Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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 25.79

Updated Apr 08, 2022

High Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 25,613 cr
52-week high/low:	Rs. 604/322
NSE volume: (No of shares)	29.7 lakh
BSE code:	532514
NSE code:	IGL
Free float: (No of shares)	38.5 cr

Shareholding (%)

Promoters	45.0
FII	19.9
DII	16.9
Others	18.2

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-2.5	-3.2	-25.4	-27.2
Relative to Sensex	4.9	5.5	-13.9	-33.7

Sharekhan Research, Bloomberg

Indraprastha Gas Ltd

Q4 meets hopes; high gas costs a worry for margins

Oil & Gas		Sharekhan code: IGL	
Reco/View: Buy	↔	CMP: Rs. 366	Price Target: Rs. 450 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Q4FY22 operating profit of Rs. 500 crore (up 6.6% q-o-q) was in line with street estimates but 2.7% below our estimate due to lower-than-expected margin. PAT of Rs. 362 crore (up 17% q-o-q) beat estimate by 7% on higher other income.
- Volumes of 7.7 mmscmd was slightly above our estimate but witnessed only 1.2% q-o-q rise due to impact of third wave of COVID-19. EBITDA margins improved by 7.7% q-o-q to Rs7.2/scm (up 7.7% q-o-q) but missed estimate on high gas costs.
- Elevated gas cost to remain an overhang on margin in FY23 although IGL has pricing power in CNG/D-PNG. We expect ramp-up from new GAs to drive double-digit volume growth.
- A steep fall in the stock price makes valuations attractive at 16.3x FY24E EPS and thus we maintain our Buy on IGL with a revised PT of Rs. 450. Further hikes in domestic gas prices, lower APM gas allocation and likely faster implementation of electric vehicle policy in Delhi could remain an overhang on IGL.

Indraprastha Gas Limited's (IGL's) Q4FY2022 standalone operating profit of Rs. 500 crore (up 1.8% y-o-y; up 6.6% q-o-q) was in-line with consensus estimate but marginally below our estimates of Rs. 514 crore due to slightly lower-than-expected EBITDA margin of Rs. 7.2/scm (down 10.3% y-o-y; up 7.7% q-o-q) on higher gas cost at Rs. 21.8/scm (up 10% q-o-q). Gas sales volume of 7.7 mmscmd (up 13.5% y-o-y; up 1.2% q-o-q) was marginally ahead of our estimates with largely stable q-o-q CNG/ Industrial-Commercial PNG/third-party volume of 5.7 mmscmd/1 mmscmd/0.5 mmscmd given impact of third wave of COVID-19 in January and February, while domestic-PNG volume grew by 16% q-o-q to 0.6 mmscmd. PAT of Rs. 362 crore (up 9.2% y-o-y; up 17.2% q-o-q) was 7% above our estimate of Rs. 339 crore, due to higher-than-expected other income partially offset by higher tax rate of 27.3%.

Key positives

- Strong growth of 16% q-o-q in domestic PNG volumes.

Key negatives

- EBITDA margin of Rs. 7.2 per scm missed estimate by 3%.

Revision in estimates – We have fine-tuned our FY23-24 earnings estimates to factor FY22 P&L and balance sheet numbers.

Our Call

Valuation – Maintain Buy on IGL with a revised PT of Rs. 450: IGL's stock price has corrected sharply by 39% from its from 52-week high and that makes valuation attractive at 17.9x/16.3x FY23E/FY24E EPS given volume growth visibility supported by robust demand in the existing NCR region and ramp-up of new GAs. Hence, we maintain a Buy rating on IGL with a revised PT of Rs. 450. Further hike in domestic gas price, Lower APM gas allocation and likely faster implementation of electric vehicle policy in Delhi would remain overhangs on IGL.

Key Risks

Lower-than-expected gas sales volume in case of slowdown. Delay in development of new GAs, a sustained high spot LNG prices and adverse regulatory changes (revision in APM gas-pricing formula) could affect outlook and valuations.

Valuation (Standalone) Rs cr

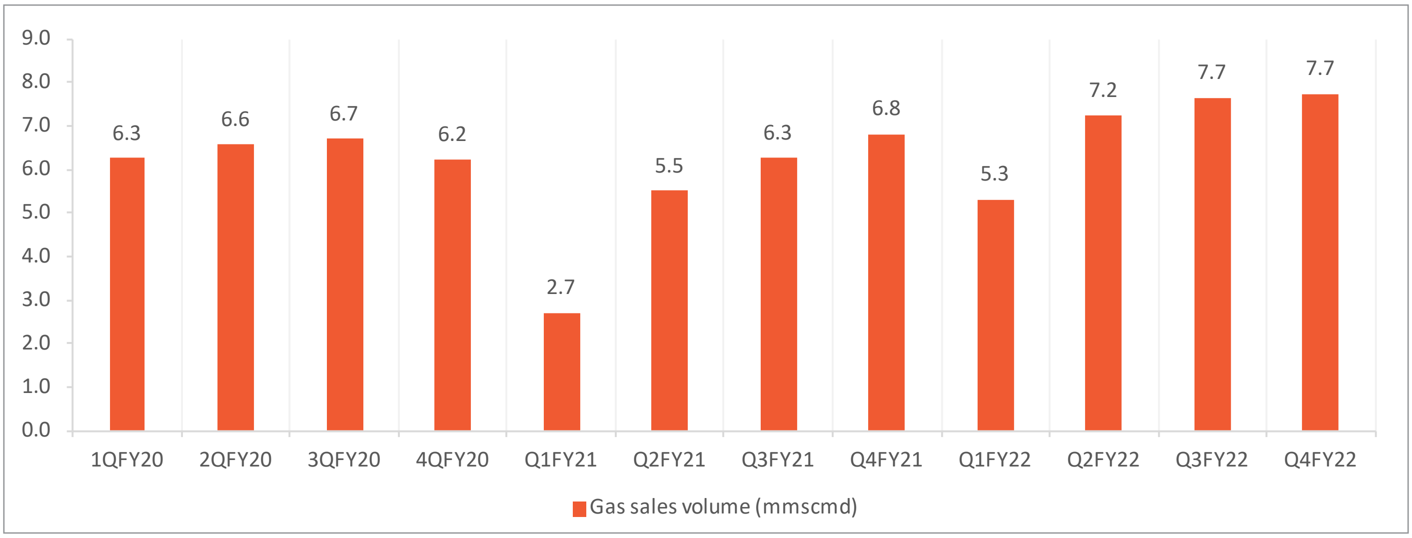
Particulars	FY21	FY22	FY23E	FY24E
Revenue	4,941	7,710	9,523	11,311
OPM (%)	30.0	24.4	22.0	22.3
Adjusted PAT	1,006	1,315	1,429	1,573
% YoY growth	*-11.5*	*30.8*	*8.7*	*10.1*
Adjusted EPS (Rs.)	14.4	18.8	20.4	22.5
P/E (x)	25.5	19.5	17.9	16.3
P/B (x)	4.4	3.7	3.3	2.9
EV/EBITDA (x)	16.5	12.9	10.8	8.6
RoNW (%)	18.4	20.5	19.3	18.8
RoCE (%)	23.1	26.3	24.8	27.1

Source: Company; Sharekhan estimates

In-line Q4 performance but margin below estimate

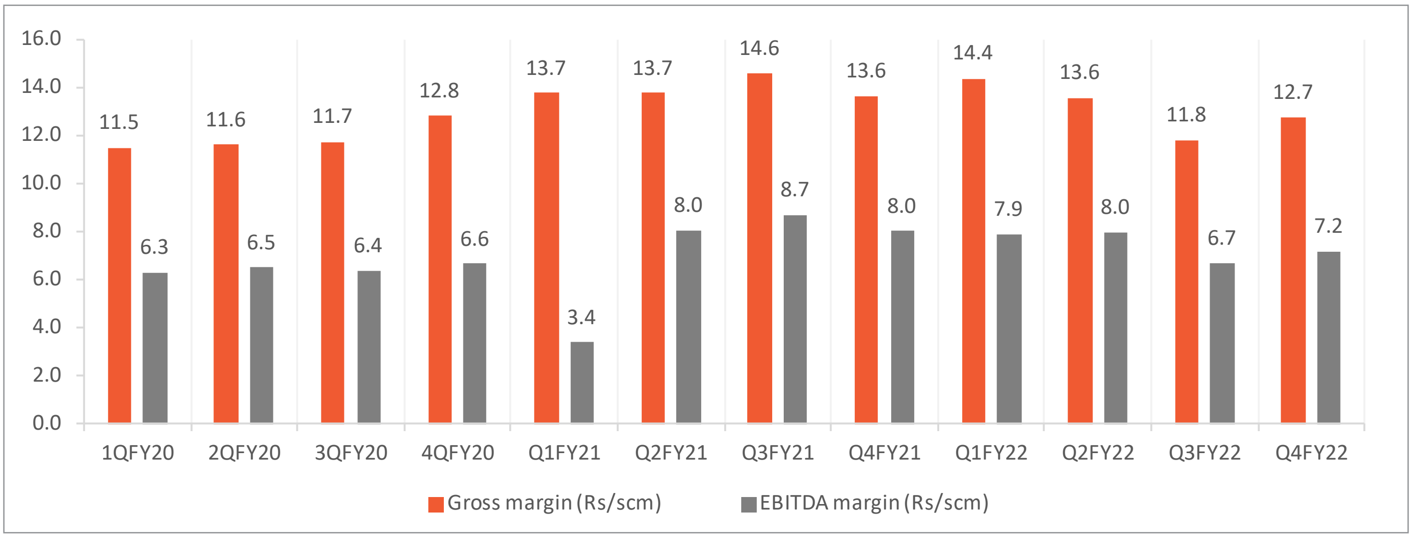
Q4FY22 standalone operating profit of Rs. 500 crore (up 6.6% q-o-q) was in line with street estimate but marginally below our estimate of Rs. 515 crore due to a slight miss in EBITDA margin at Rs7.2/scm (up 7.7% q-o-q and versus estimate of Rs7.4/scm). Gas sales volume grew marginally by 1.2% q-o-q to 7.7 mmscmd (in line with our estimate) with largely flat q-o-q CNG volume of 5.7 mmscmd, strong 16% q-o-q in domestic-PNG volume to 0.6 mmscmd while Industrial-Commercial PNG declined by 1% q-o-q to 1 mmscmd. PAT of Rs. 362 crore (up 17.2% q-o-q) was 7% above ours/consensus estimates, owing to a 2.5x q-o-q rise in other income that was partially offset by a higher tax rate of 27.3%.

Volume growth of only 1% q-o-q in Q4FY22



Source: Company, Sharekhan Research

Margin recovers to Rs. 7.2/scm but below estimate



Source: Company, Sharekhan Research

Results (standalone) Rs cr

Particulars	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Revenue	**2,406**	**1,551**	**55.2**	**2,215**	**8.6**
Total Expenditure	1,905	1,059	80.0	1,746	9.1
Operating profit	**500**	**492**	**1.8**	**470**	**6.6**
Other Income	77	28	176.6	30	154.8
Interest	5	4	34.4	3	72.4
Depreciation	75	76	-1.1	84	-9.9
PBT	498	440	13.1	414	20.3
Tax	136	109	24.9	105	29.5
Reported PAT	**362**	**331**	**9.2**	**309**	**17.2**
Equity Cap (cr)	70	70		70	
Reported EPS (Rs)	5.2	4.7	9.2	4.4	17.2
Margins (%)			**BPS**		**BPS**
OPM	20.8	31.7	-1091.2	21.2	-39.6
NPM	15.0	21.3	-631.7	13.9	110.4
Tax rate	27.3	24.8	257.5	25.4	193.1

Source: Company; Sharekhan Research

Key operating metrics

Particulars	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Total volume (mmscmd)	7.7	6.8	13.5	7.7	1.2
Gross margin (Rs/scm)	12.7	13.6	-6.5	11.8	8.0
EBITDA margin (Rs/scm)	7.2	8.0	-10.3	6.7	7.7
CNG volume (mmscmd)	5.7	4.9	16.2	5.6	0.4
PNG volume (mmscmd)	2.1	2.0	6.8	2.0	3.2

Source: Company; Sharekhan Research

Volume break-up by categories (figures in mmscmd)

Particulars	Q4FY22	Q4FY21	y-o-y (%)	Q3FY22	q-o-q (%)
CNG	5.7	4.9	16%	5.6	0%
PNG domestic	0.6	0.5	13%	0.5	16%
I/C PNG	1.0	1.0	3%	1.0	-1%
Natural gas	0.5	0.5	7%	0.5	0%
Total volume	**7.7**	**6.8**	**13.5%**	**7.7**	**1%**
Volume mix (%)	**Q4FY22**	**Q4FY21**	**BPS**	**Q3FY22**	**BPS**
CNG	73	71	169	74	-54
PNG domestic	7	7	-1	6	91
I/C PNG	13	14	-130	14	-32
Natural gas	6	7	-38	7	-4
Total	**100**	**100**		**100**	

Source: Company; Sharekhan Research

Outlook and Valuation

■ **Sector View – Regulatory push to drive gas demand in India; high gas price/EV implementation an overhang for CGDs**

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 2030 (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. However, elevated spot LNG price, expectation of further steep hike in APM gas price from April 2022 and indication of faster adoption of EVs is a cause of concern for CGDs. Draft electric vehicle policy by the Delhi government states that cab aggregators and delivery companies to have 10%/5% of newly-onboarded two-wheelers/four-wheelers will have to be on EVs within three months from notification of the final policy and 50%/25% of new two-wheelers/four-wheelers will have to be electric by March 31, 2023.

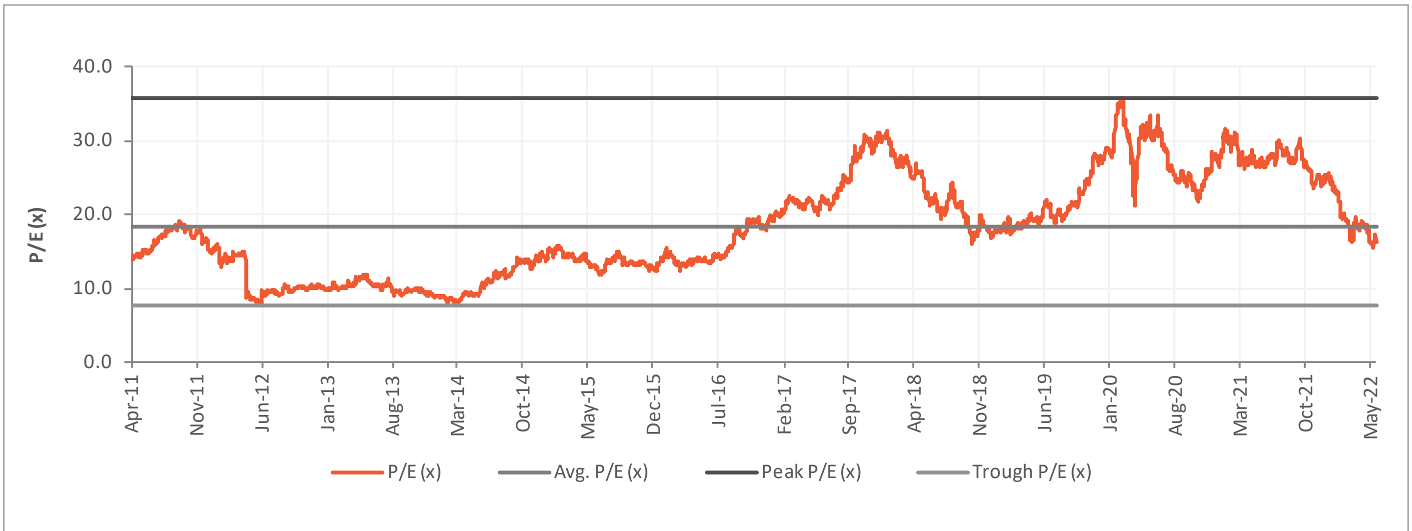
■ **Company Outlook – Volume recovery on cards; margin pressure to continue**

We believe that IGL is well-placed to benefit from rising gas consumption in India and thus we model 19% volume CAGR over FY2021-FY2024E led by 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 10th CGD bidding round). Continued mix of LNG, further hike in APM gas price and demand for high dealer commissions by OMCs is a concern on margin and thus we expect EBITDA margin to remain range bound at Rs. 7.4-7.6/scm over FY23E-24E. Hence, we expect a strong EBITDA/PAT CAGR of 16%/9% over FY2022-FY2024E.

■ **Valuation – Maintain Buy on IGL with a revised PT of Rs. 450**

IGL's stock price has corrected sharply by 39% from its from 52-week high and that makes valuation attractive at 17.9x/16.3x FY23E/FY24E EPS given volume growth visibility supported by robust demand in the existing NCR region and ramp-up of new GAs. Hence, we maintain a Buy rating on IGL with a revised PT of Rs450. Further hike in domestic gas price, Lower APM gas allocation and likely faster implementation of electric vehicles in Delhi would remain overhangs on IGL.

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. However, gurther hikes in domestic gas prices, lower APM gas allocation and likely faster implementation of electric vehicle policy in Delhi could remain an overhang on IGL.

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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	7.5
2	FMR LLC	2.6
3	Kotak Mahindra Asset Management Co	2.1
4	Vanguard Group Inc/The	1.6
5	BlackRock Inc	1.5
6	Impax Asset Management Group Plc	1.4
7	HDFC Life Insurance Company Limited	1.2
8	BNP Paribas SA	1.2
9	DSP Equity Savings Fund	1.1
10	DSP Investment Managers Pvt. Ltd.	1.0

Source: Bloomberg

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 detoriating 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

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