

Indraprastha Gas

BSE SENSEX
36,270

S&P CNX
10,888

CMP: INR262 TP: INR381 (+46%)

Buy



INDRAPRASTHA GAS LIMITED

Stock Info

Bloomberg	IGL IN
Equity Shares (m)	700
M.Cap.(INRb)/(USDb)	183.2 / 2.6
52-Week Range (INR)	344 / 215
1, 6, 12 Rel. Per (%)	-5/1/-27
12M Avg Val (INR M)	718
Free float (%)	55.0

Financials Snapshot (INR b)

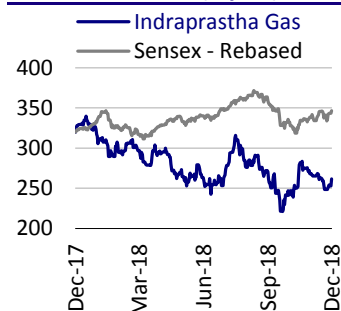
Y/E Mar	2019E	2020E	2021E
Sales	53.3	68.7	79.0
EBITDA	12.3	14.0	15.6
Adj. PAT	7.6	9.0	10.2
Adj. EPS (INR)	10.9	12.9	14.5
EPS Gr. (%)	15.7	18.4	12.5
BV/Sh.(INR)	58.8	68.2	79.2
RoE (%)	20.0	20.4	19.7
RoCE (%)	18.9	19.4	18.9
P/E (x)	24.0	20.2	17.9
P/BV (x)	4.4	3.8	3.3

Shareholding pattern (%)

As On	Sep-18	Jun-18	Sep-17
Promoter	45.0	45.0	45.0
DII	22.2	22.7	18.5
FII	21.1	20.1	25.3
Others	11.7	12.2	11.3

FII Includes depository receipts

Stock Performance (1-year)



The engine running well on CNG

We recently met Indraprastha Gas' (IGL) management to get an update on the company's business trajectory. Key takeaways:

Volumes traction remains strong

- IGL's volumes grew ~13% YoY in 1HFY19, supported by a healthy rate of vehicle conversions to CNG (at ~4,000 4Ws per month). Management expects volume growth to sustain over the near-to-medium term.
- Notably, ~5,000 CNG LCVs were added in FY18. Customers are likely to shift toward CNG-fitted engines due to a rise in the cost of diesel LCVs post BS-VI implementation. Government measures to curb pollution (e.g. diesel CVs now are restricted from entering Delhi) are providing added support. OEMs, too, are likely to roll out more CNG-fitted commercial transport vehicles, which bodes well for volume growth.

IGL to takeover gas supply in Gurugram by mid-CY19

- Deloitte was expected to submit the valuation of Haryana City Gas Distribution Ltd (HCGDL) before court hearing on 6th Dec'18. However, due to a delay in completion of the same, the next hearing is likely in mid-Jan'19.
- HCGDL sells 0.4mmscmd of gas, of which 0.2mmscmd is procured through IGL. IGL is likely to takeover operations from HCGDL in Gurugram, which would possibly pave the way for the case in Faridabad. We, however, note that Adani has done better work in Faridabad than HCGDL did in Gurugram.
- Management expects sales in Gurugram to increase from 0.4mmscmd to 0.8-1.0mmscmd in three years.

More room to grow

- Delhi provides a 50% discount on registration of CNG vehicles.
- IGL expects to open 4 CNG stations in Gurugram, 3 in Rewari and 2-3 in Karnal by end-FY19 (taking total to 40 in FY19). Additional 50 stations are likely to be opened in FY20. As newer areas get access to gas, penetration of private vehicles with CNG-fitted engines should increase and intercity travel would gain momentum.
- The company added 1.0lakh+ residential consumers over Apr-Oct'18, as against 1.5lakh in FY18. Full-year FY19 customer addition is estimated at 2.0lakh+.

Valuation and view

- We foresee several catalysts for the stock: (a) inclusion of gas under GST, (b) effective implementation of ban on polluting industrial fuels, (c) increasing penetration of CGD in new areas, boosting intercity/highway travel and (d) further restriction on diesel vehicles in a move to curb pollution.
- IGL won only one GA in the ninth CGD round. This appears as a concern given that electric vehicles (EVs) may dent its commercial CNG volumes after a few years. However, it may be noted that volume growth in the existing areas itself amounts to the peak volume that most of the GAs in 9/10th round would see.
- We cut our P/E multiple by 10% from 27x to 24.3x to account for the threat that EVs may pose over the longer term. Valuing IGL at 24.3x Dec'20E EPS and adding the contribution from JVs, we reiterate **Buy** with a TP of INR381.

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adding the contribution from its JVs (at 20% discount), we reiterate our **Buy** rating, with a target price of INR381.

Exhibit 1: Major Assumptions

Y-End: March (INR m)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Exchange Rate (Rs/US\$)	45.3	47.9	54.5	60.6	60.0	65.4	67.0	64.5	70.7	73.4	73.4
Gas volumes											
CNG volumes (mmscm)	818	938	1,005	1,028	1,072	1,125	1,266	1,413	1,557	1,753	1,919
PNG volumes (mmscm)	180	282	333	356	330	342	407	479	544	628	722
Total sales volume (mmscm)	998	1,220	1,338	1,384	1,402	1,466	1,673	1,892	2,101	2,381	2,641
EBITDA (INR/scm)	5.0	5.2	5.6	5.6	5.6	5.1	6.0	5.8	5.8	5.9	5.9
EPS	3.7	4.4	5.1	5.1	6.3	6.0	8.6	9.4	10.9	12.9	14.5

Source: Company, MOSL

Exhibit 2: Valuation of IGL

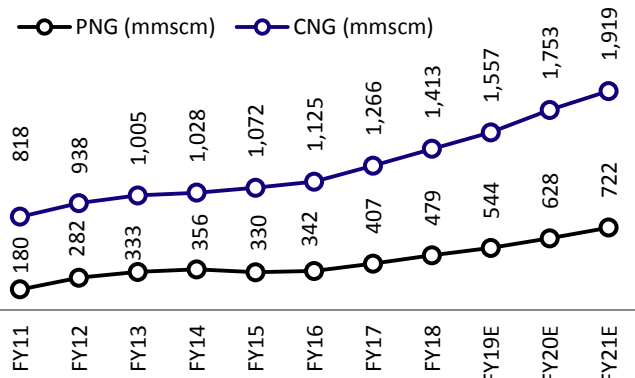
SOTP Valuation

SA Dec'21 EPS	14.1
Target P/E (x)	24.3
Standalone value	343
JV value (post 20% discount)	37
Fair value	381
CMP	262
Upside/Downside (%)	46

Source: Company, MOSL

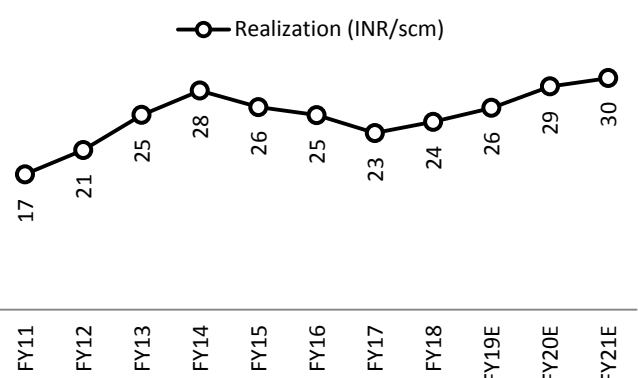
Story in charts

Exhibit 3: CNG sales growth gaining momentum



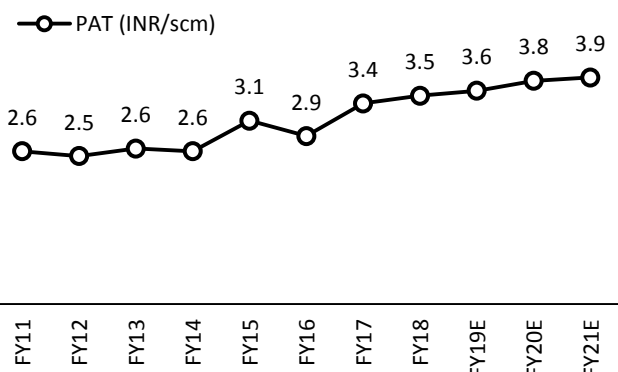
Source: Company, MOSL

Exhibit 4: IGL passes any cost increase to maintain its margins through its CNG and PNG consumer prices



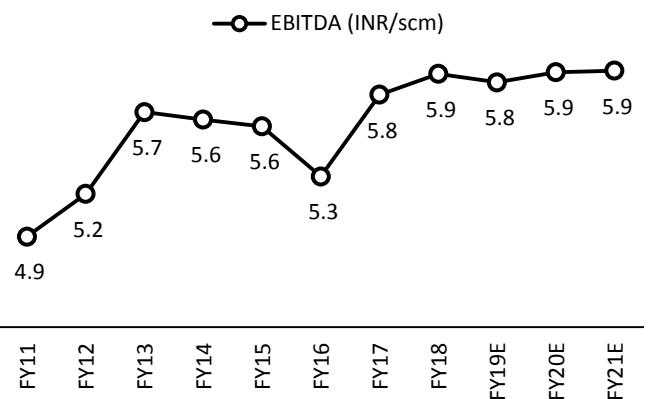
Source: Company, MOSL

Exhibit 5: IGL has been able to maintain its profitability (PAT in INR/scm)



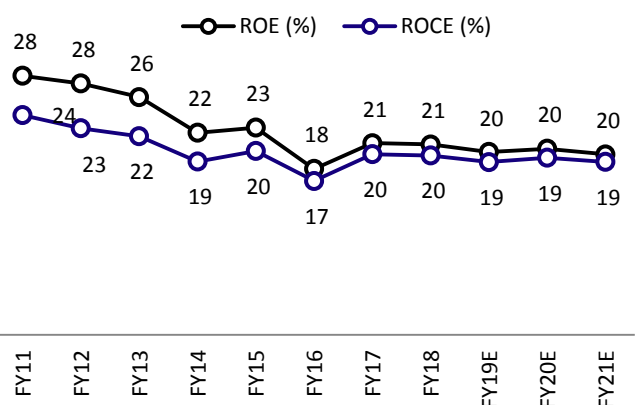
Source: Company, MOSL

Exhibit 6: Price pass-through ensures stable EBITDA/scm for IGL



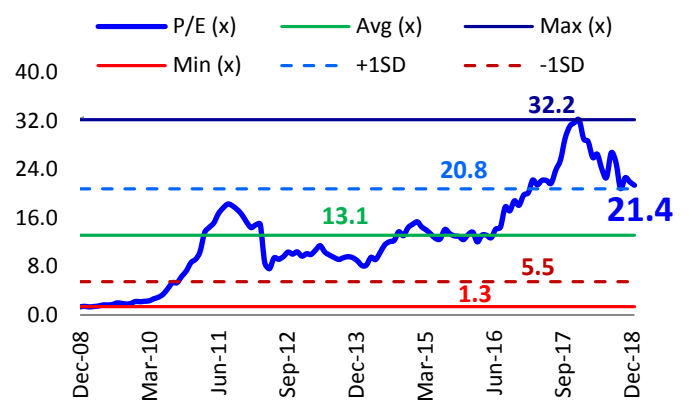
Source: Company, MOSL

Exhibit 7: Stable return ratios (%)



Source: Company, MOSL

Exhibit 8: One-year forward P/E



Source: Company, MOSL

Financials and Valuations

Income Statement							(INR Million)		
Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Net Sales	33,661	39,174	36,699	36,858	38,148	45,921	54,772	68,670	78,992
Change (%)	33.8	16.4	-6.3	0.4	3.5	20.4	19.3	25.4	15.0
Raw Materials Cons	21,970	26,815	23,816	22,761	20,837	24,914	31,918	39,167	45,217
Employee Costs	567	596	660	784	917	1,061	1,220	1,403	1,613
Other Exp (incl Stock Adj)	3,551	3,990	4,404	5,566	6,756	8,813	9,363	14,077	16,588
EBITDA	7,572	7,773	7,820	7,747	9,638	11,133	12,271	14,023	15,574
% of Net Sales	22.5	19.8	21.3	21.0	25.3	24.2	22.4	20.4	19.7
Depreciation	1,867	2,195	1,487	1,563	1,671	1,813	1,970	2,063	2,371
Interest	562	441	298	99	12	17	11	0	0
Other Income	138	259	456	299	652	1,021	1,358	1,744	2,214
Prior Period Inc./ (Exp.)	0	0	0	0	0	0	0	0	0
PBT	5,282	5,395	6,490	6,385	8,607	10,325	11,647	13,703	15,417
Tax	1,741	1,795	2,113	2,194	2,896	3,617	4,007	4,659	5,242
Rate (%)	33.0	33.3	32.6	34.4	33.6	35.0	34.4	34.0	34.0
PAT	3,541	3,600	4,377	4,191	5,711	6,708	7,640	9,044	10,175
Adj. PAT	3,541	3,600	4,377	4,191	6,048	6,604	7,640	9,044	10,175
Change (%)	15.3	1.7	21.6	-4.3	44.3	9.2	15.7	18.4	12.5

Balance Sheet							(INR Million)		
Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Share Capital	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Reserves	13,530	16,232	19,581	23,764	27,866	33,729	39,731	46,318	54,037
Net Worth	14,930	17,632	20,981	25,164	29,266	35,129	41,131	47,718	55,437
Loans	3,491	3,212	1,453	0	0	0	0	0	0
Deferred Tax	843	963	1,272	1,650	1,806	2,253	2,253	2,253	2,253
Capital Employed	19,264	21,807	23,706	26,815	31,072	37,382	43,384	49,972	57,690
Gross Fixed Assets	27,186	29,733	31,761	33,752	36,402	41,364	43,364	45,364	49,364
Less: Depreciation	8,713	10,780	12,203	13,560	15,231	17,044	19,014	21,076	23,448
Net Fixed Assets	18,473	18,953	19,558	20,192	21,172	24,320	24,350	24,287	25,916
Capital WIP	2,913	2,624	2,541	2,669	3,518	3,860	6,860	9,860	10,860
Pre operative Exp.	0	0	0	0	0	0	0	0	0
Investments	1,426	1,173	2,909	2,592	6,770	11,477	11,477	11,477	11,477
Curr. Assets, L & Adv.									
Inventory	397	371	409	576	517	524	630	790	909
Debtors	1,789	2,196	2,352	2,511	2,014	2,261	2,701	3,386	3,895
Cash & Bank Balance	510	2,514	2,315	4,538	6,086	5,580	10,259	16,602	23,691
Loans & Advances	654	493	489	80	103	149	149	149	149
Other Current Assets	119	197	163	655	682	1,110	1,110	1,110	1,110
Current Liab. & Prov.									
Liabilities	6,032	5,712	5,866	6,847	9,580	11,690	13,942	17,480	20,108
Provisions	984	1,001	1,163	151	210	210	210	210	210
Net Current Assets	-3,548	-943	-1,302	1,362	-388	-2,275	697	4,347	9,436
Application of Funds	19,264	21,808	23,706	26,815	31,072	37,382	43,384	49,972	57,690

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Basic (INR)									
EPS	5.1	5.1	6.3	6.0	8.6	9.4	10.9	12.9	14.5
Cash EPS	7.7	8.3	8.4	8.2	11.0	12.0	13.7	15.9	17.9
Book Value	21.3	25.2	30.0	35.9	41.8	50.2	58.7	68.2	79.2
DPS	1.1	1.1	1.2	1.2	1.7	2.0	2.0	3.0	3.0
Payout	21.7	21.4	19.2	20.0	19.7	21.2	18.4	23.2	20.6

Valuation (x)

P/E	51.6	50.7	41.7	43.6	30.2	27.7	24.0	20.2	17.9
Cash P/E	33.8	31.5	31.2	31.8	23.7	21.7	19.0	16.4	14.6
EV / EBITDA	24.5	23.6	23.3	23.0	18.3	15.9	14.1	11.8	10.2
EV / Sales	5.5	4.7	5.0	4.8	4.6	3.9	3.2	2.4	2.0
Price / Book Value	12.2	10.4	8.7	7.3	6.2	5.2	4.4	3.8	3.3
Dividend Yield (%)	0.4	0.4	0.5	0.5	0.7	0.8	0.8	1.1	1.1

Profitability Ratios (%)

RoE	26.0	22.1	22.7	18.2	21.0	20.8	20.0	20.4	19.7
RoCE	21.7	19.0	20.1	16.8	19.8	19.6	18.9	19.4	18.9
RoIC	29.2	24.9	27.2	24.6	33.3	38.9	42.8	58.3	73.7

Turnover Ratios

Debtors (No. of Days)	22	20	16	15	17	21	22	23	22
Asset Turnover (x)	1.9	1.9	1.6	1.5	1.3	1.3	1.3	1.5	1.5

Leverage Ratio

Net Debt / Equity (x)	0.2	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.3	-0.4
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Cash Flow Statement

(INR Million)

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
OP/(Loss) before Tax	5,282	5,395	6,490	6,385	8,607	10,325	11,627	13,706	15,431
Depreciation	1,867	2,195	1,487	1,563	1,671	1,813	1,970	2,063	2,371
Deferred tax	216	119	309	378	156	447	0	0	0
Direct Taxes Paid	-1,741	-1,795	-2,113	-2,194	-2,896	-3,617	-4,001	-4,660	-5,247
(Inc)/Dec in Wkg. Capital	13	-601	160	-440	3,298	1,382	1,429	2,974	2,000
CF from Op. Activity	5,637	5,314	6,333	5,691	10,835	10,349	11,025	14,082	14,556
(Inc)/Dec in FA & CWIP	-3,706	-2,386	-2,010	-2,325	-3,499	-5,304	-5,000	-5,000	-5,000
Free Cash Flow	1,931	2,928	4,323	3,367	7,336	5,045	6,025	9,082	9,556
(Pur)/Sale of Investments	-442	253	-1,736	317	-4,179	-4,707	0	0	0
Others									
CF from Inv. Activity	-4,147	-2,133	-3,746	-2,008	-7,678	-10,011	-5,000	-5,000	-5,000
Issue of Shares	0	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	-399	-279	-1,759	-1,453	0	0	0	0	0
Dividends Paid (incl.tax)	-901	-901	-983	-983	-1,310	-1,688	-1,638	-2,457	-2,457
Others	0	3	-45	975	-299	844	0	0	0
CF from Fin. Activity	-1,300	-1,177	-2,787	-1,461	-1,609	-844	-1,638	-2,457	-2,457
Inc / (Dec) in Cash	190	2,004	-199	2,223	1,548	-506	4,387	6,626	7,099
Add: Opening Balance	320	510	2,514	2,315	4,538	6,086	5,580	9,967	16,593
Closing Balance	510	2,514	2,315	4,538	6,086	5,580	9,967	16,593	23,692

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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