

Indraprastha Gas Limited

26th July 2023

Unit economics: excelling as expected

In Q1FY24, Indraprastha Gas Limited (IGL) reported a steady increase in topline, exhibiting a growth of 7% on a YoY basis. Concurrently, there was a 4% rise in sales volume. Despite the normalization of gas prices sequentially, Revenue per SCM experienced an 8% decline. However, there was a notable improvement in EBITDA per SCM, which surged by 37%, reaching the earlier level of Rs. 8.6, akin to the figures seen in Q1FY23. Looking ahead to FY24, we hold a conservative perspective, expecting IGL to achieve a mid to high single-digit volume growth while maintaining a stable EBITDA per SCM of ~Rs. 7.5. In view of these prospects, we maintain a BUY recommendation on IGL with a target price of Rs. 559, valuing the Company at 20x of its FY24E earnings.

Stable volume growth

In Q1 FY24, IGL posted a sales volume of ~746 MMSCM, which grew by ~4% & remained flat on a YoY & QoQ basis, respectively. Within the product mix, the Company did ~561 MMSCM in CNG, 53 MMSCM in Household PNG, which grew by ~4% and ~18% on a YoY basis, respectively and saw a flat sales volume in Industrial & Commercial and Third-Party Sales which were ~87 and 45 MMSCM, respectively.

Recent geographical expansion & decrease in gas prices will lead to growth

In July 2023, the Company has reduced gas prices in CNG and Industrial. This will lead to resurgence in volume sold in Q2FY24. In addition to this, newer geographies like Chitrakoot, Muzaffarnagar, Kanpur, Ajmer and Gurugram will become valuable source for fueling future growth.

Due to reduction in gas prices, we expect that current quarter EBITDA per SCM of Rs. 8.6 is not sustainable, but believe that for FY24, the Company will atleast have ~Rs. 7.5 EBITDA per SCM on a conservative basis.

View & Valuation

We have revised our estimates and maintain a BUY rating with a target of Rs. 559 (20x FY24 earnings), we expect IGL to maintain its EBITDA per SCM of ~Rs. 7.5 on a conservative basis. We believe extending network into newer geographies and passing on reduced gas prices will fuel the future growth.

BUY

CMP Rs. 470

TARGET Rs. 559(+19%)

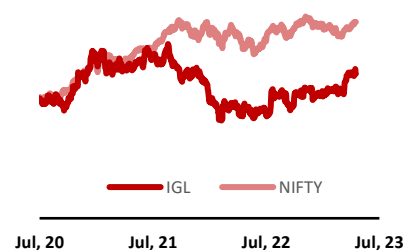
Company Data

Bloomberg Code	IGL IN
MCAP (Rs. Mn)	331,380
O/S Shares (Mn)	700
52w High/Low	516/344
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	748

Shareholding Pattern %

	Jun 23	Mar 23	Dec 22
Promoters	45.0	45.0	45.0
FIIs	21.9	21.3	21.8
DIIIs	25.4	25.5	24.7
Non-Institutional	7.7	8.3	8.5

IGL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
Revenue	141	142	145
EBITDA	20	24	26
Net Profit	16	20	21
Total Assets	126	150	169
ROCE (%)	21%	22%	20%
ROE (%)	21%	22%	20%

Source: Company, Keynote Capitals Ltd.

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Indraprastha Gas Limited | Quarterly Update

Q1 FY24 Result Update

Result Highlights (Rs. Mn)

Particulars	FY24 Q1	FY23 Q1	Change % (Y-o-Y)	FY23 Q4	Change % (Q-o-Q)	FY23
Revenue from Operation	34,070	31,938	7%	36,872	-8%	1,41,458
Gross Profit	10,729	10,232	5%	8,946	20%	37,097
Gross Profit %	31.5%	32.0%	-55 Bps	24.3%	723 Bps	26.2%
Employee Cost	509	481	6%	466	9%	1,882
Other Expenses	3,797	3,577	6%	3,817	-1%	14,819
EBITDA	6,423	6,174	4%	4,663	38%	20,396
EBITDA %	18.9%	19.3%	-48 Bps	12.6%	621 Bps	14.4%
Depreciation	989	857	15%	938	5%	3,634
EBIT	5,434	5,317	2%	3,725	46%	16,762
EBIT %	15.9%	16.6%	-70 Bps	10.1%	585 Bps	11.8%
Finance Cost	24	24	0%	25	-4%	106
Other Income	457	307	49%	654	-30%	2,029
PBT	5,867	5,602	5%	4,354	35%	18,685
Tax Expenses	1,483	1,394	6%	1,056	40%	4,827
Profit from Associates	836	604	38%	677	23%	2,536
PAT	5,220	4,812	8%	3,975	31%	16,394
EPS	7.46	6.87		5.68		23.42

Source: Company, Keynote Capitals Ltd.

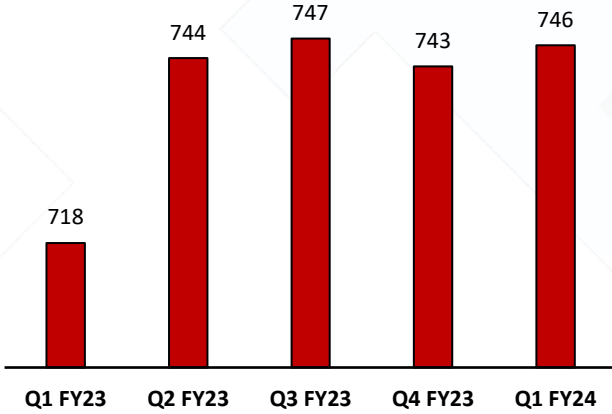
SCM Analysis (Rs/SCM)

Particulars	FY24 Q1	FY23 Q1	Change % (Y-o-Y)	FY23 Q4	Change % (Q-o-Q)	FY23
Volume Sold (MMSCM)	746	718	4%	743	0%	2,952
Revenue from Operation	45.7	44.5	3%	49.6	-8%	47.9
Gross Profit	14.4	14.3	1%	12.0	19%	12.6
Employee Cost	0.7	0.7	2%	0.6	9%	0.6
Other Expenses	5.1	5.0	2%	5.1	-1%	5.0
EBITDA	8.6	8.6	0%	6.3	37%	6.9
EBIT	7.3	7.4	-2%	5.0	45%	5.7
PBT	7.9	7.8	1%	5.9	34%	6.3
Tax Expenses	2.0	1.9	2%	1.4	40%	1.6
Profit from Associates	1.1	0.8	33%	0.9	23%	0.9
PAT	7.0	6.7	4%	5.3	31%	5.6

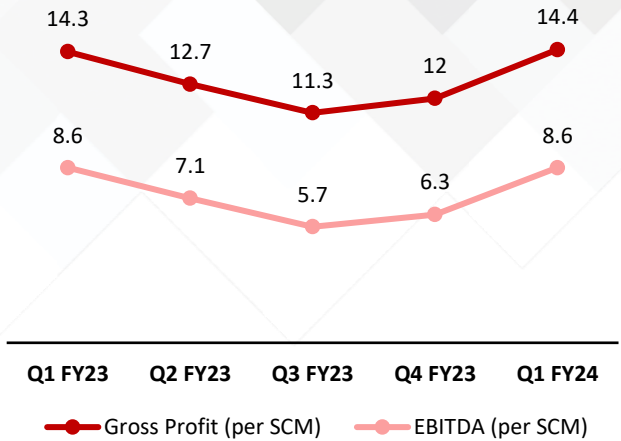
Source: Company, Keynote Capitals Ltd.

Quarterly Business Progression

Total Volume Sold (MMSCM)



Gross Profit & EBITDA Trend (Rs. Per SCM)

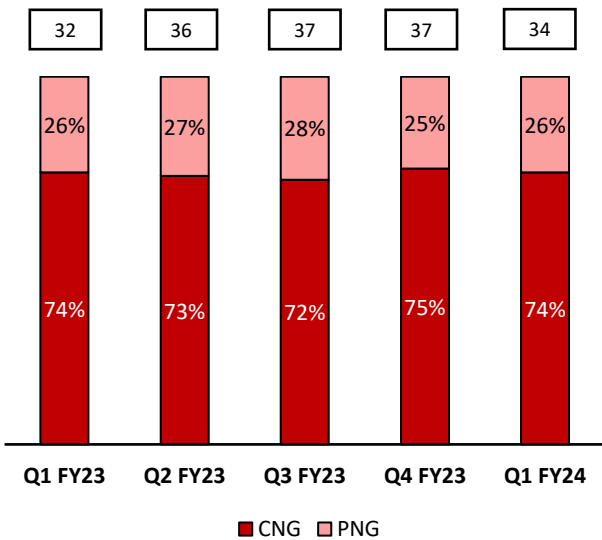


Source: Company, Keynote Capitals Ltd.

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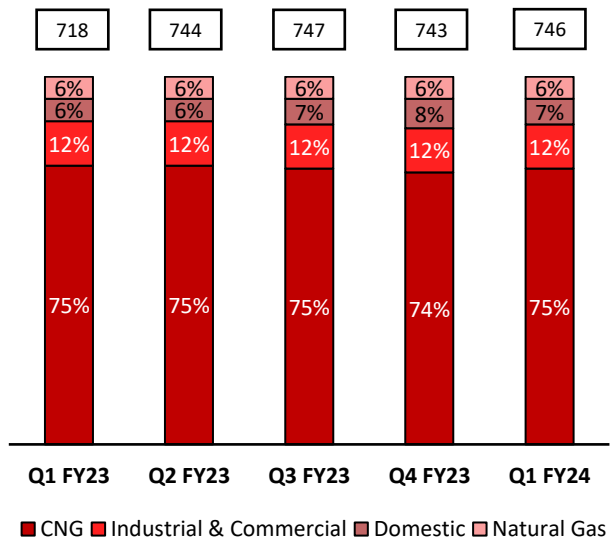
Revenue Mix (%)

(Rs. Bn)



Volume Mix (%)

(Vol. in MMSCM)



Source: Company, Keynote Capitals Ltd.

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Q1 FY24 Conference Call Highlights

General Highlights

- Expect volume growth to come from recently targeted geographical areas like Chitrakoot, Ajmer, Muzaffarpur, Kanpur and Gurugram
- At present, the monthly CNG vehicle conversion rate has regressed to 14,000 units, as compared to the range of ~17,000 to 18,000 units per month recorded in Q3FY23.

Management Guidance

- It is projected that the volumes in Q2FY24 will surpass those in Q1FY24, attributed to the reduction in gas prices for both CNG and Industrial segments. Consequently, this is expected to result in a decline in the current EBITDA per SCM.
- The management has provided guidance indicating that by the conclusion of Q4FY24, the Company aims to achieve sales volume of 9 MMSCMD.
- The management's guidance for the entire year entails achieving an EBITDA per SCM in the range of Rs. 7.5 to Rs. 8.
- At present, the Company's primary focus lies on organic growth; however, they remain open to exploring inorganic opportunities.

Capacity Expansion

- CAPEX incurred during the quarter amounted to Rs. 2.6Bn.
- The management provided guidance that the CAPEX for the entire year is expected to be in the range of Rs. 14 to 15Bn.

Demand Scenario

- The decline in the sales volume of Industrial & Commercial segments was attributed to the lower prices of alternative fuels such as propane and LPG. However, following a price reduction of Rs. 5 in July 2023, it is anticipated that volumes will rebound.
- The sequential decrease in volumes of Household PNG can be attributed to seasonal effects.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	77,100	1,41,458	1,42,331	1,45,360	1,55,970
Growth %		83%	1%	2%	7%
Raw Material Expenses	43,923	1,04,361	98,050	98,033	1,05,189
Other Expenses	14,250	16,701	19,926	21,297	22,851
EBITDA	18,927	20,396	24,354	26,030	27,930
Growth %		8%	19%	7%	7%
Margin%		25%	14%	17%	18%
Depreciation	3,171	3,634	4,167	5,014	5,918
EBIT	15,756	16,762	20,187	21,016	22,012
Growth %		6%	20%	4%	5%
Margin%		20%	12%	14%	14%
Interest Paid	248	106	108	108	108
Other Income & exceptional	1,766	2,029	2,029	2,029	2,029
PBT	17,275	18,685	22,108	22,937	23,933
Tax	4,509	4,827	5,527	5,734	5,983
PAT	12,766	13,858	16,581	17,203	17,950
Others (Minorities, Associates)	2,257	2,536	2,980	3,505	4,128
Net Profit	15,023	16,394	19,561	20,708	22,078
Growth %		9%	19%	6%	7%
Shares (Mn)	700.0	700.0	700.0	700.0	700.0
EPS	21.46	23.42	27.94	29.58	31.54

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	13,616	26,332	33,577	38,040	43,507
Current Investments	17,177	4,191	4,191	4,191	4,191
Debtors	5,206	9,033	8,540	7,268	7,799
Inventory	455	492	980	1,274	1,367
Short Term Loans & Advances	649	1,449	1,449	1,449	1,449
Other Current Assets	524	782	782	782	782
Total Current Assets	37,627	42,279	49,519	53,004	59,095
Net Block & CWIP	63,803	71,672	86,267	98,696	1,11,495
Long Term Investments	9,080	11,028	13,412	16,217	19,519
Other Non-current Assets	512	1,227	1,227	1,227	1,227
Total Assets	1,11,022	1,26,206	1,50,425	1,69,144	1,91,336
Creditors	7,867	9,043	14,781	13,766	14,740
Provision	4,563	5,158	5,158	5,158	5,158
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	18,781	27,909	29,763	31,895	34,347
Total Current Liabilities	31,211	42,110	49,702	50,819	54,245
Long Term Debt	0	0	0	0	0
Deferred Tax Liabilities	2,737	3,167	3,167	3,167	3,167
Other Long Term Liabilities	1,214	1,617	1,617	1,617	1,617
Total Non Current Liabilities	3,951	4,784	4,784	4,784	4,784
Paid-up Capital	1,400	1,400	1,400	1,400	1,400
Reserves & Surplus	74,460	77,912	94,539	1,12,141	1,30,908
Shareholders' Equity	75,860	79,312	95,939	1,13,541	1,32,308
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	1,11,022	1,26,206	1,50,425	1,69,144	1,91,336

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	17,275	18,685	22,108	22,937	23,933
Adjustments	-572	1,986	1,218	2,064	2,968
Change in Working Capital	3,777	6,468	7,596	2,095	2,802
Total Tax Paid	-3,759	-4,833	-5,527	-5,734	-5,983
Cash flow from operating Activities	16,722	22,306	25,396	21,362	23,720
Net Capital Expenditure	-13,370	-11,221	-17,080	-17,443	-18,716
Change in investments	-3,224	8,248	0	0	0
Other investing activities	746	-5,441	3,653	3,758	3,883
Cash flow from investing activities	-15,848	-8,414	-13,427	-13,685	-14,834
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	0	0	0	0	0
Dividend (incl. tax)	-2,519	-12,958	-2,934	-3,106	-3,312
Other financing activities	-765	-638	-108	-108	-108
Cash flow from financing activities	-3,285	-13,596	-3,042	-3,214	-3,419
Net Change in cash	-2,410	296	8,927	4,463	5,467

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	21	23	28	30	32
Growth %		9%	19%	6%	7%
Book Value Per Share	108	113	137	162	189
Return Ratios					
Return on Assets (%)	15%	14%	14%	13%	12%
Return on Equity (%)	22%	21%	22%	20%	18%
Return on Capital Employed (%)	23%	21%	22%	20%	18%
Turnover Ratios					
Asset Turnover (x)	0.8	1.2	1.0	0.9	0.9
Sales / Gross Block (x)	1.3	2.0	1.7	1.4	1.3
Working Capital / Sales (%)	9%	2%	0%	1%	2%
Receivable Days	18	18	23	20	18
Inventory Days	4	2	3	4	5
Payable Days	50	30	44	53	49
Working Capital Days	-28	-10	-19	-29	-27
Liquidity Ratios					
Current Ratio (x)	1.2	1.0	1.0	1.0	1.1
Interest Coverage Ratio (x)	70.8	177.3	206.4	214.1	223.3
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.2	-0.3	-0.3	-0.3	-0.3
Valuation					
PE (x)	17.4	20.1	16.8	15.9	14.9
Earnings Yield (%)	6%	5%	6%	6%	7%
Price to Sales (x)	3.4	2.3	2.3	2.3	2.1
Price to Book (x)	3.4	4.1	3.4	2.9	2.5
EV/EBITDA (x)	13.1	15.5	12.9	12.1	11.3
EV/Sales (x)	3.2	2.2	2.2	2.2	2.0

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%
26 th July 2023	BUY	470	+19%

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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