

26 November 2024

India | Equity Research | Sector Update

Oil & Gas

CGDs – a structural realignment on the cards

A change in APM gas allocation, potential changes in marketing exclusivity rules and growing EV penetration point to a radically changed operating environment for city gas distribution companies over the next decade. We note the challenges to growth and margins are counteracted by i) higher gas availability both domestically and via LNG, ii) a seamless contiguous development of the national gas grid, which creates new demand segments, iii) competition with alternate fuels has been a reality for some time now, with efficiencies being driven through the CGD ecosystem, iv) established CGD companies have adequate cashflow, which could create inorganic opportunities. Remain positive on the space, with the recent drop in valuations and our conviction on long-term gas demand underpinning our stance.

'Phase 4' of gas sector evolution is underway

Over the last two decades, Indian gas sector has gone through three distinct phases: i) RIL's gas discovery in the early 2010s, with a potential 80mmscmd of gas (~50% of Indian gas production at the time) promised to revolutionise the gas sector in India, ii) steep decline in RIL's KG field due to technical issues left behind ~27,000MW of gas fired power plants without gas to run them and ~23,563kms of gas transmission pipelines with <40% utilisation, iii) environmental reasons, steady build out of LNG import infrastructure, rising cost of alternate fuels and CGD infra roll out created a sustained growth environment over FY12-24 (barring the pandemic years), **iv) the pandemic, growing EV push by policy makers and the Russia – Ukraine conflict, coupled by the government move to start the migration to a more market linked pricing regime even for priority segments may create a new, more challenging environment for CGDs over the next 3-5 years.**

Does this imply a permanent de-rating? We disagree!

We do not agree with the assessment of "Doom & Gloom" that seems to be weighing on the CGD valuations, driven by fears of margin erosion. We agree that margins and return ratios have long been overdue for a correction, given the FY20-24 average EBITDA margin of INR 7.2/10.6/5.9 per scm and average ROCE of 24.3/27.5/28.4% for IGL/MGL/GUJGA, respectively, is well above the regulatory returns prescribed for the sector overall. This does imply that operating environment for CGDs may look drastically different over the next couple of years.

We believe the next 12-18 months are set to throw up clear changes in the business model with i) aggressive pursuit of alternate sourcing arrangements, including HH-based LNG, Brent-linked LNG at a higher scale than earlier to optimise costs, ii) focus on improving softer aspects of CNG ownership, including refuelling times, vehicle transmission variants (automatic variants, larger vehicles), iii) leverage the contiguous development of Indian gas grid to develop the commercial vehicle sub segment (including inter-city transport vehicles) where the higher running daily helps maximise savings, even on lower discounts over medium term and v) discount to petrol remains material but the absolute price increase and reduction will mean moderation in margins over the next 2-3 years.

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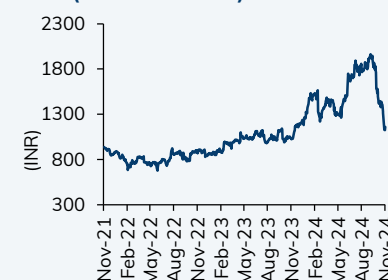
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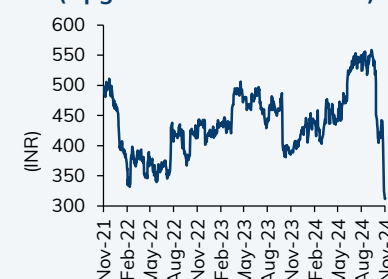
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MGL (Maintain BUY)



IGL (Upgrade to BUY from Add)



GUJGA (Maintain BUY)



Source: Bloomberg

Earnings downgraded to reflect the changed realities...

The environment for CGDs is undoubtedly more challenging now from a relative perspective – while volume growth prospects have opened up due to continuously improving transmission and distribution infrastructure, new vehicle variants by OEMs, commercial vehicle sub segment and material discount to alternate fuels, the last of those factors will come under threat over the next 12-18 months. Given that not only the economics but the absolute price increase also plays a role in conversion momentum, we believe that even if the differential allows it, passing on the INR 8-9/kg needed to restore margins to Q1FY25 levels is not realistic.

With further APM de-allocation also not ruled out, we believe EBITDA margins will see moderation to INR 6.1/9.1/4.9 per scm over FY26-27E for IGL/MGL/GUGJA respectively. There is no doubt about some uncertainty around what margins to factor in for the next couple of years, given what has transpired on gas costs in the last month, but we believe that the i) efforts by the CGDs to at least partially pass on the costs, ii) the relatively (vs FY22-24 averages) moderate HPHT and LNG costs and iii) continued development of new vehicle sub segments like CVs may help in boosting pricing power and maintaining margins at a reasonable level (Our EPS downgrades are shown in exhibit 28).

Recent fall in the stocks is overdone, valuations at multi-year lows: Reiterate BUY on MGL/GUJGA, upgrade IGL to BUY

The two successive reductions in APM gas allocation to CNG segment, without corresponding pricing action have understandably reflected in CGD stocks – IGL/MGL/GUJGA have seen stock price decline 17/21/11.4% over the last 1 month. Factoring in lower margin assumptions, our revised EPS for FY26/27E stands at INR 23.2/96.8/15.6 and 25.5/101.4/17.9 for IGL/MGL/GUJGA, respectively. Additionally, for longer term, we now build in a lower margin profile (refer Exhibit 11) for all the three companies. However, even at these earnings, valuations are now at multi-year lows for all the three names and we believe risk-reward is now favourable for all the three companies. Reiterate **BUY** on MGL and GUJGA with IGL also upgraded to **BUY**, with MGL/GUJGA/IGL being the preferred pecking order for this sub segment.

Key upside risks: 1) Higher volumes from new areas; 2) sustained decline in spot LNG prices; and 3) slower implementation of EV policy.

Key downside risks: 1) Higher-than-expected spike in gas cost. 2) Inability to pass on gas cost increases. 3) Sharper fall in alternate fuel prices for CNG (petrol/diesel). 4) Larger-than-expected impact of EV policy due to stronger-than-expected success in implementation.

Exhibit 1: Valuation Summary

Company	CMP	Mcap	Reco	TP	EBITDA (INR bn)				EPS				PER (x)				EV/E (x)			
	INR	INR bn		INR	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E
IGL	320	224	BUY	412	23.7	21.2	22.1	23.3	25.0	21.2	23.2	25.5	12.8	15.1	13.8	12.5	8.2	9.2	8.7	7.8
GUJGA	473	326	BUY	600	18.8	19.2	19.0	21.7	16.0	16.3	15.6	17.9	29.6	29.0	30.4	26.4	16.5	16.3	16.3	14.1
MGL	1,176	116	BUY	1,525	18.4	15.0	14.4	15.5	130.5	101.4	96.8	101.4	9.0	11.6	12.1	11.6	5.2	6.1	6.0	5.3

Company	CMP	Div yld.	EPS CAGR	TP	EV/E (x)				P/BV(x)				RoE				ROCE			
	INR	FY25E%	FY25-F7E	INR	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E
IGL	320	2.4%	10%	412	8.2	9.2	8.7	7.8	2.6	2.4	2.1	1.9	22%	16%	16%	16%	25%	18%	16%	15%
GUJGA	473	0.9%	5%	600	16.5	16.3	16.3	14.1	4.2	3.8	3.5	3.2	15%	14%	12%	13%	19%	17%	15%	16%
MGL	1,176	3.0%	0%	1,525	5.2	6.1	6.0	5.3	2.3	2.0	1.8	1.6	28%	18%	16%	15%	34%	21%	17%	16%

Source: I-Sec research, Company data

Exhibit 2: CGDs cashflow and FCF trends

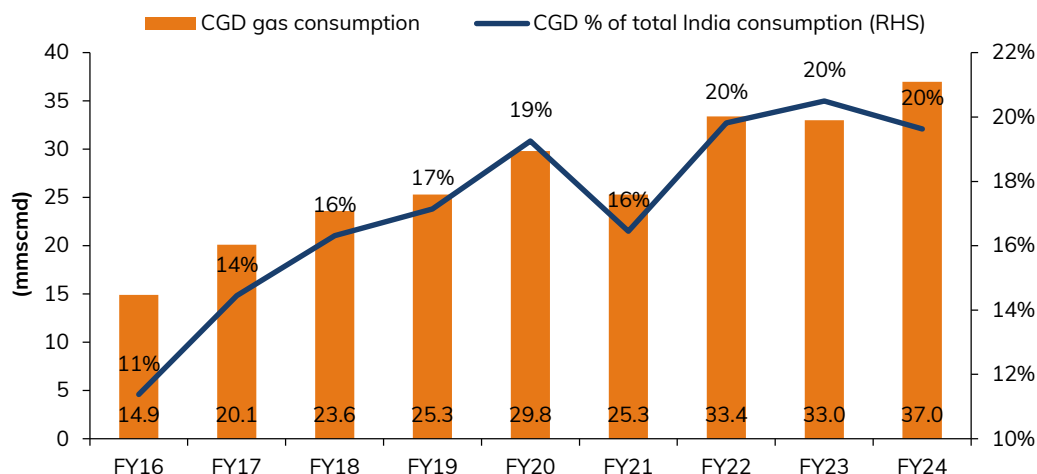
INR mn	FY22	FY23	FY24	FY25E	FY26E	FY27E
IGL						
Cash flow from Operation	18,979	22,306	15,357	17,039	18,539	18,911
Capex	-13,370	-11,221	-12,021	-16,160	-14,160	-8,960
Free cash flow to firm	5,610	11,085	3,335	879	4,379	9,951
MGL						
Cash flow from Operation	9,037	9,693	15,631	14,690	13,690	13,611
Capex	-6,473	-7,127	-7,698	-8,500	-8,500	-8,500
Free cash flow to firm	2,564	2,566	7,933	6,190	5,190	5,111
GUJGA						
Cash flow from Operation	16,618	23,780	16,340	11,851	16,395	17,589
Capex	-13,265	-10,915	-8,371	-12,000	-12,000	-12,000
Free cash flow to firm	3,353	12,865	7,969	-149	4,395	5,589

Source: Company data, I-Sec research

APM gas allocation: A structural change in the operating environment

For the better part of last decade, the preferential allotment of APM/nominated field gas to priority sectors has been the set policy for India. This included fertiliser, power and CGD sectors, in particular. The consumption of domestically produced gas reflects this allocation, with fertiliser, power and CGDs accounting for an average of 67% of overall domestic gas over the last several years.

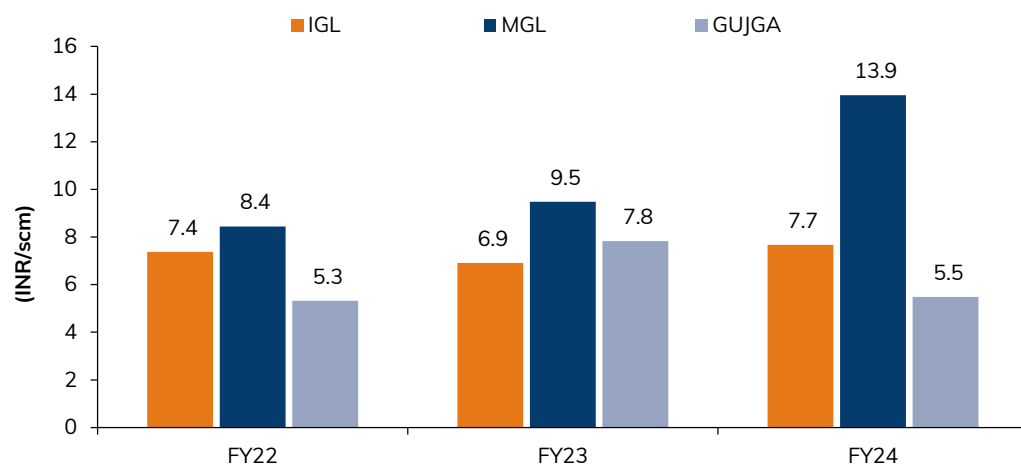
Exhibit 3: CGDs are a significant component of domestic gas supply usage



Source: I-Sec research, Company data, PPAC

The availability of gas for ~80% of CNG + domestic requirement, coupled with advantageous pricing vs key alternate fuels like petrol/diesel/LPG meant that margins saw steady improvement over FY23-24, with EBITDA reaching record levels for MGL in particular.

Exhibit 4: CGD EBITDA trends for FY22-24



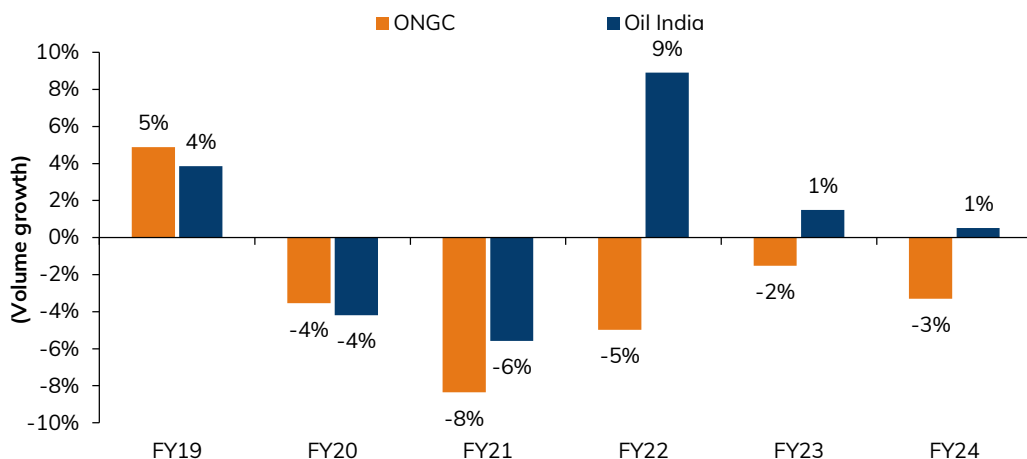
Source: I-Sec research, Company data

However, the gradual reduction of domestic gas production, coupled with higher number of claimants for that gas via the aggressive rollout of India's gas transmission infra and CGD coverage in the country has meant that the government has had to optimise the allocation of this low-priced gas and this has led to the most profitable consuming segment (CGD – CNG segment) bearing the brunt of the cut in allocation over the last two rounds.

This implies blended allocation for CNG + domestic may decline to 50-55% over H2FY25E and we believe further reduction cannot be ruled out in the same. We assume that even if ONGC + Oil India (OIL) see some improvement in domestic gas

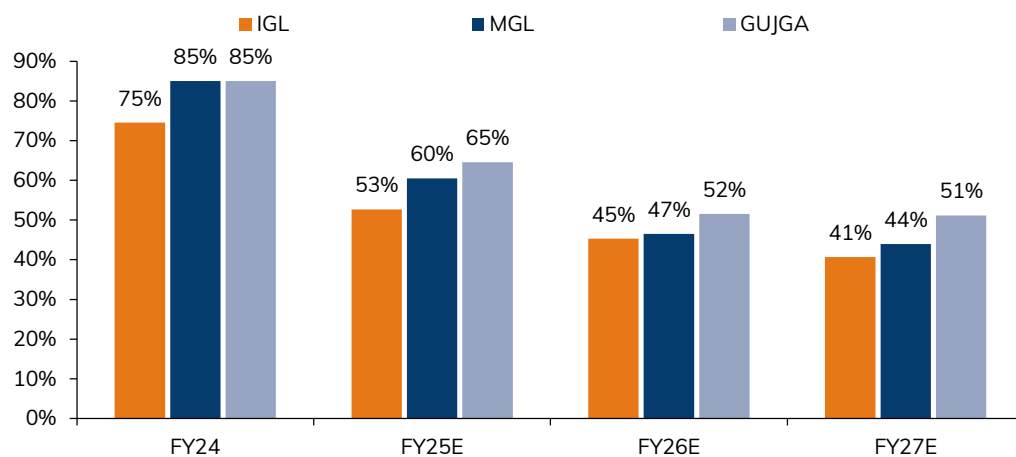
output, the production may be via new wells and well interventions. This output may, therefore, be eligible for the 20% higher price than current nominated field price of USD 6.75-7/MMBtu. So, average gas cost for the country could steadily rise over the next 2-3 years.

Exhibit 5: ONGC/OIL saw limited growth in gas output over FY20-24



Source: I-Sec research, Company data

Exhibit 6: CGD blended allocation for domestic + CNG may steadily decline



Source: I-Sec research, Company data

Exhibit 7: Average gas cost for India to rise in FY26E, moderation seen in FY27E

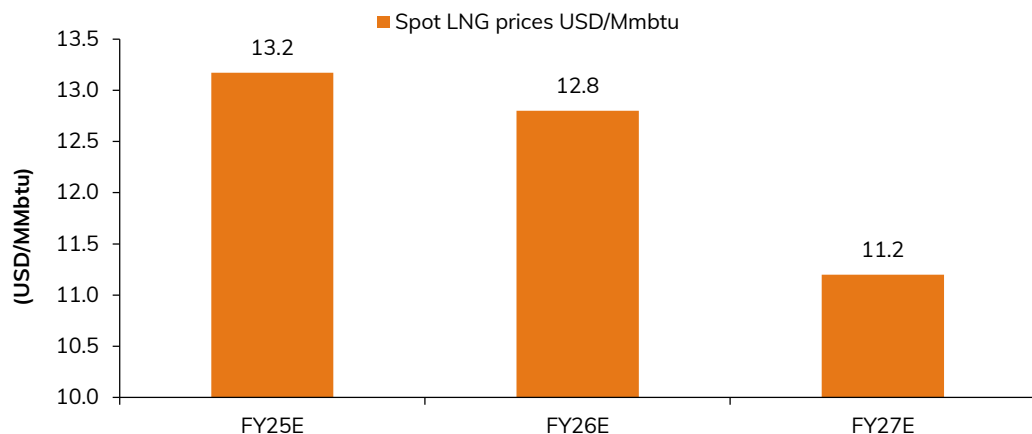
Production / consumption	Volume					Slope	USD/bbl	95.0	85.0	80.0	80.0	80
	FY23	FY24	FY25E	FY26E	FY27E			FY23	FY24	FY25E	FY26E	FY27E
ONGC	53.9	53.0	52.5	51.9	51.4			7.7	7.3	7.5	8.1	8.4
ONGC New (KG)	-	2.0	5.0	6.0	8.0		USD/mmbtu		12.4	12.1	11.2	11.2
Oil India	8.3	8.4	9.1	9.7	11.0		USD/mmbtu	9.5	7.3	7.4	7.9	8.2
Other domestic	9.0	9.0	8.8	8.6	8.5		USD/mmbtu	7.7	7.3	7.5	8.1	8.4
Gazprom	1.8	9.0	9.0	9.0	9.0	14%	USD/mmbtu	13.3	11.9	10.9	11.2	11.2
Gorgon	5.2	5.2	5.2	5.2	5.2	14%	USD/mmbtu	13.3	11.9	10.9	11.2	11.2
Rasgas	27.5	30.6	30.6	30.6	30.6	13%	USD/mmbtu	12.6	11.3	10.4	10.7	10.7
RIL	18.0	27.1	30.0	31.0	32.0	14%	USD/mmbtu	14.6	11.9	10.9	11.2	11.2
Spot LNG	34.3	43.6	50.9	61.0	70.2		USD/mmbtu	31.0	12.0	13.2	12.8	11.2
Total Gas consumption	158.0	187.9	201.1	213.1	225.9		USD/mmbtu	14.7	10.1	10.2	10.6	10.2

Source: Company data, I-Sec research

Margins to moderate over medium term

In this changed environment, sustaining margins at strong levels of FY23-24 looks improbable. While price increases have begun partially for MGL and IGL, the extent of price increase required implies that some hit on costs may have to be taken, particularly, given that spot LNG prices have also sustained at slightly higher levels over the last 2-3 months due to a harsher winter in Europe this year.

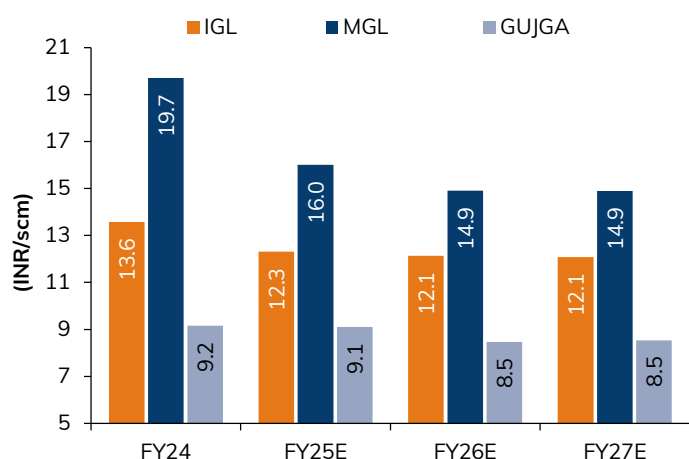
Exhibit 8: Spot LNG price trends – future prices trend lower



Source: I-Sec research, Bloomberg, Argus futures Company data

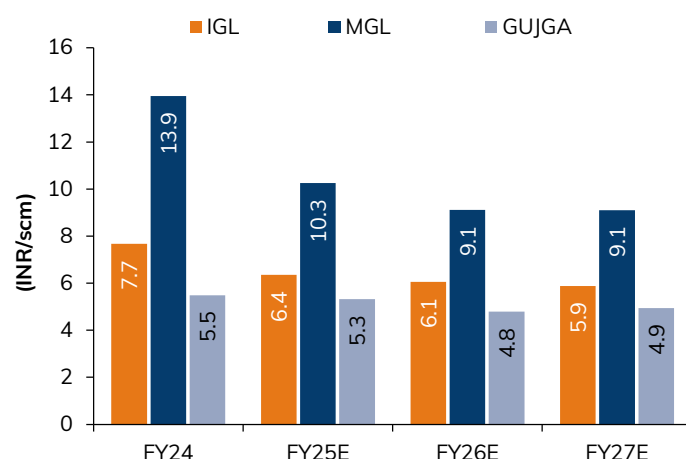
We, therefore, factor in a more moderate margin environment over FY26-27E vs our previous estimates. Our EBITDA/scm estimates factor in an average of INR 0.5-4.5 /scm reduction vs FY24 levels for the three companies. We note that predicting price increases over the next 12-18 months is fraught with uncertainty, hence, we have built our margin assumptions on nominal INR 1-2/scm blended realisation increases and a 3-5% further reduction in APM gas allocation over the next 2 years. This reflects in INR 0.4-1.2 /scm reduction in EBITDA/scm for IGL/MGL/GUJGA, with reduction in GUJGA expectedly the least due to this event, given the relatively lower share of CNG in the overall volume mix for GUJGA (29%) vs 72-75% for IGL/MGL, respectively.

Exhibit 9: CGDs gross margin estimates



Source: I-Sec research, Company data

Exhibit 10: CGDs EBITDA margin estimates



Source: I-Sec research, Company data

Exhibit 11: EBITDA margins assumed for longer term

INR/scm	FY28E	FY29E	FY30E	FY31E
IGL	6.0	6.0	5.5	5.5
MGL	9.0	9.0	9.0	9.0
GUJGA	5.0	5.0	5.0	5.0

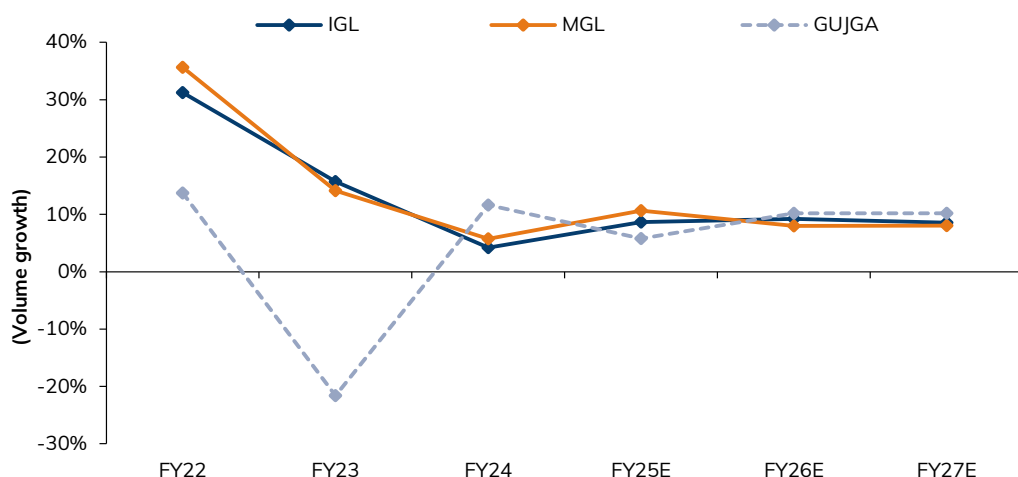
Source: Company data, I-Sec research

We continue to be optimistic on volume growth

Despite the slightly elevated pricing scenario, we note that our volume growth estimates for the next couple of years remain optimistic, driven by:

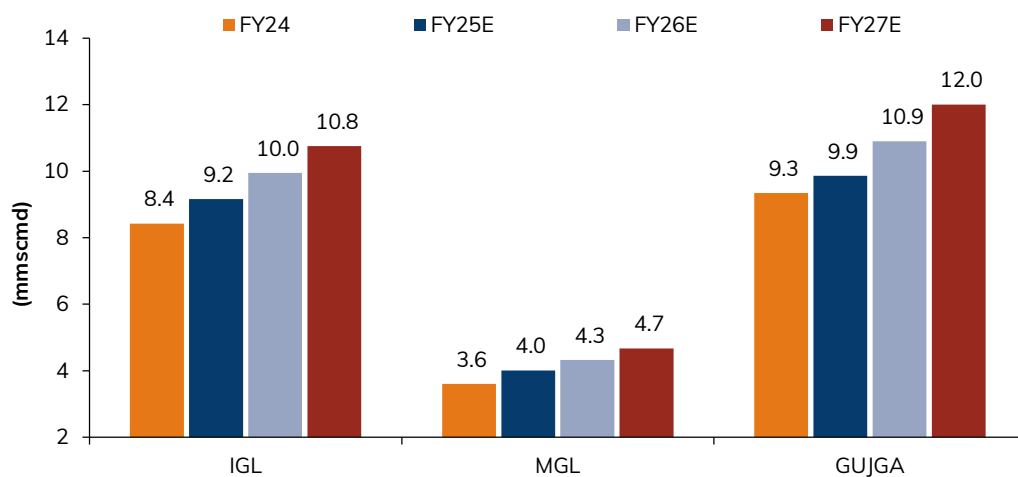
- Increasing penetration of CNG infrastructure not just in operating areas of the listed companies but also the contiguous areas around their GAs – this has created a larger pool of vehicles including commercial vehicles (CVs) for CNG conversions.
- The higher running costs of inter-city transport improves the economics for CNG vs alternate fuels and even with lower discounts to diesel post price hikes, we believe running costs for commercial vehicles may remain attractive to drive higher volume growth.
- The CGDs need to retain the balance between margins and volume growth – we believe they may take the hit to a certain extent on gas costs and prioritise volume growth at this point of time.

Exhibit 12: CGD volume growth estimates



Source: Company data, I-Sec research

Exhibit 13: Volume assumption for CGDs



Source: Company data, I-Sec research

Sourcing portfolio to diversify

In response to the reduction in domestic gas, we see multiple new sources of gas (price wise) over the next couple of years. Domestic premium priced gas, US HH linked LNG, term LNG and spot LNG will all play a larger part in sourcing plans for CGDs over the next 3-5 years. While this is undoubtedly inflationary in the near term, it creates a more sustainable sourcing platform for longer term, which we believe is necessary to survive in the longer run, given the ground realities of domestic gas production over the next 5-7 years.

Exhibit 14: Gas sourcing mix for CGDs

Gas sourcing mix	FY23	FY24	FY25E	FY26E	FY27E
IGL					
APM	70%	61%	43%	37%	34%
Domestic/HPHT	0%	1%	3%	4%	5%
Spot/Others	30%	38%	53%	59%	62%
MGL					
APM	72%	73%	51%	39%	37%
Non APM /other domestic	16%	14%	35%	46%	48%
GAIL midterm	9%	8%	7%	3%	3%
Spot LNG	3%	5%	6%	11%	11%
GUJGA					
APM	35%	31%	25%	20%	20%
LNG - BG Contract	26%	25%	24%	22%	20%
LNG- PLNG	11%	11%	10%	9%	8%
Domestic Gas R Series	8%	7%	7%	6%	6%
Vedanta (Cairn)	11%	0%	0%	5%	4%
LNG - other short term	9%	25%	34%	38%	41%

Source: Company data, I-Sec research

Global LNG supplies – tightness over CY24-CY25, surplus by CY26E

The harsher winter conditions in Europe and continued disruptions in Russian gas supplies to Europe have meant that spot LNG prices in Asia and Europe have steadily jumped over the last 3 months. The estimates for global supply additions remain bullish (~190mt of addition by CY28E) but the fruition of the same is back ended. This implies that pricing for the next 12 months may remain elevated, relative to CY23 levels. Over medium term, however, substantial supply additions to global liquefaction capacity create a favourable environment for Indian consumers, given the increasing share of LNG in Indian sourcing mix.

Exhibit 15: IEEFA estimates – global liquefaction capacity to expand materially over CY24–28; 62% of additions to come from US and Qatar

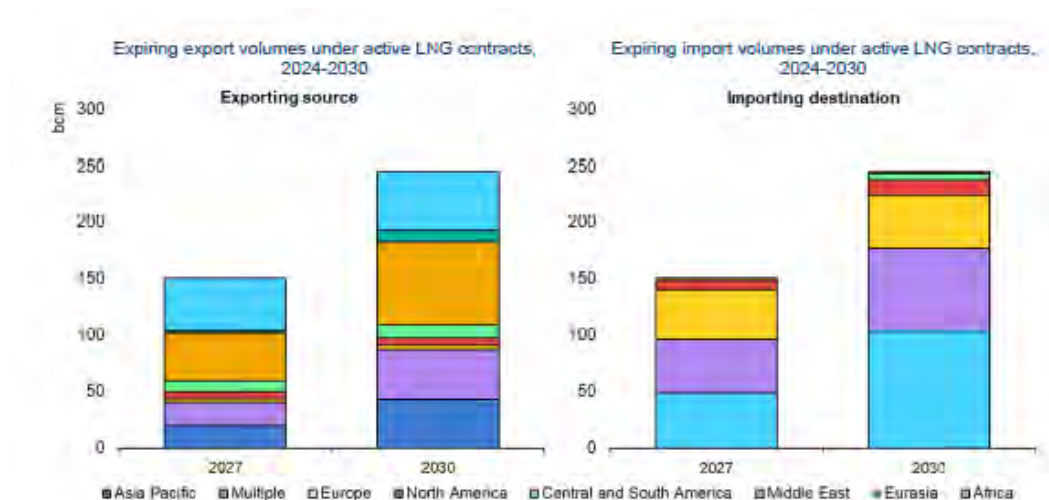
Country wise	MMT	Year-wise	MMT
USA	70.9	CY24	11.5
Qatar	48	CY25	36.6
Russia	26	CY26	57.2
Canada	16.1	CY27	44.1
Nigeria	7.6	CY28	43.3
Mexico	7.2	Total	192.7
Australia	5.4		
US/Louisiana	3.3		
Congo (Republic)	3		
Mauritania - Senegal	2.5		
Malaysia	2		
Gabon	0.7		
Total	192.7		

Source: IEEFA, I-Sec research

The expiry of multiple term LNG contracts offers an additional opportunity

Another ongoing interesting development is the expiry of term LNG contracts between CY24-27. As per an industry report ([link](#)) 150 bcm/y (114 mtpa) of LNG export contracts are set to expire/renewed between CY24-27. Given the weakness in Chinese LNG demand seen over CY24, some of these renewals may come India's way, boosting sourcing options over CY25-27.

Exhibit 16: ~150 bcm of LNG contracts are expiring by CY27, mainly from Africa and the Middle East



Source: I-Sec research, IEA

Differential with diesel narrows, petrol remains at a premium, but other aspects may be key monitorables going forward

Despite the small price hikes taken by MGL on 22 Nov'24, the differential with petrol remains significant. While the absolute differential to diesel has narrowed, we believe that conversions of long-haul commercial vehicles/intercity transport vehicles who have daily running of >80-100kms may still see meaningful economic incentives to convert from diesel. Additionally, there has been a spate of OEM CNG vehicle launches and work is also being done to introduce premium transmission options (three automatic variants from Tata Motors, one launch from Honda expected shortly). Coupled with attempts to refine the refuelling experience by launching large scale CNG fuelling stations and expansion of CNG vehicle boot space (~130-210ltrs across variants, see [here](#)), we believe the softer aspects of CNG vehicle ownership may become a key differentiator for volume growth over the next 2-3 years.

Exhibit 17: CNG price advantage vs petrol/diesel

		Mumbai			Delhi			Gujarat		
		Petrol	Diesel	CNG	Petrol	Diesel	CNG	Petrol	Diesel	CNG
Retail price	INR per ltr/kg	103.4	90.0	77.0	94.7	87.6	75.1	94.4	90.3	76.3
Retail price	INR/kg	146.0	108.9	77.0	133.6	106.0	75.1	133.3	109.3	76.3
Calorific Value	Kcal/kg	10,000	11,400	9,500	10,000	11,400	9,500	10,000	11,400	9,500
Retail price per 10k Kcal	INR /10k Kcal	146.0	95.5	81.1	133.6	93.0	79.0	133.3	95.9	80.3
CNG price benefit over others		-44%	-15%		-41%	-15%		-40%	-16%	

Source: Company data, I-Sec research

Exhibit 18: Comparison of fuel cost of CNG and petrol vehicles

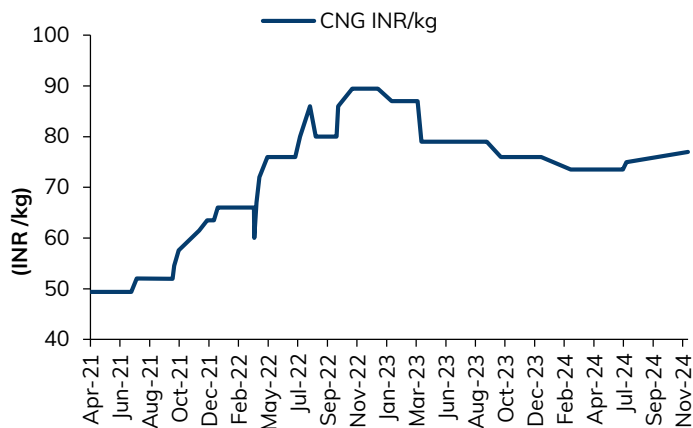
On Road Price			Mileage		Fuel Price		Fuel Cost	
Units	INR lacs	INR lacs	Km/ltr	Km/ltr	INR/ltr	INR/Kg	INR/KM	INR/KM
Model	Petrol	CNG	Petrol	CNG	Petrol	CNG	Petrol	CNG
IGL								
Maruti Swift	4.7	5.7	15	28	94.7	75.1	6.3	2.7
Car SUV			9	16	94.7	75.1	10.8	4.7
3W			28	38	94.7	75.1	3.4	2.0
MGL								
Maruti Swift	4.7	5.7	15	28	103.4	77.0	6.9	2.8
Car SUV			9	16	103.4	77.0	11.8	4.8
3W			28	38	103.4	77.0	3.7	2.0
GUJGA								
Maruti Swift	4.7	5.7	15	28	94.4	76.3	6.3	2.7
Car SUV			9	16	94.4	76.3	10.8	4.8
3W			28	38	94.4	76.3	3.4	2.0

Source: Company data, I-Sec research

Current CNG prices are below peak prices seen in Dec'22

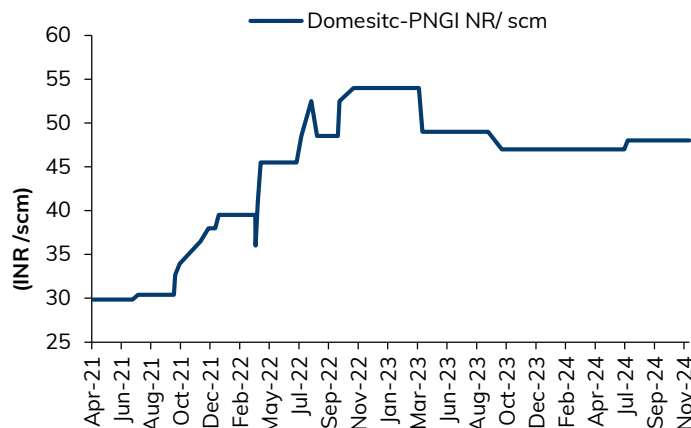
While prices need to be increased sharply to maintain margins at current levels and we believe the probability of full pass through is remote, we note MGL/IGL/GUJGA's current prices are INR 12.5/4.5/2.3 per kg lower than the respective peak prices seen in Dec'22.

Exhibit 19: MGL's historical CNG prices



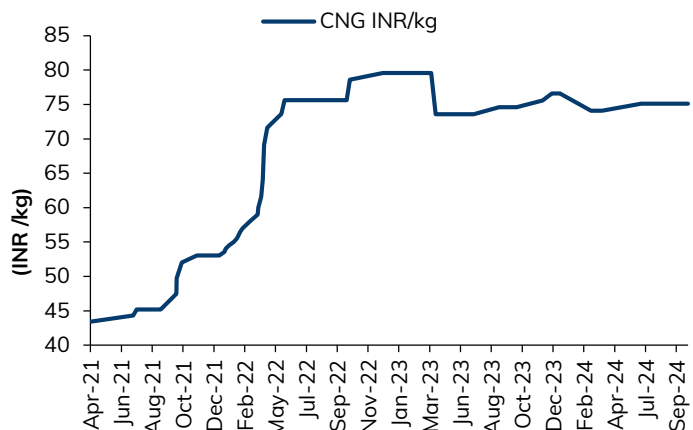
Source: Company data, I-Sec research

Exhibit 20: MGL's historical domestic household prices



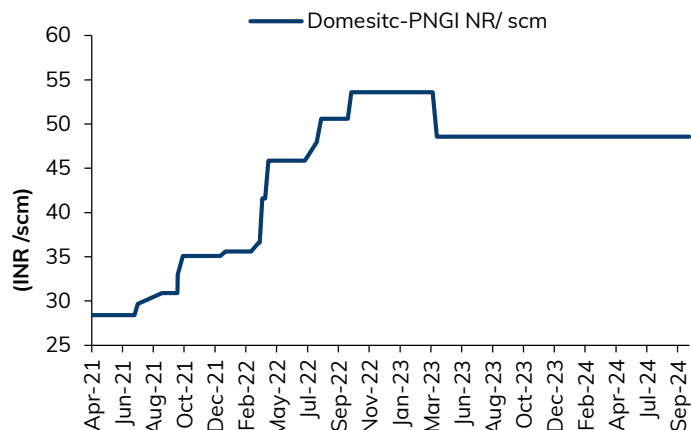
Source: Company data, I-Sec research

Exhibit 21: IGL's historical CNG prices



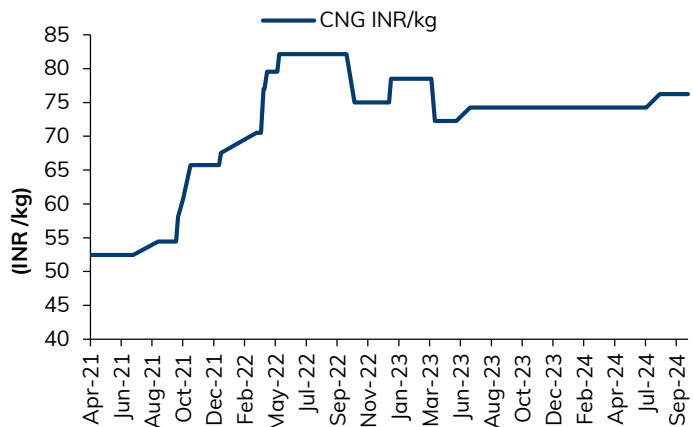
Source: Company data, I-Sec research

Exhibit 22: IGL's historical domestic household prices



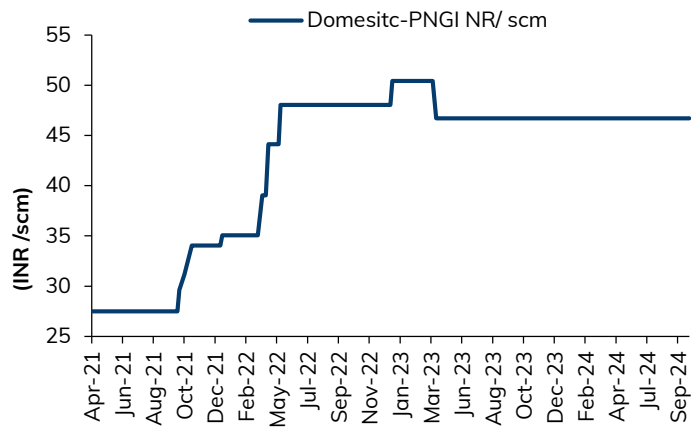
Source: Company data, I-Sec research

Exhibit 23: GUJGA's historical CNG prices



Source: Company data, I-Sec research

Exhibit 24: GUJGA's historical domestic household prices



Source: Company data, I-Sec research

Indian LNG import capacity to expand meaningfully

The requirement of LNG for Indian gas consumers (to grow from 19mt in FY23 to >31.5mt by FY27E) is likely to be met by a material expansion in LNG import infrastructure in the country over the next couple of years. We see overall import capacity to grow by 44% over the next 2-3 years.

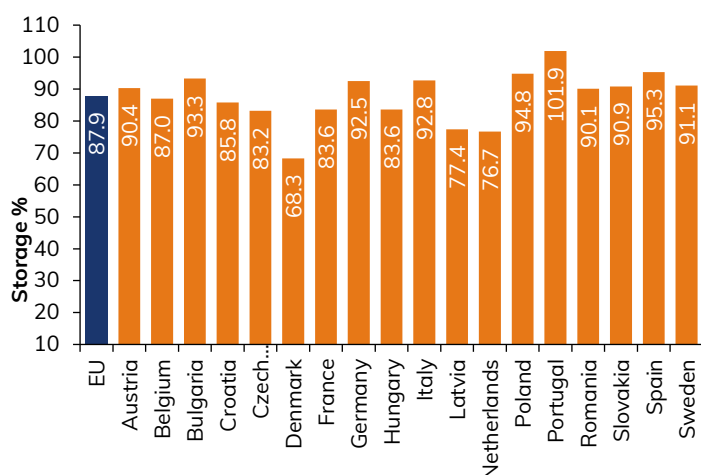
Exhibit 25: India's LNG capacity addition to gain momentum over the next couple of years

Location	Promoters	Name plate capacity (mt)	Expansion (mt)	Total (mt)	FY24 capacity utilisation	Comment
Dahej	Petronet LNG	17.5	5	22.5	95%	To be completed by Mar'25.
Hazira	Shell Energy	5.2		5.2	30%	
Dabhol	Konkan LNG	5		5	43%	Only 2.9mt is commissioned; to increase to 5mt with breakwater infrastructure. Current utilisation is below 1.5mt.
Kochi	Petronet LNG	5		5	21%	Completion of Kochi-Bengaluru pipeline by end-CY24 should boost utilisation.
Ennore	Indian Oil LNG Pvt Ltd	5		5	19%	
Mundra	GSPC LNG	5		5	27%	
Dhamra	Adani total	5		5		
Chhara	HPCL		5	5		To be commissioned in early-Dec'24, but breakwater infrastructure is completed to the extent of 1,000 meters, out of 1,800 meters.
Jaigarh	Jaigarh -FSRU		6	6		
Jafrabad	Swan LNG -FSRU		5	5		
Total		47.7	21	68.7		

Source: Company data, PPAC, I-Sec research

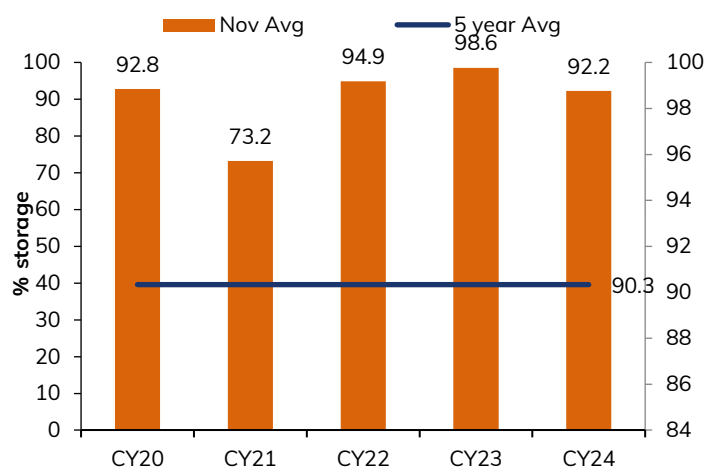
We note that some of this capacity may take longer to ramp up, given that even at optimistic assumptions of demand, needed capacity may not exceed ~40mt by FY30E. Therefore, efficient operators like Petronet LNG stand the best chance to leverage the higher demand in near term.

Exhibit 26: EU Gas inventory, as on 25 Nov'24



Source: AGSI Inventory, I-Sec research

Exhibit 27: Europe Gas inventory levels above 5-year average



Source: AGSI Inventory, I-Sec research

Financials – material EPS downgrades, but attractive valuations

As mentioned before, confluence of tighter gas supplies and the need to maintain pricing advantage with alternate fuels does create a muted margin profile for the three CGDs over FY25-27E. Volume growth assumptions are largely unchanged albeit we now build a slower trajectory for GUJGA, in our revised estimates.

Exhibit 28: Change in estimates

	FY25E	FY26E	FY27E
IGL			
EBITDA	-2.3%	-6.8%	-9.5%
PAT	-2.5%	-7.0%	-9.4%
MGL			
EBITDA	-7.3%	-16.0%	-17.6%
PAT	-8.0%	-17.5%	-19.7%
GUJGA			
EBITDA	-8.3%	-14.3%	-13.3%
PAT	-10.5%	-18.3%	-16.9%

Source: Company data, I-Sec research

Exhibit 29: Change in target prices and estimates

	New Target price	Old Target price	% change	Rating
IGL	412	465	-19%	Upgrade to BUY from ADD
MGL	1,525	1,830	-17%	Maintain BUY
GUJGA	600	680	-12%	Maintain BUY

Source: Company data, I-Sec research

Valuation summary for CGDs

Exhibit 30: IGL -valuation summary

	Assumption
Cost of Equity	13.2%
Cost of Debt	8.0%
Average D/E ratio	35.0%
WACC	11.1%
Terminal Growth rate	2.5%
Average NPV potential (INR mn)	2,41,363
IGL Standalone DCF	345
Rewari and MNGI/CUGL	67
Target Price	412
CMP	320
Upside	29%

Source: Company data, I-Sec research

Exhibit 31: MGL -valuation summary

	Assumption
Cost of Equity	13.0%
Cost of Debt	7.3%
Post tax cost of debt	4.8%
Average D/E ratio	35.0%
WACC	10.9%
Terminal Growth rate	4.0%
Total NPV potential (INR mn)	1,43,658
TP MGL Standalone (INR sh)	1,454
UEPL (INR sh)	71
TP (INR sh)	1,525
CMP (INR sh)	1,176
Upside/(downside)	30%

Source: Company data, I-Sec research

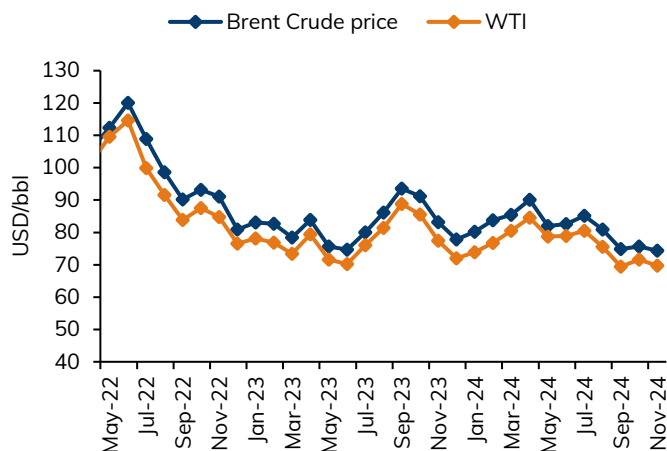
Exhibit 32: GUJGA - valuation summary

INR/sh	I-Sec estimates				Pro forma Estimates post GSPC merger (I-Sec estimates of GUJGA + GSPC estimates)		
Gujarat Gas	FY24	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
EPS	15.8	16.3	15.6	17.9	30.6	31.5	31.7
CMP	473	473	473	473	473	473	473
PE	30.0	29.0	30.4	26.4	15.4	15.0	14.9
Multiple (x)							19
Target Price							600

Source: I-Sec research, Company data

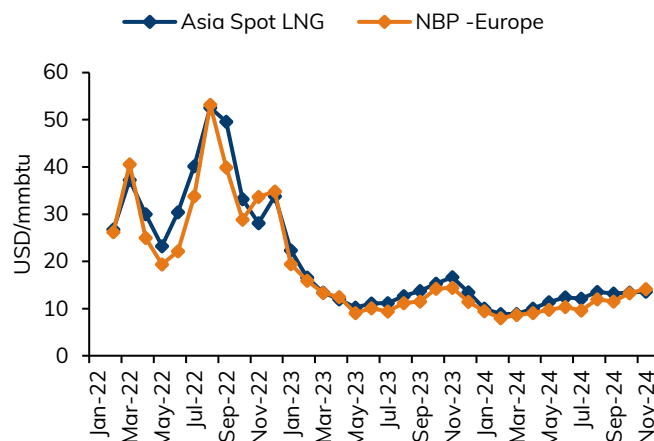
Annexure

Exhibit 33: Crude prices remain steady



Source: Bloomberg, I-Sec research

Exhibit 34: LNG prices remain well below CY22 highs



Source: Bloomberg, I-Sec research

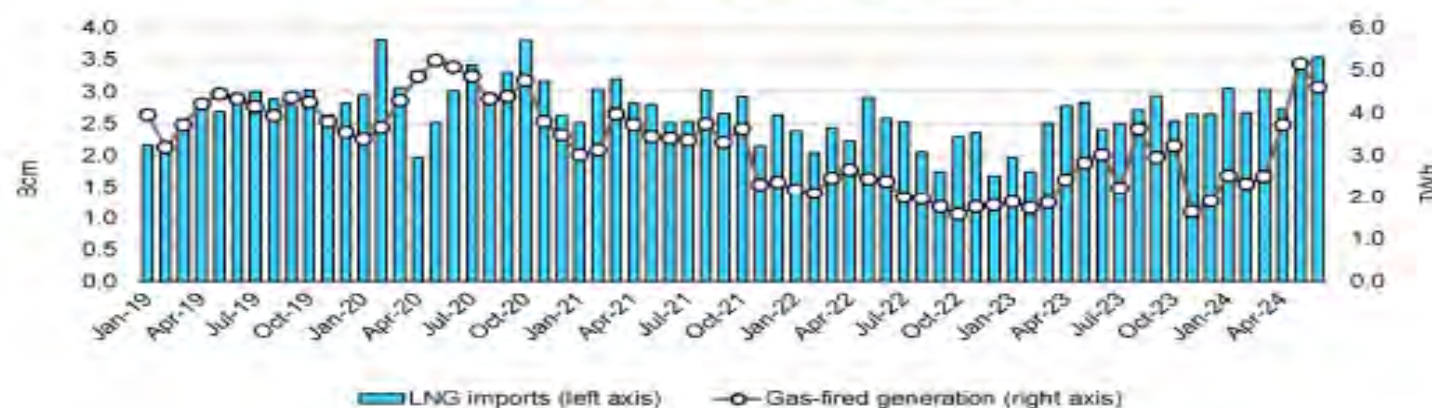
Exhibit 35: Allotment of GAs (geographical areas) in various bidding rounds

Round	Timeline	GAs		% Population		% 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	Jan-22	52	280	26%	96.5%	33%	85.7%
Round 11 A	May-22	5	285	3%	98.0%	2%	88.0%
Round 12	Jan-24	6	291	0%	98.0%	0%	88.0%

Source: PNGRB, I-Sec research

Exhibit 36: India's gas-fired power generation rose to multi-year highs in Q2CY24

Monthly LNG imports and gas-fired power generation, India, 2019-2024



Source: I-Sec research, IEA

Exhibit 37: IEA – world natural gas demand outlook for CY24

Demand (bcm/year)	CY21	CY22	CY23	CY24	CY25	CY24/CY23 growth	CY25/CY24 growth
Africa	169	170	176	180	185	2.3%	2.8%
Asia Pacific	891	877	902	948	997	5.1%	5.2%
of which China	367	364	391	422	455	7.9%	7.8%
Central and South America	153	148	147	148	149	0.7%	0.7%
Eurasia	649	622	631	656	664	4.0%	1.2%
of which Russia	516	487	495	516	524	4.2%	1.6%
Europe	609	524	489	488	493	-0.2%	1.0%
Middle East	562	580	592	610	632	3.0%	3.6%
North America	1091	1144	1157	1169	1173	1.0%	0.3%
of which United States	874	919	928	935	934	0.8%	-0.1%
World Demand	4124	4065	4094	4199	4293	2.6%	2.2%

Source: IEA, I-Sec research

Exhibit 38: IEA – world natural gas production by region and key country

Demand (bcm/year)	CY21	CY22	CY23	CY24	CY25	CY24/CY23 growth	CY25/CY24 growth
Africa	260	251	254	252	260	-0.8%	3.2%
Asia Pacific	648	660	670	686	710	2.4%	3.5%
of which China	205	216	230	245	260	6.5%	6.1%
Central and South America	148	151	148	146	148	-1.4%	1.4%
Eurasia	961	865	830	860	875	3.6%	1.7%
of which Russia	762	672	638	675	687	5.8%	1.8%
Europe	222	230	215	220	216	2.3%	-1.8%
Middle East	692	715	725	743	770	2.5%	3.6%
North America	1172	1240	1285	1288	1315	0.2%	2.1%
of which United States	984	1021	1061	1060	1074	-0.1%	1.3%
World Demand	4103	4112	4127	4195	4294	1.6%	2.4%

Source: IEA, I-Sec research

Financial Summary – Indraprastha Gas

Exhibit 39: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	1,40,000	1,55,933	1,71,761	1,86,810
EBITDA	23,669	21,235	22,113	23,325
EBITDA Margin (%)	16.9	13.6	12.9	12.5
Depreciation & Amortization	4,138	4,875	5,658	6,255
EBIT	19,531	16,360	16,455	17,070
Interest expenditure	92	76	51	51
Other Non-operating Income	3,632	3,259	5,060	6,542
PBT	23,072	19,542	21,464	23,560
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	5,591	4,735	5,201	5,709
PAT	17,481	14,806	16,263	17,851
Less: Minority Interest	-	-	-	-
Net Income (Reported)	17,481	14,806	16,263	17,851
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	17,481	14,806	16,263	17,851

Source Company data, I-Sec research

Exhibit 40: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	34,746	33,338	37,572	48,179
of which cash & bank	21,493	19,817	23,344	33,351
Total Current Liabilities & Provisions	41,083	41,886	44,219	46,111
Net Current Assets	(6,336)	(8,549)	(6,647)	2,069
Other Non Current Assets	-	-	-	-
Net Fixed Assets	65,989	77,274	85,776	88,480
Other Fixed Assets	-	-	-	-
Capital Work in Progress	13,964	13,964	13,964	13,964
Non Investment	7,700	7,700	7,700	7,700
Current Investment	8,806	8,806	8,806	8,806
Deferred Tax Assets	(3,695)	(3,695)	(3,695)	(3,695)
Total Assets	86,428	95,500	1,05,904	1,17,324
Liabilities				
Borrowings	812	412	412	412
Deferred Tax Liability	-	-	-	-
Lease Liability	-	-	-	-
Other Liabilities	99	101	103	105
Equity Share Capital	1,400	1,400	1,400	1,400
Reserves & Surplus*	84,117	93,588	1,03,989	1,15,407
Total Net Worth	85,517	94,988	1,05,389	1,16,807
Minority Interest	-	-	-	-
Total Liabilities	86,428	95,500	1,05,904	1,17,324

Source Company data, I-Sec research

Exhibit 41: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	35,562	35,968	35,206	36,973
% growth (YOY)	2.8%	1.1%	-2.1%	5.0%
EBITDA	5,641	5,226	5,819	5,359
Margin %	15.9%	14.5%	16.5%	14.5%
Other Income	550	1,094	727	1,493
Extraordinaries	-	-	-	-
Adjusted Net Profit	3,921	3,828	4,015	4,311

Source Company data, I-Sec research

Exhibit 42: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Cash Flow from operation before working Capital	24,056	21,235	22,113	23,325
Working Capital Changes	(3,828)	540	1,626	1,294
Tax	(4,871)	(4,735)	(5,201)	(5,709)
Operating Cashflow	15,357	17,039	18,539	18,911
Capital Commitments	(12,021)	(16,160)	(14,160)	(8,960)
Free Cashflow	3,335	879	4,379	9,951
Others CFI	(4,838)	3,259	5,060	6,542
Cashflow from Investing Activities	(16,860)	(12,901)	(9,100)	(2,418)
Inc (Dec) in Borrowings	-	-	-	-
Interest Cost	-	(76)	(51)	(51)
Others	(3,337)	(5,736)	(5,861)	(6,433)
Cash flow from Financing Activities	(3,337)	(5,813)	(5,912)	(6,485)
Chg. in Cash & Bank balance	(4,840)	(1,675)	3,526	10,007
Closing cash & balance	21,493	19,817	23,344	33,351

Source Company data, I-Sec research

Exhibit 43: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Recurring EPS	25.0	21.2	23.2	25.5
Diluted EPS	25.0	21.2	23.2	25.5
Recurring Cash EPS	30.9	28.1	31.3	34.4
Dividend per share (DPS)	9.0	7.6	8.4	9.2
Book Value per share (BV)	122.2	135.7	150.6	166.9
Dividend Payout (%)	36.0	36.0	36.0	36.0
Growth (%)				
Net Sales	(1.0)	11.4	10.2	8.8
EBITDA	16.0	(10.3)	4.1	5.5
EPS	21.0	(15.3)	9.8	9.8
Valuation Ratios (x)				
P/E	12.8	15.1	13.8	12.5
P/CEPS	10.4	11.4	10.2	9.3
P/BV	2.6	2.4	2.1	1.9
EV / EBITDA	8.2	9.2	8.7	7.8
EV / Operating Income	8.4	10.0	8.9	7.7
Dividend Yield (%)	2.8	2.4	2.6	2.9
Operating Ratios				
EBITDA Margins (%)	16.9	13.6	12.9	12.5
Effective Tax Rate (%)	24.2	24.2	24.2	24.2
Net Profit Margins (%)	12.5	9.5	9.5	9.6
NWC / Total Assets (%)	(7.3)	(9.0)	(6.3)	1.8
Fixed Asset Turnover (x)	1.7	1.7	1.6	1.5
Working Capital Days	(2.2)	2.5	1.6	0.3
Net Debt / Equity %	(34.5)	(29.7)	(30.1)	(35.7)
Profitability Ratios				
RoCE (%)	18.7	13.6	12.4	11.6
RoCE (Pre-tax) (%)	24.7	18.0	16.4	15.3
RoE (%)	22.4	16.4	16.2	16.1

Source Company data, I-Sec research

Financial Summary - Mahanagar Gas

Exhibit 44: Profit & Loss

(INR Mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	62,208	67,308	74,085	80,056
EBITDA	18,426	14,985	14,392	15,513
EBITDA Margin (%)	29.6	22.3	19.4	19.4
Depreciation & Amortization	2,736	3,493	4,003	4,513
EBIT	15,690	11,493	10,389	11,000
Interest expenditure	115	50	50	50
Other Non-operating Income	1,753	2,019	2,513	2,513
PBT	17,327	13,462	12,852	13,463
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	4,437	3,447	3,291	3,447
PAT	12,890	10,015	9,561	10,016
Less: Minority Interest	-	-	-	-
Net Income (Reported)	12,890	10,015	9,561	10,016
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	12,890	10,015	9,561	10,016

Source Company data, I-Sec research

Exhibit 45: Balance sheet

(INR Mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	8,422	10,681	13,464	15,773
of which cash & bank	3,985	7,002	9,509	11,598
Total Current Liabilities & Provisions	16,700	19,092	21,958	23,723
Net Current Assets	(8,277)	(8,411)	(8,493)	(7,950)
Other Non Current Assets	4,306	4,306	4,306	4,306
Net Fixed Assets	35,430	40,437	44,934	48,922
Other Fixed Assets	-	-	-	-
Capital Work in Progress	7,743	7,743	7,743	7,743
Non Investment	-	-	-	-
Current Investment	16,360	17,996	19,795	21,775
Deferred Tax Assets	-	-	-	-
Total Assets	55,560	62,070	68,285	74,795
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	2,441	2,441	2,441	2,441
Lease Liability	-	-	-	-
Other Liabilities	1,691	1,691	1,691	1,691
Equity Share Capital	988	988	988	988
Reserves & Surplus*	50,441	56,950	63,165	69,675
Total Net Worth	51,429	57,938	64,153	70,663
Minority Interest	-	-	-	-
Total Liabilities	55,560	62,070	68,285	74,795

Source Company data, I-Sec research

Exhibit 46: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	15,632	15,592	15,842	17,063
% growth (YOY)	-0.1%	-0.3%	1.6%	7.7%
EBITDA	4,487	3,938	4,185	3,985
Margin %	28.7%	25.3%	26.4%	23.4%
Other Income	481	446	402	512
Extraordinaries	-	-	-	-
Adjusted Net Profit	3,172	2,650	2,845	2,828

Source Company data, I-Sec research

Exhibit 47: Cashflow statement

(INR Mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Cash Flow from operation before working Capital	18,964	14,985	14,392	15,513
Working Capital Changes	907	3,151	2,589	1,545
Tax	(4,240)	(3,447)	(3,291)	(3,447)
Operating Cashflow	15,631	14,690	13,690	13,611
Capital Commitments	(7,698)	(8,500)	(8,500)	(8,500)
Free Cashflow	7,933	6,190	5,190	5,111
Others CFI	(3,111)	383	713	533
Cashflow from Investing Activities	(10,809)	(8,117)	(7,787)	(7,967)
Inc (Dec) in Borrowings	-	-	-	-
Interest Cost	-	(50)	(50)	(50)
Others	(3,116)	(3,505)	(3,346)	(3,506)
Cash flow from Financing Activities	(3,116)	(3,555)	(3,396)	(3,556)
Chg. in Cash & Bank balance	1,706	3,018	2,507	2,089
Closing cash & balance	3,985	7,002	9,509	11,598

Source Company data, I-Sec research

Exhibit 48: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Recurring EPS	130.5	101.4	96.8	101.4
Diluted EPS	130.5	101.4	96.8	101.4
Recurring Cash EPS	158.2	136.7	137.3	147.1
Dividend per share (DPS)	28.0	35.5	33.9	35.5
Book Value per share (BV)	520.6	586.5	649.5	715.4
Dividend Payout (%)	21.5	35.0	35.0	35.0
Growth (%)				
Net Sales	(0.9)	8.2	10.1	8.1
EBITDA	55.6	(18.7)	(4.0)	7.8
EPS	63.2	(22.3)	(4.5)	4.8
Valuation Ratios (x)				
P/E	9.0	11.6	12.2	11.6
P/CEPS	7.4	8.6	8.6	8.0
P/BV	2.3	2.0	1.8	1.6
EV / EBITDA	5.2	6.1	6.0	5.3
EV / Operating Income	5.5	6.8	6.7	6.1
Dividend Yield (%)	2.4	3.0	2.9	3.0
Operating Ratios				
EBITDA Margins (%)	29.6	22.3	19.4	19.4
Effective Tax Rate (%)	25.6	25.6	25.6	25.6
Net Profit Margins (%)	20.7	14.9	12.9	12.5
NWC / Total Assets (%)	(14.9)	(13.6)	(12.4)	(10.6)
Fixed Asset Turnover (x)	1.4	1.3	1.2	1.1
Working Capital Days	(5.3)	(10.4)	(19.2)	(30.0)
Net Debt / Equity %	(39.6)	(43.1)	(45.7)	(47.2)
Profitability Ratios				
RoCE (%)	25.2	15.6	12.7	12.1
RoCE (Pre-tax) (%)	33.8	21.0	17.0	16.3
RoE (%)	27.8	18.3	15.7	14.9

Source Company data, I-Sec research

Financial Summary - Gujarat Gas

Exhibit 49: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	1,56,902	1,67,133	1,91,456	2,14,123
EBITDA	18,764	19,194	19,034	21,664
EBITDA Margin (%)	12.0	11.5	9.9	10.1
Depreciation & Amortization	4,743	5,247	5,751	6,255
EBIT	14,021	13,947	13,283	15,409
Interest expenditure	293	80	40	0
Other Non-operating Income	1,078	1,034	989	943
PBT	15,362	14,901	14,232	16,352
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	3,934	3,674	3,509	4,032
PAT	11,428	11,227	10,723	12,320
Less: Minority Interest	-	-	-	-
Net Income (Reported)	11,985	11,227	10,723	12,320
Extraordinaries (Net)	557	-	-	-
Recurring Net Income	11,013	11,227	10,723	12,320

Source Company data, I-Sec research

Exhibit 50: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	22,288	19,030	21,232	23,990
of which cash & bank	9,261	6,260	7,923	10,374
Total Current Liabilities & Provisions	27,825	23,874	25,257	25,493
Net Current Assets	(5,536)	(4,844)	(4,025)	(1,504)
Other Non Current Assets	-	-	-	-
Net Fixed Assets	77,615	84,368	90,617	96,362
Other Fixed Assets	-	-	-	-
Capital Work in Progress	9,180	9,180	9,180	9,180
Non Investment	-	-	-	-
Current Investment	7,501	8,001	8,501	9,001
Deferred Tax Assets	(9,108)	(9,108)	(9,108)	(9,108)
Total Assets	79,652	87,597	95,165	1,03,931
Liabilities				
Borrowings	1,503	1,003	503	3
Deferred Tax Liability	-	-	-	-
Lease Liability	-	-	-	-
Other Liabilities	1,256	1,281	1,307	1,333
Equity Share Capital	1,377	1,377	1,377	1,377
Reserves & Surplus*	75,516	83,936	91,979	1,01,219
Total Net Worth	76,893	85,313	93,355	1,02,595
Minority Interest	-	-	-	-
Total Liabilities	79,652	87,597	95,165	1,03,931

Source Company data, I-Sec research

Exhibit 51: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	39,291	41,342	44,503	37,818
% growth (YOY)	6.6%	5.2%	17.7%	-1.7%
EBITDA	4,007	5,911	5,356	5,142
Margin %	10.2%	14.3%	12.0%	13.6%
Other Income	230	311	386	386
Extraordinaries	-	-	-	-
Adjusted Net Profit	2,203	3,681	3,298	3,069

Source Company data, I-Sec research

Exhibit 52: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Cash Flow from operation before working Capital	19,769	19,194	19,034	21,664
Working Capital Changes	(201)	(3,669)	869	(44)
Tax	(3,227)	(3,674)	(3,509)	(4,032)
Operating Cashflow	16,340	11,851	16,395	17,589
Capital Commitments	(8,371)	(12,000)	(12,000)	(12,000)
Free Cashflow	24,712	23,851	28,395	29,589
Others CFI	(454)	534	489	443
Cashflow from Investing Activities	(8,825)	(11,466)	(11,511)	(11,557)
Inc (Dec) in Borrowings	-	(500)	(500)	(500)
Interest Cost	(273)	(80)	(40)	0
Others	(4,868)	(2,807)	(2,681)	(3,080)
Cash flow from Financing Activities	(5,141)	(3,387)	(3,221)	(3,580)
Chg. in Cash & Bank balance	2,374	(3,001)	1,663	2,451
Closing cash & balance	9,184	6,260	7,923	10,374

Source Company data, I-Sec research

Exhibit 53: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Recurring EPS	16.0	16.3	15.6	17.9
Diluted EPS	16.0	16.3	15.6	17.9
Recurring Cash EPS	22.9	23.9	23.9	27.0
Dividend per share (DPS)	5.7	4.1	3.9	4.5
Book Value per share (BV)	111.7	123.9	135.6	149.0
Dividend Payout (%)	35.4	25.0	25.0	25.0
Growth (%)				
Net Sales	(6.4)	6.5	14.6	11.8
EBITDA	(21.6)	2.3	(0.8)	13.8
EPS	(27.8)	1.9	(4.5)	14.9
Valuation Ratios (x)				
P/E	29.6	29.0	30.4	26.4
P/CEPS	20.7	19.8	19.8	17.5
P/BV	4.2	3.8	3.5	3.2
EV / EBITDA	16.6	16.3	16.3	14.1
EV / Operating Income	20.6	20.9	21.7	18.7
Dividend Yield (%)	1.2	0.9	0.8	0.9
Operating Ratios				
EBITDA Margins (%)	12.0	11.5	9.9	10.1
Effective Tax Rate (%)	25.6	24.7	24.7	24.7
Net Profit Margins (%)	7.0	6.7	5.6	5.8
NWC / Total Assets (%)	(7.0)	(5.5)	(4.2)	(1.4)
Fixed Asset Turnover (x)	1.5	1.4	1.5	1.5
Working Capital Days	7.7	19.3	20.3	20.0
Net Debt / Equity %	(19.8)	(15.5)	(17.1)	(18.9)
Profitability Ratios				
RoCE (%)	13.9	12.8	11.1	11.8
RoCE (Pre-tax) (%)	18.7	16.9	14.7	15.7
RoE (%)	15.0	13.8	12.0	12.6

Source Company data, I-Sec research

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