

Indraprastha Gas

Estimate change

TP change

Rating change



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Asiamoney Brokers Poll 2020 for India
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Bloomberg	IGL IN
Equity Shares (m)	700
M.Cap.(INRb)/(USDb)	331.7 / 4.4
52-Week Range (INR)	534 / 285
1, 6, 12 Rel. Per (%)	-4/29/56
12M Avg Val (INR M)	1128

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	64.9	44.6	68.6
EBITDA	15.2	11.4	17.8
Adj. PAT	11.4	7.6	12.5
Adj. EPS (INR)	16.2	10.9	17.9
EPS Gr. (%)	44.5	-32.8	64.1
BV/Sh.(INR)	72.3	80.9	95.3

Ratios

Net D:E	-0.4	-0.3	-0.5
RoE (%)	28.3	14.2	20.3
RoCE (%)	27.1	13.8	19.7
Payout (%)	17.2	18.3	16.8

Valuation

P/E (x)	29.3	43.5	26.5
P/BV (x)	6.6	5.9	5.0
EV/EBITDA (x)	20.4	27.5	16.9
Div. Yield (%)	0.6	0.4	0.6
FCF Yield (%)	2.3	-0.3	4.1

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	45.0	45.0	45.0
DII	21.8	20.7	23.0
FII	22.8	24.5	21.1
Others	10.5	9.8	10.9

FII Includes depository receipts

CMP: INR474

TP: INR485 (+2%)

Neutral

CNG volumes sway amidst COVID-19 crisis

- IGL reported lower-than-estimated EBITDA owing to a miss on volumes, which stood at ~6.2mmscmd (v/s est. -9%, -1% YoY). EBITDA/scm was at INR6.6 (v/s est. INR7); however, it was up YoY (INR5.9) and QoQ (INR6.4). The company has reported negative volume growth for the first time in the last five years.
- For FY20, the company reported single-digit volume growth of 9% YoY to 6.44mmscmd (9MFY20 growth was ~13% YoY), primarily led by the huge impact of the COVID-19 lockdown. This comes after IGL recording three years of strong double-digit growth of ~14% YoY.
- Growth strategies by IGL include improving CNG infrastructure in its geographical areas (GAs), increasing PNG penetration, and creating new synergies by bidding for new cities/areas.
- Although COVID-19 has impacted demand drastically, CNG volumes were down to ~10%/20% of normal levels in Apr'20/May'20, and are not even at 50% of the normal levels currently. CNG volumes are expected to remain low over the next 5-6 months before normalcy returns. Factoring in the same, we model in total volumes of 4.7mmscmd for FY21 (expecting normalcy in CNG volumes from 3QFY21).
- Also, there is an impact on new developments as we are entering the monsoon season while exiting the lockdowns. Thus, the Minimum Work Program for new GAs would be impacted. However, for FY22E, we build in total volumes growth of 14% over FY20 levels (to 7.4mmscmd).
- The aforementioned changes have led to downward EPS revision of ~30%/~12% for FY21/22E (to INR10.9/INR17.9), with EBITDA/scm of INR6.6 (unchanged) v/s INR6.4 in FY20, as companies would benefit from lower APM and spot LNG prices.
- The board has recommended final dividend of INR2.8/share (up from INR2.4 in FY19). We value the company at 24x FY22E adj. EPS of INR17.7, and add value from JV to arrive at a target price of INR485 (from earlier INR530). Maintain Neutral.

EBITDA miss led by lower volumes

- Volumes were lower 1% YoY at 6.2mmscmd. CNG volumes were down 3% YoY to 4.49mmscmd while PNG volumes were up 5% YoY to 1.74mmscmd (primarily led by higher cooking gas usage).
- EBITDA/scm was also lower than est. at INR6.6 (v/s est. INR7); thus, reported EBITDA came in at INR3.8b (v/s est. -14%, +14% YoY, -4% QoQ).
- Lower other income resulted in PBT of INR3.4b (+3% YoY). Tax rate for the quarter stood at 25.4%, clocking PAT of INR2.5b (v/s est. -21%, +12% YoY).

FY20 growth dips to single-digit with just one week of lockdown

- For FY20, the company reported total volume growth of 9% YoY to 6.44mmscmd. CNG grew 8% YoY to 4.75mmscmd while PNG grew 12% YoY to 1.69mmscmd.
- EBITDA/scm for the year improved to INR6.4 (v/s INR5.8 in FY19), thus resulting in EBITDA of INR15.2b (+21% YoY).
- PBT was higher 18% YoY to INR14.2b, while PAT stood 44% higher YoY to INR11.4b (owing to DTL benefits of INR4.9b taken in 2QFY20).

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

Other highlights

- IGL added 55 CNG stations in FY20 (~40,000 CNG vehicles added in a year) and is planning to set up 95 new CNG stations (55/40 in old/new GAs).
- The company connected additional 2.7lac PNG households and 1,229 Industrial units (totalling to 5,566) in FY20.
- Capex for the year stood at INR10.5b (+20% YoY). IGL has capex plan of INR20b for the next three years (at its new and old GAs).
- IGL would consider inorganic growth in the coming years. It is also looking at international prospects (like Myanmar) and has MoU with Osaka Gas.

Valuation and view

- **The company believes CNG revival to be gradual in the coming months, which is in line with our thesis highlighted in [our earlier report](#).**
- Virtual connect has impacted intra-city/intra-state travel. Schools are shut and other economic activities have come to a halt. Commercial segment is completely down with dubiety on people returning to restaurants and malls.
- All of these have led to a huge impact on demand for fuels (CNG and mainly PNG-commercial). Thus, the entire value chain (right from producer to end consumer) should be up and running to bring back normalcy, and in turn, stable volume consumption in the space.
- IGL has ~75% of its volumes coming from CNG and this segment was leading growth over the last couple of years, led by proliferation of CNG stations and higher conversions.
- **We believe that returning to normalcy may take more time. However, barring FY21, we have built in total volume growth of 14% for FY22E over FY20.**
- Also, CGDs have retained a portion of the APM gas price cut in Apr'20, and thus, are likely to earn higher margins. IGL retained ~20% of the reduction in APM gas prices (from Apr'20), while it has also hiked [CNG prices by INR1/kg](#) to cover various costs and expenditure in lieu of the COVID-19 impact.
- **Thus, we expect margins to remain strong for the company, although revival in demand/volume remains a key headwind for now.**
- We reiterate our belief in IGL's volume trajectory, led by growth in NCR, inter-city travel on CNG, the higher conversion to CNG due to BS-VI implementation and contribution from newer GAs.
- In the short-to-medium term, IGL could increase its sales volume from new areas such as Rewari, Karnal and Muzzafarnagar, Haryana City Gas and the newly-awarded (3) GAs in the 10th round — (a) Kaithal (Haryana), (b) Ajmer, Pali and Rajsamand (Rajasthan), and (c) Kanpur, Fatehpur and Hamirpur (Uttar Pradesh).
- The stock trades at around 26.5x FY22E EPS of INR17.9 and EV/EBITDA of 16.9x FY22E. We value the company at 24x FY22E adj. EPS of INR17.7 and add value from the JV to arrive at a target price of INR485 (from earlier INR530). Maintain **Neutral**.

Quarterly performance

(INR Million)

Y/E MARCH	FY19				FY20				FY19	FY20	FY20	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	vs Est
Net Sales	12,874	14,215	15,084	15,426	15,761	16,925	16,642	15,525	57,600	64,853	19,812	-22%
Change (%)	22.7	26.2	27.4	25.1	22.4	19.1	10.3	0.6	25.4	12.6	28.4	
EBITDA	2,951	3,080	3,179	3,312	3,585	3,926	3,918	3,767	12,521	15,196	4,394	-14%
EBITDA (Rs/scm)	5.8	5.7	5.8	5.9	6.3	6.5	6.4	6.6	5.8	6.4	7.0	-6%
% Change	6.4	9.4	20.8	20.3	21.5	27.5	23.3	13.7	14.1	21.4	32.7	
Depreciation	473	503	513	522	605	621	641	655	2,011	2,523	660	-1%
Interest	6	6	9	0	16	18	20	27	21	81	20	
Other Income	262	332	403	513	354	390	508	313	1,510.2	1,563.8	595.8	-48%
PBT	2,735	2,903	3,060	3,303	3,318	3,677	3,764	3,398	12,000	14,157	4,309	-21%
Rate (%)	35.7	35.5	35.3	31.7	34.2	-3.6	24.6	25.4	34.4	19.7	25.2	
PAT	1,759	1,873	1,980	2,255	2,184	3,810	2,839	2,534	7,867	11,365	3,225	-21%
PAT (Rs/scm)	3.5	3.5	3.6	4.0	3.8	6.3	4.6	4.5	3.6	4.8	5.2	-13%
Change (%)	9.1	10.9	19.3	29.1	24.1	103.4	43.4	12.4	17.3	44.5	43.0	
Gas Volumes (mmscmd)												
CNG	4.13	4.41	4.40	4.61	4.66	4.92	4.91	4.49	4.39	4.75	4.99	-10%
PNG	1.42	1.48	1.50	1.66	1.59	1.65	1.78	1.74	1.51	1.69	1.88	-8%
Total	5.55	5.89	5.91	6.27	6.25	6.58	6.70	6.23	5.90	6.44	6.87	-9%
YoY Change (%)												
CNG	11.6	12.8	13.1	15.9	12.8	11.6	11.6	(2.5)	13.4	8.2	8.11	
PNG	18.3	13.3	9.8	20.2	12.4	11.8	18.4	4.9	15.3	11.7	13.55	
Total	13.2	12.9	12.3	17.0	12.7	11.6	13.4	(0.6)	13.9	9.1	9.55	

E: MOFSL Estimates

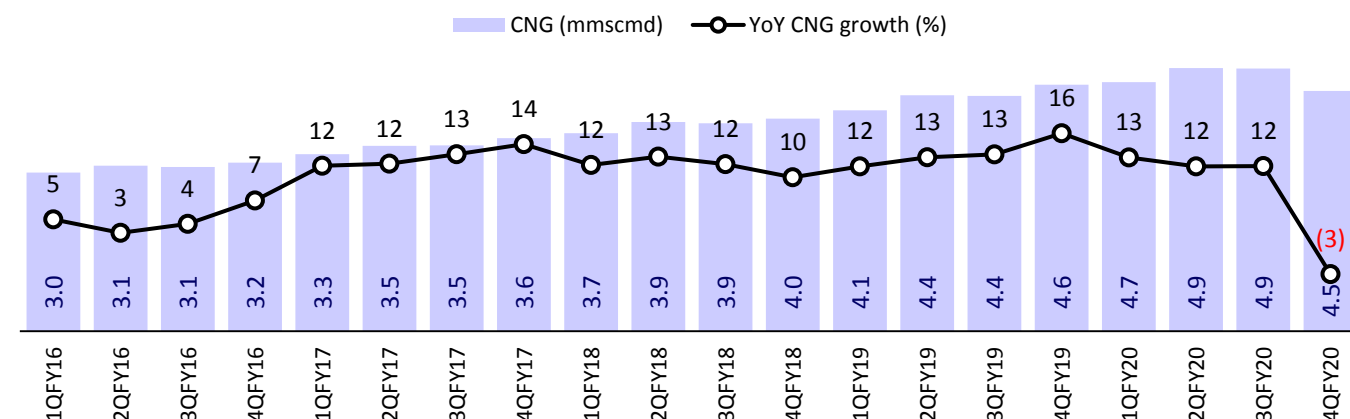
Exhibit 1: IGL- Operational Highlights

INR Million	FY19				FY20				4QFY20	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY (%)	QoQ (%)
Net sales	12,874	14,215	15,084	15,426	15,761	16,925	16,642	15,525	0.6	(6.7)
Realization (INR/scm)	25.5	26.2	27.8	27.4	27.7	28.0	27.0	27.4	0.1	1.3
Total raw material	7,418	8,425	9,073	9,058	9,217	9,905	9,410	8,262	(8.8)	(12.2)
Gas cost (INR/scm)	14.7	15.5	16.7	16.1	16.2	16.4	15.3	14.6	(9.3)	(4.6)
Gross Margin	5,456	5,790	6,012	6,368	6,544	7,020	7,232	7,263	14.1	0.4
Gross Margin (INR/scm)	10.8	10.7	11.1	11.3	11.5	11.6	11.7	12.8	13.5	9.1
EBITDA	2,951	3,080	3,179	3,312	3,585	3,926	3,918	3,767	13.7	(3.8)
EBITDA (INR/scm)	5.8	5.7	5.8	5.9	6.3	6.5	6.4	6.6	13.1	4.5
PAT	1,759	1,873	1,980	2,255	2,184	3,810	2,839	2,534	12.4	(10.7)
PAT (INR/scm)	3.5	3.5	3.6	4.0	3.8	6.3	4.6	4.5	11.8	(3.0)
Volumes										
CNG (MMSCMD)	4.1	4.4	4.4	4.6	4.7	4.9	4.9	4.5	(2.5)	(8.6)
PNG (MMSCMD)	1.4	1.5	1.5	1.7	1.6	1.7	1.8	1.7	4.9	(2.5)
Total (MMSCMD)	5.5	5.9	5.9	6.3	6.3	6.6	6.7	6.2	(0.6)	(6.9)
Per unit realisation										
CNG (INR/scm)	28.6	28.9	30.8	30.4	31.6	31.7	30.6	31.0	1.8	1.4
CNG (INR/kg)	39.4	40.5	42.8	43.0	43.9	44.9	43.5	43.5	1.2	0.1
PNG (INR/scm)	26.5	28.7	29.9	28.9	29.5	29.1	30.1	29.6	2.5	(1.5)

Source: Company, MOFSL

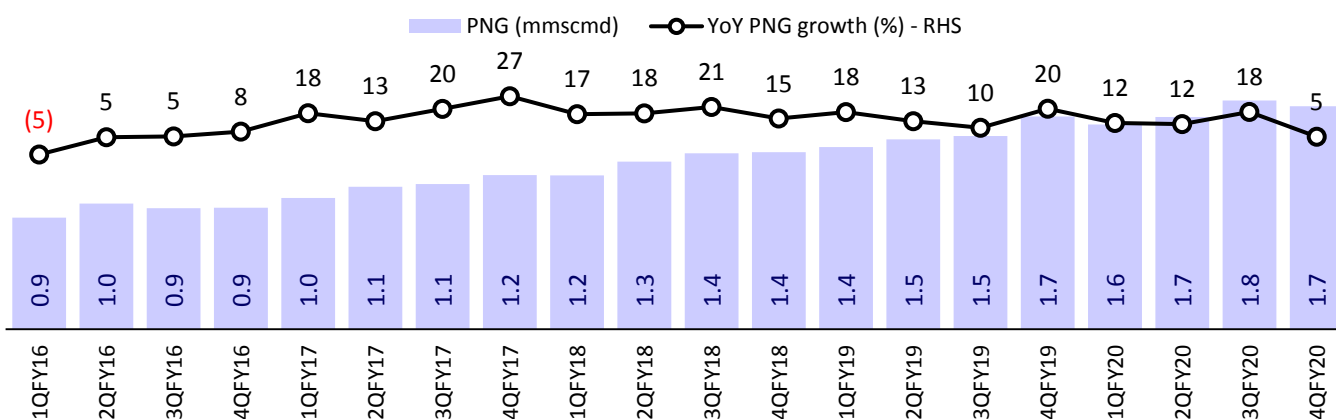
Key charts from the quarter

Exhibit 2: CNG volumes down ~3% YoY to 4.5mmscmd – with lockdown of just a week during the quarter



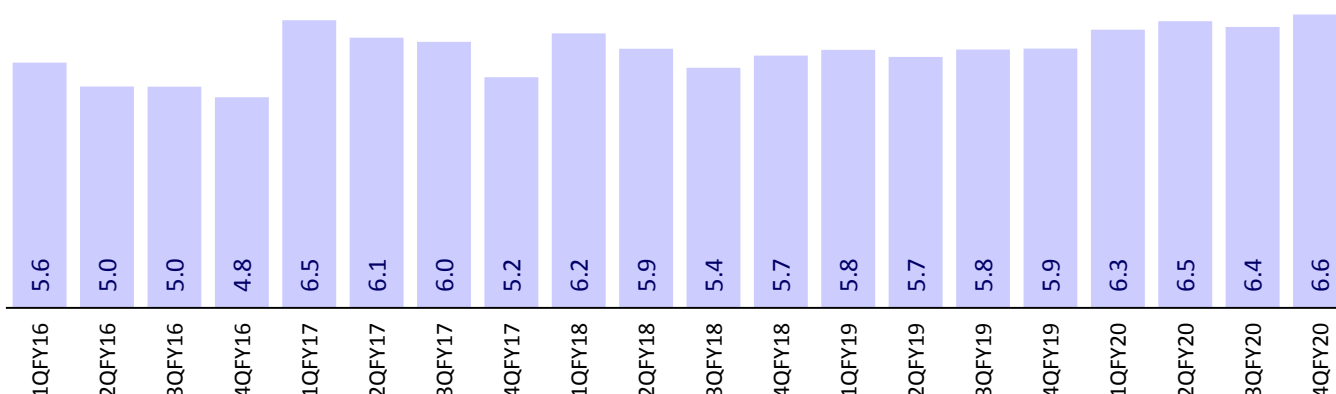
Source: Company, MOFSL

Exhibit 3: PNG volumes up 5% YoY to 1.7mmscmd – primarily due to higher cooking gas usage



Source: Company, MOFSL

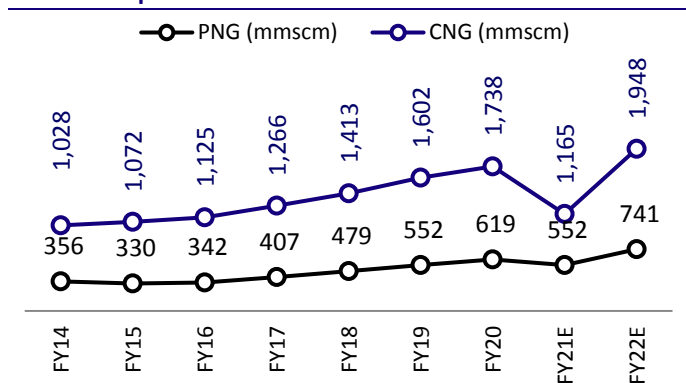
Exhibit 4: EBITDA/scm up 13% YoY and 4.5% QoQ to INR6.6



Source: Company, MOFSL

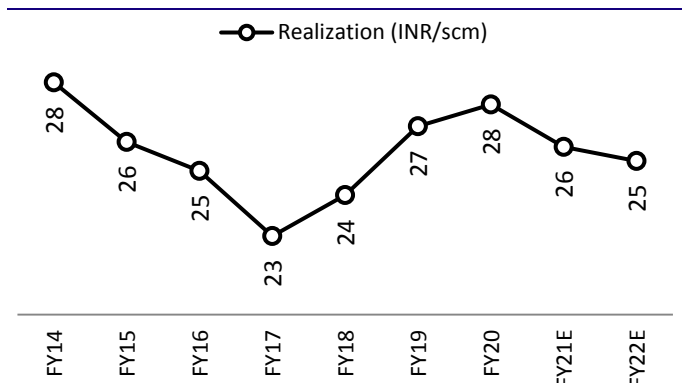
Story in charts

Exhibit 5: Sales growth to continue barring COVID-19 led demand impact in FY21



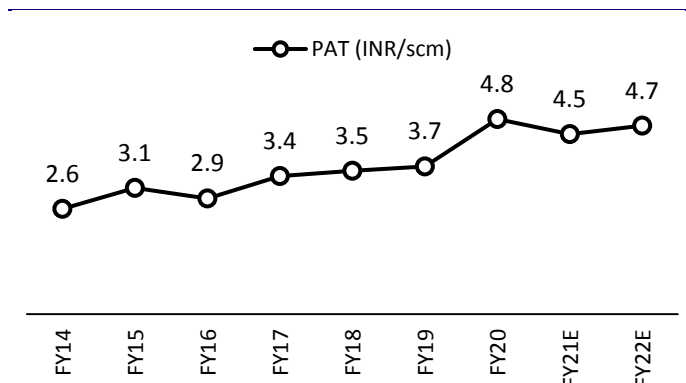
Source: Company, MOFSL

Exhibit 6: IGL maintains margins by passing on cost increases to CNG and PNG consumers



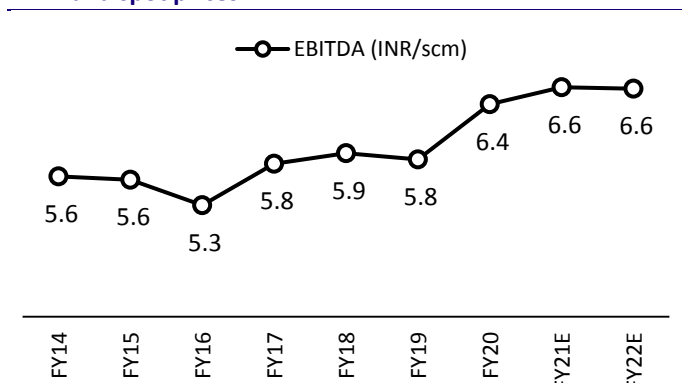
Source: Company, MOFSL

Exhibit 7: IGL's profitability (PAT in INR/scm) to normalize in FY22E



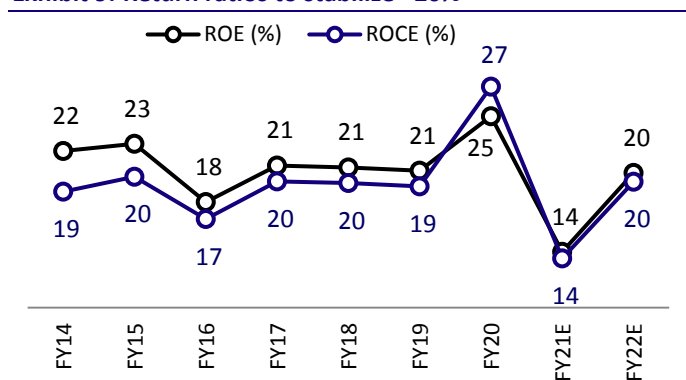
Source: Company, MOFSL

Exhibit 8: EBITDA/scm to increase, benefiting from lower APM and spot prices



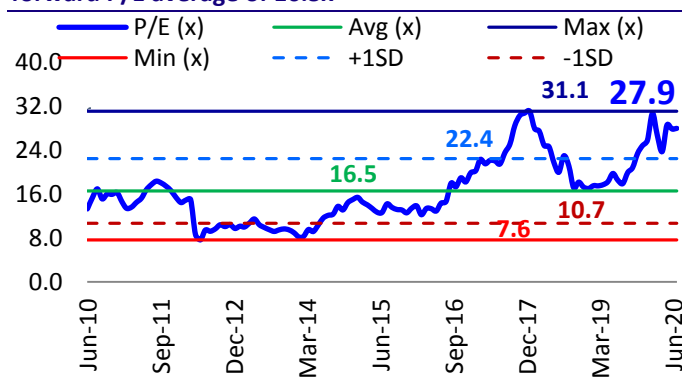
Source: Company, MOFSL

Exhibit 9: Return ratios to stabilize ~20%



Source: Company, MOFSL

Exhibit 10: Stock trades at ~70% premium to its LT 1-year forward P/E average of 16.5x



Source: Company, MOFSL

Financials and Valuations

Income Statement							(INR Million)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Net Sales	36,699	36,858	38,148	45,921	57,600	64,853	44,620	68,559
Change (%)	-6.3	0.4	3.5	20.4	25.4	12.6	-31.2	53.6
EBITDA	7,820	7,747	9,638	11,133	12,521	15,196	11,402	17,825
% of Net Sales	21.3	21.0	25.3	24.2	21.7	23.4	25.6	26.0
Depreciation	1,487	1,563	1,671	1,813	2,011	2,523	2,849	3,066
Interest	298	99	12	17	21	81	73	66
Other Income	456	299	652	1,021	1,510	1,564	1,735	2,064
PBT	6,490	6,385	8,607	10,325	12,000	14,157	10,215	16,758
Tax	2,113	2,194	2,896	3,617	4,134	1,134	2,574	4,223
Rate (%)	32.6	34.4	33.6	35.0	34.4	8.0	25.2	25.2
PAT	4,377	4,191	5,969	6,604	7,867	11,365	7,641	12,535
Change (%)	21.6	-4.3	42.5	10.6	19.1	44.5	-32.8	64.1

Balance Sheet							(INR Million)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Share Capital	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Reserves	19,581	23,764	27,866	33,729	39,899	49,224	55,226	65,304
Net Worth	20,981	25,164	29,266	35,129	41,299	50,624	56,626	66,704
Deferred Tax	1,272	1,650	1,806	2,253	2,678	2,119	2,119	2,119
Capital Employed	23,706	26,815	31,072	37,382	43,977	52,743	58,745	68,823
Gross Fixed Assets	31,761	33,752	36,402	41,364	47,607	55,744	59,744	63,744
Less: Depreciation	12,203	13,560	15,231	17,044	19,054	21,577	24,426	27,492
Net Fixed Assets	19,558	20,192	21,172	24,320	28,553	34,167	35,319	36,253
Capital WIP	2,541	2,669	3,518	3,860	4,781	7,767	10,767	13,767
Rights to use assets	0	0	0	0	0	1,220	1,220	1,220
Investments	2,909	2,592	6,770	11,477	15,440	2,581	2,581	2,581
Curr. Assets, L & Adv.								
Inventory	409	576	517	524	509	511	352	540
Debtors	2,352	2,511	2,014	2,261	2,215	1,704	1,172	1,801
Cash & Bank Balance	2,315	4,538	6,086	5,580	6,071	21,799	19,296	30,592
Loans & Advances	489	80	103	149	153	154	154	154
Other Current Assets	163	655	682	1,110	1,772	1,819	1,819	1,819
Current Liab. & Prov.								
Liabilities	5,866	6,847	9,580	11,690	13,687	16,172	11,127	17,096
Provisions	1,163	151	210	210	1,830	2,808	2,808	2,808
Net Current Assets	-1,302	1,362	-388	-2,275	-4,797	7,007	8,859	15,003
Application of Funds	23,706	26,815	31,072	37,382	43,977	52,743	58,745	68,823

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)								
EPS	6.3	6.0	8.5	9.4	11.2	16.2	10.9	17.9
Cash EPS	8.4	8.2	10.9	12.0	14.1	19.8	15.0	22.3
Book Value	30.0	35.9	41.8	50.2	59.0	72.3	80.9	95.3
DPS	1.2	1.2	1.7	2.0	2.4	2.8	2.0	3.0
Payout	19.2	20.0	19.9	21.2	21.4	17.2	18.3	16.8
Valuation (x)								
P/E	76.0	79.3	55.7	50.4	42.3	29.3	43.5	26.5
Cash P/E	56.7	57.8	43.5	39.5	33.7	23.9	31.7	21.3
EV / EBITDA	42.4	42.3	33.9	29.4	26.1	20.4	27.5	16.9
EV / Sales	9.0	8.9	8.6	7.1	5.7	4.8	7.0	4.4
Price / Book Value	15.8	13.2	11.4	9.5	8.1	6.6	5.9	5.0
Dividend Yield (%)	0.3	0.3	0.4	0.4	0.5	0.6	0.4	0.6
Profitability Ratios (%)								
RoE	22.7	18.2	21.0	20.8	20.6	28.3	14.2	20.3
RoCE	20.1	16.8	19.8	19.6	19.4	27.1	13.8	19.7
RoIC	27.2	24.6	33.3	38.9	40.4	60.9	27.4	46.0
Turnover Ratios								
Debtors (No. of Days)	16	15	17	21	26	33	31	46
Asset Turnover (x)	1.6	1.5	1.3	1.3	1.4	1.3	0.8	1.1
Leverage Ratio								
Net Debt / Equity (x)	0.0	-0.2	-0.2	-0.2	-0.1	-0.4	-0.3	-0.5

Cash Flow Statement

(INR Million)

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
OP/(Loss) before Tax	6,490	6,385	8,607	10,325	12,000	14,157	10,215	16,758
Depreciation	1,487	1,563	1,671	1,813	2,011	2,523	2,849	3,066
Deferred tax	309	378	156	447	425	-559	0	0
Direct Taxes Paid	-2,113	-2,194	-2,896	-3,617	-4,134	-1,134	-2,574	-4,223
(Inc)/Dec in Wkg. Capital	160	-440	3,298	1,382	3,012	3,924	-4,354	5,152
CF from Op. Activity	6,333	5,691	10,835	10,349	13,315	18,910	6,135	20,753
(Inc)/Dec in FA & CWIP	-2,010	-2,325	-3,499	-5,304	-7,164	-11,123	-7,000	-7,000
Free Cash Flow	4,323	3,367	7,336	5,045	6,151	7,787	-865	13,753
(Pur)/Sale of Investments	-1,736	317	-4,179	-4,707	-3,963	12,859	0	0
CF from Inv. Activity	-3,746	-2,008	-7,678	-10,011	-11,127	1,736	-7,000	-7,000
Dividends Paid (incl.tax)	-983	-983	-1,310	-1,688	-1,966	-2,293	-1,638	-2,457
Others	-45	975	-299	844	268	-2,624	0	0
CF from Fin. Activity	-2,787	-1,461	-1,609	-844	-1,697	-4,917	-1,638	-2,457
Inc / (Dec) in Cash	-199	2,223	1,548	-506	491	15,729	-2,503	11,296
Add: Opening Balance	2,514	2,315	4,538	6,086	5,580	6,071	21,799	19,296
Closing Balance	2,315	4,538	6,086	5,580	6,071	21,799	19,296	30,592

E: MOFSL Estimates

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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