

Indraprastha Gas Ltd

Robust volume growth expected in FY25E

Indraprastha Gas (IGL) reported subdued performance in Q3FY24 impacted by higher gas cost leading to QoQ decline in EBITDA/ scm. IGL's revenues rose 2.8% QoQ while EBITDA/ PAT declined 14.4%/ 14.0%. Supported by PNG domestic and commercial volume growth, overall gas sales volumes increased 2.2% QoQ at 8.5mmscmd. However, EBITDA/ scm declined 16.2% QoQ at Rs7.2/ scm from Rs8.6/ scm. Management guided ~9mmscmd exit rate in Q4FY24E and has already touched the number in recent days. It also guided for ~10mmscmd exit rate for FY25E with EBITDA/ scm hovering between Rs7.5-8.0/ scm (tilted towards Rs8.0/scm). Although, volume growth in Delhi is expected to remain lower at 2-3%, other GAs are growing at much faster clip and are expected to support overall volume growth. Based on 9MFY24 numbers and management guidance, we have lowered our FY24E/ FY25E/ FY26E earnings estimates by 4.6%/ 2.6%/ 3.7%. Over the past three months, the stock has risen ~10%. Based on our revised estimates, we downgrade the stock from Buy to Reduce with a revised SOTP based TP of Rs431 (earlier Rs447).

Volumes increase QoQ, backed by conversions

During Q3, IGL's overall volumes grew 2.2% QoQ at 780mmscm vs 764mmscm primarily driven by 7.1%/ 6.0% growth in PNG domestic/ commercial volumes. CNG volumes increased 1.3% QoQ supported by overall conversions of ~15,000 vehicles per month, ~6,500 private cars, ~5,500 commercial vehicles, and ~3,000 retrofits.

Higher gas cost impacts QoQ EBITDA/ scm

Due to lower APM gas allocation, gas cost rose 4.7% QoQ leading to lower EBITDA/ scm. During the quarter, IGL received ~78% APM gas, ~4% HPHT, and the rest was sourced from term and spot LNG. Higher gas cost and higher opex led to 16.2% QoQ decline in EBITDA/ scm at Rs7.2/ scm from Rs8.6/ scm. EBITDA thus declined 14.4% QoQ at Rs5.6bn and consequently PAT declined 14.0% QoQ at Rs4.8bn.

Management expects ~10mmscmd exit rate by end-FY25E

Although IGL's Delhi volumes are expected to grow at relatively lower rate of ~2-3% p.a., management remained confident of healthy volume growth albeit on a lower base from other GAs supported by infrastructure augmentation. IGL thus expects to clock ~10mmscmd FY25E exit rate. Guiding EBITDA/ scm at Rs7.5-8.0/ scm, management is primarily focusing on volume growth.

Non-Delhi GAs to propel volume growth

IGL experienced 15,000/ month CNG conversion rate and expects non-Delhi GAs which currently account for ~27% volumes to drive volume growth going forward. Management remained confident of achieving avg. volumes of ~9mmscmd in Q4FY24E with ~10mmscmd FY25E exit rate. EBITDA/ scm guidance stood at Rs7.5-8.0/ scm. Based on management's volume and EBITDA/ scm guidance, we have upped our volume estimates while lowering EBITDA/ scm. We expect Delhi EV policy impact on CNG volumes to reflect in coming quarters. Based on our revised estimates, we downgrade the stock from Buy to Reduce with a revised TP of Rs431 (earlier Rs447).

Risks – Lower than expected volume growth, slowing CNG conversion rate

Financial and valuation summary

YE Mar (Rs mn)	3QFY24A	3QFY23A	YoY (%)	2QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	35,562	37,108	(4.2)	34,585	2.8	1,43,149	1,60,059	1,70,414
EBITDA	5,623	4,285	31.2	6,569	(14.4)	24,870	27,431	29,095
EBITDA margin (%)	15.8	11.5	430bps	19.0	(320bps)	17.4	17.1	17.1
Adj. Net profit	4,755	3,341	42.3	5,527	(14.0)	17,376	18,745	20,025
Adj. EPS (Rs)	6.8	4.8	42.3	7.9	(14.0)	24.8	26.8	28.6
EPS growth (%)						20.2	7.9	6.8
PE (x)						16.9	15.7	14.6
EV/EBITDA (x)						10.8	9.4	8.6
PBV (x)						3.6	3.1	2.7
RoE (%)						22.8	21.2	19.5
RoCE (%)						22.8	21.2	19.4

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India I Oil & Gas

29 January, 2024

REDUCE

Price: Rs419

Target Price: Rs431

Forecast return: 3%

Institutional Research

Market Data

Bloomberg:	IGL IN
52 week H/L:	516/376
Market cap:	Rs293.4bn
Shares Outstanding:	700.0mn
Free float:	41.3%
Avg. daily vol. 3mth:	26,48,488
Source: Bloomberg	

Changes in the report

Rating:	REDUCE; changed from BUY
Target price:	Rs431; down 3.6% earlier Rs447
EPS:	FY24E: Rs24.8; down 4.6% FY25E: Rs26.8; down 2.6% FY26E: Rs28.6; down 3.7%
Source: Centrum Broking	

Shareholding pattern

	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	45.0	45.0	45.0	45.0
FIIs	17.9	20.9	21.9	21.3
DIIIs	27.8	26.3	25.4	25.5
Public/other	9.3	7.8	7.7	8.3
Source: BSE				

Centrum estimates vs Actual results

YE Mar (Rs bn)	Centrum Q3FY24	Actual Q3FY24	Variance (%)
Revenue	34.7	35.6	2.4
EBITDA	6.4	5.6	(11.7)
EBITDA margin (%)	18.3	15.8	(250bps)
Rep.PAT	5.3	4.8	(10.9)
Source: Bloomberg, Centrum Broking			



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Oil & Gas

Thesis Snapshot

Estimate revision

YE Mar (Rs bn)	FY25E New	FY25E Old	Variance (%)	FY26E New	FY26E Old	Variance (%)
Revenue	1,60,059	1,55,862	2.7	1,70,414	1,66,528	2.3
EBITDA	27,431	28,338	(3.2)	29,095	30,081	(3.3)
EBITDA Margin	17.1%	18.2%	(110bps)	17.1%	18.1%	(100bps)
PAT	18,745	19,258	(2.7)	20,025	20,773	(3.6)
Eps	26.8	27.5	(2.7)	28.6	29.7	(3.6)

Source: Bloomberg, Centrum Broking

IGL vs. NIFTY Midcap 100

	1m	6m	1 year
IGL IN	0.2	(9.3)	0.3
NIFTY Midcap 100	5.7	29.5	56.3

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY24E	FY25E	FY26E
Gross profit per scm	13.7	13.7	13.7
EBITDA per scm	8.0	8.0	7.9
EBITDA margins	17.4%	17.1%	17.1%

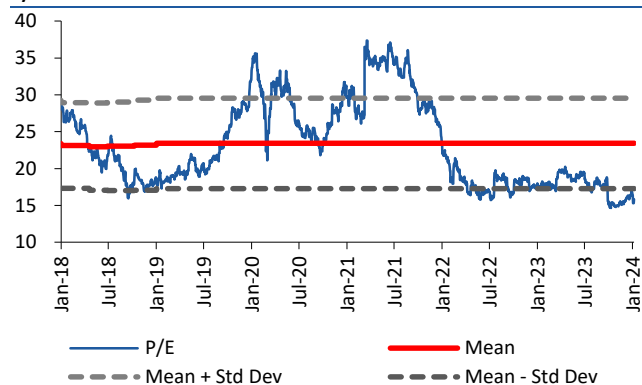
Source: Centrum Broking

Valuations

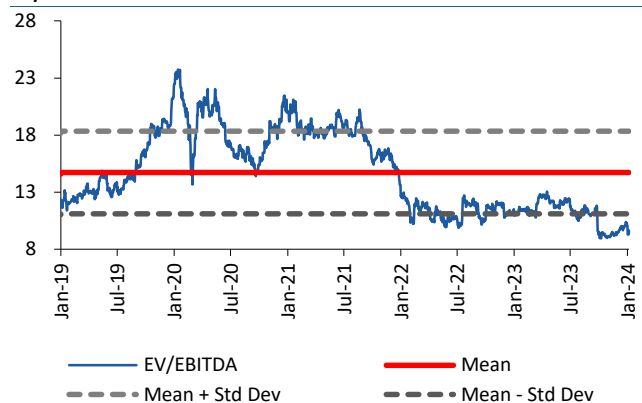
Based on 9MFY24 numbers and management guidance, we have lowered our FY24E/ FY25E/ FY26E earnings estimates by 4.6%/ 2.6%/ 3.7%. Based on management's volume and EBITDA/ scm guidance, we have upped our volume estimates while lowering EBITDA/ scm. Over the past three months, the stock has risen ~10%. Based on our revised estimates, we downgrade the stock from Buy to Reduce with a revised SOTP based TP of Rs431 (earlier Rs447).

Valuations	Rs bn	Rs/share
EV - Continuing Business	105	151
EV - Terminal Value	111	159
Net debt (FY24E)	(34)	(49)
Equity value (Standalone)	251	358
15x 1HFY26E EPS from CUGL and MNGL	51	72
Equity value (Consolidated)	301	431

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Valuation

Exhibit 1: DCF valuation of IGL

(Rs mn)	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E
EBITDA	24,870	27,431	29,095	31,035	33,199	35,508	37,892	40,436	42,831	45,569	48,264
(-) Tax expenses	5,792	6,248	6,675	7,171	7,777	8,501	9,330	10,257	11,211	12,318	13,520
(-) Capex	12,551	13,449	14,000	14,000	13,000	12,000	12,000	12,000	12,000	11,000	11,000
(+) Change in WC	(2,860)	2,892	1,710	1,944	1,912	2,178	2,266	2,424	2,332	2,637	2,480
FCFF	3,667	10,626	10,129	11,808	14,333	17,185	18,827	20,602	21,952	24,888	26,224
Year	-	0.3	1.3	2.3	3.3	4.3	5.3	6.3	7.3	8.3	9.3
Disc FCFF	3,667	10,350	8,880	9,318	10,181	10,987	10,834	10,672	10,235	10,444	9,905

Particulars	(Rs bn) (per share)	
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EV - Terminal Value	111	159
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Equity value (Standalone)	251	358
18x 1HFY26E EPS from CUGL and MNGL	51	72
Equity value (Consolidated)	301	431

Source: Centrum Broking, Company data

Exhibit 2: WACC calculation and terminal growth rate

Parameter	
Risk-free rate %	7.2%
Market risk premium %	4.2%
Beta	0.9
CoE %	11.1%
CoD (pre-tax) %	7.6%
Tax-rate %	25.0%
CoD (post-tax) %	5.7%
D/E	0.0%
WACC %	11.1%
Terminal Growth Rate %	2.0%

Source: Company Data, Centrum Broking

Q3FY24 Concall Highlights

Financial performance

- Sales volumes – 8.48 mmscmd up 4% YoY
- EBITDA – Rs5,640mn up 32% YoY
- PBT – Rs5160mn up 32% YoY
- EBITDA/scm decline due to decrease in APM gas allocation for the priority sector in Q3
- Around Rs720mn of dividend income from associates benefitted PAT

Business performance

- In Q3, industrial segment has lagged behind due to competitive price of alternate fuels
- Conversion of vehicles continues to be ~15,000 vehicles per month
- Private Vehicles – 6,500, Commercial Vehicles – 5,500, Retrofit – 3,000
- 8-10% growth seen in private vehicles
- APM allocation 78%, HPHT 4%, Term Contracts (RLNG) – 17%, rest spot LNG
- APM volumes down from 87% to 78%
- Delhi volumes – 63%, Non Delhi – 37%
- Delhi volumes growing at 2-3% after adjusting loss from DTC buses conversion
- Non Delhi growing at 7-8%
- Total volume contracted ~2.35mmscmd, mid-term ~1.77mmscmd and long-term ~0.58mmscmd
- Mid-term pricing – 115% of Henry Hub+5.5. Blended cost – USD13-14/ mmbtu
- UP agreed to deploy 60 buses, Uttarakhand deploy 45 buses and Rajasthan agreed on Pilot of 20 buses for interstate travel
- 1800 DTC buses are remaining to be converted

Capex

- 60 CNG stations in Q4 to be commissioned
- On infrastructure front, commissioned 27 CNG stations in 9MFY24
- In 9MFY24 added ~2.7 lakh domestic connections and around 1,000 industrial and commercial connections
- 9MFY24 capex – ~Rs8,590mn (Delhi - ~Rs4,000mn/ UP - ~Rs3,000mn/ Haryana and Rajasthan - ~Rs1,500mn)
- FY25E Capex – Rs14-15bn in CBG and LNG segment for setting up plants

Outlook

- EBITDA/ scm guidance – Rs7.5-8.0/ scm, targeting around Rs8.0/ scm
- Exit rate FY25E – 10mmscmd
- Focusing on more areas for the increase in volume growth and planning to set up 10 LNG stations in near future as sees potential in LNG for long haul
- Setting up 10 CBG plants, decline in APM to be made up with CBG
- CBG 10-15% cheaper than APM
- DTC total buses – 3,200 buses of which 40% converted to EV and by FY25 all to convert to EV
- From 1 January, there has been a slight improvement in APM allocation. Got additional 120,00scmd

New Plans

- Targeting conversion of 6,000 dumpers from Banda, Mahoba Chitraku
- Converting 2-3 dumpers to CNG to demonstrate the benefits of conversions to CNG
- Working on conversion of dumpers and commercial trucks for switch over from diesel to CNG
- Ajmer GA – Not increased CNG prices, conversions picking up in Ajmer and Rewadi
- Adding 200,000 PNG connections in Delhi every year
- Interstate buses entering Delhi have to be CNG or EV and expecting some share of Delhi volumes to grow due to this

Exhibit 3: IGL financial summary (Cons.)

Y/E March (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9M FY24	9M FY23	% chg.
Net sales	35,562	37,108	(4.2)	34,585	2.8	1,04,217	1,04,587	(0.4)
Cost of Goods	25,459	28,636	(11.1)	23,803	7.0	72,603	76,435	(5.0)
% of sales	71.6	77.2		68.8		69.7	73.1	
Other expenditure	4,480	4,188	7.0	4,213	6.3	12,998	12,417	4.7
% of sales	12.6	11.3		12.2		12.5	11.9	
Operating profit	5,623	4,285	31.2	6,569	(14.4)	18,617	15,735	18.3
OPM (%)	15.8	11.5		19.0		17.9	15.0	
Dep. and amor.	1,019	925	10.2	1,022	(0.3)	3,031	2,696	12.4
Interest	18	26	(32.2)	25	(28.0)	66	80	(17.9)
EBT	4,587	3,334	37.6	5,523	(16.9)	15,520	12,959	19.8
Other income	546	557	(2.1)	617	(11.5)	1,619	1,375	17.8
Excp. Item	0	0		0		0	0	
PBT	5,990	4,449	34.6	7,041	(14.9)	19,734	16,192	21.9
Provision for tax	1,235	1,109	11.4	1,514	(18.4)	4,233	3,771	12.3
eff. tax rate	20.6	24.9		21.5		21.4	23.3	
Profit from Associate	858	558	53.7	902	(4.9)	2,595	1,859	39.6
PAT (rep.)	4,755	3,341	42.3	5,527	(14.0)	15,501	12,421	24.8
NPM (%)	13.2	8.9		15.7		14.6	11.7	
Sales volumes (mmscm)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9M FY24	9M FY23	% chg.
Natural Gas	46	46	0.5	46	(0.3)	137	137	(0.1)
CNG	582	559	4.2	575	1.3	1,718	1,659	3.6
PNG - Domestic	57	51	10.8	53	7.1	162	141	14.9
PNG - Commercial	95	91	4.4	90	6.0	273	272	0.3
Total	780	747	4.4	764	2.2	2,290	2,209	3.7
Total Volumes	8.5	8.1	4.4	8.3	2.2	8.3	8.0	3.7
Rs/ scm	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9M FY24	9M FY23	% chg.
Revenue	45.6	49.7	(8.2)	45.3	0.7	45.5	47.3	(3.9)
COGS	32.6	38.3	(14.9)	31.2	4.7	31.7	34.6	(8.4)
Gross profit	12.9	11.3	14.2	14.1	(8.3)	13.8	12.7	8.3
EBITDA	7.2	5.7	25.7	8.6	(16.2)	8.1	7.1	14.1
PAT	6.1	4.5	36.3	7.2	(15.8)	6.8	5.6	20.4
Sales volumes (mmscmd)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9M FY24	9M FY23	% chg.
Natural Gas	0.50	0.50	0.5	0.50	(0.3)	0.50	0.50	(0.1)
CNG	6.33	6.07	4.2	6.25	1.3	6.25	6.03	3.6
PNG - Domestic	0.62	0.56	10.8	0.58	7.1	0.59	0.51	14.9
PNG - Commercial	1.04	0.99	4.4	0.98	6.0	0.99	0.99	0.3
Total	8.48	8.12	4.4	8.30	2.2	8.33	8.03	3.7

Source: Centrum Broking, Company Data

Exhibit 4: IGL financial quarterly trend

Quarterly (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Revenues	24,059	31,939	35,540	37,108	36,872	34,070	34,585	35,562	(4.2)	2.8
Q-o-Q gr. (%)	8.6	32.7	11.3	4.4	(0.6)	(7.6)	1.5	2.8		
Raw Mat. Cons.	15,178	21,706	26,094	28,636	27,925	23,341	23,803	25,459	(11.1)	7.0
% of net sales	63.1	68.0	73.4	77.2	75.7	68.5	68.8	71.6		
Employee Costs	385	481	497	438	467	508	516	591	35.0	14.6
% of net sales	1.6	1.5	1.4	1.2	1.3	1.5	1.5	1.7		
Others	3,491	3,577	3,675	3,750	3,817	3,797	3,697	3,889	3.7	5.2
% of net sales	14.5	11.2	10.3	10.1	10.4	11.1	10.7	10.9		
EBITDA	5,005	6,175	5,275	4,285	4,663	6,424	6,569	5,623	31.2	(14.4)
Q-o-Q growth (%)	6.6	23.4	(14.6)	(18.8)	8.8	37.8	2.3	(14.4)		
EBITDA Margin (%)	20.8	19.3	14.8	11.5	12.6	18.9	19.0	15.8		
Dep. & Amor.	753	857	914	925	938	989	1,022	1,019	10.2	(0.3)
EBIT	4,252	5,318	4,361	3,360	3,725	5,435	5,547	4,604	37.0	(17.0)
Interest exp.	49	24	31	26	26	24	25	18	(32.2)	(28.0)
Other Income	774	307	510	557	654	457	617	546	(2.1)	(11.5)
EBT	4,977	5,602	4,840	3,891	4,354	5,867	6,139	5,132	31.9	(16.4)
Provision for tax	1,361	1,394	1,269	1,109	1,057	1,483	1,514	1,235	11.4	(18.4)
Eff. tax rate (%)	27.3	24.9	26.2	28.5	24.3	25.3	24.7	24.1		
Profit from Associate	723	604	697	558	678	836	902	858		
Net Profit	4,339	4,812	4,268	3,341	3,975	5,220	5,527	4,755	42.3	(14.0)
PAT Margin (%)	17.5	14.9	11.8	8.9	10.6	15.1	15.7	13.2	17.5	

Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	77,100	1,41,459	1,43,149	1,60,059	1,70,414
Operating Expense	43,923	1,04,360	1,00,587	1,12,824	1,20,128
Employee cost	1,760	1,935	2,129	2,342	2,576
Others	12,606	14,765	15,562	17,462	18,616
EBITDA	18,811	20,398	24,870	27,431	29,095
Depreciation & Amortisation	3,171	3,634	4,264	4,973	5,720
EBIT	15,640	16,764	20,606	22,458	23,374
Interest expenses	132	106	90	92	94
Other income	2,150	2,619	2,652	2,627	3,420
PBT	17,659	19,277	23,168	24,994	26,701
Taxes	4,509	4,827	5,792	6,248	6,675
Effective tax rate (%)	25.5	25.0	25.0	25.0	25.0
PAT	13,149	14,450	17,376	18,745	20,025
Recurring PAT	13,149	14,450	17,376	18,745	20,025
Reported PAT	13,149	14,450	17,376	18,745	20,025

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
Revenue	56.0	83.5	1.2	11.8	6.5
EBITDA	26.8	8.4	21.9	10.3	6.1
Adj. EPS	30.8	9.9	20.2	7.9	6.8
Margins (%)					
Gross	43.0	26.2	29.7	29.5	29.5
EBITDA	24.4	14.4	17.4	17.1	17.1
EBIT	20.3	11.9	14.4	14.0	13.7
Adjusted PAT	17.1	10.2	12.1	11.7	11.8
Returns (%)					
ROE	20.5	20.6	22.8	21.2	19.5
ROCE	20.4	20.5	22.8	21.2	19.4
ROIC	15.2	25.6	25.6	25.6	24.2
Turnover (days)					
Gross block turnover ratio (x)	1.2	1.9	1.7	1.6	1.5
Debtors	18	18	19	14	15
Inventory	4	2	3	4	4
Creditors	74	82	117	95	97
Net working capital	43	6	12	25	39
Solvency (x)					
Net debt-equity	(0.2)	(0.4)	(0.3)	(0.4)	(0.4)
Interest coverage ratio	142.4	192.6	276.3	298.8	310.7
Net debt/EBITDA	(0.7)	(1.3)	(1.0)	(1.3)	(1.5)
Per share (Rs)					
Adjusted EPS	18.8	20.6	24.8	26.8	28.6
BVPS	99.1	101.2	116.1	136.1	157.6
CEPS	23.3	25.8	30.9	33.9	36.8
DPS	5.5	5.5	10.0	6.7	7.2
Dividend payout (%)	29.3	26.6	40.3	25.0	25.0
Valuation (x)					
P/E	22.3	20.3	16.9	15.7	14.6
P/BV	4.2	4.1	3.6	3.1	2.7
EV/EBITDA	14.9	13.1	10.8	9.4	8.6
Dividend yield (%)	1.3	1.3	2.4	1.6	1.7

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	1,400	1,400	1,400	1,400	1,400
Reserves & surplus	67,962	69,466	79,842	93,900	1,08,920
Shareholders fund	69,362	70,866	81,242	95,300	1,10,320
Total debt	1,076	593	593	593	593
Non Current Liabilities	17,134	817	899	989	1,088
Def tax liab. (net)	2,737	3,168	3,575	4,014	4,483
Total liabilities	90,309	75,443	86,308	1,00,896	1,16,483
Gross block	62,531	73,609	86,161	1,00,161	1,14,161
Less: acc. Depreciation	(14,837)	(18,471)	(22,735)	(27,708)	(33,428)
Net block	47,694	55,138	63,425	72,452	80,732
Capital WIP	13,786	14,337	14,337	13,786	13,786
Net fixed assets	61,480	69,476	77,763	86,238	94,518
Investments	19,758	3,807	3,807	3,807	3,807
Inventories	455	492	1,177	1,316	1,401
Sundry debtors	5,206	9,034	5,883	6,578	7,003
Cash & Cash Equivalents	13,616	26,332	26,050	35,055	44,072
Loans & advances	1,094	2,230	1,177	1,316	1,401
Other current assets	2,545	6,388	2,981	3,074	3,131
Trade payables	9,817	37,158	27,558	30,911	32,912
Provisions	4,028	5,158	4,972	5,577	5,938
Net current assets	9,072	2,160	4,738	10,850	18,158
Total assets	90,309	75,443	86,308	1,00,896	1,16,483

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	17,791	19,383	23,258	25,085	26,794
Depreciation & Amortisation	3,171	3,634	4,264	4,973	5,720
Net Interest	(132)	(106)	(90)	(92)	(94)
Net Change – WC	1,349	19,627	(2,860)	2,892	1,710
Direct taxes	(4,195)	(4,396)	(5,385)	(5,809)	(6,206)
Net cash from operations	21,255	21,341	19,270	27,139	28,023
Capital expenditure	(14,956)	(11,630)	(12,551)	(13,449)	(14,000)
Net cash from investing	(14,956)	(11,630)	(12,551)	(13,449)	(14,000)
FCF	6,300	9,711	6,718	13,690	14,023
Dividend paid	(3,850)	(3,850)	(7,000)	(4,686)	(5,006)
Net cash from financing	(3,850)	(3,850)	(7,000)	(4,686)	(5,006)
Net change in Cash	2,450	5,861	(282)	9,004	9,017

Source: Company, Centrum Broking

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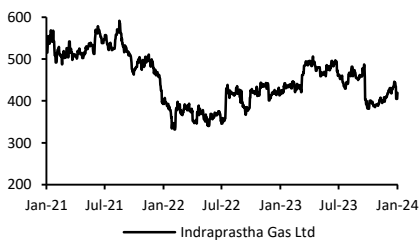
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Indraprastha Gas Ltd



Source: Bloomberg

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