KRChoksey INSTITUTIONAL

Mahanagar Gas Ltd

RESULT UPDATE

8th August, 2018

Mahanagar Gas Ltd

Price hike & volume growth lead to a robust quarter

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 961	**INR 1,165**	**21.2%**	**94,076**	**BUY**	**Oil & Gas**

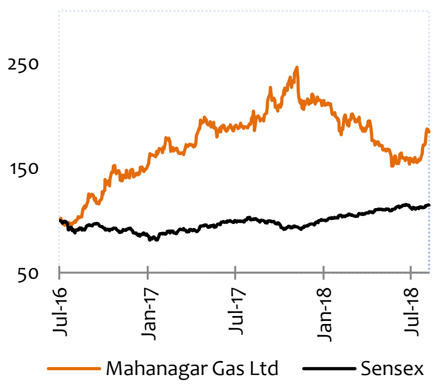
Result highlights

Mahanagar Gas Ltd. (MGL) reported revenues of INR 6.19 bln, (+16.7% YoY and 5.5% QoQ) led by higher volume growth. Total sales volumes for the quarter stood at 2.9 mmscmd – 2.1 mmscmd for CNG and 0.8 mmscmd for PNG. CNG sales volumes increased 12.6% YoY while PNG sales registered a growth of 10.1% YoY. EBITDA stood at INR 2.1 bn, up +4% YoY, however the EBITDA margins declined 416 bps YoY due to a one-time payment to OMCs with respect to increase in marketing margins and also due to rise in other expenses (+24.3% YoY). Other income for the quarter increased by 25.8% YoY. However, it was negated by an increase in D&A by 19.8% YoY thus leading to only a marginal growth in the PAT on a YoY basis which came to INR 1.28 bn (+3.2% YoY, +22.5% QoQ). The tax out-go remained nearly unchanged at 34.8% for the quarter. NPM declined by 270 bps YoY to 20.7%.

MARKET DATA

Shares outs (Mn)	98
Equity Cap (INR Mn)	988
Mkt Cap (INR Mn)	94076
52 Wk H/L (INR)	1345/774
Volume Avg (3m K)	403
Face Value (INR)	10
Bloomberg Code	MAHGL IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	37888
NIFTY	11450

KEY FINANCIALS

Particulars (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operations	20,783	20,340	22,330	28,762	30,812
EBITDA	5,093	6,442	7,801	10,488	10,939
PAT	3,109	3,934	4,779	6,398	6,630
EPS Diluted (Rs.)	31.47	39.83	48.38	64.78	67.12
OPM	24.5%	31.7%	34.9%	36.5%	35.5%
NPM	15.0%	19.3%	21.4%	22.2%	21.5%
P/E (x)	30.5	24.1	19.9	14.8	14.3

Source: Company, KRChoksey Research

Highlights:

Revenues supported by healthy volumes, expect further boost

The company reported revenues at INR 6.19 bln, up 16.7% YoY led by an uptick in the total volumes on a YoY basis by 11.9% due to encouraging conversion rate of CNG vehicles and increased supply of PNG connections to households. Total sales volumes stood at 2.87 mmscmd - CNG volumes grew by 12.6% YoY at 2.1 mmscmd, while PNG grew by 10.1% YoY to 0.74 mmscmd with increased offtake coming from the industrial/commercial segment. The management also attributed higher revenues to increase in price realization for the industrial/commercial segment. MGL hiked PNG price to INR 35.6/scm (INR 34.1/scm in Q1FY18) for the commercial segment while it increased to INR 31.1/scm (INR 24.3/scm in Q1FY18) for the industrial segment. MGL added >20,000 domestic households for PNG taking the total to over 1 mn and expects to connect ~1.5 lakh households in FY19. CNG volumes also surged due to a spike in the 3-wheelers additions in the city. We believe MGL will be able to maintain a robust volume growth on the back of discount as against petrol/diesel and increasing number of 3 wheelers and aggregators. The management has maintained its guidance of a volume growth CAGR of 6% over the next 4-5 years. We estimate total volumes to rise by ~5.2%/4.9% over FY19/20E on account of increased conversion of private vehicles and higher PNG connections from Raigad.

Higher gas prices marginally hit operating margins

EBITDA/scm came in at INR 8.07/scm, up 15.3% QoQ boosted by the price hikes (in Apr & June'18) done during the quarter. However, it declined on a QoQ basis (-7.3%) on account of rising gas prices on account of increased APM prices and rupee depreciation resulting in increased RMAT. Additionally, other operating expenses for the quarter came in higher (+24.3% YoY) leading to lower EBITDA margin at 34.1% (-416 bps YoY).

SHARE HOLDING PATTERN (%)

Particulars	Jun 18	Mar 18	Dec 17
Promoters	56.5	65	65
FIIs	12.7	9.68	9.44
DIIs	7.68	5.56	6.19
Others	23.12	19.77	19.37
Total	100	100	100

12.1%

Revenues CAGR between FY 18 and FY 20E

18.4%

EBITDA between FY 18 and FY 20E

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However, MGL revised its CNG prices in April'18 on account of increase in the APM prices and further in June'18 due to depreciating rupee and increase in the OMC marketing margins. In addition, RLNG prices declined by ~20% to USD 8.74/mmbtu (USD 11/mmbtu). We believe that with both these factors in place, MGL will be able to improve its operating margins at the current levels. Moreover, with the hike of the retail prices of petrol and diesel, CNG prices are relatively at a 35-40% discount thus giving MGL pricing power to maintain its margins. We can expect MGL to maintain its EBITDA/scm levels over INR 7.5-8/scm.

Infrastructure exclusivity

MGL holds infrastructure exclusivity in Mumbai, Thane and Raigad. The license for Mumbai city expires in 2020. However, the management has stated the same can be extended in blocks of 10 years as long as the contract is not breached. The management is confident of the rollover to happen thus making MGL the sole player for the city. With respect to Raigad district, connectivity has been established to supply PNG to over 3,000 households. As for CNG, 5 stations are already operational and the company plans to add 3 more stations in the current quarter. Even with the existing areas that MGL covers, the growth prospects look promising with the govt's push to use the cleaner fuel and with the rising urbanization along with the company's low-investment high yield strategy as stated by the company earlier.

Bright prospects from 9th CGD round of PNGRB

The PNGRB recently in its 9th bidding round of city gas distribution had put up 86 geographical areas (GAs) for bidding out of which MGL has submitted bids for 2-3 districts in each of the states of Tamil Nadu, Telangana and Andhra Pradesh. The management has indicated a volume potential of ~0.8-1 mmscmd each for Andhra Pradesh and Telangana and ~2 mmscmd for Tamil Nadu. The successful conversion of these bids will significantly add to the gas volumes thus improving the company performance.

Valuation & Outlook:

We believe that with more thrust towards the greener fuel and the company's robust expansion plans, MGL will benefit from the same. We remain optimistic on the winning of the GAs which will open new avenues for MGL. The company's focus on increasing its volumes as well its pricing power to pass on any increase in gas costs will significantly help MGL improve on its margins and profitability. The increased prices of alternate fuels such as petrol and diesel will also encourage higher conversion of vehicles to CNG thus benefitting companies like MGL and IGL. We have revised our estimates to factor in the rise in costs as well as the company's expansion plans. We expect the revenues to grow at a CAGR of 12.1% over FY18-20E and EBITDA to grow at a CAGR of 18.4% over FY18-20E. At a CMP of INR 961, the stock is trading at 14.8x of its FY19E earnings and at 14.6x of its FY20E earnings. We valued the company by assigning a multiple of 18x on the FY19E EPs of INR 64.7 and arrived at target price of INR 1,165 (potential upside – 21.2%). **We maintain BUY rating on the stock.**

FINANCIALS PER SCM

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Y-o-Y (%)	Q-o-Q (%)
Sales (INR/scm)	22.73	21.46	23.06	23.11	23.69	4.2%	2.5%
Cost of gas (INR/scm)	9.90	9.52	10.70	11.57	11.21	13.2%	-3.2%
EBITDA (INR/scm)	8.70	8.05	7.97	7.00	8.07	-7.3%	15.3%

Source: Company, KRChoksey Research

SALES VOLUME PERFORMANCE

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Y-o-Y (%)	Q-o-Q (%)
CNG (mmscm)	171.48	183.52	184.5	184.87	193.08	12.6%	4.4%
PNG (mmscm)	62.06	65.18	67.61	66.88	68.34	10.1%	2.2%

Source: Company, KRChoksey Research

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GAS SALES REALIZATION

	FY16	FY17	FY18	FY19E	FY20
CNG realization (INR/scm)	22.2	20.7	21.2	27.0	28.2
PNG realization (INR/scm)	26.0	23.9	26.6	29.0	28.8

Source: Company, KRChoksey Research

GAS SALES VOLUMES

GAS VOLUMES	FY16	FY17	FY18	FY19E	FY20
CNG (mmscm)	660	693	724	760	793
PNG (mmscm)	230	244	262	277	295

Source: Company, KRChoksey Research

CONCALL HIGHLIGHTS:

- MGL is operating 220 CNG stations supplying CNG to more than 630,000 vehicles.
- The steel and PE pipeline network stands at 5,088 kms.
- With respect to Raigad GA, connectivity has been established to supply gas to about 3000 domestic PNG consumers in Uran.
- Gas supply to 6-7 major towns like Ulve, Karjat, Pen in GA 3 is being planned through the virtual pipeline network.
- Gross margin in value terms came higher YoY despite increase in APM gas price and dollar appreciation due to higher volumes of CNG and PNG and better realization in the industrial/commercial consumer category.
- During the quarter, the OMC trade margins were revised with effect from January 15 and INR 12.9 crores has been accounted for during the quarter. The amount is the difference between the provision made and the actual rate offered for the past period.
- MGL is very selective about bidding for the GAs and unless it sees some amount of value creation and a benefit for the company. As for capex, MGL is confident of raising any amount required to carry out the capex. There is cash surplus and company also has ability to borrow or raise any funds.
- Volume potential from the Andhra and Telangana districts bided would be 0.8-1 mmscmd each and for Chennai it would be ~2 mmscmd.
- Price hike taken for the commercial segment consumers was INR 35.63/scm in Q1FY18 as against INR 34.14/scm in Q1FY17.
- For industrial, the price hike was INR 31.11/scm in Q1FY18 as against INR 24.34/scm in Q1FY17.
- Main drivers for the large jump in CNG volumes seen this quarter – addition of conversion in the auto rickshaw category. 3 wheeler addition has been to the tune of 16,000 for Q1FY19 as against addition of 2,800 in Q1FY18. Also, the rise in petrol and diesel prices has resulted in more of CNG conversion.
- While in the priority sector, the gas cost has gone up where as in the industrial and commercial sector is met through imported RLNG. RLNG weighted average cost was ~USD 11/mmbtu in Q4FY18 which has dropped down to USD 8.75/mmbtu for this quarter. So the combination of these 2 sources put together has resulted in the Cost/scm to be in the same range QoQ and YoY. MGL does not have any term LNG. It is primarily into spot LNG which has fallen.
- As per the PNGRB regulations, MGL has the infrastructure exclusitivity for Mumbai till 2020. However, these contracts can be extended in blocks for periods of 10 years as long as the contract is not breached. A rollover is expected to happen for Mumbai district making MGL the sole player.
- Contribution of PMT gas in the total gas mix – in Q1FY18 PMT was 26.1% where as in Q1FY19 PMT is 22.2%. going forward, it will reduce as the PMT contracts are also expiring.
- INR 105 crore bank guarantee that has been imposed for Raigad district - it is regulatory requirement for assurance that the firm is able to carry out the work program commitments.

Mahanagar Gas Ltd

QUARTERLY PERFORMANCE

Particulars (INR Mn)	Q1FY19	Q4FY18	Q1FY18	Q-o-Q (%)	Y-o-Y (%)
Revenue from operations	**6,193**	**5,870**	**5,309**	**5.5%**	**16.7%**
Cost of natural gas & traded items	2,930	2,914	2,312	0.6%	26.7%
Decrease/(Increase) in natural gas stock	-1.00	-0.10	0.10	900.0%	-1100.0%
Cost of Goods Sold (COGS)	2,929	2,914	2,312	0.5%	26.7%
Gross Profit	**3,264**	**2,956**	**2,997**	**10.4%**	**8.9%**
Gross Profit Margin (%)	**52.7%**	**50.4%**	**56.4%**	***235 bps***	***-374 bps***
Employee benefit expense	169	161	175	4.8%	-3.3%
Other expenses	986	1,033	793	-4.6%	24.3%
Total Operating Expenditure	1,155	1,194	968	-3.3%	19.3%
EBITDA	**2,109**	**1,762**	**2,029**	**19.7%**	**4.0%**
EBITDA Margin (%)	**34.1%**	**30.0%**	**38.2%**	***405 bps***	***-416 bps***
Depreciation and Amortization Expense	295	339	246	-13.1%	19.8%
EBIT	1,814	1,422	1,783	27.6%	1.8%
Finance Cost	0.6	0.6	0.1		500.0%
Other Income	153	174	122	-11.6%	25.8%
Profit before Tax (PBT)	**1,967**	**1,595**	**1,904**	**23.3%**	**3.3%**
Tax Expense	684	548	661	24.9%	3.4%
Adj. Profit after Tax (PAT)	**1,283**	**1,048**	**1,243**	**22.5%**	**3.2%**
Net Profit Margin (%)	**20.7%**	**17.8%**	**23.4%**	***287 bps***	***-270 bps***
NPM (%)	**20.7%**	**17.8%**	**23.4%**		
EPS Basic (INR)	**12.99**	**10.61**	**12.59**	**22.5%**	**3.2%**

Source: Company, KRChoksey Research

INCOME STATEMENT

Particulars (INR Million)	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operations	**20,783**	**20,340**	**22,330**	**28,762**	**30,812**
Cost of good sold	12,297	10,184	10,291	13,050	14,173
Gross Profit	**8,486**	**10,156**	**12,039**	**15,712**	**16,638**
Gross Margin (%)	**40.8%**	**49.9%**	**53.9%**	**54.6%**	**54.0%**
Employee benefit expenses	563	600	670	718	769
Other expenses	2,830	3,114	3,568	4,506	4,930
Total Operating Expense	3,393	3,714	4,238	5,224	5,699
EBITDA	**5,093**	**6,442**	**7,801**	**10,488**	**10,939**
EBITDA Margin (%)	**24.5%**	**31.7%**	**34.9%**	**36.5%**	**35.5%**
Depreciation	826	951	1,112	1,433	1,615
EBIT	4,267	5,490	6,689	9,055	9,325
Finance Cost	22	10	1	2	2
Other Income	472	527	577	674	756
Profit before Tax (PBT)	**4,716**	**6,007**	**7,265**	**9,728**	**10,079**
Total Tax expense	1,607	2,072	2,487	3,329	3,450
Profit after Tax (PAT)	**3,109**	**3,934**	**4,779**	**6,398**	**6,630**
PAT Margin (%)	**15.0%**	**19.3%**	**21.4%**	**22.2%**	**21.5%**
EPS Basic (INR)	**31.47**	**39.83**	**48.38**	**64.78**	**67.12**

Source: Company, KRChoksey Research

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Mahanagar Gas Ltd

BALANCE SHEET

Particulars (INR Million)	FY16	FY17	FY18	FY19E	FY20E
EQUITY AND LIABILITIES					
Equity					
Share capital	893	988	988	988	988
Reserves and surplus	16,391	17,413	19,966	23,349	26,854
Total Equity	**17,284**	**18,400**	**20,953**	**24,336**	**27,841**
Non-current liabilities					
Long term borrowings	44	27	12	25	26
Long term provisions	112	140	148	173	185
Other non-current liabilities	1,204	1,378	1,757	2,059	2,205
Total non-current liabilities	**1,360**	**1,545**	**1,916**	**2,257**	**2,416**
Current liabilities					
Trade Payables	1,116	1,201	1,100	1,418	1,519
Other Financial Liabilities	3,462	4,629	5,688	6,670	7,145
Short term provisions	116	67	51	60	65
Other Current liabilities	366	401	393	459	491
Total current liabilities	**5,061**	**6,297**	**7,233**	**8,607**	**9,220**
SOURCES OF FUNDS	**23,705**	**26,243**	**30,102**	**35,200**	**39,478**
ASSETS					
Non-current assets					
Net Block	15,576	17,163	18,886	22,241	25,544
Financial Assets	183	225	431	431	462
Other non-current assets	556	895	1,031	1,031	1,087
Total non-current assets	**16,314**	**18,283**	**20,347**	**23,703**	**27,093**
Current Assets					
Inventories	180	238	240	315	338
Other Financial Assets	5,278	6,021	8,425	9,989	10,701
Cash and bank balances	1,750	1,481	919	992	1,130
Other current assets	182	220	172	201	215
Total current assets	**7,390**	**7,959**	**9,755**	**11,498**	**12,385**
APPLICATION OF FUNDS	**23,705**	**26,243**	**30,102**	**35,200**	**39,478**

Source: Company, KRChoksey Research

Mahanagar Gas Ltd

CASH FLOW STATEMENT

Particulars (INR Million)	FY16	FY17	FY18	FY19E	FY20E
Profit before Tax (PBT)	**4,716**	**6,007**	**7,265**	**9,728**	**10,079**
Operating profit before working capital changes	5,247	6,604	8,405	11,163	11,696
Cash Generated from/(used in) operations	5,691	7,329	9,876	12,382	12,206
Less: Income Tax Paid (net of refunds)	-1,501	-1,862	-2,487	-3,329	-3,450
Net Cash generated from/(used in) operating activities	4,190	5,467	7,389	9,052	8,757
Net Cash Used In Investing Activities	-2,222	-2,777	-5,045	-5,975	-5,493
Net Cash Used in Financing Activities	-1,914	-2,838	-2,268	-3,004	-3,125
Net Increase/(Decrease) in Cash and Cash Equivalents	**54**	**-148**	**76**	**73**	**138**
Cash and Cash Equivalents at the beginning of the year	**168**	**222**	**74**	**150**	**223**
Cash and Cash Equivalents at the end of the year	**222**	**74**	**150**	**223**	**362**
Add: Bank Balance	1,528	1,407	769	769	769
Cash & Bank balance	**1,750**	**1,481**	**919**	**992**	**1,130**

Source: Company, KRChoksey Research

RATIOS

Particulars	FY16	FY17	FY18	FY19E	FY20E
Profitability					
Return on Assets (%)	13.1%	15.0%	15.9%	18.2%	16.8%
Return on Capital (%)	24.6%	29.8%	31.9%	37.2%	33.5%
Return on Equity (%)	18.0%	21.4%	22.8%	26.3%	23.8%
Margin Trend					
Gross Margin (%)	40.8%	49.9%	53.9%	54.6%	54.0%
EBITDA Margin (%)	24.5%	31.7%	34.9%	36.5%	35.5%
Net Margin (%)	15.0%	19.3%	21.4%	22.2%	21.5%
Liquidity					
Current Ratio	1.5	1.3	1.3	1.3	1.3
Quick Ratio	0.5	0.4	0.3	0.3	0.3
Debtor Days	16	17	15	15	15
Inventory Days	3	4	4	4	4
Creditor Days	20	22	18	18	18
Working Capital Days	0	0	1	1	1
Solvency					
Total Debt / Equity	0.0	0.0	0.0	0.0	0.0
Interest Coverage	159	451	704	864	882
Valuation Ratios					
EV/EBITDA	18.30	14.51	12.05	8.96	8.58
P/E	30.5	24.1	19.9	14.8	14.3
P/B	5.5	5.2	4.5	3.9	3.4

Source: Company, KRChoksey Research

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Mahanagar Gas Ltd				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
8-Aug-18	961	1182	BUY	**Buy**	More than 15%
28-May-18	833	940	BUY	**Accumulate**	5% – 15%
14-Feb-18	1046	1280	BUY	**Hold**	0 – 5%
10-Nov-17	1159	1400	BUY	**Reduce**	-5% – 0
				Sell	Less than – 5%

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