

# Retail Equity Research

## Mahanagar Gas Limited

Gas Utilities

BSE CODE: 539957

NSE CODE: MGL

Bloomberg CODE: MAHGL:IN

SENSEX: 80,982

**SELL**

12 Months Investment Period Rating as per Small Cap  
CMP Rs. 1,846 TARGET Rs. 1,673 RETURN -9%  
(Closing: 02-08-24)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↓

### Solid performance; valuation expensive

Mahanagar Gas Ltd (MGL) distributes natural gas to hospitals, nursing homes, hotels, flight kitchens and restaurants in India.

- In Q1FY25, MGL's consolidated revenue surged 8.4% YoY to Rs. 1,832cr, supported by strong volume growth.
- EBITDA declined 16.2% YoY to Rs. 437cr, with margins contracting to 23.8% due to increase in natural gas costs.
- Increased capital expenditure, expanding city gas distribution (CGD) infrastructure, and OEM partnerships are expected to support MGL's performance. Strong volume growth and improvement in margin from recent CNG price hikes are also expected to augur well for MGL.
- However, we downgrade the stock to SELL amidst expectation of weak earnings growth & ROE in FY26, declining APM allocations and current high valuations. We suggest a revised target price of Rs. 1,673 based on 13.5x FY26E adjusted EPS.

### Volume growth drives topline

In Q1FY25, MGL reported a significant revenue increase of 8.4% YoY, reaching a total of Rs. 1,832cr, driven by substantial volume growth. Net compressed natural gas (CNG) sales experienced a marginal decline of 0.2% YoY, totalling Rs. 1,106cr despite an impressive 11.7% YoY volume growth, reaching 252.3 standard cubic metre million (SCMmn). The growth was largely attributed to the addition of ~20,800 odd vehicles by the Maharashtra State Road Transport Corporation. However, net sales of piped natural gas (PNG) demonstrated a notable increase of 12.0% YoY, totalling Rs. 474cr, fuelled by a 10.5% YoY rise in domestic PNG volumes, reaching 49.8 SCMmn, and a 23.8% YoY increase in industrial PNG volumes, totalling 49.0 SCMmn. Additionally, Unison Enviro Private Limited (UEPL), subsidiary of MGL, achieved an average sales volume of 0.168 million metric standard cubic meters per day (mmscmd). Thus, the total sales volume for the quarter reached 4.026 mmscmd.

### Increased costs weigh on margins

EBITDA declined 16.2% YoY to Rs. 437cr, while margins dropped 700bps, reaching 23.8%. Such decline was primarily due to increased costs associated with natural gas, traded items, excise duty and other expenses. As a result, the reported profit after tax fell 21.6% YoY to Rs. 289cr, largely due to elevated depreciation and interest costs.

### Key concall highlights

- In Q1FY25, MGL expanded its CGD infrastructure, connecting 35,544 new domestic households and 104 industrial/commercial customers. UEPL also connected 341 additional domestic households.
- MGL extended its steel and polyethylene pipeline network by 85.51 km, reaching a total length of 7,054 km.
- The company invested Rs. 250cr in capital expenditure for Q1FY25. It added two CNG stations, reaching a total of 348, while UEPL added one. Plans are underway to add 75 CNG stations in FY25, with 50 by MGL and 25 by UEPL.
- The company expects a strong volume outlook, with 7% growth for MGL and mid-teens growth for UEPL for the coming quarters.

### Valuation

Robust volume growth drove the company's revenue performance in Q1FY25. MGL's strategic initiatives should continue to support its performance. However, decreasing APM allocations, weak expectations of earnings growth and ROE in FY26 and current high valuations provide limited upside potential. Hence, we downgrade the stock to SELL rating, with a revised target price of Rs. 1,673 based on 13.5x FY26E adjusted EPS.

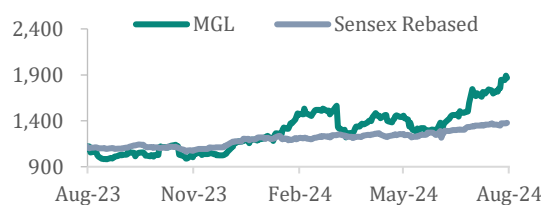
### Company Data

Market Cap (cr)	Rs. 18,238
Enterprise Value (cr)	Rs. 17,834
Outstanding Shares (cr)	9.9
Free Float	57.0%
Dividend Yield	1.0%
52 week high	Rs. 1,910
52 week low	Rs. 971
6m average volume (lacs)	7.5
Beta	1.1
Face value	Rs. 10

Shareholding (%)	Q3FY24	Q4FY24	Q1FY25
Promoters	32.5	32.5	32.5
FII's	30.9	30.6	31.5
MFs/Insti	27.2	27.4	26.7
Public	9.0	9.2	9.0
Others	0.4	0.3	0.4
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	26.8%	25.1%	68.3%
Absolute Sensex	8.5%	12.3%	23.1%
Relative Return*	18.3%	12.7%	45.2%

\*over or under performance to benchmark index



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	6,914	6,741	7,095
Growth (%)	(0.1)	(2.5)	5.3
EBITDA	1,844	1,651	1,767
EBITDA Margin (%)	26.7	24.5	24.9
Adj. PAT	1,276	1,170	1,224
Growth (%)	61.6	(8.4)	4.6
Adj. EPS	129.2	118.4	123.9
Growth (%)	61.6	(8.4)	4.6
P/E	10.6	15.6	14.9
P/B	2.6	3.0	2.5
EV/EBITDA	7.1	10.8	10.0
ROE (%)	24.9	19.0	17.0
D/E	0.0	0.0	0.0

## Quarterly Financials (Consolidated)

### Profit & Loss Account

Rs. cr	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Revenue	1,832	1,690	8.4	1,771	3.4
<b>EBITDA</b>	<b>437</b>	<b>521</b>	<i>(16.2)</i>	<b>395</b>	<i>10.6</i>
EBITDA margins	23.8	30.8	(700bps)	22.3	150bps
Depreciation	83	62	34.3	88	(5.1)
<b>EBIT</b>	<b>353</b>	<b>459</b>	<i>(23.0)</i>	<b>307</b>	<i>15.0</i>
Interest	3	3	27.5	6	(42.9)
Other Income	36	39	(8.5)	44	(19.2)
Exceptional Items	-	-	-	-	-
Share of profit from Associate	-	-	-	-	-
<b>PBT</b>	<b>386</b>	<b>496</b>	<i>(22.1)</i>	<b>346</b>	<i>11.6</i>
Tax	97	127	(23.7)	94	3.8
<b>Reported PAT</b>	<b>289</b>	<b>368</b>	<i>(21.6)</i>	<b>252</b>	<i>14.5</i>
Minority Interest	-	-	-	-	-
<b>PAT att. to shareholders</b>	<b>289</b>	<b>368</b>	<i>(21.6)</i>	<b>252</b>	<i>14.5</i>
Adjustments	-	-	-	-	-
<b>Adj. PAT</b>	<b>289</b>	<b>368</b>	<i>(21.6)</i>	<b>252</b>	<i>14.5</i>
No. of shares	9.9	9.9	-	9.9	-
<b>Adj. EPS (Rs.)</b>	<b>29.2</b>	<b>37.3</b>	<i>(21.6)</i>	<b>25.5</b>	<i>14.5</i>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	6,399	6,630	6,741	7,095	5.4	7
EBITDA	1,746	1,822	1,651	1,767	(5.4)	(3)
Margins (%)	27.3	27.5	24.5	24.9	(280bps)	(260bps)
Adj. PAT	1,198	1,225	1,170	1,224	(2.3)	(0.1)
Adj. EPS	121.3	124.0	118.4	123.9	(2.3)	(0.1)

## PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Revenue</b>	<b>3,885</b>	<b>6,921</b>	<b>6,914</b>	<b>6,741</b>	<b>7,095</b>
% change	66.2	78.2	(0.1)	(2.5)	5.3
<b>EBITDA</b>	<b>924</b>	<b>1,184</b>	<b>1,844</b>	<b>1,651</b>	<b>1,767</b>
% change	(1.0)	28.1	55.7	(10.5)	7.0
Depreciation	196	231	284	291	356
<b>EBIT</b>	<b>728</b>	<b>953</b>	<b>1,560</b>	<b>1,360</b>	<b>1,410</b>
Interest	8	9	13	11	9
Other Income	86	112	175	210	231
<b>PBT</b>	<b>806</b>	<b>1,056</b>	<b>1,722</b>	<b>1,560</b>	<b>1,632</b>
% change	(3.3)	30.9	63.1	(9.4)	4.6
Tax	209	265	445	390	408
Tax Rate (%)	26.0	25.2	25.9	25.0	25.0
<b>Reported PAT</b>	<b>597</b>	<b>790</b>	<b>1,276</b>	<b>1,170</b>	<b>1,224</b>
<b>PAT att. to common shareholders</b>	<b>597</b>	<b>790</b>	<b>1,276</b>	<b>1,170</b>	<b>1,224</b>
Adj*	-	-	-	-	-
<b>Adj PAT</b>	<b>597</b>	<b>790</b>	<b>1,276</b>	<b>1,170</b>	<b>1,224</b>
% change	(3.7)	32.3	61.6	(8.4)	4.6
No. of shares (cr)	9.9	9.9	9.9	9.9	9.9
<b>Adj EPS (Rs.)</b>	<b>60.4</b>	<b>80.0</b>	<b>129.2</b>	<b>118.4</b>	<b>123.9</b>
% change	(3.7)	32.4	61.6	(8.4)	4.6
DPS (Rs.)	25.0	26.0	18.0	16.5	17.3

## CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Net inc. + Depn.</b>	<b>793</b>	<b>1,021</b>	<b>1,560</b>	<b>1,460</b>	<b>1,580</b>
Non-cash adj.	57	15	(18)	34	44
Changes in W.C	53	(67)	26	(61)	29
<b>C.F. Operation</b>	<b>904</b>	<b>969</b>	<b>1,568</b>	<b>1,433</b>	<b>1,654</b>
Capital exp.	(647)	(713)	(782)	(782)	(823)
Change in inv.	66	18	(350)	(510)	(526)
Other invest.CF	42	46	51	(0)	-
<b>C.F - Investment</b>	<b>(539)</b>	<b>(649)</b>	<b>(1,082)</b>	<b>(1,292)</b>	<b>(1,349)</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	-	-	(195)	-	-
Dividends paid	(281)	(252)	(277)	(163)	(171)
Other finance.CF	(29)	(33)	(3)	-	-
<b>C.F - Finance</b>	<b>(310)</b>	<b>(285)</b>	<b>(474)</b>	<b>(163)</b>	<b>(171)</b>
Chg. in cash	54	35	11	(22)	135
Closing cash	465	228	426	404	539

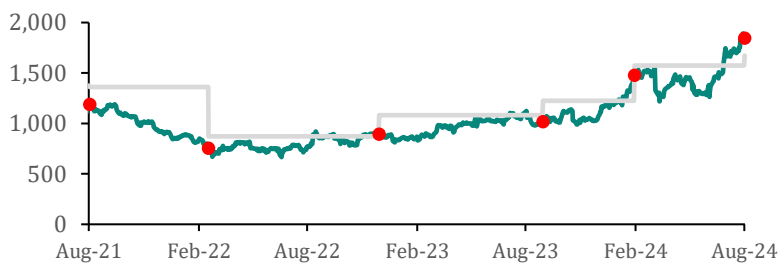
## BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	465	228	426	404	539
Accounts Receivable	184	294	296	357	358
Inventories	27	34	42	47	45
Other Cur. Assets	1,168	1,450	1,143	1,296	1,416
Investments	-	-	-	-	-
Gross Fixed Assets	3,584	4,297	5,079	5,861	6,684
Net Fixed Assets	2,587	3,054	3,894	4,385	4,852
CWIP	487	487	487	487	487
Intangible Assets	156	194	809	971	1,136
Def. Tax (Net)	76	83	100	136	143
Other Assets	83	209	184	430	679
<b>Total Assets</b>	<b>5,234</b>	<b>6,032</b>	<b>7,381</b>	<b>8,514</b>	<b>9,654</b>
Current Liabilities	1,327	1,561	1,700	1,835	1,924
Provisions	26	33	46	46	47
Debt Funds	-	-	-	-	-
Other Liabilities	284	303	501	491	488
Equity Capital	99	99	99	99	99
Reserves & Surplus	3,499	4,035	5,036	6,043	7,097
Shareholder's Fund	3,597	4,134	5,135	6,142	7,195
Minority Interest	-	-	-	-	-
<b>Total Liabilities</b>	<b>5,234</b>	<b>6,032</b>	<b>7,381</b>	<b>8,514</b>	<b>9,654</b>
<b>BVPS (Rs.)</b>	<b>364</b>	<b>419</b>	<b>520</b>	<b>622</b>	<b>728</b>

## RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	23.8	17.1	26.7	24.5	24.9
EBIT margin (%)	18.7	13.8	22.6	20.2	19.9
Net profit mgn.(%)	15.4	11.4	18.5	17.4	17.3
ROE (%)	16.6	19.1	24.9	19.0	17.0
ROCE (%)	20.2	23.1	30.4	22.2	19.6
<b>W.C &amp; Liquidity</b>					
Receivables (days)	17.1	15.3	15.4	19.1	18.2
Inventory (days)	4.2	2.4	3.5	4.0	3.6
Payables (days)	41.3	22.9	29.3	29.8	30.6
Current ratio (x)	1.4	1.3	1.1	1.1	1.2
Quick ratio (x)	1.3	1.2	1.0	1.0	1.1
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	1.2	1.8	1.5	1.2	1.1
Total asset T.O (x)	0.8	1.2	1.0	0.8	0.8
Int. coverage ratio (x)	96.7	101.5	117.3	127.7	155.2
Adj. debt/equity (x)	-	-	-	-	-
<b>Valuation</b>					
EV/Sales (x)	1.8	1.4	1.9	2.6	2.5
EV/EBITDA (x)	7.7	7.9	7.1	10.8	10.0
P/E (x)	12.7	12.2	10.6	15.6	14.9
P/BV (x)	2.1	2.3	2.6	3.0	2.5

## Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
24-Nov-20	BUY	1,147
17-Feb-21	BUY	1,375
3-Aug-21	ACCUMULATE	1,362
18-Feb-22	ACCUMULATE	872
30-Nov-22	BUY	1,082
31-Aug-23	BUY	1,224
31-Jan-24	HOLD	1,575
5-Aug-24	SELL	1,673

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

### Not rated/Neutral

#### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note; **Reduce:** Reduce your exposure to the stock due to limited upside; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock. To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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