

## Steady performance...

Indraprastha Gas (IGL) reported its Q1FY20 numbers that were largely in line with our estimates on account of steady volume growth of 13.4% YoY to 6.3 mmscmd, in line with our estimates. Revenues increased 22.4% YoY to ₹ 1576.1 crore, marginally below our estimate of ₹ 1611.8 crore on account of lower realisations in PNG segment. Gross margins came in at ₹ 11.4/scm (our estimate: ₹ 11.5/scm). On account of lower other expenses, EBITDA increased 21.5% YoY to ₹ 358.5 crore (our estimate: ₹ 350.3 crore). Subsequently, PAT rose 24.1% YoY to ₹ 218.4 crore (our estimate: ₹ 222.1 crore).

## Volumes to report steady growth

IGL continued to report stable growth rate on the volumes front, which grew 13.4% YoY to 6.3 mmscmd. The rise in environment awareness & regulations has prompted the need for CNG conversions in Delhi, thus benefiting IGL's CNG volumes at 4.7 mmscmd in Q1FY20 (up 13.7% YoY). On the PNG front, volumes increased 12.4% YoY to 1.6 mmscmd marginally below our estimates of 1.7 mmscmd. Higher volumes from Noida, Ghaziabad, Gurugram, Rewari and other new areas gives visibility for volume growth over the next two years. We estimate sales volumes at 6.5 mmscmd and 7 mmscmd in FY20E and FY21E, respectively.

## Margins to be maintained at healthy levels

Gross margins in Q1FY20 were at ₹ 11.4/scm, largely in line with our estimates. IGL has made appropriate hikes in CNG prices following the rise in operating costs. Going forward, we believe given the company's good pricing power, IGL will continue to pass on any upward revision in domestic gas prices, thus, maintaining margins. Also, we expect gross margins at ₹ 11.3/scm and ₹ 11.2/scm for FY20E and FY21E respectively.

## Valuation & Outlook

The environmental concerns in Delhi have brought forth the urgency of using cleaner fuels, which puts IGL in a sweet spot. IGL has a unique identity of a company with a rare mix of volume growth and strong margins, supported by supportive governmental initiatives. We believe IGL's investment in Maharashtra Natural Gas (MNGL) and Central UP Gas (CUGL) is adding value to the company. However, considering the uncertainty over regulator's (PNGRB) decision on possible competition in existing area of Delhi and relatively higher valuations compared to other CGD companies, we have a **HOLD** recommendation on the stock. We value standalone IGL at ₹ 283/share (21x EPS of ₹ 13.4) and investment in CUGL and MNGL at ₹ 27 per share to arrive at a target price of ₹ 310.



### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	22,400.0
Total Debt (FY18) (₹ Crore)	-
Cash and Investments (FY18) ₹	558.0
EV (₹ Crore)	21,842.0
52 week H/L	350/215
Equity capital (₹ Crore)	140.0
Face value (₹)	2.0

### Key Highlights

- IGL continued its steady growth rate on volumes front, which grew 13.4% YoY to 6.3 mmscmd
- We believe IGL's good pricing power will enable it to pass on any upward revision in domestic gas prices, henceforth, maintaining margins
- Given relatively higher valuations & uncertainty over PNGRB's decision on possible competition in existing area of Delhi, we have HOLD rating with target price of ₹ 310

### Research Analyst

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### Key Financial Summary

(Year-end March)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Revenues (₹ crore)	3,814.8	4,592.1	5,760.0	6,658.0	7,164.0	11.5
EBITDA (₹ crore)	963.8	1,113.3	1,252.1	1,434.8	1,481.8	8.8
Net Profit (₹ crore)	571.1	670.8	786.7	901.5	938.2	9.2
EPS (₹)	8.2	9.6	11.2	12.9	13.4	
P/E (x)	39.2	33.4	28.5	24.8	23.9	
Price / Book (x)	7.7	6.4	5.5	4.7	4.1	
EV/EBITDA (x)	22.6	19.6	17.6	14.9	14.0	
RoCE (%)	27.2	26.5	25.6	25.0	22.4	
RoE (%)	19.5	19.1	19.2	18.8	17.1	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Total Revenues	1,576.1	1,611.8	1,287.4	22.4	1,542.6	2.2	Revenues marginally below estimates on account of lower realisations in PNG segment
Raw materials costs	921.7	947.3	741.8	24.3	905.8	1.8	
Employees Cost	36.7	35.5	31.1	17.9	46.6	-21.3	
Other Expenses	259.3	278.8	219.5	18.1	259.0	0.1	Lower than estimated other expenses
Total Expenditure	1,217.7	1,261.6	992.4	22.7	1,211.4	0.5	
EBITDA	358.5	350.3	295.1	21.5	331.2	8.2	Stable growth in volumes and decline in other expenses contributed to higher EBITDA
EBITDA margins (%)	22.7	21.7	22.9	-18 bps	21.5	127 bps	
Depreciation	60.5	57.2	47.3	28.0	52.2	15.8	
EBIT	298.0	293.0	247.8	20.3	279.0	6.8	
Interest	1.6	0.0	0.6	NA	0.0	NA	
Other Income	35.4	45.0	26.2	34.9	51.3	-31.0	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	331.8	338.0	273.5	21.3	330.3	0.5	
Total Tax	113.4	115.6	97.6	16.2	104.8	8.3	
PAT	218.4	222.4	175.9	24.1	225.5	-3.2	

**Key Metrics**

Sales Volumes (mmscmd)	6.3	6.3	5.5	13.4	6.3	-0.2	CNG volumes were at 4.7 mmscmd whereas PNG volumes came in at 1.6 mmscmd
Realisation (₹/scm)	30.5	30.9	28.3	8.1	30.0	1.7	Marginally lower due to lower realisations in industrial/commercial customers on account of decline in LNG prices
Gross Margin (₹/scm)	11.4	11.5	10.9	4.8	11.2	2.1	Largely in line with estimates

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6756.6	6,658.0	-1.5	7300.7	7,164.0	-1.9	
EBITDA	1376.9	1,434.8	4.2	1453.2	1,481.8	2.0	Marginal revision in gross margins and other expenses estimates led to higher EBITDA
EBITDA Margin (%)	20.4	21.5	117 bps	19.9	20.7	78 bps	
PAT	874.2	901.5	3.1	919.3	938.2	2.0	
EPS (₹)	12.5	12.9	3.1	13.1	13.4	2.0	

Source: Company, ICICI Direct Research

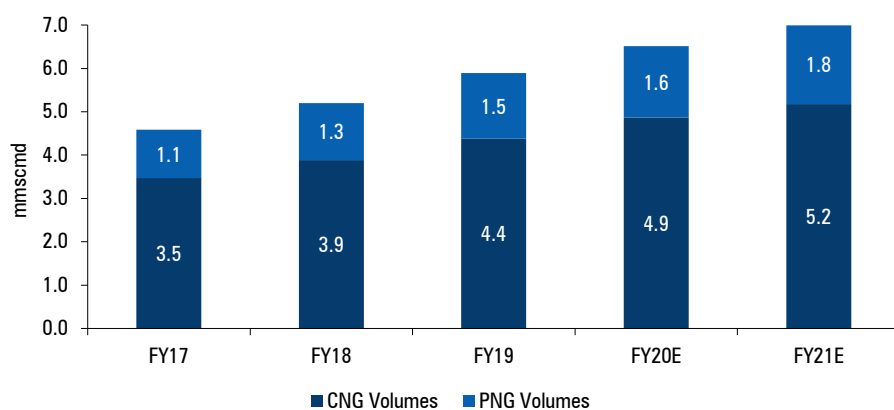
**Exhibit 3: Assumptions**

	Current				Earlier		Comments
	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
Sales Volumes (mmscmd)	5.2	5.9	6.5	7.0	6.6	7.1	Estimate stable volume growth in CNG as well as PNG segment. However, PNG growth rate marginally lowered compared to previous estimate
Realisation (₹/scm)	26.6	29.5	30.9	31.0	30.9	31.1	
Gross Margin (₹/scm)	11.1	10.9	11.3	11.2	11.1	11.1	Will maintain stable profits in the coming quarters

Source: Company, ICICI Direct Research

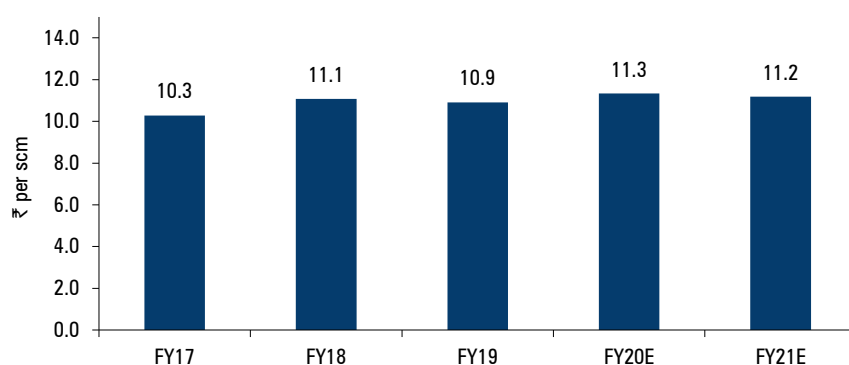
## Story in charts

**Exhibit 4: Volume trajectory**



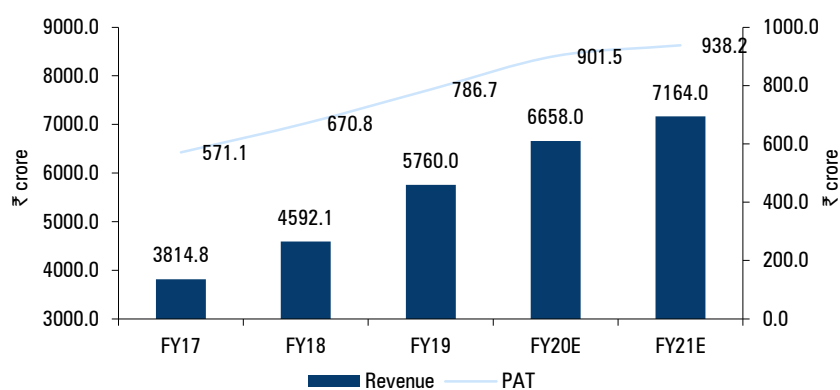
Source: Company, ICICI Direct Research

**Exhibit 5: Gross margin trend**



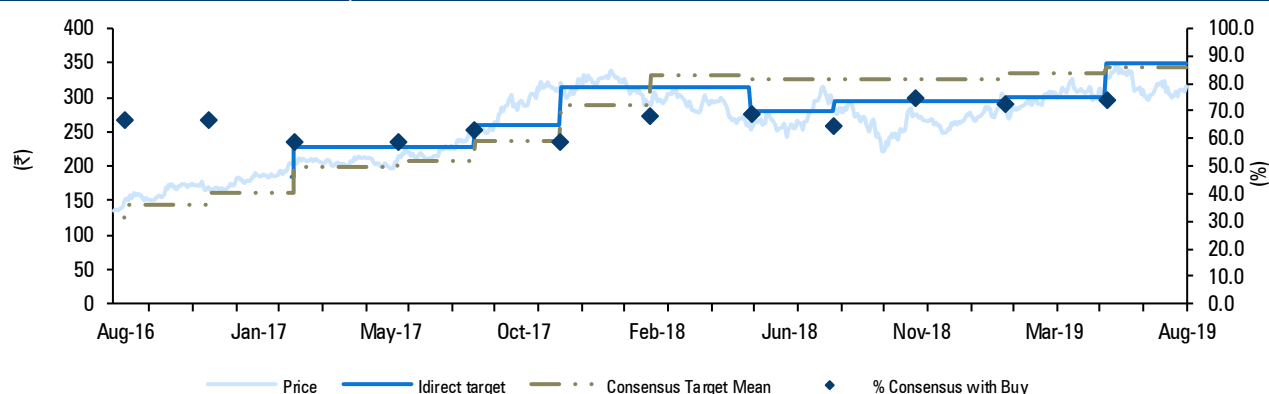
Source: Company, ICICI Direct Research

**Exhibit 6: Revenue & PAT trend**



Source: Company, ICICI Direct Research

**Exhibit 7: Recommendation History vs. Consensus**



Source: Bloomberg, Company, ICICI Direct Research

**Exhibit 8: Top 10 Shareholders**

Rank	Investor Name	Filing Date	% O/S	Position	Change (m)
1	Bharat Petroleum Corporation Ltd	30-Jun-19	22.5	157.5	0.0
2	GAIL (India) Ltd	30-Jun-19	22.5	157.5	0.0
3	Life Insurance Corporation of India	30-Jun-19	7.6	53.2	9.6
4	Government of National Capital Territory of Delhi	31-Mar-19	5.0	35.0	0.0
5	Kotak Mahindra Asset Management Company Ltd.	30-Jun-19	2.9	20.2	-0.7
6	Vontobel Asset Management, Inc.	30-Jun-19	2.6	18.2	4.3
7	HDFC Life Insurance Company Limited	31-Mar-19	2.0	13.7	0.3
8	Fidelity Management & Research Company	30-Jun-19	1.8	12.3	0.0
9	Bank Vontobel AG (Private Banking)	28-Feb-19	1.7	12.2	12.2
10	Schroder Investment Management (Hong Kong) Ltd.	30-Apr-19	1.6	11.3	0.0

Source: Reuters, ICICI Direct Research

**Exhibit 9: Recent Activity**

BUYS			SELLS		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
Bank Vontobel AG (Private Banking)	50.46	12.21	Franklin Templeton Asset Management (India) Pvt. Ltd.	-9.81	-2.15
Life Insurance Corporation of India	43.75	9.59	Kotak Mahindra Asset Management Company Ltd.	-3.29	-0.72
Vontobel Asset Management, Inc.	19.50	4.27	HSBC Global Asset Management (Hong Kong) Limited	-2.97	-0.67
LIC Mutual Fund Asset Management Company Ltd.	7.75	1.76	Schroder Investment Management Ltd. (SIM)	-2.06	-0.46
American Century Investment Management, Inc.	5.79	1.27	Impax Asset Management Ltd.	-1.31	-0.29

Source: Reuters, ICICI Direct Research

**Exhibit 10: Shareholding Pattern**

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	45.0	45.0	45.0	45.0	45.0
FII	20.1	21.1	19.9	21.1	22.8
DII	22.7	22.2	23.7	23.0	16.7
Others	12.2	11.7	11.4	10.9	15.5

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 11: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Revenue</b>	<b>4592.1</b>	<b>5760.0</b>	<b>6658.0</b>	<b>7164.0</b>
Growth (%)	20.4	25.4	15.6	7.6
Raw material Costs	2491.4	3397.3	3946.5	4299.5
Employee Costs	106.1	142.6	148.5	157.6
Other Expenditure	881.3	968.0	1128.3	1225.0
Op. Expenditure	3478.8	4507.9	5223.2	5682.1
EBITDA	1113.3	1252.1	1434.8	1481.8
Growth (%)	15.5	12.5	14.6	3.3
<b>Depreciation</b>	<b>181.3</b>	<b>201.1</b>	<b>238.2</b>	<b>251.2</b>
EBIT	932.0	1051.0	1196.5	1230.7
Interest	1.7	2.0	1.6	0.0
Other Income	102.1	151.0	175.0	195.1
PBT	1032.5	1200.0	1369.9	1425.8
Growth (%)	20.0	16.2	14.2	4.1
Tax	361.7	413.4	468.4	487.6
<b>Reported PAT</b>	<b>670.8</b>	<b>786.7</b>	<b>901.5</b>	<b>938.2</b>
Growth (%)	17.5	17.3	14.6	4.1
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	670.8	786.7	901.5	938.2
<b>EPS</b>	<b>9.6</b>	<b>11.2</b>	<b>12.9</b>	<b>13.4</b>

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	670.8	786.7	901.5	938.2
Add: Depreciation	181.3	201.1	238.2	251.2
Add: Others	44.7	30.0	30.0	30.0
Cash Profit	812.5	821.2	956.7	990.0
Increase/(Decrease) in CL	149.0	-141.4	77.4	43.4
(Increase)/Decrease in CA	-72.8	-147.3	-73.1	-41.2
<b>CF from Operating Activities</b>	<b>1070.0</b>	<b>733.6</b>	<b>1199.3</b>	<b>1243.4</b>
Purchase of Fixed Assets	530.4	693.6	301.2	296.0
(Inc)/Dec in Investments	-470.7	-50.0	-50.0	-50.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activities</b>	<b>-1,001.1</b>	<b>-743.6</b>	<b>-351.2</b>	<b>-346.0</b>
Inc/(Dec) in Loan Funds	62.0	40.0	40.0	40.0
Less: Dividend Paid	84.3	196.6	212.9	229.3
Inc/(Dec) in Sh. Cap. & Res.	-0.2	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-22.4</b>	<b>-156.6</b>	<b>-172.9</b>	<b>-189.3</b>
Change in cash Eq.	-50.5	-171.1	649.8	686.2
Op. Cash and cash Eq.	608.5	558.0	386.9	1,036.7
<b>Cl. Cash and cash Eq.</b>	<b>558.0</b>	<b>386.9</b>	<b>1,036.7</b>	<b>1,722.9</b>

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Source of Funds</b>				
Equity Capital	140.0	140.0	140.0	140.0
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	3,372.9	3,963.0	4,651.5	5,360.4
Shareholder's Fund	3,512.9	4,103.0	4,791.5	5,500.4
Loan Funds	0.0	0.0	0.0	0.0
Deferred Tax Liability	225.3	255.3	285.3	315.3
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>4282.8</b>	<b>4942.9</b>	<b>5701.5</b>	<b>6480.3</b>
<b>Application of Funds</b>				
Gross Block	2,888.6	3,518.6	3,798.6	4,078.6
Less: Acc. Depreciation	456.6	664.0	901.0	1,156.1
Net Block	2,432.0	2,854.6	2,897.6	2,922.4
Capital WIP	386.0	456.0	476.0	496.0
Total Fixed Assets	2,818.1	3,310.6	3,373.6	3,418.5
Investments	1,147.7	1,197.7	1,247.7	1,297.7
Inventories	52.4	74.2	85.7	92.2
Debtor	226.1	347.2	401.3	431.8
Cash	558.0	386.9	1,036.7	1,722.9
Loan & Advance, Other CA	125.9	130.3	137.7	141.8
Total Current assets	962.4	938.5	1661.4	2388.8
Current Liabilities	631.6	473.4	547.2	588.8
Provisions	13.7	30.5	34.1	35.8
Total CL and Provisions	645.4	503.9	581.3	624.7
Net Working Capital	317.1	434.6	1080.1	1764.1
Miscellaneous expense	3.0	3.0	4.0	4.0
<b>Application of Funds</b>	<b>4282.8</b>	<b>4942.9</b>	<b>5701.5</b>	<b>6480.3</b>

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Per share data (₹)</b>				
Book Value	50.2	58.6	68.5	78.6
Cash per share	20.7	18.9	28.9	39.5
EPS	9.6	11.2	12.9	13.4
Cash EPS	12.2	14.1	16.3	17.0
DPS	2.0	2.4	2.6	2.8
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	24.2	21.7	21.5	20.7
PAT Margin (%)	14.6	13.7	13.5	13.1
Fixed Asset Turnover (x)	1.6	1.7	2.0	2.1
Inventory Turnover (Days)	4.2	4.7	4.7	4.7
Debtor (Days)	18.0	22.0	22.0	22.0
Current Liabilities (Days)	50.2	30.0	30.0	30.0
<b>Return Ratios (%)</b>				
RoE	19.1	19.2	18.8	17.1
RoCE	26.5	25.6	25.0	22.4
RoIC	45.1	37.9	43.3	45.0
<b>Valuation Ratios (x)</b>				
PE	33.4	28.5	24.8	23.9
Price to Book Value	6.4	5.5	4.7	4.1
EV/EBITDA	19.6	17.6	14.9	14.0
EV/Sales	4.8	3.8	3.2	2.9
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	NA	NA	NA	NA
Debt to EBITDA (x)	0.0	0.0	0.0	0.0
Current Ratio	1.5	1.9	2.9	3.8
<b>Quick ratio</b>	<b>1.4</b>	<b>1.7</b>	<b>2.7</b>	<b>3.7</b>

Source: Company, ICICI Direct Research

**Exhibit 15: ICICI Direct Coverage Universe (Oil & Gas)**

Sector / Company	CMP	TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)			FY19	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
BPCL (BHAPET)	346	355	Hold	75,056	36.3	32.1	38.2	9.5	10.8	9.0	7.9	8.4	7.0	13.0	11.1	13.1	19.3	15.9	17.4
Castrol India (CASIND)	127	120	Reduce	12,562	7.2	7.2	7.1	17.7	17.7	17.9	11.0	10.8	10.9	88.3	87.6	90.7	61.6	60.9	63.1
GAIL (India) (GAIL)	124	135	Hold	55,924	13.4	11.0	11.2	9.3	11.3	11.1	6.0	7.3	7.9	16.9	12.8	10.8	13.8	10.7	10.3
Gujarat Gas (GUJGA)	174	205	Buy	11,978	6.3	11.2	11.5	27.5	15.6	15.2	13.9	8.2	7.7	16.8	27.9	25.5	19.8	26.7	22.3
Gujarat State Petro (GSPL)	211	210	Hold	11,886	14.1	14.3	13.2	15.0	14.8	16.0	9.6	9.6	9.9	15.7	14.6	13.1	13.9	12.6	10.7
Gulf Oil Lubricants (GULO)	756	810	Hold	3,748	35.8	41.5	45.0	21.1	18.2	16.8	12.9	11.1	10.0	35.8	34.4	32.0	30.7	29.3	26.4
HPCL (HINPET)	249	265	Hold	37,986	39.5	29.2	31.0	6.3	8.5	8.0	5.1	6.9	6.4	16.6	9.8	9.8	22.1	15.4	15.3
Indian Oil Corp (INDOIL)	138	170	Hold	126,699	18.4	17.9	21.1	7.5	7.7	6.6	3.7	3.6	3.4	13.4	14.3	15.3	15.0	13.6	15.0
Indraprastha Gas (INDGAS)	320	310	Hold	22,400	11.2	12.9	13.4	28.5	24.8	23.9	17.6	14.9	14.0	25.6	25.0	22.4	19.2	18.8	17.1
Mahanagar Gas (MAHGAS)	790	950	Buy	7,803	55.3	66.3	67.8	14.3	11.9	11.7	8.2	6.5	6.0	31.5	32.4	28.9	22.7	23.3	20.8
Mangalore Refinery (MRPL)	53	50	Hold	9,289	1.8	0.5	5.1	29.0	98.9	10.3	8.4	11.0	5.6	5.7	3.0	9.8	2.9	0.8	7.6
ONGC (ONGC)	128	125	Hold	164,267	21.2	17.6	18.0	6.0	7.3	7.1	3.0	3.3	3.2	15.4	12.4	12.0	13.0	10.1	9.8
Petronet LNG (PETLNG)	232	235	Hold	34,800	14.4	15.7	18.0	16.1	14.8	12.9	10.7	8.8	7.6	26.5	24.3	27.2	21.3	22.3	24.2

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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