

July 26, 2024

RESULT REPORT Q1 FY25 | Sector: Energy

Mahanagar Gas Ltd

Performance marginally better than expectation on higher EBITDA spreads, while volumes were in line

Our View

Mahanagar Gas Limited (MGL) delivered a marginally better than expected Q1FY25, with a 6.3% QoQ increase in EBITDA to Rs4.2bn and a 7.4% QoQ increase in PAT to Rs2.8bn. Strong CNG volumes with a above normal growth of 11.7% YoY and 4% QoQ while EBITDA spreads were stronger despite price cuts and marginally lower gas cost sequentially. The volumes would grow by 7-8%, but EBITDA spreads should be lower in FY25 as compared to FY24 (peak profitability). We maintain our NEUTRAL rating on the stock given a sharp rally in the stock price, revised TP to Rs 1,860/shr (vs earlier Rs 1,730).

Result Highlights

- Performance:** EBITDA at Rs4.2bn was down 19.7% YoY and up 6.3% QoQ. PAT at 2.8bn was down 22.8% YoY and up 7.4% QoQ. Overall performance was better than consensus estimates and marginally better than ours with CNG volume reaching new highs. EBITDA spreads positively surprised as realizations stood better and opex lower.
- Volumes:** Overall volumes at 3.86mmscmd (vs our est of 3.86) was up 13.1% YoY and 2.1% QoQ. CNG volumes at 2.77mmscmd (new high) vs our est of 2.72, were up 11.7% YoY and 4% QoQ. D-PNG volumes at 0.55mmscmd were up 10.5% YoY but down 2.8% QoQ. Industrial and commercial sales at 0.54mmscmd fell from last quarter's high, is up 23.8% YoY but down 2.1% QoQ.
- Gross realization:** Realizations stood strong at Rs45/scm despite CNG price cut, declining 8.8% YoY and flat QoQ, probably supported from higher industrial PNG realizations. The CNG price was cut by the company on 6-Mar'24 by Rs 2.5/kg to Rs73.5/kg.
- Gross Margins (GM):** The gas cost was flat YoY and down 1.1% QoQ despite a falling APM supply. The gross margins were at Rs17.9/scm, declined 19.7% YoY and stood flat on QoQ basis.
- Opex:** The opex at Rs6/scm (lower than our estimates) was higher by 8.5% YoY and lower by 6.5% QoQ, with other operating expenses being higher by 26.3% YoY and lower by 5.5% on QoQ basis.
- EBITDA spreads:** EBITDA spread at Rs 11.9/scm (higher than our est of 11.1) is down 29% YoY and up 4.1% QoQ. The EBITDA spread stood strong sequentially despite a price cut in CNG.

Valuation

We expect a 7.7% volume CAGR over FY24-26 with a spread of Rs 11.5/scm. The stock is trading at 16x/14.9x PER FY25e/26e. We maintain a NEUTRAL with a revised target price of Rs 1,860/share (vs earlier Rs 1,730/shr), also expect a strong volume growth versus historical average, support from better cash flows and healthy balance sheet.

Exhibit 1: Actual vs estimate

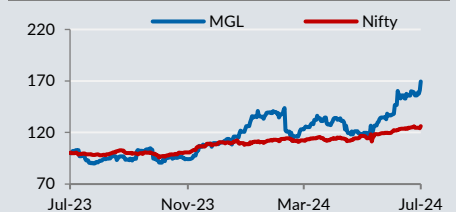
Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	15,896	15,120	15,433	5.13	3.00	Performance marginally better than expectation on higher EBITDA spreads, while volumes were in line
EBITDA	4,184	3,899	3,904	7.30	7.17	
EBITDA Margin (%)	26.32	25.79	25.30	53bps	102bps	
Adjusted PAT	2,844	2,669	2,584	6.58	10.09	

Reco	: NEUTRAL
CMP	: Rs 1,847
Target Price	: Rs 1,860
Potential Return	: +0.7%

Stock data (as on Jul 26, 2024)

Nifty	24,835
52 Week h/l (Rs)	1858 / 971
Market cap (Rs/USD mn)	173103 / 2068
Outstanding Shares (mn)	99
6m Avg t/o (Rs mn):	900
Div yield (%):	2.0
Bloomberg code:	MAHGL IN
NSE code:	MGL

Stock performance



	1M	3M	1Y
Absolute return	23.1%	26.4%	69.9%

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	NEUTRAL	NEUTRAL
Target Price	1,860	1,730

Δ in estimates

(1-Yr)	FY25e	FY26E
EPS (New)	115.6	124.0
EPS (Old)	108.4	115.4
% Change	6.6	7.5

Financial Summary

(Rs bn)	FY24	FY25E	FY26E
Revenue	62.4	66.4	72.0
YoY Growth	(0.9)	6.3	8.4
EBIDTA	18.4	16.3	17.6
OPM %	29.5	24.6	24.4
PAT	12.9	11.4	12.2
YoY Growth	63.2	(11.4)	7.3
ROE	27.8	20.5	19.0
EPS	130.5	115.6	124.0
P/E	14.2	16.0	14.9
BV	520.5	606.1	700.1
EV/EBITDA	9.7	10.8	10.0

HARSHRAJ AGGARWAL

Lead Analyst

harshraj.aggarwal@ysil.in



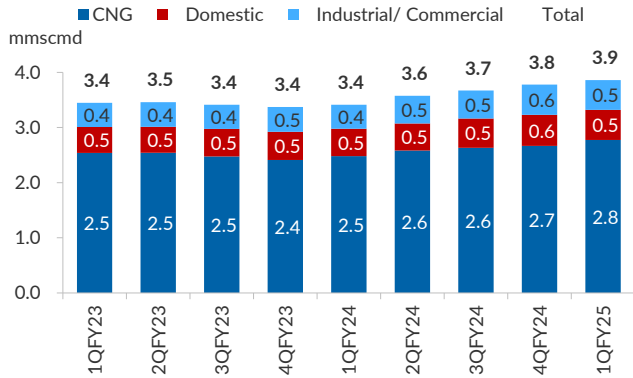
Exhibit 2: Earnings snapshot

Particulars (Rs mn)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	y/y (%)	q/q (%)	FY23	FY24	y/y (%)
Revenue	15,378	15,709	15,688	15,671	15,896	3.4	1.4	62,993	62,445	(0.9)
Expenditure	10,165	10,921	11,201	11,733	11,713	15.2	(0.2)	51,151	44,020	(13.9)
-Raw Material	8,442	8,992	9,231	9,517	9,598	13.7	0.9	44,349	36,182	(18.4)
-Staff Cost	286	311	291	294	297	4.2	1.2	1,079	1,181	9.5
- Other Expenses	1,438	1,618	1,679	1,922	1,817	26.3	(5.5)	5,724	6,657	16.3
Operating Profit	5,213	4,789	4,487	3,938	4,184	(19.7)	6.3	11,842	18,426	55.6
OPM(%)	33.9	30.5	28.6	25.1	26.3	-758 bps	119 bps	18.8	29.5	1071 bps
Other Income	390	437	481	446	402	3.1	(9.9)	1,119	1,753	56.7
Depreciation	620	658	683	775	719	15.8	(7.3)	2,311	2,736	18.4
Interest	25	25	27	38	31	23.5	(19.1)	94	115	22.8
Excpnl Loss/(Profit)	-	-	-	-	-	n.a.	n.a.	-	-	n.a.
PBT	4,957	4,543	4,257	3,570	3,836	(22.6)	7.5	10,555	17,327	64.2
Tax	1,273	1,158	1,086	920	992	(22.1)	7.8	2,655	4,437	67.1
PAT	3,684	3,385	3,172	2,650	2,844	(22.8)	7.4	7,901	12,890	63.2
Adj PAT	3,684	3,385	3,172	2,650	2,844	(22.8)	7.4	7,901	12,890	63.2

Exhibit 3: Operating highlights

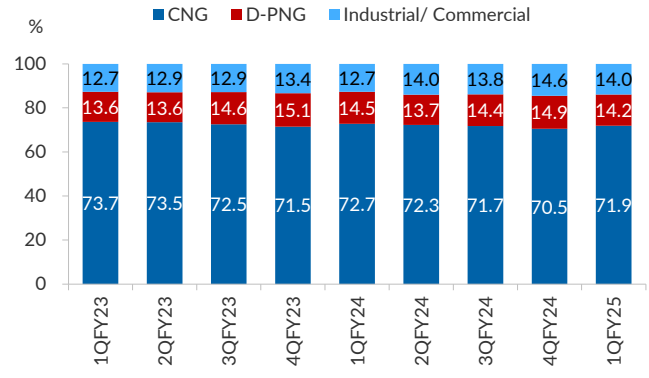
Particulars	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	y/y (%)	q/q (%)	FY23	FY24	y/y (%)
Volumes										
CNG	2.5	2.6	2.6	2.7	2.8	11.7	4.0	2.5	2.6	4.0
PNG										
Domestic	0.5	0.5	0.5	0.6	0.5	10.5	(2.8)	0.5	0.5	6.7
Industrial/ Commercial	0.4	0.5	0.5	0.6	0.5	23.8	(2.1)	0.4	0.5	12.3
Total PNG	0.9	1.0	1.0	1.1	1.1	16.7	(2.5)	0.9	1.0	9.4
Total volumes	3.4	3.6	3.7	3.8	3.9	13.1	2.1	3.4	3.6	5.5
Margins										
Revenue	49.3	47.5	46.3	45.3	45.0	(8.8)	(0.6)	50.3	47.3	(6.0)
GM	22.3	20.4	19.1	17.9	17.9	(19.7)	0.3	14.9	19.9	33.6
Opex	5.6	5.9	5.8	6.4	6.0	8.5	(6.5)	5.4	5.9	9.3
EBITDA	16.8	14.6	13.3	11.4	11.9	(29.0)	4.1	9.5	13.9	47.6

Exhibit 4: Volume split



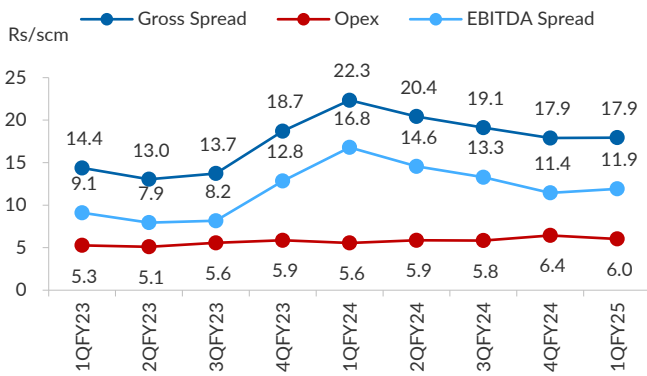
Source: Company, YES Sec

Exhibit 5: % share of Volumes



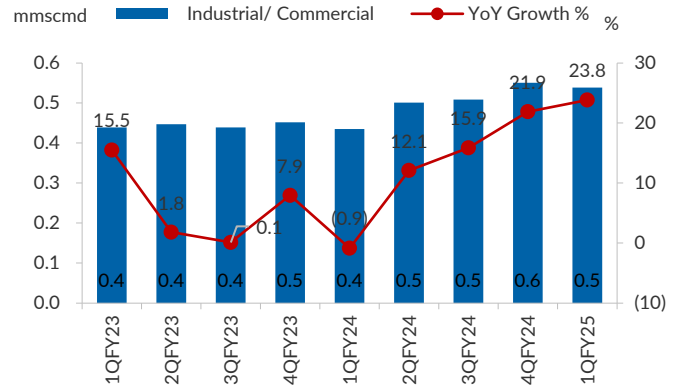
Source: Company, YES Sec

Exhibit 6: Margins and Opex



Source: Company, YES Sec

Exhibit 7: Industrial Volume and growth



Source: Company, YES Sec

CONCALL HIGHLIGHTS

- **Connections and customers:** 28 new CNG stations was added during the quarter taking the total base to 347 CNG stations that are operational. The company added 1,17,279 D-PNG connections, current base at ~2.49mn households. It added 108 industrial and commercial customers, a total base of 4,769. It also laid 226 km of steel & PE pipeline in Q4FY24, taking the aggregate length to 6,968 kms.
- **Connections and customers:** 2 new CNG stations was added during the quarter taking the total base to 348 CNG stations that are operational. The company added 35,144 D-PNG connections, current base at ~2.53mn households. It added 104 industrial and commercial customers, a total base of 4,845. It also took its steel & PE pipeline aggregate length to 7,054 kms.
- **CNG Vehicles:** MGL added 20,800 vehicles vs 20,100 in Q4FY24, of which private cars were 14,200; Auto Rickshaws were 5,000; LCV were 1,250 and MSRTC Bus were 90 and BEST ~99.
- **Gas sourcing and allocation:** APM constitutes 69% (vs 74% last qtr), Remaining HP/HT, and negligible spot in gas allocation.
- **Volume guidance:** Mahanagar Gas expects volume growth for the next financial year to be in the range of 6-7%, exceeding the 5.4% achieved this year which will be driven by double-digit growth in the industrial and commercial segment, continued, but likely slower, growth in the CNG segment (over 70% of total volume).
- **Margin Guidance:** Even with potential gas cost increases, they expect to maintain an EBITDA/scm range of Rs10-12 in the long term.
- **Raigad GA and Infrastructure Development:** Connected 80,854 domestic households and operationalized 47 CNG stations in Raigad. Laid 8km of pipeline in Raigad, totaling 424km in the district, commenced LNG sales to B2B customers.
- **New 2-W opportunity:** In 2-W, a volume growth opportunity with Bajaj Auto's 2-wheeler recent launch in Mumbai and TVS looking to launch CNG scooters in first half of 2025. Bajaj Auto expects to add 700 CNG bikes every month, could add some volumes for the company.
- **Unison (UEPL):** Unison transfer of control from Ashoka Buildcon and Morgan was completed in Q4FY24. It added 1 CNG station (total stands at 57 stations till date) and 341 households added. Industrial/commercial customers stand at 57. UEPL clocked 0.168mmscmd in Q1 (0.146 in Q4FY24), with CNG at 0.165mmscmd (up 14% QoQ). Volume growth of more than 12-14% YoY can be expected given the small base. Its revenue was at Rs880mn in Q1 (Rs820mn in Q4), gross margins in the same range as that of MAHGL, can expect volumes reaching ~1.3mmscmd in next 6-7yrs.
- **Future plans and Investments:** Expected FY25 capex of Rs9-10bn, with Rs 8bn in MGL and Rs1.5-2bn in UEPL. In Q1, the capex was Rs2.5bn, plans to add 50 CNG stations in FY25.

VIEW & VALUATION

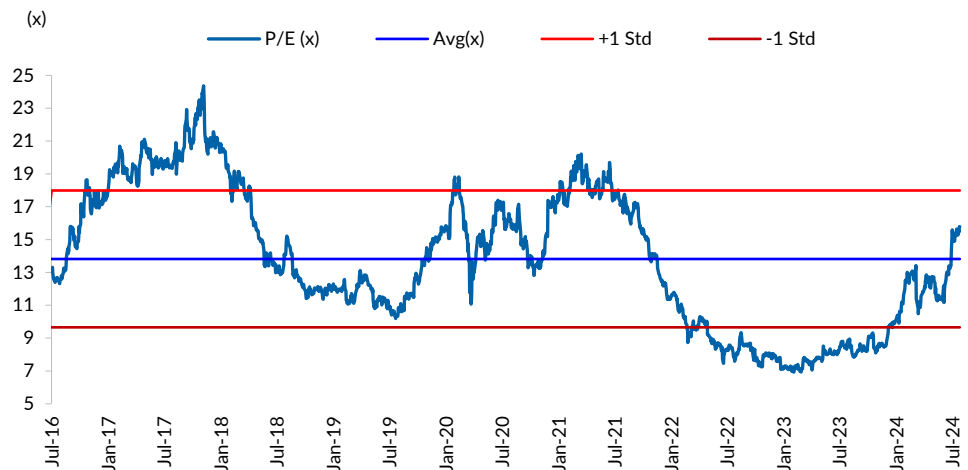
NEUTRAL with a target price of Rs 1,860/sh

We expect a 7.7% volume CAGR over FY24-26 with a spread of Rs 11.5/scm. The stock is trading at 16x/14.9x PER FY25e/26e. We maintain a NEUTRAL with a revised target price of Rs 1,860/share (vs earlier Rs 1,730/shr), also expect a strong volume growth versus historical average, support from better cash flows and healthy balance sheet.

Exhibit 8: Valuation table

Valuation	FY26E
EPS (Rs)	124.0
PER (x)	15.0
Target (PER based)	1,860

Exhibit 9: PER (x) band, one-year-forward



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	35,602	62,993	62,445	66,351	71,953
Total Expense	26,359	51,151	44,019	50,006	54,383
Operating Profit	9,243	11,842	18,426	16,345	17,570
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	15,257	16,370
Interest	75	94	115	-	-
Extraordinary Item	-	-	-	-	-
PBT	8,063	10,555	17,328	15,257	16,370
Tax	2,093	2,655	4,437	3,840	4,120
PAT	5,970	7,901	12,891	11,417	12,250
Adj. PAT	5,970	7,901	12,891	11,417	12,250
Eps	60.4	80.0	130.5	115.6	124.0

Exhibit 11: 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	58,894	68,179
Net worth	35,973	41,342	51,429	59,882	69,167
Debt	-	-	-	-	-
Deferred tax liab (net)	2,008	2,086	2,441	2,441	2,441
Capital Employed	37,981	43,428	53,870	62,323	71,608
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	3,850	5,268
Inventories	275	338	398	423	459
Sundry debtors	1,840	2,940	2,806	2,982	3,233
Cash & Bank Balance	4,652	2,279	3,985	5,454	6,924
Other current assets	3,896	6,212	13,878	13,878	13,878
Sundry creditors	2,719	3,222	3,342	3,838	4,178
Other liabilities	11,638	13,673	15,049	15,049	15,049
Application of Funds	37,981	43,428	53,870	62,323	71,608

Exhibit 12: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	8,063	10,555	17,328	15,257	16,370
Depreciation & amortization	1,963	2,311	2,736	2,928	3,133
Interest expense	(384)	(336)	115	-	-
(Inc)/Dec in working capital	1,652	134	(384)	-	-
Tax paid	(2,122)	(2,638)	907	296	52
Less: Interest/Dividend Income Received	-	-	(4,240)	(3,840)	(4,120)
Other operating Cash Flow	(135)	(334)	(831)	-	-
Cash flow from operating activities	9,037	9,693	15,631	14,641	15,435
Capital expenditure	(6,473)	(7,127)	(7,709)	(10,208)	(11,000)
Inc/(Dec) in investments	(357)	(1,748)	507	-	-
Add: Interest/Dividend Income Received	1,440	2,384	(5,465)	-	-
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)	-	-
Interest Paid	(4)	-	-	-	-
Dividend Paid	(2,810)	(2,518)	(2,766)	(2,964)	(2,964)
Others	(0)	-	-	-	-
Cash flow from financing activities	(3,103)	(2,848)	(3,116)	(2,964)	(2,964)
Net cash flow	543	354	(152)	1,469	1,471

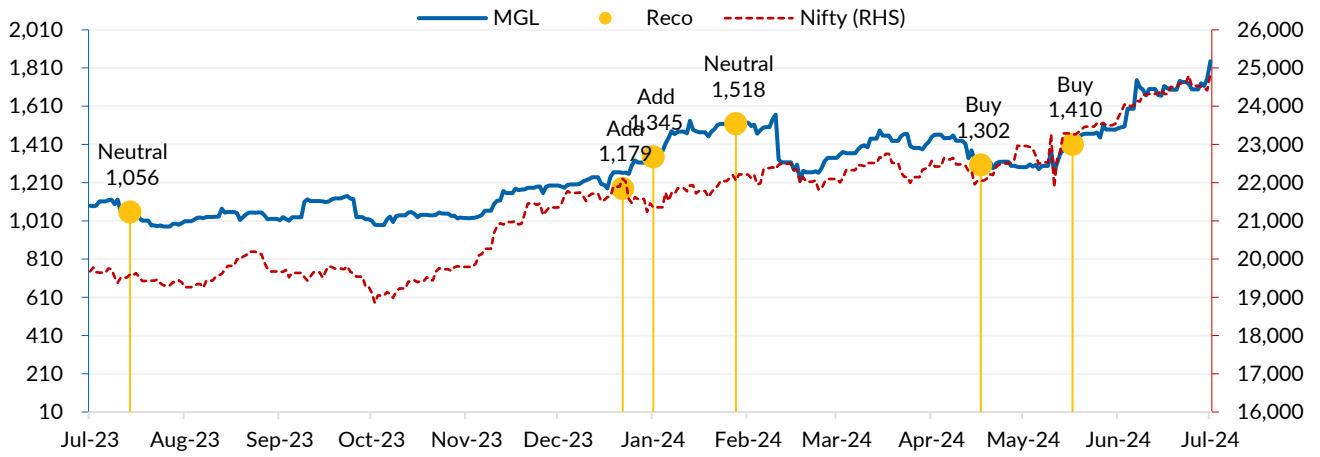
Exhibit 13: Du-pont analysis

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)	1.0	1.0	1.4	1.4	1.3
RoE (%)	12.1	14.0	27.8	20.5	19.0

Exhibit 14: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Revenue growth	65.4	76.9	(0.9)	6.3	8.4
Op profit growth	(1.0)	28.1	55.6	(11.3)	7.5
EBIT growth	(3.2)	30.9	63.8	(12.5)	7.3
Net profit growth	(3.7)	32.3	63.2	(11.4)	7.3
Profitability ratios (%)					
OPM	26.0	18.8	29.5	24.6	24.4
EBIT margin	22.9	16.9	27.9	23.0	22.8
Net profit margin	16.8	12.5	20.6	17.2	17.0
RoCE	22.6	26.2	35.9	26.3	24.4
RoE	17.5	20.4	27.8	20.5	19.0
RoA	12.1	14.0	19.4	14.9	14.2
Per share ratios					
EPS	60.4	80.0	130.5	115.6	124.0
Dividend per share	23.5	26.0	30.0	30.0	30.0
Cash EPS	80.3	103.4	158.2	145.2	155.7
Book value per share	364.1	418.4	520.5	606.1	700.1
Valuation ratios					
P/E	30.6	23.1	14.2	16.0	14.9
P/CEPS	23.0	17.9	11.7	12.7	11.9
P/B	5.1	4.4	3.5	3.0	2.6
EV/EBIDTA	19.2	15.2	9.7	10.8	10.0
Payout (%)					
Dividend payout	38.9	32.5	23.0	26.0	24.2
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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