

BUY

TP: Rs 620 | ▲ 19%

INDRAPRASTHA GAS

Oil & Gas

06 February 2020

Margins expand, volume growth stable

Indraprastha Gas' (IGL) Q3FY20 EBITDA was in line at Rs 3.9bn (+23% YoY, Rs 6.4/scm). Volumes at 6.7mmcmd (+13.5% YoY) also met estimates as CNG/PNG sales grew 9.2%/18.7% YoY. EBITDA margins at Rs 6.4/scm over 9MFY20 prompt us to revise our long-term estimates to ~Rs 7/scm (from Rs 6/scm over five years), considering IGL's margins still trend well below CGD peers with a similar volume mix. Post estimate revision and rollover, we have a new Mar'21 DCF-based TP of Rs 620 (from Rs 455).

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Volume growth remains robust: At 13.5% YoY in Q3, IGL's volume growth is trending well above its long-term average (~10%). Volumes continue to be driven by the CNG segment (+9% YoY) and could sustain as the company expands CNG stations on national highways. PNG growth was fuelled by steady expansion in the industrial segment (+35YoY), while domestic volumes surged as well (+16%). Management expects to sustain >10% CAGR in volumes over 2-3 years, mostly driven by CNG (~65 stations to be added annually).

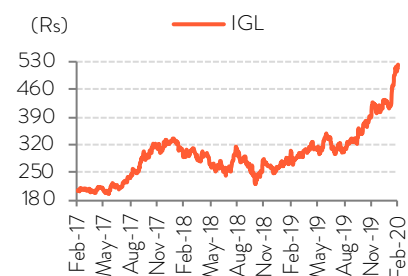
Volume traction from new areas: Management stated that the annual capex run-rate has been raised to ~Rs 11bn as the company's CGD network has been expanded into new areas (~3mmcmd volume potential from geographical areas (GA) in Uttar Pradesh – Meerut, Muzaffarnagar, Kanpur and Agra).

Margin expansion looks sustainable: Q3 EBITDA margins were in line at Rs 6.4/scm, but still trend below CGD peer MAHGL (Rs 10/scm in H1) 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 could help IGL sustain margins. We raise our long-term average margin estimates to Rs 7/scm from Rs 6/scm.

Ticker/Price	IGL IN/Rs 522
Market cap	US\$ 5.1bn
Shares o/s	700mn
3M ADV	US\$ 15.5mn
52wk high/low	Rs 527/Rs 258
Promoter/FPI/DII	45%/23%/32%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	45,921	57,648	66,502	78,858	92,813
EBITDA (Rs mn)	11,144	12,570	15,936	17,911	20,484
Adj. net profit (Rs mn)	7,217	8,739	11,876	13,350	15,868
Adj. EPS (Rs)	10.3	12.5	17.0	19.1	22.7
Adj. EPS growth (%)	19.0	21.1	35.9	12.4	18.9
Adj. ROAE (%)	21.7	21.7	24.1	22.1	21.5
Adj. P/E (x)	50.7	41.8	30.8	27.4	23.0
EV/EBITDA (x)	32.3	28.6	22.6	20.1	17.3

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Net sales	16,642	15,084	10.3	16,925	(1.7)	49,327	42,173	17.0
Raw Material Consumed	9,410	9,073	3.7	9,905	(5.0)	28,532	24,915	14.5
% of sales	56.5	60.1	-	58.5	-	57.8	59.1	-
Other expenditure	3,314	2,833	17.0	3,093	7.1	9,367	8,049	16.4
% of sales	19.9	18.8	-	18.3	-	19.0	19.1	-
EBITDA	3,918	3,179	23.3	3,926	(0.2)	11,429	9,209	24.1
EBITDA (Rs/scm)	6.4	5.9	8.6	6.5	(2.0)	6.4	5.8	10.7
EBITDA margin (%)	23.5	21.1	-	23.2	-	23.2	21.8	-
Depreciation and amortisation	641	513	25.1	621	3.2	1,867	1,488	25.5
Interest	20	9	120.9	18	11.0	55	20	168.5
Other income	508	403	26.0	390	30.3	1,251	997	25.5
Profit Before Tax	3,764	3,060	23.0	3,677	2.4	10,758	8,698	23.7
Provision for tax	926	1,080	(14.3)	(133)	(794.4)	1,926	3,086	(37.6)
PAT	2,839	1,980	43.4	3,810	(25.5)	8,832	5,612	57.4
Profit from associates	294	270	9.0	424	(30.6)	1,055	695	51.7
Consolidated PAT	3,133	2,250	39.2	4,234	(26.0)	9,887	6,307	56.8
NPM (%)	17.1	13.1	-	22.5	-	17.9	13.3	-
Standalone EPS (Rs)	4.1	2.8	43.4	5.4	(25.5)	12.6	8.0	57.4
Consolidated EPS (Rs)	4.5	3.2	39.2	6.0	(26.0)	14.1	9.0	56.8

Source: Company, BOBCAPS Research

FIG 2 – SEGMENT-WISE VOLUME BREAKUP

	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
CNG Volume (mn kg)	318	291	9.2	320	(0.7)	943	854	10.4
PNG Volume (mmscm)	164	138	18.7	152	7.8	461	403	14.3
Industrial/Commercial	82	61	34.7	73	12.5	223	183	21.9
Domestic	36	31	16.4	33	9.3	100	85	17.7
Natural Gas	46	46	(0.9)	46	(0.9)	138	135	1.9
Total Volume (mmscm)	616	543	13.5	605	1.8	1,782	1,590	12.1
Total Volume (mmscmd)	6.70	5.90	13.5	6.58	1.8	6.48	5.78	12.1

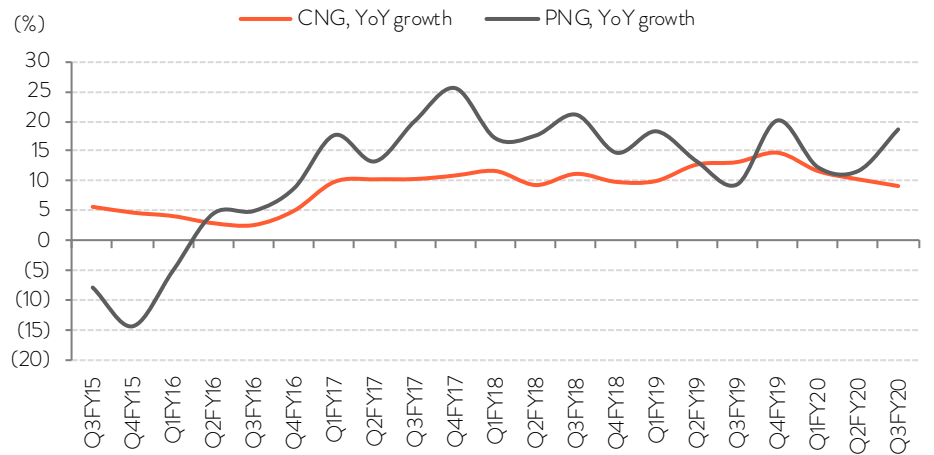
Source: Company, BOBCAPS Research

FIG 3 – OPERATING PERFORMANCE

	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Avg realisation (Rs/scm)	27.0	27.8	(2.8)	28.0	(3.4)	27.7	26.5	4.4
Gas cost (Rs/scm)	15.3	16.7	(8.6)	16.4	(6.7)	16.0	15.7	2.2
Gross spreads (Rs/scm)	11.7	11.1	6.0	11.6	1.2	11.7	10.9	7.5
CNG realisation (Rs/kg)	44.9	42.9	4.8	44.9	-	44.6	41.0	8.9
PNG realisation (Rs/scm)	28.2	29.9	(5.9)	28.2	-	27.9	28.4	(1.7)
EBITDA (Rs/scm)	6.4	5.9	8.6	6.5	(2.0)	6.4	5.8	10.7
Other operating costs	5.4	5.2	3.1	5.1	5.2	5.3	5.1	3.8

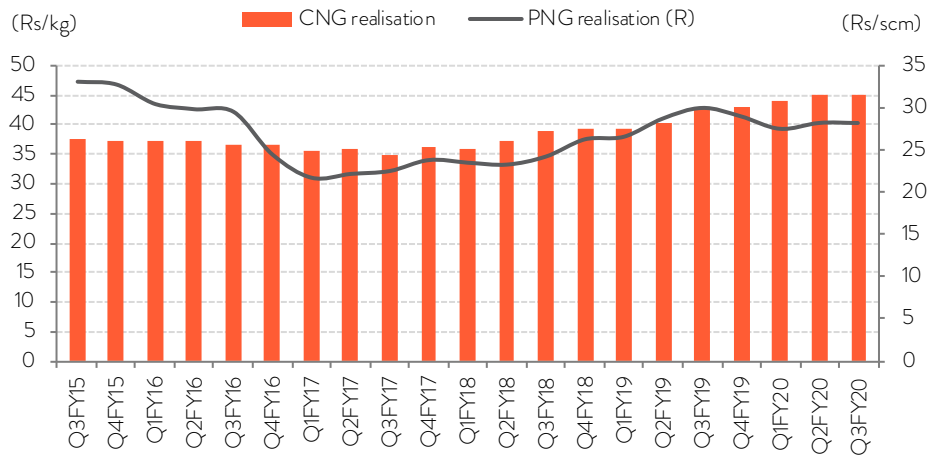
Source: Company, BOBCAPS Research

FIG 4 – CNG AND PNG GROWTH



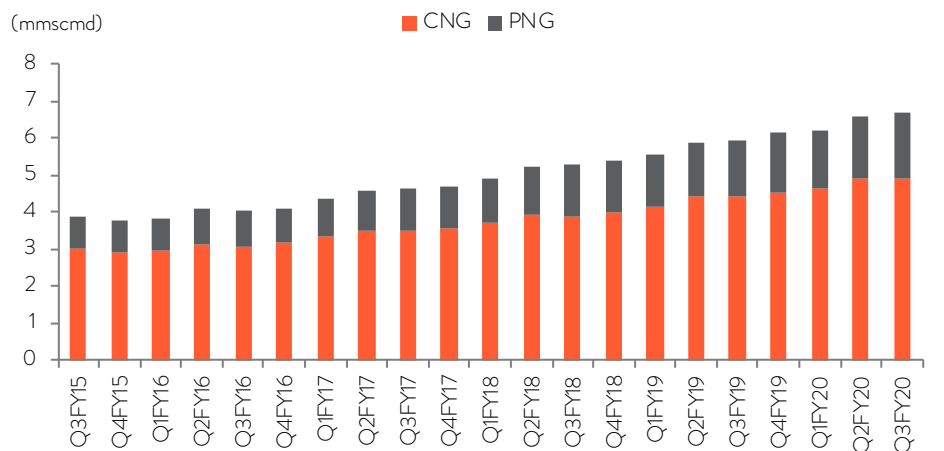
Source: Company, BOBCAPS Research

FIG 5 – CNG AND PNG REALISATION



Source: Company, BOBCAPS Research

FIG 6 – CNG AND PNG VOLUMES



Source: Company, BOBCAPS Research

Valuation methodology

At 23x 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 a sustained P/E rerating. Joint ventures in Pune and Kanpur also offer an improved outlook on both volumes and margins.

Stable Q3FY20 EBITDA margins at Rs 6.4/scm prompt us to revise our long-term estimates to ~Rs 7/scm (from Rs 6/scm over five years), considering IGL's margins still trend well below CGD peers with a similar volume mix. Post estimate revision and rollover, we have a new Mar'21 DCF-based target price of Rs 620 (from Rs 455). Maintain BUY.

FIG 7 – VALUATION SUMMARY

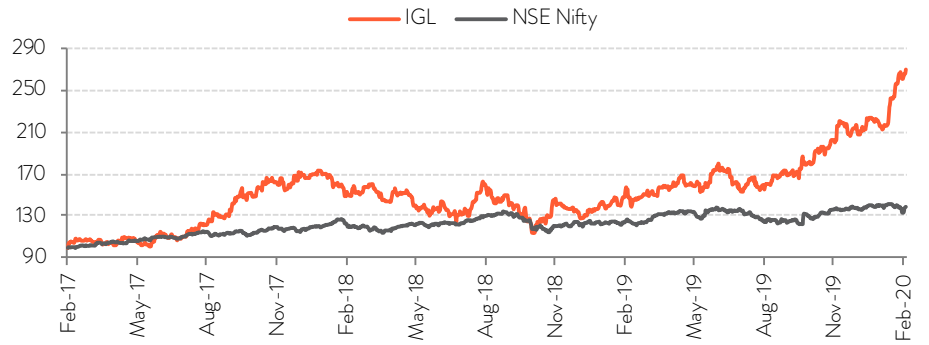
Valuation parameters	Value (Rs mn)
PV of FCF	20,687
PV of terminal value	357,816
Enterprise Value	378,504
Less: Net Debt	(21,254)
Equity value	399,758
NPV – IGL share (Rs)	567
NPV – MNGL (Rs)	35
NPV – CUPGL (Rs)	18
Consolidated NPV (Rs)	620

Source: BOBCAPS Research

FIG 8 – VALUATION SENSITIVITY

	(Rs)	WACC				
		9.5%	10.0%	10.5%	11.0%	11.5%
Terminal growth	8.0%	660	514	422	367	326
	8.5%	933	647	498	419	361
	9.0%	1,752	914	620	495	411
	9.5%	-	1,715	872	623	486
	10.0%	-	-	1,588	878	611

Source: BOBCAPS Research

FIG 9 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

Key downside risks to our estimates are:

- lower-than-expected margins over FY20-FY22;
- impact from PNGRB concept paper ([read our analysis here](#)) that paves the way for competition in existing areas, as tariff calculations remain uncertain; and
- 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	66,502	78,858	92,813
EBITDA	11,144	12,570	15,936	17,911	20,484
Depreciation	(1,813)	(2,011)	(2,481)	(2,945)	(3,414)
EBIT	9,331	10,559	13,455	14,965	17,069
Net interest income/(expenses)	(17)	(21)	(21)	0	0
Other income/(expenses)	926	1,462	952	1,181	2,227
EBT	10,241	12,000	14,387	16,147	19,297
Income taxes	(3,742)	(4,272)	(3,646)	(4,081)	(4,868)
Min. int./Inc. from associates	719	1,011	1,135	1,284	1,439
Reported net profit	7,217	8,739	11,876	13,350	15,868
Adjustments	0	0	0	0	0
Adjusted net profit	7,217	8,739	11,876	13,350	15,868

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	11,788	13,531	15,494
Equity capital	1,400	1,400	1,400	1,400	1,400
Reserves & surplus	35,070	42,503	53,069	65,108	79,665
Shareholders' fund	36,470	43,903	54,469	66,508	81,065
Total liabilities and equities	50,965	59,795	70,170	84,648	101,937
Cash and cash eq.	5,580	4,693	7,458	13,435	22,582
Accounts receivables	2,261	2,215	3,644	4,321	5,086
Inventories	524	509	911	1,080	1,271
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	36,523	43,578	50,163
CWIP	3,860	4,781	5,000	5,000	5,000
Total assets	50,965	59,795	70,170	84,648	101,937

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	8,908	10,832	14,358	16,296	19,282
Changes in working capital	1,382	1,559	(3,642)	(151)	(187)
Other operating cash flows	(354)	(893)	68	(39)	(864)
Cash flow from operations	9,936	11,498	10,784	16,106	18,230
Capital expenditures	(5,182)	(7,917)	(10,000)	(10,000)	(10,000)
Change in investments	(5,321)	(4,619)	2,340	0	0
Other investing cash flows	926	1,462	952	1,181	2,227
Cash flow from investing	(9,576)	(11,075)	(6,708)	(8,819)	(7,773)
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)	2,765	5,977	9,147
Closing cash and cash eq.	5,580	4,693	7,458	13,435	22,582

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	10.3	12.5	17.0	19.1	22.7
Adjusted EPS	10.3	12.5	17.0	19.1	22.7
Dividend per share	1.6	1.6	1.6	1.6	1.6
Book value per share	52.1	62.7	77.8	95.0	115.8

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	7.8	6.2	5.4	4.6	3.8
EV/EBITDA	32.3	28.6	22.6	20.1	17.3
Adjusted P/E	50.7	41.8	30.8	27.4	23.0
P/BV	10.0	8.3	6.7	5.5	4.5

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	70.5	72.8	82.5	82.7	82.2
Interest burden (PBT/EBIT)	109.7	113.6	106.9	107.9	113.0
EBIT margin (EBIT/Revenue)	20.3	18.3	20.2	19.0	18.4
Asset turnover (Revenue/Avg TA)	98.9	104.1	102.3	101.9	99.5
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.3	1.3	1.3
Adjusted ROAE	21.7	21.7	24.1	22.1	21.5

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	15.4	18.6	17.7
EBITDA	15.6	12.8	26.8	12.4	14.4
Adjusted EPS	19.0	21.1	35.9	12.4	18.9
Profitability & Return ratios (%)					
EBITDA margin	24.3	21.8	24.0	22.7	22.1
EBIT margin	20.3	18.3	20.2	19.0	18.4
Adjusted profit margin	15.7	15.2	17.9	16.9	17.1
Adjusted ROAE	21.7	21.7	24.1	22.1	21.5
ROCE	17.8	16.9	20.4	18.5	17.3
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	1.3
Current ratio	1.5	1.4	3.4	4.5	5.8
Net interest coverage ratio	552.1	515.1	656.3	0.0	0.0
Adjusted debt/equity	(0.2)	(0.1)	(0.1)	(0.2)	(0.3)

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

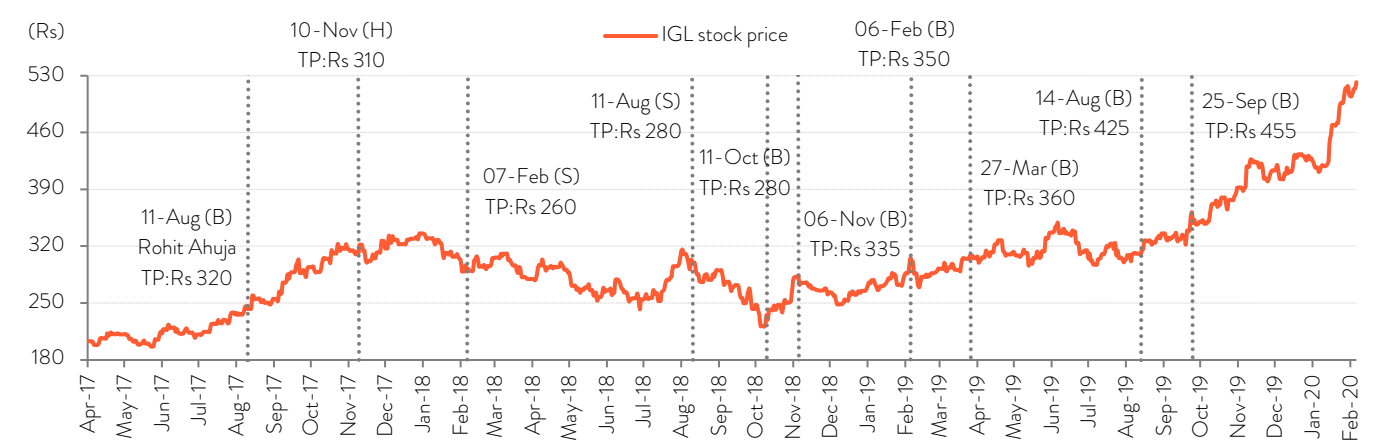
ADD – Expected return from >+5% to +15%

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)

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

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