

May 13, 2016

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Rating	BUY
Price	Rs568
Target Price	Rs632
Implied Upside	11.3%
Sensex	25,490
Nifty	7,815

(Prices as on May 13, 2016)

Trading data

Market Cap. (Rs bn)	79.6
Shares o/s (m)	140.0
3M Avg. Daily value (Rs m)	279.8

Major shareholders

Promoters	45.00%
Foreign	20.81%
Domestic Inst.	20.96%
Public & Other	13.23%

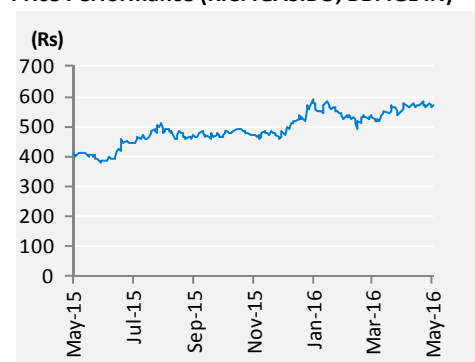
Stock Performance

(%)	1M	6M	12M
Absolute	(1.0)	21.0	40.0
Relative	(0.5)	21.5	46.5

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	36.6	34.1	7.4
2018	40.0	37.6	6.5

Price Performance (RIC: IGAS.BO, BB: IGL IN)



Source: Bloomberg

■ **Lower-than-estimated earnings but volume trajectory improves:** Indraprastha Gas (IGL) reported Q4FY16 EBITDA and PAT of Rs2.0bn and Rs1.1bn, respectively, lower than our estimates, given weak CNG profitability from fluctuating exchange rate. IGL's gas sales momentum has picked-up as rising pollution concerns have improved CNG demand. Also, government push for PNG domestic connections has improved volumes; Q4 overall sales volume was up 8% YoY v/s 4% in Q3. Volume trajectory will improve further with likely addition of at least 1,000 new buses in FY17E.

■ **New bus addition and higher PNG sales to drive volumes:** For FY16, CNG and PNG volumes were at 834m kgs (+4% YoY) and 342mscm (+4% YoY), respectively. PNG volume recovery is against 7% YoY decline in FY15 led by higher domestic volumes at 86mscm (+23% YoY). Higher vehicle conversion (private taxis and discretionary demand), along with new bus addition and continued PNG domestic momentum, will spur volumes. We factor 6% gas sales in FY17/18E against 4% growth in FY15/16.

■ **Lower gas prices to improve margins:** IGL's Q4 spread improved to Rs5.3/scm against Rs5.1/scm in Q3 which included one-off charges. Further reduction in domestic gas prices in FY17, along with stable exchange rate, will support margins, going forward; factor in Rs5.6/scm for FY17/18E (Rs5.3 in FY16).

■ **Maintain "BUY":** We lower our standalone earnings estimates by 3% to factor in weak Q4FY16 and other expenses. For FY16, MNGL and CUGL (IGL has 50% stake) has recorded earnings growth of 49% YoY and 19% YoY, respectively. Subsidiaries are likely to record double-digit gas sales volume in FY17E. We now value subsidiaries at 20% discount to target multiple for IGL against book value earlier and value core IGL operation on DCF. Maintain "BUY" with revised PT of Rs632.

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	36,810	36,858	39,462	42,374
Growth (%)	(6.1)	0.1	7.1	7.4
EBITDA (Rs m)	7,930	7,717	8,683	9,149
PAT (Rs m)	4,377	4,162	5,129	5,607
EPS (Rs)	31.3	29.7	36.6	40.0
Growth (%)	21.5	(4.9)	23.2	9.3
Net DPS (Rs)	6.4	6.4	8.6	9.4

Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	21.5	20.9	22.0	21.6
RoE (%)	22.7	18.5	19.7	18.6
RoCE (%)	21.2	18.1	19.7	18.7
EV / sales (x)	2.1	2.0	1.8	1.5
EV / EBITDA (x)	9.9	9.7	8.0	7.1
PE (x)	18.2	19.1	15.5	14.2
P / BV (x)	3.8	3.3	2.8	2.5
Net dividend yield (%)	1.1	1.1	1.5	1.6

Source: Company Data; PL Research

Exhibit 1: Q4FY16 Result Overview (Rs m)

Y/e March	Q4FY16	Q4FY15	YoY gr. (%)	Q3FY16	FY16	FY15	YoY gr. (%)
Net Sales	8,856	9,168	(3.4)	9,292	36,858	36,810	0.1
Operating Costs	6,887	7,410	(7.1)	7,419	29,141	28,880	0.9
Material Costs	5,249	6,046	(13.2)	5,685	22,761	23,816	(4.4)
Personnel Costs	215	166	29.6	244	796	660	20.6
Other Overheads	1,423	1,198	18.7	1,490	5,584	4,404	26.8
EBITDA	1,969	1,758	12.0	1,873	7,717	7,930	(2.7)
Other Income	66	68	(4.1)	112	299	345	(13.4)
PBDIT	2,035	1,826	11.4	1,985	8,016	8,275	(3.1)
Depreciation	398	374	6.4	399	1,577	1,487	6.0
Interest	10	40	(74.8)	18	91	298	(69.7)
Pre-tax Profit	1,627	1,413	15.2	1,569	6,349	6,490	(2.2)
Tax	551	454	21.3	517	2,187	2,113	3.5
Profit After Tax	1,076	959	12.3	1,051	4,162	4,377	(4.9)

Source: Company Data, PL Research

Exhibit 2: IGL volume details

	Jun 14	Sep-14	Dec-14	Mar-15	Jun 15	Sep-15	Dec -15	Mar-16
Sales volume								
CNG - m kg	194.0	207.0	204.0	200.0	202.0	213.0	209.3	209.7
PNG - mmscm	83.0	86.0	82.4	78.6	79.0	90.0	86.6	86.4
Total mscm	341.0	363.0	354.1	344.9	349.0	375.0	369.3	371.7
Sales (Rs m)								
CNG	7070	7800	7660	7490	7520	7950	7661	7659
PNG	2500	2670	2720	2570	2400	2680	2549	2101
Realisation								
CNG Rs/kg	36.44	37.68	37.55	37.45	37.23	37.32	36.61	36.52
PNG Rs/scm	30.1	31.0	33.0	32.7	30.4	29.8	29.4	24.3

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Net Revenue	36,810	36,858	39,462	42,374
Raw Material Expenses	23,408	22,761	22,358	23,843
Gross Profit	13,402	14,097	17,103	18,531
Employee Cost	660	796	915	1,007
Other Expenses	4,811	5,584	7,505	8,375
EBITDA	7,930	7,717	8,683	9,149
Depr. & Amortization	1,487	1,577	1,708	1,804
Net Interest	298	91	(12)	(36)
Other Income	345	299	667	988
Profit before Tax	6,490	6,349	7,655	8,369
Total Tax	2,113	2,187	2,526	2,762
Profit after Tax	4,377	4,162	5,129	5,607
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	4,377	4,162	5,129	5,607
Avg. Shares O/S (m)	140.0	140.0	140.0	140.0
EPS (Rs.)	31.3	29.7	36.6	40.0

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	6,322	6,609	7,053	7,631
C/F from Investing	(3,746)	(2,206)	(1,052)	(2,000)
C/F from Financing	(2,776)	(2,179)	(1,003)	(1,055)
Inc. / Dec. in Cash	(200)	2,224	4,998	4,576
Opening Cash	—	—	—	—
Closing Cash	—	—	—	—
FCFF	3,995	3,978	5,065	5,667
FCFE	2,236	2,525	4,865	5,467

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	(6.1)	0.1	7.1	7.4
EBITDA (%)	1.4	(2.7)	12.5	5.4
PAT (%)	21.5	(4.9)	23.2	9.3
EPS (%)	21.5	(4.9)	23.2	9.3
Profitability				
EBITDA Margin (%)	21.5	20.9	22.0	21.6
PAT Margin (%)	11.9	11.3	13.0	13.2
RoCE (%)	21.2	18.1	19.7	18.7
RoE (%)	22.7	18.5	19.7	18.6
Balance Sheet				
Net Debt : Equity	—	(0.2)	(0.3)	(0.4)
Net Wrkg Cap. (days)	—	—	—	—
Valuation				
PER (x)	18.2	19.1	15.5	14.2
P / B (x)	3.8	3.3	2.8	2.5
EV / EBITDA (x)	9.9	9.7	8.0	7.1
EV / Sales (x)	2.1	2.0	1.8	1.5
Earnings Quality				
Eff. Tax Rate	32.6	34.4	33.0	33.0
Other Inc / PBT	5.3	4.7	8.7	11.8
Eff. Depr. Rate (%)	4.7	4.6	4.7	4.7
FCFE / PAT	51.1	60.7	94.9	97.5

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	20,981	24,132	28,063	32,361
Total Debt	1,453	—	(200)	(400)
Other Liabilities	1,272	1,647	2,030	2,448
Total Liabilities	23,706	25,779	29,893	34,409
Net Fixed Assets	22,099	23,045	22,389	22,585
Goodwill	—	—	—	—
Investments	2,909	2,592	2,592	2,592
Net Current Assets	(1,300)	142	4,912	9,232
Cash & Equivalents	2,315	4,538	9,535	14,111
Other Current Assets	3,414	3,487	3,733	4,008
Current Liabilities	7,029	7,882	8,356	8,887
Other Assets	—	—	—	—
Total Assets	23,707	25,779	29,893	34,409

Quarterly Financials (Rs m)

Y/e March	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Net Revenue	9,018	9,692	9,292	8,856
EBITDA	1,961	1,914	1,873	1,969
% of revenue	21.7	19.7	20.2	22.2
Depr. & Amortization	386	395	399	398
Net Interest	36	27	18	10
Other Income	56	66	112	66
Profit before Tax	1,596	1,557	1,569	1,627
Total Tax	577	542	517	551
Profit after Tax	1,018	1,016	1,051	1,076
Adj. PAT	1,018	1,016	1,051	1,076

Key Operating Metrics

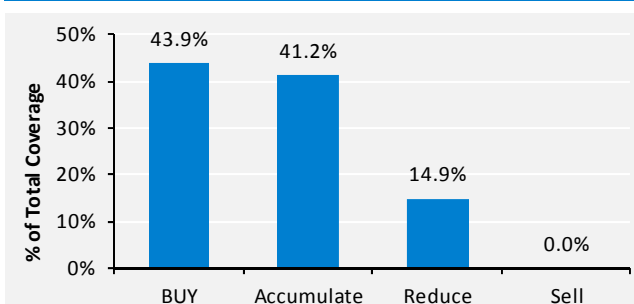
Y/e March	2015	2016	2017E	2018E
Total sales volumes (mscm)	1,403.6	1,453.4	1,540.5	1,633.9
CNG sales volumes (mscm)	1,073.1	1,109.9	1,175.6	1,245.2
PNG sales volumes (mscm)	330.5	343.4	364.9	388.8
CNG retail price (Rs/kg)	37.3	37.3	37.8	37.8
PNG retail price (Rs/scm)	31.7	30.5	30.5	32.0

Source: Company Data, PL Research.

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BUY	: Over 15% Outperformance to Sensex over 12-months
Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months
Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month
Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock
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