

BUY

TP: Rs 425 | ▲ 34%

INDRAPRASTHA GAS

Oil & Gas

14 August 2019

Volumes robust, margins improve

Indraprastha Gas' (IGL) Q1FY20 earnings were in line at Rs 2.2bn (+24% YoY). Core volumes at 6.25mmscmd (+12.7% YoY) also met estimates – CNG/PNG sales slowed a bit to +11.7%/+12.4% YoY. EBITDA margins outperformed at Rs 6.3/scm (+8% YoY), gaining from the crash in spot LNG prices. IGL's margins still trend well below its CGD peers with a similar volume mix. Our DCF-based TP increases to Rs 425 (from Rs 360) on rollover to Sep'21 valuations and lower cost of equity assumptions (10.1% vs. 10.9%).

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Volume growth remains robust: IGL appears to be persisting with its strategy of prioritising volume growth (especially from the CNG and industrials segments) over margins, as volumes continue to grow well above the long-term average (~10%). EBITDA margins improved to Rs 6.3/scm in Q1, but still trend below CGD peers (Rs 10/scm for MAHGL in Q1) and its JV subsidiary MNGL (~Rs 9/scm in FY19). Low spot LNG prices and a possible cut in domestic gas prices from Oct'19 make a favourable case for IGL to sustain margins.

New areas offer near-term volume traction...: IGL sees overall volume potential of ~3mmscmd from recently won geographical areas (GA) in Uttar Pradesh – Meerut, Muzaffarnagar, Kanpur – and others such as Karnal and Ajmer. Management sees no immediate threat to volume growth from electric vehicles.

...EV threat remains distant: Three-wheelers constitute ~15% of IGL's CNG volumes, but even if this entire fleet were to go electric, CNG and industrial PNG volume growth from new areas could more than make up for the volume loss. EV buses and cars are not a threat for at least 10 years, as per management. Alternatively, IGL could explore diversifying into the setup of charging stations for EVs, should demand materialise.

Ticker/Price	IGL IN/Rs 316
Market cap	US\$ 3.1bn
Shares o/s	700mn
3M ADV	US\$ 8.6mn
52wk high/low	Rs 351/Rs 215
Promoter/FPI/DII	45%/23%/32%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	7,217	8,739	9,816	11,540	12,985
Adj. EPS (Rs)	10.3	12.5	14.0	16.5	18.6
Adj. EPS growth (%)	19.0	21.1	12.3	17.6	12.5
Adj. ROAE (%)	21.7	21.7	20.4	20.1	19.0
Adj. P/E (x)	30.7	25.3	22.6	19.2	17.1
EV/EBITDA (x)	19.3	17.2	14.6	12.4	11.2

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Net sales	15,761	12,874	22.4	15,426	2.2
Raw Material Consumed	9,217	7,418	24.3	9,058	1.8
% of sales	58.5	57.6	-	58.7	-
Other expenditure	2,960	2,506	18.1	3,056	(3.2)
% of sales	18.8	19.5	-	19.8	-
EBITDA	3,585	2,951	21.5	3,312	8.2
EBITDA (Rs/scm)	6.3	5.8	7.8	5.9	7.2
EBITDA margin (%)	22.7	22.9	-	21.5	-
Depreciation and amortisation	605	473	28.0	522	15.8
Interest	16	6	191.1	0	8,050.0
Other income	354	262	34.9	513	(31.0)
Profit Before Tax	3,318	2,735	21.3	3,303	0.5
Provision for tax	1,134	976	16.2	1,048	8.3
PAT	2,184	1,759	24.1	2,255	(3.2)
Profit from associates	336	190	76.8	115	192.1
Consolidated PAT	2,520	1,949	29.3	2,370	6.3
NPM (%)	13.9	13.7	-	14.6	-
Standalone EPS (Rs)	3.1	2.5	24.1	3.2	(3.2)
Consolidated EPS (Rs)	3.6	2.8	29.3	3.4	6.3

Source: Company, BOBCAPS Research

FIG 2 – SEGMENT-WISE VOLUME BREAKUP

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
CNG Volume (mn kg)	305	273	11.7	294	3.7
PNG Volume (mmscm)	145	129	12.4	149	(2.7)
Industrial/Commercial	68	58	17.2	69	(1.4)
Domestic	31	27	14.8	35	(11.4)
Natural Gas	46	44	4.5	45	2.2
Total Volume (mmscm)	569	505	12.7	564	1.0
Total Volume (mmscmd)	6.25	5.55	12.7	6.26	(0.1)

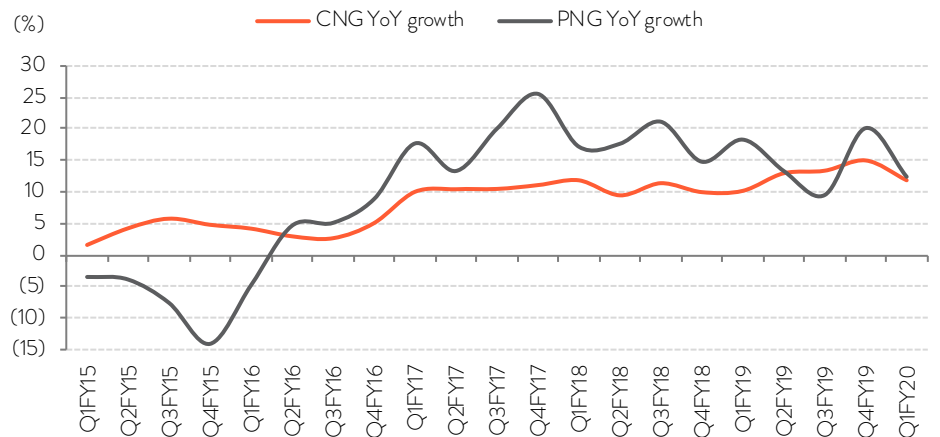
Source: Company, BOBCAPS Research

FIG 3 – OPERATING PERFORMANCE

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Avg realisation (Rs/scm)	27.7	25.5	8.7	27.4	1.2
Gas cost (Rs/scm)	16.2	14.7	10.3	16.1	0.8
Gross spreads (Rs/scm)	11.5	10.8	6.4	11.3	1.8
CNG realisation (Rs/kg)	43.9	39.4	11.5	43.0	2.3
PNG realisation (Rs/scm)	27.4	26.5	3.5	28.9	(5.1)
EBITDA (Rs/scm)	6.3	5.8	7.8	5.9	7.2
Other operating costs (Rs/scm)	5.2	5.0	4.8	5.4	(4.1)

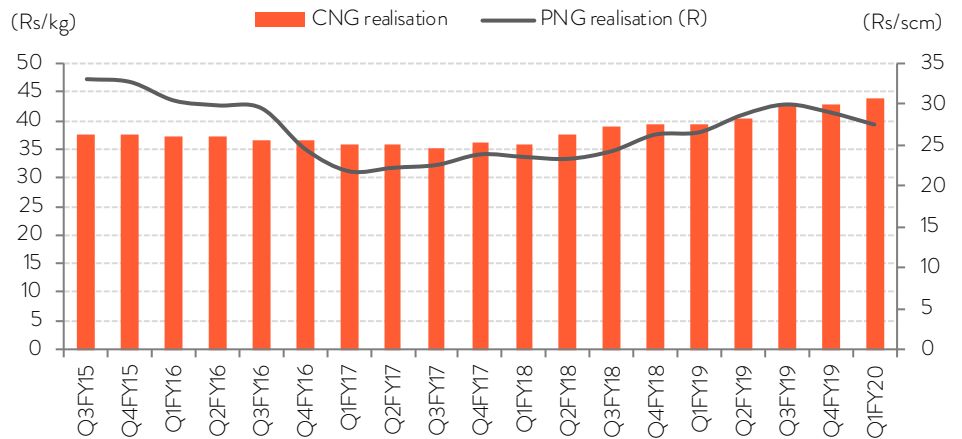
Source: Company, BOBCAPS Research

FIG 4 – CNG AND PNG GROWTH



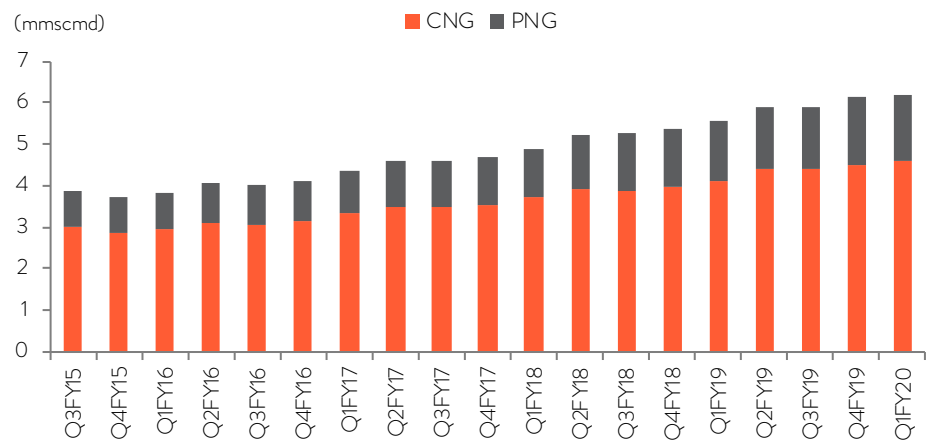
Source: BOBCAPS Research, Company

FIG 5 – REALISATION TREND



Source: BOBCAPS Research, Company

FIG 6 – CNG AND PNG VOLUMES



Source: BOBCAPS Research, Company

Valuation methodology

IGL appears to be persisting with its strategy of prioritising volume growth (especially from the CNG and industrials segments) over margins, as volumes continue to grow well above the long-term average (~10%). EBITDA margins improved to Rs 6.3/scm in Q1, but still trend below CGD peers (Rs 10/scm for MAHGL in Q1) and its JV subsidiary MNGL (~Rs 9/scm in FY19). Low spot LNG prices and a possible cut in domestic gas prices from Oct'19 make a favourable case for IGL to further expand margins.

We broadly maintain earnings estimates for FY20/FY21, and introduce FY22 numbers factoring in 9.5% YoY volume growth to 8.17mmscmd and EPS at Rs 18.6 (+12.5% YoY). Our DCF-based target price increases to Rs 425 (from Rs 360) on rollover to Sep'21 valuations and lower cost of equity assumptions (10.1% vs. 10.9%). At 19x FY21E EPS, IGL looks attractive considering a robust growth outlook, especially as joint ventures in Pune and Kanpur have begun to deliver on both volumes and margins. Maintain BUY.

FIG 7 – VALUATION SUMMARY

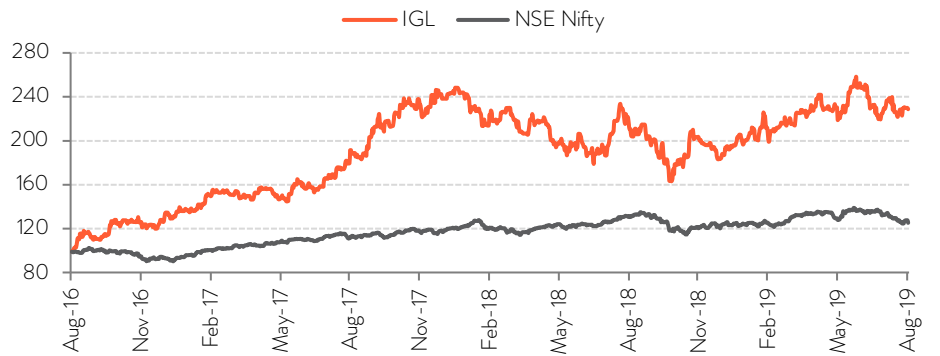
Valuation parameters	Value (Rs mn)
PV of FCF	20,577
PV of terminal value	218,991
Enterprise Value	239,568
Less: Net Debt	(22,232)
Equity value	261,800
NPV – IGL share (Rs)	374
NPV – MNGL (Rs)	35
NPV – CUPGL (Rs)	16
Consolidated NPV (Rs)	425

Source: BOBCAPS Research

FIG 8 – VALUATION SENSITIVITY

		WACC				
		(Rs)	9.0%	9.5%	10.2%	10.5%
Terminal growth	6.0%	502	417	347	321	291
	7.0%	630	492	390	355	316
	8.0%	886	618	425	378	325
	9.0%	1,654	868	556	475	397
	9.5%	nm	1,619	745	595	467

Source: BOBCAPS Research

FIG 9 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

- Lower-than-expected margins over FY19-FY21
- Impact from PNGRB concept paper ([read our analysis here](#)) that paves the way for competition in existing areas, as tariff calculations remain uncertain
- Below-expected volume growth for CNG and PNG

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
Total revenue	45,921	57,648	68,968	82,584	94,031
EBITDA	11,144	12,570	14,838	17,044	18,238
EBIT	9,331	10,559	12,403	14,277	15,157
Net interest income/(expenses)	(17)	(21)	(21)	0	0
Other income/(expenses)	926	1,462	1,049	1,560	2,660
EBT	10,241	12,000	13,432	15,837	17,818
Income taxes	(3,742)	(4,272)	(4,770)	(5,604)	(6,298)
Min. int./Inc. from associates	719	1,011	1,154	1,307	1,465
Reported net profit	7,217	8,739	9,816	11,540	12,985
Adjusted net profit	7,217	8,739	9,816	11,540	12,985

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
Accounts payables	3,386	4,885	3,361	4,134	4,809
Other current liabilities	2,930	635	635	635	635
Provisions	137	206	206	206	206
Other liabilities	8,042	10,167	11,721	13,442	15,302
Equity capital	1,400	1,400	1,400	1,400	1,400
Reserves & surplus	35,070	42,503	51,009	61,238	72,912
Shareholders' fund	36,470	43,903	52,409	62,638	74,312
Total liabilities and equities	50,965	59,795	68,331	81,054	95,264
Cash and cash eq.	5,580	4,693	9,353	16,656	25,241
Accounts receivables	2,261	2,215	3,779	4,525	5,152
Inventories	524	509	945	1,131	1,288
Other current assets	1,259	594	1,194	1,794	2,394
Investments	13,160	17,779	15,440	15,440	15,440
Net fixed assets	24,320	29,224	34,595	38,180	42,088
CWIP	3,860	4,781	3,025	3,328	3,660
Total assets	50,965	59,795	68,331	81,054	95,264

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
Net income + Depreciation	8,908	10,832	12,251	14,307	16,065
Changes in working capital	1,382	1,559	(3,524)	(159)	(109)
Other operating cash flows	(354)	(893)	(95)	(439)	(1,401)
Cash flow from operations	9,936	11,498	8,632	13,709	14,556
Capital expenditures	(5,182)	(7,917)	(6,050)	(6,655)	(7,321)
Change in investments	(5,321)	(4,619)	2,340	0	0
Other investing cash flows	926	1,462	1,049	1,560	2,660
Cash flow from investing	(9,576)	(11,075)	(2,661)	(5,095)	(4,660)
Dividends paid	(1,311)	(1,311)	(1,311)	(1,311)	(1,311)
Other financing cash flows	445	0	0	0	0
Cash flow from financing	(866)	(1,311)	(1,311)	(1,311)	(1,311)
Changes in cash and cash eq.	(506)	(887)	4,660	7,303	8,585
Closing cash and cash eq.	5,580	4,693	9,353	16,656	25,241

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19P	FY20E	FY21E	FY22E
Reported EPS	10.3	12.5	14.0	16.5	18.6
Adjusted EPS	10.3	12.5	14.0	16.5	18.6
Dividend per share	1.6	1.6	1.6	1.6	1.6
Book value per share	52.1	62.7	74.9	89.5	106.2

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19P	FY20E	FY21E	FY22E
EV/Sales	4.7	3.7	3.1	2.6	2.2
EV/EBITDA	19.3	17.2	14.6	12.4	11.2
Adjusted P/E	30.7	25.3	22.6	19.2	17.1
P/BV	6.1	5.0	4.2	3.5	3.0

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19P	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	70.5	72.8	73.1	72.9	72.9
Interest burden (PBT/EBIT)	109.7	113.6	108.3	110.9	117.6
EBIT margin (EBIT/Revenue)	20.3	18.3	18.0	17.3	16.1
Asset turnover (Revenue/Avg TA)	98.9	104.1	107.7	110.6	106.7
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.3	1.3	1.3
Adjusted ROAE	21.7	21.7	20.4	20.1	19.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	20.4	25.5	19.6	19.7	13.9
EBITDA	15.6	12.8	18.0	14.9	7.0
Adjusted EPS	19.0	21.1	12.3	17.6	12.5
Profitability & Return ratios (%)					
EBITDA margin	24.3	21.8	21.5	20.6	19.4
EBIT margin	20.3	18.3	18.0	17.3	16.1
Adjusted profit margin	15.7	15.2	14.2	14.0	13.8
Adjusted ROAE	21.7	21.7	20.4	20.1	19.0
ROCE	17.8	16.9	16.6	16.0	14.3
Working capital days (days)					
Receivables	17	14	16	18	19
Inventory	8	6	6	8	8
Payables	32	33	28	21	22
Ratios (x)					
Gross asset turnover	1.2	1.3	1.3	1.4	1.4
Current ratio	1.5	1.4	3.6	4.8	6.0
Net interest coverage ratio	552.1	515.1	605.0	0.0	0.0
Adjusted debt/equity	(0.2)	(0.1)	(0.2)	(0.3)	(0.3)

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

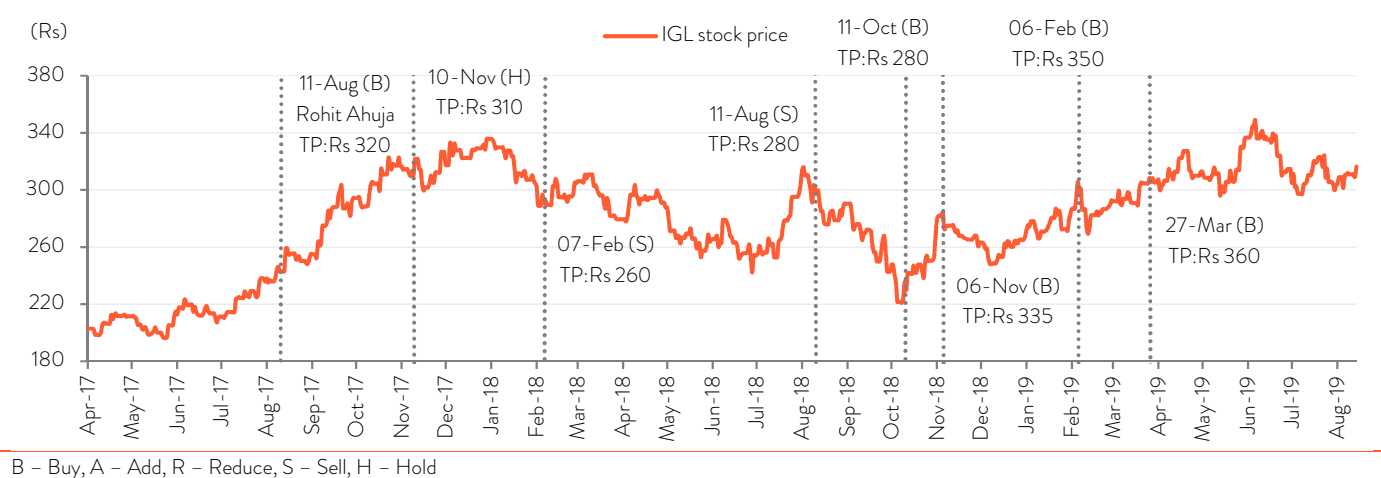
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: INDRAPRASTHA GAS (IGL IN)



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