

Event Update

November 30, 2022

Indraprastha Gas (IGL IN)

Rating: BUY | CMP: Rs433 | TP: Rs596

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	77,100	1,42,764	1,69,002	1,99,225
EBITDA (Rs. m)	18,811	25,292	28,607	33,170
Margin (%)	24.4	17.7	16.9	16.6
PAT (Rs. m)	13,149	18,268	21,580	25,840
EPS (Rs.)	18.8	26.1	30.8	36.9
Gr. (%)	30.8	38.9	18.1	19.7
DPS (Rs.)	5.5	5.5	9.0	10.8
Yield (%)	1.3	1.3	2.1	2.5
RoE (%)	20.5	23.9	23.6	23.9
RoCE (%)	24.4	28.1	26.4	25.9
EV/Sales (x)	3.5	1.8	1.4	1.1
EV/EBITDA (x)	14.5	10.1	8.5	6.9
PE (x)	23.0	16.6	14.0	11.7
P/BV (x)	4.4	3.6	3.1	2.6

Mahanagar Gas (MAHGL IN)

Rating: BUY | CMP: Rs895 | TP: Rs1,103

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	35,602	45,671	50,476	55,187
EBITDA (Rs. m)	9,243	11,113	12,676	13,771
Margin (%)	26.0	24.3	25.1	25.0
PAT (Rs. m)	5,950	7,290	8,406	9,205
EPS (Rs.)	60.2	73.8	85.1	93.2
Gr. (%)	(4.0)	22.5	15.3	9.5
DPS (Rs.)	25.0	22.1	25.5	28.0
Yield (%)	2.8	2.5	2.9	3.1
RoE (%)	17.4	18.9	19.1	18.3
RoCE (%)	20.9	22.6	22.8	21.5
EV/Sales (x)	2.1	1.5	1.3	1.1
EV/EBITDA (x)	8.0	6.2	5.1	4.2
PE (x)	14.9	12.1	10.5	9.6
P/BV (x)	2.5	2.2	1.9	1.7

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Price cap removes overhang of high gas prices

Quick Pointers:

- Price cap positive for CGDs, as domestic gas accounts for ~90% of priority sector (CNG, PNG Domestic) demand.
- Softening of domestic gas and spot LNG prices positive for CGDs.

The government appointed panel for reviewing prices of natural gas (headed by Mr Kirit Parikh) have submitted their recommendations, which is yet to be approved by the Cabinet before finalizing domestic gas price (APM). A cap of USD4-6.5/mmbtu has been suggested for gas produced from older fields by ONGC and Oil India, with cap rising by USD0.5/mmbtu every year and full deregulation in Jan-27. Also to promote new investment, gas produced from new fields are to be given pricing and marketing freedom, which is positive for RIL (BUY, PT Rs2,892) and ONGC (BUY, PT Rs180).

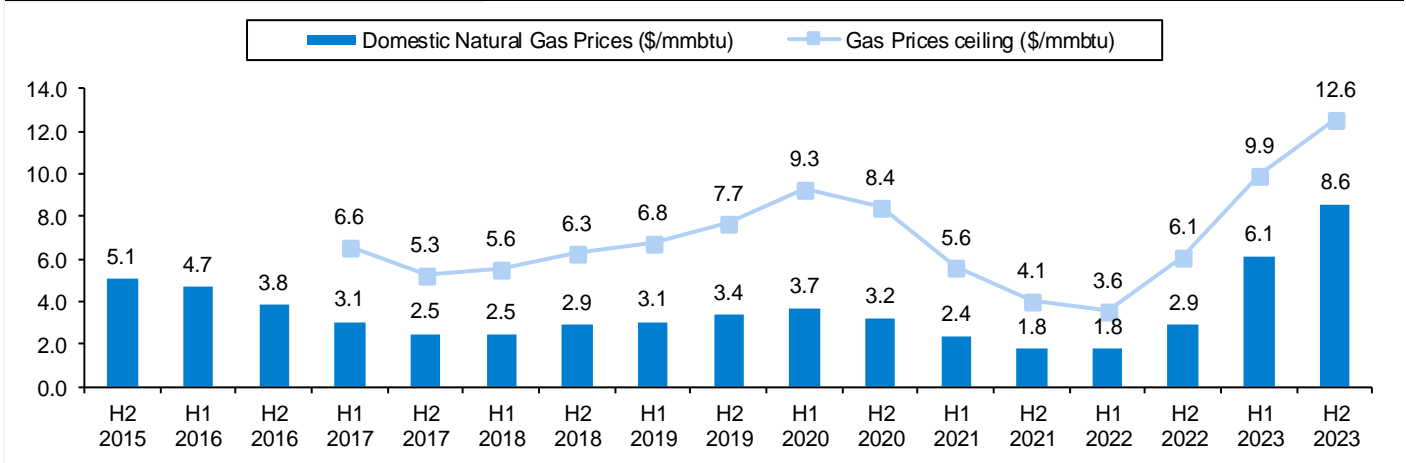
Capping APM gas prices is encouraging for CGDs, as they account for ~90% of priority sector demand (CNG + PNG Domestic). Falling domestic gas and spot LNG prices is positive for IGL (BUY, PT Rs596) and MGL (BUY, PT Rs1,103) followed by GGAS (HOLD, PT 530). We leave our estimates and ratings unchanged pending clarity and IGL is our preferred pick.

Much awaited draft recommendations for domestic gas price by Mr. Kirit Parikh committee are submitted, which has to be approved by the Cabinet. Key highlights are:

- Domestic gas produced by ONGC and OIL from older fields (APM gas) will have a floor and cap of USD4-6.5/mmbtu with cap rising by \$0.5 every year.
- APM gas pricing to be deregulated by Jan-27.
- Domestic gas prices change has to be linked to crude prices vs current practice of linking to four global benchmark-US, UK, Canada and UK. This is positive as it will remove sharp swing in prices as seen currently due to geopolitical tensions.
- CGD and fertilizer sector to get priority in gas allocation, in-line with current policy.
- No change in gas produced from new fields, thus they will enjoy pricing freedom.
- Currently CGDs get ~90% of gas for priority sectors (CNG + PNG Domestic) from domestic sources while rest is LNG (contracted or spot).
- If approved, CGD companies like IGL and MGL will benefit the most as priority sector accounts for over 80% of revenues. At a cap price of USD6.5/mmbtu (currently \$8.57), retail CNG prices could be down Rs7-8/kg.
- Margin expansion for CGDs will depend on extent of passing on the benefit of lower gas prices.

- IGL remains our preferred pick for the sector, as they will benefit from lower domestic and spot LNG prices at CMP. IGL trades at 14.6x PER FY24E.
- Our FY24/25E gas price for ONGC and OIL India is at USD5/mmbtu; we see limited risk to the pricing.

Exhibit 1: Gas price revision for domestic and deep water fields



Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	Reduce	260	310
2	Bharti Airtel	BUY	1,058	836
3	GAIL (India)	BUY	120	89
4	Gujarat Gas	Hold	530	495
5	Hindustan Petroleum Corporation	Hold	195	211
6	Indian Oil Corporation	Reduce	50	68
7	Indraprastha Gas	BUY	596	397
8	Mahanagar Gas	BUY	1,103	876
9	Oil & Natural Gas Corporation	BUY	180	139
10	Oil India	BUY	300	196
11	Petronet LNG	BUY	325	209
12	Reliance Industries	BUY	2,892	2,480

PL's Recommendation Nomenclature

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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