

BUY

TP: Rs 565 | ▲ 18%

INDRAPRASTHA GAS

Oil & Gas

03 December 2020

Expect volume recovery from FY22

Key takeaways from our recent interaction with the Indraprastha Gas (IGL) management: (a) volume recovery to pre-Covid levels expected by Q4FY21 as CNG volumes normalise, (b) PNGRB's clarification on third-party access at OMC outlets eases concerns over margin dilution, and (c) IGL is placing renewed emphasis on operating margin expansion to make up for earnings loss from pandemic-led volume disruptions. Our earnings estimates remain unchanged as does our Sep'21 TP of Rs 565. Volume acceleration in FY22 looks plausible.

Rohit Ahuja

research@bobcaps.in

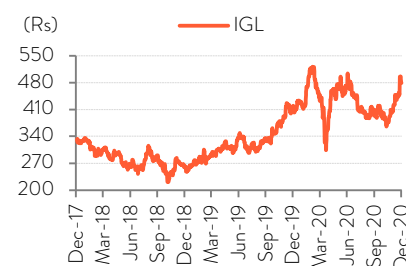
Competition never a concern – as underscored by PNGRB clarification: IGL's well-entrenched network of 560 CNG stations (of which 320 are in OMC outlets) gives it a strong first-mover advantage. The recent PNGRB notification pertaining to third-party access clarified that OMC- and dealer-owned/operated (DODO) outlets do not classify as third party. We believe this was inevitable in light of the complexities surrounding the use of compressor stations (usually owned by the CGD operator) that would have opened up multiple disputes.

Ticker/Price	IGL IN/Rs 479
Market cap	US\$ 4.5bn
Shares o/s	700mn
3M ADV	US\$ 20.3mn
52wk high/low	Rs 534/Rs 284
Promoter/FPI/DII	45%/21%/34%

Source: NSE

Rising dealer commissions negate need for own CGD network: The fact that CGD players pay a steep dealer commission to OMCs (~Rs 6/scm by IGL for CNG) is being lost in the noise around competition from open access. This commission – almost at par with IGL's FY20 EBITDA – negates any need for OMCs to invest in a greenfield CGD entity, which would carry infrastructure costs (retail outlets, CNG dispensers, approvals, manpower). Also, the commission is revised every three years irrespective of margin trends for IGL. We have always believed that competition would be the least of the concerns for IGL's margins.

STOCK PERFORMANCE



Source: NSE

Reiterate BUY: At 17x FY23E EPS, valuations look a bit demanding but do not factor in the margin expansion potential – in our view, this makes up for the near-term uncertainty surrounding CNG volume ramp-up.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	57,648	64,853	46,897	73,114	83,091
EBITDA (Rs mn)	12,570	15,196	13,618	20,853	22,464
Adj. net profit (Rs mn)	8,421	12,490	11,690	17,562	19,894
Adj. EPS (Rs)	12.0	17.8	16.7	25.1	28.4
Adj. EPS growth (%)	16.7	48.3	(6.4)	50.2	13.3
Adj. ROAE (%)	21.0	25.4	19.5	24.0	21.9
Adj. P/E (x)	39.8	26.9	28.7	19.1	16.9
EV/EBITDA (x)	26.2	21.8	23.6	14.9	13.5

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



~320 CNG stations (57%) located in OMCs outlets, with ~Rs 6/scm dealer commission

This negates any need for independent investment by OMCs to set up their own CGD business (especially in cities like Delhi/Mumbai with a wide CNG network)

Margin expansion in FY21 to sustain, which could enhance profitability once volumes recover from FY22

As IGL continues to expand its CNG stations (60-70 stations/year over FY21-FY25), CNG volumes are bound to return to pre-Covid growth trends from FY22

FIG 1 – IGL'S CNG STATION BREAKDOWN

Station	IGL	DTC/ UPSRTC	OMC	DODO	Total
Online	136	84	251	16	487
Daughter Booster	0	0	67	3	70
Daughter	0	0	2	0	2
Total	136	84	320	19	559

Source: Company, BOBCAPS Research

FIG 2 – IGL'S OPERATING OUTLOOK

Particulars	FY19	FY20	FY21E	FY22E	FY23E
CNG (mn kg)	1,208	1,252	947	1,537	1,647
CNG (mmscm)	1,607	1,665	1,260	2,044	2,191
Growth (%)	13.8	3.6	(24.3)	62.2	7.2
Total (%)	74.4	72.9	66.4	73.2	71.8
PNG (incl. Industrial) (mmscm)	553	619	639	747	862
Growth (%)	15.4	11.9	3.2	17.0	15.4
Total (%)	25.6	27.1	33.6	26.8	28.2
Total volumes (mmscm)	2,160	2,284	1,899	2,791	3,053
Total volumes (mmscmd)	5.9	6.2	5.2	7.6	8.4
Growth (%)	14.2	5.4	(16.6)	47.0	9.4

Source: BOBCAPS Research, Company

FIG 3 – IGL'S PROFITABILITY OUTLOOK

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Gross spreads (Rs/scm)	11.0	12.3	13.2	13.7	13.8
EBITDA (Rs/scm)	5.8	6.7	7.2	7.5	7.4
PAT (Rs/scm)	3.6	5.5	5.6	5.8	6.0
ROCE (%)	16.4	22.9	17.1	21.5	19.6
ROE (%)	20.1	25.8	18.2	23.2	21.4

Source: BOBCAPS Research, Company

Valuation methodology

Though volume recovery to pre-Covid levels could be pushed to FY22, the recent margin upswing in Q2FY21 provides much needed comfort on IGL's long-term earnings outlook. At 17x FY23E EPS, valuations look a bit demanding but fail to factor in the margin expansion potential unleashed by the company's growing scale of operations. In our view, the stronger margin outlook makes up for the near-term uncertainty surrounding CNG volume ramp-up. We reiterate BUY with an unchanged Sep'21 target price of Rs 565.

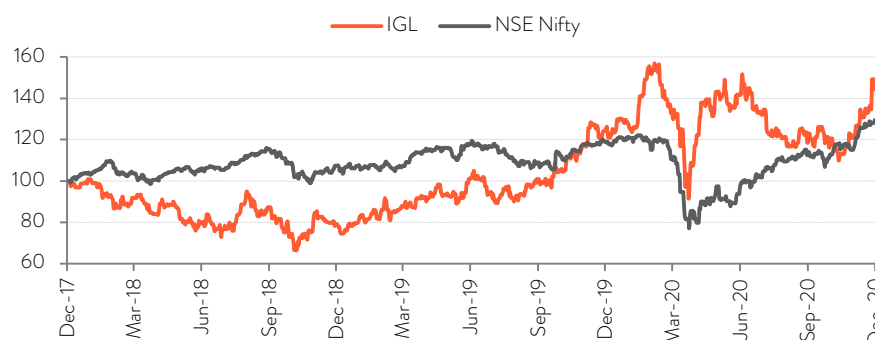
Key assumptions (all unchanged) for our DCF-based fair value are cost of equity of 10%, terminal growth of 8%, long-term average EBITDA margins of Rs 7.5/scm, and long-term volume CAGR of ~12%.

FIG 4 – VALUATION SUMMARY

Valuation parameters	Value (Rs mn)
PV of FCF	19,386
PV of terminal value	308,820
Enterprise Value	328,2065
Less: Net Debt	(28,994)
Equity value	357,200
NPV – IGL share (Rs)	510
NPV – MNGL (Rs)	35
NPV – CUPGL (Rs)	18
Consolidated NPV (Rs)	565

Source: BOBCAPS Research

FIG 5 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

- lower-than-expected margins,
- lower volume growth from intermittent lockdowns, and
- adverse PNGRB regulations that could impact our margin or volume outlook.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	57,648	64,853	46,897	73,114	83,091
EBITDA	12,570	15,196	13,618	20,853	22,464
Depreciation	(2,011)	(2,523)	(2,981)	(3,515)	(3,984)
EBIT	10,559	12,674	10,637	17,338	18,480
Net interest income/(expenses)	(21)	(81)	0	0	0
Other income/(expenses)	1,285	1,432	3,296	4,218	5,956
EBT	11,823	14,025	13,933	21,556	24,436
Income taxes	(4,272)	(3,075)	(3,527)	(5,433)	(6,153)
Min. int./Inc. from associates	870	1,541	1,284	1,439	1,611
Reported net profit	8,421	12,490	11,690	17,562	19,894
Adjusted net profit	8,421	12,490	11,690	17,562	19,894

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	4,885	2,250	1,792	2,864	3,366
Other current liabilities	635	13,923	13,923	13,923	13,923
Provisions	206	2,808	2,808	2,808	2,808
Other liabilities	10,167	2,889	4,477	6,598	8,921
Equity capital	1,400	1,400	1,400	1,400	1,400
Reserves & surplus	42,185	53,364	63,744	79,995	98,579
Shareholders' fund	43,585	54,764	65,144	81,395	99,979
Total liabilities and equities	59,477	76,633	88,143	107,587	128,996
Cash and cash eq.	4,375	23,171	26,064	36,627	50,737
Accounts receivables	2,215	1,704	2,570	4,006	4,553
Inventories	509	511	642	1,002	1,138
Other current assets	594	1,326	1,926	2,526	3,126
Investments	17,779	6,302	6,302	6,302	6,302
Net fixed assets	29,224	35,853	45,639	52,124	58,140
CWIP	4,781	7,767	5,000	5,000	5,000
Total assets	59,477	76,633	88,143	107,587	128,996

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	10,514	15,012	14,671	21,076	23,878
Changes in working capital	1,559	6,024	(1,454)	(725)	(180)
Other operating cash flows	(716)	(1,702)	(2,309)	(2,696)	(4,233)
Cash flow from operations	11,357	19,335	10,908	17,656	19,465
Capital expenditures	(7,917)	(12,137)	(10,000)	(10,000)	(10,000)
Change in investments	(4,619)	11,477	0	0	0
Other investing cash flows	1,285	1,432	3,296	4,218	5,956
Cash flow from investing	(11,252)	772	(6,704)	(5,782)	(4,044)
Dividends paid	(1,311)	(1,311)	(1,311)	(1,311)	(1,311)
Cash flow from financing	(1,311)	(1,311)	(1,311)	(1,311)	(1,311)
Changes in cash and cash eq.	(1,206)	18,796	2,894	10,563	14,110
Closing cash and cash eq.	4,375	23,171	26,064	36,627	50,737

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	12.0	17.8	16.7	25.1	28.4
Adjusted EPS	12.0	17.8	16.7	25.1	28.4
Dividend per share	1.6	1.6	1.6	1.6	1.6
Book value per share	62.3	78.2	93.1	116.3	142.8

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	5.7	5.1	6.9	4.3	3.7
EV/EBITDA	26.2	21.8	23.6	14.9	13.5
Adjusted P/E	39.8	26.9	28.7	19.1	16.9
P/BV	7.7	6.1	5.2	4.1	3.4

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	71.2	89.1	83.9	81.5	81.4
Interest burden (PBT/EBIT)	112.0	110.7	131.0	124.3	132.2
EBIT margin (EBIT/Revenue)	18.3	19.5	22.7	23.7	22.2
Asset turnover (Revenue/Avg TA)	104.4	95.3	56.9	74.7	70.2
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.3	1.3
Adjusted ROAE	21.0	25.4	19.5	24.0	21.9

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	25.5	12.5	(27.7)	55.9	13.6
EBITDA	12.8	20.9	(10.4)	53.1	7.7
Adjusted EPS	16.7	48.3	(6.4)	50.2	13.3
Profitability & Return ratios (%)					
EBITDA margin	21.8	23.4	29.0	28.5	27.0
EBIT margin	18.3	19.5	22.7	23.7	22.2
Adjusted profit margin	14.6	19.3	24.9	24.0	23.9
Adjusted ROAE	21.0	25.4	19.5	24.0	21.9
ROCE	16.8	20.1	13.3	17.7	15.2
Working capital days (days)					
Receivables	14	11	17	16	19
Inventory	6	5	10	9	10
Payables	33	26	22	16	19
Ratios (x)					
Gross asset turnover	1.3	1.2	0.7	1.0	1.0
Current ratio	1.3	1.4	1.7	2.3	3.0
Net interest coverage ratio	515.1	156.1	0.0	0.0	0.0
Adjusted debt/equity	(0.1)	(0.4)	(0.4)	(0.4)	(0.5)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

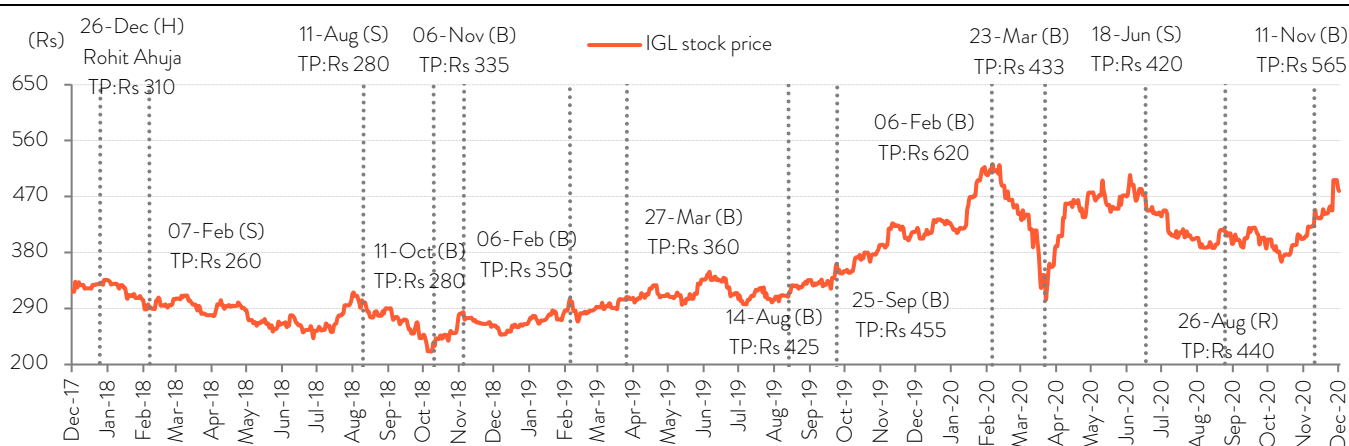
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): INDRAPRASTHA GAS (IGL IN)



B – Buy, A – Add, R – Reduce, S – Sell, H – Hold

Rating distribution

As of 30 November 2020, out of 87 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 44 have BUY ratings, 15 have ADD ratings, 5 are rated REDUCE and 23 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.