

Equity Research Desk



ALPHA

14 SEP 2022

Indraprastha Gas Ltd. – Alternate Fuel

Market Data	
CMP	Rs. 426
Date	13-Sep-22
New Target Price	Rs. 530
Old Target Price	Rs. 628
Upside Potential	24.00%
52 Week High/Low	602/321
Market Cap	Mid Cap
Sector	Gas Distribution
Rating	ACCUMULATE

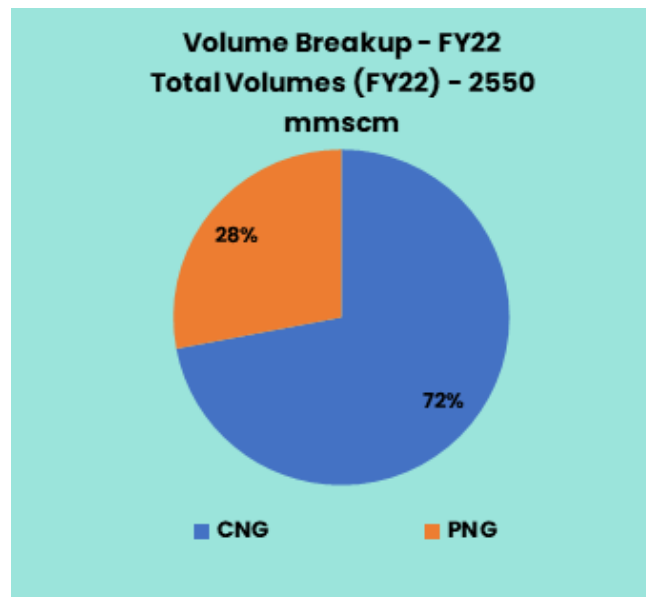
Indraprastha Gas Limited (IGL) was established in December 1998 as a joint venture (JV) between GAIL (India) Ltd., Bharat Petroleum Corporation Limited (BPCL) and Government of National Capital Territory of Delhi (GNCTD) to implement the city gas distribution project (CGD) in the NCT of Delhi. As of March 31, 2022, GAIL and BPCL held equity of 22.5% each while GNCTD owned 5% equity in the company. Over the years, the company has made two acquisitions in CGD business viz. 50% stake in Central UP Gas Limited for Rs.68crs and 50% stake in Maharashtra Natural Gas Limited (MNGL) for Rs.190crs. CUGL serves cities of Kanpur, Bareilly and Jhansi in Uttar Pradesh, while MNGL serves Pune and its nearby areas. IGL has expanded its area of operations in Rewari district, Karnal district and Gurugram in Haryana and the sales volume in these areas is expected to increase gradually with the rollout of increased infrastructure.



Products & Services: The company now enjoys a strong presence in natural gas distribution where the transport sector uses natural gas as Compressed Natural Gas (CNG), the domestic and commercial sectors use it as Piped Natural Gas (PNG) and R-LNG is being supplied to industrial establishments.

SHP	Jun - 22 (%)	Mar - 22 (%)	Change
Promoters	45.00	45.00	0.00
FPI	20.34	19.88	0.46
DII	16.79	16.90	-0.11
Public & Others	17.87	18.22	-0.35
Pledged	0.00	0.00	0.00

Subsidiaries: The Company has two subsidiaries named Central U.P. Gas Limited and Maharashtra Natural Gas Limited as on 31st March 2022.



Margins - FY22	
Gross Profit	43%
EBITDA	25%
PAT	19%



Key Rationale

- **Strong Position** – IGL is one of the leading players in the CGD business in India and has a dominant market position particularly in the NCT of Delhi. A first-mover advantage, market exclusivity, continuous infrastructure development and high level of entry barriers, primarily in the form of capex requirement as well as regulated near-monopoly marketing and infrastructure exclusivity for a given period of time, have augured well for IGL. The Company commissioned a total of 105 CNG stations in FY 2021-22 which is also the highest number of CNG stations commissioned in the history of the operations. With a total of 711 CNG stations, the Company had total compression capacity of 94 lacs kg per day and catered to 14.4 lacs vehicles. Your Company provided more than 3.75 lacs new PNG domestic connections which is the highest number of connections in a single financial year provided by any CGD Company in the country. As on March 31, 2022, IGL had 20.6 lac domestic connections and around 8000 Commercial & Industrial customers.
- **Q1FY23** – In Q1FY23, its revenue doubled to Rs.3,194 crs (+154% YoY; +32% QoQ), supported by healthy volume increase of 48.4% YoY to 718mn standard cubic metre (SCM). Segment wise, CNG and piped natural gas (PNG) volumes rose 62.7% and 17.1% YoY, respectively. EBITDA rose +62.1% YoY to Rs.618 crs, though EBITDA margin shrunk 11.1% YoY to 19.3%, due to increase in purchase cost of natural gas (+286.6% YoY) and added impact of higher employee spends (+28.6% YoY) and other expenses (+29.1 YoY). Adjusted PAT rose a healthy 73% YoY to Rs.481 crs. The sharply higher sales prices across segments seem to have had limited impact on demand and the management guidance for 11-12% sustainable growth overall for FY23E-FY24E remains intact.
- **Diversification** – IGL is seeking opportunities to diversify into other areas. As part of this, it commenced CNG sales from mobile refueling units (MRUs) and is looking forward to increase the number of MRUs to provide gas to CNG customers. The company is also making efforts to convert existing buses of state transport undertakings to CNG. Meanwhile, it has a strong credit profile on the back of a comfortable working capital position and strong cash generation.
- **Financial Performance** – The company reported a 5-year Sales and Profit CAGR of 15% and 19% for the period of FY18-22. The company's 5-year average RoE & RoCE stands at 21% and 29% for the period of FY18-FY22. The company is virtually zero debt with a cash and equivalents of Rs.4000 crs. For the next two years, capex guidance is Rs.1500 crs each. IGL plans to add 125 CNG stations in FY23.

**Ratios - FY22**

ROE	20%
ROCE	26%
Div. Yield	1.27%
PE Ratio	20.00
Face Value	2.00
EPS	Rs. 21.46

Industry Analysis

The oil and gas sector are among the eight core industries in India and plays a major role in influencing decision making for all the other important sections of the economy. India is the 4th largest importer of liquefied natural gas (LNG). The consumption of petroleum products has gone up from 148.1 MMT in 2010-11 to 204.2 MMT in 2021-22. Domestic Gross Production of Natural Gas showed an increase of ~18.7% from the previous FY i.e., an increase of 5,352 MMSCM from 28,672 MMSCM in the FY21 to 34,024 MMSCM in the FY22. The number of Piped Natural Gas (PNG) connections in India have also now crossed. India's oil demand rises by almost 4 mb/d to reach 8.7 mb/d in 2040, the largest increase in any country.

Growth Drivers

The number of CNG stations have crossed 4500 as compared to 900 CNG stations in 2014 and will be ramped up to 8000 in the next two years.

The Government of India has extensively boosted the expansion of City Gas Distribution (CGD) network coverage across the country to make natural gas available for the public. CGD networks ensure the supply of cleaner fuel (i.e., PNG) to households, Industrial & commercial units and transportation fuel (i.e., CNG) to vehicles.

To promote the usage and distribution of Liquefied Natural Gas (LNG), the Government has put LNG imports under Open General Licensing (OGL) category and establishment of LNG infrastructure, including LNG terminals is also under 100% FDI (automatic route).



Peer Analysis

Competitors: Mahanagar Gas, Gujarat Gas, etc.

In comparison, MGL is more vulnerable than IGL. IGL controls 44% of its CNG stations, MGL controls 30% of its CNG station (housed on infrastructure shared with OMCs). IGL operated in NCT of Delhi, Noida, Greater Noida, Ghaziabad, Rewari, Karnal and Muzaffarnagar whereas MGL operates in Mumbai Mahanagar region (MMR) i.e., Mumbai, Thane, Mira-Bhayander, Navi Mumbai.

Company	CMP	Mcap.	ROE	ROCE	P/E	EPS
IGL	426	29848	20.00%	26.00%	20	21.46
MGL	880	8682	17.00%	23.00%	15	60.43
GGL	517	35555	23.00%	28.00%	28	18.7

Outlook

Management said that the company have been working on various new strategic and business opportunities to secure its position. IGL is exploring to setup a backward integrated manufacturing facilities for gas meters, compressors, type 4 cylinders, etc. To promote inter-city public transport, the company has successfully showcased the use of Type IV cylinder long-haul buses between Delhi and Dehradun. To take it further, IGL is actively exploring conversion of Long-Haul Transport from pollutant fuel (Diesel) to cleaner fuel (CNG) of various State Transport Undertakings (STUs) towards conversion of their vehicles on CNG. As per Company's diversification strategy, IGL is looking forward to setup EV Charging facilities at various sites (including IGL CNG Stations), IGL has already installed and commissioned 4 fixed EV Charging stations in NCT of Delhi. IGL has also rolled out its battery swapping facility for 2-Wheeler and 3-Wheeler segment in collaboration with leading OEM – "M/s Kinetic Green Energy & Power Solution" under the name "Energy Café". Besides above, in order to explore the investment opportunities in EV value chain viz. battery manufacturing/ swapping, EVs manufacturing etc., company is in discussions with leading players in the field of EV landscape.



Valuation

IGL posted strong operational performance in the current quarter, with higher-than-expected volume growth, led by expanding geographical footprint. Although electric vehicle (EV) sales could impact CNG volume, the company plans to venture into the EV segment by setting up 50 battery swapping stations. Further, IGL is engaging with state governments to convert their fleets to CNG. We recommend a ACCUMULATE rating in the stock with a revised target price (TP) of Rs.530, 17x FY24E EPS.

Risks

- **EV threat** – The popularity of Electric enabled vehicles has been growing in India with government introducing various incentive schemes. In medium to long term, these cars may pose a potential threat to CNG run vehicles.
- **Regulatory risk** – The CGD industry is under regulatory regime wherein the Regulatory Board (PNGRB) has framed various regulations, which monitors day to day business operations of the CGD entity. The changes in the regulations, inter-alia, and marketing exclusivity may have an adverse impact on the Company.
- **Delay in Execution** – Delay in execution of newly acquired GA's can impact the overall profitability and company's performance in medium to long term.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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