

Indraprastha Gas Limited

Stellar Volume Growth, but Margins Tumble

25th Oct 2022

Indraprastha Gas Limited (IGL) has reported a strong topline growth of 94% (on a depressed base due to COVID) and volume growth of 12% on a YoY basis. In contrast, it posted a degrowth in EBITDA on a YoY basis (-1%). This occurred due to higher gas costs leading to a ~23% contraction in gross margins on a YoY basis (Note: FY21 & H1FY22 saw abnormally high margins, which were not sustainable, normalized gross margins for IGL is ~40%). We expect the energy crisis to be a short-term phenomenon; we expect IGL to start posting normalized numbers from H1 FY24. We maintain BUY on IGL with a target price of Rs. 555, valuing it at 21x FY24E earnings.

Strong Volume Growth

In Q2 FY23, IGL posted a sales volume of ~744 MMSCM, which grew by ~12% & 4% on a YoY & QoQ basis, respectively. Within the product mix, the company did ~560 MMSCM in CNG, ~92 MMSCM in Industrial & Commercial, 46 MMSCM in Domestic & ~46 MMSCM in Third Party Sales, which grew by 15%, 1%, 11% & 0% on a YoY basis, respectively. Due to higher gas prices, we expect volume growth to take a hit, which we expect to get normalized once APM prices come back to its average level of \$3.1 per MMBTU.

Margin Contraction due to rise in RM prices

In Q2 FY23, blended gas costs rose by 2.5 times on a YoY basis leading to a 6% contraction in Gross Profit/SCM on a YoY basis. To mitigate this issue, IGL took a price hike Rs. 3/kg in CNG & 3/SCM in PNG on 8th Oct 2022. We expect IGL to face an issue to further pass on the incremental cost to their customers, leading to lower EBITDA/SCM of ~7 in FY23, compared to FY22 ~7.4.

Strong Future Growth Prospects

In the 9/10/11th bidding round, IGL has been awarded 5 GA's where IGL is expected to develop 400+ CNG stations, 1.5 Mn+ new connections, and 9,500 Km+ steel pipeline in the next few years. IGL has already commenced natural gas distribution in GA's awarded in the 9th & 10th rounds of bidding, which will likely drive future growth.

View & Valuation

We have revised our view on Indraprastha Gas Ltd due to higher blended gas cost and lower ability to further pass on costs to customers, but maintain a BUY rating with a target of Rs. 555 (21x FY24 earnings). CGD companies are at a pivot point as 3x of the infrastructure developed in the last 20-30 years is expected to be developed in the next ten years. We expect IGL to be a key beneficiary of this structural change. IGL has a strong balance sheet, and they are one of the fastest-growing CGD company. Based on the expansion plans, we expect IGL's growth trajectory for the next decade to be completely different from the last decade.

BUY

CMP Rs. 408

TARGET Rs. 555 (+36%)

Company Data

MCAP (Rs. Mn)	2,96,520
O/S Shares (Mn)	700
52w High/Low	515 / 322
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	1,160

Shareholding Pattern %

	Sept 22	Jun 22	Mar 22
Promoters	45.0	45.0	45.0
FII's	21.0	20.3	19.9
DII's	25.3	21.8	21.9
Non-Institutional	8.7	12.9	13.2

IGL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY22	FY23E	FY24E
Revenue	77.1	135.4	145.5
EBITDA	18.9	20.6	25.1
Net Profit	15.0	16.4	19.6
Total Assets	111.0	134.1	151
ROCE (%)	23%	20%	20%
ROE (%)	22%	20%	19%

Source: Company, Keynote Capitals Ltd.

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Q2 FY23 Result Update

Result Highlights (Rs. Mn)

Particulars	FY23 Q2	FY22 Q2	Change % (Y-o-Y)	FY23 Q1	Change % (Q-o-Q)	H1 FY23	H1 FY22	Change % (Y-o-Y)	FY22
Revenue from Operation	35,540	18,312	94%	31,939	11%	67,479	30,886	118%	77,100
Gross Profit	9,446	9,029	5%	10,211	-7%	19,680	15,983	23%	33,177
Gross Profit %	26.6%	49.3%	-2,273 bps	32.0%	-539 bps	29.2%	51.7%	-2,258 bps	43.0%
Employee Cost	497	524	-5%	481	3%	977	898	9%	1,759
Other Expenses	3,675	3,203	-89%	358	3%	7,252	5,975	21%	12,606
EBITDA	5,275	5,302	-1%	6,175	-15%	11,450	9,110	26%	18,811
EBITDA %	14.8%	29.0%	-1,411 bps	19.3%	-449 bps	17.0%	29.5%	-1,253 bps	24.4%
EBIT	4,361	4,497	-3%	5,318	-18%	9,679	7,527	29%	15,640
EBIT %	12.3%	24.6%	-1,229 bps	16.7%	-438 bps	14.3%	24.4%	-1,003 bps	20.3%
PBT	4,840	4,892	-1%	5,602	-14%	10,442	8,191	27%	17,275
PBT %	13.6%	26.7%	-1,310 bps	17.5%	-392 bps	15.5%	26.5%	-1,105 bps	22.4%
Tax Expenses	1,269	1,241	2%	1,394	-9%	2,662	2,097	27%	2,257
Profit from Associates	697	535	30%	604	15%	1,301	872	49%	2,257
PAT	4,268	4,186	2%	4,812	-11%	9,081	6,966	30%	15,023
EPS	6.10	5.98	2%	6.87	-11%	12.97	9.95	30%	21.46

Source: Company, Keynote Capitals Ltd.

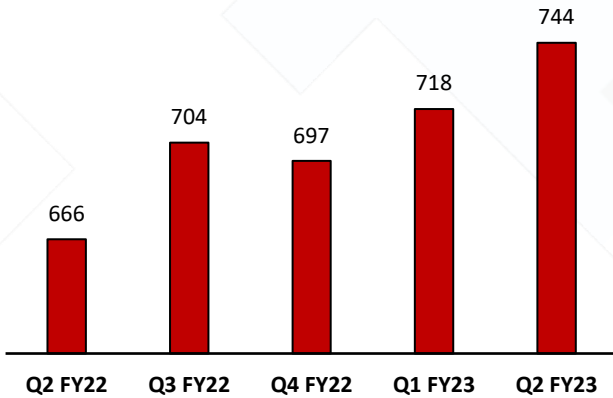
SCM Analysis (Rs/SCM)

Particulars	FY23 Q2	FY22 Q2	Change % (Y-o-Y)	FY23 Q1	Change % (Q-o-Q)	H1 FY23	H1 FY22	Change % (Y-o-Y)	FY22
Volume Sold (MMSCM)	744.17	665.69	12%	717.84	4%	1462.02	1149.46	27%	2551
Revenue from Operation	47.8	27.5	74%	44.5	7%	46.2	26.9	72%	30.2
Gross Profit	12.7	13.6	-6%	14.2	-11%	13.5	13.9	-3%	13.0
Employee Cost	0.7	0.8	-15%	0.7	0%	0.7	0.8	-14%	0.7
Other Expenses	0.5	4.8	-90%	0.5	-1%	5.0	5.2	-5%	4.9
EBITDA	7.1	8.0	-11%	8.6	-18%	7.8	7.9	-1%	7.4
EBIT	5.9	6.8	-13%	7.4	-21%	6.6	6.5	1%	6.1
PBT	6.5	7.3	-11%	7.8	-17%	7.1	7.1	0%	6.8
Tax Expenses	1.7	1.9	-9%	1.9	-12%	1.8	1.8	0%	0.9
Profit from Associates	0.9	0.8	17%	0.8	11%	0.9	0.8	17%	0.9
PAT	5.7	6.3	-9%	6.7	-14%	6.2	6.1	2%	5.9

Source: Company, Keynote Capitals Ltd.

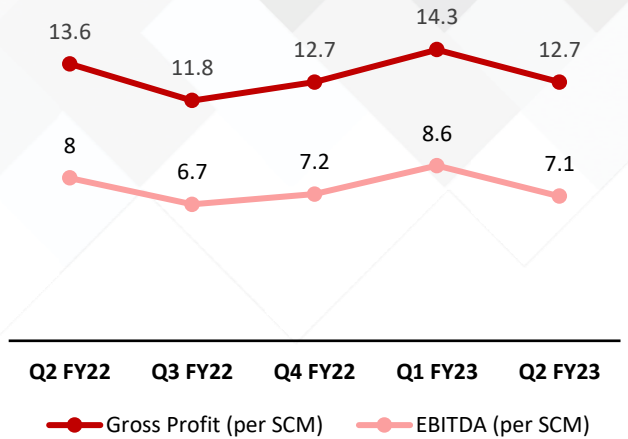
Quarterly Business Progression

Total Volume Sold (MMSCM)



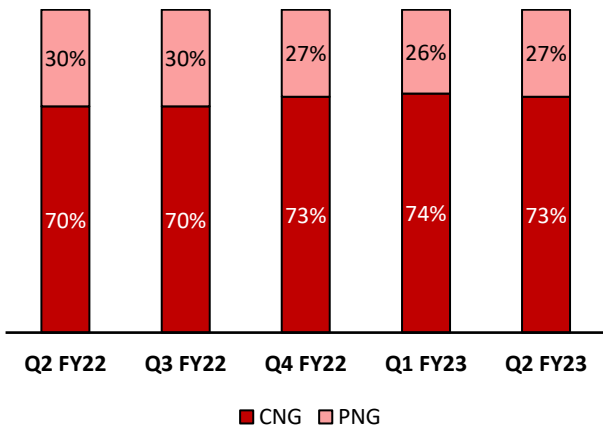
Source: Company, Keynote Capitals Ltd.

Gross Profit & EBITDA Trend



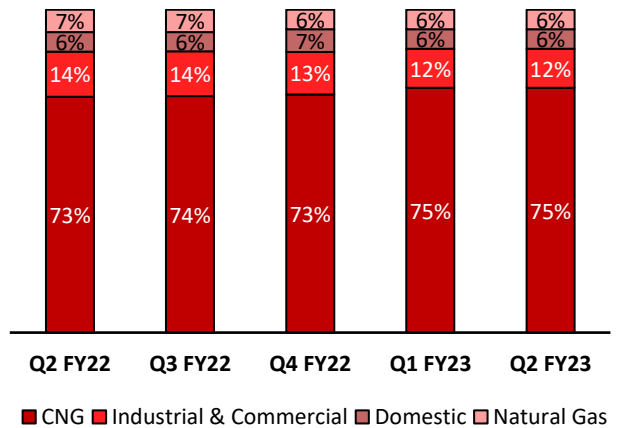
Source: Company, Keynote Capitals Ltd.

Revenue Mix (%)



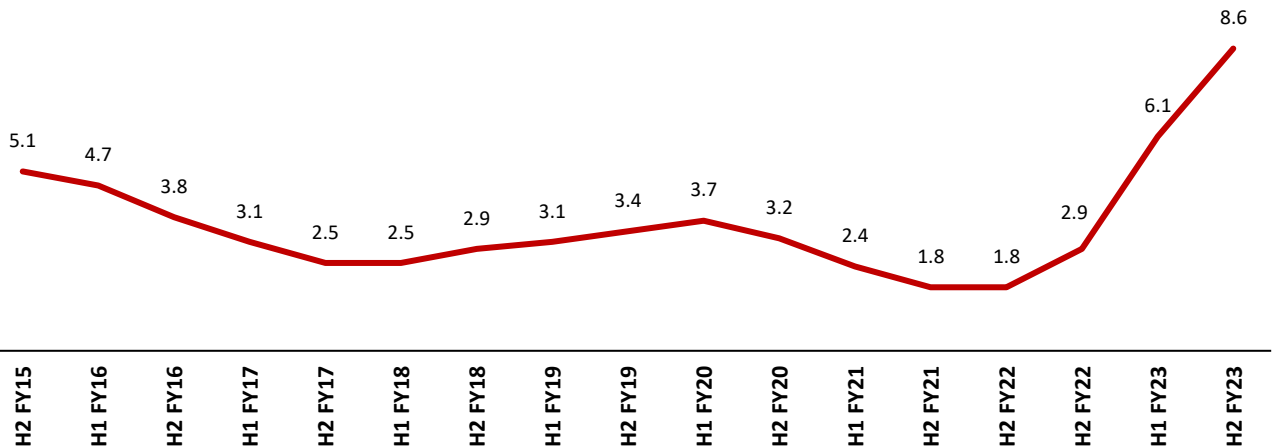
Source: Company, Keynote Capitals Ltd.

Volume Mix (%)



Source: Company, Keynote Capitals Ltd.

APM Gas Prices (\$ per MMBTU* [gross calorific value])



Source: PPAC, Keynote Capitals Ltd.

MMBTU: Million Metric British Thermal Units

Financial Statement Analysis

Income Statement						Cash Flow					
Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E	Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	49,408	77,100	1,35,435	1,45,546	1,55,958	Pre-tax profit	14,219	19,532	20,936	23,598	27,012
Growth %		56%	76%	7%	7%	Adjustments	663	-572	-326	21	31
Raw Material Expenses	22,295	43,923	97,160	1,02,544	1,07,685	Change in Working Capital	3,473	3,777	7,086	2,502	3,123
Other Expenses	12,176	14,250	17,665	17,862	19,487	Total Tax Paid	-2,895	-3,759	-4,551	-5,070	-5,743
EBITDA	14,937	18,927	20,610	25,140	28,785	Cash flow from operating Activities	15,460	18,979	18,400	21,473	24,842
Growth %		27%	9%	22%	15%	Net Capital Expenditure	-8,829	-13,370	-22,347	-24,015	-23,706
Margin%	30%	25%	15%	17%	18%	Change in investments	-10,788	-3,224	0	0	0
Depreciation	2,904	3,171	3,974	5,104	6,223	Other investing activities	1,354	746	2,262	2,301	2,630
EBIT	12,033	15,756	16,636	20,036	22,562	Cash flow from investing activities	-18,264	-15,848	-20,085	-21,714	-21,075
Growth %		31%	6%	20%	13%	Equity raised / (repaid)	0	0	0	0	0
Margin%	24%	20%	12%	14%	14%	Debt raised / (repaid)	0	0	0	0	0
Interest Paid	220	248	302	302	302	Dividend (incl. tax)	-1,960	-2,519	-3,277	-3,706	-4,254
Other Income & exceptional	1,148	1,766	1,715	1,638	1,823	Other financing activities	-1,010	-765	-302	-302	-302
PBT	12,961	17,275	18,049	21,371	24,083	Cash flow from financing activities	-2,970	-3,285	-3,579	-4,008	-4,556
Tax	2,494	4,509	4,551	5,070	5,743	Net Change in cash	-5,774	-153	-5,265	-4,249	-789
PAT	10,467	12,766	13,498	16,301	18,340						
Others (Minorities, Associates)	1,258	2,257	2,732	3,318	4,039						
Net Profit	11,726	15,023	16,230	19,619	22,379						
Growth %		28%	8%	21%	14%						
Shares (Mn)	700.0	700.0	700.0	700.0	700.0						
EPS	16.75	21.46	23.41	26.47	30.38						

Balance Sheet					
Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash, Cash equivalents & Bank	11,323	13,616	14,181	14,834	17,391
Current Investments	15,677	17,177	17,177	17,177	17,177
Debtors	2,607	5,206	6,772	6,550	6,238
Inventory	456	455	1,749	1,538	1,400
Short Term Loans & Advances	484	649	649	649	649
Other Current Assets	409	524	524	524	524
Total Current Assets	30,955	37,627	41,052	41,271	43,379
Net Block & CWIP	51,678	63,803	82,176	1,01,087	1,18,570
Long Term Investments	7,207	9,080	11,266	13,920	17,151
Other Non-current Assets	660	512	512	512	512
Total Assets	90,500	1,11,022	1,35,006	1,56,790	1,79,612
Creditors	4,186	7,867	15,753	15,350	15,057
Provision	3,470	4,563	4,563	4,563	4,563
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	15,783	18,781	20,841	23,313	26,279
Total Current Liabilities	23,439	31,211	41,156	43,226	45,899
Long Term Debt	0	0	0	0	0
Deferred Tax Liabilities	2,422	2,737	2,737	2,737	2,737
Other Long Term Liabilities	1,295	1,214	1,214	1,214	1,214
Total Non Current Liabilities	3,717	3,951	3,951	3,951	3,951
Paid-up Capital	1,400	1,400	1,400	1,400	1,400
Reserves & Surplus	61,944	74,460	87,568	1,02,390	1,19,405
Shareholders' Equity	63,344	75,860	88,968	1,03,790	1,20,805
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	90,500	1,11,022	1,34,076	1,50,967	1,70,655

Valuation Ratios					
	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data					
EPS	17	21	23	26	30
Growth %		28%	9%	13%	15%
Book Value Per Share	90	108	127	148	173
Return Ratios					
Return on Assets (%)	14%	15%	14%	14%	14%
Return on Equity (%)	20%	22%	20%	19%	19%
Return on Capital Employed (%)	20%	23%	20%	20%	19%
Turnover Ratios					
Asset Turnover (x)	0.6	0.8	0.8	0.9	0.9
Sales / Gross Block (x)	1.0	1.3	1.8	1.5	1.3
Working Capital / Sales (%)	15%	9%	6%	3%	1%
Receivable Days	16	18	16	17	15
Inventory Days	8	4	4	6	5
Payable Days	53	50	44	55	52
Working Capital Days	-29	-28	-24	-33	-32
Liquidity Ratios					
Current Ratio (x)	1.3	1.2	1.1	1.1	1.0
Interest Coverage Ratio (x)	59.9	70.8	61.2	68.1	77.0
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.2	-0.2	-0.2	-0.1	-0.1
Valuation					
PE (x)	30.6	17.4	17.8	15.8	13.7
Earnings Yield (%)	3%	6%	6%	6%	7%
Price to Sales (x)	7.3	3.4	2.2	2.0	1.9
Price to Book (x)	5.7	3.4	3.3	2.8	2.4
EV/EBITDA (x)	23.3	13.1	13.5	11.1	9.7
EV/Sales (x)	7.0	3.2	2.1	1.9	1.8

Source: Company, Keynote Capitals Ltd.

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
20 th Sep 2022	BUY	424	+38%
25 th Oct 2022	BUY	408	+36%

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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