

Indraprastha Gas

BSE SENSEX
61,193

S&P CNX
18,090



INDRAPRASTHA GAS LIMITED

Stock Info

Bloomberg	IGL IN
Equity Shares (m)	700
M.Cap.(INRb)/(USDb)	344.9 / 4.2
52-Week Range (INR)	501 / 335
1, 6, 12 Rel. Per (%)	10/16/34
12M Avg Val (INR M)	960
Free float (%)	55.0

Financials Snapshot (INR b)

Y/E March	FY23E	FY24E	FY25E
Sales	142.5	138.5	144.1
EBITDA	20.3	20.7	22.1
Adj. PAT	14.1	14.2	15.3
Adj. EPS (INR)	20.1	20.3	21.8
EPS Gr. (%)	7.2	0.6	7.8
BV/Sh.(INR)	113.3	127.6	143.1

Ratios

Net D:E	-0.5	-0.4	-0.5
RoE (%)	19.0	16.8	16.1
RoCE (%)	18.4	16.4	15.8
Payout (%)	29.3	29.3	29.3

Valuation

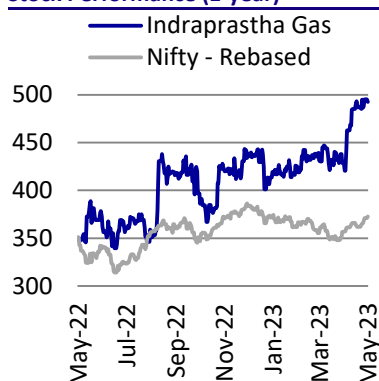
P/E (x)	24.4	24.2	22.5
P/BV (x)	4.3	3.8	3.4
EV/EBITDA (x)	15.2	14.7	13.5
Div. Yield (%)	1.2	1.2	1.3
FCF Yield (%)	7.8	2.0	3.2

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	45.0	45.0	45.0
DII	25.5	24.7	21.9
FII	21.3	21.8	19.9
Others	8.3	8.5	13.2

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR491

TP: INR345 (-31%)

Sell

Electric dreams threaten CNG pickup

- Led by FAME, higher launches by OEMs and improving charging infrastructure, the penetration of EVs has steadily improved to 12% in CY22 v/s 8% in CY17 as percentage of new vehicle sales (excluding two wheelers) in Delhi, as per Parivahan data. As Lithium prices have started cooling off sharply, we expect the penetration to pick-up even more going forward.
- CNG conversions were adversely impacted in the past few quarters, due to shrinking saving potential of CNG v/s petrol/diesel. As mentioned in our note ([previous report](#)), we expect sourcing cost to remain high for CGDs, thereby putting pressure on margin as well as conversions.
- Additionally, the continued efforts by the Delhi government to increase the share of EVs to 25% by 2024 pose a serious risk to CNG volume growth potential in the region. Hence, we reiterate our Sell rating on the stock with a TP of INR345.

Penetration of EVs on the rise

- According to Parivahan data, penetration of EVs in sale of new vehicles (excluding two-wheelers) in Delhi had reached a peak of 18% in Mar'23 compared to 8% in FY17.
- The increased penetration may be attributable to reducing TCO of EVs compared to CNG vehicles. According to IRM Energy's DHRP, the TCO for CNG vehicles was just 7% cheaper than that of EVs.
- Furthermore, the Delhi government has one of the most aggressive EV policies in the country with the aim of increasing EV penetration to 25% by 2024.
- Considering that insufficient infrastructure could pose a major obstacle in achieving their EV adoption target, the Delhi government plans on increasing EV charging stations to 18,000 by 2024 from 2,737 currently.

Saving potential has diminished over time for CNG

- The running cost of CNG vehicles per km. in Delhi has doubled since FY17, while the same for petrol/diesel vehicles has gone up by 47%/64% during the same period.
- This has led to substantial reduction in saving potential for CNG vehicles. Currently, the running cost of CNG vehicles is 43%/22% lower than petrol/diesel, while the same was 58%/36% lower in FY17.
- This in turn has resulted in conversion rate of CNG vehicles declining to around 13,000-14,000/month in 3QFY23 from its peak of 16,000-17,000/month.
- Also, the implementation of floor price of USD4/mmBtu under the new APM pricing mechanism would increase gas sourcing cost for CGDs compared to the previous pricing regime. Hence, the saving potential is unlikely to reach historical highs.

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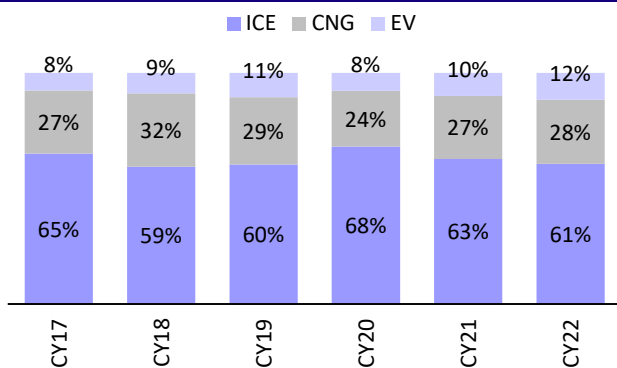
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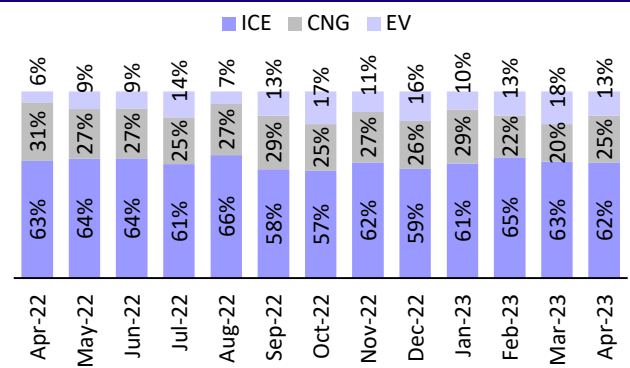
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Valuation and view

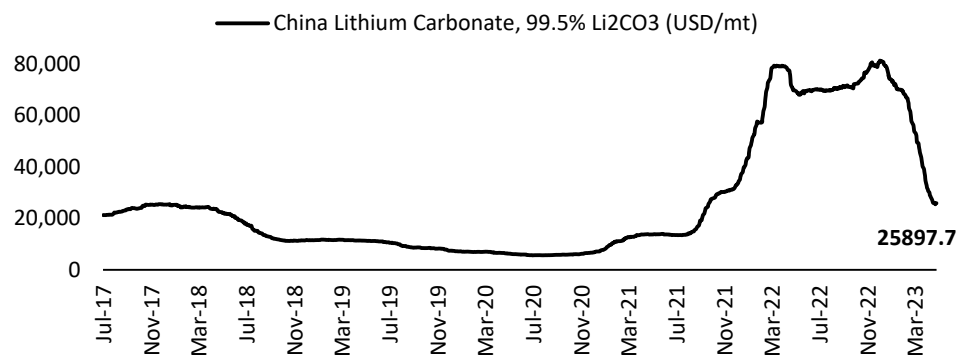
- As IGL's management has stated, almost half of the incremental volume in the next two years is likely to come from industrial segment, which would not only pressure IGL's EBITDA/scm but also make it more volatile.
- While the company has a strong volume growth potential in the near term, the long-term volume growth remains a challenge due to threat from electric vehicles. Additionally, the loss of potential volumes from Faridabad & Gurugram GAs due to PNGRB's recent order is also negative.
- **We reiterate our Sell rating** on the stock valuing it at 14x FY25E EPS and adding the value of investments at 25% holding company discount to arrive at our TP of INR345. Stricter mandate on the adoption of natural gas by industries/ vehicles remains the key risk to our call.

Exhibit 1: EV penetration has been increasing steadily...

Source: Parivahan, MOFSL

Exhibit 2: ...and had peaked at 18% in Mar'23

Source: Parivahan, MOFSL

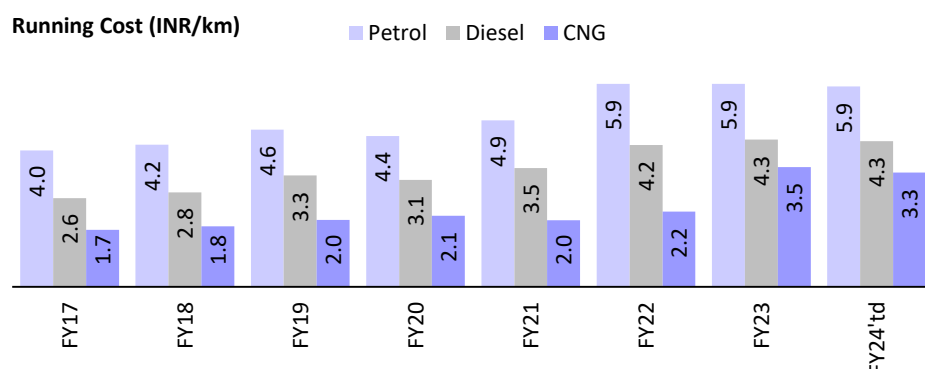
Exhibit 3: Lithium prices have cooled off considerably over past few months

Source: Bloomberg, MOFSL

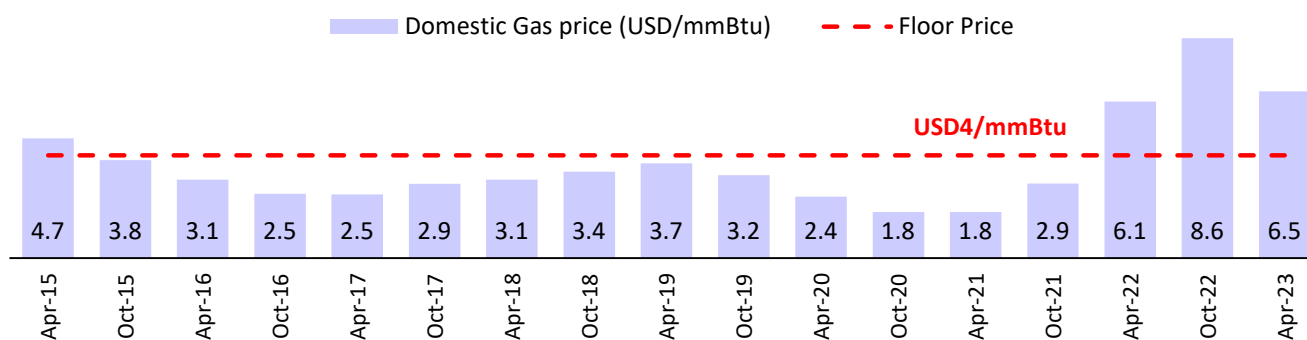
Exhibit 4: Comparative overview of TCO

Parameters	EV ³	Petrol	Diesel	CNG	Auto LPG ⁴
On road price (Rs)	13,33,011	8,81,879	11,16,794	9,36,879	9,21,879
Cost of fuel (Rs / litre or Rs/ kg or Rs / kwh)	6	96.7	89.6	77.1	62.8
Fuel efficiency (km / unit fuel)	7.39	16.48	21	22	14.6
Cost per km	0.8	5.9	4.3	3.5	4.3
CNG running cost competitiveness %	77%	-67%	-22%	0%	23%
Life of vehicle (years)	8	8	8	8	8
Average distance per year (km)	12,000	12,000	12,000	12,000	12,000
Running cost	77,943	5,63,417	4,09,691	3,36,480	4,12,932
Maintenance cost / year	5,000	6,000	9,000	7,500	6,000
Salvage value after 8 years	1,06,641	70,550	89,344	74,950	73,750
TCO	13,44,313	14,22,746	15,09,142	12,58,409	13,09,060
CNG total cost competitiveness %	-7%	-13%	-20%		-4%

Source: IRM Energy DRHP, MOFSL

Exhibit 5: Saving potential of CNG has declined over time

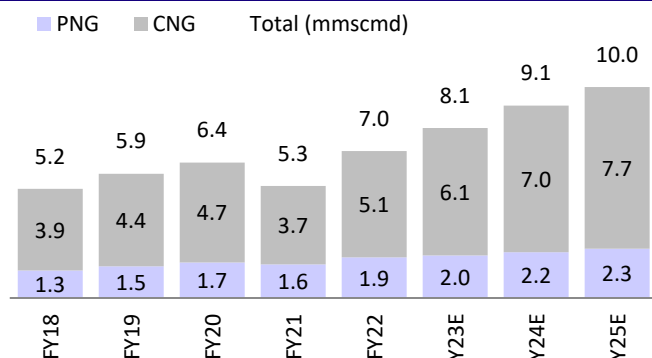
Source: Goodreturns, MOFSL

Exhibit 6: APM prices to be higher for CGDs in the future, due to implementation of floor price

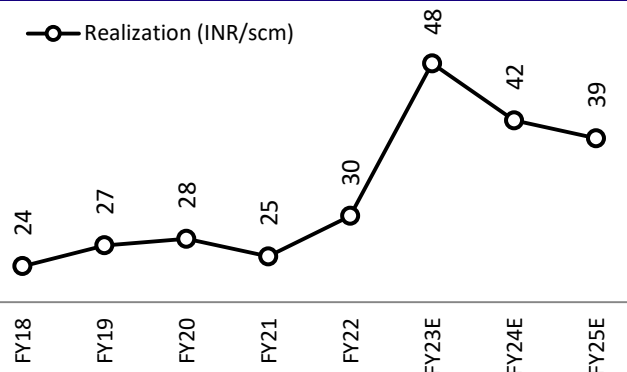
Note: APM prices have remained stable at USD6.5/mmBtu since Apr'23

Source: PPAC, MOFSL

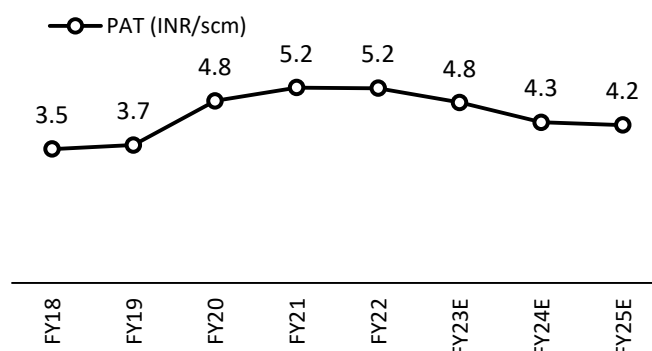
Story in charts

Exhibit 7: Volumes to report 11% CAGR during FY23-25


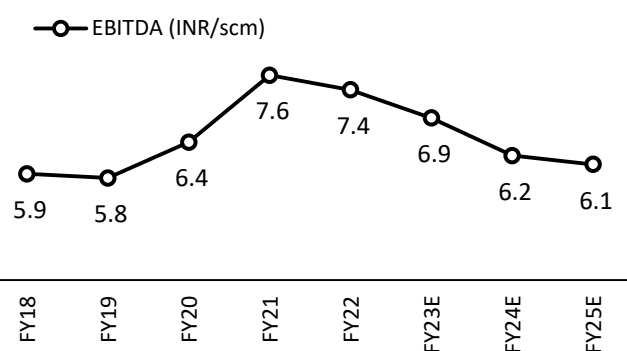
Source: Company, MOFSL

Exhibit 8: Realization trends way above historical levels


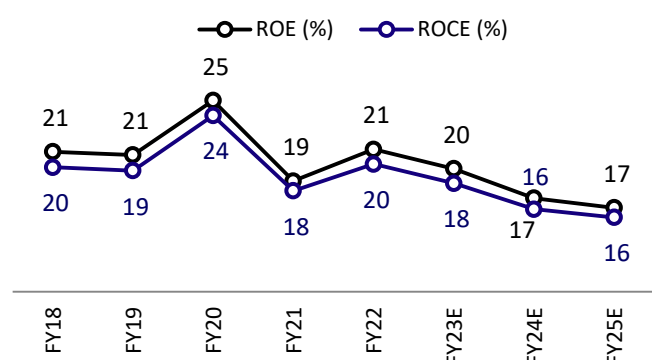
Source: Company, MOFSL

Exhibit 9: Profitability (in INR/scm) to normalize in FY24-25


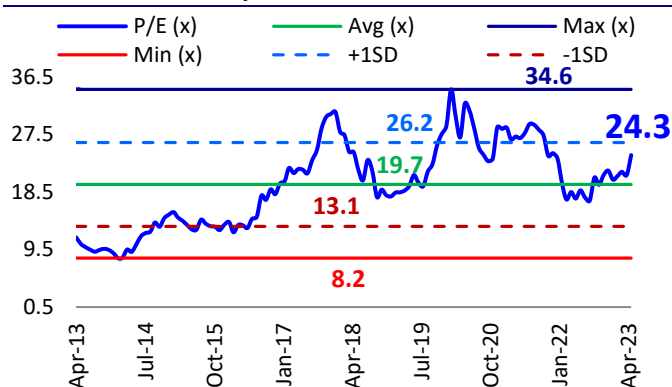
Source: Company, MOFSL

Exhibit 10: EBITDA/scm to be at ~INR6 during FY24-25


Source: Company, MOFSL

Exhibit 11: Return ratios to stabilize below 20%


Source: Company, MOFSL

Exhibit 12: IGL's one-year forward P/E Chart


Source: Company, MOFSL

Financials and Valuations

Income Statement								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	45,921	57,600	64,853	49,408	77,100	1,42,506	1,38,545	1,44,125
Change (%)	20.4	25.4	12.6	-23.8	56.0	84.8	-2.8	4.0
EBITDA	11,133	12,521	15,196	14,830	18,811	20,270	20,693	22,116
As a percentage of Net Sales	24.2	21.7	23.4	30.0	24.4	14.2	14.9	15.3
Depreciation	1,813	2,011	2,523	2,904	3,171	3,624	3,735	3,899
Interest	17	21	81	113	132	119	125	106
Other Income	1,021	1,510	1,564	1,502	2,150	2,324	2,121	2,317
PBT	10,325	12,000	14,157	13,315	17,659	18,852	18,954	20,428
Tax	3,617	4,134	2,791	3,258	4,509	4,759	4,777	5,148
Rate (%)	35.0	34.4	19.7	24.5	25.5	25.2	25.2	25.2
PAT	6,708	7,867	11,365	10,057	13,150	14,092	14,178	15,280
Adj. PAT	6,604	7,867	11,365	10,057	13,150	14,092	14,178	15,280
Change (%)	10.6	19.1	44.5	-11.5	30.8	7.2	0.6	7.8

Balance Sheet								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Reserves	33,729	39,899	49,224	57,319	67,962	77,928	87,954	98,761
Net Worth	35,129	41,299	50,624	58,719	69,362	79,328	89,354	1,00,161
Deferred Tax	2,253	2,678	2,119	2,422	2,737	2,737	2,737	2,737
Capital Employed	37,382	43,977	52,743	61,140	72,098	82,064	92,091	1,02,898
Gross Fixed Assets	41,364	47,607	55,744	65,535	75,345	81,345	87,345	93,345
Less: Depreciation	17,044	19,054	21,577	24,481	27,651	31,276	35,011	38,910
Net Fixed Assets	24,320	28,553	34,167	41,055	47,694	50,069	52,334	54,435
Capital WIP	3,860	4,781	7,767	8,469	13,786	17,786	21,786	25,786
Rights to use assets	0	0	1,220	1,984	2,203	2,203	2,203	2,203
Investments	11,477	15,440	2,581	18,258	19,758	19,758	19,758	19,758
Curr. Assets, Loans and Adv.								
Inventory	524	509	511	456	455	841	818	851
Debtors	2,261	2,215	1,704	2,607	5,206	9,622	9,354	9,731
Cash and Bank Balance	5,580	6,071	21,799	11,323	13,616	36,268	38,876	45,207
Cash	2,037	712	6,677	903	750	23,402	26,010	32,341
Bank balance	3,544	5,359	15,122	10,420	12,866	12,866	12,866	12,866
Loans and Advances	149	153	154	213	142	142	142	142
Other Current Assets	1,110	1,772	1,819	1,508	1,664	1,664	1,664	1,664
Current Liab. and Prov.								
Liabilities	11,690	13,687	16,172	21,007	28,130	51,993	50,548	52,584
Provisions	210	1,830	2,808	3,727	4,295	4,295	4,295	4,295
Net Current Assets	-2,275	-4,797	7,007	-8,627	-11,342	-7,751	-3,989	716
Application of Funds	37,382	43,977	52,743	61,139	72,099	82,065	92,092	1,02,898

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Financials and Valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS (Standalone)	9.4	11.2	16.2	14.4	18.8	20.1	20.3	21.8
EPS (Consolidated)	10.5	12.5	18.4	16.2	22.0	23.7	24.2	26.1
Cash EPS	12.0	14.1	19.8	18.5	23.3	25.3	25.6	27.4
Book Value	50.2	59.0	72.3	83.9	99.1	113.3	127.6	143.1
DPS	2.0	2.4	2.8	3.6	5.5	5.9	5.9	6.4
Payout	21	21	17	25	29	29	29	29
Valuation (x)								
P/E (Standalone)	52.0	43.7	30.2	34.2	26.1	24.4	24.2	22.5
P/E (Consolidated)	46.9	39.3	26.6	30.4	22.3	20.7	20.3	18.8
Cash P/E	40.8	34.8	24.7	26.5	21.1	19.4	19.2	17.9
EV/EBITDA	30.4	27.0	21.2	22.4	17.5	15.2	14.7	13.5
EV/Sales	7.4	5.9	5.0	6.7	4.3	2.2	2.2	2.1
Price/Book Value	9.8	8.3	6.8	5.9	5.0	4.3	3.8	3.4
Dividend Yield (%)	0.4	0.5	0.6	0.7	1.1	1.2	1.2	1.3
Profitability Ratios (%)								
RoE	20.8	20.6	24.7	18.4	20.5	19.0	16.8	16.1
RoCE	19.6	19.4	23.6	17.8	19.9	18.4	16.4	15.8
RoIC	38.9	40.4	53.2	41.2	48.5	75.0	127.3	114.4
Turnover Ratios								
Debtors (No. of Days)	21	26	33	23	20	19	15	15
Asset Turnover (x)	1.3	1.4	1.3	0.9	1.2	1.8	1.6	1.5
Leverage Ratio								
Net Debt/Equity ratio (x)	-0.2	-0.1	-0.4	-0.2	-0.2	-0.5	-0.4	-0.5

Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	10,325	12,000	14,157	13,315	17,659	18,852	18,954	20,428
Depreciation	1,813	2,011	2,523	2,904	3,171	3,624	3,735	3,899
Interest and Finance charges	1	10	65	97	132	119	125	106
Direct Taxes Paid	-3,303	-3,688	-3,442	-2,895	-4,509	-4,759	-4,777	-5,148
(Inc.)/Dec. in Wkg. Capital	841	2,642	1,721	3,473	5,009	19,061	-1,154	1,626
Others	-884	-1,403	-1,416	-1,434	-1,434	0	0	0
CF from Op. Activity	8,793	11,571	13,608	15,460	20,027	36,896	16,884	20,911
(Inc.)/Dec. in FA and CWIP	-4,698	-6,807	-9,632	-8,829	-6,639	-10,000	-10,000	-10,000
Free Cash Flow	4,095	4,764	3,976	6,631	13,388	26,896	6,884	10,911
(Pur.)/Sale of Investments	-10,515	-24,912	-3,275	-32,560	-1,500	0	0	0
Others	8,044	20,510	7,700	23,125	-9,184	0	0	0
CF from Inv. Activity	-7,170	-11,208	-5,207	-18,264	-17,323	-10,000	-10,000	-10,000
Dividends Paid (incl. tax)	-842	-1,685	-2,025	-1,960	-3,850	-4,126	-4,151	-4,474
CF from Fin. Activity	-842	-1,688	-2,435	-2,970	-2,858	-4,245	-4,276	-4,580
Inc./(Dec.) in Cash	781	-1,325	5,966	-5,774	-154	22,651	2,608	6,331
Add: Opening Balance	1,256	2,037	712	6,678	904	750	23,402	26,010
Closing Balance	2,037	712	6,678	904	750	23,402	26,010	32,341

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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