

Oil&Gas and  
Petrochemicals

Target price: Rs1,125

Target price revision  
Rs1,125 from Rs1050

## Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	32.5	32.5	32.5
Institutional investors	41.9	41.9	45.3
MFs and others	2.8	2.6	2.4
FIIs / Banks	0.1	0.1	0.1
Insurance	13.2	12.9	13.1
FIIs	25.8	26.3	29.7
Others	25.6	25.6	22.2

Source: www.nseindia.com

## ESG disclosure score

Year	2020	2021	Chg
ESG score	0.0	0.0	0.0
Environment	0.0	0.0	0.0
Social	0.0	0.0	0.0
Governance	0.0	0.0	0.0

Note - Score ranges from 0 - 100 with  
a higher score indicating higher ESG  
disclosures.

Source: Bloomberg, I-sec research

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## INDIA

## Mahanagar Gas

BUY

Maintain

**Rs907**

## Acquires CGD player – Unison Enviro Pvt Ltd

Mahanagar Gas (MGL) has announced its first inorganic acquisition in the CGD space, Unison Enviro Pvt Ltd (UEPL), from the latter's erstwhile promoters Ashoka Buildcon and North Haven India Infra (a Morgan Stanley affiliate). MGL has acquired 100% stake in the fledgling CGD player and has stated UEPL equity value at Rs5.3bn, which implies an enterprise value of ~Rs6.4bn (gross debt on the books of UEPL as of FY22, stood at Rs1.13bn). The transaction value implies a price/sales multiple of 8.3x and EV/EBITDA of 3,128x! While this may seem exorbitant, we note UEPL has 3 reasonably large GAs in its portfolio (37,362sqkm, ~10mn population and ~2mn households in aggregate). We also note that development so far in the first 3 years has been slow (our estimate based on the reported FY22 revenues suggests volumes at <0.1mmscmd). We believe volumes can easily ramp up to ~1mmscmd by FY28E, subject to meaningful investments (Rs7bn-8bn from FY21-FY27E) and good execution. At that volume level, EBITDA (assumed at an industry mid-range of Rs6/scm) is seen >Rs2bn, which more than justifies the acquisition cost. We sense the acquired areas can add a meaningful NPV of Rs5bn for MGL (~Rs50/sh). We view this as a significant move forward to address longstanding concerns on growth avenues for MGL beyond the Mumbai Metropolitan Region (MMR). Reiterate BUY.

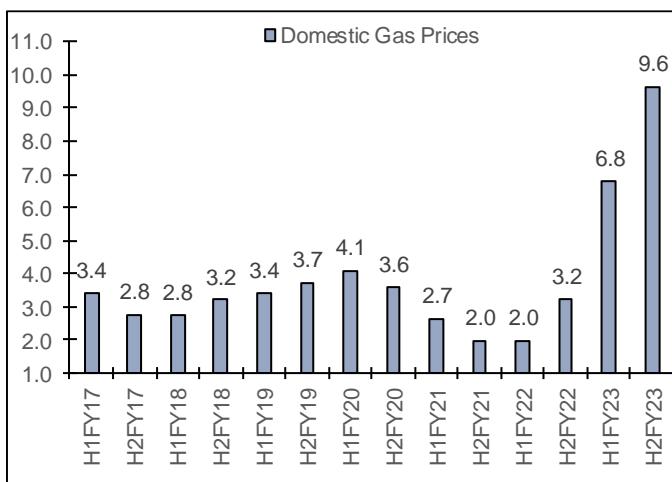
- ▶ **Meaningful potential in the areas acquired:** UEPL has rights to 3 GAs, comprising of Ratnagiri, Chitradurga & Devangere, and Latur & Osmanabad, districts. While these areas do seem primarily rural, we believe the large populations and some industrial/commercial potential in each of these districts can support reasonable volumes of 0.2-0.25mmscmd in 3-4 years. This implies aggregate ~1mmscmd additional volumes by FY28E for MGL (company's Q3 run rate was 3.4mmscmd).
- ▶ **Valuations look reasonable for the medium term:** While the marketing exclusivity for Ratnagiri ended in CY22 and rest of the areas will end in CY27, network exclusivity for all GAs exist till CY41-CY43. We believe total volume potential from the 5 GAs combined can be ~1mmscmd over 3-5 years which, @Rs5.5-6/scm of EBITDA, can translate to an EBITDA of ~Rs2.1bn by FY28E. Discounting back to FY24E (@10%), we see the implied EV/EBITDA multiple of 4.3x for the UEPL acquisition as reasonable.
- ▶ **Maintain BUY:** At CMP, the stock trades at 8.9x FY25E EPS and 3.9x EV/EBITDA, which we believe offers attractive risk reward. We remain bullish on MGL for next 12-18 months. We estimate an EPS CAGR of 19% over FY23-FY25E, supported by volume CAGR of ~9%, gross margins of Rs14.7/scm and EBITDA/scm of Rs9.6/scm. With a strong signal to secure long-term growth via inorganic acquisitions, prospects appear bright. We value the core business via DCF methodology at Rs1,075/sh (WACC @10.9%, EBITDA/scm @Rs 9.5, TV growth at 1.5%). We have also tried to do a rough-cut DCF valuation of the newly acquired areas (WACC @10.8%, EBITDA/scm Rs6, TV 3.5%), which works out to Rs50/sh. This leads to a target price of Rs1,125/sh for MGL implying 24% upside. Maintain BUY.
- ▶ **Key downside risks:** i) Higher gas prices, ii) inability to pass on gas cost increases, iii) sharp fall in alternate fuel prices for CNG (petrol/diesel), iv) slower execution.
- ▶ **Key upside risks:** i) Higher penetration in existing areas, ii) sharper rise in alternate fuel costs, iii) stronger regulatory support.

Market Cap	Rs90bn/US\$1.1bn	Year to March	FY22	FY23E	FY24E	FY25E
Reuters/Bloomberg	MGAS.NS/MAHGL IN	Revenue (Rs mn)	35,602	62,264	62,378	66,499
Shares Outstanding (mn)	98.8	Net Income (Rs mn)	5,969	7,067	9,456	10,014
52-week Range (Rs)	931/666	EPS (Rs)	60.4	71.5	95.7	101.4
Free Float (%)	67.5	% Chg YoY	-4%	18%	34%	6%
FII (%)	29.7	P/E (x)	15.0	12.7	9.5	8.9
Daily Volume (US\$'000)	4558	CFPS (Rs)	80.3	97.3	125.8	135.7
Absolute Return 3m (%)	(0.0)	EV/E (x)	8.0	6.0	4.5	3.9
Absolute Return 12m (%)	(24.7)	Dividend Yield (%)	2.8%	3.2%	4.2%	4.5%
Sensex Return 3m (%)	(4.7)	RoCE (%)	20%	19%	24%	22%
Sensex Return 12m (%)	9.9	RoE (%)	17%	18%	21%	19%

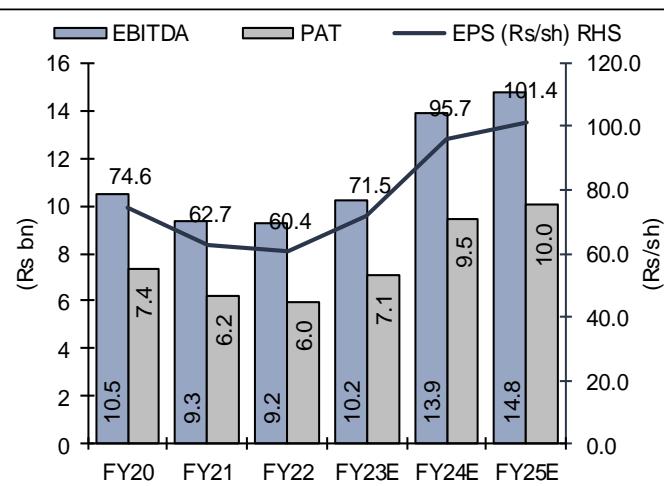
**Table 1: Latest quarterly snapshot**

Rs mn	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ %	9MFY23	9MFY22	YoY (%)
Sales	16,658	10,207	63.2	15,581	6.9	46,741	24,554	90.4
EBITDA	2,561	1,031	148.4	2,528	1.3	7,945	7,089	12.1
Adj. PAT	1,721	568	203.0	1,640	4.9	5,212	4,652	12.1
EPS (Rs)	17.4	5.7	203.0	16.6	4.9	52.8	47.1	12.1
Depreciation	585	482	21.4	551	6.2	1,673	1,408	18.9
Sales (mmscm)	314	304	3.3	318	(1.4)	946	810	16.8
Sales (mmscmd)	3.4	3.3	3.3	3.5	(1.4)	3.4	2.9	16.8
CNG sales (mmscm)	228	220	3.5	234	(2.6)	693	567	22.2
PNG sales (mmscm)	86	84	2.8	84	2.2	253	243	4.3
Gross margin (Rs/scm)	13.5	8.4	61.1	12.9	5.0	13.6	13.8	(1.8)
EBITDA margin (Rs/scm)	8.2	3.4	140.5	7.9	2.7	8.4	8.8	(4.1)
EBITDA Margin (%)	15.4%	10.1%		16.2%		17.0%	28.9%	(41.1)
CNG sales (Rs mn)	11,809	6,599	79.0	10,941	7.9	32,524	15,475	110.2
CNG realisations (Rs/scm)	51.9	30.0	73.0	46.8	10.8	47.0	27.3	72.0
PNG sales (Rs mn)	4,849	3,608	34.4	4,640	4.5	14,218	9,079	56.6
PNG realisations (Rs/scm)	56.2	43.0	30.7	55.0	2.3	56.1	37.4	50.1

Source: I-Sec research

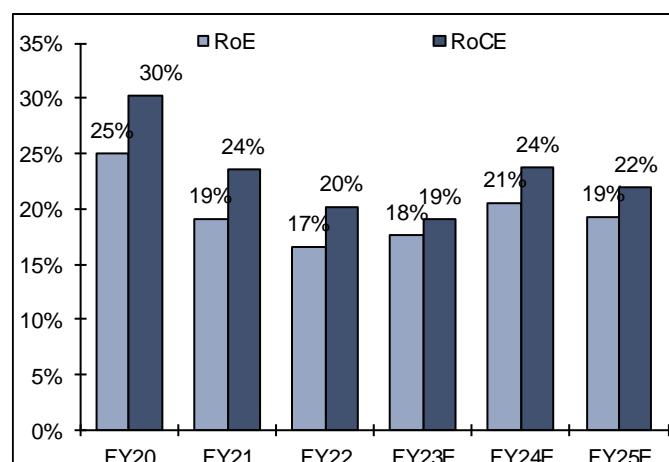
**Chart 1: APM gas prices up 42% HoH in Oct'22**

Source: Company data, I-Sec research

**Chart 2: EBITDA and EPS CAGR at 17-19% over FY23E-FY25E**

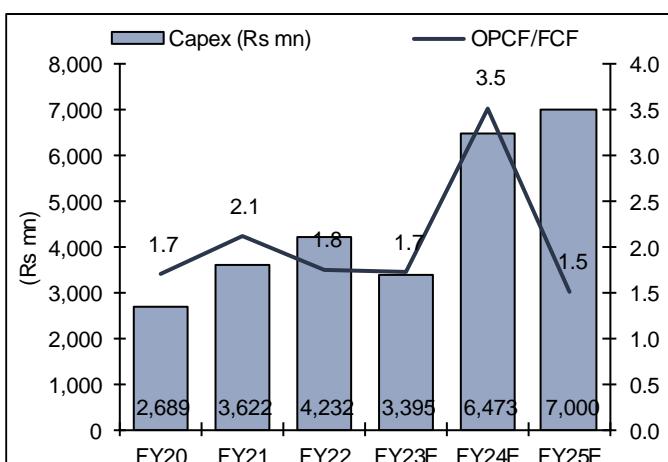
Source: Company data, I-Sec research

Chart 3: Return ratios likely to remain stable



Source: Company data, I-Sec research

Chart 4: Capex of Rs16.9bn estimated over FY23E-FY25E



Source: Company data, I-Sec research

Table 2: MGL (standalone) assumptions – FY21-FY25E

Rs mn	FY21	FY22	FY23E	FY24E	FY25E
<b>Volumes (mmscmd)</b>					
CNG	1.4	2.1	2.5	2.7	2.9
PNG – Domestic	0.5	0.5	0.5	0.5	0.6
PNG – Commercial	0.2	0.2	0.2	0.2	0.2
PNG - Industrial	0.2	0.2	0.3	0.3	0.3
<b>Total volume</b>	<b>2.2</b>	<b>3.0</b>	<b>3.5</b>	<b>3.7</b>	<b>3.9</b>
Gross Margin Rs/scm	17.2	13.6	13.2	15.4	15.5
EBITDA Rs/scm	11.6	8.4	8.1	10.3	10.3

Source: Company data, I-Sec research

Table 3: UEPL authorised areas –summary highlights of the areas

GA	State	Area (sqkm)	Authorisation granted	Marketing Exclusivity till	Network Exclusivity till	Total Population (#mn)	Households (#mn)
Ratnagiri	MAH	8276	Aug-16	Aug-22	Aug-41	2.2	0.4
Chitradurga & Devangere	KAR	14360	Sep-18	Sep-26	Sep-43	3.6	0.8
Latur & Osmanabad	MAH	14726	Sep-18	Sep-26	Sep-43	4.1	0.8
<b>Total</b>		<b>37362</b>				<b>9.9</b>	<b>2.0</b>

Source: Company data, I-Sec research

Table 4: UEPL profit and loss statement – A low base, but revenue growth has been sharp

Rs mn	FY20	FY21	FY22
<b>Net Revenue</b>	<b>65.7</b>	<b>203.6</b>	<b>774.4</b>
Cost of Material Consumed	38.2	132.7	563.8
Other Operating Expenses	9.8	32.5	98.0
Employee Benefits Expenses	11.5	22.8	55.3
Other Expenses	57.6	30.5	55.2
<b>Total Expenses</b>	<b>117.1</b>	<b>218.6</b>	<b>772.3</b>
<b>EBITDA</b>	<b>-51.3</b>	<b>-15.0</b>	<b>2.1</b>
<b>EBITDA Rs/scm</b>	<b>-19.8</b>	<b>-1.7</b>	<b>0.1</b>
Depreciation	69.2	115.9	216.7
Other Income	5.6	0.6	3.5
Finance Cost	0.8	1.8	38.2
PBT	-115.7	-132.1	-249.4
Tax	-26.4	0.0	0.0
<b>Profit / (Loss) for the year</b>	<b>-89.3</b>	<b>-132.1</b>	<b>-249.4</b>

Source: Company data, I-Sec research

**Table 5: UEPL balance sheet – Leverage has increased sharply, in line with rising asset base**

Rs mn	FY20	FY21	FY22
Gross Block	535.7	1,293.7	1,871.0
Net Block	456.1	1,098.1	1,458.7
Capital work-in-progress	437.6	265.4	452.2
Deferred Tax Asset (net)	46.5	46.5	46.5
Others Non CA	11.1	15.0	76.0
<b>Total Non Current Assets</b>	<b>951.2</b>	<b>1,424.9</b>	<b>2,033.4</b>
Inventories	1.1	5.2	21.4
Trade receivables	8.6	24.2	54.3
Cash and cash equivalents	3.5	14.9	61.5
Other financial assets	19.1	22.1	45.3
<b>Total Current Assets</b>	<b>32.3</b>	<b>66.4</b>	<b>182.6</b>
<b>Total Assets</b>	<b>983.5</b>	<b>1,491.3</b>	<b>2,216.0</b>
<b>Equity and Reserves</b>	<b>856.6</b>	<b>1,020.9</b>	<b>834.4</b>
Borrowings	4.5	29.9	1,146.8
Provisions	1.7	0.7	1.2
<b>Total Non Current Liabilities</b>	<b>6.2</b>	<b>30.6</b>	<b>1,148.0</b>
Trade payables	9.6	18.5	98.0
Other financial liabilities	111.1	421.3	135.6
<b>Total Current Liabilities</b>	<b>120.7</b>	<b>439.7</b>	<b>233.5</b>
<b>Total Liabilities</b>	<b>983.5</b>	<b>1,491.3</b>	<b>2,216.0</b>
<b>Net Debt to Equity</b>	<b>0.0</b>	<b>0.0</b>	<b>1.3</b>

Source: Company data, I-Sec research

**Table 6: UEPL cashflow statement – OpCF turned positive in FY22**

Rs mn	FY20	FY21	FY22
Loss Before Tax	-115.7	-132.1	-249.4
Depreciation & Amortisation	69.2	115.9	216.7
Others	-4.4	1.4	37.1
<b>Wcap</b>	<b>-2.1</b>	<b>-90.3</b>	<b>35.5</b>
<b>CFO before tax</b>	<b>-53.0</b>	<b>-105.0</b>	<b>39.9</b>
Tax	0.0	0.0	0.0
<b>CFO</b>	<b>-53.0</b>	<b>-105.0</b>	<b>39.9</b>
<b>Cashflow from Investing Activity</b>			
Purchase of Fixed asset	-416.5	-193.2	-1,055.0
Sale of Fixed asset	173.6	0.0	0.0
Others	-3.5	-1.5	-53.8
<b>CF from Investing</b>	<b>-246.3</b>	<b>-194.8</b>	<b>-1,108.8</b>
<b>Cashflow from Financing Activity</b>			
Issue of Equity	298.7	0.0	0.0
Debt borrowed/ repaid	0.0	320.7	1,195.5
others	-2.1	-9.5	-86.0
<b>CF from Financing</b>	<b>296.7</b>	<b>311.2</b>	<b>1,109.4</b>
<b>Net change in cash and bank balance</b>	<b>-2.7</b>	<b>11.4</b>	<b>40.5</b>

Source: Company data, I-Sec research

## Valuations: Target price of Rs1,125/sh implies 24% upside

We value MGL (standalone) by the DCF methodology, using a WACC of 10.9%, DER of 35%, long-term EBITDA assumption of Rs9.5/scm and terminal growth rate of 1.5%. Longer-term, we build-in muted volume growth beyond FY25E as well as flattish margins, given our caution around longer-term growth expectations. We value MGL's acquisition of UEPL too on DCF basis (*table-8*), to derive a value of Rs50/sh. Our DCF valuation for MGL thus delivers a target price of Rs1,125/sh, offering 24% upside from CMP. Maintain **BUY**.

**Table 7: Valuation summary**

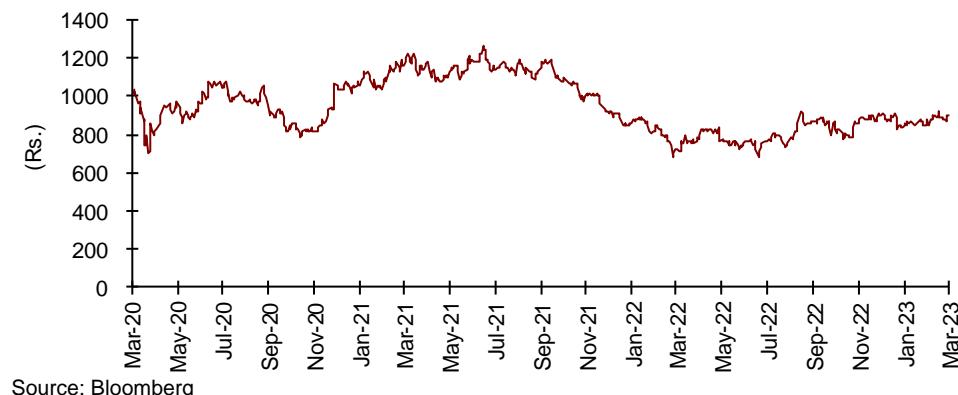
	Assumptions
Cost of Equity	13%
Cost of Debt	7.3%
Average D/E ratio	35%
WACC	10.9%
Terminal Growth Rate	1.5%
<b>Average NPV potential (Rs mn)</b>	<b>1,06,224</b>
<b>Target Price MGL standalone</b>	<b>1075</b>
<b>UEPL (Table 8)</b>	<b>50</b>
<b>Target Price</b>	<b>1125</b>
<b>CMP</b>	<b>907</b>
<b>Upside</b>	<b>24%</b>

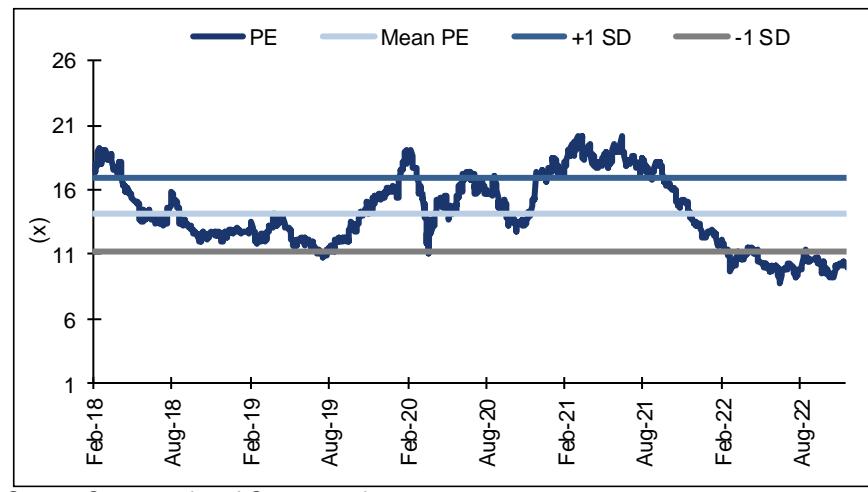
Source: I-Sec research

**Table 8: UEPL DCF summary**

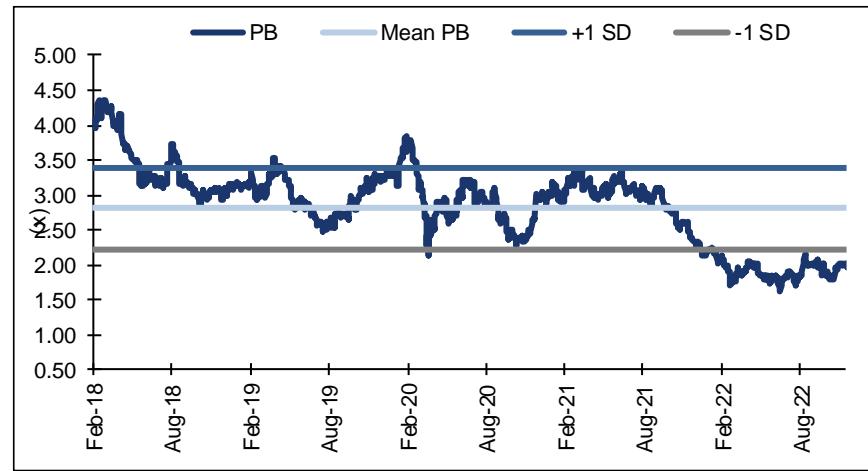
Rs Mn	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E...	...FY32E
Volumes mmscmd	0.01	0.02	0.06	0.2	0.35	0.5	0.65	0.8	1	1.46
YoY growth			232%	146%	245%	75%	43%	30%	23%	25%
EBITDA Rs/Scm	-19.8	-1.7	0.1	4	5.5	6.0	6.0	6.0	6.0	6.0
EBITDA	-51.3	-15	2.1	292	702.6	1,085.90	1,411.60	1,737.40	2,171.80	3,179.70
Less Depreciation	69.2	115.9	216.7	269.7	377.7	474.9	562.4	632.3	688.3	820.5
EBIT	-120.5	-130.9	-214.7	22.3	324.9	611	849.3	1,105.10	1,483.40	2,359.10
<b>NOPAT</b>	<b>-94.9</b>	<b>-132.7</b>	<b>-252.9</b>	<b>-118.1</b>	<b>54.3</b>	<b>219.8</b>	<b>354.3</b>	<b>510.7</b>	<b>765.9</b>	<b>1,355.00</b>
Add Depreciation	69.2	115.9	216.7	269.7	377.7	474.9	562.4	632.3	688.3	820.5
Less Capex	416.5	193.2	1,055.00	1,500.00	1,350.00	1,215.00	1,093.50	874.8	699.8	286.7
FCF	<b>-442.1</b>	<b>-210</b>	<b>-1,091.20</b>	<b>-1,348.50</b>	<b>-918</b>	<b>-520.4</b>	<b>-176.8</b>	<b>268.3</b>	<b>754.4</b>	<b>1,888.90</b>
Year					1	2	3	4	5	6
Disc factor					0.9	0.8	0.7	0.7	0.6	0.5
NPV					-1,217.50	-748.3	-383	-117.5	160.9	408.6
Acquisition cost (mn)					-5,310.00					
<b>NPV total</b>	<b>-4,789</b>									
<b>TV</b>	<b>26,929</b>									
<b>PV of Terminal value</b>	<b>9,692</b>									
<b>Total NPV potential</b>	<b>4,903</b>									
Per share for MGL (Rs/share)	49.6									

Source: Company data, I-Sec research

**Price chart -MGL**

**Chart 5: MGL's P/E trading well below 5-year trading bands**

Source: Company data, I-Sec research

**Chart 6: MGL's P/B trading well below 5-year trading bands**

Source: Company data, I-Sec research

## Financial summary

**Table 9: Profit and Loss statement**

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Operating Income (Sales)</b>	<b>35,602</b>	<b>62,264</b>	<b>62,378</b>	<b>66,499</b>
<b>Operating Expenses</b>	<b>26,359</b>	<b>52,045</b>	<b>48,507</b>	<b>51,711</b>
<b>EBITDA</b>	<b>9,243</b>	<b>10,219</b>	<b>13,870</b>	<b>14,789</b>
% margins	26%	16%	22%	22%
Depreciation & Amortisation	1,963	2,548	2,968	3,388
Gross Interest	75	50	50	50
Other Income	857	1,823	1,784	2,032
<b>Recurring PBT</b>	<b>8,063</b>	<b>9,445</b>	<b>12,637</b>	<b>13,383</b>
Less: Taxes	2,093	2,377	3,181	3,368
<b>Net Income (Reported)</b>	<b>5,969</b>	<b>7,067</b>	<b>9,456</b>	<b>10,014</b>
<b>Recurring Net Income</b>	<b>5,969</b>	<b>7,067</b>	<b>9,456</b>	<b>10,014</b>

Source: Company data, I-Sec research

**Table 10: Balance sheet**

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Assets</b>				
Total Current Assets	9,159	20,795	18,944	21,587
of which cash & cash equiv.	4,652	16,082	14,283	16,776
Total Current Liabilities & Provisions	14,357	27,293	24,998	26,561
<b>Net Current Assets</b>	<b>(5,198)</b>	<b>(6,498)</b>	<b>(6,054)</b>	<b>(4,975)</b>
<b>Investments</b>	<b>10,883</b>	<b>11,971</b>	<b>13,168</b>	<b>14,485</b>
<b>Net Fixed Assets</b>	<b>26,137</b>	<b>30,590</b>	<b>34,622</b>	<b>38,234</b>
Capital Work-in-Progress	6,159	6,159	6,159	6,159
<b>Total Assets</b>	<b>37,981</b>	<b>42,222</b>	<b>47,895</b>	<b>53,904</b>
<b>Liabilities</b>				
Borrowings (Includes cash deposits)	-	-	-	-
Deferred Tax Liability	2,008	2,008	2,008	2,008
Equity Share Capital	988	988	988	988
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus	34,985	39,226	44,900	50,908
Net worth	<b>35,973</b>	<b>40,214</b>	<b>45,887</b>	<b>51,896</b>
<b>Total Liabilities</b>	<b>37,981</b>	<b>42,222</b>	<b>47,895</b>	<b>53,904</b>

Source: Company data, I-Sec research

**Table 11: Quarterly trend**

(Rs mn, year ending March 31)

	Mar'22	Jun'22	Sept'22	Dec'22
Net sales	10,811	14,502	15,581	16,658
% growth (YoY)	5.9%	34.1%	7.4%	6.9%
EBITDA	2,155	2,856	2,528	2,561
Margin (%)	19.9%	19.7%	16.2%	15.4%
Other income	227	200	260	323
Add: Extraordinaries				
Net profit	1,318	1,852	1,640	1,721

Source: Company data, I-Sec research

**Table 12: Cashflow statement**

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Operating Cashflow</b>	<b>9,506</b>	<b>10,219</b>	<b>13,870</b>	<b>14,789</b>
Working Capital Changes	1,652	12,731	(2,244)	1,413
Operating Cash flow	<b>9,037</b>	<b>20,572</b>	<b>8,446</b>	<b>12,833</b>
Capital Commitments	(6,473)	(7,000)	(7,000)	(7,000)
<b>Free Cashflow</b>	<b>2,564</b>	<b>13,572</b>	<b>1,446</b>	<b>5,833</b>
<b>Cashflow from Investing Activities</b>				
Inc (Dec) in Borrowings	-	-	-	-
Inc (Dec) in investments	(357)	(1,088)	(1,197)	(1,317)
Dividend paid	(2,810)	(2,827)	(3,782)	(4,006)
Cash flow from Financing Activities				
<b>Chg. in Cash &amp; Bank balance</b>	<b>(3,103)</b>	<b>(2,877)</b>	<b>(3,832)</b>	<b>(4,056)</b>
	<b>(467)</b>	<b>11,431</b>	<b>(1,799)</b>	<b>2,493</b>

Source: Company data, I-Sec research

**Table 13: Key ratios**

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Per Share Data (in Rs)</b>				
EPS(Basic Recurring)	60.4	71.5	95.7	101.4
Recurring Cash EPS	80.3	97.3	125.8	135.7
Dividend per share (DPS)	25.0	28.6	38.3	40.6
Book Value per share (BV)	364.2	407.1	464.5	525.4
<b>Growth Ratios (%)</b>				
Operating Income	65%	75%	0%	7%
EBITDA	-1%	11%	36%	7%
Recurring Net Income	-4%	18%	34%	6%
Recurring EPS	-4%	18%	34%	6%
Recurring CEPS	0%	21%	29%	8%
<b>Valuation Ratios (% YoY)</b>				
P/E	15.0	12.7	9.5	8.9
P/BV	2.5	2.2	2.0	1.7
EV / EBITDA	8.0	6.0	4.5	3.9
EV / FCF	28.9	4.5	43.0	10.0
<b>Operating Ratios</b>				
Other Income / PBT (%)	11%	19%	14%	15%
Effective Tax Rate (%)	26%	25%	25%	25%
D/E Ratio (%)	-	-	-	-
Net D/E Ratio	-13%	-40%	-31%	-32%
<b>Return/Profitability Ratios (%)</b>				
Recurring Net Income Margins	17%	11%	15%	15%
RoCE	20%	19%	24%	22%
RoNW	17%	18%	21%	19%
Dividend Payout Ratio	41%	40%	40%	40%
Dividend Yield	2.8%	3.2%	4.2%	4.5%
EBITDA Margins	26%	16%	22%	22%

Source: Company data, I-Sec research

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