

Goldilocks' tryst with the CGDs

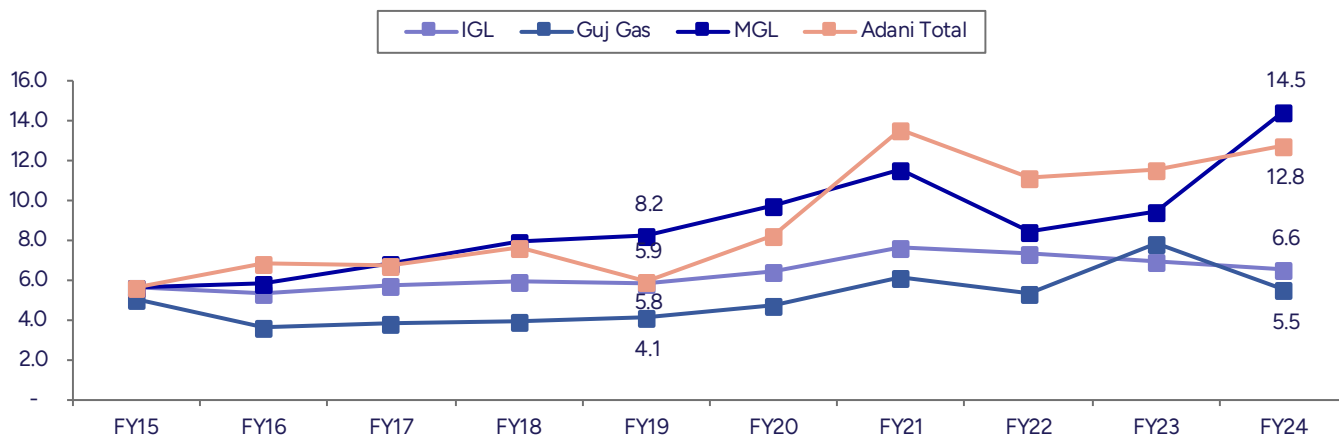
Although the ancient fable had a very different moral, the name transformed somehow into Goldilocks principle, which suggests that for something to flourish, it has to be in a certain “just right” zone. In fact, astrobiologists suggest that star systems also have a Goldilocks zone - a habitable zone where life is possible because it is neither too hot nor too cold. Our planet earth is in one such zone!

Amidst rising EBITDA/scm of the CGDs, we saw CGDs cutting prices in Mar'24 upon an explicit call out by the ministry. This was further followed by two sharp cuts of ~20% each in allocation of APM gas in quick successions in Oct'24 and Nov'24. The two cuts combined require Rs8-10/kg of price hikes and would certainly impact EBITDA/scm.

In the past decade, while IGL has raised its EBITDA/scm moderately from Rs5.6 in FY15 to Rs6.6 in FY24, MGL has seen a sharper rise from Rs5.6 to Rs14.5 during the period. Gujarat Gas, being a largely industrial supplier, has been flat at Rs5.5 in FY24 compared with Rs5.1 in FY15. While there is no “just right” EBITDA/scm, it may be noted that gestation periods are high for new geographical areas. Companies may raise their profitability in order to fund their future expansions.

We downgraded the stocks (IGL IN, MAHGL IN and GUJGA IN) to 'SELL' in [our recent report](#). After the decline post the 2nd cut, the stocks have jumped 10-20%. However, look at the prices post the hike the CGDs took a couple of days back. In several geographical areas, savings against diesel has declined to single digits. The average saving against petrol also stands at ~15%. These low savings may not have a large impact on regions like National Capital Region where judiciary compulsions provide an anchor consumer base, but would certainly impact rest of the areas. We expect further rise in CNG prices, which may lower the saving potential and impact growth and margin further. While the search for that Goldilocks' EBITDA/scm continues, we remain negative on the stocks.

Exhibit 1: EBITDA/scm of CGDs



Source: Company, PL

Exhibit 2: Savings against peers are low

INR/lit (or kg)	CNG	Petrol	% saving	Diesel	% saving
IGL					
New Delhi	75.1	94.8	20.8	87.7	14.3
Gautam Budh Nagar	78.7	95.0	17.1	88.1	10.7
Gurgaon	82.1	95.3	13.8	88.1	6.8
Faridabad	85.3	95.6	10.8	88.4	3.6
Ghaziabad	81.7	94.6	13.6	87.7	6.8
Noida	81.7	95.0	14.0	88.1	7.3
Hapur	79.7	94.8	15.9	87.9	9.3
Muzaffarnagar	80.8	94.8	14.7	87.9	8.1
Shamli	80.1	94.9	15.6	88.1	9.1
Meerut	83.0	94.5	12.1	87.5	5.2
Kanpur rural	94.8	94.9	0.2	88.1	-7.6
Kanpur urban	82.9	94.4	12.2	87.5	5.2
Rewari	79.7	94.8	15.9	87.6	9.0
Karnal	80.4	94.8	15.1	87.6	8.2
Ajmer	82.9	104.4	20.5	89.9	7.7
MGL					
Mumbai	77.0	103.5	25.6	90.0	14.5
Greater Mumbai	77.0	103.5	25.6	90.0	14.5
Thane	76.5	103.7	26.2	90.2	15.2
Raigad	82.0	104.2	21.3	90.7	9.6
Ratnagiri	91.5	105.5	13.3	92.0	0.6
Gujarat Gas					
Ahmedabad	79.0	94.7	16.6	90.4	12.6
Amreli	82.2	95.3	13.8	91.0	9.7
Anand	82.2	94.3	12.9	90.0	8.7
Bhavnagar	82.2	96.1	14.5	91.8	10.5
Dahej	77.0	94.9	18.8	90.6	15.0
Dahod	82.2	95.3	13.8	91.0	9.7
Hazira	75.0	94.9	21.0	90.0	16.7
Jamnagar	82.2	94.5	13.1	90.2	8.9
Kutch	82.2	94.9	13.5	90.6	9.3
Navsari	80.0	94.9	15.8	90.6	11.7
Panchmahal	84.0	94.8	11.5	90.5	7.2
Rajkot	82.2	94.3	12.8	90.0	8.7
Surat	82.2	94.5	13.0	90.2	8.9
Bharuch	82.2	95.0	13.5	90.6	9.3
Ankleshwar	79.0	94.9	16.8	90.6	12.8
Palghar	76.5	104.1	26.5	90.6	15.5
Amritsar	87.6	97.7	10.3	88.2	0.7
Bhatinda	87.6	97.0	9.7	87.5	-0.1
Pune	91.5	104.3	12.3	90.8	-0.8
Bangalore	86.9	102.9	15.6	88.9	2.3
Chennai	90.5	100.8	10.2	92.4	2.0

Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	411	474
2	Ashok Leyland	Accumulate	240	222
3	Bajaj Auto	Hold	11,859	11,617
4	Bharat Forge	Accumulate	1,501	1,329
5	Bharat Petroleum Corporation	Hold	301	300
6	Bharti Airtel	Accumulate	1,782	1,637
7	CEAT	Hold	3,063	2,973
8	Clean Science and Technology	Hold	1,526	1,484
9	Deepak Nitrite	Reduce	2,438	2,639
10	Divgi Torqtransfer Systems	Hold	632	638
11	Eicher Motors	BUY	5,299	4,599
12	Endurance Technologies	BUY	2,835	2,437
13	Exide Industries	Hold	456	437
14	Fine Organic Industries	BUY	5,852	5,000
15	GAIL (India)	Hold	204	209
16	Gujarat Fluorochemicals	Reduce	3,770	4,158
17	Gujarat Gas	Sell	389	486
18	Gujarat State Petronet	Hold	380	390
19	Hero Motocorp	Accumulate	5,162	4,604
20	Hindustan Petroleum Corporation	Hold	392	399
21	Indian Oil Corporation	Hold	153	142
22	Indraprastha Gas	Sell	321	406
23	Jubilant Ingrevia	Hold	695	682
24	Laxmi Organic Industries	Reduce	240	270
25	Mahanagar Gas	Sell	1,046	1,313
26	Mahindra & Mahindra	BUY	3,456	2,899
27	Mangalore Refinery & Petrochemicals	Sell	128	173
28	Maruti Suzuki	BUY	14,586	11,046
29	Navin Fluorine International	Accumulate	3,523	3,307

PL's Recommendation Nomenclature

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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