

Accumulate

Volume on recovery path with strong spreads maintained. Recommend Accumulate.

- IGL volume at 6.26 MMSCMD (down 6.5% YoY) with realizations of Rs 25 per SCM (up 3.4% YoY) was in line with our estimates. Volumes in CNG segment de-grew 9%, while Industrial/commercial segment grew 2% with strong performance in Domestic PNG segment of 14% YoY.
- EBITDA/scm grew 36.7% YoY at Rs 8.7/scm.
- Gas cost de-grew 31.1% in YoY and by 12.7% sequentially to Rs 10.5/scm. Gross spreads were strong at Rs 14.4 per SCM. Maintenance of spreads at Gross and EBITDA levels will be the key monitorable to be watched out for.
- Volumes for IGL have recovered to 90% Pre Covid levels with Industrial volumes recovering 100%, domestic PNG volumes at 120%, CNG volumes at 90% and commercial volumes at 50-60% of Pre Covid levels. It is expected that by Q4FY21E avg. sales will surpass last year's sales.
- Volume growth outlook for the long term looks good and we believe that IGL should be able to maintain double-digit volume growth trajectory driven by CNG economics and expansion in regions like Rewari and Gurugram. With the order of conversion of industrial units to natural gas from Jan'21, industrial volumes will get a boost. IGL has got full rights of CGD operations in high potential Gurugram region which is a mature area, volumes should take some time to clock in as there can be a slowdown in capex.
- We continue to like the story considering the business dynamics of IGL. There can be some short term pressure on the stock price as there will be capex spent to the tune of Rs 20,000 mn in next 3 years, Covid Impact can decline revenues for FY21 before getting back to normal levels in FY22, Also the hangover around the common carrier policy by the regulator is done and is in favor of incumbent companies. We recommend Accumulate with a target price of Rs 631. (DCF Method)

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	14,462	16,642	(13.1)	13,054	10.8
Total Expense	9,455	12,724	(25.7)	8,983	5.3
EBITDA	5,007	3,918	27.8	4,071	23.0
Depreciation	750	641	16.9	711	5.5
EBIT	4,257	3,277	29.9	3,360	26.7
Other Income	259	508	(49.0)	657	(60.6)
Interest	31	20	51.7	23	33.2
EBT	4,485	3,764	19.2	3,994	12.3
Tax	1,137	926	22.8	915	24.2
RPAT	3,349	2,839	18.0	3,079	8.7
APAT	3,349	2,839	18.0	3,079	8.7
			(bps)		(bps)
Gross Margin (%)	58.0	43.5	1458	53.3	474
EBITDA Margin (%)	34.6	23.5	1108	31.2	343
NPM (%)	23.2	17.1	610	23.6	(43)
Tax Rate (%)	25.3	24.6	75	22.9	244
EBIT Margin (%)	29.4	19.7	975	25.7	370

CMP	Rs 557
Target / Upside	Rs 631 / 13%
NIFTY	15,107

Scrip Details

Equity / FV	Rs 1,400mn / Rs 2
Market Cap	Rs 390bn
	USD 5bn
52-week High/Low	Rs 581/ 284
Avg. Volume (no)	3,649,800
Bloom Code	IGL IN

Price Performance	1M	3M	12M
Absolute (%)	0	24	10
Rel to NIFTY (%)	(4)	6	(15)

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	45.0	45.0	45.0
MF/Banks/FIs	17.2	18.0	18.0
FIIIs	21.4	23.0	23.0
Public / Others	16.4	14.0	14.0

Valuation (x)

	FY21E	FY22E	FY23E
P/E	34.6	30.6	26.6
EV/EBITDA	24.3	21.7	18.1
ROE (%)	20.1	19.0	18.3
RoACE (%)	19.6	18.5	18.0

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	49,821	66,164	72,760
EBITDA	15,174	16,868	20,129
PAT	11,269	12,740	14,661
EPS (Rs.)	16.1	18.2	20.9

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Strong revival in Volumes

IGL reported volume de-growth of 6.5% on a YoY basis and a growth of 13.8% sequentially at 6.26 MMSCMD. CNG segment, which constitutes nearly 71.5% of volumes, delivered a de-growth of 9% YoY and a growth of 14% sequentially. However, volumes have reached 90-95% of Pre Covid levels. Higher volumes from H2FY21 will be seen driven by increased number of vehicle conversions of LCV and private cars, addition of DTC buses, increased number of CNG stations and government thrust to control pollution. Also, people will prefer private vehicles over public transport and CNG economies of scale will be cheaper than petrol/diesel. They plan to add 95 CNG stations in FY21.

Volumes in the PNG segment for the quarter was flat YoY and a growth of 12.3% QoQ. PNG sales to industrial/commercial segment grew 2% YoY as industrial units started operation, however commercial sales recovery is slow. We believe that this segment can be a game changer in years to come as about 1,644 industrial units in Delhi have been ordered by Air Control Pollution Board to switch over to PNG by Jan 31,2021. Commercial segment has high margins but lower volumes and is slowly picking up. Domestic PNG has increased by 14% and Natural gas segment de-grew 15%. They plan to connect 3 lakh new houses with domestic PNG in FY21 including new GA's won.

We believe that IGL will clock weaker gas sales in FY21 due to volumes lost in Q1FY21 due to lockdown situation and will take a couple of months to return to normalcy specially in Delhi/NCR region. From H2FY21 we expect low double-digit volume growth for couple of years driven by growth in existing NCR and expansion in new areas. IGL has got full rights of CGD operations in high potential Gurugram region and volumes have started coming in. We expect volumes from other GA's to flow in bit slower due to delay in capex cycles.

Valuation

We are positive on the long term volume growth of the stock with sales going down in FY21 before returning to normal levels in FY22. With further reduction input cost from Oct'20, we expect margins to sustain with marginal expansion of spreads, profit growth trajectory will get stronger in longer run. Volume growth trajectory is the key monitorable and we expect that IGL has strong volume growth drivers in place. With volume growth outlook looking good driven by new areas and increase in volume potential of existing regions and confirmed availability of domestic gas for CNG and Domestic PNG segment, we believe that profitability growth can be in double digits from H2FY21 onwards. The negativity around the stock regarding the common carrier policy is done and is in favor of the incumbents. Recommend Accumulate with a target prices of Rs 631. (DCF Method).

Exhibit 1: Actual V/s DART estimates

Particulars (Rs. Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	14,462	15,412	(6.2)	CNG segment not returned to Pre Covid levels
EBITDA	5,007	4,235	18.2	
EBITDA Margin (%)	34.6	27.5	714.2	Reduction in gas cost and other cost prudence
PAT	3,349	3,250	3.0	

Source: Company, DART

Exhibit 2: Change in estimates

Rs Mn	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	66,164	62,797	5.4	72,760	69,057	5.4
EBITDA	16,868	15,514	8.7	20,129	18,639	8.0
EBITDA Margin (%)	25.5	24.7	78.9	27.7	27.0	67.3
PAT	12,738	11,724	8.6	14,658	13,544	8.2
EPS (Rs.)	18.2	16.7	8.6	20.9	19.3	8.2

Source: Company, DART

Exhibit 3: Volume Data

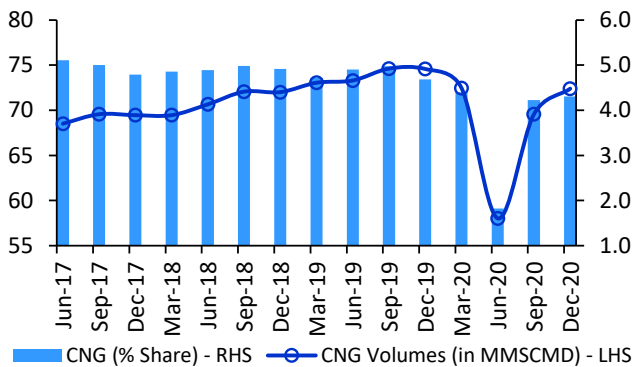
Volume Data	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
CNG (in kg)	289,000,000	317,760,000	(9.1)	255,000,000	13.3	649,000,000	942,760,000	(31.2)
CNG (in scm)	412,000,000	452,160,000	(8.9)	360,000,000	14.4	918,000,000	1,329,160,000	(30.9)
Conversion Factor	1.4	1.4	-	1.4	-	1.4	1.4	-
PNG (in scm)	164,000,000	163,800,000	0.1	146,000,000	12.3	411,000,000	460,800,000	(10.8)
Total Volume (in scm)	576,000,000	615,960,000	(6.5)	506,000,000	13.8	1,329,000,000	1,789,960,000	(25.8)
Total Volume (in mmscm)	576.0	616.0	(6.5)	506.0	13.8	1,329.0	1,790.0	(25.8)
Total Volume (in mmscmd)	6.26	6.7	(6.5)	5.5	13.8	4.8	6.5	(25.8)
CNG Sales Value (Rs Mn)	11,779	12,477	(5.6)	10,793	9.1	26,862	41,599	(35.4)
CNG Net Sales Value (Rs Mn)	10,290	10,744	(4.2)	9,440	9.0	23,480	36,384	(35.5)
PNG Sales Value (Rs Mn)	4,090	4,129	(0.9)	3,550	15.2	10,220	12,752	(19.9)
Total Sales Value (Rs Mn)	15,869	16,606	(4.4)	14,343	10.6	37,082	54,352	(31.8)
CNG Realization Gross Value (Rs/kg)	40.8	39.3	3.8	42.3	(3.7)	41.4	44.1	(6.2)
CNG Realization (Rs/kg)	35.6	33.8	5.3	37.0	(3.8)	36.2	38.6	(6.3)
Excise (Rs / Kg)	5.2	5.5	(5.5)	5.3	(2.9)	5.2	5.5	(5.8)
Spread Earned (Rs / Kg)	20.6	12.1	70.5	20.0	3.0	20.1	16.1	24.4
Spread Earned (Rs / SCM)	14.4	8.5	70.2	14.2	2.0	14.2	11.4	24.0
PNG Realization Value (Rs / SCM)	24.9	25.2	(1.1)	24.3	2.6	24.9	27.7	(10.1)
Spread Earned (Rs / SCM)	14.4	9.9	45.0	12.3	17.6	13.5	11.7	14.7
Gas Cost (Rs per SCM)	10.5	15.3	(31.1)	12.1	(12.7)	11.4	15.9	(28.5)
Blended Realization (Rs / SCM)	25.0	24.1	3.4	25.7	(2.8)	25.4	27.5	(7.6)
Blended Spread (Rs / SCM)	14.4	8.9	62.7	13.6	6.1	14.0	11.5	21.2
EBITDA Spread (Rs / SCM)	8.7	6.4	36.7	8.0	8.0	7.5	6.4	16.8

Source: Company, DART

Key Highlights:

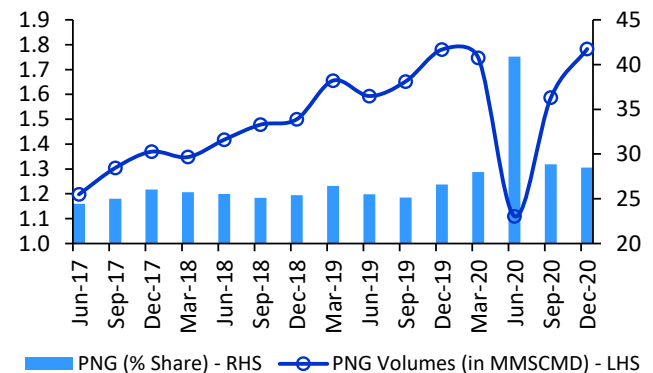
- Net sales decreased by 13.1% on a YoY basis to Rs. 14,462 mn driven by a realization growth of 3.4% and volume de-growth of 6.5% YoY
- Raw material cost decreased by 35.5% on a YoY basis to Rs. 6,063 mn.
- Operating profit increased by 27.8% on a YoY basis to Rs. 5,007 mn.
- Interest expenses increased on a YoY basis to Rs. 30.5 mn
- Depreciation increased sequentially to Rs. 750 mn.
- Net profit grew to Rs. 3,349 mn on a YoY basis by 18%
- Volume de-growth in CNG segment was at 9% and PNG segment witnessed flat growth YoY. Overall volumes decreased by 6.5% on a YoY basis and increased by 13.8% QoQ basis to 6.26 MMSCMD for this quarter.
- Gross spread in the CNG segment was at Rs. 14.4 per SCM.
- Gross spread in the PNG segment increased by 45% to Rs. 14.4 per SCM on a YoY basis.
- Gross spread on a blended basis was at Rs. 14.4 per SCM showing a growth of 62.7% on a YoY basis and EBIDTA spread was at Rs. 8.7 per SCM showing a growth of 36.7% on a YoY basis.

Exhibit 4: CNG Volume



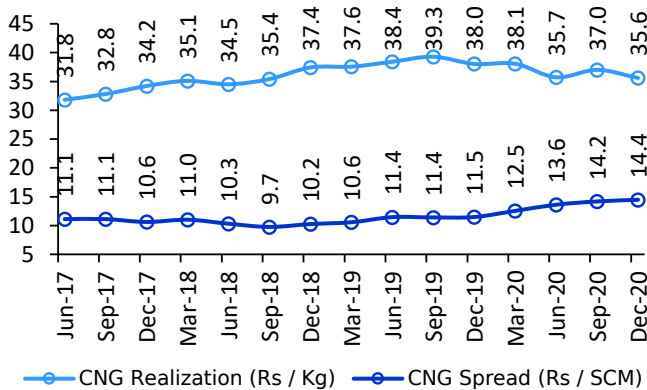
Source: Company, DART

Exhibit 5: PNG Volume



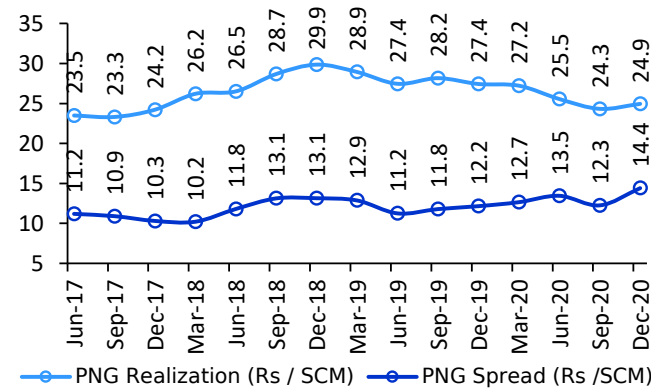
Source: Company, DART

Exhibit 6: CNG KPI's



Source: Company, DART

Exhibit 7: PNG KPI's



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	64,853	49,821	66,164	72,760
Total Expense	49,656	34,647	49,296	52,631
COGS	36,794	21,997	34,371	35,282
Employees Cost	1,517	1,358	1,570	1,764
Other expenses	11,346	11,292	13,355	15,585
EBIDTA	15,196	15,174	16,868	20,129
Depreciation	2,523	2,809	3,048	3,720
EBIT	12,674	12,365	13,820	16,409
Interest	81	97	100	112
Other Income	1,564	2,500	3,000	3,000
Exc. / E.O. items	0	0	0	0
EBT	14,157	14,768	16,720	19,297
Tax	2,791	3,499	3,980	4,636
RPAT	11,365	11,269	12,740	14,661
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	11,365	11,269	12,740	14,661

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	1,400	1,400	1,400	1,400
Minority Interest	0	0	0	0
Reserves & Surplus	49,224	59,833	71,810	85,581
Net Worth	50,624	61,233	73,210	86,981
Total Debt	0	0	0	0
Net Deferred Tax Liability	2,119	2,119	2,119	2,119
Total Capital Employed	52,743	63,352	75,329	89,100

Applications of Funds

Net Block	35,569	44,311	55,263	65,543
CWIP	7,767	10,000	10,000	10,000
Investments	2,581	2,500	2,500	5,000
Current Assets, Loans & Advances	25,805	25,287	29,505	32,518
Inventories	511	544	723	795
Receivables	1,704	1,631	2,169	2,386
Cash and Bank Balances	21,799	20,401	22,752	24,327
Loans and Advances	849	1,649	2,649	3,649
Other Current Assets	942	1,062	1,212	1,362
Less: Current Liabilities & Provisions	18,980	18,746	21,939	23,961
Payables	2,250	2,772	4,332	4,543
Other Current Liabilities	16,730	15,974	17,607	19,418
		<i>sub total</i>		
Net Current Assets	6,825	6,541	7,566	8,557
Total Assets	52,743	63,352	75,329	89,100

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	43.3	55.8	48.1	51.5
EBIDTA Margin	23.4	30.5	25.5	27.7
EBIT Margin	19.5	24.8	20.9	22.6
Tax rate	19.7	23.7	23.8	24.0
Net Profit Margin	17.5	22.6	19.3	20.2
(B) As Percentage of Net Sales (%)				
COGS	56.7	44.2	51.9	48.5
Employee	2.3	2.7	2.4	2.4
Other	17.5	22.7	20.2	21.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	156.1	127.3	138.2	146.5
Inventory days	3	4	4	4
Debtors days	10	12	12	12
Average Cost of Debt				
Payable days	13	20	24	23
Working Capital days	38	48	42	43
FA T/O	1.8	1.1	1.2	1.1
(D) Measures of Investment				
AEPS (Rs)	16.2	16.1	18.2	20.9
CEPS (Rs)	19.8	20.1	22.6	26.3
DPS (Rs)	2.8	2.6	3.0	3.5
Dividend Payout (%)	17.2	16.2	16.5	16.7
BVPS (Rs)	72.3	87.5	104.6	124.3
RoANW (%)	24.7	20.1	19.0	18.3
RoACE (%)	23.7	19.6	18.5	18.0
RoAIC (%)	36.8	33.5	28.9	28.0
(E) Valuation Ratios				
CMP (Rs)	557	557	557	557
P/E	34.3	34.6	30.6	26.6
Mcap (Rs Mn)	389,550	389,550	389,550	389,550
MCap/ Sales	6.0	7.8	5.9	5.4
EV	367,751	369,149	366,798	365,223
EV/Sales	5.7	7.4	5.5	5.0
EV/EBITDA	24.2	24.3	21.7	18.1
P/BV	7.7	6.4	5.3	4.5
Dividend Yield (%)	0.5	0.5	0.5	0.6
(F) Growth Rate (%)				
Revenue	12.5	(23.2)	32.8	10.0
EBITDA	20.9	(0.1)	11.2	19.3
EBIT	20.0	(2.4)	11.8	18.7
PBT	18.0	4.3	13.2	15.4
APAT	44.5	(0.8)	13.0	15.1
EPS	44.5	(0.8)	13.0	15.1
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	13,608	13,060	17,212	19,074
CFI	(5,207)	1,420	(14,000)	(16,500)
CFF	(2,435)	(756)	(861)	(999)
FCFF	3,975	(723)	3,212	5,074
Opening Cash	712	6,677	20,401	22,752
Closing Cash	6,677	20,401	22,752	24,327

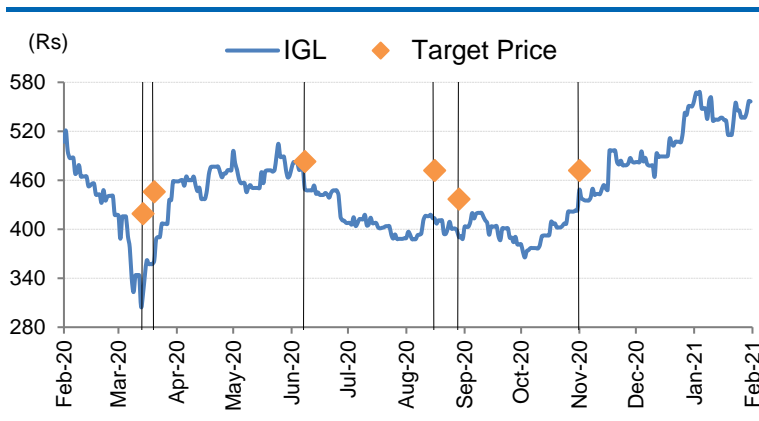
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Mar-20	Buy	419	320
Mar-20	Buy	446	361
Jun-20	Accumulate	483	450
Aug-20	Accumulate	472	413
Sep-20	Accumulate	437	390
Nov-20	Reduce	472	448

*Price as on recommendation date

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In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd StoneX Financial Inc. ("StoneX"). Transactions in securities discussed in this research report should be effected through StoneX Financial Inc. ("StoneX") or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.



Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

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