

Oil & Gas | Company Update

New EV policy – Over-hyped

Delhi Govt. has approved EV policy for Motor Vehicle Aggregators (MVA) & Delivery Service Providers (DSP) - 2023. This policy is pending for final approval at the Delhi Governor's office. The policy has set targets for MVA & DSP vehicle fleet conversion to EV, the policy mandates induction of 5%/50%/100% of EVs in the fleet within 6 months /3 yrs/5yrs respectively.

Although, the May'2023 draft mentioned these targets being applicable on net new on-boarded vehicles. The overall target is of 100% EV fleet by CY30. Total volume break of IGL 65%/25%/10% Delhi/NCR/New GA respectively. Cabs/taxis consume only 15% of the total CNG volume of IGL or only 11% of the total IGL volume. If the cab is registered surrounding region of Delhi (UP/HR/RJ/UK) then this EV policy is not mandatory. News flow suggests only 40% of taxis/cabs that are Delhi registered plying on Delhi roads, the remaining taxis are from surrounding states. Hence the impact on the volume will be much less than the 11% which will be spread over the next 6 years. The loss of CNG volume from the new EV policy can be recovered through the New GA expansion plans. IGL guided the new GA (out of NCR/Delhi) to contribute ~40% of the total volume in the next 2 to 3 years. We expect a new EV policy can impact on CNG volume in the range of 2% to 3% per annum. Hence, we have lowered the Target price to Rs572 (earlier Rs609). We maintain BUY recommendations.

Implementation of EV policy a key challenge for Delhi Govt.

As per the Draft. (1) This policy is not applicable to the buses, (2) This scheme is not applicable if MVA/DSP owns less than 25 vehicles. (3) policy applicable only for NCT (Delhi) not to the NCR (includes satellite cities like Gurgaon, Noida, Faridabad, and Ghaziabad). (detail on page 2)

Attractive valuation; Maintain BUY

CNG vehicle additions for IGL's GA in Q2FY24 stood at 16K/month vs Q1FY24 average of 14K/month. CNG fuel economics is better compared to alternate fuel and no room for a petrol/diesel price cut at crude US\$93/bbl. We believe the implementation of the policy will take a sizeable time and the impact on the CNG volume will be only from FY26E onwards. We expect a new EV policy can impact CNG volume in the range of 2% to 3% per year, we lower the terminal growth rate to 3.0% in DCF valuation. We maintain BUY with a revised target price of Rs572.

FINANCIALS (Rs Mn)

Particulars	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	77,100	141,459	127,864	144,570	172,300
Growth(%)	56.0	83.5	(9.6)	13.1	19.2
EBITDA	18,811	20,398	24,088	27,295	29,378
OPM(%)	24.4	14.4	18.8	18.9	17.1
PAT	13,149	14,450	17,104	19,051	20,166
Growth(%)	30.8	9.9	18.4	11.4	5.9
EPS(Rs.)	18.8	20.6	24.4	27.2	28.8
Growth(%)	30.8	9.9	18.4	11.4	5.9
PER(x)	21.5	19.5	16.5	14.8	14.0
ROANW(%)	20.5	20.6	23.1	23.6	22.9
ROACE(%)	16.0	15.3	16.4	16.6	16.1

CMP	Rs 403
Target / Upside	Rs 572 / 42%
NIFTY	19,625

Scrip Details

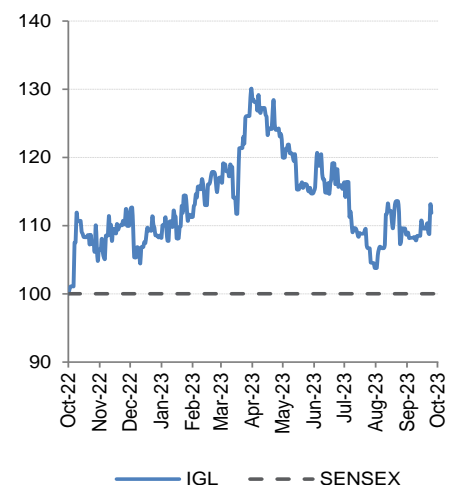
Equity / FV	Rs 1,400mn / Rs 2
Market Cap	Rs 282bn
	USD 3.4bn
52-week High/Low	Rs 516/ 374
Avg. Volume (no)	1,521,690
Bloom Code	IGL IN

Price Performance	1M	3M	12M
Absolute (%)	(13)	(18)	6
Rel to NIFTY (%)	(12)	(16)	(6)

Shareholding Pattern

	Dec'22	Mar'23	Jun'23
Promoters	45.0	45.0	45.0
MF/Banks/FIs	6.6	7.7	7.7
FIIIs	21.8	21.3	21.3
Public / Others	26.6	26.0	26.0

IGL Relative to SENSEX



VP - Research: Yogesh Patil

Tel: +9122 40969758

E-mail: yogeshp@dolatcapital.com

Associate: Anish Jindal

Tel: +9122 40969773

E-mail: anishj@dolatcapital.com

Implementation of EV policy a key challenge for Delhi Govt.

As per the Draft-May'23. (1) This policy is not applicable to the buses, (2) This scheme is not applicable if MVA/DSP owns less than 25 vehicles. Hence, we believe it is not mandatory for small tour/taxi/cab operators; (3) policy applicable only for NCT (Delhi) not to the NCR (includes satellite cities like Gurgaon, Noida, Faridabad, Ghaziabad). **Commercial Viability:** vehicle ownership is mixed with the aggregator not being the owner in most cases, hence imposing high-cost EVs, especially on owner drivers, could be challenging. **Charging infrastructure:** Taxi/cabs are an earning model for the owner, if 100% charging time > 5 hours then utilization of cab comes down drastically. As per our checks, charging infrastructure is an issue. **Litigations:** We believe Cab aggregators/Delivery service providers will file litigations in court against the aggressive target set by the Delhi Govt. Further, any delays in final approval from the Delhi governor will mitigate the impact on IGL's CNG volume.

Exhibit 1: Total Cost of Ownership(TCO) vehicle, private EV vehicle TCO >CNG, CNG is still economical

	Unit	Transport		Private	
		Tata Tigor - EV	Tata Tigor - EV	Tata Tigor - CNG	MS- Alto - CNG
Ex-Showroom Price	Rs '000	1,249	1,249	769	476
Registration	Rs '000				
MCD	Rs '000	4.0	4.0	4.0	2.0
RTO	Rs '000	12.7	12.7	55.2	19.9
Other Charges	Rs '000	14.5	14.5	2.0	22.5
Cost Before Incentive & Insurance	Rs '000	1,280	1,280	830	520
Subsidy/ Incentive	Rs '000	150	-	-	-
Actual Cost to Owner	Rs '000	1,130	1,280	830	520
Insurance	Rs '000	118	118	106	45
Maintainance cost	Rs '000	66	66	110	110
Fuel Cost	Rs '000	64	64	358	329
Interest paid	Rs '000	181	205	133	83
less resale value	Rs '000	283	320	415	260
Fuel Cost/ Operational Cost	Rs/km	0.6	0.6	3.3	3.0
TCO - Total Cost of Ownership	Rs '000	1,276	1,412	1,122	826
TCO	Rs/km	11.7	12.9	10.2	7.5

Source: Company, DART, Bloomberg

New GAs to boost overall volume growth

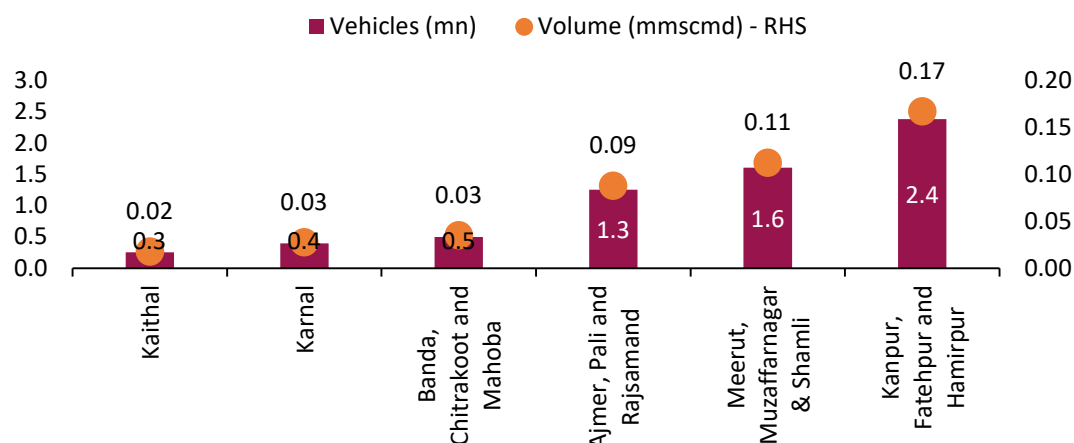
IGL has won geographical areas (GA) in the CGD rounds which we believe to be the growth engine for IGL. The company has planned to set up 125 CNG stations/year, to achieve the targets set under the Minimum Work Program (MWP). By the end of FY25E, we estimated a total CNG volume growth of 0.45mmscmd which can be supported if 2% of the existing fleet of 4W in new GAs are converted to CNG. To achieve the targets set under MWP in the new GA, IGL has to add a minimum of 1.4 lakh/p.a. connections, which implies PNG volume growth of 0.04mmscmd/year. We estimate a total volume of ~0.5mmscmd, equivalent to ~7% of existing sales volume will be added by these new GAs in the next 3 years.

Exhibit 2: Expansion in new GA with infrastructure details: new infra to boost volume growth

Geographical area	CGD Round	Marketing Excl	CNG -MWP	CNG-Dec'21	CNG - FY23	CNG - FY25E	PNG- (Dom) MWP	PNG- (Dom) FY23	PNG- (Dom) FY24E
	No.	End year	Station - target	Stations	Stations	Stations	Target in '000	Connections in '000	Connections in '000
Karnal	8th	Feb-23	NA	11	NA	NA	NA	NA	NA
Meerut, Muzaffarnagar & Shamli	9th	Sep-26	36	12	22	32	106	42	63
Kaithal	10th	Mar-27	27	7	12	20	99	30	59
Kanpur, Fatehpur and Hamirpur	10th	Mar-27	45	8	20	34	144	43	86
Ajmer, Pali and Rajsamand	10th	Mar-27	198	33	89	149	1,001	300	601
Banda, Chitrakoot and Mahoba	11th	Mar-30	102	0	0	31	150	0	30
Total			408	71	143	266	1,500	415	840

Source: Company, DART, Bloomberg, PPAC

Exhibit 3: 0.45mmscmd /7% upside to CNG volume if 2% of vehicles converted



Source: Company, DART, Bloomberg, PPAC, Vahan (note: If 2% of registered petrol or diesel vehicle converted to CNG in new GA then 0.45mmscmd incremental CNG volume to IGL, 7% of FY23 CNG sales volume)

Exhibit 4: IGL's DCF Valuation

(Rs mn)	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E
EBITDA	24,088	27,295	29,378	33,077	35,220	38,380	41,076	43,961	46,882	50,221	53,568
(-) Tax expenses	5,714	6,364	6,737	7,645	8,103	8,985	9,790	10,682	11,572	12,612	13,748
(-) Capex	15,000	15,000	12,000	12,000	10,000	10,000	10,000	10,000	10,000	8,000	8,000
(+) Change in WC	(1,347)	402	1,420	(3,884)	158	119	141	156	175	192	169
FCFF	2,027	6,332	12,062	9,549	17,275	19,514	21,427	23,436	25,485	29,800	31,989
Year	-	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5
Disc FCFF	2,027	6,039	10,464	7,534	12,399	12,739	12,724	12,658	12,520	13,316	13,002
	(Rs bn)	(per sh)									
EV - Continuing Business	115	165									
EV - Terminal Value	198	282									
Net debt (FY24)	(30)	(43)									
Equity value (Standalone)	343	490									
17.5x FY25E EPS from CUGL and MNGL	57	82									
Equity value (Consolidated)	400	572									

Source: Company, DART

Exhibit 5: WACC calculation for IGL

Risk-free rate %	7.5%
Market risk premium %	5.0%
Beta	0.5
CoE %	9.9%
CoD (pre-tax) %	7.5%
Tax-rate %	25.0%
CoD (post-tax) %	5.6%
D/E	0.0%
WACC %	9.9%
Terminal Growth Rate %	3.0%

Source: Company, DART

Exhibit 6: IGL's volume will unlikely to impact in FY24/FY25. Hence no change in earnings

Particulars	FY24E			FY25E		
	Revised	Old	Chg. (%)	Revised	Old	Chg. (%)
Financials (Standalone)						
Net Sales (Rs mn)	1,27,864	1,27,864	0.0%	1,44,570	1,44,570	0.0%
EBITDA (Rs mn)	24,088	24,088	0.0%	27,295	27,295	0.0%
PAT (Rs mn)	17,104	17,104	0.0%	19,051	19,051	0.0%
EPS (Rs/sh)	24.4	24.4	0.0%	27.2	27.2	0.0%
Key drivers						
CNG volumes (mmscmd)	6.5	6.5	0.0%	7.2	7.2	0.0%
Dom. PNG volumes (mmscmd)	0.6	0.6	0.0%	0.6	0.6	0.0%
Ind/Comm. PNG volumes (mmscmd)	1.0	1.0	0.0%	1.0	1.0	0.0%
Total volumes (mmscmd)	8.6	8.6	0.0%	9.4	9.4	0.0%
Unit EBITDA margin (Rs/scm)	7.7	7.7	0.0%	7.9	7.9	0.0%

Source: Company, DART

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Revenue	141,459	127,864	144,570	172,300
Total Expense	121,061	103,776	117,275	142,922
COGS	104,360	85,840	97,314	121,230
Employees Cost	1,935	2,129	2,342	2,576
Other expenses	14,765	15,807	17,619	19,116
EBIDTA	20,398	24,088	27,295	29,378
Depreciation	3,634	3,893	4,325	4,932
EBIT	16,764	20,194	22,970	24,446
Interest	106	108	110	112
Other Income	2,619	2,731	2,555	2,570
Exc. / E.O. items	0	0	0	0
EBT	19,277	22,817	25,415	26,903
Tax	4,827	5,714	6,364	6,737
RPAT	14,450	17,104	19,051	20,166
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	14,450	17,104	19,051	20,166

Balance Sheet

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Sources of Funds				
Equity Capital	1,400	1,400	1,400	1,400
Minority Interest	0	0	0	0
Reserves & Surplus	69,466	75,798	82,852	90,318
Net Worth	70,866	77,198	84,252	91,718
Total Debt	828	828	828	828
Net Deferred Tax Liability	28,838	31,914	35,304	39,010
Total Capital Employed	100,531	109,940	120,384	131,556

Applications of Funds

Net Block	55,138	66,245	76,920	83,988
CWIP	14,337	14,337	14,337	14,337
Investments	6,772	6,772	6,772	6,772
Current Assets, Loans & Advances	40,427	35,864	37,408	45,212
Inventories	492	575	650	775
Receivables	9,034	7,006	7,922	9,441
Cash and Bank Balances	26,332	23,287	23,458	28,983
Loans and Advances	1,591	1,862	2,105	2,509
Other Current Assets	2,979	3,134	3,273	3,505
Less: Current Liabilities & Provisions	16,144	13,279	15,054	18,754
Payables	10,706	8,806	9,983	12,437
Other Current Liabilities	5,438	4,473	5,071	6,317
<i>sub total</i>				
Net Current Assets	24,283	22,585	22,354	26,459
Total Assets	100,531	109,940	120,384	131,556

E – Estimates

Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	26.2	32.9	32.7	29.6
EBIDTA Margin	14.4	18.8	18.9	17.1
EBIT Margin	11.9	15.8	15.9	14.2
Tax rate	25.0	25.0	25.0	25.0
Net Profit Margin	10.2	13.4	13.2	11.7
(B) As Percentage of Net Sales (%)				
COGS	73.8	67.1	67.3	70.4
Employee	1.4	1.7	1.6	1.5
Other	10.4	12.4	12.2	11.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	158.3	187.0	208.5	217.5
Inventory days	1	2	2	2
Debtors days	23	20	20	20
Average Cost of Debt	11.1	13.1	13.3	13.6
Payable days	28	25	25	26
Working Capital days	63	64	56	56
FA T/O	2.6	1.9	1.9	2.1
(D) Measures of Investment				
AEPS (Rs)	20.6	24.4	27.2	28.8
CEPS (Rs)	25.8	30.0	33.4	35.9
DPS (Rs)	13.0	15.4	17.1	18.1
Dividend Payout (%)	63.0	63.0	63.0	63.0
BVPS (Rs)	101.2	110.3	120.4	131.0
RoANW (%)	20.6	23.1	23.6	22.9
RoACE (%)	15.3	16.4	16.6	16.1
RoAIC (%)	22.2	25.1	25.0	24.5
(E) Valuation Ratios				
CMP (Rs)	403	403	403	403
P/E	19.5	16.5	14.8	14.0
Mcap (Rs Mn)	282,100	282,100	282,100	282,100
MCap/ Sales	2.0	2.2	2.0	1.6
EV	256,595	259,641	259,470	253,945
EV/Sales	1.8	2.0	1.8	1.5
EV/EBITDA	12.6	10.8	9.5	8.6
P/BV	4.0	3.7	3.3	3.1
Dividend Yield (%)	3.2	3.8	4.3	4.5
(F) Growth Rate (%)				
Revenue	83.5	(9.6)	13.1	19.2
EBITDA	8.4	18.1	13.3	7.6
EBIT	7.2	20.5	13.7	6.4
PBT	9.2	18.4	11.4	5.9
APAT	9.9	18.4	11.4	5.9
EPS	9.9	18.4	11.4	5.9

E – Estimates

Cash Flow

Particulars	FY23A	FY24E	FY25E	FY26E
Profit before tax	19,383	22,925	25,525	27,016
Depreciation & w.o.	3,634	3,893	4,325	4,932
Net Interest Exp	(106)	(108)	(110)	(112)
Direct taxes paid	(4,396)	(5,205)	(5,797)	(6,137)
Change in Working Capital	(2,496)	(1,347)	402	1,420
Non Cash	8,287	2,567	2,824	3,106
(A) CF from Operating Activities	24,306	22,726	27,168	30,225
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(11,630)	(15,000)	(15,000)	(12,000)
Free Cash Flow	12,677	7,726	12,168	18,225
(Inc.)/ Dec. in Investments	0	0	0	0
Other	0	0	0	0
(B) CF from Investing Activities	(11,630)	(15,000)	(15,000)	(12,000)
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	0	0	0	0
Interest exp net	0	0	0	0
Dividend Paid (Incl. Tax)	(9,100)	(10,771)	(11,997)	(12,700)
Other	0	0	0	0
(C) CF from Financing	(9,100)	(10,771)	(11,997)	(12,700)
Net Change in Cash	3,577	(3,045)	171	5,525
Opening Cash balances	13,616	26,332	23,287	23,458
Closing Cash balances	17,193	23,287	23,458	28,983

E – Estimates

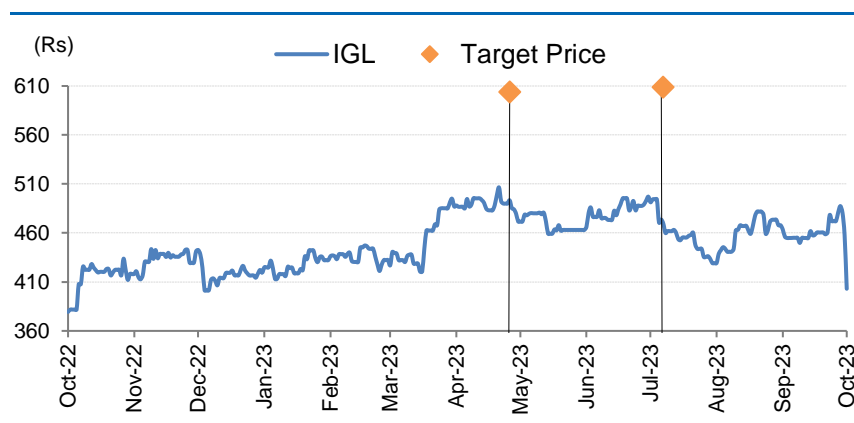
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-23	BUY	604	493
Jul-23	BUY	609	470

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	VP - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Girish Raj Sankunny	VP - Equity Sales	girishr@dolatcapital.com	+9122 4096 9625
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Naman Midtown, A-1203, 12th Floor, Senapati Bapat Marg, Prabhadevi, Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

II. Disclaimer:

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. persons only: This research report is a product of Dolat Capital Market Private Limited, under Marco Polo Securities 15a-6 chaperone service, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

Research reports are intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be affected through Marco Polo or another U.S. registered broker dealer.



Dolat Capital Market Private Limited.

Corporate Identity Number: U65990GJ993PTC116741

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000000685

Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
