INDRAPRASTHA GAS LTD

Oil & Gas

DALAL & BROACHA

Equity Research Desk

21 August 2024

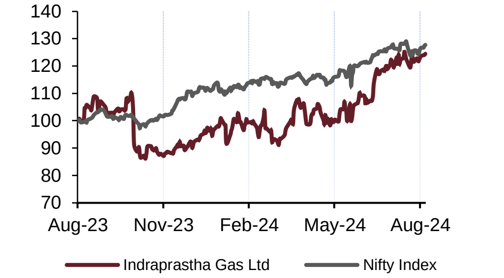
Innovating Clean Energy for a Brighter Tomorrow

Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	575	4

Market data		
Current price	**Rs**	**550**
Market Cap (Rs.Bn)	(Rs Bn)	385
Market Cap (US$ Mn)	(US$ Mn)	4,597
Face Value	Rs	2
52 Weeks High/Low	Rs	559.85 / 375.7
Average Daily Volume	('000)	860
BSE Code		532514
Bloomberg		IGL.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-24	Mar-24
Promoters	45.00	45.00
Public	55.00	55.00
Total	**100.00**	**100.00**

Source: Bloomberg

Introduction

Indraprastha Gas Limited (IGL) is a joint venture between GAIL (India) Ltd. and BPCL along with Govt of NCT of Delhi. The Company is in the City Gas Distribution (CGD) business and provides safe and uninterrupted gas supply through its extensive distribution network to transportation vehicles households, commercial, and industrial consumers. The Company's operations are spread over National Capital Territory (NCT) of Delhi, Uttar Pradesh (Noida, Greater Noida, Ghaziabad & Hapur, Gurugram, Meerut (EAAA), Shamli, Kanpur (EAAA), Fatehpur), Bihar (Muzaffarnagar), Haryana (Karnal, Rewari, Kaithal), Himachal Pradesh (Hamirpur) and Rajasthan (Ajmer, Pali & Rajsamand).

Industry Overview

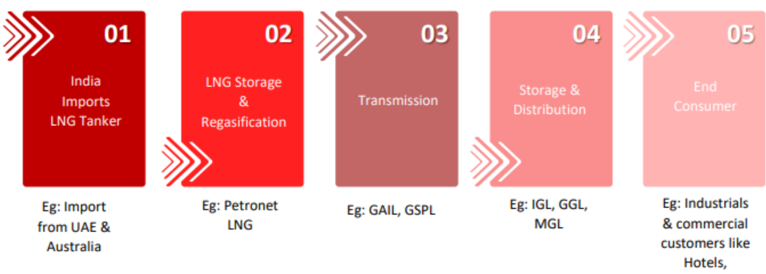
India's Energy basket

Energy is a master resource that can catapult or cripple a growing economy. India has set an ambitious target of becoming a gas-based economy by increasing its share in the primary energy basket from 6% in FY20 to 15% by FY30. Natural Gas consumption for FY24 was 182 mmscmd.

Natural Gas Supply Chain

The natural gas supply chain can be divided into two sub parts: 1) Imported and 2) Domestic, depending on initial sourcing.

Imported Gas Supply Chain



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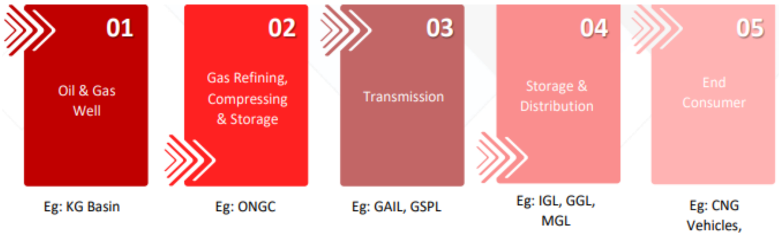
Domestic Gas Supply Chain



City Gas Distribution

The CGD system was introduced 30 years ago to transform energy delivery across the country. Government grants authorization for laying, building & operating natural gas distribution networks to CGD companies for a particular geographical area through a bidding process. Once a CGD company wins a geographical area, they gain exclusive rights to construct a natural gas distribution network. This industry has attracted several companies to lay a natural gas pipeline network in the last decade. The sector is expected to clock a CAGR of 12% from 2020 to 2030. CGD's share in natural gas consumption is about

Drivers for IGL

CNG continues to remain major volume contributor (%) for IGL

Majority of the volumes sold is contributed by CNG (~70%), which includes sales made via CNG stations either operated by IGL or Dealer owned dealer operated or OMCs etc. CNG volume growth will be driven by increasing vehicle conversion to CNG as it is more economical, cost-effective, and cleaner than other liquid fossil fuels such as petrol and diesel. CNG stations have grown at a CAGR of 12% from FY19-24 (500 To 882). PNG contributes 25% of the volume. DPNG connections have grown at 20% CAGR from FY19-24 (1.1 Mn To 2.7 Mn). Steel Pipe connections have also grown at a 14% CAGR from FY19-24 (13,029 Kms to 25,600 Kms).

Actively working on exploring alternative fuels

As a diversification strategy, IGL is working on multiple energy sources. They have forayed into EV charging and battery swapping stations across Delhi/NCR; they have been running a pilot project for Hydrogen CNG in partnership with IOCL and have also set up their own Compressed Biogas plants.

Debt free company and consistent cash flows

The company maintains a good cash balance of INR 21,490 Mn. IGL maintains strong financial health and the ability to invest in growth initiatives without the burden of debt. This positions the company favorably for future expansions and resilience against economic downturns.

Q1FY25 Result Update

QoQ volume declines, YoY growth has slowed

IGL's YoY volume grew ~5.3% (8.6 mmscmd vs 8.2 mmscmd in Q1FY24) but QoQ volume declined 1% in Q1FY25(8.6 mmscmd vs 8.7 mmscmd). Going forward, moderate CNG prices, normalization of operations and higher conversions are likely to deliver relatively better growth, but the sharply lower domestic gas allocation to priority segments could disrupt margins in the near term. Management guidance of ~9.5mmscmd exit rate for FY25 implies ~13% volume growth over FY24 average volumes of 8.4mmscmd, driven by: 1) robust growth +15% at new geographic areas (GAs) outside of Delhi-NCR , Delhi -NCR growth +5%, and 2) a strong industrial and commercial volume growth momentum.

Margin rises QoQ, YoY declines

Ebitda margins in INR/SCM – 7.4 vs 6.6 vs 8.6 (Q1FY25 vs Q4FY24 vs Q1FY24)

IGL has reported EBITDA/scm of INR 7.4/scm,. We note this is still lower than FY24 EBITDA/scm of INR 7.7/scm. There has been a gradual reduction in domestic gas allocation for priority sectors (Q1 estimated at ~70-72%) and IGL meets this shortfall from more expensive sources (pricing of USD 11– 12/MMBtu) to sustain margins.

Key downside risks:

- Larger-than-expected impact of EV policy due to stronger than-expected success in implementation;
- Inability to pass on domestic gas price increases; and
- Sharp decline in petrol/diesel/LPG prices.

Key upside risks:

- Higher volumes from new areas;
- Stronger intercity-led demand for NCR;
- Sustained decline in spot LNG prices; and
- Slower implementation of EV policy.

Valuation & Outlook

Revenue has grown at a 3-Year CAGR of 42% and 19% 5-year CAGR. The Co. is expected to benefit from the government initiatives of cleaner fuel, and FY2030 target of 12 Mn PNG connections. The Co. is in a sweet spot to benefit from sector tailwinds, supported by strong experienced management team, a healthy balance sheet, consistent margins and increased volume growth that should support premium valuations.

At CMP of Rs 550 the stock is trading at 17x FY26e expected EPS of Rs.32, we maintain our rating to BUY ON DIPS with a target price of Rs. 575 (18.5x FY26e EPS).

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