

# Indraprastha Gas

7 February 2019

Reuters: IGAS.NS; Bloomberg: IGL IN

## Earnings Performance Driven By Volume Growth

Indraprastha Gas (IGL) reported 3QFY19 earnings of Rs1,980mn, up 5.7% QoQ and 19.3% YoY. Earnings growth was driven by: 1) Increase in CNG sales volume from 358mmscm in 3QFY18 to 405mmscm in 3QFY19, flat QoQ and up 13% YoY. 2) Rise in PNG sales from 126mmscm in 3QFY18 and 136mmscm in 2QFY19 to 138mmscm in 3QFY19, up 1.5% QoQ and 9.5% YoY. 3) Rise in other income by 23.6% YoY and 21.4% QoQ to Rs403mn in 3QFY19. However, we observed that following the rise in the cost of raw material (natural gas) by 34.9% YoY and 7.7% QoQ with less than a proportionate increase in sales price, EBITDA margin at 21.1% declined 60bps QoQ and 115bps YoY. We have a Buy rating on IGL with a target price of Rs 385 based on forward P/E of 25x September 2020 estimated earnings.

**Revenue growth driven by higher PNG/CNG volume and price per scm:** IGL reported revenues of Rs15,084mn in 3QFY19, an increase of 6.1% QoQ and 27.4% YoY. Revenues increased on account of: 1) Increase in CNG sales volume from 358mmscm in 3QFY18 to 405mmscm in 3QFY19, up 13% YoY and flat on QoQ basis. 2) Rise in PNG sales from 126mmscm in 3QFY18 and 136mmscm in 2QFY19 to 138mmscm in 3QFY19, up 1.5% QoQ and 9.5% YoY. 3) Increase in CNG and PNG prices from Rs27.03/scm in 3QFY18 and Rs28.94/scm in 2QFY19 to Rs30.6/scm in 3QFY19.

**EBITDA margin contracts to 21.1% in 3QFY19:** IGL reported EBITDA of Rs3,179mn, up 3.2% QoQ and 20.8% YoY. EBITDA margin stood at 21.1%, down 60bps QoQ and 115bps YoY. EBITDA margin contracted on account of: 1) Rise in cost of raw materials from Rs13.9/scm in 3QFY18 and Rs15.5 in 2QFY19 to Rs16.7/scm in 3QFY19. However, we have not seen a proportionate increase in sales price leading to EBITDA margin contraction. Sales per scm increased from Rs27.0/scm in 3QFY18 and Rs28.9/scm in 2QFY19 to Rs30.7/scm in 3QFY19. 2) Employee expenses at Rs347mn in 3QFY19 increased by 26.8% YoY and 15.4% QoQ.

**Earnings growth supported by the rise in other income:** Other income at Rs403mn increased 23.6% YoY and 21.4% QoQ. IGL reported earnings of Rs1,980mn for 3QFY19, representing an increase of 19.3% YoY and 5.7% QoQ.

**Strategy focused on increasing penetration and bidding for additional GAs (geographical areas):** IGL plans to incur a capital expenditure of Rs5,000mn in FY19. The capex plan is as follows: 1) Addition of 30-35 CNG pumps in FY19. 2) Expansion of pipeline infrastructure. 3) Last mile connectivity. CNG pumps and pipeline addition to take place in Rewari, Gurugram, Gautam Budh Nagar, Karnal and Delhi. The management aims at maintaining EBITDA/scm at Rs6 and pass on any rise in the cost of natural gas to consumers.

**Maintain Buy rating on IGL with a target price of Rs385:** Our valuation is based on 25x September 2020E earnings. We have valued the stock at 25x September 2020E earnings because of: 1) Strong monopoly situation in NCR ensuring earnings visibility. 2) Government's focus on growth in natural gas as the preferred mode for meeting energy needs to aid in driving sales growth. 3) Strong balance sheet with a net cash position. 4) Strong operational cash flow with negative working capital expected to meet future capital expenditure. 5) Rising environmental concerns in NCR adding to strong focus of the government on pushing natural gas as the preferred energy source.

**BUY**
**Sector:** Oil & Gas

**CMP:** Rs298

**Target Price:** Rs385

**Upside:** 29%

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### Key Data

Current Shares O/S (mn)	700.0
Mkt Cap (Rsbn/US\$bn)	209.8/4.0
52 Wk H / L (Rs)	321/215
Daily Vol. (3M NSE Avg.)	1,981,273

### Price Performance (%)

	1 M	6 M	1 Yr
Indraprastha Gas	7.8	(1.6)	3.0
Nifty Index	3.1	(2.9)	5.4

Source: Bloomberg

Y/E March (Rsmn)	3QFY19	2QFY19	QoQ (%)	3QFY18	YoY (%)	3QFY19E	Var. (%)
<b>Total revenues</b>	<b>15,084</b>	<b>14,215</b>	<b>6.1</b>	<b>11,839</b>	<b>27.4</b>	<b>15,214</b>	<b>(0.9)</b>
<b>Expenditure:</b>							
(Increase)/decrease of stock in trade	(4)	-	9.5	(3)	0.3	-	
Consumption of raw material	9,077	8,425	7.7	6,731	34.9	9,184	(1.2)
Employee costs	347	301	15.4	274	26.8	307	13.2
Other expenditure	2,486	2,409	3.2	2,207	12.6	2,458	1.1
<b>EBITDA</b>	<b>3,179</b>	<b>3,080</b>	<b>3.2</b>	<b>2,630</b>	<b>20.8</b>	<b>3,265</b>	<b>(2.6)</b>
<b>EBITDA margin (%)</b>	<b>21.1</b>	<b>21.7</b>	<b>-</b>	<b>22.2</b>	<b>-</b>	<b>21.5</b>	<b>-</b>
Depreciation	513	503	1.9	453	13.2	513	(0.0)
Profit from operations before other income	2,666	2,577	3.4	2,177	22.5	2,753	(3.2)
Other income	403	332	21.4	326	23.6	332	21.4
<b>EBIT</b>	<b>3,069</b>	<b>2,909</b>	<b>5.5</b>	<b>2,503</b>	<b>22.6</b>	<b>3,085</b>	<b>(0.5)</b>
Interest and finance charges	9	6	62.5	4	152.8	6	59.6
<b>EBT</b>	<b>3,060</b>	<b>2,903</b>	<b>5.4</b>	<b>2,499</b>	<b>22.4</b>	<b>3,079</b>	<b>(0.6)</b>
Tax expenses	1,080	1,030	-	840	-	1,016	-
<b>Net profit</b>	<b>1,980</b>	<b>1,873</b>	<b>5.7</b>	<b>1,659</b>	<b>19.3</b>	<b>2,063</b>	<b>(4.0)</b>
<b>Net profit margin (%)</b>	<b>13.1</b>	<b>13.2</b>	<b>-</b>	<b>14.0</b>	<b>-</b>	<b>13.6</b>	<b>-</b>

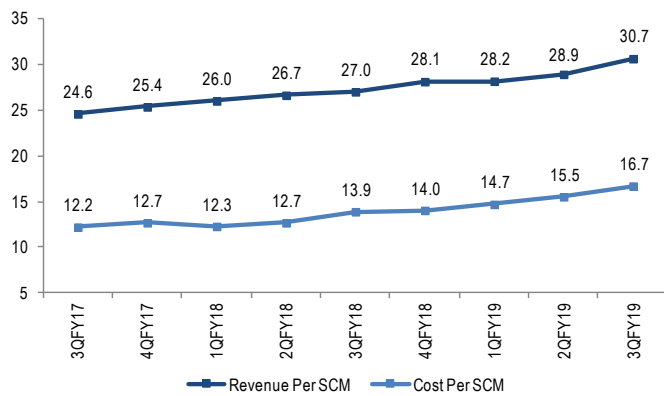
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Key financials

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Revenues	38,154	45,921	53,496	61,337	70,108
YoY (%)	3.5	20.4	16.5	14.7	14.3
EBITDA	9,643	11,144	13,118	15,230	17,640
EBITDA margin (%)	25.3	24.3	24.5	24.8	25.2
PAT	6,069	7,218	8,668	10,041	11,510
YoY (%)	47.9	18.9	20.1	15.8	14.6
EPS (Rs)	8.7	10.3	12.4	14.3	16.4
RoE (%)	20.2	19.8	19.9	19.6	19.2
EV/EBITDA (x)	21.7	18.7	15.9	13.7	11.8
P/E (x)	34.4	28.9	24.1	20.8	18.2

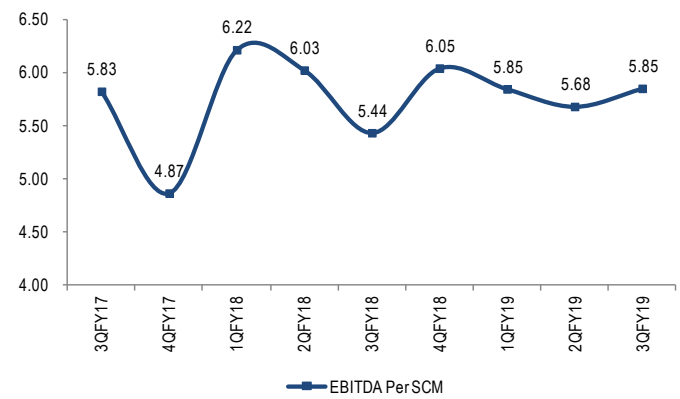
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Revenues and cost/scm



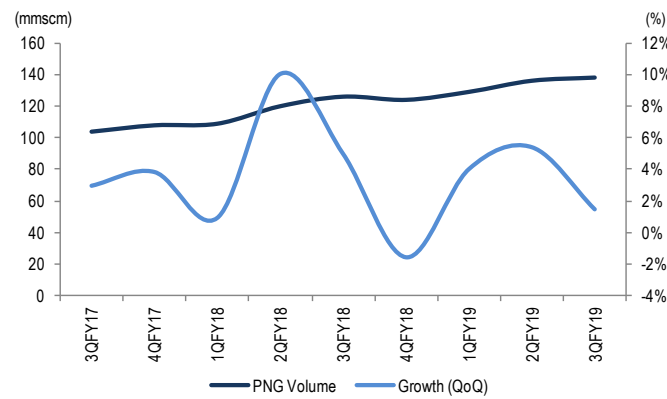
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: EBITDA/scm



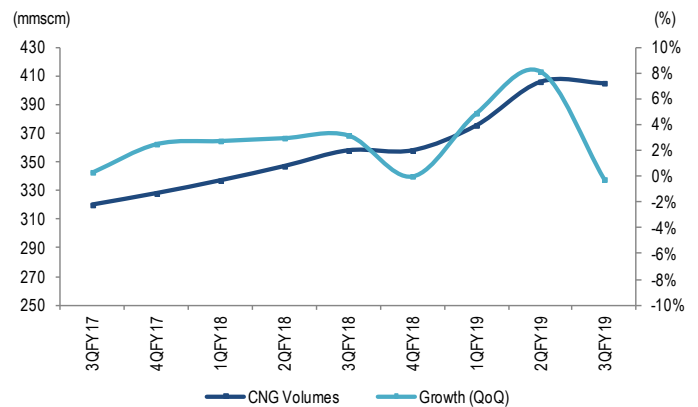
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 4: PNG volume



Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 5: CNG volume



Source: Company, Nirmal Bang Institutional Equities Research

## Consolidated financials

### Exhibit 6: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Net sales</b>	<b>38,154</b>	<b>45,921</b>	<b>53,496</b>	<b>61,337</b>	<b>70,108</b>
Growth YoY (%)	3.5	20.4	16.5	14.7	14.3
COGS	20,837	24,914	28,799	32,736	37,082
Operating costs	2,824	3,552	4,142	4,752	5,432
Other expenses	4,849	6,312	7,437	8,619	9,954
<b>EBITDA</b>	<b>9,643</b>	<b>11,144</b>	<b>13,118</b>	<b>15,230</b>	<b>17,640</b>
<b>EBITDA growth (%)</b>	<b>25.0</b>	<b>15.6</b>	<b>17.7</b>	<b>16.1</b>	<b>15.8</b>
<b>EBITDA margin (%)</b>	<b>25.3</b>	<b>24.3</b>	<b>24.5</b>	<b>24.8</b>	<b>25.2</b>
Depreciation	1,671	1,812	2,152	2,513	2,882
<b>EBIT</b>	<b>7,973</b>	<b>9,332</b>	<b>10,966</b>	<b>12,716</b>	<b>14,758</b>
<b>EBIT (%)</b>	<b>21</b>	<b>20.3</b>	<b>20.5</b>	<b>20.7</b>	<b>21.1</b>
Net interest expenses	(416)	(859)	(1,187)	(1,484)	(1,781)
Other income	32	50	29	33	33
Share of profits in associate cos.	625	719	776	839	906
<b>Earnings before tax</b>	<b>9,045</b>	<b>10,960</b>	<b>12,959</b>	<b>15,072</b>	<b>17,477</b>
Tax- total	2,976	3,742	4,290	5,031	5,968
Rate of tax (%)	33	34.1	33.1	33.4	34.1
<b>Net profit</b>	<b>6,069</b>	<b>7,218</b>	<b>8,668</b>	<b>10,041</b>	<b>11,510</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 8: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Share capital	1,400	1,400	1,400	1,400	1,400
Reserves and surplus	28,717	35,069	42,050	49,804	58,666
<b>Net worth</b>	<b>30,117</b>	<b>36,469</b>	<b>43,450</b>	<b>51,204</b>	<b>60,066</b>
Loans	-	-	-	-	-
Deposits from customers	-	-	-	-	-
Long-term provisions	203	128	153	179	209
Deferred tax liability	2,024	2,596	2,596	2,596	2,596
<b>Total capital employed</b>	<b>32,344</b>	<b>39,193</b>	<b>46,198</b>	<b>53,979</b>	<b>62,870</b>
Net fixed assets	24,689	28,181	31,687	35,173	38,291
Investments	3,661	4,264	4,605	4,974	5,372
Long-term loans & adv.	78	84	78	78	78
Other non-current assets	202	610	610	610	610
<b>Current assets loans &amp; adv.</b>	<b>13,301</b>	<b>17,825</b>	<b>22,325</b>	<b>27,755</b>	<b>34,691</b>
Inventories	517	524	606	690	782
Debtors	2,014	2,261	2,634	3,021	3,452
Cash and bank	6,086	5,580	9,542	14,418	20,734
Loans and advances	25	65	65	65	65
Current investments & others	4,179	8,896	8,896	8,896	8,896
Other current assets	480	500	582	667	763
<b>Less: Current liab. &amp; prov.</b>	<b>9,586</b>	<b>11,771</b>	<b>13,107</b>	<b>14,612</b>	<b>16,172</b>
Current liabilities	9,586	11,771	13,107	14,612	16,172
Provisions	-	-	-	-	-
<b>Net current assets</b>	<b>3,716</b>	<b>6,054</b>	<b>9,218</b>	<b>13,143</b>	<b>18,519</b>
<b>Miscellaneous</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred tax assets</b>	<b>232</b>	<b>232</b>	<b>232</b>	<b>232</b>	<b>232</b>
<b>Total capital employed</b>	<b>32,344</b>	<b>39,193</b>	<b>46,198</b>	<b>53,979</b>	<b>62,870</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 7: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Profit after tax	6,069	7,218	8,668	10,041	11,510
Depreciation	1,671	1,812	2,152	2,513	2,882
Finance costs	(416)	(859)	(1,187)	(1,484)	(1,781)
Other income	(32)	(50)	(29)	(33)	(33)
Provisions	45	-	-	-	-
Working capital changes	2,020	1,463	804	950	940
<b>Operating cash flow</b>	<b>9,358</b>	<b>9,583</b>	<b>10,408</b>	<b>11,987</b>	<b>13,519</b>
Capital Expenditure	(3,314)	(5,305)	(5,658)	(6,000)	(6,000)
<b>Net cash after capex</b>	<b>6,044</b>	<b>4,279</b>	<b>4,751</b>	<b>5,987</b>	<b>7,519</b>
Other income	32	50	29	33	33
Changes in investments	(4,604)	(5,321)	(341)	(368)	(398)
Proceeds/repayment of borrowings	-	-	-	-	-
Finance costs	416	859	1,187	1,484	1,781
Dividend & dividend distribution tax	(1,607)	(843)	(1,688)	(2,286)	(2,648)
Changes in deposits from customers	-	-	-	-	-
Changes in long-term provision	58	(75)	24	26	30
Changes in deferred tax liability	377	572	-	-	-
Others	833	(27)	(0)	-	-
<b>Cash flow from financing</b>	<b>(4,528)</b>	<b>(4,834)</b>	<b>(817)</b>	<b>(1,145)</b>	<b>(1,235)</b>
<b>Total cash generation</b>	<b>1,548</b>	<b>(506)</b>	<b>3,962</b>	<b>4,875</b>	<b>6,316</b>
Opening cash balance	4,538	6,086	5,580	9,542	14,418
<b>Closing cash &amp; bank balance</b>	<b>6,086</b>	<b>5,580</b>	<b>9,542</b>	<b>14,418</b>	<b>20,734</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 9: Key ratios

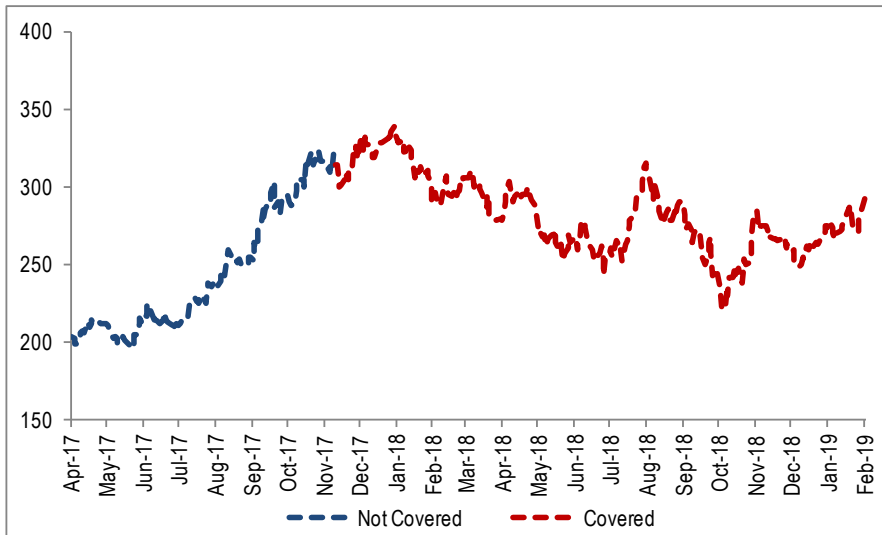
Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Profitability and return ratios</b>					
EBITDA margin (%)	25.3	24.3	24.5	24.8	25.2
EBIT margin (%)	20.9	20.3	20.5	20.7	21.1
Net profit margin (%)	15.9	15.7	16.2	16.4	16.4
RoE(%)	20.2	19.8	19.9	19.6	19.2
RoCE (%)	33.2	30.2	32.3	34.6	37.5
<b>Working capital &amp; liquidity ratios</b>					
Receivables (days)	19	18	18	18	18
Inventory (days)	8	7	7	7	7
Payables (days)	48	50	50	50	50
Current ratio (x)	1.4	1.5	1.7	1.9	2.1
<b>Valuation ratios</b>					
EV/sales (x)	5.5	4.5	3.9	3.4	3.0
EV/EBITDA (x)	21.7	18.7	15.9	13.7	11.8
P/E (x)	34.4	28.9	24.1	20.8	18.2
P/BV (x)	6.9	5.7	4.8	4.1	3.5

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price	Target price (Rs)
13 November 2017	Buy	315	394
8 February 2018	Buy	291	394
24 May 2018	Buy	253	394
13 August 2018	Buy	299	394
6 November 2018	Buy	284	385
7 February 2019	Buy	298	385

## Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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