

Indraprastha Gas

Refer to important disclosures at the end of this report

Volumes to recover as NCR unlocks; reiterate Buy

- We reiterate Buy rating on IGL with a TP of Rs610. As NCR starts to unlock, we expect quick recovery in CNG volumes. In Q4FY21, peers MGL and GGL have beaten expectations in CNG and guiding on a quick recovery ahead. We expect the same for IGL.
- With higher oil prices, CNG running cost currently is 65%/50% lower than petrol/diesel. Q3FY21 saw cars-taxi conversions jump to 8,333/month. We believe that despite return of public transport, Covid-led shift to personal mobility would not reverse entirely.
- As per media reports, 54 new CNG stations of IGL were inaugurated recently. While 9MFY21 saw only 7 additions due to Covid hit, the current run-rate implies that the company is back to the annual rate of 50-60 additions, and it should support volumes.
- IGL's EBITDA/scm outlook is also stable with listed peers expanding their margins by 20-35% in FY21. BPCL divestment-open offer issue is an overhang though BPCL's management has stated that discussions are on with SEBI and Govt for an exemption.

CNG demand to pick up as NCR starts unlocking: IGL's Q1FY22 volumes were hit due to second wave lockdown (up to 30-35% as per our checks). However, as NCR starts to unlock, we expect IGL's CNG volumes to recover. Based on peers MGL and Gujarat Gas' Q4FY21 results, CNG recovery was better than expected, and IGL also indicated earlier of 5-10% yoy volume growth (7% overall growth expected by us). With continuous hikes in petrol/diesel prices, CNG is currently 65%/35% cheaper and conversions should be healthy. We believe that despite resumption of public transport, the shift to personal mobility should not reverse entirely due to caution against a third wave. Among other segments, domestic PNG has been recording strong growth, while industrial should be supported by polluting fuels ban in the NCR despite higher LNG prices. We hence expect IGL to re-enter double-digit volume growth trajectory (adjusted for the FY21 base effect). IGL has reportedly added 54 CNG stations – in line with annual trends seen in last two years.

Margin scenario stable, HCG transfer and bus additions triggers: IGL's EBITDA/scm outlook is stable with management guiding for Rs8/scm+ and Q3 recording Rs8.7. Listed peers have seen margin expansion between 20% and 35% in FY21. Despite an expected increase in domestic gas prices in H2FY22, we believe IGL would be able to pass on it given attractive CNG economics and relatively lower retail margins than listed peers. The transfer of Haryana City Gas (HCG)'s Gurugram asset is also expected going ahead, and it should lead to immediate margin boost as currently only Rs2/scm of gross margin accrues in trading volumes. Around 1,000 buses are also expected to be added to the Delhi fleet within a year.

Valuation: We value IGL using DCF-SOTP with a consol. FY23 target PE multiple of 22x.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Oil & Gas \(Page 7\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	57,648	64,853	48,845	68,229	76,004
EBITDA	12,570	15,196	14,880	22,282	25,386
EBITDA Margin (%)	21.8	23.4	30.5	32.7	33.4
APAT	7,867	10,589	10,151	15,390	17,431
EPS (Rs)	11.2	15.1	14.5	22.0	24.9
EPS (% chg)	19.1	34.6	(4.1)	51.6	13.3
ROE (%)	20.6	23.0	18.6	23.9	22.7
P/E (x)	47.7	35.4	37.0	24.4	21.5
EV/EBITDA (x)	28.3	23.3	23.6	15.6	13.5
P/BV (x)	9.1	7.4	6.4	5.3	4.5

Source: Company, Emkay Research

CMP	Target Price
Rs 536 as of (June 17, 2021)	Rs 610 (■) 12 months
Rating	Upside
BUY (■)	13.8 %

Change in Estimates

EPS Chg FY21E/FY22E (%)	NA
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	14.5	22.0
Consensus	20.6	22.8
Mean Consensus TP (12M)	Rs 583	

Stock Details

Bloomberg Code	IGL IN
Face Value (Rs)	2
Shares outstanding (mn)	700
52 Week H/L	595 / 364
M Cap (Rs bn/USD bn)	375 / 5.06
Daily Avg Volume (nos.)	2,353,550
Daily Avg Turnover (US\$ mn)	16.5

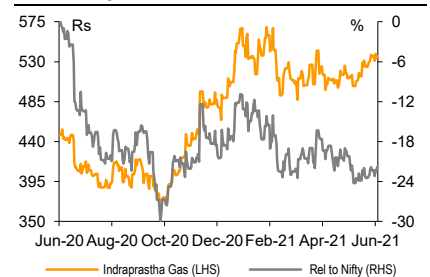
Shareholding Pattern Mar '21

Promoters	45.0%
FIIIs	23.8%
DIIIs	15.9%
Public and Others	15.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	7	12	13
Rel. to Nifty	(1)	-	(2)	(29)

Relative price chart



Source: Bloomberg

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Sabri Hazarika

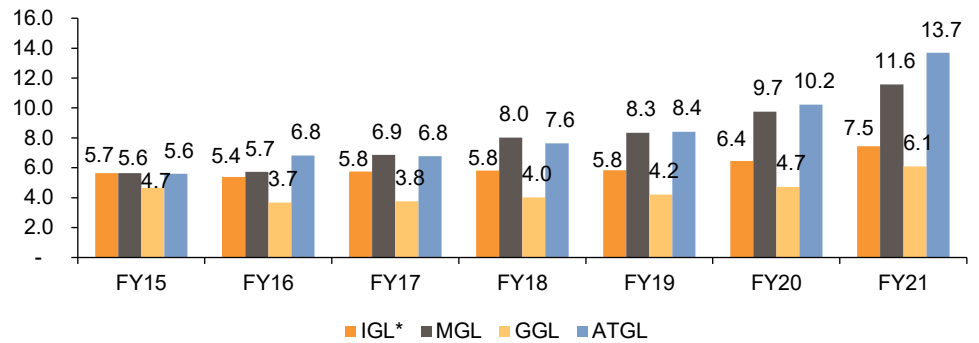
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Story in Charts

Exhibit 1: Unit EBITDA margins of IGL and listed peers



Source: Company, Emkay Research

*Note: Considered for 9MFY21 for IGL

Exhibit 2: IGL's annualized CNG vehicle addition trend

	FY15	FY16	FY17	FY18	FY19	FY20	9MFY21
Buses	19,421	19,272	21,500	22,900	24,850	26,150	26,450
Additions	(145)	(149)	2,228	1,400	1,950	1,300	300
Auto/LGV/RTV	241,540	259,500	277,972	294,900	304,700	306,570	307,570
Additions	21,149	17,960	18,472	16,928	9,800	1,870	1,000
Cars/Taxis	556,156	589,801	672,215	709,900	757,900	794,800	823,900
Conversion/month	3,446	2,804	6,868	3,140	4,000	3,075	3,233
Total	817,117	868,573	971,687	1,027,700	1,087,450	1,127,520	1,157,920

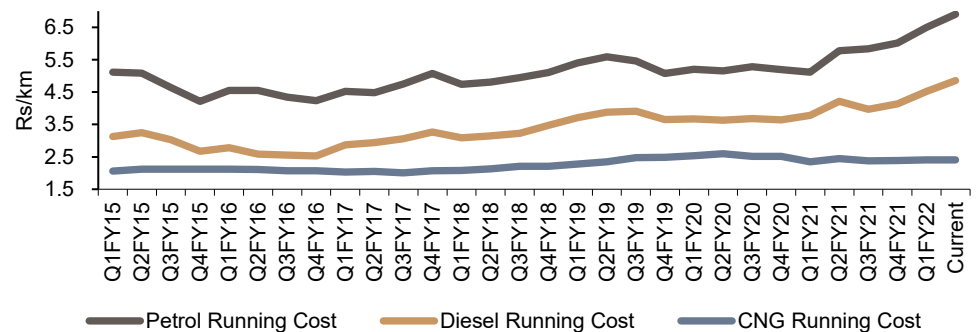
Source: Company, Emkay Research

Exhibit 3: IGL's FY21 quarterly CNG vehicle addition trend

	FY20	Q1FY21	Q2FY21	Q3FY21
Buses	26,150	26,250	26,350	26,450
Additions	1,300	100	100	100
Auto/LGV/RTV	306,570	307,070	307,270	307,570
Additions	1,870	500	200	300
Cars/Taxis	794,800	795,400	798,900	823,900
Conversion/month	3,075	200	1,167	8,333
Total	1,127,520	1,128,720	1,132,520	1,157,920

Source: Company, Emkay Research

Exhibit 4: Petrol-diesel vs. CNG running cost



Source: Company, Emkay Research

Exhibit 5: Peer comparison

	FY22E		FY23E	
	IGL	GGL	IGL	GGL
P/E (x)	24.4	28.8	21.5	25.1
P/B (x)	5.3	7.8	4.5	6.2
EV/EBITDA (x)	15.5	18.5	13.5	16.1
ROE (%)	22%	27%	21%	25%
PAT CAGR (%) - FY21-23E	31%	19%		

Source: Company, Emkay Research

*Note: IGL's standalone numbers considered and FY21 volumes are estimated

Exhibit 6: DCF Valuation

Assumptions		Mar'23E (Rs mn)	Core IGL	CUGL 50%	MNGL 50%	Consol.
Risk Free Rate	6.0%	NPV Of FCF	134,617	3,124	16,412	
Risk Premium	5.5%	Terminal Value	550,205	6,444	48,314	
Beta	0.9	PV Of TV	222,891	2,272	17,035	
Cost Of Equity	10.7%	Total Value	357,509	5,396	33,448	
Cost Of Debt	9.0%	Less: Net Debt (Y/E)	(28,721)	(877)	(988)	
Post Tax Cost Of Debt	6.8%	Equity Value	386,230	6,274	34,436	426,939
Average Debt:Equity Ratio	45%	No. Of Shares O/S (mn)	700	700	700	700
WACC	9.5%	Target Price (Rs.)	552	9	49	610
Terminal Growth Rate						
IGL	3.0%					
CUGL	0.0%					
MNGL	2.0%					

Source: Company, Emkay Research

Exhibit 7: PE-based valuation

Rs/sh	FY18	FY19	FY20	FY21E	FY22E	FY23E
IGL's Core EPS	9.4	11.2	15.1	14.5	22.0	24.9
Less: CU/MNGL Div. Inc.	0.2	0.1	0.3	0.3	0.4	0.5
IGL Adjusted EPS	9.3	11.1	14.8	14.2	21.6	24.4
CUGL/MNGL EPS Contri.	1.1	1.4	2.1	1.9	2.4	3.1
Consol. EPS	10.4	12.5	16.9	16.1	24.0	27.5
Target Multiple (x)						22.2
DCF Target Price						610

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	57,648	64,853	48,845	68,229	76,004
Expenditure	45,079	49,656	33,965	45,946	50,617
EBITDA	12,570	15,196	14,880	22,282	25,386
Depreciation	2,011	2,523	2,876	3,359	4,062
EBIT	10,559	12,674	12,004	18,924	21,324
Other Income	1,462	1,564	1,570	1,768	2,098
Interest expenses	21	81	112	118	119
PBT	12,000	14,157	13,462	20,574	23,304
Tax	4,133	3,567	3,312	5,185	5,873
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	7,867	11,365	10,151	15,390	17,431
Adjusted PAT	7,867	10,589	10,151	15,390	17,431

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	1,400	1,400	1,400	1,400	1,400
Reserves & surplus	39,899	49,224	57,344	68,886	81,611
Net worth	41,299	50,624	58,744	70,286	83,011
Minority Interest	0	0	0	0	0
Loan Funds	0	962	972	981	991
Net deferred tax liability	2,678	2,119	2,119	2,119	2,119
Total Liabilities	43,977	53,705	61,835	73,387	86,121
Net block	28,769	35,569	42,182	52,035	62,964
Investment	15,708	2,945	2,945	2,945	2,945
Current Assets	10,236	25,442	28,208	32,538	36,496
Cash & bank balance	6,071	21,799	25,096	28,721	32,348
Other Current Assets	732	942	952	961	971
Current liabilities & Provision	15,517	18,018	18,491	20,422	21,946
Net current assets	(5,281)	7,424	9,718	12,116	14,550
Misc. exp	0	0	0	0	0
Total Assets	43,977	53,705	61,835	73,387	86,121

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	10,539	12,593	11,892	18,806	21,206
Other Non-Cash items	48	133	0	0	0
Chg in working cap	3,684	2,465	1,003	1,227	1,193
Operating Cashflow	11,572	13,608	12,581	18,334	20,717
Capital expenditure	(7,380)	(12,309)	(8,712)	(12,512)	(14,362)
Free Cash Flow	4,192	1,298	3,869	5,821	6,354
Investments	(3,994)	12,763	0	0	0
Other Investing Cash Flow	520	2,538	0	0	0
Investing Cashflow	(9,392)	4,556	(7,142)	(10,744)	(12,264)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	0	962	10	10	10
Dividend paid (incl tax)	(1,685)	(2,025)	(2,030)	(3,847)	(4,706)
Other Financing Cash Flow	17	(1,290)	(10)	(10)	(10)
Financing Cashflow	(1,688)	(2,435)	(2,142)	(3,965)	(4,825)
Net chg in cash	491	15,729	3,297	3,625	3,627
Opening cash position	5,580	6,071	21,799	25,096	28,721
Closing cash position	6,071	21,799	25,096	28,721	32,348

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	21.8	23.4	30.5	32.7	33.4
EBIT Margin	18.3	19.5	24.6	27.7	28.1
Effective Tax Rate	34.4	25.2	24.6	25.2	25.2
Net Margin	13.6	16.3	20.8	22.6	22.9
ROCE	29.5	29.2	23.5	30.6	29.4
ROE	20.6	23.0	18.6	23.9	22.7
RoIC	62.8	65.7	50.0	60.8	52.9

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	11.2	15.1	14.5	22.0	24.9
CEPS	14.1	18.7	18.6	26.8	30.7
BVPS	59.0	72.3	83.9	100.4	118.6
DPS	2.4	2.8	2.9	5.5	6.7

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	47.7	35.4	37.0	24.4	21.5
P/CEPS	36.7	27.6	27.8	19.3	16.9
P/BV	9.1	7.4	6.4	5.3	4.5
EV / Sales	6.2	5.5	7.2	5.1	4.5
EV / EBITDA	28.3	23.3	23.6	15.6	13.5
Dividend Yield (%)	0.4	0.5	0.5	1.0	1.3

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	(0.5)	(0.4)	(0.4)	(0.4)	(0.4)
Net Debt/EBIDTA	(1.5)	(1.4)	(1.6)	(1.2)	(1.2)
Working Cap Cycle (days)	(9.2)	(4.1)	(1.8)	(2.2)	(1.5)

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	27.6	12.5	(24.7)	39.7	11.4
EBITDA	14.3	20.9	(2.1)	49.7	13.9
EBIT	15.0	20.0	(5.3)	57.6	12.7
PAT	17.3	44.5	(10.7)	51.6	13.3

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	16,642	15,525	6,386	13,054	14,462
EBITDA	3,918	3,767	834	4,071	5,007
EBITDA Margin (%)	23.5	24.3	13.1	31.2	34.6
PAT	2,839	2,534	318	3,079	3,349
EPS (Rs)	4.1	3.6	0.5	4.4	4.8

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	45.0	45.0	45.0	45.0	45.0
FIs	22.8	22.3	21.3	23.2	23.8
DIs	16.8	17.2	17.4	16.1	15.9
Public and Others	15.5	15.5	16.4	15.7	15.3

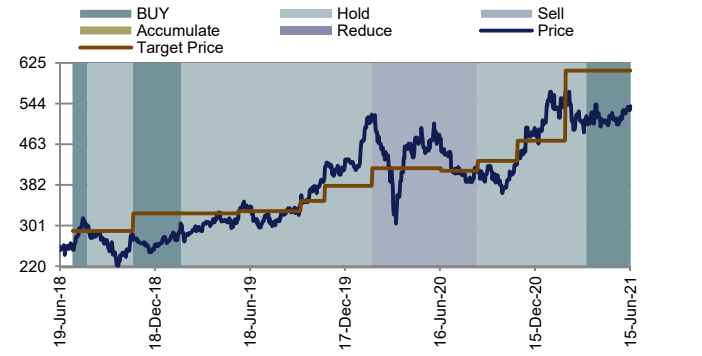
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
29-May-21	514	610	12m	Buy	Sabri Hazarika
23-Apr-21	510	610	12m	Buy	Sabri Hazarika
23-Mar-21	519	610	12m	Buy	Sabri Hazarika
18-Feb-21	568	610	12m	Hold	Sabri Hazarika
11-Feb-21	569	610	12m	Hold	Sabri Hazarika
27-Nov-20	496	470	12m	Hold	Sabri Hazarika
11-Nov-20	448	470	12m	Hold	Sabri Hazarika
28-Sep-20	404	430	12m	Hold	Sabri Hazarika
27-Aug-20	407	430	12m	Hold	Sabri Hazarika
18-Jun-20	450	410	12m	Sell	Sabri Hazarika
6-May-20	468	415	12m	Sell	Sabri Hazarika
7-Feb-20	511	415	12m	Sell	Sabri Hazarika
24-Jan-20	496	380	12m	Hold	Sabri Hazarika
4-Dec-19	413	380	12m	Hold	Sabri Hazarika
8-Nov-19	418	380	12m	Hold	Sabri Hazarika
25-Oct-19	377	350	12m	Hold	Sabri Hazarika
23-Sep-19	355	350	12m	Hold	Sabri Hazarika
16-Sep-19	334	330	12m	Hold	Sabri Hazarika
1-Jul-19	305	330	12m	Hold	Sabri Hazarika
10-Jun-19	340	330	12m	Hold	Sabri Hazarika
27-May-19	330	330	12m	Hold	Sabri Hazarika
1-Apr-19	307	325	12m	Hold	Sabri Hazarika
6-Feb-19	300	325	12m	Hold	Sabri Hazarika
28-Jan-19	273	325	12m	Buy	Sabri Hazarika
31-Dec-18	267	325	12m	Buy	Sabri Hazarika
11-Dec-18	249	325	12m	Buy	Sabri Hazarika
6-Nov-18	273	325	12m	Buy	Sabri Hazarika
4-Sep-18	283	290	12m	Hold	Sabri Hazarika
11-Aug-18	300	290	12m	Hold	Sabri Hazarika
13-Jul-18	253	290	12m	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Oil & Gas



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Sector

Oil & Gas

Analyst bio

Sabri Hazarika holds an MBA and comes with 12 years of research experience. His team currently covers 12 stocks in the Indian Oil & Gas space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Oil & Gas	10.45	10.45	0%	0	100.00
BPCL	0.43	0.45	5%	2	4.29
GAIL	0.32	0.36	10%	3	3.41
Gujarat Gas	0.12	0.00	-100%	-12	0.00
Gujarat State Petronet	0.10	0.09	-8%	-1	0.88
Gulf Oil Lubricants	0.00	0.00	NA	0	0.00
HPCL	0.25	0.23	-5%	-1	2.25
Indian Oil	0.33	0.36	10%	3	3.43
Indraprastha Gas	0.21	0.23	11%	2	2.20
Petronet LNG	0.19	0.19	-2%	0	1.80
Oil India	0.06	0.06	0%	0	0.56
ONGC	0.51	0.56	10%	5	5.39
Reliance Industries	7.93	7.92	0%	-2	75.78
Cash	0.00	0.00	NA	0	0.02

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	17-Jun-20	16-Dec-20	17-Mar-21	17-May-21	16-Jun-21
EAP - Oil & Gas	100.0	102.4	124.1	129.4	126.3	141.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	102.4	123.2	128.5	125.4	140.9

*Performance measurement base date 1st April 2019

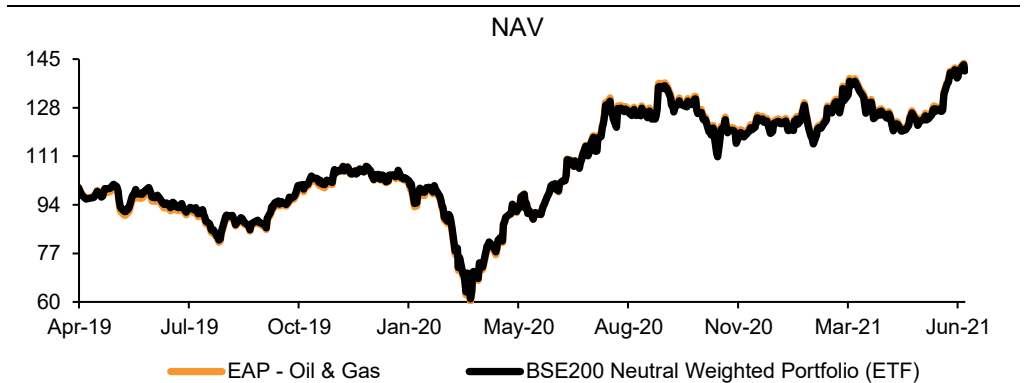
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Oil & Gas	11.9%	9.2%	13.9%	38.1%
BSE200 Neutral Weighted Portfolio (ETF)	12.3%	9.6%	14.3%	37.5%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 18 Jun 2021 02:48:45 (SGT)

Dissemination Date: 18 Jun 2021 02:49:45 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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