

Indraprastha Gas | BUY



EV risk a key monitorable; maintain BUY on valuations

IGL's 2QFY24 standalone EBITDA was INR 6.6bn, higher than JMFe/consensus of INR 6.4bn/INR 6.3bn due to higher sales volume and slightly better EBITDA margin (INR 8.6/scm). Sales volume was 1.7% above JMFe (up 2.4% QoQ) driven by higher CNG volume; the management highlighted that volume growth in Delhi was 1.5-2% lower than normal growth due to impact of floods/G20. The management clarified that cab aggregators constitute ~15% of IGL's total CNG volume; hence, though it maintained exit FY24 volume at 9mmscmd it didn't guide for FY25 volume due to limited clarity on the impact of Delhi's EV policy. We have reduced our volume growth assumption for IGL by 100bps from FY25 onwards and terminal growth assumption to 3% (from 5%) to account for likely adverse impact of Delhi's EV policy on IGL's overall CNG volume. This has led to a 2.6% cut in our FY25 EBITDA estimate while our FY24 EBITDA estimate remains unchanged; our DCF-based TP has been cut to INR 500 (from INR 570). However, we still maintain BUY on valuation grounds and due to IGL's: a) decent pricing power given that CNG is 45%/25% cheaper than diesel/petrol, and b) steady volume growth story based on its existing lucrative NCR market and expansion into new, lucrative nearby cities and intercity traffic. At CMP, IGL is trading at FY25 P/E of 12.7x and FY25 P/B of 2.7x.

- Sales volume 1.7% above JMFe (up 2.6% QoQ); volume growth in Delhi was 1.5-2% lower than normal growth due to impact of floods/G20:** IGL's 2QFY24 standalone EBITDA was INR 6.6bn, higher than JMFe/consensus of INR 6.4bn/INR 6.3bn due to higher sales volume and slightly better margin. Hence, PAT at INR 5.4bn was also higher vs. JMFe/consensus of INR 4.7bn aided by higher other income (INR 1.3bn vs. JMFe of INR 1.0bn) and lower taxes (22.1% vs. 25.3% in 2QFY24). The board approved an interim dividend of INR 4/share for 1HFY24 (or ~25% payout of 1HFY24 consolidated EPS of INR15.4/share). Sales volume at 8.3mmscmd or 764mmscm (up 2.4% QoQ and up 2.6% YoY) was 1.7% above JMFe; this was because CNG sales volume at 575mmscm (up 2.4% QoQ and up 2.6% YoY) was 2.4% above JMFe. However, PNG sales volume was largely in line with JMFe at 189mmscm (up 2.3% QoQ and up 2.8% YoY), with domestic PNG sales volume a tad lower at 53mmscm (up 0.9% QoQ and up 14.7% YoY) and industrial/commercial PNG sales volume in line at 90mmscm (up 3.3% QoQ, but down 1.8% YoY). The management highlighted that volume growth in Delhi was 1.5-2% lower than the normal growth due to impact of floods/G20.
- EBITDA margin flat QoQ at INR 8.6/scm but higher than JMFe of INR 8.3/scm aided by lower opex:** Gross spread was marginally higher at INR 14.1/scm in 2QFY24 vs. JMFe of INR 14.0/scm (though down from INR 14.4/scm in 1QFY24) as average cost of gas was a tad lower at USD 10.5/mmbtu or INR 31.2/scm vs. JMFe of USD 10.6/mmbtu (vs. USD 10.6/mmbtu in 1QFY24). Further, opex was lower at INR 5.5/scm vs. JMFe of INR 5.7/scm aided by higher volume (and down from INR 5.8/scm in 1QFY24). Hence, EBITDA margin was higher at INR 8.6/scm in 2QFY24 vs. JMFe of INR 8.3/scm (though flattish QoQ).
- Cab aggregators constitute ~15% of IGL's total CNG volume; management maintains**

Recommendation and Price Target

| | |
|----------------------------|--------|
| Current Reco. | BUY |
| Previous Reco. | BUY |
| Current Price Target (12M) | 500 |
| Upside/(Downside) | 31.1% |
| Previous Price Target | 570 |
| Change | -12.3% |

Key Data – IGL IN

| | |
|--------------------------|-------------------|
| Current Market Price | INR381 |
| Market cap (bn) | INR266.8/US\$3.2 |
| Free Float | 44% |
| Shares in issue (mn) | 700.0 |
| Diluted share (mn) | 700.0 |
| 3-mon avg daily val (mn) | INR894.2/US\$10.7 |
| 52-week range | 516/376 |
| Sensex/Nifty | 63,591/18,989 |
| INR/US\$ | 83.3 |

Price Performance

| % | 1M | 6M | 12M |
|-----------|-------|-------|-------|
| Absolute | -16.2 | -23.0 | -10.3 |
| Relative* | -13.3 | -25.8 | -14.0 |

* To the BSE Sensex

| Financial Summary | (INR mn) | | | | |
|------------------------|----------|---------|---------|---------|---------|
| Y/E March | FY22A | FY23A | FY24E | FY25E | FY26E |
| Net Sales | 77,100 | 141,460 | 144,078 | 148,603 | 178,246 |
| Sales Growth (%) | 56.0 | 83.5 | 1.9 | 3.1 | 19.9 |
| EBITDA | 18,811 | 20,399 | 24,034 | 26,362 | 29,331 |
| EBITDA Margin (%) | 24.4 | 14.4 | 16.7 | 17.7 | 16.5 |
| Adjusted Net Profit | 13,150 | 14,452 | 17,011 | 18,614 | 20,713 |
| Diluted EPS (INR) | 18.8 | 20.6 | 24.3 | 26.6 | 29.6 |
| Diluted EPS Growth (%) | 30.8 | 9.9 | 17.7 | 9.4 | 11.3 |
| ROIC (%) | 26.3 | 22.5 | 22.8 | 23.3 | 24.5 |
| ROE (%) | 20.5 | 20.6 | 21.9 | 20.3 | 19.2 |
| P/E (x) | 20.3 | 18.5 | 15.7 | 14.3 | 12.9 |
| P/B (x) | 3.8 | 3.8 | 3.2 | 2.7 | 2.3 |
| EV/EBITDA (x) | 13.1 | 12.7 | 10.4 | 9.1 | 7.7 |
| Dividend Yield (%) | 1.4 | 3.4 | 1.3 | 1.4 | 1.6 |

Source: Company data, JM Financial. Note: Valuations as of 01/Nov/2023

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

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exit FY24 volume at 9mmscmd but hasn't guided for FY25 volume due to limited clarity on impact of EV policy: The management shared the approximate break-up of IGL's total CNG sales volume as: **a)** Cab aggregators: 15%; **b)** Private cars: 40%; **c)** Auto: 6%; **d)** Buses: 20% (DTC is 6-7% and balance 13-14% state carriers); **e)** balance around 20% from taxis/LCVs. It expects Delhi's EV policy to result in muted volume growth in the cab aggregator segment in the next few years and says the long-term impact (beyond 2030) is difficult to predict. However, it clarified that presently there is no restriction on movement of CNG vehicles across Delhi-NCR and hopes there will be no restriction in future as well but that will depend on government policies. Hence, though the management maintained FY24 exit volume guidance of 9mmscmd (vs. 8.3mmscmd in 2QFY24), in the absence of clarity on Delhi's EV policy it didn't give any guidance for volume growth from FY25 onwards. However, it added that, going forward, 50-60% of incremental volume will come up from new GAs while 40-50% of incremental volume is expected from Delhi.

- **TP cut to INR 500 to account for lower growth due to Delhi's EV policy; reiterate BUY on valuation grounds and due to decent pricing power and steady volume growth:** We have reduced our volume growth assumption for IGL by 100bps from FY25 onwards and terminal growth assumption to 3% (from 5%) to account for likely adverse impact of Delhi's EV policy on its overall CNG volume. This has led to cut in our FY25 EBITDA estimate by 2.6% while our FY24 EBITDA estimate remains unchanged. Hence, our DCF-based TP has been cut to INR 500 (from INR 570). However, we still maintain BUY on valuation grounds and due to IGL's: **a)** decent pricing power given that CNG is 45%/25% cheaper than diesel/petrol, and **b)** steady volume growth story based on its existing lucrative NCR market (CNG penetration in private cars is 25-30%) and expansion into new, lucrative nearby cities and intercity traffic. At CMP, IGL is trading at FY25 P/E of 12.7x (3-year avg: 19.3x) and FY25 P/B of 2.7x (3-year avg: 4.4x). **Key Risks:** muted volume growth and margin concerns due to rise in penetration of electric vehicles and/or no increase in domestic gas allocation; and sharp hike in HPHT/spot LNG gas price.

2QFY24 concall takeaways

1) **The approximate break-up of IGL's total CNG sales volume is: a) Cab aggregators: 15%; b) Private cars: 40%; c) Auto: 6%; d) Buses: 20% (DTC is 6-7% and balance 13-14% state carriers); e) balance around 20% from taxis/LCVs.** Further, it added that around 60% of IGL's CNG sales volume comes from Delhi and rest from the other geographical areas (GAs).

2) The management expects Delhi EV policy could result in **muted volume growth in cab aggregator segment in the next few years and says the long-term impact (beyond 2030) is difficult to predict.** It expects to partly offset the above impact by tying up with state transport buses and exploring opportunity in the LNG retail outlet segment. Also, it has commissioned 30 EV charging stations so far and will take it up to 50 EV charging stations by end-FY24.

3) The management clarified that **presently there is no restriction on movement of CNG vehicles across Delhi-NCR** (except for some restriction for inter-state buses); and **hopes there will be no restriction in future as well, but it will depend on government policies.**

4) The approximate volume growth break-up region wise in 2QFY24 was: **a) Delhi around 3%** (1.5-2% lower than the normal growth rate of 4-5% due to impact of floods/G20); **b) Gurugram around 5%; c) Gautam Buddh Nagar /Ghaziabad: 11-12%; d) New GAs are growing at 30-60% on a lower base.** The management said that going forward **50-60% of incremental volume will come up from new GAs while 40-50% of incremental volume is expected from Delhi.**

5) **Hence, the management maintains FY24 exit volume guidance of 9mmcmd** (vs. 8.3mmcmd in 2QFY24); **however, in the absence of clarity on Delhi's EV policy, it didn't give any guidance for volume growth from FY25 onwards.**

6) **Monthly CNG conversion was 15,900-16,000 on average in 2QFY24** (15,361 in Ju'23; 17,131 in Aug'23 and 15,100 in Sep'23) – Oct'23 data not out yet. CNG vehicle licence is valid for 15 years; but average usage could be around 8-10 years.

7) The management said it has witnessed price elasticity of CNG conversion to economics of CNG vs. petrol/diesel and, hence, conversion has gone down to 12-12.5k/month also and has risen to +17k/month also. Hence, in future, it could consider cutting CNG prices if needed to boost CNG conversion.

8) **Newer GAs are not making profits right now due to high fixed cost nature of business,** will become profitable once volume picks up.

9) Capex was INR 4.8bn in 1HFY24; this was lower than earlier annual guidance of INR14-15bn due to some delay in government approval due to G20, etc. Future capex plan will be decided after understanding the impact of Delhi's EV policy.

2QFY24 Result Review

Exhibit 1. Quarterly Snapshot

| | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | % YoY | % QoQ |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|-------------|
| Net Sales | 12,574 | 18,312 | 22,155 | 23,940 | 31,939 | 35,540 | 37,108 | 36,872 | 34,070 | 34,585 | (2.7) | 1.5 |
| Operating expenditure | 8,765 | 13,010 | 17,459 | 19,055 | 25,763 | 30,265 | 32,823 | 32,209 | 27,646 | 28,016 | (7.4) | 1.3 |
| EBITDA | 3,809 | 5,302 | 4,696 | 4,885 | 6,175 | 5,275 | 4,285 | 4,663 | 6,424 | 6,569 | 24.5 | 2.3 |
| EBITDA Margin % | 30.3% | 29.0% | 21.2% | 20.4% | 19.3% | 14.8% | 11.5% | 12.6% | 18.9% | 19.0% | 415 bps | 14 bps |
| Depreciation | 778 | 805 | 835 | 753 | 857 | 914 | 925 | 938 | 989 | 1,022 | 11.8 | 3.3 |
| Other Income | 298 | 775 | 304 | 774 | 307 | 1,100 | 557 | 654 | 457 | 1,340 | 21.8 | 193.4 |
| PBT | 3,299 | 5,246 | 4,137 | 4,858 | 5,602 | 5,430 | 3,891 | 4,354 | 5,867 | 6,862 | 26.4 | 17.0 |
| Tax | 857 | 1,241 | 1,051 | 1,361 | 1,394 | 1,269 | 1,109 | 1,057 | 1,483 | 1,514 | 19.4 | 2.1 |
| PAT | 2,443 | 4,005 | 3,085 | 3,497 | 4,209 | 4,162 | 2,783 | 3,297 | 4,384 | 5,348 | 28.5 | 22.0 |
| EPS (INR) | 3.5 | 5.7 | 4.4 | 5.0 | 6.0 | 5.9 | 4.0 | 4.7 | 6.3 | 7.6 | 28.5 | 22.0 |
| Tax rate | 26.0% | 23.6% | 25.4% | 28.0% | 24.9% | 23.4% | 28.5% | 24.3% | 25.3% | 22.1% | | |
| Consolidated EPS (INR) | 4.0 | 6.0 | 5.4 | 6.2 | 6.9 | 6.1 | 4.8 | 5.7 | 7.5 | 7.9 | 29.5 | 5.9 |

Source: Company, JM Financial

Exhibit 2. Operational details

| | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | % YoY | % QoQ |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------|-------|
| Gas Volume | | | | | | | | | | | | |
| CNG Sales Volume (mmscm) | 332 | 488 | 518 | 509 | 540 | 560 | 559 | 550 | 561 | 575 | 2.6 | 2.4 |
| PNG Sales Volume-(mmscm) | 152 | 178 | 186 | 188 | 178 | 184 | 188 | 193 | 185 | 189 | 2.8 | 2.3 |
| Industrial/commercial Volume | 74 | 91 | 95 | 92 | 89 | 92 | 91 | 92 | 87 | 90 | (1.8) | 3.3 |
| Domestic Volume | 44 | 42 | 45 | 51 | 44 | 46 | 51 | 56 | 52 | 53 | 14.7 | 0.9 |
| Natural Gas volume | 34 | 46 | 46 | 45 | 46 | 46 | 46 | 45 | 45 | 46 | 0.1 | 2.1 |
| Overall Sales Volume-(mmscm) | 484 | 666 | 704 | 697 | 718 | 744 | 747 | 743 | 746 | 764 | 2.6 | 2.4 |
| Overall sales volume-(mmscmd) | 5.3 | 7.2 | 7.7 | 7.7 | 7.9 | 8.1 | 8.1 | 8.3 | 8.2 | 8.3 | 2.6 | 1.2 |
| Gas Volume growth (% YoY) | | | | | | | | | | | | |
| CNG Sales Volume (in KGs) | 127.2% | 37.5% | 28.9% | 16.2% | 62.7% | 14.9% | 7.8% | 8.1% | 4.0% | 2.6% | | |
| CNG Sales Volume (in scm) | 127.2% | 35.4% | 25.8% | 16.2% | 62.7% | 14.9% | 7.8% | 8.1% | 4.0% | 2.6% | | |
| PNG Sales Volume (mmscm) | 50.5% | 22.0% | 13.5% | 6.8% | 17.1% | 3.3% | 1.2% | 2.7% | 3.8% | 2.8% | | |
| Industrial/commercial Volume | 80.6% | 26.1% | 13.4% | 3.4% | 19.9% | 1.1% | -4.0% | 0.0% | -1.7% | -1.8% | | |
| Domestic Volume | 2.1% | 3.9% | 10.0% | 13.3% | -0.3% | 11.2% | 13.5% | 9.8% | 19.9% | 14.7% | | |
| Natural Gas volume | 100.4% | 34.6% | 17.4% | 7.1% | 33.5% | 0.5% | -0.3% | 0.0% | -1.0% | 0.1% | | |
| Overall Sales Volume (mmscm) | 95.9% | 31.6% | 22.3% | 13.5% | 48.4% | 11.8% | 6.1% | 6.6% | 3.9% | 2.6% | | |
| Gas Volume growth (% QoQ) | | | | | | | | | | | | |
| CNG Sales Volume (in KGs) | -24.3% | 47.0% | 6.3% | -1.8% | 6.1% | 3.8% | -0.3% | -1.6% | 2.1% | 2.4% | | |
| CNG Sales Volume (in scm) | -24.3% | 47.0% | 6.3% | -1.8% | 6.1% | 3.8% | -0.3% | -1.6% | 2.1% | 2.4% | | |
| PNG Sales Volume | -13.6% | 17.2% | 4.5% | 1.0% | -5.3% | 3.3% | 2.4% | 2.5% | -4.3% | 2.3% | | |
| Industrial/commercial Volume | -16.8% | 22.7% | 4.9% | -3.4% | -3.5% | 3.4% | -0.3% | 0.6% | -5.2% | 3.3% | | |
| Domestic Volume | -2.5% | -5.3% | 8.6% | 13.0% | -14.2% | 5.5% | 10.8% | 9.4% | -6.3% | 0.9% | | |
| Natural Gas volume | -18.9% | 34.3% | 0.1% | -1.7% | 1.1% | 1.0% | -0.7% | -1.4% | 0.1% | 2.1% | | |
| Overall Sales Volume | -21.2% | 37.6% | 5.8% | -1.0% | 3.0% | 3.7% | 0.4% | -0.5% | 0.4% | 2.4% | | |
| IGL per unit break-up (INR/scm) | | | | | | | | | | | | |
| Realisation | 26.0 | 27.5 | 31.5 | 34.3 | 44.5 | 47.8 | 49.7 | 49.6 | 45.7 | 45.3 | | |
| Average cost of gas | 11.6 | 14.0 | 19.7 | 21.8 | 30.3 | 35.1 | 38.3 | 37.6 | 31.3 | 31.2 | | |
| Blended gross spread | 14.4 | 13.5 | 11.8 | 12.6 | 14.2 | 12.7 | 11.3 | 12.0 | 14.4 | 14.1 | | |
| Other expense | 6.5 | 5.6 | 5.1 | 5.5 | 5.6 | 5.6 | 5.6 | 5.7 | 5.8 | 5.5 | | |
| EBITDA | 7.9 | 8.0 | 6.7 | 7.0 | 8.6 | 7.1 | 5.7 | 6.3 | 8.6 | 8.6 | | |
| Depreciation | 1.6 | 1.2 | 1.2 | 1.1 | 1.2 | 1.2 | 1.2 | 1.3 | 1.3 | 1.3 | | |
| Interest exp net of other income | -0.6 | -1.1 | -0.4 | -1.0 | -0.4 | -1.4 | -0.7 | -0.8 | -0.6 | -1.7 | | |
| PBT | 6.8 | 7.9 | 5.9 | 7.0 | 7.8 | 7.3 | 5.2 | 5.9 | 7.9 | 9.0 | | |
| Tax | 1.8 | 1.9 | 1.5 | 2.0 | 1.9 | 1.7 | 1.5 | 1.4 | 2.0 | 2.0 | | |
| PAT | 5.0 | 6.0 | 4.4 | 5.0 | 5.9 | 5.6 | 3.7 | 4.4 | 5.9 | 7.0 | | |

Source: Company, JM Financial

Assumptions and Estimates

Exhibit 3. Key Assumptions

| | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E | Comments |
|---|--------------|--------------|--------------|--------------|--------------|--------------|---|
| GAS VOLUME BREAK-UP (mm scm) | | | | | | | |
| CNG | 1,357 | 1,847 | 2,209 | 2,408 | 2,600 | 2,808 | |
| PNG- Domestic | 169 | 182 | 197 | 213 | 226 | 235 | |
| PNG-Industrial/Commercial | 286 | 352 | 364 | 379 | 394 | 409 | |
| PNG-Sale to other CGD cos | 132 | 170 | 182 | 197 | 212 | 229 | |
| Total sales volume | 1,944 | 2,551 | 2,952 | 3,196 | 3,432 | 3,682 | |
| Internal consumption and normal loss | 50 | 65 | 76 | 82 | 88 | 94 | Normal loss is 1.4% and internal consumption is 1.2% of sales |
| Total quantity of gas purchased | 1,994 | 2,616 | 3,028 | 3,278 | 3,520 | 3,776 | |
| Total gas sold (mm scmd) | 5.3 | 7.0 | 8.1 | 8.8 | 9.4 | 10.1 | |
| Total gas purchased (mm scmd) | 5.5 | 7.2 | 8.3 | 9.0 | 9.6 | 10.3 | |
| Gas sales volume change Y-o-Y | | | | | | | |
| CNG | -22% | 36% | 20% | 9% | 8% | 8% | Factoring 8-9% growth from FY24 onwards |
| PNG- Domestic | 20% | 8% | 8% | 8% | 6% | 4% | Expect steady 4-6% volume growth to continue |
| PNG-Industrial/Commercial | -4% | 23% | 3% | 4% | 4% | 4% | Factoring 4% growth from FY24 onwards |
| PNG-Sale to other CGD cos | -26% | 29% | 7% | 8% | 8% | 8% | |
| Overall | -18% | 31% | 16% | 8% | 7% | 7% | |
| Gas sales volume composition | | | | | | | |
| CNG | 70% | 72% | 75% | 75% | 76% | 76% | CNG to continue to dominate gas mix with ~75% volume |
| PNG- Domestic | 9% | 7% | 7% | 7% | 7% | 6% | Domestic PNG segment share to be ~7% |
| PNG-Industrial/Commercial | 7% | 7% | 6% | 6% | 6% | 6% | Industrial segment share to be ~6% |
| PNG-Sale to other CGD cos | 15% | 14% | 12% | 12% | 11% | 11% | |
| GAS SOURCING & COST BREAK-UP | | | | | | | |
| Gas sourcing mix (mm scmd) | | | | | | | |
| APM gas | 2.0 | 3.6 | 3.8 | 3.8 | 3.9 | 4.0 | |
| Non-APM/RIL/Vedanta/Cairn HPHT gas | 2.5 | 2.5 | 3.0 | 3.5 | 4.0 | 4.2 | |
| Long term RasGas LNG | 0.5 | 0.8 | 1.0 | 1.1 | 1.2 | 1.3 | Long-term contract that is valid till CY28 at 12.67% linkage to JCC crude price |
| Spot LNG/mid-term LNG | 0.4 | 0.3 | 0.6 | 0.5 | 0.5 | 0.8 | Assumed 100% industrial and commercial segment demand to be met via LNG imports; hence, excess demand is met via spot LNG |
| Total gas purchased | 5.5 | 7.2 | 8.3 | 9.0 | 9.6 | 10.3 | |
| Gas cost (USD/mmbtu) | | | | | | | |
| APM gas/Uniform price gas from GAIL for CNG/dom PNG | 3.7 | 4.2 | 8.0 | 7.5 | 7.5 | 7.8 | Based on domestic gas price formula |
| Non-APM/RIL/Vedanta/Cairn HPHT gas | 3.7 | 5.5 | 11.2 | 9.8 | 9.8 | 10.1 | |
| Long term RasGas LNG | 7.2 | 10.0 | 18.0 | 11.0 | 11.0 | 11.0 | |
| Spot LNG/mid-term LNG | 5.9 | 16.0 | 30.0 | 13.0 | 13.0 | 13.0 | |
| Weighted average gas cost | 4.2 | 6.2 | 11.9 | 9.1 | 9.2 | 9.5 | |
| OVERALL MARGINS (INR/scm) | | | | | | | |
| Overall | | | | | | | |
| Net realisation | 25.4 | 30.2 | 47.9 | 45.1 | 43.3 | 48.4 | |
| Average cost of gas | 11.5 | 17.2 | 35.4 | 31.8 | 29.7 | 34.5 | |
| Blended gross margin | 13.9 | 13.0 | 12.6 | 13.3 | 13.6 | 13.9 | |
| Other expense | 6.3 | 5.6 | 5.7 | 5.7 | 5.9 | 5.9 | |
| EBITDA | 7.6 | 7.4 | 6.9 | 7.5 | 7.7 | 8.0 | Expect FY24-26E EBITDA ~ INR 7.5-8/SCM as per management guidance |
| Depreciation | 1.5 | 1.2 | 1.2 | 1.2 | 1.2 | 1.3 | |
| Interest exp net of other income | -0.7 | -0.8 | -0.9 | -0.9 | -0.9 | -0.9 | |
| PBT | 6.8 | 6.9 | 6.5 | 7.2 | 7.3 | 7.6 | |
| Tax | 1.7 | 1.8 | 1.6 | 1.9 | 1.9 | 2.0 | |
| PAT | 5.2 | 5.1 | 4.9 | 5.3 | 5.4 | 5.6 | Hence, expect FY24-25E PAT/scm at ~INR 5.5/scm |

Source: JM Financial, Company

Valuation

Exhibit 4. Valuation

| | |
|---|------------|
| Terminal FCF (INR Mn) | 32,973 |
| Terminal Growth Rate | 3.0% |
| WACC | 10.6% |
| Terminal Value (INR Mn) | 4,46,163 |
| PV of Terminal Value (INR Mn) | 1,54,728 |
| PV of Cash Flow (INR Mn) | 1,28,229 |
| Entreprise Value | 2,82,958 |
| Net Debt /(Net cash) | (28,884) |
| Equity Value excluding unlisted equity investments (INR Mn) | 3,11,842 |
| Add: Unlisted equity investments (15x CUGL and MNGL FY23 PAT) | 38,045 |
| Total Equity value (INR Mn) | 3,49,887 |
| No of shares (Mn) | 700 |
| Valuation (INR) | 500 |

Source: JM Financial

If FY25 EBITDA changes by +/- INR0.2/scm, our valuation will change by +/- INR13/share (or +/-2.6%). Similarly, if FY25 volume growth changes by +/- 2%, our valuation will change by +/- INR 5/share (or +/- 1%).

Exhibit 5. Valuation sensitivity to volume growth and EBITDA margin

| | | FY25 volume growth | | | | | | |
|--------------------------|-----|--------------------|-----|-----|------------|-----|-----|-----|
| | | 1% | 3% | 5% | 7% | 9% | 11% | 13% |
| FY25 EBITDA (INR/scm) | 7.1 | 446 | 451 | 456 | 460 | 465 | 469 | 473 |
| | 7.3 | 458 | 464 | 469 | 474 | 478 | 483 | 487 |
| | 7.5 | 471 | 476 | 482 | 487 | 492 | 496 | 501 |
| | 7.7 | 483 | 489 | 494 | 500 | 505 | 510 | 515 |
| | 7.9 | 495 | 502 | 507 | 513 | 518 | 524 | 529 |
| | 8.1 | 508 | 514 | 520 | 526 | 532 | 537 | 543 |
| | 8.3 | 520 | 527 | 533 | 539 | 545 | 551 | 557 |

Source: Company, JM Financial

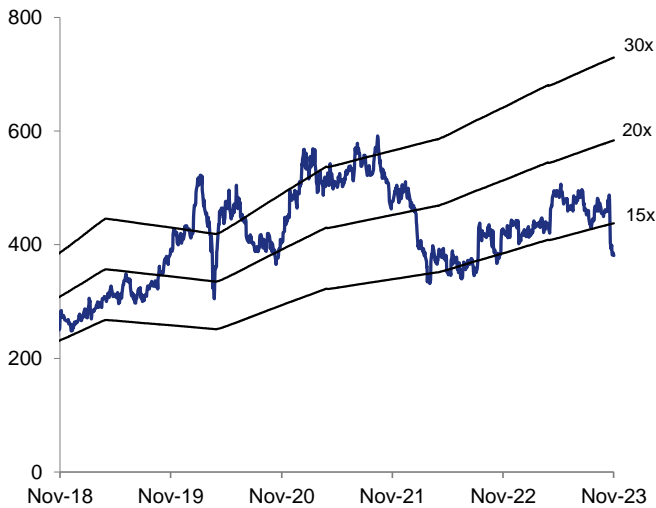
If FY25 EBITDA changes by +/- INR0.2/scm, our EPS will change by +/-2.1%. Similarly, if FY25 volume growth changes by +/- 2%, our EPS will change by +/- 1.0%.

Exhibit 6. FY25 EPS sensitivity to volume growth and EBITDA margin

| | | FY25 volume growth | | | | | | |
|--------------------------|-----|--------------------|------|------|-------------|------|------|------|
| | | 1% | 3% | 5% | 7% | 9% | 11% | 13% |
| FY25 EBITDA (INR/scm) | 7.1 | 24.0 | 24.4 | 24.7 | 24.9 | 25.2 | 25.4 | 25.5 |
| | 7.3 | 24.5 | 24.9 | 25.2 | 25.5 | 25.7 | 25.9 | 26.1 |
| | 7.5 | 25.1 | 25.4 | 25.8 | 26.0 | 26.3 | 26.5 | 26.7 |
| | 7.7 | 25.6 | 26.0 | 26.3 | 26.6 | 26.8 | 27.1 | 27.3 |
| | 7.9 | 26.1 | 26.5 | 26.8 | 27.1 | 27.4 | 27.6 | 27.9 |
| | 8.1 | 26.6 | 27.0 | 27.4 | 27.7 | 28.0 | 28.2 | 28.4 |
| | 8.3 | 27.1 | 27.6 | 27.9 | 28.2 | 28.5 | 28.8 | 29.0 |

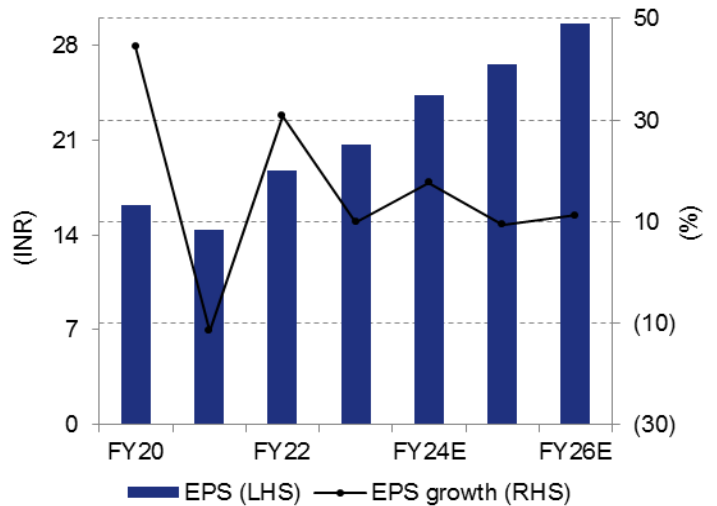
Source: Company, JM Financial

Exhibit 7. 1-year forward PE chart



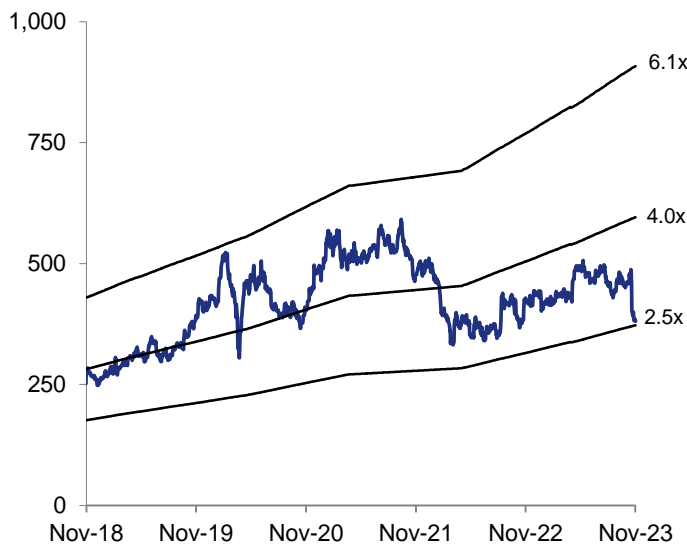
Source: JM Financial, Company

Exhibit 8. EPS vs. EPS growth



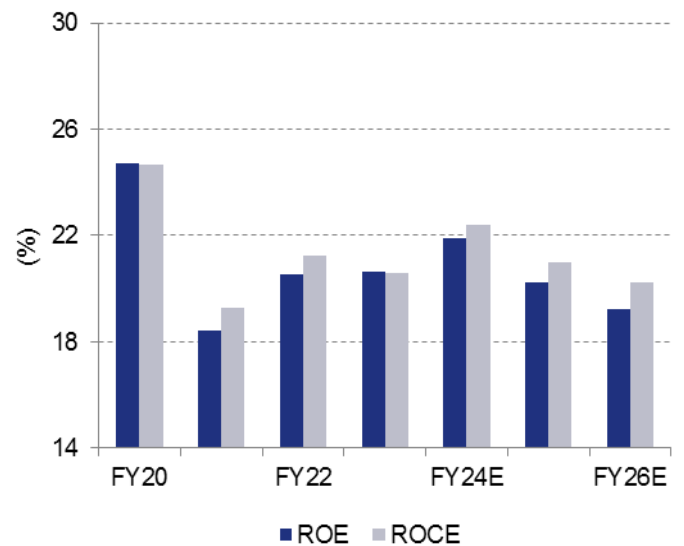
Source: JM Financial, Bloomberg

Exhibit 9. 1-year forward PB chart



Source: JM Financial, Company

Exhibit 10. RoE vs. RoCE



Source: JM Financial, Company

Exhibit 11. Global gas companies' valuation snapshot

| Company | EV/EBITDA (x) | | | PE (x) | | | PB (x) | | | EBITDA Margins (%) | | | ROE (%) | | |
|-------------------------------|---------------|-------------|------------|-------------|-------------|-------------|------------|------------|------------|--------------------|------------|------------|-------------|-------------|-------------|
| | FY23/CY22 | FY24/CY23 | FY25/CY24 | FY23/CY22 | FY24/CY23 | FY25/CY24 | FY23/CY22 | FY24/CY23 | FY25/CY24 | FY23/CY22 | FY24/CY23 | FY25/CY24 | FY23/CY22 | FY24/CY23 | FY25/CY24 |
| US Peers | | | | | | | | | | | | | | | |
| Sempra Energy | 18.3 | 13.0 | 12.6 | 16.7 | 15.7 | 14.8 | 1.9 | 1.6 | 1.6 | 0.3 | 0.4 | 0.4 | 8.2 | 10.3 | 10.7 |
| Nsource | 11.7 | 11.4 | 10.2 | 20.6 | 16.1 | 15.1 | 1.9 | 1.6 | 1.5 | 0.4 | 0.4 | 0.4 | 13.1 | 10.6 | 10.8 |
| UGI Corp | 6.1 | 35.4 | 6.4 | 6.4 | 7.6 | 6.8 | 1.1 | NM | NM | 0.2 | 0.0 | 0.2 | 19.1 | 9.4 | 9.1 |
| Atmos Energy | 13.1 | 11.6 | 10.3 | 18.0 | 16.8 | 15.7 | 1.5 | 1.4 | 1.3 | 0.4 | 0.4 | 0.4 | 8.6 | 8.4 | 8.6 |
| US peers average | 12.3 | 17.8 | 9.9 | 15.4 | 14.1 | 13.1 | 1.6 | 1.5 | 1.5 | 0.3 | 0.3 | 0.3 | 12.2 | 9.7 | 9.8 |
| European Peers | | | | | | | | | | | | | | | |
| Enagas | 14.0 | 9.3 | 9.9 | 10.8 | 13.7 | 17.1 | 1.3 | 1.4 | 1.4 | 0.6 | 0.8 | 0.8 | 12.0 | 9.9 | 8.3 |
| European peers average | 14.0 | 9.3 | 9.9 | 10.8 | 13.7 | 17.1 | 1.3 | 1.4 | 1.4 | 0.6 | 0.8 | 0.8 | 12.0 | 9.9 | 8.3 |
| Asian peers | | | | | | | | | | | | | | | |
| ENN Energy | 11.7 | 6.3 | 5.8 | 18.6 | 8.7 | 7.9 | 2.8 | 1.4 | 1.3 | 0.1 | 0.1 | 0.1 | 15.7 | 17.5 | 17.3 |
| Towngas China | 12.3 | 9.4 | 7.5 | 13.0 | 7.2 | 6.4 | 0.6 | 0.5 | 0.4 | 0.1 | 0.1 | 0.2 | 4.3 | 6.5 | 6.4 |
| Hong Kong & China Gas | 16.5 | 12.0 | 11.7 | 26.4 | 16.5 | 16.6 | 2.3 | 1.7 | 1.7 | 0.2 | 0.2 | 0.2 | 8.2 | 9.8 | 10.5 |
| China Resources Gas | 7.9 | 6.6 | 6.0 | 14.0 | 8.9 | 8.3 | 1.7 | 1.2 | 1.1 | 0.1 | 0.1 | 0.1 | 11.7 | 13.7 | 13.4 |
| China Gas Holdings | 11.9 | 7.8 | 7.1 | 13.8 | 6.6 | 5.9 | 1.0 | 0.6 | 0.6 | 0.1 | 0.1 | 0.1 | 7.1 | 9.3 | 9.9 |
| Beijing Enterprises | 9.9 | 6.5 | 6.2 | 4.2 | 4.0 | 3.7 | 0.4 | 0.3 | 0.3 | 0.1 | 0.2 | 0.2 | 8.1 | 8.7 | 9.0 |
| Korea Gas | 11.2 | 12.3 | 11.3 | 2.1 | 6.3 | 3.2 | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 15.6 | 3.2 | 5.6 |
| Petronas Gas BHD | 10.3 | 9.5 | 9.5 | 20.6 | 17.9 | 17.5 | 2.6 | 2.5 | 2.5 | 0.5 | 0.6 | 0.6 | 12.5 | 13.9 | 13.9 |
| Asian peers average | 11.1 | 8.8 | 7.9 | 14.7 | 11.4 | 10.2 | 2.0 | 1.6 | 1.4 | 0.2 | 0.2 | 0.2 | 13.7 | 13.6 | 13.5 |
| Global peers average | 11.5 | 10.7 | 8.4 | 14.7 | 12.1 | 11.2 | 1.9 | 1.6 | 1.4 | 0.2 | 0.3 | 0.3 | 13.3 | 12.6 | 12.5 |
| Global peers median | 11.8 | 9.5 | 8.3 | 14.0 | 9.5 | 10.1 | 1.7 | 1.5 | 1.4 | 0.1 | 0.2 | 0.2 | 12.0 | 10.3 | 10.7 |

Source: Bloomberg, JM Financial

Financial Tables (Standalone)

| Income Statement | | (INR mn) | | | | |
|-----------------------------|---------------|----------------|----------------|----------------|----------------|--|
| Y/E March | FY22A | FY23A | FY24E | FY25E | FY26E | |
| Net Sales | 77,100 | 141,460 | 144,078 | 148,603 | 178,246 | |
| Sales Growth | 56.0% | 83.5% | 1.9% | 3.1% | 19.9% | |
| Other Operating Income | 0 | 0 | 0 | 0 | 0 | |
| Total Revenue | 77,100 | 141,460 | 144,078 | 148,603 | 178,246 | |
| Cost of Goods Sold/Op. Exp | 43,923 | 104,360 | 101,674 | 102,033 | 127,091 | |
| Personnel Cost | 1,760 | 1,882 | 2,070 | 2,277 | 2,459 | |
| Other Expenses | 12,606 | 14,819 | 16,301 | 17,931 | 19,365 | |
| EBITDA | 18,811 | 20,399 | 24,034 | 26,362 | 29,331 | |
| EBITDA Margin | 24.4% | 14.4% | 16.7% | 17.7% | 16.5% | |
| EBITDA Growth | 26.9% | 8.4% | 17.8% | 9.7% | 11.3% | |
| Depn. & Amort. | 3,171 | 3,634 | 3,821 | 4,271 | 4,721 | |
| EBIT | 15,641 | 16,766 | 20,213 | 22,091 | 24,610 | |
| Other Income | 2,150 | 2,619 | 2,881 | 3,169 | 3,486 | |
| Finance Cost | 132 | 106 | 106 | 106 | 106 | |
| PBT before Excep. & Forex | 17,659 | 19,279 | 22,988 | 25,154 | 27,990 | |
| Excep. & Forex Inc./Loss(-) | 0 | 0 | 0 | 0 | 0 | |
| PBT | 17,659 | 19,279 | 22,988 | 25,154 | 27,990 | |
| Taxes | 4,509 | 4,827 | 5,977 | 6,540 | 7,277 | |
| Extraordinary Inc./Loss(-) | 0 | 0 | 0 | 0 | 0 | |
| Assoc. Profit/Min. Int.(-) | 0 | 0 | 0 | 0 | 0 | |
| Reported Net Profit | 13,150 | 14,452 | 17,011 | 18,614 | 20,713 | |
| Adjusted Net Profit | 13,150 | 14,452 | 17,011 | 18,614 | 20,713 | |
| Net Margin | 17.1% | 10.2% | 11.8% | 12.5% | 11.6% | |
| Diluted Share Cap. (mn) | 700.0 | 700.0 | 700.0 | 700.0 | 700.0 | |
| Diluted EPS (INR) | 18.8 | 20.6 | 24.3 | 26.6 | 29.6 | |
| Diluted EPS Growth | 30.8% | 9.9% | 17.7% | 9.4% | 11.3% | |
| Total Dividend + Tax | 3,850 | 9,100 | 3,402 | 3,723 | 4,143 | |
| Dividend Per Share (INR) | 5.5 | 13.0 | 4.9 | 5.3 | 5.9 | |

Source: Company, JM Financial

| Cash Flow Statement | | (INR mn) | | | | |
|------------------------------|----------------|----------------|---------------|---------------|---------------|--|
| Y/E March | FY22A | FY23A | FY24E | FY25E | FY26E | |
| Profit before Tax | 17,659 | 19,279 | 22,988 | 25,154 | 27,990 | |
| Depn. & Amort. | 3,171 | 3,634 | 3,821 | 4,271 | 4,721 | |
| Net Interest Exp. / Inc. (-) | -1,502 | -1,683 | -2,775 | -3,063 | -3,380 | |
| Inc (-) / Dec in WCcap. | 3,777 | 6,469 | 937 | 978 | 942 | |
| Others | -367 | -560 | 0 | 0 | 0 | |
| Taxes Paid | -3,759 | -4,833 | -5,977 | -6,540 | -7,277 | |
| Operating Cash Flow | 18,979 | 22,306 | 18,994 | 20,800 | 22,996 | |
| Capex | -13,370 | -11,221 | -10,287 | -10,292 | -10,298 | |
| Free Cash Flow | 5,610 | 11,085 | 8,707 | 10,508 | 12,697 | |
| Inc (-) / Dec in Investments | -3,224 | 8,248 | -677 | -745 | -819 | |
| Others | 746 | -5,441 | 2,881 | 3,169 | 3,486 | |
| Investing Cash Flow | -15,848 | -8,414 | -8,083 | -7,868 | -7,632 | |
| Inc / Dec (-) in Capital | 0 | 0 | 0 | 0 | 0 | |
| Dividend + Tax thereon | -3,285 | -13,586 | -3,508 | -3,829 | -4,248 | |
| Inc / Dec (-) in Loans | 0 | 0 | 615 | 646 | 678 | |
| Others | 0 | 0 | 0 | 0 | 0 | |
| Financing Cash Flow | -3,285 | -13,586 | -2,893 | -3,183 | -3,570 | |
| Inc / Dec (-) in Cash | -153 | 306 | 8,018 | 9,749 | 11,794 | |
| Opening Cash Balance | 903 | 750 | 1,056 | 9,074 | 18,823 | |
| Closing Cash Balance | 750 | 1,056 | 9,074 | 18,823 | 30,617 | |

Source: Company, JM Financial

| Balance Sheet | | (INR mn) | | | | |
|-----------------------------------|---------------|---------------|---------------|----------------|----------------|--|
| Y/E March | FY22A | FY23A | FY24E | FY25E | FY26E | |
| Shareholders' Fund | 69,362 | 70,866 | 84,474 | 99,366 | 115,936 | |
| Share Capital | 1,400 | 1,400 | 1,400 | 1,400 | 1,400 | |
| Reserves & Surplus | 67,962 | 69,466 | 83,074 | 97,966 | 114,536 | |
| Preference Share Capital | 0 | 0 | 0 | 0 | 0 | |
| Minority Interest | 0 | 0 | 0 | 0 | 0 | |
| Total Loans | 0 | 0 | 0 | 0 | 0 | |
| Def. Tax Liab. / Assets (-) | 2,737 | 3,168 | 3,168 | 3,168 | 3,168 | |
| Total - Equity & Liab. | 72,098 | 74,033 | 87,642 | 102,534 | 119,104 | |
| Net Fixed Assets | 63,803 | 71,673 | 78,139 | 84,160 | 89,738 | |
| Gross Fixed Assets | 63,957 | 74,908 | 84,908 | 94,908 | 104,908 | |
| Intangible Assets | 0 | 0 | 0 | 0 | 0 | |
| Less: Depn. & Amort. | 13,939 | 17,573 | 21,394 | 25,664 | 30,385 | |
| Capital WIP | 13,786 | 14,337 | 14,624 | 14,917 | 15,215 | |
| Investments | 19,758 | 6,773 | 7,450 | 8,195 | 9,014 | |
| Current Assets | 20,962 | 39,314 | 47,681 | 57,916 | 71,896 | |
| Inventories | 455 | 492 | 501 | 517 | 620 | |
| Sundry Debtors | 5,206 | 9,034 | 9,201 | 9,490 | 11,383 | |
| Cash & Bank Balances | 750 | 1,056 | 9,074 | 18,823 | 30,617 | |
| Loans & Advances | 398 | 299 | 313 | 329 | 346 | |
| Other Current Assets | 14,153 | 28,434 | 28,592 | 28,758 | 28,932 | |
| Current Liab. & Prov. | 32,425 | 43,726 | 45,627 | 47,737 | 51,544 | |
| Current Liabilities | 18,149 | 21,344 | 22,126 | 23,061 | 25,635 | |
| Provisions & Others | 14,276 | 22,382 | 23,501 | 24,676 | 25,910 | |
| Net Current Assets | -11,463 | -4,412 | 2,054 | 10,179 | 20,352 | |
| Total - Assets | 72,098 | 74,033 | 87,642 | 102,534 | 119,104 | |

Source: Company, JM Financial

| Dupont Analysis | | FY22A | FY23A | FY24E | FY25E | FY26E |
|---------------------|--|-------|-------|-------|-------|-------|
| Y/E March | | | | | | |
| Net Margin | | 17.1% | 10.2% | 11.8% | 12.5% | 11.6% |
| Asset Turnover (x) | | 1.0 | 1.7 | 1.5 | 1.4 | 1.4 |
| Leverage Factor (x) | | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| RoE | | 20.5% | 20.6% | 21.9% | 20.3% | 19.2% |

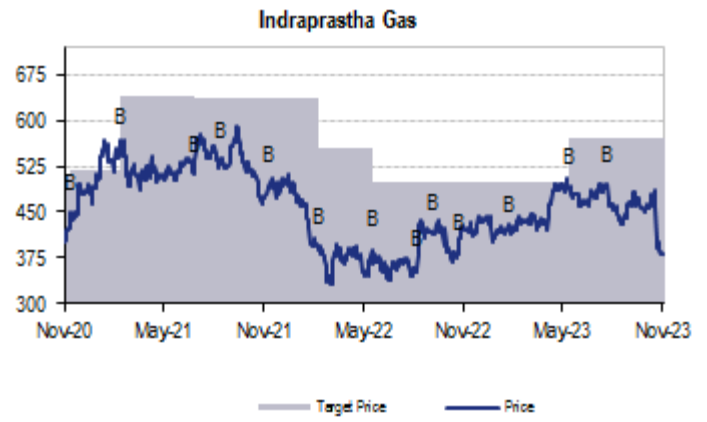
| Key Ratios | | FY22A | FY23A | FY24E | FY25E | FY26E |
|---------------------|--|-------|-------|-------|-------|-------|
| Y/E March | | | | | | |
| BV/Share (INR) | | 99.1 | 101.2 | 120.7 | 142.0 | 165.6 |
| ROIC | | 26.3% | 22.5% | 22.8% | 23.3% | 24.5% |
| ROE | | 20.5% | 20.6% | 21.9% | 20.3% | 19.2% |
| Net Debt/Equity (x) | | -0.3 | -0.1 | -0.2 | -0.3 | -0.3 |
| P/E (x) | | 20.3 | 18.5 | 15.7 | 14.3 | 12.9 |
| P/B (x) | | 3.8 | 3.8 | 3.2 | 2.7 | 2.3 |
| EV/EBITDA (x) | | 13.1 | 12.7 | 10.4 | 9.1 | 7.7 |
| EV/Sales (x) | | 3.2 | 1.8 | 1.7 | 1.6 | 1.3 |
| Debtor days | | 25 | 23 | 23 | 23 | 23 |
| Inventory days | | 2 | 1 | 1 | 1 | 1 |
| Creditor days | | 49 | 27 | 28 | 28 | 28 |

Source: Company, JM Financial

History of Recommendation and Target Price

| Date | Recommendation | Target Price | % Chg. |
|-----------|----------------|--------------|--------|
| 18-Jun-20 | Buy | 566 | |
| 27-Aug-20 | Buy | 505 | -10.7 |
| 11-Sep-20 | Buy | 510 | 0.9 |
| 11-Nov-20 | Buy | 520 | 2.0 |
| 10-Feb-21 | Buy | 640 | 23.0 |
| 25-Jun-21 | Buy | 635 | -0.8 |
| 13-Aug-21 | Buy | 635 | 0.0 |
| 9-Nov-21 | Buy | 635 | 0.0 |
| 8-Feb-22 | Buy | 555 | -12.6 |
| 18-May-22 | Buy | 500 | -10.0 |
| 9-Aug-22 | Buy | 500 | 0.0 |
| 5-Sep-22 | Buy | 500 | 0.1 |
| 24-Oct-22 | Buy | 500 | 0.0 |
| 25-Jan-23 | Buy | 500 | -0.1 |
| 12-May-23 | Buy | 570 | 14.1 |
| 23-Jul-23 | Buy | 570 | 0.0 |

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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| Definition of ratings | |
|-----------------------|---|
| Rating | Meaning |
| Buy | Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields. |
| Hold | Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months. |
| Sell | Price expected to move downwards by more than 10% from the current market price over the next twelve months. |

* REITs refers to Real Estate Investment Trusts.

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