

RESEARCH
MAHANAGAR GAS | TARGET: Rs 1,200 | +12% | HOLD

Slow long-term growth prospects; cut to HOLD

SUMMARY
MAHANAGAR GAS

- Q4 beat consensus as EBITDA margin improved sharply by Rs 4.6/scm QoQ on limited passthrough of lower gas purchase costs
- We raise FY24/FY25 forecasts assuming higher EBITDA margins and 7% annual volume growth (tapering to 5.5% longer term)
- TP raised to Rs 1,200 (from Rs 1,030) but rating downgraded to HOLD from BUY on soft long-term growth prospects

[Click here for the full report.](#)
Daily macro indicators

Ticker	05-May	08-May	Chg (%)
US 10Y yield (%)	3.44	3.51	7bps
India 10Y yield (%)	7.01	7.05	4bps
USD/INR	81.80	81.80	0.0
Brent Crude (US\$/bbl)	75.3	77.0	2.3
Dow	33,674	33,619	(0.2)
Hang Seng	20,049	20,297	1.2
Sensex	61,054	61,764	1.2
India FII (US\$ mn)	03-May	04-May	Chg (\$ mn)
FII-D	(139.5)	94.4	233.9
FII-E	169.7	471.4	301.6

Source: Bank of Baroda Economics Research



HOLD
 TP: Rs 1,200 | ▲ 12%

MAHANAGAR GAS

| Oil & Gas

| 10 May 2023

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Q4 beats consensus: MAHGL’s Q4FY23 EBITDA at Rs 3.9bn was 36% ahead of consensus and up 52% sequentially with a Rs 4.6/scm increase in EBITDA margin to Rs 12.8/scm. Management attributes the increase to lower use of spot LNG, replacement with cheaper HPHT gas and pullback in spot RLNG prices.

Near-term – Stronger margin and return to volume growth: We raise our FY24 and FY25 EBITDA margin forecasts to Rs 10/scm and Rs 9.5/scm (from Rs 9) respectively, factoring in a pullback in global gas prices and no further need for spot LNG to bridge the APM gas shortfall for the priority sector. This translates to a 6%/2% increase in our EBITDA forecasts for FY24/FY25.

Medium-term – Improved outlook: In our [18 January note](#), we highlighted that MAHGL can accelerate growth from a 3% CAGR over FY17-FY22 to 7% over FY24-FY25 given the ramp-up of network development in GA2 and GA3. We expect the company’s EBITDA to grow at a 7% CAGR to Rs 14.5bn in FY26 driven primarily by a 7% CAGR in volumes.

Higher margin may not provide enough flexibility to spur volume growth: While MAHGL’s flexibility to offer lower CNG prices with an uptick in margin has significantly improved, the same may not necessarily translate into sharper volume growth over the longer term. Volume growth in Mumbai is constrained by the space available to develop CNG station infrastructure to accelerate penetration.

Long-term – Slower growth relative to peers a constraint; cut to HOLD: We raise our TP to Rs 1,200 from Rs 1,030 factoring in higher margins for the core business and the value of acquired GAs at Rs 5.2bn. Our DCF-based TP assumes cost of equity of 11% and terminal growth of 2.5%. We pencil in a 5.5% volume CAGR and average EBITDA margin of Rs 9/scm for core business over FY24-FY33. The stock has run up 23% since the end of February and offers only 12% upside, leading us to move from BUY to HOLD. Our TP implies an FY24E/ FY25E P/E of 13.5x/ 13.4x which is at a discount to peers. Further rerating could be constrained by relatively slower long-term volume growth of 5.5%, which compares with our assumption of 8% for IGL.

Key changes

Target	Rating
▲	▼

Ticker/Price	MAHGL IN/Rs 1,074
Market cap	US\$ 1.3bn
Free float	58%
3M ADV	US\$ 8.9mn
52wk high/low	Rs 1,098/Rs 666
Promoter/FPI/DII	43%/31%/15%

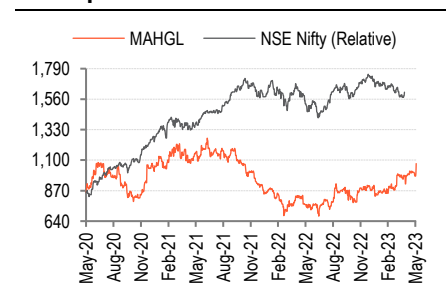
Source: NSE | Price as of 9 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	62,993	59,432	62,960
EBITDA (Rs mn)	11,842	13,396	13,824
Adj. net profit (Rs mn)	7,900	8,750	8,853
Adj. EPS (Rs)	80.0	88.6	89.6
Consensus EPS (Rs)	80.0	85.3	89.9
Adj. ROAE (%)	20.4	19.9	18.1
Adj. P/E (x)	13.4	12.1	12.0
EV/EBITDA (x)	8.6	7.7	7.6
Adj. EPS growth (%)	32.3	10.8	1.2

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

Stock performance



Source: NSE



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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

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