



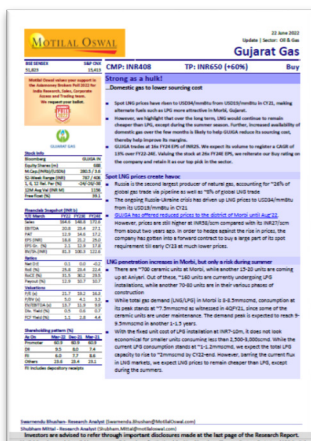
Our earlier CGD update notes

CGD to take a breather in the near term



Understanding the latest policy on allocation of natural gas to CGDs

Strong as a hulk!



Strong sailing for CGDs amid a volatile environment

Key business perspectives from the annual reports of IGL, MAHGL, and GUJGA

- With CGD operations set to start in newer geographies, we expect volume in India's CGD sector in India to clock 10% CAGR (CY20-30) in coming years. As per the natural gas infrastructure development plan, CNG stations are expected to rise to 8,181 over the next 10 years, so as to reduce its dependence on oil imports.
- The government has taken various measures in FY22, including the 11th bid round for new GAs by PNGRB, which will aid growth for the industry and transform India into a vibrant gas market.
- Here are the key takeaways from the annual reports of all listed CGDs:

Steady expansion in companies

- IGL added 0.37m new PNG connections, which is the highest number of connections provided by any CGD in a single fiscal, taking its total consumers to 2.06m. In comparison, MAHGL added 0.12m domestic customers, taking its total household count to 1.86m. GUJGA added 0.15m domestic customers, taking its total count to 1.7m.
- **GUJGA's addition of new CNG stations stood at 153 – the highest in its history. For IGL, the same stood at 105. MAHGL added only 19 CNG stations. This takes IGL/GUJGA/MAHGL's total CNG station count to 711/699/290.**
- GUJGA services over 4,300 Industrial and 13,400 Commercial customers. IGL services ~8,000 Industrial and Commercial consumers. The same for MAHGL stands at 4,339 (4,075 small and large Commercial and 264 Industrial connections).
- In terms of pipeline infrastructure, GUJGA remains way ahead of the other two, with a total network of 32,800km (MDPE/steel), while the same for IGL/MAHGL stands at 18,811km/6,221km.

Across the board subdued EBITDA margin due to higher input cost

- IGL/MAHGL's gross margin fell to INR13/INR13.8 per scm in FY22 from INR14/INR17.4 per scm in FY21. The same for GUJGA declined to INR7.7/scm in FY22 from INR8.4/scm, led by higher spot LNG prices.
- Despite a 50% increase in gas cost/scm, IGL has managed to maintain their EBITDA/scm at INR7.4/scm in FY22 v/s INR7.6/scm in FY21. The same for MAHGL fell 27% to INR8.4/scm in FY22 from INR11.6/scm in FY21, led by an increase of ~2x in raw material cost. **GUJGA's gas cost/scm rose ~69% YoY in FY22, which led to a fall of ~12% YoY in EBITDA/scm to INR5.3.**
- GUJGA is pre-dominantly focused on the Industrial segment, while IGL and MAHGL are CNG-focused players in the CGD space. Volumes for GUJGA grew 14% YoY to 10.7mmscmd in FY22, while the same for IGL/MAHGL increased by 31%/36%. Volumes for IGL/MAHGL stood at 7mmscmd/3mmscmd.

GUJGA remains our top pick among CGDs, stay Neutral on IGL

- In IGL, aggregators account for 30-40% of total CNG sales. The onslaught of EVs may challenge volume growth in the medium to long term. A higher CNG price than petrol and diesel in the near term may dampen our FY23 volume assumptions as it will impact the company's unabated volume growth.
- MAHGL is foraying into the Raigad district (peak demand of ~0.6mmscmd expected over the next three-to-four years), which will provide additional opportunities for expansion of its CNG and PNG networks. Commercial penetration of PNG in MAHGL's GAs is ~20%. It has already laid out its pipeline

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infrastructure, with only last-mile connectivity required. We expect ~8% volume CAGR over FY22-24, considering the increase in its customer base, due to an expansion of its natural gas distribution network to cater to increasing demand.

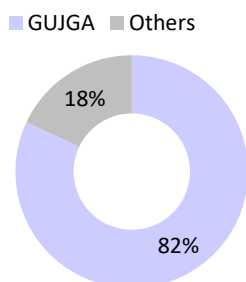
- As discussed in our latest report, titled: '[CGD to take a breather in the near term](#),' CGDs will have to raise CNG prices by ~INR4/kg (excluding taxes) for every USD1/mmBtu rise in gas prices to maintain margin around current levels. OMCs are also seeking higher single-digit commissions for retailing CNG at their outlets, which will further challenge the sustainability of margin.
- This reinforces our belief in GUJGA. It remains our preferred pick among CGDs due to its large dominance in the Industrial/Commercial segment. With the requisite infrastructure in place, it will be the biggest beneficiary of any directive on green tax by MoRHT ([our report](#)) as there is no Gujarat government directive on the use of CNG yet. Transfer of the Amritsar and Bhatinda GAs to GUJGA from GSPL, which was completed in Nov'21, offers huge potential for Industrial gas consumption in coming months. However, high spot LNG prices in FY23 till date can impact volume as well as margin in the short-term. We reiterate our faith in the stock with a **Buy** rating.
- We maintain our Buy/Buy/Neutral rating on GUJGA/ MAHGL/IGL at 21.5x/11.9x/20.7x FY24 P/E ratio (x) with a TP of INR586/INR951/INR406.

Exhibit 1: Peer comparison – valuation snapshot

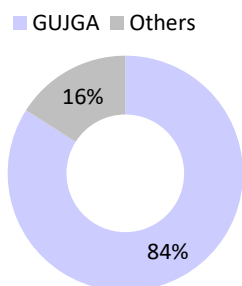
Company	Rating	TP (INR)	EPS (INR)			P/E (x)			P/BV (x)			EV/EBITDA (x)			RoE (%)			Div. yield
			FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	
Gujarat Gas	Buy	586	18.8	19.9	22.5	25.7	24.3	21.5	6.0	4.9	4.1	16.3	14.9	13.0	25.8	22.1	20.6	0.4
Indraprastha Gas	Neutral	406	18.8	19.8	20.2	22.3	21.1	20.7	4.2	3.7	3.3	14.8	12.8	12.7	26.2	18.7	16.8	1.3
Mahanagar Gas	Buy	951	60.4	67.6	73.1	14.4	12.9	11.9	2.4	2.2	1.9	8.8	7.1	6.5	17.5	17.6	17.1	2.6

Source: MOFSL

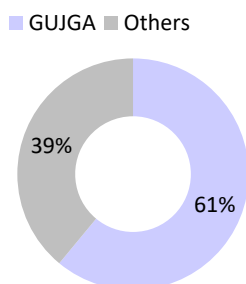
GUJGA: Domestic connections



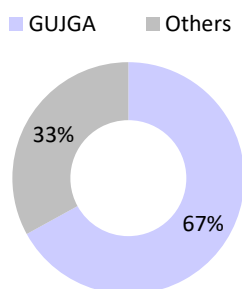
GUJGA: CNG stations



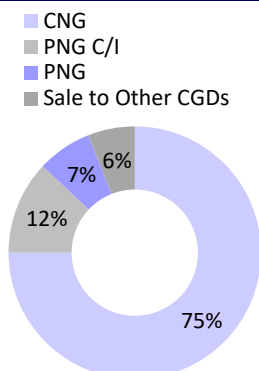
GUJGA: Commercial connections



GUJGA: Industrial connections



IGL: Current sales volume mix (%)



Key highlights from GUJGA's annual report

- In FY22, PNGRB announced the 11th and 11A CGD bidding round for 71 geographical areas (GAs), covering 235 districts spread over 19 states and two Union Territories (UT).
- GGL has bid for a GAs which is contiguous to GUJGA's existing CGD operations. This will provide the company another opportunity to expand its footprint.
- It has a total of 27 CGD licenses and operates in 44 districts across six states and one UT, which accounts for 9% of total CGD licenses, 6% of total areas authorized by PNGRB in India, and one transportation pipeline license.
- **GUJGA added new domestic connections of more than 0.15m in FY22, with 153 new CNG stations erected and commissioned – the highest in its history.**
- GGL has set up its two LNG station in Thane.
- It currently supplies natural gas to more than 1.7m Residential consumers, over 13,400 Commercial customers, and 4,300 Industrial units. It has erected and commissioned 711 CNG stations and over 4,300 Industrial units through its widespread operations.
- The management is aggressively expanding its pipeline network. Its natural gas pipeline network stood at 32,800km in FY22.
- GGL's transmission pipeline (Hazira-Ankleshwar pipeline) was successfully audited in FY22.
- It has achieved a moderate volume growth of 7% YoY in Industrial sales, and 52% each in the CNG/Commercial category in FY22. **CNG and Commercial segment volumes have recovered in FY22.**
- **The management plans to aggressively penetrate PNG (Domestic), PNG (Commercial), and CNG (Transport) sectors, which are comparatively less volatile.**

Key highlights from IGL's annual report

- **IGL caters to more than 1.43m CNG vehicles, 2.06m domestic PNG customers, and ~8,000 Commercial and Industrial customers.**
- It added 105 new CNG stations and more than 0.37m new domestic PNG connections – the highest number of connection additions provided by any CGD company in India.
- With a total of 711 CNG stations in FY22, IGL had a total compression capacity of 9.4m kg per day. It has completed capacity enhancement and upgradation of its existing 25 CNG stations – the highest ever in a fiscal.
- Total volume increased by 31% YoY to 7mmscmd. CNG/PNG segment-wise volume rose 36%/20% YoY to 5.06mmscmd/1.93mmscmd in FY22.
- In the PNG segment, Industrial/Commercial volumes rose to 301mmscm/50.8mmscm (up 20%/50% YoY) in FY22.
- Total customers grew to 7,715 in FY22. Of this, Industrial/Commercial customer rose to 3,358/4,357 in FY22 (v/s 2,971/3,716 in FY21).
- In FY22, DTC/DIMTS added 300/850 new CNG buses to its fleet, which will boost IGL's CNG sales volumes.
- The company added more than 1,400 new Commercial and Industrial customers in FY22. **All industries in NCT Delhi have switched over to natural gas to meet their fuel requirements.**
- IGL's pipeline infrastructure expanded to 18,811km in the FY22 (v/s 16,527km in FY21). Of this, its steel/MDPE pipeline network rose to 1,571km/17,240km in FY22 from 1,265km/15,262km in FY21.

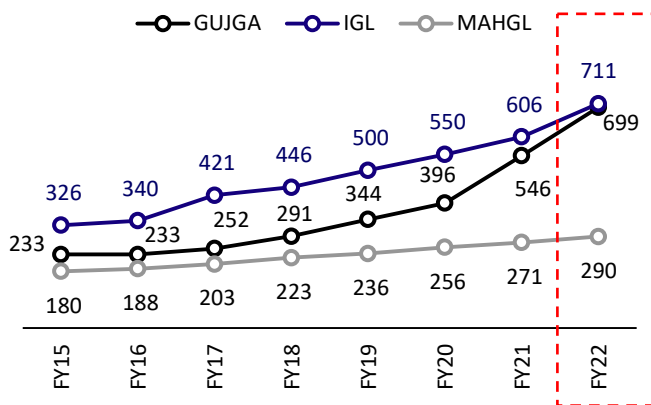
- As part of its backward integration, IGL is planning to set up manufacturing units of allied equipment like gas meters, compressors, and type four cylinders for meeting sectoral as well as captive demand.
- IGL has undertaken a new initiative by setting up CBG plants in Muzaffarnagar, Uttar Pradesh, which will produce biogas.
- **With an eye on the future, IGL** has installed a rooftop solar power plant of 500KW at a *gaushala* in Delhi. Few rooftop solar power facilities (total capacity of up to 5MW) will be installed at other sites in Delhi.
- IGL is looking to setup EV charging facilities at various sites, and has already installed and commissioned four fixed EV charging stations in NCT of Delhi.
- The company has rolled out its battery swapping facility – Energy Café – for the two-wheeler and three-wheeler segment in collaboration with Kinetic Green Energy & Power Solution.
- It has set up one LNG/LCNG station each in Ajmer, and is looking to set up stations at five more locations along the Golden Quadrilateral (GQ) highway in its GAs.
- It is expanding operations to new GAs like Hamirpur and Fatehpur districts; Kaithal, Ajmer, Pali, and Rajsamand; and has also been authorized in Banda, Chitrakoot, and Mahoba districts under the 11th CGD bidding round by PNGRB.
- **The management is exploring the possibility of setting up a green hydrogen generation plant for blending with natural gas. A detailed technical study on the same will be conducted.**

Key highlights from MAHGL's annual report

- MAHGL had submitted reasonably aggressive bids in the 11th CGD bidding round, but was outbided by its peers.
- **It added 0.12m domestic customers (its highest ever) and 301 Industrial and Commercial customers, thereby taking its total domestic connections to over 1.86m, small and large Commercial connections to 4075, CNG stations to 290, and Industrial connections to 264.**
- It is widening its network in the authorized areas of Kalyan, Dombivli, Badlapur, Ambernath, Ulhasnagar, Bhiwandi, Panvel, Taloja, Kharghar, and major parts of the Raigad District.
- **MAHGL also expanded its network in Raigad by 23 CNG stations, and connected more than 53,000 domestic households. It plans to add more stations in FY23.**
- It signed a total PNG volume of ~34,000scmd in the Industrial and Commercial B and C category in FY22, of which ~22,000scmd has been commissioned.
- Average sales volume was ~3mmscmd in FY22 as compared to 2.2mmscmd in FY21, resulting in a YoY increase of 35.64%.
- MAHGL has augmented its capacity of 26 stations to serve an estimated 0.85m vehicles.
- Compression capacity grew 0.29m kg/day to ~3.93m kg/day.
- The company has deployed a CNG composite dispensing unit (CDU) at Ajivali near Panvel on the old Mumbai-Pune highway.
- It has commissioned its first online CNG station in GA-3 and India's first CDU.
- MAHGL's pipeline infrastructure has expanded further in GA-3 (Raigad), with the completion of the minimum work program of 1,800 inch-km. It has converted its first domestic customer in Ulwe for providing domestic PNG supplies to over 30,000 domestic customers.
- It will be commissioning its first city gate station (CGS) located at Savroli in GA-3. It is also working on opening its new CGSs at Vile Bhagad and Usargarh.

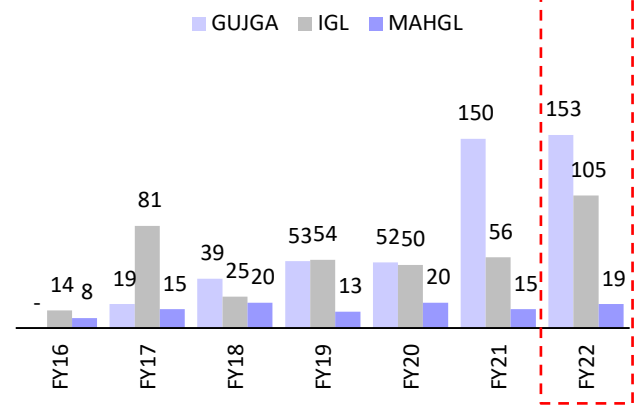
- The company executed a long-term gas sales agreement with GAIL (from 5th Mar'22 to 31st Mar'27) for procurement of 15,000mmBtu of term RLNG.
- An additional CGS at Savroli and another CGS in the Raigad GA is in the planning and development stage.
- Its plans for setting up a second LNG dispensing station on the Mumbai-Nashik Highway are afoot.
- MAHGL currently operates 551km of steel pipeline and 5,670km of MDPE pipeline. It plans to expand its network, with over 26km of steel pipeline and ~140km of polyethylene (PE) pipeline by Mar'23.
- **In the next five years, the management plans to increase its customer base by an additional 0.1m households, 400 CNG stations, a steel pipeline network of ~600km, and a PE pipeline network of ~7,600km, with a natural gas potential of ~5mmcmd.**

Exhibit 2: CNG stations of CGDs



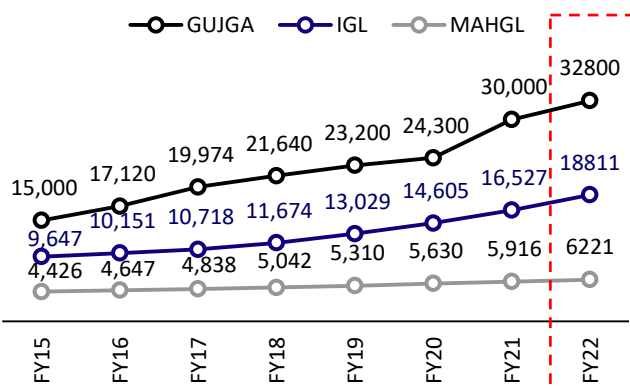
Source: Companies, MOFSL

Exhibit 3: Net additions to the CNG stations of CGDs



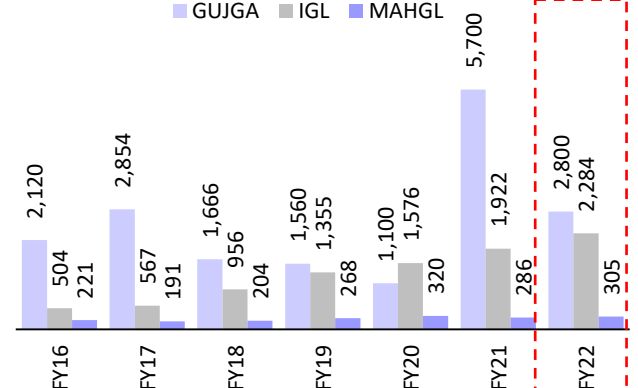
Source: Companies, MOFSL

Exhibit 4: HDPE + steel pipeline (km)



Source: Companies, MOFSL

Exhibit 5: Net additions to HDPE + steel pipeline (km)

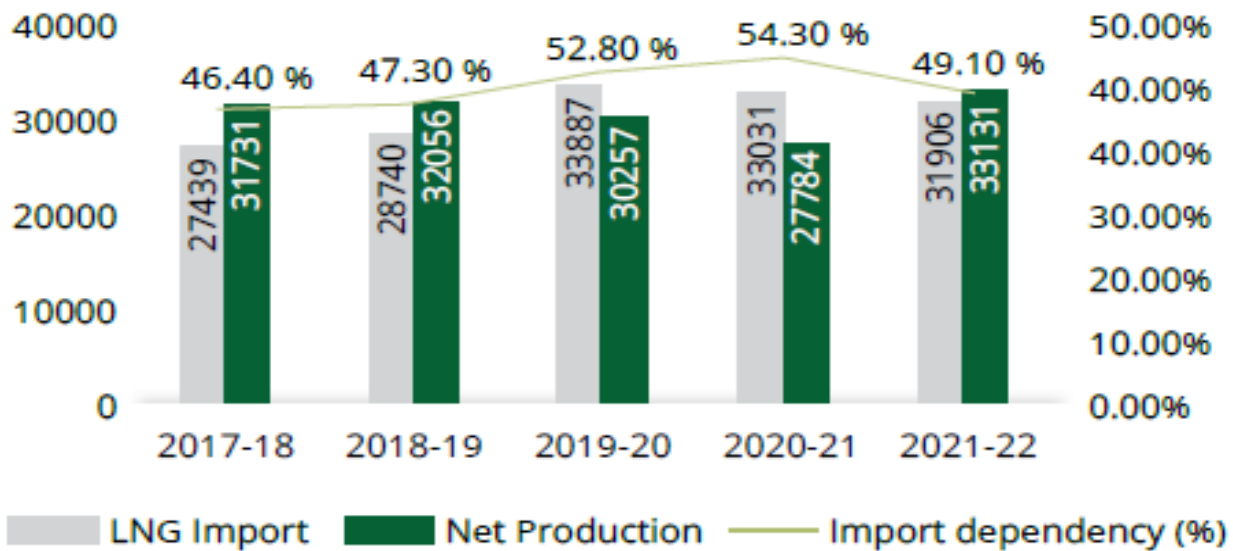


Source: Companies, MOFSL

Exhibit 6: City Gas Distribution as a coverage of India's population and its area

CGD authorizations	Geographical areas (GAs)		As a percentage of India's population		As a percentage of India's area	
	Standalone	Cumulative	Standalone	Cumulative	Standalone	Cumulative
Pre-PNGRB	30	30	9.3	9.3	3.0	3.0
Round 1 (Oct'08)	6	36	0.3	9.6	0.0	3.0
Round 2 (Feb'09)	3	39	0.2	9.8	0.0	3.0
Round 3 (Jul'10)	6	45	0.8	10.6	1.2	4.2
Round 4 (Sep'13)	9	54	2.3	12.9	1.3	5.5
Round 5 (Jan'15)	8	62	2.0	14.9	1.8	7.3
Round 6 (Oct'15)	17	79	2.1	17.0	2.0	9.4
Round 7 (Jun'16)	1	80	0.4	17.4	0.5	9.8
Round 8 (Nov'16)	6	86	0.9	18.3	0.6	10.4
Sec. 42 (Mar'18)	6	92	1.6	19.9	0.6	11.0
Round 9 (Apr'18)	86	178	26.4	46.2	23.8	34.8
Round 10 (Nov'18)	50	228	24.2	70.5	17.9	52.7
Round 11 (Mar'21)	71	299	27.6	98.1	35.4	88.1

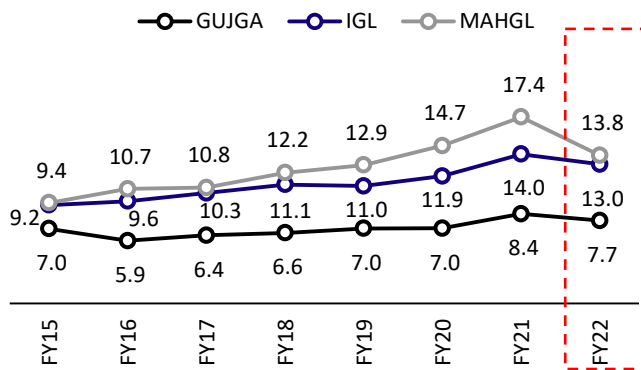
Source: PNGRB, Company, MOFSL

Exhibit 7: Natural gas consumption in India (mmscm)

Source: PPAC, Company, MOFSL

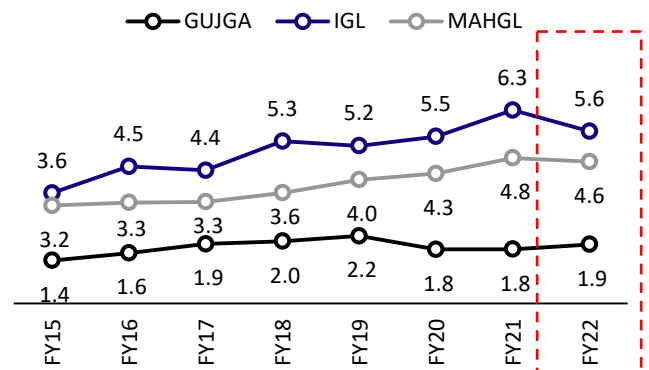
Margin and volume snapshot for FY22

Exhibit 8: Gross margin for CGDs (INR/scm)



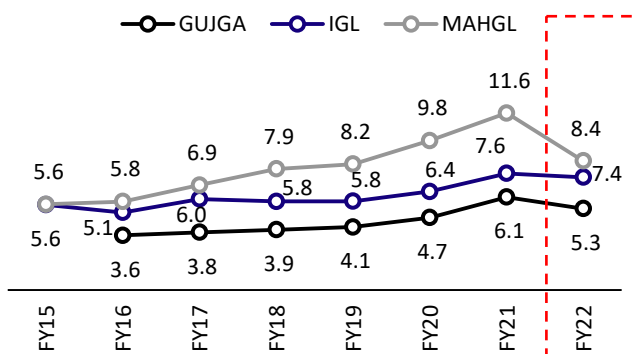
Source: Companies, MOFSL

Exhibit 9: OPEX/scm for CGDs (INR/scm)



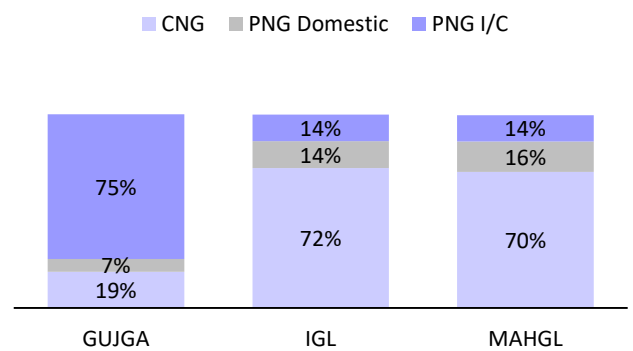
Source: Companies, MOFSL

Exhibit 10: EBITDA/scm for CGDs (INR/scm)



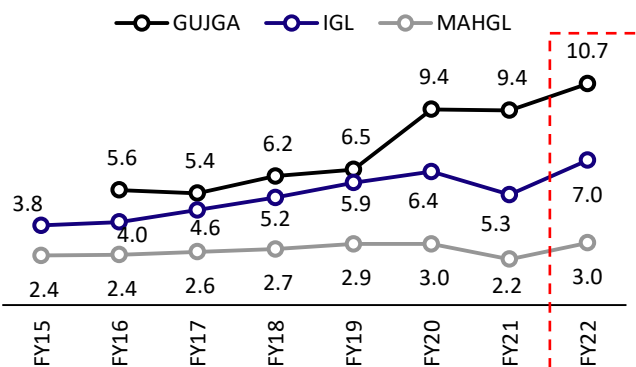
Source: Companies, MOFSL

Exhibit 11: Segmental volume breakdown (FY22)



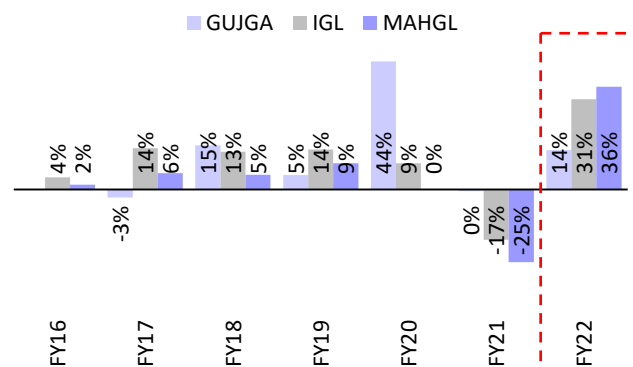
Source: Companies, MOFSL

Exhibit 12: Total volumes (mmscmd)



Source: Companies, MOFSL

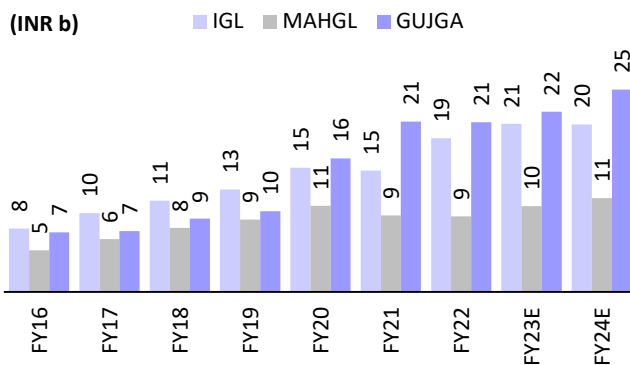
Exhibit 13: Total volume growth (YoY %)



Source: Companies, MOFSL

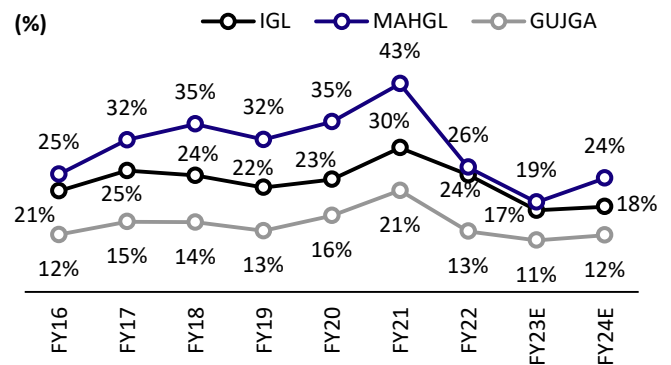
Our model estimates and valuations

Exhibit 14: GUJGA posted the highest EBITDA in FY22...



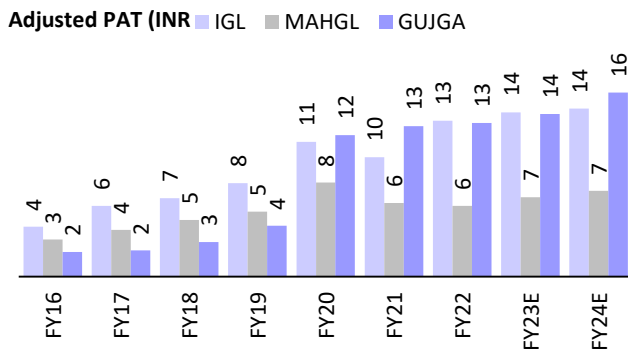
Source: Companies, MOFSL

Exhibit 15: ...while MAHGL had the best EBITDAM



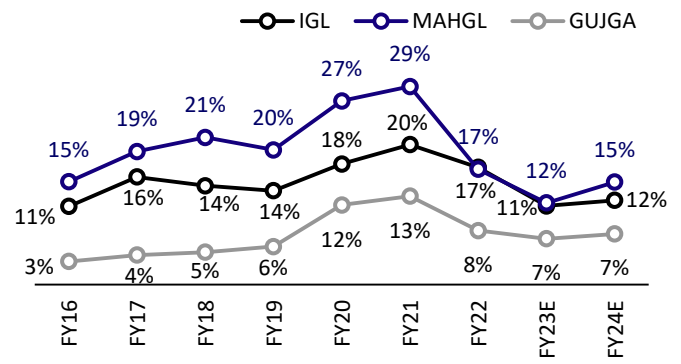
Source: Companies, MOFSL

Exhibit 16: IGL was ahead of its peers in absolute PAT...



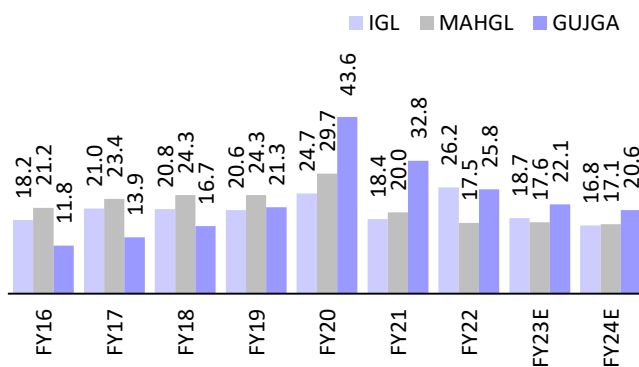
Source: Companies, MOFSL

Exhibit 17: ...and PAT margin (%) in FY22 as well



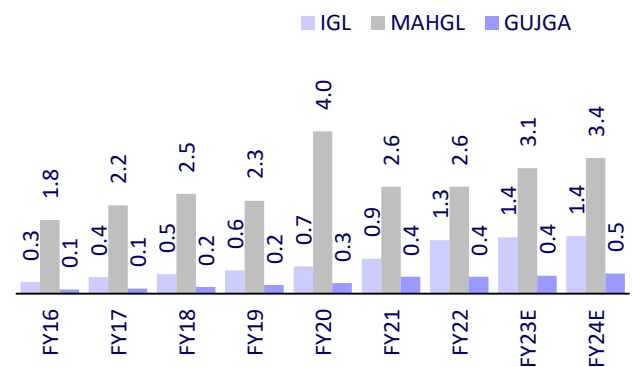
Source: Companies, MOFSL

Exhibit 18: GUJGA has the best RoE (%) profile in FY23-24

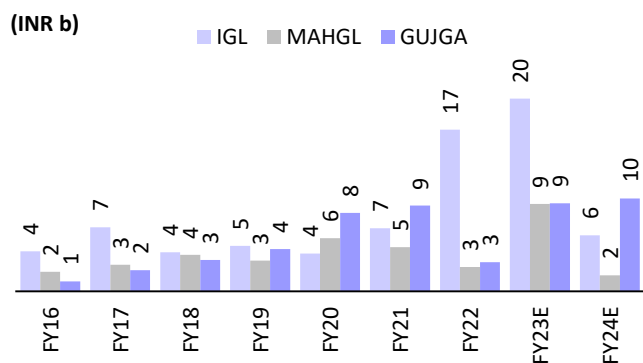


Source: Companies, MOFSL

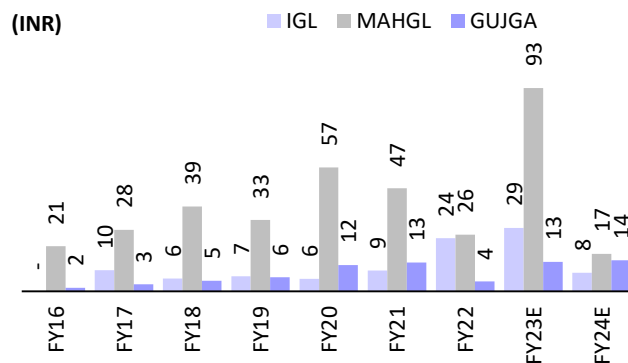
Exhibit 19: MAHGL has the highest dividend yield (%)



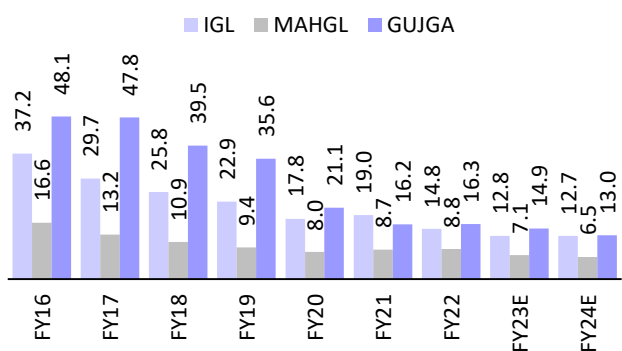
Source: Companies, MOFSL

Exhibit 20: Expect GUJGA set to generate a FCF of INR10b in FY24

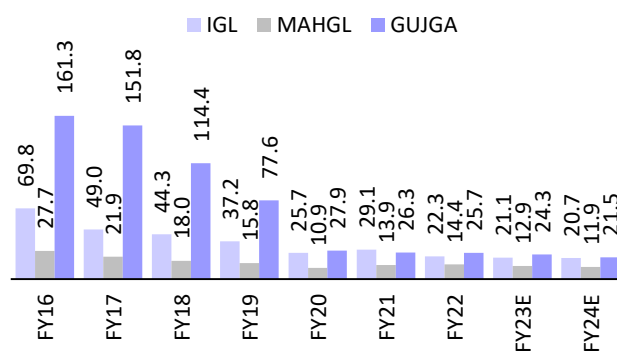
Source: Companies, MOFSL

Exhibit 21: Expect MAHGL to have the highest FCF/share in FY24

Source: Companies, MOFSL

Exhibit 22: GGL trades at a premium to peers on a FY24E EV/EBITDA ratio (x) basis...

Source: Companies, MOFSL

Exhibit 23: ...and remains expensive in terms of P/E ratio (x) as well

Source: Companies, MOFSL

GUJGA – financial summary and assumptions (TP: INR586) – Buy

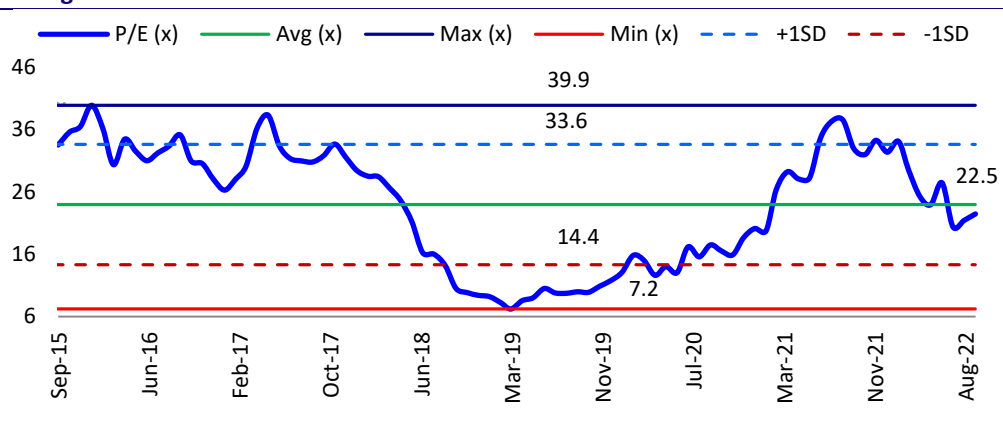
Exhibit 24: Financial summary

(INR b)

Y/E Mar	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	50.9	61.7	77.5	103.0	98.7	164.6	205.2	210.0
EBITDA	7.4	9.0	9.8	16.3	20.8	20.8	22.0	24.8
PAT	2.2	2.9	4.2	11.9	12.7	12.9	13.7	15.5
EPS (INR)	3.2	4.2	6.2	17.3	18.4	18.8	19.9	22.5
EPS Gr. (%)	6.3	32.7	47.4	177.8	6.3	2.1	5.8	13.2
BV/Sh (INR)	23.9	26.8	31.7	47.8	64.6	81.3	99.1	119.2
P/E ratio (x)	151.8	114.4	77.6	27.9	26.3	25.7	24.3	21.5
P/BV ratio (x)	20.3	18.0	15.3	10.1	7.5	6.0	4.9	4.1
Net D:E ratio	1.4	1.1	0.8	0.3	0.1	0.1	-0.1	-0.1
RoE (%)	13.9	16.7	21.3	43.6	32.8	25.8	22.1	20.6
RoCE (%)	14.3	16.5	19.4	29.8	35.0	31.5	28.3	27.0
EV/EBITDA ratio (x)	47.8	39.5	35.6	21.1	16.2	16.3	14.9	13.0
Div. Yield (%)	0.1	0.2	0.2	0.3	0.4	0.4	0.4	0.5
FCF Yield (%)	3.2	4.8	1.3	2.5	2.7	0.9	2.8	2.9

Source: Company, MOFSL

Exhibit 25: One-year forward P/E for GUJGA is at a discount of ~6% to its long-term average



Source: Company, MOFSL

IGL – financial summary and assumptions (TP: INR406) – Neutral

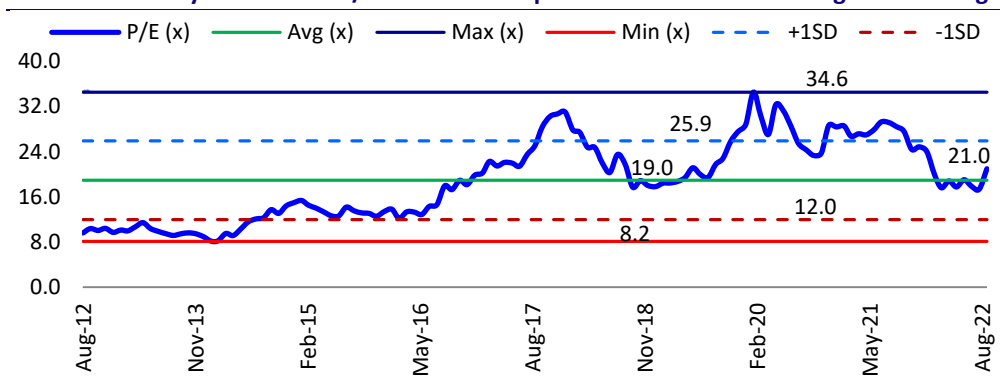
Exhibit 26: Financial summary

(INR b)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Sales	38.1	45.9	57.6	64.9	49.4	77.1	121.0	115.5
EBITDA	9.6	11.1	12.5	15.2	14.8	18.8	20.5	20.5
Adj. PAT	6.0	6.6	7.9	11.4	10.1	13.1	13.9	14.2
Adj. EPS (INR)	8.5	9.4	11.2	16.2	14.4	18.8	19.8	20.2
EPS Gr. (%)	42.5	10.6	19.1	44.5	-11.5	30.8	5.4	2.2
BV/Sh.(INR)	41.8	50.2	59.0	72.3	83.9	99.1	113.1	127.4
Ratios								
Net D:E ratio	-0.2	-0.2	-0.1	-0.4	-0.2	-0.2	-0.4	-0.4
RoE (%)	21.0	20.8	20.6	24.7	18.4	26.2	18.7	16.8
RoCE (%)	19.8	19.6	19.4	23.6	17.8	25.4	18.1	16.4
Payout (%)	19.9	21.2	21.4	17.2	25.1	29.3	29.3	29.3
Valuation								
P/E ratio (x)	49.0	44.3	37.2	25.7	29.1	22.3	21.1	20.7
P/BV ratio (x)	10.0	8.3	7.1	5.8	5.0	4.2	3.7	3.3
EV/EBITDA ratio (x)	29.7	25.8	22.9	17.8	19.0	14.8	12.8	12.7
Div. Yield (%)	0.4	0.5	0.6	0.7	0.9	1.3	1.4	1.4
FCF Yield (%)	2.3	1.4	1.6	1.4	2.3	5.8	6.9	2.0

Source: Company, MOFSL

Exhibit 27: One-year forward P/E for IGL is at a premium of ~11% to its long-term average



Source: Company, MOFSL

MAHGL – financial summary and assumptions (TP: INR951) – Buy

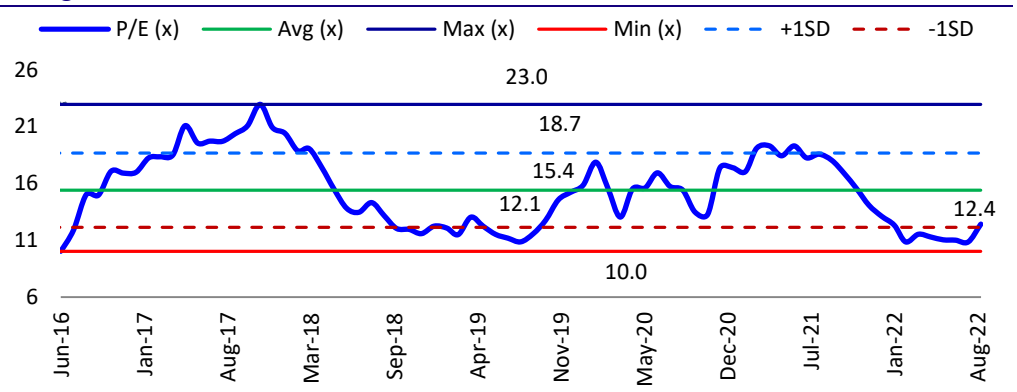
Exhibit 28: Financial summary

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Sales	20.3	22.3	27.9	29.7	21.5	35.6	56.2	48.4
EBITDA	6.4	7.8	8.9	10.5	9.3	9.2	10.5	11.5
Adj. PAT	3.9	4.8	5.5	7.9	6.2	6.0	6.7	7.2
Adj. EPS (INR)	39.8	48.4	55.3	80.3	62.7	60.4	67.6	73.1
EPS Gr. (%)	26.5	21.5	14.3	45.2	-21.9	-3.6	11.9	8.1
BV/Sh.(INR)	186.3	212.1	242.8	298.9	327.2	364.2	404.8	448.6
Ratios								
Net D:E ratio	-0.1	0.0	-0.1	-0.1	-0.2	-0.1	-0.3	-0.2
RoE (%)	23.4	24.3	24.3	29.7	20.0	17.5	17.6	17.1
RoCE (%)	23.3	24.3	24.3	29.8	20.1	17.5	17.7	17.2
Payout (%)	57.4	53.5	43.5	52.4	36.7	38.1	40.0	40.0
Valuation								
P/E ratio (x)	21.9	18.0	15.8	10.9	13.9	14.4	12.9	11.9
P/BV ratio (x)	4.7	4.1	3.6	2.9	2.7	2.4	2.2	1.9
EV/EBITDA ratio (x)	13.2	10.9	9.4	8.0	8.7	8.8	7.1	6.5
Div. Yield (%)	2.2	2.5	2.3	4.0	2.6	2.6	3.1	3.4
FCF Yield (%)	3.2	4.4	3.7	6.5	5.4	3.0	10.7	2.0

Source: Company, MOFSL

Exhibit 29: One-year forward P/E for MAHGL is at a discount of ~19% to its long-term average



Source: Company, MOFSL

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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