

November 11, 2020

Q2FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	603		590	
Sales (Rs. m)	69,650	79,013	69,650	79,013
% Chng.	-	-	-	-
EBITDA (Rs. m)	20,213	22,832	20,213	22,832
% Chng.	-	-	-	-
EPS (Rs.)	19.4	21.3	19.0	20.9
% Chng.	2.0	1.9	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	64,853	45,726	69,650	79,013
EBITDA (Rs. m)	15,197	12,778	20,213	22,832
Margin (%)	23.4	27.9	29.0	28.9
PAT (Rs. m)	11,366	8,840	13,563	14,900
EPS (Rs.)	16.2	12.6	19.4	21.3
Gr. (%)	44.5	(22.2)	53.4	9.9
DPS (Rs.)	3.3	2.5	3.9	4.3
Yield (%)	0.7	0.6	0.9	0.9
RoE (%)	24.7	17.2	23.6	21.6
RoCE (%)	27.6	19.4	29.2	27.0
EV/Sales (x)	4.5	6.4	4.1	3.6
EV/EBITDA (x)	19.2	22.8	14.3	12.3
PE (x)	27.6	35.5	23.1	21.1
P/BV (x)	6.2	6.0	5.0	4.2

Key Data

IGAS.BO | IGL IN

52-W High / Low	Rs.534 / Rs.284
Sensex / Nifty	43,594 / 12,749
Market Cap	Rs.314bn/ \$ 4,221m
Shares Outstanding	700m
3M Avg. Daily Value	Rs.2746.26m

Shareholding Pattern (%)

Promoter's	50.00
Foreign	21.27
Domestic Institution	17.39
Public & Others	11.34
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	17.6	(9.6)	5.1
Relative	9.2	(34.5)	(2.8)

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High margins and volumes drive earnings

Quick Pointers:

- Q2 volume recovery is impressive; high margins due to benign gas prices drive earnings beat.
- Move towards private vehicle ownership to drive CNG volumes.

We increase our FY21 earnings estimate by 9.8% to factor in higher margins and make other changes. IGL remains an enviable business model with high volume growth due to geographical expansion and addition of new buses and taxis. Also, shift to private vehicle ownership post Covid pandemic to drive CNG volumes. IGL remains a play on rising pollution concerns as ban on competing industrial fuel is a major positive. Reiterate "BUY" with a three-year DCF-based TP of Rs603 (Rs590 earlier).

- Volumes recover smartly from Q1 lows:** Indraprastha Gas' (IGL's) Q2FY21 volumes improved sharply from Q1 lows and were at 506m scm (-16% YoY). For Q2FY21, CNG and PNG volumes were at 255m kgs (-20% YoY) and 146m scm (-4% YoY) respectively.
- Q2 EBITDA and PAT of Rs4.1bn (PLe: Rs2.7bn; +4%YoY) and Rs3.1bn (PLe: Rs1.8bn; -19% YoY). For Q2, EBITDA/scm was at Rs8.1 (FY20 Rs6.5; PLe Rs5.9). Margin expansion was due to benign domestic and spot LNG gas prices; gas cost/unit was at Rs12/scm vs Rs16.4/scm in Q2FY20.
- Rising preference for private transport to fuel CNG demand:** IGL's Q2FY21 volumes recovered after shift to private vehicles. Management expects gas volumes to reach pre pandemic levels by mid Q3 (Source: CNBC).
- We model -19.7%/+56% volumes for FY21/22E. Also, recent CNG price hike of Rs1/kg effective 1st June, benign domestic gas and spot LNG prices will support earnings; we factor in EBITDA/scm of Rs6.8 (6.2 earlier) for FY21E vs Rs6.5 in FY20.
- Limited threat from new players:** We see limited threat to IGL's dominance from new players in light of concept paper released recently by PNGRB. Incumbents have over the years built a significant moat in terms of retail distribution network and pipeline infrastructure. Our calculation suggests that new players have to compensate IGL at Rs8.5/scm for usage of infrastructure, which will negate earnings hit for the company due to volume loss.

Exhibit 1: Q2FY21 Result Overview (Rs mn)

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	14,407	18,728	(23.1)	6,925	21,333	36,169	(41.0)
Operating Costs	10,336	14,802	(30.2)	6,091	16,427	28,658	(42.7)
Material Costs	6,097	9,905	(38.4)	2,991	9,088	19,122	(52.5)
Personnel Costs	313	364	(14.1)	314	627	730	(14.2)
Other Overheads	2,574	2,730	(5.7)	2,246	4,820	5,323	(9.4)
Excise duty	1,353	1,804	(25.0)	540	1,893	3,483	(45.7)
EBITDA	4,071	3,926	3.7	834	4,906	7,511	(34.7)
Other Income	657	390	68.7	306	964	744	29.6
PBDIT	4,728	4,316	9.6	1,141	5,869	8,255	(28.9)
Depreciation	711	621	14.4	682	1,393	1,226	13.6
Interest	23	18	27.1	24	47	34	35.8
Pre-tax Profit	3,994	3,677	8.6	435	4,430	6,994	(36.7)
Tax	915	-133	(786.4)	117	1,032	1,001	3.1
Profit After Tax	3,079	3,810	(19.2)	318	3,398	5,993	(43.3)

Source: Company, PL

Exhibit 2: IGL quarterly details

Sales volume	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
CNG - mn kg	257.0	257.0	256.0	273.0	290.0	291.5	294.0	305.0	320.0	317.8	291.0	105.0	255.0
PNG - mmscm	120.0	126.0	124.0	129.0	136.0	138.3	149.0	145.0	152.0	163.8	158.0	101.0	146.0
Total mscm	480.0	484.0	482.0	505.0	542.0	543.4	567.0	569.0	605.0	616.0	567.0	247.0	506.0
Sales Rs mn													
CNG	9,620	9,890	10,220	10,760	11,740	12,480	12,630	13,400	14,380	12,477	12,477	3,750	9,440
PNG	2,790	3,050	3,250	3,420	3,900	4,130	4,310	3,980	4,280	4,129	4,129	2,580	3,550
Realisation													
CNG Rs/kg	37.4	38.5	39.9	39.4	40.5	42.8	43.0	43.9	44.9	39.3	42.9	35.7	37.0
PNG Rs/scm	23.3	24.2	26.2	26.5	28.7	29.9	28.9	27.4	28.2	25.2	26.1	25.5	24.3
Cost of gas (Rs/scm)	12.4	13.9	14.0	14.7	15.5	16.7	16.0	16.2	16.4	15.3	14.6	12.1	12.0
Opex (Rs/scm)	5.2	5.1	5.1	5.0	5.0	5.2	5.4	5.2	5.1	5.4	6.2	10.4	5.7
EBITDA (Rs/scm)	5.9	5.4	6.0	5.8	5.7	5.8	5.8	6.3	6.5	6.4	6.6	3.4	8.0
Gross margin (Rs/scm)	13.6	13.1	13.7	13.5	13.4	13.9	14.0	14.5	14.6	14.6	15.6	15.9	16.4

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	64,853	45,726	69,650	79,013
YoY gr. (%)	12.5	(29.5)	52.3	13.4
Cost of Goods Sold	36,794	22,360	34,941	39,918
Gross Profit	28,059	23,365	34,710	39,095
Margin (%)	43.3	51.1	49.8	49.5
Employee Cost	1,517	1,745	2,006	2,247
Other Expenses	-	-	-	-
EBITDA	15,197	12,778	20,213	22,832
YoY gr. (%)	20.9	(15.9)	58.2	13.0
Margin (%)	23.4	27.9	29.0	28.9
Depreciation and Amortization	2,523	2,814	3,432	4,269
EBIT	12,674	9,964	16,781	18,564
Margin (%)	19.5	21.8	24.1	23.5
Net Interest	81	98	98	98
Other Income	1,564	1,953	1,449	1,454
Profit Before Tax	14,157	11,819	18,132	19,919
Margin (%)	21.8	25.8	26.0	25.2
Total Tax	2,791	2,978	4,569	5,020
Effective tax rate (%)	19.7	25.2	25.2	25.2
Profit after tax	11,366	8,840	13,563	14,900
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	11,366	8,840	13,563	14,900
YoY gr. (%)	44.5	(22.2)	53.4	9.9
Margin (%)	17.5	19.3	19.5	18.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	11,366	8,840	13,563	14,900
YoY gr. (%)	44.5	(22.2)	53.4	9.9
Margin (%)	17.5	19.3	19.5	18.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,366	8,840	13,563	14,900
Equity Shares O/s (m)	700	700	700	700
EPS (Rs)	16.2	12.6	19.4	21.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	42,930	47,849	62,849	74,849
Tangibles	42,930	47,849	62,849	74,849
Intangibles	-	-	-	-
Acc: Dep / Amortization	8,763	11,577	15,009	19,277
Tangibles	8,763	11,577	15,009	19,277
Intangibles	-	-	-	-
Net fixed assets	34,167	36,272	47,840	55,572
Tangibles	34,167	36,272	47,840	55,572
Intangibles	-	-	-	-
Capital Work In Progress	8,987	7,376	6,000	6,000
Goodwill	182	-	-	-
Non-Current Investments	2,716	2,717	2,730	2,745
Net Deferred tax assets	(2,119)	(2,267)	(3,173)	(4,169)
Other Non-Current Assets	694	1,037	1,141	1,255
Current Assets				
Investments	-	6,930	6,930	6,930
Inventories	511	488	537	590
Trade receivables	1,704	2,425	1,830	2,076
Cash & Bank Balance	21,799	15,656	18,796	25,487
Other Current Assets	329	357	393	432
Total Assets	71,723	75,810	89,005	1,04,175
Equity				
Equity Share Capital	1,400	1,400	1,400	1,400
Other Equity	49,224	50,653	61,509	73,433
Total Network	50,624	52,053	62,909	74,833
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	235	263	-	-
Other non current liabilities	9	13	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,250	4,146	5,902	6,695
Other current liabilities	15,705	18,068	16,421	17,878
Total Equity & Liabilities	71,723	77,409	89,005	1,04,175

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	14,157	11,819	18,132	19,919
Add. Depreciation	2,523	2,814	3,432	4,269
Add. Interest	81	98	98	98
Less Financial Other Income	1,564	1,953	1,449	1,454
Add. Other	-	-	-	-
Op. profit before WC changes	16,760	14,731	21,662	24,286
Net Changes-WC	16,190	(5,662)	878	2,497
Direct tax	(2,791)	(2,978)	(4,569)	(5,020)
Net cash from Op. activities	30,159	6,090	17,971	21,764
Capital expenditures	(12,309)	(4,726)	(12,024)	(12,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invst. activities	(12,309)	(4,726)	(12,024)	(12,000)
Issue of share cap. / premium	253	(5,643)	5	5
Debt changes	-	-	-	-
Dividend paid	(2,293)	(1,768)	(2,713)	(2,980)
Interest paid	(81)	(98)	(98)	(98)
Others	-	-	-	-
Net cash from Fin. activities	(2,122)	(7,509)	(2,806)	(3,073)
Net change in cash	15,729	(6,145)	3,142	6,691
Free Cash Flow	17,850	1,364	5,947	9,764

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	16,642	15,525	6,386	13,054
YoY gr. (%)	10.3	0.6	(59.5)	(22.9)
Raw Material Expenses	9,410	8,262	2,991	6,097
Gross Profit	7,232	7,263	3,395	6,957
Margin (%)	43.5	46.8	53.2	53.3
EBITDA	3,918	3,767	834	4,071
YoY gr. (%)	23.3	13.7	(76.7)	3.7
Margin (%)	23.5	24.3	13.1	31.2
Depreciation / Depletion	641	655	682	711
EBIT	3,277	3,112	153	3,360
Margin (%)	19.7	20.0	2.4	25.7
Net Interest	20	27	24	23
Other Income	508	313	306	657
Profit before Tax	3,764	3,398	435	3,994
Margin (%)	22.6	21.9	6.8	30.6
Total Tax	609	865	117	915
Effective tax rate (%)	16.2	25.4	26.9	22.9
Profit after Tax	3,156	2,534	318	3,079
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,156	2,534	318	3,079
YoY gr. (%)	59.4	12.3	(85.4)	(19.2)
Margin (%)	19.0	16.3	5.0	23.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,156	2,534	318	3,079
YoY gr. (%)	59.4	12.3	(85.4)	(19.2)
Margin (%)	19.0	16.3	5.0	23.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	16.2	12.6	19.4	21.3
CEPS	19.8	16.6	24.3	27.4
BVPS	72.3	74.4	89.9	106.9
FCF	25.5	1.9	8.5	13.9
DPS	3.3	2.5	3.9	4.3
Return Ratio(%)				
RoCE	27.6	19.4	29.2	27.0
ROIC	25.4	18.7	26.5	25.9
RoE	24.7	17.2	23.6	21.6
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.4)	(0.4)
Net Working Capital (Days)	0	(10)	(19)	(19)
Valuation(x)				
PER	27.6	35.5	23.1	21.1
P/B	6.2	6.0	5.0	4.2
P/CEPS	22.6	26.9	18.5	16.4
EV/EBITDA	19.2	22.8	14.3	12.3
EV/Sales	4.5	6.4	4.1	3.6
Dividend Yield (%)	0.7	0.6	0.9	0.9

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Total sales volumes (mscm)	2,337	1,877	2,928	3,316
CNG sales volumes (mscm)	1,718	1,336	2,131	2,407
PNG sales volumes (mscm)	619	541	797	909
CNG retail price (Rs/kg)	39	39	37	37
PNG retail price (Rs/scm)	28	24	26	27

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-20	BUY	590	384
2	26-Aug-20	BUY	590	413
3	20-Jul-20	BUY	597	412
4	07-Jul-20	BUY	597	416
5	17-Jun-20	BUY	597	474
6	08-Apr-20	BUY	601	436
7	06-Feb-20	BUY	616	522
8	03-Jan-20	BUY	468	417
9	11-Dec-19	BUY	468	414

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	1,024	1,007
2	Bharat Petroleum Corporation	BUY	479	342
3	GAIL (India)	Accumulate	108	90
4	Gujarat Gas	BUY	403	301
5	Hindustan Petroleum Corporation	BUY	280	186
6	Indian Oil Corporation	BUY	118	78
7	Indraprastha Gas	BUY	590	384
8	Mahanagar Gas	BUY	1,226	829
9	NOCIL	BUY	169	143
10	Oil & Natural Gas Corporation	BUY	96	71
11	Oil India	Accumulate	110	89
12	Petronet LNG	BUY	384	219
13	Reliance Industries	BUY	2,232	2,055

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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