

August 9, 2022

## Q1FY23 Result Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
<b>Rating</b>	BUY		BUY	
<b>Target Price</b>	1,103		1,103	
Sales (Rs. m)	45,671	50,476	45,671	50,476
% Chng.	-	-	-	-
EBITDA (Rs. m)	11,113	12,676	11,113	12,676
% Chng.	-	-	-	-
EPS (Rs.)	73.8	85.1	73.8	85.1
% Chng.	-	-	-	-

### Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	21,525	35,602	45,671	50,476
EBITDA (Rs. m)	9,341	9,243	11,113	12,676
Margin (%)	43.4	26.0	24.3	25.1
PAT (Rs. m)	6,197	5,950	7,290	8,406
EPS (Rs.)	62.7	60.2	73.8	85.1
Gr. (%)	(21.9)	(4.0)	22.5	15.3
DPS (Rs.)	23.0	25.0	22.1	25.5
Yield (%)	2.8	3.1	2.7	3.1
RoE (%)	20.0	17.4	18.9	19.1
RoCE (%)	24.2	20.9	22.6	22.8
EV/Sales (x)	3.1	1.9	1.3	1.1
EV/EBITDA (x)	7.1	7.1	5.5	4.5
PE (x)	13.0	13.6	11.1	9.6
P/BV (x)	2.5	2.2	2.0	1.7

### Key Data

MGAS.BO | MAHGL IN

52-W High / Low	Rs.1,206 / Rs.666
Sensex / Nifty	58,853 / 17,525
Market Cap	Rs.81bn/ \$ 1,014m
Shares Outstanding	99m
3M Avg. Daily Value	Rs.316.77m

### Shareholding Pattern (%)

Promoter's	32.50
Foreign	25.81
Domestic Institution	16.06
Public & Others	25.63
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	1.8	(1.3)	(30.0)
Relative	(5.7)	(3.1)	(35.5)

**Avishek Datta**

avishekdatta@plindia.com | 91-22-66322254

## Strong operational results

### Quick Pointers:

- Likely higher supplies from KGD6 in Oct-22 to gradually ease soaring gas cost concerns for CGDs.
- Passed on gas price hike to consumers and remains hopeful of sustaining volume growth momentum.

**We leave our FY23/24E estimates unchanged. Q1 results were ahead due to higher than expected volumes (+7.4%) and margins (Rs9.1/scm vs Rs8 expected). In the near term, rising price of domestic gas supplied to City Gas Distribution (CGD) due to blending of high priced spot LNG volumes will be a concern (even though company passed it on to customers). However, RILKGD6's higher blending with additional deep water supplies of 12mmscmd (to gradually ramp up) from Oct-22 will ease pricing pressure. CGD industry has made representation to the government of rising gas prices and company remains hopeful of near term solution.**

**MGL remains a play on increased gas usage from rising vehicles and PNG penetration. We like the business because of its dominating share in growing markets of Mumbai and its suburbs. Reiterate 'BUY' with a TP of Rs1,103 (unchanged).**

- **Higher than expected performance:** Mahanagar Gas (MGL's) reported higher than expected results with Q1 EBITDA and PAT at Rs2.9bn (+33% QoQ; PLe Rs2.3bn) and Rs1.9bn (+41% QoQ; PLe: Rs1.5bn).
- Q1 blended realization was at Rs46.2/scm (+22%QoQ) supported gross margins at Rs18.8/scm v/s Rs16.8 in Q4FY22, as gas cost was Rs32.0/scm (+29%QoQ). Opex/scm was at Rs5.3/scm (Rs5.7 in Q4) and EBIDTA spreads were higher at Rs9.1/scm (Q4FY22:Rs7.6/scm; PLe Rs8.0/scm).
- **Volumes grow smartly QoQ:** Q1 CNG and PNG volumes were at 231mscm (+13% QoQ) and 82.7mscm (+3% QoQ). QoQ volume growth is impressive as it is seasonally weak, given schools were closed. We maintain our gas sales volumes at 3.45/3.68/mmscmd for FY23/24E i.e. CAGR of 10.7% over FY22-24E.
- **Rising gas cost remains a worry-** MGL management clarified that gas price supplied to CGD has increased to USD10.5/mmbtu in Aug-22 vs ~USD8 in Jun-22. Higher gas cost is due to increased blending of high cost spot LNG volumes as domestic supplies lag. However company remains hopeful of resolution, as new supplies from KGD6 of 12mmscmd will likely start from Oct-22 and gradually ramp up. We maintain our FY23/24E EBIDTA/scm margins of Rs8.8/9.5/scm vs FY22 levels of Rs8.4.
- **Picking up of economic activities to drive volumes:** We believe economic factors such as 1) introduction of new CNG buses by state government, 2) new three wheelers along with geographical expansion to Raigad and Karjat will support volumes. Also, government's push towards PNG's domestic connections will add volume traction.

**Exhibit 1: Q1FY23 Result Overview (Rs mn)**

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	FY23E	FY22	YoY gr. (%)
<b>Net Sales</b>	<b>15,932</b>	<b>6,669</b>	<b>138.9</b>	<b>11,876</b>	<b>50,238</b>	<b>38,849</b>	<b>29.3</b>
Operating Costs	13,076	3,629	260.4	9,721	39,125	29,606	32.2
<i>as % of Net Sales</i>	<i>82.1</i>	<i>54.4</i>		<i>81.9</i>	<i>77.9</i>	<i>76.2</i>	
Material Costs	10,039	1,910	425.6	7,073	26,808	20,454	31.1
<i>as % of Net Sales</i>	<i>63.0</i>	<i>28.6</i>		<i>59.6</i>	<i>53.4</i>	<i>52.6</i>	
Personnel Costs	217	200	8.5	188	900	833	8.0
<i>as % of Net Sales</i>	<i>1.4</i>	<i>3.0</i>		<i>1.6</i>	<i>1.8</i>	<i>2.1</i>	
Other Overheads	1,436	1,005	42.9	1,452	6,851	5,072	35.1
<i>as % of Net Sales</i>	<i>9.0</i>	<i>15.1</i>		<i>12.2</i>	<i>13.6</i>	<i>13.1</i>	
Excise duty	1,384	514	169.5	1,008	4,567	3,247	40.6
<b>EBITDA</b>	<b>2,856</b>	<b>3,040</b>	<b>(6.1)</b>	<b>2,155</b>	<b>11,113</b>	<b>9,243</b>	<b>20.2</b>
Other Income	200	186	7.5	227	1,058	858	23.4
<b>PBDIT</b>	<b>3,056</b>	<b>3,226</b>	<b>(5.3)</b>	<b>2,382</b>	<b>12,171</b>	<b>10,101</b>	<b>20.5</b>
Depreciation	537	453	18.6	555	2,320	1,963	18.2
Interest	23	17		23	0	75	
<b>Pre-tax Profit</b>	<b>2,496</b>	<b>2,756</b>	<b>(9.5)</b>	<b>1,804</b>	<b>9,852</b>	<b>8,063</b>	<b>22.2</b>
Tax	644	716	(10.0)	486	2,561	2,093	22.4
<b>PAT from ordinary activity</b>	<b>1,852</b>	<b>2,041</b>	<b>(9.3)</b>	<b>1,318</b>	<b>7,290</b>	<b>5,969</b>	<b>22.1</b>

Source: Company, PL

**Exhibit 2: MGL quarterly details**

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	FY23E	FY22	YoY gr. (%)
<b>Sales volume -mmscmd</b>							
CNG mscm	205	182	12.5	220	772	517	49.4
<b>PNG - mmscm</b>							
Domestic	43	41	3.8	44	170	170	0.4
Commercial/industrial	38	37	1.7	40	153	121	26.3
PNG total mscm	80	78	2.8	84	323	291	11.2
<b>Total</b>	<b>285</b>	<b>260</b>	<b>9.6</b>	<b>304</b>	<b>1,095</b>	<b>807</b>	<b>35.6</b>
<b>Sales Rs mn</b>							
CNG	7,030	4,633	51.8	6,599	22,505	12,970	73.5
PNG	3,766	2,467	52.7	3,590	12,807	8,352	53.3
<b>Realisation</b>							
CNG Rs/kg	46.0	34.1	34.9	40.2	39.1	33.6	16.1
PNG Rs/scm	46.9	31.6	48.5	42.8	39.6	28.7	37.9
Cost of gas (Rs/scm)	35.2	7.3	379.5	23.3	24.5	25.3	(3.4)
Opex (Rs/scm)	5.8	4.6	25.2	5.4	7.1	7.3	(3.2)
EBITDA (Rs/scm)	10.01	11.68	(14.3)	7.09	10.15	11.45	(11.4)
Gross margin (Rs/scm)	20.7	18.3	13.0	15.8	21.4	22.8	(6.1)

Source: Company, PL

**Conference Call Highlights:**

- CGD companies have made representation to the government to allocate higher domestic gas supplies to the sector for minimizing high gas cost pain.
- Shortfall of ~3mmscmd or 15% is met by spot LNG where high cost has skewed the prices.
- MGL has increased retail CNG prices by Rs10.7/kg for Q1 to pass on hike in domestic gas prices.
- 2700 commercial vehicles were added in Q1 and for the quarter over 19,000 vehicles were converted to CNG while for FY22 it was at 62,000.
- For FY23, MGL plans to add 25 new CNG stations and upgrade another 25 stations.

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Net Revenues</b>	<b>21,525</b>	<b>35,602</b>	<b>45,671</b>	<b>50,476</b>
YoY gr. (%)	(27.6)	65.4	28.3	10.5
Cost of Goods Sold	7,472	20,454	26,808	29,257
Gross Profit	14,053	15,148	18,864	21,219
Margin (%)	65.3	42.5	41.3	42.0
Employee Cost	875	833	900	972
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>9,341</b>	<b>9,243</b>	<b>11,113</b>	<b>12,676</b>
YoY gr. (%)	(11.3)	(1.0)	20.2	14.1
Margin (%)	43.4	26.0	24.3	25.1
Depreciation and Amortization	1,737	1,963	2,320	2,640
<b>EBIT</b>	<b>7,604</b>	<b>7,281</b>	<b>8,794</b>	<b>10,036</b>
Margin (%)	35.3	20.4	19.3	19.9
Net Interest	72	75	-	-
Other Income	805	857	1,058	1,323
<b>Profit Before Tax</b>	<b>8,337</b>	<b>8,063</b>	<b>9,852</b>	<b>11,359</b>
Margin (%)	38.7	22.6	21.6	22.5
Total Tax	2,140	2,113	2,561	2,953
Effective tax rate (%)	25.7	26.2	26.0	26.0
<b>Profit after tax</b>	<b>6,197</b>	<b>5,950</b>	<b>7,290</b>	<b>8,406</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>6,197</b>	<b>5,950</b>	<b>7,290</b>	<b>8,406</b>
YoY gr. (%)	(21.9)	(4.0)	22.5	15.3
Margin (%)	28.8	16.7	16.0	16.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>6,197</b>	<b>5,950</b>	<b>7,290</b>	<b>8,406</b>
YoY gr. (%)	(21.9)	(4.0)	22.5	15.3
Margin (%)	28.8	16.7	16.0	16.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,197	5,950	7,290	8,406
<b>Equity Shares O/s (m)</b>	<b>99</b>	<b>99</b>	<b>99</b>	<b>99</b>
<b>EPS (Rs)</b>	<b>62.7</b>	<b>60.2</b>	<b>73.8</b>	<b>85.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>27,552</b>	<b>33,686</b>	<b>38,686</b>	<b>43,686</b>
Tangibles	27,552	33,686	38,686	43,686
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>7,143</b>	<b>9,106</b>	<b>11,425</b>	<b>14,065</b>
Tangibles	7,143	9,106	11,425	14,065
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>20,409</b>	<b>24,581</b>	<b>27,261</b>	<b>29,621</b>
Tangibles	20,409	24,581	27,261	29,621
Intangibles	-	-	-	-
Capital Work In Progress	5,660	6,212	6,217	6,223
Goodwill	-	-	-	-
Non-Current Investments	333	451	496	546
Net Deferred tax assets	(1,275)	(1,245)	(1,245)	(1,245)
Other Non-Current Assets	342	376	413	455
<b>Current Assets</b>				
Investments	10,250	10,883	11,971	13,168
Inventories	222	275	302	333
Trade receivables	1,275	1,840	2,361	2,609
Cash & Bank Balance	5,119	4,652	7,768	11,185
Other Current Assets	127	126	138	152
<b>Total Assets</b>	<b>44,784</b>	<b>50,834</b>	<b>58,928</b>	<b>66,933</b>
<b>Equity</b>				
Equity Share Capital	988	988	988	988
Other Equity	31,336	34,985	40,089	45,973
<b>Total Network</b>	<b>32,324</b>	<b>35,973</b>	<b>41,076</b>	<b>46,960</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	573	824	-	-
Provisions	225	259	284	313
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,559	2,719	3,487	3,854
Other current liabilities	9,551	10,518	11,570	12,727
<b>Total Equity &amp; Liabilities</b>	<b>46,011</b>	<b>52,308</b>	<b>58,928</b>	<b>66,933</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	8,337	8,063	9,852	11,359
Add. Depreciation	1,737	1,963	2,320	2,640
Add. Interest	72	75	-	-
Less Financial Other Income	805	857	1,058	1,323
Add. Other	-	-	-	-
Op. profit before WC changes	10,146	10,101	12,171	13,999
Net Changes-WC	(813)	1,643	(3,016)	(3,428)
Direct tax	(1,978)	(1,858)	(2,069)	(2,385)
<b>Net cash from Op. activities</b>	<b>7,355</b>	<b>9,886</b>	<b>7,087</b>	<b>8,186</b>
Capital expenditures	(3,676)	(6,963)	(3,501)	(5,006)
Interest / Dividend Income	-	-	-	-
Others	0	-	0	0
<b>Net Cash from Invt. activities</b>	<b>(3,676)</b>	<b>(6,963)</b>	<b>(3,501)</b>	<b>(5,006)</b>
Issue of share cap. / premium	(1,291)	(86)	(493)	(568)
Debt changes	83	251	(824)	-
Dividend paid	(2,272)	(2,469)	(2,187)	(2,522)
Interest paid	(72)	(75)	-	-
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(3,551)</b>	<b>(2,380)</b>	<b>(3,504)</b>	<b>(3,090)</b>
<b>Net change in cash</b>	<b>128</b>	<b>543</b>	<b>82</b>	<b>91</b>
Free Cash Flow	3,679	2,923	3,586	3,180

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<b>Net Revenue</b>	<b>8,301</b>	<b>10,278</b>	<b>10,868</b>	<b>14,548</b>
YoY gr. (%)	63.8	54.2	51.4	136.4
Raw Material Expenses	3,819	7,652	7,073	10,039
Gross Profit	4,482	2,626	3,795	4,508
Margin (%)	54.0	25.6	34.9	31.0
<b>EBITDA</b>	<b>3,018</b>	<b>1,031</b>	<b>2,155</b>	<b>2,856</b>
YoY gr. (%)	36.5	(67.5)	(31.8)	(6.1)
Margin (%)	36.4	10.0	19.8	19.6
Depreciation / Depletion	473	482	555	537
<b>EBIT</b>	<b>2,545</b>	<b>549</b>	<b>1,600</b>	<b>2,319</b>
Margin (%)	30.7	5.3	14.7	15.9
Net Interest	20	15	23	23
Other Income	226	218	227	200
<b>Profit before Tax</b>	<b>2,751</b>	<b>752</b>	<b>1,804</b>	<b>2,496</b>
Margin (%)	33.1	7.3	16.6	17.2
Total Tax	708	184	486	644
Effective tax rate (%)	25.7	24.5	26.9	25.8
<b>Profit after Tax</b>	<b>2,043</b>	<b>568</b>	<b>1,318</b>	<b>1,852</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>2,043</b>	<b>568</b>	<b>1,318</b>	<b>1,852</b>
YoY gr. (%)	41.6	(73.9)	(38.1)	(9.3)
Margin (%)	24.6	5.5	12.1	12.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,043</b>	<b>568</b>	<b>1,318</b>	<b>1,852</b>
YoY gr. (%)	41.6	(73.9)	(38.1)	(9.3)
Margin (%)	24.6	5.5	12.1	12.7
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Company Data, PL Research

**Key Financial Metrics**

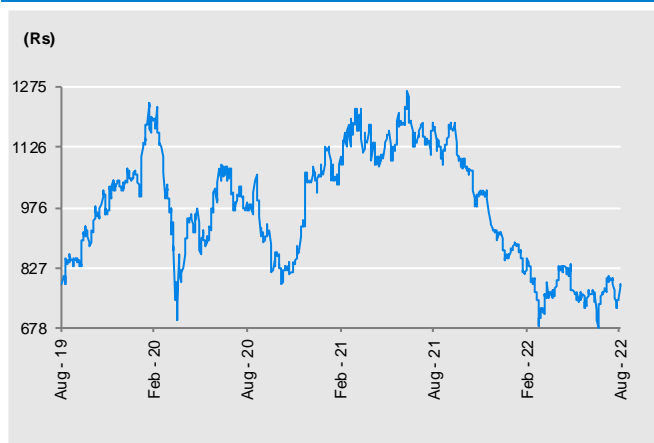
Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	62.7	60.2	73.8	85.1
CEPS	80.3	80.1	97.3	111.8
BVPS	327.2	364.2	415.8	475.4
FCF	37.2	29.6	36.3	32.2
DPS	23.0	25.0	22.1	25.5
<b>Return Ratio(%)</b>				
RoCE	24.2	20.9	22.6	22.8
ROIC	25.8	20.6	22.4	23.6
RoE	20.0	17.4	18.9	19.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.5)	(0.4)	(0.5)	(0.5)
Net Working Capital (Days)	(1)	(6)	(7)	(7)
<b>Valuation(x)</b>				
PER	13.0	13.6	11.1	9.6
P/B	2.5	2.2	2.0	1.7
P/CEPS	10.2	10.2	8.4	7.3
EV/EBITDA	7.1	7.1	5.5	4.5
EV/Sales	3.1	1.9	1.3	1.1
Dividend Yield (%)	2.8	3.1	2.7	3.1

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY21	FY22	FY23E	FY24E
Total sales volumes (mscm)	807	1,095	1,259	1,342
CNG sales volumes (mscm)	517	772	887	941
PNG sales volumes (mscm)	291	323	372	401
CNG retail price (Rs/kg)	33	39	45	46
PNG retail price (Rs/scm)	29	40	43	44

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jul-22	BUY	1,103	767
2	23-May-22	BUY	1,103	761
3	11-May-22	BUY	1,103	765
4	04-Apr-22	BUY	1,187	828
5	09-Feb-22	BUY	1,187	799
6	06-Jan-22	BUY	1,345	878
7	27-Oct-21	BUY	1,345	997
8	05-Oct-21	BUY	1,370	1,091

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	Hold	331	336
2	GAIL (India)	BUY	180	140
3	Gujarat Gas	BUY	553	463
4	Hindustan Petroleum Corporation	Hold	247	251
5	Indian Oil Corporation	Hold	81	73
6	Indraprastha Gas	BUY	589	361
7	Mahanagar Gas	BUY	1,103	767
8	Oil & Natural Gas Corporation	BUY	160	127
9	Oil India	BUY	300	191
10	Petronet LNG	BUY	307	216
11	Reliance Industries	BUY	3,165	2,572

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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### **Prabhudas Lilladher Pvt. Ltd.**

**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

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