

Indraprastha Gas

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR494 TP: INR520 (+5%) Neutral

Rewarding 2QFY22, although risk-reward unfavorable

Bloomberg	IGL IN
Equity Shares (m)	700
M.Cap.(INRb)/(USDb)	345.8 / 4.7
52-Week Range (INR)	604 / 416
1, 6, 12 Rel. Per (%)	-5/-27/-25
12M Avg Val (INR M)	1610

Financials & Valuations (INR b)

Y/E March	2022E	2023E	2024E
Sales	72.5	93.0	100.7
EBITDA	19.6	19.1	19.9
Adj. PAT	13.6	12.9	13.5
Adj. EPS (INR)	19.5	18.5	19.2
EPS Gr. (%)	35.4	-5.1	4.2
BV/Sh.(INR)	97.5	110.4	123.9

Ratios

Net D:E	-0.3	-0.4	-0.4
RoE (%)	21.5	17.8	16.4
RoCE (%)	20.8	17.3	16.0
Payout (%)	30.0	30.0	30.0

Valuation

P/E (x)	25.4	26.8	25.7
P/BV (x)	5.1	4.5	4.0
EV/EBITDA (x)	16.5	16.4	15.4
Div. Yield (%)	1.2	1.1	1.2
FCF Yield (%)	4.4	4.0	2.9

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	45.0	45.0	45.0
DII	21.1	19.8	22.4
FII	21.9	23.9	21.3
Others	12.1	11.3	11.3

FII Includes depository receipts

■ Indraprastha Gas (IGL) reported EBITDA ahead of our estimates. This was led by better-than-estimated volumes (CNG volumes now 8% above pre-COVID peak) and higher-than-estimated EBITDA/scm (INR8, primarily supported by a CNG price hike of INR1.8/kg during the quarter).

■ With an overwhelming quarterly performance, the challenges ahead for IGL are overwhelming as well:

1. **The recent excise duty cut on petrol and diesel has reduced savings of CNG to liquid fuels.** As highlighted in our report, [Warming up to the winter ahead... Oil price rally may strengthen, although temporarily](#), we maintain our stance on the normalization of Brent prices by end-FY22. Falling Brent prices would lower savings, thereby impacting volume growth.

2. Also, [a recent article](#) suggests the **CNG Retrofitting market is impacted by a supply crunch for cylinders and components.** This comes at a time when demand for the same saw huge turnaround amid higher alternate fuel prices. **We believe this would slow the estimated higher conversion rate and impact medium-term volume growth.**

3. As per our calculations, the **APM gas price revision for 1HFY23 could come in at USD5.5–6/mmbtu – another steep hike post the one in Oct'21** – with the likelihood of a further price increase in 2HFY23.

4. **Demand by OMCs for higher single digit commissions on CNG sales** would further test the ability to pass on the prices to end consumers.

5. **The management expects EV buses to ply on Delhi roads over the next 2–3 years**, challenging volumes growth.

■ Despite the aforementioned headwinds curbing optimism, we remain confident about IGL's near-term volumes growth prospects. Volume growth of 10%/8% is built in for FY23/FY24E at 7.7/8.4mmscmd (unchanged), with EBITDA/scm normalization at INR6.5–6.7 over the same period (unchanged).

■ **The continued underperformance of the stock (by ~25% to the Nifty in the last six months) comes on the back of the aforementioned concerns.** Despite the same, on a one-year forward PE basis, the company trades at a 47% premium to its long-term average of 19x. We **maintain a Neutral rating.**

Volumes and margins ahead of estimates

■ Total volumes came in 14% above our estimate to 7.24mmscmd (+32% YoY, +36% QoQ) – 6% higher than the previous peak of 6.8mmscmd.

➤ **CNG volumes were 5.3mmscmd (+45% QoQ), 8% above the pre-COVID peak.** PNG volumes came in at 1.94mmscmd (+16% QoQ).

■ **EBITDA/scm came in at INR8** (v/s our est. of INR7 and INR7.9 in 1QFY22) on the back of lower opex.

➤ **The gross margin came in at INR13.6/scm (v/s INR14.4 in 1QFY22), in line with our estimate of INR13.4.** Opex stood at INR5.6/scm (v/s INR6.5 in 1QFY22 and pre-COVID levels of INR5.2).

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- The resultant EBITDA in 2QFY22 stood at INR5.3b (+30% YoY, +39% QoQ), with PAT at INR4b, **translating to EPS of INR5.7 (v/s our est. of INR4.1)**. IGL's share in CUGL and MNGL added INR535m to its consol. profit (+85% YoY, +59% QoQ).
- **1HFY22** EBITDA was up 86% YoY to INR9.1b, with EBITDA/scm of INR7.9 (v/s INR6.5 in 1HFY21). PAT stood at INR6.5b.
- Volumes were up 53% YoY to 6.3mmscmd, with CNG at 4.5mmscmd (+62% YoY) and PNG at 1.8mmscmd (+34% YoY).
- IGL's share in CUGL and MNGL added INR872m to its profit (+150% YoY).

Valuation and view – maintain Neutral

- **IGL could increase its sales volumes from new areas**, such as Rewari, Karnal, and Muzaffarnagar; Haryana City Gas; and the awarded GAs in the 10th round – (a) Kaithal (Haryana), (b) Ajmer, Pali, and Rajsamand (Rajasthan), and (c) Kanpur, Fatehpur, and Hamirpur (Uttar Pradesh).
- The introduction of EVs could dent CNG demand over the long term, which is well-acknowledged by the company as well (plans to set up 50 EV battery swapping stations). **Entering into such new ventures (along with LCNG stations) may result in margin dilution for CGDs.**
- We revise up our FY22E EPS by 29% on the back of the outperformance in 2QFY22 and factoring the complete pass-through of increase in APM gas price by the company for 2HFY22. **The stock trades at around 27x/23x FY23E SA/consol. EPS. We value the stock at 24x Dec'23E EPS to arrive at Target Price of INR520. We maintain Neutral on the stock.**
- The sustainability of Brent price at current levels presents an upside risk to our call with regard to both margins and volumes.

Quarterly performance

(INR m)

Y/E MARCH	FY21				FY22				FY21	FY22E	FY21	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	6,386	13,054	14,462	15,506	12,574	18,312	20,898	20,753	49,408	72,537	15,816	16%
Change (%)	-59.5	-22.9	-13.1	-0.1	96.9	40.3	44.5	33.8	-23.8	46.8	21.2	
EBITDA	834	4,071	5,007	4,918	3,809	5,302	5,063	5,475	14,830	19,649	4,058	31%
EBITDA (Rs/scm)	3.4	8.0	8.7	8.0	7.9	8.0	7.4	8.0	7.6	7.8	7.0	14%
% Change	-76.7	3.7	27.8	30.5	356.4	30.2	1.1	11.3	-2.4	32.5	-0.3	
Depreciation	682	711	750	761	778	805	821	846	2,904	3,250	789	2%
Interest	24	23	31	36	29	26	25	22	113	102	27	
Other Income	306	657	259	280	298	775	288	310	1,502	1,671	611	27%
PBT before EO	435	3,994	4,485	4,400	3,299	5,246	4,506	4,917	13,315	17,968	3,854	36%
Tax	117	915	1,137	1,090	857	1,241	1,134	1,243	3,258	4,348	970	28%
Rate (%)	26.9	22.9	25.3	24.8	26.0	23.6	25.2	25.3	24.5	131.8	25.2	
PAT	318	3,079	3,349	3,310	2,443	4,005	3,372	3,674	10,057	13,620	2,884	39%
PAT (Rs/scm)	1.3	6.1	5.8	5.4	5.0	6.0	4.9	5.3	4.6	5.3	5.0	21%
Change (%)	-85.4	-19.2	18.0	30.6	667.2	30.1	0.7	11.0	-11.5	35.4	-6.4	
Gas Volumes (mmscmd)												
CNG	1.61	3.91	4.48	4.87	3.65	5.30	5.46	5.60	3.72	5.00	4.57	16%
PNG	1.11	1.59	1.78	1.96	1.67	1.94	1.99	2.04	1.61	1.91	1.80	7%
Total	2.72	5.50	6.26	6.82	5.32	7.24	7.45	7.65	5.32	6.91	6.37	14%

E: MOFSL Estimates

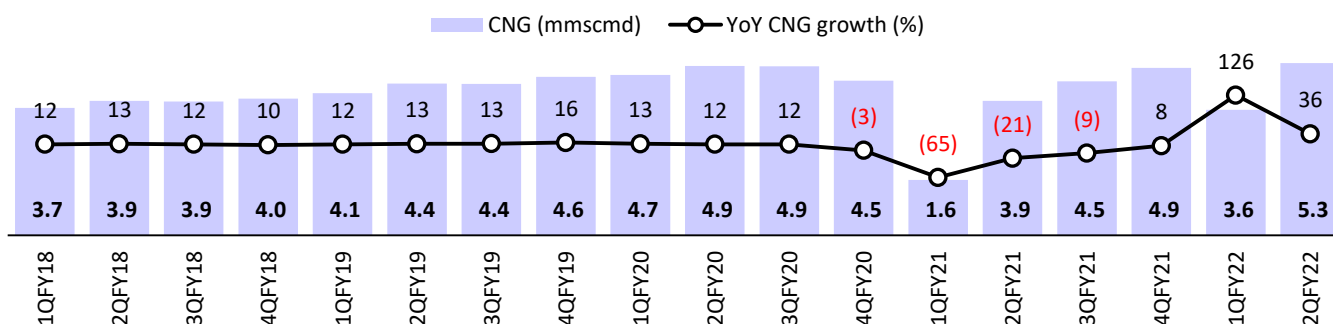
Key charts from the quarter

Exhibit 1: IGL – operational highlights

INR Million	FY20				FY21				FY22		2QFY22	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	YoY (%)	QoQ (%)
Net sales	15,761	16,925	16,642	15,525	6,386	13,054	14,462	15,506	12,574	18,312	40.3	45.6
Realization (INR/scm)	27.7	28.0	27.0	27.4	25.8	25.8	25.1	25.3	26.0	27.5	6.6	5.8
Total raw material	9,217	9,905	9,410	8,262	2,991	6,097	6,069	7,139	5,620	9,283	52.2	65.2
Gas cost (INR/scm)	16.2	16.4	15.3	14.6	12.1	12.1	10.5	11.6	11.6	13.9	15.7	20.0
Gross Margin	6,544	7,020	7,232	7,263	3,395	6,957	8,393	8,367	6,954	9,029	29.8	29.8
Gross Margin (INR/scm)	11.5	11.6	11.7	12.8	13.7	13.8	14.6	13.6	14.4	13.6	(1.4)	(5.6)
EBITDA	3,585	3,926	3,918	3,767	834	4,071	5,007	4,918	3,809	5,302	30.2	39.2
EBITDA (INR/scm)	6.3	6.5	6.4	6.6	3.4	8.0	8.7	8.0	7.9	8.0	(1.1)	1.2
PAT	2,184	3,810	2,839	2,534	318	3,079	3,349	3,310	2,443	4,005	30.1	64.0
PAT (INR/scm)	3.8	6.3	4.6	4.5	1.3	6.1	5.8	5.4	5.0	6.0	(1.2)	19.2

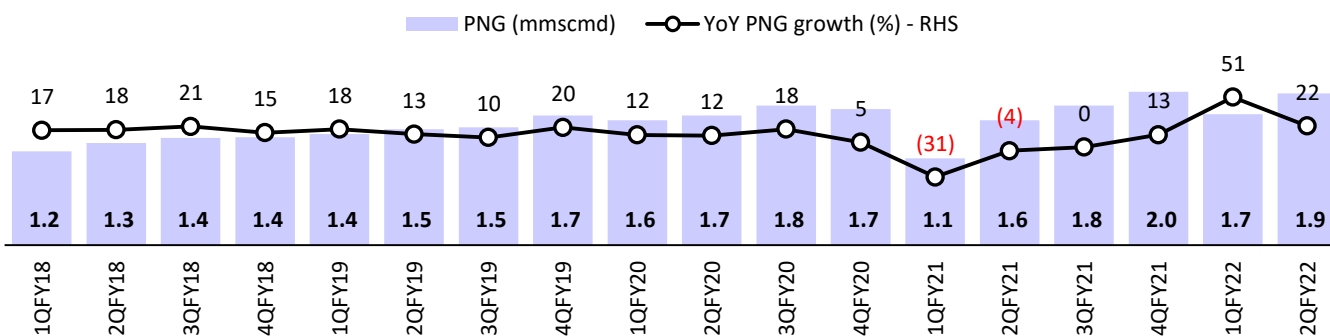
Source: Company, MOFSL

Exhibit 2: CNG volumes up 45% QoQ – 8% above pre-COVID peak



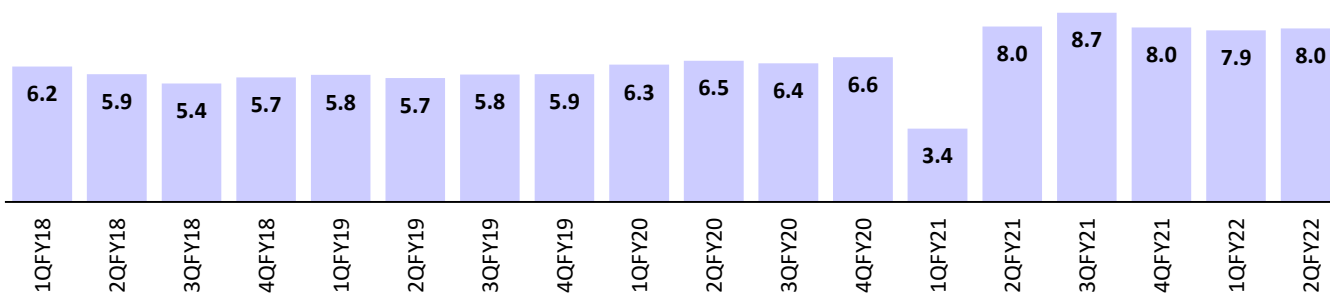
Source: Company, MOFSL

Exhibit 3: PNG volumes up 16% QoQ, in line with previous peak



Source: Company, MOFSL

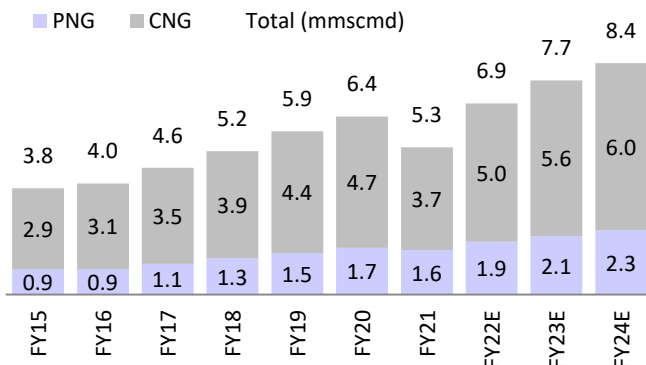
Exhibit 4: EBITDA/scm stands at INR8.0 (flat QoQ)



Source: Company, MOFSL

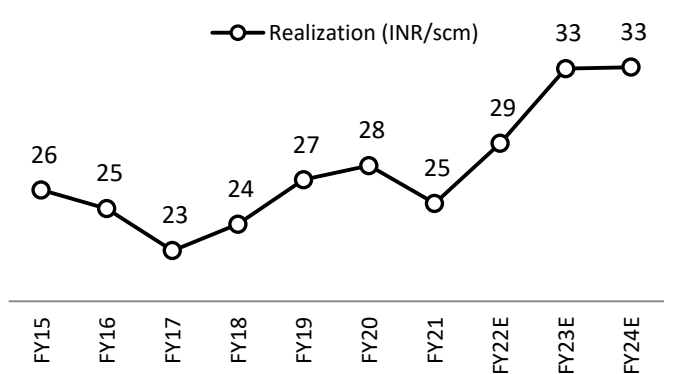
Story in charts

Exhibit 5: Sales growth to continue, barring COVID-led demand impact in FY21



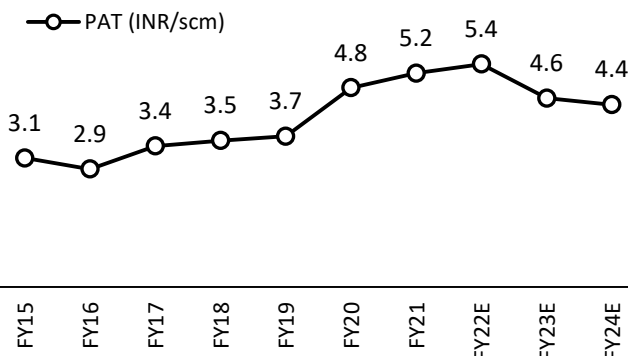
Source: Company, MOFSL

Exhibit 6: Although, realization already trending way above historical levels



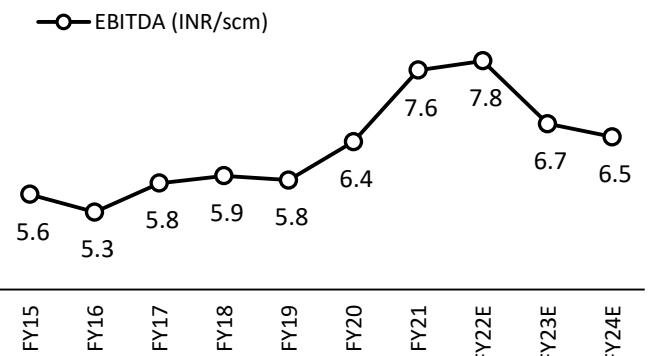
Source: Company, MOFSL

Exhibit 7: Profitability (PAT in INR/scm) to normalize over FY23–24E



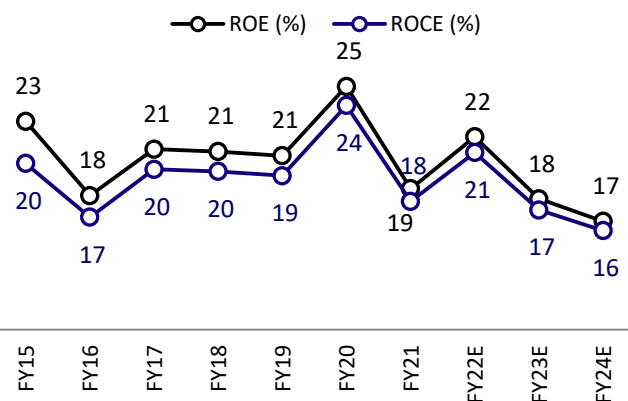
Source: Company, MOFSL

Exhibit 8: EBITDA/scm to decrease over FY23–24E, as APM prices increase further for upcoming revisions



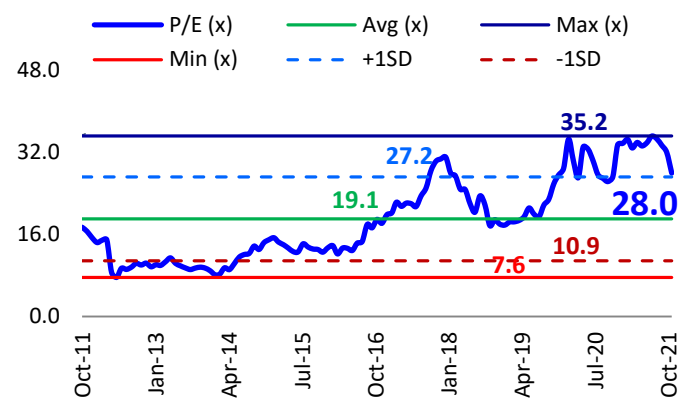
Source: Company, MOFSL

Exhibit 9: Return ratios to stabilize <20%



Source: Company, MOFSL

Exhibit 10: Stock trades at 47% premium to LT P/E average



Source: Company, MOFSL

Financials and valuations

Income Statement								(INR m)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Net Sales	38,148	45,921	57,600	64,853	49,408	72,537	92,981	1,00,655
Change (%)	3.5	20.4	25.4	12.6	-23.8	46.8	28.2	8.3
EBITDA	9,638	11,133	12,521	15,196	14,830	19,649	19,069	19,928
% of Net Sales	25.3	24.2	21.7	23.4	30.0	27.1	20.5	19.8
Depreciation	1,671	1,813	2,011	2,523	2,904	3,250	3,480	3,711
Interest	12	17	21	81	113	102	92	83
Other Income	652	1,021	1,510	1,564	1,502	1,671	1,784	1,879
PBT	8,607	10,325	12,000	14,157	13,315	17,968	17,281	18,014
Tax	2,896	3,617	4,134	2,791	3,258	4,348	4,355	4,540
Rate (%)	33.6	35.0	34.4	19.7	24.5	24.2	25.2	25.2
PAT	5,711	6,708	7,867	11,365	10,057	13,620	12,926	13,475
Adj. PAT	5,969	6,604	7,867	11,365	10,057	13,620	12,926	13,475
Change (%)	42.5	10.6	19.1	44.5	-11.5	35.4	-5.1	4.2

Balance Sheet								(INR m)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Share Capital	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Reserves	27,866	33,729	39,899	49,224	57,319	66,852	75,901	85,333
Net Worth	29,266	35,129	41,299	50,624	58,719	68,252	77,301	86,733
Deferred Tax	1,806	2,253	2,678	2,119	2,422	2,422	2,422	2,422
Capital Employed	31,072	37,382	43,977	52,743	61,140	70,674	79,723	89,155
Gross Fixed Assets	36,402	41,364	47,607	55,744	65,535	71,535	77,535	83,535
Less: Depreciation	15,231	17,044	19,054	21,577	24,481	27,730	31,210	34,921
Net Fixed Assets	21,172	24,320	28,553	34,167	41,055	43,805	46,325	48,614
Capital WIP	3,518	3,860	4,781	7,767	8,469	12,469	16,469	20,469
Rights to use assets	0	0	0	1,220	1,984	1,984	1,984	1,984
Investments	6,770	11,477	15,440	2,581	18,258	18,258	18,258	18,258
Curr. Assets, L & Adv.								
Inventory	517	524	509	511	456	669	857	928
Debtors	2,014	2,261	2,215	1,704	2,607	3,828	4,906	5,311
Cash & Bank Balance	6,086	5,580	6,071	21,799	11,323	22,507	32,461	38,390
Cash	1,256	2,037	712	6,677	903	12,088	22,041	27,971
Bank balance	4,830	3,544	5,359	15,122	10,420	10,420	10,420	10,420
Loans & Advances	103	149	153	154	213	213	213	213
Other Current Assets	682	1,110	1,772	1,819	1,508	1,508	1,508	1,508
Current Liab. & Prov.								
Liabilities	9,580	11,690	13,687	16,172	21,007	30,841	39,533	42,796
Provisions	210	210	1,830	2,808	3,727	3,727	3,727	3,727
Net Current Assets	-388	-2,275	-4,797	7,007	-8,627	-5,842	-3,314	-171
Application of Funds	31,072	37,382	43,977	52,743	61,139	70,674	79,722	89,154

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Basic (INR)								
EPS (SA)	8.5	9.4	11.2	16.2	14.4	19.5	18.5	19.2
EPS (Consol)	9.4	10.5	12.5	18.4	16.2	21.8	21.5	23.2
Cash EPS	10.9	12.0	14.1	19.8	18.5	24.1	23.4	24.6
Book Value	41.8	50.2	59.0	72.3	83.9	97.5	110.4	123.9
DPS	1.7	2.0	2.4	2.8	3.6	5.8	5.5	5.8
Payout	20	21	21	17	25	30	30	30
Valuation (x)								
P/E (SA)	57.9	52.4	44.0	30.4	34.4	25.4	26.8	25.7
P/E (Consol)	52.5	47.2	39.6	26.8	30.6	22.7	23.0	21.3
Cash P/E	45.3	41.1	35.0	24.9	26.7	20.5	21.1	20.1
EV / EBITDA	35.2	30.6	27.1	21.3	22.6	16.5	16.4	15.4
EV / Sales	8.9	7.4	5.9	5.0	6.8	4.5	3.4	3.1
Price / Book Value	11.8	9.8	8.4	6.8	5.9	5.1	4.5	4.0
Dividend Yield (%)	0.3	0.4	0.5	0.6	0.7	1.2	1.1	1.2
Profitability Ratios (%)								
RoE	21.0	20.8	20.6	24.7	18.4	21.5	17.8	16.4
RoCE	19.8	19.6	19.4	23.6	17.8	20.8	17.3	16.0
RoIC	33.3	38.9	40.4	53.2	41.2	61.3	77.8	98.7
Turnover Ratios								
Debtors (No. of Days)	17	21	26	33	23	23	21	20
Asset Turnover (x)	1.3	1.3	1.4	1.3	0.9	1.1	1.2	1.2
Leverage Ratio								
Net Debt / Equity (x)	-0.2	-0.2	-0.1	-0.4	-0.2	-0.3	-0.4	-0.4

Cash Flow Statement

Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
(INR m)								
OP/(Loss) before Tax	8,607	10,325	12,000	14,157	13,315	17,968	17,281	18,014
Depreciation	1,671	1,813	2,011	2,523	2,904	3,250	3,480	3,711
Interest and Finance charges	0	1	10	65	97	102	92	83
Direct Taxes Paid	-2,687	-3,303	-3,688	-3,442	-2,895	-4,348	-4,355	-4,540
(Inc)/Dec in Wkg. Capital	2,446	841	2,642	1,721	3,473	8,400	7,425	2,787
Others	-574	-884	-1,403	-1,416	-1,434	0	0	0
CF from Op. Activity	9,463	8,793	11,571	13,608	15,460	25,372	23,923	20,055
(Inc)/Dec in FA & CWIP	-2,709	-4,698	-6,807	-9,632	-8,829	-10,000	-10,000	-10,000
Free Cash Flow	6,754	4,095	4,764	3,976	6,631	15,372	13,923	10,055
(Pur)/Sale of Investments	-13,254	-10,515	-24,912	-3,275	-32,560	0	0	0
Others	4,823	8,044	20,510	7,700	23,125	0	0	0
CF from Inv. Activity	-11,139	-7,170	-11,208	-5,207	-18,264	-10,000	-10,000	-10,000
Dividends Paid (incl. tax)	-1,601	-842	-1,685	-2,025	-1,960	-4,086	-3,878	-4,042
CF from Fin. Activity	-1,601	-842	-1,688	-2,435	-2,970	-4,188	-3,970	-4,125
Inc / (Dec) in Cash	-3,277	781	-1,325	5,966	-5,774	11,184	9,954	5,930
Add: Opening Balance	4,533	1,256	2,037	712	6,678	904	12,088	22,041
Closing Balance	1,256	2,037	712	6,677	903	12,088	22,041	27,971

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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