

## 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

**Q2FY23 Results:** MGL's results were below our estimates on the profitability front.

- Revenue was up 89.2% YoY to ₹ 1717.5 crore (estimate: ₹ 1729.5 crore), driven by volume growth of 10.7% YoY and higher realisation at ₹ 54/scm
- Gross margins fell ₹ 2.6/scm YoY to ₹ 13/scm on account of increase in gas costs. Subsequently, EBITDA fell 16.2% YoY to ₹ 252.8 crore (our estimate: ₹ 304 crore)
- PAT was at ₹ 164 crore, down 19.7% YoY (our estimate: ₹ 198.7 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. On the raw material cost front, although gas sourcing costs have gone up, a new gas pricing mechanism is expected to bring down costs in the medium term.

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

**Target Price & Valuation:** We value MGL at ₹ 1000 i.e. ~12.5x 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 Q3FY23E 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
- It operates a natural gas pipeline network of 14500 km as of end of FY22



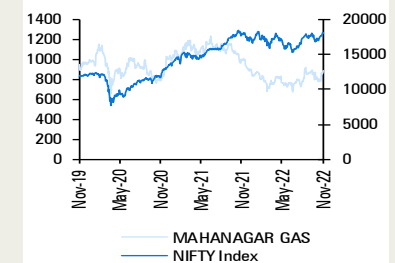
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	8,890.0
Total Debt (FY22) (₹ Crore)	82.4
Cash and Investments (FY22)	465.2
EV (₹ Crore)	8,507.2
52 week H/L	1205/666
Equity capital (₹ Crore)	98.8
Face value (₹)	10.0

### Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	32.5	32.5	32.5	32.5
FII	25.3	25.0	25.8	28.4
DII	19.1	17.3	16.1	15.6
Others	23.1	25.2	25.6	23.6

### Price Chart



### Recent event & key risks

- MGL hiked CNG, 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	FY21	FY22	5 year CAGR (FY17-	FY23E	FY24E	2 Year CAGR
Revenue (₹ crore)	3,056.8	3,264.5	2,337.8	3,884.9	11.7%	7,018.6	6,994.3	34.2
EBITDA (₹ crore)	885.5	1,052.9	934.0	924.3	7.5%	807.5	1,225.3	14.5
PAT (₹ crore)	546.5	793.5	619.6	597.0	8.7%	497.8	786.3	12.7
EPS (₹)	55.3	80.3	62.7	60.4		50.4	79.6	
P/E (x)	16.2	11.2	14.3	14.8		17.8	11.3	
P/Book (x)	3.7	3.0	2.7	2.5		2.3	2.1	
RoCE (%)	31.7	29.7	23.1	19.8		15.1	22.2	
RoE (%)	22.8	26.9	19.2	16.6		13.1	18.4	

## Key takeaways of recent quarter & conference call highlights

### Q2FY23 Results: Higher gas costs continue to impact margins

- Revenue increased 7.8% QoQ on account of higher realisation
- Sales volume was at 3.46 mmscmd, up 10.7% YoY, flat QoQ, slightly lower than estimate of 3.52 mmscmd. CNG segment reported growth of ~14% YoY to 2.54 mmscmd (our estimate: 2.6 mmscmd). PNG volumes increased 3% YoY to 0.9 mmscmd, in line with estimates. On a QoQ basis, CNG and PNG volumes remained flattish
- On a QoQ basis, higher realisation was offset by higher gas sourcing cost which led to gross margins at ₹ 13/scm, down ₹ 1.4/scm QoQ. Subsequently, EBITDA/scm was at ₹ 7.9/scm, down ₹ 1.2/scm QoQ
- Going ahead, we expect sales volume of 3.5 mmscmd and 3.8 mmscmd in FY23E and FY24E, respectively
- Gross margins are estimated at ₹ 12/scm and ₹ 14.9/scm in FY23 and FY24E, respectively

### Q2FY23 Earnings Conference Call highlights

- Unified base price (pooled gas price mixed with market priced gas i.e. R-LNG) was US\$8.91/mmbtu in July and US\$10.52/mmbtu till August 15. From August 16 onwards market priced gas mixing was discontinued and CGDS had to bridge the gap on their own
- Present pooled gas allocation is ~90% of CGD requirement for priority sector
- The company provided connection to 62000 domestic households in Q2. Total connections were at 1.99 million households. Five new CNG stations were added, taking total count to 296 CNG stations. Total 86 new industrial and commercial customers were added during the quarter. Total industrial and commercial customers were at 4427
- Sales volume are expected to grow at 6% CAGR in the next three to five years
- Planned capex for FY23 is ₹ 650-800 crore while capex till September was ₹ 300 crore
- On a QoQ basis, industrial and commercial realisation declined as prices of alternate fuels fell 20-22%
- Quarterly conversion from traditional fuels to CNG was 15500 vehicles against 19000 vehicles in the previous quarter
- Industrial and commercial PNG realisation was in the range of ₹ 60-63/scm in Q2FY23

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Gujarat Gas (GUJGA)	515	550	Hold	35,453	18.9	15.3	27.8	27.2	33.6	18.5	17.3	20.1	11.7	27.3	18.4	28.1	23.3	16.5	24.0
Indraprastha Gas (INDGAS)	381	430	Hold	26,670	18.8	21.7	20.9	20.3	17.6	18.3	13.5	11.5	10.8	22.3	22.5	20.2	19.0	18.8	16.1
Mahanagar Gas (MAHGAS)	900	1,000	Hold	8,890	60.4	50.4	79.6	14.9	17.9	11.3	9.2	10.6	6.9	19.8	15.1	22.2	16.6	13.1	18.4

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Revenues	1,717.5	1,729.5	907.6	89.2	1,593.2	7.8	Higher YoY due to price hikes taken by the company
Raw materials costs	1,147.5	1,088.5	381.9	200.5	1,003.9	14.3	Higher than estimates
Employees Cost	31.9	24.1	22.5	41.7	21.7	46.9	
Other Expenses	285.2	312.8	201.4	41.6	282.0	1.1	
Total Expenditure	1,464.7	1,425.4	605.8	141.8	1,307.6	12.0	
EBITDA	252.8	304.0	301.8	-16.2	285.6	-11.5	Lower than estimates on account of higher than expected RM cost
EBITDA margins (%)	14.7	17.6	33.2	-1853 bps	17.9	-320 bps	
Depreciation	55.1	56.8	47.3	16.5	53.7	2.6	
EBIT	197.7	247.2	254.5	-22.3	231.9	-14.7	
Interest	2.5	1.5	2.0	22.3	2.3	7.9	
Other Income	26.0	21.0	22.6	15.0	20.0	29.8	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	221.2	266.7	275.1	-19.6	249.6	-11.4	
Total Tax	57.3	68.0	70.8	-19.1	64.4	-11.0	
PAT	164.0	198.7	204.3	-19.7	185.2	-11.5	

Key Metrics

Sales Volumes (mmscmd)	3.46	3.52	3.1	10.7	3.4	0.3	CNG, PNG volume growth remained flat QoQ
Realisation (₹/scm)	54.0	53.4	31.6	70.9	50.8	6.3	Improved due to price hike taken by the company
Gross Margin (₹/scm)	13.0	14.9	15.6	-16.3	14.4	-9.2	Higher gas sourcing cost led to decline in gross margins
EBITDA (₹/scm)	7.9	9.4	10.5	-24.3	9.1	-12.7	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	Change	Old	New	Change	
Revenue	7030.6	7,018.6	-0.2	7023.9	6,994.3	-0.4	
EBITDA	925.0	807.5	-12.7	1,294.0	1,225.3	-5.3	Revised estimates post Q2FY23 results taking into account current gas prices trend
EBITDA Margin (%)	13.2	11.5	-165 bps	18.4	17.5	-90 bps	
PAT	582.0	497.8	-14.5	837.5	786.3	-6.1	
EPS (₹)	58.9	50.4	-14.5	84.8	79.6	-6.1	

Source: ICICI Direct Research

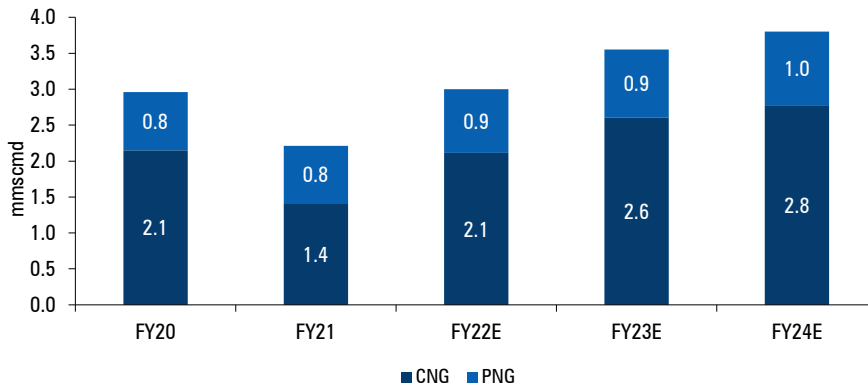
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Sales Volumes (mmscmd)	2.21	3.00	3.55	3.80	3.57	3.82	Realigned estimates post Q2FY23 results
Realisation (₹/scm)	29.0	35.5	54.1	50.4	54.0	50.4	
Gross Margin (₹/scm)	17.4	13.8	12.0	14.9	12.9	15.3	

Source: ICICI Direct Research

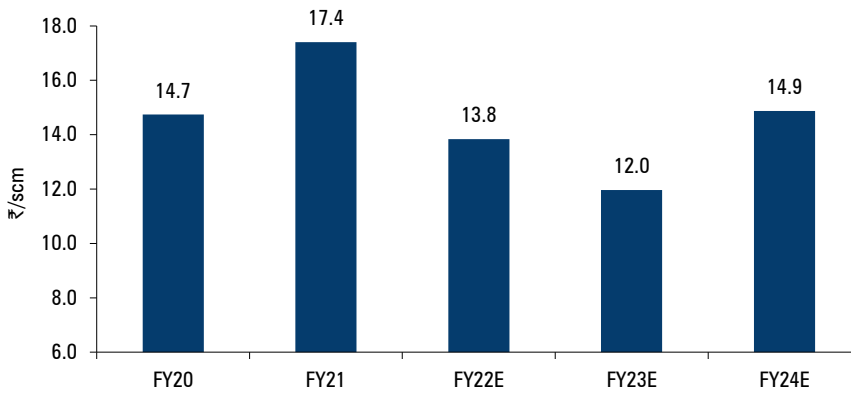
### Story in charts

Exhibit 5: Volume to grow at steady pace



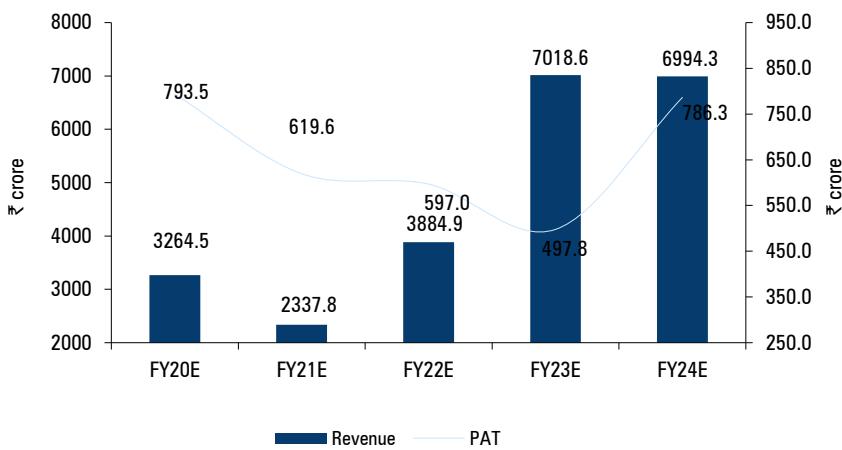
Source: Company, ICICI Direct Research

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
<b>Revenue</b>	<b>2337.8</b>	<b>3884.9</b>	<b>7018.6</b>	<b>6994.3</b>
Growth (%)	-28.4	66.2	80.7	-0.3
Raw material Costs	747.3	2045.4	4837.8	4282.1
Employee Costs	87.5	83.3	98.0	104.9
Other Expenditure	383.7	507.2	644.7	734.4
Op. Expenditure	1403.8	2960.6	6211.2	5769.0
<b>EBITDA</b>	<b>934.0</b>	<b>924.3</b>	<b>807.5</b>	<b>1225.3</b>
Growth (%)	-11.3	-1.0	-12.6	51.7
Depreciation	173.7	196.3	222.3	256.9
EBIT	760.3	728.1	585.1	968.4
Interest	7.2	7.5	7.8	7.0
Other Income	80.5	85.7	93.0	94.0
PBT	833.6	806.3	670.4	1055.4
Growth (%)	-15.2	-3.3	-16.9	57.4
Tax	214.0	209.3	172.6	269.1
<b>Reported PAT</b>	<b>619.6</b>	<b>597.0</b>	<b>497.8</b>	<b>786.3</b>
Growth (%)	-21.9	-3.6	-16.6	57.9
<b>EPS</b>	<b>62.7</b>	<b>60.4</b>	<b>50.4</b>	<b>79.6</b>

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	497.8	786.3
Add: Depreciation	173.7	196.3	222.3	256.9
Add: Others	16.6	23.5	15.0	15.0
Cash Profit	809.8	816.8	735.2	1,058.2
Increase/(Decrease) in CL	168.0	219.1	602.7	191.7
(Increase)/Decrease in CA	-92.8	-116.0	-403.0	-18.1
<b>CF from Operating Activi</b>	<b>885.0</b>	<b>919.9</b>	<b>934.9</b>	<b>1231.8</b>
Purchase of Fixed Assets	367.6	696.3	640.8	675.0
(Inc)/Dec in Investments	96.5	-63.3	-40.0	-150.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activi</b>	<b>-271.1</b>	<b>-759.6</b>	<b>-680.8</b>	<b>-825.0</b>
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
<b>CF from financing activiti</b>	<b>-331.6</b>	<b>-206.9</b>	<b>-300.5</b>	<b>-300.5</b>
Change in cash Eq.	282.4	-46.7	-46.3	106.3
Op. Cash and cash Eq.	229.5	511.9	465.2	418.8
<b>Cl. Cash and cash Eq.</b>	<b>511.9</b>	<b>465.2</b>	<b>418.8</b>	<b>525.1</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<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	3,133.6	3,498.5	3,695.9	4,181.7
Shareholder's Fund	3,232.4	3,597.3	3,794.7	4,280.4
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
<b>Source of Funds</b>	<b>3467.0</b>	<b>3880.5</b>	<b>4092.9</b>	<b>4593.6</b>
<b>Application of Funds</b>				
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	1,278.3
Inventories	22.2	27.5	57.7	76.7
Debtor	127.5	184.0	288.4	287.4
Cash	511.9	465.2	418.8	525.1
Loan & Advance, Other CA	185.0	239.1	507.5	507.7
Total Current assets	846.6	915.9	1272.5	1396.9
Current Liabilities	1104.1	1317.7	1922.9	2107.9
Provisions	30.1	35.6	33.1	39.9
Total CL and Provisions	1134.2	1353.3	1956.0	2147.8
Net Working Capital	-287.7	-437.4	-683.6	-750.9
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>3467.0</b>	<b>3880.5</b>	<b>4092.9</b>	<b>4593.7</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Book Value	327.2	364.2	384.2	433.3
Cash per share	155.6	157.3	156.6	182.6
EPS	62.7	60.4	50.4	79.6
Cash EPS	80.3	80.3	72.9	105.6
DPS	23.0	25.0	26.0	26.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	40.0	23.8	11.5	17.5
PAT Margin (%)	26.5	15.4	7.1	11.2
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
<b>Return Ratios (%)</b>				
RoE	19.2	16.6	13.1	18.4
RoCE	23.1	19.8	15.1	22.2
RoIC	43.4	34.2	25.1	37.8
<b>Valuation Ratios (x)</b>				
PE	14.3	14.8	17.8	11.3
Price to Book Value	2.7	2.5	2.3	2.1
EV/EBITDA	9.0	9.2	10.6	6.9
EV/Sales	3.6	2.2	1.2	1.2
<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)	0.1	0.1	0.1	0.1
Current Ratio	0.7	0.7	0.7	0.7
Quick ratio	0.7	0.7	0.6	0.6

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 (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	309	330	Hold	65,800	42.0	-11.2	55.3	7.4	-27.6	5.6	6.2	29.1	4.7	13.2	-2.2	15.2	17.9	-5.0	21.4
GAIL (India) (GAIL)	88	95	Hold	57,861	23.3	9.9	8.8	3.8	8.9	9.9	3.2	7.1	7.8	18.8	10.3	8.6	18.6	11.1	9.4
Gujarat Gas (GUJGA)	515	550	Hold	35,453	18.9	15.3	27.8	27.2	33.6	18.5	17.3	20.1	11.7	27.3	18.4	28.1	23.3	16.5	24.0
HPCL (HINPET)	204	220	Hold	28,946	44.9	-39.6	47.8	4.5	-5.2	4.3	7.4	-17.4	6.4	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	68	75	Hold	96,024	17.1	3.4	14.0	4.0	19.9	4.8	2.2	4.9	2.3	12.9	2.9	10.1	18.4	3.8	14.8
Indraprastha Gas (INDGAS)	381	430	Hold	26,670	18.8	21.7	20.9	20.3	17.6	18.3	13.5	11.5	10.8	22.3	22.5	20.2	19.0	18.8	16.1
Mahanagar Gas (MAHGAS)	900	1,000	Hold	8,890	60.4	50.4	79.6	14.9	17.9	11.3	9.2	10.6	6.9	19.8	15.1	22.2	16.6	13.1	18.4
ONGC (ONGC)	124	135	Hold	1,59,133	8.9	32.0	40.6	13.9	3.9	3.1	5.4	2.8	1.9	4.5	14.8	21.8	5.5	17.0	18.7
Petronet LNG (PETLNG)	212	215	Hold	31,800	22.3	18.2	19.4	9.5	11.6	11.0	5.8	6.9	6.2	27.0	20.5	20.9	25.0	19.4	19.5
Reliance Industries (RELIND)	2,472	2,700	Hold	16,72,274	89.7	94.5	118.0	27.5	26.2	20.9	18.0	13.6	11.2	7.1	8.7	10.3	7.8	7.6	8.7

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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