



3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	Grey	Red
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Green	↔	Green

ESG Disclosure Score **NEW**

ESG RISK RATING
Updated Dec 08, 2022 **25.72**

Medium Risk

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

Source: Morningstar

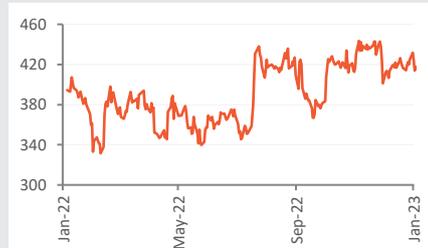
Company details

Market cap:	Rs. 29,239 cr
52-week high/low:	Rs. 452/322
NSE volume: (No of shares)	23.8 lakh
BSE code:	532514
NSE code:	IGL
Free float: (No of shares)	38.5 cr

Shareholding (%)

Promoters	45.0
FII	21.8
DII	19.5
Others	13.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.6	-1.1	20.8	5.9
Relative to Sensex	4.2	-0.1	16.5	2.2

Sharekhan Research, Bloomberg

Oil & Gas	Sharekhan code: IGL		
Reco/View: Buy	↔	CMP: Rs. 418	Price Target: Rs. 510 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Q3FY2023 operating profit of Rs. 278 crore (down 33% q-o-q) missed our estimate of Rs. 300 crore due to lower-than-expected EBITDA margin and marginal miss in volume at 8.1 mmscmd (flat q-o-q).
- Although gross margin of Rs. 11.3/scm (down 11% q-o-q) was slightly above our estimate of Rs. 11.1/scm, EBITDA margin of Rs. 5.7/scm (down 19% q-o-q) missed our estimate by 5% due to higher-than-expected per unit opex. CNG/I-C PNG volume was largely flat q-o-q at 6.1 mmscmd/1 mmscmd, while D-PNG volume grew by 11% q-o-q to 0.6 mmscmd.
- A likely capping of APM gas price (Kirit Parikh committee recommendations expected to get approved by March 15, 2023) would reduce gas cost and remove high gas cost overhang for CGDs with potential recovery in margin/volume from FY2024. Management aims 10 mmscmd of volume by FY2025, which implies an 11% volume CAGR over FY2023E-FY2025E and has guided for EBITDA margin improvement to Rs. 7-8/scm versus Rs. 5.7/scm in Q3FY2023.
- We maintain Buy on IGL with an unchanged PT of Rs. 510, given our expectation of earnings recovery (expect 15%/13% EBITDA/PAT CAGR over FY2022-FY2025E) and attractive valuation of 18x its FY2024E EPS (at a steep discount of 25% to its five-year average one-year forward PE multiple of 24x).

Indraprastha Gas Limited (IGL) reported Q3FY2023 operating profit/PAT of Rs. 428 crore/Rs. 278 crore, down 19%/33% q-o-q and 6%/7% below our estimate of Rs. 457 crore/Rs. 300 crore due to lower-than-expected margin/volume and higher tax rate of 28.5% partially offset higher-than-expected other income. EBITDA margin of Rs. 5.7/scm (down 19% q-o-q) was 5% below our estimate of Rs. 6/scm due to higher per unit opex, while gross margin of Rs. 11.3/scm (down 11% q-o-q) was marginally above our estimate of Rs. 11.1/scm due to lower-than-expected gas cost of Rs. 38.3/scm (up 9.3%, while blended realisation of Rs. 49.7/scm, up 4% q-o-q, was in-line with our estimate. APM/non-APM accounted for 76% of overall gas requirement with average price of \$8.6/mmbtu (versus \$6.2/mmbtu in Q2FY2023), while RLNG share was at 24%, with average price of \$13-14/mmbtu (versus \$25/mmbtu in Q2FY2023). Overall, gas sales volume was flat q-o-q (versus our estimate of 2% q-o-q growth) at 8.1 mmscmd, as CNG/I-C volume remained largely flat q-o-q at 6.1 mmscmd/1 mmscmd, while D-PNG volume grew by 11% q-o-q to 0.6 mmscmd.

Key positives

- Marginal beat of 2% in gross margin at Rs. 11.3/scm due to slightly lower-than-expected gas cost.
- D-PNG volume grew by 11% q-o-q to 0.6 mmscmd.

Key negatives

- Miss of 5% in EBITDA margin at Rs. 5.7/scm, down 19% q-o-q.
- CNG/I-C volume remained flat q-o-q at 6.1 mmscmd/1 mmscmd.

Management Commentary

- Gas sales volume guidance of 9 mmscmd/10 mmscmd for FY2024E/FY2025E, which implies a strong 11% volume CAGR over FY2023E-FY2025E.
- Margin guidance of Rs. 7-8/scm (versus Rs. 5.7/scm in Q3FY2023) to be driven by lower APM gas price and normalisation of LNG price.
- Management expects Kirit Parikh Committee's recommendation on domestic gas price to be accepted by the government by March 15, 2023, and implemented from April 1, 2023.
- Any likely impact of CNG volume from electric vehicles (EVs) would get mitigated by CNG conversion for long haul buses, intercity buses (like talks going on for Jaipur-Delhi buses), conversion of tractors to CNG, and expansion in new GAs.

Revision in estimates – We have fine-tuned our FY2023-FY2025 earnings estimates.

Our Call

Valuation – Maintain Buy on IGL with an unchanged PT of Rs. 510: Supportive government policies are likely cap on domestic gas price and a potential normalisation of international gas prices would remove high gas cost overhang and drive margin recovery for CGDs over FY2024-FY2025. Robust gas demand in the existing NCR region and ramp-up of new geographical areas (GAs) of Rewari, Karnal, and Gurugram would drive a 12% volume CAGR for IGL over FY2022-FY2025E. Overall, we expect IGL's EBITDA/PAT to report a 15%/13% CAGR over FY2022-FY2025E along healthy RoE/RoCE of 20%/26%. We maintain Buy on IGL with an unchanged price target (PT) of Rs. 510, given our expectation of strong earnings recovery and attractive valuation of 18x/15.6x its FY2024E/FY2025E EPS.

Key Risks

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

Valuation (Standalone)

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	7,710	13,983	13,204	14,556
OPM (%)	24.4	14.8	18.6	19.8
Adjusted PAT	1,315	1,433	1,624	1,872
% YoY growth	30.8	9.0	13.3	15.3
Adjusted EPS (Rs.)	18.8	20.5	23.2	26.7
P/E (x)	22.2	20.4	18.0	15.6
P/B (x)	4.2	3.7	3.3	2.9
EV/EBITDA (x)	14.8	12.2	10.3	8.2
RoNW (%)	20.5	19.4	19.4	19.7
RoCE (%)	26.3	24.8	25.0	25.5

Source: Company; Sharekhan estimates

Muted Q3; PAT missed estimate on lower volume/margin and high tax rate

Q3FY2023 standalone operating profit of Rs. 428 crore (down 8.8% y-o-y; down 18.8% q-o-q) was 6% below our estimate of Rs. 457 crore due to lower-than-expected EBITDA margin at Rs. 5.7/scm (down 19% q-o-q and versus estimate of Rs. 6/scm) and marginally lower-than-expected gas sales volume to 8.1 mmscmd (flat q-o-q versus estimate of a 2% q-o-q increase). CNG/I-C PNG volume was flat q-o-q at 6.1 mmscmd/1 mmscmd, while D-PNG volume grew by 11% q-o-q to 0.6 mmscmd. Gross margin declined by 11% q-o-q to Rs. 11.3/scm (above our estimate of Rs. 11.1/scm), while miss in EBITDA margin was on account of higher-than-expected per unit opex. PAT of Rs. 278 crore (down 9.8% y-o-y; down 33.1% q-o-q) was 7% below our estimate due to miss in volume/margin and higher tax rate of 28.5%, partially offset by higher other income.

Q3FY2023 earnings call highlights

- ◆ **Volume guidance:** Management has provided a volume guidance of 9mmscmd /10mmscmd in FY2024E/ FY2025E, respectively, which implies a strong volume CAGR of 11% over FY2023E-FY2025E. The company expects 50-60% of the incremental volumes to come from CNG and from new GA, including Ajmer, Pali, Karnal, Kanpur, and Rajsamand.
- ◆ **Margin guidance:** Management has guided on improvement in EBITDA margin to Rs. 7-8/scm in FY2024, which would be driven by lower APM gas price and normalisation of contracted R-LNG price and spot LNG.
- ◆ **Update on Kirit Parekh gas pricing recommendations:** Management expects the government to approve the recommendation of the Kirit Parekh Committee by the first fortnight of March 2023. Post the government's approval, Kirit Parekh Committee's recommendations (including APM gas price capping of \$6.5mmbtu for FY2024) are expected to be implemented from April 2023. This would drive a \$2/mmbtu gas cost reduction for CNG/D-PNG, which accounts for 76% of the gas requirement for IGL.
- ◆ **CNG volume break-up:** For Q3FY2023, the contribution of CNG volumes of 6.1mmscmd came from private cars/cabs and auto/bus in the proportion of 40%/40% and 20%, respectively. Within buses, DTC accounts for 8-10%, while the remaining comes from state carriers.
- ◆ **Gas Sourcing Mix:** For Q3FY2023, out of the total gas sourced, 76% came from APM and non-APM sources at \$8.6mmbtu, excluding taxes, while the remaining 24% was LNG (50-60% linked to HHB, 30-45% linked to crude and 5-10% from the spot market). The average cost of sourcing RLNG was \$13-14/mmbtu in Q3FY2023.
- ◆ **CNG car conversions:** CNG car conversions had dropped to 13,000-14,000 per month from the peak level of 16,000-17,000. Management believes CNG conversion to pick up post the cut in APM gas price and normalisation of spot LNG. Management anticipates that any likely impact from EV buses on CV volumes would get mitigated by long haul CNG buses, expansion in new GAs, converting cars plying along Jaipur-Delhi highway, and conversion of heavy dumpers. The company is in talks with OEM manufacturing tractors for converting to CNG.
- ◆ **Capex guidance:** Management has guided for Rs. 1,300-1,500 crore of capex annually for the next three years. The company has completed addition of 40 CNG station addition out of the 75 targeted in FY2023 and has set a target of 125 gas stations every year if gas prices stabilise.
- ◆ **Gas price costing:** Management stated that APM gas, which comprises 76% of overall gas requirement, was at \$6.2/\$25 per mmbtu APM/RLNG cost in Q2FY2023, while it was \$8.5/\$14-15 per mmbtu APM/RLNG cost in Q3FY2023.

- ◆ **Other initiatives: 1) Metering Plant** – The company plans to set up a metering plant in the next 3-4 weeks and 2) EV Charging Stations - Management targets installing 50 EV charging stations.

Results (Standalone)

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Revenue	3,711	2,215	67.5	3,554	4.4
Total Expenditure	3,282	1,746	88.0	3,026	8.5
Operating profit	428	470	-8.8	528	-18.8
Other Income	56	30	83.5	110	-49.3
Interest	3	3	-7.8	3	-15.3
Depreciation	92	84	10.8	91	1.2
PBT	389	414	-5.9	543	-28.3
Tax	111	105	5.4	127	-12.6
Reported PAT	278	309	-9.8	416	-33.1
Equity Cap (cr)	70	70		70	
Reported EPS (Rs.)	4.0	4.4	-9.8	5.9	-33.1
Margins (%)			BPS		BPS
OPM	11.5	21.2	-965.0	14.8	-329.6
NPM	7.5	13.9	-642.7	11.7	-421.1
Tax rate	28.5	25.4	307.3	23.4	512.7

Source: Company, Sharekhan Research

Key operating metrics

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Total volume (mmscmd)	8.1	7.7	6.1	8.1	0.4
Gross margin (Rs./scm)	11.3	11.8	-3.9	12.7	-10.7
EBITDA margin (Rs./scm)	5.7	6.7	-14.0	7.1	-19.1
CNG volume (mmscmd)	6.1	5.6	7.8	6.1	-0.3
PNG volume (mmscmd)	2.0	2.0	1.2	2.0	2.4

Source: Company, Sharekhan Research

Volume break-up by categories

(figures in mmscmd)

Particulars	Q3FY23	Q3FY22	y-o-y (%)	Q2FY23	q-o-q (%)
CNG	6.1	5.6	8%	6.1	-0.3%
PNG domestic	0.6	0.5	13%	0.5	10.8%
I/C PNG	1.0	1.0	-4%	1.0	-0.3%
Natural gas	0.5	0.5	0%	0.5	-0.7%
Total gas sales mix	8.1	7.7	6.1%	8.1	0.4%
Volume mix	Q3FY23	Q3FY22	y-o-y (%)	Q2FY23	q-o-q (%)
CNG	74.8	73.6	123	75.3	-49
PNG domestic	6.9	6.4	45	6.2	65
I/C PNG	12.2	13.5	-128	12.3	-9
Natural gas	6.1	6.5	-39	6.2	-7
Total	100	100		100	

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Supportive government policies to remove high gas cost overhang for CGDs; Long-term gas demand growth outlook remains intact

Capping of domestic gas price at \$6.5/mmbtu (versus \$8.6/mmbtu for H2FY2023) could remove gas cost overhang for CGDs in FY2024. Further, a potential normalisation of international gas price from FY2025 would mean APM gas price could remain in the range of \$4-6.5/mmbtu. This would improve volume growth visibility (supported by the widening of pricing gap between CNG versus petrol) and sustained margin recovery for CGDs and with high exposure to CNG/D-PNG (accounts for 81% of IGL's overall volume of 8.1 mmscmd). Moreover, India's long-term gas demand potential is very strong, given the regulatory support to curb pollution. 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's gas demand for the next 4-5 years.

■ Company Outlook – Expect strong earnings recovery over FY2024-FY2025

We believe IGL is well placed to benefit from rising gas consumption in India. Thus, we model a 12% volume CAGR over FY2022-FY2025E, led by sustained high growth in existing GAs and expansion into new GAs. A domestic gas price cap of \$6.5/mmbtu would reduce gas cost by ~\$2.1/mmbtu in FY2024E for the priority sector of CNG/D-PNG. Thus, we expect margin recovery to Rs. 7.5/Rs8 per scm in FY2024E/FY2025E, as compared to our estimate of Rs. 7/scm (a 5% y-o-y decline) in FY2023. Double-digit volume growth and margin recovery would drive a 13% PAT CAGR over FY2022-FY2025E for IGL.

■ Valuation – Maintain Buy on IGL with an unchanged PT of Rs. 510

Supportive government policies are likely to cap domestic gas price and a potential normalisation of international gas prices would remove high gas cost overhang and drive margin recovery for CGDs over FY2024-FY2025. Robust gas demand in the existing NCR region and ramp-up of new geographical areas (GAs) of Rewari, Karnal, and Gurugram would drive a 12% volume CAGR for IGL over FY2022-FY2025E. Overall, we expect IGL's EBITDA/PAT to report a 15%/13% CAGR over FY2022-FY2025E along healthy RoE/RoCE of 20%/26%. We maintain Buy on IGL with an unchanged PT of Rs. 510, given our expectation of strong earnings recovery and attractive valuation of 18x/15.6x its FY2024E/FY2025E EPS.

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 the 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 the recent awarding of three new GAs in the 10th round of CGD bidding would drive volume growth beyond its existing areas of operations. Kirit Parikh committee recommendations to cap APM gas price at \$6.5/mmbtu would remove high gas cost overhang for CGDs and drive volume/margin recovery over FY2024-FY2025. IGL's valuations are also attractive considering our expectation of earnings recovery and healthy return ratios.

Key Risks

- ◆ Lower-than-expected gas sales volume in case of slowdown, lower CNG conversions, and delay in the development of new gas.
- ◆ Any change in domestic gas allocation/pricing policy, depreciation of the 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	7.76
2	Government of National Capital Territory of Delhi	5.00
3	FMR LLC	2.73
4	Kotak Mahindra Asset Management Co	2.46
5	Vanguard Group Inc/The	1.92
6	HDFC Life Insurance Company Limited	1.60
7	BlackRock Inc	1.60
8	Impax Asset Management Group Plc	1.47
9	Schroders PLC	1.10
10	Schroder Int Selection FND Asian	1.07

Source: Bloomberg

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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 deteriorating 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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