

# Mahanagar Gas

BSE SENSEX 82,189 S&P CNX 25,003

**CMP: INR1330 TP: INR1760 (+32%) Buy**



## Stock Info

	MAHGL IN
Bloomberg	MAHGL IN
Equity Shares (m)	99
M.Cap.(INRb)/(USD\$b)	131.3 / 1.5
52-Week Range (INR)	1989 / 1075
1, 6, 12 Rel. Per (%)	-6/2/-12
12M Avg Val (INR M)	1099
Free float (%)	67.5

## Financials Snapshot (INR b)

Y/E March	FY25	FY26E	FY27E
Sales	69.2	74.6	81.6
EBITDA	15.1	16.3	17.8
PAT	10.4	11.0	12.0
EPS (INR)	105.8	111.5	121.0
EPS Gr. (%)	-18.9	5.4	8.5
BV/Sh.(INR)	596.2	663.1	735.7

## Ratios

Net D:E	0.0	0.0	0.0
RoE (%)	18.9	17.7	17.3
RoCE (%)	19.0	17.8	17.4
Payout (%)	28.4	40.0	40.0

## Valuations

P/E (x)	12.6	11.9	11.0
P/BV (x)	2.2	2.0	1.8
EV/EBITDA (x)	8.5	7.9	7.2
Div. Yield (%)	2.3	3.4	3.6
FCF Yield (%)	2.2	1.8	2.5

## Shareholding pattern (%)

As On	Mar-25	Dec-24	Mar-24
Promoter	32.5	32.5	32.5
DII	33.8	31.1	27.4
FII	23.8	25.8	30.6
Others	9.9	10.6	9.6

FII Includes depository receipts

## Volume growth and margin outlook remain intact

- **Valuations inexpensive:** Over the last eight months, MAHGL's share price has corrected ~30%, with the stock now trading at 11x FY27E P/E. Weakness in the stock price was driven by 1) pressure on margins amid higher raw material costs coupled with multiple APM de-allocations and 2) lack of clarity on future APM allocation. However, we now believe fundamentals are undergoing a transformative shift:
- **Weaker crude and lower slope – the twin emerging tailwinds:** A weak crude price outlook along with a lower pricing slope for natural gas (given the impending LNG glut) will reduce gas costs for CGD companies. While Brent crude prices averaged ~USD75.8/bbl in 4QFY25, we forecast Brent to average USD65/bbl in FY26/FY27. We estimate every USD10/bbl decline in Brent prices reduces the landed cost of natural gas by USD2.3/mmbtu. Further, our discussions with the listed and unlisted India CGD companies indicate that new long-term gas contracts are already being signed for a 1.0-1.3% lower slope given the expected surge in LNG supply in 2HFY26 and beyond.
- **Upside risk to EBITDA margin estimate exists amid favorable fundamentals:** While we build in a stable EBITDA margin of INR10/scm (vs. guidance of INR9-11/scm), we believe upside risk to our estimate will arise from 1) the recent CNG price hike of INR1.5/kg and D-PNG price hike of INR1/scm on 8th Apr'25, and 2) declining raw material costs in 1QFY26'td. Lower crude oil and Henry Hub index prices, coupled
- **MAHGL remains our preferred pick among CGDs:** As highlighted in our recent sector update ([Marketing sub-sector favored; turning bullish on CGDs](#)), MAHGL remains our preferred pick among CGDs. We retain our estimates as we model MAHGL's volumes to clock a 10% CAGR over FY25-27 and estimate an EBITDA margin of INR10/scm during the period. MAHGL currently trades at 11x FY27E SA P/E. Reiterate BUY with a TP of INR1,760.

## Key takeaways from the analyst call

- In the recent analyst meet hosted by MAHGL, the management maintained its 10%+ YoY volume growth guidance for the next 2-3 years, with I&C-PNG/CNG volumes expected to grow at 20%/9%+ YoY.
- Management explained that while major changes to APM allocation shall be informed with a six-month prior notice, adjustments for minor changes continue to happen every month.
- According to the management, EVs have limited overlap with the typical CNG customer base. In the entry-level passenger vehicle segment, EV adoption remains low, with on-road costs approximately 1.4-1.5x higher than CNG vehicles (excluding battery replacement expenses).
- By FY30, the company aims to add 250 CNG filling stations and upgrade existing stations. Further, 15 BEST depot CNG stations shall now be available for specific commercial vehicles for fueling, subject to prior registration.
- The company has seen a strong response to the MAHGL Mahotsav 2.0 scheme, as the scheme has touched 600+ 3.5-ton commercial vehicles.
- The 1GW battery manufacturing factory, entailing a capex of INR9b (MAHGL's Equity stake: 40%), shall start in 12-14 months. Further, while both CBG and LNG business segments are at the initial stages, the company believes in scaling up these businesses rapidly over the next few years.

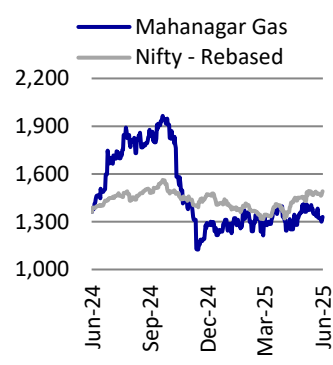
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### Stock performance (one-year)



### Valuation and view

- We expect a 10% CAGR in volume over FY25-27, driven by multiple initiatives implemented by the company, such as collaborating with OEMs to drive conversions of commercial CNG vehicles and providing guaranteed price discounts to new I/C-PNG customers.
- Management guides a 40% YoY volume growth in UEPL volumes in FY26, with a long-term target volume of 1.2-1.3mmscmd (0.2-0.3mmscmd currently). Further, MAHGL's foray into battery manufacturing, LNG, and CBG businesses shall provide a boost to earnings in the long run.
- The stock trades at 11x FY27E EPS of INR121. We value the stock at 15x FY27E EPS to arrive at our TP of INR1,760. **Reiterate BUY.**

### Highlights from the analyst meet

#### Volume growth guidance:

- MAHGL grew 12% YoY in FY25 as the I/C segment rose >20%, while CNG grew 11%.
- Management has guided a **double-digit volume growth rate for the next 2-3 years**. CNG volumes shall grow at 9-10% YoY.
- UEPL – 80+ CNG stations shall be added in FY26.
- D-PNG – 0.35m p.a. connections – additional run-rate to be maintained.
- Long-term volume targets:
- GA3: 0.35mmscmd in FY25; 0.6-0.7mmscmd can be achieved in 3-4 years.

#### LNG business:

- Comparison with CNG: The current LNG price is at least INR12-14 cheaper in comparison to diesel. While MAHGL is earning positive gross margins, the volumes are low.
- Current sales: 4000-4500kg per day in 2 operating stations.
- The company aims to be EBITDA-positive by FY26.
- LNG will be catering to heavy-duty vehicles. Hence, there shall be no impact on CNG volumes.
- In India, LNG trucks cost 30-40% more than in China. Hence, LNG trucking penetration is very low in India.

#### UEPL:

- Volume growth guidance: 40% YoY in FY26. UEPL earns EBITDA/scm margins similar to MAHGL SA.
- The majority of volumes arise from the transportation vehicles.
- Tax benefits shall emerge when UEPL merges with MAHGL.

#### APM de-allocation:

- 6m prior notice is for major adjustments. However, the MoM changes shall be done for minor adjustments.
- About 7-10% of APM gas shall shift to NW gas p.a.

**CBG plant:**

- The company has already signed an MoU with BMC. Free land and segregated waste (~90%) shall be provided by BMC.
- Economics: Not a very profitable business. MAHGL shall be generating ~10% IRR via this business.

**Threat to CNG vehicles from EVs:**

- EVs will have a major play in the light CV segment.
- As per MAHGL, EVs have limited overlap with the typical CNG customer base. In the entry-level passenger vehicle segment, EV adoption remains low, with on-road costs approximately 1.4-1.5x higher than CNG vehicles (excluding battery replacement expenses).

**Infrastructure expansion plans over the next 5 years:**

- The company shall add 180km of steel pipeline.
- MAHGL aims to add 250 CNG filling stations and upgrade existing stations.
- The company shall focus on better capacity utilization (e.g.: BEST Tez).

**M&A appetite and consolidation opportunities:**

- MAHGL is a zero-debt company and can look for M&A/diversifications.

**Battery business:**

- Land possession has been received, and the factory shall start in a couple of months.
- In two phases, 1GW shall be up and running in 12-14 months.
- The 1GW to 5GW assembly factory expansion call will be taken later.
- INR9b/35b capex shall be incurred for the 1GW/5GW factory. MAHGL has a 40% equity stake in the business.

**BEST vs. EV buses:**

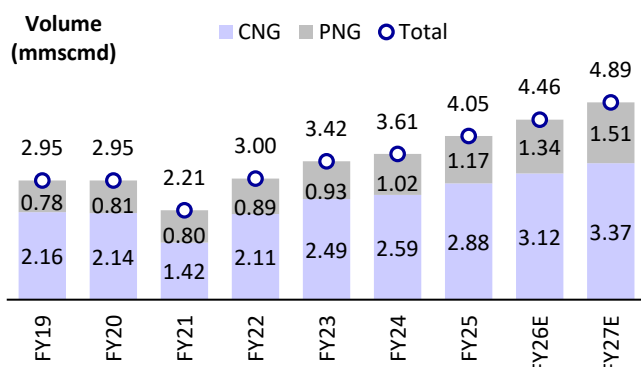
- CNG buses are substantially cost-effective, even after ongoing subsidies.

**Others:**

- APM allocation towards CNG/D-PNG stands at 35%/100%.
- To increase I/C-PNG penetration, MAHGL offers a 10% discount to all new customers for three years (alternate fuel is 'fuel oil').
- Schemes targeting commercial vehicles:
  - Mahotsav 2 scheme: 3.5 ton+ CVs (~600 vehicles) – MAHGL provides 50% cashback fuel cards (accounted as marketing expense when the card is issued) to increase commercial vehicle penetration, as this reduces the payback period of customers shifting to CNG.
  - The company also aims to increase CNG retrofits.
  - MAHGL has CNG infra in 15 BEST depots. All these buses fill in CNG only at night, and the depots are empty during the daytime. Now, after signing an agreement with BEST last month, large/mid-commercial vehicles can use the depot during the daytime with prior registration. However, personal vehicles would not be allowed.

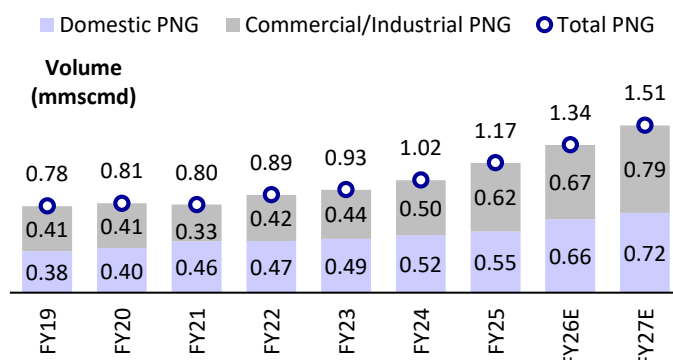
## Story in charts

**Exhibit 1: Volume growth snapshot**



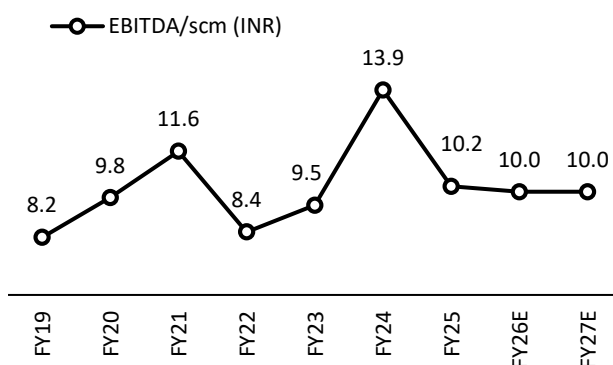
Source: Company, MOFSL

**Exhibit 2: PNG segment-wise volumes**



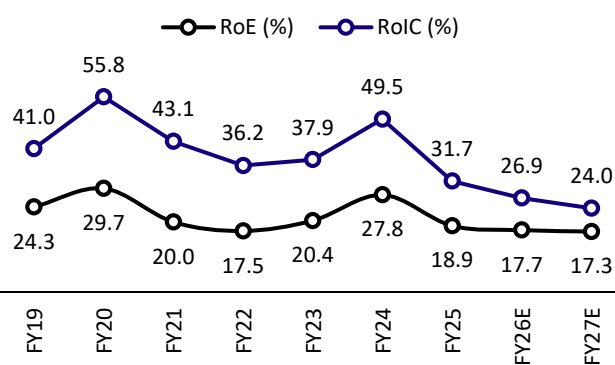
Source: Company, MOFSL

**Exhibit 3: EBITDA/scm snapshot**



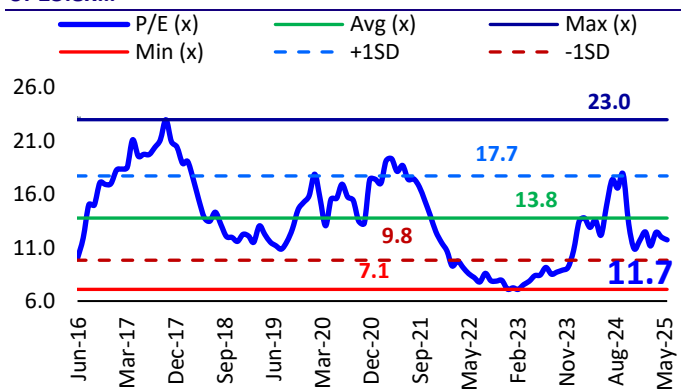
Source: Company, MOFSL

**Exhibit 4: Return ratios for MAHGL**



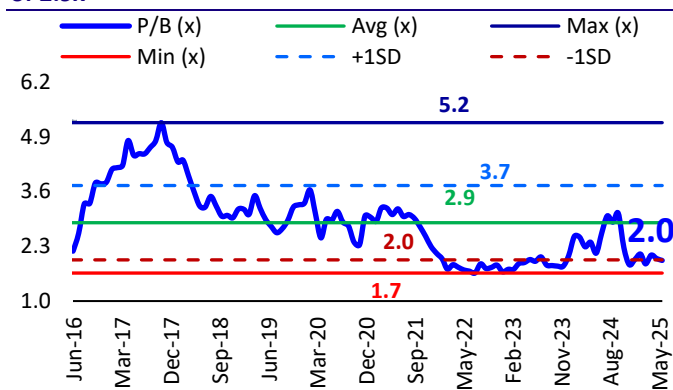
Source: Company, MOFSL

**Exhibit 5: 1-year fwd P/E trades at 11.7, with an LT average of 13.8x...**



Source: Company, MOFSL

**Exhibit 6: ...and 1-year fwd P/B trades at 2x, with an average of 2.9x**



Source: Company, MOFSL

## Financials and valuations

### Standalone - Income Statement

(InR m)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
<b>Total Income from Operations</b>	<b>62,993</b>	<b>62,445</b>	<b>69,237</b>	<b>74,604</b>	<b>81,587</b>
<i>Change (%)</i>	76.9	-0.9	10.9	7.8	9.4
<b>EBITDA</b>	<b>11,842</b>	<b>18,426</b>	<b>15,098</b>	<b>16,274</b>	<b>17,837</b>
<i>Margin (%)</i>	18.8	29.5	21.8	21.8	21.9
Depreciation	2,311	2,736	3,063	3,277	3,636
<b>EBIT</b>	<b>9,531</b>	<b>15,690</b>	<b>12,035</b>	<b>12,997</b>	<b>14,201</b>
Int. and Finance Charges	94	115	134	150	138
Other Income	1,119	1,753	1,840	1,874	1,912
<b>PBT bef. EO Exp.</b>	<b>10,555</b>	<b>17,328</b>	<b>13,741</b>	<b>14,721</b>	<b>15,976</b>
<b>PBT after EO Exp.</b>	<b>10,555</b>	<b>17,328</b>	<b>13,741</b>	<b>14,721</b>	<b>15,976</b>
Total Tax	2,655	4,437	3,292	3,705	4,021
<i>Tax Rate (%)</i>	25.2	25.6	24.0	25.2	25.2
<b>Reported PAT</b>	<b>7,901</b>	<b>12,891</b>	<b>10,449</b>	<b>11,016</b>	<b>11,955</b>
<b>Adjusted PAT</b>	<b>7,901</b>	<b>12,891</b>	<b>10,449</b>	<b>11,016</b>	<b>11,955</b>
<i>Change (%)</i>	32.3	63.2	-18.9	5.4	8.5
<i>Margin (%)</i>	12.5	20.6	15.1	14.8	14.7

### Standalone - Balance Sheet

(InR m)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Equity Share Capital	988	988	988	988	988
Total Reserves	40,354	50,441	57,905	64,515	71,688
<b>Net Worth</b>	<b>41,342</b>	<b>51,429</b>	<b>58,893</b>	<b>65,503</b>	<b>72,675</b>
Total Loans	208	231	293	293	293
Deferred Tax Liabilities	2,086	2,441	2,771	2,771	2,771
<b>Capital Employed</b>	<b>43,636</b>	<b>54,101</b>	<b>61,956</b>	<b>68,566</b>	<b>75,739</b>
Gross Block	40,096	47,725	56,252	69,796	81,704
Less: Accum. Deprn.	11,727	14,463	17,526	20,803	24,439
<b>Net Fixed Assets</b>	<b>28,369</b>	<b>33,262</b>	<b>38,727</b>	<b>48,993</b>	<b>57,265</b>
Capital WIP	7,086	7,743	9,742	7,698	7,290
<b>Total Investments</b>	<b>13,098</b>	<b>16,360</b>	<b>17,400</b>	<b>17,400</b>	<b>17,400</b>
Rights to use assets	1,888	2,167	2,316	2,316	2,316
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>9,882</b>	<b>12,728</b>	<b>13,855</b>	<b>11,781</b>	<b>12,924</b>
Inventory	338	398	489	386	422
Account Receivables	2,940	2,806	3,456	3,482	3,808
Cash and Bank Balance	2,279	3,985	3,150	2,792	3,093
Cash	1,179	1,027	1,343	984	1,286
Bank Balance	1,100	2,958	1,807	1,807	1,807
Loans and Advances	4,324	5,539	6,759	5,121	5,601
<b>Curr. Liability &amp; Prov.</b>	<b>16,687</b>	<b>18,159</b>	<b>20,082</b>	<b>19,621</b>	<b>21,455</b>
Account Payables	3,222	3,342	4,154	3,674	4,016
Other Current Liabilities	12,967	14,224	15,188	15,358	16,795
Provisions	498	593	740	589	645
<b>Net Current Assets</b>	<b>-6,806</b>	<b>-5,431</b>	<b>-6,227</b>	<b>-7,840</b>	<b>-8,532</b>
<b>Appl. of Funds</b>	<b>43,636</b>	<b>54,101</b>	<b>61,956</b>	<b>68,566</b>	<b>75,739</b>

## Financials and valuations

### Ratios

Y/E March	FY23	FY24	FY25	FY26E	FY27E
<b>Basic (INR)</b>					
<b>EPS</b>	<b>80.0</b>	<b>130.5</b>	<b>105.8</b>	<b>111.5</b>	<b>121.0</b>
Cash EPS	103.4	158.2	136.8	144.7	157.8
BV/Share	418.5	520.6	596.2	663.1	735.7
DPS	26.0	52.2	30.0	44.6	48.4
Payout (%)	32.5	40.0	28.4	40.0	40.0
<b>Valuation (x)</b>					
P/E	16.6	10.2	12.6	11.9	11.0
Cash P/E	12.9	8.4	9.7	9.2	8.4
P/BV	3.2	2.6	2.2	2.0	1.8
EV/Sales	2.1	2.0	1.9	1.7	1.6
EV/EBITDA	10.9	6.9	8.5	7.9	7.2
Dividend Yield (%)	2.0	3.9	2.3	3.4	3.6
FCF per share	26.0	80.2	29.7	23.5	33.5
<b>Return Ratios (%)</b>					
RoE	20.4	27.8	18.9	17.7	17.3
RoCE	20.5	27.8	19.0	17.8	17.4
RoIC	37.9	49.5	31.7	26.9	24.0
<b>Working Capital Ratios</b>					
Fixed Asset Turnover (x)	1.6	1.3	1.2	1.1	1.0
Asset Turnover (x)	1.4	1.2	1.1	1.1	1.1
Inventory (Days)	2	2	3	2	2
Debtor (Days)	17	16	18	17	17
Creditor (Days)	19	20	22	18	18
<b>Leverage Ratio (x)</b>					
Current Ratio	0.6	0.7	0.7	0.6	0.6
Net Debt/Equity	-0.1	-0.1	0.0	0.0	0.0

### Standalone - Cash Flow Statement

(InR m)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
OP/(Loss) before Tax	10,555	17,328	13,741	14,721	15,976
Depreciation	2,311	2,736	3,063	3,277	3,636
Direct Taxes Paid	-2,638	-4,240	-2,687	-3,705	-4,021
(Inc)/Dec in WC	134	907	830	1,254	993
Others	-764	-1,215	-1,397	-1,874	-1,912
<b>CF from Operations</b>	<b>9,693</b>	<b>15,631</b>	<b>13,685</b>	<b>13,823</b>	<b>14,809</b>
(Inc)/Dec in FA	-7,127	-7,709	-10,754	-11,500	-11,500
<b>Free Cash Flow</b>	<b>2,566</b>	<b>7,922</b>	<b>2,931</b>	<b>2,323</b>	<b>3,309</b>
(Pur)/Sale of Investments	-1,748	-65,334	-63,554	0	0
Others	2,384	60,375	64,298	1,874	1,912
<b>CF from Investments</b>	<b>-6,491</b>	<b>-12,668</b>	<b>-10,010</b>	<b>-9,626</b>	<b>-9,588</b>
Dividend Paid	-2,518	-2,766	-2,964	-4,406	-4,782
<b>CF from Fin. Activity</b>	<b>-2,848</b>	<b>-3,116</b>	<b>-3,359</b>	<b>-4,556</b>	<b>-4,919</b>
<b>Inc/Dec of Cash</b>	<b>354</b>	<b>-152</b>	<b>316</b>	<b>-359</b>	<b>302</b>
Opening Balance	825	1,179	1,027	1,343	984
<b>Closing Balance</b>	<b>1,179</b>	<b>1,027</b>	<b>1,343</b>	<b>984</b>	<b>1,286</b>

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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