

Volume growth drives performance

About the stock: Indraprastha Gas (IGL) is one of India's largest city gas distribution companies and primarily operates in NCT of Delhi.

- CNG sales contribute more than 70% of its total sales volume
- Sales volume grew at 6% CAGR in FY16-21

Q2FY22 Results: IGL reported Q2FY22 results that were better than estimates.

- Revenue increased 40.3% YoY to ₹ 1831.2 crore as sales volume grew 31.6% YoY and 36.1% QoQ post relaxations in lockdown
- Gross margin declined ₹ 0.2/scm YoY and ₹ 0.8/scm QoQ to ₹ 13.4/scm due to higher gas costs. EBITDA was at ₹ 530.2 crore, up 30.2% YoY and 39.2% QoQ
- Consequently, PAT was at ₹ 400.5 crore (up 30.1% YoY and 64% QoQ)

What should investors do? IGL's share price has grown ~3x over the past five years (from ~₹ 160 in November 2016 to ~₹ 500 levels currently).

- We retain our HOLD rating on the stock

Target Price and Valuation: We value IGL at ₹ 560 (standalone at ~₹ 513 i.e. 24x P/E on FY23E EPS and investments at ~₹ 46)

Key triggers for future price performance:

- IGL will continue to benefit from stricter environmental regulations in NCR and India's aim to increase the share of natural gas in the energy mix
- On account of competitive advantage against traditional auto fuels, IGL has potential for further sales volume growth in NCR and other CGD areas
- IGL hiked prices in Q3FY22E to pass on increase in domestic gas costs
- Debt free balance sheet and consistent dividend payout

Alternate Stock Idea: Apart from IGL, in our oil & gas coverage we also like Gail.

- Gail is India's leading gas transmission company, which is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value
- BUY with target price of ₹ 180



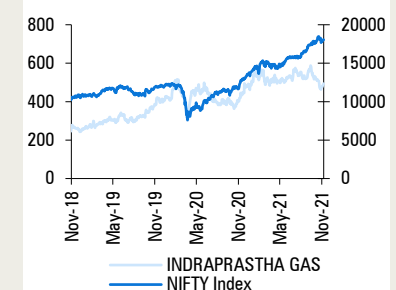
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	35,000.0
Total Debt (FY21) (₹ Crore)	79.9
Cash and Investments (FY21)	1,132.3
EV (₹ Crore)	33,947.7
52 week H/L	604/424
Equity capital (₹ Crore)	140.0
Face value (₹)	2.0

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	45.0	45.0	45.0	45.0	45.0
FII	21.3	23.2	23.8	23.9	21.9
DII	17.4	16.1	15.9	14.8	16.1
Others	16.3	15.7	15.3	16.3	17.1

Price Chart



Recent event & key risks

- IGL hiked prices in the current quarter
- **Key Risk:** (i) Faster than expected volume growth, (ii) Inability to pass on further increase in costs.

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Revenues (₹ crore)	5,760.0	6,485.3	4,940.8	6.0	7,459.3	10,318.4	44.5
EBITDA (₹ crore)	1,252.1	1,519.6	1,483.0	14.0	1,918.4	2,216.3	22.2
Net Profit (₹ crore)	786.7	1,136.5	1,005.7	19.3	1,327.1	1,495.7	22.0
EPS (₹)	11.2	16.2	14.4		19.0	21.4	
P/E (x)	44.5	30.8	34.8		26.4	23.4	
Price / Book (x)	8.5	6.9	6.0		5.1	4.4	
EV/EBITDA (x)	27.5	21.6	22.9		17.9	15.3	
RoCE (%)	25.4	24.7	20.0		22.9	22.7	
RoE (%)	19.0	22.5	17.1		19.4	18.8	

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results: Volume growth ahead of estimates

- Revenue increased 45.6% QoQ. The realisation was marginally below estimates at ₹ 30.1/scm (our estimate: ₹ 30.5/scm)
- Sales volume was 7.2 mmscmd, up 31.6% YoY on a lower base (our estimate: ₹ 6.8 mmscmd). Sales volume increased 36.1% QoQ post relaxations in lockdown. CNG segment grew ~36% YoY to 5.3 mmscmd (our estimate: 4.9 mmscmd). PNG volume increased ~22% YoY to 1.9 mmscmd and was in line with estimates. Within the PNG segment, domestic PNG volume grew 3% YoY while industrial/commercial PNG volume was sharply up by ~26% YoY. On QoQ basis, CNG increased ~45% while PNG volume grew ~16%
- The company reported higher than expected other income of ₹ 77.5 crore
- We estimate sales volume of 6.9 mmscmd and 8 mmscmd in FY22E and FY23E, respectively.

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Gujarat Gas (GUJGA)	622	645	Hold	42,818	18.5	19.9	23.0	33.6	31.3	27.0	20.8	19.5	16.7	31.7	29.8	30.3	28.5	24.8	23.9
Indraprastha Gas (INDGAS)	500	560	Hold	35,000	14.4	19.0	21.4	34.8	26.4	23.4	22.9	17.9	15.3	20.0	22.9	22.7	17.1	19.4	18.8
Mahanagar Gas (MAHGAS)	997	1120	Hold	9,848	62.7	82.3	101.8	15.9	12.1	9.8	10.1	7.7	5.8	23.1	26.6	28.1	19.2	21.7	22.6

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Total Revenues	1,831.2	1,731.4	1,305.4	40.3	1,257.4	45.6	
Raw materials costs	928.3	890.8	609.7	52.2	562.0	65.2	
Employees Cost	52.4	43.3	31.3	67.6	37.4	40.1	
Other Expenses	320.4	311.6	257.4	24.5	277.1	15.6	
Total Expenditure	1,301.0	1,245.8	898.3	44.8	876.5	48.4	
EBITDA	530.2	485.6	407.1	30.2	380.9	39.2	Higher-than-expected on account of better-than-expected sales volume
EBITDA margins (%)	29.0	28.0	31.2	-223 bps	30.3	-134 bps	
Depreciation	80.5	82.1	71.1	13.2	77.8	3.4	
EBIT	449.7	403.5	336.0	33.8	303.1	48.4	
Interest	2.6	4.9	2.3	NA	2.9	-12.9	
Other Income	77.5	45.0	65.7	17.9	29.8	159.6	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	524.6	443.6	399.4	31.3	329.9	59.0	
Total Tax	124.1	112.2	91.5	35.6	85.7	44.8	
PAT	400.5	331.4	307.9	30.1	244.3	64.0	

Key Metrics

Sales Volumes (mmscmd)	7.2	6.8	5.5	31.6	5.3	36.1	CNG volume was 5.3 mmscmd whereas PNG volume came in at 1.9 mmscmd
Realisation (₹/scm)	30.1	30.5	28.4	6.2	28.4	6.2	
Gross Margin (₹/scm)	13.4	13.4	13.6	-1.7	14.2	-5.6	In line with estimates

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6507.4	7,459.3	14.6	7640.2	10,318.4	35.1	Increased sales volume and realisation estimate
EBITDA	1875.6	1,918.4	2.3	2215.4	2,216.3	0.0	Revised gas cost estimate leading to higher expenditure estimate that offset revenue increase
EBITDA Margin (%)	28.8	25.7	-310 bps	29.0	21.5	-752 bps	
PAT	1259.3	1,327.1	5.4	1495.0	1,495.7	0.0	
EPS (₹)	18.0	19.0	5.4	21.4	21.4	0.0	

Source: ICICI Direct Research

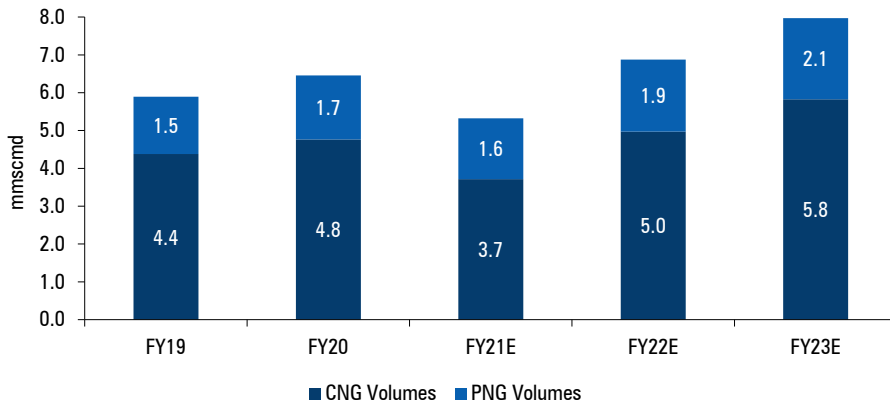
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Sales Volumes (mmscmd)	6.4	5.3	6.9	8.0	6.6	7.7	Increased volume estimates post Q2 performance
Realisation (₹/scm)	30.3	27.8	32.5	38.9	29.4	29.7	Increased realisation estimate following price hikes in Q3FY22E
Gross Margin (₹/scm)	11.8	13.8	13.5	13.5	13.5	13.6	

Source: ICICI Direct Research

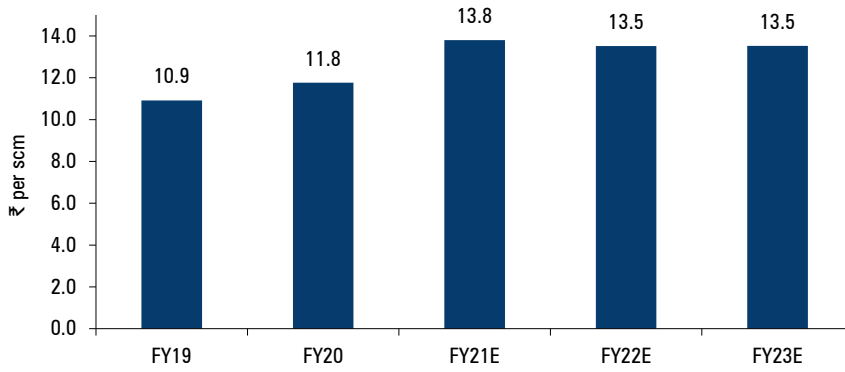
Story in charts

Exhibit 5: Volume trajectory



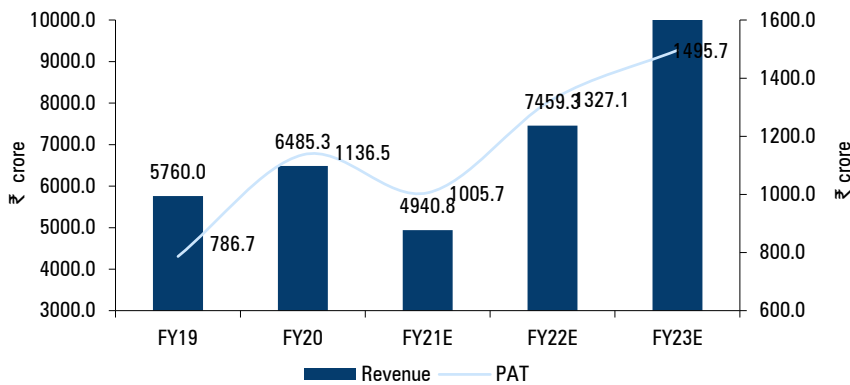
Source: Company, ICICI Direct Research

Exhibit 6: Gross margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Revenue & PAT trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Revenue	6485.3	4940.8	7459.3	10318.4	
Growth (%)	12.6	-23.8	51.0	38.3	
Raw material Costs	3679.4	2229.5	4034.5	6356.2	
Employee Costs	151.7	134.4	199.0	258.0	
Other Expenditure	1134.6	1093.9	1307.4	1487.9	
Op. Expenditure	4965.6	3457.8	5540.9	8102.1	
EBITDA	1519.6	1483.0	1918.4	2216.3	
Growth (%)	21.4	-2.4	29.4	15.5	
Depreciation	252.3	290.4	332.5	394.5	
EBIT	1267.4	1192.6	1585.9	1821.8	
Interest	8.1	11.3	15.3	19.6	
Other Income	156.4	150.2	197.3	200.0	
PBT	1415.7	1331.5	1767.8	2002.2	
Growth (%)	18.0	-5.9	32.8	13.3	
Tax	279.1	325.8	440.8	506.6	
Reported PAT	1136.5	1005.7	1327.1	1495.7	
Growth (%)	44.5	-11.5	32.0	12.7	
Adjustments	0.0	0.0	0.0	0.0	
Adj. Net Profit	1136.5	1005.7	1327.1	1495.7	
EPS	16.2	14.4	19.0	21.4	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	1,136.5	1,005.7	1,327.1	1,495.7	
Add: Depreciation	252.3	290.4	332.5	394.5	
Add: Others	-55.9	30.3	30.0	30.0	
Cash Profit	1,130.4	1,130.3	1,321.0	1,551.6	
Increase/(Decrease) in CL	146.3	451.9	-437.8	394.9	
(Increase)/Decrease in CA	42.7	-60.9	-123.2	-210.6	
CF from Operating Activities	1571.6	1811.7	1092.6	2130.4	
Purchase of Fixed Assets	1,230.9	1,124.6	980.1	976.0	
(Inc)/Dec in Investments	1,285.9	-1,567.7	-250.0	-250.0	
Others	0.0	0.0	0.0	0.0	
CF from Investing Activities	55.0	-2,692.3	-1,230.1	-1,226.0	
Inc/(Dec) in Loan Funds	200.1	123.5	40.0	40.0	
Less: Dividend Paid	202.5	196.0	368.6	368.6	
Inc/(Dec) in Sh. Cap. & Res.	-1.5	-0.2	0.0	0.0	
Others	0.0	0.0	0.0	0.0	
CF from financing activities	-4.0	-72.6	-328.6	-328.6	
Change in cash Eq.	1,572.9	-1,047.7	-430.0	549.9	
Op. Cash and cash Eq.	607.1	2,180.0	1,132.3	702.3	
Cl. Cash and cash Eq.	2,180.0	1,132.3	702.3	1,252.2	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Source of Funds					
Equity Capital	140.0	140.0	140.0	140.0	
Preference capital	0.0	0.0	0.0	0.0	
Reserves & Surplus	4,922.4	5,731.9	6,690.4	7,817.5	
Shareholder's Fund	5,062.4	5,871.9	6,830.4	7,957.5	
Loan Funds	76.2	79.9	79.9	79.9	
Deferred Tax Liability	211.9	242.2	272.2	302.2	
Minority Interest	0.0	0.0	0.0	0.0	
Source of Funds	6124.0	7087.3	8115.8	9312.9	
Application of Funds					
Gross Block	4,394.6	5,397.7	6,497.7	7,597.7	
Less: Acc. Depreciation	837.7	1,076.9	1,429.3	1,847.8	
Net Block	3,556.9	4,320.9	5,068.4	5,750.0	
Capital WIP	776.7	846.9	746.9	646.9	
Total Fixed Assets	4,333.6	5,167.8	5,815.4	6,396.9	
Investments	258.1	1,825.8	2,075.8	2,325.8	
Inventories	51.1	45.6	85.8	118.7	
Debtor	170.4	260.7	327.0	452.3	
Cash	2,180.0	1,132.3	702.3	1,252.2	
Loan & Advance, Other CA	179.1	155.2	171.8	224.2	
Total Current assets	2580.6	1593.8	1286.9	2047.4	
Current Liabilities	767.5	1127.5	1021.8	1413.5	
Provisions	280.8	372.7	40.5	43.8	
Total CL and Provisions	1048.3	1500.1	1062.3	1457.2	
Net Working Capital	1532.3	93.7	224.6	590.2	
Miscellaneous expense	0.0	0.0	0.0	0.0	
Application of Funds	6124.0	7087.3	8115.8	9312.9	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per share data (?)					
Book Value	72.3	83.9	97.6	113.7	
Cash per share	31.1	38.6	36.0	47.4	
EPS	16.2	14.4	19.0	21.4	
Cash EPS	19.8	18.5	23.7	27.0	
DPS	2.4	3.6	4.5	4.5	
Profitability & Operating Ratios					
EBITDA Margin (%)	23.4	30.0	25.7	21.5	
PAT Margin (%)	17.5	20.4	17.8	14.5	
Fixed Asset Turnover (x)	1.5	1.0	1.3	1.6	
Inventory Turnover (Days)	2.9	3.4	4.2	4.2	
Debtor (Days)	9.6	19.3	16.0	16.0	
Current Liabilities (Days)	43.2	83.3	50.0	50.0	
Return Ratios (%)					
RoE	22.5	17.1	19.4	18.8	
RoCE	24.7	20.0	22.9	22.7	
RoIC	42.8	36.7	36.1	38.6	
Valuation Ratios (x)					
PE	30.8	34.8	26.4	23.4	
Price to Book Value	6.9	6.0	5.1	4.4	
EV/EBITDA	21.6	22.9	17.9	15.3	
EV/Sales	5.1	6.9	4.6	3.3	
Leverage & Solvency Ratios					
Debt to equity (x)	0.0	0.0	0.0	0.0	
Interest Coverage (x)	NA	NA	NA	NA	
Debt to EBITDA (x)	0.1	0.1	0.0	0.0	
Current Ratio	2.5	1.1	1.2	1.4	
Quick ratio	2.4	1.0	1.1	1.3	

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
BPCL (BHAPET)	419	520	Buy	87,693	91.0	38.5	40.6	4.6	10.9	10.3	6.7	7.7	7.0	14.8	13.3	13.6	34.9	17.3	16.7
GAIL (India) (GAIL)	150	180	Buy	66,606	11.0	20.5	18.2	13.6	7.3	8.2	11.0	5.5	6.3	8.7	17.6	13.5	10.5	17.2	13.9
Gujarat Gas (GUJGA)	622	645	Hold	42,818	18.5	19.9	23.0	33.6	31.3	27.0	20.8	19.5	16.7	31.7	29.8	30.3	28.5	24.8	23.9
HPCL (HINPET)	304	265	Hold	44,153	70.6	55.5	31.9	4.3	5.5	9.5	5.5	5.7	7.0	15.6	11.9	6.7	29.5	19.5	10.7
Indian Oil Corp (INDOIL)	131	155	Buy	1,20,272	23.8	21.5	18.0	5.5	6.1	7.3	3.2	3.2	3.4	13.3	12.3	10.1	19.8	16.0	12.5
Indraprastha Gas (INDGAS)	500	560	Hold	35,000	14.4	19.0	21.4	34.8	26.4	23.4	22.9	17.9	15.3	20.0	22.9	22.7	17.1	19.4	18.8
Mahanagar Gas (MAHGAS)	997	1120	Hold	9,848	62.7	82.3	101.8	15.9	12.1	9.8	10.1	7.7	5.8	23.1	26.6	28.1	19.2	21.7	22.6
ONGC (ONGC)	157	185	Hold	2,01,483	10.4	9.0	21.9	15.1	17.4	7.2	4.4	6.7	3.9	10.2	4.5	13.5	6.7	5.6	12.3
Petronet LNG (PETLNG)	230	245	Hold	34,500	19.7	18.6	21.3	11.7	12.4	10.8	7.1	7.2	6.2	26.0	23.6	24.9	25.3	22.6	23.8
Reliance Industries (RELIND)	2,627	2,900	Hold	16,66,428	76.2	83.1	106.9	34.5	31.6	24.6	24.4	17.6	12.9	5.5	7.6	9.7	7.7	8.1	9.6

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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