

# Mahanagar Gas

Estimate change

TP change

Rating change



Bloomberg	MAHGL IN
Equity Shares (m)	99
M.Cap.(INRb)/(USDb)	78 / 1
52-Week Range (INR)	1205 / 666
1, 6, 12 Rel. Per (%)	-7/-6/-40
12M Avg Val (INR M)	463

## Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	35.6	56.2	48.4
EBITDA	9.2	10.5	11.5
Adj. PAT	6.0	6.7	7.2
Adj. EPS (INR)	60.4	67.6	73.1
EPS Gr. (%)	-3.6	11.9	8.1
BV/Sh.(INR)	364.2	404.8	448.6
<b>Ratios</b>			
Net D:E	-0.1	-0.3	-0.2
RoE (%)	17.5	17.6	17.1
RoCE (%)	17.5	17.7	17.2
Payout (%)	38.1	40.0	40.0
<b>Valuation</b>			
P/E (x)	13.1	11.7	10.8
P/BV (x)	2.2	2.0	1.8
EV/EBITDA (x)	8.0	6.3	5.8
Div. Yield (%)	2.9	3.4	3.7
FCF Yield (%)	3.3	11.8	2.2

## Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	32.5	32.5	32.5
DII	26.1	27.3	28.4
FII	25.8	25.0	29.6
Others	15.6	15.2	9.5

FII Includes depository receipts

CMP: INR790

TP: INR951 (+20%)

Buy

## Margin pressures persist; volumes at a record high

- MAHGL reported an inline earnings. Record high volumes of 3.45mmscmd (up 44% YoY and 9% QoQ) has been offset by a softer EBITDA margin at INR9.1/scm (down 35% YoY). EBITDA stood at INR2.8b (down 6% YoY, but up 33% QoQ).
- While sales volumes were soaring higher in 1QFY23 due to a base effect, we expect a muted growth in FY24 over FY23 due to a lack of growth opportunities.
- Spot LNG prices have increased to ~USD41/mmBtu in Jul'22 from USD28/mmBtu in 1QFY23. Domestic APM gas prices are also expected to rise by ~50% from Oct'22, resulting in a pressure on EBITDA/scm.
- MAHGL has taken a few price hikes in FY23 till date. However, with each rise, incremental hikes become difficult. OMCs have also been seeking higher commissions. Around 65% of CNG volumes for MAHGL accrue from OMC outlets.
- Considering the above, we feel it is unlikely for MAHGL to maintain EBITDA margin at higher levels (like that in FY21).** We lower our FY23/FY24 EBITDA margin to INR8.5/INR9 per scm and EBITDA by 14%/10%, led by an increase in gas costs.
- We value the stock at 13x FY24E EPS to arrive at our TP of INR951. **We maintain our Buy rating owing to its relatively cheap valuations.**

## Volume and revenue in line, miss on margin

- Total volumes were 9% higher than our estimate at 3.4mmscmd (up 44% YoY and 9% QoQ). CNG volumes were at a record high of 2.5mmscmd (12% higher than our estimate, up 64% YoY and 12% QoQ). Total PNG volumes stood at 0.9mmscmd (2% higher than our estimate, up 7% YoY and 2% QoQ). EBITDA/scm was below our estimate at INR9.1 (est. INR10).
- Accordingly, EBITDA came in line at INR2.8b (down 6% YoY, but up 33% QoQ). Reported PAT stood in line at INR1.8b (down 9% YoY, but up 41% QoQ).

## Valuation and view

- A volume boost is expected from further developments at Raigad (expect a peak demand of 0.6mmscmd over the next three-to-four years).
- PNG commercial penetration in MAHGL's GAs stands ~20%. It has the requisite pipeline infrastructure and only last-mile connectivity is required.
- All of the above should aid volume growth for the company, coupled with a boost from the increase in the need for personal mobility during the current COVID times. Factoring in the same, we build in ~8% volume CAGR in FY24 over FY22.
- We value the stock at 13x FY24E EPS to arrive at our TP of INR951. We maintain our **Buy** rating.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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## Standalone - Quarterly Earning Model

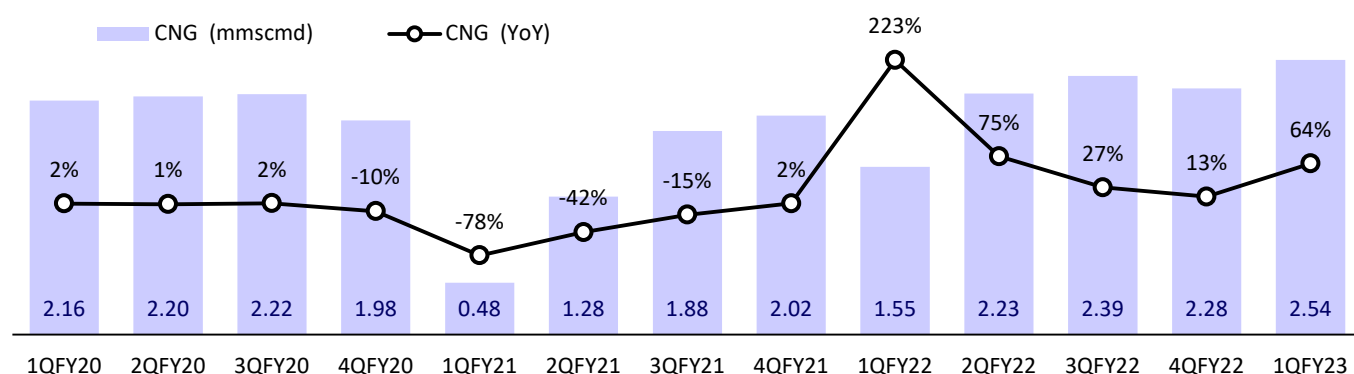
(INR m)

Y/E March	FY22				FY23				FY23E	FY23	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE	(%)
<b>Net Sales</b>	<b>6,155</b>	<b>8,301</b>	<b>10,278</b>	<b>10,868</b>	<b>14,548</b>	<b>14,470</b>	<b>14,443</b>	<b>12,708</b>	<b>56,168</b>	<b>13,388</b>	<b>9%</b>
YoY Change (%)	135.1	63.8	54.2	51.4	136.4	74.3	40.5	16.9	57.8	117.5	
<b>EBITDA</b>	<b>3,040</b>	<b>3,018</b>	<b>1,031</b>	<b>2,155</b>	<b>2,856</b>	<b>2,703</b>	<b>2,780</b>	<b>2,153</b>	<b>10,491</b>	<b>2,887</b>	<b>-1%</b>
EBITDA/SCM	13.9	10.5	3.4	7.6	9.1	8.5	8.8	7.6	8.5	10.0	-9%
Margins (%)	49.4	36.4	10.0	19.8	19.6	18.7	19.2	16.9	18.7	21.6	
Depreciation	453	473	482	555	537	572	578	579	2,266	566	-5%
Interest	17	20	15	23	23	22	23	15	83	21	
Other Income	186	226	218	227	200	198	200	187	785	200	0%
<b>PBT</b>	<b>2,756</b>	<b>2,751</b>	<b>752</b>	<b>1,804</b>	<b>2,496</b>	<b>2,307</b>	<b>2,380</b>	<b>1,745</b>	<b>8,927</b>	<b>2,500</b>	<b>0%</b>
Tax	716	708	184	486	644	581	599	424	2,247	629	2%
Rate (%)	26.0	25.7	24.5	26.9	25.8	25.2	25.2	24.3	25.2	25.2	
<b>Reported PAT</b>	<b>2,041</b>	<b>2,043</b>	<b>568</b>	<b>1,318</b>	<b>1,852</b>	<b>1,726</b>	<b>1,781</b>	<b>1,321</b>	<b>6,680</b>	<b>1,871</b>	<b>-1%</b>
<b>Adj PAT</b>	<b>2,041</b>	<b>2,043</b>	<b>568</b>	<b>1,318</b>	<b>1,852</b>	<b>1,726</b>	<b>1,781</b>	<b>1,321</b>	<b>6,680</b>	<b>1,871</b>	<b>-1%</b>
YoY Change (%)	351.0	41.5	-73.9	-38.1	-9.3	-15.5	213.5	0.3	11.9	-8.3	
Margins (%)	33.2	24.6	5.5	12.1	12.7	11.9	12.3	10.4	11.9	14.0	
<b>Sales Volumes (mmscmd)</b>											
CNG	1.6	2.2	2.4	2.3	2.5	2.5	2.5	2.2	2.4	2.3	12%
PNG - Domestic	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	-3%
PNG - Industrial/ Commercial	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.4	0.5	0.4	7%
PNG - Total	0.8	0.9	0.9	0.9	0.9	0.9	1.0	0.9	0.9	0.9	2%
<b>Total Volumes</b>	<b>2.4</b>	<b>3.1</b>	<b>3.3</b>	<b>3.2</b>	<b>3.4</b>	<b>3.5</b>	<b>3.4</b>	<b>3.2</b>	<b>3.4</b>	<b>3.2</b>	<b>9%</b>

## Operational Highlights

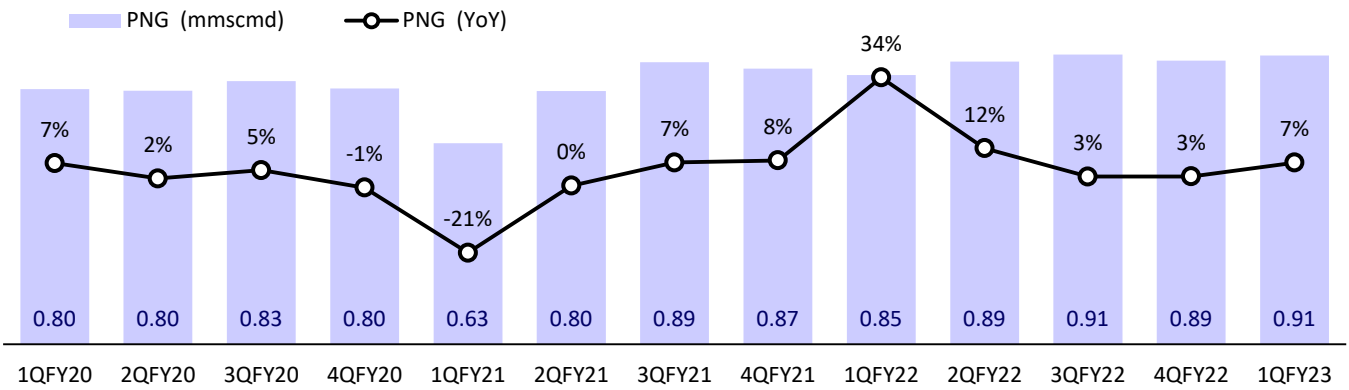
Volume (mmscmd)	FY20				FY21				FY22				FY23	YoY	QoQ
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2QFY	3Q	4Q	1Q	(%)	(%)
CNG (mmscmd)	2.16	2.20	2.22	1.98	0.48	1.28	1.88	2.02	1.55	2.23	2.39	2.28	2.54	64%	12%
CNG (YoY)	2%	1%	2%	-10%	-78%	-42%	-15%	2%	223%	75%	27%	13%	64%		
PNG (mmscmd)	0.80	0.80	0.83	0.80	0.63	0.80	0.89	0.87	0.85	0.89	0.91	0.89	0.91	7%	2%
PNG (YoY)	7%	2%	5%	-1%	-21%	0%	7%	8%	34%	12%	3%	3%	7%		
Total Volumes (mmscmd)	2.97	3.00	3.05	2.78	1.11	2.07	2.77	2.89	2.40	3.12	3.30	3.17	3.45	44%	9%
Total Volumes (YoY)	3%	1%	3%	-7%	-62%	-31%	-9%	4%	115%	51%	19%	10%	44%		
EBITDA/SCM (INR)	10.3	9.9	9.2	9.6	7.9	11.6	12.4	12.1	13.9	10.5	3.4	7.6	9.1	-35%	20%

## Exhibit 1: CNG volumes up 64% YoY (+12% QoQ) to 2.54mmscmd



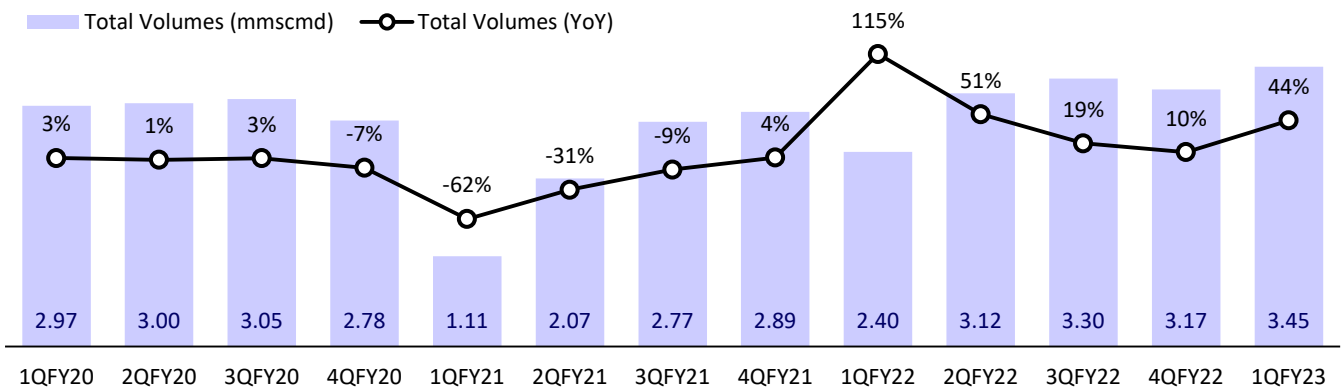
Source: Company, MOFSL

**Exhibit 2: PNG volumes up 7% YoY (+2% QoQ) to 0.91mmscmd**



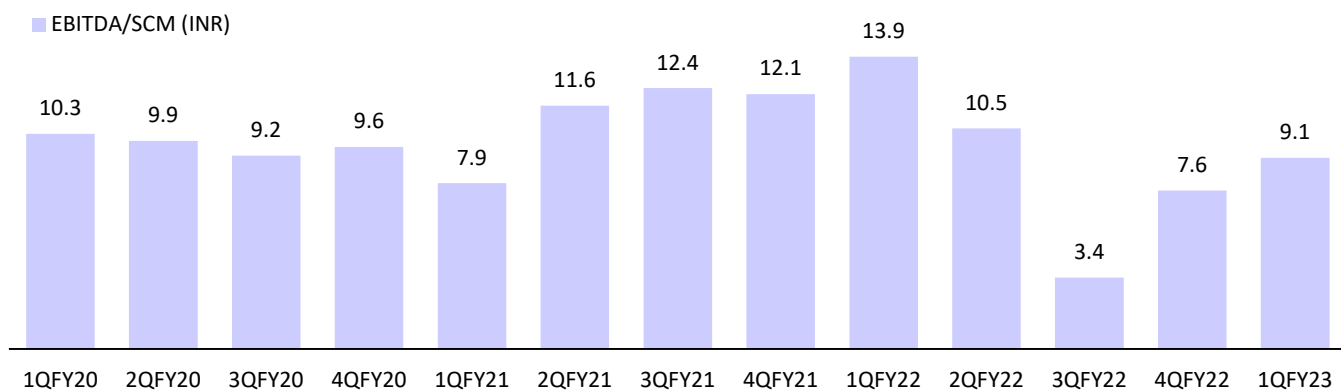
Source: Company, MOFSL

**Exhibit 3: Total volumes up 44% YoY (+9% QoQ) to 3.45mmscmd**



Source: Company, MOFSL

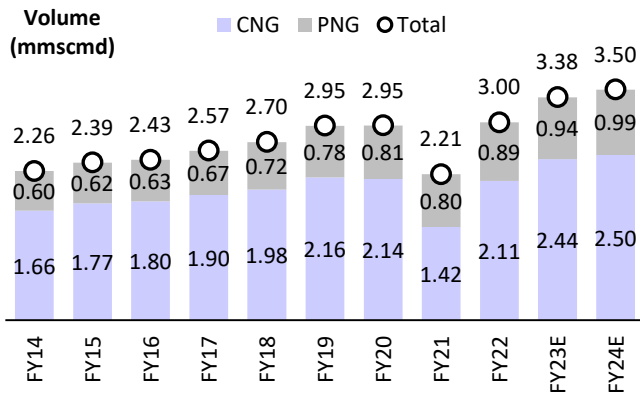
**Exhibit 4: EBITDA/scm came in at INR9.1/scm (-35% YoY, +20% QoQ)**



Source: Company, MOFSL

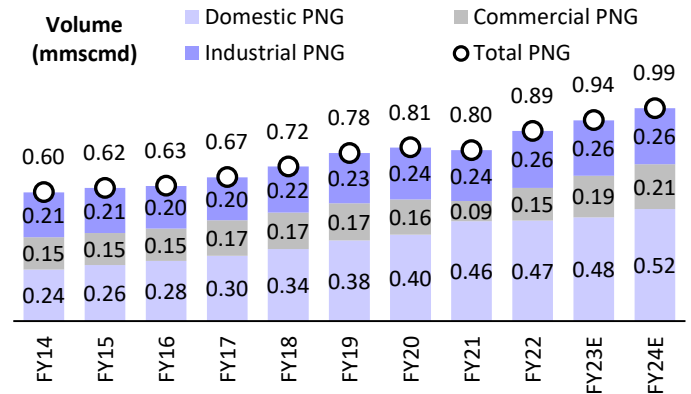
## Story in charts

**Exhibit 5: Volume growth snapshot**



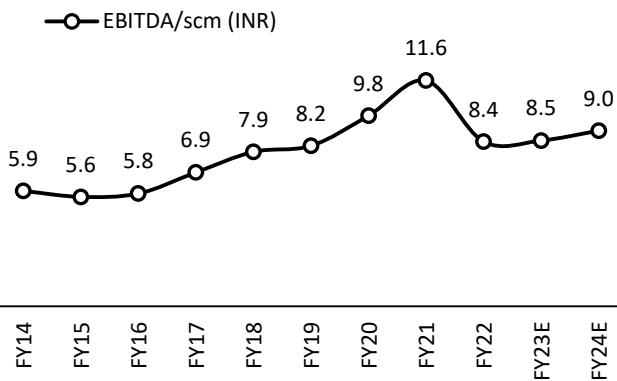
Source: Company, MOFSL

**Exhibit 6: PNG segment-wise volumes**



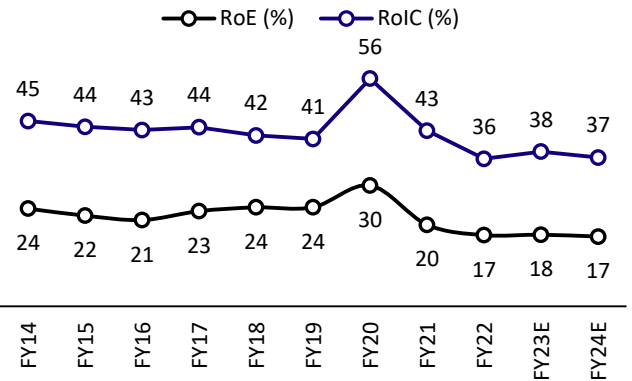
Source: Company, MOFSL

**Exhibit 7: EBITDA/scm to be at ~8.5-9mmscmd over FY23-24E**



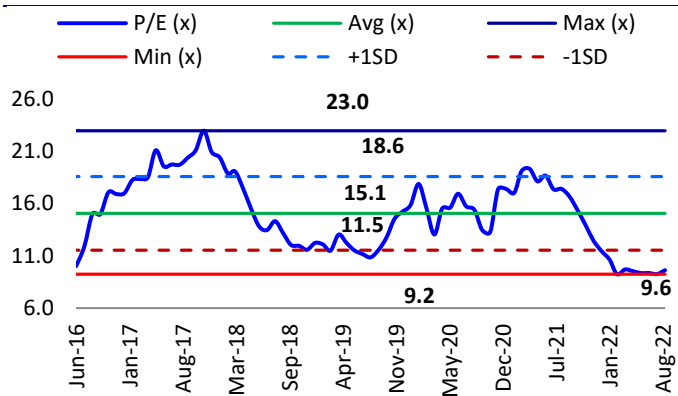
Source: Company, MOFSL

**Exhibit 8: ROE to hover around 17%**



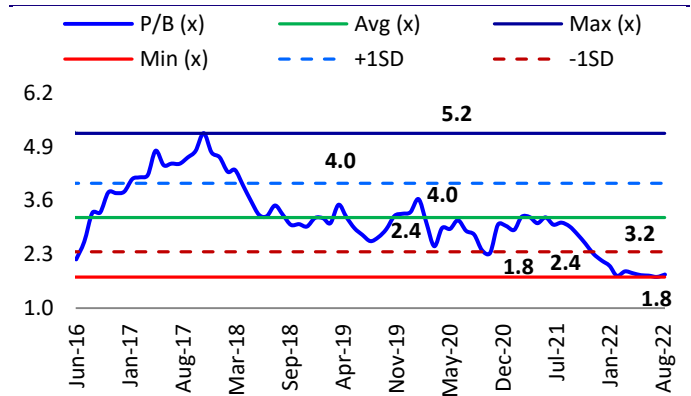
Source: Company, MOFSL

**Exhibit 9: 1-year fwd. PE trades at 36% discount to LT average of 15.1x...**



Source: Company, MOFSL

**Exhibit 10: ...and 1-year fwd. PB trades at discount of ~44% to LT average of 3.2x**



Source: Company, MOFSL

## Financials and valuations

### Standalone - Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Total Income from Operations</b>	<b>20,340</b>	<b>22,330</b>	<b>27,911</b>	<b>29,721</b>	<b>21,525</b>	<b>35,602</b>	<b>56,168</b>	<b>48,448</b>
Change (%)	-2.1	9.8	25.0	6.5	-27.6	65.4	57.8	-13.7
<b>EBITDA</b>	<b>6,442</b>	<b>7,806</b>	<b>8,855</b>	<b>10,528</b>	<b>9,340</b>	<b>9,243</b>	<b>10,491</b>	<b>11,484</b>
Margin (%)	31.7	35.0	31.7	35.4	43.4	26.0	18.7	23.7
Depreciation	951	1,112	1,259	1,617	1,737	1,963	2,266	2,432
<b>EBIT</b>	<b>5,490</b>	<b>6,694</b>	<b>7,595</b>	<b>8,911</b>	<b>7,603</b>	<b>7,281</b>	<b>8,225</b>	<b>9,052</b>
Int. and Finance Charges	10	3	3	65	72	75	83	83
Other Income	527	574	777	990	805	857	785	685
<b>PBT bef. EO Exp.</b>	<b>6,007</b>	<b>7,265</b>	<b>8,369</b>	<b>9,835</b>	<b>8,336</b>	<b>8,063</b>	<b>8,927</b>	<b>9,654</b>
<b>PBT after EO Exp.</b>	<b>6,007</b>	<b>7,265</b>	<b>8,369</b>	<b>9,835</b>	<b>8,336</b>	<b>8,063</b>	<b>8,927</b>	<b>9,654</b>
Total Tax	2,072	2,487	2,905	1,900	2,140	2,093	2,247	2,430
Tax Rate (%)	34.5	34.2	34.7	19.3	25.7	26.0	25.2	25.2
<b>Reported PAT</b>	<b>3,934</b>	<b>4,779</b>	<b>5,464</b>	<b>7,935</b>	<b>6,196</b>	<b>5,970</b>	<b>6,680</b>	<b>7,224</b>
<b>Adjusted PAT</b>	<b>3,934</b>	<b>4,779</b>	<b>5,464</b>	<b>7,935</b>	<b>6,196</b>	<b>5,970</b>	<b>6,680</b>	<b>7,224</b>
Change (%)	26.5	21.5	14.3	45.2	-21.9	-3.6	11.9	8.1
Margin (%)	19.3	21.4	19.6	26.7	28.8	16.8	11.9	14.9

### Standalone - Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	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	34,985	38,994	43,328
<b>Net Worth</b>	<b>18,400</b>	<b>20,954</b>	<b>23,989</b>	<b>29,527</b>	<b>32,324</b>	<b>35,973</b>	<b>39,981</b>	<b>44,316</b>
Total Loans	27	12	0	176	168	206	206	206
Deferred Tax Liabilities	1,376	1,748	2,048	1,607	1,773	2,008	2,008	2,008
<b>Capital Employed</b>	<b>19,804</b>	<b>22,714</b>	<b>26,037</b>	<b>31,310</b>	<b>34,264</b>	<b>38,187</b>	<b>42,195</b>	<b>46,530</b>
Gross Block	14,775	18,159	21,732	25,024	27,918	34,048	41,476	46,961
Less: Accum. Deprn.	1,727	2,839	4,098	5,716	7,452	9,415	11,681	14,113
<b>Net Fixed Assets</b>	<b>13,047</b>	<b>15,320</b>	<b>17,634</b>	<b>19,309</b>	<b>20,466</b>	<b>24,633</b>	<b>29,795</b>	<b>32,848</b>
Capital WIP	4,115	3,566	3,697	4,865	5,603	6,159	3,732	3,246
<b>Total Investments</b>	<b>4,667</b>	<b>6,877</b>	<b>6,540</b>	<b>11,215</b>	<b>10,250</b>	<b>10,883</b>	<b>10,883</b>	<b>10,883</b>
Rights to use assets	0	0	0	1,183	1,228	1,504	1,504	1,504
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>4,413</b>	<b>4,340</b>	<b>6,539</b>	<b>4,708</b>	<b>8,465</b>	<b>9,158</b>	<b>19,029</b>	<b>17,418</b>
Inventory	238	240	191	186	222	275	476	386
Account Receivables	945	914	996	685	1,275	1,840	2,904	2,504
Cash and Bank Balance	1,361	919	2,988	2,295	5,119	4,652	11,877	11,274
Cash	74	150	265	154	282	825	8,050	7,447
Bank Balance	1,287	769	2,723	2,141	4,837	3,827	3,827	3,827
Loans and Advances	1,869	2,268	2,364	1,543	1,850	2,391	3,772	3,254
<b>Curr. Liability &amp; Prov.</b>	<b>6,439</b>	<b>7,389</b>	<b>8,373</b>	<b>9,971</b>	<b>11,747</b>	<b>14,151</b>	<b>22,747</b>	<b>19,369</b>
Account Payables	1,201	1,100	1,524	1,318	1,559	2,719	4,711	3,812
Other Current Liabilities	5,031	6,089	6,637	8,390	9,839	11,076	17,474	15,073
Provisions	207	199	212	263	350	356	562	484
<b>Net Current Assets</b>	<b>-2,026</b>	<b>-3,049</b>	<b>-1,834</b>	<b>-5,263</b>	<b>-3,282</b>	<b>-4,993</b>	<b>-3,718</b>	<b>-1,952</b>
<b>Appl. of Funds</b>	<b>19,804</b>	<b>22,714</b>	<b>26,037</b>	<b>31,310</b>	<b>34,264</b>	<b>38,187</b>	<b>42,195</b>	<b>46,530</b>

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>39.8</b>	<b>48.4</b>	<b>55.3</b>	<b>80.3</b>	<b>62.7</b>	<b>60.4</b>	<b>67.6</b>	<b>73.1</b>
Cash EPS	49.5	59.6	68.1	96.7	80.3	80.3	90.6	97.8
BV/Share	186.3	212.1	242.8	298.9	327.2	364.2	404.8	448.6
DPS	19.0	21.5	20.0	35.0	23.0	23.0	27.1	29.3
Payout (%)	57.4	53.5	43.5	52.4	36.7	38.1	40.0	40.0
<b>Valuation (x)</b>								
P/E	19.8	16.3	14.3	9.8	12.6	13.1	11.7	10.8
Cash P/E	16.0	13.2	11.6	8.2	9.8	9.8	8.7	8.1
P/BV	4.2	3.7	3.3	2.6	2.4	2.2	2.0	1.8
EV/Sales	3.8	3.5	2.7	2.6	3.4	2.1	1.2	1.4
EV/EBITDA	11.9	9.9	8.5	7.2	7.8	8.0	6.3	5.8
Dividend Yield (%)	2.4	2.7	2.5	4.4	2.9	2.9	3.4	3.7
FCF per share	28.1	38.8	32.6	56.6	47.2	26.0	93.1	17.1
<b>Return Ratios (%)</b>								
RoE	23.4	24.3	24.3	29.7	20.0	17.5	17.6	17.1
RoCE	23.3	24.3	24.3	29.8	20.1	17.5	17.7	17.2
RoIC	43.9	41.9	41.0	55.8	43.1	36.2	38.2	36.8
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	1.4	1.2	1.3	1.2	0.8	1.0	1.4	1.0
Asset Turnover (x)	1.0	1.0	1.1	0.9	0.6	0.9	1.3	1.0
Inventory (Days)	4	4	3	2	4	3	3	3
Debtor (Days)	17	15	13	8	22	19	19	19
Creditor (Days)	22	18	20	16	26	28	31	29
<b>Leverage Ratio (x)</b>								
Current Ratio	0.7	0.6	0.8	0.5	0.7	0.6	0.8	0.9
Net Debt/Equity	-0.1	0.0	-0.1	-0.1	-0.2	-0.1	-0.3	-0.2

### Standalone - Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	6,007	7,265	8,369	9,835	8,336	8,063	8,927	9,654
Depreciation	951	1,112	1,259	1,617	1,737	1,963	2,266	2,432
Direct Taxes Paid	-1,861	-2,284	-2,709	-2,380	-2,065	-2,122	-2,247	-2,430
(Inc)/Dec in WC	601	822	366	1,369	602	1,640	5,951	-2,369
Others	-385	-395	-443	-655	-627	-583	-785	-685
<b>CF from Operations</b>	<b>5,323</b>	<b>6,521</b>	<b>6,846</b>	<b>9,852</b>	<b>8,055</b>	<b>9,037</b>	<b>14,195</b>	<b>6,685</b>
(Inc)/Dec in FA	-2,545	-2,692	-3,625	-4,258	-3,395	-6,473	-5,000	-5,000
<b>Free Cash Flow</b>	<b>2,778</b>	<b>3,829</b>	<b>3,221</b>	<b>5,594</b>	<b>4,660</b>	<b>2,563</b>	<b>9,195</b>	<b>1,685</b>
(Pur)/Sale of Investments	-674	-2,042	474	-4,316	1,287	-357	0	0
Others	585	547	-1,234	1,026	-2,331	1,440	785	685
<b>CF from Investments</b>	<b>-2,633</b>	<b>-4,187</b>	<b>-4,385</b>	<b>-7,548</b>	<b>-4,439</b>	<b>-5,390</b>	<b>-4,215</b>	<b>-4,315</b>
Dividend Paid	-2,816	-2,236	-2,330	-2,183	-3,221	-2,810	-2,672	-2,890
<b>CF from Fin. Activity</b>	<b>-2,838</b>	<b>-2,258</b>	<b>-2,346</b>	<b>-2,416</b>	<b>-3,488</b>	<b>-3,103</b>	<b>-2,755</b>	<b>-2,973</b>
<b>Inc/Dec of Cash</b>	<b>-148</b>	<b>76</b>	<b>115</b>	<b>-112</b>	<b>128</b>	<b>543</b>	<b>7,224</b>	<b>-603</b>
Opening Balance	222	74	150	265	154	282	825	8,050
<b>Closing Balance</b>	<b>74</b>	<b>150</b>	<b>265</b>	<b>154</b>	<b>282</b>	<b>825</b>	<b>8,050</b>	<b>7,447</b>

**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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