

Indraprastha Gas

27 May 2019

Reuters: IGAS.NS; Bloomberg: IGL IN

Earnings Performance Driven By Volume Growth

Indraprastha Gas (IGL) reported 4QFY19 earnings of Rs2,255mn, up 14% QoQ and 29% YoY. Earnings growth was driven by: 1) Increase in CNG sales volume from 358mscm in 4QFY18 to 415mscm in 4QFY19, up 16% YoY and 2% QoQ. 2) Rise in PNG sales from 124mscm in 4QFY18 and 138mscm in 3QFY19 to 149mscm in 4QFY19, up 8% QoQ and 20% YoY. 3) Rise in other income by 92% YoY and 27.3% QoQ to Rs513mn in 4QFY19. However, we have observed a rise in the cost of raw material (natural gas) by 34% YoY, leading to a drop in EBITDA margin to 19.5% in 4QFY19 from 23.6% in 4QFY18. We have retained Buy rating on IGL with a revised target price of Rs411 (from Rs385 earlier) based on a forward P/E of 25x March 2021E estimated earnings.

Revenue growth driven by higher PNG/CNG volume and price per scm: IGL reported revenues of Rs17,011mn in 4QFY19, an increase of 12.8% QoQ and 38% YoY. Revenues increased on account of: 1) Increase in CNG sales volume from 358mscm in 4QFY18 to 415mscm in 4QFY19, up 16% YoY and 2% QoQ. 2) Rise in PNG sales from 124mscm in 4QFY18 and 138mscm in 3QFY19 to 149mscm in 4QFY19, up 8% QoQ and 20% YoY. 3) Increase in CNG prices by 9% YoY from Rs28.04/scm in 4QFY18 to Rs30.43/scm in 4QFY19. PNG prices increased 10% YoY to Rs28.93/scm in 4QFY19 from Rs26.21/scm in 4QFY18. CNG and PNG prices dropped by 1% and 3%, respectively, on QoQ basis.

EBITDA margin contracts to 19.5% in 4QFY19: IGL reported EBITDA of Rs3,312mn, up 4.2% QoQ and 13.7% YoY. EBITDA margin stood at 19.5%, down 160bps QoQ and 416bps YoY. EBITDA margin contracted on account of: 1) Rise in the cost of raw material (natural gas) by 34% YoY to Rs9,057mn in 4QFY19 from Rs6,772mn in 4QFY18. 2) Employee expenses at Rs466mn in 3QFY19 rising by 69% YoY and 34% QoQ. EBITDA/scm declined to Rs5.87 in 4QFY19 from Rs6.05 in 4QFY18.

Earnings growth supported by the rise in other income: Other income at Rs513mn increased 27.3% YoY and 92% QoQ. IGL reported earnings of Rs2,255mn for 4QFY19, representing an increase of 29% YoY and 14% QoQ.

Decline in interest expenses supports earnings: The interest expenses for 4QFY19 stood at Rs0.2mn, down 98% QoQ and 97% YoY. The company has nil debt outstanding as on 31 March 2019.

Maintain Buy rating on IGL with a revised target price of Rs411: Our valuation is based on 25x March 2021E earnings. We have valued the stock at 25x March 2021E 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 a preferred energy source. We will be revising our estimates shortly.

BUY
Sector: Oil & Gas

CMP: Rs314

Target Price: Rs411

Upside: 31%

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Key Data

Current Shares O/S (mn)	700.0
Mkt Cap (Rsbn/US\$bn)	219.8/4.1
52 Wk H / L (Rs)	330/215
Daily Vol. (3M NSE Avg.)	1,753,097

Price Performance (%)

	1 M	6 M	1 Yr
Indraprastha Gas	1.8	18.4	24.2
Nifty Index	1.0	12.5	12.7

Source: Bloomberg

Y/E March (Rsmn)	4QFY19	3QFY19	QoQ (%)	4QFY18	YoY (%)	4QFY19E	Var. (%)
Net sales	17,011	15,084	12.8	12,329	38.0	15,859	7.3
Cost of goods	(10,643)	(9,073)	17.3	(6,770)	57.2	(9,701)	9.7
Employee benefits expenses	(466)	(347)	34.2	(277)	68.5	(354)	31.6
Other expenses	(2,590)	(2,486)	4.2	(2,369)	9.3	(2,536)	2.1
EBITDA	3,312	3,179	4.2	2,914	13.7	3,269	1.3
EBITDAM (%)	19.5	21.1		23.6		20.6	
Depreciation and amortisation	(522)	(513)	1.9	(470)	11.1	(523)	(0.1)
EBIT	2,790	2,666	4.6	2,443	14.2	2,746	1.6
EBITM (%)	16.4	17.7		19.8		17.3	
Other income	513	403	27.3	267	92.0	411	24.8
Interest expenses	(0.2)	(9)	(97.8)	(6)	(96.7)	(9)	(97.8)
Extraordinary/exceptional items	-	-	-	-	-	-	-
Profit before tax	3,303	3,060	7.9	2,705	22.1	3,148	4.9
Tax expenses	(1,048)	(1,080)	(3.0)	(957)	9.4	(1,039)	0.8
Effective tax rate (%)	32	35		35		33	
PAT	2,255	1,980	13.9	1,747	29.1	2,109	6.9
NPM (%)	13.3	13.1		14.2		13.3	

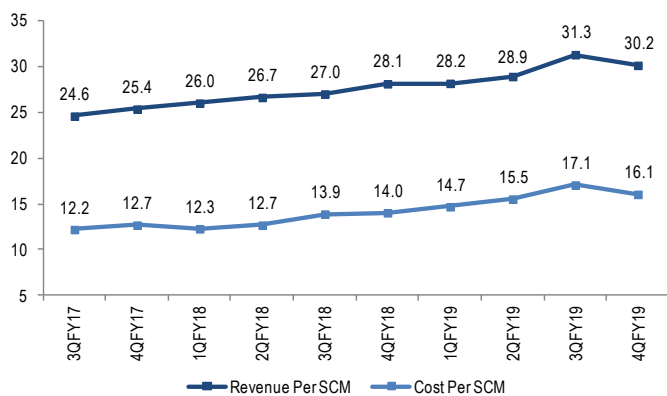
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Key financials

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	38,154	45,921	57,648	61,337	70,108
YoY (%)	3.5	20.4	25.5	14.7	14.3
EBITDA	9,643	11,144	12,572	15,230	17,640
EBITDA margin (%)	25.3	24.3	21.8	24.8	25.2
PAT	6,069	7,218	8,424	10,041	11,510
YoY (%)	47.9	18.9	16.7	15.8	14.6
EPS (Rs)	8.7	10.3	12.0	14.3	16.4
RoE (%)	20.2	19.8	19.5	19.6	19.2
EV/EBITDA (x)	21.7	18.7	17.5	13.7	11.8
P/E (x)	34.4	28.9	26.1	20.8	18.2

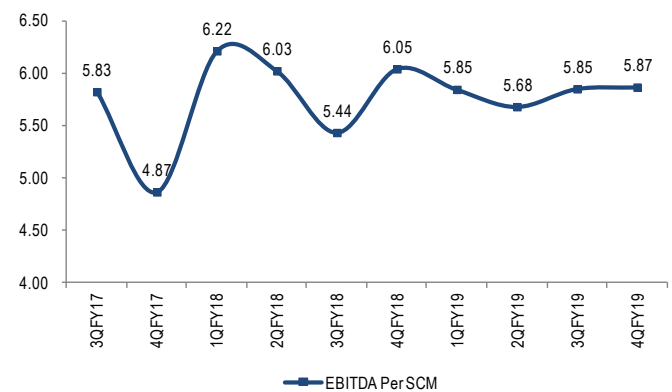
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Revenues and cost/scm



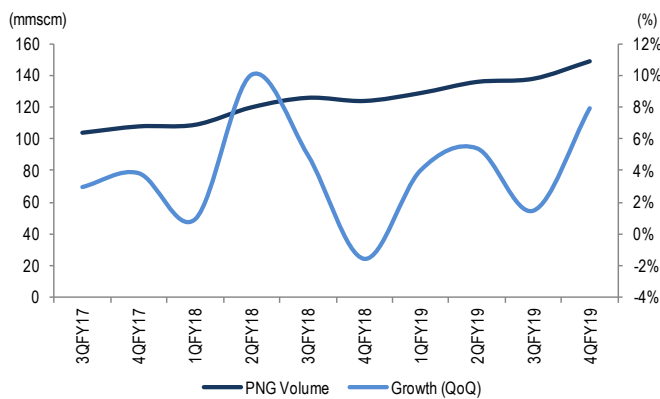
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: EBITDA/scm



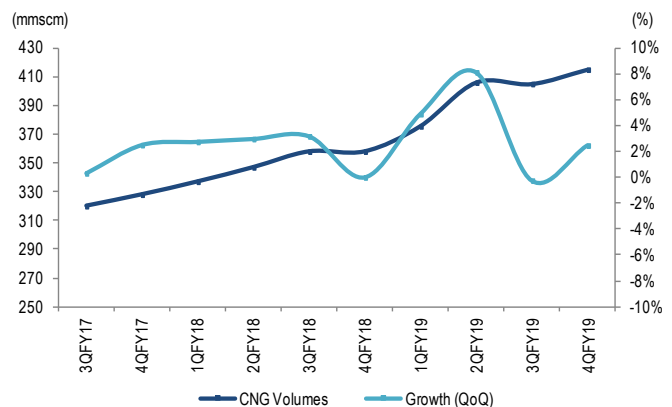
Source: Company, Nirmal Bang Institutional Equities Research

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
Net sales	38,154	45,921	57,648	61,337	70,108
Growth YoY (%)	3.5	20.4	25.5	6.4	14.3
COGS	20,837	24,914	33,976	32,736	37,082
Operating costs	2,824	3,552	-	4,752	5,432
Other expenses	4,849	6,312	11,100	8,619	9,954
EBITDA	9,643	11,144	12,572	15,230	17,640
EBITDA growth (%)	25.0	15.6	12.8	21.1	15.8
EBITDA margin (%)	25.3	24.3	21.8	24.8	25.2
Depreciation	1,671	1,812	2,011	2,513	2,882
EBIT	7,973	9,332	10,562	12,716	14,758
EBIT (%)	21	20.3	18.3	20.7	21.1
Net interest expenses	(416)	(859)	21	(1,484)	(1,781)
Other income	32	50	1,285	33	33
Share of profits in associate cos.	625	719	870	839	906
Earnings before tax	9,045	10,960	12,695	15,072	17,477
Tax- total	2,976	3,742	4,272	5,031	5,968
Rate of tax (%)	33	34.1	33.6	33.4	34.1
Net profit	6,069	7,218	8,424	10,041	11,510
EPS	9	10	12	14	16

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	1,400	1,400	1,400	1,400	1,400
Reserves and surplus	28,717	35,069	41,757	49,804	58,666
Net worth	30,117	36,469	43,157	51,204	60,066
Loans	-	-	-	-	-
Deposits from customers	-	-	-	-	-
Long-term provisions	203	128	196	179	209
Deferred tax liability	2,024	2,596	3,160	2,596	2,596
Total capital employed	32,344	39,193	46,512	53,979	62,870
Net fixed assets	24,689	28,181	33,549	35,173	38,291
Investments	3,661	4,264	4,921	4,974	5,372
Long-term loans & adv.	78	84	115	78	78
Other non-current assets	202	610	825	610	610
Current assets loans & adv.	13,301	17,825	22,424	27,755	34,691
Inventories	517	524	509	690	782
Debtors	2,014	2,261	2,215	3,021	3,452
Cash and bank	6,086	5,580	6,071	14,418	20,734
Loans and advances	25	65	38	65	65
Current investments & others	4,179	8,896	12,859	8,896	8,896
Other current assets	480	500	732	667	763
Less: Current liab. & prov.	9,586	11,771	15,321	14,612	16,172
Current liabilities	9,586	11,771	15,321	14,612	16,172
Provisions	-	-	-	-	-
Net current assets	3,716	6,054	7,103	13,143	18,519
Miscellaneous	-	-	-	-	-
Deferred tax assets	232	232	-	232	232
Total capital employed	32,344	39,193	46,512	53,979	62,870

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Profit after tax	6,069	7,218	8,424	10,041	11,510
Depreciation	1,671	1,812	2,011	2,513	2,882
Finance costs	(416)	(859)	21	(1,484)	(1,781)
Other income	(32)	(50)	(1,285)	(33)	(33)
Provisions	45	-	-	-	-
Working capital changes	2,020	1,463	3,160	950	940
Operating cash flow	9,358	9,583	12,330	11,987	13,519
Capital Expenditure	(3,314)	(5,305)	(7,379)	(6,000)	(6,000)
Net cash after capex	6,044	4,279	4,951	5,987	7,519
Other income	32	50	1,285	33	33
Changes in investments	(4,604)	(5,321)	(4,619)	(368)	(398)
Proceeds/repayment of borrowings	-	-	-	-	-
Finance costs	416	859	(21)	1,484	1,781
Dividend & dividend distribution tax	(1,607)	(843)	-	(2,286)	(2,648)
Changes in deposits from customers	-	-	-	-	-
Changes in long-term provision	58	(75)	67	26	30
Changes in deferred tax liability	377	572	564	-	-
Others	833	(27)	(1,736)	3,471	-
Cash flow from financing	(4,528)	(4,834)	(5,745)	2,327	(1,235)
Total cash generation	1,548	(506)	491	8,347	6,316
Opening cash balance	4,538	6,086	5,580	6,071	14,418
Closing cash & bank balance	6,086	5,580	6,071	14,418	20,734

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Key ratios

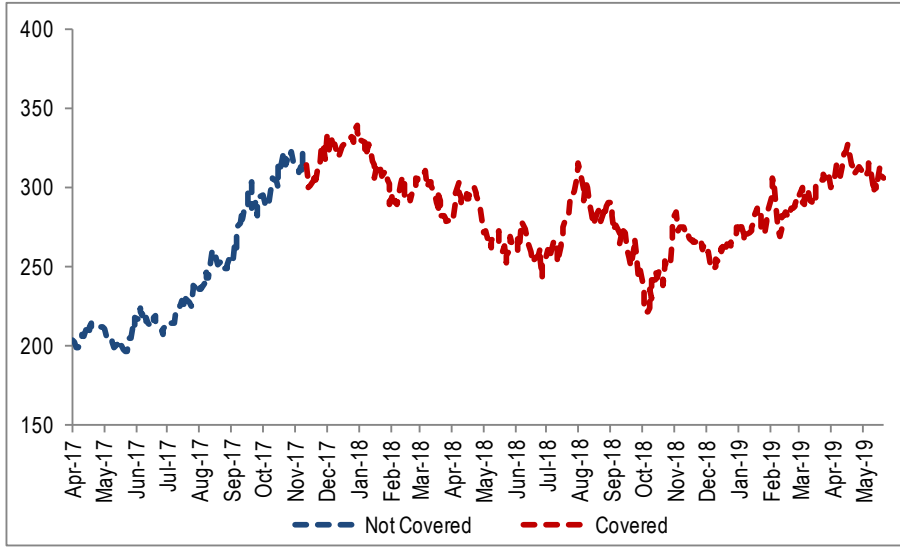
Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Profitability and return ratios					
EBITDA margin (%)	25.3	24.3	21.8	24.8	25.2
EBIT margin (%)	20.9	20.3	18.3	20.7	21.1
Net profit margin (%)	15.9	15.7	14.6	16.4	16.4
RoE(%)	20.2	19.8	19.5	19.6	19.2
RoCE (%)	33.2	30.2	28.5	34.6	37.5
Working capital & liquidity ratios					
Receivables (days)	19	18	14	18	18
Inventory (days)	8	7	6	7	7
Payables (days)	48	50	36	50	50
Current ratio (x)	1.4	1.5	1.5	1.9	2.1
Valuation ratios					
EV/sales (x)	5.8	4.8	3.8	3.6	3.1
EV/EBITDA (x)	22.8	19.7	17.5	14.4	12.5
P/E (x)	36.2	30.4	26.1	21.9	19.1
P/BV (x)	7.3	6.0	5.1	4.3	3.7

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
27 May 2019	Buy	314	411

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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