OIL & GAS

26 November 2024

Listed CGD players need to re-establish growth contours

- **Surprise cut in APM allocation in the absence of preparedness lowers CNG competitiveness and puts pressure on margins and growth**
- **Retail fuel price cut and introduction of competition are key headwinds, whereas change in tax structure and LNG pullback are key tailwinds**
- **Retain HOLD on MAHGL and IGL, with lower TPs of Rs 1,350 and Rs 310. Prioritising growth could help the sector weather this downturn**

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Implication of APM gas allocation cut: (1) We estimate a cost increase of Rs 5.5-7.0/kg for CNG assuming substitution by NWG and HPHT gas in a 50:50 ratio. Interim cost is likely to be higher until HPHT volume increase contracts by Jan-Feb. (2) Loss of competitiveness to diesel with single-digit differential to diesel in Maharashtra, Uttar Pradesh/Haryana. While this deters retro fitment, the preference for CNG in new LCVs may continue with the OEM push and discount subject to net savings on CNG. (3) CNG is to remain competitive vs petrol with mileage advantage but price hikes need to stay calibrated to maintain consumer sentiment and momentum in vehicle additions. (4) Margin normalisation is likely as long as growth is prioritised. (5) Possibility of growth slowdown also exists.

Shifting to conservative assumptions: We lower average EBITDA margin assumptions to Rs 8.4/scm (from Rs 9.6-9.7) for MAHGL and Rs 5.5/scm (from Rs 6.5) for IGL. Recognising challenges in penetrating the diesel-based user base, we lower FY24-33E volume growth CAGR over the semi-explicit period to 6.1% (from 6.4%) for MAHGL and to 6.5% (from 7%) for IGL.

Maintain HOLDs: We lower TPs for MAHGL to Rs 1,350 from Rs 1,610 and for IGL to Rs 310 from Rs 455, factoring in our revised estimates while rolling forward to Nov'25 (from Sep'25). We maintain HOLD on both given 14.8% upside on MHAGL and 3.1% downside on IGL.

High sensitivity to growth and margin: EBITDA margin rising by Rs 0.5/scm over FY26-33E could add ~6.5% to our TPs of MAHGL/IGL. Similarly, 0.5% higher volume growth CAGR over FY24-33E could add 6%/ 3% to our MHAGL/IGL TPs.

Headwinds: (a) the possibility of retail auto fuel price cuts, (b) slowdown in vehicle sales, (c) introduction of competition with implementation of end of exclusivity.

Catalysts: (a) Any favourable change in tax structure (excise duty cut, inclusion in GST) restoring competitiveness, (b) pullback in LNG prices lowering costs for the sector, (c) traction in new segments – LNG for long-haul transport, CNG bikes.

Recommendation snapshot

Ticker	Price	Target	Rating
IGL IN	320	310	HOLD
MAHGL IN	1,176	1,350	HOLD

Price & Target in Rupees | Price as of 26 Nov 2024

APM gas allocation cut

Two rounds of cuts

The implementation of an incentive scheme to encourage investments in legacy fields for ONGC has effectively reduced the availability of Administered Pricing Mechanism (APM) gas for the City Gas Distribution (CGD) sector.

- **Incentive for legacy upstream fields:** Under the incentive scheme, ONGC is allowed a 20% premium on the APM price (effective price at 12% of Indian crude basket) for gas from new wells/ intervention (NWG gas) in legacy fields subject to ONGC offsetting the underlying 7.5% decline in legacy fields. The scheme was implemented with the base line of 1 Apr 2023.
- **APM allocation reduced twice:** GAIL informed the CGD sector about the lower allocation of APM Gas vide its letter dated 16 Oct after ONGC approached for classifying about 4mmscmd of NWG. 50% of NWG has been allocated to OPAL (till cap of 3.2mmscmd) as agreed with the government. Subsequently, on 16 Nov, GAIL further lowered the allocation of APM gas to the CGD industry. We understand that 6mmscmd of gas has now been reclassified as NWG and 50% of the same, ie, 3mmscmd has been allocated to OPAL.
- **Sharp cut in APM allocation for CNG segment:** With these two rounds of revisions in APM gas allocation, the effective allocation has been reduced to 35-40% of CNG requirement from 70% earlier. APM gas allocation for the household sector remains at 105% of requirement.

Impact on gas costs

Cost impact to be material even after CGD companies sort out contracts

Even in the medium term, CGD companies are likely to face US$ 1-1.2/MMBtu increase in gas cost for the CNG segment even if we assume substitution by New Well Gas and HPHT (High-Pressure and High-Temperature) gas at a 50:50 ratio. This itself would increase the cost of gas procurement by Rs 4-5/scm or Rs 5.5-7/kg of CNG. Here the implicit assumption is that CGD companies are allocated NWG in the same proportion as their requirements (or lost APM gas allocation) and they are successful in replacing the entire shortfall as HPHT gas contracts come up for bidding during Jan-Feb'25.

Interim cost impact is likely to be even higher

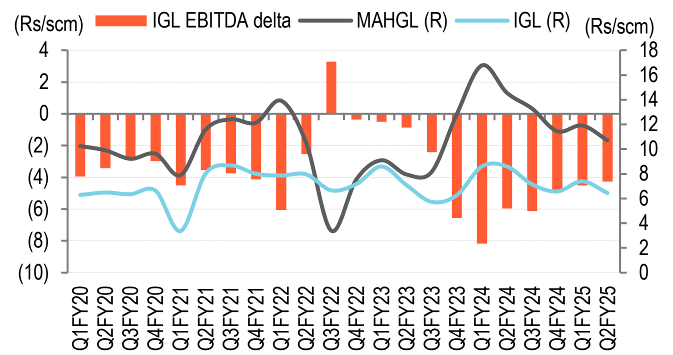
A CGD company may need to use RLNG in the interim till it ties up additional HPHT volumes, which could translate to higher cost of gas. From our discussion with industry stakeholders, we believe that both IGL and MAHGL have received less than 50% of the industry's NWG allocation. The companies may not have registered for higher demand for NWG in Sep'24 while they were unaware about the upcoming cut in APM allocation.

We believe the impact on IGL is likely to be higher than MAHGL as per the initial discission on the Q2 call. Even with the first cut in APM gas, IGL estimated a near-term cost increase of Rs 5/kg in Delhi and Rs 5.5-6/kg outside Delhi. During the second cut, the APM allocation was further cut by 20% as per IGL. The higher impact is likely a result of higher CNG exposure as well as probably lower flexibility on contracts. Within the priority sector, CNG accounts for 87-88% of volumes. With a high CNG volume base of 6.8mmscmd, IGL needs to arrange for close to 2.5mmcsmd of volume to bridge the shortfall.

IGL at a disadvantage to MAHGL

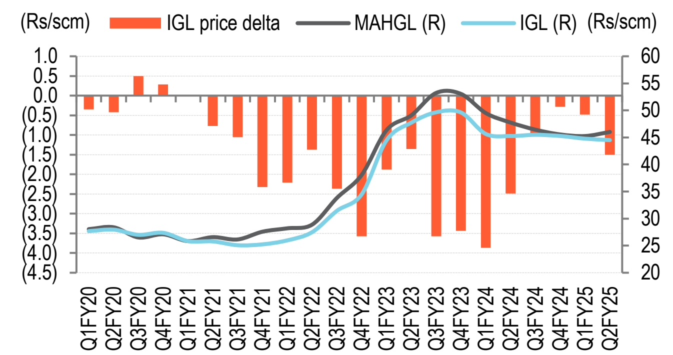
IGL has been facing Rs 4-6/scm of higher gas cost than MAHGL for the past couple of years. We attribute the disadvantage to (i) distance to source of gas, and (ii) possibly lower flexibility on LNG contracts. The implementation of Unified Transportation Tariff increased the differential between Zone 1 and Zone 3 tariffs.

Fig 1 – IGL at a Rs 4-6/scm disadvantage to MAHGL on EBITDA margins of past two years



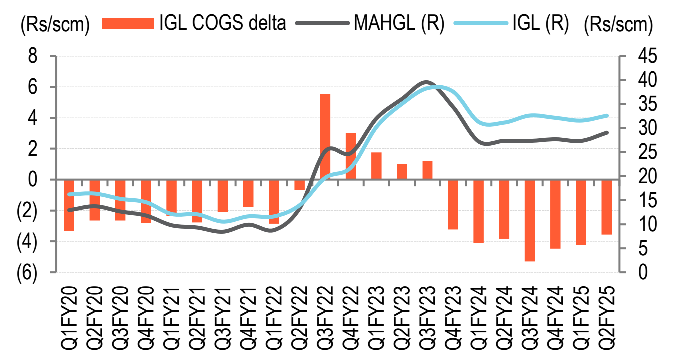
Source: Company, BOBCAPS Research

Fig 2 – IGL's realisations are broadly similar to MAHGL's



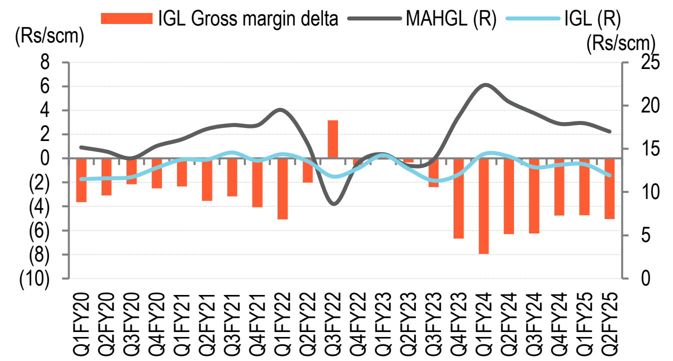
Source: Company, BOBCAPS Research

Fig 3 – IGL's main disadvantage is higher cost of gas…



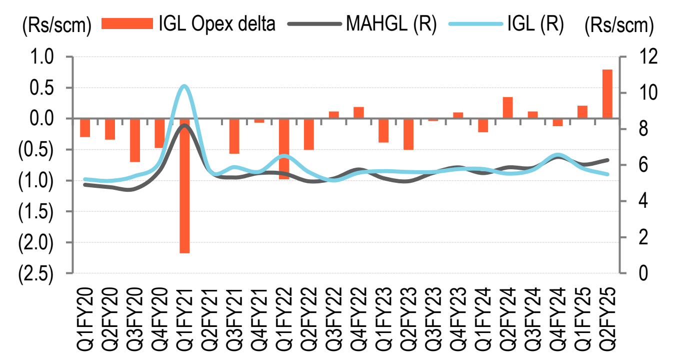
Source: Company, BOBCAPS Research

Fig 4 – … resulting in lower gas spread



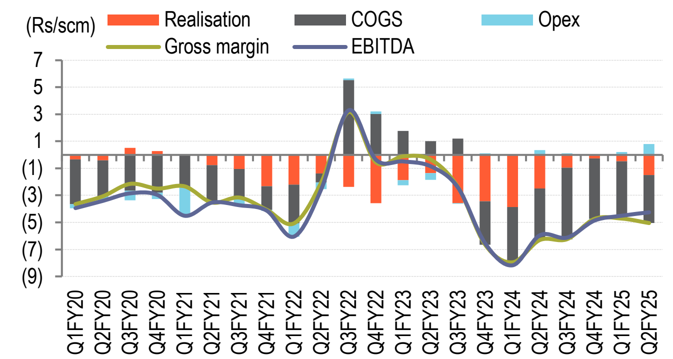
Source: Company, BOBCAPS Research

Fig 5 – IGL's opex has been broadly similar to MAHGL's



Source: Company, BOBCAPS Research

Fig 6 – IGL: High gas cost a significant driver of lower EBITDA margin



Source: Company, BOBCAPS Research

Full pass through of costs may not be possible

Need for price increase

We believe MAHGL and IGL will need to raise CNG prices to protect their margins due to a sharp cost increase of Rs 4-5/scm in the CNG segment, which accounts for nearly three-fourths of MAHGL and IGL's volumes. The need for a price increase is higher for IGL as its EBITDA margin has been ~Rs 4/scm lower than MAHGL over the past two years.

CNG to remain competitive vis-à-vis petrol

CNG is likely to remain competitive vis-à-vis petrol with fuel savings of upwards of 35% even after the pass through of the entire cost increase as well as any potential reduction in petrol prices.

With a pullback in crude prices as well as petrol crack spread, we believe OMCs (Oil Marketing Companies) are currently earning retail margins of more than Rs 10/l on petrol, much higher than their need of Rs 3.5/l to earn reasonable returns, and hence we analyse scenarios of cut in petrol price up to Rs 7.5/l from current prices.

Fig 7 – Fuel savings on CNG car vs petrol car under different scenarios

Region (petrol car mileage, CNG car mileage assumptions)		Reduction in petrol prices			
	CNG prices	0.0	(3)	(5.0)	(7.5)
Mumbai (18km/l petrol car, 26km/kg CNG car)	Rs 80/kg	46	45	44	42
Mumbai (14km/l petrol car, 22km/kg CNG car)	Rs 80/kg	51	49	48	47
NCT Delhi (18km/l petrol car, 26km/kg CNG car)	Rs 80/kg	41	40	38	36
NCT Delhi (14km/l petrol car, 22km/kg CNG car)	Rs 80/kg	46	44	43	42

Source: BOBCAPS Research

However, price increase needs to remain calibrated to ensure that it does not impact consumer sentiment and momentum in additions of new CNG cars. Accordingly, both MAHGL and IGL have raised CNG prices by Rs 2/kg across most of their geographical areas (GAs) in the first round. IGL has not yet raised it in New Delhi ahead of election.

CNG to lose competitiveness to diesel

In contrast, competitiveness against diesel will be significantly impacted by price increase. With the recent Rs 2/kg hike by both MHAGL and IGL (outside Delhi), the price advantage for CNG has reduced to 10% in the GAs of MAHGL and to just 1-2% for IGL in Uttar Pradesh and Haryana. The differential has dropped below the empirical 15-25% band, within which owners were opting for CNG vehicles instead of diesel.

In case of pass through of Rs 5/kg of costs to CNG consumers, the differential will further reduce to 6% in MAHGL's GAs, and turn negative in Uttar Pradesh and Haryana. Further, there is a risk of diesel price cut with current retail margins of upwards of Rs 7/l with the crude price hovering around US$ 75/bbl.

Fig 8 – CNG differential to diesel to narrow significantly

	CNG	Diesel	Current differential		Differential after total Rs 5/kg hike in CNG price	
	Rs/scm	Rs/l	Rs/l	%	Rs/l	%
IGL geographic areas						
New Delhi	75.1	87.7	8.6	10	4.9	6
Uttar Pradesh (Noida)	81.7	88.0	1.5	2	(1.3)	(2)
Haryana	82.1	88.2	1.2	1	(1.6)	(2)
MGL geographic areas						
Mumbai (GA1, GA2 and GA3)	77.0	90.0	8.9	10	6.8	8

Source: Company, BOBCAPS Research

Preference for new CNG light commercial vehicles may continue

While the reduced differential between CNG and diesel reduced the attractiveness of retro fitments, there is a possibility that the preference for CNG vehicles may continue in the light commercial vehicles (LCV) category as long as CNG prices allow users some savings. OEMs have been offering upfront discounts in the form of free CNG, which allows savings over equivalent diesel vehicles. Also, OEMs may continue to push CNG LCVs over diesel LCVs as they have stopped expanding capacity of diesel-based light commercial vehicles.

Both MAHGL and IGL recently increased efforts to pursue commercial vehicles.

- **MAHGL:** To promote CNG vehicles, MAHGL launched the second edition of CNG Mahotsav from 1 Oct offering incentives of Rs 180k for 3.5t-10t vehicles, Rs 315k for 10t-15t vehicles, Rs 450k for vehicles above 15t, and Rs 270k for buses. The incentive is offered through both channels – OEMs (Original Equipment Manufacturers) and leading distributors of CNG kits. For retro fitment, MAHGL is particularly targeting vehicles which can extend commercial life beyond eight years with the CNG kit.
- **IGL:** The company has been engaging with stakeholders to develop CNG usage in commercial vehicles, dumpers, long-haul state buses with type-4 cylinders.

Change in tax structure can improve competitiveness, but uncertain

While industry is discussing several approaches with the government, including reduction of excise duty to lower the impact of the allocation cut, there is no certainty about its implementation.

India aims to improve the usage of natural gas from 6% in the energy basket to 15% by 2030 and has been targeting increased consumption in the CGD sector. To support this, the government has developed a good investment plan by allocating India wide geographic areas to different operators. We believe the government may consider further support for CNG to maintain competitiveness against liquid fuels should this be a problem for the entire sector. Substitution of diesel by CNG has a significant potential to accelerate transition towards natural gas as diesel accounts for nearly 50% of oil products consumption. Hence, supporting CNG competitiveness against diesel is important from a policy perspective.

- **Excise duty:** Currently excise duty at 14% accounts for close to Rs 9/kg within the CNG cost structure. Any adjustment to excise duty rate could help offset part of the cost increase. However, the decision on excise duty will look at more broader variables and not only on the sector. So it is difficult to make an assumption on the same before it is formally announced by the government.
- **Inclusion in GST:** Inclusion of natural gas in GST could lower costs for commercial users or businesses and in turn improve its competitiveness against liquid fuels. As an example, while Maharashtra currently levies VAT of 3%, Uttar Pradesh levies 12.5%. However, this has been discussed for a long time and again it is difficult to predict what will be announced.

Investment outlook

Reasons for neutral outlook on CGD sector

While we see merit in a policy tweak by way of changes in tax structure (lower excise rate, inclusion in GST), we await clarity on the same. While there is a possibility that CNG may still get preference among new LCVs, the reduced differential will weigh on additions. We will be watching CNG vehicle additions across different categories to understand future growth prospects. While LNG in long-haul transport and CNG bikes are new opportunities, they are still at very early stages of development and their contribution to overall growth needs to be understood further as they evolve.

Positive catalysts

- **Changes in tax structure:** Improvement in the competitive position of CNG, with cut in excise duty or inclusion of natural gas under GST, could help restore both margin and growth profile.
- **Pullback in LNG prices:** Pullback in spot LNG prices below HPHT prices could be positive for the sector as it could help lower costs for the priority as well as industrial segments. Contract LNG price with Brent Linkages are already trending below HPHT prices. This scenario could also emerge for spot LNG over the next one to two years as global LNG wave adds capacity and turns global market into surplus.
- **Growth from new segments:** The CGD segment has started working on two new segments – LNG for long-haul transport and CNG bikes. While both these segments are new at this stage, any success could again help improve the sector's growth profile. Also, LNG for the long-haul segment does not have any geographic area limitation and could provide players opportunities for free competition.

Negative catalysts

- **Cut in retail fuel prices:** While CNG is likely to remain competitive vis-à-vis petrol owing to significant difference in mileage between the two, any cut in petrol prices could be negative for consumer sentiment while CNG prices go up. This has a potential to slow down momentum for CNG vehicle additions.
- **Introduction of competition:** The Central government is showing considerable interest in ushering in competition in the CGD segment by removing marketing and

infrastructure exclusivity as per timelines specified in regulations. However, the CGD segment is countering uniform timelines across the GAs and is asking for the same to be tied to the potential and economics of the GAs. While the matter is sub-judice at this stage, PNGRB (Petroleum and Natural Gas Regulatory Board) has commenced the consultation process with the sector under the guidance of the Delhi High Court. While competition may not necessarily be negative for the sector in the medium to long term, the near-term impact could involve the shifting of some of the easy pockets of bulk demand. Incumbent players have an advantage and can work towards retaining volumes but may face lower margins.

Forecast changes

Shifting to conservative margin outlook given uncertainty

While the CGD companies have an option to focus only on competitiveness against petrol to retain its higher margins, we believe a sharp rise could possibly impact consumer sentiment and even growth of petrol/CNG vehicles. A sharp rise could also affect existing CNG commercial vehicles by lowering their competitiveness against their diesel competitors. As this stage, we believe the CGD sector should prioritise volume growth while keeping margins in a healthy range. Accordingly, we lower margins for both MAHGL and IGL.

- **MAHGL:** We lower FY26E/FY27E EBITDA margin to Rs 8.4/scm (from Rs 9.6-9.7/scm) and we also assume margin to remain at similar levels for our semi-explicit forecasts up to FY33. Our margin assumption is lower than Rs 10.6/scm over FY20-24 and Rs 9.5/scm over FY17-24. We build in more conservative margin assumptions than the historical averages as we believe at this juncture the company needs to prioritise growth and work towards improving competitiveness of CNG for commercial vehicles.
- **IGL:** We lower FY26E/FY27E EBITDA margin to Rs ~5.5/scm (from Rs 6/scm) and we also assume margin to remain at similar levels for our semi-explicit forecasts up to FY33. Our margin assumption is lower than Rs 7.2/scm over FY20-24 and Rs 6.7/scm over FY17-24.

For the interim period H2FY25, we use lower margin assumptions as both companies need to use a mix of contractual LNG (residual from existing contracts) and spot LNG to bridge the shortfall. HPHT contracts for Jan-Feb'25 are likely to be available for bidding.

Lowering growth assumptions for semi-explicit period

While we are tweaking our near-term growth assumptions, we lower growth assumptions over the semi-explicit forecast period under our DCF approach to reflect reduced competitiveness against diesel over the next two to three years. At this juncture, we are not assuming any changes to taxation structure.

- **MAHGL:** We lower FY26E/ FY27E volume growth to 7.2%/ 6.1% (from 7.4%/6.6%) factoring in reduced competitiveness against diesel. Also, we lower FY24-33E growth CAGR to 6.1% (from 6.4%) and to 7.4% (from 7.9%) for consolidated operations including UEPL.
- **IGL:** We lower FY26E/FY27E volume growth to 7.0%/ 7.0% (from 7.1%/ 7.2%) factoring in reduced competitiveness against diesel. We lower FY24-33E growth CAGR to 6.5% (from 7.5%).

Revised estimates

MAHGL

We cut our FY25E-27E EBITDA forecasts by 10-14%, factoring in higher gas purchase cost in the second round of de-allocation of APM gas for the CNG segment.

We expect EBITDA to decline from Rs 18.4bn in FY24 to Rs 13.7bn in FY25 and to Rs 13.2bn in FY26E with the normalisation of the EBITDA margin. Our EBITDA margin assumption is conservative as it prioritises volume over margin strategy.

Fig 9 – Revised estimates

(Rs mn)	Actuals	New			Old			Change (%)		
	FY24	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	62,445	66,639	71,707	77,968	67,644	73,504	79,933	(1.5)	(2.4)	(2.5)
EBITDA	**18,426**	**13,703**	**13,242**	**13,860**	**15,283**	**15,339**	**16,162**	**(10.3)**	**(13.7)**	**(14.2)**
EBITDA growth (% YoY)	55.6	(25.6)	(3.4)	4.7	(17.1)	0.4	5.4	-	-	-
Net income	12,891	9,011	8,443	8,608	10,216	10,094	10,474	(11.8)	(16.4)	(17.8)

Source: Company, BOBCAPS Research

Fig 10 – Key business drivers and assumptions

	FY24A	FY25E	FY26E	FY27E	FY24-27E CAGR (%)
Volumes (mmscmd)					
CNG	2.6	2.9	3.05	3.2	-
D-PNG	0.5	0.6	0.60	0.6	-
I+C	0.5	0.6	0.66	0.7	-
Total	**3.6**	**4.02**	**4.31**	**4.6**	**-**
Volume growth (%)					
CNG	17.8	10.5	6.6	5.8	7.6
D-PNG	4.5	7.5	6.9	8.0	7.5
I+C	6.0	19.5	10.3	6.0	11.8
Total	**14.1**	**11.3**	**7.2**	**6.1**	**8.2**
Volume mix (%)					
CNG	71.8	71.3	70.9	70.6	-
D-PNG	14.4	13.9	13.9	14.1	-
I+C	13.8	14.8	15.3	15.2	-
Total	**100.0**	**100.0**	**100.0**	**100.0**	**-**
Profitability indicator (Rs/scm)					
Revenue	47.3	45.4	45.6	46.7	-
Gross spread	19.9	15.6	15.0	15.2	-
EBITDA	**13.9**	**9.3**	**8.4**	**8.3**	**-**
PAT	9.8	6.1	5.4	5.2	-
ROE	27.8	16.6	14.2	13.3	-
Key assumptions					
USD/INR exchange rate	82.8	83.8	84.0	84.0	-
APM gas price (US$/MMBtu)	6.5	6.5	6.8	7.0	-
Gas price ceiling (US$/MMBtu)	11.0	10.1	9.6	9.6	-
LNG contract price (US$/MMBtu)	13.1	11.6	11.4	11.4	-
LNG spot price (US$/MMBtu)	15.2	13.2	10.5	10.4	-
Priority sector gas bucket (US$/MMBtu)	7.3	8.1	8.5	8.8	-
Industrials and commercials gas bucket (US$/MMBtu)	12.3	11.0	10.4	10.4	-

Source: Company, BOBCAPS Research | D-PNG: Domestic PNG segment, I+C: Industrial and Commercial segment

IGL

We cut our FY25/FY26/FY27 EBITDA estimates by 5-10% assuming lower EBITDA margin to continue incentivising growth. We believe that utility should prioritise growth delivery over margin. In case IGL chooses a less calibrated approach, it risks slowing volume growth and consequently EBITDA growth in future.

We build in a 22% YoY decrease in FY25E EBITDA with a sharp cut in margin expectations. Currently we expect growth to resume with an 5-6% EBITDA CAGR in line with growth in volumes.

Fig 11 – Revised estimates

(Rs mn)	Actuals	New			Old			Change (%)		
	FY24	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	1,40,000	1,48,995	1,58,916	1,75,102	1,48,766	1,56,330	1,73,332	0.2	1.7	1.0
EBITDA	**23,637**	**18,447**	**19,521**	**20,569**	**19,444**	**20,909**	**22,723**	**(5.1)**	**(6.6)**	**(9.5)**
EBITDA growth YoY	16.7	(22.0)	5.8	5.4	(17.7)	7.5	8.7	-	-	-
Net income incl affiliate	19,834	15,074	14,877	15,273	16,093	16,743	17,929	(6.3)	(11.1)	(14.8)

Source: Company, BOBCAPS Research

Fig 12 – Key business drivers and assumptions

Particulars	FY24	FY25E	FY26E	FY27E	FY24-27E CAGR (%)
Volumes (mmscmd)					
CNG	6.3	6.7	7.1	7.5	-
D-PNG	0.6	0.7	0.8	1.0	-
I+C	1.0	1.2	1.3	1.5	-
Natural gas	0.5	0.5	0.5	0.5	-
Total	**8.4**	**9.1**	**9.7**	**10.4**	**-**
Volume growth (%)					
CNG	3.8	6.2	5.8	5.7	5.9
D-PNG	15.2	17.1	15.0	15.0	15.7
I+C	3.0	17.5	11.6	11.4	13.5
Natural gas	(0.1)	0.3	0.0	0.0	0.1
Total	**4.2**	**8.1**	**7.0**	**7.0**	**7.3**
Volume mix (%)					
CNG	74.5	73.3	72.4	71.6	-
D-PNG	7.4	8.0	8.6	9.2	-
I+C	12.2	13.3	13.8	14.4	-
Natural gas	5.9	5.5	5.1	4.8	-
Total	**100.0**	**100.0**	**100.0**	**100.0**	**-**
Profitability indicator (Rs/scm)					
Revenue	45.4	44.8	44.7	46.0	-
Gross spread	13.6	11.6	11.6	11.7	-
Opex	5.6	5.7	5.9	6.0	
EBITDA	7.7	5.5	5.5	5.4	-
PAT	5.7	3.5	3.3	3.2	-
ROE	22.4	13.1	12.2	11.5	-
Key assumptions					
USDINR exchange rate	82.8	83.8	84.0	84.0	-
APM gas price (US$/MMBtu)	6.5	6.5	6.8	7.0	-
Gas price ceiling (US$/MMBtu)	11.0	10.1	9.6	9.6	-
LNG contract price (US$/MMBtu)	15.6	11.6	11.4	11.4	-
LNG spot price (US$/MMBtu)	16.7	13.2	10.5	10.4	-
Priority sector gas bucket (US$/MMBtu)	7.5	8.2	8.5	8.9	-
Industrials and commercials gas bucket (US$/MMBtu)	15.2	11.6	11.0	11.0	-

Source: Company, BOBCAPS Research

Comparison with consensus

Relative to Bloomberg consensus, our FY25E/FY26E EBITDA forecasts are 20%-22% lower for MAHGL and 25-26% for IGL. While we have factored in our conservative lower margin assumptions into our forecasts, we believe the same has not yet been factored in by Bloomberg consensus.

Fig 13 – MAHGL: Comparison with consensus

(Rs mn)	Forecasts			Consensus			Delta to consensus		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	66,639	71,707	77,968	66,909	71,648	76,952	(0.4)	0.1	1.3
EBITDA	**13,703**	**13,242**	**13,860**	**15,599**	**16,575**	**17,754**	**(12.2)**	**(20.1)**	**(21.9)**
EBITDA growth YoY (%)	(25.6)	(3.4)	4.7	(15.3)	6.3	7.1	-	-	-
Net income	9,011	8,443	8,608	10,710	11,328	12,031	(15.9)	(25.5)	(28.5)

Source: Bloomberg, BOBCAPS Research

Fig 14 – IGL: Comparison with consensus

(Rs bn)	Actuals	Forecasts			Consensus			Delta to consensus		
	FY24P	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	1,40,000	1,48,995	1,58,916	1,75,102	1,51,439	1,62,416	1,73,913	(1.6)	(2.2)	0.7
EBITDA	**23,637**	**18,447**	**19,521**	**20,569**	**23,528**	**26,384**	**27,624**	**(21.6)**	**(26.0)**	**(25.5)**
EBITDA growth (%)	16.7	(22.0)	5.8	5.4	(0.5)	43.0	41.5	-	-	-
Net income excl affiliates	16,424	11,720	11,789	12,039	-	-	-	-	-	-
Net income incl affiliates (consolidated)	19,834	15,074	14,877	15,273	-	-	-	-	-	-
Net income incl dividend from affiliates (standalone)	-	-	-	-	18,649	19,991	21,222	-	-	-

Source: Bloomberg, BOBCAPS Research

Sensitivity to growth and margin

Both MAHGL and IGL demonstrate a similar sensitivity at ~6.5% of fair value for Rs 0.5/scm change in EBITDA margin over the semi-explicit period FY26-33E. However, growth sensitivity differs between the two – while MHAGL's fair value changes by 6%, IGL's fair value changes by 3.2% for 0.5% higher CAGR in growth over FY24-33E. This could possibly be the function of lower margin and return ratios for IGL, in our view.

Fig 15 – Sensitivity of fair value to growth and margin

	MAHGL		IGL	
	Rs/share	% of fair value	Rs/share	% of fair value
Rs 0.5/scm higher EBITDA margin over FY26-33E	87	6.5	20	6.4
0.5% CAGR higher volume growth over FY24-33E	80	6.0	10	3.2

Source: BOBCAPS Research

Valuation

MAHGL: Reiterate HOLD, TP Rs 1,350

We cut MAHGL's TP to Rs 1,350 from Rs 1,610 as we incorporate our revised estimates. We have lowered the value of the three GAs acquired from UEPL (Unison Enviro) to Rs 64/sh. The GAs are (i) Ratnagiri, (ii) Latur and Osmanabad, and (iii) Chitradurga and Davanagere. Retain HOLD with a 14.8% upside.

Our TP implies an FY25E/FY26E P/E of 14.6x/15.7x after consolidating UEPL, higher than the five/ten-year mean one-year forward P/E of 11.7x/12.3x on Bloomberg consensus estimates. We believe MAHGL deserves a higher multiple than in the past as it looks set to deliver a higher volume CAGR of 8.2% for its existing operations over FY24-FY27 and potentially 7.4% including UEPL over FY24-33E. This is significantly higher than the 4% CAGR seen over FY19-FY24.

- **Core business:** Key assumptions for our DCF-based fair value are cost of equity of 11%, terminal growth of 2.5%, volume CAGR of ~6% and average EBITDA margin of Rs 8.4/scm (from Rs 9.5/scm) over our explicit and semi-explicit forecast period of FY25-FY33.
- **UEPL:** Key assumptions for our DCF-based net present fair value for the three acquired GAs are cost of equity of 11%, terminal growth of 2.5%, volume CAGR of 25% and average EBITDA margin of ~Rs 8/scm (Rs 9/scm) over our explicit and semi-explicit forecast period of FY25-FY33.

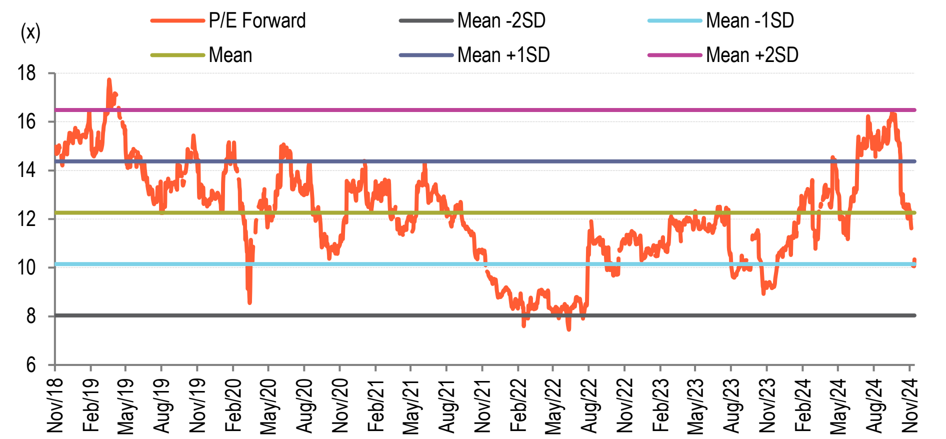
Fig 16 – DCF-based fair value

Valuation parameters	Value (Rs mn)
PV of FCF FY26E-33E	39,864
PV of terminal value	56,488
Enterprise value of MAHGL standalone	**96,351**
Less: Net Debt FY25E	(21,881)
Equity value of MAHGL standalone Mar'25	**1,18,232**
Equity value of acquired GAs Mar'25	5,843
Equity value of MAHGL Mar'25	**1,24,075**
NPV Mar'25 (Rs)	1,256
NPV Nov'25 (Rs)	1,348
Target price as on Nov'25 (Rs) (rounded off to nearest Rs 5)	**1,350**

Source: BOBCAPS Research

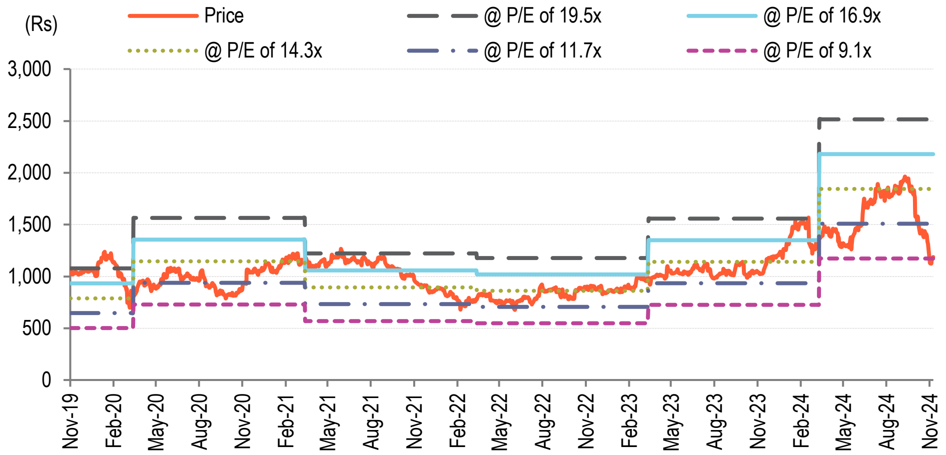
Over the past five years, MAHGL has traded at an average one-year forward P/E of 12.3x with a one standard deviation range of 10.1x-14.4x based on Bloomberg consensus.

Fig 17 – MAHGL has traded at an average 1Y forward P/E of 12.3x over past 10Y



Source: Bloomberg, BOBCAPS Research

Fig 18 – Trailing P/E of 14.3x over past 5Y



Source: Bloomberg, BOBCAPS Research

IGL: Maintain HOLD with a lower TP of Rs 310

We lower our DCF-based TP to Rs 310 (from Rs 455) with the cut in our estimates. As our TP implies 3.1% downside, we retain our rating on IGL at HOLD.

We lower our volume growth prospects for IGL recognising lower competitiveness vis-à-vis diesel. Though volume growth in Delhi is likely to slow due to an accelerated shift to electric vehicles, we believe that legacy GAs in Uttar Pradesh and newer GAs will help IGL continue to deliver relatively healthy growth over the next decade. In our view, CNG vehicles and electric vehicles (EVs) will co-exist in India over the medium term until battery technology and grid infrastructure mature. IGL's recent foray into long-haul LNG vehicles as well as new category of two-wheelers open new growth avenues.

Key assumptions for our DCF-based fair value are cost of equity of 11%, terminal growth of 2.5% (from 4%), volume CAGR of 6.5% (from 7%) and average EBITDA margin of Rs 5.5/scm (from Rs 6.5/scm) over our explicit and semi-explicit forecast period of FY25-FY33E.

Our DCF-based TP implies an FY26E P/E of 14.6x which compares with the stock's five-year mean P/E of 17.8x on Bloomberg consensus earnings. Lower growth is the result of the slowdown in growth prospects for IGL than in the past. This is lower than the implied target multiple for MAHGL (FY26E P/E of 15.7x) as we assume lower margin for IGL.

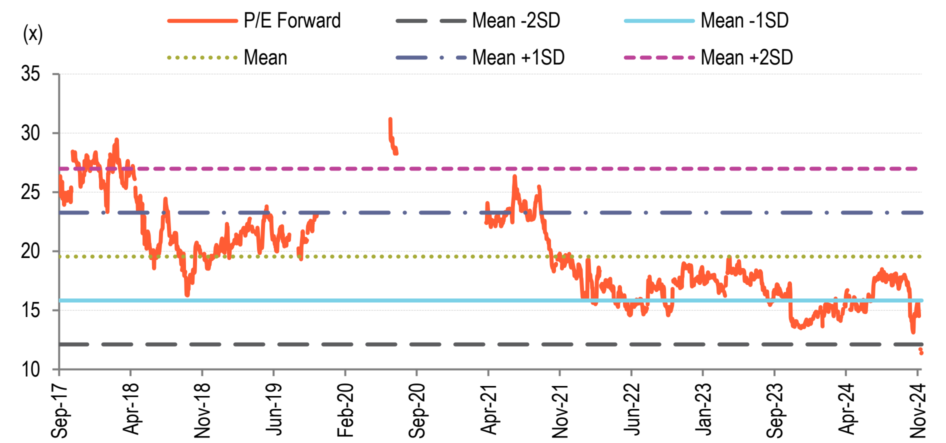
Fig 19 – DCF-based fair value

Valuation parameters	Value (Rs mn)
PV of FCF FY26E-FY33E	44,726
PV of terminal value	91,866
Enterprise Value	1,36,592
Less: Net Debt FY25E	(31,979)
Equity value	**1,68,571**
NPV – IGL share (Rs)	241
NPV – MNGL (Rs)	47
NPV – CUPGL (Rs)	2
Consolidated NPV Mar'25 (Rs)	**290**
Consolidated NPV Nov'25 (Rs)	**312**
Target price in rupees as on Nov'25 (rounded off to nearest Rs 5)	**310**

Source: BOBCAPS Research | MNGL: Maharashtra Natural Gas, CUPGL: Central UP Gas

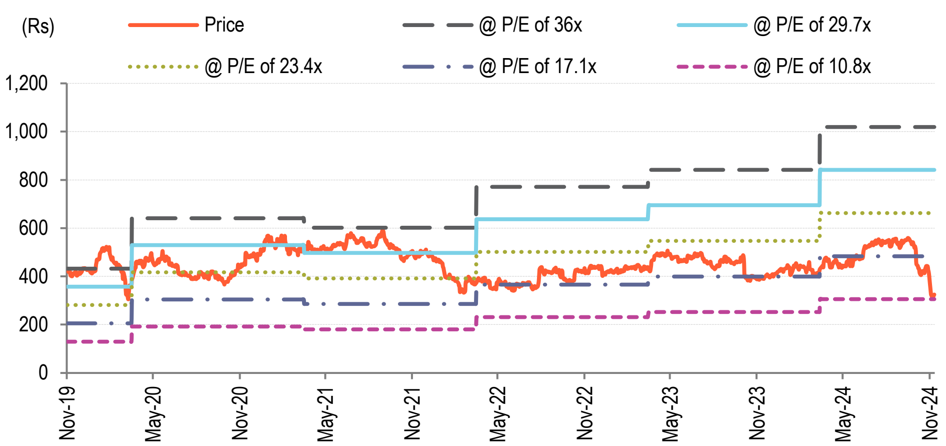
Over the past five years, IGL has traded at an average one-year forward P/E of 17.8x with a one standard deviation range of 14.7x-20.9x on Bloomberg consensus. Similarly, it has traded at an average TTM P/E of 23.4x with a one standard deviation range of 17.1-29.7x based on actual earnings.

Fig 20 – IGL has traded at an average 1Y fwd PE of 18.7x over past 10Y



Source: Bloomberg, BOBCAPS Research

Fig 21 – Trailing P/E of 23.4x over past 5Y



Source: Bloomberg, BOBCAPS Research

Common risks factors

Key upside risks to our estimates are:

- Higher-than-expected margins arising from not passing on the benefit of lower gas purchase costs to consumers, or lower competitive intensity with alternative fuels.
- Faster volume growth than our assumptions due to faster penetration into commercial vehicle, development of long-haul LNG segment, or development of new two-wheeler segment.
- Reduction in excise duty, enabling the company to earn higher margin and/or higher volume growth than our forecasts.

Key downside risks to our estimates are:

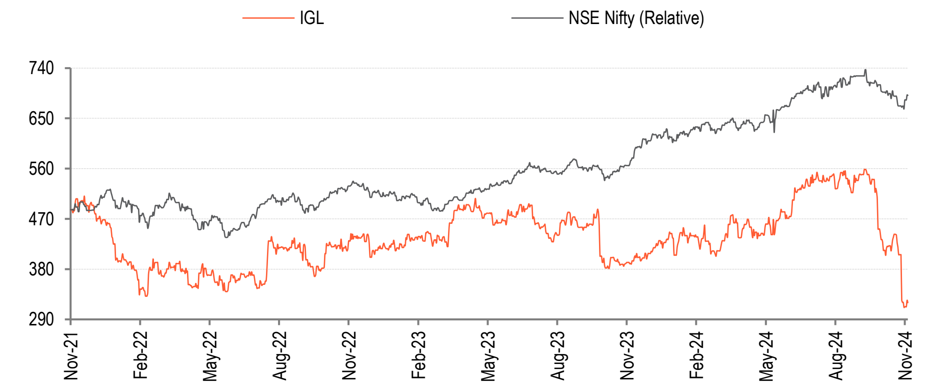
- Slower volume growth than our assumptions owing to faster-than-expected penetration of EVs.
- Lower-than-expected margins arising from an inability to pass on higher gas purchase costs to consumers, or increased competitive intensity with alternative fuels.
- Adverse PNGRB or government regulations that could impact our margin or volume outlook.
- Material reduction in taxation structure on petrol and diesel, which could lower competitiveness of CNG and result in lower margins for MAHGL.

Company-specific risks factors

- Adverse judgement on the Uran-Trombay pipeline tariff dispute, which carries a contingent liability of Rs 3.3bn for MAHGL.

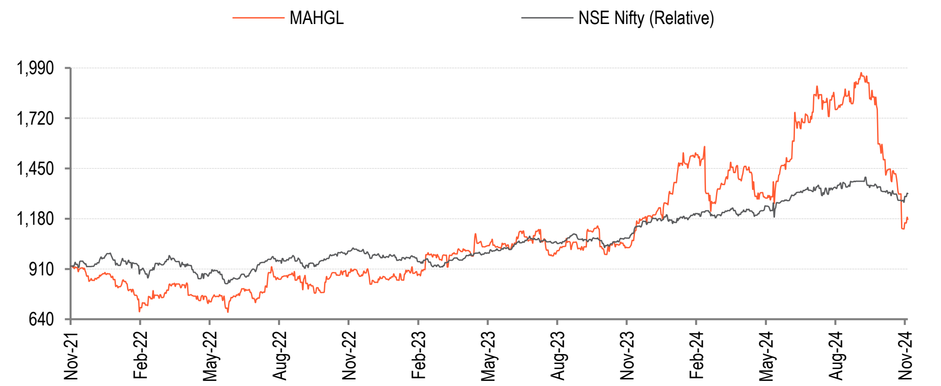
Stock performance

Fig 22 – IGL (Rs)



Source: NSE

Fig 23 – MAHGL (Rs)



Source: NSE

Financials – IGL

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	**141,326**	**140,000**	**148,995**	**158,916**	**175,102**
EBITDA	20,255	23,637	18,447	19,521	20,569
Depreciation	(3,634)	(4,140)	(4,719)	(5,365)	(5,776)
EBIT	16,621	19,497	13,728	14,156	14,793
Net interest inc./(exp.)	(106)	(92)	(100)	(100)	(100)
Other inc./(exp.)	2,172	2,610	2,040	1,705	1,402
Exceptional items	0	0	0	0	0
EBT	18,687	22,015	15,668	15,761	16,095
Income taxes	(4,827)	(5,591)	(3,948)	(3,972)	(4,056)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	2,536	3,410	3,354	3,088	3,234
Reported net profit	**16,397**	**19,834**	**15,074**	**14,877**	**15,273**
Adjustments	0	0	0	0	0
Adjusted net profit	**16,397**	**19,834**	**15,074**	**14,877**	**15,273**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	9,013	9,843	9,352	9,947	11,059
Other current liabilities	17,000	11,015	11,002	11,002	11,002
Provisions	5,438	6,324	6,324	6,324	6,324
Debt funds	0	0	0	0	0
Other liabilities	15,469	18,520	21,065	23,611	25,465
Equity capital	1,400	1,400	1,400	1,400	1,400
Reserves & surplus	77,912	95,098	105,777	116,528	127,587
Shareholders' fund	79,312	96,498	107,177	117,928	128,987
Total liab. and equities	**126,233**	**142,200**	**154,920**	**168,812**	**182,838**
Cash and cash eq.	21,322	21,555	24,049	28,048	33,331
Accounts receivables	9,034	10,186	10,840	11,561	12,739
Inventories	492	522	556	593	653
Other current assets	8,494	7,718	7,476	7,476	7,476
Investments	15,219	22,221	22,221	22,221	22,221
Net fixed assets	57,205	65,903	82,399	91,533	99,647
CWIP	14,337	13,964	7,250	7,250	6,640
Intangible assets	130	130	130	130	130
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	**126,233**	**142,199**	**154,920**	**168,812**	**182,837**

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	**18,420**	**19,291**	**19,349**	**20,920**	**21,376**
Capital expenditures	(10,973)	(12,008)	(14,500)	(14,500)	(13,280)
Change in investments	11,038	(7,002)	0	0	0
Other investing cash flows	2,172	2,610	2,040	1,705	1,402
Cash flow from investing	**2,237**	**(16,400)**	**(12,460)**	**(12,795)**	**(11,878)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(9,100)	(6,300)	(4,395)	(4,126)	(4,214)
Other financing cash flows	(3,852)	3,642	0	0	0
Cash flow from financing	**(12,952)**	**(2,658)**	**(4,395)**	**(4,126)**	**(4,214)**
Chg in cash & cash eq.	**7,705**	**234**	**2,494**	**3,999**	**5,284**
Closing cash & cash eq.	**21,322**	**21,555**	**24,049**	**28,048**	**33,331**

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	23.4	28.3	21.5	21.3	21.8
Adjusted EPS	23.4	28.3	21.5	21.3	21.8
Dividend per share	13.0	9.0	6.3	5.9	6.0
Book value per share	113.3	137.9	153.1	168.5	184.3

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	1.5	1.5	1.4	1.3	1.1
EV/EBITDA	10.4	8.7	11.0	10.3	9.6
Adjusted P/E	13.7	11.3	14.9	15.1	14.7
P/BV	2.8	2.3	2.1	1.9	1.7

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	87.7	90.1	96.2	94.4	94.9
Interest burden (PBT/EBIT)	112.4	112.9	114.1	111.3	108.8
EBIT margin (EBIT/Revenue)	11.8	13.9	9.2	8.9	8.4
Asset turnover (Rev./Avg TA)	119.1	104.3	100.3	98.2	99.6
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.5	1.4	1.4
Adjusted ROAE	21.1	22.6	14.8	13.2	12.4

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	83.3	(0.9)	6.4	6.7	10.2
EBITDA	7.7	16.7	(22.0)	5.8	5.4
Adjusted EPS	9.1	21.0	(24.0)	(1.3)	2.7
Profitability & Return ratios (%)					
EBITDA margin	14.3	16.9	12.4	12.3	11.7
EBIT margin	11.8	13.9	9.2	8.9	8.4
Adjusted profit margin	11.6	14.2	10.1	9.4	8.7
Adjusted ROAE	21.1	22.6	14.8	13.2	12.4
ROCE	15.9	16.5	10.1	9.4	9.0
Working capital days (days)					
Receivables	18	25	26	26	25
Inventory	2	2	2	2	2
Payables	25	30	27	25	25
Ratios (x)					
Gross asset turnover	2.1	1.8	1.5	1.4	1.4
Current ratio	1.3	1.5	1.6	1.7	1.9
Net interest coverage ratio	156.9	212.6	137.3	141.6	147.9
Adjusted debt/equity	(0.3)	(0.2)	(0.2)	(0.2)	(0.3)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Financials – MAHGL

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	**62,993**	**62,445**	**66,639**	**71,707**	**77,968**
EBITDA	11,842	18,426	13,703	13,242	13,860
Depreciation	(2,311)	(2,736)	(3,166)	(3,511)	(3,861)
EBIT	9,531	15,690	10,537	9,731	9,999
Net interest inc./(exp.)	(94)	(115)	(120)	(125)	(130)
Other inc./(exp.)	1,119	1,753	1,630	1,681	1,639
Exceptional items	0	0	0	0	0
EBT	10,555	17,328	12,047	11,287	11,509
Income taxes	(2,655)	(4,437)	(3,036)	(2,844)	(2,900)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**7,901**	**12,891**	**9,011**	**8,443**	**8,608**
Adjustments	0	0	0	0	0
Adjusted net profit	**7,901**	**12,891**	**9,011**	**8,443**	**8,608**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	3,222	3,342	3,600	3,960	4,327
Other current liabilities	11,370	12,896	15,508	16,327	17,025
Provisions	1,364	992	637	622	677
Debt funds	938	1,161	1,161	1,161	1,161
Other liabilities	2,086	2,441	2,622	2,791	2,963
Equity capital	988	988	988	988	988
Reserves & surplus	40,354	50,441	56,118	61,183	65,918
Shareholders' fund	41,342	51,429	57,106	62,171	66,906
Total liab. and equities	**60,323**	**72,260**	**80,633**	**87,032**	**93,060**
Cash and cash eq.	2,279	3,985	6,683	8,321	9,875
Accounts receivables	2,940	2,806	3,091	3,327	3,619
Inventories	338	398	455	489	532
Other current assets	3,497	4,540	4,540	4,540	4,540
Investments	13,098	16,360	16,360	16,360	16,360
Net fixed assets	30,206	35,360	38,767	42,157	45,527
CWIP	7,086	7,743	9,670	10,769	11,538
Intangible assets	51	70	70	70	70
Deferred tax assets, net	828	998	998	998	998
Other assets	0	0	0	0	0
Total assets	**60,323**	**72,260**	**80,633**	**87,032**	**93,060**

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	**8,488**	**14,489**	**12,902**	**11,335**	**11,788**
Capital expenditures	(7,279)	(8,510)	(8,500)	(8,000)	(8,000)
Change in investments	(2,215)	(3,261)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(9,495)**	**(11,772)**	**(8,500)**	**(8,000)**	**(8,000)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	114	223	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(2,568)	(2,963)	(3,334)	(3,377)	(3,874)
Other financing cash flows	1,091	1,742	1,630	1,681	1,639
Cash flow from financing	**(1,363)**	**(999)**	**(1,704)**	**(1,697)**	**(2,235)**
Chg in cash & cash eq.	**(2,370)**	**1,719**	**2,698**	**1,639**	**1,554**
Closing cash & cash eq.	**2,282**	**3,998**	**6,683**	**8,321**	**9,875**

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	80.0	130.5	91.2	85.5	87.1
Adjusted EPS	80.0	130.5	91.2	85.5	87.1
Dividend per share	26.0	30.0	33.8	34.2	39.2
Book value per share	418.5	520.6	578.1	629.4	677.3

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	1.8	1.8	1.7	1.6	1.4
EV/EBITDA	9.5	6.2	8.3	8.5	7.9
Adjusted P/E	14.7	9.0	12.9	13.8	13.5
P/BV	2.8	2.3	2.0	1.9	1.7

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.8	74.4	74.8	74.8	74.8
Interest burden (PBT/EBIT)	110.8	110.4	114.3	116.0	115.1
EBIT margin (EBIT/Revenue)	15.1	25.1	15.8	13.6	12.8
Asset turnover (Rev./Avg TA)	111.8	94.2	87.2	85.5	86.6
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.4	1.4	1.4
Adjusted ROAE	20.4	27.8	16.6	14.2	13.3

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	76.9	(0.9)	6.7	7.6	8.7
EBITDA	28.1	55.6	(25.6)	(3.4)	4.7
Adjusted EPS	32.3	63.2	(30.1)	(6.3)	2.0
Profitability & Return ratios (%)					
EBITDA margin	18.8	29.5	20.6	18.5	17.8
EBIT margin	15.1	25.1	15.8	13.6	12.8
Adjusted profit margin	12.5	20.6	13.5	11.8	11.0
Adjusted ROAE	20.4	27.8	16.6	14.2	13.3
ROCE	18.0	24.6	14.2	12.0	11.4
Working capital days (days)					
Receivables	14	17	16	16	16
Inventory	3	4	4	4	4
Payables	21	27	24	24	24
Ratios (x)					
Gross asset turnover	1.6	1.4	1.3	1.2	1.2
Current ratio	0.6	0.7	0.7	0.8	0.8
Net interest coverage ratio	101.5	136.1	87.9	78.0	77.1
Adjusted debt/equity	0.0	(0.1)	(0.1)	(0.1)	(0.1)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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