

# Retail Equity Research

## Indraprastha Gas Ltd

Gas Utilities

BSE CODE: 532514

NSE CODE: IGL

Bloomberg CODE: IGL:IN

SENSEX: 44,077

**BUY**

12M Investment period

Rating as per Large Cap

CMP Rs. 450

TARGET Rs. 523

 RETURN 16% 

(Closing: 23-11-20)

### Mixed Q2; Outlook promising

Indraprastha Gas Limited (IGL) processes and distributes compressed natural gas and liquefied petroleum gas. The Company has been jointly promoted by Bharat Petroleum Corporation and Gas Authority of India.

- Revenue declined 23.1% YoY in Q2FY21 due to lower CNG volumes (-20.3% YoY) as a result of lockdown & transport restrictions.
- EBITDA rose 3.7% YoY with margin expanding 730bps to 28.3% due to plunging costs
- Net Profit reduced 19.2% YoY to Rs. 308cr, as a result of higher tax rates.
- In view of increasing demand after the gradual easing of restrictions, we are positive on the company's performance going forward. Hence, we recommend a BUY rating on the stock with a target price of Rs. 523 based on SOTP methodology.

### Lower volumes strikes topline

IGL's Q2FY21 revenues declined 23.1% YoY to Rs. 1,441cr with a volume drop of 16.4% YoY to 506 Standard Cubic Meter (SCMmn). This was primarily due to slump in demand of 20.3% for CNG at 255mn kgs (vs. 320mn kgs in Q2FY20) due to transport restrictions. Henceforth, CNG revenues stood at Rs. 944cr down 24.9%. Similarly, demand from industrial and commercial customers were also hit. PNG segment reported sales of Rs. 355cr (-17.1% YoY). Natural Gas and Industrial/ Commercial PNG segment volumes declined 26.1% YoY and 1.4% YoY, respectively, to 34SCMmn and 72SCMmn. This was partially offset by a volume growth of 21.2% YoY in PNG-domestic segment to 40SCMmn. A gradual revival of commercial activities is expected to uplift demand over the upcoming quarters.

### Cost control keeps margin intact

EBITDA came in at Rs. 407cr (+3.7% YoY) with an expansion of 7.3pps in EBITDA margin to 28.3% (vs. 21.0% in Q2FY20) due to significant reduction in cost of sales (-36.4% YoY) to Rs. 745cr and lower other expenses at Rs. 257cr (-5.7% YoY). Similarly, staff costs dwindled 14.1% YoY to Rs. 31cr (vs. 36cr in Q2FY20). On the other hand, taxes were high at ~22.9% on profits resulting in a decline in PAT by 19.1% YoY at Rs. 308cr (vs. Rs. 381cr in Q2FY20).

### Roadmap ahead

COVID-19 has severely impacted the revenues as IGL is one of the biggest retailers of CNG to automobiles and PNG to households & industries across regions. As lockdown restrictions began to relax, the company has registered an avg. daily sale of 5.50SCMmn per day in the quarter almost at pre-lockdown levels. Thus, the financial performance of the company will reflect a strong pickup in the upcoming quarters of the year with increased economic activities nationwide. "GAS BASED GENSET" is a green initiative by IGL aimed at emission free gas coupled with fuel efficiency & cost effectiveness. As GRAP (Graded Response Action Plan) bans usage of Diesel Genset to maintain air quality in prime cities like Delhi, this measure steps in as an alternate and aids in elevating its revenues besides abiding by the government regulations.

### Valuation

As educational institutions reopen and commercial industries return back to normalcy in the near term, IGL is expected to boost its revenues with an increase in demand / sales. With the gradual easing of restrictions and increase in vehicular movement plus pick up in commercial activities, the sales have picked up and returned to pre-lockdown levels. Considering the current levels of recovery, we are optimistic on the stock and recommend a BUY rating with a target price of Rs. 523 based on SOTP methodology.

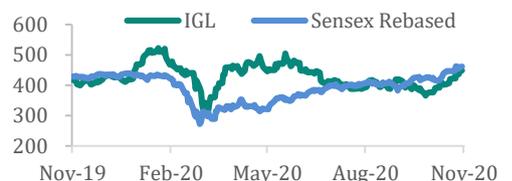
### Company Data

Market Cap (cr)	Rs. 31,472
Enterprise Value (cr)	Rs. 30,640
Outstanding Shares (cr)	70.0
Free Float	55.0%
Dividend Yield	0.6%
52 week high	Rs. 534
52 week low	Rs. 285
6m average volume (lac)	1.6
Beta	0.7
Face value	Rs. 2

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	45.0	45.0	45.0
FII's	22.8	22.3	21.3
MFs/Insti	21.8	22.2	22.4
Public	5.2	5.4	6.1
Others	5.3	5.1	5.3
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	14.3%	0.9%	7.7%
Absolute Sensex	14.7%	43.7%	7.8%
Relative Return*	-0.4%	-42.8%	-0.1%

\*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	7,165	5,231	7,062
Growth (%)	12.6	(27.0)	35.0
EBITDA	1,520	1,415	1,910
EBITDA Margin (%)	21.2	27.0	27.0
Adj. PAT	1,137	1,017	1,395
Growth (%)	44.5	(10.6)	37.2
Adj. EPS	16.2	14.5	19.9
Growth (%)	44.5	(10.6)	37.2
P/E	23.9	31.0	22.6
P/B	5.4	5.3	4.5
EV/EBITDA	17.5	21.7	15.8
ROE (%)	22.5	17.2	19.8
D/E	0.0	0.0	0.0

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	1,441	1,873	(23.1)	693	108.0	2,133	3,617	(41.0)
<b>EBITDA</b>	<b>407</b>	<b>393</b>	3.7	<b>83</b>	387.9	<b>491</b>	<b>751</b>	(34.7)
EBITDA margins	28.3	21.0	730bps	12.0	1630bps	23.0	20.8	220bps
Depreciation	71	62	14.4	68	4.3	139	123	13.6
<b>EBIT</b>	<b>336</b>	<b>331</b>	1.7	<b>15</b>	2,100.5	<b>351</b>	<b>628</b>	(44.1)
Interest	2	2	26.5	2	(3.4)	5	3	35.5
Other Income	66	39	68.7	31	114.5	96	74	29.6
Exceptional Items	-	-	n.m.	-	n.m.	-	-	n.m.
<b>PBT</b>	<b>399</b>	<b>368</b>	8.6	<b>44</b>	817.6	<b>443</b>	<b>699</b>	(36.7)
Tax	91	(13)	786.3	12	682.6	103	100	3.1
Share of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>308</b>	<b>381</b>	(19.2)	<b>32</b>	867.1	<b>340</b>	<b>599</b>	(43.3)
Adjustments	-	-	-	-	-	-	-	-
<b>Adj. PAT</b>	<b>308</b>	<b>381</b>	(19.2)	<b>32</b>	867.1	<b>340</b>	<b>599</b>	(43.3)
No. of shares	70.0	70.0	-	70.0	-	70.0	70.0	-
<b>Adj. EPS (Rs.)</b>	<b>4.4</b>	<b>5.4</b>	(19.1)	<b>0.5</b>	877.8	<b>4.9</b>	<b>8.6</b>	(43.3)

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	-	-	5,231	7,062	-	-
EBITDA	-	-	1,415	1,910	-	-
Margins (%)	-	-	27.0	27.0	-	-
Adj. PAT	-	-	1,017	1,395	-	-
Adj. EPS	-	-	14.5	19.9	-	-

### Sum-of-the-Parts Valuation

Particulars	Methodology	Multiple	% Holding	Value (Rs. cr.)	Value Per Share (Rs.)
IGL Standalone	FY22E P/E	25.0	100.0%	34,879	498
Investments					28
- CGS	Net Asset	3.0	50.0%	534	8
- MNGL	Net Asset	4.0	50.0%	1,425	20
10% holding discount to investments					(3)
<b>Target price</b>					<b>523</b>

## PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>5,072</b>	<b>6,362</b>	<b>7,165</b>	<b>5,231</b>	<b>7,062</b>
% change	20.1	25.4	12.6	(27.0)	35.0
<b>EBITDA</b>	<b>1,113</b>	<b>1,257</b>	<b>1,520</b>	<b>1,415</b>	<b>1,910</b>
% change	15.5	12.9	20.9	(6.9)	35.0
Depreciation	181	201	252	326	360
<b>EBIT</b>	<b>932</b>	<b>1,056</b>	<b>1,267</b>	<b>1,089</b>	<b>1,550</b>
Interest	2	2	8	12	10
Other Income	102	146	156	190	198
<b>PBT</b>	<b>1,032</b>	<b>1,200</b>	<b>1,416</b>	<b>1,266</b>	<b>1,738</b>
% change	20.0	16.2	18.0	(10.6)	37.2
Tax	362	413	279	250	343
Tax Rate (%)	35.0	34.4	19.7	19.7	19.7
<b>Reported PAT</b>	<b>671</b>	<b>787</b>	<b>1,137</b>	<b>1,017</b>	<b>1,395</b>
Adj*	-	-	-	-	-
<b>Adj PAT</b>	<b>671</b>	<b>787</b>	<b>1,137</b>	<b>1,017</b>	<b>1,395</b>
% change	17.5	17.3	44.5	(10.6)	37.2
No. of shares (cr)	70.0	70.0	70.0	70.0	70.0
<b>Adj EPS (Rs.)</b>	<b>9.6</b>	<b>11.2</b>	<b>16.2</b>	<b>14.5</b>	<b>19.9</b>
% change	(76.5)	17.3	44.5	(10.6)	37.2
DPS (Rs.)	2.0	2.4	2.8	2.5	3.4
CEPS (Rs.)	12.2	14.1	19.8	19.2	25.1

## CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Net inc. + Depn.</b>	<b>852</b>	<b>988</b>	<b>1,389</b>	<b>1,342</b>	<b>1,755</b>
Non-cash adj.	(13)	16	22	(27)	(35)
Changes in W.C	41	153	(50)	(46)	13
<b>C.F. Operation</b>	<b>879</b>	<b>1,157</b>	<b>1,361</b>	<b>1,270</b>	<b>1,734</b>
Capital exp.	(470)	(681)	(963)	(785)	(989)
Change in inv.	(406)	(308)	1,373	(98)	(99)
Other invest.CF	159	(133)	(931)	31	39
<b>C.F - Investment</b>	<b>(717)</b>	<b>(1,121)</b>	<b>(521)</b>	<b>(852)</b>	<b>(1,049)</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(84)	(168)	(203)	(175)	(241)
Other finance.CF	-	(0)	(41)	0	0
<b>C.F - Finance</b>	<b>(84)</b>	<b>(169)</b>	<b>(243)</b>	<b>(175)</b>	<b>(240)</b>
Chg. in cash	78	(133)	597	243	444
Closing cash	204	71	668	910	1,355

## BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	204	71	668	910	1,355
Accounts Receivable	226	221	170	235	290
Inventories	52	51	51	37	50
Other Cur. Assets	1,300	1,899	1,608	1,608	1,608
Investments	258	258	258	357	456
Gross Fixed Assets	2,861	3,479	4,443	5,227	6,216
Net Fixed Assets	2,416	2,855	3,539	3,978	4,586
CWIP	386	478	777	792	808
Intangible Assets	16	22	18	18	18
Def. Tax (Net)	15	15	23	23	23
Other Assets	54	79	60	60	60
<b>Total Assets</b>	<b>4,928</b>	<b>5,949</b>	<b>7,172</b>	<b>8,019</b>	<b>9,255</b>
Current Liabilities	1,176	1,531	1,795	1,801	1,882
Provisions	-	20	23	23	23
Debt Funds	-	0	78	78	78
Other Liabilities	239	269	213	213	213
Equity Capital	140	140	140	140	140
Reserves & Surplus	3,373	3,990	4,922	5,764	6,918
Shareholder's Fund	3,513	4,130	5,062	5,904	7,058
Minority Interest	-	-	-	-	-
<b>Total Liabilities</b>	<b>4,928</b>	<b>5,949</b>	<b>7,172</b>	<b>8,019</b>	<b>9,255</b>
<b>BVPS (Rs.)</b>	<b>50</b>	<b>59</b>	<b>72</b>	<b>84</b>	<b>101</b>

## RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	22.0	19.8	21.2	27.0	27.0
EBIT margin (%)	18.4	16.6	17.7	20.8	22.0
Net profit mgn.(%)	13.2	12.4	15.9	19.4	19.8
ROE (%)	19.1	19.0	22.5	17.2	19.8
ROCE (%)	26.5	25.6	24.7	18.2	21.7
<b>W.C &amp; Liquidity</b>					
Receivables (days)	16.1	12.5	8.6	16.2	14.8
Inventory (days)	6.3	4.6	4.2	4.7	4.7
Payables (days)	41.0	44.0	18.6	28.8	28.8
Current ratio (x)	1.5	1.5	1.4	1.5	1.8
Quick ratio (x)	1.1	1.0	0.5	0.6	0.9
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	1.9	2.0	1.8	1.1	1.2
Total asset T.O (x)	1.1	1.2	1.1	0.7	0.8
Int. coverage ratio (x)	551.5	515.1	156.1	88.4	154.6
Adj. debt/equity (x)	-	0.0	0.0	0.0	0.0
<b>Valuation</b>					
EV/Sales (x)	3.8	3.4	3.7	5.9	4.3
EV/EBITDA (x)	17.3	17.1	17.5	21.7	15.8
P/E (x)	29.1	27.4	23.9	31.0	22.6
P/BV (x)	5.6	5.2	5.4	5.3	4.5

## Recommendation Summary



Dates	Rating	Target
24-Nov-20	BUY	523

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

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**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

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