

**Company Update**
**Oil & Gas**
**Indraprastha Gas Ltd.**
**BUY**

<b>CMP (Rs)</b>	249
<b>Target Price (Rs)</b>	315
<b>Potential Upside</b>	26.8%
<b>Sensex</b>	35,150
<b>Nifty</b>	10,549

**Key Stock data**

<b>BSE Code</b>	532514
<b>NSE Code</b>	IGL
<b>Bloomberg</b>	IGL:IN
<b>Shares o/s, Cr (FV 2)</b>	70.0
<b>Market Cap (Rs Cr)</b>	17,395
<b>3M Avg Volume</b>	1,99,539
<b>52 week H/L</b>	345/215

**Shareholding Pattern**

(%)	Mar-18	Jun-18	Sep-18
<b>Promoter</b>	45.0	45.0	45.0
<b>FII</b>	21.3	20.1	21.1
<b>DII</b>	21.2	22.7	22.2
<b>Others</b>	12.5	12.2	11.7

**1 Year relative price performance**

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**Leveraging market leadership for growth and scalability**

Indraprastha Gas Ltd. (IGL) is a joint venture between GAIL and BPCL; while Government of NCT of Delhi holds 5% equity. IGL operates in two segments - compressed natural gas (CNG) and piped natural gas (PNG). The CNG business (76% of FY18 sales) involves distribution of CNG to vehicles through gas stations. In PNG (24%), IGL supplies natural gas to homes and commercial/ industrial users. IGL is the sole distributor in NCT of Delhi, Noida, Greater Noida, Ghaziabad and Rewari with 454 CNG stations, 9.74 lacs residential consumers and 3,900 industrial/commercial customers. It also has access to Pune, Kanpur and nearby areas by virtue of 50% stake in Maharashtra Natural Gas (MNGL) and Central UP Gas (CUGL). IGL will soon be catering to areas like Gurugram, Karnal, Meerut, Muzaffarnagar & Shamli.

**Investment Rationale**

- **Government's thrust on CGD network expansion bodes well for IGL:** The govt. intends to increase natural gas share in the country's energy mix from current 6.5% to 15% by FY30E (world average is 24%). This is likely to reduce reliance on oil imports as well as help curb pollution as natural gas is a cleaner-burning fuel. The government is particularly focused on increasing natural gas allocation to CNG (for vehicles) and PNG (for cooking gas). In order to fast-track CNG/PNG usage, initiatives such as 1) providing domestic gas at cheaper rates 2) increasing geographical areas (GA) (total 136 GAs in the 9th and 10th bidding rounds vs only 6 cities in 8th round) for gas distribution and 3) extending market exclusivity (8 years and extendable by 2 years vs 5 years earlier) for city gas distributors (CGD) have been implemented. Further, cost effectiveness of CNG (60%/40% cheaper than petrol/diesel) and PNG (40% cheaper vs LPG and equal to subsidised LPG (Delhi prices)) is likely to encourage their usage, thereby benefiting IGL.
- **Increasing conversion and new area wins to drive CNG volumes:** We believe strengthening CNG infrastructure (addition of 150 CNG stations over FY18-21E), increasing conversion of cars to CNG, growing CNG bus fleet (Delhi) are the key growth drivers for IGL's CNG volumes. Moreover, IGL has adapted Dealer Owned Dealer Operated (DODO) model for setting up CNG stations, which will expedite addition of CNG stations. IGL also plans to expand its operations through adding new areas and merger/acquisition of other CGD companies. Therefore, we expect CNG volumes to grow in double-digit at 12% CAGR (FY18-21E).
- **Network expansion and increasing industrial use to boost PNG volumes:** IGL's PNG domestic connections are likely to grow at 18.4% CAGR in the next 2-3 years. Further, ban on furnace oil and pet coke in NCR as well as recent prohibition on import of pet coke for usage as a fuel is likely to spur PNG's demand for industrial and commercial use. Thus, increasing industrial and commercial volumes at a CAGR of 16.4% (FY18-21E) and pipeline network expansion (Rewari, Karnal and Gurugram) will lead to 17.3% CAGR in PNG volumes (FY18-21E).

**Outlook & Valuation:**

IGL operates in a near monopolistic market with high entry barriers where CGD players enjoy market exclusivity for certain number of years. Low penetration of CNG/PNG provides significant expansion opportunity for IGL in its existing areas. Further, government's focus on CNG/PNG, network expansion as well as economic benefits of CNG/PNG will lead to sales and PAT CAGR of ~20% and ~18% respectively (FY18-21E). IGL's subsidiaries catering to under penetrated but promising areas will also aid profits. The company's ability to pass on increase in gas cost, low working capital and leveraging of existing infrastructure will support future growth. We recommend Buy with a target price of Rs 315.

**Financial Summary - standalone**

Particulars, Rs cr	FY18	FY19E	FY20E	FY21E
Revenue	4,592	5,530	6,614	7,893
EBITDA	1,113	1,255	1,513	1,821
EBITDA margin (%)	24.2	22.7	22.9	23.1
PAT	671	748	909	1,097
PATM (%)	14.6	13.5	13.8	13.9
EPS (Rs)	9.6	10.7	13.0	15.7
RoE (%)	19.1	18.4	19.1	19.8
P/E (x)	25.9	23.2	19.1	15.9

Source : Company; RBL Research

## P&amp;L Account - standalone

Particulars (cr)	FY18	FY19E	FY20E	FY21E
<b>Net sales</b>	<b>4,592</b>	<b>5,530</b>	<b>6,614</b>	<b>7,893</b>
<b>Expenditure</b>				
Employee cost	106	134	160	191
Total Raw material cost	2,491	3,105	3,704	4,408
Other expenses	881	1,036	1,236	1,473
<b>Total expenditure</b>	<b>3,479</b>	<b>4,275</b>	<b>5,100</b>	<b>6,072</b>
<b>EBITDA</b>	<b>1,113</b>	<b>1,255</b>	<b>1,513</b>	<b>1,821</b>
<b>EBITDAM (%)</b>	<b>24.2</b>	<b>22.7</b>	<b>22.9</b>	<b>23.1</b>
Other income	102	105	110	116
Depreciation	181	213	257	297
<b>PBIT</b>	<b>1,034</b>	<b>1,147</b>	<b>1,367</b>	<b>1,640</b>
Interest expenses	2	2	4	6
PBT before exceptional items	1,032	1,145	1,363	1,634
Exceptional income/loss	-	-	-	-
<b>PBT</b>	<b>1,032</b>	<b>1,145</b>	<b>1,363</b>	<b>1,634</b>
Tax	362	396	453	537
<b>Reported profit after tax</b>	<b>671</b>	<b>748</b>	<b>909</b>	<b>1,097</b>
<b>PATM (%)</b>	<b>14.6</b>	<b>13.5</b>	<b>13.8</b>	<b>13.9</b>

Source : Company; RBL Research

## Balance sheet - standalone

Particulars (cr)	FY18	FY19E	FY20E	FY21E
Share Capital	140	140	140	140
Reserves & Surplus	3,373	3,937	4,611	5,414
<b>Total Shareholder's Fund</b>	<b>3,513</b>	<b>4,077</b>	<b>4,751</b>	<b>5,554</b>
Minority Interest	-	-	-	-
<b>Non-Current Liabilities</b>				
Long term borrowings	-	-	-	-
Other long term liabilities	239	284	319	354
<b>Current Liabilities</b>				
Trade payables	339	409	489	584
Other current liabilities	838	951	986	1,036
<b>Total liabilities</b>	<b>4,928</b>	<b>5,721</b>	<b>6,545</b>	<b>7,528</b>
Fixed Assets	2,432	2,819	3,212	3,564
Current work in process	386	436	516	596
Non current investment	258	278	298	318
Other non-current assets	69	89	109	129
<b>Current Assets</b>				
Current investments	890	850	950	1,050
Inventories	52	76	109	130
Trade receivables	226	303	399	497
Cash & Cash equivalents	558	783	836	1,097
Other current assets	56	86	116	146
<b>Total assets</b>	<b>4,928</b>	<b>5,721</b>	<b>6,545</b>	<b>7,528</b>

Source : Company; RBL Research

## Cash Flow statement - standalone

Particulars (cr)	FY18	FY19E	FY20E	FY21E
Reported PBT	1,032	1,145	1,363	1,634
Depreciation	181	213	257	297
Tax paid	(317)	(351)	(418)	(502)
<b>Working capital changes</b>	<b>84</b>	<b>(80)</b>	<b>(98)</b>	<b>(75)</b>
Others	(102)	2	4	6
<b>Operating Cash Flow (a)</b>	<b>879</b>	<b>929</b>	<b>1,107</b>	<b>1,360</b>
Capex	(530)	(650)	(730)	(730)
Investments	(471)	20	(120)	(120)
Others	284	-	-	-
<b>Investing Cash Flow (b)</b>	<b>(717)</b>	<b>(630)</b>	<b>(850)</b>	<b>(850)</b>
Debt Issuance/ (Repaid)	-	113	35	50
Dividend Paid	(84)	(185)	(235)	(294)
Share Capital Issuance, QIP proceeds	-	-	-	-
Others	-	(2)	(4)	(6)
<b>Financing Cash Flow (c)</b>	<b>(84)</b>	<b>(74)</b>	<b>(204)</b>	<b>(250)</b>
<b>Net Cash Flow (a + b + c)</b>	<b>78</b>	<b>225</b>	<b>53</b>	<b>260</b>
Closing Cash including Bank Balances	558	783	836	1,097

Source : Company; RBL Research

## Key Financial ratios - standalone

Particulars (cr)	FY18	FY19E	FY20E	FY21E
<b>Per Share Data</b>				
Dividend per share Rs	2.0	2.2	2.8	3.5
EPS Rs	9.6	10.7	13.0	15.7
CEPS Rs	12.2	13.7	16.7	19.9
Book value per share Rs	50.2	58.2	67.9	79.3
Free cash flow per share Rs	5.0	5.6	5.9	9.7
<b>Profitability Ratios</b>				
EBITDA Margin (%)	24.2	22.7	22.9	23.1
PBT Margin (%)	22.5	20.7	20.6	20.7
Net Profit Margin (%)	14.6	13.5	13.8	13.9
RoCE (%)	29.4	28.1	28.8	29.5
RoE (%)	19.1	18.4	19.1	19.8
Dividend Payout (%)	20.9	20.6	21.6	22.3
<b>Efficiency</b>				
Fixed Asset Turnover (x)	1.9	2.0	2.1	2.2
Debtors Velocity (Days)	18.0	20.0	22.0	23.0
Inventory (Days)	4.2	5.0	6.0	6.0
Trade Payables (Days)	26.9	27.0	27.0	27.0
Debt-Equity Ratio (x)	-	-	-	-
<b>Valuation Ratios</b>				
P/E (x)	25.9	23.2	19.1	15.9
P/B (x)	5.0	4.3	3.7	3.1
EV/EBIDTA (x)	15.1	13.2	10.9	8.9
Dividend Yield (%)	0.8	0.9	1.1	1.4

Source : Company; RBL Research

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S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I/we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

Nature of Interest (if answer to F (a) above is Yes :  
.....

Name(s) with Signature(s) of RA(s).

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SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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