

# Mahanagar Gas Ltd



**RESULT UPDATE**

1<sup>st</sup> February, 2019

# Mahanagar Gas Ltd

**Pricing power aids revenue growth**

CMP <b>INR 921</b>	Target <b>INR 1,146</b>	Potential Upside <b>24.4%</b>	Market Cap (INR Mn) <b>90,836</b>	Recommendation <b>BUY</b>	Sector <b>Oil &amp; Gas</b>
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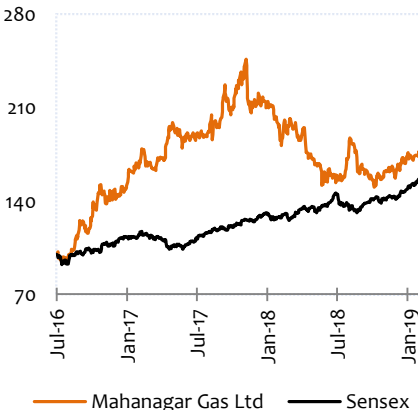
## Result highlights

Mahanagar Gas Ltd. (MGL) reported revenues of INR 7.52 bln, (+29.5% YoY and 8.1% QoQ) led by higher volume growth as well as increase in price realizations across all segments. Overall, sales volume grew by 8.1% on YoY basis however, remained flat on a QoQ basis (+0.1%) at 2.96 mmscmd. CNG sales volumes increased 8.3% YoY from higher fuel consumption, while PNG sales registered a growth of 7.5% YoY. Gross margins declined to 49.1% on a YoY basis (-456 bps) due to increased cost of gas (+42.2% YoY) and a higher excise duty out-go (+26.1% YoY). However, the same was negated to some extent from lower other operating expenses on a YoY basis (-176 bps). OPM was further negatively impacted by 280 bps YoY and 3 bps QoQ to 31.8% owing to higher other expenses (+19.9% YoY, 11.8% QoQ). EBITDA stood at INR 2.39 bn (+19.0% YoY, +8.0% QoQ). Other income increased to INR 204 mn (45.1% YoY, 12.2% QoQ). The tax rate remained nearly unchanged at 34.6%. NPM declined by 162 bps YoY while increasing by 14 bps QoQ to 19.7%. PAT stood at INR 1.48 bn (+19.6% YoY, +8.8% QoQ). The board has declared an interim dividend at 95% on the face value of INR 10 i.e. INR 9.50/share.

## MARKET DATA

Shares outs (Mn)	98
Equity Cap (INR Mn)	988
Mkt Cap (INR Mn)	90836
52 Wk H/L (INR)	1133/757
Volume Avg (3m K)	307.1
Face Value (INR)	10
Bloomberg Code	MAHGL IN

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	36,257
NIFTY	10,831

## KEY FINANCIALS

Particulars (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operations	20,783	20,340	22,330	28,126	33,600
EBITDA	5,093	6,442	7,801	9,078	10,488
PAT	3,109	3,934	4,779	5,552	6,295
EPS Diluted (Rs.)	31.47	39.83	48.38	56.21	63.73
OPM	24.5%	31.7%	34.9%	32.3%	31.2%
NPM	15.0%	19.3%	21.4%	19.7%	18.7%
P/E (x)	29.3	23.1	19.0	16.4	14.5

Source: Company, KRChoksey Research

## Revenues supported by healthy volumes and improved realizations

Overall sales volumes grew by 8.1% YoY while remained flat (+0.1%) on a QoQ basis, with growth of 8.3% and 7.5% YoY for CNG and PNG respectively. CNG sales volume growth stood at 2.25 mmscmd, slightly lower than our estimates, owing to the 15 days strike of aggregator cabs in Mumbai region during the quarter. However, the same is expected to normalize in Q4. In the PNG segment, domestic sales volume grew by 11.6% YoY while industrial and commercial sales grew by 3.8% YoY from lesser consumption of gas by certain industrial consumers during festive season. Overall, PNG volume growth continued at 7.5% YoY. Management has also attributed higher revenues to increased realizations across all segments; for industrial - INR 44/scm (INR 40/scm in Q2FY19) and for commercial - INR 37/scm (INR 35/scm in Q2FY19). MGL has been able to cross its 6% YoY volume growth guidance since the past few quarters with a robust 8-10% YoY volume growth. We believe, this growth momentum is likely to remain stable as per its guidance on the back of increasing number of 3 wheelers and aggregators, increasing conversion of private vehicles as well price discount to alternate fuels. We estimate total volume growth at 2.9 and 3.1 mmscmd for FY19/20E respectively.

## Higher gas prices marginally hit operating margins

EBITDA/scm stood strong at INR 8.8/scm as against INR 8.13/scm in Q2FY19 and INR 7.9/scm in Q3FY18 despite increase in spot LNG prices by more than 15% as MGL has been able to pass on the increase in domestic gas prices across all segments. Management also attributed rupee depreciation to improvement in the margins. We believe, MGL with its infrastructure exclusivity in its areas of operations, operational efficiency and its ability to pass on any increase in the gas prices will be able to protect its margins. We estimate MGL to maintain its EBITDA levels at INR 7.5-8/scm.

## SHARE HOLDING PATTERN (%)

Particulars	Dec 18	Sep 18	Jun 18
Promoters	42.5	42.5	56.5
FIIIs	21.61	19.03	12.7
DIIIs	13.4	14.25	7.68
Others	22.5	24.23	23.12
Total	100	100	100

22.5%

Revenues CAGR between FY 18 and FY 20E

16.0%

EBITDA between FY 18 and FY 20E

## ANALYST

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# Mahanagar Gas Ltd

## Gradual penetration in Raigad to boost performance in long term

MGL began commercial operations from FY18, however, the penetration still remains low. PNG connections have been supplied in Uran while supplies to nearing towns like Pen and Karjat are still in progress. The management stated that they received critical approvals for laying pipelines in the region, post which we could see the project progress accelerate. The company also revised its capex guidance to INR 3.75 bn from INR 3.0 bn earlier. 1 CNG station was added during the quarter taking the total number of stations to 7 in the region. The growth potential Raigad is higher than Mumbai region as the latter's limited potential for further penetration. With rising urbanization along with MGL's low-investment high yield strategy, we believe it will be able to effectively increase its penetration in the region.

## 10<sup>th</sup> PNGRB round could open new avenues; govt thrust for natural gas use to help penetrate

The 10<sup>th</sup> CGD bidding round offering 50 Gas was launched in Nov'18, the bids for which are due in Feb'19. The recently concluded 9<sup>th</sup> bidding round was a huge success with industry players willing to invest in the CGD business. The 10<sup>th</sup> bidding round covers 50 additional Gas covering 124 districts covering Tier-2 and Tier-3 cities. Any successful allotment will open new avenues for MGL thus improving the company's financials. In addition, the govt's thrust to use the cleaner fuel along with CGD being given priority for domestic gas allocation will enable MGL to penetrate effectively in the growing market.

## Valuation & Outlook:

With MGL's fundamental growth story in place and a positive outlook on the sector, we believe the can deliver a strong performance. We remain optimistic on the company's prospects on account of a) strong growth volume momentum in its current areas of operations b) increasing penetration in the Raigad region c) ability to protect its margins due to pricing power d) prospects from upcoming 10<sup>th</sup> PNGRB bidding round e) govt's thrust towards use of cleaner fuels and f) discounted prices of CNG as compared to alternate fuels (petrol, diesel) thus encouraging higher conversions. We have revised our estimates to factor in the rise in costs as well as increase in MGL's price realizations. We expect the revenues to grow at a CAGR of 22.5% over FY18-20E and EBITDA to grow at a CAGR of 16% over FY18-20E. At a CMP of INR 921, the stock is trading at 16.4x of its FY19E earnings and at 14.5x of its FY20E earnings. **We valued the company by assigning a multiple of 18x on the FY20E EPs of INR 63.7 and arrived at target price of INR 1,146 (from INR 1,165 earlier) with a potential upside of 24.4%. We maintain BUY rating on the stock.**

## FINANCIALS PER SCM

	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Y-o-Y (%)	Q-o-Q (%)
Sales (INR/scm)	23.1	23.1	23.7	25.6	27.6	19.8%	8.0%
Cost of gas (INR/scm)	10.7	11.6	11.2	13.1	14.1	31.6%	7.6%
EBITDA (INR/scm)	8.0	7.0	8.1	8.1	8.8	10.1%	7.9%

Source: Company, KRChoksey Research

## SALES VOLUME PERFORMANCE

	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Y-o-Y (%)	Q-o-Q (%)
CNG (mmscm)	184.5	184.9	193.1	200.5	199.8	8.3%	-0.3%
PNG (mmscm)	67.6	66.9	68.3	71.8	72.7	7.5%	1.2%

Source: Company, KRChoksey Research

## GAS SALES REALIZATION

	FY16	FY17	FY18	FY19E	FY20
CNG realization (INR/scm)	22.2	20.7	21.2	24.6	30.9
PNG realization (INR/scm)	26.0	23.9	26.6	30.9	31.5

Source: Company, KRChoksey Research

## GAS SALES VOLUMES

	FY16	FY17	FY18	FY19E	FY20
CNG (mmscm)	660	693	724	801	874
PNG (mmscm)	230	244	262	283	295

Source: Company, KRChoksey Research

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# Mahanagar Gas Ltd

## CONCALL HIGHLIGHTS:

- Total Sales volume grew at 8.1% YoY led by growth of 8.3% and 7.5% in CNG and PNG respectively.
- On a QoQ basis, CNG volumes declined by 0.3% mainly due to OLA and Uber strike for 15 days during the quarter and school vacations during Diwali/Christmas.
- EBITDA/scm improved to INR 8.77/scm (INR 8.13/scm in Q2FY19). Based on current situation, MGL is likely to close financial year with EBITDA at INR 8/scm.
- MGL is looking to participate in the 10th round for which the bids are due on the 5th of February. In addition, favourable policy framework and guidelines in terms of CGD footprint expansion, mission PNG, smart cities, green corridor, etc have been put in place which will increase demand for NG.
- The 10th round of bidding would cover 50 additional GAs covering 124 districts out of which 112 are full districts and 12 in parts.
- NITI Aayog has laid out plans to add additional gas pipeline network of about 10,000 kms to the existing pipeline network of ~16,500 kms and increase the coverage of CGD in the network to about 326 cities and towns by 2022 to maximize reach of NG throughout the country.
- MGL is now operating over 224 CNG stations supplying CNG to close to 6.72k vehicles.
- With respect to Raigad GA, 3,311 PNG domestic connections in Uran and its adjoining areas. Gas supplies to major towns like Pen, Uran and Karjat is being planned through the virtual pipeline network. 1 CNG station was added during the quarter and with this, 7 CNG stations are operational in Raigad.
- Vehicle additions for 3 wheelers and taxis – no appreciable change in the trend. Conversion numbers have been higher for 3 wheelers, followed by 4 wheeler cars. About 6-7k additions every month.
- Capex for FY19 – can be INR 375 crores. Higher than previous guidance as lot of critical permissions have been received for Raigad area, GA1 and GA2 geographies in the month of January. Capex for Raigad is 20% of total which could increase gradually.
- A typical CNG outlet costs INR 2-2.5 crores and about 20 stations will be commissioned during the year. Apart from this, there will be upgradation of stations at certain outlets.
- Raigad revenues – currently negligible as commercial operations from there have just started. Volume from Raigad could come 5-6 years down the line.
- Will be making application for the rollover for Mumbai region in mid 2020.
- Competition is not emerging right now as players in the industry have already got huge opportunities.
- Impact on CNG due to the OLA/Uber strike – 12-14 lakh kg CNG sales. If the strike had not happened, CNG volume growth would have been ~9%.
- Realizations for industrial and commercial segment –  
Industrial - INR 44/scm for Q3FY19 as against INR 40/scm in Q2FY19.  
Commercial – INR 37/scm as against INR 35/scm in Q2FY19.
- Threat of EVs – no material impact of EVs in the short term on the CNG business. In the long-term, for EVs to become a threat, the capital cost of EVs will have to drastically reduce and a whole new infrastructure needs to come into existence which is not so easy. The industry has been trying since the last couple of decades to set up CGD infrastructure all over the country and setting up an infrastructure takes time. Same for EVs.
- Taxi aggregator policy – where states mandated use of clean fuels only. However, aggregators have moved the Bombay high court asking for more time.
- Spot LNG price for Q3FY19 - \$9-10/mmbtu.
- Reduction in the number of buses and coincided with the increase in the number of autos (due to removal of cap for auto and taxi permits).
- Other expenses in include planned maintenance activates are undertaken (approx INR 3 crore).
- As per automobile reports, there has been a general shift from diesel cars to petrol/hybrid cars as the difference between fuel prices of both have been shrinking. Post BS-VI norms implementation, if there is a disproportionate increase in the prices of both vehicles, then shift to petrol/hybrid and CNG cars could accelerate.

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## QUARTERLY PERFORMANCE

Particulars (INR Mn)	Q3FY19	Q2FY19	Q3FY18	Q-o-Q (%)	Y-o-Y (%)
<b>Revenue from operations</b>	<b>7,527</b>	<b>6,965</b>	<b>5,814</b>	<b>8.1%</b>	<b>29.5%</b>
Cost of natural gas & traded items	3,836	3,562	2,697	7.7%	42.2%
Decrease/(Increase) in natural gas stock	-0.80	0.20	-0.30	-500.0%	166.7%
Cost of Goods Sold (COGS)	3,835	3,562	2,697	7.6%	42.2%
<b>Gross Profit</b>	<b>3,692</b>	<b>3,403</b>	<b>3,117</b>	<b>8.5%</b>	<b>18.4%</b>
<b>Gross Profit Margin (%)</b>	<b>49.1%</b>	<b>48.9%</b>	<b>53.6%</b>	<b>20 bps</b>	<b>-456 bps</b>
Employee benefit expense	175	180	168	-3.1%	4.0%
Other expenses	1,127	1,008	940	11.8%	19.9%
Total Operating Expenditure	1,301	1,188	1,107	9.5%	17.5%
<b>EBITDA</b>	<b>2,391</b>	<b>2,215</b>	<b>2,010</b>	<b>8.0%</b>	<b>19.0%</b>
<b>EBITDA Margin (%)</b>	<b>31.8%</b>	<b>31.8%</b>	<b>34.6%</b>	<b>-3 bps</b>	<b>-280 bps</b>
Depreciation and Amortization Expense	328	308	268	6.4%	22.4%
EBIT	2,063	1,907	1,742	8.2%	18.4%
Finance Cost	0.9	1.2	0.1	-25.0%	800.0%
Other Income	204	182	141	12.2%	45.1%
<b>Profit before Tax (PBT)</b>	<b>2,266</b>	<b>2,087</b>	<b>1,883</b>	<b>8.6%</b>	<b>20.4%</b>
Tax Expense	783	724	643	8.1%	21.8%
<b>Adj. Profit after Tax (PAT)</b>	<b>1,483</b>	<b>1,363</b>	<b>1,240</b>	<b>8.8%</b>	<b>19.6%</b>
<b>Net Profit Margin (%)</b>	<b>19.7%</b>	<b>19.6%</b>	<b>21.3%</b>	<b>14 bps</b>	<b>-162 bps</b>
<b>EPS Basic (INR)</b>	<b>15.02</b>	<b>13.80</b>	<b>12.55</b>		

Source: Company, KRChoksey Research

## INCOME STATEMENT

Particulars (INR mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Revenue from Operations</b>	<b>20,783</b>	<b>20,340</b>	<b>22,330</b>	<b>28,126</b>	<b>33,600</b>
Cost of good sold	12,297	10,184	10,291	14,118	17,304
<b>Gross Profit</b>	<b>8,486</b>	<b>10,156</b>	<b>12,039</b>	<b>14,008</b>	<b>16,296</b>
<b>Gross Margin (%)</b>	<b>40.8%</b>	<b>49.9%</b>	<b>53.9%</b>	<b>49.8%</b>	<b>48.5%</b>
Employee benefit expenses	563	600	670	696	779
Other expenses	2,830	3,114	3,568	4,234	5,029
Total Operating Expense	3,393	3,714	4,238	4,930	5,808
<b>EBITDA</b>	<b>5,093</b>	<b>6,442</b>	<b>7,801</b>	<b>9,078</b>	<b>10,488</b>
<b>EBITDA Margin (%)</b>	<b>24.5%</b>	<b>31.7%</b>	<b>34.9%</b>	<b>32.3%</b>	<b>31.2%</b>
Depreciation	826	951	1,112	1,249	1,637
EBIT	4,267	5,490	6,689	7,829	8,852
Finance Cost	22	10	1	4	0
Other Income	472	527	577	669	767
<b>Profit before Tax (PBT)</b>	<b>4,716</b>	<b>6,007</b>	<b>7,265</b>	<b>8,495</b>	<b>9,619</b>
Total Tax expense	1,607	2,072	2,487	2,942	3,324
<b>Profit after Tax (PAT)</b>	<b>3,109</b>	<b>3,934</b>	<b>4,779</b>	<b>5,552</b>	<b>6,295</b>
<b>PAT Margin (%)</b>	<b>15.0%</b>	<b>19.3%</b>	<b>21.4%</b>	<b>19.7%</b>	<b>18.7%</b>
<b>EPS Basic (INR)</b>	<b>31.47</b>	<b>39.83</b>	<b>48.38</b>	<b>56.21</b>	<b>63.73</b>

Source: Company, KRChoksey Research

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## BALANCE SHEET

Particulars (INR mn)	FY16	FY17	FY18	FY19E	FY20E
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	893	988	988	988	988
Reserves and surplus	16,391	17,413	19,966	22,901	26,229
<b>Total Equity</b>	<b>17,284</b>	<b>18,400</b>	<b>20,953</b>	<b>23,889</b>	<b>27,217</b>
<b>Non-current liabilities</b>					
Long term borrowings	44	27	12	0	0
Long term provisions	112	140	148	185	221
Other non-current liabilities	1,204	1,378	1,757	1,757	1,757
<b>Total non-current liabilities</b>	<b>1,360</b>	<b>1,545</b>	<b>1,916</b>	<b>1,942</b>	<b>1,978</b>
<b>Current liabilities</b>					
Trade Payables	1,116	1,201	1,100	1,387	1,657
Other Financial Liabilities	3,462	4,629	5,688	7,139	8,534
Short term provisions	116	67	51	65	77
Other Current liabilities	366	401	393	491	585
<b>Total current liabilities</b>	<b>5,061</b>	<b>6,297</b>	<b>7,233</b>	<b>9,081</b>	<b>10,853</b>
<b>SOURCES OF FUNDS</b>	<b>23,705</b>	<b>26,243</b>	<b>30,102</b>	<b>34,912</b>	<b>40,048</b>
<b>ASSETS</b>					
<b>Non-current assets</b>					
Net Block	15,576	17,163	18,886	21,462	23,690
Financial Assets	183	225	431	379	452
Other non-current assets	556	895	1,031	1,232	1,426
<b>Total non-current assets</b>	<b>16,314</b>	<b>18,283</b>	<b>20,347</b>	<b>23,073</b>	<b>25,568</b>
<b>Current Assets</b>					
Inventories	180	238	240	308	368
Other Financial Assets	5,278	6,021	8,425	10,264	12,268
Cash and bank balances	1,750	1,481	919	1,052	1,586
Other current assets	182	220	172	215	257
<b>Total current assets</b>	<b>7,390</b>	<b>7,959</b>	<b>9,755</b>	<b>11,839</b>	<b>14,480</b>
<b>APPLICATION OF FUNDS</b>	<b>23,705</b>	<b>26,243</b>	<b>30,102</b>	<b>34,912</b>	<b>40,048</b>

Source: Company, KRChoksey Research

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## CASH FLOW STATEMENT

Particulars (INR mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Profit before Tax (PBT)</b>	<b>4,716</b>	<b>6,007</b>	<b>7,265</b>	<b>8,495</b>	<b>9,619</b>
Operating profit before working capital changes	5,247	6,604	8,405	9,747	11,256
Cash Generated from/(used in) operations	5,691	7,329	9,876	10,968	12,313
Less: Income Tax Paid (net of refunds)	-1,501	-1,862	-2,487	-2,942	-3,324
Net Cash generated from/(used in) operating activities	4,190	5,467	7,389	8,025	8,990
Net Cash Used In Investing Activities	-2,222	-2,777	-5,045	-5,260	-5,489
Net Cash Used in Financing Activities	-1,914	-2,838	-2,268	-2,632	-2,967
Net Increase/( Decrease ) in Cash and Cash Equivalents	54	-148	76	133	534
Cash and Cash Equivalents at the beginning of the year	168	222	74	150	283
<b>Cash and Cash Equivalents at the end of the year</b>	<b>222</b>	<b>74</b>	<b>150</b>	<b>283</b>	<b>817</b>
<b>Add: Bank Balance</b>	<b>1,528</b>	<b>1,407</b>	<b>769</b>	<b>769</b>	<b>769</b>
<b>Cash &amp; Bank balance</b>	<b>1,750</b>	<b>1,481</b>	<b>919</b>	<b>1,052</b>	<b>1,586</b>

Source: Company, KRChoksey Research

## RATIOS

Particulars	FY16	FY17	FY18	FY19E	FY20E
<b>Profitability</b>					
Return on Assets (%)	13.1%	15.0%	15.9%	15.9%	15.7%
Return on Capital (%)	24.6%	29.8%	31.9%	32.8%	32.5%
Return on Equity (%)	18.0%	21.4%	22.8%	23.2%	23.1%
<b>Margin Trend</b>					
Gross Margin (%)	40.8%	49.9%	53.9%	49.8%	48.5%
EBITDA Margin (%)	24.5%	31.7%	34.9%	32.3%	31.2%
Net Margin (%)	15.0%	19.3%	21.4%	19.7%	18.7%
<b>Liquidity</b>					
Current Ratio	1.5	1.3	1.3	1.3	1.3
Quick Ratio	0.5	0.4	0.3	0.2	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
<b>Solvency</b>					
Total Debt / Equity	0.0	0.0	0.0	0.0	0.0
Interest Coverage	192	538	7432	2175	-
<b>Valuation Ratios</b>					
EV/EBITDA	17.87	14.13	11.66	10.02	8.67
P/E	29.3	23.1	19.0	16.4	14.5
P/B	5.3	4.9	4.3	3.8	3.3

Source: Company, KRChoksey Research

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# Mahanagar Gas Ltd

Mahanagar Gas Ltd				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
1-Feb-19	921	1,146	BUY	Buy	More than 15%
8-Aug-18	961	1,182	BUY	Accumulate	5% – 15%
28-May-18	833	940	BUY	Hold	0 – 5%
14-Feb-18	1,046	1,280	BUY	Reduce	-5% – 0
10-Nov-17	1,159	1,400	BUY	Sell	Less than – 5%

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