

Volume pick-up holds key...

About the stock: Indraprastha Gas (IGL) is one of India's largest city gas distribution company and primarily operates in NCT of Delhi.

- CNG sales contribute more than 70% of its total sales volume
- IGL is currently operating in 10 geographical areas

Q1FY22 Results: IGL reported results below our estimates due to weak volumes.

- Revenue almost doubled YoY to ₹ 1257.4 crore vs. our estimate of ₹ 1329.9 crore
- EBITDA at ₹ 380.9 crore (up 356.4% YoY) vs. our estimate of ₹ 415.7 crore
- PAT up 667.2% YoY to ₹ 244.3 crore, lower than our estimate (₹ 280.9 crore)

What should investors do? IGL's share price has grown by ~4x over the past five years (from ~₹ 135 in August 2016 to ~₹ 525 levels currently).

- We retain our HOLD rating on the stock

Target Price & Valuation: We value IGL at ₹ 585 (standalone at ₹ 536, JVs at ₹ 48)

Key triggers for future price performance:

- IGL will continue to benefit from stricter environmental regulations in NCR and India's aim to increase the share of natural gas in the energy mix
- On account of competitive advantage against traditional auto fuels, IGL has potential for further sales volume growth in NCR and other CGD areas
- IGL hiked prices in Q2FY22E. This will lead to healthy margins in near term
- Debt free balance sheet and consistent dividend payout

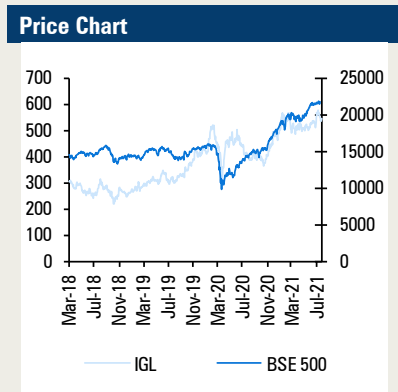
Alternate Stock Idea: Apart from IGL, in our oil & gas coverage we also like MGL.

- MGL is a beneficiary of India's increasing gas demand and will continue to grow on account of steady volume growth, better pricing power and favourable regulatory scenario
- BUY with a target price of ₹ 1,340



Particulars	
Particular	Amount
Market Capitalization (₹ Crorr)	37,450.0
Total Debt (FY 20) (₹ Crore)	-
Cash and Investments (FY 20)	2,180.0
EV (₹ Crore)	35,270.0
52 week H/L	581/364
Equity capital (₹ Crore)	140.0
Face value (₹)	2.0

Shareholding pattern						
(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	
Promoter	45.0	45.0	45.0	45.0	45.0	
FII	22.3	21.3	23.2	23.8	23.9	
DII	17.2	17.4	16.1	15.9	14.8	
Others	15.5	16.3	15.7	15.3	16.3	



- Recent event & key risks**
- Weaker results compared to other CGDs on account of higher decline in CNG volumes
 - Key Risk:** (i) Faster than expected recovery in volumes, (ii) Inability to pass on higher costs to customers

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	5 year CAGR (FY16-21E)	FY22E	FY23E	2 year CAGR (FY21-23E)
Revenues (₹ crore)	5,760.0	6,485.3	4,940.8	6.0	6,317.7	7,640.2	24.4
EBITDA (₹ crore)	1,252.1	1,519.6	1,483.0	14.0	1,873.1	2,215.4	22.2
Net Profit (₹ crore)	786.7	1,136.5	1,005.7	19.3	1,262.6	1,502.0	22.2
EPS (₹)	11.2	16.2	14.4		18.0	21.5	
P/E (x)	47.6	33.0	37.2		29.7	24.9	
Price / Book (x)	9.1	7.4	6.5		5.6	4.8	
EV/EBITDA (x)	29.4	23.2	24.5		19.8	16.5	
RoCE (%)	25.4	25.0	20.7		23.1	23.3	
RoE (%)	19.0	22.5	17.4		18.9	19.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q1FY22 Results: Subdued volumes

- Revenue almost doubled YoY to ₹ 1257.4 crore against our estimate of ₹ 1329.9 crore. It declined 18.9% QoQ. Realisation was marginally above estimates at ₹ 28.4/scm (our estimate: ₹ 28.2/scm)
- Sales volume was at 5.3 mmscmd, up 95.9% YoY on a lower base (our estimate: ₹ 5.6 mmscmd). Sales volume declined 22.1% QoQ due to second wave of Covid-19. CNG segment grew 127.2% YoY to 3.6 mmscmd (our estimate: 3.9 mmscmd). PNG volumes increased 50.5% YoY to 1.7 mmscmd and were broadly in line with estimates. Within the PNG segment, domestic PNG volume grew 3% YoY while industrial/commercial PNG volume was sharply up by 81% YoY. On a QoQ basis, all segments reported de-growth. CNG declined 25.1% while PNG declined 14.6%
- Gross margins increased ₹ 0.7/scm YoY to ₹ 14.2/scm due to lower gas costs as well as better realisation. On a QoQ basis, gross margins grew ₹ 0.7/scm. EBITDA was at ₹ 380.9crore, up 356.4% YoY, down 22.6% QoQ against our estimate of ₹ 415.7 crore. EBITDA/scm was ₹ 7.9/scm, up ₹ 4.5/scm YoY and down ₹ 0.1/scm QoQ
- The company reported lower-than-expected other income. On the profitability front, PAT was up 667.2% YoY (down 26.2% QoQ) to ₹ 244.3 crore (our estimates: ₹ 280.9 crore)

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
GAIL (India) (GAIL)	139	180	Hold	61,721	11.0	16.4	17.7	12.6	8.5	7.9	10.3	6.4	6.3	8.7	14.4	13.6	10.6	14.4	14.1
Gujarat Gas (GUJGA)	722	735	Hold	49,702	18.5	24.9	26.3	39.0	29.0	27.5	24.1	18.7	17.4	33.0	36.5	32.8	29.0	29.6	25.4
Indraprastha Gas (INDGAS)	535	585	Hold	37,450	14.4	18.0	21.5	37.2	29.7	24.9	24.5	19.8	16.5	20.7	23.1	23.3	17.4	18.9	19.3
Mahanagar Gas (MAHGA)	1167	1340	Buy	11,527	62.7	95.6	107.2	18.6	12.2	10.9	11.9	7.9	6.6	22.6	29.7	28.1	18.7	23.9	22.5
Petronet LNG (PETLNG)	223	245	Hold	33,450	19.7	19.1	21.2	11.3	11.7	10.5	6.8	6.7	5.9	25.3	23.4	24.1	24.4	22.3	22.8

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Revenues	1,257.4	1,329.9	638.6	96.9	1,550.6	-18.9	
Raw materials costs	562.0	608.3	299.1	87.9	713.9	-21.3	
Employees Cost	37.4	33.2	31.4	19.1	34.3	9.1	
Other Expenses	277.1	272.6	224.6	23.4	310.7	-10.8	
Total Expenditure	876.5	914.2	555.1	57.9	1,058.9	-17.2	
EBITDA	380.9	415.7	83.4	356.4	491.8	-22.6	Lower than expected on account of weaker-than-expected sales volume
EBITDA margins (%)	30.3	31.3	13.1	1722 bps	31.7	-142 bps	
Depreciation	77.8	82.2	68.2	14.1	76.1	2.2	
EBIT	303.1	333.6	15.3	1,884.6	415.6	-27.1	
Interest	2.9	2.5	2.4	NA	3.6	-19.0	
Other Income	29.8	45.0	30.6	-2.6	28.0	6.6	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	329.9	376.1	43.5	658.0	440.0	-25.0	
Total Tax	85.7	95.1	11.7	632.7	109.0	-21.4	
PAT	244.3	280.9	31.8	667.2	331.0	-26.2	

Key Metrics

Sales Volumes (mmscmd)	5.3	5.6	2.7	95.9	6.8	-22.1	CNG volumes were at 3.6 mmscmd whereas PNG volumes came in at 1.7 mmscmd
Realisation (₹/scm)	28.4	28.2	27.8	1.9	27.7	2.4	
Gross Margin (₹/scm)	14.2	13.9	13.5	5.0	13.5	5.3	Marginally higher than estimates

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6309.1	6,317.7	0.1	7278.2	7,640.2	5.0	
EBITDA	1991.5	1,873.1	-5.9	2253.0	2,215.4	-1.7	Revised sales volume mainly due to subdued Q1FY22 numbers, which led to lower EBITDA estimate
EBITDA Margin (%)	31.6	29.6	-195 bps	31.0	29.0	-200 bps	
PAT	1382.6	1,262.6	-8.7	1536.0	1,502.0	-2.2	
EPS (₹)	19.8	18.0	-8.9	21.9	21.5	-2.0	

Source: ICICI Direct Research

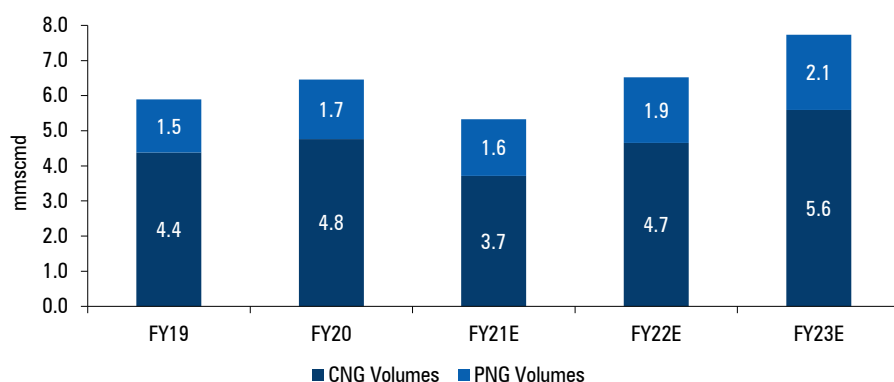
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Sales Volumes (mmscmd)	6.4	5.3	6.5	7.7	6.7	7.7	Reduced Q1FY22 volumes led to change in Q1FY22 estimates
Realisation (₹/scm)	30.3	27.8	29.1	29.7	28.3	28.3	
Gross Margin (₹/scm)	11.8	13.8	13.6	13.6	13.7	13.6	

Source: ICICI Direct Research

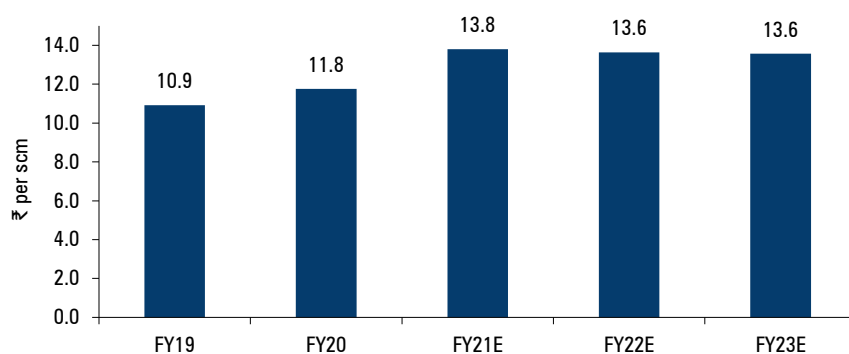
Story in charts

Exhibit 5: Volume trajectory



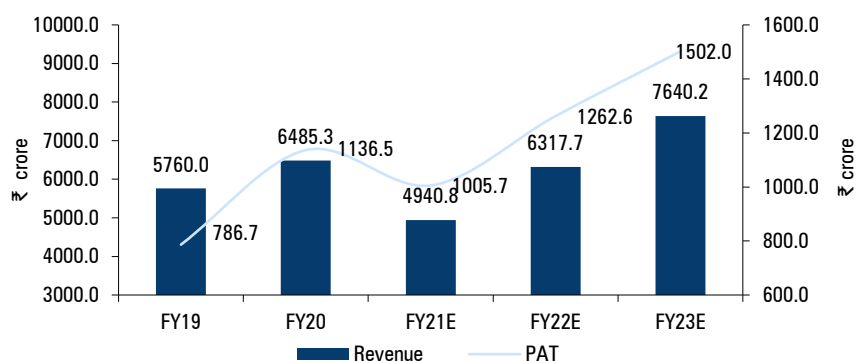
Source: Company, ICICI Direct Research

Exhibit 6: Gross margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Revenue & PAT trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenue	6485.3	4940.8	6317.7	7640.2
Growth (%)	12.6	-23.8	27.9	20.9
Raw material Costs	3679.4	2229.5	3042.1	3782.1
Employee Costs	151.7	134.4	163.9	191.0
Other Expenditure	1134.6	1093.9	1238.6	1451.6
Op. Expenditure	4965.6	3457.8	4444.6	5424.7
EBITDA	1519.6	1483.0	1873.1	2215.4
Growth (%)	21.4	-2.4	26.3	18.3
Depreciation	252.3	290.4	334.3	394.7
EBIT	1267.4	1192.6	1538.8	1820.7
Interest	8.1	11.3	10.4	10.0
Other Income	156.4	150.2	164.8	200.0
PBT	1415.7	1331.5	1693.1	2010.7
Growth (%)	18.0	-5.9	27.2	18.8
Tax	279.1	325.8	430.5	508.7
Reported PAT	1136.5	1005.7	1262.6	1502.0
Growth (%)	44.5	-11.5	25.6	19.0
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	1136.5	1005.7	1262.6	1502.0
EPS	16.2	14.4	18.0	21.5

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	1,136.5	1,005.7	1,262.6	1,502.0
Add: Depreciation	252.3	290.4	334.3	394.7
Add: Others	-55.9	30.0	30.0	30.0
Cash Profit	1,130.4	1,031.2	1,258.4	1,558.2
Increase/(Decrease) in CL	222.5	493.6	-712.6	185.1
(Increase)/Decrease in CA	42.7	-57.4	-54.5	-110.9
CF from Operating Activiti	1647.8	1757.8	825.6	2027.1
Purchase of Fixed Assets	1,230.9	1,019.5	981.6	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 Activiti	55.0	-2,586.5	-1,231.6	-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 activiti	-80.2	-254.8	-328.6	-328.6
Change in cash Eq.	1,572.9	-1,079.2	-700.4	446.4
Op. Cash and cash Eq.	607.1	2,180.0	1,100.8	400.4
Cl. Cash and cash Eq.	2,180.0	1,100.8	400.4	846.8

Source: Company, ICICI Direct Research

Exhibit 10: 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	6,527.2	7,660.7
Shareholder's Fund	5,062.4	5,773.2	6,667.2	7,800.7
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	7792.7	8996.2
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	72.7	87.9
Debtor	170.4	260.7	276.9	334.9
Cash	2,180.0	1,100.8	400.4	846.8
Loan & Advance, Other CA	179.1	151.7	162.9	200.5
Total Current assets	2580.6	1558.8	912.9	1470.2
Current Liabilities	843.7	1245.4	865.4	1046.6
Provisions	280.8	372.7	40.0	43.9
Total CL and Provisions	1124.4	1618.0	905.4	1090.5
Net Working Capital	1456.1	-59.2	7.5	379.7
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	6047.9	6828.6	7792.7	8996.2

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	72.3	82.5	95.2	111.4
Cash per share	31.1	38.1	31.7	41.6
EPS	16.2	14.4	18.0	21.5
Cash EPS	19.8	18.5	22.8	27.1
DPS	2.4	3.6	4.5	4.5
Profitability & Operating Ratios				
EBITDA Margin (%)	23.4	30.0	29.6	29.0
PAT Margin (%)	17.5	20.4	20.0	19.7
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	18.9	19.3
RoCE	25.0	20.7	23.1	23.3
RoIC	44.0	38.4	34.6	37.3
Valuation Ratios (x)				
PE	33.0	37.2	29.7	24.9
Price to Book Value	7.4	6.5	5.6	4.8
EV/EBITDA	23.2	24.5	19.8	16.5
EV/Sales	5.4	7.4	5.9	4.8
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	1.0	1.3
Quick ratio	2.2	0.9	0.9	1.3

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Oil & gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
BPCL (BHAPET)	465	520	Hold	97,320	91.0	31.9	38.9	5.1	14.6	12.0	7.4	9.9	8.3	14.3	10.1	11.8	33.8	14.2	15.9
GAIL (India) (GAIL)	139	180	Hold	61,721	11.0	16.4	17.7	12.6	8.5	7.9	10.3	6.4	6.3	8.7	14.4	13.6	10.6	14.4	14.1
Gujarat Gas (GUJGA)	722	735	Hold	49,702	18.5	24.9	26.3	39.0	29.0	27.5	24.1	18.7	17.4	33.0	36.5	32.8	29.0	29.6	25.4
HPCL (HINPET)	264	265	Hold	38,344	70.6	34.3	29.0	3.7	7.7	9.1	5.3	7.6	7.4	14.9	7.4	6.1	29.5	13.0	10.6
Indian Oil Corp (INDOIL)	104	120	Buy	95,483	23.8	15.8	15.6	4.4	6.6	6.7	2.5	2.9	2.9	13.3	10.0	9.5	19.8	12.2	11.5
Indraprastha Gas (INDGAS)	535	585	Hold	37,450	14.4	18.0	21.5	37.2	29.7	24.9	24.5	19.8	16.5	20.7	23.1	23.3	17.4	18.9	19.3
Mahanagar Gas (MAHGAS)	1167	1340	Buy	11,527	62.7	95.6	107.2	18.6	12.2	10.9	11.9	7.9	6.6	22.6	29.7	28.1	18.7	23.9	22.5
ONGC (ONGC)	114	110	Hold	1,46,300	9.0	19.1	20.7	12.6	6.0	5.5	5.2	3.3	3.0	4.4	11.6	11.4	5.6	10.9	10.9
Petronet LNG (PETLNG)	223	245	Hold	33,450	19.7	19.1	21.2	11.3	11.7	10.5	6.8	6.7	5.9	25.3	23.4	24.1	24.4	22.3	22.8

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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