

**BUY**

TP: Rs 565 | ▲ 26%

**INDRAPRASTHA GAS**

Oil & Gas

11 November 2020

## Margin surge leads earnings beat – upgrade to BUY

Indraprastha Gas' (IGL) Q2FY21 earnings were well above estimates at Rs 3.1bn (-19% YoY). Volumes at 5.5mmscmd (-16% YoY, +2x QoQ) recovered sharply from Q1 lows led by CNG (+2.4x QoQ). EBITDA margins at Rs 8.1/scm also outperformed due to the surge in CNG volumes and low LNG costs. Though volume recovery to pre-Covid levels could be pushed to FY22, the margin upswing provides much needed comfort on IGL's long-term earnings outlook. We raise our Sep'21 TP to Rs 565 (vs. Rs 440) and upgrade the stock to BUY (vs. REDUCE).

Rohit Ahuja | Harleen Manglani

research@bobcaps.in

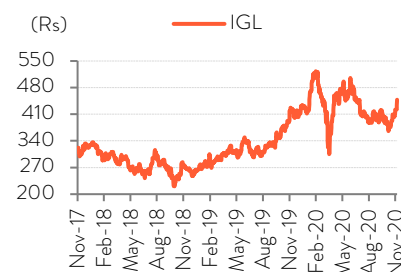
**CNG volumes revive but some time away from pre-Covid levels:** CNG segment volumes surged QoQ to 255mn kg (still down 20% YoY), helped by opening up of the NCR after a stringent lockdown in Q1. A return to pre-Covid levels may be pushed to FY22 as reopening of schools remains delayed. Management intends to continue with its CNG expansion plans and is looking to add ~70 stations in FY21 and more than 100 in FY22. We thus expect IGL to retain its CNG growth trajectory of >10% CAGR from FY22.

|                  |               |
|------------------|---------------|
| Ticker/Price     | IGL IN/Rs 448 |
| Market cap       | US\$ 4.2bn    |
| Shares o/s       | 700mn         |
| 3M ADV           | US\$ 18.6mn   |
| 52wk high/low    | Rs 534/Rs 284 |
| Promoter/FPI/DII | 45%/21%/34%   |

Source: NSE

**Margin upswing alters our long-term outlook:** Q2 EBITDA margins were well above estimates at Rs 8.1/scm (+24% YoY), driven by the QoQ surge in CNG volumes and low spot LNG prices. The recent 25% cut in APM gas prices could help IGL sustain higher profitability in the CNG and domestic PNG segments. We raise our long-term margin estimates to Rs 7.5/scm (from Rs 7) given that management is on track to recoup the earnings eroded by lower volumes.

## STOCK PERFORMANCE



Source: NSE

**Upgrade to BUY on stronger margin outlook:** At 18x FY22E EPS, valuations look a bit demanding but do not factor in the margin expansion potential unleashed by IGL's growing scale of operations. In our view, the stronger margin outlook makes up for the near-term uncertainty surrounding CNG volume ramp-up.

## KEY FINANCIALS

| Y/E 31 Mar              | FY19A  | FY20A  | FY21E  | FY22E  | FY23E  |
|-------------------------|--------|--------|--------|--------|--------|
| Total revenue (Rs mn)   | 57,648 | 64,853 | 46,897 | 73,114 | 83,091 |
| EBITDA (Rs mn)          | 12,570 | 15,196 | 13,618 | 20,853 | 22,464 |
| Adj. net profit (Rs mn) | 8,421  | 12,490 | 11,690 | 17,562 | 19,894 |
| Adj. EPS (Rs)           | 12.0   | 17.8   | 16.7   | 25.1   | 28.4   |
| Adj. EPS growth (%)     | 16.7   | 48.3   | (6.4)  | 50.2   | 13.3   |
| Adj. ROAE (%)           | 21.0   | 25.4   | 19.5   | 24.0   | 21.9   |
| Adj. P/E (x)            | 37.3   | 25.1   | 26.8   | 17.9   | 15.8   |
| EV/EBITDA (x)           | 24.5   | 20.3   | 22.0   | 13.9   | 12.6   |

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – QUARTERLY PERFORMANCE**

| (Rs mn)                            | Q2FY21        | Q2FY20        | YoY (%)       | Q1FY21       | QoQ (%)      | H1FY21        | H1FY20        | YoY (%)       |
|------------------------------------|---------------|---------------|---------------|--------------|--------------|---------------|---------------|---------------|
| <b>Net sales</b>                   | <b>13,054</b> | <b>16,925</b> | <b>(22.9)</b> | <b>6,386</b> | <b>104.4</b> | <b>19,440</b> | <b>32,686</b> | <b>(40.5)</b> |
| Raw Material Consumed              | 6,097         | 9,905         | (38.4)        | 2,991        | 103.9        | 9,088         | 19,122        | (52.5)        |
| % of sales                         | 46.7          | 58.5          | -             | 46.8         | -            | 46.7          | 58.5          | -             |
| Other expenditure                  | 2,886         | 3,093         | (6.7)         | 2,560        | 12.7         | 5,447         | 6,053         | (10.0)        |
| % of sales                         | 22.1          | 18.3          | -             | 40.1         | -            | 28.0          | 18.5          | -             |
| <b>EBITDA</b>                      | <b>4,071</b>  | <b>3,926</b>  | <b>3.7</b>    | <b>834</b>   | <b>387.9</b> | <b>4,906</b>  | <b>7,511</b>  | <b>(34.7)</b> |
| <b>EBITDA (Rs/scm)</b>             | <b>8.1</b>    | <b>6.5</b>    | <b>24.1</b>   | <b>3.4</b>   | <b>138.3</b> | <b>6.5</b>    | <b>6.4</b>    | <b>1.9</b>    |
| <b>EBITDA margin (%)</b>           | <b>31.2</b>   | <b>23.2</b>   | <b>-</b>      | <b>13.1</b>  | <b>-</b>     | <b>25.2</b>   | <b>23.0</b>   | <b>-</b>      |
| Depreciation and amortisation      | 711           | 621           | 14.4          | 682          | 4.3          | 1,393         | 1,226         | 13.6          |
| Interest                           | 23            | 18            | 26.5          | 24           | (3.4)        | 47            | 34            | 35.5          |
| Other income                       | 657           | 390           | 68.7          | 306          | 114.5        | 963           | 744           | 29.6          |
| <b>Profit Before Tax</b>           | <b>3,994</b>  | <b>3,677</b>  | <b>8.6</b>    | <b>435</b>   | <b>817.6</b> | <b>4,430</b>  | <b>6,994</b>  | <b>(36.7)</b> |
| Exceptional item (as reported)     | -             | -             | -             | -            | -            | -             | -             | -             |
| Provision for tax                  | 915           | (133)         | (786.3)       | 117          | 682.6        | 1,032         | 1,001         | 3.1           |
| -effective tax rate (%)            | 22.9          | (3.6)         | -             | 26.9         | -            | 23.3          | 14.3          | -             |
| <b>PAT (reported)</b>              | <b>3,079</b>  | <b>3,810</b>  | <b>(19.2)</b> | <b>318</b>   | <b>867.1</b> | <b>3,398</b>  | <b>5,993</b>  | <b>(43.3)</b> |
| Exceptional item (adj-post tax)    | -             | -             | -             | -            | -            | -             | -             | -             |
| PAT (adjusted)                     | 3,079         | 3,810         | (19.2)        | 318          | 867.1        | 3,398         | 5,993         | (43.3)        |
| Profit from associates             | 288           | 424           | (32.0)        | 59           | 387.2        | 348           | 760           | (54.3)        |
| <b>Consolidated PAT (reported)</b> | <b>3,368</b>  | <b>4,234</b>  | <b>(20.5)</b> | <b>378</b>   | <b>791.9</b> | <b>3,745</b>  | <b>6,754</b>  | <b>(44.5)</b> |
| NPM (%)                            | 23.6          | 22.5          | -             | 5.0          | -            | 17.5          | 18.3          | -             |
| <b>Standalone EPS (Rs)</b>         | <b>4.4</b>    | <b>5.4</b>    | <b>(19.2)</b> | <b>0.5</b>   | <b>867.1</b> | <b>4.9</b>    | <b>8.6</b>    | <b>(43.3)</b> |

Source: Company, BOBCAPS Research

**FIG 2 – SEGMENT-WISE VOLUME BREAKUP**

|                              | Q2FY21      | Q2FY20      | YoY (%)       | Q1FY21      | QoQ (%)      | H1FY21      | H1FY20       | YoY (%)       |
|------------------------------|-------------|-------------|---------------|-------------|--------------|-------------|--------------|---------------|
| CNG Volumes (mn kg)          | 255         | 320         | (20.3)        | 105         | 142.9        | 360         | 625          | (42.4)        |
| PNG Volume (mmscm)           | 146         | 152         | (3.9)         | 101         | 44.6         | 247         | 297          | (16.8)        |
| Industrial/Commercial        | 72          | 73          | (1.4)         | 41          | 75.6         | 113         | 141          | (19.9)        |
| Domestic                     | 40          | 33          | 21.2          | 43          | (7.0)        | 83          | 64           | 29.7          |
| Natural Gas                  | 34          | 46          | (26.1)        | 17          | 100.0        | 51          | 92           | (44.6)        |
| <b>Total Volume (mmscm)</b>  | <b>506</b>  | <b>605</b>  | <b>(16.4)</b> | <b>247</b>  | <b>104.7</b> | <b>753</b>  | <b>1,174</b> | <b>(35.9)</b> |
| <b>Total Volume (mmscmd)</b> | <b>5.50</b> | <b>6.58</b> | <b>(16.4)</b> | <b>2.74</b> | <b>100.3</b> | <b>4.09</b> | <b>6.42</b>  | <b>(36.3)</b> |

Source: Company, BOBCAPS Research

**FIG 3 – OPERATING PERFORMANCE**

|                          | Q2FY21     | Q2FY20     | YoY (%)     | Q1FY21     | QoQ (%)      | H1FY21     | H1FY20     | YoY (%)    |
|--------------------------|------------|------------|-------------|------------|--------------|------------|------------|------------|
| Avg realisation (Rs/scm) | 25.8       | 28.0       | (7.7)       | 25.9       | (0.1)        | 25.8       | 27.8       | (7.2)      |
| Gas cost (Rs/scm)        | 12.1       | 16.4       | (26.3)      | 12.1       | (0.4)        | 12.1       | 16.3       | (25.9)     |
| Gross Spreads (Rs/scm)   | 13.8       | 11.6       | 18.6        | 13.7       | 0.1          | 13.8       | 11.6       | 19.1       |
| CNG Realisation (Rs/kg)  | 42.6       | 44.9       | (5.3)       | 41.4       | 2.9          | 42.0       | 44.4       | (5.6)      |
| PNG Realisation (Rs/scm) | 24.3       | 28.2       | (13.6)      | 25.5       | (4.8)        | 24.9       | 27.8       | (10.4)     |
| <b>EBITDA (Rs/scm)</b>   | <b>8.1</b> | <b>6.5</b> | <b>24.1</b> | <b>3.4</b> | <b>138.3</b> | <b>6.5</b> | <b>6.4</b> | <b>1.9</b> |
| Other operating costs    | 5.7        | 5.1        | 11.7        | 10.4       | (44.9)       | 7.2        | 5.2        | 40.4       |

Source: Company, BOBCAPS Research

## Valuation methodology

Though volume recovery to pre-Covid levels could be pushed to FY22, the Q2FY21 margin upswing provides much needed comfort on IGL's long-term earnings outlook. At 18x FY22E EPS, valuations look a bit demanding but fail to factor in the margin expansion potential unleashed by the company's growing scale of operations. In our view, the stronger margin outlook makes up for the near-term uncertainty surrounding CNG volume ramp-up.

Despite raising our margin estimates, we cut FY21 earnings by 12% to factor in volume recovery only in FY22. Our FY22/FY23 earnings estimates rise slightly on higher margin assumptions. We increase our Sep'21 DCF-based target price to Rs 565 (from Rs 440) and upgrade the stock to BUY (from REDUCE).

**FIG 4 – REVISED ESTIMATES**

| (Rs mn)           | FY21E  |        |         | FY22E  |        |         | FY23E  |        |         |
|-------------------|--------|--------|---------|--------|--------|---------|--------|--------|---------|
|                   | Old    | New    | Var (%) | Old    | New    | Var (%) | Old    | New    | Var (%) |
| Revenue           | 58,426 | 46,897 | (19.7)  | 78,659 | 73,114 | (7.0)   | 86,962 | 83,091 | (4.5)   |
| EBITDA            | 15,532 | 13,618 | (12.3)  | 20,266 | 20,853 | 2.9     | 21,669 | 22,464 | 3.7     |
| EBITDA margin (%) | 26.6   | 29.0   | -       | 25.8   | 28.5   | -       | 24.9   | 27.0   | -       |
| PAT               | 13,208 | 11,690 | (11.5)  | 17,286 | 17,562 | 1.6     | 19,433 | 19,894 | 2.4     |
| PAT margin (%)    | 22.6   | 24.9   | -       | 22.0   | 24.0   | -       | 22.3   | 23.9   | -       |
| EPS (Rs)          | 18.9   | 16.7   | (11.6)  | 24.7   | 25.1   | 1.6     | 27.8   | 28.4   | 2.2     |

Source: Company, BOBCAPS Research

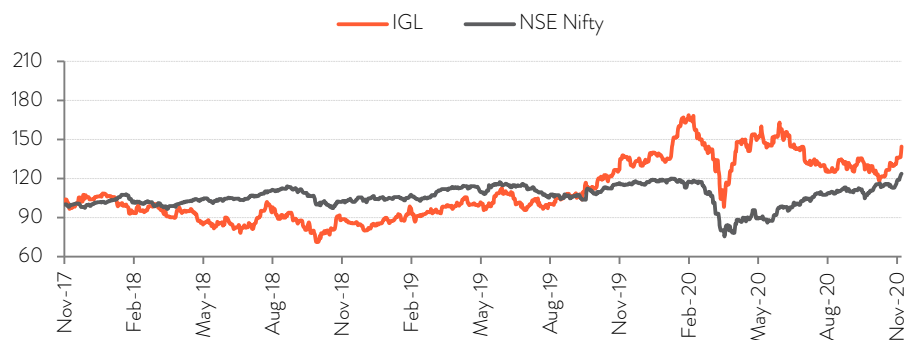
Key assumptions for our DCF-based fair value are as under:

- cost of equity of 10% (from 11% earlier),
- terminal growth of 8%,
- long-term average EBITDA margins of Rs 7.5/scm (vs. Rs 7 earlier), and
- long-term volume CAGR of ~12% (unchanged).

**FIG 5 – VALUATION SUMMARY**

| Valuation parameters         | Value (Rs mn) |
|------------------------------|---------------|
| PV of FCF                    | 19,386        |
| PV of terminal value         | 308,820       |
| Enterprise Value             | 328,2065      |
| Less: Net Debt               | (28,994)      |
| Equity value                 | 357,200       |
| <b>NPV – IGL share (Rs)</b>  | <b>510</b>    |
| <b>NPV – MNGL (Rs)</b>       | <b>35</b>     |
| <b>NPV – CUPGL (Rs)</b>      | <b>18</b>     |
| <b>Consolidated NPV (Rs)</b> | <b>565</b>    |

Source: BOBCAPS Research

**FIG 6 – RELATIVE STOCK PERFORMANCE**

Source: NSE

### Key risks

Key downside risks to our estimates are:

- lower-than-expected margins,
- lower volume growth from intermittent lockdowns, and
- adverse regulations from PNGRB that could impact our margin or volume outlook.

## FINANCIALS

### Income Statement

| Y/E 31 Mar (Rs mn)             | FY19A         | FY20A         | FY21E         | FY22E         | FY23E         |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Total revenue</b>           | <b>57,648</b> | <b>64,853</b> | <b>46,897</b> | <b>73,114</b> | <b>83,091</b> |
| EBITDA                         | 12,570        | 15,196        | 13,618        | 20,853        | 22,464        |
| Depreciation                   | (2,011)       | (2,523)       | (2,981)       | (3,515)       | (3,984)       |
| EBIT                           | 10,559        | 12,674        | 10,637        | 17,338        | 18,480        |
| Net interest income/(expenses) | (21)          | (81)          | 0             | 0             | 0             |
| Other income/(expenses)        | 1,285         | 1,432         | 3,296         | 4,218         | 5,956         |
| EBT                            | 11,823        | 14,025        | 13,933        | 21,556        | 24,436        |
| Income taxes                   | (4,272)       | (3,075)       | (3,527)       | (5,433)       | (6,153)       |
| Min. int./Inc. from associates | 870           | 1,541         | 1,284         | 1,439         | 1,611         |
| <b>Reported net profit</b>     | <b>8,421</b>  | <b>12,490</b> | <b>11,690</b> | <b>17,562</b> | <b>19,894</b> |
| <b>Adjusted net profit</b>     | <b>8,421</b>  | <b>12,490</b> | <b>11,690</b> | <b>17,562</b> | <b>19,894</b> |

### Balance Sheet

| Y/E 31 Mar (Rs mn)                    | FY19A         | FY20A         | FY21E         | FY22E          | FY23E          |
|---------------------------------------|---------------|---------------|---------------|----------------|----------------|
| Accounts payables                     | 4,885         | 2,250         | 1,792         | 2,864          | 3,366          |
| Other current liabilities             | 635           | 13,923        | 13,923        | 13,923         | 13,923         |
| Provisions                            | 206           | 2,808         | 2,808         | 2,808          | 2,808          |
| Other liabilities                     | 10,167        | 2,889         | 4,477         | 6,598          | 8,921          |
| Equity capital                        | 1,400         | 1,400         | 1,400         | 1,400          | 1,400          |
| Reserves & surplus                    | 42,185        | 53,364        | 63,744        | 79,995         | 98,579         |
| Shareholders' fund                    | 43,585        | 54,764        | 65,144        | 81,395         | 99,979         |
| <b>Total liabilities and equities</b> | <b>59,477</b> | <b>76,633</b> | <b>88,143</b> | <b>107,587</b> | <b>128,996</b> |
| Cash and cash eq.                     | 4,375         | 23,171        | 26,064        | 36,627         | 50,737         |
| Accounts receivables                  | 2,215         | 1,704         | 2,570         | 4,006          | 4,553          |
| Inventories                           | 509           | 511           | 642           | 1,002          | 1,138          |
| Other current assets                  | 594           | 1,326         | 1,926         | 2,526          | 3,126          |
| Investments                           | 17,779        | 6,302         | 6,302         | 6,302          | 6,302          |
| Net fixed assets                      | 29,224        | 35,853        | 45,639        | 52,124         | 58,140         |
| CWIP                                  | 4,781         | 7,767         | 5,000         | 5,000          | 5,000          |
| <b>Total assets</b>                   | <b>59,477</b> | <b>76,633</b> | <b>88,143</b> | <b>107,587</b> | <b>128,996</b> |

Source: Company, BOBCAPS Research

**Cash Flows**

| Y/E 31 Mar (Rs mn)                  | FY19A           | FY20A          | FY21E          | FY22E          | FY23E          |
|-------------------------------------|-----------------|----------------|----------------|----------------|----------------|
| Net income + Depreciation           | 10,514          | 15,012         | 14,671         | 21,076         | 23,878         |
| Changes in working capital          | 1,559           | 6,024          | (1,454)        | (725)          | (180)          |
| Other operating cash flows          | (716)           | (1,702)        | (2,309)        | (2,696)        | (4,233)        |
| <b>Cash flow from operations</b>    | <b>11,357</b>   | <b>19,335</b>  | <b>10,908</b>  | <b>17,656</b>  | <b>19,465</b>  |
| Capital expenditures                | (7,917)         | (12,137)       | (10,000)       | (10,000)       | (10,000)       |
| Change in investments               | (4,619)         | 11,477         | 0              | 0              | 0              |
| Other investing cash flows          | 1,285           | 1,432          | 3,296          | 4,218          | 5,956          |
| <b>Cash flow from investing</b>     | <b>(11,252)</b> | <b>772</b>     | <b>(6,704)</b> | <b>(5,782)</b> | <b>(4,044)</b> |
| Dividends paid                      | (1,311)         | (1,311)        | (1,311)        | (1,311)        | (1,311)        |
| <b>Cash flow from financing</b>     | <b>(1,311)</b>  | <b>(1,311)</b> | <b>(1,311)</b> | <b>(1,311)</b> | <b>(1,311)</b> |
| <b>Changes in cash and cash eq.</b> | <b>(1,206)</b>  | <b>18,796</b>  | <b>2,894</b>   | <b>10,563</b>  | <b>14,110</b>  |
| <b>Closing cash and cash eq.</b>    | <b>4,375</b>    | <b>23,171</b>  | <b>26,064</b>  | <b>36,627</b>  | <b>50,737</b>  |

**Per Share**

| Y/E 31 Mar (Rs)      | FY19A | FY20A | FY21E | FY22E | FY23E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS         | 12.0  | 17.8  | 16.7  | 25.1  | 28.4  |
| Adjusted EPS         | 12.0  | 17.8  | 16.7  | 25.1  | 28.4  |
| Dividend per share   | 1.6   | 1.6   | 1.6   | 1.6   | 1.6   |
| Book value per share | 62.3  | 78.2  | 93.1  | 116.3 | 142.8 |

**Valuations Ratios**

| Y/E 31 Mar (x) | FY19A | FY20A | FY21E | FY22E | FY23E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales       | 5.3   | 4.8   | 6.4   | 4.0   | 3.4   |
| EV/EBITDA      | 24.5  | 20.3  | 22.0  | 13.9  | 12.6  |
| Adjusted P/E   | 37.3  | 25.1  | 26.8  | 17.9  | 15.8  |
| P/BV           | 7.2   | 5.7   | 4.8   | 3.9   | 3.1   |

**DuPont Analysis**

| Y/E 31 Mar (%)                  | FY19A | FY20A | FY21E | FY22E | FY23E |
|---------------------------------|-------|-------|-------|-------|-------|
| Tax burden (Net profit/PBT)     | 71.2  | 89.1  | 83.9  | 81.5  | 81.4  |
| Interest burden (PBT/EBIT)      | 112.0 | 110.7 | 131.0 | 124.3 | 132.2 |
| EBIT margin (EBIT/Revenue)      | 18.3  | 19.5  | 22.7  | 23.7  | 22.2  |
| Asset turnover (Revenue/Avg TA) | 104.4 | 95.3  | 56.9  | 74.7  | 70.2  |
| Leverage (Avg TA/Avg Equity)    | 1.4   | 1.4   | 1.4   | 1.3   | 1.3   |
| Adjusted ROAE                   | 21.0  | 25.4  | 19.5  | 24.0  | 21.9  |

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

**Ratio Analysis**

| Y/E 31 Mar                                   | FY19A | FY20A | FY21E  | FY22E | FY23E |
|--|-------|-------|--------|-------|-------|
| <b>YoY growth (%)</b>                        |       |       |        |       |       |
| Revenue                                      | 25.5  | 12.5  | (27.7) | 55.9  | 13.6  |
| EBITDA                                       | 12.8  | 20.9  | (10.4) | 53.1  | 7.7   |
| Adjusted EPS                                 | 16.7  | 48.3  | (6.4)  | 50.2  | 13.3  |
| <b>Profitability &amp; Return ratios (%)</b> |       |       |        |       |       |
| EBITDA margin                                | 21.8  | 23.4  | 29.0   | 28.5  | 27.0  |
| EBIT margin                                  | 18.3  | 19.5  | 22.7   | 23.7  | 22.2  |
| Adjusted profit margin                       | 14.6  | 19.3  | 24.9   | 24.0  | 23.9  |
| Adjusted ROAE                                | 21.0  | 25.4  | 19.5   | 24.0  | 21.9  |
| ROCE   | 16.8  | 20.1  | 13.3   | 17.7  | 15.2  |
| <b>Working capital days (days)</b>           |       |       |        |       |       |
| Receivables                                  | 14    | 11    | 17     | 16    | 19    |
| Inventory                                    | 6     | 5     | 10     | 9     | 10    |
| Payables                                     | 33    | 26    | 22     | 16    | 19    |
| <b>Ratios (x)</b>                            |       |       |        |       |       |
| Gross asset turnover                         | 1.3   | 1.2   | 0.7    | 1.0   | 1.0   |
| Current ratio                                | 1.3   | 1.4   | 1.7    | 2.3   | 3.0   |
| Net interest coverage ratio                  | 515.1 | 156.1 | 0.0    | 0.0   | 0.0   |
| Adjusted debt/equity                         | (0.1) | (0.4) | (0.4)  | (0.4) | (0.5) |

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

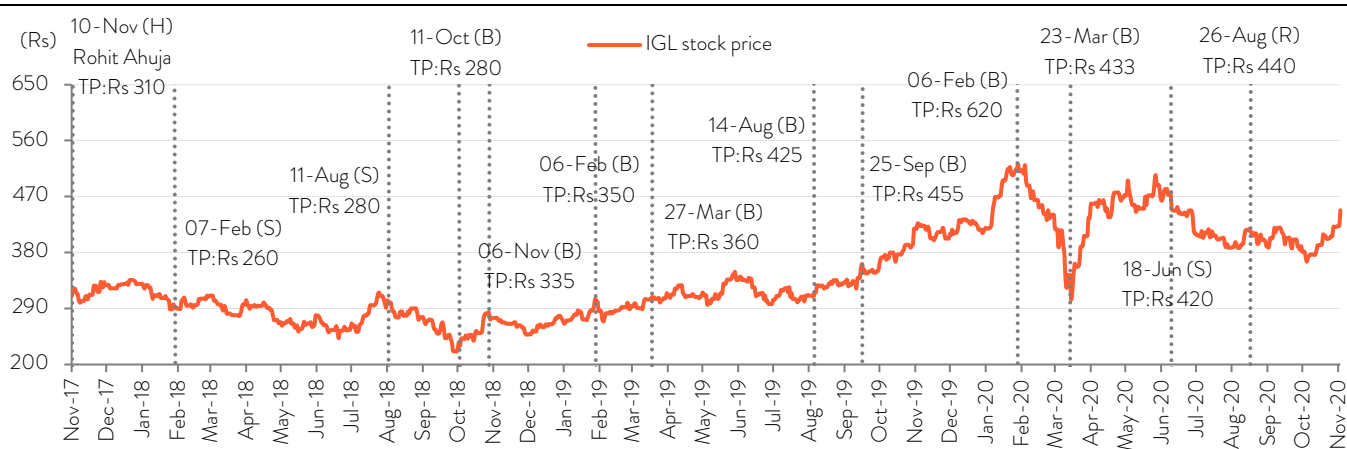
**ADD** – Expected return from >+5% to +15%

**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)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): INDRAPRASTHA GAS (IGL IN)



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

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