BOBCAPS
TRUST | INNOVATION | EXCELLENCE

OIL & GAS

21 May 2024

# CGDs demonstrate improved focus on volume growth

- **We compare MAHGL and IGL's volume growth, margin trends, profitability and valuations**
- **MAHGL has regained its margin advantage from Q4FY23; both MAHGL and IGL are geared to deliver ~7% growth over FY24-33, in our view**
- **We reiterate BUY on IGL and MAHGL with DCF-based TPs of Rs 525 and Rs 1,545 (lowered from Rs 1,590) respectively**

Kirtan Mehta, CFA
research@bobcaps.in

**Compare CGD players:** We have a BUY rating on both CGD players as we believe the stock price is discounting growth below 7% over the next decade. We compare IGL and MAHGL to analyse relative advantages.

**MAHGL has regained margin advantage:** MAHGL has regained its advantage of lower gas purchase costs from Q4FY23, tying up term-contracts to limit exposure to adverse spot volatility and has passed on its benefit by lowering CNG prices over FY24. While MAHGL clocked higher EBITDA margin of Rs13.9/scm (vs Rs 7.7/scm for IGL), we expect margin to normalise to Rs 11.1/scm in FY25 for MAHGL.

**Volume growth has picked up post Covid:** Both IGL and MAHGL have clocked good volume growth CAGR of 17.7%/16.5% over FY21-FY24, benefitting from a pick-up in CNG vehicle additions, and more recently traction in industrial segment with a guaranteed discount on alternate fuel. MAHGL has seen a significant improvement from its past trends (4.7% CAGR over FY17-20). We have highlighted previously that **network expansion in GA2 (Thane Urban) is yielding results**.

**7% growth over next decade possible:** IGL can deliver volume CAGR of 6.8% over FY24-33 focusing on legacy GAs outside Delhi and newer GAs, and PNG growth in Delhi to counter the slowdown in Delhi CNG consumption. We believe MAHGL too can deliver consolidated volume CAGR of 6.8% over FY24-33 with the acquisition of three new GAs of UEPL adding to 5.3% CAGR from existing GAs.

**Revised estimates for MAHGL:** We lower our FY25/FY26 EBITDA forecasts for MAHGL by 6.6%/ 6.5% factoring in lower margin assumptions. We recently revised our IGL forecasts in our note '**Growth focus improving, reiterate Buy**'.

**IGL's larger-footprint advantage:** We reiterate BUY on IGL (TP of Rs 525), and MAHGL (TP lowered to Rs 1,545 from Rs 1,590). Our valuation implies target FY25 P/Es of 17.7x for IGL and 14.5x for MAHGL as we give IGL credit for its larger footprint with higher terminal growth rate of 4% vs 2.5% for MAHGL.

### Recommendation snapshot

| Ticker | Price | Target | Rating |
|---|---|---|---|
| IGL IN | 441 | 525 | BUY |
| MAHGL IN | 1,298 | 1,545 | BUY |

Price & Target in Rupees | Price as of 21 May 2024

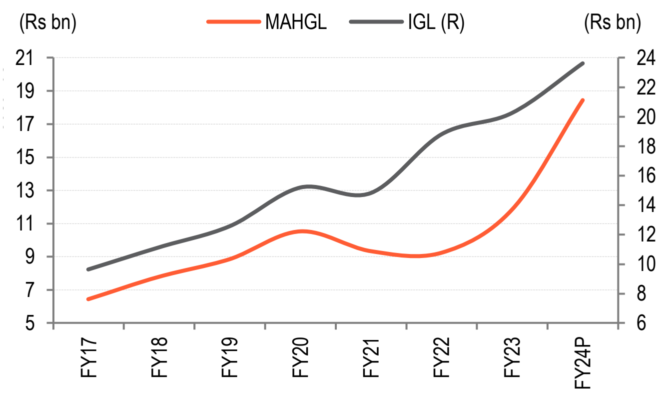
# MAHGL-IGL comparison

## MAHGL's EBITDA grew sharply over FY23-FY24

MAHGL's EBITDA growth over FY23 and FY24 picked up at a sharp pace after a slowdown over FY21-FY22.

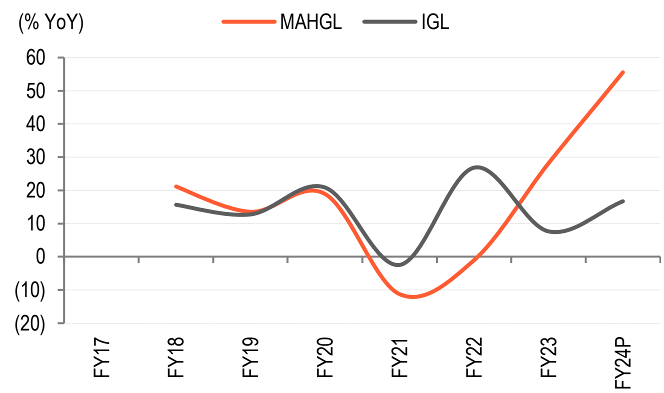
- **Slowdown over FY21:** Both utilities had seen EBITDA degrowth in FY21 on a sharp pull back in volumes during the Covid pandemic. However, this was partially offset by an expansion in margin with a reduction in natural gas purchase costs and IGL captured the higher benefit of the same.
- **Slowdown over FY22:** While volume recovered post Covid, margins of city gas distribution (CGD) companies were impacted by a sharp rise in LNG purchase costs post the commencement of the Russia-Ukraine war and CGD companies were caught off-guard amid their open exposure to spot prices.
- **Recovery over FY23:** Recovery in EBITDA for CGDs was driven by continuing recovery in volumes from the effects of the slowdown of Covid and gaining control over gas purchase costs by securing term contracts as well as passing on higher costs to consumers. MAHGL was able to pass on higher costs to consumers and succeeded in improving EBITDA better than IGL.
- **Recovery over FY24:** With India implementing a new APM (Administered Price Framework) gas price framework and according priority to CGD companies for the use of relatively cheaper-priced HPHT (high-pressure high-temperature) gas for the priority sector to bridge the shortfall in APM gas, CGD companies were able to improve their margins. MAHGL regained its advantage over IGL of lower natural gas purchase costs and was also slower to pass on the benefit of cost reduction to consumers, and thereby earned higher EBITDA margin than IGL in FY24. Besides margin, MAHGL saw better traction on volumes in H2FY24 than IGL.

**Fig 1 – MAHGL picked up pace on EBITDA growth…**



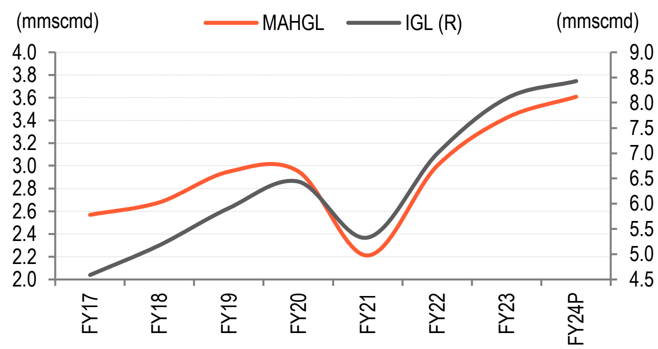

Source: Company, BOBCAPS Research

**Fig 2 – … over FY23-FY24**



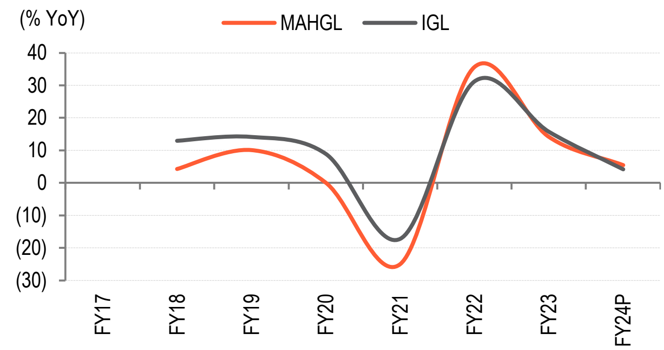

Source: Company, BOBCAPS Research

**Fig 3 – Gas volumes recovered post Covid**



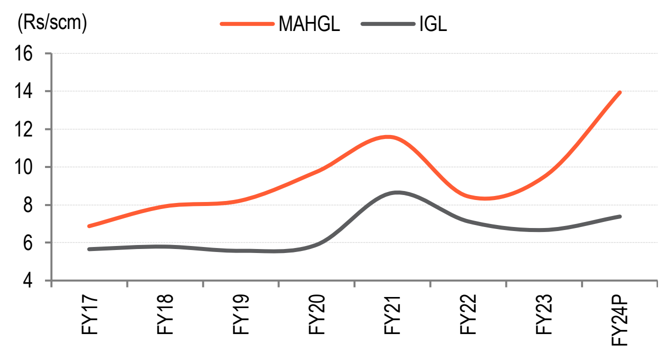

Source: Company, BOBCAPS Research

**Fig 4 – While both clocked similar growth for FY24, MAHGL saw better recovery in H2FY24**



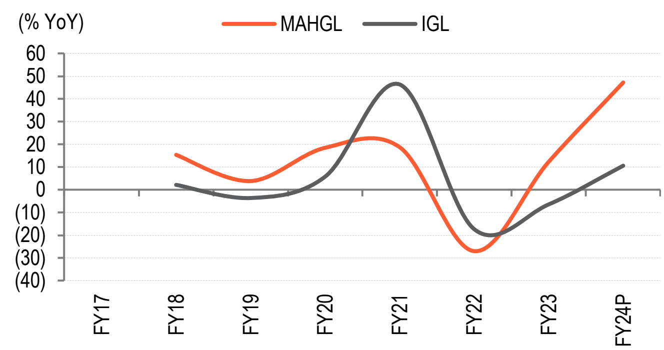

Source: Company, BOBCAPS Research

**Fig 5 – MAHGL earned above cycle-average margin…**




Source: Company, BOBCAPS Research

**Fig 6 – … particularly during FY24 as it regained its advantage of lower natural gas purchase costs**




Source: Company, BOBCAPS Research

## MAHGL EBITDA likely to retract in FY25 on margin normalisation

Over FY19-24, MAHGL was able to deliver EBITDA growth of 15.8% CAGR higher than IGL at 13.5% CAGR as lower volume growth was offset by significantly higher unit EBITDA margin.

For FY24-26E, we expect EBITDA to register -5.1% CAGR degrowth for MAHGL vs 8.5% CAGR for IGL.

**Margin normalisation for MAHGL:** MAHGL's apparent degrowth is a function of normalisation of EBITDA margin from above cycle average margin of Rs 13.9/scm in FY24. We expect margins for both players to remain slightly higher than the historical five-year average on the back of reasonable gas purchase costs for the priority segment under the current pricing regime and expected pull-back in LNG prices.

**Pick-up in MAHGL's volume growth:** We expect volume growth to pick up above 7% for MAHGL on the back of improving traction in CNG vehicles as well as industrials. Even for IGL, we expect volume growth CAGR to remain over 7% despite electric vehicle (EV) challenges in Delhi. We expect growth to be supported by double-digit growth in legacy georgraphical areas (GAs) outside Delhi, with (1) higher growth and improved focus in relatively newer GAs, (2) the pursuit of higher growth in domestic households, (3) commercial growth within Delhi, (4) legacy GAs leveraging deep network, and (5) pursuit of higher growth in industrials segment with attractive pricing scheme.

**Fig 7 – Growth comparison**

| | FY19-24 | | FY24P | | FY24-26E | |
|---|---|---|---|---|---|---|
| | MAHGL | IGL | MAHGL | IGL | MAHGL | IGL |
| **Volume growth (% CAGR)** | **4.1** | **7.4** | **5.4** | **4.2** | **7.4** | **7.2** |
| CNG | 3.6 | 7.4 | 4.0 | 3.8 | 6.8 | 5.9 |
| D-PNG | 6.7 | 13.5 | 6.7 | 15.2 | 7.2 | 14.8 |
| I+C | 4.2 | 8.3 | 12.3 | 3.0 | 10.3 | 13.6 |
| **Average EBITDA/scm (Rs/scm)** | **10.6** | **7.2** | **13.9** | **7.7** | **11.0** | **7.8** |
| **Financials growth** | **-** | **-** | **-** | **-** | **-** | **-** |
| Revenue growth (% CAGR) | 17.6 | 19.4 | (0.9) | (0.9) | 7.0 | 7.0 |
| **EBITDA growth (% CAGR)** | **15.8** | **13.5** | **55.6** | **16.7** | **(5.1)** | **8.5** |
| Net income growth (% CAGR) | 18.7 | 18.7 | 63.2 | 21.0 | (7.6) | 5.6 |

Source: Company, BOBCAPS Research

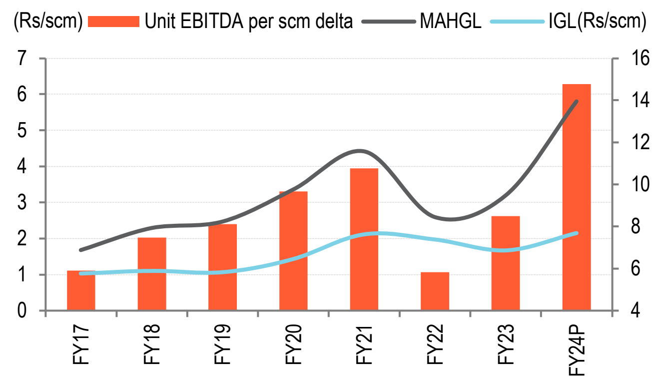
## Margins: MAHGL at a clear advantage

MAHGL has a clear advantage over IGL in terms of higher EBITDA margin driven by higher gross margin.

**Lower gas purchase cost is the key driver:** The primary driver for the advantage has been lower gas purchase costs with proximity to multiple domestic sources and LNG terminals, lowering gas transportation costs. We believe the advantage has widened over FY24 with (i) the implementation of Unified Transportation Tariff increasing the differential between Zone 1 and Zone 3 tariffs, and (ii) better flexibility on term LNG contracts. We understand from management commentary that MAHGL has been able to partially back-out of term contracts to utilise cheaper spot gas on several occasions. This is likely reflective of higher flexibility to withdraw less under-term contracts, ie, lower take-or-pay levels.

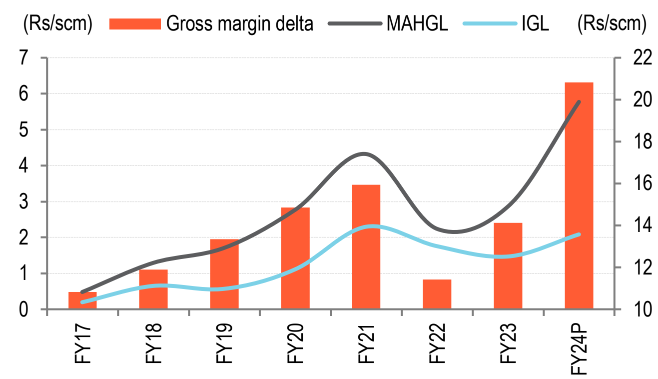
**Better flexibility to charge higher CNG prices:** Also, MAHGL has higher flexibility to charge higher CNG prices than IGL owing to higher state taxes on liquid transport fuels (petrol and diesel) within Maharashtra. MAHGL used this flexibility in FY22 and FY23 to recoup part of margin loss to higher gas purchase costs on account of higher spot LNG prices.

**Fig 8 – MAHGL margin advantage expanded in FY24…**



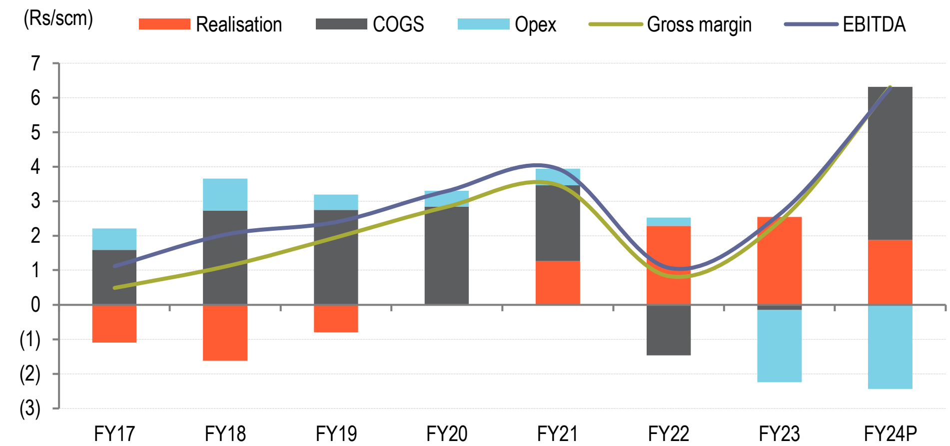

Source: Company, BOBCAPS Research

**Fig 9 – … at EBITDA and gross margin levels**




Source: Company, BOBCAPS Research

**Fig 10 – Delta between MAHGL and IGL – MAHGL benefitted from lower gas purchase costs and higher realisation in FY24**

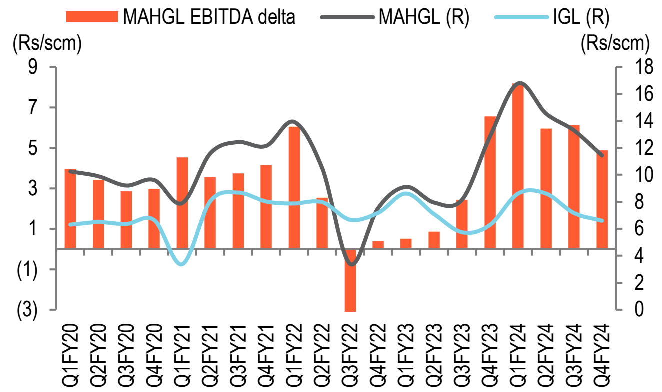



Source: Company, BOBCAPS Research

## Quarterly trends also confirm consistent margin advantage for MAHGL over IGL

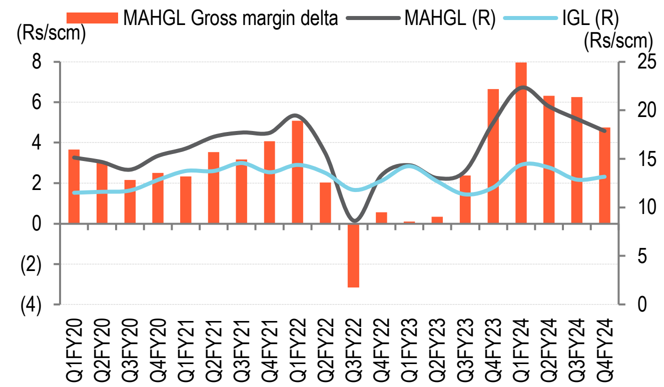
The margin advantage appears to be consistent even on quarterly trends. While MAHGL's EBITDA dropped below that of IGL in Q3FY22, MAHGL recouped the same with increases in prices over H2FY22 and FY23. MAHGL regained its margin advantage from Q3FY24, (i) initially by charging higher prices to customers than IGL from Q3FY24, then (ii) regaining its advantage of lower natural gas purchase costs replacing some spot exposure with term contracts from Q4FY23, and later with (iii) favourable change in gas pricing mechanism for CGD sector from Q1FY24 lowering the priority sector gas purchase costs.

**Fig 11 – MAHGL regained advantage as gas purchase costs come under control over FY23…**



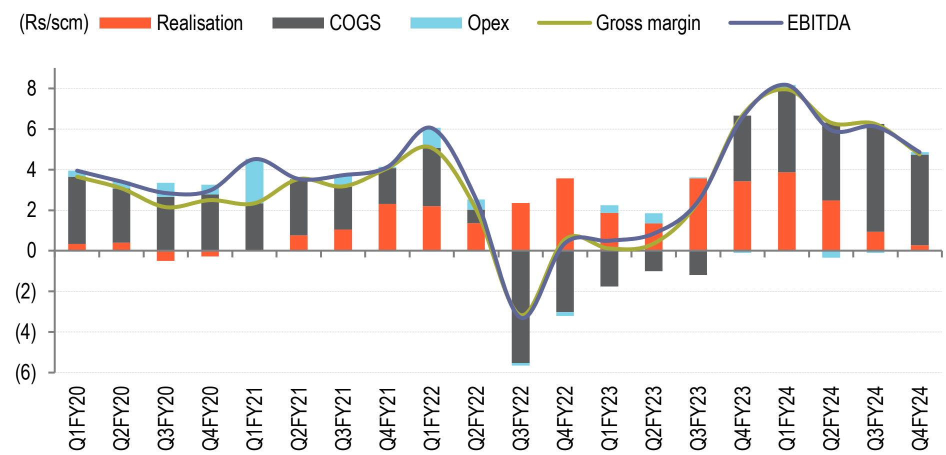

Source: Company, BOBCAPS Research

**Fig 12 – … reflected in improvement in gross margin**




Source: Company, BOBCAPS Research

**Fig 13 – MHAGL dropped prices in H2FY24, passing on part of excess benefit to customers**

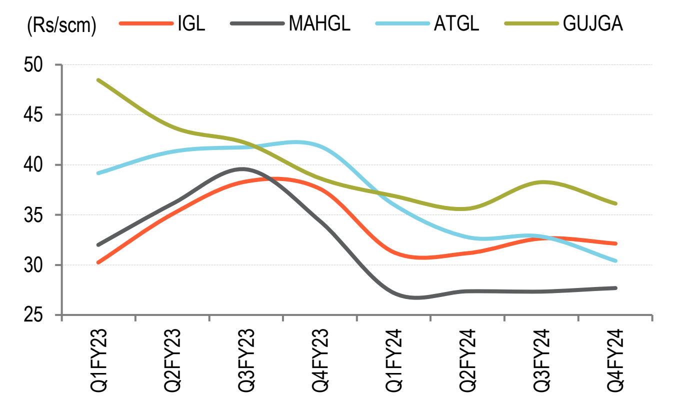



Source: Company, BOBCAPS Research

## Gas purchase costs have been the key driver of margin advantage

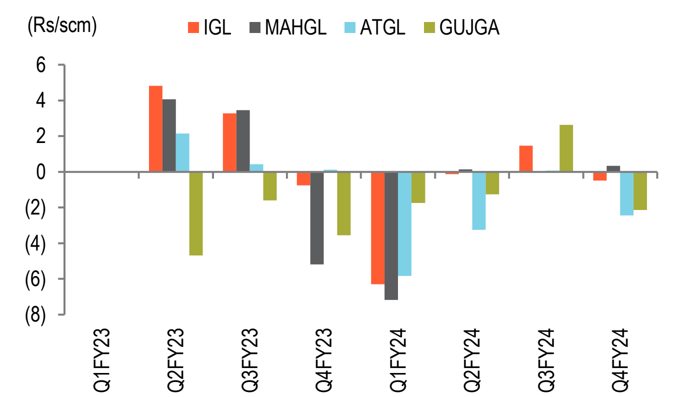
As we see from the historical trends in Fig 10, gas purchase costs have been the key source of advantage for MAHGL over IGL at least since FY17, except in FY21 and FY22. After regaining the advantage in Q4FY23, MAHGL now has the lowest cost among the four listed CGD players.

**Fig 14 – MAHGL presently enjoys lowest gas cost among listed players…**




Source: Company, Mahanagar Gas, Adani Total Gas (ATGL), Gujarat Gas (GUJGA), BOBCAPS Research

**Fig 15 – … since Q4FY23**




Source: Company, MAHGL, ATGL, GUJGA, BOBCAPS Research

## CNG realisation benefits from advantage of higher taxes on petrol/diesel

Due to differences in state taxes, there is a difference of Rs 4.5/l in diesel prices and Rs 9.5/l in petrol prices between Mumbai and Delhi. Because of the higher cost of alternate fuel, MAHGL has a flexibility of Rs 4.5/kg higher on CNG prices keeping in view diesel parity, and Rs 13.7-14.9/kg higher keeping in view petrol parity. (Here we assume the following fuel efficiency: CNG car 22-26km/kg, petrol car: 14-18km/l, CNG SUV 10km/kg and diesel SUV 10km/l)

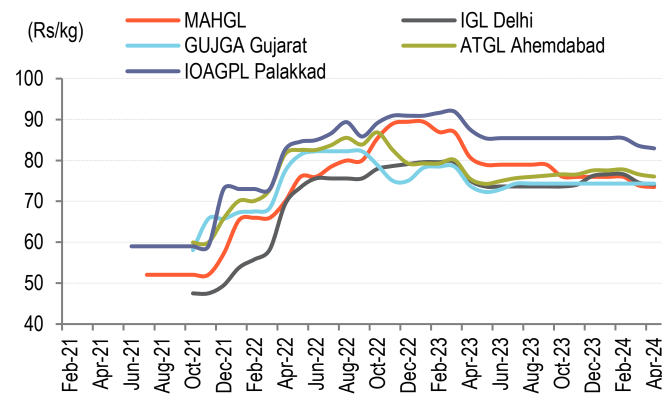
### Fig 16 – MAHGL can theoretically charge higher CNG realisation than IGL for maintaining same level of savings for end user

| Parameters | Maharashtra – Mumbai | New Delhi | Differential (Mumbai- Delhi) |
|---|---|---|---|
| Petrol price (Rs/l) | 104.21 | 94.72 | 9.5 |
| Diesel price (Rs/l) | 92.2 | 87.6 | 4.5 |
| CNG price (Rs/kg) | 73.5 | 74.1 | (0.6) |
| Fuel cost with petrol (Rs/km) @ 14km/l mileage efficiency | 7.4 | 6.8 | 0.7 |
| Fuel cost with CNG (Rs/km) @22km/kg mileage efficiency | 3.3 | 3.4 | 0.0 |
| **Fuel cost savings for car on CNG vs Petrol (Rs/km)** | **4.1** | **3.4** | **0.7** |
| **Fuel cost savings for LCV on CNG vs Diesel (Rs/km)** | **1.9** | **1.4** | **0.5** |
| **Tax structure** | | | |
| Petrol sales tax/ VAT | 26% VAT+ Rs.5.12/l additional tax | 19.40% VAT | - |
| Diesel sales tax/ VAT | 24% VAT | Rs.250/KL air ambience charges + 16.75% VAT | - |
| CNG sales tax/ VAT | 3% | 0% | - |

Source: Company, BOBCAPS Research

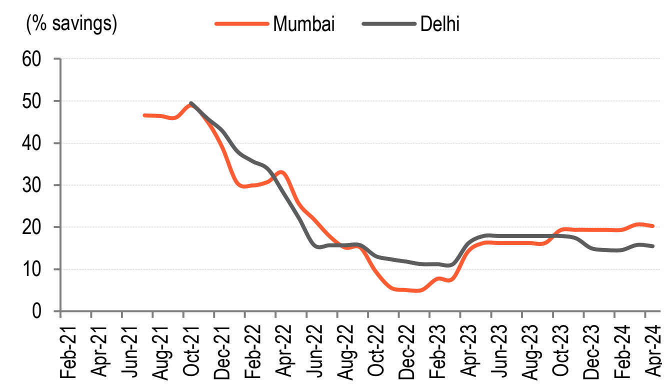
While MAHGL was caught off-guard in an open spot contract position and lost its advantage on gas purchase costs, MAHGL exercised this flexibility to charge higher CNG prices to consumers to protect this margin over FY23. After regaining its advantage on natural gas purchase costs from Q4FY23, MAHGL passed on reduction to CNG consumers. This has restored savings for diesel LCV to 20% for mileage efficiencies of 10km/l diesel and 10km/kg CNG.

### Fig 17 – MAHGL has aligned prices with other CGD players slowly over FY24



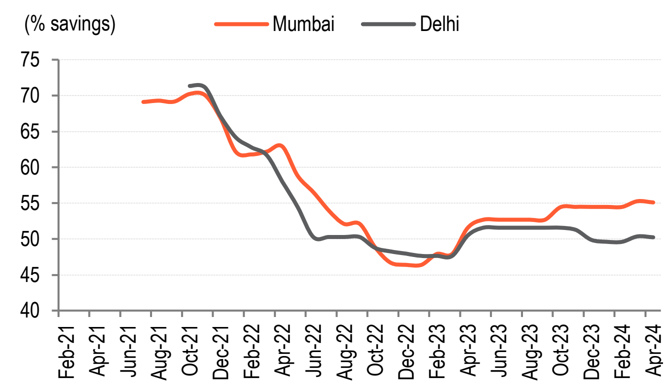

Source: Centre for Monitoring Indian Economy (CMIE), BOBCAPS Research

### Fig 18 – Restored fuel savings on diesel vehicles to 20% under mileage efficiency of 10km/l diesel, 10km/kg CNG



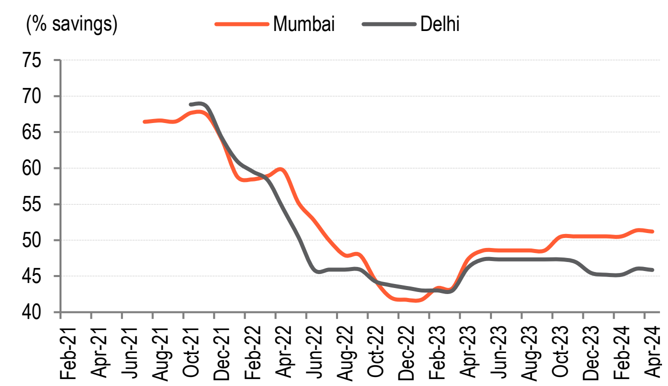

Source: CMIE, BOBCAPS Research

### Fig 19 – Significantly higher fuel savings on petrol vehicles – petrol 14km/l and CNG 22km/kg




Source: CMIE, BOBCAPS Research

### Fig 20 – Savings on CNG car with better mileage efficiency of 28km/kg vs petrol of 18km/l for comparison




Source: CMIE, BOBCAPS Research

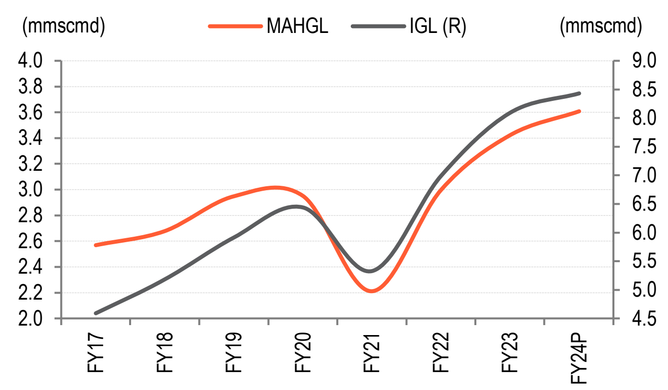
## Medium-term volume: MAHGL's improving outlook; IGL countering EV challenges in Delhi

Both MAHGL and IGL have seen good traction in volumes post Covid, with volume growth CAGR of 17.7% and 16.5%, respectively.

Volume growth for MAHGL has been significantly better than the 4.7% CAGR it clocked over FY17-20, prior to Covid.

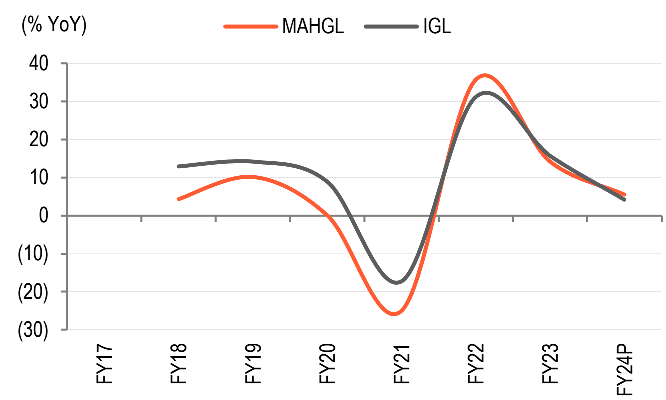
Post Covid growth has been primarily driven by improved traction in the CNG vehicles and industrials segments. The CNG segment has found support in favourable policies to improve competitiveness of CNG vs liquid fuels. Traction in the industrial segment is attributable to change in approach by both CGD players to prioritise volume over margin and offer a discount on alternate fuels to attract new volumes.

**Fig 21 – MAHGL volume growth has picked up post FY22**



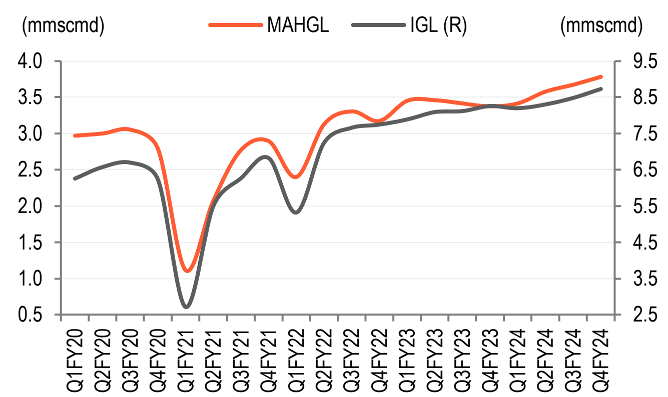

Source: Company, BOBCAPS Research

**Fig 22 – MAHGL delivering volume growth in line with IGL**



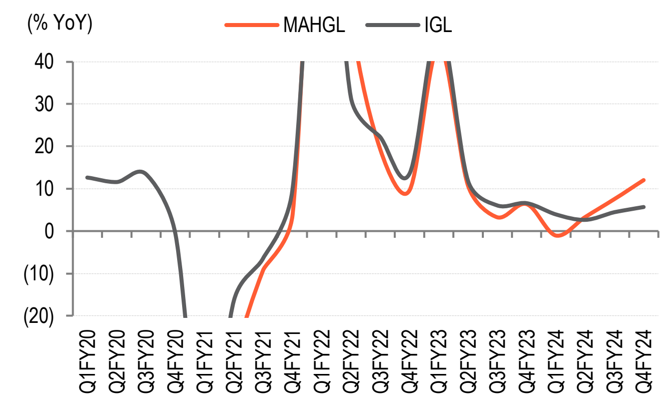

Source: Company, BOBCAPS Research

**Fig 23 – Quarterly trends confirm similar pick-up…**



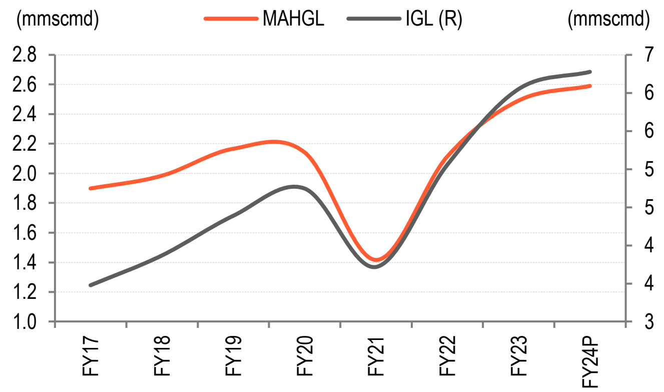

Source: Company, BOBCAPS Research

**Fig 24 – … with MAHGL growth higher than IGL's over H2FY24**



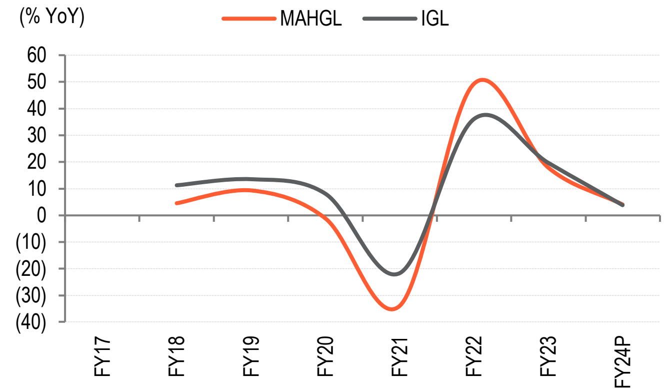

Source: Company, BOBCAPS Research

### Fig 25 – CNG volume recovery sharper post Covid



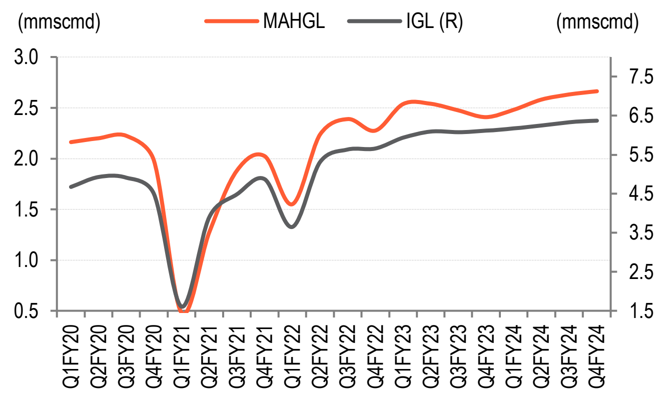

Source: Company, BOBCAPS Research

### Fig 26 – CNG volume growth: Annual trend



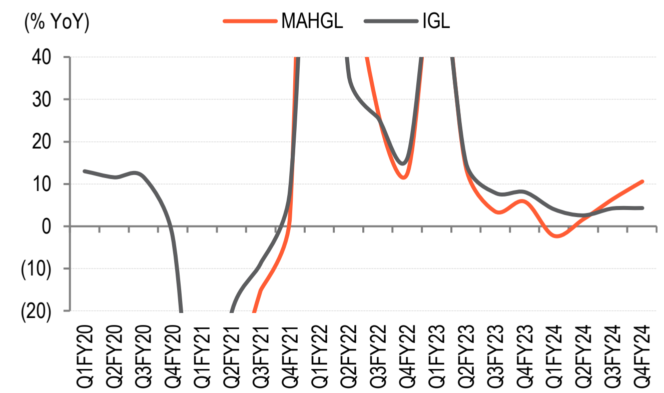

Source: Company, BOBCAPS Research

### Fig 27 – CNG volume: Quarterly trends



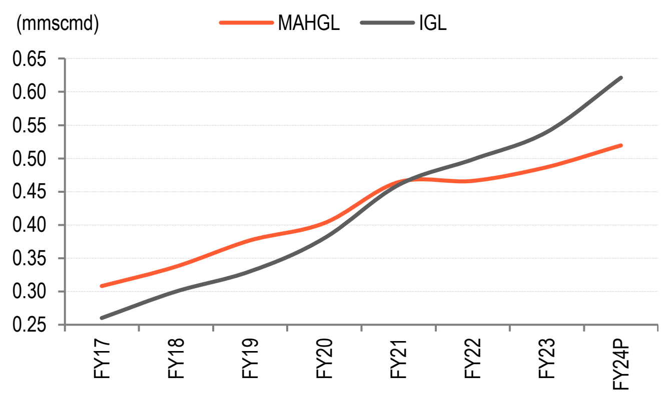

Source: Company, BOBCAPS Research

### Fig 28 – CNG volume growth: Quarterly trends



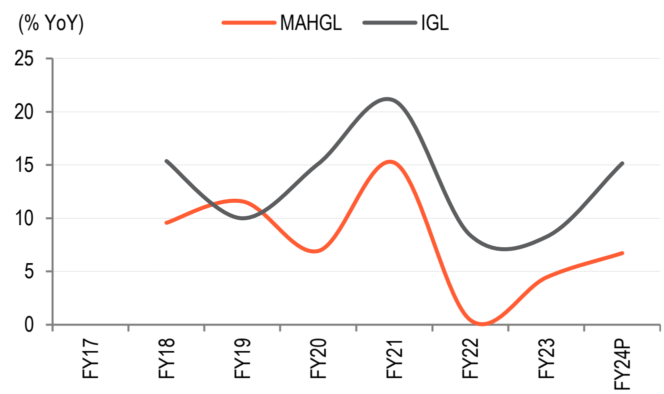

Source: Company, BOBCAPS Research

### Fig 29 – IGL has been growing domestic segment faster



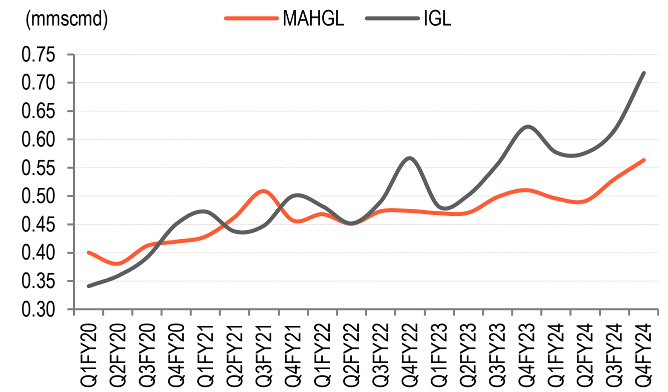

Source: Company, BOBCAPS Research

### Fig 30 – Domestic volume growth: Annual



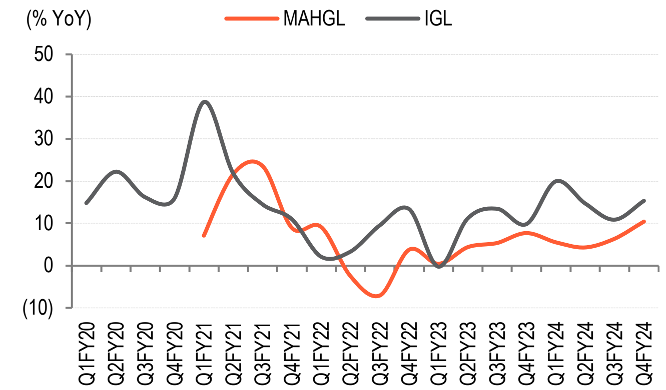

Source: Company, BOBCAPS Research

### Fig 31 – Domestic volume: Quarterly



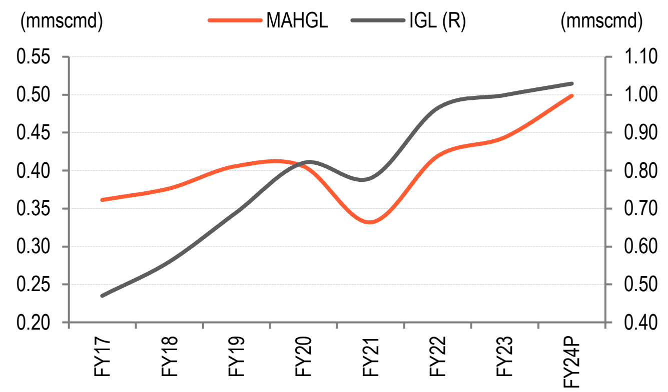

Source: Company, BOBCAPS Research

### Fig 32 – Domestic volume growth: Quarterly



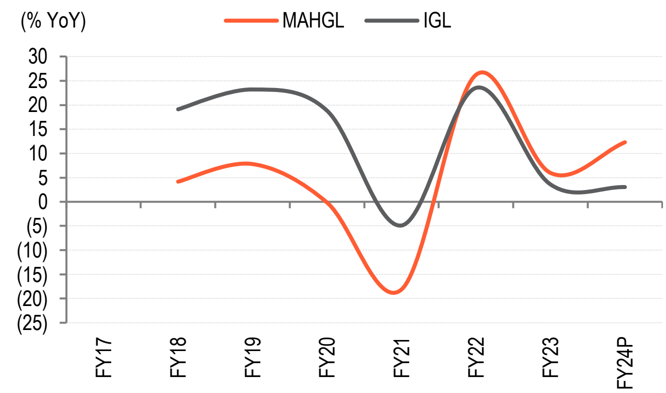

Source: Company, BOBCAPS Research

### Fig 33 – IGL have better traction in Industrials segment with ban on usage of polluting fuel



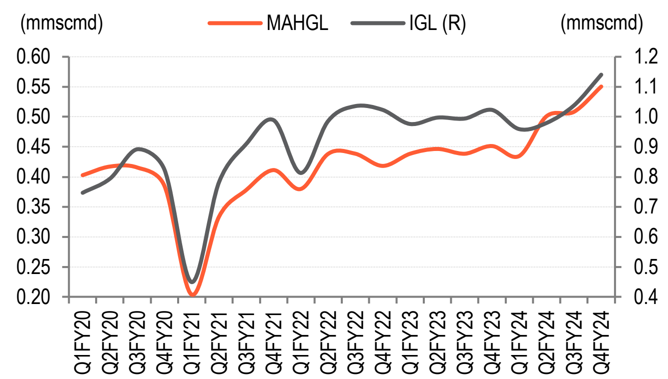

Source: Company, BOBCAPS Research

### Fig 34 – Industrial and commercial volume growth



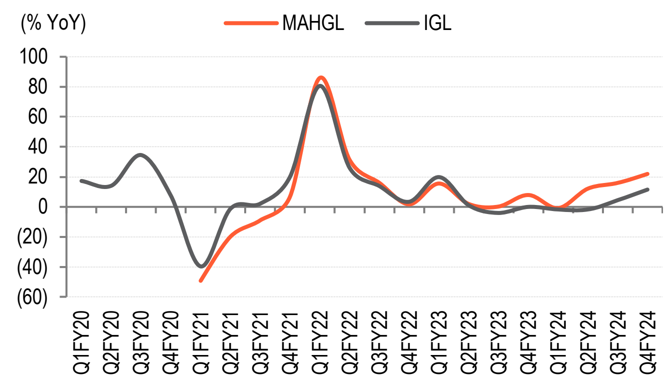

Source: Company, BOBCAPS Research

### Fig 35 – Industrial and commercial: volume




Source: Company, BOBCAPS Research

### Fig 36 – Industrial and commercial: volume growth




Source: Company, BOBCAPS Research

## Long-term volume: IGL has the advantage of footprint

**Metro GAs with long growth tail:** Both IGL and MAHGL have an advantage of operation in metro GAs which has a long growth tail. With a deep network within cities, domestic households and commercials can continue to grow with the city. While the CNG segment could eventually face competition from EVs, we believe that CNG vehicles and EVs will co-exist in India over the medium term until battery technology and grid infrastructure mature.

**IGL faces a slowdown with increased EV challenges in Delhi.** With the Delhi government accelerating implementation of EVs with cab aggregators, commercial vehicles and buses, IGL's growth in Delhi is likely to slow down. However, we believe that legacy GAs in Uttar Pradesh (UP) and newer GAs will help IGL continue to deliver healthy growth over the next decade. We currently assume volume CAGR of 6.8% over FY24-FY33.

**MAHGL improves growth profile with addition of 3 GAs:** MAHGL has also improved its growth profile over the next decade with the acquisition of UEPL (Unison Enviro). While we believe the existing GAs could deliver growth of 5.3% CAGR over FY24-FY33 (within the range of management's ambitions of 5-6% CAGR), UPEL, with a potential of 1.2mmscmd, could improve growth to 6.8% CAGR for consolidated operations.

**IGL's larger footprint advantage:** IGL has a further advantage of significantly larger footprint. Besides the National Capital Territory (NCT) of Delhi, IGL operates across the districts of Gautam Budh Nagar, Ghaziabad, Hapur, Muzaffarnagar, Shamli, and uncovered parts of Meerut and Kanpur, Fatehpur and Hamirpur in Uttar Pradesh; and districts Rewari, Gurugram, Karnal and Kaithal in Haryana, and Ajmer, Pali and Rajsamand in Rajasthan. We give credit to IGL for this larger footprint (at different stages of development) by using 4% terminal growth (including inflation) in our DCF valuation against the 2.5% that we use for MAHGL.

**Fig 37 – Implied target multiple from our DCF valuation**

| Company | Rating | Target price (Rs) | FY25E target P/E (x) | FY26E target P/E (x) |
|---|---|---|---|---|
| IGL | BUY | 525 | 17.7 | 16.6 |
| MAHGL | BUY | 1,545 | 14.5 | 13.9 |

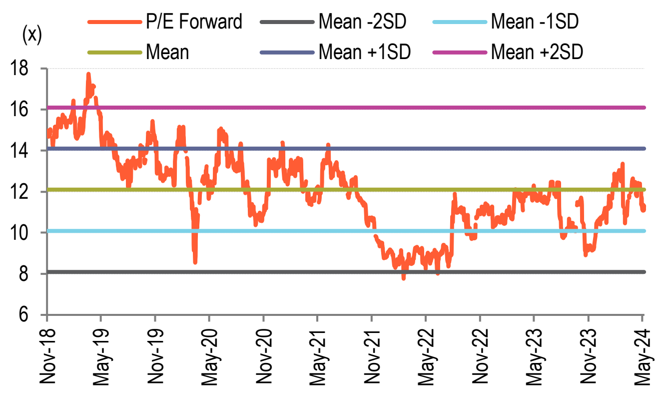
Source: BOBCAPS Research

## Valuation gap narrowing, but long-term growth a differentiator

The CGD sector has seen a derating as the market reckons with challenges to long-term growth from EVs. Recently the government's comments to increase competition within GAs has also raised concerns on margins.

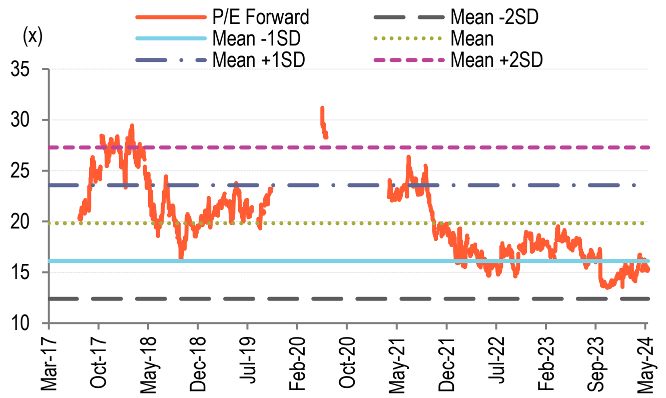
- IGL's 1Y fwd P/E has dropped to 15.3x, one standard deviation below the 10Y mean.
- MAHGL's 1Y fwd P/E has increased to 11.4x, and is trading close to its 10Y mean.
- However, the gap in valuation between the two has narrowed somewhat with an improving medium-term growth profile for MAHGL and increasing EV challenges for IGL.

**Fig 38 – On 1Y fwd P/E, MAHGL has seen re-rating…**



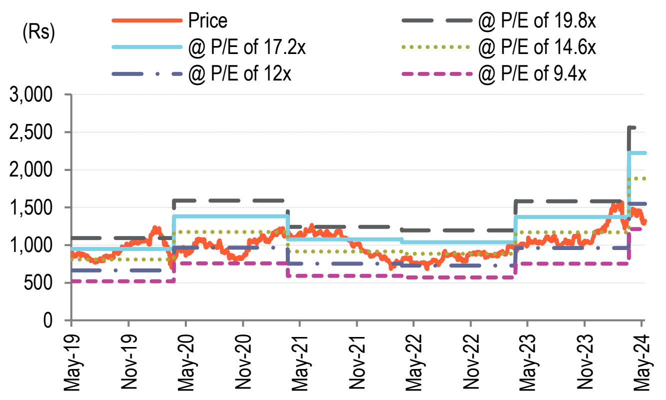

Source: Company, Bloomberg, BOBCAPS Research

**Fig 39 – … whereas IGL's multiple has derated**



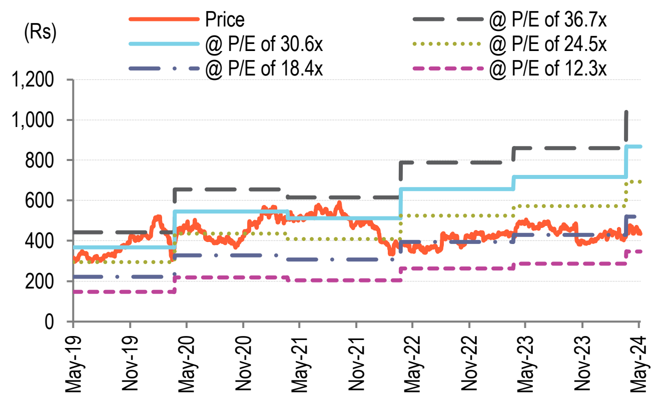

Source: Company, Bloomberg, BOBCAPS Research

**Fig 40 – Trailing multiples: MAHGL**




Source: Company, Bloomberg, BOBCAPS Research

**Fig 41 – Trailing multiples: IGL**




Source: Company, Bloomberg, BOBCAPS Research

# Valuation methodology

## MAHGL: Reiterate BUY, TP Rs 1,545 (from Rs 1,590)

We lower our FY25/FY26 EBITDA forecasts for MAHGL by 6.6%/6.5% factoring in lower margin assumptions while maintaining our volume growth assumptions as highlighted below. We expect EBITDA to decline from Rs 18.4bn in FY24 to Rs 15.8bn in FY25 with normalisation of EBITDA and then resume its growth trajectory from FY26 in line with volume growth. We are baking in 7.4% CAGR in volumes over FY24-26 to 4.2mmscmd and margins close to the upper end of the guided range.

### Growth assumptions

MAHGL breaking out of its historically modest growth trend and clocking 10% YoY volume growth in H2FY25, supports our FY24-26 volume CAGR of 7.4%, as against its past trajectory of 4% reported over FY19-FY24.

**CNG growth starting to accelerate:** We have been building in a 6.8% CAGR for CNG volumes over FY24-FY26 based on our thesis of a ramp-up in CNG vehicle additions, particularly in GA2 (Thane Urban), and the addition of 400-500 buses by the state transport body Maharashtra State Road Transport Corporation (MSRTC). Our thesis has found support from initial signs of volume pickup in H2FY24 driven by a sharp increase in vehicle additions since Q2.

**Industrial PNG growth to gain pace over next two years:** With a new incentive scheme, MAHGL has been successful in ramping up industrial and commercial volume by 0.1mmscmd YoY in Q4 and further tied up another 0.1mmscmd. MAHGL is offering a 10% discount on the price of alternate fuel for the first three years to a new customer in GA3 (Raigarh) and to a customer committing to new high volumes in GA2. Management is looking to deliver double-digit growth in volumes over the next 6-8 quarters. We reflect this as 10.3% growth over FY24-26 in our assumptions.

**Domestic PNG growth momentum to continue:** We expect volume growth from domestic households to continue at high single digits with deepening penetration in GA1 (Mumbai) and further expansion in GA2 (Thane Urban).

**MAHGL medium-term growth improved to 6.5% with UPEL:** MAHGL has also improved its growth profile over the next decade with the acquisition of UEPL (Unison Enviro), in our view. While we believe the existing GAs could deliver growth of 5.3% CAGR over FY24-FY33 (within the range of management's ambitions of a 5-6% CAGR), UPEL with a potential of 1.2mmscmd could improve growth to 6.8% CAGR for consolidated operations. The growth profile could improve further if MAHGL finds a solution to space constraints for gas stations in Mumbai, which is hindering CNG uptake, and/or gain more traction in commercial vehicle segments.

### Margin assumptions

MAHGL has demonstrated its ability to maintain higher margins without impacting growth in CNG vehicles over FY24. The company benefits from (i) a higher differential on CNG prices due to the higher level of taxes on competing fuels (petrol and diesel) in Maharashtra, and (ii) lower gas purchase costs due to the proximity to gas sources.

EBITDA margin has normalised to Rs 11.5/scm in Q4, from a high of Rs 14.8/scm over Apr-Dec'23, with a pull-back in realisation, normalisation of gas purchase cost and higher promotional expenses (Rs 250mn in Q4). Management clarified that it spent Rs 250mn or Rs 0.2-0.25/scm on promotional expenses to drive growth. Although this is not recurring, we see the need for intermittent promotional expenses.

Recognising the need for higher promotional expenses to support higher growth ambitions, we lower our margin assumptions for FY25/ FY26 to average of Rs 11/scm (from Rs 11.8/scm). With favourable policy support (allocation of HPHT gas, lower APM gas price and lower sales tax), we are building in margin assumptions towards the higher end of management's guided range of Rs 9-11/scm.

Our margin assumptions are higher than the average of Rs 9.2/scm seen over FY18-FY23. While shortfall in APM gas has increased to 30%, the availability of relatively lower cost HPHT gas to bridge the shortfall is limiting the increase in priority sector gas purchase costs.

**Fig 42 – Revised estimates**

| (Rs bn) | Actual | New | | Old | | Change (%) | |
|---|---|---|---|---|---|---|---|
| | FY24P | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E |
| Revenue | 62,445 | 65,254 | 71,392 | 65,458 | 73,202 | (0.3) | (2.5) |
| EBITDA | 18,426 | 15,766 | 16,596 | 16,884 | 17,754 | (6.6) | (6.5) |
| EBITDA growth YoY | 55.6 | (14.4) | 5.3 | (9.3) | 5.2 | | |
| Net income | 12,891 | 10,549 | 10,999 | 11,379 | 11,865 | (7.3) | (7.3) |

Source: Company, BOBCAPS Research

**Fig 43 – Key business drivers and assumptions**

| Parameter | FY23 | FY24P | FY25E | FY26E | FY24-26E CAGR (%) |
|---|---|---|---|---|---|
| **Volumes (mmscmd)** | | | | | |
| CNG | 2.5 | 2.6 | 2.8 | 3.0 | |
| D-PNG | 0.5 | 0.5 | 0.6 | 0.6 | |
| I+C | 0.4 | 0.5 | 0.6 | 0.6 | |
| **Total** | **3.4** | **3.61** | **3.9** | **4.2** | |
| **Volume growth (%)** | | | | | |
| CNG | 17.8 | 4.0 | 7.2 | 6.4 | 6.8 |
| D-PNG | 4.5 | 6.7 | 7.5 | 6.9 | 7.2 |
| I+C | 6.0 | 12.3 | 10.5 | 10.1 | 10.3 |
| **Total** | **14.1** | **5.4** | **7.7** | **7.0** | **7.4** |
| **Volume mix (%)** | | | | | |
| CNG | 72.8 | 71.8 | 71.4 | 71.0 | - |
| D-PNG | 14.2 | 14.4 | 14.4 | 14.4 | - |
| I+C | 13.0 | 13.8 | 14.2 | 14.6 | - |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **-** |
| **Profitability indicator (Rs/scm)** | | | | | |
| Revenue | 50.4 | 47.3 | 46.0 | 47.0 | - |
| Gross spread | 14.9 | 19.9 | 17.3 | 17.5 | - |
| EBITDA | 9.5 | 13.9 | 11.1 | 10.9 | - |
| PAT | 6.3 | 9.8 | 7.4 | 7.2 | - |
| ROE | 20.4 | 27.8 | 19.3 | 17.9 | - |

| Parameter | FY23 | FY24P | FY25E | FY26E | FY24-26E CAGR (%) |
|---|---|---|---|---|---|
| **Key assumptions** | | | | | |
| USD/INR exchange rate | 80.4 | 82.8 | 83.5 | 83.5 | - |
| APM gas price (US$/MMBtu) | 7.3 | 6.5 | 6.5 | 6.8 | - |
| Gas price ceiling (US$/MMBtu) | 11.2 | 11.0 | 10.2 | 10.2 | - |
| LNG contract price (US$/MMBtu) | 18.2 | 13.1 | 12.1 | 12.1 | - |
| LNG spot price (US$/MMBtu) | 30.9 | 15.2 | 11.0 | 10.5 | - |
| Priority sector gas bucket (US$/MMBtu) | 8.8 | 7.3 | 7.7 | 8.0 | - |
| Industrials and commercials gas bucket (US$/MMBtu) | 24.7 | 12.3 | 11.1 | 11.0 | - |

Source: Company, BOBCAPS Research, D-PNG Domestic PNG segment, I+C: Industrial and commercial segment

Our EBITDA forecast is 4% below that of Bloomberg consensus, as we now factor in more conservative margin assumptions while driving growth ahead.

**Fig 44 – Estimates vs consensus**

| (Rs mn) | Actuals | Forecasts | | Consensus | | Delta to consensus | |
|---|---|---|---|---|---|---|---|
| | FY24P | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E |
| Revenue | 62,445 | 65,254 | 71,392 | 63,529 | 67,706 | 2.7 | 5.4 |
| EBITDA | 18,426 | 15,766 | 16,596 | 16,499 | 17,300 | (4.4) | (4.1) |
| EBITDA growth YoY (%) | 55.6 | (14.4) | 5.3 | (10.5) | 4.9 | - | - |
| Net income | 12,891 | 10,549 | 10,999 | 11,193 | 11,550 | (5.8) | (4.8) |

Source: Company, Bloomberg, BOBCAPS Research

## DCF-based TP lowered to Rs 1,545; reiterate BUY

We lower the MAHGL's TP to Rs 1,545 from Rs 1,590 as we incorporate our revised estimates into our DCF-based fair value for the core business and roll forward our TP to May'25 (from Jan'25). We have also added the value of Rs 73/sh (from Rs 72/sh) for the three GAs acquired from UEPL (Unison Enviro) – (i) Ratnagiri, (ii) Latur and Osmanabad, and (iii) Chitradurga and Davanagere.

Our TP implies an FY25E/FY26E P/E of 14.5x/13.9x, higher than the three-/five-year mean one-year forward P/E of 10.8x/11.7x on Bloomberg consensus estimates. We believe MAHGL deserves a higher multiple than in the past as it looks set to deliver a higher volume CAGR of 7.4% for its existing operations over FY24-FY26 and potentially at 6.8% including UEPL over FY24-33. This is significantly higher than the 4% CAGR seen over FY19-FY24. Our TP implies 19% upside and, hence, we reiterate our BUY rating.

- **Core business:** Key assumptions for our DCF-based fair value are cost of equity of 11%, terminal growth of 2.5%, volume CAGR of ~5.3% (from 5.4%) and average EBITDA margin of Rs 10.6/scm (from Rs ~11/scm) over our explicit and semi-explicit forecast period of FY24-FY33.

- **Acquired GAs:** Key assumptions for our DCF-based net present fair value for the three acquired GAs are cost of equity of 11%, terminal growth of 2.5%, volume CAGR of 25% (unchanged) and average EBITDA margin of ~Rs 10/scm (unchanged) over our explicit and semi-explicit forecast period of FY24-FY33.

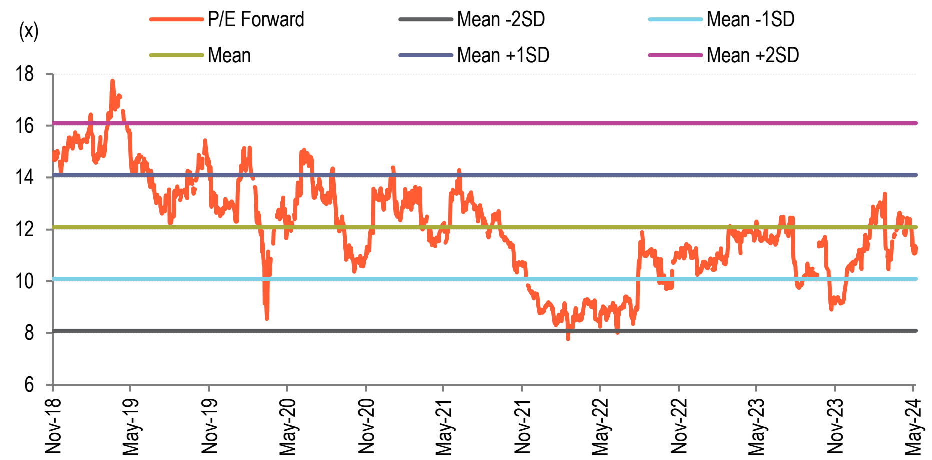
### Fig 45 – DCF-based fair value

| Valuation parameters | Value (Rs mn) |
|---|---|
| PV of FCF FY25E-34E | 50,097 |
| PV of terminal value | 59,319 |
| **Enterprise Value of MAHGL standalone** | **1,09,416** |
| Less: Net Debt FY24E | (19,183) |
| **Equity value of MAHGL standalone Mar'24** | **1,28,599** |
| Equity value of acquired GAs Mar'24 | 6,389 |
| **Equity value of MAHGL Mar'24** | **1,34,988** |
| NPV Mar'24 (Rs) | 1,367 |
| NPV May'25 (Rs) | 1,545 |
| **Target price as on May'25 (Rs) (rounded off to nearest Rs 5)** | **1,545** |

Source: BOBCAPS Research

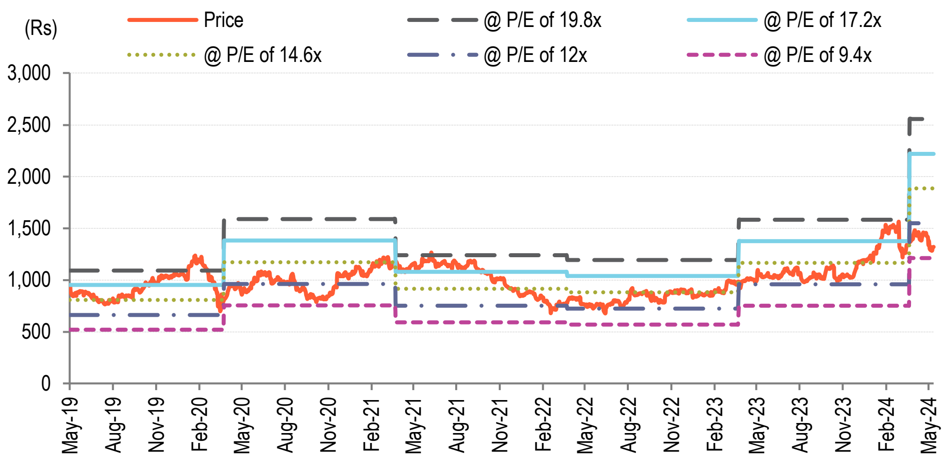
Over the past five years, MAHGL has traded at an average one-year forward P/E of 12.1x with a one standard deviation range of 10.0-14.1x based on Bloomberg consensus. Over the past five years, the stock has traded at an average LTM P/E of 14.8x with a one standard deviation range of 12.2-17.4x based on actual earnings.

### Fig 46 – MAHGL has traded at an average 1Y forward P/E of 12.1x over past 10Y…




Source: Bloomberg, BOBCAPS Research

### Fig 47 – … and at an average LTM P/E of 14.6x




Source: Bloomberg, BOBCAPS Research

## IGL: BUY, TP Rs 525

We recently revised our forecasts and valuation in our note '**Growth focus improving, reiterate BUY**', published on 14 May 2024.

## Forecast changes

We expect IGL's EBITDA to grow from Rs 23.6bn in FY23 to Rs 27.8bn in FY26E, an 8.5% CAGR, driven by volume growth of 7.7% and normalisation of margin to ~Rs 8/scm by FY26 as the global LNG market turns into surplus. Our EBITDA forecasts for FY25-FY26 are broadly in line (within ~1%) with Bloomberg consensus.

**Conservative volume forecasts.** Against IGL's target of 9.5mmscmd average volume for FY25, we are currently assuming 9mmscmd for FY25E and 9.7mmscmd for FY26E on a conservative basis. While we believe growth would continue outside Delhi for IGL, we build in steadier growth of ~7% CAGR over FY24-26E against management's target of 13% growth in FY25.

- At this stage, we are cognisant of the decline in Delhi Transport Corporation (DTC) buses and potential challenges from accelerated electrification in the commercial cab and bus categories. We are accounting for a shift of 3.0k-3.5k CNG buses to electric buses over FY24-FY26. For commercial cabs, we believe growth could still be sustained over the medium term as legacy GAs in Uttar Pradesh (UP) and newer GAs potentially offset the decline in new additions in Delhi. We are positive about potential growth in long-haul buses and expect IGL to capture floating volumes from neighbouring regions as it scales up buses with type-4 cylinders and accelerates penetration in legacy and newer GAs with higher capex.
- At the priority sector gas purchase price of US$7.4-7.7/MMBtu over our forecast period, we believe CNG remains competitive in the private car space and will continue to grow alongside EV.

**Mid-cycle margin forecasts:** Our EBITDA margin forecast at Rs7.7/scm for FY25 and Rs 7.9/scm for FY26 are a shade higher than Rs 7.7/scm last year and average of Rs 7.4/scm over the past four years as it factors in the benefit of more reasonable APM gas prices and the pullback in LNG prices. Our EBITDA margin is still within management's guided range of Rs 7.0-8.5/scm.

**Fig 48 – Estimates vs Consensus**

| (Rs bn) | Forecasts | | Consensus | | Delta to consensus | |
|---|---|---|---|---|---|---|
| | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E |
| Revenue | 1,47,165 | 1,60,220 | 1,44,640 | 1,55,700 | 1.8 | 2.9 |
| EBITDA | 25,565 | 27,828 | 25,370 | 27,582 | 0.7 | 0.9 |
| EBITDA growth (%) | 8.2 | 8.9 | 7.3 | 7.9 | - | - |
| Net income excl affiliates | 16,888 | 17,896 | - | - | - | - |
| Net income incl affiliates (consolidated) | 20,737 | 22,122 | - | - | - | - |
| Net income incl dividend from affiliates (standalone) | - | - | 18,319 | 19,649 | - | - |

Source: Bloomberg, BOBCAPS Research

**Fig 49 – Key business drivers and assumptions**

| Particulars | FY23 | FY24P | FY25E | FY26E | FY24-26E CAGR (%) |
|---|---|---|---|---|---|
| **Volumes (mmscmd)** | | | | | |
| CNG | 6.1 | 6.3 | 6.6 | 7.0 | - |
| D-PNG | 0.5 | 0.6 | 0.7 | 0.8 | - |
| I+C | 1.0 | 1.0 | 1.2 | 1.3 | - |
| Natural gas | 0.5 | 0.5 | 0.5 | 0.5 | - |
| **Total** | **8.1** | **8.4** | **9.0** | **9.7** | **-** |
| **Volume growth (%)** | | | | | |
| CNG | 19.6 | 3.8 | 5.8 | 5.9 | 5.9 |
| D-PNG | 8.2 | 15.2 | 14.7 | 15.0 | 14.8 |
| I+C | 3.6 | 3.0 | 15.6 | 11.7 | 13.6 |
| Natural gas | 7.1 | (0.1) | 0.3 | 0.0 | 0.1 |
| **Total** | **15.7** | **4.2** | **7.3** | **7.1** | **7.2** |
| **Volume mix (%)** | | | | | |
| CNG | 74.8 | 74.5 | 73.5 | 72.7 | - |
| D-PNG | 6.7 | 7.4 | 7.9 | 8.5 | - |
| I+C | 12.3 | 12.2 | 13.1 | 13.7 | - |
| Natural gas | 6.2 | 5.9 | 5.5 | 5.2 | - |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **-** |
| **Profitability indicator (Rs/scm)** | | | | | |
| Revenue | 47.9 | 45.4 | 44.6 | 45.3 | - |
| Gross spread | 12.5 | 13.6 | 13.8 | 14.0 | - |
| EBITDA | 6.9 | 7.7 | 7.7 | 7.9 | - |
| PAT | 4.9 | 5.7 | 5.2 | 5.2 | - |
| ROE | 20.6 | 22.4 | 19.0 | 17.9 | - |
| **Key assumptions** | | | | | |
| USDINR exchange rate | 80.4 | 82.8 | 83.5 | 83.5 | - |
| APM gas price (US$/MMBtu) | 7.3 | 6.5 | 6.5 | 6.8 | - |
| Gas price ceiling (US$/MMBtu) | 11.2 | 11.0 | 10.2 | 10.2 | - |
| LNG contract price (US$/MMBtu) | 18.0 | 15.6 | 13.1 | 12.1 | - |
| LNG spot price (US$/MMBtu) | 30.9 | 16.7 | 12.5 | 12.5 | - |
| Priority sector gas bucket (US$/MMBtu) | 8.7 | 7.2 | 7.4 | 7.7 | - |
| Industrials and commercials gas bucket (US$/MMBtu) | 19.6 | 15.2 | 12.4 | 11.8 | - |

Source: Company, BOBCAPS Research

## DCF-based TP of Rs 525, reiterate BUY

We have a DCF-based TP of Rs 525. Key assumptions for our DCF-based fair value are cost of equity of 11%, terminal growth of 4%, volume CAGR of ~6.8% and average EBITDA margin of Rs 7.8/scm over our explicit and semi-explicit forecast period of FY25-FY33. Our DCF-based TP implies an FY25E P/E of 17.7x, which is lower than the stock's five-year mean P/E of 18.5x on Bloomberg consensus earnings. As our TP implies ~19% upside, we reiterate our BUY rating on IGL.

Though volume growth in Delhi is likely to slow due to an accelerated shift to electric vehicles, we believe that legacy GAs in UP and newer GAs will help IGL continue to deliver healthy growth over the next decade. In our view, CNG vehicles and EVs will co-exist in India over the medium term until battery technology and grid infrastructure mature.

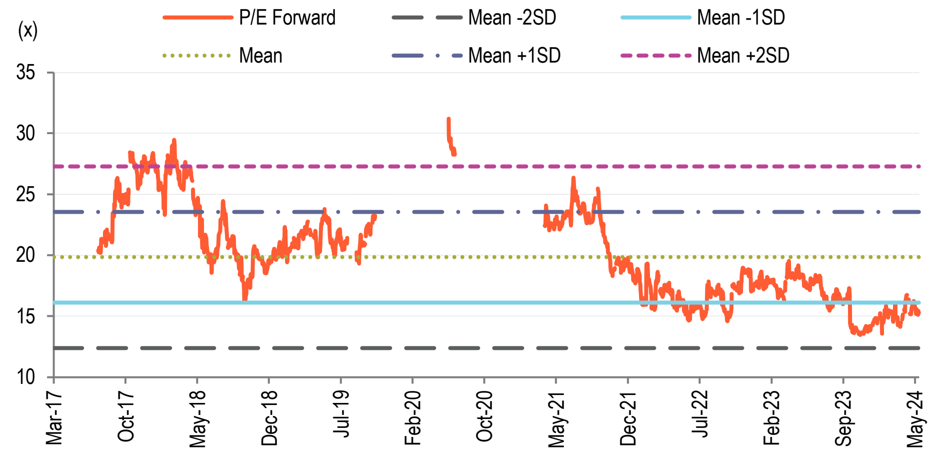
### Fig 50 – DCF-based fair value

| Valuation parameters | Value (Rs mn) |
|---|---|
| PV of FCF FY25E-FY33E | 82,068 |
| PV of terminal value | 1,70,617 |
| Enterprise Value | 2,52,685 |
| Less: Net Debt FY24E | (33,069) |
| **Equity value** | **2,85,754** |
| NPV – IGL share (Rs) | 408 |
| NPV – MNGL (Rs) | 47 |
| NPV – CUPGL (Rs) | 13 |
| **Consolidated NPV Mar'24 (Rs)** | **468** |
| **Consolidated NPV Jul'25 (Rs)** | **527** |
| **Target price in rupees as on Jul'25 (rounded off to nearest Rs 5)** | **525** |

Source: BOBCAPS Research

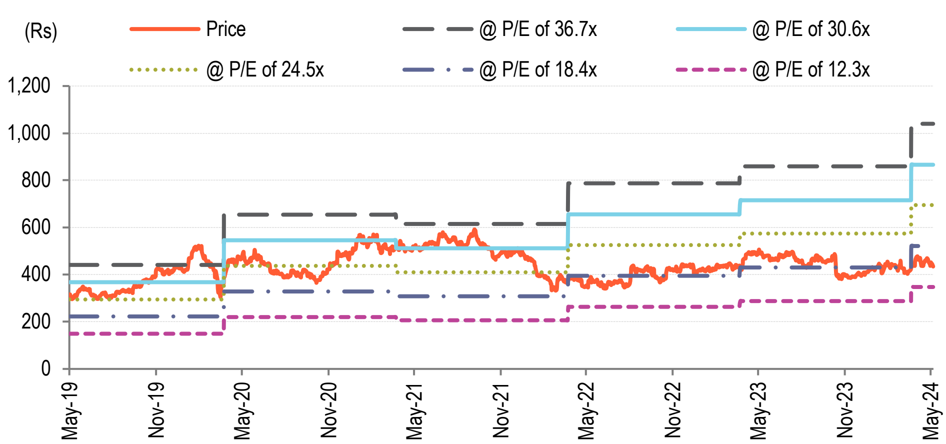
Over the past five years, IGL has traded at an average one-year forward P/E of 18.5x with a one standard deviation range of 15.2x-21.7x on Bloomberg consensus. Similarly, it has traded at an average TTM P/E of 24.5x with a one standard deviation range of 18.4-30.6x based on actual earnings.

### Fig 51 – IGL has traded at an average 1Y fwd PE of 18.5x/19.8x over past 5/10Y




Source: Bloomberg, BOBCAPS Research

### Fig 52 – Trailing P/E of 24.5x over past 5Y




Source: Bloomberg, BOBCAPS Research

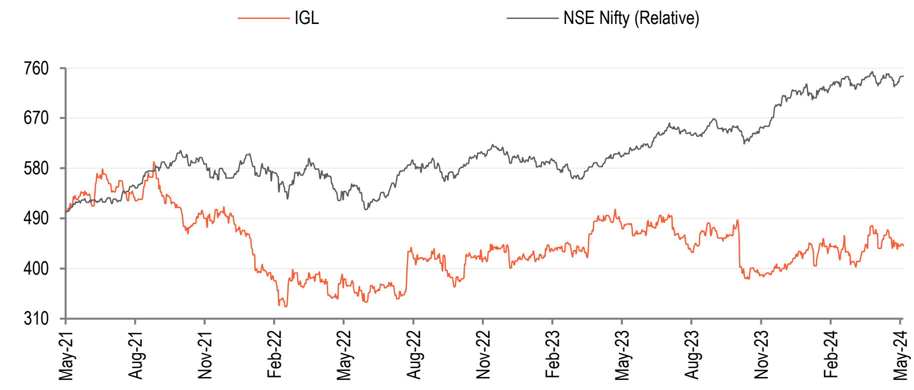
## Key risks

Key downside risks to our estimates for MAHGL and IGL are:

- lower-than-expected margins arising from an inability to pass on higher gas purchase cost to consumers,
- material reduction in taxation structure on petrol and diesel, which could lower competitiveness of CNG and result in lower margins for MAHGL,
- slower volume growth than our assumptions, with faster-than-expected penetration of electric vehicles,
- adverse Petroleum and Natural Gas Regulatory Board (PNGRB) or government regulations that could impact our margin or volume outlook, and,
- an adverse judgement on the Uran-Trombay pipeline tariff dispute which carries a contingent liability at Rs 3.3bn.

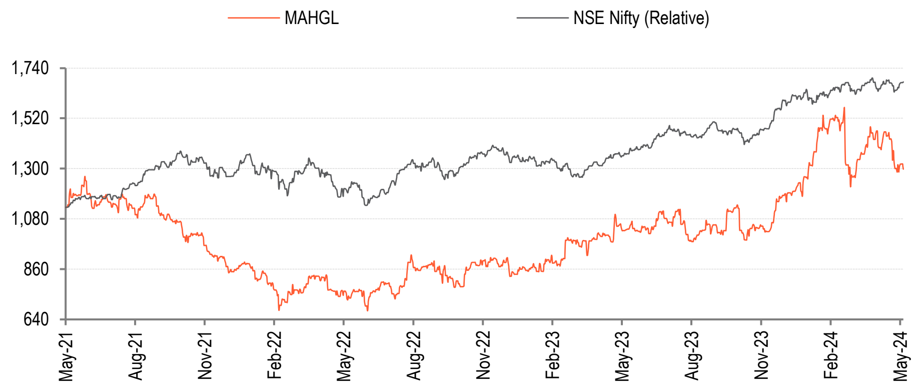
## Stock performance

### Fig 53 – IGL




Source: NSE

### Fig 54 – MAHGL




Source: NSE

# Financials – IGL

### Income Statement

| Y/E 31 Mar (Rs mn) | FY22A | FY23A | FY24P | FY25E | FY26E |
|---|---|---|---|---|---|
| **Total revenue** | **77,100** | **1,41,326** | **1,40,000** | **1,47,165** | **1,60,220** |
| EBITDA | 18,811 | 20,255 | 23,637 | 25,565 | 27,828 |
| Depreciation | (3,171) | (3,634) | (4,140) | (4,838) | (5,731) |
| EBIT | 15,641 | 16,621 | 19,497 | 20,728 | 22,098 |
| Net interest inc./(exp.) | (132) | (106) | (92) | 0 | 0 |
| Other inc./(exp.) | 1,766 | 2,172 | 2,610 | 2,355 | 2,332 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| EBT | 17,275 | 18,687 | 22,015 | 23,082 | 24,430 |
| Income taxes | (4,509) | (4,827) | (5,591) | (5,817) | (6,156) |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Min. int./Inc. from assoc. | 2,257 | 2,536 | 3,410 | 3,471 | 3,849 |
| **Reported net profit** | **15,023** | **16,397** | **19,834** | **20,737** | **22,122** |
| Adjustments | 0 | 0 | 0 | 0 | 0 |
| **Adjusted net profit** | **15,023** | **16,397** | **19,834** | **20,737** | **22,122** |

### Balance Sheet

| Y/E 31 Mar (Rs mn) | FY22A | FY23A | FY24P | FY25E | FY26E |
|---|---|---|---|---|---|
| Accounts payables | 7,861 | 9,013 | 9,843 | 8,607 | 9,365 |
| Other current liabilities | 9,986 | 17,000 | 11,388 | 11,376 | 11,376 |
| Provisions | 4,295 | 5,438 | 6,324 | 6,324 | 6,324 |
| Debt funds | 0 | 0 | 0 | 0 | 0 |
| Other liabilities | 13,019 | 15,469 | 18,146 | 20,854 | 23,592 |
| Equity capital | 1,400 | 1,400 | 1,400 | 1,400 | 1,400 |
| Reserves & surplus | 74,460 | 77,912 | 95,098 | 1,09,361 | 1,25,087 |
| Shareholders' fund | 75,860 | 79,312 | 96,498 | 1,10,761 | 1,26,487 |
| **Total liab. and equities** | **1,11,022** | **1,26,233** | **1,42,200** | **1,57,921** | **1,77,144** |
| Cash and cash eq. | 13,616 | 21,322 | 21,555 | 27,309 | 36,764 |
| Accounts receivables | 5,206 | 9,034 | 10,186 | 10,706 | 11,656 |
| Inventories | 455 | 492 | 522 | 549 | 598 |
| Other current assets | 1,685 | 8,494 | 7,718 | 7,476 | 7,476 |
| Investments | 26,257 | 15,219 | 22,221 | 22,221 | 22,221 |
| Net fixed assets | 49,896 | 57,205 | 65,903 | 82,279 | 91,049 |
| CWIP | 13,786 | 14,337 | 13,964 | 7,250 | 7,250 |
| Intangible assets | 121 | 130 | 130 | 130 | 130 |
| Deferred tax assets, net | 0 | 0 | 0 | 0 | 0 |
| Other assets | 0 | 0 | 0 | 0 | 0 |
| **Total assets** | **1,11,022** | **1,26,233** | **1,42,199** | **1,57,921** | **1,77,143** |

### Cash Flows

| Y/E 31 Mar (Rs mn) | FY22A | FY23A | FY24P | FY25E | FY26E |
|---|---|---|---|---|---|
| **Cash flow from operations** | **21,080** | **18,420** | **19,746** | **24,374** | **28,018** |
| Capital expenditures | (14,727) | (10,973) | (12,462) | (14,500) | (14,500) |
| Change in investments | (3,373) | 11,038 | (7,002) | 0 | 0 |
| Other investing cash flows | 1,766 | 2,172 | 2,610 | 2,355 | 2,332 |
| **Cash flow from investing** | **(16,334)** | **2,237** | **(16,854)** | **(12,145)** | **(12,168)** |
| Equities issued/Others | 0 | 0 | 0 | 0 | 0 |
| Debt raised/repaid | 0 | 0 | 0 | 0 | 0 |
| Interest expenses | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | (3,850) | (9,100) | (6,300) | (6,475) | (6,396) |
| Other financing cash flows | 1,397 | (3,852) | 3,642 | 0 | 0 |
| **Cash flow from financing** | **(2,453)** | **(12,952)** | **(2,658)** | **(6,475)** | **(6,396)** |
| **Chg in cash & cash eq.** | **2,294** | **7,705** | **234** | **5,754** | **9,454** |
| **Closing cash & cash eq.** | **13,616** | **21,322** | **21,555** | **27,309** | **36,764** |

### Per Share

| Y/E 31 Mar (Rs) | FY22A | FY23A | FY24P | FY25E | FY26E |
|---|---|---|---|---|---|
| Reported EPS | 21.5 | 23.4 | 28.3 | 29.6 | 31.6 |
| Adjusted EPS | 21.5 | 23.4 | 28.3 | 29.6 | 31.6 |
| Dividend per share | 5.5 | 13.0 | 9.0 | 9.2 | 9.1 |
| Book value per share | 108.4 | 113.3 | 137.9 | 158.2 | 180.7 |

### Valuations Ratios

| Y/E 31 Mar (x) | FY22A | FY23A | FY24P | FY25E | FY26E |
|---|---|---|---|---|---|
| EV/Sales | 3.8 | 2.1 | 2.1 | 2.0 | 1.8 |
| EV/EBITDA | 15.5 | 14.6 | 12.3 | 11.2 | 10.2 |
| Adjusted P/E | 20.5 | 18.8 | 15.6 | 14.9 | 13.9 |
| P/BV | 4.1 | 3.9 | 3.2 | 2.8 | 2.4 |

### DuPont Analysis

| Y/E 31 Mar (%) | FY22A | FY23A | FY24P | FY25E | FY26E |
|---|---|---|---|---|---|
| Tax burden (Net profit/PBT) | 87.0 | 87.7 | 90.1 | 89.8 | 90.6 |
| Interest burden (PBT/EBIT) | 110.4 | 112.4 | 112.9 | 111.4 | 110.6 |
| EBIT margin (EBIT/Revenue) | 20.3 | 11.8 | 13.9 | 14.1 | 13.8 |
| Asset turnover (Rev./Avg TA) | 76.5 | 119.1 | 104.3 | 98.1 | 95.6 |
| Leverage (Avg TA/Avg Equity) | 1.4 | 1.5 | 1.5 | 1.4 | 1.4 |
| Adjusted ROAE | 21.6 | 21.1 | 22.6 | 20.0 | 18.6 |

### Ratio Analysis

| Y/E 31 Mar | FY22A | FY23A | FY24P | FY25E | FY26E |
|---|---|---|---|---|---|
| **YoY growth (%)** | | | | | |
| Revenue | 56.0 | 83.3 | (0.9) | 5.1 | 8.9 |
| EBITDA | 26.8 | 7.7 | 16.7 | 8.2 | 8.9 |
| Adjusted EPS | 28.1 | 9.1 | 21.0 | 4.6 | 6.7 |
| **Profitability & Return ratios (%)** | | | | | |
| EBITDA margin | 24.4 | 14.3 | 16.9 | 17.4 | 17.4 |
| EBIT margin | 20.3 | 11.8 | 13.9 | 14.1 | 13.8 |
| Adjusted profit margin | 19.5 | 11.6 | 14.2 | 14.1 | 13.8 |
| Adjusted ROAE | 21.6 | 21.1 | 22.6 | 20.0 | 18.6 |
| ROCE | 16.6 | 15.9 | 16.5 | 15.0 | 13.9 |
| **Working capital days (days)** | | | | | |
| Receivables | 18 | 18 | 25 | 26 | 25 |
| Inventory | 4 | 2 | 2 | 2 | 2 |
| Payables | 38 | 25 | 30 | 28 | 25 |
| **Ratios (x)** | | | | | |
| Gross asset turnover | 1.3 | 2.1 | 1.8 | 1.5 | 1.4 |
| Current ratio | 0.9 | 1.3 | 1.5 | 1.8 | 2.1 |
| Net interest coverage ratio | 118.4 | 156.9 | 212.6 | 0.0 | 0.0 |
| Adjusted debt/equity | (0.2) | (0.3) | (0.2) | (0.2) | (0.3) |

Source: Company, BOBCAPS Research | Note: TA = Total Assets

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

# Financials – MAHGL

### Income Statement

| Y/E 31 Mar (Rs mn) | FY22A | FY23A | FY24P | FY25E | FY26E |
|---|---|---|---|---|---|
| **Total revenue** | **35,602** | **62,993** | **62,445** | **65,254** | **71,392** |
| EBITDA | 9,243 | 11,842 | 18,426 | 15,766 | 16,596 |
| Depreciation | (1,963) | (2,311) | (2,736) | (3,169) | (3,514) |
| EBIT | 7,281 | 9,531 | 15,690 | 12,597 | 13,082 |
| Net interest inc./(exp.) | (75) | (94) | (115) | (120) | (125) |
| Other inc./(exp.) | 857 | 1,119 | 1,753 | 1,625 | 1,748 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| EBT | 8,063 | 10,555 | 17,328 | 14,103 | 14,705 |
| Income taxes | (2,093) | (2,655) | (4,437) | (3,554) | (3,706) |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Min. int./Inc. from assoc. | 0 | 0 | 0 | 0 | 0 |
| **Reported net profit** | **5,970** | **7,901** | **12,891** | **10,549** | **10,999** |
| Adjustments | 0 | 0 | 0 | 0 | 0 |
| **Adjusted net profit** | **5,970** | **7,901** | **12,891** | **10,549** | **10,999** |

### Balance Sheet

| Y/E 31 Mar (Rs mn) | FY22A | FY23A | FY24P | FY25E | FY26E |
|---|---|---|---|---|---|
| Accounts payables | 2,719 | 3,222 | 3,342 | 3,341 | 3,687 |
| Other current liabilities | 10,458 | 11,370 | 12,896 | 14,498 | 15,302 |
| Provisions | 356 | 1,364 | 992 | 746 | 811 |
| Debt funds | 824 | 938 | 1,161 | 1,161 | 1,161 |
| Other liabilities | 2,008 | 2,086 | 2,441 | 2,652 | 2,873 |
| Equity capital | 988 | 988 | 988 | 988 | 988 |
| Reserves & surplus | 34,985 | 40,354 | 50,441 | 57,087 | 63,686 |
| Shareholders' fund | 35,973 | 41,342 | 51,429 | 58,074 | 64,674 |
| **Total liab. and equities** | **52,338** | **60,323** | **72,260** | **80,472** | **88,508** |
| Cash and cash eq. | 4,652 | 2,279 | 3,985 | 6,599 | 9,821 |
| Accounts receivables | 1,841 | 2,940 | 2,806 | 3,026 | 3,312 |
| Inventories | 275 | 338 | 398 | 445 | 487 |
| Other current assets | 1,628 | 3,497 | 4,540 | 4,540 | 4,540 |
| Investments | 10,883 | 13,098 | 16,360 | 16,360 | 16,360 |
| Net fixed assets | 26,085 | 30,206 | 35,360 | 38,763 | 42,150 |
| CWIP | 6,159 | 7,086 | 7,743 | 9,670 | 10,769 |
| Intangible assets | 52 | 51 | 70 | 70 | 70 |
| Deferred tax assets, net | 763 | 828 | 998 | 998 | 998 |
| Other assets | 0 | 0 | 0 | 0 | 0 |
| **Total assets** | **52,338** | **60,323** | **72,260** | **80,472** | **88,508** |

### Cash Flows

| Y/E 31 Mar (Rs mn) | FY22A | FY23A | FY24P | FY25E | FY26E |
|---|---|---|---|---|---|
| **Cash flow from operations** | **8,537** | **8,488** | **14,545** | **13,392** | **13,874** |
| Capital expenditures | (6,893) | (7,279) | (8,566) | (8,500) | (8,000) |
| Change in investments | (633) | (2,215) | (3,261) | 0 | 0 |
| Other investing cash flows | 0 | 0 | 0 | 0 | 0 |
| **Cash flow from investing** | **(7,526)** | **(9,495)** | **(11,827)** | **(8,500)** | **(8,000)** |
| Equities issued/Others | 0 | 0 | 0 | 0 | 0 |
| Debt raised/repaid | 251 | 114 | 223 | 0 | 0 |
| Interest expenses | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | (2,470) | (2,568) | (2,963) | (3,903) | (4,400) |
| Other financing cash flows | 741 | 1,091 | 1,742 | 1,625 | 1,748 |
| **Cash flow from financing** | **(1,478)** | **(1,363)** | **(999)** | **(2,278)** | **(2,652)** |
| **Chg in cash & cash eq.** | **(467)** | **(2,370)** | **1,719** | **2,614** | **3,222** |
| **Closing cash & cash eq.** | **4,652** | **2,282** | **3,998** | **6,599** | **9,821** |

### Per Share

| Y/E 31 Mar (Rs) | FY22A | FY23A | FY24P | FY25E | FY26E |
|---|---|---|---|---|---|
| Reported EPS | 60.4 | 80.0 | 130.5 | 106.8 | 111.4 |
| Adjusted EPS | 60.4 | 80.0 | 130.5 | 106.8 | 111.4 |
| Dividend per share | 25.0 | 26.0 | 30.0 | 39.5 | 44.5 |
| Book value per share | 364.2 | 418.5 | 520.6 | 587.9 | 654.7 |

### Valuations Ratios

| Y/E 31 Mar (x) | FY22A | FY23A | FY24P | FY25E | FY26E |
|---|---|---|---|---|---|
| EV/Sales | 3.5 | 2.0 | 2.0 | 1.9 | 1.7 |
| EV/EBITDA | 13.5 | 10.5 | 6.8 | 8.0 | 7.5 |
| Adjusted P/E | 21.5 | 16.2 | 9.9 | 12.2 | 11.7 |
| P/BV | 3.6 | 3.1 | 2.5 | 2.2 | 2.0 |

### DuPont Analysis

| Y/E 31 Mar (%) | FY22A | FY23A | FY24P | FY25E | FY26E |
|---|---|---|---|---|---|
| Tax burden (Net profit/PBT) | 74.0 | 74.8 | 74.4 | 74.8 | 74.8 |
| Interest burden (PBT/EBIT) | 110.7 | 110.8 | 110.4 | 112.0 | 112.4 |
| EBIT margin (EBIT/Revenue) | 20.4 | 15.1 | 25.1 | 19.3 | 18.3 |
| Asset turnover (Rev./Avg TA) | 72.4 | 111.8 | 94.2 | 85.4 | 84.5 |
| Leverage (Avg TA/Avg Equity) | 1.4 | 1.5 | 1.4 | 1.4 | 1.4 |
| Adjusted ROAE | 17.5 | 20.4 | 27.8 | 19.3 | 17.9 |

### Ratio Analysis

| Y/E 31 Mar | FY22A | FY23A | FY24P | FY25E | FY26E |
|---|---|---|---|---|---|
| **YoY growth (%)** | | | | | |
| Revenue | 65.4 | 76.9 | (0.9) | 4.5 | 9.4 |
| EBITDA | (1.0) | 28.1 | 55.6 | (14.4) | 5.3 |
| Adjusted EPS | (3.7) | 32.3 | 63.2 | (18.2) | 4.3 |
| **Profitability & Return ratios (%)** | | | | | |
| EBITDA margin | 26.0 | 18.8 | 29.5 | 24.2 | 23.2 |
| EBIT margin | 20.4 | 15.1 | 25.1 | 19.3 | 18.3 |
| Adjusted profit margin | 16.8 | 12.5 | 20.6 | 16.2 | 15.4 |
| Adjusted ROAE | 17.5 | 20.4 | 27.8 | 19.3 | 17.9 |
| ROCE | 15.5 | 18.0 | 24.6 | 16.9 | 15.6 |
| **Working capital days (days)** | | | | | |
| Receivables | 16 | 14 | 17 | 16 | 16 |
| Inventory | 4 | 3 | 4 | 4 | 4 |
| Payables | 30 | 21 | 27 | 25 | 23 |
| **Ratios (x)** | | | | | |
| Gross asset turnover | 1.1 | 1.6 | 1.4 | 1.2 | 1.2 |
| Current ratio | 0.6 | 0.6 | 0.7 | 0.8 | 0.9 |
| Net interest coverage ratio | 96.7 | 101.5 | 136.1 | 105.1 | 104.9 |
| Adjusted debt/equity | (0.1) | 0.0 | (0.1) | (0.1) | (0.1) |

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.**

# Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

Logo:

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

**Analyst certification**

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

**General disclaimers**

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

**Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014**

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company or third party in the past 12 months in connection with research report/activities. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

**Other disclaimers**

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "Losses") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

**Distribution into the United Kingdom ("UK"):**

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd) ("**MSL**") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as **"MAYBANK**"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

**No distribution into the US:**

This report will not be distributed in the US and no US person may rely on this communication.

**Other jurisdictions:**

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.