

December 2, 2020

Medium term growth outlook for CGDs intact...

PNGRB has notified finalised regulations for city gas distribution (CGD) networks regarding common carrier. Key highlights include: a) open access will be implemented in geographical areas (GAs) where marketing exclusivity has ended; b) capacity in open access shall be at least 20% of capacity of the CGD network and compression capacity or the maximum quantity of gas that has flowed in the CGD network or through compressors even for a period of one day in the past, whichever is higher, c) CNG or L-CNG stations run by dealers and franchises of authorised entities shall not be considered as third party shipper for the purpose of allowing access.

OMCs disallowed from CNG retailing at existing stations

Existing CNG station at the site of fuel outlets operated by oil marketing companies (OMCs) will not be regarded as third party. Competition from OMCs post open access was a potential threat to volumes and margins for CGD companies. PNGRB's final notification to disallow OMCs as third party is a big relief for existing CGD companies, which will benefit in the medium term as current agreements with OMCs and volumes will not be impacted.

Total 20% of capacity for open access

On expected lines, PNGRB notified that CGD companies will have at least 20% of capacity of the CGD network or the maximum quantity of gas that has flowed in the network even for a period of one day in past, whichever is higher as common carrier. CGD companies will have to declare capacity for open access with 90 days once network is declared as common carrier.

Unified tariff structure announced

PNGRB has also notified regulations for unified transmission tariff structure with unified tariff at 12% post-tax ROCE. A two-zone tariff structure is proposed where Zone 1 will be 300 km from the source of gas and Zone 2 will be beyond Zone 1. Tariffs will be revised annually and tariff for the first zone will be set at 40% of the tariff for the second zone. Unified tariffs will encourage gas transmission companies to set up new pipelines as transmission volumes from distant areas will increase and will result in long term volume growth and near term some upside in tariffs in our opinion.

Valuation & Outlook

CNG stations run by OMCs not being treated as third party is a big relief in the medium term for CGD companies; mainly IGL and MGL. We may witness some competition in the long term but it will not have any material impact on financials. Given the run-up in stock prices, we have a **HOLD** rating on IGL and MGL. Gujarat Gas has relatively lower contribution of CNG to total volumes and industrial PNG segment will support its long term volume growth. We have a **BUY** rating on Gujarat Gas. Although Gail will gain from unified tariff structure, we have a **HOLD** rating on the stock due to subdued performance from gas trading segment due to high prices, US LNG volumes and volatility in petchem segment.

Revised targets : Oil & Gas

Company	CMP	Old rating	Old target	Revised rating	Revised target
Gujarat Gas	342	Buy	360	Buy	400
Indraprastha Gas	487	Hold	430	Hold	490
Mahanagar Gas	1065	Hold	1145	Hold	1150
GAIL	108	Hold	95	Hold	105
GSPL	227	Buy	250	Hold	250

Source: Company, ICICI Direct Research

Key Highlights

- PNGRB has notified finalised regulations for City Gas Distribution (CGD) networks regarding common carrier
- Existing CNG station at the site of fuel outlets operated by Oil Marketing Companies (OMCs) will not be regarded as third party which is a big relief and positive for CGD companies
- PNGRB has also notified regulations for unified transmission tariff structure with unified tariff at 12% post-tax ROCE which will lead to long term growth in volumes and near term some upside in tariffs benefitting companies like GAIL and GSPL

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Gail

Exhibit 6: Key financial summary

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Revenue (₹ crore)	53,825.1	75,126.3	71,871.0	57,301.2	66,632.8	(3.9)
EBITDA (₹ crore)	7,633.9	9,528.7	8,369.4	5,474.7	7,706.7	(6.8)
PAT (₹ crore)	4,618.4	6,025.7	6,620.6	3,747.0	4,929.1	(6.5)
EPS (₹)	10.2	13.4	14.7	8.3	10.9	
P/E (x)	10.5	8.1	7.4	13.0	9.9	
P/Book (x)	1.2	1.1	1.1	1.1	1.0	
EV / EBITDA	6.3	5.1	6.2	10.8	8.0	
ROCE (%)	14.7	17.6	13.7	6.3	8.9	
ROE (%)	11.5	13.7	15.1	8.3	10.5	

Source: Company, ICICI Direct Research

Gujarat Gas

Exhibit 8: Key financial summary

(Year-end March)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Revenues (₹ crore)	6,174.3	7,754.4	10,300.3	8,836.2	11,352.8	13.5
EBITDA (₹ crore)	895.1	984.5	1,634.3	1,923.8	2,107.9	28.9
Net Profit (₹ crore)	291.4	416.9	1,193.3	1,132.8	1,304.7	46.3
EPS (₹)	4.2	6.1	17.3	16.5	19.0	
P/E (x)	80.8	56.5	19.7	20.8	18.0	
Price / Book (x)	12.8	10.8	7.2	5.4	4.3	
EV/EBITDA (x)	28.6	25.8	15.2	12.5	10.9	
RoCE (%)	15.3	16.1	25.2	30.0	29.2	
RoE (%)	15.8	19.1	36.3	26.1	23.8	

Source: Company, ICICI Direct Research

Gujarat State Petronet

Exhibit 10: Key Financial Summary

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
Revenues (₹ crore)	1,331.7	1,877.3	2,369.3	2,068.7	2,142.7	4.5
EBITDA (₹ crore)	1,147.8	1,542.6	1,574.9	1,320.1	1,203.2	(8.0)
Net Profit (₹ crore)	668.4	794.7	1,108.7	776.8	664.3	(5.8)
EPS (₹)	11.9	14.1	19.7	13.8	11.8	
P/E (x)	19.1	16.1	11.5	16.5	19.3	
Price / Book (x)	2.5	2.2	1.9	1.8	1.6	
EV/EBITDA (x)	14.0	10.0	9.3	10.8	11.6	
RoCE (%)	11.6	16.3	16.2	12.5	10.7	
RoE (%)	13.2	13.8	16.5	10.6	8.6	

Source: Company, ICICI Direct Research

Indraprastha Gas (IGL)

Exhibit 16: Key Financial Summary

(Year-end March)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20E-22E)
Revenues (₹ crore)	4,592.1	5,760.0	6,485.3	4,807.3	6,460.7	(0.2)
EBITDA (₹ crore)	1,113.3	1,252.1	1,519.6	1,304.1	1,818.2	9.4
Net Profit (₹ crore)	670.8	786.7	1,136.5	913.0	1,271.8	5.8
EPS (₹)	9.6	11.2	16.2	13.0	18.2	
P/E (x)	50.8	43.3	30.0	37.3	26.8	
Price / Book (x)	9.7	8.3	6.7	6.0	5.2	
EV/EBITDA (x)	30.1	26.7	21.0	25.0	17.8	
RoCE (%)	26.5	25.4	25.0	17.9	22.4	
RoE (%)	19.1	19.0	22.5	16.0	19.3	

Source: Company, ICICI Direct Research

Mahanagar Gas (MGL)

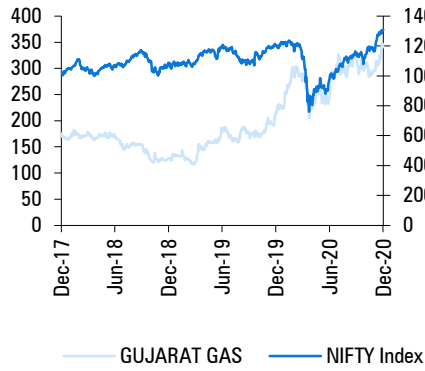
Exhibit 18: Key Financial Summary

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Revenue (₹ crore)	2,452.9	3,056.8	3,264.5	2,285.0	3,331.3	2.9
EBITDA (₹ crore)	780.6	885.5	1,052.9	901.9	1,343.5	14.9
PAT (₹ crore)	477.9	546.5	793.5	610.5	945.5	20.1
EPS (₹)	48.4	55.3	80.3	61.8	95.7	
P/E (x)	22.0	19.3	13.3	17.2	11.1	
P/Book (x)	5.0	4.4	3.6	3.2	2.7	
RoCE (%)	31.9	31.7	29.7	21.8	29.1	
RoE (%)	22.8	22.8	26.9	18.4	23.9	

Source: Company, ICICI Direct Research

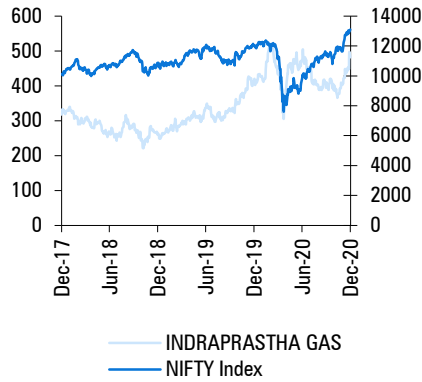
Exhibit 17: Price Charts (LHS = stock price RHS = Nifty Index)

Gujarat Gas



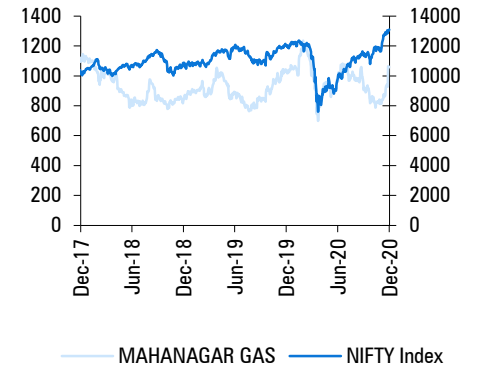
Source: Bloomberg, ICICI Direct Research

IGL



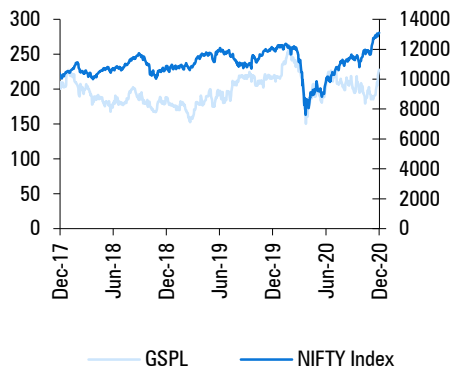
Source: Bloomberg, ICICI Direct Research

MGL



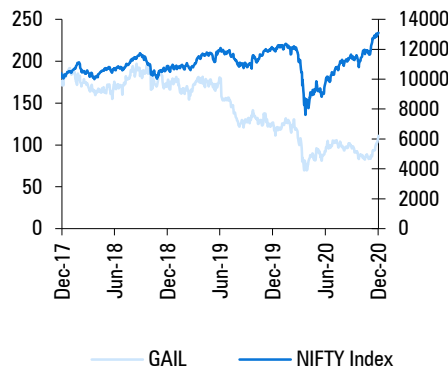
Source: Bloomberg, ICICI Direct Research

GSPL



Source: Bloomberg, ICICI Direct Research

Gail



Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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