

## In line performance; sequential margin growth...

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

- CNG sales contribute more than 70% of its total sales volume
- Sales volume grew at 9% CAGR in FY17-22

**Q4FY22 Results:** IGL reported Q4FY22 results that were in line with estimates on the profitability front.

- Revenue increased 55.2% YoY to ₹ 2405.9 crore due to higher volume as well as realisation. Sales volume grew 13.5% YoY to 7.7 mmscmd
- Gross margin declined ₹ 0.9/scm YoY to ₹ 12.6/scm as higher realisation was offset by gas sourcing costs. EBITDA was at ₹ 500.5 crore, up 1.8% YoY (I-direct estimate: ₹ 529.4 crore)
- PAT was at ₹ 361.6 crore, up 9.2% YoY (I-direct estimate: ₹ 353.6 crore)

**What should investors do?** Concerns over gas sourcing are likely to subside in the near to medium term. The company has taken a hike to pass on high APM costs that will lead to stabilised margin in near term.

- We retain our **BUY** rating on the stock

**Target Price and Valuation:** We value IGL at ₹ 440 (standalone at ~₹ 411 i.e. 18x P/E on FY24E EPS and investments at ~₹ 29)

**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
- Debt free balance sheet

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

- Gail is India's leading gas transmission company, which is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value
- BUY with target price of ₹ 180



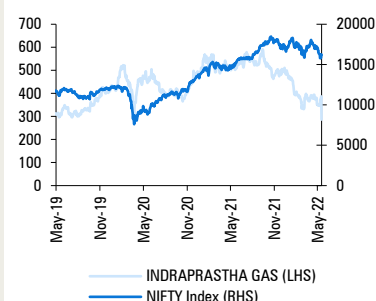
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	25,620.0
Total Debt (FY21) (₹ Crore)	79.9
Cash and Investments (FY21)	1,132.3
EV (₹ Crore)	24,567.7
52 week H/L	604/322
Equity capital (₹ Crore)	140.0
Face value (₹)	2.0

### Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	45.0	45.0	45.0	45.0	45.0
FII	23.8	23.9	21.9	20.2	19.9
DII	15.9	14.8	16.1	16.7	16.9
Others	15.3	16.3	17.1	18.1	18.2

### Price Chart



### Recent event & key risks

- **Key Risk:** (i) Slower than expected volume growth, (ii) Inability to pass on further increase in costs.

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### Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22E	5 year CAGR (FY17-22E)	FY23E	FY24E	2 year CAGR (FY22E-24E)
Revenues (₹ crore)	5,760.0	6,485.3	4,940.8	7,710.0	15.1	13,124.9	13,451.6	32.1
EBITDA (₹ crore)	1,252.1	1,519.6	1,483.0	1,881.1	14.3	2,143.8	2,431.6	13.7
Net Profit (₹ crore)	786.7	1,136.5	1,005.7	1,318.1	18.2	1,424.6	1,600.7	10.2
EPS (₹)	11.2	16.2	14.4	18.8		20.4	22.9	
P/E (x)	32.6	22.5	25.5	19.4		18.0	16.0	
Price / Book (x)	6.2	5.1	4.4	3.7		3.2	2.8	
EV/EBITDA (x)	20.0	15.5	16.6	12.9		11.2	9.7	
RoCE (%)	25.4	24.7	20.0	22.3		21.5	21.1	
RoE (%)	19.0	22.5	17.1	19.0		17.9	17.5	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q4FY22 Results: Earnings in line with estimates

- Revenue increased 8.6% QoQ. Realisation was in line with estimates at ₹ 37.8/scm
- Sales volume was at 7.7 mmscmd, up 13.5% YoY, 1.2% QoQ (our estimate: ₹ 8.1 mmscmd). CNG segment grew ~16% YoY to 5.7 mmscmd (our estimate: 6 mmscmd). PNG volume increased ~7% YoY to 2.1 mmscmd and was in line with estimates. Within the PNG segment, domestic PNG volume grew ~14% YoY while industrial/commercial PNG volume was up ~3% YoY. On a QoQ basis, CNG sales were flat while PNG volume grew ~3%
- The company reported higher than expected other income of ₹ 77.4 crore
- We estimate sales volume of 8.1 mmscmd and 8.9 mmscmd in FY23E and FY24E, respectively
- Gross margin is expected at ₹ 13.3/scm and ₹ 13.6/scm in FY23E and FY24E, respectively

## Peer comparison

### Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Gujarat Gas (GUJGA)	537	625	Buy	36,995	18.9	19.7	24.1	28.4	27.3	22.3	18.1	17.2	14.1	26.9	24.2	25.3	23.2	20.3	20.7
Indraprastha Gas (INDGAS)	366	440	Buy	25,620	18.8	20.4	22.9	19.4	18.0	16.0	12.9	11.2	9.7	22.3	21.5	21.1	19.0	17.9	17.5
Mahanagar Gas (MAHGAS)	745	820	Hold	7,359	60.4	71.3	78.1	12.3	10.4	9.5	7.6	6.3	5.6	20.1	21.4	21.1	16.9	17.9	17.5

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Total Revenues	2,405.9	2,519.6	1,550.6	55.2	2,215.5	8.6	
Raw materials costs	1,517.8	1,599.7	713.9	112.6	1,384.2	9.7	
Employees Cost	38.5	50.4	34.3	12.4	47.7	-19.2	
Other Expenses	349.1	340.1	310.7	12.4	314.0	11.2	
Total Expenditure	1,905.5	1,990.3	1,058.9	80.0	1,745.9	9.1	
EBITDA	500.5	529.4	491.8	1.8	469.6	6.6	Lower-than-expected on account of lower-than-expected sales volume
EBITDA margins (%)	20.8	21.0	31.7	-1091 bps	21.2	-40 bps	
Depreciation	75.3	88.1	76.1	-1.1	83.5	-9.9	
EBIT	425.2	441.3	415.6	2.3	386.1	10.1	
Interest	4.9	2.9	3.6	34.4	2.8	72.4	
Other Income	77.4	35.0	28.0	176.6	30.4	154.8	Higher than estimated
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	497.7	473.4	440.0	13.1	413.7	20.3	
Total Tax	136.1	119.8	109.0	24.9	105.1	29.5	
PAT	361.6	353.6	331.0	9.2	308.5	17.2	

Key Metrics

Sales Volumes (mmscmd)	7.7	8.1	6.8	13.5	7.7	1.2	CNG volume was 5.7 mmscmd whereas PNG volume came in at 2.1 mmscmd
Realisation (₹/scm)	37.8	37.8	27.7	36.6	34.5	9.8	
Gross Margin (₹/scm)	12.6	12.5	13.5	-6.7	11.7	7.9	In line with estimates

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	10623.2	13,124.9	23.5	11558.4	13,451.6	16.4	Increased realisation estimates
EBITDA	1608.3	2,143.8	33.3	1937.3	2,431.6	25.5	Revised gas cost estimate taking into account current oil & gas price trend
EBITDA Margin (%)	15.1	16.3	119 bps	16.8	18.1	132 bps	
PAT	1040.3	1,424.6	36.9	1248.4	1,600.7	28.2	
EPS (₹)	14.9	20.4	36.9	17.8	22.9	28.2	

Source: ICICI Direct Research

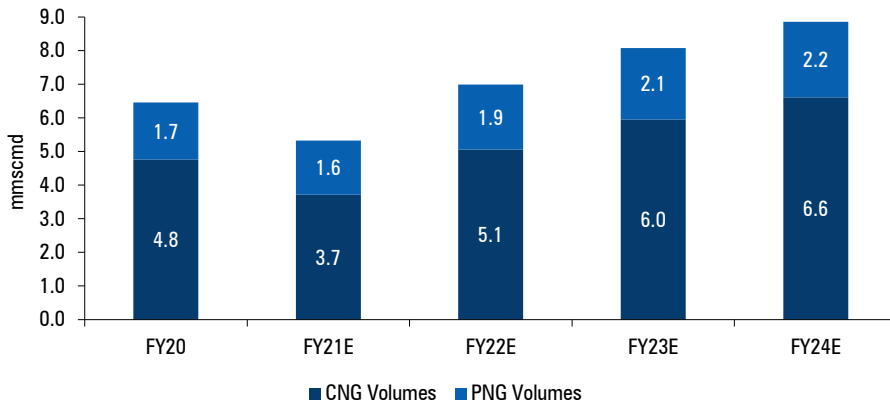
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22E	FY23E	FY24E	FY23E	FY24E	
Sales Volumes (mmscmd)	5.3	7.0	8.1	8.9	8.1	8.8	
Realisation (₹/scm)	27.8	33.1	49.0	45.9	39.4	39.4	Increased realisation estimate following price hikes
Gross Margin (₹/scm)	13.8	12.8	13.3	13.6	11.2	11.7	

Source: ICICI Direct Research

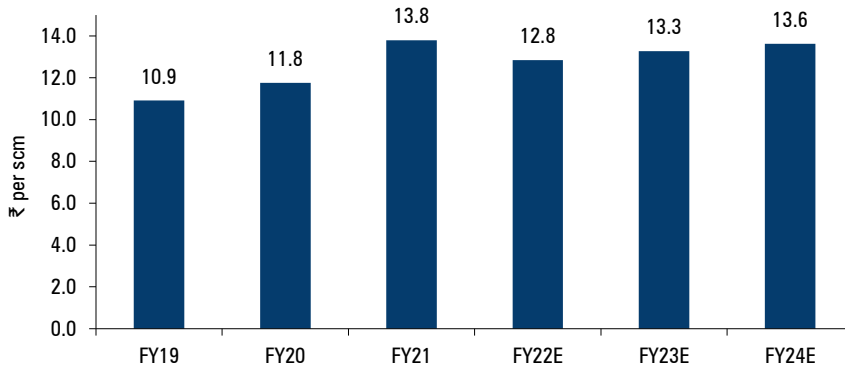
### Story in charts

Exhibit 5: Volume trajectory



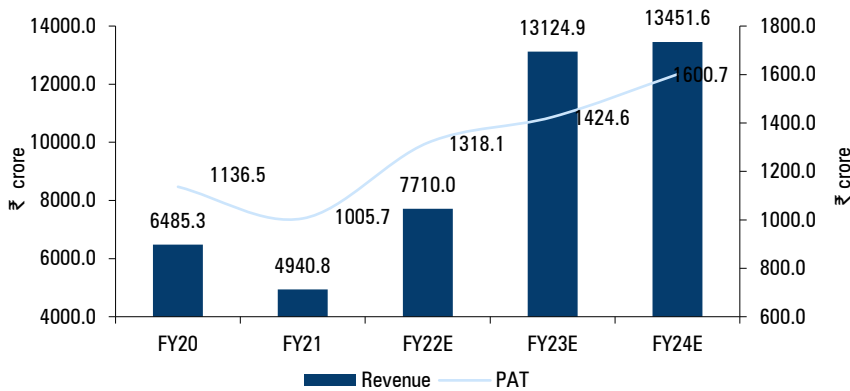
Source: Company, ICICI Direct Research

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)	FY21	FY22E	FY23E	FY24E	
<b>Revenue</b>	<b>4940.8</b>	<b>7710.0</b>	<b>13124.9</b>	<b>13451.6</b>	
Growth (%)	-23.8	56.0	70.2	2.5	
Raw material Costs	2229.5	4392.3	9185.6	9015.6	
Employee Costs	134.4	176.0	220.5	255.6	
Other Expenditure	1093.9	1260.6	1575.0	1748.7	
Op. Expenditure	3457.8	5828.9	10981.1	11019.9	
EBITDA	1483.0	1881.1	2143.8	2431.6	
Growth (%)	-2.4	26.8	14.0	13.4	
<b>Depreciation</b>	<b>290.4</b>	<b>317.1</b>	<b>417.4</b>	<b>489.4</b>	
EBIT	1192.6	1564.1	1726.5	1942.2	
Interest	11.3	13.2	19.4	19.4	
Other Income	150.2	215.0	200.0	220.0	
PBT	1331.5	1765.9	1907.1	2142.8	
Growth (%)	-5.9	32.6	8.0	12.4	
Tax	325.8	447.8	482.5	542.1	
<b>Reported PAT</b>	<b>1005.7</b>	<b>1318.1</b>	<b>1424.6</b>	<b>1600.7</b>	
Growth (%)	-11.5	31.1	8.1	12.4	
Adjustments	0.0	0.0	0.0	0.0	
Adj. Net Profit	1005.7	1318.1	1424.6	1600.7	
<b>EPS</b>	<b>14.4</b>	<b>18.8</b>	<b>20.4</b>	<b>22.9</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Profit after Tax	1,005.7	1,318.1	1,424.6	1,600.7	
Add: Depreciation	290.4	317.1	417.4	489.4	
Add: Others	30.3	31.5	30.0	30.0	
Cash Profit	1,130.3	1,216.2	1,462.5	1,710.6	
Increase/(Decrease) in CL	451.9	765.7	293.1	80.5	
(Increase)/Decrease in CA	-60.9	-273.1	-284.5	-48.3	
<b>CF from Operating Activities</b>	<b>1811.7</b>	<b>2025.9</b>	<b>1888.5</b>	<b>2232.3</b>	
Purchase of Fixed Assets	1,124.6	1,529.6	1,000.0	1,100.0	
(Inc)/Dec in Investments	-1,567.7	-150.0	-250.0	-250.0	
Others	0.0	0.0	0.0	0.0	
<b>CF from Investing Activities</b>	<b>-2,692.3</b>	<b>-1,679.5</b>	<b>-1,250.0</b>	<b>-1,350.0</b>	
Inc/(Dec) in Loan Funds	123.5	3.5	40.0	40.0	
Less: Dividend Paid	196.0	450.5	409.5	409.5	
Inc/(Dec) in Sh. Cap. & Res.	-0.2	197.0	0.0	0.0	
Others	0.0	0.0	0.0	0.0	
<b>CF from financing activities</b>	<b>-72.6</b>	<b>-250.0</b>	<b>-369.5</b>	<b>-369.5</b>	
Change in cash Eq.	-1,047.7	229.7	261.1	432.9	
Op. Cash and cash Eq.	2,180.0	1,132.3	1,362.0	1,623.1	
<b>Cl. Cash and cash Eq.</b>	<b>1,132.3</b>	<b>1,362.0</b>	<b>1,623.1</b>	<b>2,056.0</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
<b>Source of Funds</b>					
Equity Capital	140.0	140.0	140.0	140.0	
Preference capital	0.0	0.0	0.0	0.0	
Reserves & Surplus	5,731.9	6,796.5	7,811.6	9,002.8	
Shareholder's Fund	5,871.9	6,936.5	7,951.6	9,142.8	
Loan Funds	79.9	78.1	78.1	78.1	
Deferred Tax Liability	242.2	273.7	303.7	333.7	
Minority Interest	0.0	0.0	0.0	0.0	
<b>Source of Funds</b>	<b>7087.3</b>	<b>8186.9</b>	<b>9272.0</b>	<b>10533.2</b>	
<b>Application of Funds</b>					
Gross Block	5,397.7	6,428.9	7,628.9	8,828.9	
Less: Acc. Depreciation	1,076.9	1,427.2	1,844.6	2,334.0	
Net Block	4,320.9	5,001.7	5,784.4	6,494.9	
Capital WIP	846.9	1,378.6	1,178.6	1,078.6	
Total Fixed Assets	5,167.8	6,380.3	6,963.0	7,573.5	
Investments	1,825.8	1,975.8	2,225.8	2,475.8	
Inventories	45.6	45.5	89.9	92.1	
Debtor	260.7	520.6	719.2	737.1	
Cash	1,132.3	1,362.0	1,623.1	2,056.0	
Loan & Advance, Other CA	155.2	168.5	209.9	238.1	
Total Current assets	1593.8	2096.6	2642.1	3123.3	
Current Liabilities	1127.5	1836.3	2157.5	2211.2	
Provisions	372.7	429.5	401.4	428.2	
Total CL and Provisions	1500.1	2265.8	2558.9	2639.5	
Net Working Capital	93.7	-169.2	83.2	483.8	
Miscellaneous expense	0.0	0.0	0.0	0.0	
<b>Application of Funds</b>	<b>7087.3</b>	<b>8186.9</b>	<b>9272.0</b>	<b>10533.2</b>	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios		FY21	FY22E	FY23E	FY24E
(Year-end March)					
<b>Per share data (₹)</b>					
Book Value		83.9	99.1	113.6	130.6
Cash per share		38.6	44.0	51.3	61.1
EPS		14.4	18.8	20.4	22.9
Cash EPS		18.5	23.4	26.3	29.9
DPS		2.8	5.5	5.0	5.0
<b>Profitability &amp; Operating Ratios</b>					
EBITDA Margin (%)		30.0	24.4	16.3	18.1
PAT Margin (%)		20.4	17.1	10.9	11.9
Fixed Asset Turnover (x)		1.0	1.2	1.9	1.8
Inventory Turnover (Days)		3.4	2.2	2.5	2.5
Debtor (Days)		19.3	24.6	20.0	20.0
Current Liabilities (Days)		83.3	50.0	60.0	60.0
<b>Return Ratios (%)</b>					
RoE		17.1	19.0	17.9	17.5
RoCE		20.0	22.3	21.5	21.1
RoIC		36.7	39.7	38.9	39.3
<b>Valuation Ratios (x)</b>					
PE		25.5	19.4	18.0	16.0
Price to Book Value		4.4	3.7	3.2	2.8
EV/EBITDA		16.6	12.9	11.2	9.7
EV/Sales		5.0	3.2	1.8	1.8
<b>Leverage &amp; Solvency Ratios</b>					
Debt to equity (x)		0.0	0.0	0.0	0.0
Interest Coverage (x)		NA	NA	NA	NA
Debt to EBITDA (x)		0.1	0.0	0.0	0.0
Current Ratio		1.1	0.9	1.0	1.2
Quick ratio		1.0	0.9	1.0	1.1

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 (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	357	450	Buy	74,717	47.8	39.8	44.2	7.5	9.0	8.1	5.7	6.0	5.4	15.8	13.1	13.7	20.6	15.8	16.0
GAIL (India) (GAIL)	160	180	Buy	71,046	23.5	17.8	18.2	6.8	9.0	8.8	5.2	6.7	6.6	19.3	13.0	12.2	19.3	13.3	12.6
Gujarat Gas (GUJGA)	537	625	Buy	36,995	18.9	19.7	24.1	28.4	27.3	22.3	18.1	17.2	14.1	26.9	24.2	25.3	23.2	20.3	20.7
HPCL (HINPET)	268	320	Hold	38,027	40.6	44.2	45.4	6.6	6.1	5.9	7.5	6.0	5.6	8.1	9.3	9.0	14.9	14.8	13.9
Indian Oil Corp (INDOIL)	118	130	Hold	1,08,336	26.3	18.0	19.6	4.5	6.5	6.0	2.5	3.0	2.7	12.9	8.9	9.2	18.4	12.1	12.5
Indraprastha Gas (INDGAS)	366	440	Buy	25,620	18.8	20.4	22.9	19.4	18.0	16.0	12.9	11.2	9.7	22.3	21.5	21.1	19.0	17.9	17.5
Mahanagar Gas (MAHGAS)	745	820	Hold	7,359	60.4	71.3	78.1	12.3	10.4	9.5	7.6	6.3	5.6	20.1	21.4	21.1	16.9	17.9	17.5
Petronet LNG (PETLNG)	206	210	Hold	30,840	22.3	17.6	21.2	9.2	11.7	9.7	5.7	6.5	5.4	27.0	20.1	22.7	25.0	18.9	21.1
Reliance Industries (RELIND)	2,621	3,050	Buy	17,73,208	89.7	128.7	130.9	29.2	20.4	20.0	18.0	11.9	10.9	7.7	11.5	11.4	8.5	11.0	10.4

Source: Bloomberg, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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