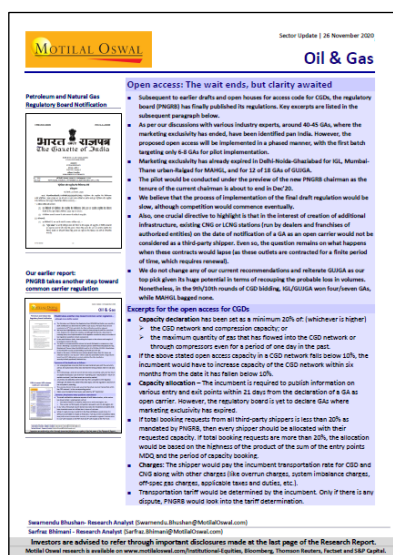
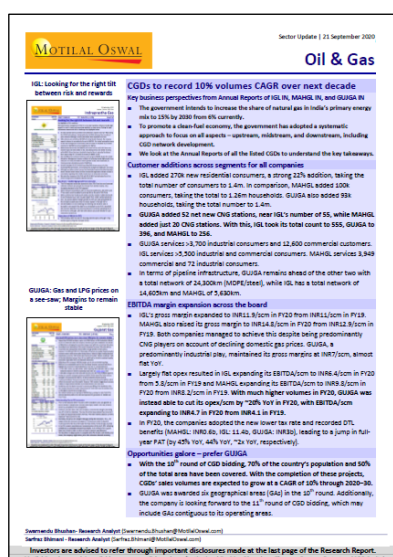


Open access: The wait ends, but clarity awaited



CGDs to record 10% volumes CAGR over next decade



Reprise our stance on play on industrial pollution

- The Commission for Air Quality Management in NCR and adjoining areas (formed by the Ministry of Environment on 5th Nov), headed by former Chief Secretary of Delhi – M M Kutty, mandated a 100% switch to piped natural gas (PNG) for industries. It further directed IGL to ensure the supply of PNG in Delhi by 31st Jan'21 ([link to press release](#)).
- We are also approaching the next hearing date set by NGT on 15th Jan'21, when the board would review the Action Taken Report (ATR) by the Central Pollution Control Board (CPCB) regarding banning petcoke/FO units across the nation.
 - According to the NGT's list of critically/severely polluted industrial clusters, Gujarat has five clusters that could see increased volumes (such as in Morbi).
 - Any directive by the NGT to ban the use of dirtier fuel could lead to a short-term incremental volume boost of 2–3mmscmd for GUJGA.
 - Since the directive to ban all coal gasifiers in Morbi in Mar'19, GUJGA has outperformed IGL/MAHGL by 79%/144%, with volume growth of ~65% (v/s 23%/11% for IGL/MAHGL) during this period.
- We re-emphasize that GUJGA has more volume growth drivers than IGL (listed in the report later on). GUJGA trades at 19.9x FY22E EPS of INR17.6, a discount of ~31% to IGL (which trades at 28.9x FY22E EPS of INR17.0) – despite having similar volume growth potential of 10–12% in the medium term.
- We reiterate our Buy rating on GUJGA and maintain Neutral on IGL.

What does the directive mean for IGL?

- The Commission has directed the Delhi Pollution Control Committee (DPCC) to inspect and identify the industries using unapproved fuels and take stringent penal action in the case of non-compliances.
- As per the directive, ~1,644 industrial units spread across 50 industrial areas in Delhi have been identified to switch over to PNG.
- That said, DPCC had already banned all industrial fuels (in Delhi and NCR) and advised industries to switch over to PNG. In light of the directive, IGL had converted ~90% of industrial customers in Delhi by the end of FY20.
- As per our interaction with various industry experts, the potential increase in volumes could be just ~0.05mmscmd (v/s PNG-Ind volumes of 0.7mmscmd and total volumes of ~6.5mmscmd in FY20).
- Also, various industries are moving out of the national capital due to increasing environmental compliances and constraints on further expansion/development.

Reiterate our stance of industrial play in GUJGA

- As per our interaction with the company, Morbi volumes are currently upwards of ~6.5mmscmd (v/s ~5.8mmscmd in 2QFY21) – as more units switch from propane to LNG – with the company's total volumes at ~10.5mmscmd.
- Also, strong export orders at Morbi have resulted in the emergence of a new ceramic cluster at Aniyari, a potential 0.5mmscmd market in the making.
- Any directive by the NGT to ban the use of dirtier fuel could lead to a short-term incremental volume boost of 2–3mmscmd for GUJGA.
- Despite the spike in current spot prices, we believe GUJGA would be able to maintain its EBITDA margins at ~INR5/scm by rolling back the additional (~INR6) discounts offered to Morbi's ceramic customers owing to lower propane prices during the lockdown months (propane prices are up ~24% v/s Sep'20).

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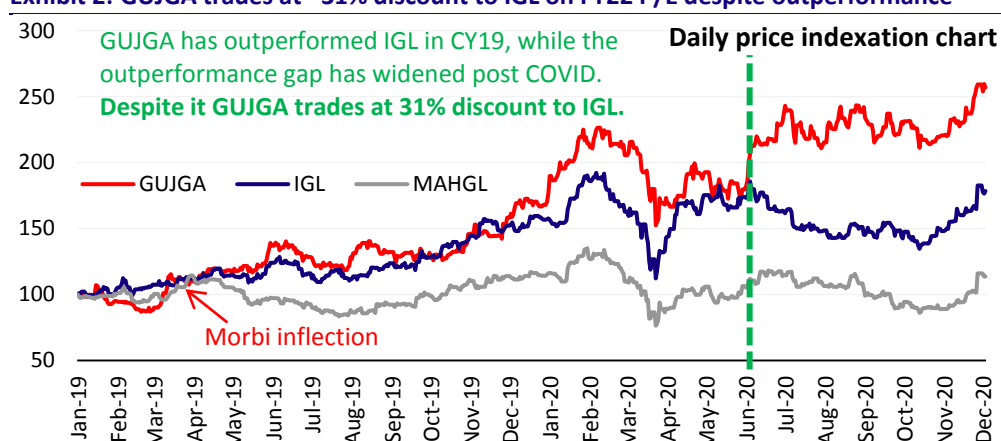
Exhibit 1: Gas peers' valuation snapshot

Company	TP (INR)	EPS (INR)			P/E (x)			P/BV (x)			EV/EBITDA (x)			ROE (%)			Div. Yield
		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	
GAIL (India)	155	16.5	8.3	15.3	7.2	14.2	7.7	1.1	1.1	1.0	7.1	11.5	6.3	15.0	8.3	14.2	5.4
Gujarat Gas	440	17.3	15.9	17.6	20.1	21.9	19.9	7.3	5.8	4.7	15.8	13.6	12.2	43.6	29.4	26.1	0.4
Guj.St.Petronet	300	19.7	16.8	17.8	10.4	12.1	11.5	1.7	1.5	1.4	4.8	4.5	3.8	17.8	13.3	12.6	1.0
Indraprastha Gas	485	16.2	12.9	17.0	30.3	38.2	28.9	6.8	5.9	5.1	19.9	23.4	17.6	28.3	16.6	19.0	0.6
Mahanagar Gas	1,100	80.3	52.9	68.3	13.0	19.8	15.3	3.5	3.2	2.9	8.2	11.3	8.5	29.7	17.0	20.1	3.3
Petronet LNG	335	18.5	18.5	21.3	13.4	13.4	11.6	3.4	3.2	2.9	7.9	6.7	5.7	26.4	24.4	26.0	5.0

Source: MOFSL

Company	Absolute Perf. (%)			
	3M	6M	12M	YTD
GUJGA	13	20	52	47
IGL	20	10	14	15
MAHGL	23	1	0	0

Exhibit 2: GUJGA trades at ~31% discount to IGL on FY22 P/E despite outperformance



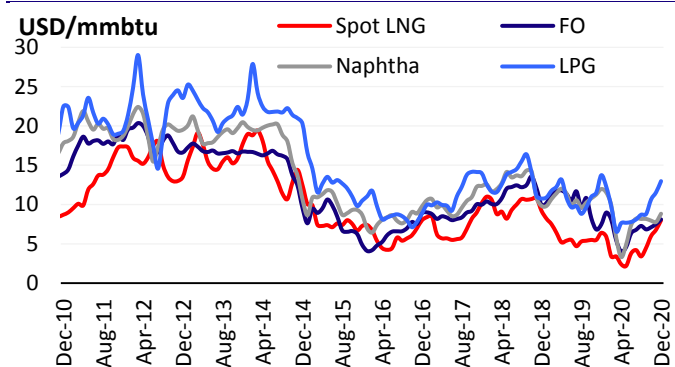
Source: MOFSL

Exhibit 3: Snippet from IGL's Annual Report for FY20

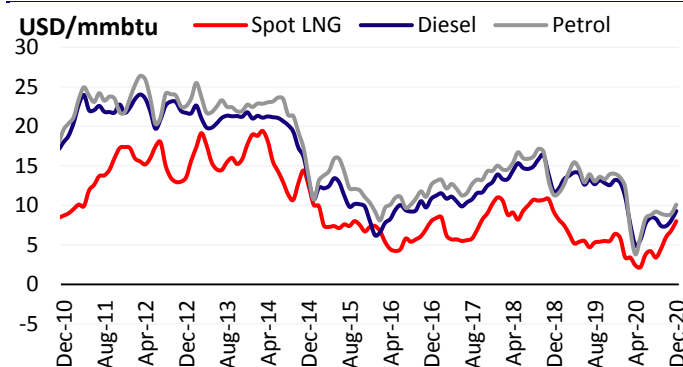
Indraprastha Gas Limited | 21st Annual Report 2019-20

In Delhi, Delhi Pollution Control Committee (DPCC) has banned all other industrial fuels except PNG and has advised all industrial customers (wherever PNG is available) to switchover to PNG. Your Company has efficiently co-ordinated to implement the mandate given by DPCC by facilitating industrial customer for smooth switchover to PNG supply. In this regard, your company has been able to convert ~90% of Industrial Customers located in NCT of Delhi on to PNG Supply. In order to curb down air-pollution levels and to increase natural gas volumes, your Company has targeted diesel Genset segment, wherein PNG would replace use of diesel in Gensets. Similarly, with the ban of Furnace Oil (FO) and Petcoke in NCR by Hon'ble Supreme Court, PNG is emerging as the key energy source for Commercial & Industrial users, offering immense opportunities for growth. IGL's PNG network is widely available among various Industrial clusters of Delhi and NCR towns of Ghaziabad, Gautam Budh Nagar & Rewari, your company is working with a focused approach to further expand/ strengthen pipeline network by providing last mile connectivity to the Industrial establishments.

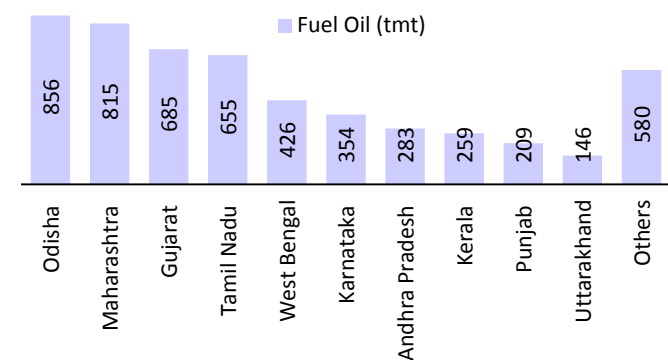
Source: Company, MOFSL

Exhibit 4: Economies of spot LNG v/s alternative fuels (at ~38% discount to LPG, 9% to naphtha, and at par with FO)...

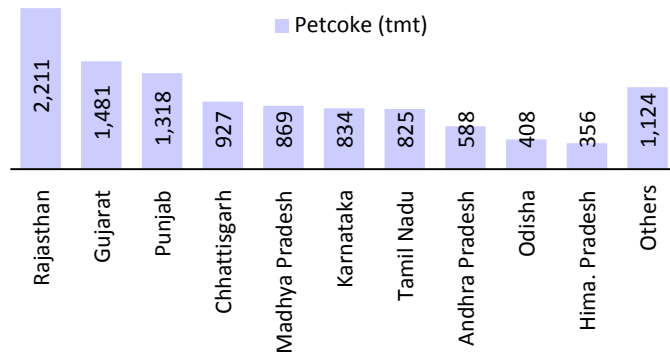
Source: Reuters, MOFSL

Exhibit 5: ...despite spot prices being at multi-year highs; expect this to cool off on account of global supply glut

Source: Reuters, MOFSL

Exhibit 6: Fuel oil consumption in India stands at ~5.3mmt...

Data as of FY19* Source: PPAC, MOFSL

Exhibit 7: ...while petcoke consumption stands at ~10.9mmt

Data as of FY19* Source: PPAC, MOFSL

Exhibit 8: Annexure to NGT's list: NGT28 severe polluted clusters and 32 critically polluted clusters

Cluster name	State	Round	CGD
Ahmedabad	Gujarat	Pre	Adani Gas
Aligarh	Uttar Pradesh	9	IOC Adani
Asansole	West Bengal		
Bada Jamtara	Jharkhand		
Chembur	Maharashtra	Pre	MAHGL
Faridabad	Haryana	Pre	IGL
Ghaziabad	Uttar Pradesh	1	GAIL Gas
Gwalior	Madhya Pradesh	Pre	Aavantika Gas
Hajipur	Bihar	10	Rajasthan state Gas
Haridwar	Uttarakhand	10	IOC
Jalandhar	Punjab	5	Haridwar Natural Gas
Ludhiana	Punjab	3	Jay Mandhok Energy
Manali	Tamil Nadu	9	Think Gas Ludhiana
Meerut	Uttar Pradesh	3	Jay Mandhok Energy
Nashik	Maharashtra	9	Think Gas Ludhiana
Navi Mumbai	Maharashtra	1	Torrent Gas
Noida	Uttar Pradesh	9	Gail Gas
Patancheru-Bollaram	Andhra Pradesh	1	IGL
Pimpri-Chinchwad	Maharashtra	9	Torrent Gas
Rajkot	Gujarat	Pre	MNGL
Ramgarh	Jharkhand	Pre	MAHGL
Saraikela	Jharkhand	Pre	IGL
Singhbhum, West	Bihar	9	Torrent Gas
Vatva	Gujarat	Pre	MNGL
VIADB, Jigini, Anekal	Karnataka	Pre	GUJGA
Bandel	West Bengal	9	IOC
Mandideep	Madhya Pradesh	10	GAIL Gas
Morbi	Gujarat	10	GAIL Gas
		9	Adani Gas (apart from GUJGA)

Cluster name	State	Round	CGD
Agra	Uttar Pradesh	Pre	Green Gas
Ankleshwar	Gujarat	Pre	GUJGA
Baddi	Himachal Pradesh	2	IOC Adani
Batala	Punjab	9	GUJGA
Bhavnagar	Gujarat	10	GUJGA
Bhiwadi	Rajasthan	3	Haryana City Gas Distribution
Bulandshahar-Khurza	Uttar Pradesh	Pre	IOC Adani
Bumihat	Assam	9	Assam Gas, OIL India and GAIL Gas
Chandrapur	Maharashtra	9	Assam Gas, OIL India and GAIL Gas
Dombivalli	Maharashtra	Pre	MAHGL
Durgapur	West Bengal	Pre	MAHGL
Ferozabad	Uttar Pradesh	Pre	GAIL Gas
Howrah	West Bengal	10	HPCL
Jaipur	Rajasthan	9	Torrent Gas
Jodhpur	Rajasthan	9	AGP CGD
Kanpur	Uttar Pradesh	Pre	Central UP Gas
Mathura	Uttar Pradesh	9	Torrent Gas
Moradabad	Uttar Pradesh	10	IGL
Nazafgarh drain basin	Delhi	1	JV of DSM Infratech and Sumya Mining
Pali	Rajasthan	Pre	Torrent Gas
Panipat	Haryana	9	IGL
Raipur	Chhattisgarh	10	IOC Adani
Tarapur	Maharashtra	4	GUJGA
Vadodara	Gujarat	Pre	Vadodara Gas
Vapi	Gujarat	Pre	GUJGA
Varanasi-Mirzapur	Uttar Pradesh	Pre	GUJGA
Vijaywada	Andhra Pradesh	Pre	Vadodara Gas
Gurgaon	Haryana	Pre	GUJGA
Gajraula	Uttar Pradesh	Pre	GAIL Gas
Siltara	Chhattisgarh	5	Megha Engineering
Sanganer	Rajasthan	Pre	IGL
Hazaribagh	Jharkhand	9	Torrent Gas
		9	IOC

Source: NGT, PPAC, MOFSL

Volume growth opportunity with each CGD player →

Gujarat Gas – our top Buy

- In the long term, we believe industrial volumes (further supported by NGT reforms in India) would be the clear winner for growth. **Any directive by the NGT to ban the use of dirtier fuel could lead to a short-term incremental volume boost of 2–3mmscmd for GUJGA.**
- With ~400 CNG outlets, GUJGA sells only 1.5mmscmd of CNG v/s 4.5mmscmd that IGL sells in NCR alone. GUJGA is expected to establish ~100 CNG stations over the next 2–3 years, increasing its penetration in the CNG segment.
- **The newly awarded 16–17 cities could see volumes of 2.5–3mmscmd over the next 4–5 years.** The Vasai–Virar region is the next big focus market for GUJGA after Thane – GUJGA plans to supply gas through a virtual network in this region.
- Recently, PNGRB ruled GAIL should halt supply to consumers designated to city gas distributors (CGD) at Tarapur and Thane. **This could add ~0.3mmscmd of volumes in the short term. Similar rulings are expected at Dahej as well.**
- Strong export orders at Morbi have started seeing the emergence of a new ceramic cluster at Aniyari, a potential 0.5mmscmd market in the making.
- **We believe the company should see a major volume boost at a ~10% CAGR over the medium term on the highest volume base among peers.**
- Capex plans stand at INR6–7b for FY21 v/s INR5.8b in FY20 (GUJGA plans to fund capex through internal accruals only).

Indraprastha Gas – maintain Neutral

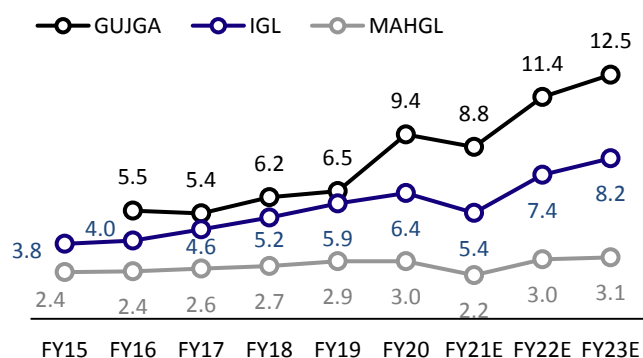
- **The Delhi Transport Corporation plans to induct an additional 1,000 CNG buses by the end of this fiscal.** Delhi currently has ~6,000 buses in total, and IGL expects ~2,500 CNG buses to be introduced over the next 2–3 years (in addition to the 1,000 mentioned above).
- Over the short-to-medium term, IGL could increase its sales volumes from new areas such as **Rewari, Karnal, and Muzaffarnagar; Gurugram; and the newly awarded (3) GAs in the 10th round.**
- IGL anticipates three to four court hearings for finalizing the valuation part for Gurugram, and expects the deal to be completed by end-FY21. **Gurugram has volume potential for 2–2.5mmscmd and currently operates at 0.4–0.6mmscmd.** Although, 150–200 CNG stations would be needed for such a volume buildup.
- **IGL may consider inorganic growth in the coming years.** It is also looking at international prospects (such as Myanmar) and has an MoU with Osaka Gas.
- **Management remains confident of achieving double-digit growth from next year.** For FY22/FY23, we build-in volume growth of 16%/11% over FY20/FY22 levels to 7.4mmscmd/8.2mmscmd (v/s 6.4mmscmd/5.4mmscmd in FY20/FY21).

Mahanagar Gas – maintain Buy

- BEST has inducted ~300 CNG buses to date of its total plan to add ~500 buses. **It is also likely to add another 800–1,000 CNG buses over and above the current ongoing induction of 500 buses.**
- **MAHGL has gas pipeline connectivity in three of the four GAs classified by NGT under polluted areas** (and is prepared to supply gas in the fourth GA via a virtual pipeline).
- **PNG-commercial (penetration just ~20% in MAHGL's GAs) is already equipped with pipeline infrastructure; only last-mile connectivity is needed.**
- The company is also looking forward to the 11th CGD round (~44 GAs are up for offer) and may bid for the same once the round is open.

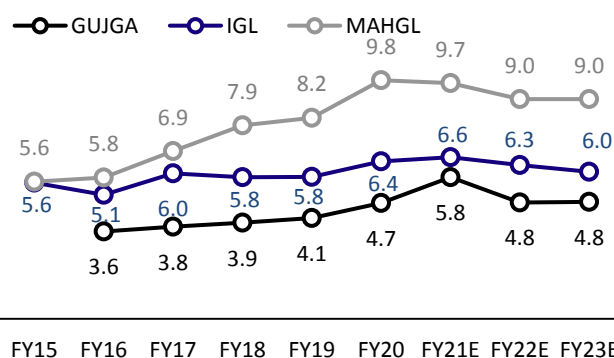
CGDs – assumptions and financial summary

Exhibit 9: Volume assumption (mmscmd)



Source: MOFSL

Exhibit 10: EBITDA/scm assumption (INR)



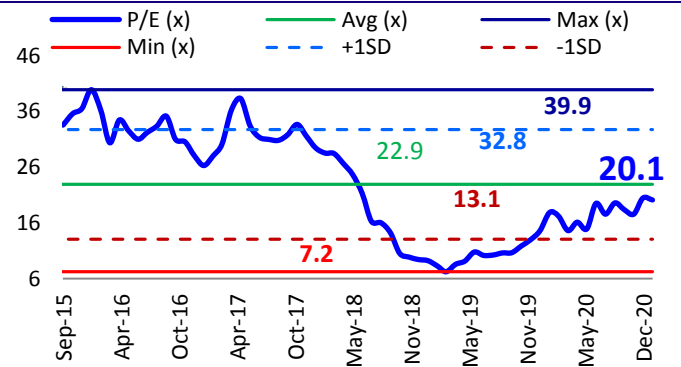
Source: MOFSL

Exhibit 11: Financial summary

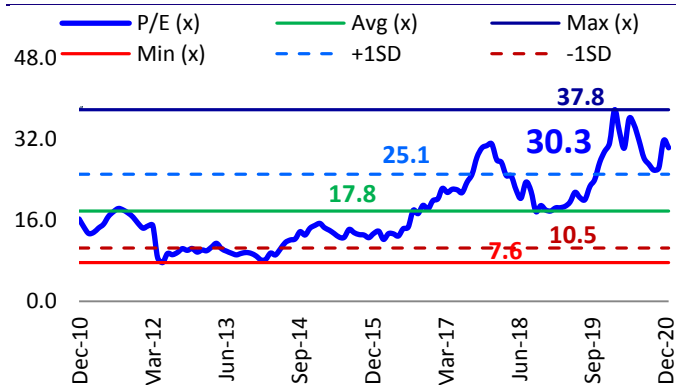
Company YE	Gujarat Gas			Indraprastha Gas			Mahanagar Gas		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Financials (INR M)									
Net Sales	1,03,003	96,224	1,35,280	64,853	51,267	68,559	29,721	19,566	24,422
EBITDA	16,343	18,460	19,740	15,196	13,119	17,147	10,528	7,863	10,007
EBIT	13,163	15,103	16,274	12,674	10,271	14,080	8,911	6,085	7,996
PBT	12,078	14,646	16,162	14,157	11,924	15,946	9,835	7,052	9,012
Adj. PAT	11,933	10,960	12,094	11,365	9,006	11,927	7,935	5,226	6,744
Equity	1,377	1,377	1,377	1,400	1,400	1,400	988	988	988
Net Worth	32,906	41,538	51,063	50,624	57,992	67,462	29,527	32,012	35,219
Total Debt	18,344	15,344	12,344	0	0	0	176	352	352
Cash	6,919	10,343	18,795	21,799	18,092	22,350	2,295	806	3,942
Net Debt	11,425	5,001	-6,452	-21,799	-18,092	-22,350	-13,333	-11,669	-14,805
FCF	12,790	9,209	14,134	7,787	-2,069	6,715	6,903	108	5,656
Per Share (INR)									
EPS	17.3	15.9	17.6	16.2	12.9	17.0	80.3	52.9	68.3
BV	47.8	60.3	74.2	72.3	82.8	96.4	298.9	324.1	356.5
DPS	1.3	2.8	3.1	2.8	2.0	3.0	35.0	23.0	29.7
Valuation Ratios									
P/E (x)	20.1	21.9	19.9	30.3	38.2	28.9	13.0	19.8	15.3
P/BV (x)	7.3	5.8	4.7	6.8	5.9	5.1	3.5	3.2	2.9
EV/Sales (x)	2.5	2.6	1.8	4.7	6.0	4.4	2.9	4.5	3.5
EV/EBITDA (x)	15.8	13.6	12.2	19.9	23.4	17.6	8.2	11.3	8.5
Div. Yield (%)	0.4	0.8	0.9	0.6	0.4	0.6	3.3	2.2	2.8
Key Ratios									
RoE (%)	43.6	29.4	26.1	28.3	16.6	19.0	29.7	17.0	20.1
RoCE (%)	29.8	29.7	28.9	27.1	16.1	18.5	29.8	17.0	20.0
ROIC (%)	0.0	0.0	0.0	60.9	32.4	38.3	55.8	27.9	30.5
Leverage Ratio									
Debt/Equity	0.6	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	0.3	0.1	-0.1	-0.4	-0.3	-0.3	-0.5	-0.4	-0.4

Source: MOFSL

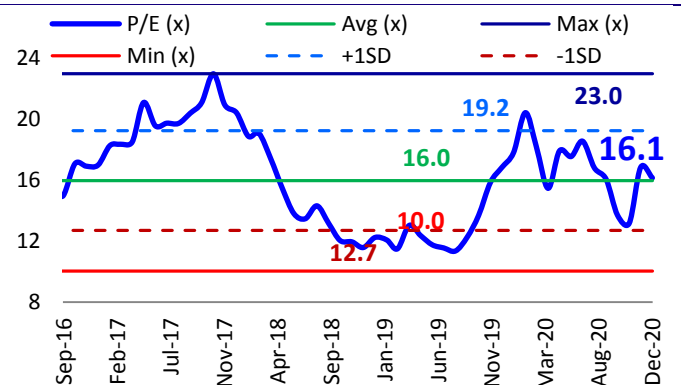
- **GUJGA** trades at a 13% discount to its long-term average of 22.9x on a one-year forward PE basis.
- **IGL** trades at a 20% premium to its +1SD average of 25.1x on a one-year forward PE.
- **MAHGL** trades at par with its long-term average of 16x on a one-year forward PE basis.

Exhibit 12: GUJGA – 1-year forward PE

Source: MOFSL

Exhibit 13: IGL – 1-year forward PE

Source: MOFSL

Exhibit 14: MAHGL – 1-year forward PE

Source: MOFSL

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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