

Indraprastha Gas

CNG strength counters EV threat

The Indraprastha Gas (IGL) stock price has seen an ~15% correction over the last five months and underperformed the Sensex by ~25%, owing to the threat of EV following the introduction of the Draft EV policy 2.0 and the recent cut of INR 2.5/kg in retail CNG price. Notwithstanding the EV threat, we expect IGL, with higher exposure to the CNG segment, to benefit from the boost to volume growth, driven by favourable economics between CNG and alternative fuels and expansion of city gas network in new geographical areas (GAs). Our thesis of volume growth improvement is also supported by Vahan data, which indicates an improvement in monthly CNG vehicle registrations in Delhi. With the CNG volume growth catalysts in place, we estimate volume growth for IGL should improve, going ahead. We reiterate our BUY recommendation on IGL with a target price of INR 480, given (1) strong volume growth of ~11% CAGR over FY24-26E, (2) robust margins, and (3) a strong portfolio of new GAs ensuring volume growth visibility. We estimate that IGL's stock price factors only 8.2% CAGR volume growth over FY24-32E, assuming 0% terminal growth.

- **CNG vehicle registrations pick up....:** The recent Vahan data shows a robust improvement in monthly CNG vehicle registrations in Delhi, which grew by +29% YoY in the month of Feb-24 to ~5,719 vehicles. This improvement is supported by the implementation of the Kirit Parikh Committee recommendations, better CNG economics compared to alternative transportation fuels, and the development of the CNG network. Even after the cut in retail CNG price last week, at current prices, CNG remains 44/28% cheaper than petrol/diesel in Delhi, which should further increase vehicle conversions to CNG.
- **...volume growth to follow:** While 9MFY24 volume growth remained muted for IGL at 3.7% YoY, we expect a pick-up in its volume growth, led by improvement in CNG vehicle registrations, expansion of city gas network in new GAs, and higher priority in the supply of HPHT gas for CNG and DPNG segments. Additionally, the company intends to target dumpers that are used for construction activities to convert to CNG and is also reviewing its industrial pricing policy to improve its volume growth. We estimate IGL volumes at 8.4/9.4/10.4mmscmd for FY24/25/26E.
- **Margins:** IGL reported a per unit EBITDA margin of INR 8.1/scm for 9MFY24. However, we expect the per-unit EBITDA margin to moderate marginally due to the recent cut in retail CNG price by INR 2.5/kg and a decline in domestic APM gas supply to the CGD sector from mid-Nov-23 onwards, implying that the shortfall is being met through expensive HPHT/spot gas. Despite the shortfall, we expect IGL to report better-than-historical margins due to its favourable gas-sourcing portfolio and pricing power. We estimate EBITDA margins for IGL at INR 7.9/7.6/7.8 per scm.
- **Change in estimates:** We cut our consolidated EPS for FY24/25 by 1.6/2.2% to INR 27.9/30 to factor lower per unit EBITDA margins and kept FY26 estimates unchanged at INR 33.9/sh, delivering a revised target price of INR 480/sh.
- **Valuation:** We maintain our positive stance on IGL, owing to (1) higher exposure to the CNG segment of ~75% of their 9MFY24 total volume, (2) higher pricing power enjoyed by the CNG segment, and (3) lower exposure to spot LNG. At the current market price, IGL is trading at 13.8x Mar-25E EPS, an ~30% discount to its five-year average P/E multiple of 19.6x. We reiterate our BUY rating on IGL with a target price of INR 480/sh.

BUY

CMP (as on 26 Mar 2024)	INR 419	
Target Price	INR 480	
NIFTY	22,005	
KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 490	INR 480
EPS %	FY24E	FY25E
	-1.6%	-2.2%

KEY STOCK DATA

Bloomberg code	IGL IN
No. of Shares (mn)	700
MCap (INR bn) / (\$ mn)	293/3,583
6m avg traded value (INR mn)	1,070
52 Week high / low	INR 516/376

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.6	(8.0)	(3.2)
Relative (%)	(0.3)	(17.8)	(29.1)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	45.00	45.00
FIs & Local MFs	21.24	22.74
FPIs	20.94	17.90
Public & Others	12.82	14.36
Pledged Shares	0.00	0.00

Source: BSE

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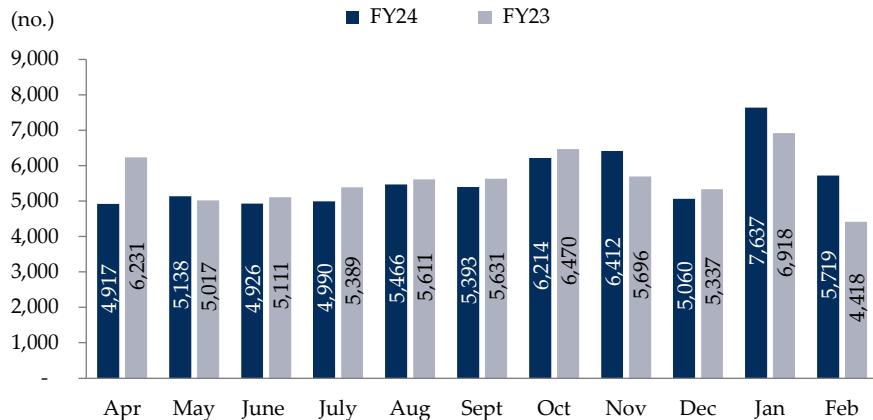
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Financial summary (consolidated)

(INR mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	77.1	141.5	110.3	122.4	136.6
EBITDA	18.8	20.4	24.1	26.1	29.4
APAT	12.8	13.9	17.3	18.6	21.0
AEPS (INR)	21.5	23.4	27.9	30.0	33.9
P/E (x)	19.2	17.6	14.8	13.8	12.2
EV/EBITDA(x)	14.6	12.9	10.6	9.4	7.8
RoE (%)	21.6	21.1	22.4	20.2	19.4

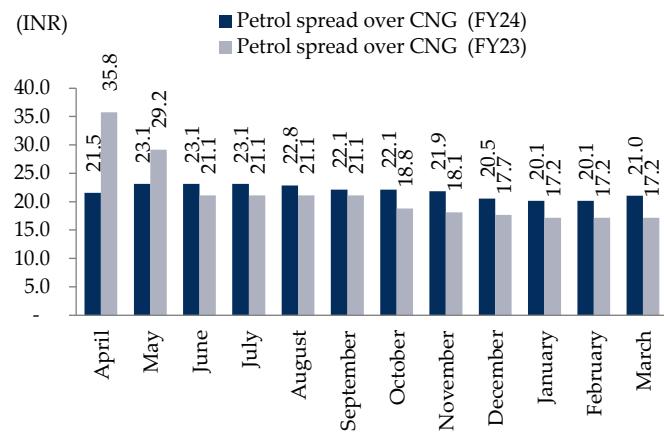
Source: Company, HSIE Research

Exhibit 1: Delhi—gradual improvement in monthly CNG vehicle addition



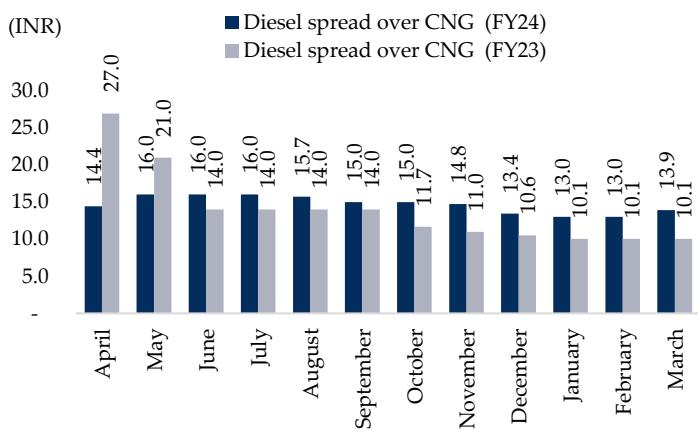
Source: Vahan Dashboard, HSIE Research

Exhibit 2: Petrol spread over CNG price in Delhi



Source: Company, HSIE Research

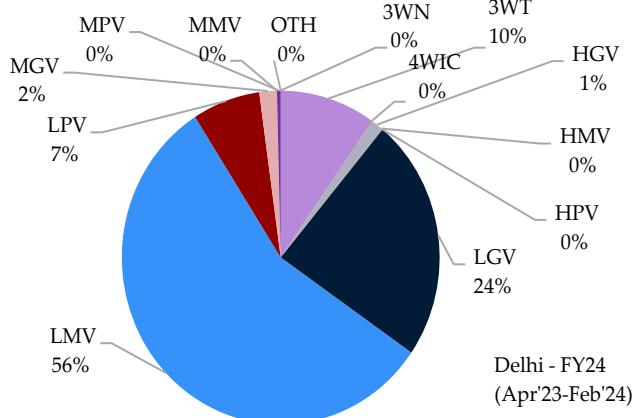
Exhibit 3: Diesel spread over CNG price in Delhi



Source: Company, HSIE Research

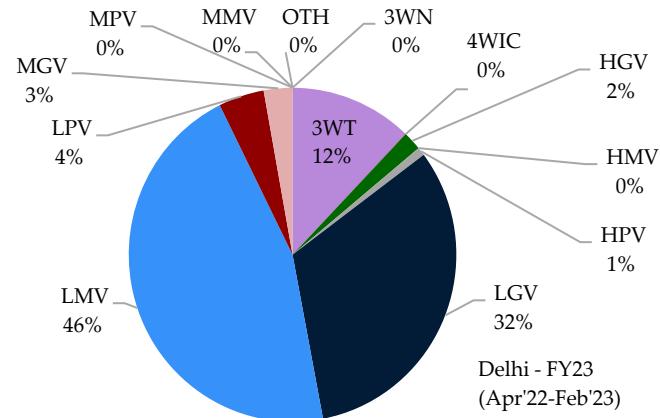
IGL: Company Update

Exhibit 4: Increase in CNG & Petrol+CNG vehicle categories was mainly driven by the LMV segment...



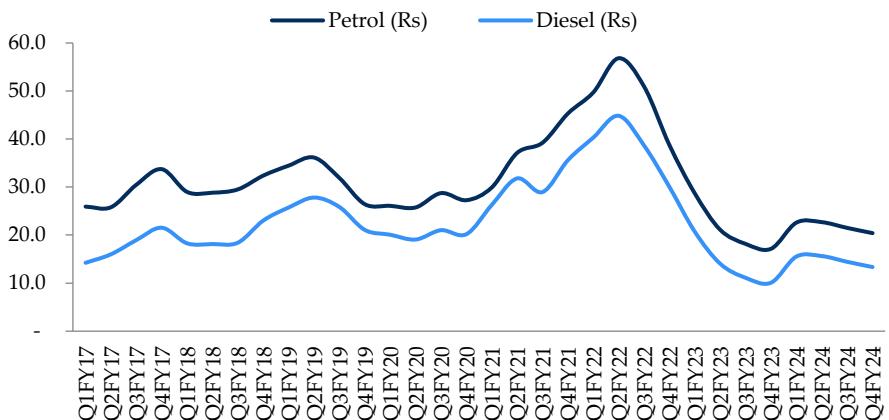
Source: Vahan Dashboard, HSIE Research

Exhibit 5: ...however, goods vehicle segment saw a minor decline



Source: Vahan Dashboard, HSIE Research

Exhibit 6: Delhi—petrol and diesel price spread over CNG in Delhi remains healthy



Source: Company, HSIE Research

Exhibit 7: CNG price in Mumbai and Delhi is 50/33% and 44/28% cheaper to petrol/diesel respectively

Particulars	Unit	Mumbai			Delhi		
		Petrol	Diesel	CNG	Petrol	Diesel	CNG
Retail price	INR per lit/kg	104.2	92.2	73.5	94.7	87.6	74.1
Retail price	INR/kg	141.4	111.0	73.5	128.5	105.6	74.1
Retail price per 10k Kcal	INR/10k KCal	126.2	93.8	63.3	114.8	89.2	63.8
CNG price benefit	%	-50%	-33%		-44%	-28%	

Source: Company, HSIE Research

Exhibit 8: IGL key metrics

(Rs bn)	FY22	FY23	FY24E	FY25E	FY26E
Volumes (mmscmd)	7.0	8.1	8.4	9.4	10.4
Revenue	77.1	141.5	110.3	122.4	136.6
EBITDA	18.8	20.4	24.1	26.1	29.4
EBITDA (Rs/scm)	7.4	6.9	7.9	7.6	7.8
PAT	15.0	16.4	19.5	21.0	23.7
EPS (Rs/sh)	21.5	23.4	27.9	30.0	33.9
RoE (%)	21.6	21.1	22.4	20.2	19.4

Source: Company, HSIE Research

IGL: Company Update

Exhibit 9: Change in estimates

Company	FY24E EPS			FY25E EPS			FY26E EPS			Target Price (INR)		
	Old	New	Ch%	Old	New	Ch%	Old	New	Ch%	Old	New	Ch%
IGL	28.3	27.9	-1.6%	30.6	30.0	-2.2%	33.9	33.9	0.0%	490	480	-2.1%

Source: HSIE Research

Exhibit 10: Peer Comparison

Company	MCap (INR bn)	RECO	CMP (INR)	TP (INR)	P/E (x)		P/BV (x)		ROE (%)		EV/EBITDA (x)	
					FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
IGL	289	BUY	413	480	13.8	12.2	2.6	2.2	20.2	19.4	9.4	7.8
GGL	364	ADD	529	600	24.6	19.4	4.1	3.6	17.9	19.8	14.9	11.6
MGL	132	BUY	1,340	1,535	11.6	10.8	2.4	2.1	21.9	20.7	6.5	5.8
IRM	20	BUY	493	665	11.4	9.0	1.8	1.5	17.0	18.2	6.7	5.1

Source: NSE, Company, HSIE Research

Exhibit 11: HSIE vs. consensus

(INR/sh)	Consensus EPS			HSIE EPS			Variance (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
IGL	27.7	28.6	31.2	27.9	30.0	33.9	0.6%	4.6%	8.7%

Source: Bloomberg, HSIE Research

Financials (Consolidated)

Income Statement

(INR bn)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	77	141	110	122	137
<i>Growth %</i>	56	83	(22)	11	12
Raw Material	44	104	68	77	87
Employee Cost	2	2	2	2	2
Other Expenses	13	15	16	17	18
EBITDA	19	20	24	26	29
<i>EBIDTA Margin (%)</i>	24	14	22	21	22
<i>EBITDA Growth %</i>	27	8	18	8	13
Depreciation	3	4	4	5	6
EBIT	16	17	20	21	24
Other Income (Including EO Items)	2	2	3	4	4
Interest	0	0	0	0	0
PBT	17	19	23	25	28
Tax	5	5	6	6	7
RPAT	13	14	17	19	21
<i>EO (Loss) / Profit (Net Of Tax)</i>	-	-	-	-	-
APAT	13	14	17	19	21
Share from associates	2	3	2	2	3
Consolidated APAT	15	16	20	21	24
<i>Consolidated APAT Growth (%)</i>	28	9	19	7	13
AEPS	21	23	28	30	34
<i>AEPS Growth %</i>	28	9	19	7	13

Source: Company, HSIE Research

Balance Sheet

(INR bn)	FY22	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS					
Share Capital	1	1	1	1	1
Reserves And Surplus	74	78	94	111	131
Total Equity	76	79	95	113	132
Long-term Debt	-	-	-	-	-
Short-term Debt	-	-	-	-	-
Total Debt	-	-	-	-	-
Deferred Tax Liability	3	3	4	4	5
Long-term Provision and others	1	1	1	1	1
TOTAL SOURCES OF FUNDS	80	84	101	118	138
APPLICATION OF FUNDS					
Net Block	50	57	64	71	78
Capital WIP	14	14	15	17	16
LT Loans And Advances	1	1	1	1	1
Total Non-current Investments	26	15	15	15	15
Total Non-current assets	91	88	96	104	110
Inventories	0	0	0	0	0
Debtors	5	9	7	8	9
Cash and Cash Equivalents	14	26	32	43	59
Other Current Assets	1	2	4	5	5
Total Current Assets	20	38	44	56	73
Creditors	8	9	6	7	7
Other Current Liabilities & Provs	23	33	34	35	38
Total Current Liabilities	31	42	39	42	45
Net Current Assets	(11)	(4)	5	14	28
TOTAL APPLICATION OF FUNDS	80	84	101	118	138

Source: Company, HSIE Research

Cash Flow Statement

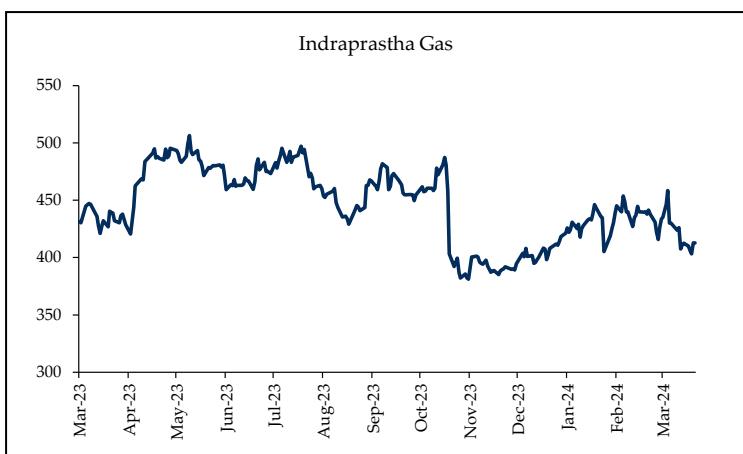
Year ending March	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	17	19	23	25	28
Non-operating & EO Items	0	1	(1)	(1)	(2)
Interest Expenses	0	0	0	0	0
Depreciation	3	4	4	5	6
Working Capital Change	5	6	(3)	2	2
Tax Paid	(4)	(4)	(5)	(6)	(7)
OPERATING CASH FLOW (a)	22	25	18	24	27
Capex	(15)	(12)	(12)	(14)	(11)
<i>Free Cash Flow (FCF)</i>	6	13	6	11	16
Investments	(3)	11	-	-	-
Non-operating Income	2	2	3	4	4
Others	0	(1)	(0)	(0)	(0)
INVESTING CASH FLOW (b)	(17)	1	(9)	(10)	(7)
Debt Issuance/(Repaid)	-	-	-	-	-
Interest Expenses	(0)	(0)	(0)	(0)	(0)
<i>FCFE</i>	6	13	6	11	16
Share Capital Issuance	-	-	-	-	-
Dividend	(4)	(9)	(3)	(4)	(4)
Others	1	(4)	(0)	0	0
FINANCING CASH FLOW (c)	(3)	(13)	(4)	(4)	(4)
NET CASH FLOW (a+b+c)	2	13	6	11	16
EO Items, Others					
Closing Cash & Equivalents	14	26	32	43	59

Source: Company, HSIE Research

Key Ratios

	FY22	FY23	FY24E	FY25E	FY26E
PROFITABILITY %					
EBITDA Margin	24.4	14.4	21.9	21.3	21.5
EBIT Margin	20.3	11.9	18.1	17.3	17.5
APAT Margin	19.5	11.6	17.7	17.1	17.4
RoE	21.6	21.1	22.4	20.2	19.4
RoIC	26.9	30.5	35.4	32.6	33.5
RoCE	21.7	21.2	22.4	20.2	19.4
EFFICIENCY					
Tax Rate %	26.1	25.8	25.2	25.2	25.2
Fixed Asset Turnover (x)	1.3	2.0	1.4	1.3	1.3
Inventory (days)	2.2	1.3	1.3	1.3	1.3
Debtors (days)	24.6	23.3	23.3	23.3	23.3
Other Current Assets (days)	5.6	5.8	14.4	13.6	12.7
Payables (days)	65.4	31.5	31.5	31.5	31.5
Other Current Liab & Provs (days)	110.5	85.9	111.1	105.9	100.4
Cash Conversion Cycle (days)	(143.5)	(87.1)	(103.7)	(99.2)	(94.6)
Net Debt/EBITDA (x)	(0.7)	(1.3)	(1.3)	(1.6)	(2.0)
Net D/E	(0.2)	(0.3)	(0.3)	(0.4)	(0.4)
Interest Coverage	118.4	158.3	188.3	200.3	225.5
PER SHARE DATA (Rs)					
EPS	21.5	23.4	27.9	30.0	33.9
CEPS	26.0	28.6	33.9	36.9	41.7
Dividend	5.5	13.0	4.9	5.3	6.0
Book Value	108.4	113.3	136.3	160.9	188.8
VALUATION					
P/E (x)	19.2	17.6	14.8	13.8	12.2
P/Cash EPS (x)	15.9	14.4	12.2	11.2	9.9
P/BV (x)	3.8	3.6	3.0	2.6	2.2
EV/EBITDA (x)	14.6	12.9	10.6	9.4	7.8
EV/Revenue (x)	3.6	1.9	2.3	2.0	1.7
Dividend Yield (%)	1.3	3.1	1.2	1.3	1.5
OCF/EV (%)	7.9	9.4	7.2	9.8	11.9
FCFF/EV (%)	2.3	5.0	2.5	4.3	7.1
FCFE/M Cap (%)	2.2	4.5	2.2	3.7	5.6

Source: Company, HSIE Research

1 Yr Price Movement**Rating Criteria**

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Disclosure:

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