Indraprastha Gas Ltd.

Leading player in city gas distribution

BUY

26th Feb. 2022

Indraprastha Gas Ltd. (IGL) is one of the pioneer and among the leading city gas distribution (CGD) company in India. Through its extensive distribution network of 652 compressed natural gas (CNG) stations and 17,876kms of piped natural gas (PNG) network, it provides safe and uninterrupted gas supply to domestic, commercial and industrial consumers. The company also has two associates, which also operates as CGD companies i.e. Central UP Gas Ltd. (catering to the cities of Kanpur, Bareilly, Unnao and Jhansi in Uttar Pradesh) and Maharashtra Natural Gas Ltd. (catering to the city of Pune and nearby areas of Pimpri, Chinchwad, Chakan, Talegaon and Hinjewadi in Maharashtra).

Investment rationale:

- **Government policy support to improve the business outlook for CGDs:** The government of India is aiming to achieve 15% natural gas share in the primary energy-mix by 2030 from the existing levels of 6%. The government is pushing for the greater adoption and use of cleaner & greener fuels in its clean energy initiatives. This will create opportunities for the companies such as IGL to increase CNG and PNG sales in the near future.

- **Restriction to use clean fuels in Delhi-NCR, positive for IGL:** The industrial sector is the one of the major contributors of the air pollution in Delhi & the NCR and significant steps are being taken by the government to fight with it. The Delhi Pollution Control Committee is taking significant steps by banning all other industrial fuels except PNG and advising all industrial customers to switchover to PNG. IGL being the sole distributors of natural gas in the Delhi & NCR region is likely to benefit from this regulation.

- **Sustained higher petrol/diesel prices aiding the adoption of CNG vehicles:** Delhi Transport Corporation (DTC) is the largest CNG-powered bus service operator in the world. IGL has signed a long term gas supply agreement with DTC, to supply CNG for a period of ten years till Dec. 2030. At present DTC consumes around 0.28mn kgs of CNG per day for its buses which constitutes around 11% of daily CNG sale of IGL. The consumption of CNG is expected to increase as DTC is in the process for procurement of 1,000 new CNG buses.

  With sustained higher retail prices of petrol & diesel, the conversion to CNG vehicles in Delhi has surged to 14,000-15,000 vehicles per month from 4,000-5,000 vehicles per month. This coupled with the Delhi government emphasizing on use of CNG in all light commercial vehicles is likely to boost the CNG volumes of the company.

- **FY21 margins not sustainable, but are anticipated to remain above pre-Covid levels:** FY21 being a pandemic year, was characterized by pandemic related restrictions & lockdown leading to suppressed demand and lower commodity prices which cumulatively led to higher profitability. However, subsequently with elevated international gas prices, we believe that the company will find it tough to maintain the FY21 profitability. We are forecasting over 300bps contraction in EBITDA margins over FY21-24E. On the contrary, gas sales volume is expected to increase by 13.3% CAGR over FY21-24E as compared to a growth of 10.9% CAGR over FY15-20.

Valuations: IGL is one of the most efficient CGD player in India with sector leading EBIDTA margin of over 20%. During FY15-20, its revenue grew by 12% CAGR, with an average EBITDA and PAT margins of 20.9% and 12.7%, respectively. Moreover, debt free operations with strong cash flow generation ability and double digit return ratios reflects strong fundamentals of the company. Thus we assign a "**BUY**" rating on the stock with a target price of Rs. 435.

Rating matrix	
CMP	Rs. 343.6
MCAP	Rs. 24,052cr.
Face value	Rs. 2
Rating	BUY
Target price	Rs. 435
Upside potential	26.8%
Investment horizon	12-18 months
52 week H/L	Rs. 602.1 / 331.3
Category	Mid cap
Sector	Gas Distribution

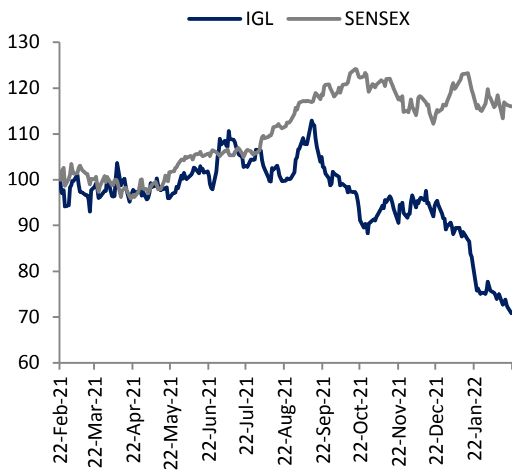
Shareholding pattern

Particulars	Mar. 21	Jun. 21	Sept. 21	Dec. 21
Promoters	45.00%	45.00%	45.00%	45.00%
FPIs	23.80%	23.87%	21.88%	20.23%
DIIs	20.93%	19.80%	21.06%	21.67%
Public	10.27%	11.33%	12.06%	13.10%

Standalone financial snapshot (Rs. cr)

Particulars	FY20	FY21	FY22E	FY23E	FY24E
Gross sales	7,166	5,439	6,231	7,193	8,303
EBITDA	1,532	1,494	1,591	1,667	2,022
EBITDA (%)	21.4%	27.5%	25.5%	23.2%	24.4%
PAT	1,137	1,006	1,080	1,120	1,366
PAT (%)	15.9%	18.5%	17.3%	15.6%	16.5%
EPS (Rs.)	16.2	14.4	15.4	16.0	19.5
P/E (x)			25.8	24.9	20.4
P/B (x)			4.1	3.7	3.2
EV/Sales (x)			68.8	61.7	65.2
EV/EBITDA (x)			269.4	266.4	267.7
P/S (x)			69.0	62.0	65.5

Relative capital market strength



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City gas distribution market overview:

The government is giving thrust to natural gas to make India as a gas based economy. Currently, the share of natural gas constitutes around 6% in India's primary energy-mix as against 24% in the world. Over the years, the government has proactively taken steps like increasing domestic gas production, augmenting LNG (liquefied natural gas) import capacity, completion of national gas grid and faster rollout of CGD network across the country so as to increase the share of natural gas in primary energy-mix to 15% in the coming years. Our view is that the natural gas market in India will continue to grow faster in the medium term.

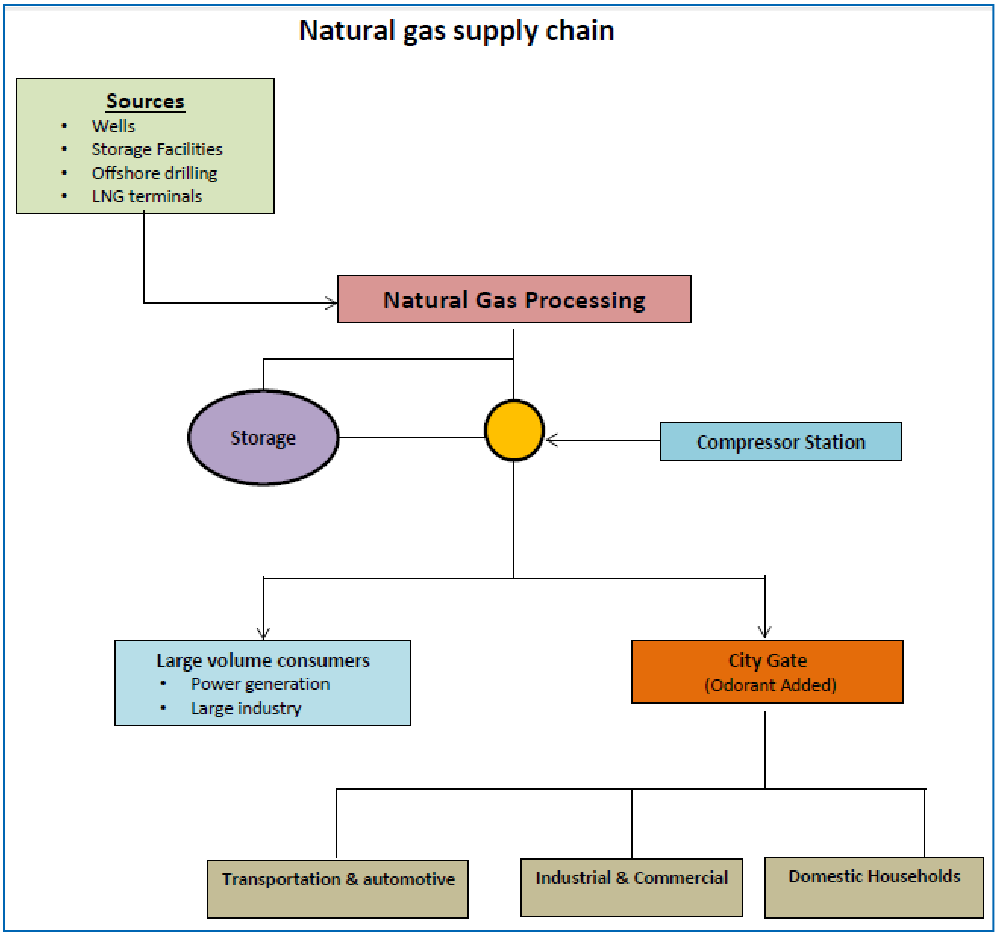
In the natural gas market, CGD is emerging as one of the fastest growing segment in India. In FY19, the government has laid the foundation for further expansion of CGD. Subsequently, PNGRB (the industry regulator) invited bids for its 9th, 10th and 11th round for setting up CGD network in various parts of the country. Pursuant to the bidding, PNGRB covered 50% geographical areas spread over in 14 states and 124 districts and increased the CGD coverage to 70% of the country's total population. Total investment for setting up CGD networks under 9th and 10th bidding rounds is expected to be more than Rs. 1tn spread over eight years.

As of Nov. 2021, the country had total 83.7lakh PNG connections and over 3,500 CNG stations. The government provides cheap domestic gas to the CGD segment through the administered price mechanism (APM) for domestic PNG and CNG customers. However, liquefied natural gas (LNG) is imported to meet industrial & commercial PNG demand.

Natural gas demand & supply

(mmscmd)	FY 17	FY 18	FY 19	FY 20	FY 21
Domestic gas production	85	87	88	83	76
Import of LNG	68	75	79	93	90
Total consumption	153	162	167	176	166

Source: Choice Broking Research



Source: Choice Broking Research

Business overview: With a modest beginning in the year 1998, today IGL has become a leading CGD company in India. Its CGD business supplies natural gas to transport, domestic, commercial and industrial consumers. The company has its operations in NCT of Delhi, Noida, Greater Noida, Ghaziabad, Rewari, Karnal and Muzaffarnagar. IGL's gas sourcing is more balanced with respect to its customer profile. It procures around 60% of the natural gas from domestic suppliers at APM and PMT fields and is entirely consumed by CNG and PNG domestic residentials, which together constitute around 80% of the total sales volumes in FY20. For commercial & industrial customers, the company has a long term contract for RLNG (regasified LNG). It also buys gas from open market.

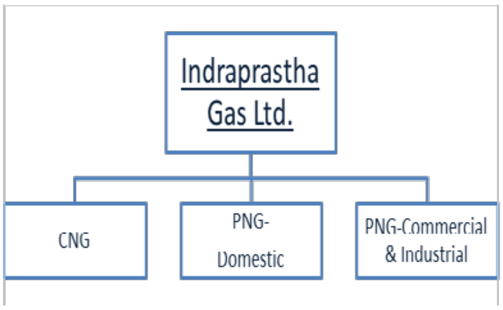
As of FY20, the company derived revenue from the sales of PNG (to domestic household and commercial & industrial consumers) and CNG sales to transport sector. Business from PNG and CNG formed around 23.8% and 75.7% to the gross revenue in FY20.

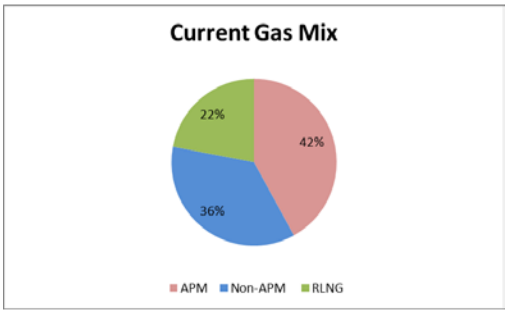
CNG segment: As of Dec. 2021, IGL had total 652 CNG stations with a total compression capacity of 8.8mn kg per day. It has catered more than 1.2mn CNG vehicles in FY21. With an aim to cover the existing geographical areas of Delhi NCR and other area, the company has planned a capex of Rs. 1,500cr in FY22. The company is also planning to commission 125 new CNG stations during the current fiscal.

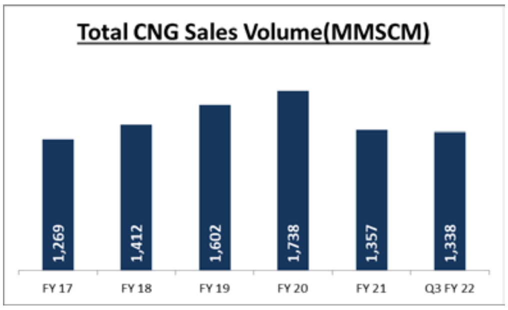
PNG-Industrial segment: IGL is continuing its thrust on the Commercial & Industrial segment, which is one of the potential growth areas in the coming years. As of Dec. 2021, the company has provided piped natural gas facility to more than 7,358 industrial & commercial units across Delhi and other geographical areas. In FY21, it has reported around 4.5% growth in sales volume in the Industrial segment & achieved sales of 33.54mn scm. It is also working with the State Pollution Control Board to work out an action plan to convert all industrial & commercial units to PNG. In order to facilitate increase in consumption of natural gas volumes it has executed a gas sale agreement (GSA) with industrial customers to supply PNG in Geographical areas of Karnal, Gurugram and Rewari.

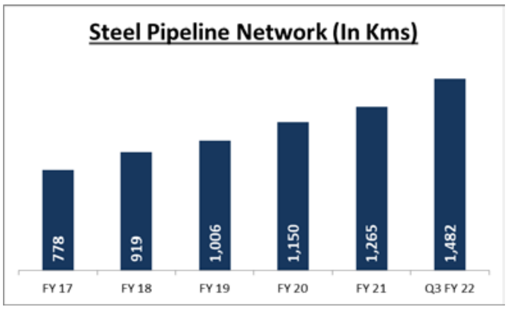
PNG-Domestic segment: As of Dec. 2021, IGL had provided piped natural gas facility to more than 1.89mn domestic households across Delhi and other geographical areas. It has provided more than 0.31mn new domestic PNG connections (the highest number of connections in a single fiscal year) in FY21. The steel pipeline network of IGL has increased from 1,265kms (as on Mar. 2021) to 1,482kms as on Dec. 2021 and its MDPE network has increased from 15,262kms as on Mar. 2021 to 16,394kms as on Dec. 2021.

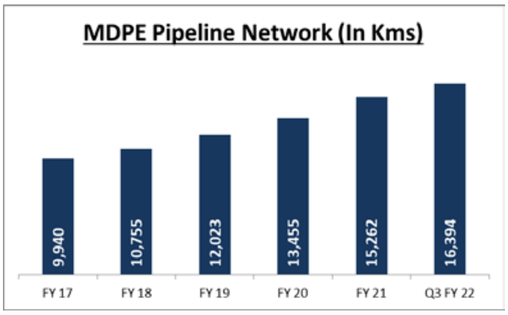
Venture into electric vehicle value chain: To benefit from the rapid expansion in the EV space, the company is venturing into EV charging segment (via battery swapping mode) and is planning to commission 50 stations during FY22.











Source: Choice Broking Research

Recent quarterly performance

Description (Rs. cr)	Q3 FY 22	Q3 FY 21	Change (Y-o-Y)	Q2 FY 22	Change (Q-o-Q)
Net revenue from operations	**2,439.0**	**1,595.0**	**52.9%**	**2,016.0**	**21.0%**
(Increase) / Decrease In Stocks	-1.1	0.6	-303.6%	-1.7	-35.3%
Purchase of finished goods	1,385.0	606.3	128.5%	930.0	49.0%
Excise duty	223.0	148.9	49.8%	184.8	20.7%
Electricity, power & fuel cost	314.0	301.2	4.3%	320.4	-2.0%
Employee cost	47.7	37.5	27.2%	52.4	-9.0%
EBITDA	**469.6**	**500.7**	**-6.2%**	**530.2**	**-11.4%**
Depreciation	83.5	75.0	11.4%	80.5	3.8%
EBIT	**386.1**	**425.7**	**-9.3%**	**449.7**	**-14.1%**
Interest	2.8	3.1	-7.2%	2.6	10.5%
Other income	30.4	25.9	17.2%	42.1	-27.8%
PBT	**413.7**	**448.5**	**-7.8%**	**489.2**	**-15.4%**
Tax	105.1	113.7	-7.5%	124.1	-15.3%
PAT	**308.5**	**334.9**	**-7.9%**	**365.1**	**-15.5%**

Source: Choice Broking Research

Q3 FY22 performance analysis:

- In Q3 FY22, IGL reported a 52.9% Y-o-Y rise in standalone revenue to Rs. 2,438.5cr, largely due to 22.3% Y-o-Y higher gas sales volume which stood at 704.28mn SCM (standard cubic meter). Sales realization per SCM was flat on Y-o-Y basis. CNG business, which contributed 72% to the total business in the quarter - reported a 25.8% Y-o-Y higher sales volume. Domestic PNG business continued its growth momentum and increased by 10.1% Y-o-Y, while PNG sales to the industrial & commercial customers increased by 14.7% Y-o-Y. Sequentially, top-line increased by 21%, led by 6% Q-o-Q expansion in the gas sales volume.

- Total operating expenditure rose by 79.9% Y-o-Y, mainly led by 128.5% higher net cost of inputs purchased due to drastic increase in natural gas prices. Consequently, standalone EBITDA declined by 6.2% Y-o-Y to Rs. 500cr with margin of 19.3% in Q3 FY22 as compared to 31.4% in Q3 FY21.

- With an increase in infrastructure capacity over a year, depreciation charge increased by 11.4% Y-o-Y. Consequently, standalone PAT declined by 7.9% Y-o-Y to Rs. 3,08.5cr with margin of 12.7% in Q3 FY22 as compared to 20.9% in Q3 FY21.

Peer comparison:

Company name	Face value (Rs.)	CMP (Rs.)	MCAP (Rs. cr)	EV (Rs. cr)	Stock return (%)				TTM Gross operating revenue (Rs. cr)	TTM EBITDA (Rs. cr)	TTM PAT (Rs. cr)	TTM Gross margin	TTM EBITDA margin	TTM PAT margin
					1 M	3 M	6 M	1 Y						
Indraprastha Gas Ltd.	**2**	**342**	**23,919**	**21,219**	**-14.0%**	**-30.9%**	**-34.5%**	**-32.8%**	**7,545**	**1,872**	**1,249**	**43.3%**	**24.8%**	**16.6%**
Adani Total Gas Ltd.	1	1,568	172,450	172,870	-14.0%	-5.4%	27.9%	215.1%	2,755	847	574	42.0%	30.7%	20.8%
GAIL (India) Ltd.	10	134	59,546	63,813	-6.3%	-4.9%	-7.1%	-10.7%	81,303	13,770	9,535	25.6%	16.9%	11.7%
Gujarat Gas Ltd.	2	598	41,183	41,632	-13.2%	-9.4%	-15.5%	21.0%	15,482	1,936	1,197	18.3%	12.5%	7.7%
Mahanagar Gas Ltd.	10	702	6,937	5,400	-14.4%	-24.7%	-37.5%	-41.4%	3,481	1,025	678	45.8%	29.4%	19.5%
Average												**35.0%**	**22.9%**	**15.3%**

Company name	5Y top-line growth (CAGR)	5Y EBITDA growth (CAGR)	5Y PAT growth (CAGR)	5Y average EBITDA margin	5Y average PAT margin	5Y capital employed growth (CAGR)	5Y CFO growth (CAGR)	5Y average working capital cycle (Days)	5Y average total asset turnover (x)	5Y average RoE	5Y average RoIC
Indraprastha Gas Ltd.	**6.0%**	**13.9%**	**21.0%**	**22.8%**	**14.4%**	**19.4%**	**18.8%**	**(21.8)**	**0.9**	**18.1%**	**17.7%**
Adani Total Gas Ltd.	8.2%	22.1%	42.1%	28.6%	16.2%	19.7%	20.7%	(5.4)	0.7	21.6%	21.2%
GAIL (India) Ltd.	1.8%	9.9%	19.0%	13.0%	8.4%	7.6%	17.8%	11.0	0.9	11.4%	10.6%
Gujarat Gas Ltd.	10.0%	23.6%	46.7%	15.6%	7.6%	8.1%	21.0%	8.5	1.1	22.4%	14.3%
Mahanagar Gas Ltd.	0.5%	12.8%	14.8%	32.3%	21.1%	13.4%	14.0%	(18.3)	0.8	22.6%	19.9%
Average	**5.3%**	**16.5%**	**28.7%**	**22.5%**	**13.6%**	**13.6%**	**18.5%**	**(5.2)**	**0.9**	**19.2%**	**16.8%**

Company name	TTM EPS (Rs.)	BVPS (Rs.)	DPS (Rs.)	Debt equity ratio (x)	Total asset turnover ratio (x)	TTM RoE	TTM RoCE	TTM P / E (x)	P / B (x)	EV / TTM Sales (x)	EV / TTM EBITDA (x)	MCAP / TTM Sales (x)	TTM Earning yield
Indraprastha Gas Ltd.	**17.8**	**90.5**	**2.8**	**0.0**	**0.8**	**19.7%**	**23.2%**	**19.2**	**3.8**	**2.8**	**11.3**	**3.2**	**5.2%**
Adani Total Gas Ltd.	5.2	17.6	0.0	0.2	0.9	29.7%	32.1%	300.6	89.2	62.7	204.2	62.6	0.3%
GAIL (India) Ltd.	21.5	119.8	5.0	0.1	1.0	17.9%	16.2%	6.2	1.1	0.8	4.6	0.7	16.0%
Gujarat Gas Ltd.	17.4	65.5	1.3	0.2	1.8	26.5%	25.0%	34.4	9.1	2.7	21.5	2.7	2.9%
Mahanagar Gas Ltd.	68.6	327.2	32.6	0.0	0.8	21.0%	24.1%	10.2	2.1	1.6	5.3	2.0	9.8%
Average			**8.3**	**0.1**	**1.1**	**23.0%**	**24.1%**	**74.1**	**21.1**	**14.1**	**49.4**	**14.2**	**6.8%**

Source: Choice Broking Research

Valuation: IGL is one of the most efficient CGD player in India with sector leading EBIDTA margin of over 20%. Over FY15-20, its revenue grew by 12% CAGR, with an average EBITDA and PAT margins of 20.9% and 12.7%, respectively. Moreover, debt free operations with strong cash flow generation ability and double digit return ratios reflects strong fundamentals of the company. Thus we assign a "**BUY**" rating on the stock with a target price of Rs. 435**.**

Risk and concerns:

- **Faster adoption of electric vehicles:** A rapid growth of electric vehicles in India may pose a business risk for the company. Also this may lower the investor's interest in the sector.

- **Change in government policies:** Unfavorable change in the government's policy on domestic natural gas pricing and distribution will have a negative impact on the performance of the company.

- **Availability of alternative fuels for industries:** Cost effective availability of alternative fuels such as biomass, wind energy, solar energy etc., may result in industrial customers switching to other available substitutes, which can impact the company's operations.

Choice

Financial statements (Rs. cr)

Standalone profit and loss statement (Rs. cr)	FY18	FY19	FY20	FY21
Net Revenue From Operations (Rs.Cr)	4,535.5	5,764.8	6,485.3	4,940.8
Raw Material Consumed	2,491.8	3,397.9	3,678.8	2,229.8
Power & Fuel Cost	173.7	209.6	231.9	224.1
Employee Cost	106.1	142.6	151.7	134.4
Other Expenses	640.6	747.1	891.1	858.9
Total Expenditure	3,412.1	4,497.2	4,953.4	3,447.1
EBITDA	**1,123.3**	**1,267.7**	**1,531.8**	**1,493.7**
Depreciation	181.3	201.1	252.3	290.4
EBIT	942.1	1,066.6	1,279.6	1,203.3
Finance Cost	8.6	12.8	20.3	22.0
Other Income	90.6	128.5	143.2	114.8
PBT	**1,024.1**	**1,182.3**	**1,402.5**	**1,296.1**
Provision for Tax	374.2	427.2	307.5	249.4
Share of Associate	71.9	87.0	154.1	125.8
PAT	**721.7**	**842.1**	**1,249.0**	**1,172.6**

Standalone balance sheet (Rs. cr)	FY18	FY19	FY20	FY21
Share Capital	140.0	140.0	140.0	140.0
Total Reserves	3,507.0	4,175.7	5,218.0	6,194.4
Shareholder's Funds	3,647.0	4,315.7	5,358.0	6,334.4
Minority Interest	0.0	0.0	0.0	0.0
Long-Term Borrowings	0.0	0.0	0.0	0.0
Secured Loans	0.0	0.0	0.0	0.0
Unsecured Loans	0.0	0.0	0.0	0.0
Other Long Term Liabilities	0.8	1.4	79.0	95.6
Long Term Provisions	12.8	19.6	23.5	25.6
Trade Payables	338.6	326.1	225.0	418.6
Other Current Liabilities	836.8	1,039.4	1,313.2	1,586.5
Short Term Borrowings	0.0	0.0	0.0	0.0
Short Term Provisions	0.9	165.2	257.3	347.0
Total Equity and Liabilities	**5,096.5**	**6,183.3**	**7,544.4**	**9,050.0**
Net Block	2,432.00	2,876.90	3,556.90	4,320.90
Capital Work in Progress	386	478.1	776.7	846.9
Non Current Investments	426.4	492.1	630.2	720.7
Long Term Loans & Advances	48.3	58.6	55.4	50.0
Other Non Current Assets	21.1	35.3	27.5	16.0
Currents Investments	889.6	1,285.9	0.00	1,567.7
Inventories	52.4	50.9	51.1	45.6
Sundry Debtors	226.1	221.5	170.4	260.7
Cash and Bank	558.0	607.1	2,179.9	1,132.3
Other Current Assets	46.7	69.7	90.2	80.3
Short Term Loans and Advances	9.8	7.3	6.0	9.0
Total Assets	**5,096.5**	**6,183.3**	**7,544.4**	**9,050.0**

Standalone ratios	FY18	FY19	FY20	FY21
Operating ratio				
EBITDA margin (%)	24.2	22.0	23.4	29.6
EBIT margin (%)	20.6	18.8	19.9	24.2
PAT margin (%)	13.0	11.9	15.3	19.3
Return ratios				
ROA (%)	14.0	13.4	16.0	12.6
ROE (%)	19.5	19.0	22.6	17.9
ROCE (%)	31.0	30.0	29.4	22.6
Liquidity ratios				
Total Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.5	1.5	1.4	1.3
Quick Ratio	1.5	1.4	1.4	1.3
Interest Coverage Ratio	120.6	93.7	70.1	59.9
Total Debt/Mcap	0.0	0.0	0.0	0.0
Turnover ratios				
Asset Turnover	1.1	1.1	1.0	0.7
Inventory Turnover	96.4	123.2	140.4	112.5
Debtors Turnover	23.5	28.4	36.6	25.2
Fixed Asset Turnover	1.9	2.0	1.8	1.1
Sales/Working Capital	8.3	8.9	10.2	7.3
Receivable days	15.6	12.8	10.0	14.5
Inventory Days	3.8	3.0	2.6	3.2
Payable days	44.9	35.7	27.3	52.7

Standalone cash flow statement (Rs. cr)	FY18	FY19	FY20	FY21
Cash From Operating Activities	879.3	1157.2	1360.8	1546.0
Cash from Financing Activities	-84.2	-168.8	-243.5	-297.0
Net cash flow	78.1	-132.5	596.6	-577.4
Opening balance	125.6	203.7	71.2	667.7
Closing balance	203.7	71.2	667.7	90.3

Source: Choice Broking Research

Choice's Rating Rationale

The price target for a large cap stock represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as Outperform (Buy), the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as Underperform (Reduce, Sell), the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as Neutral (Hold).

Rating Rationale	
BUY	Absolute Return >15%
Hold	Absolute Return Between 0-15%
Reduce	Absolute Return 0 To Negative 10%
Sell	Absolute Return > Negative 10%

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