

# Mahanagar Gas (MAHGAS)

CMP: ₹ 997

Target: ₹ 1,120 (12%)

Target Period: 12 months

HOLD

October 28, 2021

## Higher gas price impacts margins...

**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

**Q2FY22 Results:** MGL reported results that were lower than estimates on profitability front.

- Revenue was up 65.3% YoY to ₹ 907.6 crore, driven by sales volume growth of 50.7% YoY and higher realisation at ₹ 31.6/scm
- Gross margins fell ₹ 1.7/scm YoY (and ₹ 3.9/scm QoQ) to ₹ 15.6/scm on account of sharp increase in gas costs. EBITDA increased 36.5% YoY to ₹ 301.8 crore
- PAT was at ₹ 204.3 crore, up 41.5% YoY

**What should investors do?** MGL's CNG sales volume surpassed pre-Covid level and is expected to grow further. However, margins are likely to reduce from higher levels in the medium term owing to high gas costs.

- We change our rating on the stock from BUY to HOLD

**Target Price and Valuation:** We value MGL at ₹ 1120 i.e. 11x P/E on FY23E 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
- On account of competitive advantage against traditional auto fuels, MGL has potential for further sales volume growth in Mumbai and adjacent areas
- MGL hiked prices in Q3FY22E to partially pass on higher costs to customers. Further price hikes will be important to watch out
- 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 India's leading gas transmission company, which 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 ₹ 175



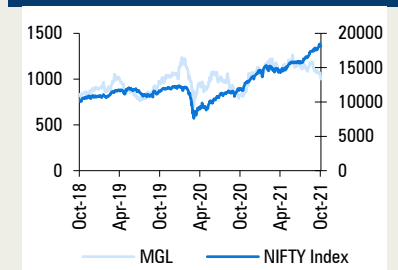
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	9,848.1
Total Debt (FY21) (₹ Crore)	57.3
Cash and Investments (FY21)	511.9
EV (₹ Crore)	9,393.6
52 week H/L	1284/808
Equity capital (₹ Crore)	98.8
Face value (₹)	10.0

### Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	32.5	32.5	32.5	32.5	32.5
FII	25.6	29.6	31.1	29.6	29.4
DII	20.1	18.1	17.2	18.4	17.8
Others	18.9	19.9	19.2	19.5	20.3

### Price Chart



### Recent event & key risks

- MGL hiked CNG & domestic PNG 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	FY21E	5 Year CAGR (FY16-21)	FY22E	FY23E	2 Year CAGR (FY21-23E)
Revenue (₹ crore)	3,056.8	3,264.5	2,337.8	0.5%	3,762.8	5,100.4	47.7
EBITDA (₹ crore)	885.5	1,052.9	934.0	12.7%	1,200.7	1,479.4	25.9
PAT (₹ crore)	546.5	793.5	619.6	15.0%	812.9	1,005.3	27.4
EPS(₹)	55.3	80.3	62.7		82.3	101.8	
P/E (x)	18.0	12.4	15.9		12.1	9.8	
P/Book (x)	4.1	3.3	3.0		2.6	2.2	
RoCE (%)	31.7	29.7	23.1		26.6	28.1	
RoE (%)	22.8	26.9	19.2		21.7	22.6	

## Key takeaways of recent quarter & conference call highlights

### Q2FY22 Results: Higher gas costs impact EBITDA margin

- Revenue increased 36.1% QoQ mainly on account of higher sales volume as sales volume was impacted by the second Covid-19 wave in Q1FY22
- Sales volume came in at 3.1 mmscmd, an increase of 50.7% YoY, higher than estimate of 2.9 mmscmd. CNG segment reported growth of ~75% YoY (on a lower base) to 2.2 mmscmd (our estimate: 2 mmscmd). PNG volumes increased ~12% YoY to 0.9 mmscmd, largely in line with estimates. On a QoQ basis, volumes grew 30.3% with CNG volumes increasing ~44% (estimated growth: ~29%) whereas PNG volumes grew 5% (estimated growth: ~7%)
- While the company had taken a price hike during the quarter, higher gas prices impacted margins as raw material costs increased 4.5/scm QoQ to ₹ 13.3/scm. EBITDA/scm was at ₹ 10.5/scm, down ₹ 1.1/scm YoY and ₹ 3.4/scm QoQ

### Q2FY22 Earnings Conference Call highlights

- Margin decline was on account of higher spot LNG prices QoQ. Also, proportion of APM gas was lower in source mix leading to higher portion of high-priced LNG in source mix. This impacted gross margins
- The company has asked authorities for allocation of APM gas for priority sector for remainder of FY22E on the basis of Q2FY22 volume
- Price hike in the current quarter was done to pass on increase in APM gas costs
- Total sales volume is in range of ~3.4 mmscmd currently and average volume in October was 3.35 mmscmd
- The company has planned capex of ₹ 600 crore each over the next few years
- The management was of the view that with further increase in sales volume, for priority sector i.e. CNG & Domestic PNG, opex/unit will be lower leading to stable EBITDA margins or slight improvement might be seen in margins

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Gujarat Gas (GUJGA)	614	735	Hold	42,268	18.5	23.8	26.1	33.1	25.8	23.5	20.6	16.5	14.7	31.7	34.2	32.2	28.5	28.3	25.3
Indraprastha Gas (INDGAS)	477	585	Hold	33,390	14.4	18.0	21.4	33.2	26.5	22.3	21.8	17.5	14.7	20.0	22.5	22.9	17.1	18.6	19.0
Mahanagar Gas (MAHGAS)	997	1120	Hold	9,848	62.7	82.3	101.8	15.9	12.1	9.8	10.1	7.7	5.8	23.1	26.6	28.1	19.2	21.7	22.6

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Total Revenues	907.6	843.2	549.0	65.3	666.9	36.1	
Raw materials costs	381.9	307.2	177.1	115.7	191.0	99.9	Higher than estimated
Employees Cost	22.5	25.8	24.8	-9.1	20.0	12.5	
Other Expenses	201.4	187.7	126.0	59.8	151.8	32.6	
Total Expenditure	605.8	520.7	327.9	84.8	362.9	67.0	
EBITDA	301.8	322.6	221.1	36.5	304.0	-0.7	Lower-than-expected on account of sharp increase in gas costs
EBITDA margins (%)	33.2	38.3	40.3	-703 bps	45.6	-1234 bps	
Depreciation	47.3	46.9	42.5	11.4	45.3	4.4	
EBIT	254.5	275.7	178.6	42.5	258.7	-1.6	
Interest	2.0	1.5	2.0	-0.5	1.7	18.8	
Other Income	22.6	21.0	18.4	22.6	18.6	21.3	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	275.1	295.2	195.0	41.0	275.6	-0.2	
Total Tax	70.8	75.3	50.7	39.6	71.6	-1.1	
PAT	204.3	219.9	144.3	41.5	204.1	0.1	

Key Metrics

Sales Volumes (mmscmd)	3.1	2.9	2.1	50.7	2.4	30.3	CNG volume increased ~75% YoY while PNG volume grew ~12% YoY
Realisation (₹/scm)	31.6	31.5	28.8	9.7	30.6	3.3	
Gross Margin (₹/scm)	15.6	17.4	17.3	-9.8	19.4	-19.8	Higher gas prices led to decline in margins

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	3381.2	3,762.8	11.3	3934.9	5,100.4	29.6	Increased revenue estimates due to price hikes taken in current quarter
EBITDA	1,358.6	1,200.7	-11.6	1,544.3	1,479.4	-4.2	Revised estimates taking into account current gas prices trend
EBITDA Margin (%)	40.2	31.9	-827 bps	39.2	29.0	-1024 bps	
PAT	931.6	812.9	-12.7	1,059.6	1,005.3	-5.1	
EPS (₹)	94.3	82.3	-12.7	107.3	101.8	-5.1	

Source: ICICI Direct Research

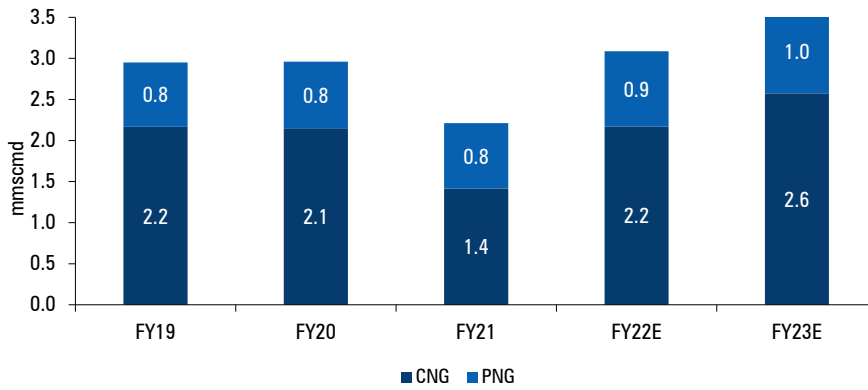
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
Sales Volumes (mmscmd)	2.95	2.21	3.09	3.61	2.95	3.41	Revised sales volume estimates post Q2FY22 results
Realisation (₹/scm)	30.2	29.0	33.4	38.7	31.4	31.6	
Gross Margin (₹/scm)	14.7	17.4	16.2	17.1	18.0	17.8	Revised gross margins downwards as we factor in higher gas costs estimates

Source: ICICI Direct Research

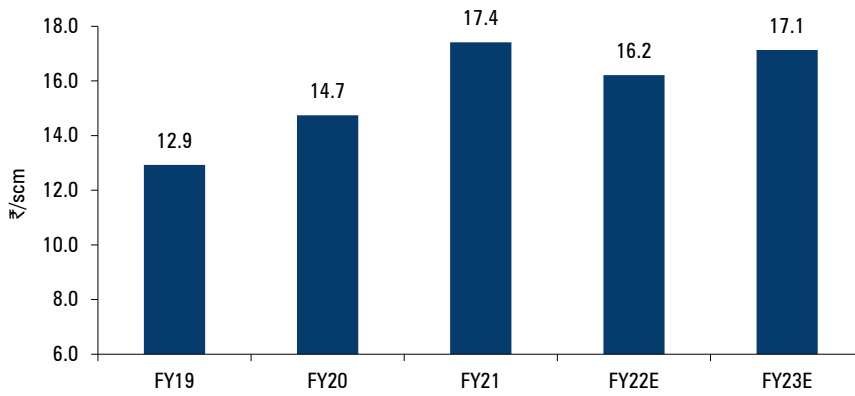
### Story in charts

Exhibit 5: Volume to grow at steady pace



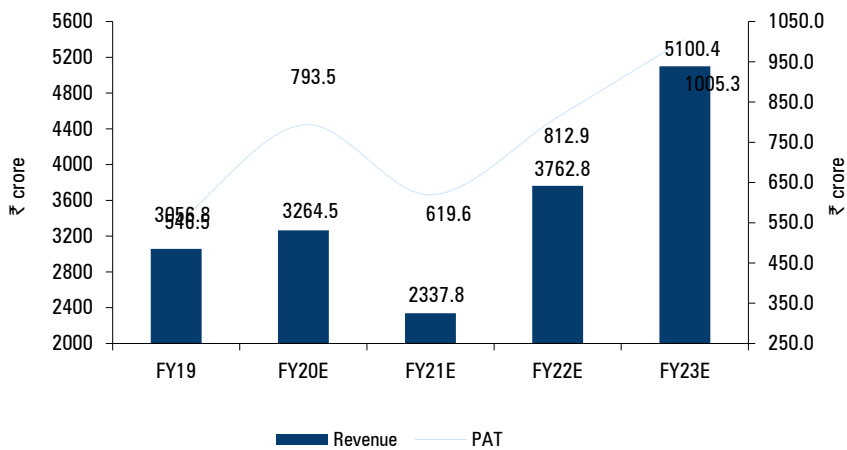
Source: Company, ICICI Direct Research

Exhibit 6: Margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Revenue, PAT to show upward trend



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Revenue</b>	<b>3264.5</b>	<b>2337.8</b>	<b>3762.8</b>	<b>5100.4</b>
Growth (%)	6.8	-28.4	61.0	35.6
Raw material Costs	1379.6	747.3	1618.7	2394.6
Employee Costs	80.6	87.5	83.3	89.1
Other Expenditure	459.0	383.7	541.7	688.6
Op. Expenditure	2211.6	1403.8	2562.1	3621.1
<b>EBITDA</b>	<b>1052.9</b>	<b>934.0</b>	<b>1200.7</b>	<b>1479.4</b>
Growth (%)	18.9	-11.3	28.6	23.2
Depreciation	161.7	173.7	187.4	212.9
EBIT	891.2	760.3	1013.2	1266.4
Interest	6.5	7.2	6.7	6.0
Other Income	98.9	80.5	87.2	89.0
PBT	983.5	833.6	1093.7	1349.4
Growth (%)	17.5	-15.2	31.2	23.4
Tax	190.0	214.0	280.8	344.1
<b>Reported PAT</b>	<b>793.5</b>	<b>619.6</b>	<b>812.9</b>	<b>1005.3</b>
Growth (%)	45.2	-21.9	31.2	23.7
<b>EPS</b>	<b>80.3</b>	<b>62.7</b>	<b>82.3</b>	<b>101.8</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	793.5	619.6	812.9	1,005.3
Add: Depreciation	161.7	173.7	187.4	212.9
Add: Others	-44.2	16.6	15.0	15.0
Cash Profit	911.0	809.8	1,015.4	1,233.3
Increase/(Decrease) in CL	128.9	168.0	-62.6	370.9
(Increase)/Decrease in CA	113.2	-92.8	-141.4	-140.8
<b>CF from Operating Activities</b>	<b>1153.1</b>	<b>885.0</b>	<b>811.4</b>	<b>1463.4</b>
Purchase of Fixed Assets	564.4	367.6	372.7	475.0
(Inc)/Dec in Investments	-467.5	96.5	-40.0	-40.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activities</b>	<b>-1,031.8</b>	<b>-271.1</b>	<b>-412.7</b>	<b>-515.0</b>
Inc/(Dec) in Loan Funds	49.0	8.3	0.0	0.0
Inc/(Dec) in Sh. Cap. & Res.	-1.5	1.1	0.0	0.0
Less: Dividend Paid	238.2	341.0	300.5	300.5
Others	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-190.7</b>	<b>-331.6</b>	<b>-300.5</b>	<b>-300.5</b>
Change in cash Eq.	-69.4	282.4	98.2	647.9
Op. Cash and cash Eq.	298.9	229.5	511.9	610.1
<b>Cl. Cash and cash Eq.</b>	<b>229.5</b>	<b>511.9</b>	<b>610.1</b>	<b>1,258.0</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Source of Funds</b>				
Equity Capital	98.8	98.8	98.8	98.8
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	2,853.9	3,133.6	3,646.1	4,350.9
Shareholder's Fund	2,952.7	3,232.4	3,744.8	4,449.7
Loan Funds	49.0	57.3	57.3	57.3
Deferred Tax Liability	160.7	177.3	192.3	207.3
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>3162.4</b>	<b>3467.0</b>	<b>3994.4</b>	<b>4714.3</b>
<b>Application of Funds</b>				
Gross Block	2,617.8	2,910.9	3,260.9	3,635.9
Less: Acc. Depreciation	568.6	741.6	931.3	1,144.2
Net Block	2,049.2	2,169.3	2,329.6	2,491.6
Capital WIP	486.5	560.3	585.3	685.3
Total Fixed Assets	2,535.7	2,729.6	2,914.9	3,176.9
Investments	1,121.5	1,025.0	1,065.0	1,105.0
Inventories	18.6	22.2	30.9	41.9
Debtor	68.5	127.5	154.6	209.6
Cash	229.5	511.9	610.1	1,258.0
Loan & Advance, Other CA	154.8	185.0	290.5	365.3
Total Current assets	471.3	846.6	1086.1	1874.8
Current Liabilities	939.8	1104.1	1030.9	1397.4
Provisions	26.3	30.1	40.7	45.1
Total CL and Provisions	966.2	1134.2	1071.6	1442.5
Net Working Capital	-494.8	-287.7	14.6	432.3
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>3162.4</b>	<b>3467.0</b>	<b>3994.4</b>	<b>4714.3</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
Book Value	298.9	327.2	379.1	450.5
Cash per share	136.8	155.6	169.6	239.2
EPS	80.3	62.7	82.3	101.8
Cash EPS	96.7	80.3	101.3	123.3
DPS	35.0	23.0	26.0	26.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	32.3	40.0	31.9	29.0
PAT Margin (%)	24.3	26.5	21.6	19.7
Fixed Asset Turnover (x)	1.3	0.9	1.3	1.6
Inventory Turnover (Days)	2.1	3.5	3.0	3.0
Debtor (Days)	7.7	19.9	15.0	15.0
Current Liabilities (Days)	105.1	172.4	100.0	100.0
<b>Return Ratios (%)</b>				
RoE	26.9	19.2	21.7	22.6
RoCE	29.7	23.1	26.6	28.1
RoIC	54.0	43.4	47.6	59.1
<b>Valuation Ratios (x)</b>				
PE	12.4	15.9	12.1	9.8
Price to Book Value	3.3	3.0	2.6	2.2
EV/EBITDA	9.2	10.1	7.7	5.8
EV/Sales	3.0	4.0	2.5	1.7
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	NA	NA	NA	NA
Debt to EBITDA (x)	0.0	0.1	0.0	0.0
Current Ratio	0.5	0.7	1.0	1.3
Quick ratio	0.5	0.7	1.0	1.3

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 (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
BPCL (BHAPET)	447	520	Hold	93,553	13.6	91.0	37.5	32.8	4.9	11.9	20.4	7.0	8.4	3.5	14.8	12.3	8.1	34.9	16.9
GAIL (India) (GAIL)	150	175	Buy	66,606	11.0	16.1	16.7	13.6	9.3	9.0	11.0	7.0	7.3	8.7	14.4	12.7	10.5	14.1	13.3
Gujarat Gas (GUJGA)	614	735	Hold	42,268	18.5	23.8	26.1	33.1	25.8	23.5	20.6	16.5	14.7	31.7	34.2	32.2	28.5	28.3	25.3
HPCL (HINPET)	327	265	Hold	47,494	17.3	70.6	60.2	4.6	5.4	10.7	18.1	5.7	5.4	2.5	15.6	13.3	9.1	29.5	20.8
Indian Oil Corp (INDOIL)	131	120	Buy	1,20,272	23.8	17.4	15.6	5.5	7.5	8.4	3.2	3.4	3.6	13.3	10.8	9.5	19.8	13.3	11.4
Indraprastha Gas (INDGAS)	477	585	Hold	33,390	14.4	18.0	21.4	33.2	26.5	22.3	21.8	17.5	14.7	20.0	22.5	22.9	17.1	18.6	19.0
Mahanagar Gas (MAHGAS)	997	1120	Hold	9,848	62.7	82.3	101.8	15.9	12.1	9.8	10.1	7.7	5.8	23.1	26.6	28.1	19.2	21.7	22.6
ONGC (ONGC)	157	185	Hold	2,01,483	10.4	9.0	21.9	15.1	17.4	7.2	4.4	6.7	3.9	10.2	4.5	13.5	6.7	5.6	12.3
Petronet LNG (PETLNG)	230	245	Hold	34,500	19.7	18.6	21.3	11.7	12.4	10.8	7.1	7.2	6.2	26.0	23.6	24.9	25.3	22.6	23.8
Reliance Industries (RELIND)	2,627	2,900	Hold	16,66,428	76.2	83.1	106.9	34.5	31.6	24.6	24.4	17.6	12.9	5.5	7.6	9.7	7.7	8.1	9.6

Source: Bloomberg, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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