INDRAPRASTHA GAS LIMITED

Research report as on 18-04-2022

Indraprastha Gas Ltd (IGL) is in the business of **city gas distribution** presently operating in Delhi including adjoining areas of Noida, Greater Noida, Ghaziabad, Gurugram and Rewari. It is the **2nd largest CGD player in India.** The Company is in the City Gas Distribution business and provides safe and uninterrupted gas supply through its extensive distribution network to transport, domestic, commercial and industrial consumers. It has a quasi-monopolistic position in Delhi/ NCR with regulatory support in the form of prioritized gas allocation which provides a favourable risk-reward opportunity in the current scenario.

BY: HIMANSHI KHOSLA
(FUNDAMENTAL RESEARCH ANALYST)

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The world is grappling with fast environmental changes. From rising temperatures to growing incidents of natural disasters, sustainability concerns loom large. Countries as well as business entities have realised the need to foster sustainable operations to support a greener future. It has also propagated a rapid transition towards the acceptance of cleaner fuel.

Pollution level in India is getting worse day by day

According to the report in FY21 India has again topped the annual list of cities in the world with worst air quality. Keeping this in mind the government of India is coming up with a solution to tackle the pollution caused by vehicles. One is the replacement of petrol diesel with more cleaner fuel i.e. Natural gas and other is recent introduction of electric vehicles. Indian cities can no longer afford to have vehicles releasing high level of carbon dioxide and it has become critical for more and more private vehicle owner to switch to alternatives available. This creates a huge demand for gas distribution in the country. Not only this there's an increased usage of pipe natural gas i.e. PNG In NCT of Delhi, all industries have switched over to natural gas for meeting their fuel requirements.

HISTORY

Incorporated in 1998, Indraprastha Gas Limited (Company) today is one of the leading City Gas Distribution (CGD) companies in India. The Company is a joint venture promoted by GAIL (India) Limited and Bharat Petroleum Corporation Limited (BPCL). Government of NCT of Delhi is also a stakeholder with 5% equity. The company went public in 2003, listing on the Bombay Stock Exchange and the National Stock Exchange.

It is the exclusive distributor of CNG, PNG in NCT of Delhi with CNG constituting 70% of company's total sales volume. It has sizeable expansion plan in NCT region as well as expanding its presence in NCR and other geographical areas such as Haryana, Rajasthan, UP etc.

IGL is beneficiary of its strong parentage and gets significant support from GAIL and BPCL relating to operations and management. The business model of the company is such that around 69% revenue comes from CNG business, 15% comes from Commercial and Industrial business, 7% comes from CGD Business and the rest comes from sale to other CGD companies. The company has tied up **long term contract for RLNG** to meet PNG Industrial and Commercial demand. Currently it is **buying short term gas from the open market (Shell, IOCL, Petronet, GSPC, BPCL etc.)**. On the PNG front, IGL is already operating in the residential areas of NCT of Delhi, district Rewari, Gurugram, Karnal and Kaithal in Haryana; and, district Ajmer, Pali and Rajsamand in Rajasthan.

Private car conversion growth has been very strong from 5,000-6,000 per month to 12,000 per month now as petrol and diesel prices keep rising.

NATURAL GAS AND ITS TYPES

Natural gas is a fossil fuel but it is cleaner and more efficient than traditional fuels like coal and oil. It produces less pollution and greenhouse gases than its counterparts. When natural gas is burnt, it produces 45% less carbon dioxide than coal, 30% less CO_2 than oil and 15% less than wood.

There are two types of natural gas:

Compressed Natural Gas(CNG) : It has usage in automobiles like auto, cars etc

Piped Natural Gas(PNG) : It has usage across domestic household consumption as well as commercial and industrial usage.

Natural Gas sector in India

- India has a high potential of gas demand and It is expected to be one of the largest consumers of natural gas globally.

- Currently, natural gas contributes only 6.2% in entire energy consumption in India. But Indian government is keen on increasing the natural gas consumption to 15% by 2030 to cut carbon emission in the country.

- Investment worth billions of $ has been made to increase natural gas consumption.

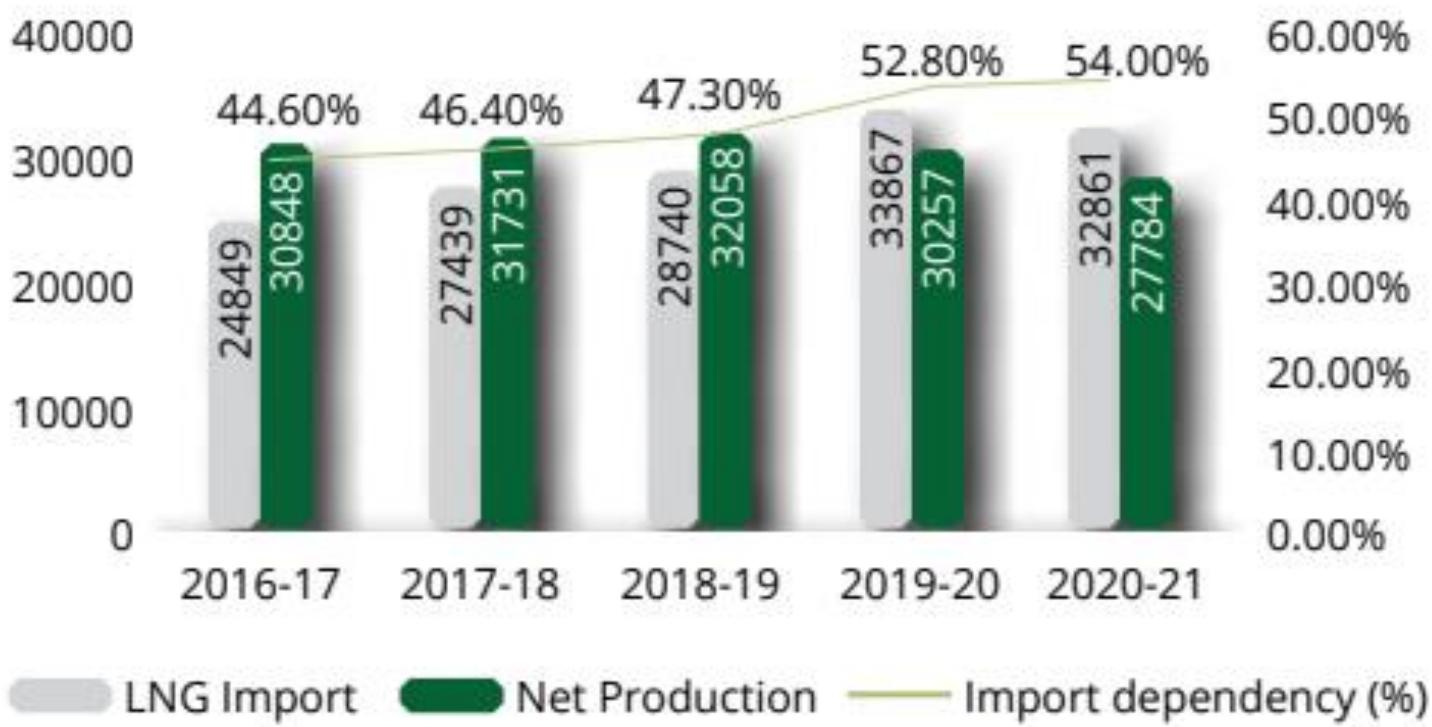
- India's natural gas demand is set to grow at a CAGR of 8 percent and the Indian government is trying to increase access to gas to about 70% of the population by 2025.

- There is a huge amount of pipeline infrastructure being built around and it is set to grow 4 times the current level by 2025. CNG stations are going to increase 3 times of current level by 2025. Indian gas regulator PNGRB has granted licenses to 136 geographies in the past two years, which will help sustain higher city gas volumes over the next decade.

- In fact, in the latest budget of 2021, Finance Mininster has declared that the government will add 100 more districts to the City Gas Distribution Network in the next three years.

- Approximately 76% of the CNG stations and around 80-90% of the PNG connections are concentrated in Delhi, Gujarat and Maharashtra.

Figure 1: Trend of natural gas consumption in India (in MMSCM)

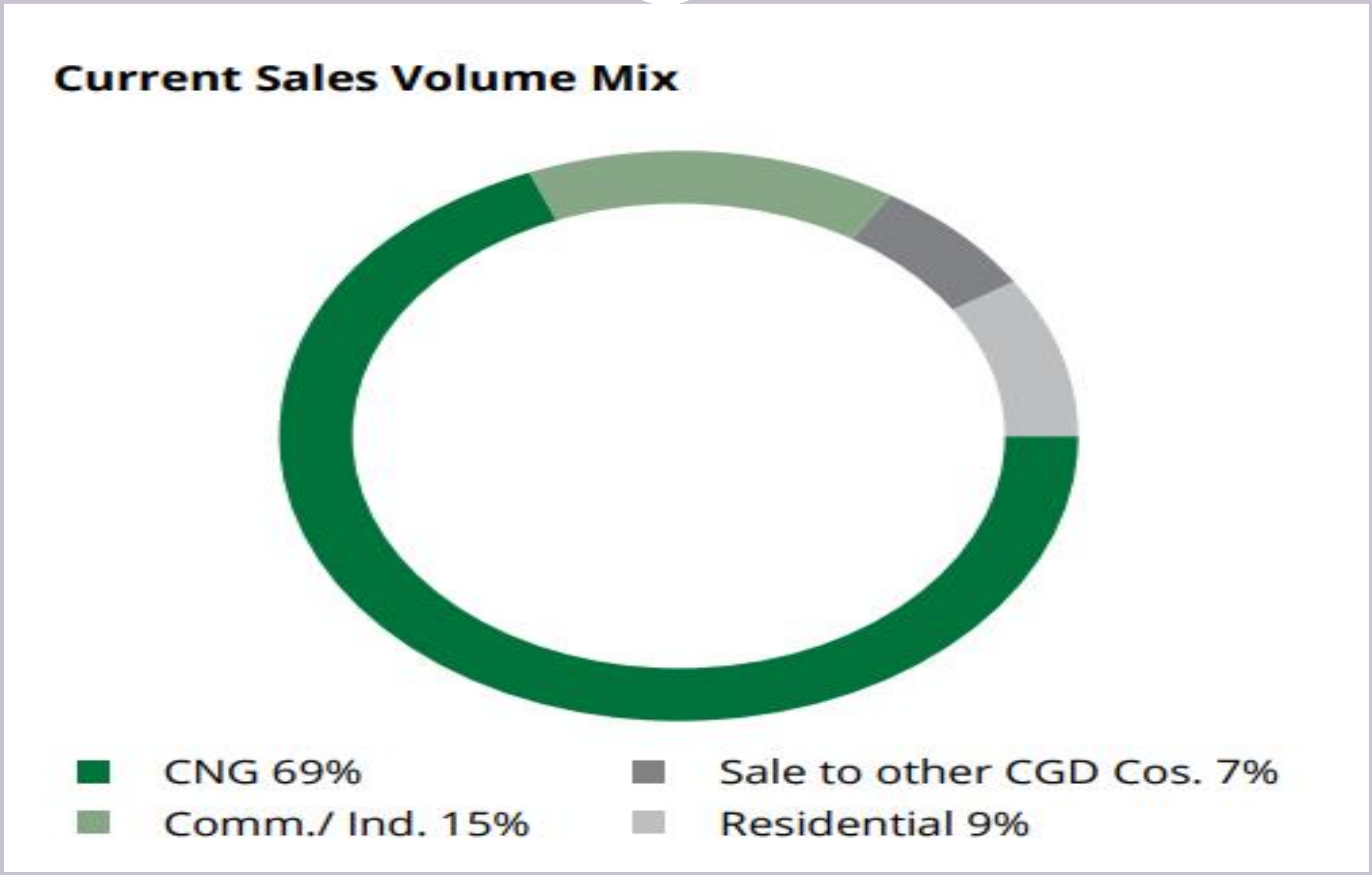


Segment Wise Performance

The Company has its presence in following segments:

Compressed Natural Gas (CNG) - IGL's majority portion of the revenue accrues from CNG sales which has reduced to 1357 mmscm from 1738 mmscm in the previous year showing a decline of 22%. The Company had 612 stations through which it provided gas to 12.05 lakh vehicles as on March 31, 2021.

Piped Natural Gas (PNG) - The Company has recorded PNG sales volume of 586.74 million scm during FY 2020- 21 as against 619.05 million scm in FY 2019-20 resulting in a decline of approx. 5% in volumes. IGL provided 3.1 lacs new PNG connections during FY 2020-21. As on March 31, 2021, total PNG connections provided stood at 16.85 Lakh households and 6,687 Commercial & Industrial consumers. The Company's pipeline infrastructure expanded from 14,605 kms in FY 2019-20 to 16,527 kms in FY 2020-21.


Current Sales Volume Mix
CNG 69%
Sale to other CGD Cos. 7%
Comm./ Ind. 15%
Residential 9%

Opportunities

Expansion in new geographical areas –The Company continues to look for expansion opportunities in new geographical areas.

Green corridors – Establishing CNG/LNG stations alongside highways to provide opportunities to the Company to increase its CNG sales volumes.

Smart Cities – Due to rapid urbanization, the government of India is in the process of developing smart cities. These cities will feature robust infrastructure of clean and efficient fuel which is likely to add to the growth prospects of the Company.

Reduction in carbon footprint – There is an increased focus on reducing carbon emissions by judiciary, central and state governments which will promote eco-friendly fuels i.e. CNG and PNG.

Merger/acquisition of stake in other CGD Companies – Through a merger or an acquisition of shares in other CGD Companies in the country, the Company is exploring the possibility of expanding its operations.

IGL's 10-year supply pact with DTC could bring earning visibility going forward

On 31 March 2021, IGL signed a long term gas supply agreement with Delhi Transport Corporation (DTC) to continue the supply of CNG to the public transporter's fleet of buses for ten years till December 2030. As a part of the agreement, dedicated CNG filling facilities have been set up at 44 depots of DTC across Delhi and Noida to cater the fleet of DTC buses with a total compression capacity of 10 lakh kgs per day. These CNG filling facilities have helped in timely CNG fueling. DTC is the largest CNG-powered bus service operator in the world with a fleet size of 3762 buses at present. DTC is also in the process for procurement of 1000 new CNG buses and it could be available on the roads of the national capital very soon. DTC consumes around 2.80 lac kg of CNG per day for its buses which **constitutes around 11% of daily CNG sale of IGL**. The consumption of CNG is expected to increase further after the addition of new buses.

DTC has provided 19 plots adjacent to its depots to IGL for creation of hybrid facilities, which are used as retail outlets for serving the public. The relationship between IGL and DTC dates back to inception of IGL and has been mutually beneficial for both organisations.

Car manufacturers coming up with CNG variants and Delhi Government's directive making it mandatory for all LCVs operating in Delhi to run on CNG are triggers for IGL. With 559 CNG stations, the company is in the process of enhancing its compression capacity by adding new stations.. IGL plans to add 100 new CNG stations and establish 3.5-4 lakh domestic PNG connections in FY22. Delhi government is in talks to roll out 1,000 EV buses and 3,000 CNG buses next year. IGL will be single beneficiary from it. Now, the focus of EV policy in Delhi is mainly on two wheelers and there is no use of CNG in two wheelers, which doesn't impact the company's business.

Apart from this, there are a total of 396 Oil Marketing Companies (OMC) outlets existing in Delhi, out of which 240 are equipped with CNG. IGL is looking to set up new CNG stations at smaller OMC stations, going forward.

IGL is working with a Dealer Owned Dealer Operated (DODO) scheme where it has invited participants (dealers) who own land where the company constructs its own CNG stations, and the operation rights lie with the dealer. There has been encouraging response to this scheme and it has constructed 20 stations under this scheme. All competitors are also following the DODO policy.

The commission of Air Quality Management suggested to industrial sector to switch over to PNG

Delhi and the NCR has been most polluted region as per the Air Quality Index over the past. The industrial sector is one of the major contributors to air pollution in Delhi and the NCR and ~20% pollution comes from industrial sector. The Commission for Air Quality Management observed for switching over of all industries in the capital to Piped Natural Gas (PNG). The commission directed IGL to ensure supply of piped natural gas to all identified industries in Delhi

It also directed the Delhi Pollution Control Committee (DPCC) to inspect and identify the industries using unapproved fuels and to take stringent penal action in case of non-compliance. GAIL and DPCC have been asked to provide all the required assistance. The IGL, Delhi Pollution Control Committee and the Delhi government were also asked to work in close coordination with the industrial units so as to target the completion of infrastructure work for all industries to switch to PNG. Conversion into PNG by industrial sector could add incremental volume growth in near to medium term.

Competitive Advantage

Entry Barriers : IGL enjoys the first mover advantage in the city gas distribution sector. It has monopoly in Delhi and other north Indian states such as Haryana, UP, Uttrakhand etc. Once the **distribution** gets set up in this sector then no other player will set up the same type of distribution. This acts as an entry barrier because it already own the pipeline.

As part of its diversification plans, IGL is exploring the area of hydrogen as a fuel.

RISKS

- 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 of newly acquired GAs can impact the overall profitability and company's performance in medium to long term
- PNGRB had come out with a Draft Regulation last year on Open Access in CGD facilitating the entry of third party marketing entities in areas operated by other CGD entities. This could impact incumbents including IGL beginning with industrial PNG users.
- Unavailability of Natural Gas - Domestic Natural Gas is a scarce resource. The non-allocation of the required amount of low-cost natural gas by the government may have an adverse impact on margins.
- Fluctuating gas price - CNG & PNG-Residential prices remain competitive vis-à-vis petrol and subsidised LPG due to the preferential allocation of domestic gas.

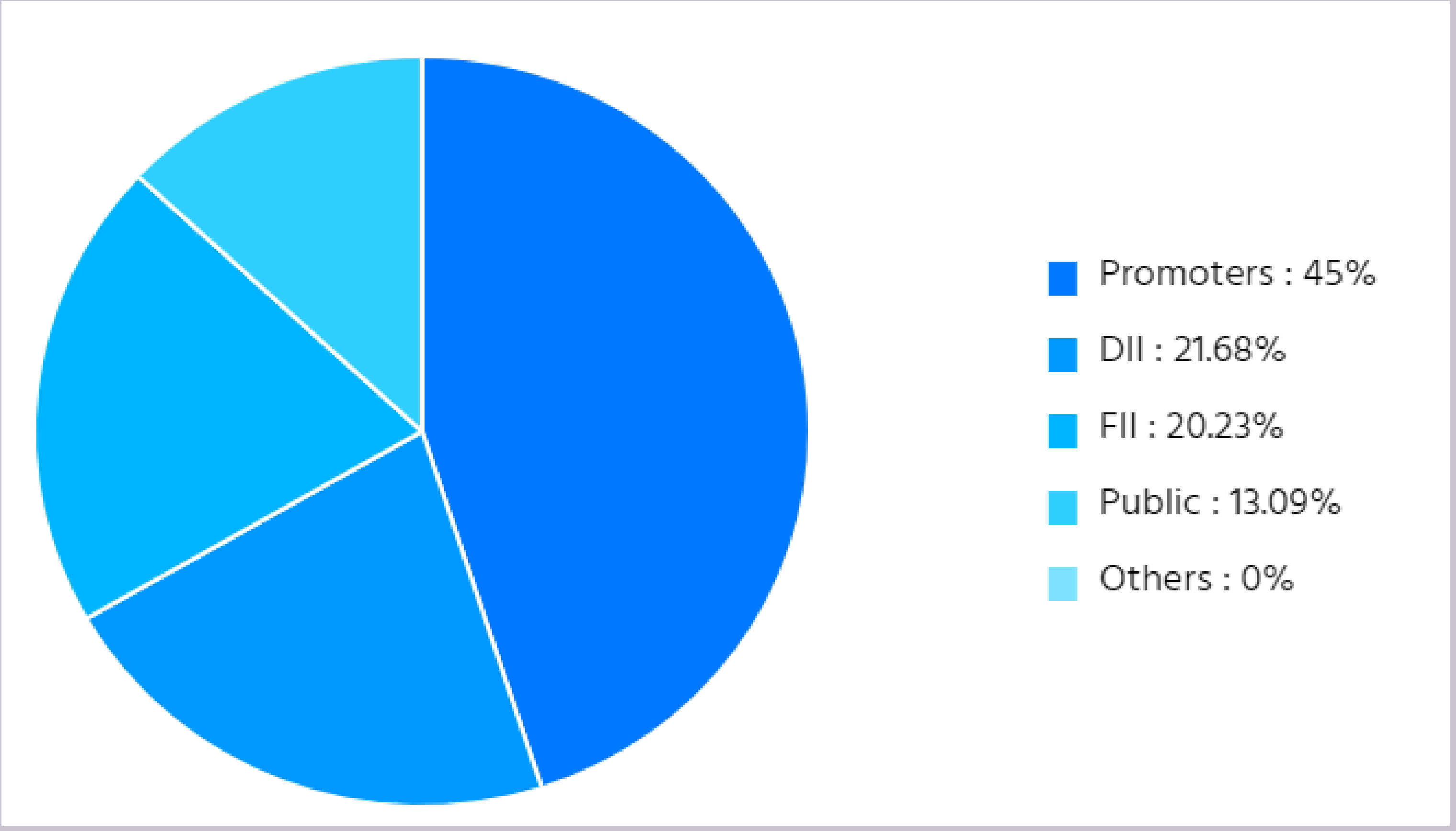
Electric vehicles

Increasing importance of electric vehicles - The popularity of Electric enabled vehicles have been growing in India with the government introducing various incentive schemes. In medium to long term, these cars may pose a potential threat to CNG run vehicles.

The Company is preparing itself for meeting the challenge by becoming a part of value chain in electric mobility business and setting up of EV charging facilities at its CNG stations. The Company plans to setup approx 50 EV charging stations to cater two wheelers/ three wheelers by the end of this financial year.

Over the last few months the stock prices of gas distribution companies have fallen sharply. The first reason for the fall is rise in natural gas import prices. Liquified Natural Gas prices have jumped upto 15x in last 1 year due to which the margins of the company has fallen sharply. Second reason is due to the threat of Electric vehicles . The rising adoption of electric vehicles could dent the CNG vehicle demand in future.

Shareholding Pattern



Peer Comparison

Companies	P/E	CMP	Qtr Sales (Cr)	Qtr Profit(Cr)	ROCE
Indraprastha Gas	18	390.45	2215	374	23.96%
Guj.St.Petronet	9.7	272.35	5490	294	37.58%
Mahanagar Gas	12	819.80	1027	56	26.58%
Adani Total Gas	476	2447.05	883	131	31.23%

In terms of valuations, Adani gas is highly overvalued with the P\E ratio of 476. All other GCD companies are fairly valued at current valuations.
Gujrat gas is the largest GCD player in India with the highest sales volume.
In terms of profit margins, indraprastha gas has the highest profit margin among all.
The ROCE of Gujrat gas is highest followed by adani gas and then mahanagar gas.

FINANCIALS

BALANCE SHEET

As at 31 March 2021

(₹ in crores)

	Particulars	As at 31 March 2021	As at 31 March 2020
A	**Assets**		
1	**Non-current assets**		
	a) Property, plant and equipment	4,105.45	3,416.73
	b) Capital work-in-progress	846.94	776.69
	c) Right-of-use assets	198.35	122.00
	d) Other intangible assets	17.07	18.17
	e) Investments accounted for using the equity method	720.70	630.22
	f) Financial assets		
	(i) Loans	13.69	13.38
	(ii) Other financial assets	0.13	0.10
	g) Income-tax assets (net)	16.08	22.90
	h) Other non-current assets	36.06	46.52
	Total non-current assets	**5,954.47**	**5,046.71**
2	**Current assets**		
	a) Inventories	45.55	51.11
	b) Financial assets		
	(i) Investments	1,567.70	-
	(ii) Trade receivables	260.71	170.39
	(iii) Cash and cash equivalents	90.32	667.71
	(iv) Bank balances other than (iii) above	1,041.97	1,512.23
	(v) Loans	7.64	1.99
	(vi) Other financial assets	58.47	61.35
	c) Other current assets	23.15	32.86
	Total current assets	**3,095.51**	**2,497.64**
	Total assets	**9,049.98**	**7,544.35**

B	**Equity and liabilities**		
1	**Equity**		
	a) Equity share capital	140.00	140.00
	b) Other equity	6,194.43	5,217.97
	Total equity	**6,334.43**	**5,357.97**
2	**Liabilities**		
	Non-current liabilities		
	a) Financial liabilities		
	(i) Lease liabilities	79.94	76.18
	(ii) Other financial liabilities (other than those specified in item (b))	3.67	1.97
	b) Provisions	25.64	23.47
	c) Deferred tax liabilities (net)	242.19	288.40
	d) Other non-current liabilities	11.96	0.87
	Total non-current liabilities	**363.40**	**390.89**
	Current liabilities		
	a) Financial liabilities		
	(i) Trade payables		
	(A) total outstanding dues of micro enterprises and small enterprises; and	56.88	41.09
	(B) total outstanding dues of creditors other than micro enterprises and small enterprises	361.72	183.87
	(ii) Other financial liabilities [other than those specified in item (c)]	1,466.31	1,221.73
	(iii) Lease liabilities	33.10	20.01
	b) Other current liabilities	87.13	71.50
	c) Provisions	347.01	257.29
	Total current liabilities	**2,352.15**	**1,795.49**
	Total liabilities	**2,715.55**	**2,186.38**
	Total equity and liabilities	**9,049.98**	**7,544.35**

Consolidated Statement of Profit and Loss

for the year ended 31 March 2021

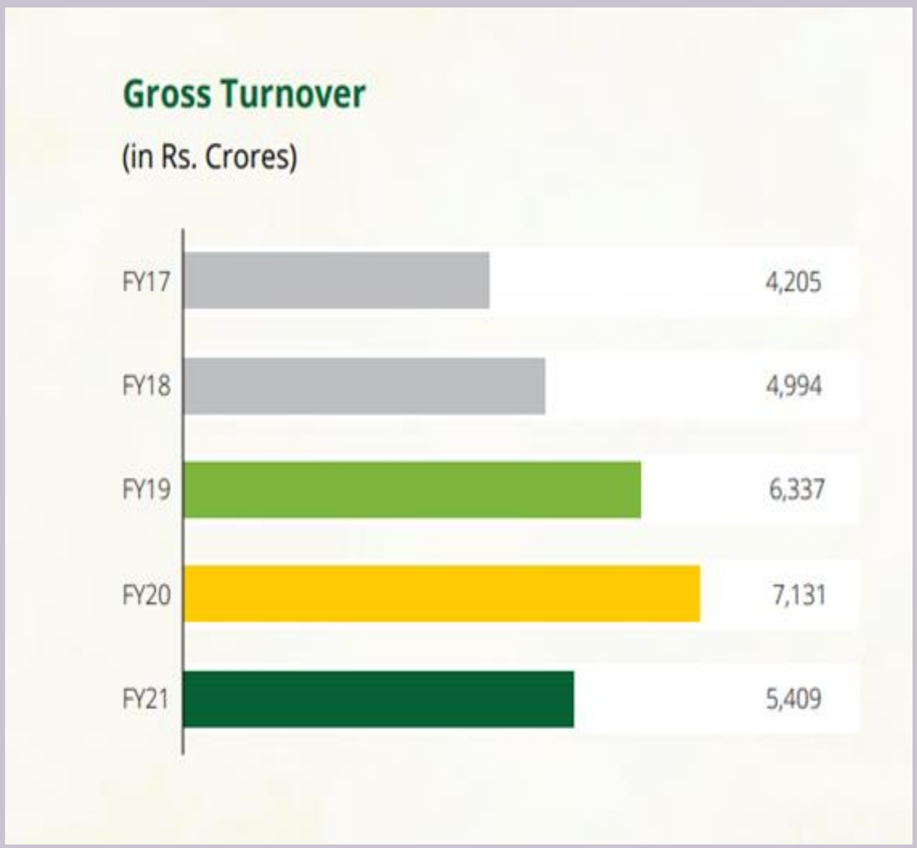
(₹ in crores)

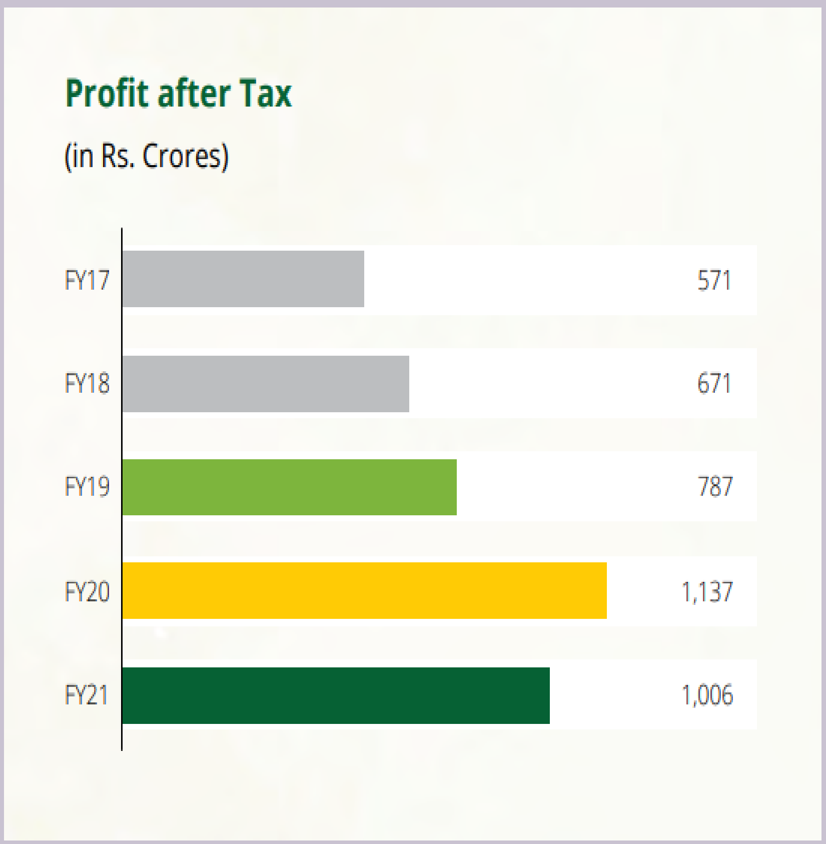
Particulars			Year ended 31 March 2021	Year ended 31 March 2020
1	Revenue from operations	28	5,438.68	7,165.49
2	Other income	29	114.83	143.18
3	**Total income (1 + 2)**		**5,553.51**	**7,308.67**
4	**Expenses:**			
	(a) Purchases of stock-in-trade of natural gas	30	2,229.77	3,678.77
	(b) Changes in inventories of stock-in-trade of natural gas	31	(0.23)	0.59
	(c) Excise duty		497.88	680.22
	(d) Employee benefits expense	32	134.39	151.70
	(e) Finance costs	33	11.34	8.12
	(f) Depreciation and amortisation expenses	4 and 50	290.39	252.25
	(g) Other expenses	34	1,093.88	1,134.57
	Total expenses (4)		**4,257.42**	**5,906.22**
5	**Profit before tax and share of profit of associates (3 - 4)**		**1,296.09**	**1,402.45**
6	Share of profit of associates		125.81	154.05
7	**Profit before tax (5+6)**		**1,421.90**	**1,556.50**

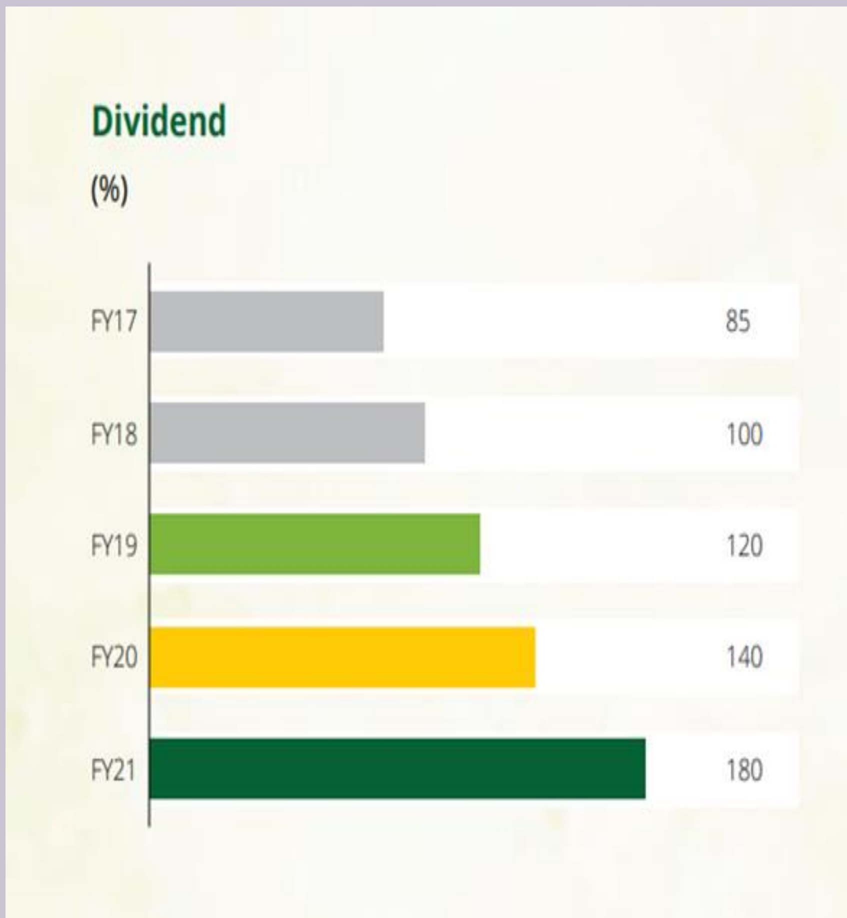
8	Tax expense:	43		
	(a) Current tax		295.50	334.53
	(b) Deferred tax		(46.15)	(27.02)
	Total tax expenses		249.35	307.51
9	**Profit for the year (7 -8)**		**1,172.55**	**1,248.99**
10	**Other comprehensive income**			
	(a) Items that will not be reclassified to profit or loss			
	(i) Re-measurement of post employment benefit obligations		(0.22)	(2.01)
	(ii) Share of other comprehensive income of associates		0.10	0.01
	(iii) Income-tax relating to re-measurement of post employment benefit obligations		0.06	0.51
	(iv) Income-tax relating to share of other comprehensive income of associates		(0.03)	-
	Other comprehensive income for the year, net of tax		(0.09)	(1.49)
11	**Total comprehensive income for the year (9+10) (comprising profit and other comprehensive income for the year)**		**1,172.46**	**1,247.50**
12	**Earnings per equity share: (face value of ₹ 2 per share)**	49		
	Basic and diluted (in ₹)		16.75	17.84

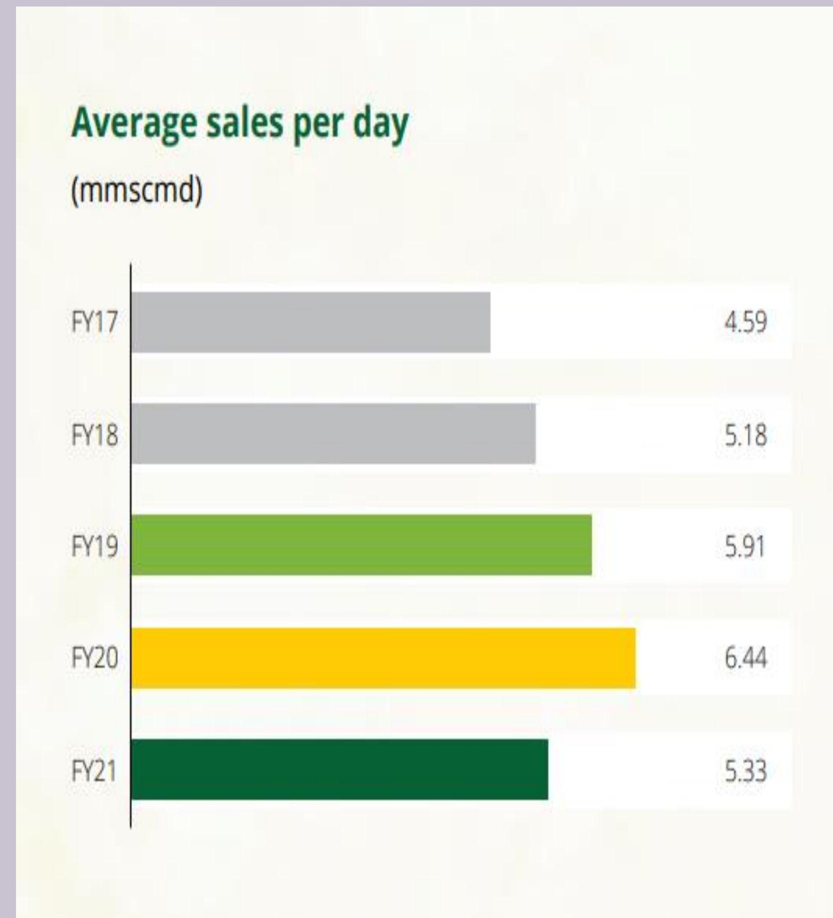
	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021
Sales +	1,553	639	1,305	1,446	1,551	1,257	1,831	2,215
Expenses +	1,176	555	898	945	1,059	877	1,301	1,746
Operating Profit	**377**	**83**	**407**	**501**	**492**	**381**	**530**	**470**
OPM %	24%	13%	31%	35%	32%	30%	29%	21%
Other Income +	80	37	59	73	72	63	96	97
Interest	3	2	2	3	4	3	3	3
Depreciation	66	68	71	75	76	78	80	84
Profit before tax	**388**	**49**	**393**	**496**	**484**	**364**	**543**	**480**
Tax %	25%	29%	3%	23%	23%	24%	23%	22%
Net Profit	**291**	**35**	**380**	**382**	**375**	**278**	**419**	**375**
EPS in Rs	4.15	0.50	5.43	5.45	5.36	3.97	5.98	5.35

KEY RATIOS


Gross Turnover
(in Rs. Crores)
FY17
4,205
FY18
4,994
FY19
6,337
FY20
7,131
FY21
5,409


Profit after Tax
(in Rs. Crores)
FY17
571
FY18
671
FY19
787
FY20
1,137
FY21
1,006


Dividend
(%)
FY17
85
FY18
100
FY19
120
FY20
140
FY21
180


Average sales per day
(mmscmd)
FY17
4.59
FY18
5.18
FY19
5.91
FY20
6.44
FY21
5.33

RATIO ANALYSIS

- Company is almost debt free.
- The company has delivered a poor sales growth of 6.04% over past five years.
- Company has delivered good profit growth of 20.37% CAGR over last 5 years
- Company has been maintaining a healthy dividend payout of 19.04%

Return on Equity	
5 Years:	21%
3 Years:	21%
Last Year:	20%

Return on Equity (ROE): ROE measures the ability of a firm to generate profits from its shareholders investments in the company. In other words, the return on equity ratio shows how much profit each rupee of common stockholders' equity generates. IGL has a healthy ROE track record of 20 %

COVID IMPACT

IGL's business was impacted owing to pandemic in FY21. However, the company has now moved into growth phase from the earlier recovery phase. For most of the CGD companies, overall volumes are more than pre-COVID levels. However, opening up of schools and normalization of public transportation (for CNG) and commercial space like malls/ restaurants (for PNG) may take more time. IGL has a higher dependence on CNG and hence could see gradual recovery in volumes and operations. We expect, City Gas Distribution sector to do well. IGL within the regulated O&G PSU space is a unique company which has been consistently reporting growth with superior return ratios and debt free status.

CONCLUSION

Going forward, we expect its growth momentum to sustain, backed by its cost competitiveness and experienced management. Moreover in the next two years IGL is going to do a Capex of around Rs. 25000 crores.

With the government's growing trust on natural gas and its vision of making India a gas based economy, the CGD sector is growing at a fast pace. After completion of the 10th round of bidding by PNGRB, 70% of the country's population and 50% of its total area have been covered under the CGD network.

All these initiatives are expected to aid the IGL's growth and expansion.

Buy IGL share and hold for long term.