

Volume pick-up post second wave key...

Indraprastha Gas (IGL) reported its Q4FY21 results that were slightly below our estimates. Volumes increased 9.5% YoY, 9% QoQ to 6.8 mmscmd (our estimate: 6.6 mmscmd) as CNG and industrial PNG demand recovered post relaxations in lockdown. Revenues were flat YoY at ₹ 1550.6 crore (our estimate: ₹ 1538 crore). Gross margins increased ₹ 0.9/scm YoY owing to low gas costs. EBITDA increased 30.5% YoY to ₹ 491.8 crore (our estimates: ₹ 504 crore). Subsequently, PAT came in at ₹ 331 crore, up 30.6% YoY (our estimate: ₹ 350.1 crore) as the company reported lower other income.

Sales grow YoY on lower base

IGL's volume increased 9.5% YoY to 6.8 mmscmd as CNG demand reached pre-Covid level. CNG sales volume increased 8.3% YoY, 8.7% QoQ to 4.9 mmscmd (our estimate: 4.7 mmscmd). PNG volumes grew 12.6% YoY to 2 mmscmd, ahead of estimate. Within PNG segment, domestic PNG reported 10% YoY growth while industrial PNG segment jumped 27% YoY. Second wave of Covid-19 and subsequent restrictions on movement hit the demand in the current quarter (Q1FY22E-TD). Accordingly, we revise our estimates and expect volumes to grow from Q3Y22E onwards. We expect sales volume at 6.7 mmscmd and 7.7 mmscmd in FY22E and FY23E, respectively.

Margins to stabilise at healthy levels

Gross margins in Q4FY21 were at ₹ 13.5/scm (up ₹ 0.9/scm YoY and down ₹ 1/scm QoQ) weaker than estimates due to lower-than-expected realisation as well as higher gas costs QoQ. Subsequently, reported EBITDA/scm was ₹ 8/scm, up ₹ 1.4/scm YoY, down ₹ 0.7/scm QoQ. IGL had taken a price hike in March to pass on increased costs. With increase in petrol and diesel prices, the competitive advantage of CNG increased substantially over the past few months. Hence, we believe IGL will be able to pass on higher costs to customers in future. Going forward, we expect gross margins at ₹ 13.7/scm and ₹ 13.6/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. While sales volume recovered in Q4FY21, sales dipped in the current quarter. Sales volume is expected to recover in Q2FY22E with easing restrictions. We maintain **HOLD** recommendation on the stock. We value standalone IGL at ₹ 549/share (25x FY23E EPS) and investment in Central UP Gas (CUGL) and Maharashtra Natural Gas (MNGL) at ₹ 46/share to arrive at an unchanged target price of ₹ 595.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	38,500.0
Total Debt (FY20) (₹ Crore)	-
Cash and Investments (FY20)	2,180.0
EV (₹ Crore)	36,320.0
52 week H/L	595/364
Equity capital (₹ Crore)	140.0
Face value (₹)	2.0

Key Highlights

- Results were slightly below our estimates
- Margins expected to normalise at current level
- Maintain HOLD rating on stock with target price of ₹ 595 /share

Key risks to our call

- Faster than expected recovery in volumes to 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	4,940.8	6,309.1	7,278.2	3.9
EBITDA (₹ crore)	1,252.1	1,519.6	1,483.0	1,991.5	2,253.0	14.0
Net Profit (₹ crore)	786.7	1,136.5	1,005.7	1,382.6	1,536.0	10.6
EPS (₹)	11.2	16.2	14.4	19.8	21.9	
P/E (x)	48.9	33.9	38.3	27.8	25.1	
Price / Book (x)	9.3	7.6	6.7	5.7	4.8	
EV/EBITDA (x)	30.3	23.9	25.2	19.1	16.7	
RoCE (%)	25.4	25.0	20.7	24.4	23.4	
RoE (%)	19.0	22.5	17.4	20.4	19.3	

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Revenues	1,550.6	1,538.0	1,552.5	-0.1	1,446.2	7.2	
Raw materials costs	713.9	672.6	826.2	-13.6	606.9	17.6	
Employees Cost	34.3	38.5	35.0	-2.1	37.5	-8.5	
Other Expenses	310.7	323.0	314.6	-1.2	301.2	3.2	
Total Expenditure	1,058.9	1,034.0	1,175.8	-9.9	945.5	12.0	
EBITDA	491.8	504.0	376.7	30.5	500.7	-1.8	Lower than estimates on account of weaker-than-expected gross margin
EBITDA margins (%)	31.7	32.8	24.3	745 bps	34.6	-291 bps	
Depreciation	76.1	72.8	65.5	16.2	75.0	1.5	
EBIT	415.6	431.2	311.2	33.5	425.7	-2.4	
Interest	3.6	2.5	2.7	NA	3.1	19.0	
Other Income	28.0	40.0	31.3	-10.5	25.9	8.0	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	440.0	468.7	339.8	29.5	448.5	-1.9	
Total Tax	109.0	118.6	86.5	26.0	113.7	-4.1	
PAT	331.0	350.1	253.4	30.6	334.9	-1.2	

Key Metrics

Sales Volumes (mmscmd)	6.8	6.6	6.2	9.5	6.3	9.0	CNG volumes were at 4.9 mmscmd whereas PNG volumes came in at 2 mmscmd
Realisation (₹/scm)	27.7	28.4	29.9	-7.4	27.6	0.5	
Gross Margin (₹/scm)	13.5	14.5	12.6	7.3	14.4	-6.6	Lower than estimates due to lower than anticipated realisation

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6530.7	6,309.1	-3.4	7134.6	7,278.2	2.0	
EBITDA	2074.8	1,991.5	-4.0	2229.2	2,253.0	1.1	Revised sales volume and gas costs estimates
EBITDA Margin (%)	31.8	31.6	-20 bps	31.2	31.0	-29 bps	
PAT	1463.5	1,382.6	-5.5	1539.2	1,536.0	-0.2	
EPS (₹)	20.9	19.8	-5.5	22.0	21.9	-0.2	

Source: Company, ICICI Direct Research

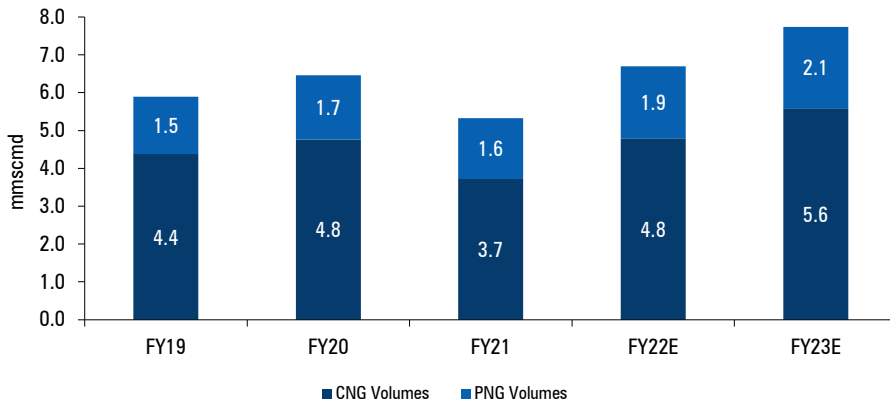
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
Sales Volumes (mmscmd)	6.4	5.3	6.7	7.7	7.0	7.7	Reduced Q1FY22E estimates
Realisation (₹/scm)	30.3	27.8	28.3	28.3	28.0	28.0	
Gross Margin (₹/scm)	11.8	13.8	13.7	13.6	13.6	13.5	Realigned estimates post Q4 performance

Source: Company, ICICI Direct Research

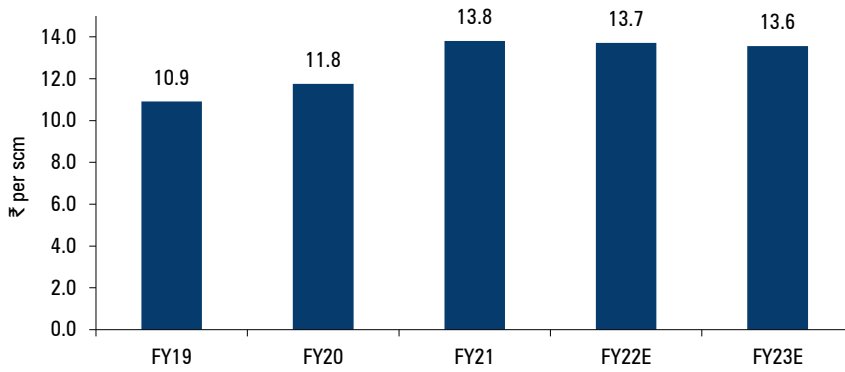
Story in charts

Exhibit 4: Volume trajectory



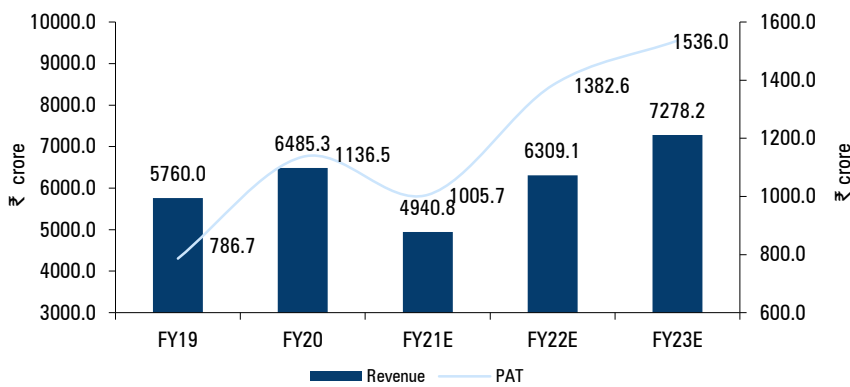
Source: Company, ICICI Direct Research

Exhibit 5: Gross margin trend



Source: Company, ICICI Direct Research

Exhibit 6: Revenues & PAT trend



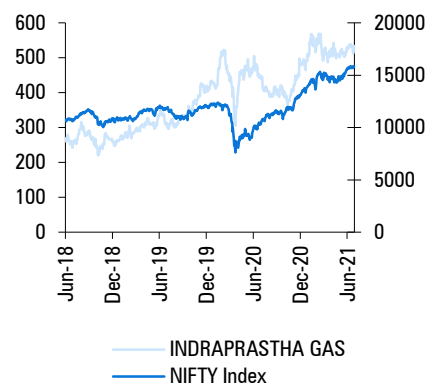
Source: Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	45.0	45.0	45.0	45.0	45.0
FII	22.8	22.3	21.3	23.2	23.8
DII	16.8	17.2	17.4	16.1	15.9
Others	15.5	15.5	16.3	15.7	15.3

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	4940.8	6309.1	7278.2
Growth (%)	12.6	-23.8	27.7	15.4
Raw material Costs	3679.4	2229.5	2929.6	3424.0
Employee Costs	151.7	134.4	157.7	182.0
Other Expenditure	1134.6	1093.9	1230.3	1419.3
Op. Expenditure	4965.6	3457.8	4317.6	5025.2
EBITDA	1519.6	1483.0	1991.5	2253.0
Growth (%)	21.4	-2.4	34.3	13.1
Depreciation	252.3	290.4	338.7	394.7
EBIT	1267.4	1192.6	1652.9	1858.3
Interest	8.1	11.3	2.0	10.0
Other Income	156.4	150.2	200.0	208.0
PBT	1415.7	1331.5	1850.9	2056.3
Growth (%)	18.0	-5.9	39.0	11.1
Tax	279.1	325.8	468.3	520.2
Reported PAT	1136.5	1005.7	1382.6	1536.0
Growth (%)	44.5	-11.5	37.5	11.1
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	1136.5	1005.7	1382.6	1536.0
EPS	16.2	14.4	19.8	21.9

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	5,633.2	6,647.2	7,814.7
Shareholder's Fund	5,062.4	5,773.2	6,787.2	7,954.7
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	6828.7	7912.7	9150.2
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	846.9	746.9	646.9
Total Fixed Assets	4,333.6	5,062.7	5,710.1	6,291.3
Investments	258.1	1,825.1	2,075.1	2,325.1
Inventories	51.1	45.6	72.6	83.7
Debtor	170.4	260.7	276.6	319.0
Cash	2,180.0	1,100.8	521.7	975.3
Loan & Advance, Other CA	179.1	151.7	162.8	197.1
Total Current assets	2580.6	1558.8	1033.6	1575.2
Current Liabilities	843.7	1245.4	864.3	997.0
Provisions	280.8	372.7	41.8	44.4
Total CL and Provisions	1124.4	1618.0	906.1	1041.5
Net Working Capital	1456.1	-59.2	127.5	533.7
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	6047.9	6828.7	7912.7	9150.2

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	1,136.5	1,005.7	1,382.6	1,536.0
Add: Depreciation	252.3	290.4	338.7	394.7
Add: Others	-55.9	30.0	30.0	30.0
Cash Profit	1,130.4	1,031.2	1,382.7	1,592.2
Increase/(Decrease) in CL	222.5	493.6	-711.9	135.3
(Increase)/Decrease in CA	42.7	-57.4	-54.0	-87.9
CF from Operating Activities	1647.8	1757.8	955.5	2034.4
Purchase of Fixed Assets	1,230.9	1,019.5	986.0	976.0
(Inc)/Dec in Investments	1,285.9	-1,567.0	-250.0	-250.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	55.0	-2,586.5	-1,236.0	-1,226.0
Inc/(Dec) in Loan Funds	123.9	40.0	40.0	40.0
Less: Dividend Paid	202.5	294.8	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	-254.8	-328.6	-328.6
Change in cash Eq.	1,572.9	-1,079.2	-579.1	453.6
Op. Cash and cash Eq.	607.1	2,180.0	1,100.8	521.7
Cl. Cash and cash Eq.	2,180.0	1,100.8	521.7	975.3

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (?)				
Book Value	72.3	82.5	97.0	113.6
Cash per share	31.1	38.1	33.4	43.5
EPS	16.2	14.4	19.8	21.9
Cash EPS	19.8	18.5	24.6	27.6
DPS	2.4	3.6	4.5	4.5
Profitability & Operating Ratios				
EBITDA Margin (%)	23.4	30.0	31.6	31.0
PAT Margin (%)	17.5	20.4	21.9	21.1
Fixed Asset Turnover (x)	1.5	1.0	1.1	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	92.0	50.0	50.0
Return Ratios (%)				
RoE	22.5	17.4	20.4	19.3
RoCE	25.0	20.7	24.4	23.4
RoIC	44.0	38.4	37.2	37.8
Valuation Ratios (x)				
PE	33.9	38.3	27.8	25.1
Price to Book Value	7.6	6.7	5.7	4.8
EV/EBITDA	23.9	25.2	19.1	16.7
EV/Sales	5.6	7.6	6.0	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	1.0	1.1	1.5
Quick ratio	2.2	0.9	1.1	1.4

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	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E
BPCL (BHAPET)	472	495	Hold	92,837	36.3	13.6	91.0	13.0	34.6	5.2	10.3	21.2	7.5	13.1	3.5	14.7	19.4	8.1	35.6
GAIL (India) (GAIL)	162	180	Hold	71,934	14.7	11.0	16.6	11.0	14.7	9.7	9.1	11.9	7.3	13.7	8.7	14.7	15.1	10.6	14.6
Gujarat Gas (GUJGA)	565	655	Buy	38,895	17.3	18.5	22.6	32.6	30.5	25.0	24.6	18.9	16.0	25.2	33.0	33.8	36.3	29.0	27.6
Indian Oil Corp (INDOIL)	104	115	Hold	95,850	1.4	23.8	11.3	73.0	4.4	9.2	5.1	2.5	3.4	4.8	13.8	7.9	1.4	21.3	9.7
Indraprastha Gas (INDGAS)	550	595	Hold	38,500	16.2	14.4	19.8	33.9	38.3	27.8	23.9	25.2	19.1	25.0	20.7	24.4	22.5	17.4	20.4
Mahanagar Gas (MAHGAS)	1165	1340	Buy	11,508	80.3	62.7	90.1	14.5	18.6	12.9	10.8	11.9	8.4	29.7	22.6	28.4	26.9	18.7	22.9
Petronet LNG (PETLNG)	228	250	Hold	34,200	18.0	19.7	18.7	12.7	11.6	12.2	8.3	7.0	7.1	22.3	25.3	22.8	24.6	24.4	21.9

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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