

May 10, 2023

RESULT REPORT Q4FY23 | Sector: Energy

Mahanagar Gas Ltd

Lower gas cost aid earnings

Our view

MAHGL's 4QFY23 reported operating profit at Rs 3.9bn (+81% YoY; +52% QoQ), stood in-line with our estimates (YES Sec: Rs 3.8bn) but above street estimates (Rs 3.0bn). The earnings growth in the quarter was led by strong margins, in-turn driven by moderation in in-put gas cost. The LNG prices experienced a sharp decline during the quarter from average of USD 33/mmbtu to USD 18/mmbtu, which helped reduced RM cost during the quarter. While FY23 was challenging due to high gas price environment, going ahead with the moderation in LNG prices, implementation of new domestic gas pricing policy and the policy for preferential allocation of HPHT gas to CGD-Priority segment, the prognosis appears better. Having said that, we believe that per unit margins continue to be a stronger driver of earnings and value for MAHGL, as the scope for strong growth in volumes is rather limited, at least in the near to mid-term.

Result Highlights

- **Profitability:** Reported EBITDA and PAT stood at Rs 3.9bn (+81% YoY; +52% QoQ) and Rs 2.7bn (+104% YoY; +56% QoQ). Profitability improved YoY and QoQ on price increase in retail CNG and PNG undertaken in previous quarter, along with reduction in input LNG cost in the 4QFY23. The FY23 Ebitda stood at Rs 11.8bn (+28% YoY) and PAT stood at Rs 7.9bn (+32% YoY); Primarily on 14% YoY higher sales volume along with 12% YoY higher Ebitda/unit at Rs 9.5/scm
- **Gross Margin:** The gross margin for the quarter stood at Rs 18.7/scm (+41% YoY; +36% QoQ); the same for FY23 stood at Rs 14.9/scm (+8% YoY).
- **EBITDA per unit:** The EBITDA per unit stood in-line at Rs 12.8 (vs Rs 8.2/scm in 3Q) sequentially higher, as price increase in CNG & PNG along with correction in LNG prices helped improve profitability.
- **Gas Sales:** The total gas sales during the quarter stood at 3.37mmcmd (+6.4% YoY; -1.2% QoQ), with CNG sales at 2.41mmcmd (+5.8% YoY; -2.6% QoQ) and PNG at 0.96mmcmd (+7.8% YoY; +2.6% QoQ). For FY23 the same stood at as follows CNG at 2.49mmcmd (+18% YoY) and PNG at 0.93mmcmd (+5.2% QoQ) and total gas sales at 3.42mmcmd (+14% YoY).
- **Infrastructure development:** During the quarter, MAHGL added a) 12 CNG stations in GA-I&II, taking the total to 313, b) 128km of pipeline in GA-I&II taking total to 6535km & 10km in GA-III taking total to 382km.

Valuation

We revise our rating to NEUTRAL with a Mar'24 TP of Rs 1020, as we model for an earnings growth at 4% CAGR (FY23-30e). Our DCF based TP implies a target multiple of 11.9x FY24e, vs 12.5x stock is currently trading.

Exhibit 1: Actual vs estimate

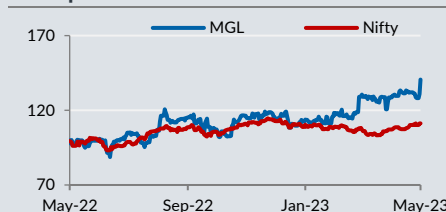
Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Con.	YES Sec	Consensus	
Sales	16,105	16,484	16,590	(2)	(3)	In-line with estimates
EBITDA	3,897	3,790	3,057	3	27	
EBITDA Margin (%)	24	23	18	121bps	577bps	
Ad PAT	2,688	2,666	2,030	1	32	

Reco	:	NEUTRAL
CMP	:	Rs 1074
Target Price	:	Rs 1020
Potential Return	:	-5%

Stock data (as on May 09, 2023)

Nifty	18,266
52 Week h/l (Rs)	1098/666
Market cap (Rs/USD mn)	98738/1208
Outstanding Shares (mn)	99
6m Avg t/o (Rs mn):	480
Div yield (%):	2.5
Bloomberg code:	MAHGL IN
NSE code:	MGL

Stock performance



	1M	3M	1Y
Absolute return	9.2%	20.2%	40.9%

Shareholding pattern (As of Mar'23 end)

Promoter	32.5%
FII+DII	55.9%
Others	11.6%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	ADD
Target Price	1020	995

Δ in estimates

(1-Yr)	FY23	FY24e	FY25e
EPS (New)	80.0	81.9	85.5
EPS (Old)	72.0	77.9	87.2
% Change	11%	5%	-2%

Financial Summary

(Rs bn)	FY23E	FY24E	FY25E
Revenue	63.0	52.6	50.3
YoY %	76.9	(16.6)	(4.4)
EBITDA	11.84	11.60	12.07
YoY %	28.1	(2.0)	4.0
PAT	7.90	8.10	8.45
YoY %	32.3	2.5	4.3
ROE	20.4	18.7	17.8
EPS	80.0	81.9	85.5
P/E	13.4	13.1	12.6
BV	418.4	458.1	500.9
EV/EBITDA	9.5	9.7	9.3

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Exhibit 2: Earnings table

Particulars (Rs mn)	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	y/y (%)	q/q (%)	FY22	FY23	y/y (%)
Revenue	10,868	14,548	15,627	16,714	16,105	48.2	(3.6)	35,602	62,993	76.9
Expenditure	8,713	11,692	13,098	14,153	12,208	40.1	(13.7)	26,359	51,151	94.1
-Raw Material	7,073	10,039	11,475	12,407	10,428	47.4	(16.0)	20,454	44,349	116.8
-Staff Cost	188	217	319	219	324	72.4	48.0	833	1,079	29.5
- Other expenses	1,452	1,436	1,304	1,528	1,457	0.3	(4.7)	5,072	5,724	12.9
Operating Profit	2,155	2,856	2,528	2,561	3,897	80.9	52.2	9,243	11,842	28.1
OPM(%)	19.8	19.6	16.2	15.3	24.2	437 bps	888 bps	26.0	18.8	716 bps
Other Income	227	200	260	323	336	48	4	857	1,119	30.5
Depreciation	555	537	551	585	638	15	9	1,963	2,311	17.8
Interest	23	23	25	24	22	(3)	(9)	75	94	24.7
Exceptional Loss/(Profit)	-	-	-	-	-	-	-	-	-	-
PBT	1,804	2,496	2,213	2,274	3,573	98.1	57.1	8,063	10,555	30.9
Tax	486	644	573	553	885	82.1	59.9	2,093	2,655	26.8
PAT	1,318	1,852	1,640	1,721	2,688	104.0	56.2	5,970	7,901	32.3
Adj PAT	1,318	1,852	1,640	1,721	2,688	104.0	56.2	5,970	7,901	32.3

Source: Company, YES Sec

Exhibit 3: Operating highlights

Particulars	Units	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	y/y (%)	q/q (%)	FY22	FY23	y/y (%)
CNG Sales	mmscmd	2.28	2.54	2.54	2.47	2.41	5.8	(2.6)	2.11	2.49	17.9
PNG sales	mmscmd	0.89	0.91	0.92	0.94	0.96	7.8	2.6	0.89	0.93	5.2
Total Gas Sales	mmscmd	3.17	3.45	3.46	3.41	3.37	6.4	(1.2)	3.00	3.42	14.1
Avg Realization	Rs/scm	37.8	46.2	48.9	53.0	52.8	39.4	(0.5)	31.98	50.23	57.0
Gross Spread	Rs/scm	13.3	14.4	13.0	13.7	18.7	40.6	36.3	13.84	14.92	7.9
Ebitda/unit	Rs/scm	7.6	9.1	7.9	8.2	12.8	70.0	57.4	8.44	9.48	12.3
Operating costs	Rs/scm	5.7	5.3	5.1	5.6	5.9	2.0	5.4	5.40	5.45	0.8
Material Cost	Rs/scm	24.8	32.0	36.1	39.5	34.4	38.6	(13.1)	18.68	35.50	90.0

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Greater Mumbai-GA-1 & 2

- Household connected in the quarter 92274, taking total to 2.17mn total households
- Laid 128 km of steel and PE pipeline taking aggregate length to total 6535km
- Added 12new CNG stations during the quarter, taking total to 313 stations; 24-25 CNG station added in FY23 and 41 CNG stations were upgraded
- FY24 target: to add 30-40 new CNG station and 30-40 CNG stations to be upgraded across GA-I, II and III
- Added 115 new industrial and commercial consumers: 4558 total.

Raigarh-GA3

- Total connected households at 68033
- 28 CNG stations operational
- Laid 10 km taking total 382 km
- First CGS and mother station commissioned in GA-3

Other Updates

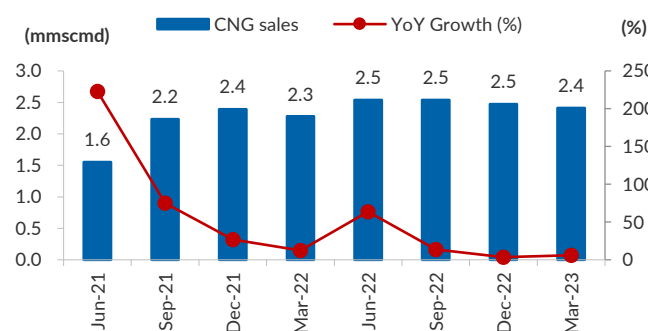
- Volumes: CNG: 216.92scm (FY23- 909.43scm), PNG: 86.57scm (FY23: 339.88) of which Domestic: 45.93scm (FY23- 177.85), Industrial: 40.64scm (FY23: 162.03). Total volume: 303.49scm (FY23: 1249.31scm)
- Domestic gas prices and allocation a challenge during FY23
- New domestic gas allocation policy effective Feb'23 (notification 13th Jan '23) beneficial to CGD as it helps to replace expensive imported LNG with domestic HPHT gas
- CNG price reduced: CNG price reduced by Rs 2.5/kg, effective 1st Feb, and Rs 8/kg effective 8th Apr; PNG-D prices also reduced by Rs 5/scm
- High CNG prices along with fewer operating days, during the quarter impacted sales; with price now moderated, sales is expected to pick up
- Reduction in basic average cost of gas led to higher Ebitda during the quarter
- Final dividend of Rs 16, total dividend at Rs 26/sh
- HPHT gas sourcing during the quarter 0.19mmscmd and balance was APM for CNG and PNG-D ; APM and HPHT sufficient for priority sector during the quarter ; APM allocation at 92-93% in FY23 , expected allocation in FY24 at 88% -90%
- 0.14mmscmd spot volume purchased and rest sourced through term contract for PNG-I&C
- Roughly 5-6% volume growth on annual basis as a guidance for medium to long term, in business as usual scenario; any support from NGT and govt can boost volume additionally
- Substantially increased addition of domestic consumers over last 2 years; sales momentum in PNG-D likely to driven by continued addition of PNG-D consumers
- Around 300 buses remained off road in the 4QFY23, which additionally impacted CNG sales, now those buses are back on road and expected to contribute to demand
- Vehicle conversion: 15000-17000, in 2Q -3Q however at 13700 vehicles in 4Q
- 1350 Commercial Vehicle, added during the quarter;
- Buses comprise 8% of volume, Auto rick saw: 35%, Private cars & taxis 45% and remaining demand can be attributed to CVs

Mahanagar Gas Ltd

- Penetration levels: Auto rickshaw: 100% penetration; Cars: 33% and 2-3% penetration in CVs ; looking to increase penetration in CVs; OEM fitted CVs likely to boost penetration in CV segment
- CNG adoption is at entry level, vis-à-vis EVs which have price points more comparable with mid-range Sedans
- Post reduction in CNG prices, a 7% week-on-week increase in sales was observed in Apr'23
- MAHGL has tied up some quantity of HPHT gas in the recent auction and would be looking to tie-up a little more in the coming auctions for HPHT gas
- FY23 UEPL volume: 0.1mmscmd
- Capex guidance: Rs 5.80bn in FY23 and Rs 5.0-6.0 bn capex expected in FY24
- HPHT sourcing: 0.1mmscmd sourced earlier from RIL and 0.1 sourced recently in the auction conducted on 1st May 2023
- Term gas prices declined by USD 1-3/mmbtu in the quarter and spot gas reduced from USD 33 /mmbtu to USD 17-18/mmbtu leading to reduction in gas cost
- CBG plant: BMC and MCGM in process of finalization the project
- CDU roll out stuck in regulatory hurdles from TESO; The regulations restrict the movement of CDU and therefore they don't make economic sense under regulatory restriction

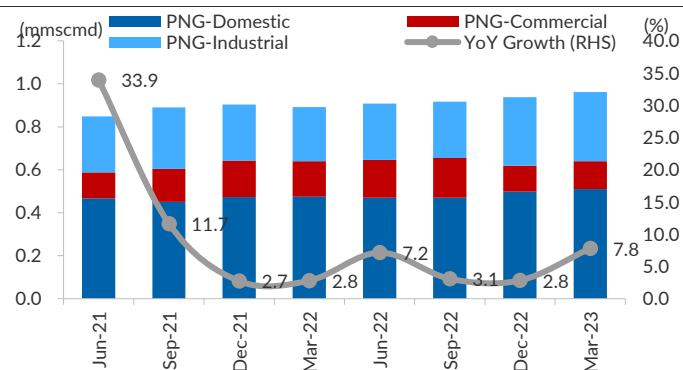
CHARTS

Exhibit 4: CNG sales at 2.41mmscmd; higher 5.8% YoY but lower by 2.6% QoQ



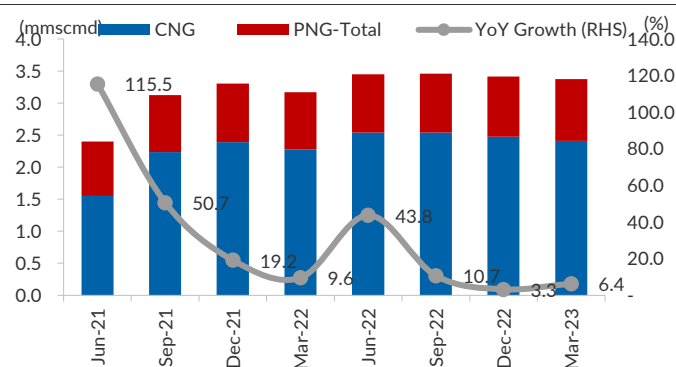
Source: Company, YES Sec

Exhibit 5: PNG sales at 0.96mmscmd up 7.8% YoY and 2.6% QoQ



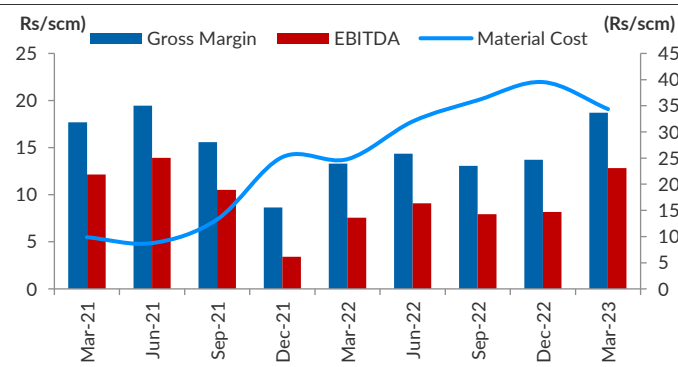
Source: Company, YES Sec

Exhibit 6: Total gas sales at 3.37mmscmd, up by 6.4% YoY but lower by (1.2)% QoQ



Source: Company, YES Sec

Exhibit 7: EBITDA per unit improved QoQ to Rs 12.8/scm



Source: Company, YES Sec

VIEW & VALUATIONS

NEUTRAL with a target price of Rs 1020/sh

We revise our rating to NEUTRAL with a Mar'24 TP of Rs 1020/sh, as we model for an earnings growth at 4% CAGR (FY23-30e), on backs of gas sales volume growth CAGR of 5% and Ebitda per unit of Rs 9/scm. Our DCF based TP implies a target multiple of 11.9x FY24e, vs 12.5x stock is currently trading.

Exhibit 8: Cashflow analysis -MAHGL SA

	FY20	FY21	FY22e	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e
EBIT*(1-T)	7988	6249	6025	7966	8148	8500	8930	9615	10201	11046	11776
Depreciation	1617	1737	1963	2311	1929	2025	2121	2217	2313	2409	2505
Capex	(4215)	(3380)	(6387)	(6974)	(5994)	(5500)	(5500)	(5000)	(5000)	(4500)	(4500)
Change in W/C	611	169	(41)	(2111)	445	(234)	(73)	(52)	(70)	(44)	(63)
FCFF	6001	4774	1560	1191	4528	4791	5477	6780	7444	8911	9717

Exhibit 9: Valuation table

	Rs mn	USD mn	Rs /sh
Sum of FCFF projection	28734	359	290
Terminal Value	62381	780	630
EV	91115	1139	920
EV for Unson	2271	28	23
Net Debt	(7553)	(94)	(76)
Equity Value	100938	1262	1020
Shr Outstanding	99		
Rs/USD	80		
WACC (25% Debt)	11.4%		

Exhibit 10: Key Assumptions

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
CNG											
Sales (mmscmd)	1.8	1.8	1.9	2.0	2.2	2.1	1.4	2.1	2.5	2.6	2.7
CNG Growth (%)	7%	2%	5%	4.5%	9.2%	-0.8%	-34.1%	49.4%	17.9%	4.4%	5.0%
Blended CNG price (Rs/kg)	37.2	39.4	37.1	38.1	45.0	49.5	47.5	55.2	83.4	64.2	61.2
PNG											
Sales (mmscmd)	0.62	0.63	0.67	0.72	0.78	0.81	0.79	0.88	0.93	0.93	0.94
PNG Growth (%)	3%	1%	6%	7.1%	9.2%	3.6%	-2.4%	11.5%	5.4%	0.1%	1.3%
Blended PNG Price (Rs/scm)	32.0	26.0	23.9	25.8	30.9	30.2	28.9	39.7	55.4	45.4	38.1
Total gas consumption (mmscmd)	2.4	2.4	2.57	2.70	2.95	3.0	2.21	3.0	3.42	3.5	3.7
EBITDA/scm	5.6	5.7	6.9	7.91	8.22	9.74	11.59	8.4	9.5	9.0	9.0
Rs/USD	61.6	65.5	67	65	70.3	70.8	75	75	80	80	80

FINANCIALS

Exhibit 11: Balance sheet

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Equity capital	988	988	988	988	988	988	988	988	988
Reserves	17,413	19,966	23,001	28,539	31,336	34,895	40,354	44,275	48,499
Net worth	18,400	20,954	23,989	29,527	32,324	35,883	41,342	45,263	49,487
Debt	3,905	4,452	5,197	6,313	6,936	7,457	9,152	9,059	9,860
Deferred tax liab (net)	1,376	1,748	2,048	1,607	1,773	2,008	2,086	2,236	2,386
Total Capital employed	23,682	27,154	31,234	37,447	41,033	45,348	52,580	56,558	61,732
Fixed assets	17,118	18,847	21,284	24,128	26,012	34,158	35,404	39,475	42,950
Goodwill	44	39	47	46	57	46	51	46	46
Investments	4,667	6,877	6,540	11,215	10,250	10,550	13,098	13,398	13,698
Net working capital	1,852	1,391	3,363	2,059	4,714	594	4,026	3,638	5,038
Inventories	238	240	191	186	222	504	338	775	714
Sundry debtors	949	916	996	685	1,275	1,463	2,940	2,160	2,066
Cash & Bank Balance	1,481	919	2,988	2,295	5,119	1,092	2,279	2,335	3,501
Other current assets	1,745	2,266	2,364	2,732	3,077	3,277	6,212	6,412	6,612
Current Liabilities	2,273	2,750	2,964	3,574	4,629	5,333	7,245	7,486	7,238
Provisions	288	199	212	263	350	410	498	558	618
Application of Funds	23,682	27,154	31,234	37,447	41,033	45,348	52,580	56,558	61,732

Exhibit 12: Income statement

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Revenue	20,340	22,330	27,911	29,721	21,525	35,602	62,993	52,558	50,266
Total Expense	13,898	14,529	19,056	19,193	12,186	26,359	51,151	40,955	38,197
Operating Profit	6,442	7,801	8,855	10,529	9,340	9,243	11,842	11,604	12,070
Other Income	527	577	777	990	805	857	1,119	1,219	1,319
Depreciation	951	1,112	1,259	1,617	1,737	1,963	2,311	1,929	2,025
EBIT	6,017	7,266	8,372	9,901	8,408	8,138	10,649	10,894	11,364
Interest	10	1	3	65	72	75	94	70	70
Extraordinary Item	-	-	-	-	-	-	-	-	-
PBT	6,007	7,265	8,369	9,835	8,336	8,063	10,555	10,824	11,294
Tax	2,072	2,486	2,905	1,900	2,140	2,093	2,655	2,728	2,846
PAT	3,934	4,779	5,464	7,935	6,196	5,970	7,900	8,096	8,448
Adj. PAT	3,934	4,779	5,464	7,935	6,196	5,970	7,900	8,096	8,448
Eps	39.8	48.4	55.3	80.3	62.7	60.4	80.0	81.9	85.5

Exhibit 13: Cash flow statement

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
PBT	6,007	7,265	8,369	9,835	8,336	8,063	10,555	10,824	11,294
Depreciation & amortisation	951	1,112	1,259	1,617	1,737	1,963	2,311	1,929	2,025
Interest expense	(10)	(1)	(3)	(65)	(72)	(75)	(94)	(70)	(70)
(Inc)/Dec in working capital	82	(101)	98	611	169	93	(2,111)	445	(234)
Tax paid	(1,895)	(2,118)	(2,614)	(2,331)	(1,978)	(1,858)	(2,573)	(2,578)	(2,696)
Less: Interest/Dividend Income Received	(527)	(577)	(777)	(990)	(805)	(857)	(1,119)	(1,219)	(1,319)
Other operating Cash Flow	-	-	-	-	-	-	-	-	-
Cash flow from operating activities	4,609	5,580	6,332	8,678	7,387	7,328	6,969	9,331	9,000
Capital expenditure	3,510	(2,808)	(3,667)	(4,215)	(3,381)	(9,799)	(6,974)	(5,994)	(5,500)
Inc/(Dec) in investments	(733)	(2,210)	337	(4,675)	965	(300)	(2,215)	(300)	(300)
Add: Interest/Dividend Income Received	527	577	777	990	805	857	1,119	1,219	1,319
Cash flow from investing activities	3,303	(4,441)	(2,553)	(7,900)	(1,611)	(9,241)	(8,071)	(5,076)	(4,481)
Inc/(Dec) in share capital	(641)	0	0	(0)	0	(0)	(0)	0	-
Inc/(Dec) in debt	675	547	745	1,116	623	521	1,170	(93)	801
Dividend Paid	(2,177)	(2,182)	(2,297)	(3,465)	(2,272)	(2,470)	(2,568)	(4,048)	(4,224)
Others	(6,038)	(66)	(157)	878	(1,304)	(165)	127	(58)	70
Cash flow from financing activities	(8,181)	(1,701)	(1,709)	(1,471)	(2,953)	(2,113)	(1,271)	(4,199)	(3,353)
Net cash flow	(269)	(562)	2,070	(694)	2,824	(4,027)	(2,373)	57	1,166

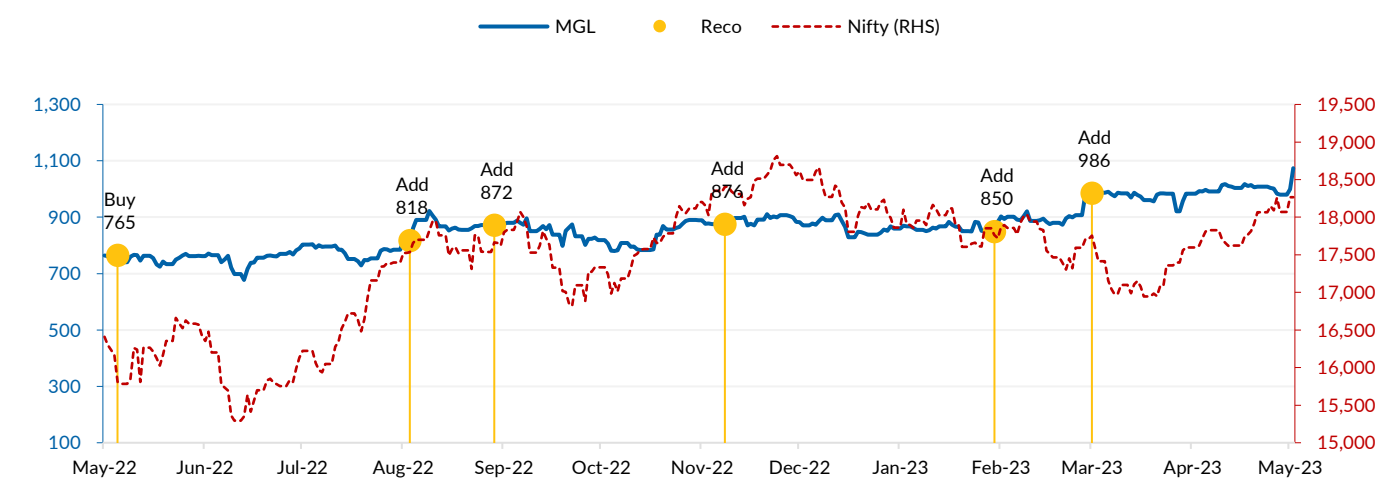
Exhibit 14: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Tax burden (x)	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.7
Interest burden (x)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
EBIT margin (x)	0.3	0.3	0.3	0.3	0.4	0.2	0.2	0.2	0.2
Asset turnover (x)	0.8	0.8	0.9	0.8	0.5	0.7	1.1	0.8	0.7
Financial leverage (x)	1.4	1.4	1.4	1.4	1.4	1.4	1.5	1.4	1.4
RoE (%)	22.0	24.3	24.3	29.7	20.0	17.5	20.4	18.7	17.8

Exhibit 15: Ratio analysis

Y/e 31 Mar	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Growth matrix (%)									
Revenue growth	(2.1)	9.8	25.0	6.5	(27.6)	65.4	76.9	(16.6)	(4.4)
Op profit growth	26.5	21.1	13.5	18.9	(11.3)	(1.0)	28.1	(2.0)	4.0
EBIT growth	27.0	20.8	15.2	18.3	(15.1)	(3.2)	30.9	2.3	4.3
Net profit growth	26.5	21.5	14.3	45.2	(21.9)	(3.7)	32.3	2.5	4.3
Profitability ratios (%)									
OPM	31.7	34.9	31.7	35.4	43.4	26.0	18.8	22.1	24.0
EBIT margin	29.6	32.5	30.0	33.3	39.1	22.9	16.9	20.7	22.6
Net profit margin	19.3	21.4	19.6	26.7	28.8	16.8	12.5	15.4	16.8
RoCE	26.5	28.6	28.7	28.8	21.4	18.8	21.6	20.0	19.2
RoE	22.0	24.3	24.3	29.7	20.0	17.5	20.4	18.7	17.8
RoA	15.8	17.0	16.9	21.0	14.2	12.3	14.0	13.0	12.6
Per share ratios									
EPS	39.8	48.4	55.3	80.3	62.7	60.4	80.0	81.9	85.5
Dividend per share	22.0	22.1	23.2	35.1	23.0	25.0	26.0	41.0	42.8
Cash EPS	49.4	59.6	68.0	96.7	80.3	80.3	103.4	101.5	106.0
Book value per share	186.2	212.1	242.8	298.9	327.2	363.2	418.4	458.1	500.9
Valuation ratios									
P/E	22.0	18.1	15.8	10.9	14.0	14.5	13.4	13.1	12.6
P/CEPS	17.7	14.7	12.9	9.1	10.9	10.9	10.4	10.6	10.1
P/B	4.7	4.1	3.6	2.9	2.7	2.4	2.6	2.3	2.1
EV/EBIDTA	13.8	11.5	10.0	8.6	9.5	10.1	9.5	9.7	9.3
Payout (%)									
Dividend payout	55.3	45.7	42.0	43.7	36.7	41.4	32.5	50.0	50.0
Tax payout	34.5	34.2	34.7	19.3	25.7	26.0	25.2	25.2	25.2
Liquidity ratios									
Debtor days	17.0	15.0	13.0	8.4	21.6	15.0	15.0	15.0	15.0
Inventory days	8.5	8.5	5.0	4.9	10.8	9.0	9.0	9.0	9.0
Creditor days	62.2	39.0	39.8	34.9	76.1	40.0	40.0	40.0	40.0

Recommendation Tracker



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