HOLD Indraprastha Gas

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Volume estimates could see a downside

Oil & Gas ▸ Conference Call Update ▸ July 26, 2023

TARGET PRICE (Rs): 500

IGL's mgmt. stated that extended winter (affecting CNG vehicle AC usage) and shift to propane-LPG (industrial vol. fell 6% YoY) are the major factors behind Q1FY24 vol. slowdown. Although no CNG stations were added in Q1, conversions improved QoQ at ~14K/month. Current vols. are at ~8mmscmd, though July saw a run rate of up to 8.35mmscmd. The impact of floods lasted for a week. Long-term EBITDA margin guidance remains at Rs7.5-8.0/scm and high Q1 run rate could cool off due to focus on vol. (17K-18K conversions targeted) and potential cut in petrol-diesel rates (though higher oil price is a positive). Vol. guidance is ~9mmscmd for Q4FY24 and ~10mmscmd for FY25, with Rs14-15bn annual capex. Hence, our vol. assumptions have downside risks but are offset by better margins with no change in earnings. We maintain our HOLD rating on the stock, with unchanged TP of Rs500.

Indraprastha Gas: Financial Snapshot (Standalone)

Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	49,408	77,100	1,41,459	1,54,610	1,73,234
EBITDA	14,830	18,811	20,398	25,800	29,188
Adj. PAT	10,057	12,896	14,450	18,352	20,583
Adj. EPS (Rs)	14.4	18.4	20.6	26.2	29.4
EBITDA margin (%)	30.0	24.4	14.4	16.7	16.8
EBITDA growth (%)	(2.4)	26.8	8.4	26.5	13.1
Adj. EPS growth (%)	(11.5)	30.8	9.9	27.0	12.2
RoE (%)	18.4	19.6	20.6	23.7	22.6
RoIC (%)	39.9	45.8	47.7	52.0	45.8
P/E (x)	32.7	25.5	22.8	17.9	16.0
EV/EBITDA (x)	20.4	15.9	14.7	11.4	9.8
P/B (x)	5.6	4.7	4.6	3.9	3.4
FCFF yield (%)	2.2	1.9	3.7	2.4	3.5

Source: Company, Emkay Research

Volumes and Conversions

Q1 vol. were impacted by extended winters and lower IPNG sales due to cheaper alternate fuels. C-PNG was up 16% YoY. Current vol. stand at ~8.0mmscmd (Delhi flood situation led to 3-7 days impact), but it had touched 8.30-8.35mmscmd earlier in July. IGL has indicated ~9mmscmd as FY24 exit rate (Q4 average), rather than annual. Management has guided for 0.2-0.3mmscmd incremental volumes from new GAs like Rewari, Gurugram, Ajmer, Muzaffarnagar & Kanpur while 0.7-0.8 will be from NCR. IGL has also taken price cuts in Rewari to bridge the gap with RSPs in adjacent GAs. Monthly CNG vehicle conversions were 13.7K-14.0K in Q1 (14.8K in Jun-23) against 8K during peak CNG prices, and IGL targets 17K-18K, implying 10% YoY vol. growth. IPNG vol. declined as it was not competitive with LPG & propane. IGL undertook IPNG price cuts in all GAs (~Rs5/scm) with a margin hit of Rs1/scm in July (at par with LPG now). Energy comprises 30-40% of the total costs of IPNG customers. Buses should continue to add to volumes and LNG would cater to CVs. OEMs continue to push CNG vehicles and they are optimistic on its rising share. BS-VI retrofit would add to conversions.

Margins, Capex and Infra

IGL has guided for long-term EBITDA/scm of Rs7.5-8.0. It is looking to further reduce prices in some GAs to boost volumes. IGL's input gas mix for the priority segment stood at 90%/3%/7%, attributed to APM/HP-HT/LNG in Q1FY24. Overall, domestic/LNG share is 79%/21%. IGL has 6-7 term contracts for 2.2mmscmd of the 2.8mmscmd of LNG demand. IGL has also received 0.1mmscmd HP-HT gas from RIL's recent auction for a 5-yr tenure at JKM pricing. Capex in Q1 was Rs2.6bn, but IGL maintains its guidance of Rs14-15bn p.a. going ahead. It added 60K DPNG connections in Q1, while there was no CNG outlet addition (while it maintains its target of adding 100 stations in FY24).

Valuation

We maintain our FY24/25E earnings and TP of Rs500/share for IGL, valuing it using the DCF methodology. We maintain our HOLD rating on the stock.

Target Price – 12M	Mar-24
Change in TP (%)	-
Current Reco.	HOLD
Previous Reco.	HOLD
Upside/(Downside) (%)	6.5
CMP (26-Jul-23) (Rs)	469.7

Stock Data	Ticker
52-week High (Rs)	516
52-week Low (Rs)	344
Shares outstanding (mn)	700.0
Market-cap (Rs bn)	329
Market-cap (USD mn)	4,010
Net-debt, FY24E (Rs mn)	-34,320
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	793.5
ADTV-3M (USD mn)	9.7
Free float (%)	50.0
Nifty-50	19,778
INR/USD	82.0
Shareholding, Jun-23	
Promoters (%)	45.0
FPIs/MFs (%)	21.9/20.4

Price Performance

(%)	1M	3M	12M
Absolute	(2.8)	(3.6)	33.6
Rel. to Nifty	(8.1)	(13.2)	11.3

1-Year share price trend (Rs)

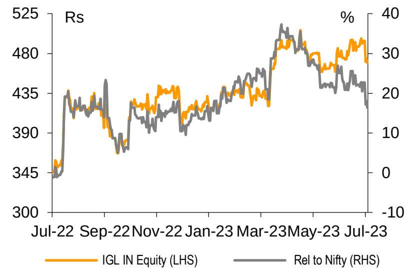

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Exhibit 1: Volumes have downside risk, while EBITDA/scm could be higher

Particulars	FY21	FY22	FY23	Q1FY24	FY24E	FY25E
Volumes (mmscmd)	5.3	7.0	8.1	8.2	9.0	10.0
EBITDA/scm (Rs)	7.6	7.4	6.9	8.6	7.8	8.0

Source: Company, Emkay Research

Exhibit 2: DCF-based valuation (Mar-24E)

DCF Assumptions		Mar-2025E (Rs mn)	Core IGL	CUGL's 50%	MNGL's 50%	Consol.
Risk-Free Rate	7.0%	NPV Of FCF	1,52,064	3,047	16,956	
Risk Premium	5.3%	Terminal Value	4,18,890	7,160	52,149	
Beta	0.8	PV Of TV	1,19,703	2,046	14,902	
Cost Of Equity	11.0%	Total Value	2,71,767	5,093	31,858	
Cost Of Debt	8.0%	Less: Adj. Net Debt (Mar-24E)	-40,662	-1,146	433	
Post-Tax Cost Of Debt	6.0%	**Equity Value**	**3,12,429**	**6,239**	**31,426**	**3,50,093**
Average Debt:Equity Ratio	0%	No. Of Shares O/S (mn)	700	700	700	700
WACC	**11.0%**	**Target Price (Rs)**	**446**	**9**	**45**	**500**
Terminal Growth Rate						
IGL	2.0%					
CUGL	1.0%					
MNGL	1.0%					

Source: Company, Emkay Research

Exhibit 3: P/E-based valuation (Mar-25E EPS)

(Rs/share)	FY20	FY21	FY22	FY23	FY24E	FY25E
IGL's Core EPS	15.1	14.4	18.4	20.6	26.2	29.4
Less: CU/MNGL Div. Inc.	0.4	0.4	0.7	0.8	0.9	1.0
IGL Adjusted EPS	14.7	14.0	17.8	19.9	25.3	28.4
CUGL/MNGL EPS Contri.	2.1	1.8	3.2	3.6	3.9	4.3
Consol. EPS	16.8	15.8	21.0	23.5	29.2	32.8
Implied Target Multiple (x)						**15.3**
DCF Target Price						**500**

Source: Company, Emkay Research

Indraprastha Gas: Standalone Financials and Valuations

Profit & Loss

Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	**49,408**	**77,100**	**1,41,459**	**1,54,610**	**1,73,234**
Revenue growth (%)	(23.8)	56.0	83.5	9.3	12.0
EBITDA	**14,830**	**18,811**	**20,398**	**25,800**	**29,188**
EBITDA growth (%)	(2.4)	26.8	8.4	26.5	13.1
Depreciation & Amortization	2,904	3,171	3,634	4,416	5,325
EBIT	**11,926**	**15,641**	**16,764**	**21,384**	**23,863**
EBIT growth (%)	(5.9)	31.1	7.2	27.6	11.6
Other operating income	0	0	0	0	0
Other income	1,502	1,810	2,619	3,260	3,765
Financial expense	113	132	106	109	110
PBT	**13,315**	**17,319**	**19,277**	**24,535**	**27,518**
Extraordinary items	0	340	0	0	0
Taxes	3,258	4,509	4,827	6,183	6,935
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	**10,057**	**13,150**	**14,450**	**18,352**	**20,583**
PAT growth (%)	(11.5)	30.8	9.9	27.0	12.2
Adjusted PAT	**10,057**	**12,896**	**14,450**	**18,352**	**20,583**
Diluted EPS (Rs)	**14.4**	**18.4**	**20.6**	**26.2**	**29.4**
Diluted EPS growth (%)	(11.5)	30.8	9.9	27.0	12.2
DPS (Rs)	**3.6**	**5.5**	**13.0**	**7.9**	**8.8**
Dividend payout (%)	**25.1**	**29.3**	**63.0**	**30.0**	**30.0**
EBITDA margin (%)	30.0	24.4	14.4	16.7	16.8
EBIT margin (%)	24.1	20.3	11.9	13.8	13.8
Effective tax rate (%)	24.5	27.5	25.0	25.2	25.2
NOPLAT (pre-IndAS)	**9,007**	**11,340**	**12,566**	**15,995**	**17,849**
Shares outstanding (mn)	700.0	700.0	700.0	700.0	700.0

Source: Company, Emkay Research

Balance Sheet

Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	1,400	1,400	1,400	1,400	1,400
Reserves & Surplus	57,319	67,962	69,466	82,312	96,721
Net worth	**58,719**	**69,362**	**70,866**	**83,712**	**98,121**
Minority interests	0	0	0	0	0
Deferred tax liability (net)	2,422	2,737	3,168	3,679	4,190
Total debt	**1,130**	**1,076**	**828**	**836**	**844**
Total liabilities & equity	**62,271**	**73,175**	**74,861**	**88,227**	**1,03,155**
Net tangible fixed assets	41,055	47,694	55,147	64,297	75,549
Net intangible assets	171	121	121	121	121
Net ROU assets	1,984	2,203	2,067	2,088	2,109
Capital WIP	8,469	13,786	14,337	15,771	14,194
Goodwill	0	0	0	0	0
Investments [JV/Associates]	2,880	2,980	2,880	2,880	2,880
Cash & equivalents	**27,000**	**30,793**	**30,524**	**35,156**	**42,559**
Current assets (ex-cash)	4,316	6,947	12,683	13,622	14,944
Current Liab. & Prov.	23,603	31,349	42,898	45,708	49,201
NWC (ex-cash)	**(19,287)**	**(24,402)**	**(30,215)**	**(32,086)**	**(34,257)**
Total assets	**62,271**	**73,175**	**74,861**	**88,227**	**1,03,155**
Net debt	(25,870)	(29,717)	(29,696)	(34,320)	(41,715)
Capital employed	62,271	73,175	74,861	88,227	1,03,155
Invested capital	**23,921**	**25,616**	**27,120**	**34,420**	**43,522**
BVPS (Rs)	83.9	99.1	101.2	119.6	140.2
Net Debt/Equity (x)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Net Debt/EBITDA (x)	(1.7)	(1.6)	(1.5)	(1.3)	(1.4)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	**23.2**	**25.8**	**26.2**	**30.2**	**28.9**

Source: Company, Emkay Research

Cash Flows

Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	13,315	17,319	19,277	24,535	27,518
Others (non-cash items)	1,567	1,302	1,388	1,265	1,670
Taxes paid	(2,895)	(3,759)	(4,833)	(5,672)	(6,423)
Change in NWC	3,473	3,777	6,469	1,879	2,179
Operating cash flow	**15,460**	**18,979**	**22,301**	**22,007**	**24,944**
Capital expenditure	(8,829)	(13,370)	(11,221)	(15,021)	(15,021)
Acquisition of business	0	0	0	0	0
Interest & dividend income	1,279	798	1,618	3,260	3,765
Investing cash flow	**(22,967)**	**(13,401)**	**3,996**	**(11,845)**	**(11,341)**
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(1,010)	(765)	(638)	0	0
Payment of lease liabilities	(1,010)	(765)	(765)	(765)	(765)
Interest paid	0	0	0	(109)	(110)
Dividend paid (incl tax)	(1,960)	(2,519)	(12,948)	(5,506)	(6,175)
Others	0	0	0	0	0
Financing cash flow	**(2,970)**	**(3,285)**	**(13,586)**	**(5,614)**	**(6,285)**
Net chg in Cash	(10,477)	2,294	12,711	4,549	7,318
OCF	15,460	18,979	22,301	22,007	24,944
Adj. OCF (w/o NWC chg.)	11,987	15,202	15,832	20,128	22,765
FCFF	6,630	5,610	11,080	6,987	9,923
FCFE	7,796	6,275	12,592	10,138	13,578
OCF/EBITDA (%)	104.2	100.9	109.3	85.3	85.5
FCFE/PAT (%)	77.5	47.7	87.1	55.2	66.0
FCFF/NOPLAT (%)	**73.6**	**49.5**	**88.2**	**43.7**	**55.6**

Source: Company, Emkay Research

Valuations and Key Ratios

Y/E March	FY21	FY22	FY23	FY24E	FY25E
P/E (x)	32.7	25.5	22.8	17.9	16.0
P/CE(x)	25.4	20.9	18.2	14.4	12.7
P/B (x)	5.6	4.7	4.6	3.9	3.4
EV/Sales (x)	6.2	3.9	2.1	1.9	1.7
EV/EBITDA (x)	20.4	15.9	14.7	11.4	9.8
EV/EBIT(x)	25.4	19.1	17.8	13.8	12.0
EV/IC (x)	12.7	11.7	11.0	8.6	6.6
FCFF yield (%)	2.2	1.9	3.7	2.4	3.5
FCFE yield (%)	2.4	1.9	3.8	3.1	4.1
Dividend yield (%)	0.8	1.2	2.8	1.7	1.9
DuPont-RoE split					
Net profit margin (%)	20.4	16.3	10.2	11.9	11.9
Total asset turnover (x)	0.9	1.1	1.9	1.9	1.8
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
RoE (%)	**18.4**	**19.6**	**20.6**	**23.7**	**22.6**
DuPont-RoIC					
NOPLAT margin (%)	18.2	14.7	8.9	10.3	10.3
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	**39.9**	**45.8**	**47.7**	**52.0**	**45.8**
Operating metrics					
Core NWC days	(21.6)	(22.4)	(2.6)	(2.2)	(2.2)
Total NWC days	**(21.6)**	**(22.4)**	**(2.6)**	**(2.2)**	**(2.2)**
Fixed asset turnover	1.0	1.3	2.1	1.9	1.8
Opex-to-revenue (%)	24.9	18.6	11.8	12.6	12.7

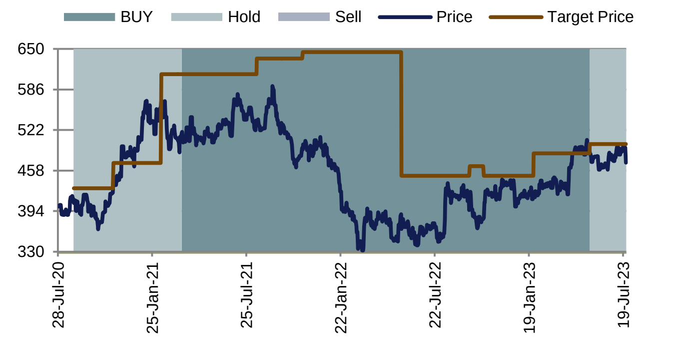
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
23-Jul-23	494	500	Hold	Sabri Hazarika
16-May-23	485	500	Hold	Sabri Hazarika
30-Mar-23	438	485	Buy	Sabri Hazarika
28-Jan-23	418	485	Buy	Sabri Hazarika
01-Dec-22	434	450	Buy	Sabri Hazarika
24-Oct-22	383	450	Buy	Sabri Hazarika
02-Oct-22	397	465	Buy	Sabri Hazarika
27-Sep-22	423	465	Buy	Sabri Hazarika
10-Aug-22	380	450	Buy	Sabri Hazarika
19-May-22	366	450	Buy	Sabri Hazarika
23-Nov-21	494	645	Buy	Sabri Hazarika
10-Nov-21	491	645	Buy	Sabri Hazarika
29-Sep-21	519	635	Buy	Sabri Hazarika
14-Aug-21	535	635	Buy	Sabri Hazarika
26-Jul-21	547	610	Buy	Sabri Hazarika
25-Jun-21	513	610	Buy	Sabri Hazarika
23-Jun-21	519	610	Buy	Sabri Hazarika
18-Jun-21	532	610	Buy	Sabri Hazarika
29-May-21	514	610	Buy	Sabri Hazarika
23-Apr-21	510	610	Buy	Sabri Hazarika
23-Mar-21	519	610	Buy	Sabri Hazarika
18-Feb-21	568	610	Hold	Sabri Hazarika
11-Feb-21	569	610	Hold	Sabri Hazarika
27-Nov-20	496	470	Hold	Sabri Hazarika
11-Nov-20	448	470	Hold	Sabri Hazarika
28-Sep-20	404	430	Hold	Sabri Hazarika
27-Aug-20	407	430	Hold	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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