

BUY
 TP: Rs 1,590 | ▲ 16%

MAHANAGAR GAS

| Oil & Gas

| 27 January 2024

Volume growth accelerating, reiterate BUY

- Q3 beats consensus with sharp uptick in volume growth and stable margins despite lower APM gas allocation
- We raise FY23-FY26 volume growth forecasts to 6.7% CAGR (from 6.1%) and margins towards higher end of guided range
- TP hiked to Rs 1,590 (from Rs 1,255), implying FY25E target P/E of 13.8x; stock merits rerating on improved growth prospects

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Q3 beats consensus: MAHGL's Q3FY24 EBITDA at Rs 4.5bn was 9%/5% above Bloomberg consensus/our estimates. This was driven by an uptick in volume growth and continuing strength in margins (Rs 13.3/scm) despite lower APM gas allocation.

Focus on volumes starting to yield results: Q3 volumes at 3.67mmscmd increased 7.6% YoY supported by growth across segments – CNG (6.4%), households (6.3%) and industrial and commercial (15.9%). For CNG, we are seeing our thesis (see [Growth set to accelerate in medium term](#), 5 Feb 2023) playing out – acceleration in vehicle additions from targeted station additions in Thane Urban (GA2).. Further, the company has added 0.15mmscmd of new industrial volumes due to the success of an incentive scheme offering a guaranteed 10% discount over alternate fuels and more contractual flexibility to new industrial consumers.

Volume growth forecasts revised up: We raise FY23-FY26 volume growth forecasts to 6.7% CAGR (from 6.1%), higher than the historical trend of 5% growth over FY18-FY23. We primarily raise industrial/commercial growth to 11.5% CAGR factoring in the recent traction. We have been assuming CNG growth at 5.9% CAGR based on our thesis of pickup in vehicle additions from H2FY24.

Margin forecasts increased as well: As MAHGL is demonstrating the ability to deliver higher-than-historical average margins along with pickup in volume growth, we raise per unit EBITDA margin forecasts for FY24/FY25/FY26 to Rs 14.1/Rs 11.9/Rs 11.7, towards the higher end of the guided range of Rs 10-12/scm. We believe margins on CNG would remain strong amid modest costs of priority sector gas.

Reiterate BUY: Following revised margin and volume forecasts, our FY24/FY25/FY26 EBITDA projections rise 25%/18%/19% with an EBITDA CAGR of 14.5% (from 8.9%) over FY23-FY26. This coupled with roll-forward of valuation to Jan'25 (from Oct'24) results in a higher TP of Rs 1,590 (from Rs 1,255). Our TP implies an FY24E/FY25E P/E of 11.9x/13.8x, higher than the 3Y/5Y mean one-year forward P/E of 10.8x/11.9x. We believe MAHGL deserves a rerating as it looks set to deliver higher volume growth than its own historical range over the medium term.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MAHGL IN/Rs 1,374
Market cap	US\$ 1.7bn
Free float	58%
3M ADV	US\$ 7.5mn
52wk high/low	Rs 1,387/Rs 831
Promoter/FPI/DII	43%/31%/17%

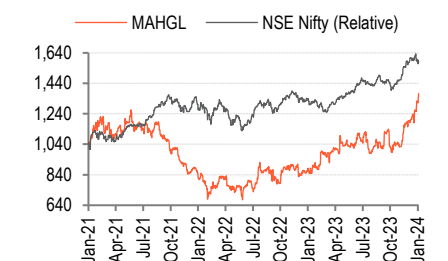
Source: NSE | Price as of 25 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	62,993	63,927	65,458
EBITDA (Rs mn)	11,842	18,615	16,884
Adj. net profit (Rs mn)	7,901	13,190	11,379
Adj. EPS (Rs)	80.0	133.5	115.2
Consensus EPS (Rs)	80.0	131.2	117.7
Adj. ROAE (%)	20.4	28.9	21.3
Adj. P/E (x)	17.2	10.3	11.9
EV/EBITDA (x)	11.1	7.2	7.9
Adj. EPS growth (%)	32.3	67.0	(13.7)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Q3 beats consensus on strong volume growth

MAHGL's Q3FY24 revenue/EBITDA/net income at Rs 15.7bn/Rs 4.5bn/Rs 3.2bn was 2%/9%/11% ahead of Bloomberg consensus and 0%/5%/7% above our estimates. EBITDA was sequentially down 6.3% as partial normalisation of margins led to an 8.8% QoQ decline in EBITDA/scm to Rs 13.3/scm. Margins remain higher than the company's guidance of Rs 10-12/scm over the next two years.

Focus on volumes starting to yield results

- **Q3 volumes surprise on the upside:** Q3 average daily volumes at 3.67mmscmd grew 7.6% YoY driven by broad-based growth across segments – CNG (+6.4%), domestic (+6.3%), and industrial and commercial (+15.9%).
- **CNG growth driven by vehicle additions:** CNG sale for Q3 at 1.94mn kg were up 8% YoY, which translated to 6.4% growth in volume terms. The growth was driven by a pickup in vehicle additions over the past two quarters, particularly after a sharp reduction in CNG price as APM (Administered gas price mechanism) gas price was lowered in Apr'23. Vehicle additions have risen from 15k in Q1 to 19.9k in Q2 and further to 22.4k in Q3. Management expects close to 80k additions in FY24 vs. 65k in FY23.

Monthly CNG vehicle additions (Fig 1), as available from the Vahan database, also show a clear rise post Apr'23 and a sharp increase over the festive months of September-November, probably reflecting the success of MAHGL's incentive schemes. The traction seems to be the highest in GA2 (Thane Urban), where MAHGL has focused on adding CNG stations (Fig 4). We believe our thesis of **an acceleration in growth over the medium term**, as highlighted in our note of 5 February, has started playing out. We had forecast that momentum is likely to be driven by 10% growth in GA2 (Thane Urban) and 20% in GA3 (Raigarh) over the medium term.

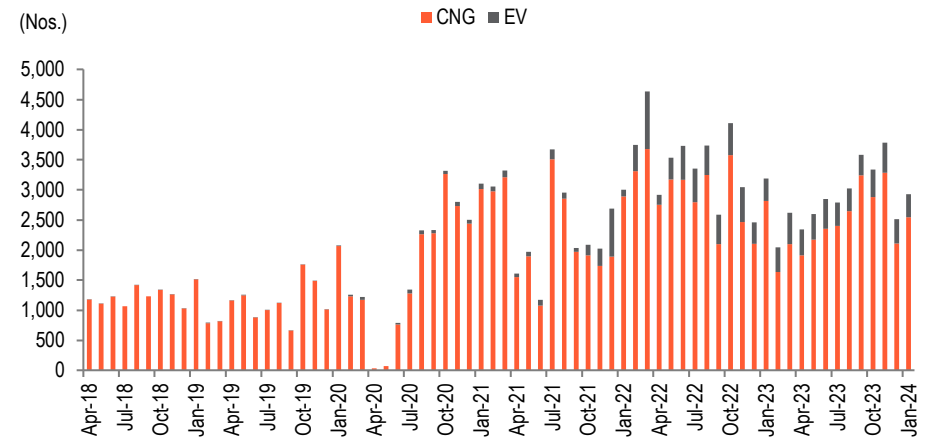
- **Vehicle incentive schemes played a part:** Incentive schemes introduced by MAHGL for select passenger and small commercial vehicles in Q3 and for large commercial vehicles over Q3-Q4 have also played a part in boosting volumes. However, we note that management is focusing on commercial vehicles which have significantly higher daily usage than cars, but success so far has been modest, with vehicle additions rising from 1.1k in Q1 to 1.4k in Q3.

The company has spent Rs 100mn on incentives in Q3 and is looking at spending Rs 200mn-250mn in Q4 if it sees a good response. With the setup of more than 30 CNG factory-fitted commercial factories, which were previously not available, the issue of retrofit vehicle performance seems to be under control and the focus remains on improving perceptions on pricing.

- **Incentives for industry yielding success:** Industrial and commercial volumes at 0.51mmscmd were up 15% YoY. The company attributed this to the success of an incentive scheme, which has helped it add 0.15mmscmd of incremental volumes and which will ramp-up fully over the next one or two quarters. The company is offering a guaranteed 10% discount on alternate fuel for any new industrial customer in GA3 and large new customer in GA2.

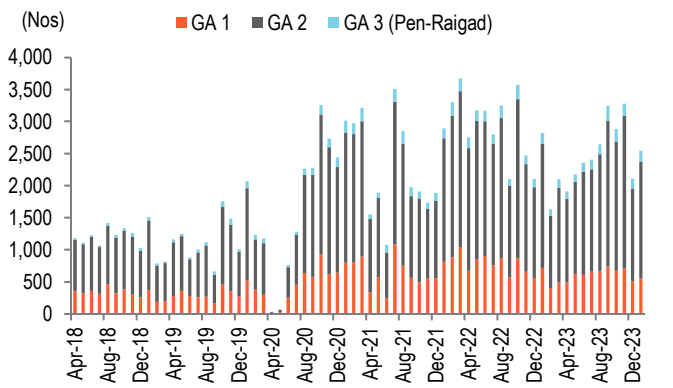
Management indicated that it has tied up 60% of new volumes from existing customers in GA2 and the balance 40% from new customers in GA3. The company is currently focusing on industries in Taloja and Patalganga in GA3 after completing connecting pipelines. Near Khalapur, the company has been able to connect the Godrej & Boyce factory and a couple of other industrial customers.

Fig 1 – LMV CNG vehicle additions picked up since Apr'23 and gained further strength in festive months



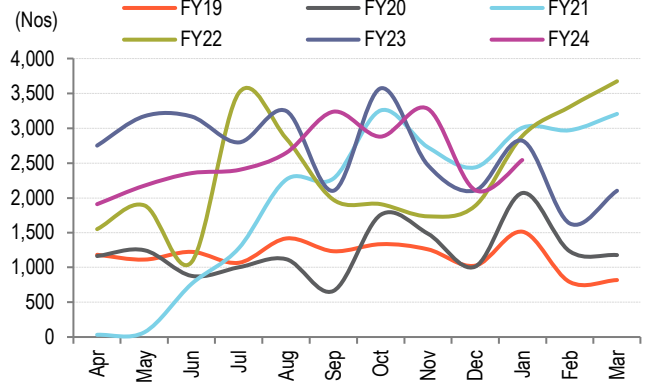
Source: Vahan Dashboard, BOBCAPS Research | LMV: Light Motor Vehicles

Fig 2 – GA2 (Thane Urban) shows the highest traction for CNG vehicle additions



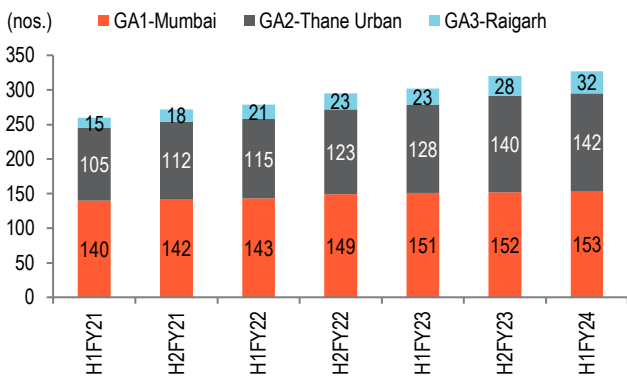
Source: Vahan Parivahan, BOBCAPS Research

Fig 3 – CNG vehicle additions picked up over festive months of Sep-Nov'24



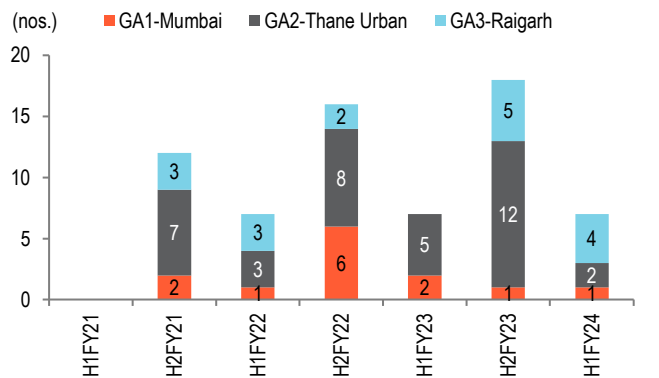
Source: Vahan Parivahan, BOBCAPS Research

Fig 4 – CNG stations have accelerated...



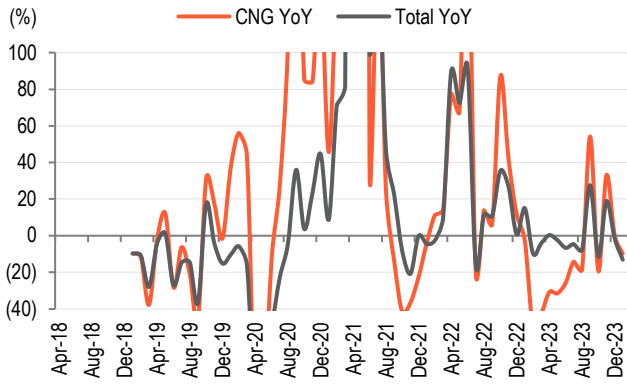
Source: PPAC, BOBCAPS Research

Fig 5 – ...across GA2 and GA3



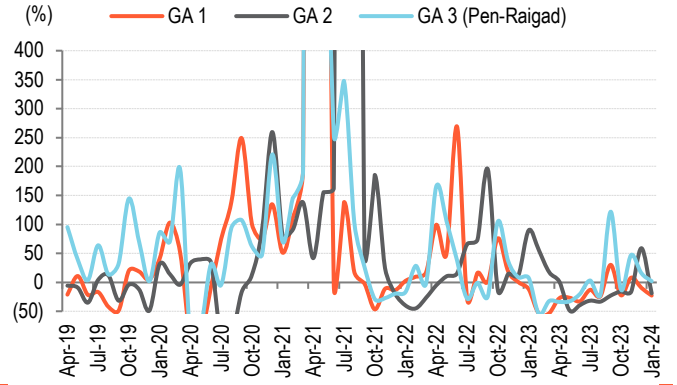
Source: PPAC, BOBCAPS Research

Fig 6 – CNG vehicle growth outpacing growth in total vehicles



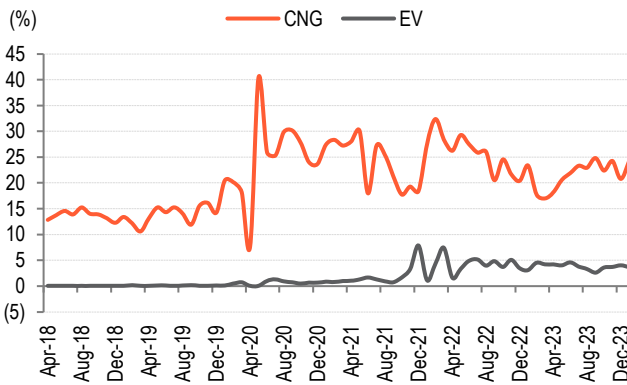
Source: Company, BOBCAPS Research

Fig 7 – GA-wise growth in CNG vehicles YoY



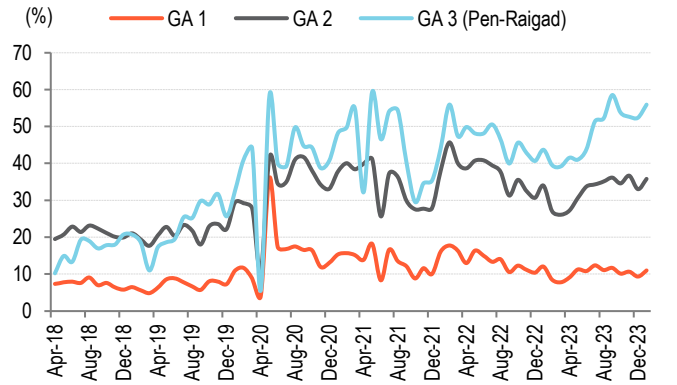
Source: Company, BOBCAPS Research

Fig 8 – CNG vehicles gaining back market share...



Source: Company, BOBCAPS Research

Fig 9 – ...particularly in GA2



Source: Company, BOBCAPS Research

Margins held strong in Q3

- **Margin remains higher-than-average:** MAHGL continued to earn a higher-than-average EBITDA margin of Rs 13.3/scm in Q3. Although the company passed on a Rs 3/kg reduction in CNG price post reduction in HPHT (High Pressure High Temperature) ceiling price to US\$ 9.96/MMbtu (from US\$ 12.12/MMbtu), we believe margin expansion in the industrial and commercial sector offered support.
- **Lower APM allocation did not impact margin:** MAHGL's gas purchase cost was flat QoQ despite a reduction in APM allocation to 78-80% from 84% a quarter ago. The company was able to substitute it with HPHT gas (18-20% of the priority sector mix), limiting usage of spot gas to only 2%. Management indicates that gas needs for the industrial and commercial segment are well covered under current contracts.
- **Guidance retained:** Management reiterated margin guidance of Rs 10-12/scm for medium-term. The company does not see an immediate need to cut CNG prices even in response to reductions in petrol/diesel prices unless this impacts volume growth. Management believes that cuts in petrol price may not hurt volumes as the current headroom is at 50% but will be watchful of the impact of lower diesel price as the differential is only 16%. Also, for gas purchase, backing down flexibility of 10-40% across different contracts should allow the company to use cheaper spot LNG, if prices drop below US\$ 10/MMbtu.

GA acquisitions to be completed in Q4

- **Transaction closure in Q4:** MAHGL has received approval from PNGRB (Petroleum and Natural Gas Regulatory Board) for the transfer of control from Unison Enviro for three GAs – (i) Ratnagiri, (ii) Latur and Osmanabad, and (iii) Chitradurga and Davanagere. The company is planning to make the payment within a month and consolidate these GAs in its next results.
- **Operations continue to scale up:** Volumes in the three GAs have ramped up 19-20% to 0.13mmscmd since announcement of the acquisition. Volumes are primarily from the CNG segment (80-90%) followed by the industrial segment (7-8%). Currently, 53 CNG stations are operational, serving 27-28k vehicles across the three areas. Management reiterated a volume potential of 1.2mmscmd across these GAs.

Infrastructure rollout

- **Capex targets:** Management affirmed its capex target of Rs 7.5-8bn for FY24 and has spent more than Rs 5bn in 9M. It aims to maintain the same capex run-rate in existing GAs (GA1-3) in Mumbai and adjacent areas in FY25 and spend Rs 1bn-1.5bn in newly acquired GAs.
- **CNG stations:** The company is targeting the addition of 45 stations and upgrades to a similar number in each FY24 and FY25. It added 9 stations in FY24 to reach a total of 320 and also commenced B2B sales from L-CNG stations commissioned at Savroli (GA 3).

- **Q3 developments:** MAHGL has laid 90km of steel eand MDPE (Medium Density Polyethylene) pipelines, raising the total length to 6,742km. The company has 118k domestic households, raising its total connections to 2.37mn, and 90 industrial and commercial consumers for a total of 4,691.
- **Raigarh GA:** The company has operationalised 32 CNG stations and added 11km of pipeline in Q3, with connections to a total of 75k domestic households in Raigarh.
- **CBG plant:** MAHGL has signed an MoU with the BMC (Brihanmumbai Municipal Corporation) and plans to finalise a concession agreement over the next two months for setting up a CBG (Compressed Biogas) plant using municipal waste. Management estimates that plant setup will take 1-1.5 years.

Fig 10 – Q3 springs positive surprise on volumes and gas cost

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Net sales	15,688	16,714	(6.1)	15,709	(0.1)	46,775	46,888	(0.2)
% of sales	58.8	74.2	-	57.2	-	57.0	72.3	-
Other expenditure	1,970	1,746	12.8	1,929	2.2	5,623	5,022	12.0
% of sales	12.6	10.4	-	12.3	-	12.0	10.7	-
EBITDA	4,487	2,561	75.2	4,789	(6.3)	14,488	7,945	82.4
EBITDA (Rs/scm)	13.3	8.2	62.8	14.6	(8.8)	14.8	8.4	76.5
EBITDA margin (%)	28.6	15.3	-	30.5	-	31.0	16.9	-
Depreciation and amortisation	683	585	16.7	658	3.8	1,961	1,673	17.2
Interest	27	24	12.4	25	10.1	77	72	7.2
Other income	481	323	49.1	437	10.0	1,307	782	67.1
Profit before tax	4,258	2,274	87.2	4,543	(6.3)	13,758	6,982	97.0
Provision for tax	1,086	553	96.2	1,158	(6.3)	3,517	1,770	98.7
-effective tax rate (%)	25.5	24.3	-	25.5	-	25.6	25.3	-
PAT (reported)	3,172	1,721	84.3	3,385.0	(6.3)	10,241	5,212	96.5
Reported EPS (Rs)	32.1	17.4	84.3	34.3	(6.3)	103.7	52.8	96.5

Source: Company, BOBCAPS Research

Fig 11 – Volumes outperform historical growth trend

(mmscm)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
CNG	242	228	6.4	238	1.9	706	693	1.9
PNG	96	86	10.8	91	4.7	271	253	7.2
Industrial/ Commercial	47	40	15.9	46	1.5	132	121	9.1
Domestic	49	46	6.3	45	8.0	139	132	5.4
Total volume (mmscm)	338	314	7.6	329	2.7	977	946	3.3
Total volume (mmscmd)	3.67	3.41	7.6	3.57	2.7	3.55	3.44	3.3

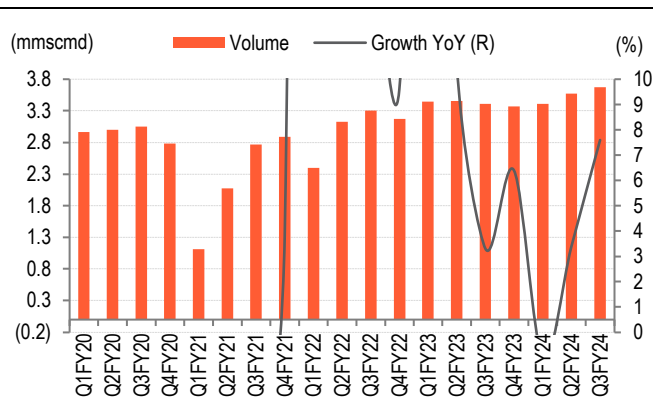
Source: Company, BOBCAPS Research

Fig 12 – Margins remain above historical average

(Rs/scm)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
CNG realisation (Rs/kg)	63.3	71.9	(11.9)	65.8	(3.7)	65.6	65.1	0.9
PNG realisation	47.7	56.1	(14.9)	47.8	(0.1)	48.5	56.0	(13.4)
Average realisation	46.5	53.2	(12.8)	47.8	(2.8)	47.9	49.6	(3.4)
Gas purchase cost	27.3	39.5	(30.9)	27.3	(0.0)	27.3	35.9	(23.9)
Gross spread	19.1	13.7	39.3	20.4	(6.4)	20.6	13.7	50.1
Other operating costs	5.8	5.6	4.9	5.9	(0.5)	5.8	5.3	8.4
EBITDA	13.3	8.2	62.8	14.6	(8.8)	14.8	8.4	76.5

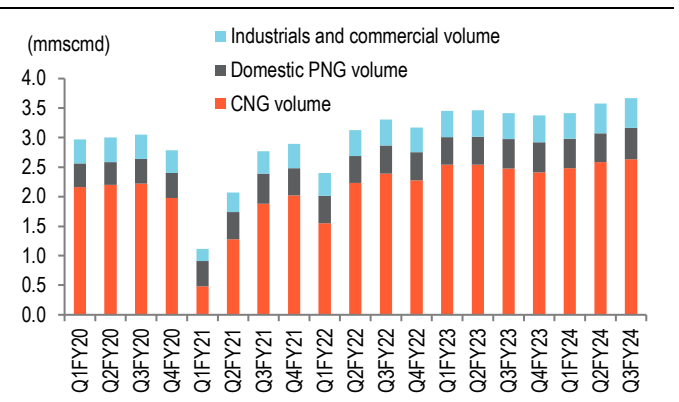
Source: Company, BOBCAPS Research

Fig 13 – Sharp volume uptick in Q3...



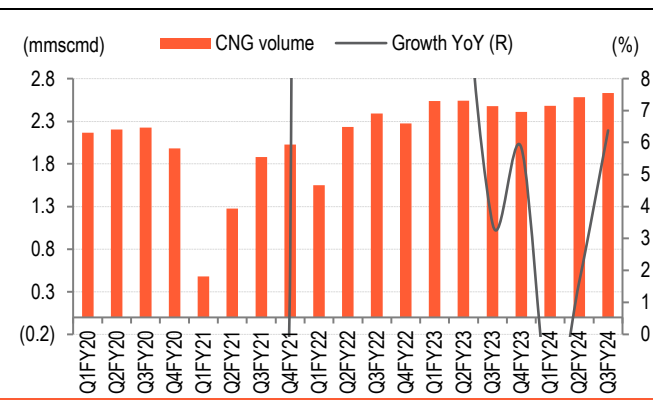
Source: Company, BOBCAPS Research

Fig 14 – ...driven by CNG and industrial segments



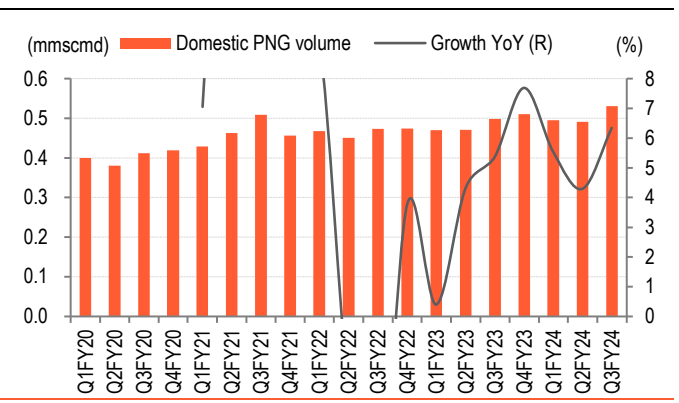
Source: Company, BOBCAPS Research

Fig 15 – Pickup in CNG vehicles drives CNG growth



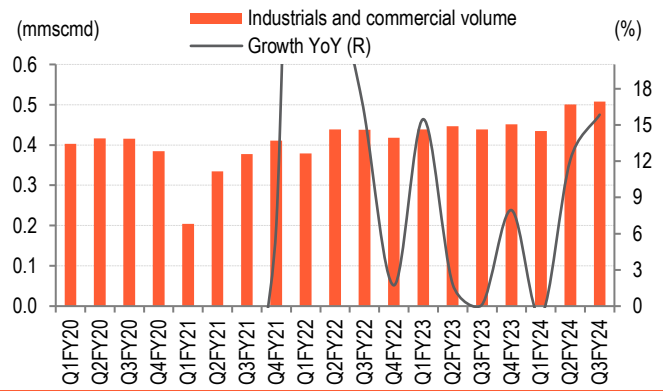
Source: Company, BOBCAPS Research

Fig 16 – Domestic PNG growth momentum continues



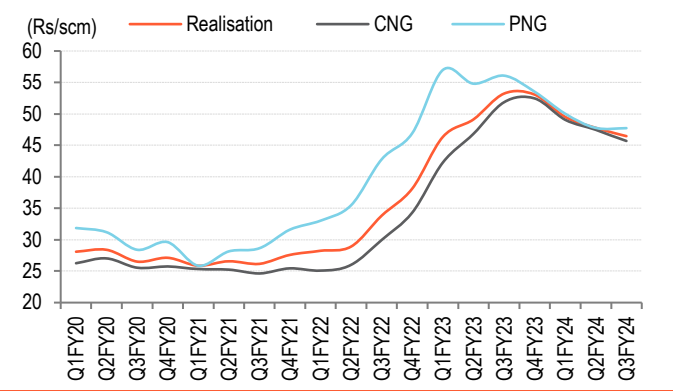
Source: Company, BOBCAPS Research

Fig 17 – Industrial volume surge driven by new incentives



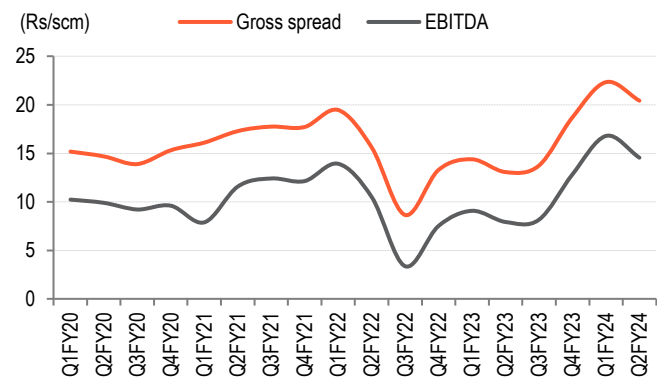
Source: Company, BOBCAPS Research

Fig 18 – Realisation declines driven by price cuts



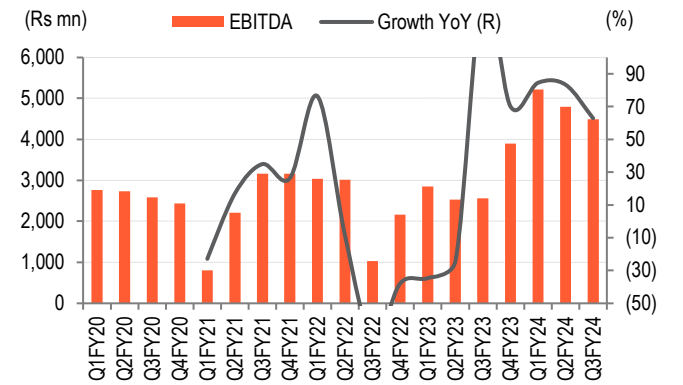
Source: Company, BOBCAPS Research

Fig 19 – Margin continues to trend above historical range



Source: PPAC, BOBCAPS Research

Fig 20 – EBITDA growth supported by volume and margin



Source: PPAC, BOBCAPS Research

Valuation methodology

We raise our FY24/FY25/FY26 EBITDA forecasts for MAHGL by 25.3%/18.1%/18.7% factoring in higher volume growth and margin assumptions as highlighted below. We expect EBITDA to grow from Rs 11.8bn in FY23 to Rs 17.8bn in FY26, an 11.2% CAGR, aided by a 6.7% CAGR in volumes over this period to 4.2mmscmd and margins close to the upper end of the guided range.

Growth assumptions

With MAHGL breaking out of its historically modest growth trend and clocking 7.6% YoY volume growth in Q3FY24, we now expect an FY23-FY26 volume CAGR of 6.7% (from 6.1% earlier), as against its past trajectory of 5% reported over FY18-FY23.

- **CNG growth starting to accelerate:** We have been building in a 5.9% CAGR for CNG volumes over FY23-FY26 and continue to do so based on our thesis of a ramp-up in CNG vehicle additions, particularly in GA2 (Thane Urban), and the addition of 400-500 buses by state transport body MSRTC. Our thesis now finds support from initial signs of volume pickup in Q3FY24 driven by a sharp increase in vehicle additions over the second and third quarters.
- **Industrial PNG growth to also gain pace over next two years:** Given MAHGL's success in tying up 0.15mmscmd of industry volumes on the back of a new incentive scheme and the clear uptick seen in Q3, we now raise our industrial and commercial volume growth forecast to 11.5% CAGR over FY23-FY26 (from 7.4%). We believe growth momentum will continue through FY26 as the company ties up additional industrial customers in GA3 (Raigarh) with network expansion.
- **Domestic PNG growth momentum to continue:** We expect volume growth from domestic households to continue at high single digits with deepening penetration in GA1 (Mumbai) and further expansion in GA2 (Thane Urban).

Though 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 5.4% 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, and gaining more traction in commercial vehicle segments. We await concrete results before building in higher growth over the longer run.

Margin assumptions

MAHGL has demonstrated its ability to maintain higher margins without impacting growth in CNG vehicles over FY24. The company benefits from (i) a higher differential on CNG prices due to the higher level of taxes on competing fuels (petrol and diesel) in Maharashtra, and (ii) lower gas purchase costs due to the proximity to gas sources.

Factoring in another strong margin performance of Rs 13.3/scm in Q3 and Rs 14.8/scm over 9MFY24, we now raise FY24 EBITDA/scm to Rs 14.1/scm from Rs 12.5/scm. With favourable policy support (allocation of HPHT gas, lower APM gas price and lower sales tax), we raise margin assumptions for FY25/FY26 to Rs 11.9/Rs 11.7, towards the higher end of management's guided range of Rs 10-12/scm.

Our margin assumptions are higher than the average of Rs 9.2/scm seen over FY18-FY23. We expect the availability of APM gas for the priority sector to range at 80-85% of priority sector requirements over FY25-FY26 and the shortfall to be met by relatively lower cost HPHT gas that carries lower price volatility.

Fig 21 – Revised estimates

(Rs bn)	Actual	New			Old			Change (%)		
	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	62,993	63,927	65,458	73,202	59,591	62,862	69,646	7.3	4.1	5.1
EBITDA	11,842	18,615	16,884	17,754	14,861	14,297	14,962	25.3	18.1	18.7
EBITDA growth	28.1	57.2	(9.3)	5.2	25.5	(3.8)	4.6	-	-	-
Net income	7,900	13,190	11,379	11,865	9,857	9,237	9,623	33.8	23.2	23.3

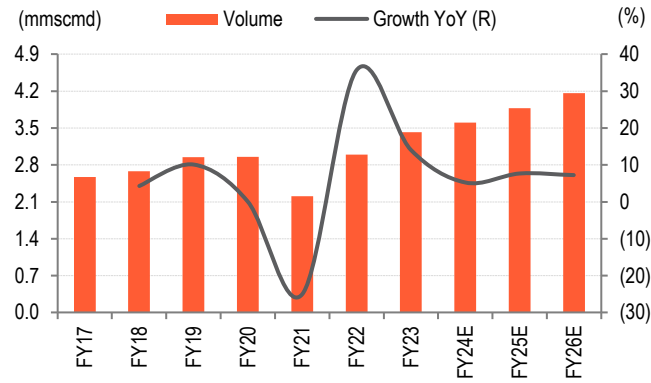
Source: Company, BOBCAPS Research

Fig 22 – 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	0.4	0.5	0.6	0.6	
Total	3.4	3.60	3.9	4.2	
Volume growth (%)					
CNG	17.8	4.0	7.2	6.6	5.9
D-PNG	4.5	5.0	6.6	6.9	6.1
I+C	6.0	12.2	11.5	10.6	11.5
Total	14.1	5.2	7.7	7.2	6.7
Volume mix (%)					
CNG	72.8	72.0	71.6	71.2	-
D-PNG	14.2	14.2	14.1	14.0	-
I+C	13.0	13.8	14.3	14.8	-
Total	100.0	100.0	100.0	100.0	-
Profitability indicator (Rs/scm)					
Revenue	50.4	48.5	46.2	48.2	-
Gross spread	14.9	20.8	18.9	19.0	-
EBITDA	9.5	14.1	11.9	11.7	-
PAT	6.3	10.0	8.0	7.8	-
ROE	20.4	28.9	21.3	19.7	-
Key assumptions					
USD/INR exchange rate	80.4	82.8	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	12.7	12.1	12.1	-
LNG spot price (US\$/MMbtu)	30.9	12.0	12.5	15.0	-
Priority sector gas bucket (US\$/MMbtu)	8.5	7.2	7.1	7.5	-
Industrials and commercials gas bucket (US\$/MMbtu)	21.6	12.1	11.8	12.3	-

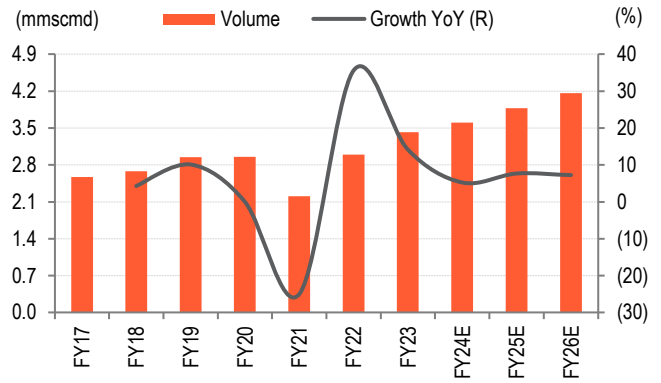
Source: Company, BOBCAPS Research, D-PNG Domestic PNG segment, I+C: Industrial and commercial segment

Fig 23 – Volume growth to pick up over FY23-FY26E from levels of FY18-FY23...



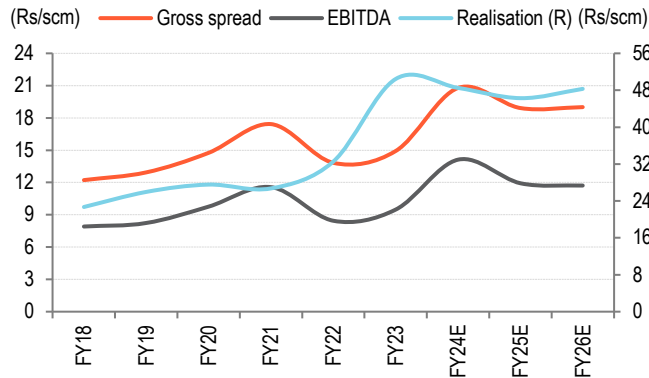
Source: Company, BOBCAPS Research

Fig 24 – ...supported by growing momentum in CNG volumes



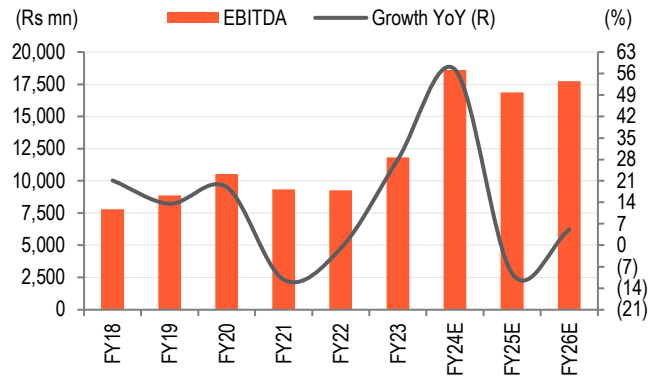
Source: Company, BOBCAPS Research | I+C: Industrial and Commercial segment

Fig 25 – Expect higher EBITDA margin over FY25E-FY26E...



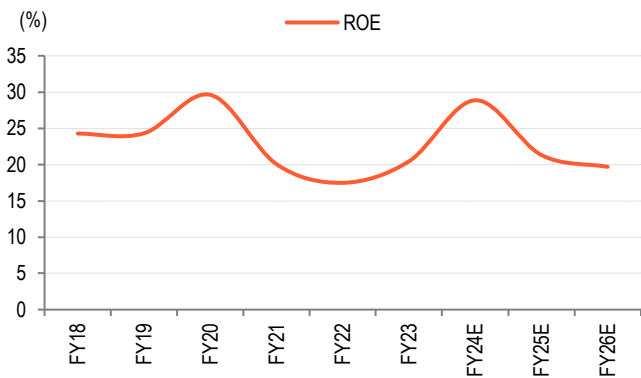
Source: Company, BOBCAPS Research

Fig 26 – ...and higher EBITDA over FY23-FY26E led by growth in volumes and modest margin recovery



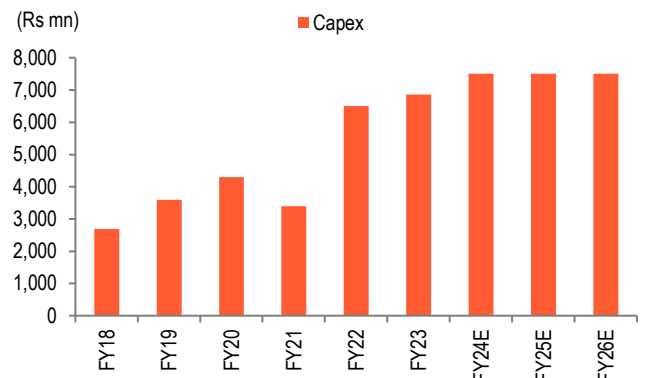
Source: Company, BOBCAPS Research

Fig 27 – ROE to settle at healthy level by FY26E



Source: Company, BOBCAPS Research

Fig 28 – Capex increase to support volume growth



Source: Company, BOBCAPS Research

DCF-based TP raised to Rs 1,590; reiterate BUY

We increase the TP for MAHGL to Rs 1,590 from Rs 1,255 as we incorporate our revised estimates into our DCF-based fair value for the core business and roll our TP forward to Jan'25 (from Oct'24). We have also added the value of Rs 72/sh for the three GAs acquired from Unison Enviro – (i) Ratnagiri, (ii) Latur and Osmanabad, and (iii) Chitradurga and Davanagere.

Our TP implies an FY24E/FY25E P/E of 11.9x/13.8x, higher than the three/five-year mean one-year forward P/E of 10.8x/11.9x on Bloomberg consensus estimates. We believe the MAHGL deserves a higher multiple than in the past as it looks set to deliver a higher volume CAGR of 6.7% over FY23-FY26 than the 5% CAGR seen over FY18-FY23. Our target price implies 16% upside and hence we reiterate our BUY rating.

- **Core business:** Key assumptions for our DCF-based fair value are cost of equity of 11%, terminal growth of 2.5%, volume CAGR of ~5.4% (from 4.9%) and average EBITDA margin of Rs 11/scm (from Rs 10/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 27% and average EBITDA margin of ~Rs 10/scm over our explicit and semi-explicit forecast period of FY24-FY33.

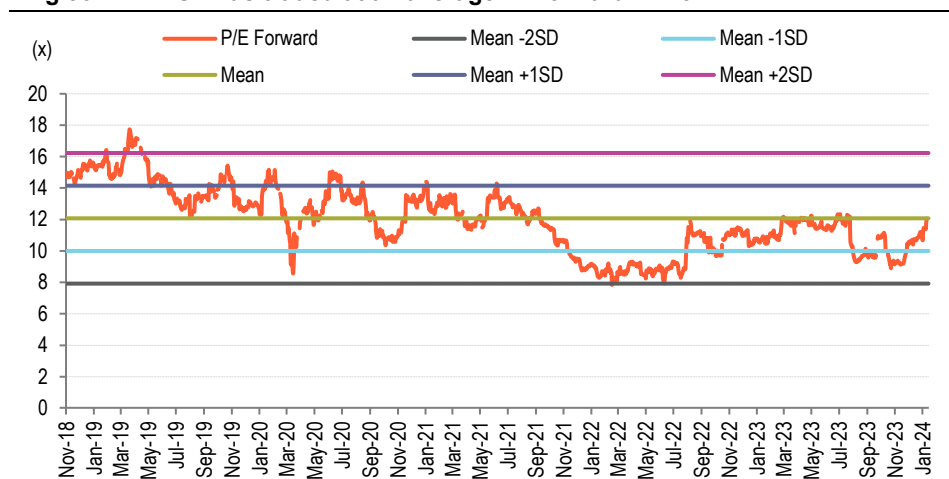
Fig 29 – DCF-based fair value

Valuation parameters	Value (Rs mn)
PV of FCF FY25E-34E	56,560
PV of terminal value	62,569
Enterprise Value	1,19,129
Less: Net Debt FY24E	(17,964)
Equity value Mar'24	1,37,093
Equity value of acquired GAs Mar'24	6,543
Equity value of MAHGL Mar'24	1,43,636
NPV Mar'24 (Rs)	1,454
NPV Jan'25 (Rs)	1,588
Target price as on Jan'25 (Rs) (rounded off to nearest Rs 5)	1,590

Source: BOBCAPS Research

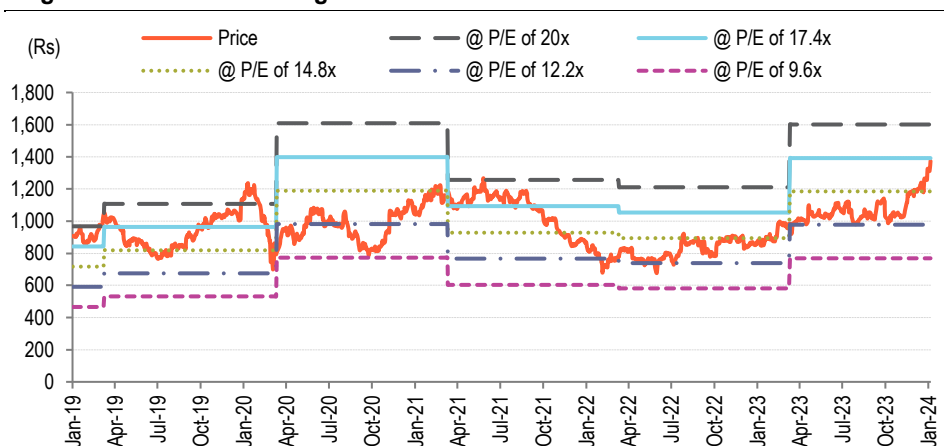
Over the past five years, MAHGL has traded at an average one-year forward P/E of 12.1x with a one standard-deviation range of 10.0-14.1x based on Bloomberg consensus. Over the past five years, the stock has traded at an average LTM P/E of 14.8x with a one standard deviation range of 12.2-17.4x based on actual earnings.

Fig 30 – MAHGL has traded at an average 1Y forward P/E of 12.1x...



Source: Bloomberg, BOBCAPS Research

Fig 31 – ...and at an average LTM P/E of 14.8x



Source: Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- lower-than-expected margins arising from an inability to pass on higher gas purchase cost to consumers,
- material reduction in taxation structure on petrol and diesel, which could lower competitiveness of CNG and result in lower margins for MAHGL,
- slower volume growth than our assumptions, with faster penetration of electric vehicles than expected,
- adverse PNGRB or government regulations that could impact our margin or volume outlook,
- an adverse judgement on the Uran-Trombay pipeline tariff dispute which carries a contingent liability at Rs 3.3bn, and
- failure to complete the acquisition of the three GAs from Unison Enviro in Q4FY24.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Bharat Petroleum Corp	BPCL IN	12.5	474	525	BUY
Indian Oil Corp	IOCL IN	16.5	144	125	HOLD
Indraprastha Gas	IGL IN	3.5	405	550	BUY
Mahanagar Gas	MAHGL IN	1.7	1,374	1,590	BUY
Petronet LNG	PLNG IN	4.7	257	220	HOLD
Reliance Industries	RIL IN	222.8	2,706	3,175	BUY

Source: BOBCAPS Research, NSE | Price as of 25 Jan 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	35,602	62,993	63,927	65,458	73,202
EBITDA	9,243	11,842	18,615	16,884	17,754
Depreciation	(1,963)	(2,311)	(2,675)	(3,042)	(3,377)
EBIT	7,281	9,531	15,940	13,843	14,378
Net interest inc./(exp.)	(75)	(94)	(103)	(107)	(112)
Other inc./(exp.)	857	1,119	1,798	1,478	1,597
Exceptional items	0	0	0	0	0
EBT	8,063	10,555	17,634	15,213	15,863
Income taxes	(2,093)	(2,655)	(4,444)	(3,834)	(3,997)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	5,970	7,901	13,190	11,379	11,865
Adjustments	0	0	0	0	0
Adjusted net profit	5,970	7,901	13,190	11,379	11,865

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,719	3,222	3,502	3,710	4,253
Other current liabilities	10,458	11,370	11,794	10,646	12,153
Provisions	356	1,364	906	827	898
Debt funds	824	938	938	938	938
Other liabilities	2,008	2,086	2,351	2,579	2,817
Equity capital	988	988	988	988	988
Reserves & surplus	34,985	40,354	48,928	55,869	62,751
Shareholders' fund	35,973	41,342	49,916	56,857	63,739
Total liab. and equities	52,338	60,323	69,406	75,558	84,798
Cash and cash eq.	4,652	2,279	3,903	5,500	10,129
Accounts receivables	1,841	2,940	3,488	3,572	3,996
Inventories	275	338	523	536	599
Other current assets	1,628	3,497	3,497	3,497	3,497
Investments	10,883	13,098	15,000	15,000	15,000
Net fixed assets	26,085	30,206	33,407	36,728	40,055
CWIP	6,159	7,086	8,710	9,847	10,643
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	69,406	75,558	84,798

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	8,537	8,488	13,845	12,057	15,516
Capital expenditures	(6,893)	(7,279)	(7,500)	(7,500)	(7,500)
Change in investments	(633)	(2,215)	(1,902)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(7,526)	(9,495)	(9,402)	(7,500)	(7,500)
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)	(4,617)	(4,438)	(4,983)
Other financing cash flows	741	1,091	1,798	1,478	1,597
Cash flow from financing	(1,478)	(1,363)	(2,819)	(2,960)	(3,387)
Chg in cash & cash eq.	(467)	(2,370)	1,624	1,597	4,629
Closing cash & cash eq.	4,652	2,282	3,903	5,500	10,129

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	60.4	80.0	133.5	115.2	120.1
Adjusted EPS	60.4	80.0	133.5	115.2	120.1
Dividend per share	25.0	26.0	46.7	44.9	50.5
Book value per share	364.2	418.5	505.3	575.6	645.3

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.7	2.1	2.1	2.0	1.8
EV/EBITDA	14.3	11.1	7.2	7.9	7.4
Adjusted P/E	22.7	17.2	10.3	11.9	11.4
P/BV	3.8	3.3	2.7	2.4	2.1

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	110.6	109.9	110.3
EBIT margin (EBIT/Revenue)	20.4	15.1	24.9	21.1	19.6
Asset turnover (Rev./Avg TA)	72.4	111.8	98.6	90.3	91.3
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.4	1.4	1.3
Adjusted ROAE	17.5	20.4	28.9	21.3	19.7

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	65.4	76.9	1.5	2.4	11.8
EBITDA	(1.0)	28.1	57.2	(9.3)	5.2
Adjusted EPS	(3.7)	32.3	67.0	(13.7)	4.3
Profitability & Return ratios (%)					
EBITDA margin	26.0	18.8	29.1	25.8	24.3
EBIT margin	20.4	15.1	24.9	21.1	19.6
Adjusted profit margin	16.8	12.5	20.6	17.4	16.2
Adjusted ROAE	17.5	20.4	28.9	21.3	19.7
ROCE	15.5	18.0	25.6	19.1	17.6
Working capital days (days)					
Receivables	16	14	18	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	0.7	0.9	1.1
Net interest coverage ratio	96.7	101.5	154.3	128.9	128.7
Adjusted debt/equity	(0.1)	0.0	(0.1)	(0.1)	(0.1)

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

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BUY – Expected return >+15%

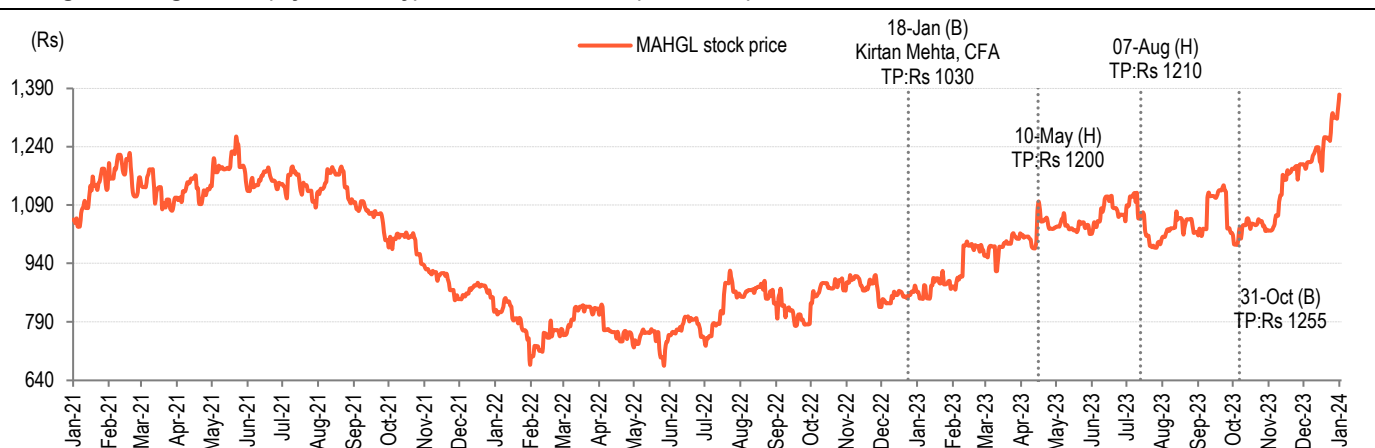
HOLD – Expected return from -6% to +15%

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)



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

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