MOTILAL OSWAL

10 August 2022

1QFY23 Results Update | Sector: Oil & Gas

Indraprastha Gas

Estimate change	↑
TP change	↓
Rating change	↔

Bloomberg	IGL IN
Equity Shares (m)	700
M.Cap.(INRb)/(USDb)	251.1 / 3.2
52-Week Range (INR)	604 / 322
1, 6, 12 Rel. Per (%)	-11/-10/-41
12M Avg Val (INR M)	1166

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	77.1	121.0	115.5
EBITDA	18.8	20.5	20.5
Adj. PAT	13.1	13.9	14.2
Adj. EPS (INR)	18.8	19.8	20.2
EPS Gr. (%)	30.8	5.4	2.2
BV/Sh.(INR)	99.1	113.1	127.4
Ratios			
Net D:E	-0.2	-0.4	-0.4
RoE (%)	26.2	18.7	16.8
RoCE (%)	25.4	18.1	16.4
Payout (%)	29.3	29.3	29.3
Valuation			
P/E (x)	19.1	18.1	17.7
P/BV (x)	3.6	3.2	2.8
EV/EBITDA (x)	12.6	10.7	10.7
Div. Yield (%)	1.5	1.6	1.7
FCF Yield (%)	6.8	8.1	2.3

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	45.0	45.0	45.0
DII	21.8	21.9	19.8
FII	20.3	19.9	23.9
Others	12.9	13.2	11.3

FII Includes depository receipts

CMP: INR359 TP: INR406 (+13%) Neutral

Strong margin steals the show in 1QFY23

- IGL reported a beat on our EBITDA estimate, driven by strong volumes (inline), which grew 48% YoY on a low base, and higher-than-estimated EBITDA margin/scm, which grew 20% sequentially. Total volumes grew 48% YoY and 2% QoQ to 7.9mmscmd, with a record high CNG volume of 5.9mmscmd (up 63% YoY) and modest PNG volumes of 1.9mmscmd (down 6% QoQ). EBITDA/scm stood at INR8.6 (est. INR6.7).
- With an overwhelming quarterly performance, the challenges ahead for IGL are overwhelming too:
  - As discussed in our report titled, 'CGD to take a breather in the near term,' CGDs will have to raise CNG prices by ~INR4/kg (excluding taxes) for every USD1/mmBtu rise in gas prices to maintain margin around current levels. That said, OMCs are also seeking higher single-digit commissions for retailing CNG at their outlets, which will further challenge the sustainability of margin.
  - Spot LNG prices increased to ~USD41/mmBtu in Jul'22 from USD28/mmBtu in 1QFY23. Domestic APM gas prices are expected to rise by ~50% from Oct'22. These can impact margin in the near term.
  - Aggregators account for 30-40% of total CNG sales for IGL, and the onslaught of EVs may challenge volume growth in the medium to long term.
  - Although the company has already taken a few CNG price hikes in quick succession in FY23 till date, we expect further increases in the second half. CNG prices may rise above petrol and diesel prices, and IGL will have a tough task ahead to balance margin v/s growth.
- We build in a FY23/FY24 volume growth of 11% each to 7.8 mmscmd/ 8.6mmscmd, with EBITDA/scm normalizing to INR7.2/INR6.5 in FY23/FY24. We revise upward our FY23 EBITDA estimate by 9%. However, a higher CNG price than petrol and diesel may dampen our FY23 volume assumptions.
- **The stock has corrected by 31% in the past 12 months on the back of the aforementioned concerns.** On a one-year forward P/E basis, IGL trades in line to its long-term average of 19x. We maintain our Neutral rating.

Volumes and margin both above our estimate

- Volumes grew 48% YoY to 7.89mmscmd (2% higher than our estimate).
- CNG volumes were at a record high of 5.9mmscmd (up 63% YoY and 5% QoQ) on a low base.
- PNG volumes grew 17% YoY, but fell 6% QoQ to 1.96mmscmd.
- EBITDA/scm stood at INR8.6 (est. INR6.7) v/s INR7.2 in 4QFY22.
- Gross margin came in at INR14.3/scm v/s INR12.7/scm in 4QFY22.
- OPEX stood at INR5.7/scm v/s INR5.6/scm in 4QFY22.
- EBITDA grew 62% YoY and 23% QoQ to INR6.1b, with PAT at INR4.2b (up 72% YoY and 16% QoQ).
- IGL's share in CUGL and MNGL added INR604m to its consolidated profit (up 79% YoY, but down 17% QoQ) in 1QFY23.

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Valuation and view – maintain our Neutral rating

- **IGL can increase its sales volume from new areas** such as Rewari, Karnal, and Muzzafarnagar; Haryana City Gas; and the newly awarded GAs in the 10th round — a) Kaithal (Haryana), b) Ajmer, Pali, and Rajsamand (Rajasthan), and c) Kanpur, Fatehpur, and Hamirpur (Uttar Pradesh).
- The introduction of EVs can dent demand for CNG over the long term, which has been acknowledged by the management. Hence, it plans to set up 50 EV battery swapping stations.
- The stock trades at 20x/25x FY24E standalone/consolidated EPS. We value the stock at 17x FY24 standalone EPS and add value of its investments to arrive at our TP of INR406. We maintain our Neutral rating on the stock.

Quarterly performance (INR m)

Y/E March	FY22				FY23				FY22	FY23	FY23	Var vs
	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE			1QE	Est
Net Sales	**12,574**	**18,312**	**22,155**	**24,059**	**31,939**	**30,237**	**30,212**	**28,628**	**77,100**	**1,21,015**	**30,363**	**5%**
Change (%)	96.9	40.3	53.2	55.2	154.0	65.1	36.4	19.0	56.0	57.0	141.5	
EBITDA	**3,809**	**5,302**	**4,696**	**5,005**	**6,175**	**4,843**	**4,603**	**4,924**	**18,811**	**20,546**	**4,729**	**31%**
EBITDA (INR/scm)	7.9	8.0	6.7	7.2	8.6	6.8	6.5	7.0	7.4	7.2	6.7	28%
Change (%)	356.4	30.2	-6.2	1.8	62.1	-8.6	-2.0	-1.6	26.8	9.2	24.2	
Depreciation	778	805	835	753	857	889	898	877	3,171	3,520	880	-3%
Interest	29	26	28	49	24	31	33	31	132	119	30	
Other Income	298	775	304	774	307	408	412	488	2,150	1,616	400	-23%
PBT before EO	**3,299**	**5,246**	**4,137**	**4,977**	**5,602**	**4,331**	**4,085**	**4,504**	**17,659**	**18,523**	**4,219**	**33%**
Tax	857	1,241	1,051	1,361	1,394	1,090	1,028	1,165	4,509	4,668	1,062	31%
Rate (%)	26.0	23.6	25.4	27.3	24.9	25.2	25.2	25.9	136.7	89.0	25.2	
PAT	**2,443**	**4,005**	**3,085**	**3,616**	**4,209**	**3,241**	**3,057**	**3,339**	**13,150**	**13,855**	**3,157**	**33%**
PAT (INR/scm)	5.0	6.0	4.4	5.2	5.9	4.6	4.3	4.8	5.2	4.9	4.5	31%
Change (%)	667.2	30.1	-7.9	9.2	72.3	-19.1	-0.9	-7.7	30.8	5.4	29.2	
Gas volumes (mmscmd)												
CNG	3.65	5.30	5.63	5.66	5.93	5.52	5.52	5.29	5.06	5.57	5.53	7%
PNG	1.67	1.94	2.02	2.09	1.96	2.19	2.19	2.51	1.93	2.21	2.22	-12%
Total	**5.32**	**7.24**	**7.66**	**7.74**	**7.89**	**7.71**	**7.71**	**7.80**	**6.99**	**7.78**	**7.75**	**2%**

Key charts from the quarter

Exhibit 1: Operational Highlights

(INR m)	FY20				FY21				FY22				FY23	1QFY23	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	YoY (%)	QoQ (%)
Net sales	**15,761**	**16,925**	**16,642**	**15,525**	**6,386**	**13,054**	**14,462**	**15,506**	**12,574**	**18,312**	**22,155**	**24,059**	**31,939**	**154.0**	**32.7**
Realization (INR/scm)	27.7	28.0	27.0	27.4	25.8	25.8	25.1	25.3	26.0	27.5	31.5	34.5	44.5	71.2	28.9
Total raw material	9,217	9,905	9,410	8,262	2,991	6,097	6,069	7,139	5,620	9,283	13,842	15,178	21,706	286.2	43.0
Gas cost (INR/scm)	16.2	16.4	15.3	14.6	12.1	12.1	10.5	11.6	11.6	13.9	19.7	21.8	30.2	160.3	38.9
Gross Margin	**6,544**	**7,020**	**7,232**	**7,263**	**3,395**	**6,957**	**8,393**	**8,367**	**6,954**	**9,029**	**8,313**	**8,881**	**10,233**	**47.2**	**15.2**
Gross Margin (INR/scm)	11.5	11.6	11.7	12.8	13.7	13.8	14.6	13.6	14.4	13.6	11.8	12.7	14.3	(0.8)	11.9
EBITDA	**3,585**	**3,926**	**3,918**	**3,767**	**834**	**4,071**	**5,007**	**4,918**	**3,809**	**5,302**	**4,696**	**5,005**	**6,175**	**62.1**	**23.4**
EBITDA (INR/scm)	6.3	6.5	6.4	6.6	3.4	8.0	8.7	8.0	7.9	8.0	6.7	7.2	8.6	9.3	19.8
PAT	**2,184**	**3,810**	**2,839**	**2,534**	**318**	**3,079**	**3,349**	**3,310**	**2,443**	**4,005**	**3,085**	**3,616**	**4,209**	**72.3**	**16.4**
PAT (INR/scm)	3.8	6.3	4.6	4.5	1.3	6.1	5.8	5.4	5.0	6.0	4.4	5.2	5.9	16.1	13.0
Volumes															
CNG (MMSCMD)	4.7	4.9	4.9	4.5	1.6	3.9	4.5	4.9	3.6	5.3	5.6	5.7	5.9	62.7	4.9
PNG (MMSCMD)	1.6	1.7	1.8	1.7	1.1	1.6	1.8	2.0	1.7	1.9	2.0	2.1	2.0	17.1	(6.3)
Total (MMSCMD)	**6.3**	**6.6**	**6.7**	**6.2**	**2.7**	**5.5**	**6.3**	**6.8**	**5.3**	**7.2**	**7.7**	**7.7**	**7.9**	**48.4**	**1.9**

Source: Company, MOFSL

Exhibit 2: CNG volumes grew 63% YoY on low base and 5% QoQ

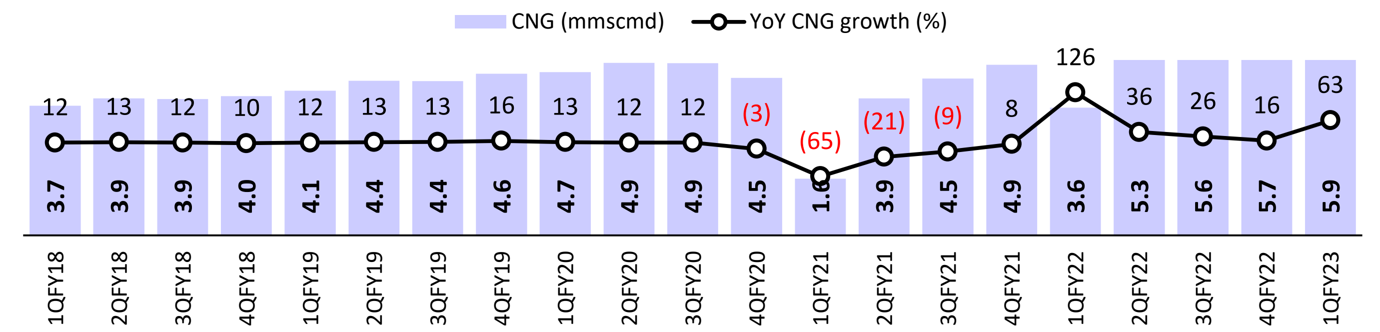


Exhibit 3: PNG volumes rose 17% YoY but down 6% QoQ

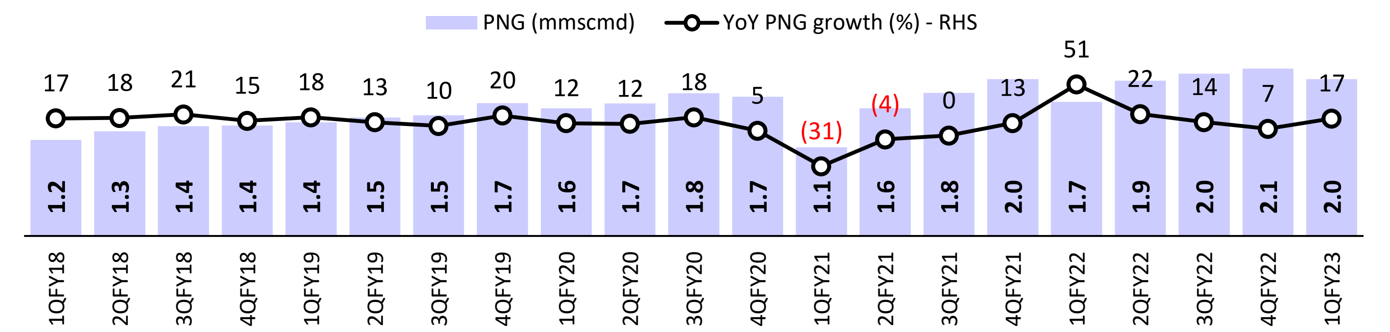
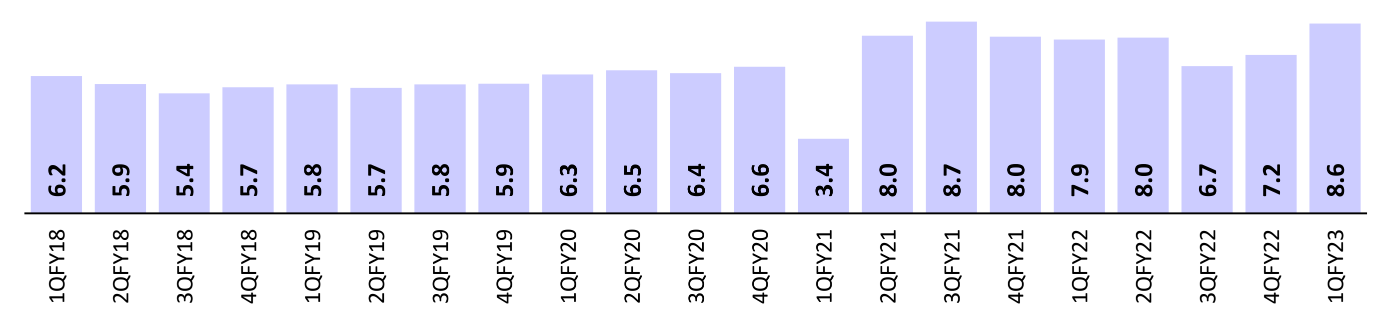


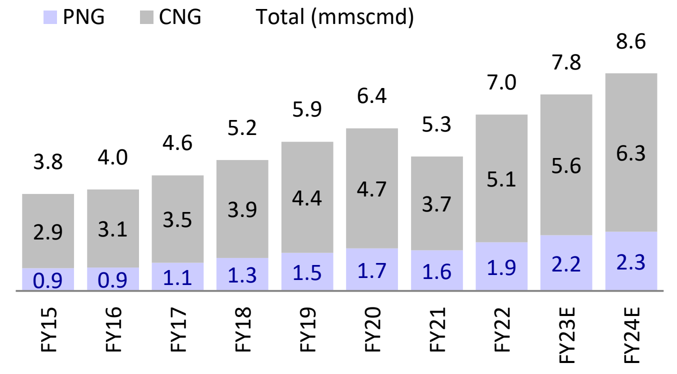
Exhibit 4: EBITDA/scm increased by 9% YoY and 20% QoQ to INR8.6



Source: Company, MOFSL

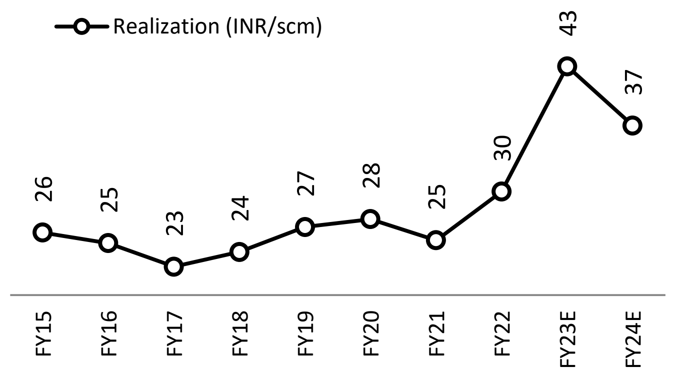
Story in charts

Exhibit 5: Sales growth to continue, barring the COVID-19 led demand impact in FY21



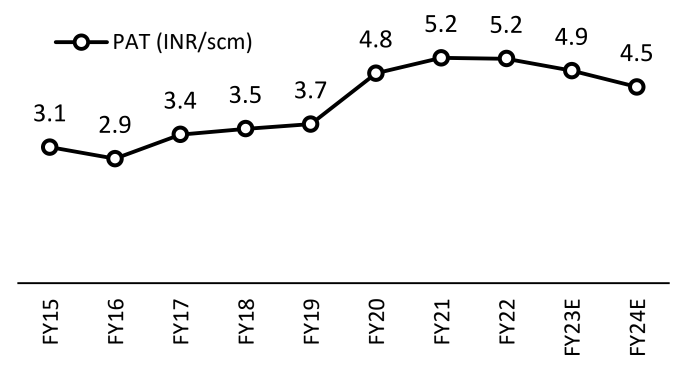
Source: Company, MOFSL

Exhibit 6: Realization trends way above its historical levels



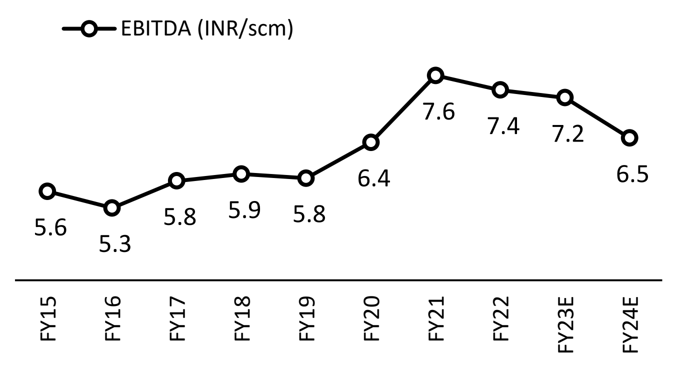
Source: Company, MOFSL

Exhibit 7: Profitability (in INR/scm) to normalize back in FY23-24E



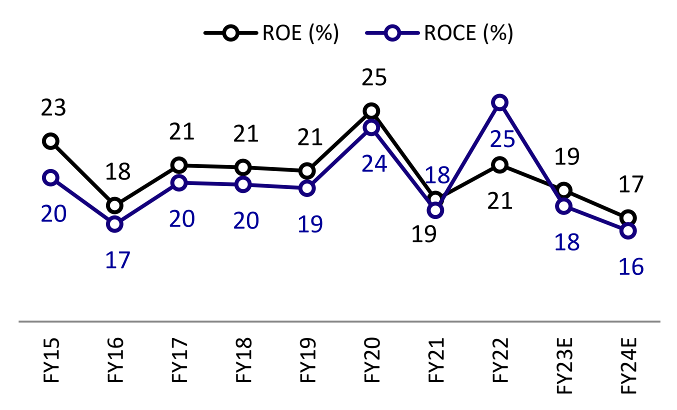
Source: Company, MOFSL

Exhibit 8: EBITDA/scm to decrease in FY23-24E as APM prices increase further from upcoming revisions



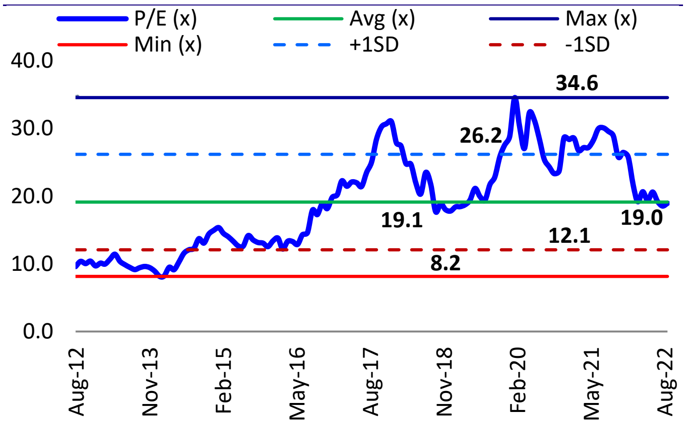
Source: Company, MOFSL

Exhibit 9: Return ratios to stabilize below 20%



Source: Company, MOFSL

Exhibit 10: Stock trades inline to its long-term P/E average



Source: Company, MOFSL

Financials and valuations

Income Statement (INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	**38,148**	**45,921**	**57,600**	**64,853**	**49,408**	**77,100**	**1,21,015**	**1,15,535**
Change (%)	3.5	20.4	25.4	12.6	-23.8	56.0	57.0	-4.5
EBITDA	**9,638**	**11,133**	**12,521**	**15,196**	**14,830**	**18,811**	**20,546**	**20,496**
As a percentage of Net Sales	25.3	24.2	21.7	23.4	30.0	24.4	17.0	17.7
Depreciation	1,671	1,813	2,011	2,523	2,904	3,171	3,520	3,220
Interest	12	17	21	81	113	132	119	101
Other Income	652	1,021	1,510	1,564	1,502	2,150	1,616	1,761
PBT	**8,607**	**10,325**	**12,000**	**14,157**	**13,315**	**17,659**	**18,523**	**18,936**
Tax	2,896	3,617	4,134	2,791	3,258	857	4,668	4,772
Rate (%)	33.6	35.0	34.4	19.7	24.5	4.9	25.2	25.2
PAT	5,711	6,708	7,867	11,365	10,057	16,802	13,855	14,164
Adj. PAT	**5,969**	**6,604**	**7,867**	**11,365**	**10,057**	**13,150**	**13,855**	**14,164**
Change (%)	42.5	10.6	19.1	44.5	-11.5	30.8	5.4	2.2

Balance Sheet (INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Reserves	27,866	33,729	39,899	49,224	57,319	67,962	77,760	87,777
Net Worth	**29,266**	**35,129**	**41,299**	**50,624**	**58,719**	**69,362**	**79,160**	**89,177**
Deferred Tax	1,806	2,253	2,678	2,119	2,422	2,737	2,737	2,737
Capital Employed	**31,072**	**37,382**	**43,977**	**52,743**	**61,140**	**72,098**	**81,897**	**91,914**
Gross Fixed Assets	36,402	41,364	47,607	55,744	65,535	75,345	81,345	87,345
Less: Depreciation	15,231	17,044	19,054	21,577	24,481	27,651	31,172	34,392
Net Fixed Assets	**21,172**	**24,320**	**28,553**	**34,167**	**41,055**	**47,694**	**50,173**	**52,953**
Capital WIP	3,518	3,860	4,781	7,767	8,469	13,786	17,786	21,786
Rights to use assets	0	0	0	1,220	1,984	2,203	2,203	2,203
Investments	6,770	11,477	15,440	2,581	18,258	19,758	19,758	19,758
Curr. Assets, Loans and Adv.								
Inventory	517	524	509	511	456	455	714	682
Debtors	2,014	2,261	2,215	1,704	2,607	5,206	8,171	7,801
Cash and Bank Balance	6,086	5,580	6,071	21,799	11,323	13,616	29,734	31,374
Cash	1,256	2,037	712	6,677	903	750	16,867	18,507
Bank balance	4,830	3,544	5,359	15,122	10,420	12,866	12,866	12,866
Loans and Advances	103	149	153	154	213	142	142	142
Other Current Assets	682	1,110	1,772	1,819	1,508	1,664	1,664	1,664
Current Liab. and Prov.								
Liabilities	9,580	11,690	13,687	16,172	21,007	28,130	44,152	42,153
Provisions	210	210	1,830	2,808	3,727	4,295	4,295	4,295
Net Current Assets	**-388**	**-2,275**	**-4,797**	**7,007**	**-8,627**	**-11,342**	**-8,022**	**-4,785**
Application of Funds	**31,072**	**37,382**	**43,977**	**52,743**	**61,139**	**72,099**	**81,897**	**91,914**

Financials and valuations

Ratios								
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Basic (INR)								
EPS (Standalone)	**8.5**	**9.4**	**11.2**	**16.2**	**14.4**	**18.8**	**19.8**	**20.2**
EPS (Consolidated)	**9.4**	**10.5**	**12.5**	**18.4**	**16.2**	**21.7**	**23.5**	**25.1**
Cash EPS	10.9	12.0	14.1	19.8	18.5	23.3	24.8	24.8
Book Value	41.8	50.2	59.0	72.3	83.9	99.1	113.1	127.4
DPS	1.7	2.0	2.4	2.8	3.6	5.5	5.8	5.9
Payout	20	21	21	17	25	29	29	29
Valuation (x)								
P/E (Standalone)	42.0	37.9	31.9	22.0	24.9	19.1	18.1	17.7
P/E (Consolidated)	38.0	34.2	28.7	19.4	22.1	16.5	15.2	14.3
Cash P/E	32.8	29.8	25.4	18.0	19.3	15.4	14.4	14.4
EV/EBITDA	25.4	22.0	19.5	15.1	16.1	12.6	10.7	10.7
EV/Sales	6.4	5.3	4.2	3.5	4.8	3.1	1.8	1.9
Price/Book Value	8.6	7.1	6.1	5.0	4.3	3.6	3.2	2.8
Dividend Yield (%)	0.5	0.6	0.7	0.8	1.0	1.5	1.6	1.7
FCF/ share	9.6	5.8	6.8	5.7	9.5	24.3	29.0	8.4
Profitability Ratios (%)								
RoE	21.0	20.8	20.6	24.7	18.4	26.2	18.7	16.8
RoCE	19.8	19.6	19.4	23.6	17.8	25.4	18.1	16.4
RoIC	33.3	38.9	40.4	53.2	41.2	62.0	64.4	76.9
Turnover Ratios								
Debtors (No. of Days)	17	21	26	33	23	20	18	14
Asset Turnover (x)	1.3	1.3	1.4	1.3	0.9	1.2	1.6	1.3
Leverage Ratio								
Net Debt/Equity ratio (x)	-0.2	-0.2	-0.1	-0.4	-0.2	-0.2	-0.4	-0.4

Cash Flow Statement							(INR m)	
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
OP/(Loss) before Tax	8,607	10,325	12,000	14,157	13,315	17,659	18,523	18,936
Depreciation	1,671	1,813	2,011	2,523	2,904	3,171	3,520	3,220
Interest and Finance charges	0	1	10	65	97	132	119	101
Direct Taxes Paid	-2,687	-3,303	-3,688	-3,442	-2,895	-857	-4,668	-4,772
(Inc.)/Dec. in Wkg. Capital	2,446	841	2,642	1,721	3,473	5,009	12,798	-1,597
Others	-574	-884	-1,403	-1,416	-1,434	-1,434	0	0
CF from Op. Activity	**9,463**	**8,793**	**11,571**	**13,608**	**15,460**	**23,680**	**30,293**	**15,888**
(Inc.)/Dec. in FA and CWIP	-2,709	-4,698	-6,807	-9,632	-8,829	-6,639	-10,000	-10,000
Free Cash Flow	**6,754**	**4,095**	**4,764**	**3,976**	**6,631**	**17,041**	**20,293**	**5,888**
(Pur.)/Sale of Investments	-13,254	-10,515	-24,912	-3,275	-32,560	-1,500	0	0
Others	4,823	8,044	20,510	7,700	23,125	-9,184	0	0
CF from Inv. Activity	**-11,139**	**-7,170**	**-11,208**	**-5,207**	**-18,264**	**-17,323**	**-10,000**	**-10,000**
Dividends Paid (incl. tax)	-1,601	-842	-1,685	-2,025	-1,960	-3,850	-4,057	-4,147
CF from Fin. Activity	**-1,601**	**-842**	**-1,688**	**-2,435**	**-2,970**	**-6,510**	**-4,175**	**-4,248**
Inc./(Dec.) in Cash	**-3,277**	**781**	**-1,325**	**5,966**	**-5,774**	**-154**	**16,117**	**1,640**
Add: Opening Balance	4,533	1,256	2,037	712	6,678	904	750	16,867
Closing Balance	**1,256**	**2,037**	**712**	**6,678**	**904**	**750**	**16,867**	**18,507**

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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