Oil & Gas

Our latest O&G updates

EV blitzkrieg hits a hurdle

- **We recently turned positive on the City Gas Distribution (CGD) sector (Marketing sub-sector favored; turning bullish on CGDs) amid steady volume growth, scope for margin expansion (GUJGA: Twin tailwinds emerging! & IGL (Upgrade to BUY): Valuations inexpensive as margin recovery resumes), and reasonable valuations. However, concerns related to cannibalization from electric vehicles (EVs) persist in the sector. In this report, we review EV penetration and the current challenges globally. We also provide an Indian context, comparing trends in EV and CNG penetration, new launches, and OEM strategy.**
- **Our key conclusions: 1) globally, EV penetration growth is under stress as the policy support wanes in both developed (such as the US/Europe) and emerging economies; 2) IEA, in its recently released global EV outlook (link), has cut key forecasts related to US EV share in sales by 50% and oil demand displacement by 17% for CY30; we believe more cuts are likely in the future; 3) China dominates EV sales globally, accounting for 40% of the total exports, but countries such as the US, Europe, and Mexico are now resisting the low-cost export from China by raising tariffs or promoting local manufacturing; 4) the CNG powertrain remains one of the fastest-growing categories in the Indian PV market (FY25: +35% YoY) and is now a sizeable proportion of overall sales across auto OEMs (in FY25, the powertrain mix for TTMT/MSIL w.r.t. CNG passenger vehicles (PV) spiked to 25%/18% from 16%/15% in FY24); and 5) unlike EVs, new CNG launches are focused in the affordable segment (sub-INR1m), and we believe the CNG market share in the overall industry sales will continue to rise in the medium term.**
- **We maintain our positive stance on the Indian CGD sector and reiterate our BUY rating on Mahanagar Gas, Gujarat Gas, and Indraprastha Gas.**

As policy support fades, EV adoption slows down in key economies

- **CY24 EV sales stagnate in Europe:** In CY24, EV sales in Europe plateaued as subsidy programs and other supportive measures ebbed, with the IEA cutting Europe's EV sales share forecast marginally to 60% by CY30 (~20% in CY24).
- **IEA's forecast for the share of EV sales in the US has been reduced by ~50% in CY30:** In the US, growth in electric car sales significantly slowed down in CY24, rising by only 10% YoY (CY23: 40% YoY). Amid policy uncertainties and chances of reduction/withdrawal of tax credits on the purchase of EVs in the US, IEA expects the sales share of EVs in the US to reach only ~20% by CY30 vs. an estimate of over 40% in the previous version of its EV outlook report.

Burgeoning EV presence attributable to low-cost exports from China

- **Affordable Chinese EVs drive global EV adoption:** China dominates EV exports, accounting for ~40% of the global total, or ~1.25m units. Key export markets for China include the European Union (EU), other European countries, and Asia Pacific. Further, Chinese imports accounted for 75% of the growth in electric car sales across all emerging economies outside of China.
- **Share of electric car sales doubles in several emerging markets:** On the back of cheap Chinese imports and expanding policy incentives, electric car sales in emerging and developing economies across Asia, Latin America, and Africa grew by over 60% YoY in CY24, with EV market share in overall sales nearly doubling from 2.5% to 4.0%.

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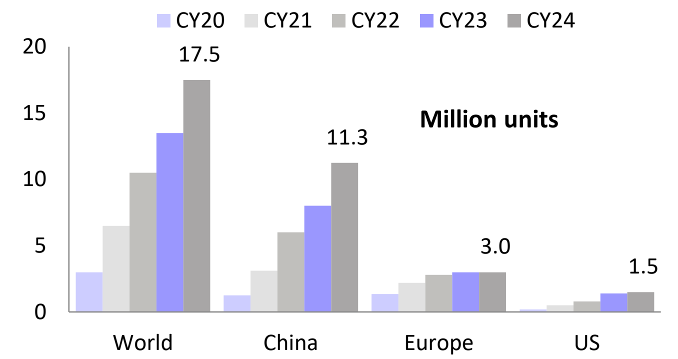
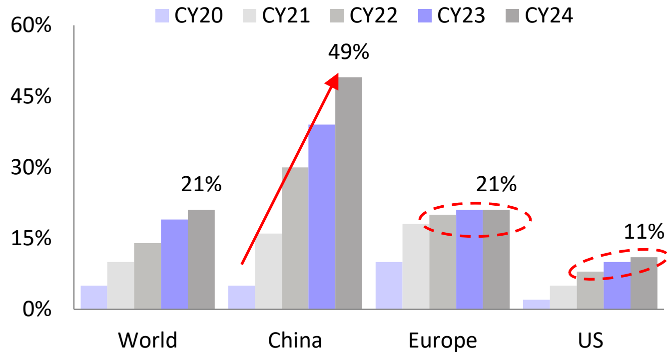
Exhibit 1: Electric car registrations in select economies



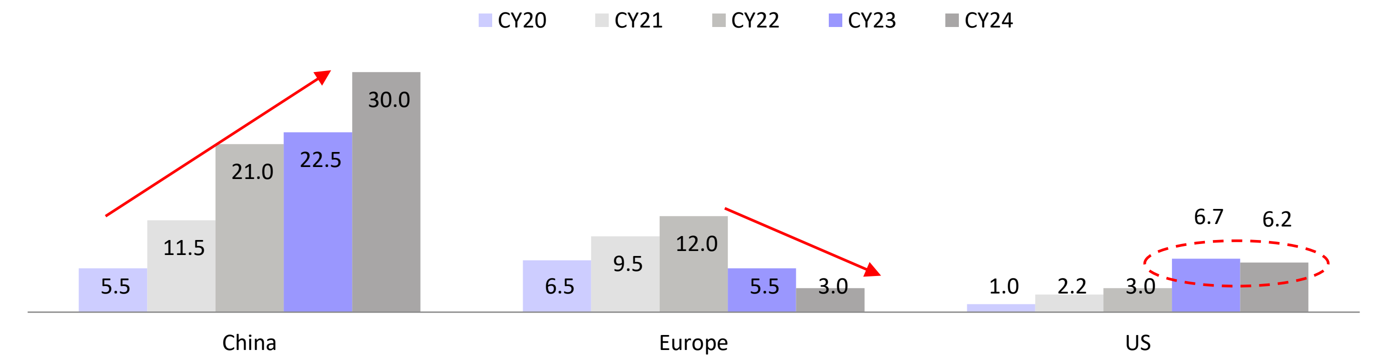
Source: IEA, MOFSL

Exhibit 2: Share of electric car sales in select economies (%)



Source: IEA, MOFSL

Exhibit 3: Government spending on electric cars is stagnating in US and Europe (USD b)

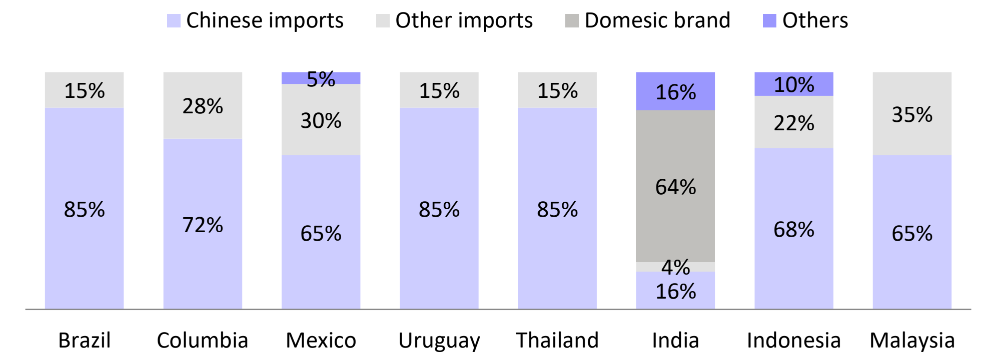


Source: IEA, MOFSL

China's EV dominance faces pushback from key markets

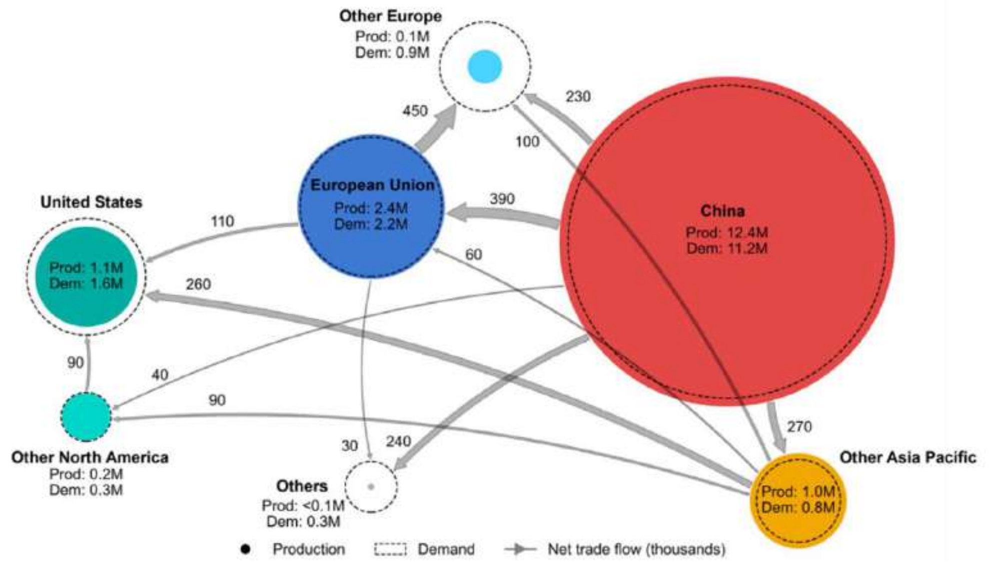
- **Key economies moving to curb Chinese EV imports by raising tariffs**: The recent tariff revisions in multiple regions are making it harder for Chinese-made EVs to stay competitive in major export markets. The EU, accounting for ~30% of China's EV exports by value, imposed countervailing duties targeting specific Chinese EV manufacturers from Jul'24, with an aim to offset alleged government subsidies provided to these companies (media article). In parallel, the US and Canada introduced new tariffs exceeding 100% in CY24 (media article), with the US announcing additional increases in CY25, effectively discouraging future imports of Chinese electric cars (media article). Meanwhile, Mexico and Brazil, both of which have recently seen a surge in Chinese EV imports, have also approved tariff hikes. In CY24, Mexico removed its 15-20% tariff exemption on EV imports from countries without a free trade agreement, such as China. Brazil reinstated a 10% import tariff on electric cars, with plans to gradually increase it every six months to 35% by mid-CY26 (media article).
- **Push for domestic manufacturing may slow down, not accelerate, EV adoption:** As major economies resist low-cost Chinese imports and seek to bolster domestic manufacturing of EVs, we believe this may slow, rather than accelerate, EV adoption. Evidence of resistance to Chinese dominance is already apparent in other sectors, such as solar cell and module manufacturing. Recently, countries like the US and India have ramped up domestic production to reduce dependence on Chinese imports, thereby strengthening their local clean-tech industries. As domestic manufacturers invest time and capital to build supply chains, achieve cost economics, and develop technology relevant to their local markets, the pace of EV adoption globally may slow down rather than accelerate, in our opinion.

Exhibit 4: China dominated electric cars sold in emerging economies, CY24 (%)



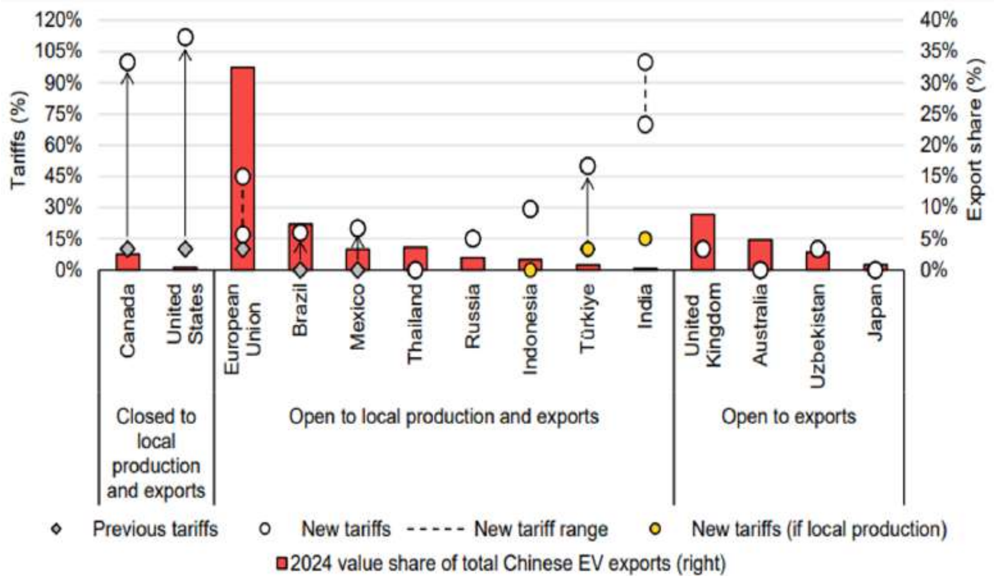
Source: IEA, MOFSL

Exhibit 5: China is the leading EV manufacturer and exporter to global markets (CY24)



Source: IEA, MOFSL

Exhibit 6: Changes in tariffs on Chinese EV imports in select regions, 1st Jan'24-1st Jan'25

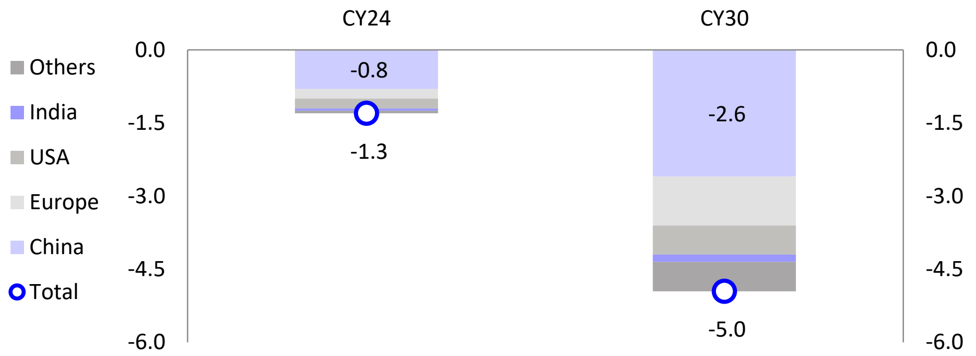


Source: IEA, MOFSL

IEA cuts '*EVs displacing oil demand*' forecast; more cuts likely in the future

- **Oil demand displacement forecast cut to 5mb/d:** The IEA, in its EV Outlook, downgraded its forecasts of oil demand replacement by EVs to 5mb/d by CY30 vs. the previous year's forecast of 6mb/d. Further, IEA estimates half of this displacement to be driven by EV adoption in China, as EV sales share is expected to rise to 80% by CY30 (50% in CY24).
- **Oil demand displacement can witness further cuts, in our opinion:** While the pace of EV penetration in China might be sustained, driven by the continuation of incentives for replacing older vehicles and falling electric car prices, we remain skeptical about the remaining 2.5mb/d oil demand displacement. As highlighted earlier in this report, we believe EV adoption in countries other than China may face significant headwinds as low-cost Chinese imports are curbed.

Exhibit 7: Oil displacement by region in the Stated Policies Scenario, CY24/30

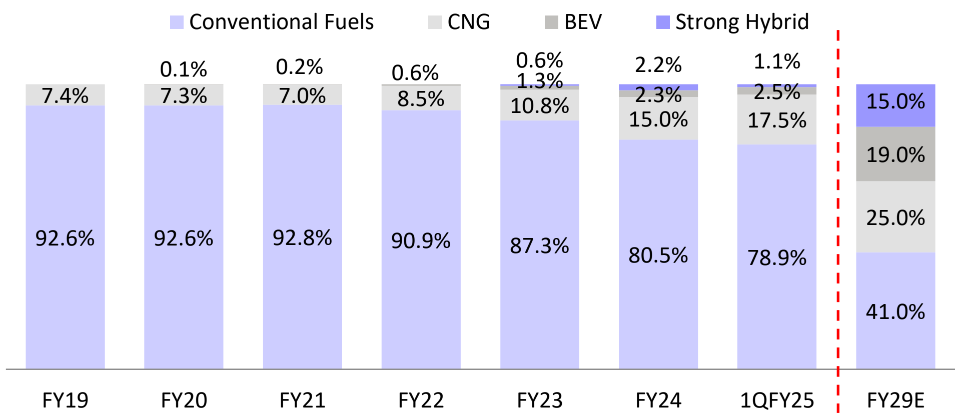


Source: IEA, MOFSL

The Indian context: CNG/EV displacing conventional engines

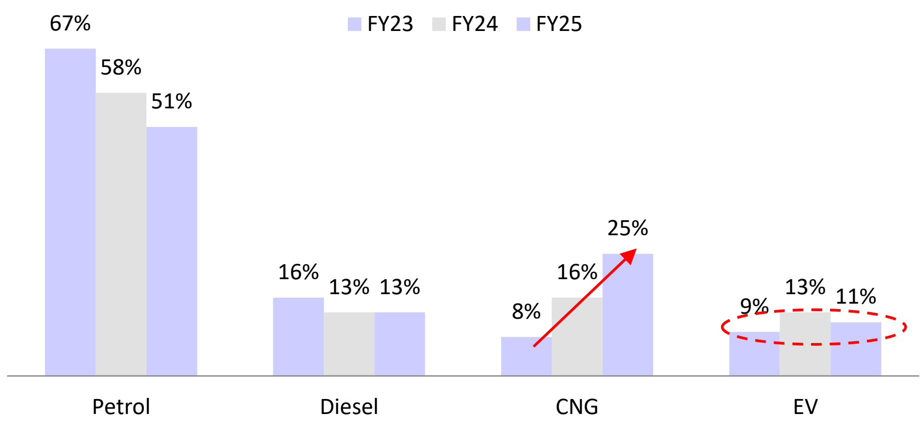
- **CNG – one of the fastest-growing engine types in India:** According to Tata Motors (TTMT), the Indian auto industry experienced strong momentum in fuel-type transitions in FY25, with CNG vehicle sales growing ~35% YoY. This growth has been fueled by 1) increasing adoption of CNG in the personal vehicle segment, 2) expansion of CNG infrastructure, 3) greater customer awareness regarding CNG's advantages over ICE, and 4) the launch of new models such as Maruti Swift CNG, Tata Tiago, and Tigor I CNG, which offer features and performance comparable to conventional fuel vehicles. As a result, CNG emerged as the second-largest fuel category, accounting for over 18% of new PV sales, as per data provided by TTMT.
- **CNG proportion in the overall mix now sizeable across auto manufacturers:** In FY25, the powertrain mix for TTMT w.r.t. CNG passenger vehicles rose to 25% (FY24: 16%) even as EV PVs declined marginally to 11% (FY24: 13%). In FY25, MSIL's powertrain mix w.r.t. CNG PVs rose to 18% from 15%/10% in FY24/FY23. Lastly, in the 3QFY25 earnings call, Hyundai's management highlighted that Exter's CNG penetration had increased to 36.5% of the mix from 17.7% in 3QFY24.

Exhibit 8: CNGs share in PV retail powertrain mix is rising (%)



Source: Hyundai, Crisil MI&A, MOFSL

Exhibit 9: TTMT's powertrain mix – PV segment (%)

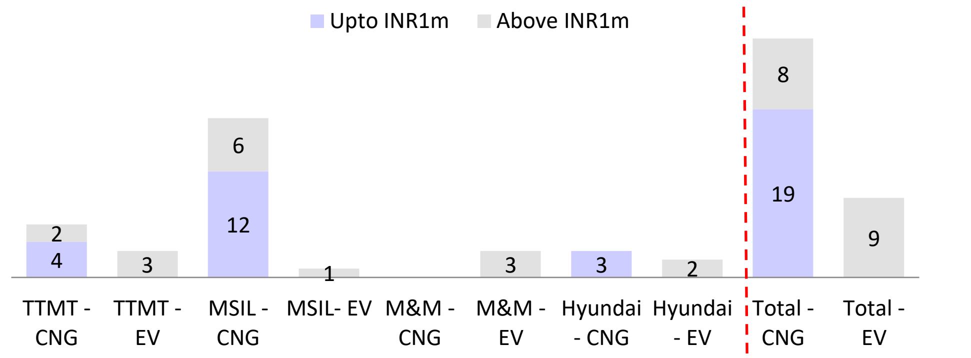


Source: Tata Motors, MOFSL

EV presence largely limited to the premium PV segment

- **Current EV cost economics incentivize presence in the premium PV segment:** Indian auto OEMs earn significantly lower margins on EVs in comparison to CNG vehicles, thus incentivizing manufacturers to focus on the premium-priced EV models. Further, as per Hyundai's management (Source: 3QFY25 earnings call), this trend is likely to persist for a few years. Lastly, to address the issue of limited battery range (in km), auto manufacturers often go for larger and more expensive batteries, which in turn leads to new EV launches being focused primarily on the premium EV models.
- **In contrast, the CNG product range is tilted towards the affordable segment:** Key auto manufacturers such as TTMT, MSIL, and Hyundai have multiple CNG models in the sub-INR1m category, and this has contributed to CNG's burgeoning share in the overall PV pool in India. Conversely, only TTMT has a couple of EV PVs falling in the sub-INR1m category.
- **New product launches for CNG largely in sub-INR1m segment:** In CY24/25'td, Indian OEMs have launched eight CNG models, and seven of these cars are priced under INR1m. On the other hand, Indian OEMs have launched seven EVs in CY24/25'td and all these are in the INR1.5m+ price range.

Exhibit 10: CNG vehicles dominate the sub-INR1m category PV segment (no. of models)



Source: cardekho, zigwheels, autocarindia, TTMT, Hyundai, MOFSL
Note: On-road price as per various websites has been considered

Valuation and View

- **MAHGL:** We expect a 10% CAGR in volume over FY25-27, driven by multiple initiatives implemented by the company, such as collaborating with OEMs to drive conversions of commercial CNG vehicles and providing guaranteed price discounts to new I/C-PNG customers.
  - The stock trades at 11.7x FY27E EPS of INR121. We value it at 15x FY27E EPS to arrive at our TP of INR1,760. **Reiterate BUY.**
- **GUJGA:** The company's long-term volume growth prospects remain robust, with the addition of new industrial units and expansion of existing units. It is aggressively investing in infrastructure to push industrial gas adoption in Thane rural, Ahmedabad rural, and newly acquired areas in Rajasthan.
  - The stock is trading at a P/E of 23x FY27E and EV/EBITDA of 13.7x for FY27E. We **reiterate our BUY rating** on the stock with a TP of INR535, valuing it at 25x FY27E EPS.
- **IGL:** The stock trades at 16.9x FY26E SA P/E, slightly above its 1yr. fwd. mean – 1 S.D. P/E. However, we believe that earnings have bottomed out now. We estimate the EBITDA margin to improve to INR6.2/INR6.5 per scm and volumes to grow 7% YoY in FY26/FY27. Resultant EBITDA and PAT are estimated to clock a CAGR of 11% and 9% over FY25-27, respectively.
  - We value IGL at 15x FY27E SA P/E and add INR45/sh as a value of JVs to arrive at our TP of INR230/sh. **Reiterate BUY.**

Financials and valuations: MAHGL (Target Price: INR1760) BUY

Financial & Valuation Summary									(INR b)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26E**	**FY27E**
Sales	27.9	29.7	21.5	35.6	63.0	62.4	69.2	74.6	81.6
EBITDA	8.9	10.5	9.3	9.2	11.8	18.4	15.1	16.3	17.8
Adj. PAT	5.5	7.9	6.2	6.0	7.9	12.9	10.4	11.0	12.0
Adj. EPS (INR)	55.3	80.3	62.7	60.4	80.0	130.5	105.8	111.5	121.0
EPS Gr. (%)	14.3	45.2	-21.9	-3.6	32.3	63.2	-18.9	5.4	8.5
BV/Sh.(INR)	242.8	298.9	327.2	364.2	418.5	520.6	596.2	663.1	735.7
Ratios									
Net D:E	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	0.0	0.0	0.0
RoE (%)	24.3	29.7	20.0	17.5	20.4	27.8	18.9	17.7	17.3
RoCE (%)	24.3	29.8	20.1	17.5	20.5	27.8	19.0	17.8	17.4
Payout (%)	43.5	52.4	36.7	38.1	32.5	40.0	28.4	40.0	40.0
Valuation									
P/E (x)	25.6	17.6	22.5	23.4	17.7	10.8	13.4	12.7	11.7
P/BV (x)	5.8	4.7	4.3	3.9	3.4	2.7	2.4	2.1	1.9
EV/EBITDA (x)	15.4	13.1	14.4	14.6	11.6	7.4	9.1	8.4	7.7
Div. Yield (%)	1.4	2.5	1.6	1.6	1.8	3.7	2.1	3.2	3.4
FCF Yield (%)	2.3	4.0	3.3	1.8	1.8	5.7	2.1	1.7	2.4

Financials and valuations: GUJGA (Target Price: INR535) BUY

Financial & Valuation Summary									(INR b)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24**	**FY25**	**FY26E**	**FY27E**
Sales	77.5	103.0	98.7	164.6	167.6	156.9	164.9	159.8	173.8
EBITDA	9.8	16.3	20.8	20.8	23.9	18.8	18.8	20.8	23.6
PAT	4.2	11.9	12.7	12.9	15.3	11.4	11.5	12.3	14.5
EPS (INR)	6.2	17.3	18.4	18.8	22.2	16.0	16.6	17.9	21.1
EPS Gr. (%)	47.4	177.8	6.3	2.1	17.8	-27.8	4.0	7.6	17.7
BV/Sh.(INR)	31.7	47.8	64.6	81.3	101.6	111.7	122.8	134.6	148.5
Ratios									
Net D:E	0.8	0.3	0.1	0.1	-0.1	-0.1	0.0	-0.1	-0.1
RoE (%)	21.3	43.6	32.8	25.8	24.2	15.0	14.2	13.9	14.9
RoCE (%)	19.4	29.8	35.0	31.5	31.6	20.6	19.6	18.9	20.2
Payout (%)	19.9	8.7	10.9	10.7	30.0	34.1	34.0	34.0	34.0
Valuations									
P/E (x)	77.7	28.0	26.3	25.8	21.9	30.3	29.1	27.1	23.0
P/BV (x)	15.3	10.1	7.5	6.0	4.8	4.3	3.9	3.6	3.3
EV/EBITDA (x)	35.7	21.1	16.2	16.3	13.7	17.3	17.6	15.7	13.7
Div. Yield (%)	0.2	0.3	0.4	0.4	1.4	1.2	1.2	1.3	1.5
FCF Yield (%)	1.3	2.5	2.7	0.9	3.9	2.2	3.2	2.0	2.6

Financials and valuations: IGL (Target Price: INR230) BUY

Financial & Valuation Summary (INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Sales	57.6	64.9	49.4	77.1	141.4	140.0	149.3	157.6	166.7
EBITDA	12.5	15.2	14.8	18.8	20.3	23.7	19.8	21.6	24.3
Adj. PAT	7.9	11.4	10.1	13.1	14.5	17.5	14.7	15.3	17.4
Adj. EPS (INR)	5.6	8.1	7.2	9.4	10.3	12.5	10.5	10.9	12.4
EPS Gr. (%)	19.1	44.5	-11.5	30.8	9.9	21.0	-16.0	4.4	13.6
BV/Sh.(INR)	29.5	36.2	41.9	49.5	50.6	61.1	66.3	72.8	80.2
Ratios									
Net D:E	-0.1	-0.4	-0.2	-0.2	-0.4	-0.3	-0.2	-0.2	-0.2
RoE (%)	20.6	24.7	18.4	20.5	20.6	22.4	16.5	15.7	16.2
RoCE (%)	19.4	23.6	17.8	19.9	19.9	21.5	15.8	15.1	15.6
Payout (%)	21.4	17.2	25.1	29.3	63.0	30.0	40.5	40.5	40.5
Valuation									
P/E (x)	37.7	26.1	29.5	22.6	20.5	17.0	20.2	19.4	17.1
P/BV (x)	7.2	5.9	5.1	4.3	4.2	3.5	3.2	2.9	2.6
EV/EBITDA (x)	11.4	8.3	9.2	7.2	6.0	5.4	13.9	12.7	11.2
Div. Yield (%)	0.6	0.7	0.8	1.3	3.1	1.8	2.0	2.1	2.4
FCF Yield (%)	1.6	1.3	2.2	1.9	3.4	1.1	3.7	2.3	3.2

N O T E S

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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