

Indraprastha Gas

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR492 TP: INR345 (-30%) Sell

Long-term headwinds persist

- Indraprastha Gas (IGL) reported in-line EBITDA of INR4.7b in 4QFY23, with EBITDA/scm at INR6.3 (down 13% YoY/up 9% QoQ). Volumes increased 7% YoY to 8.3mmscmd.
- The management expects volumes to reach 9mmscmd in FY24, driven primarily by growth from new GAs. CNG conversions are also expected to increase, driven by the stability in CNG prices and the introduction of new CNG vehicle models by OEMs.
- The management highlighted that buses account for ~20% of CNG volumes (DTC/DIMTS buses accounting for half of it), while taxis & three wheelers account for 30% of volumes. Hence, aggressive EV policies by the Delhi government may challenge volume growth in the medium-long term.
- Although the management has guided for an EBITDA/scm of INR7-8, we model a lower EBITDA/scm of ~INR6 in our base case, considering likely margin pressure due to high proportion of industrial component in incremental volumes.
- We value the stock at 14x FY25E adj. EPS and add value of JV at 25% holding company discount to arrive at our TP of INR345. **We reiterate our sell rating on the stock.** Stricter mandate on the adoption of natural gas by industries/vehicles remains the key risk to our call.

EBITDA in line; beat on PAT

- IGL's total volumes were in line with our estimate at 8.26mmscmd (up 7% YoY, up 2% QoQ) in 4QFY23.
 - CNG volumes stood at 6.11mmscmd (up 8% YoY, up 1% QoQ).
 - PNG volumes were at 2.14mmscmd (up 3% YoY, up 5% QoQ) in 4QFY23.
- EBITDA/scm came in line with our est. at INR6.3 (v/s INR5.7 in 3QFY23).
 - Gross margin came in at INR12/scm (v/s INR11.3/scm in 3QFY23).
 - IGL's opex remained flat QoQ at INR5.8/scm during the quarter.
- Resulting **EBITDA was in line with our est.** at INR4.7b (down 7% YoY, up 9% QoQ).
- PAT was above estimate at INR3.3b (est. INR2.9b, down 9% YoY, up 19% QoQ), due to higher-than-estimated 'other income' in 4QFY23.
- IGL's share in CUGL and MNGL added INR678m to its consolidated profit (up 21% YoY, down 6% QoQ) in 4QFY23.
- **For FY23, EBITDA was up 8% YoY to INR20.4b, with EBITDA/scm of INR6.9 (down 7% YoY).** PAT stood at INR14.5b.
 - Growth in EBITDA was led by volumes, which were up 16% YoY at 8.1mmscmd,
 - ✓ with CNG at 6.1mmscmd (up 20% YoY) and
 - ✓ PNG at 2mmscmd (up 6% YoY).
- IGL's share in CUGL and MNGL added INR2.5b to its consolidated profit (up 32% YoY).

Bloomberg	IGL IN
Equity Shares (m)	700
M.Cap.(INRb)/(USDb)	345.3 / 4.2
52-Week Range (INR)	516 / 335
1, 6, 12 Rel. Per (%)	-2/14/16
12M Avg Val (INR M)	965

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	141.5	137.4	146.8
EBITDA	20.4	20.0	22.5
Adj. PAT	14.5	13.7	15.4
Adj. EPS (INR)	20.6	19.5	22.0
EPS Gr. (%)	9.9	-5.5	12.9
BV/Sh.(INR)	101.2	114.9	130.3

Ratios

Net D:E	-0.4	-0.3	-0.3
RoE (%)	25.5	18.1	18.0
RoCE (%)	24.6	17.4	17.4
Payout (%)	63.0	30.0	30.0

Valuation

P/E (x)	23.8	25.2	22.3
P/BV (x)	4.9	4.3	3.8
EV/EBITDA (x)	15.6	16.0	14.2
Div. Yield (%)	2.6	1.2	1.3
FCF Yield (%)	2.9	0.5	1.8

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	45.0	45.0	45.0
DII	25.5	24.7	21.9
FII	21.3	21.8	19.9
Others	8.3	8.5	13.2

FII Includes depository receipts

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Valuation and view

- As per IGL's management, almost half of the incremental volume in the next two years is likely to come from the industrial segment, which would not only pressure IGL's EBITDA/scm, but also make it more volatile.
- While the company has a strong volume growth potential in the near term, the long-term volume growth remains a challenge due to threat from electric vehicles. Additionally, the loss of potential volumes from Faridabad & Gurugram GAs due to PNGRB's recent order is also negative.
- **We reiterate our Sell rating** on the stock, valuing it at 14x FY25E adj. EPS and adding the value of investments at 25% holding company discount to arrive at our TP of INR345. Stricter mandate on the adoption of natural gas by industries/vehicles remains the key risk to our call.
- If IGL is able to generate an EBITDA/scm of INR7, as guided by the management, our TP would increase to around INR395; whereas an EBITDA/scm of INR8 would result in an even higher TP of INR445.

Quarterly performance**(INR m)**

Y/E March	FY22				FY23				FY22	FY23	FY23	Var v/s
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Est
Net Sales	12,574	18,312	22,155	24,059	31,939	35,540	37,108	36,872	77,100	1,41,459	37,919	-3%
Change (%)	96.9	40.3	53.2	55.2	154.0	94.1	67.5	53.3	56.0	83.5	57.6	
EBITDA	3,809	5,302	4,696	5,005	6,175	5,275	4,285	4,663	18,811	20,398	4,535	3%
EBITDA (INR/scm)	7.9	8.0	6.7	7.2	8.6	7.1	5.7	6.3	7.4	6.9	6.1	2%
Change (%)	356.4	30.2	-6.2	1.8	62.1	-0.5	-8.8	-6.8	26.8	8.4	-9.4	
Depreciation	778	805	835	753	857	914	925	938	3,171	3,634	928	1%
Interest	29	26	28	49	24	31	26	26	132	106	38	
Other Income	298	775	304	774	307	1,100	557	654	2,150	2,619	360	82%
PBT before EO	3,299	5,246	4,137	4,977	5,602	5,430	3,891	4,354	17,659	19,277	3,928	11%
Tax	857	1,241	1,051	1,361	1,394	1,269	1,109	1,057	4,509	4,827	989	7%
Rate (%)	26.0	23.6	25.4	27.3	24.9	23.4	28.5	24.3	25.5	25.0	25.2	
PAT	2,443	4,005	3,085	3,616	4,209	4,162	2,783	3,298	13,150	14,450	2,939	12%
PAT (INR/scm)	5.0	6.0	4.4	5.2	5.9	5.6	3.7	4.4	5.2	4.9	4.0	12%
Change (%)	667.2	30.1	-7.9	9.2	72.3	3.9	-9.8	-8.8	30.8	9.9	-18.7	
Gas volumes (mmscmd)												
CNG	3.65	5.30	5.63	5.66	5.93	6.09	6.07	6.11	5.06	6.05	6.11	0%
PNG	1.67	1.94	2.02	2.09	1.96	2.00	2.05	2.14	1.93	2.04	2.10	2%
Total	5.32	7.24	7.66	7.74	7.89	8.09	8.12	8.26	6.99	8.09	8.21	1%

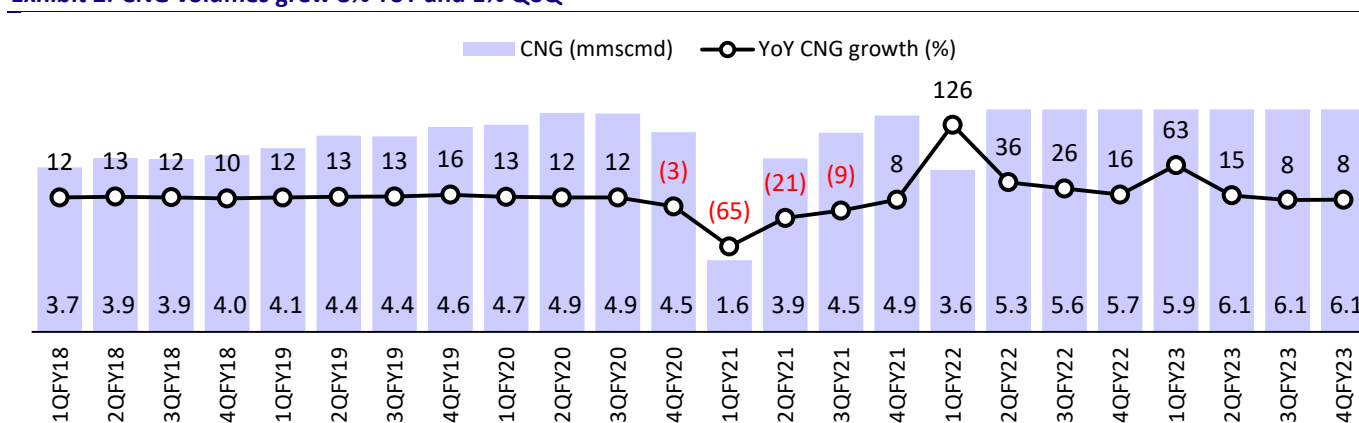
Key charts for the quarter

Exhibit 1: Operational highlights

Particulars	FY20				FY21				FY22				FY23				4QFY23	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY (%)	QoQ (%)
Realization (INR/scm)	27.7	28.0	27.0	27.4	25.8	25.8	25.1	25.3	26.0	27.5	31.5	34.5	44.5	47.8	49.7	49.6	43.8	-0.1
Gas cost (INR/scm)	16.2	16.4	15.3	14.6	12.1	12.1	10.5	11.6	11.6	13.9	19.7	21.8	30.2	35.1	38.3	37.6	72.6	-1.9
Gross Margin (INR/scm)	11.5	11.6	11.7	12.8	13.7	13.8	14.6	13.6	14.4	13.6	11.8	12.7	14.3	12.7	11.3	12.0	-5.5	6.2
EBITDA (INR/scm)	6.3	6.5	6.4	6.6	3.4	8.0	8.7	8.0	7.9	8.0	6.7	7.2	8.6	7.1	5.7	6.3	-12.6	9.4
PAT (INR/scm)	3.8	6.3	4.6	4.5	1.3	6.1	5.8	5.4	5.0	6.0	4.4	5.2	5.9	5.6	3.7	4.4	-14.5	19.2
Volumes																		
CNG (MMSCMD)	4.7	4.9	4.9	4.5	1.6	3.9	4.5	4.9	3.6	5.3	5.6	5.7	5.9	6.1	6.1	6.1	8.1	0.6
PNG (MMSCMD)	1.6	1.7	1.8	1.7	1.1	1.6	1.8	2.0	1.7	1.9	2.0	2.1	2.0	2.0	2.0	2.1	2.7	4.8
Total (MMSCMD)	6.3	6.6	6.7	6.2	2.7	5.5	6.3	6.8	5.3	7.2	7.7	7.7	7.9	8.1	8.1	8.3	6.6	1.7
Per unit realisation																		
CNG (INR/scm)	31.6	31.7	30.6	31.0	29.2	30.0	28.6	28.4	29.3	30.0	34.1	38.0	49.9	52.9	54.1	54.9	44.4	1.4
CNG (INR/kg)	43.9	44.9	43.5	43.5	29.2	42.3	40.8	39.8	41.1	42.0	47.8	53.2	69.9	74.1	75.8	76.9	44.4	1.4
PNG (INR/scm)	27.4	28.2	27.4	27.2	25.6	24.2	24.9	25.9	26.2	30.5	35.4	37.3	46.3	51.3	54.2	52.9	41.7	-2.4

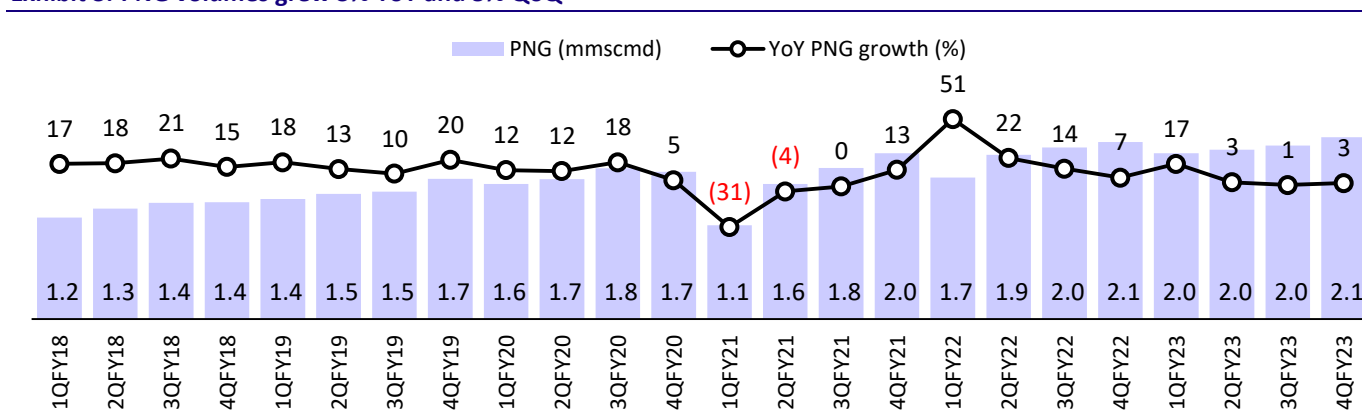
Sources: Company, MOFSL

Exhibit 2: CNG volumes grew 8% YoY and 1% QoQ

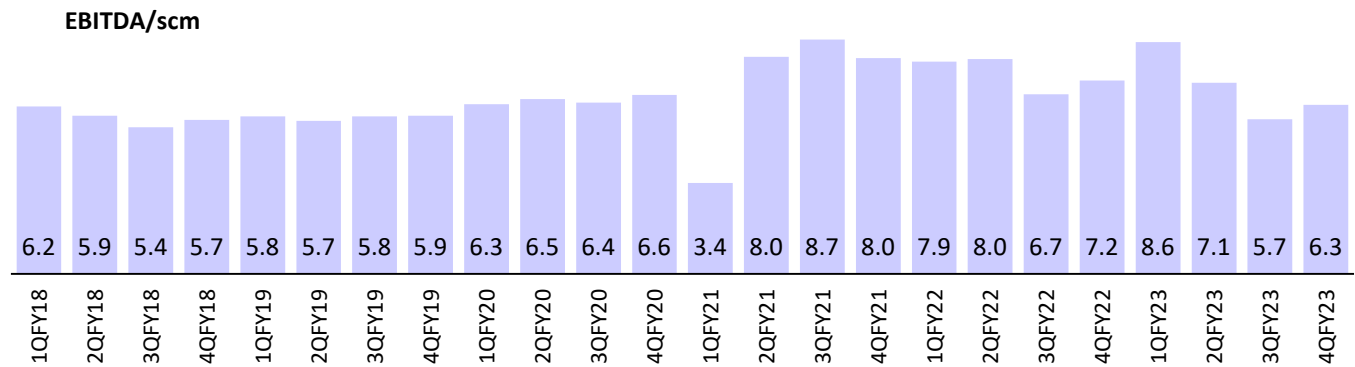


Sources: Company, MOFSL

Exhibit 3: PNG volumes grew 3% YoY and 5% QoQ



Sources: Company, MOFSL

Exhibit 4: EBITDA/scm declined 13% YoY but increased 9% QoQ to INR6.3

Sources: Company, MOFSL

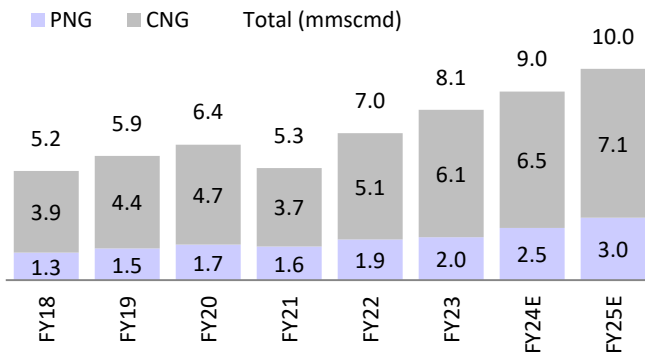
**Highlights from the management commentary**

- In FY23, IGL added 3.1 lakh PNG domestic consumers, 81 new ROs (~50% in new GAs), 3,400km of MDPE pipeline.
- IGL currently has a total of 791 ROs
 - Will add ~100 ROs in FY24 (50% in new GAs)
- Vehicle conversions stand at 13-14k per month
- The company has entered into an MoU with Acme for green hydrogen development.
- Gas sourcing mix for the priority sector in FY23 is 89% from APM/non-APM, 2% from HPHT, and the remaining is RLNG.
 - 2/3rd RLNG volumes are term contracts, while 1/3rd is spot
 - In 4QFY23, 87% was APM-non-APM, with HPHT at 5%
 - The company is looking at term contracts for the future
- Guiding for INR7-8/scm of EBITDA; benefit of lower gas price (Kirit Parikh reco) has only started coming from early Apr'23
- Currently, ~85% of total 8.1mmcmd sales volume comes from NCR
 - Over the longer term, the company expects 40% of incremental volumes to come from new GAs.
- IGL is currently examining the recent order by the PNGRB, regarding the allocation of disputed GAs and is considering the possibility of challenging it in court.
- Delhi is ~65% of total volumes, while Haryana is 5%
- Targeting to increase volume by 1mmcmd in FY24
 - Addition of new GAs would be the main driver
 - Stability in price would raise CNG conversions, aided by new OEM launches
 - Domestic connections, industrial sales
- 25,000 private buses, DTC/DIMTS buses at 7,500 in Delhi, 350 EV buses in operations
 - The state has plans for more EV buses, but there appears to be some issues related to the tender
 - EVs are not an immediate threat to the market; however, they could have a long-term impact on the industry.
 - Buses account for 20% of total CNG sales (1.2mmcmd) - 10% is from DTC/DIMTS

- Uttarakhand has expressed interest in introducing 200 CNG buses into their transportation system – highlights the potential for CNG as a fuel option, particularly for long-haul buses.
- Avg gas cost is expected to be around INR27-28/scm in FY24, less than from INR35/scm in FY23; this is expected to result in EBITDA/scm expansion
- Capex target for FY24 stands at INR16b
- INR20b has been spent in new areas and 50% of new capex would be in new GAs
- There seems to be a significant potential in Western UP
- CNG is 46% cheaper than petrol and 26% cheaper than diesel in Delhi
- In certain areas, the saving potential is lower due to higher transportation charges of CNG

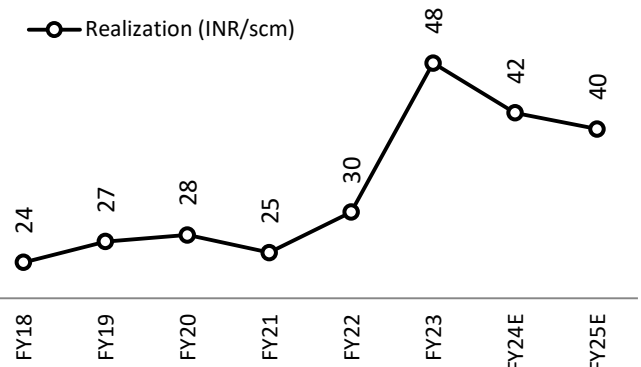
Story in charts

Exhibit 5: Volumes to register a CAGR of 11% over FY23-25



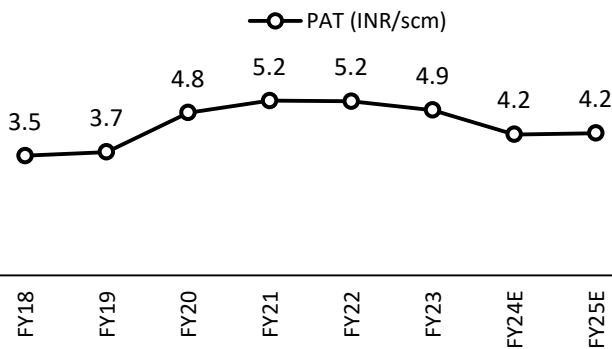
Sources: Company, MOFSL

Exhibit 6: Realization trends way above its historical levels



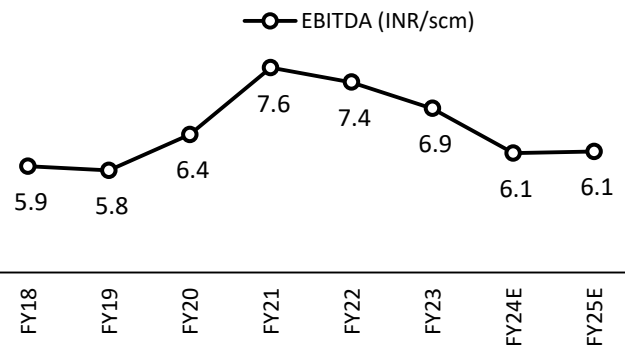
Sources: Company, MOFSL

Exhibit 7: Profitability (in INR/scm) to normalize in FY24-25



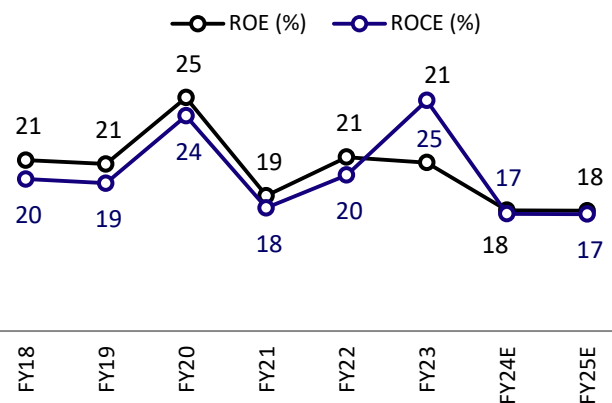
Sources: Company, MOFSL

Exhibit 8: EBITDA/scm to be ~INR6 over FY24-25



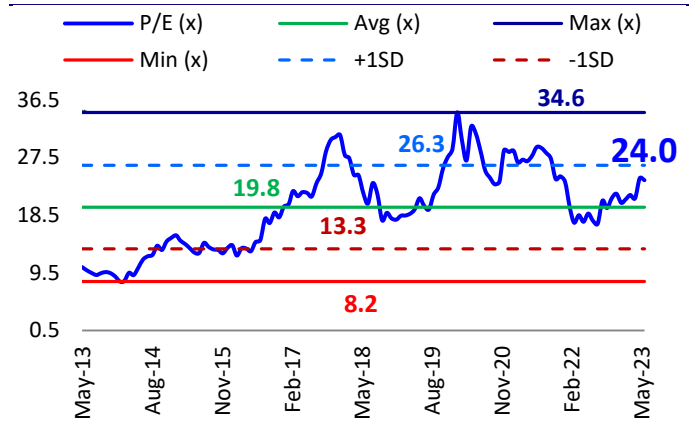
Sources: Company, MOFSL

Exhibit 9: Return ratios to stabilize below 20%



Sources: Company, MOFSL

Exhibit 10: Stock trades 20% above its long-term P/E avg.



Sources: Company, MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	45,921	57,600	64,853	49,408	77,100	1,41,459	1,37,360	1,46,815
Change (%)	20.4	25.4	12.6	-23.8	56.0	83.5	-2.9	6.9
EBITDA	11,133	12,521	15,196	14,830	18,811	20,398	20,001	22,508
As a percentage of Net Sales	24.2	21.7	23.4	30.0	24.4	14.4	14.6	15.3
Depreciation	1,813	2,011	2,523	2,904	3,171	3,634	3,703	3,831
Interest	17	21	81	113	132	106	111	95
Other Income	1,021	1,510	1,564	1,502	2,150	2,619	2,068	2,035
PBT	10,325	12,000	14,157	13,315	17,659	19,277	18,255	20,618
Tax	3,617	4,134	2,791	3,258	4,509	1,394	4,600	5,196
Rate (%)	35.0	34.4	19.7	24.5	25.5	7.2	25.2	25.2
PAT	6,708	7,867	11,365	10,057	13,150	17,884	13,655	15,422
Adj. PAT	6,604	7,867	11,365	10,057	13,150	14,450	13,655	15,422
Change (%)	10.6	19.1	44.5	-11.5	30.8	9.9	-5.5	12.9

Balance Sheet							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Reserves	33,729	39,899	49,224	57,319	67,962	69,466	79,024	89,820
Net Worth	35,129	41,299	50,624	58,719	69,362	70,866	80,424	91,220
Deferred Tax	2,253	2,678	2,119	2,422	2,737	3,168	3,168	3,168
Capital Employed	37,382	43,977	52,743	61,140	72,098	74,033	83,592	94,387
Gross Fixed Assets	41,364	47,607	55,744	65,535	75,345	86,423	95,423	1,04,423
Less: Depreciation	17,044	19,054	21,577	24,481	27,651	31,285	34,988	38,819
Net Fixed Assets	24,320	28,553	34,167	41,055	47,694	55,138	60,435	65,605
Capital WIP	3,860	4,781	7,767	8,469	13,786	14,337	20,337	26,337
Rights to use assets	0	0	1,220	1,984	2,203	2,067	2,067	2,067
Investments	11,477	15,440	2,581	18,258	19,758	6,773	6,773	6,773
Curr. Assets, Loans and Adv.								
Inventory	524	509	511	456	455	492	477	510
Debtors	2,261	2,215	1,704	2,607	5,206	9,034	8,772	9,376
Cash and Bank Balance	5,580	6,071	21,799	11,323	13,616	26,332	23,761	25,310
Loans and Advances	149	153	154	213	142	143	143	143
Other Current Assets	1,110	1,772	1,819	1,508	1,664	3,444	3,444	3,444
Current Liab. and Prov.								
Liabilities	11,690	13,687	16,172	21,007	28,130	38,288	37,178	39,738
Provisions	210	1,830	2,808	3,727	4,295	5,438	5,438	5,438
Net Current Assets	-2,275	-4,797	7,007	-8,627	-11,342	-4,282	-6,020	-6,393
Application of Funds	37,382	43,977	52,743	61,139	72,099	74,033	83,593	94,388

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS (Standalone)	9.4	11.2	16.2	14.4	18.8	20.6	19.5	22.0
EPS (Consolidated)	10.5	12.5	18.4	16.2	22.0	24.2	23.4	26.3
Cash EPS	12.0	14.1	19.8	18.5	23.3	25.8	24.8	27.5
Book Value	50.2	59.0	72.3	83.9	99.1	101.2	114.9	130.3
DPS	2.0	2.4	2.8	3.6	5.5	13.0	5.9	6.6
Payout	21	21	17	25	29	63	30	30
Valuation (x)								
P/E (Standalone)	52.2	43.8	30.3	34.3	26.2	23.8	25.2	22.3
P/E (Consolidated)	47.0	39.4	26.7	30.4	22.4	20.3	21.0	18.7
Cash P/E	40.9	34.9	24.8	26.6	21.1	19.1	19.9	17.9
EV/EBITDA	30.4	27.0	21.2	22.5	17.6	15.6	16.0	14.2
EV/Sales	7.4	5.9	5.0	6.7	4.3	2.2	2.3	2.2
Price/Book Value	9.8	8.3	6.8	5.9	5.0	4.9	4.3	3.8
Dividend Yield (%)	0.4	0.5	0.6	0.7	1.1	2.6	1.2	1.3
Profitability Ratios (%)								
RoE	20.8	20.6	24.7	18.4	20.5	25.5	18.1	18.0
RoCE	19.6	19.4	23.6	17.8	19.9	24.6	17.4	17.4
RoIC	38.9	40.4	53.2	41.2	48.5	60.4	41.1	40.7
Turnover Ratios								
Debtors (No. of Days)	21	26	33	23	20	20	15	16
Asset Turnover (x)	1.3	1.4	1.3	0.9	1.2	1.9	1.7	1.6
Leverage Ratio								
Net Debt/Equity ratio (x)	-0.2	-0.1	-0.4	-0.2	-0.2	-0.4	-0.3	-0.3

Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR m)								
OP/(Loss) before Tax	10,325	12,000	14,157	13,315	17,659	19,300	19,357	21,150
Depreciation	1,813	2,011	2,523	2,904	3,171	3,520	3,607	3,831
Interest and Finance charges	1	10	65	97	132	119	101	86
Direct Taxes Paid	-3,303	-3,688	-3,442	-2,895	-4,509	-4,872	-4,878	-5,330
(Inc.)/Dec. in Wkg. Capital	841	2,642	1,721	3,473	5,009	20,347	-1,519	1,997
Others	-884	-1,403	-1,416	-1,434	-1,434	0	0	0
CF from Op. Activity	8,793	11,571	13,608	15,460	20,027	38,414	16,667	21,734
(Inc.)/Dec. in FA and CWIP	-4,698	-6,807	-9,632	-8,829	-6,639	-10,000	-10,000	-10,000
Free Cash Flow	4,095	4,764	3,976	6,631	13,388	28,414	6,667	11,734
(Pur.)/Sale of Investments	-10,515	-24,912	-3,275	-32,560	-1,500	0	0	0
Others	8,044	20,510	7,700	23,125	-9,184	0	0	0
CF from Inv. Activity	-7,170	-11,208	-5,207	-18,264	-17,323	-10,000	-10,000	-10,000
Dividends Paid (incl. tax)	-842	-1,685	-2,025	-1,960	-3,850	-4,224	-4,239	-4,632
CF from Fin. Activity	-842	-1,688	-2,435	-2,970	-2,858	-4,343	-4,340	-4,718
Inc./(Dec.) in Cash	781	-1,325	5,966	-5,774	-154	24,071	2,327	7,016
Add: Opening Balance	6,086	5,580	6,071	21,799	11,323	13,616	26,332	23,761
Closing Balance	5,580	6,071	21,799	11,323	13,616	26,332	23,761	25,310

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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