

Mahanagar Gas (MAHGAS)

CMP: ₹ 855

Target: ₹ 1000 (17%)

Target Period: 12 months

BUY

February 6, 2023

Margins likely to improve in FY24E...

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 historically reported high gross margins and return ratios

Q3FY23 Results: MGL's results were above our estimates on the profitability front.

- Revenue was up 64% YoY to ₹ 1838.4 crore (I-direct estimate: ₹ 1938 crore), driven by higher realisation at ₹ 58.6/scm on account of price hikes taken by the company
- Sales volume was at 3.41 mmscmd, up 3.3% YoY against I-direct estimate of 2.6 mmscmd. Gross margins increased ₹ 5.1/scm YoY to ₹ 13.7/scm. Subsequently, EBITDA increased 148% YoY (on a weak base) to ₹ 256.1 crore, above I-direct estimate of ₹ 219 crore
- PAT came in at ₹ 172.1 crore higher than I-direct estimate of ₹ 137 crore

What should investors do? The company maintained its margins even in challenging conditions. Going ahead, a decline in LNG prices and long term contracts would help the company to reduce its costs. The Oil Ministry has accepted the Kirit Parikh committee recommendations of a ceiling price of US\$6.5/mmbtu while the government has prioritised gas for CNG and domestic PNG from HPHT fields, which would further benefit MGL.

- We change our rating on the stock from HOLD to **BUY**

Target Price & Valuation: We value MGL at ₹ 1000 i.e. ~12x P/E on FY25E 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
- APM gas price trend
- Debt free balance sheet and consistent dividend payout

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

- Indraprastha Gas (IGL) is one of India's leading CGD companies, which primarily operates in the NCT of Delhi and will benefit from stricter environmental regulations in Delhi
- BUY with a target price of ₹ 490



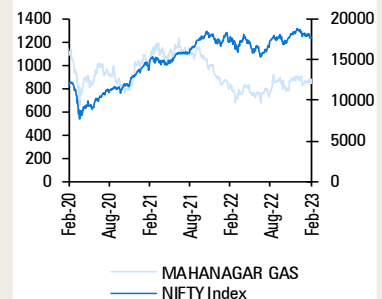
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	8,445.5
Total Debt (FY22) (₹ Crore)	82.4
Cash and Investments (FY22)	465.2
EV (₹ Crore)	8,062.7
52 week H/L	1205/666
Equity capital (₹ Crore)	98.8
Face value (₹)	10.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	32.5	32.5	32.5	32.5
FII	25.0	25.8	28.4	29.7
DII	17.3	16.1	15.6	15.6
Others	25.2	25.6	23.6	22.2

Price Chart



Recent event & key risks

- **Key Risk:** (i) Lower than expected volume growth, (ii) Increase in gas sourcing cost

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Key Financial Summary

Key Financials	FY20	FY21	FY22	5 year CAGR (FY17-	FY23E	FY24E	FY25E	3 Year CAGR
Revenue (₹ crore)	3,264.5	2,337.8	3,884.9	11.7%	6,841.5	6,395.3	5,567.3	12.7
EBITDA (₹ crore)	1,052.9	934.0	924.3	7.5%	1,071.7	1,202.6	1,308.7	11.9
PAT (₹ crore)	793.5	619.6	597.0	8.7%	701.9	769.3	848.4	11.0
EPS (₹)	80.3	62.7	60.4		71.1	77.9	85.9	
P/E (x)	10.6	13.6	14.1		12.0	11.0	10.0	
P/Book (x)	2.9	2.6	2.3		2.1	1.9	1.7	
RoCE (%)	29.7	23.1	19.8		20.8	20.8	20.6	
RoE (%)	26.9	19.2	16.6		17.6	17.2	16.9	

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results: Margins maintained QoQ

- Revenue increased 7% QoQ due to increase in realisation of ₹ 4.6/scm
- Sales volume of 3.41 mmscmd was down 1.4% QoQ, mainly due to a decline in CNG volumes by 2.6% to 2.47 mmscmd. PNG volumes grew 2% QoQ to 0.94 mmscmd. On a YoY basis, CNG and PNG volumes grew 3.5% and 2.8%, respectively
- On a QoQ basis, the company was able to maintain its margins due to price hikes taken to counter the increase in gas cost. Gross margins were at ₹ 13.7/scm, up ₹ 0.7/scm QoQ. Subsequently, EBITDA/scm was ₹ 8.2/scm, up ₹ 0.3/scm QoQ
- Going ahead, we expect sales volume of 3.45 mmscmd, 3.7 mmscmd and 3.85 mmscmd in FY23E, FY24E and FY25E, respectively
- Gross margins are estimated at ₹ 14/scm, ₹ 15.6/scm and ₹ 15.8/scm in FY23, FY24E and FY25E, respectively

Q3FY23 Earnings Conference Call highlights

- Present APM gas allocation is ~91% of CGD requirement for priority sector
- The company provided connection to 87845 domestic households in Q3. Total connections were at 2.08 million households. Around 82 km steel and PE pipeline was laid, taking the aggregated pipeline length to 6407 km. Five new CNG stations were added, taking the total count to 301 CNG stations. Also, 82 new industrial and commercial customers were added during the quarter. Total industrial and commercial customers are 4465
- In Raigad geographical area (GA), the company is connected to 63509 households and 24 CNG stations are operational. Also, 8 km of steel and PE pipeline was laid out taking the total length to 373 km
- Sales volume is expected to grow at 5% CAGR in the next three to five years. Of the total current sales volume, around 1.8-1.85 mmscmd was supplied to GA1, 1.5-1.55 mmscmd to GA2 and 0.1-0.12 mmscmd gas was distributed to GA3
- Planned capex for FY23 was ₹ 650 crore while capex incurred till December was ₹ 460 crore. Capex for FY24E was ₹ 600-800 crore
- Quarterly conversion from traditional fuels to CNG was 16900 vehicles. Of this, LCVs were around 1700, cars were 12200, three wheelers were at 2900 and 33 trucks
- The company received 0.3 mmscmd of HPHT gas during the auction held in February

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Gujarat Gas (GUJGA)	515	550	Hold	35,453	18.9	18.9	26.6	27.2	27.3	19.4	17.3	16.9	12.1	27.3	22.0	26.4	23.3	19.6	22.5
Indraprastha Gas (INDGAS)	418	490	Buy	29,260	14.4	18.8	20.1	29.1	22.3	20.8	19.0	14.9	13.7	20.0	22.3	20.8	17.1	19.0	17.7
Mahanagar Gas (MAHGAS)	855	1,000	Buy	8,446	62.7	60.4	71.1	13.6	14.1	12.0	8.6	8.7	7.4	23.1	19.8	20.8	19.2	16.6	17.6

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY23	Q2FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Total Revenues	1,838.4	1,937.9	1,122.9	63.7	1,717.5	7.0	Higher YoY due to price hikes taken by the company
Raw materials costs	1,240.7	1,326.5	765.2	62.1	1,147.5	8.1	Lower than estimates
Employees Cost	21.9	23.5	22.0	-0.5	31.9	-31.6	
Other Expenses	319.8	369.3	232.6	37.5	285.2	12.1	
Total Expenditure	1,582.3	1,719.3	1,019.8	55.2	1,464.7	8.0	
EBITDA	256.1	218.5	103.1	148.4	252.8	1.3	EBITDA margin largely maintained QoQ
EBITDA margins (%)	13.9	11.3	9.2	475 bps	14.7	-79 bps	
Depreciation	58.5	56.8	48.2	21.4	55.1	6.2	
EBIT	197.6	161.8	54.9	259.9	197.7	-0.1	
Interest	2.4	1.5	1.5	57.1	2.5	-2.0	
Other Income	32.3	23.5	21.8	47.7	26.0	24.1	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	227.4	183.8	75.2	202.5	221.3	2.8	
Total Tax	55.3	46.9	18.4	200.9	57.3	-3.4	
PAT	172.1	136.9	56.8	203.0	164.0	4.9	

Key Metrics

Sales Volumes (mmscmd)	3.41	3.62	3.3	3.3	3.46	-1.4	Total volumes declined QoQ due to fall in CNG volumes QoQ
Realisation (₹/scm)	58.6	58.2	37.0	58.5	54.0	8.5	Improved due to price hike taken by the company
Gross Margin (₹/scm)	13.7	13.1	8.6	58.8	13.0	5.2	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Revenue	7098.0	6,841.5	-3.6	6994.3	6,395.3	-8.6	-	5,567.3	-	Revised realisation estimates as per sourcing
EBITDA	1,030.6	1,071.7	4.0	1,188.1	1,202.6	1.2	-	1,308.7	-	Revised estimates post Q3FY23 results taking into account current gas prices trend
EBITDA Margin (%)	14.5	15.7	115 bps	17.0	18.8	182 bps	-	23.5	-	
PAT	664.0	701.9	5.7	758.6	769.3	1.4	-	848.4	-	
EPS (₹)	67.2	71.1	5.7	76.8	77.9	1.4	-	85.9	-	

Source: ICICI Direct Research

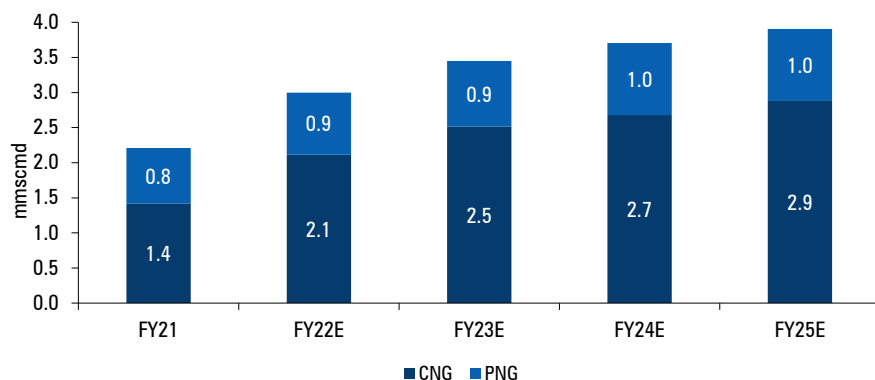
Exhibit 4: Assumptions

	Current					Earlier			Comments
	FY21	FY22	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Sales Volumes (mmscmd)	2.21	3.00	3.45	3.70	3.91	3.55	3.80	-	Realigned estimates post Q3FY23 results
Realisation (₹/scm)	29.0	35.5	54.3	47.3	39.0	54.8	50.4	-	Revised Realisation as per recent gas price trend
Gross Margin (₹/scm)	17.4	13.8	14.0	15.6	15.8	13.7	14.6	-	

Source: ICICI Direct Research

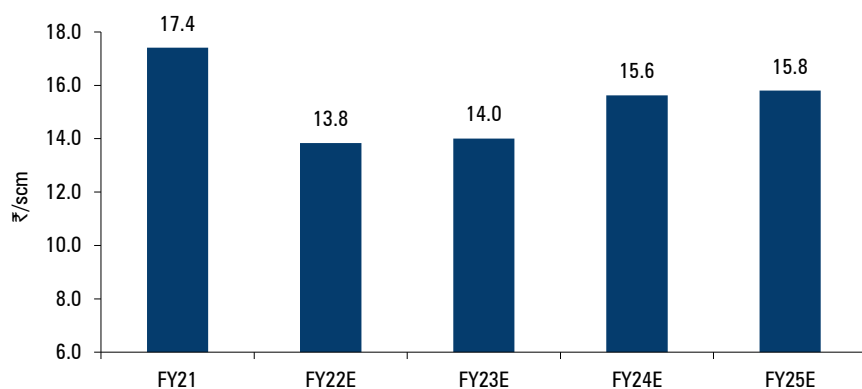
Story in charts

Exhibit 5: Volume to grow at steady pace



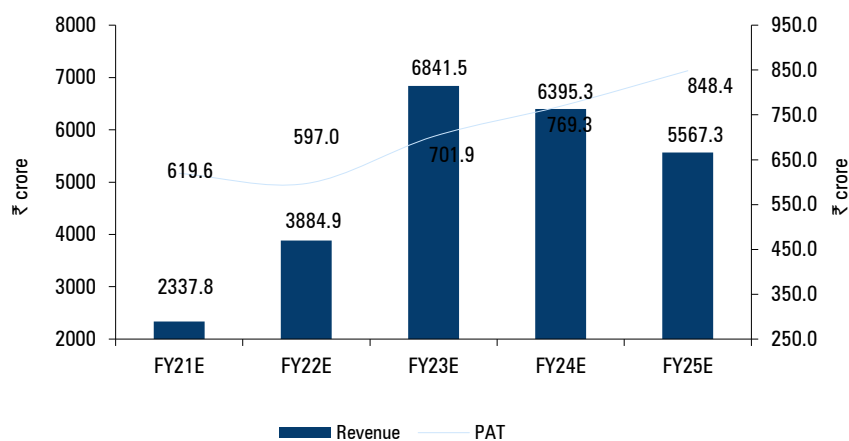
Source: Company, ICICI Direct Research

Exhibit 6: Margins to improve, going ahead



Source: Company, ICICI Direct Research

Exhibit 7: Revenue, PAT trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Revenue	3884.9	6841.5	6395.3	5567.3
Growth (%)	66.2	76.1	-6.5	-12.9
Raw material Costs	2045.4	4461.3	3684.5	2773.7
Employee Costs	83.3	96.3	103.1	110.3
Other Expenditure	507.2	595.9	807.2	835.1
Op. Expenditure	2960.6	5769.8	5192.8	4258.6
EBITDA	924.3	1071.7	1202.6	1308.7
Growth (%)	-1.0	15.9	12.2	8.8
Depreciation	196.3	224.1	256.9	256.9
EBIT	728.1	847.6	945.7	1051.8
Interest	7.5	8.7	7.0	7.0
Other Income	85.7	101.7	94.0	94.0
PBT	806.3	940.7	1032.7	1138.8
Growth (%)	-3.3	16.7	9.8	10.3
Tax	209.3	238.8	263.3	290.4
Reported PAT	597.0	701.9	769.3	848.4
Growth (%)	-3.6	17.6	9.6	10.3
EPS	60.4	71.1	77.9	85.9

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	597.0	701.9	769.3	848.4
Add: Depreciation	196.3	224.1	256.9	256.9
Add: Others	23.5	15.0	15.0	15.0
Cash Profit	816.8	940.9	1,041.2	1,120.3
Increase/(Decrease) in CL	219.1	558.9	54.7	-95.1
(Increase)/Decrease in CA	-116.0	-384.5	27.4	87.0
CF from Operating Activi	919.9	1115.3	1123.4	1112.2
Purchase of Fixed Assets	696.3	642.6	675.0	644.8
(Inc)/Dec in Investments	-63.3	-40.0	-75.0	-50.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activi	-759.6	-682.6	-750.0	-694.8
Inc/(Dec) in Loan Funds	25.1	0.0	0.0	0.0
Inc/(Dec) in Sh. Cap. & Res.	0.0	0.0	0.0	0.0
Less: Dividend Paid	232.0	300.5	300.5	300.5
Others	0.0	0.0	0.0	0.0
CF from financing activiti	-206.9	-300.5	-300.5	-300.5
Change in cash Eq.	-46.7	132.2	72.9	116.9
Op. Cash and cash Eq.	511.9	465.2	597.4	670.3
Cl. Cash and cash Eq.	465.2	597.4	670.3	787.2

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
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	3,498.5	3,899.9	4,368.8	4,916.7
Shareholder's Fund	3,597.3	3,998.7	4,467.5	5,015.5
Loan Funds	82.4	82.4	82.4	82.4
Deferred Tax Liability	200.8	215.8	230.8	245.8
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	3880.5	4296.9	4780.8	5343.7
Application of Funds				
Gross Block	3,545.6	4,006.2	4,481.2	4,956.2
Less: Acc. Depreciation	931.9	1,159.0	1,415.9	1,703.1
Net Block	2,613.7	2,847.2	3,065.3	3,253.2
Capital WIP	615.9	800.9	1,000.9	1,200.9
Total Fixed Assets	3,229.7	3,648.1	4,066.2	4,454.1
Investments	1,088.3	1,128.3	1,203.3	1,253.3
Inventories	27.5	56.2	70.1	61.0
Debtor	184.0	281.2	262.8	228.8
Cash	465.2	597.4	670.3	787.2
Loan & Advance, Other CA	239.1	497.8	474.9	431.0
Total Current assets	915.9	1432.6	1478.1	1508.0
Current Liabilities	1317.7	1874.4	1927.4	1830.3
Provisions	35.6	37.8	39.5	41.4
Total CL and Provisions	1353.3	1912.1	1966.8	1871.7
Net Working Capital	-437.4	-479.5	-488.8	-363.7
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	3880.5	4296.9	4780.8	5343.7

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Book Value	364.2	404.8	452.3	507.8
Cash per share	157.3	174.7	189.7	206.6
EPS	60.4	71.1	77.9	85.9
Cash EPS	80.3	93.7	103.9	111.9
DPS	25.0	26.0	26.0	26.0
Profitability & Operating Ratios				
EBITDA Margin (%)	23.8	15.7	18.8	23.5
PAT Margin (%)	15.4	10.3	12.0	15.2
Fixed Asset Turnover (x)	1.2	1.9	1.6	1.2
Inventory Turnover (Days)	2.6	3.0	4.0	4.0
Debtor (Days)	17.3	15.0	15.0	15.0
Current Liabilities (Days)	123.8	100.0	110.0	120.0
Return Ratios (%)				
RoE	16.6	17.6	17.2	16.9
RoCE	19.8	20.8	20.8	20.6
RoIC	34.2	36.0	35.3	34.4
Valuation Ratios (x)				
PE	14.1	12.0	11.0	10.0
Price to Book Value	2.3	2.1	1.9	1.7
EV/EBITDA	8.7	7.4	6.5	5.9
EV/Sales	2.1	1.2	1.2	1.4
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)	0.1	0.1	0.1	0.1
Current Ratio	0.7	0.7	0.8	0.8
Quick ratio	0.7	0.7	0.7	0.8

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 (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	343	380	Hold	73,040	91.0	43.7	5.2	3.8	7.9	65.8	5.8	6.3	13.0	14.8	13.9	2.7	34.9	18.5	2.2
GAIL (India) (GAIL)	96	115	Buy	63,121	11.0	23.3	9.4	8.7	4.1	10.2	7.3	3.4	8.4	8.7	18.8	9.0	10.5	18.6	10.5
Gujarat Gas (GUJGA)	515	550	Hold	35,453	18.9	18.9	26.6	27.2	27.3	19.4	17.3	16.9	12.1	27.3	22.0	26.4	23.3	19.6	22.5
HPCL (HINPET)	232	250	Hold	32,919	44.9	-39.6	47.8	5.2	-5.9	4.9	7.8	-18.2	6.6	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	81	90	Hold	1,14,382	15.5	17.1	5.2	5.2	4.7	15.5	3.0	2.6	5.0	13.3	12.9	4.0	19.8	18.4	5.8
Indraprastha Gas (INDGAS)	418	490	Buy	29,260	14.4	18.8	20.1	29.1	22.3	20.8	19.0	14.9	13.7	20.0	22.3	20.8	17.1	19.0	17.7
Mahanagar Gas (MAHGAS)	855	1,000	Buy	8,446	62.7	60.4	71.1	13.6	14.1	12.0	8.6	8.7	7.4	23.1	19.8	20.8	19.2	16.6	17.6
ONGC (ONGC)	149	155	Hold	1,91,217	10.4	8.9	32.0	14.3	16.7	4.7	4.2	6.4	3.3	10.2	4.5	14.8	6.7	5.5	17.0
Petronet LNG (PETLNG)	225	230	Hold	33,750	19.7	22.3	22.0	11.4	10.1	10.2	7.0	6.2	6.2	26.0	27.0	23.7	25.3	25.0	22.6
Reliance Industries (RELIND)	2,443	3,050	Buy	16,52,690	89.7	89.7	100.6	32.0	27.2	24.3	22.9	17.9	13.1	5.5	7.1	9.2	7.0	7.8	8.1

Source: Bloomberg, ICICI Direct Research

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ICICI Direct endeavours 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%



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