BUY Mahanagar Gas

Dark horse

Oil & Gas ▸ Initiating Coverage ▸ **January 29, 2024**

TARGET PRICE (Rs): 1,650

We initiate coverage on Mahanagar Gas (MGL) with a BUY and DCF-based TP of Rs1,650. MGL has been trading at lower valuations vs larger peers, due to perceived long-term growth issues in MMR and earnings, mostly fueled by margins. However, we see this changing for MGL, given Mgmt. focus on stable pricing to boost CNG demand and keeping reasonable margins, acquisition of Unison Enviro improving LT prospects, macros & gas sourcing staying comfortable, and a strong balance sheet. With vol. growth outlook of the peer-set turning volatile and capturing EV risks adequately, MGL—which has logged over 4% volume CAGR (vs pre-Covid) in 9MFY24 (8% growth YoY in Q3FY24)—should see a rerating, as the 6% volume CAGR guidance seems achievable and with earnings now driven by core volume. Our target P/E is ~13x FY26E consol. EPS.

Mahanagar Gas: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	35,602	62,993	61,640	62,743	67,067
EBITDA	9,243	11,842	18,943	16,690	17,949
Adj. PAT	5,969	7,900	13,443	11,791	12,617
Adj. EPS (Rs)	60.4	80.0	136.1	119.4	127.7
EBITDA margin (%)	26.0	18.8	30.7	26.6	26.8
EBITDA growth (%)	(1.0)	28.1	60.0	(11.9)	7.5
Adj. EPS growth (%)	(3.7)	32.3	70.2	(12.3)	7.0
RoE (%)	17.5	20.4	29.6	22.3	21.1
RoIC (%)	37.9	40.9	55.6	39.4	37.7
P/E (x)	22.7	17.2	10.1	11.5	10.8
EV/EBITDA (x)	13.1	10.3	6.5	7.2	6.4
P/B (x)	3.8	3.3	2.7	2.4	2.2
FCFF yield (%)	1.7	1.9	5.5	5.6	7.3

Source: Company, Emkay Research

Vol. growth guidance of 6% YoY seems viable, despite capturing EV impact

We believe MGL's 6% medium-term vol. growth guidance is achievable. We expect 5% CNG vehicle-population CAGR over the next 3-4yrs, but MSRTC/CVs/PVs would see growth beyond that; this can translate into 6% CNG vol. CAGR well up till CY30. We build nil vehicle-population in the bus, auto and cab-taxi segments by FY40, thus capturing EV risks adequately. We believe the GoI will maintain the current price parity of petrol/diesel with CNG. With the planned 0.3mnpa connections, DPNG should also grow, at ~6%.

Macros and gas sourcing comfortable; pricing and margins should stay stable

MGL's gas sourcing mix is healthy, with 80-85% of priority being APM and balance mostly contracted HP-HT. In I/C PNG too, 0.5/0.1mmscmd is GAIL Henry Hub LNG/Brent linked HP-HT. Global gas prices are expected to remain largely stable for the next few years, given the upcoming LNG capacities and key consumers like China still not out of the woods. We believe EBITDA/scm at the upper end of the Rs10-12 guidance should be a reasonable assumption. Unit opex should improve as daughter stations become online.

Unison Enviro acquisition a strategic fit; to add to valuations

MGL has acquired Unison Enviro (operating the Ratnagiri, Latur & Osmanabad, and the Chitradurga & Devangere GAs) for Rs5.3bn. While current volume is ~0.13mmscmd, MGL expects ~10x growth, at 1.2mmscmd by CY30. Also, its EBITDA/scm profile is expected to improve, from Rs7.5-8.0 now. UEPL can contribute to ~20% of MGL's consol. earnings by CY30E. Our DCF-based value for UEPL is Rs242/sh (11% WACC, 0% TvG).

Strong financials; attractive valuations

MGL boasts of steady financials as well as volume-driven earnings now – likely to drive stock rerating, despite reported numbers looking optically weaker in FY25. Dividends should be maintained with sustainable RoIC of over 25%. We value MGL on SOTP basis, with SA at Rs1,408/sh/UEPL at Rs242 (hence, TP: Rs1,650); initiate coverage with BUY.

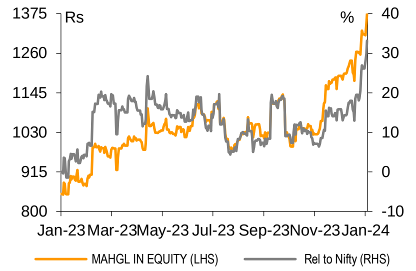
Target Price – 12M	Mar-25
Change in TP (%)	**NA**
Current Reco.	BUY
Previous Reco.	NR
Upside/(Downside) (%)	20.1
CMP (25-Jan-24) (Rs)	1,374.2

Stock Data	Ticker
52-week High (Rs)	1,387
52-week Low (Rs)	831
Shares outstanding (mn)	98.8
Market-cap (Rs bn)	136
Market-cap (USD mn)	1,633
Net-debt, FY24E (Rs mn)	-12,005
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	628.6
ADTV-3M (USD mn)	7.6
Free float (%)	31.0
Nifty-50	21,353
INR/USD	83.1
Shareholding, Dec-23	
Promoters (%)	32.5
FPIs/MFs (%)	30.9/17.2

Price Performance

(%)	1M	3M	12M
Absolute	15.0	35.8	58.6
Rel. to Nifty	15.0	21.7	32.9

1-Year share price trend (Rs)



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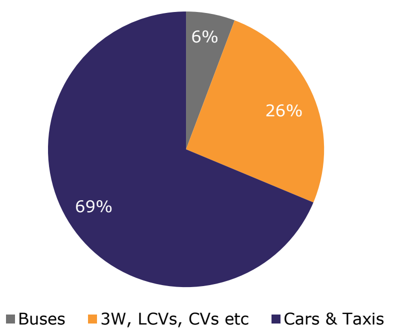
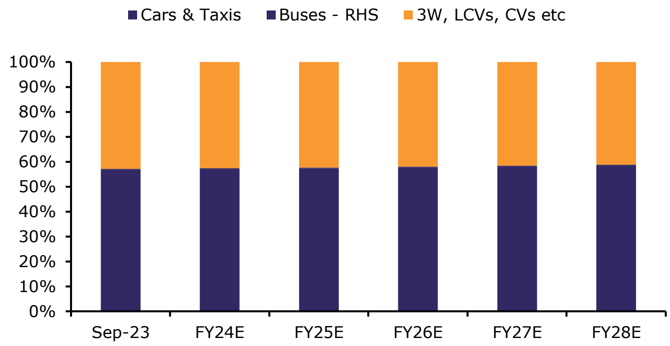
Story in Charts

Exhibit 1: MGL's CNG vol. mix – Cars, taxis & autos (3W) dominate



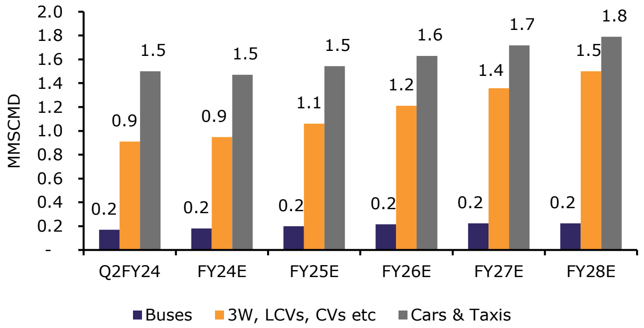
Source: Company, Emkay Research (Sep-23E)

Exhibit 2: CNG vehicle population would grow for the next 3-4 years



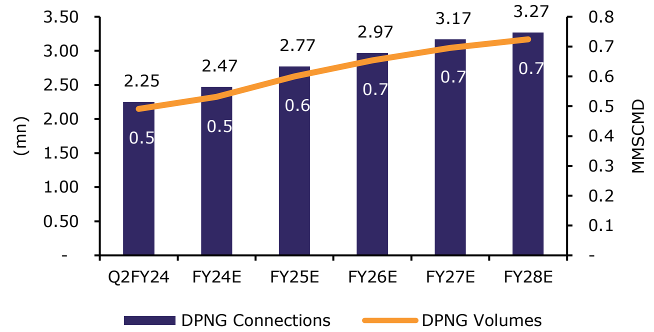
Source: Emkay Research

Exhibit 3: We expect CNG volume CAGR at 6% till FY30E for MGL



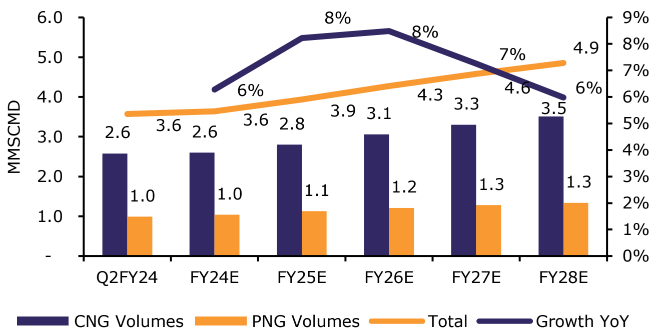
Source: Emkay Research

Exhibit 4: DPNG vol. should also grow, by 6%, with 0.3mnpa adds



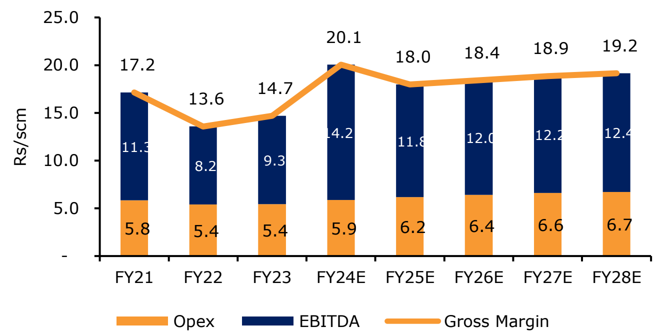
Source: Emkay Research

Exhibit 5: We expect MGL to clock sustainable volume growth



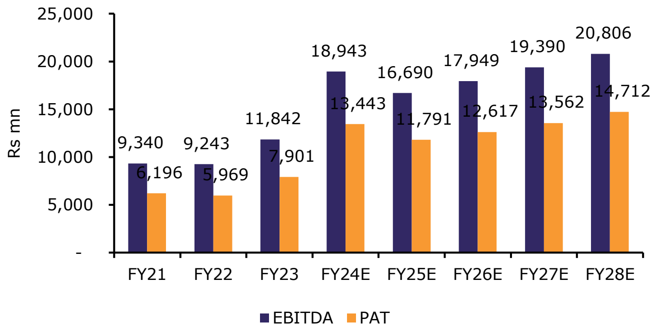
Source: Company, Emkay Research

Exhibit 6: We build Rs12/scm EBITDA vs Mgmt's Rs10-12 guidance



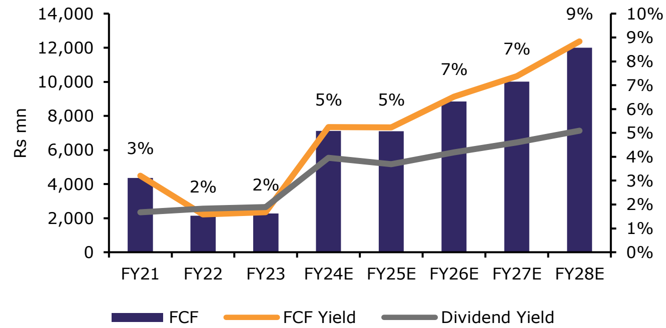
Source: Company, Emkay Research

Exhibit 7: Earnings growth to be reasonable, volume driven



Source: Company, Emkay Research

Exhibit 8: Healthy FCF and yield metrics



Source: Company, Emkay Research

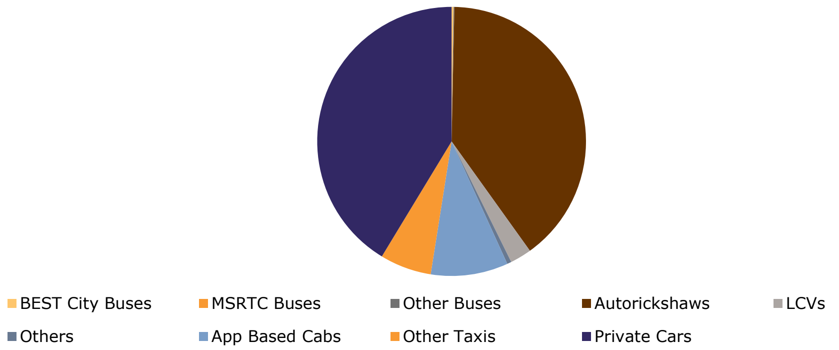
Key Investment Thesis

6% YoY volume growth guidance seems achievable, despite capturing EV risks and amid slowdown seen in peers

Our CNG vehicle universe model implies 5% population CAGR for the next 3-4 years, but MSRTC, CVs and PVs are likely to grow beyond that

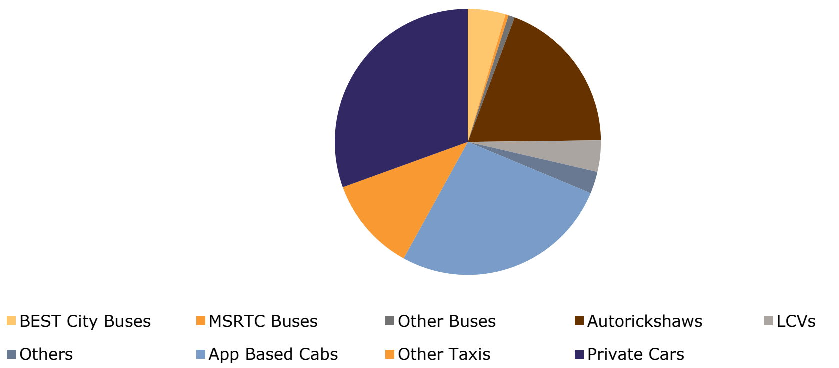
MGL's current CNG volume mix is dominated by private cars/vehicles (PVs) and auto-rickshaws (3W) at ~30% share each, followed by aggregator (app based) cabs & other taxis at 10-15% share each, and buses at 7% share (mostly BEST, NMMT, etc city buses). We believe that for the next 3-4 years, the overall vehicle universe would see growth, with expansion in almost all segments. This implies vehicle population CAGR of ~5%. Beyond FY28, certain segments like city buses, auto-rickshaws, and black & yellow cabs could witness a decline. We build nil bus, auto-rickshaw & cab-taxi population in our model by FY41, adequately capturing EV risks in these segment. However, other major segments like MSRTC buses and CVs (including M&HCVs) with higher unit CNG consumption would continue to grow.

Exhibit 9: MGL's CNG vehicle universe – Dominated by private cars (PVs), auto-rickshaws, cabs-taxis and >3,000 buses



Source: Company, Industry, Emkay Research

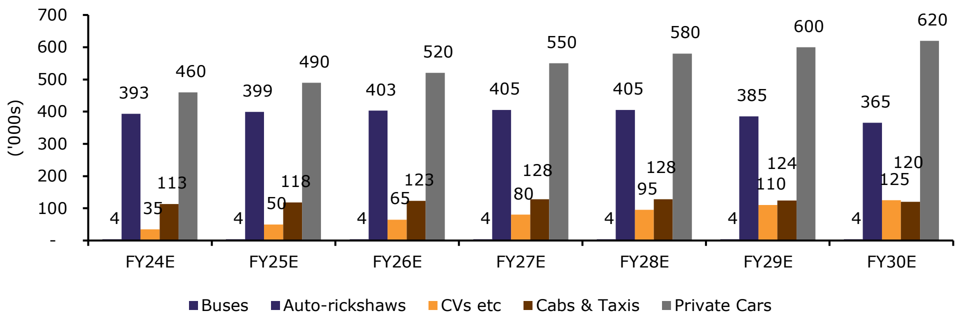
Exhibit 10: MGL's CNG volume mix – PV, autos and cab-taxis comprise ~30% share each, while buses contribute to ~7%



Source: Company, Industry, Emkay Research

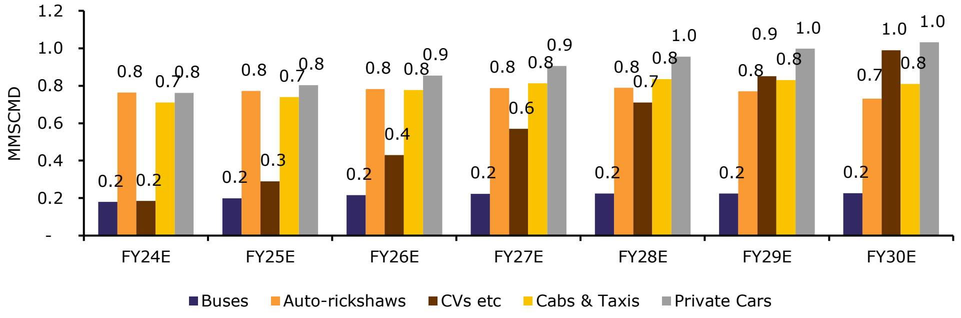
MGL is actively working with MSRTC to ensure conversion of 1,000 buses to CNG in the next 2 years vs ~300 currently. Company is setting up stations in 8 MSRTC depots and already has an online pump at the Vitthalwadi depot. Of the 1,000 MSRTC buses, 500-600 ply directly through MGL's GAs (Raigad district GA being the upside). Each bus could consume 80kg per day (we have built-in ~50kg), which implies a 55,000scmd potential. If MGL is not able to set up infra on time, then it would give access to MSRTC, its own COCO and DODO CNG stations/retail outlets. PVs should also keep growing, given the economics, especially vs petrol.

Exhibit 11: MGL's CNG vehicle universe – Expected to expand for a few years before EV affects certain segments, but other important sectors should grow beyond that



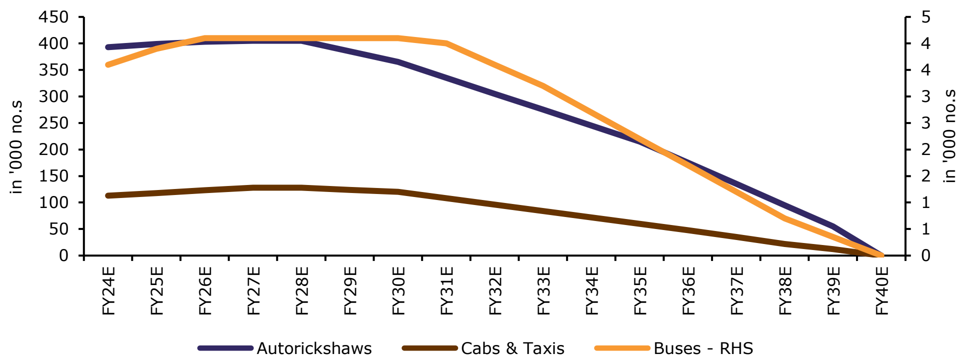
Source: Industry, Emkay Research

Exhibit 12: CNG demand from the CV and PV segments should keep growing



Source: Industry, Emkay Research

Exhibit 13: We build-in EV conversion risks in key segments adequately

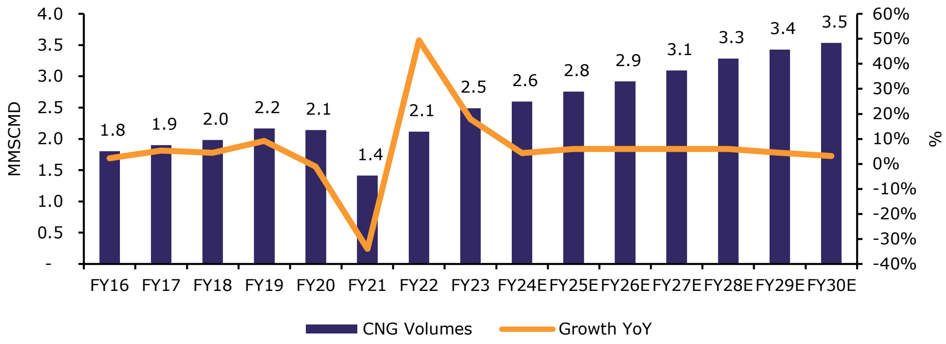


Source: Industry, Emkay Research

Unit consumption run-rate implies 6% CNG volume CAGR well up until CY30E

Our unit consumption model, based on the vehicle-population universe, implies that total CNG volumes could grow at an accelerated pace for the next 3-4 years and, towards the end of the decade, see a slow-down; however, on a CAGR basis vs FY23, it could still end at a comfortable 6%, in line with MGL management's overall 5-6% volume growth guidance for the company.

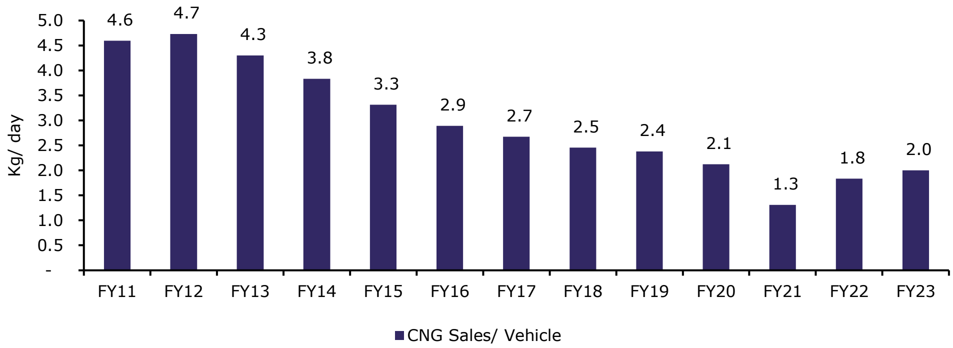
Exhibit 14: CNG volumes – We estimate 6% CAGR during FY23-30E for MGL



Source: Company, Emkay Research

As stated above, certain segments like CVs can have an outsized impact on volumes, given their higher daily (unit) CNG consumption. MGL's overall CNG sale per vehicle has reduced, from 4-5kg/day 10 years ago to ~2kg/day in FY23, with the share of smaller vehicles growing. However, we expect the decrease to bottom out, given the rising share of CVs.

Exhibit 15: CNG sale per vehicle has fallen over the years due to higher share of smaller vehicles in the universe, but should stabilize with CVs scaling up



Source: Company, Emkay Research

Specific factors affecting MGL's CNG volumes

Economics: CNG economics vs that of petrol is currently attractive at ~50% discount, adjusted for mileage. As against diesel, CNG is ~20% cheaper, although, as of now, CNG CVs seem to be priced at a slight 4-5% discount to up to 20% premium vs diesel. The TCO of CNG vs diesel CVs among various weight classes is an important factor for MGL if it aims to sizably penetrate the higher unit fuel-consuming segment going ahead.

Exhibit 16: Total Cost of Ownership (TCO) of CNG vs petrol, diesel and EVs in Mumbai

Tata Punch Equivalent	Unit	CNG	Petrol	Diesel	EV
Mumbai On Road Price	Rs/vehicle	8,04,838	7,09,960	8,04,885	11,53,758
Loan EMI (7 year tenure, 9% RoI, 70% debt)	Rs	9,064	7,996	9,065	12,994
Total Interest Cost	Rs	1,98,021	1,74,677	1,98,032	2,83,868
Total Vehicle Purchase Cost	Rs	10,02,859	8,84,637	10,02,917	14,37,626
Total kilometer Driven Annually (40/day)	Rs/vehicle	12,000	12,000	12,000	12,000
Mileage	km/ltr-kg-charge	18	13	18	300
Fuel Cost	Rs/ltr-kg-kwh	76	106	94	9
Cost/km (25kwh/charge)	Rs	4.2	8.2	5.2	0.7
Annual Fuel Cost	Rs	50,667	98,132	62,847	8,800
Normal Annual Maintenance Cost	Rs	10,000	12,000	15,000	27,000
7 Year Variable Cost	Rs	4,24,667	7,70,926	5,44,927	2,50,600
Resale Value After 7 Years	Rs	2,81,693	2,48,486	2,81,710	3,34,065
TCO (net) with Loan	**Rs**	**11,45,832**	**14,07,077**	**12,66,134**	**13,54,161**
Difference vs CNG	+% is expensive		23%	10%	18%
TCO (net) without Loan	**Rs**	**9,47,811**	**12,32,400**	**10,68,102**	**10,70,293**
Difference vs CNG	+% is expensive		30%	13%	13%

Source: Industry, Emkay Research

Our analysis suggests that as MGL's priority volumes grow and APM gas witnesses a natural decline, Company would need to rely more on market-based gases like HP-HT and LNG; hence, its unit gas cost would continue to increase. To maintain margins, MGL has to raise CNG RSP by 3-4% on average (till FY30, which is our target case). In this scenario, CNG economics would become less attractive, though for petrol, even if it relies fully on market-based gas (assuming the same is priced at USD12/mmbtu GCV), CNG would remain 20-25% cheaper. Hence, we do not see petrol competing with CNG, though EV penetration is likely to give competition to petrol-based vehicles, which we have however assumed in our vehicle universe model.

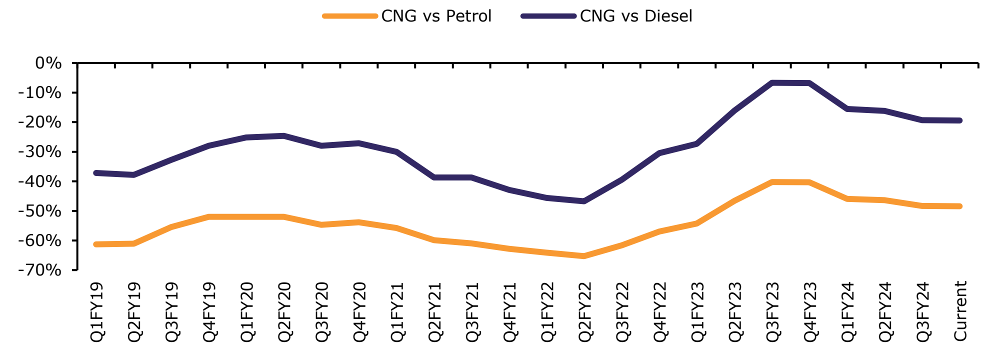
Exhibit 17: Reducing share of APM gas in the priority mix would require RSP hikes in order to maintain margins, but such hikes will not be too huge, based on our natural gas pricing outlook

Gas cost vs CNG economics	Unit	Last CNG peak	Q3FY24	FY25	FY26	FY27	FY28	FY29	FY30	Long-term
Blended Gas Cost	USD/mmbtu	13	9	9	10	11	11	12	12	14
Blended Gas Cost	Rs/scm	38	26	27	30	32	33	34	35	41
Implied Gross Margin	Rs/scm	17	22	22	22	22	23	23	23	25
Pre Tax CNG Price	Rs/scm	55	47	49	52	54	56	57	58	66
Pre Tax Price	Rs/kg	76	64	67	71	73	76	77	79	90
Excise Duty	Rs/kg	11	9	10	10	11	11	11	11	13
Pre VAT Price	Rs/kg	87	74	76	81	84	86	88	90	103
VAT	Rs/kg	3	2	2	2	3	3	3	3	3
CNG RSP	Rs/kg	90	76	79	83	86	89	91	93	106
YoY Increase				2%	6%	4%	3%	2%	2%	
Petrol RSP	Rs/ltr	106	106	100	100	100	100	100	100	100
Difference (Mileage Adjusted)		-39%	-48%	-43%	-40%	-38%	-36%	-34%	-33%	-23%
Diesel RSP	Rs/ltr	94	94	90	90	90	90	90	90	90
Difference (Mileage Adjusted)		-5%	-19%	-13%	-7%	-4%	-1%	1%	3%	18%
APM Gas	mmscmd	2.7	2.5	2.4	2.3	2.2	2.1	2.0	1.9	0.0
Other Gases	mmscmd	0.3	0.6	0.9	1.2	1.5	1.9	2.1	2.3	4.2
Total Priority Vol.	mmscmd	3.0	3.2	3.3	3.5	3.7	3.9	4.1	4.2	4.2
Share of APM Gas		90%	80%	73%	65%	59%	53%	48%	44%	0%
Share of Other Gases		10%	20%	27%	35%	41%	47%	52%	56%	100%

Source: Company, Industry, PPAC Emkay Research

Diesel seems to be more at risk, as in the next 3-4 years, CNG and diesel prices may be on par. However, our assumptions are based on a Rs4-6/ltr cut in diesel-petrol prices vs current levels and no further hikes. In reality, given the commitments seen globally, to transition from oil, and also the GoI's own excise duty goals & push towards gas and CGD, the price parity of petrol and diesel is likely to be maintained with CNG.

Exhibit 18: CNG is currently ~50%/20% cheaper than petrol/diesel in Mumbai, on per-km basis



Source: IOCL, Company, Emkay Research

CNG conversion scheme for CVs: MGL is, under the *CNG Mahotsav Scheme*, providing incentives worth Rs0.2-0.5mn per vehicle (upfront for retrofitment and fuel cards for OEMs, and is 50-70% of the total conversion cost) for CVs and private buses, which could drive volumes from these lucrative segments; MGL would have an average payback period of 2 years. Though the wide use of cash payments and GST evasion by local retrofitters (Lovato and Greenglobe Autotech are the only official retrofitters) are a challenge. For now, the scheme is up to Mar-2024 (except for small CVs) which could though be extended if effectiveness improves. A conversion scheme for PVs which was also launched ended at Dec 2023 and resulted in a 30% volume uptick. Overall, MGL has spent Rs100mn towards this scheme in Q3FY24, and plans spending another Rs200mn in Q4, based on its budget.

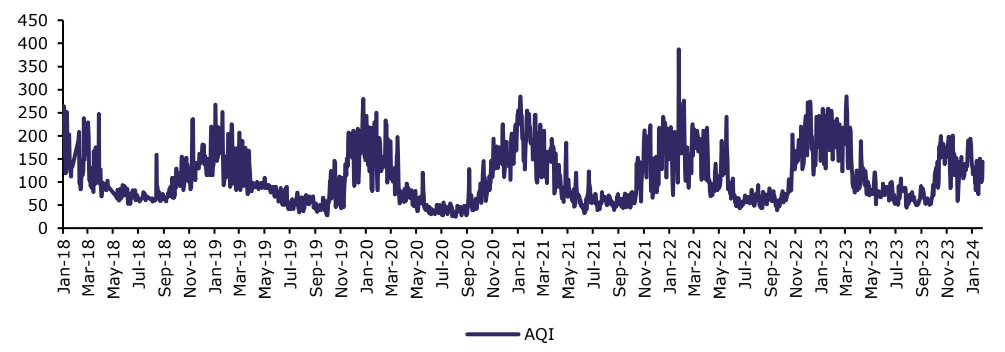
Exhibit 19: MGL's CNG Mahotsav offers incentives for CNG adoption

Type	Gross Vehicle Weight (GVW; ton)	Incentive value* (Rs/ vehicle)
Car	NA	19,999
Commercial Vehicles	> 3.5, < 10	200,000
Commercial Vehicles	≥10, < 15 tons	350,000
Commercial Vehicles	≥15	500,000
Private Buses		300,000

*Source: Company; Note: * on select models & applicable for both new models as well as retrofitment; refer to https://www.mahanagargas.com/cng/cng-offers-schemes/mgl-mahotsav, for details*

Pollution in MMR: Pollution levels in the Mumbai Metropolitan Region (MMR) seem to have increased, as per an interpretation of the recent AQI readings. While a considerable portion of PM could be construction dust, vehicular and industrial-commercial emissions are also material. Hence, there could be a case for Delhi-NCR type policies and city gas can be an immediate option against more polluting liquid & solid fuels.

Exhibit 20: Mumbai's AQI trend



Source: CEIC, Emkay Research

CNG station addition and throughput: MGL's new CNG station CAGR has trended at ~7% (15-20 CAGR) in the last 10 years which is in line with its past several-year volume growth guidance, although falling short of the guidance given for total station additions. However, it also upgrades existing stations (20-30 p.a., on average).

Exhibit 21: MGL's CNG station addition and upgrades have been reasonable over the years

(no. of)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
CNG stations	160	169	180	188	203	223	236	256	271	290	313
Annual additions	9	9	11	8	15	20	13	20	15	19	23
Annual upgrades	NA	NA	NA	NA	NA	14	33	21	20	26	41

Source: Company, Emkay Research

Hence, its dispensing point addition CAGR has been better at 8-9% in the last 10 years. Dispensing point per station has thereby increased, from ~5 to ~6 in the last 10-12 years. CNG sales per dispensing point however have fallen, from ~1,400kg/d 10 years ago to under 1,000kg/d in FY23; we hence believe MGL's focus could be sweating out its network more, with usual station addition and upgrade run-rate maintained at existing levels, despite its guidance being more aggressive at 40-50 p.a.

Exhibit 22: CNG asset sweating has reduced over the year; hence, this should be a focus area for MGL

(No. of)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Dispensing Points	862	920	970	1,031	1,100	1,290	1,382	1,511	1,611	1,738	1,909
Dispensing Point/CNG Station	5.4	5.4	5.4	5.5	5.4	5.8	5.9	5.9	5.9	6.0	6.1
CNG Sales/Dispensing Point (kg/d)	1,403	1,399	1,367	1,292	1,274	1,186	1,159	1,061	648	902	976

Source: Company, Emkay Research

Domestic PNG a strong area for MGL; supports terminal growth

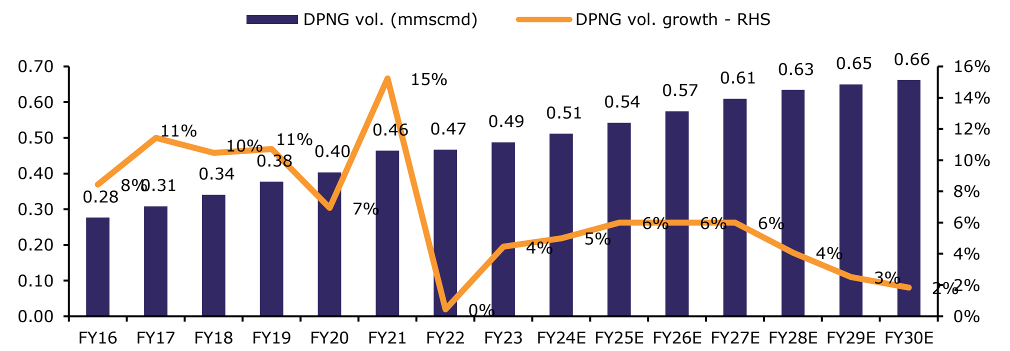
Domestic PNG (DPNG) has been a strong area for MGL, clocking 8% CAGR in the last 10 years vs 5% for CNG as well as overall. Against its 2.17mn connections as of FY23-end, MGL targets an addition of 1.5mn in the next 5 years, thus implying a 0.3mn p.a. addition. Company had added 0.31mn in FY23 and its 9MFY24 run-rate is >0.2mn.

Exhibit 23: DPNG business has been healthy for MGL, in terms of customer additions and unit consumption

(mn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
DPNG Connections	0.64	0.71	0.80	0.86	0.95	1.04	1.14	1.26	1.61	1.86	2.17
Annual additions	0.08	0.06	0.10	0.06	0.09	0.09	0.10	0.12	0.35	0.25	0.31
DPNG Burning Customers	NA	NA	NA	0.76	0.85	0.95	1.06	1.17	1.25	1.37	1.51
Annual additions	NA	NA	NA	NA	0.09	0.10	0.11	0.11	0.08	0.12	0.14
Vol./Customer/month (scm)	NA	NA	NA	11.1	11.6	11.5	11.4	11.0	11.7	10.8	10.3

Source: Company, Emkay Research

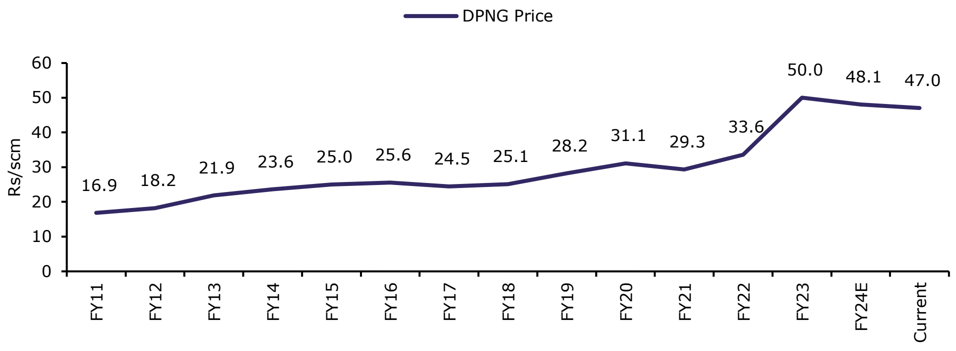
Exhibit 24: We expect DPNG volume CAGR of 6% during FY23-30E for MGL



Source: Company, Emkay Research

The DPNG addition run-rate is 11% CAGR for the next 5 years vs 13% in the last 10. We hence believe that overall, >6% growth in DPNG volumes is likely. The share of DPNG-burning customers is ~70%, which we have assumed, though this can increase with development of GA-2 and GA-3 and migration in MMR satellite towns, in which case volume growth could be higher.

Exhibit 25: DPNG pricing – At par with CNG, implying similar profitability levels



Source: Company, Emkay Research

Exhibit 26: DPNG vs domestic LPG economics

Mumbai	**Non Subs LPG**
RSP/cyl (Rs)	903
RSP/kg (14.2kg cyl)	63.6
NCV (Kcal/kg)	10,700
RSP/mn cal. (Rs)	59.4
Mumbai	**DPNG**
Dom. PNG price (Rs/scm)	47.0
NCV (Kcal/scm)	8,500
PNG price/mn cal. (Rs)	55.3
Adjusted cost difference	**-7%**

Source: Company, Industry, Emkay Research

DPNG's gross margin profile is similar to CNG's, but unit opex is much less, thereby implying an even better EBITDA/scm for MGL. The share of DPNG in MGL's mix is ~15% (given MMR's housing pattern being more high-rises with easier connectivity) – better than peers, and we see this segment staying unaffected by the technology evolution (like EVs, electric induction burners could be years away in India); hence, the terminal growth profile of this business is much better, thereby improving MGL's long term outlook versus others. MGL is focusing on reticulated PNG also, which may entail capex savings.

Exhibit 27: MGL's DPNG volume share is almost double that of IGL

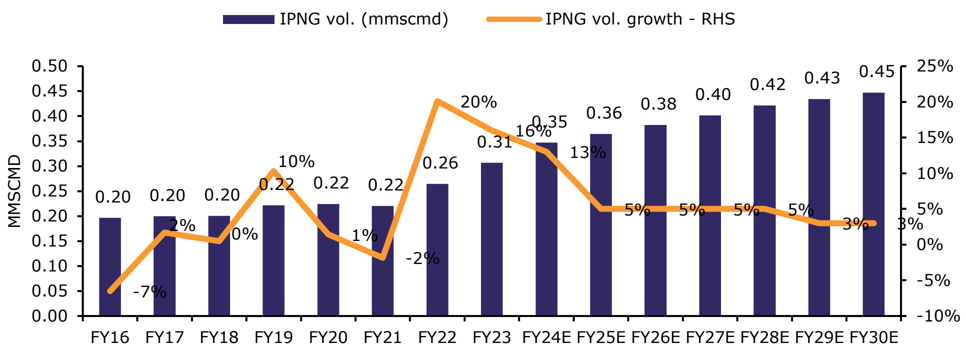
Volume mix (mmscmd)	**MGL**	**IGL**	**MGL**	**IGL**
CNG	2.6	6.3	72%	75%
PNG	1.0	2.2	28%	25%
Domestic	0.5	0.6	14%	7%
Industrial+Commercial	0.5	1.0	14%	12%
Third Party Trading	-	0.5	0%	6%
Total	3.7	8.5	100%	100%

Source: Company, Emkay Research

Industrial and Commercial PNG also hold promise

IPNG volume growth may accelerate as Raigad scales up; upside risk from potential regulations: MGL's industrial PNG (IPNG) volume outlook would be concentrated in satellite districts like Thane (GA-1) and Raigad (GA-3), where various industries are located. While many industries have shifted, from core Mumbai (GA-1), yet Raigad in particular holds material promise, as industrial clusters like Patalganga, Taloja and Khalapur scale up. Further, in CY18, NGT identified certain critically-polluted areas; Dombivali and Navi Mumbai under MGL's jurisdiction fall under this category in Maharashtra. Any Morbi type ban can drive a spike in MGL's IPNG volumes in these areas.

Exhibit 28: We expect IPNG volumes to grow, though we build-in a much conservative stance vs Management guidance



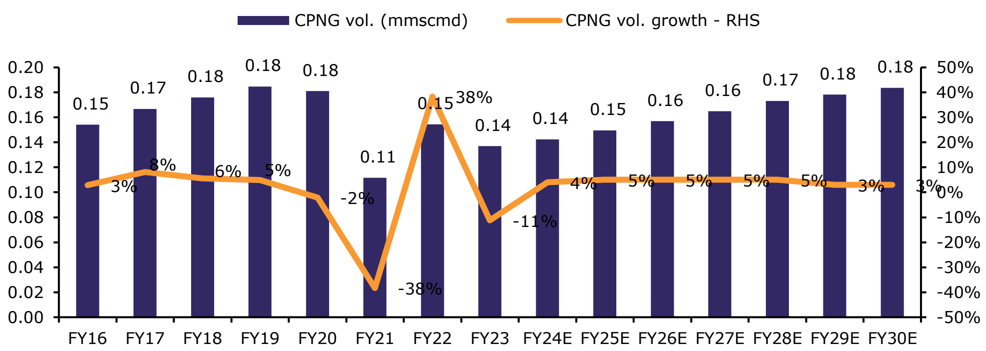
Source: Company, Emkay Research

MGL estimates Raigad's total demand potential at 0.6-0.7mmscmd, equally split between CNG and PNG. In IPNG, Raigad LFR potential is estimated at 0.25mmscmd, but if all types of fuel (including coal) are considered, then demand could be much higher. Company expects the industrial segment to witness double-digit volume growth with a 1mmscmd potential (best case scenario) vs under 0.4mmscmd currently. We have, however, conservatively built a 5% CAGR only during FY25E-28E. We find IPNG economics vs liquid fuels to be stable, based on our long term oil price assumption of USD75-80/bbl. Propane is a cleaner rival to IPNG, with Mumbai also having import facilities; though so far, competition has not been severe like for Morbi GA.

IPNG volumes clocked almost 20% YoY growth in Q3FY24 through addition of new large industries as well as discount schemes. 60% of the industrial volume growth came from GA-2 and the balance from GA-3. A scheme giving 10% discount for 3 years to certain customers in GA-3 and for 1 year in GA-2 to large customers has been offered; this has resulted in incremental 0.1mmscmd flows, and more gas demand is expected, per Management. Company is also giving additional flexibility and a take or pay exemption.

CPNG penetration among small restaurants is low: The Commercial PNG (CPNG) segment is a highly profitable business, given its high realizations (Rs10/scm higher than IPNG) and customers being price inelastic, though share in MGL's overall volume is under 5%. While, larger users like lodging hotels, hospitals, etc have been connected, in the last few years, volume growth has been erratic. Management has however stated that penetration in this segment is still low, at under 30% (vs 35-40% for CNG and DPNG). Against >4,200 CPNG customers, 10-12,000 small hotels and restaurants are still lacking connections (due to statutory permissions, cramped locations, etc) and can be gradually tapped. The ballpark unit consumption run-rate is 25scm/month.

Exhibit 29: CPNG volume also has upsides from smaller customers like restaurants



Source: Company, Emkay Research

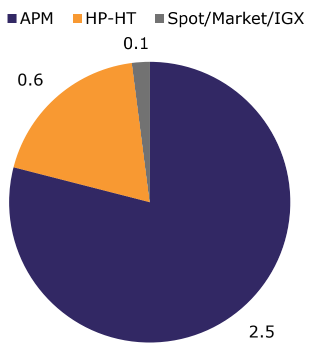
We believe MGL's 6% volume growth guidance is achievable and, given the slowdown and concerns witnessed in peers like Indraprastha Gas (IGL) and volatility & erratic growth for Gujarat Gas (GUJGA), MGL's comparative outlook is much better now and can support a rerating, despite reported earnings optically looking less attractive on account of margin management.

Macros and gas sourcing comfortable; pricing and margin should be stable

A healthy gas sourcing mix with options for opportunity gases

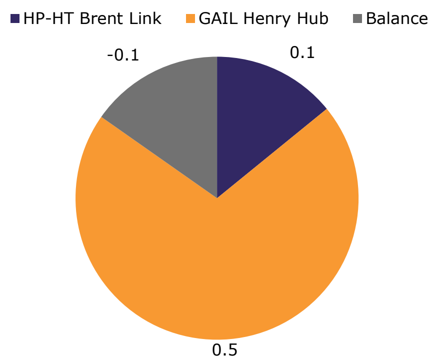
MGL's gas sourcing mix is currently healthy and, even after the APM supply cut of ~5% QoQ, Q3FY24 margins came in better than guidance. In the priority mix, MGL's APM gas share is 85% (80% in Q3FY24), while it has secured ~0.6mmscmd (or ~20%) HP-HT gas from RIL's KG-D6 block and the balance (a meagre 1-2%) is procured from spot markets (LNG or IGX gas), which too are now seeing prices cooling down to reasonable levels. In the I/CPNG category, MGL has 0.1mmscmd of Brent linked HP-HT contracted, while 0.5mmscmd of GAIL Henry Hub based term LNG is also secured, which is more than enough. These LNG contracts have an MGO of 60-80%; hence, if spot LNG prices fall further, MGL can reduce term offtake and consume spot LNG.

Exhibit 30: MGL's priority vol. gas sourcing (mmscmd) – HP-HT is adequate



Source: Company, Emkay Research

Exhibit 31: MGL's I/C volume gas sourcing (mmscmd) – Substantial portion of cheaper US Henry Hub LNG form GAIL secured

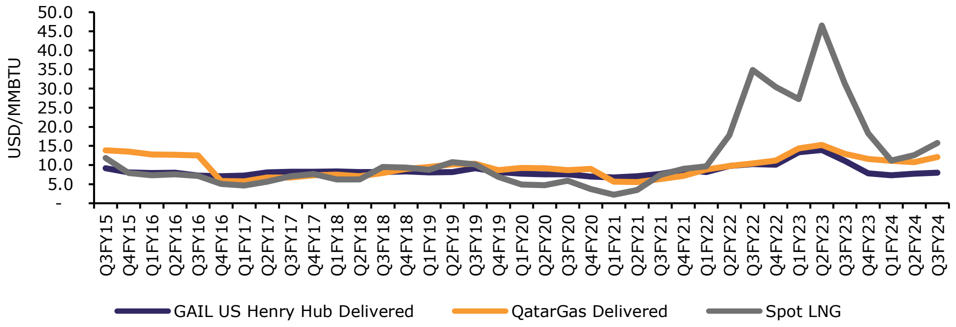


Source: Company, Emkay Research

Global gas pricing outlook seems comfortable for distributors, currency also stable

As per industry checks, global gas prices are likely to remain at stable levels (notwithstanding seasonal fluctuations and one-off outages, etc) for the next few years at least, given large LNG capacities getting commissioned and key consumers like China still not out of the woods. While, we do not have an explicit forecast for global gas prices, we believe USD3/mmbtu for Henry Hub (which translates into USD11-12/mmbtu delivered for MGL), USD11/mmbtu for QatarGas (USD14/mmbtu) and USD12/mmbtu for spot LNG (USD15-16) are fairly conservative medium-term assumptions. HP-HT gas pricing, which is reflective of the above, and alternate fossil fuels like FO and coal should also be at USD10-12/mmbtu.

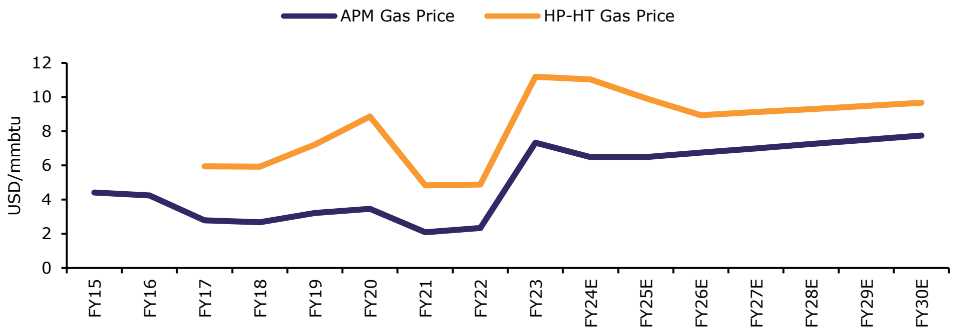
Exhibit 32: Global LNG pricing – We expect comfortable prices for gas distributors



Source: Bloomberg, Emkay Research

Consequently, we expect MGL's non-APM blended gas price at ~USD12/mmbtu GCV, on which we have based our margin and pricing calculations (refer to Exhibit 17). APM gas prices should largely remain stable in FY25E, though from FY26, they would increase by USD0.5/mmbtu, as per the recent guidelines.

Exhibit 33: Domestic gas pricing – APM would witness some growth from FY26E



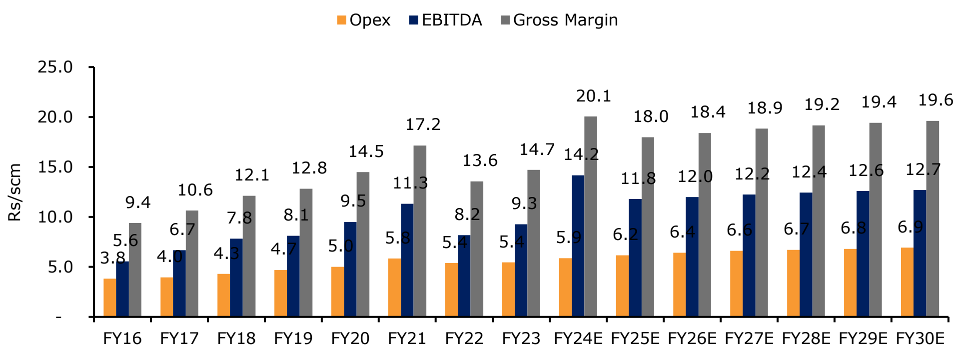
Source: PPAC, Emkay Research

The GoI has also allowed premium pricing for gas from new wells and interventions by NOCs, with the latter guiding to a bullish medium-term picture. However, it has been almost a year and a DGH-based committee that was supposed to work on the modalities has not given any updates yet.

Margins at the upper end of Management guidance should be a reasonable assumption; unit opex profile to improve

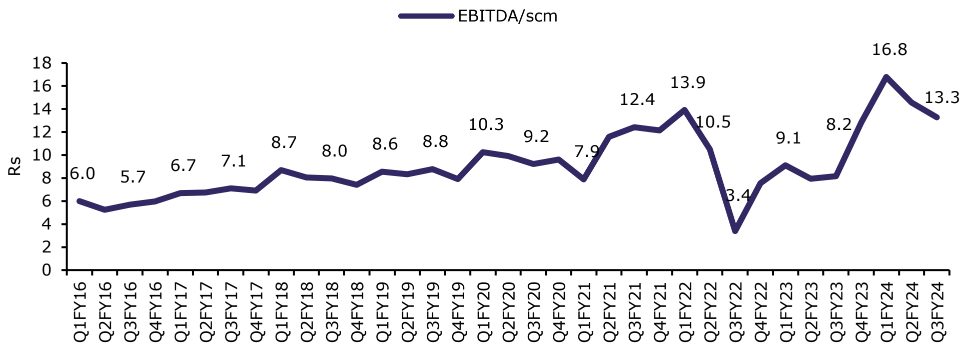
MGL's management has guided to an EBITDA/scm range of Rs10-12/scm. This compares with the ~Rs10/scm average post-Covid, while FY24 has seen a substantial jump to ~Rs15/scm. In Q3FY24, despite the APM supply cut, margin of Rs13.3 was better than the guided range. Management is of the view that the high margins recorded in certain quarters act as an insurance to potential ensuing periods of low margin. MGL is also working to reduce opex/scm through initiatives like more online stations (especially in Raigad where the pipeline network and CGS are ready, 24 daughter booster stations converted – which eliminates costlier truck cascades), less number of rental properties, etc. A near-term petrol & diesel price-cut may lead to a CNG price-cut, as the management aims at maintaining parity, though given the Q3 margins of >Rs13, we do not anticipate these to fall below Rs12.

Exhibit 34: We build-in >Rs12/scm EBITDA going ahead, which is at the upper end of Management guidance



Source: Company, Emkay Research

Exhibit 35: MGL's quarterly EBITDA/scm has jumped in H1FY14



Source: Company, Emkay Research

Against the Rs14-15/scm EBITDA likely to be reported in FY24E, we build-in Rs12-12.5/scm for FY25E-27E, with minor growth thereafter. FY25E reported earnings, despite a 6% volume growth, is likely to see a 12% YoY decline with FY26E-27E growth at 7-8%. But as above-mentioned, the same is more optical due to the FY24 margin base, and the overall year is expected to clock 70% EPS growth, which the stock barely seems to be pricing-in.

Unison Enviro acquisition a strategic fit; to add to valuations

PNGRB approves the Unison Enviro acquisition; to consolidate within a month

In March 2023, MGL announced the acquisition of 100% stake in Unison Enviro Pvt Ltd (UEPL) from Ashoka Buildcon and Morgan Stanley Infra Fund (shareholders of UEPL) for Rs5.31bn cash consideration, subject to customary approvals. UEPL has 3 GAs, namely Ratnagiri, Latur & Osmanabad (both in Maharashtra), and Chitradurga & Devangere (Karnataka). UEPL is a strategic acquisition, with diverse synergies for MGL, in order to expand coverage beyond Maharashtra. MGL has received PNGRB approval, with the transaction expected to be completed in the next 2-3 weeks and consolidation to be completed in Q4FY24 itself.

Exhibit 36: UEPL's GA map

Source: Google Images

MGL believes MWP targets for the 3 GAs are not steep and can be achieved by Sep-26 (without factoring-in the 6-9-month extensions available, which can take it to FY27-28). The current progress is also in-line. UEPL's GAs have connectivity to GAIL's pipeline network, while the Ratnagiri GA has LNG availability through the Dabhol LNG terminal situated nearby.

At present, UEPL has 53 CNG stations (~27,000 CNG vehicles), located mostly on highways (many highways pass through the GAs) and transit traffic is mainly expected from LCV-MHCV-PV as well as MSRTC buses. Demand within small towns and cities would add to this. The CNG ecosystem is expected to expand, with high connectivity level between cities. In 9MFY24, UEPL grew 20% YoY, with 0.133mmscmd total volumes (mainly CNG at 90% share), despite ownership transition slowing capex activities.

Exhibit 37: MWP targets of UEPL and recent status

GA	Target			Actual as of Mar-23	
	Pipeline (inch km)	CNG stations (no. of)	DPNG connections (no. of)	CNG stations (no. of)	DPNG connections (no. of)
Ratnagiri	1,800	NA	19,500	18	7,000
Latur & Osmanabad	10	30	10,000	14	1,100
Chitradurga & Devangere	75	42	100,000	11	1,700

Source: Company, Emkay Research

Within the 3 acquired GAs, 2 MIDC areas (like Parsuram Lothe with 80,000scmd demand) are located with ~400 industries, while customers with less than 0.05mmscmd requirement are mainly MGL's target. Current IPNG volume mix is 7-8%, but is a focus area for UEPL. The DPNG footprint is small.

UEPL has invested Rs2.7bn, with total additional capex requirement of Rs10bn in the next 7-10 years. This implies Rs1-1.5bnpa capex, starting FY25. MGL plans to keep UEPL as a 100% subsidiary at present, due to tax benefits, etc. However, UEPL's merger into MGL would be evaluated in the future. The buyout would be funded internally. Additional investment could be through equity as well as debt.

UEPL's total gas volume potential is ~1.2mmscmd, to be achieved in 7-8 years. It is EBITDA-positive, with current unit margin of Rs7.5-8.0/scm, which is likely to increase going ahead, as it integrates into MGL's eco-system. UEPL also operates 1 LNG station in Ratnagiri that caters to I/C PNG customers. It also has an L-CNG facility for other users.

We introduce UEPL numbers and add its value into MGL's SOTP-based value.

Exhibit 38: UEPL Financial Snapshot – Expect bottomline in the black by FY26E

Y/E, March 31, Std	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Revenue (Rs mn)	774	1,796	2,054	3,137	4,752	6,959	9,867	13,417	17,616
EBITDA (Rs mn)	3	269	346	606	1,016	1,550	2,285	3,370	4,762
PAT (Rs mn)	(249)	(156)	(243)	(154)	35	396	878	1,679	2,648
ROE	-30%	-23%	-54%	-52%	11%	55%	55%	51%	45%
ROCE	-11%	-1%	0%	4%	8%	15%	23%	32%	38%
EPS Contribution to MGL (Rs)	(2.5)	(1.6)	(2.5)	(1.6)	0.4	4.0	8.9	17.0	26.8
Capex (Rs mn)	764	674	500	1,600	1,600	1,400	1,200	1,000	1,000
Net Debt (Rs mn)	1,065	1,637	2,029	3,355	4,361	4,683	4,231	2,736	243
Total Sales Volume (MMSCMD)	0.1	0.1	0.1	0.2	0.3	0.4	0.6	0.8	1.0
Growth YoY	400%	110%	20%	55%	50%	45%	40%	35%	30%
EBITDA/scm (Rs)	0.2	7.0	7.5	8.5	9.5	10.0	10.5	11.5	12.5

Source: Company, Emkay Research

Taking cue from the management, we build-in a volume trajectory for UEPL, with 1.2mmscmd levels being touched in CY30E. This would imply almost 40% volume CAGR vs FY24, in line with MGL management reiterating aggressive capex and scale-up. We also build-in gradual improvement in UEPL's EBITDA/scm, with Rs12-13 being achieved in CY30, similar to MGL standalone. By CY30, UEPL can contribute to ~20% of MGL's consolidated earnings. **Based on our DCF valuation, we estimate Rs242/sh SOTP value for UEPL, assuming 11% WACC and 26-year forecast period with nil TvG, the latter capturing long term EV risks.**

Exhibit 39: UEPL's DCF-based valuation

DCF assumptions		Mar-26E	(Rs mn)
Risk Free Rate	7.0%	NPV of FCF	25,885
Risk Premium	5.3%	Terminal Value	21,079
Beta	0.9	PV of TV	1,413
Cost Of Equity	**11.5%**	**Total Value**	**27,298**
Cost Of Debt	8.0%	Less: Adjusted Net Debt (Y/E)	3,355
Post Tax Cost Of Debt	6.0%	**Equity Value**	**23,944**
Average Debt:Equity Ratio	10.3%	No. of Shares O/S – MGL (mn)	99
WACC	**11.0%**	**Target Price (SOTP; Rs/sh)**	**242**
Terminal Growth Rate	0.0%		

Source: Company, Emkay Research

Management guidance and major drivers

5-6% volume CAGR, Rs10-12/scm EBITDA, and Rs8bn SA capex p.a.

MGL management's core medium-term volume guidance remains intact and has evidently achieved the earlier quarterly growth guidance of 8% YoY in Q3FY24. Segmentally, it expects CNG to grow 5-6% YoY, DPNG 5-6%, CPNG 4-5%, and IPNG >10%. The EBITDA/scm guidance has been upped, from Rs8-10 during Covid to Rs9-11 in Q1FY24 and Rs10-12 since the last two quarters. The standalone capex guidance is Rs7-8bnpa and is >Rs9bnpa including UEPL.

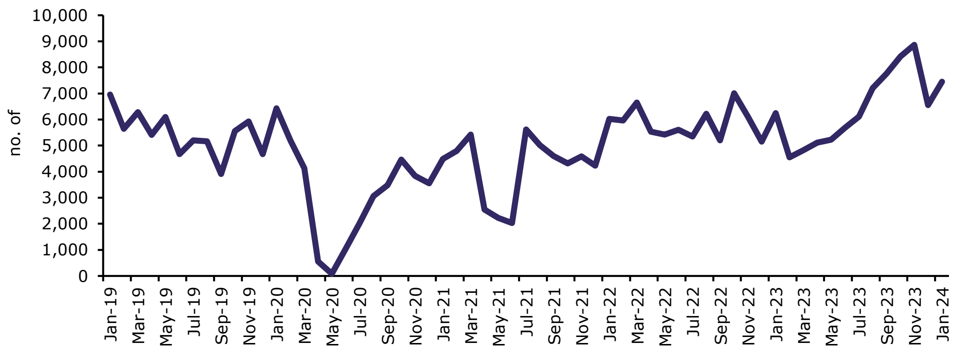
Exhibit 40: MGL's 5-year operational targets (10-11% CAGR)

5-Year targets	FY23	FY28	FY23-28E	FY23 Adds	CAGR	FY23 YoY
CNG Stations (no. of)	313	513	200	24	10%	8%
Pipelines – total (km)	6,550	7,730	1,180	314	3%	5%
- Steel	550	730	180			
- MDPE	6,000	7,000	1,000			
DPNG Burning Customers (mn)	1.51	2.51	1.00	0.138	11%	10%
DPNG Connections (mn)	2.17	3.67	1.5	0.305	11%	16%
Burning Share	70%	68%	67%			

Source: Company, Emkay Research

MGL aims to add 80,000/80-100,000 CNG vehicles in FY24/25 vs 65,000 in FY23. MGL has added 10 CNG stations in 9MFY24 and plans adding 45 each in FY24/25, with sizable additions expected in Q4. Company incurred capex of Rs5bn in 9MFY24, with FY24 target of Rs7-8bn. FY25 capex target including UEPL stands at >Rs9bn. In 9MFY24, 57,000 CNG vehicles have been added and, based on the Jan-2024 numbers by Vaahan, full-year guidance of 80,000 seems easily achievable.

Exhibit 41: Cumulative monthly conversion run-rate in MMR (GAs 1 & 2)



Source: Vaahan, Emkay Research; Jan-24 data is till 26 January 2024

New lines of businesses

LNG retail: LNG retail is a new area that MGL is venturing into. It is for long-haul and HCVs, and Company believes there is good potential in highways, as EVs in these segments would be heavy (weight-wise) and hydrogen will take time to commercialize. There is no traction issue and bhp is high, like in diesel. In CNG, low pressure and retrofit create problems, hence it is not viable to use it in a >30ton vehicle. Further, there is no marketing exclusivity for setting up outlets in a GA. LNG will further help the ESG agenda in Maharashtra and outside, for MGL.

Retail LNG pricing will be based on diesel, with a 10-15% targeted discount. LNG alone can cost Rs65-70/kg, while opex would be Rs10-12/kg, including boil off gas (BOG; 2-3% of volumes) and can compare with ~Rs95/ltr diesel prices currently. MGL would look at different gas sourcing models and have a portfolio of gases like Henry Hub, Brent and NBP to maintain parity. To manage the losses, MGL can put BOG in the pipeline network at its end, while it could be pumped in the engine of an 'on-the-move' truck also. Only in a stationery truck will the BOG be emitted out, but MGL will recover the loss from the trucker. Against a -160ºC temperature in terminals, here, LNG would be operating at -135ºC to -150ºC. LNG is kept in a thick insulated tank and no power is required for cooling, unlike in CNG, for which it is used for compression. Power is only required for pumping LNG which is a very small amount.

An LNG station, ex land, would cost Rs50-60mn. There could be two models in this – B2B contract with more discounts, and B2C with lesser discounts. An LNG station can fill 20-40 trucks per day, with 300-450kg per truck (>3,000kg LNG/outlet), which would give mileage of 500-800km. There is a Rs1.5-3mn price gap between diesel and LNG trucks in the 40-50 ton category which could though narrow, if more OEMs come on the road. More and more OEMs are launching such trucks. There are 4mn heavy trucks in the country and even 5% of this can be sizable. Life of an LNG truck could be 15-20 years.

MGL has started B2B sales from its first LNG station at Savroli (near Khalapur Raigad), set up at Rs60-70mn capex, where I/CPNG customers are also catered to. Further, MGL has signed a JV agreement with Baidynath LNG of Nagpur (first LNG dispensing company) for LNG stations in other GAs. The JV with 51% stake by MGL has been incorporated. Initially, 5-6 stations will be set up in 10-12 months, targeting HCVs and buses. MGL has also entered into an MOU with Mitsui for green hydrogen and LNG business.

Compressed Biogas (CBG): MGL signed an MOU with BMC (MCGM) and discussions are on for finalization (in a month) of a 1,000tpd CBG plant in Mumbai; Company was on the lookout of technology partner and land site. This would take 1-2 years to build, and would be done in phases. Revenue at 500tpd (Phase 1) is Rs500-600mn, with 20-25% EBITDA margin. This would reduce landfill methane emission, promote circular economy and MGL's sustainability goals, and generate local employment.

Electric Vehicles (EVs): While broader EVs is a risk for the CGD business and MGL in general, the management is open to forays in the space. MGL currently has 4-5 EV charging stations and is looking to set up more. We believe MGL, with its ~75 non-OMC COLO & bus depot stations, should focus aggressively on adding EV charging stations as long-term diversification.

We have not built-in any of these new lines of business which can offer upside valuation and earnings risk to varying degrees for the stock.

Financials & Valuation

Financials

Earnings outlook stable & volume driven now on, strong balance sheet, and reasonably-attractive FCFF and dividend yields

We estimate MGL to clock 6% volume CAGR combined with a 9% unit EBITDA/scm CAGR over FY23-26E, thereby resulting in EBITDA/PAT CAGR of 15%/17%. Volume growth is expected across segments for MGL, as the management is focused towards volume growth combined with reasonable margins compared to just a margin-fueled earnings growth. We estimate total volumes to cross 4mmscmd in FY26E from 3.6mmscmd in FY24E. While FY24-YTD has been a bumper year in terms of unit margins, with MGL expected to close FY24 at an EBITDA/scm of ~Rs14.4, we foresee normalization from FY25E to a >Rs12/scm run-rate.

Exhibit 42: MGL's key volume & unit profitability assumptions

Volumes (mmscmd)	FY21	FY22	FY23	FY24E	FY25E	FY26E
CNG	1.42	2.11	2.49	2.60	2.76	2.92
Growth	-34%	49%	18%	4%	6%	6%
PNG	0.80	0.89	0.93	1.00	1.06	1.11
Growth	-1%	11%	5%	7%	6%	6%
Domestic	0.46	0.47	0.49	0.51	0.54	0.57
Growth	15%	0%	4%	5%	6%	6%
Commercial	0.11	0.15	0.14	0.14	0.15	0.16
Growth	-38%	38%	-11%	4%	5%	5%
Industrial	0.22	0.26	0.31	0.35	0.36	0.38
Growth	-2%	20%	16%	13%	5%	5%
Total Sales	**2.21**	**3.00**	**3.42**	**3.60**	**3.81**	**4.04**
Growth	-25%	36%	14%	5%	6%	6%
EBITDA/scm (Rs)	11.6	8.4	9.5	14.4	12.0	12.2
PAT/scm (Rs)	7.7	5.5	6.3	10.2	8.5	8.6

Source: Company, Emkay Research

Exhibit 43: MGL - Detailed Financial Snapshot

Y/E, March 31, Std	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Sales Volume (mmscmd)	2.2	3.0	3.4	3.6	3.8	4.0
Growth	-25%	36%	14%	5%	6%	6%
Revenue (Rs mn)	21,525	35,602	62,993	61,640	62,743	67,067
Growth	-28%	65%	77%	-2%	2%	7%
Gross Margin (Rs mn)	14,052	15,148	18,644	26,693	25,280	27,407
Gross Margin/scm (Rs)	17.4	13.8	14.9	20.3	18.2	18.6
EBITDA (Rs mn)	9,340	9,243	11,842	18,943	16,690	17,949
EBITDA/scm (Rs)	11.6	8.4	9.5	14.4	12.0	12.2
PAT (RS mn)	6,196	5,969	7,901	13,443	11,791	12,617
Growth	-22%	-4%	32%	70%	-12%	7%
EPS (Rs)	62.7	60.4	80.0	136.1	119.4	127.7
P/E (x)	21.9	22.7	17.2	10.1	11.5	10.8
P/B (x)	4.2	3.8	3.3	2.7	2.4	2.2
Capex (Rs mn)	3,669	6,910	7,299	7,000	7,000	6,000
Net Debt (Rs mn)	(14,627)	(14,505)	(14,231)	(12,005)	(15,539)	(20,258)

Source: Company, Emkay Research

Besides input gas costs, MGL's major opex comprises of employee expenses, power & fuel costs, dispensing costs, and repair & maintenance costs. These opex heads comprise ~70% of MGL's total opex for FY23. We estimate opex/scm to rise to ~Rs6.5 by FY26E from ~Rs5.9 in FY24E, as MGL undertakes incentive programs besides other measures, to support volume growth, though online stations and self-owned properties can protect any spike.

Healthy ratios with >20% RoE, 25-30% RoIC

Exhibit 44: MGL's key financial ratios

Y/E, March 31, Std	FY21	FY22	FY23	FY24E	FY25E	FY26E
Gross Margin	65%	43%	30%	43%	40%	41%
EBITDA Margin	43%	26%	19%	31%	27%	27%
NPM	29%	17%	13%	22%	19%	19%
Dividend/sh (Rs)	23.0	25.0	26.0	54.4	50.7	57.5
Dividend Payout	37%	41%	32%	40%	43%	45%
Revenue Growth	-28%	65%	77%	-2%	2%	7%
EBITDA Growth	-11%	-1%	28%	60%	-12%	8%
PAT Growth	-22%	-4%	32%	70%	-12%	7%
ROE	19%	17%	19%	27%	21%	20%
ROCE	18%	16%	18%	27%	20%	20%
ROIC	24%	20%	22%	33%	25%	25%
Debt Equity	0.02	0.03	0.03	0.02	0.02	0.02
P/E* (x)	21.9	22.7	17.2	10.1	11.5	10.8
P/B* (x)	4.2	3.8	3.3	2.7	2.4	2.2
EV/EBITDA* (x)	13.0	13.1	10.3	6.5	7.2	6.4
EV/Sales* (x)	5.6	3.4	1.9	2.0	1.9	1.7
Dividend Yield	2%	2%	2%	4%	4%	4%
FCF Yield	3%	2%	2%	5%	5%	7%

*Source: Company, Emkay Research; * based on CMP*

We expect MGL to deliver >25% ROIC during the forecast period, on the back of strong earnings growth, while registering RoE as well as RoCE of >20%. We estimate MGL to maintain 40-45% dividend payout, with a dividend yield of 4%, which is healthy.

Valuation

We value MGL on a SOTP-DCF basis, with Mar-25E TP of Rs1,650/share

We value MGL using SOTP-based valuation, whereby standalone business as well as UEPL have being valued using the DCF methodology, with a 26-year explicit forecast period, from FY26 to FY51. Standalone business has Rs1,408/sh contribution to the SOTP. In case of UEPL, we estimate volume CAGR of ~40% during FY24-31E, led by scale-up of its network, while unit EBITDA/scm is expected to grow to Rs12.5/scm by FY31E, from ~Rs7.5/scm in FY24E. Hence, UEPL adds Rs242/share to the SOTP. We assign 11.5%/11.0% WACC and a conservative 0% terminal growth each to SA business/UEPL beyond FY51E, which also captures LT EV risks.

Exhibit 45: DCF-based valuation (Mar-25E)

DCF assumptions	MGL Std	UEPL	Mar-26E (Rs mn)	MGL Std	UEPL	Total
Risk Free Rate	7.0%	7.0%	NPV of FCF	113,680	25,885	139,565
Risk Premium	5.3%	5.3%	Terminal Value	80,750	21,079	101,828
Beta	0.9	0.9	PV of TV	4,806	1,413	6,220
Cost Of Equity	11.5%	11.5%	**Total Value**	**118,486**	**27,298**	**145,785**
Cost Of Debt	8.0%	8.0%	Less: Adjusted Net Debt (Y/E)	-20,550	3,355	-17,195
Post Tax Cost Of Debt	6.0%	6.0%	**Equity Value**	**139,036**	**23,944**	**162,980**
Average Debt:Equity Ratio	0.0%	10.3%	No. of Shares O/S (mn)	99	99	99
WACC	**11.5%**	**11.0%**	**Target Price (Rs/sh)**	**1,408**	**242**	**1,650**
Terminal Growth Rate	0.0%	0.0%				

Source: Company, Emkay Research

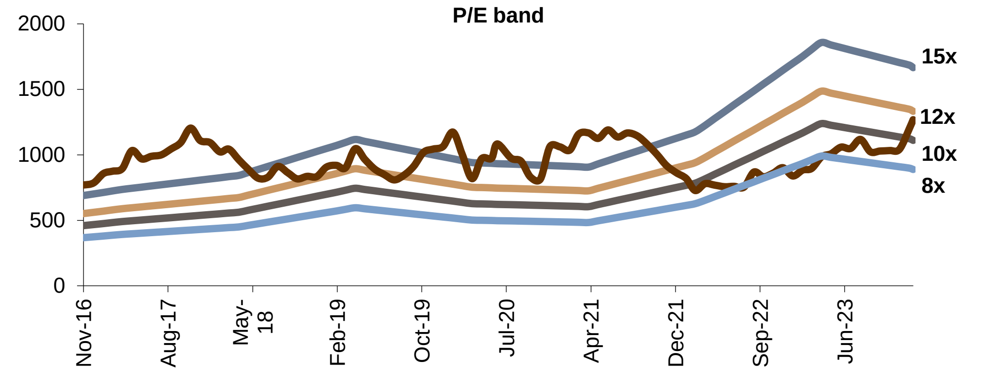
We thereby arrive at Mar-25E SOTP-based target price of Rs1,650/share, which is ~13x the FY26E consolidated (standalone + UEPL) target P/E. MGL is currently trading at 11.5x FY25 PE vs 14.2x for IGL and 27.1x for GUJGA based on our estimates. Our target multiple is consistent with past levels when MGL was growing at 5-6% volume CAGR.

Exhibit 46: Implied Mar-26E P/E valuation

(Rs)	FY21	FY22	FY23	FY24E	FY25E	FY26E
MGL's Adj. Consol. EPS	62.7	60.4	80.0	136.1	117.8	128.1
Target Multiple (x)						**12.9**
DCF Target Price (per share)						**1,650**

Source: Company, Emkay Research

Exhibit 47: MGL's 1-year forward P/E band



Source: Company, Bloomberg, Emkay Research

MGL trades at an attractive valuation compared with peers IGL and GUJGA

Exhibit 48: Peer comparison

Co.	Rating	TP	P/E (x)			EV/EBITDA (x)			RoE			RoCE			PAT growth			Dividend yield		
		Rs/sh	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
MGL	Buy	1,650	10.1	11.5	10.8	6.5	7.2	6.4	27%	21%	20%	27%	20%	20%	70%	-12%	7%	4%	4%	4%
IGL	Add	450	15.3	14.2	13.2	9.5	8.4	7.4	22%	20%	19%	21%	19%	18%	28%	8%	8%	2%	2%	2%
GGL	Reduce	440	31.2	27.1	24.0	18.5	16.3	14.4	16%	16%	16%	15%	15%	15%	-20%	15%	13%	1%	1%	1%

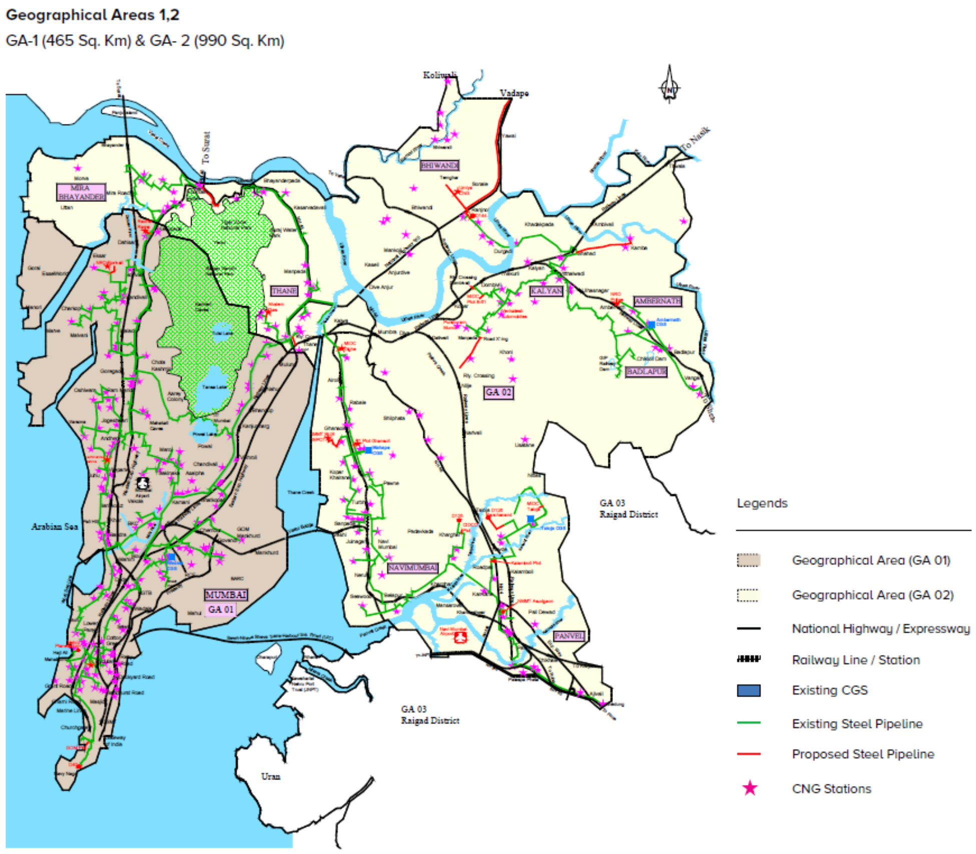
Source: Company, Bloomberg, Emkay Research

Company Information & Key Risks

Background

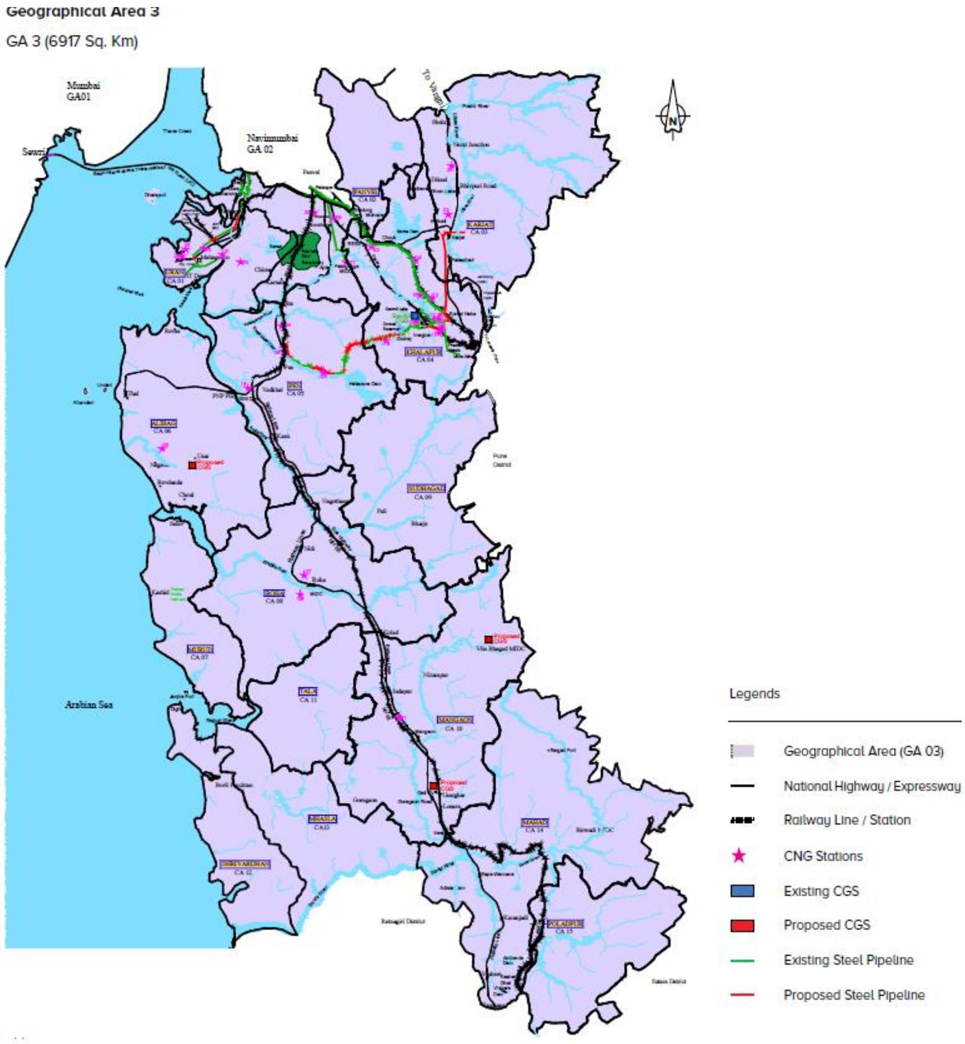
MGL was established in 1995 as a city gas distribution (CGD) operator in the Mumbai area comprising of two geographical areas (GAs) initially, viz. Greater Mumbai (South & Central Mumbai, western suburbs) being GA-1, and GA-2 comprising of Thane district (up to Kalyan, Ambarnath, Badlapur), Bhiwandi (up to Bhayander Creek), and Navi Mumbai (up to Taloja). GA-3 was awarded to MGL in 2015 and is predominantly the Raigad region, from Panvel/Karjat till the Ratnagiri/Satara border. GAs 1 & 2 were allotted in CY1995 and CY2005, while GA-3 is gradually scaling up. These GAs have/had 5 years of marketing exclusivity and 25+10 extendable years of network exclusivity. MGL is promoted by GAIL.

Exhibit 49: Map of GA-1 & GA-2



Source: Company

Exhibit 50: Map of GA-3



Source: Company

MGL's current sales mix comprises of ~72% CNG, with the rest being PNG; of this ~28% PNG, 14% is domestic, 10% industrial, and the balance commercial. MGL supplies PNG to 2.37mn households through a total pipeline network of 6,742km and operates 320 CNG stations as of end-Dec-23. In GA-3, viz. Raigad district, MGL has 75,432 DPNG connections, 32 CNG stations and network of 404km of pipelines as of end-Dec 2023. MGL has also started B2B sales from Savroli LNG station recently. MGL has completed a minimum work program for the 3 GAs, as assigned by the PNGRB.

MGL's recent acquisition, viz. Unison Enviro (UEPL), has the license to operate in 3 GAs, namely Ratnagiri, Latur & Osmanabad, and Chitradurga & Devangere.

Business Model

MGL's core business consists of laying a pipeline infrastructure within the approved GA and distributing gas through retail outlets: CNG to automobiles (buses, cars, taxis, autos, CVs, etc.) and PNG to households, establishments, and industries. As an infrastructure (network, compression facility) provider, MGL's value addition includes network tariff and compression charges, which are regulated by the PNGRB. On the trading front, it charges additional marketing margin, which is completely free and dependent on retail pricing and raw material cost.

Pricing is contingent on the competitive position of CNG vs. liquid fuels like petrol and diesel, and PNG versus alternate fuels like LPG, FO, coal, etc. MGL's commercial and industrial gas sourcing profile consists of term contracts as well as spot LNG. MGL has a Henry Hub-based term contract with GAIL, and a Brent linked term contract with RIL as well. Also, it has sourced some deep-water HP-HT KG gas from RIL.

For the priority segment, viz. CNG and domestic PNG, ~85% is APM gas combined with priority HP-HT gas based on the new CGD allocation guidelines and marginal usage of spot LNG/exchange gas.

CNG and PNG demand is dependent on implied economic advantage versus alternate fuels. For CNG and domestic PNG, alternate fuels are much more expensive due to high taxation; hence pricing is largely favorable for natural gas, though some correlation could be there resulting in widening/contraction of discounts.

In the industrial PNG segment, however, FO/petcoke is competitive with PNG; hence, oil to gas economics would play a key role in driving demand. However, regulatory bans could drive natural gas demand and make it inelastic. Feedstock gas pricing is also a crucial factor, besides rupee-dollar movement.

Regulatory Scenario

The CGD sector falls under the broader Oil & Gas industry with MOPNG being the nodal ministry and PNGRB being the regulator. MOPNG decides on gas allocation and its broad strategy, while PNGRB is involved in geographical area (GA) allocation, monitoring, and technical specs. The 'Policy' environment since the last 10 years has been favorable, with low taxation on retail CGD fuels, priority in cheaper domestic gas allocation for the CNG & DPNG (priority) segments, thrust on expansion and rapid offerings of new & residual GAs. In certain areas like NCR and Morbi, clean fuels like gas have been made mandatory by authorities and courts, with the banning of dirtier liquid and solid fuels; this has led to material CGD volume growth there.

The sector has also faced issues like declining APM gas production hitting allocations, with 100% share in the priority mix a few years ago now reducing to 80-85%. APM prices also saw a rise up to almost USD8-9/mmbtu, before the pricing formula was changed and rates fixed at USD6.5/mmbtu GCV. The PNGRB has been pushing for competition in existing GAs through open access, though due to complex interpretation of policies and regulations, it has seen opposition from CGD players and been made *sub judice*.

Promoters & Management

MGL was originally co-promoted by GAIL and BG/Shell. However, BG completely exited MGL by selling its stake in three tranches, during Apr-18 to Aug-19. GAIL is now the sole promoter with 32.5% stake. The state government of Maharashtra holds 10% stake in the company.

Exhibit 51: MGL's current Board composition and senior leadership

Name of Director / Senior Team Leader	Designation
Sandeep Kumar Gupta	Chairman (GAIL CMD)
Ashu Shinghal	Managing Director
Sanjay Shende	Deputy Managing Director
Dr. Harshadeep S. Kamble	Director – Nominee Govt. of Maharashtra
Syed S. Hussain	Independent Director
Malvika Sinha	Independent Director
Venkatraman Srinivasan	Independent Director
Rajeev Bhaskar Sahi	Independent Director
Rajesh P Wagle	Senior VP – Marketing
TL Sharnagat	VP - Contracts & Procurement and Chief Risk Officer
Chakrapani Atmakur	VP - HR & CSR
Gurvinder Singh	Vice President – Projects
Rajesh D. Patel	CFO
Manas Das	VP - Business Development & Commercial
Sitanshu Sekhar Roychowdhury	VP - Operation & Maintenance
Atul Prabhu	GM (IA & Vigilance) and CS & Compliance Officer

Source: Company, Emkay Research

ESG

We rate MGL neutral in the ESG parameter.

Environment: While natural gas is a fossil fuel, it is relatively cleaner than coal and crude oil which the recent COP28 has also reiterated as well as its role in the transition to clean energy as an intermediate. The GoI targets increasing the share of gas from 6% to 15% in the primary energy mix of India by CY30, and has continuously supported the sector through favorable policies. MGL expects the Indian CGD sector to grow from ~30mmscmd currently to almost 70mmscmd by FY30.

Social: MGL has allocated CSR expenditure at >2% of the last 3-year average PAT since the last 4 years; while unspent CSR expenditure is being transferred to a separate escrow account, to be spent in subsequent years. Women employees comprise ~10% of the permanent workforce of MGL.

Governance: The Board has adequate independent directors. Being a GAIL-promoted entity, MGL's structure is quasi PSU. A key related-party transaction involves purchase of input gas by MGL from GAIL (its promoter); however, majority of this purchase involves APM gas, the pricing of which is determined by the GoI.

Key Risks

Open access: This can expose MGL's core GAs (which are well past their marketing exclusivity) to competition, thus affecting volume and pricing power. However, the matter is *sub judice* with the Delhi High Court currently. Further, given Company's first-mover advantage, a new player may find it hard to compete/survive. The PNGRB in its last notification watered down a key risk, wherein OMCs are not be allowed to terminate agreements with CGD players and start their own CNG retailing in COLO stations. There are ~226 OMC COLOs vs 320 total CNG stations currently for MGL.

Commission increase: Increase in commissions sought by OMCs and other stakeholders can lead to margin compression. Currently, OMCs are charging Rs3.7-5.2/kg, depending on the GA tier (highest in GA-1). DODO margins are Rs0.5-0.7/kg less than OMCs', while bus depots get an implied benefit (discount) of Rs2-3/kg.

EVs: EVs are a long-term existential risk for CGD companies. Any major announcements and progress can impact sentiment in the near term, and MGL's business in the medium-to-long term (as seen in the case of IGL). Maharashtra's draft EV policy was framed in CY21 to convert 10% of new registered vehicles into EVs by CY25, electrify 25% of the public transport and last mile delivery by CY25, and electrify government vehicles from April 2022 (although is getting postponed), but the policy has not been finalized yet.

Maharashtra operates 480 EV buses and has added 10-12 in the last 1 year itself. 80 new buses each, from MSRTC and BEST, were added during Q2. As per MGL management, the recent subsidy for 10,000 buses is mainly for small cities & towns, and not metros. The EV range is much lower than CNG, resulting in a need for more buses, while parking, higher capex and charging-related constraints still exist. Pune is switching back to CNG after facing issues with EVs.

Adverse commodity & retail fuel prices and currency: Higher gas prices, lower oil prices, weaker currency, adverse retail pricing, etc. can impact CGD fuel economics & volumes as well as margins.

Policy and regulatory risks: Rollback of various policy support, especially wrt taxation, domestic gas allocation, APM pricing etc.

Operational, project and capital allocation risks: Operational risks include outages like pipeline blast, gas leak, fire incidents, etc; time & cost overruns in projects; investment in unrelated and risky businesses.

The ONGC-GAIL-MGL transportation tariff dispute: GAIL has sought transportation tariff amounting to Rs3.3bn from MGL, following demand raised by ONGC on GAIL for use of ONGC's Uran-Trombay pipeline. MGL has disputed this tariff demand based on contractual provisions and also contests that transportation charges cannot be levied by ONGC for transporting its own gas through its own pipeline. The MGL mgmt. believes that the company has a strong case and no provision is required in its book of accounts. Currently, the matter is under dispute with the Delhi HC, with the next hearing scheduled for 19-Feb-2024.

Mahanagar Gas: Standalone Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	**35,602**	**62,993**	**61,640**	**62,743**	**67,067**
Revenue growth (%)	65.4	76.9	(2.1)	1.8	6.9
EBITDA	**9,243**	**11,842**	**18,943**	**16,690**	**17,949**
EBITDA growth (%)	(1.0)	28.1	60.0	(11.9)	7.5
Depreciation & Amortization	1,963	2,311	2,662	2,749	3,044
EBIT	**7,281**	**9,530**	**16,281**	**13,941**	**14,905**
EBIT growth (%)	(4.2)	30.9	70.8	(14.4)	6.9
Other operating income	0	0	0	0	0
Other income	857	1,119	1,800	1,931	2,070
Financial expense	75	94	109	110	108
PBT	**8,063**	**10,555**	**17,972**	**15,763**	**16,867**
Extraordinary items	0	0	0	0	0
Taxes	2,093	2,655	4,529	3,972	4,250
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	**5,969**	**7,900**	**13,443**	**11,791**	**12,617**
PAT growth (%)	(3.7)	32.3	70.2	(12.3)	7.0
Adjusted PAT	**5,969**	**7,900**	**13,443**	**11,791**	**12,617**
Diluted EPS (Rs)	**60.4**	**80.0**	**136.1**	**119.4**	**127.7**
Diluted EPS growth (%)	(3.7)	32.3	70.2	(12.3)	7.0
DPS (Rs)	**25.0**	**26.0**	**54.4**	**50.7**	**57.5**
Dividend payout (%)	**41.4**	**32.5**	**40.0**	**42.5**	**45.0**
EBITDA margin (%)	26.0	18.8	30.7	26.6	26.8
EBIT margin (%)	20.4	15.1	26.4	22.2	22.2
Effective tax rate (%)	26.0	25.2	25.2	25.2	25.2
NOPLAT (pre-IndAS)	**5,390**	**7,133**	**12,178**	**10,428**	**11,149**
Shares outstanding (mn)	98.8	98.8	98.8	98.8	98.8

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	988	988	988	988	988
Reserves & Surplus	34,985	40,354	48,420	55,200	62,139
Net worth	**35,973**	**41,342**	**49,408**	**56,188**	**63,127**
Minority interests	0	0	0	0	0
Deferred tax liability (net)	2,008	2,086	2,168	2,251	2,335
Total debt	**1,030**	**1,146**	**1,156**	**1,166**	**1,176**
Total liabilities & equity	**39,011**	**44,574**	**52,732**	**59,605**	**66,638**
Net tangible fixed assets	24,581	28,318	34,949	39,537	42,813
Net intangible assets	52	51	0	0	0
Net ROU assets	1,504	1,888	0	0	0
Capital WIP	6,159	7,086	6,732	6,395	6,076
Goodwill	0	0	0	0	0
Investments [JV/Associates]	1,590	2,918	8,219	8,226	8,252
Cash & equivalents	**15,535**	**15,377**	**13,161**	**16,705**	**21,434**
Current assets (ex-cash)	2,917	4,685	4,585	4,667	4,988
Current Liab. & Prov.	13,327	15,749	14,914	15,925	16,924
NWC (ex-cash)	**(10,411)**	**(11,064)**	**(10,329)**	**(11,258)**	**(11,936)**
Total assets	**39,011**	**44,574**	**52,732**	**59,605**	**66,638**
Net debt	(14,505)	(14,231)	(12,005)	(15,539)	(20,258)
Capital employed	39,011	44,574	52,732	59,605	66,638
Invested capital	**15,727**	**19,194**	**24,620**	**28,279**	**30,877**
BVPS (Rs)	364.2	418.5	500.2	568.8	639.1
Net Debt/Equity (x)	(0.4)	(0.3)	(0.2)	(0.3)	(0.3)
Net Debt/EBITDA (x)	(1.6)	(1.2)	(0.6)	(0.9)	(1.1)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	**22.0**	**25.5**	**37.2**	**28.3**	**26.9**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	8,063	10,555	17,972	15,763	16,867
Others (non-cash items)	263	355	0	0	0
Taxes paid	(2,122)	(2,638)	(4,447)	(3,889)	(4,167)
Change in NWC	1,647	731	(652)	1,012	762
Operating cash flow	**9,037**	**9,693**	**13,770**	**13,723**	**14,434**
Capital expenditure	(6,963)	(7,358)	(7,000)	(7,000)	(6,000)
Acquisition of business	(418)	(1,328)	(5,302)	(7)	(26)
Interest & dividend income	423	460	1,800	1,931	2,070
Investing cash flow	**(6,400)**	**(9,218)**	**(7,890)**	**(6,116)**	**(4,045)**
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	289	116	10	10	10
Payment of lease liabilities	(290)	(330)	0	0	0
Interest paid	(75)	(94)	(109)	(110)	(108)
Dividend paid (incl tax)	0	0	0	0	0
Others	(3,317)	(2,870)	(5,377)	(5,011)	(5,677)
Financing cash flow	**(3,103)**	**(2,848)**	**(5,476)**	**(5,111)**	**(5,775)**
Net chg in Cash	(467)	(2,373)	404	2,496	4,613
OCF	9,037	9,693	13,770	13,723	14,434
Adj. OCF (w/o NWC chg.)	7,390	8,962	14,423	12,711	13,672
FCFF	2,074	2,335	6,770	6,723	8,434
FCFE	2,422	2,701	8,461	8,545	10,396
OCF/EBITDA (%)	97.8	81.9	72.7	82.2	80.4
FCFE/PAT (%)	40.6	34.2	62.9	72.5	82.4
FCFF/NOPLAT (%)	**38.5**	**32.7**	**55.6**	**64.5**	**75.6**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	22.7	17.2	10.1	11.5	10.8
P/CE(x)	17.1	13.3	8.4	9.3	8.7
P/B (x)	3.8	3.3	2.7	2.4	2.2
EV/Sales (x)	3.4	1.9	2.0	1.9	1.7
EV/EBITDA (x)	13.1	10.3	6.5	7.2	6.4
EV/EBIT(x)	16.7	12.7	7.6	8.6	7.7
EV/IC (x)	7.7	6.3	5.0	4.3	3.7
FCFF yield (%)	1.7	1.9	5.5	5.6	7.3
FCFE yield (%)	1.8	2.0	6.2	6.3	7.7
Dividend yield (%)	1.8	1.9	4.0	3.7	4.2
DuPont-RoE split					
Net profit margin (%)	16.8	12.5	21.8	18.8	18.8
Total asset turnover (x)	1.0	1.5	1.3	1.1	1.1
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
RoE (%)	**17.5**	**20.4**	**29.6**	**22.3**	**21.1**
DuPont-RoIC					
NOPLAT margin (%)	15.1	11.3	19.8	16.6	16.6
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	**37.9**	**40.9**	**55.6**	**39.4**	**37.7**
Operating metrics					
Core NWC days	(16.0)	(4.0)	(4.0)	(4.0)	(4.0)
Total NWC days	**(16.0)**	**(4.0)**	**(4.0)**	**(4.0)**	**(4.0)**
Fixed asset turnover	1.1	1.6	1.4	1.2	1.1
Opex-to-revenue (%)	16.6	10.8	12.6	13.7	14.1

Source: Company, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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