

Indraprastha Gas Ltd. CMP Rs 170.50
P/E 8.8x FY2011e

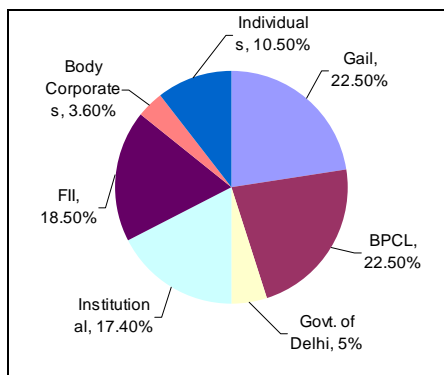
PRICE TARGET Rs 234/ (18-month)
Index Details

Sensex	17,198
Nifty	5,108
Industry	City Gas Distribution

Scrip Details

Mkt. Cap (Rs in Cr)	2,387
Book Value (Rs)	48.5
Eq. Shares O/s (Cr)	14.0
Avg. Vol (Weekly)	136,590
52 Week H/L (Rs)	182 / 92
Dividend Yield (%)	2.5%
Face Value (Rs)	10.0

BSE Code	532514
NSE Code	IGL

Share Holding Pattern

IGL vs. Sensex


Indraprastha Gas Ltd (IGL), is in the business of City Gas Distribution (CGD) in the National Capital Region (NCR). Vast untapped potential, inelastic nature of demand and the first mover advantage makes IGL a low risk high growth proposition for investment.

Key Investment Highlights
Assured Natural Gas supply and attractive pricing of CNG and PNG to encourage usage

With India expected to be a surplus gas state by 2012 and firm gas supply agreements in place (with its parent GAIL for over 2.2 mmscmd and RIL's KG-6 gas for 0.308 mmscmd, scaleable to 2.1 mmscmd over 5 years), IGL foresees no problem in satisfying the burgeoning demand for gas in the NCR region in the medium term. Also the economic pricing of CNG (~71% cheaper than petrol and ~56% than diesel) & PNG (~20% cheaper than subsidized LPG), pan India development of the gas infrastructure, pricing linkages of natural gas to crude and gradual phasing out of petro-subsidies will ensure that natural gas will eventually become the fuel of choice.

Robust capex funding largely through internal accruals

IGL's Rs.1600 crore capex to increase its CNG stations from the current 181 to 231 before the commencement of the Commonwealth Games and establish its distribution network to provide PNG gas to households in the NCR region is to be funded majorly through internal accruals with very low gearing.

Commonwealth Games and marketing & network exclusivity are near term drivers

Common goals, of the Delhi government and IGL, to set up CNG stations will lead to faster implementation of the CNG network. Fleet additions of 2,500 CNG buses to the public transport and 5,000 radio taxis will boost demand for CNG in the short term besides helping to grow the CNG market. Also the three year marketing and 25 year network exclusivity provides IGL with a first mover advantage which its competitors will find difficulty to replicate.

Vast untapped potential of NCR region & CGD policy offers scope for growth

At a projected 1,93,000 PNG customers (7% penetration) for FY2010, and 3,47,851 CNG vehicles (5% penetration) and CAGR growth of population and vehicles in NCR region of 7.9% & 21% respectively, tremendous demand for both, CNG & PNG, through conversion and new demand exists. Also the government is looking at introducing CGD in 230 cities PAN India. With its successful track record in the CGD business and its strong parentage, IGL should easily secure a few wins

Valuation & Recommendation

At CMP of Rs 170.5, the stock is trading at 10.8x and 9.1x its estimated earnings of FY10 & FY11. Using a blended valuation, of its DCF value of Rs. 225. and mean PE of 13x, we recommend a strong BUY on the stock with a Price Objective (PO) of Rs. 234.0 representing a potential upside of ~37% over a period of 18 months. In our opinion, the stock represents low risk as the CGD demand is relatively inelastic.

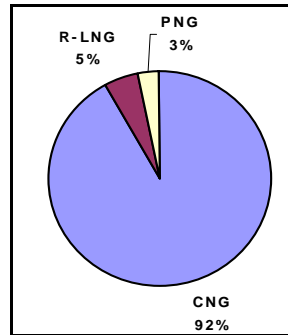
Key Financials:

Y/E March, (Rs in Crore)	2009	2010E	2011E
Net Revenue	860.4	1108.5	1495.8
EBIDTA	302.3	414.5	516.3
PAT	172.5	221.3	262.6
EPS	12.3	15.8	18.7
EPS Growth (%)	-2.1	28.2	18.4
ROCE (%)	34.5	42.3	41.1
RONW (%)	25.2	25.9	24.7
P/E (X)	13.4	10.8	9.1
EV/ EBIDTA (X)	7.2	6.6	6.7

Company Background

Indraprastha Gas Limited (IGL) was established in December 1998 as a joint venture of GAIL (India) Ltd, BPCL and Govt. of NCT of Delhi to implement the City Gas Distribution (CGD) project in the National Capital Territory (NCT) of Delhi on a Supreme Court directive on usage of CNG as a means to reduce air pollution. IGL provides CNG and PNG services to the NCT of Delhi and surrounding towns in the NCR

Revenue mix



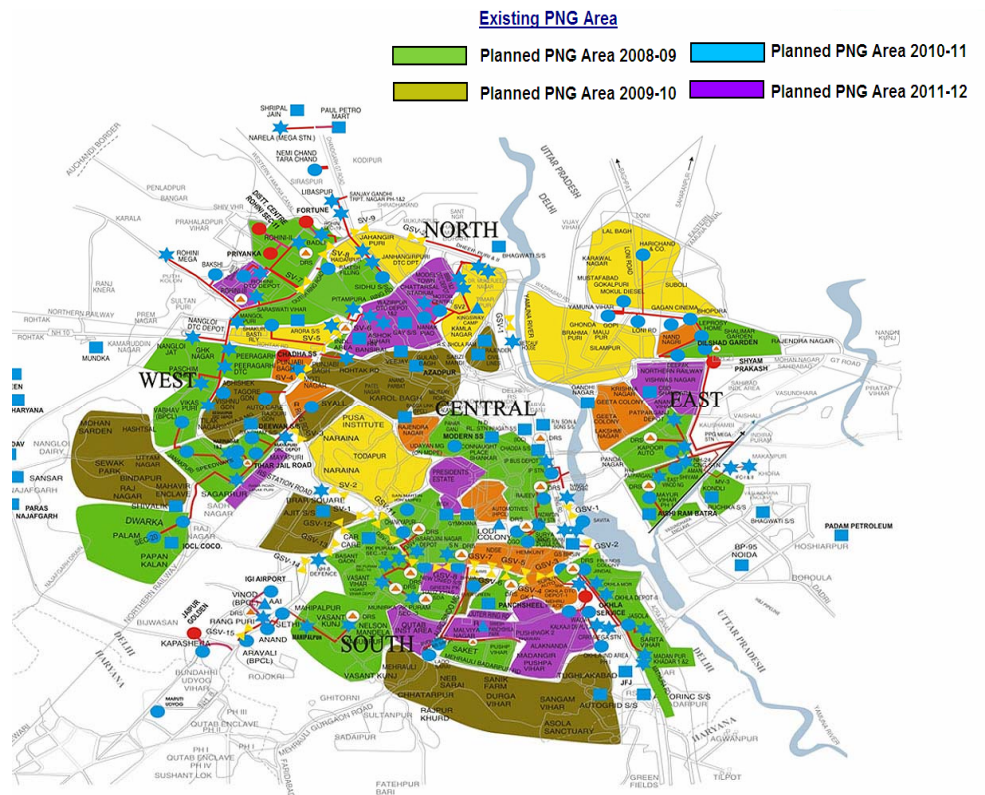
Source: Company

IGL's Business Growth

Particulars	2004	2005	2006	2007	2008	2009
CNG Vehicles (No.)	90,591	94,246	1,06,483	1,33,436	2,27,959	2,87,851
PNG Users (No.)	15,245	25,103	46,727	78,000	1,21,695	1,38,000
R-LNG users (No.)	118	140	215	296	304	317
CNG Sale (MMSCM)	367	387	407.6	453	506	603
PNG Sale (MMSCM)	11	1.5	2.6	37	43	54
Total sale (MMSCM)	378	388.5	410.3	489	549	657

IGL started operations In 1999 with 9 CNG stations. Today it operates 177 CNG stations in NCT and is also marketing CNG from the 67 retail outlets of its parent BPCL. IGL has also spread its wings and started marketing its services in Noida and Greater Noida.

IGL's PNG network in NCR, Delhi



Source: Company IGL