

# 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 8.4/9.4/10.4mmcmd 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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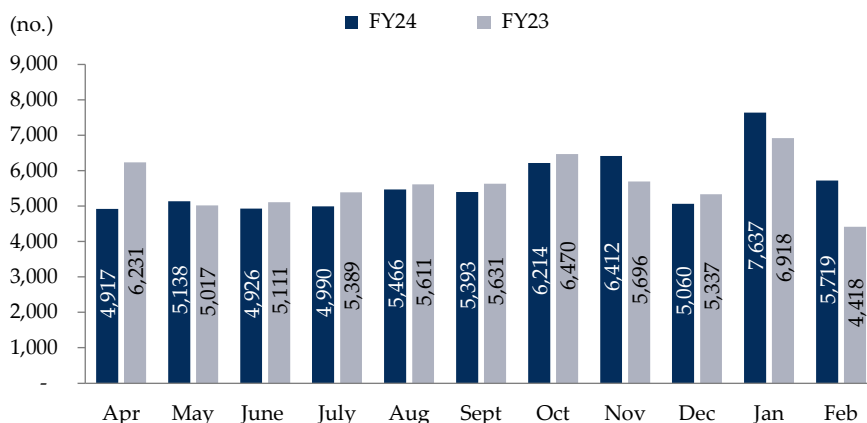
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### Financial summary (consolidated)

(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

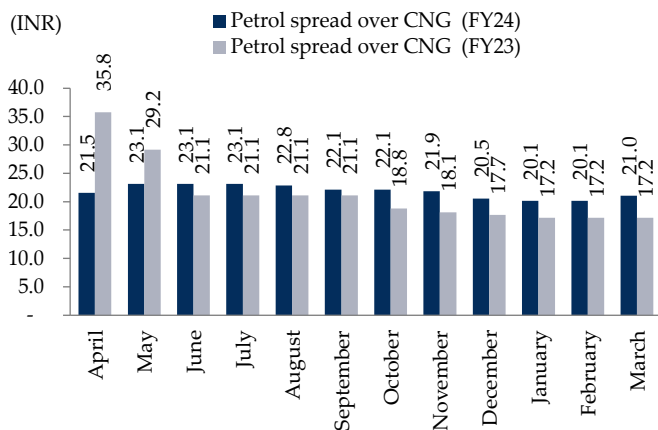
Source: Company, HSIE Research

### Exhibit 1: Delhi – gradual improvement in monthly CNG vehicle addition



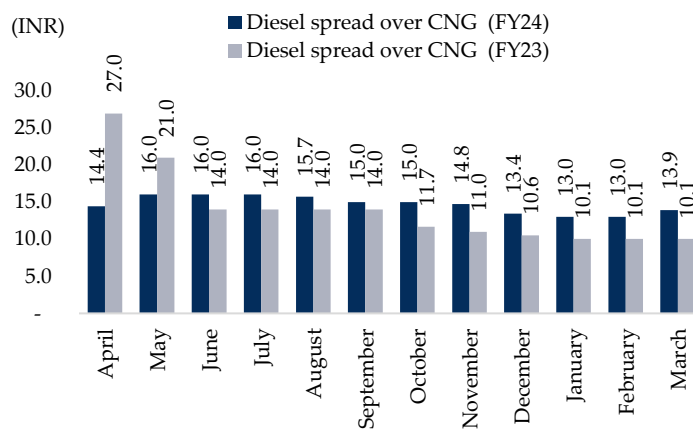
Source: Vahan Dashboard, HSIE Research

### Exhibit 2: Petrol spread over CNG price in Delhi



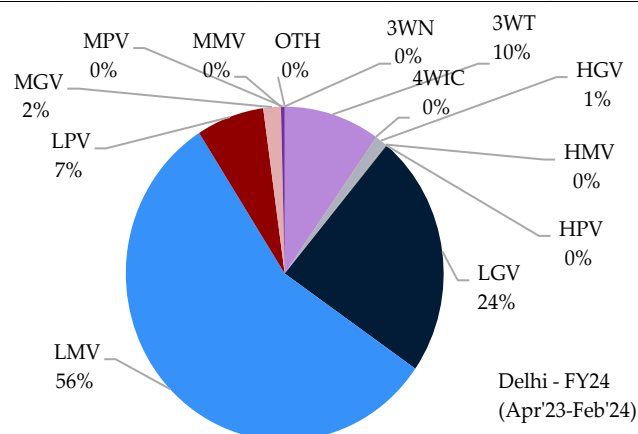
Source: Company, HSIE Research

### Exhibit 3: Diesel spread over CNG price in Delhi



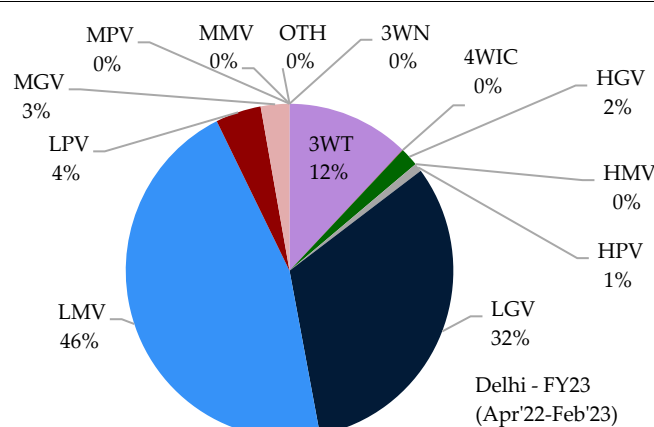
Source: Company, HSIE Research

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



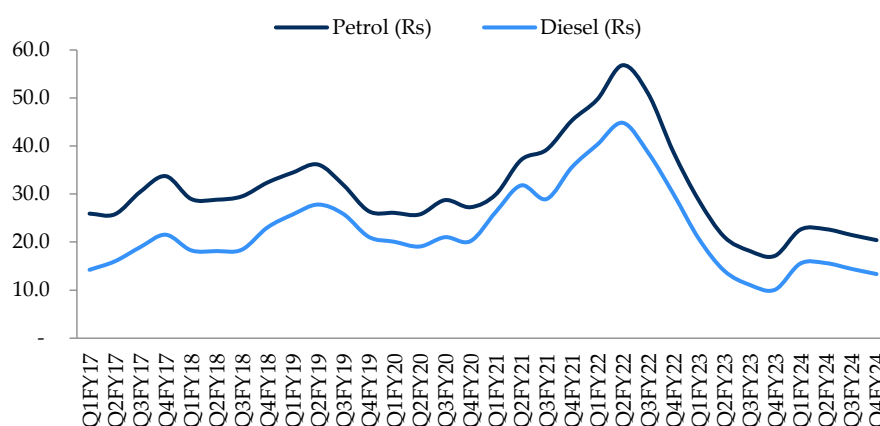
Source: Vahan Dashboard, HSIE Research

**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
<b>CNG price benefit</b>	<b>%</b>	<b>-50%</b>	<b>-33%</b>		<b>-44%</b>	<b>-28%</b>	

Source: Company, HSIE Research

**Exhibit 8: IGL key metrics**

(Rs bn)	FY22	FY23	FY24E	FY25E	FY26E
Volumes (mmcmd)	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

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

Source: Company, HSIE Research

### Balance Sheet

(INR bn)	FY22	FY23	FY24E	FY25E	FY26E
<b>SOURCES OF FUNDS</b>					
Share Capital	1	1	1	1	1
Reserves And Surplus	74	78	94	111	131
<b>Total Equity</b>	<b>76</b>	<b>79</b>	<b>95</b>	<b>113</b>	<b>132</b>
Long-term Debt	-	-	-	-	-
Short-term Debt	-	-	-	-	-
<b>Total Debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Deferred Tax Liability	3	3	4	4	5
Long-term Provision and others	1	1	1	1	1
<b>TOTAL SOURCES OF FUNDS</b>	<b>80</b>	<b>84</b>	<b>101</b>	<b>118</b>	<b>138</b>
<b>APPLICATION OF FUNDS</b>					
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
<b>Total Non-current assets</b>	<b>91</b>	<b>88</b>	<b>96</b>	<b>104</b>	<b>110</b>
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
<b>Total Current Assets</b>	<b>20</b>	<b>38</b>	<b>44</b>	<b>56</b>	<b>73</b>
Creditors	8	9	6	7	7
Other Current Liabilities & Provns	23	33	34	35	38
<b>Total Current Liabilities</b>	<b>31</b>	<b>42</b>	<b>39</b>	<b>42</b>	<b>45</b>
<b>Net Current Assets</b>	<b>(11)</b>	<b>(4)</b>	<b>5</b>	<b>14</b>	<b>28</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>80</b>	<b>84</b>	<b>101</b>	<b>118</b>	<b>138</b>

Source: Company, HSIE Research

### Cash Flow Statement

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

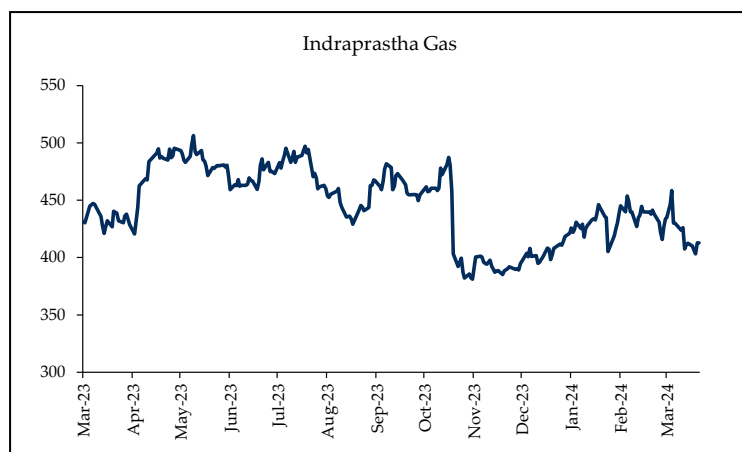
Source: Company, HSIE Research

### Key Ratios

	FY22	FY23	FY24E	FY25E	FY26E
<b>PROFITABILITY %</b>					
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
<b>EFFICIENCY</b>					
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 & Provns (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
<b>PER SHARE DATA (Rs)</b>					
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
<b>VALUATION</b>					
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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