

Gross margins drive profitability...

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

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

Q1FY23 Results: IGL reported Q1FY23 results that were better than estimated on the profitability front driven by gross margins.

- Revenue increased 154% YoY to ₹ 3193.9 crore due to higher volume as well as realisation. Sales volume grew 48.4% YoY to 7.9 mmscmd
- Gross margin was flattish YoY at ₹ 14.1/scm (our estimate: ₹ 13/scm). EBITDA was at ₹ 617.5 crore, up 62.1% YoY (I-direct estimate: ₹ 526.9 crore)
- PAT was at ₹ 420.9 crore, up 72.3% YoY (I-direct estimate: ₹ 349.3 crore)

What should investors do? In the current quarter, pooled gas price has increased QoQ and spot gas price is trading at elevated levels. Competitive advantage against traditional fuels is likely to deteriorate in near to medium term.

- We change our rating from BUY to **HOLD** on the stock

Target Price and Valuation: We value IGL at ₹ 415 (standalone at ~₹ 386 i.e. 19x 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
- Gas sourcing costs/price hikes will be key monitorable in the near term
- 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 ₹ 160



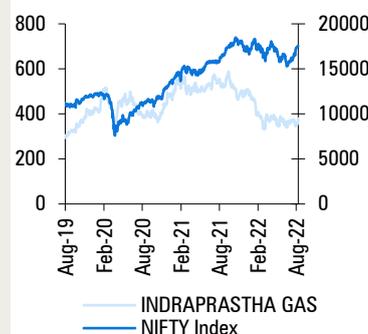
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	26,250.0
Total Debt (FY22) (₹ Crore)	78.1
Cash and Investments (FY22) (₹ Crore)	1,362.0
EV (₹ Crore)	24,966.1
52 week H/L	604/322
Equity capital (₹ Crore)	140.0
Face value (₹)	2.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	45.0	45.0	45.0	45.0
FII	21.9	20.2	19.9	20.3
DII	16.1	16.7	16.9	16.8
Others	17.1	18.1	18.2	17.9

Price Chart



Recent event & key risks

- **Key Risk:** (i) Faster 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	13,800.8	14,319.2	36.3
EBITDA (₹ crore)	1,252.1	1,519.6	1,483.0	1,881.1	14.3	2,073.5	2,161.4	7.2
Net Profit (₹ crore)	786.7	1,136.5	1,005.7	1,318.1	18.2	1,375.9	1,398.8	3.0
EPS (₹)	11.2	16.2	14.4	18.8		19.7	20.0	
P/E (x)	33.4	23.1	26.1	19.9		19.1	18.8	
Price / Book (x)	6.4	5.2	4.5	3.8		3.3	3.0	
EV/EBITDA (x)	20.5	15.9	17.0	13.3		11.9	11.3	
RoCE (%)	25.4	24.7	20.0	22.3		21.0	18.6	
RoE (%)	19.0	22.5	17.1	19.0		17.4	15.7	

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Earnings beat due to higher gross margins

- Revenue increased 32.7% QoQ. Realisation was in line with estimates at ₹ 49/scm
- Sales volume was at 7.9 mmscmd, up 48.4% YoY, 1.9% QoQ in line with estimates. CNG segment grew ~63% YoY to 5.9 mmscmd (our estimate: 5.84 mmscmd). PNG volume increased ~17% YoY to 2 mmscmd and was in line with estimates. Within the PNG segment, domestic PNG volume was flat YoY while industrial/commercial PNG volume was up ~20% YoY. On a QoQ basis, CNG sales grew 4.9% while PNG volume declined 6.3%
- Gas sourcing costs increased ₹ 8.4/scm QoQ to ₹ 30.2/scm. It was lower than estimate of ₹ 31.7/scm. This led to gross margin of ₹ 14.1/scm, higher than estimate of ₹ 13/scm.
- We estimate sales volume of 8 mmscmd and 8.5 mmscmd in FY23E and FY24E, respectively
- Gross margin is expected at ₹ 13/scm and ₹ 13.3/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)	444	500	Hold	30,565	18.9	18.3	21.7	23.5	24.3	20.5	15.0	15.1	12.7	26.9	22.9	23.4	23.2	19.2	19.3
Indraprastha Gas (INDGAS)	375	415	Hold	26,250	18.8	19.7	20.0	19.9	19.1	18.8	13.3	11.9	11.3	22.3	21.0	18.6	19.0	17.4	15.7
Mahanagar Gas (MAHGAS)	817	850	Hold	8,070	60.4	75.7	81.9	13.5	10.8	10.0	8.3	6.5	5.8	19.8	22.4	21.6	16.6	18.5	17.8

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Revenues	3,193.9	3,232.3	1,257.4	154.0	2,405.9	32.7	Revenue increased YoY on account of sales growth as well as higher realisation
Raw materials costs	2,170.6	2,285.2	562.0	286.2	1,517.8	43.0	
Employees Cost	48.1	48.5	37.4	28.6	38.5	24.8	
Other Expenses	357.7	371.7	277.1	29.1	349.1	2.5	
Total Expenditure	2,576.3	2,705.4	876.5	193.9	1,905.5	35.2	
EBITDA	617.5	526.9	380.9	62.1	500.5	23.4	Higher-than-expected driven by gross margins
EBITDA margins (%)	19.3	16.3	30.3	-1096 bps	20.8	-147 bps	
Depreciation	85.7	89.3	77.8	10.1	75.3	13.8	
EBIT	531.8	437.5	303.1	75.5	425.2	25.1	
Interest	2.4	4.8	2.9	-20.1	4.9	-51.8	
Other Income	30.7	35.0	29.8	3.1	77.4	-60.3	Lower than estimated
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	560.2	467.7	329.9	69.8	497.7	12.6	
Total Tax	139.4	118.3	85.7	62.7	136.1	2.4	
PAT	420.9	349.3	244.3	72.3	361.6	16.4	

Key Metrics							
Sales Volumes (mmscmd)	7.9	7.9	5.3	48.4	7.7	1.9	In line with estimates, CNG volume was 5.9 mmscmd whereas PNG volume came in at 1.96 mmscmd
Realisation (₹/scm)	49.0	49.3	28.4	72.9	37.8	29.5	
Gross Margin (₹/scm)	14.1	13.0	14.2	-0.6	12.6	12.1	Higher than estimates mainly due to lower than expected gas sourcing costs

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore	FY23E			FY24E			Comments
	Old	New	Change	Old	New	Change	
Revenue	13124.9	13,800.8	5.1	13451.6	14,319.2	6.5	Revised upwards realisation estimates owing to price hikes
EBITDA	2143.8	2,073.5	-3.3	2431.6	2,161.4	-11.1	Revised gas cost estimate taking into account current oil & gas price trend
EBITDA Margin (%)	16.3	15.0	-131 bps	18.1	15.1	-298 bps	
PAT	1424.6	1,375.9	-3.4	1600.7	1,398.8	-12.6	
EPS (₹)	20.4	19.7	-3.4	22.9	20.0	-12.6	

Source: ICICI Direct Research

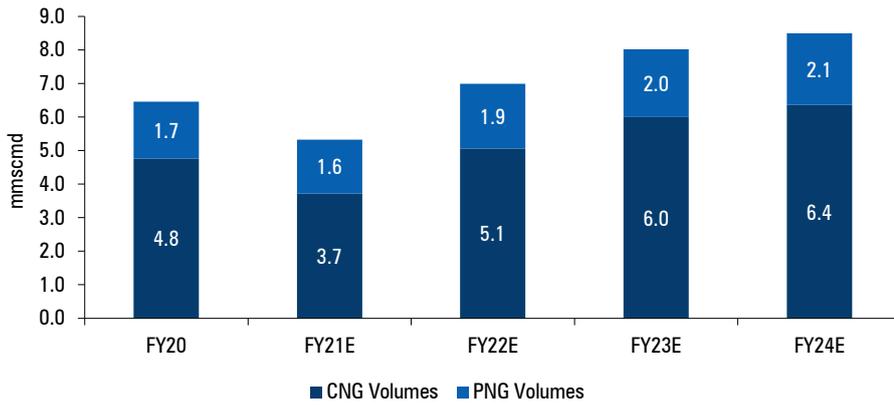
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22E	FY23E	FY24E	FY23E	FY24E	
Sales Volumes (mmscmd)	5.3	7.0	8.0	8.5	8.1	8.9	Revised sales volume estimates
Realisation (₹/scm)	27.8	33.1	51.9	50.9	49.0	45.9	Revised upward realisation estimate following price hikes
Gross Margin (₹/scm)	13.8	12.8	13.0	13.3	13.3	13.6	

Source: ICICI Direct Research

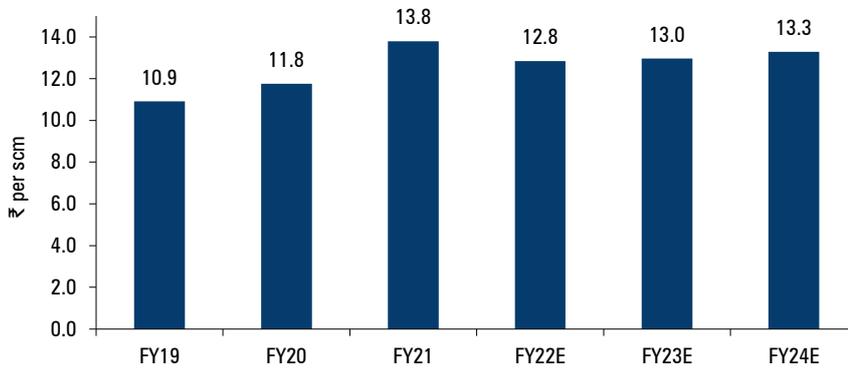
Story in charts

Exhibit 5: Volume trajectory



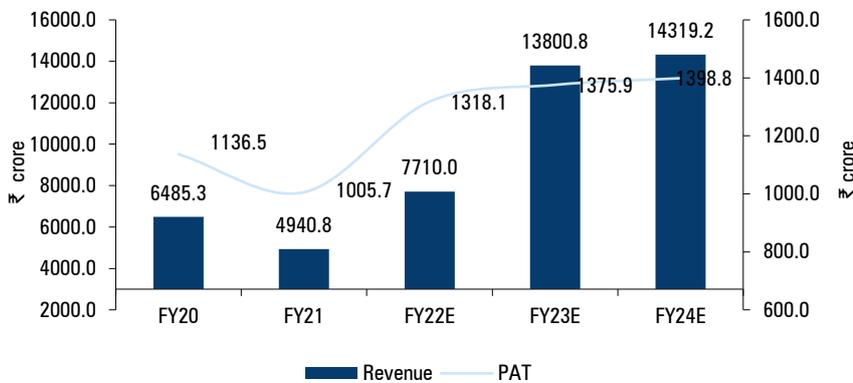
Source: Company, ICICI Direct Research

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)	FY21	FY22E	FY23E	FY24E	
Revenue	4940.8	7710.0	13800.8	14319.2	
Growth (%)	-23.8	56.0	79.0	3.8	
Raw material Costs	2229.5	4392.3	9976.5	10167.5	
Employee Costs	134.4	176.0	226.3	272.1	
Other Expenditure	1093.9	1260.6	1524.5	1718.3	
Op. Expenditure	3457.8	5828.9	11727.3	12157.9	
EBITDA	1483.0	1881.1	2073.5	2161.4	
Growth (%)	-2.4	26.8	10.2	4.2	
Depreciation	290.4	317.1	398.7	489.4	
EBIT	1192.6	1564.1	1674.8	1672.0	
Interest	11.3	13.2	16.9	19.4	
Other Income	150.2	215.0	180.7	220.0	
PBT	1331.5	1765.9	1838.7	1872.6	
Growth (%)	-5.9	32.6	4.1	1.8	
Tax	325.8	447.8	462.8	473.8	
Reported PAT	1005.7	1318.1	1375.9	1398.8	
Growth (%)	-11.5	31.1	4.4	1.7	
Adjustments	0.0	0.0	0.0	0.0	
Adj. Net Profit	1005.7	1318.1	1375.9	1398.8	
EPS	14.4	18.8	19.7	20.0	

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	1,375.9	1,398.8	
Add: Depreciation	290.4	317.1	398.7	489.4	
Add: Others	30.3	31.5	30.0	30.0	
Cash Profit	1,130.3	1,216.2	1,395.1	1,508.7	
Increase/(Decrease) in CL	451.9	765.7	395.4	90.1	
(Increase)/Decrease in CA	-60.9	-273.1	-332.6	-61.9	
CF from Operating Activities	1811.7	2025.9	1856.5	2026.4	
Purchase of Fixed Assets	1,124.6	1,529.6	981.3	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	
CF from Investing Activities	-2,692.3	-1,679.5	-1,231.3	-1,350.0	
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	
CF from financing activities	-72.6	-250.0	-369.5	-369.5	
Change in cash Eq.	-1,047.7	229.7	266.5	227.0	
Op. Cash and cash Eq.	2,180.0	1,132.3	1,362.0	1,628.5	
Cl. Cash and cash Eq.	1,132.3	1,362.0	1,628.5	1,855.5	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
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	5,731.9	6,796.5	7,762.9	8,752.2	
Shareholder's Fund	5,871.9	6,936.5	7,902.9	8,892.2	
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	
Source of Funds	7087.3	8186.9	9223.3	10282.6	
Application of Funds					
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	94.5	98.1	
Debtor	260.7	520.6	756.2	784.6	
Cash	1,132.3	1,362.0	1,628.5	1,855.5	
Loan & Advance, Other CA	155.2	168.5	216.4	246.4	
Total Current assets	1593.8	2096.6	2695.7	2984.5	
Current Liabilities	1127.5	1836.3	2268.6	2353.8	
Provisions	372.7	429.5	392.5	397.5	
Total CL and Provisions	1500.1	2265.8	2661.2	2751.3	
Net Working Capital	93.7	-169.2	34.5	233.2	
Miscellaneous expense	0.0	0.0	0.0	0.0	
Application of Funds	7087.3	8186.9	9223.2	10282.6	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Per share data (₹)					
Book Value	83.9	99.1	112.9	127.0	
Cash per share	38.6	44.0	51.4	58.2	
EPS	14.4	18.8	19.7	20.0	
Cash EPS	18.5	23.4	25.4	27.0	
DPS	2.8	5.5	5.0	5.0	
Profitability & Operating Ratios					
EBITDA Margin (%)	30.0	24.4	15.0	15.1	
PAT Margin (%)	20.4	17.1	10.0	9.8	
Fixed Asset Turnover (x)	1.0	1.2	2.0	1.9	
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	86.9	60.0	60.0	
Return Ratios (%)					
RoE	17.1	19.0	17.4	15.7	
RoCE	20.0	22.3	21.0	18.6	
RoIC	36.7	39.7	38.2	34.1	
Valuation Ratios (x)					
PE	26.1	19.9	19.1	18.8	
Price to Book Value	4.5	3.8	3.3	3.0	
EV/EBITDA	17.0	13.3	11.9	11.3	
EV/Sales	5.1	3.2	1.8	1.7	
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)	0.1	0.0	0.0	0.0	
Current Ratio	1.1	0.9	1.0	1.1	
Quick ratio	1.0	0.9	1.0	1.0	

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)	326	320	Hold	69,420	41.3	-7.9	42.2	7.9	-41.4	7.7	6.5	27.4	6.3	13.2	-1.7	13.2	17.7	-3.8	18.6
GAIL (India) (GAIL)	133	160	Buy	59,057	23.3	22.2	15.1	5.7	6.0	8.8	4.6	4.5	6.5	18.8	16.3	9.6	18.6	15.7	10.1
Gujarat Gas (GUJGA)	444	500	Hold	30,565	18.9	18.3	21.7	23.5	24.3	20.5	15.0	15.1	12.7	26.9	22.9	23.4	23.2	19.2	19.3
HPCL (HINPET)	231	255	Hold	32,778	44.9	8.0	42.8	5.1	29.0	5.4	7.8	16.4	7.1	7.3	0.8	7.3	16.5	3.0	15.0
Indian Oil Corp (INDOIL)	71	80	Hold	1,00,614	17.1	7.7	13.1	4.2	9.3	5.4	2.3	3.4	2.5	12.9	6.4	9.6	18.4	8.3	13.3
Indraprastha Gas (INDGAS)	375	415	Hold	26,250	18.8	19.7	20.0	19.9	19.1	18.8	13.3	11.9	11.3	22.3	21.0	18.6	19.0	17.4	15.7
Mahanagar Gas (MAHGAS)	817	850	Hold	8,070	60.4	75.7	81.9	13.5	10.8	10.0	8.3	6.5	5.8	19.8	22.4	21.6	16.6	18.5	17.8
Petronet LNG (PETLNG)	216	215	Hold	32,400	22.3	18.1	19.5	9.7	11.9	11.1	5.9	7.0	6.2	27.0	20.3	21.1	25.0	19.3	19.7
Reliance Industries (RELIND)	2,572	2,700	Hold	17,39,958	89.7	104.1	123.7	28.7	24.7	20.8	18.6	13.8	11.5	7.1	9.2	10.4	7.8	8.3	9.1

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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