Mahanagar Gas

Accumulate

DART — DOLAT ANALYSIS & RESEARCH THEMES — IN-DEPTH• PRECISE• ACTIONABLE

Result Update

Volume traction with strong spreads. Maintain Accumulate.

MGL Q3FY19 numbers were ahead of estimates on all parameters. Higher realizations were driven by price hikes taken during Q3FY19. Spreads were at all-time high and we do not see much expansion in the spreads going forward. CNG growth on a sequential basis got impacted due to strike by cab aggregators. Growth in the PNG segment – domestic as well as industrial has been encouraging and we expect this traction to continue driven by economics of alternate fuels. With ongoing capital expenditure, MGL is looking to increase its footprints especially in the Raigad region. Green fuel push by the government will entail easy availability of gas supplies. Risk to our call is the apprehension of BG Asia selling its stake. Maintain Accumulate.

Volume Growth Outlook – Getting stronger

With 9MFY19 volume growth at 9.8%, we expect MGL to close FY19 with a volume growth in excess of 9.5%. CNG volumes during Q3FY19 saw a blip due to strike of cab aggregators, but we expect this to bounce back. Thrust on expanding reach is benefitting as new domestic and industrial customers are coming on board. We believe that MGL will have a volume CAGR of 9% plus during FY19 – FY21.

Strong spreads – core strength of MGL

MGL has demonstrated its pricing power by taking regular pricing hikes to cover up increase in input cost and regular expenditure. MGL also has the advantage of paying lesser transmission tariff as compared to other peers due to its proximity to source of gas. MGL spreads are an all-time high and we do not see much expansion in the spreads from the current levels. In circumstances of any sharp rise in gas cost, MGL has the ability to protect its spreads at current levels.

Distribution Reach – Key for growth

MGL has well penetrated network in Mumbai, however, the same level is lacking in other areas like Raigad. MGL has upped the ante in expanding reach through pipeline network and opening of new CNG stations. CNG is a big opportunity and we expect MGL to capitalize on this in next 2 years by adding nearly 10 new stations in this region. For PNG growth – pipeline approvals were a must and they have started to come in now. MGL is likely to expand its steel and PE pipeline significantly in this region in coming years.

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	7,527	5,814	29.5	6,965	8.1
Total Expense	5,136	3,804	35.0	4,750	8.1
EBITDA	2,391	2,010	19.0	2,215	8.0
Depreciation	328	268	22.4	308	6.4
EBIT	2,063	1,742	18.4	1,907	8.2
Other Income	204	141	45.1	182	12.2
Interest	1	0		1	-21
EBT	2,266	1,883	20.4	2,087	8.6
Tax	783	643	21.8	724	8.1
RPAT	1,483	1,240	19.6	1,363	8.8
APAT	1,483	1,240	19.6	1,363	8.8
			(bps)		(bps)
Gross Margin (%)	49.1	53.6	(456)	48.9	20
EBITDA Margin (%)	31.8	34.6	(280)	31.8	(3)
NPM (%)	19.7	21.3	(162)	19.6	14
Tax Rate (%)	34.6	34.1	41	34.7	(15)
EBIT Margin (%)	27.4	30.0	(255)	27.4	4

CMP	₹ 912
Target / Upside	₹ 1,005 / 10%
BSE Sensex	35,591
NSE Nifty	10,652

Scrip Details

Equity / FV	₹ 988mn / ₹ 10
Market Cap	₹ 90bn
	US$ 1bn
52-week High/Low	₹ 1,071/₹ 756
Avg. Volume (no)	2,89,849
NSE Symbol	MGL
Bloomberg Code	MAHGL IN

Shareholding Pattern Dec'18(%)

Promoters	42.5
MF/Banks/FIs	13.4
FIIs	22.2
Public / Others	21.9

Valuation (x)

	FY19E	FY20E	FY21E
P/E	15.8	14.5	13.7
EV/EBITDA	10.1	9.1	8.4
ROE (%)	24.0	23.5	22.8
RoACE (%)	35.7	34.3	32.7

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	27,661	31,175	35,088
EBITDA	8,985	9,851	10,510
PAT	5,699	6,207	6,578
EPS (₹)	57.7	62.8	66.6

VP Research: Priyank Chandra
Tel: +91 22 40969737
E-mail: priyank@dolatcapital.com

AVP Research: Nidhi Doshi
Tel: +91 22 40969795
E-mail: nidhid@dolatcapital.com

DOLAT CAPITAL

Valuation

MGL is an excellent cash annuity model with decent dividend yield. Promoter offloading some stake has weighed down on the valuations, however, we feel that this should go away with passage of time and strong operational performance. With volume outlook looking better than past and spreads likely to sustain, outlook gets better. Based on DCF valuation, we maintain our Accumulate rating with a target price of ₹ 1,005.

Exhibit 1: KPI's

Volume Data	Q3FY19	Q3FY18	YoY(%)	Q2FY19	QoQ(%)	9MFY19	9MFY18	YoY(%)
CNG (in MMSCM)	199.8	184.5	8.3	200.5	(0.3)	593.4	539.5	10.0
PNG- Domestic (in MMSCM)	35.5	31.4	13.3	33.5	6.1	102.3	90.8	12.7
PNG - Industrial/Commercial (in MMSCM)	37.1	36.2	2.5	38.3	(3.1)	110.5	104.1	6.2
PNG- Total (in MMSCM)	72.7	67.6	7.5	71.8	1.2	212.9	194.9	9.2
Total Volume (in MMSCM)	**272.5**	**252.1**	**8.1**	**272.3**	**0.1**	**806.2**	**734.4**	**9.8**
Total Volume (MMSCMD)	**2.96**	**2.7**	**8.1**	**2.96**	**0.1**	**2.93**	**2.67**	**9.8**
CNG Net Sales Value (₹ Mn)	5,038	3,981	26.6	4,667	8.0	13,867	11,392	21.7
PNG Sales Value (₹ Mn)	2,436	1,795	35.7	2,251	8.2	6,675	4,961	34.5
Total Sales Value (₹ Mn)	**7,475**	**5,776**	**29.4**	**6,918**	**8.0**	**20,541**	**16,353**	**25.6**
CNG Net Realization Value (₹ / SCM)	25.2	21.6	16.9	23.3	8.3	23.4	21.1	10.7
Spread Earned (₹ / SCM)	11.1	10.9	2.4	10.2	9.3	10.6	11.1	(4.6)
PNG Realization Value (₹ / SCM)	33.5	26.5	26.3	31.3	6.9	31.4	25.5	23.2
Spread Earned (₹ / SCM)	19.4	15.9	22.7	18.3	6.5	18.6	15.4	20.3
Gas Cost (₹ / SCM)	14.1	10.7	31.5	13.1	7.6	12.8	10.0	27.5
Blended Realization (₹ / SCM)	27.4	22.9	19.7	25.4	8.0	25.5	22.3	14.4
Blended Spread (₹ / SCM)	13.4	12.2	9.4	12.3	8.4	12.7	12.2	3.7
EBIDTA Spread (₹ / SCM)	8.8	8.0	10.1	8.1	7.9	8.3	8.2	1.3

Source: Company, DART

Key Highlights

- Revenue increased by 8.1% on a sequential basis and by 29.5% on a YoY basis to ₹. 7,527 mn.
- Raw Material cost increased by 7.6% on a sequential basis and by 42.2% on a YoY basis to ₹ 3,835 mn.
- Employee cost de-grew on a sequential basis by 3% and grew by 4% on a YoY basis to ₹ 175 mn.
- Other expenditure increased by 11.8% on a sequential basis and by 19.9% on a YoY basis to ₹ 1,127 mn.
- MGL made an operating profit ₹ 2,391 mn in Q3FY19 as compared to an operating profit of ₹ 2,010 mn in Q3FY18 which was a growth of 19%.
- Depreciation increased by 6.4% on a sequential basis and by 22.4% on a YoY basis to ₹ 328 mn.
- Other income increased by 12.2% on a sequential basis and by 45.1% on a YoY basis to ₹. 204 mn.
- MGL made a net profit of ₹. 1,483 mn in Q3FY19 as compared to a net profit of ₹. 1,240 mn in Q3FY18 registering a growth of 19.6% on a YoY basis.
- Volume growth in CNG segment was at 8.3% and PNG segment witnessed a growth of 7.5% on YoY basis. Overall volumes increased by 8.1% on a YoY basis to 2.96 MMSCMD for this quarter. Volumes for 9MFY19 were 2.93 mmscmd which was a growth of 9.8% YoY.
- Gross spread in the CNG segment was at ₹. 11.1 per SCM registering a growth of 2.4% on a YoY basis.
- Gross spread in the PNG segment increased by 22.7% to ₹. 19.4 per SCM on a YoY basis.
- Gross spread on a blended basis was at ₹ 13.4 per SCM and EBIDTA spread was at ₹ 8.8 per SCM.

Conference Call KTA's

Green Fuel Push

- Green fuels are getting a push due to favorable policy and guidelines from government. 9th round of bidding by PNGRB was a success and so is the expectation for the ongoing 10th round of bidding by PNGRB which includes 50 GA's across 124 districts. There are more launches of OEM fitted CNG cars and NITI AYOG plans of laying additional 10,000 kms of pipeline to existing 16,500 kms which will increase connection to 326 cities and towns by 2022.

MGL Statistics

- MGL added 26,286 domestic PNG connections in Q3FY19 which increases the PNG connection to 1 mn plus.
- Added 77 Industrial and Commercial customers in Q3FY19 taking the number of total Industrial and Commercial customers to 3,700.
- As of December 2018, MGL has 224 CNG stations.
- Total steel and PE pipeline length is 5,181 kms.
- Industrial volumes in Q3FY19 was 0.224 mmscmd and Commercial volumes in Q3FY19 was 0.180 mmscmd.
- Realizations for Industrial and Commercial customers was ₹ 44/SCM as against ₹ 40/SCM (QoQ). Realizations for Industrial customers were ₹ 37/scm as against ₹ 35/SCM in Q2FY19.

Raigad District

- Total of 3,311 domestic connections are there in Uran and adjacent areas.
- They have planned gas supply to Pen, Uran, Karjat through virtual pipeline.
- 1 CNG station was added in Q3FY19, which take the total number of CNG stations in Raigad to 7 as on December 2018.
- CNG sales in this region is 2,500-3,000 kg per day.
- Major volumes from Raigad are expected to come from CNG followed by Industrial customers.

Dip in Volumes QoQ

- There was a dip in CNG volumes QoQ due to Ola and Uber strike and school vacations during Diwali.
- There are a total of 35,000-40,000 Ola and Uber consuming 8-9 kgs CNG per day.
- Industrial PNG segment de-grew QoQ due to closure of units during festive season.

Addition of three-wheeler and 4 wheeler

- There was no appreciable change witnessed in addition of three-wheeler and 4 wheeler vehicles during the quarter.
- Around 6,000 addition take place every month.
- BEST sales are 70,000 kg per day.

Capex

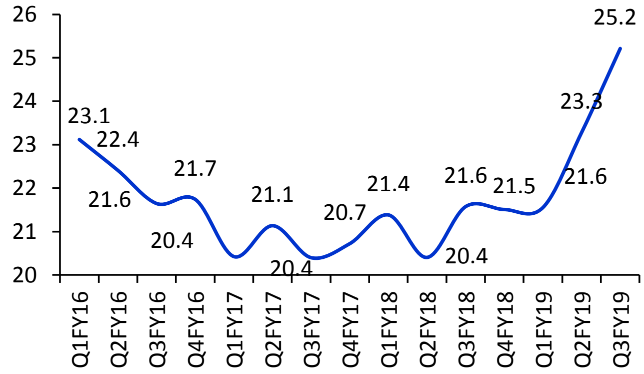
- MGL plan to add 20 CNG station by FY19.
- Capex for FY19 is ₹ 3,750 mn. Similar capex will be there or next couple of year.
- Out of ₹ 3,750 mn, maintenance capex is 10-15% of total capex.

Gas Price

- Spot price during Q3FY19 was $9-10 mmbtu.
- Industrial/Commercial selling price have increased 20% from June till date.

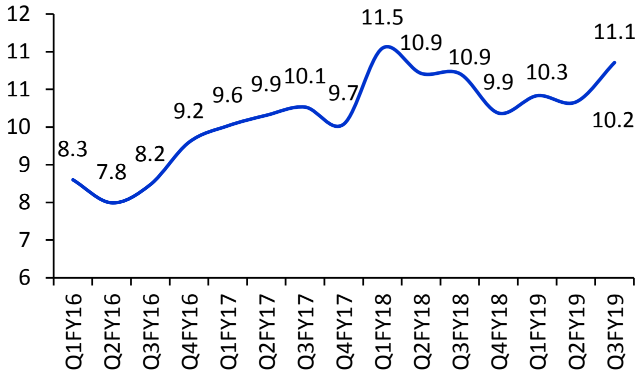
Quarterly Charts

Exhibit 2: CNG Realization Value (₹ / SCM)



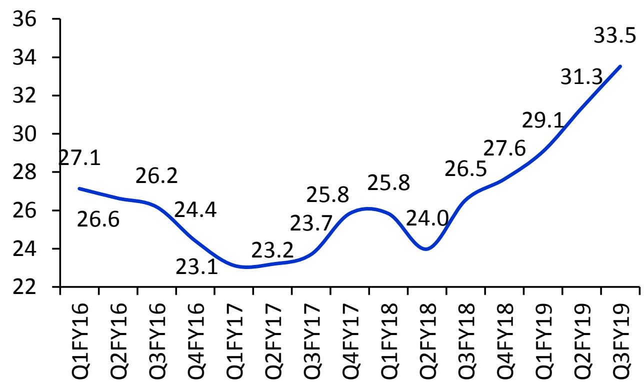
Source: Company, DART

Exhibit 3: CNG Spread (₹ / SCM)



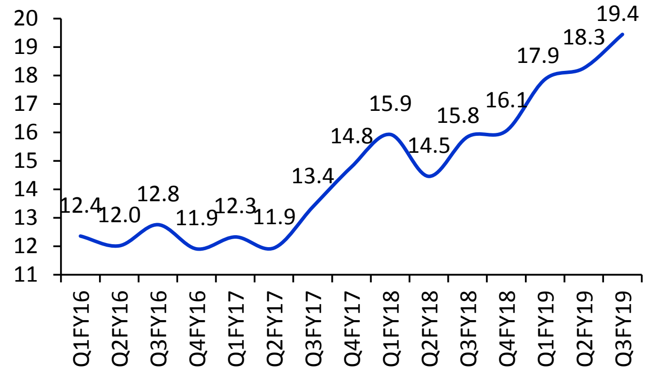
Source: Company, DART

Exhibit 4: PNG Realization (₹ / SCM)



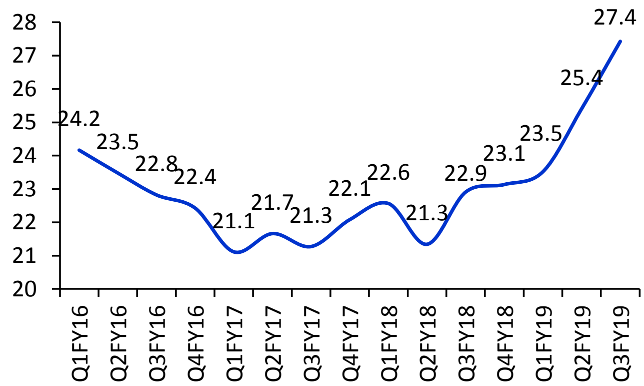
Source: Company, DART

Exhibit 5: PNG Spread (₹ / SCM)



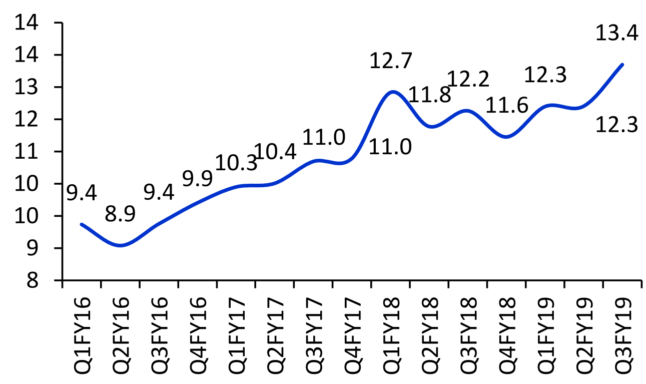
Source: Company, DART

Exhibit 6: Blended Realization (₹ / SCM)



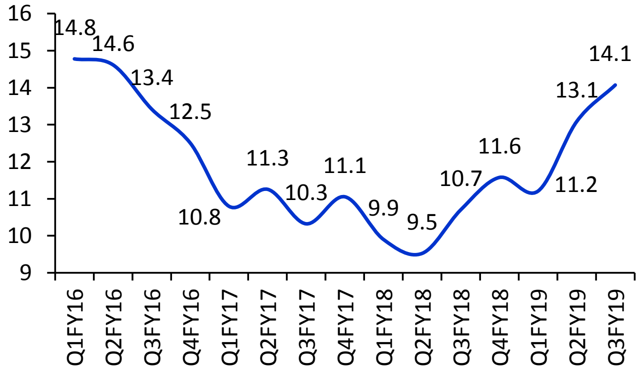
Source: Company, DART

Exhibit 7: Blended Spread (₹ / SCM)



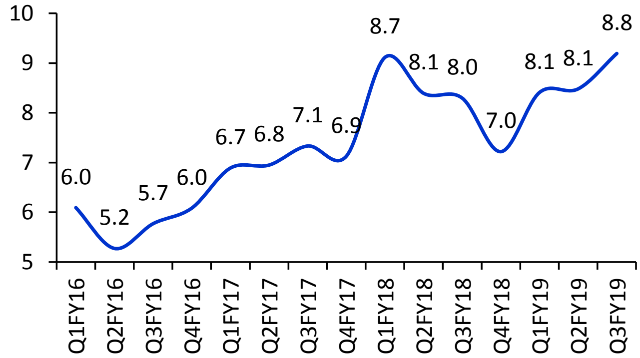
Source: Company, DART

Exhibit 8: Gas Cost (₹ / SCM)



Source: Company, DART

Exhibit 9: EBIDTA Spread (₹ / SCM)



Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	**22,330**	**27,661**	**31,175**	**35,088**
Total Expense	**14,529**	**18,676**	**21,324**	**24,578**
COGS	10,291	13,841	15,812	18,373
Employees Cost	670	691	841	947
Other expenses	3,568	4,144	4,672	5,258
EBIDTA	**7,801**	**8,985**	**9,851**	**10,510**
Depreciation	1,112	892	993	1,094
EBIT	**6,689**	**8,093**	**8,858**	**9,415**
Interest	1	2	2	2
Other Income	577	610	620	630
Exc. / E.O. items	0	0	0	0
EBT	**7,265**	**8,701**	**9,476**	**10,043**
Tax	2,486	3,002	3,269	3,465
RPAT	4,779	5,699	6,207	6,578
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**4,779**	**5,699**	**6,207**	**6,578**

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	988	988	988	988
Minority Interest	0	0	0	0
Reserves & Surplus	19,966	22,734	25,433	27,813
Net Worth	**20,953**	**23,721**	**26,421**	**28,801**
Total Debt	12	462	912	1,362
Net Deferred Tax Liability	1,748	1,836	1,927	2,024
Total Capital Employed	**22,714**	**26,019**	**29,260**	**32,186**
Applications of Funds				
Net Block	**15,319**	**16,058**	**17,315**	**18,470**
CWIP	3,566	1,585	1,545	1,459
Investments	6,877	7,014	7,155	7,298
Current Assets, Loans & Advances	**4,340**	**3,907**	**6,065**	**8,125**
Inventories	240	242	299	336
Receivables	916	1,135	1,365	1,537
Cash and Bank Balances	919	102	1,694	3,228
Loans and Advances	1,375	1,581	1,818	2,091
Other Current Assets	891	846	888	933
Less: Current Liabilities & Provisions	**7,389**	**2,545**	**2,819**	**3,166**
Payables	1,100	1,480	1,690	1,964
Other Current Liabilities	6,288	1,065	1,128	1,202
Net Current Assets	(3,049)	1,362	3,246	4,959
Total Assets	**22,714**	**26,019**	**29,260**	**32,186**

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	53.9	50.0	49.3	47.6
EBIDTA Margin	34.9	32.5	31.6	30.0
EBIT Margin	30.0	29.3	28.4	26.8
Tax rate	34.2	34.5	34.5	34.5
Net Profit Margin	21.4	20.6	19.9	18.7
(B) As Percentage of Net Sales (%)				
COGS	46.1	50.0	50.7	52.4
Employee	3.0	2.5	2.7	2.7
Other	16.0	15.0	15.0	15.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	9,309	4,797	5,236	5,570
Inventory days	4	3	3	3
Debtors days	15	15	16	16
Average Cost of Debt	4.6	0.8	0.3	0.2
Payable days	18	20	20	20
Working Capital days	(50)	18	38	62
FA T/O	1.5	1.7	1.8	1.9
(D) Measures of Investment				
AEPS (₹)	48.4	57.7	62.8	66.6
CEPS (₹)	59.6	66.7	72.9	77.7
DPS (₹)	19.0	25.0	30.0	36.0
Dividend Payout (%)	39.3	43.3	47.7	54.1
BVPS (₹)	212.1	240.2	267.5	291.6
RoANW (%)	22.8	24.0	23.5	22.8
RoACE (%)	34.2	35.7	34.3	32.7
RoAIC (%)	36.2	36.5	35.4	35.5
(E) Valuation Ratios				
CMP (₹)	912	912	912	912
P/E	18.8	15.8	14.5	13.7
Mcap (₹ Mn)	90,065	90,065	90,065	90,065
MCap/ Sales	4.0	3.3	2.9	2.6
EV	89,158	90,425	89,282	88,198
EV/Sales	4.0	3.3	2.9	2.5
EV/EBITDA	11.4	10.1	9.1	8.4
P/BV	4.3	3.8	3.4	3.1
Dividend Yield (%)	2.1	2.7	3.3	3.9
(F) Growth Rate (%)				
Revenue	9.8	23.9	12.7	12.6
EBITDA	21.1	15.2	9.6	6.7
EBIT	21.8	21.0	9.5	6.3
PBT	21.0	19.8	8.9	6.0
APAT	21.5	19.3	8.9	6.0
EPS	21.5	19.3	8.9	6.0

Cash Flow

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	6,521	1,388	6,947	7,542
CFI	(4,187)	997	(2,345)	(2,307)
CFF	(2,258)	(2,433)	(3,009)	(3,701)
FCFF	3,833	1,738	4,738	5,378
Opening Cash	74	150	102	1,694
Closing Cash	150	102	1,694	3,228

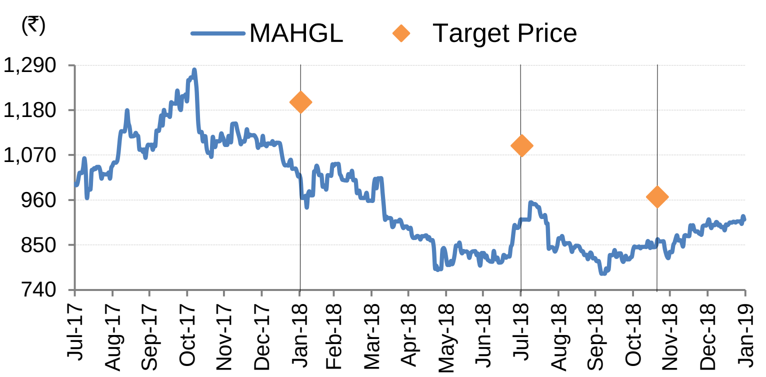
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Feb-18	Accumulate	1,200	1,008
Aug-18	Accumulate	1,093	912
Nov-18	Accumulate	968	863

*Price as on recommendation date

DART Team

Purvag Shah	**Managing Director**	**purvag@dolatcapital.com**	**+9122 4096 9747**
Amit Khurana, CFA	**Head of Equities**	**amit@dolatcapital.com**	**+9122 4096 9745**

CONTACT DETAILS

Equity Sales	**Designation**	**E-mail**	**Direct Lines**
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Equity Trading	**Designation**	**E-mail**	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu
Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com