

August 11, 2017

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Rating	BUY
Price	Rs1,216
Target Price	Rs1,360
Implied Upside	11.8%
Sensex	31,214
Nifty	9,711

(Prices as on August 11, 2017)

Trading data

Market Cap. (Rs bn)	170.2
Shares o/s (m)	140.0
3M Avg. Daily value (Rs m)	424.8

Major shareholders

Promoters	50.00%
Foreign	24.08%
Domestic Inst.	14.31%
Public & Other	11.61%

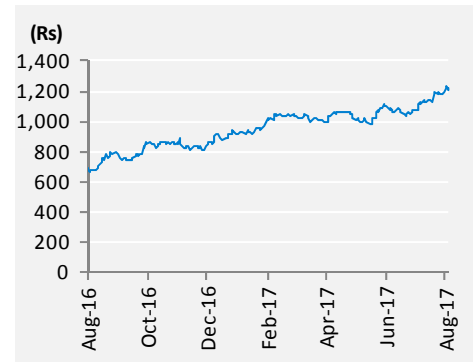
Stock Performance

(%)	1M	6M	12M
Absolute	8.9	19.0	79.2
Relative	10.5	8.9	67.2

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	50.9	47.0	8.2
2019	58.8	52.4	12.2

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



Source: Bloomberg

■ **Volume growth remains the highlight:** Indraprastha Gas' (IGL's) Q1FY18 volume momentum remains intact- Q1 overall sales volume growth was at 13% YoY and 3%QoQ. Q1 EBITDA and PAT of Rs2.78bn (+7%YoY) and Rs1.61bn (+9% YoY), was in-line with our estimates despite higher other expenses from wage revision and provision for land rentals of Rs220m. The company has passed on higher wage provision by increasing retail prices in mid-may which will support margins. Volume trajectory for IGL is likely to remain strong, given rising pollution concerns and addition of new buses. Also, opening of new CNG stations and continued traction in taxis/private car conversion will aid volumes. Recent reports of ban on furnace oil and petcoke in NCR is likely to drive medium-term growth.

■ **CNG, PNG volume traction remains strong:** IGL's gas sales momentum remains strong as Q1FY18 CNG and PNG volumes were at 248m kgs (+12% YoY) and 109mscm (+17% YoY), respectively. We expect CNG/PNG volume growth to remain healthy in the medium term given favourable tailwinds.

■ **Provision impact spreads:** IGL's Q1 spread at Rs6.2/scm supported by benign spot LNG prices and appreciating exchange rate. Adjusted for higher wage and rental provision, we calculate EBITDA/scm at Rs6.7. We expect spreads to remain healthy supported by benign domestic gas prices along with soft spot LNG prices.

■ **Earnings maintained, reiterate "BUY":** IGL remains a play on rising pollution concerns. Increased cars/taxis conversion and new bus addition in Delhi will drive earnings. Also, report of ban on competing industrial fuel is a major positive. However, we await clarity on PNG volumes post GST imposition as it will compete against cheaper fuel oil which is part of GST. Reiterate "BUY" with a three-year DCF-based PT of Rs1,360 (unchanged).

Key financials (Y/e March)	2016	2017	2018E	2019E
Revenues (Rs m)	36,858	38,148	46,310	51,235
Growth (%)	0.1	3.5	21.4	10.6
EBITDA (Rs m)	7,747	9,638	11,252	12,491
PAT (Rs m)	4,191	5,711	7,121	8,226
EPS (Rs)	29.9	40.8	50.9	58.8
Growth (%)	(4.3)	36.3	24.7	15.5
Net DPS (Rs)	6.4	9.5	11.9	13.7

Profitability & Valuation	2016	2017	2018E	2019E
EBITDA margin (%)	21.0	25.3	24.3	24.4
RoE (%)	18.6	21.7	22.8	22.2
RoCE (%)	18.3	21.7	22.8	22.2
EV / sales (x)	4.5	4.2	3.3	2.9
EV / EBITDA (x)	21.4	16.6	13.7	11.7
PE (x)	40.6	29.8	23.9	20.7
P / BV (x)	7.1	6.0	5.0	4.2
Net dividend yield (%)	0.5	0.8	1.0	1.1

Source: Company Data; PL Research

Exhibit 1: Q1FY18 Result Overview (Rs m)

	Q1FY18	Q1FY17	YoY gr. (%)	Q4FY17	QoQ gr. (%)
Net Sales	11,610	9,979	16.3	11,065	4.9
Operating Costs	8,837	7,383	19.7	8,943	(1.2)
Material Costs	5,486	4,774	14.9	5,535	(0.9)
Personnel Costs	251	238	5.6	184	36.8
Other Overheads	1,982	1,389	42.7	2,179	(9.0)
Excise duty	1,118	983	13.8	1,046	6.9
EBITDA	2,773	2,596	6.8	2,122	30.7
Other Income	179	80	122.7	209	(14.4)
PBDIT	2,952	2,677	10.3	2,331	26.6
Depreciation	439	466	(5.7)	244	80.1
Interest	4	-	NA	12	(70.2)
Pre-tax Profit	2,509	2,211	13.5	2,075	20.9
Tax	897	731	22.7	734	22.1
Profit After Tax	1,613	1,480	9.0	1,341	20.3

Source: Company Data, PL Research

Exhibit 2: IGL volume and realisation detail

Sales volume	Dec -15	Mar-16	Jun 16	Sep-16	Dec -16	Mar-17	Jun-17
CNG - m kg	209.28	209.72	222	235	231	233	248
PNG - mmscm	86.61	86.39	93	102	104	108	109
Total mscm	369.34	371.66	395	421	424	433	446
Realisation							
CNG Rs/kg	36.6	36.5	35.7	35.8	35.1	36.2	36.3
PNG Rs/scm	29.4	24.3	21.7	22.2	22.5	23.8	23.5
EBITDA (Rs/scm)	5.3	5.3	6.6	5.8	5.8	4.9	6.2

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2016	2017	2018E	2019E
Net Revenue	36,858	38,148	46,310	51,235
Raw Material Expenses	22,761	20,837	25,722	28,449
Gross Profit	14,097	17,311	20,589	22,786
Employee Cost	784	917	1,009	1,110
Other Expenses	5,566	6,756	8,328	9,186
EBITDA	7,747	9,638	11,252	12,491
Depr. & Amortization	1,563	1,671	1,765	1,859
Net Interest	99	12	—	—
Other Income	299	652	1,140	1,645
Profit before Tax	6,385	8,607	10,628	12,277
Total Tax	2,194	2,896	3,507	4,051
Profit after Tax	4,191	5,711	7,121	8,226
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	4,191	5,711	7,121	8,226
Avg. Shares O/S (m)	140.0	140.0	140.0	140.0
EPS (Rs.)	29.9	40.8	50.9	58.8

Cash Flow Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
C/F from Operations	6,633	7,492	9,631	10,518
C/F from Investing	(2,192)	(1,052)	(2,000)	(2,000)
C/F from Financing	(2,217)	(1,186)	(1,132)	(1,307)
Inc. / Dec. in Cash	2,224	5,255	6,499	7,211
Opening Cash	—	—	—	—
Closing Cash	—	—	—	—
FCFF	3,992	5,480	7,631	8,518
FCFE	2,539	5,480	7,631	8,518

Key Financial Metrics

Y/e March	2016	2017	2018E	2019E
Growth				
Revenue (%)	0.1	3.5	21.4	10.6
EBITDA (%)	(2.3)	24.4	16.8	11.0
PAT (%)	(4.3)	36.3	24.7	15.5
EPS (%)	(4.3)	36.3	24.7	15.5
Profitability				
EBITDA Margin (%)	21.0	25.3	24.3	24.4
PAT Margin (%)	11.4	15.0	15.4	16.1
RoCE (%)	18.3	21.7	22.8	22.2
RoE (%)	18.6	21.7	22.8	22.2
Balance Sheet				
Net Debt : Equity	(0.2)	(0.3)	(0.5)	(0.6)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	40.6	29.8	23.9	20.7
P / B (x)	7.1	6.0	5.0	4.2
EV / EBITDA (x)	21.4	16.6	13.7	11.7
EV / Sales (x)	4.5	4.2	3.3	2.9
Earnings Quality				
Eff. Tax Rate	34.4	33.6	33.0	33.0
Other Inc / PBT	4.7	7.6	10.7	13.4
Eff. Depr. Rate (%)	4.6	4.6	4.6	4.6
FCFE / PAT	60.6	96.0	107.2	103.6

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	24,132	28,509	33,966	40,271
Total Debt	—	—	—	—
Other Liabilities	1,647	1,808	2,339	2,953
Total Liabilities	25,779	30,316	36,305	43,224
Net Fixed Assets	23,045	22,426	22,661	22,802
Goodwill	—	—	—	—
Investments	2,592	2,592	2,592	2,592
Net Current Assets	142	5,299	11,052	17,830
Cash & Equivalents	4,538	9,793	16,292	23,503
Other Current Assets	3,487	3,650	4,397	4,865
Current Liabilities	7,882	8,144	9,637	10,539
Other Assets	—	—	—	—
Total Assets	25,779	30,316	36,305	43,224

Quarterly Financials (Rs m)

Y/e March	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Net Revenue	10,709	10,472	11,065	11,610
EBITDA	2,449	2,470	2,122	2,773
% of revenue	22.9	23.6	19.2	23.9
Depr. & Amortization	483	479	244	439
Net Interest	—	—	—	—
Other Income	211	152	209	179
Profit before Tax	2,177	2,144	2,087	2,513
Total Tax	735	696	734	897
Profit after Tax	1,442	1,448	1,353	1,616
Adj. PAT	1,442	1,448	1,353	1,616

Key Operating Metrics

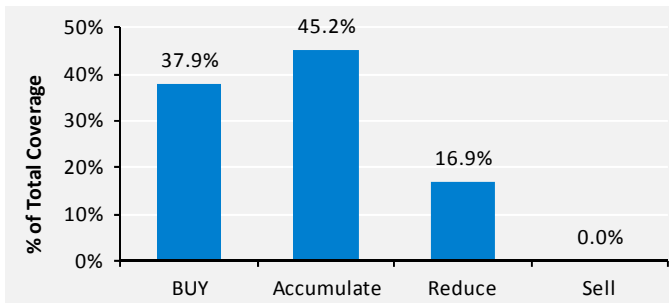
Y/e March	2016	2017	2018E	2019E
Total sales volumes (mscm)	1,465.5	1,621.3	1,799.3	1,972.6
CNG sales volumes (mscm)	1,123.0	1,222.1	1,344.2	1,467.3
PNG sales volumes (mscm)	342.5	399.2	455.1	505.3
CNG retail price (Rs/kg)	36.9	36.4	36.4	36.2
PNG retail price (Rs/scm)	28.4	30.8	31.8	33.2

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
Under Review (UR)	:	Rating likely to change shortly

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