

Margins trend to be key monitorable...

About the stock: Mahanagar Gas (MGL) is a city gas distribution company and operates in Mumbai, its adjoining areas and Raigad district, Maharashtra.

- CNG sales contribute more than 70% of its total sales volume
- It has historically reported high gross margins and return ratios

Q4FY22 Results: MGL's results were above estimates on account of higher-than-expected gross margins.

- Revenue was up 51.5% YoY to ₹ 1187.6 crore (estimate: ₹ 1244.1 crore), driven by volume growth of 9.6% YoY and higher realisation at ₹ 41.6/scm
- Gross margins fell ₹ 4.4/scm YoY to ₹ 13.3/scm on account of sharp increase in gas costs. Subsequently, EBITDA fell 31.8% YoY to ₹ 215.5 crore (estimate: ₹ 177.1 crore)
- PAT was at ₹ 131.8 crore, down 38.1% YoY (estimate: ₹ 112.6 crore)

What should investors do? While the company is likely to report healthy revenue YoY in FY23E owing to sales and realisation growth, longer term revenue growth is expected to be range bound due to lack of new geographical areas, thereby less opportunities for sustained higher growth.

- We retain our **HOLD** rating on the stock

Target Price and Valuation: We value MGL at ₹ 820 i.e. ~10x P/E on FY24E EPS

Key triggers for future price performance:

- MGL is a beneficiary of India's aim to increase the share of natural gas in the energy mix from 6% to 15% by 2030
- On account of competitive advantage against traditional auto fuels, MGL has potential for further sales volume growth in Mumbai and adjacent areas
- MGL hiked prices in Q1FY23E to pass on higher costs to customers
- Debt free balance sheet and consistent dividend payout

Alternate Stock Idea: Apart from MGL, in our oil & gas coverage we also like GGL.

- Gujarat Gas (GGL) is one of India's largest city gas distribution companies with high exposure to industrial retail volumes. Growth in industrial segment, regulatory tailwinds and pricing power will support volume growth
- BUY with a target price of ₹ 625



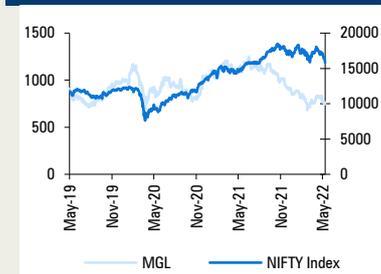
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	7,358.9
Total Debt (FY21) (₹ Crore)	57.3
Cash and Investments (FY21)	511.9
EV (₹ Crore)	6,904.4
52 week H/L	1284/680
Equity capital (₹ Crore)	98.8
Face value (₹)	10.0

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	32.5	32.5	32.5	32.5	32.5
FII	31.1	29.6	29.4	25.3	25.0
DII	17.2	18.4	17.8	19.1	17.3
Others	19.2	19.5	20.3	23.1	25.2

Price Chart



Recent event & key risks

- MGL hiked CNG prices to pass on increased costs
- Key Risk:** (i) Faster than expected volume growth, (ii) inability to pass on higher costs can impact margins

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	5 year CAGR (FY17-FY22E)	FY23E	FY24E	2 Year CAGR (FY22E-24E)
Revenue (₹ crore)	3,056.8	3,264.5	2,337.8	3,884.9	11.7%	5,727.0	5,807.8	22.3
EBITDA (₹ crore)	885.5	1,052.9	934.0	924.3	7.5%	1,087.2	1,202.3	13.5
PAT (₹ crore)	546.5	793.5	619.6	597.0	8.7%	704.7	771.9	11.6
EPS(₹)	55.3	80.3	62.7	60.4		71.3	78.1	
P/E (x)	13.5	9.3	11.9	12.3		10.4	9.5	
P/Book (x)	3.1	2.5	2.3	2.1		1.9	1.7	
RoCE (%)	31.7	29.7	23.1	20.1		21.4	21.1	
RoE (%)	22.8	26.9	19.2	16.9		17.9	17.5	

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Higher gas costs continue to impact margins; although QoQ profitability improves

- Revenue increased 5.8% QoQ on account of higher realisation
- Sales volume stood at 3.2 mmscmd, an increase of 9.6% YoY and lower than estimate of 3.5 mmscmd. CNG segment reported growth of ~13% YoY to 2.3 mmscmd (our estimate: 2.5 mmscmd). PNG volumes increased 2.8% YoY to 0.9 mmscmd, broadly in line with estimates. On a QoQ basis, volumes declined 4% with CNG volumes falling 4.8% (estimated growth: ~5%) whereas PNG volumes declined 2.1% (estimated growth: ~4%)
- On QoQ basis, higher realisation and marginally lower raw material cost led to gross margins at ₹ 13.3/scm, up ₹ 4.7/scm QoQ. Subsequently, EBITDA increased 109% QoQ and EBITDA/scm stood at ₹ 7.6/scm, up ₹ 4.2/scm QoQ
- Going ahead, we expect sales volume of 3.4 mmscmd and 3.7 mmscmd in FY23E and FY24E, respectively.
- Gross margins are estimated at ₹ 15.1/scm and ₹ 15.5/scm in FY23 and FY24E, respectively.

Q4FY22 Earnings Conference Call highlights

- In FY22, APM shortfall was 8-9% of total APM requirement. APM shortfall was in similar range for Q4FY22. Remaining requirement for priority sector was fulfilled by spot LNG
- The management stated that hike in CNG & PNG prices during Q1FY23E will pass through entire increase in APM price
- The company has signed three term gas agreement totalling to 0.4-0.5 mmscmd
- High R-LNG costs impacted industrial and commercial segment margins and company charged premium to cover costs.
- The company has planned capex of ₹ 600-700 crore for FY23E & FY24E
- Gail will pool gas from domestic sources, term or spot LNG to provide for shortfall in APM for entire CGD sector.

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Gujarat Gas (GUJGA)	537	625	Buy	36,995	18.9	19.7	24.1	28.4	27.3	22.3	18.1	17.2	14.1	26.9	24.2	25.3	23.2	20.3	20.7
Indraprastha Gas (INDGAS)	349	395	Buy	24,430	18.7	15.2	18.2	18.7	22.9	19.2	12.5	14.5	12.0	22.9	16.4	17.7	19.2	14.2	15.1
Mahanagar Gas (MAHGAS)	745	850	Hold	7,359	60.4	71.3	78.1	12.3	10.4	9.5	7.6	6.3	5.6	20.1	21.4	21.1	16.9	17.9	17.5

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Total Revenues	1,187.6	1,244.1	784.0	51.5	1,122.9	5.8	
Raw materials costs	707.3	782.2	257.0	175.2	765.2	-7.6	
Employees Cost	18.8	20.0	18.2	3.2	22.0	-14.6	
Other Expenses	246.1	264.9	192.7	27.7	232.6	5.8	
Total Expenditure	972.1	1,067.0	467.9	107.8	1,019.8	-4.7	
EBITDA	215.5	177.1	316.2	-31.8	103.1	109.0	Higher-than-expected driven by gross margins
EBITDA margins (%)	18.1	14.2	40.3	-2218 bps	9.2	896 bps	
Depreciation	55.5	47.4	44.8	23.8	48.2	15.1	
EBIT	160.0	129.6	271.3	-41.0	54.9	191.4	
Interest	2.3	1.5	1.9	18.2	1.5	47.4	
Other Income	22.7	23.0	17.2	32.2	21.8	4.0	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	180.4	151.1	286.6	-37.1	75.2	139.9	
Total Tax	48.6	38.5	73.8	-34.2	18.4	164.2	
PAT	131.8	112.6	212.8	-38.1	56.8	132.1	

Key Metrics

Sales Volumes (mmscmd)	3.2	3.5	2.9	9.6	3.3	-4.0	CNG volume increased 12.5% YoY while PNG volume grew 2.8% YoY
Realisation (₹/scm)	41.6	40.1	30.1	38.2	37.0	12.7	
Gross Margin (₹/scm)	13.3	11.4	17.7	-24.8	8.6	53.9	Higher gas prices led to YoY decline in margins. On QoQ basis, higher realisation coupled with marginally lower costs led to margin growth

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	5244.8	5,727.0	9.2	5645.1	5,807.8	2.9	Increased revenue estimates due to price hikes
EBITDA	1,076.5	1,087.2	1.0	1,237.3	1,202.3	-2.8	Realigned estimates post Q4FY22 results taking into account current gas prices trend
EBITDA Margin (%)	20.5	19.0	-154 bps	21.9	20.7	-122 bps	
PAT	703.8	704.7	0.1	804.2	771.9	-4.0	
EPS (₹)	71.3	71.3	0.1	81.4	78.1	-4.0	

Source: ICICI Direct Research

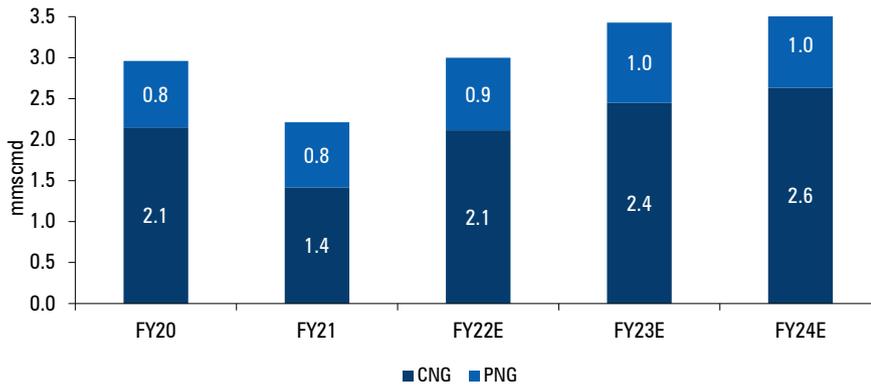
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Sales Volumes (mmscmd)	2.21	3.00	3.43	3.68	3.59	3.86	Realigned estimates post Q4FY22 results
Realisation (₹/scm)	29.0	35.5	45.8	43.2	40.0	40.0	
Gross Margin (₹/scm)	17.4	13.8	15.1	15.5	14.3	14.9	Revised gross margins as we factor in higher realisation and costs estimates

Source: ICICI Direct Research

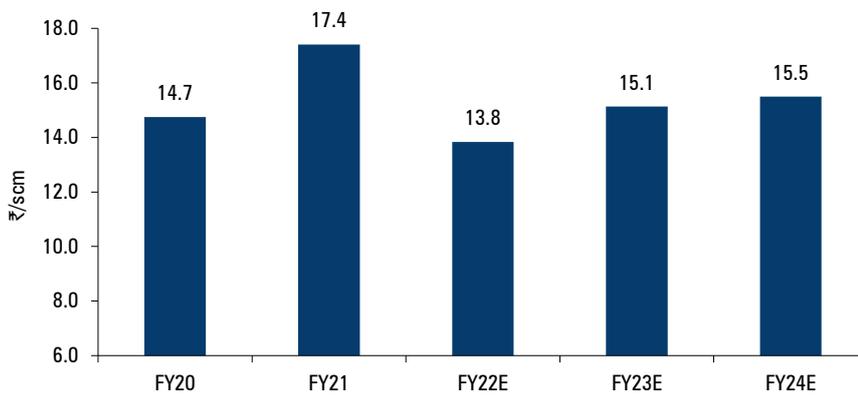
Story in charts

Exhibit 5: Volume to grow at steady pace



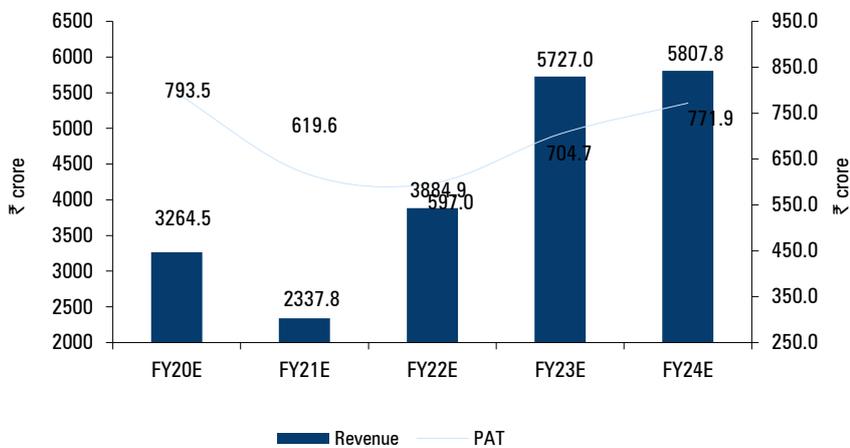
Source: Company, ICICI Direct Research

Exhibit 6: Margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Revenue, PAT to show upward trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Revenue	2337.8	3884.9	5727.0	5807.8
Growth (%)	-28.4	66.2	47.4	1.4
Raw material Costs	747.3	2045.4	3316.4	3205.6
Employee Costs	87.5	83.3	89.9	96.2
Other Expenditure	383.7	507.2	715.9	784.1
Op. Expenditure	1403.8	2960.6	4639.8	4605.4
EBITDA	934.0	924.3	1087.2	1202.3
Growth (%)	-11.3	-1.0	17.6	10.6
Depreciation	173.7	196.3	224.3	253.2
EBIT	760.3	728.1	862.9	949.1
Interest	7.2	7.5	6.0	7.0
Other Income	80.5	85.7	89.0	94.0
PBT	833.6	806.3	945.9	1036.1
Growth (%)	-15.2	-3.3	17.3	9.5
Tax	214.0	209.3	241.2	264.2
Reported PAT	619.6	597.0	704.7	771.9
Growth (%)	-21.9	-3.6	18.1	9.5
EPS	62.7	60.4	71.3	78.1

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	619.6	597.0	704.7	771.9
Add: Depreciation	173.7	196.3	224.3	253.2
Add: Others	16.6	23.6	15.0	15.0
Cash Profit	809.8	816.8	944.0	1,040.1
Increase/(Decrease) in CL	168.0	219.1	253.7	182.9
(Increase)/Decrease in CA	-92.8	-211.2	-173.3	-25.8
CF from Operating Activities	885.0	824.7	1024.3	1197.2
Purchase of Fixed Assets	367.6	557.4	595.0	675.0
(Inc)/Dec in Investments	96.5	-63.3	-40.0	-40.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-271.1	-620.7	-635.0	-715.0
Inc/(Dec) in Loan Funds	8.3	25.1	0.0	0.0
Inc/(Dec) in Sh. Cap. & Res.	1.1	0.0	0.0	0.0
Less: Dividend Paid	341.0	288.9	300.5	300.5
Others	0.0	0.0	0.0	0.0
CF from financing activities	-331.6	-263.8	-300.5	-300.5
Change in cash Eq.	282.4	-59.8	88.9	181.7
Op. Cash and cash Eq.	229.5	511.9	452.0	540.9
Cl. Cash and cash Eq.	511.9	452.0	540.9	722.6

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Source of Funds				
Equity Capital	98.8	98.8	98.8	98.8
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	3,133.6	3,441.6	3,845.9	4,317.3
Shareholder's Fund	3,232.4	3,540.4	3,944.7	4,416.1
Loan Funds	57.3	82.4	82.4	82.4
Deferred Tax Liability	177.3	200.8	215.8	230.8
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	3467.0	3823.6	4242.9	4729.3
Application of Funds				
Gross Block	2,910.9	3,410.9	3,845.9	4,320.9
Less: Acc. Depreciation	741.6	936.0	1,160.3	1,413.6
Net Block	2,169.3	2,474.8	2,685.6	2,907.3
Capital WIP	560.3	615.9	775.9	975.9
Total Fixed Assets	2,729.6	3,090.8	3,461.5	3,883.3
Investments	1,025.0	1,088.3	1,128.3	1,168.3
Inventories	22.2	27.5	47.1	63.6
Debtor	127.5	184.1	235.4	238.7
Cash	511.9	452.0	540.9	722.6
Loan & Advance, Other CA	185.0	334.3	436.7	442.7
Total Current assets	846.6	997.9	1260.1	1467.6
Current Liabilities	1104.1	1317.7	1569.0	1750.3
Provisions	30.1	35.6	37.9	39.5
Total CL and Provisions	1134.2	1353.3	1607.0	1789.8
Net Working Capital	-287.7	-355.4	-346.9	-322.3
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	3467.0	3823.6	4242.9	4729.3

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
Book Value	327.2	358.4	399.3	447.1
Cash per share	155.6	155.9	169.0	191.4
EPS	62.7	60.4	71.3	78.1
Cash EPS	80.3	80.3	94.0	103.8
DPS	23.0	25.0	26.0	26.0
Profitability & Operating Ratios				
EBITDA Margin (%)	40.0	23.8	19.0	20.7
PAT Margin (%)	26.5	15.4	12.3	13.3
Fixed Asset Turnover (x)	0.9	1.3	1.7	1.5
Inventory Turnover (Days)	3.5	3.0	3.0	4.0
Debtor (Days)	19.9	15.0	15.0	15.0
Current Liabilities (Days)	172.4	100.0	100.0	110.0
Return Ratios (%)				
RoE	19.2	16.9	17.9	17.5
RoCE	23.1	20.1	21.4	21.1
RoIC	43.4	35.0	36.6	36.4
Valuation Ratios (x)				
PE	11.9	12.3	10.4	9.5
Price to Book Value	2.3	2.1	1.9	1.7
EV/EBITDA	7.4	7.6	6.3	5.6
EV/Sales	3.0	1.8	1.2	1.2
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	NA	NA	NA	NA
Debt to EBITDA (x)	0.1	0.1	0.1	0.1
Current Ratio	0.7	0.7	0.8	0.8
Quick ratio	0.7	0.7	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Oil & gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	357	450	Buy	74,717	47.8	39.8	44.2	7.5	9.0	8.1	5.7	6.0	5.4	15.8	13.1	13.7	20.6	15.8	16.0
GAIL (India) (GAIL)	160	180	Buy	71,046	23.5	17.8	18.2	6.8	9.0	8.8	5.2	6.7	6.6	19.3	13.0	12.2	19.3	13.3	12.6
Gujarat Gas (GUJGA)	537	625	Buy	36,995	18.9	19.7	24.1	28.4	27.3	22.3	18.1	17.2	14.1	26.9	24.2	25.3	23.2	20.3	20.7
HPCL (HINPET)	268	320	Hold	38,027	40.6	44.2	45.4	6.6	6.1	5.9	7.5	6.0	5.6	8.1	9.3	9.0	14.9	14.8	13.9
Indian Oil Corp (INDOIL)	126	150	Buy	1,15,681	28.6	19.2	21.9	4.4	6.6	5.8	2.5	3.1	2.8	15.5	10.5	11.1	20.1	12.7	13.3
Indraprastha Gas (INDGAS)	349	395	Buy	24,430	18.7	15.2	18.2	18.7	22.9	19.2	12.5	14.5	12.0	22.9	16.4	17.7	19.2	14.2	15.1
Mahanagar Gas (MAHGAS)	745	850	Hold	7,359	60.4	71.3	78.1	12.3	10.4	9.5	7.6	6.3	5.6	20.1	21.4	21.1	16.9	17.9	17.5
Petronet LNG (PETLNG)	215	220	Hold	32,250	21.3	19.7	22.1	10.1	10.9	9.7	5.8	6.2	5.5	26.5	22.7	23.9	25.1	21.7	22.3
Reliance Industries (RELIND)	2,621	3,050	Buy	17,73,208	89.7	128.7	130.9	29.2	20.4	20.0	18.0	11.9	10.9	7.7	11.5	11.4	8.5	11.0	10.4

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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