

# Mahanagar Gas

BSE SENSEX  
74,086

S&P CNX  
22,474


## Stock Info

Bloomberg	MAHGL IN
Equity Shares (m)	99
M.Cap.(INRb)/(USDb)	131.3 / 1.6
52-Week Range (INR)	1580 / 909
1, 6, 12 Rel. Per (%)	-16/9/8
12M Avg Val (INR M)	665
Free float (%)	67.5

## Financials Snapshot (INR b)

Y/E March	FY24E	FY25E	FY26E
Sales	61.6	58.8	62.0
EBITDA	18.9	16.7	17.4
Adj. PAT	13.3	11.3	11.9
Adj. EPS (INR)	135.0	114.9	120.3
EPS Gr. (%)	68.8	-14.9	4.8
BV/Sh.(INR)	499.5	568.5	640.7

## Ratios

Net D:E	-0.1	-0.2	-0.2
RoE (%)	29.4	21.5	19.9
RoCE (%)	29.5	21.6	19.9
Payout (%)	40.0	40.0	40.0

## Valuations

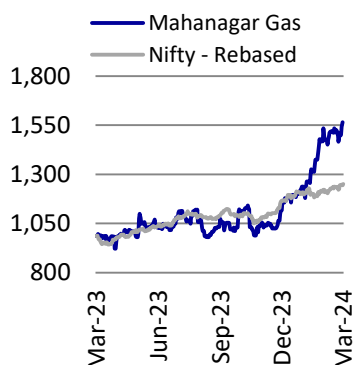
P/E (x)	9.8	11.5	11.0
P/BV (x)	2.7	2.3	2.1
EV/EBITDA (x)	6.6	7.3	6.7
Div. Yield (%)	4.1	3.5	3.6
FCF Yield (%)	5.9	5.0	6.0

## Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	32.5	32.5	32.5
DII	27.2	26.1	25.6
FII	30.9	30.5	29.7
Others	9.4	10.0	12.2

FII Includes depository receipts

## Stock's performance (one-year)


**CMP: INR1,330 TP: INR1,665 (+25%)**
**Buy**

## Remain positive amid government distractions

- MAHGL's stock price declined over 15% on 6th Mar'24 after [Mr. Hardeep Singh Puri, Minister of Petroleum and Natural Gas, said](#) that the full benefits of gas sector reforms have not reached the end user and that CGDs are posting strong profits. He also declared the government's commitment to ensuring the benefits of gas reforms reach end-consumers directly.
- The market likely believes that the recent CNG price cut by the company is driven by the minister's statements about CGDs making high EBITDA/scm margins. We believe that the current stock price correction is partly an overreaction and partly driven by profit-booking following the strong run-up in the last six months.
- We believe that the current weakness is a good opportunity to buy a franchise with decent volume growth visibility at reasonable valuations. We remain positive on MAHGL and retain our BUY rating.

## Government focuses on volume growth rather than regulating prices

- We believe it is premature to infer that the government will regulate either pricing or returns in the CGD sector. It does, however, show the government's relentless focus on gas volume growth and on driving gas penetration to over 15% vs. 6% currently in the country.
- CGD volume growth recently has been weak (even without accounting for EV impact) given slow infrastructure build-up by companies. Weak volume growth has been the underlying reason for [our negative stance on the CGD sector](#) in the last few quarters.
- If oil prices remain above USD 80/bbl, we believe that the government could push CGD players to expand network more aggressively and build more CGD stations and expand pipeline connectivity, accordingly.

## End of infrastructure exclusivity does not automatically imply that market is ripe for new entrants

- As per current regulations, after the end of the infrastructure exclusive period, 80% of the network capacity will be reserved for incumbent and only 20% for the new entrant. This gives a huge advantage to the incumbent. Given that this is a commodity business with little differentiation, we believe that the scale is the key and a new entrant will find it tough to upstage entrenched players.
- We believe that new players could prefer consolidation over head on competition with incumbent players. New players would rather focus on acquiring other GAs next to existing GAs that could help build scale, give network advantage and build CNG clusters for themselves.
- PNGRB had allowed some relaxation in Minimum Work Program (MWP) norms due to Covid-19. Smaller players have struggled to meet MWP targets, especially with respect to piped gas, and we expect further consolidation in the industry in coming years should some of the GAs are surrendered.

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**MAHGL's ROE in line with IGL's**

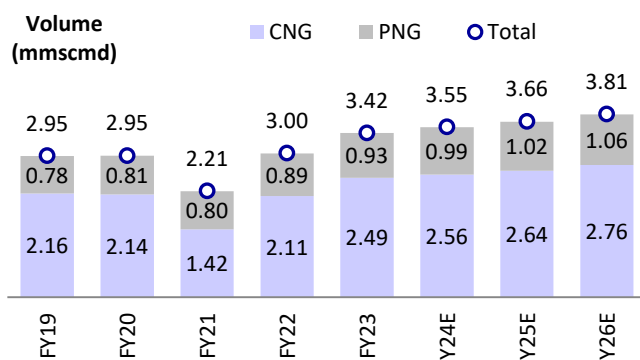
- MAHGL's ROE is in line with IGL's but lower than GUJGA's. We acknowledge MAHGL's higher EBITDA/scm vs. both IGL/ GUJGA. On a one-year forward P/E basis, MAHGL/IGL/GUJGA are trading at 12.7x/17.3x/26.5x.
- After the price cut, CNG price in Mumbai is comparable with price in Delhi. As such, we do not believe that MAHGL's margin faces significant risk.
- We are already building in EBITDA margin of INR12.5/scm in FY25/FY26, down from INR13.3/scm in 3QFY24, and as such we do not see any significant earnings downside for the company. 4QFY24 earnings should also see the benefit of lower spot LNG prices, which have corrected from average of USD15.8/mmBtu in 3QFY24 to INR8.3/mmBtu currently.

**Valuation and view**

- We expect a 4% CAGR in volume over FY23-26, driven by multiple initiatives implemented by the company, such as partnering with OEMs to drive conversions of commercial CNG vehicles and providing guaranteed price discounts to new I/C- PNG customers.
- We maintain our BUY rating and TP of INR1,665 per share, valuing it at 14x Dec'25E EPS. The stock currently trades at 11.7x FY25E EPS of INR114.9, and our TP implies a multiple of 14.5x FY25E EPS. We believe MAHGL's valuations should continue to converge closer to IGL's, given a largely similar volume growth profile and lower EV risk.

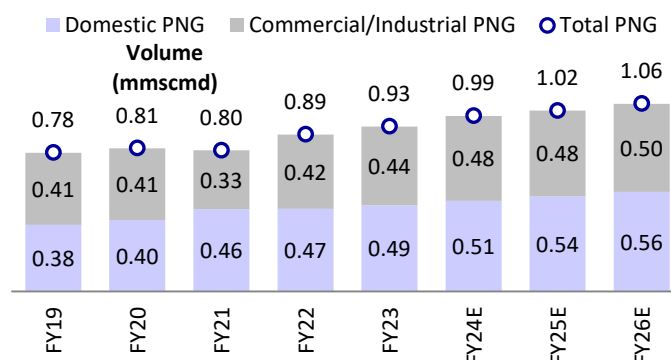
## Story in charts

Exhibit 1: Volume growth snapshot



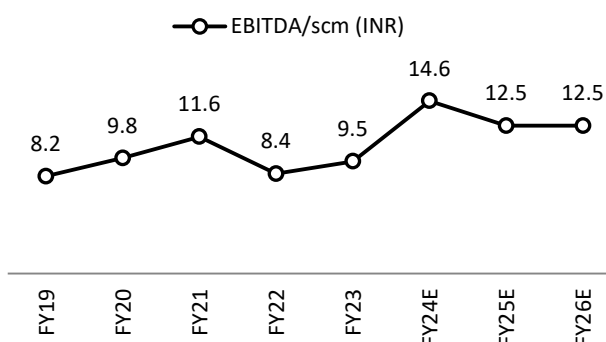
Source: Company, MOFSL

Exhibit 2: PNG segment-wise volumes



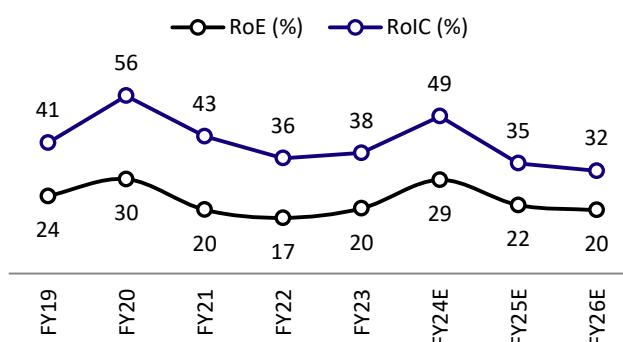
Source: Company, MOFSL

Exhibit 3: EBITDA/scm snapshot



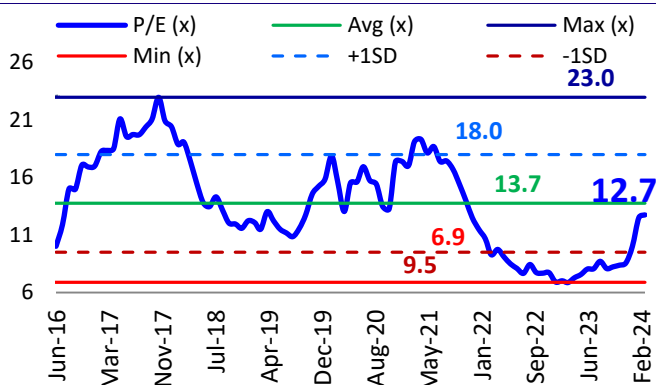
Source: Company, MOFSL

Exhibit 4: Return ratios for MAHGL



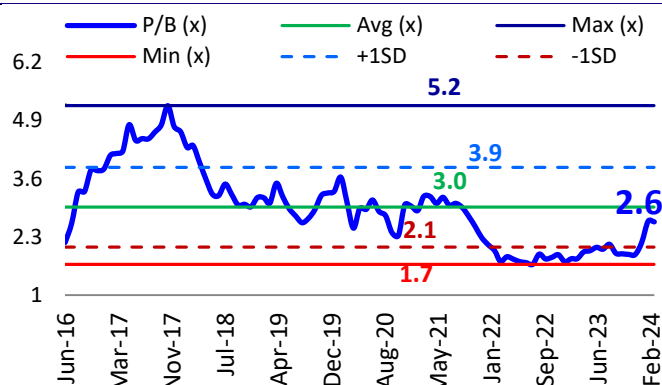
Source: Company, MOFSL

Exhibit 5: One-year forward P/E



Source: Company, MOFSL

Exhibit 6: One-year forward P/B



Source: Company, MOFSL

## Financials and Valuations

### Standalone - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Total Income from Operations</b>	<b>27,911</b>	<b>29,721</b>	<b>21,525</b>	<b>35,602</b>	<b>62,993</b>	<b>61,552</b>	<b>58,767</b>	<b>62,010</b>
Change (%)	25.0	6.5	-27.6	65.4	76.9	-2.3	-4.5	5.5
<b>EBITDA</b>	<b>8,855</b>	<b>10,528</b>	<b>9,340</b>	<b>9,243</b>	<b>11,842</b>	<b>18,902</b>	<b>16,697</b>	<b>17,400</b>
Margin (%)	31.7	35.4	43.4	26.0	18.8	30.7	28.4	28.1
Depreciation	1,259	1,617	1,737	1,963	2,311	2,667	2,916	3,156
<b>EBIT</b>	<b>7,595</b>	<b>8,911</b>	<b>7,603</b>	<b>7,281</b>	<b>9,531</b>	<b>16,235</b>	<b>13,781</b>	<b>14,245</b>
Int. and Finance Charges	3	65	72	75	94	104	93	93
Other Income	777	990	805	857	1,119	1,773	1,474	1,732
<b>PBT bef. EO Exp.</b>	<b>8,369</b>	<b>9,835</b>	<b>8,336</b>	<b>8,063</b>	<b>10,555</b>	<b>17,904</b>	<b>15,162</b>	<b>15,883</b>
<b>PBT after EO Exp.</b>	<b>8,369</b>	<b>9,835</b>	<b>8,336</b>	<b>8,063</b>	<b>10,555</b>	<b>17,904</b>	<b>15,162</b>	<b>15,883</b>
Total Tax	2,905	1,900	2,140	2,093	2,655	4,565	3,816	3,998
Tax Rate (%)	34.7	19.3	25.7	26.0	25.2	25.5	25.2	25.2
<b>Reported PAT</b>	<b>5,464</b>	<b>7,935</b>	<b>6,196</b>	<b>5,970</b>	<b>7,901</b>	<b>13,338</b>	<b>11,345</b>	<b>11,885</b>
<b>Adjusted PAT</b>	<b>5,464</b>	<b>7,935</b>	<b>6,196</b>	<b>5,970</b>	<b>7,901</b>	<b>13,338</b>	<b>11,345</b>	<b>11,885</b>
Change (%)	14.3	45.2	-21.9	-3.6	32.3	68.8	-14.9	4.8
Margin (%)	19.6	26.7	28.8	16.8	12.5	21.7	19.3	19.2

### Standalone - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	988	988	988	988	988	988	988	988
Total Reserves	23,001	28,539	31,336	34,985	40,354	48,357	55,165	62,296
<b>Net Worth</b>	<b>23,989</b>	<b>29,527</b>	<b>32,324</b>	<b>35,973</b>	<b>41,342</b>	<b>49,345</b>	<b>56,152</b>	<b>63,283</b>
Total Loans	0	176	168	206	208	208	208	208
Deferred Tax Liabilities	2,048	1,607	1,773	2,008	2,086	2,086	2,086	2,086
<b>Capital Employed</b>	<b>26,037</b>	<b>31,310</b>	<b>34,264</b>	<b>38,187</b>	<b>43,636</b>	<b>51,639</b>	<b>58,446</b>	<b>65,577</b>
Gross Block	21,732	25,024	27,918	34,048	40,096	48,788	55,365	61,518
Less: Accum. Deprn.	4,098	5,716	7,452	9,415	11,727	14,393	17,309	20,465
<b>Net Fixed Assets</b>	<b>17,634</b>	<b>19,309</b>	<b>20,466</b>	<b>24,633</b>	<b>28,369</b>	<b>34,395</b>	<b>38,056</b>	<b>41,053</b>
Capital WIP	3,697	4,865	5,603	6,159	7,086	4,441	3,912	3,806
<b>Total Investments</b>	<b>6,540</b>	<b>11,215</b>	<b>10,250</b>	<b>10,883</b>	<b>13,098</b>	<b>13,098</b>	<b>13,098</b>	<b>13,098</b>
Rights to use assets	0	1,183	1,228	1,504	1,888	1,888	1,888	1,888
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>6,539</b>	<b>4,708</b>	<b>8,465</b>	<b>9,158</b>	<b>9,882</b>	<b>13,661</b>	<b>16,705</b>	<b>21,797</b>
Inventory	191	186	222	275	338	282	278	295
Account Receivables	996	685	1,275	1,840	2,940	2,873	2,743	2,894
Cash and Bank Balance	2,988	2,295	5,119	4,652	2,279	6,280	9,649	14,351
Cash	265	154	282	825	1,179	5,180	8,549	13,251
Bank Balance	2,723	2,141	4,837	3,827	1,100	1,100	1,100	1,100
Loans and Advances	2,364	1,543	1,850	2,391	4,324	4,225	4,034	4,257
<b>Curr. Liability &amp; Prov.</b>	<b>8,373</b>	<b>9,971</b>	<b>11,747</b>	<b>14,151</b>	<b>16,687</b>	<b>15,844</b>	<b>15,212</b>	<b>16,065</b>
Account Payables	1,524	1,318	1,559	2,719	3,222	2,687	2,650	2,810
Other Current Liabilities	6,637	8,390	9,839	11,076	12,967	12,671	12,097	12,765
Provisions	212	263	350	356	498	486	464	490
<b>Net Current Assets</b>	<b>-1,834</b>	<b>-5,263</b>	<b>-3,282</b>	<b>-4,993</b>	<b>-6,806</b>	<b>-2,183</b>	<b>1,493</b>	<b>5,732</b>
<b>Appl. of Funds</b>	<b>26,037</b>	<b>31,310</b>	<b>34,264</b>	<b>38,187</b>	<b>43,636</b>	<b>51,639</b>	<b>58,446</b>	<b>65,577</b>

## Financials and Valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>55.3</b>	<b>80.3</b>	<b>62.7</b>	<b>60.4</b>	<b>80.0</b>	<b>135.0</b>	<b>114.9</b>	<b>120.3</b>
Cash EPS	68.1	96.7	80.3	80.3	103.4	162.0	144.4	152.3
BV/Share	242.8	298.9	327.2	364.2	418.5	499.5	568.5	640.7
DPS	20.0	35.0	23.0	23.0	26.0	54.0	45.9	48.1
Payout (%)	43.5	52.4	36.7	38.1	32.5	40.0	40.0	40.0
<b>Valuation (x)</b>								
P/E	23.9	16.5	21.1	21.9	16.6	9.8	11.5	11.0
Cash P/E	19.5	13.7	16.5	16.5	12.8	8.2	9.2	8.7
P/BV	5.5	4.4	4.0	3.6	3.2	2.7	2.3	2.1
EV/Sales	4.6	4.3	5.8	3.6	2.0	2.0	2.1	1.9
EV/EBITDA	14.4	12.2	13.5	13.7	10.9	6.6	7.3	6.7
Dividend Yield (%)	1.5	2.6	1.7	1.7	2.0	4.1	3.5	3.6
FCF per share	32.6	56.6	47.2	26.0	26.0	77.6	66.1	79.1
<b>Return Ratios (%)</b>								
RoE	24.3	29.7	20.0	17.5	20.4	29.4	21.5	19.9
RoCE	24.3	29.8	20.1	17.5	20.5	29.5	21.6	19.9
RoIC	41.0	55.8	43.1	36.2	37.9	49.4	34.6	32.2
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	1.3	1.2	0.8	1.0	1.6	1.3	1.1	1.0
Asset Turnover (x)	1.1	0.9	0.6	0.9	1.4	1.2	1.0	0.9
Inventory (Days)	3	2	4	3	2	2	2	2
Debtor (Days)	13	8	22	19	17	17	17	17
Creditor (Days)	20	16	26	28	19	16	16	17
<b>Leverage Ratio (x)</b>								
Current Ratio	0.8	0.5	0.7	0.6	0.6	0.9	1.1	1.4
Net Debt/Equity	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.2	-0.2

### Standalone - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	8,369	9,835	8,336	8,063	10,555	17,904	15,162	15,883
Depreciation	1,259	1,617	1,737	1,963	2,311	2,667	2,916	3,156
Direct Taxes Paid	-2,709	-2,380	-2,065	-2,122	-2,638	-4,565	-3,816	-3,998
(Inc)/Dec in WC	366	1,369	602	1,640	134	-621	-307	462
Others	-443	-655	-627	-583	-764	-1,773	-1,474	-1,732
<b>CF from Operations</b>	<b>6,846</b>	<b>9,852</b>	<b>8,055</b>	<b>9,037</b>	<b>9,693</b>	<b>13,715</b>	<b>12,574</b>	<b>13,865</b>
(Inc)/Dec in FA	-3,625	-4,258	-3,395	-6,473	-7,127	-6,048	-6,048	-6,048
<b>Free Cash Flow</b>	<b>3,221</b>	<b>5,594</b>	<b>4,660</b>	<b>2,563</b>	<b>2,566</b>	<b>7,668</b>	<b>6,526</b>	<b>7,818</b>
(Pur)/Sale of Investments	474	-4,316	1,287	-357	-1,748	0	0	0
Others	-1,234	1,026	-2,331	1,440	2,384	1,773	1,474	1,732
<b>CF from Investments</b>	<b>-4,385</b>	<b>-7,548</b>	<b>-4,439</b>	<b>-5,390</b>	<b>-6,491</b>	<b>-4,275</b>	<b>-4,573</b>	<b>-4,316</b>
Dividend Paid	-2,330	-2,183	-3,221	-2,810	-2,518	-5,335	-4,538	-4,754
<b>CF from Fin. Activity</b>	<b>-2,346</b>	<b>-2,416</b>	<b>-3,488</b>	<b>-3,103</b>	<b>-2,848</b>	<b>-5,439</b>	<b>-4,632</b>	<b>-4,848</b>
<b>Inc/Dec of Cash</b>	<b>115</b>	<b>-112</b>	<b>128</b>	<b>543</b>	<b>354</b>	<b>4,001</b>	<b>3,369</b>	<b>4,702</b>
Opening Balance	150	265	154	282	825	1,179	5,180	8,549
<b>Closing Balance</b>	<b>265</b>	<b>154</b>	<b>282</b>	<b>825</b>	<b>1,179</b>	<b>5,180</b>	<b>8,549</b>	<b>13,251</b>

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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