

Indraprastha Gas

Refer to important disclosures at the end of this report

Stock overreacts to upcoming gas price hike; CNG economics to be in range

- IGL's stock price corrected 13% in the last 15 days as economics vs. margin concerns resurfaced post the recent spike in global gas prices, and its impact on APM rates going ahead. PNGRB also sought comments on open access, though it was mostly a follow-up.
- Despite our bullish stance on gas prices, we find comfort in IGL's retail model and past trends. Public-commercial vehicles in NCR are mandated to run on CNG, while 4W conversions and CNG growth have a negative 10 year correlation with petrol economics.
- We estimate CNG RSP to rise by Rs7/Rs14 per kg in Oct'21/Apr'22, assuming USD3/USD5.5 APM. But in Apr'22, CNG would still be ~50%/30% cheaper than petrol/diesel (at current Brent), similar to 9MFY20, when CNG volumes still grew by 12%.
- In our view, IGL's expansion in contiguous northern areas and widening of the pollution ban imply steady growth and ~Rs8/scm EBITDA seems sustainable. We reiterate Buy on IGL with an OW stance and a DCF-based Sep'22 TP of Rs635 (unchanged).

Domestic gas prices seeing an upswing but higher alternate fuel prices supportive: We estimate APM gas prices to rise from USD1.79/mmbtu GCV to USD3 in Oct'21 and to ~USD5.5 in Apr'22 based on global trends so far. For every USD1/mmbtu rise in gas costs, IGL needs to increase CNG RSP by Rs4.7/kg in Delhi in order to maintain gross margins. Hence, IGL would require a total hike of Rs19.3/kg in the next two pricing cycles till Apr'22. With OMCs asking for higher commissions, another hike of Rs2/kg may be needed. Hence, CNG prices could reach Rs66.5/kg by FY23 from Rs45.2/kg currently. However, considering Brent at USD75-80/bbl and an uptick in refining cracks, equivalent petrol/diesel prices would also rise to Rs105/Rs95 per liter by FY23 – Rs4-5/ltr higher than current levels. Under this scenario, CNG would be 52%/30% cheaper than petrol/diesel. In FY20 also (9M ex Q4 Covid impact), it was the same scenario and IGL recorded 12% yoy growth in CNG sales volume.

Growth correlation with economics low, new areas to aid volumes: Public and commercial vehicles in NCR are bound to run on CNG due to stringent pollution control norms. The conversion of 4Ws to CNG seems to be a growth driver, with the recent 15,000-16,000 conversions per month much higher than the 10-year average of 4,900 (incl taxis). However, overall CNG volume growth has a negative correlation with CNG's pricing economics vs. petrol-diesel. IGL's volume growth is driven by a combination of factors, such as new area expansion, more CNG outlets and availability of OEM variants. IGL has an ambitious capex plan of Rs15bn and 125 new outlets in FY22. It aims to achieve 10mmcmd total volumes by FY24 (11% CAGR vs. FY19) with a 15% contribution from new GAs. We, hence, maintain our volume assumption of 9.3mmcmd in FY24 and EBITDA/scm of Rs8.1. We reiterate Buy on IGL with a TP of Rs635/sh. A sharp decline in oil prices and BPCL disinvestment led events are the key risk to our estimates.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Oil & Gas \(Page 7\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	64,853	49,408	65,224	90,358	100,762
EBITDA	15,196	14,830	20,133	24,329	27,634
EBITDA Margin (%)	23.4	30.0	30.9	26.9	27.4
APAT	10,589	10,057	13,709	16,495	18,863
EPS (Rs)	15.1	14.4	19.6	23.6	26.9
EPS (% chg)	34.6	(5.0)	36.3	20.3	14.4
ROE (%)	23.0	18.4	21.5	21.9	21.3
P/E (x)	34.3	36.1	26.5	22.0	19.2
EV/EBITDA (x)	22.5	22.7	16.7	13.6	11.8
P/BV (x)	7.2	6.2	5.3	4.5	3.8

Source: Company, Emkay Research

CMP	Target Price
Rs 519 as of (September 29, 2021)	Rs 635 (■) 12 months
Rating	Upside
BUY (■)	22.4 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	-/-
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	19.6	23.6
Consensus	19.3	22.3
Mean Consensus TP (12M)	Rs 595	

Stock Details

Bloomberg Code	IGL IN
Face Value (Rs)	2
Shares outstanding (mn)	700
52 Week H/L	604 / 364
M Cap (Rs bn/USD bn)	363 / 4.90
Daily Avg Volume (nos.)	2,845,568
Daily Avg Turnover (US\$ mn)	21.1

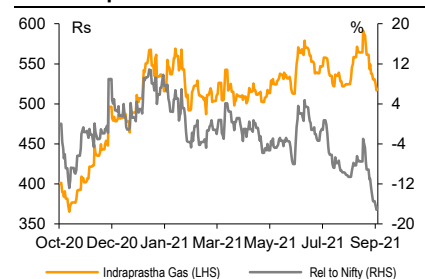
Shareholding Pattern Jun '21

Promoters	45.0%
FIIIs	23.9%
DIIIs	14.8%
Public and Others	16.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(6)	3	33
Rel. to Nifty	(7)	(16)	(16)	(16)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

Sabri Hazarika

sabri.hazarika@emkayglobal.com
+91 22 6612 1282

Tanay Gabhawala

tanay.gabhawala@emkayglobal.com
+91 22 6612 1336

Story in Charts

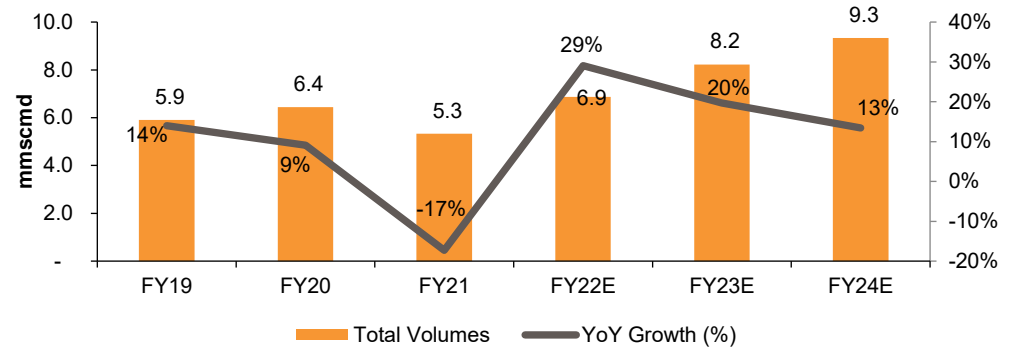
Exhibit 1: CNG economics trend and growth impact analysis

RSP (Rs/kg-ltr)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22e	1HFY23e	Correlation
CNG	21.2	26.8	26.1	37.6	41.1	37.9	37.6	36.7	38.8	43.1	45.7	44.0	48.2	66.5	
Petrol	43.9	53.2	64.6	68.3	70.5	66.3	62.1	65.9	69.0	75.3	72.9	81.6	100.5	105.0	
Diesel	32.6	38.4	40.5	44.9	52.4	54.1	47.0	55.0	58.7	68.2	65.9	73.8	90.0	95.0	
Running Cost (Rs/km)															
CNG	1.2	1.6	1.5	2.2	2.4	2.2	2.2	2.2	2.3	2.5	2.7	2.6	2.8	3.9	
Petrol	3.4	4.1	5.0	5.3	5.4	5.1	4.8	5.1	5.3	5.8	5.6	6.3	7.7	8.1	
Diesel	1.9	2.3	2.4	2.6	3.1	3.2	2.8	3.2	3.5	4.0	3.9	4.3	5.3	5.6	

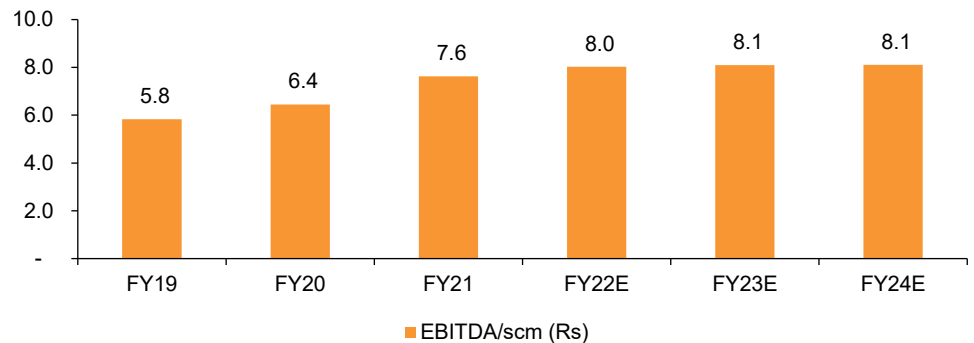
CNG Economics vs	CNG Vol. Growth vs CNG Economics (FY10-20)														Correlation
Petrol	-63%	-62%	-69%	-58%	-55%	-56%	-54%	-57%	-57%	-56%	-52%	-59%	-63%	-52%	-0.6
Diesel	-35%	-30%	-35%	-16%	-22%	-30%	-20%	-33%	-34%	-37%	-31%	-40%	-46%	-30%	-0.7

CNG Vol Growth yoy (ex Covid*)	Conversions vs CNG-Petrol Economics (FY10-20)														Correlation								
Monthly Car+Taxi Conversions*	15%	18%	15%	7%	2%	4%	4%	13%	11%	13%	12%	3162	5712	6448	8479	4490	3446	2804	6868	3140	4000	3433	-0.4

Source: Company, Emkay Research *FY20 is 9M only

Exhibit 2: IGL's volume outlook


Source: Company, Emkay Research

Exhibit 3: IGL's margin outlook


Source: Company, Emkay Research

Valuations

Exhibit 4: DCF Valuation

Assumptions		Sep'23E (Rs mn)	Core IGL	CUGL 50%	MNGL 50%	Consol.
Risk Free Rate	6.0%	NPV Of FCF	139,652	3,547	14,982	
Risk Premium	5.5%	Terminal Value	579,598	7,220	46,502	
Beta	0.9	PV Of TV	234,392	2,546	16,397	
Cost Of Equity	10.7%	Total Value	374,044	6,093	31,379	
Cost Of Debt	9.0%	Less: Net Debt (Sep'22E)	(30,165)	(1,263)	(1,484)	
Post Tax Cost Of Debt	6.8%	Equity Value	404,209	7,356	32,863	444,429
Average Debt:Equity Ratio	45%	No. Of Shares O/S (mn)	700	700	700	700
WACC	9.5%	Target Price (Rs)	577	11	47	635
Terminal Growth Rate						
IGL	3.0%					
CUGL	0.0%					
MNGL	2.0%					

Source: Company, Emkay Research

Exhibit 5: PE-based valuation

Rs/sh	FY19	FY20	FY21	FY22E	FY23E	FY24E
IGL's Core EPS	11.2	15.1	14.4	19.6	23.6	26.9
Less: CUGL/MNGL Div. Inc.	0.1	0.4	0.2	0.3	0.4	0.5
IGL Adjusted EPS	11.1	14.7	14.1	19.2	23.1	26.4
CUGL/MNGL EPS Contri.	1.4	2.1	1.8	2.3	2.7	3.1
Consol. EPS	12.5	16.8	15.9	21.5	25.8	29.5
Target Multiple (x)					22.9	
DCF Target Price					635	

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	64,853	49,408	65,224	90,358	100,762
Expenditure	49,656	34,578	45,090	66,029	73,127
EBITDA	15,196	14,830	20,133	24,329	27,634
Depreciation	2,523	2,904	3,535	4,323	5,044
EBIT	12,674	11,926	16,599	20,006	22,591
Other Income	1,564	1,502	1,866	2,185	2,767
Interest expenses	81	113	137	138	140
PBT	14,157	13,315	18,327	22,053	25,219
Tax	3,567	3,258	4,618	5,557	6,355
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	11,365	10,057	13,709	16,495	18,863
Adjusted PAT	10,589	10,057	13,709	16,495	18,863

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	1,400	1,400	1,400	1,400	1,400
Reserves & surplus	49,224	57,319	67,600	79,971	94,119
Net worth	50,624	58,719	69,000	81,371	95,519
Minority Interest	0	0	0	0	0
Loan Funds	962	1,130	1,142	1,153	1,165
Net deferred tax liability	2,119	2,422	2,722	3,022	3,322
Total Liabilities	53,705	62,271	72,864	85,547	100,006
Net block	35,569	43,209	53,123	61,135	68,594
Investment	2,945	18,557	18,871	19,191	19,517
Current Assets	25,442	15,639	17,031	23,218	30,402
Cash & bank balance	21,799	11,323	11,716	16,313	22,822
Other Current Assets	942	816	824	833	841
Current liabilities & Provision	18,018	23,603	25,901	30,172	31,900
Net current assets	7,424	(7,964)	(8,870)	(6,954)	(1,498)
Misc. exp	0	0	0	0	0
Total Assets	53,705	62,271	72,864	85,547	100,006

Cash Flow

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income) (NI+Dep)	12,593	11,813	16,462	19,868	22,451
Other Non-Cash items	133	52	0	0	0
Chg in working cap	2,465	5,215	1,599	2,980	1,353
Operating Cashflow	13,608	15,460	17,126	21,763	22,644
Capital expenditure	(12,309)	(11,246)	(14,720)	(14,770)	(13,720)
Free Cash Flow	1,298	4,214	2,406	6,993	8,923
Investments	12,763	(15,612)	(314)	(320)	(326)
Other Investing Cash Flow	2,538	2,389	0	0	0
Investing Cashflow	4,556	(22,967)	(13,168)	(12,905)	(11,279)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	962	169	11	11	12
Dividend paid (incl tax)	(2,025)	(1,960)	(3,427)	(4,124)	(4,716)
Other Financing Cash Flow	(1,290)	(1,065)	(11)	(11)	(12)
Financing Cashflow	(2,435)	(2,970)	(3,564)	(4,262)	(4,856)
Net chg in cash	15,729	(10,477)	394	4,596	6,509
Opening cash position	6,071	21,799	11,323	11,716	16,313
Closing cash position	21,799	11,323	11,716	16,313	22,822

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin	23.4	30.0	30.9	26.9	27.4
EBIT Margin	19.5	24.1	25.4	22.1	22.4
Effective Tax Rate	25.2	24.5	25.2	25.2	25.2
Net Margin	16.3	20.4	21.0	18.3	18.7
ROCE	29.2	23.2	27.3	28.0	27.3
ROE	23.0	18.4	21.5	21.9	21.3
RoIC	65.7	52.9	58.8	56.8	55.0

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	15.1	14.4	19.6	23.6	26.9
CEPS	18.7	18.5	24.6	29.7	34.2
BVPS	72.3	83.9	98.6	116.2	136.5
DPS	2.8	3.6	4.9	5.9	6.7

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	34.3	36.1	26.5	22.0	19.2
P/CEPS	28.6	28.9	21.7	18.0	15.7
P/BV	7.2	6.2	5.3	4.5	3.8
EV / Sales	5.3	6.9	5.2	3.7	3.2
EV / EBITDA	22.5	22.7	16.7	13.6	11.8
Dividend Yield (%)	0.5	0.7	0.9	1.1	1.3

Gearing Ratio (x)	FY20	FY21	FY22E	FY23E	FY24E
Net Debt/ Equity	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Net Debt/EBIDTA	(1.4)	(1.7)	(1.3)	(1.3)	(1.4)
Working Cap Cycle (days)	(4.1)	(21.6)	(22.3)	(26.4)	(25.6)

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	12.5	(23.8)	32.0	38.5	11.5
EBITDA	20.9	(2.4)	35.8	20.8	13.6
EBIT	20.0	(5.9)	39.2	20.5	12.9
PAT	44.5	(11.5)	36.3	20.3	14.4

Quarterly (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Revenue	6,386	13,054	14,462	15,506	12,574
EBITDA	834	4,071	5,007	4,918	3,809
EBITDA Margin (%)	13.1	31.2	34.6	31.7	30.3
PAT	318	3,079	3,349	3,310	2,443
EPS (Rs)	0.5	4.4	4.8	4.7	3.5

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	45.0	45.0	45.0	45.0	45.0
FII	22.3	21.3	23.2	23.8	23.9
DII	17.2	17.4	16.1	15.9	14.8
Public and Others	15.5	16.4	15.7	15.3	16.3

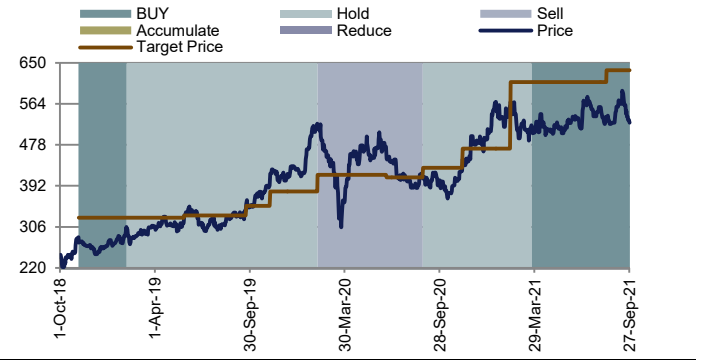
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
14-Aug-21	535	635	12m	Buy	Sabri Hazarika
26-Jul-21	547	610	12m	Buy	Sabri Hazarika
25-Jun-21	513	610	12m	Buy	Sabri Hazarika
23-Jun-21	519	610	12m	Buy	Sabri Hazarika
18-Jun-21	532	610	12m	Buy	Sabri Hazarika
29-May-21	514	610	12m	Buy	Sabri Hazarika
23-Apr-21	510	610	12m	Buy	Sabri Hazarika
23-Mar-21	519	610	12m	Buy	Sabri Hazarika
18-Feb-21	568	610	12m	Hold	Sabri Hazarika
11-Feb-21	569	610	12m	Hold	Sabri Hazarika
27-Nov-20	496	470	12m	Hold	Sabri Hazarika
11-Nov-20	448	470	12m	Hold	Sabri Hazarika
28-Sep-20	404	430	12m	Hold	Sabri Hazarika
27-Aug-20	407	430	12m	Hold	Sabri Hazarika
18-Jun-20	450	410	12m	Sell	Sabri Hazarika
6-May-20	468	415	12m	Sell	Sabri Hazarika
7-Feb-20	511	415	12m	Sell	Sabri Hazarika
24-Jan-20	496	380	12m	Hold	Sabri Hazarika
4-Dec-19	413	380	12m	Hold	Sabri Hazarika
8-Nov-19	418	380	12m	Hold	Sabri Hazarika
25-Oct-19	377	350	12m	Hold	Sabri Hazarika
23-Sep-19	355	350	12m	Hold	Sabri Hazarika
16-Sep-19	334	330	12m	Hold	Sabri Hazarika
1-Jul-19	305	330	12m	Hold	Sabri Hazarika
10-Jun-19	340	330	12m	Hold	Sabri Hazarika
27-May-19	330	330	12m	Hold	Sabri Hazarika
1-Apr-19	307	325	12m	Hold	Sabri Hazarika
6-Feb-19	300	325	12m	Hold	Sabri Hazarika
28-Jan-19	273	325	12m	Buy	Sabri Hazarika
31-Dec-18	267	325	12m	Buy	Sabri Hazarika
11-Dec-18	249	325	12m	Buy	Sabri Hazarika
6-Nov-18	273	325	12m	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Oil & Gas



Analyst: Sabri Hazarika

Contact Details

sabri.hazarika@emkayglobal.com
+91 22 6612 1282

Sector

Oil & Gas

Analyst bio

Sabri Hazarika holds an MBA and comes with 12 years of research experience. His team currently covers 12 stocks in the Indian Oil & Gas space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Oil & Gas	10.37	10.36	0%	-1	100.00
BPCL	0.42	0.44	5%	2	4.25
GAIL	0.28	0.30	6%	2	2.90
Gujarat Gas	0.10	0.00	-100%	-10	0.00
Gujarat State Petronet	0.09	0.09	3%	0	0.85
Gulf Oil Lubricants	0.00	0.00	NA	0	0.00
HPCL	0.18	0.19	3%	0	1.80
Indian Oil	0.31	0.31	2%	1	3.00
Indraprastha Gas	0.18	0.20	11%	2	1.90
Petronet LNG	0.18	0.18	1%	0	1.70
Oil India	0.08	0.08	-5%	0	0.75
ONGC	0.51	0.49	-3%	-1	4.75
Reliance Industries	8.05	8.09	0%	4	78.00
Cash	0.00	0.01	NA	1	0.10

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	29-Sep-20	31-Mar-21	29-Jun-21	27-Aug-21	28-Sep-21
EAP - Oil & Gas	100.0	131.4	126.1	134.2	140.1	158.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	130.4	125.4	133.8	140.0	157.9

*Performance measurement base date 1st April 2019

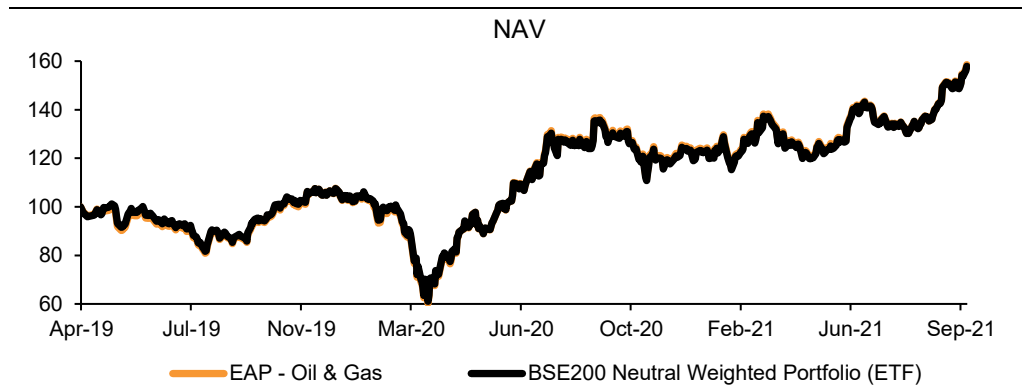
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Oil & Gas	13.1%	18.2%	25.7%	20.6%
BSE200 Neutral Weighted Portfolio (ETF)	12.8%	18.0%	25.9%	21.0%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 29 Sep 2021 23:24:15 (SGT)

Dissemination Date: 29 Sep 2021 23:25:15 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com