

Growth attributed to increase in customer base and coverage area. Maintain Accumulate.

MGL is an excellent cash annuity model with decent dividend yield. Promoter offloading some stake has weighed down on the valuations, however, the uncertainty of around this is over by BG Asia selling off their remaining 10 pc stake (complete exit) as markets have reacted positively to the news. We structurally like MGL as there is improvement in their operational performance. MGL has lesser GA's than its peers but their profitability is higher than its peers. With volume outlook looking stable and spreads likely to sustain, outlook gets better. Based on DCF valuation, we maintain our Accumulate rating with a target price of ₹ 985.

MD&A Overview

With the ongoing capital expenditure, MGL is trying to increase its footprint, especially in the Raigad region. Beyond having ample organic growth headroom within its own territories, MGL is continuously looking to expand its area of operations through direct bidding, forming strategic alliances and joint ventures with existing bid winners, and taking inorganic routes to geographic expansion. The thrust to expand reach has benefitted the company, as it has attracted new domestic and industrial customers. Further, the green fuel push by the government will entail easy availability of gas supplies. Also, rising crude oil prices are expected to revive industrial and commercial segments. MGL is one of the India's leading Natural Gas Distribution Companies and is also one of the first CGD companies in India. With an experience of over 2 decades, MGL connects with over 1 million households, over 3,600 small commercial establishments and 72 industrial establishments. MGL supplies CNG to more than 0.65 million vehicles in Mumbai, Thane, Mira-Bhayander, Navi Mumbai and adjoining areas. As of March 31, 2019, it had a supply network of over 436.65 kms of steel pipelines, over 4,873.223 kms of polyethylene pipeline and over 236 CNG filling stations having more than 1,382 dispensing points.

Financial Snapshot

Net sales grew by 24.9% from ₹22.2 billion in FY18 to ₹27.7 billion in FY19. EBITDA has grown by approximately 13.5% during the period, to reach ₹ 8.9 billion. The cost of gas increased by 36% to ₹14 billion in FY19. The Company achieved a PBT of ₹8.4 billion which grew by 15% as compared to the previous year. The directors recommended and paid an interim dividend of ₹9.50 per share and recommended a final dividend of ₹10.50 per share for FY19. Net worth increased by 14.5% driven by rise other reserves.

Industry Overview

India's GDP grew by 7.1% in 2018 and is projected to grow by 7.3% in 2019, and by 7.5% in 2020. The business confidence and investment remain strong, and business activity should benefit from easing financial conditions, lower oil prices, accommodative fiscal policy and recent structural reforms. India's economic growth is closely related to energy demand; therefore, to support the projected economic growth, need for oil and gas is also poised to grow, thereby making the sector quite conducive for investment. The Government has set a clear goal of raising the share of gas from around 6% currently to 15% by 2030. Expansion of the gas sector caters effectively to multiple national priorities – of limiting carbon intensity of Indian economy, generating huge employment opportunities, facilitating industrial activity and rejuvenating domestic E&P activity.

CMP	₹ 849
Target / Upside	₹ 985 / 16%
BSE Sensex	37,356
NSE Nifty	11,017

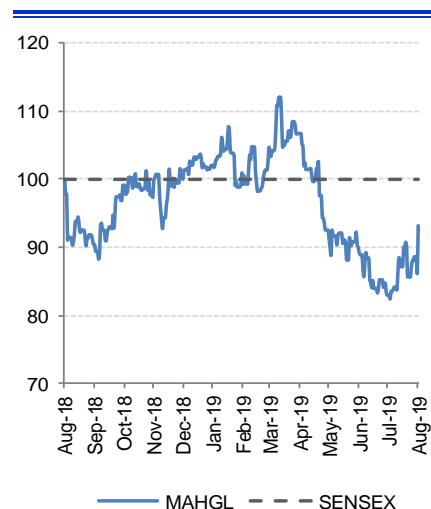
Script Details

Equity / FV	₹ 988mn / ₹ 10
Market Cap	₹ 84bn
	US\$ 1bn
52-week High/Low	₹ 1,067/₹ 754
Avg. Volume (no)	5,44,033
NSE Symbol	MGL
Bloomberg Code	MAHGL IN

Shareholding Pattern Jun'19(%)

Promoters	42.5
MF/Banks/FIs	12.9
FII's	24.9
Public / Others	19.8

MAHGL Relative to Sensex



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Annual Report Macro View

Key Management Changes	Mr. Anand Upadhyay was appointed as Company Secretary and Compliance Officer w.e.f May, 2019.		
Board of Directors	<p>The following directors were appointed:</p> <p>Dr. Ashutosh Karnatak was appointed as the Non-Executive Chairman (Nominee of GAIL) w.e.f. August 01, 2019. He also served as a member of GAIL Gas Board from July 2010 to May 2017.</p> <p>Mr. Trivikram Arun R. was appointed as the Non-Executive Director (Nominee of BGAPH) w.e.f. May 10, 2019. Mr. Trivikram served as a General Manager of Shell's upstream business in India and as Managing Director of BG Exploration and Production India Limited.</p> <p>Mr. Deepak Sawant was appointed as the Deputy Managing Director (Nominee of GAIL) w.e.f. May 09, 2019. Mr. Sawant was with GAIL Gas Limited and handling 6 Geographical areas directly including Bengaluru and 6 Geographical areas with JV partners.</p>		
Auditors	No changes. M/s. S R B C & Co. LLP continue to be the auditors of the Company.		
Pledged Shares	No pledged shares were held during the year.		
Credit Ratings	Ratings	FY2019	FY2018
	Long-term rating	ICRA-AAA (Stable)	-
	Short term rating	ICRA-A1+	-
Insider Holdings	Number of securities acquired/disposed/pledged during the year:		
		FY2019	FY2018
	Acquired	-	-
	Disposed	30,621,005	-
	Pledged	-	-
	Pledge revoked	-	-
Macroeconomic Factors	<p>Though the energy basket remains primarily fossil fuel-based, led by coal, demand growth for fossil fuels is forecasted to be easily outstripped by that of renewables over the longer term. The rate of growth for renewables is estimated at over 13% annually – compared with the 3% demand growth for both oil and coal. Gas will be playing a stronger role in the future domestic economy because of its cleaner carbon profile and rising integration into the mainstream driven by Government prioritization, faster buildup of the necessary infrastructure and access to cheaper and diverse supply sources.</p>		
Key Holders	Category of Shareholder (%)	FY2019	FY2018
	A) Promoter Holding	42.50	65.00
	B) Public		
	i) Mutual Funds	5.97	3.91
	ii) Banks/FIs	0.49	0.40
	iii) Foreign Portfolio Corporate	24.36	9.68
	iv) Insurance Co.	5.97	1.25
	v) State Govt.	10.00	10.00
	C) Non-Institutions	10.28	9.76
	Total	100.00	100.00

Source: Company

What's New

- The company was able to connect 111,511 domestic households to PNG, thereby closing the year with a cumulative customer base of approximately 1.06 million households.
- Further, MGL has added 306 industrial and commercial customers, totaling to a customer base of 3,824 industrial and commercial units.
- MGL also successfully supplemented its current CNG network of 236 stations and upgraded the capacity of 28 stations, serving an estimated 0.69 million vehicles.
- The Company propelled its current compression capacity to about 33.37 lakhs kg/day, an increase in the capacity by 3.17 lakhs kgs/ day.
- MGL also expanded its network in Raigad by operating 10 CNG stations and is planning to add 2 more stations in the coming financial year. Further, it added 9.25 km of steel and 258.43 km of PE Pipeline network, leading to 5,310 km of gas pipeline spread across Mumbai and its adjoining areas, and Raigad.
- It is also planning to extend its supply services across 5-6 towns like Pen, Ulwe, Roha, and Karjat amongst others, which are still under-penetrated, initially with the help of virtual pipeline network to serve domestic.
- During FY19, 0.0825 mn vehicles were added for CNG supply and 0.111 mn domestic households were connected for PNG. Moreover, 217 commercial and 3 industrial customers were added.
- Further, MGL added 18 CNG Filling Stations for small and medium vehicles. CNG filling facility at 17 depots is operational for over 3,342 public transport buses run by BEST, MSRTC, TMT and NMMT in order to provide pollution-free travel to the citizens.

Industry

- Imports for the liquefied natural gas (LNG) in India rose 9.7% YoY and 13.4% month-on-month to 83 million metric standard cubic metres per day (MMSCMD).
- Gas pipeline infrastructure in India stood at 16,226 km at the beginning of February 2019.
- Under City Gas Distribution (CGD) network, total of 136 GAs (Geographical areas) awarded – 86 GAs - constituting 174 districts in CGD bidding round 9 and 50 GAs constituting 124 districts in CGD bid round 10.
- Per the commitment made by the various entities in the 50 GAs, 20,292,760 domestic PNG connections and 3,578 CNG stations for the transport sector will be installed largely during a period of 8 years up to March 31, 2029, in addition to 58,177 inch-km of steel pipeline. Also, the entities would be authorized to supply natural gas to industrial and commercial units in their respective GAs.

"FY 2018-19 was filled with external vulnerabilities arising out of volatile oil prices, trade wars between major global trading partners and US monetary tightening. The global economic indicators remain largely favourable though growth is moderating. This offers a great opportunity for economies to boost human capital, increase opportunities for investment and promote trade integration."

*Dr. Ashutosh Karnatak,
Chairman*

Government Initiatives

The Government aims to bring half the country on the City Gas Distribution map, marking a new era of easily available, environment-friendly and cheaper natural gas, to more than 70% of the country's population. Hence, it undertook several initiatives such as:

- The Government of India has allowed 100% Foreign Direct Investment (FDI) in many segments of the sector, including natural gas, petroleum products, and refineries, among others. According to the data released by the Department of Industrial Policy and Promotion, the petroleum and natural gas sector attracted FDI worth US\$ 7.00 billion as on December 2018.
- CNG corridor across major highways was developed and Auto Fuel Vision and policy 2025 was introduced.
- As on December 2018, nearly 58.3 million connections were made under Pradhan Mantri Ujjwala Yojana.
- The Government plans to invest \$9.97 billion to expand the gas pipeline network across the country.
- Further, it expects to set up around 5,000 compressed bio gas plants by 2023.
- MGL connects over 1 million households and 3,600 small commercial establishments and 72 industrial establishments. It supplies CNG to more than 0.65 million vehicles in Mumbai, Thane, Mira-Bhayander, Navi Mumbai and adjoining areas.
- As of March 31, 2019, MGL had a supply network of over 436.65 kms of steel pipelines, over 4,873.223 km of polyethylene pipeline and 236 CNG filling stations having more than 1,382 dispensing points.
- Sales volume of MGL grew at 5.5% CAGR for PNG and 5.5% CAGR for CNG between FY 2014 to FY 2019.
- Global energy demand is projected to increase by around a third by 2040, backed by improvements in living standards, particularly in India, China and across Asia.
- Specifically, in India, energy demand is expected to grow faster than that of all major economies, driven by continuous robust economic growth.
- Further, India's energy demand as a percentage of global energy demand is projected to rise to 11% in 2040 from 5.58% in 2017. Also, crude oil consumption is forecasted to grow at a CAGR of 3.60% to 500 million tonnes by 2040 from 221.76 million tonnes in 2017 while Natural Gas consumption is expected to increase at a CAGR of 4.31% to 143.08 million tonnes by 2040 from 54.20 million tonnes in 2017.
- Approximately 7 out of 10 people in India would directly or indirectly experience the benefit from the combined impact of development of CGD networks in their homes, businesses or vehicles.
- The government recently unveiled a Natural Gas Infrastructure Development Plan to set up 10,000 CNG stations over the next 10 years. CNG vehicles are predominantly sold in Delhi NCR and across select cities. As of March 31, 2019, there were 1,730 CNG stations spread across the country.
- To meet the Paris climate goals, in the 2nd half of the century these carbon emissions would need to be greatly reduced. This would require a near-complete de-carbonisation of the power sector – requiring greater use of renewables and Carbon, Capture Utilisation and Storage (CCUS) in conjunction with natural gas – together with greater electrification of end-use activities, including transport.
- In order to take India to a new level of development, it is planned to deliver PNG connection to 5 crore homes, set up 10,000 CNG stations and lay 25,000 km to 30,000 km of steel pipelines by CGD entities alone in the next few years totaling to an investment of nearly \$20 billion to \$25 billion.

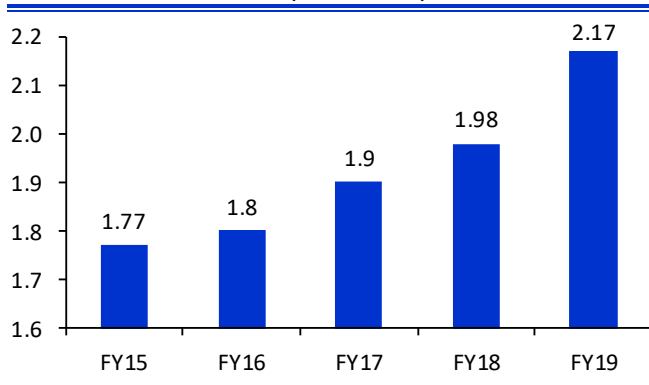
“During FY 2018-19, City Gas Distribution (CGD) networks arrived on the centre stage as the next big downstream expansion story in India, after fuel retailing, with high quantum of investments expected over the next decade.”

*-Sanjib Datta,
Managing Director*

Key Takeaways from the MD&A

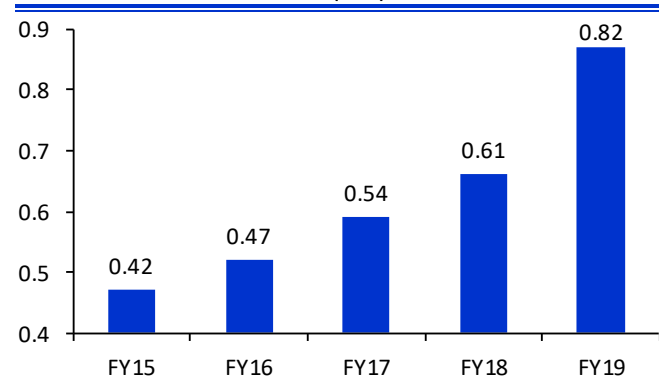
- In September 2018, Government of India approved fiscal incentives to attract investments and technology to improve recovery from oil fields, which is expected to lead to hydrocarbon production worth \$745.82 billion in the next twenty years.
- A gas exchange is planned in order to bring market-driven pricing in the energy market of India.
- Further, the Oil Ministry plans to set up (compressed bio gas) plants and allied infrastructure at a cost of \$1.10 billion to promote the use of clean fuel.

Exhibit 1: CNG Volume (MMSCMD)



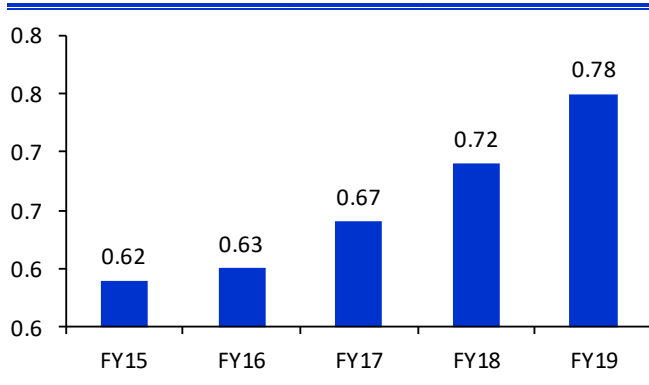
Source: Company, DART

Exhibit 2: CNG Customers (mn)



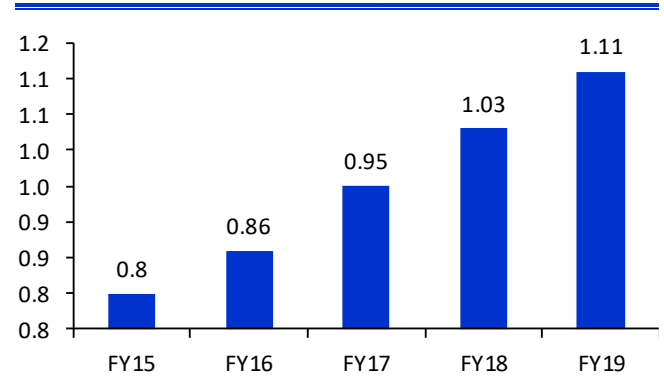
Source: Company, DART

Exhibit 3: PNG Volume (MMSCMD)



Source: Company, DART

Exhibit 4: PNG Customers (mn)



Source: Company, DART

- MGL has built an extensive supply network in Mumbai and its adjoining areas and also has an infrastructure exclusivity to lay, build, expand and operate CGD networks in Mumbai and its adjoining areas for a period of 25 years. This Infrastructure Exclusivity is valid until 2020 for Mumbai, until 2030 for the adjoining areas and until 2040 for the Raigad district. Moreover, the Company can get an extension in the block of 10 years, as per the regulations laid by Petroleum & Natural Gas Regulatory Board (PNGRB).
- MGL has the capacity to access gas at the most competitive price because any new competition in the industry will have to pay MGL an additional transportation tariff for using the MGL's distribution network. This will in turn increase its price as compared to that supplied by MGL.

"We are pursuing all our initiatives towards saturating the market with piped gas and reach every customer requiring gas in our licensed areas."

*Dr. Ashutosh Karnatak,
Chairman*

- The Company has completed process of leasing 2 Type-3 cascades for CNG transportation. These cascades have resulted in transporting more CNG per trip thereby reducing number of trips. Further, process of taking 2 more cascades on lease is near completion and 6 more for upcoming CNG stations is underway.
- As of March 31, 2019, it had a supply network of over 436.65 kms of steel pipelines, over 4,873.223 kms of polyethylene pipeline and over 236 CNG filling stations having more than 1,382 dispensing points.
- Added 9.25 km of steel and 258.43 km of PE Pipeline network, leading to 5,310 km of gas pipeline spread across Mumbai and its adjoining areas, and Raigad.
- Further, setting up Solar Power and Wind Turbine at CGS, Taloja is underway. This is a green initiative leading to reduce in the power taken from the grid. Also, installation of natural gas Microturbine is in progress at MGL office exhaust heat from which it will be utilised for centralised Air Conditioning system.
- Cybersecurity is one of the top most priority of your organisation and accordingly significant initiatives have been taken in this area along with protection against the concerns related to data privacy.
- User specific functions such as hyperlinking drawings/documents to features, layers visibility control, functionality to indicate on-going third party activities and outage manager have been introduced in the GIS. Enhancement of login page and display styles of network features has also been carried out in GIS. The GIS also continues to provide useful information of pipeline network for regular monitoring, repair and maintenance as well as emergency handling.
- Moreover, to boost efficiency of existing project operations, certain new applications like Last Mile Connectivity, Working at Height, Plumber Tracking and Work Plan and Work Progress (WPWP) were also developed with the help of BIS department.

Outlook

- MGL is preparing to seize the opportunity, offered by growing demand in gas sector, by investing significantly in the infrastructure in the city of Mumbai and adjoining authorised areas.
- MGL is ideally suited to capture the benefits of this large and growing market, given the low penetration in its areas of operation.
- Further, the Company's foray in Raigad district provides additional opportunities for the expansion of its CNG and PNG networks.
- Also, MGL will be able to leverage its competitive strengths to increase its customer base by expanding its natural gas distribution network to cater to the increasing demand.
- During FY20, MGL plans to add about 46 CNG and connect 2,25,000 households and also expand its existing network with more than 33.14 kms of steel pipeline and about 262.14 kms of polyethylene (PE) pipeline.

"The long-term vision for our Company is to be a socially responsible, world class, customer friendly gas Company committed to provide safe, efficient and reliable energy."

*Dr. Ashutosh Karnatak,
Chairman*

Profit and Loss Analysis

“With this positive backdrop for the industry, I am pleased to inform you that we had a solid and sustained financial performance during the financial year 2018-19.”

*Sanjib Datta,
Managing Director*

- Net sales grew 24.9% YoY to ₹27.7 billion, driven by a strong volume growth in overall sales volume by 9.2% over previous year. Net sales witnessed a CAGR of 5.9% over a period of five years (FY15-FY19).
- Growth was witnessed due to a boost in CNG sales volume of 9.2%, domestic sales by 10.7%, commercial sector by 4.97% and Industrial sector by 10.2%. Overall PNG sales volume also grew by 9.2% during FY19.
- Raw materials as a percentage of sales grew to 50.5% in FY19 as compared to 46.4% in FY18.
- Other operational income increased by 32.4% YoY to ₹202.8 million. During FY19, MGL witnessed strong growth in revenue and profits mainly driven by increase in customer base and coverage area.
- EBITDA including other income grew by ~13.5% YoY while EBITDA margin decreased by 321 bps from 34.9% in FY18 to 31.7% in FY19, due to increase in cost of natural gas and traded items by ~36% and increase in other expenses by 22%. Further, employee benefits expenses increased by 5.8% from ₹670.2 million to ₹708.8 million in FY19. MGL's total expenditure increased by 31%YoY to ₹19.1 billion in FY19.
- Net profit margin decreased 182bps from 21.4% in FY18 to 19.6% in FY19, on account of a steep increase in gas cost as compared to the previous year.
- Tax amount increased by 16.8% over the year to ₹2.9 billion from ₹2.5 billion in FY18.
- Interest coverage ratio decreased due to a significant increase in interest expense to ₹3.2 million in FY19 compared to ₹0.9 million in FY18.
- RoANW remained almost stable at 22.8% in FY19.
- Other income increased by 34.7% to ₹777.1 million from ₹576.8 million driven by increase in interest income from ₹68 million to ₹167 million in FY19.
- The Board of Directors had earlier approved payment of an interim dividend of ₹9.5 per share which was paid to shareholders on record as of February 8, 2019. Further, the Board has recommended payment of final dividend of ₹10.5 per share. The Company also paid tax on dividend of ₹420 million tax.
- There was an increase of 14.3% in EPS from ₹48.4 in FY18 to ₹55.3 in FY19, while the CEPS rose 14.1% over the same period from ₹59.6 to ₹68.1.

Balance Sheet Analysis

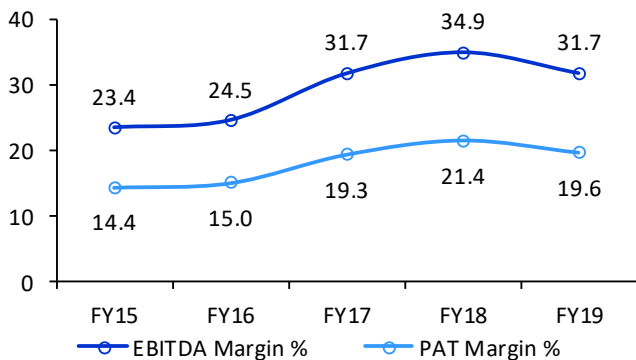
- Net Block of Assets increased by 15.1% to ₹17.6 billion in FY19 from ₹15.3 billion in FY18. Depreciation expense increased by 43.2% YoY to ₹ 4.1 billion in FY19. Capital work in progress increased by 3.7%.
- The Company made full repayment of borrowings worth ~₹12 million.
- Investments decreased by 4.9% from ₹6.9 billion to ₹6.5 billion in the current year due to sale of investments.
- Inventories decreased by 20.3% from ~₹240 million in FY18 to ₹191.2 million in FY19.
- Inventory days reduced from 3.9 to 2.5 while inventory turnover ratio increased to 144.9x in FY19 from 92.4x in FY18. Debtor days decreased from 15.1 to 13.1 in FY19, due to increase of 24.9% in sales, though debtors rose by 8.8%.
- Cash balance increased to ~₹3 billion from ₹918.8 million in FY18.

Cash Flow Analysis

- Free cash flow decreased by 16%. There was an increase of 5% in cash flow from operations, due to lower net interest expense, offset by higher direct taxes.
- The Company reported a net cash outflow from financing activity of ₹4.4 billion compared to ₹4.2 billion in FY18, due to repayment of long-term borrowings, payment of dividend (including dividend distribution tax) and net interest expense.
- The Company reported a net cash outflow from investing activities of ₹2.3 billion as compared to ₹2.3 billion in FY18. However, the Company incurred a CapEx of ₹3.7 billion in FY19 compared to ₹2.7 billion in FY18.

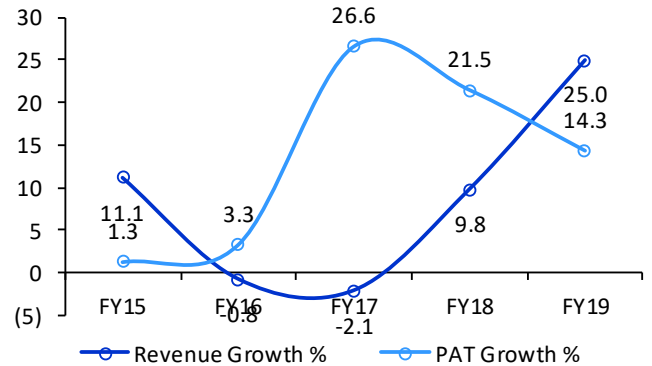
Financial Metrics and Charts

Exhibit 5: EBITDA and Net Profit Margin (%)



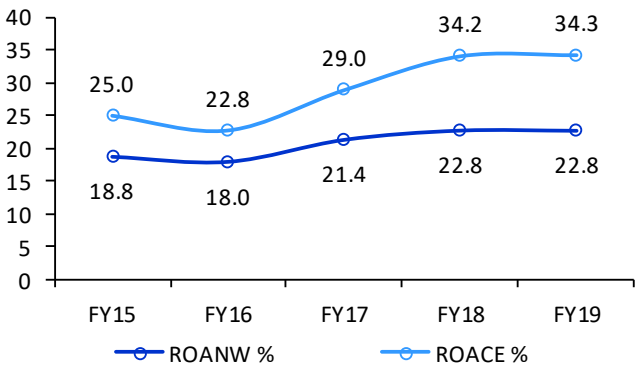
Source: Company, DART

Exhibit 6: Revenue and PAT Growth (%)



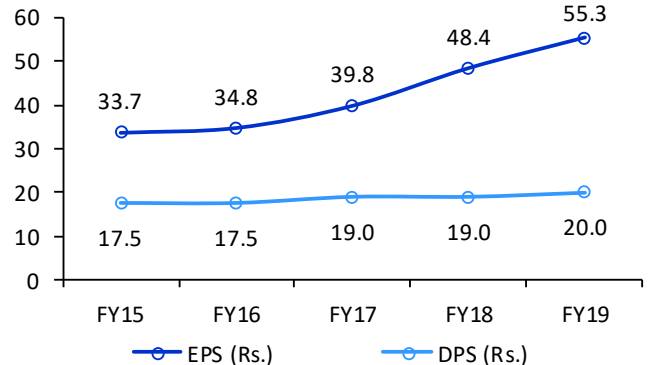
Source: Company, DART

Exhibit 7: RoANW (%) and ROACE (%)



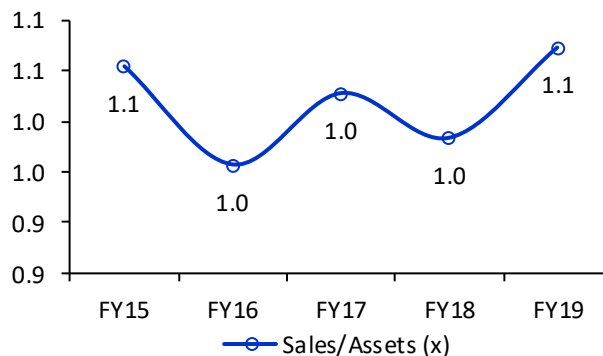
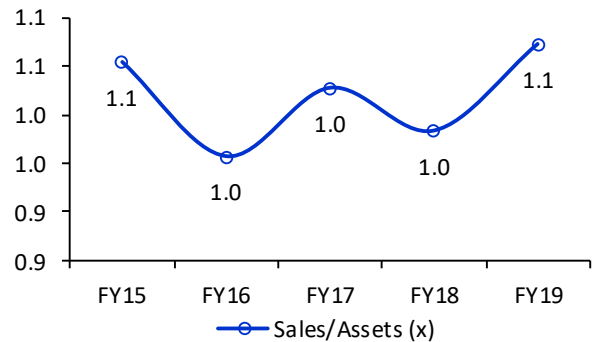
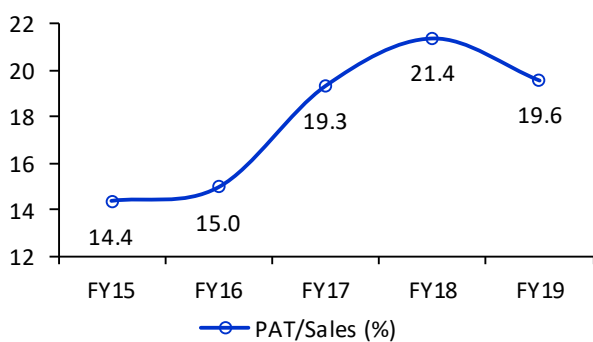
Source: Company, DART

Exhibit 8: EPS and DPS (₹)



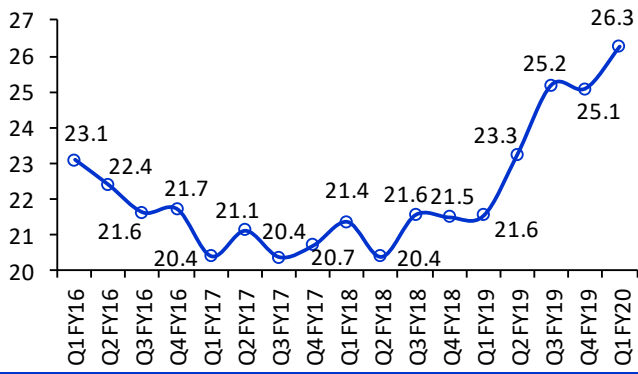
Source: Company, DART

Exhibit 9: Dupont



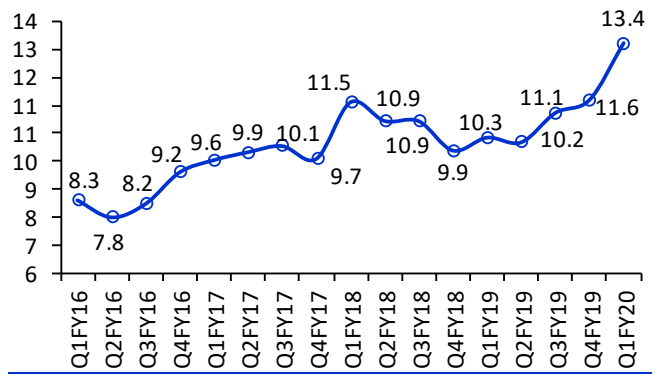
Source: Company, DART

Exhibit 10: CNG Realization Value (₹ / SCM)



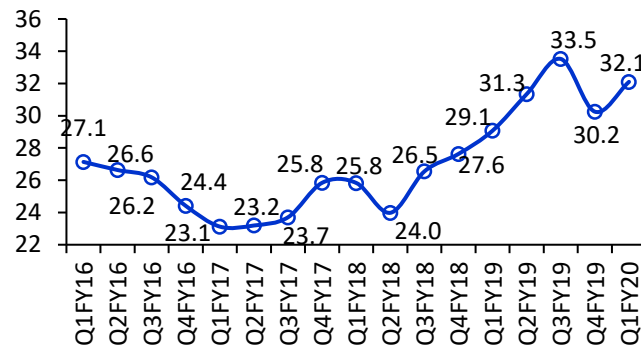
Source: Company, DART

Exhibit 11: CNG Spread (₹ / SCM)



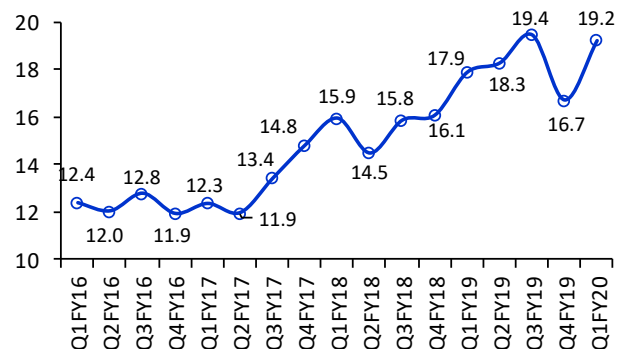
Source: Company, DART

Exhibit 12: PNG Realization (₹ / SCM)



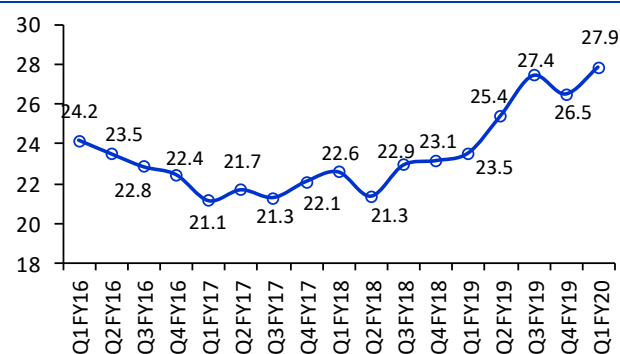
Source: Company, DART

Exhibit 13: PNG Spread (₹ / SCM)



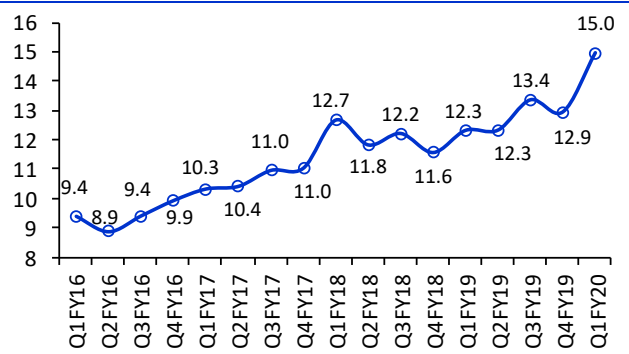
Source: Company, DART

Exhibit 14: Blended Realization (₹ / SCM)



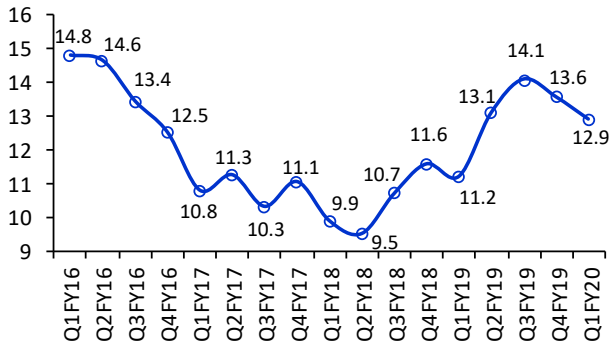
Source: Company, DART

Exhibit 15: Blended Spread (₹ / SCM)



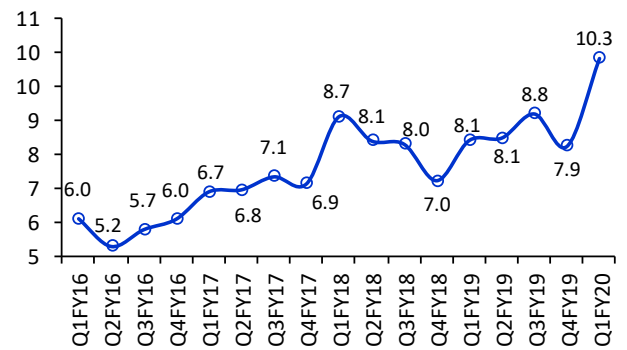
Source: Company, DART

Exhibit 16: Gas Cost (₹ / SCM)



Source: Company, DART

Exhibit 17: EBITDA Spread (₹ / SCM)



Source: Company, DART

4-Quarter ConCall Trend Analysis

	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Sales Volume	MGL witnessed YoY growth of 11.9% in overall sales volume. CNG sales volume grew by 12.6%, domestic sales volume grew by 11.7% while the industrial and commercial sectors sales grew by 8.6%. Overall the PNG volume grew by 10.1%.	A growth of 9.5% in overall sales volume over the corresponding quarter in the previous year. CNG sales volume grew by 9.2%, Domestic sales volume grew by 10.1% while the industrial and commercial sector sales grew by 10.3%. PNG volumes grew by 10.2%.	A growth of 8.1% YoY in overall sales volume. CNG sales volume grew by 8.3%, Domestic sales volume grew by 11.6% while the industrial and commercial sector sales grew by 3.8%. Overall the PNG volume grew by 7.5%.	Industrial sales volume in MMSCMD terms in this Q4 was 0.233 and commercial was 0.186 in Q4. MGL witnessed a growth of 7.4% YoY in overall sales volume. CNG sales volume grew by 6.9%, Domestic sales volume grew by 9.6% while the industrial and commercial sector sales grew by 8.6%. Overall the PNG volume grew by 9%.
Price Fluctuation	APM gas cost has increased from \$2.48 per mmbtu to \$3.06 per mmbtu on GCV basis. Average spot gas price has also increased by about \$2.10 per mmbtu on GCV basis. CNG sales price and domestic sales price were revised on April 3, 2018 from ₹42.63 per kg to ₹44.22 per kg for CNG and from ₹25.69 per SCM to ₹26.87 per SCM in case of domestic sales due to increase in APM gas price. Prices were further increased on June 8, 2018 from ₹44.22 per kg to ₹46.17 per kg in case of CNG and from ₹26.87 per SCM to ₹27.25 per SCM and an increase in CNG dispensing prices.	In October MGL undertook price hike predominantly due to rise in cost of gas. The price of LNG was \$9 plus for this half-year as against previous year half year it was \$6.5 per MMBTU. Another price hike was undertaken in the month of June.	MGL undertook price hike in CNG as well as in domestic segment which helped in better sales realizations in case of commercial and industrial. Spot prices have been ranging between \$9 and \$10 per MMBTU.	The oil price levels were down in the Q4 as compared to Q3. Spot price in Q4 on an average basis dropped down to \$9 per MMBTU compared to \$10 per MMBTU on an average in Q3.
Margins	Gross margin has declined to 52.4% as compared to 56.2% in the corresponding quarter in the previous year. EBITDA margin was 34.1% at ₹2.11 bn in the current quarter as compared to 38.2% at ₹2 bn in Q1FY18.	Gross margin has declined to 48.6% as compared to 55.4% in Q2FY18 due to unfavorable exchange rate, increase in RLNG and APM gas prices. However, it is higher in value terms in Q2FY19 despite challenges driven by higher volumes in CNG and PNG and better price realization across all customer categories. EBITDA margin was 31.8% at ₹2.2 bn in the current quarter as compared to 37.5% at ₹2 bn in Q2FY18.	Though gross Margin percentage has declined to 48.8% as compared to 53.4% in Q3FY18, it is higher in value terms due to higher volumes in CNG and PNG and better price realization across all customer categories. EBITDA margin was 31.8% at ₹2.4 bn in Q3FY19 compared to 34.6% at ₹2 bn Q3FY18	Gross margin in Q4FY19 is higher in value terms due to higher volumes in CNG and PNG and better price realization across all customer categories. However, MGL faced a decline in EBITDA/SCM QoQ, due to lower Industrial and Commercial sales realizations and higher operating expenses on account of CSR repairs and certain provisions.
Raw Material	In priority sector the gas cost has gone up whereas in industrial and commercial through imported gas RLNG. RLNG weighted average price was approximately \$11 plus in Q4 of 2017-2018, which has dropped down to around \$8.75 per mmbtu in this quarter. PMT percentage was 22.2% in Q1FY19 compared to 26.1% in Q1FY18.			Industrial segment competes with LSHS and commercial segment competes with 19 kg LPG cylinder. Variance between Q4 and Q3, price variance for Industrial and commercial is almost to the extent of negative ₹0.3 bn Spot gas price in Q3FY19 was \$10/mmbtu and in Q4FY19 was less than \$9/mmbtu. PMT for FY19 was 0.554 mmcmd and for Q3FY19 was 0.599 mmcmd.

	Q1FY19	Q2FY19	Q3FY19	Q4FY19
OPEX and CAPEX	<p>OPEX per SCM declined to ₹4.42 per SCM in Q1FY19 from ₹4.74 per SCM in Q4FY18. CAPEX is expected to be nearly ₹4 bn during the year.</p>	<p>MGL has already incurred CAPEX of nearly ₹1.5 bn on total infrastructure. CAPEX for the year is projected to be approximately ₹3 bn.</p>	<p>CAPEX for the year is estimated to be ₹3.8 bn. MGL plans to set up 20 CNG stations costing ₹0.03 bn each. Further, there will be nearly 100 km of medium pressure pipeline, polyethylene pipelines, which will be laid at a cost of at least crore per kilometer. Also, there will be expenses on steel pipelines, some replacement capex likely to be in the range of 10% to 15% of the total capex and some other capital expenditure.</p>	<p>During the year MGL incurred ₹3.6 bn towards Capex. The Company estimates Capex of ₹4.5 bn in FY20.</p>
Strategic Alliances and New Accounts	<p>MGL is now operating 220 CNG stations supplying CNG to more than 630000 vehicles and our steel and PE pipeline network stands at 5088 kilometers. They have achieved Household connections at the rate of 100000, one lakh connections per annum.</p>	<p>MGL was now able to connect more than 26,000 domestic households during Q2FY19, totalling to more than 1.1 mn connected household customers. MGL have added over 88 industrial and commercial consumers. It is now operating 221 CNG stations, supplying CNG to more than 650,000 vehicles and its total steel and PE pipeline network stands at 5,130 kilometers.</p>	<p>26,286 domestic households were added. MGL has added over 77 industrial and commercial consumers aggregating to over 3,700 industrial and commercial consumers. It is now operating 224 CNG stations, supplying CNG to 672,000 vehicles and its total steel and PE pipeline network stands at 5,181 kms.</p>	<p>During the quarter 38,866 domestic households were added, aggregating to 1.14 mn household customers. MGL has added 54 industrial and commercial consumers totaling to 3,800. Out of the 3,800 customers majority is commercial and only 80 are industrial customers. MGL is now operating 236 CNG stations, supplying CNG to 692,000 vehicles. Total steel and PE pipeline network stand at 5,310 kilometers.</p>
Industry Overview	<p>NITI Aayog plans to add additional gas pipeline network of over 10000 km to the existing pipeline network of 16500 km and increase in the coverage of CGD and CNG network to 326 cities and towns by 2022 to maximize the reach of natural gas across the country. MGL has added over 57 industrial and commercial consumers and has a total of over 3,650 industrial and commercial customers.</p>	<p>A favorable policy framework and guidelines in terms of CGD footprint expansion, mission PNG, smart cities, green corridors, etc., have been put in place. More OEM fitted CNG variants of cars are being launched by Automobile manufacturers. NITI Aayog has laid out plans to add additional gas pipeline network of over 10000 kilometers to the existing pipeline network of about 16500 kilometers and increase the coverage of CGD and CNG network to about 326 cities and towns by 2022 to maximize the reach of natural gas across the country.</p>	<p>Increase in gas demand will continue to come from the retail segment or from the CGD sector. More OEM fitted CNG variants of cars are being launched by various automobile manufacturers. NITI Aayog has laid out plans to add additional gas pipeline network of over 10,000 km to the existing pipeline network of about 16,500 km and increase the coverage of CGD and CNG network to about 326 cities and towns by 2022 to maximize the reach of natural gas across the country.</p>	<p>As per vision report of PNGRB, natural gas demand will go up to 746 mmscmd by 2029-30. Supply will go up to 475 mmscmd. Hence meeting the growing demand of natural gas is going to be a challenge. CGD has a share of 8% of total demand of natural gas. Out of the total natural gas demand in CGD sector, CNG contributes nearly 50%. CNG presently constitutes 4% of total gas consumed. This will grow to 8% in the years to come.</p>
Management Guidance	<p>By FY20, MGL expects volume of approximately one and one-and-a-half lakh SCMD from the Raigarh Distric and it should be nearly 30000 to 40000 for FY19. Gas supply to 6 to 7 major towns like Pen, Ulve, Karjat in GA3 is being planned through the virtual pipeline network. The Company aims at nearly 150000 connections per annum.</p>	<p>MGL is aiming to add nearly 20 stations. It is also looking forward to set up small footprint compact CNG stations.</p>		<p>Volume guidance for FY20 is 6-7%. Will grow in CNG segment 6-7%, domestic and commercial segment 1-2% higher and industrial segment 1-2% lower. MGL expects to add around 25 CNG stations in FY20. Also, it plans to add 110,000 domestic household connections every year.</p>

	Q1FY19	Q2FY19	Q3FY19	Q2FY19
Raigarh District	Connectivity has been established to supply gas to about 3000 domestic PNG consumers in Uran. Presently, 5 CNG stations are operational at Raigarh.	In Raigad GA, connectivity has been established to supply gas to nearly 3,000 domestic PNG consumers in Uran. Gas supply to 6 to 7 major towns in the geographical area like Pen, Ulve, Karjat etc., is being planned through the virtual pipeline network. MGL have already opened six CNG stations and are selling about 2000, 2500 kgs each. It is also supplying gas to about 700, 800 customers and plans to connect about 7000 to 8000 domestic customers by the end of this year and open another four or five CNG stations.	MGL has about 3,311 domestic PNG connections in Uran and adjoining areas. It added 1 CNG station during the quarter, and is running seven CNG stations at present. Gas supply to major towns like Pen, Uran and Karjat is being planned through the virtual pipeline network. In January 2019, MGL has received critical permissions from various authorities for laying pipelines in the area. The demand in Raigarh is coming from CNG, followed by industrial customers. It will keep growing because the base is low the growth rate will be much.	In Raigad GA MGL have about 8,900 domestic PNG connections in Uran and adjoining areas. Gas supply to major towns like Pen, Uran and Karjat is being planned through the virtual pipeline network to begin with. 3 CNG stations were added during the quarter and with this, ten CNG stations are currently operational in Raigad. Presently CNG sales in Raigad is 27000 kg and is expected to go up when some more CNG stations become operational soon. MGL plans to add 5-10 CNG stations in FY20. Raigad has an area of 7,000 sq kms. Initially gas will be supplied through cascades. After 1-2 year, MGL will supply through steel pipeline.
Conversion and Consumption	In Q1FY19 the three-wheeler additions have been nearly 16000 or Q1FY18 the addition was in the region of 2800. An increase in Taxi around 470, private cars around 6000. There is an increase in number of autos taxis so they are getting 12% volume growth from there.	MGL got majority of the conversions from autorickshaws and private cars. There has been a steady inflow of about 700 to 800 every month right now coming on to CNG. The remaining 5200 is evenly split between auto rickshaws and private cars.	There has been no appreciable change in the trends, more or less the conversion numbers have been dominated by autorickshaws followed by four wheeler cars. Reduction in the BEST Buses has increased the number of autos which resulted in a decrease in the CNG sale volume of BEST but significantly there was an increase in CNG sales in the retail segment.	There was a strike of BEST buses in the quarter, due to which MGL lost volumes in Q4FY19. Total 6,000-7,000 conversions happened every month. Out of which 4,000 is auto rickshaw, 2,000 are 4 wheelers which include private cars, aggregators and taxis. Very little commercial vehicles are converted in Mumbai.
EV Threat			Management thinks that EV's will not pose any significant threat in the near term because, for EV's to become a major threat, capital cost and other cost associated with EVs will need to drastically reduce and continue reducing and a whole new ecosystem and infrastructure will need to come into existence which is not going to be so easy.	MMRDA ran 20 EV buses in Mumbai around BKC area which was a commercial failure. As there are challenges of availability of infrastructure for charging, EV's will not pose significant risk in near term.
Marketing and Infrastructure Exclusivity	As per the PNGRB regulations, the infrastructure exclusivity for GA-1, which is Mumbai city expires in 2020, but as per the same regulations entities are allowed extension of the infrastructure exclusivity in blocks of 10 years provided they do not breach any regulations. Hence, rollover of this exclusivity will likely happen.			Marketing exclusivity is over. Infrastructure exclusivity for GA1 will get over in May 2020, GA2 in April 2030 and GA3 in April 2040.

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	22,330	27,911	30,033	32,776
Total Expense	14,529	19,056	20,450	22,298
COGS	10,291	13,992	14,840	16,175
Employees Cost	670	709	810	884
Other expenses	3,568	4,356	4,800	5,239
EBIDTA	7,801	8,855	9,583	10,478
Depreciation	1,112	1,259	1,080	1,312
EBIT	6,689	7,595	8,504	9,166
Interest	1	3	2	2
Other Income	577	777	620	630
Exc. / E.O. items	0	0	0	0
EBT	7,265	8,369	9,122	9,794
Tax	2,486	2,905	3,147	3,379
RPAT	4,779	5,464	5,975	6,415
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	4,779	5,464	5,975	6,415

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	988	988	988	988
Minority Interest	0	0	0	0
Reserves & Surplus	19,966	23,001	25,543	27,834
Net Worth	20,953	23,989	26,531	28,822
Total Debt	12	0	450	900
Net Deferred Tax Liability	1,748	2,048	2,151	2,258
Total Capital Employed	22,714	26,037	29,132	31,981

Applications of Funds

Net Block	15,319	17,634	18,805	19,743
CWIP	3,566	3,697	1,679	1,574
Investments	6,877	6,540	6,671	6,804
Current Assets, Loans & Advances	4,340	6,539	4,716	6,817
Inventories	240	191	288	314
Receivables	887	996	1,315	1,435
Cash and Bank Balances	919	2,988	413	1,982
Loans and Advances	2,123	2,181	2,508	2,884
Other Current Assets	171	183	192	201
Less: Current Liabilities & Provisions	7,389	8,373	2,739	2,957
Payables	1,100	1,524	1,617	1,762
Other Current Liabilities	6,288	6,849	1,122	1,195
Net Current Assets	(3,049)	(1,834)	1,977	3,860
Total Assets	22,714	26,037	29,132	31,981

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	53.9	49.9	50.6	50.6
EBIDTA Margin	34.9	31.7	31.9	32.0
EBIT Margin	30.0	27.2	28.3	28.0
Tax rate	34.2	34.7	34.5	34.5
Net Profit Margin	21.4	19.6	19.9	19.6
(B) As Percentage of Net Sales (%)				
COGS	46.1	50.1	49.4	49.4
Employee	3.0	2.5	2.7	2.7
Other	16.0	15.6	16.0	16.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	7432.4	2352.9	4251.8	4582.8
Inventory days	4	3	3	3
Debtors days	14	13	16	16
Average Cost of Debt	4.6	54.0	0.9	0.3
Payable days	18	20	20	20
Working Capital days	(50)	(24)	24	43
FA T/O	1.5	1.6	1.6	1.7
(D) Measures of Investment				
AEPS (₹)	48.4	55.3	60.5	64.9
CEPS (₹)	59.6	68.1	71.4	78.2
DPS (₹)	19.0	20.0	30.0	36.0
Dividend Payout (%)	39.3	36.2	49.6	55.4
BVPS (₹)	212.1	242.9	268.6	291.8
RoANW (%)	24.3	24.3	23.7	23.2
RoACE (%)	34.2	34.3	33.1	32.1
RoAIC (%)	33.3	33.9	32.9	31.2
(E) Valuation Ratios				
CMP (₹)	849	849	849	849
P/E	17.5	15.3	14.0	13.1
Mcap (₹ Mn)	83,823	83,823	83,823	83,823
MCap/ Sales	3.8	3.0	2.8	2.6
EV	82,916	80,834	83,860	82,741
EV/Sales	3.7	2.9	2.8	2.5
EV/EBITDA	10.6	9.1	8.8	7.9
P/BV	4.0	3.5	3.2	2.9
Dividend Yield (%)	2.2	2.4	3.5	4.2
(F) Growth Rate (%)				
Revenue	9.8	25.0	7.6	9.1
EBITDA	21.1	13.5	8.2	9.3
EBIT	21.8	13.5	12.0	7.8
PBT	21.0	15.2	9.0	7.4
APAT	21.5	14.3	9.3	7.4
EPS	21.5	14.3	9.3	7.4
Cash Flow				
(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	6,521	6,844	3,468	7,491
CFI	(4,187)	(4,383)	(311)	(2,221)
CFF	(2,258)	(2,346)	(3,009)	(3,701)
FCFF	3,833	3,222	3,235	5,346
Opening Cash	74	150	265	413
Closing Cash	150	265	413	1,982

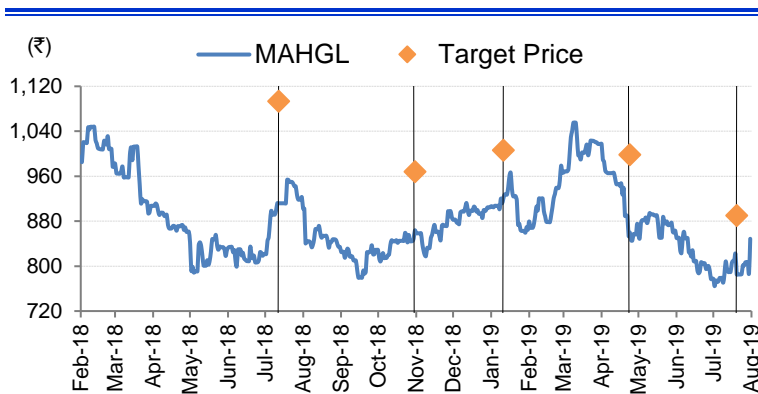
E – Estimates

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 (₹)
Aug-18	Accumulate	1,093	912
Nov-18	Accumulate	968	863
Jan-19	Accumulate	1,006	920
May-19	Accumulate	998	860
Aug-19	Accumulate	890	785

**Price as on recommendation date*

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