

## Policy action to determine stock performance...

Indraprastha Gas (IGL) reported its Q1FY21 results that were below our estimates. Revenues fell 59.5% YoY to ₹ 638.6 crore, below our estimate of ₹ 769.4 crore, due to lower than expected volumes. Volumes were at 2.7 mmscmd (our estimate: ₹ 3.4 mmscmd). Gross margins were above estimates and increased ₹ 2.1/scm YoY, ₹ 1/scm QoQ to ₹ 13.5/scm due to lower gas costs. EBITDA was at ₹ 83.4 crore, down 76.7% YoY due to lower volumes and negative operating leverage. On the profitability front, PAT was at ₹ 31.8 crore, down 85.4% YoY and below our estimate of ₹ 105.1 crore.

## Sharp volume de-growth during lockdown

IGL's volume declined sharply 56.6% YoY to 2.7 mmscmd during the quarter on account of lockdown. CNG sales volume fell 65.6% YoY to 1.6 mmscmd (our estimate: 2.2 mmscmd) due to travel restrictions. PNG volumes also de-grew 30.3% YoY to 1.1 mmscmd (our estimate: 1.2 mmscmd). Within PNG segment, domestic PNG segment reported strong growth of 39% YoY while industrial/commercial PNG segment de-grew 40% YoY. CNG & industrial/commercial PNG volumes are expected to remain subdued due to extended lockdown in the near term. We expect volume growth to be witnessed from Q4FY21E onwards. We estimate sales volumes at 5.1 mmscmd and 7.2 mmscmd in FY21E and FY22E, respectively.

## Stable margin outlook, going ahead

Gross margins in Q1FY21 were at ₹ 13.5/scm, above our estimates due to lower gas costs. Lower gas costs have enabled IGL to sustain healthy margins. IGL has hiked CNG retail prices twice in the last three months to recover increased fixed costs. Going forward, given the company's good pricing power, we believe it will continue to maintain healthy margins. Going forward, we expect gross margins at ₹ 12.9/scm and ₹ 12.3/scm for FY21E and FY22E, respectively.

## Valuation & Outlook

The environmental concerns in Delhi had brought forth the urgency of using cleaner fuels, putting the company in a sweet spot. IGL has a unique identity of a company with a rare mix of volume growth and strong margins. However, there is a risk to its business growth if PNGRB implements open access policy for CGD network and faster adoption of EVs. In the near term, due to Covid-19 initiated lockdown, CNG and industrial/commercial PNG sales dipped in Q1FY21 and have not fully recovered yet. We believe a full recovery in demand will take time. We maintain **HOLD** recommendation on the stock and value standalone IGL at ₹ 378/share (21x FY22E EPS) and investment in Central UP Gas (CUGL) and Maharashtra Natural Gas (MNGL) at ₹ 32/share to arrive at a target price of ₹ 410.

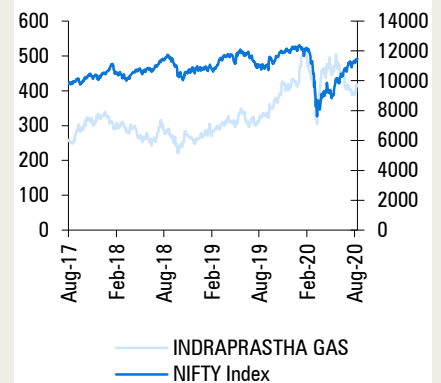
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	28,490.0
Total Debt (FY 19) (₹ Crore)	-
Cash and Investments (FY 19)	607.1
EV (₹ Crore)	27,882.9
52 week H/L	534/285
Equity capital (₹ Crore)	140.0
Face value (₹)	2.0

### Key Highlights

- Results below our estimates on account of lower volumes and negative operating leverage
- Margins expected to remain healthy on account of lower gas costs
- Maintain HOLD rating on stock with target price of ₹ 410 /share

### Price Chart



### Research Analyst

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### Key Financial Summary

(Year-end March)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20E-22E)
Revenues (₹ crore)	4,592.1	5,760.0	6,485.3	4,764.1	6,776.2	2.2
EBITDA (₹ crore)	1,113.3	1,252.1	1,519.6	1,222.2	1,806.1	9.0
Net Profit (₹ crore)	670.8	786.7	1,136.5	826.6	1,258.1	5.2
EPS (₹)	9.6	11.2	16.2	11.8	18.0	
P/E (x)	42.5	36.2	25.1	34.5	22.6	
Price / Book (x)	8.1	6.9	5.7	5.1	4.4	
EV/EBITDA (x)	25.1	22.3	18.5	23.3	15.6	
RoCE (%)	26.5	25.4	25.2	16.7	22.6	
RoE (%)	19.1	19.0	22.6	14.8	19.5	
Source: Company, ICICI Direct Research	21.4	22.8	22.7	27.5	22.0	

**Exhibit 1: Variance Analysis**

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Total Revenues	638.6	769.4	1,576.1	-59.5	1,552.5	-58.9	Below estimates due to lower-than-expected volumes
Raw materials costs	299.1	400.1	921.7	-67.6	826.2	-63.8	
Employees Cost	31.4	38.5	36.7	-14.4	35.0	-10.3	
Other Expenses	224.6	169.3	259.3	-13.4	314.6	-28.6	
Total Expenditure	555.1	607.8	1,217.7	-54.4	1,175.8	-52.8	
EBITDA	83.4	161.6	358.5	-76.7	376.7	-77.9	Lower than expectations on account of lower volumes and negative operating leverage
EBITDA margins (%)	13.1	21.0	22.7	-968 bps	24.3	-1120 bps	
Depreciation	68.2	67.8	60.5	12.7	65.5	4.1	
EBIT	15.3	93.8	298.0	-94.9	311.2	-95.1	
Interest	2.4	0.5	1.6	NA	2.7	-11.2	
Other Income	30.6	47.4	35.4	-13.5	31.3	-2.0	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	43.5	140.7	331.8	-86.9	339.8	-87.2	
Total Tax	11.7	35.6	113.4	-89.7	86.5	-86.5	
PAT	31.8	105.1	218.4	-85.4	253.4	-87.4	

**Key Metrics**

Sales Volumes (mmscmd)	2.7	3.4	6.3	-56.6	6.2	-56.4	CNG volumes were at 1.6 mmscmd whereas PNG volumes came in at 1.1 mmscmd
Realisation (₹/scm)	27.8	27.0	30.5	-8.9	29.9	-7.1	
Gross Margin (₹/scm)	13.5	11.8	11.4	18.6	12.6	7.7	Higher than estimates due to lower gas costs

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	5724.8	4,764.1	-16.8	7471.8	6,776.2	-9.3	
EBITDA	1469.6	1,222.2	-16.8	1939.7	1,806.1	-6.9	Lowered estimates due to decline in volumes
EBITDA Margin (%)	25.7	25.7	-2 bps	26.0	26.7	69 bps	
PAT	1009.7	826.6	-18.1	1321.4	1,258.1	-4.8	
EPS (₹)	14.4	11.8	-18.1	18.9	18.0	-4.8	

Source: Company, ICICI Direct Research

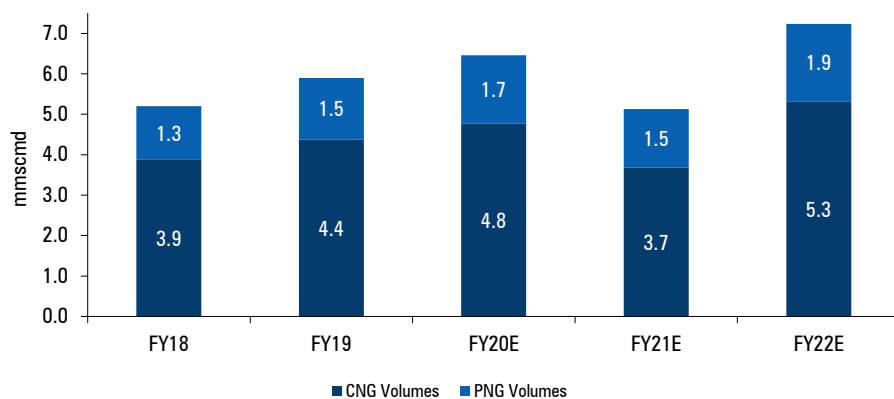
**Exhibit 3: Assumptions**

	Current				Earlier		Comments
	FY19	FY20E	FY21E	FY22E	FY21E	FY22E	
Sales Volumes (mmscmd)	5.9	6.4	5.1	7.2	6.2	8.1	Revise estimates to factor in lower CNG conversions and extended lockdown in FY21E
Realisation (₹/scm)	29.5	30.3	27.9	28.3	27.8	27.9	
Gross Margin (₹/scm)	10.9	11.8	12.9	12.3	11.7	11.5	Increased margin estimates to factor in low gas costs

Source: Company, ICICI Direct Research

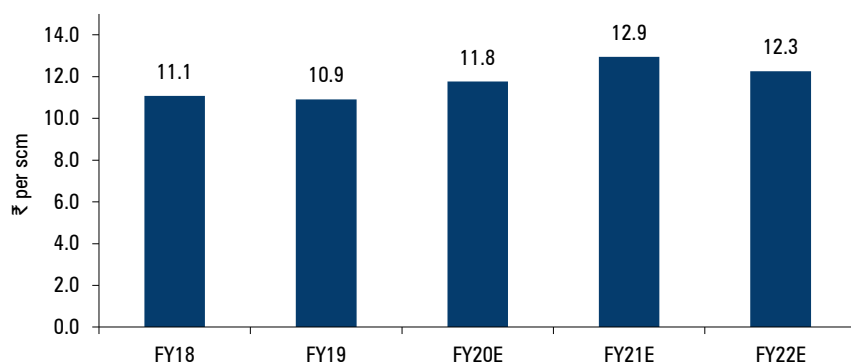
## Story in charts

Exhibit 4: Volume trajectory



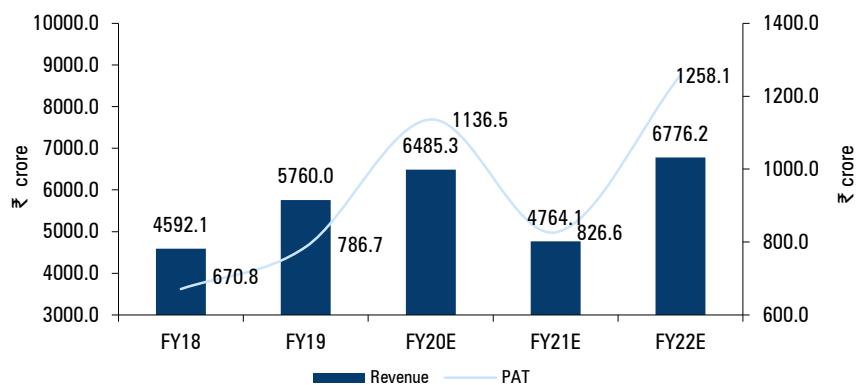
Source: Company, ICICI Direct Research

Exhibit 5: Gross margin trend



Source: Company, ICICI Direct Research

Exhibit 6: Revenues & PAT trend



Source: Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	45.0	45.0	45.0	45.0	45.0
FII	22.8	23.8	24.5	22.8	22.3
DII	16.7	15.9	15.7	16.8	17.2
Others	15.5	15.3	14.8	15.5	15.5

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>5760.0</b>	<b>6485.3</b>	<b>4764.1</b>	<b>6776.2</b>
Growth (%)	25.4	12.6	-26.5	42.2
Raw material Costs	3397.3	3679.4	2313.2	3513.2
Employee Costs	142.6	151.7	137.7	169.4
Other Expenditure	968.0	1134.6	1091.0	1287.5
Op. Expenditure	4507.9	4965.6	3541.8	4970.1
EBITDA	1252.1	1519.6	1222.2	1806.1
Growth (%)	12.5	21.4	-19.6	47.8
<b>Depreciation</b>	<b>201.1</b>	<b>252.3</b>	<b>289.2</b>	<b>344.9</b>
EBIT	1051.0	1267.4	933.0	1461.1
Interest	2.0	8.1	3.9	2.0
Other Income	151.0	156.4	178.3	225.0
PBT	1200.0	1415.7	1107.5	1684.1
Growth (%)	16.2	18.0	-21.8	52.1
Tax	413.4	279.1	280.9	426.1
<b>Reported PAT</b>	<b>786.7</b>	<b>1136.5</b>	<b>826.6</b>	<b>1258.1</b>
Growth (%)	17.3	44.5	-27.3	52.2
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	786.7	1136.5	826.6	1258.1
<b>EPS</b>	<b>11.2</b>	<b>16.2</b>	<b>11.8</b>	<b>18.0</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Source of Funds</b>				
Equity Capital	140.0	140.0	140.0	140.0
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	3,989.9	4,897.1	5,437.0	6,326.5
Shareholder's Fund	4,129.9	5,037.1	5,577.0	6,466.5
Loan Funds	0.0	0.0	0.0	0.0
Deferred Tax Liability	267.8	297.8	327.8	357.8
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>5047.4</b>	<b>6024.6</b>	<b>6634.6</b>	<b>7594.1</b>
<b>Application of Funds</b>				
Gross Block	3,518.4	4,418.4	5,368.4	6,468.4
Less: Acc. Depreciation	641.6	900.4	1,197.8	1,556.7
Net Block	2,876.9	3,518.0	4,170.6	4,911.7
Capital WIP	478.1	678.1	628.1	528.1
Total Fixed Assets	3,354.9	4,196.1	4,798.7	5,439.8
Investments	1,544.0	1,744.0	1,994.0	2,244.0
Inventories	50.9	74.6	54.8	78.0
Debtor	221.5	284.3	208.8	297.0
Cash	607.1	426.3	37.6	237.3
Loan & Advance, Other CA	170.9	213.1	221.6	265.9
Total Current assets	1050.4	998.3	522.8	878.2
Current Liabilities	881.4	888.4	652.6	928.2
Provisions	20.6	25.4	28.4	39.7
Total CL and Provisions	902.0	913.8	681.0	968.0
Net Working Capital	148.4	84.5	-158.2	-89.7
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>5047.4</b>	<b>6024.6</b>	<b>6634.6</b>	<b>7594.1</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after Tax	786.7	1,136.5	826.6	1,258.1
Add: Depreciation	201.1	252.3	289.2	344.9
Add: Others	42.5	30.0	30.0	30.0
Cash Profit	861.5	1,189.5	859.2	1,264.4
Increase/(Decrease) in CL	256.6	11.8	-232.8	287.0
(Increase)/Decrease in CA	-38.9	-128.7	86.8	-155.6
<b>CF from Operating Activities</b>	<b>1280.3</b>	<b>1324.9</b>	<b>1002.3</b>	<b>1740.7</b>
Purchase of Fixed Assets	738.0	1,093.4	891.8	986.0
(Inc)/Dec in Investments	-396.3	-200.0	-250.0	-250.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activities</b>	<b>-1,134.3</b>	<b>-1,293.4</b>	<b>-1,141.8</b>	<b>-1,236.0</b>
Inc/(Dec) in Loan Funds	105.0	40.0	40.0	40.0
Less: Dividend Paid	168.8	229.3	286.7	368.6
Inc/(Dec) in Sh. Cap. & Res.	-0.9	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-64.7</b>	<b>-189.3</b>	<b>-246.7</b>	<b>-328.6</b>
Change in cash Eq.	49.1	-180.8	-388.7	199.8
Op. Cash and cash Eq.	558.0	607.1	426.3	37.6
<b>Cl. Cash and cash Eq.</b>	<b>607.1</b>	<b>426.3</b>	<b>37.6</b>	<b>237.3</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Per share data (₹)</b>				
Book Value	59.0	72.0	79.7	92.4
Cash per share	27.0	27.3	25.3	31.8
EPS	11.2	16.2	11.8	18.0
Cash EPS	14.1	19.8	15.9	22.9
DPS	2.0	2.8	3.5	4.5
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	21.7	23.4	25.7	26.7
PAT Margin (%)	13.7	17.5	17.4	18.6
Fixed Asset Turnover (x)	1.7	1.5	1.0	1.2
Inventory Turnover (Days)	3.2	4.2	4.2	4.2
Debtor (Days)	14.0	16.0	16.0	16.0
Current Liabilities (Days)	55.9	50.0	50.0	50.0
<b>Return Ratios (%)</b>				
RoE	19.0	22.6	14.8	19.5
RoCE	25.4	25.2	16.7	22.6
RoIC	47.0	40.6	24.5	34.4
<b>Valuation Ratios (x)</b>				
PE	36.2	25.1	34.5	22.6
Price to Book Value	6.9	5.7	5.1	4.4
EV/EBITDA	22.3	18.5	23.3	15.6
EV/Sales	4.8	4.3	6.0	4.2
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	NA	NA	NA	NA
Debt to EBITDA (x)	0.0	0.0	0.0	0.0
Current Ratio	1.2	1.1	0.8	0.9
Quick ratio	1.1	1.0	0.7	0.8

Source: Company, ICICI Direct Research

**Exhibit 12: ICICI Direct Coverage Universe (Oil & Gas)**

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
GAIL (India) (GAIL)	96	90	Reduce	43,297	14.7	7.1	9.1	6.5	13.5	10.6	5.5	9.8	8.1	12.6	5.6	7.2	14.0	6.7	8.3
Gujarat Gas (GUJGA)	304	350	Buy	20,927	17.3	14.0	18.4	17.5	21.6	16.5	13.4	12.5	9.8	26.7	26.0	30.2	36.4	23.2	24.1
HPCL (HINPET)	215	220	Hold	32,799	17.3	37.2	25.9	12.4	5.8	8.3	13.3	6.6	7.1	2.8	9.4	6.6	9.1	17.5	11.8
Indian Oil Corp (INDOIL)	87	90	Hold	79,875	1.4	9.9	11.7	60.8	8.8	7.5	4.3	3.3	3.0	4.9	7.6	8.8	1.3	8.5	10.1
Indraprastha Gas (INDGAS)	407	410	Hold	28,490	16.2	11.8	18.0	25.1	34.5	22.6	18.5	23.3	15.6	25.2	16.7	22.6	22.6	14.8	19.5
Mahanagar Gas (MAHGAS)	970	1145	Hold	9,581	80.3	54.1	87.4	12.1	17.9	11.1	8.5	11.4	6.8	32.0	20.5	29.2	28.5	17.6	23.9
ONGC (ONGC)	77	80	Hold	98,817	10.5	4.4	10.9	7.3	17.5	7.1	2.5	4.5	3.4	9.2	1.3	5.7	6.3	2.6	6.3
Petronet LNG (PETLNG)	258	300	Buy	38,700	18.0	17.2	20.0	14.3	15.0	12.9	9.5	8.6	7.6	22.3	24.5	29.0	24.6	23.3	26.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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