

September 19, 2024

Company Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	HOLD		SELL	
Target Price	1,864		1,492	
Sales (Rs.m)	57	60	57	58
% Chng.	1.2	3.5		
EBITDA (Rs.m)	15	15	15	15
% Chng.	1.0	1.9		
EPS (Rs.)	100.9	100.7	95.0	93.2
% Chng.	6.2	8.0		

Key Financials - Standalone

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. bn)	62	57	60	65
EBITDA (Rs. bn)	18	15	15	16
Margin (%)	29.5	25.6	24.7	24.2
PAT (Rs. bn)	13	10	10	11
EPS (Rs.)	130.5	100.9	100.7	106.4
Gr. (%)	63.2	(22.7)	(0.1)	5.6
DPS (Rs.)	30.0	40.3	40.3	42.5
Yield (%)	1.6	2.1	2.1	2.3
RoE (%)	27.8	18.3	16.5	15.8
RoCE (%)	33.7	21.0	18.9	18.1
EV/Sales (x)	2.9	3.2	3.1	2.8
EV/EBITDA (x)	9.9	12.5	12.3	11.6
PE (x)	14.4	18.7	18.7	17.7
P/BV (x)	3.6	3.2	2.9	2.7

Key Data

MGAS.BO | MAHGL IN

52-W High / Low	Rs.1,943 / Rs.979
Sensex / Nifty	82,948 / 25,378
Market Cap	Rs.186bn / \$ 2,221m
Shares Outstanding	99m
3M Avg. Daily Value	Rs.1463.29m

Shareholding Pattern (%)

Promoter's	32.50
Foreign	31.49
Domestic Institution	16.67
Public & Others	19.34
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.6	48.4	78.7
Relative	0.5	30.2	45.6

Swarnendu Bhushan

swarnendubhushan@plindia.com | 91-22-66322260

Payal Shah

payalshah@plindia.com |

Steady volume growth, but lower margins likely

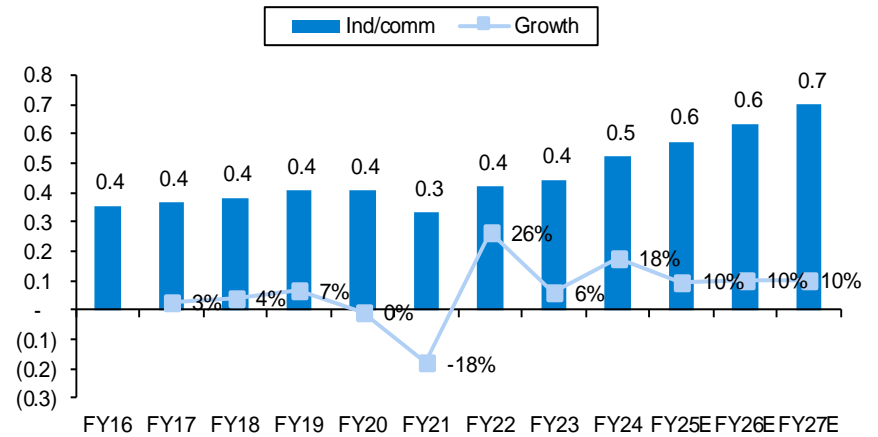
Quick Pointers

- CNG and industrial/commercial customers to be growth drivers
- High margins witnessed in FY24 unsustainable amid rising input cost

Future growth for MGL is poised to be driven by GA3, where penetration remains significantly lower compared to the more established GA1 and GA2. Robust performance in the industrial segment would further support its growth trajectory. However, margins could taper off given the falling domestic gas allocation, while the possibility of fuel price cuts could impact its competitive positioning. Thus, we build in a volume of 6% CAGR over FY24-27E to 4.3mmscmd. EBITDA/scm is estimated at Rs10.5 for FY25E, and Rs10/10 for FY26/27E. Upgrade rating from 'SELL' to 'HOLD' with a TP of Rs1,864 based on 18x avg FY26/27EPS.

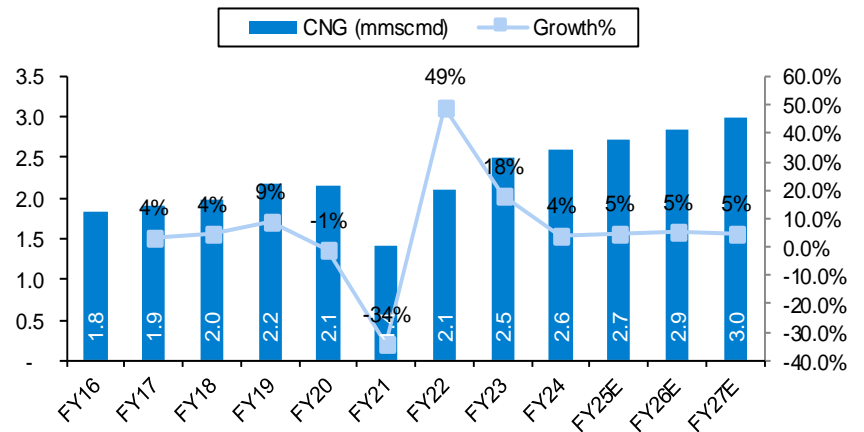
- **GA3 to account for major volume growth:** GA3 remains largely unpenetrated indicating scope for growth with CNG sales picking up as customers are cost conscious. The company has only one city gas station and plans to set up a couple more stations to cater to the growing demand. Apart from this, within GA1, the company would focus on expanding the capacity of existing CNG stations to increase sales. Thus, for CNG we build in a volume CAGR of 5% over FY24-27E to ~3mmscmd.
- **Industrial/commercial volume growing remarkably:** Over the past 7-8 years, growth across the industrial/commercial segment has been largely muted. However, since FY24, this segment has been showing strong volume growth with slackening of its minimum gas offtake scheme, and going ahead, it is expected to grow in double digits. Any regulatory intervention forcing industries to switch to natural gas, could further boost volumes to peak potential of ~3x.
- **Margins to taper off:** MGL reported a strong EBITDA/scm of Rs13.9 in FY24. However, such high margins are unlikely to sustain given the falling domestic gas allocation and rise in spot LNG prices. Besides, APM prices are set to rise by USD0.25/mmBtu to USD6.75/mmBtu starting FY26E. Factoring in this rise in input cost, we build in an EBITDA/scm of Rs10.5 for FY25E, and Rs10 for FY26E and FY27E.
- **Fuel price cut a possible threat:** CNG is currently priced at Rs75/kg, while RSP of petrol and diesel is Rs103.44/ltr and Rs89.97/ltr, respectively. Thus, CNG provides cost savings of 27% and 17% compared to petrol and diesel, respectively. Due to the recent softness in crude oil prices, OMCs are making a strong gross margin of Rs10/ltr on petrol and Rs12/ltr on diesel. However, one cannot rule out the possibility of a fuel price cut if crude prices continue to remain weak. This would lower the potential cost savings of using CNG, and sales could be impacted. Any pickup in EV conversions would further affect CNG sales.

Exhibit 1: Industrial/commercial customers to grow 10% YoY



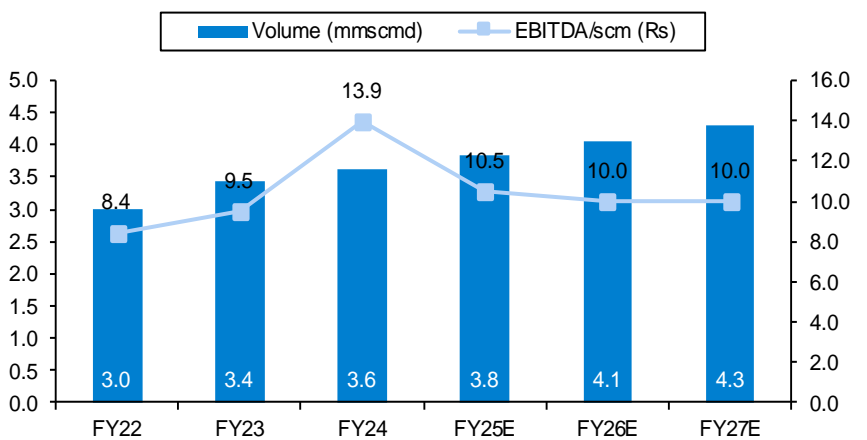
Source: Company, PL

Exhibit 2: Expect CNG volume to grow 5% YoY going ahead



Source: Company, PL

Exhibit 3: EBITDA/scm estimated at Rs10 for FY26E and FY27E



Source: Company, PL

Financials

Income Statement (Rs b)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	62	57	60	65
YoY gr. (%)	(0.9)	(8.0)	4.3	8.2
Cost of Goods Sold	36	35	37	40
Gross Profit	26	23	23	24
Margin (%)	38.3	35.7	34.9	34.3
Employee Cost	1	1	1	1
Other Expenses	7	7	7	7
EBITDA	18	15	15	16
YoY gr. (%)	55.6	(20.4)	1.0	6.0
Margin (%)	29.5	25.6	24.7	24.2
Depreciation and Amortization	3	3	3	4
EBIT	16	11	11	12
Margin (%)	25.1	20.0	19.1	18.6
Net Interest	0	0	0	0
Other Income	2	2	2	2
Profit Before Tax	17	13	13	14
Margin (%)	27.7	23.2	22.2	21.7
Total Tax	4	3	3	4
Effective tax rate (%)	25.6	25.2	25.2	25.2
Profit after tax	13	10	10	11
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	13	10	10	11
YoY gr. (%)	63.2	(22.7)	(0.1)	5.6
Margin (%)	20.6	17.3	16.6	16.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	13	10	10	11
YoY gr. (%)	63.2	(22.7)	(0.1)	5.6
Margin (%)	20.6	17.3	16.6	16.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13	10	10	11
Equity Shares O/s (bn)	0	0	0	0
EPS (Rs)	130.5	100.9	100.7	106.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs b)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	48	59	69	78
Tangibles	48	59	69	78
Intangibles	-	-	-	-
Acc: Dep / Amortization	14	18	21	25
Tangibles	14	18	21	25
Intangibles	-	-	-	-
Net fixed assets	33	41	47	53
Tangibles	33	41	47	53
Intangibles	-	-	-	-
Capital Work In Progress	8	6	6	6
Goodwill	-	-	-	-
Non-Current Investments	19	19	19	19
Net Deferred tax assets	(2)	(2)	(2)	(2)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	0	0	0	0
Trade receivables	3	3	3	3
Cash & Bank Balance	4	3	4	5
Other Current Assets	-	-	-	-
Total Assets	72	77	84	92
Equity				
Equity Share Capital	1	1	1	1
Other Equity	50	56	62	69
Total Networkth	51	57	63	70
Non-Current Liabilities				
Long Term borrowings	0	0	0	0
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	3	4	4	4
Other current liabilities	15	14	14	15
Total Equity & Liabilities	72	77	84	92

Source: Company Data, PL Research

Cash Flow (Rs b)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	17	13	13	14
Add. Depreciation	3	3	3	4
Add. Interest	0	0	0	0
Less Financial Other Income	2	2	2	2
Add. Other	(1)	(2)	(2)	(2)
Op. profit before WC changes	19	15	15	16
Net Changes-WC	1	0	0	1
Direct tax	(4)	(3)	(3)	(4)
Net cash from Op. activities	16	11	12	13
Capital expenditures	(8)	(10)	(10)	(10)
Interest / Dividend Income	1	-	-	-
Others	(5)	2	2	2
Net Cash from Inv. activities	(13)	(8)	(8)	(7)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(3)	(4)	(4)	(4)
Interest paid	-	0	0	0
Others	0	-	-	-
Net cash from Fin. activities	(3)	(4)	(4)	(4)
Net change in cash	0	(1)	0	1
Free Cash Flow	8	2	2	3

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	130.5	100.9	100.7	106.4
CEPS	158.2	133.2	134.8	143.1
BVPS	520.6	581.2	641.6	705.4
FCF	80.3	15.2	23.9	34.9
DPS	30.0	40.3	40.3	42.5
Return Ratio(%)				
RoCE	33.7	21.0	18.9	18.1
ROIC	23.0	15.5	14.2	13.9
RoE	27.8	18.3	16.5	15.8
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	1	(2)	(3)	(3)
Valuation(x)				
PER	14.4	18.7	18.7	17.7
P/B	3.6	3.2	2.9	2.7
P/CEPS	11.9	14.1	14.0	13.2
EV/EBITDA	9.9	12.5	12.3	11.6
EV/Sales	2.9	3.2	3.1	2.8
Dividend Yield (%)	1.6	2.1	2.1	2.3

Source: Company Data, PL Research

Quarterly Financials (Rs b)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Revenue	16	16	16	16
YoY gr. (%)	0.5	(6.1)	(2.7)	3.4
Raw Material Expenses	9	9	10	10
Gross Profit	7	6	6	6
Margin (%)	42.8	41.2	39.3	39.6
EBITDA	5	4	4	4
YoY gr. (%)	89.4	75.2	1.0	(19.8)
Margin (%)	30.5	28.6	25.1	26.3
Depreciation / Depletion	1	1	1	1
EBIT	4	4	3	3
Margin (%)	26.3	24.2	20.2	21.8
Net Interest	-	-	-	-
Other Income	-	-	-	-
Profit before Tax	5	4	4	4
Margin (%)	28.9	27.1	22.8	24.1
Total Tax	1	1	1	1
Effective tax rate (%)	25.5	25.5	25.8	25.9
Profit after Tax	3	3	3	3
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3	3	3	3
YoY gr. (%)	106.4	84.3	(1.4)	(22.8)
Margin (%)	21.5	20.2	16.9	17.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3	3	3	3
YoY gr. (%)	106.4	84.3	(1.4)	(22.8)
Margin (%)	21.5	20.2	16.9	17.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3	3	3	3
Avg. Shares O/s (b)	-	-	-	-
EPS (Rs)	34.3	32.1	26.8	28.8

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales Volume (mmscmd)	3.6	3.8	4.1	4.3
EBITDA (Rs/scm)	13.9	10.5	10.0	10.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	29-Jul-24	Sell	1,492	1,846
2	07-Jul-24	Sell	1,303	1,685
3	11-May-24	Sell	1,116	1,300
4	09-Apr-24	Sell	1,125	1,485
5	31-Mar-24	Sell	1,124	1,370
6	24-Jan-24	Reduce	1,124	1,345
7	08-Jan-24	Reduce	1,065	1,238
8	30-Oct-23	Hold	1,065	1,015
9	06-Oct-23	Hold	1,056	1,114

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	635	735
2	Ashok Leyland	Accumulate	261	246
3	Bajaj Auto	Accumulate	10,326	9,718
4	Bharat Forge	Accumulate	1,701	1,605
5	Bharat Petroleum Corporation	Reduce	269	302
6	Bharti Airtel	Accumulate	1,593	1,444
7	CEAT	Accumulate	2,992	2,667
8	Clean Science and Technology	Hold	1,516	1,562
9	Deepak Nitrite	Reduce	2,717	2,970
10	Divgi Torqtransfer Systems	Accumulate	734	665
11	Eicher Motors	BUY	5,335	4,577
12	Endurance Technologies	Accumulate	2,696	2,478
13	Exide Industries	Hold	559	532
14	Fine Organic Industries	Accumulate	6,172	5,535
15	GAIL (India)	Reduce	211	241
16	Gujarat Fluorochemicals	Reduce	2,907	3,330
17	Gujarat Gas	Accumulate	666	622
18	Gujarat State Petronet	BUY	417	336
19	Hero Motocorp	Accumulate	5,911	5,072
20	Hindustan Petroleum Corporation	Sell	340	396
21	Indian Oil Corporation	Sell	151	183
22	Indraprastha Gas	Sell	374	541
23	Jubilant Ingrevia	Hold	592	586
24	Laxmi Organic Industries	Sell	206	257
25	Mahanagar Gas	Sell	1,492	1,846
26	Mahindra & Mahindra	BUY	3,330	2,908
27	Mangalore Refinery & Petrochemicals	Sell	135	218
28	Maruti Suzuki	BUY	15,145	13,116
29	Navin Fluorine International	Accumulate	4,144	3,771

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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