

Mahanagar Gas (MAHGAS)

CMP: ₹ 817

Target: ₹ 850 (4%)

Target Period: 12 months

HOLD

August 10, 2022

In line quarter; margin trend to be key monitorable...

About the stock: Mahanagar Gas (MGL) is a city gas distribution company and operates in Mumbai, its adjoining areas and Raigad district, Maharashtra.

- CNG sales contribute more than 70% of its total sales volume
- It has historically reported high gross margins and return ratios

Q1FY23 Results: MGL's results were in line with estimates on profitability front.

- Revenue was up 138.9% YoY to ₹ 1593.2 crore (estimate: ₹ 1418.1 crore), driven by volume growth of 43.8% YoY and higher realisation at ₹ 50.8/scm
- Gross margins fell ₹ 5/scm YoY to ₹ 14.4/scm on account of sharp increase in gas costs. Subsequently, EBITDA fell 6.1% YoY to ₹ 285.6 crore (our estimate: ₹ 282.3 crore)
- PAT was at ₹ 185.2 crore, down 9.3% YoY (our estimate: ₹ 183 crore)

What should investors do? While the company is likely to report healthy revenue YoY in FY23E owing to sales and realisation growth, longer term revenue growth is expected to be range bound due to lack of new geographical areas, thereby less opportunities for sustained higher growth.

- We retain our **HOLD** rating on the stock

Target Price and Valuation: We value MGL at ₹ 850 i.e. ~10x P/E on FY24E EPS.

Key triggers for future price performance:

- MGL is a beneficiary of India's aim to increase the share of natural gas in the energy mix from 6% to 15% by 2030
- APM and spot LNG costs trend to be the key
- MGL hiked prices in Q2FY23E to pass on higher costs to customers
- Debt free balance sheet and consistent dividend payout

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

- Gail is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value
- BUY with a target price of ₹ 160



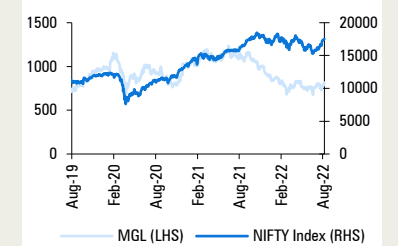
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	8,070.1
Total Debt (FY22) (₹ Crore)	82.4
Cash and Investments (FY22)	465.2
EV (₹ Crore)	7,687.4
52 week H/L	1205/666
Equity capital (₹ Crore)	98.8
Face value (₹)	10.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	32.5	32.5	32.5	32.5
FII	29.4	25.3	25.0	25.8
DII	17.8	19.1	17.3	16.1
Others	20.3	23.1	25.2	25.6

Price Chart



Recent event & key risks

- MGL hiked CNG prices to pass on increased costs
- **Key Risk:** (i) Faster than expected volume growth, (ii) Inability to pass on higher costs can impact margins

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-FY22E)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Revenue (₹ crore)	3,056.8	3,264.5	2,337.8	3,884.9	11.7%	6,991.6	6,865.3	32.9
EBITDA (₹ crore)	885.5	1,052.9	934.0	924.3	7.5%	1,148.1	1,256.3	16.0
PAT (₹ crore)	546.5	793.5	619.6	597.0	8.7%	748.2	809.3	14.3
EPS(₹)	55.3	80.3	62.7	60.4		75.7	81.9	
P/E (x)	14.8	10.2	13.0	13.5		10.8	10.0	
P/Book (x)	3.4	2.7	2.5	2.2		2.0	1.8	
RoCE (%)	31.7	29.7	23.1	19.8		22.4	21.6	
RoE (%)	22.8	26.9	19.2	16.6		18.5	17.8	

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Higher gas costs continue to impact margins; although QoQ profitability improves

- Revenue increased 34.2% QoQ on account of higher realisation
- Sales volume was at 3.4 mmscmd, up 43.8% YoY, slightly higher than estimate of 3.3 mmscmd. CNG segment reported growth of ~64% YoY to 2.5 mmscmd (our estimate: 2.4 mmscmd). PNG volumes increased 7.2% YoY to 0.9 mmscmd, in line with estimates. On a QoQ basis, volumes increased 8.8% with CNG volumes increasing 11.5% (estimated growth: ~5%) whereas PNG volumes increased 1.8% (estimated growth: ~3%)
- On a QoQ basis, higher realisation led to gross margins at ₹ 14.4/scm, up ₹ 1.1/scm QoQ. Subsequently, EBITDA/scm was at ₹ 9.1/scm, up ₹ 1.5/scm QoQ
- Going ahead, we expect sales volume of 3.4 mmscmd and 3.7 mmscmd in FY23E and FY24E, respectively
- Gross margins are estimated at ₹ 14.8/scm and ₹ 15/scm in FY23 and FY24E, respectively

Q1FY23 Earnings Conference Call highlights

- Unified base price (UBP) for pooled gas price was US\$8.04/mmbtu in May and US\$8.05/mmbtu in June
- The company currently operates 292 CNG stations. MGL plans to add 25 new CNG stations and upgrade 25 CNG stations in FY23. Planned capex for FY23 is ₹ 700-800 crore while capex for Q1FY23 was ₹ 150 crore
- The management said that CGDs have requested MoPNG to allow HPHT gas to be blended with the existing pool of APM gas
- On a QoQ basis, industrial and commercial realisation improved sharply as prices of alternate fuels increased
- The management said that proportion of spot LNG in pooled gas blending with APM gas is likely to be 10-15%
- The management said that conversion from traditional fuels to CNG was not affected during Q1FY23 in spite of higher prices. Quarterly conversion from traditional fuels to CNG was 19000 vehicles

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Gujarat Gas (GUJGA)	444	500	Hold	30,565	18.9	18.3	21.7	23.5	24.3	20.5	15.0	15.1	12.7	26.9	22.9	23.4	23.2	19.2	19.3
Indraprastha Gas (INDGAS)	366	440	Buy	25,620	18.8	20.6	23.0	19.4	17.7	15.9	12.9	11.1	9.7	22.3	22.0	21.1	19.0	18.1	17.5
Mahanagar Gas (MAHGAS)	817	850	Hold	8,070	60.4	75.7	81.9	13.5	10.8	10.0	8.3	6.5	5.8	19.8	22.4	21.6	16.6	18.5	17.8

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Revenues	1,593.2	1,418.1	666.9	138.9	1,187.6	34.2	Revenue increased YoY on account of price hikes and sales volume growth (on a lower base)
Raw materials costs	1,003.9	834.6	191.0	425.6	707.3	41.9	Sharp rise in gas sourcing costs mainly due to increased APM and spot LNG costs
Employees Cost	21.7	21.4	20.0	8.5	18.8	15.9	
Other Expenses	282.0	279.8	151.8	85.7	246.1	14.6	
Total Expenditure	1,307.6	1,135.9	362.9	260.4	972.1	34.5	
EBITDA	285.6	282.3	304.0	-6.1	215.5	32.5	In line with expectations
EBITDA margins (%)	17.9	19.9	45.6	-2766 bps	18.1	-22 bps	
Depreciation	53.7	56.1	45.3	18.6	55.5	-3.3	
EBIT	231.9	226.2	258.7	-10.4	160.0	45.0	
Interest	2.3	1.5	1.7	34.7	2.3	0.9	
Other Income	20.0	21.0	18.6	7.5	22.7	-11.9	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	249.6	245.7	275.6	-9.5	180.4	38.4	
Total Tax	64.4	62.7	71.6	-10.0	48.6	32.5	
PAT	185.2	183.0	204.1	-9.3	131.8	40.5	

Key Metrics

Sales Volumes (mmscmd)	3.4	3.3	2.4	43.8	3.2	8.8	CNG volume increased 63.8% YoY while PNG volume grew 7.2% YoY
Realisation (₹/scm)	50.8	46.9	30.6	66.2	41.6	22.0	
Gross Margin (₹/scm)	14.4	15.2	19.4	-26.1	13.3	8.0	Higher gas prices led to YoY decline in margins. On QoQ basis, higher realisation led to margin growth

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	5727.0	6,991.6	22.1	5807.8	6,865.3	18.2	Increased revenue estimates due to price hikes
EBITDA	1,087.2	1,148.1	5.6	1,202.3	1,256.3	4.5	Revised estimates post Q1FY23 results taking into account current gas prices trend
EBITDA Margin (%)	19.0	16.4	-256 bps	20.7	18.3	-240 bps	
PAT	704.7	748.2	6.2	771.9	809.3	4.9	
EPS (₹)	71.3	75.7	6.2	78.1	81.9	4.9	

Source: ICICI Direct Research

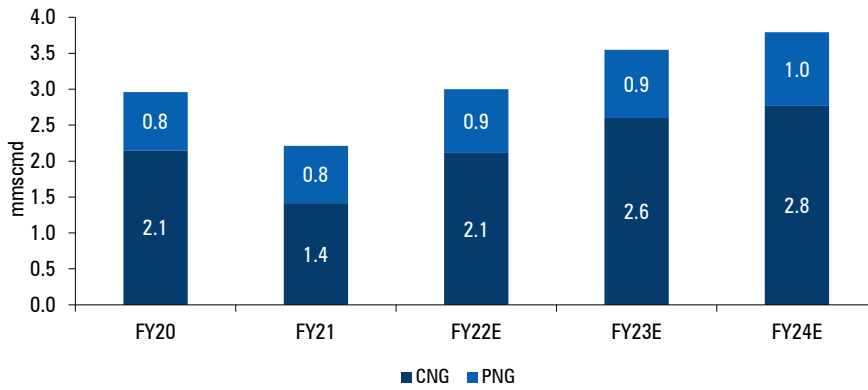
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Sales Volumes (mmscmd)	2.21	3.00	3.55	3.79	3.43	3.68	Realigned estimates post Q1FY23 results
Realisation (₹/scm)	29.0	35.5	54.0	49.6	45.8	43.2	
Gross Margin (₹/scm)	17.4	13.8	14.8	15.0	15.1	15.5	Revised gross margins as we factor in higher realisation and costs estimates

Source: ICICI Direct Research

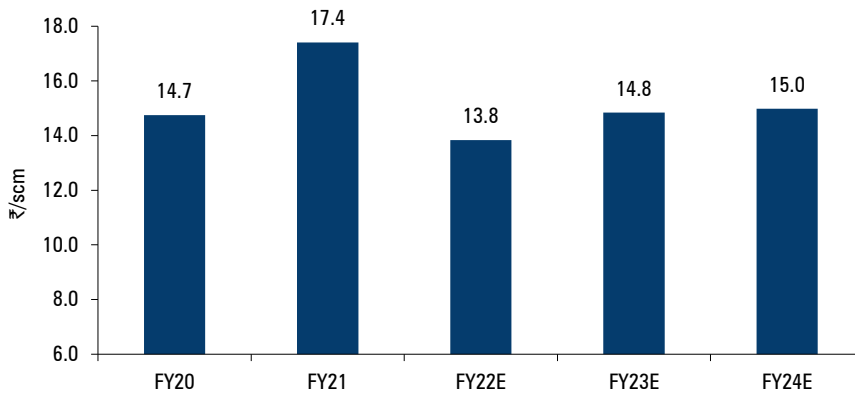
Story in charts

Exhibit 5: Volume to grow at steady pace



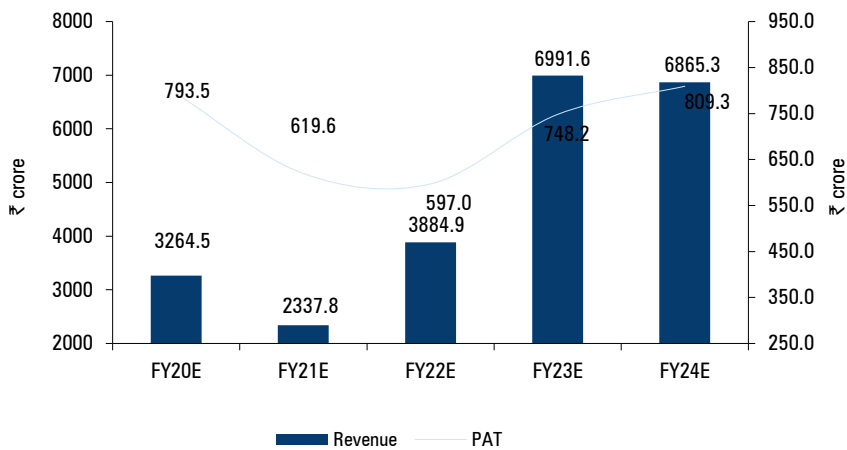
Source: Company, ICICI Direct Research

Exhibit 6: Margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Revenue, PAT trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Revenue	2337.8	3884.9	6991.6	6865.3
Growth (%)	-28.4	66.2	80.0	-1.8
Raw material Costs	747.3	2045.4	4444.3	4160.2
Employee Costs	87.5	83.3	90.2	96.5
Other Expenditure	383.7	507.2	683.4	720.9
Op. Expenditure	1403.8	2960.6	5843.5	5609.0
EBITDA	934.0	924.3	1148.1	1256.3
Growth (%)	-11.3	-1.0	24.2	9.4
Depreciation	173.7	196.3	224.0	256.9
EBIT	760.3	728.1	924.1	999.4
Interest	7.2	7.5	6.8	7.0
Other Income	80.5	85.7	88.0	94.0
PBT	833.6	806.3	1005.3	1086.4
Growth (%)	-15.2	-3.3	24.7	8.1
Tax	214.0	209.3	257.1	277.0
Reported PAT	619.6	597.0	748.2	809.3
Growth (%)	-21.9	-3.6	25.3	8.2
EPS	62.7	60.4	75.7	81.9

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	619.6	597.0	748.2	809.3
Add: Depreciation	173.7	196.3	224.0	256.9
Add: Others	16.6	23.5	15.0	15.0
Cash Profit	809.8	816.8	987.2	1,081.2
Increase/(Decrease) in CL	168.0	219.1	601.2	154.9
(Increase)/Decrease in CA	-92.8	-116.0	-400.1	-7.2
CF from Operating Activities	885.0	919.9	1188.3	1229.0
Purchase of Fixed Assets	367.6	696.3	642.5	675.0
(Inc)/Dec in Investments	96.5	-63.3	-40.0	-40.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-271.1	-759.6	-682.5	-715.0
Inc/(Dec) in Loan Funds	8.3	25.1	0.0	0.0
Inc/(Dec) in Sh. Cap. & Res.	1.1	0.0	0.0	0.0
Less: Dividend Paid	341.0	232.0	300.5	300.5
Others	0.0	0.0	0.0	0.0
CF from financing activities	-331.6	-206.9	-300.5	-300.5
Change in cash Eq.	282.4	-46.7	205.4	213.5
Op. Cash and cash Eq.	229.5	511.9	465.2	670.5
Cl. Cash and cash Eq.	511.9	465.2	670.5	884.0

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Source of Funds				
Equity Capital	98.8	98.8	98.8	98.8
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	3,133.6	3,498.5	3,946.3	4,455.1
Shareholder's Fund	3,232.4	3,597.3	4,045.0	4,553.9
Loan Funds	57.3	82.4	82.4	82.4
Deferred Tax Liability	177.3	200.8	215.8	230.8
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	3467.0	3880.5	4343.2	4867.1
Application of Funds				
Gross Block	2,910.9	3,545.6	4,006.2	4,481.2
Less: Acc. Depreciation	741.6	931.9	1,159.0	1,415.9
Net Block	2,169.3	2,613.7	2,847.2	3,065.3
Capital WIP	560.3	615.9	800.9	1,000.9
Total Fixed Assets	2,729.6	3,229.7	3,648.1	4,066.2
Investments	1,025.0	1,088.3	1,128.3	1,168.3
Inventories	22.2	27.5	57.5	75.2
Debtor	127.5	184.0	287.3	282.1
Cash	511.9	465.2	670.5	884.0
Loan & Advance, Other CA	185.0	239.1	506.0	500.6
Total Current assets	846.6	915.9	1521.3	1742.0
Current Liabilities	1104.1	1317.7	1915.5	2069.0
Provisions	30.1	35.6	39.0	40.4
Total CL and Provisions	1134.2	1353.3	1954.5	2109.4
Net Working Capital	-287.7	-437.4	-433.2	-367.4
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	3467.0	3880.5	4343.2	4867.1

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Book Value	327.2	364.2	409.5	461.0
Cash per share	155.6	157.3	182.1	207.8
EPS	62.7	60.4	75.7	81.9
Cash EPS	80.3	80.3	98.4	107.9
DPS	23.0	25.0	26.0	26.0
Profitability & Operating Ratios				
EBITDA Margin (%)	40.0	23.8	16.4	18.3
PAT Margin (%)	26.5	15.4	10.7	11.8
Fixed Asset Turnover (x)	0.9	1.2	1.9	1.7
Inventory Turnover (Days)	3.5	3.0	3.0	4.0
Debtor (Days)	19.9	15.0	15.0	15.0
Current Liabilities (Days)	172.4	100.0	100.0	110.0
Return Ratios (%)				
RoE	19.2	16.6	18.5	17.8
RoCE	23.1	19.8	22.4	21.6
RoIC	43.4	34.2	39.7	38.7
Valuation Ratios (x)				
PE	13.0	13.5	10.8	10.0
Price to Book Value	2.5	2.2	2.0	1.8
EV/EBITDA	8.2	8.3	6.5	5.8
EV/Sales	3.3	2.0	1.1	1.1
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	NA	NA	NA	NA
Debt to EBITDA (x)	0.1	0.1	0.1	0.1
Current Ratio	0.7	0.7	0.8	0.8
Quick ratio	0.7	0.7	0.7	0.8

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Oil & gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	326	320	Hold	69,420	41.3	-7.9	42.2	7.9	-41.4	7.7	6.5	27.4	6.3	13.2	-1.7	13.2	17.7	-3.8	18.6
GAIL (India) (GAIL)	133	160	Buy	59,057	23.3	22.2	15.1	5.7	6.0	8.8	4.6	4.5	6.5	18.8	16.3	9.6	18.6	15.7	10.1
Gujarat Gas (GUJGA)	444	500	Hold	30,565	18.9	18.3	21.7	23.5	24.3	20.5	15.0	15.1	12.7	26.9	22.9	23.4	23.2	19.2	19.3
HPCL (HINPET)	231	255	Hold	32,778	44.9	8.0	42.8	5.1	29.0	5.4	7.8	16.4	7.1	7.3	0.8	7.3	16.5	3.0	15.0
Indian Oil Corp (INDOIL)	71	80	Hold	1,00,614	17.1	7.7	13.1	4.2	9.3	5.4	2.3	3.4	2.5	12.9	6.4	9.6	18.4	8.3	13.3
Indraprastha Gas (INDGAS)	366	440	Buy	25,620	18.8	20.6	23.0	19.4	17.7	15.9	12.9	11.1	9.7	22.3	22.0	21.1	19.0	18.1	17.5
Mahanagar Gas (MAHGAS)	817	850	Hold	8,070	60.4	75.7	81.9	13.5	10.8	10.0	8.3	6.5	5.8	19.8	22.4	21.6	16.6	18.5	17.8
Petronet LNG (PETLNG)	216	215	Hold	32,400	22.3	18.1	19.5	9.7	11.9	11.1	5.9	7.0	6.2	27.0	20.3	21.1	25.0	19.3	19.7
Reliance Industries (RELIND)	2,572	2,700	Hold	17,39,958	89.7	104.1	123.7	28.7	24.7	20.8	18.6	13.8	11.5	7.1	9.2	10.4	7.8	8.3	9.1

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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