Indraprastha Gas Ltd

BUY

BP WEALTH

Gas Utilities| News Update **12th February,2019**

High Powered Committee recommended no concession domestic gas to CNG users and Direct subsidy transfer to domestic piped gas

Currently, CGD company's like Indraprastha Gas Ltd enjoys highest priority of relatively cheaper domestic gas for their CNG and domestic PNG requirements. However, if CGD's are not provided lower priced domestic gas, they will need to procure imported natural gas at comparably higher price. Compared to domestic gas that CGDs pay around $4/mmbtu, imported gas would be higher by $4-5/ mmbtu and in addition companies need to adhere to its volatility. We note that despite such sharp rise , CNG price will be competitive against both petrol and diesel by 15-30% . However in our view, with key general elections approaching, such sharp increase in CNG prices can lead to political criticism. Also, the Indian Government is giving higher thrust for the overall development of CGD infrastructure. In recently concluded 9th bidding round as well 10th round, we witnessed good investment s is flowing due its competitive price advantage vs liquid fuels. In our view, if this advantage is significantly eroded, the investments in new CGDs would also suffer. **Thus, we think despite the recommendation to withdraw concession domestic gas being made by the committee, it would not be implemented.** On the recommendation of direct subsidy transfer just like LPG, is positive. **This would result in lower domestic PNG (prices are currently at par with subsidized LPG prices), and thus can potentially lead to higher willingness to switch from LPG to PNG.**

Valuation and Outlook

IGL is the pioneer in CGD, and the key beneficiary of changing landscape in favour of natural gas. It has proven credentials with higher sales volume and have consistent positive volume growth rate every year for last decade. We expect the momentum in volume growth to continue at 11% CAGR for FY18-FY21. The monopolistic nature of business and better economic benefit of natural gas compared to other energy mix are the major tailwinds of the company. IGL is also rewarding shareholders with consistent increase in dividend payouts. We expect Revenue/EBITDA/PAT to grow at CAGR of 16%/13%/13% respectively from FY18-FY21. We reiterate '**BUY**' rating on the stock by assigning PE multiple of 21x to FY21E Earning per share for a target price of Rs.315 (potential upside of 17%) for an investment horizon of 12 months.

Key Financials

YE March (Rs. mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	**38,148**	**45,921**	**57,439**	**63,989**	**71,284**
Growth %	*3.5%*	*20.4%*	*25.1%*	*11.4%*	*11.4%*
EBIDTA	**9,693**	**11,213**	**12,974**	**14,546**	**16,286**
Growth%	*24.4%*	*15.7%*	*15.7%*	*12.1%*	*12.0%*
Net Profit	**6,063**	**7,217**	**8,397**	**9,324**	**10,378**
Growth %	*29.6%*	*19.0%*	*16.3%*	*11.0%*	*11.3%*
Diluted EPS	**8.7**	**10.3**	**12.0**	**13.3**	**14.8**
Growth %	*29.6%*	*19.0%*	*16.3%*	*11.0%*	*11.3%*
Profitability & Valuation					
EBIDTA (%)	**25.4%**	**24.4%**	**22.6%**	**22.7%**	**22.8%**
NPM (%)	15.9%	15.7%	14.6%	14.6%	14.6%
RoE (%)	**21.7%**	**21.7%**	**21.1%**	**19.8%**	**18.9%**
RoCE (%)	26.8%	26.3%	25.5%	24.3%	23.5%
P/E (x)	**31.1x**	**26.1x**	**22.4x**	**20.2x**	**18.1x**
EV/EBITDA (x)	18.8x	16.3x	13.8x	11.9x	10.2x
P/BV (x)	**6.3x**	**5.2x**	**4.4x**	**3.7x**	**3.2x**

Source: Company, BP Equities Research

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook **Positive**

Stock

CMP (Rs)	269
Target Price (Rs)	315
BSE code	532514
NSE Symbol	IGL
Bloomberg	IGL IN
Reuters	IGAS.BO

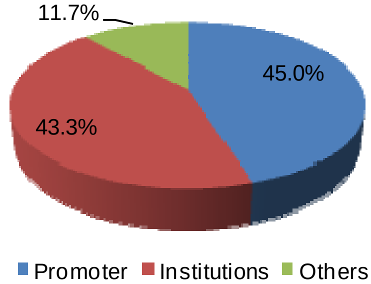
Key Data

Nifty	10,831
52WeekH/L(Rs)	320/215
O/s Shares (Mn)	700
Market Cap (Rs bn)	188
Face Value (Rs)	2

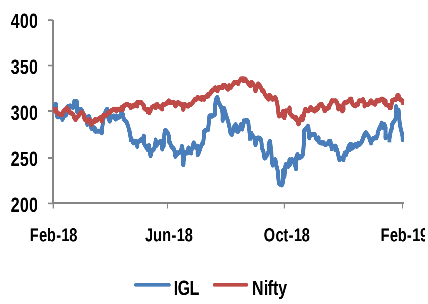
Average volume

3 months	20,81,120
6 months	22,37,690
1 year	24,77,020

Share Holding Pattern (%)



Relative Price Chart



Research Analyst
Kunal Kothari
kunalkothari@bpwealth.com
022-61596408

Research Desk | Tel: +91 22 61596406

Institutional Sales Desk | Tel: +91 22 61596403/04/05

Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

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Corporate Office:
4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:
24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001

BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591

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CIN No: U67120MH1997PTC107392