# Indraprastha Gas Limited

## Recent correction offers attractive entry point

| Oil & Gas | Sharekhan code: IGL | Company Update |
|---|---|---|

| 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 | | ↔ | |

| Reco/View | Change |
|---|---|
| Reco: **Buy** | ↔ |
| CMP: **Rs. 509** | |
| Price Target: **Rs. 650** | ↔ |

↑ Upgrade ↔ Maintain ↓ Downgrade

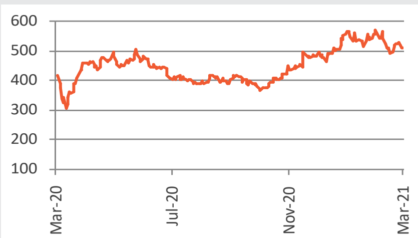
**Company details**

| | |
|---|---|
| Market cap: | Rs. 35,623 cr |
| 52-week high/low: | Rs. 595/285 |
| NSE volume: (No of shares) | 36.0 lakh |
| BSE code: | 532514 |
| NSE code: | IGL |
| Free float: (No of shares) | 38.5 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 45.0 |
| FII | 23.2 |
| DII | 16.1 |
| Others | 15.7 |

**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | -6 | 3 | 25 | 22 |
| Relative to Sensex | -3 | -7 | -6 | -27 |

*Sharekhan Research, Bloomberg*

**Summary**

- As the overhang of open access has ended, we believe that IGL would be able to maintain its monopoly in its legacy GA of Delhi. This coupled with ramp-up of volume from new GAs would drive strong 17% volume CAGR over FY2021E-FY2023E.
- High margin likely to sustain, as pricing power in CNG (accounts for 74% of volumes) allows CGDs to pass on any hike in domestic gas price to end customers. Hence, maintain our EBITDA margin assumption of Rs. 8.7/Rs. 8.8 per scm for FY2022E/FY2023E.
- Robust volume growth and high margin to ensure 25% PAT CAGR for IGL over FY2021E-FY2023E along with high RoE of 22.4%. Permanent air pollution commission in Delhi would lead to secular volume growth for IGL.
- Recent correction of 9% in IGL's stock price provides an attractive entry opportunity as IGL is likely to be key beneficiary of reforms to push gas consumption in India. We maintain a Buy on IGL with an unchanged PT of Rs. 650.

**The recent 9% fall in Indraprastha Gas Limited's (IGL) stock price in the last one month provides an attractive entry opportunity to investors as long-term volume growth outlook remain intact (management guidance of 10-12% volume CAGR over FY2020-FY2024E), which has well appreciated by the street historically. Moreover, pricing power in the CNG business (74% of overall gas sales volumes) given favourable economics versus petrol would help sustain high EBITDA margin of Rs. 8-9/scm. Thus, we expect IGL's PAT to grow at 25% CAGR over FY2021E-FY2023E along with high RoE of 22.4%. New Delhi now has as new permanent air pollution commission which would lead to secular volume growth for IGL (has shown consistent high-volume growth over FY2016-FY2020). Furthermore, the key overhang of open access for CGD players is also over now as PNGRB's recent notification for third-party access (where marketing exclusivity has expired) has explicitly excluded OMCs as third-party. We maintain our Buy rating on IGL with an unchanged PT of Rs650. At the CMP, the stock is trading at 24.8x its FY2022E EPS and 22.3x its FY2023E EPS.**

### Our Call

**Valuation – Maintain Buy on IGL with an unchanged PT of Rs. 650:** IGL's stock price has corrected by 9% in the last one month despite improving earnings outlook with sharp recovery in volume and sustainable high margin outlook. The recent correction is an opportunity to enter the stock as IGL's long term volume growth outlook remains intact given sustained growth in existing GAs, expansion into new GAs of Rewari, Karnal, and Gurugram, and development of three new GAs (won under the 10th CGD bidding round). Overall, we expect IGL to post strong earnings CAGR of 25% over FY2021E-FY2023E along with high RoE of 22.4% in FY2023. Hence, we maintain a Buy rating on IGL with an unchanged PT of Rs. 650. At the CMP, the stock is trading at 24.8x its FY2022E EPS and 22.3x its FY2023E EPS, which is at a premium to valuation of CGD peers, given superior volume growth track record and high share of CNG in the volume mix.

### Key Risks

Lower-than-expected gas sales volume in case of COVID-19 led slowdown. Delay in development of new GAs, sharp rise in LNG prices, and adverse regulatory changes could impact outlook and valuations.

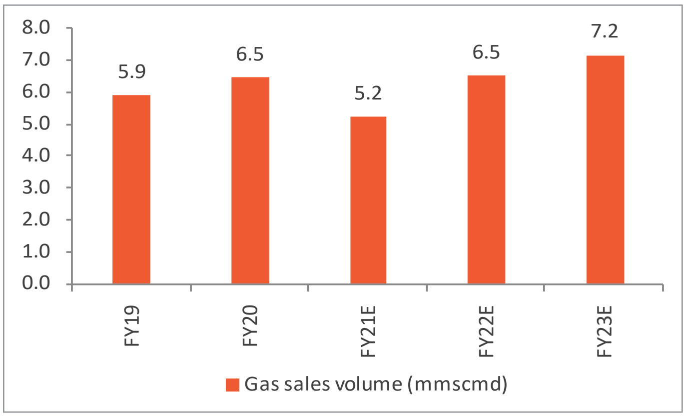
**Valuation (Standalone)** Rs cr

| Particulars | FY19 | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Revenues | 5,765 | 6,485 | 4,904 | 6,255 | 7,012 |
| OPM (%) | 21.8 | 23.4 | 30.8 | 33.2 | 32.9 |
| Adjusted PAT | 787 | 1,137 | 1,031 | 1,438 | 1,598 |
| % YoY growth | 17.3 | 44.5 | -9.3 | 39.4 | 11.2 |
| Adjusted EPS (Rs.) | 11.2 | 16.2 | 14.7 | 20.5 | 22.8 |
| P/E (x) | 45.3 | 31.3 | 34.6 | 24.8 | 22.3 |
| P/B (x) | 8.6 | 7.0 | 6.2 | 5.4 | 4.7 |
| EV/EBITDA (x) | 27.9 | 22.0 | 22.4 | 16.0 | 14.2 |
| RoNW (%) | 20.6 | 24.7 | 19.1 | 23.3 | 22.4 |
| RoCE (%) | 29.5 | 29.1 | 24.3 | 29.7 | 28.7 |

*Source: Company; Sharekhan estimates*

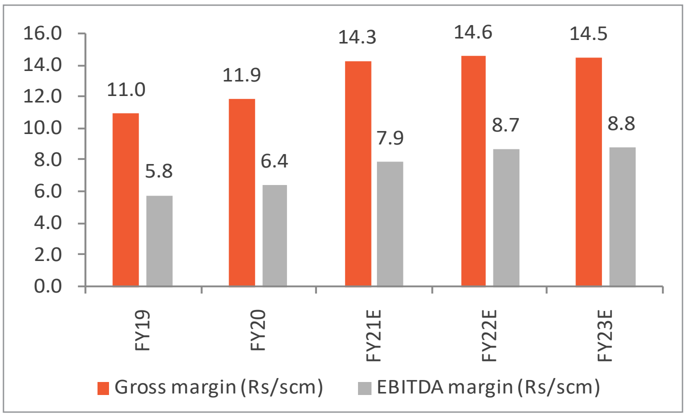
## Financials in charts

**Regulatory push to drive volumes**



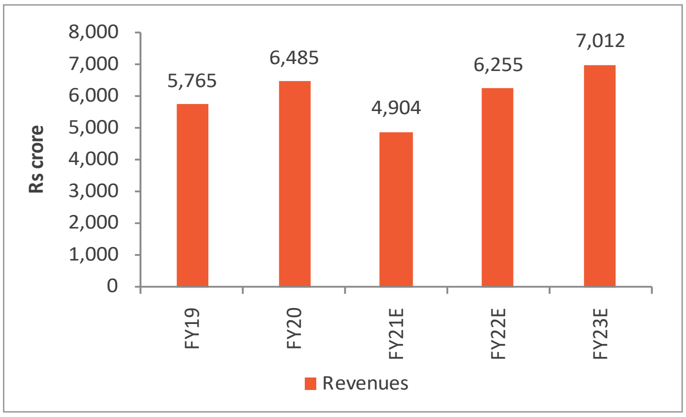

Source: Company, Sharekhan Research

**Cheap domestic gas to keep margins high**



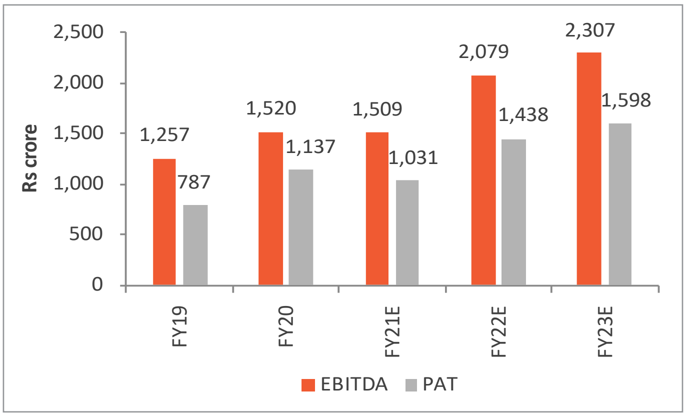

Source: Company, Sharekhan Research

**Robust trend**



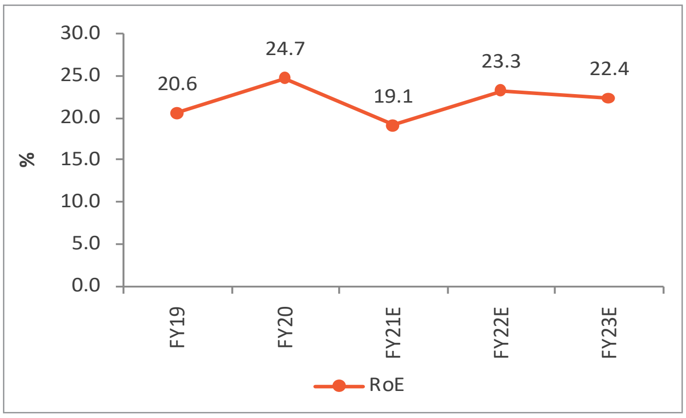

Source: Company, Sharekhan Research

**EBITDA/PAT to report 24%/25% CAGR over FY21E-FY221E**



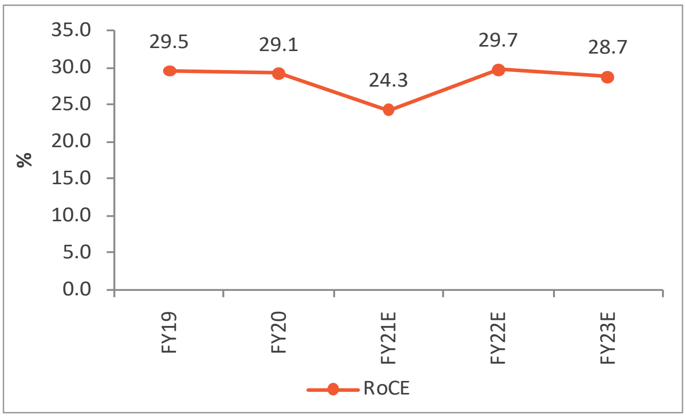

Source: Company, Sharekhan Research

**Strong RoE trend**




Source: Company, Sharekhan Research

**RoCE to stay healthy**




Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Regulatory push and low gas price to drive gas demand in India and benefit CGD players

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 2025 (from 6% currently) would substantially improve gas penetration in India and boost gas consumption. Thus, we expect sustainable high single-digit growth in India gas demand for the next 4-5 years. Margins of CGD companies (with exposure towards CNG) are expected to remain strong given weak domestic gas prices.

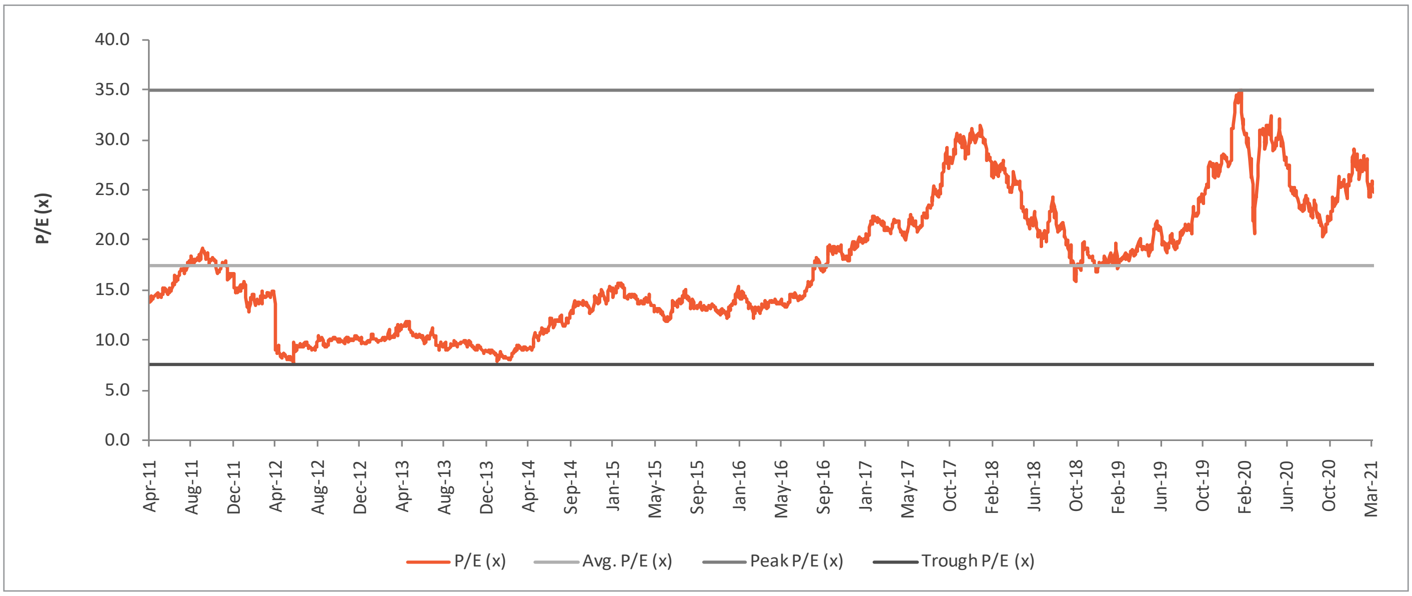
### ■ Company outlook - Expect strong Q4FY2021; Long-term volume growth outlook intact

A sharp recovery in CNG volumes to 91% of pre-COVID-19 level is expected to reach normalised level in Q4Y202021, which would lead to strong earnings growth IGL in Q4FY2021. Additionally, the long-term volume growth outlook remains strong (supported by ramp-up of new GAs and higher industrial PNG demand) and margin is expected to stay elevated, given the ability to pass on any increase in domestic gas price given favourable economics of CNG versus petrol. Hence, we expect a strong EBITDA/PAT CAGR of 24%/25% over FY2021E-FY2023E along with RoE of 22-23%.

### ■ Valuation - Maintain Buy on IGL with an unchanged PT of Rs. 650

IGL's stock price has corrected by 9% in the last one month despite improving earnings outlook with sharp recovery in volume and sustainable high margin outlook. The recent correction is an opportunity to enter the stock as IGL's long term volume growth outlook remains intact given sustained growth in existing GAs, expansion into new GAs of Rewari, Karnal, and Gurugram, and development of three new GAs (won under the 10th CGD bidding round). Overall, we expect IGL to post strong earnings CAGR of 25% over FY2021E-FY2023E along with high RoE of 22.4% in FY2023. Hence, we maintain a Buy rating on IGL with an unchanged PT of Rs. 650. At the CMP, the stock is trading at 24.8x its FY2022E EPS and 22.3x its FY2023E EPS, which is at a premium to valuation of CGD peers, given superior volume growth track record and high share of CNG in the volume mix.

**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 6.5 mmscmd in FY2020. IGL derives 74% 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 2025 (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. The company's margins are expected to remain strong, given domestic gas prices. Moreover, the recent sharp CNG recovery indicates normalisation of overall volume much faster than expectation.

## Key Risks

- Lower-than-expected gas sales volume in case of delay in volume recovery due to COVID-19 led demand slowdown.
- Any change in domestic gas allocation policy, depreciation of Indian rupee, and any adverse regulatory changes could affect margins and valuations.
- Overhang on CGD stocks will stay until the open access regulations are finalised by PNGRB.

## Additional Data

**Key management personnel**

| | |
|---|---|
| PK Gupta | Chairman |
| AK Jana | Managing Director |
| Manjeet Singh Gulati | Director - Finance |

*Source: Company*

**Top 10 shareholders**

| Sr. No. | Holder Name | Holding (%) |
|---|---|---|
| 1 | Life Insurance Corp of India | 9.6 |
| 2 | Republic of India | 5.0 |
| 3 | FMR LLC | 3.2 |
| 4 | Kotak Mahindra Asset Management Co | 2.7 |
| 5 | VONTOBEL FUND | 2.4 |
| 6 | Vontobel Holding AG | 2.4 |
| 7 | Vanguard Group Inc/The | 1.8 |
| 8 | BlackRock Inc | 1.2 |
| 9 | FundRock Management Co SA | 0.8 |
| 10 | Impax Asset Management Ltd | 0.7 |

*Source: Bloomberg; Note: Shareholding as on February 10, 2021*

## 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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