

## Robust margins; CNG pick-up awaited...

Mahanagar Gas' (MGL) results for Q3FY21 were in line with estimates on the profitability front. Topline declined 11.2% YoY to ₹ 727.3 crore, lower than our estimate of ₹ 746.3 crore due to lower-than-expected sales volume. Sales volume came in at 2.8 mmscmd, down 9.2% YoY (our estimate: ₹ 2.9 mmscmd). On a QoQ basis, volumes increased 33.6%. Gross margins were better than estimate of ₹ 16.5/scm and increased ₹ 3.8/scm YoY and ₹ 0.4/scm QoQ to ₹ 17.7/scm due to lower than anticipated gas costs. EBITDA at ₹ 316.7 crore (up 22.4% YoY) was slightly above our estimate of ₹ 311.5 crore. Reported PAT was at ₹ 217.2 crore, up 16.7 % YoY (our estimate: ₹ 218.7 crore).

### CNG demand pick-up important

MGL reported volume de-growth of 9.2% YoY as demand is yet to fully recover. CNG volume de-grew 15.3% YoY (our estimate: 5.6%) to 1.9 mmscmd. On the PNG front, volumes grew 7.2% YoY to 0.9 mmscmd driven by robust domestic PNG demand. While industrial and domestic PNG segments reported growth of 6.1% YoY and 23.5% YoY, commercial PNG volumes were still down 27.7% YoY. Given the cost economics of natural gas over other alternative fuels in conjunction with rising pollution concerns having higher growth rate over the long term should not be a concern. The management said that CNG sales volume were lagging at 9% compared to pre-Covid level in January. We expect sales volume of 2.2 mmscmd in FY21E. Going ahead, we estimate sales volumes at 3.2 mmscmd and 3.4 mmscmd in FY22E and FY23E, respectively.

### Strong margins outlook, going ahead

Gross margins increased ₹ 3.8/scm YoY to ₹ 17.7/scm on account of lower gas prices. On a QoQ basis also, gross margins improved ₹ 0.4/scm. Subsequently, EBITDA/scm also increased by ₹ 3.2/scm YoY and ₹ 0.8/scm QoQ to ₹ 12.4/scm. MGL has increased its CNG and industrial PNG prices in the current quarter to pass on increased operational costs. With increase in petrol and diesel prices, the competitive advantage of CNG increased substantially over the past few months. Hence, we believe MGL will be able to pass on higher costs to customers in future as well. We expect gross margins at ₹ 17.2 for FY21E. Going ahead, gross margins are expected to remain strong at ₹ 16.8/scm for FY22E and FY23E, respectively.

### Valuation & Outlook

The government's priority allocation of domestic gas to CGD sector has enabled MGL to access cheaper gas for CNG and domestic business segments (~85% of sales mix). MGL's strong gas pipeline infrastructure and expanding operations in Mumbai, its adjoining areas and Raigad district will enable it to capture the benefits of the large and growing market given the low penetration. We roll over valuations to FY23E and upgrade MGL from HOLD to **BUY** with a revised TP of ₹ 1340 (13x FY23E EPS) earlier TP: ₹ 1150.

#### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	11,495.3
Total Debt (FY 20) (₹ Crore)	49.0
Cash and Investments (FY 20)	229.5
EV (₹ Crore)	11,314.8
52 week H/L	1240/666
Equity capital (₹ Crore)	98.8
Face value (₹)	10.0

#### Key Highlights

- Results were in line with our estimates on profitability front
- Total volumes reported de-growth of 9.2% YoY to 2.8 mmscmd
- Margins are expected to remain healthy on the back of price hike
- Upgrade from HOLD to BUY with target price of ₹ 1340/share

#### Key Risks to Our Call

- Slower than expected volume recovery can affect profitability
- Inability to pass on higher costs to customers can impact margins, thereby profits

#### Research Analyst

Mayur Matani  
mayur.matani@icicisecurities.com

Amogh Deshpande  
amogh.deshpande@icicisecurities.com

#### Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Revenue (₹ crore)	3,056.8	3,264.5	2,318.6	3,430.4	3,657.9	3.9
EBITDA (₹ crore)	885.5	1,052.9	930.2	1,363.0	1,450.2	11.3
PAT (₹ crore)	546.5	793.5	626.1	954.1	1,018.6	8.7
EPS (₹)	55.3	80.3	63.4	96.6	103.1	
P/E (x)	21.0	14.5	18.4	12.0	11.3	
P/Book (x)	4.8	3.9	3.5	2.9	2.4	
RoCE (%)	31.7	29.7	22.5	29.4	26.5	
RoE (%)	22.8	26.9	18.8	24.0	21.7	
RoCE (%)	29.8	31.9	31.5	31.5	27.1	
RoE (%)	21.4	22.8	22.7	27.5	22.0	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Total Revenues	727.3	746.3	819.1	-11.2	549.0	32.5	
Raw materials costs	214.4	235.2	354.3	-39.5	177.1	21.1	
Employees Cost	19.9	21.5	19.2	3.8	24.8	-19.8	
Other Expenses	176.3	178.2	186.7	-5.6	126.0	39.9	
Total Expenditure	410.6	434.8	560.2	-26.7	327.9	25.2	
EBITDA	316.7	311.5	258.9	22.4	221.1	43.3	Largely in line with estimates
EBITDA margins (%)	43.5	41.7	31.6	1194 bps	40.3	327 bps	
Depreciation	44.1	42.1	41.5	6.4	42.5	3.9	
EBIT	272.6	269.4	217.4	25.4	178.6	52.6	
Interest	1.7	1.5	1.6	NA	2.0	-15.3	
Other Income	20.4	26.0	28.6	-28.6	18.4	10.6	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	291.3	293.9	244.4	19.2	195.0	49.3	
Total Tax	74.1	75.2	58.3	27.0	50.7	46.1	
PAT	217.2	218.7	186.1	16.7	144.3	50.5	

Key Metrics

Sales Volumes (mmscmd)	2.8	2.9	3.1	-9.2	2.1	33.6	CNG and commercial PNG segments reported volume de-growth. Domestic PNG grew 23.5% YoY
Realisation (₹/scm)	28.5	27.6	29.2	-2.2	28.8	-0.9	
Gross Margin (₹/scm)	17.7	16.5	13.9	27.6	17.3	2.6	Higher than estimates

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E			Comments
	Old	New	Change	Old	New	Change	
Revenue	2319.5	2,318.6	0.0	3331.3	3,430.4	3.0	
EBITDA	917.5	930.2	1.4	1,343.5	1,363.0	1.5	We expect the company's operations to reach pre-Covid level in FY 22E
EBITDA Margin (%)	39.6	40.1	56 bps	40.3	39.7	-60 bps	
PAT	622.1	626.1	0.7	945.5	954.1	0.9	
EPS (₹)	63.0	63.4	0.7	95.7	96.6	0.9	

Source: Company, ICICI Direct Research

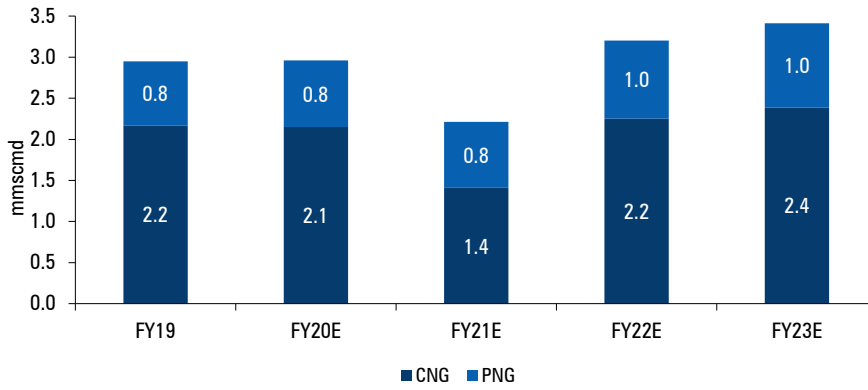
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	
Sales Volumes (mmscmd)	2.95	2.21	3.20	3.41	2.29	3.34	
Realisation (₹/scm)	30.2	28.7	29.3	29.4	27.7	27.3	
Gross Margin (₹/scm)	14.7	17.2	16.8	16.8	16.4	15.9	Revised gross margins upwards due to higher realisation and better pricing power

Source: Company, ICICI Direct Research

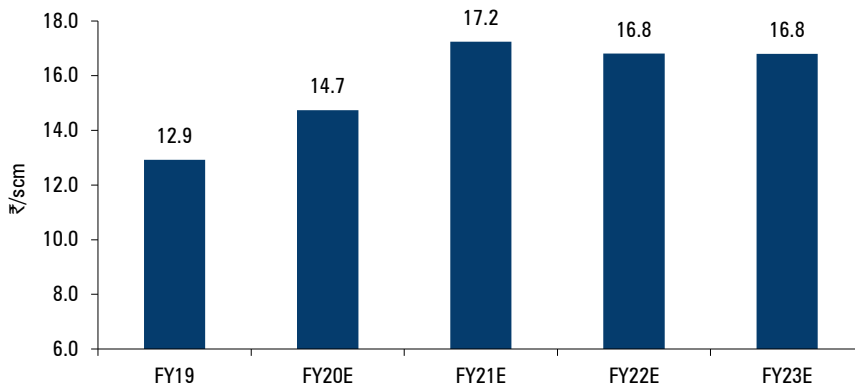
### Story in charts

Exhibit 4: Volume to grow at steady pace



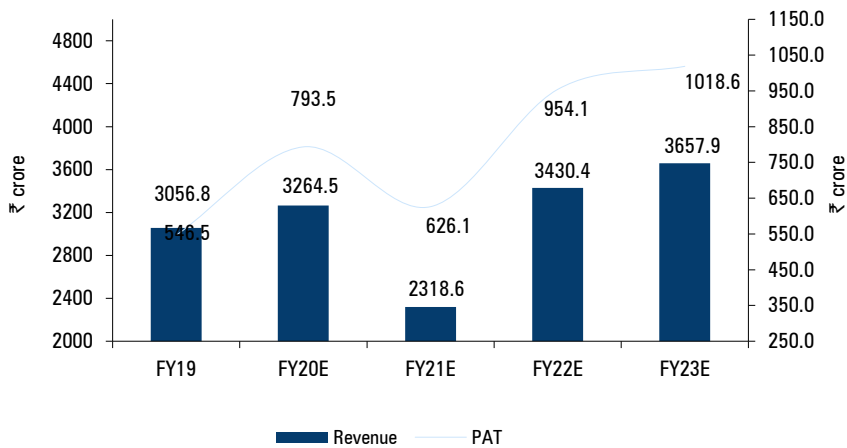
Source: Company, ICICI Direct Research

Exhibit 5: Margin trend



Source: Company, ICICI Direct Research

Exhibit 6: Revenue, PAT to continue to show upward trend



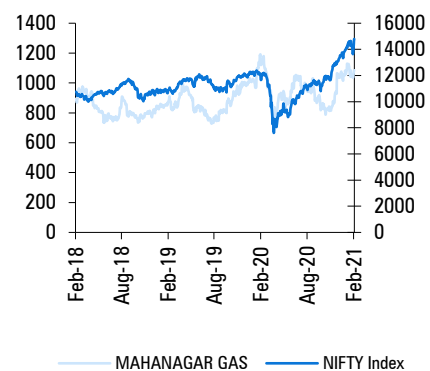
Source: Company, ICICI Direct Research

**Exhibit 7: Shareholding Pattern**

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	32.5	32.5	32.5	32.5	32.5
FII	31.9	31.3	29.9	25.6	29.6
DII	16.1	17.0	18.7	20.1	18.1
Others	19.5	19.2	18.9	18.9	19.9

Source: Company, ICICI Direct Research

**Exhibit 8: Price Performance**



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>3264.5</b>	<b>2318.6</b>	<b>3430.4</b>	<b>3657.9</b>
Growth (%)	6.8	-29.0	48.0	6.6
Raw material Costs	1379.6	743.6	1173.0	1255.2
Employee Costs	80.6	89.4	95.7	102.4
Other Expenditure	459.0	372.1	506.1	539.7
Op. Expenditure	2211.6	1388.4	2067.3	2207.7
<b>EBITDA</b>	<b>1052.9</b>	<b>930.2</b>	<b>1363.0</b>	<b>1450.2</b>
Growth (%)	18.9	-11.7	46.5	6.4
Depreciation	161.7	170.9	180.4	193.0
EBIT	891.2	759.3	1182.6	1257.2
Interest	6.5	6.8	6.0	6.0
Other Income	98.9	89.3	104.0	116.0
PBT	983.5	841.8	1280.6	1367.2
Growth (%)	17.5	-14.4	52.1	6.8
Tax	190.0	215.7	326.6	348.6
<b>Reported PAT</b>	<b>793.5</b>	<b>626.1</b>	<b>954.1</b>	<b>1018.6</b>
Growth (%)	45.2	-21.1	52.4	6.8
<b>EPS</b>	<b>80.3</b>	<b>63.4</b>	<b>96.6</b>	<b>103.1</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Source of Funds</b>				
Equity Capital	98.8	98.8	98.8	98.8
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	2,853.9	3,225.8	3,879.4	4,597.5
Shareholder's Fund	2,952.7	3,324.6	3,978.2	4,696.3
Loan Funds	49.0	49.0	49.0	49.0
Deferred Tax Liability	160.7	175.7	190.7	205.7
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>3162.4</b>	<b>3549.3</b>	<b>4217.8</b>	<b>4950.9</b>
<b>Application of Funds</b>				
Gross Block	2,617.8	2,892.8	3,167.8	3,442.8
Less: Acc. Depreciation	568.6	740.9	928.3	1,133.3
Net Block	2,049.2	2,151.9	2,239.5	2,309.5
Capital WIP	486.5	486.5	511.5	536.5
Total Fixed Assets	2,535.7	2,638.5	2,751.1	2,846.0
Investments	1,121.5	1,161.5	1,201.5	1,241.5
Inventories	18.6	19.1	28.2	30.1
Debtor	68.5	95.3	141.0	150.3
Cash	229.5	169.2	820.0	1,456.8
Loan & Advance, Other C	154.8	165.7	259.9	273.9
Total Current assets	471.3	449.2	1249.0	1911.0
Current Liabilities	939.8	667.0	939.8	1002.2
Provisions	26.3	32.9	43.9	45.4
Total CL and Provisions	966.2	699.9	983.7	1047.6
Net Working Capital	-494.8	-250.7	265.3	863.4
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>3162.4</b>	<b>3549.3</b>	<b>4217.8</b>	<b>4950.9</b>

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	793.5	626.1	954.1	1,018.6
Add: Depreciation	161.7	170.9	180.4	193.0
Add: Others	-44.2	15.0	15.0	15.0
Cash Profit	911.0	812.1	1,149.5	1,226.6
Increase/(Decrease) in CI	128.9	-266.3	283.8	63.9
(Increase)/Decrease in C/	113.2	-38.2	-149.0	-25.2
<b>CF from Operating Acti</b>	<b>1153.1</b>	<b>507.6</b>	<b>1284.3</b>	<b>1265.3</b>
Purchase of Fixed Assets	564.4	273.6	293.0	288.0
(Inc)/Dec in Investments	-467.5	-40.0	-40.0	-40.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Acti</b>	<b>-1,031.8</b>	<b>-313.6</b>	<b>-333.0</b>	<b>-328.0</b>
Inc/(Dec) in Loan Funds	49.0	0.0	0.0	0.0
Inc/(Dec) in Sh. Cap. & Re	-1.5	0.0	0.0	0.0
Less: Dividend Paid	238.2	254.3	300.5	300.5
Others	0.0	0.0	0.0	0.0
<b>CF from financing activ</b>	<b>-190.7</b>	<b>-254.3</b>	<b>-300.5</b>	<b>-300.5</b>
Change in cash Eq.	-69.4	-60.3	650.8	636.8
Op. Cash and cash Eq.	298.9	229.5	169.2	820.0
<b>Cl. Cash and cash Eq.</b>	<b>229.5</b>	<b>169.2</b>	<b>820.0</b>	<b>1,456.8</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
Book Value	298.9	336.6	402.7	475.4
Cash per share	136.8	134.7	204.6	273.2
EPS	80.3	63.4	96.6	103.1
Cash EPS	96.7	80.7	114.8	122.7
DPS	35.0	22.0	26.0	26.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	32.3	40.1	39.7	39.6
PAT Margin (%)	24.3	27.0	27.8	27.8
Fixed Asset Turnover (x)	1.3	0.9	1.2	1.3
Inventory Turnover (Days)	2.1	3.0	3.0	3.0
Debtor (Days)	7.7	15.0	15.0	15.0
Current Liabilities (Days)	105.1	105.0	100.0	100.0
<b>Return Ratios (%)</b>				
RoE	26.9	18.8	24.0	21.7
RoCE	29.7	22.5	29.4	26.5
RoIC	54.0	37.2	59.0	61.4
<b>Valuation Ratios (x)</b>				
PE	14.5	18.4	12.0	11.3
Price to Book Value	3.9	3.5	2.9	2.4
EV/EBITDA	10.7	12.2	7.9	7.0
EV/Sales	3.5	4.9	3.1	2.8
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	NA	NA	NA	NA
Debt to EBITDA (x)	0.0	0.1	0.0	0.0
Current Ratio	0.5	0.6	1.3	1.8
Quick ratio	0.5	0.6	1.2	1.8

Source: Company, ICICI Direct Research

**Exhibit 13: ICICI Direct Coverage Universe (Oil & Gas)**

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
GAIL (India) (GAIL)	136	150	Hold	61,338	14.7	10.1	14.6	9.3	13.4	9.3	7.7	11.3	7.2	13.7	7.5	12.5	15.1	10.0	13.2
Gujarat Gas (GUJGA)	435	505	Buy	29,945	17.3	17.9	21.2	25.1	24.3	20.5	19.1	14.8	12.5	25.2	32.1	31.8	36.3	28.2	25.8
Indian Oil Corp (INDOIL)	99	105	Hold	90,892	1.4	16.7	11.3	69.2	5.9	8.8	4.8	2.9	3.2	4.8	10.7	8.1	1.4	15.0	9.7
Indraprastha Gas (INDGAS)	566	595	Hold	39,620	16.2	14.3	20.9	34.9	39.5	27.1	24.6	26.1	18.1	25.0	20.2	25.3	22.5	17.4	21.3
Mahanagar Gas (MAHGAS)	1164	1340	Buy	11,495	80.3	63.4	96.6	14.5	18.4	12.0	10.7	12.2	7.9	29.7	22.5	29.4	26.9	18.8	24.0
Petronet LNG (PETLNG)	246	275	Hold	36,900	18.0	20.3	21.9	13.7	12.1	11.3	9.0	7.3	6.7	22.3	26.8	29.3	24.6	26.3	26.8

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

## ANALYST CERTIFICATION

I/We, Mayur Matani, MBA, Amogh Deshpande, PGDM, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.