

Mahanagar Gas Ltd

Margins to taper off; EV policy not a major risk

Mahanagar Gas (MGL) reported robust YoY performance with 89.4%/ 106.4% surge in EBITDA/ PAT benefitted from substantial rise in margins. EBITDA/ scm rose 83.2% YoY albeit moderated 13.3% QoQ to Rs14.6/ scm. QoQ margin moderation was attributed to lower average realisations and slightly higher gas costs. On EV policy for Maharashtra, management commented that the EV adoption to happen gradually and would impact volumes over a 7-8 year period. However, diesel to CNG conversion should partially offset the impact from EV adoption. Nonetheless, management continued to maintain its volume growth guidance of 5-6% for the next 5-6 years with EBITDA/ scm hovering at Rs10-12/ scm. FY24E capex is slated at Rs7-8bn and can go up to Rs9-10bn depending on growth opportunities. Based on 1H numbers and management's EBITDA/ scm guidance of Rs12/ scm for the next 2-3 quarters, we have upped our EBITDA/ scm assumptions. We have lowered our volume assumptions post FY26E to provide effect of EV adoption while considering 2% terminal growth in our DCF. Based on revision in estimates, we maintain Buy with a DCF-based revised TP of Rs1,189 (earlier Rs1,234).

EBITDA/ scm starts normalising, focus on volume growth

During Q2, MGL's EBITDA/ scm moderated 13.3% QoQ to Rs14.6/ scm from Rs16.8/scm. Earlier in October, the company also cut its CNG and PNG prices by Rs3/ scm and Rs2/ scm respectively in Mumbai and adjoining areas. The revised price for CNG and PNG stands at Rs76/ scm and Rs47/ scm respectively. Price revision is expected to aid volume growth while EBITDA/ scm is likely to moderate further. To focus on volume growth, MGL has partnered with OEMs and also introduced incentive scheme for new CNG vehicles.

No immediate impact from Maharashtra EV policy

Management stated that Maharashtra EV policy similar to the Delhi EV policy may impact volumes albeit gradually over a period of 7-8 years. Despite EV policy threat, management still remained confident of 5-6% volume growth over the next 5-6 years. Diesel to CNG conversion is likely to partially offset the impact from EV adoption.

~20% CNG volumes consumed by aggregators in Mumbai

Management provided some estimates on CNG consumption in Mumbai citing that they may not be entirely accurate. As per mgmt., CNG consumption by Ola/ Uber cab aggregators is ~20%, private passenger cars ~30%, autos ~30%, buses+state transport ~7%, and rest from commercial goods vehicles.

Volumes to improve, margins to subside

Management is focusing on volume growth while margins are likely to subside in coming quarters. We have accounted for the threat from EV policy and considered lower volume growth from FY26E onwards despite management guidance of 5-6% volume growth for the next 5-6 years. Based on 1H numbers, we have upped our FY24E/ FY25E EBITDA/ scm estimate from Rs9.5/scm/ Rs12.1/scm to Rs14.1/scm/ Rs11.2/scm. The stock is currently trading at 8.0x/ 10.3x FY24E/ FY25E EPS of Rs127.4/ Rs98.4. We maintain Buy with a revised DCF-based TP of Rs1,189 (earlier Rs1,234).

Risks – Slowdown in CNG conversions, aggressive EV adoption policy

Financial and valuation summary

YE Mar (Rs mn)	2QFY24A	2QFY23A	YoY (%)	1QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	15,709	15,627	0.5	15,378	2.2	61,411	67,197	72,044
EBITDA	4,789	2,528	89.4	5,213	(8.1)	18,304	15,337	15,122
EBITDA margin (%)	30.5	16.2	1430bps	33.9	(340bps)	29.8	22.8	21.0
Adj. Net profit	3,385	1,640	106.4	3,684	(8.1)	12,580	9,720	9,338
Adj. EPS (Rs)	34.3	16.6	106.4	37.3	(8.1)	127.4	98.4	94.5
EPS growth (%)						59.3	(22.7)	(3.9)
PE (x)						8.0	10.3	10.8
EV/EBITDA (x)						5.3	6.2	6.1
PBV (x)						2.1	1.8	1.7
RoE (%)						27.9	18.9	16.3
RoCE (%)						27.9	18.9	16.3

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India I Oil & Gas

31 October, 2023

BUY

Price: Rs1,017

Target Price: Rs1,189

Forecast return: 17%

Institutional Research

Market Data

Bloomberg:	MAHGL IN
52 week H/L:	1,152/811
Market cap:	Rs100.5bn
Shares Outstanding:	98.8mn
Free float:	47.0%
Avg. daily vol. 3mth:	6,76,709

Source: Bloomberg

Changes in the report

Rating:	BUY, Unchanged
Target price:	Rs1,189; down 3.7% from earlier Rs1,234
EPS:	FY24E: Rs127.4, up 21.7% FY25E: Rs98.4, up 17.0%

Source: Centrum Broking

Shareholding pattern

	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	32.5	32.5	32.5	32.5
FIIIs	30.5	32.4	31.0	29.7
DIIIs	15.5	14.8	14.9	15.5
Public/other	21.5	20.3	21.6	22.3

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs bn)	Centrum Q2FY24	Actual Q2FY24	Variance (%)
Revenue	15.5	15.7	1.3
EBITDA	5.0	4.8	(4.0)
EBITDA	32.5	30.5	(200bps)
Rep.PAT	3.6	3.4	(5.6)

Source: Bloomberg, Centrum Broking



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Thesis Snapshot

Centrum Estimates

YE Mar (Rs mn)	Centrum FY24E New	Centrum FY24E Old	Variance (%)	Centrum FY25E New	Centrum FY25E Old	Variance (%)
Revenue	61,411	55,304	11.0%	67,197	57,235	17.4%
EBITDA	18,304	15,635	17.1%	15,337	13,353	14.9%
EBITDA Margin (%)	29.8	28.3	150bps	22.8	23.3	(50bps)
PAT	12,580	10,335	21.7%	9,720	8,312	17.0%

Source: Centrum Broking

Mahanagar Gas Ltd versus NIFTY Midcap 100

	1m	6m	1 year
MAHGL IN	(1.1)	0.8	18.8
NIFTY Midcap 100	(4.4)	21.8	24.9

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY24E	FY25E	FY26E
Gross profit/ scm	19.7	17.1	16.6
EBITDA/ scm	14.1	11.2	10.6
EBITDA margins (%)	29.8	22.8	21.0

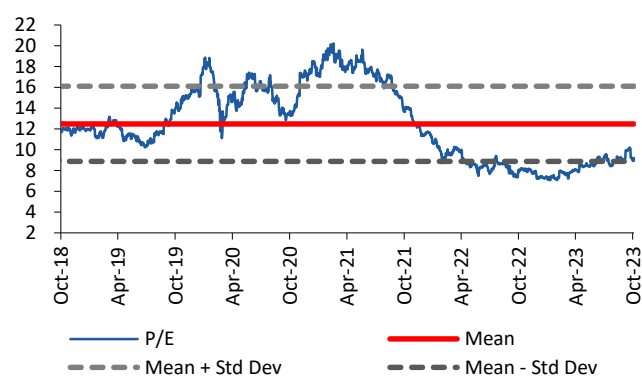
Source: Centrum Broking

Valuations

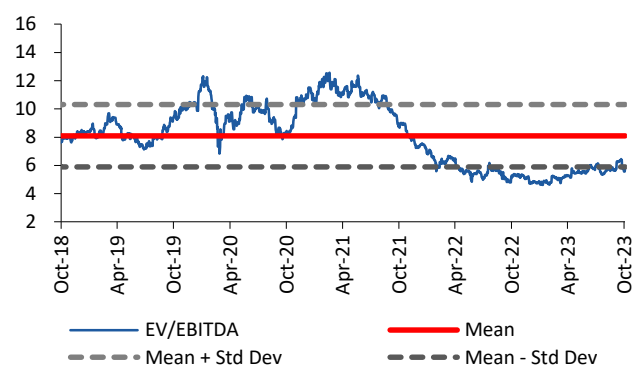
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Valuations	Rs mn.	Rs/share
NPV - Continuing Business	65,780	666
NPV - Terminal Value	51,716	524
NPV per share	1,17,496	1,189

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Valuation

Exhibit 1: DCF valuation

(Rs mn)	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E
PAT	7,900	12,580	9,720	9,338	9,706	10,103	10,294	10,587	11,020	11,080	11,560
(+) Depreciation	2,311	2,869	3,293	3,691	4,088	4,486	4,883	5,281	5,678	6,076	6,473
(-) Capex	(6,975)	(8,000)	(8,000)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)
(-) Change in WC	3,510	(323)	870	579	485	520	476	490	493	575	546
FCFE	6,746	7,127	5,883	6,109	6,779	7,608	8,153	8,858	9,691	10,230	11,079
Disc FCFE	6,746	7,127	5,584	5,223	5,222	5,280	5,098	4,989	4,918	4,677	4,563

NPV Calculation	Rs mn	Rs/share
NPV - Continuing Business	65,780	666
NPV - Terminal Value	51,716	524
NPV per share	1,17,496	1,189

Source: Centrum Broking, Company Data

Exhibit 2: WACC for DCF

Risk-free rate %	7.0%
Market risk premium %	5.0%
Beta	0.8
CoE %	11.0%
Terminal Growth Rate %	2.0%

Source: Company Data, Centrum Broking

Q2FY24 Concall Highlights

Business performance

- LNG prices remained stable in Q2
- HPHT prices – Down from USD12.12 to USD9.96
- MGL reduced prices of CNG from Rs79/ kg to Rs76/ kg
- PNG connections – 43,051 houses connected in Q2, total established connectivity for 2.21mn households
- CNG stations – Added 7 new stations taking total of 319 stations
- H1 – Upgraded 16 CNG outlets
- Industrial customers – 4,339
- Pipeline – 3.75km pipeline built in Raigad in Q2, total 393km
- HPHT procurement in Q2 – 0.28mmcmd for priority sector
- MGL signed JV agreement with Baidyanath LNG for selling LNG – 51:49 JV with Baidyanath LNG and same proportion of profit sharing
- Volume was hit in the last 2 years on account of higher prices of CNG
- MGL have partnered with OEs to promote CNG vehicles from the past 1-2 months
- EBITDA/ scm – Rs12/ scm sustainable for the next 2-3 quarters

EV Policy for Maharashtra – Gradual impact

- Accelerate EV adoption but at a gradual rate i.e. 10% of new registrations by 2025
- Targeted EV adoption for urban centres like Mumbai by 2025 – 25% for public transport and delivery services
- Policy deadline of 2025
- EV policy to impact in 7-8 years, volumes not in total danger

CNG segment estimates by MGL management

- 55,000 Ola/ Uber on roads, per capita consumption 7-8 kgs, 3.4 -4.0lakh kgs out of total 19-20lakh kgs volumes from Ola/Ubers
- 4.4lakh private passenger cars – Consume ~30% of 19-20lakh of CNG
- 3.9lakhs Autos – CNG consumption ~30%
- Cabs and aggregators (predominately uber/ ola) – ~4lakh kg consumption
- Buses – 7% of volumes roughly 1.4lakh kgs
- New CNG vehicle addition in Q2 – 19,900, ~1,300 LCVs
- Majority increase came from passenger car segment. CNG volumes have increased from 2.4 to 2.8 mmscd
- APM availability has been constant throughout Q2
- Population of heavy commercial vehicles to pick up
- MSRTC added in ~80 buses Q2 and BEST 80 buses

Outlook

- Expect 5-6% volume growth for 5-6 years
- EV policy will affect but many will move from diesel to CNG in the future hence volumes will not take that much hit
- Raigad industrial volumes will contribute to 5-6% volume growth

Exhibit 3: Quarterly review

Y/E March (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	% chg.
Net sales	15,709	15,627	0.5	15,378	2.2	31,087	30,174	3.0
Cost of Goods	8,992	11,475	(21.6)	8,442	6.5	17,434	21,514	(19.0)
% of sales	57.2	73.4		54.9		56.1	71.3	
Other expenditure	1,929	1,623	18.8	1,724	11.9	3,652	3,276	11.5
% of sales	12.3	10.4		11.2		11.7	10.9	
Operating profit	4,789	2,528	89.4	5,213	(8.1)	10,002	5,384	85.8
OPM (%)	30.5	16.2		33.9		32.2	17.8	
Dep. and amor.	658	551	19.4	620	6.0	1,278	1,088	17.5
Interest	25	25	0.0	25	(1.6)	50	48	4.6
EBT	4,106	1,953	110.3	4,567	(10.1)	8,673	4,249	104.2
Other income	437	260	68.2	390	12.2	827	460	79.7
Excp. Item	0	0		0		0	0	
PBT	4,543	2,213	105.3	4,957	(8.3)	9,500	4,708	101.8
Provision for tax	1,158	573	102.2	1,273	(9.0)	2,431	1,217	99.8
eff. tax rate	25.5	25.9		25.7		25.6	25.8	
PAT (rep.)	3,385	1,640	106.4	3,684	(8.1)	7,069	3,492	102.5
NPM (%)	21.0	10.3		23.4		22.2	11.4	
Sales volumes (mmscm)								
CNG	237.6	233.8	1.6	225.8	5.2	463.4	464.9	(0.3)
PNG - Domestic	45.2	43.3	4.3	45.1	0.2	90.3	86.1	4.9
PNG - Ind./ Commercial	46.1	41.1	12.1	39.6	16.4	85.7	81.0	5.7
Total	328.9	318.2	3.4	310.5	5.9	639.4	631.9	1.2
Sales (mmscmd)								
	3.4	3.4	(1.0)	3.4	1.2	3.4	3.0	14.1
Rs/ scm								
Revenues	47.8	49.1	(2.7)	49.5	(3.6)	48.6	47.7	1.8
COGS	27.3	36.1	(24.2)	27.2	0.6	27.3	34.0	(19.9)
Gross profit	20.4	13.0	56.6	22.3	(8.6)	21.4	13.7	55.8
EBITDA	14.6	7.9	83.2	16.8	(13.3)	15.6	8.5	83.6
PAT	10.3	5.2	99.7	11.9	(13.3)	11.1	5.5	100.1

Source: Centrum Broking, Company Data

Exhibit 4: Quarterly trend

Quarterly (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Revenues	6,155	8,301	10,278	10,868	14,548	15,627	16,714	16,105	15,378	15,709	0.5	2.2
Q-o-Q gr. (%)	-	34.9	23.8	5.7	33.9	7.4	7.0	(3.6)	(4.5)	2.2		
Raw Mat. Cons.	1,910	3,819	7,652	7,073	10,039	11,475	12,407	10,428	8,442	8,992	(21.6)	6.5
% of net sales	31.0	46.0	74.4	65.1	69.0	73.4	74.2	64.7	54.9	57.2		
Purchase of prod.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	-
% of net sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Power, fuel, and water	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	-
% of net sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Employee Costs	200	225	220	188	217	319	219	324	286	311	(2.7)	8.8
% of net sales	3.3	2.7	2.1	1.7	1.5	2.0	1.3	2.0	1.9	2.0		
Others	1,005	1,239	1,376	1,452	1,436	1,304	1,528	1,457	1,438	1,618	24.1	12.5
% of net sales	16.3	14.9	13.4	13.4	9.9	8.3	9.1	9.0	9.4	10.3		
EBITDA	3,040	3,018	1,031	2,155	2,856	2,528	2,561	3,897	5,213	4,789	89.4	(8.1)
Q-o-Q growth (%)	-	(0.7)	(65.8)	109.0	32.5	(11.5)	1.3	52.2	33.8	(8.1)		
EBITDA Margin (%)	49.4	36.4	10.0	19.8	19.6	16.2	15.3	24.2	33.9	30.5		
Dep. & Amor.	453	473	482	555	537	551	585	638	620	658	19.4	6.0
EBIT	2,587	2,545	549	1,600	2,319	1,977	1,976	3,259	4,592	4,131	108.9	(10.0)
Interest exp.	17	20	15	23	23	25	24	22	25	25	0.0	(1.6)
Other Income	186	226	218	227	200	260	323	336	390	437	68.2	12.2
EBT	2,756	2,751	752	1,804	2,496	2,213	2,274	3,573	4,957	4,543	105.3	(8.3)
Provision for tax	716	708	184	486	644	573	553	885	1,273	1,158	102.2	(9.0)
Eff. tax rate (%)	26.0	25.7	24.5	26.9	25.8	25.9	24.3	24.8	25.7	25.5		
Net Profit	2,041	2,043	568	1,318	1,852	1,640	1,721	2,688	3,684	3,385	106.4	(8.1)
Q-o-Q gr. (%)	-	0.1	(72.2)	132.1	40.5	(11.5)	4.9	56.2	37.0	(8.1)		
PAT Margin (%)	32.2	24.0	5.4	11.9	12.6	10.3	10.1	16.3	23.4	21.0		

Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	35,602	62,993	61,411	67,197	72,044
Operating Expense	21,945	44,349	35,785	43,886	48,284
Employee cost	833	1,079	1,198	1,329	1,396
Others	3,581	5,724	6,124	6,645	7,243
EBITDA	9,243	11,842	18,304	15,337	15,122
Depreciation & Amortisation	1,967	2,312	2,869	3,293	3,691
EBIT	7,276	9,530	15,435	12,043	11,431
Other income	857	1,119	1,384	951	1,054
PBT	8,058	10,555	16,819	12,995	12,484
Taxes	2,093	2,655	4,238	3,275	3,146
Effective tax rate (%)	26.0	25.2	25.2	25.2	25.2
PAT	5,965	7,900	12,580	9,720	9,338
Recurring PAT	5,965	7,900	12,580	9,720	9,338
Reported PAT	5,965	7,900	12,580	9,720	9,338
Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
Revenue	65.4	76.9	(2.5)	9.4	7.2
EBITDA	(1.0)	28.1	54.6	(16.2)	(1.4)
Adj. EPS	(3.7)	32.4	59.3	(22.7)	(3.9)
Margins (%)					
Gross	42.5	29.6	41.7	34.7	33.0
EBITDA	26.0	18.8	29.8	22.8	21.0
EBIT	20.4	15.1	25.1	17.9	15.9
Adjusted PAT	16.8	12.5	20.5	14.5	13.0
Returns (%)					
ROE	17.5	20.4	27.9	18.9	16.3
ROCE	17.6	20.6	27.9	18.9	16.3
ROIC	15.6	16.8	24.1	17.4	15.6
Turnover (days)					
Gross block turnover ratio (x)	0.9	1.4	1.1	1.1	1.0
Debtors	16	14	20	21	21
Inventory	4	3	4	4	4
Creditors	38	24	35	33	35
Net working capital	(56)	(50)	(38)	(29)	(19)
Solvency (x)					
Net debt-equity	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Interest coverage ratio	122.8	126.1	0.0	0.0	0.0
Net debt/EBITDA	(0.5)	(0.2)	(0.2)	(0.4)	(0.5)
Per share (Rs)					
Adjusted EPS	60.4	80.0	127.4	98.4	94.5
BVPS	364.2	418.5	493.2	550.8	606.2
CEPS	80.3	103.4	156.4	131.7	131.9
DPS	25.0	26.0	52.7	40.7	39.1
Dividend payout (%)	41.4	32.5	41.4	41.4	41.4
Valuation (x)					
P/E	16.8	12.7	8.0	10.3	10.8
P/BV	2.8	2.4	2.1	1.8	1.7
EV/EBITDA	10.4	8.3	5.3	6.2	6.1
Dividend yield (%)	2.5	2.6	5.2	4.0	3.8

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	988	988	988	988	988
Reserves & surplus	34,985	40,354	47,727	53,423	58,896
Shareholders fund	35,973	41,342	48,715	54,411	59,884
Non Current Liabilities	1,296	1,283	1,283	1,283	1,283
Def tax liab. (net)	2,008	2,086	2,086	2,086	2,086
Total liabilities	39,278	44,711	52,084	57,780	63,253
Gross block	40,142	46,189	54,189	62,189	69,689
Less: acc. Depreciation	(15,509)	(17,820)	(20,689)	(23,983)	(27,673)
Net block	24,633	28,369	33,500	38,207	42,016
Capital WIP	6,159	7,086	7,086	7,086	7,086
Net fixed assets	30,793	35,455	40,586	45,293	49,102
Non Current Assets	2,331	3,978	3,978	3,978	3,978
Investments	10,883	13,098	13,098	13,098	13,098
Inventories	275	338	422	461	495
Sundry debtors	1,840	2,940	3,663	4,008	4,297
Cash & Cash Equivalents	4,652	2,279	4,198	6,057	8,300
Other current assets	801	1,407	1,670	1,796	1,902
Trade payables	2,719	3,222	3,559	4,364	4,802
Other current liab.	9,600	11,166	11,577	12,093	12,641
Provisions	742	1,223	1,223	1,281	1,303
Net current assets	(5,492)	(8,648)	(6,406)	(5,416)	(3,753)
Total assets	39,278	44,711	52,084	57,780	63,253

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	8,134	10,648	16,819	12,995	12,484
Depreciation & Amortisation	1,967	2,312	2,869	3,293	3,691
Net Interest	(75)	(94)	0	0	0
Net Change – WC	1,377	783	(323)	870	579
Direct taxes	(2,124)	(2,641)	(4,238)	(3,275)	(3,146)
Net cash from operations	9,567	10,919	15,127	13,883	13,609
Capital expenditure	(6,686)	(6,974)	(8,000)	(8,000)	(7,500)
Acquisitions, net	0	0	0	0	0
Investments	(633)	(2,215)	0	0	0
Others	0	0	0	0	0
Net cash from investing	(7,319)	(9,190)	(8,000)	(8,000)	(7,500)
FCF	2,247	1,729	7,127	5,883	6,109
Dividend paid	(2,469)	(2,568)	(5,208)	(4,024)	(3,866)
Net cash from financing	(2,469)	(2,568)	(5,208)	(4,024)	(3,866)
Net change in Cash	(222)	(839)	1,919	1,859	2,243

Source: Company, Centrum Broking

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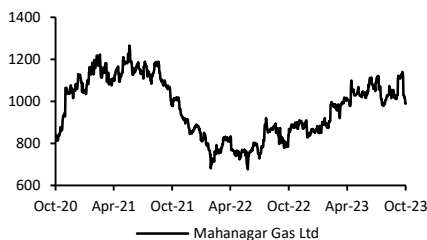
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Mahanagar Gas Ltd



Source: Bloomberg

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