HOLD
TP: Rs 1,210 | ⮝ 14%

MAHANAGAR GAS | Oil & Gas | 07 August 2023

Walking a tightrope; retain HOLD

- **Q1 ahead of consensus on margin surprise but soft CNG volumes for the third straight quarter worrying**
- **Management needs to demonstrate a better balance between pricing and volumes to deliver sustainable EBITDA growth, in our view**
- **Maintain HOLD with a TP of Rs 1,210 (vs. Rs 1,200) on soft long-term prospects**

Kirtan Mehta, CFA | Yash Thakur
research@bobcaps.in

Q1 a beat but soft volumes a concern: MAHGL's Q1FY24 EBITDA at Rs 5.2bn was 26% ahead of consensus due to a sharp QoQ uptick of Rs 4/scm in EBITDA margin to Rs 16.8/scm. While the higher margin came as a positive surprise, the 1% YoY decline in volumes (in SCM terms) was negative. Management attributes the softness to higher prices as well as the loss of volumes to adjoining states where rates are lower and the reduction in CNG buses by state transport provider BEST.

Volumes and margins out of balance: We believe that softer CNG volumes for the past three quarters stem from sharp price increases by the company in FY23 to reduce the impact of higher gas cost on margins. In our view, the situation warrants a rethink on the balance between margins and volumes needed to sustain positive consumer sentiment. With a sufficient discount to petrol/diesel currently, MHAGL is planning targeted incentives in specific segments, such as commercial vehicles.

Volumes likely to rebound, margins to come off Q1 levels: With a pickup in vehicle sales following price cuts in April and the addition of 500-600 Maharashtra state transport buses by MSRTC through November, we expect MAHGL's volume growth to rebound from Q1 lows to 5.9% in FY24 (7.4% estimated earlier). We also believe the full-year EBITDA margin will trend down from Q1 levels to Rs 11.2/scm (Rs 10/scm estimated earlier) as petrol/diesel prices are aligned with crude in H2FY24.

Slower long-term growth relative to peers a constraint…: We raise our FY24/ FY25/FY26 EBITDA forecasts by 11%/3%/4% as we assume higher margins but marginally lower volume growth post Q1. We now pencil in a 5% volume CAGR (5.5% earlier) and average EBITDA margin of Rs 9.5/scm (Rs 9.2/scm earlier) for MAHGL's core business over FY24-FY33. We assume CoE of 11% and terminal growth of 2.5%.

…maintain HOLD: We move our TP to Rs 1,210 from Rs 1,200 based on estimate revision. The stock has run up 21% since the end of February and offers only 14% upside, leading us to maintain HOLD. Our TP implies an FY24E/FY25E P/E of 12.1x/12.9x, a discount to peers. We believe further rerating could be constrained by relatively slower long-term volume growth of 5-6% (vs. 8% expected for IGL).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MAHGL IN/Rs 1,064
Market cap	US$ 1.3bn
Free float	58%
3M ADV	US$ 7.2mn
52wk high/low	Rs 1,144/Rs 771
Promoter/FPI/DII	43%/32%/15%

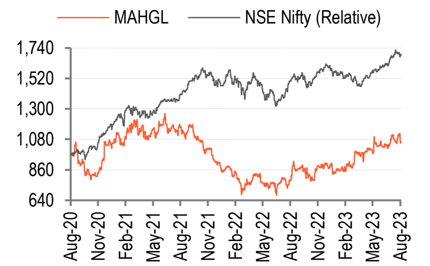
Source: NSE | Price as of 7 Aug 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	62,993	59,591	62,862
EBITDA (Rs mn)	11,842	14,861	14,297
Adj. net profit (Rs mn)	7,901	9,857	9,237
Adj. EPS (Rs)	80.0	99.8	93.5
Consensus EPS (Rs)	80.0	92.6	96.7
Adj. ROAE (%)	20.4	22.3	18.6
Adj. P/E (x)	13.3	10.7	11.4
EV/EBITDA (x)	8.5	6.9	7.3
Adj. EPS growth (%)	32.3	24.8	(6.3)

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

Q1 a beat but soft volumes a negative surprise

MAHGL's Q1FY24 revenue/EBITDA/net income at Rs 15.4bn/Rs 5.2bn/Rs 3.7bn was -2%/+26%/+31% relative to Bloomberg consensus and +1%/+22%/+26% relative to our estimates. EBITDA increased 34% QoQ spurred by a positive surprise on margins. However, slow volume growth came as a negative surprise.

- **Soft volumes worrying…:** Q1 volumes fell 1% YoY led by a 2% decline in CNG volumes in standard cubic meter (SCM) terms. Volumes were weaker than the historical trend in kilogram terms as well, at 1.84mn kg vs. 1.81mn a year ago.

  Management attributed the softness to relatively higher CNG prices (Rs 79/kg vs. Rs 60/kg a year ago) and the impact of price differential with adjoining states. Volumes were also affected by a reduction in CNG bus fleet by state-run BEST and a drop in conversions of medium & heavy vehicles (MH&CV: 1,200 in Q1 vs. 1,300 in Q4). In our view, the decline in CNG vehicle additions over the past 6-9 months has come in response to significantly higher CNG prices, pushing down volumes.

- **…but likely to pick up through the year:** We believe that volume growth will improve through the year as vehicle additions regain pace in response to fuel price cuts in April and as another 450-500 buses (on top of the 120 rolled out as of June) are inducted by MSRTC through November. Management is seeing initial signs of pickup with the addition of 14,750 CNG vehicles in Q1 vs. 13,500 in Q4FY23. Monthly CNG car addition also improved from 700 in May to 3,700 in June.

- **Targeted incentives planned to spur growth:** Management is open to price cuts but does not believe this is the best pathway to growth given the already-high CNG discount to current petrol prices and the reasonable 16% discount to diesel prices. MAHGL is considering targeted discounts to spur growth in diesel-based MH&CV conversions and is exploring alternatives for sharing upfront conversion costs and giving discounts on natural gas for a specific class of vehicles to reduce operating costs. The company further aims to incentivise bulk conversions by aggregators and fleet owners by offering lower rates.

- **Price cuts necessary to raise consumer sentiment, in our view:** As high margins have coincided with softer volumes over the past three quarters, this raises the question of whether deeper price cuts could be more successful in spurring growth. While management sees limited demand elasticity from such a move, we believe price cuts should be leveraged as a tool to improve consumer sentiment and return to a long-term growth trajectory.

- **Margin expansion a positive surprise…:** EBITDA margin improved by Rs 4/scm QoQ to Rs 16.8/scm in Q1 as MAHGL passed on only a Rs 3.5/scm cut in realisation against a Rs 7.2/scm reduction in gas purchase cost. Q1 margin benefitted from several positives culminating during the quarter – (a) the right timing on purchase of cheaper spot and HPHT gas to bridge the shortfall in APM gas, (b) deferring of volumes under long-term contracts so as to benefit from cheaper spot gas, and (c) doubling of margin in the industrial and commercial segment with the sharp pullback in LNG prices.

- **…but likely to trend down:** We expect MAHGL's operating margin to return to a more sustainable range of Rs 9-11/scm as petrol/diesel prices are aligned with crude price in the second half of the financial year.

Key initiatives to spur growth

- **MSRTC bus addition:** MAHGL has been successful in convincing MSRTC to add 1,000 long-haul CNG buses to the fleet, in turn adding 500-600 buses within the company's GAs. Bus additions have started at a pace of 50-60 buses a month and will likely be complete by November-December, per management. With each bus consuming 80kg/day of CNG on average, this could add 40,000kg per day (0.055mmscmd) or 2% of volumes for MAHGL. The company is currently setting up CNG stations at eight MSRTC depots and has identified private CNG stations in the vicinity of these bus depots for an interim period.

- **MoU for LNG stations with Baidyanath LNG:** MAHGL plans to explore usage of LNG in heavy vehicles by initially setting up 5-6 LNG stations over the next year. Each station will initially be able to serve 45-50 trucks per day at a requirement of 450kg per truck. Management aims to target both B2B and B2C customers and to target truck usage in the cement and steel industries for reduction of ESG footprint.

  Management expects the 10-15% discount to diesel price to be a win-win situation and will explore a basket of LNG contracts to remain competitive vs. diesel through the cycle. The company estimates capex of Rs 50mn-60mn per LNG station, which excludes land and opex of Rs 10-12/kg including boil-off (gas purchase cost is separate).

- **MoU for biogas or CBG plant with BMC:** MAHGL has entered an MoU with BMC to install two 500tpd biogas plants in two phases. The company will now identify a partner and land for setting up the plant and expects to commission the first phase over the next couple of years. A 1,000tpd plant has the potential to add Rs 1bn of revenue and earn an EBITDA margin of 20-25%, per management.

Management guidance

- **Volumes:** Management is confident of delivering a 5-6% volume CAGR over the next five years.

- **Margin:** Management considers an average EBITDA margin of Rs 9-11/scm as sustainable**.**

- **Capex:** MAHGL is targeting minimum capex of Rs 6bn in FY24 and will try to accelerate spends to Rs 8bn contingent upon the availability of enough sites for construction of CNG stations and permissions for laying pipelines. Capex incurred in Q1 totalled Rs 1.5bn.

Other key developments

- The company added 41,580 domestic households and 76 industrial and commercial customers across its three GAs in Q1 while laying a further 77km of steel and PE pipelines.

- Within Raigarh GA, MAHGL has connected 69,106 domestic households and operationalised 29 CNG stations to date. It has added 6.5km of pipeline in Q1, completing 389km so far.
- The need for spot volumes has reduced with improved supply from long-term contracts and the recent addition of 0.2mmscmd of contracted volumes with RIL. Previously, MAHGL had contracted 0.2mmcmd with linkage to Brent and 0.5mmscmd with linkage to US HH.

Fig 1 – Quarterly performance: Q1 EBITDA strongly ahead of consensus on a positive surprise on EBITDA margin

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Net sales	**15,378**	**14,548**	**5.7**	**16,105**	**(4.5)**
% of sales	54.9	69.0	-	64.7	-
Other expenditure	1,724	1,653	4.3	1,780	(3.2)
% of sales	11.2	11.4	-	11.1	-
EBITDA	**5,213**	**2,856**	**82.5**	**3,897**	**33.8**
EBITDA (Rs/scm)	**16.8**	**9.1**	**84.5**	**12.8**	**30.7**
EBITDA margin (%)	33.9	19.6	-	24.2	-
Depn and amortization	620	537	15.6	638	(2.8)
Interest	25	23	9.6	22	13.6
Other income	390	200	94.7	336	15.8
Profit Before Tax	**4,957**	**2,496**	**98.6**	**3,573**	**38.7**
Provision for tax	1,273	644	97.7	885	43.8
-effective tax rate (%)	25.7	25.8	-	24.8	-
PAT (reported)	**3,684**	**1,852**	**98.9**	**2,688.1**	**37.0**
Reported EPS (Rs)	37.3	18.7	98.9	27.2	37.0

Source: Company, BOBCAPS Research

Fig 2 – Volumes: Softer volumes a negative surprise

(mmscm)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
CNG	**226**	**231**	**(2.3)**	**217**	**4.1**
PNG	**85**	**83**	**2.4**	**87**	**(2.2)**
Industrial/Commercial	40	40	(0.9)	41	(2.6)
Domestic	45	43	5.5	46	(1.8)
Total volume (mmscm)	**310**	**314**	**(1.0)**	**303**	**2.3**
Total volume (mmscmd)	**3.41**	**3.45**	**(1.0)**	**3.37**	**1.2**

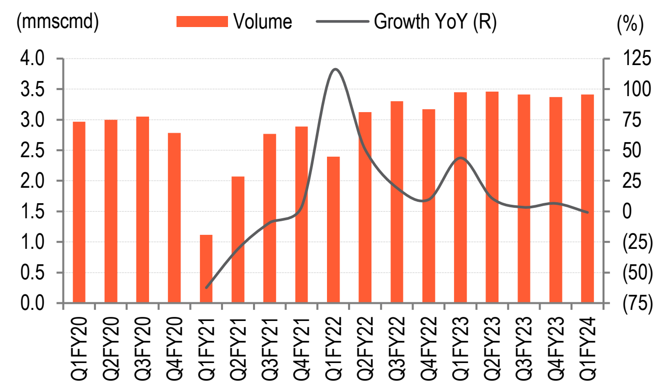
Source: Company, BOBCAPS Research

Fig 3 – Margins: Q1 margin at Rs 16.8/scm well ahead of Rs 9-11/scm guidance

(Rs/scm)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
CNG realisation (Rs/kg)	68.0	58.6	16.0	72.7	(6.5)
PNG realisation	50.0	57.0	(12.3)	53.5	(6.5)
Average realisation	**49.5**	**46.4**	**6.8**	**53.1**	**(6.7)**
Gas purchase cost	27.2	32.0	(15.0)	34.4	(20.9)
Gross Spread	**22.3**	**14.4**	**55.5**	**18.7**	**19.4**
Other operating costs	5.6	5.3	5.4	5.9	(5.4)
EBITDA	**16.8**	**9.1**	**84.5**	**12.8**	**30.7**

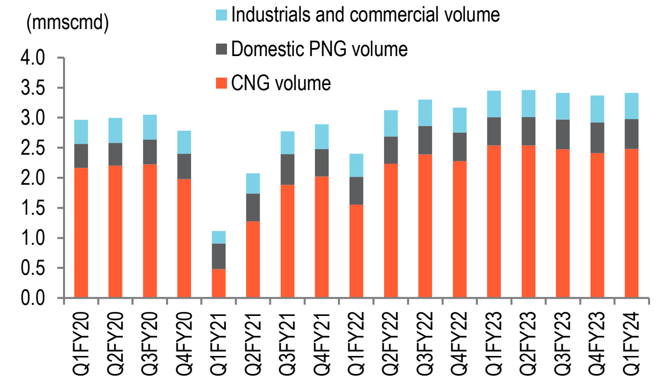
Source: Company, BOBCAPS Research

Fig 4 – Volumes declined on softness in CNG



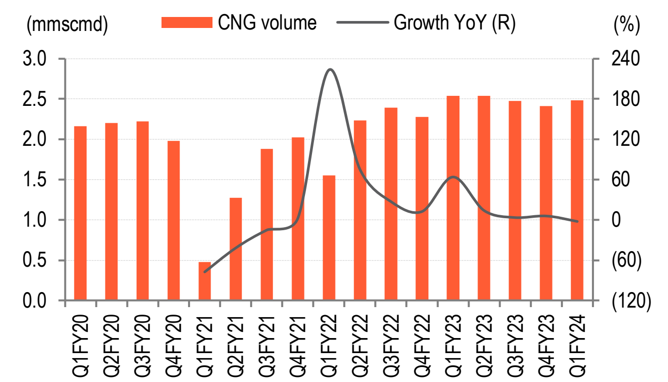
Source: Company, BOBCAPS Research

Fig 5 – Volume mix trends largely unchanged



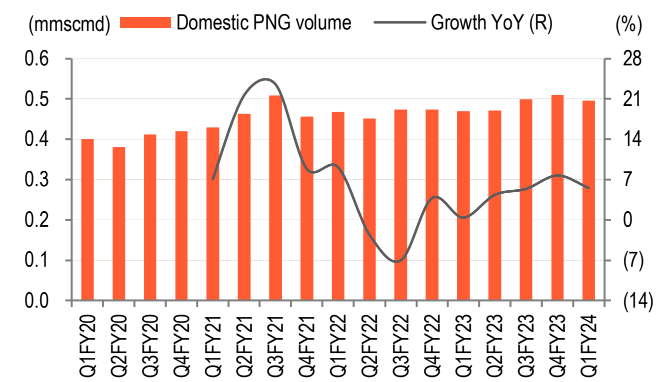
Source: Company, BOBCAPS Research

Fig 6 – CNG volume soft for three consecutive quarters despite continued vehicle additions



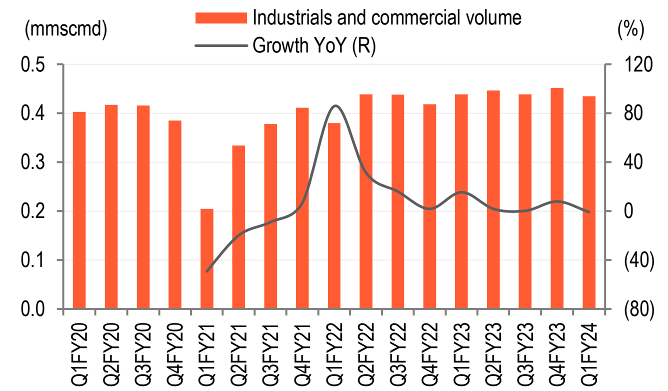
Source: Company, BOBCAPS Research

Fig 7 – Domestic PNG volumes declined QoQ after recovery in Q4FY23



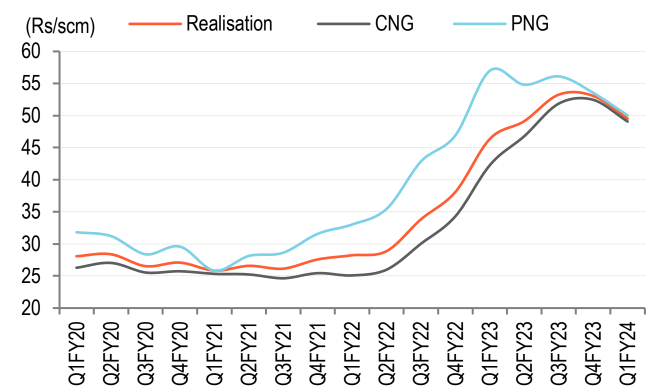
Source: Company, BOBCAPS Research

Fig 8 – Industrial and commercial volumes still weak



Source: Company, BOBCAPS Research

Fig 9 – MAHGL passed on benefit of lower APM price to CNG and domestic PNG customers



Source: Company, BOBCAPS Research

Valuation methodology

We raise our FY24/FY25/FY26 EBITDA forecasts by 11%/3%/4% as we now assume higher margins but marginally lower volume growth based on the Q1FY24 results. We expect MAHGL's EBITDA to grow from Rs 11.8bn in FY23 to Rs 15bn in FY26, an 8% CAGR, aided by a 6.5% CAGR in volumes over this period to 4.1mmscmd and modest margin recovery.

Growth assumptions

Factoring in softer volume growth in Q1, we lower our FY24 volume growth estimate to 5.9% (from 7.4%), albeit still higher YoY given increased vehicle additions, gradual induction of another 450-500 buses and targeted incentives for MH&CVs.

We believe MAHGL could deliver a 6.5% volume CAGR over FY23-FY26, up from the 5% CAGR reported over FY18-FY23. As highlighted in our note of 5 February, **Growth set to accelerate in medium term**, momentum is likely to be driven by 10% growth in GA2 (Thane Urban) and 20% in GA3 (Raigarh) over the medium term.

- CNG growth is likely to accelerate once again. While Q1 has been slow, we expect CNG penetration in cars and commercial vehicles to gain pace and CNG vehicles to coexist with electric vehicles over the next 5-10 years.
- Commercial/domestic PNG growth is projected to continue in high single digits driven by deepening penetration in GA1 (Mumbai) and further expansion in GA2 (Thane Urban).
- Industrial PNG growth would be primarily driven by network expansion in Raigarh (GA3). MAHGL indicates that it has signed a contract for another 0.1mmscmd.

While we believe MAHGL could improve growth delivery in the medium term, we remain cautious over long-term prospects and hence use conservative volume growth assumptions of a 5% (reduced from 5.5%) CAGR over FY24-FY33, within the range of management's ambitions of a 5-6% CAGR.

We believe higher growth is contingent on resolving space constraints for gas stations in Mumbai which is hindering CNG uptake. There is a near-term setback on the use of compact dispensing units as these still require location-specific approvals. MAHGL is working on other initiatives such as off-peak price discounts on CNG, long-haul buses/trucks with type-4 cylinders to enable usage of the fuel, addition of LNG stations. However, we await concrete results before building in higher growth over the longer run.

Margin assumptions

With favourable policy support (allocation of HPHT gas, lower APM gas price and lower sales tax), MAHGL has delivered a significantly higher EBITDA margin of Rs 16.8/scm in Q1FY24. We increase our EBITDA margin assumptions to Rs 11.2/scm (from Rs 10/scm) for FY24 and to Rs 10/scm over FY25-FY26 (from ~Rs 9.5/scm). We remain conservative on the FY24 margin as we are cautious about potential cuts in petrol/diesel prices as well as the need for passing on the discount on CNG price to spur volume growth.

Our margin assumptions are higher than the average of Rs 9.2/scm seen over FY18-FY23. We expect availability of APM gas for the priority sector to range from 85-90% over FY25-FY26 and the shortfall to be met by relatively lower cost HPHT gas that carries lower price volatility.

Fig 10 – Revised estimates

(Rs bn)	Actual	New			Old			Change (%)		
	FY23P	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	62,718	59,591	62,862	69,646	59,142	62,670	68,673	0.8	0.3	1.4
EBITDA	11,842	14,861	14,297	14,962	13,396	13,824	14,454	10.9	3.4	3.5
EBITDA growth	28.1	25.5	(3.8)	4.6	13.1	3.2	4.6	-	-	-
Net income	7,900	9,857	9,237	9,623	8,750	8,853	9,194	12.6	4.3	4.7

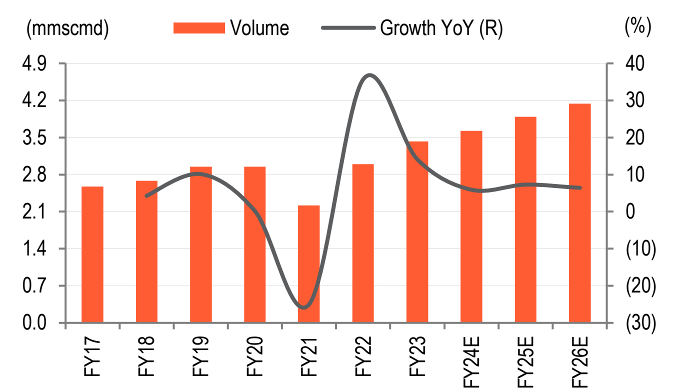
Source: Company, BOBCAPS Research

Fig 11 – Key business drivers and assumptions

Parameter	FY23P	FY24E	FY25E	FY26E	FY23-26E CAGR (%)
Volumes (mmscmd)					
CNG	2.5	2.6	2.8	3.0	-
D-PNG	0.5	0.5	0.6	0.6	-
I+C	0.44	0.48	0.52	0.55	-
Total	3.4	3.6	3.9	4.1	-
Volume growth (%)					
CNG	17.8	5.5	7.0	6.2	6.2
D-PNG	4.5	5.4	8.6	6.9	7.0
I+C	6.0	8.3	7.5	6.5	7.4
Total	**14.1**	**5.9**	**7.3**	**6.4**	**6.5**
Volume mix (%)					
CNG	72.8	72.6	72.4	72.3	-
D-PNG	14.2	14.2	14.3	14.4	-
I+C	13.0	13.3	13.3	13.3	-
Total	100.0	100.0	100.0	100.0	-
Profitability indicator (Rs/scm)					
Revenue	50.4	44.9	44.3	46.2	-
Gross spread	14.9	17.8	17.0	17.2	-
EBITDA	9.5	11.2	10.1	9.9	-
PAT	6.3	7.4	6.5	6.4	-
ROE	20.4	22.3	18.6	17.5	-
Key assumptions					
USD/INR exchange rate	80.4	82.2	82.5	84.2	-
APM gas price (US$/MMbtu)	7.3	6.5	6.5	6.8	-
Gas price ceiling (US$/MMbtu)	11.2	11.1	10.4	10.1	-
LNG contract price (US$/MMbtu)	18.2	13.4	12.1	12.1	-
LNG spot price (US$/MMbtu)	30.9	14.0	15.0	15.0	-
Priority sector gas bucket (US$/MMbtu)	9.5	7.0	7.1	7.5	-
Industrials and commercials gas bucket (US$/MMbtu)	21.6	12.9	12.2	12.3	-

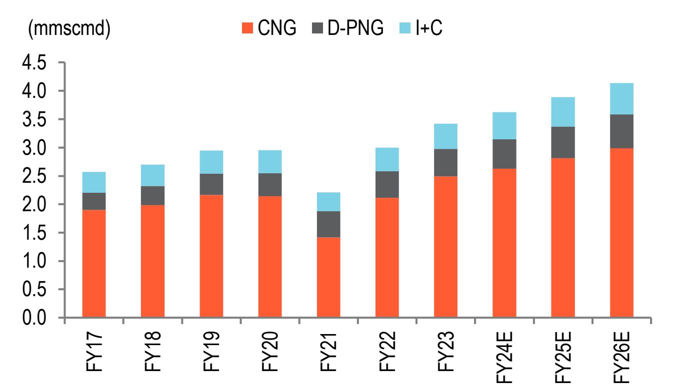
Source: Company, BOBCAPS Research

Fig 12 – Volume growth to pick up to 6.5% CAGR over FY23-FY26E from 5% CAGR over FY18-FY23



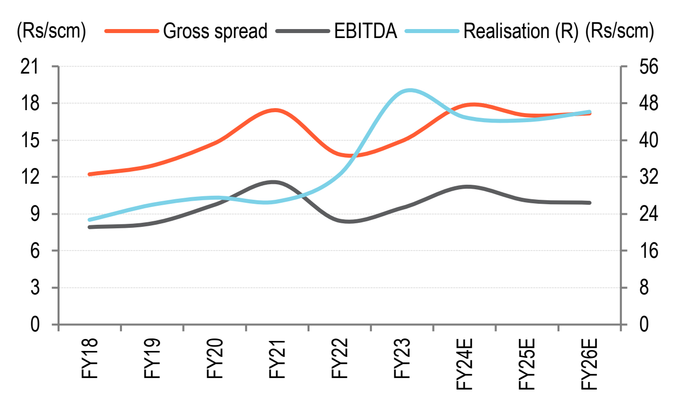
Source: Company, BOBCAPS Research

Fig 13 – Volume growth to be supported by regaining pace in CNG volumes



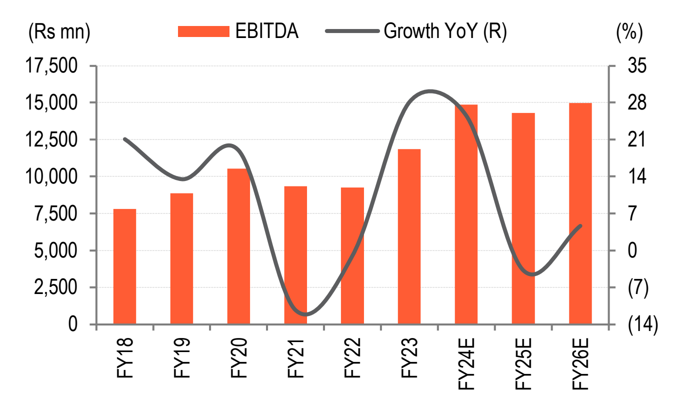
Source: Company, BOBCAPS Research | I+C: Industrial and Commercial segment

Fig 14 – Expect higher EBITDA margin of Rs 11.2/scm in FY24E and ~Rs 10/scm over FY25E-FY26E



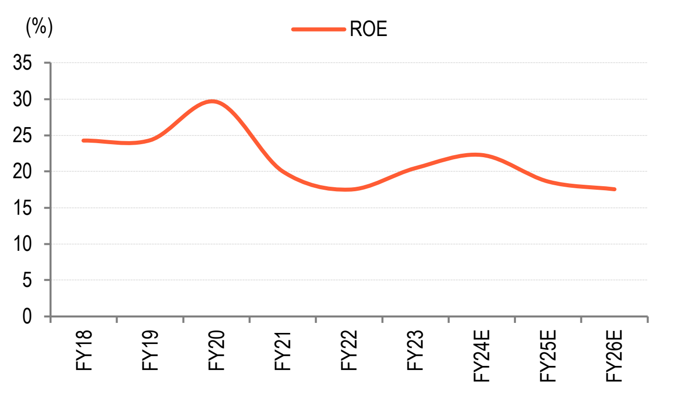
Source: Company, BOBCAPS Research

Fig 15 – Expect EBITDA CAGR of 8% (FY23-FY26E) led by 6.5% CAGR in volumes and modest margin recovery



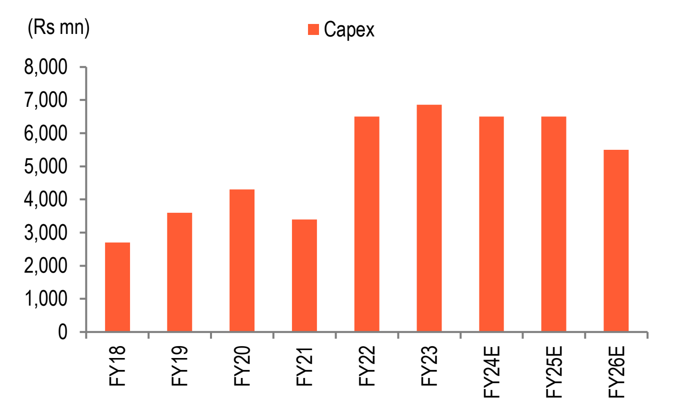
Source: Company, BOBCAPS Research

Fig 16 – ROE to settle at healthy range of 17-18% by FY26E



Source: Company, BOBCAPS Research

Fig 17 – Capex estimated at Rs 18.5bn through to FY26E, in line with our modest volume growth forecast



Source: Company, BOBCAPS Research

DCF-based TP tweaked to Rs 1,210; retain HOLD

We marginally raise our TP to Rs 1,210 (from Rs 1,200) for MAHGL, factoring in our DCF-based fair value for the core business post estimate revision and adding the net present value of Rs 5.2bn for the three GAs acquired from Union Environ – (i) Ratnagiri, (ii) Latur and Osmanabad, and (iii) Chitradurga and Davanagere.

Our TP implies an FY24E/FY25E P/E of 12.1x/12.9x, marginally higher than the three/five-year mean one-year forward P/E of 11.2x/12.3x on Bloomberg consensus estimates. Our target price implies 14% upside and hence we maintain our HOLD rating on MAHGL. We believe further rerating of the stock could be constrained by relatively slower long-term volume growth prospects of 5-6% vs. our 8% forecast for peers such as IGL.

- **Core business:** Key assumptions for our DCF-based fair value are cost of equity of 11%, terminal growth of 2.5%, volume CAGR of ~5% (from ~5.5%) and average EBITDA margin of Rs 9.5/scm (from Rs 9.2/scm) over our explicit and semi-explicit forecast period of FY24-FY33.
- **Acquired GAs:** Key assumptions for our DCF-based net present fair value for the three acquired GAs are cost of equity of 11%, terminal growth of 2.5%, volume CAGR of 28% and average EBITDA margin of ~Rs 7.5/scm over our explicit and semi-explicit forecast period of FY24-FY33.

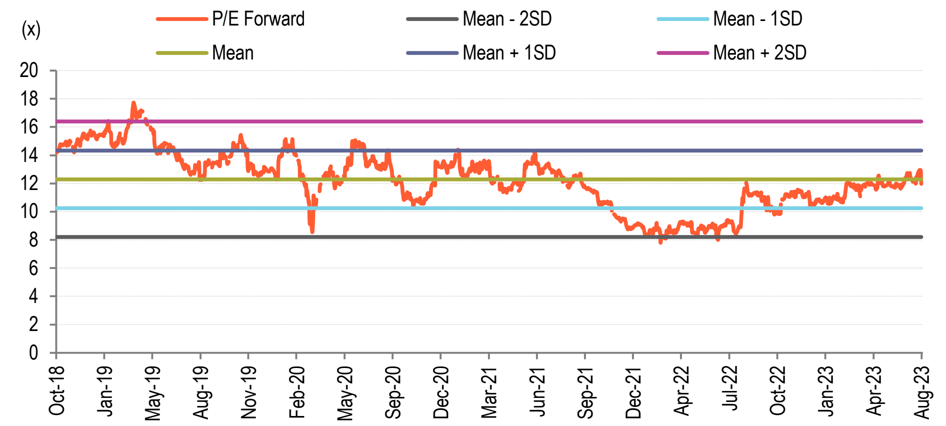
Fig 18 – DCF-based fair value

Valuation parameters	Value (Rs mn)
PV of FCF FY24-34	43,987
PV of terminal value	40,286
Enterprise Value	84,272
Less: Net Debt FY23	(14,439)
Equity value Mar'23	**98,711**
Equity value of acquired GAs Mar'23	5,198
Equity value of MAHGL Mar'23	**1,03,909**
NPV Mar'23 (Rs)	**1,052**
NPV Jul'24 (Rs)	**1,211**
Target price as on Jul'24 (Rs) (rounded off to nearest Rs 5)	**1,210**

Source: BOBCAPS Research

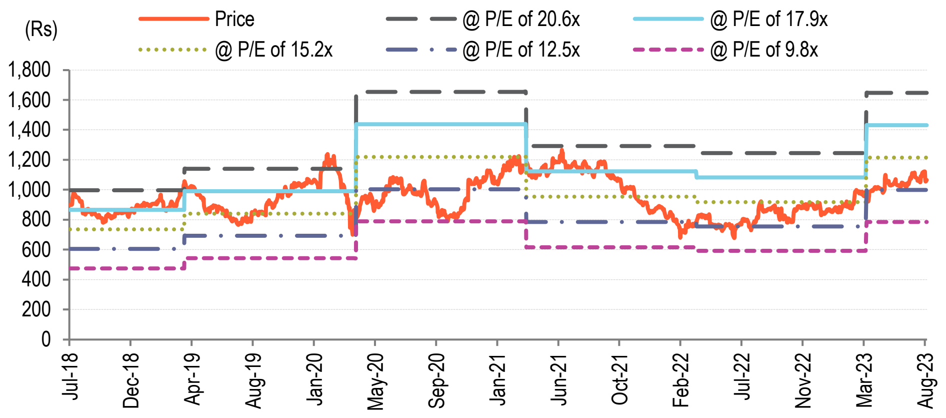
Over the past four years (i.e. since Bloomberg data has been available for the stock), MAHGL has traded at an average one-year forward P/E of 12.3x with a one standard-deviation range of 10.2-14.4x based on Bloomberg consensus. Over the past five years, the stock has traded at an average LTM P/E of 15.2x with a one standard deviation range of 12.7-18.1x based on actual earnings.

Fig 19 – MAHGL has traded at an average 1Y forward P/E of 12.3x…



Source: Bloomberg, BOBCAPS Research

Fig 20 – …and at an average LTM P/E of 15.2x



Source: Bloomberg, BOBCAPS Research

Key risks

- Lower-than-expected margins arising from an inability to pass on higher gas purchase cost to consumers is a key downside risk. Conversely, higher-than-expected margins is a key upside risk to our estimates.
- Material reduction in taxation structure on petrol and diesel, which could lower competitiveness of CNG and result in lower margins for MAHGL, is another key downside risk.
- Slower volume growth than our assumptions, with faster penetration of EVs than expected, is also a downside risk. Similarly, higher volume growth than our assumptions with slower competitive intensity from EVs is an upside risk.
- Adverse PNGRB or government regulations that could impact our margin or volume outlook is a downside risk, as is an adverse judgement on the Uran-Trombay pipeline tariff dispute with contingent liability at Rs 3.3bn.
- MAHGL plans to complete acquisition of the three GAs from Union Environment in H2FY24 after receiving approval from PNGRB. Any failure to complete the transaction is a downside risk. We presently account for the fair value net of acquisition price at Rs 5.2bn.

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
Bharat Petroleum Corp	BPCL IN	9.5	361	450	BUY
Hindustan Petroleum Corp	HPCL IN	4.6	268	410	BUY
Indian Oil Corp	IOCL IN	10.6	93	150	BUY
Indraprastha Gas	IGL IN	3.9	457	550	BUY
Mahanagar Gas	MAHGL IN	1.3	1,064	1,210	HOLD
Reliance Industries	RIL IN	207.8	2,524	3,015	BUY

Source: BOBCAPS Research, NSE | Price as of 7 Aug 2023

Glossary

Glossary			
APM	Administrative Price Mechanism	HH	Henry Hub
BEST	Brihanmumbai Electricity Supply and Transport	HPHT	High Pressure High Temperature
BMC	Brihanmumbai Municipal Corporation	LNG	Liquefied Natural Gas
CBG	Compressed Bio-Gas	MSRT	Maharashtra State Road Transport Corp
CNG	Compressed Natural Gas	MDPE	Medium-density polyethylene
ESG	Environmental, Social and Governance	MSRTC	Maharashtra State Road Transport Corp
GA	Geographical Area	PNG	Piped Natural Gas

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23P	FY24E	FY25E	FY26E
Total revenue	**35,602**	**62,993**	**59,591**	**62,862**	**69,646**
EBITDA	9,243	11,842	14,861	14,297	14,962
Depreciation	(1,963)	(2,311)	(2,660)	(2,992)	(3,272)
EBIT	7,281	9,531	12,201	11,305	11,690
Net interest inc./(exp.)	(75)	(94)	(98)	(102)	(106)
Other inc./(exp.)	857	1,119	1,074	1,145	1,281
Exceptional items	0	0	0	0	0
EBT	8,063	10,555	13,177	12,348	12,865
Income taxes	(2,093)	(2,655)	(3,321)	(3,112)	(3,242)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**5,970**	**7,901**	**9,857**	**9,237**	**9,623**
Adjustments	0	0	0	0	0
Adjusted net profit	**5,970**	**7,901**	**9,857**	**9,237**	**9,623**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23P	FY24E	FY25E	FY26E
Accounts payables	2,719	3,222	3,448	3,715	4,194
Other current liabilities	10,458	11,370	10,417	10,644	11,986
Provisions	356	1,364	368	363	379
Debt funds	824	938	938	938	938
Other liabilities	2,008	2,086	2,284	2,469	2,662
Equity capital	988	988	988	988	988
Reserves & surplus	34,985	40,354	46,170	51,250	56,543
Shareholders' fund	35,973	41,342	47,158	52,238	57,530
Total liab. and equities	**52,338**	**60,323**	**64,613**	**70,368**	**77,689**
Cash and cash eq.	4,652	2,279	2,269	4,311	8,976
Accounts receivables	1,841	2,940	3,250	3,429	3,801
Inventories	275	338	488	514	570
Other current assets	1,628	3,497	3,497	3,497	3,497
Investments	10,883	13,098	13,098	13,098	13,098
Net fixed assets	26,085	30,206	32,922	35,642	37,820
CWIP	6,159	7,086	8,210	8,997	9,048
Intangible assets	52	51	51	51	51
Deferred tax assets, net	763	828	828	828	828
Other assets	0	0	0	0	0
Total assets	**52,338**	**60,323**	**64,613**	**70,368**	**77,689**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23P	FY24E	FY25E	FY26E
Cash flow from operations	**8,537**	**8,488**	**9,457**	**11,553**	**13,215**
Capital expenditures	(6,893)	(7,279)	(6,500)	(6,500)	(5,500)
Change in investments	(633)	(2,215)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(7,526)**	**(9,495)**	**(6,500)**	**(6,500)**	**(5,500)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	251	114	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(2,470)	(2,568)	(4,041)	(4,156)	(4,330)
Other financing cash flows	741	1,091	1,074	1,145	1,281
Cash flow from financing	**(1,478)**	**(1,363)**	**(2,967)**	**(3,011)**	**(3,049)**
Chg in cash & cash eq.	**(467)**	**(2,370)**	**(10)**	**2,041**	**4,666**
Closing cash & cash eq.	**4,652**	**2,282**	**2,269**	**4,311**	**8,976**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23P	FY24E	FY25E	FY26E
Reported EPS	60.4	80.0	99.8	93.5	97.4
Adjusted EPS	60.4	80.0	99.8	93.5	97.4
Dividend per share	25.0	26.0	40.9	42.1	43.8
Book value per share	364.2	418.5	477.4	528.8	582.4

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23P	FY24E	FY25E	FY26E
EV/Sales	2.9	1.6	1.7	1.7	1.5
EV/EBITDA	11.0	8.5	6.9	7.3	6.9
Adjusted P/E	17.6	13.3	10.7	11.4	10.9
P/BV	2.9	2.5	2.2	2.0	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23P	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.0	74.8	74.8	74.8	74.8
Interest burden (PBT/EBIT)	110.7	110.8	108.0	109.2	110.1
EBIT margin (EBIT/Revenue)	20.4	15.1	20.5	18.0	16.8
Asset turnover (Rev./Avg TA)	72.4	111.8	95.4	93.1	94.1
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.4	1.4	1.3
Adjusted ROAE	17.5	20.4	22.3	18.6	17.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23P	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	65.4	76.9	(5.4)	5.5	10.8
EBITDA	(1.0)	28.1	25.5	(3.8)	4.6
Adjusted EPS	(3.7)	32.3	24.8	(6.3)	4.2
Profitability & Return ratios (%)					
EBITDA margin	26.0	18.8	24.9	22.7	21.5
EBIT margin	20.4	15.1	20.5	18.0	16.8
Adjusted profit margin	16.8	12.5	16.5	14.7	13.8
Adjusted ROAE	17.5	20.4	22.3	18.6	17.5
ROCE	15.5	18.0	20.2	16.7	15.7
Working capital days (days)					
Receivables	16	14	19	19	19
Inventory	4	3	4	5	5
Payables	30	21	27	27	26
Ratios (x)					
Gross asset turnover	1.1	1.6	1.3	1.3	1.3
Current ratio	0.6	0.6	0.7	0.8	1.0
Net interest coverage ratio	96.7	101.5	124.9	111.3	110.7
Adjusted debt/equity	(0.1)	0.0	0.0	(0.1)	(0.1)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

Logo:

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

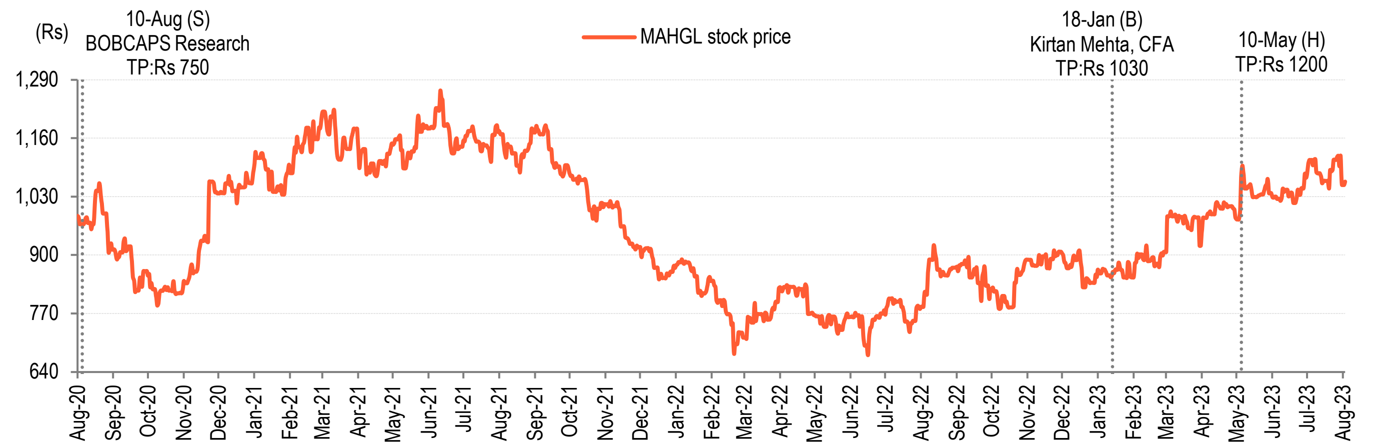
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): MAHANAGAR GAS (MAHGL IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS’s prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company or third party in the past 12 months in connection with research report/activities. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company. Research Analyst Kirtan Mehta has served as an employee of Reliance Industries (RIL IN) during the period 2002-2003, as disclosed by the research analyst.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS’s associates may have financial interest in the subject company. BOBCAPS’s associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an “as is” basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS’s judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the “Losses”) which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom (“UK”):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd) (“**MSL**”) who is authorised and regulated by the Financial Conduct Authority (“FCA”) in the United Kingdom (MSL and its affiliates are collectively referred to as **“MAYBANK**”). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK’s legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the “Order”), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as “relevant persons”).

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.