



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✓
RQ	✗	↔	✓
RV	✗	↑	✓

ESG Disclosure Score

NEW

ESG RISK RATING

Updated Nov 08, 2021

34.15

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

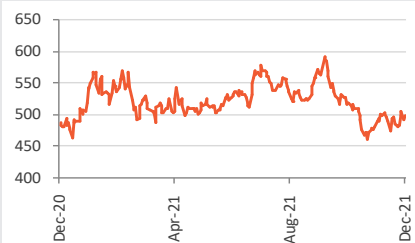
Company details

Market cap:	Rs. 34,927 cr
52-week high/low:	Rs. 604/452
NSE volume: (No of shares)	26.6 lakh
BSE code:	532514
NSE code:	IGL
Free float: (No of shares)	38.5 cr

Shareholding (%)

Promoters	45.0
FII	21.9
DII	16.1
Others	17.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2	-12	-6	2
Relative to Sensex	7	-11	-16	-24

Sharekhan Research, Bloomberg

Indraprastha Gas Ltd

Margin concerns overblown; correction an opportunity to Buy

Oil & Gas	Sharekhan code: IGL		
Reco/View: Buy	↔	CMP: Rs. 499	Price Target: Rs. 650 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- IGL's stock price has been a laggard in the last six months as expectations of a steep hike in domestic gas prices raised concerns on margins. We believe such concerns are overblown as CNG car running costs would be nearly half that of petrol cars, even if domestic gas prices double; thus we stay confident on sustained high margins of >Rs. 8/scm for IGL.
- Rising CNG vehicle conversion rate (trebled to 14,000-15,000 vehicles per month versus pre-COVID level of 4,000-5,000 vehicles per month) in Delhi and ramp-up at new GAs would drive robust 18% volume CAGR over FY21-24E.
- Strong balance sheet and robust FCF offer scope to add new GAs from 11th CGD bidding round (PNGRB has finalized 65 new GAs for bidding). IGL is also eyeing new growth avenues and plans to have a battery swapping facility at 50 CNG stations initially and further expand to ~200 stations with overall capex of Rs100 crore.
- We maintain a Buy on IGL with an unchanged PT of Rs. 650 given strong volume-led earnings growth outlook, nil debt and high RoE of 21%. Sharp 17% correction in stock from 52-week high level makes valuation attractive at 19.8x FY24E EPS.

The high share of CNG at ~73% in Indraprastha Gas Limited's (IGL) overall gas sales volumes makes the company well positioned to protect margins at >Rs. 8/scm as it would be able to hike CNG prices given that the running cost of CNG cars would remain at half the running cost for petrol cars, even if domestic gas price double. High double-digit volume growth outlook seems achievable as CNG conversion rate increases in IGL's existing GAs and we see volume ramp-up of 1.5-2 mmscmd from new GAs (Rewari, Karnal, and Gurugram, and development of three new GAs won under the 10th CGD bidding round). We have fine-tuned our FY22-FY24 earnings estimate and expect EBITDA/PAT to clock 24%/21% CAGR over FY21-24E.

- Favourable CNG economics versus petrol provides enough room for CNG price hike and sustain high margin:** Domestic gas prices are expected to be further hiked to \$5-5.5/mmBtu from April 2022 after a steep 62% increase to \$2.9/mmBtu in October 2021. Our analysis shows that even in case of a 100% hike in domestic gas prices, CNG will remain cheaper by 45% than petrol in terms of running costs. Thus, we believe that IGL has enough room to hike CNG prices and pass on any potential steep gas price increase in the coming quarters. IGL has already passed on entire domestic gas price hike to \$2.9/mmBtu to the customers and is taking continuous CNG prices (cumulative price hike of Rs/5.6/kg since October 13) to pass on potential price increase from April 2022. Thus, we remain confident of sustained strong margin of >8/scm for IGL over FY22-24E.
- Rising conversion to CNG cars and ramp-up volume at new GAs to drive double digit volume growth:** Delhi has been witnessing high conversion to CNG fitted cars with 14,000-15,000 CNG vehicles getting registered per month as compared to only 4000-5000 CNG vehicles per month in pre-COVID period. This coupled with expansion of new GAs of Rewari, Karnal, and Gurugram, and development of three new GAs (won under the Xth CGD bidding round) could further accelerate volume growth in the coming years. Thus, we expect IGL's volume to clock 18% CAGR over FY21-24E and reach 8.7 mmscmd by FY24E (versus management's target to achieve gas sales volumes of 10 mmscmd by FY24E).
- Xth CGD bidding round – potential win of new GAs to sustain future volume growth:** PNGRB has finalised 65 new GAs for bidding under the 11th CGD bidding round (electronic bid submission deadline is December 15, 2021) to further expand the reach of natural gas to 86% India's geographical area and 96% of population from 228 GAs (covering ~53% of India's geographical area and 70% of its population) up to 10th CGD bidding round. IGL is well placed to bid for new GAs given its debt free balance sheet and annual FCF generation of Rs. 800-900 crore.

Our Call

Valuation – Maintain Buy on IGL with an unchanged PT of Rs. 650: The sharp 17% correction in IGL's stock price from 52-week high of Rs604 makes valuation attractive at 19.8x FY24E EPS while volume led earnings growth outlook (we expect a 21% PAT CAGR over FY21-24E) remains intact along with strong RoE/RoCE of 21%/30%. Hence, we maintain a Buy rating on IGL with an unchanged PT of Rs. 650.

Key Risks

Lower-than-expected gas sales volume in case of third of COVID-19 while steep decline in crude oil price could affect CNG economics versus petrol. Delay in development of new GAs, a sharp rise in LNG prices and adverse regulatory changes (revision in APM gas-pricing formula) could affect outlook and valuations. OMC demand of high dealer commission would remain an overhang on IGL until it is resolved.

Valuation (Standalone)

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	4,941	6,421	7,583	9,147
OPM (%)	30.0	32.0	30.8	30.9
Adjusted PAT	1,006	1,396	1,595	1,764
% YoY growth	-11.5	38.8	14.3	10.6
Adjusted EPS (Rs.)	14.4	19.9	22.8	25.2
P/E (x)	34.7	25.0	21.9	19.8
P/B (x)	5.9	5.2	4.5	3.9
EV/EBITDA (x)	22.8	16.2	13.9	11.1
RoNW (%)	18.4	22.1	21.9	21.1
RoCE (%)	23.1	28.0	28.0	30.2

Source: Company; Sharekhan estimates

IGL well placed to sustain elevated margin as favourable economic of CNG versus petrol to sustain

Domestic gas price is expected to be further hiked to \$5-5.5/mmBtu from April 2022 after a steep 62% increase to \$2.9/mmBtu in October 2021. Our analysis shows that even if domestic gas prices double from current levels, CNG will remain cheaper by 45% than petrol in terms of running cost. Thus, we believe that CGDs (including IGL) has enough room to take price hike and pass on any potential steep gas price increase in the coming quarters. IGL has already passed on the entire gas price hike to \$2.9/mmBtu and is taking continuous CNG prices (cumulative price hike of Rs/5.6/kg since October 13) to pass on potential price hikes from April 2022. Thus, we remain confident of sustained strong margins of >Rs. 8/scm for IGL over FY22E-24E.

CNG economics versus petrol at various domestic gas price levels

Particulars	Price as on Oct 31	Current price	50%	60%	70%	80%	90%	100%
Domestic gas price (\$/mmBtu)	1.8	2.9	4.4	4.6	4.9	5.2	5.5	5.8
Domestic gas price (Rs/scm)	4.7	7.6	11.4	12.1	12.9	13.6	14.4	15.2
Domestic gas price (Rs/kg)	6.1	9.9	14.9	15.9	16.9	17.9	18.9	19.9
IGL CNG price (Rs/kg)	45.2	53.0	58.7	59.8	61.0	62.1	63.2	64.4
Retail petrol price in Delhi (Rs/litre)	109.3	95.4	95.4	95.4	95.4	95.4	95.4	95.4
Mileage for petrol car (kms/litre)	12.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0
Running cost (Rs/km)	9.1	8.0	7.3	6.8	6.4	6.0	5.6	5.3
Mileage for CNG car (kms/kg)	16.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0
Running cost (Rs/km)	2.8	3.3	3.5	3.3	3.2	3.1	3.0	2.9
Saving of CNG car versus petrol car	-69%	-58%	-53%	-51%	-50%	-48%	-46%	-45%

Source: Company; Sharekhan Research

Recent CNG price hikes by IGL in Delhi

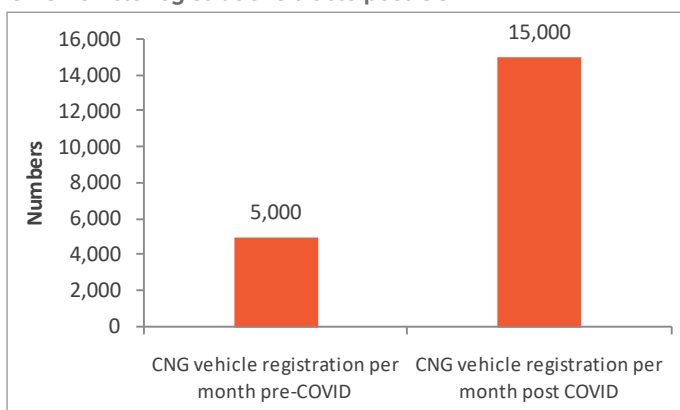
Particulars	CNG price hike in Delhi	CNG price trend in Delhi
Jul-21	1.0	44.3
Aug-21	0.9	45.2
Oct-21	2.3	47.5
Oct-21	2.3	49.8
Nov-21	2.3	52.0
Dec-21	1.0	53.0

Source: Company; Media articles; Sharekhan Research

High adoption of CNG vehicles, ramp-up of new GAs to drive high double-digit volume growth

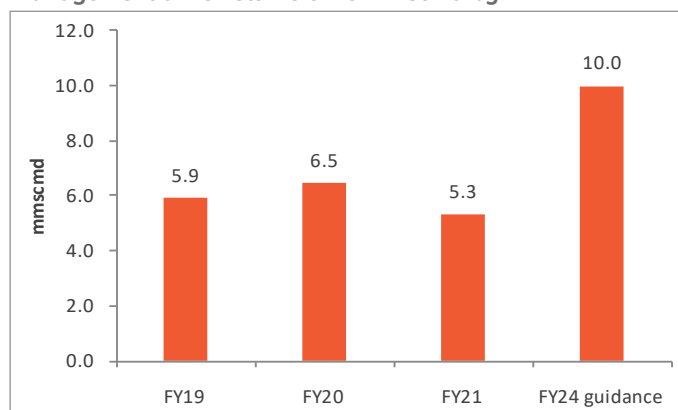
Delhi has been witnessing high conversion to CNG fitted cars with 14,000-15,000 CNG vehicles getting registered per month as compared to only 4000-5000 CNG vehicles per month in the pre-COVID period. This coupled with expansion of new GAs of Rewari, Karnal, and Gurugram, and development of three new GAs (won under the Xth CGD bidding round) could further accelerate volume growth in the coming years. Thus, we expect IGL's volume to clock an 18% CAGR over FY21-24E and reach 8.7mmcmd by FY24E (versus management target to achieve volume of 10 mmcmd by FY24E).

CNG vehicle registrations treble post COVID



Source: Company; Media articles; Sharekhan Research

Management aims volume of 10 mmcmd by FY24E



Source: Company; Media articles; Sharekhan Research

PNGRB has finalized 65 new GAs for bidding under the 11th CGD bidding round

Geographical Areas (GAs) in 11 th CGD Bidding Round				
Unique ID.	Geographical Area	State	Population	Area
11.01	Kurnool, Guntur, and Prakasam districts	Andhra Pradesh	1,23,38,724	46,675
11.02	Nagaon, Morigaon, Hojai, Karbi Anglong and West Karbi Anglong districts	Assam	47,37,504	15,958
11.03	Lakhimpur, Dhemaji, Darrang, Udalgiri, Sonitpur and Biswanath Chariali districts	Assam	54,12,548	14,315
11.04	Kokrajhar and Dhubri districts	Assam	28,36,400	11,000
11.05	Baksa, Barpeta, Bongaigaon, Chirang and Nalbari districts	Assam	46,36,302	8,807
11.06	Darbhanga, Madhubani, Supaul, Sitamarhi and Sheohar districts	Bihar	1,47,33,660	10,848
11.07	Gopalganj, Siwan, West Champaran, East Champaran and Deoria districts	Bihar & Uttar Pradesh	1,80,27,835	15,988
11.08	Baloda Bazar, Gariyaband and Raipur districts	Chhattisgarh	40,63,872	12,383
11.09	Kabirdham, Raj Nandgaon and Kanker districts	Chhattisgarh	31,08,600	19,466
11.10	Mungeli, Bemetara, Durg, Balod and Dhamtari districts	Chhattisgarh	48,45,360	15,396
11.11	Jashpur, Raigarh, Janjgir-Champa and Mahasamund districts	Chhattisgarh	49,98,114	21,567
11.12	Koriya and Surajpur districts	Chhattisgarh	14,47,960	12,040
11.13	Balrampur and Surguja districts	Chhattisgarh	15,70,843	10,306
11.14	Kondagaon, Bastar and Sukma districts	Chhattisgarh	16,63,358	15,917
11.15	Narayanpur, Bijapur and Dantewada	Chhattisgarh	6,78,529	15,971
11.16	Mandi, Kullu, Kinnaur and Lahaul & Spiti districts	Himachal Pradesh	15,53,365	29,695
11.17	Kangra and Chamba districts	Himachal Pradesh	20,29,155	12,261
11.18	Jammu, Udhampur, Reasi, Samba and Kathua districts	UT of Jammu and Kashmir	33,34,943	10,104
11.19	Gumla, Latehar, Lohardaga, Simdega, Garhwa and Khunti districts	Jharkhand	46,68,228	21,555
11.20	Chikkaballapur district	Karnataka	12,55,104	4,244
11.21	Idukki, Kottayam and Pattanamittu districts	Kerala	42,80,937	9,214
11.22	Agar Malwa, Neemuch, Mandasaur and Jhalawar districts	Madhya Pradesh and Rajasthan	41,48,885	18,736
11.23	Burhanpur, Khandwa, Khargone and Harda districts	Madhya Pradesh	45,11,419	22,138
11.24	Tikamgarh, Niwari, Chattarpur and Panna districts	Madhya Pradesh	42,24,061	20,870
11.25	Betul, Chhindwara, Seoni and Balaghat districts	Madhya Pradesh	67,47,113	39,845
11.26	Damoh, Jabalpur, Katni, Mandla, Umaria and Dindori districts	Madhya Pradesh	74,23,737	34,813
11.27	Hoshangabad, Narsinghpur, Sagar and Vidisha districts	Madhya Pradesh	61,70,537	29,459
11.28	Buldana, Nanded and Parbhani districts	Maharashtra	77,83,636	26,403
11.29	Beed, Jalgaon and Jalna districts	Maharashtra	87,74,012	30,145
11.30	Akola, Hingoli and Washim districts	Maharashtra	41,88,411	15,401
11.31	Amravati and Yavatmal districts	Maharashtra	56,60,793	25,792
11.32	Chandrapur and Wardha districts	Maharashtra	35,05,081	17,752
11.33	Nagpur district	Maharashtra	46,53,570	9,892
11.34	Bhandara, Gondiya and Garchioli districts	Maharashtra	35,95,783	23,733
11.35	Alirajpur, Nandurbar and Barwani districts	Maharashtra & Madhya Pradesh	37,63,175	14,564
11.36	Koraput, Malkangiri, and Nabarangpur districts	Odisha	32,13,785	19,889
11.37	Gajapati, Kandhamal, Boudh and Sonepur districts	Odisha	23,62,272	17,781
11.38	Rayagada, Kalahandi, Bolangir and Nuapada districts	Odisha	48,04,159	25,420
11.39	Pathankot district	Punjab	6,76,598	931
11.40	Tarn Taran district	Punjab	11,19,627	2,414
11.41	Fazilka (except area already authorized), Ganganagar and Hanumangarh districts	Punjab & Rajasthan	10,23,565	23,334
11.42	Bikaner and Churu districts	Rajasthan	44,03,484	44,074
11.43	Jhunjhunu, Sikar and Nagaur districts	Rajasthan	81,22,121	31,378
11.44	Dausa, Karauli, Sawai Madhopur and Tonk districts	Rajasthan	58,49,534	20,648
11.45	Dharmapuri and Krishnagiri districts	Tamil Nadu	33,86,652	9,626
11.46	Tiruvannamalai and Villupuram districts	Tamil Nadu	59,23,748	13,382
11.47	Ariyalur and Perambalur districts	Tamil Nadu	13,20,117	3,696
11.48	Namakkal and Tiruchirapalli districts	Tamil Nadu	44,48,891	7,929
11.49	Pudukottai, Sivaganga and Thanjavur districts	Tamil Nadu	53,63,336	12,288
11.50	Madurai, Theni and Virudhnagar districts	Tamil Nadu	62,26,439	10,819
11.51	Kanyakumari, Thoothukudi and Tirunelveli districts	Tamil Nadu	66,97,783	13,122
11.52	Dindigul and Karur districts	Tamil Nadu	32,24,268	8,940
11.53	The Nilgiris and Erode districts	Tamil Nadu	29,87,138	8,325
11.54	Nizamabad, Adilabad, Nirmal, Mancherial and Kumuram Bheem Asifabad districts	Telangana	52,92,574	24,061
11.55	Jogulamba Gadwal, Nagarkurnool, Mahabubnagar, Narayanpet, Wanaparthy and Yadgir districts	Telangana and Karnataka	47,85,208	22,095
11.56	South Tripura and Sepahijala districts	Tripura	9,37,965	2,647
11.57	Dhalai, North Tripura, Unakoti and Khowai districts	Tripura	13,60,183	5,447
11.58	Amroha & Sambhal (except area already authorized) districts	Uttar Pradesh	36,30,870	4,249
11.59	Kasganj district	Uttar Pradesh	14,36,719	1,955
11.60	Purulia and Bankura districts	West Bengal	65,26,789	13,141
11.61	East Medinipur, West Medinipur and Jhargram districts	West Bengal	1,10,09,332	14,081
11.62	Alipurduar and Koch Bihar districts	West Bengal	42,45,104	6,144
11.63	Banda, Chitrakoot and Mahoba districts	Uttar Pradesh	36,67,098	10,768
11.64	Pauri Garhwal, Uttarkashi, Rudrapur and Tehri Garhwal districts	Uttarakhand	18,78,573	18,971
11.65	Pithoragarh, Champawat, Almora, Chamoli and Bageshwar districts	Uttarakhand	20,17,096	22,271

Source: PNGRB; Note - Area in sq. km.

11th CGD bidding round Schedule

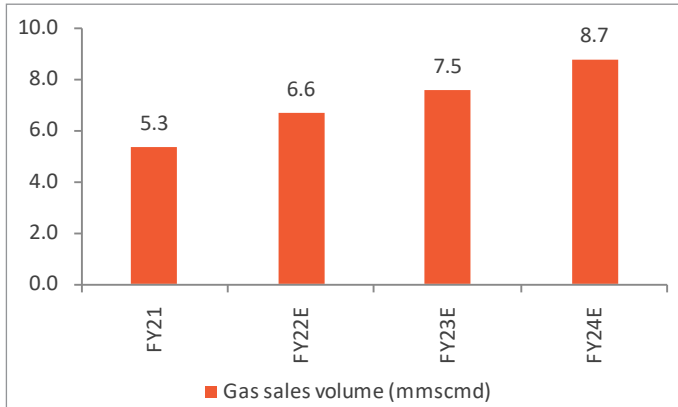


Source: PNGRB

December 07, 2021

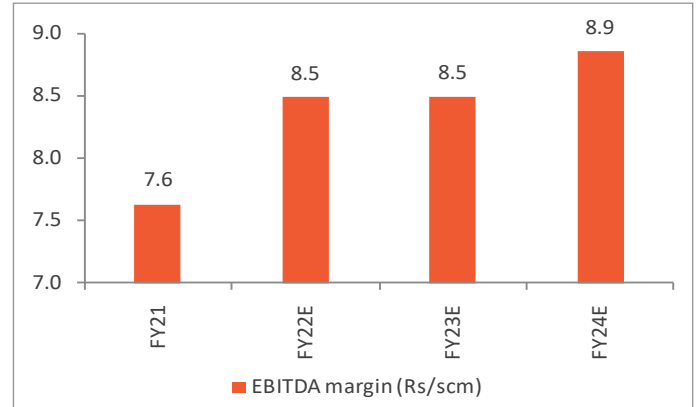
Financials in charts

Regulatory push to drive volumes



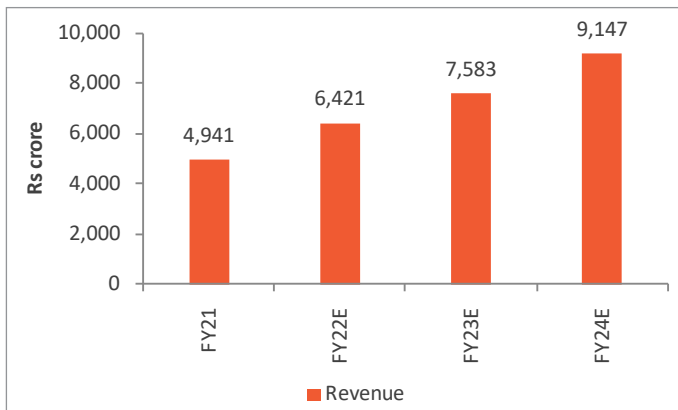
Source: Company, Sharekhan Research

High margins to sustain



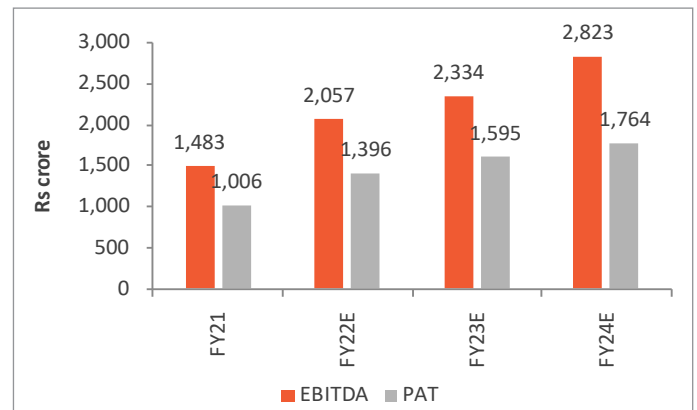
Source: Company, Sharekhan Research

Revenue trend



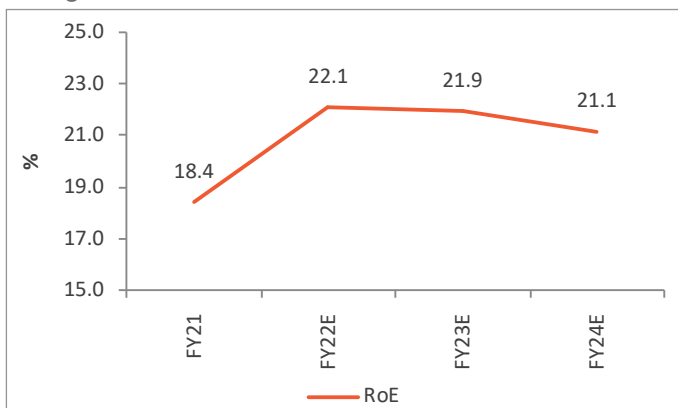
Source: Company, Sharekhan Research

EBITDA/PAT to report 24%/21% CAGR over FY21-FY24E



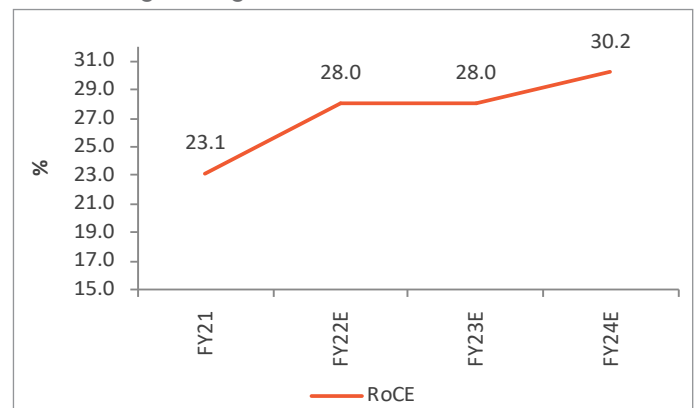
Source: Company, Sharekhan Research

Strong RoE trend



Source: Company, Sharekhan Research

RoCE to stay healthy



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Regulatory push and low gas price to drive gas demand in India and benefit CGD players

Long-term gas demand potential for India is very strong, given regulatory support to curb pollution and low domestic gas prices. Additionally, the government's aim to increase the share of gas in India's overall energy mix to 15% by 2025 (from 6% currently) would substantially improve gas penetration in the country and boost gas consumption. Thus, we expect sustainable high single-digit growth in India gas demand for the next 4-5 years. CGD companies' (with exposure towards CNG) margins are expected to remain strong given weak domestic gas prices.

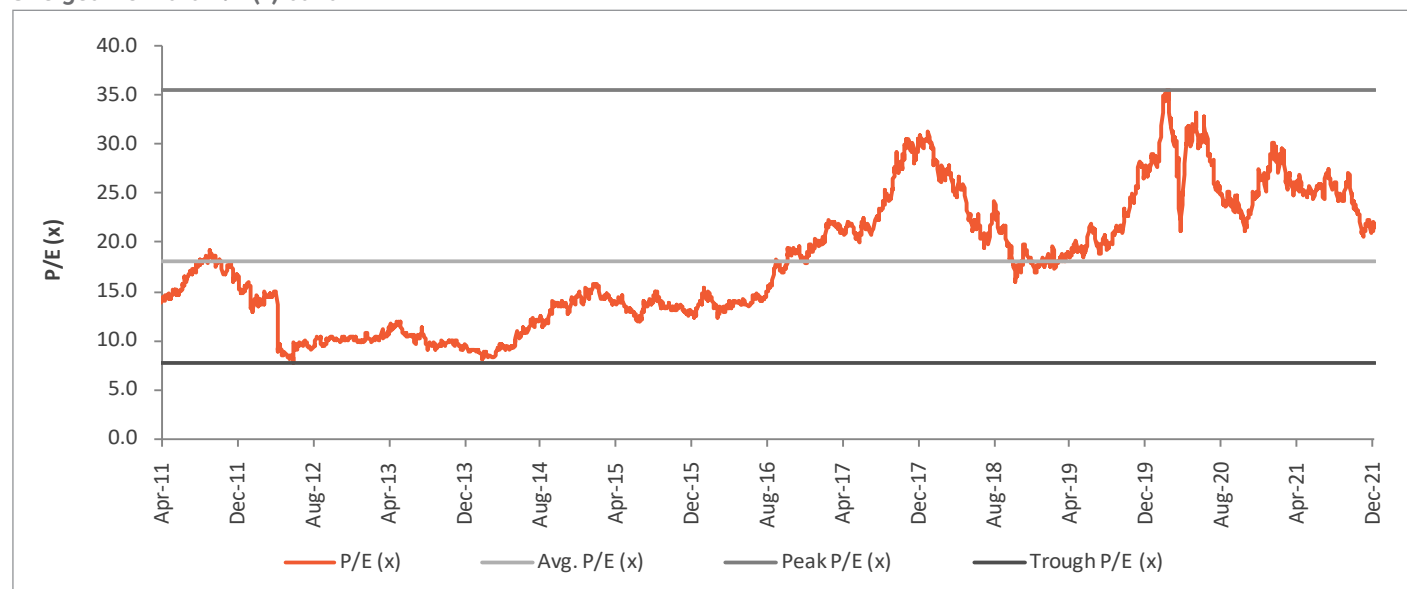
■ Company outlook - Long-term volume growth outlook intact

We believe that IGL is well-placed to benefit from rising gas consumption in India and thus we model 18% volume CAGR over FY2021-FY2024E led by a sustained high growth in existing geographical areas (GAs), expansion into new GAs of Rewari, Karnal and Gurugram and development of three new GAs (won under the Xth CGD bidding round). EBITDA margin is expected to sustain, given IGL's ability to pass on any increase in domestic gas price given favourable economics of CNG versus petrol. Hence, we expect a strong EBITDA/PAT CAGR of 24%/21% over FY2021-FY2024E.

■ Valuation - Maintain Buy on IGL with an unchanged PT of Rs. 650

The sharp 17% correction in IGL's stock price from 52-week high of Rs604 makes valuation attractive at 19.8x FY24E EPS while volume led earnings growth outlook (we expect a 21% PAT CAGR over FY21-24E) remains intact along with strong RoE/RoCE of 21%/30%. Hence, we maintain a Buy rating on IGL with an unchanged PT of Rs. 650.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

IGL is a dominant CGD player in NCR (Delhi, Noida, Greater Noida, and Ghaziabad), with gas sales volume of over 7 mmscmd currently. IGL derives 73% of its volume from CNG, 14% from domestic PNG (including sales to other CDG companies) and remaining from commercial/industrial PNG. The entire gas requirement for CNG and domestic PNG is met through domestic gas supply and the remaining is met through imported re-gasified liquefied natural gas (R-LNG).

Investment theme

The government's aim to increase the share of gas in India's energy mix to ~15% by 2030 (from 6% currently) and the thrust to reduce air pollution in the NCR region provide a regulatory push for strong growth in CNG and domestic PNG volumes for IGL. Moreover, the development of new GAs of Rewari, Karnal, and Gurugram and recent awarding of three new GAs in the 10th round of CGD bidding would drive volume growth beyond its existing areas of operations. The company's margins are expected to remain strong given favourable economics of CNG versus petrol. Moreover, the recent sharp volume recovery above pre-COVID level re-enforces confidence with respect to volume led double-digit earnings growth outlook.

Key Risks

- ♦ Lower-than-expected gas sales volume in case of delayed recovery due to COVID-19 led slowdown and delay in development of new Gas
- ♦ Any change in domestic gas allocation/pricing policy, depreciation of Indian rupee, higher spot LNG price and any adverse regulatory changes could affect margins and valuations.
- ♦ OMC demand of high dealer commission would remain an overhang on MGL until resolved

Additional Data

Key management personnel

Arun Kumar Singh	Chairman
AK Jana	Managing Director
Bimal Ram Nagar	Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.3
2	Government of National Capital Territory of Delhi	5.0
3	FMR LLC	3.2
4	Kotak Mahindra Asset Management Co. Ltd	2.1
5	Vanguard Group Inc.	1.8
6	DSP Investment Managers Pvt. Ltd	1.5
7	SBI Life Insurance Co. Ltd	1.4
8	BlackRock Inc.	1.3
9	Schroders PLC	1.0
10	BNP Paribas SA	0.9

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

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