

# Indraprastha Gas

 BSE SENSEX  
 37,536

 S&P CNX  
 11,301

**CMP: INR297 TP: INR389 (+31%)**
**Buy**


## Stock Info

Bloomberg	IGL IN
Equity Shares (m)	700
M.Cap.(INRb)/(USDb)	208.2 / 3
52-Week Range (INR)	320 / 215
1, 6, 12 Rel. Per (%)	1/11/-13
12M Avg Val (INR M)	687
Free float (%)	55.0

## Financials Snapshot (INR b)

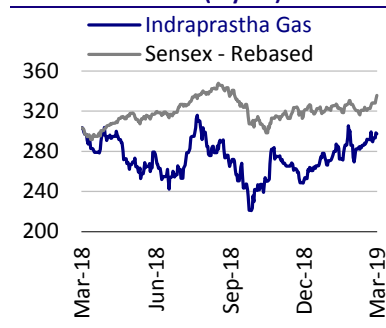
Y/E March	2019E	2020E	2021E
Net Sales	56.1	68.3	79.7
EBITDA	12.4	13.8	15.7
PAT	7.6	8.9	10.2
EPS (INR)	10.9	12.7	14.6
Gr. (%)	15.7	16.7	14.6
BV/Sh (INR)	58.8	68.0	79.1
RoE (%)	20.0	20.1	19.9
RoCE (%)	18.9	19.1	19.0
P/E (x)	27.3	23.4	20.4
P/BV (x)	5.1	4.4	3.8

## Shareholding pattern (%)

As On	Dec-18	Sep-18	Dec-17
Promoter	45.0	45.0	45.0
DII	23.7	22.2	18.6
FII	19.9	21.1	24.8
Others	11.4	11.7	11.6

FII Includes depository receipts

## Stock Performance (1-year)



## Far away from the electric shock

- The Delhi Cabinet aims to introduce 1,000 electric buses by Jun'20. This is in addition to CNG buses (500 low-floor and 500 normal).
- We note that Energy Efficiency Services Ltd (EESL) has not progressed much with the earlier order of 10,000 electric cars. More so, the recent tender of additional 10,000 cars has been quashed indefinitely.
- Multiple medium term triggers exist in the form of (a) intercity/highway travel on CNG, (b) higher conversion of LCVs, (c) increasing differential of diesel vehicles v/s petrol/CNG post the BS-VI implementation, (d) increasing launches from OEMs, (e) newer applications, (f) stricter enforcement of pollution norms in industries, and (g) growth in existing and newer areas.

## Electric vehicles not ready to take off

- EESL floated its first tender for 10,000 EVs in Aug'17, with the first phase of 500 cars to be delivered by Nov'17 and the rest by Jun'18. The tender was closed after much delay in Jan'18, with revised delivery deadline of Mar'19.
- Only 10% of the contracted EVs were delivered by end-Dec'18, extending the timeline further to Sep'19.
- EESL's tender in Nov'17 for 250 charging stations was finally awarded after cancellation of the first tender (Sept'17) and the follow on snap-bid (Oct'17), pitiful when compared against the ~4,000 charging stations required for efficient running of 10,000 EVs.
- The second tender for additional 10,000 EVs in Apr'18 got cancelled as the automobile companies awaited government policies on specifications for the charging infrastructure.

## Expect insignificant impact on volumes in the medium term

- Hence, we believe that EVs may have an impact only in the longer run. In the short- to medium-term, new areas like Rewari, Karnal and Muzzafarnagar would add 0.2mmscmd capacity each in the next 3-4 years.
- Haryana City Gas sells 0.4mmscmd; of this, it sources 0.25mmscmd from IGL with margins to IGL being minimal. Post the takeover, IGL may increase sales volume to ~1-1.5mmscmd within three years.
- Newly awarded geographical areas in the tenth round — (a) Kaithal (Haryana), (b) Ajmer, Pali and Rajsamand (Rajasthan), and (c) Kanpur, Fatehpur and Hamirpur (Uttar Pradesh) – would further add to the growth in the medium term.
- Implementation of BS-VI would increase the cost differential of diesel vehicles over petrol/CNG vehicles. Increasing penetration of natural gas with implementation of the ninth and tenth round of CGD bidding is expected to boost intercity/highway travel on CNG.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

 Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

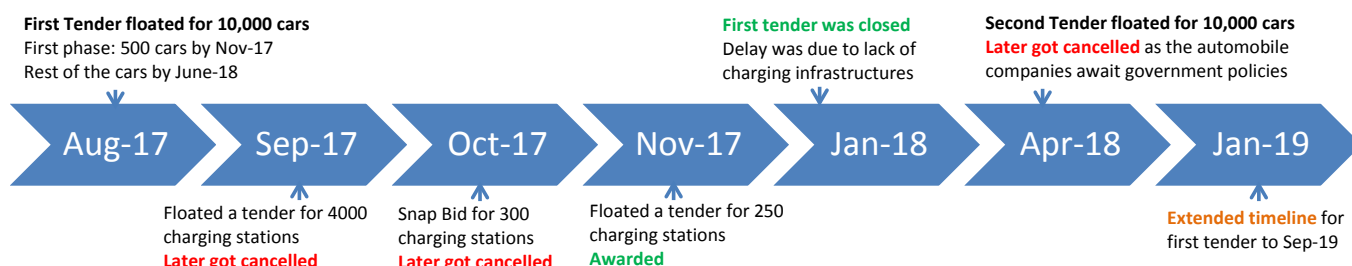
**Valuation and recommendation**

- We do not expect EVs to be a threat to IGL in the short-to medium-term. We expect volume growth to stay strong at 12%/11% in FY20/21. In the short term, EBITDA/scm may increase due to the INR appreciation. However, we remain conservative with estimate of INR5.8/INR5.9 in FY20/21.
- Both IGL's subsidiaries — MNGL and CUGL – have been growing at a steady pace. Contribution from JVs for 9MFY19 stands at INR695m, +25% YoY.
- We expect ROEs of 20.1%/19.9% in FY20/21. The stock is trading at 23.4x FY20 standalone EPS of INR12.7. We expect standalone EPS CAGR of 16% during FY18-21. We move our valuation from Dec'20 to FY21, valuing IGL at 24x (unchanged) FY21 standalone EPS of INR14.6, adding the contribution from its JVs. With a target price of INR389 (earlier: INR381), we reiterate our **Buy** recommendation for the stock.

### So far, electric vehicles have failed to take off

- In the beginning, EESL<sup>1</sup> planned replacing ~500,000 cars over 3-4 years in government offices with EVs ([link](#)).
- It launched its first tender for 10,000 EVs in Aug'17, with first batch of 500 cars to be delivered in Nov'17 and the rest by Jun'18.
- The tender was closed after much delay in Jan'18 with revised deadline of Mar'19, due to lack of charging infrastructure.
- EESL floated tender for charging stations in Sep'17 for 4,000 vehicles and a snap-bid in Oct'17 for 300 vehicles to meet its requirement of first 10,000 EVs. However, both the tender and the bid were cancelled due to complaints from bidders on lack of clarity in the charging specifications.
- In Nov'17, yet another tender was floated for 250 charging stations and was finally awarded to Exicom Power Solutions and EVI Technologies ([link](#)). However, at least 4,000 stations are required for efficient running of 10,000 EVs.
- Tata Motors and Mahindra and Mahindra won the tender for supplying Tata Tigor and E-Verito models, respectively, the costs being much higher at ~1.1m per car (~50% higher than the ICE variant).
- EESL floated the second tender for additional 10,000 EVs in Apr'18. This was later scrapped as automobile companies awaited government policies on specifications for charging infrastructure.
- Even the deadline for the first tender of 10,000 EVs has been extended from Mar'19 to Sep'19, as many states are yet to decide on their EV policies, resulting in delivery of only 1,000 vehicles.

#### Exhibit 1: EESL timeline trajectory since 2HCY17



Source: EESL, ET Energy World, Business Today , MOFSL

### FAME-II policy has several restrictions

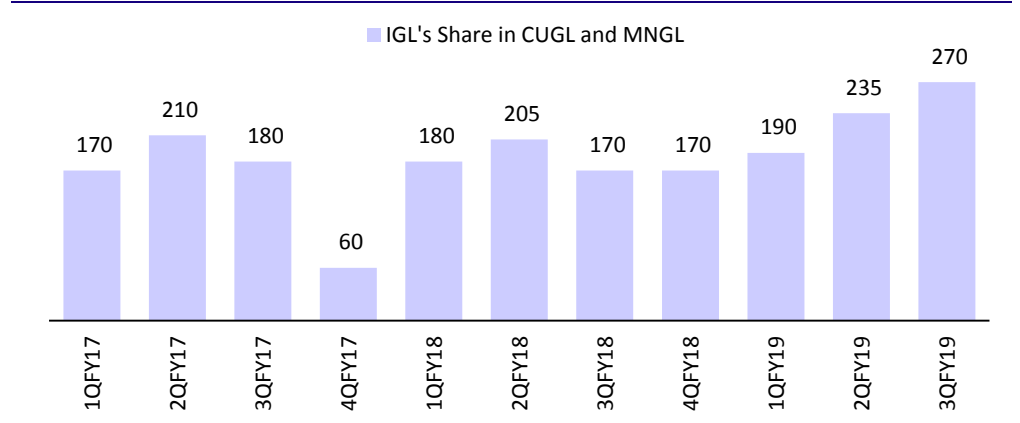
- FAME-II policy has a total of INR88b in subsidies for 2Ws, 3Ws, 4Ws and buses. The rest — INR12b — is for setting up charging infrastructure.
- The policy comes with numerous riders that make the implementation difficult, these include:
  - Individuals can avail subsidies for 2Ws, while only fleet operators would get subsidies for 4Ws. The buses need to be on operating lease from manufacturers to State Transport Corporations, the capex as well as the maintenance cost being the responsibility of the manufacturers.
  - Uniform incentive of INR10,000 per KWh; which means that subsidy for a bus would come down from INR10m in FAME-I to INR5m in FAME-II.

<sup>1</sup> A JV of four PSU power companies (NTPC, PFC, REC and POWERGRID) working towards the Indian government aim to achieve 30% e-mobility by 2030 under the National Electric Mobility Mission Plan (NEMMP).

- To encourage local manufacturing, electric power trains would attract 15% import duty and import duties on batteries would increase from 5% to 15% in two years.
- Buses need to ensure that 40% of the components are localized; while for the other categories of vehicles 50% components need to be localized. It remains to be seen how Indian manufacturers will comply with this, considering that batteries and power train account for a substantial part of the manufacturing cost of EVs — a space where Indian manufacturers have no expertise.

### Growth avenues abound

- In the existing areas, IGL serves ~23,950 buses. Delhi Transport Corporation (DTC) has ~3,900 buses, of which ~2,000 are always grounded due to lack of maintenance.
- DTC aims to procure 500 low-floor, 500 normal CNG buses and 1,000 electric buses. Additionally, the UP State Road Transport Corporation is likely to add 250 CNG buses.
- In Delhi, due to restriction on plying of diesel vehicles, IGL is witnessing conversion of LCVs to CNG, payback is estimated at lower than a year. Our thematic report ([link](#)) had highlighted how implementation of BS-VI would increase the cost of diesel vehicles v/s petrol/CNG variants due to costly after-treatment packages. We expect this to aid in the adoption of CNG vehicles.
- Deloitte has conducted the valuation for Haryana City Gas Distribution Ltd (HCGDL). Post the valuation, Gurugram would be completely under IGL's control. Currently, HCGDL sells 0.4mmscmd of gas, of this, IGL supplies 0.25mmscmd, with IGL commanding very low margin on this volume. Within three years of the takeover, we expect sales volume to rise to 1-1.5mmscmd.
- IGL has already opened up five CNG stations in Rewari. It plans to operationalize Karnal and Muzzafarnagar soon. Each area is expected to add 0.2mmscmd in the next few years.
- IGL has won three areas in the tenth round; these include (a) Kaithal (Haryana), (b) Ajmer, Pali and Rajsamand (Rajasthan), and (c) Kanpur, Fatehpur and Hamirpur (Uttar Pradesh). These areas would also add to the medium-to long-term growth.
- IGL aims to open ~50 CNG stations each year over the next few years, which would improve convenience, availability and result in higher conversion of vehicles.
- Even IGL's subsidiaries — MNGL and CUGL – have been showing steady growth with 9MFY19 PAT at INR1,390m, +25% YoY.

**Exhibit 2: Contribution from JVs (PAT, INR m)**

Source: Company, MOFSL

**Valuation and recommendation**

- Our research suggests that while EVs are likely to impact IGL in the longer run, they are not a threat in the short-to medium-term.
- In the short-to medium-term, there are numerous triggers for volume growth. We expect volume growth of 12%/11% in FY20/21. We expect EBITDA/scm of INR5.8/INR5.9 in FY20/21.
- IGL is trading at 23.4x FY20 standalone EPS of INR12.7. Standalone EPS CAGR for FY18-21 is expected at ~16%.
- We roll over our valuation from Dec'20 to FY21. Valuing the stock at 24x (unchanged) FY21 standalone EPS of INR14.6 and adding contribution from the JVs, we reiterate our **Buy** recommendation on the stock.

**Exhibit 3: Major Assumptions**

Y-End: March (INR m)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Exchange Rate (Rs/US\$)	60.6	60.0	65.4	67.0	64.5	70.4	73.1	74.2
<b>Gas volumes</b>								
CNG volumes (mmscm)	1,028	1,072	1,125	1,266	1,413	1,583	1,756	1,924
PNG volumes (mmscm)	356	330	342	407	479	544	628	722
Total sales volume (mmscm)	1,384	1,402	1,466	1,673	1,892	2,127	2,384	2,647
<b>EBITDA (INR/scm)</b>	<b>5.6</b>	<b>5.6</b>	<b>5.1</b>	<b>6.0</b>	<b>5.8</b>	<b>5.8</b>	<b>5.8</b>	<b>5.9</b>
<b>EPS</b>	<b>5.1</b>	<b>6.3</b>	<b>6.0</b>	<b>8.6</b>	<b>9.4</b>	<b>10.9</b>	<b>12.7</b>	<b>14.6</b>

Source: Company, MOFSL

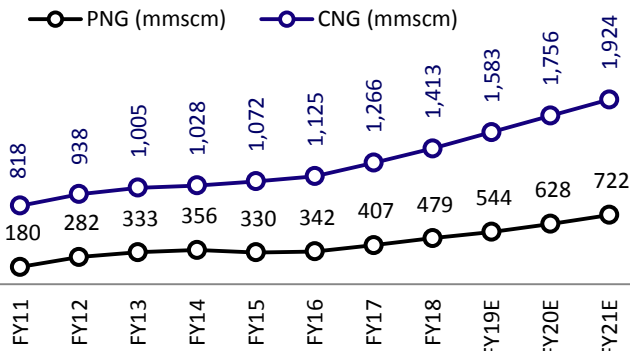
**Exhibit 4: Valuation of IGL**

<b>SOTP Valuation</b>	
SA FY21 EPS	14.6
Target P/E (x)	24.0
Standalone value	351
JV value (post 20% discount)	39
<b>Fair value</b>	<b>389</b>

Source: Company, MOFSL

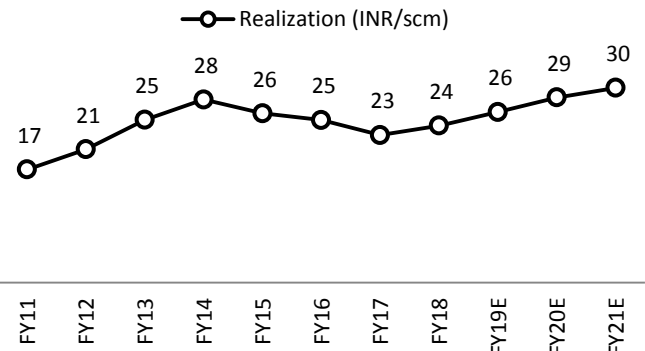
## Story in charts

**Exhibit 5: Sales growth to continue with FY18-21 CAGR for PNG at ~15% and CNG at ~11%**



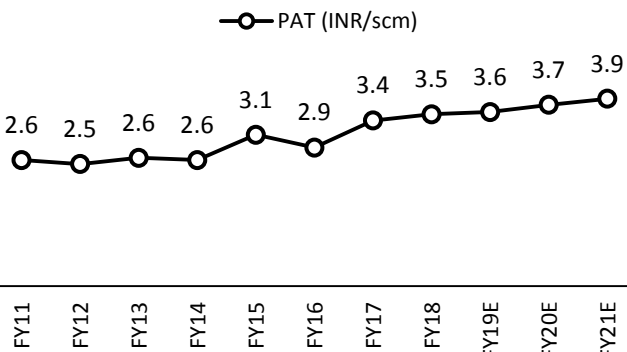
Source: Company, MOFSL

**Exhibit 6: IGL passes any cost increase to maintain its margins through its CNG and PNG consumer prices**



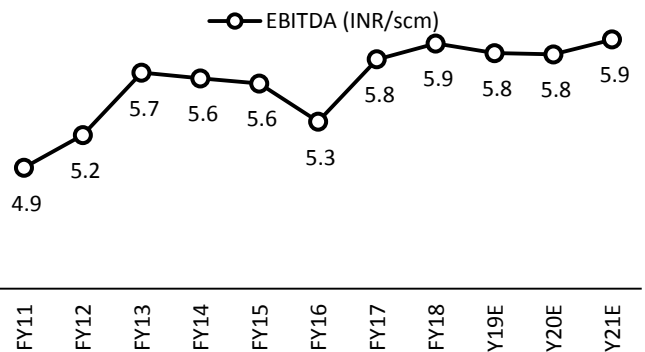
Source: Company, MOFSL

**Exhibit 7: IGL has been able to maintain its profitability (PAT in INR/scm)**



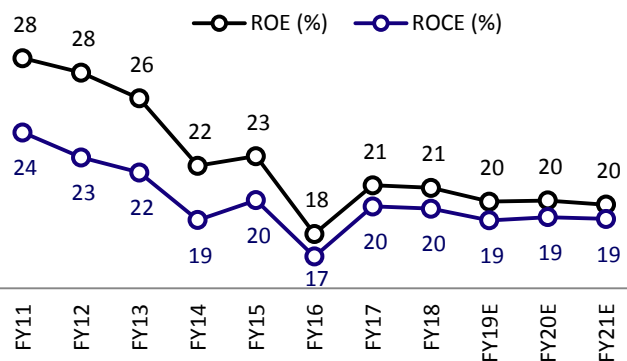
Source: Company, MOFSL

**Exhibit 8: Price pass-through ensures stable EBITDA/scm for IGL**



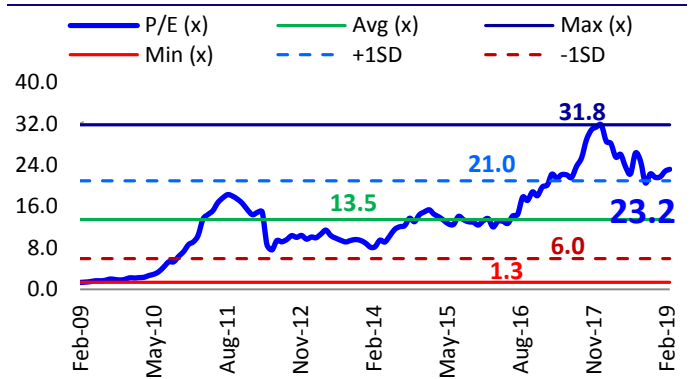
Source: Company, MOFSL

**Exhibit 9: IGL's return ratios (%)**



Source: Company, MOFSL

**Exhibit 10: IGL 1-year forward P/E Chart**



Source: Company, MOFSL

## Financials and Valuations

Income Statement								(INR M)
Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Net Sales</b>	<b>39,174</b>	<b>36,699</b>	<b>36,858</b>	<b>38,148</b>	<b>45,921</b>	<b>56,126</b>	<b>68,301</b>	<b>79,748</b>
Change (%)	16.4	-6.3	0.4	3.5	20.4	22.2	21.7	16.8
Raw Materials Cons	26,815	23,816	22,761	20,837	24,914	33,014	39,068	45,736
Employee Costs	596	660	784	917	1,061	1,220	1,403	1,613
Other Exp (incl Stock Adj)	3,990	4,404	5,566	6,756	8,813	9,532	14,002	16,747
<b>EBITDA</b>	<b>7,773</b>	<b>7,820</b>	<b>7,747</b>	<b>9,638</b>	<b>11,133</b>	<b>12,361</b>	<b>13,829</b>	<b>15,653</b>
% of Net Sales	19.8	21.3	21.0	25.3	24.2	22.0	20.2	19.6
Depreciation	2,195	1,487	1,563	1,671	1,813	1,970	2,063	2,371
Interest	441	298	99	12	17	20	0	0
Other Income	259	456	299	652	1,021	1,367	1,746	2,209
<b>PBT</b>	<b>5,395</b>	<b>6,490</b>	<b>6,385</b>	<b>8,607</b>	<b>10,325</b>	<b>11,737</b>	<b>13,512</b>	<b>15,491</b>
Tax	1,795	2,113	2,194	2,896	3,617	4,098	4,594	5,267
Rate (%)	33.3	32.6	34.4	33.6	35.0	34.9	34.0	34.0
PAT	3,600	4,377	4,191	5,711	6,708	7,639	8,918	10,224
<b>Adj. PAT</b>	<b>3,600</b>	<b>4,377</b>	<b>4,191</b>	<b>6,048</b>	<b>6,604</b>	<b>7,639</b>	<b>8,918</b>	<b>10,224</b>
Change (%)	1.7	21.6	-4.3	44.3	9.2	15.7	16.7	14.6

Balance Sheet								(INR M)
Y/E March	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
Reserves	16,232	19,581	23,764	27,866	33,729	39,730	46,191	53,958
<b>Net Worth</b>	<b>17,632</b>	<b>20,981</b>	<b>25,164</b>	<b>29,266</b>	<b>35,129</b>	<b>41,130</b>	<b>47,591</b>	<b>55,358</b>
Loans	3,212	1,453	0	0	0	0	0	0
Deferred Tax	963	1,272	1,650	1,806	2,253	2,253	2,253	2,253
<b>Capital Employed</b>	<b>21,807</b>	<b>23,706</b>	<b>26,815</b>	<b>31,072</b>	<b>37,382</b>	<b>43,383</b>	<b>49,844</b>	<b>57,611</b>
<b>Net Fixed Assets</b>	<b>18,953</b>	<b>19,558</b>	<b>20,192</b>	<b>21,172</b>	<b>24,320</b>	<b>24,350</b>	<b>24,287</b>	<b>25,916</b>
Capital WIP	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
Investments	1,173	2,909	2,592	6,770	11,477	11,477	11,477	11,477
<b>Curr. Assets, L &amp; Adv.</b>								
Inventory	371	409	576	517	524	646	786	918
Debtors	2,196	2,352	2,511	2,014	2,261	2,768	3,368	3,933
Cash & Bank Balance	2,514	2,315	4,538	6,086	5,580	10,520	16,403	23,759
Loans & Advances	493	489	80	103	149	149	149	149
Other Current Assets	197	163	655	682	1,110	1,110	1,110	1,110
<b>Current Liab. &amp; Prov.</b>								
Liabilities	5,712	5,866	6,847	9,580	11,690	14,287	17,386	20,300
Provisions	1,001	1,163	151	210	210	210	210	210
<b>Net Current Assets</b>	<b>-943</b>	<b>-1,302</b>	<b>1,362</b>	<b>-388</b>	<b>-2,275</b>	<b>696</b>	<b>4,220</b>	<b>9,358</b>
<b>Application of Funds</b>	<b>21,808</b>	<b>23,706</b>	<b>26,815</b>	<b>31,072</b>	<b>37,382</b>	<b>43,383</b>	<b>49,844</b>	<b>57,611</b>

E: MOFSL Estimates

## Financials and Valuations

### Ratios

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>5.1</b>	<b>6.3</b>	<b>6.0</b>	<b>8.6</b>	<b>9.4</b>	<b>10.9</b>	<b>12.7</b>	<b>14.6</b>
Cash EPS	8.3	8.4	8.2	11.0	12.0	13.7	15.7	18.0
Book Value	25.2	30.0	35.9	41.8	50.2	58.8	68.0	79.1
DPS	1.1	1.2	1.2	1.7	2.0	2.0	3.0	3.0
Payout	21.4	19.2	20.0	19.7	21.2	18.3	23.5	20.5
<b>Valuation (x)</b>								
P/E	57.9	47.6	49.7	34.5	31.6	27.3	23.4	20.4
Cash P/E	36.0	35.5	36.2	27.0	24.8	21.7	19.0	16.5
EV / EBITDA	26.9	26.5	26.3	21.0	18.2	16.0	13.9	11.8
EV / Sales	5.3	5.7	5.5	5.3	4.4	3.5	2.8	2.3
Price / Book Value	11.8	9.9	8.3	7.1	5.9	5.1	4.4	3.8
Dividend Yield (%)	0.4	0.4	0.4	0.6	0.7	0.7	1.0	1.0
<b>Profitability Ratios (%)</b>								
RoE	22.1	22.7	18.2	21.0	20.8	20.0	20.1	19.9
RoCE	19.0	20.1	16.8	19.8	19.6	18.9	19.1	19.0
RoIC	24.9	27.2	24.6	33.3	38.9	43.6	58.3	74.2
<b>Turnover Ratios</b>								
Debtors (No. of Days)	20	16	15	17	21	22	22	22
Asset Turnover (x)	1.9	1.6	1.5	1.3	1.3	1.4	1.5	1.5
<b>Leverage Ratio</b>								
Net Debt / Equity (x)	0.0	0.0	-0.2	-0.2	-0.2	-0.3	-0.3	-0.4

### Cash Flow Statement

(INR M)

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
OP/(Loss) before Tax	5,395	6,490	6,385	8,607	10,325	11,737	13,512	15,491
Depreciation	2,195	1,487	1,563	1,671	1,813	1,970	2,063	2,371
Deferred tax	119	309	378	156	447	0	0	0
Direct Taxes Paid	-1,795	-2,113	-2,194	-2,896	-3,617	-4,098	-4,594	-5,267
(Inc)/Dec in Wkg. Capital	-601	160	-440	3,298	1,382	1,969	2,359	2,218
<b>CF from Op. Activity</b>	<b>5,314</b>	<b>6,333</b>	<b>5,691</b>	<b>10,835</b>	<b>10,349</b>	<b>11,578</b>	<b>13,340</b>	<b>14,812</b>
(Inc)/Dec in FA & CWIP	-2,386	-2,010	-2,325	-3,499	-5,304	-5,000	-5,000	-5,000
<b>Free Cash Flow</b>	<b>2,928</b>	<b>4,323</b>	<b>3,367</b>	<b>7,336</b>	<b>5,045</b>	<b>6,578</b>	<b>8,340</b>	<b>9,812</b>
(Pur)/Sale of Investments	253	-1,736	317	-4,179	-4,707	0	0	0
Others								
<b>CF from Inv. Activity</b>	<b>-2,133</b>	<b>-3,746</b>	<b>-2,008</b>	<b>-7,678</b>	<b>-10,011</b>	<b>-5,000</b>	<b>-5,000</b>	<b>-5,000</b>
Issue of Shares	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	-279	-1,759	-1,453	0	0	0	0	0
Dividends Paid (incl.tax)	-901	-983	-983	-1,310	-1,688	-1,638	-2,457	-2,457
Others	3	-45	975	-299	844	0	0	0
<b>CF from Fin. Activity</b>	<b>-1,177</b>	<b>-2,787</b>	<b>-1,461</b>	<b>-1,609</b>	<b>-844</b>	<b>-1,638</b>	<b>-2,457</b>	<b>-2,457</b>
<b>Inc / ( Dec) in Cash</b>	<b>2,004</b>	<b>-199</b>	<b>2,223</b>	<b>1,548</b>	<b>-506</b>	<b>4,940</b>	<b>5,883</b>	<b>7,356</b>
Add: Opening Balance	510	2,514	2,315	4,538	6,086	5,580	10,520	16,403
<b>Closing Balance</b>	<b>2,514</b>	<b>2,315</b>	<b>4,538</b>	<b>6,086</b>	<b>5,580</b>	<b>10,520</b>	<b>16,403</b>	<b>23,759</b>

E: MOFSL Estimates



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

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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