MOTILAL OSWAL

29 January 2019

3QFY19 Results Update | Sector: Oil & Gas

Mahanagar Gas

BSE SENSEX	S&P CNX
35,593	10,652

Bloomberg	MAHGL IN
Equity Shares (m)	99
M.Cap.(INRb)/(USDb)	90.9 / 1.3
52-Week Range (INR)	1133 / 757
1, 6, 12 Rel. Per (%)	4/2/-9
12M Avg Val (INR M)	507
Free float (%)	57.5

Financials & Valuations (INR b)

Y/E March	2019E	2020E	2021E
Sales	28.4	31.7	35.8
EBITDA	9.2	9.3	10.1
Adj. PAT	5.6	5.9	6.6
Adj. EPS (INR)	57.1	59.8	66.8
EPS Gr. (%)	18.1	4.7	11.6
BV/Sh.(INR)	244.5	278.4	316.2
RoE (%)	25.0	22.9	22.5
RoCE (%)	25.0	22.9	22.5
Payout (%)	43.3	43.3	43.3
Valuation			
P/E (x)	15.8	15.1	13.5
P/BV (x)	3.7	3.2	2.8
EV/EBITDA (x)	9.1	8.4	7.3
Div. Yield (%)	2.3	2.4	2.7

Estimate change	↑
TP change	↔
Rating change	↔

CMP: INR920 TP: INR1300 (+41%) Buy

Volume growth impressive; EBITDA/scm outperformance driven by Fx

- Against our expectation of +6% volume growth, MAHGL's total volume growth came in at +8% YoY for 3QFY19. INR appreciation helped the company to increase its EBITDA/scm from INR8.1 in 2QFY19 to INR8.8 in the quarter. Led by higher volumes and margins, EBITDA came in at INR2.4b (est. INR2.2b, +19% YoY, +8% QoQ), while PAT came in at INR1.5b (est. INR1.3b, +20% YoY, +9% QoQ).
- **CNG segment** grew at 8% YoY while total PNG growth stood at 7%. Within PNG, domestic volume grew at 13% YoY, 6% QoQ. MAHGL's total sales volume stood at 2.96mmscmd, a growth of 8% YoY, flat sequentially.
- **EBITDA/scm:** After EBITDA/scm of INR8.1 in 1HFY19, the same grew to INR8.8 in the quarter. The last price hike taken reflected a much higher INR and appreciation in the same resulted in margin expansion.

Valuation and view

- MAHGL's performance has been encouraging in terms of volume growth. However, its EBITDA/scm is the highest among listed players and looks unsustainable in the long term. We increase our EBITDA/scm assumption to INR8.5 for FY19, but retain our earlier assumption of INR7.9 for FY20 and INR7.8 for FY21.
- With 9MFY19 EPS at INR41.8, we raise our FY19 EPS estimate from INR53.7 to INR57.1. EPS estimates for FY20 and FY21 have been marginally raised. Against estimated 10% volume growth in FY19, we expect volume growth of ~9% in FY20 and FY21. We believe that the government's focus on reducing pollution would enable better incentives for adoption of CNG in transportation as well as in industrial/commercial segments. The stock trades at 15.1x FY20E EPS of INR59.8. We value MAHGL at 20x Dec'20 EPS to arrive at a fair value of INR1,300/share, implying an upside of 41%. Maintain **Buy**.

Standalone - Quarterly Earning Model (INR Million)

Y/E March	FY18				FY19				FY18	FY19E	FY19	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	vs Est.
Net Sales	5,309	5,338	5,814	5,870	6,193	6,965	7,527	7,788	22,330	28,436	6,845	10%
YoY Change (%)	9.8	2.5	15.3	11.7	16.7	30.5	29.5	32.7	9.8	27.3	28.2	
Total Expenditure	3,276	3,335	3,805	4,108	4,084	4,750	5,136	5,336	14,524	19,275	4,679	10%
EBITDA	2,033	2,003	2,009	1,762	2,109	2,215	2,391	2,451	7,806	9,160	2,166	10%
EBITDA/SCM	8.7	8.1	8.0	7.0	8.1	8.1	8.8	8.8	7.9	8.5	8.1	8%
Margins (%)	38.3	37.5	34.6	30.0	34.1	31.8	31.8	31.5	35.0	32.2	31.6	
Depreciation	246	259	268	339	295	308	328	458	1,112	1,388	356	-8%
Interest	2	0	0	1	1	1	1	0	3	3	0	
Other Income	120	139	141	174	153	182	204	303	574	842	162	26%
PBT	1,904	1,883	1,883	1,595	1,967	2,087	2,266	2,297	7,265	8,611	1,972	15%
Tax	661	635	643	548	684	724	783	779	2,487	2,970	668	17%
Rate (%)	34.7	33.7	34.1	34.3	34.8	34.7	34.6	33.9	34.2	34.5	33.9	
Reported PAT	1,243	1,248	1,240	1,048	1,283	1,363	1,483	1,518	4,779	5,641	1,303	14%
Adj PAT	1,243	1,248	1,240	1,048	1,283	1,363	1,483	1,518	4,779	5,641	1,303	14%
YoY Change (%)	34.1	22.1	25.2	5.3	3.2	9.2	19.6	44.9	21.5	18.1	4.4	
Margins (%)	23.4	23.4	21.3	17.8	20.7	19.6	19.7	19.5	21.4	19.8	19.0	
Sales Volumes (mmscmd)												
CNG	1.9	2.0	2.0	2.1	2.1	2.2	2.2	2.2	2.0	2.2	2.1	3%
PNG - Domestic	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.4	3%
PNG - Industry/ Commercial	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.4	0.4	0.4	-5%
PNG - Total	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.9	0.7	0.8	0.8	-1%
Total Volumes	2.6	2.7	2.7	2.8	2.9	3.0	3.0	3.1	2.7	3.0	2.9	2%

E: MOSL Estimates

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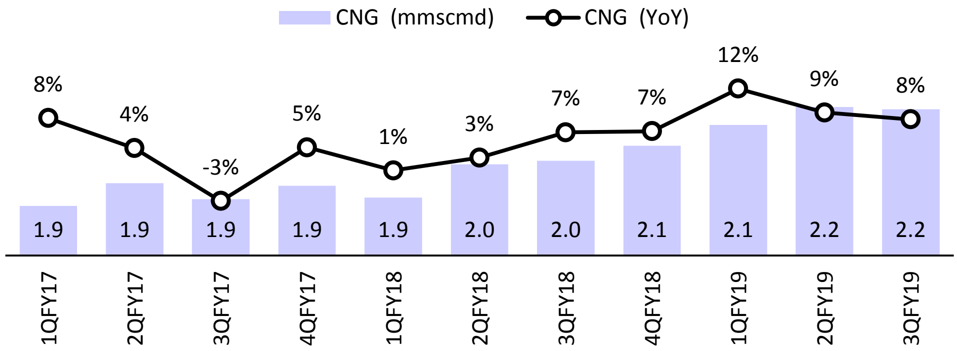
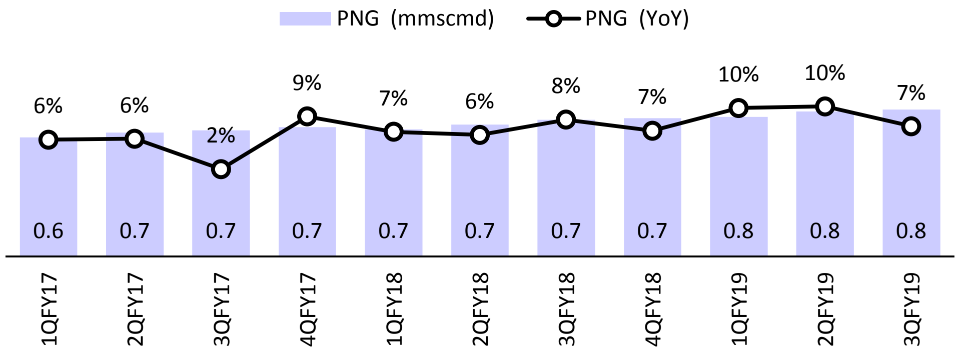
Exhibit 1: CNG volumes increase 8% YoY in 3QFY19



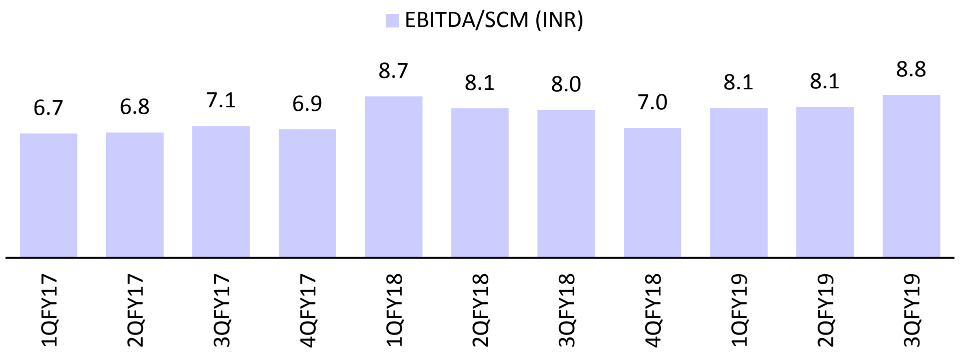
Source: Company, MOSL

Exhibit 2: PNG volumes were up 7% YoY to 0.8mmscmd



Source: Company, MOSL

Exhibit 3: EBITDA/scm stood at INR8.8



Source: Company, MOSL

Valuation and view

- MGL's performance has been encouraging in terms of volume growth. EBITDA/scm has also improved primarily due to INR appreciation. However, its margin is the highest among listed players. We believe that such high margins are not sustainable in the long term.
- We raise our FY19 EPS estimate from INR53.7 to INR57.1. This reflects both the higher volume and higher margin registered in the quarter. We have also raised our margin estimates for 4QFY19, while EPS estimates for FY20 and FY21 are marginally raised. Its volume growth appears to be the highest since FY14. Due to focus on pollution and implementation of BS-VI from 2020, we believe that ~9% volume growth is sustainable for the next 2-3 years. The stock trades at 15.1x FY20E EPS of INR59.8. We value MAHGL at 20x Dec'20 EPS to arrive at a fair value of INR1,300/share, implying an upside of 41%. Maintain **Buy**.

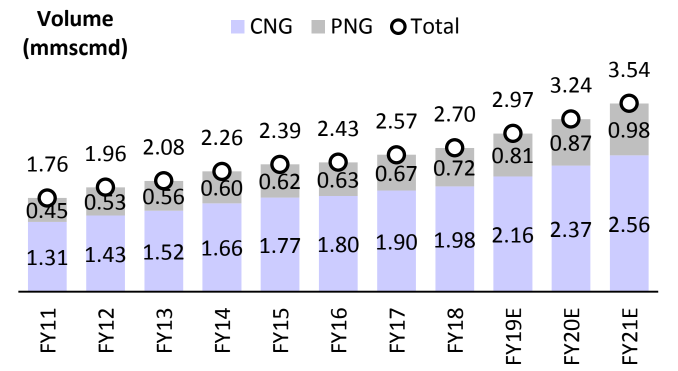
Exhibit 4: We value MGL at 20x Dec'20 EPS to arrive at a fair value of INR1,300/share

PE Multiple (x)	18	20	22.5	25
Dec'20 EPS (INR)	65.0	65.0	65.0	65.0
Target Price (INR)	**1,170**	**1,300**	**1,463**	**1,626**
CMP (INR)	920	920	920	920
Upside/Downside (%)	27%	41%	59%	77%

Source: Company, MOSL

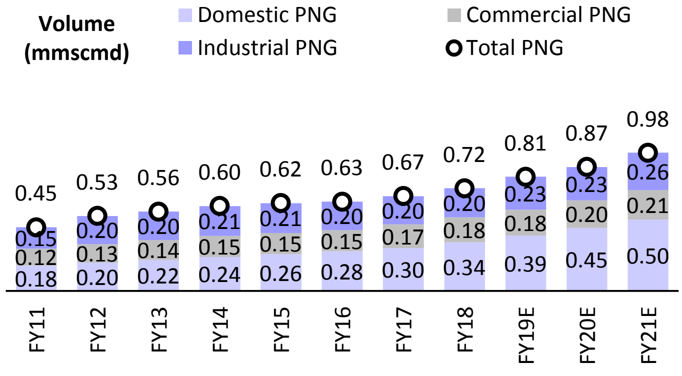
Story in charts

Exhibit 5: Volume growth to continue, CNG to lead



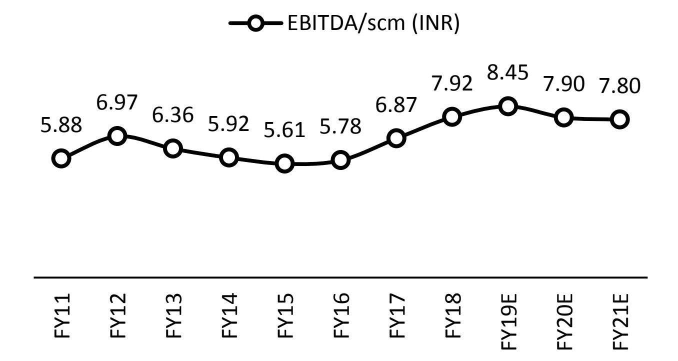
Source: Company, MOSL

Exhibit 6: Domestic and commercial volumes to drive PNG volumes



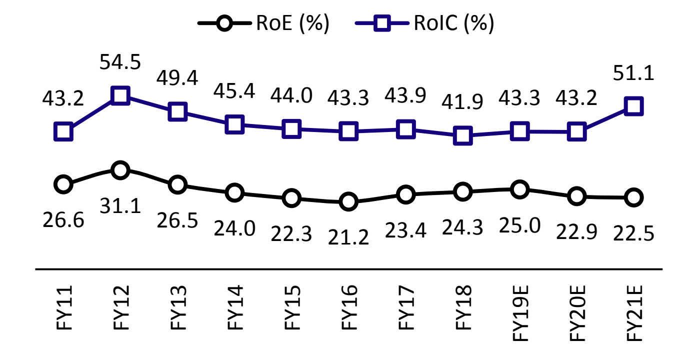
Source: Company, MOSL

Exhibit 7: EBITDA/scm to stabilize at approx. INR8.0



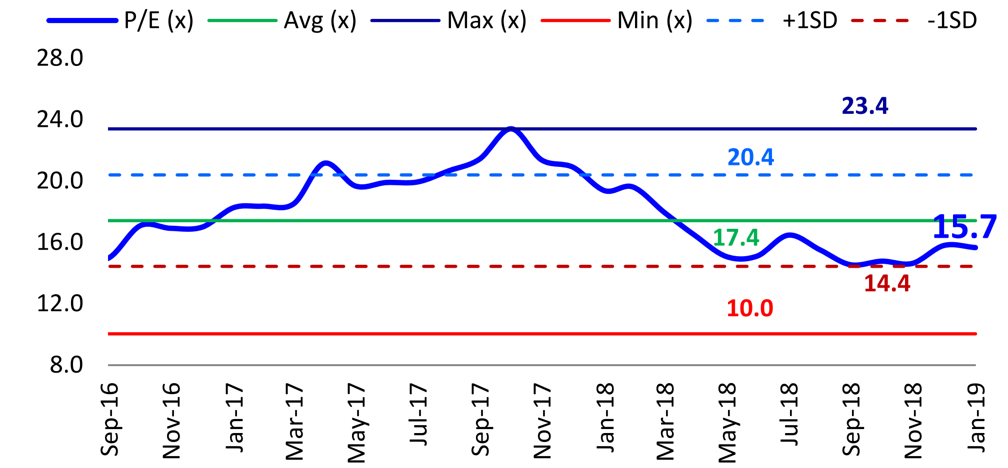
Source: Company, MOSL

Exhibit 8: Return ratios to remain strong



Source: Company, MOSL

Exhibit 9: MAHGL – one-year forward P/E



Source: Company, MOSL

Financials and Valuations

Standalone - Income Statement (INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Total Income from Operations	**18,852**	**20,949**	**20,783**	**20,340**	**22,330**	**28,436**	**31,699**	**35,758**
Change (%)	24.5	11.1	-0.8	-2.1	9.8	27.3	11.5	12.8
Raw Materials	11,443	12,957	12,297	10,184	10,291	14,203	16,935	19,781
Employees Cost	598	691	563	600	670	737	805	878
Other Expenses	1,928	2,404	2,830	3,114	3,563	4,335	4,613	5,032
Total Expenditure	**13,970**	**16,053**	**15,690**	**13,898**	**14,524**	**19,275**	**22,353**	**25,691**
% of Sales	74.1	76.6	75.5	68.3	65.0	67.8	70.5	71.8
EBITDA	**4,882**	**4,897**	**5,093**	**6,442**	**7,806**	**9,160**	**9,346**	**10,067**
Margin (%)	25.9	23.4	24.5	31.7	35.0	32.2	29.5	28.2
Depreciation	807	799	826	951	1,112	1,388	1,557	1,647
EBIT	**4,075**	**4,098**	**4,267**	**5,490**	**6,694**	**7,772**	**7,788**	**8,420**
Int. and Finance Charges	2	12	22	10	3	3	0	0
Other Income	345	407	472	527	574	842	1,226	1,628
PBT bef. EO Exp.	**4,418**	**4,493**	**4,716**	**6,007**	**7,265**	**8,611**	**9,014**	**10,048**
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	**4,418**	**4,493**	**4,716**	**6,007**	**7,265**	**8,611**	**9,014**	**10,048**
Total Tax	1,445	1,483	1,607	2,072	2,487	2,970	3,106	3,453
Tax Rate (%)	32.7	33.0	34.1	34.5	34.2	34.5	34.5	34.4
Reported PAT	**2,972**	**3,010**	**3,109**	**3,934**	**4,779**	**5,641**	**5,908**	**6,595**
Adjusted PAT	**2,972**	**3,010**	**3,109**	**3,934**	**4,779**	**5,641**	**5,908**	**6,595**
Change (%)	-0.4	1.3	3.3	26.5	21.5	18.1	4.7	11.6
Margin (%)	15.8	14.4	15.0	19.3	21.4	19.8	18.6	18.4

Standalone - Balance Sheet (INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	893	893	893	988	988	988	988	988
Total Reserves	12,076	13,181	14,386	17,413	19,966	23,163	26,511	30,248
Net Worth	**12,970**	**14,075**	**15,280**	**18,400**	**20,954**	**24,151**	**27,499**	**31,236**
Total Loans	80	156	138	27	12	0	0	0
Deferred Tax Liabilities	887	1,027	1,181	1,376	1,748	1,748	1,748	1,748
Capital Employed	**13,937**	**15,258**	**16,599**	**19,804**	**22,714**	**25,899**	**29,247**	**32,984**
Gross Block	15,176	16,714	18,450	14,775	18,159	21,512	22,982	24,076
Less: Accum. Deprn.	5,261	6,074	6,854	1,727	2,839	4,228	5,785	7,432
Net Fixed Assets	**9,915**	**10,640**	**11,596**	**13,047**	**15,320**	**17,284**	**17,197**	**16,644**
Capital WIP	3,454	3,796	4,289	4,115	3,566	1,213	743	649
Total Investments	**3,421**	**3,715**	**3,882**	**4,667**	**6,877**	**6,877**	**6,877**	**6,877**
Curr. Assets, Loans&Adv.	**2,904**	**3,505**	**3,797**	**4,413**	**4,340**	**9,993**	**15,051**	**20,831**
Account Receivables	1,093	962	893	945	914	1,163	1,297	1,463
Cash and Bank Balance	888	1,449	1,721	1,361	919	5,624	10,165	15,312
Loans and Advances	765	920	1,003	1,869	2,268	2,888	3,219	3,631
Curr. Liability & Prov.	**5,757**	**6,398**	**6,964**	**6,439**	**7,389**	**9,468**	**10,620**	**12,016**
Account Payables	1,064	1,120	1,119	1,201	1,100	1,460	1,693	1,946
Other Current Liabilities	2,710	3,238	3,809	5,031	6,089	7,754	8,644	9,751
Provisions	1,984	2,041	2,036	207	199	253	282	319
Net Current Assets	**-2,853**	**-2,893**	**-3,167**	**-2,026**	**-3,049**	**525**	**4,431**	**8,815**
Appl. of Funds	**13,937**	**15,258**	**16,599**	**19,804**	**22,714**	**25,899**	**29,247**	**32,985**

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Basic (INR)								
EPS	**30.1**	**30.5**	**31.5**	**39.8**	**48.4**	**57.1**	**59.8**	**66.8**
Cash EPS	38.3	38.6	39.8	49.5	59.6	71.2	75.6	83.4
BV/Share	131.3	142.5	154.7	186.3	212.1	244.5	278.4	316.2
DPS	15.8	15.8	15.8	18.7	17.4	20.6	21.5	24.0
Payout (%)	61.5	62.5	60.5	56.6	43.3	43.3	43.3	43.3
Valuation (x)								
P/E		30.2	29.2	23.1	19.0	16.1	15.4	13.8
Cash P/E		23.9	23.1	18.6	15.4	12.9	12.2	11.0
P/BV		6.5	5.9	4.9	4.3	3.8	3.3	2.9
EV/Sales		4.3	4.3	4.4	4.0	3.0	2.5	2.1
EV/EBITDA		18.3	17.5	13.9	11.5	9.3	8.6	7.5
Dividend Yield (%)	1.7	1.7	1.7	2.0	1.9	2.2	2.3	2.6
FCF per share	22.4	23.2	20.7	68.0	31.0	64.0	59.5	64.6
Return Ratios (%)								
RoE	24.0	22.3	21.2	23.4	24.3	25.0	22.9	22.5
RoCE	23.8	22.1	21.1	23.3	24.3	25.0	22.9	22.5
RoIC	45.4	44.0	43.3	43.9	41.9	43.3	43.2	51.1
Working Capital Ratios								
Fixed Asset Turnover (x)	1.2	1.3	1.1	1.4	1.2	1.3	1.4	1.5
Asset Turnover (x)	1.4	1.4	1.3	1.0	1.0	1.1	1.1	1.1
Inventory (Days)	3	3	3	4	4	4	4	4
Debtor (Days)	21	17	16	17	15	15	15	15
Creditor (Days)	21	20	20	22	18	19	19	20
Leverage Ratio (x)								
Current Ratio	0.5	0.5	0.5	0.7	0.6	1.1	1.4	1.7
Interest Cover Ratio	1,940.4	338.6	192.2	533.0	2,574.7	2,878.5	NA	NA
Net Debt/Equity	-0.3	-0.4	-0.4	-0.3	-0.4	-0.5	-0.6	-0.7

Standalone - Cash Flow Statement **(INR m)**

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
OP/(Loss) before Tax	4,418	4,493	4,687	6,007	7,265	8,611	9,014	10,048
Depreciation	807	799	841	951	1,112	1,388	1,557	1,647
Interest & Finance Charges	2	12	30	-516	-571	-839	-1,226	-1,628
Direct Taxes Paid	-1,286	-1,390	-1,501	-2,072	-2,487	-2,970	-3,106	-3,453
(Inc)/Dec in WC	301	660	471	-1,502	581	1,131	636	762
CF from Operations	**4,243**	**4,574**	**4,527**	**2,868**	**5,900**	**7,321**	**6,876**	**7,376**
Others	-266	-307	-273	0	0	0	0	0
CF from Operating incl EO	**3,976**	**4,267**	**4,254**	**2,868**	**5,900**	**7,321**	**6,876**	**7,376**
(Inc)/Dec in FA	-1,768	-1,974	-2,210	3,848	-2,835	-1,000	-1,000	-1,000
Free Cash Flow	**2,208**	**2,293**	**2,044**	**6,716**	**3,066**	**6,321**	**5,876**	**6,376**
(Pur)/Sale of Investments	-400	-278	-127	-785	-2,210	0	0	0
Others	271	307	269	527	574	842	1,226	1,628
CF from Investments	**-1,897**	**-1,945**	**-2,068**	**3,590**	**-4,471**	**-158**	**226**	**628**
Issue of Shares	0	0	0	94	0	0	0	0
Inc/(Dec) in Debt	-19	-18	-18	-111	-15	-12	0	0
Interest Paid	-4	-8	-2	-10	-3	-3	0	0
Dividend Paid	-1,829	-1,829	-1,882	-2,226	-2,071	-2,444	-2,560	-2,857
Others	0	94	-13	-4,565	217	0	0	0
CF from Fin. Activity	**-1,852**	**-1,761**	**-1,914**	**-6,818**	**-1,871**	**-2,459**	**-2,560**	**-2,857**
Inc/Dec of Cash	**228**	**561**	**272**	**-360**	**-442**	**4,705**	**4,542**	**5,147**
Opening Balance	660	888	1,449	1,721	1,361	919	5,624	10,165
Closing Balance	**888**	**1,449**	**1,721**	**1,361**	**919**	**5,624**	**10,165**	**15,312**

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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