RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,255 | ⮝ 23%

MAHANAGAR GAS | Oil & Gas | 31 October 2023

Focus on volume growth a positive, upgrade to BUY

- **Q2 results in line but margin remains above the cycle average; we raise FY24 EBITDA by 11% factoring in a strong H1**
- **Positive to see management incentivising CNG and industrial consumption by leveraging margins**
- **Upgrade to BUY from HOLD with an increased TP of Rs 1,250 (from Rs 1,210) on an improved focus on volume growth**

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Q2 in line, margin above cycle average: MAHGL's Q2FY24 EBITDA at Rs 4.8bn was only slightly below our (-3.5%) and consensus (-2.5%) estimates and its margin of Rs 14.6/scm remained above the mid-cycle level even after a modest Rs 2.2/scm QoQ decline.

Volumes recover but still soft: Volumes recovered 5% QoQ, above our estimate, led by a surge in industrial and commercial demand (+16% QoQ) along with a pickup in the CNG segment (+5%). However, volume growth YoY remains muted at 3% due to slower growth in CNG (+1.6%).

Sharper focus on volume growth: In a key positive, management is now promoting volume growth via targeted incentives. The company has set up incentives through a fuel card for new passenger vehicles and new and retrofitted commercial vehicles. Separately, new industrial customers are being offered a guaranteed 10% discount to alternate fuels and more contractual flexibility.

Margins to normalise gradually: Given a stronger EBITDA margin of Rs 15.6/scm in H1, MAHGL now expects the FY24 print to remain above its guided range of Rs 10-12/scm. While we raise our FY24 EBITDA margin forecast to Rs 12.5/scm from Rs 11.2/scm, we remain conservative at Rs 10.4/ Rs 10.2 for FY25/FY26 to allow for the use of price as a lever to spur volume growth.

EV risk profile different from NCT Delhi: Following the policy move in NCT Delhi to promote EVs in the cab aggregator and delivery vehicle fleet, MAHGL's stock has corrected by 9% since 19 Oct. We are currently not seeing a similar aggressive approach in Maharashtra and expect CNG to co-exist with EVs in the medium term. MAHGL's exposure to aggregator cabs is ~20% of CNG and ~15% of total volumes.

Upgrade to BUY: Factoring in the strong H1 performance, we raise FY24 EBITDA by X%. We also raise our TP to Rs 1,255 (from Rs 1,210) as we roll forward to Oct'24 (from Jul'24) and upgrade the stock to BUY from HOLD. Our TP implies an FY24E/FY25E P/E of 11.2x/13.0x, a discount to peers.

Key changes

Target	Rating
▲	▲

Ticker/Price	MAHGL IN/Rs 1,017
Market cap	US$ 1.2bn
Free float	58%
3M ADV	US$ 8.6mn
52wk high/low	Rs 1,152/Rs 820
Promoter/FPI/DII	43%/31%/16%

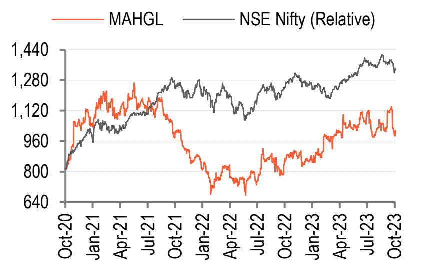
Source: NSE | Price as of 30 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	62,993	61,064	62,694
EBITDA (Rs mn)	11,842	16,461	14,610
Adj. net profit (Rs mn)	7,901	11,088	9,558
Adj. EPS (Rs)	80.0	112.2	96.8
Consensus EPS (Rs)	80.0	103.8	98.5
Adj. ROAE (%)	20.4	24.7	18.6
Adj. P/E (x)	12.7	9.1	10.5
EV/EBITDA (x)	8.1	5.9	6.7
Adj. EPS growth (%)	32.3	40.3	(13.8)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Q2 broadly in line; margin above cycle average

MAHGL's Q2FY24 revenue/EBITDA/net income at Rs 15.7bn/Rs 4.8bn/Rs 3.4bn was marginally below Bloomberg consensus by 0.3%/2.5%/0.3% and short of our expectations by 0.6%/3.5%/2.9%. EBITDA was down 8% QoQ with some normalisation of margins at lower levels, partially offset by a more positive uptick in volumes than we expected.

Focus on volumes a positive step

- **Q2 volumes recover but still soft:** Volumes recovered 5% QoQ, above our estimates, led by a surge in industrial and commercial demand (+16% QoQ) along with a pickup in the CNG segment (+5%). However, volume growth YoY remains muted at 3% due to slower growth in CNG volumes (<2%).

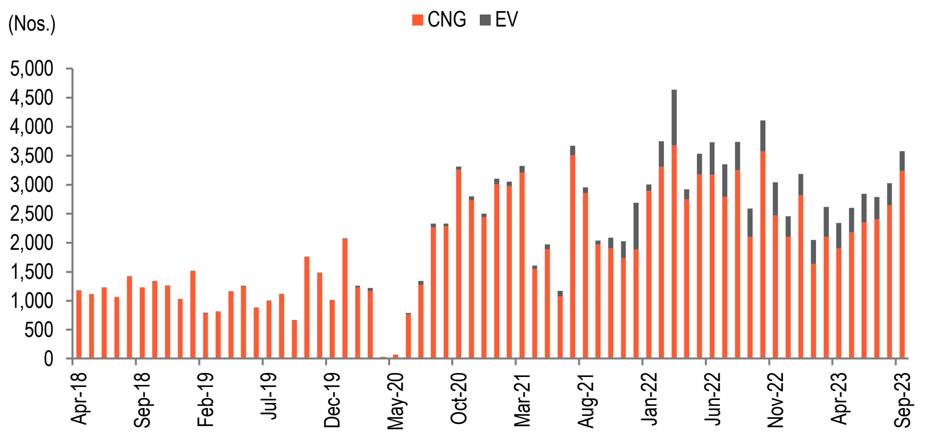
- **Targeted incentives:** MAHGL has finally introduced targeted incentives through a free CNG fuel card from early September to accelerate new CNG vehicle additions. For commercial vehicles (CV), the incentive is based on vehicle tonnage, for both new and retrofit vehicles, with an incentive of Rs 0.2mn for 3.5-10t CVs, Rs 0.35mn for 10-15t and 0.5mn for those above 15t. The retrofit also allows the user to increase the vehicle life beyond seven years. Similarly, for passenger cars (PV), an incentive of Rs 20,000 is being offered on select new models.

- **Promotion for new industrial customers:** MAHGL has also started to incentivise conversions from liquid fuels by guaranteeing a minimum of 10% discount to users of alternate fuels for three years. Terms are also made more flexible by the removal of take-or-pay obligations. In Q2, MAHGL was able to add 15-16mscmd of volumes by incentivising additional usage with an existing customer.

- **CNG vehicle additions picking up:** MAHGL notes the addition of 19.9k vehicles in Q2, up from 15k in Q1. However, additions have so far been in the PV segment, with only muted additions in CVs (+100-150 vehicles QoQ to 1,300). MAHGL also highlights the addition of 159 state transport buses (80 MSRTC + NMMT and 79 BEST) during the quarter.

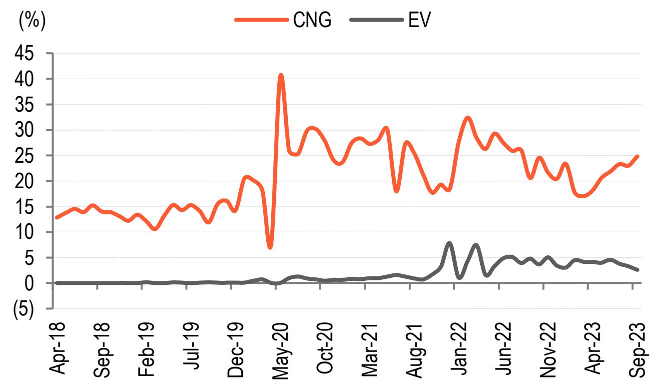
  We observe a strong uptick in CNG vehicle addition in September, probably a reflection of initial success from the incentive scheme. With the incentive scheme likely to continue through the festive season, this pickup could sustain over the near term. In terms of CNG vehicle registrations as a percentage of total sales, geographical areas GA2 (comprising Thane Urban) and GA3 (Raigarh) are showing a strong uptick, whereas GA1 (Mumbai) is largely stable.

Fig 1 – Light Motor Vehicles (LMV), a proxy for car: CNG vehicle addition strong



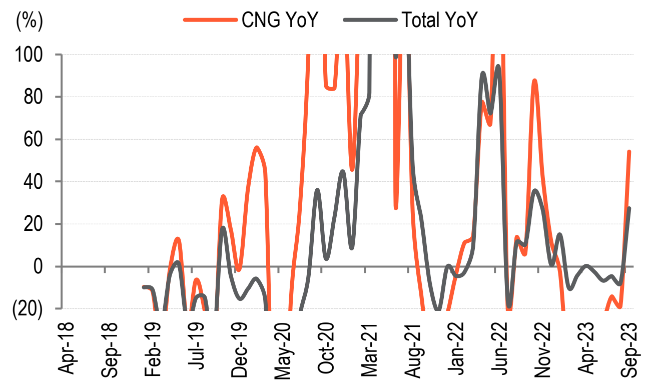
Source: Vahan Dashboard, BOBCAPS Research

Fig 2 – EV penetration remains low



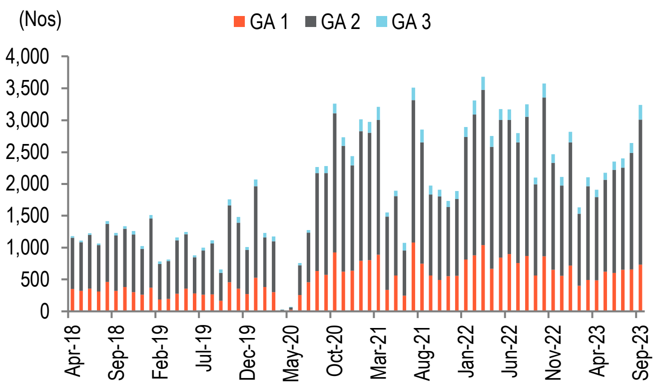
Source: Vahan Dashboard, BOBCAPS Research

Fig 3 – CNG YoY growth outpacing growth in total LMV additions



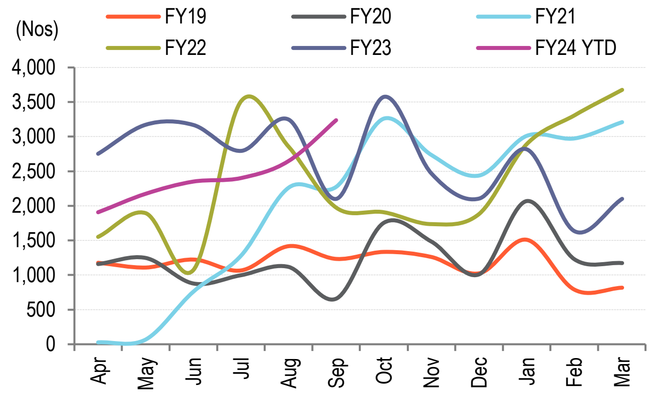
Source: Vahan Dashboard, BOBCAPS Research

Fig 4 – GA-wise CNG vehicle addition



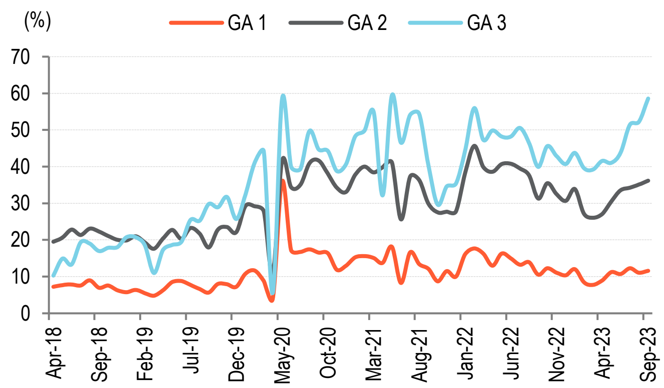
Source: Vahan Parivahan, BOBCAPS Research

Fig 5 – GA-wise CNG addition shows seasonal trends



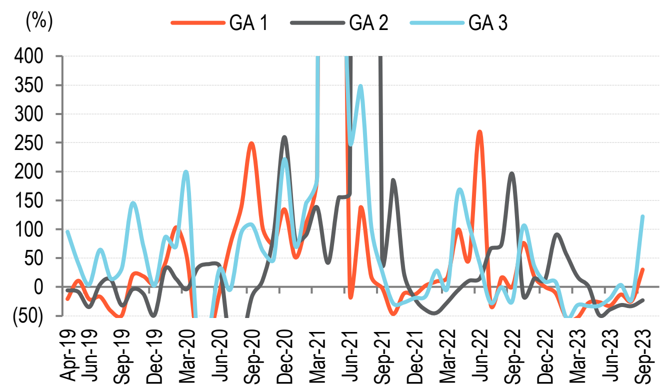
Source: Vahan Parivahan, BOBCAPS Research

Fig 6 – CNG vehicle sales registration as % of total LMVs registered improving across GA1 and GA2



Source: Vahan Dashboard, BOBCAPS Research

Fig 7 – GA-wise CNG vehicle growth showing an uptick YoY



Source: Vahan Dashboard, BOBCAPS Research

Lower EV risk profile in Maharashtra

While the recent policy move in the National Capital Territory (NCT) of Delhi to promote EV adoption in the cab aggregator and delivery vehicle fleet has resulted in a sharp 9% stock correction for MAHGL since 19 Oct, the policy framework is different from that in Maharashtra.

- **Limited state government push so far on EV policy implementation in Maharashtra.** While Maharashtra announced a policy to promote EV adoption in FY21, the progress has been lacklustre. The deadline to transition all government vehicles by FY22 has already been missed. The policy carries a target of at least 10% EV share in new PV additions and 25% share for additions to public transport and delivery service fleets by FY25.
- **CNG volume breakup:** MAHGL currently sells 1.95-2.0mn kg/day of CNG and has shared its volume breakup to enable better risk assessment from a potential transition to EVs. While passenger cars consume 30% of its volumes (0.44mn vehicles), autorickshaws consume 30% (0.39mn vehicles), taxis and aggregators 20% (50-55k vehicles), state buses 7%, and commercial vehicles the balance.
- **Cab aggregators consume ~20% of volumes:** MAHGL estimates consumption of ~0.35-0.4mn kg/day from vehicles with cab aggregators. This is based on a broad estimate of 50-55k vehicles operating with cab aggregators such as Ola/Uber and 8kg/day of consumption per vehicle.

Margin to normalise in FY24

MAHGL is guiding for FY24 EBITDA margin to average higher than its medium-term guidance of Rs 10-12/scm, following an H1 margin of Rs 15.6/scm.

- The **Q2 margin decrease** was attributable to (a) a higher CNG price in Q1 (for 7-8 days), (b) increase in gas purchase cost by Rs 0.3-0.4/scm QoQ, and (c) lower CNG realisation due to a change in the mix of retail outlets.

- **EBITDA margin is likely to decline further in H2** as MAHGL has started reducing CNG prices to incentivise higher usage as well as new conversions by passing on discounts of Rs 3/kg for CNG and Rs 2/scm for domestic PNG.
- **Stable gas cost is helping margins**, with APM (Administered Price Mechanism) gas availability steady at 2.7mmscmd and HPHT (high-pressure, high-temperature) gas usage at 0.28mmmscmd covering the gap in the priority sector. MAHGL sourced 0.2mmscmd on contract basis and 0.08mmscmd on spot basis from IGX.
- **Availability of HPHT gas supply is not seen as a constraint near-term** given the likely availability of additional contracts from RIL (4mmscmd in Nov'21) and ONGC in FY24-FY25 and with CGD (City Gas Distributors) being prioritised to contract HPHT gas. This should keep gas purchase price stable for CGD companies.

Other pointers

- **Approval of GA acquisition by Unison:** Unison Environ has applied to PNGRB for approval of the transfer of equity stake in three GAs ((i) Ratnagiri, (ii) Latur and Osmanabad, and (iii) Chitradurga and Davanagere) after the end of the five-year moratorium period. MAHGL expects approval by Nov'23.
- **Capex:** MAHGL has incurred capex of Rs 3bn in H1FY24 and is still targeting spends of Rs 7bn-8bn in FY24.
- **Employee cost:** Higher employee cost in Q2 is attributable to the addition of new employees and additional incentives.

Infrastructure rollout

- **Overall:** MAHGL added 43k domestic connections in Q2, reaching a total of 2.25mn households. It laid 40km of steel and PE pipelines, taking the total to 6,653km. Seven CNG stations were added in Q2 for a total of 390 and 16 stations were upgraded in H1. The company added 120 industrial and commercial customers, raising its client tally to 4,639.
- **Raigarh GA:** The company has a total of 70.6k domestic connections in Raigarh GA, 32 CNG stations and 393km of pipeline with 3.75km added in Q2.
- **Savroli LCNG (LNG-CNG) station operational**

Fig 8 – Quarterly performance: Q2 EBITDA in line with consensus on a positive volume surprise

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Net sales	**15,709**	**15,627**	**0.5**	**15,378**	**2.2**	**31,087**	**30,174**	**3.0**
% of sales	57.2	73.4	-	54.9	-	56.1	71.3	-
Other expenditure	1,929	1,623	18.8	1,724	11.9	3,652	3,276	11.5
% of sales	12.3	10.4	-	11.2	-	11.7	10.9	-
EBITDA	**4,789**	**2,528**	**89.4**	**5,213**	**(8.1)**	**10,002**	**5,384**	**85.8**
EBITDA (Rs/scm)	**14.6**	**7.9**	**83.2**	**16.8**	**(13.3)**	**15.6**	**8.5**	**83.6**
EBITDA margin (%)	30.5	16.2	-	33.9	-	32.2	17.8	-
Depn and amortization	658	551	19.4	620	6.0	1,278	1,088	17.5
Interest	25	25	0.0	25	(1.6)	50	48	4.6
Other income	437	260	68.2	390	12.2	827	460	79.7
Profit Before Tax	**4,543**	**2,213**	**105.3**	**4,957**	**(8.3)**	**9,500**	**4,708**	**101.8**
Provision for tax	1,158	573	102.2	1,273	(9.0)	2,431	1,217	99.8
-effective tax rate (%)	25.5	25.9	-	25.7	-	25.6	25.8	-
PAT (reported)	**3,385**	**1,640**	**106.4**	**3,684.0**	**(8.1)**	**7,069**	**3,492**	**102.5**
Reported EPS (Rs)	34.3	16.6	106.4	37.3	(8.1)	71.6	35.3	102.5

Source: Company, BOBCAPS Research

Fig 9 – Volumes: Recovery in Q2 but still soft YoY

(mmscm)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
CNG	**238**	**234**	**1.6**	**226**	**5.2**	**463**	**465**	**(0.3)**
PNG	**91**	**84**	**8.1**	**85**	**7.8**	**176**	**167**	**5.3**
Industrial/Commercial	46	41	12.1	40	16.4	86	81	5.7
Domestic	45	43	4.3	45	0.2	90	86	4.9
Total volume (mmscm)	**329**	**318**	**3.4**	**310**	**5.9**	**639**	**632**	**1.2**
Total volume (mmscmd)	**3.57**	**3.46**	**3.4**	**3.41**	**4.8**	**3.49**	**3.45**	**1.2**

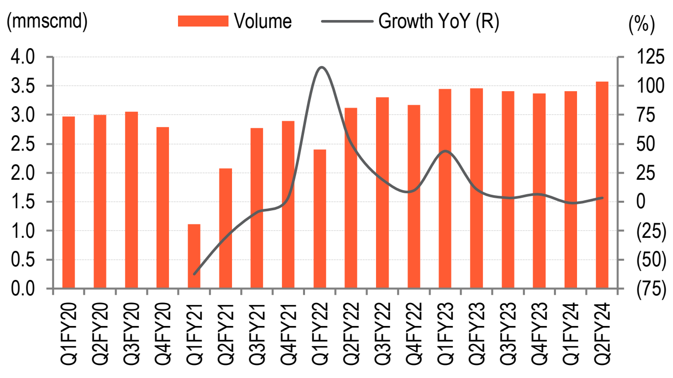
Source: Company, BOBCAPS Research

Fig 10 – Margins: Q2 margin well ahead of the guidance range

(Rs/scm)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
CNG realisation (Rs/kg)	65.8	64.9	1.4	68.0	(3.3)	66.9	61.8	8.3
PNG realisation	47.8	54.8	(12.8)	50.0	(4.5)	48.9	55.9	(12.6)
Average realisation	**47.8**	**49.1**	**(2.7)**	**49.5**	**(3.6)**	**48.6**	**47.7**	**1.8**
Gas purchase cost	27.3	36.1	(24.2)	27.2	0.6	27.3	34.0	(19.9)
Gross Spread	**20.4**	**13.0**	**56.6**	**22.3**	(8.6)	**21.4**	**13.7**	**55.8**
Other operating costs	5.9	5.1	15.0	5.6	5.6	5.7	5.2	10.2
EBITDA	**14.6**	**7.9**	**83.2**	**16.8**	**(13.3)**	**15.6**	**8.5**	**83.6**

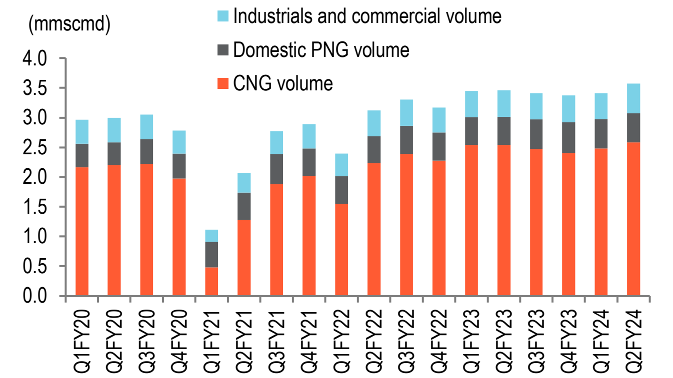
Source: Company, BOBCAPS Research

Fig 11 – Volume uptick driven by sharp pickup in industrial and CNG volumes



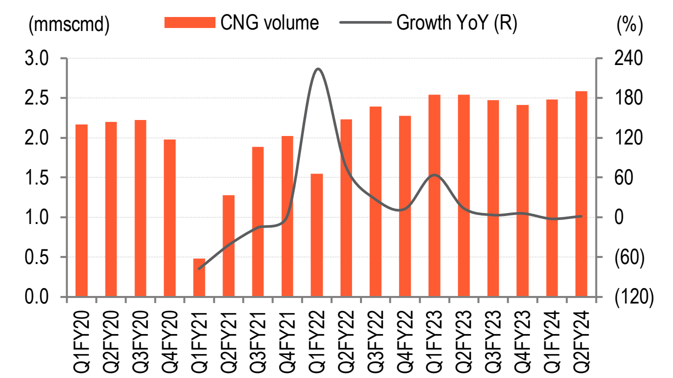
Source: Company, BOBCAPS Research

Fig 12 – Volume mix trends broadly the same



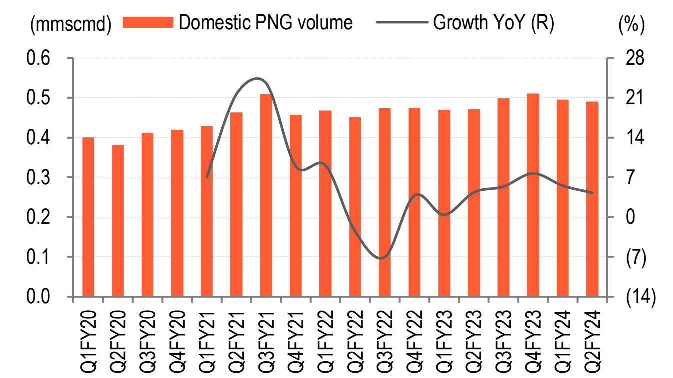
Source: Company, BOBCAPS Research

Fig 13 – CNG volumes show an uptick with increased addition of CNG vehicles



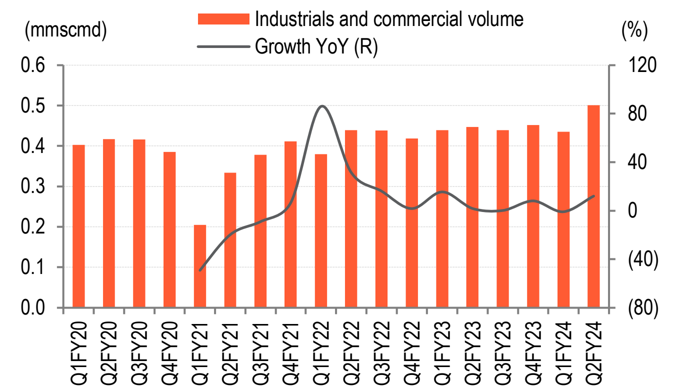
Source: Company, BOBCAPS Research

Fig 14 – Domestic PNG volumes declined marginally QoQ



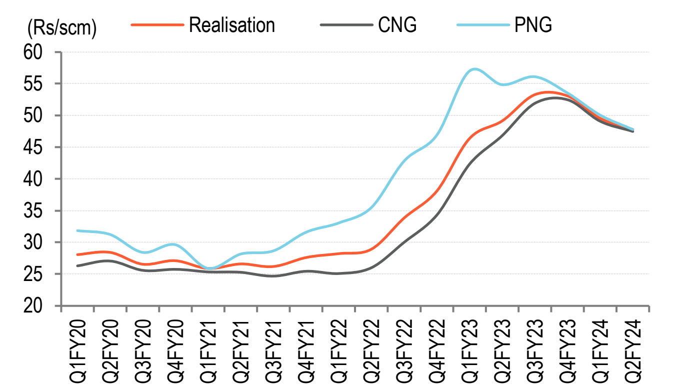
Source: Company, BOBCAPS Research

Fig 15 – Industrial and commercial volumes surged



Source: Company, BOBCAPS Research

Fig 16 – Realisation decline following reduction in gas purchase cost



Source: Company, BOBCAPS Research

Valuation methodology

We raise our FY24 EBITDA estimates by 11% factoring in a higher EBITDA margin following stronger H1 margins than anticipated despite softer volume growth. We also raise our FY25 and FY26 EBITDA forecasts by 2% assuming higher margins. We expect MAHGL's EBITDA to grow from Rs 11.8bn in FY23 to Rs 15.3bn in FY26, a 9% CAGR, aided by a 6% CAGR in volumes over this period to 4.1mmscmd and modest margin recovery.

Growth assumptions

Factoring in soft volume growth in H1, we lower our FY24 volume growth estimate to 5.2% (from 5.9%). Growth is likely to pick up in H2 given increased vehicle additions, the gradual induction of another 450-500 buses and targeted incentives for CVs and PVs.

We believe MAHGL could deliver a 6% 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. With the Q2 volume uptick, we expect CNG penetration in cars and CVs 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 is likely to pick up further near-term given an increased focus on volume growth but would be primarily driven by network expansion in Raigarh (GA3).

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% 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. The company faced 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, and the addition of LNG stations. However, we await concrete results before building in higher growth over the longer run.

Margin assumptions

We raise FY24 EBITDA/scm to Rs 12.5/scm from Rs 11.2/scm given strength in H1 and factoring in easing in H2. Despite favourable policy support (allocation of HPHT gas, lower APM gas price and lower sales tax), we are factoring in margins towards the lower end of guided range of Rs 10-12/scm for FY25-FY26. We remain conservative on margins, allowing for the possibility of using price as a lever to support 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 17 – Revised estimates

(Rs bn)	Actual	New			Old			Change (%)		
	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	62,993	61,064	62,694	69,452	59,591	62,862	69,646	2.5	(0.3)	(0.3)
EBITDA	11,842	16,461	14,610	15,300	14,861	14,297	14,962	10.8	2.2	2.3
EBITDA growth	28.1	39.0	(11.2)	4.7	25.5	(3.8)	4.6	-	-	-
Net income	7,900	11,088	9,558	9,987	9,857	9,237	9,623	12.5	3.5	3.8

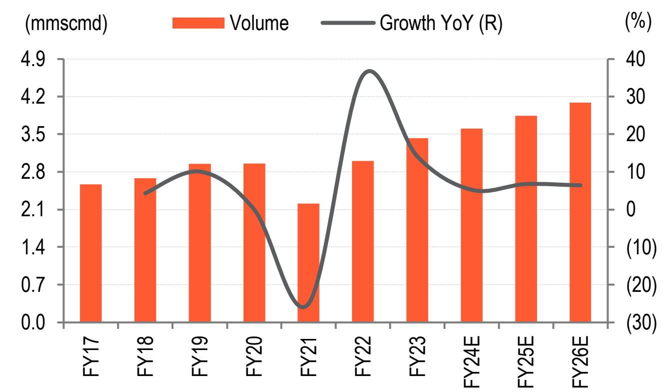
Source: Company, BOBCAPS Research

Fig 18 – Key business drivers and assumptions

Parameter	FY23	FY24E	FY25E	FY26E	FY23-26E CAGR (%)
Volumes (mmscmd)					
CNG	2.5	2.6	2.8	3.0	-
D-PNG	0.5	0.5	0.5	0.6	-
I+C	0.44	0.48	0.52	0.55	-
Total	**3.4**	**3.6**	**3.8**	**4.1**	**-**
Volume growth (%)					
CNG	17.8	4.9	6.5	6.3	5.9
D-PNG	4.5	4.2	7.5	6.9	6.2
I+C	6.0	8.3	7.5	6.5	7.4
Total	**14.1**	**5.2**	**6.8**	**6.4**	**6.1**
Volume mix (%)					
CNG	72.8	72.5	72.4	72.3	-
D-PNG	14.2	14.1	14.2	14.3	-
I+C	13.0	13.4	13.4	13.5	-
Total	**100.0**	**100.0**	**100.0**	**100.0**	**-**
Profitability indicator (Rs/scm)					
Revenue	50.4	46.3	44.7	46.5	-
Gross spread	14.9	19.1	17.3	17.5	-
EBITDA	9.5	12.5	10.4	10.2	-
PAT	6.3	8.4	6.8	6.7	-
ROE	20.4	24.7	18.6	17.4	-
Key assumptions					
USD/INR exchange rate	80.4	82.7	82.5	84.2	-
APM gas price (US$/MMbtu)	7.3	6.5	6.5	6.8	-
Gas price ceiling (US$/MMbtu)	11.2	11.0	10.4	10.1	-
LNG contract price (US$/MMbtu)	18.2	13.0	12.1	12.1	-
LNG spot price (US$/MMbtu)	30.9	14.7	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	12.8	12.2	12.3	-

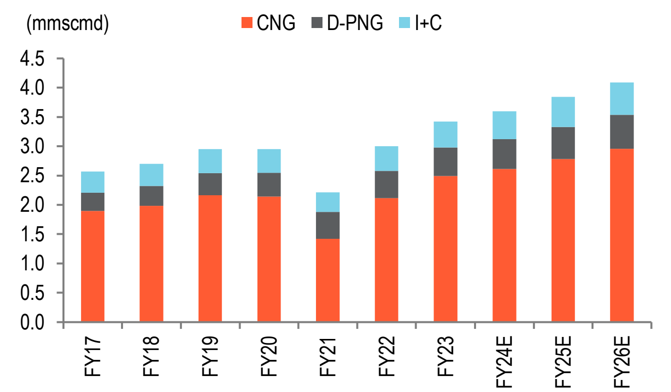
Source: Company, BOBCAPS Research

Fig 19 – Volume growth to pick up over FY23-FY26E from levels of FY18-FY23



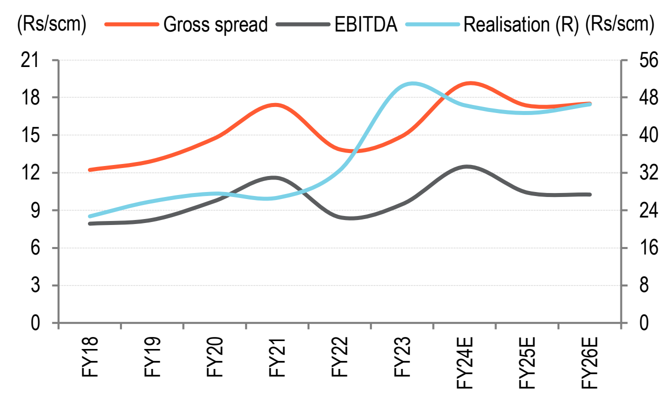
Source: Company, BOBCAPS Research

Fig 20 – Volume growth to be supported by regaining pace in CNG volumes



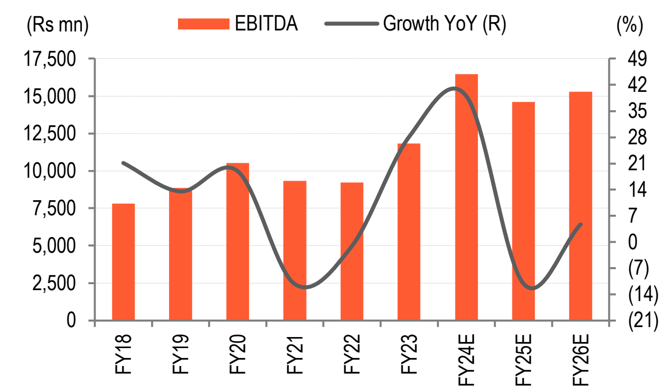
Source: Company, BOBCAPS Research | I+C: Industrial and Commercial segment

Fig 21 – Expect higher EBITDA margin over FY25E-FY26E



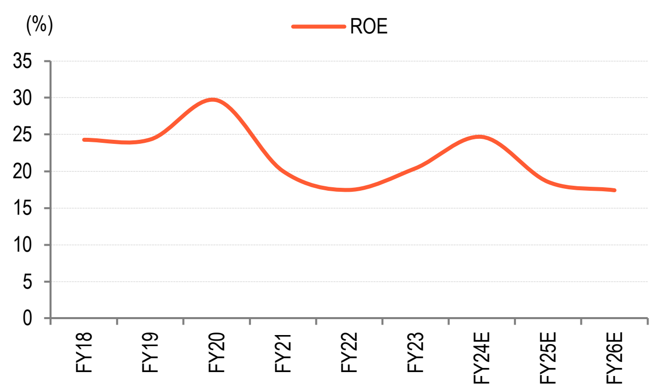
Source: Company, BOBCAPS Research

Fig 22 – Expect higher EBITDA over FY23-FY26E led by growth in volumes and modest margin recovery



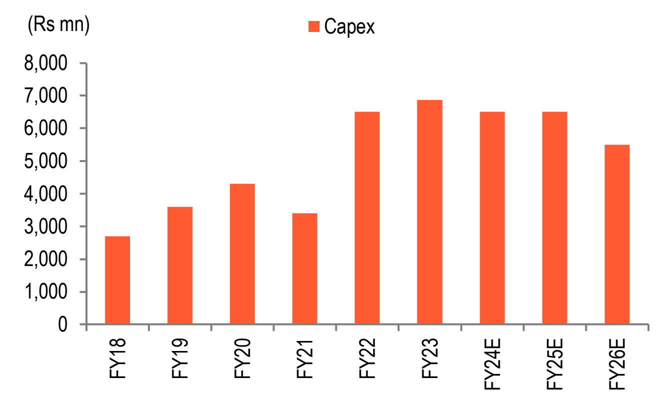
Source: Company, BOBCAPS Research

Fig 23 – ROE to settle at healthy level by FY26E



Source: Company, BOBCAPS Research

Fig 24 – Capex increase in line with our modest volume growth forecast



Source: Company, BOBCAPS Research

DCF-based TP at Rs 1,255; upgrade to BUY

We increase our TP for MAHGL to Rs 1,255 from at Rs 1,210, factoring in an increase in our estimates for the core business 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 11.2x/13.0x, marginally higher than the three/five-year mean one-year forward P/E of 11.0x/12.1x on Bloomberg consensus estimates. Considering the 23% upside potential, we upgrade MAHGL from HOLD to BUY.

Key assumptions for our DCF-based fair value of the core business are cost of equity of 11%, terminal growth of 2.5%, volume CAGR of ~5% and average EBITDA margin of Rs 9.7/scm (from Rs 9.5/scm) over our explicit and semi-explicit forecast period of FY24-FY33. Similarly, 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.

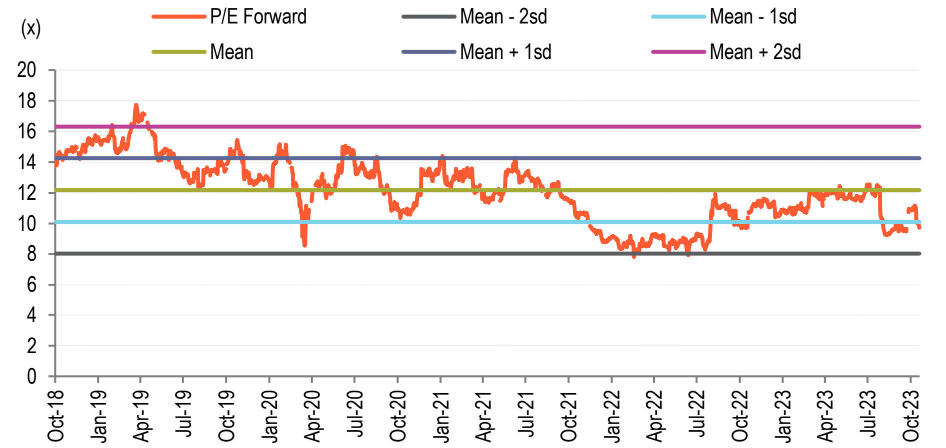
Fig 25 – DCF-based fair value

Valuation parameters	Value (Rs mn)
PV of FCF FY24-34	45,208
PV of terminal value	39,990
Enterprise Value	85,198
Less: Net Debt FY23	(14,439)
Equity value Mar'23	**99,636**
Equity value of acquired GAs Mar'23	5,198
Equity value of MAHGL Mar'23	**1,04,834**
NPV Mar'23 (Rs)	**1,061**
NPV Oct'24 (Rs)	**1,255**
Target price as on Oct'24 (Rs) (rounded off to nearest Rs 5)	**1,255**

Source: BOBCAPS Research

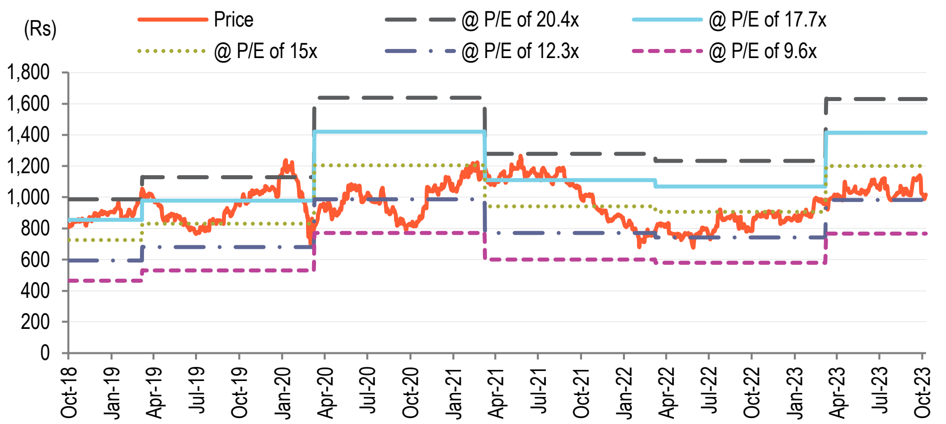
Over the past five years, MAHGL has traded at an average one-year forward P/E of 12.1x with a one standard-deviation range of 10.1-14.2x based on Bloomberg consensus. Over the past five years, the stock has traded at an average LTM P/E of 15x with a one standard deviation range of 12.3-17.7x based on actual earnings.

Fig 26 – MAHGL has traded at an average 1Y forward P/E of 12.1x…



Source: Bloomberg, BOBCAPS Research

Fig 27 – …and at an average LTM P/E of 15x



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.
- 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.
- 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	9.2	347	450	BUY
Gujarat State Petronet	GUJS IN	1.9	274	370	BUY
Hindustan Petroleum Corp	HPCL IN	4.2	246	410	BUY
Indian Oil Corp	IOCL IN	10.1	88	150	BUY
Indraprastha Gas	IGL IN	3.3	386	550	BUY
Mahanagar Gas	MAHGL IN	1.2	1,017	1,255	BUY
Petronet LNG	PLNG IN	3.7	202	275	HOLD
Reliance Industries	RIL IN	186.0	2,313	3,015	BUY

Source: BOBCAPS Research, NSE | Price as of 30 Oct 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**35,602**	**62,993**	**61,064**	**62,694**	**69,452**
EBITDA	9,243	11,842	16,461	14,610	15,300
Depreciation	(1,963)	(2,311)	(2,660)	(2,992)	(3,272)
EBIT	7,281	9,531	13,801	11,618	12,029
Net interest inc./(exp.)	(75)	(94)	(98)	(102)	(106)
Other inc./(exp.)	857	1,119	1,120	1,261	1,429
Exceptional items	0	0	0	0	0
EBT	8,063	10,555	14,823	12,777	13,352
Income taxes	(2,093)	(2,655)	(3,735)	(3,220)	(3,365)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**5,970**	**7,901**	**11,088**	**9,558**	**9,987**
Adjustments	0	0	0	0	0
Adjusted net profit	**5,970**	**7,901**	**11,088**	**9,558**	**9,987**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,719	3,222	3,441	3,678	4,153
Other current liabilities	10,458	11,370	10,387	10,539	11,869
Provisions	356	1,364	381	347	378
Debt funds	824	938	938	938	938
Other liabilities	2,008	2,086	2,308	2,500	2,700
Equity capital	988	988	988	988	988
Reserves & surplus	34,985	40,354	47,561	53,391	59,184
Shareholders' fund	35,973	41,342	48,549	54,379	60,172
Total liab. and equities	**52,338**	**60,323**	**66,004**	**72,382**	**80,210**
Cash and cash eq.	4,652	2,279	3,568	6,335	11,509
Accounts receivables	1,841	2,940	3,331	3,420	3,791
Inventories	275	338	500	513	569
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**	**66,004**	**72,382**	**80,210**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**8,537**	**8,488**	**10,550**	**11,733**	**13,440**
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)	(3,881)	(3,727)	(4,195)
Other financing cash flows	741	1,091	1,120	1,261	1,429
Cash flow from financing	**(1,478)**	**(1,363)**	**(2,761)**	**(2,466)**	**(2,766)**
Chg in cash & cash eq.	**(467)**	**(2,370)**	**1,289**	**2,767**	**5,174**
Closing cash & cash eq.	**4,652**	**2,282**	**3,568**	**6,335**	**11,509**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	60.4	80.0	112.2	96.8	101.1
Adjusted EPS	60.4	80.0	112.2	96.8	101.1
Dividend per share	25.0	26.0	39.3	37.7	42.5
Book value per share	364.2	418.5	491.5	550.5	609.1

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	2.7	1.5	1.6	1.6	1.4
EV/EBITDA	10.5	8.1	5.9	6.7	6.3
Adjusted P/E	16.8	12.7	9.1	10.5	10.1
P/BV	2.8	2.4	2.1	1.8	1.7

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	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	107.4	110.0	111.0
EBIT margin (EBIT/Revenue)	20.4	15.1	22.6	18.5	17.3
Asset turnover (Rev./Avg TA)	72.4	111.8	96.7	90.6	91.0
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.4	1.3	1.3
Adjusted ROAE	17.5	20.4	24.7	18.6	17.4

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	65.4	76.9	(3.1)	2.7	10.8
EBITDA	(1.0)	28.1	39.0	(11.2)	4.7
Adjusted EPS	(3.7)	32.3	40.3	(13.8)	4.5
Profitability & Return ratios (%)					
EBITDA margin	26.0	18.8	27.0	23.3	22.0
EBIT margin	20.4	15.1	22.6	18.5	17.3
Adjusted profit margin	16.8	12.5	18.2	15.2	14.4
Adjusted ROAE	17.5	20.4	24.7	18.6	17.4
ROCE	15.5	18.0	22.5	16.6	15.5
Working capital days (days)					
Receivables	16	14	19	20	19
Inventory	4	3	4	5	5
Payables	30	21	27	27	26
Ratios (x)					
Gross asset turnover	1.1	1.6	1.4	1.3	1.3
Current ratio	0.6	0.6	0.8	0.9	1.2
Net interest coverage ratio	96.7	101.5	141.3	114.4	113.9
Adjusted debt/equity	(0.1)	0.0	(0.1)	(0.1)	(0.2)

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

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BUY – Expected return >+15%

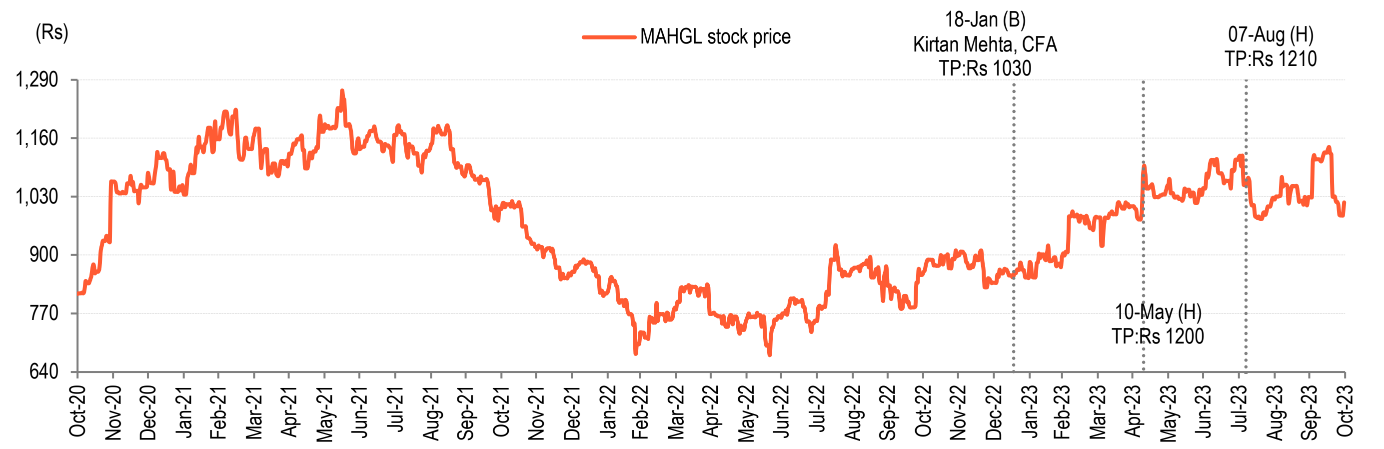
HOLD – Expected return from -6% to +15%

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)



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