BUY (Maintain)

CMP: **INR 1,115** Target Price: **INR 1,535 (INR 1,525)** ▲ 38%

10 December 2025

India | Equity Research | Company Update

Mahanagar Gas

Oil & Gas

Weak margins a dampener, but volume prospects to remain peer-leading over FY26-28E

Mahanagar Gas' (MGL) EBITDA/scm declined to a 13-quarter low in Q2FY26. We believe margins are likely to remain under pressure due to INR depreciation and a jump in HH (US Henry Hub) prices in Q3FY26 (~30% of sourcing, at USD 5/MMbtu vs. <USD4/MMbtu in Q2). MGL had taken a price hike of INR 0.5/scm each in CNG/domestic PNG on 4th Sept'25 to ease the pressure and reduce HH offtake to ToP level of ~60%. We have cut our EBITDA margin assumption by INR 0.1-0.2/scm over FY26-28E to factor in INR depreciation, tariff changes and gas cost, but we remain positive on the stock led by stellar volume growth and improving LNG pricing, coupled with attractive valuations underpinning our stance. **Reiterate BUY** with a revised TP of INR 1,535 (from INR 1,525).

Strong volume momentum likely to continue

MGL has maintained robust volume growth (~14% for last six quarters including UEPL). We factor in ~9.6% growth over FY26-28E, driven by strong current run-rates and guidance of 35-40% growth in UEPL, +30% growth in Raigad (GA2) and 7-8% growth in GA1 (geographical areas). Due to the new airport in Navi Mumbai, Raigad area potential volume is now expected at >1 mmscmd vs. earlier estimate of 0.7mmscmd (UEPL estimates remain at peak of 1.2-1.3mmscmd in 2-3 years). MGL is putting bigger stations at Wadala and two at JNPT to improve the filling experience and boost volumes at GA-1, complemented by higher additions of CNG buses in the MMR and interstate transport. Continued strength in vehicle conversions across CNG categories with support from light/heavy commercial vehicles, steady infra expansion and initiatives like using BEST bus depots to fill other vehicles in non-operating hours could all support growth for CNG in the MMR region.

Multiple factors impacting margins

MGL saw a 16% QoQ fall in Q2FY26 EBITDA/scm to INR 8, lowest since Q2FY23. Margins are likely to remain under pressure over FY26-28 due to INR depreciation, rising HH prices and the small impact of revision in tariff zones applicable to MGL (estimated impact of INR 0.3-0.4/scm). Some respite may, however, come via: i) Partial restoration of APM/NWG and additional HP/HT gas available in next two quarters, ii) more term contracts to be signed in Jan'26, iii) flexible HH take-or-pay contract of up to 60% and iv) price increases expected in next six months, albeit in small quantities.

Financial Summary

Y/E March (INR mn)	FY25A	FY26E	FY27E	FY28E
Net Revenue	71,764	81,907	90,877	1,00,961
EBITDA	15,067	14,348	16,253	17,970
EBITDA %	21.0	17.5	17.9	17.8
Net Profit	9,779	8,596	9,585	10,428
EPS (INR)	99.0	87.0	97.0	105.6
EPS % Chg YoY	(24.1)	(12.1)	11.5	8.8
P/E (x)	11.3	12.8	11.5	10.6
EV/EBITDA (x)	6.3	6.5	5.6	5.0
RoCE (Pre-tax) (%)	21.0	15.7	16.1	16.0
RoE (%)	17.7	14.0	14.2	14.1

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Market Data

Market Cap (INR)	110bn
Market Cap (USD)	1,225mn
Bloomberg Code	MAHGL IN
Reuters Code	MGAS BO
52-week Range (INR)	1,587 /1,092
Free Float (%)	57.0
ADTV-3M (mn) (USD)	3.7

Price Performance (%)	3m	6m	12m
Absolute	(13.3)	(20.0)	(13.4)
Relative to Sensex	(17.0)	(22.4)	(16.9)

ESG Score	2023	2024	Change
ESG score	**69.3**	**69.9**	**0.6**
Environment	45.0	52.6	7.6
Social	69.2	71.9	2.7
Governance	80.8	79.9	(0.9)

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

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY26E	FY27E	FY28E
Revenue	0.1	0.7	0.3
EBITDA	(2.6)	(1.1)	(2.4)
EPS	(3.2)	(1.4)	(3.0)

Previous Reports

31-10-2025: Q2FY26 results review
24-07-2025: Q1FY26 results review

Domestic PNG is relatively price inelastic, sticky segment

While domestic PNG is not the highest-margin segment, management commentary highlights that domestic PNG is a high-potential segment, capable of providing steady, annuity-like volume growth and improved customer stickiness vs. more cyclical industrial and commercial demand. The segment is typically a sticky one once converted and tends to be relatively price inelastic. To create a better customer experience and reduce friction in billing and collections, MGL is moving towards a more digital, self-service operating model. These initiatives are designed to enhance customer convenience, drive faster cash conversion, reduce manual intervention in meter reading and billing, and ultimately lower the cost structure of this segment and improve returns.

Infrastructure and capex

The company is working aggressively on rolling out CNG stations with plans to add 70-75 stations p.a. for FY26/27 with capex plan of INR 12bn (including INR 1.5-2bn for UEPL) each for FY26/27. There was a disruption in gas supply in MGL networks for 2-3 days due to damage in GAIL pipeline by a third party—a feeder pipeline for receiving gas at MGL's City Gate Station at Wadala. The overall volume impact was 80,000kg which translates into <0.1mmmscmd for the full quarter. To offset future disruptions, MGL is setting up an additional pipeline at Wadala with RLNG connectivity which could come online in Jan'26 and act as a redundancy against future disruptions.

APM allocation may continue to reduce

Post multiple rounds of cuts in APM gas in Oct–Nov'24 and again in Apr'25 (offset by a partial restoration in Jan'25), blended % of APM gas is now 35%, with some gas via New Well Pricing (NWP) taking overall domestic gas to 60–65%. However, with the trend in reducing production becoming clearer, we see those percentages continuing to decline and duly factor in a 5-10% annualised decline in our base case estimates.

We continue to be optimistic on volume growth

Despite the slightly elevated pricing scenario, we note that our volume growth estimates for the next couple of years remain optimistic, driven by: i) increasing penetration of CNG infrastructure, not just in operating areas of the listed companies, but also in contiguous areas around their GAs, ii) stronger growth from new areas of Raigad (+30%) and the GAs of UEPL (35-40%) to support the guidance of 9-10% growth for MGL group overall over FY26-30E and iii) higher running cost of inter-city transport improves the economics for CNG vs. alternate fuels.

Revision in EPS estimates; reiterate BUY

We have adjusted our estimates downwards to factor in the downgrades in margin assumptions by INR 0.1-0.2/scm, to take cognisance of higher INR depreciation, HH prices and impact of tariff revision for FY26-28E. We revise our FY26/27/28E EPS downwards by 3.2/1.4/3%, respectively. While the margin hit is material and our DCF methodology also factors in an EBITDA/scm assumption of INR 8.8/scm now, we remain optimistic on MGL's prospects over the next five years. This is led by clear long-term visibility on volumes, still peer-leading margins, RoE/RoCE of >14%, dividend yield of 3% and very attractive valuation of ~10.6x FY28E PER and EV/EBITDA of 5.0x which we believe may more than offset the margin woes and lower EPS growth trajectory vs. earlier. Our revised TP of INR 1,535 (prior INR 1,525) implies a 38% upside from CMP. Maintain **BUY.**

Downside risks: 1) Higher-than-expected spike in gas cost. 2) Inability to pass on gas cost increases. 3) Sharper fall in alternate fuel prices for CNG (petrol/diesel).

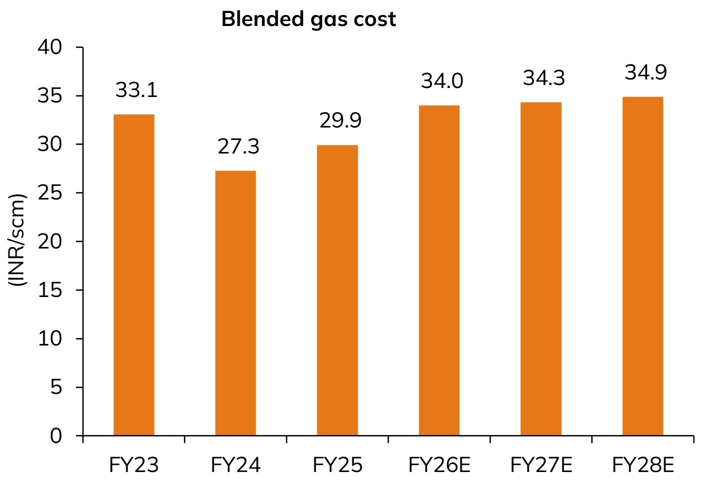
Upside risks: 1) Softer LNG prices. 2) Faster execution of new area development and delta from Unison. 3) Aggressive regulatory support in MMR region.

Exhibit 1: Q2FY26 result snapshot

INR mn	Q2FY26	Q2FY25	YoY (%)	Q1FY26**	QoQ %	H1FY26	H1FY25	YoY (%)
Sales	20,392	17,063	19.5	19,579	4.2	39,971	34,346	16.4
EBITDA	3,380	3,985	(15.2)	3,878	(12.9)	7,258	8,503	(14.6)
Adj. PAT	1,934	2,828	(31.6)	2,361	(18.1)	4,291	5,760	(25.5)
EPS (INR)	19.6	28.6	(31.6)	23.9	(18.1)	43.4	58.3	(25.5)
Depreciation	1,038	735	41.3	959	8.2	1,997	1,666	19.9
Sales (mmscm)	423	372	13.6	405	4.3	828	753	9.9
Sales (mmscmd)	4.6	4.0	13.6	4.5	3.1	4.5	4.1	9.9
CNG sales (mmscm)	299	265	12.8	290	3.3	589	546	7.9
PNG sales (mmscm)	123	106	15.8	115	6.7	239	207	15.1
Gross margin (INR/scm)	14.5	16.8	(13.7)	16.0	(9.1)	15.3	16.6	(8.1)
EBITDA margin (INR/scm)	8.0	10.7	(25.4)	9.6	(16.4)	8.8	11.3	(22.3)
EBITDA Margin (%)	16.6%	23.4%		19.8%		18.2%	24.8%	(26.7)
CNG sales (INR mn)	14,553	11,836	23.0	14,019	3.8	28,572	24,238	17.9
CNG realisations (INR/scm)	48.6	44.6	9.0	48.4	0.5	48.5	44.4	9.2
PNG sales (INR mn)	**5,839**	**5,227**	**11.7**	**5,561**	**5.0**	**11,400**	**10,108**	**12.8**
PNG realisations (INR/scm)	47.4	49.1	(3.5)	48.2	(1.6)	47.8	48.8	(2.0)
Gross margin (INR Mn)	6,145	6,262	(1.9)	6,482	(5.2)	12,627	13,038	(3.2)
Opex	6.8	6.3	8.2	6.7	1.5	6.7	6.3	7.7

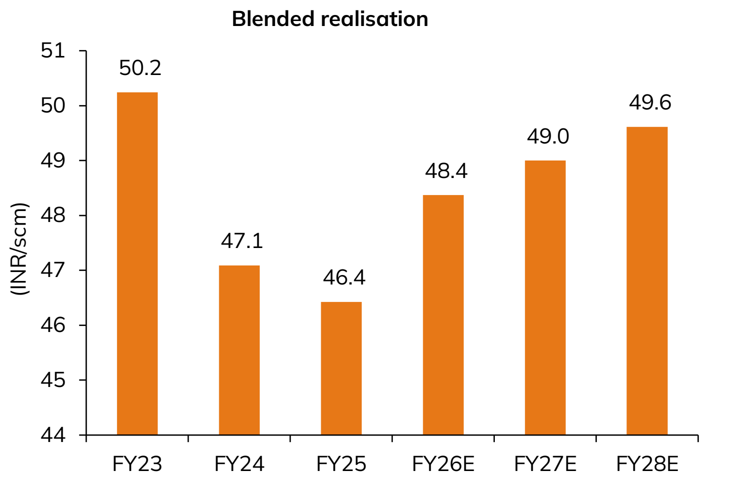
Source: I-Sec research, Company data, ** UEPL financials reinstated and hence not comparable on YoY basis

Exhibit 2: MGL's gas cost may increase gradually over FY26-28E



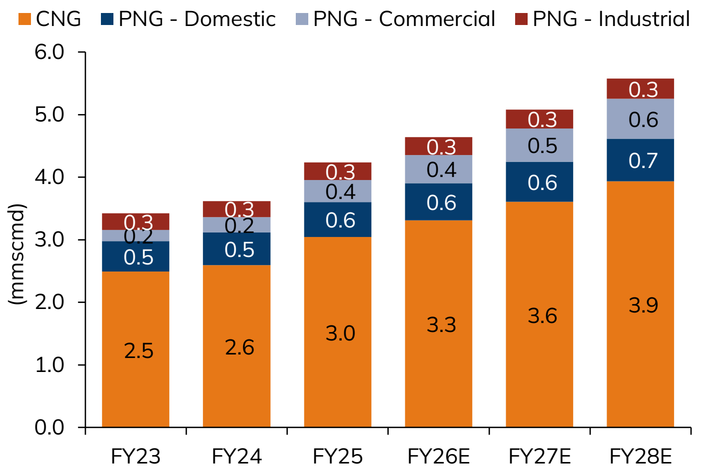
Source: Company data, I-Sec research

Exhibit 3: Blended realisation to keep pace



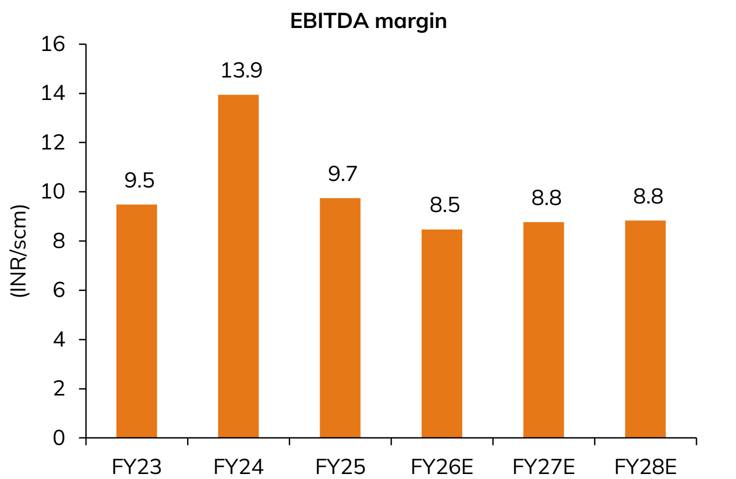
Source: Company data, I-Sec research

Exhibit 4: Volume growth may be subject to pricing balance



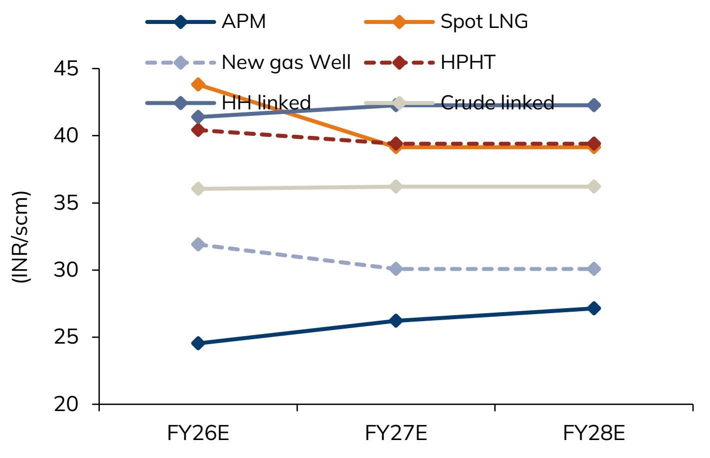
Source: Company data, I-Sec research

Exhibit 5: Margin to improve slightly over FY26-28E



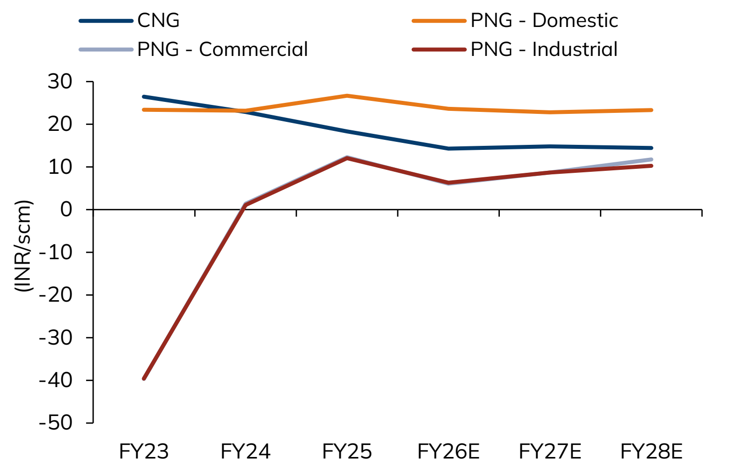
Source: Company data, I-Sec research

Exhibit 6: Sourcing gas costs over FY26-28E



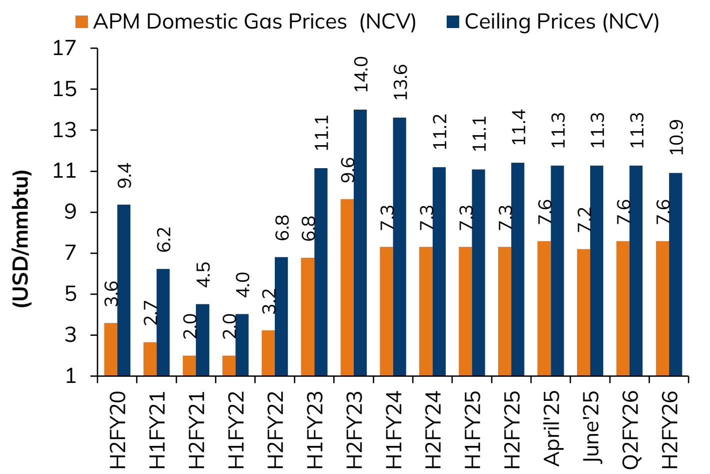
Source: Company data, I-Sec research

Exhibit 7: Segment-wise margin trend



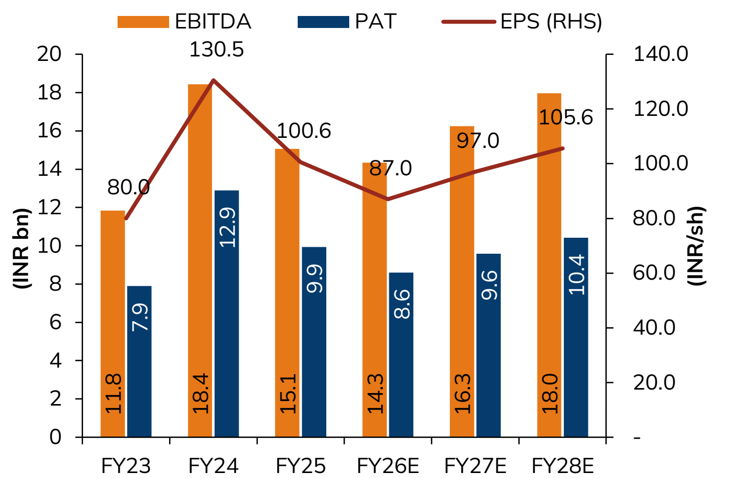
Source: Company data, I-Sec research

Exhibit 8: APM and HPHT gas price trends on NCV basis



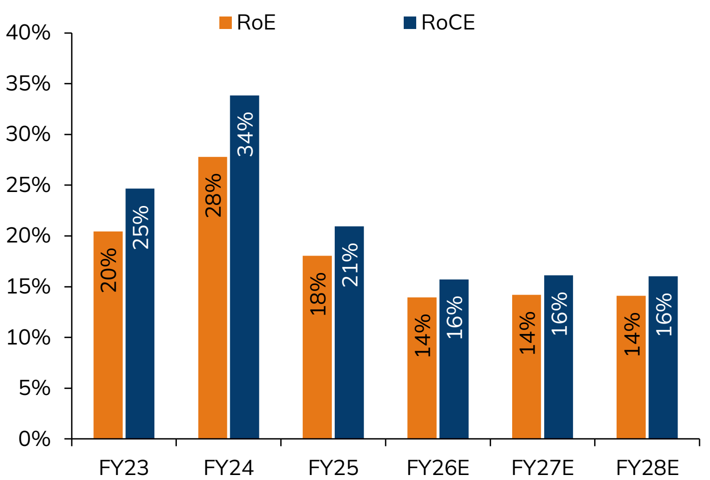
Source: Company data, I-Sec research

Exhibit 9: EBITDA/ EPS CAGR at 11.9/10.1% over FY26-28E



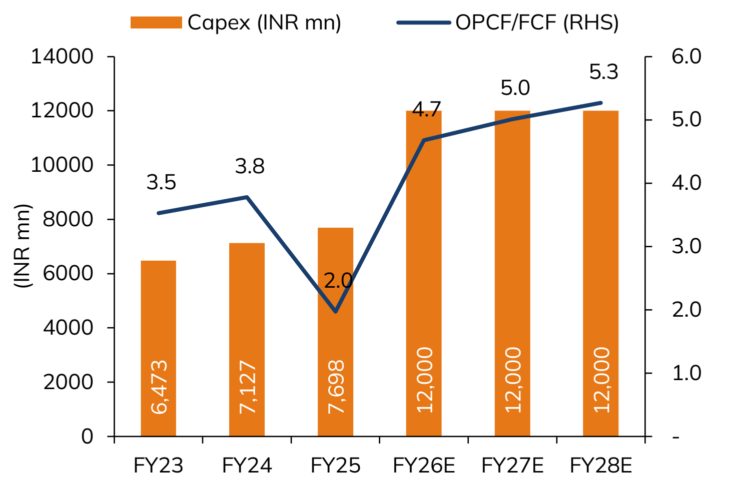
Source: Company data, I-Sec research

Exhibit 10: Return ratios to moderate over FY26-28E



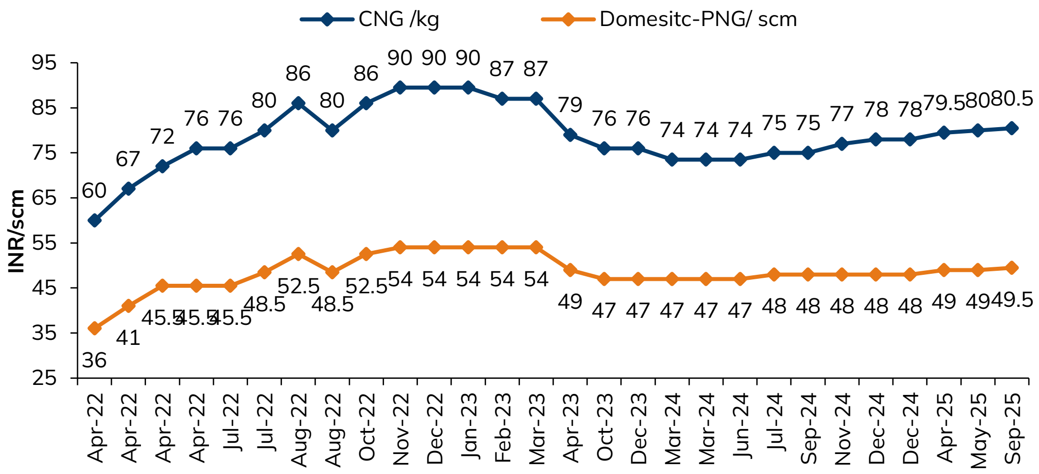
Source: Company data, I-Sec research

Exhibit 11: Capex of INR 36bn estimated over FY26-28E



Source: Company data, I-Sec research

Exhibit 12: MGL's price trends for CNG and domestic PNG



Source: Company data, I-Sec research

Valuation: TP of INR 1,535 implies ~38% upside from CMP

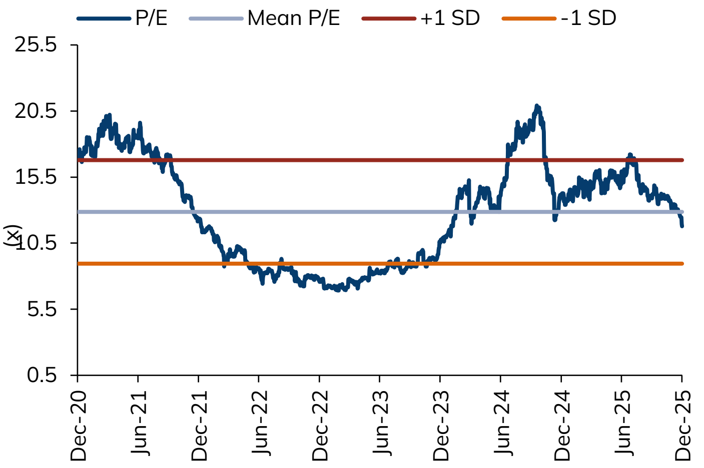
We value MGL on DCF methodology, using a WACC of 10.9%, DER of 35%, long-term EBITDA assumption of INR 8.8/scm and terminal growth rate of 3.4%. In the long term, we build in muted volume growth beyond FY30E as well as flattish margins, given our caution around longer-term growth expectations. Our DCF value delivers a target price of INR 1,535 (vs. INR 1,525 previously), ~38% upside from CMP. The stock trades at a steep discount to peers, despite materially improved prospects in next 2-3 years, underpinning our positive stance. Maintain **BUY**.

Exhibit 13: Valuation summary

	Assumption
Cost of Equity	13.0%
Cost of Debt	7.3%
Post tax cost of debt	4.8%
Average D/E ratio	35.0%
WACC	10.9%
Terminal Growth rate	3.4%
Total NPV potential (INR mn)	1,51,672
TP (INR.sh)	1,535
CMP (INR.sh)	1,115
Upside/(downside)	38%

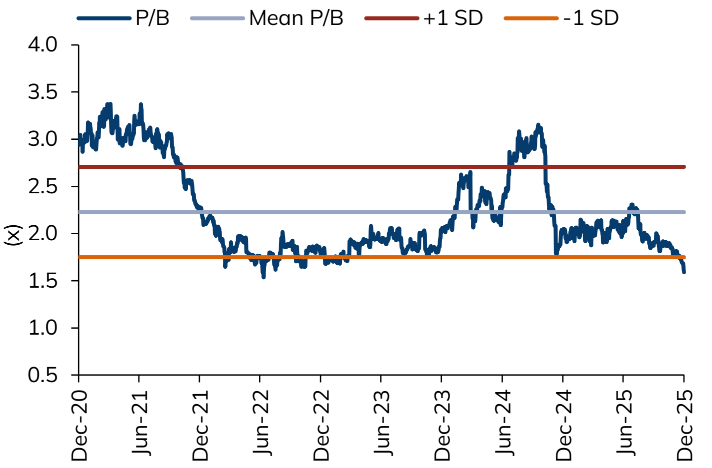
Source: Company data, I-Sec research

Exhibit 14: MGL's P/E trading near 5-year band



Source: Company data, I-Sec research

Exhibit 15: MGL's P/B trading below 5-year band



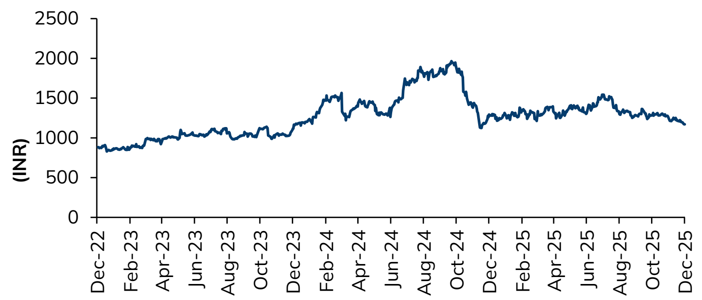
Source: Company data, I-Sec research

Exhibit 16: Shareholding pattern

%	Mar'25	Jun'25	Sep'25
Promoters	32.5	32.5	32.5
Institutional investors	47.6	48.0	46.5
MFs and other	13.3	10.9	11.2
FIs/ Banks	0.3	0.5	0.9
Insurance Cos.	10.3	11.2	10.8
FIIs	23.8	25.5	23.6
Others	19.9	19.5	21.0

Source: Bloomberg, I-Sec research

Exhibit 17: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 18: Profit & Loss

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Net Sales	**71,764**	**81,907**	**90,877**	**1,00,961**
EBITDA	**15,067**	**14,348**	**16,253**	**17,970**
EBITDA Margin (%)	21.0	17.5	17.9	17.8
Depreciation & Amortization	3,517	4,663	5,383	6,103
EBIT	11,550	9,685	10,870	11,867
Interest expenditure	138	50	50	50
Other Non-operating Income	1,660	1,856	1,993	2,123
PBT	**13,073**	**11,491**	**12,813**	**13,940**
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	3,294	2,895	3,228	3,512
PAT	9,779	8,596	9,585	10,428
Less: Minority Interest	-	-	-	-
Net Income (Reported)	**9,779**	**8,596**	**9,585**	**10,428**
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	**9,779**	**8,596**	**9,585**	**10,428**

Source Company data, I-Sec research

Exhibit 19: Balance sheet

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Total Current Assets	8,749	8,499	9,112	9,297
of which cash & bank	3,328	4,211	4,495	4,303
Total Current Liabilities & Provisions	18,745	21,422	23,717	24,446
Net Current Assets	**(9,996)**	**(12,923)**	**(14,605)**	**(15,149)**
Other Non Current Assets	3,254	3,254	3,254	3,254
Net Fixed Assets	48,442	55,779	62,395	68,292
Other Fixed Assets	-	-	-	-
Capital Work in Progress	10,621	10,621	10,621	10,621
Non Investment	-	-	-	-
Current Investment	11,779	12,957	14,252	15,678
Deferred Tax Assets	-	-	-	-
Total Assets	**64,100**	**69,687**	**75,917**	**82,695**
Liabilities				
Borrowings	**-**	**-**	**-**	**-**
Deferred Tax Liability	**3,111**	**3,111**	**3,111**	**3,111**
Lease Liability	-	-	-	-
Other Liabilities	2,205	2,205	2,205	2,205
Equity Share Capital	988	988	988	988
Reserves & Surplus*	57,797	63,384	69,614	76,392
Total Net Worth	**58,785**	**64,372**	**70,602**	**77,380**
Minority Interest	-	-	-	-
Total Liabilities	**64,100**	**69,687**	**75,917**	**82,695**

Source Company data, I-Sec research

Exhibit 20: Quarterly trend

(INR mn, year ending March)

	Dec-24	Mar-25	Jun-25	Sep-25
Net Sales	17,522	17,961	19,579	20,392
% growth (YOY)	2.7%	2.5%	9.0%	4.2%
EBITDA	3,144	3,150	3,878	3,380
Margin %	17.9%	17.5%	19.8%	16.6%
Other Income	463	464	319	289
Extraordinaries		634	1129	0
Adjusted Net Profit	2,254	2,051	2,361	1,934

Source Company data, I-Sec research

Exhibit 21: Cashflow statement

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Cash Flow from operation before working Capital	**15,541**	**14,348**	**16,253**	**17,970**
Working Capital Changes	830	3,810	1,966	352
Tax	(2,687)	(2,895)	(3,228)	(3,512)
Operating Cashflow	**13,685**	**15,263**	**14,991**	**14,810**
Capital Commitments	(10,686)	(12,000)	(12,000)	(12,000)
Free Cashflow	**2,999**	**3,263**	**2,991**	**2,810**
Others CFI	(474)	679	697	697
Cashflow from Investing Activities	**(11,160)**	**(11,321)**	**(11,303)**	**(11,303)**
Inc (Dec) in Borrowings	-	-	-	-
Interest Cost	-	(50)	(50)	(50)
Others	(3,359)	(3,009)	(3,355)	(3,650)
Cash flow from Financing Activities	**(3,359)**	**(3,059)**	**(3,405)**	**(3,700)**
Chg. in Cash & Bank balance	**(834)**	**883**	**284**	**(192)**
Closing cash & balance	3,328	4,211	4,495	4,303

Source Company data, I-Sec research

Exhibit 22: Key ratios

(Year ending March)

	FY25A	FY26E	FY27E	FY28E
Per Share Data (INR)				
Recurring EPS	99.0	87.0	97.0	105.6
Diluted EPS	99.0	87.0	97.0	105.6
Recurring Cash EPS	134.6	134.2	151.5	167.4
Dividend per share (DPS)	30.0	30.5	34.0	36.9
Book Value per share (BV)	595.1	651.7	714.7	783.4
Dividend Payout (%)	30.3	35.0	35.0	35.0
Growth (%)				
Net Sales	15.4	14.1	11.0	11.1
EBITDA	(18.2)	(4.8)	13.3	10.6
EPS	(24.1)	(12.1)	11.5	8.8
Valuation Ratios (x)				
P/E	11.3	12.8	11.5	10.6
P/CEPS	8.3	8.3	7.4	6.7
P/BV	1.9	1.7	1.6	1.4
EV / EBITDA	6.3	6.5	5.6	5.0
EV / Operating Income	7.2	8.1	7.1	6.4
Dividend Yield (%)	2.7	2.7	3.0	3.3
Operating Ratios				
EBITDA Margins (%)	21.0	17.5	17.9	17.8
Effective Tax Rate (%)	25.2	25.2	25.2	25.2
Net Profit Margins (%)	13.6	10.5	10.5	10.3
NWC / Total Assets (%)	(15.6)	(18.5)	(19.2)	(18.3)
Fixed Asset Turnover (x)	1.2	1.1	1.1	1.1
Working Capital Days	(0.7)	(10.0)	(17.5)	(21.7)
Net Debt / Equity %	(25.7)	(26.7)	(26.6)	(25.8)
Profitability Ratios				
RoCE (%)	15.7	11.8	12.0	12.0
RoCE (Pre-tax) (%)	21.0	15.7	16.1	16.0
RoE (%)	17.7	14.0	14.2	14.1

Source Company data, I-Sec research

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

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