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Stock Update

Indraprastha Gas Ltd.

14-June-2021

RETAIL RESEARCH

Indraprastha Gas Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
City Gas Distribution	Rs. 536.3	Buy at LTP & add more on dips to Rs 490-494 band	Rs. 581.5	Rs. 633	2 quarters

HDFC Scrip Code	IGLLTD
BSE Code	532514
NSE Code	IGLLTD
Bloomberg	IGL IN
CMP June 11, 2021	536.3
Equity Capital (Rs cr)	140.0
Face Value (Rs)	2.0
Equity Share O/S (cr)	70.0
Market Cap (Rs cr)	37541
Book Value (Rs)	84.8
Avg. 52 Wk Volumes	3514485
52 Week High	595.0
52 Week Low	364.0

Share holding Pattern % (Mar, 2021)	
Promoters	45.0
Institutions	39.7
Non Institutions	15.3
Total	100.0

Fundamental Research Analyst
Abdul Karim
abdul.karim@hdfcsec.com

Our Take:

Indraprastha Gas Ltd (IGL) is in the business of city gas distribution presently operating in Delhi including adjoining areas of Noida, Greater Noida, Ghaziabad, Gurugram and Rewari. It is the 2nd largest CGD player in India supplying 6.26 mn standard cubic metres per day (mmscmd) as on 31 Dec 2020. IGL caters to more than 1.13m CNG vehicles, 1.44m domestic PNG customers, and over ~6000 commercial and industrial customers as on 31 Dec 2020. We believe, IGL can be a leading beneficiary of the unlocking of the economy post the 2nd wave of Covid pandemic. It has a quasi-monopolistic position in Delhi/ NCR with regulatory support in the form of prioritized gas allocation which provides a favourable risk-reward opportunity in the current scenario. Recently the company had also signed a 10-year contract with Delhi Transport Corporation (DTC) which provides a strong visible of long cash generation and profitability. Apart from this, the ongoing expansion plans along with significantly underpenetrated markets in the company's new GAs and semi-matured GAs are likely to ensure strong future volume growth.

IGL is beneficiary of its strong parentage and gets significant support from GAIL and BPCL relating to operations and management. The business model of the company is such that around 71% revenue comes from CNG business, 14% comes from Commercial and Industrial business, 8% comes from CGD Business and the rest comes from sale to other CGD companies. The company has tied up long term contract for RLNG to meet PNG Industrial and Commercial demand. Currently it is buying short term gas from the open market (Shell, IOCL, Petronet, GSPC, BPCL etc.). On the PNG front, IGL is already operating in the residential areas of NCT of Delhi, district Rewari, Gurugram, Karnal and Kaithal in Haryana; and, district Ajmer, Pali and Rajsamand in Rajasthan.

IGL's physical and financial performance reflect a strong recovery after the second quarter due to gradual easing of restrictions leading to increased economic activity. Sales have picked up steadily and presently have touched pre-lockdown levels. Industrial and commercial segments would also remain one of the focus areas for the company in the near future. This overall shows a good business model focused on core growth along with diversification. IGL sold 6.26 mmscmd of gas in Q3FY21, and expects healthy volume growth in near to medium term, as most of the lockdown restrictions started getting relaxed after second wave of COVID.

Recovery has been healthy in Q3FY21, and the street is expecting more encouraging numbers in Q4FY21. The company has achieved over its pre-COVID level of operations in Feb'21 and CNG volumes could shoot up further. Private car conversion growth has been very strong from 5,000-6,000 per month to 12,000 per month now as petrol and diesel prices keep rising. Other segments like mini trucks are also showing promising growth. Volumes in March 2021 were 7.2-7.3 mmscmd, ~10-11% higher than their pre-pandemic levels. Notably, CNG volumes have reached their pre-pandemic levels despite nearly 20% of customers not yet returning to normal operations (schools not open yet, IT industry working from home etc.).

On 23 Sept, 2020, we had **initiated coverage report** on Indraprastha Gas Ltd and recommended to buy the stock in the Rs 375-379 band and add further on dips to Rs. 337-341 band for base case target of Rs 424 and bull case target of Rs 463. The stock had entered in our buying band on 12 Oct 2020 and achieved its base case target on 06 Nov, 2020 and bull case target on 27 Nov, 2020. Given the healthy growth outlook post lifting of Covid restrictions and expectation of strong set of numbers in Q4FY21, we have now revised our earnings estimates and increased target price for the stock.

Valuation & Recommendation:

IGL's business was impacted owing to pandemic in H1FY21. However, the company has now moved into growth phase from the earlier recovery phase. For most of the CGD companies, overall volumes are more than pre-COVID levels. However, opening up of schools and normalization of public transportation (for CNG) and commercial space like malls/restaurants (for PNG) may take more time. IGL has a higher dependence on CNG and hence could see gradual recovery in volumes and operations. We expect, City Gas Distribution sector to do well. IGL within the regulated O&G PSU space is a unique company which has been consistently reporting growth with superior return ratios and debt free status. APM gas prices have been maintained at $1.79/mmbtu on GCV basis. This will aid maintaining margins for all CGD companies including IGL. Also IGL has hiked the prices of CNG by 1.6% and PNG by 3.3% wef March 01, 2021.

Going forward, we expect its growth momentum to sustain backed by its cost competitiveness and experienced management. **We believe the base case fair value of the stock is Rs 581.5 (22.5x FY23E EPS) and the bull case fair value of the stock is Rs 633 (24.5x FY23E EPS) over the next two quarters. Investors can buy at LTP and add further on dips in the Rs 490-494 band (19.0x FY23E EPS). At the LTP of Rs 536.3, the stock is trading at 20.8x FY23E EPS.**

Financial Summary (Consolidated)

Particulars (Rs Cr)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Total Operating Income	1446	1664	-13	1305	11	6485	5567	7061	8350
EBITDA	501	392	28	407	23	1520	1700	2059	2371
Depreciation	75	64	17	71	5	252	281	342	403
Other Income	26	38	-31	30	-15	143	150	214	277
Interest Cost	3	2	0	2	0	8	8	8	8
Tax	114	95	19	12	815	308	390	445	510
APAT	382	297	28	380	0	1177	1252	1563	1808
Diluted EPS (Rs)	5.5	4.3	28.2	5.4	0.2	16.7	17.9	22.3	25.8
RoE-%						24.3	21.1	21.9	21.2
P/E (x)						23.9	30.0	24.0	20.8
EV/EBITDA						23.3	20.5	16.5	14.0

(Source: Company, HDFC sec)

IGL Q3FY21 results key takeaway

- IGL's physical and financial performance of the company reflected a strong recovery after the second quarter due to gradual easing of restrictions. Consolidated net revenue was down by 13.1% YoY to Rs 1446.2 crore in Q3FY21. However, it was up by 10.8% on sequential basis, after city gas sales recovered after easing of coronavirus lockdown restrictions.
- EBITDA was up by 27.8% YoY to Rs 500.7 crore. EBITDA margin was at 34.6% in Q3FY21 vs. 23.5% in Q3FY20 reflecting gains from the cut in domestic gas price, which was partially offset by higher LNG prices.. Net Profit grew 28.4% YoY to Rs 381.8 crore in Q3FY21. PAT margin increased to 26.4% in Q3FY21 vs. 17.9% in Q3FY20.
- The company's gas sales volume declined, sequentially. During the current quarter, in CNG category, the gas sales volume was down by 9% QoQ to 412 mn scm (compared to a sharp decline of 20% in Q2FY21 and 66% decline in Q1FY21). In value term it was down by 15.1% QoQ to Rs 1029 crore in Q3FY21.
- In PNG category, the domestic gas sales volume was up by 14% QoQ, to 41 mn scm, industrial/Commercial gas sales volume was up by 2% QoQ and Natural Gas was down by 15% QoQ to 39 mn scm. In value term, it was down by 9% QoQ to Rs 409 crore in Q3FY21.

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Key updates

IGL's 10-year supply pact with DTC could bring earning visibility going forward

On 31 March 2021, IGL signed a long term gas supply agreement with Delhi Transport Corporation (DTC) to continue the supply of CNG to the public transporter's fleet of buses for ten years till December 2030. Earlier in 2010, IGL had signed the long term Gas Supply Agreement with DTC to supply CNG. As a part of the agreement, dedicated CNG filling facilities have been set up at 44 depots of DTC across Delhi and Noida to cater the fleet of DTC buses with a total compression capacity of 10 lakh kgs per day. These CNG filling facilities have helped in timely CNG fueling.

DTC is the largest CNG-powered bus service operator in the world with a fleet size of 3762 buses at present. DTC is also in the process for procurement of 1000 new CNG buses and it could be available on the roads of the national capital very soon. DTC consumes around 2.80 lac kg of CNG per day for its buses which constitutes around 11% of daily CNG sale of IGL. The consumption of CNG is expected to increase further after the addition of new buses.

DTC has provided 19 plots adjacent to its depots to IGL for creation of hybrid facilities, which are used as retail outlets for serving the public. The relationship between IGL and DTC dates back to inception of IGL and has been mutually beneficial for both organisations.

The commission of Air Quality Management suggested to industrial sector to switch over to PNG could add PNG volume going forward

Delhi and the NCR has been most polluted region as per the Air Quality Index over the past. The industrial sector is one of the major contributors to air pollution in Delhi and the NCR and ~20% pollution comes from industrial sector. The Commission for Air Quality Management observed for switching over of all industries in the capital to Piped Natural Gas (PNG). The Commission for Air Quality Management in NCR and Adjoining Areas reviewed the progress of switching over of industries operating in Delhi to PNG. The commission directed IGL to ensure supply of piped natural gas to all identified industries in Delhi by January 31, 2021.

It also directed the Delhi Pollution Control Committee (DPCC) to inspect and identify the industries using unapproved fuels and to take stringent penal action in case of non-compliance. GAIL and DPCC have been asked to provide all the required assistance. Around 1,644 industrial units spread across 50 industrial areas in Delhi have been identified to switch over to PNG.

The IGL, Delhi Pollution Control Committee and the Delhi government were also asked to work in close coordination with the industrial units so as to target the completion of infrastructure work and had set a deadline of 31 January, 2021 for all industries to switch to PNG. There is no further update so far. Conversion into PNG by industrial sector could add incremental volume growth in near to medium term.

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IGL's expansion plan and sales strategy to boost CNG volume growth going forward

Car manufacturers coming up with CNG variants and Delhi Government's directive making it mandatory for all LCVs operating in Delhi to run on CNG are triggers for IGL. With 559 CNG stations, the company is in the process of enhancing its compression capacity by adding new stations.. IGL plans to add 100 new CNG stations and establish 3.5-4 lakh domestic PNG connections in FY22.

Delhi government is in talks to roll out 1,000 EV buses and 3,000 CNG buses next year. IGL will be single beneficiary from it. Now, the focus of EV policy in Delhi is mainly on two wheelers and there is no use of CNG in two wheelers, which doesn't impact the company's business. Apart from this, there are a total of 396 Oil Marketing Companies (OMC) outlets existing in Delhi, out of which 240 are equipped with CNG. IGL is looking to set up new CNG stations at smaller OMC stations, going forward.

IGL is working with a Dealer Owned Dealer Operated (DODO) scheme where it has invited participants (dealers) who own land where the company constructs its own CNG stations, and the operation rights lie with the dealer. There has been encouraging response to this scheme and it has constructed 20 stations under this scheme. All competitors are also following the DODO policy. Within Delhi, IGL has given 75 LOIs, which are advancing very well. IGL has decided to increase its capex plan for FY22E at Rs 1500 crore vs. planned capex for FY21 Rs 1200 crore.

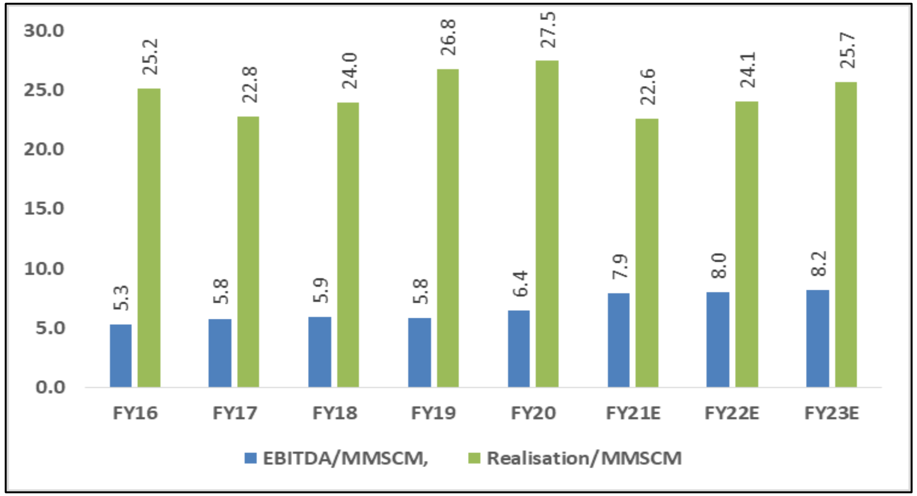
Expectation to maintain stable margins going forward

IGL reported EBITDA margin was at 34.6% in Q3FY21 vs. 23.5% in Q3FY20 and net profit margin increased to 26.4% in Q3FY21 vs. 17.9% in Q3FY20. Gross margins in Q3FY21 were at Rs 14.4/scm (up Rs 2.8/scm YoY and Rs 0.8/scm QoQ) due to lower than expected gas costs.

The company reported strong EBITDA/scm at Rs 8.7/scm, up Rs 2.3/scm YoY and Rs 0.6/scm QoQ. Going forward, on account of increase in LNG prices, we expect gross margins to decline from current high levels. The company is trying to maintain an EBITDA margin of Rs ~7.9/scm, going forward.

Currently, IGL has an effective VAT and excise taxation of ~27% on its CNG output. IGL will benefit from CNG being covered under GST, as it will be able to get Rs.180 cr of input GST credit each year. The company will try to pass on this benefit to its customers. Industrial customers will be the most benefited ones due to this.

EBITDA/MMSCM, and Realisation/MMSCM



(Source: Company, HDFC sec)

What could go wrong?

- The second wave of COVID-19 has affected the company's operations and there is expectation of third wave of COVID-19 in near to medium term. Thus, it is likely to impact the overall business in near term. Fuelling of CNG and PNG services were a part of essential services but less mobility affected the CNG and PNG demand in recent past.
- The CGD industry is under regulatory regime wherein the Regulatory Board (PNGRB) has framed various regulations, which monitors day to day business operations of the CGD entity. The changes in the regulations, inter-alia, and marketing exclusivity may have an adverse impact on the Company. Besides, the matter of taking over all the CGD activities in Gurugram district from Haryana City Gas Distribution Pvt. Ltd. is sub-judice in the Supreme Court of India.
- Delay in execution of newly acquired GAs can impact the overall profitability and company's performance in medium to long term
- PNGRB had come out with a Draft Regulation last year on Open Access in CGD facilitating the entry of third party marketing entities in areas operated by other CGD entities. This could impact incumbents including IGL beginning with industrial PNG users.

Indraprastha Gas Ltd.

- OMCs have been in talks with CGDs to increase commissions to sell CNG at their Retail Outlets. OMCs have demanded 90-100% increase in commissions from the existing Rs 4.5 per kg to Rs 7-8 per kg. This can impact the retail price and volume growth for CGD companies. IGL is piloting Mobile Refueling units (MRUs) and have invited expressions of interest for setting up more units as setting up a CNG outlet is capital intensive and could cost between Rs 75 lakh and Rs 1 crore.
- With the increasing popularity of EVs, high leverage to CNG may pose a threat to long-term volume growth.

Peer Comparison

Company, Rs in Cr	Mkt Cap, Cr	Sales			EBITDA			PAT			ROE-%			P/E (x)		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Gujarat Gas	41579	9854	12700	14700	2088	2700	3100	1278	1800	2100	32.8	33.7	30.2	32.6	23.4	19.7
Mahanagar Gas	12120	2153	2600	3300	934	1000	1300	620	700	900	20.0	19.2	23.8	19.6	18.6	13.4
Indraprastha Gas	**37541**	**5567**	**7061**	**8350**	**1700**	**2059**	**2371**	**1252**	**1563**	**1808**	**21.1**	**21.9**	**21.2**	**30.0**	**24.0**	**20.8**

(Note-Indraprastha Gas FY21 numbers are expected numbers)

(Source: Company, HDFC sec)

Indraprastha Gas Ltd.

Financials (Consolidated)

Income Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	**5765**	**6485**	**5567**	**7061**	**8350**
Growth (%)	**27.1**	**12.5**	**-14.2**	**26.8**	**18.2**
Operating Expenses	4497	4966	3867	5002	5979
EBITDA	**1268**	**1520**	**1700**	**2059**	**2371**
Growth (%)	**12.8**	**19.9**	**11.9**	**21.1**	**15.1**
EBITDA Margin (%)	**22.0**	**23.4**	**30.5**	**29.2**	**28.4**
Depreciation	201	252	281	342	403
EBIT	1067	1267	1419	1717	1967
Other Income	128	143	150	214	277
Interest expenses	13	8	8	8	8
PBT	1182	1402	1561	1923	2236
Tax	427	308	390	445	510
RPAT	**755**	**1095**	**1171**	**1478**	**1726**
Minority Interest & Share of JVs	87	154	82	85	83
Exceptional Gain/(loss)	0	72	0	0	0
APAT	**842**	**1177**	**1252**	**1563**	**1808**
Growth (%)	**16.7**	**39.8**	**6.4**	**24.8**	**15.7**
EPS	12.0	16.7	17.9	22.3	25.8

Balance Sheet

As at March	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	**140**	**140**	**140**	**140**	**140**
Reserves	**4176**	**5218**	**6372**	**7649**	**9121**
Shareholders' Funds	**4316**	**5358**	**6512**	**7789**	**9261**
Long Term Debt	0	0	0	0	0
Net Deferred Taxes	316	288	164	232	289
Long Term Provisions & Others	21	102	99	105	112
Minority Interest	**0**	**0**	**0**	**0**	**0**
Total Source of Funds	**4653**	**5749**	**6775**	**8126**	**9661**
APPLICATION OF FUNDS					
Net Block & Goodwill	2877	3557	4286	4951	5652
CWIP	478	777	560	580	580
Other Non-Current Assets	586	713	562	563	564
Total Non Current Assets	3941	5047	5408	6094	6795
Current Investments	0	0	0	0	0
Inventories	51	51	44	54	64
Trade Receivables	221	170	145	180	213
Cash & Equivalents	1893	2180	2694	3543	4462
Other Current Assets	77	96	237	300	283
Total Current Assets	2242	2498	3121	4077	5022
Short-Term Borrowings	0	0	0	0	0
Trade Payables	488	225	184	229	284
Other Current Liab & Provisions	1042	1571	1570	1815	1872
Total Current Liabilities	**1531**	**1795**	**1754**	**2044**	**2156**
Net Current Assets	712	702	1367	2033	2866
Total Application of Funds	**4653**	**5749**	**6775**	**8126**	**9661**

Indraprastha Gas Ltd.

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	1,182	1,402	1,561	1,923	2,236
Non-operating & EO items	-41	-61	-57	-71	-117
Interest Expenses	13	8	8	8	8
Depreciation	201	252	281	342	403
Working Capital Change	340	296	-122	99	112
Tax Paid	-371	-335	-390	-445	-510
OPERATING CASH FLOW (a)	**1,324**	**1,563**	**1,281**	**1,857**	**2,131**
Capex	-738	-1,231	-814	-941	-1,141
Free Cash Flow	586	332	467	916	991
Investments	-66	-138	0	0	0
Non-operating income	128	143	150	214	277
INVESTING CASH FLOW (b)	**-675**	**-1,226**	**-663**	**-726**	**-864**
Debt Issuance / (Repaid)	0	0	0	0	0
Interest Expenses	-13	-8	-8	-8	-8
FCFE	573	324	459	908	983
Share Capital Issuance	0	0	0	0	0
Dividend	-166	-53	-241	-281	-330
FINANCING CASH FLOW (c)	**-179**	**-61**	**-250**	**-289**	**-338**
NET CASH FLOW (a+b+c)	**470**	**276**	**368**	**842**	**929**

Key Ratios

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Profitability Ratio (%)					
EBITDA Margin	22.0	23.4	30.5	29.2	28.4
EBIT Margin	18.5	19.5	25.5	24.3	23.6
APAT Margin	14.6	18.1	22.5	22.1	21.7
RoE	21.2	24.3	21.1	21.9	21.2
RoCE	21.4	24.5	21.2	22.0	21.3
Solvency Ratio (x)					
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Net D/E	0.0	0.0	0.0	0.0	0.0
Per Share Data (Rs)					
EPS	12.0	16.7	17.9	22.3	25.8
CEPS	14.9	20.4	21.9	27.2	31.6
BV	61.7	76.5	93.0	111.3	132.3
Dividend	2.8	2.8	2.5	3.4	4.0
Turnover Ratios (days)					
Debtor days	14.0	9.6	9.5	9.3	9.3
Inventory days	3.2	2.9	2.9	2.8	2.8
Creditors days	30.9	12.7	12.0	11.8	12.4
VALUATION(x)					
P/E	33.3	23.9	30.0	24.0	20.8
P/BV	6.5	5.2	5.8	4.8	4.1
EV/EBITDA	20.6	23.3	20.5	16.5	14.0
EV / Revenues	4.5	5.5	6.3	4.8	4.0
Dividend Yield (%)	0.5	0.5	0.5	0.6	0.8
Dividend Payout (%)	23.3	16.8	14.2	15.0	15.6

(Source: Company, HDFC sec)

Indraprastha Gas Ltd.

One Year Stock Price Chart

(Source: Company, HDFC sec)

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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