

Reduce

Volume on recovery path with decline in realisations, however strong spreads maintained. Recommend Reduce.

- IGL volume at 5.5 MMSCMD (down 16.4% YoY) with realizations of Rs 25.7 per SCM (down 7.9% YoY) was above our estimates. Volumes in CNG segment de-grew 20%, while Industrial/commercial segment was flat with strong performance in Domestic PNG segment of 21% YoY.
- EBITDA/scm grew 24% YoY at Rs 8/scm.
- Gas cost de-grew 26.3% in YoY and was flat sequentially to Rs 12.1/scm. Gross spreads were strong at Rs 13.6 per SCM. Maintenance of spreads at Gross and EBITDA levels will be the key monitorable to be watched out for.
- Volumes for IGL have recovered to 80% Pre Covid levels with Industrial volumes recovering 100%, domestic PNG volumes at 120%, CNG volumes at 80% and commercial volumes at 40%-50% of Pre Covid levels. It is expected that by Q3FY21E avg. sales will surpass last year's sales.
- Volume growth outlook for the long term looks good and we believe that IGL should be able to maintain double-digit volume growth trajectory driven by CNG economics and expansion in regions like Rewari and Gurugram. IGL has got full rights of CGD operations in high potential Gurugram region which is a mature area, volumes should take some time to clock in as there can be a slowdown in capex.
- We continue to like the story considering the business dynamics of IGL. There can be some short term pressure on the stock price as there will be capex spent to the tune of Rs 20,000 mn in next 3 years, Covid Impact can decline revenues for FY21 before getting back to normal levels in FY22, and the hangover around the common carrier policy to be introduced by the regulator. Considering the run up in the stock, we recommend Reduce with a target price of Rs 472. (DCF Method)

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	13,054	16,925	(22.9)	6,386	104.4
Total Expense	8,983	12,998	(30.9)	5,551	61.8
EBITDA	4,071	3,926	3.7	834	387.9
Depreciation	711	621	14.4	682	4.3
EBIT	3,360	3,305	1.7	153	2100.5
Other Income	657	390	68.7	306	114.5
Interest	23	18	26.5	24	(3.4)
EBT	3,994	3,677	8.6	435	817.6
Tax	915	(133)	(786.3)	117	682.6
RPAT	3,079	3,810	(19.2)	318	867.1
APAT	3,079	3,810	(19.2)	318	867.1
			(bps)		(bps)
Gross Margin (%)	53.3	41.5	1182	53.2	13
EBITDA Margin (%)	31.2	23.2	799	13.1	1812
NPM (%)	23.6	22.5	108	5.0	1860
Tax Rate (%)	22.9	(3.6)	2653	26.9	(395)
EBIT Margin (%)	25.7	19.5	621	2.4	2335

CMP	Rs 448
Target / Upside	Rs 472 / 5%
NIFTY	12,749

Scrip Details

Equity / FV	Rs 1,400mn / Rs 2
Market Cap	Rs 314bn
	USD 4bn
52-week High/Low	Rs 534/ 284
Avg. Volume (no)	34,28,730
Bloom Code	IGL IN

Price Performance	1M	3M	12M
Absolute (%)	18	15	5
Rel to NIFTY (%)	10	2	(3)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	45.0	45.0	45.0
MF/Banks/FIs	17.2	17.2	18.0
FIIIs	21.4	21.4	23.0
Public / Others	16.4	16.4	14.0

Valuation (x)

	FY21E	FY22E	FY23E
P/E	34.2	24.6	21.4
EV/EBITDA	23.9	17.4	14.5
ROE (%)	16.7	19.6	18.8
RoACE (%)	16.3	19.1	18.4

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	52,124	65,468	71,995
EBITDA	12,366	16,851	20,106
PAT	9,183	12,737	14,654
EPS (Rs.)	13.1	18.2	20.9

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Strong revival in Volumes

IGL reported volume de-growth of 16.4% on a YoY basis and a growth of 103% sequentially at 5.5 MMSCMD. CNG segment, which constitutes nearly 71% of volumes, delivered a de-growth of 20% YoY. However, volumes have reached 80% of Pre Covid levels. Higher volumes from H2FY21 will be seen driven by increased number of vehicle conversions of LCV and private cars, addition of DTC buses, increased number of CNG stations and government thrust to control pollution. Also, people will prefer private vehicles over public transport and CNG economies of scale will be cheaper than petrol/diesel. They plan to add 95 CNG stations in FY21.

Volume de-growth in the PNG segment for the quarter was at 4% YoY. PNG sales to industrial/commercial segment was flat YoY as industrial units started operation, however commercial sales recovery is slow. We believe that this segment can be a game changer in years to come. Commercial segment has high margins but lower volumes. Domestic PNG has increased by 21% and Natural gas segment de-grew 26%. They plan to connect 3 lakh new houses with domestic PNG in FY21 including new GA's won.

We believe that IGL will clock weaker gas sales in FY21 due to volumes lost in Q1FY21 due to lockdown situation and will take a couple of months to return to normalcy specially in Delhi/NCR region. From H2FY21 we expect low double-digit volume growth for couple of years driven by growth in existing NCR and expansion in new areas. IGL has got full rights of CGD operations in high potential Gurugram region and volumes have started coming in. We expect volumes from other GA's to flow in bit slower due to delay in capex cycles.

Valuation

We are positive on the long term volume growth of the stock with sales going down in FY21 before returning to normal levels in FY22. With further reduction input cost from Oct'20, we expect margins to sustain with marginal expansion of spreads, profit growth trajectory will get stronger in longer run. Volume growth trajectory is the key monitorable and we expect that IGL has strong volume growth drivers in place. With volume growth outlook looking good driven by new areas and increase in volume potential of existing regions and confirmed availability of domestic gas for CNG and Domestic PNG segment, we believe that profitability growth can be in double digits from H2FY21 onwards. However, there can be some negativity around the stock till the common carrier policy is finalised. Recommend Reduce with a target prices of Rs 472, as most of the positives in the stock are factored in.

Exhibit 1: Actual V/s DART estimates

Particulars (Rs. Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	13,054	12,294	6.2	Higher than expected volumes with PNG showing strong recovery
EBITDA	4,071	2,864	42.2	Reduction in gas cost and other cost prudence
EBITDA Margin (%)	31.2	23.3	789.1	
PAT	3,079	2,017	52.7	Increased other income

Source: Company, DART

Exhibit 2: Change in estimates

Rs Mn	FY 21E			FY 22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	52,124	52,252	(0.2)	65,468	65,696	(0.3)
EBITDA	12,366	11,943	3.5	16,851	16,768	0.5
EBITDA Margin (%)	23.7	22.9	86.7	25.7	25.5	21.5
PAT	9,182	8,855	3.7	12,735	12,758	(0.2)
EPS (Rs.)	13.1	12.6	3.7	18.2	18.2	(0.2)

Source: Company, DART

Exhibit 3: Volume Data

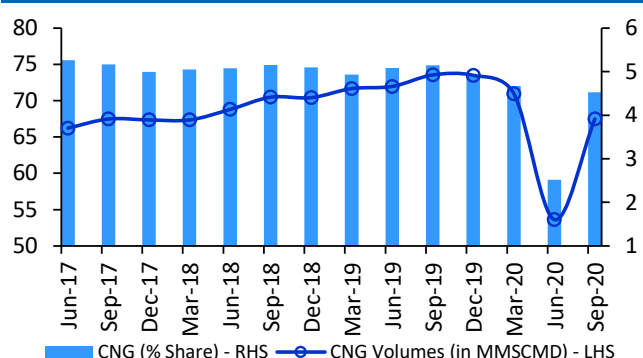
Volume Data	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
CNG (in kg)	25,50,00,000	32,00,00,000	(20.3)	10,50,00,000	142.9	36,00,00,000	62,50,00,000	(42.4)
CNG (in scm)	36,00,00,000	45,30,00,000	(20.5)	14,60,00,000	146.6	50,60,00,000	87,70,00,000	(42.3)
Conversion Factor	1.4	1.4	-	1.390	-	1.4	1.4	-
PNG (in scm)	14,60,00,000	15,20,00,000	(3.9)	10,10,00,000	44.6	24,70,00,000	29,70,00,000	(16.8)
Total Volume (in scm)	50,60,00,000	60,50,00,000	(16.4)	24,70,00,000	104.9	75,30,00,000	1,17,40,00,000	(35.9)
Total Volume (in mmscm)	506.0	605.0	(16.4)	247.0	104.9	753.0	1,174.0	(35.9)
Total Volume (in mmscmd)	5.5	6.6	(16.4)	2.71	102.6	4.1	6.4	(35.9)
CNG Sales Value (Rs Mn)	10,793	14,380	(24.9)	4,290	151.6	15,083	27,780	(45.7)
CNG Net Sales Value (Rs Mn)	9,440	12,576	(24.9)	3,750	151.7	13,190	24,297	(45.7)
PNG Sales Value (Rs Mn)	3,550	4,280	(17.1)	2,580	37.6	6,130	8,260	(25.8)
Total Sales Value (Rs Mn)	14,343	18,660	(23.1)	6,870	108.8	21,213	36,040	(41.1)
CNG Realization Gross Value (Rs/kg)	42.3	44.9	(5.8)	40.9	3.6	41.9	44.4	(5.7)
CNG Realization (Rs/kg)	37.0	39.3	(5.8)	35.7	3.7	36.6	38.9	(5.8)
Excise (Rs / Kg)	5.3	5.6	(5.9)	5.1	3.2	5.3	5.6	(5.7)
Spread Earned (Rs / Kg)	20.0	16.1	24.0	18.9	5.8	19.7	16.0	22.8
Spread Earned (Rs / SCM)	14.2	11.4	24.3	13.6	4.2	14.0	11.4	22.6
PNG Realization Value (Rs / SCM)	24.3	28.2	(13.6)	25.5	(4.8)	24.8	27.8	(10.8)
Spread Earned (Rs / SCM)	12.3	11.8	4.0	13.5	(8.9)	12.7	11.5	10.6
Gas Cost (Rs per SCM)	12.1	16.4	(26.3)	12.1	(0.2)	12.1	16.3	(25.9)
Blended Realization (Rs / SCM)	25.7	27.9	(7.9)	25.6	0.2	25.7	27.7	(7.5)
Blended Spread (Rs / SCM)	13.6	11.5	18.4	13.5	0.5	13.6	11.4	18.7
EBITDA Spread (Rs / SCM)	8.0	6.5	24.0	3.38	138.2	6.5	6.4	1.8

Source: Company, DART

Key Highlights:

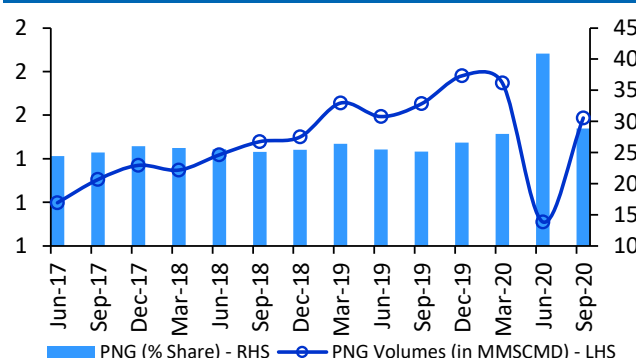
- Net sales decreased by 22.9% on a YoY basis to Rs. 13,054 mn driven by a realization de-growth of 7.9% and volume de-growth of 16.4% YoY
- Raw material cost decreased by 38.4% on a YoY basis to Rs. 6,103 mn.
- Operating profit increased by 3.7% on a YoY basis to Rs. 4,071 mn.
- Interest expenses increased on a YoY basis to Rs. 23 mn
- Depreciation increased sequentially to Rs. 711 mn.
- Net profit de-grew to Rs. 3,079 mn on a YoY basis by 19.2%
- Volume de-growth in CNG segment was at 20.5% and PNG segment witnessed a de-growth of 3.9%. Overall volumes decreased by 16.4% on a YoY basis and increased by 102.6% QoQ basis to 5.5 MMSCMD for this quarter.
- Gross spread in the CNG segment was at Rs. 14.2 per SCM.
- Gross spread in the PNG segment increased by 4% to Rs. 12.3 per SCM on a YoY basis.
- Gross spread on a blended basis was at Rs. 13.6 per SCM showing a growth of 18.4% on a YoY basis and EBIDTA spread was at Rs. 8 per SCM showing a growth of 24% on a YoY basis.

Exhibit 4: CNG Volume



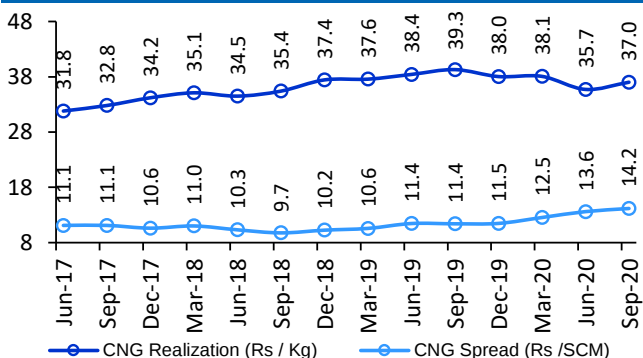
Source: Company, DART

Exhibit 5: PNG Volume



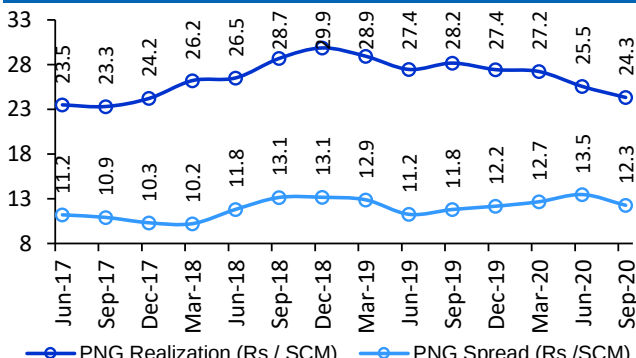
Source: Company, DART

Exhibit 6: CNG KPI's



Source: Company, DART

Exhibit 7: PNG KPI's



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	64,853	52,124	65,468	71,995
Total Expense	49,656	39,758	48,617	51,890
COGS	36,794	26,884	33,659	34,503
Employees Cost	1,517	1,429	1,603	1,801
Other expenses	11,346	11,446	13,355	15,585
EBIDTA	15,196	12,366	16,851	20,106
Depreciation	2,523	2,689	3,048	3,720
EBIT	12,674	9,677	13,803	16,386
Interest	81	85	100	112
Other Income	1,564	2,500	3,000	3,000
Exc. / E.O. items	0	0	0	0
EBT	14,157	12,093	16,703	19,274
Tax	2,791	2,909	3,967	4,620
RPAT	11,365	9,183	12,737	14,654
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	11,365	9,183	12,737	14,654

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	1,400	1,400	1,400	1,400
Minority Interest	0	0	0	0
Reserves & Surplus	49,224	57,747	69,721	83,485
Net Worth	50,624	59,147	71,121	84,885
Total Debt	0	0	0	0
Net Deferred Tax Liability	2,119	2,119	2,119	2,119
Total Capital Employed	52,743	61,266	73,240	87,004

Applications of Funds

Net Block	35,569	44,431	55,383	65,663
CWIP	7,767	10,000	10,000	10,000
Investments	2,581	2,500	2,500	5,000
Current Assets, Loans & Advances	25,805	23,697	27,206	30,202
Inventories	511	569	715	787
Receivables	1,704	1,707	2,146	2,360
Cash and Bank Balances	21,799	18,710	20,484	22,044
Loans and Advances	849	1,649	2,649	3,649
Other Current Assets	942	1,062	1,212	1,362
Less: Current Liabilities & Provisions	18,980	19,362	21,849	23,861
Payables	2,250	3,388	4,242	4,443
Other Current Liabilities	16,730	15,974	17,607	19,418
<i>sub total</i>				
Net Current Assets	6,825	4,335	5,357	6,341
Total Assets	52,743	61,266	73,240	87,004

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	43.3	48.4	48.6	52.1
EBIDTA Margin	23.4	23.7	25.7	27.9
EBIT Margin	19.5	18.6	21.1	22.8
Tax rate	19.7	24.1	23.7	24.0
Net Profit Margin	17.5	17.6	19.5	20.4
(B) As Percentage of Net Sales (%)				
COGS	56.7	51.6	51.4	47.9
Employee	2.3	2.7	2.4	2.5
Other	17.5	22.0	20.4	21.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	156.1	114.4	138.0	146.3
Inventory days	3	4	4	4
Debtors days	10	12	12	12
Average Cost of Debt				
Payable days	13	24	24	23
Working Capital days	38	30	30	32
FA T/O	1.8	1.2	1.2	1.1
(D) Measures of Investment				
AEPS (Rs)	16.2	13.1	18.2	20.9
CEPS (Rs)	19.8	17.0	22.5	26.2
DPS (Rs)	2.8	2.6	3.0	3.5
Dividend Payout (%)	17.2	19.8	16.5	16.7
BVPS (Rs)	72.3	84.5	101.6	121.3
RoANW (%)	24.7	16.7	19.6	18.8
RoACE (%)	23.7	16.3	19.1	18.4
RoAIC (%)	36.8	26.3	29.0	27.8
(E) Valuation Ratios				
CMP (Rs)	448	448	448	448
P/E	27.6	34.2	24.6	21.4
Mcap (Rs Mn)	3,13,810	3,13,810	3,13,810	3,13,810
MCap/ Sales	4.8	6.0	4.8	4.4
EV	2,92,011	2,95,100	2,93,326	2,91,766
EV/Sales	4.5	5.7	4.5	4.1
EV/EBITDA	19.2	23.9	17.4	14.5
P/BV	6.2	5.3	4.4	3.7
Dividend Yield (%)	0.6	0.6	0.7	0.8
(F) Growth Rate (%)				
Revenue	12.5	(19.6)	25.6	10.0
EBITDA	20.9	(18.6)	36.3	19.3
EBIT	20.0	(23.6)	42.6	18.7
PBT	18.0	(14.6)	38.1	15.4
APAT	44.5	(19.2)	38.7	15.1
EPS	44.5	(19.2)	38.7	15.1

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	13,608	11,357	16,634	19,059
CFI	(5,207)	1,420	(14,000)	(16,500)
CFF	(2,435)	(744)	(861)	(999)
FCFF	3,975	(2,427)	2,634	5,059
Opening Cash	712	6,677	18,710	20,484
Closing Cash	6,677	18,710	20,484	22,044

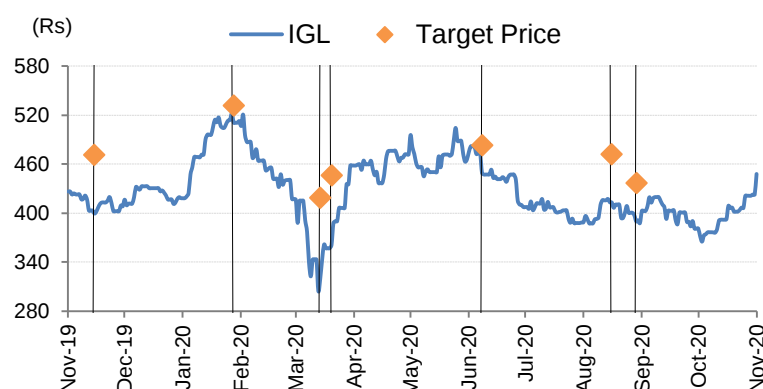
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-19	Accumulate	471	400
Feb-20	Accumulate	532	511
Mar-20	Buy	419	320
Mar-20	Buy	446	361
Jun-20	Accumulate	483	450
Aug-20	Accumulate	472	413
Sep-20	Accumulate	437	390

*Price as on recommendation date

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Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

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