

Mahanagar Gas

Estimate change	↔
TP change	↔
Rating change	↔

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Bloomberg	MAHGL IN
Equity Shares (m)	99
M.Cap.(INRb)/(USD\$)	109.5 / 1.5
52-Week Range (INR)	1284 / 780
1, 6, 12 Rel. Per (%)	-5/-7/-28
12M Avg Val (INR M)	942

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Sales	21.5	31.0	34.3
EBITDA	9.3	12.6	11.7
Adj. PAT	6.2	8.6	7.9
Adj. EPS (INR)	62.7	86.6	80.0
EPS Gr. (%)	-21.9	38.1	-7.6
BV/Sh.(INR)	327.2	379.2	427.2
Ratios			
Net D:E	-0.2	-0.3	-0.4
RoE (%)	20.0	24.5	19.8
RoCE (%)	20.1	24.5	19.8
Payout (%)	36.7	40.0	40.0
Valuation			
P/E (x)	17.7	12.8	13.9
P/BV (x)	3.4	2.9	2.6
EV/EBITDA (x)	11.2	7.8	8.1
Div. Yield (%)	2.1	3.1	2.9
FCF Yield (%)	4.2	8.6	5.1

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	32.5	32.5	32.5
DII	28.4	27.2	28.7
FII	29.6	31.1	29.9
Others	9.5	9.2	8.9

FII Includes depository receipts

CMP: INR1,109 **TP: INR1,315 (+19%)** **Buy**

Margin sustainability the biggest question?

- MAHGL reported a beat on our estimates, led by highest ever EBITDA/scm (of INR13.9), on the back of improved realization, with lower gas cost. Total volumes were in line, down 17% QoQ at 2.4mmscmd (CNG down 23%), impacted by the second wave of COVID-led lockdowns.
- The management said that prices of CNG and PNG Industrial/Commercial are linked to prevailing prices of alternate fuels. Negotiations with OMCs on higher commissions to sell CNG are still on, which combined with an increase in domestic APM gas prices could be critical for margin.
- Recent CNG price hike of INR2.6/kg was taken to compensate for a tariff hike in the Uran Trombay pipeline. The case is still ongoing, and discussions are pending (thus, total demand of INR3.1b up to Mar'21 continues to be a contingent liability).
- As highlighted in our recent report, the [CNG segment faces the steepest uphill battle ever](#), domestic gas prices are expected to rise by ~USD1/mmBtu (starting Oct'21), which translates to INR4/kg (excluding taxes). Trend of global gas prices may call for another hike in Apr'22.
- We reiterate our stance that margin for the CNG segment would come under severe pressure as:
 - It would be a huge challenge to pass on the highest ever price increase (since the start of the domestic APM pricing regime in Nov'15);
 - OMCs are asking for higher single-digit commissions on CNG sales, which would further test its ability to pass on prices to end-consumers. Around 65% of CNG volumes for MAHGL accrue from OMC outlets;
 - As Brent prices cool down from USD75/bbl at present, with OPEC+ matching supply with the recent spurt in demand (oil production to increase by 0.4mnbpod every month starting Aug'21, thereby reducing the prices of alternate fuels).
- We expect volume to normalize to pre-COVID levels in 2HFY22 (unchanged) as Mumbai starts emerging from the lockdown. We maintain our Buy rating considering MAHGL's attractive valuations.

Lower gas cost and operating expenditure leads to margin expansion

- Volumes were in line with our estimate at 2.4mmscmd (-17% QoQ).
- CNG volumes at 1.6mmscmd (-23% QoQ) were impacted by the second wave of COVID-led lockdowns.
- PNG volumes at 0.8mmscmd (+34% YoY, -2% QoQ), with domestic and I/C volumes at 0.5 mmscmd and /0.4mmscmd, respectively.
- EBITDA/scm came in higher than our estimate at INR13.9 (+76% YoY, +15% QoQ) due to higher realization at INR28.2/scm (up INR0.6 QoQ). This was led by a rise in alternate fuel prices, resulting in better realization for PNG I/C.
- Gas cost was lower by INR1.1 QoQ at INR8.8/scm, due to decline in spot LNG prices to USD7/mmBtu (from USD10/mmBtu). Although spot LNG prices have spiked up to USD14/mmBtu currently, it would result in higher gas cost in 2QFY22.

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- Gross margin at INR19.4/scm (up INR1.7 QoQ). Opex fell INR0.3/scm QoQ at INR4.6/scm (est. INR5.3 on lower volumes in 1QFY22).
- EBITDA stood at INR3b, with PAT at INR2b (-4% QoQ).

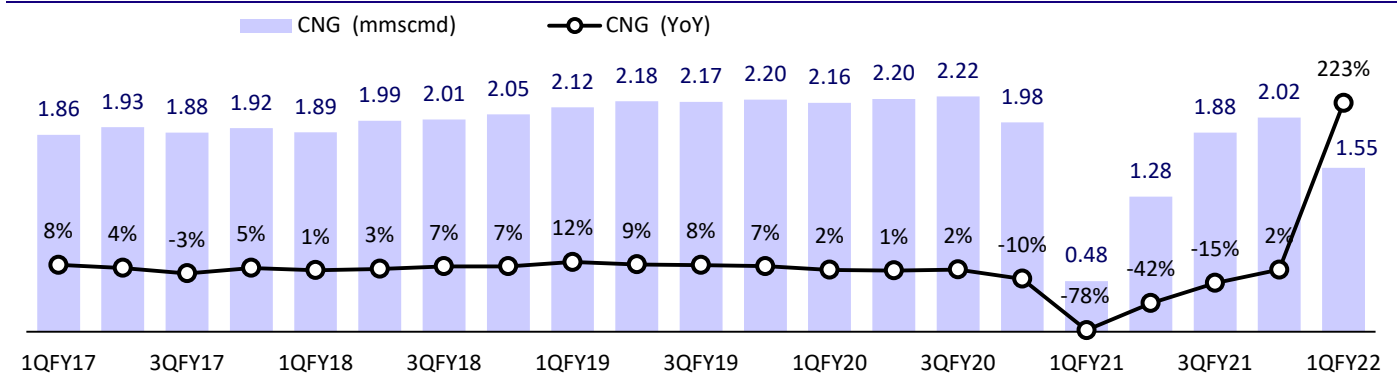
Valuation and view

- BEST is likely to add another 500 CNG Buses over and above the recent induction of 500 Buses. MAHGL is upgrading its CNG infrastructure at three Bus depots to facilitate fueling of these new Buses.
- MAHGL commissioned its first Mobile Refueling Unit (MRU) in Raigad. It is in the process of inviting EoIs to set up MRUs in Thane urban and Raigad. While adding more MRUs will require local permissions and regulatory approvals, it could be a game changer for a company like MAHGL, which is finding it tough to add more infrastructure in crowded cities.
- The management is targeting ~20 new and 25-30 upgrades of CNG stations in FY22, with 8-10 MRUs (one-third of which could be in Raigad).
- All of the above should aid volume growth, along with the increasing need for personal mobility during COVID-19. Factoring in the same, we build in ~6% volume growth over FY23-24E.
- A boost to volumes is expected from further developments at Raigad (peak demand of 0.6mmscmd expected in 3-4 years).
- PNG commercial penetration in MAHGL's GAs is ~20%. It has the requisite pipeline infrastructure, only last-mile connectivity is required.
- The company is looking forward to the 11th CGD round (~44 GAs are up for offer). It may bid for the same once it opens for bidding.
- MAHGL trades at a discount of ~55% to IGL's P/E (despite enjoying the highest EBITDA/scm). The stock trades at 14x FY23E EPS of INR80. Valuing it at 16x Sep'23E EPS, we arrive at our TP of INR1,315/share. We maintain our **Buy** rating.

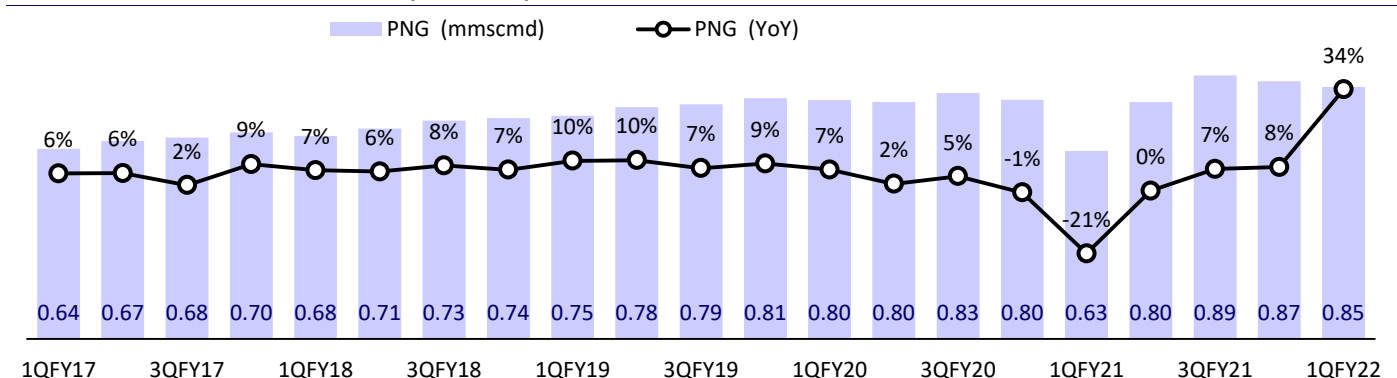
Standalone quarterly earnings model

Y/E March									(INR m)			
	FY21				FY22				FY21	FY22E	FY22E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
Net Sales	2,618	5,067	6,664	7,177	6,155	7,832	8,463	8,507	21,525	30,957	6,289	-2%
YoY Change (%)	-65.4	-35.3	-10.5	4.5	135.1	54.6	27.0	18.5	-27.6	43.8	140.3	
EBITDA	800	2,211	3,167	3,162	3,040	3,260	3,070	3,184	9,340	12,554	2,569	18%
EBITDA/SCM	7.9	11.6	12.4	12.1	13.9	12.6	11.4	11.6	11.6	12.3	11.3	24%
Margin (%)	30.6	43.6	47.5	44.1	49.4	41.6	36.3	37.4	43.4	40.6	40.8	
Depreciation	423	425	441	448	453	466	467	483	1,737	1,870	467	-3%
Interest	15	20	17	19	17	15	14	13	72	59	8	
Other Income	245	184	204	172	186	211	211	236	805	844	253	-26%
PBT	607	1,950	2,913	2,866	2,756	2,990	2,799	2,924	8,336	11,470	2,346	17%
Rate (%)	25.5	26.0	25.4	25.8	26.0	25.2	25.2	25.3	25.7	25.4	25.2	
Reported PAT	453	1,443	2,172	2,128	2,041	2,238	2,095	2,183	6,196	8,557	1,756	16%
Adj. PAT	453	1,443	2,172	2,128	2,041	2,238	2,095	2,183	6,196	8,557	1,756	16%
YoY Change (%)	-73.4	-46.7	16.7	27.7	351.0	55.0	-3.6	2.6	-21.9	38.1	288.0	
Margin (%)	17.3	28.5	32.6	29.6	33.2	28.6	24.8	25.7	28.8	27.6	27.9	
Sales Volumes (mmscmd)												
CNG	0.5	1.3	1.9	2.0	1.6	1.9	2.0	2.2	1.4	1.9	1.6	-4%
PNG - Domestic	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	-8%
PNG - Industry/Commercial	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.4	0%
PNG - Total	0.6	0.8	0.9	0.9	0.8	0.9	0.9	0.9	0.8	0.9	0.9	-4%
Total Volumes	1.1	2.1	2.8	2.9	2.4	2.8	2.9	3.0	2.2	2.8	2.5	-4%

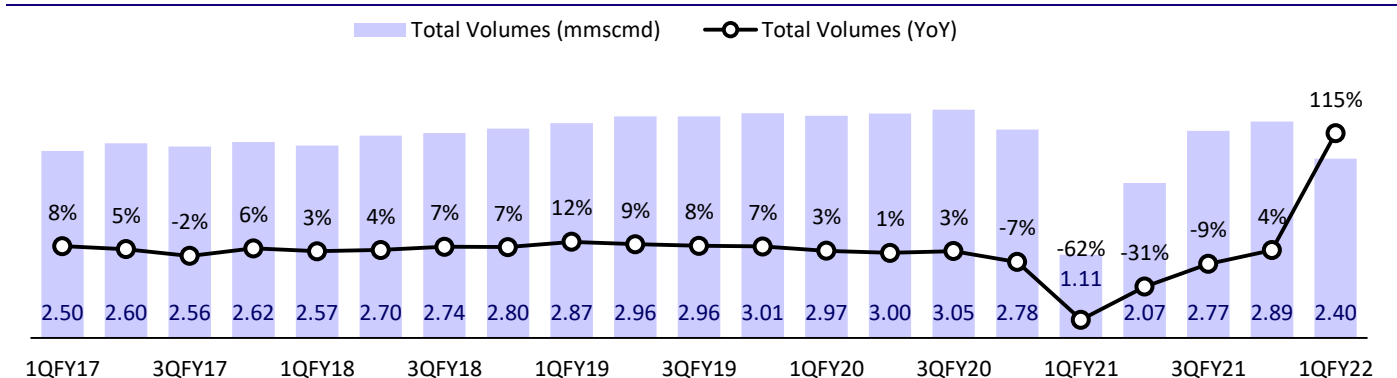
E: MOFSL estimates

Exhibit 1: CNG volume decline by 23% QoQ (+223% YoY) to 1.55mmscmd – impacted by the second COVID wave

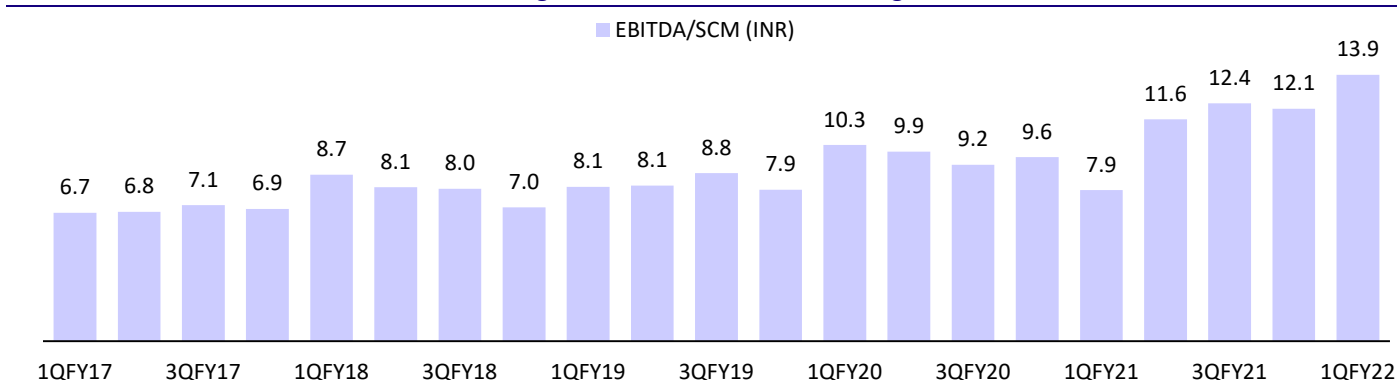
Source: Company, MOFSL

Exhibit 2: PNG volumes fell 2% QoQ (+34% YoY) to 0.85mmscmd

Source: Company, MOFSL

Exhibit 3: Total volumes fell 17% QoQ (+115% YoY) to 2.40mmscmd

Source: Company, MOFSL

Exhibit 4: EBITDA/scm stood at INR13.9 – the highest ever on the back of lower gas cost

Source: Company, MOFSL

Highlights from the management commentary

For 1QFY22

- Increase in alternate fuel pricing resulted in higher realizations of PNG I/C.
- Gas cost was lower QoQ due to decline in spot LNG prices to USD7/mmbtu (from USD10/mmbtu). MAHGL has also contracted 0.1mmscmd of RIL KG basin gas, which is at a lower cost (for the PNG I/C segment).
- It added five new CNG stations taking the total to 274 stations at present.
- It has commissioned a MRU in Raigad. The management said adding more MRUs will require local permissions and regulatory approvals. MAHGL is in the process of inviting EoIs to set up MRUs in GA2 (Thane urban) and GA3 (Raigad).
- 1QFY22 saw a marginal dip in CNG vehicle conversion due to the lockdowns.

Growth guidance

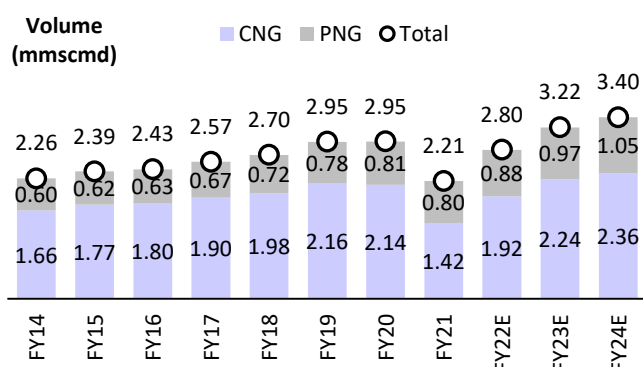
- MAHGL targets ~20 new and 25-30 upgrades of CNG stations in FY22, with 8-10 MRUs (one-third of which could be in Raigad). It is eyeing ~300k new domestic connections in FY22. Also, two LNG stations are planned in Savroli (LNG tanks are installed, commissioning in 2HFY22) and another on the Mumbai-Nashik highway (may take 12-15 months).
- CNG stations currently are operating at less than 50% utilization, presenting room for a ramp up, although volume growth from here on would depend significantly on unlocking plans by the government.
- Aggressive capex plans could be of INR8b per year, depending on approvals in place, and mainly in four baskets: pipelines, setting up of CNG stations/upgrading it, new office building expense, and routine capex.
- BEST: About 500 buses were added some months back. There is a fresh procurement plan for 500 buses, which is to be inducted over the next 2-3 quarters. MAHGL is upgrading its CNG infrastructure at three depots to facilitate these new buses.

Others/miscellaneous

- Around 29,162 households were connected (totaling 1.63m), 40 I/C customers were added (totaling 4,196) in 1QFY22.
- It laid 43.12km of steel-PE pipeline (totaling 5,950km).
- Raigad has 41,072 households and 19 CNG stations, with 268.81km of pipelines (7.94km of pipelines added in 1QFY22).
- The management believes that EVs would remain a long-term development, but won't eliminate CNG in the near term. It feels creating EV infrastructure in a vertical city like Mumbai is a huge task.
- Compressed biogas may not be more than 4-5% of its mix in coming years.
- The company does not see any change in the gas allocation policy.

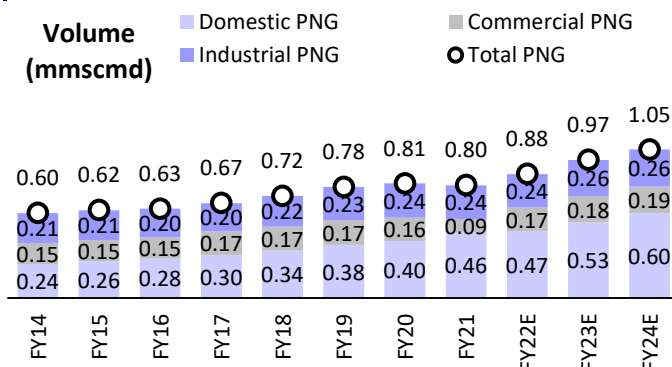
Story in charts

Exhibit 5: Volume growth snapshot



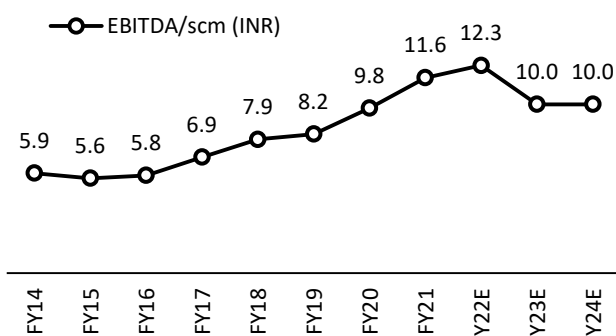
Source: Company, MOFSL

Exhibit 6: PNG segment-wise volumes



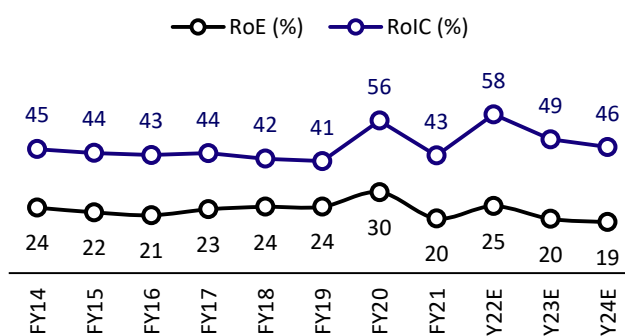
Source: Company, MOFSL

Exhibit 7: EBITDA/scm to normalize ~10mmscmd



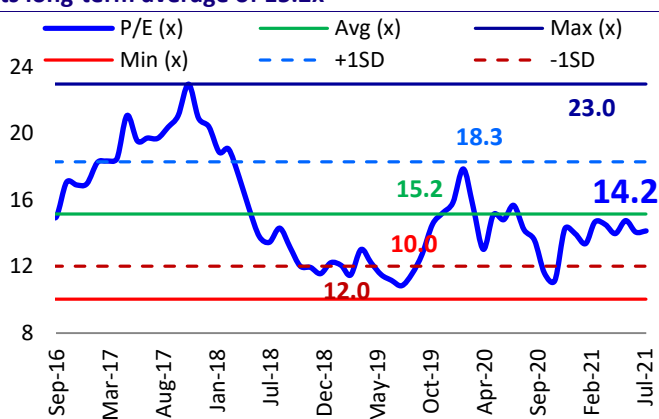
Source: Company, MOFSL

Exhibit 8: RoE to hover ~20%



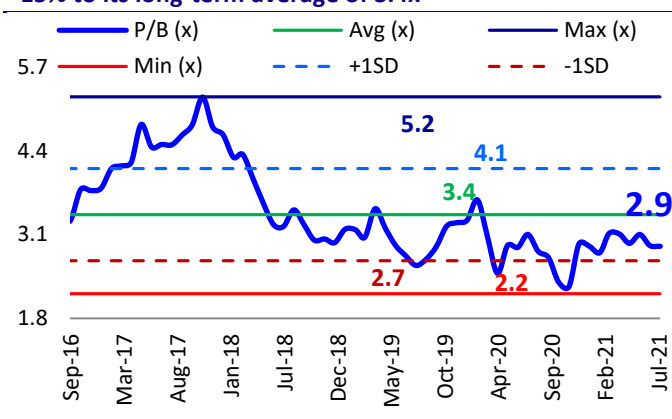
Source: Company, MOFSL

Exhibit 9: One-year forward P/E trades at a 7% discount to its long-term average of 15.2x



Source: Company, MOFSL

Exhibit 10: One-year forward P/B trades at a discount of ~15% to its long-term average of 3.4x



Source: Company, MOFSL

Financials and valuations

Standalone Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	20,340	22,330	27,911	29,721	21,525	30,957	34,332	36,119
Change (%)	-2.1	9.8	25.0	6.5	-27.6	43.8	10.9	5.2
EBITDA	6,442	7,806	8,855	10,528	9,340	12,554	11,743	12,426
Margin (%)	31.7	35.0	31.7	35.4	43.4	40.6	34.2	34.4
Depreciation	951	1,112	1,259	1,617	1,737	1,870	2,029	2,200
EBIT	5,490	6,694	7,595	8,911	7,603	10,685	9,714	10,226
Int. and Finance Charges	10	3	3	65	72	59	42	34
Other Income	527	574	777	990	805	844	893	943
PBT bef. EO Exp.	6,007	7,265	8,369	9,835	8,336	11,470	10,565	11,135
PBT after EO Exp.	6,007	7,265	8,369	9,835	8,336	11,470	10,565	11,135
Total Tax	2,072	2,487	2,905	1,900	2,140	2,913	2,659	2,803
Tax Rate (%)	34.5	34.2	34.7	19.3	25.7	25.4	25.2	25.2
Reported PAT	3,934	4,779	5,464	7,935	6,196	8,557	7,906	8,333
Change (%)	26.5	21.5	14.3	45.2	-21.9	38.1	-7.6	5.4
Margin (%)	19.3	21.4	19.6	26.7	28.8	27.6	23.0	23.1

Standalone Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	988	988	988	988	988	988	988	988
Total Reserves	17,413	19,966	23,001	28,539	31,336	36,470	41,213	46,213
Net Worth	18,400	20,954	23,989	29,527	32,324	37,458	42,201	47,201
Total Loans	27	12	0	176	168	168	168	168
Deferred Tax Liabilities	1,376	1,748	2,048	1,607	1,773	1,773	1,773	1,773
Capital Employed	19,804	22,714	26,037	31,310	34,264	39,398	44,142	49,141
Gross Block	14,775	18,159	21,732	25,024	27,918	34,401	39,397	44,396
Less: Accum. Deprn.	1,727	2,839	4,098	5,716	7,452	9,322	11,351	13,551
Net Fixed Assets	13,047	15,320	17,634	19,309	20,466	25,079	28,046	30,845
Capital WIP	4,115	3,566	3,697	4,865	5,603	3,121	3,124	3,125
Total Investments	4,667	6,877	6,540	11,215	10,250	10,250	10,250	10,250
Rights to use assets	0	0	0	1,183	1,228	1,228	1,228	1,228
Curr. Assets, Loans, and Adv.	4,413	4,340	6,539	4,708	8,465	16,728	20,634	23,820
Inventory	238	240	191	186	222	335	411	431
Account Receivables	945	914	996	685	1,275	1,834	2,034	2,140
Cash and Bank Balance	1,361	919	2,988	2,295	5,119	11,899	15,239	18,146
Cash	74	150	265	154	282	7,063	10,402	13,309
Bank Balance	1,287	769	2,723	2,141	4,837	4,837	4,837	4,837
Loans and Advances	1,869	2,268	2,364	1,543	1,850	2,660	2,950	3,104
Curr. Liability and Prov.	6,439	7,389	8,373	9,971	11,747	17,007	19,140	20,127
Account Payables	1,201	1,100	1,524	1,318	1,559	2,354	2,889	3,030
Other Current Liabilities	5,031	6,089	6,637	8,390	9,839	14,150	15,693	16,510
Provisions	207	199	212	263	350	503	557	586
Net Current Assets	-2,026	-3,049	-1,834	-5,263	-3,282	-278	1,495	3,694
Appl. of Funds	19,804	22,714	26,037	31,310	34,264	39,398	44,142	49,141

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)								
EPS	39.8	48.4	55.3	80.3	62.7	86.6	80.0	84.4
Cash EPS	49.5	59.6	68.1	96.7	80.3	105.5	100.6	106.6
BV/Share	186.3	212.1	242.8	298.9	327.2	379.2	427.2	477.8
DPS	19.0	21.5	20.0	35.0	23.0	34.6	32.0	33.7
Payout (%)	57.4	53.5	43.5	52.4	36.7	40.0	40.0	40.0
Valuation (x)								
P/E	27.9	23.0	20.1	13.8	17.7	12.8	13.9	13.2
Cash P/E	22.5	18.6	16.3	11.5	13.8	10.5	11.1	10.4
P/BV	6.0	5.2	4.6	3.7	3.4	2.9	2.6	2.3
EV/Sales	5.3	4.9	3.8	3.6	4.9	3.2	2.8	2.5
EV/EBITDA	16.8	14.0	12.1	10.2	11.2	7.8	8.1	7.4
Dividend Yield (%)	1.7	1.9	1.8	3.1	2.1	3.1	2.9	3.0
FCF per share	28.1	38.8	32.6	56.6	47.2	95.3	57.2	54.0
Return Ratios (%)								
RoE	23.4	24.3	24.3	29.7	20.0	24.5	19.8	18.6
RoCE	23.3	24.3	24.3	29.8	20.1	24.5	19.8	18.6
RoIC	43.9	41.9	41.0	55.8	43.1	58.1	49.0	46.2
Working Capital Ratios								
Fixed Asset Turnover (x)	1.4	1.2	1.3	1.2	0.8	0.9	0.9	0.8
Asset Turnover (x)	1.0	1.0	1.1	0.9	0.6	0.8	0.8	0.7
Inventory (Days)	4	4	3	2	4	4	4	4
Debtor (Days)	17	15	13	8	22	22	22	22
Creditor (Days)	22	18	20	16	26	28	31	31
Leverage Ratio (x)								
Current Ratio	0.7	0.6	0.8	0.5	0.7	1.0	1.1	1.2
Net Debt/Equity	-0.1	0.0	-0.1	-0.1	-0.2	-0.3	-0.4	-0.4

Standalone Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	6,007	7,265	8,369	9,835	8,336	11,470	10,565	11,135
Depreciation	951	1,112	1,259	1,617	1,737	1,870	2,029	2,200
Direct Taxes Paid	-1,861	-2,284	-2,709	-2,380	-2,065	-2,913	-2,659	-2,803
(Inc.)/Dec. in WC	601	822	366	1,369	602	3,777	1,567	707
Others	-385	-395	-443	-655	-627	-844	-893	-943
CF from Operations	5,323	6,521	6,846	9,852	8,055	13,418	10,651	10,330
(Inc.)/Dec. in FA	-2,545	-2,692	-3,625	-4,258	-3,395	-4,000	-5,000	-5,000
Free Cash Flow	2,778	3,829	3,221	5,594	4,660	9,418	5,651	5,330
(Pur.)/Sale of Investments	-674	-2,042	474	-4,316	1,287	0	0	0
Others	585	547	-1,234	1,026	-2,331	844	893	943
CF from Investments	-2,633	-4,187	-4,385	-7,548	-4,439	-3,156	-4,107	-4,057
Dividend Paid	-2,816	-2,236	-2,330	-2,183	-3,221	-3,423	-3,162	-3,333
CF from Fin. Activity	-2,838	-2,258	-2,346	-2,416	-3,488	-3,481	-3,204	-3,367
Inc./Dec. in Cash	-148	76	115	-112	128	6,781	3,340	2,907
Opening Balance	222	74	150	265	154	282	7,063	10,402
Closing Balance	74	150	265	154	282	7,063	10,402	13,309

E: MOFSL estimates

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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