



Indraprastha Gas Ltd.

BUY

CMP: Rs. 240

Target price: Rs. 321

Industry: City Gas Distribution

Stock Info		BSE Group	BSE500	Shareholding Pattern (As on March 31, 2010)	
Market Capital	Rs. 3360 cr	BSE Code	532514	Government	5.0
Equity Capital	Rs. 140 cr	NSE Symbol	IGL	Foreign Institutions	11.4
Avg Trading Vol.	725,560(Qtly)	Bloomberg	IGL IN	Domestic Institutions	19.5
52 WK High/Low	258/126	Reuters	IGAS.BO	Corporate	45.0
Face Value	Rs 10	BSE Sensex	17462	Public & Others	19.1
		NSE Nifty	5233		

Gas price hike passed on to the consumer

Indraprastha Gas Ltd (IGL) hiked Compressed Natural Gas (CNG) prices by over 25 per cent, following the government's move to more than double the price of natural gas. CNG rates in Delhi will go up by Rs 5.60 per kg - from Rs 21.90 to Rs 27.50 per kg and Rs 30.60 per kg in Noida, Greater Noida and Ghaziabad. IGL did not increase the price of gas that it pipes to households for cooking purpose. Piped natural gas will continue to be priced at Rs 15.92 /scm. The hike was necessitated because of the government's decision to raise natural gas prices from Rs 3.2 /scm to Rs 7.5/scm (USD 4.2/mmbtu). IGL in Delhi is the only city gas distribution company that procures government-controlled gas, called APM gas, the price of which was raised last month. APM gas makes up for 90 per cent of the fuel that IGL buys. It buys about 2 MMSCMD of APM gas from state gas utility GAIL India.

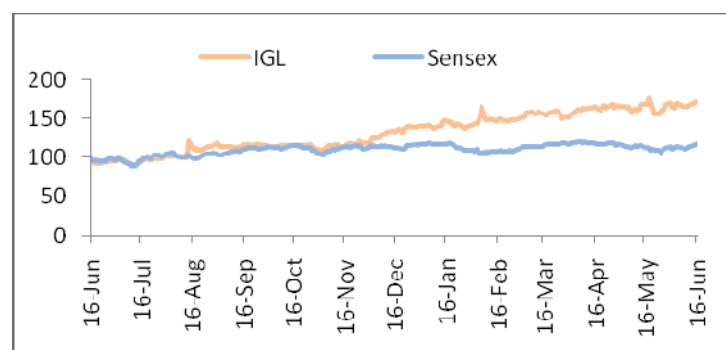
Economics in favour of CNG at revised price

CNG would still offer 56 % savings in terms of running cost compared to petrol driven vehicles at the current level of prices in Delhi. When compared to diesel driven vehicles, the economics in favour of CNG at revised price would be 29 per cent. The increase in CNG prices will marginally impact the per kilometer running cost for the vehicles. Prior to price hike, CNG gave 40-41 per cent better fuel efficiency than diesel and 67 per cent saving over petrol in terms of cost. Even after the hike, CNG in Delhi will be the cheapest fuel in the country.

Strong growth and low risk opportunity

Overall the strong momentum in revenues is expected to continue and IGL should clock revenue growth at a CAGR of 30% over the period FY2010-2014E. Notably during FY2011, the Commonwealth Games are expected to be a strong growth driver over the next year. PAT growth should be in line with the existing trend.

We prefer DCF to value IGL's business as it has long-term visible cash flows with robust CNG demand in NCR region. At CMP of Rs 240, the stock is trading at 11.5x and 10.1x of its estimated PE for FY11 & FY12. We recommend a **BUY** on the stock with a Price Objective (PO) of Rs. 321 (34% upside).



Source: Arianth Research

Particulars (Rs. in cr)	FY10	FY11E	FY12E
Net Revenue	1083.8	1811.6	2210.2
Growth %	26.2	67.4	22.2
Net Profit	215.8	291.3	334.2
Growth %	25.8	34.7	14.7
EPS (Rs)	14.4	20.8	23.9
P/E	13.2	11.5	10.1
P/BV	3.9	3.1	2.4

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Stock Rating Scale

	Absolute Return
BUY	: >20%
ACCUMULATE	: 12-20%
HOLD	: 5-12%
REDUCE	: <5%

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