

BUY

TP: Rs 455 | ▲ 16%

INDRAPRASTHA GAS

Oil & Gas

07 November 2019

Margins expand, volume growth robust

Indraprastha Gas' (IGL) Q2FY20 EBITDA was above estimates at Rs 3.9bn (+27.5% YoY; Rs 6.5/scm). Volumes at 6.6mmscmd (+11.6% YoY) were in line as CNG/PNG sales grew 10.3%/11.8% YoY. EBITDA margin expansion stemmed from price hikes across products in Jul/Aug'19, in anticipation of INR weakness. IGL's margins still trend well below its CGD peers with a similar volume mix. We maintain our earnings estimates and Sep'20 DCF-based target price of Rs 455.

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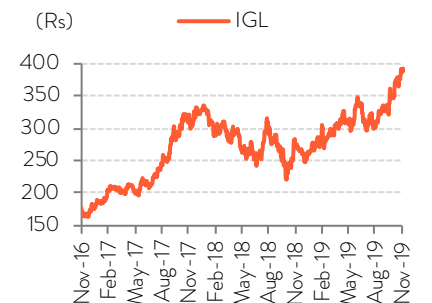
Volume growth remains robust: IGL's volume growth is trending in line with its long-term average (~10%). CNG volumes remain strong (+10% YoY) and could sustain as the company expands CNG stations on national highways. PNG growth was driven by steady expansion in the industrial segment (+14% YoY), while domestic volumes surged as well (+22% YoY).

Ticker/Price	IGL IN/Rs 393
Market cap	US\$ 3.9bn
Shares o/s	700mn
3M ADV	US\$ 8.4mn
52wk high/low	Rs 396/Rs 241
Promoter/FPI/DII	45%/23%/32%

Source: NSE

Margin expansion looks sustainable: EBITDA margins improved to Rs 6.5/scm in Q2, but still trend below CGD peer MAHGL (Rs 10/scm in Q1) and its JV subsidiary MNGL (~Rs 9/scm in FY19). Sustained low spot LNG prices and the cut in domestic gas prices from Oct'19 make a favourable case for IGL to sustain margins.

STOCK PERFORMANCE



Source: NSE

New areas offer near-term volume traction: IGL's management stated that annual capex could be raised to ~Rs 11bn (from Rs 6bn) as the company's CGD network is expanded into new areas. We estimate ~3mmscmd of volume potential from 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, as three-wheelers (~15% of CNG demand) are likely to form the bulk of EV conversions in the initial stage.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	45,921	57,648	65,585	77,866	91,746
EBITDA (Rs mn)	11,144	12,570	15,020	16,919	19,417
Adj. net profit (Rs mn)	7,217	8,739	11,396	13,302	16,210
Adj. EPS (Rs)	10.3	12.5	16.3	19.0	23.2
Adj. EPS growth (%)	19.0	21.1	30.4	16.7	21.9
Adj. ROAE (%)	21.7	21.7	23.3	22.2	22.1
Adj. P/E (x)	38.1	31.5	24.2	20.7	17.0
EV/EBITDA (x)	24.2	21.5	18.0	15.6	13.1

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
Net sales	16,925	14,215	19.1	15,761	7.4	32,557	27,089	20.2
Raw Material Consumed	9,905	8,425	17.6	9,217	7.5	19,122	15,842	20.7
% of sales	58.5	59.3	-	58.5	-	58.7	58.5	-
Other expenditure	3,093	2,710	14.1	2,960	4.5	6,053	5,216	16.0
% of sales	18.3	19.1	-	18.8	-	18.6	19.3	-
EBITDA	3,926	3,080	27.5	3,585	9.5	7,382	6,031	22.4
EBITDA (Rs/scm)	6.5	5.7	14.2	6.3	3.0	6.3	5.8	9.2
EBITDA margin (%)	23.2	21.7	-	22.7	-	22.7	22.3	-
Depreciation and amortisation	621	503	23.5	605	2.8	1,226	976	25.7
Interest	18	6	223.2	16	11.0	34	11	207.1
Other income	390	332	17.5	354	10.1	744	594	25.2
Profit Before Tax	3,677	2,903	26.6	3,318	10.8	6,865	5,638	21.8
Provision for tax	(133)	1,030	(112.9)	1,134	(111.8)	1,001	2,006	(50.1)
PAT	3,115	1,873	66.3	2,184	42.6	5,864	3,632	61.5
Profit from associates	424	235	80.6	336	26.3	760	425	78.9
Consolidated PAT	3,539	2,108	67.9	2,520	40.5	6,625	4,057	63.3
NPM (%)	18.4	13.2	-	13.9	-	18.0	13.4	-
Standalone EPS (Rs)	4.4	2.7	66.3	3.1	42.6	8.4	5.2	61.5
Consolidated EPS (Rs)	5.1	3.0	67.9	3.6	40.5	9.5	5.8	63.3

Source: Company, BOBCAPS Research

FIG 2 – SEGMENT-WISE VOLUME BREAKUP

	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
CNG Volume (mn kg)	320	290	10.3	305	4.9	625	563	11.0
PNG Volume (mmscm)	152	136	11.8	145	4.8	297	265	12.1
Industrial/Commercial	73	64	14.1	68	7.4	141	122	15.6
Domestic	33	27	22.2	31	6.5	64	54	18.5
Natural Gas	46	45	2.2	46	-	92	89	3.4
Total Volume (mmscm)	605	542	11.6	569	6.3	1,174	1,047	12.1
Total Volume (mmscmd)	6.58	5.89	11.6	6.25	5.2	6.42	5.72	12.1

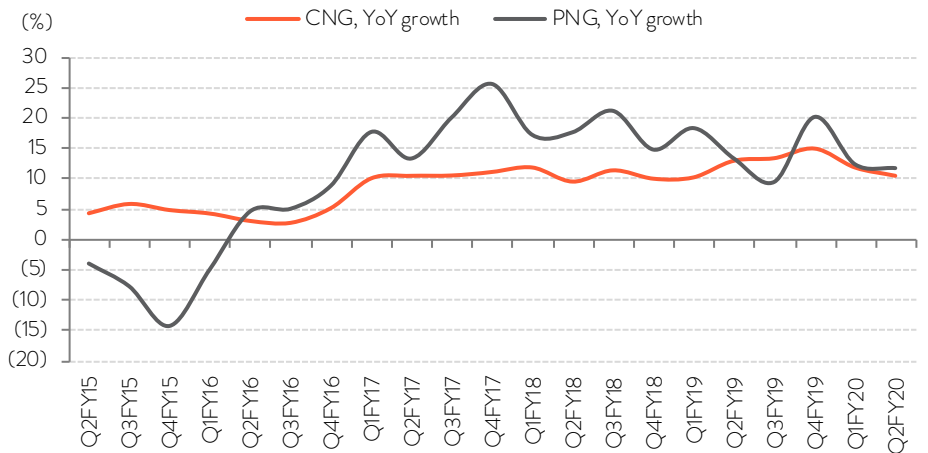
Source: Company, BOBCAPS Research

FIG 3 – OPERATING PERFORMANCE

	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
Avg realisation (Rs/scm)	28.0	26.2	6.7	27.7	1.0	27.7	25.9	7.2
Gas cost (Rs/scm)	16.4	15.5	5.3	16.2	1.1	16.3	15.1	7.6
Gross spreads (Rs/scm)	11.6	10.7	8.6	11.5	0.9	11.4	10.7	6.5
CNG realisation (Rs/kg)	45.5	40.5	12.4	43.9	3.6	44.4	40.0	11.2
PNG realisation (Rs/scm)	27.0	28.7	(5.8)	27.4	(1.6)	27.8	27.6	0.7
EBITDA (Rs/scm)	6.5	5.7	14.2	6.3	3.0	6.3	5.8	9.2
Other operating costs	5.1	5.0	2.2	5.2	(1.7)	5.2	5.0	3.5

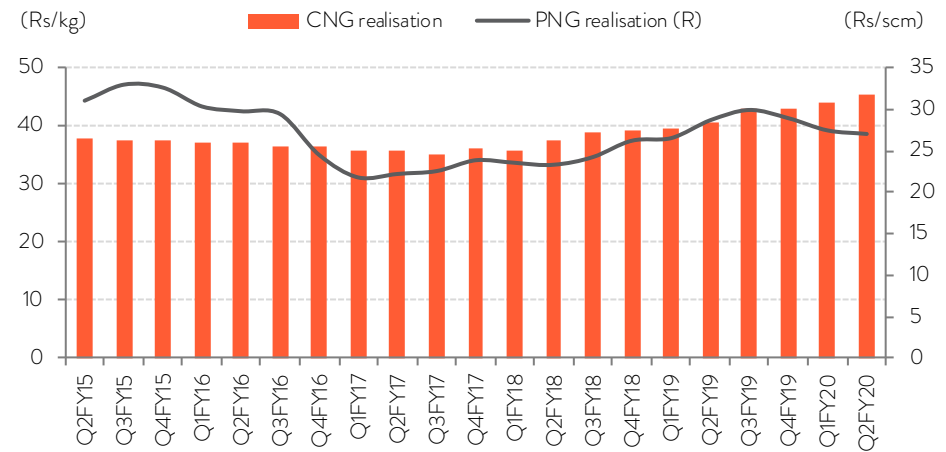
Source: Company, BOBCAPS Research

FIG 4 – CNG AND PNG GROWTH



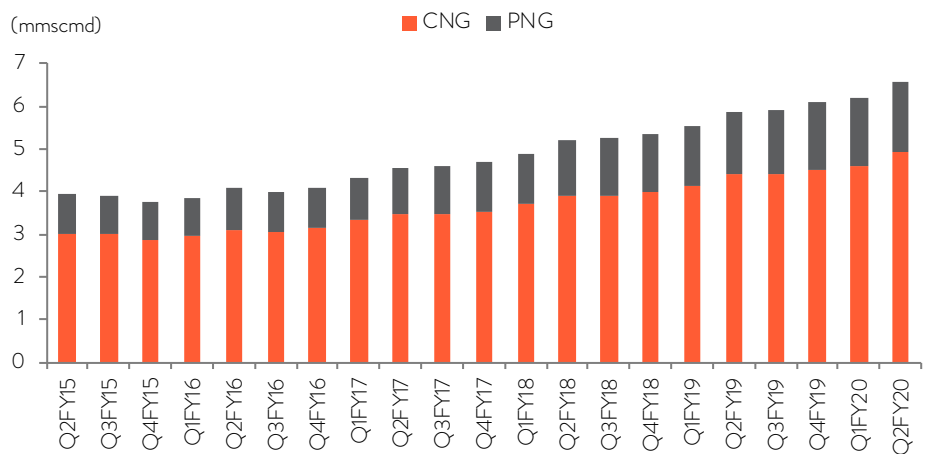
Source: Company, BOBCAPS Research

FIG 5 – CNG AND PNG REALISATION



Source: Company, BOBCAPS Research

FIG 6 – CNG AND PNG VOLUMES



Source: Company, BOBCAPS Research

Valuation methodology

At 17x FY22E EPS, IGL's valuations look demanding. In our view, robust volume growth visibility (over 3-5 years) coupled with EBITDA margin expansion offers strong justification for sustained expansion in P/E multiples. Joint ventures in Pune and Kanpur also offer an improved outlook on both volumes and margins. Our Sep'20 DCF-based target price remains unchanged at Rs 455. Maintain BUY.

FIG 7 – VALUATION SUMMARY

Valuation parameters	Value (Rs mn)
PV of FCF	20,588
PV of terminal value	239,102
Enterprise Value	259,690
Less: Net Debt	(22,975)
Equity value	282,665
NPV – IGL share (Rs)	404
NPV – MNGL (Rs)	35
NPV – CUPGL (Rs)	18
Consolidated NPV (Rs)	455

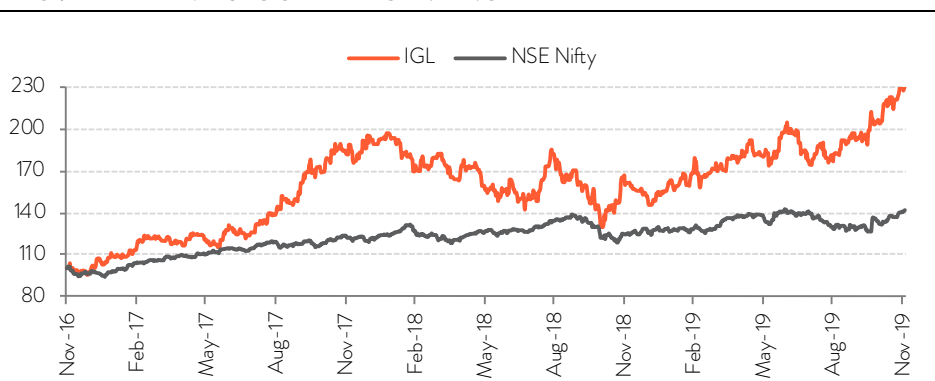
Source: BOBCAPS Research

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	455	403	350
	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 FY20-22.
- 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	FY19A	FY20E	FY21E	FY22E
Total revenue	45,921	57,648	65,585	77,866	91,746
EBITDA	11,144	12,570	15,020	16,919	19,417
Depreciation	(1,813)	(2,011)	(2,435)	(2,767)	(3,080)
EBIT	9,331	10,559	12,585	14,151	16,337
Net interest income/(expenses)	(17)	(21)	(21)	0	0
Other income/(expenses)	926	1,462	1,182	1,931	3,416
EBT	10,241	12,000	13,747	16,083	19,753
Income taxes	(3,742)	(4,272)	(3,486)	(4,065)	(4,982)
Min. int./Inc. from associates	719	1,011	1,135	1,284	1,439
Reported net profit	7,217	8,739	11,396	13,302	16,210
Adjusted net profit	7,217	8,739	11,396	13,302	16,210

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	3,386	4,885	3,073	3,769	4,537
Other current liabilities	2,930	635	635	635	635
Provisions	137	206	206	206	206
Other liabilities	8,042	10,167	11,743	13,481	15,476
Equity capital	1,400	1,400	1,400	1,400	1,400
Reserves & surplus	35,070	42,503	52,588	64,580	79,479
Shareholders' fund	36,470	43,903	53,988	65,980	80,879
Total liabilities and equities	50,965	59,795	69,645	84,070	101,733
Cash and cash eq.	5,580	4,693	10,899	19,996	31,867
Accounts receivables	2,261	2,215	3,594	4,267	5,027
Inventories	524	509	898	1,067	1,257
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	69,645	84,070	101,733

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	8,908	10,832	13,831	16,069	19,290
Changes in working capital	1,382	1,559	(3,579)	(146)	(182)
Other operating cash flows	(354)	(893)	(206)	(793)	(2,021)
Cash flow from operations	9,936	11,498	10,045	15,131	17,087
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	1,182	1,931	3,416
Cash flow from investing	(9,576)	(11,075)	(2,528)	(4,724)	(3,905)
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)	6,206	9,096	11,871
Closing cash and cash eq.	5,580	4,693	10,899	19,996	31,867

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	10.3	12.5	16.3	19.0	23.2
Adjusted EPS	10.3	12.5	16.3	19.0	23.2
Dividend per share	1.6	1.6	1.6	1.6	1.6
Book value per share	52.1	62.7	77.1	94.3	115.5

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	5.9	4.7	4.1	3.4	2.8
EV/EBITDA	24.2	21.5	18.0	15.6	13.1
Adjusted P/E	38.1	31.5	24.2	20.7	17.0
P/BV	7.5	6.3	5.1	4.2	3.4

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	70.5	72.8	82.9	82.7	82.1
Interest burden (PBT/EBIT)	109.7	113.6	109.2	113.6	120.9
EBIT margin (EBIT/Revenue)	20.3	18.3	19.2	18.2	17.8
Asset turnover (Revenue/Avg TA)	98.9	104.1	101.3	101.3	98.8
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.3	1.3	1.3
Adjusted ROAE	21.7	21.7	23.3	22.2	22.1

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	20.4	25.5	13.8	18.7	17.8
EBITDA	15.6	12.8	19.5	12.6	14.8
Adjusted EPS	19.0	21.1	30.4	16.7	21.9
Profitability & Return ratios (%)					
EBITDA margin	24.3	21.8	22.9	21.7	21.2
EBIT margin	20.3	18.3	19.2	18.2	17.8
Adjusted profit margin	15.7	15.2	17.4	17.1	17.7
Adjusted ROAE	21.7	21.7	23.3	22.2	22.1
ROCE	17.8	16.9	19.2	17.6	16.6
Working capital days (days)					
Receivables	17	14	16	18	18
Inventory	8	6	7	8	8
Payables	32	33	29	20	21
Ratios (x)					
Gross asset turnover	1.2	1.3	1.3	1.3	1.4
Current ratio	1.5	1.4	4.2	5.9	7.5
Net interest coverage ratio	552.1	515.1	613.9	0.0	0.0
Adjusted debt/equity	(0.2)	(0.1)	(0.2)	(0.3)	(0.4)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

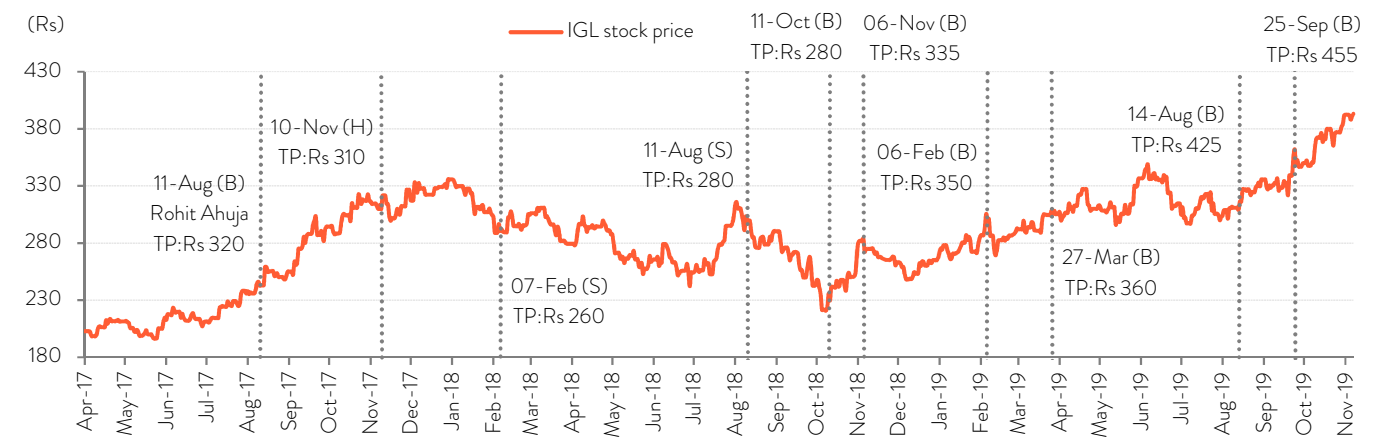
ADD – Expected return from >+5% to +15%

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)



B – Buy, A – Add, R – Reduce, S – Sell, H – Hold

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