

January 24, 2024

RESULT REPORT Q3 FY24 | Sector: Energy

Mahanagar Gas Ltd

Strong performance driven by higher EBITDA spreads and volumes

Our View

Mahanagar Gas Limited (MGL) delivered a robust Q3 FY24, exceeding expectations with a 75.2% YoY increase in EBITDA to Rs4.5bn and an 84.3% YoY increase in PAT to Rs3.2bn. Strong CNG volumes with a above normal growth of 6.4% YoY and a new high across PNG segments drove this performance, while EBITDA spreads were stronger but sequentially declined due to price cuts. The volumes would continue to grow at a slower pace, but EBITDA spreads should be lower in FY25 as compared to FY24 (peak profitability) which would result in a decline in earnings. Given the recent stock rally of ~12% in last 2 weeks, we see limited upside from current CMP and maintain an ADD rating on the stock with an unchanged TP of Rs 1,365/shr.

Result Highlights

- Performance:** EBITDA at Rs4.5bn was up 75.2% YoY but down 6.3% QoQ. PAT at 3.2bn was up 84.3% YoY and down 6.3% QoQ. Overall performance was supported by better spreads and volumes (new high across all segments), EBITDA spreads and volumes better than ours. The consensus EBITDA/PAT at Rs 4.1/2.8bn, however the reported performance is a beat.
- Volumes:** Overall volumes at 3.67mmscmd (vs our est of 3.61) was up 7.6% YoY and 2.7% QoQ. CNG volumes at 2.63mmscmd (new high) vs our est of 2.62, were up 6.4% YoY and 1.9% QoQ. D-PNG volumes at 0.53mmscmd were up 6.3% YoY and 8% QoQ. Industrial and commercial sales at 0.51mmscmd (new high), up 15.9% YoY and 1.5% QoQ.
- Gross Margins (GM):** The gas cost was down by 30% YoY and flat QoQ, this resulted in gross margins improvement on YoY but down QoQ basis. The gross margin was at Rs19.1/scm up 39.3% YoY but down 6.4% QoQ (due to price cuts).
- Opex:** The opex at Rs5.8/scm (in line with our estimates) was higher by 4.9% YoY and flat QoQ, with other operating expenses higher by 9.9% YoY and 3.8% QoQ.
- EBITDA spreads:** EBITDA spread at Rs 13.3/scm (higher than our est) is up 62.8% YoY but down 8.8% QoQ. The EBITDA spread improved YoY on better gross margins while declined sequentially due to price cuts.
- The company has declared an interim dividend of Rs12/shr and fixed 5th Feb'24 as the record date.

Valuation

We expect a 5% volume CAGR over FY24-26 with a spread of Rs 13.9/11.3/11.4/scm. The stock is trading at 12.6x/11.8x PER FY25e/26e and we sense a limited upside. We recommend an ADD with a target price of Rs 1,365/share on strong margins, strong cash flows and balance sheet.

Exhibit 1: Actual vs estimate

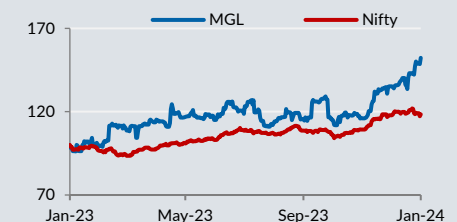
Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	15,688	14,796	15,293	6.03%	2.58%	Above estimates on stronger volume growth and EBITDA spreads
EBITDA	4,487	3,586	4,062	25.10%	10.45%	
EBITDA Margin (%)	28.60%	24.24%	26.56%	436bps	204bps	
Adjusted PAT	3,172	2,440	2,814	30.00%	12.70%	

Reco	: ADD
CMP	: Rs 1,345
Target Price	: Rs 1,365
Potential Return	: +1.5%

Stock data (as on Jan 24, 2024)

Nifty	21,454
52 Week h/l (Rs)	1351 / 831
Market cap (Rs/USD mn)	129631 / 1560
Outstanding Shares (mn)	99
6m Avg t/o (Rs mn):	604
Div yield (%):	1.3
Bloomberg code:	MAHGL IN
NSE code:	MGL

Stock performance



	1M	3M	1Y
Absolute return	12.7%	32.1%	54.1%

Shareholding pattern (As of Dec '23 end)

Promoter	32.5%
FII+DII	58.1%
Others	9.4%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	1,365	1,365

Δ in estimates

(1-Yr)	FY24e	FY25e	FY26e
EPS (New)	126.9	106.6	113.7
EPS (Old)	126.9	106.6	113.7
% Change	-	-	-

Financial Summary

(Rs bn)	FY24E	FY25E	FY26E
Revenue	61.1	63.5	67.7
YoY Growth	(3.0)	4.0	6.7
EBIDTA	18.1	15.5	16.6
OPM %	29.5	24.4	24.4
PAT	12.5	10.5	11.2
YoY Growth	58.7	(16.0)	6.7
ROE	25.0	18.3	17.2
EPS	126.9	106.6	113.7
P/E	10.6	12.6	11.8
BV	507.3	581.9	660.6
EV/EBITDA	2.5	3.2	3.3

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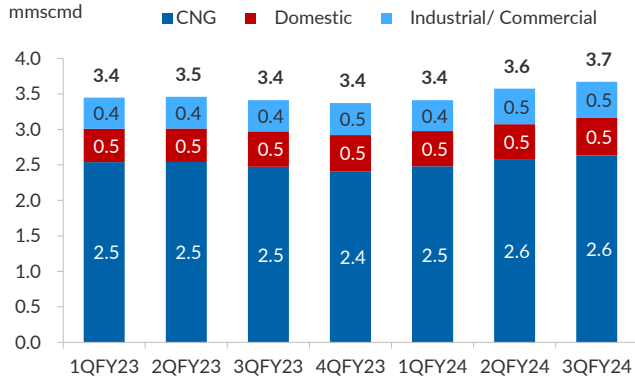
Exhibit 2: Earnings snapshot

Particulars (Rs mn)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	y/y (%)	q/q (%)	9M FY23	9M FY24	y/y (%)
Revenue	16,714	16,105	15,378	15,709	15,688	(6.1)	(0.1)	46,888	46,775	(0.2)
Expenditure	14,153	12,208	10,165	10,921	11,201	(20.9)	2.6	38,943	32,287	(17.1)
-Raw Material	12,407	10,428	8,442	8,992	9,231	(25.6)	2.7	33,921	26,664	(21.4)
-Staff Cost	219	324	286	311	291	33.2	(6.3)	755	887	17.5
- Other Expenses	1,528	1,457	1,438	1,618	1,679	9.9	3.8	4,267	4,735	11.0
Operating Profit	2,561	3,897	5,213	4,789	4,487	75.2	(6.3)	7,945	14,488	82.4
OPM(%)	15.3	24.2	33.9	30.5	28.6	1328 bps	-188 bps	16.9	31.0	1403 bps
Other Income	323	336	390	437	481	49.1	10.0	782	1,307	67.1
Depreciation	585	638	620	658	683	16.7	3.8	1,673	1,961	17.2
Interest	24	22	25	25	27	12.4	10.1	72	77	7.2
Excpnl Loss/(Profit)	-	-	-	-	-	n.a.	n.a.	-	-	n.a.
PBT	2,274	3,573	4,957	4,543	4,257	87.2	(6.3)	6,982	13,757	97.0
Tax	553	885	1,273	1,158	1,086	96.2	(6.3)	1,770	3,517	98.7
PAT	1,721	2,688	3,684	3,385	3,172	84.3	(6.3)	5,212	10,241	96.5
Adj PAT	1,721	2,688	3,684	3,385	3,172	84.3	(6.3)	5,212	10,241	96.5

Exhibit 3: Operating highlights

Particulars	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	y/y (%)	q/q (%)	9M FY23	9M FY24	y/y (%)
Volumes										
CNG	2.5	2.4	2.5	2.6	2.6	6.4	1.9	2.5	2.6	1.9
PNG										
Domestic	0.5	0.5	0.5	0.5	0.5	6.3	8.0	0.5	0.5	5.4
Industrial/ Commercial	0.4	0.5	0.4	0.5	0.5	15.9	1.5	0.4	0.5	9.1
Total PNG	0.9	1.0	0.9	1.0	1.0	10.8	4.7	0.9	1.0	7.2
Total volumes	3.4	3.4	3.4	3.6	3.7	7.6	2.7	3.4	3.6	3.3
Margins										
Revenue	53.0	52.8	49.3	47.5	46.3	(12.8)	(2.7)	49.6	47.9	(3.4)
GM	13.7	18.7	22.3	20.4	19.1	39.3	(6.4)	13.7	20.6	50.2
Opex	5.6	5.9	5.6	5.9	5.8	4.9	(0.5)	5.3	5.8	8.4
EBITDA	8.2	12.8	16.8	14.6	13.3	62.8	(8.8)	8.4	14.8	76.5

Exhibit 4: Volume split



Source: Company, YES Sec

Exhibit 5: % share of Volumes

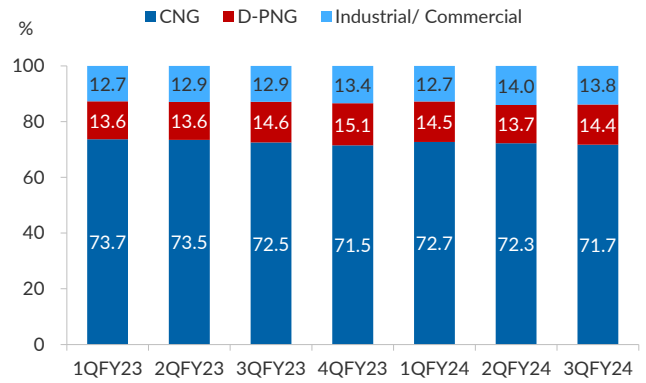


Exhibit 6: Margins and Opex

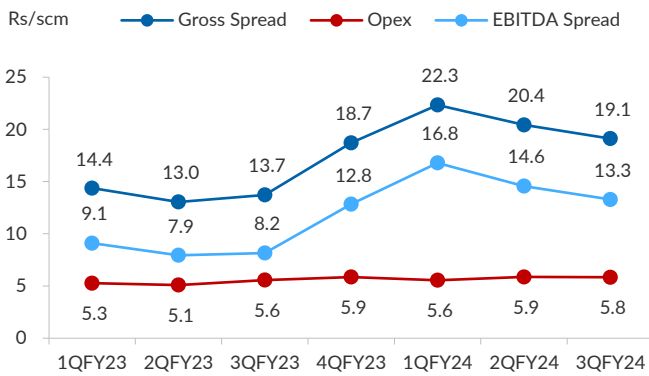
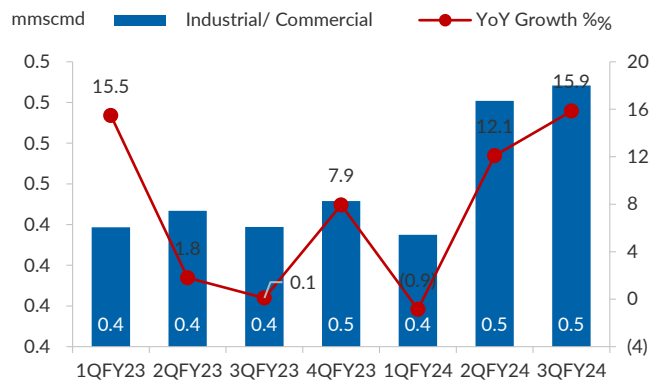


Exhibit 7: Industrial Volume and growth



Source: Company, YES Sec

CONCALL HIGHLIGHTS

- **Connections and customers:** 1 new CNG stations was added during the quarter taking the total base to 320 CNG stations that are operational. The company added 1,18,260 D-PNG connections, current base at ~2.37mn households. It added 98 industrial and commercial customers, a total base of 4,691. It also laid 90 km of steel pipeline in Q3FY24, taking the aggregate length to 6,742 kms.
- **Volume breakup:** In Q3, average gas volume sales increased to 3.671mmscm, up 7.6% YoY. CNG sales volume grew to 2.632mmscmd, up 6.38% from the previous year. Industrial and commercial sales volume increased to 0.508mmscmd, up 15.84%. Domestic PNG sales volume increased to 0.53mmscmd, up 6.37% YoY. CNG volume growth at 8% YoY in kg terms. The industrial volumes were at 0.378mmscmd.
- **CNG Vehicles:** MGL added 22,200 vehicles in Q3FY24, of which HCV & LCV were 1,400. Major increase was supported from passenger car segment as incentive schemes were rolled out since September.
- **Gas Prices:** Gas prices remained stable during the quarter and HPHT had ceiling revised down from USD 12.12/mmbtu in 1HFY24 to USD 9.99/mmbtu in 2HFY24.
- **Raigad GA and Infrastructure Development:** Connected 92,432 domestic households and operationalized 32 CNG stations in Raigad. Laid 11km of pipeline in Raigad, totaling 404km in the district, commenced LNG sales to B2B customers.
- **Gas sourcing and allocation:** APM constitutes 78%, HP/HT 18%, and 2% spot in gas allocation. Tied up HP/HT priority volume of 0.51mmscmd.
- **Unison (UEPL) Transfer and Gas Potential:** Unison transfer of control from Ashoka Buildcon and Morgan expected by Q4FY24. Approximately 50+CNG stations, with a current volume of 0.13mmscmd and a potential of 1.2mmscmd. Payment completion for Unison acquisition expected in next 2-3 weeks completing this quarter. Gas availability linked with GAIL pipeline; LNG sourcing from Dabhol to Ratnagiri would be feasible as its close by.
- **Fuel Price cut impact and Industrial Contracts:** Monitoring market response to petrol and diesel price cuts for potential impact on its growth. In mileage terms today CNG is 50% cheaper than petrol and ~20% over diesel. If petrol prices are cut by Rs5/ltr, the company sees less impact while diesel is largely used by CVs where conversions are at 1400 a quarter so less impact there as well. Industrial gas, currently at a 10% discount to alternative fuels, added 0.15mmscmd of volume through contracts. Improved connectivity in challenging areas contributing to volume growth.
- **Financial Status and Capex:** Cash reserves as of 31-Dec'23 over Rs24bn, intended for Unison (UEPL) acquisition. The 9MFY24 capex at Rs 5bn, with an anticipated total of 7.5-8bn in FY24.
- **Market Strategy and Pricing:** Gas cost prices expected to remain stable. Fluctuations in margin attributed to the 78-80% priority allocation. Strategy is focused on industrial customers, offering discounts on higher volumes. Incremental addition of 300-400 MSRTC buses in the next 4-5 months.
- **Future Plans and Investments:** Expected FY25 capex of Rs9-10bn, with Rs 8bn in MGL and Rs1.5-2bn in UEPL. HP/HT gas at 9.93mmd; ceiling price of USD10 for next year. The scheme is expected to add 80k to 1 lakh vehicles in the next fiscal which would drive the volumes.

VIEW & VALUATION

Maintain ADD with a target price of Rs 1,365/sh

We expect a 5% volume CAGR over FY24/25/26 with a spread of Rs 13.9/11.3/11.4/scm. The stock is trading at 12.6x/11.8x PER FY25e/26e and we sense a limited upside. We recommend an ADD with an unchanged target price of Rs 1,365/share on strong margins, strong cash flows and balance sheet.

Exhibit 8: Valuation table

Valuation	FY26E
EPS (Rs)	113.7
PER (x)	12.0
Target (PER based)	1,365

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



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	21,525	35,602	62,993	61,090	63,519	67,747
Total Expense	12,186	26,359	51,151	43,038	48,031	51,196
Operating Profit	9,340	9,243	11,842	18,052	15,488	16,550
Other Income	805	857	1,119	1,175	1,233	1,295
Depreciation	1,737	1,963	2,311	2,473	2,646	2,832
EBIT	8,408	8,138	10,649	16,753	14,075	15,014
Interest	72	75	94	-	-	-
Extraordinary Item	-	-	-	-	-	-
PBT	8,336	8,063	10,555	16,753	14,075	15,014
Tax	2,140	2,093	2,655	4,217	3,543	3,779
PAT	6,196	5,970	7,901	12,536	10,532	11,235
Adj. PAT	6,196	5,970	7,901	12,536	10,532	11,235
Eps	62.7	60.4	80.0	126.9	106.6	113.7

Exhibit 11: Balance sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	988	988	988	988	988	988
Reserves	31,336	34,985	40,354	49,136	56,507	64,284
Net worth	32,324	35,973	41,342	50,124	57,495	65,272
Debt	-	-	-	-	-	-
Deferred tax liab (net)	1,773	2,008	2,086	2,086	2,086	2,086
Capital Employed	34,096	37,981	43,428	52,210	59,581	67,358
Fixed assets	26,069	30,793	35,455	40,926	46,280	51,449
Investments	-	-	-	-	-	-
Net working capital	8,027	7,189	7,973	11,284	13,301	15,909
Inventories	222	275	338	328	341	364
Sundry debtors	1,275	1,840	2,940	2,851	2,965	3,162
Cash & Bank Balance	5,119	4,652	2,279	5,052	7,263	9,840
Other current assets	13,327	14,779	19,310	19,310	19,310	19,310
Sundry creditors	1,559	2,719	3,222	2,585	2,905	3,094
Other liabilities	10,357	11,638	13,673	13,673	13,673	13,673
Application of Funds	34,096	37,981	43,428	52,210	59,581	67,358

Exhibit 12: Cash flow statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
PBT	8,336	8,063	10,555	16,753	14,075	15,014
Depreciation & amortization	1,737	1,963	2,311	2,473	2,646	2,832
Interest expense	(312)	(384)	(336)	-	-	-
(Inc)/Dec in working capital	602	1,652	134	(538)	194	(31)
Tax paid	(2,065)	(2,122)	(2,638)	(4,217)	(3,543)	(3,779)
Less: Interest/Dividend Income Received	(10)	-	-	-	-	-
Other operating Cash Flow	(233)	(135)	(334)	-	-	-
Cash flow from operating activities	8,055	9,037	9,693	14,472	13,372	14,035
Capital expenditure	(3,395)	(6,473)	(7,127)	(7,944)	(8,000)	(8,000)
Inc/(Dec) in investments	1,287	(357)	(1,748)	-	-	-
Add: Interest/Dividend Income Received	(2,331)	1,440	2,384	-	-	-
Cash flow from investing activities	(4,439)	(5,391)	(6,491)	(7,944)	(8,000)	(8,000)
Inc/(Dec) in share capital	-	-	-	-	-	-
Inc/(Dec) in debt	(262)	(290)	(330)	-	-	-
Dividend Paid	(3,221)	(2,810)	(2,518)	(3,754)	(3,162)	(3,458)
Others	(5)	(4)	-	-	-	-
Cash flow from financing activities	(3,488)	(3,103)	(2,848)	(3,754)	(3,162)	(3,458)
Net cash flow	128.1	542.8	354.2	2,773.1	2,210.8	2,577.3

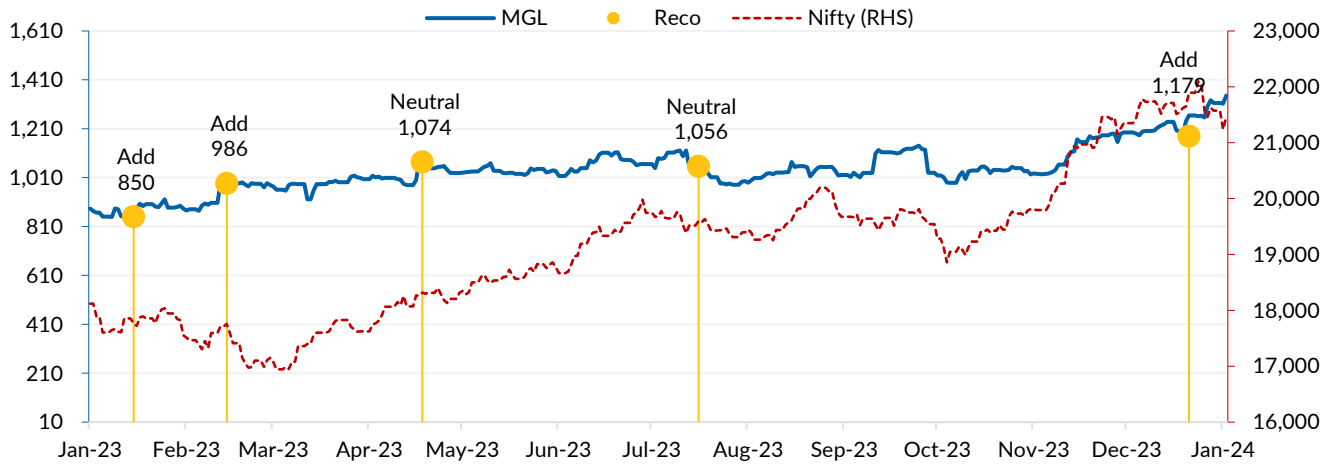
Exhibit 13: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.7	0.7	0.7	0.7	0.7	0.7
Interest burden (x)	1.0	1.0	1.0	1.0	1.0	1.0
EBIT margin (x)	0.4	0.2	0.2	0.3	0.2	0.2
Asset turnover (x)	0.5	0.7	1.1	0.9	0.9	0.8
Financial leverage (x)	1.0	1.0	1.0	1.0	1.0	1.0
RoE (%)	14.2	12.1	14.0	19.5	14.6	14.0

Exhibit 14: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)						
Revenue growth	(27.6)	65.4	76.9	(3.0)	4.0	6.7
Op profit growth	(11.3)	(1.0)	28.1	52.4	(14.2)	6.9
EBIT growth	(15.1)	(3.2)	30.9	57.3	(16.0)	6.7
Net profit growth	(21.9)	(3.7)	32.3	58.7	(16.0)	6.7
Profitability ratios (%)						
OPM	43.4	26.0	18.8	29.5	24.4	24.4
EBIT margin	39.1	22.9	16.9	27.4	22.2	22.2
Net profit margin	28.8	16.8	12.5	20.5	16.6	16.6
RoCE	24.7	21.4	24.5	32.1	23.6	22.3
RoE	19.2	16.6	19.1	25.0	18.3	17.2
RoA	14.2	12.1	14.0	19.5	14.6	14.0
Per share ratios						
EPS	62.7	60.4	80.0	126.9	106.6	113.7
Dividend per share	19.5	23.5	26.0	38.0	32.0	35.0
Cash EPS	80.3	80.3	103.4	151.9	133.4	142.4
Book value per share	327.2	364.1	418.4	507.3	581.9	660.6
Valuation ratios						
P/E	18.6	12.9	12.3	10.6	12.6	11.8
P/CEPS	14.6	9.7	9.5	8.9	10.1	9.4
P/B	3.6	2.1	2.4	2.7	2.3	2.0
EV/EBIDTA	2.9	3.4	3.3	2.5	3.2	3.3
Payout (%)						
Dividend payout	31.1	38.9	32.5	29.9	30.0	30.8
Tax payout	25.7	26.0	25.2	25.2	25.2	25.2
Liquidity ratios						
Debtor days	19.9	17.3	15.5	15.5	15.4	15.4
Inventory days	9.9	4.4	2.5	3.4	3.1	3.0
Creditor days	76.1	48.5	26.5	26.5	26.5	26.5

Recommendation Tracker



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The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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