

Indraprastha Gas Limited

27th Jan 2023

New GA's & Industries will Propel Future Growth

Indraprastha Gas Limited (IGL) has reported a strong topline growth of 67% (due to increase in revenue/scm by 58% on YoY basis) and volume growth of 6% on a YoY basis. In contrast, it posted a degrowth in EBITDA on a YoY basis (-9%). This occurred due to higher gas costs leading to a ~15% contraction in gross margins on a YoY basis (Note: FY21 & 9M FY22 saw abnormally high margins, which were not sustainable). We expect the energy crisis to be a short-term phenomenon and 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 Future Growth Prospects

In the 9/10/11th bidding round, IGL has been awarded 5 Geographical Area (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.

Stable Volume Growth

In Q3 FY23, IGL posted a sales volume of ~747 MMSCM, which grew by ~6% & ~4% on a YoY & QoQ basis, respectively. Within the product mix, the company did ~559 MMSCM in CNG, 51 MMSCM in Domestic & ~46 MMSCM in Third Party Sales, which grew by 8%, 13% & 0% on a YoY basis, respectively whereas sales volume in Industrial & Commercial were ~91 MMSCM which de-grew by 4% on YoY basis.

View & Valuation

We maintain a BUY rating with a target of Rs. 555 (21x FY24 earnings), we believe elevated gas prices is a temporary phenomenon and its expected to moderate in the coming quarters. We believe extending network into newer geography and monthly addition of CNG vehicles will fuel the future growth. Apart from this, IGL has a strong balance sheet, and it is 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. 418

TARGET Rs. 555 (+32.8%)

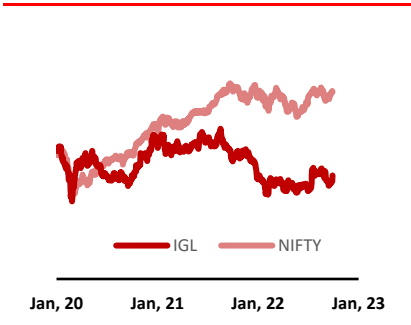
Company Data

MCAP (Rs. Mn)	292,530
O/S Shares (Mn)	700
52w High/Low	452/322
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	752

Shareholding Pattern %

	Dec 22	Sept 22	Jun 22
Promoters	45.0	45.0	45.0
FII's	21.8	21.0	20.3
DII's	24.7	25.3	21.8
Non-Institutional	8.5	8.7	12.9

IGL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY22	FY23E	FY24E
Revenue	77.1	139.3	144.6
EBITDA	18.9	20.7	23.8
Net Profit	15.0	16.3	17.3
Total Assets	111.0	134.1	150.8
ROCE (%)	23%	20%	20%
ROE (%)	22%	20%	19%

Source: Company, Keynote Capitals Ltd.

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Q3 FY23 Result Update

Result Highlights (Rs. Mn)

Particulars	Q3 FY23	Q3 FY22	Change % (Y-o-Y)	Q2 FY23	Change % (Q-o-Q)	9M FY23	9M FY22	Change % (Y-o-Y)	FY22
Revenue from Operation	37,108	22,155	67%	35,540	4%	1,04,586	53,041	97%	77,099
Gross Profit	8,472	8,313	2%	9,446	-10%	28,151	24,296	16%	33,176
Gross Profit %	22.8%	37.5%	(1,469) bps	26.6%	(375) bps	26.9%	45.8%	(1,890) bps	43.0%
Employee Cost	438	477	-8%	497	-12%	1,415	1,374	3%	1,760
Other Expenses	3,750	3,140	19%	3,675	2%	11,002	9,115	21%	12,606
EBITDA	4,284	4,696	-9%	5,274	-19%	15,734	13,807	14%	18,810
EBITDA %	11.5%	21.2%	(965) bps	14.8%	(329) Bps	15.0%	26.0%	(1,100) bps	24.4%
Depreciation	924	835	11%	914	1%	2,696	2,418	11%	3,170
EBIT	3,360	3,861	-13%	4,360	-23%	13,038	11,389	14%	15,640
EBIT %	9.1%	17.4%	(837) bps	12.3%	(321) bps	12.5%	21.5%	(900) bps	20.3%
Finance Cost	26	28	-7%	30	-13%	80	83	-4%	132
Other Income	557	304	83%	510	9%	1,375	1,022	35%	1,767
PBT	3,891	4,137	-6%	4,840	-20%	14,333	12,328	16%	17,275
Tax Expenses	1,108	1,051	5%	1,269	-13%	3,771	3,148	20%	4,509
Profit from Associates	558	662	-16%	697	-20%	1,859	1,533	21%	2,257
PAT	3,341	3,748	-11%	4,268	-22%	12,421	10,713	16%	15,023
EPS	4.77	5.35		6.10		17.74	15.30		21.46

Source: Company, Keynote Capitals Ltd.

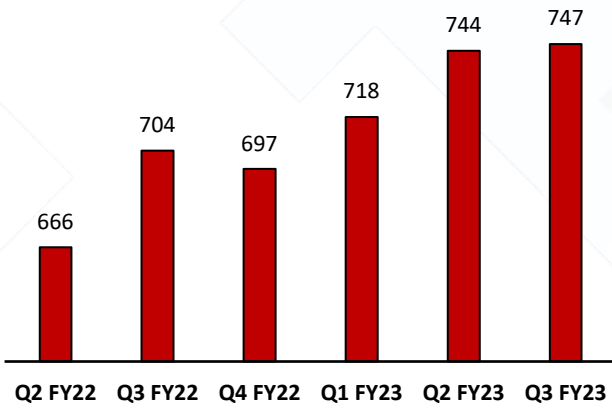
SCM Analysis (Rs/SCM)

Particulars	Q3 FY23	Q3 FY22	Change % (Y-o-Y)	Q2 FY23	Change % (Q-o-Q)	9M FY23	9M FY22	Change % (Y-o-Y)	FY22
Volume Sold (MMSCM)	747	704	6%	718	4%	2209	1854	19%	2551
Revenue from Operation	49.7	31.5	58%	49.5	0%	47.3	28.6	65%	30.2
Gross Profit	11.3	11.8	-4%	13.2	-14%	12.7	13.1	-3%	13.0
Employee Cost	0.6	0.7	-13%	0.7	-15%	0.6	0.7	-14%	0.7
Other Expenses	5.0	4.5	13%	5.1	-2%	5.0	4.9	1%	4.9
EBITDA	5.7	6.7	-14%	7.3	-22%	7.1	7.4	-4%	7.4
EBIT	4.5	5.5	-18%	6.1	-26%	5.9	6.1	-4%	6.1
PBT	5.2	5.9	-11%	6.7	-23%	6.5	6.6	-2%	6.8
Tax Expenses	1.5	1.5	-1%	1.8	-16%	1.7	1.7	1%	1.8
Profit from Associates	0.7	0.9	-21%	1.0	-23%	0.8	0.8	2%	0.9
PAT	4.5	5.3	-16%	5.9	-25%	5.6	5.8	-3%	5.9

Source: Company, Keynote Capitals Ltd.

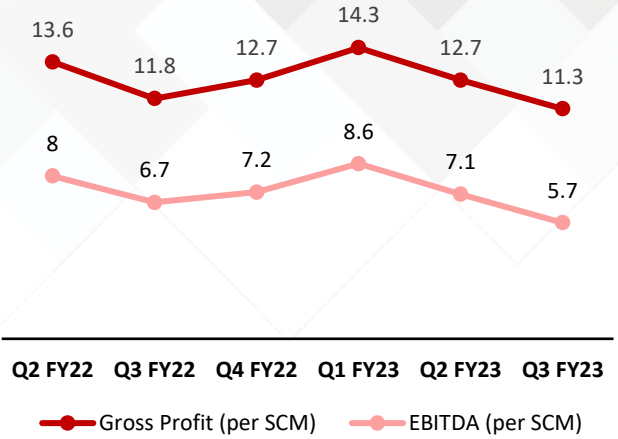
Quarterly Business Progression

Total Volume Sold (MMSCM)



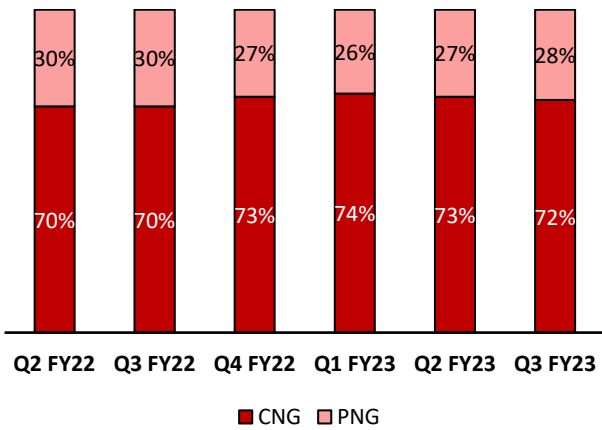
Source: Company, Keynote Capitals Ltd.

Gross Profit & EBITDA Trend



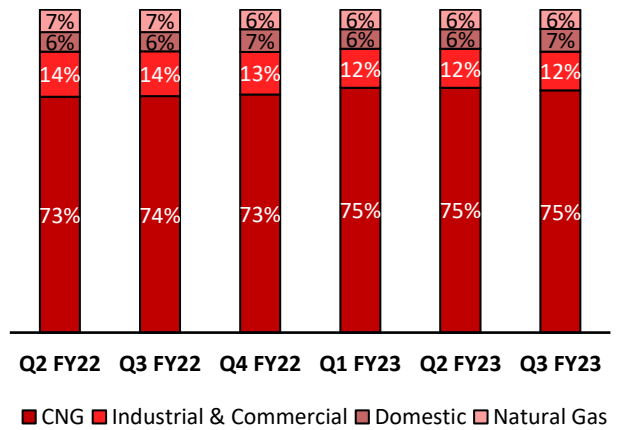
Source: Company, Keynote Capitals Ltd.

Revenue Mix (%)



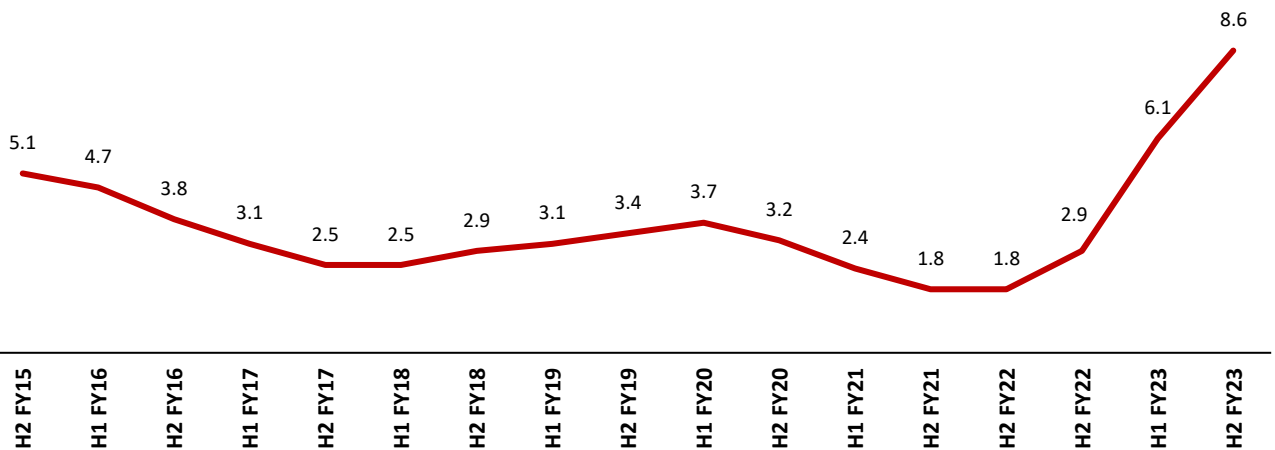
Source: Company, Keynote Capitals Ltd.

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

Conference Call Highlights

General Highlights

- The Company declared an interim dividend of Rs. 3 per share.
- Commission paid to Delhi Transport Corporation (DTC): 6% of retail price and Oil Marketing Companies (OMC): Rs 5.94/Kg.
- Due to mild winters in Europe, 76% of the gas storage capacity is still available. It is expected that it will lead to gas price correction in European market.
- Management acknowledges EV as a threat for business, but currently a caveat is that charging time for inter city large fleets will lead to 3-5 hours of stoppage, which would impact transport companies' business.
- Monthly conversion rate in CNG vehicles has dropped from 17-18,000 to 13-14,000.

Management Guidance

- The Company would do a sales volume of 9 MMSCMD in FY24 (9M FY23: ~8 MMSCMD) and 10 MMSCMD in FY25. 50-60% of 1 MMSCMD increment in FY24 will be generated from new GA's CNG business.
- For FY23, the Company would maintain an EBITDA/SCM of Rs. 7 and going forward it will remain in range of Rs. 7-8/scm.
- Management is expecting LNG prices to soften. If LNG price moderates, it will lead to lower raw material cost for the company.
- Management guided that along with EV buses, CNG buses are being ordered too.
- To maintain its annual EBITDA/scm ~Rs. 7, the Company took a ~ Re. 1 price hike in CNG in Dec'22 .

Future Growth

- The Company would be extending its network in GA's like Ajmer, Muzaffarnagar, Kanpur, Chitrakoot and many more. Currently, these GA's have a lot of room for capacity expansion.
- Sales volume in Gurgaon is 1.18 MMSCMD + 0.25 MMSCMD to other parties (Haryana CGD). Currently, Gurgaon is under review by PNGRB and free workflow isn't available due to some litigation delays. Once these issues gets resolved, management has guided that in a couple of years Gurgaon could see a sales volume increment by 0.5-0.8 MMSCMD.
- Management is working with Rajasthan State Road Transport Corporation (RSRTC) to convert its fleet into CNG as Diesel vehicles are to be compulsorily scrapped after 10 years of usage and converting it to CNG will extend fleet's life by another 5 years.
- No new round of GA's expansion will come from PNGRB as remaining areas only include uphill. PNGRB allows to sell current GA's to another city gas distributor due to incompetency of a city gas distributor.

Conference Call Highlights

Raw Material

- The Company's inability to pass on raw material cost led to shrink in EBITDA margins.
- If Kirit Parikh Committee's (KPC) recommendation are implemented, it is expected that the company would see a raw material cost pressure to subside by Rs 6/scm. It is expected that KPC's recommendation will get approved in first half of March 2023. Management has guided that if committee report goes through, they will moderate the prices for end-consumers.
- Currently, APM & Non-APM gas accounts for 76% of total raw material cost. (priority sector: DPNG & CNG accounts for 87% of APM Gas).
- Currently, post gas transportation, tariff cost for APM & Non-APM is \$10/MMBTU for the Company & average price paid for LNG is \$13-14/MMBTU. If KPC's recommendations will be applied, management guided that tariff cost for APM & Non-APM would reduce to \$7.25/MMBTU.
- In Q3 FY23, 2% of domestic gas was bought at ceiling price which is \$12.5/MMBTU.

Subsidiaries

- For the quarter: CUGL saw a flattish growth on volume (1.3 MMSCMD), whereas MNGL grew by 9% to 1.1 MMSCMD & maintained EBITDA margins.

Capacity Expansion

- For next 3-5 years, annual spend on capacity expansion to remain in range of Rs 13-16 Bn.
- The Company is expected to commission 75 CNG station in FY23 out of which 40 has already commenced its operation. From FY24, the Company targets to add at least 125 station every year.
- Delhi government has allocated 50 sites to the Company for EV charging station.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	49,408	77,100	1,39,332	1,44,600	1,54,947
Growth %		56%	81%	4%	7%
Raw Material Expenses	22,295	43,923	97,829	1,01,877	1,06,987
Other Expenses	12,176	14,250	20,752	18,946	21,268
EBITDA	14,937	18,927	20,752	23,777	26,691
Growth %		27%	10%	15%	12%
Margin%		30%	15%	16%	17%
Depreciation	2,904	3,171	3,825	4,638	5,466
EBIT	12,033	15,756	16,927	19,138	21,226
Growth %		31%	7%	13%	11%
Margin%		24%	12%	13%	14%
Interest Paid	220	248	302	302	302
Other Income & exceptional	1,148	1,766	1,842	1,918	2,200
PBT	12,961	17,275	18,467	20,755	23,124
Tax	2,494	4,509	4,617	5,189	5,781
PAT	10,467	12,766	13,850	15,566	17,343
Others (Minorities, Associates)	1,258	2,257	2,424	2,940	3,577
Net Profit	11,726	15,023	16,274	18,506	20,920
Growth %		28%	8%	14%	13%
Shares (Mn)	700.0	700.0	700.0	700.0	700.0
EPS	16.75	21.46	23.25	26.44	29.89

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash, Cash equivalents & Bank	11,323	13,616	18,789	21,078	24,950
Current Investments	15,677	17,177	17,177	17,177	17,177
Debtors	2,607	5,206	6,967	6,507	6,198
Inventory	456	455	1,761	1,528	1,391
Short Term Loans & Advances	484	649	649	649	649
Other Current Assets	409	524	524	524	524
Total Current Assets	30,955	37,627	45,866	47,463	50,888
Net Block & CWIP	51,678	63,803	76,699	89,412	1,02,540
Long Term Investments	7,207	9,080	11,019	13,371	16,233
Other Non-current Assets	660	512	512	512	512
Total Assets	90,500	1,11,022	1,34,096	1,50,758	1,70,173
Creditors	4,186	7,867	15,861	15,247	14,959
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	41,265	43,123	45,801
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	87,479	1,02,284	1,19,021
Shareholders' Equity	63,344	75,860	88,879	1,03,684	1,20,421
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	90,500	1,11,022	1,34,096	1,50,758	1,70,173

Source: Company, Keynote Capitals Ltd.

Cash Flow

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	12,961	17,275	18,467	20,755	23,124
Adjustments	663	-572	2,285	3,022	3,568
Change in Working Capital	3,473	3,777	6,988	2,550	3,125
Total Tax Paid	-2,895	-3,759	-4,617	-5,189	-5,781
Cash flow from operating Activities	14,202	16,722	23,123	21,138	24,036
Net Capital Expenditure	-8,829	-13,370	-16,720	-17,352	-18,594
Change in investments	-10,788	-3,224	0	0	0
Other investing activities	1,354	746	2,327	2,506	2,916
Cash flow from investing activities	-18,264	-15,848	-14,393	-14,846	-15,678
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	0	0	0	0	0
Dividend (incl. tax)	-1,960	-2,519	-3,255	-3,701	-4,184
Other financing activities	-1,010	-765	-302	-302	-302
Cash flow from financing activities	-2,970	-3,285	-3,557	-4,004	-4,486
Net Change in cash	-7,032	-2,410	5,173	2,289	3,872

Valuation Ratios

	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data					
EPS	17	21	23	26	30
Growth %		28%	8%	14%	13%
Book Value Per Share	90	108	127	148	172
Return Ratios					
Return on Assets (%)	14%	15%	13%	13%	13%
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	1.1	1.0	1.0
Sales / Gross Block (x)	1.0	1.3	1.9	1.6	1.4
Working Capital / Sales (%)	15%	9%	4%	3%	3%
Receivable Days	16	18	16	17	15
Inventory Days	8	4	4	6	5
Payable Days	53	50	44	56	52
Working Capital Days	-29	-28	-24	-33	-32
Liquidity Ratios					
Current Ratio (x)	1.3	1.2	1.1	1.1	1.1
Interest Coverage Ratio (x)	59.9	70.8	62.1	69.7	77.5
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.2	-0.2	-0.2	-0.2	-0.2
Valuation					
PE (x)	30.6	17.4	18.0	15.8	14.0
Earnings Yield (%)	3%	6%	6%	6%	7%
Price to Sales (x)	7.3	3.4	2.1	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	13.4	11.7	10.4
EV/Sales (x)	7.0	3.2	2.0	1.9	1.8

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
20 th September 2022	BUY	424	+38%
25 th October 2022	BUY	408	+36%
27 th January 2023	Buy	418	+33%

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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