

RESEARCH**OIL & GAS**

Listed CGD players need to re-establish growth contours

SUMMARY**OIL & GAS**

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- Retail fuel price cut and introduction of competition are key headwinds, whereas change in tax structure and LNG pullback are key tailwinds
- Retain HOLD on MAHGL and IGL, with lower TPs of Rs 1,350 and Rs 310. Prioritising growth could help the sector weather this downturn

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Implication of APM gas allocation cut: (1) We estimate a cost increase of Rs 5.5-7.0/kg for CNG assuming substitution by NWG and HPHT gas in a 50:50 ratio. Interim cost is likely to be higher until HPHT volume increase contracts by Jan-Feb. (2) Loss of competitiveness to diesel with single-digit differential to diesel in Maharashtra, Uttar Pradesh/Haryana. While this deters retro fitment, the preference for CNG in new LCVs may continue with the OEM push and discount subject to net savings on CNG. (3) CNG is to remain competitive vs petrol with mileage advantage but price hikes need to stay calibrated to maintain consumer sentiment and momentum in vehicle additions. (4) Margin normalisation is likely as long as growth is prioritised. (5) Possibility of growth slowdown also exists.

Shifting to conservative assumptions: We lower average EBITDA margin assumptions to Rs 8.4/scm (from Rs 9.6-9.7) for MAHGL and Rs 5.5/scm (from Rs 6.5) for IGL. Recognising challenges in penetrating the diesel-based user base, we lower FY24-33E volume growth CAGR over the semi-explicit period to 6.1% (from 6.4%) for MAHGL and to 6.5% (from 7%) for IGL.

Maintain HOLDs: We lower TPs for MAHGL to Rs 1,350 from Rs 1,610 and for IGL to Rs 310 from Rs 455, factoring in our revised estimates while rolling forward to Nov'25 (from Sep'25). We maintain HOLD on both given 14.8% upside on MHAGL and 3.1% downside on IGL.

High sensitivity to growth and margin: EBITDA margin rising by Rs 0.5/scm over FY26-33E could add ~6.5% to our TPs of MAHGL/IGL. Similarly, 0.5% higher volume growth CAGR over FY24-33E could add 6%/ 3% to our MHAGL/IGL TPs.

Headwinds: (a) the possibility of retail auto fuel price cuts, (b) slowdown in vehicle sales, (c) introduction of competition with implementation of end of exclusivity.

Catalysts: (a) Any favourable change in tax structure (excise duty cut, inclusion in GST) restoring competitiveness, (b) pullback in LNG prices lowering costs for the sector, (c) traction in new segments – LNG for long-haul transport, CNG bikes.

Recommendation snapshot

Ticker	Price	Target	Rating
IGL IN	320	310	HOLD
MAHGL IN	1,176	1,350	HOLD

Price & Target in Rupees | Price as of 26 Nov 2024



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