

Mahanagar Gas

BSE SENSEX

76,693

S&P CNX

23,290



Stock Info

Bloomberg	MAHGL IN
Equity Shares (m)	99
M.Cap.(INRb)/(USDb)	136.4 / 1.6
52-Week Range (INR)	1580 / 971
1, 6, 12 Rel. Per (%)	-1/7/10
12M Avg Val (INR M)	700
Free float (%)	67.5

Financials Snapshot (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	62.4	60.4	64.9
EBITDA	18.4	15.7	16.7
Adj. PAT	13.1	10.5	10.9
Adj. EPS (INR)	132.3	106.6	110.6
EPS Gr. (%)	65.4	-19.4	3.7
BV/Sh.(INR)	520.6	584.6	651.0

Ratios

Net D:E	-0.1	-0.1	-0.1
RoE (%)	28.2	19.3	17.9
RoCE (%)	28.2	19.4	18.0
Payout (%)	40.0	40.0	40.0

Valuation

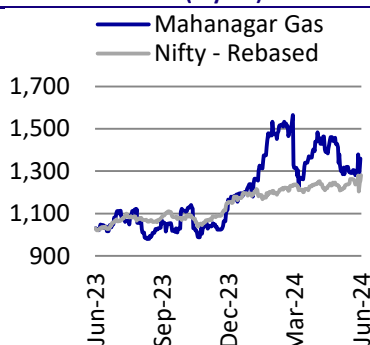
P/E (x)	10.4	12.9	12.5
P/BV (x)	2.7	2.4	2.1
EV/EBITDA (x)	7.2	8.5	7.9
Div. Yield (%)	3.8	3.1	3.2
FCF Yield (%)	5.8	1.6	2.7

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	32.5	32.5	32.5
DII	27.4	27.2	24.9
FII	30.6	30.9	31.0
Others	9.6	9.4	11.6

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,381 TP: INR1,565 (+13%)

Buy

UEPL and LCV initiatives to propel volume growth

- Mahanagar Gas Ltd. (MAHGL) held an analyst meet on 7th Jun'24 which was attended by the senior management of the company. Management reiterated: 1) an overall 6-7% volume growth target, with at least 10% volume growth from the recently acquired UEPL, 2) the current APM gas allocation stands at ~70% and the shortfall is being compensated by additional HPHT volumes, and 3) INR10b of capex that was guided for FY25, of which INR2b will be allocated to UEPL.
- We have a BUY rating on MAHGL with a TP of INR1,565.

Key takeaways from the analyst meet

Industry Outlook:

- Total gas consumption is likely to improve to 500mmscmd in FY30 from 185mmscmd in FY24. Further, the CGD sector's gas consumption is likely to grow to 103mmscmd in FY30 from 34mmscmd in FY24.
- India's gas consumption for FY24 stood at 182mmscmd (98mmscmd domestic and 84mmscmd imported), which signifies that the domestic gas share is improving.
- The government has planned to invest USD67b in the natural gas sector until FY30. Till FY30, India is likely to have 17,500 CNG stations (7,000 stations in FY24) and 120m domestic PNG connections (domestic PNG connections in FY24).
- CNG has an edge over EV in the CV/LCV segments. Moreover, management believes that the CNG consumer base is less likely to be affected by EVs.

New initiatives:

- MAHGL acquired UEPL in Feb'24, which currently has 55 CNG stations. UEPL has marketing exclusivity until Sep'28 in two GA's and infrastructure exclusivity in one GA until Aug'41 and in two GA's until Sep'43.
- MAHGL started a joint venture (MLPL) in Dec'23, with 51% holding in the JV. The company plans to set 5-6 LNG stations in FY25.
- MAHGL invested in 3ev Industries Private Limited (31% stake, INR1b investment commitment). 3ev is in the business of manufacturing three-wheeler cargo and passenger EVs.

ESG initiatives:

- The compressed CBG plant of 1,000tpd capacity is being planned to be set up in Mumbai.
- Four solar plants with 10kw each are being installed at the existing CNG and LNG retail outlets.
- The 12kw/m wind turbine is being installed at CGS Taloja.

Future outlook:

- Management expects a 6-7% volume growth for MAHGL in FY25. With respect to UEPL, volumes are expected to grow by more than 10%.

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Capex:

- The company plans to incur INR10b of capex in FY25. Of this, INR8b will be spent by MAHGL, and INR2b will be allocated to UEPL.
- MAHGL plans to build over 25km of infrastructure steel pipeline, a PE of 200km, and 90 CNG stations (60 on a standalone basis and 30 in UEPL).
- The company also aims to establish over 0.3m PNG domestic connections (5-6% growth), 60 industrial connections, and 300 commercial connections.

APM gas allocation:

- MAHGL's APM allocation is approximately 70% of the priority volumes.
- The decline in APM gas allocation is entirely offset by the higher supply of HPHT gas, which is available on priority. The company also has a 0.5mmcmd term contracts of HPHT.
- Besides, management has good medium-term visibility for APM/HPHT prices.
- **Promotional initiatives:**
 - For passenger vehicles, the scheme ended on 31st Dec'23, but it is still continuing for commercial vehicles and has helped boost conversions. The incentive schemes for passenger vehicles can be reintroduced in the future if needed.
- **Impact of inclusion of gas under the GST regime**
- GST on gas will be beneficial for consumers since any savings on GST will be passed on to them, leading to lower CNG pricing.
- The consumers registered under GST can take credit of GST paid on gas consumed. This will be especially beneficial to the industrial and consumer segments and boost the acceptability of natural gas as a fuel.

Valuation and view

- We expect a 7% CAGR in volume over FY24-26, driven by multiple initiatives implemented by the company, such as partnering with OEMs to drive conversions of commercial CNG vehicles, and providing guaranteed price discounts to new I/C-PNG customers.
- The stock trades at 12.5x FY26E EPS of INR110.6. We value it at 14x FY26E EPS to arrive at our TP of INR1,565. **Reiterate BUY.** We continue to prefer MAHGL over IGL owing to its 30% cheaper valuation (on FY26E P/E basis), with broadly similar growth profile in the medium term and relatively lower EV risk.

Operational Highlights

Operational Highlights	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	QoQ (%)
CNG (mmcmd)	1.6	2.2	2.4	2.3	2.5	2.5	2.5	2.4	2.5	2.6	2.6	2.7	1%
Growth YoY (%)	223%	75%	27%	13%	64%	14%	3%	6%	-2%	2%	6%	11%	
PNG (mmcmd)	0.8	0.9	0.9	0.9	0.9	0.9	0.9	1.0	0.9	1.0	1.0	1.1	7%
Growth YoY (%)	34%	12%	3%	3%	7%	3%	3%	8%	2%	8%	11%	16%	
Total Volumes (mmcmd)	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%
Growth YoY (%)	115%	51%	19%	10%	44%	11%	3%	6%	-1%	3%	8%	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	-14%
Growth YoY (%)	76%	-9%	-73%	-38%	-35%	-24%	140%	70%	84%	83%	63%	-11%	

Exhibit 1: CNG volumes up 11% YoY to 2.7mmscmd

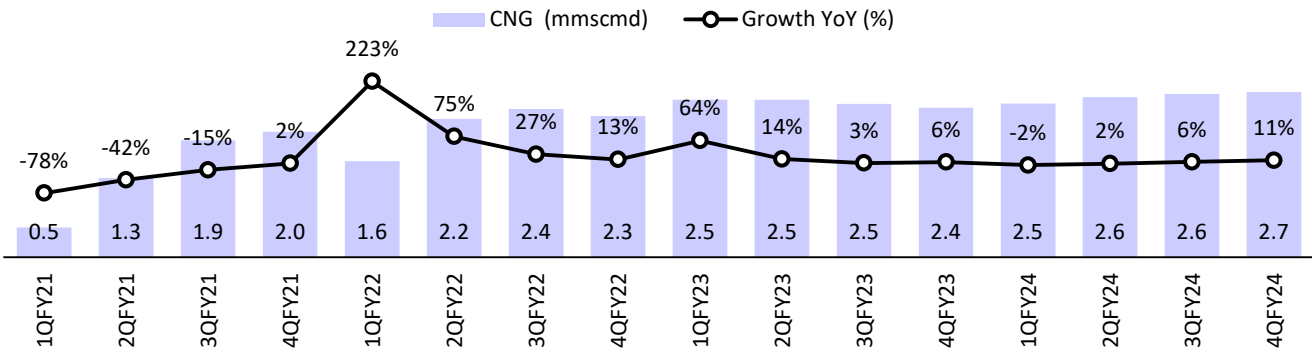


Exhibit 2: PNG volumes up 16% YoY to 1.1mmscmd

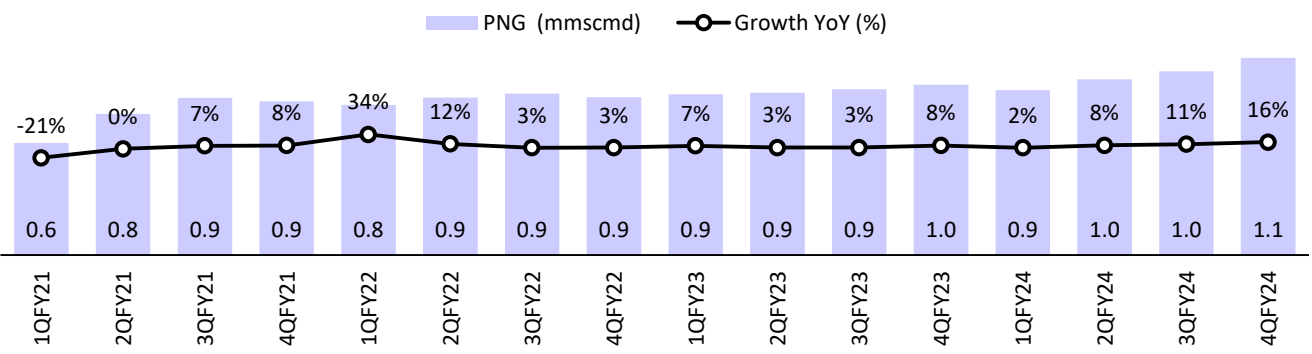


Exhibit 3: Total volumes up 12% YoY to 3.8mmscmd

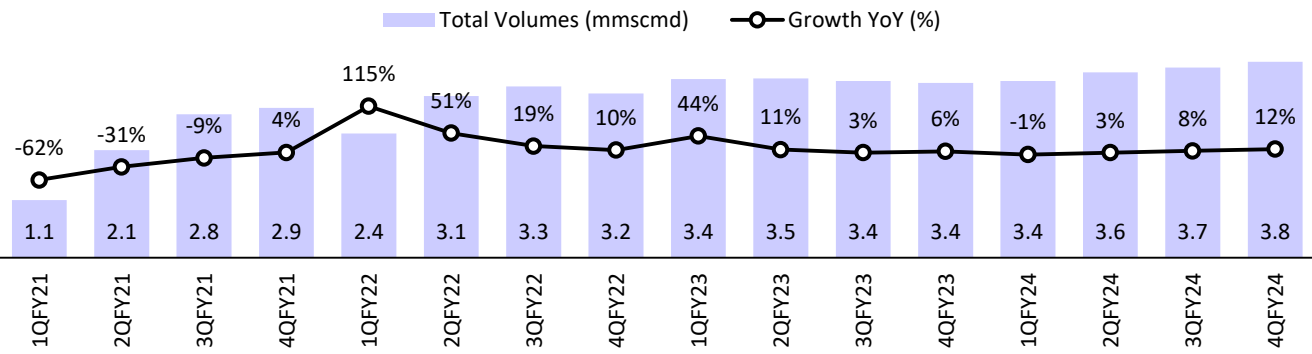
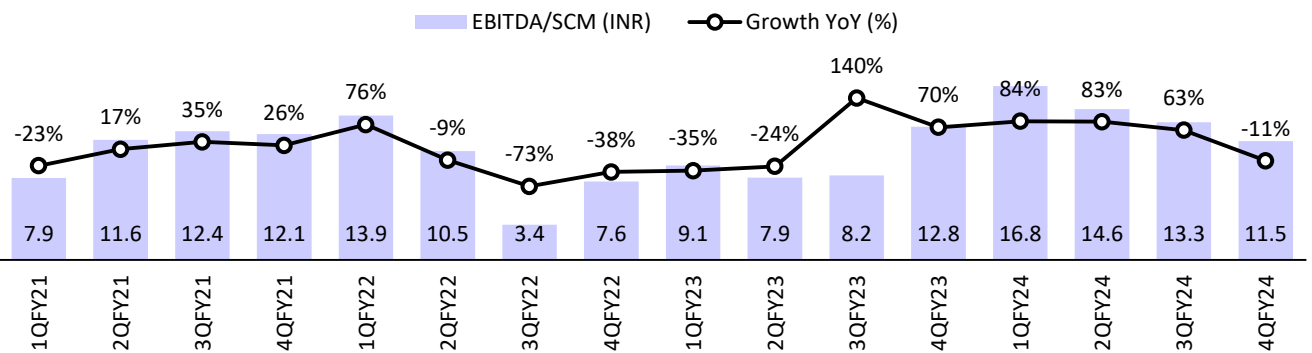


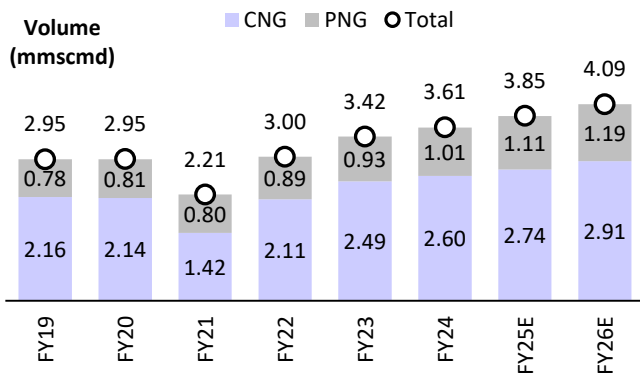
Exhibit 4: EBITDA/scm at INR11.5 (down 11% YoY)



Source: Company, MOFSL

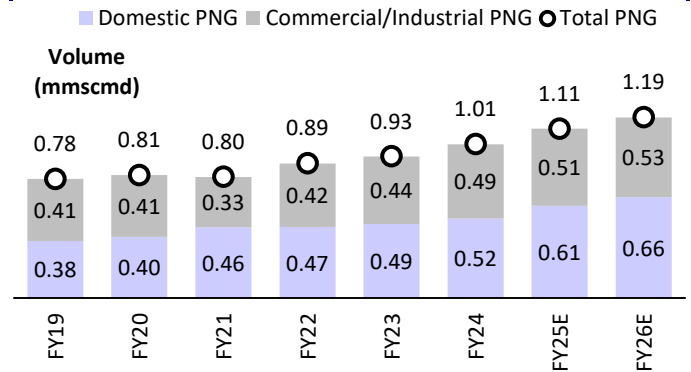
Story in charts

Exhibit 5: Volume growth snapshot



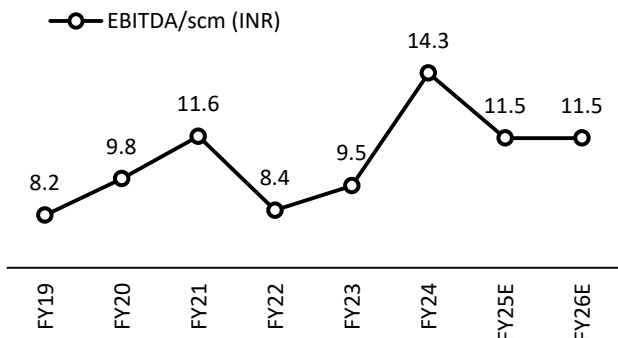
Source: Company, MOFSL

Exhibit 6: PNG segment-wise volumes



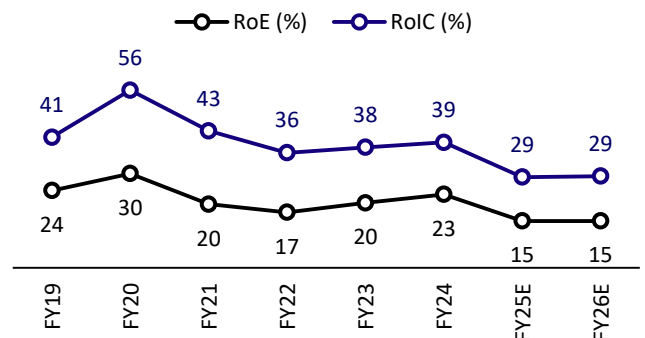
Source: Company, MOFSL

Exhibit 7: EBITDA/scm snapshot



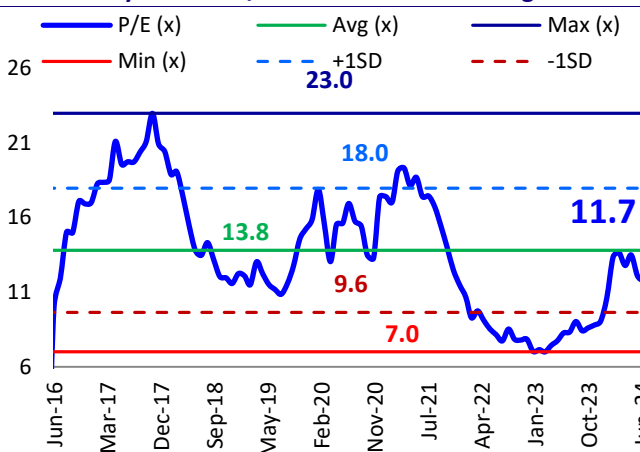
Source: Company, MOFSL

Exhibit 8: Return ratios for MAHGL



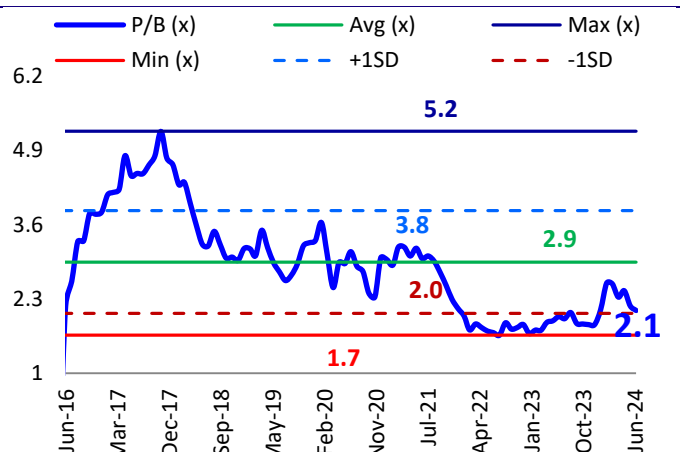
Source: Company, MOFSL

Exhibit 9: 1-year fwd. P/E trades below LT average...



Source: Company, MOFSL

Exhibit 10: ...and 1-year fwd. P/B trades at 2.1x, LT average – 2.9x



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	27,911	29,721	21,525	35,602	62,993	62,445	60,369	64,935
Change (%)	25.0	6.5	-27.6	65.4	76.9	-0.9	-3.3	7.6
EBITDA	8,855	10,528	9,340	9,243	11,842	18,426	15,747	16,740
Margin (%)	31.7	35.4	43.4	26.0	18.8	29.5	26.1	25.8
Depreciation	1,259	1,617	1,737	1,963	2,311	2,631	2,966	3,415
EBIT	7,595	8,911	7,603	7,281	9,531	15,795	12,781	13,326
Int. and Finance Charges	3	65	72	75	94	110	104	104
Other Income	777	990	805	857	1,119	1,822	1,401	1,379
PBT bef. EO Exp.	8,369	9,835	8,336	8,063	10,555	17,507	14,077	14,600
PBT after EO Exp.	8,369	9,835	8,336	8,063	10,555	17,507	14,077	14,600
Total Tax	2,905	1,900	2,140	2,093	2,655	4,437	3,543	3,675
Tax Rate (%)	34.7	19.3	25.7	26.0	25.2	25.3	25.2	25.2
Reported PAT	5,464	7,935	6,196	5,970	7,901	13,070	10,534	10,925
Adjusted PAT	5,464	7,935	6,196	5,970	7,901	13,070	10,534	10,925
Change (%)	14.3	45.2	-21.9	-3.6	32.3	65.4	-19.4	3.7
Margin (%)	19.6	26.7	28.8	16.8	12.5	20.9	17.4	16.8

Standalone - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	988	988	988	988	988	988	988	988
Total Reserves	23,001	28,539	31,336	34,985	40,354	50,441	56,761	63,317
Net Worth	23,989	29,527	32,324	35,973	41,342	51,429	57,749	64,304
Total Loans	0	176	168	206	208	231	231	231
Deferred Tax Liabilities	2,048	1,607	1,773	2,008	2,086	2,441	2,441	2,441
Capital Employed	26,037	31,310	34,264	38,187	43,636	54,101	60,421	66,976
Gross Block	21,732	25,024	27,918	34,048	40,096	47,620	58,315	68,154
Less: Accum. Deprn.	4,098	5,716	7,452	9,415	11,727	14,358	17,324	20,739
Net Fixed Assets	17,634	19,309	20,466	24,633	28,369	33,262	40,991	47,415
Capital WIP	3,697	4,865	5,603	6,159	7,086	7,743	6,049	6,210
Total Investments	6,540	11,215	10,250	10,883	13,098	16,360	16,360	16,360
Rights to use assets	0	1,183	1,228	1,504	1,888	2,167	2,167	2,167
Curr. Assets, Loans&Adv.	6,539	4,708	8,465	9,158	9,882	12,728	10,571	11,742
Inventory	191	186	222	275	338	398	295	319
Account Receivables	996	685	1,275	1,840	2,940	2,806	2,818	3,031
Cash and Bank Balance	2,988	2,295	5,119	4,652	2,279	3,985	3,314	3,934
Cash	265	154	282	825	1,179	1,027	356	976
Bank Balance	2,723	2,141	4,837	3,827	1,100	2,958	2,958	2,958
Loans and Advances	2,364	1,543	1,850	2,391	4,324	5,539	4,144	4,458
Curr. Liability & Prov.	8,373	9,971	11,747	14,151	16,687	18,159	15,715	16,916
Account Payables	1,524	1,318	1,559	2,719	3,222	3,342	2,811	3,036
Other Current Liabilities	6,637	8,390	9,839	11,076	12,967	14,224	12,427	13,367
Provisions	212	263	350	356	498	593	477	513
Net Current Assets	-1,834	-5,263	-3,282	-4,993	-6,806	-5,431	-5,144	-5,174
Appl. of Funds	26,037	31,310	34,264	38,187	43,636	54,101	60,422	66,977

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	55.3	80.3	62.7	60.4	80.0	132.3	106.6	110.6
Cash EPS	68.1	96.7	80.3	80.3	103.4	159.0	136.7	145.2
BV/Share	242.8	298.9	327.2	364.2	418.5	520.6	584.6	651.0
DPS	20.0	35.0	23.0	23.0	26.0	52.9	42.7	44.2
Payout (%)	43.5	52.4	36.7	38.1	32.5	40.0	40.0	40.0
Valuation (x)								
P/E	24.9	17.2	22.0	22.8	17.3	10.4	12.9	12.5
Cash P/E	20.3	14.3	17.2	17.2	13.3	8.7	10.1	9.5
P/BV	5.7	4.6	4.2	3.8	3.3	2.7	2.4	2.1
EV/Sales	4.8	4.5	6.1	3.7	2.1	2.1	2.2	2.0
EV/EBITDA	15.1	12.7	14.1	14.3	11.3	7.2	8.5	7.9
Dividend Yield (%)	1.4	2.5	1.7	1.7	1.9	3.8	3.1	3.2
FCF per share	32.6	56.6	47.2	26.0	26.0	80.2	22.7	37.6
Return Ratios (%)								
RoE	24.3	29.7	20.0	17.5	20.4	28.2	19.3	17.9
RoCE	24.3	29.8	20.1	17.5	20.5	28.2	19.4	18.0
RoIC	41.0	55.8	43.1	36.2	37.9	50.0	31.5	26.5
Working Capital Ratios								
Fixed Asset Turnover (x)	1.3	1.2	0.8	1.0	1.6	1.3	1.0	1.0
Asset Turnover (x)	1.1	0.9	0.6	0.9	1.4	1.2	1.0	1.0
Inventory (Days)	3	2	4	3	2	2	2	2
Debtor (Days)	13	8	22	19	17	16	17	17
Creditor (Days)	20	16	26	28	19	20	17	17
Leverage Ratio (x)								
Current Ratio	0.8	0.5	0.7	0.6	0.6	0.7	0.7	0.7
Net Debt/Equity	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	8,369	9,835	8,336	8,063	10,555	17,328	14,077	14,600
Depreciation	1,259	1,617	1,737	1,963	2,311	2,736	2,966	3,415
Direct Taxes Paid	-2,709	-2,380	-2,065	-2,122	-2,638	-4,240	-3,543	-3,675
(Inc)/Dec in WC	366	1,369	602	1,640	134	907	-958	651
Others	-443	-655	-627	-583	-764	-1,215	-1,401	-1,379
CF from Operations	6,846	9,852	8,055	9,037	9,693	15,631	11,246	13,716
(Inc)/Dec in FA	-3,625	-4,258	-3,395	-6,473	-7,127	-7,709	-9,000	-10,000
Free Cash Flow	3,221	5,594	4,660	2,563	2,566	7,922	2,246	3,716
(Pur)/Sale of Investments	474	-4,316	1,287	-357	-1,748	-65,334	0	0
Others	-1,234	1,026	-2,331	1,440	2,384	60,375	1,401	1,379
CF from Investments	-4,385	-7,548	-4,439	-5,390	-6,491	-12,668	-7,599	-8,621
Dividend Paid	-2,330	-2,183	-3,221	-2,810	-2,518	-2,766	-4,214	-4,370
CF from Fin. Activity	-2,346	-2,416	-3,488	-3,103	-2,848	-3,116	-4,318	-4,474
Inc/Dec of Cash	115	-112	128	543	354	-152	-672	621
Opening Balance	150	265	154	282	825	1,179	1,027	356
Closing Balance	265	154	282	825	1,179	1,027	356	976

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
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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