

Indraprastha Gas Limited

15th May 2023

Unit economics have started improving

In Q4 FY23, Indraprastha Gas Limited (IGL) has reported a strong topline growth of 53% (due to increase in revenue/scm by 44% on YoY basis) and volume growth of 7% on a YoY basis. In contrast, it posted a degrowth in EBITDA on a YoY basis (-7%). This occurred due to higher gas costs leading to a ~13% contraction in gross margins on a YoY basis (Note: FY21 & FY22 saw abnormally high margins, which were not sustainable). In FY24, we expect IGL to post a low double-digit volume growth with stable EBITDA/scm of ~7+. We maintain BUY on IGL with a target price of Rs. 567, valuing it at 21x FY24E earnings.

Stable Volume Growth

In Q4 FY23, IGL posted a sales volume of ~743 MMSCM, which grew by ~7% & -1% on a YoY & QoQ basis, respectively. Within the product mix, the company did ~550 MMSCM in CNG, 56 MMSCM in Domestic, which grew by ~8% and ~10% on a YoY basis, respectively and saw a flat sales in volume in Industrial & Commercial and Third-Party Sales which were ~92 and 45 MMSCM, respectively.

Exploring opportunities in Green Hydrogen

IGL has entered into a Memorandum of Understanding (MoU) with ACME Cleantech Solutions Pvt. Ltd. to collaboratively explore potential business prospects related to green hydrogen and to establish supporting infrastructure.

The two companies will work together to examine the feasibility of constructing hydrogen generation plants, including electrolyzers, to produce green hydrogen, which can then be blended into IGL's existing pipeline network to supply to households, industrial and commercial establishments, as well as CNG for vehicles.

It is important to note that IGL is already engaged in a pilot project with IOCL related to Hydrogen enriched CNG. The use of green hydrogen in the automobile sector is presently in its nascent stage, and IGL, being a leading city gas distribution company, is keen to explore the possibilities of green hydrogen in this sector. Furthermore, the production of green ammonia from green hydrogen has the potential to be another business vertical for IGL.

ACME, on the other hand, commissioned the world's first green hydrogen and green ammonia plant in Bikaner, Rajasthan in 2021. The company's goal is to manufacture 10 Mn tons/year of green ammonia and hydrogen by 2032.

View & Valuation

We have revised our estimates and maintain a BUY rating with a target of Rs. 567 (21x FY24 earnings), we expect IGL to maintain EBITDA/scm of ~7+. We believe extending network into newer geography and monthly addition of CNG vehicles will fuel the future growth. In addition to this, IGL has a strong balance sheet, and it is one of the fastest-growing CGD company.

BUY

CMP Rs. 493

TARGET Rs. 567 (+15%)

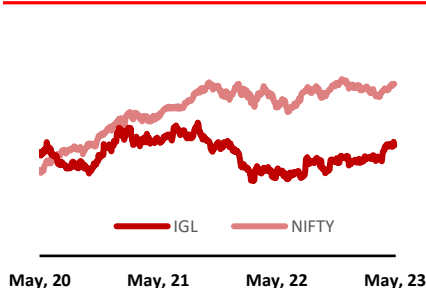
Company Data

MCAP (Rs. Mn)	344,890
O/S Shares (Mn)	700
52w High/Low	516/335
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	708

Shareholding Pattern %

	Mar 23	Dec 22	Sept 22
Promoters	45.0	45.0	45.0
FII's	21.3	21.8	21.0
DII's	25.5	24.7	25.3
Non-Institutional	8.3	8.5	8.7

IGL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY22	FY23	FY24E
Revenue	77	141	146
EBITDA	19	20	24
Net Profit	15	16	19
Total Assets	111	126	151
ROCE (%)	23%	21%	22%
ROE (%)	22%	21%	22%

Source: Company, Keynote Capitals Ltd.

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Q4 FY23 Result Update

Result Highlights (Rs. Mn)

Particulars	FY23 Q4	FY22 Q4	Change % (Y-o-Y)	FY23 Q3	Change % (Q-o-Q)	FY23	FY22	Change % (Y-o-Y)
Revenue from Operation	36,872	24,060	53%	37,108	-1%	1,41,458	77,099	83%
Gross Profit	8,946	8,881	1%	8,472	6%	37,097	33,176	12%
Gross Profit %	24.3%	36.9%	-1,265 bps	22.8%	143 bps	26.2%	43.0%	-1,680 bps
Employee Cost	466	385	21%	438	6%	1,882	1,760	7%
Other Expenses	3,817	3,491	9%	3,750	2%	14,819	12,606	18%
EBITDA	4,663	5,005	-7%	4,284	9%	20,396	18,810	8%
EBITDA %	12.6%	20.8%	-816 bps	11.5%	110 bps	14.4%	24.4%	-1,000 bps
Depreciation	938	753	25%	924	2%	3,634	3,170	15%
EBIT	3,725	4,252	-12%	3,360	11%	16,762	15,640	7%
EBIT %	10.1%	17.7%	757 bps	9.1%	105 bps	11.8%	20.3%	-840 bps
Finance Cost	25	49	-49%	26	-4%	106	132	-20%
Other Income	654	744	-12%	557	17%	2,029	1,767	15%
PBT	4,354	4,947	-12%	3,891	12%	18,685	17,275	8%
Tax Expenses	1,056	1,361	-22%	1,108	-5%	4,827	4,509	7%
Profit from Associates	677	723	-6%	558	21%	2,536	2,257	12%
PAT	3,975	4,309	-8%	3,341	19%	16,394	15,023	9%
EPS	5.68	6.16		4.77		23.42	21.46	

Source: Company, Keynote Capitals Ltd.

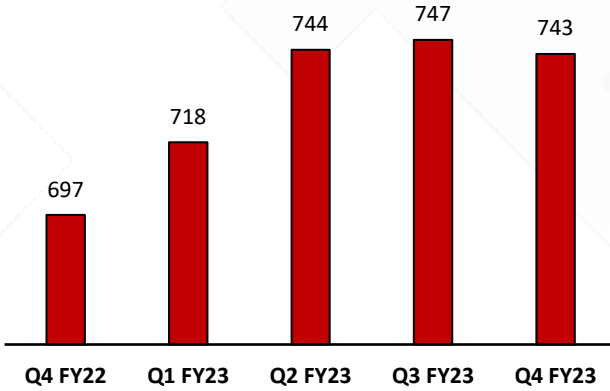
SCM Analysis (Rs/SCM)

Particulars	FY23 Q4	FY22 Q4	Change % (Y-o-Y)	FY23 Q3	Change % (Q-o-Q)	FY23	FY22	Change % (Y-o-Y)
Volume Sold (MMSCM)	743	697	7%	747	-1%	2952	2551	16%
Revenue from Operation	49.6	34.5	44%	49.7	0%	47.9	30.2	59%
Gross Profit	12.0	12.7	-6%	11.3	6%	12.6	13.0	-3%
Employee Cost	0.6	0.6	14%	0.6	7%	0.6	0.7	-8%
Other Expenses	5.1	5.0	3%	5.0	2%	5.0	4.9	2%
EBITDA	6.3	7.2	-13%	5.7	9%	6.9	7.4	-6%
EBIT	5.0	6.1	-18%	4.5	11%	5.7	6.1	-7%
PBT	5.9	7.1	-17%	5.2	13%	6.3	6.8	-7%
Tax Expenses	1.4	2.0	-27%	1.5	-4%	1.6	1.8	-7%
Profit from Associates	0.9	1.0	-12%	0.7	22%	0.9	0.9	-3%
PAT	5.3	6.2	-13%	4.5	20%	5.6	5.9	-6%

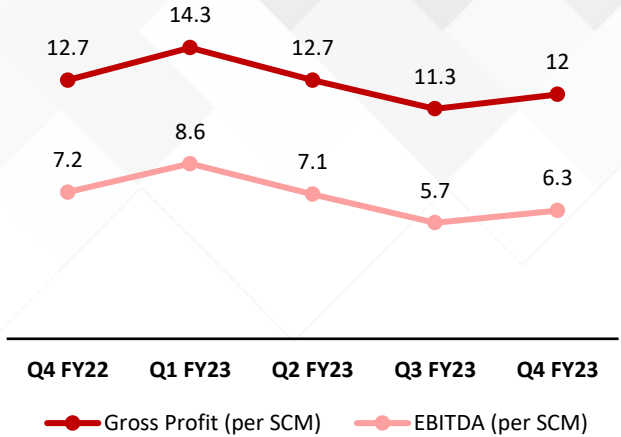
Source: Company, Keynote Capitals Ltd.

Quarterly Business Progression

Total Volume Sold (MMSCM)



Gross Profit & EBITDA Trend (Rs. Per SCM)

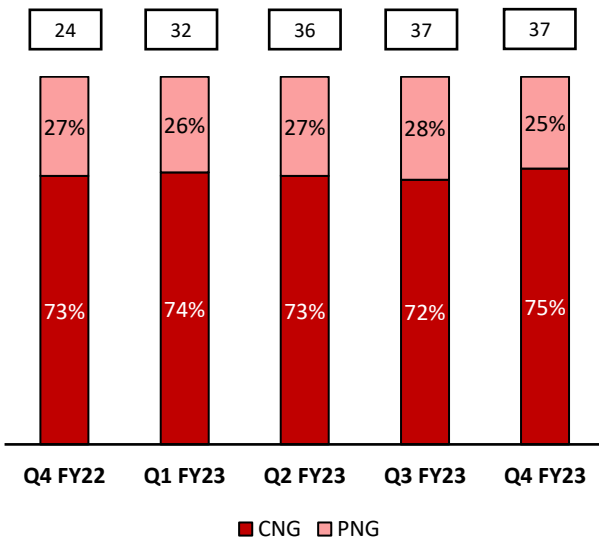


Source: Company, Keynote Capitals Ltd.

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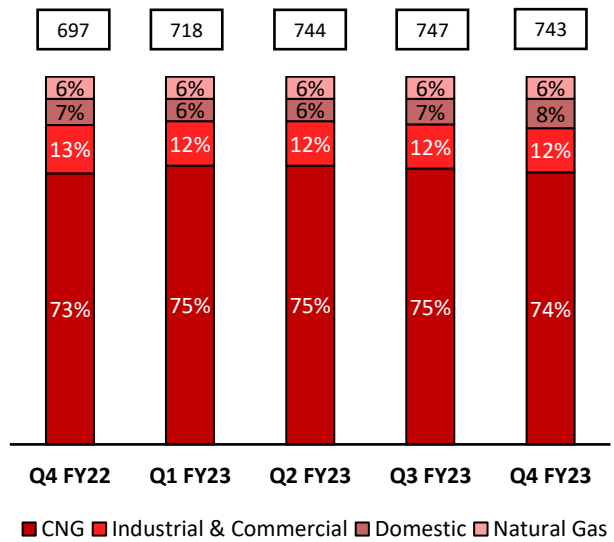
Revenue Mix (%)

(Rs. Bn)



Volume Mix (%)

(Vol. in MMSCM)



Source: Company, Keynote Capitals Ltd.

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Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Net Sales	49,408	77,100	1,41,458	1,46,303	1,54,693
Growth %		56%	83%	3%	6%
Raw Material Expenses	22,295	43,923	1,04,361	1,03,077	1,06,812
Other Expenses	12,176	14,250	16,701	19,452	21,546
EBITDA	14,937	18,927	20,396	23,774	26,335
Growth %		27%	8%	17%	11%
Margin%	30%	25%	14%	16%	17%
Depreciation	2,904	3,171	3,634	4,179	5,066
EBIT	12,033	15,756	16,762	19,595	21,269
Growth %		31%	6%	17%	9%
Margin%	24%	20%	12%	13%	14%
Interest Paid	220	248	106	331	331
Other Income & exceptional	1,148	1,766	2,029	2,029	2,029
PBT	12,961	17,275	18,685	21,293	22,967
Tax	2,494	4,509	4,827	5,323	5,742
PAT	10,467	12,766	13,858	15,970	17,225
Others (Minorities, Associates)	1,258	2,257	2,536	2,940	3,577
Net Profit	11,726	15,023	16,394	18,910	20,802
Growth %		28%	9%	15%	10%
Shares (Mn)	700.0	700.0	700.0	700.0	700.0
EPS	16.75	21.46	23.42	27.01	29.72

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Cash, Cash equivalents & Bank	11,323	13,616	26,332	33,681	38,117
Current Investments	15,677	17,177	4,191	4,191	4,191
Debtors	2,607	5,206	9,033	8,778	7,735
Inventory	456	455	492	1,031	1,389
Short Term Loans & Advances	484	649	1,449	1,449	1,449
Other Current Assets	409	524	782	782	782
Total Current Assets	30,955	37,627	42,279	49,912	53,662
Net Block & CWIP	51,678	63,803	71,672	86,731	1,00,229
Long Term Investments	7,207	9,080	11,028	13,380	16,242
Other Non-current Assets	660	512	1,227	1,227	1,227
Total Assets	90,500	1,11,022	1,26,206	1,51,251	1,71,361
Creditors	4,186	7,867	9,043	15,542	15,004
Provision	3,470	4,563	5,158	5,158	5,158
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	15,783	18,781	27,909	30,381	33,347
Total Current Liabilities	23,439	31,211	42,110	51,081	53,509
Long Term Debt	0	0	0	0	0
Deferred Tax Liabilities	2,422	2,737	3,167	3,167	3,167
Other Long Term Liabilities	1,295	1,214	1,617	1,617	1,617
Total Non Current Liabilities	3,717	3,951	4,784	4,784	4,784
Paid-up Capital	1,400	1,400	1,400	1,400	1,400
Reserves & Surplus	61,944	74,460	77,912	93,985	1,11,667
Shareholders' Equity	63,344	75,860	79,312	95,385	1,13,067
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	90,500	1,11,022	1,26,206	1,51,251	1,71,361

Cash Flow

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	12,961	17,275	18,685	21,293	22,967
Adjustments	663	-572	1,986	1,453	2,340
Change in Working Capital	3,473	3,777	6,468	8,687	3,114
Total Tax Paid	-2,895	-3,759	-4,833	-5,323	-5,742
Cash flow from operating Activities	14,202	16,722	22,306	26,110	22,678
Net Capital Expenditure	-8,829	-13,370	-11,221	-17,556	-18,563
Change in investments	-10,788	-3,224	8,248	0	0
Other investing activities	1,354	746	-5,441	3,645	3,772
Cash flow from investing activities	-18,264	-15,848	-8,414	-13,911	-14,791
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	0	0	0	0	0
Dividend (incl. tax)	-1,960	-2,519	-12,958	-2,836	-3,120
Other financing activities	-1,010	-765	-638	-331	-331
Cash flow from financing activities	-2,970	-3,285	-13,596	-3,168	-3,452
Net Change in cash	-7,032	-2,410	296	9,031	4,436

Valuation Ratios

	FY21	FY22	FY23	FY24E	FY25E
Per Share Data					
EPS	17	21	23	27	30
Growth %		28%	9%	15%	10%
Book Value Per Share	90	108	113	136	162
Return Ratios					
Return on Assets (%)	14%	15%	14%	14%	13%
Return on Equity (%)	20%	22%	21%	22%	20%
Return on Capital Employed (%)	20%	23%	21%	22%	20%
Turnover Ratios					
Asset Turnover (x)	0.6	0.8	1.2	1.1	1.0
Sales / Gross Block (x)	1.0	1.3	2.0	1.8	1.5
Working Capital / Sales (%)	15%	9%	2%	0%	0%
Receivable Days	16	18	18	22	19
Inventory Days	8	4	2	3	4
Payable Days	53	50	30	43	52
Working Capital Days	-29	-28	-10	-18	-28
Liquidity Ratios					
Current Ratio (x)	1.3	1.2	1.0	1.0	1.0
Interest Coverage Ratio (x)	59.9	70.8	177.3	65.3	70.3
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.2	-0.2	-0.3	-0.4	-0.3
Valuation					
PE (x)	30.6	17.4	20.9	18.1	16.5
Earnings Yield (%)	3%	6%	5%	6%	6%
Price to Sales (x)	7.3	3.4	2.4	2.3	2.2
Price to Book (x)	5.7	3.4	4.3	3.6	3.0
EV/EBITDA (x)	23.3	13.1	16.1	13.9	12.5
EV/Sales (x)	7.0	3.2	2.3	2.3	2.1

Source: Company, Keynote Capitals Ltd.

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%
15 th May 2023	BUY	493	+15%

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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