

March 6, 2023

## MGL acquires private CGD player Unison Enviro...

Mahanagar Gas has announced a share purchase agreement for acquiring 100% stake in private CGD player Unison Enviro Pvt Ltd for a cash consideration of ₹ 531 crore. With this acquisition MGL would mark its entry into newer geographical areas such as Ratnagiri, Latur, Osmanabad, Chitradurga and Davanagere. This will enable MGL to scale up its CGD network, enabling the company to cater to a larger customer base.

### MGL's entry into newer GAs

- As of Q3FY23, sales volume of MGL were at 3.4 mmscmd, with a presence across Mumbai, Thane and Raigad districts
- Unison Enviro, an Ashoka Buildcon subsidiary, is operational in Maharashtra (Ratnagiri, Latur and Osmanabad) and Karnataka (Chitradurga, Davanagere) with sales volume of ~0.1 mmscmd as per our estimates. Post this acquisition MGL will be able to supply CNG and PNG to customers in these regions and increase its volumes
- MGL is expected to acquire the 100% stake in the company for ₹ 531 crore. Gross debt of Unison Enviro as of FY22 was at ₹ 113 crore
- Details of Unison Enviro's financials for FY22 are as follows: Turnover: ₹ 89.4 crore; networth: ₹ 83.4 crore; net loss: ₹ 24.9 crore

### Valuation and Outlook

Inorganic entry into newer geographical areas marks a turning point for MGL, which was earlier limited to specific GAs. It would also help to bridge its valuation gap with other CGDs, due to probability of acquisition of newer growth areas.

The acquisition is of strategic importance to MGL. We maintain our **BUY** rating on the company with a target price of ₹ 1180 i.e. ~14x P/E on FY25E EPS.

Exhibit 1: CGD Comparison Table

FY25E	MGL	IGL	Gujarat Gas
Revenue (₹ crore)	5,676.8	12,227.4	16,525.2
Volume (mmscmd)	4.0	10.0	12.0
EBITDA (₹ crore)	1,337.4	2,761.7	2,637.5
EBITDA (₹/scm)	9.1	7.6	6.0
PAT (₹ crore)	827.3	1,814.6	1,659.8
EPS (₹)	83.8	25.9	24.1
Implied P/E	11.5	16.1	19.9

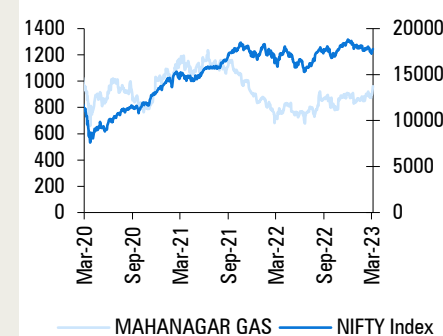
Source: Company, ICICI Direct Research



#### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	9,482.7
Total Debt (FY22) (₹ Crore)	82.4
Cash and Investments (FY22)	465.2
EV (₹ Crore)	9,099.9
52 week H/L	1205/666
Equity capital (₹ Crore)	98.8
Face value (₹)	10.0

#### Price Chart



#### Recent event & key risks

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

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Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>3884.9</b>	<b>6841.5</b>	<b>6548.7</b>	<b>5676.8</b>
Growth (%)	66.2	76.1	-4.3	-13.3
Raw material Costs	2045.4	4461.3	3778.3	2838.0
Employee Costs	83.3	96.3	103.1	110.3
Other Expenditure	507.2	595.9	826.5	851.5
Op. Expenditure	2960.6	5769.8	5305.9	4339.4
<b>EBITDA</b>	<b>924.3</b>	<b>1071.7</b>	<b>1242.8</b>	<b>1337.4</b>
Growth (%)	-1.0	15.9	16.0	7.6
Depreciation	196.3	228.2	289.7	319.9
EBIT	728.1	843.5	953.1	1017.5
Interest	7.5	8.7	8.6	10.0
Other Income	85.7	100.8	90.7	99.8
PBT	806.3	935.7	1035.3	1107.4
Growth (%)	-3.3	16.0	10.6	7.0
Tax	209.3	237.5	264.0	280.1
<b>Reported PAT</b>	<b>597.0</b>	<b>698.1</b>	<b>771.3</b>	<b>827.3</b>
Growth (%)	-3.6	16.9	10.5	7.3
<b>EPS</b>	<b>60.4</b>	<b>70.7</b>	<b>78.1</b>	<b>83.8</b>

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	597.0	698.1	771.3	827.3
Add: Depreciation	196.3	228.2	289.7	319.9
Add: Others	23.5	15.0	15.0	15.0
Cash Profit	816.8	941.3	1,076.0	1,162.2
Increase/(Decrease) in CL	219.1	558.8	101.0	-106.1
(Increase)/Decrease in CA	-116.0	-384.5	11.0	91.7
<b>CF from Operating Activi</b>	<b>919.9</b>	<b>1115.5</b>	<b>1188.0</b>	<b>1147.8</b>
Purchase of Fixed Assets	696.3	1,026.9	542.8	549.5
(Inc)/Dec in Investments	-63.3	-40.0	-75.0	-50.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activi</b>	<b>-759.6</b>	<b>-1,066.9</b>	<b>-617.8</b>	<b>-599.5</b>
Inc/(Dec) in Loan Funds	25.1	20.0	20.0	20.0
Inc/(Dec) in Sh. Cap. & Res.	0.0	0.0	0.0	0.0
Less: Dividend Paid	232.0	300.5	300.5	300.5
Others	0.0	0.0	0.0	0.0
<b>CF from financing activiti</b>	<b>-206.9</b>	<b>-280.5</b>	<b>-280.5</b>	<b>-280.5</b>
Change in cash Eq.	-46.7	-231.8	289.8	267.8
Op. Cash and cash Eq.	511.9	465.2	233.4	523.2
<b>Cl. Cash and cash Eq.</b>	<b>465.2</b>	<b>233.4</b>	<b>523.2</b>	<b>790.9</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<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	3,498.5	3,896.2	4,367.0	4,893.8
Shareholder's Fund	3,597.3	3,995.0	4,465.8	4,992.6
Loan Funds	82.4	102.4	122.4	142.4
Deferred Tax Liability	200.8	215.8	230.8	245.8
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>3880.5</b>	<b>4313.2</b>	<b>4819.0</b>	<b>5380.8</b>
<b>Application of Funds</b>				
Gross Block	3,545.6	4,526.2	5,001.2	5,476.2
Less: Acc. Depreciation	931.9	1,175.4	1,465.1	1,785.0
Net Block	2,613.7	3,350.8	3,536.2	3,691.3
Capital WIP	615.9	677.5	745.3	819.8
Total Fixed Assets	3,229.7	4,028.4	4,281.5	4,511.1
Investments	1,088.3	1,128.3	1,203.3	1,253.3
Inventories	27.5	56.2	71.8	62.2
Debtor	184.0	281.2	269.1	233.3
Cash	465.2	233.4	523.2	790.9
Loan & Advance, Other CA	239.1	497.8	483.3	437.0
Total Current assets	915.9	1068.6	1347.3	1523.4
Current Liabilities	1317.7	1874.4	1973.6	1866.3
Provisions	35.6	37.7	39.5	40.6
Total CL and Provisions	1353.3	1912.0	2013.1	1907.0
Net Working Capital	-437.4	-843.5	-665.8	-383.6
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>3880.5</b>	<b>4313.2</b>	<b>4819.0</b>	<b>5380.8</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
Book Value	364.2	404.4	452.1	505.4
Cash per share	157.3	137.9	174.8	207.0
EPS	60.4	70.7	78.1	83.8
Cash EPS	80.3	93.8	107.4	116.1
DPS	25.0	26.0	26.0	26.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	23.8	15.7	19.0	23.6
PAT Margin (%)	15.4	10.2	11.8	14.6
Fixed Asset Turnover (x)	1.2	1.7	1.5	1.3
Inventory Turnover (Days)	2.6	3.0	4.0	4.0
Debtor (Days)	17.3	15.0	15.0	15.0
Current Liabilities (Days)	123.8	100.0	110.0	120.0
<b>Return Ratios (%)</b>				
RoE	16.6	17.5	17.3	16.6
RoCE	19.8	20.6	20.8	19.8
RoC	34.2	30.8	33.3	32.9
<b>Valuation Ratios (x)</b>				
PE	15.9	13.6	12.3	11.5
Price to Book Value	2.6	2.4	2.1	1.9
EV/EBITDA	9.8	8.7	7.3	6.6
EV/Sales	2.3	1.4	1.4	1.6
<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	0.6	0.7	0.8
Quick ratio	0.7	0.5	0.6	0.8

Source: Company, ICICI Direct Research

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Sell: < -15%



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