HDFC securities

INSTITUTIONAL RESEARCH

Mahanagar Gas

BUY

Blowout spreads

We maintain BUY on MGL post an impressive performance on spreads albeit disappointing volume growth. Our TP is Rs 1,133/sh (19x Jun-21E standalone EPS).

HIGHLIGHTS OF THE QUARTER

- MGL's total volume was up merely 3.3% YoY and flat QoQ to 2.97mmscmd. CNG volumes were up 2% YoY to 2.2mmscmd while PNG volumes were up 7% YoY to 0.8mmscmd. The State Department Corporation had scrapped a few buses in Q1 that led to subdued volume growth for CNG. Tendering process to add 500 new buses has been already begun.
- The company clocked the highest ever per unit EBITDA spread of Rs 10.3/scm vs Rs 8.6/scm in 1QFY19 and Rs7.9/scm in 4QFY19. This is attributable to better spreads earned from industrial/commercial customers (~14% of total volume), for whom 100% gas is sourced on spot. Fall in oil prices is leading to narrower spreads between NG and alternate fuels. Hence, MGL will have to take price cuts. Thus, we do not foresee the current quarter margins sustaining in ensuing quarters. Rather, we expect them to correct to Rs. 8.4/scm for FY20.
- Space constraints and regulatory approvals prior to building CNG stations are common challenges faced by all CGD companies alike. However, the problem is more severe for MGL. The company has been able to add only ~46 CNG stations since Jun-16. We expect CAGR for CNG to be 6.8% over FY20-21E, beyond which growth is possible only by increasing the pace of addition of CNG stations/dispensers.
- **Near-term outlook:** The expected stake sale by BG Asia (Shell) could have a technical overhang on the stock similar to the one witnessed at the time of sale earlier in Apr and Aug-18.

STANCE

MGL did not win any new GAs in either of the recently concluded ninth or tenth rounds of CGD biddings. This factor may weigh on its long-term growth. We believe that the company will continue to enjoy pricing power and be able to maintain its per unit spread. This is because of a loyal customer base of CNG and commercial customers (who together comprise ~80% of total sales mix), that are less price sensitive than industrial customers. Moreover, we do not foresee any significant regulatory adversity in its CGD business either through a change in gas allocation or capping returns.

Financial Summary (Standalone)

Year Ending March (Rs bn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY19	FY20E	FY21E	FY22E
Revenues	7.57	6.32	*19.8*	7.23	*4.8*	27.91	31.03	33.46	35.76
EBITDA	2.77	2.24	*23.6*	2.14	*29.4*	8.86	9.54	9.79	10.22
APAT	1.70	1.37	*24.4*	1.33	*27.6*	5.47	5.80	5.84	6.02
AEPS (Rs)	17.2	13.9	*24.4*	13.5	*27.6*	55.3	58.7	59.2	61.0
P/E (x)						14.4	13.5	13.4	13.0
EV/EBITDA (x)						7.8	6.9	6.4	5.8
RoE (%)						24.3	22.6	20.1	18.4

Source: Company, HDFC sec Inst Research

INDUSTRY	**OIL & GAS**
CMP *(as on 09 Aug 19)*	**Rs 785**
Target Price	**Rs 1,133**
Nifty	11,110
Sensex	37,582
KEY STOCK DATA	
Bloomberg	MAHGL IN
No. of Shares (mn)	99
MCap (Rs bn) / ($ mn)	78/1,096
6m avg traded value (Rs mn)	350

STOCK PERFORMANCE (%)

52 Week high / low: Rs 1,067/754

	3M	6M	12M
Absolute (%)	(16.3)	(15.1)	(17.3)
Relative (%)	(16.4)	(17.9)	(16.1)

SHAREHOLDING PATTERN (%)

	Mar-19	Jun-19
Promoters	42.50	42.50
FIs & Local MFs	12.86	12.67
FPIs	24.36	24.31
Public & Others	20.28	20.52
Pledged Shares	0.00	0.00

Source : BSE

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Other expenses were down sequentially owing to non-recurring expenses like CSR and repair expenses accruing in Q4

EBITDA expanded 23.6/29.4% YoY/QoQ primarily owing to lower RMC (spot LNG price) and better pricing across segments

The company clocked the highest ever per unit EBITDA spread of Rs 10.3/scm in 1QFY19 consequential to the higher spreads earned from the sticky industrial/commercial customer base (14% of total volumes)

Quarterly Financials Snapshot

(Rs. bn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
Net Sales	**7.57**	**6.32**	***19.8***	**7.23**	***4.8***
Raw material and Traded Goods	3.48	2.93	*18.9*	3.67	*-5.0*
Employee Expenses	0.24	0.17	*44.6*	0.19	*31.7*
Other Operating Expenses	1.08	0.99	*9.6*	1.24	*-12.6*
EBITDA	**2.77**	**2.24**	***23.6***	**2.14**	***29.4***
Depreciation	0.37	0.30	*26.0*	0.33	*13.1*
EBIT	**2.40**	**1.94**	***23.2***	**1.81**	***32.4***
Other Income including EO	0.20	0.02	*744.0*	0.24	*-14.6*
Interest	0.01	0.00	*NA*	0.00	*NA*
PBT	**2.59**	**1.97**	***31.5***	**2.05**	***26.3***
Provision for tax	0.88	0.68	*29.2*	0.71	*23.8*
RPAT	1.70	1.28	*32.7*	1.33	*27.6*
One-offs	-	(0.13)	*NA*	-	*NA*
APAT	**1.70**	**1.37**	***24.4***	**1.33**	***27.6***
Reported EPS (Rs)	17.2	13.0	*32.7*	13.5	*27.6*
Adjusted EPS (Rs)	**17.2**	**13.9**	***24.4***	**13.5**	***27.6***

Margin Analysis

	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (bps)
Raw material as % of Net Sales	46.0	46.3	*(34)*	50.7	*(476)*
Employee Expenses as % of Net Sales	3.2	2.7	*55*	2.6	*66*
Other Operating Expenses as % of Net Sales	14.3	15.6	*(133)*	17.1	*(284)*
EBITDA Margin (%)	36.5	35.4	*112*	29.6	*694*
Net Profit Margin (%)	22.5	21.6	*83*	18.5	*401*
Tax Rate (%)	34.2	34.8	*(59)*	34.9	*(69)*

Source: Company, HDFC sec Inst Research

Volume growth will pick up once 500 State Department Corporation buses are added to the fleet in Mumbai

Capex guidance for FY20 is ~Rs 3.5-4bn

Downward revision in estimates is based on a grim volume growth outlook and higher per unit spreads

Key Operational Data

	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
Total Sales Volumes (mmscm)	**270.06**	**261.42**	***3.3***	**270.49**	***-0.2***
CNG	196.95	193.08	*2.0*	197.57	*-0.3*
PNG	73.11	68.34	*7.0*	72.92	*0.3*
Total Volume (mmscmd)	**2.97**	**2.87**	***3.3***	**3.01**	***-1.3***
CNG	2.16	2.12	*2.0*	2.20	*-1.4*
PNG	0.80	0.75	*7.0*	0.81	*-0.8*

Margins (Rs/scm)	**1QFY20**	**1QFY19**	***YoY (bps)***	**4QFY19**	***QoQ (bps)***
Realisation	28.0	24.2	*386*	26.7	*134*
Gross Spread	15.2	13.0	*217*	13.2	*199*
Opex	4.9	4.4	*49*	5.3	*(35)*
EBITDA Spreads	10.3	8.6	*168*	7.9	*234*
PAT	6.3	4.9	*139*	4.9	*137*
RM	12.9	11.2	*169*	13.6	*(66)*

Source: Company, HDFC sec Inst Research

Change In Estimates

	Unit	FY20E			FY21E		
		Old	**New**	***Ch %***	**Old**	**New**	***Ch %***
Volumes							
CNG	mmscmd	2.3	2.3	*(2.7)*	2.5	2.5	-
PNG	mmscmd	0.8	0.8	*(1.6)*	0.9	0.9	*(0.5)*
Exchange Rate	Rs/USD	72.0	70.6	*(1.9)*	72.0	72.0	-
Revenues	Rs bn	30.95	31.03	*0.3*	32.63	33.46	*2.6*
EBITDA	Rs bn	9.24	9.54	*3.3*	9.68	9.79	*1.1*
APAT	Rs bn	5.60	5.80	*3.5*	5.78	5.84	*1.0*
AEPS	Rs/sh	56.7	58.7	*3.5*	58.6	59.2	*1.0*

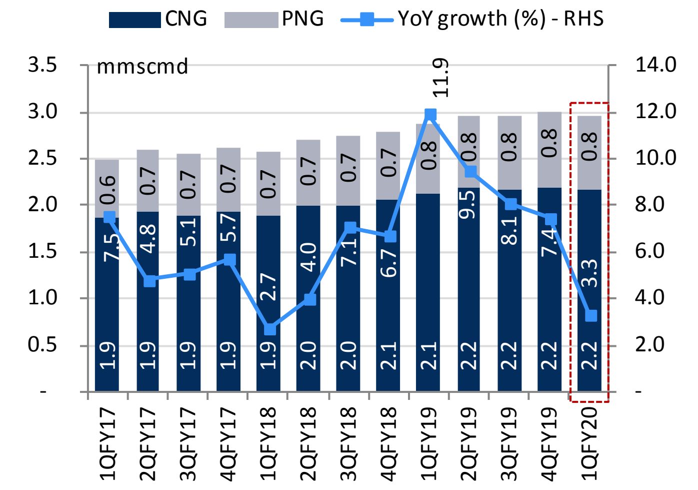
Source: HDFC sec Inst Research

MGL added 4 CNG stations in Q1 and now operates 240 CNG stations. 3 of these 4 are in Raigad district. It intends to add a total of 46 stations in FY20

Industrial and commercial volumes were 0.238mmscmd and 0.178mmscmd in Q1 respectively

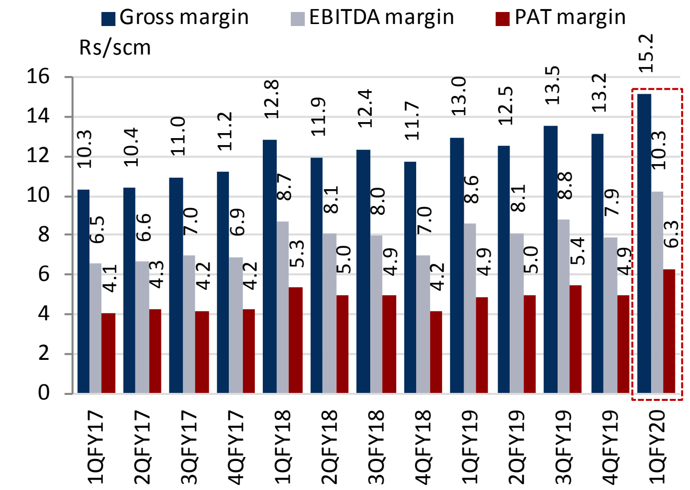
We expect that MGL will be able to maintain its per unit EBITDA margin of Rs 8+/scm over FY20-22E

Volume Trend



Source: Company, HDFC sec Inst Research

Margin Trend



Source: Company, HDFC sec Inst Research

Assumptions

	FY17	FY18	FY19	FY20E	FY21E	FY22E
Volumes (mmscmd)	2.6	2.7	2.9	3.11	3.4	3.6
CNG	1.9	2.0	2.2	2.28	2.5	2.6
PNG	0.7	0.7	0.8	0.83	0.9	0.9
YoY growth (%)	5.7	5.1	9.2	5.42	8.0	5.8
CNG	5.5	4.5	9.2	5.2	8.5	5.7
PNG	6.3	7.1	9.2	6.1	6.8	6.0
Gross margin (Rs/scm)	10.7	12.0	12.9	13.4	13.0	12.8
EBITDA margin	6.7	7.7	8.2	8.4	8.0	7.9
PAT	4.2	4.8	5.1	5.1	4.8	4.6
Exchange rate	66.9	67.0	69.9	70.6	72.0	72.0

Source: Company, HDFC sec Inst Research

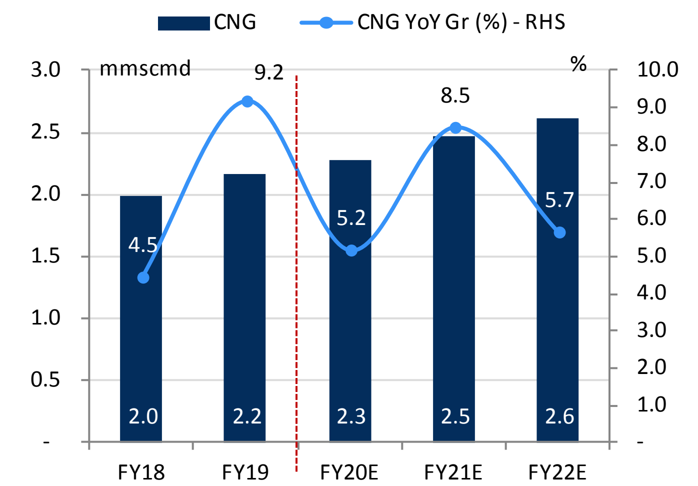
CNG volumes to grow by ~6.4% CAGR while PNG volumes to grow by ~6.3% CAGR over FY19-22E

Currently, CNG prices are at a 24-32% discount to that of diesel and petrol respectively. This discount is adequate to incentivise the conversion to CNG from petrol but the congestion at the CNG outlets acts as a key hindrance

Overall volume to grow by ~6.4% CAGR over FY19-22E

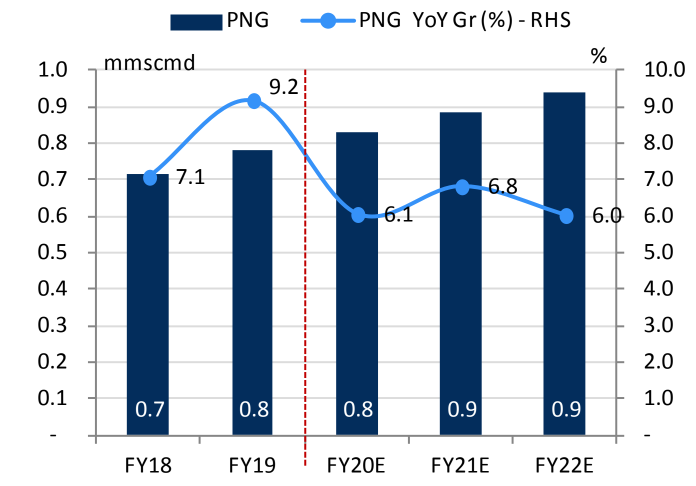
Update on Raigad GA in 1Q:
(1) 3,200 D-PNG connections added
(2) Now operating a total of 13 CNG stations in the area
(3) CNG volume sales of 0.03mmscmd

CNG Volumes Growth



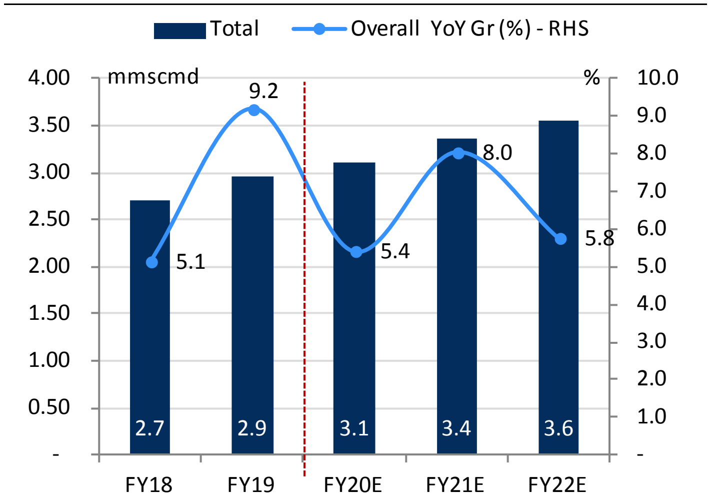
Source: Company, HDFC sec Inst Research

PNG Volumes Growth



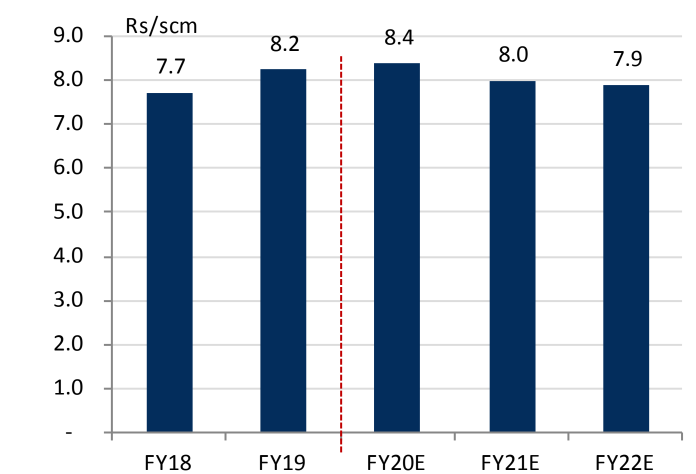
Source: Company, HDFC sec Inst Research

Overall Volume Growth



Source: Company, HDFC sec Inst Research

Per Unit EBITDA Trend



Source: Company, HDFC sec Inst Research

SOTP Valuation Based on Jun-21E

	EPS (Rs/sh)	Multiple (x)	Value Rs/sh	Valuation Basis
Standalone business	59.61	19	1,133	P/E multiple on Jun FY21E
Value per share			**1,133**	

Source: HDFC sec Inst Research

Peer Set Comparison

	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Upside %	EPS (Rs/sh)				P/E (x)				P/BV (x)				ROE (%)			
						FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Reliance Industries	7,365.92	1,162	NEU	1,302	12.0	53.0	55.5	60.9	62.6	21.9	20.9	19.1	18.6	2.3	1.8	1.7	1.6	11.1	9.8	9.2	8.7
ONGC	1,648.02	131	BUY	189	44.3	15.9	21.2	20.6	21.1	8.3	6.2	6.4	6.2	0.9	0.8	0.8	0.7	10.5	13.5	12.3	11.8
Indian Oil Corp	1,202.86	131	BUY	190	45.0	22.8	18.4	18.2	21.1	5.7	7.1	7.2	6.2	1.1	1.1	1.0	0.9	19.9	15.4	14.7	15.8
BPCL	682.51	347	BUY	409	17.9	41.6	36.3	33.8	34.3	8.3	9.6	10.3	10.1	2.0	1.9	1.7	1.5	25.6	20.1	17.3	16.0
GAIL	559.26	124	BUY	204	64.9	10.2	13.8	13.0	14.8	12.2	9.0	9.5	8.4	1.4	1.3	1.2	1.1	11.7	14.8	12.8	13.4
HPCL	378.00	248	BUY	381	53.8	41.7	39.9	32.3	34.1	5.9	6.2	7.7	7.3	1.6	1.3	1.2	1.1	28.7	23.3	16.5	15.7
Petronet LNG	358.50	239	BUY	354	48.1	13.9	14.4	15.8	20.5	17.3	16.6	15.1	11.7	3.7	3.6	3.4	3.2	23.3	21.8	23.1	28.2
Indraprastha Gas	217.70	311	BUY	384	23.3	9.6	11.2	13.1	14.1	32.5	27.7	23.8	22.0	6.2	5.3	4.6	4.1	20.9	20.6	20.7	19.6
Oil India	162.66	150	BUY	232	54.6	24.6	33.4	32.2	32.6	6.1	4.5	4.7	4.6	0.6	0.6	0.5	0.5	9.4	13.0	11.8	10.7
Gujarat Gas	128.73	187	BUY	246	31.7	4.2	6.1	11.1	11.7	44.2	30.5	16.9	16.0	6.9	5.9	4.5	3.6	16.5	20.9	30.4	25.3
GSPL	122.39	217	BUY	247	14.0	11.9	14.1	16.1	17.0	18.3	15.4	13.5	12.7	2.4	2.1	1.9	1.7	14.0	14.7	14.9	14.2
Mahanagar Gas	**77.54**	**785**	**BUY**	**1,133**	**44.3**	**48.4**	**55.3**	**58.7**	**59.2**	**16.2**	**14.2**	**13.4**	**13.3**	**3.7**	**3.2**	**2.8**	**2.5**	**24.3**	**24.3**	**22.6**	**20.1**

Source: Company, HDFC sec Inst Research, * Fair Price

Standalone Income Statement

(March ending) (Rs bn)	FY18	FY19E	FY20E	FY21E	FY22E
Revenues	**22.33**	**27.91**	**31.03**	**33.46**	**35.76**
Growth %	***9.8***	***25.0***	***11.2***	***7.8***	***6.9***
Raw Material	10.29	13.99	15.77	17.55	19.11
Employee Cost	0.67	0.71	0.84	0.89	0.94
Other Expenses	3.57	4.36	4.89	5.23	5.49
EBITDA	**7.80**	**8.86**	**9.54**	**9.79**	**10.22**
EBIDTA Margin (%)	***34.9***	***31.7***	***30.8***	***29.3***	***28.6***
EBITDA Growth %	***21.1***	***13.5***	***7.8***	***2.6***	***4.3***
Depreciation	1.11	1.26	1.52	1.73	1.93
EBIT	**6.69**	**7.60**	**8.02**	**8.06**	**8.29**
Other Income (Including EO Items)	0.58	0.65	0.86	0.90	0.95
Interest	0.00	0.00	-	-	-
PBT	**7.26**	**8.24**	**8.88**	**8.96**	**9.24**
Tax	2.49	2.91	3.08	3.12	3.21
RPAT	**4.78**	**5.34**	**5.80**	**5.84**	**6.02**
EO (Loss) / Profit (Net Of Tax)	-	(0.13)	-	-	-
APAT	**4.78**	**5.47**	**5.80**	**5.84**	**6.02**
APAT Growth (%)	***21.4***	***14.4***	***6.1***	***0.8***	***3.1***
AEPS	**48.4**	**55.3**	**58.7**	**59.2**	**61.0**
AEPS Growth %	***21.4***	***14.4***	***6.1***	***0.8***	***3.1***

Source: Company, HDFC sec Inst Research

Standalone Balance Sheet

(Rs bn)	FY18	FY19E	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital	0.99	0.99	0.99	0.99	0.99
Reserves And Surplus	19.97	23.00	26.41	29.87	33.52
Total Equity	**20.95**	**23.99**	**27.40**	**30.86**	**34.51**
Long-term Debt	0.01	-	-	-	-
Short-term Debt	-	-	-	-	-
Total Debt	**0.01**	**-**	**-**	**-**	**-**
Deferred Tax Liability	1.75	2.05	2.17	2.20	2.27
Long-term Provision	0.16	0.16	0.17	0.17	0.17
TOTAL SOURCES OF FUNDS	**22.87**	**26.20**	**29.73**	**33.23**	**36.95**
APPLICATION OF FUNDS					
Net Block	15.32	17.63	19.13	20.43	21.52
Capital WIP	**3.57**	**3.70**	**3.70**	**3.70**	**3.70**
LT Loans And Advances	1.46	1.32	1.32	1.32	1.32
Total Non-current Investments	**-**	**-**	**-**	**-**	**-**
Inventories	0.24	0.19	0.22	0.24	0.26
Debtors	0.92	1.00	1.11	1.19	1.28
Cash and Cash Equivalents	7.80	9.53	12.35	15.39	18.73
Other Current Assets	0.81	1.04	1.16	1.25	1.34
Total Current Assets	**9.76**	**11.76**	**14.83**	**18.07**	**21.60**
Creditors	1.10	1.52	1.72	1.91	2.08
Other Current Liabilities & Provns	6.13	6.69	7.53	8.37	9.11
Total Current Liabilities	**7.23**	**8.21**	**9.24**	**10.28**	**11.19**
Net Current Assets	**2.52**	**3.55**	**5.58**	**7.79**	**10.41**
TOTAL APPLICATION OF FUNDS	**22.87**	**26.20**	**29.73**	**33.23**	**36.95**

Source: Company, HDFC sec Inst Research

Standalone Cash Flow

(Rs bn)	FY18	FY19E	FY20E	FY21E	FY22E
Reported PBT	7.27	8.24	8.88	8.96	9.24
Non-operating & EO Items	(0.58)	(0.78)	(0.86)	(0.90)	(0.95)
Interest Expenses	0.00	0.00	-	-	-
Depreciation	1.11	1.26	1.52	1.73	1.93
Working Capital Change	0.54	0.84	0.78	0.84	0.72
Tax Paid	(2.11)	(2.61)	(2.96)	(3.09)	(3.15)
OPERATING CASH FLOW (a)	**6.22**	**6.96**	**7.37**	**7.54**	**7.79**
Capex	(2.83)	(3.70)	(3.02)	(3.02)	(3.02)
Free Cash Flow (FCF)	*3.39*	*3.26*	*4.35*	*4.52*	*4.77*
Investments	0.04	0.00	-	-	-
Non-operating Income	0.58	0.78	0.86	0.90	0.95
Others	-	-	-	-	-
INVESTING CASH FLOW (b)	**(2.22)**	**(2.93)**	**(2.16)**	**(2.12)**	**(2.08)**
Debt Issuance/(Repaid)	0.02	0.08	(0.01)	-	-
Interest Expenses	(0.00)	(0.00)	-	-	-
FCFE	*3.41*	*3.33*	*4.34*	*4.52*	*4.77*
Share Capital Issuance	-	-	-	-	-
Dividend	(2.26)	(2.38)	(2.38)	(2.38)	(2.38)
FINANCING CASH FLOW (c)	**(2.23)**	**(2.30)**	**(2.39)**	**(2.38)**	**(2.38)**
NET CASH FLOW (a+b+c)	**1.77**	**1.73**	**2.82**	**3.04**	**3.34**

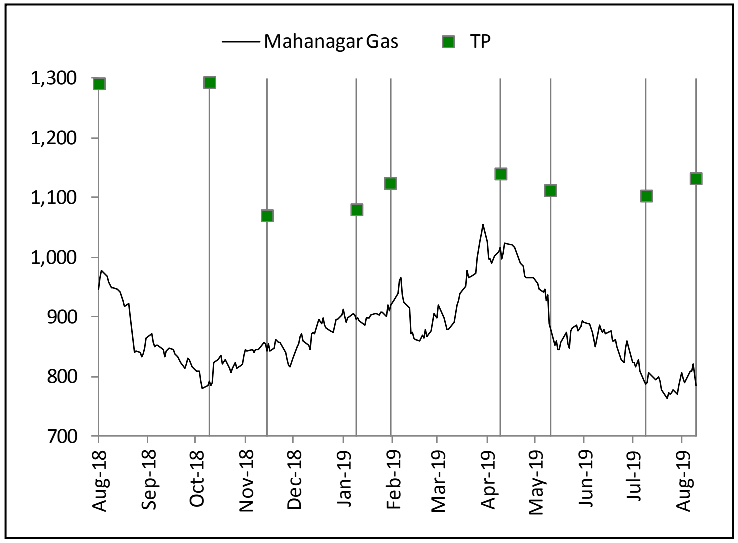
Source: Company, HDFC sec Inst Research

Standalone Key Ratios

	FY18	FY19E	FY20E	FY21E	FY22E
PROFITABILITY %					
EBITDA Margin	34.9	31.7	30.8	29.3	28.6
EBIT Margin	30.0	27.2	25.8	24.1	23.2
APAT Margin	21.4	19.6	18.7	17.5	16.8
RoE	24.3	24.3	22.6	20.1	18.4
RoIC	30.4	30.4	30.8	29.8	21.6
RoCE	22.3	21.7	20.7	18.6	17.2
EFFICIENCY					
Tax Rate %	34.2	35.3	34.7	34.8	34.8
Fixed Asset Turnover (x)	1.4	1.4	1.3	1.3	1.2
Inventory (days)	4	3	3	3	3
Debtors (days)	15	13	13	13	13
Other Current Assets (days)	13	14	14	14	14
Payables (days)	18	20	20	21	21
Other Current Liab & Provns (days)	100	87	89	91	93
Cash Conversion Cycle (days)	(86)	(78)	(80)	(83)	(85)
Net Debt/EBITDA (x)	(1.0)	(1.1)	(1.3)	(1.6)	(1.8)
Net D/E	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)
Interest Coverage	0.0	0.0	-	-	-
PER SHARE DATA (Rs)					
EPS	48.4	55.3	58.7	59.2	61.0
CEPS	59.6	66.7	74.1	76.7	80.5
Dividend	19.0	20.0	20.0	20.0	20.0
Book Value	212.1	242.9	277.3	312.4	349.3
VALUATION					
P/E (x)	16.4	14.4	13.5	13.4	13.0
P/Cash EPS (x)	13.3	11.9	10.7	10.4	9.9
P/BV (x)	3.7	3.3	2.9	2.5	2.3
EV/EBITDA (x)	9.1	7.8	6.9	6.4	5.8
EV/Revenue (x)	3.2	2.5	2.1	1.9	1.7
Dividend Yield (%)	2.4	2.5	2.5	2.5	2.5
OCF/EV (%)	8.8	10.1	11.2	12.0	13.1
FCFF/EV (%)	4.8	4.7	6.6	7.2	8.0
FCFE/M Cap (%)	4.4	4.2	5.5	5.8	6.1

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
1-Aug-18	947	BUY	1,292
9-Oct-18	785	BUY	1,294
14-Nov-18	841	BUY	1,071
9-Jan-19	903	BUY	1,081
30-Jan-19	911	BUY	1,125
9-Apr-19	1,017	BUY	1,141
10-May-19	889	BUY	1,113
9-Jul-19	787	BUY	1,104
10-Aug-19	785	BUY	1,133

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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Disclosure:

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