Stock Update | Result Update

Sharekhan by BNP PARIBAS

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Indraprastha Gas Ltd

Strong Q1 on margin beat

Oil & Gas	Sharekhan code: IGL
Reco/View: Buy ↔	CMP: **Rs. 380** / Price Target: **Rs. 450** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↓	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 25.79

Updated July 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 26,586 cr
52-week high/low:	Rs. 604/322
NSE volume: (No of shares)	28.3 lakh
BSE code:	532514
NSE code:	IGL
Free float: (No of shares)	38.5 cr

Shareholding (%)

Promoters	45.0
FII	20.3
DII	16.8
Others	17.9

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	2.4	8.4	-3.3	-27.2
Relative to Sensex	-5.7	-0.4	-4.5	-35.0

Sharekhan Research, Bloomberg

Summary

- Q1FY23 PAT of Rs. 421 crore (up 16.4% q-o-q) was above our estimate led by a stronger-than-expected EBITDA margin, slight beat in volumes and a lower-than-expected tax rate.
- EBITDA margin of Rs. 8.6/scm (up 20% q-o-q) was 9% above our estimate led by lower-than-expected gas costs as reflected in higher gross margins of Rs. 14.3/scm (up 12% q-o-q). Gas sales volumes of 7.9 mmscmd, up 2% q-o-q led by 5% q-o-q rise in CNG volume partially offset by 5%/15% q-o-q decline in I-C/ D-PNG volumes.
- Likely further hike in domestic gas prices would be an overhang on margins in FY23 while volume growth outlook remains strong supported by ramp-up of new GAs and sustained volume uptick in NCR market.
- We maintain a Buy on IGL with an unchanged PT of Rs. 450 as valuation of 16.9x FY24E EPS is attractive, given a steep discount of 29% to its five-year average one-year forward PE multiple of 24x.

Indraprastha Gas Limited's (IGL) Q1FY2023 results were strong with 10% beat in standalone operating profit at Rs. 618 crore, up 62.1%/23.4% y-o-y/q-o-q led by higher-than-expected EBITDA margin of Rs. 8.6/scm (up 9.3% y-o-y; up 19.8% q-o-q) and marginal beat in gas sales volumes of 7.9 mmscmd (up 48.4% y-o-y; up 1.9% q-o-q). EBITDA margin was 9% above our estimate primarily due to lower-than-expected gas cost of $10.96/mmBtu (or Rs. 30.24/scm, up 39% q-o-q given steep hike in the domestic gas price by 110% to $6.1mmBtu) as comparted or estimate of $11.32/mmBtu. Blended realization improved by 29% q-o-q to Rs. 44.5/scm (in-line) supported by hike in CNG/D-PNG to pass on higher gas cost and likely higher I-C PNG realization. Resultantly, gross margin increased by 26.9% y-o-y and 11.9% q-o-q to Rs. 14.3/scm in Q1FY23. CNG sales volume was up by 63% y-o-y and 5% q-o-q to 5.9 mmscmd on a low base of last year while IC-PNG/D-PNG volumes declined by 5%/15% q-o-q to 1 mmscmd/0.5 mmscmd. PAT of Rs. 421 crore (up 16.4% q-o-q) was 12% above our estimate led by a beat in volumes/ margins and a lower tax rate of 24.9% (versus assumption of 25.5%).

Key positives

- A sharp beat in EBITDA margin at Rs. 8.6/scm, up 20% q-o-q led by lower-than-expected gas cost.
- Gas sales volume marginally beat estimates at 7.9 mmscmd, up 3% q-o-q led by a 5% q-o-q growth in CNG volumes.

Key negatives

- I-C PNG and D-PNG volume declined by 5%/15% q-o-q to 1 mmscmd/0.5 mmscmd.

Revision in estimates – We maintain our FY23-24 earnings estimates.

Our Call

Valuation – Maintain Buy on IGL with a unchanged PT of Rs. 450: IGL's valuation of 18.6x/16.9x FY23E/FY24E EPS is attractive given volume growth visibility supported by robust demand in the existing NCR region and ramp-up of new geographical areas (GAs). Hence, we maintain a Buy on IGL with an unchanged PT of Rs. 450. Further hike in domestic gas price, lower APM gas allocation and likely faster implementation of the electric vehicle policy in Delhi would remain an overhang on the stock.

Key Risks

Lower-than-expected gas sales volume in case of slowdown and lower CNG conversions. Delay in development of new GAs, a sustained elevated spot LNG price and adverse regulatory changes could affect outlook and valuations.

Valuation (Standalone) Rs cr

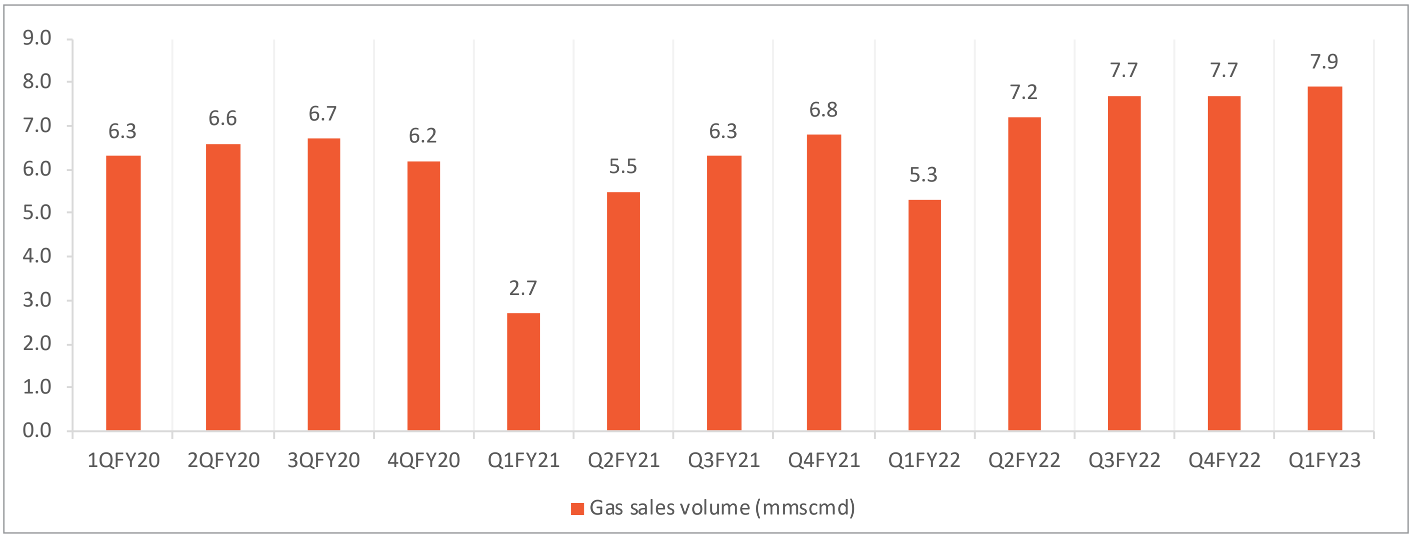
Particulars	FY21	FY22	FY23E	FY24E
Revenue	4,941	7,710	9,523	11,311
OPM (%)	30.0	24.4	22.0	22.3
Adjusted PAT	1,006	1,315	1,429	1,573
% YoY growth	*-11.5*	*30.8*	*8.7*	*10.1*
Adjusted EPS (Rs.)	14.4	18.8	20.4	22.5
P/E (x)	26.4	20.2	18.6	16.9
P/B (x)	4.5	3.8	3.4	3.0
EV/EBITDA (x)	17.2	13.4	11.3	9.0
RoNW (%)	18.4	20.5	19.3	18.8
RoCE (%)	23.1	26.3	24.8	27.1

Source: Company; Sharekhan estimates

Q1 PAT beat estimate on better-than-expected margin/volume and lower tax rate

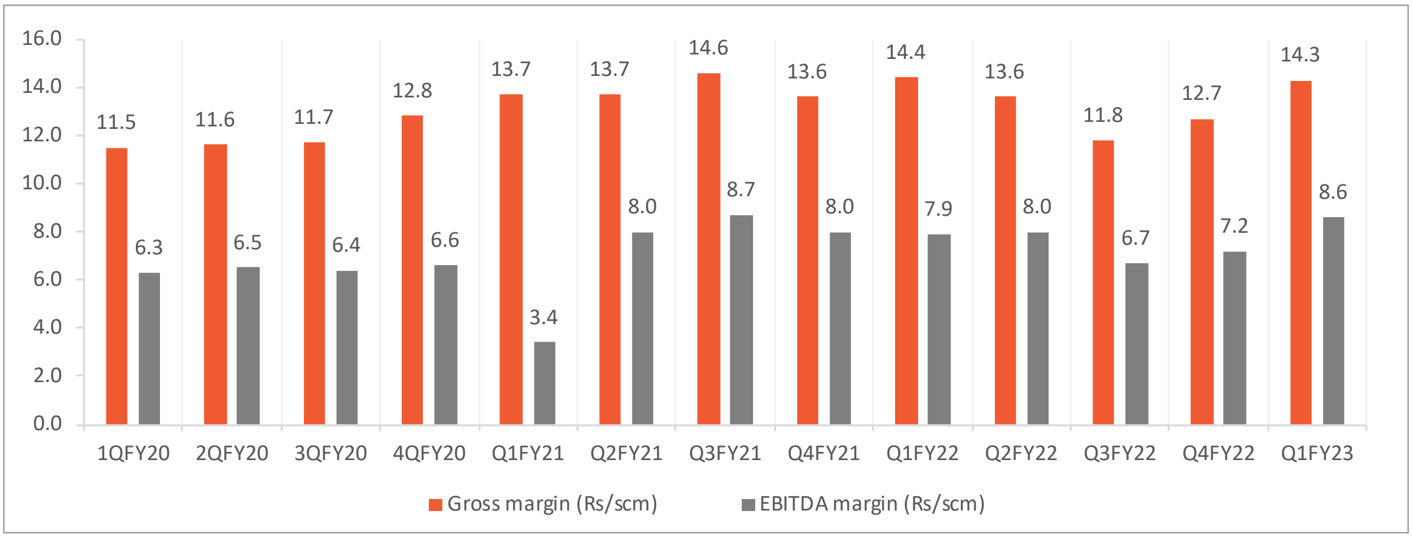
Q1FY23 standalone operating profit of Rs. 618 crore (up 62.1% y-o-y; up 23.4% q-o-q) was 10% above our estimate of Rs. 563 crore due to a higher-than-expected EBITDA margin at Rs. 8.6/scm (up 20% q-o-q and versus estimate of Rs. 7.9/scm) due to lower-than-expected gas cost and marginally higher gas sales volume of 7.9 mmscmd (up 48.4% y-o-y; up 1.9% q-o-q). CNG sales volumes were up 5% q-o-q of 5.9 mmscmd while I-C PNG and D-PNG volumes declined by 5%/15% q-o-q to 1 mmscmd/0.5 mmscmd. Gross margin improved by 11.9% q-o-q to Rs. 14.3/scm. PAT of Rs. 421 crore (up 16.4% q-o-q) was 12% above our estimate led by a beat in volumes/margins and a lower tax rate of 24.9% (versus assumption of 25.5%).

Volume growth of 2% q-o-q in Q1FY23



Source: Company, Sharekhan Research

Gross/EBITDA margin beat estimate



Source: Company, Sharekhan Research

Results (standalone) Rs cr

Particulars	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Revenue	**3,194**	**1,257**	**154.0**	**2,406**	**32.7**
Total Expenditure	2,576	877	193.9	1,905	35.2
Operating profit	**618**	**381**	**62.1**	**500**	**23.4**
Other Income	31	30	3.1	77	-60.3
Interest	2	3	-20.1	5	-51.8
Depreciation	86	78	10.1	75	13.8
PBT	560	330	69.8	498	12.6
Tax	139	86	62.7	136	2.4
Reported PAT	**421**	**244**	**72.3**	**362**	**16.4**
Equity Cap (cr)	70	70		70	
Reported EPS (Rs.)	6.0	3.5	72.3	5.2	16.4
Margins (%)			**BPS**		**BPS**
OPM	19.3	30.3	-1095.5	20.8	-146.7
NPM	13.2	19.4	-625.1	15.0	-185.2
Tax rate	24.9	26.0	-108.2	27.3	-246.9

Source: Company; Sharekhan Research

Key operating metrics

Particulars	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Gas sales volume (mmscmd)	7.9	5.3	48.4	7.7	1.9
Gross margin (Rs. /scm)	14.3	11.2	26.9	12.7	11.9
EBITDA margin (Rs. /scm)	8.6	7.9	9.3	7.2	19.8
CNG volume (mmscmd)	5.9	3.6	62.7	5.7	4.9
PNG volume (mmscmd)	2.0	1.7	17.1	2.1	-6.3

Source: Company; Sharekhan Research

Volume break-up by categories (figures in mmscmd)

Particulars	Q1FY23	Q1FY22	y-o-y (%)	Q4FY22	q-o-q (%)
CNG	5.9	3.6	63%	5.7	5%
PNG domestic	0.5	0.5	0%	0.6	-15%
I/C PNG	1.0	0.8	20%	1.0	-5%
Natural gas	0.5	0.4	34%	0.5	0%
Total volume	**7.9**	**5.3**	**48.4%**	**7.7**	**1.9%**
Volume mix	**Q1FY23**	**Q1FY22**	**bps**	**Q4FY22**	**bps**
CNG	75	69	662	73	217
PNG domestic	6	9	-298	7	-122
I/C PNG	12	15	-294	13	-83
Natural gas	6	7	-70	6	-12
Total	**100**	**100**		**100**	

Source: Company; Sharekhan Research

Outlook and Valuation

■ **Sector View – Regulatory push to drive gas demand in India; high gas price/EV implementation an overhang for CGDs**

Long-term gas demand potential for India is very strong, given regulatory support to curb pollution and low domestic gas prices. Additionally, the government's aim to increase the share of gas in India's overall energy mix to 15% by 2030 (from 6% currently) would substantially improve gas penetration and boost its consumption. Thus, we expect sustainable high single-digit growth in India gas demand for the next 4-5 years. However, elevated spot LNG prices, expectation of a further steep hike in APM gas price from April 2022 and indication of faster adoption of EVs is a cause of concern for CGDs. The draft electric vehicle policy by the Delhi government states that cab aggregators and delivery companies to have 10%/5% of newly-onboarded two-wheelers/four-wheelers will have to be on EVs within three months from notification of the final policy and 50%/25% of new two-wheelers/four-wheelers will have to be electric by March 31, 2023.

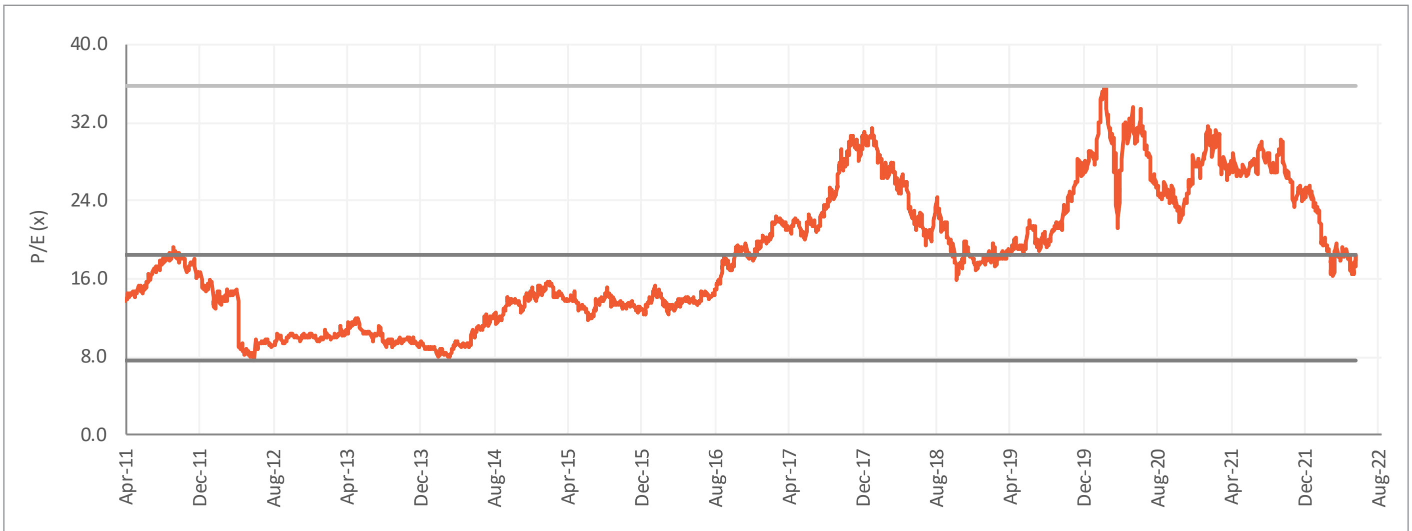
■ **Company Outlook – Volume recovery on cards; margin pressure to continue**

We believe that IGL is well-placed to benefit from rising gas consumption in India and thus we model 19% volume CAGR over FY2021-FY2024E led by sustained high growth in existing geographical areas (GAs), expansion into new GAs of Rewari, Karnal and Gurugram and development of three new GAs (won under the Xth CGD bidding round). Continued mix of LNG, further hike in APM gas price and demand for high dealer commissions by OMCs is a concern for margins and thus we expect EBITDA margin to remain range bound at Rs. 7.4-7.6/scm over FY23E-24E. Hence, we expect a strong EBITDA/PAT CAGR of 16%/9% over FY2022-FY2024E.

■ **Valuation – Maintain Buy on IGL with a unchanged PT of Rs. 450**

IGL's valuation of 18.6x/16.9x FY23E/FY24E EPS is attractive given volume growth visibility supported by robust demand in the existing NCR region and ramp-up of new geographical areas (GAs). Hence, we maintain a Buy on IGL with an unchanged PT of Rs. 450. Further hike in domestic gas price, lower APM gas allocation and likely faster implementation of the electric vehicle policy in Delhi would remain an overhang on the stock.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

IGL is a dominant CGD player in NCR (Delhi, Noida, Greater Noida, and Ghaziabad), with gas sales volume of over 7 mmscmd currently. IGL derives 73% of its volume from CNG, 14% from domestic PNG (including sales to other CDG companies) and remaining from commercial/industrial PNG. The entire gas requirement for CNG and domestic PNG is met through domestic gas supply and the remaining is met through imported re-gasified liquefied natural gas (R-LNG).

Investment theme

The government's aim to increase the share of gas in India's energy mix to ~15% by 2030 (from 6% currently) and the thrust to reduce air pollution in the NCR region provide a regulatory push for strong growth in CNG and domestic PNG volumes for IGL. Moreover, the development of new GAs of Rewari, Karnal, and Gurugram and recent awarding of three new GAs in the 10th round of CGD bidding would drive volume growth beyond its existing areas of operations. The company's margins are expected to remain strong given favourable economics of CNG versus petrol. Moreover, the recent sharp volume recovery above pre-COVID level re-enforces confidence with respect to volume led double digit earnings growth outlook.

Key Risks

- Lower-than-expected gas sales volume in case of slowdown, lower CNG conversions and delay in development of new Gas
- Any change in domestic gas allocation/pricing policy, depreciation of Indian rupee, higher spot LNG price and any adverse regulatory changes could affect margins and valuations.

Additional Data

Key management personnel

Arun Kumar Singh	Chairman
AK Jana	Managing Director
Bimal Ram Nagar	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	7.5
2	FMR LLC	2.6
3	Kotak Mahindra Asset Management Co	2.1
4	Vanguard Group Inc/The	1.6
5	BlackRock Inc	1.5
6	Impax Asset Management Group Plc	1.4
7	HDFC Life Insurance Company Limited	1.2
8	BNP Paribas SA	1.2
9	DSP Equity Savings Fund	1.1
10	DSP Investment Managers Pvt. Ltd.	1.0

Source: Bloomberg (old data)

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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