

REDUCE

TP: Rs 440 | ▲ 6%

INDRAPRASTHA GAS

Oil & Gas

26 August 2020

Volumes slump; raise to REDUCE post correction

Indraprastha Gas' (IGL) Q1FY21 EBITDA was a tad below estimates at Rs 0.8bn (-77% YoY). Volumes at 2.74mmscmd (-56% YoY) slumped as expected, dragged down by CNG (-66% YoY) while PNG was relatively less impacted (-30% YoY). EBITDA margins at Rs 3.4/scm were in line and could bounce back once CNG volumes recover. We maintain FY21/FY22 earnings estimates, while our DCF-based TP moves to Rs 440 (from Rs 420) on rollover to Sep'21. We upgrade IGL to REDUCE (from SELL) following the sharp stock correction.

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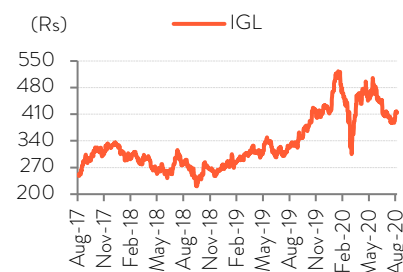
CNG volume revival could be delayed: The slump in CNG volumes was along expected lines as the lockdown in Delhi continued well into June. Some volume revival is expected from Q2FY21 as Delhi has now opened up relatively more than other metros. Management intends to continue with its CNG expansion plans and is looking to add ~70 stations in FY21 and more than 100 in FY22. We estimate that expansion could fuel a surge in volume growth to 28% YoY in FY22 on a low base in FY21. IGL expects CNG volume growth to revive earlier, from Q3FY21 (after a likely 25% YoY decline in H1FY21).

Margin expansion looks sustainable: Q1 EBITDA margins were in line with estimates at Rs 3.4/scm (-46% YoY), but still trend well below that of CGD peer Mahanagar Gas (Rs 7.9/scm in Q1). Continued low spot LNG prices and another potential cut in domestic gas prices from Oct'20 could help IGL revive margins. We maintain our long-term margin estimates at Rs 7/scm considering that management aims to recoup the earnings eroded by lower volumes.

Valuations still demanding: At 16.7x FY22E EPS, valuations look demanding given near-term volume concerns. Uncertainty surrounding CNG volume ramp-up mars the earnings growth outlook. It could take much longer than earlier anticipated for IGL to reach pre-Covid volume levels.

Ticker/Price	IGL IN/Rs 413
Market cap	US\$ 3.9bn
Shares o/s	700mn
3M ADV	US\$ 26.8mn
52wk high/low	Rs 534/Rs 284
Promoter/FPI/DII	45%/23%/32%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	57,648	64,853	58,426	78,659	86,962
EBITDA (Rs mn)	12,570	15,196	15,532	20,266	21,669
Adj. net profit (Rs mn)	8,421	12,490	13,208	17,286	19,433
Adj. EPS (Rs)	12.0	17.8	18.9	24.7	27.8
Adj. EPS growth (%)	16.7	48.3	5.8	30.9	12.4
Adj. ROAE (%)	21.0	25.4	21.8	23.2	21.2
Adj. P/E (x)	34.4	23.2	21.9	16.7	14.9
EV/EBITDA (x)	22.6	18.7	17.7	13.0	11.8

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Net sales	6,386	15,761	(59.5)	15,525	(58.9)
Raw Material Consumed	2,991	9,217	(67.6)	8,262	(63.8)
% of sales	46.8	58.5	-	53.2	-
Other expenditure	2,560	2,960	(13.5)	3,496	(26.8)
% of sales	40.1	18.8	-	22.5	-
EBITDA	834	3,585	(76.7)	3,767	(77.9)
EBITDA (Rs/scm)	3.4	6.3	(46.4)	6.6	(49.1)
EBITDA margin (%)	13.1	22.7	-	24.3	-
Depreciation and amortisation	682	605	12.7	655	4.1
Interest	24	16	45.4	27	(11.2)
Other income	306	354	(13.5)	313	(2.0)
Profit Before Tax	435	3,318	(86.9)	3,398	(87.2)
Exceptional item (as reported)	-	-	-	-	-
Provision for tax	117	1,134	(89.7)	865	(86.5)
-effective tax rate (%)	26.9	34.2	-	25.4	-
PAT (reported)	318	2,184	(85.4)	2,534	(87.4)
Exceptional item (adj- post tax)	-	-	-	-	-
PAT (adjusted)	318	2,184	(85.4)	2,534	(87.4)
Profit from associates	59	336	(82.4)	486	(87.8)
Consolidated PAT (reported)	352	2,450	(85.6)	2,908	(87.9)
NPM (%)	5.0	13.9	-	16.3	-
Standalone EPS (Rs)	0.5	3.1	(85.4)	3.6	(87.4)

Source: Company, BOBCAPS Research

FIG 2 – SEGMENT-WISE VOLUME BREAKUP

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
CNG Volumes (mn kg)	105	305	(65.6)	291	(63.9)
PNG Volume (mmscm)	101	145	(30.3)	158	(36.1)
Industrial/Commercial	41	68	(39.7)	75	(45.3)
Domestic	43	31	38.7	41	4.9
Natural Gas	17	46	(63.0)	42	(59.5)
Total Volume (mmscm)	247	569	(56.6)	567	(56.5)
Total Volume (mmscmd)	2.74	6.25	(56.1)	6.30	(56.5)

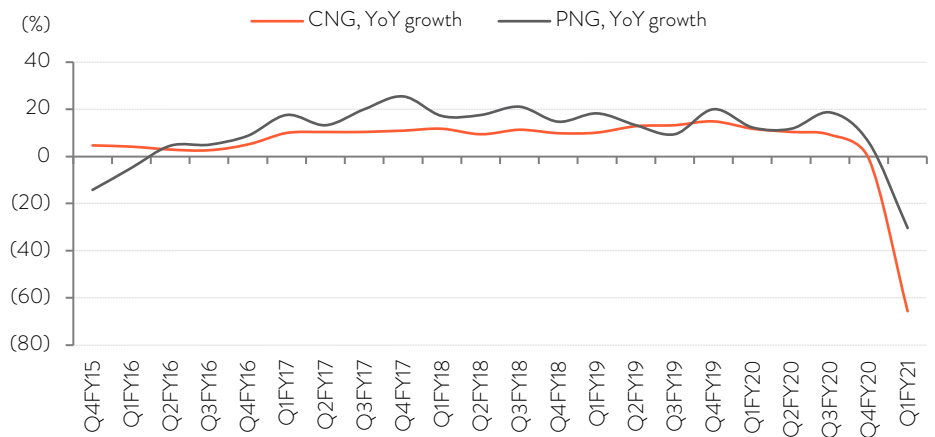
Source: Company, BOBCAPS Research

FIG 3 – OPERATING PERFORMANCE

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Avg realisation (Rs/scm)	10.6	28.0	(62.2)	27.1	(60.9)
Gas cost (Rs/scm)	4.0	12.9	(69.0)	11.8	(66.0)
Gross Spreads (Rs/scm)	6.6	15.2	(56.5)	15.3	(56.9)
CNG Realisation (Rs/kg)	35.7	34.8	2.6	35.7	0.2
PNG Realisation (Rs/scm)	25.5	31.8	(19.7)	29.6	(13.7)
EBITDA (Rs/scm)	3.4	6.3	(46.4)	6.6	(49.1)
Other operating costs	10.4	5.2	99.3	6.2	68.3

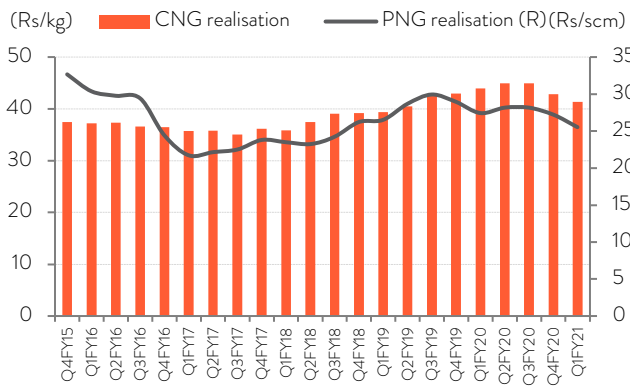
Source: Company, BOBCAPS Research

FIG 4 – CNG AND PNG GROWTH



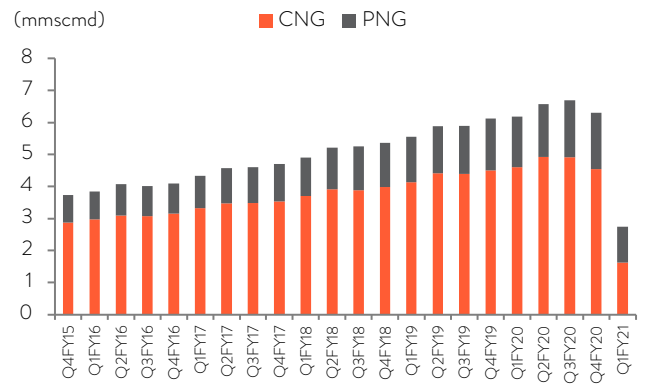
Source: Company, BOBCAPS Research

FIG 5 – CNG AND PNG REALISATION



Source: Company, BOBCAPS Research

FIG 6 – CNG AND PNG VOLUMES



Source: Company, BOBCAPS Research

Valuation methodology

Q1FY21 EBITDA margins were in line with estimates at Rs 3.4/scm (-46% YoY), but still trend well below those of CGD peer Mahanagar Gas (Rs 7.9/scm in Q1). Continued low spot LNG prices and another potential cut in domestic gas prices from Oct'20 could help IGL revive margins. We maintain our long-term margin estimates at Rs 7/scm considering that management aims to recoup the earnings eroded by lower volumes.

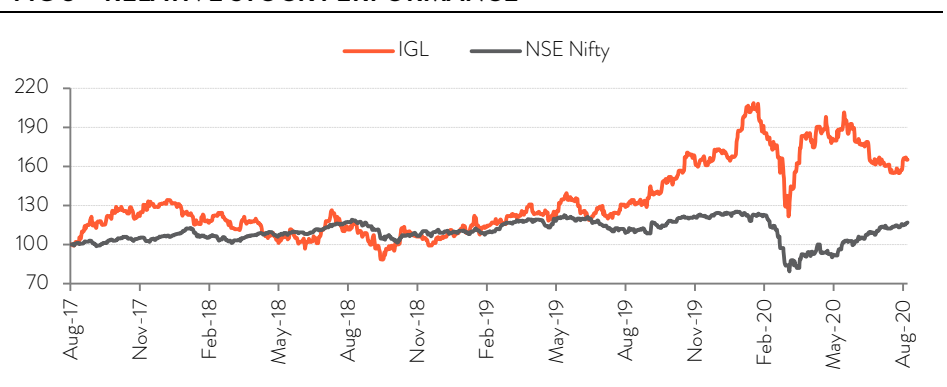
At 16.7x FY22E EPS, valuations look demanding given near-term volume concerns. Uncertainty surrounding CNG volume ramp-up mars the earnings growth outlook. It could take much longer than earlier anticipated for IGL to reach pre-Covid volume levels. We maintain FY21/FY22 earnings estimates, but our DCF-based target price stands revised to Rs 440 (from Rs 420) on rollover to Sep'21. We upgrade IGL to REDUCE (from SELL) following the sharp correction.

FIG 7 – VALUATION SUMMARY

Valuation parameters	Value (Rs mn)
PV of FCF	17,958
PV of terminal value	223,412
Enterprise Value	241,370
Less: Net Debt	(29,727)
Equity value	271,097
NPV – IGL share (Rs)	387
NPV – MNGL (Rs)	35
NPV – CUPGL (Rs)	18
Consolidated NPV (Rs)	440

Source: BOBCAPS Research

FIG 8 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key upside risks to our estimates are:

- higher than-expected margins, and
- better volume growth on faster conversion in new areas.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue	57,648	64,853	58,426	78,659	86,962
EBITDA	12,570	15,196	15,532	20,266	21,669
Depreciation	(2,011)	(2,523)	(2,981)	(3,515)	(3,984)
EBIT	10,559	12,674	12,551	16,751	17,685
Net interest income/(expenses)	(21)	(81)	0	0	0
Other income/(expenses)	1,285	1,432	3,406	4,436	6,135
EBT	11,823	14,025	15,957	21,188	23,820
Income taxes	(4,272)	(3,075)	(4,033)	(5,341)	(5,999)
Min. int./Inc. from associates	870	1,541	1,284	1,439	1,611
Reported net profit	8,421	12,490	13,208	17,286	19,433
Adjusted net profit	8,421	12,490	13,208	17,286	19,433

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Accounts payables	4,885	2,250	2,387	3,339	3,718
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	4,618	6,714	8,994
Equity capital	1,400	1,400	1,400	1,400	1,400
Reserves & surplus	42,185	53,364	65,262	81,237	99,359
Shareholders' fund	43,585	54,764	66,662	82,637	100,759
Total liabilities and equities	59,477	76,633	90,398	109,420	130,201
Cash and cash eq.	4,375	23,171	27,529	38,080	51,677
Accounts receivables	2,215	1,704	3,201	4,310	4,765
Inventories	509	511	800	1,078	1,191
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	90,398	109,420	130,201

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Net income + Depreciation	10,514	15,012	16,189	20,801	23,416
Changes in working capital	1,559	6,024	(1,649)	(434)	(189)
Other operating cash flows	(716)	(1,702)	(2,277)	(2,941)	(4,455)
Cash flow from operations	11,357	19,335	12,263	17,425	18,772
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	3,406	4,436	6,135
Cash flow from investing	(11,252)	772	(6,594)	(5,564)	(3,865)
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	4,359	10,551	13,597
Closing cash and cash eq.	4,375	23,171	27,529	38,080	51,677

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
Reported EPS	12.0	17.8	18.9	24.7	27.8
Adjusted EPS	12.0	17.8	18.9	24.7	27.8
Dividend per share	1.6	1.6	1.6	1.6	1.6
Book value per share	62.3	78.2	95.2	118.1	143.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
EV/Sales	4.9	4.4	4.7	3.4	3.0
EV/EBITDA	22.6	18.7	17.7	13.0	11.8
Adjusted P/E	34.4	23.2	21.9	16.7	14.9
P/BV	6.6	5.3	4.3	3.5	2.9

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	71.2	89.1	82.8	81.6	81.6
Interest burden (PBT/EBIT)	112.0	110.7	127.1	126.5	134.7
EBIT margin (EBIT/Revenue)	18.3	19.5	21.5	21.3	20.3
Asset turnover (Revenue/Avg TA)	104.4	95.3	70.0	78.7	72.6
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.3	1.3
Adjusted ROAE	21.0	25.4	21.8	23.2	21.2

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	25.5	12.5	(9.9)	34.6	10.6
EBITDA	12.8	20.9	2.2	30.5	6.9
Adjusted EPS	16.7	48.3	5.8	30.9	12.4
Profitability & Return ratios (%)					
EBITDA margin	21.8	23.4	26.6	25.8	24.9
EBIT margin	18.3	19.5	21.5	21.3	20.3
Adjusted profit margin	14.6	19.3	22.6	22.0	22.3
Adjusted ROAE	21.0	25.4	21.8	23.2	21.2
ROCE	16.8	20.1	15.4	16.8	14.4
Working capital days (days)					
Receivables	14	11	15	17	19
Inventory	6	5	8	8	9
Payables	33	26	20	18	20
Ratios (x)					
Gross asset turnover	1.3	1.2	0.9	1.0	1.0
Current ratio	1.3	1.4	1.8	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)	(0.5)	(0.5)

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

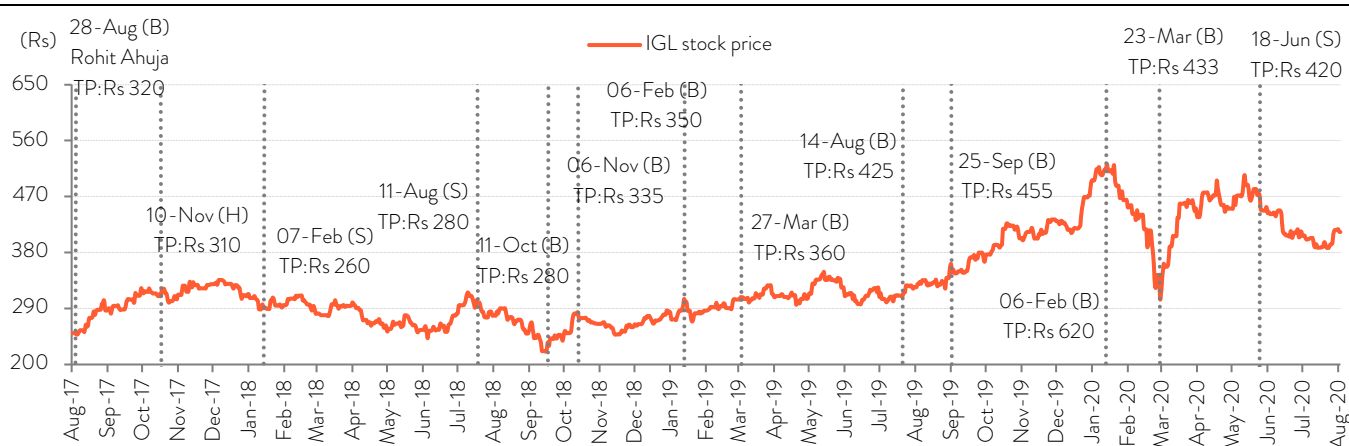
ADD – Expected return from >+5% to +15%

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

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