

Indraprastha Gas

BSE SENSEX
60,348

S&P CNX
17,754



Stock Info

Bloomberg	IGL IN
Equity Shares (m)	700
M.Cap.(INRb)/(USDb)	294.8 / 3.6
52-Week Range (INR)	455 / 335
1, 6, 12 Rel. Per (%)	2/2/8
12M Avg Val (INR M)	961
Free float (%)	55.0

Financials Snapshot (INR b)

Y/E March	FY23E	FY24E	FY25E
Sales	146.9	141.7	148.6
EBITDA	20.6	21.0	23.0
Adj. PAT	14.4	14.5	15.8
Adj. EPS (INR)	20.6	20.7	22.6
EPS Gr. (%)	9.7	0.4	9.3
BV/Sh.(INR)	113.7	128.3	144.3

Ratios

Net D:E	-0.5	-0.4	-0.5
RoE (%)	19.4	17.1	16.6
RoCE (%)	18.8	16.6	16.2
Payout (%)	29.3	29.3	29.3

Valuation

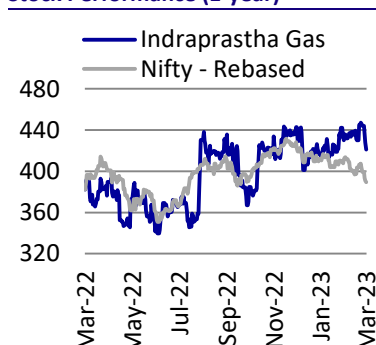
P/E (x)	21.8	21.7	19.9
P/BV (x)	4.0	3.5	3.1
EV/EBITDA (x)	13.4	13.1	11.6
Div. Yield (%)	1.3	1.3	1.5
FCF Yield (%)	9.0	2.1	3.7

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	45.0	45.0	45.0
DII	24.7	25.3	21.7
FII	21.8	21.0	20.2
Others	8.5	8.7	13.1

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR421

TP: INR340 (-19%)

Sell

Double trouble on the cards

- CNG and domestic PNG volumes for listed CGDs (IGL, MAHGL, GUJGA & ATGL) reported a 7% CAGR over the past four years, while gas production from nominated fields declined at 3% CAGR during the same period.
- The supply-demand imbalance is likely to continue, thereby increasing the proportion of expensive non-APM volumes in sourcing mix for CGDs. This should further lead to structural margin challenges going forward.
- For Indraprastha Gas (IGL), we estimate that the 20% penetration of EVs in sales of new CNG vehicles over the next three years would result in a decline in average CNG sales volume growth to 9% from 12% in our base case. Prospects of long-term high volume growth remain even bleaker for the company. Considering both these headwinds, we reiterate our Sell rating on the stock with a TP of INR340.

Margin pressures imminent

- During FY18-22, CNG and domestic PNG sales volumes for listed CGDs rose to 11.9mmcmd from 9.1mmcmd. During the same period, gas production from nominated fields declined to 64.4mmcmd from 72.1mmcmd.
- To keep up with the increasing demand from priority sectors of CNG & PNG-domestic, the government had periodically tried to increase APM allocation to the CGD sector at the expense of other sectors. Despite government's efforts, the proportion of non-APM gas is likely to rise in the volume mix for CGDs going ahead as supply-demand dynamics might remain tight owing to commissioning of GAs awarded in project bidding rounds 9-11.
- While government's recent order to provide HPHT gas to CGDs ahead of other sectors provides some relief, increased proportion of HPHT gas in volume mix may lead to margin pressure. This is because, on an average, HPHT celling has been ~115% higher than APM gas since implementation of ceiling price in 2016.
- Additionally, IGL's management has indicated that half of the expected incremental volumes of ~2mmcmd over FY24-25 will be contributed by the industrial PNG segment that might further impact margins adversely.

Threat of EVs to escalate in the medium to long term

- We assessed the impact of accelerated EV adoption on IGL's CNG volumes over FY24-25E. For our base case we assumed that CNG vehicle population in the National Capital Region (NCR) region, over the next couple of years, grows at a similar rate as observed in FY22.
- Our calculations revealed that if EVs capture 20% of incremental CNG vehicles, IGL's CNG growth rate may decline to 12%/9% from 14%/11% in base case, in FY24/FY25, respectively. Whereas, if EVs capture 30% of incremental CNG vehicles, the growth rate may decline to 10%/8% during FY24/25.
- Additionally, a sustained 20% penetration of EVs in sales of new CNG vehicles over three consecutive years may result in a decline in average CNG sales volume to 9% from 12% in our base case.

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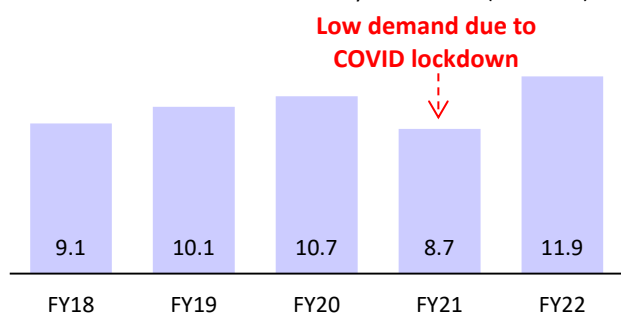
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Valuation and view

- As IGL's management has stated, almost half of the incremental volume in the next two years is likely to come from industrial segment, which would not only pressure IGL's EBITDA/scm but also make it more volatile.
- While the company has a strong volume growth potential in the near term, the NCR contributes ~80% to its sales volume. Additionally, the long-term volume growth remains a challenge due to the possible threat from electric vehicles.
- **We maintain our sell rating** on the stock valuing it at 14x Dec'24E EPS and adding the value of investments at 25% holding company discount to arrive at our TP of INR340. Stricter mandate on adoption of natural gas by industries/vehicles remains the key risk to our call.

Exhibit 1: CNG and domestic PNG sales for listed CGDs reported 7% CAGR during FY18-22...

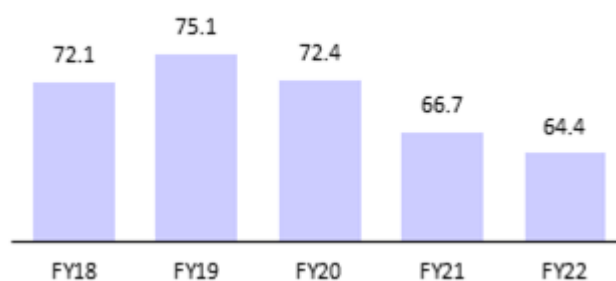
■ CNG & Domestic PNG sales by listed CGDs (mmscmd)



Source: Company, MOFSL

Exhibit 2: ...while gas production from nominated fields declined at 3% CAGR

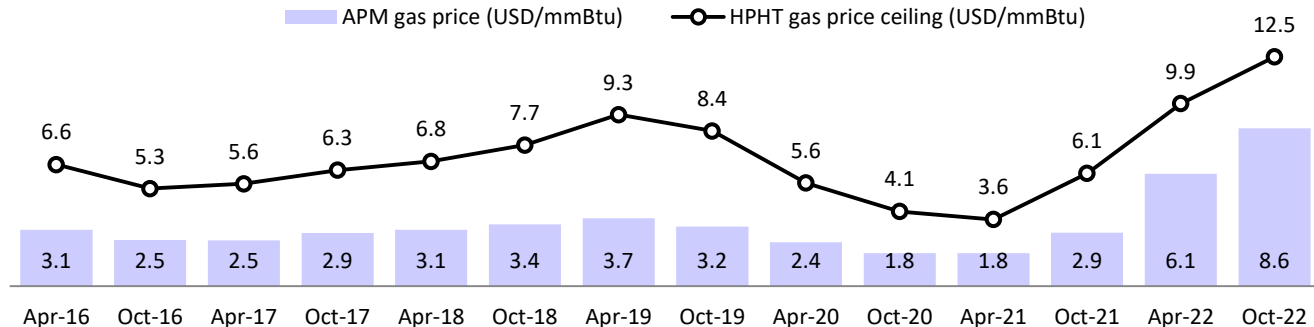
■ Gas Production from nominated fields (mmscmd)



Source: MoPNG, MOFSL

Exhibit 3: On an average, HPHT gas ceiling has been 115% higher than APM gas

■ APM gas price (USD/mmBtu) —○— HPHT gas price ceiling (USD/mmBtu)



Source: PPAC, MOFSL

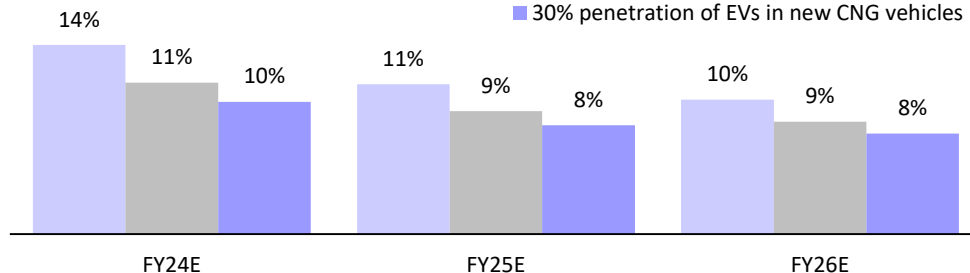
Exhibit 4: Impact of EV penetration on IGL's CNG volumes

YoY CNG sales volume growth for IGL

■ Base Case

■ 20% penetration of EVs in new CNG vehicles

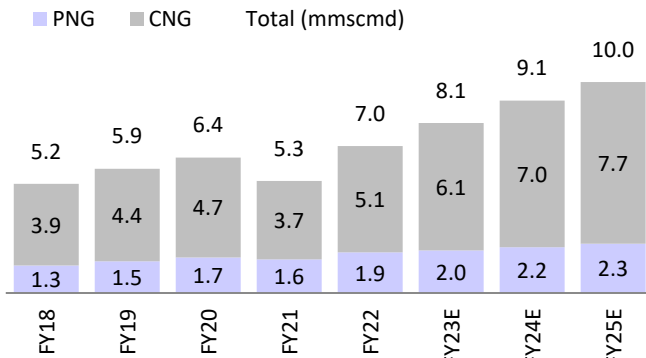
■ 30% penetration of EVs in new CNG vehicles



Source: MOFSL

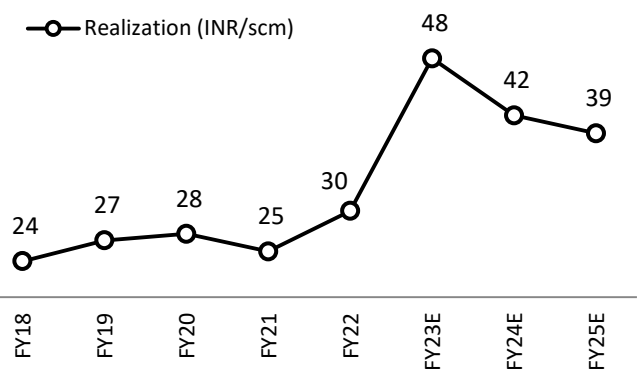
Story in charts

Exhibit 5: Volumes to report 11% CAGR during FY23-25E



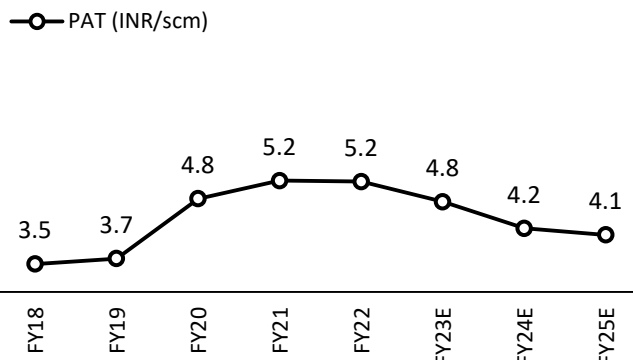
Source: Company, MOFSL

Exhibit 6: Realization trends way above historical levels



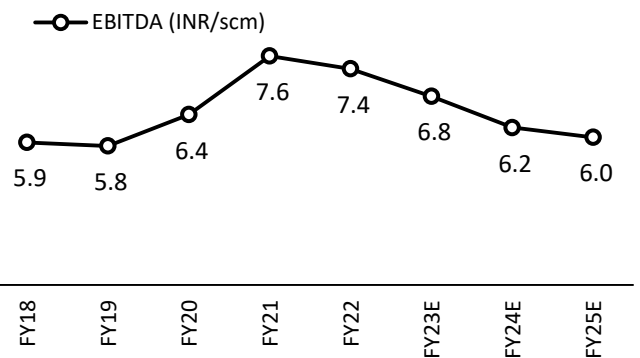
Source: Company, MOFSL

Exhibit 7: Profitability (in INR/scm) to normalize in FY24-25E



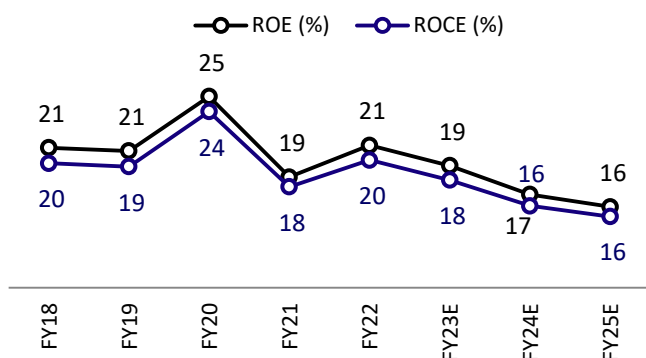
Source: Company, MOFSL

Exhibit 8: EBITDA/scm to be at ~INR6 during FY24-25E



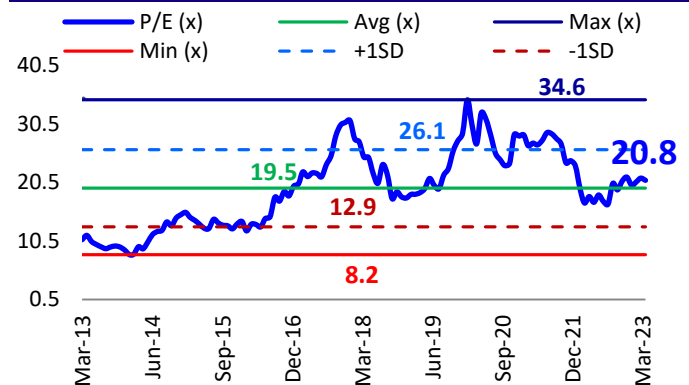
Source: Company, MOFSL

Exhibit 9: Return ratios to stabilize below 20%



Source: Company, MOFSL

Exhibit 10: IGL's one-year forward P/E Chart



Source: Company, MOFSL

Financials and Valuations

Income Statement						(INR m)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	45,921	57,600	64,853	49,408	77,100	1,42,506	1,38,545	1,44,125
Change (%)	20.4	25.4	12.6	-23.8	56.0	84.8	-2.8	4.0
EBITDA	11,133	12,521	15,196	14,830	18,811	20,096	20,613	21,874
As a percentage of Net Sales	24.2	21.7	23.4	30.0	24.4	14.1	14.9	15.2
Depreciation	1,813	2,011	2,523	2,904	3,171	3,520	3,607	3,831
Interest	17	21	81	113	132	119	101	86
Other Income	1,021	1,510	1,564	1,502	2,150	2,321	1,999	2,148
PBT	10,325	12,000	14,157	13,315	17,659	18,777	18,904	20,106
Tax	3,617	4,134	2,791	3,258	4,509	4,741	4,764	5,067
Rate (%)	35.0	34.4	19.7	24.5	25.5	25.2	25.2	25.2
PAT	6,708	7,867	11,365	10,057	13,150	14,036	14,140	15,039
Adj. PAT	6,604	7,867	11,365	10,057	13,150	14,036	14,140	15,039
Change (%)	10.6	19.1	44.5	-11.5	30.8	6.7	0.7	6.4

Balance Sheet						(INR m)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Reserves	33,729	39,899	49,224	57,319	67,962	77,888	87,888	98,524
Net Worth	35,129	41,299	50,624	58,719	69,362	79,288	89,288	99,924
Deferred Tax	2,253	2,678	2,119	2,422	2,737	2,737	2,737	2,737
Capital Employed	37,382	43,977	52,743	61,140	72,098	82,025	92,025	1,02,661
Gross Fixed Assets	41,364	47,607	55,744	65,535	75,345	81,345	87,345	93,345
Less: Depreciation	17,044	19,054	21,577	24,481	27,651	31,172	34,778	38,609
Net Fixed Assets	24,320	28,553	34,167	41,055	47,694	50,173	52,567	54,736
Capital WIP	3,860	4,781	7,767	8,469	13,786	17,786	21,786	25,786
Rights to use assets	0	0	1,220	1,984	2,203	2,203	2,203	2,203
Investments	11,477	15,440	2,581	18,258	19,758	19,758	19,758	19,758
Curr. Assets, Loans and Adv.								
Inventory	524	509	511	456	455	841	818	851
Debtors	2,261	2,215	1,704	2,607	5,206	9,622	9,354	9,731
Cash and Bank Balance	5,580	6,071	21,799	11,323	13,616	36,125	38,577	44,670
Cash	2,037	712	6,677	903	750	23,258	25,711	31,804
Bank balance	3,544	5,359	15,122	10,420	12,866	12,866	12,866	12,866
Loans and Advances	149	153	154	213	142	142	142	142
Other Current Assets	1,110	1,772	1,819	1,508	1,664	1,664	1,664	1,664
Current Liab. and Prov.								
Liabilities	11,690	13,687	16,172	21,007	28,130	51,993	50,548	52,584
Provisions	210	1,830	2,808	3,727	4,295	4,295	4,295	4,295
Net Current Assets	-2,275	-4,797	7,007	-8,627	-11,342	-7,894	-4,288	179
Application of Funds	37,382	43,977	52,743	61,139	72,099	82,026	92,026	1,02,662

Financials and Valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS (Standalone)	9.4	11.2	16.2	14.4	18.8	20.1	20.2	21.5
EPS (Consolidated)	10.5	12.5	18.4	16.2	21.7	23.6	24.1	25.8
Cash EPS	12.0	14.1	19.8	18.5	23.3	25.1	25.4	27.0
Book Value	50.2	59.0	72.3	83.9	99.1	113.3	127.6	142.7
DPS	2.0	2.4	2.8	3.6	5.5	5.9	5.9	6.3
Payout	21	21	17	25	29	29	29	29
Valuation (x)								
P/E (Standalone)	47.3	39.7	27.5	31.1	23.8	21.0	20.8	19.6
P/E (Consolidated)	42.6	35.8	24.2	27.6	20.6	17.8	17.5	16.3
Cash P/E	37.1	31.6	22.5	24.1	19.1	16.8	16.6	15.6
EV/EBITDA	27.6	24.5	19.1	20.3	15.9	12.9	12.4	11.4
EV/Sales	6.7	5.3	4.5	6.1	3.9	1.8	1.8	1.7
Price/Book Value	8.9	7.6	6.2	5.3	4.5	3.7	3.3	2.9
Dividend Yield (%)	0.4	0.5	0.6	0.8	1.2	1.4	1.4	1.5
Profitability Ratios (%)								
RoE	20.8	20.6	24.7	18.4	20.5	18.9	16.8	15.9
RoCE	19.6	19.4	23.6	17.8	19.9	18.3	16.3	15.5
RoIC	38.9	40.4	53.2	41.2	48.5	74.4	125.6	110.9
Turnover Ratios								
Debtors (No. of Days)	21	26	33	23	20	19	15	15
Asset Turnover (x)	1.3	1.4	1.3	0.9	1.2	1.8	1.6	1.5
Leverage Ratio								
Net Debt/Equity ratio (x)	-0.2	-0.1	-0.4	-0.2	-0.2	-0.5	-0.4	-0.4

Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	10,325	12,000	14,157	13,315	17,659	18,777	18,904	20,106
Depreciation	1,813	2,011	2,523	2,904	3,171	3,520	3,607	3,831
Interest and Finance charges	1	10	65	97	132	119	101	86
Direct Taxes Paid	-3,303	-3,688	-3,442	-2,895	-4,509	-4,741	-4,764	-5,067
(Inc.)/Dec. in Wkg. Capital	841	2,642	1,721	3,473	5,009	19,061	-1,154	1,626
Others	-884	-1,403	-1,416	-1,434	-1,434	0	0	0
CF from Op. Activity	8,793	11,571	13,608	15,460	20,027	36,737	16,694	20,582
(Inc.)/Dec. in FA and CWIP	-4,698	-6,807	-9,632	-8,829	-6,639	-10,000	-10,000	-10,000
Free Cash Flow	4,095	4,764	3,976	6,631	13,388	26,737	6,694	10,582
(Pur.)/Sale of Investments	-10,515	-24,912	-3,275	-32,560	-1,500	0	0	0
Others	8,044	20,510	7,700	23,125	-9,184	0	0	0
CF from Inv. Activity	-7,170	-11,208	-5,207	-18,264	-17,323	-10,000	-10,000	-10,000
Dividends Paid (incl. tax)	-842	-1,685	-2,025	-1,960	-3,850	-4,110	-4,140	-4,403
CF from Fin. Activity	-842	-1,688	-2,435	-2,970	-2,858	-4,229	-4,241	-4,489
Inc./(Dec.) in Cash	781	-1,325	5,966	-5,774	-154	22,508	2,452	6,093
Add: Opening Balance	1,256	2,037	712	6,678	904	750	23,258	25,711
Closing Balance	2,037	712	6,678	904	750	23,258	25,711	31,804

NOTES

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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