

June 10, 2024

Company Update | Sector: Energy

Mahanagar Gas Ltd

Analyst Meet Update: Strategic growth driven by infrastructure expansion

Our View

MAHGL is to play a key role in India's transition into the CGD segment towards cleaner energy. As per industry, the Indian government's USD67bn investment to expand the natural gas sector by 2030 poise significant growth in CNG and DPNG infrastructure. Allocation policies prioritize APM and HP/HT gas, ensuring cost-effective supply. MAHGL's strategy focuses on expanding customer reach, particularly in Raigad, with major infrastructure investments. The company aims to add 3 lakh D-PNG connections annually in Mumbai. UEPL's network includes 56 CNG stations. The inclusion of natural gas under GST by 2025 could benefit all stakeholders. MAHGL's JV with Baidyanath LNG plans several LNG stations, targeting long-haul transportation. Retrofitting initiatives and a robust capex plan support its growth. We maintain a BUY on the stock with a revised TP of Rs 1,730/shr (from earlier Rs 1,560). The increase is on a higher PER (x) multiple revised from 13.5x to 15x in line with that of Indraprastha Gas Ltd (IGL) which has a similar volume growth profile and prefer Mahanagar Gas (MAHGL) in the CGD space.

Key takeaways from the analyst meet

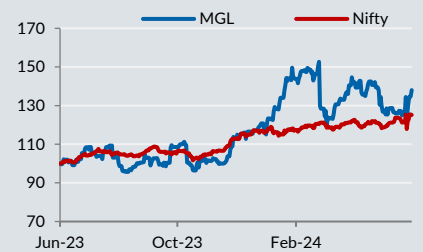
- Industry overview:** The Indian government is poised to invest USD67bn in the natural gas sector over the next six years, aiming for significant expansion. By 2030, the Govt. aims to have 17.5K CNG stations and 120mn DPNG connections, a notable increase from the existing 7K stations and 12.9mn DPNG connections. Additionally, consumption is projected to rise from 185mmscmd to 500mmscmd by 2030. In terms of trends, CNG maintains its advantage in the CV/LCV segment, owing to factors like high payload and long-distance capabilities, while EVs are not expected to pose a significant threat. Furthermore, there's minimal overlap between EVs and CNG consumer bases, particularly in the low-end PV segment, where EV penetration remains low due to higher on-road costs. CGD has received top priority in allocation, ensuring reduced reliance on higher-priced RLNG, while any shortfall in APM gas is likely to be offset by increased supply from HP/HT via auctions, potentially addressing the anticipated 30% shortage.
- Allocation Policy:** MoPNG guidelines stipulate that domestic gas supply to CGD entities will be allocated up to the available quantity starting from Aug'22. Since Feb'23, gas from HP/HT fields has been prioritized for CNG and Domestic PNG, following a notification by MoPNG in Jan'23. Additionally, the government revised the APM pricing formula effective Apr'23, adopting key recommendations from the Kirit Parikh Committee. The new APM gas pricing is set at 10% of the Indian Crude basket on a monthly basis, with a floor price of USD4/mmbtu and a ceiling of USD6.5/mmbtu for the first two years, followed by an annual escalation of USD0.25/mmbtu.
- Priority Allocation:** APM allocation constitutes approximately 70% of the priority volumes, while HP/HT is available to CGD on priority, with the company holding term contracts of around 0.50mmscmd. Additionally, the company has secured term RLNG through competitive bidding for industrial and commercial requirements linked to HH and oil index, with flexible MGQ terms. For spot requirements, they have arrangements with LGX and other suppliers through competitive bidding. The pricing for APM and HPHT has good visibility for the medium term. The blended cost for priority gas currently is at ~USD7.3/mmbtu.
- Infrastructure exclusivity:** MAHGL's infrastructure exclusivity in Mumbai has expired and an extension is in process. In the adjoining areas of Mumbai, the exclusivity extends until 2030, and in Raigad, it is up to 2040. The company also offers tariff flexibility, allowing new operators to use MAHGL's pipeline network upon payment of a transportation tariff.

Reco	: BUY
CMP	: Rs 1,410
Target Price	: Rs 1,730
Potential Return	: +22.7%

Stock data (as on June 10, 2024)

Nifty	23,238
52 Week h/l (Rs)	1580 / 971
Market cap (Rs/USD mn)	136417 / 1634
Outstanding Shares (mn)	99
6m Avg t/o (Rs mn):	741
Div yield (%)	2.3
Bloomberg code:	MAHGL IN
NSE code:	MGL

Stock performance



	1M	3M	1Y
Absolute return	8.8%	7.5%	38.0%

Shareholding pattern (As of Mar'24 end)

Promoter	32.5%
FII+DII	58.0%
Others	9.6%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,730	1,560

Δ in estimates

(1-Yr)	FY25e	FY26e
EPS (New)	108.4	115.4
EPS (Old)	108.4	115.4
% Change	-	-

Financial Summary

(Rs bn)	FY24	FY25E	FY26E
Revenue	62.4	65.1	70.1
YoY Growth	(0.9)	4.2	7.8
EBIDTA	18.4	15.4	16.4
OPM %	29.5	23.7	23.4
PAT	12.9	10.7	11.4
YoY Growth	63.2	(16.9)	6.4
ROE	27.8	19.4	18.0
EPS	130.5	108.4	115.4
P/E	10.8	13.0	12.2
BV	520.5	598.9	684.3
EV/EBITDA	7.3	8.7	8.2

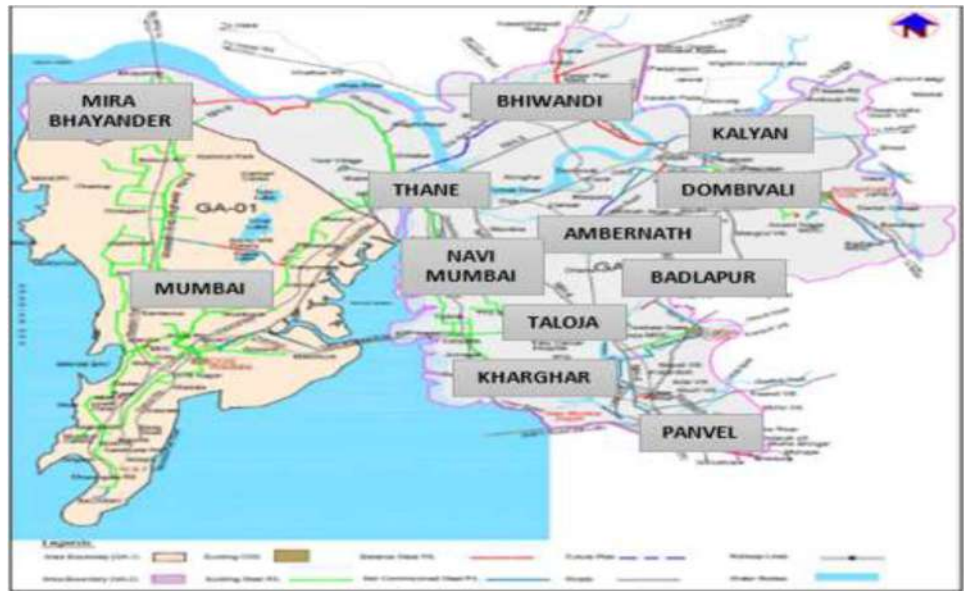
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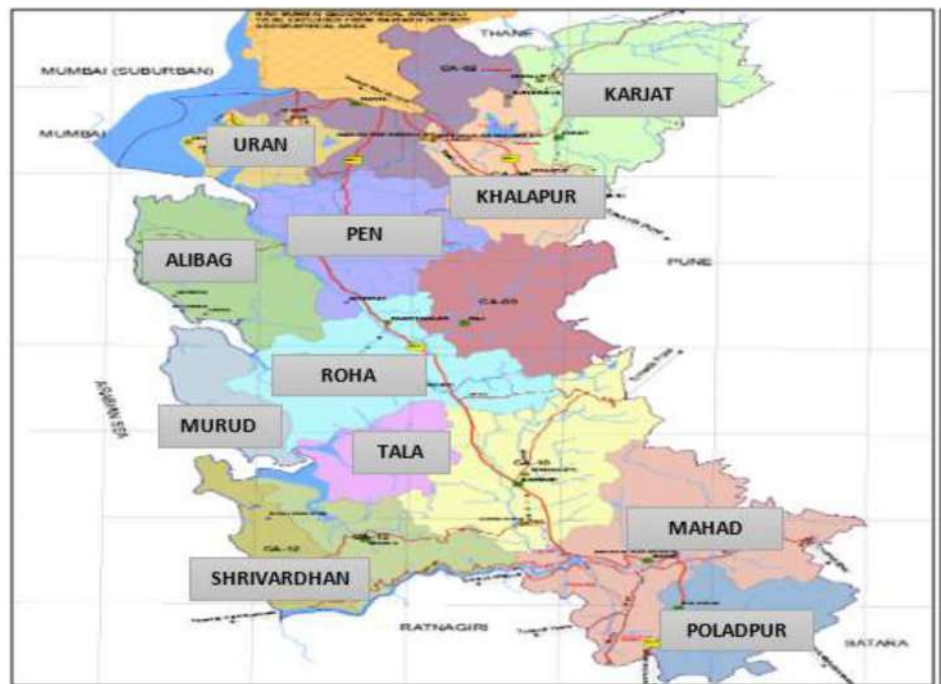


Exhibit 1: GA1 & GA2



Source: Company, YES Sec

Exhibit 2: GA3

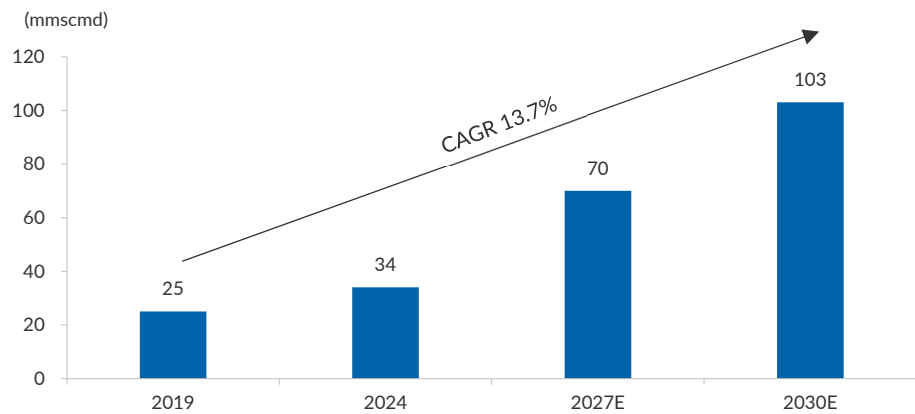


Source: Company, YES Sec

- **D-PNG connections:** The total household potential in Mumbai is ~36lakhs, MAHGL plans to add 3lakhs connections each year which will lead to 5-6% annual growth.
- **Growth Strategy:** Focusing on market excellence and driving conversions across segments through digitization, operational efficiency, loyalty programs and Inorganic CGD expansions. It emphasizes cost-effective natural gas sourcing, including term and spot contracts. Key priorities include expanding reach to new CNG and PNG customers, particularly in the Raigad district, and developing LNG stations for long-haul vehicles. Infrastructure investment is integral, with plans to add over 180 km of steel pipeline and 250 CNG filling stations over the next five years.

- Commercial & Retrofits:** The commercial goods segment of CNG faced a significant setback 2-3 years ago due to the impact of COVID-19, soaring CNG prices reaching Rs90 due to the absence of a ceiling price on APM. Additionally, range anxiety hindered adoption. Collaborations with retrofitters aimed to introduce state-of-the-art solutions. Range anxiety has diminished with the presence of CNG stations along all highways. CGD, OEMs and retrofitters are now jointly driving demand and addressing potential issues. Government interventions, such as capping APM prices and ensuring assured allocation of HP/HT with price limits, have been instrumental. Plans are underway to relaunch incentive schemes shortly. The focus on retrofitting vehicles, particularly commercial ones, has seen a notable increase from zero additions a 3 years ago to a couple of hundred per month now, especially in Maharashtra, where an 8-year limit for diesel vehicles encourages retrofitting to extend their usable life

Exhibit 3: CGD Outlook



Source: MoPNG, PPAC, Company, YES Sec

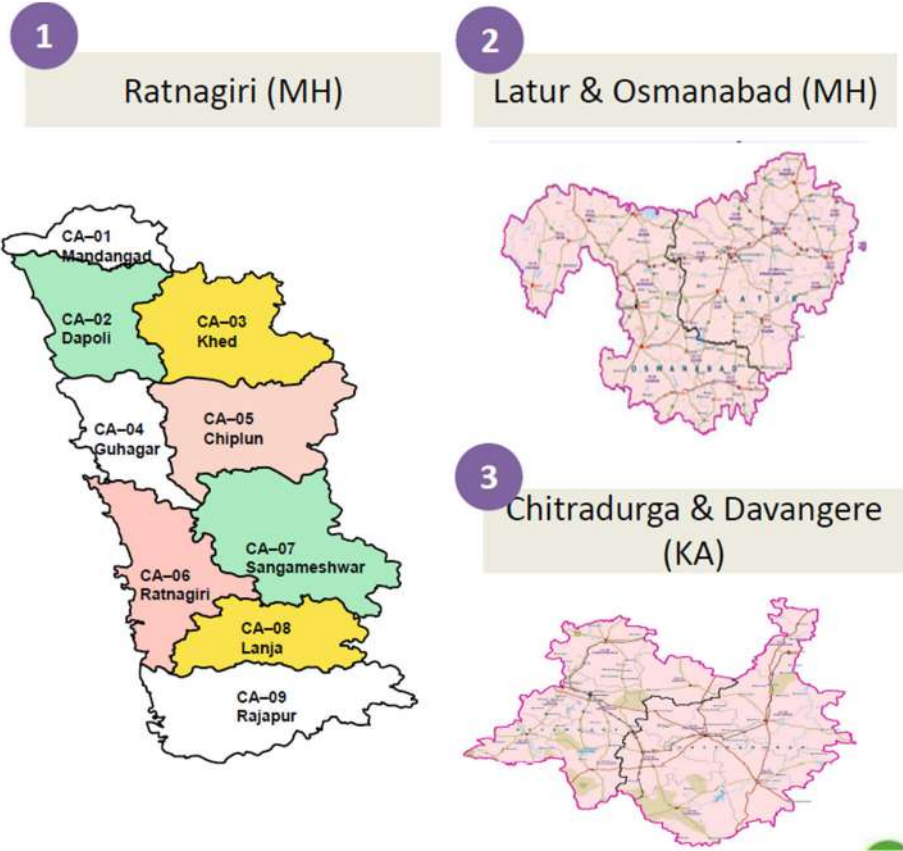
- Unison Enviro's (UEPL) infrastructure and customer base:** As of Mar'24, consists of a total of 56 CNG stations spread across Ratnagiri, Latur/Usmanabad, and Chitradurga. The total pipeline network includes 17.4km of steel pipelines and 248.8km of PE pipelines. In terms of customers, UEPL caters to over 26,998 MAHGL PNG connections, 28,703 CNG vehicles, and 57 industrial and commercial (I&C) customers. Currently doing 1.3lakh scm/d in volumes which is expected to grow by 10%.
- UEPL Exclusivity:** In the geographical areas of Ratnagiri District, Latur & Osmanabad Districts, and Chitradurga & Davanagere Districts, the respective authorizations for marketing and infrastructure exclusivity are in place. Ratnagiri District in Maharashtra, authorized on 9th Aug'16, has marketing exclusivity until 8th Aug'23 and infrastructure exclusivity until 8th Aug'41. The Latur & Osmanabad Districts in Maharashtra, authorized on 24th Sep'18, enjoy marketing exclusivity until 23rd Sep'28 and infrastructure exclusivity until 23rd Sep'43. Similarly, Chitradurga & Davanagere Districts in Karnataka, authorized on 25th Sep'18, have marketing exclusivity until 24th Sep'28 and infrastructure exclusivity until 24th Sep'43.

Exhibit 4: Infrastructure and Customer Base as on March 31, 2024 (UEPL)

Location	CNG Stations (Nos.)	Steel Pipeline Length (km)	PE Pipeline Length (km)	MAHGL PNG Connections (Nos.)	CNG Vehicles (Nos.)	I&C Customer (Nos.)
Ratnagiri	21	0.4	102.3	20,181	12,752	54
Latur/Usmanabad	19	12.1	48.2	2,826	11,296	2
Chitradurga	16	4.9	98.3	3,991	4,655	1
Total	56	17.4	248.8	26,998	28,703	57

Source: Company, YES Sec

Exhibit 5: UEPL Geographical Area (GAs)



Source: Company, YES Sec

- Natural Gas Under GST:** The inclusion of natural gas under GST is anticipated by 2025, promising significant advantages for consumers. With the application of GST, the benefit is expected to be passed on to consumers, leveraging Input Tax Credit to potentially offer better prices. Industrial and commercial customers may also benefit from the ability to claim ITC, reducing the cost of gas and enhancing competitiveness against other fuels. While the exact quantification of these benefits is challenging, overall, the move is projected to yield numerous advantages. Management's estimation suggests that a GST rate of 12% is most likely, although a 6% rate would be optimal for all stakeholders.

Exhibit 6: CNG fuel economics

CNG fuel economics vs Petrol and Diesel	
Fuel Economics	
Petrol RSP (Rs/ltr)	104.2
Diesel RSP (Rs/ltr)	92.2
CNG RSP (Rs/kg) - current	73.5
CNG at 12% GST	70.1
Mileage	
Petrol (Km/ltr)	12.0
Diesel (Km/ltr)	16.0
CNG (Km/Kg)	20.0
Running Cost (Rs/km)	
Petrol (Km/ltr)	8.68
Diesel (Km/ltr)	5.76
CNG (Km/Kg) - current	3.68
CNG at 12% GST	3.51

Source: Company, YES Sec

Savings using CNG (Rs/km)	
At current CNG price	
Over Petrol	5.01
% Discount over Petrol	(57.7)
Over Diesel	2.1
% Discount over Diesel	(36.2)
At 12% GST CNG price	
Over Petrol	5.18
% Discount over Petrol	(59.6)
Over Diesel	2.3
% Discount over Diesel	(39.1)

- LNG:** MAHGL formed a JV with Baidyanath LNG for LNG infrastructure development. The joint venture aims to cater to the rising demand for clean and sustainable energy solutions, particularly in the long-haul and close loop transportation segments, contributing to the decarbonization of the trucking industry. It aims to establish 5-6 LNG stations annually. Currently, it offers LNG at a competitive 18-20% discount to diesel, yielding favorable gross margins. With each setup costing between Rs50-60mn, the initial commitment amounts to Rs200mn, with one set to be commissioned in Aurangabad next month. This aggressive market entry strategy aims to capture market volume, leveraging the exclusivity of LNG-powered vehicles once on the road. IPCO, a Swedish company, is a key supplier of LNG trucks, collaborating with major Indian manufacturers like Ashok Leyland, Volvo Eicher, and Tata. India targets 50 LNG trucks in 2024, primarily concentrated in Maharashtra.

Exhibit 7: LNG vehicle economics

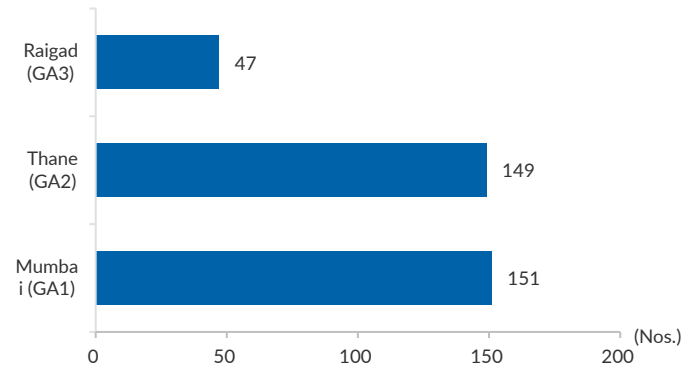
LNG price build up (USD/mmBtu)					
FOB	9.0	10.0	11.0	12.0	13.0
Shipping cost	1.0	1.0	1.0	1.0	1.0
Customs (%)	2.5	2.5	2.5	2.5	2.5
CIF	10.3	11.3	12.3	13.3	14.4
City gate delivered price	12.2	13.2	14.2	15.2	16.3
Excise (%)	14.0	14.0	14.0	14.0	14.0
Price for consumer	13.9	15.0	16.2	17.4	18.5
Price for consumer (USD/kg)	0.66	0.72	0.77	0.83	0.89
Exchange rate (Rs/USD)	83.0	83.0	83.0	83.0	83.0
Price for consumer (Rs/kg)	54.9	59.6	64.2	68.9	73.5
Assumed Margins (Rs/kg)	6.0	6.0	6.0	6.0	6.0
Net Selling price (Rs/kg)	60.9	65.6	70.2	74.9	79.5
Diesel Price in Mumbai (Rs/ltr)	92.2	92.2	92.2	92.2	92.2
LNG Discount to Diesel (%)	-33.9%	-28.8%	-23.8%	-18.8%	-13.7%

Source: Company, YES Sec

- Other Subsidiaries:** Mahanagar LNG Private Limited (MLPL), a subsidiary of the company, was incorporated on 26th Dec'23, with an investment of Rs51mn (51% Equity) to set up LNG stations and supply LNG to vehicles. Additionally, MAHGL has invested in 3EV Industries Private Limited (3EV), a manufacturer of 3-wheeler cargo and passenger electric vehicles. To date, Rs500mn has been invested, with a total commitment of Rs960mn for an equity holding of approximately 30%.
- Capex:** In FY25, a capex plan of Rs10bn is earmarked, with Rs8bn allocated for core business and an additional Rs2bn dedicated to UEPL, divided across three phases which will focus on expanding infrastructure, including the addition of 30 new stations, installation of steel pipelines, and enhancing the PNG network to meet the Minimum Work Program (MWP) requirements.

STORY IN CHARTS

Exhibit 8: CNG Stations (nos)



Source: Company, YES Sec

Exhibit 9: CNG Vehicles (nos)

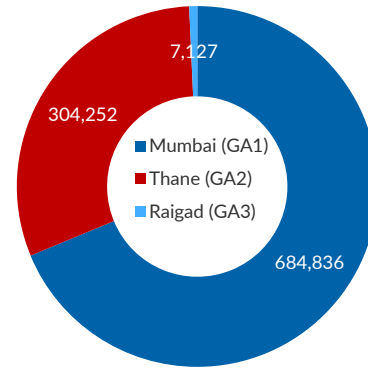
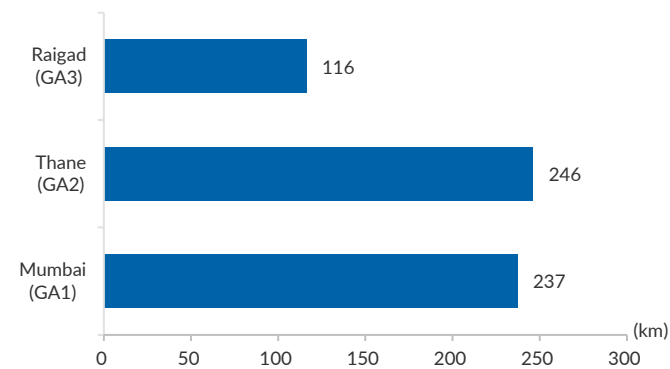


Exhibit 10: Steel Pipeline Length (kms)



Source: Company, YES Sec

Exhibit 11: MAHGL PNG Connections (nos)

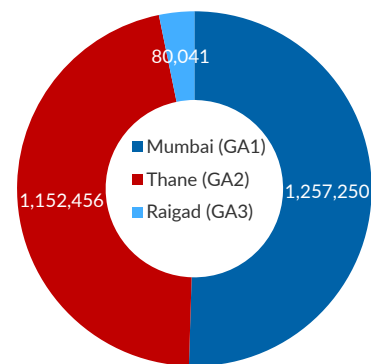
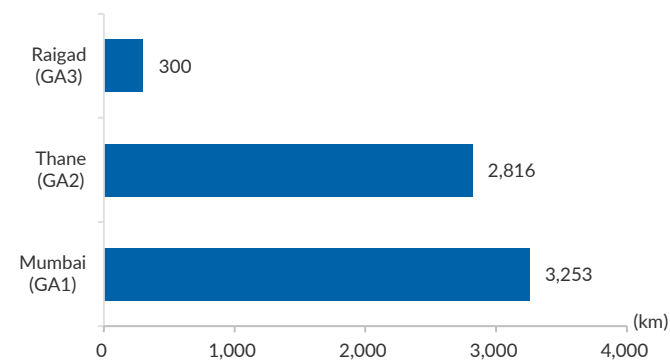


Exhibit 12: PE Pipeline Length (kms)



Source: Company, YES Sec

Exhibit 13: I&C Customers (nos)

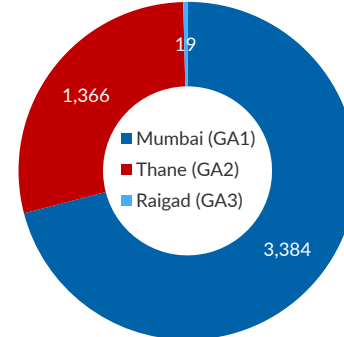
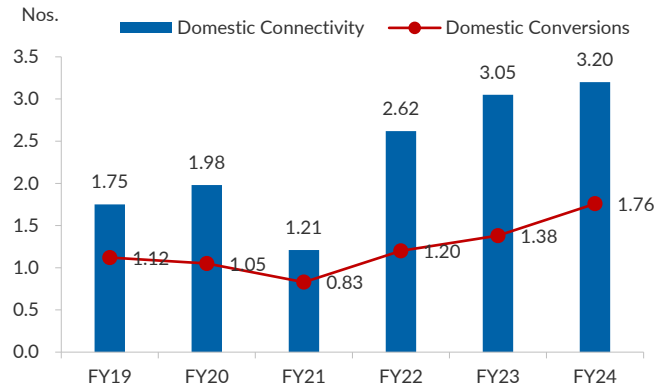


Exhibit 14: Domestic Connectivity & Conversions (nos)



Source: Company, YES Sec

Exhibit 15: Vehicle Conversion & New ROs (nos)

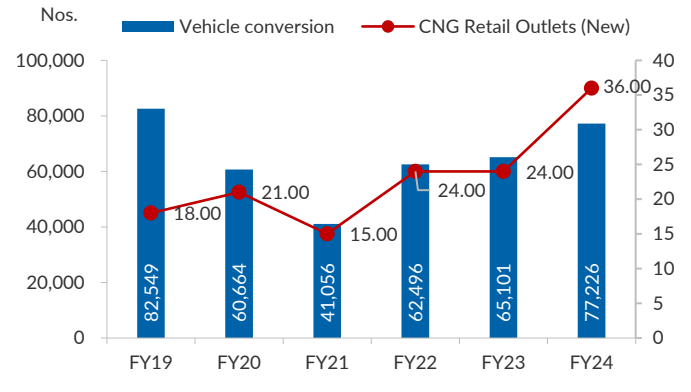
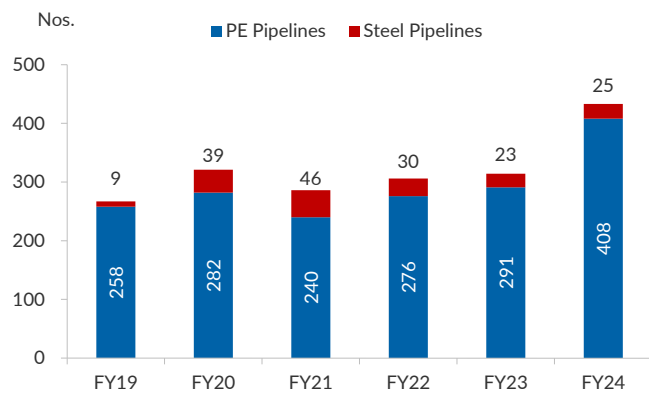


Exhibit 16: PE & Steel Pipelines (kms)



Source: Company, YES Sec

Exhibit 17: Priority Allocation vs Demand (mmscmd)

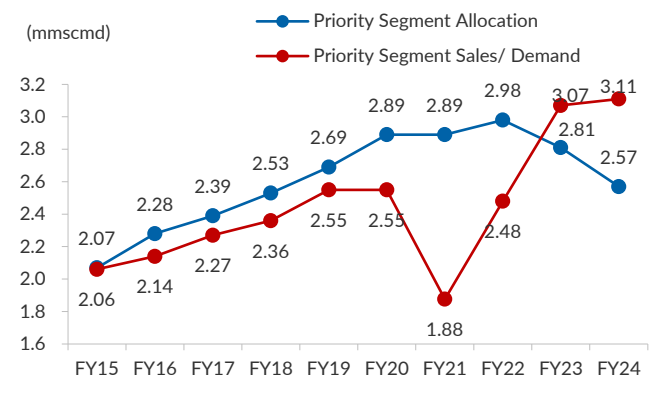


Exhibit 18: I&C Customers (nos)

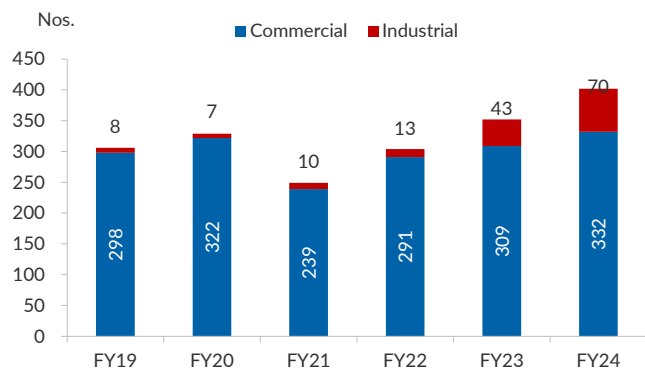
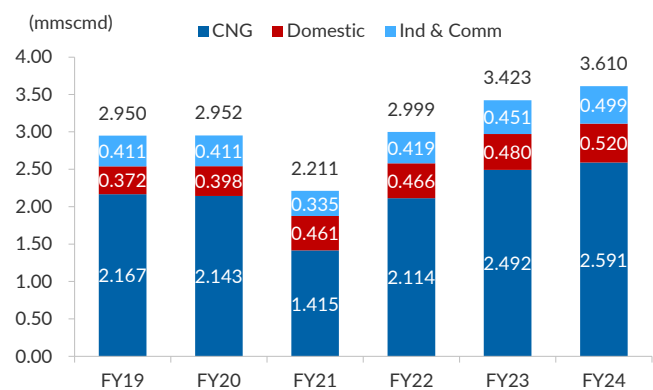


Exhibit 19: Volume Breakdown (mmscmd)



Source: Company, YES Sec

VIEW & VALUATIONS

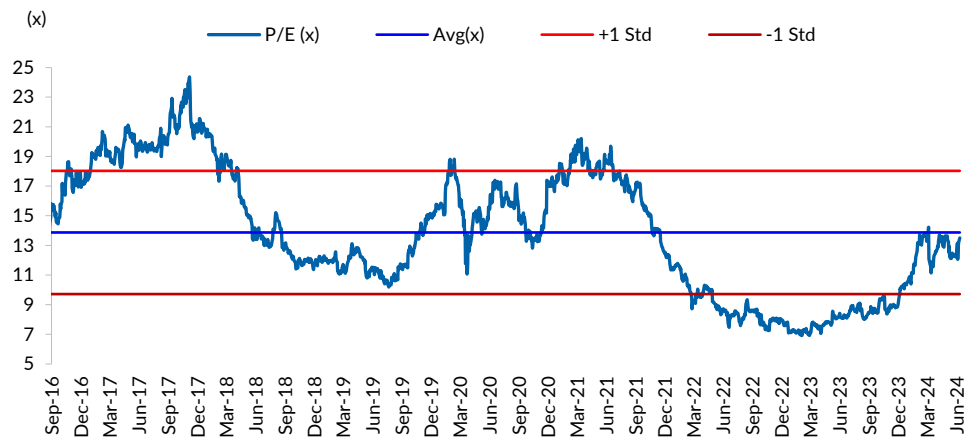
Maintain BUY with a Revised target price of Rs 1,730/sh

We expect a 6.2% volume CAGR over FY24-26 with a spread of Rs 11/scm. The stock is trading at 12.9x/12.2x PER FY25e/26e. We maintain a BUY on the stock with a revised TP of Rs 1,730/shr (from earlier Rs 1,560). The increase is on a higher PER (x) multiple revised from 13.5x to 15x in line with to that of Indraprastha Gas Ltd (IGL) which has a similar volume growth profile and prefer Mahanagar Gas (MAHGL) in the CGD space.

Exhibit 20: Valuation table

Valuation	FY26E
EPS (Rs)	115.4
PER (x)	15
Target (PER based)	1,730

Exhibit 21: PER (x) band, one-year-forward



Source: Company, YES Sec

FINANCIALS

Exhibit 22: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	35,602	62,993	62,445	65,051	70,123
Total Expense	26,359	51,151	44,019	49,650	53,693
Operating Profit	9,243	11,842	18,426	15,401	16,430
Other Income	857	1,119	1,753	1,841	1,933
Depreciation	1,963	2,311	2,736	2,928	3,133
EBIT	8,138	10,649	17,443	14,314	15,230
Interest	75	94	115	-	-
Extraordinary Item	-	-	-	-	-
PBT	8,063	10,555	17,328	14,314	15,230
Tax	2,093	2,655	4,437	3,603	3,833
PAT	5,970	7,901	12,891	10,711	11,397
Adj. PAT	5,970	7,901	12,891	10,711	11,397
Eps	60.4	80.0	130.5	108.4	115.4

Exhibit 23: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	988	988	988	988	988
Reserves	34,985	40,354	50,441	58,188	66,621
Net worth	35,973	41,342	51,429	59,176	67,608
Debt	-	-	-	-	-
Deferred tax liab (net)	2,008	2,086	2,441	2,441	2,441
Capital Employed	37,981	43,428	53,870	61,617	70,049
Fixed assets	30,793	35,455	41,005	48,285	56,152
Investments	10,883	13,098	10,188	10,188	10,188
Net working capital	(3,694)	(5,125)	2,677	3,144	3,709
Inventories	275	338	398	415	447
Sundry debtors	1,840	2,940	2,806	2,923	3,151
Cash & Bank Balance	4,652	2,279	3,985	4,769	5,366
Other current assets	3,896	6,212	13,878	13,878	13,878
Sundry creditors	2,719	3,222	3,342	3,793	4,084
Other liabilities	11,638	13,673	15,049	15,049	15,049
Application of Funds	37,981	43,428	53,870	61,617	70,049

Exhibit 24: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	8,063	10,555	17,328	14,314	15,230
Depreciation & amortization	1,963	2,311	2,736	2,928	3,133
Interest expense	(384)	(336)	(269)	-	-
(Inc)/Dec in working capital	1,652	134	907	317	31
Tax paid	(2,122)	(2,638)	(4,240)	(3,603)	(3,833)
Less: Interest/Dividend Income Received	-	-	-	-	-
Other operating Cash Flow	(135)	(334)	(831)	-	-
Cash flow from operating activities	9,037	9,693	15,631	13,956	14,560
Capital expenditure	(6,473)	(7,127)	(7,698)	(10,208)	(11,000)
Inc/(Dec) in investments	(357)	(1,748)	3,769	-	-
Add: Interest/Dividend Income Received	1,440	2,384	(8,739)	-	-
Cash flow from investing activities	(5,391)	(6,491)	(12,668)	(10,208)	(11,000)
Inc/(Dec) in share capital	-	-	-	-	-
Inc/(Dec) in debt	(290)	(330)	(350)	-	-
Dividend Paid	(2,810)	(2,518)	(2,766)	(2,964)	(2,964)
Others	(4)	-	-	-	-
Cash flow from financing activities	(3,103)	(2,848)	(3,116)	(2,964)	(2,964)
Net cash flow	542.8	354.2	(152.1)	784.6	596.2

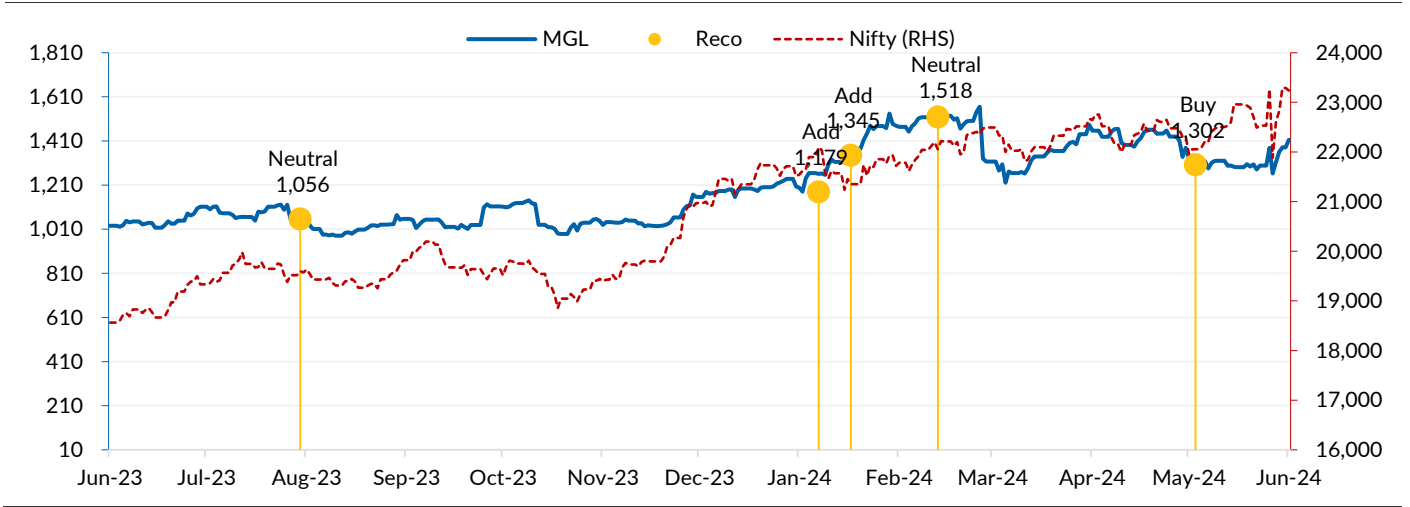
Exhibit 25: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	0.7	0.7	0.7	0.7	0.7
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
EBIT margin (x)	0.2	0.2	0.3	0.2	0.2
Asset turnover (x)	0.7	1.1	0.9	0.9	0.8
Financial leverage (x)	1.4	1.5	1.4	1.4	1.3
RoE (%)	17.5	20.4	27.8	19.4	18.0

Exhibit 26: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Revenue growth	65.4	76.9	(0.9)	4.2	7.8
Op profit growth	(1.0)	28.1	55.6	(16.4)	6.7
EBIT growth	(3.2)	30.9	63.8	(17.9)	6.4
Net profit growth	(3.7)	32.3	63.2	(16.9)	6.4
Profitability ratios (%)					
OPM	26.0	18.8	29.5	23.7	23.4
EBIT margin	22.9	16.9	27.9	22.0	21.7
Net profit margin	16.8	12.5	20.6	16.5	16.3
RoCE	22.6	26.2	35.9	24.8	23.1
RoE	17.5	20.4	27.8	19.4	18.0
RoA	12.1	14.0	19.4	14.0	13.4
Per share ratios					
EPS	60.4	80.0	130.5	108.4	115.4
Dividend per share	23.5	26.0	30.0	30.0	30.0
Cash EPS	80.3	103.4	158.2	138.0	147.1
Book value per share	364.1	418.4	520.5	598.9	684.3
Valuation ratios					
P/E	23.3	17.6	10.8	13.0	12.2
P/CEPS	17.6	13.6	8.9	10.2	9.6
P/B	3.9	3.4	2.7	2.4	2.1
EV/EBIDTA	14.6	11.6	7.3	8.7	8.2
Payout (%)					
Dividend payout	38.9	32.5	23.0	27.7	26.0
Tax payout	26.0	25.2	25.6	25.2	25.2
Liquidity ratios					
Debtor days	17.3	15.5	14.9	14.9	14.9
Inventory days	4.4	2.5	3.7	3.6	3.6
Creditor days	48.5	26.5	33.7	33.7	33.7

Recommendation Tracker



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