

Indraprastha Gas

Strong margins offset volume weakness

We maintain our BUY recommendation on Indraprastha Gas (IGL) with a target price of INR 575, given (1) strong volume growth at ~12% CAGR over FY23-25E, (2) robust margins with the government allocating gas from the HPHT (high-pressure, high-temperature) fields to the priority sector, and (3) a strong portfolio of new geographical areas (GAs) ensuring volume growth visibility. Q1FY24 EBITDA/APAT stood at INR 6.4/4.4bn, up +4/4% YoY respectively, and came in marginally below our estimate, owing to lower-than-expected volumes and marginally higher-than-expected input gas cost. The reported volume stood at 8.2mmscmd, up +4% YoY; however, it declined 0.7% QoQ.

- Volumes:** Blended volume stood at 8.2mmscmd (+4% YoY, -0.7% QoQ), implying the lowest YoY volume growth seen in the last 10 quarters. CNG volume stood at 6.17mmscmd (+4% YoY, +1% QoQ), domestic PNG at 0.58mmscmd (+20% YoY, -7% QoQ), industrial/commercial at 0.96mmscmd (-2% YoY, -6% QoQ) and trading volume at 0.5mmscmd, (-1% YoY, -1% QoQ). Overall, PNG volume was at 2.03mmscmd (+4% YoY, -5% QoQ). We expect infrastructure expansion in existing and new areas to support our volume growth estimate of ~12% CAGR over FY23-25E. We estimate a volume of 8.7/10.2mmscmd for FY24/25E.
- Margins:** IGL's margins remained strong, offsetting the softness seen in Q1 volumes. Per-unit gross margin came in at INR 14.4/scm (+0.9% YoY, +19% QoQ) and per-unit EBITDA margin came in at INR 8.6/scm (flat YoY, +37% QoQ); however, it was marginally below our estimate due to higher-than-expected input gas cost of INR 31.3/scm (+3.4% YoY, -17% QoQ). Per-unit opex at INR 5.8/scm (+2% YoY, +0.1% QoQ) was broadly in line. We estimate per unit EBITDA margins of INR 7.4/7.8 per scm over FY24/25.
- Key takeaways:** (1) CNG volumes in Q1 were impacted by extended winter in Delhi and flooding in Delhi/NCR due to rains which led to the closure of some of the CNG stations. (2) Industrial/commercial volumes were impacted by competition from alternate fuels (LPG/propane). (3) The company expects volume growth to be contributed by new GAs like Karnal, Kanpur, Muzaffarnagar, Kaithal, Ajmer and Pali. (4) Management has guided volume to improve sequentially and has guided volume to average 9mmscmd in Q4FY24 while maintaining the EBITDA per unit margin target of INR 7.5-8/scm over the longer term.
- Change in estimates:** Our FY24/25 consolidated EPS estimates remain unchanged at INR 25.1/30.7 per share, with no change in volumes and margin assumptions. We maintain our BUY rating with a target price of INR 575/sh.
- DCF-based valuation:** Our target price is INR 575 (WACC 11.5%, terminal growth rate 3.0%). The stock is trading at 16.8x Sep-24E EPS.

Standalone financial summary

YE March (INR bn)	Q1 FY24	Q4 FY23	QoQ (%)	Q1 FY23	YoY (%)	FY21*	FY22*	FY23P*	FY24E*	FY25E*
Revenues	34.1	36.9	-7.6	31.9	6.7	49.4	77.1	141.5	111.6	130.6
EBITDA	6.4	4.7	37.8	6.2	4.0	14.8	18.8	20.4	23.5	28.9
APAT	4.4	3.3	32.9	4.2	4.2	10.5	12.8	13.9	16.3	20.2
AEPS (INR)	6.3	4.7	32.9	6.0	4.2	16.8	21.5	23.4	25.1	30.7
P/E (x)						28.0	21.9	20.1	18.7	15.3
EV/EBITDA (x)						21.4	16.8	14.8	12.7	9.9
RoE (%)						20.1	21.6	21.1	20.3	21.0

Source: Company, HSIE Research | *Consolidated

BUY

CMP (as on 26 Jul 2023)	INR 470
Target Price	INR 575
NIFTY	19,778

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 575	INR 575
	FY24E	FY25E
EPS change	-	-

KEY STOCK DATA

Bloomberg code	IGL IN
No. of Shares (mn)	700
MCap (INR bn) / (\$ mn)	329/4,020
6m avg traded value (INR mn)	845
52 Week high / low	INR 516/344

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(3.6)	13.7	33.6
Relative (%)	(14.2)	2.9	12.9

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	45.00	45.00
FIs & Local MFs	25.47	25.36
FPIs	21.27	21.94
Public & Others	8.26	7.71
Pledged Shares	0.00	0.00

Source: BSE

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Disclosure:

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