Pick of the Week

Mahanagar Gas Ltd.

Aug 11, 2025

Mahanagar Gas Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
City Gas Distributor	Rs 1320.20	Buy in Rs 1305-1335 band and add on dips in Rs 1185-1210 band	Rs 1452	Rs 1597	2-3 quarters

HDFC Scrip Code	MAHGAS
BSE Code	539957
NSE Code	MGL
Bloomberg	MAHGL IN
CMP Aug 08, 2025	1320.2
Equity Capital (Rs Cr)	98.8
Face Value (Rs)	10.0
Equity Share O/S (Cr)	9.9
Market Cap (Rs Cr)	13040.9
Book Value (Rs)	596.0
Avg. 52 Wk Volumes	684,866
52 Week High	1988.0
52 Week Low	1075.25

Share holding Pattern % (June, 2025)	
Promoters	32.5
Institutions	48.0
Non Institutions	19.5
Total	100

* Refer at the end for explanation on Risk Ratings

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Our Take:

Mahanagar Gas Limited (MGL), one of India's leading Natural Gas Distribution Companies, enjoys a dominant position in Compressed Natural Gas (CNG) and Piped Natural Gas (PNG) distribution in Greater Mumbai (GA1), its expansion areas (GA2) and Raigad (GA3). At present, GAIL is the only promoter in the company, holding a 32.5% stake.

MGL reported strong growth in Q1FY26, led by volume growth. However, the company reduced FY26E volume growth guidance for CNG to high-single digit from 10–12% earlier primarily on the back of weaker-than-expected CNG volumes in Q1, while also seeing Rs 0.6–0.7/kg adverse impact of higher gas pipe transportation cost due to restructuring of unified tariff zones. The company expects an increase in the landed cost of gas by Rs 0.6–0.7/kg due to the restructuring of unified tariff zones and pressuring margins.

MGL added 20,332 CNG vehicles in Q1FY26, total CNG vehicles in MGL's geography now exceed 1.1 million, and connected 16,348 new domestic households, and total connectivity stands at ~2.85 million households. Unison Enviro Pvt Ltd (UEPL) added 4 new CNG stations (total: 86), 3,338 new households (total: 42,338), and 1 industrial customer (total: 63). The company is focused on expanding its gas network in its existing and new gas. Its robust CNG vehicle registration data, accelerated addition of retail outlets, customer additions in the industrial segment, volume growth contribution from the acquired three GAs of Unison Enviro (UEPL), and competitive CNG price vs petrol/diesel should support strong volume growth of 10% CAGR over FY25-27E.

Valuation & Recommendation:

The Government of India (GoI) has been actively promoting a shift toward cleaner energy sources, including natural gas. CGD projects have become an essential segment in the natural gas business in India. The GoI aims to increase the share of natural gas in India's primary energy mix from 6% at present to around 15% by 2030. The government has planned to invest $67 billion in the natural gas sector over the next six years. India to have 17.5K CNG stations from the existing ~7K stations and 1.29 Cr DPNG connections. Consumption to increase from 185 to 500 MMSCMD by 2030.

MGL stock price recovered 26% from the low, post 42% of correction from the high in the last 6 months due to the adverse impact of a drastic cut in APM gas allocation for the city gas sector. We expect MGL's EBITDA could be impacted by as much as Rs ~5-5.5/scm due to the reduction in APM gas allocation. Despite guidance for volume moderation, along with the structural cut in APM allocation, we expect to see EBITDA growth going forward.

We believe the base case fair value of the stock is Rs 1452 (10x FY27E EPS) and the bull case fair value of the stock is Rs 1597 (11x FY27E EPS) over the next two to three quarters. Investors can buy in Rs 1305-1335 band and add further on dips in the Rs 1185-1210 band (8.25x FY27E EPS). At the LTP of Rs 1320.20, the stock is trading at 9.1x FY27E EPS.

Financial Summary:

Particulars (Rs Cr)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	FY23	FY24	FY25	FY26E	FY27E
Total Operating Income	2083	1666	25.0	1964	6.0	6299	6245	6924	8652	10587
EBITDA	501	437	14.6	395	26.8	1184	1843	1510	1985	2158
Depreciation	96	83	15.4	93	3.9	231	274	306	361	427
Other Income	32	36	-9.8	42	-23.5	112	175	184	191	197
Interest Cost	5	3	42.8	4	9.6	9	0	0	0	0
Tax	114	97	16.9	92	22.9	265	407	296	461	494
APAT	318	289	10.0	247	28.7	790	1338	1092	1354	1434
Diluted EPS (Rs)						80.0	135.4	110.5	137.1	145.2
RoE-%						20.4	28.8	19.8	21.5	20.1
P/E (x)						16.5	9.7	11.9	9.6	9.1
EV/EBITDA (x)						9.7	6.3	7.7	5.7	4.9

(Source: Company, HDFC sec)

Q1FY26 Result Update:

- MGL's numbers were above expectations in Q1FY26, led by better realisation. However, profitability was impacted due to the higher costs of natural gas resulting from lower APM gas allocation. Net revenue grew by 25% YoY to Rs 2,083 crore in Q1FY26.
- EBITDA rose 14.6% YoY, stood at Rs 501 crore in Q1FY26 and EBITDA margin stood at 24% in Q1FY26 vs. 26.3% in Q1FY25, margin impacted due to higher costs of natural gas. Net Profit rose 10% YoY to Rs 318 crore in Q1FY26. PAT margin stood at 15.3% in Q1FY26 vs. 17.3% in Q1FY25. Revenue/EBITDA and PAT grew +6%/+26.8% and +28.7% QoQ, respectively.
- The company's CNG sales volume grew 2.75% QoQ to 271.3 million standard cubic meters. In the PNG category, sales volume was marginally up by 0.14% QoQ, standing at 113.55 million standard cubic meters.
- Total gas sales at 384.86 million standard cubic meters per day in Q1FY26, vs. 377.44 million standard cubic meters per day in Q4FY25, up 1.1.97% on QoQ. Its realisation grew by 3.9% QoQ.

Q1FY26 Concall takeaways:

- MGL's consolidated volume stood at 4.455 mmscmd in Q1FY26, standalone volume was at 4.23 mmscmd, UEPL's volume was at 0.225 mmscmd. On YoY, MGL's volume grew 9.6% in Q1FY26 vs. +10% in prior quarters. CNG growth at 7.5% YoY, I&C up 26% YoY; domestic PNG up 3.9% YoY.

- Q1FY26 GA-wise volume split (in mmscmd) stood as follows: GA1/GA2/GA3 was 1.90/1.85/0.24, down 1.6/1.6/4% QoQ.
- The company added 66 stations in FY25 (40 MGL, 26 UEPL); 80 targeted in FY26. Most new stations are DBs with lower throughput.
- MGL margin (adj) was at Rs 9.7/scm in Q1FY26 vs. Rs 8.3/scm in Q4FY25. The company guided for Rs 9–9.5/scm for FY26E.
- MGL + UEPL, including JVs, the total capex should be Rs 1300-1400 crore p.a. for the next 2–3 years. The company plans Rs 1300 crore worth of capex is expected to be incurred in FY26E, Rs 1100 crore will be for the core business and balance Rs 200 crore for the new businesses).
- 85% of MGL's volume is to priority sector, which already attracts a Zone 1 tariff. PNGRB's amendment of nationwide application of the uniform zonal tariff of Zone 1 to CNG and DPNG applies to only 15% of MGL's volume. This amendment will reduce cost by Rs 0.6-0.7/kg.
- CNG vehicle additions also fell 25% sequentially to 20,332 from 27,000 in Q4 primarily on the back of a one– third fall in passenger vehicle adds to ~9–10,000 from 15,000 QoQ on account of higher car prices.
- Source wise split of gas sold was 1.69/0.5/0.5/1.15/0.4mmscmd from APM/HPHT/NWG/HH/Spot.

Key Updates

MGL's expansion plan and sales strategy to boost volume growth in the future

MGL has continued to expand and strengthen its network in existing licensing areas. The company operates 471 CNG stations as on June 30, 2025 and 5,224 industrial/commercial PNG customers in Q1FY26. The company's connected domestic households stood at ~2.89 million and laid a total of 652 and 6887 kilometres of steel and PE pipelines, totalling over 7,539 kilometres.

Capex Plan

- The expansion of the National Gas Grid has encouraged the use of natural gas as a fuel throughout the country, and this is helping in the transition towards a gas-based economy. The company achieved its highest-ever capex spent of ~Rs 1000 crore in FY25 vs. Rs 870 crore in FY24, Rs 686 crore in FY23 and Rs 632 crore in FY22. Internal budget approval for capex is in the range of Rs 1100-1,300 crore for the next two years. For FY26E, expected capex is Rs 1300 crore (including Rs. 150 cr for UEPL); ~30% for GA-3, 60–65% for GA-1/2, 15–20% for UEPL.
- MGL to add 180kms of steel pipeline and 250 CNG stations to its existing infrastructure of 690 kms of steel pipeline and 471 CNG stations in the next five years.
- Focus on improving the utilisation of CNG stations at 15 BEST bus depots by allowing them to cater to the CNG demands of large commercial vehicles at these stations during the daytime.
- In FY25, MGL invested Rs 32-34 crore to run a CNG promotion scheme. This scheme resulted in the addition of 624 vehicles. Most of these vehicles were medium and large commercial vehicles and there were ~30 buses.
- Besides, the company has also marked its presence in the emerging electric vehicle space and, to this end, commissioned one EV

charging facility at the CNG station at CGS, Sion, that has begun charging both commercial and passenger electric cars. Continuing with the improvements in its operating capabilities, the company is also expanding its customer base.

Growth strategy:

- Raigad GA, which currently contributes 0.25mmscmd to the total volumes, is expected to touch 0.7mmscmd of volumes in the next 3-4 years, led by opening of three city gate stations in this GA which will reduce the service time significantly, upcoming airport will result in economic activity in adjoining areas leading to increased consumption volumes, and acceleration in addition of CNG stations and household connections.
- UEPL to record volume growth of ~40% in FY26, reaching to 0.2mmscmd, and post double-digit volume growth in the coming years, resulting in volumes of ~1mmscmd in the next 4-5 years.

Expanding into new segments

- MGL has committed a 40% stake in International Battery Company (IBC), which produces lithium-ion batteries.
- MGL has forayed into the electric vehicle mobility segment with an equity investment in 3ev Industries Pvt. Ltd. 3ev is in the business of manufacturing of L5 category 3-wheeler cargo and passenger EVs. Total investment commitment is Rs 96 crore for equity holding of 30.97%. Through this investment, MGL aims to be part of the EV growth story that is playing out in India and globally.
- For the Mumbai Compressed Biogas (CBG) unit with 1,000 ton/ day capacity, MGL has signed an MoU with BMC. According to this, the land for setting up the CBG plant will be provided to MGL free of cost, and BMC will do 90% segregation of the bio-waste.
- MGL's LNG station at Savroli is currently selling ~4.5 tons of LNG every day. One LNG station has been commissioned in Aurangabad and another will be commissioned in Seoni (MP) by the end of Q1FY26E. One station each in Amravati and JNPT is expected to be completed by Q3FY26E.

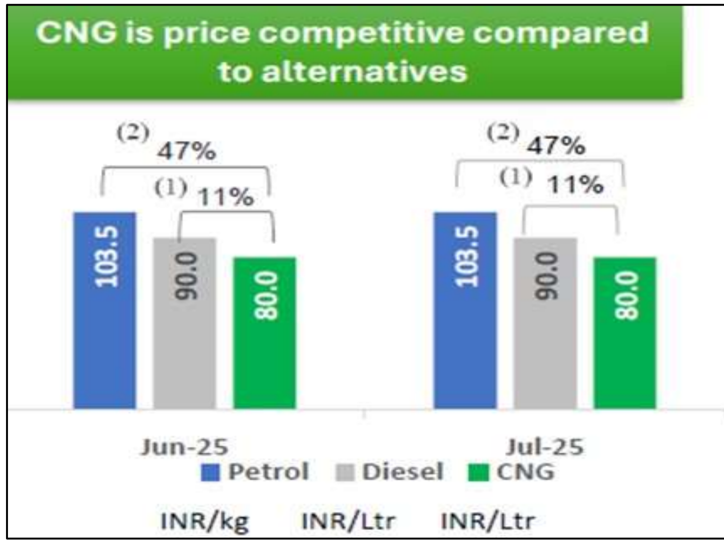
Attractive fuel economics in the CNG and PNG space, supported by lower prices and better mileage factors

India's per capita energy consumption is one-third of the global average, indicating potentially higher energy demand in the long term. Environmentally clean fuels, such as natural gas, are expected to play a dominant role in India's economic growth in the coming years than other fuels like petrol and diesel, etc.

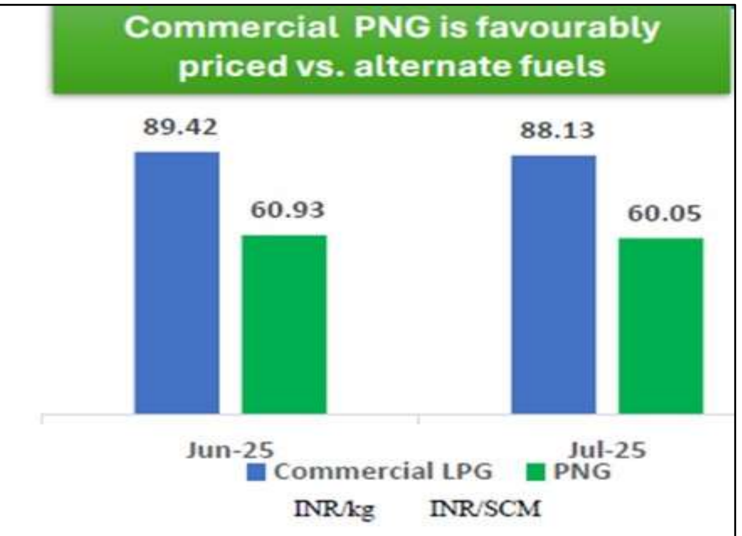
Gas is the cheapest source, based on prices prevailing in Mumbai as on June/July 2025. CNG is available at Rs 80 vs. Diesel at Rs 90, and Petrol is at Rs 103.5 per litre. Mileage of CNG LCV gives 10 km/ kg, Diesel LCV 10 km/ ltr. A petrol car gives a mileage of 18 to 20 kilometres per litre. CNG gives at least 5 to 6 kilometres extra or even more. For a smaller-sized car like the Wagon R, this translates to an average of 26 kilometres per kg of gas. CNG is more than ~30% cheaper than petrol and ~15% cheaper than Diesel prices in Mumbai.

In future, whenever the rationalisation of fares happens, more conversions into CNG vehicles could happen.

Comparison of Alternative Fuel Costs



Commercial PNG Favorably Priced vs. Alternate Fuels



*Price as on June/July, 2025

(Source: Company, HDFC sec)

Sound financial profile with zero debt and robust return ratio.

- MGL reported total operating income grew at a CAGR of ~17% over the last eight years, on a consolidated basis, and the company could report revenue at ~15.2% CAGR over FY25- FY27E.
- MGL's EBITDA and PAT margins were at 21.8% and 15.1% in FY25 vs. 29.5% and 21.4% in FY24, respectively. Margins were impacted mainly by the higher LNG price due to a reduction in APM gas allocation. However, the company has taken a price hike in the Q1FY26, which has resulted in standalone per unit gross margin expansion by ~Rs 1/scm QoQ to Rs 19.2/scm. While standalone EBITDA increased by Rs 2/scm to Rs 12.6/scm (+5.8% YoY, 25.8%. Owing to strong Q1FY26 performance, we revise our standalone per unit EBITDA estimates upwards to INR11.7/11.4 per scm for FY26/FY27E.
- Better profitability could help to report healthy returns going forward; we expect RoE at 21.5%/20.1% for FY26E/FY27E, respectively.
- Along with improvement in the overall gearing, its debt coverage indicators have also improved. Free cash flow is likely to remain positive despite high capex requirements for setting up new gas filling stations across the new geographical areas.
- The company paid dividend of Rs 30 in FY25, dividend yield stood at 2.1%. We expect dividend payment of Rs 48.1/ Rs 55.2 per share to shareholders for FY26E/FY27E, respectively.

Key Risks:

- Economic slowdown, volatility in oil and gas prices and regulatory changes in Oil and Gas industry
- Any unexpected change in the regulations regarding priority in allocation of natural gas for PNG-Domestic and CNG segments
- Longer monsoon period in Mumbai and adjoining areas and
- Declining APM allocation and rising gas costs, but expects margin support from lower crude, stable Henry Hub, and ability to pass on costs.
- Further cut in APM allocation by PNGRB and delay in price hike.

Volumes Detail:

Y/E Mar	Unit	FY22	FY23	FY24	FY24	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Sales volume- Total	**mmscmd**	**3.0**	**3.4**	**3.6**	**4.1**	**3.4**	**3.6**	**3.7**	3.8	4.0	4.2	4.3	4.4	4.5
CNG	mmscmd	2.1	2.5	2.6	2.9	2.5	2.6	2.6	2.7	2.9	3.0	3.1	3.1	3.2
PNG	mmscmd	0.9	0.9	1.0	1.2	0.9	1.0	1.0	1.1	1.1	1.2	1.2	1.3	1.3
Domestic PNG	mmscmd	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.5	0.5	0.6	0.6	0.6
Industrial+Commercial	mmscmd	0.4	0.4	0.5	0.6	0.4	0.5	0.5	0.6	0.5	0.6	0.6	0.7	0.7

(Source: Company, HDFC sec)

Financials

Income Statement

(Rs Cr)	FY23	FY24	FY25	FY26E	FY27E
Net Revenues	6299	6245	6924	8652	10587
Growth (%)	76.9	-0.9	10.9	25.0	22.4
Operating Expenses	5115	4402	5414	6667	8429
EBITDA	**1184**	**1843**	**1510**	**1985**	**2158**
Growth (%)	**28.1**	**55.6**	**-18.1**	**31.5**	**8.7**
EBITDA Margin (%)	**18.8**	**29.5**	**21.8**	**22.9**	**20.4**
Depreciation	231	274	306	361	427
EBIT	**953**	**1569**	**1203**	**1624**	**1731**
Other Income	112	175	184	191	197
Interest expenses	9	0	0	0	0
PBT	**1056**	**1744**	**1387**	**1816**	**1928**
Tax	265	407	296	461	494
RPAT	**790**	**1338**	**1092**	**1354**	**1434**
APAT	**790**	**1338**	**1092**	**1354**	**1434**
Growth (%)	32.3	69.3	-18.4	24.0	5.9
EPS	80.0	135.4	110.5	137.1	145.2

Balance Sheet

As at March (Rs Cr)	FY23	FY24	FY25	FY26E	FY27E
SOURCE OF FUNDS					
Share Capital	99	99	99	99	99
Reserves	4035	5044	5791	6603	7463
Shareholders' Funds	**4134**	**5143**	**5889**	**6702**	**7562**
Long Term Debt	0	0	0	0	0
Net Deferred Taxes	209	244	277	388	416
Long Term Provisions & Others	128	169	197	201	205
Minority Interest	0	0	0	0	0
Total Source of Funds	**4471**	**5556**	**6364**	**7291**	**8182**
APPLICATION OF FUNDS					
Net Block & Goodwill	3026	3543	4104	4695	5486
CWIP	709	774	974	1235	1207
Other Non-Current Assets	292	1048	1235	1242	1250
Total Non Current Assets	**4026**	**5365**	**6313**	**7172**	**7943**
Inventories	34	40	49	60	78
Trade Receivables	294	281	346	432	528
Cash & Equivalents	1538	1417	1369	1736	2358
Other Current Assets	141	123	127	159	194
Total Current Assets	**2006**	**1861**	**1891**	**2387**	**3158**
Short-Term Borrowings	0	0	0	0	0
Trade Payables	322	334	415	513	661
Other Current Liab & Provisions	1239	1336	1425	1755	2257
Total Current Liabilities	**1561**	**1670**	**1840**	**2268**	**2918**
Net Current Assets	445	191	50	119	240
Total Application of Funds	**4471**	**5556**	**6364**	**7291**	**8182**

(Source: Company, HDFC sec)

Mahanagar Gas Ltd.

Cash Flow Statement

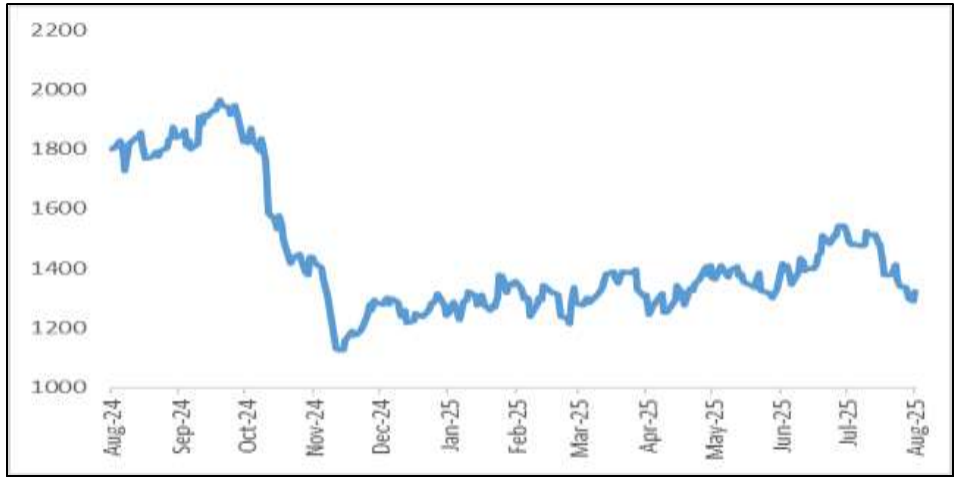
(Rs Cr)	FY23	FY24	FY25	FY26E	FY27E
Reported PBT	1056	1744	1387	1816	1928
Non-operating & EO items	-112	-175	-184	-191	-197
Interest Expenses	9	0	0	0	0
Depreciation	231	274	306	361	427
Working Capital Change	-67	1	44	296	498
Tax Paid	-258	-371	-263	-350	-467
OPERATING CASH FLOW (a)	**860**	**1472**	**1291**	**1930**	**2190**
Capex	-736	-857	-1067	-1212	-1190
Free Cash Flow	124	615	223	718	999
Investments	-1	-611	-128	-3	-3
Non-operating income	112	175	184	191	197
INVESTING CASH FLOW (b)	**-625**	**-1293**	**-1012**	**-1023**	**-996**
Debt Issuance / (Repaid)	15	-3	-31	1	1
Interest Expenses	-9	0	0	0	0
FCFE	130	612	193	720	1001
Share Capital Issuance	0	0	0	0	0
Dividend	-257	-296	-296	-542	-574
FINANCING CASH FLOW (c)	**-251**	**-300**	**-327**	**-540**	**-572**
NET CASH FLOW (a+b+c)	**-16**	**-120**	**-48**	**367**	**622**

Key Ratios

Particulars	FY23	FY24	FY25	FY26E	FY27E
Profitability Ratio (%)					
EBITDA Margin	18.8	29.5	21.8	22.9	20.4
EBIT Margin	15.1	25.1	17.4	18.8	16.3
APAT Margin	12.5	21.4	15.8	15.7	13.5
RoE	20.4	28.8	19.8	21.5	20.1
RoCE	19.0	26.7	18.3	19.8	18.5
Solvency Ratio (x)					
Net Debt/EBITDA	-1.3	-0.8	-0.9	-0.9	-1.1
Net D/E	-0.4	-0.3	-0.2	-0.3	-0.3
Per Share Data (Rs)					
EPS	80.0	135.4	110.5	137.1	145.2
CEPS	103.4	163.1	141.5	173.6	188.4
BV	418.5	520.7	596.2	678.5	765.6
Dividend	26.0	30.0	30.0	54.8	58.1
Turnover Ratios (days)					
Debtor days	17.0	16.4	18.2	18.2	18.2
Inventory days	2.0	2.3	2.6	2.5	2.7
Creditors days	18.7	19.5	21.9	21.6	22.8
Valuation (x)					
P/E	16.5	9.7	11.9	9.6	9.1
P/BV	3.2	2.5	2.2	1.9	1.7
EV/EBITDA	9.7	6.3	7.7	5.7	4.9
EV / Revenues	1.8	1.9	1.7	1.3	1.0
Dividend Yield (%)	2.0	2.3	2.3	4.2	4.4
Dividend Payout(%)	32.5	22.2	27.1	40.0	40.0

(Source: Company, HDFC sec)

One Year Price chart



(Source: Company, HDFC sec)

HDFC Sec Prime Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions.
These stocks
have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Rating Criteria

Buy - > 15%+ return potential
Add - +5% to +15% return potential
Reduce - -10% to +5% return potential
Sell - >10% downside return potential

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Disclosure:

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