

Mahanagar Gas (MAHGAS)

CMP: ₹ 1077

Target: ₹ 1300 (21%)

Target Period: 12 months

May 10, 2023

BUY

Strong performance to continue, going forward...

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

Q4FY23 Results: MGL's results were above our estimates on the profitability front.

- Revenue was up 49% YoY to ₹ 1772 crore due to price hikes taken by the company, in line with I-direct estimate of ₹ 1785 crore, with realisation at ₹ 58.4/scm
- Sales volume was at 3.37 mmscmd, up 6.4% YoY vs. I-direct estimate of 3.41 mmscmd. Gross margins increased ₹ 5.4/scm YoY to ₹ 18.7/scm. Subsequently, EBITDA increased 81% YoY to ₹ 390 crore
- PAT came in at ₹ 268.8 crore, up 1x YoY

What should investors do? APM gas price has been revised with a ceiling of US\$6.5/mmbtu (floor price of US\$4/mmbtu) for the next two years. The company has passed on most of the benefit to customers and again made CNG lucrative vis-à-vis petrol and diesel. In the current quarter (Q1FY24-TD), spot LNG prices have further softened to ~US\$10/mmbtu. Along with this, the company acquired three new GAs via Unison Enviro. Owing to these reasons, growth in sales volume will be key monitorable, going ahead.

- We maintain our **BUY** rating on the stock

Target Price & Valuation: We value MGL at ₹ 1300 i.e. ~14x P/E on FY25E 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 gas price trend
- Debt free balance sheet and consistent dividend payout

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

- Indraprastha Gas (IGL) is one of India's leading CGD companies, which primarily operates in the NCT of Delhi and will benefit from stricter environmental regulations in Delhi
- BUY with a target price of ₹ 550



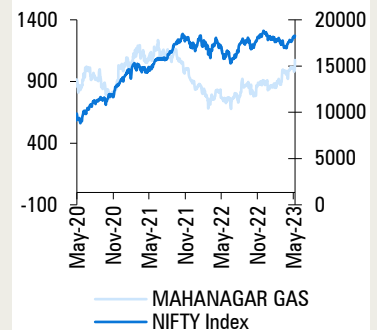
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	10,638.4
Total Debt (FY23) (₹ Crore)	-
Cash and Investments (FY23)	227.9
EV (₹ Crore)	10,410.5
52 week H/L	1098/666
Equity capital (₹ Crore)	98.8
Face value (₹)	10.0

Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	32.5	32.5	32.5	32.5
FII	25.8	28.4	29.7	28.3
DII	16.1	15.6	15.6	14.9
Others	25.6	23.6	22.2	24.3

Price Chart



Recent event & key risks

- **Key Risk:** (i) Lower than expected volume growth, (ii) Increase in gas sourcing cost

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Key Financial Summary

Key Financials	FY21	FY22	FY23	5 year CAGR (FY18-	FY24E	FY25E	2 Year CAGR
Revenue (₹ crore)	2,337.8	3,884.9	6,921.0	23.1%	6,248.9	6,582.4	(2.5)
EBITDA (₹ crore)	934.0	924.3	1,184.2	8.7%	1,340.5	1,454.9	10.8
PAT (₹ crore)	619.6	597.0	790.0	10.6%	857.9	930.6	8.5
EPS(₹)	62.7	60.4	80.0		86.9	94.2	
P/E (x)	17.0	17.6	13.3		12.3	11.3	
P/Book (x)	3.3	2.9	2.5		2.2	2.0	
RoCE (%)	23.5	20.2	23.1		22.4	21.3	
RoE (%)	19.2	16.6	19.1		18.3	17.5	

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Margins improve QoQ

- Revenue increased 7% QoQ due to increase in realisation of ₹ 4.6/scm
- Sales volume of 3.37 mmscmd was down 1.2% QoQ, mainly due to a decline in CNG volumes by 2.6% to 2.41 mmscmd. PNG volumes grew ~3% QoQ to 0.96 mmscmd. On a YoY basis, CNG and PNG volumes grew ~6% and ~8%, respectively
- On a QoQ basis, the company was able to improve its margins by ₹ 5/scm as the company did not take any major price cuts and gas sourcing costs declined. Subsequently, EBITDA/scm was ₹ 12.8/scm, up ₹ 4.7/scm QoQ
- Going ahead, we expect sales volume of 3.67 mmscmd and 3.9 mmscmd in FY24E and FY25E, respectively
- Gross margins are estimated at ₹ 15.5/scm and ₹ 15.5/scm in FY24E and FY25E, respectively

Q4FY23 Earnings Conference Call highlights

- APM gas allocation for FY23 was 92-93% of CGD requirement for priority sector while that for FY24 is projected at 88-90%. Rest of the blended volume will be sourced through HPHT gas. The company is evaluating participation in more HPHT rounds
- The company provided connection to 92000 domestic households in Q4. Total connections were at 2.2 million households. The aggregated length of the steel pipeline was at 6535 km. Total CNG stations was at 313 while total industrial and commercial customers are 4558
- In Raigad geographical area (GA), a total of 382 km of steel pipeline was laid out
- Unison Enviro volumes are around 0.1 mmscmd. However, the company expects final approval by November, 2023 to consolidate its numbers
- In the long term, sales volume is expected to grow at 5-6% CAGR
- Capex for FY23 was at ₹ 580 crore while capex estimated for FY24 and FY25 was ₹ 500-600 crore
- Quarterly conversion from traditional fuels to CNG was 13700 vehicles. The management expects the numbers to revert back to 15500-16000 numbers
- The CNG volume breakup was as follows: buses- 8%, auto- 35%, PV and taxi- 45%, and LCV/trucks- 12%

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)	465	550	Buy	32,011	18.5	18.9	20.3	25.1	24.6	22.9	15.7	15.7	14.4	31.9	27.3	23.2	28.7	23.3	20.8
Indraprastha Gas (INDGAS)	463	550	Buy	32,410	14.4	18.8	20.4	32.2	24.6	22.7	21.1	16.5	15.3	20.0	22.3	23.5	17.1	19.0	20.0
Mahanagar Gas (MAHGAS)	1077	1,300	Buy	10,638	327.2	364.2	418.5	44.8	35.6	34.3	17.2	17.8	13.5	0.0	0.0	0.0	172.4	123.8	81.5

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Total Revenues	1,771.8	1,785.1	1,187.6	49.2	1,838.4	-3.6	Revenues largely in line in spite of miss in volume estimates
Raw materials costs	1,042.8	1,125.2	707.3	47.4	1,240.7	-16.0	
Employees Cost	32.4	20.8	18.8	72.4	21.9	48.0	
Other Expenses	307.0	342.2	246.1	24.8	319.8	-4.0	
Total Expenditure	1,382.1	1,488.2	972.1	42.2	1,582.3	-12.7	
EBITDA	389.7	296.9	215.5	80.9	256.1	52.2	EBITDA positively impacted by better gross margins led by better sourcing of cheaper gas (LNG and APM)
EBITDA margins (%)	22.0	16.6	18.1	385 bps	13.9	806 bps	
Depreciation	63.8	60.9	55.5	15.0	58.5	9.1	
EBIT	325.9	236.0	160.0	103.7	197.6	64.9	
Interest	2.2	1.5	2.3	-2.6	2.4	-8.7	
Other Income	33.6	22.6	22.7	48.2	32.3	4.3	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	357.3	257.1	180.4	98.1	227.4	57.1	
Total Tax	88.5	65.6	48.6	82.1	55.3	59.9	
PAT	268.8	191.5	131.8	104.0	172.1	56.2	

Key Metrics

Sales Volumes (mmscmd)	3.37	3.51	3.2	6.4	3.41	-1.2	Total volumes declined QoQ due to higher CNG, PNG prices in Q4
Realisation (₹/scm)	58.4	56.5	41.6	40.2	58.6	-0.3	Realisation largely maintained QoQ
Gross Margin (₹/scm)	18.7	15.7	13.3	40.6	13.7	36.3	Availability of lower priced LNG and higher APM allocation positively impacted margins

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore	FY23	FY24E			FY25E			Comments
		Old	New	% Change	Old	New	% Change	
Revenue	6,921.0	6832.9	6,248.9	-8.5	6974.9	6,582.4	-5.6	Revised realisation estimates as per sourcing cost trend
EBITDA	1,184.2	1,437.3	1,340.5	-6.7	1,363.6	1,454.9	6.7	Revised estimates post Q4FY23 results taking into account current gas prices trend
EBITDA Margin (%)	17.1	21.0	21.5	42 bps	19.5	22.1	255 bps	
PAT	790.0	916.2	857.9	-6.4	846.8	930.6	9.9	
EPS (₹)	80.0	92.8	86.9	-6.4	85.7	94.2	9.9	

Source: ICICI Direct Research

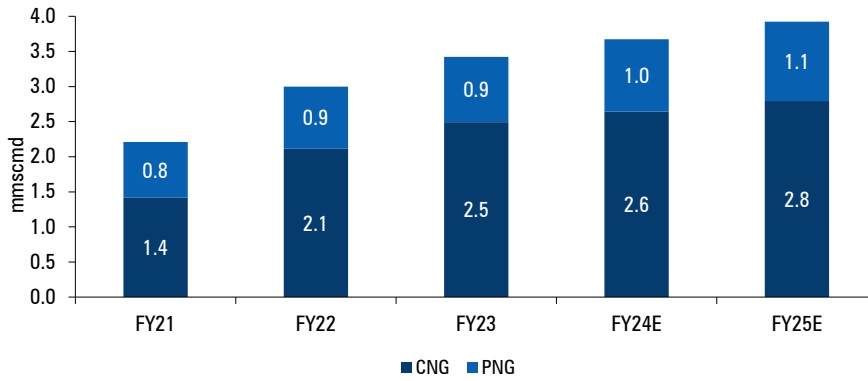
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY22	FY23E	FY24E	FY25E	FY24E	FY25E	
Sales Volumes (mmscmd)	3.00	3.42	3.67	3.92	3.81	4.01	Volumes lowered as management guidance of expected 5-6% growth
Realisation (₹/scm)	35.5	55.4	46.6	46.0	49.2	47.7	Realisation lowered due to lowered APM sourcing price
Gross Margin (₹/scm)	13.8	14.9	15.5	15.6	17.3	17.2	

Source: ICICI Direct Research

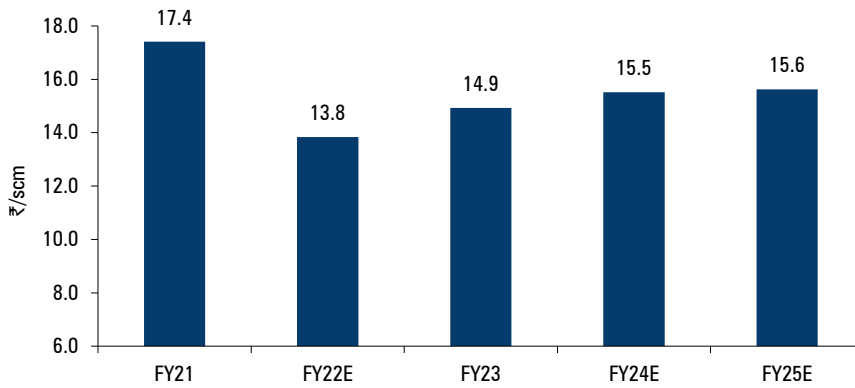
Story in charts

Exhibit 5: Volume to grow at steady pace



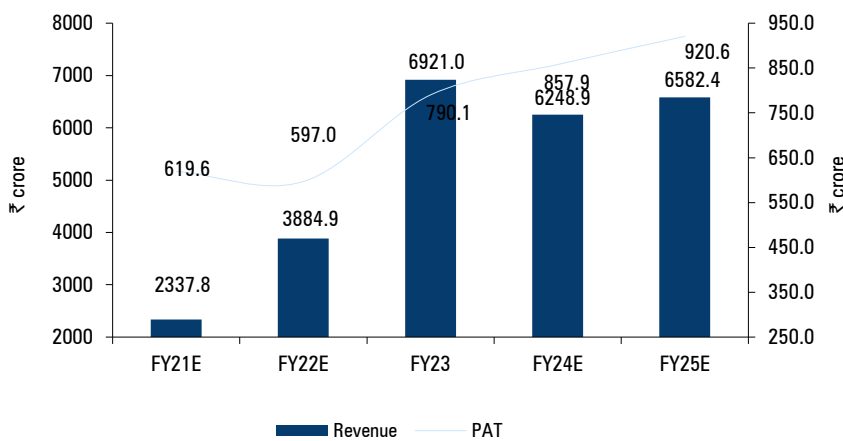
Source: Company, ICICI Direct Research

Exhibit 6: Margins to improve, going ahead



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)	FY22	FY23E	FY24E	FY25E	
Revenue	3884.9	6921.0	6248.9	6582.4	
Growth (%)	66.2	78.1	-9.7	5.3	
Raw material Costs	2045.4	4434.9	3595.3	3740.5	
Employee Costs	83.3	107.9	115.4	123.5	
Other Expenditure	507.2	572.4	624.9	658.2	
Op. Expenditure	2960.6	5736.8	4908.4	5127.5	
EBITDA	924.3	1184.2	1340.5	1454.9	
Growth (%)	-1.0	28.1	13.2	8.5	
Depreciation	196.3	231.1	289.7	319.9	
EBIT	728.1	953.0	1050.9	1135.0	
Interest	7.5	9.4	0.0	0.0	
Other Income	85.7	111.9	100.7	110.8	
PBT	806.3	1055.5	1151.5	1245.7	
Growth (%)	-3.3	30.9	9.1	8.2	
Tax	209.3	265.5	293.6	315.1	
Reported PAT	597.0	790.0	857.9	930.6	
Growth (%)	-3.6	32.3	8.6	8.5	
EPS	60.4	80.0	86.9	94.2	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Profit after Tax	597.0	790.0	857.9	930.6	
Add: Depreciation	196.3	231.1	289.7	319.9	
Add: Others	23.5	7.8	15.0	15.0	
Cash Profit	816.8	1,029.0	1,162.6	1,265.5	
Increase/(Decrease) in CL	219.1	242.4	158.0	92.9	
(Increase)/Decrease in CA	-116.0	-309.6	43.1	-26.2	
Others	-16.2	7.6	0.0	0.0	
CF from Operating Activi	903.7	969.3	1363.6	1332.2	
Purchase of Fixed Assets	696.3	712.7	635.4	637.2	
(Inc)/Dec in Investments	-63.3	-221.5	-100.0	-100.0	
Others	0.0	0.0	0.0	0.0	
CF from Investing Activi	-743.5	-964.9	-735.4	-737.2	
Inc/(Dec) in Loan Funds	25.1	11.4	4.7	4.9	
Inc/(Dec) in Sh. Cap. & Res.	0.0	47.3	0.0	0.0	
Less: Dividend Paid	232.0	300.5	300.5	300.5	
Others	0.0	0.0	0.0	0.0	
CF from financing activiti	-206.9	-241.7	-295.8	-295.6	
Change in cash Eq.	-46.7	-237.3	332.4	299.5	
Op. Cash and cash Eq.	511.9	465.2	227.9	560.2	
Cl. Cash and cash Eq.	465.2	227.9	560.2	859.7	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
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	3,498.5	4,035.4	4,592.9	5,223.0	
Shareholder's Fund	3,597.3	4,134.2	4,691.6	5,321.8	
Loan Funds	0.0	0.0	0.0	0.0	
Deferred Tax Liability	200.8	208.6	223.6	238.6	
Minority Interest	0.0	0.0	0.0	0.0	
Source of Funds	3880.5	4436.7	5013.8	5663.9	
Application of Funds					
Gross Block	3,545.6	4,188.8	4,788.8	5,388.8	
Less: Acc. Depreciation	931.9	1,163.1	1,452.7	1,772.6	
Net Block	2,613.7	3,025.7	3,336.0	3,616.1	
Capital WIP	615.9	708.6	744.1	781.3	
Total Fixed Assets	3,229.7	3,734.3	4,080.1	4,397.4	
Investments	1,088.3	1,309.8	1,409.8	1,509.8	
Inventories	27.5	33.8	34.2	36.1	
Debtor	184.0	294.0	256.8	270.5	
Cash	465.2	227.9	560.2	859.7	
Loan & Advance, Other CA	239.1	432.4	426.2	436.8	
Total Current assets	915.8	988.2	1277.5	1603.1	
Current Liabilities	1317.7	1545.9	1712.0	1803.4	
Provisions	35.6	49.8	41.6	43.1	
Total CL and Provisions	1353.3	1595.7	1753.6	1846.5	
Net Working Capital	-437.4	-607.5	-476.1	-243.4	
Miscellaneous expense	0.0	0.0	0.0	0.0	
Application of Funds	3880.5	4436.7	5013.8	5663.9	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Book Value	364.2	418.5	475.0	538.8
Cash per share	157.3	137.3	178.5	213.9
EPS	60.4	80.0	86.9	94.2
Cash EPS	80.3	103.4	116.2	126.6
DPS	25.0	26.0	26.0	26.0
Profitability & Operating Ratios				
EBITDA Margin (%)	23.8	17.1	21.5	22.1
PAT Margin (%)	15.4	11.4	13.7	14.1
Fixed Asset Turnover (x)	1.2	1.9	1.5	1.5
Inventory Turnover (Days)	2.6	1.8	2.0	2.0
Debtor (Days)	17.3	15.5	15.0	15.0
Current Liabilities (Days)	123.8	81.5	100.0	100.0
Return Ratios (%)				
RoE	16.6	19.1	18.3	17.5
RoCE	20.2	23.1	22.4	21.3
RoIC	35.6	34.3	35.9	35.4
Valuation Ratios (x)				
PE	17.6	13.3	12.3	11.3
Price to Book Value	2.9	2.5	2.2	2.0
EV/EBITDA	10.9	8.7	7.4	6.6
EV/Sales	2.6	1.5	1.6	1.5
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)	0.0	0.0	0.0	0.0
Current Ratio	0.7	0.6	0.7	0.9
Quick ratio	0.7	0.6	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 (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	343	380	Hold	73,040	91.0	43.7	5.2	3.8	7.9	65.8	5.8	6.3	13.0	14.8	13.9	2.7	34.9	18.5	2.2
GAIL (India) (GAIL)	96	120	Buy	63,121	11.0	23.3	10.2	8.7	4.1	9.4	7.3	3.4	7.7	8.7	18.8	10.0	10.5	18.6	11.3
Gujarat Gas (GUJGA)	465	550	Buy	32,011	18.5	18.9	20.3	25.1	24.6	22.9	15.7	15.7	14.4	31.9	27.3	23.2	28.7	23.3	20.8
HPCL (HINPET)	232	275	Buy	32,919	70.6	44.9	-66.7	3.3	5.2	-3.5	4.8	7.8	-12.8	15.6	7.3	-12.9	29.5	16.5	-32.4
Indian Oil Corp (INDOIL)	81	90	Hold	1,14,382	15.5	17.1	5.2	5.2	4.7	15.5	3.0	2.6	5.0	13.3	12.9	4.0	19.8	18.4	5.8
Indraprastha Gas (INDGAS)	463	550	Buy	32,410	14.4	18.8	20.4	32.2	24.6	22.7	21.1	16.5	15.3	20.0	22.3	23.5	17.1	19.0	20.0
Mahanagar Gas (MAHGAS)	1077	1,300	Buy	10,638	327.2	364.2	418.5	44.8	35.6	34.3	17.2	17.8	13.5	0.0	0.0	0.0	172.4	123.8	81.5
ONGC (ONGC)	152	180	Buy	1,95,067	10.4	8.9	32.0	14.6	17.0	4.7	4.2	6.5	3.4	10.2	4.5	14.8	6.7	5.5	17.0
Petronet LNG (PETLNG)	227	240	Hold	34,050	19.7	22.3	21.6	11.5	10.2	10.5	7.0	6.3	6.5	26.0	27.0	22.7	25.3	25.0	21.7
Reliance Industries (RELIND)	2,349	2,850	Buy	15,89,099	89.7	89.7	98.6	30.8	26.2	23.8	22.2	17.0	12.8	5.5	7.3	9.0	7.0	7.8	8.1

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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