

RESEARCH
INDRAPRASTHA GAS | TARGET: Rs 520 | +26% | BUY

Growth levers intact despite EV

SUMMARY
INDRAPRASTHA GAS

- IGL targets 10% volume growth over FY23-25E, aims to offset loss from electric vehicles
- Implementation of Parikh Committee recommendations is key to restoring competitiveness and margins
- We assume coverage with BUY with a TP of Rs520; IGL to deliver high-single digit volume growth over medium-term with a reasonable margin

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Daily macro indicators

Indicator	23-Dec	26-Dec	Chg (%)
US 10Y yield (%)	3.68	3.75	7bps
India 10Y yield (%)	7.32	7.32	0bps
USD/INR	82.87	82.65	0.3
Brent Crude (US\$/bbl)	81.0	83.9	3.6
Dow	33,027	33,204	0.5
Hang Seng	19,679	19,593	(0.4)
Sensex	59,845	60,566	1.2
India FII (US\$ mn)	22-Dec	23-Dec	Chg (\$ mn)
FII-D	9.6	(0.5)	(10.1)
FII-E	140.1	(105.9)	(246.1)

Source: Bank of Baroda Economics Research

BOBCAPS Research

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BUY

TP: Rs 520 | ▲ 26%

INDRAPRASTHA GAS

| Oil & Gas

| 27 December 2022

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Takeaways from management call: While Q3FY23 margin is likely to be under pressure, margin can stabilise with policy support. IGL continues to target a healthy double-digit growth to reach 10mmscmd by FY25. Near-term drivers include BS6.2 implementation from Apr'23 for CNG, and a ban on polluting vehicles and industries from Oct'22. Domestic and commercial growth will likely continue with deeper penetration of pipeline infrastructure in Delhi and expansion into new GAs (new Geographical Areas). IGL expects medium-term growth from Rewari, Muzaffarnagar, Kanpur and Ajmer, and also from other new GAs. Management is also open to inorganic opportunities in newer geographies.

CNG to co-exist with EVs. While electric buses pose risk to ~10% of IGL's current volume, company expects the transition to EV ecosystem to be gradual. IGL is also actively pursuing scaling-up of long-haul CNG buses to offset losses from EVs over medium term. CNG, in our view, is likely to remain dominant in the passenger and commercial vehicle segments over next 5-10 years as significantly higher upfront prices and lack of adequate charging facilities will continue to dampen EV penetration.

Policy to support CGD growth: Government has been encouraging CGD sector so as to lower consumption of costly LPG, and to tackle pollution in urban areas. It has awarded 295 GAs so far. Winners of GAs have committed to connect 123mn households and set up 17,700 CNG stations. Amid tightening of international gas prices, Government set up the Parikh committee to identify solutions to ensure fair price for consumers. The recommendations can help CGD companies restore price advantage of CNG/ PNG over competing fuels.

Buy with TP Rs520: We expect IGL EBITDA to grow at a 10% CAGR mainly driven by 11% growth in volumes over FY23-FY25. We expect EBITDA margin to stabilise around Rs7.4-7.5/scm. We set target price of Rs520 based on cost of equity of 11%, volume CAGR of ~8% and average EBITDA margin of Rs 7.6/scm over FY22-33E, and terminal growth of 4%. Our DCF-based target price of Rs 520 implies target FY24E PE of 20.6x, broadly in line with 5-10Y mean 1Y forward PE.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	IGL IN/Rs 414
Market cap	US\$ 3.5bn
Free float	55%
3M ADV	US\$ 11.5mn
52wk high/low	Rs 489/Rs 321
Promoter/FPI/DII	45%/21%/20%

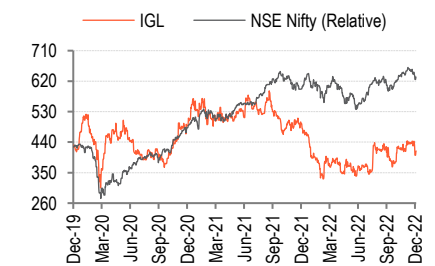
Source: NSE | Price as of 27 Dec 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	77,100	136,794	146,248
EBITDA (Rs mn)	18,811	21,502	24,712
Adj. net profit (Rs mn)	15,023	15,868	17,696
Adj. EPS (Rs)	21.5	22.7	25.3
Consensus EPS (Rs)	21.5	21.5	24.3
Adj. ROAE (%)	21.6	19.4	18.8
Adj. P/E (x)	19.3	18.2	16.4
EV/EBITDA (x)	14.5	12.9	11.2
Adj. EPS growth (%)	28.1	5.6	11.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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