

Twin engines of lower gas prices, volume growth set to be drivers ahead...

About the stock: Indraprastha Gas (IGL) is one of India's largest city gas distribution companies and primarily operates in the NCT of Delhi. As per FY22 AR, the company has 711 CNG stations and provided PNG connections to ~20 lakh households and 7715 commercial & industrial consumers.

- CNG sales contribute 75% of its total sales volume
- Overall, sales volume grew at 9% CAGR in FY17-22

Q3FY23 Results: IGL reported Q3FY23 results that were lower than estimates on the profitability front.

- Revenue increased 67.5% YoY to ₹ 3710.8 crore due to higher realisation as well as volume. Sales volume grew 6.1% YoY to 8.12 mmscmd
- Gross margin was down 4.5% YoY at ₹ 11.1/scm (I-direct estimate: ₹ 12.5/scm). EBITDA was at ₹ 428.5 crore, down 8.8% YoY (I-direct estimate: ₹ 475 crore)
- PAT was at ₹ 278.3 crore, down ~10% YoY (I-direct estimate: ₹ 296.8 crore)

What should investors do? Incremental volume growth (annually: 1 mmscmd) is dependent on sourcing of gas from market i.e. long term and spot, which are currently witnessing significant correction in prices. Also, the Kirit Parikh committee has recommended a ceiling price of US\$6.5/mmbtu, which was approved by the Oil Ministry, that would reduce sourcing costs and improve its margins, going ahead.

- We revise our rating from HOLD to **BUY** on the stock

Target Price and Valuation: We value IGL at ₹ 490 (standalone at ₹ 440 i.e. ~17x P/E on FY25E EPS and investments at ₹ 50 per share).

Key triggers for future price performance:

- Continued capex and presence in new geographical areas will improve volume growth
- IGL will continue to benefit from stricter environmental regulations in NCR and India's aim to increase the share of natural gas in the energy mix
- Gas sourcing costs will be key monitorable in the near term

Alternate Stock Idea: Apart from IGL, in our oil & gas coverage we also like MGL.

- Mahanagar Gas (MGL) is a city gas distribution company and operates in Mumbai, its adjoining areas and Raigad district, Maharashtra
- The company has historically reported high gross margins and return ratios

Key Financial Summary

(Year-end March)	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Revenues (₹ crore)	6,485.3	4,940.8	7,710.0	15.1	14,219.3	15,829.2	12,227.4	16.6
EBITDA (₹ crore)	1,519.6	1,483.0	1,881.1	14.3	2,038.9	2,235.9	2,761.7	13.7
Net Profit (₹ crore)	1,136.5	1,005.7	1,315.0	18.2	1,404.9	1,417.3	1,814.3	11.3
EPS (₹)	16.2	14.4	18.8		20.1	20.2	25.9	
P/E (x)	25.7	29.1	22.3		20.8	20.6	16.1	
Price / Book (x)	5.8	5.0	4.2		3.7	3.3	2.8	
EV/EBITDA (x)	17.9	19.0	14.9		13.7	12.5	10.1	
RoCE (%)	24.7	20.0	22.3		20.8	19.4	21.9	
RoE (%)	22.5	17.1	19.0		17.7	15.9	17.5	

Source: Company, ICICI Direct Research



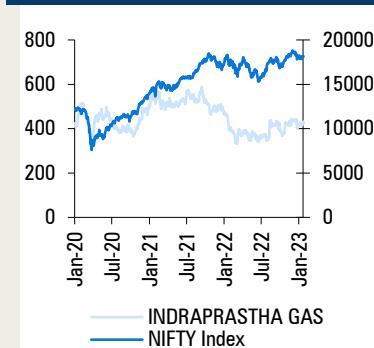
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	29,260.0
Total Debt (FY22) (₹ Crore)	78.1
Cash and Investments (FY22)	1,361.6
EV (₹ Crore)	27,976.5
52 week H/L	452/322
Equity capital (₹ Crore)	140.0
Face value (₹)	2.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	45.0	45.0	45.0	45.0
FII	19.9	20.3	21.0	21.8
DII	16.9	16.8	20.1	19.7
Others	18.2	17.9	13.9	13.5

Price Chart



Recent event & key risks

- **Key Risk:** (i) Lower than expected volume growth (ii) Increase in gas sourcing cost

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Key takeaways of recent quarter & conference call highlights

Q3FY23 Results: Increased gas costs decline margins

- Revenue increased 4.4% QoQ. Realisation was in line with estimates at ₹ 54.5/scm
- Sales volume was at 8.12 mmscmd, up 6.1% YoY, flat QoQ, (I-direct estimate of 8.2 mmscmd). CNG segment grew ~8% YoY to 6.07 mmscmd (I-direct estimate: 6.14 mmscmd). PNG volume increased ~1% YoY to 2.05 mmscmd (I-direct estimate: 2.07 mmscmd). Within the PNG segment, domestic PNG volume was up 13% YoY while industrial/commercial PNG volume de-grew 4% YoY. On a QoQ basis, CNG sales were flattish while PNG volume grew 2.4%
- Gas sourcing costs increased ₹ 3.2/scm QoQ to ₹ 38.3/scm. It was higher than estimate of ₹ 37/scm. This led to gross margin of ₹ 11.1/scm, lower than estimate of ₹ 12.5/scm
- We estimate sales volume of 8.1 mmscmd, 9 mmscmd and 10 mmscmd in FY23E, FY24E and FY25E, respectively
- Gross margin is expected at ₹ 12.5/scm, ₹ 13.2/scm and ₹ 12.1/scm in FY23E, FY24E and FY25E, respectively

Q3FY23 Earnings Conference Call highlights

- The company expects to achieve sales volume of 9 mmscmd in FY24 and 10 mmscmd in FY25, and maintain an EBITDA/scm of ₹ 7-8 in FY24
- Of the total CNG sales, 40% comes from PVs, CVs each and 20% comes from buses/stage carriages. Vehicle conversions were at 13000 per month
- Percentage of APM gas allocation for the priority sector was at 86-87% while that for total sales was 76%
- The company is laying pipelines in Ajmer and Kanpur where 1.5 lakh connections will be gasified in two to three months
- Other GAs include Meerut, Muzaffarnagar, Karnal, Chitrapur, Pali, Kaithal to name a few. The company plans to set up CNG stations on these highways
- Capex of ₹ 1300 crore to continue for three to five years in these new GAs
- During the quarter, industrial margins were ₹ 4-5/scm while domestic PNG margins were ₹ 3-4/scm
- The company has a target of setting up 75 new CNG stations in FY23 of which 40 have already been commissioned. From FY24 onwards, the company intends to set up 125 CNG stations every year

IGL- ESG Disclosure Score

Score	FY20	FY21	FY22
Environmental	0.8	0.8	NA
Social	8.9	11.3	NA
Governance	66.1	66.1	NA
Overall ESG Score	25.3	26.1	NA

Source: Bloomberg, ICICI Direct Research

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Gujarat Gas (GUJGA)	515	550	Hold	35,453	18.9	18.9	26.6	27.2	27.3	19.4	17.3	16.9	12.1	27.3	22.0	26.4	23.3	19.6	22.5
Indraprastha Gas (INDGAS)	418	490	BUY	29,260	14.4	18.8	20.1	29.1	22.3	20.8	19.0	14.9	13.7	20.0	22.3	20.8	17.1	19.0	17.7
Mahanagar Gas (MAHGAS)	897	1,000	Hold	8,860	60.4	50.4	79.6	14.8	17.8	11.3	9.2	10.6	6.9	19.8	15.1	22.2	16.6	13.1	18.4

Source: Company, ICICI Direct Research

Exhibit 2: Scenarios based on approval of Kirit Parikh(KP) recommendations

Particulars	If KP suggestion approved			If KP suggestion isnt approved		
	FY23E	FY24E	FY25E	FY24E	FY25E	FY25E
APM price (US\$/mmbtu)	8.57	6.5	4.0	9.2	4.0	4.0
EPS	20.1	22.7	26.2	20.2	25.9	25.9
Implied P/E	19.0	16.8	14.6	18.8	14.7	14.7
Realisation (₹/scm)	52.8	46.4	36.7	52.9	36.7	36.7
Gross Margin (₹/scm)	12.5	13.1	12.1	13.2	12.1	12.1
EBITDA (₹/scm)	6.9	7.5	7.6	6.8	7.6	7.6

Source: ICICI Direct Research

Exhibit 3: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Total Revenues	3,710.8	3,741.2	2,215.5	67.5	3,554.0	4.4	Revenue increased YoY on account of sales growth as well as higher realisation
Raw materials costs	2,863.6	2,791.8	1,384.2	106.9	2,609.4	9.7	
Employees Cost	43.8	62.9	47.7	-8.1	49.7	-11.8	
Other Expenses	375.0	411.5	314.0	19.4	367.5	2.0	
Total Expenditure	3,282.3	3,266.1	1,745.9	88.0	3,026.5	8.5	
EBITDA	428.5	475.0	469.6	-8.8	527.5	-18.8	Lower than estimates due to high gas costs
EBITDA margins (%)	11.5	12.7	21.2	-965 bps	14.8	-330 bps	
Depreciation	92.5	102.9	83.5	10.8	91.4	1.2	
EBIT	336.0	372.2	386.1	-13.0	436.1	-23.0	
Interest	2.6	4.8	2.8	-7.8	3.1	-15.3	
Other Income	55.7	30.0	30.4	83.5	110.0	-49.3	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	389.1	397.3	413.7	-5.9	543.0	-28.3	
Total Tax	110.9	100.5	105.1	5.4	126.9	-12.6	
PAT	278.3	296.8	308.5	-9.8	416.2	-33.1	Lower than estimates

Key Metrics

Sales Volumes (mmscmd)	8.12	8.21	7.7	6.1	8.1	0.4	Largely in line with estimates, CNG volume was 6.07 mmscmd whereas PNG volume came in at 2.05 mmscmd
Realisation (₹/scm)	54.5	54.5	34.5	58.1	52.5	3.8	
Gross Margin (₹/scm)	11.1	12.5	11.7	-4.5	12.5	-11.1	Lower than estimates mainly due to higher than expected gas sourcing costs

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E			Comments
	Old	New	Change	Old	New	Change	Old	New	Change	
Revenue	14033.1	14,223.0	1.4	13919.4	15,829.2	13.7	14719.2	12,227.4	-16.9	Revised estimates as per current gas price trend
EBITDA	2109.2	2,042.2	-3.2	2258.7	2,235.9	-1.0	2558.8	2,761.7	7.9	Revised gas cost estimate taking into account current oil & gas price trend
EBITDA Margin (%)	15.0	14.4	-67 bps	16.2	14.1	-210 bps	17.4	22.6	520 bps	
PAT	1441.2	1,407.3	-2.3	1401.3	1,417.6	1.2	1622.3	1,814.6	11.8	
EPS (₹)	20.6	20.1	-2.3	20.0	20.3	1.2	23.2	25.9	11.8	

Source: ICICI Direct Research

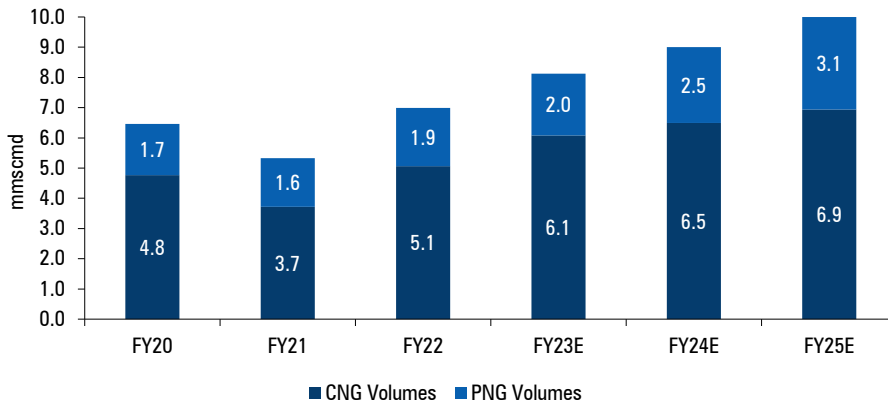
Exhibit 5: Assumptions

	Current					Earlier			Comments
	FY21	FY22E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Sales Volumes (mmscmd)	5.3	7.0	8.1	9.0	10.0	8.1	8.6	9.1	Volume revised upwards on account of incremental gas supply to new gas such as Ajmer, Kanpur, Meerut, etc
Realisation (₹/scm)	27.8	33.1	52.8	52.9	36.7	52.0	48.8	48.8	Revised realisation estimate
Gross Margin (₹/scm)	13.8	12.8	12.5	13.2	12.1	12.8	13.3	13.8	

Source: ICICI Direct Research

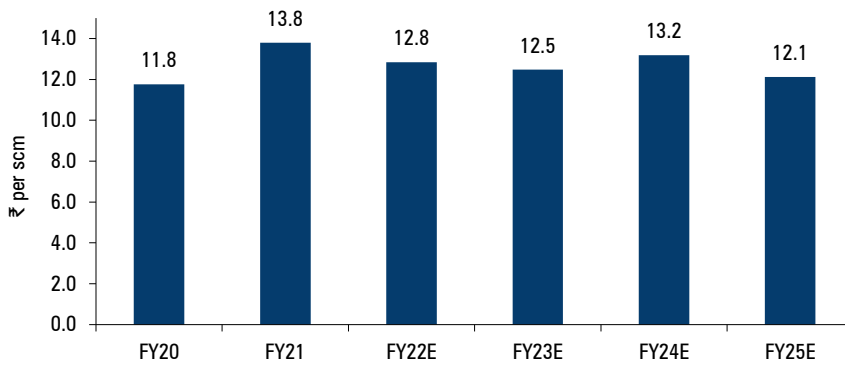
Story in charts

Exhibit 6: Volume trajectory



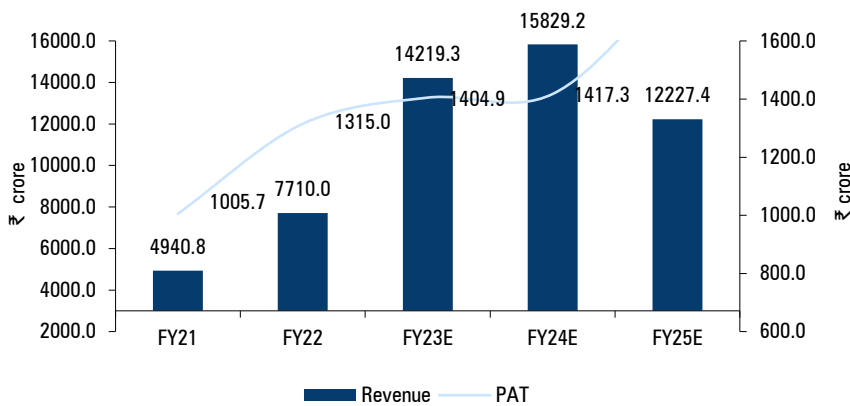
Source: Company, ICICI Direct Research

Exhibit 7: Gross margins remain largely stable



Source: Company, ICICI Direct Research

Exhibit 8: Revenue & PAT trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement		₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Revenue	7710.0	14223.0	15829.2	12227.4	
Growth (%)	56.0	84.5	11.3	-22.8	
Raw material Costs	4392.3	10472.4	11468.9	7766.1	
Employee Costs	176.0	194.2	224.9	232.3	
Other Expenditure	1260.6	1514.3	1899.5	1467.3	
Op. Expenditure	5828.9	12180.9	13593.2	9465.7	
EBITDA	1881.1	2042.2	2235.9	2761.7	
Growth (%)	26.8	8.6	9.5	23.5	
Depreciation	317.1	372.4	483.5	483.5	
EBIT	1564.1	1669.7	1752.5	2278.2	
Interest	13.2	12.9	19.4	19.4	
Other Income	215.0	226.5	164.6	174.5	
PBT	1765.9	1883.3	1897.7	2433.3	
Growth (%)	32.6	6.7	0.8	28.2	
Tax	450.9	476.0	480.1	618.8	
Reported PAT	1315.0	1407.3	1417.6	1814.6	
Growth (%)	30.8	7.0	0.7	28.0	
Adjustments	0.0	0.0	0.0	0.0	
Adj. Net Profit	1315.0	1407.3	1417.6	1814.6	
EPS	18.8	20.1	20.3	25.9	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement		₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Profit after Tax	1,315.0	1,407.3	1,417.6	1,814.6	
Add: Depreciation	317.1	372.4	483.5	483.5	
Add: Others	31.5	30.0	30.0	30.0	
Cash Profit	1,411.5	1,400.3	1,521.6	1,918.5	
Increase/(Decrease) in CL	630.8	605.6	265.9	-529.7	
(Increase)/Decrease in CA	-273.1	-362.7	-139.4	231.6	
CF from Operating Activi	2086.3	2015.7	2131.5	2103.9	
Purchase of Fixed Assets	1,529.6	961.0	1,100.0	1,027.9	
(Inc)/Dec in Investments	-150.0	-750.0	-550.0	-550.0	
Others	0.0	0.0	0.0	0.0	
CF from Investing Activi	-1,679.6	-1,711.0	-1,650.0	-1,577.9	
Inc/(Dec) in Loan Funds	138.4	40.0	40.0	40.0	
Less: Dividend Paid	252.0	409.5	409.5	409.5	
Inc/(Dec) in Sh. Cap. & Res.	1.4	0.0	0.0	0.0	
Others	0.0	0.0	0.0	0.0	
CF from financing activiti	-112.3	-369.5	-369.5	-369.5	
Change in cash Eq.	229.4	-27.8	38.0	82.5	
Op. Cash and cash Eq.	1,132.3	1,361.6	1,333.8	1,371.8	
Cl. Cash and cash Eq.	1,361.6	1,333.8	1,371.8	1,454.3	

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet		₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Source of Funds					
Equity Capital	140.0	140.0	140.0	140.0	
Preference capital	0.0	0.0	0.0	0.0	
Reserves & Surplus	6,796.2	7,794.0	8,802.1	10,207.1	
Shareholder's Fund	6,936.2	7,934.0	8,942.1	10,347.1	
Loan Funds	78.1	78.1	78.1	78.1	
Deferred Tax Liability	273.7	303.7	333.7	363.7	
Minority Interest	0.0	0.0	0.0	0.0	
Source of Funds	8321.5	9389.3	10467.4	11942.4	
Application of Funds					
Gross Block	6,340.1	7,540.1	8,740.1	9,940.1	
Less: Acc. Depreciation	1,338.4	1,749.8	2,233.3	2,788.8	
Net Block	5,001.7	5,790.3	6,506.9	7,151.3	
Capital WIP	1,378.6	1,178.6	1,078.6	978.6	
Total Fixed Assets	6,380.3	6,968.9	7,585.5	8,129.9	
Investments	1,975.8	2,725.8	3,275.8	3,825.8	
Inventories	45.5	97.4	108.4	83.7	
Debtor	520.6	779.3	867.4	670.0	
Cash	1,361.6	1,333.8	1,371.8	1,454.3	
Loan & Advance, Other CA	168.5	220.5	260.9	251.3	
Total Current assets	2096.2	2431.0	2608.5	2459.4	
Current Liabilities	1701.3	2338.0	2602.1	2010.0	
Provisions	429.5	398.5	400.3	462.7	
Total CL and Provisions	2130.9	2736.5	3002.4	2472.7	
Net Working Capital	-34.7	-305.5	-393.9	-13.3	
Miscellaneous expense	0.0	0.0	0.0	0.0	
Application of Funds	8321.4	9389.3	10467.4	11942.4	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios		FY22	FY23E	FY24E	FY25E
(Year-end March)					
Per share data (₹)					
Book Value		99.1	113.3	127.7	147.8
Cash per share		44.0	54.3	62.7	71.7
EPS		18.8	20.1	20.3	25.9
Cash EPS		23.3	25.4	27.2	32.8
DPS		5.5	5.0	5.0	5.0
Profitability & Operating Ratios					
EBITDA Margin (%)		24.4	14.4	14.1	22.6
PAT Margin (%)		17.1	9.9	9.0	14.8
Fixed Asset Turnover (x)		1.2	2.0	2.1	1.5
Inventory Turnover (Days)		2.2	2.5	2.5	2.5
Debtor (Days)		24.6	20.0	20.0	20.0
Current Liabilities (Days)		80.5	60.0	60.0	60.0
Return Ratios (%)					
RoE		19.0	17.7	15.9	17.5
RoCE		22.3	20.8	19.4	21.9
RoIC		39.7	39.7	37.8	42.2
Valuation Ratios (x)					
PE		22.3	20.8	20.6	16.1
Price to Book Value		4.2	3.7	3.3	2.8
EV/EBITDA		14.9	13.7	12.5	10.1
EV/Sales		3.6	2.0	1.8	2.3
Leverage & Solvency Ratios					
Debt to equity (x)		0.0	0.0	0.0	0.0
Interest Coverage (x)		NA	NA	NA	NA
Debt to EBITDA (x)		0.0	0.0	0.0	0.0
Current Ratio		1.0	0.9	0.9	1.0
Quick ratio		1.0	0.9	0.8	1.0

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	335	350	Hold	71,337	42.0	-11.2	55.3	8.0	-29.9	6.1	6.5	30.6	5.0	13.2	-2.2	15.2	17.9	-5.0	21.4
GAIL (India) (GAIL)	93	100	Hold	61,148	23.3	9.9	8.9	4.0	9.4	10.4	3.3	7.4	8.1	18.8	10.3	8.7	18.6	11.1	9.5
Gujarat Gas (GUJGA)	515	550	Hold	35,453	18.9	18.9	26.6	27.2	27.3	19.4	17.3	16.9	12.1	27.3	22.0	26.4	23.3	19.6	22.5
HPCL (HINPET)	232	250	Hold	32,919	44.9	-39.6	47.8	5.2	-5.9	4.9	7.8	-18.2	6.6	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	77	85	Hold	1,08,734	17.1	2.8	14.0	4.5	27.1	5.5	2.5	5.8	2.6	12.9	2.4	10.1	18.4	3.2	14.9
Indraprastha Gas (INDGAS)	418	490	Buy	29,260	14.4	18.8	20.1	29.1	22.3	20.8	19.0	14.9	13.7	20.0	22.3	20.8	17.1	19.0	17.7
Mahanagar Gas (MAHGAS)	897	1,000	Hold	8,860	60.4	50.4	79.6	14.8	17.8	11.3	9.2	10.6	6.9	19.8	15.1	22.2	16.6	13.1	18.4
ONGC (ONGC)	149	155	Hold	1,91,217	10.4	8.9	32.0	14.3	16.7	4.7	4.2	6.4	3.3	10.2	4.5	14.8	6.7	5.5	17.0
Petronet LNG (PETLNG)	225	230	Hold	33,750	19.7	22.3	22.0	11.4	10.1	10.2	7.0	6.2	6.2	26.0	27.0	23.7	25.3	25.0	22.6
Reliance Industries (RELIND)	2,443	3,050	Buy	16,52,690	89.7	89.7	100.6	32.0	27.2	24.3	22.9	17.9	13.1	5.5	7.1	9.2	7.0	7.8	8.1

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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