

Mahanagar Gas (MAHGAS)

CMP: ₹ 1,167

Target: ₹ 1,340 (15%)

Target Period: 12 months

BUY

August 2, 2021

Healthy margins outlook; CNG near normal in Q2FY22

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 consistently reported high gross margins and return ratios

Q1FY22 Results: MGL reported Q1FY22 results that were better than estimates.

- Revenue was up 140.3% YoY to ₹ 666.9 crore, driven by sales volume growth of 115.5% YoY and higher realisation at ₹ 30.6/scm
- Gross margins increased ₹ 3.4/scm YoY (and ₹ 1.7/scm QoQ) to ₹ 19.4/scm on account of lower gas costs. Subsequently, EBITDA increased 280% YoY to ₹ 304 crore
- PAT was at ₹ 204.1 crore, up 351% YoY

What should investors do? MGL's CNG sales volume reached near pre-Covid level in Q2FY22-TD and is expected to further grow with relaxations in lockdown.

- We remain positive and maintain our BUY rating on the stock

Target Price and Valuation: We value MGL at ₹ 1340 i.e. 12.5x P/E on FY23E 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 Q2FY22E. This will lead to healthy margins in near term
- Debt free balance sheet and consistent dividend payout

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

- It offers a play on India's increasing gas demand. Growing CGD sector and domestic output will lead to stable volumes in the near term. It also derives value from growing market value of its listed subsidiary, Gujarat Gas
- BUY with a target price of ₹ 360



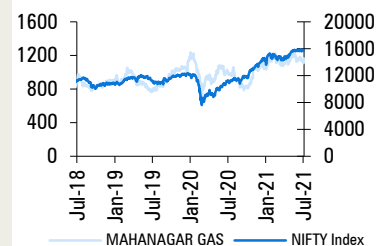
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	11,527.4
Total Debt (FY20) (₹ Crore)	49.0
Cash and Investments (FY20)	229.5
EV (₹ Crore)	11,346.9
52 week H/L	1284/780
Equity capital (₹ Crore)	98.8
Face value (₹)	10.0

Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	32.5	32.5	32.5	32.5	32.5
FII	29.9	25.6	29.6	31.1	29.6
DII	18.7	20.1	18.1	17.2	18.4
Others	18.9	18.9	19.9	19.2	19.5

Price Chart



Recent event & key risks

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

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Key Financial Summary

Key Financials	FY19	FY20	FY21E	5 Year CAGR (FY16-21E)	FY22E	FY23E	2 Year CAGR (FY21E-23E)
Revenue (₹ crore)	3,056.8	3,264.5	2,337.8	0.5%	3,383.6	3,934.9	29.7
EBITDA (₹ crore)	885.5	1,052.9	934.0	12.7%	1,376.2	1,543.6	28.6
PAT (₹ crore)	546.5	793.5	619.6	15.0%	944.7	1,059.0	30.7
EPS(₹)	55.3	80.3	62.7		95.6	107.2	
P/E (x)	21.1	14.5	18.6		12.2	10.9	
P/Book (x)	4.8	3.9	3.5		2.9	2.4	
RoCE (%)	31.7	29.7	22.6		29.7	28.1	
RoE (%)	22.8	26.9	18.7		23.9	22.5	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Strong operational performance

- Revenue fell 14.9% QoQ on account of lower sales volume. Sales volume was impacted by the second Covid-19 wave
- Sales volume of 2.4 mmscmd de-grew 17.1% QoQ (our estimate: 2.3 mmscmd). CNG segment reported growth of ~223% YoY (on a lower base) to 1.6 mmscmd (our estimate: 1.5 mmscmd). PNG volumes increased ~33% YoY to 0.8 mmscmd, marginally lower than our estimates as the domestic PNG growth of 9.2% YoY was lower-than-expected. On a QoQ basis, volumes declined 17.1% with CNG volumes down ~23% (estimated de-growth: ~28%) whereas PNG volumes fell ~2% (estimated de-growth: ~1%)
- EBITDA/scm was at ₹ 13.9/scm, up ₹ 6/scm YoY and ₹ 1.8/scm QoQ

Q1FY22 Earnings Conference Call highlights

- Margin outperformance was on account of lower spot LNG prices QoQ and relatively cheaper domestic gas (compared to spot LNG) in the source mix
- Price hike in the current quarter was done to pass on increase in transportation costs
- CNG sales volume reached 95-100% of pre-Covid level
- MGL is planning to add 20 CNG stations and upgrade another 20 CNG stations in FY22
- The company guided for higher EBITDA/scm margin than the margin of ₹ 11.6/scm that was witnessed in FY21
- The management was of the view that while EVs will gain small market share, it will not be a major risk to CNG business

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Gujarat Gas (GUJGA)	715	655	Buy	49,221	18.5	22.1	25.2	38.6	32.3	28.4	23.8	20.7	18.0	33.0	33.2	32.6	29.0	27.2	25.3
Indraprastha Gas (INDGAS)	558	595	Hold	39,060	14.4	18.8	21.0	38.8	29.7	26.6	25.6	20.0	17.6	20.7	23.7	22.7	17.4	19.6	18.8
Mahanagar Gas (MAHGAS)	1167	1340	Buy	11,527	62.7	95.6	107.2	18.6	12.2	10.9	11.9	7.9	6.6	22.6	29.7	28.1	18.7	23.9	22.5

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Revenues	666.9	635.8	277.5	140.3	784.0	-14.9	
Raw materials costs	191.0	212.4	98.8	93.3	257.0	-25.7	Lower than estimated
Employees Cost	20.0	25.6	24.6	-18.7	18.2	10.2	
Other Expenses	151.8	140.2	74.0	105.1	192.7	-21.2	
Total Expenditure	362.9	378.2	197.5	83.7	467.9	-22.4	
EBITDA	304.0	257.6	80.0	280.0	316.2	-3.8	Better-than-expected on account of lower gas costs as well as higher-than-expected realisation
EBITDA margins (%)	45.6	40.5	28.8	1676 bps	40.3	526 bps	
Depreciation	45.3	46.8	42.3	7.1	44.8	1.0	
EBIT	258.7	210.7	37.7	585.7	271.3	-4.6	
Interest	1.7	1.5	1.5	11.1	1.9	-11.5	
Other Income	18.6	20.0	24.5	-24.1	17.2	8.4	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	275.6	229.2	60.7	354.0	286.6	-3.8	
Total Tax	71.6	58.5	15.5	362.6	73.8	-3.0	
PAT	204.1	170.8	45.3	351.0	212.8	-4.1	

Key Metrics

Sales Volumes (mmscmd)	2.4	2.3	1.1	115.5	2.9	-17.1	All segments reported volume growth YoY. On a QoQ basis, CNG dipped ~23% while PNG declined ~2%
Realisation (₹/scm)	30.6	30.1	27.4	11.5	30.1	1.4	
Gross Margin (₹/scm)	19.4	17.7	16.1	20.9	17.7	9.9	Higher than estimates

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	3188.1	3,383.6	6.1	3695.6	3,934.9	6.5	
EBITDA	1,298.9	1,376.2	5.9	1,491.4	1,543.6	3.5	Revised estimates upwards taking into account higher realisation
EBITDA Margin (%)	40.7	40.7	-7 bps	40.4	39.2	-113 bps	
PAT	886.2	944.7	6.6	1,019.4	1,059.0	3.9	
EPS (₹)	89.7	95.6	6.6	103.2	107.2	3.9	

Source: ICICI Direct Research

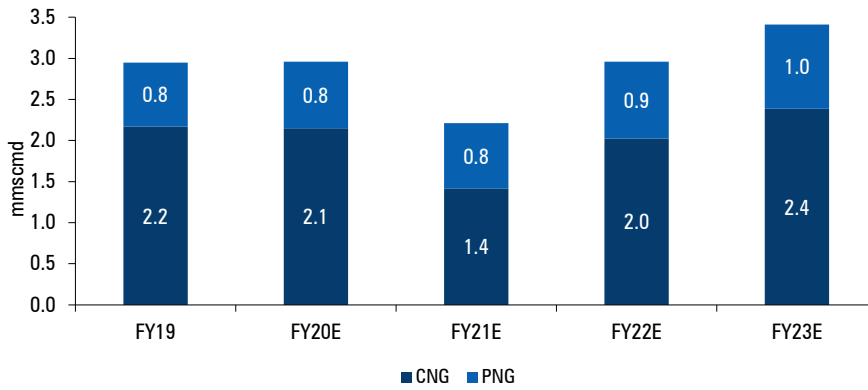
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
Sales Volumes (mmscmd)	2.95	2.21	2.96	3.41	2.92	3.41	Marginally revised sales volume estimates for FY22E
Realisation (₹/scm)	30.2	29.0	31.3	31.6	30.0	29.7	
Gross Margin (₹/scm)	14.7	17.4	18.2	17.8	17.5	17.2	Revised gross margins upwards due to higher realisation and better pricing power

Source: ICICI Direct Research

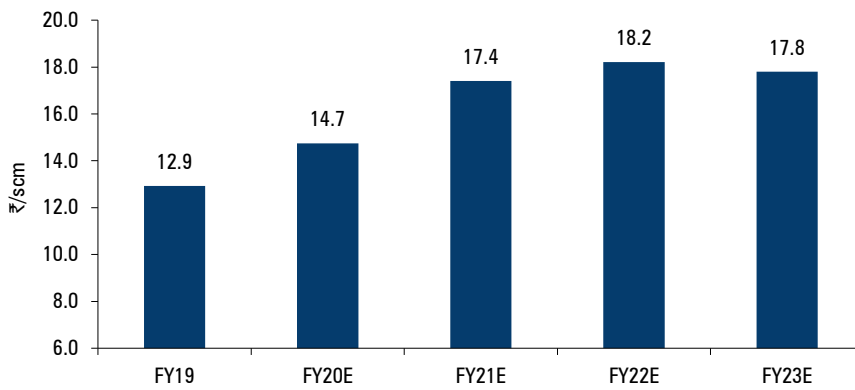
Story in charts

Exhibit 5: Volume to grow at steady pace



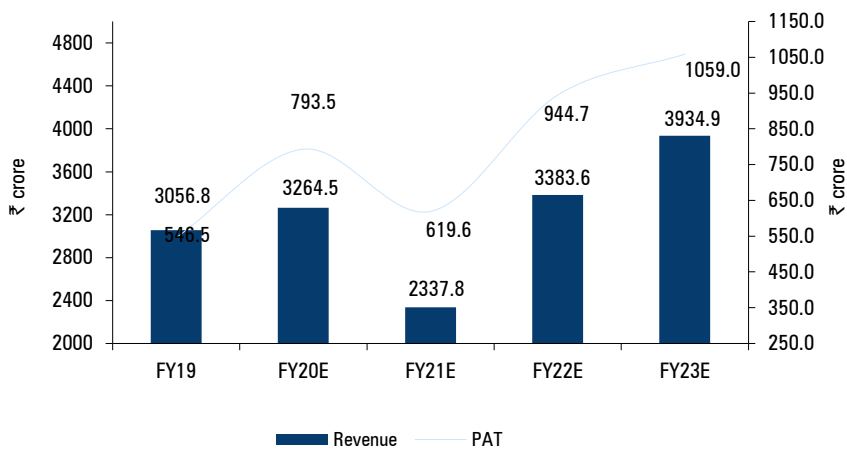
Source: Company, ICICI Direct Research

Exhibit 6: Margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Revenue, PAT continue to show upward trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenue	3264.5	2337.8	3383.6	3934.9
Growth (%)	6.8	-28.4	44.7	16.3
Raw material Costs	1379.6	747.3	1137.1	1384.2
Employee Costs	80.6	87.5	87.3	93.4
Other Expenditure	459.0	383.7	503.7	580.6
Op. Expenditure	2211.6	1403.8	2007.5	2391.3
EBITDA	1052.9	934.0	1376.2	1543.6
Growth (%)	18.9	-11.3	47.3	12.2
Depreciation	161.7	173.7	185.8	205.0
EBIT	891.2	760.3	1190.4	1338.5
Interest	6.5	7.2	6.2	6.0
Other Income	98.9	80.5	85.6	89.0
PBT	983.5	833.6	1269.8	1421.5
Growth (%)	17.5	-15.2	52.3	12.0
Tax	190.0	214.0	325.1	362.5
Reported PAT	793.5	619.6	944.7	1059.0
Growth (%)	45.2	-21.9	52.5	12.1
EPS	80.3	62.7	95.6	107.2

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	793.5	619.6	944.7	1,059.0
Add: Depreciation	161.7	173.7	185.8	205.0
Add: Others	-44.2	16.6	15.0	15.0
Cash Profit	911.0	809.8	1,145.5	1,279.1
Increase/(Decrease) in CL	128.9	157.6	-153.0	153.6
(Increase)/Decrease in CA	113.2	-52.3	-142.4	-58.9
CF from Operating Activities	1153.1	915.1	850.2	1373.8
Purchase of Fixed Assets	564.4	350.2	298.4	375.0
(Inc)/Dec in Investments	-467.5	-40.0	-40.0	-40.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-1,031.8	-390.2	-338.4	-415.0
Inc/(Dec) in Loan Funds	49.0	8.3	0.0	0.0
Inc/(Dec) in Sh. Cap. & Res.	-1.5	0.0	0.0	0.0
Less: Dividend Paid	238.2	265.8	300.5	300.5
Others	0.0	0.0	0.0	0.0
CF from financing activities	-190.7	-257.5	-300.5	-300.5
Change in cash Eq.	-69.4	267.4	211.2	658.3
Op. Cash and cash Eq.	298.9	229.5	496.9	708.2
Cl. Cash and cash Eq.	229.5	496.9	708.2	1,366.5

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
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	2,853.9	3,207.7	3,851.9	4,610.5
Shareholder's Fund	2,952.7	3,306.5	3,950.7	4,709.2
Loan Funds	49.0	57.3	57.3	57.3
Deferred Tax Liability	160.7	177.3	192.3	207.3
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	3162.4	3541.0	4200.3	4973.8
Application of Funds				
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	560.3	585.3	685.3
Total Fixed Assets	2,535.7	2,712.2	2,824.8	2,994.8
Investments	1,121.5	1,161.5	1,201.5	1,241.5
Inventories	18.6	19.2	27.8	32.3
Debtor	68.5	96.1	139.1	161.7
Cash	229.5	496.9	708.2	1,366.5
Loan & Advance, Other CA	154.8	178.9	269.7	301.4
Total Current assets	471.3	791.1	1144.8	1862.0
Current Liabilities	939.8	1088.8	927.0	1078.1
Provisions	26.3	35.0	43.8	46.4
Total CL and Provisions	966.2	1123.8	970.8	1124.5
Net Working Capital	-494.8	-332.7	173.9	737.5
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	3162.4	3541.0	4200.3	4973.8

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (?)				
Book Value	298.9	334.7	400.0	476.8
Cash per share	136.8	167.9	193.3	264.0
EPS	80.3	62.7	95.6	107.2
Cash EPS	96.7	80.3	114.5	128.0
DPS	35.0	23.0	26.0	26.0
Profitability & Operating Ratios				
EBITDA Margin (%)	32.3	40.0	40.7	39.2
PAT Margin (%)	24.3	26.5	27.9	26.9
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	170.0	100.0	100.0
Return Ratios (%)				
RoE	26.9	18.7	23.9	22.5
RoCE	29.7	22.6	29.7	28.1
RoIC	54.0	44.6	56.7	62.0
Valuation Ratios (x)				
PE	14.5	18.6	12.2	10.9
Price to Book Value	3.9	3.5	2.9	2.4
EV/EBITDA	10.8	11.9	7.9	6.6
EV/Sales	3.5	4.7	3.2	2.6
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)	0.0	0.1	0.0	0.0
Current Ratio	0.5	0.7	1.2	1.7
Quick ratio	0.5	0.7	1.2	1.6

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 (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
BPCL (BHAPET)	446	495	Hold	87,723	13.6	91.0	35.2	32.7	4.9	12.7	20.4	7.1	9.0	3.5	14.7	11.3	8.1	35.6	16.6
GAIL (India) (GAIL)	139	180	Hold	61,721	11.0	16.4	17.7	12.6	8.5	7.9	10.3	6.4	6.3	8.7	14.4	13.6	10.6	14.4	14.1
Gujarat Gas (GUJGA)	715	655	Buy	49,221	18.5	22.1	25.2	38.6	32.3	28.4	23.8	20.7	18.0	33.0	33.2	32.6	29.0	27.2	25.3
Indian Oil Corp (INDOIL)	103	115	Hold	94,565	23.8	15.1	14.4	4.3	6.8	7.1	2.5	3.0	3.0	13.8	9.9	9.2	21.3	12.6	11.6
Indraprastha Gas (INDGAS)	558	595	Hold	39,060	14.4	18.8	21.0	38.8	29.7	26.6	25.6	20.0	17.6	20.7	23.7	22.7	17.4	19.6	18.8
Mahanagar Gas (MAHGAS)	1167	1340	Buy	11,527	62.7	95.6	107.2	18.6	12.2	10.9	11.9	7.9	6.6	22.6	29.7	28.1	18.7	23.9	22.5
Petronet LNG (PETLNG)	218	250	Hold	32,700	19.7	18.8	21.7	11.1	11.6	10.1	6.7	6.7	5.9	25.3	22.9	24.6	24.4	22.0	23.3

Source: Bloomberg, ICICI Direct Research

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Sell: <-15%



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