

May 9, 2023

Q4FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,260		1,103	
Sales (Rs. m)	51,376	55,940	50,476	55,187
% Chng.	1.8	1.4		
EBITDA (Rs. m)	14,572	15,557	12,676	13,771
% Chng.	15.0	13.0		
EPS (Rs.)	97.2	105.0	85.1	93.2
% Chng.	14.2	12.6		

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	35,602	62,993	51,376	55,940
EBITDA (Rs. m)	9,243	11,842	14,572	15,557
Margin (%)	26.0	18.8	28.4	27.8
PAT (Rs. m)	5,950	7,900	9,601	10,369
EPS (Rs.)	60.2	80.0	97.2	105.0
Gr. (%)	(4.0)	32.8	21.5	8.0
DPS (Rs.)	25.0	26.0	29.2	31.5
Yield (%)	2.3	2.4	2.7	2.9
RoE (%)	17.4	20.4	21.5	20.1
RoCE (%)	20.9	24.1	26.3	24.2
EV/Sales (x)	2.6	1.5	1.6	1.4
EV/EBITDA (x)	9.9	7.7	5.8	5.0
PE (x)	17.8	13.4	11.0	10.2
P/BV (x)	2.9	2.6	2.2	1.9

Key Data

MGAS.BO | MAHGL IN

52-W High / Low	Rs.1,098 / Rs.666
Sensex / Nifty	61,761 / 18,266
Market Cap	Rs.106bn / \$ 1.293m
Shares Outstanding	99m
3M Avg. Daily Value	Rs.614.68m

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	9.2	22.4	40.9
Relative	5.8	21.0	24.2

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Falling gas cost brightens outlook

Quick Pointers:

- Higher Q4 EBIDTA at Rs12.8/scm owing to 13%QoQ decrease in gas cost drive earnings beat.
- 7% week to week increase in vehicle conversion post Rs8 cut in retail prices to Rs79/kg in Apr23.

We increase our FY24/25E estimates by 14.2%/12.6% to factor in higher margins, given benign gas price outlook. Mahanagar Gas (MAHGL) Q4 results came high, due to higher than expected margins at Rs12.8/scm vs Rs10.2/scm. We believe MAHGL will benefit from lower gas prices in the near term given 1) implementation of Mr Kirit Parekh committee report with suggested price cap of USD6.5/mmbtu towards domestic gas used for priority sectors like CGD and fertilizer and 2) Higher allocation of HPHT (0.19mmscmd) which replaced imported spot LNG. 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 Rs1,260 (Rs 1,103).

- Higher margins at Rs12.8/scm drive beat:** MAHGL reported higher than expected results with Q4 EBITDA and PAT at Rs3.9bn (+52.2% QoQ; PLe Rs3.3bn) and Rs2.7bn (+56.2% QoQ; PLe: Rs2.2bn). Q4 blended realization was at Rs52.8/scm (-0.5%QoQ) owing to lower gas cost of Rs34.4/scm (-13.1%QoQ), resulting in gross margins of Rs24/scm (+26.1%QoQ). Despite higher Opex/scm at Rs5.9/scm (Rs5.6 in Q3), EBITDA spreads were higher at Rs12.8/scm (Q3:Rs8.2/scm; PLe Rs10.2/scm).
- Q4 volumes down ~3%YoY:** Q4 MGL's overall volume was at 303mmism (-3%YoY) with CNG/PNG volumes at 216.9mscm (+5.8% YoY)/86.6mscm (+7.8% YoY). Commercial/industrial gas sales volume was at 40.6mscm (+7.9% YoY). For FY23, CNG/PNG volumes were at 2.5/0.9 mscmd (+18%YoY/5.2%YoY). We have factored in gas sales volumes at 3.63/3.88/mmscmd for FY24/25E i.e. CAGR of 6.5% over FY23-25E.
- Sharp dip in gas cost QoQ; likely to remain muted over the medium term-** Led by drop in spot LNG prices to USD15/mmbtu (Q3 avg of over USD30), blended gas cost came down 13%QoQ, but was up 38.6% higher YoY to Rs34.4/scm. Q4 blended realization increased to Rs52.8/scm (Rs37.9 last year). However, going forward gas prices are likely to come down given 1) drop in domestic gas prices post implementation of Kirit Parekh committee report 2) drop in international spot LNG prices to USD11/mmbtu (Q3: over \$30/mmbtu). We increase our FY24/25E EBITDA/scm margins to Rs11/scm vs FY23 levels of Rs9.5 given benign gas price outlook.
- 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: Q4FY23 Result- Q4 EBITDA up 81%YoY aided by 6% YoY increase in retail CNG prices

Y/e March	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	FY23	FY22	YoY gr. (%)
Net Sales	17,718	11,876	49.2	18,384	69,210	38,849	78.1
Operating Costs	13,821	9,721	42.2	15,823	57,368	29,606	93.8
<i>as % of Net Sales</i>	<i>78.0%</i>	<i>81.9%</i>		<i>86.1%</i>	<i>82.9%</i>	<i>76.2%</i>	
Material Costs	10,428	7,073	47.4	12,407	44,349	20,454	116.8
<i>as % of Net Sales</i>	<i>58.9%</i>	<i>59.6%</i>		<i>67.5%</i>	<i>64.1%</i>	<i>52.6%</i>	
Personnel Costs	324	188	72.4	219	1,079	833	29.5
<i>as % of Net Sales</i>	<i>1.8%</i>	<i>1.6%</i>		<i>1.2%</i>	<i>1.6%</i>	<i>2.1%</i>	
Other Overheads	1,457	1,452	0.3	1,528	5,724	5,072	12.9
<i>as % of Net Sales</i>	<i>8.2%</i>	<i>12.2%</i>		<i>8.3%</i>	<i>8.3%</i>	<i>13.1%</i>	
Excise duty	1,613	1,008	60.0	1,671	6,217	3,247	91.5
EBITDA	3,897	2,155	80.9	2,561	11,842	9,243	28.1
Other Income	336	227	48.2	323	1,119	858	30.5
PBDIT	4,233	2,382	77.7	2,884	12,961	10,101	28.3
Depreciation	639	555	15.2	585	2,312	1,963	17.8
Interest	22	23		24	94	75	
Pre-tax Profit	3,572	1,804	98.0	2,274	10,554	8,063	30.9
Tax	885	486	82.1	553	2,655	2,093	26.8
PAT from ordinary activity	2,687	1,318	103.9	1,721	7,900	5,969	32.3

Source: Company, PL

Exhibit 2: MAHGL price hikes of 65%YoY for CNG compensates for 90% increase in gas cost

Y/e March	4QFY23	4QFY22	YoY gr. (%)	3QFY23	FY23	FY22	YoY gr. (%)
Sales volume -mmscm							
CNG mscm	217	205	5.8	228	909	772	17.8
PNG - mmscm							
Domestic	46	43	7.7	46	178	170	4.5
Commercial/industrial	41	38	7.9	40	162	153	6.0
PNG total mscm	87	80	7.8	86	340	323	5.2
Total mscm	303	285	6.4	314	1,249	1,095	14.1
Sales Rs mn							
CNG	11,382	7,030	61.9	11,809	43,906	22,505	95.1
PNG	4,634	3,766	23.1	4,838	18,812	12,807	46.9
Realisation							
CNG Rs/kg	70	46	53.0	70	64.7	39.1	65.5
PNG Rs/scm	54	47	14.1	56	55.3	39.6	39.7
Cost of gas (Rs/scm)	34.4	24.8	38.6	39.5	35.5	18.7	90.0
Opex (Rs/scm)	5.9	5.7	2.0	5.6	5.4	5.4	1.0
EBITDA (Rs/scm)	12.8	7.6	70.0	8.2	9.48	8.44	12.3
Gross margin (Rs/scm)	24.0	16.8	42.7	19.0	19.9	16.8	18.4

Source: Company, PL

Conference Call Highlights

- Full demand for priority sector (CNG + Domestic PNG) was supplied by domestic gas and HPHT sources. HPHT gas prices were lower compared to LNG at USD12/mmbtu.
- In Q4, MGL added new 13700 vehicles and included - 1350 LCV. This is against ~15500-17000 vehicles in Q1/Q2FY23.
- 7% Week on week increase in conversion to CNG post cut in retail prices of Rs8/kg to Rs79.
- Company spent Rs5.8bn for FY23 and Rs6bn for FY24E.
- Of total CNG demand, 8% is consumed by buses, 35% by autos, 45% by private cars/taxis/aggregators while rest is by light commercial vehicles.
- Company has tied up 0.2mmscmd HPHT volumes for FY24E

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	35,602	62,993	51,376	55,940
YoY gr. (%)	65.4	76.9	(18.4)	8.9
Cost of Goods Sold	20,454	44,349	27,932	30,734
Gross Profit	15,148	18,644	23,444	25,206
Margin (%)	42.5	29.6	45.6	45.1
Employee Cost	833	1,079	1,165	1,258
Other Expenses	-	-	-	-
EBITDA	9,243	11,842	14,572	15,557
YoY gr. (%)	(1.0)	28.1	23.1	6.8
Margin (%)	26.0	18.8	28.4	27.8
Depreciation and Amortization	1,963	2,312	2,707	3,028
EBIT	7,281	9,530	11,865	12,529
Margin (%)	20.4	15.1	23.1	22.4
Net Interest	75	94	-	-
Other Income	857	1,119	1,109	1,484
Profit Before Tax	8,063	10,554	12,974	14,012
Margin (%)	22.6	16.8	25.3	25.0
Total Tax	2,113	2,655	3,373	3,643
Effective tax rate (%)	26.2	25.2	26.0	26.0
Profit after tax	5,950	7,900	9,601	10,369
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,950	7,900	9,601	10,369
YoY gr. (%)	(4.0)	32.8	21.5	8.0
Margin (%)	16.7	12.5	18.7	18.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,950	7,900	9,601	10,369
YoY gr. (%)	(4.0)	32.8	21.5	8.0
Margin (%)	16.7	12.5	18.7	18.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,950	7,900	9,601	10,369
Equity Shares O/s (m)	99	99	99	99
EPS (Rs)	60.2	80.0	97.2	105.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	33,686	39,736	44,736	49,736
Tangibles	33,686	39,736	44,736	49,736
Intangibles	-	-	-	-
Acc: Dep / Amortization	9,106	11,418	14,125	17,153
Tangibles	9,106	11,418	14,125	17,153
Intangibles	-	-	-	-
Net fixed assets	24,581	28,318	30,610	32,583
Tangibles	24,581	28,318	30,610	32,583
Intangibles	-	-	-	-
Capital Work In Progress	6,212	7,138	7,143	7,148
Goodwill	-	-	-	-
Non-Current Investments	1,955	3,595	1,878	2,066
Net Deferred tax assets	(1,245)	(1,258)	(1,258)	(1,258)
Other Non-Current Assets	376	383	421	463
Current Assets				
Investments	10,883	13,098	14,408	15,849
Inventories	275	338	372	409
Trade receivables	1,840	2,940	2,398	2,611
Cash & Bank Balance	4,652	2,279	7,179	12,018
Other Current Assets	126	334	367	404
Total Assets	52,338	60,323	67,433	77,026
Equity				
Equity Share Capital	988	988	988	988
Other Equity	34,985	40,354	47,075	54,333
Total Network	35,973	41,342	48,063	55,321
Non-Current Liabilities				
Long Term borrowings	824	938	-	-
Provisions	259	334	368	405
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,719	3,222	2,628	2,861
Other current liabilities	10,548	12,390	13,629	14,991
Total Equity & Liabilities	52,338	60,323	67,433	77,026

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	8,063	10,554	12,974	14,012
Add. Depreciation	1,963	2,312	2,707	3,028
Add. Interest	75	94	-	-
Less Financial Other Income	857	1,119	1,109	1,484
Add. Other	-	-	-	-
Op. profit before WC changes	10,101	12,961	15,681	17,040
Net Changes-WC	1,643	(83)	(5,254)	(5,151)
Direct tax	(1,858)	(2,573)	(2,725)	(2,943)
Net cash from Op. activities	9,886	10,304	7,703	8,947
Capital expenditures	(6,963)	(7,359)	(3,117)	(5,006)
Interest / Dividend Income	-	-	-	-
Others	-	0	-	-
Net Cash from Invst. activities	(6,963)	(7,359)	(3,117)	(5,006)
Issue of share cap. / premium	(86)	(44)	(649)	(701)
Debt changes	251	114	(938)	-
Dividend paid	(2,469)	(2,568)	(2,880)	(3,111)
Interest paid	(75)	(94)	-	-
Others	-	-	-	-
Net cash from Fin. activities	(2,380)	(2,592)	(4,467)	(3,811)
Net change in cash	543	354	118	130
Free Cash Flow	2,923	2,945	4,585	3,941

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	14,548	15,627	16,714	16,105
YoY gr. (%)	136.4	88.2	62.6	48.2
Raw Material Expenses	10,039	11,475	12,407	10,428
Gross Profit	4,508	4,151	4,307	5,677
Margin (%)	31.0	26.6	25.8	35.3
EBITDA	2,856	2,528	2,561	3,897
YoY gr. (%)	(6.1)	(16.2)	148.4	80.9
Margin (%)	19.6	16.2	15.3	24.2
Depreciation / Depletion	537	551	585	639
EBIT	2,319	1,977	1,976	3,258
Margin (%)	15.9	12.7	11.8	20.2
Net Interest	23	25	24	22
Other Income	200	260	323	336
Profit before Tax	2,496	2,213	2,274	3,572
Margin (%)	17.2	14.2	13.6	22.2
Total Tax	644	573	553	885
Effective tax rate (%)	25.8	25.9	24.3	24.8
Profit after Tax	1,852	1,640	1,721	2,687
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,852	1,640	1,721	2,687
YoY gr. (%)	(9.3)	(19.7)	203.2	103.9
Margin (%)	12.7	10.5	10.3	16.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,852	1,640	1,721	2,687
YoY gr. (%)	(9.3)	(19.7)	203.2	103.9
Margin (%)	12.7	10.5	10.3	16.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	60.2	80.0	97.2	105.0
CEPS	80.1	103.4	124.6	135.6
BVPS	364.2	418.5	486.6	560.0
FCF	29.6	29.8	46.4	39.9
DPS	25.0	26.0	29.2	31.5
Return Ratio(%)				
RoCE	20.9	24.1	26.3	24.2
ROIC	19.8	21.2	25.9	25.5
RoE	17.4	20.4	21.5	20.1
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.3)	(0.4)	(0.5)
Net Working Capital (Days)	(6)	0	1	1
Valuation(x)				
PER	17.8	13.4	11.0	10.2
P/B	2.9	2.6	2.2	1.9
P/CEPS	13.4	10.4	8.6	7.9
EV/EBITDA	9.9	7.7	5.8	5.0
EV/Sales	2.6	1.5	1.6	1.4
Dividend Yield (%)	2.3	2.4	2.7	2.9

Source: Company Data, PL Research

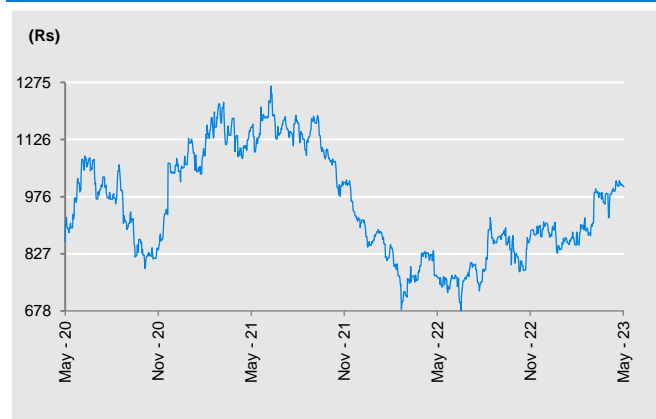
Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Total sales volumes (mscm)	1,095	1,249	1,324	1,417
CNG sales volumes (mscm)	772	909	964	1,031
PNG sales volumes (mscm)	323	340	360	386
CNG retail price (Rs/kg)	39	64	50	51
PNG retail price (Rs/scm)	40	55	42	43

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Apr-23	BUY	1,103	958
2	03-Feb-23	BUY	1,103	850
3	03-Jan-23	BUY	1,103	845
4	14-Nov-22	BUY	1,103	876
5	01-Oct-22	BUY	1,103	832
6	09-Aug-22	BUY	1,103	818
7	05-Jul-22	BUY	1,103	767
8	23-May-22	BUY	1,103	761
9	11-May-22	BUY	1,103	765

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	420	328
2	Bharti Airtel	BUY	977	763
3	GAIL (India)	BUY	118	105
4	Gujarat Gas	Hold	450	461
5	Hindustan Petroleum Corporation	BUY	310	226
6	Indian Oil Corporation	BUY	125	77
7	Indraprastha Gas	BUY	564	444
8	Mahanagar Gas	BUY	1,103	958
9	Oil & Natural Gas Corporation	BUY	210	153
10	Oil India	BUY	325	262
11	Petronet LNG	BUY	326	237
12	Reliance Industries	BUY	2,822	2,349

PL's Recommendation Nomenclature (Absolute Performance)

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

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