

August 13, 2018

Indraprastha Gas Ltd.

Cost benefits and strong volume to improve the growth trajectory

The company is well poised for strong growth going ahead

The company has robust business prospects with earnings growth likely to be strong over the next few years. We believe volume to remain healthy given strong push from the government and better pricing power gives it the leeway to pass on cost hikes. The pricing power has improved with the rise in crude prices over the last few months and going ahead healthy earnings growth is expected. We expect EPS CAGR of 13.5% over FY18-20E.

Cost benefits to improve the margins going ahead

The company reported EBITDA margin of 20.7% in Q1FY19, decline of 310bps y-o-y & 70bps q-o-q due to sharp increase in the cost of natural gas. Domestic gas is much cheaper than imported gas due to formula based pricing prescribed by the government. Imported gas cost has risen this calendar year and is very unlikely to see such sharp increases going ahead. However, the company has good pricing power in the segments it supplies imported gas. We expect EBITDA margins to be around 23-24% by FY20E.

Volume growth outlook remains robust going ahead

The company has been also expanding beyond its core market of NCR into new areas like Rewari. The company has got authorization to develop the CGD network in Meerut, Muzaffarnagar and Shamli districts. Besides, the government encouragement to use clean fuel and ambitious plans of expanding the CGD network across many cities in the country. This will aid in visibility and present good opportunities for seasoned players like Indraprastha gas and will improve the volume growth in the long run.

Valuations

Indraprastha Gas Ltd being the near monopoly supplier of CNG to vehicles and PNG to households in areas around Delhi, we believe the company has strong growth triggers going ahead and is placed in a sweet spot. We expect Revenue/EBITDA/PAT to grow at a CAGR of 11%/16%/14% over FY18-20E driven by strong volume growth. With natural gas based fuels becoming more cost competitive in the wake of rising prices of competitive fuels, vehicle conversion to CNG and households shifting to PNG in Delhi and surrounding areas should pick pace. The Delhi government's plans to add city bus fleet should also boost the demand of CNG.

At the CMP of INR 290 the stock trades at 12.6x FY20E EBITDA of INR 1488 crore. We assign a forward multiple of INR 17.1x and arrive at a target price of INR 384 per share, thereby, representing an upside of 37.8% from current valuations.

Financial Snapshot

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	3,686	3,815	4,534	5,019	5,603
Growth%		3%	19%	11%	12%
EBITDA	775	964	1,114	1,209	1,488
Growth%		24%	16%	9%	23%
PAT	458	606	671	723	865
Growth%		32%	11%	8%	32%
EPS (INR)	6.5	8.7	9.6	10.3	12.4
P/E (x)	17.4	23.2	29.1	28.1	23.5
P/B (x)	3.1	4.7	5.4	4.8	4.1
EV/EBITDA(x)	9.7	14.0	17.1	16.0	12.6

Source: NSPL Research

* Read last page for disclaimer & rating rationale

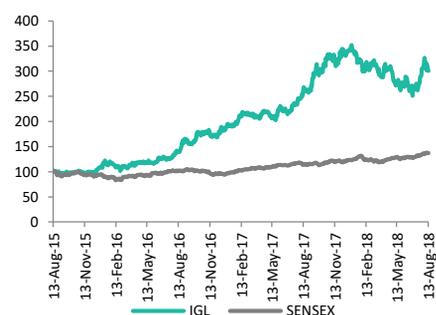
STRONG BUY*

Downside Scenario	Current Price	Price Target	Upside Scenario
	290	384	
		37.8%▲	

Stock Details	
Industry	Oil & Gas
Sensex	37644
Nifty	11355
Bloomberg Code	IGL:IN
Eq. Cap. (INR. Cr.)	140
Face Value (INR.)	2
52-w H/L	345/232
Market Cap (INR. Cr.)	20335

	Valuation Data		
	FY18	FY19E	FY20E
P/E (x)	29.1	28.1	23.5
P/B (x)	5.4	4.8	4.1
EV/EBITDA(x)	17.1	16.0	12.6

Indraprastha Gas Ltd Vs SENSEX



Shareholding Pattern (in %)

	Jun'18	Mar'18	Jun'17
Promoters	45.00	45.00	45.00
FIIIs	20.36	21.55	24.31
DIIIs	17.72	16.18	14.31
Retail	16.91	17.28	16.38
Total	100.0	100.0	100.0

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Q1FY19 Result Analysis

(INR Crores)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Net Sales	1287	1038	1214	24.1%	6.0%
COGS	742	549	677	35.2%	9.6%
Employee Expenses	31	25	28	23.9%	12.4%
Other Expenses	219	187	218	17.6%	0.7%
Total Expenses	992	760	923	30.5%	7.5%
EBITDA	295	277	291	6.4%	1.3%
Depreciation	47	44	47	7.7%	0.5%
Other Income	26	18	27	46.8%	-1.8%
EBIT	274	251	271	9.0%	1.1%
Finance Cost	1	0	1	55.6%	-8.2%
PBT	273	251	270	9.0%	1.1%
Taxes	98	90	96	8.8%	1.9%
Net Profit	176	161	175	9.1%	0.7%
EPS in INR	2.51	2.31	2.50	8.7%	0.4%

- The company's revenue recorded growth of 24.1% y-o-y & 6.0% q-o-q to INR 1287 crore in Q1FY19.
- EBITDA recorded growth of 6.4% y-o-y & 1.3% q-o-q to INR 295 crore. EBITDA margins stood at 22.9% in Q1FY19 as compared to 26.7% in Q1FY18 and 24.0% in Q4FY18. Contraction in EBITDA margins in Q1FY19 was to the tune of 380 bps owing to increase in cost of gas which grew by 35.2% y-o-y to INR 742 crore.
- Employee expense recorded growth of 23.9% y-o-y & 12.4% q-o-q to INR 31 crore.
- Other expenses recorded growth of 17.6% y-o-y & 0.7% q-o-q to INR 219 crore.
- Tax rate for Q1FY19 stood at 35.7%.
- PAT recorded growth of 9.1% y-o-y & 0.7% q-o-q to INR 176 crore. PAT margins stood at 13.7% in Q1FY19 as compared to 15.5% in Q1FY18 and 14.4% in Q4FY18.

Volume Split	Q1FY19	Q1FY18	Y-o-Y
CNG (Million Kg)	273	248	10%
PNG			
Industrial/Commercial (Million SCM)	58	45	29%
Domestic (Million SCM)	27	24	10%
NG (Million SCM)	44	40	10%
Total PNG (Million SCM)	129	109	18%
Total PNG & CNG (Million SCM)	505	446	13%
Total (MMSCMD)	6	5	13%

Sales Value (INR Crores)	Q1FY19	Q1FY18	Y-o-Y
CNG	1076	889	21%
PNG	342	256	34%
Total	1418	1145	24%

Source: Company, NSPL Research

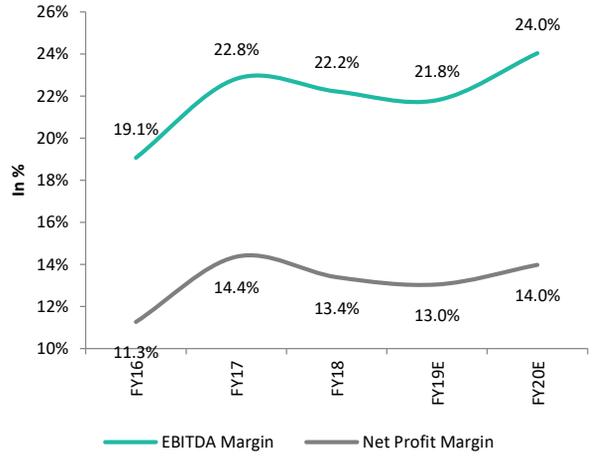
- CNG volumes for Q1FY18 grew by 10% y-o-y to 273 million kg.
- Industrial PNG volumes grew strongly by 29 y-o-y to 58 million SCM. Domestic and NG each recorded growth of 10% y-o-y to 27 million SCM & 44 million SCM respectively in Q1FY19.
- Total PNG volumes grew by 18% y-o-y to 129 million SCM in Q1FY19.
- Total volumes (PNG+CNG) grew by 13% y-o-y to 505 million SCM in Q1FY19.
- Total gross sales value during Q1FY19 stood at INR 1418 crore as compared to INR 1145 crore in Q1FY18, thereby, recording a growth of 24% y-o-y. Product wise, CNG recorded sales of INR 1076 crore in Q1FY19 as compared to INR 889 crore, thereby, recording a growth of 21% y-o-y and PNG recorded sales of INR 342 crore in Q1FY19, showing an impressive growth of 34%. The increase in turnover is due to the increase in the total sales quantity by 13% and increase in average sales price of CNG and PNG segment by 10%.



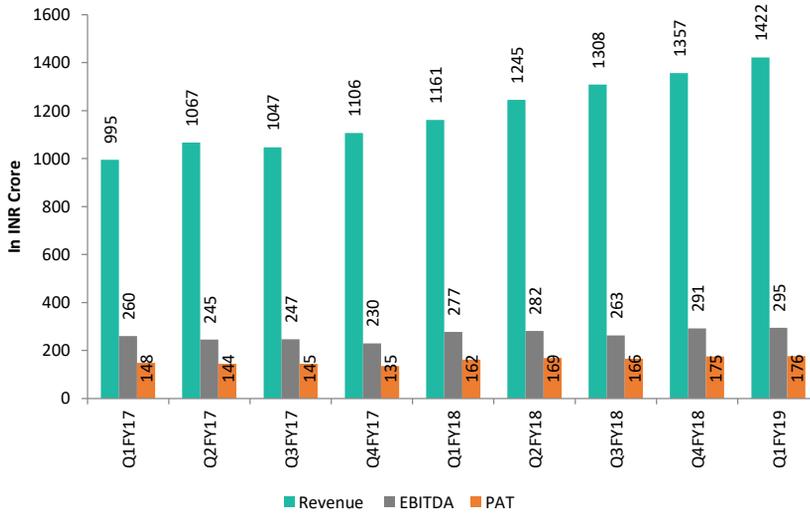
Volume Improved in Q1FY19



Margins to improve going ahead



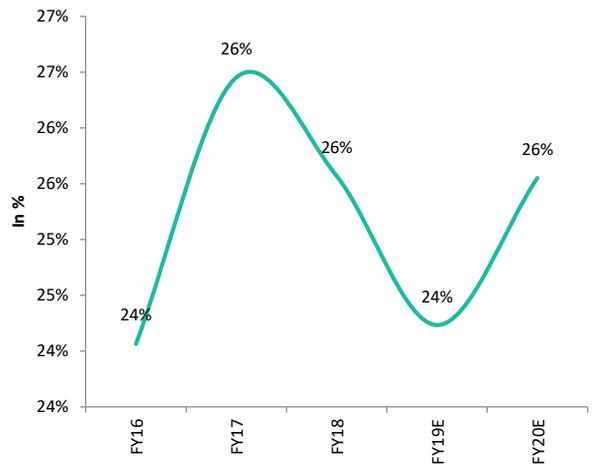
Strong revenue performance seen in Q1FY19



Double digit EPS growth expected going ahead



Return on Capital to be impressive going ahead



Source: NSPL Research



Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net sales	3,686	3,815	4,534	5,019	5,603
COGS	2,276	2,084	2,491	2,762	2,917
Employee Expenses	78	92	106	126	142
Other Expenses	557	676	823	922	1,055
EBITDA	775	964	1,114	1,209	1,488
D&A	156	167	181	189	232
Other income	24	46	102	105	89
EBIT	643	843	1,035	1,125	1,345
Interest Expense	10	1	2	1	-
PBT	687	904	1,033	1,125	1,345
Tax	229	298	362	401	480
PAT	458	606	671	723	865
EPS in INR	6.5	8.7	9.6	10.3	12.4
Balance Sheet (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Share Capital	140	140	140	140	140
Reserves & Surplus	2,430	2,872	3,507	4,070	4,775
Shareholder's Funds	2,570	3,012	3,647	4,210	4,915
Employee benefit obligation	15	20	13	14	16
Deferred tax liabilities	179	202	260	260	260
Total Non-current liabilities	193	223	273	274	276
Trade payables	161	274	339	375	396
Other financial liabilities	494	649	798	883	986
Employee benefit obligation	1	1	1	1	1
Other current liabilities	29	35	39	143	160
Current liabilities	685	959	1,176	1,403	1,543
Total Equity and Liabilities	3,449	4,193	5,096	5,887	6,734
Fixed Assets	2,003	2,103	2,416	2,685	2,914
Capital work in progress	267	352	436	403	403
Intangible assets	16	14	16	16	15
Investments	327	366	426	415	435
Loans – Security deposits	6	8	8	8	9
Income tax assets	7	2	15	15	15
Other non current assets	11	18	46	46	51
Total Non-current Assets	2,638	2,863	3,364	3,587	3,842
Inventories	58	52	52	69	72
Current Investments	-	418	890	934	981
Trade receivables	251	201	226	250	279
Cash and cash equivalents	453	126	153	596	1,102
Other bank balance	-	483	354	388	388
Loans	2	2	6	7	8
Other financial assets	15	21	28	31	34
Other current assets	31	27	22	25	27
Total Current Assets	811	1,330	1,732	2,300	2,892
Total Assets	3,449	4,193	5,096	5,887	6,734

Source: NSPL Research



Cash Flow (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
PBT	687	904	1,033	1,125	1,345
Operating profit before working capital changes	781	972	1,216	1,314	1,577
Operating profit after working capital changes	841	1216	939	1451	1627
Less income tax paid	-187	-269	-362	-401	-480
Cash Flow from Operating	653	948	578	1050	1147
(Incr)/ Decr in Gross PP&E	-232	-271	-315	-458	-461
Purchase of long term investment	-10	0	-60	11	-20
Cash Flow from Investing	-175	-1114	-375	-446	-481
Dividend paid	-101	-160	-173	-160	-160
Finance costs	-10	-1	-2	-1	0
Cash Flow from Financing	-256	-161	-175	-161	-160
Incr/(Decr) in Balance Sheet Cash	223	-328	28	443	506
Cash at the Start of the Year	231	453	126	153	596
Cash at the End of the Year	453	126	153	596	1102

RATIOS	FY16	FY17	FY18	FY19E	FY20E
Profitability					
Return on Assets(%)	13.3%	14.5%	13.2%	12.3%	12.8%
Return on Capital (%)	24.1%	26.5%	25.6%	24.2%	25.6%
Return on Equity (%)	17.8%	20.1%	18.4%	17.2%	17.6%
Margin Trend					
Gross Margin (%)	34.7%	41.0%	40.7%	40.7%	43.4%
EBITDA Margin (%)	19.1%	22.8%	22.2%	21.8%	24.0%
Net profit Margin (%)	11.3%	14.4%	13.4%	13.0%	14.0%
Liquidity					
Current ratio	1.2	1.4	1.5	1.6	1.9
Quick ratio	1.0	1.3	1.4	1.5	1.8
Debtor days	23	17	16	16	16
Inventory days	9	9	8	9	9
Creditor days	26	48	50	50	50
Working capital days	6	-22	-25	-24	-24
Solvency					
Total Debt / Equity	0.0	0.0	0.0	0.0	0.0
Interest coverage	62	658	552	0.0	0.0
Valuation Ratios					
EV/EBITDA	9.7	14.0	17.1	16.0	12.6
P/E	17.4	23.2	29.1	28.1	23.5
P/B	3.1	4.7	5.4	4.8	4.1

Source: NSPL Research



Indraprastha Gas Ltd				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
August 13, 2018	290	384	Strong Buy	Buy	5% - 15%
				Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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