CD Equisearch Pvt Ltd

CHANGING DIMENSIONS
CD EQUISEARCH

30 June, 2023

Mahanagar Gas Ltd.

No. of shares (m)	98.78
Mkt cap (Rscrs/$m)	10220/1246
Current price (Rs/$)	1035/12.6
Price target (Rs/$)	1306/15.9
52 W H/L (Rs.)	1103/725
Book Value (Rs/$)	402/4.9
Beta	0.7
Daily volume NSE (avg. monthly)	321580
P/BV (FY24e/25e)	2.2/1.9
EV/EBITDA (FY24e/25e)	5.7/4.9
P/E (FY24e/25e)	11.2/9.5
EPS growth (FY23/24e/25e)	30.8/15.8/17.5
OPM (FY23/24e/25e)	18.8/22.9/25.3
ROE (FY23/24e/25e)	21.3/21.3/21.4
ROCE(FY23/24e/25e)	21.5/21.4/21.6
Net D/E ratio (FY23/24e/25e)	-0.4/-0.4/-0.4
BSE Code	539957
NSE Code	MGL
Bloomberg	MAHGL IN
Reuters	MGAS.NS

Shareholding pattern%

Promoters	32.5
MFs / Banks / FIIs/FIs	14.9
Foreign Portfolio Investors	31.0
Govt. Holding	10.0
Public& Others	11.6
Total	**100.0**

As onMarch 31, 2023

Recommendation

BUY

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Quarterly Highlights

- MGL posted overall volume sale of 303.49 million scm in Q4FY23 as against 285.26 million scm in Q4FY22 a growth of 6.4%, with CNG and PNG volumes up by 5.8% (Y-o-Y) and 7.8% (Y-o-Y) respectively. The overall revenue (net of excise duty) in Q4FY23 is Rs 1610.48 crs against Rs 1086.77 crs in Q4FY22 exhibiting an impressive growth of 48.2%, with CNG business posted a revenue growth of 61.9% (Y-o-Y) to Rs 1138.19 crs, whereas total PNG revenue stood at Rs 463.43 crs VS Rs 376.59 crs in Q4FY22.

- MGL reported an operating profit of Rs 389.70 crs in Q4FY23 against Rs 215.47 crs in Q4FY22 a growth of 80.9%, OPM also increased by 440 bps to 24.2% in Q4FY22, but due to increasing APM prices the company reported an OPM of 18.8% in FY23 against 26.2% in FY22 a fall of 740 bps. The Company sees low natural gas prices in the coming quarters.

- In view of India being an underpenetrated market and poised to grow significantly the company continues to invest in expanding its distribution infrastructure. In Q4FY23 company added new 92,274 PNG customers, (total 22 lakhs as on FY23) and 115 industrial &commercial customers during the quarter. It had further added 12 new CNG stations which took the total to 313 in FY23, while overall steel and PE pipelines stood at 6535 km as on 31stMarch 2023. In March MGL announced that they are acquiring Unison Enviro Private limited, which develops gas distribution infrastructure for the supply of PNG and CNG, for Rs 531 crs all through internal accruals.

- The stock currently trades at 11.2x FY24e EPS of Rs 92.63 and 9.5x FY21e EPS of Rs 108.86. MGL aims to capitalize on opportunities within the CGD sector by increasing its customer base on the back of expansion of gas distribution network – it plans to add 30-40 stations during the current year, while its PNG network will get a boost from expansion of its pipeline in Raigad district. Direct bidding and formation of strategic alliances would also help in volume growth of 5.5% in FY24. Yet the fluctuation in natural gas prices and any adverse regulatory changes underscores fragility in CGD sector. On balance, we retain our 'buy' rating on the stock with a revised target price of Rs 1306 (previous target Rs 1012) based on 12x FY25e EPS of Rs 108.86.

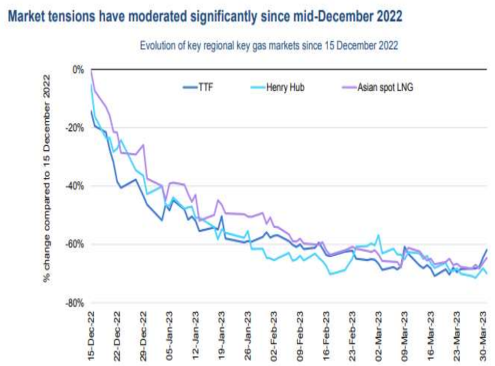
Figures in Rs crs	FY21	FY22	FY23	FY24e	FY25e
Income from operations	2152.54	3560.19	6299.28	6140.65	6479.74
Other Income	80.51	85.74	111.88	107.94	129.53
EBITDA (other income included)	1014.47	1010.06	1296.07	1513.49	1767.49
PAT after EO	624.40	603.82	790.05	915.00	1075.31
EPS(Rs)	63.21	61.13	79.98	92.63	108.86
EPS growth (%)	-21.5	-3.3	30.8	15.8	17.5

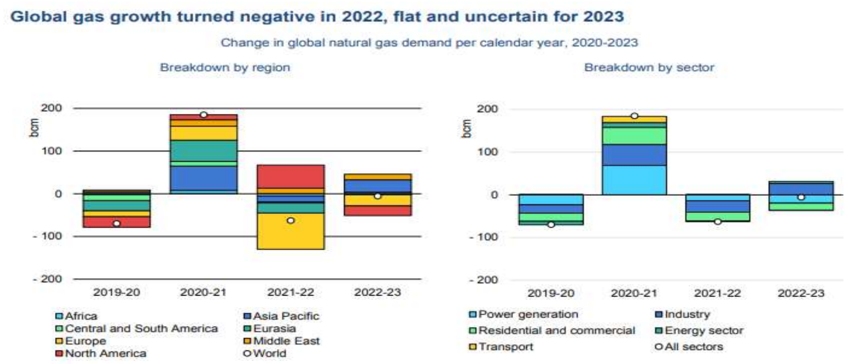
Outlook & Recommendation

Natural Gas Industry Outlook

According to IEA report, the global gas consumption in 2022 witnessed a drop of 1.5% in gas consumption - similar drop was also experienced in 2020. This decline was driven by factors ranging from sharp increase in gas price which led to gas to coal switching dynamics in the power sector and depressed gas use in energy intensive sector to policy actions focusing on energy efficiency and deployment of renewable energy in a structural manner. Bulk of the decline in demand was concentrated in key import market such as Europe and Asia. However, spot gas prices across the key markets experienced a drop of 70% between mid-December 2022 and the end of first quarter 2023, while storage site ended the heating season well above their five-year average which can help increase the demand momentum in the market.

The global gas markets, particularly Europe, suffered a major supply shock in 2022 when Russia sharply reduced its pipeline gas deliveries to the European Union – by 80% over the course of the year – and triggered a global energy crisis. The steep gas supply cut drove up the natural gas prices to all time high both in Asia and Europe. To compensate the decline in Russian pipeline deliveries, LNG became the new baseload supply for Europe accounting for two-third of the region's imports and meeting around one-third of its gas demand through the 2022/23 winter season. After a strong growth in Q12023, Europe LNG demand is expected to decline for the remainder of 2023 driven by higher level of inventory and switching of energy from natural gas to other sources of renewable energy.





Source: IEA

Source: IEA

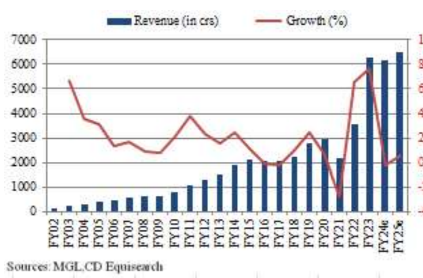
IEA expects the natural gas consumption growth for 2023 to increase by mere 4% (or 20 bcm) with highest demand coming from Asia Pacific and Middle East, which would offset the expected decline in demand from Europe and North America. Asia Pacific region experienced a slowdown in gas consumption growth (2%) in 2022 on the back of high LNG prices, disruption caused by covid in China and mild weather for most of the year in Northeast Asia. Lifting of China zero covid policy, projections of normal weather in much of Asia and subdued natural gas prices are factors that can support Asia gas consumption, which is projected to return to the modest growth rate of 3%. China is expected to lead the growth (7%) as easing covid restrictions are believed to spur industrial activity and higher LNG sourcing to meets its energy demand.

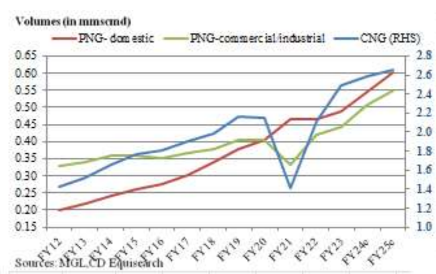
Indian gas consumption experienced a decline in gas consumption by 6% in 2022 on the back of soaring gas prices which squeezed the demand for power generation and off take from petrochemicals sector. As gas spot prices started to ease in January 2023 natural gas demand in India increased by 14% year on year with a significant increase in city gas sector- up 70% y-o-y and recovery in fertilizer sector and refining. In 2023 total gas consumption is expected to increase by 4% driven by modest recovery in power sector.

Government of India push towards adoption of EVs could hurt the sale of CNG which accounts for large chunk of profit of city gas distributors. Although EVs currently account for around 1% of total vehicle sales in India according to Moody Analytics, potential adoption of EV in the long run, particularly for public transport, could pose a material threat to long term CNG volumes. As many automobile companies started to invest in R&D for EVs some CGD companies has also started to put EV charging stations to be future ready.

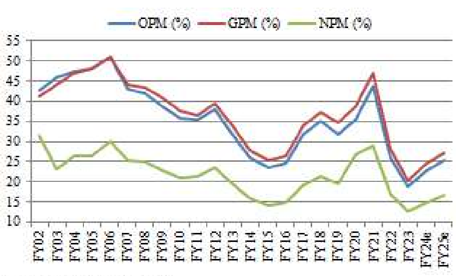
Financials & Valuation

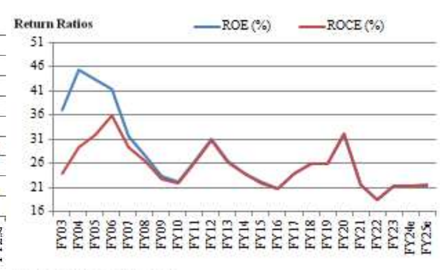
According to Modern Intelligence report, India city gas distribution is set to grow at a CAGR of 10% during 2023-2028. In order to capture the benefit of the growing CGD sector, MGL added 128 km to its aggregate steel and PE pipeline network (in total 6535 km) and 12 CNG stations (in total 313 stations) in FY23. After investing over Rs 700 crs in capital assets in FY23, MGL has drawn plans to further invest Rs 600 crs in each of the next two financial years for strengthening its CGD network. Yet risks of regulatory bottlenecks cannot be undone as laying down network requires no small regulatory clearances.





Though the natural gas prices have jumped 3.1x in FY23, but it was still able to maintain decent volumes in FY23 at 1249.31 million scm clocking a growth of 14.1% y-o-y. CNG volume increased by 17.9% to 909.43 million scm; total PNG is up by 5.2% (y-o-y); while domestic PNG saw an uptick of 4.5% due to addition of new households in FY23 and industrial PNG uptick was 6.0%. With expectation of lower natural gas prices in future partly attributable to implementation of new pricing policy recommended by Kirti Parekh committee, expansion of MGLs CGD network with laying of network in Raigad area and courting of new industrial clients, we expect total volumes to rose by an average of 5.5% in coming two years.

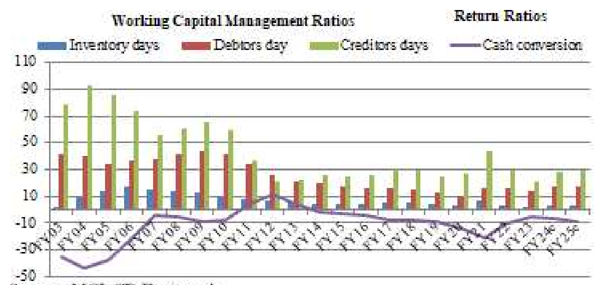




Average realization for PNG increased to 55.35 per scm in FY23 from 39.63 per scm clocking a growth of 39.7% whereas CNG clocked a growth of 65.5% in FY23 to 48.28 per scm. As a result of higher natural gas prices (average domestic natural gas price was USD 7.34/MMBTU in FY23 vs USD 2.35/MMBTU in FY22) operating profit margin fell drastically from 26.2% in FY22 to 18.8% in FY23 but operating profit rose by 26.8% y-o-y to Rs 1184.19 crs. Even in the past, operating margin has faltered due to higher gas cost in FY16, when RLNG prices fluctuated around USD 5.87/MMBTU to USD 9.61/MMBTU, but revived in FY17.

The stock currently trades at 11.2x FY24e EPS of Rs 92.63 and 9.5x FY21e EPS of Rs 108.86. Relentless efforts to convert more vehicles to CNG and bring in more PNG connections coupled with Government of India initiative to increase natural gas in country's energy mix from 6% in 2022 to 15% by 2030 would lend increased business momentum. Business scalability would barely disappoint not least due to "repeat purchase" nature of MGLs offerings. However, looming threat of Russia and Ukraine war, Saudi Arabia curtailing oil production and possibility of alternative fuel option becoming more cost effective could jeopardize MGLs volume targets. Challenges in creating distribution network, friction in sourcing natural gas and unexpected regulatory setbacks require investor scrutiny. On balance, we retain our 'buy' rating on the stock with a revised target price of Rs 1306 (previous target Rs 1012) based on 12x FY25e EPS of Rs 108.86. For more info, refer to our May 2022 report.

Sources: MGL,CD Equisearch



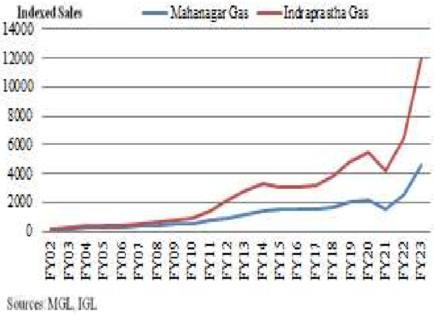
Sources: MGL,CD Equisearch

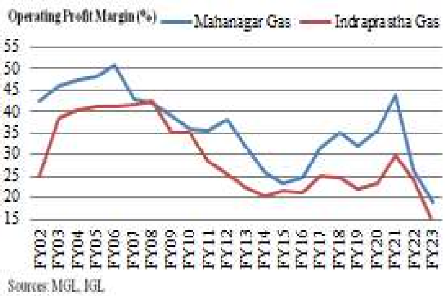
Cross Sectional Analysis

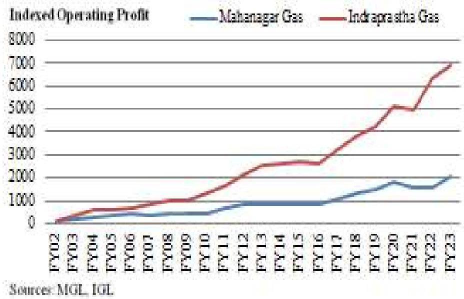
Company	Equity*	CMP	MCAP*	Sales*	Profit*	OPM (%)	NPM (%)	IntCov	ROE (%)	Mcap/Sales	P/BV	P/E
Mahanagar Gas	99	1035	10220	6299	790	18.8	12.5	113.4	21.3	1.6	2.6	12.9
Indraprastha	140	475	33268	14146	1640	14.4	9.8	177.5	21.7	2.4	4.2	20.3

*figures in crores; calculations on ttm basis

During FY23, IGL witnessed a growth of 16 % in overall volumes propelled by robust CNG consumption (accounts for around 75% of revenue). CNG volumes in FY23 stood at 2209 million scm against 1847 million scm in FY22, exhibiting a growth of 20% whereas total PNG volumes stood at 743 million scm in FY23 vs 704 million scm in FY22. Overall revenue (net of excise duty) of the company in FY23 shot up to Rs 14145.85 crs clocking a growth of 83.4% year-on-year. Despite the strong growth in revenue company reported merely a 7.7% growth in operating profit of Rs 2039.78 crs in FY23 from Rs 1894.25 crs in FY22, mainly affected by increasing APM prices and higher dealers commission to OMCs. OPMs also dropped significantly by over 990 bps to 14.4% in FY23. The company added 81 CNG stations and over 3 lakhs domestic households during FY23. IGL expects to add 100 stations in FY23, 50% of that in new geographical area. It plans to invest Rs 1600 crs over the next three years in order to boost growth. IGl is also looking for new opportunities in greenhouse hydrogen and acquiring stake in other CGD companies.







Note: Standalone data for Indraprastha Gas graph.

Financials

Quarterly Results

Figures in Rs crs

	Q4FY23	Q4FY22	% chg.	FY23	FY22	% chg.
Income From Operations	**1610.48**	**1086.77**	**48.2**	**6299.28**	**3560.19**	**76.9**
Other Income	33.64	22.70	48.2	111.88	85.74	30.5
Total Income	**1644.12**	**1109.47**	**48.2**	**6411.16**	**3645.93**	**75.8**
Total Expenditure	1220.78	871.30	40.1	5115.09	2635.87	94.1
EBITDA (other income included)	**423.34**	**238.17**	**77.7**	**1296.07**	**1010.06**	**28.3**
Interest	2.21	2.27	-2.6	9.39	7.53	24.7
Depreciation	63.83	55.51	15.0	231.14	196.27	17.8
PBT	**357.30**	**180.39**	**98.1**	**1055.54**	**806.26**	**30.9**
Tax	88.49	48.59	82.1	265.49	209.31	26.8
PAT	**268.81**	**131.80**	**104.0**	**790.05**	**596.95**	**32.3**
EO	-	-	-	-	-6.87	-
Adjusted Net Profit	**268.81**	**131.80**	**104.0**	**790.05**	**603.82**	**30.8**
EPS(Rs)	27.21	13.34	104.0	79.98	61.13	30.8

Income Statement

Figures in Rs crs

	FY21	FY22	FY23	FY24e	FY25e
Income From Operations	**2152.54**	**3560.19**	**6299.28**	**6140.65**	**6479.74**
Growth (%)	-27.6	65.4	76.9	-2.5	5.5
Other Income	80.51	85.74	111.88	107.94	129.53
Total Income	**2233.05**	**3645.93**	**6411.16**	**6248.59**	**6609.28**
Total Expenditure	1218.58	2635.87	5115.09	4735.10	4841.79
EBITDA (other income included)	**1014.47**	**1010.06**	**1296.07**	**1513.49**	**1767.49**
Interest	7.19	7.53	9.39	9.86	10.35
Depreciation	173.67	196.27	231.14	272.13	309.89
PBT	**833.60**	**806.26**	**1055.54**	**1231.50**	**1447.25**
Tax	214.03	209.31	265.49	316.50	371.94
PAT	**619.58**	**596.95**	**790.05**	**915.00**	**1075.31**
EO	-4.82	-6.87	-	-	-
Adjusted Net Profit	**624.40**	**603.82**	**790.05**	**915.00**	**1075.31**
EPS (Rs)	63.21	61.13	79.98	92.63	108.86

Balance Sheet

Figures in Rs crs

	FY21	FY22	FY23	FY24e	FY25e
Sources of Funds					
Share Capital	98.78	98.78	98.78	98.78	98.78
Reserves	3133.59	3498.53	4035.44	4688.68	5492.35
Total Shareholders' Funds	**3232.37**	**3597.31**	**4134.22**	**4787.46**	**5591.13**
Long Term Debt	-	-	-	-	-
Total Liabilities	**3232.37**	**3597.31**	**4134.22**	**4787.46**	**5591.13**
Application of Funds					
Gross Block	2910.87	3546.25	4189.36*	4897.98	5447.98
Less: Accumulated Depreciation	741.56	932.52	1163.66	1435.79	1745.67
Net Block	**2169.32**	**2613.73**	**3025.70**	**3462.19**	**3702.31**
Capital Work in Progress	560.32	615.94	708.62	600.00	650.00
Investments	1024.98	1088.28	1309.82	1637.28	1801.00
Current Assets, Loans and Advances					
Inventory	22.16	27.49	33.84	40.61	48.73
Trade receivables	127.52	184.04	294.03	307.03	323.99
Cash and Bank	511.86	465.17	227.87	275.54	610.39
Other Assets	67.79	80.12	140.66	146.38	154.62
Total CA & LA	**729.33**	**756.83**	**696.40**	**769.56**	**1137.72**
Current Liabilities	1103.32	1316.89	1544.83	1636.28	1682.58
Provisions-Short term	7.62	9.74	16.34	12.00	12.00
Total Current Liabilities	**1110.94**	**1326.62**	**1561.17**	**1648.28**	**1694.58**
Net Current Assets	**-381.61**	**-569.80**	**-864.77**	**-878.72**	**-556.86**
Net Deferred Tax Liability	-177.25	-200.80	-208.60	-218.60	-228.60
Net long term assets (net of liabilities)	36.62	49.96	163.45	185.31	223.28
Total Assets	**3232.37**	**3597.31**	**4134.22**	**4787.46**	**5591.13**

*Projected

Key Financial Ratios

	FY21	FY22	FY23	FY24e	FY25e
Growth Ratios(%)					
Revenue	-27.6	65.4	76.9	-2.5	5.5
EBITDA	-11.5	-0.2	27.1	16.8	16.8
Net Profit	-21.5	-3.3	30.8	15.8	17.5
EPS	-21.5	-3.3	30.8	15.8	17.5
Margins (%)					
Operating Profit Margin	43.7	26.2	18.8	22.9	25.3
Gross profit Margin	47.1	28.4	20.4	24.5	27.1
Net Profit Margin	29.0	17.0	12.5	14.9	16.6
Return (%)					
ROCE	21.7	18.6	21.5	21.4	21.6
ROE	21.6	18.5	21.3	21.3	21.4
Valuations					
Market Cap/ Sales	5.4	2.2	1.5	1.7	1.6
EV/EBITDA	9.8	6.0	6.3	5.7	4.9
P/E	18.5	12.7	12.3	11.2	9.5
P/BV	3.7	2.2	2.4	2.2	1.9
Other Ratios					
Debt Equity	-	-	-	-	-
Net Debt-Equity Ratio	-0.5	-0.5	-0.4	-0.4	-0.4
Current Ratio	1.4	1.2	1.2	1.3	1.6
Turnover Ratios					
Fixed Asset Turnover	1.0	1.5	2.2	1.9	1.8
Total Asset Turnover	0.7	1.1	1.7	1.4	1.3
Inventory Turnover	59.5	105.8	166.8	127.2	108.4
Debtors Turnover	22.0	22.9	26.4	20.4	20.5
Creditor Turnover	8.4	12.3	17.2	13.1	12.3
WC Ratios					
Inventory Days	6.1	3.5	2.2	2.9	3.4
Debtor Days	16.6	16.0	13.9	17.9	17.8
Creditor Days	43.3	29.7	21.2	27.8	29.7
Cash Conversion Cycle	-20.6	-10.3	-5.2	-7.1	-8.6

Cumulative Financial Data

	FY17-19	FY20-22	FY23-25e
Income from operations	7058	8,685	18920
Operating profit	2317	2929	4228
EBIT	2162	2662	3764
PBT	2160	2641	3734
PAT	1415	2023	2780
Dividends	686	839	800
OPM (%)	32.8	33.7	22.3
NPM (%)	20.1	23.3	14.7
ROE (%)	24.7	23.6	20.9
ROCE (%)	24.7	23.8	21.1
Interest Coverage	1507.3	125.3	127.1
Debt Equity*	0.0	0.0	0.0
Fixed asset turnover	1.6	1.3	2.0
Debtors turnover	24.5	20.4	24.8
Inventory turnover	85.1	82.3	128.5
Creditors turnover	12.0	9.0	14.8
Debtor days	14.9	17.9	14.7
Inventory days	4.3	4.4	2.8
Creditor days	30.5	40.4	24.6
Cash conversion	-11.3	-18.0	-7.1
Dividend payout ratio (%)	48.4	41.7	28.8

FY 17-19 implies three year period ending fiscal 19; * as on terminal year

Favourable external environment, increased in demand for PNG & CNG and increasing customer base from rising urbanization will aid the MGL's (cumulative) topline growth of over 2.0x during FY23-25e from FY20-22. However, rise in cost of natural gas due to the ongoing Ukraine war and Saudi Arabia cutting the oil production will affect profitability as OPMs are expected to decline to 22.3% in FY23-25e from 33.7% (see table), though cumulative operating profits are expected to grow by 44.3% in three year period FY23-25e. Despite robust rise in topline, cumulative post tax earnings will grow by merely 37.4% which would precipitate noteworthy decline in return on capital- ROCE/ROE to decline to 21.1%/20.9% in FY23-25e (see table). Faster recoveries in payments and lower inventory days will help in improvement of cash conversion cycle but will be offset by lower creditors days (see table) in future. Interest coverage will remain elevated in the projected period.

Financial Summary- US Dollar denominated

million $	FY21	FY22	FY23	FY24e	FY25e
Equity capital	13.4	13.0	12.0	12.0	12.0
Shareholders' funds	420.9	454.3	483.6	563.9	661.3
Total debt	-	-	-	-	-
Net fixed assets (incl. CWIP)	371.4	426.0	454.2	495.3	530.7
Investments	139.4	143.6	159.3	199.6	219.6
Net current assets	-70.7	-95.4	-124.4	-127.0	-88.4
Total assets	420.9	454.3	483.6	563.9	661.3
Revenues	290.1	477.8	783.5	748.7	790.1
EBITDA	137.6	136.8	161.2	184.5	215.5
EBDT	136.6	135.8	160.0	183.3	214.3
PBT	113.2	109.5	131.3	150.2	176.5
PAT	84.1	81.0	98.3	111.6	131.1
EPS($)	0.85	0.82	0.99	1.13	1.33
Book value ($)	4.26	4.60	4.90	5.71	6.69

Income statement figures translated at average rates; balance sheet at year end rates; FY24 projections at current rates (Rs 82.01/$).
All dollar denominated figures are adjusted for extraordinary items.

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buy: >20%	accumulate: >10% to ≤20%	hold: ≥-10% to ≤10%	reduce: ≥-20% to <-10%	sell: <-20%

Rs/$	FY21	FY22	FY23
Average	74.20	74.51	80.39
Year end	73.50	75.81	82.22

All $ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.