

Mahanagar Gas (MGL) hosted its analyst meet on 7-Jun-24, highlighting its strong FY24 performance, and guided to a steady 5-year volume CAGR of 6-7%/>10% in standalone (SA)/Unison Enviro (UEPL) vs. ~5% during FY19-24. Management indicated a clear focus on infrastructure creation to spur demand growth, with capex target for FY25 at Rs10bn—split between SA and UEPL at Rs8bn and Rs2bn, respectively. APM gas allocation is ~70% of priority vol. now and the shortfall is being met via HP-HT gas. Company targets opening 5-6 LNG stations p.a. with Baidyanath LNG. It could see some margin downtick to spur volume growth, but margin superiority vs. peers could sustain on operating efficiencies, high population density, etc. We retain BUY on MGL and our Mar-25E TP of Rs1,680/sh, implying an attractive consol. target P/E of 13.2x.

Mahanagar Gas: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	35,602	62,993	62,445	64,086	68,722
EBITDA	9,243	11,842	18,426	16,770	18,118
Adj. PAT	5,969	7,900	12,891	11,676	12,507
Adj. EPS (Rs)	60.4	80.0	130.5	118.2	126.6
EBITDA margin (%)	26.0	18.8	29.5	26.2	26.4
EBITDA growth (%)	(1.0)	28.1	55.6	(9.0)	8.0
Adj. EPS growth (%)	(3.7)	32.3	63.2	(9.4)	7.1
RoE (%)	17.5	20.4	27.8	21.3	20.1
RoIC (%)	37.9	40.9	55.5	40.6	37.2
P/E (x)	22.9	17.3	10.6	11.7	10.9
EV/EBITDA (x)	13.2	10.3	6.7	7.2	6.4
P/B (x)	3.8	3.3	2.7	2.3	2.1
FCFF yield (%)	1.7	1.9	5.7	5.1	6.0

Source: Company, Emkay Research

Infrastructure and Volumes: MGL plans to add 0.3mn DPNG connections p.a. and this would aid DPNG volume growth of 5-6%. Mgmt. estimates that FY25 SA volume growth of 6-7% would be supported by lower CNG prices and conversions; CNG is currently at 20%/50% discount to diesel/petrol. Company plans to add 60/30 CNG stations in SA/UEPL, respectively, in FY25, besides expanding its pipeline network. Mgmt. expects further decline in APM allocation going ahead, as CGD demand rises. MGL has 0.5/0.75mmscmd of HP-HT/term contracts to meet the APM shortfall/I-C demand. Current volumes at UEPL stand at ~0.13mmscmd vs 1.2mmscmd potential in 7-8 years.

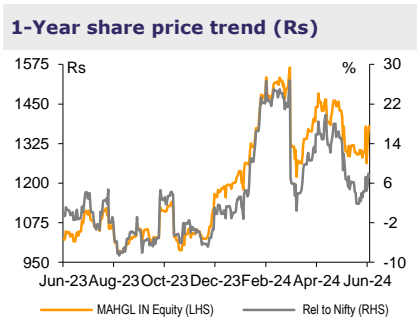
LNG Retailing: MGL is setting up LNG stations via its 51:49 JV with Baidyanath LNG. It targets setting up 5-6 LNG stations p.a. with the first coming up in Aurangabad. Its initial focus will be on logistics & manufacturing hubs in Maharashtra, with GoI target to set up 50 LNG stations p.a. Capex cost per LNG station is Rs50-60mn, and Mgmt. indicated need for 200 trucks to run an LNG station with reasonable profit. Currently, LNG is being priced at 15-20% discount to diesel. MGL intends to run an asset-light LNG retailing model. MGL is working with Ashok Leyland for LNG trucks and has received 12 such trucks for transporting gas through cascades. Tata and Volvo are also working on LNG trucks for India; mgmt. pointed that if LNG replaces 5% of diesel demand in India, it would require a 1,000 LNG station-network. Mgmt. indicated that setting up LNG stations in own GAs would be favorable as boil off gas could be used for CNG-PNG operations. The LNG retail network is likely to come up in the steel & cement corridors of India.

Other Key Points: Discussions are under way to get natural gas under the GST regime, whereas savings on GST implementation would have to be passed on to customers. Mgmt. expect GST rate at 12% (vs current structure of excise duty at 14.5% + state VAT + procurement tax); this could benefit stakeholders across the value chain. Comments have been sought by end Jun-24 on the new central excise bill. The next hearing on common carrier norms is on 31-Jul-2024 with the Delhi HC and the matter is sub-judice till then. Earlier, DPE norms had return on investment as a criteria for evaluating performance vs. shareholder returns and PAT growth now among others.

Target Price – 12M	Mar-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	21.6
CMP (07-Jun-24) (Rs)	1,381.1

Stock Data	Ticker
52-week High (Rs)	1,580
52-week Low (Rs)	971
Shares outstanding (mn)	98.8
Market-cap (Rs bn)	136
Market-cap (USD mn)	1,636
Net-debt, FY25E (Rs mn)	-16,343
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	923.0
ADTV-3M (USD mn)	11.1
Free float (%)	31.0
Nifty-50	23,290
INR/USD	83.4
Shareholding, Mar-24	
Promoters (%)	32.5
FPIs/MFs (%)	30.6/17.4

Price Performance			
(%)	1M	3M	12M
Absolute	3.2	4.9	34.1
Rel. to Nifty	(2.2)	1.4	6.9



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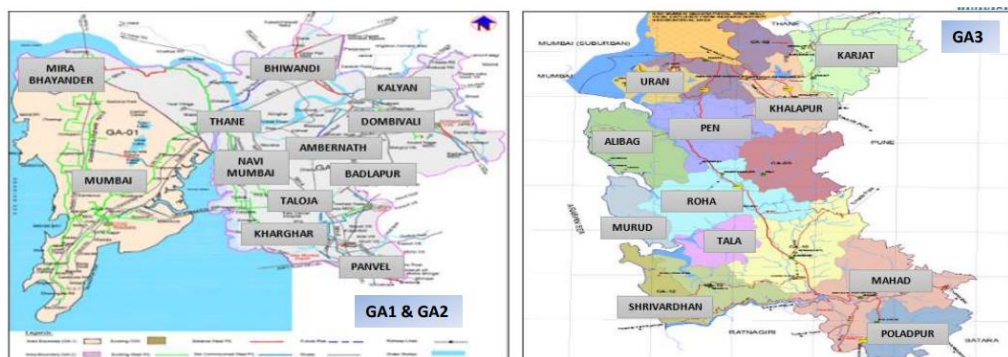
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Incentive scheme: Company has discontinued its incentive program for PVs since end Dec-23, but may restart it later in collaboration with OEMs. On the CV front, the incentive program was closed by end Mar-24, and CVs required incentives as well as assurances to shift to CNG after CNG prices rose in FY24 due to spike in APM gas prices. Customers using retrofits had range-anxiety as well as quality-related doubts, both of which have been well addressed by the company. The incentive scheme for CVs may be revived soon, whereas OEMs are currently offering 30 factory-fitted vehicle options, going up to a 20-ton capacity. Current, monthly run-rate of retrofit/OEM sales is 200/400-500. Regulations do not allow plying of >8-year diesel truck in Mumbai; hence, this could result in sustained retrofitment-led demand.

EV and CBG: Company has invested Rs960mn in 3ev Industries Pvt for 31% equity stake, with Rs500mn invested till Mar-24, with the balance being milestone-based going ahead. Mgmt. intends to learn about the EV eco-system through this investment. 3ev Industries is a manufacturer of L5 category three-wheel cargo, passenger and ICE-to-EV converted electric vehicles to meet e-commerce needs, retail, and last-mile logistics. 3ev currently has operations in Bangalore, and plans to venture into AP and Maharashtra as well. 3ev has ~30% stake in 3eco, which is operating an EV-based 3W fleet to transport goods for last-mile logistics and one vehicle can carry up to 800kg, thereby competing with Tata Ace. EV norms in Delhi are more stringent due to higher pollution as well as policy focus, whereas the Mumbai EV policy was introduced in 2022, but detailed contours are missing. However, the Mumbai EV policy mentioned conversion of 25% of aggregator cab additions to become EVs. MGL is working to firm up a concession agreement with the BMC for setting up a CBG plant of 1,000tpd capacity in Mumbai with municipal solid waste as feedstock.

Exhibit 1: MGL’s areas of operations



Authorized GAs	~Area (Sq. Km)	Population*	Household
GA1 - Mumbai & Greater Mumbai	465	12442373	2040500
GA2 - Thane Urban and adjoining Municipalities	1000	2373568	1469820
GA3 - Raigad District	6864	622836	167000

Source: Company; * As per census 2011

Exhibit 2: MGL's physical infrastructure and customer base as of FY24-end

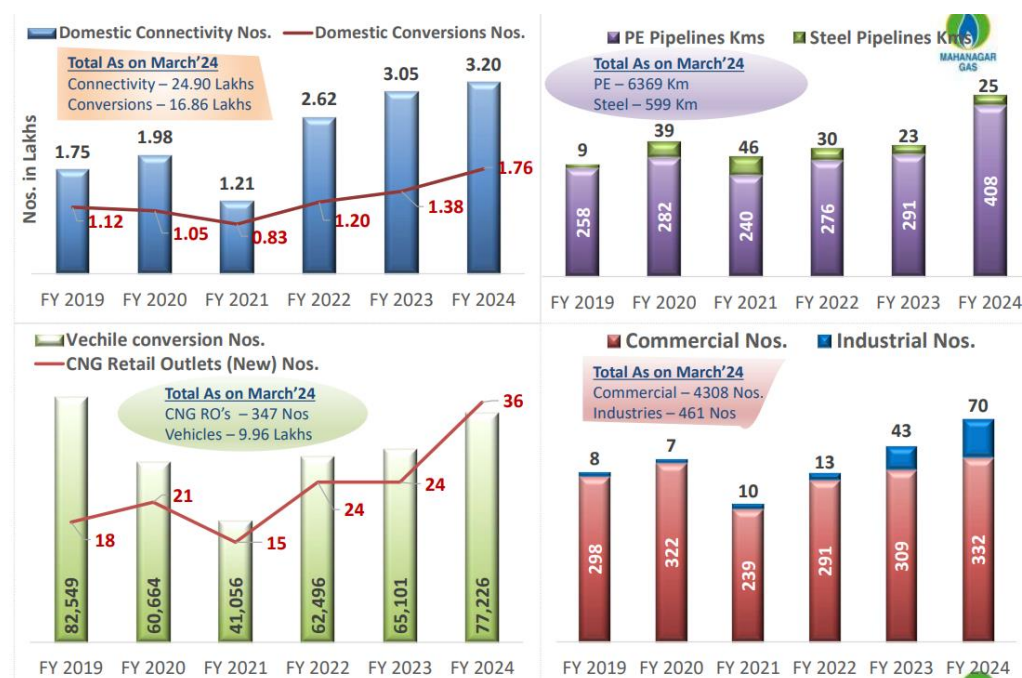
Physical Infrastructure				
	GA1	GA2	GA3	Total
CNG Stations (Nos.)	151	149	47	347
Steel Pipeline Length (km)	237	246	116	599
PE Pipeline Length (km)	3,253	2,816	300	6,369
Customer Base				
	GA1	GA2	GA3	Total
MGL PNG Connections (Nos.)	12,57,250	11,52,456	80,041	24,89,747
CNG Vehicles (Nos.)	6,84,836	3,04,252	7,127	9,96,215
I&C Customer (Nos.)	3,384	1,366	19	4,769

Source: Company

Exhibit 3: Break up of MGL's CNG ROs as at FY24-end

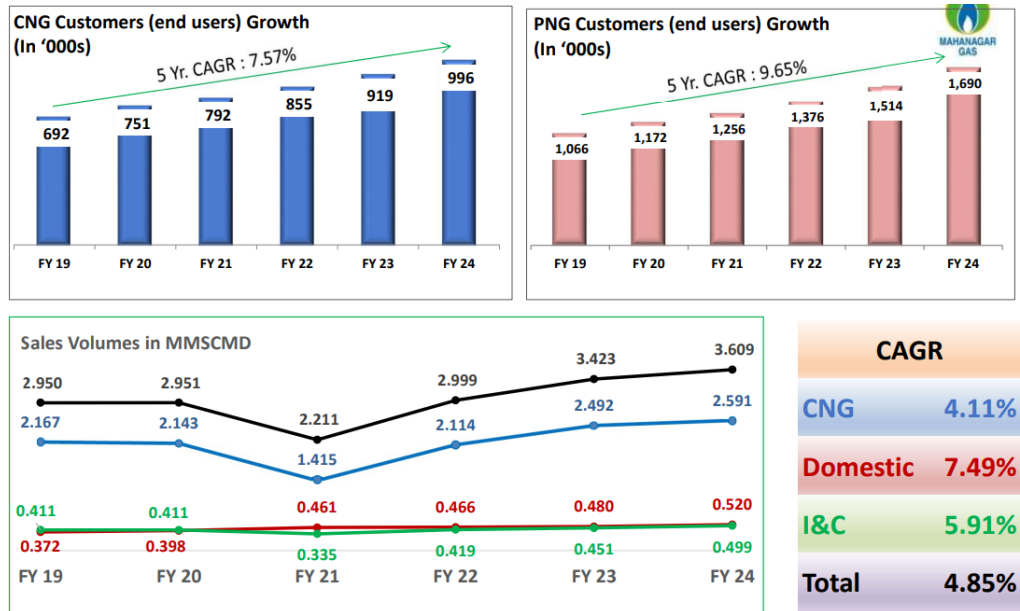
Entity Type	GA1	GA2	GA3	TOTAL
COCO	9	10	5	24
PVT	9	45	14	68
OMC	118	89	25	232
STUs	15	5	3	23
TOTAL	151	149	47	347

Source: Company

Exhibit 4: MGL's physical performance over the last 5 years

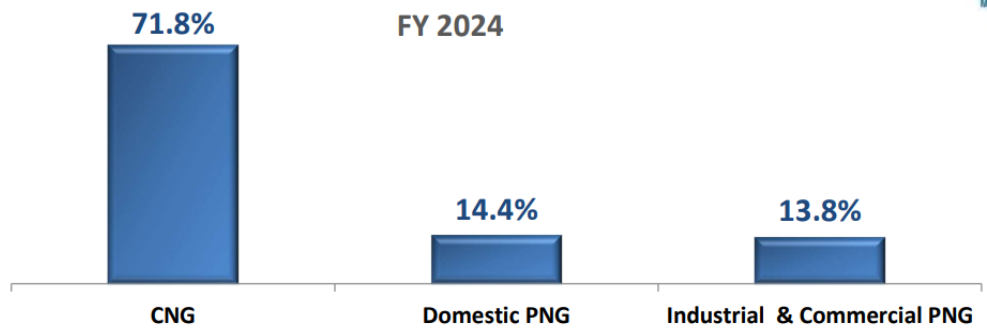
Source: Company

Exhibit 5: MGL's volume growth was supported by customer addition and network expansion



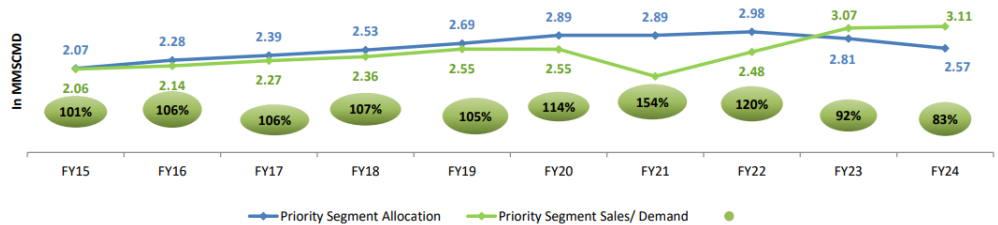
Source: Company

Exhibit 6: MGL's FY24 sales mix



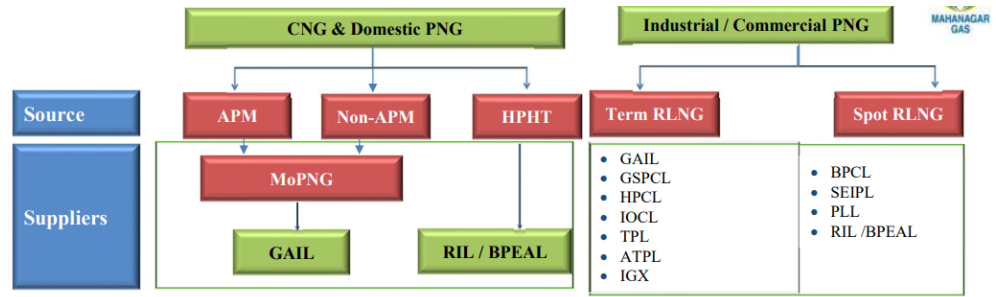
Source: Company

Exhibit 7: Priority allocation for MGL's priority segment has declined in the last 2 years due to growth in the CGD sector and fall in domestic gas production



Source: Company

Exhibit 8: MGL's gas scouring mix



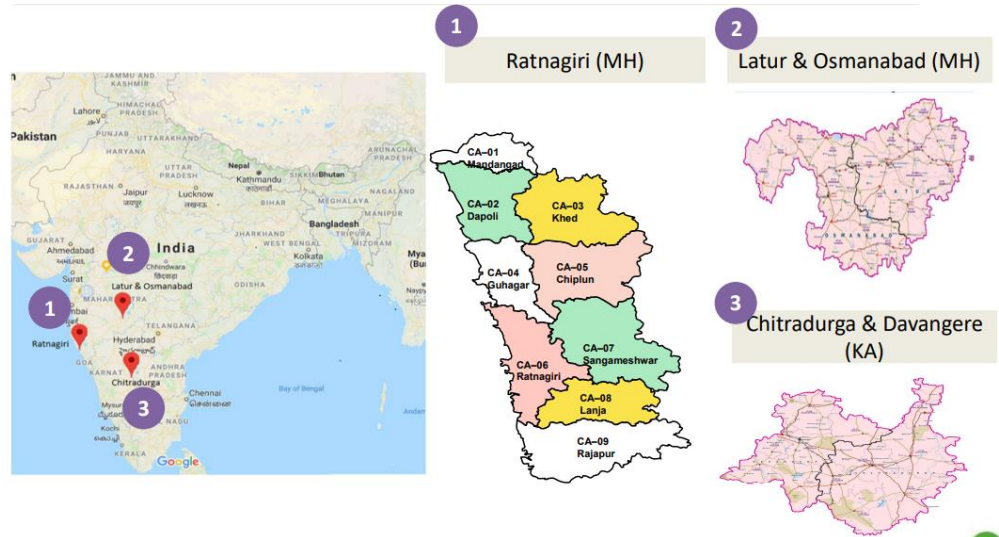
Source: Company

Exhibit 9: MGL's unit and financial metrics

Particulars	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24
Average Realization / SCM (INR)	25.69	27.27	26.42	32.25	50.20	47.05
Gross Margin / SCM (INR)	12.73	14.54	17.20	13.61	14.74	19.71
Opex / SCM (INR)	4.70	5.00	5.84	5.39	5.44	5.93
EBITDA / SCM (INR)	8.22	9.75	11.57	8.44	9.48	13.95
RONW % (1)	24.32%	29.66%	20.03%	17.48%	20.44%	27.79%
EPS (INR)	55.30	80.33	62.72	60.43	79.98	130.50

Source: Company

Exhibit 10: UEPL's areas of operations



Source: Company

Exhibit 11: UEPL's marketing and infrastructure exclusivity timelines

Sl. No.	Geographical Area (GA)	State/Union Territories	Date of Authorization	Marketing exclusivity till	Infrastructure exclusivity till
1	Ratnagiri District	Maharashtra	09-Aug-16	08-Aug-23	08-Aug-41
2	Latur & Osmanabad Districts	Maharashtra	24-Sep-18	23-Sep-28	23-Sep-43
3	Chitradurga & Davanagere Districts	Karnataka	25-Sep-18	24-Sep-28	24-Sep-43

Source: Company

Exhibit 12: UEPL's physical infrastructure and customer base as of FY24-end

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

Source: Company

Exhibit 13: Management guidance and future outlook

- ❖ The Company has capex plan for FY 2024-25:
 - ❖ of ~Rs.1000 Crores, for MGL ~Rs.800 Crore and UEPL ~Rs.200 Crore.
 - ❖ for creating pipeline infrastructure steel ~25 kms, PE ~200 kms and CNG station ~60 in MGL and ~30 in UEPL, PNG Domestic Connection of more than 3 Lakhs and ~60 Industrial connection and ~300 Commercial Connections.
- ❖ We expect volume growth in the range of 6 to 7%.
- ❖ The Company remains committed to growth avenues and will look for organic and inorganic suitable opportunities.
- ❖ The Company will be looking at diversification avenues in energy related businesses.

Source: Company

Exhibit 14: DCF-based valuation (Mar-25E)

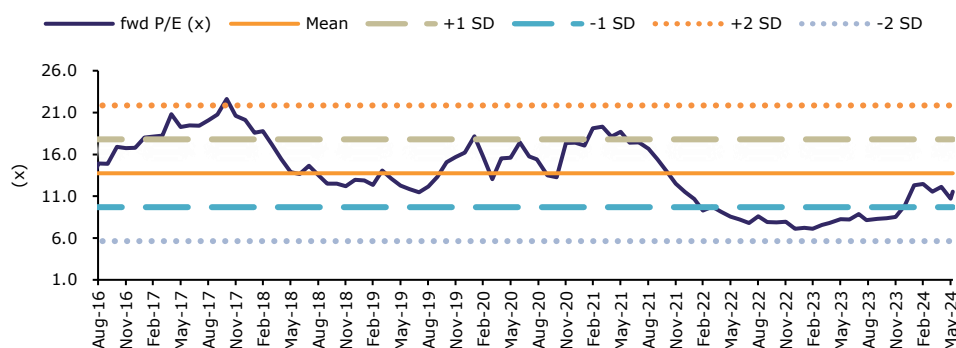
DCF Assumptions	MGL Std	UEPL	Mar-26E (Rs mn)	MGL Std	UEPL	Total
Risk Free Rate	7.0%	7.0%	NPV Of FCF	112,952	27,315	140,267
Risk Premium	5.3%	5.3%	Terminal Value	95,067	23,042	118,109
Beta	0.8	0.8	PV of TV	6,273	1,738	8,011
Cost Of Equity	11.0%	11.0%	Total Value	119,224	29,053	148,277
Cost Of Debt	8.0%	8.0%	Less: Adjusted Net Debt (Y/E)	-21,014	3,355	-17,659
Post Tax Cost Of Debt	6.0%	6.0%	Equity Value	140,238	25,698	165,936
Average Debt:Equity Ratio	0.0%	12.8%	No. of Shares O/S (mn)	99	99	99
WACC	11.0%	10.5%	Target Price (Rs/share)	1,420	260	1,680
Terminal Growth Rate	0.0%	0.0%				

Source: Company, Emkay Research

Exhibit 15: PER-based valuation (Mar-26E EPS)

	FY21	FY22	FY23	FY24*	FY25E	FY26E
MGL's Adjusted Consol EPS (Rs)	62.7	60.4	80.0	130.5	116.6	127.0
Target Multiple (x)						13.2
DCF Target Price (Rs/share)						1,680

Source: Company, Emkay Research

Exhibit 16: MGL's one-year forward P/E

Source: Company, Bloomberg, Emkay Research

Mahanagar Gas: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	35,602	62,993	62,445	64,086	68,722
Revenue growth (%)	65.4	76.9	(0.9)	2.6	7.2
EBITDA	9,243	11,842	18,426	16,770	18,118
EBITDA growth (%)	(1.0)	28.1	55.6	(9.0)	8.0
Depreciation & Amortization	1,963	2,311	2,736	3,236	3,739
EBIT	7,281	9,530	15,690	13,533	14,379
EBIT growth (%)	(4.2)	30.9	64.6	(13.7)	6.2
Other operating income	0	0	0	0	0
Other income	857	1,119	1,753	2,196	2,459
Financial expense	75	94	115	120	117
PBT	8,063	10,555	17,328	15,610	16,721
Extraordinary items	0	0	0	0	0
Taxes	2,093	2,655	4,437	3,934	4,214
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	5,969	7,900	12,891	11,676	12,507
PAT growth (%)	(3.7)	32.3	63.2	(9.4)	7.1
Adjusted PAT	5,969	7,900	12,891	11,676	12,507
Diluted EPS (Rs)	60.4	80.0	130.5	118.2	126.6
Diluted EPS growth (%)	(3.7)	32.3	63.2	(9.4)	7.1
DPS (Rs)	25.0	26.0	30.0	47.3	50.6
Dividend payout (%)	41.4	32.5	23.0	40.0	40.0
EBITDA margin (%)	26.0	18.8	29.5	26.2	26.4
EBIT margin (%)	20.4	15.1	25.1	21.1	20.9
Effective tax rate (%)	26.0	25.2	25.6	25.2	25.2
NOPLAT (pre-IndAS)	5,390	7,133	11,672	10,123	10,755
Shares outstanding (mn)	98.8	98.8	98.8	98.8	98.8

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	8,063	10,555	17,328	15,610	16,721
Others (non-cash items)	263	355	538	0	0
Taxes paid	(2,122)	(2,638)	(4,240)	(3,562)	(3,839)
Change in NWC	1,647	731	1,852	1,383	1,206
Operating cash flow	9,037	9,693	15,631	14,157	14,936
Capital expenditure	(6,963)	(7,358)	(8,566)	(8,000)	(8,000)
Acquisition of business	(418)	(1,328)	(7,560)	(61)	(173)
Interest & dividend income	423	460	507	2,196	2,459
Investing cash flow	(6,400)	(9,218)	(10,810)	(6,823)	(5,653)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	289	116	247	10	10
Payment of lease liabilities	(290)	(330)	(350)	(350)	(350)
Interest paid	(75)	(94)	(115)	(120)	(117)
Dividend paid (incl tax)	0	0	0	0	0
Others	(3,317)	(2,870)	(3,247)	(4,670)	(5,002)
Financing cash flow	(3,103)	(2,848)	(3,116)	(4,779)	(5,109)
Net chg in Cash	(467)	(2,373)	1,706	2,555	4,174
OCF	9,037	9,693	15,631	14,157	14,936
Adj. OCF (w/o NWC chg.)	7,390	8,962	13,780	12,774	13,730
FCFF	2,074	2,335	7,065	6,157	6,936
FCFE	2,422	2,701	7,457	8,233	9,278
OCF/EBITDA (%)	97.8	81.9	84.8	84.4	82.4
FCFE/PAT (%)	40.6	34.2	57.8	70.5	74.2
FCFF/NOPLAT (%)	38.5	32.7	60.5	60.8	64.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	988	988	988	988	988
Reserves & Surplus	34,985	40,354	50,441	57,447	64,951
Net worth	35,973	41,342	51,429	58,434	65,939
Minority interests	0	0	0	0	0
Deferred tax liability (net)	2,008	2,086	2,441	2,812	3,187
Total debt	1,030	1,146	1,393	1,403	1,413
Total liabilities & equity	39,011	44,574	55,262	62,649	70,539
Net tangible fixed assets	24,581	28,318	33,490	38,641	43,270
Net intangible assets	52	51	51	51	51
Net ROU assets	1,504	1,888	1,888	1,888	1,888
Capital WIP	6,159	7,086	7,743	7,356	6,988
Goodwill	0	0	0	0	0
Investments [JV/Associates]	1,590	2,918	10,477	10,539	10,712
Cash & equivalents	15,535	15,377	14,172	17,746	22,032
Current assets (ex-cash)	2,917	4,685	4,438	4,554	4,884
Current Liab. & Prov.	13,327	15,749	16,998	18,126	19,286
NWC (ex-cash)	(10,411)	(11,064)	(12,560)	(13,572)	(14,402)
Total assets	39,011	44,574	55,262	62,649	70,539
Net debt	(14,505)	(14,231)	(12,780)	(16,343)	(20,619)
Capital employed	39,011	44,574	55,262	62,649	70,539
Invested capital	15,727	19,194	22,869	27,009	30,807
BVPS (Rs)	364.2	418.5	520.6	591.6	667.5
Net Debt/Equity (x)	(0.4)	(0.3)	(0.2)	(0.3)	(0.3)
Net Debt/EBITDA (x)	(1.6)	(1.2)	(0.7)	(1.0)	(1.1)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	22.0	25.5	34.9	26.7	25.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	22.9	17.3	10.6	11.7	10.9
P/CE(x)	17.2	13.4	8.7	9.1	8.4
P/B (x)	3.8	3.3	2.7	2.3	2.1
EV/Sales (x)	3.4	1.9	2.0	1.9	1.7
EV/EBITDA (x)	13.2	10.3	6.7	7.2	6.4
EV/EBIT(x)	16.7	12.8	7.9	8.9	8.1
EV/IC (x)	7.8	6.4	5.4	4.4	3.8
FCFF yield (%)	1.7	1.9	5.7	5.1	6.0
FCFE yield (%)	1.8	2.0	5.5	6.0	6.8
Dividend yield (%)	1.8	1.9	2.2	3.4	3.7
DuPont-RoE split					
Net profit margin (%)	16.8	12.5	20.6	18.2	18.2
Total asset turnover (x)	1.0	1.5	1.3	1.1	1.0
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
RoE (%)	17.5	20.4	27.8	21.3	20.1
DuPont-RoIC					
NOPLAT margin (%)	15.1	11.3	18.7	15.8	15.7
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	37.9	40.9	55.5	40.6	37.2
Operating metrics					
Core NWC days	(16.0)	(4.0)	(9.0)	(9.0)	(9.0)
Total NWC days	(16.0)	(4.0)	(9.0)	(9.0)	(9.0)
Fixed asset turnover	1.1	1.6	1.4	1.2	1.1
Opex-to-revenue (%)	16.6	10.8	12.6	13.6	14.0

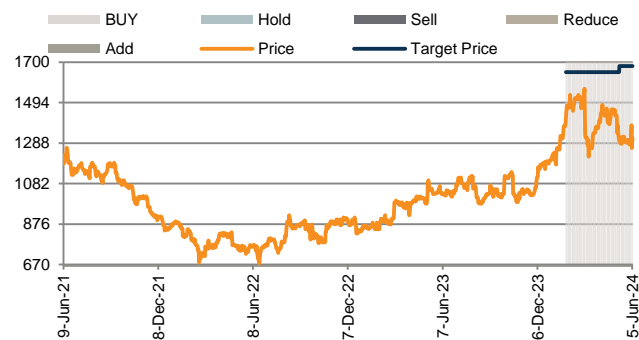
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
11-May-24	1,300	1,680	Buy	Sabri Hazarika
07-Mar-24	1,316	1,650	Buy	Sabri Hazarika
29-Jan-24	1,414	1,650	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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