

# Mahanagar Gas

Estimate change 

TP change 

Rating change 

**CMP: INR1,267**

**TP: INR1,850 (+46%)**

**BUY**

## Remains the preferred play among CGDs

- MAHGL's standalone performance was in line with estimates in 3Q amid steady margins and strong volume growth (both in line with estimates). While CNG volumes were 4% below our estimates, I&C-PNG volumes came in 18% above estimates. The impact of APM twin de-allocation was clearly visible as margins declined INR2.4/scm QoQ. Spot LNG prices have remained high, averaging ~USD14/mmbtu, over the past four months and are expected to remain elevated in the mid-term.
- While margins are likely to remain under pressure in 4Q amid high Spot LNG prices, MAHGL has also entered into long-term gas contracts to reduce the impact. The management has guided for 4Q margins to be better than 3Q, as the impact of price hikes taken in Nov'24 and Jan'25 will be fully visible.
- MAHGL currently trades at 11.5x FY26E P/E, which we think is inexpensive. We reiterate BUY on the stock with a TP of INR1,850, based on 16x Dec'26E EPS.

Bloomberg	MAHGL IN
Equity Shares (m)	99
M.Cap.(INRb)/(USDb)	125.2 / 1.4
52-Week Range (INR)	1989 / 1075
1, 6, 12 Rel. Per (%)	5/-24/-17
12M Avg Val (INR M)	1131

### Financials & Valuations (INR b)

Y/E March	FY25E	FY26E	FY27E
Sales	68.7	70.0	73.7
EBITDA	14.9	16.1	17.2
Adj. PAT	10.3	10.9	11.6
Adj. EPS (INR)	104.7	110.3	117.6
EPS Gr. (%)	-20.9	5.4	6.6
BV/Sh.(INR)	583.4	649.6	720.2

### Ratios

Net D:E	-0.1	-0.1	-0.1
RoE (%)	19.0	17.9	17.2
RoCE (%)	18.9	17.6	17.0
Payout (%)	40.0	40.0	40.0

### Valuation

P/E (x)	12.1	11.5	10.8
P/BV (x)	2.2	2.0	1.8
EV/EBITDA (x)	8.1	7.5	7.0
Div. Yield (%)	3.3	3.5	3.7
FCF Yield (%)	2.4	2.1	3.1

### Shareholding Pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	32.5	32.5	32.5
DII	31.1	25.5	27.2
FII	25.8	34.2	30.9
Others	10.6	7.8	9.4

FII includes depository receipts

## Robust volume growth guidance amid steady margin

- Management expects ~12.5%-13% YoY growth in volumes in FY25. Further, it has guided for 10% YoY volume growth for FY26, with CNG being the key growth driver. EBITDA margins are expected to range between INR9 and INR11 per scm moving forward.
- During the earnings call, management highlighted that volume growth guidance could have upside risk in the long term, should CNG penetration in Mumbai and adjoining areas increase significantly due to government initiatives aimed at reducing pollution. According to a [media article](#), the Bombay High Court took suo motu cognizance and filed a PIL concerning the worsening pollution crisis in the city and its suburbs. Management stated that phasing out MS/HSD vehicles over the long term could be a key action resulting from this development.

## Other key takeaways from the conference call

- In 9MFY25, the company had incurred a capex of ~INR6.5b (INR2b-INR2.5b to be incurred in 4Q). Major capex is being spent on steel and low-pressure pipelines.
- UEPL generates cash EBITDA of INR550m per annum.
- The company expects an APM cut of around 5-7% in Apr'25.
- MAHGL is expected to have an INR0.25 margin impact for every INR1/USD change in the exchange rate.

## Standalone performance in line; UEPL's EBITDA declines sequentially QoQ

### Standalone

- Total volumes were in line with est. at 4.1mmscmd (+12% YoY).
- While CNG volumes were marginally below our estimates, I&C-PNG volumes came in 18% above estimates.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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- EBITDA/scm came in line with our estimate at INR8.3 (-38% YoY). Gas costs and other expenses were higher QoQ.
- The resultant standalone EBITDA was in line with our estimate at INR3.1b (-30% YoY).
- While other income was higher than expected, depreciation also exceeded our estimates.
- Hence, PAT came in line with our estimate at INR2.3b (our est. INR2.2b, -29% YoY).
- Consolidated figures include Unison Enviro Private Limited (UEPL).
- In 3QFY25, net sales stood at INR18.5b (+3% QoQ).
- EBITDA stood at INR3.3b (-21% QoQ), led by a decline in margins and higher employee benefits expenses QoQ.
- On a QoQ basis, UEPL's EBITDA declined sharply (-30% QoQ) in 3QFY25, leading to lower consolidated EBITDA QoQ.
- The Board has declared an interim dividend of INR12/share (FV INR10). The record date has been set for 3<sup>rd</sup> Feb'25.

#### Valuation and view

- During the quarter, MAHGL connected 98,469 domestic households and added 83 PNG-I/C customers. The company has also added 83 industrial and commercial customers, bringing the total count to 4,974.
- We expect a 9% CAGR in volume over FY24-27, driven by multiple initiatives implemented by the company, such as collaborating with OEMs to drive conversions of commercial CNG vehicles and providing guaranteed price discounts to new I/C-PNG customers.
- The stock trades at 11.5x FY26E EPS of INR110.3. We value it at 16x Dec'26E EPS to arrive at our TP of INR1,850. **Reiterate BUY.**

#### Standalone - Quarterly Earning Model

Y/E March	FY24				FY25				FY24	FY25	FY25	(INR m)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	Var. (%)
<b>Net Sales</b>	<b>15,378</b>	<b>15,709</b>	<b>15,688</b>	<b>15,671</b>	<b>15,896</b>	<b>17,116</b>	<b>17,576</b>	<b>18,066</b>	<b>62,445</b>	<b>68,655</b>	<b>17,782</b>	<b>-1%</b>
YoY Change (%)	5.7	0.5	-6.1	-2.7	3.4	9.0	12.0	15.3	-0.9	9.9	13.3	
<b>EBITDA</b>	<b>5,213</b>	<b>4,789</b>	<b>4,487</b>	<b>3,938</b>	<b>4,185</b>	<b>3,985</b>	<b>3,144</b>	<b>3,538</b>	<b>18,426</b>	<b>14,852</b>	<b>3,239</b>	<b>-3%</b>
EBITDA/SCM	16.8	14.6	13.3	11.5	11.9	10.7	8.3	9.2	13.9	10.0	8.5	-2%
Margins (%)	33.9	30.5	28.6	25.1	26.3	23.3	17.9	19.6	29.5	21.6	18.2	
Depreciation	620	658	683	775	719	735	791	775	2,736	3,019	742	
Interest	25	25	27	38	31	31	34	29	115	124	31	
Other Income	390	437	481	446	402	512	463	485	1,753	1,861	446	
<b>PBT</b>	<b>4,957</b>	<b>4,543</b>	<b>4,258</b>	<b>3,570</b>	<b>3,837</b>	<b>3,731</b>	<b>2,782</b>	<b>3,219</b>	<b>17,328</b>	<b>13,569</b>	<b>2,912</b>	<b>-4%</b>
Tax	1,273	1,158	1,086	920	992	903	529	806	4,437	3,229	733	
Rate (%)	25.7	25.5	25.5	25.8	25.8	24.2	19.0	25.0	25.6	23.8	25.2	
<b>Reported PAT</b>	<b>3,684</b>	<b>3,385</b>	<b>3,172</b>	<b>2,650</b>	<b>2,845</b>	<b>2,828</b>	<b>2,254</b>	<b>2,413</b>	<b>12,891</b>	<b>10,340</b>	<b>2,179</b>	<b>3%</b>
YoY Change (%)	98.9	106.4	84.3	-1.4	-22.8	-16.5	-28.9	-9.0	63.2	-19.8	-31.3	
Margins (%)	24.0	21.5	20.2	16.9	17.9	16.5	12.8	13.4	20.6	15.1	12.3	
<b>Sales Volumes (mmscmd)</b>												
CNG	2.5	2.6	2.6	2.7	2.8	2.9	2.9	3.0	2.6	2.9	3.0	-4%
PNG - Domestic	0.5	0.5	0.5	0.6	0.5	0.5	0.6	0.6	0.5	0.6	0.6	-3%
PNG - Industrial/ Commercial	0.4	0.5	0.5	0.6	0.5	0.6	0.6	0.6	0.5	0.6	0.5	18%
PNG - Total	0.9	1.0	1.0	1.1	1.1	1.2	1.2	1.2	1.0	1.2	1.1	7%
<b>Total Volumes</b>	<b>3.4</b>	<b>3.6</b>	<b>3.7</b>	<b>3.8</b>	<b>3.9</b>	<b>4.0</b>	<b>4.1</b>	<b>4.3</b>	<b>3.6</b>	<b>4.1</b>	<b>4.1</b>	<b>-1%</b>

## Operational highlights

Operational Highlights	1Q FY22	2Q FY22	3Q FY22	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	4Q FY24	1Q FY25	2Q FY25	3Q FY25	QoQ (%)
CNG (mmscmd)	1.6	2.2	2.4	2.3	2.5	2.5	2.5	2.4	2.5	2.6	2.6	2.7	2.8	2.9	2.9	1%
Growth YoY (%)	223%	75%	27%	13%	64%	14%	3%	6%	-2%	2%	6%	11%	12%	12%	11%	
PNG (mmscmd)	0.8	0.9	0.9	0.9	0.9	0.9	0.9	1.0	0.9	1.0	1.0	1.1	1.1	1.2	1.2	4%
Growth YoY (%)	34%	12%	3%	3%	7%	3%	3%	8%	2%	8%	11%	16%	17%	17%	15%	
Total Volumes (mmscmd)	2.4	3.1	3.3	3.2	3.4	3.5	3.4	3.4	3.4	3.6	3.7	3.8	3.9	4.0	4.1	2%
Growth YoY (%)	115%	51%	19%	10%	44%	11%	3%	6%	-1%	3%	8%	12%	13%	13%	12%	
EBITDA/SCM (INR)	13.9	10.5	3.4	7.6	9.1	7.9	8.2	12.8	16.8	14.6	13.3	11.5	11.9	10.7	8.3	-23%
Growth YoY (%)	76%	-9%	-73%	-38%	-35%	-24%	140%	70%	84%	83%	63%	-11%	-29%	-26%	-38%	



## Highlights from the management commentary

## 3QFY25 performance:

- Domestic household connections increased 98,469, bringing the total connectivity to 2.68m households.
- The company has laid 99km of steel and PE pipeline, bringing the total length to 7,224 km.
- It has added 9 CNG stations, bringing the total number to 361.
- The company has added 83 industrial and commercial customers, bringing the total count to 4,974.
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## Volume guidance:

- 12.5%-13% YoY growth is expected in FY25. Additionally, at least 10% YoY growth can be expected in FY26, with CNG being the key growth driver.

## Margin guidance and price hikes:

- Price hikes in Nov and Jan are likely to support margins, and no further price hikes will be required.
- While 4Q margins are expected to be higher than 3Q margins, they may not be as high as INR12/scm.
- Going forward, margins are expected to be between INR9 and INR11 per scm.

## APM gas allocation:

- ~50% - CNG APM allocation
  - 15mmscmd-16mmscmd of ONGC's total gas allocated as APM to the CGD sector
- 100% - D-PNG allocation
  - A cut of around 5-7% expected in the APM allocation in the next meeting
  - Next domestic gas de-allocation/re-allocation to occur in April

## Current gas portfolio:

- 1.5mmscmd APM, 0.5mmscmd domestic gas**
  - 1.45mmscmd Henry Hub based (current pricing ~USD9.5-USD10.5 per mmbtu)
  - 0.5mmscmd HPHT gas (~USD11/mmbtu)
  - 0.1mmscmd - RIL contract
  - 0.25mmscmd NW gas expected
  - Brent linked gas costs ~7.5mmbtu as of now

## Capex:

- In 9MFY25, the company incurred a capex of ~INR6.5b (INR2b-INR2.5b to be incurred in 4Q). Major capex is being spent on steel and low-pressure pipelines.
- UEPL capex for FY25: INR1.3b-INR1.5b; INR2.5b-INR3b in FY26.

**UEPL:**

- UEPL revenue stood at INR1b and net profit came in at INR13m.
- UEPL generates cash EBITDA of INR550m per annum.
- It expects volume growth of around 20%.
- Tax losses of INR350m are available in the books of UEPL.
- In 3Q, it achieved overall sales volumes of 0.192mmcmd (+17.38% YoY).
- In 9M, it achieved average sales volume of 0.175mmcmd.
- CNG sales volume stood at 0.162mmcmd.
- PNG sales volume was 0.013mmcmd.

**Forex risk:**

- The gas purchased is not hedged.
- INR0.25 impact per INR1/USD change in the exchange rate.

**GA-wise sales volume breakup:**

- 9mFY25 average breakup: 1.92/1.85/0.25mmcmd for GA1/GA2/GA3.
- GA3 experienced growth of ~50% YoY; GA2 experienced double digits while GA1 was in the normal range of 4-5%.
- Zone-wise tariff break-up: 40/80/108 per mmbtu for Zone1/Zone2/Zone3.

**Phasing out of MS/HSD vehicles from the Mumbai metro region:**

- The Bombay High Court has set up a committee to prepare a report for the same.
- If things remain in favor of CNG, MAHGL could see a 15-20% volume growth.
- The Commercial Vehicle (CV) segment could be a key driver, as the current CV CNG penetration is only 9.5-10%.
- Large commercial vehicles/small commercial vehicles consume 30kg/7.5kg of gas per day.

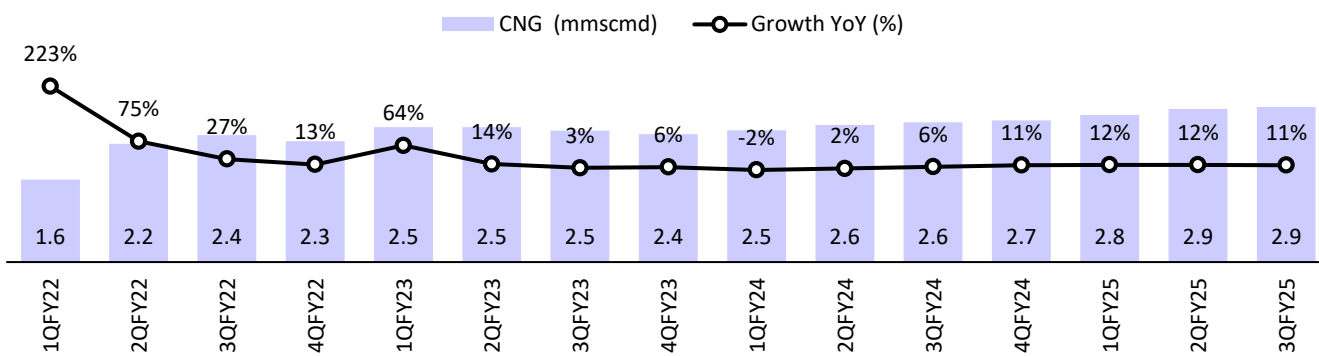
**EV cell/battery business:**

- Total capex: INR8.8b (40% equity)
- 1GW project to be completed in 1.5 years
- Tentative revenue: INR10b/GW
- Plans to increase the same to 5GW

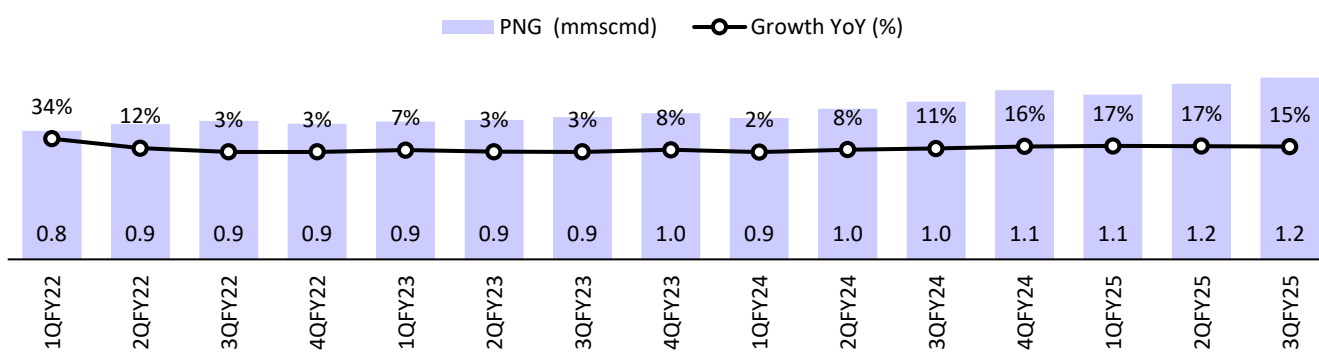
**Mahanagar LNG:**

- The company commissioned its first LNG station in Aurangabad in Oct'24 and sold 91 tons of LNG during the quarter.

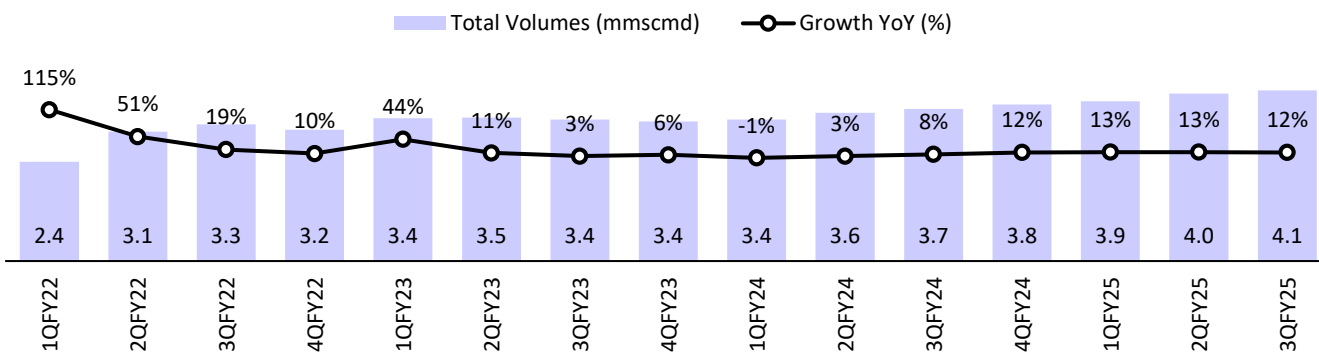
**Exhibit 1: CNG volumes up 11% YoY to 2.9mmscmd**



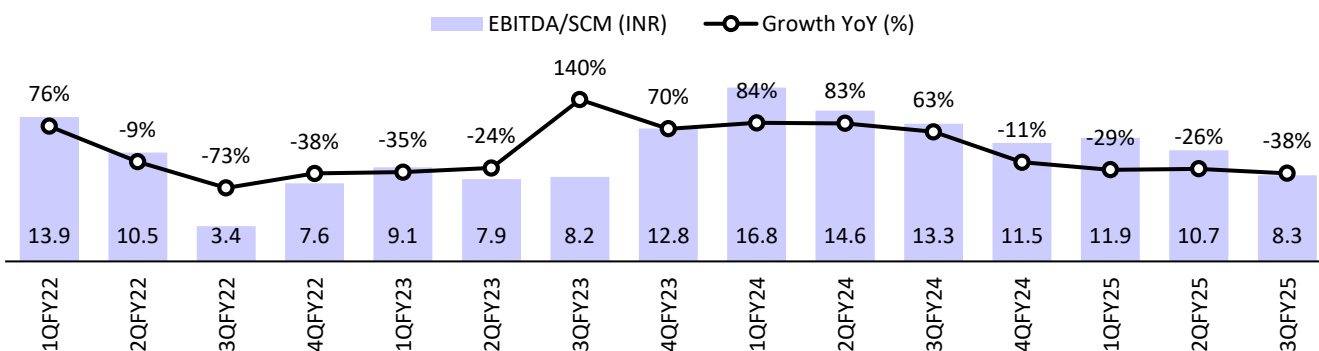
**Exhibit 2: PNG volumes up 15% YoY to 1.2mmscmd**



**Exhibit 3: Total volumes up 12% YoY to 4.1mmscmd**



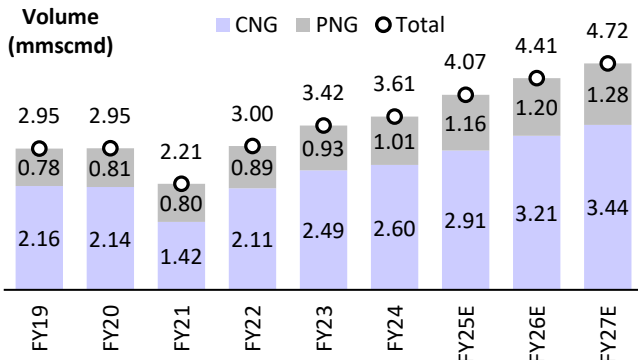
**Exhibit 4: EBITDA/scm at INR8.3 (down 38% YoY)**



Source: Company, MOFSL

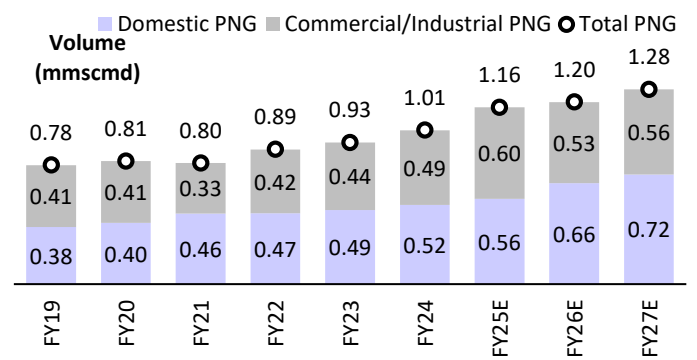
## Story in charts

**Exhibit 5: Volume growth snapshot**



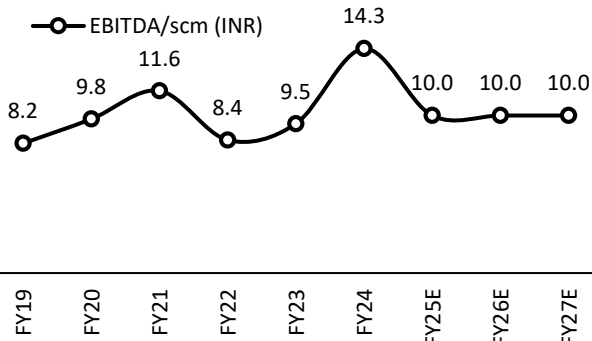
Source: Company, MOFSL

**Exhibit 6: PNG segment-wise volumes**



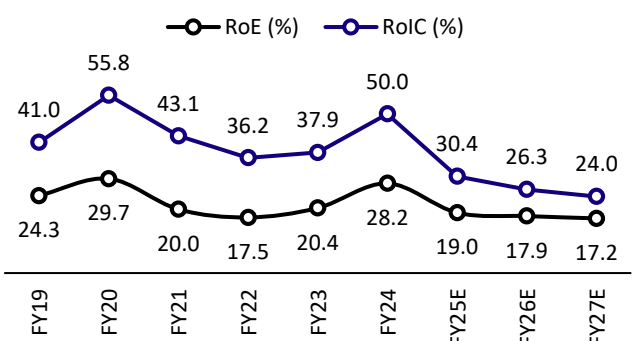
Source: Company, MOFSL

**Exhibit 7: EBITDA/scm snapshot**



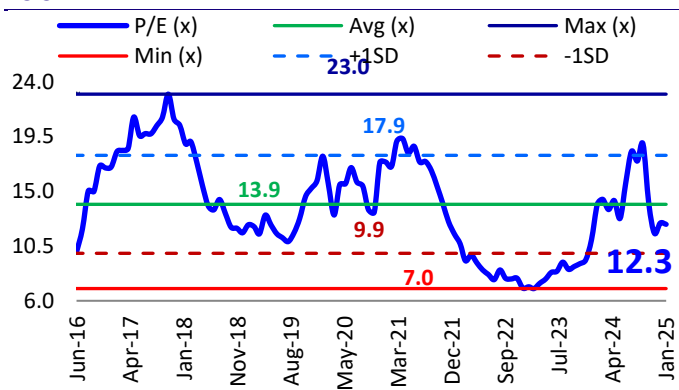
Source: Company, MOFSL

**Exhibit 8: Return ratios for MAHGL**



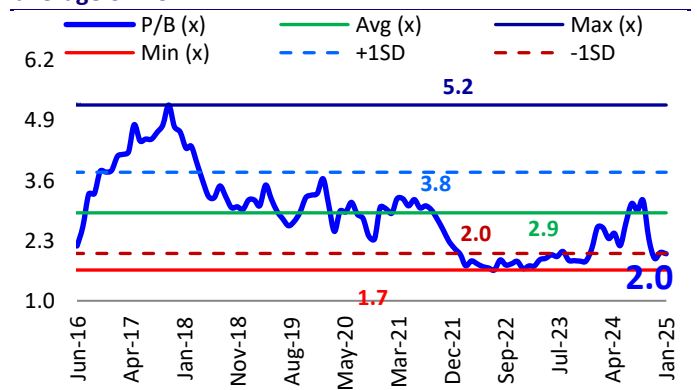
Source: Company, MOFSL

**Exhibit 9: 1-year fwd P/E trades at 12.3, with LT average of 13.9x...**



Source: Company, MOFSL

**Exhibit 10: ...and 1-year fwd P/B trades at 2x, with LT average of 2.9x**



Source: Company, MOFSL

## Financials and valuations

Standalone - Income Statement					(INR m)
Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Total Income from Operations</b>	<b>62,993</b>	<b>62,445</b>	<b>68,655</b>	<b>70,020</b>	<b>73,662</b>
Change (%)	76.9	-0.9	9.9	2.0	5.2
<b>EBITDA</b>	<b>11,842</b>	<b>18,426</b>	<b>14,852</b>	<b>16,101</b>	<b>17,227</b>
Margin (%)	18.8	29.5	21.6	23.0	23.4
Depreciation	2,311	2,631	3,019	3,288	3,511
<b>EBIT</b>	<b>9,531</b>	<b>15,795</b>	<b>11,833</b>	<b>12,813</b>	<b>13,717</b>
Int. and Finance Charges	94	110	124	133	148
Other Income	1,119	1,822	1,861	1,885	1,959
<b>PBT bef. EO Exp.</b>	<b>10,555</b>	<b>17,507</b>	<b>13,569</b>	<b>14,565</b>	<b>15,528</b>
<b>PBT after EO Exp.</b>	<b>10,555</b>	<b>17,507</b>	<b>13,569</b>	<b>14,565</b>	<b>15,528</b>
Total Tax	2,655	4,437	3,229	3,666	3,908
Tax Rate (%)	25.2	25.3	23.8	25.2	25.2
<b>Reported PAT</b>	<b>7,901</b>	<b>13,070</b>	<b>10,340</b>	<b>10,899</b>	<b>11,620</b>
<b>Adjusted PAT</b>	<b>7,901</b>	<b>13,070</b>	<b>10,340</b>	<b>10,899</b>	<b>11,620</b>
Change (%)	32.3	65.4	-20.9	5.4	6.6
Margin (%)	12.5	20.9	15.1	15.6	15.8

Standalone - Balance Sheet					(INR m)
Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	988	988	988	988	988
Total Reserves	40,354	50,441	56,645	63,184	70,156
<b>Net Worth</b>	<b>41,342</b>	<b>51,429</b>	<b>57,632</b>	<b>64,172</b>	<b>71,143</b>
Total Loans	208	231	1,231	1,731	1,231
Deferred Tax Liabilities	2,086	2,441	2,441	2,441	2,441
<b>Capital Employed</b>	<b>43,636</b>	<b>54,101</b>	<b>61,305</b>	<b>68,344</b>	<b>74,816</b>
Gross Block	40,096	47,620	58,315	68,154	78,121
Less: Accum. Deprn.	11,727	14,358	17,377	20,665	24,176
<b>Net Fixed Assets</b>	<b>28,369</b>	<b>33,262</b>	<b>40,938</b>	<b>47,488</b>	<b>53,945</b>
Capital WIP	7,086	7,743	6,049	6,210	6,242
<b>Total Investments</b>	<b>13,098</b>	<b>16,360</b>	<b>16,360</b>	<b>16,360</b>	<b>16,360</b>
Rights to use assets	1,888	2,167	2,167	2,167	2,167
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>9,882</b>	<b>12,728</b>	<b>13,857</b>	<b>14,483</b>	<b>15,402</b>
Inventory	338	398	356	357	373
Account Receivables	2,940	2,806	3,205	3,268	3,438
Cash and Bank Balance	2,279	3,985	5,583	6,051	6,534
Cash	1,179	1,027	2,625	3,093	3,576
Bank Balance	1,100	2,958	2,958	2,958	2,958
Loans and Advances	4,324	5,539	4,713	4,807	5,057
<b>Curr. Liability &amp; Prov.</b>	<b>16,687</b>	<b>18,159</b>	<b>18,065</b>	<b>18,364</b>	<b>19,301</b>
Account Payables	3,222	3,342	3,389	3,396	3,555
Other Current Liabilities	12,967	14,224	14,133	14,414	15,164
Provisions	498	593	542	553	582
<b>Net Current Assets</b>	<b>-6,806</b>	<b>-5,431</b>	<b>-4,208</b>	<b>-3,881</b>	<b>-3,898</b>
<b>Appl. of Funds</b>	<b>43,636</b>	<b>54,101</b>	<b>61,305</b>	<b>68,344</b>	<b>74,816</b>

## Financials and valuations

### Ratios

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Basic (INR)</b>					
<b>EPS</b>	<b>80.0</b>	<b>132.3</b>	<b>104.7</b>	<b>110.3</b>	<b>117.6</b>
Cash EPS	103.4	159.0	135.2	143.6	153.2
BV/Share	418.5	520.6	583.4	649.6	720.2
DPS	26.0	52.9	41.9	44.1	47.1
Payout (%)	32.5	40.0	40.0	40.0	40.0
<b>Valuation (x)</b>					
P/E	15.8	9.6	12.1	11.5	10.8
Cash P/E	12.3	8.0	9.4	8.8	8.3
P/BV	3.0	2.4	2.2	2.0	1.8
EV/Sales	2.0	1.9	1.8	1.7	1.6
EV/EBITDA	10.4	6.6	8.1	7.5	7.0
Dividend Yield (%)	2.1	4.2	3.3	3.5	3.7
FCF per share	26.0	80.2	30.3	26.1	38.7
<b>Return Ratios (%)</b>					
RoE	20.4	28.2	19.0	17.9	17.2
RoCE	20.5	28.2	18.9	17.6	17.0
RoIC	37.9	50.0	30.4	26.3	24.0
<b>Working Capital Ratios</b>					
Fixed Asset Turnover (x)	1.6	1.3	1.2	1.0	0.9
Asset Turnover (x)	1.4	1.2	1.1	1.0	1.0
Inventory (Days)	2	2	2	2	2
Debtor (Days)	17	16	17	17	17
Creditor (Days)	19	20	18	18	18
<b>Leverage Ratio (x)</b>					
Current Ratio	0.6	0.7	0.8	0.8	0.8
Net Debt/Equity	-0.1	-0.1	-0.1	-0.1	-0.1

### Standalone - Cash Flow Statement

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>(INR m)</b>					
OP/(Loss) before Tax	10,555	17,328	13,569	14,565	15,528
Depreciation	2,311	2,736	3,019	3,288	3,511
Direct Taxes Paid	-2,638	-4,240	-3,229	-3,666	-3,908
(Inc)/Dec in WC	134	907	375	141	500
Others	-764	-1,215	-1,861	-1,885	-1,959
<b>CF from Operations</b>	<b>9,693</b>	<b>15,631</b>	<b>11,997</b>	<b>12,576</b>	<b>13,819</b>
(Inc)/Dec in FA	-7,127	-7,709	-9,000	-10,000	-10,000
<b>Free Cash Flow</b>	<b>2,566</b>	<b>7,922</b>	<b>2,997</b>	<b>2,576</b>	<b>3,819</b>
(Pur)/Sale of Investments	-1,748	-65,334	0	0	0
Others	2,384	60,375	1,861	1,885	1,959
<b>CF from Investments</b>	<b>-6,491</b>	<b>-12,668</b>	<b>-7,139</b>	<b>-8,115</b>	<b>-8,041</b>
Dividend Paid	-2,518	-2,766	-4,136	-4,359	-4,648
<b>CF from Fin. Activity</b>	<b>-2,848</b>	<b>-3,116</b>	<b>-3,260</b>	<b>-3,993</b>	<b>-5,296</b>
<b>Inc/Dec of Cash</b>	<b>354</b>	<b>-152</b>	<b>1,598</b>	<b>468</b>	<b>483</b>
Opening Balance	825	1,179	1,027	2,625	3,093
<b>Closing Balance</b>	<b>1,179</b>	<b>1,027</b>	<b>2,625</b>	<b>3,093</b>	<b>3,576</b>

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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