

February 3, 2023

## Q3FY23 Result Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
<b>Rating</b>	BUY		BUY	
<b>Target Price</b>	1,103		1,103	
Sales (Rs. m)	50,476	55,187	50,476	55,187
% Chng.	-	-	-	-
EBITDA (Rs. m)	12,676	13,771	12,676	13,771
% Chng.	-	-	-	-
EPS (Rs.)	85.1	93.2	85.1	93.2
% Chng.	-	-	-	-

### Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	35,602	45,671	50,476	55,187
EBITDA (Rs. m)	9,243	11,113	12,676	13,771
Margin (%)	26.0	24.3	25.1	25.0
PAT (Rs. m)	5,950	7,290	8,406	9,205
EPS (Rs.)	60.2	73.8	85.1	93.2
Gr. (%)	(4.0)	22.5	15.3	9.5
DPS (Rs.)	25.0	22.1	25.5	28.0
Yield (%)	2.9	2.6	3.0	3.3
RoE (%)	17.4	18.9	19.1	18.3
RoCE (%)	20.9	22.6	22.8	21.5
EV/Sales (x)	1.9	1.4	1.2	1.0
EV/EBITDA (x)	7.5	5.8	4.7	3.9
PE (x)	14.1	11.5	10.0	9.1
P/BV (x)	2.3	2.0	1.8	1.6

### Key Data

MGAS.BO | MAHGL IN

52-W High / Low	Rs.925 / Rs.666
Sensex / Nifty	60,842 / 17,854
Market Cap	Rs.84bn / \$ 1,026m
Shares Outstanding	99m
3M Avg. Daily Value	Rs.318.9m

### Shareholding Pattern (%)

Promoter's	32.50
Foreign	29.73
Domestic Institution	15.55
Public & Others	22.22
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(0.7)	8.3	(0.1)
Relative	-	3.8	(3.5)

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## Strong show, better times ahead

### Quick Pointers:

- Q3 EBIDTA/scm at Rs8.2 despite 57%YoY increase in gas cost.
- Company has received MSRTC order to convert 600diesel bus to CNG over next one year.

**We leave our FY23/24E estimates unchanged. Mahanagar Gas (MAHGL) Q3 results came higher, due to higher than expected margins at Rs8.2/scm vs Rs6.7/scm. MAHGL will benefit from lower gas prices in the near term given 1) implementation of Mr Kirit Parekh committee report which has suggested price cap of USD6.5/mmbtu (USD8.5 currently) for domestic gas used for priority sectors like CGD and fertilizer and 2) drop in spot LNG prices to ~USD20/mmbtu from Q3 average of over USD30. (Spot LNG accounts for ~10% of MAHGL's gas requirement). MAHGL 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 margins at Rs8.2/scm drive beat:** MAHGL reported lower than expected results with Q3 EBITDA and PAT at Rs2.6bn (+1.3% QoQ; PLe Rs2.2bn) and Rs1.7bn (+5% QoQ; PLe: Rs1.4bn). Q3 blended realization was at Rs53/scm (+8.4%QoQ) even after incurring higher gas cost of Rs39.5/scm (+9.6%QoQ), resulting in gross margins of Rs19.0/scm (+6.3%QoQ). Despite higher Opex/scm at Rs5.6/scm (Rs5.1 in Q2), EBITDA spreads were higher at Rs8.2/scm (Q2:Rs8.0/scm; PLe Rs6.7/scm).
- CNG/PNG volumes growth up ~3.5%YoY:** Q3 CNG and PNG volumes were at 227.6mscm (+3.5% YoY) and 86.2mscm (+2.8% YoY). However, commercial/industrial gas sales volume was at 40.4mscm (flat YoY), as the company had to compete with cheaper liquid fuels which hit volumes. We maintain our gas sales volumes at 3.45/3.68/mmscmd for FY23/24E i.e. CAGR of 10.7% over FY22-24E.
- 57%YoY increase in gas cost, peak cost is behind-** Gas cost has seen sharp increase in Q3 at Rs39.5/scm vs Rs25.2/scm last year, while blended realization has increased to Rs53/scm (Rs33.5 last year). However going forward gas prices are likely to come down given 1) likely implementation of Kirit Parekh committee report 2) drop in international spot LNG prices to USD20/mmbtu (Q3: over \$30/mmbtu and 3) new supplies from KGD6 of 12mmscmd will likely start from Feb-23 and gradually ramp up. We maintain our FY23/24E EBIDTA/scm margins of Rs8.8/9.5/scm vs FY22 levels of Rs8.4 (9M: 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, and 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: Q3FY23 Result- Q3 EBIDTA up 148%YoY aided by 73% YoY increase in retail CNG prices**

Y/e March	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY22	9MFY23	9MFY22	YoY gr. (%)
<b>Net Sales</b>	<b>18,384</b>	<b>11,229</b>	<b>63.7</b>	<b>17,175</b>	<b>51,492</b>	<b>26,973</b>	<b>90.9</b>
Operating Costs	15,823	10,198	55.2	14,647	43,547	19,885	119.0
<i>as % of Net Sales</i>	<i>86.1</i>	<i>90.8</i>		<i>85.3</i>	<i>253.4</i>	<i>212.0</i>	
Material Costs	12,407	7,652	62.1	11,475	33,921	13,381	153.5
<i>as % of Net Sales</i>	<i>67.5</i>	<i>68.1</i>		<i>66.8</i>	<i>197.3</i>	<i>138.9</i>	
Personnel Costs	219	220	(0.6)	319	755	646	17.0
<i>as % of Net Sales</i>	<i>1.2</i>	<i>2.0</i>		<i>1.9</i>	<i>4.4</i>	<i>7.4</i>	
Other Overheads	1,528	1,376	11.1	1,304	4,267	3,619	17.9
<i>as % of Net Sales</i>	<i>8.3</i>	<i>12.2</i>		<i>7.6</i>	<i>24.9</i>	<i>41.0</i>	
Excise duty	1,671	951	75.7	1,549	4,604	2,239	105.6
<b>EBITDA</b>	<b>2,561</b>	<b>1,031</b>	<b>148.4</b>	<b>2,528</b>	<b>7,945</b>	<b>7,088</b>	<b>12.1</b>
Other Income	323	218	47.7	260	782	631	24.1
<b>PBDIT</b>	<b>2,884</b>	<b>1,249</b>	<b>130.8</b>	<b>2,788</b>	<b>8,727</b>	<b>7,719</b>	<b>13.1</b>
Depreciation	585	482	21.4	551	1,673	1,408	18.9
Interest	24	15		25	72	53	
<b>Pre-tax Profit</b>	<b>2,274</b>	<b>752</b>	<b>202.6</b>	<b>2,213</b>	<b>6,982</b>	<b>6,259</b>	<b>11.6</b>
Tax	553	184	200.7	573	1,770	1,607	10.1
<b>PAT from ordinary activity</b>	<b>1,721</b>	<b>568</b>	<b>203.2</b>	<b>1,640</b>	<b>5,212</b>	<b>4,651</b>	<b>12.1</b>

Source: Company, PL

**Exhibit 2: MAHGL price hikes of 73%YoY for CNG compensates for 57% increase in gas cost**

Y/e March	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY22	9MFY23	9MFY22	YoY gr. (%)
<b>Sales volume -mmscm</b>							
CNG mscm	228	220	3.5	234	692	567	22.2
<b>PNG - mmscm</b>							
Domestic	46	44	5.4	43	132	128	3.4
Commercial/industrial	40	40	0.1	41	121	115	5.3
PNG total mscm	86	84	2.8	84	253	243	4.3
<b>Sales Rs mn</b>							
CNG	11,809	6,599	79.0	10,941	32,524	15,475	110.2
PNG	4,838	3,590	34.7	4,627	14,178	9,041	56.8
<b>Realisation</b>							
CNG Rs/kg	70	40	73.0	57	62.9	36.6	72.0
PNG Rs/scm	56	43	31.0	57	56.0	37.2	50.4
Cost of gas (Rs/scm)	39.5	25.2	57.0	32.0	35.9	16.5	117.0
Opex (Rs/scm)	5.6	5.3	6.0	5.3	5.3	5.3	0.8
EBITDA (Rs/scm)	8.2	3.4	140.5	9.1	8.40	8.76	(4.1)
Gross margin (Rs/scm)	19.0	11.8	61.8	18.8	18.6	16.8	10.7

Source: Company, PL

## Conference Call Highlights

- ~91% of priority sector (CNG + Domestic PNG) was supplied by domestic gas in Q3.
- Five new CNG stations were opened; Total stations count stands at 301.
- Positive move by government to give highest priority to CGD companies for new High Pressure High Temperature (HPHT), as prices of USD12.5/mmbtu is lower than spot LNG of USD20/mmbtu.
- Added new 16900 vehicles including - 1700 LCV, 12200 cars and taxis and 2900 three wheelers.
- Company plans to spend Rs6.5bn for FY23E and Rs6-8bn for FY24E.
- MSRTC has approved conversion of 800 diesel buses to CNG. Of that 600 buses are part of MAHGL and will be implemented over next one year.

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>35,602</b>	<b>45,671</b>	<b>50,476</b>	<b>55,187</b>
YoY gr. (%)	65.4	28.3	10.5	9.3
Cost of Goods Sold	20,454	26,808	29,257	32,089
Gross Profit	15,148	18,864	21,219	23,098
Margin (%)	42.5	41.3	42.0	41.9
Employee Cost	833	900	972	1,049
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>9,243</b>	<b>11,113</b>	<b>12,676</b>	<b>13,771</b>
YoY gr. (%)	(1.0)	20.2	14.1	8.6
Margin (%)	26.0	24.3	25.1	25.0
Depreciation and Amortization	1,963	2,320	2,640	2,961
<b>EBIT</b>	<b>7,281</b>	<b>8,794</b>	<b>10,036</b>	<b>10,810</b>
Margin (%)	20.4	19.3	19.9	19.6
Net Interest	75	-	-	-
Other Income	857	1,058	1,323	1,629
<b>Profit Before Tax</b>	<b>8,063</b>	<b>9,852</b>	<b>11,359</b>	<b>12,439</b>
Margin (%)	22.6	21.6	22.5	22.5
Total Tax	2,113	2,561	2,953	3,234
Effective tax rate (%)	26.2	26.0	26.0	26.0
<b>Profit after tax</b>	<b>5,950</b>	<b>7,290</b>	<b>8,406</b>	<b>9,205</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>5,950</b>	<b>7,290</b>	<b>8,406</b>	<b>9,205</b>
YoY gr. (%)	(4.0)	22.5	15.3	9.5
Margin (%)	16.7	16.0	16.7	16.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>5,950</b>	<b>7,290</b>	<b>8,406</b>	<b>9,205</b>
YoY gr. (%)	(4.0)	22.5	15.3	9.5
Margin (%)	16.7	16.0	16.7	16.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,950	7,290	8,406	9,205
<b>Equity Shares O/s (m)</b>	<b>99</b>	<b>99</b>	<b>99</b>	<b>99</b>
<b>EPS (Rs)</b>	<b>60.2</b>	<b>73.8</b>	<b>85.1</b>	<b>93.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>33,686</b>	<b>38,686</b>	<b>43,686</b>	<b>48,686</b>
Tangibles	33,686	38,686	43,686	48,686
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>9,106</b>	<b>11,425</b>	<b>14,065</b>	<b>17,026</b>
Tangibles	9,106	11,425	14,065	17,026
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>24,581</b>	<b>27,261</b>	<b>29,621</b>	<b>31,661</b>
Tangibles	24,581	27,261	29,621	31,661
Intangibles	-	-	-	-
Capital Work In Progress	6,212	6,217	6,223	6,229
Goodwill	-	-	-	-
Non-Current Investments	451	496	546	600
Net Deferred tax assets	(1,245)	(1,245)	(1,245)	(1,245)
Other Non-Current Assets	376	413	455	500
<b>Current Assets</b>				
Investments	10,883	11,971	13,168	14,485
Inventories	275	302	333	366
Trade receivables	1,840	2,361	2,609	2,853
Cash & Bank Balance	4,652	7,768	11,185	15,457
Other Current Assets	126	138	152	167
<b>Total Assets</b>	<b>50,834</b>	<b>58,928</b>	<b>66,933</b>	<b>75,663</b>
<b>Equity</b>				
Equity Share Capital	988	988	988	988
Other Equity	34,985	40,089	45,973	52,416
<b>Total Networkth</b>	<b>35,973</b>	<b>41,076</b>	<b>46,960</b>	<b>53,404</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	824	-	-	-
Provisions	259	284	313	344
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,719	3,487	3,854	4,214
Other current liabilities	10,518	11,570	12,727	14,000
<b>Total Equity &amp; Liabilities</b>	<b>52,308</b>	<b>58,928</b>	<b>66,933</b>	<b>75,663</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	8,063	9,852	11,359	12,439
Add. Depreciation	1,963	2,320	2,640	2,961
Add. Interest	75	-	-	-
Less Financial Other Income	857	1,058	1,323	1,629
Add. Other	-	-	-	-
Op. profit before WC changes	10,101	12,171	13,999	15,400
Net Changes-WC	1,643	(3,016)	(3,428)	(4,298)
Direct tax	(1,858)	(2,069)	(2,385)	(2,612)
<b>Net cash from Op. activities</b>	<b>9,886</b>	<b>7,087</b>	<b>8,186</b>	<b>8,490</b>
Capital expenditures	(6,963)	(3,501)	(5,006)	(5,006)
Interest / Dividend Income	-	-	-	-
Others	-	0	0	0
<b>Net Cash from Invt. activities</b>	<b>(6,963)</b>	<b>(3,501)</b>	<b>(5,006)</b>	<b>(5,006)</b>
Issue of share cap. / premium	(86)	(493)	(568)	(622)
Debt changes	251	(824)	-	-
Dividend paid	(2,469)	(2,187)	(2,522)	(2,761)
Interest paid	(75)	-	-	-
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(2,380)</b>	<b>(3,504)</b>	<b>(3,090)</b>	<b>(3,383)</b>
<b>Net change in cash</b>	<b>543</b>	<b>82</b>	<b>91</b>	<b>100</b>
Free Cash Flow	2,923	3,586	3,180	3,483

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Net Revenue</b>	<b>10,868</b>	<b>14,548</b>	<b>15,627</b>	<b>16,714</b>
YoY gr. (%)	51.4	136.4	88.2	62.6
Raw Material Expenses	7,073	10,039	11,475	12,407
Gross Profit	3,795	4,508	4,151	4,307
Margin (%)	34.9	31.0	26.6	25.8
<b>EBITDA</b>	<b>2,155</b>	<b>2,856</b>	<b>2,528</b>	<b>2,561</b>
YoY gr. (%)	(31.8)	(6.1)	(16.2)	148.4
Margin (%)	19.8	19.6	16.2	15.3
Depreciation / Depletion	555	537	551	585
<b>EBIT</b>	<b>1,600</b>	<b>2,319</b>	<b>1,977</b>	<b>1,976</b>
Margin (%)	14.7	15.9	12.7	11.8
Net Interest	23	23	25	24
Other Income	227	200	260	323
<b>Profit before Tax</b>	<b>1,804</b>	<b>2,496</b>	<b>2,213</b>	<b>2,274</b>
Margin (%)	16.6	17.2	14.2	13.6
Total Tax	486	644	573	553
Effective tax rate (%)	26.9	25.8	25.9	24.3
<b>Profit after Tax</b>	<b>1,318</b>	<b>1,852</b>	<b>1,640</b>	<b>1,721</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,318</b>	<b>1,852</b>	<b>1,640</b>	<b>1,721</b>
YoY gr. (%)	(38.1)	(9.3)	(19.7)	203.2
Margin (%)	12.1	12.7	10.5	10.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,318</b>	<b>1,852</b>	<b>1,640</b>	<b>1,721</b>
YoY gr. (%)	(38.1)	(9.3)	(19.7)	203.2
Margin (%)	12.1	12.7	10.5	10.3
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**

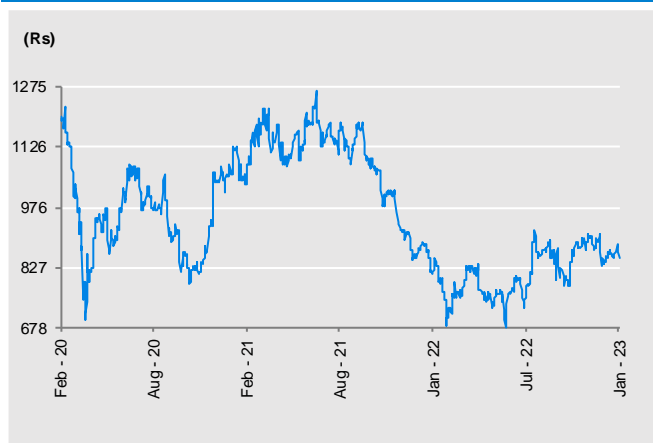
Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	60.2	73.8	85.1	93.2
CEPS	80.1	97.3	111.8	123.2
BVPS	364.2	415.8	475.4	540.6
FCF	29.6	36.3	32.2	35.3
DPS	25.0	22.1	25.5	28.0
<b>Return Ratio(%)</b>				
RoCE	20.9	22.6	22.8	21.5
ROIC	20.6	22.4	23.6	23.6
RoE	17.4	18.9	19.1	18.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.4)	(0.5)	(0.5)	(0.6)
Net Working Capital (Days)	(6)	(7)	(7)	(7)
<b>Valuation(x)</b>				
PER	14.1	11.5	10.0	9.1
P/B	2.3	2.0	1.8	1.6
P/CEPS	10.6	8.7	7.6	6.9
EV/EBITDA	7.5	5.8	4.7	3.9
EV/Sales	1.9	1.4	1.2	1.0
Dividend Yield (%)	2.9	2.6	3.0	3.3

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY22	FY23E	FY24E	FY25E
Total sales volumes (mscm)	1,095	1,259	1,342	1,440
CNG sales volumes (mscm)	772	887	941	1,006
PNG sales volumes (mscm)	323	372	401	434
CNG retail price (Rs/kg)	39	45	46	47
PNG retail price (Rs/scm)	40	43	44	45

Source: Company Data, PL Research

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


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Jan-23	BUY	1,103	845
2	14-Nov-22	BUY	1,103	876
3	01-Oct-22	BUY	1,103	832
4	09-Aug-22	BUY	1,103	818
5	05-Jul-22	BUY	1,103	767
6	23-May-22	BUY	1,103	761
7	11-May-22	BUY	1,103	765
8	04-Apr-22	BUY	1,187	828
9	09-Feb-22	BUY	1,187	799

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	420	335
2	Bharti Airtel	BUY	1,039	818
3	GAIL (India)	BUY	123	95
4	Gujarat Gas	Hold	530	490
5	Hindustan Petroleum Corporation	BUY	350	237
6	Indian Oil Corporation	BUY	125	82
7	Indraprastha Gas	BUY	564	413
8	Mahanagar Gas	BUY	1,103	845
9	Oil & Natural Gas Corporation	BUY	180	150
10	Oil India	BUY	300	215
11	Petronet LNG	BUY	326	223
12	Reliance Industries	BUY	2,878	2,443

**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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