RESULT REVIEW

BUY

TP: Rs 1,030 | ⮝ 21%

MAHANAGAR GAS | Oil & Gas | 05 February 2023

Growth set to accelerate in medium term; maintain BUY

- **Q3 marginally ahead; priority HP-HT allocation to bridge APM gas shortfall and cap on APM gas price to improve competitiveness**
- **Management indicated potential 10%/20% volume CAGR in GA2/GA3 over the next couple of years**
- **Commentary confirms our thesis of accelerated growth over FY24-FY25; maintain BUY with TP of Rs 1,030 (unchanged)**

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Q3 marginally ahead: Q3 EBITDA was 3% ahead of consensus with a Rs 0.3/scm QoQ increase to Rs 8.2/scm, offsetting a 1% decline in volumes.

Margin set to normalise: On 13 January, the government took the first step to bridge the shortfall of APM gas for the priority sector by according the sector precedence in allocation at HP-HT gas auctions when bid at ceiling price. As a result, MAHGL has substituted its entire spot LNG with HP-HT gas from the gas exchange in February and passed on the reduction of Rs 2.5/scm to CNG consumers. The next auction by RIL will indicate whether CGD companies can bid at ceiling price to get priority allocation.

Confirms our thesis of medium-term growth bump-up: In our **18 January note**, we highlighted that MAHGL can accelerate growth from a 3% CAGR over FY17-FY22 to 7% over FY24-FY25 given the ramp-up of network development in GA2 and GA3. On the earnings call, management confirmed that the company can expand volumes at a 10% CAGR in GA2 and 20% CAGR in GA3 vs. 5-6% growth in GA1 over the next couple of years. GA2 is material and accounts for 44% of the current mix and could help propel overall growth for MAHGL to 8% over the next couple of years.

Growth triggers: Accelerated capex starting from FY22 has improved the run-rate of CNG station additions and domestic consumer additions, particularly in GA2 and GA3. Completion of the city gas station in GA3 will provide a further boost from new industrial customers and conversion of CNG stations to online mode.

Retain BUY: We have conservatively accounted for 7% volume growth and stabilisation of margin to Rs 9/scm, translating into 11.5% EBITDA growth over FY24-FY25. Our DCF-based TP of Rs 1,030 assumes cost of equity of 11%, volume CAGR of ~5% over FY23-FY33 (we are more conservative than MAHGL), average EBITDA margin of Rs 8.4/scm, and terminal growth of 2.5%. Our TP implies an FY24E P/E of 12.7x, marginally above the mean 1Y forward multiple of 12.4x on an improving medium-term outlook. MAHGL's discount to peers is largely attributable to slower volume growth, but the medium-term outlook is now improving.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	MAHGL IN/Rs 850
Market cap	US$ 1.0bn
Free float	58%
3M ADV	US$ 3.8mn
52wk high/low	Rs 925/Rs 666
Promoter/FPI/DII	43%/30%/16%

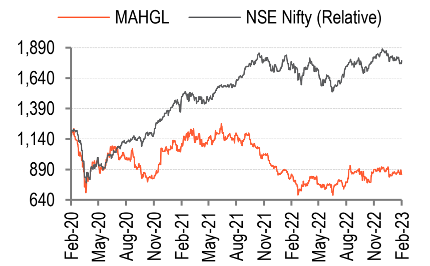
Source: NSE | Price as of 3 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	35,602	64,697	62,188
EBITDA (Rs mn)	9,243	10,853	12,597
Adj. net profit (Rs mn)	5,970	6,954	7,995
Adj. EPS (Rs)	60.4	70.4	80.9
Consensus EPS (Rs)	60.4	70.6	83.7
Adj. ROAE (%)	17.5	18.4	19.2
Adj. P/E (x)	14.1	12.1	10.5
EV/EBITDA (x)	8.7	7.4	6.4
Adj. EPS growth (%)	(3.7)	16.5	15.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Q3FY23 review

EBITDA marginally above consensus

Q3FY23 revenue/EBITDA/net income at Rs 16.7bn/Rs 2.6bn/Rs 1.7bn was -3%/+3%/ +8% relative to consensus.

- **Maintained margin…:** MAHGL was able to maintain its EBITDA margin with a marginal Rs 0.3/scm QoQ improvement to Rs 8.2/scm.
- **…with a sharp price hike:** The increase in margin was the result of a sharp 8% QoQ increase in average realisation driven by a 13% hike in domestic PNG price and 11% increase in CNG price, passing on the entire increase in gas purchase cost.
- **Passed on costs:** MAHGL's cost was up 9.6% QoQ due to a 40% increase in APM gas price which was partially offset by lower spot LNG prices. The company faced a 10% shortfall in availability of APM gas for priority sector requirements and purchased spot gas ranging from 0.27-0.35mmscmd on a daily basis.
- **Volumes declined:** Volumes declined marginally by 1.3% QoQ in Q3 driven by a 2.6% decline in CNG and a 1.8% decline in industrial and commercial volumes, partially offset by a 5.9% increase in domestic volumes.
- **EBITDA flattish:** EBITDA increased 1.3% QoQ as the 1.4% decline in volumes was offset by a 2.7% increase in EBITDA/scm.
- **Dividend:** MAHGL increased interim dividend to Rs 10/sh from Rs 9.5 a year ago.
- **Uran-Trombay gas pipeline:** On the legacy Uran-Trombay Gas pipeline transportation tariff dispute for the period 2014-21 and for the disputed amount of Rs 3.3bn, the Delhi High Court has stayed the PNGRB order of Sep'22 asking MAHGL to pay transportation tariff and instead asked the company to submit a deposit of Rs 0.5bn with GAIL. The next hearing is scheduled for 16 May 2023.

Fig 1 – Quarterly performance: Q3: EBITDA marginally ahead of consensus

(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
Net sales	16,714	10,278	62.6	15,627	7.0	46,888	24,734	89.6
% of sales	74.2	74.4	-	73.4	-	72.3	54.1	-
Other expenditure	1,746	1,595	9.5	1,623	7.6	5,022	4,265	17.8
% of sales	10.4	15.5	-	10.4	-	10.7	17.2	-
EBITDA	**2,561**	**1,031**	**148.4**	**2,528**	**1.3**	**7,945**	**7,089**	**12.1**
EBITDA (Rs/scm)	**8.2**	**3.4**	**140.5**	**7.9**	**2.7**	**8.4**	**8.8**	**(4.1)**
EBITDA margin (%)	15.3	10.0	-	16.2	-	16.9	28.7	-
Depn and amortization	585	482	21.4	551	6.2	1,673	1,408	18.9
Interest	24	15	57.1	25	(2.0)	72	53	36.5
Other income	323	218	47.7	260	24.1	782	630	24.1
Profit Before Tax	**2,274**	**752**	**202.5**	**2,213**	**2.8**	**6,982**	**6,259**	**11.6**
Provision for tax	553	184	200.9	573	(3.4)	1,770	1,607	10.1
-effective tax rate (%)	24.3	24.5	-	25.9	-	25.3	25.7	-
PAT (reported)	**1,721**	**568**	**203.0**	**1,640**	**4.9**	**5,212**	**4,652**	**12.1**
Reported EPS (Rs)	17.4	5.7	203.0	16.6	4.9	52.8	47.1	12.1

Source: Company, BOBCAPS Research

Fig 2 – Volumes: Marginal QoQ decline

(mmscm)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
CNG	**228**	**220**	**3.5**	**234**	**(2.6)**	**693**	**567**	**22.2**
PNG	**86**	**84**	**2.8**	**84**	**2.2**	**253**	**243**	**4.3**
Industrial/Commercial	40	40	0.1	41	(1.8)	121	115	5.3
Domestic	46	44	5.4	43	5.9	132	128	3.4
Total volume (mmscm)	**314**	**304**	**3.3**	**318**	**(1.4)**	**946**	**810**	**16.8**
Total volume (mmscmd)	**3.41**	**3.30**	**3.3**	**3.46**	**(1.4)**	**3.44**	**2.94**	**16.8**

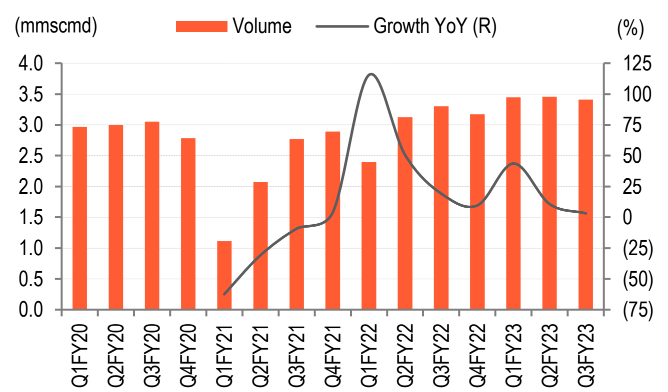
Source: Company, BOBCAPS Research

Fig 3 – Margins: Marginal uptick to Rs 8.2/scm but still below the average of Rs 9/scm over FY18-FY22

(Rs/scm)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
CNG realisation (Rs/kg)	71.9	41.6	73.0	64.9	10.8	65.1	37.8	72.0
PNG realisation	56.1	42.8	31.0	54.8	2.3	56.0	37.2	50.4
Average realisation	**53.2**	**33.8**	**57.4**	**49.1**	**8.4**	**49.6**	**30.6**	**62.3**
Gas purchase cost	39.5	25.2	57.0	36.1	9.6	35.9	16.5	117.0
Gross Spread	**13.7**	**8.6**	**58.8**	**13.0**	**5.2**	**13.7**	**14.0**	**(2.2)**
Other operating costs	5.6	5.2	6.0	5.1	9.1	5.3	5.3	0.8
EBITDA	**8.2**	**3.4**	**140.5**	**7.9**	**2.7**	**8.4**	**8.8**	**(4.1)**

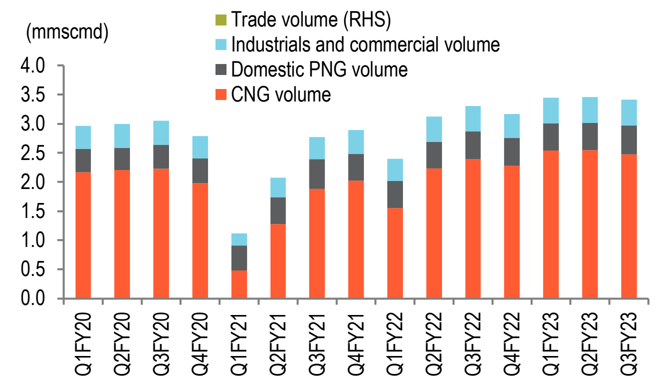
Source: Company, BOBCAPS Research

Fig 4 – Volume growth muted in Q3



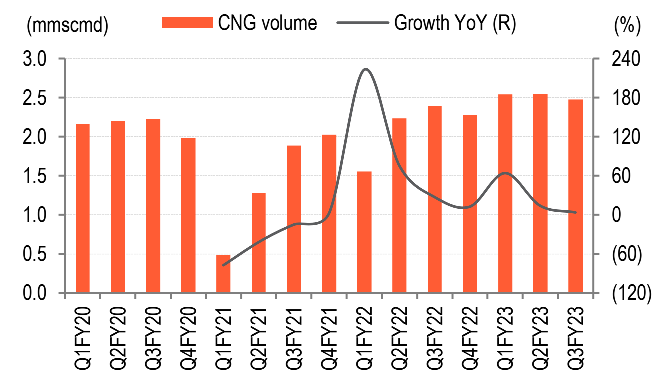
Source: Company, BOBCAPS Research

Fig 5 – Volume mix trends largely unchanged



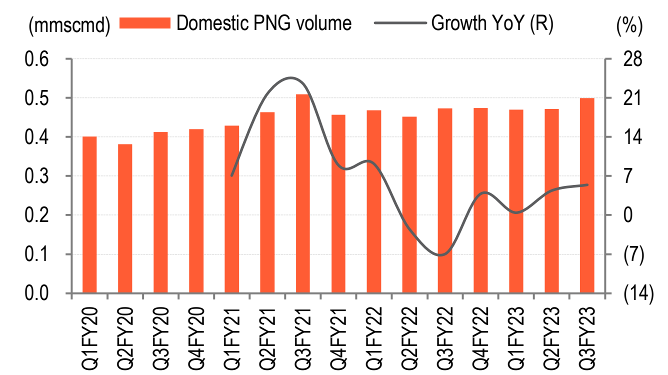
Source: Company, BOBCAPS Research

Fig 6 – CNG volume declined QoQ despite continued addition of vehicles



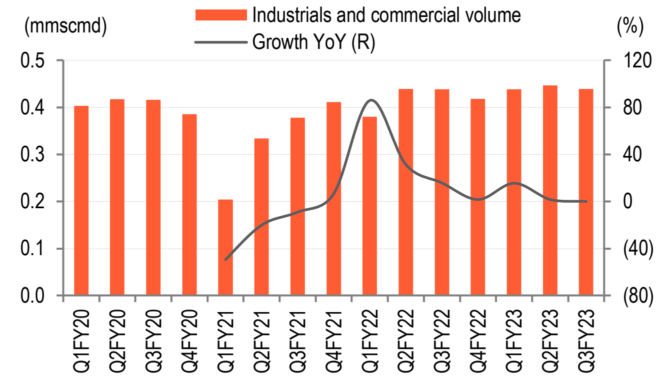
Source: Company, BOBCAPS Research

Fig 7 – Domestic PNG growth recovery continued



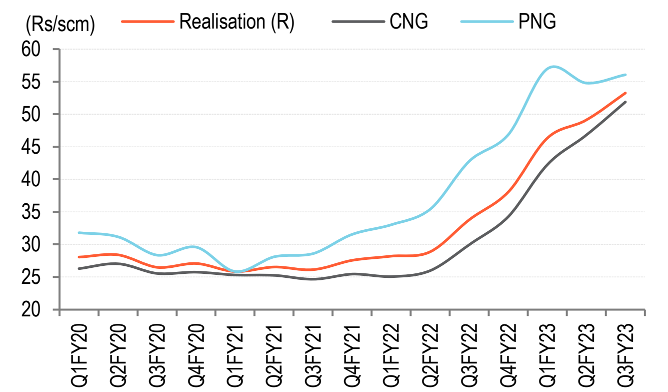
Source: Company, BOBCAPS Research

Fig 8 – Industrial and commercial volumes declined QoQ due to impact of higher gas prices



Source: Company, BOBCAPS Research

Fig 9 – MAHGL has passed on significant proportion of gas purchase cost to customers



Source: Company, BOBCAPS Research

Margins could stabilise with priority in HP-HT allocation

A notification issued by the Ministry of Petroleum and Natural Gas on 13 Jan 2023 has accorded the highest priority to the CGD sector for allocation of gas produced from deepwater, ultra-deepwater and high pressure-high temperature areas in any situation which may require proportionate distribution of gas offered under the bidding process.

Subsequently, in the first auction conducted on the gas exchange, CGD bidders were prioritised for domestic gas from challenging fields at the ceiling price and MAHGL was able to secure 0.25-0.27mmscmd from the exchange in February to bridge the shortfall in allocation of APM gas for the priority sector. CGDs received priority in allocation as it has become customary for all bidders to bid at the ceiling price under such auctions. The company passed on the benefit of this reduction to CNG consumers via a Rs 2.5/kg decrease in price to Rs 86/kg.

While the current differential between spot LNG (US$ 15-16/MMbtu) and ceiling gas price (US$ 12.4/MMtbu) is relatively low, this mechanism has the potential to bridge the entire future shortfall in APM gas and help CGD players avoid exposure to volatile spot LNG as RIL and ONGC are likely to add 20mmscmd of gas supply over medium-term from challenging fields.

Though the proposed mechanism appears to impinge on the marketing freedom of upstream players, it is triggered only in situations when proportionate allocation is required and does not interfere with the price-discovery process. We should have clear confirmation of this as and when RIL conducts auctions for 8-10mmscmd of new gas coming from the MJ fields. The key to watch would be whether it continues with the ceiling price format as in previous auctions.

Key growth drivers

Medium-term growth triggers

Confirming our hypothesis, MAHGL indicated that it is on track to deliver accelerated growth over the medium term, especially in GA2 and GA3, backed by speedy infrastructure buildout initiated from FY22. On the earnings call, management confirmed that the company can expand volumes at a 10%/20% CAGR in GA2/GA3 vs. a 5-6% CAGR in GA1 over the next couple of years. GA2 is material and accounts for 44% of the current sales mix and could help propel overall growth for MAHGL to 8% by FY25.

Fig 10 – GA2 and GA3 set to accelerate MAHGL's growth profile

Geographical area (GA)	Volume (mmscmd)	Mix (%)	Medium-term CAGR (%)
GA 1- Mumbai	1.80-1.85	52	5-6
GA2- Thane Urban and Navi Mumbai	1.50-1.55	44	10
GA3- Raigarh	0.1-0.2	4	20
Total	**3.5**	**100**	**8**

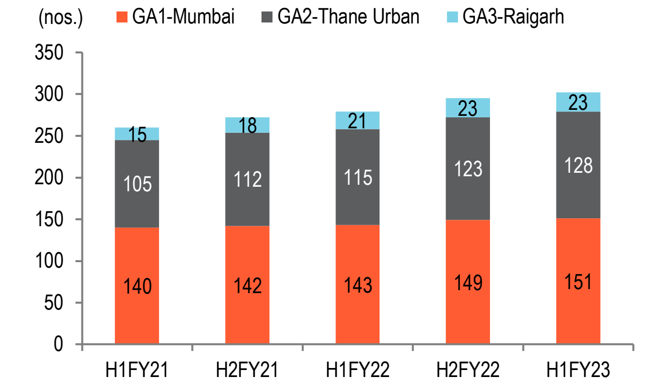
Source: Company, BOBCAPS Research

Accelerated capex starting from FY22 has improved MAHGL's run-rate of CNG station additions, particularly in GA2 and GA3. Completion of the city gas station in GA3 will provide a further boost from new industrial customers and along with conversion of the existing 24 CNG stations to online mode, thereby doubling their sales,

We highlight our key findings on expedited infrastructure development, as outlined in our last note –

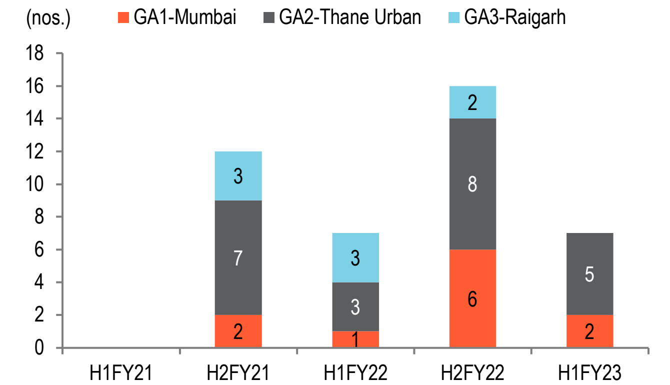
- MAHGL has added 42 new CNG stations at an 8% CAGR over Oct'20 to Sep'22 – a bulk of these are in newer markets, with GA2 accounting for more than 50% and GA3 more than 25%. Together these areas now house 50% of the company's stations. This expansion is translating into significantly higher additions of CNG vehicles in GA2 and GA3, at twice the rate of GA1 which is facing space constraints in adding stations.
- New markets have helped the company expand its domestic household customer base by 16% over the past two years as against the legacy growth rate of 9% in GA1. We note that GA2 and GA3 now account for 46% of total connections.

Fig 11 – CNG station development has accelerated over past two years…



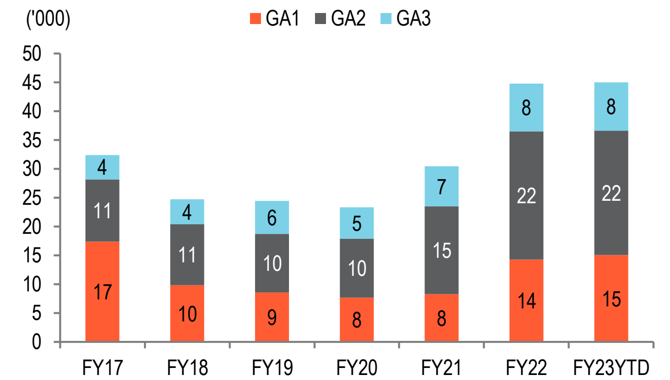
Source: PPAC, BOBCAPS Research

Fig 12 – …with GA2 and GA3 accounting for a bulk of the additions…



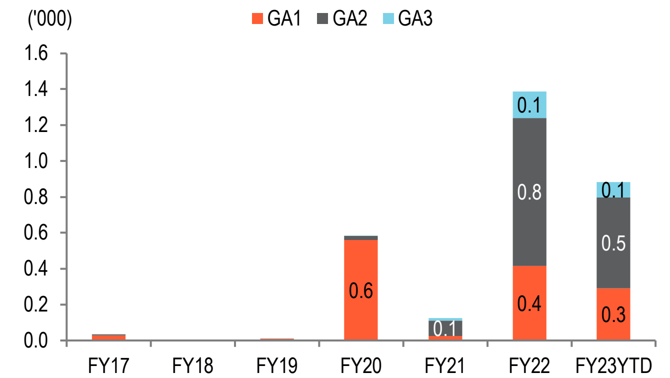
Source: PPAC, BOBCAPS Research | Note: H1FY21 data not available

Fig 13 – …enabling GA2 and GA3 to add twice as many light-CNG vehicles as GA1



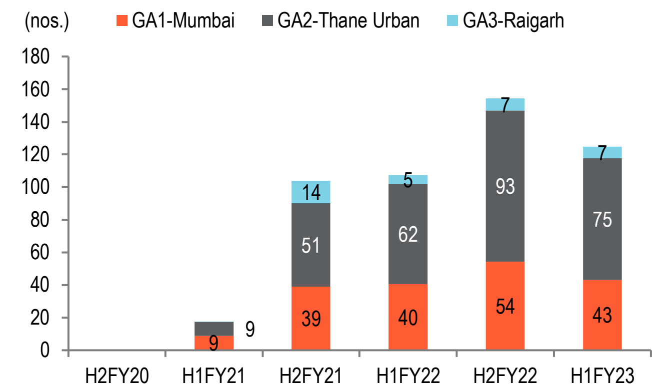
Source: Vahan, BOBCAPS Research | Note: Data shows registrations of CNG + Petrol/CNG vehicles

Fig 14 – GA2 has also been a key driver for medium and heavy vehicle registrations



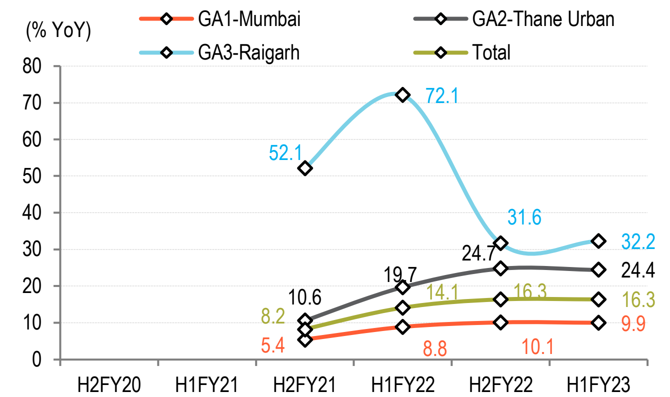
Source: Vahan, BOBCAPS Research | Note: Data shows registrations of CNG + Petrol/CNG vehicles

Fig 15 – Domestic connections also accelerating in GA2…



Source: PPAC, BOBCAPS Research

Fig 16 – …at 24% YoY in GA2 in H1FY23 vs. 16% overall for MAHGL



Source: PPAC, BOBCAPS Research

Near-term growth triggers

- MSRTC has placed an order for 800 long-haul CNG buses, of which 500-600 will fall in MAHGL's GAs and would materialise over the next 1-2 years.
- Within the light vehicle category, while personal cars in the CNG/petrol-CNG segment lead sale volumes, buyer interest in light commercial vehicles (both goods and passenger) is showing clear signs of pickup, which should support faster CNG growth.
- Growth in GA3 could also accelerate with commercial operations of the city gas station (scheduled for Q4FY23), as the company will be able to connect industrial consumers in the region and increase sales from existing CNG stations. MAHGL currently has an ecosystem of 24 CNG stations delivering volumes of 80-100k kg. With the city gas station, the company will be able to gradually convert its existing CNG ecosystem of 24 stations into an online station, which could improve volume delivery by 1.5-2.0x, allowing for fuel supply to a greater number of vehicles.

Other drivers

- **Acceleration in capex:** MAHGL has been able to maintain an accelerated capex rate in FY23, having spent Rs 4.65bn in 9M and aiming to deliver at last year's run-rate of Rs 6.5bn, a sharp jump from the Rs 3bn-4bn seen over the past three years. Further, the company plans to push spends up to Rs 6bn-8bn in FY24 with the caveat of receiving permissions for implementation.
- **Q3 infrastructure addition:** Added 82.3km of pipeline, taking the total to 6,407lm, and 5 CNG stations for a total of 301
- **Q3 PNG consumer additions:** Added 87,845 domestic connections for a total of 2.08mn, with 82 new industrial and commercial consumers for a total of 4,465
- **Q3 CNG vehicle additions:** Added a total of 16,900 which comprises 1,700+ LCVs, 12,200 taxis/cars, 2,900 three-wheelers and 33 trucks
- **Raigarh development:** Network has grown to 63,609 customers, 24 CNG stations and 373km of pipeline

Expect 7% volume CAGR

To highlight the potential growth that MAHGL can deliver, we compare its performance over the past five years (FY17-FY22) and our explicit forecasts for FY23-FY25 with those of IGL, which has a similar CNG and PNG mix.

We believe MAHGL could deliver a 7% volume CAGR (vs. the potential of 8% indicated) over FY24-FY25, accelerating from a 3% CAGR reported over FY17-FY22. As we have highlighted, acceleration is likely to be driven by 10% growth in GA2 and 20% in GA3 over the next couple of years.

Fig 17 – MAHGL could improve operations in the medium term

Particulars	MAHGL	IGL	MAHGL			IGL		
	FY17-22	FY17-22	FY22-25E	FY23E	FY23E-25E	FY22-25E	FY23E	FY23E-25E
Volume growth (CAGR %)	**3.1**	**8.8**	**11.1**	**19.8**	**7.0**	**11.3**	**16.8**	**8.6**
CNG	2.2	7.8	12.6	25.7	6.5	12.2	21.4	7.8
D-PNG	8.6	13.9	5.7	2.8	7.2	11.4	5.6	14.4
I+C	3.0	15.4	9.4	8.9	9.7	9.0	3.2	12.1
EBITDA/scm (Rs/scm average)	**9.2**	**6.6**	**8.7**	**8.3**	**9.0**	**7.2**	**6.9**	**7.4**
Revenue growth (CAGR %)	11.7	15.1	24.6	82.4	3.0	27.7	77.4	8.3
EBITDA growth (CAGR %)	**7.5**	**14.3**	**13.4**	**17.4**	**11.5**	**11.4**	**9.6**	**12.4**
Net income growth (CAGR %)	8.7	19.9	12.2	16.5	10.1	9.4	7.8	10.3

Source: Company, BOBCAPS Research

While we believe MAHGL could improve growth delivery in the medium term, we remain cautious over long-term prospects and hence use conservative growth assumptions of a 5% CAGR over FY23-FY33 vs. MAHGL's ambitions of a 6% CAGR. We believe higher growth is contingent on resolving space constraints for gas stations in Mumbai which is hindering CNG growth.

The company is attempting multiple initiatives such as compact dispensing units that have a smaller footprint, off-peak price discounts on CNG, and long-haul buses/trucks with type-4 cylinders to enable usage of the fuel. However, we await concrete results before building in higher growth over the longer term.

Valuation methodology

We expect MAHGL's EBITDA to grow from Rs 9.2bn in FY22 to Rs 13.5bn in FY25, a 13.4% CAGR, driven by an 11.1% CAGR in volumes over this period to 4.1mmscmd and modest margin recovery. Post recovery in FY23, we expect the company to deliver 7% volume growth and 11.5% EBITDA growth over FY24-FY25. Our EBITDA forecasts are broadly in line with consensus.

Margin assumptions

We model for EBITDA margin in the region of ~Rs 9/scm over FY24-FY25, in line with the average seen over FY17-FY22.

- While allocation of HP-HT gas for priority sector could substitute high-cost spot LNG and result in reduction of gas purchase cost, we believe the same will be passed on to consumers to improve competitiveness vs. liquid fuels.
- We assume that the government implements the Parekh Committee recommendations wherein APM gas price is set at US$ 6.5/MMbtu in FY24 and increases by US$ 0.5/MMbtu in FY25.
- While spot LNG prices have eased with a warmer winter and muted LNG demand from China, we expect the spot market to remain tight till FY25 until the next wave of LNG terminals comes through.
- We expect availability of APM gas for the priority sector to range from 85-90% over FY23-FY25.

Growth assumptions

- CNG has been the key driver of growth for IGL. With APM gas price expected to reduce and availability of HP-HT output for meeting the shortfall in APM gas for the priority sector, CNG competitiveness will improve against petrol and diesel. We expect CNG penetration in cars and commercial vehicles to continue and to coexist with EVs over the next 5-10 years.
- Commercial/domestic PNG growth is projected to continue in high single digits driven by deepening penetration in GA1 (Mumbai) and further expansion in GA2 (Thane Urban).
- Industrial PNG growth would be primarily driven by network expansion in Raigarh (GA3).

Fig 18 – Earnings forecasts

(Rs bn)	Actuals	Forecasts			Consensus			Delta to Consensus (%)		
	FY22	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	35,312	64,407	61,898	68,332	59,256	58,631	58,728	8.7	5.6	16.4
EBITDA	9,243	10,853	12,597	13,495	10,790	12,589	13,750	0.6	0.1	(1.9)
EBITDA growth YoY (%)	(1.0)	17.4	16.1	7.1	16.7	16.7	9.2	-	-	-
Net income	5,970	6,954	7,995	8,433	6,923	8,115	8,840	0.4	(1.5)	(4.6)

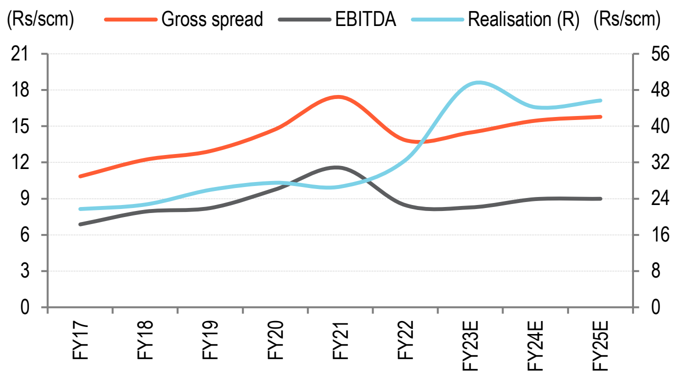
Source: Bloomberg, BOBCAPS Research

Fig 19 – Key business drivers and assumptions

	FY22	FY23E	FY24E	FY25E	FY22-25E CAGR (%)
Volumes (mmscmd)					
CNG	2.1	2.7	2.8	3.0	-
D-PNG	0.5	0.5	0.5	0.6	-
I+C	0.42	0.46	0.50	0.55	-
Total	**3.0**	**3.6**	**3.8**	**4.1**	**-**
Volume growth (%)					
CNG	49.4	25.7	6.5	6.5	12.6
D-PNG	0.4	2.8	7.1	7.2	5.7
I+C	26.2	8.9	8.7	10.8	9.4
Total	**35.6**	**19.8**	**6.9**	**7.2**	**11.1**
Volume mix (%)					
CNG	70.5	74.0	73.7	73.3	-
D-PNG	15.6	13.3	13.4	13.4	-
I+C	14.0	12.7	12.9	13.3	-
Natural gas	100.0	100.0	100.0	100.0	-
Total	**70.5**	**74.0**	**73.7**	**73.3**	**-**
Profitability indicator (Rs/scm)					
Revenue	32.5	49.3	44.2	45.7	-
Gross spread	13.8	14.5	15.4	15.8	-
EBITDA	8.4	8.3	9.0	9.0	-
PAT	5.5	5.3	5.7	5.6	-
ROE	17.5	18.4	19.2	18.4	-
Key assumptions					
USD/INR exchange rate	74.5	80.5	82.5	84.2	-
APM gas price (US$/MMbtu)	2.3	7.3	6.5	7.0	-
Gas price ceiling (US$/MMbtu)	4.9	10.8	11.4	11.2	-
LNG contract price (US$/MMbtu)	11.7	17.3	14.2	11.4	-
LNG spot price (US$/MMbtu)	23.2	33.5	30.0	25.0	-
Priority sector gas bucket (US$/MMbtu)	3.0	9.2	7.3	7.9	-
Industrials and commercials gas bucket (US$/MMbtu)	19.4	22.1	14.9	12.7	-

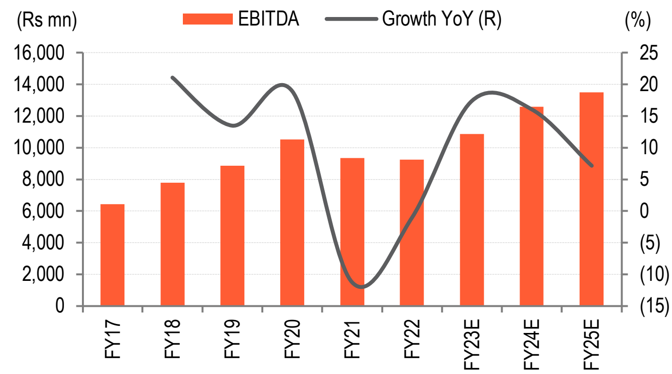
Source: Company, BOBCAPS Research

Fig 20 – Expect EBITDA margin to recover to Rs 9/scm over FY24E-FY25E



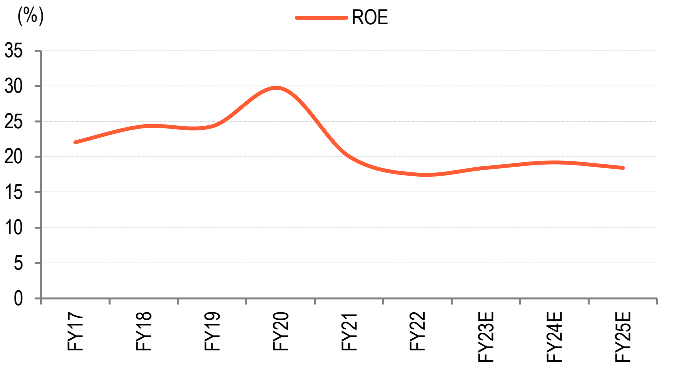
Source: Company, BOBCAPS Research

Fig 21 – Expect EBITDA CAGR of 13.4% (FY22-FY25E) led by 11.1% CAGR in volumes and modest margin recovery



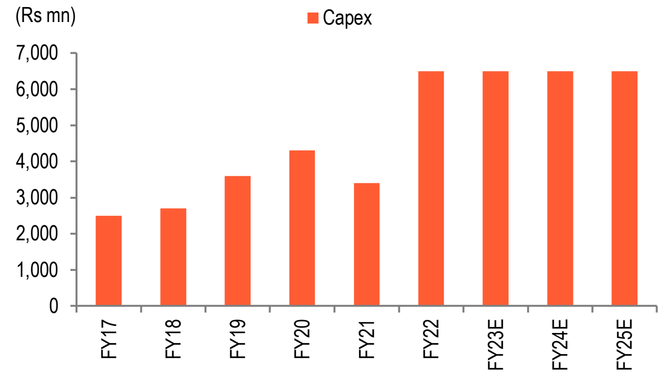
Source: Company, BOBCAPS Research

Fig 22 – ROE to settle at healthy range of 18-19% over FY24-FY25E



Source: Company, BOBCAPS Research

Fig 23 – Capex estimated at Rs 19.5bn through to FY25 in line with our modest volume growth forecast



Source: Company, BOBCAPS Research

DCF-based TP of Rs 1,030; BUY

We have a DCF-based TP of Rs 1,030 for MAHGL, which implies an FY24E P/E of 12.7x. This is marginally higher than the three/five-year mean one-year forward P/E of 11.4x/12.4x on Bloomberg consensus estimates. Our target price implies 21% upside and hence we maintain BUY on MAHGL. Key assumptions for our DCF-based fair value are cost of equity of 11%, terminal growth of 2.5%, volume growth CAGR of ~5% and average EBITDA margin of Rs 8.4/scm over our explicit and semi-explicit forecast period of FY23-FY33.

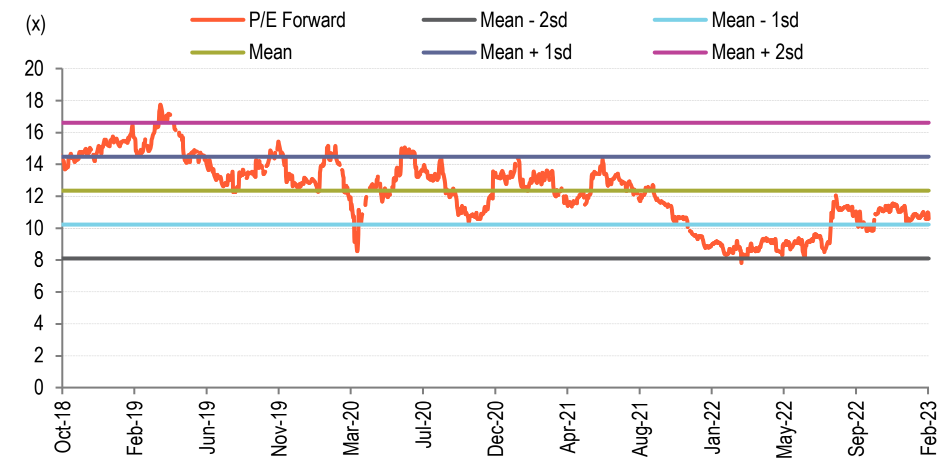
Fig 24 – DCF-based fair value

Valuation parameters	Value (Rs mn)
PV of FCF FY24-34	40,140
PV of terminal value	38,682
Enterprise Value	78,822
Less: Net Debt FY23	(15,042)
Equity value Mar'23	**93,865**
NPV Mar'23 (Rs)	**950**
NPV Dec'23 (Rs)	**1,029**
Target price as on Dec'23 (Rs) (rounded off to nearest Rs 5)	**1,030**

Source: BOBCAPS Research

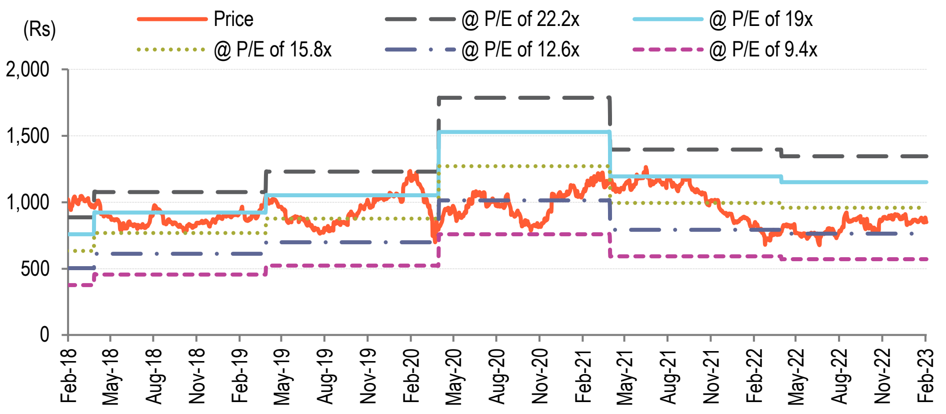
Over the past four years (i.e. since Bloomberg data has been available for the stock), MAHGL has traded at an average one-year forward P/E of 12.4x with a one standard-deviation range of 10.2-14.5x based on Bloomberg consensus. Over the past five years, the stock has traded at an average LTM P/E of 15.8x with a one standard deviation range of 12.6-19.0x based on actual earnings.

Fig 25 – MAHGL has traded at an average 1Y forward P/E of 12.4x



Source: Bloomberg, BOBCAPS Research

Fig 26 – MAHGL has traded at an average LTM P/E of 15.8x



Source: Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- Lower-than-expected margins arising from an inability to pass on higher gas purchase cost to consumers. We assume that the government implements recommendations of the Kirit Parekh Committee and lowers APM gas price to US$ 6.5/MMbtu in FY24.
- Material reduction in taxation structure on petrol and diesel, which could lower competitiveness of CNG and result in lower margins for MAHGL
- Slower volume growth than our assumptions, with faster penetration of EVs than expected
- Adverse PNGRB or government regulations that could impact our margin or volume outlook
- Adverse judgement on Uran-Trombay pipeline tariff dispute with contingent liability at Rs 3.3bn

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
Bharat Petroleum Corp	BPCL IN	8.7	327	450	BUY
GAIL	GAIL IN	5.1	93	160	BUY
Gujarat State Petronet	GUJS IN	1.8	260	270	BUY
Hindustan Petroleum Corp	HPCL IN	3.9	228	410	BUY
Indian Oil Corp	IOCL IN	9.0	78	150	BUY
Indraprastha Gas	IGL IN	3.6	419	520	BUY
Mahanagar Gas	MAHGL IN	1.0	850	1,030	BUY
Petronet LNG	PLNG IN	3.8	209	330	BUY
Reliance Industries	RIL IN	192.4	2,329	2,840	BUY

Source: BOBCAPS Research, NSE | Price as of 3 Feb 2023

Glossary

Glossary of Abbreviations			
APM	Administered Price Mechanism	**I+C**	Industrial + Commercial
CGD	City Gas Distribution	**LNG**	Liquefied Natural Gas
CNG	Compressed Natural Gas	**LPG**	Liquefied Petroleum Gas
D-PNG	Domestic Piped Natural Gas	**NELP**	New Exploration Licensing Policy
EV	Electric Vehicles	**PNG**	Piped Natural Gas
GA	Geographical Area	**PNGRB**	Petroleum and Natural Gas Regulatory Board
GST	Goods & Services Tax	**PPAC**	Petroleum Planning & Analysis Cell
HP-HT	High Pressure-High Temperature		

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Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	**21,525**	**35,602**	**64,697**	**62,188**	**68,622**
EBITDA	9,340	9,243	10,853	12,597	13,495
Depreciation	(1,737)	(1,963)	(2,270)	(2,589)	(2,929)
EBIT	7,603	7,281	8,582	10,008	10,566
Net interest inc./(exp.)	(72)	(75)	(78)	(81)	(85)
Other inc./(exp.)	805	857	793	762	792
Exceptional items	0	0	0	0	0
EBT	8,336	8,063	9,297	10,689	11,273
Income taxes	(2,140)	(2,093)	(2,343)	(2,694)	(2,841)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**6,196**	**5,970**	**6,954**	**7,995**	**8,433**
Adjustments	0	0	0	0	0
Adjusted net profit	**6,196**	**5,970**	**6,954**	**7,995**	**8,433**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	1,559	2,719	3,757	3,880	4,306
Other current liabilities	9,434	10,458	11,801	11,549	12,083
Provisions	350	356	369	326	364
Debt funds	573	824	824	824	824
Other liabilities	1,773	2,008	2,147	2,308	2,477
Equity capital	988	988	988	988	988
Reserves & surplus	31,336	34,985	38,603	42,762	46,754
Shareholders' fund	32,324	35,973	39,591	43,750	47,742
Total liab. and equities	**46,011**	**52,338**	**58,490**	**62,637**	**67,795**
Cash and cash eq.	5,119	4,652	4,984	5,025	6,206
Accounts receivables	1,275	1,841	3,176	3,392	3,744
Inventories	222	275	529	509	562
Other current assets	1,353	1,628	1,628	1,628	1,628
Investments	10,250	10,883	10,883	10,883	10,883
Net fixed assets	21,637	26,085	28,913	31,842	34,726
CWIP	5,603	6,159	7,562	8,543	9,230
Intangible assets	57	52	52	52	52
Deferred tax assets, net	497	763	763	763	763
Other assets	0	0	0	0	0
Total assets	**46,011**	**52,338**	**58,490**	**62,637**	**67,795**

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	**8,108**	**8,537**	**9,376**	**9,615**	**11,331**
Capital expenditures	(3,653)	(6,893)	(6,500)	(6,500)	(6,500)
Change in investments	965	(633)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(2,688)**	**(7,526)**	**(6,500)**	**(6,500)**	**(6,500)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	83	251	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(2,272)	(2,420)	(3,336)	(3,836)	(4,440)
Other financing cash flows	(410)	691	793	762	792
Cash flow from financing	**(2,599)**	**(1,478)**	**(2,544)**	**(3,074)**	**(3,649)**
Chg in cash & cash eq.	**2,821**	**(467)**	**332**	**41**	**1,182**
Closing cash & cash eq.	**5,116**	**4,652**	**4,984**	**5,025**	**6,206**

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	62.7	60.4	70.4	80.9	85.4
Adjusted EPS	62.7	60.4	70.4	80.9	85.4
Dividend per share	23.0	24.5	28.9	33.2	38.4
Book value per share	327.2	364.2	400.8	442.9	483.3

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	3.8	2.3	1.2	1.3	1.2
EV/EBITDA	8.7	8.7	7.4	6.4	5.9
Adjusted P/E	13.6	14.1	12.1	10.5	10.0
P/BV	2.6	2.3	2.1	1.9	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	74.3	74.0	74.8	74.8	74.8
Interest burden (PBT/EBIT)	109.6	110.7	108.3	106.8	106.7
EBIT margin (EBIT/Revenue)	35.3	20.4	13.3	16.1	15.4
Asset turnover (Rev./Avg TA)	49.3	72.4	116.8	102.7	105.2
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.5	1.5	1.4
Adjusted ROAE	20.0	17.5	18.4	19.2	18.4

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(27.6)	65.4	81.7	(3.9)	10.3
EBITDA	(11.3)	(1.0)	17.4	16.1	7.1
Adjusted EPS	(21.9)	(3.7)	16.5	15.0	5.5
Profitability & Return ratios (%)					
EBITDA margin	43.4	26.0	16.8	20.3	19.7
EBIT margin	35.3	20.4	13.3	16.1	15.4
Adjusted profit margin	28.8	16.8	10.7	12.9	12.3
Adjusted ROAE	20.0	17.5	18.4	19.2	18.4
ROCE	18.0	15.5	16.6	17.6	17.0
Working capital days (days)					
Receivables	17	16	14	19	19
Inventory	10	4	3	5	4
Payables	43	30	22	28	27
Ratios (x)					
Gross asset turnover	0.8	1.1	1.7	1.4	1.4
Current ratio	0.7	0.6	0.6	0.7	0.7
Net interest coverage ratio	105.7	96.7	109.6	122.9	124.7
Adjusted debt/equity	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

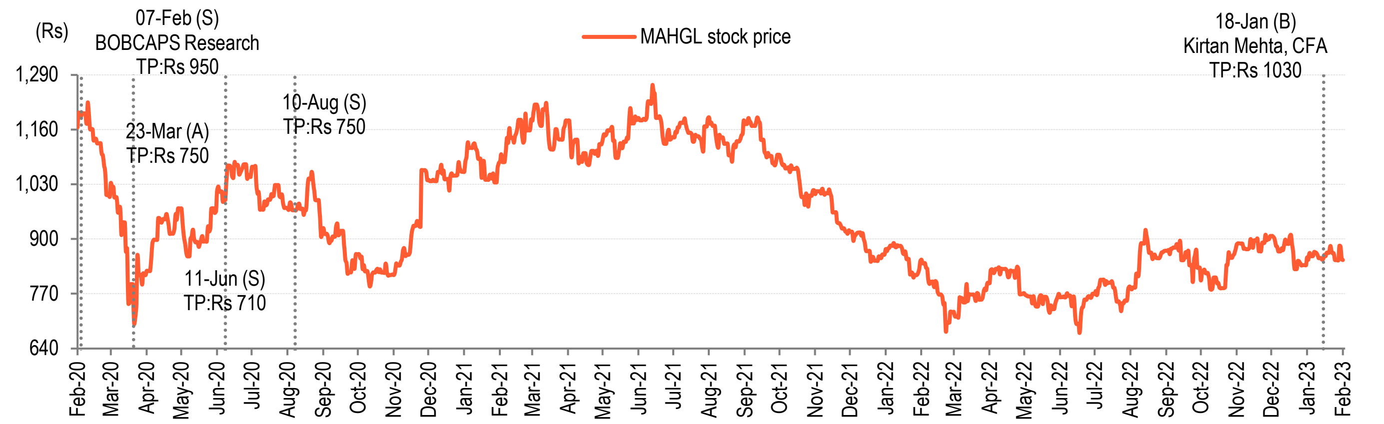
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): MAHANAGAR GAS (MAHGL IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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