

Indraprastha Gas Limited	BUY CMP Rs. 108.0 Target Rs. 154.5	Q1 FY09 Result Update
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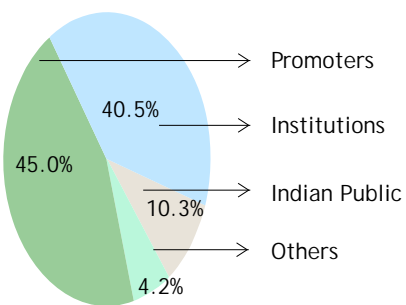
Stock Data

Bloomberg : IGL.IN
Reuters : IGAS.BO
BSE Code : 532514
NSE Code : IGL
BSE Group : B

Stock Codes

Benchmark : BSE 500
52 W High/Low : 182.5/101.3
Float : 77.0 Mn
Mkt Cap : Rs. 15,400 Mn
Face Value : Rs. 10.0

Shareholding Pattern (as on June 08)

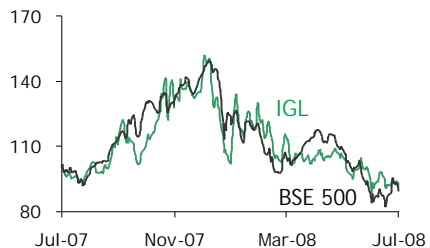


Promoters	40.5%
Institutions	45.0%
Indian Public	10.3%
Others	4.2%

Stock Returns

	1 Mth	3 Mths	6 Mths
IGL	-2.04	-12.36	-9.53
BSE 500	2.43	-22.41	-25.90

Price Comparison



Jul-07 Nov-07 Mar-08 Jul-08

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Results Highlight

For the quarter ended 30th June, 2008 Indraprastha Gas Limited (IGL) has posted close to 18% growth in net sales to Rs. 1,907.3 Mn as compared to Rs. 1,617.5 Mn for the quarter ended 30th June 2007. The bottom line of the company stands at Rs. 436.8 Mn verses Rs.384.1 Mn the corresponding quarter last year, this translated into an increase of close to 14%.

As a percentage of sales raw material cost & other expenses has increased to 44.26% and 13.34% respectively, while the staff cost stands at 2.81%. Thus the EBIDTA margins have declined considerably to 42.88% from 44.94% for the quarter reported.

The rise in raw material cost is attributed to the increase in transportation cost incurred to the company. The lower lower growth of topline for the company with respect to a Q-Q review is due to the seasonality of the business as the schools are shut for most part of quarter. This leads to a drop in volumes as the business received from the buses reduces to zero. On volume terms the company has shown a healthy growth at 16.99% & 20.83% for CNG and PNG respectively on a Y-Y bases. In value terms the growth stands at 15.26% & 22.66% for CNG & PNG respectively.

Company Profile

Indraprastha Gas Limited (IGL) is promoted by Gas Authority of India (GAIL), Bharat Petroleum Corporation Limited (BPCL) and the government of National Capital Territory (NCT). GAIL and BPCL own 22.5% respectively, while Delhi government holds 5% in the company. The primary reason for the incorporation of the company was done keeping in mind to supply in the national capital region environment friendly auto fuel. Delhi rates among the most polluted cities in our country and the government was of the firm opinion that emission from commercial as well as private vehicles needs to be brought down significantly.

Our View

We have valued the company on DCF as well as PE multiple basis and recommend a BUY for the scrip at the current levels with a price target of Rs. 154.5 giving an upside of 44.53%. At our target price, the stock will trade at 11.5x FY09 earnings.

IGL : Quarterly Financials

Earnings Statement							
YE March (Rs. Mn.)	Q109	Q108	Y-Y(%)	Q408	Q-Q(%)	Q308	Q407
Net Revenues	1907.3	1617.5	17.92%	1874.0	1.78%	1827.3	1643.1
Cost of Materials	844.2	693.1	21.80%	810.3	4.19%	780.4	696.2
Gross Profit	1063.1	924.4	15.01%	1063.7	-0.06%	1046.9	946.9
Stock Adjustments	-0.2	0.1		0.0		0.0	0.0
Staff Costs	53.6	35.7	50.03%	42.2	26.93%	39.9	37.5
Other Expenses	254.4	201.7	26.15%	238.6	6.61%	226.7	197.9
Total Expenditure	307.8	237.5	29.64%	280.9	9.60%	266.5	235.5
Operating Profit	755.3	686.9	9.95%	782.8	-3.52%	780.4	711.5
OPM (%)	39.60%	42.47%	-6.76%	41.77%	-5.21%	0.4	0.4
Other Income	62.6	40.0	56.52%	89.0	-29.68%	57.9	33.5
EBITDA	817.8	726.9	12.51%	871.8	-6.19%	838.4	745.0
Depreciation	163.5	155.6	5.06%	151.1	8.21%	160.8	148.6
EBIT	654.3	571.3	14.54%	720.7	-9.21%	677.6	596.4
Interest	0.0	0.0		0.0		0.0	0.0
PBT	654.3	571.3	14.54%	720.7	-9.21%	677.6	596.4
Tax	217.5	187.2	16.21%	239.0	-9.01%	227.4	0.6
PAT	436.8	384.1	13.73%	481.7	-9.31%	450.2	595.8
Equity Capital	1400.0	1400.0	0.00%	1400.0	0.00%	1400.0	1400.0
EPS	3.1	2.7	13.73%	3.4	-9.31%	3.2	4.3
Ratio Analysis							
Profitability							
YE March (Rs. Mn.)	Q109	Q108	Y-Y bps	Q408	Q-Q bps	Q308	Q407
OPM (%)	39.60%	42.47%	(287.0)	41.77%	(217.59)	42.71%	43.30%
EBITDA (%)	42.88%	44.94%	(206.1)	46.52%	(364.33)	45.88%	45.34%
EBIT (%)	34.31%	35.32%	(101.2)	38.46%	(415.23)	37.08%	36.30%
PAT (%)	22.90%	23.75%	(84.4)	25.70%	(280.06)	24.64%	36.26%
Operational Parameters							
YE March (Rs. Mn.)	Q109	Q108	Y-Y bps	Q408	Q-Q bps	Q308	Q407
RM Consumed	44.26%	42.85%	141.1	43.24%	102.43	42.71%	42.37%
Staff Cost	2.81%	2.21%	60.1	2.25%	55.69	2.18%	2.28%
Other Expenditure	13.34%	12.47%	87.1	12.73%	60.48	12.40%	12.04%
Effective Tax Rate	33.24%	32.76%	47.7	33.17%	7.42	33.56%	0.10%

DCF Valuation

Our DCF valuation for the company stands at Rs.154.46. We have assumed WACC of 15% for the company as IGL is a zero Debt company.

We initiate a BUY with a price target of Rs. 154.5.

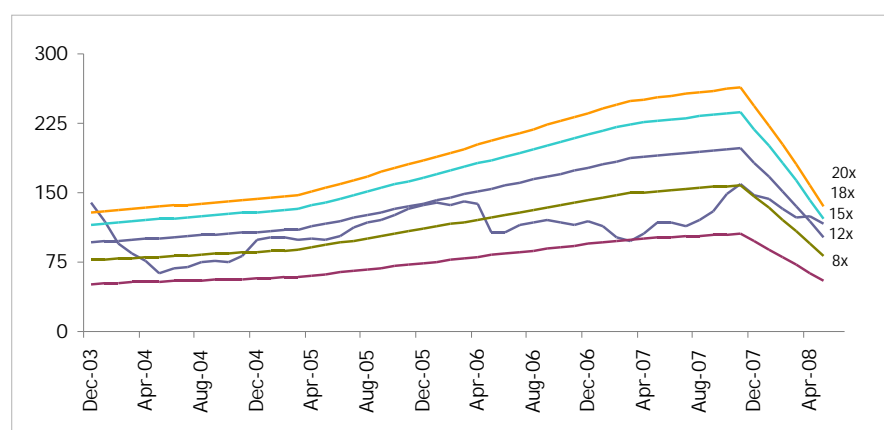
DCF Valuation						
Particulars	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E
Free Cash Flow	1560.78	1871.06	2058.17	2222.82	2356.19	2450.44
Free Cash Flow Discounted	1560.78	1627.01	1556.27	1461.54	1347.16	1218.30

Discounting Rate	15.0%
Terminal Growth Rate	2.0%
Terminal Value	18,849.52
PV of Terminal Value	9,371.54
PV of Interim Cash Flows	8,771.06
Enterprise Value	18,142.60

Enterprise Value	18,142.60
Less : Debt	-
Add : Cash & Investments	3,481.9
Shareholder's Value	21,624.6
No. of Equity Shares	140.0
Fair Value (Rs.)	154.5
CMP (Rs.)	108.0
Upside	44.0%

% of Enterprise Value	
PV of Terminal Value	48.3%
PV of Interim Cash Flows	51.7%
Total	100.0%

IGL in spite of the strong performance proved over the years trades at a PER of 6.93x at FY10E earnings. We value this company at a PER of 11.5x one year forward. This gives an upside of 40% for the scrip from the current levels. Going forward when the company will need to bid for further expansion into other cities, it will be a clear cut advantage for a debt free company like IGL as it has a lot of scope for leveraging its balance sheet without stretching it too much. Historically the stock has mostly traded between the range of 8x on the lower end and 12x on the higher end on one year forward PE multiple as seen in the chart below.



Qualitative Valuation

In our view there is a clear margin of safety at these levels for the stock. For us margin of safety can be equated as foreseeable growth in the long term as well as short term, simple business model, inelastic demand for the products of the company. Fortunately the company in question fits on all the parameters. Very often value stocks are also the ones that are in businesses that seem boring. All this augers well for IGL in our eyes as this is a stock which has the true potential to give sustained returns over the long term.

IGL : Financials

Earnings Statement							
YE March (Rs. Mn.)	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E
Total Revenues	4,262.1	4,500.4	5,208.8	6,141.0	7,059.8	8,048.2	9,255.4
Cost of Materials	1,776.7	1,893.7	2,254.7	2,677.5	3,029.4	3,460.7	3,979.8
Total Expenditure	2,567.0	2,652.7	3,068.8	3,581.3	4,059.5	4,635.7	5,340.4
Operating Profit	1,695.1	1,847.7	2,140.0	2,559.7	3,000.3	3,412.4	3,915.0
Other Income	86.1	77.9	52.8	102.0	234.4	172.5	243.8
EBITDA	1,781.2	1,925.6	2,192.9	2,661.7	3,234.7	3,584.9	4,158.8
Depreciation	420.4	480.3	565.2	598.2	625.8	748.7	843.7
EBIT	1,360.8	1,445.3	1,627.6	2,063.5	2,608.9	2,836.2	3,315.0
Interest	75.2	34.8	27.0	8.2	-	-	-
PBT	1,285.5	1,410.5	1,600.6	2,055.3	2,608.9	2,836.2	3,315.0
Tax	464.1	484.5	570.9	673.7	864.4	935.9	1,094.0
PAT Before MI	821.5	926.1	1,029.7	1,381.5	1,744.5	1,900.2	2,221.1
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PAT After MI	821.5	926.1	1,029.7	1,381.5	1,744.5	1,900.2	2,221.1

Ratio Analysis							
YE March (Rs. Mn.)	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E
OPM (%)	39.8%	41.1%	41.1%	41.7%	42.5%	42.4%	42.3%
EBITDA (%)	41.8%	42.8%	42.1%	43.3%	45.8%	44.5%	44.9%
PBIT (%)	31.9%	32.1%	31.2%	33.6%	37.0%	35.2%	35.8%
PAT (%)	19.3%	20.6%	19.8%	22.5%	24.7%	23.6%	24.0%
Interest Cover Ratio	1808.6%	4156.3%	6028.1%	25170.4%	-	-	-
EPS (Rs.)	5.9	6.6	7.4	9.9	12.5	13.6	15.9
P/E (x)	18.7	16.6	15.0	11.1	8.8	8.1	6.9
P/BV (x)	6.1	4.9	4.1	3.3	2.7	2.2	1.9
BVPS (Rs.)	18.0	22.3	27.0	33.4	41.2	48.9	57.7
Market Cap (Rs. Mn.)	15,400.0	15,400.0	15,400.0	15,400.0	15,400.0	15,400.0	15,400.0
M Cap/Sales (x)	3.6	3.4	3.0	2.5	2.2	1.9	1.7
EV (Rs. Mn.)	16,000.0	15,880.0	15,400.0	15,400.0	15,400.0	15,400.0	15,400.0
EV/EBITDA (x)	9.0	8.2	7.0	5.8	4.8	4.3	3.7
EV/Sales (x)	3.8	3.5	3.0	2.5	2.2	1.9	1.7
ROCE (%)	38.8%	35.9%	38.9%	41.0%	42.6%	39.3%	39.1%
RONW (%)	32.6%	29.6%	27.2%	29.6%	30.3%	27.8%	27.5%
Debt/Equity Ratio (x)	0.2	0.2	-	-	-	-	-
Inventory T/o Days	10.3	14.6	12.9	12.4	11.5	11.5	11.5
Debtors T/o Days	9.0	8.8	13.3	11.2	10.0	10.0	10.0
Advances T/o Days	22.9	15.9	20.4	14.9	14.5	14.5	14.5
Creditors T/o Days	50.4	46.4	40.5	44.4	42.0	42.0	42.0
Working Cap T/o Days -	22.3 -	27.0 -	13.8 -	11.3 -	17.0 -	19.9 -	21.5
Fixed Assets T/o (Gross)	0.9	0.9	0.9	1.0	1.0	1.0	1.0
DPS (Rs.)	1.5	2.0	2.5	3.0	4.0	5.0	6.0
Dividend Payout (%)	25.6%	30.2%	34.0%	30.4%	32.1%	36.8%	37.8%
Dividend Yield (%)	1.4%	1.8%	2.3%	2.7%	3.6%	4.5%	5.5%

IGL : Financials

Balance Sheet							
YE March (Rs. Mn.)	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E
Equity Capital	1,400.0	1,400.0	1,400.0	1,400.0	1,400.0	1,400.0	1,400.0
Reserves	1,117.6	1,724.7	2,387.0	3,275.2	4,364.5	5,445.8	6,684.1
Shareholders Funds	2,517.6	3,124.7	3,787.0	4,675.2	5,764.5	6,845.8	8,084.1
Minority Interest	-	-	-	-	-	-	-
Borrowed Funds	600.0	480.0	-	-	-	-	-
Deferred Tax Liability	369.3	383.3	352.2	301.7	301.7	301.7	301.7
Total Liabilities	3,508.5	4,023.1	4,182.1	5,030.8	6,129.8	7,219.9	8,469.1
Fixed Assets	3,390.4	3,436.3	3,654.5	3,634.4	3,808.7	4,009.9	4,166.2
Investments	-	609.8	425.1	1,276.4	2,300.0	3,250.0	4,400.0
Current Assets							
Inventory	119.8	180.5	184.0	208.3	222.4	253.6	291.6
Sundry Debtors	105.1	108.3	189.7	188.2	193.4	220.5	253.6
Loans & Advances	267.1	196.0	290.8	251.1	280.5	319.7	367.7
Cash & Bank Balance	47.4	67.7	110.3	404.5	258.8	232.0	224.9
Current Liabilities							
Sundry Creditors	588.9	572.3	578.5	746.8	812.4	926.1	1,065.0
Provisions	239.3	323.5	407.3	503.7	483.5	551.2	633.9
Net Current Assets	- 260.9	- 333.3	- 196.7	- 190.0	- 329.2	- 438.3	- 546.0
Miscellaneous Expenditure	-	-	-	-	-	-	-
Total Assets	3,508.5	4,023.1	4,182.1	5,030.8	6,129.8	7,219.9	8,469.1

Cash Flow							
Particulars	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E
Opening Cash & Bank	95.3	47.4	67.7	110.3	404.5	258.8	232.0
Profit After Tax	821.5	926.1	1029.7	1381.5	1744.5	1900.2	2221.1
Less : Invt Income	(86.1)	(77.9)	(52.8)	(102.0)	(234.4)	(172.5)	(243.8)
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	420.4	480.3	565.2	598.2	625.8	748.7	843.7
Deferred Taxation	160.6	14.0	2.4	(50.5)	0.0	0.0	0.0
Others	73.8	(0.0)	(33.7)	(4.4)	0.0	0.0	0.0
Change in Working Cap	(348.6)	92.7	(94.0)	287.4	(6.5)	82.3	100.5
CF - Operating Activities	1041.5	1435.1	1416.8	2110.3	2129.4	2558.8	2921.6
Change in Fixed Assets	(743.8)	(457.5)	(771.9)	(584.6)	(840.4)	(998.0)	(1050.5)
Change in Investments	0.0	(609.8)	184.7	(851.3)	(1023.6)	(950.0)	(1150.0)
Investment Income	86.1	77.9	52.8	102.0	234.4	172.5	243.8
CF - Investing Activities	(657.7)	(989.4)	(534.4)	(1333.8)	(1629.6)	(1775.5)	(1956.8)
Increase in Equity	0.0	0.8	31.6	(1.9)	0.0	0.0	0.0
Changes in Borrowings	(198.8)	(120.0)	(480.0)	0.0	0.0	0.0	0.0
Dividend Paid	(236.9)	(319.8)	(399.1)	(491.4)	(655.2)	(819.0)	(982.8)
CF - Financing Activities	(431.7)	(425.4)	(839.7)	(482.4)	(645.5)	(810.1)	(971.9)
Net Change in Cash	(47.9)	20.2	42.7	294.1	(145.7)	(26.8)	(7.1)
Closing Cash & Bank Bal	47.4	67.7	110.3	404.5	258.8	232.0	224.9

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