

Gas Utilities

India

Sector View: **Cautious**

NIFTY-50: **23,329**

April 15, 2025

Another steep APM allocation cut for CGDs

The saga of APM allocation flip-flop continues. According to MGL and IGL, their APM gas allocations have been cut by 18-20% effective April 16, 2025. This cut effectively reverses the partial reversal in Jan 2025 for allocation cuts in 3QFY25. Even as lower volumes are replaced by NWGs, CGDs will need to take a CNG price hike of Rs1.5-2.0/kg. Price increases have been difficult politically and due to the likely impact on demand. Similar to previous cuts, CGDs will likely seek some relief apart from raising prices. We maintain our negative views; reiterate SELL on IGL (FV of Rs150) and MGL (FV of Rs1,030).

APM allocation flip-flops continue: New cuts reverse January relief

According to MGL and IGL, their APM gas allocations for priority CNG/domestic PNG have been reduced by 18%/20%. With this cut, the APM allocation for the CNG segment is reduced back to 37%. This is a similar allocation after two cuts in 3QFY25. As cuts were sudden and sharp, and price increases were difficult, there was partial relief in January and allocation for CNG was increased to ~51%. The latest cut nearly reverses the entire relief.

CNG price hike of Rs1.5-2.0/kg needed; hikes have been difficult

With CGDs now having first priority on NWG, the reduced APM gas (priced at US\$6.75/mmbtu) will be replaced by NWG (12% of oil price). On our estimate, to pass on the entire cost, CGDs will need CNG price hikes of Rs1.5-2.0/kg. With reduced arbitrage versus petrol/diesel, the likely impact on demand and political sensitivity, price increases have been difficult. CGDs' earnings have sharply declined. With further allocation cuts, the outlook is weaker.

We expect CGDs to seek relief; respite may not be much or for long

We note that this allocation cut has been necessitated by the classification of ~3 mmscmd of ONGC's APM gas to NWG. The entire reduction in allocation has been made from the CGD sector and other consuming sectors such as fertilizer, power and LPG fractionation have been spared for now. We will not be surprised, if similar to January, some relief is given by reducing allocation for other consuming sectors. In our view, such respite will not be high. With APM volumes declining, there will be further allocation cuts in the coming quarter, and thus, respite may not be long.

Maintain our bearish view on CGDs; reiterate SELLS on IGL and MGL

We have been bearish on CGDs on volume and margin outlook, driven by a combination of the declining price advantage of CNG (versus petrol/diesel) and rising EV share. Respite seems unlikely on both. With further APM allocation cuts (and potential price cuts for petrol/diesel), CNG's arbitrage will be further reduced. The Delhi government's new EV policy 2.0 targets aggressive EV rollout and weakens the CNG growth outlook. In our view, with the Delhi government taking measures against CNG, even other big metros such as Mumbai may come up with similar policies. Maintain SELL on IGL with an FV of Rs150 (unchanged) and MGL with an FV of Rs1,030 (unchanged).

Company data and valuation summary

Company	Rating	Price (Rs)	Fair Value	Upside
		15-Apr-25	(Rs)	(%)
IGL	SELL	179	150	(16)
MGL	SELL	1,316	1,030	(22)

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of April 15, 2025

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- Delhi EV policy 2.0 weakens CNG outlook
- MGL: Focus on APM flip-flops

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IGL's APM allocation cut by ~20%; APM allocation for CNG back to ~37%

Exhibit 1: IGL's recent APM gas allocation cuts (mmscmd, %)

		2QFY25	16-Oct-24	16-Nov-24	16-Jan-25	16-Apr-25
CNG volume	mmscmd	6.78	6.80	6.84	6.83	6.95
APM allocation	%	65%	49%	37%	51%	37%
	mmscmd	4.4	3.3	2.5	3.5	2.6
Change	mmscmd		(1.1)	(0.8)	1.0	(0.8)
	%		-24%	-24%	38%	-26%
Domestic PNG allocation		0.68	0.68	0.68	0.72	0.77
allocatoin %		100%	100%	100%	100%	100%
Overall volumes						
CNG + DPNG	mmscmd	7.5	7.5	7.5	7.6	7.7
Total allocation	mmscmd	5.1	4.0	3.2	4.2	3.4
Change	%		-21%	-20%	31%	-20%
Overall APM allocation	%	68	54	43	56	44

Source: Company, Kotak Institutional Equities estimates

MGL's APM allocation cut by ~18%; APM allocation for CNG also back to ~37%

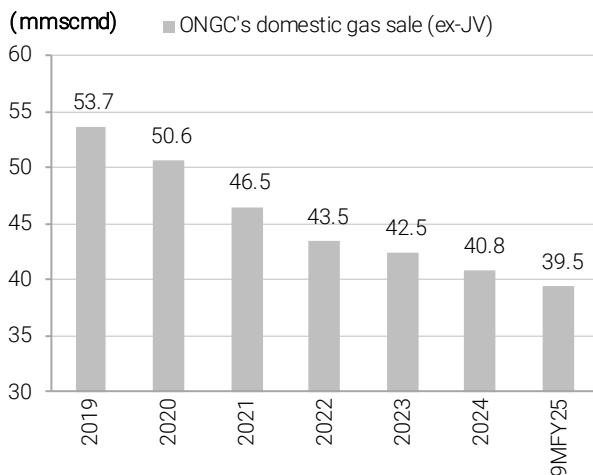
Exhibit 2: MGL's recent APM gas allocation cuts (mmscmd, %)

		2QFY25	16-Oct-24	16-Nov-24	16-Jan-25	16-Apr-25
CNG volume	mmscmd	2.89	2.90	2.92	2.94	3.00
APM allocation	%	68%	51%	37%	51%	37%
	mmscmd	1.97	1.47	1.08	1.5	1.1
Change	mmscmd		(0.50)	(0.37)	0.42	(0.37)
	%		-25%	-27%	39%	-27%
D-PNG volumes		0.53	0.53	0.55	0.55	0.58
Allocation %		100%	100%	100%	100%	100%
Overall volumes						
CNG + DPNG	mmscmd	3.42	3.43	3.47	3.49	3.58
Total allocation	mmscmd	2.50	2.00	1.63	2.05	1.68
Change	%		-20%	-18%	26%	-18%
Overall APM allocation	%	73	58	47	59	47

Source: Company, Kotak Institutional Equities estimates

ONGC's domestic gas sales have declined ~3 mmscmd since FY2023; down over 25% since FY2019 levels

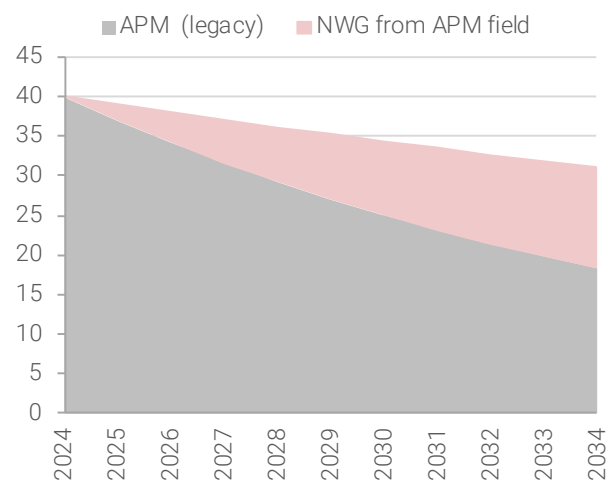
Exhibit 3: ONGC's domestic gas sales volumes, March fiscal year-ends, 2019 onward (mmscmd)



Source: Company, Kotak Institutional Equities

Likely ~3 mmscmd APM further classified as NWG; NWG share will progressively rise

Exhibit 4: Likely breakup of APM gas, March fiscal year-ends, 2024 onward (mmscmd)



Source: Company, Kotak Institutional Equities

With diminished advantage, raising CNG prices has been difficult; for the latest APM cut, Rs1.5-2.0/kg hike is needed

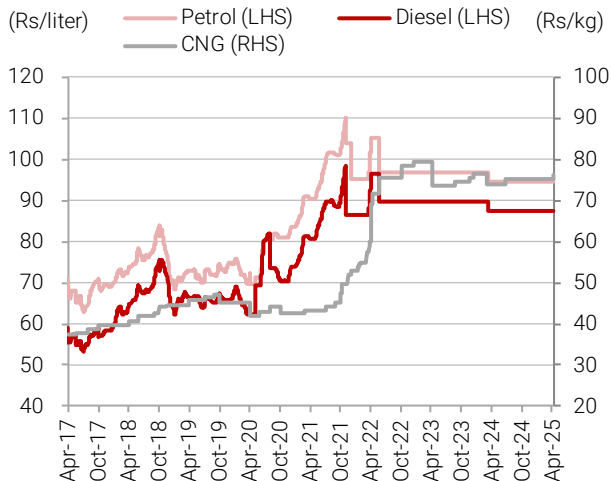
Exhibit 5: CNG versus diesel retail price comparison, October 2021 versus current (Rs/kg, Rs/liter, %)

		CNG price				Diesel				CNG vs Diesel (%)			
		since Oct-2024	Rs/kg			Rs/Liter				on retail price		Energy equivalence	
		Rs/kg	Oct-21	Current	Change	Oct-21	Current	Change		Oct-21	Current	Oct-21	Current
Gujarat Gas	Punjab	-	66	88	33	84	88	4		22	0	38	21
Avantika Gas	Gwalior	1.3	73	97	33	91	92	1		20	(5)	36	17
Green Gas	Lucknow	2.8	68	97	42	86	88	1		21	(10)	38	13
Gujarat Gas	Indore, Ujjain (MP)	3.0	73	93	27	91	92	1		19	(1)	36	20
GAIL	Orissa	2.5	76	90	18	92	94	2		18	4	35	24
GAIL Gas	Sonipat	4.5	64	88	37	87	88	1		26	0	41	21
CUGL	Kanpur	2.0	68	96	42	86	88	2		22	(9)	38	14
Gujarat Gas	Rajasthan	0.1	66	80	23	96	91	(5)		32	12	46	30
IGL	Rewari	4.0	60	84	39	87	88	1		31	4	45	24
Bhagyanagar Gas	Hyderabad	-	76	96	27	95	96	1		20	(0)	37	21
IGL	Gurugram	3.0	59	83	40	87	88	1		32	5	46	25
IGL	Rajasthan	4.5	66	87	31	96	91	(5)		31	4	45	24
MNGL	Pune	3.8	62	90	45	92	91	(2)		33	1	47	22
Gujarat Gas	Gujarat	3.0	61	79	30	89	91	2		32	13	46	31
IGL	Noida, Ghaziabad	5.0	56	85	51	87	88	1		35	3	49	23
IGL	Delhi	1.0	50	76	53	87	88	1		43	13	55	31
Mahanagar Gas	Mumbai	4.5	58	80	38	94	90	(4)		39	12	52	30

Source: Company, Kotak Institutional Equities

CNG prices have seen sharper increases versus petrol/diesel

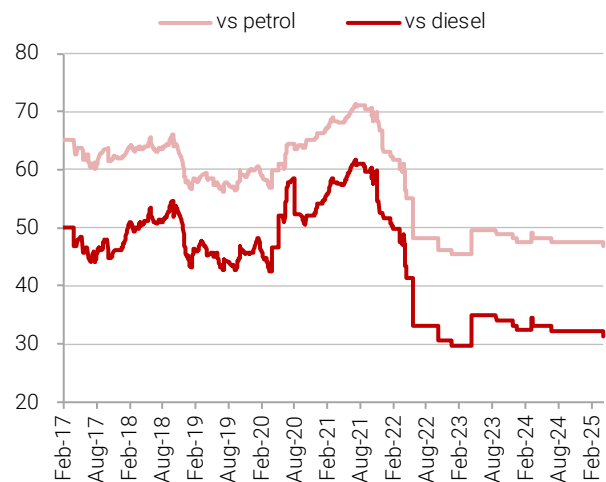
Exhibit 6: Retail petrol, diesel, CNG prices in Delhi (Rs/liter, Rs/kg)



Source: Company, Kotak Institutional Equities

CNG's attractiveness versus petrol/diesel has been reducing

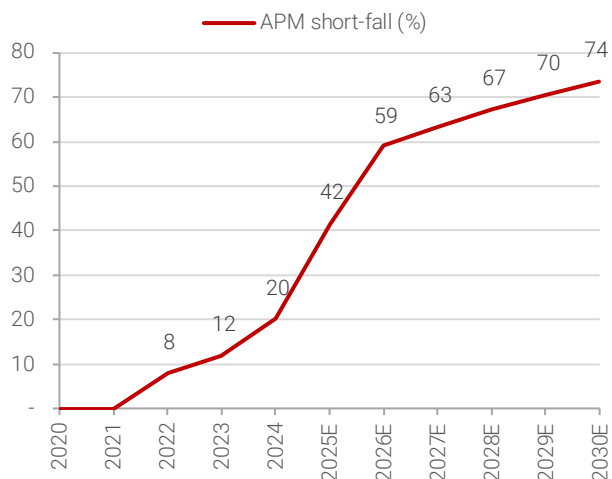
Exhibit 7: Relative advantage of CNG over petrol/diesel in energy equivalence (%)



Source: Company, Kotak Institutional Equities

APM shortfall likely to keep rising

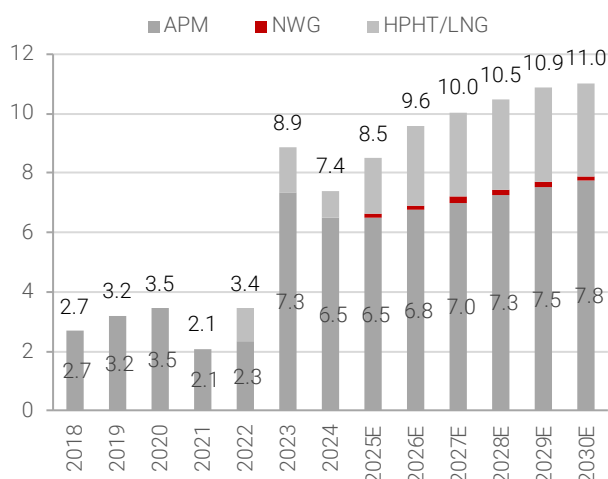
Exhibit 8: CGDs' priority sector shortfall, March fiscal year-ends (%)



Source: Company, PPAC, Kotak Institutional Equities estimates

With rising APM shortfall/prices, CGDs' gas costs keep rising

Exhibit 9: CGDs' likely average gas cost for the priority segment, March fiscal year-ends, 2018 onward (US\$/mmbtu)



Source: Company, PPAC, Kotak Institutional Equities estimates

tions for IGL, March fiscal year-ends, 2018-28E

Source: Company, Kotak Institutional Equities estimates

Exhibit 11: Calculation of equity values using discounted cash flow analysis (Rs mn)

Source: Company, Kotak Institutional Equities estimates

Exhibit 12: Profit model, balance sheet, cash model, March fiscal year-ends, 2018-27E

	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Profit model (Rs mn)										
Net sales	45,921	57,648	64,853	49,408	77,100	141,326	140,000	153,267	163,856	176,727
EBITDA	11,144	12,570	15,196	14,830	18,811	20,255	23,669	18,004	20,345	21,042
Other income	1,021	1,462	1,564	1,502	2,150	2,762	3,632	3,877	3,904	4,189
Finance cost	(17)	(21)	(81)	(113)	(132)	(106)	(92)	(97)	(102)	(107)
Depreciation	(1,813)	(2,011)	(2,523)	(2,904)	(3,171)	(3,634)	(4,138)	(4,661)	(5,463)	(6,165)
Pretax profits	10,335	12,000	14,157	13,315	17,659	19,277	23,072	17,122	18,683	18,959
Extraordinary items	—	—	817	—	—	—	—	—	—	—
Current tax	(3,169)	(3,703)	(3,345)	(2,955)	(4,168)	(4,316)	(5,084)	(3,814)	(4,233)	(4,299)
Deferred tax	(448)	(430)	(263)	(303)	(342)	(511)	(507)	(507)	(507)	(507)
Adjusted net profits including associates	7,217	8,421	11,673	11,726	15,407	16,479	20,209	15,802	17,215	17,685
Adjusted EPS including associates (Rs)	5.2	6.0	8.3	8.4	11.0	11.8	14.4	11.3	12.3	12.6
Balance sheet (Rs mn)										
Total equity	35,129	41,299	50,624	58,719	69,362	70,866	85,517	90,969	97,213	103,316
Deferred tax liability	2,253	2,678	2,119	2,422	3,272	3,168	3,695	4,202	4,709	5,215
Borrowings	—	—	—	—	—	—	—	—	—	—
Customer deposits	5,447	6,493	7,716	8,897	10,413	11,904	13,276	14,557	15,824	17,052
Current liabilities	6,453	9,024	11,264	15,837	21,477	31,822	28,717	30,452	31,169	32,272
Total liabilities and equity	49,282	59,493	71,723	85,874	104,523	117,759	131,206	140,180	148,915	157,856
Cash	5,580	6,071	21,799	11,323	13,616	26,332	21,493	16,269	14,601	15,655
Current assets	4,044	4,433	5,226	6,598	7,345	12,982	18,184	20,042	20,908	21,961
Total fixed assets	28,181	33,549	42,116	49,695	63,803	71,673	79,954	92,292	101,829	108,663
Investments	11,477	15,440	2,581	18,258	19,758	6,773	11,576	11,576	11,576	11,576
Total assets	49,282	59,493	71,723	85,874	104,523	117,759	131,206	140,180	148,915	157,856
Free cash flow (Rs mn)										
Operating cash flow, excl. working capital	7,952	8,901	11,887	11,987	15,198	15,832	19,185	14,092	16,010	16,636
Working capital	841	2,671	1,720	3,473	3,777	6,469	(3,828)	1,157	1,118	1,279
Capital expenditure	(4,699)	(6,807)	(9,632)	(8,829)	(13,370)	(11,221)	(12,021)	(17,000)	(15,000)	(13,000)
Other income	959	490	452	1,349	798	1,618	2,096	3,877	3,904	4,189
Free cash flow	5,053	5,254	4,427	7,979	6,403	12,698	5,431	2,126	6,032	9,104
Ratios (%)										
Net debt/equity	(15.9)	(14.7)	(43.1)	(19.3)	(19.6)	(37.2)	(25.1)	(17.9)	(15.0)	(15.2)
RoAE	19.6	19.3	23.5	17.7	19.7	19.7	21.4	13.9	14.1	13.4
RoACE	17.1	16.9	19.1	15.5	17.3	17.2	18.6	12.1	12.3	11.7
Adjusted CRoCI	22.9	21.6	23.7	20.0	21.6	21.7	22.3	15.5	15.5	14.7

Source: Company, Kotak Institutional Equities estimates

MGL: Maintain SELL with FV Rs1,030

Exhibit 13: Key assumptions for MGL, March fiscal year-ends, 2018-28E

	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Sales volume (mmscmd)											
CNG	2.0	2.2	2.1	1.4	2.1	2.5	2.6	2.9	3.1	3.2	3.3
PNG	0.7	0.8	0.8	0.8	0.9	0.9	1.0	1.2	1.2	1.3	1.4
Domestic	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.7
Commercial	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Industrial	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.5
Total volumes	2.7	2.9	3.0	2.2	3.0	3.4	3.6	4.0	4.3	4.5	4.6
Growth in volumes (%)	5.1	9.2	0.1	(25.1)	35.6	14.1	5.4	12.2	6.4	3.8	3.8
Operating metrics (Rs/scm)											
Gross margin	12.2	13.0	14.7	17.4	13.8	14.9	19.9	15.8	14.8	14.9	14.9
Operating cost	4.3	4.7	5.0	5.8	5.4	5.4	5.9	6.1	6.1	6.3	6.6
Operating profit	7.9	8.3	9.7	11.6	8.4	9.5	13.9	9.8	8.7	8.6	8.3

Source: Company, Kotak Institutional Equities estimates

We value MGL at Rs1,030 using DCF methodology

Exhibit 14: Calculation of equity value using discounted cash flow analysis (Rs mn)

	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	
Assumptions												
Volumes (mcm/d)	3.6	4.0	4.3	4.5	4.6	4.8	5.0	5.2	5.4	5.6	5.7	
Growth (%)	5.4	12.2	6.4	3.8	3.8	4.4	4.0	3.6	3.1	3.5	3.0	
Unit margins (Rs/scm)	13.9	9.8	8.7	8.6	8.3	8.1	8.0	8.0	7.8	7.5	7.5	
DCF model												
EBITDA	18,426	14,429	13,712	14,059	14,114	14,365	14,628	15,264	15,277	15,268	15,616	
Adjusted tax expense	(3,650)	(2,602)	(2,340)	(2,344)	(2,283)	(2,279)	(2,285)	(2,391)	(2,347)	(2,304)	(2,356)	
Change in working capital	511	816	1,230	919	951	947	884	773	739	716	634	
Operating cash flow	15,288	12,643	12,602	12,633	12,782	13,032	13,228	13,646	13,669	13,680	13,895	
Capital expenditure	(7,709)	(8,863)	(8,139)	(7,937)	(7,582)	(7,181)	(6,958)	(6,575)	(6,030)	(5,646)	(5,609)	
Free cash flow	7,579	3,780	4,463	4,696	5,200	5,851	6,270	7,071	7,639	8,033	8,286	
Discounted cash flow-now		3,780	3,985	3,743	3,700	3,717	3,557	3,581	3,453	3,243	2,986	
Discounted cash flow-1 year forward			4,463	4,193	4,145	4,164	3,983	4,011	3,869	3,632	3,344	
Discounted cash flow-2 year forward				4,696	4,643	4,665	4,462	4,492	4,333	4,069	3,746	
		Now	+1-year	+2-years								
Discount rate (%)		12.0%	12.0%	12.0%								
Total PV of free cash flow		35,746	38,850	41,622								
Terminal value assumption												
Growth in perpetuity		2.0%	2.0%	2.0%	Sensitivity of 12-month fair value to WACC and perpetual growth							
FCF in terminal year		8,286	8,451	8,620	Perpetual growth (%)							
Exit FCF multiple (X)		10.2	10.2	10.2	WACC (%)		0.5%	1.5%	2.0%	2.5%	3.5%	
Exit EV/EBITDA multiple (X)		5.4	5.5	5.6			11.0%	1046	1086	1110	1136	1199
Terminal value		84,514	86,204	87,928			11.5%	1012	1047	1068	1091	1145
PV of terminal value		30,458	31,067	31,688			12.0%	981	1012	1030	1050	1097
Enterprise value		66,203	69,916	73,310			12.5%	952	980	996	1013	1054
Net debt		(22,328)	(24,428)	(26,979)		13.0%	926	951	965	980	1016	
Equity value		88,531	94,344	100,289								
Valuations for UEPL (1X purchase price)		5,620	5,620	5,620								
Shares outstanding (mn)		99	99	99								
Fair value of MGL, including dividends (Rs)		953	1,030	1,136								
Fiscal Year end (March 31, XXXX)	Mar-24	Mar-25	Mar-26	Mar-27	Mar-28	Mar-29	Mar-30	Mar-31	Mar-32	Mar-33	Mar-34	
Today	Mar-25	Mar-25	Mar-25	Mar-25	Mar-25	Mar-25	Mar-25	Mar-25	Mar-25	Mar-25	Mar-25	
Days left		-	365	730	1,096	1,461	1,826	2,191	2,557	2,922	3,287	
Years left		-	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	
Discount factor at WACC	1.0	1.0	0.9	0.8	0.7	0.6	0.6	0.5	0.5	0.4	0.4	

Source: Company, Kotak Institutional Equities estimates

Exhibit 15: Profit model, balance sheet, cash model, March fiscal year-ends, 2019-27E (Rs mn)

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Profit model (Rs mn)									
Net sales	28,040	29,721	21,525	35,602	62,993	62,445	69,595	79,780	85,650
EBITDA	8,985	10,528	9,338	9,243	11,842	18,426	14,429	13,712	14,059
Other income	777	990	805	857	1,119	1,753	1,855	2,127	2,374
Interest	(3)	(65)	(72)	(75)	(94)	(115)	(121)	(127)	(133)
Depreciation	(1,259)	(1,617)	(1,737)	(1,963)	(2,311)	(2,736)	(3,095)	(3,623)	(4,122)
Pretax profits	8,499	9,835	8,335	8,063	10,555	17,328	13,067	12,090	12,177
Extraordinary items	(129)	567	—	—	—	—	—	—	—
Current tax	(2,614)	(2,332)	(1,978)	(1,858)	(2,573)	(4,069)	(3,052)	(2,866)	(2,939)
Deferred tax	(291)	(136)	(163)	(235)	(82)	(368)	(343)	(318)	(293)
Adjusted net profits	5,549	7,367	6,195	5,970	7,900	12,891	9,672	8,906	8,946
Adjusted EPS (Rs)	56.2	74.6	62.7	60.4	80.0	130.5	97.9	90.2	90.6
Balance sheet (Rs mn)									
Total equity	23,989	29,527	32,324	35,973	41,342	51,429	57,716	63,504	69,319
Deferred tax liability	2,048	1,636	1,802	2,038	2,116	2,471	2,813	3,131	3,424
Borrowings	18	6	8	8	11	27	0	0	0
Customer deposits	5,179	5,817	6,355	7,150	8,203	9,409	9,668	10,470	11,247
Current liabilities	3,176	4,299	5,522	7,169	8,652	8,925	10,270	10,952	11,409
Total liabilities and equity	34,410	41,285	46,011	52,338	60,323	72,260	80,468	88,057	95,399
Cash	2,988	2,295	5,119	4,652	2,279	3,985	6,058	8,609	11,834
Current assets	3,551	3,602	4,574	6,011	9,491	8,900	9,267	9,789	10,090
Total fixed assets	21,331	24,174	26,069	30,792	35,455	41,005	46,773	51,290	55,106
Investments	6,540	11,215	10,250	10,883	13,098	18,370	18,370	18,370	18,370
Total assets	34,410	41,285	46,011	52,338	60,323	72,260	80,468	88,057	95,399
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	6,422	8,378	7,448	7,380	9,559	14,724	11,255	10,719	10,986
Working capital	418	1,374	602	1,657	134	907	1,238	961	933
Capital expenditure	(3,625)	(4,349)	(3,397)	(6,490)	(7,131)	(7,709)	(8,863)	(8,139)	(7,937)
Free cash flow	2,455	2,113	3,610	3,629	3,198	2,953	5,485	5,668	6,356
Investments	(1,138)	(3,765)	1,287	(357)	(1,748)	(4,413)	0	0	0
Other income	377	475	(2,331)	1,440	2,384	(557)	1,855	2,127	2,374
Ratios (%)									
Debt/equity	—	0.0	0.0	0.0	—	—	—	—	—
Net debt/equity	(12.4)	(7.8)	(15.8)	(12.9)	(5.5)	(7.7)	(10.5)	(13.6)	(17.1)
RoAE	22.4	27.7	19.0	16.6	19.4	26.5	16.9	14.0	12.8
RoACE	19.0	22.1	16.1	14.1	16.5	22.6	14.6	12.2	11.2
Adjusted CRoCI	24.6	26.5	20.5	18.3	20.0	25.6	17.7	15.3	14.1

Source: Company, Kotak Institutional Equities

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ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5+5% returns over the next 12 months.

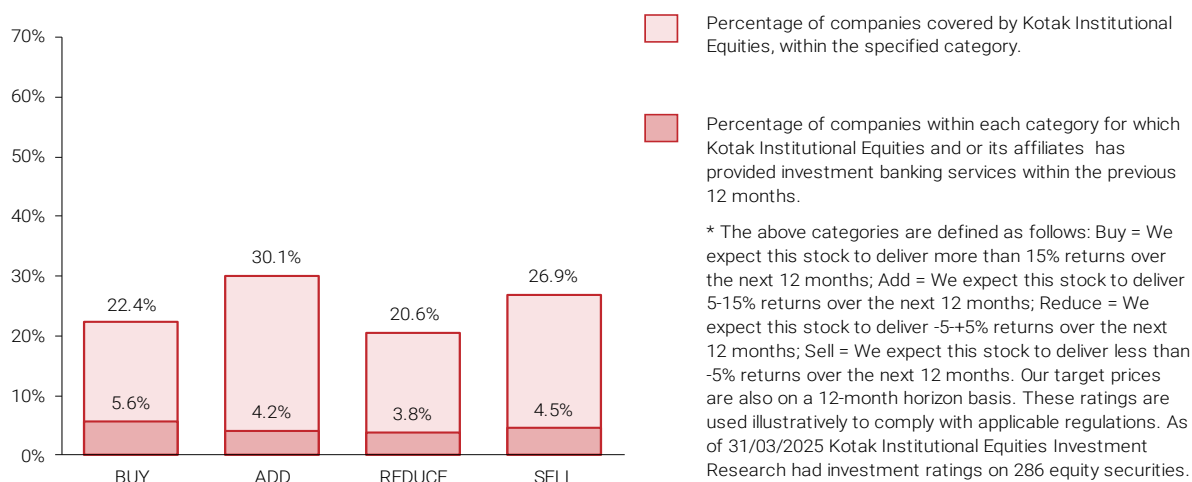
SELL. We expect this stock to deliver <-5% returns over the next 12 months.

Our Fair Value estimates are also on a 12-month horizon basis.

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Source: Kotak Institutional Equities

As of March 31, 2025

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