

Volume recovery key to earnings...

Indraprastha Gas (IGL) reported its Q3FY21 numbers that were above our estimates on the operating front. Volumes fell 6.5% YoY to 6.3 mmscmd (our estimate: 6.4 mmscmd). Volumes increased 13.8% QoQ as CNG and industrial PNG demand is recovering post relaxations in lockdown. Revenues fell 13.1% YoY to ₹ 1446.2 crore (our estimate: ₹ 1476.2 crore). Gross margins increased ₹ 2.8/scm YoY owing to low gas costs. EBITDA increased 27.8% YoY to ₹ 500.7 crore (our estimates: ₹ 465 crore). Subsequently, PAT came in at ₹ 334.9 crore, up 18% YoY (our estimate: ₹ 330.1 crore) as the company reported lower other income.

Faster CNG pickup important

IGL's volumes declined 6.5% YoY to 6.3 mmscmd as CNG demand is yet to recover fully to pre-Covid level. However, we witnessed recovery in volumes, which increased 13.8% QoQ. On CNG front, sales volume fell 8.9% YoY to 4.5 mmscmd (our estimate: 4.7 mmscmd) but reported an increase of 14.4% QoQ. PNG volumes were flat YoY at 1.8 mmscmd, largely in line with estimate. Within PNG segment, domestic PNG segment reported strong growth of 14% YoY while industrial/commercial PNG segment increased 2% YoY. We estimate volumes of 5.2 mmscmd in FY21E and expect volumes to normalise from Q2FY22E onwards. Going ahead, we expect sales volume at 7 mmscmd and 7.7 mmscmd in FY22E and FY23E, respectively.

Margins to stabilise at healthy levels

Gross margins in Q3FY21 were at ₹ 14.4/scm (up ₹ 2.8/scm YoY and ₹ 0.8/scm QoQ) above our estimates due to lower than expected gas costs. Subsequently, the company reported strong EBITDA/scm at ₹ 8.7/scm, up ₹ 2.3/scm YoY and ₹ 0.6/scm QoQ. With increase in petrol and diesel prices, the competitive advantage of CNG increased substantially over past few months. Hence, we believe that IGL will be able to pass on higher costs to customers in future. Going forward, on account of increase in LNG prices, we expect gross margins to decline from current high levels. Subsequently, we expect gross margins at ₹ 13.6/scm and ₹ 13.4/scm for FY22E and FY23E, respectively with EBITDA/scm at ~₹ 8/scm.

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. In the near term, while industrial/commercial PNG have recovered faster, CNG sales are yet to recover fully. Considering sharp run up on the stock price, we maintain **HOLD** recommendation on the stock. We roll over valuations to FY23E and value standalone IGL at ₹ 550/share (22x FY23E EPS) and investment in Central UP Gas (CUGL) and Maharashtra Natural Gas (MNGL) at ₹ 45/share to arrive at a target price of ₹ 595 (earlier ₹ 490/share).

Particulars

Particular	Amount
Market Capitalization (₹ Crore)	39,690.0
Total Debt (FY 20) (₹ Crore)	-
Cash and Investments (FY 20)	2,180.0
EV (₹ Crore)	37,510.0
52 week H/L	581/285
Equity capital (₹ Crore)	140.0
Face value (₹)	2.0

Key Highlights

- Results were above our estimates on operating front
- Margins to decline from peak but remain healthy
- Maintain HOLD rating on stock with target price of ₹ 595 /share

Key risks to our call

- Faster than expected recovery in volumes will lead to better profitability
- Inability to pass on increased costs can impact earnings

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Revenues (₹ crore)	5,760.0	6,485.3	4,871.1	6,530.7	7,134.6	3.2
EBITDA (₹ crore)	1,252.1	1,519.6	1,454.3	2,074.8	2,229.2	13.6
Net Profit (₹ crore)	786.7	1,136.5	1,003.3	1,463.5	1,539.2	10.6
EPS (₹)	11.2	16.2	14.3	20.9	22.0	
P/E (x)	50.5	34.9	39.6	27.1	25.8	
Price / Book (x)	9.6	7.8	6.9	5.8	4.9	
EV/EBITDA (x)	31.2	24.7	26.2	18.2	16.7	
RoCE (%)	25.4	25.0	20.2	25.3	22.8	
RoE (%)	19.0	22.5	17.4	21.3	19.1	
RoE (%)	21.4	22.8	22.7	27.5	22.0	

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Total Revenues	1,446.2	1,476.2	1,664.2	-13.1	1,305.4	10.8	
Raw materials costs	606.9	664.2	941.0	-35.5	609.7	-0.5	
Employees Cost	37.5	36.9	43.7	-14.2	31.3	19.9	
Other Expenses	301.2	310.0	287.8	4.7	257.4	17.0	
Total Expenditure	945.5	1,011.1	1,272.4	-25.7	898.3	5.3	
EBITDA	500.7	465.0	391.8	27.8	407.1	23.0	Above expectations on account of better than expected gross margin
EBITDA margins (%)	34.6	31.5	23.5	1108 bps	31.2	343 bps	
Depreciation	75.0	72.8	64.1	16.9	71.1	5.5	
EBIT	425.7	392.3	327.7	29.9	336.0	26.7	
Interest	3.1	0.5	2.0	NA	2.3	33.2	
Other Income	25.9	50.1	50.8	-49.0	65.7	-60.6	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	448.5	441.9	376.4	19.2	399.4	12.3	
Total Tax	113.7	111.8	92.6	22.8	91.5	24.2	
PAT	334.9	330.1	283.9	18.0	307.9	8.7	

Key Metrics

Sales Volumes (mmscmd)	6.3	6.4	6.7	-6.5	5.5	13.8	CNG volumes were at 4.5 mmscmd whereas PNG volumes came in at 1.8 mmscmd
Realisation (₹scm)	27.6	27.6	29.7	-7.3	28.3	-2.8	
Gross Margin (₹scm)	14.4	13.7	11.6	24.0	13.6	5.9	Higher than estimates due to lower than anticipated gas costs

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	Change	Old	New	Change	
Revenue	4891.2	4,871.1	-0.4	6460.7	6,530.7	1.1	
EBITDA	1368.6	1,454.3	6.3	1818.2	2,074.8	14.1	Higher gross margin estimates led to change in estimates
EBITDA Margin (%)	28.0	29.9	187 bps	28.1	31.8	363 bps	
PAT	961.1	1,003.3	4.4	1271.8	1,463.5	15.1	
EPS (₹)	13.7	14.3	4.4	18.2	20.9	15.1	

Source: Company, ICICI Direct Research

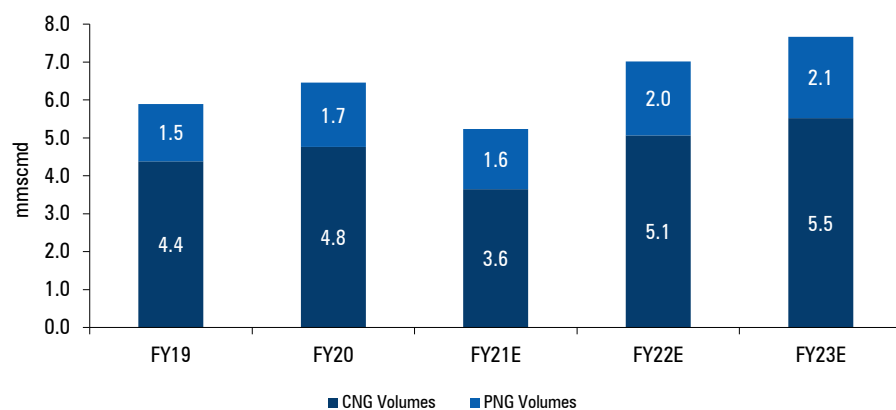
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY20E	FY21E	FY22E	FY23E	FY21E	FY22E	
Sales Volumes (mmscmd)	6.4	5.2	7.0	7.7	5.3	7.1	
Realisation (₹scm)	30.3	27.9	28.0	28.0	27.8	27.4	
Gross Margin (₹scm)	11.8	13.9	13.6	13.5	13.4	12.4	Realigned estimates post Q3 performance

Source: Company, ICICI Direct Research

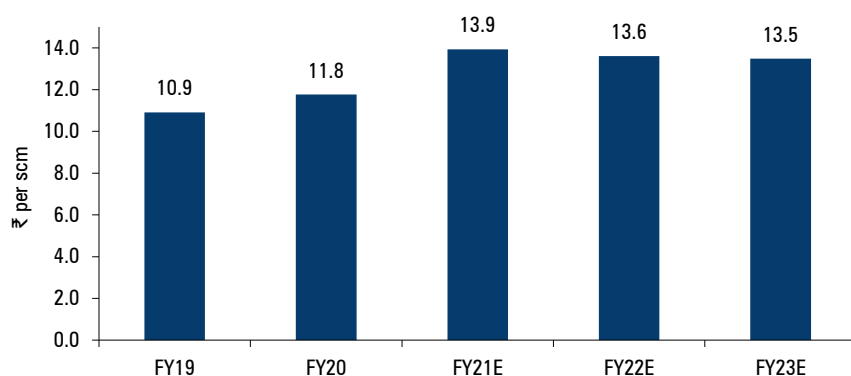
Story in charts

Exhibit 4: Volume trajectory



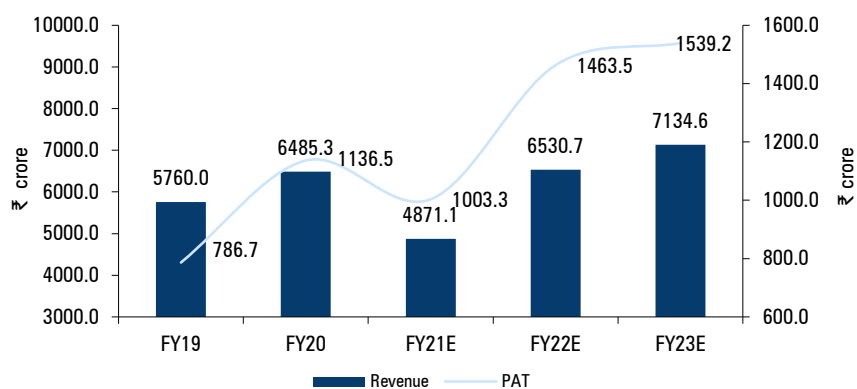
Source: Company, ICICI Direct Research

Exhibit 5: Gross margin trend



Source: Company, ICICI Direct Research

Exhibit 6: Revenues & PAT trend



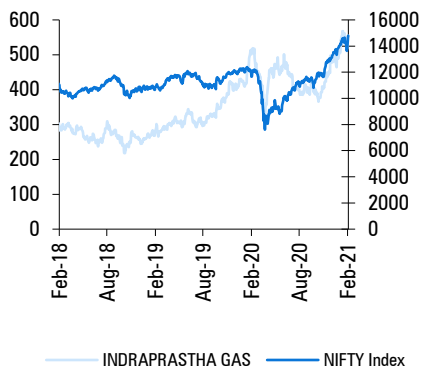
Source: Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	45.0	45.0	45.0	45.0	45.0
FII	24.5	22.8	22.3	21.3	23.2
DII	15.7	16.8	17.2	17.4	16.1
Others	14.8	15.5	15.5	16.3	15.7

Source: Company, ICICI Direct Research

Exhibit 8: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenue	6485.3	4871.1	6530.7	7134.6
Growth (%)	12.6	-24.9	34.1	9.2
Raw material Costs	3679.4	2185.4	3019.2	3335.8
Employee Costs	151.7	137.1	163.3	178.4
Other Expenditure	1134.6	1094.2	1273.5	1391.3
Op. Expenditure	4965.6	3416.7	4455.9	4905.4
EBITDA	1519.6	1454.3	2074.8	2229.2
Growth (%)	21.4	-4.3	42.7	7.4
Depreciation	252.3	287.0	338.7	394.7
EBIT	1267.4	1167.3	1736.1	1834.5
Interest	8.1	8.2	2.0	2.0
Other Income	156.4	172.5	225.0	228.0
PBT	1415.7	1331.5	1959.1	2060.5
Growth (%)	18.0	-5.9	47.1	5.2
Tax	279.1	328.2	495.7	521.3
Reported PAT	1136.5	1003.3	1463.5	1539.2
Growth (%)	44.5	-11.7	45.9	5.2
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	1136.5	1003.3	1463.5	1539.2
EPS	16.2	14.3	20.9	22.0

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
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	4,922.4	5,639.1	6,734.0	7,904.6
Shareholder's Fund	5,062.4	5,779.1	6,874.0	8,044.6
Loan Funds	0.0	0.0	0.0	0.0
Deferred Tax Liability	211.9	241.9	271.9	301.9
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	6047.9	6834.5	7999.5	9240.1
Application of Funds				
Gross Block	4,394.6	5,344.6	6,444.6	7,544.6
Less: Acc. Depreciation	837.7	1,128.8	1,481.4	1,900.2
Net Block	3,556.9	4,215.8	4,963.1	5,644.4
Capital WIP	776.7	726.7	626.7	526.7
Total Fixed Assets	4,333.6	4,942.5	5,589.8	6,171.1
Investments	258.1	508.1	758.1	1,008.1
Inventories	51.1	56.1	75.1	82.1
Debtor	170.4	213.5	286.3	312.8
Cash	2,180.0	1,638.4	2,013.0	2,442.2
Loan & Advance, Other CA	179.1	174.0	214.9	245.7
Total Current assets	2580.6	2081.9	2589.4	3082.7
Current Liabilities	843.7	667.3	894.6	977.3
Provisions	280.8	30.7	43.2	44.5
Total CL and Provisions	1124.4	698.0	937.8	1021.8
Net Working Capital	1456.1	1383.9	1651.5	2060.9
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	6047.9	6834.5	7999.5	9240.1

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	1,136.5	1,003.3	1,463.5	1,539.2
Add: Depreciation	252.3	287.0	338.7	394.7
Add: Others	-55.9	30.0	30.0	30.0
Cash Profit	1,130.4	1,033.7	1,463.6	1,595.4
Increase/(Decrease) in CL	222.5	-426.4	239.8	84.0
(Increase)/Decrease in CA	42.7	-43.0	-132.8	-64.2
CF from Operating Activities	1647.8	851.4	1909.3	2009.9
Purchase of Fixed Assets	1,230.9	895.9	986.0	976.0
(Inc)/Dec in Investments	1,285.9	-250.0	-250.0	-250.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	55.0	-1,145.9	-1,236.0	-1,226.0
Inc/(Dec) in Loan Funds	123.9	40.0	40.0	40.0
Less: Dividend Paid	202.5	286.7	368.6	368.6
Inc/(Dec) in Sh. Cap. & Res.	-1.5	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-80.2	-246.7	-328.6	-328.6
Change in cash Eq.	1,572.9	-541.6	374.7	429.2
Op. Cash and cash Eq.	607.1	2,180.0	1,638.4	2,013.0
Cl. Cash and cash Eq.	2,180.0	1,638.4	2,013.0	2,442.2

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	72.3	82.6	98.2	114.9
Cash per share	31.1	27.0	35.9	45.6
EPS	16.2	14.3	20.9	22.0
Cash EPS	19.8	18.4	25.7	27.6
DPS	2.4	3.5	4.5	4.5
Profitability & Operating Ratios				
EBITDA Margin (%)	23.4	29.9	31.8	31.2
PAT Margin (%)	17.5	20.6	22.4	21.6
Fixed Asset Turnover (x)	1.5	1.0	1.2	1.2
Inventory Turnover (Days)	2.9	4.2	4.2	4.2
Debtor (Days)	9.6	16.0	16.0	16.0
Current Liabilities (Days)	47.5	50.0	50.0	50.0
Return Ratios (%)				
RoE	22.5	17.4	21.3	19.1
RoCE	25.0	20.2	25.3	22.8
RoIC	44.0	30.0	39.8	37.8
Valuation Ratios (x)				
PE	34.9	39.6	27.1	25.8
Price to Book Value	7.8	6.9	5.8	4.9
EV/EBITDA	24.7	26.2	18.2	16.7
EV/Sales	5.8	7.8	5.8	5.2
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	2.3	3.0	2.8	3.0
Quick ratio	2.2	2.9	2.7	2.9

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
GAIL (India) (GAIL)	136	150	Hold	61,338	14.7	10.1	14.6	9.3	13.4	9.3	7.7	11.3	7.2	13.7	7.5	12.5	15.1	10.0	13.2
Gujarat Gas (GUJGA)	435	505	Buy	29,945	17.3	17.9	21.2	25.1	24.3	20.5	19.1	14.8	12.5	25.2	32.1	31.8	36.3	28.2	25.8
Indian Oil Corp (INDOIL)	99	105	Hold	90,892	1.4	16.7	11.3	69.2	5.9	8.8	4.8	2.9	3.2	4.8	10.7	8.1	1.4	15.0	9.7
Indraprastha Gas (INDGAS)	567	595	Hold	39,690	16.2	14.3	20.9	34.9	39.6	27.1	24.7	26.2	18.2	25.0	20.2	25.3	22.5	17.4	21.3
Mahanagar Gas (MAHGAS)	1164	1340	Buy	11,495	80.3	63.4	96.6	14.5	18.4	12.0	10.7	12.2	7.9	29.7	22.5	29.4	26.9	18.8	24.0
Petronet LNG (PETLNG)	246	275	Hold	36,900	18.0	20.3	21.9	13.7	12.1	11.3	9.0	7.3	6.7	22.3	26.8	29.3	24.6	26.3	26.8

Source: Company, ICICI Direct Research

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Buy: >15%

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Sell: <-15%



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