

Positives factored in...

Indraprastha Gas (IGL) reported its Q2FY21 numbers that were above our estimates on account of higher-than-expected volumes as well as margins. Volumes dipped 16.4% YoY to 5.5 mmscmd (our estimate: 5 mmscmd). Volumes doubled QoQ as CNG and industrial PNG demand recovered sharply post relaxations in lockdown. Revenues fell 22.9% YoY to ₹ 1305.4 crore (our estimate: ₹ 1182.5 crore). EBITDA increased 3.7% YoY to ₹ 407.1 crore owing to low gas costs (our estimates: ₹ 310.1 crore). Subsequently, PAT came in at ₹ 307.9 crore, down 19.2% YoY (our estimate: ₹ 206 crore) as the company had negative tax outgo in the base quarter.

Sharp volume growth post lockdown

IGL's volumes dipped 16.4% YoY to 5.5 mmscmd as CNG demand is yet to recover fully. QoQ, total volumes increased 102.6% as both CNG, industrial PNG segments reported strong growth. CNG sales volume fell 20.5% YoY to 3.9 mmscmd (our estimate: 3.7 mmscmd) but reported an increase of 143.9% QoQ. PNG volumes reached near normal and de-grew 3.9% YoY to 1.6 mmscmd (our estimate: 1.3 mmscmd). PNG volumes were up 43% QoQ. Within PNG segment, domestic PNG segment reported strong growth of 21% YoY while industrial/commercial PNG segment was flattish YoY. We expect volumes to normalise from Q4FY22E onwards. We estimate sales volumes at 5.2 mmscmd, 7.1 mmscmd in FY21E, FY22E, respectively.

Margins at its peak; to decline from here on

Gross margins in Q2FY21 were at ₹ 13.6/scm, above our estimates due to lower gas costs. On a QoQ basis, margins were flattish. Lower gas costs have enabled IGL to sustain healthy margins. The company reported strong EBITDA/scm at ₹ 8/scm, up ₹ 1.6/scm YoY and ₹ 4.6/scm QoQ on account of positive operating leverage. Going forward, on account of increase in LNG prices, we expect gross margins to decline from current high levels. During the current quarter, IGL also reduced CNG and PNG prices post reduction in domestic gas prices. Hence, we expect margins at ₹ 13.1/scm and ₹ 12.4/scm for FY21E and FY22E, respectively.

Valuation & Outlook

The environmental concerns in Delhi had brought forth the urgency of using cleaner fuels, putting the company in a sweet spot. IGL has a unique identity of a company with a rare mix of volume growth and strong margins. However, there is a risk to its business growth if PNGRB implements open access policy for CGD network and faster adoption of EVs. In the near term, while industrial/commercial PNG have recovered faster, CNG sales are yet to recover fully. We maintain **HOLD** rating on the stock and value standalone IGL at ₹ 400/share (22x FY22E EPS) and investment in Central UP Gas (CUGL) and Maharashtra Natural Gas (MNGL) at ₹ 30/share to arrive at a target price of ₹ 430.

Key Financial Summary

(Year-end March)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20E-22E)
Revenues (₹ crore)	4,592.1	5,760.0	6,485.3	4,807.3	6,460.7	(0.2)
EBITDA (₹ crore)	1,113.3	1,252.1	1,519.6	1,304.1	1,818.2	9.4
Net Profit (₹ crore)	670.8	786.7	1,136.5	912.9	1,271.8	5.8
EPS (₹)	9.6	11.2	16.2	13.0	18.2	
P/E (x)	45.7	39.0	27.0	33.6	24.1	
Price / Book (x)	8.7	7.4	6.1	5.4	4.7	
EV/EBITDA (x)	27.0	24.0	18.7	22.3	15.9	
RoCE (%)	26.5	25.4	25.0	17.9	22.4	
RoE (%)	19.1	19.0	22.5	16.0	19.3	
RoE (%)	21.4	22.8	22.7	27.5	22.0	

Source: Company, ICICI Direct Research

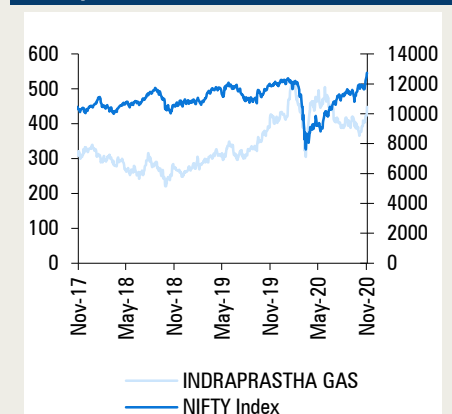
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	30,660.0
Total Debt (FY 20) (₹ Crore)	-
Cash and Investments (FY 20)	2,180.0
EV (₹ Crore)	28,480.0
52 week H/L	534/285
Equity capital (₹ Crore)	140.0
Face value (₹)	2.0

Key Highlights

- Results above our estimates on account of higher than expected volumes as well as margins
- Margins to decline from peak
- Maintain HOLD rating on stock with target price of ₹ 430 /share

Price performance



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Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Total Revenues	1,305.4	1,182.5	1,692.5	-22.9	638.6	104.4	Above estimates due to better than expected volumes
Raw materials costs	609.7	578.0	990.5	-38.4	299.1	103.9	
Employees Cost	31.3	34.3	36.4	-14.1	31.4	-0.5	
Other Expenses	257.4	260.2	273.0	-5.7	224.6	14.6	
Total Expenditure	898.3	872.4	1,299.8	-30.9	555.1	61.8	
EBITDA	407.1	310.1	392.6	3.7	83.4	387.9	Better than expectations on account of positive operating leverage
EBITDA margins (%)	31.2	26.2	23.2	799 bps	13.1	1812 bps	
Depreciation	71.1	72.8	62.1	14.4	68.2	4.3	
EBIT	336.0	237.3	330.5	1.7	15.3	2,100.5	
Interest	2.3	1.5	1.8	NA	2.4	-3.4	
Other Income	65.7	40.0	39.0	68.7	30.6	114.5	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	399.4	275.8	367.7	8.6	43.5	817.6	
Total Tax	91.5	69.8	-13.3	-786.3	11.7	682.6	
PAT	307.9	206.0	381.0	-19.2	31.8	867.1	

Key Metrics

Sales Volumes (mmscmd)	5.5	5.0	6.6	-16.4	2.7	102.6	CNG volumes were at 3.9 mmscmd whereas PNG volumes came in at 1.6 mmscmd
Realisation (₹scm)	28.3	28.3	30.8	-8.1	27.8	1.9	
Gross Margin (₹scm)	13.6	13.0	11.5	18.6	13.5	0.8	Higher than estimates due to lower gas costs

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	Change	Old	New	Change	
Revenue	4693.0	4,807.3	2.4	6776.2	6,460.7	-4.7	
EBITDA	1189.8	1,304.1	9.6	1806.1	1,818.2	0.7	Faster than expected recovery in volumes and realigned margin estimates for FY 21E
EBITDA Margin (%)	25.4	27.1	177 bps	26.7	28.1	149 bps	
PAT	798.1	912.9	14.4	1262.7	1,271.8	0.7	
EPS (₹)	11.4	13.0	14.4	18.0	18.2	0.7	

Source: Company, ICICI Direct Research

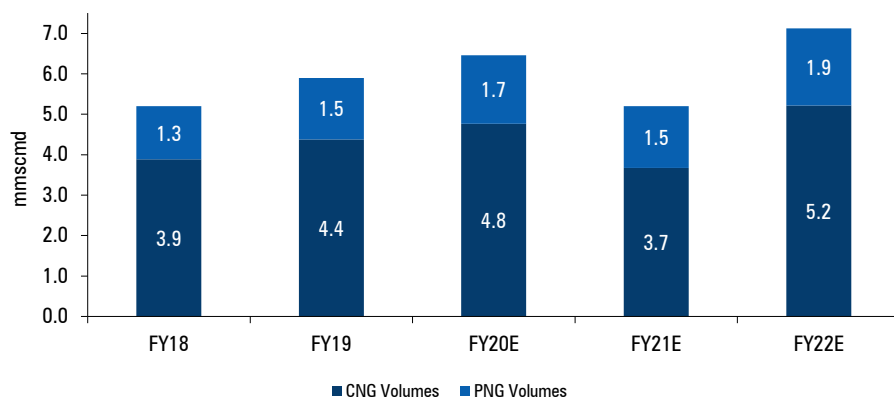
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19	FY20E	FY21E	FY22E	FY21E	FY22E	
Sales Volumes (mmscmd)	5.9	6.4	5.2	7.1	5.1	7.2	
Realisation (₹scm)	29.5	30.3	27.8	27.4	27.9	28.3	
Gross Margin (₹scm)	10.9	11.8	13.1	12.4	12.9	12.3	Largely maintained FY 22E estimates

Source: Company, ICICI Direct Research

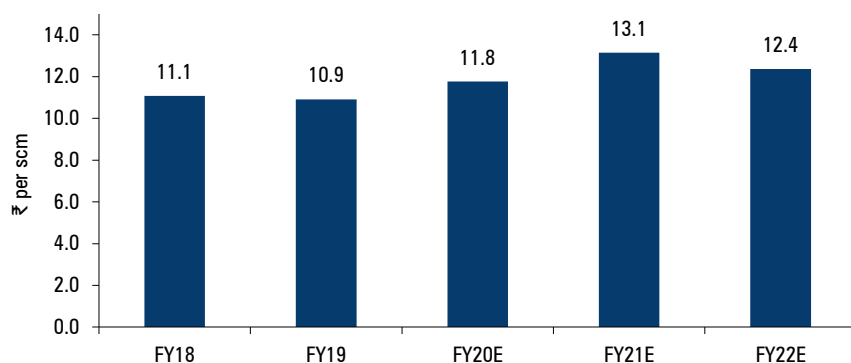
Story in charts

Exhibit 4: Volume trajectory



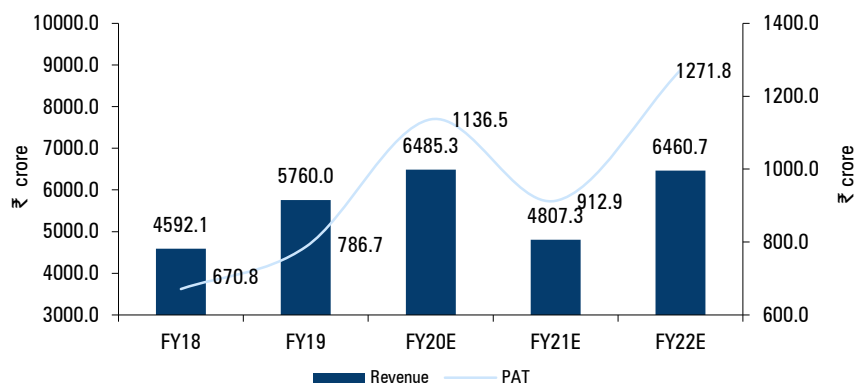
Source: Company, ICICI Direct Research

Exhibit 5: Gross margin trend



Source: Company, ICICI Direct Research

Exhibit 6: Revenues & PAT trend



Source: Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	45.0	45.0	45.0	45.0	45.0
FII	23.8	24.5	22.8	22.3	21.3
DII	15.9	15.7	16.8	17.2	17.4
Others	15.3	14.8	15.5	15.5	16.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement		₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Revenue	5760.0	6485.3	4807.3	6460.7	
Growth (%)	25.4	12.6	-25.9	34.4	
Raw material Costs	3397.3	3679.4	2285.7	3221.2	
Employee Costs	142.6	151.7	134.2	161.5	
Other Expenditure	968.0	1134.6	1083.3	1259.8	
Op. Expenditure	4507.9	4965.6	3503.3	4642.5	
EBITDA	1252.1	1519.6	1304.1	1818.2	
Growth (%)	12.5	21.4	-14.2	39.4	
Depreciation	201.1	252.3	284.8	338.7	
EBIT	1051.0	1267.4	1019.2	1479.5	
Interest	2.0	8.1	5.7	2.0	
Other Income	151.0	156.4	196.6	225.0	
PBT	1200.0	1415.7	1210.2	1702.5	
Growth (%)	16.2	18.0	-14.5	40.7	
Tax	413.4	279.1	297.3	430.7	
Reported PAT	786.7	1136.5	912.9	1271.8	
Growth (%)	17.3	44.5	-19.7	39.3	
Adjustments	0.0	0.0	0.0	0.0	
Adj. Net Profit	786.7	1136.5	912.9	1271.8	
EPS	11.2	16.2	13.0	18.2	

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet		₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E	
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	3,989.9	4,922.4	5,548.6	6,451.9	
Shareholder's Fund	4,129.9	5,062.4	5,688.6	6,591.9	
Loan Funds	0.0	0.0	0.0	0.0	
Deferred Tax Liability	267.8	211.9	241.9	271.9	
Minority Interest	0.0	0.0	0.0	0.0	
Source of Funds	5047.4	6047.8	6744.1	7717.4	
Application of Funds					
Gross Block	3,518.4	4,394.6	5,344.6	6,444.6	
Less: Acc. Depreciation	641.6	837.7	1,128.8	1,481.4	
Net Block	2,876.9	3,556.9	4,215.8	4,963.1	
Capital WIP	478.1	776.7	726.7	626.7	
Total Fixed Assets	3,354.9	4,333.6	4,942.5	5,589.8	
Investments	1,544.0	258.1	508.1	758.1	
Inventories	50.9	51.1	55.3	74.3	
Debtor	221.5	170.4	210.7	283.2	
Cash	607.1	2,180.0	1,541.8	1,722.6	
Loan & Advance, Other C/	170.9	179.1	173.4	214.2	
Total Current assets	1050.4	2580.6	1981.2	2294.4	
Current Liabilities	881.4	843.7	658.5	885.0	
Provisions	20.6	280.8	29.2	40.0	
Total CL and Provisions	902.0	1124.4	687.7	925.0	
Net Working Capital	148.4	1456.1	1293.5	1369.4	
Miscellaneous expense	0.0	0.0	0.0	0.0	
Application of Funds	5047.4	6047.8	6744.1	7717.4	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Profit after Tax	786.7	1,136.5	912.9	1,271.8	
Add: Depreciation	201.1	252.3	284.8	338.7	
Add: Others	42.5	-55.9	30.0	30.0	
Cash Profit	861.5	1,130.4	941.1	1,271.9	
Increase/(Decrease) in CL	256.6	222.5	-436.7	237.3	
(Increase)/Decrease in CA	-38.9	42.7	-38.8	-132.4	
CF from Operating Activities	1280.3	1647.8	750.4	1715.5	
Purchase of Fixed Assets	738.0	1,230.9	893.7	986.0	
(Inc)/Dec in Investments	-396.3	1,285.9	-250.0	-250.0	
Others	0.0	0.0	0.0	0.0	
CF from Investing Activities	-1,134.3	55.0	-1,143.7	-1,236.0	
Inc/(Dec) in Loan Funds	105.0	123.9	40.0	40.0	
Less: Dividend Paid	168.8	202.5	286.7	368.6	
Inc/(Dec) in Sh. Cap. & Res.	-0.9	-1.5	0.0	0.0	
Others	0.0	0.0	0.0	0.0	
CF from financing activities	-64.7	-80.2	-246.7	-328.6	
Change in cash Eq.	49.1	1,572.9	-638.2	180.8	
Op. Cash and cash Eq.	558.0	607.1	2,180.0	1,541.8	
Cl. Cash and cash Eq.	607.1	2,180.0	1,541.8	1,722.6	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios		₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Per share data (₹)					
Book Value	59.0	72.3	81.3	94.2	
Cash per share	27.0	31.1	25.6	31.8	
EPS	11.2	16.2	13.0	18.2	
Cash EPS	14.1	19.8	17.1	23.0	
DPS	2.0	2.4	3.5	4.5	
Profitability & Operating Ratios					
EBITDA Margin (%)	21.7	23.4	27.1	28.1	
PAT Margin (%)	13.7	17.5	19.0	19.7	
Fixed Asset Turnover (x)	1.7	1.5	1.0	1.2	
Inventory Turnover (Days)	3.2	2.9	4.2	4.2	
Debtor (Days)	14.0	9.6	16.0	16.0	
Current Liabilities (Days)	55.9	47.5	50.0	50.0	
Return Ratios (%)					
RoE	19.0	22.5	16.0	19.3	
RoCE	25.4	25.0	17.9	22.4	
RoIC	47.0	44.0	26.2	33.9	
Valuation Ratios (x)					
PE	39.0	27.0	33.6	24.1	
Price to Book Value	7.4	6.1	5.4	4.7	
EV/EBITDA	24.0	18.7	22.3	15.9	
EV/Sales	5.2	4.4	6.1	4.5	
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)	0.0	0.0	0.0	0.0	
Current Ratio	1.2	2.3	2.9	2.5	
Quick ratio	1.1	2.2	2.8	2.4	

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
GAIL (India) (GAIL)	93	95	Hold	41,944	14.7	8.1	9.1	6.3	11.4	10.2	5.4	9.7	8.4	13.7	6.1	7.2	15.1	8.2	8.9
Gujarat Gas (GUJGA)	312	360	Buy	21,478	17.3	16.5	19.0	18.0	19.0	16.5	13.9	11.4	9.9	25.2	30.0	29.2	36.3	26.1	23.8
Indian Oil Corp (INDOIL)	78	85	Hold	71,612	1.4	11.9	9.1	54.5	6.6	8.6	3.8	2.7	2.7	4.8	7.6	7.1	1.4	11.1	8.4
Indraprastha Gas (INDGAS)	438	430	Hold	30,660	16.2	13.0	18.2	27.0	33.6	24.1	18.7	22.3	15.9	25.0	17.9	22.4	22.5	16.0	19.3
Mahanagar Gas (MAHGAS)	816	1145	Hold	8,060	80.3	53.4	87.0	10.2	15.3	9.4	7.5	10.3	6.1	29.7	18.8	27.3	26.9	16.3	22.7
ONGC (ONGC)	67	80	Hold	85,983	10.5	5.8	11.5	6.4	11.5	5.8	2.1	3.9	3.0	10.2	2.7	6.2	6.8	3.7	7.0
Petronet LNG (PETLNG)	252	275	Hold	37,770	18.0	19.8	21.9	14.0	12.7	11.5	9.2	7.7	6.9	22.3	26.2	29.5	24.6	25.8	27.0

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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