

# Mahanagar Gas

Estimate change	↔
TP change	↔
Rating change	↔

**CMP: INR1,015      TP: INR1,310 (+29%)      Buy**

## Volume growth remains the key focus

- Mahanagar Gas (MAHGL) reported a miss on our EBITDA estimate. Its EBITDA stood at INR4.8b (est. INR5.1b), due to weaker-than-estimated EBITDA/scm of INR14.6 (est. INR15.5). Volumes were in line at 3.6mmscmd in 2QFY24.
- The company has cut CNG prices by INR3/kg and D-PNG prices by INR2/scm w.e.f. 2<sup>nd</sup> Oct'23 amid steady availability of APM gas. HPHT gas price dipped to USD9.96/mmBtu as of Oct'23 from USD12.12/mmBtu earlier. CNG is now available at more than 50% discount to petrol and ~20% discount to diesel.
- The company expects I/C PNG segments to grow at a faster pace over the next one or two years than historical trends. This is due to the consumer-friendly steps taken by the company, such as removing take-or-pay clause and providing a discount guarantee to new customers who will be using a good amount of gas.
- To drive long-term CNG volume growth from high per capita consumption in commercial vehicle segments, the company is providing incentives such as free fuel cards on new vehicle purchases, based on gross vehicle weight.
- The stock trades at 12.4x FY25E EPS of INR111.4. We value it at 16x FY25E EPS to arrive at our TP of INR1,310. **Reiterate BUY owing to its cheaper valuations.**

## Total volumes in line; miss on EBITDA and margin

- **MAHGL's total volumes were in line with est. at 3.6mmscmd (+3% YoY).** CNG volumes stood at 2.6mmscmd (+2% YoY). PNG volumes came in at 1mmscmd (+8% YoY) during the quarter.
- **EBITDA/scm came below our estimate at INR14.6 (our est. of INR15.5).** Employee costs and other expenses beat our estimates. As a result, EBITDA came in at INR4.8b (est. of INR5.1b, +89% YoY).
- PAT stood at INR3.4b (est. of INR3.5b, +106% YoY).
- **For 1H FY24**, revenue stood at INR31.1b (+3% YoY), EBITDA came in at INR10b (+86% YoY), and PAT was at INR7.1b (+102% YoY)
- EBITDA/scm stood at INR15.7 (+84% YoY).
- Total volumes were flat at 3.4mmscmd (-1% YoY)
- MAHGL, on 17<sup>th</sup> Oct'23, signed an agreement with Baidyanath LNG Pvt Ltd for incorporating a JVC.
- The JVC will undertake the business of selling LNG as fuel to LNG vehicles.
- MAHGL would have a 51% stake in the JVC.

## Valuation and view

- During the quarter, MHGL connected 43,051 households, and added 120 PNG-I/C customers. For Raigad GA, 70,654 households were connected and 3.8kms of pipeline was constructed.
- The stock trades at 12.4x FY25E EPS of INR111.4. We value it at 16x FY25E EPS to arrive at our TP of INR1,310. **Reiterate BUY owing to its cheaper valuations.**

Bloomberg	MAHGL IN
Equity Shares (m)	99
M.Cap.(INRb)/(USDb)	100.5 / 1.2
52-Week Range (INR)	1152 / 811
1, 6, 12 Rel. Per (%)	1/-5/11
12M Avg Val (INR M)	546

## Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	32.5	32.5	32.5
DII	26.1	25.2	25.6
FII	30.5	32.4	28.4
Others	10.9	10.0	13.6

FII Includes depository receipts

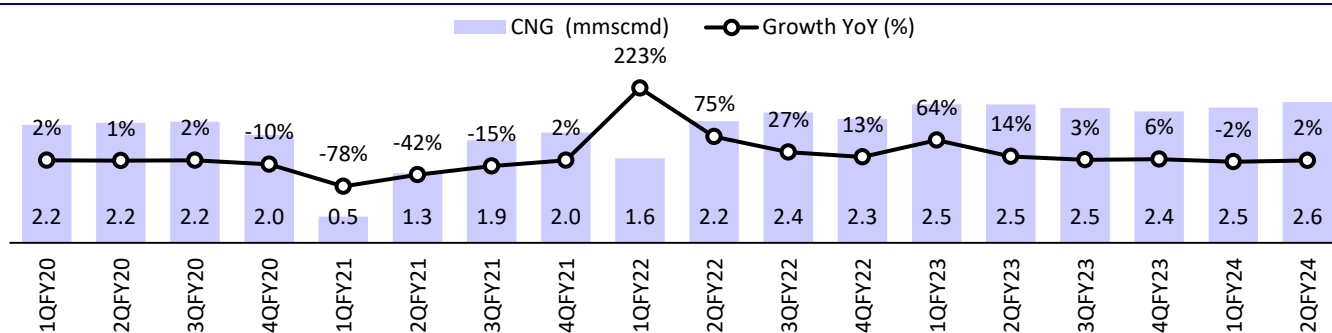
## Standalone - Quarterly Earnings Model

(INR m)

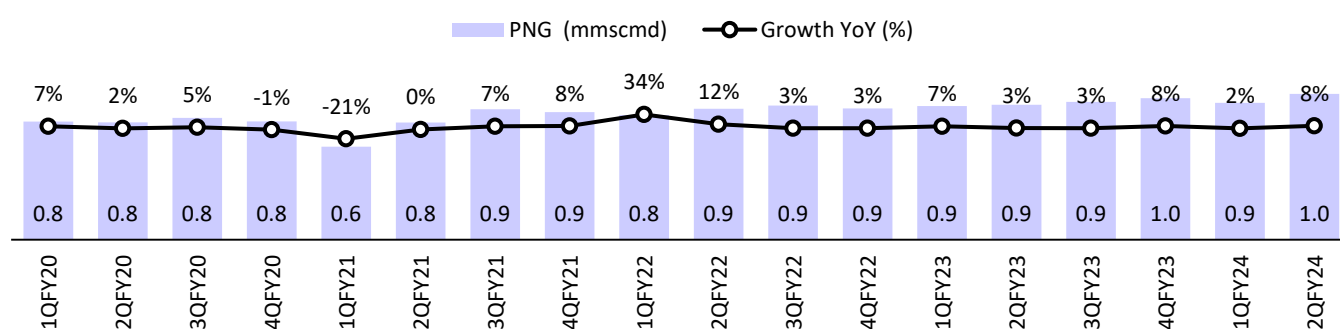
Y/E March	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
<b>Net Sales</b>	<b>14,548</b>	<b>15,627</b>	<b>16,714</b>	<b>16,105</b>	<b>15,378</b>	<b>15,709</b>	<b>16,112</b>	<b>15,651</b>	<b>62,993</b>	<b>62,850</b>	<b>16,220</b>	<b>-3%</b>
YoY Change (%)	136.4	88.2	62.6	48.2	5.7	0.5	-3.6	-2.8	76.9	-0.2	3.8	
<b>EBITDA</b>	<b>2,856</b>	<b>2,528</b>	<b>2,561</b>	<b>3,897</b>	<b>5,213</b>	<b>4,789</b>	<b>3,960</b>	<b>3,409</b>	<b>11,842</b>	<b>17,371</b>	<b>5,139</b>	<b>-7%</b>
EBITDA/SCM	9.1	7.9	8.2	12.8	16.8	14.6	12.0	10.6	9.5	13.5	15.5	-6%
Margins (%)	19.6	16.2	15.3	24.2	33.9	30.5	24.6	21.8	18.8	27.6	31.7	
Depreciation	537	551	585	638	620	658	661	683	2,311	2,622	644	
Interest	23	25	24	22	25	25	30	34	94	114	29	
Other Income	200	260	323	336	390	437	256	198	1,119	1,280	205	
<b>PBT</b>	<b>2,496</b>	<b>2,213</b>	<b>2,274</b>	<b>3,573</b>	<b>4,957</b>	<b>4,543</b>	<b>3,526</b>	<b>2,889</b>	<b>10,555</b>	<b>15,915</b>	<b>4,672</b>	<b>-3%</b>
Tax	644	573	553	885	1,273	1,158	887	687	2,655	4,006	1,176	
Rate (%)	25.8	25.9	24.3	24.8	25.7	25.5	25.2	23.8	25.2	25.2	25.2	
<b>Reported PAT</b>	<b>1,852</b>	<b>1,640</b>	<b>1,721</b>	<b>2,688</b>	<b>3,684</b>	<b>3,385</b>	<b>2,638</b>	<b>2,202</b>	<b>7,901</b>	<b>11,909</b>	<b>3,496</b>	<b>-3%</b>
YoY Change (%)	-9.3	-19.7	203.0	104.0	98.9	106.4	53.3	-18.1	32.3	50.7	113.2	
Margins (%)	12.7	10.5	10.3	16.7	24.0	21.5	16.4	14.1	12.5	18.9	21.6	
<b>Sales Volumes (mmscmd)</b>												
CNG	2.5	2.5	2.5	2.4	2.5	2.6	2.6	2.5	2.5	2.6	2.6	-2%
PNG - Domestic	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	2%
PNG - Industrial/ Commercial	0.4	0.4	0.4	0.5	0.4	0.5	0.5	0.5	0.4	0.5	0.5	6%
PNG - Total	0.9	0.9	0.9	1.0	0.9	1.0	1.0	1.0	0.9	1.0	1.0	4%
<b>Total Volumes</b>	<b>3.4</b>	<b>3.5</b>	<b>3.4</b>	<b>3.4</b>	<b>3.4</b>	<b>3.6</b>	<b>3.6</b>	<b>3.5</b>	<b>3.4</b>	<b>3.5</b>	<b>3.6</b>	<b>-1%</b>

## Operational Highlights

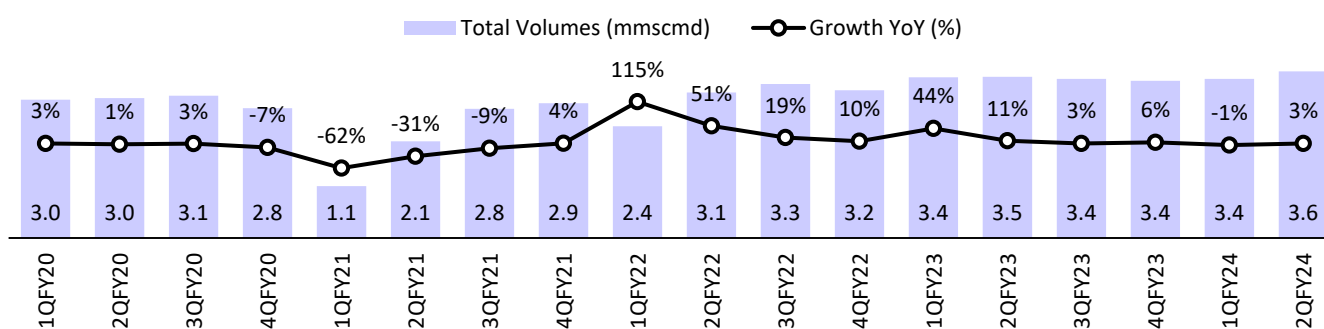
Operational Highlights	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	QoQ (%)
<b>CNG (mmscmd)</b>	<b>1.6</b>	<b>2.2</b>	<b>2.4</b>	<b>2.3</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.4</b>	<b>2.5</b>	<b>2.6</b>	<b>4%</b>
Growth YoY (%)	223%	75%	27%	13%	64%	14%	3%	6%	-2%	2%	
<b>PNG (mmscmd)</b>	<b>0.8</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>1.0</b>	<b>0.9</b>	<b>1.0</b>	<b>7%</b>
Growth YoY (%)	34%	12%	3%	3%	7%	3%	3%	8%	2%	8%	
<b>Total Volumes (mmscmd)</b>	<b>2.4</b>	<b>3.1</b>	<b>3.3</b>	<b>3.2</b>	<b>3.4</b>	<b>3.5</b>	<b>3.4</b>	<b>3.4</b>	<b>3.4</b>	<b>3.6</b>	<b>5%</b>
Growth YoY (%)	115%	51%	19%	10%	44%	11%	3%	6%	-1%	3%	
<b>EBITDA/SCM (INR)</b>	<b>13.9</b>	<b>10.5</b>	<b>3.4</b>	<b>7.6</b>	<b>9.1</b>	<b>7.9</b>	<b>8.2</b>	<b>12.8</b>	<b>16.8</b>	<b>14.6</b>	<b>-13%</b>
Growth YoY (%)	76%	-9%	-73%	-38%	-35%	-24%	140%	70%	84%	83%	

**Exhibit 1: CNG volumes up 2% YoY to 2.6mmscmd**

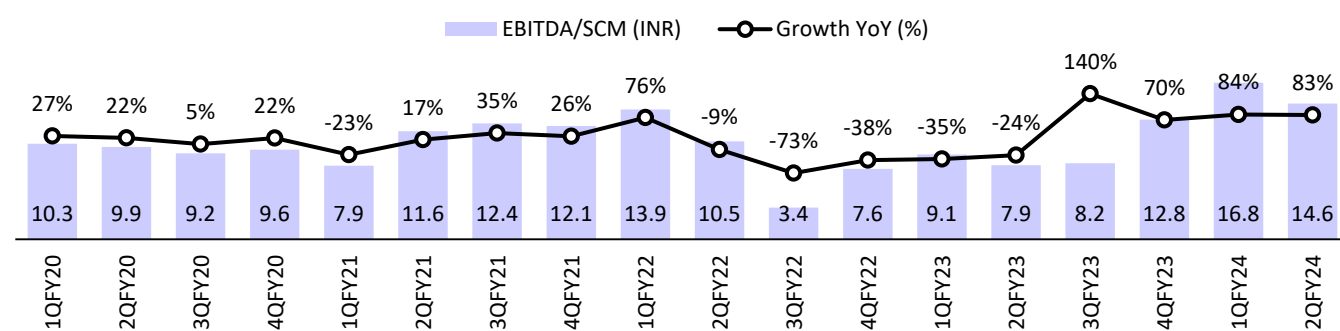
Source: Company, MOFSL

**Exhibit 2: PNG volumes up 8% YoY to 1mmscmd**

Source: Company, MOFSL

**Exhibit 3: Total volumes up 3% YoY to 3.6mmscmd**

Source: Company, MOFSL

**Exhibit 4: EBITDA/scm at INR14.6 (up 83% YoY)**

Source: Company, MOFSL

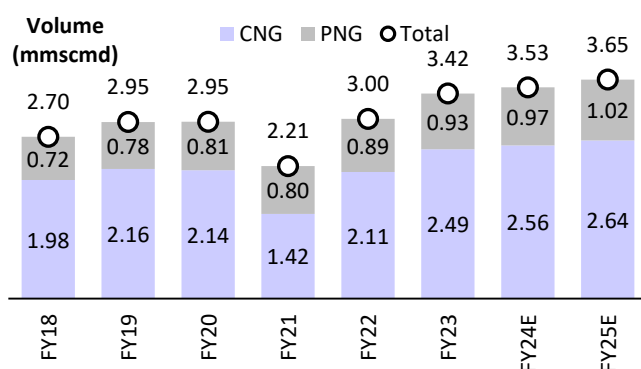


### Highlights from the management commentary

- Steady availability of APM; HPHT prices have enabled the company to reduce CNG prices by INR3/kg and PNG by INR2/kg
- CNG is >50% cheaper than petrol and ~20% cheaper than Diesel in Mumbai
- During the quarter
  - 2.25m households were connected
  - 40.31km of pipeline was laid, taking total pipeline length to 6,653km
  - 7CNG stations were commissioned, taking the total no of CNG stations to 319
  - 120 I/C customers were added, taking the total customers to 4,639
- In Raigad GA,
  - 70,654 households are connected
  - 32CNG stations are currently operational
  - 3.75km of pipeline was laid, taking the total length to 393km
- Savroli LNG station commissioned during the quarter
- According to Maharashtra's draft EV policy
  - 10% of new registrations should be EV by 2025
  - For public transport and delivery vehicles, 25% of new registrations should be EV by 2025
- Commercial CNG vehicle growth has not picked up yet due to which the company has not been able to hit the targeted 6% YoY volume growth yet
  - The company has aggressively started partnering with car manufactures that may lead to an increase in commercial CNG vehicles over time
- Around 50k-55k Ola/Ubers should be running in MAHGL's GAs
  - Daily consumption is ~7.5 – 8kg per vehicle
- 0.44m private passenger CNG cars are running in MAHGL's GAs
  - 30% of CNG offtake comes from private passenger cars
  - 30% of CNG offtake should be coming from Auto rickshaw
  - Busses are ~7% of total volume offtake
- 19,900 CNG vehicles were added during the quarter
  - Of which , ~1,300 were LCV/HCV
- In 2QFY24, lots of I/C customers were added
  - I/C growth during the next 1-2 years should be higher than historical trends driven by customer-friendly changes to contracts
- Volume sourcing mix is 0.7mmcmd of APM gas with the rest being HPHT and term contracts
- UEPL acquisition expected to be completed by Nov'23
- EV adoption will be challenged in Mumbai due to space constraint
  - BEST has not managed to get more than 10-20 EV buses last year
- MSRTC and BEST have both added ~80 CNG busses each during the quarter
- INR30b of capex done in 1HFY24
  - Target of INR7b in FY24 but can go up to INR9b
- Other expenses increased during the quarter due to a rise in transportation and other costs associated with the increase in volumes.

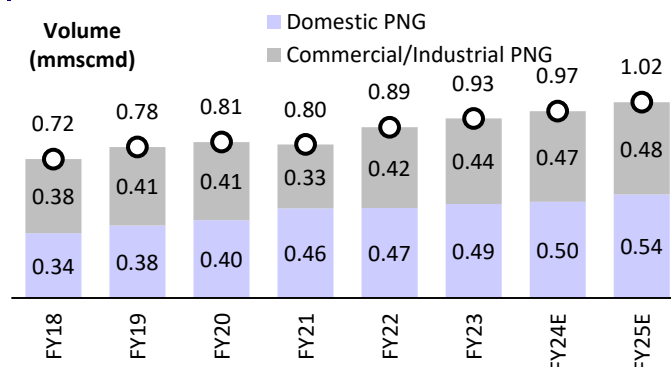
## Story in charts

Exhibit 5: Volume growth snapshot



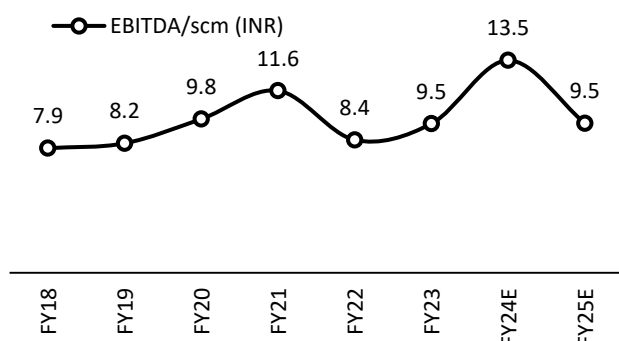
Source: Company, MOFSL

Exhibit 6: PNG segment-wise volumes



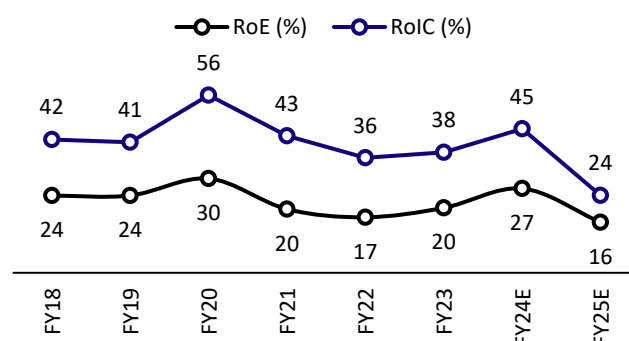
Source: Company, MOFSL

Exhibit 7: EBITDA/scm snapshot



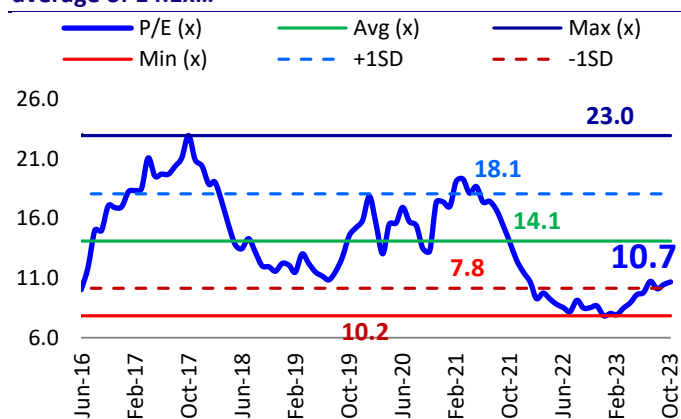
Source: Company, MOFSL

Exhibit 8: Return ratios for MAHGL



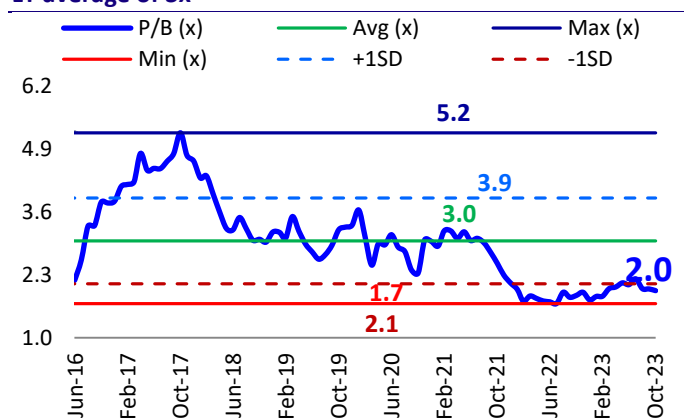
Source: Company, MOFSL

Exhibit 9: 1-year fwd. P/E trades at 24% discount to LT average of 14.1x...



Source: Company, MOFSL

Exhibit 10: ...and 1-year fwd. P/B trades at ~33% discount to LT average of 3x



Source: Company, MOFSL

## Financials and valuations

Standalone - Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	22,330	27,911	29,721	21,525	35,602	62,993	62,850	54,112
Change (%)	9.8	25.0	6.5	-27.6	65.4	76.9	-0.2	-13.9
EBITDA	7,806	8,855	10,528	9,340	9,243	11,842	17,371	12,672
Margin (%)	35.0	31.7	35.4	43.4	26.0	18.8	27.6	23.4
Depreciation	1,112	1,259	1,617	1,737	1,963	2,311	2,622	2,916
EBIT	6,694	7,595	8,911	7,603	7,281	9,531	14,749	9,756
Int. and Finance Charges	3	3	65	72	75	94	114	93
Other Income	574	777	990	805	857	1,119	1,280	1,145
PBT bef. EO Exp.	7,265	8,369	9,835	8,336	8,063	10,555	15,915	10,807
PBT after EO Exp.	7,265	8,369	9,835	8,336	8,063	10,555	15,915	10,807
Total Tax	2,487	2,905	1,900	2,140	2,093	2,655	4,006	2,720
Tax Rate (%)	34.2	34.7	19.3	25.7	26.0	25.2	25.2	25.2
Reported PAT	4,779	5,464	7,935	6,196	5,970	7,901	11,909	8,087
Adjusted PAT	4,779	5,464	7,935	6,196	5,970	7,901	11,909	8,087
Change (%)	21.5	14.3	45.2	-21.9	-3.6	32.3	50.7	-32.1
Margin (%)	21.4	19.6	26.7	28.8	16.8	12.5	18.9	14.9

Standalone - Balance Sheet							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	988	988	988	988	988	988	988	988
Total Reserves	19,966	23,001	28,539	31,336	34,985	40,354	47,500	52,352
Net Worth	20,954	23,989	29,527	32,324	35,973	41,342	48,488	53,340
Total Loans	12	0	176	168	206	208	208	208
Deferred Tax Liabilities	1,748	2,048	1,607	1,773	2,008	2,086	2,086	2,086
Capital Employed	22,714	26,037	31,310	34,264	38,187	43,636	50,781	55,634
Gross Block	18,159	21,732	25,024	27,918	34,048	40,096	48,788	55,365
Less: Accum. Deprn.	2,839	4,098	5,716	7,452	9,415	11,727	14,349	17,265
Net Fixed Assets	15,320	17,634	19,309	20,466	24,633	28,369	34,440	38,100
Capital WIP	3,566	3,697	4,865	5,603	6,159	7,086	4,441	3,912
Total Investments	6,877	6,540	11,215	10,250	10,883	13,098	13,098	13,098
Rights to use assets	0	0	1,183	1,228	1,504	1,888	1,888	1,888
Curr. Assets, Loans&Adv.	4,340	6,539	4,708	8,465	9,158	9,882	13,214	12,813
Inventory	240	191	186	222	275	338	301	274
Account Receivables	914	996	685	1,275	1,840	2,940	2,934	2,526
Cash and Bank Balance	919	2,988	2,295	5,119	4,652	2,279	5,665	6,298
Cash	150	265	154	282	825	1,179	4,565	5,199
Bank Balance	769	2,723	2,141	4,837	3,827	1,100	1,100	1,100
Loans and Advances	2,268	2,364	1,543	1,850	2,391	4,324	4,314	3,715
Curr. Liability & Prov.	7,389	8,373	9,971	11,747	14,151	16,687	16,299	14,177
Account Payables	1,100	1,524	1,318	1,559	2,719	3,222	2,865	2,610
Other Current Liabilities	6,089	6,637	8,390	9,839	11,076	12,967	12,938	11,139
Provisions	199	212	263	350	356	498	497	428
Net Current Assets	-3,049	-1,834	-5,263	-3,282	-4,993	-6,806	-3,085	-1,364
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	22,714	26,037	31,310	34,264	38,187	43,636	50,782	55,634

## Financials and valuations

<b>Ratios</b>	<b>(INR m)</b>							
<b>Y/E March</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>
<b>Basic (INR)</b>								
<b>EPS</b>	<b>48.4</b>	<b>55.3</b>	<b>80.3</b>	<b>62.7</b>	<b>60.4</b>	<b>80.0</b>	<b>120.6</b>	<b>81.9</b>
Cash EPS	59.6	68.1	96.7	80.3	80.3	103.4	147.1	111.4
BV/Share	212.1	242.8	298.9	327.2	364.2	418.5	490.9	540.0
DPS	21.5	20.0	35.0	23.0	23.0	26.0	48.2	32.7
Payout (%)	53.5	43.5	52.4	36.7	38.1	32.5	40.0	40.0
<b>Valuation (x)</b>								
P/E	21.0	18.3	12.6	16.2	16.8	12.7	8.4	12.4
Cash P/E	17.0	14.9	10.5	12.6	12.6	9.8	6.9	9.1
P/BV	4.8	4.2	3.4	3.1	2.8	2.4	2.1	1.9
EV/Sales	4.4	3.5	3.3	4.4	2.7	1.6	1.5	1.7
EV/EBITDA	12.7	11.0	9.3	10.2	10.4	8.3	5.5	7.4
Dividend Yield (%)	2.1	2.0	3.4	2.3	2.3	2.6	4.8	3.2
FCF per share	38.8	32.6	56.6	47.2	26.0	26.0	70.7	28.5
<b>Return Ratios (%)</b>								
RoE	24.3	24.3	29.7	20.0	17.5	20.4	26.5	15.9
RoCE	24.3	24.3	29.8	20.1	17.5	20.5	26.6	16.0
RoIC	41.9	41.0	55.8	43.1	36.2	37.9	45.3	24.4
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	1.2	1.3	1.2	0.8	1.0	1.6	1.3	1.0
Asset Turnover (x)	1.0	1.1	0.9	0.6	0.9	1.4	1.2	1.0
Inventory (Days)	4	3	2	4	3	2	2	2
Debtor (Days)	15	13	8	22	19	17	17	17
Creditor (Days)	18	20	16	26	28	19	17	18
<b>Leverage Ratio (x)</b>								
Current Ratio	0.6	0.8	0.5	0.7	0.6	0.6	0.8	0.9
Net Debt/Equity	0.0	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1

<b>Standalone - Cash Flow Statement</b>	<b>(INR m)</b>							
<b>Y/E March</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>
OP/(Loss) before Tax	7,265	8,369	9,835	8,336	8,063	10,555	15,915	10,807
Depreciation	1,112	1,259	1,617	1,737	1,963	2,311	2,622	2,916
Direct Taxes Paid	-2,284	-2,709	-2,380	-2,065	-2,122	-2,638	-4,006	-2,720
(Inc)/Dec in WC	822	366	1,369	602	1,640	134	-334	-1,088
Others	-395	-443	-655	-627	-583	-764	-1,280	-1,145
<b>CF from Operations</b>	<b>6,521</b>	<b>6,846</b>	<b>9,852</b>	<b>8,055</b>	<b>9,037</b>	<b>9,693</b>	<b>13,031</b>	<b>8,864</b>
(Inc)/Dec in FA	-2,692	-3,625	-4,258	-3,395	-6,473	-7,127	-6,048	-6,048
<b>Free Cash Flow</b>	<b>3,829</b>	<b>3,221</b>	<b>5,594</b>	<b>4,660</b>	<b>2,563</b>	<b>2,566</b>	<b>6,984</b>	<b>2,817</b>
(Pur)/Sale of Investments	-2,042	474	-4,316	1,287	-357	-1,748	0	0
Others	547	-1,234	1,026	-2,331	1,440	2,384	1,280	1,145
<b>CF from Investments</b>	<b>-4,187</b>	<b>-4,385</b>	<b>-7,548</b>	<b>-4,439</b>	<b>-5,390</b>	<b>-6,491</b>	<b>-4,767</b>	<b>-4,903</b>
Dividend Paid	-2,236	-2,330	-2,183	-3,221	-2,810	-2,518	-4,764	-3,235
<b>CF from Fin. Activity</b>	<b>-2,258</b>	<b>-2,346</b>	<b>-2,416</b>	<b>-3,488</b>	<b>-3,103</b>	<b>-2,848</b>	<b>-4,878</b>	<b>-3,328</b>
<b>Inc/Dec of Cash</b>	<b>76</b>	<b>115</b>	<b>-112</b>	<b>128</b>	<b>543</b>	<b>354</b>	<b>3,386</b>	<b>633</b>
Opening Balance	74	150	265	154	282	825	1,179	4,565
<b>Closing Balance</b>	<b>150</b>	<b>265</b>	<b>154</b>	<b>282</b>	<b>825</b>	<b>1,179</b>	<b>4,565</b>	<b>5,199</b>

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES



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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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