Indraprastha Gas (INDGAS)

ICICI direct Research

CMP: ₹ 390 | Target: ₹ 475 (22%) | Target Period: 12 months | BUY

February 11, 2022

Result Update

Volume growth to drive 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

Q3FY22 Results: IGL reported Q3FY22 results that were better than estimates.

- Revenue increased 53.2% YoY to ₹ 2215.5 crore due to higher volume as well as realisation. Sales volume grew 22.3% YoY to 7.7 mmscmd
- Gross margin declined ₹ 2.8/scm YoY and ₹ 1.7/scm QoQ to ₹ 11.7/scm due to higher gas sourcing costs. EBITDA was at ₹ 469.6 crore, down 6.2% YoY and 11.4% QoQ
- Consequently, PAT was at ₹ 308.5 crore (down 7.9% YoY and 23% QoQ)

What should investors do? IGL's share price has corrected ~22% since our last recommendation in November 2021.

- We upgrade our rating from HOLD to BUY on the stock

Target Price and Valuation: We roll over valuation to FY24E and value IGL at ₹ 475 (standalone at ~₹ 436 i.e. 20x P/E on FY24E EPS and investments at ~₹ 39)

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
- Debt free balance sheet

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

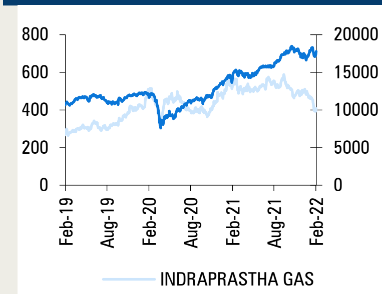
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	27,300.0
Total Debt (FY21) (₹ Crore)	79.9
Cash and Investments (FY21) (	1,132.3
EV (₹ Crore)	26,247.7
52 week H/L	604/424
Equity capital (₹ Crore)	140.0
Face value (₹)	2.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	45.0	45.0	45.0	45.0	45.0
FII	23.2	23.8	23.9	21.9	20.2
DII	16.1	15.9	14.8	16.1	16.7
Others	15.7	15.3	16.3	17.1	18.1

Price Chart



Recent event & key risks

- **Key Risk:** (i) Slower than expected volume growth, (ii) Inability to pass on further increase in costs.

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ICICI Securities – Retail Equity Research

Key Financial Summary

(Year-end March)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Revenues (₹ crore)	5,760.0	6,485.3	4,940.8	6.0	7,872.5	10,655.2	11,592.3	32.9
EBITDA (₹ crore)	1,252.1	1,519.6	1,483.0	14.0	2,006.6	2,125.9	2,319.7	16.1
Net Profit (₹ crore)	786.7	1,136.5	1,005.7	19.3	1,385.0	1,425.9	1,530.6	15.0
EPS (₹)	11.2	16.2	14.4		19.8	20.4	21.9	
P/E (x)	34.7	24.0	27.1		19.7	19.1	17.8	
Price / Book (x)	6.6	5.4	4.6		4.0	3.4	3.0	
EV/EBITDA (x)	21.3	16.6	17.7		13.3	12.4	11.2	
RoCE (%)	25.4	24.7	20.0		24.1	21.5	20.1	
RoE (%)	19.0	22.5	17.1		20.1	17.9	16.8	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY22 Results: Earnings ahead of estimates

- Revenue increased 21% QoQ. The realisation was largely in line with estimates at ₹ 34.5/scm (our estimate: ₹ 34.9/scm)
- Sales volume was 7.7 mmscmd, up 22.3% YoY, 5.8% QoQ (our estimate: ₹ 7.4 mmscmd). CNG segment grew ~26% YoY to 5.6 mmscmd (our estimate: 5.5 mmscmd). PNG volume increased ~14% YoY to 2 mmscmd and was in line with estimates. Within the PNG segment, domestic PNG volume grew 10% YoY while industrial/commercial PNG volume was up ~14% YoY. On QoQ basis, CNG increased ~6% while PNG volume grew ~5%
- The company reported lower than expected other expenditure
- We estimate sales volume of 8.1 mmscmd and 8.9 mmscmd in FY23E and FY24E, respectively.

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹) FY21	FY22E	FY23E	P/E (x) FY21	FY22E	FY23E	EV/EBITDA (x) FY21	FY22E	FY23E	RoCE (%) FY21	FY22E	FY23E	RoE (%) FY21	FY22E	FY23E
Gujarat Gas (GUJGA)	647	700	Hold	44,539	18.5	16.4	23.3	34.9	39.5	27.7	21.7	24.1	17.5	31.7	24.8	30.4	28.5	21.3	25.0
Indraprastha Gas (INDGAS)	390	475	Buy	27,300	14.4	19.8	20.4	27.1	19.7	19.1	17.7	13.3	12.4	20.0	24.1	21.5	17.1	20.1	17.9
Mahanagar Gas (MAHGAS)	793	885	Hold	7,833	62.7	65.4	89.6	12.6	12.1	8.8	7.9	7.6	5.3	23.1	21.7	26.2	19.2	18.1	21.3

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Total Revenues	2,215.5	2,175.8	1,446.2	53.2	1,831.2	21.0	
Raw materials costs	1,384.2	1,340.9	606.9	128.1	928.3	49.1	
Employees Cost	47.7	54.4	37.5	27.2	52.4	-9.0	
Other Expenses	314.0	369.9	301.2	4.3	320.4	-2.0	Lower than expected
Total Expenditure	1,745.9	1,765.2	945.5	84.7	1,301.0	34.2	
EBITDA	469.6	410.6	500.7	-6.2	530.2	-11.4	Higher-than-expected on account of lower-than-expected expenses
EBITDA margins (%)	21.2	18.9	34.6	-1342 bps	29.0	-776 bps	
Depreciation	83.5	86.1	75.0	11.3	80.5	3.8	
EBIT	386.1	324.5	425.7	-9.3	449.7	-14.1	
Interest	2.8	4.9	3.1	-7.2	2.6	10.5	
Other Income	30.4	45.0	25.9	17.2	77.5	-60.8	Lower than estimated
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	413.7	364.6	448.5	-7.8	524.6	-21.1	
Total Tax	105.1	92.2	113.7	-7.5	124.1	-15.3	
PAT	308.5	272.4	334.9	-7.9	400.5	-23.0	
Key Metrics							
Sales Volumes (mmscmd)	7.7	7.4	6.3	22.3	7.2	5.8	CNG volume was 5.6 mmscmd whereas PNG volume came in at 2 mmscmd
Realisation (₹/scm)	34.5	34.9	27.6	25.1	30.1	14.5	
Gross Margin (₹/scm)	11.7	12.1	14.4	-19.2	13.4	-13.0	Marginally lower than estimates

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

	FY22E			FY23E			Comments
(₹ Crore)	**Old**	**New**	**% Change**	**Old**	**New**	**% Change**	
Revenue	7470.6	7,872.5	5.4	10318.4	10,655.2	3.3	Increased sales volume and realisation estimates
EBITDA	1840.5	2,006.6	9.0	2216.3	2,125.9	-4.1	Revised gas cost estimate in FY23E leading to higher expenditure estimate that offset revenue increase
EBITDA Margin (%)	24.6	25.5	85 bps	21.5	20.0	-153 bps	
PAT	1268.9	1,385.0	9.2	1495.7	1,425.9	-4.7	
EPS (₹)	18.1	19.8	9.2	21.4	20.4	-4.7	

Source: ICICI Direct Research

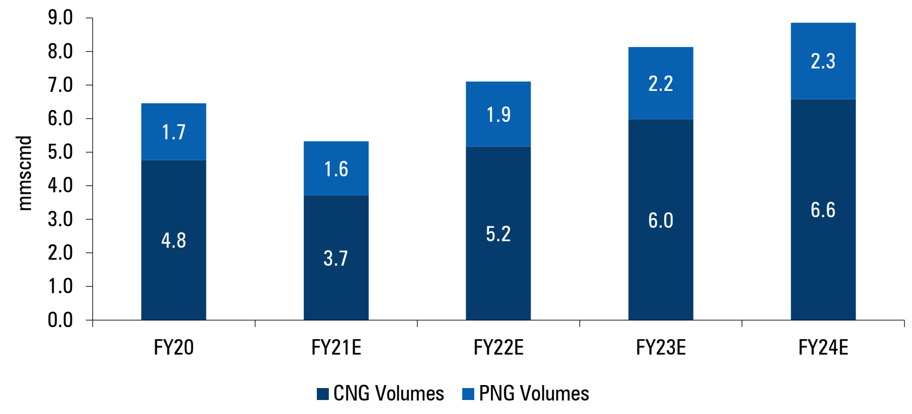
Exhibit 4: Assumptions

			Current		Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Sales Volumes (mmscmd)	6.4	5.3	7.1	8.1	6.9	8.0	Increased volume estimates post Q3 performance
Realisation (₹/scm)	30.3	27.8	33.2	39.4	32.4	38.9	Increased realisation estimate following price hikes
Gross Margin (₹/scm)	11.8	13.8	13.4	12.8	13.2	13.5	

Source: ICICI Direct Research

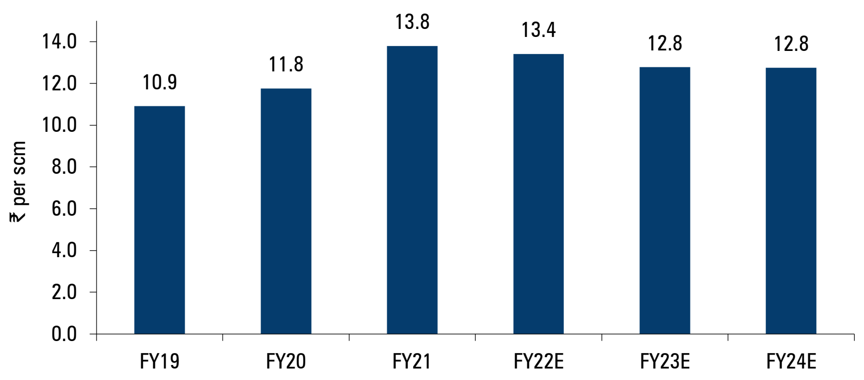
Story in charts

Exhibit 5: Volume trajectory



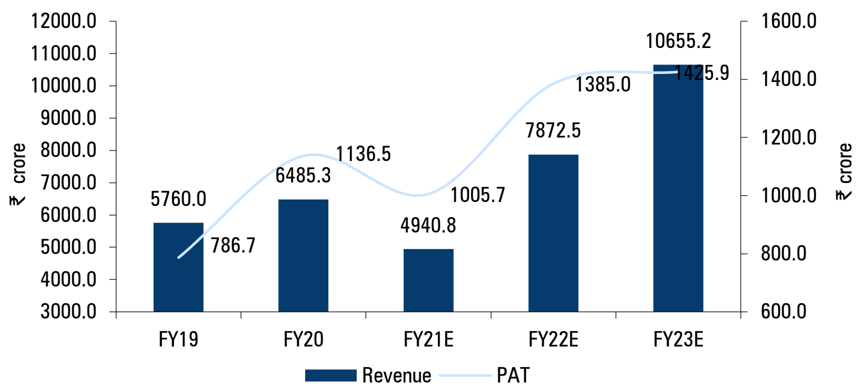
Source: Company, ICICI Direct Research

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)	FY21E	FY22E	FY23E	FY24E
Revenue	**4940.8**	**7872.5**	**10655.2**	**11592.3**
Growth (%)	-23.8	59.3	35.3	8.8
Raw material Costs	2229.5	4354.7	6835.2	7441.0
Employee Costs	134.4	201.6	245.1	266.6
Other Expenditure	1093.9	1309.6	1449.1	1565.0
Op. Expenditure	3457.8	5865.9	8529.3	9272.6
EBITDA	1483.0	2006.6	2125.9	2319.7
Growth (%)	-2.4	35.3	5.9	9.1
Depreciation	**290.4**	**329.9**	**397.5**	**471.1**
EBIT	1192.6	1676.7	1728.4	1848.7
Interest	11.3	13.2	19.6	19.6
Other Income	150.2	182.7	200.0	220.0
PBT	1331.5	1846.1	1908.8	2049.1
Growth (%)	-5.9	38.6	3.4	7.3
Tax	325.8	461.0	482.9	518.4
Reported PAT	**1005.7**	**1385.0**	**1425.9**	**1530.6**
Growth (%)	-11.5	37.7	2.9	7.3
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	1005.7	1385.0	1425.9	1530.6
EPS	**14.4**	**19.8**	**20.4**	**21.9**

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore

(Year-end March)	FY21E	FY22E	FY23E	FY24E
Profit after Tax	1,005.7	1,385.0	1,425.9	1,530.6
Add: Depreciation	290.4	329.9	397.5	471.1
Add: Others	30.3	30.0	30.0	30.0
Cash Profit	1,130.3	1,376.4	1,484.8	1,663.2
Increase/(Decrease) in CL	451.9	-380.2	382.3	130.1
(Increase)/Decrease in CA	-60.9	-150.0	-205.7	-85.8
CF from Operating Activities	**1811.7**	**1176.1**	**2058.9**	**2178.5**
Purchase of Fixed Assets	1,124.6	977.5	1,176.0	1,276.0
(Inc)/Dec in Investments	-1,567.7	-250.0	-250.0	-250.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	**-2,692.3**	**-1,227.5**	**-1,426.0**	**-1,526.0**
Inc/(Dec) in Loan Funds	123.5	40.0	40.0	40.0
Less: Dividend Paid	196.0	368.6	368.6	368.6
Inc/(Dec) in Sh. Cap. & Res.	-0.2	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	**-72.6**	**-328.6**	**-328.6**	**-328.6**
Change in cash Eq.	-1,047.7	-341.3	275.4	221.5
Op. Cash and cash Eq.	2,180.0	1,132.3	791.0	1,066.4
Cl. Cash and cash Eq.	**1,132.3**	**791.0**	**1,066.4**	**1,287.9**

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet ₹ crore

(Year-end March)	FY21E	FY22E	FY23E	FY24E
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	5,731.9	6,748.4	7,805.7	8,967.8
Shareholder's Fund	5,871.9	6,888.4	7,945.7	9,107.8
Loan Funds	79.9	79.9	79.9	79.9
Deferred Tax Liability	242.2	272.2	302.2	332.2
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	**7087.3**	**8173.8**	**9301.1**	**10533.2**
Application of Funds				
Gross Block	5,397.7	6,497.7	7,697.7	8,947.7
Less: Acc. Depreciation	1,076.9	1,429.3	1,850.8	2,345.8
Net Block	4,320.9	5,068.4	5,847.0	6,601.9
Capital WIP	846.9	746.9	746.9	796.9
Total Fixed Assets	5,167.8	5,815.4	6,593.9	7,398.8
Investments	1,825.8	2,075.8	2,325.8	2,575.8
Inventories	45.6	90.6	122.6	133.4
Debtor	260.7	345.1	467.1	508.2
Cash	1,132.3	791.0	1,066.4	1,287.9
Loan & Advance, Other CA	155.2	175.8	227.5	261.4
Total Current assets	1593.8	1402.5	1883.6	2190.9
Current Liabilities	1127.5	1078.4	1459.6	1588.0
Provisions	372.7	41.5	42.6	44.3
Total CL and Provisions	1500.1	1119.9	1502.2	1632.3
Net Working Capital	93.7	282.6	381.4	558.5
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	**7087.3**	**8173.8**	**9301.1**	**10533.2**

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios

(Year-end March)	FY21E	FY22E	FY23E	FY24E
Per share data (₹)				
Book Value	83.9	98.4	113.5	130.1
Cash per share	38.6	37.3	44.8	51.5
EPS	14.4	19.8	20.4	21.9
Cash EPS	18.5	24.5	26.0	28.6
DPS	2.8	4.5	4.5	4.5
Profitability & Operating Ratios				
EBITDA Margin (%)	30.0	25.5	20.0	20.0
PAT Margin (%)	20.4	17.6	13.4	13.2
Fixed Asset Turnover (x)	1.0	1.4	1.6	1.6
Inventory Turnover (Days)	3.4	4.2	4.2	4.2
Debtor (Days)	19.3	16.0	16.0	16.0
Current Liabilities (Days)	83.3	50.0	50.0	50.0
Return Ratios (%)				
RoE	17.1	20.1	17.9	16.8
RoCE	20.0	24.1	21.5	20.1
RoIC	36.7	38.5	35.3	33.1
Valuation Ratios (x)				
PE	27.1	19.7	19.1	17.8
Price to Book Value	4.6	4.0	3.4	3.0
EV/EBITDA	17.7	13.3	12.4	11.2
EV/Sales	5.3	3.4	2.5	2.3
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	0.0	0.0	0.0
Current Ratio	1.1	1.3	1.3	1.3
Quick ratio	1.0	1.2	1.2	1.3

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹) FY21	FY22E	FY23E	P/E (x) FY21	FY22E	FY23E	EV/EBITDA (x) FY21	FY22E	FY23E	RoCE (%) FY21	FY22E	FY23E	RoE (%) FY21	FY22E	FY23E
BPCL (BHAPET)	376	450	Buy	78,693	91.0	43.4	39.8	4.1	8.7	9.4	6.2	6.5	6.4	14.8	14.7	13.2	34.9	19.0	16.1
GAIL (India) (GAIL)	147	180	Buy	65,074	11.0	22.4	17.8	13.3	6.5	8.2	10.8	5.1	6.2	8.7	18.5	13.1	10.5	18.5	13.4
Gujarat Gas (GUJGA)	647	700	Hold	44,539	18.5	16.4	23.3	34.9	39.5	27.7	21.7	24.1	17.5	31.7	24.8	30.4	28.5	21.3	25.0
HPCL (HINPET)	285	320	Hold	40,439	70.6	46.4	44.2	4.0	6.1	6.4	5.3	6.9	6.2	15.6	9.6	9.2	29.5	16.7	14.5
Indian Oil Corp (INDOIL)	125	150	Buy	1,14,763	23.8	25.4	19.2	5.3	4.9	6.5	3.0	2.7	3.1	13.3	13.9	10.6	19.8	18.3	12.9
Indraprastha Gas (INDGAS)	390	475	Buy	27,300	14.4	19.8	20.4	27.1	19.7	19.1	17.7	13.3	12.4	20.0	24.1	21.5	17.1	20.1	17.9
Mahanagar Gas (MAHGAS)	793	885	Hold	7,833	62.7	65.4	89.6	12.6	12.1	8.8	7.9	7.6	5.3	23.1	21.7	26.2	19.2	18.1	21.3
ONGC (ONGC)	170	180	Hold	2,18,167	8.9	30.0	26.6	19.0	5.7	6.4	7.2	4.2	3.3	4.5	12.8	14.4	5.5	16.1	12.8
Petronet LNG (PETLNG)	215	245	Hold	32,250	19.7	19.3	21.2	10.9	11.2	10.1	6.7	6.4	5.7	26.0	24.3	24.7	25.3	23.2	23.5
Reliance Industries (RELIND)	2,478	2,950	Buy	16,75,691	76.2	90.2	106.3	32.5	27.5	23.3	23.2	16.7	12.6	5.5	7.7	9.7	7.7	8.6	9.5

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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