

Mahanagar Gas

Estimate change	↔
TP change	↓
Rating change	↔

CMP: INR997
TP: INR1,200 (+20%)
Buy
Volume growth remains strong; margin concerns remain unanswered

Bloomberg	MAHGL IN
Equity Shares (m)	99
M.Cap.(INRb)/(USDb)	98.5 / 1.3
52-Week Range (INR)	1284 / 808
1, 6, 12 Rel. Per (%)	-10/-35/-32
12M Avg Val (INR M)	830

Financials & Valuations(INR b)

Y/E March	2022E	2023E	2024E
Sales	32.6	39.5	38.8
EBITDA	12.3	12.2	12.8
Adj. PAT	8.3	8.2	8.6
Adj. EPS (INR)	83.8	82.6	86.8
EPS Gr. (%)	33.7	-1.5	5.1
BV/Sh.(INR)	377.5	427.1	479.1

Ratios

Net D:E	-0.3	-0.4	-0.4
RoE (%)	23.8	20.5	19.1
RoCE (%)	23.8	20.6	19.2
Payout (%)	40.0	40.0	40.0

Valuation

P/E (x)	11.9	12.1	11.5
P/BV (x)	2.6	2.3	2.1
EV/EBITDA (x)	7.0	6.7	6.2
Div. Yield (%)	3.4	3.3	3.5
FCF Yield (%)	10.1	7.6	4.6

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	32.5	32.5	32.5
DII	27.8	28.4	30.1
FII	29.4	29.6	25.6
Others	10.3	9.5	11.8

FII Includes depository receipts

■ Mahanagar Gas (MAHGL) reported mixed 2QFY22 results, with volumes 11% higher than our estimate at 3.1mmscmd, while EBITDA/scm was lower at INR10.5 (v/s our estimate of INR12.5 and INR13.9 in 1QFY22). Thus, EBITDA came in line (at INR3b) with our estimate.

■ The volume recovery was strong as economic activities returned to normal, **with total volumes growing further by 7-8% in Oct'21 (~3.34mmscmd).**

■ The EBITDA margin decline in 2QFY22 was due to a sharp spike in spot LNG prices. The demand for CNG went up drastically post the easing of the second COVID lockdown, due to which **MAHGL had to use spot LNG for ~5% of priority gas volumes. This percentage increased further as volumes ramped up.** MAHGL has requested the Ministry for using average gas volumes for 2Q to allocate priority gas volumes for 2HFY22.

■ MAHGL took two price hikes totalling INR4.3/kg in order to pass on the entire increase in APM gas prices for 2HFY22. That said, **it might take further pricing action in the immediate future to compensate for the deficit in priority gas volumes and increase in spot LNG prices (up 2x QoQ).**

■ **The current environment has further strengthened our view that the CNG segment's margin will come under severe pressure:**

1. As per our calculations, the APM gas price revision for 1HFY23 could be at USD5.0-5.5/mmbtu since the adoption of the gas pricing formula in 2014, with the likelihood of further increase in APM gas price for 2HFY23 as well.
2. The demand by OMCs for higher single-digit commissions on CNG sales will further test the company's ability to pass on the prices to end consumers. Notably, ~65% of MAHGL's CNG volumes come from OMC outlets.
3. As highlighted in our report, [Warming up to the winter ahead... Oil price rally may strengthen, although temporarily](#) – we maintain our stance on normalization of Brent prices by the end of FY22. Falling Brent prices will reduce saving of CNG to liquid fuels, thereby impacting volume growth.

■ **Considering all of the above, we believe that it is inevitable for CGDs to maintain higher EBITDA margin levels (of FY21).** Our FY23-24 margin estimate remains unchanged at INR10/scm, although we lower our target multiple to 14x (from 16x earlier). **We maintain Buy on MAHGL, owing to the stock's relatively cheaper valuations.**

EBITDA in line, EBITDA/scm falls short, volumes ahead of estimates

■ Total volume came in 11% higher than our estimate at 3.1mmscmd (+51% YoY, +30% QoQ), driven by higher CNG volume of 2.2mmscmd (15% higher than our estimate, up 75% YoY and 44% QoQ). PNG volume stood at 0.9mmscmd (in line, up 12% YoY and 5% QoQ).

■ EBITDA/scm came in below our estimate at INR10.5 (est. INR12.5). EBITDA came in line with our estimate at INR3b (7% lower than our estimate, +36% YoY). PAT stood at INR2b (8% below our estimate, +42% YoY).

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 Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- In 1HFY22, EBITDA stood at INR6.1b (+101% YoY), with EBITDA/scm at INR12 (v/s INR10.3 in 1HFY21). PAT came in at INR4.1b (+115% YoY). Total volumes came in at 2.8mmscmd (+73% YoY, on a lower base of last year due to the lockdown). CNG/PNG volumes stood at 1.9/0.9mmscmd (+115%/+22% YoY).

Valuation and View

- MAHGL has commissioned its first Mobile Refuelling Unit (MRU) in Navi Mumbai and has invited EoIs to set up MRUs at Thane Urban and Raigad. The **company has received 11 applications, which are currently under evaluation**. Adding more MRUs will require local permissions and regulatory approvals, but could be a game changer model for a company like MAHGL which is unable to expand its infrastructure in crowded cities.
- MAHGL upgraded 12 CNG stations and added nine new CNG stations in 1HFY22; it is targeting the addition of ~20 new CNG stations and upgrading 25-30 CNG stations in FY22 with 8-10 MRUs (1/3rd of these will be in Raigad).
- BEST is inducting 500 CNG buses over the next two quarters. MAHGL is upgrading the CNG infrastructure at three of its depots (two were upgraded by the end of 1HFY22) to facilitate the new CNG buses.
- The company is also looking forward to the 11th CGD round. PNGRB floated bids for the 11th CGD bidding round on 17th Sep for 65 GAs across India and set 15th Dec'21 as the last date for EOI submission.
- All of the above along with a boost from the increased need for personal mobility in the current COVID times, should aid MAHGL's volume growth. **We raise our volume estimate by +3% for FY23-24, resulting in an EPS estimate revision of +3% for these years.**
- The stock trades at 12x FY23E EPS of INR83, and upon valuing it at 14x Dec'23E EPS, we arrive at a target price of INR1,200. Maintain Buy.

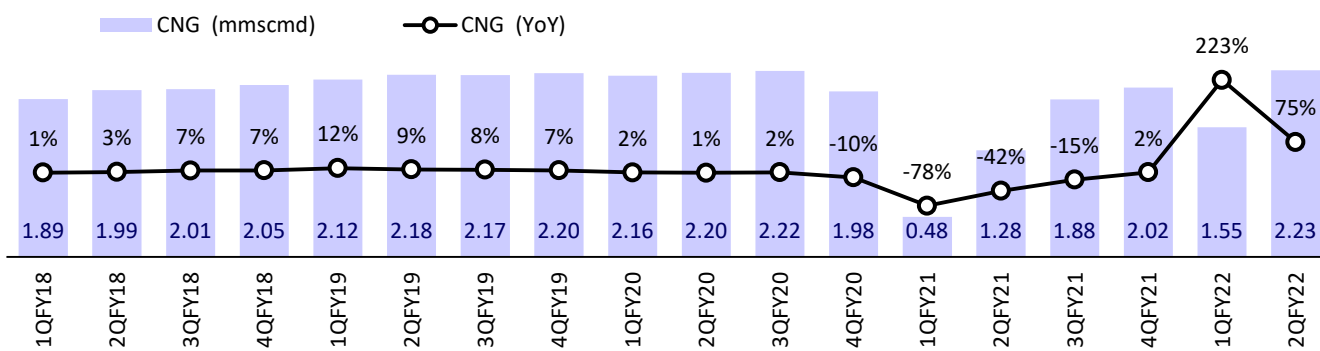
Standalone - Quarterly Earning Model

(INR Million)

Y/E March	FY21				FY22				FY21	FY22E	FY22	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	2,618	5,067	6,664	7,177	6,155	8,301	8,958	9,215	21,525	32,629	7,910	5%
YoY Change (%)	-65.4	-35.3	-10.5	4.5	135.1	63.8	34.4	28.4	-27.6	51.6	56.1	
EBITDA	800	2,211	3,167	3,162	3,040	3,018	3,152	3,072	9,340	12,281	3,232	-7%
EBITDA/SCM	7.9	11.6	12.4	12.1	13.9	10.5	10.5	10.4	11.6	11.2	12.5	-16%
Margins (%)	30.6	43.6	47.5	44.1	49.4	36.4	35.2	33.3	43.4	37.6	40.9	
Depreciation	423	425	441	448	453	473	482	493	1,737	1,901	466	1%
Interest	15	20	17	19	17	20	19	19	72	76	15	
Other Income	245	184	204	172	186	226	203	196	805	811	212	6%
PBT	607	1,950	2,913	2,866	2,756	2,751	2,853	2,755	8,336	11,115	2,963	-7%
Rate (%)	25.5	26.0	25.4	25.8	26.0	25.7	25.2	25.2	25.7	25.5	25.2	
Reported PAT	453	1,443	2,172	2,128	2,041	2,043	2,135	2,062	6,196	8,281	2,217	-8%
Adj PAT	453	1,443	2,172	2,128	2,041	2,043	2,135	2,062	6,196	8,281	2,217	-8%
YoY Change (%)	-73.4	-46.7	16.7	27.7	351.0	41.5	-1.7	-3.1	-21.9	33.7	53.6	
Margins (%)	17.3	28.5	32.6	29.6	33.2	24.6	23.8	22.4	28.8	25.4	28.0	
Sales Volumes (mmscmd)												
CNG	0.5	1.3	1.9	2.0	1.6	2.2	2.4	2.4	1.4	2.1	1.9	15%
PNG - Domestic	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.5	0.4	0.5	-4%
PNG - Industry/ Commercial	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.4	7%
PNG - Total	0.6	0.8	0.9	0.9	0.8	0.9	0.9	0.9	0.8	0.9	0.9	1%
Total Volumes	1.1	2.1	2.8	2.9	2.4	3.1	3.3	3.3	2.2	3.0	2.8	11%

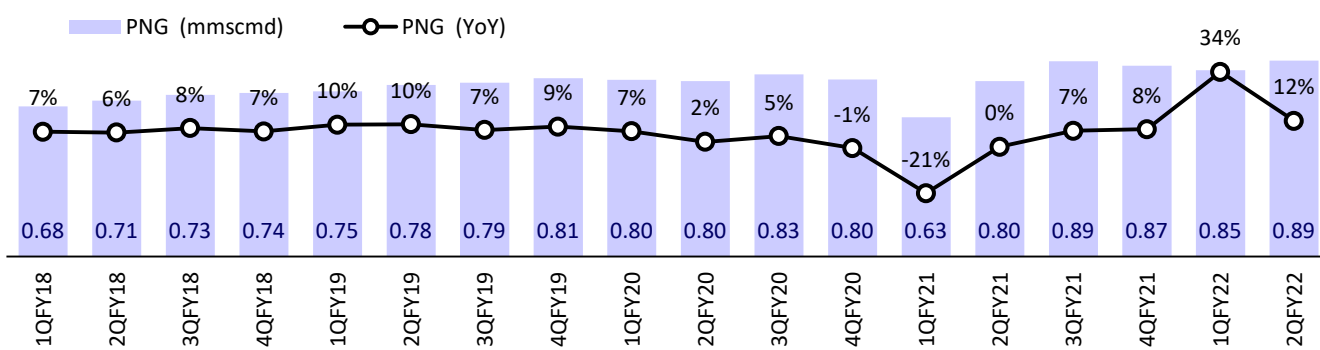
E: MOFSL Estimates

Exhibit 1: CNG volume up 44% QoQ (+75% YoY) to 2.23mmscmd – witnessing recovery post second COVID wave



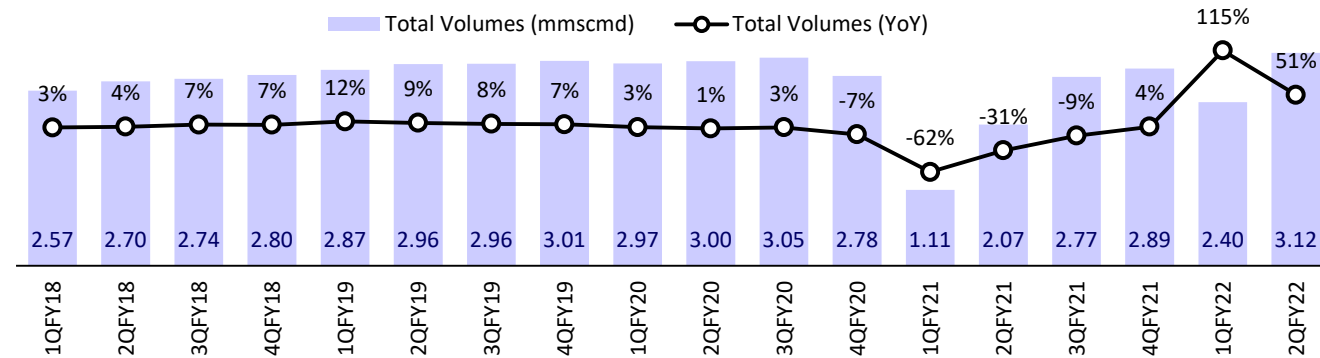
Source: Company, MOFSL

Exhibit 2: PNG volume up 5% QoQ (+12% YoY) to 0.89mmscmd



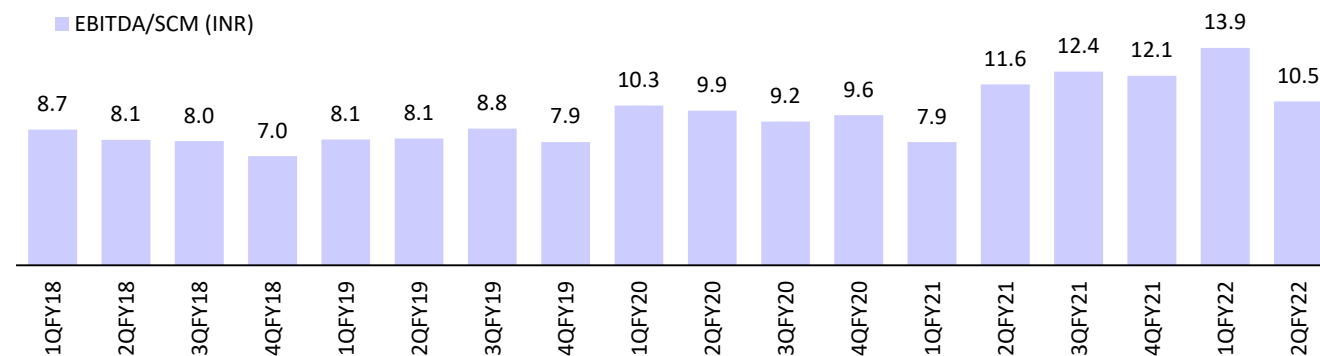
Source: Company, MOFSL

Exhibit 3: Total volume up 30% QoQ (+51% YoY) to 3.12mmscmd



Source: Company, MOFSL

Exhibit 4: EBITDA/scm declines to INR10.5/scm due to higher input gas costs



Source: Company, MOFSL

Concall highlights

Snapshot for the quarter:

- Domestic volumes fell 4% QoQ as work from home measures reduced.
- The EBITDA margin contraction was due to a sharp spike in spot LNG prices, while alternate fuel prices did not rise similarly. Also, demand rose drastically post the easing of the second COVID lockdown, and **MAHGL had to use spot LNG for ~5% of priority gas volumes. This percentage increased further as volumes ramped up.** MAHGL has requested the Ministry through GAIL for using the average for 2Q to allocate volumes for 2HFY22.

APM price increase – update and outlook:

- MAHGL took price hikes on 5th Oct and 14th Oct to pass on the entire increase in APM gas prices for 2HFY22. **The company might take further pricing action in the immediate future** to compensate for the deficit in priority gas volumes and increase in spot LNG prices.
- MAHGL is exploring the possibility of signing a mid-term contract for RLNG. It is also exploring the possibility of implementing a different pricing formula than the one linked to alternate fuel prices.
- **Management has stated that the tradeoff between margins and volumes needs to be seen. The company's opex level is expected to decline further and the increase in volume will aid margins.**

Updates on regulatory environment:

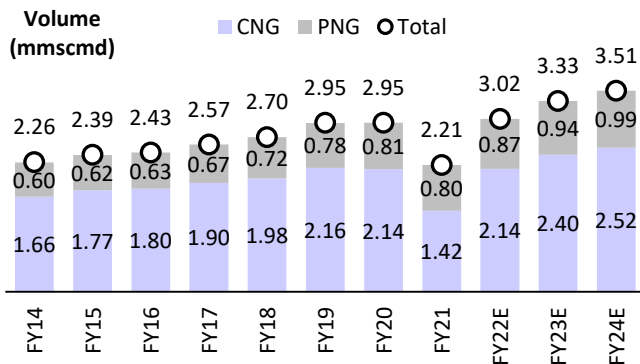
- PNGRB floated bids for the **11th CGD bidding round** on 17th Sep for 65 GAs across India and set 15th Dec'21 as the last date for EOI submission.
- **Open Access** – MAHGL expects competition in Industrial and Commercial volumes, although its 261 CNG stations opened till Nov'20 will not be impacted.
- **OMCs CNG commission negotiations** are still underway. The CGDs did approach MOPNG and further directions are awaited.
- A CNG price hike of INR2.6/kg was taken in 2QFY22 to compensate **for the tariff hike of the Uran-Trombay pipeline.** The case is still ongoing and discussion is pending (total demand up to Mar'21 of INR3.1b remains a contingent liability).

Other developments and outlook:

- MAHGL has 141 CNG stations in Mumbai city (GA1), 115 in Thane Urban (GA2) and 21 in Raigad (GA3) – totaling 277 outlets.
- **MAHGL has received 11 applications for Mobile Refuelling Unit (MRU) that are currently under evaluation.**
- BEST is currently inducting 500 CNG buses, and MAHGL has upgraded the CNG facility at two of its depots. BEST plans to convert 185 diesel buses to CNG (possible timeline of 6-8 months). MAHGL is also in talks with MSRTC for long haul CNG buses, and a few trucks and trailers were also approached for proof-of-concept study.
- MAHGL plans to incur a **capex of ~INR6b each year for the FY22-23 period.**

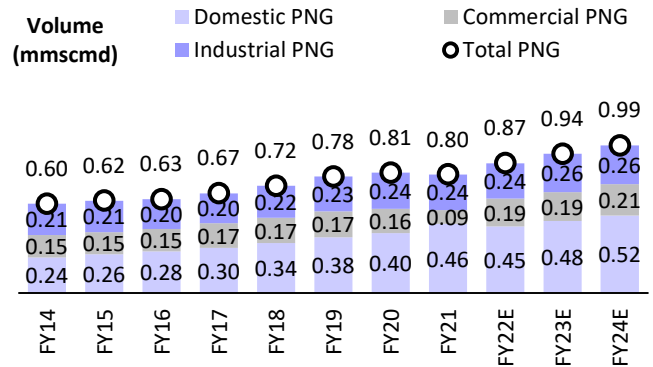
Story in charts

Exhibit 5: Volume growth snapshot



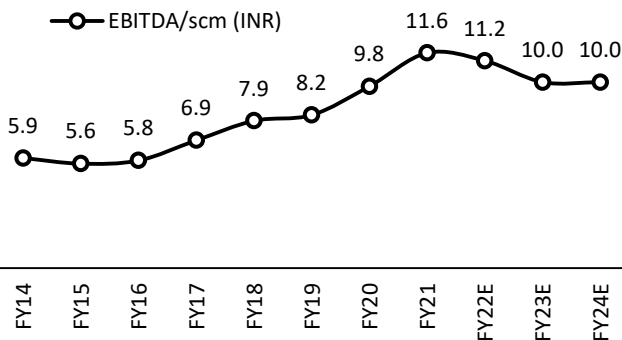
Source: Company, MOFSL

Exhibit 6: PNG segment wise volumes



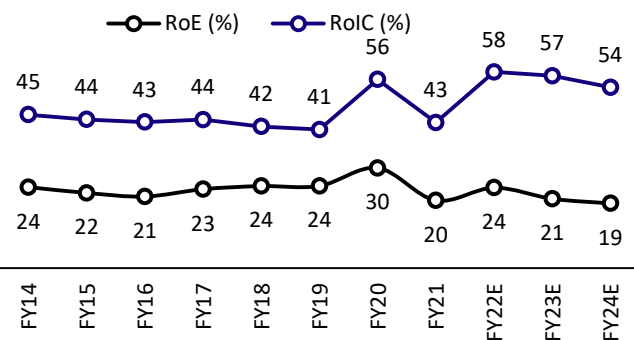
Source: Company, MOFSL

Exhibit 7: EBITDA/scm to normalize ~10mmscmd



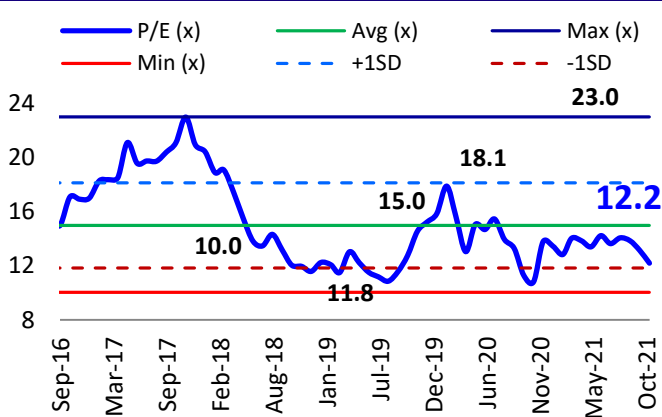
Source: Company, MOFSL

Exhibit 8: ROEs to hover ~20%



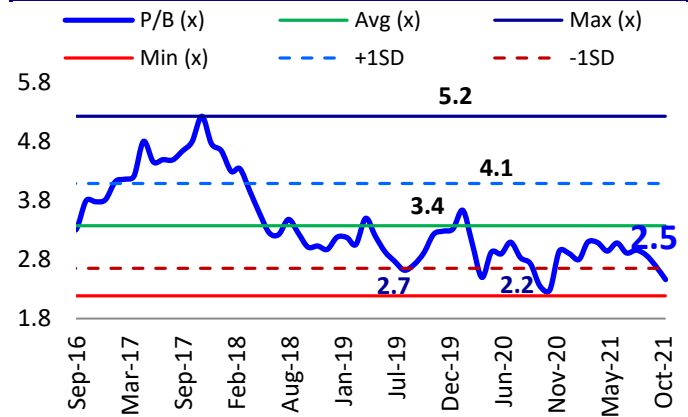
Source: Company, MOFSL

Exhibit 9: MAHGL 1 year fwd PE trades at 19% discount to its LT average of 15x...



Source: Company, MOFSL

Exhibit 10: ...and 1 year fwd PB trades at a discount of ~27% to its LT average of 3.4x



Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement

(INR M)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	20,340	22,330	27,911	29,721	21,525	32,629	39,499	38,762
Change (%)	-2.1	9.8	25.0	6.5	-27.6	51.6	21.1	-1.9
EBITDA	6,442	7,806	8,855	10,528	9,340	12,281	12,159	12,805
Margin (%)	31.7	35.0	31.7	35.4	43.4	37.6	30.8	33.0
Depreciation	951	1,112	1,259	1,617	1,737	1,901	2,029	2,137
EBIT	5,490	6,694	7,595	8,911	7,603	10,380	10,129	10,668
Int. and Finance Charges	10	3	3	65	72	76	76	76
Other Income	527	574	777	990	805	811	846	860
PBT bef. EO Exp.	6,007	7,265	8,369	9,835	8,336	11,115	10,899	11,452
PBT after EO Exp.	6,007	7,265	8,369	9,835	8,336	11,115	10,899	11,452
Total Tax	2,072	2,487	2,905	1,900	2,140	2,834	2,743	2,883
Tax Rate (%)	34.5	34.2	34.7	19.3	25.7	25.5	25.2	25.2
Reported PAT	3,934	4,779	5,464	7,935	6,196	8,281	8,156	8,570
Adjusted PAT	3,934	4,779	5,464	7,935	6,196	8,281	8,156	8,570
Change (%)	26.5	21.5	14.3	45.2	-21.9	33.7	-1.5	5.1
Margin (%)	19.3	21.4	19.6	26.7	28.8	25.4	20.6	22.1

Standalone - Balance Sheet

(INR M)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	988	988	988	988	988	988	988	988
Total Reserves	17,413	19,966	23,001	28,539	31,336	36,304	41,198	46,340
Net Worth	18,400	20,954	23,989	29,527	32,324	37,292	42,186	47,328
Total Loans	27	12	0	176	168	168	168	168
Deferred Tax Liabilities	1,376	1,748	2,048	1,607	1,773	1,773	1,773	1,773
Capital Employed	19,804	22,714	26,037	31,310	34,264	39,233	44,126	49,268
Gross Block	14,775	18,159	21,732	25,024	27,918	34,401	39,397	44,396
Less: Accum. Deprn.	1,727	2,839	4,098	5,716	7,452	9,353	11,383	13,519
Net Fixed Assets	13,047	15,320	17,634	19,309	20,466	25,047	28,015	30,877
Capital WIP	4,115	3,566	3,697	4,865	5,603	3,121	3,124	3,125
Total Investments	4,667	6,877	6,540	11,215	10,250	10,250	10,250	10,250
Rights to use assets	0	0	0	1,183	1,228	1,228	1,228	1,228
Curr. Assets, Loans&Adv.	4,413	4,340	6,539	4,708	8,465	17,634	23,704	25,456
Inventory	238	240	191	186	222	370	497	472
Account Receivables	945	914	996	685	1,275	1,933	2,340	2,296
Cash and Bank Balance	1,361	919	2,988	2,295	5,119	12,527	17,472	19,357
Cash	74	150	265	154	282	7,690	12,635	14,520
Bank Balance	1,287	769	2,723	2,141	4,837	4,837	4,837	4,837
Loans and Advances	1,869	2,268	2,364	1,543	1,850	2,804	3,394	3,331
Curr. Liability & Prov.	6,439	7,389	8,373	9,971	11,747	18,047	22,193	21,667
Account Payables	1,201	1,100	1,524	1,318	1,559	2,603	3,497	3,320
Other Current Liabilities	5,031	6,089	6,637	8,390	9,839	14,915	18,055	17,718
Provisions	207	199	212	263	350	530	641	629
Net Current Assets	-2,026	-3,049	-1,834	-5,263	-3,282	-413	1,510	3,789
Appl. of Funds	19,804	22,714	26,037	31,310	34,264	39,233	44,126	49,268

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)								
EPS	39.8	48.4	55.3	80.3	62.7	83.8	82.6	86.8
Cash EPS	49.5	59.6	68.1	96.7	80.3	103.1	103.1	108.4
BV/Share	186.3	212.1	242.8	298.9	327.2	377.5	427.1	479.1
DPS	19.0	21.5	20.0	35.0	23.0	33.5	33.0	34.7
Payout (%)	57.4	53.5	43.5	52.4	36.7	40.0	40.0	40.0
Valuation (x)								
P/E	25.0	20.6	18.0	12.4	15.9	11.9	12.1	11.5
Cash P/E	20.2	16.7	14.6	10.3	12.4	9.7	9.7	9.2
P/BV	5.4	4.7	4.1	3.3	3.0	2.6	2.3	2.1
EV/Sales	4.8	4.4	3.4	3.2	4.3	2.6	2.1	2.0
EV/EBITDA	15.1	12.5	10.8	9.2	10.0	7.0	6.7	6.2
Dividend Yield (%)	1.9	2.2	2.0	3.5	2.3	3.4	3.3	3.5
FCF per share	28.1	38.8	32.6	56.6	47.2	101.1	75.3	45.8
Return Ratios (%)								
RoE	23.4	24.3	24.3	29.7	20.0	23.8	20.5	19.1
RoCE	23.3	24.3	24.3	29.8	20.1	23.8	20.6	19.2
RoIC	43.9	41.9	41.0	55.8	43.1	58.1	57.0	53.5
Working Capital Ratios								
Fixed Asset Turnover (x)	1.4	1.2	1.3	1.2	0.8	0.9	1.0	0.9
Asset Turnover (x)	1.0	1.0	1.1	0.9	0.6	0.8	0.9	0.8
Inventory (Days)	4	4	3	2	4	4	5	4
Debtor (Days)	17	15	13	8	22	22	22	22
Creditor (Days)	22	18	20	16	26	29	32	31
Leverage Ratio (x)								
Current Ratio	0.7	0.6	0.8	0.5	0.7	1.0	1.1	1.2
Net Debt/Equity	-0.1	0.0	-0.1	-0.1	-0.2	-0.3	-0.4	-0.4

Standalone - Cash Flow Statement

(INR M)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	6,007	7,265	8,369	9,835	8,336	11,115	10,899	11,452
Depreciation	951	1,112	1,259	1,617	1,737	1,901	2,029	2,137
Direct Taxes Paid	-1,861	-2,284	-2,709	-2,380	-2,065	-2,834	-2,743	-2,883
(Inc)/Dec in WC	601	822	366	1,369	602	4,539	3,022	-394
Others	-385	-395	-443	-655	-627	-811	-846	-860
CF from Operations	5,323	6,521	6,846	9,852	8,055	13,986	12,437	9,528
(Inc)/Dec in FA	-2,545	-2,692	-3,625	-4,258	-3,395	-4,000	-5,000	-5,000
Free Cash Flow	2,778	3,829	3,221	5,594	4,660	9,986	7,437	4,528
(Pur)/Sale of Investments	-674	-2,042	474	-4,316	1,287	0	0	0
Others	585	547	-1,234	1,026	-2,331	811	846	860
CF from Investments	-2,633	-4,187	-4,385	-7,548	-4,439	-3,189	-4,154	-4,140
Dividend Paid	-2,816	-2,236	-2,330	-2,183	-3,221	-3,312	-3,262	-3,428
CF from Fin. Activity	-2,838	-2,258	-2,346	-2,416	-3,488	-3,388	-3,338	-3,503
Inc/Dec of Cash	-148	76	115	-112	128	7,408	4,945	1,885
Opening Balance	222	74	150	265	154	282	7,690	12,635
Closing Balance	74	150	265	154	282	7,690	12,635	14,520

E: MOFSL Estimates

NOTES

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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