

**HOLD**  
 TP: Rs 1,875 | ▲ 2%

**MAHANAGAR GAS**

| Oil & Gas

| 27 July 2024

**Recent run-up raises bar on growth, downgrade to HOLD**

- MAHGL breaks out of modest growth history, clocking 12% YoY volume growth over past six months
- We push up growth trajectory to 7.5% CAGR over FY24-27E and 6% over FY24-33E as well as factor in margin advantage for MAHGL
- Raise DCF-based TP to Rs 1,875 (from Rs 1,545); downgrade to HOLD with strong 46% rally in stock price pricing in new growth trajectory

**Kirtan Mehta, CFA**  
 research@bobcaps.in

**Momentum continues:** Q1FY25 EBITDA at Rs 4.2bn was 10% ahead of Bloomberg consensus and 13% ahead of ours. MAHGL delivered 13% YoY volume growth and Rs 0.5/scm sequential improvement in EBITDA margin to Rs 11.9/scm.

**Pushing the growth envelope:** MAHGL breached its historical modest growth trend of 4% over FY19-24 by clocking 12.6% YoY volume growth over the past six months, driving all three segments above 10% growth. As a result, we raise the volume growth trajectory to 8.9% (from 7.7%) for FY25E, 7.5% CAGR over FY24-27E, both above company guidance. With new avenues emerging like commercial vehicles, LNG for long-haul transport and two-wheelers, we raise growth over the next decade (FY24-33) to ~6% (from 5.3%) for the core operations at the upper end of guidance and 7.7% (7.4%) including UEPL over FY24-33E.

**Building margin advantage:** We factor in margin at the upper half of the company’s guidance of Rs 10-12/scm, well above Rs 9.5/scm over FY19-23. This is supported by (i) favourable policy (allocation of HPHT gas, lower APM gas price and lower sales tax), (ii) lower gas costs (transportation, flexibility in contracts) and (iii) higher taxes on competing fuels within the state. Refer for comparison with IGL.

**Raise estimates:** On pick-up in momentum, we raise our FY25/FY26 EBITDA forecasts by 5% each. However, on normalisation of margin from high levels in FY24, we estimate flat EBITDA growth (-0.6% CAGR) over FY24-27.

**Downgrade to HOLD:** We raise our DCF-based TP to Rs 1,875 (from Rs 1,545) as MAHGL breaches its historical growth trend, and roll forward valuation to Sep’25 (from May’25). Our TP implies FY26E P/E of 15.5x after consolidating UEPL, above the 1Y fwd mean P/E of 11.7x/12.2x over the past 5Y/10Y. Our target multiple is still lower than IGL’s (FY26E PE of 18.8x) due to lower terminal growth of 2.5% (vs 4% for IGL) reflecting smaller footprint. Given 2% returns, we downgrade to HOLD.

**Catalysts:** Traction in emerging segments and waiver of excise duty are upside catalysts. Withdrawal of exclusivity, acceleration in EVs/ hybrids are downside risks.

**Key changes**

Target	Rating
▲	▼

Ticker/Price	MAHGL IN/Rs 1,846
Market cap	US\$ 2.2bn
Free float	58%
3M ADV	US\$ 14.7mn
52wk high/low	Rs 1,858/Rs 971
Promoter/FPI/DII	33%/31%/17%

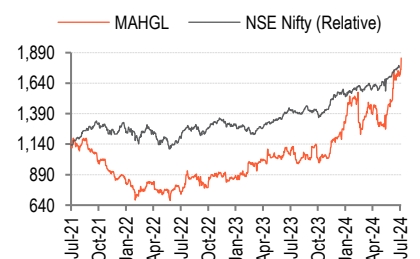
Source: NSE | Price as of 26 Jul 2024

**Key financials**

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	62,445	66,420	72,774
EBITDA (Rs mn)	18,426	16,473	17,408
Adj. net profit (Rs mn)	12,891	11,097	11,658
Adj. EPS (Rs)	130.5	112.3	118.0
Consensus EPS (Rs)	130.5	113.2	118.1
Adj. ROAE (%)	27.8	20.2	18.8
Adj. P/E (x)	14.1	16.4	15.6
EV/EBITDA (x)	9.8	10.9	10.2
Adj. EPS growth (%)	63.2	(13.9)	5.1

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

**Stock performance**



Source: NSE



## Q1 beats consensus on better margins

MAHGL's Q1FY25 revenue/EBITDA/net income at Rs 15.9bn/Rs 4.2bn/Rs 2.9bn were 2%/10%/10% ahead of Bloomberg consensus estimates and 2%/13%/16% above ours. EBITDA was up 6.3% sequentially with 2.1% growth in volumes and 4.1% QoQ improvement in EBITDA/scm to Rs 11.9/scm.

### Focus on volumes yielding results

**Strong growth momentum.** Volumes were up 2% QoQ with strong 4% growth in CNG volumes. The growth momentum sustained over the past six months with 12.6% YoY growth supported by all segments – CNG (11%), domestic (10%) and industrial and commercial (23%). The growth momentum is likely to sustain over Q2 and Q3.

**Strong CNG vehicle additions:** CNG vehicle additions remained elevated over the past 12 months, particularly after a sharp reduction in CNG price in Apr'23. With 20.8k in Q1, vehicle additions at 83.2k over the past 12 months are well above run-rate of 65k in FY23. The company indicated additions of 14.2k cars and cabs, 5k three-wheelers, 1.2k small commercial vehicles, 168 medium-and-heavy trucks, 90 MSRTC (Maharashtra State Road Transport Corporation) buses and 69 BEST (Brihanmumbai Electric Supply and Transport) buses during Q1. The company notes that some users of commercial vehicles are shifting from small to medium and heavy to take advantage of factory-fitted CNG kits. BEST has resumed adding buses to its fleet after a few quarters, which may indicate the difficulty of getting electric buses – which has remained stagnant at ~600 buses despite an order of 2,000 buses a couple of years ago.

We believe our thesis of **an acceleration in growth over the medium term**, as highlighted in our note of 5 February 2023, 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. MAHGL's incentive schemes for select passenger and small commercial vehicles in Q3FY24 and for large commercial vehicles over Q3-Q4FY24 may have supported momentum.

**Incentives for industry yielding success:** Industrial and commercial volumes at 0.54mmscmd over past six months were up 23% YoY. The incentive scheme helped the company add 0.15mmscmd of incremental volumes. MAHGL is offering a guaranteed 10% discount on alternative fuel for any new industrial customer in GA3 and large new customer in GA2.

### Margins surprised on upside

**Margin improved:** With normalisation of opex by Rs 0.4/scm QoQ and stable gross margin (up 0.1mmscmd), EBITDA margin improved by Rs 0.5/scm to Rs 11.9/scm. The impact of the price cut in Mar as well as reduction in APM (administrative price mechanism) gas (68% from 73% in Q4FY24) was offset by the decline in gas purchase costs (Rs 0.3/scm).

**Margin advantage:** The company confirmed benefit of lower gas transportation cost with 90% of gas being purchased from Zone 1 with a transportation tariff of Rs

40/MMBtu. Further, the company has been enhancing contracts to meet shortfall in APM gas as well as increase in industrial and commercial demand. The company has now a 0.1mmcmd contract for KG gas from Reliance Industries, and 0.5mmcmd of HPHT (high-temperature, high-pressure) gas and 0.75mmcmd linked to US Henry Hub prices with different counter-parties.

**Guidance retained:** Management reiterated margin guidance of Rs 10-12/scm for the medium term. The price increase of Rs 1.5/kg on CNG and Rs 1/scm will offset increase in gas purchase costs from the increase in international gas prices.

### Infrastructure rollout

- **Capex:** Against its target of more than Rs 7.5bn capex for FY25, MAHGL spent Rs 2.9bn in Q1.
- **CNG stations:** The company is targeting the addition of 50 stations in core operations and 25 in acquired geographical areas (GAs) within Unison Enviro (UEPL). The company has added two stations in core operations and one in UPEL taking the total to 348 and 57 respectively.
- **Q1 developments for core operations:** MAHGL has laid 85.5km of steel and MDPE (Medium Density Polyethylene) pipelines, raising the total length to 7,054km. The company has added 35.5k domestic households, raising its total connections to 2.53mn, and 104 industrial and commercial consumers for a total of 4,845.
- **Raigarh GA:** The company has operationalised 47 CNG stations and added 8km of pipeline in Q1, with connections to a total of 80.9k domestic households in Raigarh.

**Fig 1 – Q1 beats consensus and us on higher margins and strong momentum**

(Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
<b>Net sales</b>	<b>15,896</b>	<b>15,378</b>	<b>3.4</b>	<b>15,670</b>	<b>1.4</b>
% of sales	60.4	54.9	-	60.7	-
Other expenditure	2,114	1,724	22.7	2,216	(4.6)
% of sales	13.3	11.2	-	14.1	-
<b>EBITDA</b>	<b>4,185</b>	<b>5,213</b>	<b>(19.7)</b>	<b>3,938</b>	<b>6.3</b>
<b>EBITDA (Rs/scm)</b>	<b>11.9</b>	<b>16.8</b>	<b>(29.0)</b>	<b>11.4</b>	<b>4.1</b>
<b>EBITDA margin (%)</b>	<b>26.3</b>	<b>33.9</b>	<b>-</b>	<b>25.1</b>	<b>-</b>
Depreciation and amortisation	719	620	15.8	775	(7.3)
Interest	31	25	23.5	38	(19.1)
Other income	402	390	3.1	446	(9.9)
<b>Profit before tax</b>	<b>3,837</b>	<b>4,957</b>	<b>(22.6)</b>	<b>3,570</b>	<b>7.5</b>
Provision for tax	992	1,273	(22.1)	920	7.8
-effective tax rate (%)	25.8	25.7	-	25.8	-
<b>PAT (reported)</b>	<b>2,845</b>	<b>3,684</b>	<b>(22.8)</b>	<b>2,649.7</b>	<b>7.4</b>
<b>Reported EPS (Rs)</b>	<b>28.8</b>	<b>37.3</b>	<b>(22.8)</b>	<b>26.8</b>	<b>7.4</b>

Source: Company, BOBCAPS Research

**Fig 2 – Strong sequential volume growth led by CNG**

(mmscm)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
<b>CNG</b>	<b>252</b>	<b>226</b>	<b>11.7</b>	<b>243</b>	<b>4.0</b>
<b>PNG</b>	<b>99</b>	<b>85</b>	<b>16.7</b>	<b>101</b>	<b>(2.5)</b>
Industrial/ Commercial	49	40	23.8	50	(2.1)
Domestic	50	45	10.5	51	(2.8)
<b>Total volume (mmscm)</b>	<b>351</b>	<b>310</b>	<b>13.1</b>	<b>344</b>	<b>2.1</b>
<b>Total volume (mmscmd)</b>	<b>3.86</b>	<b>3.41</b>	<b>13.1</b>	<b>3.78</b>	<b>2.1</b>

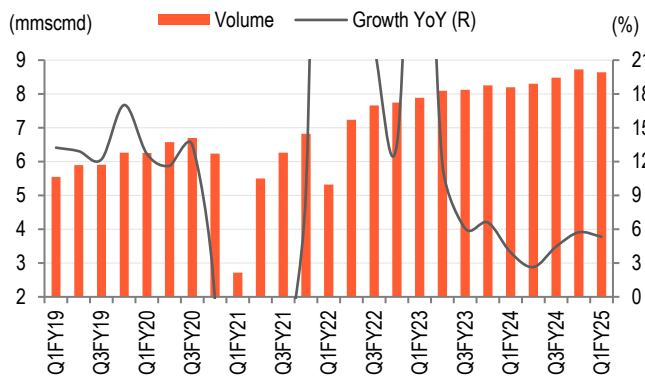
Source: Company, BOBCAPS Research

**Fig 3 – Margins at the upper end of guidance average**

(Rs/scm)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
CNG realisation (Rs/kg)	60.8	68.0	(10.7)	62.0	(2.0)
PNG realisation	48.0	50.0	(4.0)	46.5	3.1
<b>Average realisation</b>	<b>45.3</b>	<b>49.5</b>	<b>(8.6)</b>	<b>45.6</b>	<b>(0.6)</b>
Gas purchase cost	27.3	27.2	0.5	27.7	(1.2)
<b>Gross spread</b>	<b>17.9</b>	<b>22.3</b>	<b>(19.7)</b>	<b>17.9</b>	<b>0.3</b>
Other operating costs	6.0	5.6	8.5	6.4	(6.5)
<b>EBITDA</b>	<b>11.9</b>	<b>16.8</b>	<b>(29.0)</b>	<b>11.4</b>	<b>4.1</b>

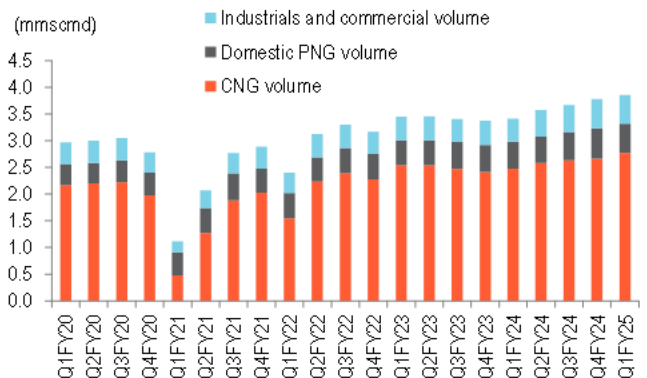
Source: Company, BOBCAPS Research

**Fig 4 – Sharp volume uptick in Q1, both QoQ and YOY**



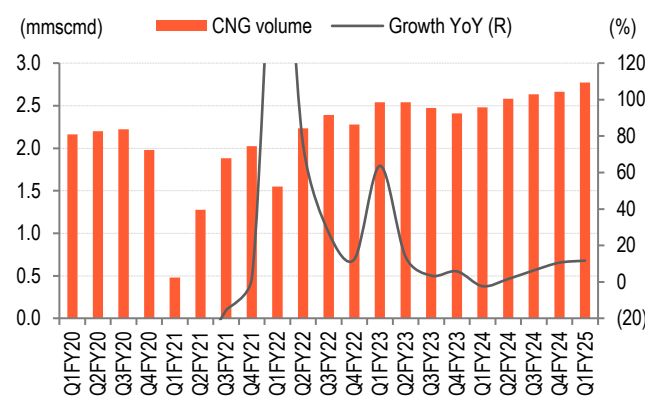
Source: Company, BOBCAPS Research

**Fig 5 – CNG segment drives sequential growth**



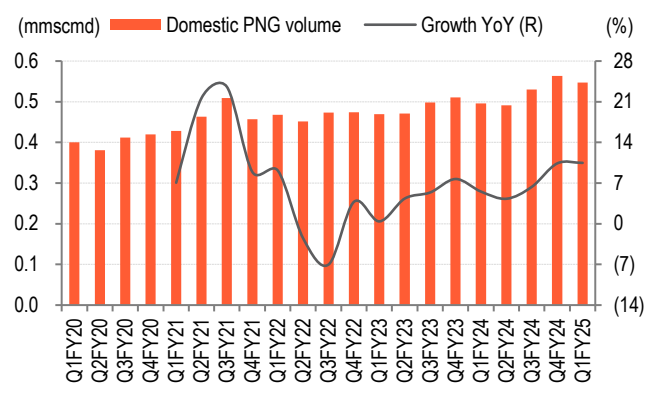
Source: Company, BOBCAPS Research

**Fig 6 – Pickup in CNG vehicles drives CNG growth**



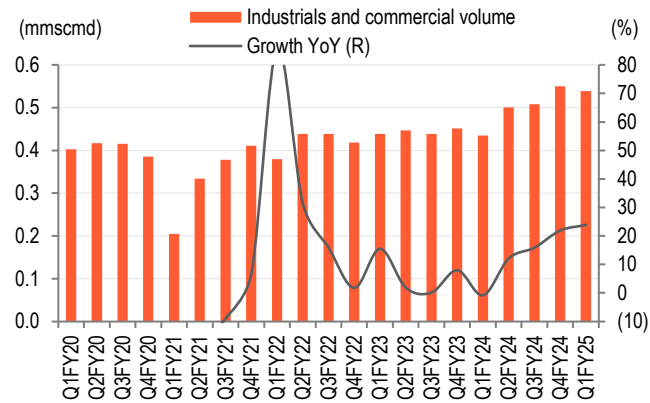
Source: Company, BOBCAPS Research

**Fig 7 – Domestic PNG growth momentum continues**



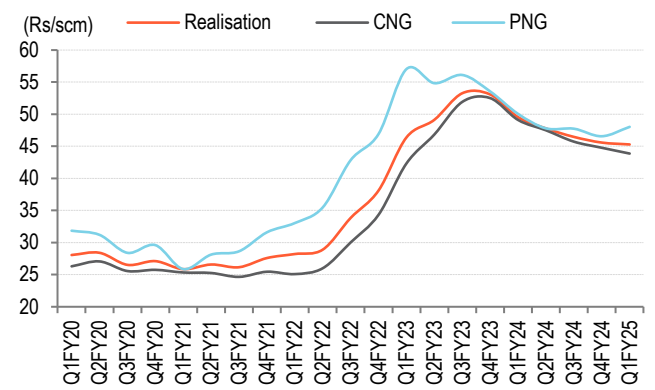
Source: Company, BOBCAPS Research

**Fig 8 – Industrial volume surged over past 6 months, driven by new incentives**



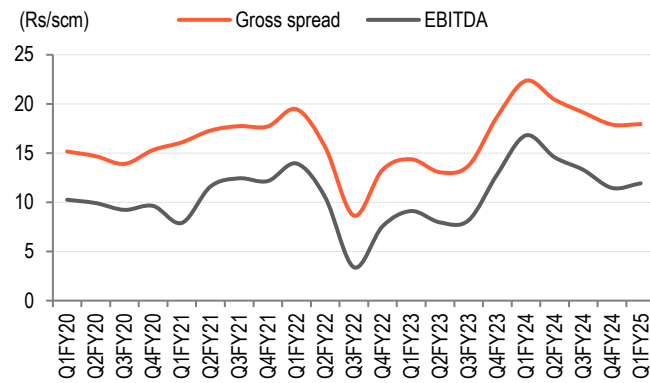
Source: Company, BOBCAPS Research

**Fig 9 – Realisation declined driven by CNG price cut**



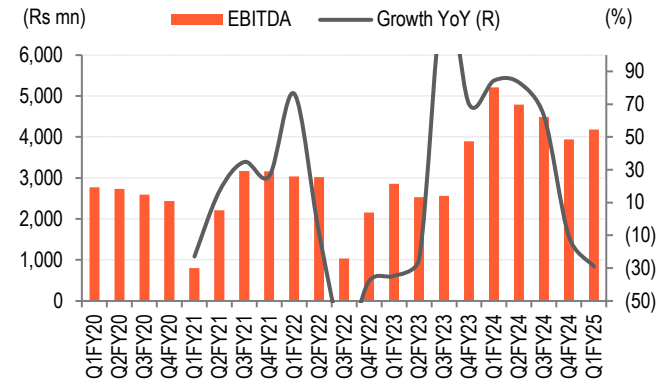
Source: Company, BOBCAPS Research

**Fig 10 – Margin continues to trend above historical range**



Source: Company, BOBCAPS Research

**Fig 11 – EBITDA declined YoY as margin normalised**



Source: Company, BOBCAPS Research

## Valuation methodology

### Forecast changes

We raise our FY25/FY26 EBITDA forecasts for MAHGL by 4.5%/4.9% factoring in higher growth as well as margin. We expect EBITDA to decline from Rs 18.4bn in FY24 to Rs 16.5bn in FY25 with normalisation of EBITDA margin, and then resume its growth trajectory from FY26 albeit below volume growth with continuing moderation of margin. We introduce our FY27 forecasts and now bake in 7.5% CAGR in volumes over FY24-27E to 4.5mmscmd and margins in the upper half of the guided range of Rs10-12/scm.

**Fig 12 – Revised estimates**

(Rs bn)	Provisional	New			Old		Change (%)	
	FY24P	FY25E	FY26E	FY27E	FY25E	FY26E	FY25E	FY26E
Revenue	62,445	66,420	72,774	77,671	65,254	71,392	1.8	1.9
<b>EBITDA</b>	18,426	16,473	17,408	18,097	15,766	16,596	4.5	4.9
EBITDA growth (YoY)	55.6	(10.6)	5.7	4.0	(14.4)	5.3	-	-
Net income	12,891	11,097	11,658	12,087	10,549	10,999	5.2	6.0

Source: Company, BOBCAPS Research

### Growth assumptions

Breaking out of its historically modest growth trend, MAHGL clocked 12.6% YoY volume growth over the past six months, driving all three segments above 10% growth. With continued growth momentum, we raise the FY25 growth forecast to 8.9% (from 7.7%) and build in 7.5% growth over FY24-27E (from 7.4% over FY24-26E), higher than the company guidance of 6-7%. The new growth trajectory is almost double of the trajectory of 4% reported over FY19-FY24.

- CNG growth starting to accelerate:** We have raised CNG growth to 7.2% CAGR over FY24-27E (from 6.8% CAGR over FY24-26E). We have highlighted MAHGL's success in CNG vehicle additions, particularly in GA2 (Thane Urban), and factor in additions of 400-500 buses by the state transport body MSRTC.
- Industrial PNG growth to gain pace over next two years:** Factoring in the success of adding new volumes with a new incentive scheme, we build in 8.9% CAGR over FY24-33E. MAHGL offers a 10% discount on the price of alternative fuel for the first three years to a new customer in GA3 (Raigarh) and to a customer committing to new high volumes in GA2.
- 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).
- Raise growth over FY24-33E to 6%:** With initial signs of traction in the commercial vehicle segment, particularly in LCV, and recent signs of increase in interest in the medium and heavy commercial vehicle category, as well as increasing commitment to develop usage of LNG for long-haul transportation, we now raise growth over FY24-33E to 6% (from 5.5%), at the upper end of the company target of 5-6%.

- **UEPL:** We factor in sharp growth in these three GAs to 1mmscmd over eight years, slightly slower than the company's target of six to seven years.
- **Consolidated growth:** We now raise consolidated growth to 7.7% (from 6.8%) including UEPL over FY24-33E. The growth profile could improve further if MAHGL finds a solution to space constraints for gas stations in Mumbai, which is hindering CNG uptake, and/or gain more traction in commercial vehicle segments.

### Margin assumptions

With favourable policy support (allocation of HPHT gas, lower APM gas price and lower sales tax), we build in margin assumptions towards the higher end of management's guided range of Rs 10-12/scm. We believe higher promotional expenses to support higher growth ambitions will continue periodically.

Our margin assumptions are higher than the average of Rs 9.5/scm seen over FY19-FY23. While the shortfall in APM gas has increased to ~30%, the availability of relatively lower cost HPHT gas to bridge the shortfall is limiting the increase in priority sector gas purchase costs.

**Fig 13 – Key business drivers and assumptions**

Parameter	FY24P	FY25E	FY26E	FY27E	FY24-27E CAGR (%)
<b>Volumes (mmscmd)</b>					
CNG	2.6	2.8	3.01	3.2	7.3
D-PNG	0.5	0.6	0.60	0.6	7.5
I+C	0.5	0.6	0.61	0.6	8.9
<b>Total</b>	<b>3.6</b>	<b>3.93</b>	<b>4.22</b>	<b>4.5</b>	<b>7.5</b>
<b>Volume growth (%)</b>					
CNG	17.8	8.8	6.9	6.0	7.2
D-PNG	4.5	7.5	6.9	8.0	7.5
I+C	6.0	10.5	10.3	6.0	8.9
<b>Total</b>	<b>14.1</b>	<b>8.9</b>	<b>7.3</b>	<b>6.3</b>	<b>7.5</b>
<b>Volume mix (%)</b>					
CNG	71.8	71.7	71.4	71.2	-
D-PNG	14.4	14.2	14.2	14.4	-
I+C	13.8	14.0	14.4	14.4	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>
<b>Profitability indicator (Rs/scm)</b>					
Revenue	47.3	46.3	47.3	47.5	-
Gross spread	19.9	17.7	17.9	17.9	-
<b>EBITDA</b>	<b>13.9</b>	<b>11.5</b>	<b>11.3</b>	<b>11.1</b>	<b>-</b>
PAT	9.8	7.7	7.6	7.4	-
ROE	27.8	20.2	18.8	17.6	-
<b>Key assumptions</b>					
USD/INR exchange rate	82.8	83.5	83.5	83.5	-
APM gas price (US\$/MMBtu)	6.5	6.5	6.8	7.0	-
Gas price ceiling (US\$/MMBtu)	11.0	10.2	10.2	9.6	-
LNG contract price (US\$/MMBtu)	13.1	12.1	12.1	11.4	-
LNG spot price (US\$/MMBtu)	15.2	13.0	10.5	10.4	-
Priority sector gas bucket (US\$/MMBtu)	7.3	7.6	8.0	8.1	-
Industrials and commercials gas bucket (US\$/MMBtu)	12.3	11.3	11.0	10.4	-

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

### MAHGL: Downgrade to HOLD, TP Rs 1,875 (from Rs 1,545)

We increase MAHGL's TP to Rs 1,875 from Rs 1,545 as we incorporate our revised estimates and higher growth assumptions over semi-explicit forecast period up to FY33 into our DCF-based fair value for the core business and roll forward our TP to Sep'25 (from May'25). Also, we have added the value of Rs 96/sh (from Rs 73/sh) for the three GAs acquired from UEPL (Unison Enviro) – (i) Ratnagiri, (ii) Latur and Osmanabad, and (iii) Chitradurga and Davanagere. Our TP implies 2% upside and, hence, we downgrade our rating on MAHGL to HOLD from BUY.

Our TP implies an FY25E/FY26E P/E of 16.3x/15.5x after consolidating UEPL, higher than the five/ten-year mean one-year forward P/E of 11.7x/12.2x on Bloomberg consensus estimates. We believe MAHGL deserves a higher multiple than in the past as it looks set to deliver a higher volume CAGR of 7.5% for its existing operations over FY24-FY27 and potentially at 7.7% including UEPL over FY24-33E. This is significantly higher than the 4% CAGR seen over FY19-FY24.

Our implied target multiple for MAHGL is lower than the target multiple for IGL (FY25E/FY26E P/E of 20.3x/18.8x) as we assume lower terminal growth rate of 2.5% vs 4% for IGL, due to its smaller footprint.

- **Core business:** Key assumptions for our DCF-based fair value are cost of equity of 11%, terminal growth of 2.5%, volume CAGR of ~6% (from 5.3%) and average EBITDA margin of Rs 11.0/scm (from Rs 10.6/scm) over our explicit and semi-explicit forecast period of FY25-FY33.
- **UEPL:** 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 26% (25%) and average EBITDA margin of ~Rs 10/scm (unchanged) over our explicit and semi-explicit forecast period of FY25-FY33.

**Fig 14 – DCF-based fair value**

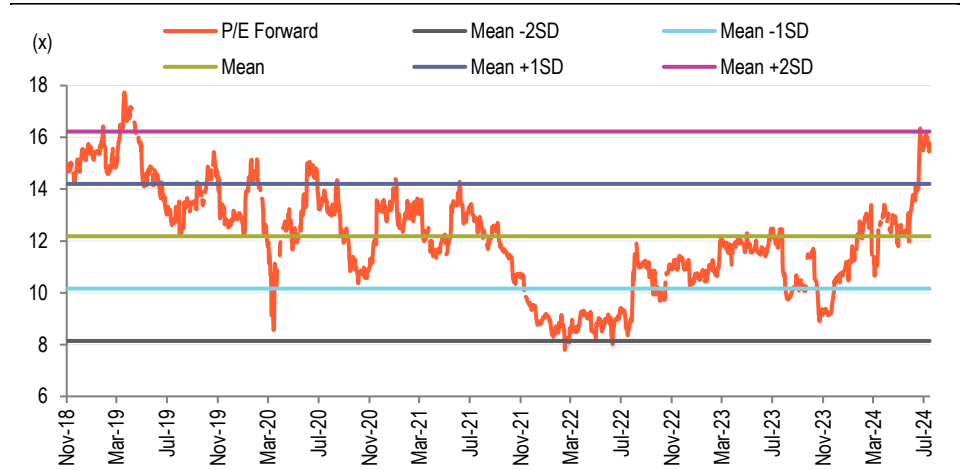
Valuation parameters	Value (Rs mn)
PV of FCF FY25E-33E	59,045
PV of terminal value	71,884
<b>Enterprise Value of MAHGL standalone</b>	<b>1,30,929</b>
Less: Net Debt FY24E	(19,183)
<b>Equity value of MAHGL standalone Mar'24</b>	<b>1,50,112</b>
Equity value of acquired GAs Mar'24	8,105
<b>Equity value of MAHGL Mar'24</b>	<b>1,58,216</b>
NPV Mar'24 (Rs)	1,602
NPV Sep'25 (Rs)	1,876
<b>Target price as on Sep'25 (Rs) (rounded off to nearest Rs 5)</b>	<b>1,875</b>

Source: BOBCAPS Research

Over the past five years, MAHGL has traded at an average one-year forward P/E of 11.7x with a one standard deviation range of 10.0-13.4x based on Bloomberg consensus. Over the past five years, the stock has traded at an average LTM P/E of 14.5x with a one standard deviation range of 11.9-17.1x based on actual earnings.

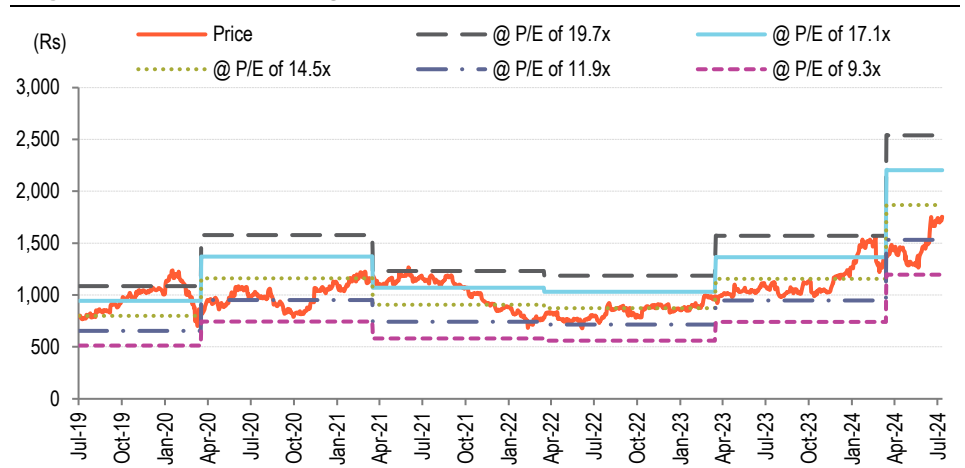


**Fig 15 – MAHGL has traded at an average 1Y forward P/E of 12.1x over past 10Y...**



Source: Bloomberg, BOBCAPS Research

**Fig 16 – ... and at an average LTM P/E of 14.5x**



Source: Bloomberg, BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- Higher-than-expected margins arising from not passing benefit of lower gas purchase costs to consumers.
- Faster volume growth than our assumptions due to faster penetration in commercial vehicles, development of the long-haul LNG segment, or development of new two-wheeler segment.
- Reduction in excise duty, enabling the company to earn higher margin and/or higher volume growth than our forecasts.

Key downside risks to our estimates are:

- Lower-than-expected margins arising from an inability to pass on higher gas purchase costs 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, due to faster penetration of electric vehicles than expected.
- Adverse PNGRB or government regulations could impact our margin or volume outlook.
- Adverse judgement on the Uran-Trombay pipeline tariff dispute which carries a contingent liability of Rs 3.3bn.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>62,993</b>	<b>62,445</b>	<b>66,420</b>	<b>72,774</b>	<b>77,671</b>
EBITDA	11,842	18,426	16,473	17,408	18,097
Depreciation	(2,311)	(2,736)	(3,169)	(3,514)	(3,828)
EBIT	9,531	15,690	13,304	13,894	14,269
Net interest inc./(exp.)	(94)	(115)	(120)	(125)	(130)
Other inc./(exp.)	1,119	1,753	1,651	1,816	2,021
Exceptional items	0	0	0	0	0
EBT	10,555	17,328	14,836	15,585	16,160
Income taxes	(2,655)	(4,437)	(3,739)	(3,927)	(4,072)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>7,901</b>	<b>12,891</b>	<b>11,097</b>	<b>11,658</b>	<b>12,087</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>7,901</b>	<b>12,891</b>	<b>11,097</b>	<b>11,658</b>	<b>12,087</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Accounts payables	3,222	3,342	3,371	3,723	3,973
Other current liabilities	11,370	12,896	14,632	15,461	15,821
Provisions	1,364	992	784	859	951
Debt funds	938	1,161	1,161	1,161	1,161
Other liabilities	2,086	2,441	2,663	2,897	3,140
Equity capital	988	988	988	988	988
Reserves & surplus	40,354	50,441	57,432	64,427	71,075
Shareholders' fund	41,342	51,429	58,420	65,414	72,062
<b>Total liab. and equities</b>	<b>60,323</b>	<b>72,260</b>	<b>81,032</b>	<b>89,516</b>	<b>97,107</b>
Cash and cash eq.	2,279	3,985	7,097	10,755	16,413
Accounts receivables	2,940	2,806	3,081	3,377	3,605
Inventories	338	398	453	497	530
Other current assets	3,497	4,540	4,540	4,540	4,540
Investments	13,098	16,360	16,360	16,360	16,360
Net fixed assets	30,206	35,360	38,763	42,150	44,303
CWIP	7,086	7,743	9,670	10,769	10,288
Intangible assets	51	70	70	70	70
Deferred tax assets, net	828	998	998	998	998
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>60,323</b>	<b>72,260</b>	<b>81,032</b>	<b>89,516</b>	<b>97,107</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>8,488</b>	<b>14,545</b>	<b>14,066</b>	<b>14,506</b>	<b>14,576</b>
Capital expenditures	(7,279)	(8,566)	(8,500)	(8,000)	(5,500)
Change in investments	(2,215)	(3,261)	0	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(9,495)</b>	<b>(11,827)</b>	<b>(8,500)</b>	<b>(8,000)</b>	<b>(5,500)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	114	223	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(2,568)	(2,963)	(4,106)	(4,663)	(5,439)
Other financing cash flows	1,091	1,742	1,651	1,816	2,021
<b>Cash flow from financing</b>	<b>(1,363)</b>	<b>(999)</b>	<b>(2,454)</b>	<b>(2,847)</b>	<b>(3,419)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(2,370)</b>	<b>1,719</b>	<b>3,112</b>	<b>3,659</b>	<b>5,658</b>
<b>Closing cash &amp; cash eq.</b>	<b>2,282</b>	<b>3,998</b>	<b>7,097</b>	<b>10,755</b>	<b>16,413</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24P	FY25E	FY26E	FY27E
Reported EPS	80.0	130.5	112.3	118.0	122.4
Adjusted EPS	80.0	130.5	112.3	118.0	122.4
Dividend per share	26.0	30.0	41.6	47.2	55.1
Book value per share	418.5	520.6	591.4	662.2	729.5

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24P	FY25E	FY26E	FY27E
EV/Sales	2.8	2.9	2.7	2.4	2.2
EV/EBITDA	15.0	9.8	10.9	10.2	9.6
Adjusted P/E	23.1	14.1	16.4	15.6	15.1
P/BV	4.4	3.5	3.1	2.8	2.5

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24P	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.8	74.4	74.8	74.8	74.8
Interest burden (PBT/EBIT)	110.8	110.4	111.5	112.2	113.3
EBIT margin (EBIT/Revenue)	15.1	25.1	20.0	19.1	18.4
Asset turnover (Rev./Avg TA)	111.8	94.2	86.7	85.3	83.2
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.4	1.4	1.4
Adjusted ROAE	20.4	27.8	20.2	18.8	17.6

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24P	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	76.9	(0.9)	6.4	9.6	6.7
EBITDA	28.1	55.6	(10.6)	5.7	4.0
Adjusted EPS	32.3	63.2	(13.9)	5.1	3.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	18.8	29.5	24.8	23.9	23.3
EBIT margin	15.1	25.1	20.0	19.1	18.4
Adjusted profit margin	12.5	20.6	16.7	16.0	15.6
Adjusted ROAE	20.4	27.8	20.2	18.8	17.6
ROCE	18.0	24.6	17.7	16.5	15.3
<b>Working capital days (days)</b>					
Receivables	14	17	16	16	16
Inventory	3	4	4	4	4
Payables	21	27	25	23	24
<b>Ratios (x)</b>					
Gross asset turnover	1.6	1.4	1.3	1.2	1.2
Current ratio	0.6	0.7	0.8	1.0	1.2
Net interest coverage ratio	101.5	136.1	110.9	111.4	110.0
Adjusted debt/equity	0.0	(0.1)	(0.1)	(0.1)	(0.2)

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**



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%

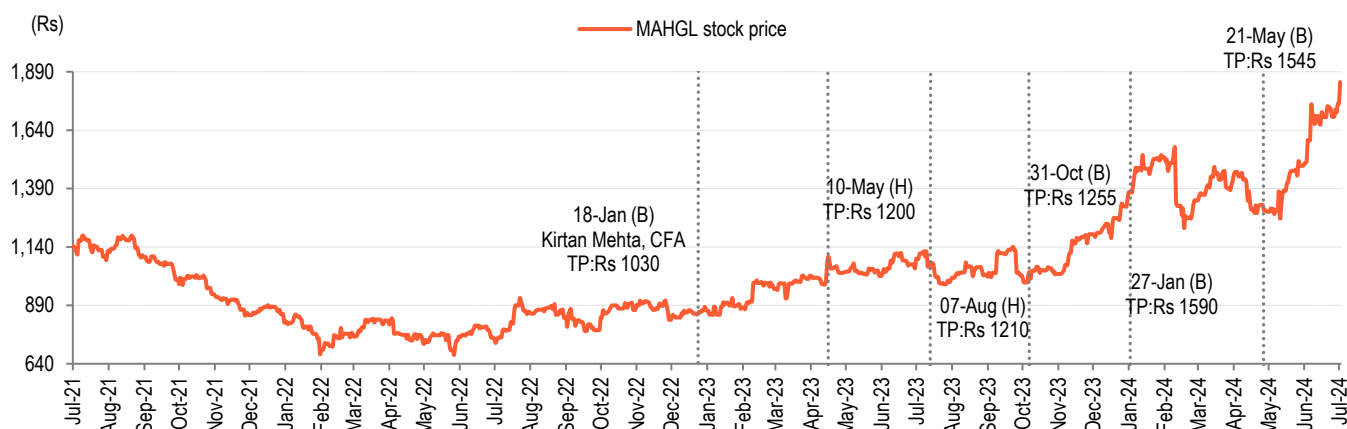
**HOLD** – Expected return from -6% to +15%

**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.

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.