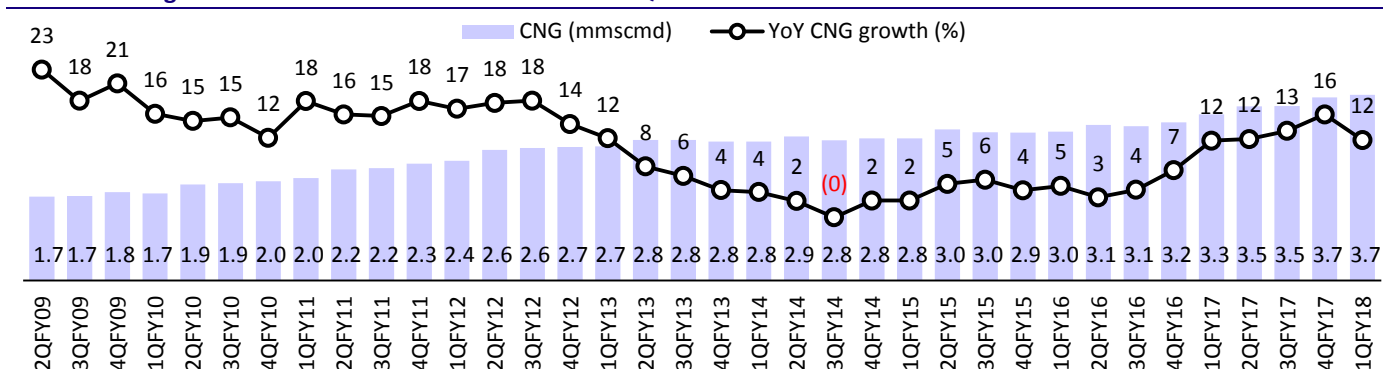
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## Exhibit 1: IGL: Operational Highlights

INR Million	FY16				FY17				FY18	1QFY18	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	YoY (%)	QoQ (%)
<b>Net sales</b>	<b>8,994</b>	<b>9,658</b>	<b>9,269</b>	<b>8,856</b>	<b>8,970</b>	<b>9,624</b>	<b>9,467</b>	<b>10,019</b>	<b>10,492</b>	<b>17.0</b>	<b>4.7</b>
Realization (INR/scm)	25.8	25.8	25.1	23.7	22.7	22.9	22.3	23.0	23.5	3.5	2.3
Total raw material	5,587	6,240	5,685	5,249	4,774	5,348	5,181	5,535	5,486	14.9	(0.9)
Gas cost (INR/scm)	16.0	16.6	15.4	14.1	12.1	12.7	12.2	12.7	12.3	1.7	(3.2)
<b>Gross Margin</b>	<b>3,407</b>	<b>3,419</b>	<b>3,584</b>	<b>3,607</b>	<b>4,197</b>	<b>4,277</b>	<b>4,286</b>	<b>4,484</b>	<b>5,006</b>	<b>19.3</b>	<b>11.6</b>
Gross Margin (INR/scm)	9.8	9.1	9.7	9.7	10.6	10.2	10.1	10.3	11.2	5.5	9.0
<b>EBITDA</b>	<b>1,938</b>	<b>1,880</b>	<b>1,850</b>	<b>1,779</b>	<b>2,570</b>	<b>2,575</b>	<b>2,554</b>	<b>2,422</b>	<b>2,773</b>	<b>7.9</b>	<b>14.5</b>
EBITDA (INR/scm)	5.6	5.0	5.0	4.8	6.5	6.1	6.0	5.6	6.2	(4.6)	11.8
<b>PAT</b>	<b>1,018</b>	<b>1,016</b>	<b>1,051</b>	<b>1,091</b>	<b>1,480</b>	<b>1,442</b>	<b>1,448</b>	<b>1,341</b>	<b>1,613</b>	<b>9.0</b>	<b>20.3</b>
PAT (INR/scm)	2.9	2.7	2.8	2.9	3.8	3.4	3.4	3.1	3.6	(3.6)	17.4
<b>Volumes</b>											
CNG (MMSCMD)	3.0	3.1	3.1	3.2	3.3	3.5	3.5	3.7	3.7	11.8	1.5
PNG (MMSCMD)	0.9	1.0	0.9	0.9	1.0	1.1	1.1	1.2	1.2	17.2	0.7
<b>Total (MMSCMD)</b>	<b>3.8</b>	<b>4.1</b>	<b>4.0</b>	<b>4.1</b>	<b>4.3</b>	<b>4.6</b>	<b>4.6</b>	<b>4.8</b>	<b>4.9</b>	<b>13.1</b>	<b>1.3</b>
<b>Per unit realisation</b>											
CNG (INR/scm)	27.9	27.9	27.1	26.7	26.3	26.4	25.3	26.4	26.7	1.7	1.4
CNG (INR/kg)	37.2	37.3	36.6	36.5	35.7	35.8	34.4	35.8	35.6	(0.4)	(0.6)
PNG (INR/scm)	30.4	29.8	29.4	24.4	21.7	22.2	22.5	22.5	23.5	8.1	4.4

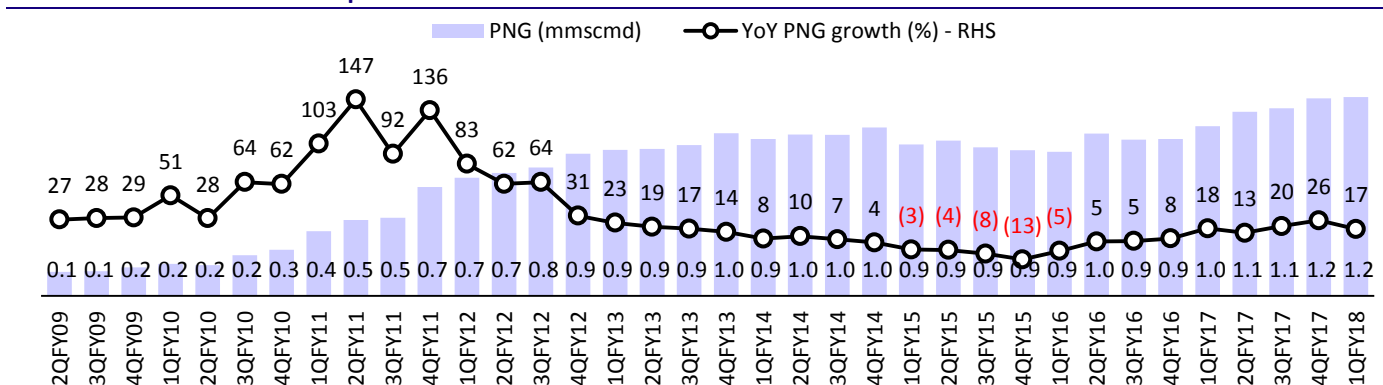
Source: Company, MOSL

## Exhibit 2: YoY growth in CNG volumes stood at ~12% in 1QFY18



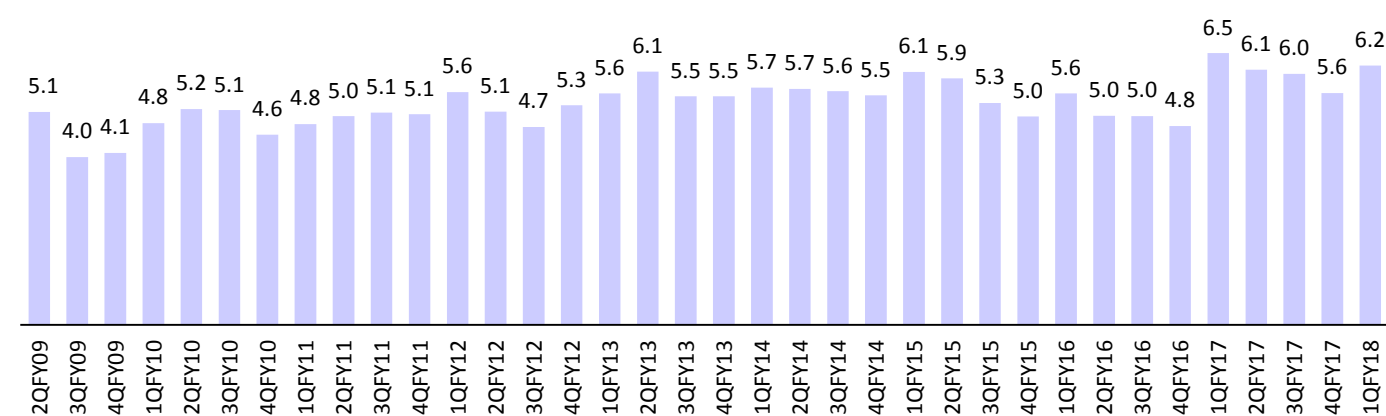
Source: Company, MOSL

## Exhibit 3: PNG volumes were up ~17% YoY to 1.2mmscmd



Source: Company, MOSL

Exhibit 4: EBITDA/scm increased QoQ to INR6.2/scm



Source: Company, MOSL

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- Our SOTP-based fair value stands at INR1,152 (18.6x FY19E EPS + JV earnings post 20% discount). The stock trades at 21.6x FY19E EPS of INR56.3. Peaking valuations leave little upside. Maintain **Neutral**.

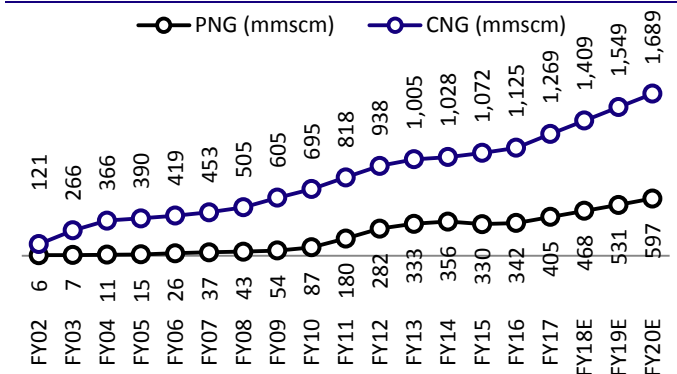
Exhibit 5: IGL - Key Assumptions

Y-End: March (INRm)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Gas sales</b>										
CNG realization (INR/kg)	26.5	31.1	37.6	42.0	37.3	36.9	35.4	37.2	37.8	38.0
PNG realization (INR/scm)	18.6	21.8	26.5	30.1	31.7	28.5	22.2	22.2	22.4	22.7
<b>Gas volumes</b>										
CNG volumes (mmscm)	818	938	1,005	1,028	1,072	1,125	1,269	1,409	1,549	1,689
PNG volumes (mmscm)	180	282	333	356	330	342	405	468	531	597
Total sales volume (mmscm)	998	1,220	1,338	1,384	1,402	1,466	1,674	1,876	2,080	2,286
<b>Gas purchase volumes (mmscmd)</b>										
APM	2.20	2.20	2.70	2.87	3.24	3.38	3.94	4.51	5.01	5.62
LNG	0.67	1.28	1.11	1.05	0.73	0.77	0.80	0.80	0.88	0.85
<b>Total</b>	<b>2.87</b>	<b>3.48</b>	<b>3.81</b>	<b>3.92</b>	<b>3.97</b>	<b>4.15</b>	<b>4.74</b>	<b>5.31</b>	<b>5.89</b>	<b>6.47</b>
<b>EPS</b>	<b>18.5</b>	<b>21.9</b>	<b>25.3</b>	<b>25.7</b>	<b>31.3</b>	<b>29.9</b>	<b>44.0</b>	<b>49.9</b>	<b>56.3</b>	<b>63.9</b>

Source: Company, MOSL

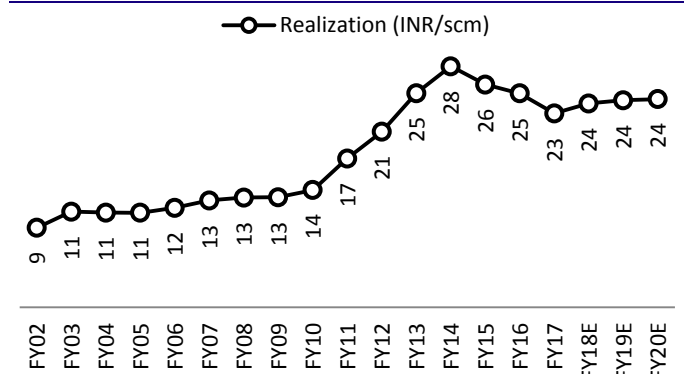
## Story in charts

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



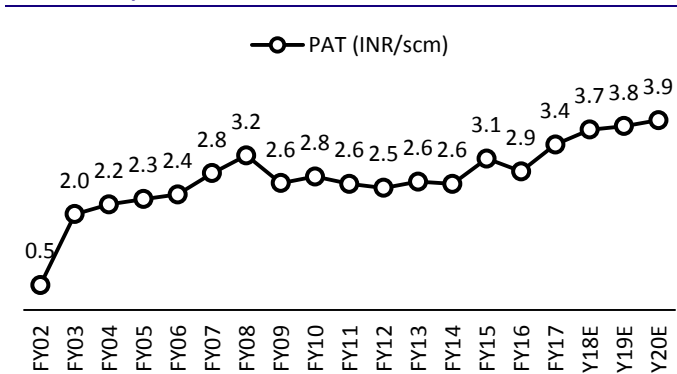
Source: Company, MOSL

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



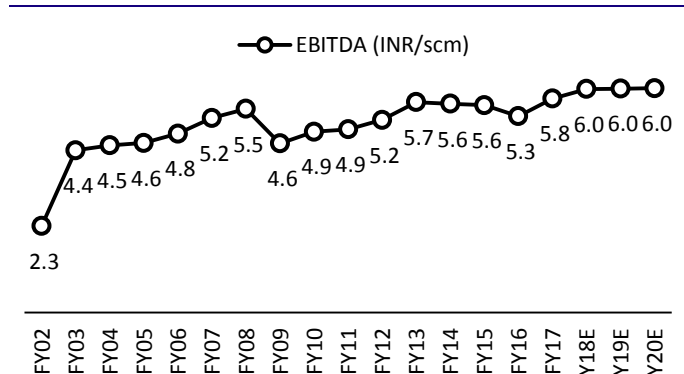
Source: Company, MOSL

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



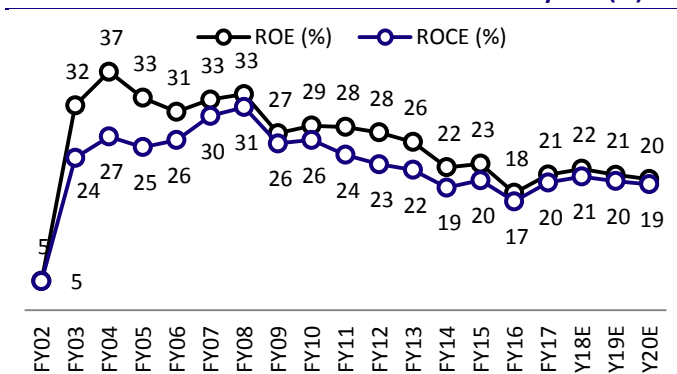
Source: Company, MOSL

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



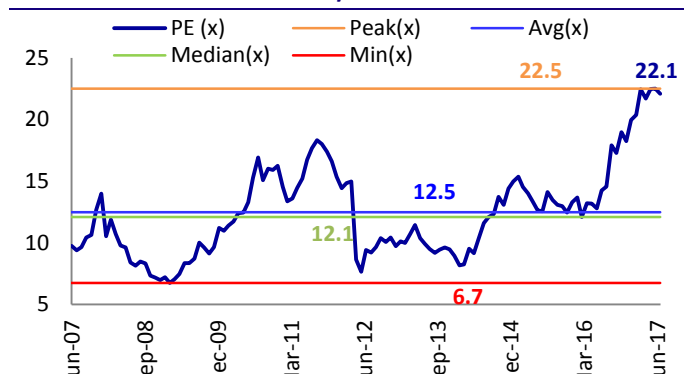
Source: Company, MOSL

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



Source: Company, MOSL

**Exhibit 11: IGL 1 Yr forward P/E Chart**



Source: Company, MOSL

## Financials and Valuations

Income Statement						(INR Million)		
Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
<b>Net Sales</b>	<b>33,661</b>	<b>39,174</b>	<b>36,699</b>	<b>36,858</b>	<b>38,148</b>	<b>44,952</b>	<b>50,590</b>	<b>55,896</b>
Change (%)	33.8	16.4	-6.3	0.4	3.5	17.8	12.5	10.5
Raw Materials Cons	21,970	26,815	23,816	22,761	20,837	25,507	29,113	31,875
Employee Costs	567	596	660	784	917	1,055	1,213	1,395
Other Exp (incl Stock Adj)	3,551	3,990	4,404	5,566	6,756	7,102	7,740	8,832
<b>EBITDA</b>	<b>7,572</b>	<b>7,773</b>	<b>7,820</b>	<b>7,747</b>	<b>9,638</b>	<b>11,288</b>	<b>12,524</b>	<b>13,795</b>
% of Net Sales	22.5	19.8	21.3	21.0	25.3	25.1	24.8	24.7
Depreciation	1,867	2,195	1,487	1,563	1,671	1,853	1,972	2,091
Interest	562	441	298	99	12	0	0	0
Other Income	138	259	456	299	652	1,143	1,393	1,846
Prior Period Inc./.(Exp.)	0	0	0	0	0	0	0	0
<b>PBT</b>	<b>5,282</b>	<b>5,395</b>	<b>6,490</b>	<b>6,385</b>	<b>8,607</b>	<b>10,578</b>	<b>11,946</b>	<b>13,550</b>
Tax	1,741	1,795	2,113	2,194	2,896	3,596	4,062	4,607
Rate (%)	33.0	33.3	32.6	34.4	33.6	34.0	34.0	34.0
PAT	3,541	3,600	4,377	4,191	5,711	6,981	7,884	8,943
<b>Adj. PAT</b>	<b>3,541</b>	<b>3,600</b>	<b>4,377</b>	<b>4,191</b>	<b>6,156</b>	<b>6,981</b>	<b>7,884</b>	<b>8,943</b>
Change (%)	15.3	1.7	21.6	-4.3	46.9	13.4	12.9	13.4

Balance Sheet						(INR Million)		
Y/E March	2013	2014	2015	2016	2017	2018E	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	33,209	39,291	46,105
<b>Net Worth</b>	<b>14,930</b>	<b>17,632</b>	<b>20,981</b>	<b>25,164</b>	<b>29,266</b>	<b>34,609</b>	<b>40,691</b>	<b>47,505</b>
Loans	3,491	3,212	1,453	0	0	0	0	0
Deferred Tax	843	963	1,272	1,650	1,806	1,806	1,806	1,806
<b>Capital Employed</b>	<b>19,264</b>	<b>21,807</b>	<b>23,706</b>	<b>26,815</b>	<b>31,072</b>	<b>36,415</b>	<b>42,498</b>	<b>49,311</b>
Gross Fixed Assets	27,186	29,733	31,761	33,752	36,402	38,902	41,402	43,902
Less: Depreciation	8,713	10,780	12,203	13,560	15,231	17,084	19,056	21,147
<b>Net Fixed Assets</b>	<b>18,473</b>	<b>18,953</b>	<b>19,558</b>	<b>20,192</b>	<b>21,172</b>	<b>21,819</b>	<b>22,347</b>	<b>22,756</b>
Capital WIP	2,913	2,624	2,541	2,669	3,518	3,518	3,518	3,518
Investments	1,426	1,173	2,909	2,592	6,770	6,770	6,770	6,770
<b>Curr. Assets, L &amp; Adv.</b>								
Inventory	397	371	409	576	517	665	748	825
Debtors	1,789	2,196	2,352	2,511	2,014	3,282	3,692	4,076
Cash & Bank Balance	510	2,514	2,315	4,538	6,086	7,216	13,252	20,146
Loans & Advances	654	493	489	80	103	489	489	489
Other Current Assets	119	197	163	655	682	163	163	163
<b>Current Liab. &amp; Prov.</b>								
Liabilities	6,032	5,712	5,866	6,847	9,580	5,753	6,559	7,178
Provisions	984	1,001	1,163	151	210	1,754	1,922	2,253
<b>Net Current Assets</b>	<b>-3,548</b>	<b>-943</b>	<b>-1,302</b>	<b>1,362</b>	<b>-388</b>	<b>4,308</b>	<b>9,863</b>	<b>16,267</b>
<b>Application of Funds</b>	<b>19,264</b>	<b>21,808</b>	<b>23,706</b>	<b>26,815</b>	<b>31,072</b>	<b>36,415</b>	<b>42,498</b>	<b>49,311</b>

E: MOSL Estimates

## Financials and Valuations

### Ratios

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>25.3</b>	<b>25.7</b>	<b>31.3</b>	<b>29.9</b>	<b>44.0</b>	<b>49.9</b>	<b>56.3</b>	<b>63.9</b>
Cash EPS	38.6	41.4	41.9	41.1	55.9	63.1	70.4	78.8
Book Value	106.6	125.9	149.9	179.7	209.0	247.2	290.7	339.3
DPS	5.5	5.5	6.0	6.0	8.0	10.0	11.0	13.0
Payout	21.7	21.4	19.2	20.0	18.2	20.1	19.5	20.4
<b>Valuation (x)</b>								
P/E	48.1	47.3	38.9	40.6	27.7	24.4	21.6	19.0
Cash P/E	31.5	29.4	29.0	29.6	21.8	19.3	17.3	15.4
EV / EBITDA	22.9	22.0	21.7	21.4	17.0	14.4	12.5	10.9
EV / Sales	5.1	4.4	4.6	4.5	4.3	3.6	3.1	2.7
Price / Book Value	11.4	9.7	8.1	6.8	5.8	4.9	4.2	3.6
Dividend Yield (%)	0.5	0.5	0.5	0.5	0.7	0.8	0.9	1.1
<b>Profitability Ratios (%)</b>								
RoE	26.0	22.1	22.7	18.2	21.0	21.9	20.9	20.3
RoCE	21.7	19.0	20.1	16.8	19.8	20.7	20.0	19.5
RoIC	29.9	26.0	29.1	25.8	36.1	41.5	41.6	47.3
<b>Turnover Ratios</b>								
Debtors (No. of Days)	22	20	16	15	17	17	15	14
Asset Turnover (x)	1.9	1.9	1.6	1.5	1.3	1.3	1.3	1.2
<b>Leverage Ratio</b>								
Net Debt / Equity (x)	0.2	0.0	0.0	-0.2	-0.2	-0.2	-0.3	-0.4

### Cash Flow Statement

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
<b>(INR Million)</b>								
OP/(Loss) before Tax	5,282	5,398	6,490	6,385	8,607	10,578	11,946	13,550
Depreciation	1,867	2,195	1,487	1,563	1,671	1,853	1,972	2,091
Others	506	283	19	99	12	0	0	0
Direct Taxes Paid	-1,530	-1,698	-1,770	-1,812	-2,735	-3,596	-4,062	-4,607
(Inc)/Dec in Wkg. Capital	309	297	411	-440	3,298	-3,566	481	489
<b>CF from Op. Activity</b>	<b>6,433</b>	<b>6,476</b>	<b>6,638</b>	<b>5,795</b>	<b>10,852</b>	<b>5,268</b>	<b>10,337</b>	<b>11,523</b>
(Inc)/Dec in FA & CWIP	-3,716	-2,493	-2,148	-2,119	-3,499	-2,500	-2,500	-2,500
<b>Free Cash Flow</b>	<b>2,716</b>	<b>3,982</b>	<b>4,490</b>	<b>3,676</b>	<b>7,353</b>	<b>2,768</b>	<b>7,837</b>	<b>9,023</b>
(Pur)/Sale of Investments	0	-692	-1,805	317	-4,179	0	0	0
Others	-347	180	316	766	-304	0	0	0
<b>CF from Inv. Activity</b>	<b>-4,063</b>	<b>-3,005</b>	<b>-3,637</b>	<b>-1,036</b>	<b>-7,982</b>	<b>-2,500</b>	<b>-2,500</b>	<b>-2,500</b>
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	-1,638	-1,802	-2,129
Interest paid	-561	-451	-299	-99	-12	0	0	0
Others	0	0	0	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>-2,180</b>	<b>-2,411</b>	<b>-3,272</b>	<b>-2,535</b>	<b>-1,322</b>	<b>-1,638</b>	<b>-1,802</b>	<b>-2,129</b>
<b>Inc / ( Dec) in Cash</b>	<b>190</b>	<b>1,060</b>	<b>-271</b>	<b>2,223</b>	<b>1,548</b>	<b>1,130</b>	<b>6,036</b>	<b>6,894</b>
Add: Opening Balance	320	510	2,514	2,315	4,538	6,086	7,216	13,252
<b>Closing Balance</b>	<b>510</b>	<b>1,569</b>	<b>2,242</b>	<b>4,538</b>	<b>6,086</b>	<b>7,216</b>	<b>13,252</b>	<b>20,146</b>

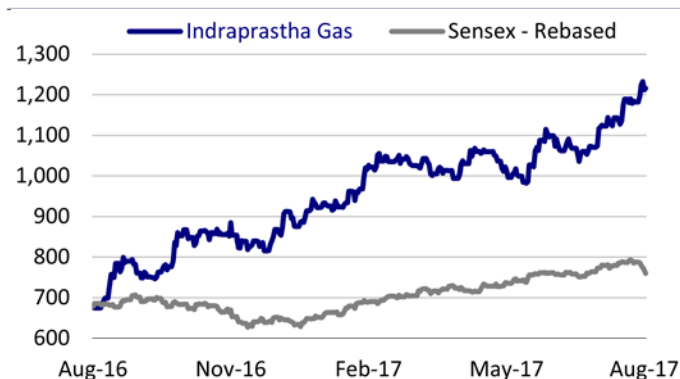
E: MOSL Estimates

## 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 (%)

	Jun-17	Mar-17	Jun-16
Promoter	45.0	45.0	45.0
DII	19.3	19.3	21.1
FII	24.1	24.8	20.0
Others	11.6	11.0	13.9

Note: FII Includes depository receipts

Source: Capitaline

### Exhibit 3: Top holders

Holder Name	% Holding
GOVT OF NCT OF DELHI	5.0
LIFE INSURANCE CORPORATION OF INDIA	2.8
KOTAK MAHINDRA 50 UNIT SCHEME	2.1
PINEBRIDGE INVESTMENTS GF MAURITIUS LIMITED	1.7
SBI MAGNUM MONTHLY INCOME PLAN	1.6

Source: Capitaline

### Exhibit 4: Top management

Name	Designation
S Ramesh	Chairman
E S Ranganathan	Managing Director
V Nagarajan	Director (Commercial)
S K Jain	Company Secretary

Source: Capitaline

### Exhibit 5: Directors

Name	Name
Raghu Nayyar	V Ranganathan
S S Rao	Manoj Jain
Santosh Kumar Bajpai	Vikram Dev Dutt
Sudha Sharma	

\*Independent

### Exhibit 6: Auditors

Name	Type
Chandra Wadhwa & Co	Cost Auditor
Delloite Haskins & Sells	Statutory

Source: Capitaline

### Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	49.9	46.9	6.4
FY19	56.3	52.3	7.7
FY20	63.9	53.7	19.0

Source: Bloomberg



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