

# Indraprastha Gas (IGL IN)

Rating: BUY | CMP: Rs494 | TP: Rs662

November 9, 2021

## Q2FY22 Result Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
<b>Rating</b>	<b>BUY</b>		<b>BUY</b>	
<b>Target Price</b>	<b>662</b>		<b>662</b>	
Sales (Rs. m)	74,023	87,651	74,023	87,651
% Chng.	-	-	-	-
EBITDA (Rs. m)	23,671	28,353	23,671	28,353
% Chng.	-	-	-	-
EPS (Rs.)	21.8	26.3	21.8	26.3
% Chng.	-	-	-	-

### Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	49,408	62,158	74,023	87,651
EBITDA (Rs. m)	14,830	20,454	23,671	28,353
Margin (%)	30.0	32.9	32.0	32.3
PAT (Rs. m)	10,057	13,596	15,277	18,403
EPS (Rs.)	14.4	19.4	21.8	26.3
Gr. (%)	(11.5)	35.2	12.4	20.5
DPS (Rs.)	3.6	3.9	4.4	5.3
Yield (%)	0.7	0.8	0.9	1.1
RoE (%)	18.4	21.2	20.2	20.6
RoCE (%)	21.8	26.0	25.2	25.7
EV/Sales (x)	6.5	5.1	4.2	3.5
EV/EBITDA (x)	21.5	15.6	13.2	10.8
PE (x)	34.4	25.4	22.6	18.8
P/BV (x)	5.9	5.0	4.2	3.6

### Key Data

IGAS.BO | IGL IN

52-W High / Low	Rs.604 / Rs.416
Sensex / Nifty	60,433 / 18,044
Market Cap	Rs.346bn / \$ 4,671m
Shares Outstanding	700m
3M Avg. Daily Value	Rs.2590.36m

### Shareholding Pattern (%)

Promoter's	50.00
Foreign	21.88
Domestic Institution	16.06
Public & Others	12.07
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(4.7)	(4.1)	16.7
Relative	(5.3)	(21.9)	(17.7)

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## Strong results, likely to improve

### Quick Pointers:

- Q2 volumes above pre pandemic levels-2yr CAGR 5%. Opening up of schools to further drive volumes in Q3.

- Fuel economics and rising private vehicle ownership to increase CNG volumes.

**We maintain our earnings for FY22/23E. IGL reported strong results with EBITDA/PAT of Rs5.3bn (+39%Q/Q; 2yr CAGR 16%; PLe Rs5.5bn) and Rs4.0bn (+64%Q/Q; 2yr CAGR 3% due to tax write back in Sept 19; PLe Rs3.7bn) respectively. Volumes recovered as lockdown restrictions eased to 666mscm (+38%Q/Q; 2yr CAGR 5%). We believe receding pandemic concerns and opening up of schools will further drive growth in Q3. IGL remains an enviable business model with high volume growth due to geographical expansion and addition of new buses and taxis. Also, fuel economics, shift to private vehicle ownership post pandemic will drive CNG volumes despite excise duty cuts. Reiterate "BUY" with DCF-based PT of Rs662 (unchanged).**

- Volume recovery back on track:** Indraprastha Gas' (IGL's) Q2FY22 volumes improved at 666mscm (+38% QoQ; PLe 635) as lockdown restrictions eased. QoQ comparison is not strictly comparable but 2yr CAGR volume growth stands at 5%. For Q2FY22, CNG and PNG volumes were at 488mscm (5.3mmcmd) (+47% QoQ) and 178mscm (+17%QoQ), respectively. However, easing of restrictions and rising vaccination will likely lift volumes going ahead.
- Q2 EBITDA and PAT were at Rs5.3bn (+39%QoQ; PLe: Rs5.5bn) and Rs4.0bn (+64%QoQ; PLe: Rs3.7bn). Q2 gross margins were lower at Rs16.3/scm (Q1: Rs16.9), but lower per unit opex at Rs5.6/scm (Q1: Rs6.5) given volume recovery led to EBITDA/scm to Rs7.96/scm (Q1: Rs 7.87).
- Rising preference for private transport to fuel CNG demand:** IGL's gas sales will ride on rising preference for private vehicles due to attractive fuel economics (CNG cheaper to petrol by 66%). We have modelled 32%/15% volumes for FY22/23E. Also, benign domestic gas and stabilizing spot LNG prices will support earnings; we factor in EBITDA/scm of ~Rs8 for FY22/23E.
- Limited threat from EV:** We see limited threat to IGL's growth prospects as favorable fuel economics (65% cheaper to petrol) along with supply of low cost domestic gas will drive earnings. Also, strained state financials post pandemic leaves a very little room for state government to introduce high cost EV buses (~Rs7.5mn post 40% subsidy) vis-à-vis Rs3.5mn for CNG variant.
- State government subsidy will increase two wheelers penetration of EV who do not use CNG. Accordingly, we see limited hindrance to IGL's prospects.

**Exhibit 1: Q2FY22 Result Overview (Rs mn)**

Y/e March	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	H1FY22	H1FY21	YoY gr. (%)
<b>Net Sales</b>	<b>20,160</b>	<b>14,407</b>	<b>39.9</b>	<b>13,805</b>	<b>21,333</b>	<b>33,965</b>	<b>(37.2)</b>
Operating Costs	14,858	10,336	43.7	9,997	16,427	24,856	(33.9)
Material Costs	9,283	6,097	52.2	5,621	9,088	14,904	(39.0)
Personnel Costs	524	313	67.7	374	627	898	(30.2)
Other Overheads	3,204	2,574	24.5	2,771	4,820	5,975	(19.3)
Excise duty	1,848	1,353	36.6	1,231	1,893	3,079	(38.5)
<b>EBITDA</b>	<b>5,302</b>	<b>4,071</b>	<b>30.2</b>	<b>3,808</b>	<b>4,906</b>	<b>9,110</b>	<b>(46.1)</b>
Other Income	775	657	17.8	298	964	1,073	(10.2)
<b>PBDIT</b>	<b>6,076</b>	<b>4,728</b>	<b>28.5</b>	<b>4,106</b>	<b>5,869</b>	<b>10,182</b>	<b>(42.4)</b>
Depreciation	805	711	13.2	778	1,393	1,583	(12.0)
Interest	26	23	11.3	29	47	55	(15.1)
<b>Pre-tax Profit</b>	<b>5,246</b>	<b>3,994</b>	<b>31.3</b>	<b>3,299</b>	<b>4,430</b>	<b>8,544</b>	<b>(48.2)</b>
Tax	1,241	915	35.6	857	1,032	2,097	(50.8)
<b>Profit After Tax</b>	<b>4,005</b>	<b>3,079</b>	<b>30.1</b>	<b>2,442</b>	<b>3,398</b>	<b>6,447</b>	<b>(47.3)</b>

Source: Company, PL

**Exhibit 2: IGL quarterly details**

Sales volume	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
CNG - mn kg	290.0	291.5	294.0	305.0	320.0	317.8	291.0	105.0	255.0	289.0	307.2	232.7	315.0
PNG - mmscm	136.0	138.3	149.0	145.0	152.0	163.8	158.0	101.0	146.0	164.0	176.0	152.0	178.1
<b>Total mscm</b>	<b>542.0</b>	<b>543.4</b>	<b>567.0</b>	<b>569.0</b>	<b>605.0</b>	<b>616.0</b>	<b>567.0</b>	<b>247.0</b>	<b>506.0</b>	<b>576.0</b>	<b>614.0</b>	<b>483.8</b>	<b>665.7</b>
<b>Sales Rs mn</b>													
CNG	11,740	12,480	12,630	13,400	14,380	12,477	12,477	3,750	9,440	10,290	10,860	8,501	12,778
PNG	3,900	4,130	4,310	3,980	4,280	4,129	4,129	2,580	3,550	4,090	4,550	3,983	5,425
<b>Realisation</b>													
CNG Rs/kg	40.5	42.8	43.0	43.9	44.9	39.3	42.9	35.7	37.0	35.6	35.3	36.5	40.6
PNG Rs/scm	28.7	29.9	28.9	27.4	28.2	25.2	26.1	25.5	24.3	24.9	25.9	26.2	30.5
Cost of gas (Rs/scm)	15.5	16.7	16.0	16.2	16.4	15.3	14.6	12.1	12.0	10.5	11.6	11.6	13.9
Opex (Rs/scm)	5.0	5.2	5.4	5.2	5.1	5.4	6.2	10.4	5.7	5.9	5.6	6.5	5.6
EBITDA (Rs/scm)	5.7	5.8	5.8	6.3	6.5	6.4	6.6	3.4	8.0	8.7	8.0	7.9	8.0
Gross margin (Rs/scm)	13.4	13.9	14.0	14.5	14.6	14.6	15.6	15.9	16.4	17.2	16.2	16.9	16.3

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Net Revenues</b>	<b>49,408</b>	<b>62,158</b>	<b>74,023</b>	<b>87,651</b>
YoY gr. (%)	(23.8)	25.8	19.1	18.4
Cost of Goods Sold	22,295	29,592	36,037	42,493
Gross Profit	27,113	32,566	37,986	45,157
Margin (%)	54.9	52.4	51.3	51.5
Employee Cost	1,344	1,545	1,731	1,904
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>14,830</b>	<b>20,454</b>	<b>23,671</b>	<b>28,353</b>
YoY gr. (%)	(2.4)	37.9	15.7	19.8
Margin (%)	30.0	32.9	32.0	32.3
Depreciation and Amortization	2,904	3,754	4,605	5,455
<b>EBIT</b>	<b>11,926</b>	<b>16,700</b>	<b>19,067</b>	<b>22,898</b>
Margin (%)	24.1	26.9	25.8	26.1
Net Interest	113	125	135	150
Other Income	1,502	1,601	1,492	1,855
<b>Profit Before Tax</b>	<b>13,315</b>	<b>18,176</b>	<b>20,424</b>	<b>24,603</b>
Margin (%)	26.9	29.2	27.6	28.1
Total Tax	3,258	4,580	5,147	6,200
Effective tax rate (%)	24.5	25.2	25.2	25.2
<b>Profit after tax</b>	<b>10,057</b>	<b>13,596</b>	<b>15,277</b>	<b>18,403</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>10,057</b>	<b>13,596</b>	<b>15,277</b>	<b>18,403</b>
YoY gr. (%)	(11.5)	35.2	12.4	20.5
Margin (%)	20.4	21.9	20.6	21.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>10,057</b>	<b>13,596</b>	<b>15,277</b>	<b>18,403</b>
YoY gr. (%)	(11.5)	35.2	12.4	20.5
Margin (%)	20.4	21.9	20.6	21.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,057	13,596	15,277	18,403
<b>Equity Shares O/s (m)</b>	<b>700</b>	<b>700</b>	<b>700</b>	<b>700</b>
<b>EPS (Rs)</b>	<b>14.4</b>	<b>19.4</b>	<b>21.8</b>	<b>26.3</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>52,090</b>	<b>67,090</b>	<b>79,090</b>	<b>94,090</b>
Tangibles	52,090	67,090	79,090	94,090
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>11,036</b>	<b>14,790</b>	<b>19,394</b>	<b>24,850</b>
Tangibles	11,036	14,790	19,394	24,850
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>41,055</b>	<b>52,300</b>	<b>59,696</b>	<b>69,240</b>
Tangibles	41,055	52,300	59,696	69,240
Intangibles	-	-	-	-
Capital Work In Progress	8,469	6,000	6,000	6,000
Goodwill	-	-	-	-
Non-Current Investments	2,719	2,733	2,748	2,765
Net Deferred tax assets	(2,422)	(3,331)	(4,352)	(5,582)
Other Non-Current Assets	521	574	631	694
<b>Current Assets</b>				
Investments	15,677	15,677	15,677	15,677
Inventories	456	501	551	606
Trade receivables	2,607	1,633	1,945	2,303
Cash & Bank Balance	11,323	10,698	17,631	25,217
Other Current Assets	232	255	280	308
<b>Total Assets</b>	<b>83,720</b>	<b>91,098</b>	<b>1,05,959</b>	<b>1,23,691</b>
<b>Equity</b>				
Equity Share Capital	1,400	1,400	1,400	1,400
Other Equity	57,319	68,200	80,427	95,154
<b>Total Network</b>	<b>58,719</b>	<b>69,600</b>	<b>81,827</b>	<b>96,554</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	256	-	-	-
Other non current liabilities	120	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	4,186	-	-	-
Other current liabilities	19,336	17,332	18,945	20,719
<b>Total Equity &amp; Liabilities</b>	<b>85,874</b>	<b>91,098</b>	<b>1,05,959</b>	<b>1,23,691</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	13,315	18,176	20,424	24,603
Add. Depreciation	2,904	3,754	4,605	5,455
Add. Interest	113	125	135	150
Less Financial Other Income	1,502	1,601	1,492	1,855
Add. Other	-	-	-	-
Op. profit before WC changes	16,332	22,055	25,163	30,208
Net Changes-WC	(10,229)	(4,884)	2,102	2,403
Direct tax	(3,258)	(4,580)	(5,147)	(6,200)
<b>Net cash from Op. activities</b>	<b>2,845</b>	<b>12,591</b>	<b>22,118</b>	<b>26,411</b>
Capital expenditures	(11,246)	(10,376)	(12,000)	(15,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(11,246)</b>	<b>(10,376)</b>	<b>(12,000)</b>	<b>(15,000)</b>
Issue of share cap. / premium	558	5	5	5
Debt changes	-	-	-	-
Dividend paid	(2,520)	(2,719)	(3,055)	(3,681)
Interest paid	(113)	(125)	(135)	(150)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(2,075)</b>	<b>(2,839)</b>	<b>(3,185)</b>	<b>(3,826)</b>
<b>Net change in cash</b>	<b>(10,477)</b>	<b>(625)</b>	<b>6,933</b>	<b>7,586</b>
Free Cash Flow	(8,401)	2,214	10,118	11,411

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b>Net Revenue</b>	<b>14,462</b>	<b>15,506</b>	<b>12,574</b>	<b>18,312</b>
YoY gr. (%)	(13.1)	(0.1)	96.9	40.3
Raw Material Expenses	6,069	7,139	5,621	9,283
Gross Profit	8,393	8,367	6,953	9,029
Margin (%)	58.0	54.0	55.3	49.3
<b>EBITDA</b>	<b>5,007</b>	<b>4,918</b>	<b>3,808</b>	<b>5,302</b>
YoY gr. (%)	27.8	30.5	356.3	30.2
Margin (%)	34.6	31.7	30.3	29.0
Depreciation / Depletion	750	761	778	805
<b>EBIT</b>	<b>4,257</b>	<b>4,156</b>	<b>3,030</b>	<b>4,497</b>
Margin (%)	29.4	26.8	24.1	24.6
Net Interest	31	36	29	26
Other Income	259	280	298	775
<b>Profit before Tax</b>	<b>4,485</b>	<b>4,400</b>	<b>3,299</b>	<b>5,246</b>
Margin (%)	31.0	28.4	26.2	28.6
Total Tax	1,137	1,090	857	1,241
Effective tax rate (%)	25.3	24.8	26.0	23.6
<b>Profit after Tax</b>	<b>3,349</b>	<b>3,310</b>	<b>2,442</b>	<b>4,005</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>3,349</b>	<b>3,310</b>	<b>2,442</b>	<b>4,005</b>
YoY gr. (%)	32.9	30.6	667.2	30.1
Margin (%)	23.2	21.3	19.4	21.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,349</b>	<b>3,310</b>	<b>2,442</b>	<b>4,005</b>
YoY gr. (%)	32.9	30.6	667.2	30.1
Margin (%)	23.2	21.3	19.4	21.9
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Company Data, PL Research

### Key Financial Metrics

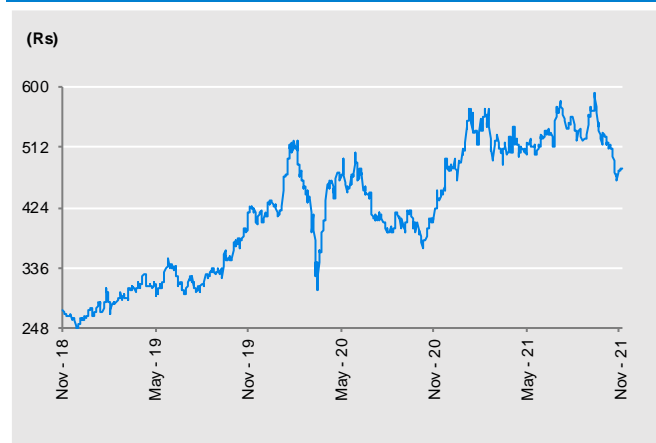
Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	14.4	19.4	21.8	26.3
CEPS	18.5	24.8	28.4	34.1
BVPS	83.9	99.4	116.9	137.9
FCF	(12.0)	3.2	14.5	16.3
DPS	3.6	3.9	4.4	5.3
<b>Return Ratio(%)</b>				
RoCE	21.8	26.0	25.2	25.7
ROIC	21.0	25.8	26.2	27.7
RoE	18.4	21.2	20.2	20.6
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.5)	(0.4)	(0.4)	(0.4)
Net Working Capital (Days)	(8)	-	-	-
<b>Valuation(x)</b>				
PER	34.4	25.4	22.6	18.8
P/B	5.9	5.0	4.2	3.6
P/CEPS	26.7	19.9	17.4	14.5
EV/EBITDA	21.5	15.6	13.2	10.8
EV/Sales	6.5	5.1	4.2	3.5
Dividend Yield (%)	0.7	0.8	0.9	1.1

Source: Company Data, PL Research

### Key Operating Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Total sales volumes (mscm)	1,944	2,568	2,957	3,465
CNG sales volumes (mscm)	1,357	1,818	2,098	2,432
PNG sales volumes (mscm)	587	750	859	1,032
CNG retail price (Rs/kg)	36	38	39	39
PNG retail price (Rs/scm)	25	27	28	29

Source: Company Data, PL Research

**Price Chart**

**Recommendation History**

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Oct-21	BUY	662	528
2	13-Aug-21	BUY	662	535
3	07-Jul-21	BUY	662	561
4	02-Jul-21	BUY	662	564
5	25-Jun-21	BUY	662	513
6	05-Apr-21	BUY	662	505
7	10-Feb-21	BUY	662	557
8	08-Jan-21	BUY	603	540
9	11-Nov-20	BUY	603	448

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	589	418
2	Burger King India	BUY	250	168
3	GAIL (India)	BUY	184	149
4	Gujarat Gas	BUY	845	594
5	Hindustan Petroleum Corporation	BUY	445	303
6	Indian Oil Corporation	BUY	205	132
7	Indraprastha Gas	BUY	662	528
8	Mahanagar Gas	BUY	1,345	997
9	Oil & Natural Gas Corporation	UR	-	148
10	Oil India	BUY	351	222
11	Petronet LNG	BUY	351	236
12	Reliance Industries	BUY	2,955	2,627

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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