

28 January 2023

Indraprastha Gas

Strong growth visible; maintaining a Buy on attractive valuations

Rating: Buy

Target Price: Rs.570

Share Price: Rs.418

Indraprastha Gas was hit by lower CNG volume growth in Q3 due to higher gas prices. The gross margin was hit by higher APM gas prices, which the company was unable to pass on to maintain volumes. The company was expecting the Kirit Parikh Committee to reduce APM gas prices; this did not come through. It hiked prices in Oct'22 (from Rs75.61 kg to Rs78.61) and in Dec'22 (to Rs79.56), which, with falling crude and spot LNG prices, would improve spreads in Q4. We retain a Buy rating on the stock with a TP of Rs 570, at 18x FY25e EPS.

Weak performance on lower volumes. The Q3 FY23 Rs4.3bn EBITDA (in line with consensus) was down 8.8% y/y, 18.8% q/q, while the Rs2.8bn PAT was down 9.8% y/y, 33.1% q/q, less than the consensus' Rs3bn, hurt by lower spreads and higher tax (28.5%). Volumes peaked at 8.12mmscmd (9M FY23 8.03mmscmd), up 6.1% y/y, flat q/q. CNG volumes were 6.07mmscmd (9M FY23 6.03mmscmd), up 7.8% y/y, flat q/q. The gross margin was Rs11.34/scm down 3.9% y/y, 10.7% q/q. The EBITDA spread at Rs5.74/scm (at an 11-quarter low) was down 14% y/y, 19.1% q/q, on higher APM prices which the company was unable to pass on. The Board declared an interim dividend of Rs3/sh. The contribution of PAT (from CUG and MNG, 50% each) Rs558m, 15.8% y/y, 19.9% q/q.

Outlook, Valuation. We expect EBITDA spreads of Rs7.7/scm in FY24 and Rs7.8 in FY25. We prefer Indraprastha Gas to Maharashtra Gas and Gujarat Gas and believe it to benefit from possible lower gas prices. The stock trades at 16.3x/14.9x FY24e/FY25e PER. We maintain a Buy, with a target of Rs570 (Rs65 from MNG, Rs20 from CUG). **Risks:** Slower volume growth, margin compression on lower differences vs alternatives, regulatory changes, higher LNG prices, slower infrastructure rollout, competition from alternative fuels like electricity for vehicles.

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Sales (Rs m)	49,408	77,100	146,429	138,729	151,281
Net profit (Rs m)	10,057	13,150	15,211	17,951	19,663
EPS (Rs)	14.4	18.8	21.7	25.6	28.1
P/E (x)	35.6	19.8	19.2	16.3	14.9
EV / EBITDA (x)	22.3	12.2	11.7	10.1	9.1
P/BV (x)	6.1	3.8	3.6	3.1	2.7
RoE (%)	18.4	20.5	20.3	20.6	19.6
RoCE (%)	17.8	19.9	19.7	20.1	19.2
Dividend yield (%)	0.9	0.9	1.3	1.8	2.0
Net debt / equity (x)	-0.5	-0.4	-0.5	-0.4	-0.4

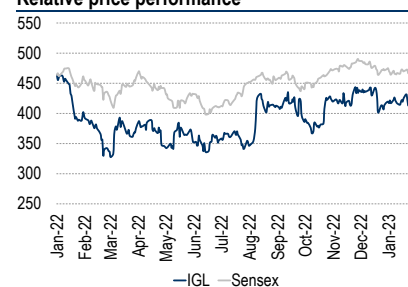
Source: Company, Anand Rathi Research

Key data	IGL IN / IGAS.BO
52-week high / low	Rs.452 / 321
Sensex / Nifty	59331 / 17604
3-m average volume	\$9.8m
Market cap	Rs.293bn / \$3588.3m
Shares outstanding	700m

Shareholding pattern (%)	Dec'22	Sep'22	Jun'22
Promoters	45.0	45.0	45.0
- of which, Pledged	-	-	-
Free float	55.0	55.0	55.0
- Foreign institutions	21.8	21.0	20.3
- Domestic institutions	19.7	20.3	16.8
- Public	13.5	13.7	17.9

Estimates revision (%)	FY23e	FY24e	FY25e
Sales	0	2	2
EBITDA	(5)	0	0
PAT	(5)	0	0

Relative price performance



Source: Bloomberg

Harshraj Aggarwal
Research Analyst

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Net revenues	49,408	77,100	146,429	138,729	151,281
Growth (%)	-23.8	56.0	89.9	-5.3	9.0
Direct costs	23,639	45,683	110,888	97,619	105,716
SG&A	10,939	12,606	14,118	16,095	18,348
EBITDA	14,830	18,811	21,423	25,015	27,217
EBITDA margins (%)	30.0	24.4	14.6	18.0	18.0
- Depreciation	2,904	3,171	3,329	3,496	3,670
Other income	1,502	2,150	2,365	2,602	2,862
Interest expenses	113	132	132	132	132
PBT	13,315	17,659	20,327	23,989	26,276
Effective tax rate (%)	24.5	25.5	25.2	25.2	25.2
+ Associates / (Minorities)					
Net income	10,057	13,150	15,211	17,951	19,663
Adjusted income	10,057	13,150	15,211	17,951	19,663
WANS	700	700	700	700	700
FDEPS (Rs / sh)	14.4	18.8	21.7	25.6	28.1

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
PBT (Adj. OI and interest)	11,926	15,641	18,094	21,519	23,546
+ Non-cash items	2,904	3,171	3,329	3,496	3,670
Oper. prof. before WC	14,830	18,811	21,423	25,015	27,217
- Incr. / (decr.) in WC	-5,145	-4,961	-10,214	2,260	-1,144
Others incl. taxes					
Operating cash-flow	19,975	23,772	31,636	22,755	28,361
- Capex (tang. + intang.)	11,246	15,296	14,306	14,491	13,754
Free cash-flow	8,729	8,476	17,330	8,264	14,607
Acquisitions					
- Div. (incl. buyback & taxes)	2,520	2,740	3,803	5,385	5,899
+ Equity raised	-	-	-	-	-
+ Debt raised	-	-	-	-	-
- Fin investments	15,677	1,500	-	-	-
- Misc. (CFI + CFF)	-1,947	-2,252	-2,233	-2,470	-2,730
Net cash-flow	-7,521	6,488	15,761	5,348	11,439

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

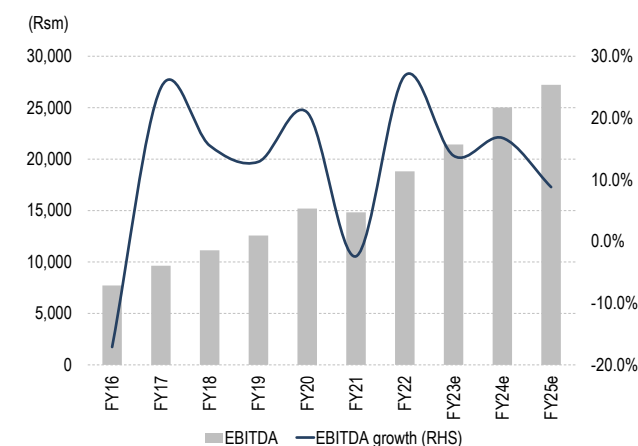
Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	1,400	1,400	1,400	1,400	1,400
Net worth	58,719	69,362	80,770	93,335	107,099
Debt	-	-	-	-	-
Minority interest					
DTL / (Assets)	2,422	2,737	2,737	2,737	2,737
Capital employed	61,140	72,098	83,506	96,072	109,836
Net tangible assets	43,038	49,896	60,873	71,868	81,952
Net intangible assets	171	121	121	121	121
Good will					
CWIP (tang. & intang.)	8,469	13,786	13,786	13,786	13,786
Investments (strategic)	2,581	2,581	2,581	2,581	2,581
Investments (financial)	15,677	17,177	17,177	17,177	17,177
Current assets (excl. cash)	4,615	7,345	12,635	12,047	13,005
Cash	11,323	13,616	24,583	23,818	28,638
Current liabilities	24,734	32,425	47,928	45,080	47,182
Working capital	-20,119	-25,080	-35,293	-33,033	-34,177
Capital deployed	61,141	72,098	83,828	96,319	110,078
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	35.6	19.8	19.2	16.3	14.9
EV / EBITDA (x)	22.3	12.2	11.7	10.1	9.1
EV / Sales (x)	6.7	3.0	1.7	1.8	1.6
P/B (x)	6.1	3.8	3.6	3.1	2.7
RoE (%)	18.4	20.5	20.3	20.6	19.6
RoCE (%) - after tax	17.8	19.9	19.7	20.1	19.2
DPS (Rs / sh)					
Dividend payout (%) - incl. DDT	3.6	3.9	5.4	7.7	8.4
Net debt / equity (x)	0.9	0.9	1.3	1.8	2.0
WC days	25.1	20.8	25.0	30.0	30.0
EV / ton (\$) (cement)	-0.5	-0.4	-0.5	-0.4	-0.4
NSR / ton (Rs)	19	25	25	25	25
EBITDA / ton (Rs)	3	2	2	2	2
Volumes (m tons)	31	37	49	45	45
CFO : PAT (%)	198.6	180.8	208.0	126.8	144.2

Source: Company, Anand Rathi Research

Fig 6 – EBITDA growth


Source: Company, Anand Rathi Research

Result Highlights

Fig 7 – Quarterly trend

Particulars	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	YY (%)	Q/Q (%)
Net Sales	6,386	13,054	14,462	15,506	12,574	18,312	22,155	24,059	31,939	35,540	37,108	10.8	15.0
EBITDA	834	4,071	5,007	4,918	3,809	5,302	4,696	5,005	6,175	5,275	4,285	23.0	31.5
Margins (%)	13.1	31.2	34.6	31.7	30.3	29.0	21.2	20.8	19.3	14.8	11.5		
Other income	306	657	259	280	298	775	304	774	307	1,100	557	(60.6)	(13.1)
Interest	24	23	31	36	29	26	28	49	24	31	26		
Depreciation	682	711	750	761	778	805	835	753	857	914	925	5.5	(3.6)
PBT	435	3,994	4,485	4,400	3,299	5,246	4,137	4,977	5,602	5,430	3,891	12.3	35.9
Tax expense	117	915	1,137	1,090	857	1,241	1,051	1,361	1,394	1,269	1,109	24.2	32.7
PAT	318	3,079	3,349	3,310	2,443	4,005	3,085	3,616	4,209	4,162	2,783	8.7	37.1
NPM (%)	5.0	23.6	23.2	21.3	19.4	21.9	13.9	15.0	13.2	11.7	7.5		
Adj. EPS (Rs)	0.5	4.4	4.8	4.7	3.5	5.7	4.4	5.2	6.0	5.9	4.0	8.7	37.1

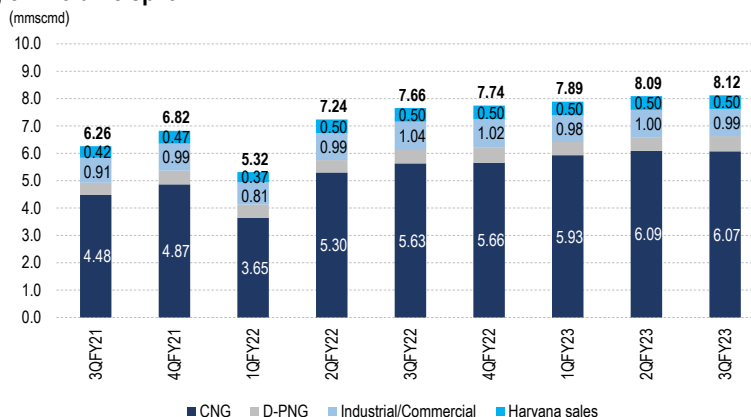
Source: Company, Anand Rathi Research

Key highlights

Performance. The Rs4.3bn EBITDA (in line with the consensus) was down 8.8% y/y, 18.8% q/q, while the Rs2.8bn PAT was down 9.8% y/y, 33.1% q/q, less than the consensus' Rs3bn, impacted by lower spreads and higher tax (28.5%). Other income was Rs557m (Rs1.1bn the prior quarter (on dividend from MNG and CUG)).

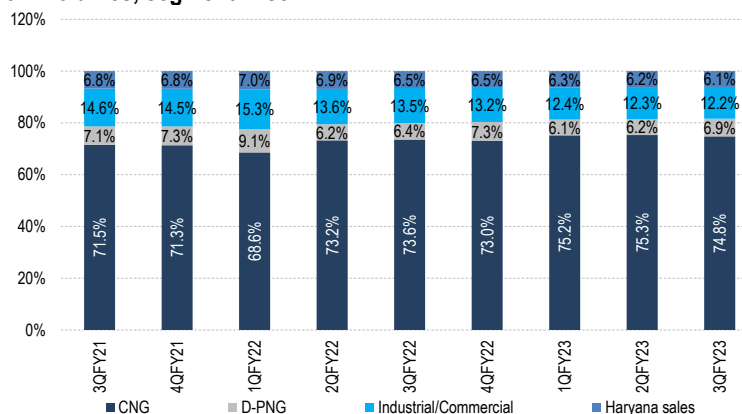
Volumes peaked at 8.12mmscmd (9M FY23 8.03mmscmd), up 6.1% y/y, flat q/q. CNG volumes were 6.07mmscmd (9M FY23 6.03mmscmd), up 7.8% y/y, flat q/q. D-PNG volumes were 0.56mmscmd, up 13.5% y/y, 10.8% q/q. Industrial and commercial sales were 0.99mmscmd, down 4% y/y, flat q/q. Haryana sale volumes were 0.50mmscmd, stable at peak levels.

Fig 8 – Volume split



Source: Company, Anand Rathi Research

Fig 9 – Volumes, segment-wise



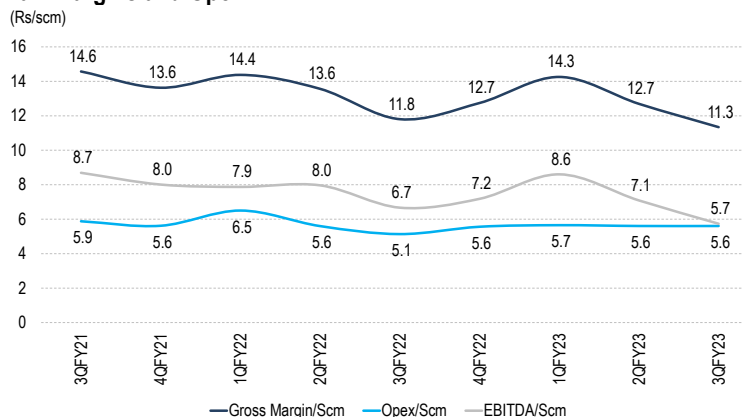
Source: Company, Anand Rathi Research

The **gross margin** was Rs11.34/scm, down 3.9% y/y, 10.7% q/q, on higher APM prices and the company's inability to pass on the increases as they were waiting for the Kirit Parikh Committee's lowering of gas prices, which did not come through. The company hiked CNG prices in Oct'22 (from Rs75.61/kg to Rs78.61) and in Dec'22 (to Rs79.56). This, and falling crude and spot LNG prices, would help to better spreads in Q4 FY23.

Opex, at Rs5.6/scm, was up 9.2% y/y, flat q/q.

The **EBITDA spread**, at Rs5.74/scm, was down 14% y/y, 19.1% q/q, because of the increase in APM prices, which the company could not fully pass on. The spreads are at an 11-quarter low.

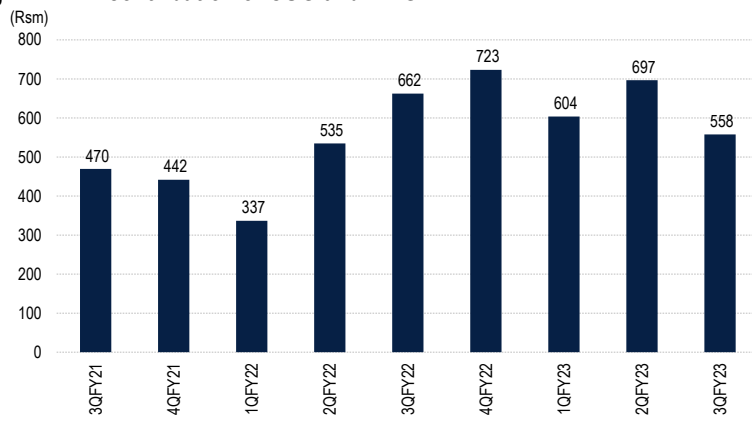
Fig 10 – Margins and Opex



Source: Company, Anand Rathi Research

The Board declared an **interim dividend** for the first time (Rs3/sh).

JV contribution. The contribution of CUG and MNG to Indraprastha's PAT was Rs558m in Q3 (for 9M FY23 Rs1.86bn, up 21.2% from a year ago) down 15.8% y/y from Rs662.4m, 19.9% q/q from Q2 FY23, still below the peak Rs723.3m in Q4 FY22.

Fig 11 – PAT contribution of CUG and MNG

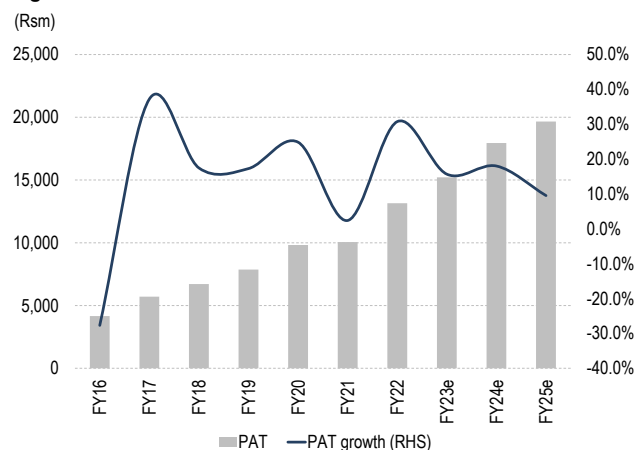
Source: Company, Anand Rathi Research

Concall Highlights

- **The gross margin** was hit by higher input costs, which could not be passed on.
- **Guidance.** The management guided to 9/10mmscmd for FY24/25 (50% growth would come from CNG) with an EBITDA spread of Rs7-8/scm supported by the Kirit Parikh Committee report. Infrastructure work at the new regions in UP has begun.
- **APM allocation, price.** APM volumes allocated for CGD are 20mmscmd, which is not expected to increase. Additional CNG and D-PNG demand would be addressed by gas from other sources (term, domestic, spot, etc.) An APM price revision is expected by mid-Mar'23.
- **Gas sourcing breakup.** APM volumes: CNG & D-PNG 87%, term 8%, Spot the rest.
- **Region-wise volumes.** Delhi 65%, Noida & Ghaziabad 21%, others the remaining (incl. Kanpur, Kaithal, Karnal, Muzaffarnagar, etc).
- **CNG.** Volume breakup: buses and state carriers 12% and 8-10%, private cars 40%, taxis-3W 40%. CNG conversions: 13,000-14,000/month, down from 15,000-16,000 due to higher CNG prices.
- **CNG stations.** Plan to set up 75 CNG stations in FY23 (already added 40). The Delhi government has allotted 50 stations to set up EV charging stations.
- **Gas price.** Non-APM gas prices averaged \$13-14/m btu for the quarter.
- **Non-APM gas supply.** Non-APM supply, 50-60% linked to HH, 30-35% to Brent/GCC and rest 5-10% is bought from the spot market. It also sourced ~0.2 mmscmd of HPHT gas during the quarter.
- **OMCs commission.** The company pays Rs 5.94/kg commission to OMCs. This is being reviewed.
- **DTC discounts.** It offers a 6% discount on retail selling price (RSP) to the Delhi Transport Corp. which is providing its bus depots for CNG infrastructure.
- **Capex.** Rs13bn-15bn for FY23/FY24/FY25.
- **Gurgaon GA.** The company directly sells 0.18 mmscmd in Gurgaon and supplies 0.25 mmscmd to Haryana City Gas. Sales in Gurgaon can reach 0.5-0.8 mmscmd in a couple of years. There are no pending legal issues; clarity would emerge with the PNGRB's final decision.
- **Subsidiaries (CUG, MNG).** For 9M FY23, CUG had no volume growth (0.3mmscmd); MNG grew 9% (1.1mmscmd).
- CNG volumes were hit by school holidays (two weeks, vs one usually).
- All Meerut and Muzaffarnagar's industrial areas to be connected by Mar'23 since they fall under the Pollution Control Board order to convert industries to gas.

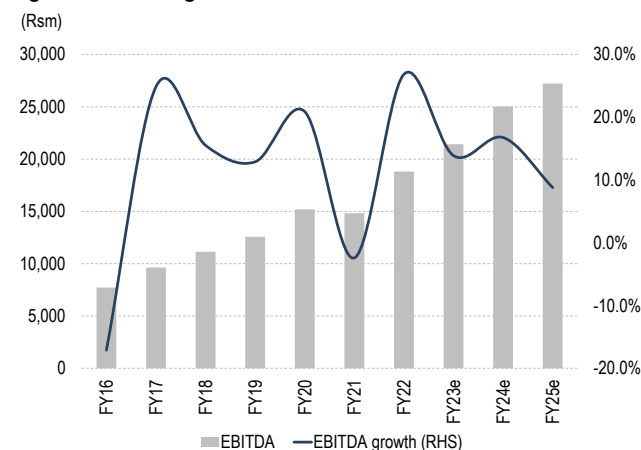
Key Charts

Fig 12 – PAT Growth



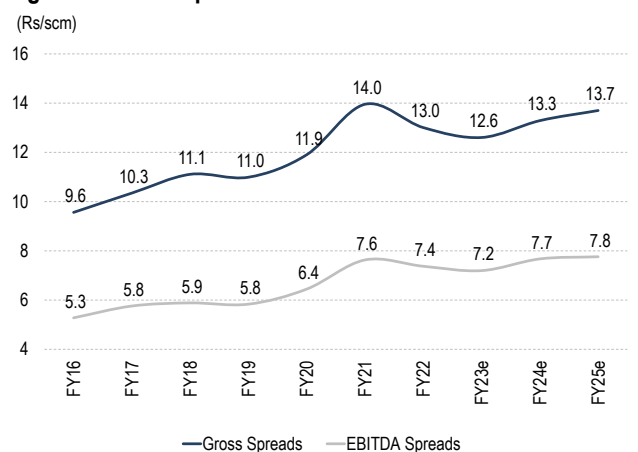
Source: Company, Anand Rathi Research

Fig 13 – EBITDA growth



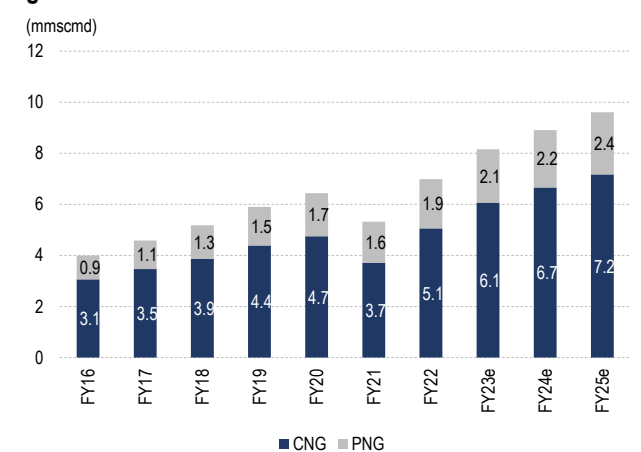
Source: Company, Anand Rathi Research

Fig 14 – EBITDA spreads



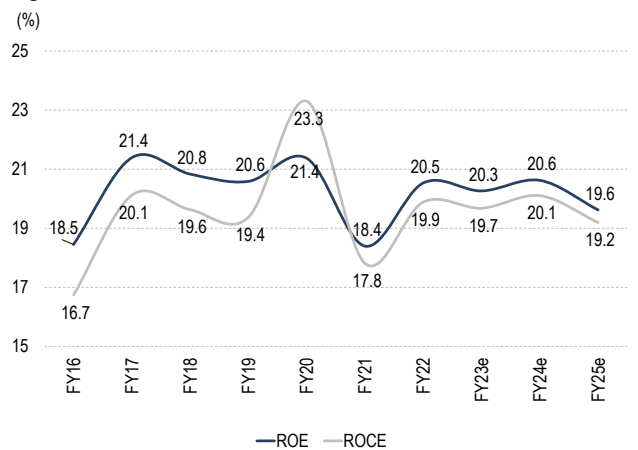
Source: Company, Anand Rathi Research

Fig 15 – Volumes



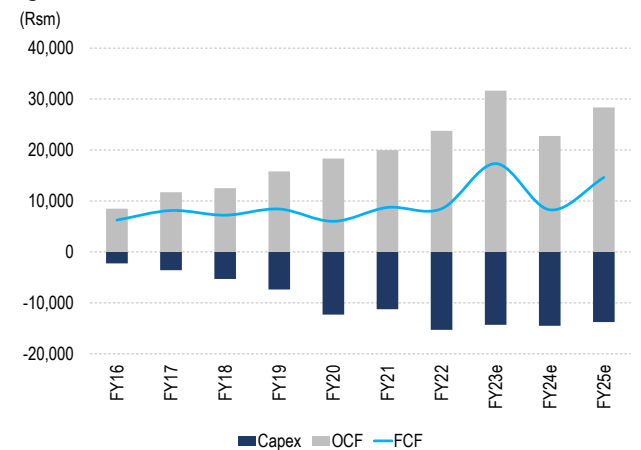
Source: Company, Anand Rathi Research

Fig 16 – Return ratios



Source: Company, Anand Rathi Research

Fig 17 – Free cash-flows



Source: Company, Anand Rathi Research

Valuations

Over the next 2-3 years, we see multiple levers for Indraprastha's volumes to grow, incl. CNG-network expansion, rising residential penetration and a ramp-up in new regions. Strong CNG vehicle conversions (over 15,000/month) and policy changes to support industrial volumes could be near-term triggers for volume growth.

In Delhi, rising electric-vehicle penetration could derail the growth outlook for CNG over the longer term but not have much impact over the medium term. Electricity infrastructure and its costs would be important to watch. Volumes from new regions would add to volumes and keep growth in double digits. The company is quasi-monopolistic in the National Capital Region with regulatory support to curb pollution in the form of bans on petrol and diesel public transport, fuel oil/low-sulphur heavy-stock/petroleum coke (FO/LSHS/pet coke) in favour of PNG. Besides, the company has started selling CNG and DPNG to new GAs allocated in the 8th, 9th and 10th rounds of the CGD bids, which should add to volume growth in the next few years.

Fig 18 – Change in estimates

(Rs m)	Old			New			% change		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23	FY24	FY25
Revenue	145,737	136,336	148,773	146,429	138,789	151,393	0	2	2
EBITDA	22,553	24,990	27,269	21,423	25,075	27,329	(5)	0	0
PAT	16,057	17,933	19,702	15,211	17,996	19,747	(5)	0	0

Source: Anand Rathi Research

We expect EBITDA spreads of Rs7.7 and Rs7.8/scm in FY24 and FY25 respectively. We prefer Indraprastha Gas to Maharashtra Gas and Gujarat Gas, believing it to benefit from possible lower gas prices. The stock trades at 16.3x/14.9x FY24e/FY25e P/Es. We maintain a Buy with a target of Rs570 (MNG Rs65, CUG Rs20).

Sensitivity matrix (FY25e)

Fig 19 – EBITDA sensitivity

Volume growth %	EBITDA (Rs bn)					
	-4.4%	-0.4%	3.6%	7.6%	11.6%	15.6%
6.6	20.5	21.4	22.2	23.1	23.9	24.8
6.9	21.4	22.3	23.2	24.1	25.0	25.9
7.2	22.4	23.3	24.2	25.2	26.1	27.0
7.5	23.3	24.3	25.2	26.2	27.2	28.2
7.8	24.2	25.2	26.3	27.3	28.3	29.3
8.1	25.2	26.2	27.3	28.3	29.4	30.4

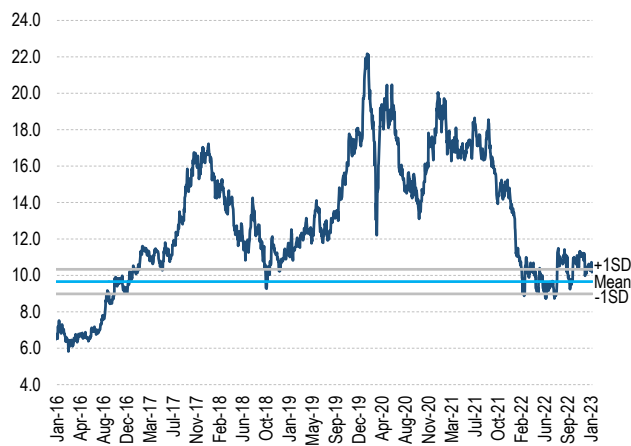
Source: Anand Rathi Research

Fig 20 – Target-price sensitivity

Volume growth %	Target (Rs / sh)					
	-4.4%	-0.4%	3.6%	7.6%	11.6%	15.6%
EBITDA / scm						
6.6	464	477	491	504	517	531
6.9	478	492	506	520	534	548
7.2	493	508	522	537	551	566
7.5	508	523	538	553	568	583
7.8	522	538	554	570	585	601
8.1	537	553	569	586	602	619

Source: Anand Rathi Research

Fig 21 – EV / EBITDA band, one-year-forward



Source: Bloomberg, Anand Rathi Research

Fig 22 – P/E band, one-year-forward



Source: Bloomberg, Anand Rathi Research

Risks

- Slower volume growth
- Margin compression on lower differences vs alternatives
- Regulatory changes, sharp increase in LNG prices
- Slower infrastructure rollout
- Competition from alternative fuels like electricity for vehicles

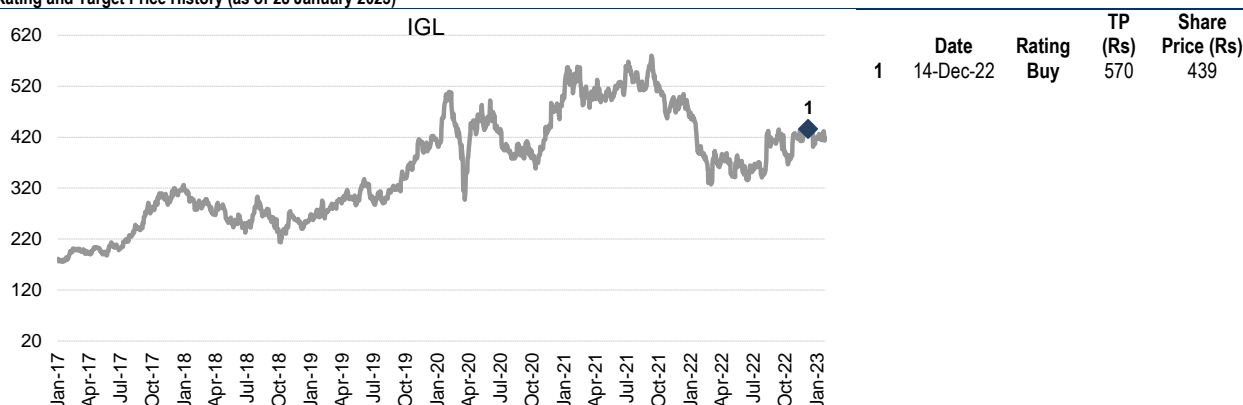
Appendix

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Rating and Target Price History (as of 28 January 2023)



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Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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