

SELL

TP: Rs 420 | ▼ 11%

INDRAPRASTHA GAS

Oil & Gas

18 June 2020

Volume concerns worsen – downgrade to SELL

Indraprastha Gas' (IGL) Q4FY20 EBITDA was in line at Rs 3.8bn (+13.7% YoY). Volumes at 6.3mmcmd (+0.7% YoY) were muted, dragged down by CNG (-1% YoY) while PNG continued to grow (+6% YoY). Healthy EBITDA margins at Rs 6.6/scm prompt us to raise margin estimates to ~Rs 7/scm from FY21 onwards as management intends to offset the impact from lower volumes. We maintain FY21 earnings, and raise FY22 earnings by 7% as we alter volume and margin forecasts. **Downgrade to SELL (from BUY).**

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CNG volumes muted: IGL's volume growth disappointed, with CNG falling into negative territory after more than five years. The extended lockdown in Delhi due to Covid-19 continues to threaten the FY21 volume outlook – we trim CNG volume estimates for the year by 20%. Management intends to continue with its CNG expansion plans and is looking to add ~70 stations in FY21 and more than 100 in FY22. This could imply 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: Q4 EBITDA margins beat estimates at Rs 6.6/scm, but still trend below CGD peer Mahanagar Gas (Rs 9.6/scm in Q4). Continued low spot LNG prices and the cut in domestic gas prices from Apr'20 could help IGL grow margins further. We raise our long-term margin estimates to Rs 7/scm from Rs 6/scm as management aims to recoup the impact of lower volumes on earnings (~11% decline).

Downgrade to SELL: At 19.2x FY22E EPS, valuations seem to be running ahead of fundamentals and not factoring in near-term volume concerns. We revise earnings, lower our DCF-based Mar'21 TP to Rs 420 (from Rs 433), and downgrade to SELL. Earnings risk may be further aggravated on volumes.

Ticker/Price	IGL IN/Rs 474
Market cap	US\$ 4.4bn
Shares o/s	700mn
3M ADV	US\$ 22.8mn
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	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	45,921	57,648	64,853	58,426	78,659
EBITDA (Rs mn)	11,144	12,570	15,196	15,532	20,266
Adj. net profit (Rs mn)	7,217	8,421	12,490	13,208	17,286
Adj. EPS (Rs)	10.3	12.0	17.8	18.9	24.7
Adj. EPS growth (%)	19.0	16.7	48.3	5.8	30.9
Adj. ROAE (%)	21.7	21.0	25.4	21.8	23.2
Adj. P/E (x)	46.0	39.4	26.6	25.1	19.2
EV/EBITDA (x)	29.3	25.9	21.5	20.5	15.1

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Net sales	15,525	15,426	0.6	16,642	(6.7)	64,853	57,649	12.5
Raw Material Consumed	8,262	9,058	(8.8)	9,410	(12.2)	36,794	33,973	8.3
% of sales	53.2	58.7	-	56.5	-	56.7	58.9	-
Other expenditure	3,496	3,056	14.4	3,314	5.5	12,863	11,105	15.8
% of sales	22.5	19.8	-	19.9	-	19.8	19.3	-
EBITDA	3,767	3,312	13.7	3,918	(3.8)	15,196	12,570	20.9
EBITDA (Rs/scm)	6.6	5.9	13.0	6.4	4.4	6.4	5.8	10.5
EBITDA margin (%)	24.3	21.5	-	23.5	-	23.4	21.8	-
Depreciation and amortisation	655	522	25.4	641	2.2	2,523	2,011	25.4
Interest	27	0	13,250.0	20	32.8	81	21	296.1
Other income	313	513	(39.1)	508	(38.4)	1,564	1,462	7.0
Profit Before Tax	3,398	3,303	2.9	3,764	(9.7)	14,157	12,000	18.0
Provision for tax	865	1,048	(17.5)	926	(6.6)	2,791	4,134	(32.5)
PAT	2,534	2,255	12.4	2,839	(10.7)	11,365	7,867	44.5
Profit from associates	486	115	322.5	294	65.0	1,541	810	90.2
Consolidated PAT	3,019	2,370	27.4	3,133	(3.6)	12,906	8,677	48.7
NPM (%)	16.3	14.6	-	17.1	-	17.5	13.6	-
Standalone EPS (Rs)	3.6	3.2	12.4	4.1	(10.7)	16.2	11.2	44.5
Consolidated EPS (Rs)	4.3	3.4	27.4	4.5	(3.6)	18.4	12.4	48.7

Source: Company, BOBCAPS Research

FIG 2 – SEGMENT-WISE VOLUME BREAKUP

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
CNG Volume (mn kg)	291	294	(1.0)	318	(8.4)	1,234	1,148	7.5
PNG Volume (mmscm)	158	149	6.0	164	(3.5)	619	553	11.9
Industrial/Commercial	75	69	8.7	82	(8.7)	298	252	18.3
Domestic	41	35	17.1	36	13.6	141	120	17.6
Natural Gas	42	45	(6.7)	46	(7.9)	180	181	(0.8)
Total Volume (mmscm)	567	564	0.7	616	(7.9)	2,357	2,156	9.4
Total Volume (mmscmd)	6.30	6.26	0.7	6.70	(5.8)	6.46	5.91	9.4

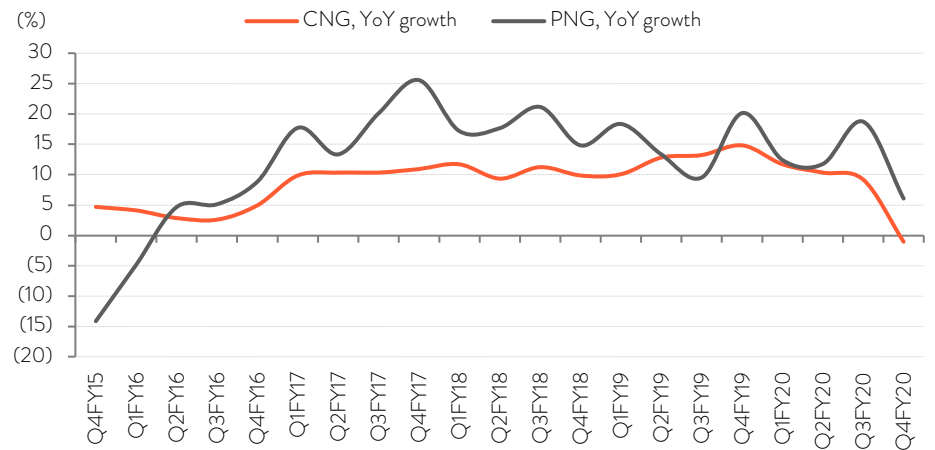
Source: Company, BOBCAPS Research

FIG 3 – OPERATING PERFORMANCE

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Avg realisation (Rs/scm)	27.4	27.4	(0.1)	27.0	1.3	27.5	26.7	2.9
Gas cost (Rs/scm)	14.6	16.1	(9.4)	15.3	(4.7)	15.6	15.8	(1.0)
Gross spreads (Rs/scm)	12.8	11.3	13.3	11.7	9.0	11.9	11.0	8.4
CNG realisation (Rs/kg)	44.9	43.0	4.6	44.9	-	44.2	41.5	6.6
PNG realisation (Rs/scm)	28.2	28.9	(2.7)	28.2	-	27.8	28.5	(2.6)
EBITDA (Rs/scm)	6.6	5.9	13.0	6.4	4.4	6.4	5.8	10.5
Other operating costs	6.2	5.4	13.6	5.4	14.5	5.5	5.2	5.9

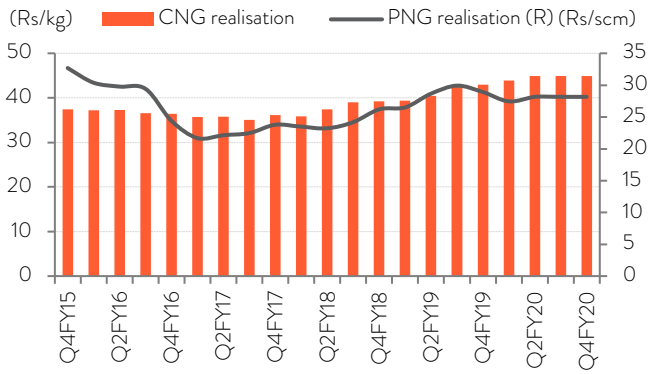
Source: Company, BOBCAPS Research

FIG 4 – CNG AND PNG GROWTH



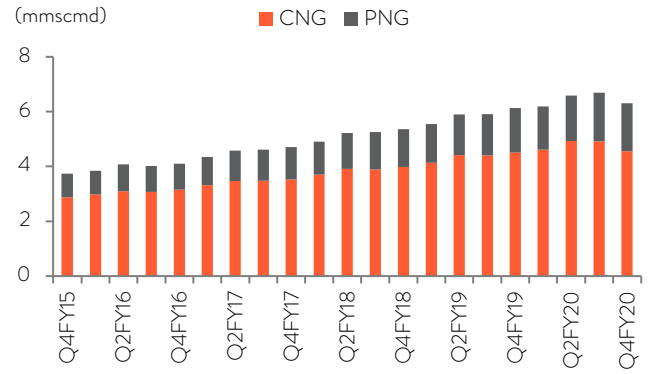
Source: Company, BOBCAPS Research

FIG 5 – CNG AND PNG REALISATION



Source: Company, BOBCAPS Research

FIG 6 – CNG AND PNG VOLUMES



Source: Company, BOBCAPS Research

Valuation methodology

Healthy Q4 EBITDA margins at Rs 6.6/scm prompt us to raise margin estimates to ~Rs 7/scm from FY21 onwards as management aims to recoup the impact of lower volumes on earnings. We maintain FY21 earning, and raise FY22 earnings estimates by 7% as we alter volume (6.2mmsmcd/7.8mmsmcd, from 7mmsmcd for FY21) and margin forecasts.

At 19.2x FY22E EPS, valuations seem to be running ahead of fundamentals and failing to factor in near-term volume concerns. Earnings risk may be further aggravated by the pandemic. We cut our DCF-based Mar'21 target price to Rs 420 (from Rs 433) and downgrade the stock to SELL (from BUY).

FIG 7 – VALUATION SUMMARY

Valuation parameters	Value (Rs mn)
PV of FCF	19,805
PV of terminal value	352,916
Enterprise Value	214,220
Less: Net Debt	(24,806)
Equity value	258,831
NPV – IGL share (Rs)	370
NPV – MNGL (Rs)	33
NPV – CUPGL (Rs)	18
Consolidated NPV (Rs)	420

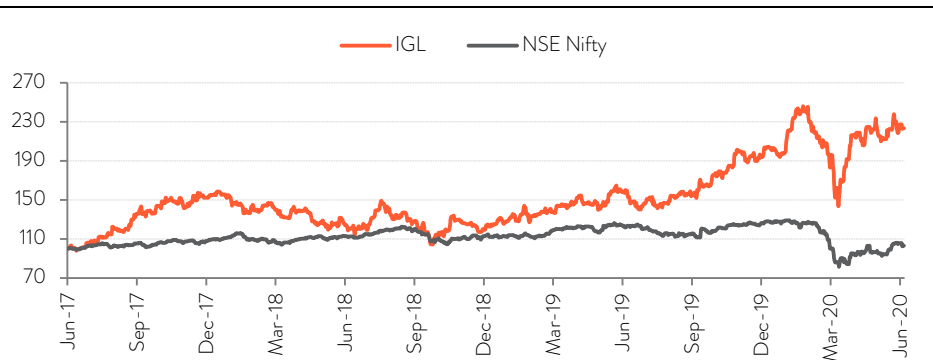
Source: BOBCAPS Research

FIG 8 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E		
	Old	New	Var (%)	Old	New	Var (%)
Revenue	73,032	58,426	(20.0)	77,872	78,659	1.0
EBITDA	16,153	15,532	(3.8)	18,239	20,266	11.1
EBITDA margin (%)	22.1	26.6	-	23.4	25.8	-
PAT	13,230	13,208	(0.2)	16,100	17,286	7.4
PAT margin (%)	18.12	22.6	-	20.7	22.0	-
EPS (Rs)	18.9	18.9	(0.2)	23.0	24.7	7.4

Source: BOBCAPS Research

FIG 9 – 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)	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue	45,921	57,648	64,853	58,426	78,659
EBITDA	11,144	12,570	15,196	15,532	20,266
Depreciation	(1,813)	(2,011)	(2,523)	(2,981)	(3,515)
EBIT	9,331	10,559	12,674	12,551	16,751
Net interest income/(expenses)	(17)	(21)	(81)	0	0
Other income/(expenses)	926	1,285	1,432	3,406	4,436
EBT	10,241	11,823	14,025	15,957	21,188
Income taxes	(3,742)	(4,272)	(3,075)	(4,033)	(5,341)
Min. int./Inc. from associates	719	870	1,541	1,284	1,439
Reported net profit	7,217	8,421	12,490	13,208	17,286
Adjustments	0	0	0	0	0
Adjusted net profit	7,217	8,421	12,490	13,208	17,286

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	3,386	4,885	2,250	2,387	3,339
Other current liabilities	2,930	635	13,923	13,923	13,923
Provisions	137	206	2,808	2,808	2,808
Other liabilities	8,042	10,167	2,889	4,618	6,714
Equity capital	1,400	1,400	1,400	1,400	1,400
Reserves & surplus	35,070	42,185	53,364	65,262	81,237
Shareholders' fund	36,470	43,585	54,764	66,662	82,637
Total liabilities and equities	50,965	59,477	76,633	90,398	109,420
Cash and cash eq.	5,580	4,375	23,171	27,529	38,080
Accounts receivables	2,261	2,215	1,704	3,201	4,310
Inventories	524	509	511	800	1,078
Other current assets	1,259	594	1,326	1,926	2,526
Investments	13,160	17,779	6,302	6,302	6,302
Net fixed assets	24,320	29,224	35,853	45,639	52,124
CWIP	3,860	4,781	7,767	5,000	5,000
Total assets	50,965	59,477	76,633	90,398	109,420

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	8,908	10,514	15,012	16,189	20,801
Changes in working capital	1,382	1,559	6,024	(1,649)	(434)
Other operating cash flows	(354)	(716)	(1,702)	(2,277)	(2,941)
Cash flow from operations	9,936	11,357	19,335	12,263	17,425
Capital expenditures	(5,182)	(7,917)	(12,137)	(10,000)	(10,000)
Change in investments	(5,321)	(4,619)	11,477	0	0
Other investing cash flows	926	1,285	1,432	3,406	4,436
Cash flow from investing	(9,576)	(11,252)	772	(6,594)	(5,564)
Dividends paid	(1,311)	(1,311)	(1,311)	(1,311)	(1,311)
Other financing cash flows	445	0	0	0	0
Cash flow from financing	(866)	(1,311)	(1,311)	(1,311)	(1,311)
Changes in cash and cash eq.	(506)	(1,206)	18,796	4,359	10,551
Closing cash and cash eq.	5,580	4,375	23,171	27,529	38,080

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	10.3	12.0	17.8	18.9	24.7
Adjusted EPS	10.3	12.0	17.8	18.9	24.7
Dividend per share	1.6	1.6	1.6	1.6	1.6
Book value per share	52.1	62.3	78.2	95.2	118.1

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	7.1	5.7	5.0	5.4	3.9
EV/EBITDA	29.3	25.9	21.5	20.5	15.1
Adjusted P/E	46.0	39.4	26.6	25.1	19.2
P/BV	9.1	7.6	6.1	5.0	4.0

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	70.5	71.2	89.1	82.8	81.6
Interest burden (PBT/EBIT)	109.7	112.0	110.7	127.1	126.5
EBIT margin (EBIT/Revenue)	20.3	18.3	19.5	21.5	21.3
Asset turnover (Revenue/Avg TA)	98.9	104.4	95.3	70.0	78.7
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.4	1.3
Adjusted ROAE	21.7	21.0	25.4	21.8	23.2

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	20.4	25.5	12.5	(9.9)	34.6
EBITDA	15.6	12.8	20.9	2.2	30.5
Adjusted EPS	19.0	16.7	48.3	5.8	30.9
Profitability & Return ratios (%)					
EBITDA margin	24.3	21.8	23.4	26.6	25.8
EBIT margin	20.3	18.3	19.5	21.5	21.3
Adjusted profit margin	15.7	14.6	19.3	22.6	22.0
Adjusted ROAE	21.7	21.0	25.4	21.8	23.2
ROCE	17.8	16.8	20.1	15.4	16.8
Working capital days (days)					
Receivables	17	14	11	15	17
Inventory	8	6	5	8	8
Payables	32	33	26	20	18
Ratios (x)					
Gross asset turnover	1.2	1.3	1.2	0.9	1.0
Current ratio	1.5	1.3	1.4	1.8	2.3
Net interest coverage ratio	552.1	515.1	156.1	0.0	0.0
Adjusted debt/equity	(0.2)	(0.1)	(0.4)	(0.4)	(0.5)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

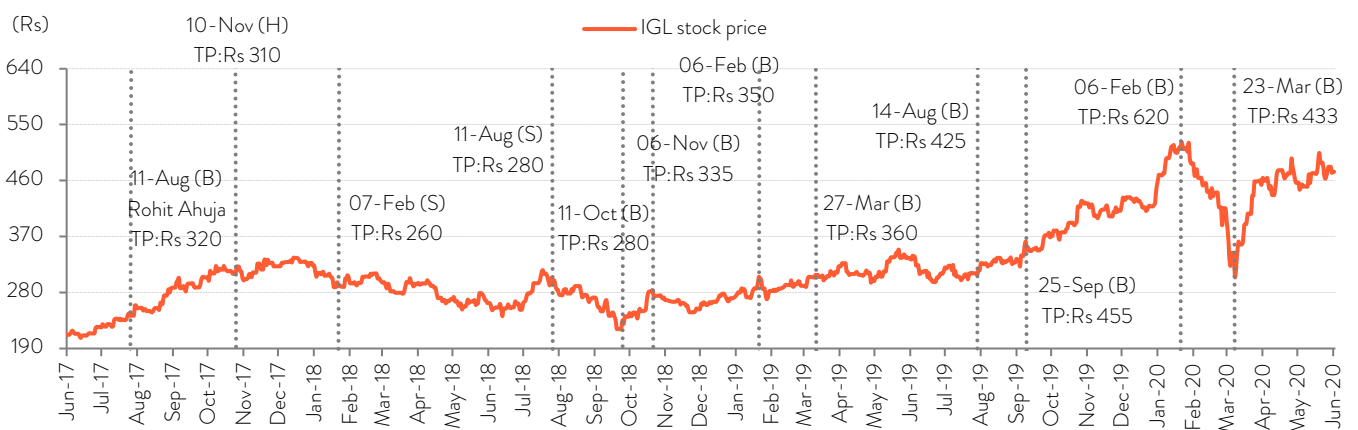
ADD – Expected return from >+5% to +15%

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)

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

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