India

Overweight *(previously Underweight)*

Highlighted Companies

Gujarat Gas

ADD, TP Rs679, Rs480 close

We upgrade our rating on the stock to ADD with a target price of Rs679 (at 23x FY25F EPS). However, the downside risk could arise from a weak ceramic sector outlook, or a sustained discount in propane/LPG prices vs. natural gas prices leading to increased pricing competition from alternative fuels in the industrial and commercial segments.

Indraprastha Gas

ADD, TP Rs539, Rs463 close

We upgrade our rating on the stock to ADD with a target price of Rs539 (at 18x FY25F EPS). However, the downside risk could arise from any changes in the government's policy on the sector.

Mahanagar Gas

ADD, TP Rs1252, Rs1025 close

We upgrade our rating on the stock to ADD with a target price of Rs1,252 (at 18x FY25F EPS). We expect a moderate volume growth of only around 6% CAGR over FY24F-26F.

Summary Valuation Metrics

P/E (x)	Mar22-F	Mar23-F	Mar24-F
Gujarat Gas	25.64	21.6	18.69
Indraprastha Gas	21.58	20.12	15.12
Mahanagar Gas	16.96	12.82	10.24

P/BV (x)	Mar22-F	Mar23-F	Mar24-F
Gujarat Gas	5.86	4.7	3.81
Indraprastha Gas	4.27	4.09	3.3
Mahanagar Gas	2.82	2.45	1.98

Dividend Yield	Mar22-F	Mar23-F	Mar24-F
Gujarat Gas	0.42%	0.42%	0.42%
Indraprastha Gas	0.78%	0.78%	0.78%
Mahanagar Gas	3.22%	0.98%	0.98%

Gas Transmission & Dist

Volume growth concerns are behind us

- Stagnant Chinese demand, reduced European gas consumption, and upcoming new liquification capacities have all played a role towards a balanced LNG market with price correction.
- GoI's emphasis on higher APM allocation for Indian CGD firms may lead to India choosing to purchase urea instead of using natural gas for making urea.
- In our view, CGD players can enjoy the margins. Lower LNG prices indicate volume growth and an uptrend in gross profit/scm. Hence, we have upgraded our sector rating to Overweight (from Underweight earlier).

Diverse factors stabilize LNG market to reach an equilibrium

The convergence of multiple factors precipitated a substantial decline in LNG prices. Notably, China's stagnant LNG import demand has exerted downward pressure on prices. Also, Europe's imported gas consumption witnessed a significant 20% reduction, further impacting the overall LNG market. The reality of higher gas prices has changed European consumer behaviour and even after adjusting for a milder winter, household gas consumption has come down by 15-17%, which has dented our earlier thesis (based on inelastic winter demand). Additionally, Pakistan's economic challenges have resulted in decreased LNG imports. We anticipate reduced gas imports by Asian economies in 2023F, excluding Japan. Moreover, the global expansion of liquefaction capacity has intensified pricing pressure. These combined forces have created a complex market landscape, characterized by heightened supply and diminished demand, ultimately leading to a correction in LNG prices and the attainment of a state of equilibrium in the market.

Higher APM gas allocation with LNG price fall is a win-win situation

The decline in LNG demand in Europe resulted in a correction in spot prices, offering some relief for the medium term. Going ahead, the long-term prices of LNG are expected to remain stable. As the RasGas contract for PLNG (Petronet LNG) approaches its expiry in 2028, we believe that PLNG will adopt a measured approach before renewing it. If the planned expansion of the US capacity proceeds as per schedule, there is a potential opportunity for PLNG to secure a new long-term contract at more favourable prices. Also, with the Government of India or GoI's focus on allocating higher APM (administered price mechanism) gas to Indian city gas distribution or CGD companies, it is likely that India will opt to purchase urea rather than using natural gas for urea production. This development presents a win-win situation for CGD players, ensuring favourable prospects for them.

Upgrade sector rating to Overweight from Underweight

The growth trajectory is promising for Indian CGD players, paving the way for a rise in their earnings. We upgrade coverage on the sector with an Overweight rating (from Underweight earlier). However, downside risks could arise from a double-digit rise in LNG prices or any changes in the government's policy for the sector. IGL remains our top pick in the space

Analyst(s)

Satish KUMAR
T (91) 22 4161 1562
E satish.kumar@incredcapital.com
Abbas PUNJANI
T (91) 22 4161 1598
E abbas.punjani@incredcapital.com

Figure 1: We have raised target prices and upgraded the sector rating to Overweight.

Company Name	Old Rating	New Rating	Old TP	New TP	EPS CAGR 3-YEAR
Gujarat Gas	REDUCE	ADD	410	679	14.7%
Indraprastha Gas	REDUCE	ADD	277	539	17.2%
Mahanagar Gas	REDUCE	ADD	642	1,252	10.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Global slowdown is a blessing for India

The decline in Chinese and European LNG consumption as well as Pakistan's inability to buy LNG has led to a balanced LNG market. The amazing flexibility of the Western world to come out of trouble has been demonstrated yet again. Firstly, they spent their way out of the predicament in 2022, and now their demand itself has collapsed. The tightening is still going on, which means expansion and hence, higher energy demand is still some time away. China, which was supposed to be the bright spot in the global economy in 2023, is not turning out to be that saviour, which is again beneficial for LNG users. The stage is set for a growth in earnings of Indian gas companies as well as companies that specialize in supplying small gas turbines, generators as well as LNG liquefaction terminal equipment.

European natural gas demand disappointed us but saved the world from super energy inflation

Firstly, nature was kind to Europe as the winter season was mild, leading to non-exhaustion of its gas reserves that we had estimated. The high interest rate environment also choked the economy. As a result, European gas demand started declining by nearly 15% YoY.

European natural gas demand is down by 15% YoY ➤

According to the International Energy Agency (IEA), European gas demand in the first five months of 2023 stood at 251bcm, down 15% from the same period in 2022. The decline in demand was driven by several factors such as:

- The war in Ukraine and subsequent sanctions on Russia led to a sharp decline in Russia's gas exports to Europe.
- A mild winter, which reduced the demand for gas for heating purpose.

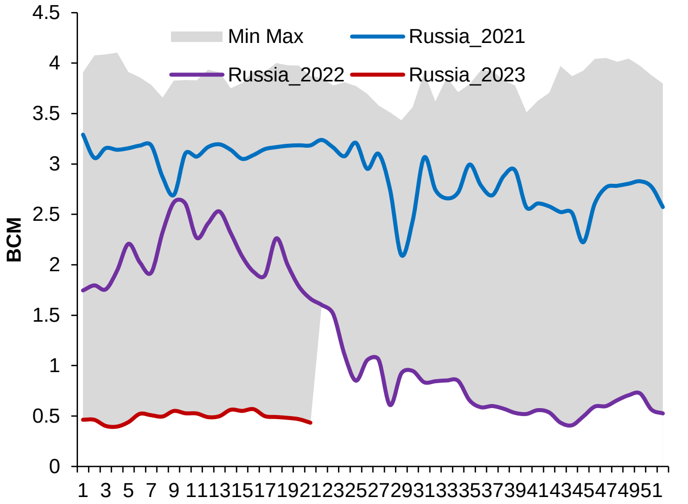
Hence, LNG demand is up by only 9% ➤

In the first five months of 2023, LNG demand in Europe touched 78bcm, up 9% over the same period in 2022. The increase in LNG demand was driven by a number of factors, including:

- Reduced pipeline gas supply from Russia due to the war in Ukraine.
- Increased LNG production in the US and other countries.

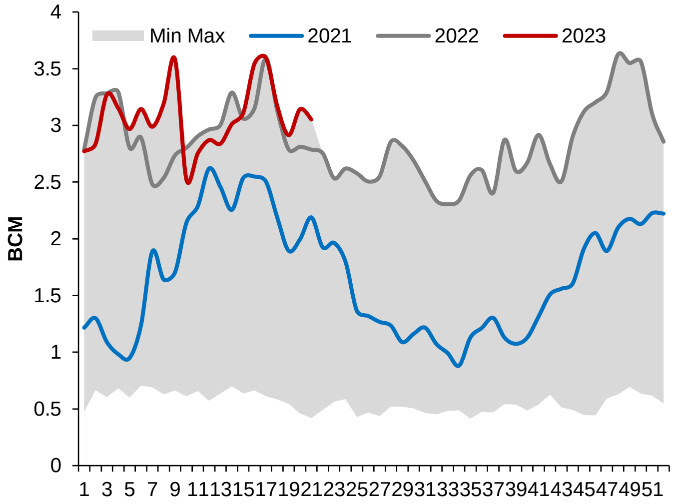
The rise in LNG demand helped to offset some of the decline in pipeline gas supply from Russia. However, Europe still relies heavily on Russia for natural gas, and the war in Ukraine has raised concerns about the security of European energy supplies.

Figure 2: Russian gas supply to Europe is down by 75%



SOURCE: INCRED RESEARCH, COMPANY REPORTS

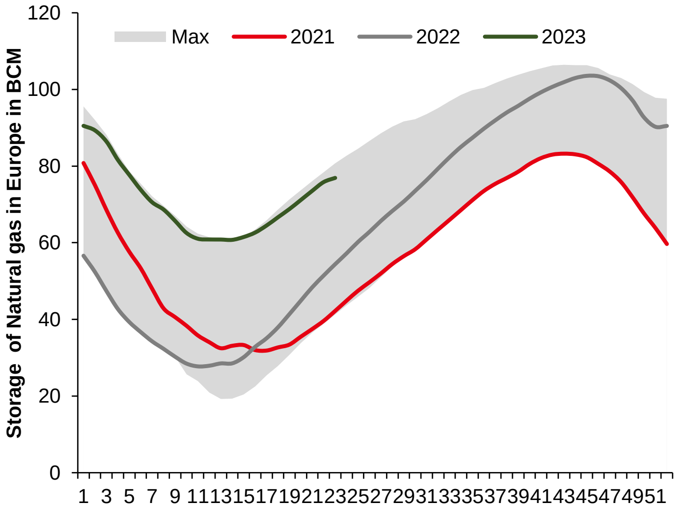
Figure 3: However, demand decline and the rise in LNG imports are a saving grace for Europe



SOURCE: INCRED RESEARCH, COMPANY REPORTS

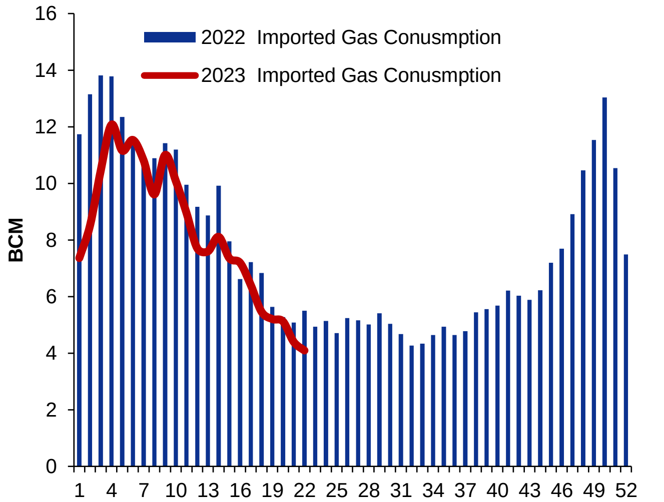
As a result, European gas inventory is near its all-time high

Figure 4: European gas inventory is only slightly below all-time high…



SOURCE: INCRED RESEARCH, COMPANY REPORTS

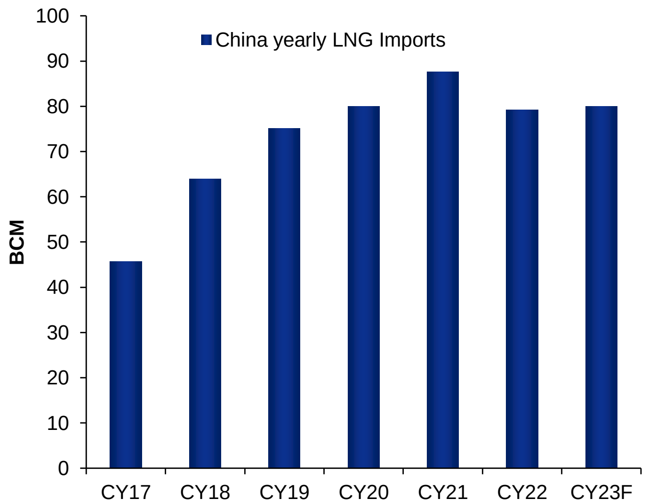
Figure 5: …as imported gas consumption is nearly 20% down



SOURCE: INCRED RESEARCH, COMPANY REPORTS

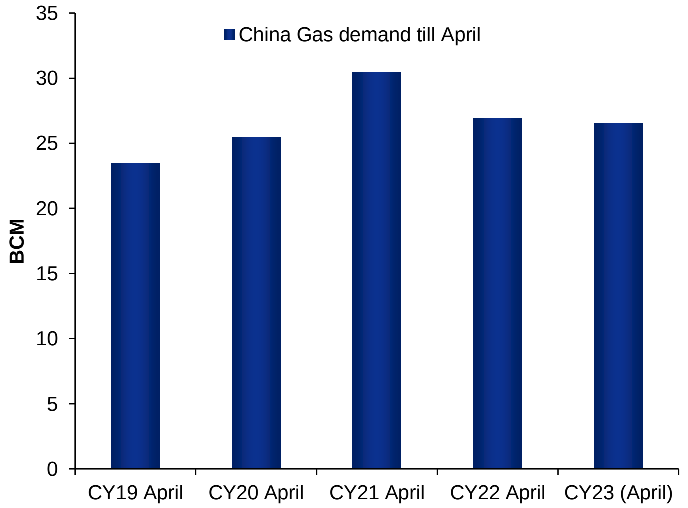
Even Chinese imported LNG demand remains stagnant

Figure 6: We don't expect any growth in China's yearly LNG imports…



SOURCE: INCRED RESEARCH, COMPANY REPORTS

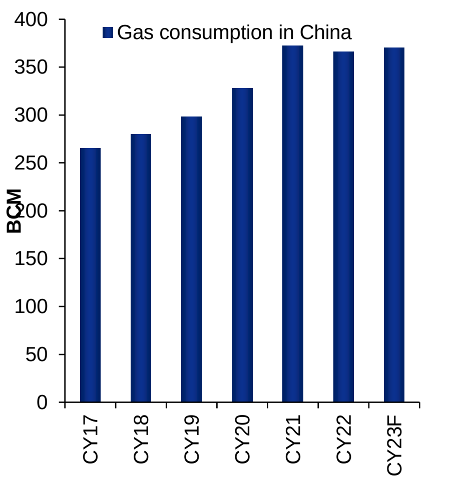
Figure 7: …as its LNG imports are nearly at the same level as they were last year



SOURCE: INCRED RESEARCH, COMPANY REPORTS

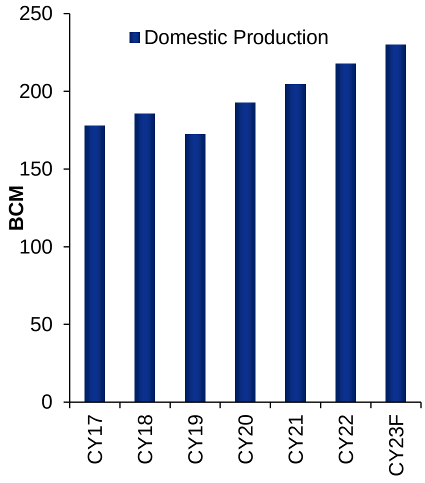
Chinese domestic gas production is rising and demand is lower, thereby exerting pressure on its LNG requirement

Figure 8: Overall gas demand is seen declining in China…



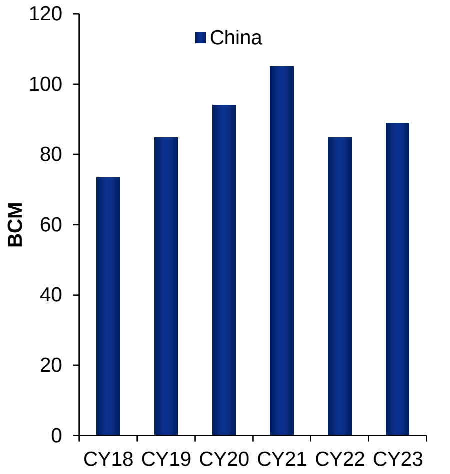
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: …and its domestic gas production is rising…



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: ….thereby exerting pressure on its LNG imports

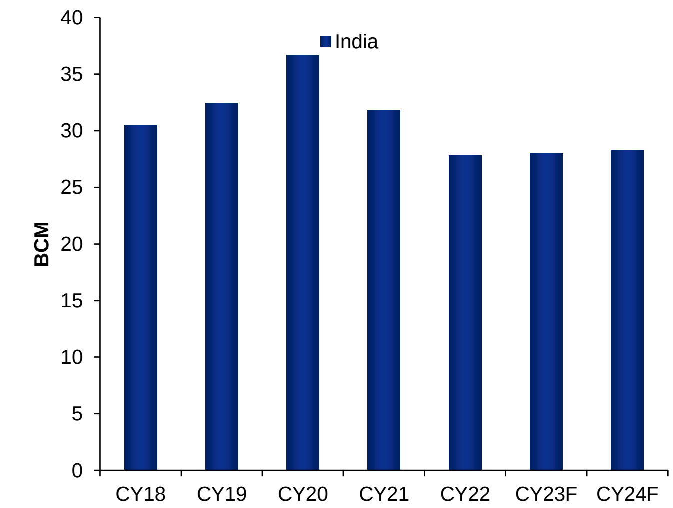


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Bad economic scenario in Pakistan to play havoc on the country's LNG imports and India will buy urea rather than natural gas to make urea

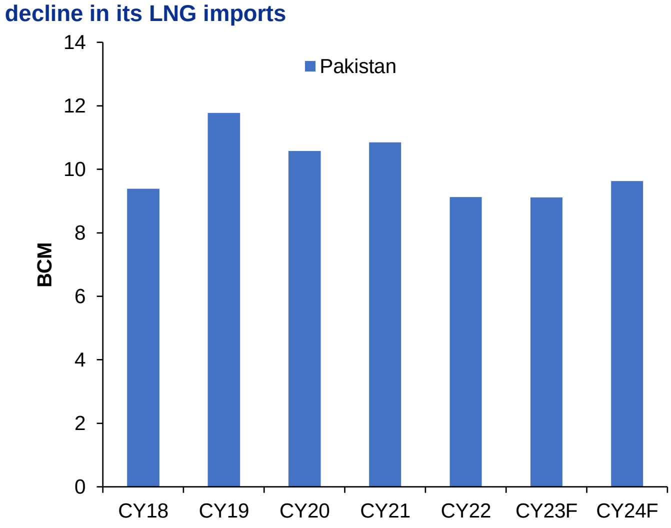
In a nutshell, apart from Japan, most other Asian economies will import less gas in 2023 compared to 2022. At the same time, liquefaction capacity is rising globally, which is exerting extra pressure on gas prices.

Figure 11: Total LNG demand in India is likely to remain below 2020 levels



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Pakistan's economic woes will lead to a significant decline in its LNG imports



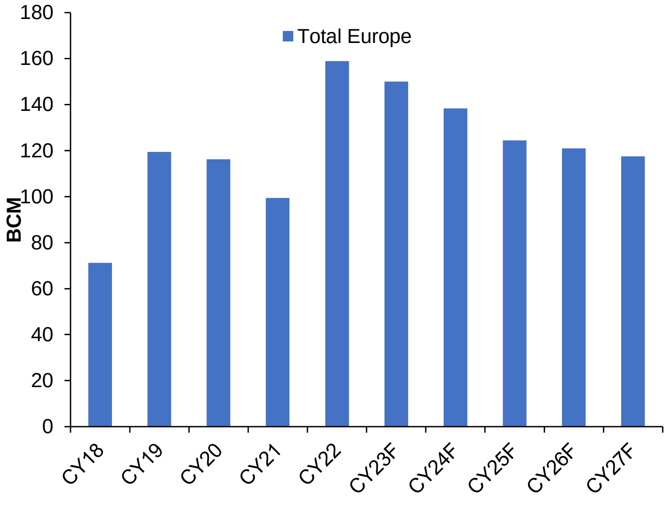
SOURCE: INCRED RESEARCH, COMPANY REPORTS

The lesser-than-expected increase in European demand and a slowing Chinese economy have created a surplus scenario - something unimaginable a few quarters ago

The European demand reduction has created a scenario where LNG imports in the continent is likely to increase by, at the most, 17bcm to ~175bcm in CY23F. This is far below what we had expected earlier i.e., ~215-220bcm. China has increased its domestic gas production and moreover the demand for energy is slowing down, which is leading to lower-than-expected LNG imports.

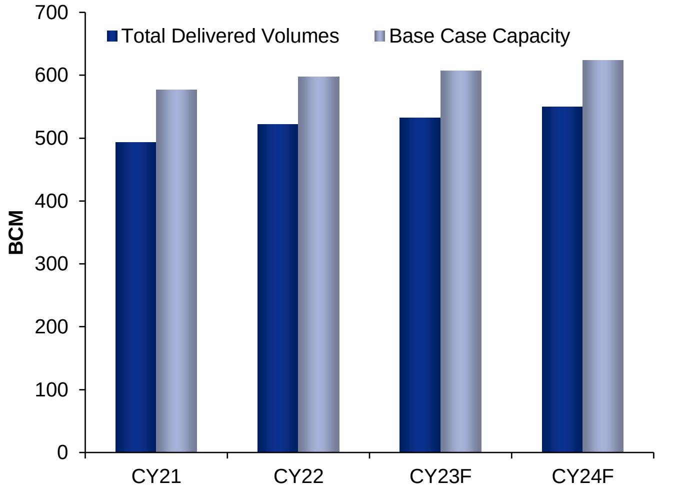
European slowdown, coupled with China slowdown, will lead to sub-par growth in global LNG demand

Figure 13: Overall European LNG demand is likely to be lower in CY23F and CY24F



SOURCE: INCRED RESEARCH, COMPANY REPORTS

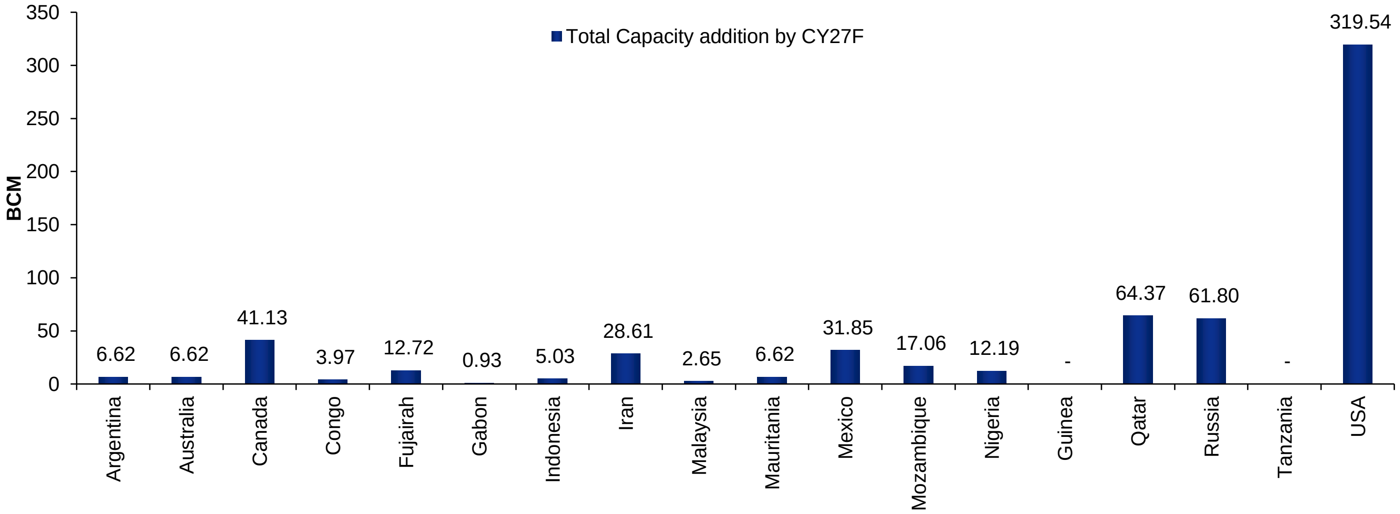
Figure 14: The slowdown in China and lower demand growth in countries like Pakistan is leading to sub-par global demand



SOURCE: INCRED RESEARCH, COMPANY REPORTS

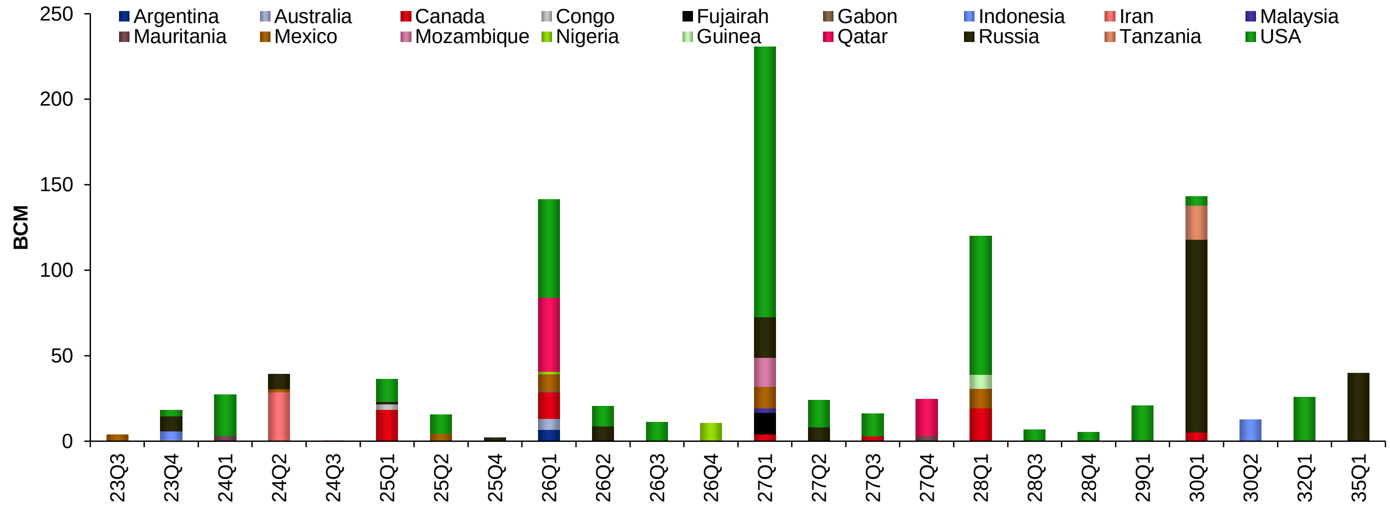
At the same time, multiple new liquefaction capacities are getting commissioned in the US, the Middle-East and RoW

Figure 15: The US is set to commission nearly 320bn cm liquefaction capacity by 2027F



SOURCE: INCRED RESEARCH, COMPANY REPORTS

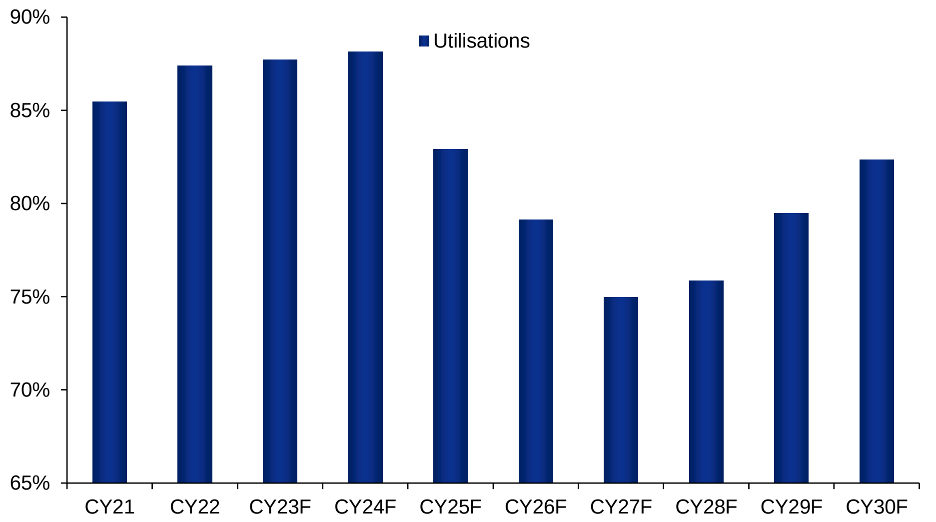
Figure 16: By 2025F, US to add nearly 50bcm new capacity, which will meet most of the world's LNG requirement



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Utilization of liquefaction capacity will start trending downwards from 2023F itself, while earlier we had projected that utilization will start declining from CY25F

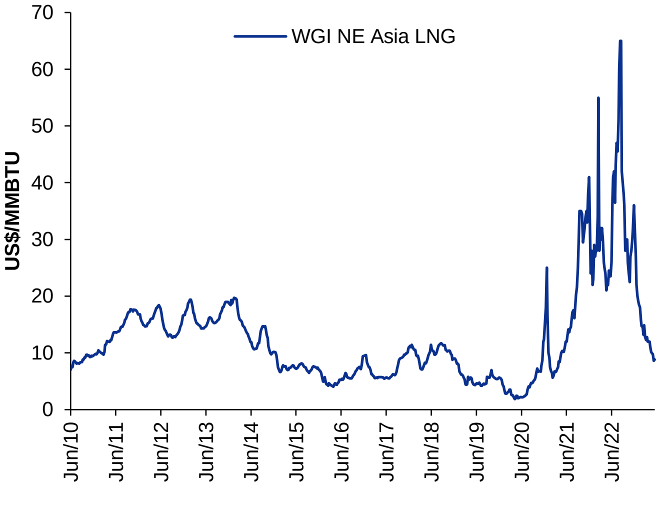
Figure 17: Capacity utilization won't breach 95% (as we had feared earlier) and will start trending downwards from CY25F



SOURCE: INCRED RESEARCH, COMPANY REPORTS

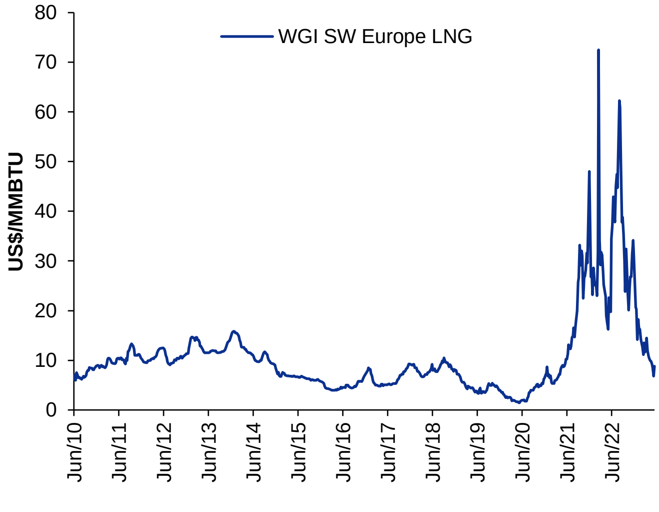
LNG prices are already trending downwards and it will not be long before they hit the long-term average

Figure 18: Asian LNG prices are trending towards US$7/mmBtu



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 19: European prices are also nearing towards the 2019 levels

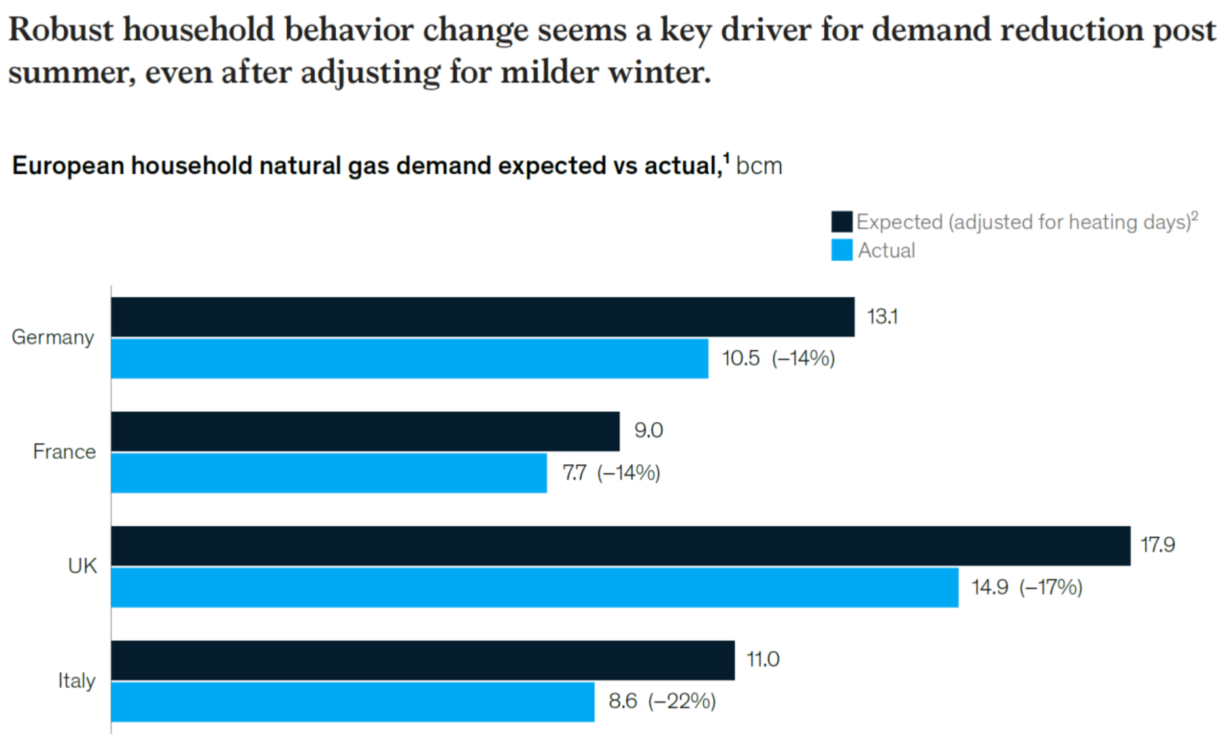


SOURCE: INCRED RESEARCH, COMPANY REPORTS

The reason behind the total change in LNG's fortunes is the dramatic change in European consumers' behaviour

It's the agility of the European market and some policy response which led to the LNG demand destruction in Europe. We could not estimate this sharp response as we were under the assumption that energy demand will remain inelastic. However, it was also true that the weather has been extremely kind to European consumers.

Figure 20: European household behaviour changes surprised us immensely - this change may continue in 2023F and reduce LNG demand



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Europe has also managed to significantly reduce its industrial gas demand, and the household behaviour changes have been nothing short of astonishing

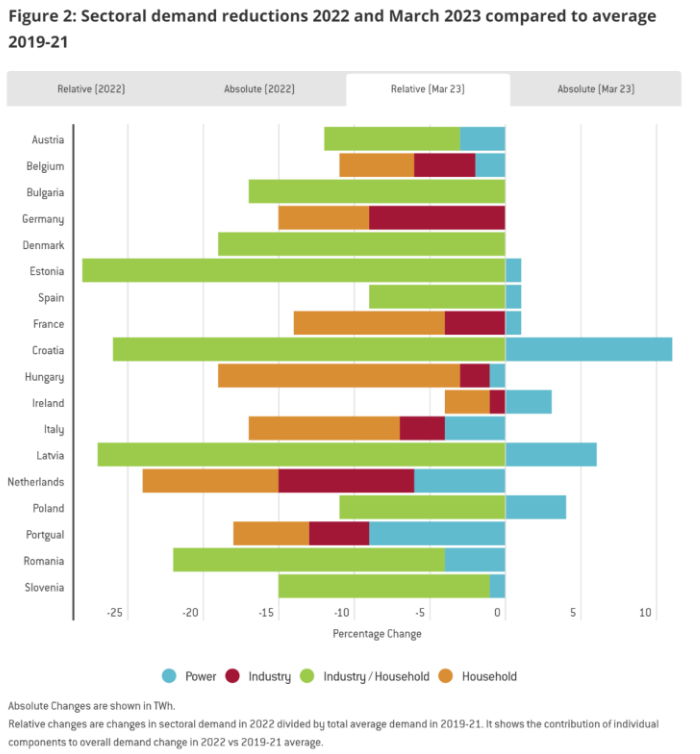
Industrial gas supply in Europe is down by 15% from the 2019-2021 average, according to Bruegel, a think tank. This was due to a number of factors such as:

1. The Russian war with Ukraine, which led to a decrease in Russia's gas supply to Europe.
2. The global economic slowdown leading to a decrease in the demand for industrial goods.
3. The rise in renewable energy leading to a decrease in the demand for fossil fuels.

The decrease is most pronounced in Germany, Europe's largest economy. Industrial gas consumption in Germany is down by 27% from the 2019-2021 average.

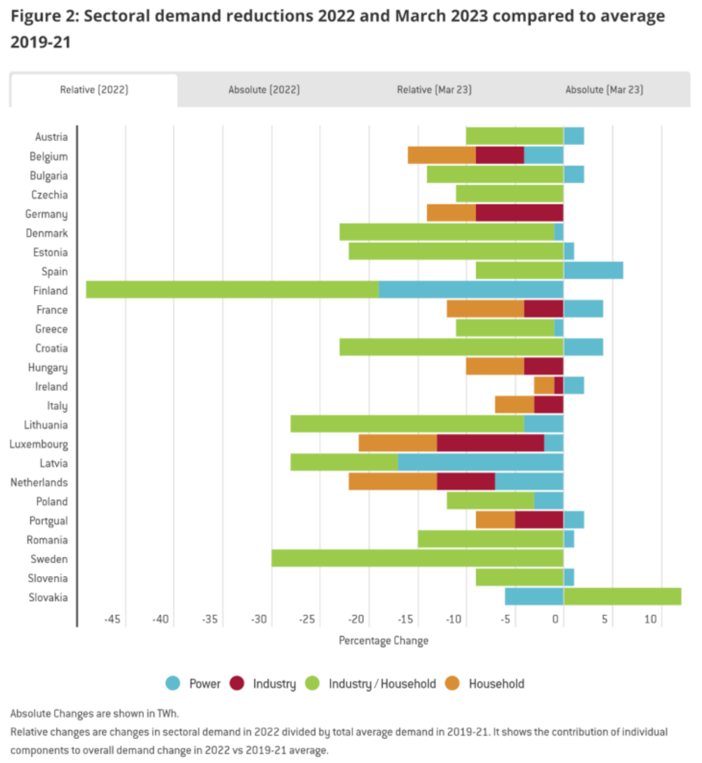
The decrease is also being felt in other European countries, such as France, Italy, and Spain. Industrial gas consumption in France is down by 20%, industrial gas consumption in Italy is down by 18%, and industrial gas consumption in Spain is down by 15%.

Figure 21: In Mar 2023 also, industrial demand for gas in Europe declined (the trend continued since Jan 2023)



SOURCE: INCRED RESEARCH, HTTPS://WWW.BRUEGEL.ORG/DATASET/EUROPEAN-NATURAL-GAS-DEMAND-TRACKER

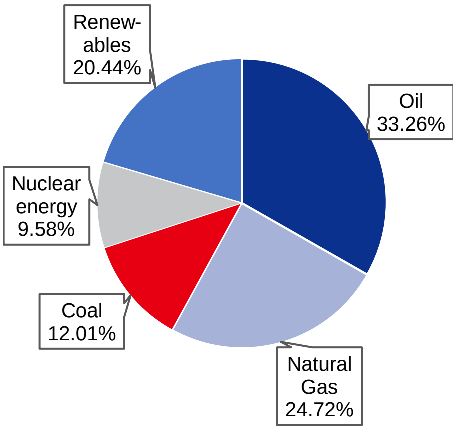
Figure 22: Industrial demand reduction was massive in 2022, and 2023 is witnessing a cut over and above that level



SOURCE: INCRED RESEARCH, HTTPS://WWW.BRUEGEL.ORG/DATASET/EUROPEAN-NATURAL-GAS-DEMAND-TRACKER

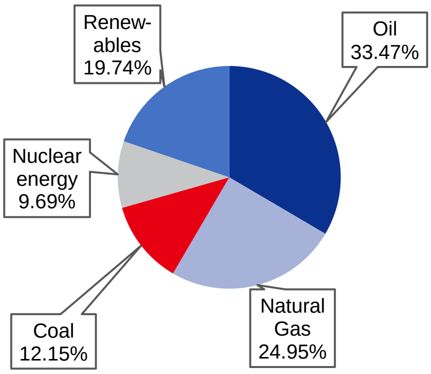
We believe the share of renewables in the European energy mix will increase significantly in 2023F

Figure 23: CY20 primary energy consumption mix in Europe



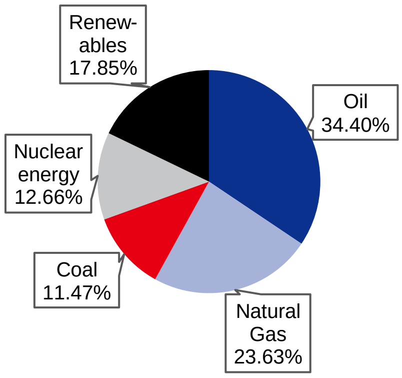
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 24: CY21 primary energy consumption mix in Europe



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 25: In CY22, the share of gas went down but lower renewable power generation led to higher coal usage



SOURCE: INCRED RESEARCH, COMPANY REPORTS

The key thing is to understand how Europeans will meet their energy demand for heating requirement in the coming years

Future projection about gas or any other source of energy vis-à-vis Europe is dependent on the following factors:

1. How Europeans meet their energy demand for heating requirement in the coming future?
2. Can they replace all gas-fired systems with electricity-based systems and invest a lot in renewable energy systems?

On an overall basis, it makes more sense to convert all gas-fired heating systems to electricity-powered ones in Europe. Here are some of the reasons:

1. It will reduce the reliance on Russian gas. Europe is currently heavily reliant on Russian gas for its energy needs. By converting to electricity-based heating, Europe can reduce its reliance on Russian gas and become more energy-independent.
2. It will help in reducing greenhouse gas emissions. Gas-fired heating systems produce greenhouse gases, which contribute to climate change. Electric heating systems are much cleaner and produce zero emissions.
3. It will improve air quality. Gas-fired heating systems also produce pollutants that can contribute to poor air quality. Electric heating systems do not produce these pollutants, which can help improve the air quality in cities and towns.
4. It will create jobs. The transition to electric heating will create jobs in manufacturing, installation, and maintenance of heat pumps.

Of course, there are some challenges in converting to electric heating systems such as:

1. The first challenge is the cost of heat pumps. Heat pumps are more expensive than gas boilers, but the cost of electricity is also lower than the cost of gas. Over time, the savings on electricity cost can offset the higher upfront cost of a heat pump.
2. The second challenge is the availability of electricity. In some parts of Europe, the electricity grid may not be able to handle the increased demand for electricity from heat pumps. This could lead to blackouts or brownouts. However, this challenge can be addressed by investing in the grid and by using renewable energy sources to generate electricity.

Overall, the benefits of converting to electric heating systems outweigh the challenges. By converting to electric heating systems, Europe can reduce its reliance on Russian gas, improve the air quality, and create jobs.

In a nutshell, the answer lies in investing in renewable assets like hydro, wind power systems, etc

1. Gas and coal are still the biggest sources of power generation in the EU, but the European wind industry accounted for 44% of all new power installations last year - more than any other technology.
2. The increase in wind power is being driven by several factors, including government policies that support renewable energy, falling cost of wind turbines, and public support for clean energy. Wind power is now a mature, mainstream technology, and is cheaper than gas, coal, and other forms of power generation.
3. The increase in hydro assets is also being driven by government policies that support renewable energy, but it is also limited by the availability of suitable sites. Hydro power is a reliable source of energy, but it can be disruptive to the environment.
4. The increase in wind power and hydro assets is helping Europe to reduce its reliance on fossil fuels and meet its climate change targets. In 2015, renewable energy sources accounted for 25% of Europe's electricity generation, and this figure is expected to continue growing in the coming years.

Europe is already doing that, which is leading to opportunities for Indian renewable equipment manufacturers

Europe is already embarking on the journey of making more and sustained investments in renewable assets. Multiple Indian companies that are present in European supply chains can benefit from it.

InCred Equities

The future of LNG prices – they can fall from here on

We expect LNG prices to fall and remain in single digits for some more time. The commissioning of US LNG liquefaction capacity will further boost LNG availability. On the flip side, it may also happen that Henry Hub gas prices in the US rise to higher levels.

Overall cost of liquefaction can be in the range of US$2-3/ mmBtu ➤

The cost of liquefying natural gas (LNG) varies depending on several factors, including the size and complexity of the liquefaction plant, the location of the plant, the cost of natural gas, and the cost of energy. The average cost of liquefying natural gas is around US$2-3/mmBtu.

The break-up of various costs is given below: ➤

Capital cost: The cost of building a liquefaction plant can range from US$1bn to US$10bn, depending on the size and complexity of the plant.

Operating cost: The cost of operating a liquefaction plant includes the cost of natural gas, cost of energy, cost of labour, and cost of maintenance.

Transportation cost: The cost of transporting LNG from the liquefaction plant to the customer can range from US$0.5 to $1/mmBtu.

Here are some of the factors that can affect the cost of liquefying natural gas:

1. The size and complexity of the liquefaction plant: The larger and more complex the plant, the higher the cost.
2. The location of the plant: The cost of construction and operation can be higher in remote areas.
3. The cost of natural gas: The cost of natural gas is the largest cost associated with liquefaction.
4. The cost of energy: The cost of energy used to power the liquefaction process.
5. The cost of labour: The cost of labour used to build and operate the liquefaction plant.
6. The cost of maintenance: The cost of maintenance to keep the liquefaction plant running smoothly.

Here are some examples of the capital cost of LNG liquefaction terminals:

1. The Sabine Pass LNG facility in Louisiana has a capacity of 10mt/year and cost US$10bn to build.
2. The Cameron LNG facility in Louisiana has a capacity of 1.2mt/year and cost US$3bn to build.
3. The Freeport LNG facility in Texas, with a capacity of 15mt/year, is expected to cost US$10bn to build.
4. The cost of liquefying natural gas is likely to decline in the future as new technologies are developed and as more plants are built. However, the cost of liquefaction is still a significant factor in the pricing of LNG.

The operational cost can be, at a maximum, US$1mmBtu ➤

The operational cost of liquefying natural gas (LNG) varies depending on several factors, including the size of the liquefaction plant, the technology used, and the location of the plant. However, in general, the operational cost of LNG production is estimated to be between US$0.5-$1/mmBtu.

The following are some of the main factors that contribute to operational cost of LNG production:

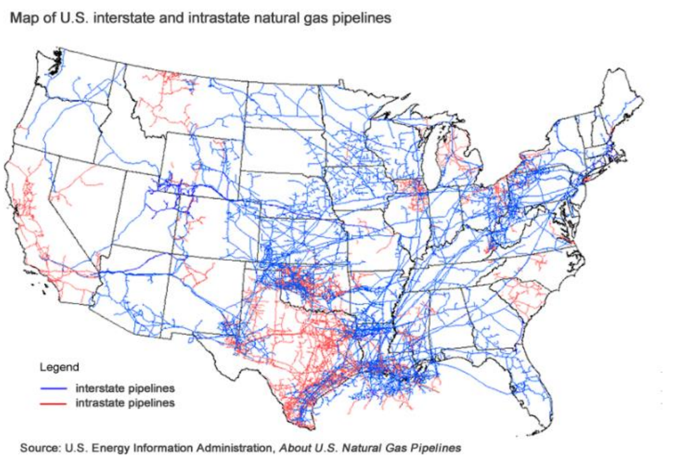
1. **Cost of electricity:** This is a major factor in the operational cost of LNG production. The cost of electricity can vary significantly depending on the location of the plant and the time of year.

2. **Cost of maintenance**: This is another major factor in the operational cost of LNG production. The cost of maintenance can vary significantly depending on the size of the plant and the technology used.
3. **Cost of labour**: This is a relatively small factor in the operational cost of LNG production. However, the cost of labour can vary significantly depending on the location of the plant.

Gas availability in the US is huge and gas pipelines are also there to connect to shores where LNG terminals are based

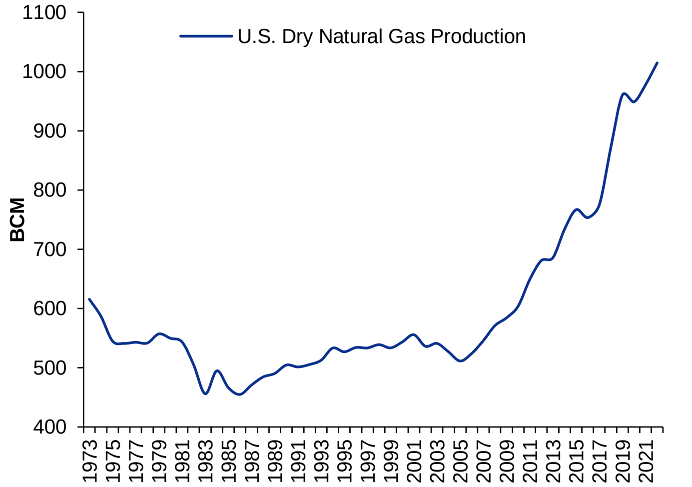
As pointed out earlier, in the next three years nearly 50bcm new LNG capacity will come online in the US.

Figure 26: US has a dense network of gas pipelines that will take the gas to the shores where LNG capacity is based



SOURCE: INCRED RESEARCH, SOURCES: INCRED RESEARCH, HTTPS://WWW.EIA.GOV/ENERGYEXPLAINED/NATURAL-GAS/NATURAL-GAS-PIPELINES.PHP

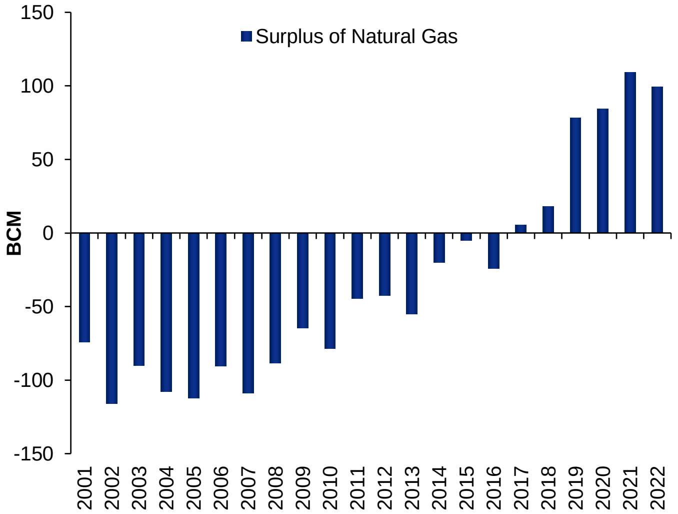
Figure 27: Natural gas production nearly doubled in the US in the last decade



SOURCE: INCRED RESEARCH, SOURCES: INCRED RESEARCH, HTTPS://WWW.EIA.GOV/ENERGYEXPLAINED/NATURAL-GAS/NATURAL-GAS-PIPELINES.PHP

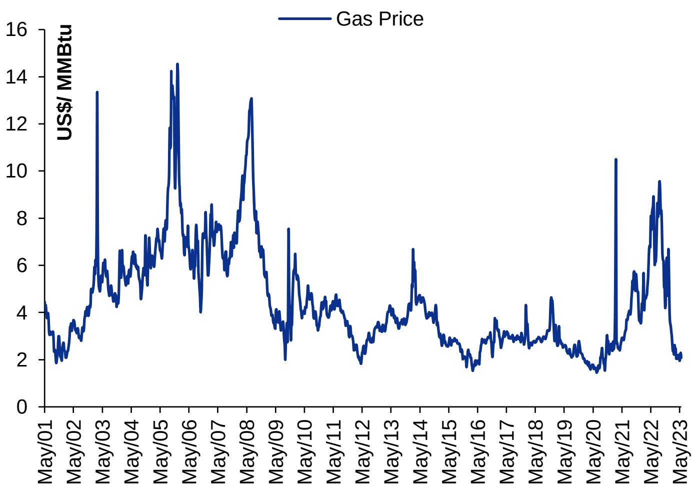
Natural gas surplus in the US currently is around 100bcm and hence, until 2027F LNG companies are in for super-normal profits at 70% RoCE with LNG prices at US$8/mmBtu

Figure 28: Natural gas is in surplus in the US for the last four years



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 29: Hence, in the past few years, gas prices (Henry Hub) have collapsed in the US



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Operational cost of the liquefication plant is nearly US$0.5-1mmBtu and the capex cost is in the range of US$3-5/mmBtu. The life of plant is nearly 30 years and hence, depreciation at the higher end of the capex will be US$0.16/mmBtu.

Figure 30: The capital cost of LNG equipment is, at the maximum, US$5/mmBtu

Table 3: Indicative Liquefaction Plant Cost in $/tpa US$ 2018 and $/mmBtu US$ 2018

Liquefaction Project Location	MTPA Capacity	$/tpa US$ 2018	$/mmBtu*
All Locations	490	946	$3.31
Remote / High Cost Locations	280	1,226	$4.29
Qatar	78	482	$1.69
USA Lower 48	61	660	$2.31
West Africa	31	1,084	$3.79
Russia / Arctic	33	1,292	$4.52
Australia	89	1,789	$6.26
Australia (excl Gorgon, Ichthys, Wheatstone, Prelude)	52	1,273	$4.46
FLNG	12	1,975	$6.91
FLNG (excl Prelude)	9	1,432	$5.01

Note: (*) Indicative $/mmBtu based on $3.50/mmBtu per $1000/tpa. Source: LNG Canada FID presentation.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Working capital in this business cannot be more than 15 days and hence, as of now, at Henry Hub prices at US$3/mmBtu, the RoCE of the new liquefaction capacity, at the higher end of the cost, will be around 70% (at LNG price of US$8/ mmBtu).

Naturally, we are going to see huge capex in the US, which will flood the global market and raise Henry Hub prices ➤

As we have highlighted earlier, the US is going to commission 320bcm of LNG capacity over next five years, out of which 50bcm will get commissioned over the next two-to-three years. The rise in LNG capacity will raise the artificially depressed Henry Hub prices of natural gas and keep global LNG prices also in check.

Fall in LNG prices is positive for Indian CGD companies

We were negative on Indian CGD companies as in the near term, we saw the risk of LNG availability for domestic companies. However, with falling demand in Europe, spot prices of LNG corrected in the medium term and in the long term, US capacity will ensure that prices remain under check. While the RasGas contract for PLNG is getting over in 2028, we don't believe that PLNG will rush to renew it because if the US capacity doesn't get delayed, it's possible that PLNG can get a long-term contract at a lower price compared to the current one.

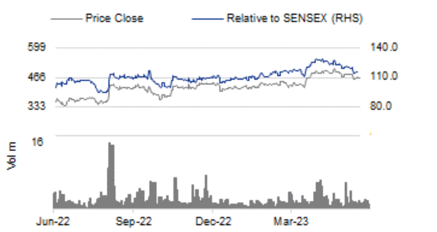
India

ADD *(previously REDUCE)*

Consensus ratings*:	Buy 29	Hold 5	Sell 4

Current price:	Rs462
Target price: ▲	Rs539
Previous target:	Rs277
Up/downside:	16.7%
InCred Research / Consensus:	1.2%
Reuters:	
Bloomberg:	IGL IN
Market cap:	US$4,457m
	Rs323,610m
Average daily turnover:	US$11.0m
	Rs800.1m
Current shares o/s:	700.0m
Free float:	43.5%

**Source: Bloomberg*



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.3)	3.4	31.5
Relative (%)	(7.0)	(1.6)	15.7

Major shareholders	% held
BPCL	22.5
GAIL	22.5
LIC	7.6

Indraprastha Gas

Expects positive volume growth

- IGL's gross profit/unit stood at Rs12.6/scm, marking a YoY decrease of -3.4%. However, there was a significant improvement in realization, with an increase of 58.9% YoY, at Rs52.9/scm. However, with rising margins due to a global slowdown in LNG demand, we expect the gross profit to be around Rs14/scm.
- Going ahead, in FY24F, IGL aims to further strengthen its CNG infrastructure by setting up 100 additional stations, with 50% of them targeting new regions.
- We upgrade our rating on the stock to ADD (from REDUCE earlier) with a higher target price of Rs539, based on 18x FY25F EPS.

IGL expects its volume at 10mmscmd by FY25F

In FY23, Indraprastha Gas or IGL commissioned 81 new CNG stations, taking the total count to 791, with around 50% located in new geographical areas. In FY24F, IGL plans to set up 100 more CNG stations, with 50% of them targeting new regions. IGL posted significant growth in PNG connections, adding 3,10,000 new connections, as well as expanding its customer base with over 700 new industrial and 900 commercial customers. In terms of infrastructure, 298km of steel pipelines and 3,400km of MDPE pipelines were laid during the year. IGL aims to achieve a sales volume of 9mmscmd in FY24F and increase it to 10mmscmd in FY25F while maintaining the targeted EBITDA/scm range of 7.5-8 in FY24F. By FY25F, IGL expects 60% of its volume to come from Delhi and neighbouring areas, with the rest 40% from other areas. In FY23, IGL sourced 89% of its gas needs from APM/non-APM/CBG, 2% from HPHT, and the rest from R-LNG. For FY24F, the estimated capex is Rs16bn, with 50% of it meant for new geographical areas.

Green hydrogen business opportunities

IGL has signed a pact with ACME Cleantech Solutions to jointly explore business opportunities in green hydrogen and set up the necessary infrastructure. The collaboration aims to assess the feasibility of constructing hydrogen generation plants, including electrolyzers, to produce green hydrogen. This green hydrogen can then be integrated into IGL's existing pipeline network to supply to various sectors, including households, industrial and commercial establishments, as well as CNG for vehicles. It is worth mentioning that IGL is already involved in a pilot project with Indian Oil Corporation focused on hydrogen-enriched CNG. While the utilization of green hydrogen in the automotive industry is currently at an early stage, IGL, being a prominent CGD player, is eager to explore the potential of green hydrogen in this sector. Additionally, the production of green ammonia from green hydrogen could present another business avenue for IGL.

Upgrade rating to ADD with a higher target price of Rs539

We upgrade our rating on IGL to ADD (from REDUCE) with a target price of Rs539 (at 18x FY25F EPS). However, the downside risk could arise from any changes in the government's policy. This rating is based on several factors, with one of them being our expectation of a moderate volume growth of only around 6% CAGR over FY24F-26F.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	84,847	156,030	178,623	204,488	234,098
Operating EBITDA (Rsm)	18,811	20,398	27,634	30,904	34,461
Net Profit (Rsm)	15,023	16,108	21,436	23,561	25,929
Core EPS (Rs)	21.5	23.0	30.6	33.7	37.0
Core EPS Growth	28.1%	7.2%	33.1%	9.9%	10.0%
FD Core P/E (x)	21.54	20.09	15.10	13.73	12.48
DPS (Rs)	3.6	3.6	3.6	3.6	3.6
Dividend Yield	0.78%	0.78%	0.78%	0.78%	0.78%
EV/EBITDA (x)	16.48	14.57	10.55	9.07	7.74
P/FCFE (x)	85.34	23.47	12.72	68.50	41.43
Net Gearing	(17.9%)	(33.2%)	(32.6%)	(36.2%)	(40.0%)
P/BV (x)	4.27	4.08	3.29	2.71	2.27
ROE	21.6%	20.8%	24.1%	21.7%	19.8%
% Change In Core EPS Estimates			83.88%	85.76%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Analyst(s)

Satish KUMAR
T (91) 22 4161 1562
E satish.kumar@incredcapital.com

Abbas PUNJANI
T (91) 22 4161 1598
E abbas.punjani@incredcapital.com

Expects positive volume growth

Quarterly volume remains flat

In 4QFY23, overall volume touched 8.26mmscmd, showing a YoY decrease of 0.5% & a QoQ increase of 6.6%. Compressed natural gas or CNG volume touched 6.1mmscmd with a YoY growth of 8.1% & a QoQ decrease of 1.6%. Domestic piped natural gas or PNG volume stood at 0.6mmscmd, showing a YoY rise of 9.8% and a QoQ increase of 9.4%. Commercial PNG volume remained flat YoY and QoQ at 1mmscmd. For FY24F/25F, we estimate the volume to be at 8.7mmscmd and 9.4mmscmd, respectively.

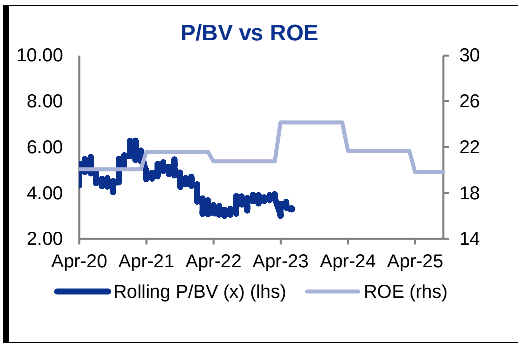
Gross profit declines because of higher gas cost

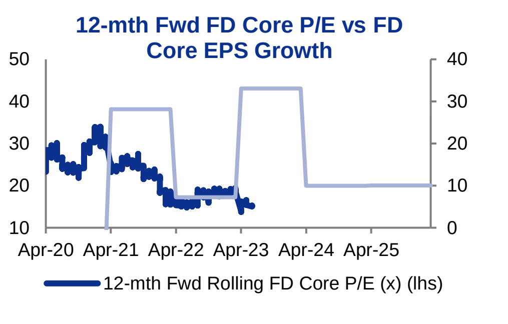
The gross profit per unit stood at Rs12/scm in 4QFY23, showing a YoY decrease of 5.5% and a QoQ increase of 9.4%. The EBITDA per unit was at Rs6.3/scm, with a YoY decrease of 12.6% and a QoQ increase of 9.4%. Margins fell due to higher-than-expected gas cost. On an annualized basis, gross profit per unit stood at Rs12.6/scm, a YoY decrease of 3.4%. However, realization stood at Rs52.9/scm, a YoY increase of 58.9%. For FY24F/25F, we expect IGL's gross profit per unit to be at Rs14/scm.

Figure 31: We value IGL at 18x FY25F EPS to arrive at our target price (18x one-year forward P/E is only at a 5% premium to historical average)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	**84,847**	**156,030**	**178,623**	**204,488**	**234,098**
Gross Profit	**33,176**	**37,098**	**44,634**	**48,205**	**52,061**
Operating EBITDA	**18,811**	**20,398**	**27,634**	**30,904**	**34,461**
Depreciation And Amortisation	(3,171)	(3,634)	(4,341)	(5,142)	(5,944)
Operating EBIT	**15,641**	**16,764**	**23,293**	**25,762**	**28,517**
Financial Income/(Expense)	(132)	(132)	(132)	(132)	(132)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,766	1,766	1,766	1,766	1,766
Profit Before Tax (pre-EI)	**17,275**	**18,399**	**24,927**	**27,396**	**30,151**
Exceptional Items					
Pre-tax Profit	**17,275**	**18,399**	**24,927**	**27,396**	**30,151**
Taxation	(4,509)	(4,827)	(6,282)	(6,904)	(7,598)
Exceptional Income - post-tax					
Profit After Tax	**12,766**	**13,571**	**18,646**	**20,493**	**22,553**
Minority Interests	2,257	2,536	2,790	3,069	3,376
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**15,023**	**16,108**	**21,436**	**23,561**	**25,929**
Recurring Net Profit	15,023	16,108	21,436	23,561	25,929
Fully Diluted Recurring Net Profit	**15,023**	**16,108**	**21,436**	**23,561**	**25,929**

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	18,811	20,398	27,634	30,904	34,461
Cash Flow from Invt. & Assoc.					
Change In Working Capital	3,777	6,469	9,470	1,389	1,614
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,215	1,215	1,215	1,215	1,215
Net Interest (Paid)/Received	(405)	(1,047)	132	132	132
Tax Paid	(3,759)	(4,833)	(6,282)	(6,904)	(7,598)
Cashflow From Operations	**19,640**	**22,200**	**32,169**	**26,736**	**29,823**
Capex	(13,370)	(11,221)	(11,221)	(11,221)	(11,221)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(2,478)	2,807	4,484	(10,792)	(10,792)
Cash Flow From Investing	**(15,848)**	**(8,414)**	**(6,736)**	**(22,013)**	**(22,013)**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(2,519)	(12,948)	(2,520)	(2,520)	(2,520)
Preferred Dividends					
Other Financing Cashflow	(765)	(638)			
Cash Flow From Financing	**(3,285)**	**(13,586)**	**(2,520)**	**(2,520)**	**(2,520)**
Total Cash Generated	508	201	22,912	2,204	5,291
Free Cashflow To Equity	**3,792**	**13,787**	**25,432**	**4,724**	**7,811**
Free Cashflow To Firm	**3,660**	**13,655**	**25,300**	**4,592**	**7,679**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	13,616	26,332	32,012	43,222	57,024
Total Debtors	5,206	9,034	8,563	9,802	11,222
Inventories	455	492	1,496	1,713	1,961
Total Other Current Assets	18,350	6,422	17,907	17,907	17,907
Total Current Assets	**37,627**	**42,279**	**59,977**	**72,644**	**88,114**
Fixed Assets	47,694	55,138	66,359	77,579	88,800
Total Investments	9,080	11,028	11,028	11,028	11,028
Intangible Assets	13,907	14,467	14,467	14,467	14,467
Total Other Non-Current Assets	2,714	3,293	3,293	3,293	3,293
Total Non-current Assets	**73,395**	**83,927**	**95,148**	**106,368**	**117,589**
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	7,861	9,013	19,017	21,862	25,143
Other Current Liabilities	23,210	33,303	33,303	33,303	33,303
Total Current Liabilities	**31,071**	**42,316**	**52,319**	**55,165**	**58,446**
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,354	1,410	1,410	1,410	1,410
Total Non-current Liabilities	**1,354**	**1,410**	**1,410**	**1,410**	**1,410**
Total Provisions	2,737	3,168	3,168	3,168	3,168
Total Liabilities	**35,162**	**46,894**	**56,897**	**59,742**	**63,024**
Shareholders Equity	75,860	79,312	98,228	119,270	142,678
Minority Interests					
Total Equity	**75,860**	**79,312**	**98,228**	**119,270**	**142,678**

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	56.0%	83.9%	14.5%	14.5%	14.5%
Operating EBITDA Growth	26.8%	8.4%	35.5%	11.8%	11.5%
Operating EBITDA Margin	22.2%	13.1%	15.5%	15.1%	14.7%
Net Cash Per Share (Rs)	19.45	37.62	45.73	61.75	81.46
BVPS (Rs)	108.37	113.30	140.33	170.38	203.83
Gross Interest Cover	118.40	126.91	176.33	195.02	215.87
Effective Tax Rate	26.1%	26.2%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	16.8%	15.6%	11.8%	10.7%	9.7%
Accounts Receivables Days	16.80	16.65	17.98	16.39	16.39
Inventory Days	3.22	1.45	2.71	3.75	3.68
Accounts Payables Days	42.55	25.89	38.18	47.74	47.13
ROIC (%)	20.4%	26.9%	29.2%	27.7%	26.9%
ROCE (%)	21.7%	20.8%	25.3%	23.0%	21.3%
Return On Average Assets	12.8%	11.5%	13.3%	12.3%	11.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

India

ADD *(previously REDUCE)*

Consensus ratings*:	Buy 18 Hold 7 Sell 7
Current price:	Rs479
Target price: ▲	Rs679
Previous target:	Rs410
Up/downside:	41.8%
InCred Research / Consensus:	29.2%
Reuters:	
Bloomberg:	GUJGA IN
Market cap:	US$4,541m
	Rs329,739m
Average daily turnover:	US$8.1m
	Rs590.5m
Current shares o/s:	688.4m
Free float:	25.5%

**Source: Bloomberg*

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.3	(5.6)	(2.1)
Relative (%)	2.5	(10.1)	(13.8)

Major shareholders	% held
Gujarat State Petronet	54.2
Gujarat State Fertilizers & Chemic	6.8
Governor of Gujarat	6.5

Gujarat Gas

Stable volume may lead to positive outcome

- Gujarat Gas displayed effective pricing management amid fierce competition from alternative fuels, resulting in a decline in margins. However, we expect improved margins in the future, driven by the global correction in LNG prices.
- Annualized gross profit per unit touched Rs11.4/scm, reflecting a YoY growth of 47.4%. Going ahead, in FY24F/25F, we expect the gross profit per unit for Gujarat Gas to be in the range of Rs12-12.5/scm.
- We upgrade our rating on the stock to ADD (from REDUCE) with a higher target price of Rs679, based on 23x FY25F EPS.

Significant fall in industrial gas prices leads to volume recovery

The overall volume of Gujarat Gas or GGL increased substantially to around 8.9mmscmd QoQ, primarily due to a favourable propane-to-gas price gap and proactive pricing measures in the industrial segment, leading to a recovery in volume, which touched 5.4/mmscmd in 4QFY23. Although propane prices declined to Rs43.99/kg in Apr 2023, driving Gujarat gas equivalent prices to around ~Rs44.7/kg, GGL has taken proactive steps to reduce its industrial segment prices in Morbi by Rs9.5/scm in the last six months. Going ahead, we expect moderate spot LNG prices, reduced APM gas cost due to price ceiling, and the momentum from new areas to drive the volume to ~9.4mmscmd in FY24F and further to ~10mmscmd in FY25F.

Margins decline QoQ but improve YoY

The gross profit per unit stood at Rs10.4/scm in 4QFY23, showing a YoY decrease of 0.2% and a QoQ fall of 18.4%. The EBITDA margin was at Rs6.9/scm, a YoY decrease of 10.3% and a QoQ fall of 20.8%. These margins fell due to higher-than-expected gas cost and a decrease in the industrial segment prices to Rs38.6/scm. On an annualized basis, gross profit per unit stood at Rs11.4/scm, a YoY increase of 47.4%. For FY24F/25F, we estimate GGL's gross profit per unit to be at Rs12/scm and at Rs12.5/scm, respectively.

Upgrade rating to ADD with a higher target price of Rs679

We upgrade our rating on GGL to ADD (from REDUCE earlier) with a higher target price of Rs679 (23x FY25F EPS). However, the downside risks could arise from a weak ceramic sector outlook, or a sustained discount of propane/LPG compared to natural gas leading to increased pricing competition from alternative fuels in the industrial and commercial segments. This recommendation is based on several factors, with one of them being our expectation of a moderate volume growth of only around 6% CAGR over FY24F-26F.

Analyst(s)

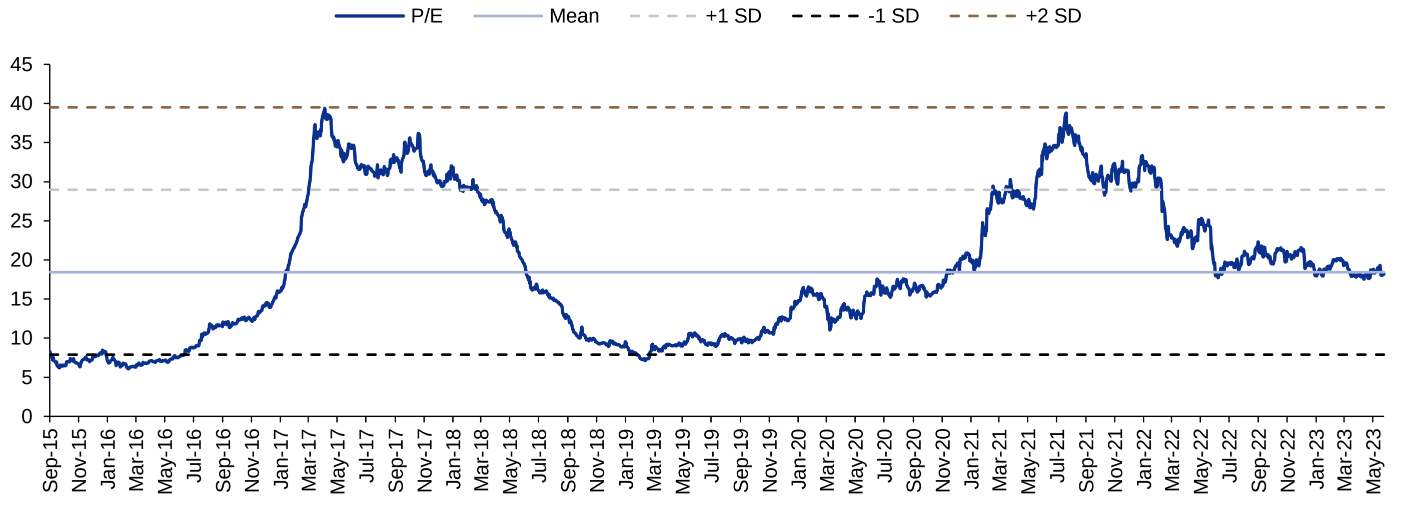
Satish KUMAR
T (91) 22 4161 1562
E satish.kumar@incredcapital.com

Abbas PUNJANI
T (91) 22 4161 1598
E abbas.punjani@incredcapital.com

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	167,874	173,062	182,062	206,205	233,149
Operating EBITDA (Rsm)	20,763	23,920	27,839	31,465	35,545
Net Profit (Rsm)	12,873	15,284	17,662	20,204	23,077
Core EPS (Rs)	18.8	22.2	25.7	29.3	33.5
Core EPS Growth	1.4%	17.9%	15.6%	14.4%	14.2%
FD Core P/E (x)	25.62	21.57	18.67	16.32	14.29
DPS (Rs)	2.0	2.0	2.0	2.0	2.0
Dividend Yield	0.42%	0.42%	0.42%	0.42%	0.42%
EV/EBITDA (x)	16.10	13.55	11.27	9.51	7.94
P/FCFE (x)	103.72	26.56	11.79	9.73	8.53
Net Gearing	8.2%	(7.9%)	(18.6%)	(28.9%)	(37.4%)
P/BV (x)	5.86	4.69	3.81	3.13	2.59
ROE	25.6%	24.1%	22.5%	21.1%	19.9%
% Change In Core EPS Estimates			44.49%		
InCred Research/Consensus EPS (x)					

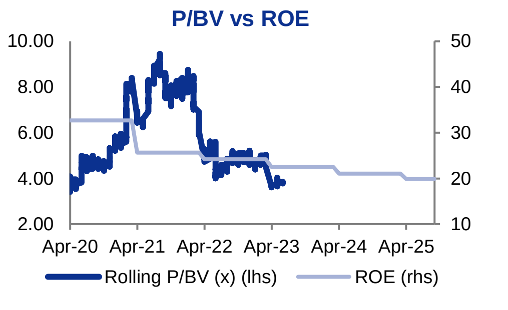
SOURCE: INCRED RESEARCH, COMPANY REPORTS

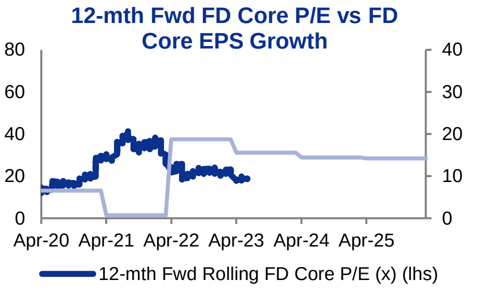
Figure 32: We value IGL at 23X FY25F EPS to arrive at our target price (+0.5SD of the long-term mean)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	**167,874**	**173,062**	**182,062**	**206,205**	**233,149**
Gross Profit	**30,194**	**34,860**	**39,013**	**42,959**	**47,358**
Operating EBITDA	**20,763**	**23,920**	**27,839**	**31,465**	**35,545**
Depreciation And Amortisation	(3,849)	(4,283)	(4,564)	(4,793)	(5,032)
Operating EBIT	**16,914**	**19,637**	**23,275**	**26,673**	**30,513**
Financial Income/(Expense)	339	610	338	338	338
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	**17,253**	**20,247**	**23,613**	**27,011**	**30,851**
Exceptional Items	(119)				
Pre-tax Profit	**17,134**	**20,247**	**23,613**	**27,011**	**30,851**
Taxation	(4,278)	(4,992)	(5,950)	(6,807)	(7,775)
Exceptional Income - post-tax					
Profit After Tax	**12,856**	**15,255**	**17,662**	**20,204**	**23,077**
Minority Interests	16	29			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**12,873**	**15,284**	**17,662**	**20,204**	**23,077**
Recurring Net Profit	12,962	15,284	17,662	20,204	23,077
Fully Diluted Recurring Net Profit	**12,962**	**15,284**	**17,662**	**20,204**	**23,077**

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	20,763	23,920	27,839	31,465	35,545
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(95)	4,052	(2,497)	(913)	(1,013)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(422)	(422)	(422)	(422)	(422)
Net Interest (Paid)/Received	232	(115)	404	404	404
Tax Paid	(4,363)	(4,608)	5,950	6,807	7,775
Cashflow From Operations	**16,115**	**22,827**	**31,274**	**37,342**	**42,289**
Capex	(13,663)	(10,867)	(3,301)	(3,466)	(3,639)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	728	454			
Cash Flow From Investing	**(12,935)**	**(10,413)**	**(3,301)**	**(3,466)**	**(3,639)**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,375)	(1,379)	(1,377)	(1,377)	(1,377)
Preferred Dividends					
Other Financing Cashflow	(4,910)	(5,405)			
Cash Flow From Financing	**(6,284)**	**(6,784)**	**(1,377)**	**(1,377)**	**(1,377)**
Total Cash Generated	(3,105)	5,630	26,597	32,499	37,273
Free Cashflow To Equity	**3,179**	**12,414**	**27,973**	**33,876**	**38,650**
Free Cashflow To Firm	**2,611**	**12,010**	**27,570**	**33,472**	**38,246**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

InCred Equities

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	213	6,810	17,297	31,746	48,794
Total Debtors	9,301	10,212	14,197	16,080	18,181
Inventories	534	612	947	1,072	1,212
Total Other Current Assets	3,853	2,159	2,267	2,380	2,499
Total Current Assets	**13,900**	**19,792**	**34,708**	**51,278**	**70,686**
Fixed Assets	59,678	66,018	69,319	72,785	76,424
Total Investments	533	641	641	641	641
Intangible Assets	4,303	5,017	5,017	5,017	5,017
Total Other Non-Current Assets	17,459	17,807	17,807	17,807	17,807
Total Non-current Assets	**81,973**	**89,482**	**92,783**	**96,249**	**99,889**
Short-term Debt	901				
Current Portion of Long-Term Debt					
Total Creditors	4,471	7,156	9,087	10,296	11,643
Other Current Liabilities	19,736	20,878	20,878	20,878	20,878
Total Current Liabilities	**25,108**	**28,034**	**29,965**	**31,174**	**32,521**
Total Long-term Debt	3,910	1,239	1,239	1,239	1,239
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,479	1,261	1,261	1,261	1,261
Total Non-current Liabilities	**6,389**	**2,500**	**2,500**	**2,500**	**2,500**
Total Provisions	8,077	8,461	8,461	8,461	8,461
Total Liabilities	**39,574**	**38,995**	**40,926**	**42,135**	**43,482**
Shareholders Equity	56,299	70,280	86,565	105,393	127,093
Minority Interests					
Total Equity	**56,299**	**70,280**	**86,565**	**105,393**	**127,093**

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	67.2%	3.1%	5.2%	13.3%	13.1%
Operating EBITDA Growth	(0.6%)	15.2%	16.4%	13.0%	13.0%
Operating EBITDA Margin	12.4%	13.8%	15.3%	15.3%	15.2%
Net Cash Per Share (Rs)	(6.68)	8.09	23.33	44.32	69.08
BVPS (Rs)	81.78	102.09	125.75	153.10	184.62
Gross Interest Cover	29.77	48.67	57.68	66.10	75.62
Effective Tax Rate	25.0%	24.7%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	10.6%	9.0%	7.8%	6.8%	6.0%
Accounts Receivables Days	18.62	20.58	24.47	26.80	26.82
Inventory Days	1.40	1.51	1.99	2.26	2.24
Accounts Payables Days	11.85	15.35	20.72	21.67	21.55
ROIC (%)	17.8%	19.9%	21.9%	23.8%	25.8%
ROCE (%)	26.0%	26.3%	26.4%	25.2%	24.2%
Return On Average Assets	14.1%	14.4%	14.7%	14.5%	14.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Mahanagar Gas

Margins set to improve further

India

ADD *(previously REDUCE)*

Consensus ratings*:	Buy 24 Hold 7 Sell 4
Current price:	Rs1,030
Target price: ▲	Rs1,252
Previous target:	Rs642
Up/downside:	21.6%
InCred Research / Consensus:	6.3%
Reuters:	
Bloomberg:	MAHGL IN
Market cap:	US$1,401m
	Rs101,721m
Average daily turnover:	US$7.2m
	Rs521.8m
Current shares o/s:	98.8m
Free float:	50.6%

**Source: Bloomberg*

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.0	4.3	35.1
Relative (%)	1.2	(0.7)	18.9

Major shareholders	% held
GAIL India Ltd	32.5
State of Maharashtra	10.0
Life Insurance Corp of India	8.3

- Annualized gross profit/unit of MGL stood at Rs14.9/scm, with a YoY increase of 7.9% while realization stood at Rs55.4/scm, showing a YoY increase of 56.1%. For FY24F/25F, we estimate gross profit/unit at Rs15/scm.
- The improvement in margins was driven by higher APM gas allocation (93%) and increased CNG volume.
- We upgrade our rating on the stock to ADD (from REDUCE earlier) with a higher target price of Rs1,252, based on 18x FY25F EPS.

Volume growth and price reductions

Following the implementation of the new pricing formula, Mahanagar Gas or MGL reduced its CNG prices by Rs8/kg, from Rs87/kg to Rs79/kg, effective 8 Apr 2023. Additionally, domestic PNG prices were also reduced by Rs5/scm, from Rs54/scm to Rs49/scm, with the same effective date. MGL has been actively expanding its CGD infrastructure across its licensed area, connecting 92,274 domestic households during the quarter and reaching a total of 2.17m households. MGL laid 128km of steel and PE pipelines, bringing the aggregate length to 6,535km. Moreover, MGL added 12 new CNG stations, increasing the total count to 313 as of 31 Mar 2023. Also, MGL acquired 115 new industrial and commercial customers, bringing the total count to 4,558 at the end of the last financial year. In the Raigad area, MGL connected 68,033 domestic households and currently operates 28 CNG stations. The pipeline network in Raigad expanded by 10km, reaching a total length of 382km. The overall sales volume for MGL increased by 14.11% compared to the previous year, with an average sales volume of 3.423mmscmd for the year ended 31 Mar 2023, compared to 2.999mmscmd in the corresponding period last year.

EV impact on CNG business may not be that significant in near term

Penetration of CNG is high in black-and-yellow auto-rickshaws and taxis, as well as in private cars, reaching about 100% and 33%, respectively. However, the commercial goods vehicle segment has a very low penetration rate of only 2% to 3%. MGL aims to grow this segment by leveraging the availability of factory-fitted goods vehicles on CNG, which now come with warranties and support from original equipment manufacturers (OEMs). The expanding CNG infrastructure along the highways and in various regions, including Maharashtra, Gujarat, Rajasthan, Delhi, and Goa, encourages the adoption of CNG for both goods vehicles and inter-city travel in private cars. In contrast, the penetration of electric vehicles (EVs) is primarily observed in the two-wheeler segment, with Maharashtra leading in the penetration of EVs in four-wheelers.

Upgrade rating to ADD with a higher target price of Rs1,252

We upgrade our rating on MGL to ADD (from REDUCE) with a higher target price of Rs1,252 (at 18x FY25F EPS). However, downside risks could arise from any changes in the government's policy. Our rating is based on several factors, and one of them is we expect a moderate volume growth of only around 6% CAGR over FY24F-26F.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	38,849	69,210	79,456	84,223	89,277
Operating EBITDA (Rsm)	9,243	11,842	13,918	14,956	16,055
Net Profit (Rsm)	5,970	7,901	9,894	10,309	10,769
Core EPS (Rs)	60.4	80.0	100.2	104.4	109.0
Core EPS Growth	(3.7%)	32.3%	25.2%	4.2%	4.5%
FD Core P/E (x)	17.04	12.88	10.28	9.87	9.45
DPS (Rs)	33.0	10.0	10.0	5.0	5.0
Dividend Yield	3.20%	0.97%	0.97%	0.49%	0.49%
EV/EBITDA (x)	10.50	8.40	6.33	5.46	4.66
P/FCFE (x)	53.66	42.28	11.29	13.68	12.09
Net Gearing	(12.9%)	(5.5%)	(26.6%)	(32.6%)	(37.3%)
P/BV (x)	2.83	2.46	1.99	1.65	1.41
ROE	17.5%	20.4%	21.4%	18.3%	16.1%
% Change In Core EPS Estimates			87.30%		
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Analyst(s)

Satish KUMAR
T (91) 22 4161 1562
E satish.kumar@incredcapital.com

Abbas PUNJANI
T (91) 22 4161 1598
E abbas.punjani@incredcapital.com

InCred Equities

Margins set to improve further

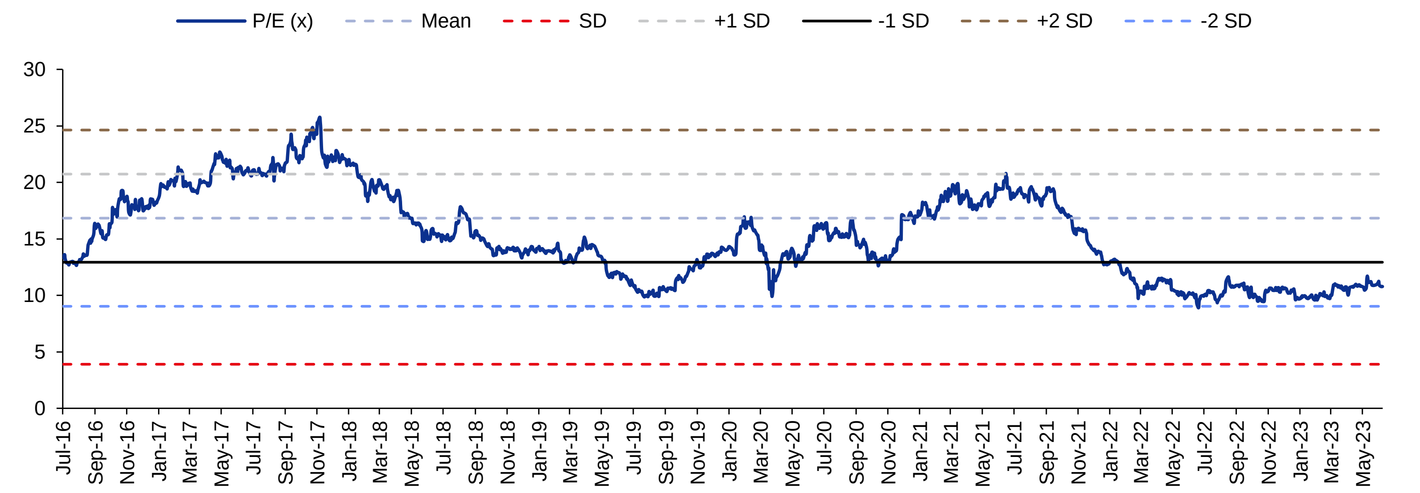
Quarterly volume remains flat ➤

In 4QFY23, overall volume touched 3.34mmscmd, showing a YoY increase of 7.6% & a QoQ decrease of 3.3%. CNG volume touched 2.4mmscmd with a YoY growth of 7% & a QoQ decline of 4.7%. Domestic PNG volume stood at 0.5mmscmd, showing a YoY increase of 8.9%, and remained flat QoQ. Commercial PNG volume stood at 0.45mmscmd, a growth of 9.1% YoY and flat QoQ. For FY24F/25F, we estimate the volume to be at 3.6mmscmd and 3.8mmscmd, respectively.

MGL's gross profit improves significantly driven by higher APM allocation ➤

The goss profit per unit was at Rs18.7/scm in 4QFY23, showing a YoY increase of 70% and a QoQ increase of 57.4%. The EBITDA per unit was at Rs12.8/scm, a YoY increase of 40.6% and a QoQ increase of 36.3%. Margins improved due to higher APM allocation to around 93% & as well as higher CNG volume. On an annualized basis, gross profit/unit was at Rs14.9/scm, a YoY increase of 7.9%. However, realization stood at Rs55.4/scm, a YoY increase of 56.1%. For FY24F/25F, we estimate MGL's gross profit per unit to be at Rs15/scm.

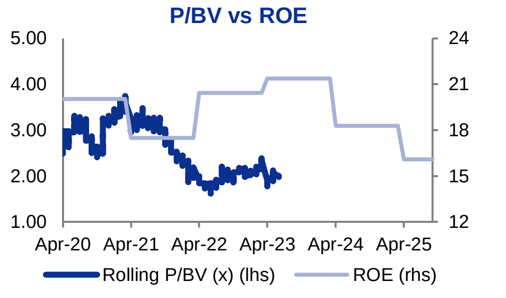
Figure 33: We value MGL at 18x one-year forward EPS to arrive at our target price of Rs1,252

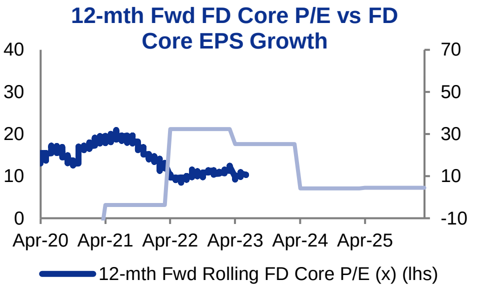


SOURCE: INCRED RESEARCH, COMPANY REPORTS

InCred Equities

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	**38,849**	**69,210**	**79,456**	**84,223**	**89,277**
Gross Profit	**15,148**	**18,644**	**19,864**	**21,056**	**22,319**
Operating EBITDA	**9,243**	**11,842**	**13,918**	**14,956**	**16,055**
Depreciation And Amortisation	(1,963)	(2,311)	(2,122)	(2,402)	(2,682)
Operating EBIT	**7,281**	**9,531**	**11,796**	**12,553**	**13,373**
Financial Income/(Expense)	(75)	(94)	(132)	(117)	(94)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	857	1,119	1,564	1,346	1,119
Profit Before Tax (pre-EI)	**8,063**	**10,555**	**13,228**	**13,782**	**14,397**
Exceptional Items					
Pre-tax Profit	**8,063**	**10,555**	**13,228**	**13,782**	**14,397**
Taxation	(2,093)	(2,655)	(3,333)	(3,473)	(3,628)
Exceptional Income - post-tax					
Profit After Tax	**5,970**	**7,901**	**9,894**	**10,309**	**10,769**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**5,970**	**7,901**	**9,894**	**10,309**	**10,769**
Recurring Net Profit	5,970	7,901	9,894	10,309	10,769
Fully Diluted Recurring Net Profit	**5,970**	**7,901**	**9,894**	**10,309**	**10,769**

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	9,243	11,842	13,918	14,956	16,055
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,652	134	2,616	128	136
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(953)	82	(56)	(56)	(56)
Net Interest (Paid)/Received	(535)	(524)	(132)	(117)	(94)
Tax Paid	(2,122)	(2,638)	(3,333)	(3,473)	(3,628)
Cashflow From Operations	**7,286**	**8,897**	**13,012**	**11,438**	**12,412**
Capex	(6,490)	(7,131)	(4,000)	(4,000)	(4,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,100	640			
Cash Flow From Investing	**(5,391)**	**(6,491)**	**(4,000)**	**(4,000)**	**(4,000)**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(2,810)	(2,518)	(988)	(494)	(494)
Preferred Dividends					
Other Financing Cashflow	(294)	(330)		1,000	1,000
Cash Flow From Financing	**(3,103)**	**(2,848)**	**(988)**	**506**	**506**
Total Cash Generated	(1,208)	(442)	8,025	7,944	8,919
Free Cashflow To Equity	**1,896**	**2,406**	**9,012**	**7,438**	**8,412**
Free Cashflow To Firm	**1,971**	**2,500**	**9,144**	**7,554**	**8,506**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	4,652	2,279	13,638	20,076	26,981
Total Debtors	1,840	2,940	4,334	4,594	4,870
Inventories	275	338	753	799	846
Total Other Current Assets	11,684	14,505	11,656	11,656	11,656
Total Current Assets	**18,451**	**20,062**	**30,382**	**37,125**	**44,354**
Fixed Assets	24,581	28,318	32,318	36,318	40,318
Total Investments	6,159	7,086	7,086	7,086	7,086
Intangible Assets	52	51	51	51	51
Total Other Non-Current Assets	3,094	4,806	4,806	4,806	4,806
Total Non-current Assets	**33,887**	**40,261**	**44,261**	**48,261**	**52,261**
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	2,719	3,222	7,647	8,081	8,541
Other Current Liabilities	10,548	12,390	12,390	12,390	12,390
Total Current Liabilities	**13,266**	**15,612**	**20,037**	**20,470**	**20,930**
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,091	1,283	1,283	1,283	1,283
Total Non-current Liabilities	**1,091**	**1,283**	**1,283**	**1,283**	**1,283**
Total Provisions	2,008	2,086	2,086	2,086	2,086
Total Liabilities	**16,365**	**18,981**	**23,406**	**23,840**	**24,299**
Shareholders Equity	35,973	41,342	51,237	61,546	72,315
Minority Interests					
Total Equity	**35,973**	**41,342**	**51,237**	**61,546**	**72,315**

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	67.4%	78.2%	14.8%	6.0%	6.0%
Operating EBITDA Growth	(1.0%)	28.1%	17.5%	7.5%	7.4%
Operating EBITDA Margin	23.8%	17.1%	17.5%	17.8%	18.0%
Net Cash Per Share (Rs)	47.09	23.07	138.07	203.24	273.15
BVPS (Rs)	364.18	418.54	518.70	623.07	732.10
Gross Interest Cover	96.69	101.50	89.36	107.66	142.41
Effective Tax Rate	26.0%	25.2%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	54.6%	12.5%	10.0%	4.8%	4.6%
Accounts Receivables Days	14.64	12.61	16.71	19.35	19.35
Inventory Days	3.82	2.21	3.34	4.48	4.48
Accounts Payables Days	32.93	21.44	33.29	45.44	45.30
ROIC (%)	19.3%	20.2%	26.0%	24.9%	24.0%
ROCE (%)	20.2%	23.4%	24.4%	21.5%	19.4%
Return On Average Assets	12.3%	14.1%	14.8%	13.0%	11.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd.(formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000007793. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in thisreport and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.