

Indraprastha Gas Ltd. Equity Research Report



Table of Contents

Introduction:.....	2
Investment Summary:	3
Business Description:.....	4
Industry Overview:	5
Financial Valuation:	7
Risks:	9
References:	10

Introduction:

Established in 1998, Indraprastha Gas Limited is a leading Indian natural gas distribution firm, supplies natural gas to over 1.1 million CNG vehicles, 1.4 million domestic PNG customers and over 5,500 commercial & industrial customers. It also operates nearly 425 CNG filling stations for vehicles that run on natural Gas. The gas is sourced through the HVJ Gas Pipeline owned by GAIL.

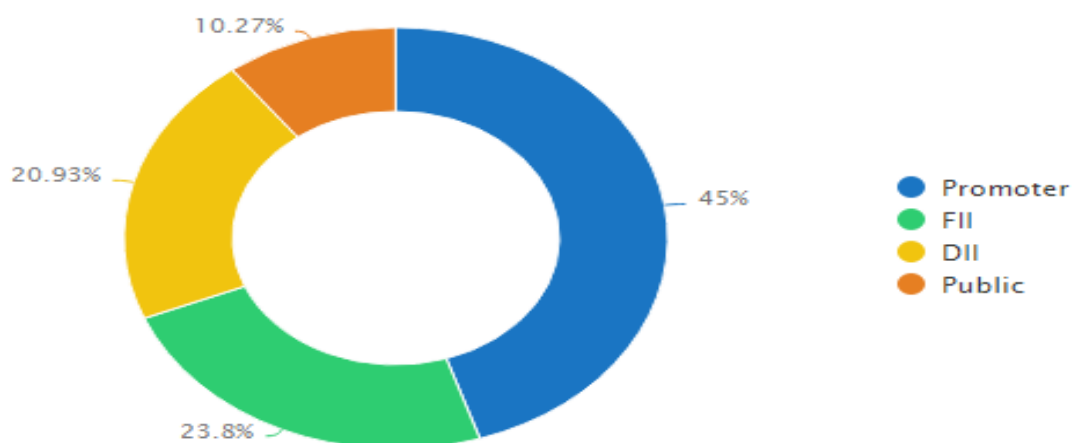
The company went public in 2003, listing on the Bombay Stock Exchange (532514) and the National Stock Exchange (IGL). The company is part of the Nifty Oil & Gas Index and has a weightage of 4.69% when compared to industry leaders Reliance Industries Ltd. (31.24%) and Bharat Petroleum Corporation Ltd. (11.15%).

The stock is valued at Rs 529.55, and Market Cap is Rs. 37,075 Cr. The sector PE is 38.65 while IGL PE ratio is 34.03 implying that the company has potential for growth. The Dividend earnings is only 0.5% of share price or Rs 2.80 as of Expiry Date 17 September 2020. Earnings Per Share is 15.55. Over the past month, the average volume traded lies between 20-32 lakh shares.

The company had free cash & bank balance including current investments of Rs. 2,198.70 crore as on Dec 31, 2019, lying in current account, fixed deposits with bank & Mutual funds (March 31, 2019: Rs. 1,885.39 crore; March 31, 2018: Rs. 1,443.25 crore). Thus, the current ratio of the company is 1.45x which characterizes liquidity as 'strong'.

The free float market cap of IGL is Rs. 18758.25 or, nearly 50% of shares are unrestricted and publicly owned.

The shareholding pattern sees an increase in holdings of Mutual Funds, Foreign Portfolio Investment, and other Institutional Investors. However, promoter's shareholding remains at 45% as per March 2021.

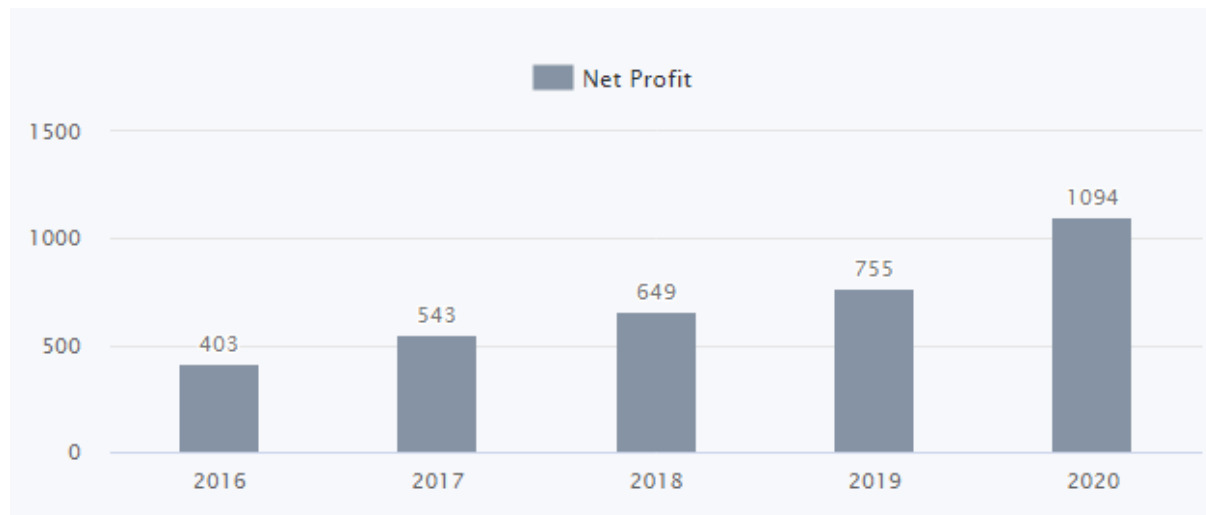


Notable members of management include PK Gupta – Chairman, MD – AK Jana, Amit Garg, RP Natekar and Manisha Saxena.

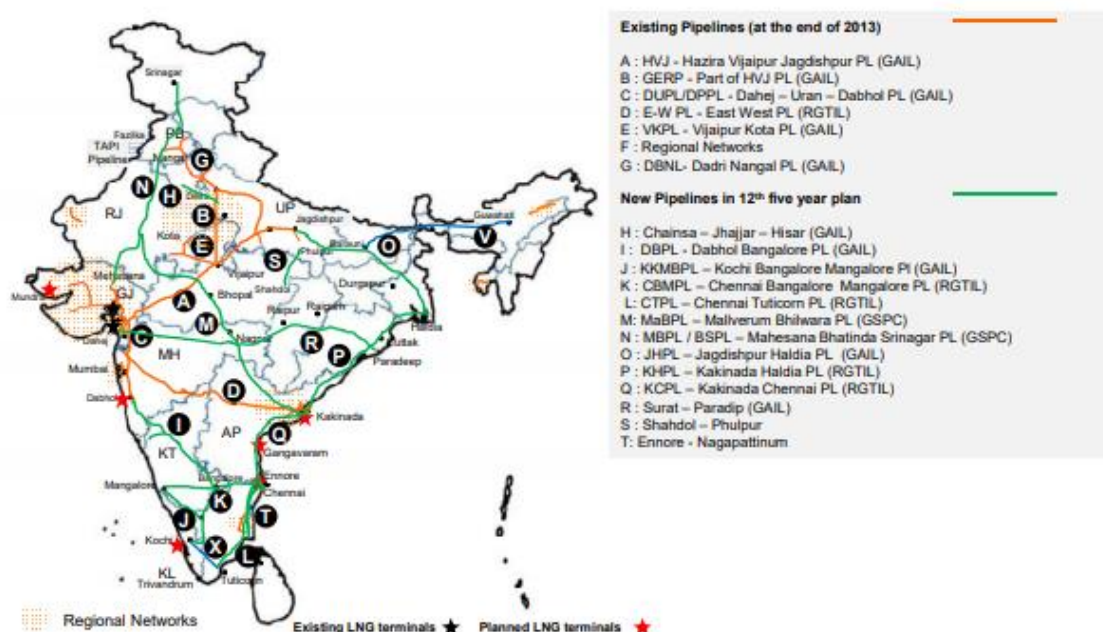
Investment Summary:

According to the Annual report 2019-20, IGL has taken up initiatives for sustainable, eco-friendly fuel supply and focuses on innovations and improvement of infrastructure (Mobile Refuelling Units, CNG stations as well as pipelines) to expand their network.

The Piotroski score of company is 7/9 which indicates strong financials. During the year, gross turnover showed a growth of 12.5% increasing from Rs. 6,337 Crores to Rs. 7,131 Crores in the previous year. Profit After Tax (PAT) increased by 44.5 % from Rs. 787 Crores in FY 2018-19 to Rs. 1,137 Crores in FY 2019-20. Both gross turnover and PAT of FY 2019-20 have been the highest in the history of the Company. The company also has 0 debt.



The Government of India promotes a greener energy sector by committing US\$35 billion for such initiatives. Furthermore, the push to cut emissions will certainly prove favourable to the company. Indraprastha Gas (IGL) has signed a long-term gas supply agreement with Delhi Transport Corporation (DTC), to supply CNG for a period of ten years till December 2030.



The 27 reports from 8 analysts on trendline offer long term price targets for Indraprastha Gas Ltd. have an average target of 583.75. The consensus estimate represents an upside of 10.55% from the last price of 528.05.

	Mar 2020	Mar 2019	Mar 2018	Mar 2017	Mar 2016
Operating Activities	1,360	1,157	879	946	653
Investing Activities	-520	-1,120	-716	-1,113	-174
Financing Activities	-243	-168	-84	-160	-256
Others	0	0	0	0	0
Net Cash Flow	596	-132	78	-327	222

From the above Cash Flow table for the past 5 years, we can see that the average operating and financing expenses have increased while the investing activities have reduced. Year 2020 shows large positive cash flow implying profits.

Business Description:

The main sources of income for IGL include commercial and domestic purchase, transportation capacity of pipelines, return from assets like plant, equipment, Investments, Inventory, sale of mutual funds, maturity of bank deposits etc. Liabilities include lease, taxes on income, outstanding dues of small and micro enterprises, creditors, loans, and other liabilities. The expenses include stock-in-trade of natural gas, excise duty, employee benefits, depreciation, and other expenses.



At present CNG sales make up the bulk of revenue for IGL. However, in future, with the expansion of infrastructure, IGL is aggressively looking to increase revenues from piped natural gas.

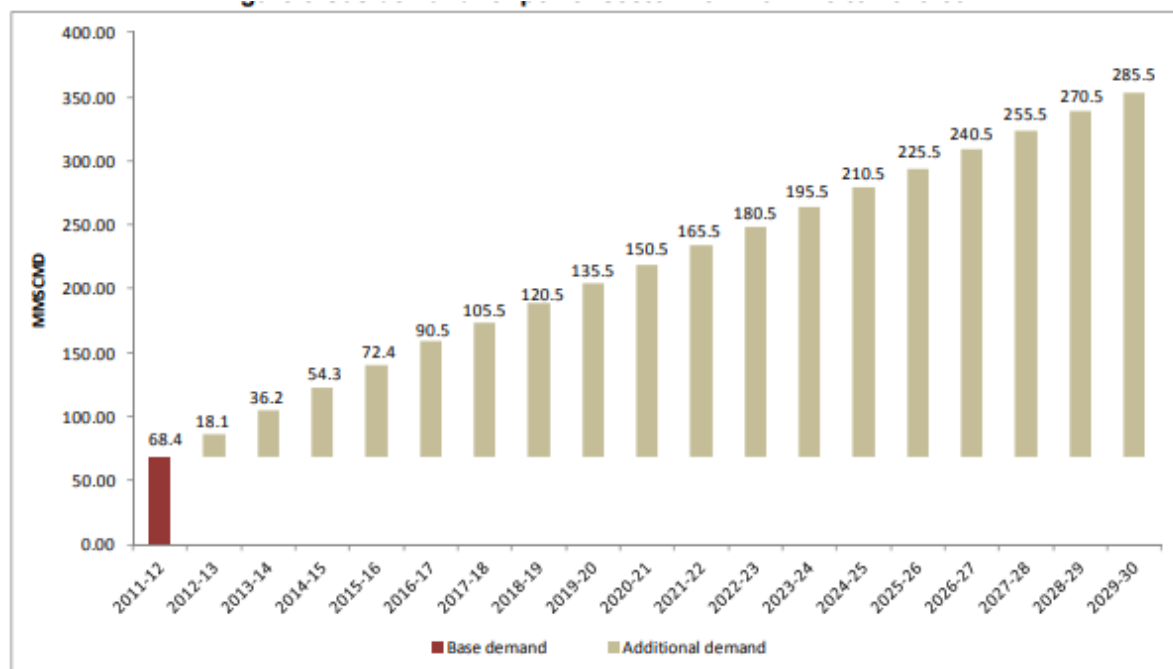
Key drivers of Revenue are the sale of natural gas, and the main expenses include infrastructure and purchase of natural gas.

Industry Overview:

India is the 3rd largest consumer of energy and oil after USA and China. 64.14 billion cubic meters of natural gas was consumed in financial year 2019-20. Due to the policies of Indian government that encourage green fuel consumption, the projected demand for Natural Gas is forecasted to increase. The present share of natural gas in the energy mix of the country is 6%, however the government aims to increase it to 15%. Since 100% FDI is allowed in infrastructure related to marketing of natural gas products, pipeline and infrastructure, the future of the Natural Gas Sector in India is bright. 5 new LNG terminals and one expansion project under construction will result in the overall increase in capacity and growth of the sector.

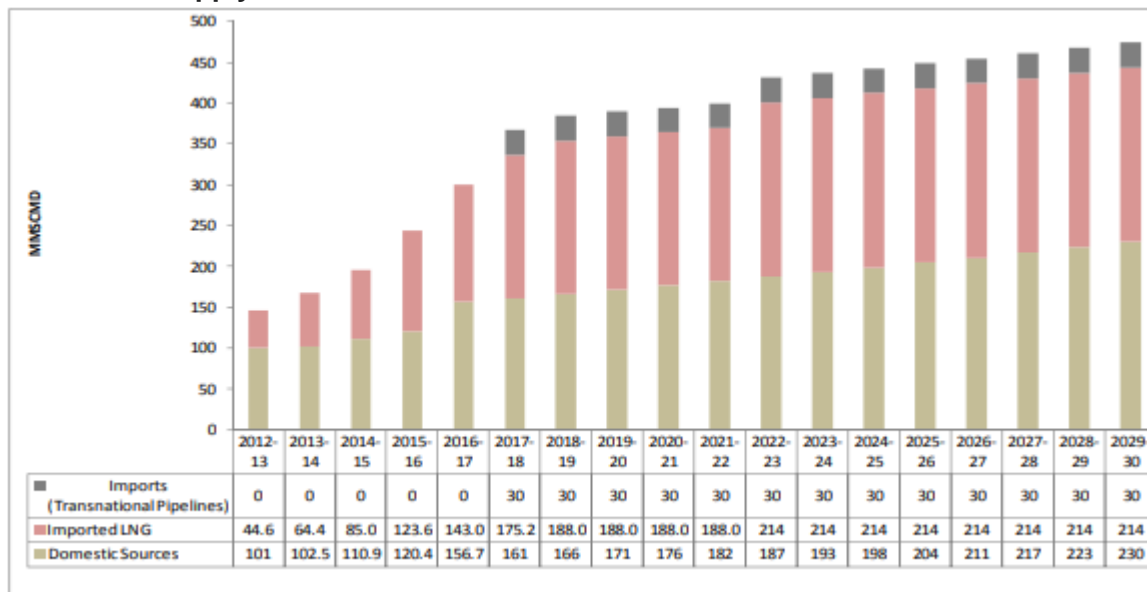
Projected growth in the demand for LNG due to various factors like environmental concerns, subsidy burden, availability of LNG, Household income and Requisite infrastructure.

Forecasted Demand of LNG.



The national demand for LNG is set to increase and with the introduction of new pipelines covering a large geographical region. The possibility of expansion into other regions in order to meet the increasing demand will be a major target for companies in this industry.

Forecasted Supply of LNG



In order to meet this increasing demand, GOI hopes to increase domestic sources as well as imports. This will have an effect on the prices and thus, prove beneficial for those companies who have already constructed their infrastructure.

Competitors like GAIL and Adani Total Gas are much larger companies and have better infrastructure. However, IGL has taken steps like expanding to new locations like Kanpur and Kaithal as well as making investments in City Gas Distribution companies. It is also diversifying and providing charging facilities for E-vehicles. There is also a plan to set up a gas-meter manufacturing unit in India. The Company has won various prestigious safety awards from different authorities in recognition of its high safety standards. Various CSR activities with focus on health, education, empowerment of women & underprivileged and skill development.

Balance Sheet	----- in Rs. Cr. -----				
	IGL	Adani Total Gas	GAIL	Gujarat Gas	Mahanagar Gas
	Mar '20	Mar '21	Mar '21	Mar '21	Mar '21
Sources Of Funds					
Total Share Capital	140.00	109.98	4,440.39	137.68	98.78
Equity Share Capital	140.00	109.98	4,440.39	137.68	98.78
Share Application Money	0.00	0.00	0.00	0.00	0.00
Preference Share Capital	0.00	0.00	0.00	0.00	0.00
Reserves	4,922.36	1,842.44	42,170.76	4,344.97	3,133.59
Revaluation Reserves	0.00	0.00	0.00	0.00	0.00
Networth	5,062.36	1,952.42	46,611.15	4,482.65	3,232.37
Secured Loans	0.00	468.16	5,759.73	769.95	0.00
Unsecured Loans	0.00	0.00	0.00	0.00	0.00
Total Debt	0.00	468.16	5,759.73	769.95	0.00
Total Liabilities	5,062.36	2,420.58	52,370.88	5,252.60	3,232.37

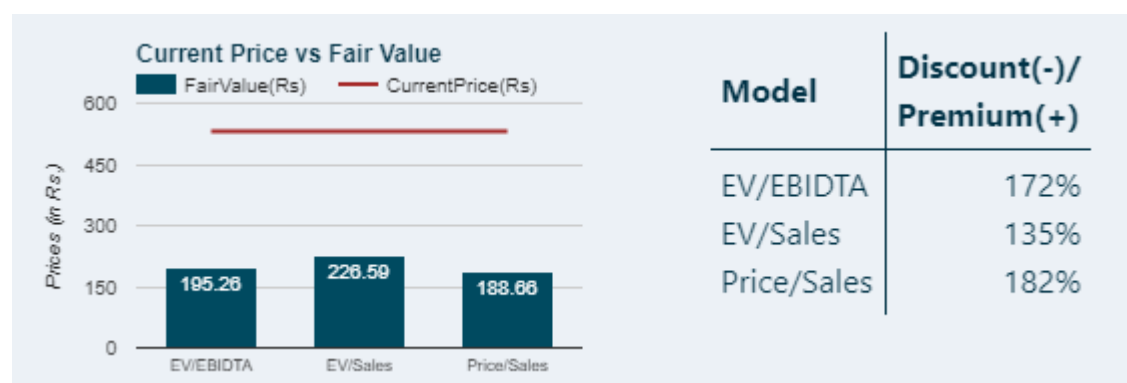
In the above balance sheet, we compare IGL with its competitors Adani Total Gas, GAIL, Gujarat Gas and Mahanagar Gas. IGL has the second largest net worth and 0 debt. Adani Enterprises is facing legal issues due to insider trading accusations while Gujarat Gas and Mahanagar gas are smaller enterprises. This puts IGL second only to GAIL which is government owned authority that enjoys almost monopoly status in pipeline and gas transmission.

New entrants into the industry face large barriers like infrastructure and popularity. The huge role played by the government in the supply of natural gas including imports and domestic production (Only 2 producers) ensure price stability. Also, there is only one distributor of natural gas which is GAIL, hence price stability is expected. Furthermore, the large number of customers also ensure price stability. Government focus on LNG as well as a smaller number of substitutes is another factor to consider. All these ensure the robust health and growth of the Natural Gas sector in India.

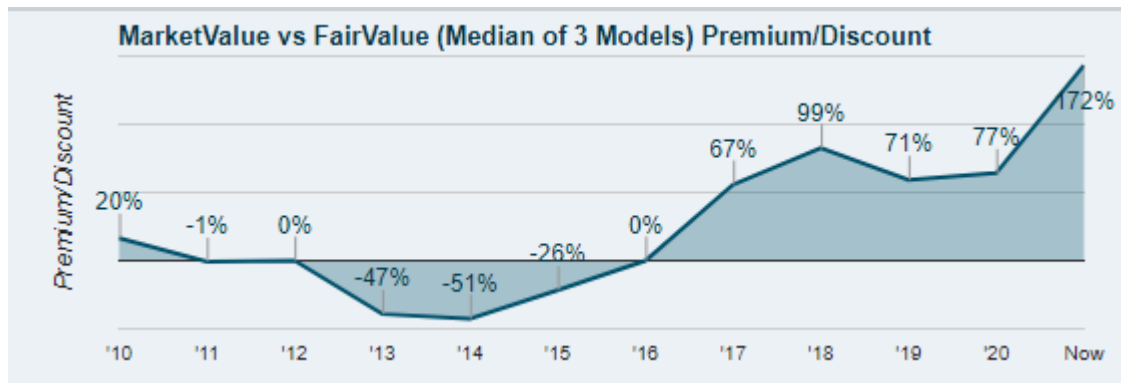
Company's Name	Weight(%)
Reliance Industries Ltd.	31.24
Bharat Petroleum Corporation Ltd.	11.15
Oil & Natural Gas Corporation Ltd.	10.50
Adani Total Gas Ltd.	9.39
GAIL (India) Ltd.	7.31
Indian Oil Corporation Ltd.	7.03
Hindustan Petroleum Corporation Ltd.	4.99
Indraprastha Gas Ltd.	4.69
Petronet LNG Ltd.	4.59
Gujarat Gas Ltd.	2.34

Market Share in the Oil and Natural Gas Sector. It is important to note that IGL enjoys market leader position and is outperformed by GAIL and Adani Total Gas Ltd. When only natural gas is considered, and Petroleum is excluded.

Financial Valuation:



The median of the 3 Models give us the intrinsic value of IGL share as 195.26.



The premium of the value of the share over the intrinsic value is nearly 172%. I.e: With current price nearly 532 and intrinsic value at 195, we get, $(532-195)/195 = 1.72$

Assets and Liabilities

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	Equities	2020	2019	2018	2017	2016		Assets	2020	2019	2018	2017	2016
2	Share Capital	140	140	140	140	140		Fixed Assets	4,333	3,354	2,818	2,468	2,286
3	Reserves & Surplus	5,217	4,175	3,506	2,871	2,430		Current Assets	2,497	2,242	1,782	1,330	811
4	Current Liabilities	1,795	1,530	1,176	958	685		Other Assets	713	585	495	394	351
5	Other Liabilities	390	336	273	222	193		Total Assets	7,544	6,183	5,096	4,193	3,449
6	Total Liabilities	7,544	6,183	5,096	4,193	3,449							
7								Contingent Liabilities	4,818	3,267	3,380	2,200	1,045

Over the past 5 years, the Total assets and liabilities are increasing yearly. However, the company has no debt, but there exist contingent liabilities. Caution must be exercised as the profit margins do not cover the contingent liabilities.

CAGR Growth %	Sales Growth	Profit Growth
Last 1 year	12.5%	44.5%
3 years	16%	21%
5 years	8%	15.5%
10 years	21%	15.7%

Due to Corporate Tax Rate Cut : 35% to 25% in FY20

Historical Price Data

Date	Open	High	Low	Close*	Adj. close**	Volume
18-Jun-2021	538.90	542.00	523.65	530.50	530.50	26,37,893
01-Jun-2021	532.65	548.40	519.25	535.95	535.95	3,60,45,922
01-May-2021	504.95	534.00	495.75	528.85	528.85	4,36,71,263
01-Apr-2021	519.60	544.90	487.20	508.95	508.95	3,39,34,391
01-Mar-2021	494.00	539.00	480.15	512.35	512.35	6,16,01,581
01-Feb-2021	515.85	594.85	487.00	491.95	491.95	7,46,38,295
01-Jan-2021	503.00	581.00	501.00	515.80	515.80	6,90,40,842
01-Dec-2020	500.95	519.50	451.65	502.35	502.35	7,68,51,524
01-Nov-2020	403.10	514.50	398.20	496.40	496.40	8,10,75,558
01-Oct-2020	399.90	413.80	364.10	402.25	402.25	5,88,76,849
17-Sep-2020	2.8 Dividend					
01-Sep-2020	394.60	429.00	379.10	386.80	384.18	7,71,94,702
01-Aug-2020	403.55	423.05	381.00	394.45	391.78	8,91,15,785
01-Jul-2020	443.50	453.70	395.50	403.70	400.96	9,50,14,258

From the above table, we can see that after the price increased after the 17th of September 2020 expiry date, for the past 9 months, price of share ranges from 364-594 and closes between 400-540. Average monthly volume of shares traded ranges from 3 to 7 crore.

Forecasted Revenue

C	D	E	F	G	H	I	J	K	L
Year	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	3685	3814	4535	5764	6485	7121.6	8113.48	8958.184	9693.507

Forecasted Profits

C	D	E	F	G	H	I	J	K	L
Year	2016	2017	2018	2019	2020	2021	2022	2023	2024
Profit	403	543	649	755	1094	1167	1349.5	1546.8	1734.19

Risks:

1. As you can see from the above revenue and profit forecasts, there is a degrowth in revenue and profit.
2. RoCE declining for the past 2 years implies inefficient use of capital.
3. Growing costs year on year for long term projects.
4. Aggressive penetration of Electric Vehicles in India as a competitor to Natural Gas Vehicles.
5. Exposure to project execution risks associated with setting up of city gas distribution project in a new geography as well as large contingent liability.
6. Legal and regulatory issues with reference to authorizations granted by Central Government of India
7. Share is over-valued

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