Mahanagar Gas

09 June 2024

Volume growth and margin guidance remain intact; Maintain HOLD

COMPANY UPDATE

Sector: Natural Gas	**Rating: HOLD**
CMP: Rs 1,380	**Target Price: Rs 1,462**

Stock Info

Sensex/Nifty	76,693/23,290
Bloomberg	MAHGL IN
Equity shares (mn)	99
52-wk High/Low	Rs 1,579/ 971
Face value	Rs 10
M-Cap	Rs 136bn/ USD 1.6bn
3-m Avg Value	USD 6.9mn

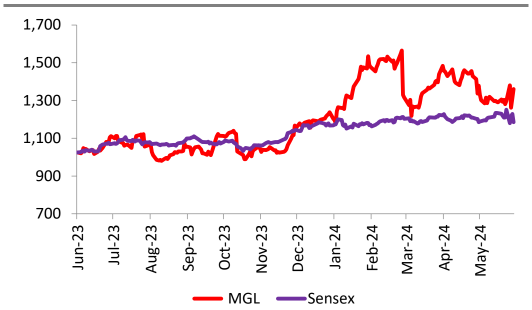
Financial Snapshot (Rs bn)

Y/E Mar	FY24	FY25E	FY26E
Sales	63	65	68
EBITDA	19	18	19
PAT	13	12	13
EPS (Rs)	131	125	133
PE (x)	10.6	11.0	10.4
EV/EBITDA (x)	6.7	6.4	5.6
RoE (%)	25.1	21.1	19.8
RoCE (%)	24.3	21.1	19.9
Dividend yield (%)	2.2	3.2	3.4

Shareholding Pattern (%)

	Sep'23	Dec'23	Mar'24
Promoter	32.5	32.5	32.5
FII	30.5	30.9	30.6
DII	16.1	17.2	17.4
Others	20.9	19.4	19.5

Stock Performance (1-year)



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MGL hosted an analyst-meet and the key takeaways are:

MGL has guided 6-7% volume growth in CNG and low double-digit volume growth for Industrial & Commercial (I/C) sales. Also, it maintains the EBITDA margin guidance at Rs9-11/scm (Rs13.7 in FY24). The recent consolidation of UEPL brings an additional 0.14mmscmd to their volume, with a potential for further expansion up to 1.2mmscmd. The company expects 100 new MSRTC buses/month to be added in the next two quarters, driving the volume growth. MGL plans to build over 25km of infrastructure steel pipeline, PE of 200km, and 80-90 CNG stations (50-60 on a standalone basis and 30 in Unison Enviro Pvt Ltd (UEPL)). Further, MGL expects to incur a capex of INR 8bn for the existing GAs and an additional Rs 2bn in UEPL. The company expects most of the input tax credit to be passed on leaving no major room for margin expansion, if GST gets implemented in Natural gas. We keep a volume forecast of 4.3% CAGR during FY24-FY26E while keeping higher than the guided margin of Rs13/13.1, respectively, on the back of an expected fall in LNG prices to benefit margins. We estimate Rs18.1bn/Rs12.4bn EBITDA/PAT in FY25E and Rs 19.3bn/Rs 13.1bn in FY26E, a CAGR of just 2.2% and 0.9%, respectively. We keep HOLD with TP of Rs1,462, based on PER of 11x on FY26E.

Focus on Infrastructure expansion to boost volume

MGL is currently operating with 347 CNG stations (36 added in FY24 and 67% at OMCs), 2.5 mn household connections (3.2L connections in FY24) and 4,769 I/C customers (+402 in FY24). Further, its newly acquired UEPL (completed in Feb'2024 at INR 5.7bn) is expected to see a healthy volume growth of over 10% and has a total long-term potential of 1.2mmscmd from the current 0.14 mmscmd. MGL looks to invest Rs10 bn to add over 40 retail outlets in FY25.

Other Initiatives may unlock value in the long-run

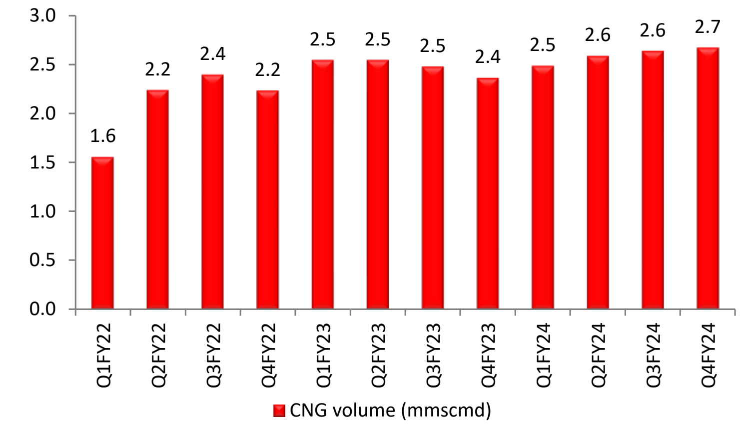
In Dec’23, MGL established a JV MLPL with a controlling ownership of 51%. The JV aims to set up 5-6 LNG stations by FY25. MGL also has a total investment commitment of Rs 960 mn in 3ev Industries (Currently invested Rs500 mn) for a 31% stake. 3ev Industries Private Limited manufactures 3-wheeler cargo and passenger electric vehicles. Further, if natural gas comes under GST, consumers could benefit in two ways, a) Lower gas prices, and b) Input tax credit. However, MGL expects most of the benefits would be passed on but would help improving the volumes.

Maintain HOLD with an unchanged TP of Rs1,462

We keep a volume forecast of 4.3% CAGR during FY24-FY26E while keeping higher than the guided margin of Rs13/13.1, respectively, on the back of an expected fall in LNG prices to benefit margins. We estimate Rs18.1bn/Rs12.4bn EBITDA/PAT in FY25E and Rs 19.3bn/Rs 13.1bn in FY26E, a CAGR of just 2.2% and 0.9%, respectively. We keep HOLD with TP of Rs1,462, based on PER of 11x on FY26E.

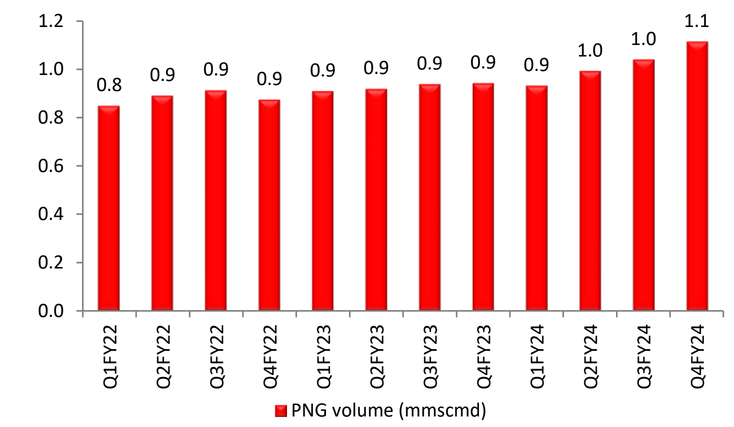
Investors are advised to refer disclosures made at the end of the research report.

Exhibit 1: CNG volumes (mmscmd) QoQ change in last 3 years



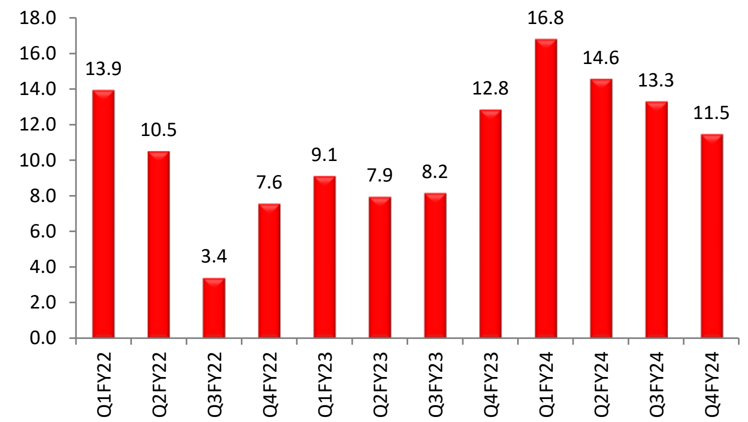
Source: Company, Systematix Institutional Research

Exhibit 2: PNG Volumes (mmscmd) QoQ change in last 3 years



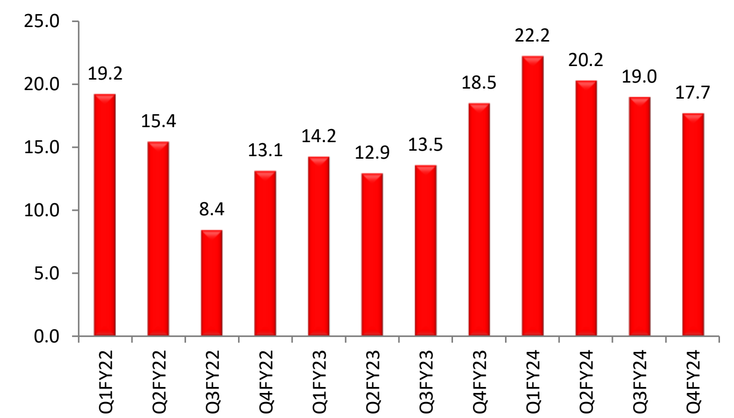
Source: Company, Systematix Institutional Research

Exhibit 3: EBITDA/scm (Rs) QoQ trend remains volatile



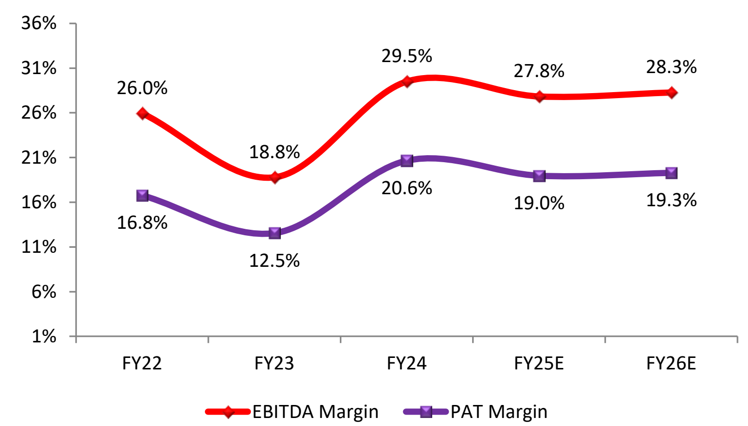
Source: Company, Systematix Institutional Research

Exhibit 4: Gross margin (Rs/scm) QoQ change due to price cut



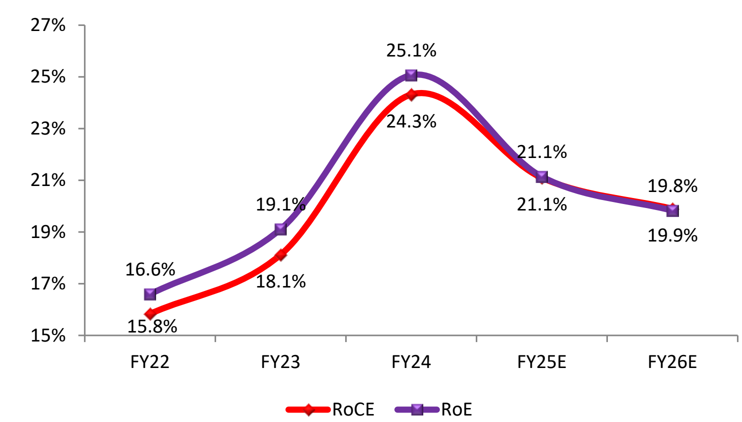
Source: Company, Systematix Institutional Research

Exhibit 1: EBITDA/PAT margin continues to remain flattish YoY



Source: Company, Systematix Institutional Research

Exhibit 2: RoE/RoCE to regain once margins improve



Source: Company, Systematix Institutional Research

FINANCIAL STATEMENTS

Profit & Loss Statement

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net revenue	**35,602**	**62,993**	**62,445**	**65,349**	**68,098**
Raw Material cost	20,454	44,349	36,181	38,833	39,968
Gross Profit	**15,148**	**18,644**	**26,265**	**26,516**	**28,130**
Employee cost	833	1,079	1,181	1,240	1,302
Other expenses	5,072	5,724	6,657	7,085	7,568
EBITDA	**9,243**	**11,842**	**18,426**	**18,191**	**19,260**
Depreciation	1,963	2,311	2,736	2,918	3,075
EBIT	**7,281**	**9,531**	**15,690**	**15,274**	**16,185**
Interest Cost	75	94	115	63	52
Other Income	857	1,119	1,753	1,445	1,517
PBT Before Exceptionals	**8,063**	**10,555**	**17,328**	**16,656**	**17,651**
Exceptional Items	0	0	0	0	0
PBT	8,063	10,555	17,328	16,656	17,651
Tax	2,093	2,655	4,437	4,265	4,520
Reported PAT	5,970	7,901	12,891	12,391	13,131
Adjusted PAT	**5,970**	**7,901**	**12,891**	**12,391**	**13,131**
Reported EPS (Rs)	60.4	80.0	130.5	125.4	132.9
Adjusted EPS (Rs)	**60.4**	**80.0**	**130.5**	**125.4**	**132.9**

Source: Company, Systematix Institutional Research

Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share Capital	988	988	988	988	988
Reserves & Surplus	34,985	40,354	50,441	57,628	65,244
Networth	**35,973**	**41,342**	**51,429**	**58,616**	**66,231**
Short + Long Term Debt	824	938	1,161	538	438
Deferred Tax Liabilities	7,158	8,213	9,486	10,428	11,464
Other LT Liabilities	2,008	2,086	2,441	2,812	3,187
Capital Employed	**45,963**	**52,580**	**64,517**	**72,394**	**81,321**
Gross Block	33,828	39,875	47,505	52,039	56,386
Accumulated Depreciation	9,195	11,506	14,242	17,160	20,235
Net Block	24,633	28,369	33,262	34,879	36,150
Capital WIP	6,159	7,086	7,743	6,922	6,576
Total Fixed Assets	30,793	35,455	41,005	41,801	42,726
Long Term Investments & Others	3,094	4,806	12,645	13,167	13,715
Current Assets	**18,451**	**20,062**	**18,610**	**25,720**	**33,471**
Short Term Investments	10,883	13,098	10,188	10,493	10,808
Inventories	275	338	398	417	434
Sundry Debtors	1,840	2,940	2,806	2,937	3,060
Cash & Bank Balance	4,652	2,279	3,985	10,583	17,823
Short Term Loans & Adv.	676	1,073	1,024	1,071	1,116
Others	126	334	209	219	228
Current Liabilities & Prov.	**6,375**	**7,743**	**7,743**	**8,295**	**8,591**
Creditors	2,719	3,222	3,342	3,580	3,708
Other Current Liabilities	3,656	4,521	4,401	4,715	4,883
Net Current Assets	12,076	12,319	10,867	17,425	24,880
Total Assets	**45,963**	**52,580**	**64,517**	**72,394**	**81,321**

Source: Company, Systematix Institutional Research

Cash Flow

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Pre-Tax Profit	8,063	10,555	17,328	16,656	17,651
Depreciation	1,963	2,311	2,736	2,918	3,075
Change in Working Capital	1,652	134	907	1,272	1,121
Tax Paid	-2,122	-2,638	-4,240	-3,894	-4,145
Other Operating Activities	-519	-670	-1,100	-1,382	-1,465
Operating Cash Flow	**9,037**	**9,693**	**15,631**	**15,569**	**16,237**
Capital Expenditure	-6,473	-7,127	-7,698	-3,714	-4,000
Change in Investments	-357	-1,748	-2,403	-813	-848
Other Investing Activities	1,440	2,384	-2,567	1,445	1,517
Investing Cash Flow	**-5,391**	**-6,491**	**-12,668**	**-3,082**	**-3,330**
Free Cash Flow	3,646	3,202	2,964	12,488	12,906
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	0	0	0	-622	-99
Other Financing Activities	-4,113	-5,575	-1,258	-5,267	-5,567
Financing Cash Flow	**-4,113**	**-5,575**	**-1,258**	**-5,889**	**-5,666**
Change in Cash	-467	-2,373	1,706	6,598	7,240
Opening Cash Balance	5,119	4,652	2,279	3,985	10,583
Closing Cash Balance	**4,652**	**2,279**	**3,985**	**10,583**	**17,823**

Source: Company, Systematix Institutional Research

Key Assumptions

Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
Total volumes (mmscmd)	3.0	3.4	3.6	3.8	3.9
CNG (mmscmd)	2.1	2.5	2.6	2.7	2.8
PNG & Others (mmscmd)	0.9	0.9	1.0	1.1	1.2
Net Realization (Rs/scm)	32.3	50.2	46.9	47.2	47.0
Gross Margin (Rs/scm)	13.6	14.7	19.6	19.0	19.3
EBITDA/scm (Rs)	8.2	9.3	13.7	13.0	13.1

Source: Company, Systematix Institutional Research

Ratios (Consolidated)

Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
Growth					
Revenue growth	65.4%	76.9%	-0.9%	4.7%	4.2%
EBITDA growth	-1.0%	28.1%	55.6%	-1.3%	5.9%
Adjusted PAT growth	-3.7%	32.3%	63.2%	-3.9%	6.0%
Margins					
Gross margin	42.5%	29.6%	42.1%	40.6%	41.3%
EBITDA margin	26.0%	18.8%	29.5%	27.8%	28.3%
PBT margin	22.6%	16.8%	27.7%	25.5%	25.9%
Effective Tax rate	26.0%	25.2%	25.6%	25.6%	25.6%
Adjusted PAT margin	16.8%	12.5%	20.6%	19.0%	19.3%
Operating Cycle					
Inventory days	3	2	2	2	2
Debtor days	19	17	16	16	16
Creditor days	38	23	28	28	28
Working Capital Cycle	-16	-4	-9	-9	-9
Return Ratios					
ROE	16.6%	19.1%	25.1%	21.1%	19.8%
Pre-tax ROCE	15.8%	18.1%	24.3%	21.1%	19.9%
Capex/revenue	18.8%	11.1%	9.6%	9.2%	5.9%
Net debt / Equity	0.0	0.0	0.0	0.0	0.0
Yield Analysis					
CFO Yield	8.2%	9.0%	14.6%	14.3%	15.0%
FCF Yield	1.7%	1.9%	6.9%	7.1%	9.0%
Dividend Yield	1.8%	1.9%	2.2%	3.2%	3.4%
Valuation					
P/E (x)	22.8	17.3	10.6	11.0	10.4
P/B (x)	3.8	3.3	2.7	2.3	2.1
EV/Sales (x)	3.4	1.9	2.0	1.8	1.6
EV/EBITDA (x)	13.2	10.3	6.7	6.4	5.6

Source: Company, Systematix Institutional Research

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