

Mahanagar Gas

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR1,345 **TP: INR1,665 (+24%)** **Buy**

Taking measures to propel volume growth

Bloomberg	MAHGL IN
Equity Shares (m)	99
M.Cap.(INRb)/(USDb)	132.9 / 1.6
52-Week Range (INR)	1354 / 831
1, 6, 12 Rel. Per (%)	12/19/36
12M Avg Val (INR M)	615

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
Sales	61.6	58.8	62.0
EBITDA	18.9	16.7	17.4
Adj. PAT	13.3	11.3	11.9
Adj. EPS (INR)	135.0	114.9	120.3
EPS Gr. (%)	68.8	-14.9	4.8
BV/Sh.(INR)	499.5	568.5	640.7

Ratios

Net D:E	-0.1	-0.2	-0.2
RoE (%)	29.4	21.5	19.9
RoCE (%)	29.5	21.6	19.9
Payout (%)	40.0	40.0	40.0

Valuation

P/E (x)	10.0	11.7	11.2
P/BV (x)	2.7	2.4	2.1
EV/EBITDA (x)	6.7	7.4	6.8
Div. Yield (%)	4.0	3.4	3.6
FCF Yield (%)	5.8	4.9	5.9

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	32.5	32.5	32.5
DII	27.2	26.1	25.6
FII	30.9	30.5	29.7
Others	9.4	10.0	12.2

FII Includes depository receipts

- Mahanagar Gas Ltd.'s (MAHGL) EBITDA increased by 75% YoY to INR4.5b in 3QFY24, mainly driven by a 63% YoY rise in EBITDA/scm to INR13.3. Volumes grew 8% YoY to 3.7mmscmd driven by CNG and I/C-PNG.
- CNG growth was led by an increase in vehicle conversions to 22.4k vehicles in 3Q from ~20k in 2Q and ~15k in 1Q. There was a 30% uptick in CNG passenger vehicle conversions in 3Q due to the 'CNG Mahotsav' scheme launched by the company. MAHGL spent INR100m in 3Q on the scheme and intends to spend INR200m in 4Q.
- I/C PNG growth was driven by high consumption among new customers. The company guarantees a 10% discount on gas prices compared to alternate fuels for the first three years to new customers in GA3 region. In GA2, the same benefit is provided to new customers with high gas offtake.
- According to the management, CNG is currently 50% cheaper than petrol and 18-19% cheaper than diesel on a calorific value basis. MAHGL does not expect CNG volumes to be meaningfully impacted by INR5-10/lit cut in petrol prices. However, the diesel price cut may affect commercial vehicle conversions and the company may consider price cuts in case volume declines significantly.
- The stock trades at 11.7x FY25E EPS of INR114.9. We value it at 14x Dec'25E EPS to arrive at a TP of INR1,665 and **maintain BUY rating on the stock**. We continue to prefer MAHGL over IGL owing to its 30% cheaper valuation (on FY26E PE basis) with largely similar growth profile in the medium term and relatively lower EV risk.

Performance in line with expectations

- **Total volumes were in line with est. at 3.7mmscmd (up 8% YoY).**
 - CNG volumes stood at 2.6mmscmd (up 6% YoY).
 - PNG total volumes came in at 1mmscmd (up 11% YoY).
- **EBITDA/scm came in line with our estimate at INR13.3 (up 63% YoY).**
 - Resultant EBITDA was also in line at INR4.5b (up 75% YoY).
 - PAT was also in line at INR3.2b (up 84% YoY).
- **For 9MFY24**, revenue stood at INR46.8b (flat YoY), EBITDA at INR14.5b (up 82% YoY), and PAT at INR10.2b (up 96% YoY).
 - EBITDA/scm was at INR14.9 (up 77% YoY).
 - Total volume stood at 3.6mmscmd (up 3% YoY).
- The company has declared an interim dividend of INR12.
 - PNGRB in Dec'23 approved a transfer of 100% equity shares held by existing shareholders of UEPL. MAHGL is in the process of consummating the acquisition as per the SPA.
 - MAHGL in Oct'23 signed an agreement with Baidyanath LNG Pvt. Ltd. to form a joint venture firm, under which Mahanagar LNG Pvt. Ltd. was incorporated in Dec'23.
 - However, it is still in the process of issuing equity shares to shareholders for subscription and is yet to commence its business operations.

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

Valuation and view

- During the quarter, MAHGL connected 118,215 households and added 98 PNG-I/C customers. For Raigad GA, 75,432 households were connected and 11km of pipeline was laid.
- We expect a 4% 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 11.7x FY25E EPS of INR114.9. We value it at 14x Dec'25E EPS to arrive at a TP of INR1,665 and **maintain BUY rating on the stock.**

Standalone - Quarterly Earning**(INR m)**

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	14,548	15,627	16,714	16,105	15,378	15,709	15,688	14,777	62,993	61,552	15,366	2%
YoY Change (%)	136.4	88.2	62.6	48.2	5.7	0.5	-6.1	-8.2	76.9	-2.3	-8.1	
EBITDA	2,856	2,528	2,561	3,897	5,213	4,789	4,487	4,413	11,842	18,902	4,488	0%
EBITDA/SCM	9.1	7.9	8.2	12.8	16.8	14.6	13.3	13.7	9.5	14.6	13.5	-2%
Margins (%)	19.6	16.2	15.3	24.2	33.9	30.5	28.6	29.9	18.8	30.7	29.2	
Depreciation	537	551	585	638	620	658	683	705	2,311	2,667	661	
Interest	23	25	24	22	25	25	27	27	94	104	27	
Other Income	200	260	323	336	390	437	481	465	1,119	1,773	410	
PBT	2,496	2,213	2,274	3,573	4,957	4,543	4,258	4,146	10,555	17,904	4,210	1%
Tax	644	573	553	885	1,273	1,158	1,086	1,049	2,655	4,565	1,060	
Rate (%)	25.8	25.9	24.3	24.8	25.7	25.5	25.5	25.3	25.2	25.5	25.2	
Reported PAT	1,852	1,640	1,721	2,688	3,684	3,385	3,172	3,098	7,901	13,338	3,150	1%
YoY Change (%)	-9.3	-19.7	203.0	104.0	98.9	106.4	84.3	15.2	32.3	68.8	83.1	
Margins (%)	12.7	10.5	10.3	16.7	24.0	21.5	20.2	21.0	12.5	21.7	20.5	
Sales Volumes (mmscmd)												
CNG	2.5	2.5	2.5	2.4	2.5	2.6	2.6	2.5	2.5	2.6	2.6	0%
PNG - Domestic	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	1%
PNG - Industrial/ Commercial	0.4	0.4	0.4	0.5	0.4	0.5	0.5	0.5	0.4	0.5	0.5	8%
PNG - Total	0.9	0.9	0.9	1.0	0.9	1.0	1.0	1.0	0.9	1.0	1.0	5%
Total Volumes	3.4	3.5	3.4	3.4	3.4	3.6	3.7	3.5	3.4	3.5	3.6	2%

Operational Highlights

Operational Highlights	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	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%
Growth YoY (%)	223%	75%	27%	13%	64%	14%	3%	6%	-2%	2%	6%	
PNG (mmscmd)	0.8	0.9	0.9	0.9	0.9	0.9	0.9	1.0	0.9	1.0	1.0	5%
Growth YoY (%)	34%	12%	3%	3%	7%	3%	3%	8%	2%	8%	11%	
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%
Growth YoY (%)	115%	51%	19%	10%	44%	11%	3%	6%	-1%	3%	8%	
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	-9%
Growth YoY (%)	76%	-9%	-73%	-38%	-35%	-24%	140%	70%	84%	83%	63%	

Exhibit 1: CNG volumes up 6% YoY to 2.6mmscmd

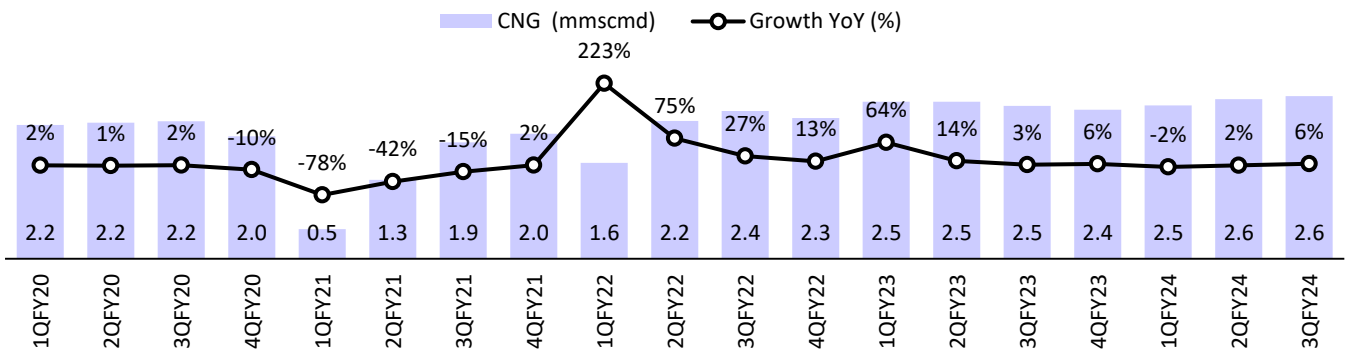


Exhibit 2: PNG volumes up 8% YoY to 1mmscmd

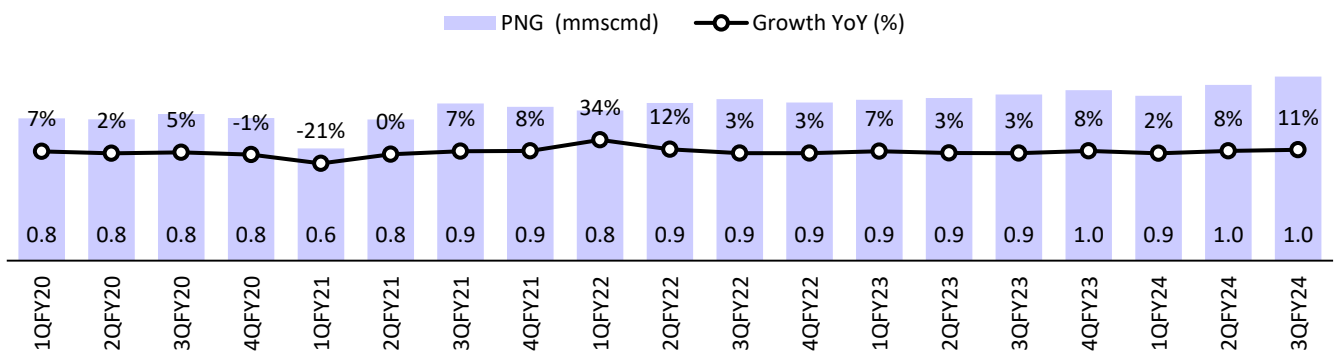


Exhibit 3: Total volumes up 8% YoY to 3.7mmscmd

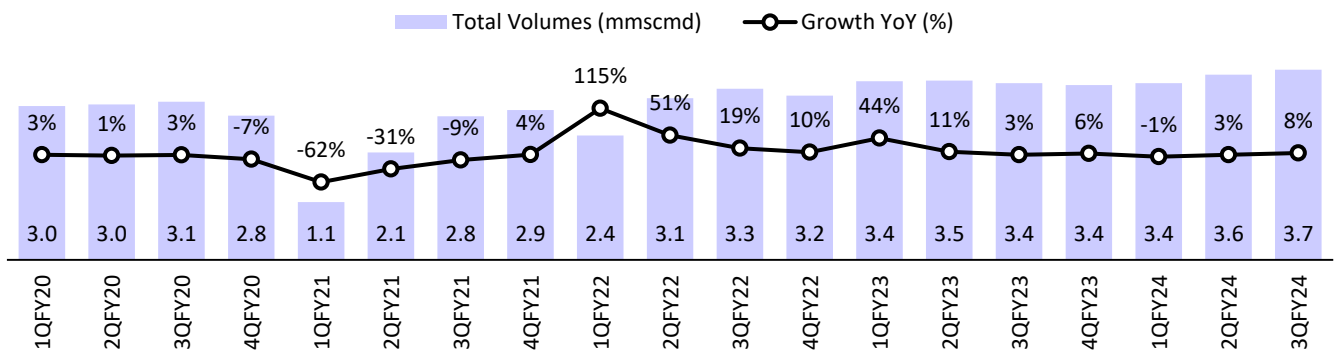
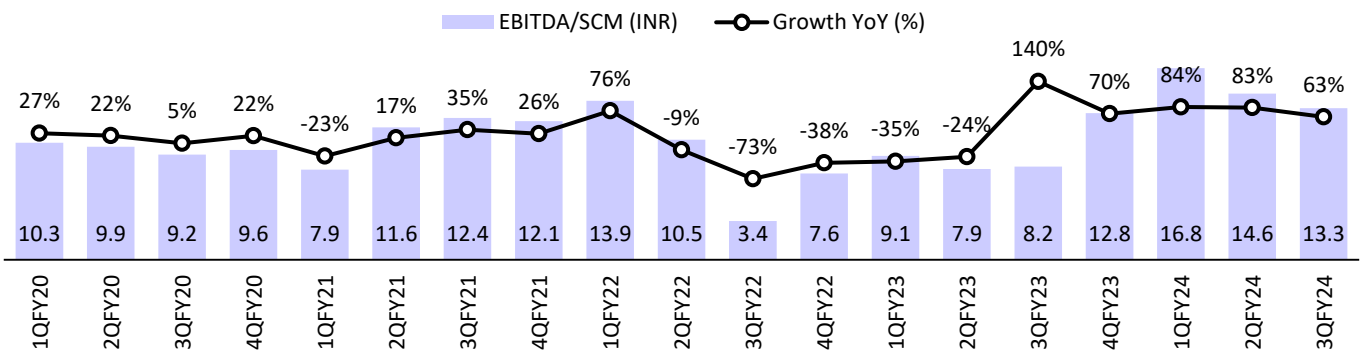


Exhibit 4: EBITDA/scm at INR13.3 (up 63% YoY)



Source: Company, MOFSL

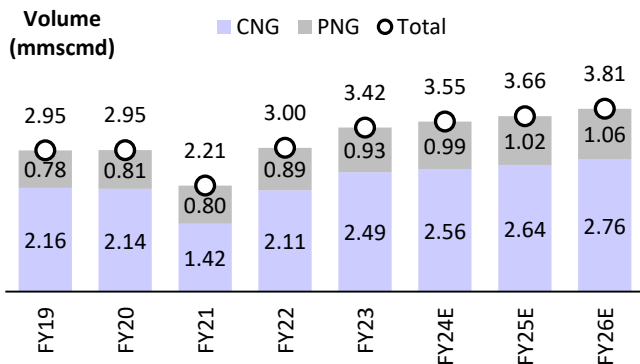


Highlights from the management commentary

- During the quarter,
 - 118,215 domestic households were connected, taking the total to 2.37m.
 - 90km of steel & PE pipelines were laid, taking the total length to 6,742km.
 - 98 I/C customers were added.
 - In Raigad GA,
 - ✓ 75,432 households were added.
 - ✓ 11km of pipeline was laid, taking the total length to 404km.
- As of Dec'23, 320 CNG stations were operational, including 32 in Raigad GA.
- Volume growth in the industrial segment was driven by high consumption by new customers.
 - The company has launched new schemes to attract new industrial customers.
 - MAHGL guarantees a 10% discount on gas prices compared to alternate fuels for the first three years to all new customers in GA3 and customers with high consumption in GA2.
- Vehicle conversions increased to 22.4k in 3Q from ~20k in 2Q and ~15k in 1Q.
 - Commercial vehicle conversions also increased to 1,400 in 3Q from 1,100 in 1Q.
 - 300-400 new MSRTC buses will be commissioned over the next few months, which should drive CNG growth.
 - APM shortfall during the quarter was at 20% — 18% was met through HPHT and ~2% through spot
- The company spent INR100m in 3QFY24 on the 'CNG Mohatsav' scheme and plans to spend around INR200m in 4QFY24.
 - There was a 30% uptick in sales to CNG passenger vehicles due to the scheme.
 - For passenger vehicles, the scheme ended on 31st Dec'23, but it is still continuing for commercial vehicles.
- The company will invest INR1-1.5b in UEPL in FY25.
 - UEPL's volumes grew 18-20% in past year.
- CNG is 50% cheaper than petrol and 18-19% than diesel
 - The company does not expect a huge impact on CNG volumes even after INR5-10/lit price cut on petrol.
 - However, the diesel price cut may have an adverse impact.
 - MAHGL may consider CNG price cuts if volumes fall due to price cuts by OMCs.
- 10 new CNG stations were commissioned during 9MFY24.
 - The company targets to add 45 new CNG stations per year.
- 9MFY24 capex stood at INR5b. FY24 capex is expected to be INR7.5-8b.

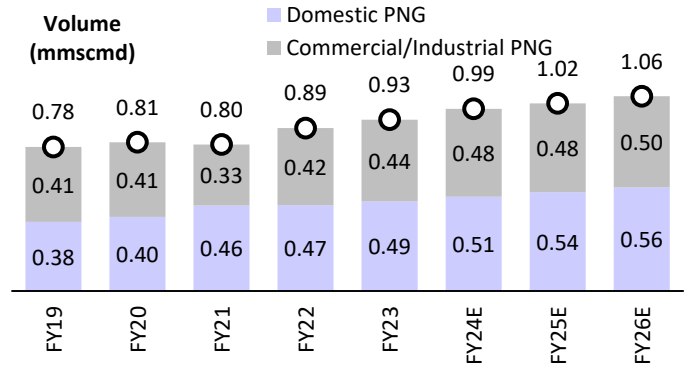
Story in charts

Exhibit 5: Volume growth snapshot



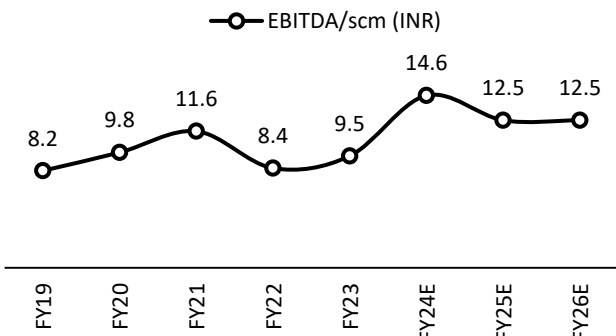
Source: Company, MOFSL

Exhibit 6: PNG segment-wise volumes



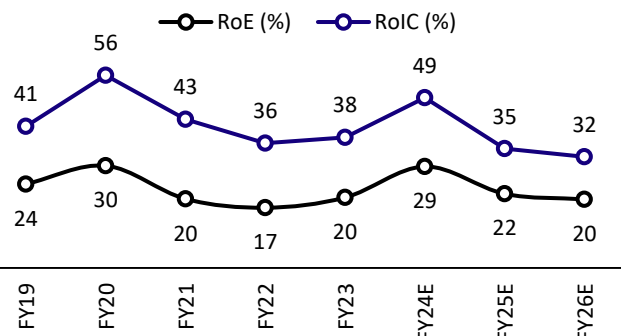
Source: Company, MOFSL

Exhibit 7: EBITDA/scm snapshot



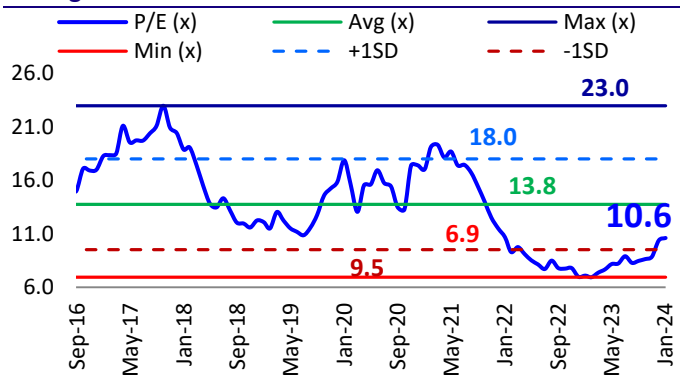
Source: Company, MOFSL

Exhibit 8: Return ratios for MAHGL



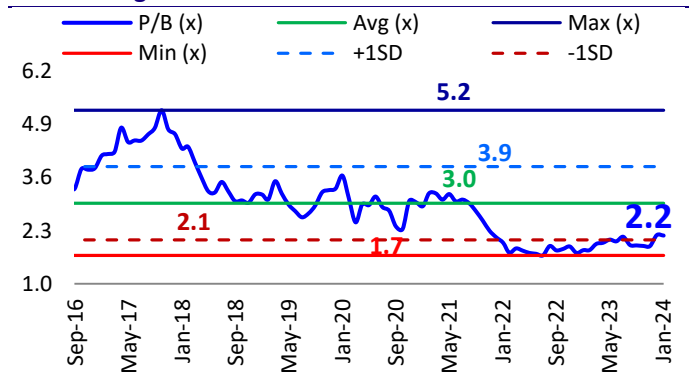
Source: Company, MOFSL

Exhibit 9: 1-year fwd. P/E trades at 24% discount to LT average of 13.8x...



Source: Company, MOFSL

Exhibit 10: ...and 1-year fwd. P/B trades at ~27% discount to LT average of 3x



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	27,911	29,721	21,525	35,602	62,993	61,552	58,767	62,010
Change (%)	25.0	6.5	-27.6	65.4	76.9	-2.3	-4.5	5.5
EBITDA	8,855	10,528	9,340	9,243	11,842	18,902	16,697	17,400
Margin (%)	31.7	35.4	43.4	26.0	18.8	30.7	28.4	28.1
Depreciation	1,259	1,617	1,737	1,963	2,311	2,667	2,916	3,156
EBIT	7,595	8,911	7,603	7,281	9,531	16,235	13,781	14,245
Int. and Finance Charges	3	65	72	75	94	104	93	93
Other Income	777	990	805	857	1,119	1,773	1,474	1,732
PBT bef. EO Exp.	8,369	9,835	8,336	8,063	10,555	17,904	15,162	15,883
PBT after EO Exp.	8,369	9,835	8,336	8,063	10,555	17,904	15,162	15,883
Total Tax	2,905	1,900	2,140	2,093	2,655	4,565	3,816	3,998
Tax Rate (%)	34.7	19.3	25.7	26.0	25.2	25.5	25.2	25.2
Reported PAT	5,464	7,935	6,196	5,970	7,901	13,338	11,345	11,885
Adjusted PAT	5,464	7,935	6,196	5,970	7,901	13,338	11,345	11,885
Change (%)	14.3	45.2	-21.9	-3.6	32.3	68.8	-14.9	4.8
Margin (%)	19.6	26.7	28.8	16.8	12.5	21.7	19.3	19.2

Standalone - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	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	48,357	55,165	62,296
Net Worth	23,989	29,527	32,324	35,973	41,342	49,345	56,152	63,283
Total Loans	0	176	168	206	208	208	208	208
Deferred Tax Liabilities	2,048	1,607	1,773	2,008	2,086	2,086	2,086	2,086
Capital Employed	26,037	31,310	34,264	38,187	43,636	51,639	58,446	65,577
Gross Block	21,732	25,024	27,918	34,048	40,096	48,788	55,365	61,518
Less: Accum. Deprn.	4,098	5,716	7,452	9,415	11,727	14,393	17,309	20,465
Net Fixed Assets	17,634	19,309	20,466	24,633	28,369	34,395	38,056	41,053
Capital WIP	3,697	4,865	5,603	6,159	7,086	4,441	3,912	3,806
Total Investments	6,540	11,215	10,250	10,883	13,098	13,098	13,098	13,098
Rights to use assets	0	1,183	1,228	1,504	1,888	1,888	1,888	1,888
Curr. Assets, Loans&Adv.	6,539	4,708	8,465	9,158	9,882	13,661	16,705	21,797
Inventory	191	186	222	275	338	282	278	295
Account Receivables	996	685	1,275	1,840	2,940	2,873	2,743	2,894
Cash and Bank Balance	2,988	2,295	5,119	4,652	2,279	6,280	9,649	14,351
Cash	265	154	282	825	1,179	5,180	8,549	13,251
Bank Balance	2,723	2,141	4,837	3,827	1,100	1,100	1,100	1,100
Loans and Advances	2,364	1,543	1,850	2,391	4,324	4,225	4,034	4,257
Curr. Liability & Prov.	8,373	9,971	11,747	14,151	16,687	15,844	15,212	16,065
Account Payables	1,524	1,318	1,559	2,719	3,222	2,687	2,650	2,810
Other Current Liabilities	6,637	8,390	9,839	11,076	12,967	12,671	12,097	12,765
Provisions	212	263	350	356	498	486	464	490
Net Current Assets	-1,834	-5,263	-3,282	-4,993	-6,806	-2,183	1,493	5,732
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	26,037	31,310	34,264	38,187	43,636	51,639	58,446	65,577

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	55.3	80.3	62.7	60.4	80.0	135.0	114.9	120.3
Cash EPS	68.1	96.7	80.3	80.3	103.4	162.0	144.4	152.3
BV/Share	242.8	298.9	327.2	364.2	418.5	499.5	568.5	640.7
DPS	20.0	35.0	23.0	23.0	26.0	54.0	45.9	48.1
Payout (%)	43.5	52.4	36.7	38.1	32.5	40.0	40.0	40.0
Valuation (x)								
P/E	24.3	16.7	21.4	22.3	16.8	10.0	11.7	11.2
Cash P/E	19.8	13.9	16.8	16.8	13.0	8.3	9.3	8.8
P/BV	5.5	4.5	4.1	3.7	3.2	2.7	2.4	2.1
EV/Sales	4.7	4.4	5.9	3.6	2.1	2.1	2.1	1.9
EV/EBITDA	14.7	12.4	13.7	13.9	11.0	6.7	7.4	6.8
Dividend Yield (%)	1.5	2.6	1.7	1.7	1.9	4.0	3.4	3.6
FCF per share	32.6	56.6	47.2	26.0	26.0	77.6	66.1	79.1
Return Ratios (%)								
RoE	24.3	29.7	20.0	17.5	20.4	29.4	21.5	19.9
RoCE	24.3	29.8	20.1	17.5	20.5	29.5	21.6	19.9
RoIC	41.0	55.8	43.1	36.2	37.9	49.4	34.6	32.2
Working Capital Ratios								
Fixed Asset Turnover (x)	1.3	1.2	0.8	1.0	1.6	1.3	1.1	1.0
Asset Turnover (x)	1.1	0.9	0.6	0.9	1.4	1.2	1.0	0.9
Inventory (Days)	3	2	4	3	2	2	2	2
Debtor (Days)	13	8	22	19	17	17	17	17
Creditor (Days)	20	16	26	28	19	16	16	17
Leverage Ratio (x)								
Current Ratio	0.8	0.5	0.7	0.6	0.6	0.9	1.1	1.4
Net Debt/Equity	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.2	-0.2

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	8,369	9,835	8,336	8,063	10,555	17,904	15,162	15,883
Depreciation	1,259	1,617	1,737	1,963	2,311	2,667	2,916	3,156
Direct Taxes Paid	-2,709	-2,380	-2,065	-2,122	-2,638	-4,565	-3,816	-3,998
(Inc)/Dec in WC	366	1,369	602	1,640	134	-621	-307	462
Others	-443	-655	-627	-583	-764	-1,773	-1,474	-1,732
CF from Operations	6,846	9,852	8,055	9,037	9,693	13,715	12,574	13,865
(Inc)/Dec in FA	-3,625	-4,258	-3,395	-6,473	-7,127	-6,048	-6,048	-6,048
Free Cash Flow	3,221	5,594	4,660	2,563	2,566	7,668	6,526	7,818
(Pur)/Sale of Investments	474	-4,316	1,287	-357	-1,748	0	0	0
Others	-1,234	1,026	-2,331	1,440	2,384	1,773	1,474	1,732
CF from Investments	-4,385	-7,548	-4,439	-5,390	-6,491	-4,275	-4,573	-4,316
Dividend Paid	-2,330	-2,183	-3,221	-2,810	-2,518	-5,335	-4,538	-4,754
CF from Fin. Activity	-2,346	-2,416	-3,488	-3,103	-2,848	-5,439	-4,632	-4,848
Inc/Dec of Cash	115	-112	128	543	354	4,001	3,369	4,702
Opening Balance	150	265	154	282	825	1,179	5,180	8,549
Closing Balance	265	154	282	825	1,179	5,180	8,549	13,251

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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