



Management Discussion and Analysis

Company Overview

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 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. The operations of the Company is spread over NCT of Delhi, Noida, Greater Noida, Ghaziabad & Hapur, Gurugram, Meerut (except area already authorised), Shamli, Muzaffarnagar, Karnal, Rewari, Kanpur (except area already authorized), Hamirpur & Fatehpur districts, Kaithal district and Ajmer, Pali & Rajsamand.

The Company has two following associate companies that operate as CGD Companies -

- Central UP Gas Limited (CUGL), in the areas of Kanpur, Bareilly, Unnao and Jhansi in Uttar Pradesh, and;
- Maharashtra Natural Gas Limited (MNGL), in the areas of Pune and nearby areas of Pimpri, Chinchwad, Chakan, Talegaon, Hinjewadi, Sindhudurg, Nashik and Dhule district in the state of Maharashtra, parts of Valsad district in Gujarat and Ramanagara in the state of Karnataka.

Indian Natural Gas Industry

The oil and gas sector is one of the core industries in India. It plays a major role in influencing decision making for all the other important sectors of the economy. The government is creating an enabling environment to make India a USD 5 trillion economy by 2025 and this sector is closely related to this agenda. Therefore, with the growth of the Indian economy, the demand for oil and gas is projected to singularly grow more in the coming years.

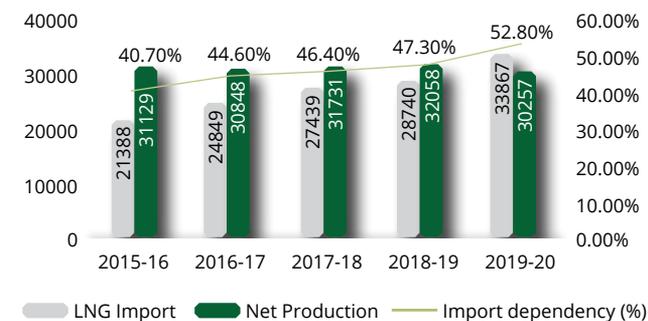
Natural gas is the cleanest fossil fuels among the available fossil fuels. However, Natural gas currently makes up only 6.2% of all energy consumed in the country. Gas as clean fuel has been given a top priority and Indian Government wants to make the Indian economy as a gas-based economy. In this regard, the government is targeting its share to rise to 15% by 2030. The current consumption of gas comprises around 50% of domestic output and the remaining consumption is met through imports. There has been an increased dependence on imports over the years.

Presently, the industry is facing challenges due to the spread of COVID-19, which has led to a nation-wide lockdown. The demand for natural gas has decreased since March, 2020, the beginning of lockdown. Near standstill transport sector along with prolonged closing of several factories and manufacturing units during the lockdown has dented natural gas demand. With the ease down of lockdown situation, the demand is picking up and expected to reach at its normal level in the second half of the current year FY 2020-21.

However, the government on its part has been continuing its efforts to strengthen the gas industry. The government has taken steps to increase indigenous production, creating pipeline infrastructure throughout the country and increasing the capacity of LNG terminals. These measures coupled with the start of Gas Exchange and envisaged revision in transport tariff policy are likely to add growth in the industry and transform India into a vibrant gas market.

Other initiatives like LNG corridor along golden Quadrilateral, Blue Corridor (LNG) and expansion of city gas distribution network in the entire country are some of the other pioneering initiatives to boost natural gas demand in the country.

Trend of natural gas consumption in India (in MMSCM)



[Source: PPAC]

City Gas Distribution Sector in India

City Gas Distribution (CGD) refers to the transportation or distribution of natural gas to consumers in domestic, commercial or industrial and transport sectors through a network of pipelines. This business has attracted several companies to lay a network of gas pipelines over the last decade. The sector has been witnessing growth over the past years with the expansion CGD network in various parts of the country.

City gas distribution networks are being expanded with coverage of around 70% population and 50% area of the

country till 10th round of bidding by PNGRB with massive investment plans. In order to promote the development of CGD network, the Government has accorded priority in domestic gas allocation to PNG (Domestic) and CNG (Transport) segments. The government has also taken up initiatives for the expansion of the city gas networks, by opening 'Make in India' market for ancillary equipment needed for piped natural

gas to households and refuelling CNG vehicles. The expansion of CNG and PNG services will also create huge employment opportunities in this sector.

Additionally, the PNGRB has proposed 44 new geographical areas for the upcoming 11th round of bidding for city gas distribution (CGD). The aim is to make environment friendly fuel i.e. CNG/PNG available to public at large.

City Gas Distribution - Coverage of population of India and its Area

CGD Authorizations	Geographical Areas (GAs)		% Population of India		%Area of India	
	Standalone	Cumulative	Standalone	Cumulative	Standalone	Cumulative
Pre-PNGRB	30	30	9.28	9.28	2.95	2.95
Round 1 (Oct '08)	6	36	0.33	9.61	0.03	2.98
Round 2 (Feb '09)	3	39	0.23	9.84	0.03	3.01
Round 3 (Jul '10)	6	45	0.77	10.61	1.21	4.22
Round 4 (Sept '13)	9	54	2.27	12.88	1.29	5.51
Round 5 (Jan '15)	8	62	2.04	14.92	1.82	7.33
Round 6 (Oct '15)	17	79	2.07	16.99	2.02	9.35
Round 7 (Jun '16)	1	80	0.36	17.35	0.46	9.81
Round 8 (Nov '16)	6	86	0.94	18.29	0.57	10.38
Sec. 42 (Mar '18)	6	92	1.57	19.86	0.61	10.99
Round 9 (Apr '18)	86	178	26.38	46.24	23.82	34.81
Round 10 (Nov '18)	50	228	24.23	70.47	17.92	52.73

[Source: Petroleum and Natural Gas Regulatory Board]

Government Enablers

- Model CGD policy launched by the MoPNG.
- Public Utility Status granted to CGD Projects by Ministry of Labour and Employment.
- Ministry of Defence has issued guidelines for use of PNG in its residential areas/unit lines

Performance Analysis

Financial Performance

IGL witnessed the following financial growth on standalone basis during the year under review:

- Gross turnover increased from Rs. 6336.66 Crores in 2018-19 to Rs. 7131.29 Crores in 2019-20.
- Profit after tax (PAT) increased to Rs. 1136.54 Crores in 2019-20 from Rs. 786.67 Crores in 2018-19.
- Earnings per share of the Company showed a growth rate of 44% from Rs. 11.24 in FY 2018-19 to Rs. 16.24 in FY 2019-20.
- Net worth of the Company as at 31st March 2020 was Rs. 5062.36 Crores as compared to Rs. 4129.85 Crores as at 31st March 2019.
- As on 31st March 2020, IGL is a zero debt Company.

Ratio Analysis

S. No.	Particulars	For the Year 31 March 2020	For the Year 31 March 2019
1.	Debtors Turnover Ratio	32.92	25.65
2.	Inventory Turnover Ratio	1077.24	992.31
3.	Current Ratio	1.39	1.46
4.	Operating Profit Margin %	19.52%	18.36%
5.	Net Profit Margin %	17.62%	13.71%
6.	Return on Net Worth %	22.45%	19.05%

Segment Wise Performance

The Company has its presence in following segments:

Compressed Natural Gas (CNG) - IGL's majority portion of the revenue accrues from sales of CNG amounting to Rs.5426.40 Crores in FY 2019-20, showing a growth rate of 13.97 % over previous year. The Company has 555 stations through which it provided gas to 11.45 lakh vehicles, with an average sale of 33.67 lakh kg per day in 2019-20.

Piped Natural Gas (PNG) - The total sales of PNG grew by 8.21% to Rs. 1704.89 Crores in FY 2019-20 from Rs. 1575.57 Crores in FY 2018-19. Sales volume of PNG increased from



552.52 mmscm in previous year to 619.05 mmscm in FY 2019-20, registering a growth rate of 12.04%. IGL provided 2.72 lacs new PNG connections during FY 2019-20. As on March 31, 2020, total PNG connections were provided to 13.74 Lakh households and 5578 Commercial & Industrial consumers. The Company's pipeline infrastructure expanded from 13,028 kms in FY 2018-19 to 14,605 kms in FY 2019-20.

Opportunities

The growth momentum of sales is likely to continue in the coming years.

- **Expansion in new geographical areas** – After the 9th and 10th round of bidding, the Company has spread its operations in the number of 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.
- **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.
- **Benefits of cost** – The conversion of vehicles to CNG mode is likely to increase as CNG is economical when compared to other liquid fossil fuels such as petrol/diesel.
- **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.

Threats, Risk & Concerns and Mitigations

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.

Regulatory Regime - The City Gas Distribution is under a regulatory regime wherein the Regulatory Board (PNGRB) has framed various regulations, which have ramifications on a day to day business, operations of the CGD entity. Any changes in the regulations may have an adverse impact on the Company. With regard to Marketing Exclusivity, IGL has challenged Regulations 5 and 6 of the PNGRB Exclusivity Regulations in the Hon'ble High Court of Delhi and the matter is under sub-judice.

Your Company has already established the CGD infrastructure across all parts of NCT of Delhi. This would be a major challenge for any new entrant in the prevailing scenario.

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.

However, considering the thrust of the government for promoting eco-friendly fuel and firm allocation of gas for transport and PNG domestic segments, it is expected that the Company would continue to get assured supply of gas at an affordable price.

Competition from Alternative Fuels - The customers of the Company also have an alternative to move towards other fuels if there is a cost advantage. Such scenario is likely to impact the Company's operations.

CNG constitutes around 75% of the total sales volume of the Company and is very much competitive compared to alternate fuels i.e. petrol and diesel.

Macro-economic scenario - The dynamic macro-economic scenario can have an impact on the growth plan of the Company.

However, the Company has a strong financial position and credit rating which will help the Company to mitigate this risk. Healthy profitability, strong cash flow from operations, zero debt, and comfortable working capital position helps the Company to maintain its financial position.

Pandemic Covid-19 has made an impact on the overall sales volume of the Company. However, with the ease down of lockdown conditions, the sales volume are gradually increasing and expected to return at its normal level in the coming months.

Fire & Safety Risk - The Company is in the gas distribution business and fire & safety is a major concern.

The Company gives utmost priority to this area and has established robust system & procedures which has helped it to record 184 million accident-free man-hours as on March 31, 2020.

Internal Control

The Company has adequate internal control procedures commensurate with the size and nature of its business.

During the FY 2019-20, M/s Ernst & Young, Chartered Accountants and in-house audit team carried out internal audits and the internal audit reports prepared by them were placed before the Audit Committee.

Human Resource

Human Resource plays a vital and strategic role and has contributed its best to bring the Company to its present heights. The HR practices were in line with the Organization and emphasis on HR Vision of building a team of competent, committed and dedicated professionals for providing quality services to the clients and make a valuable contribution in the development of the country.

The success of IGL depends on the high level of skills and professionalism of employees. The company appreciates the role of its human capital in propelling the Company to new heights. As on March 31, 2020, IGL's employee strength stands at 703 employees.

Environmental consciousness

Natural gas is an environment-friendly fuel and emerging as a fuel for the future. There is an endeavour on part of the

government to increase its share in the total energy basket of the country. The Company is making continuous efforts to promote its wider use among all categories of prospective customers. To ensure this, awareness is spread among all the users regarding the economic and environmental advantages of natural gas when compared to other fuels. The Company is promoting usage of natural gas as a fuel to reduce pollution in Delhi and its adjoining areas.

Cautionary statement

The Statement in this Management Discussion and Analysis Report describing the Company's objectives, projections, estimates, expectations or predictions may be 'forward-looking statements' within the meaning of applicable laws and regulations. Actual results might differ substantially or materially from those expressed or implied. Important developments that could affect the Company's operations include demand-supply conditions, changes in government and international regulations, tax regimes, economic developments within and outside India and other factors such as litigation and labour relations.