

Mahanagar Gas

BUY

Higher margins drive profitability

We maintain BUY on MGL despite muted volume growth owing to its remarkable pricing power (hence, better spreads) and inexpensive valuations (14.5/13.7x FY21/22E PER) versus its peers (IGL 25.3/22.6x and GGL 16.2/14.2x). Our TP is Rs 1,355/sh (19x Sep-21E EPS).

HIGHLIGHTS OF THE QUARTER

- MGL's total volume was up merely 1.3/1.1% YoY/QoQ to 3.0mmscmd. CNG volumes were up 1.0% YoY to 2.2mmscmd while PNG volumes were up 2.2% YoY to 0.8mmscmd. CNG volume was low owing to (1) Fire at ONGC's Uran facility in Sep-19 adversely affecting the domestic gas supply (2) Scrapping of some CNG buses by Brihanmumbai Electric Supply and Transport (BEST). PNG volumes were affected consequential to lower offtake by a few industrial customers.
- BEST will add 500 new CNG buses over the next six months starting Nov-19. It has initiated the tendering process to add another 500 buses. Addition of buses and auto rickshaws will drive CNG volume growth (CNG CAGR of 5.4% expected over FY19-22E).
- MGL clocked per unit EBITDA spread of Rs 9.9/scm (Rs 8.1/10.3 in 2QFY19/1QFY20). This is attributable to better spreads earned from industrial/commercial

customers (~14% of total volume), for whom 100% LNG is sourced on spot basis. Seasonal increase in LNG prices will lead to narrower spreads between NG and alternate fuels in 2HFY20. MGL will have to take price cuts to maintain volume growth. Hence, we expect margins to correct to Rs. 8.9/scm in FY20.

- The company has opted for the lower tax rate of 25.2% for FY20 versus 34.7% in FY19. Resultantly, there is a net tax receivable in Q2 of Rs 148mn. We adjusted the RPAT for the deferred tax availed in the quarter, i.e. Rs 563mn to arrive at an APAT of Rs 2.14bn.
- Key monitorable:** Sustainability of per unit EBITDA margin in 2H when LNG prices are seasonally high.

STANCE

MGL did not win any new GAs in ninth or tenth rounds of CGD biddings. This factor may weigh on its long-term growth. Its loyal customer base of CNG and commercial establishments (who together comprise 81% of total sales mix), that are less price sensitive than industrial customers enable it to maintain per unit margins higher than peers. 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)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY19	FY20E	FY21E	FY22E
Revenues	7.84	6.97	12.5	7.57	3.4	27.91	30.94	32.94	35.55
EBITDA	2.73	2.21	23.5	2.77	(1.2)	8.85	10.06	9.93	10.64
APAT	2.14	1.36	57.3	1.70	25.9	5.46	7.04	6.83	7.25
AEPS (Rs)	21.7	13.8	57.3	17.2	25.9	55.3	71.3	69.2	73.4
P/E (x)						18.2	14.1	14.5	13.7
EV/EBITDA (x)						10.1	8.6	8.2	7.2
RoE (%)						24.3	26.5	21.7	20.0

Source: Company, HDFC sec Inst Research

INDUSTRY	OIL & GAS
CMP (as on 13 Nov 19)	Rs 1,004
Target Price	Rs 1,355
Nifty	11,840
Sensex	40,116

KEY STOCK DATA

Bloomberg	MAHGL IN
No. of Shares (mn)	99
MCap (Rs bn) / (\$ mn)	99/1,376
6m avg traded value (Rs mn)	511

STOCK PERFORMANCE (%)

52 Week high / low	Rs 1,067/754		
	3M	6M	12M
Absolute (%)	27.7	17.6	17.4
Relative (%)	20.9	10.5	2.2

SHAREHOLDING PATTERN (%)

	Jun-19	Sep-19
Promoters	42.50	32.50
FIs & Local MFs	12.67	18.20
FPIs	24.31	28.85
Public & Others	20.52	20.45
Pledged Shares	0.00	0.00

Source : BSE

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EBITDA expanded 23.5% YoY primarily owing to 21.8% jump in per unit EBITDA margin and 1.3% YoY increase in sales volumes to 3.0mmscmd

The company clocked per unit EBITDA spread of Rs 9.9/scm in 2QFY19 consequential to higher spreads earned from the sticky industrial/commercial customer base (14% of total volumes)

Quarterly Financials Snapshot

(Rs. bn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	1HFY20	1HFY19	YoY (%)
Net Sales	7.84	6.97	12.5	7.57	3.4	15.41	13.29	16.0
Raw material and Traded Goods	3.78	3.56	6.2	3.48	8.7	7.27	6.49	12.0
Employee Expenses	0.19	0.18	6.2	0.24	-21.7	0.44	0.35	24.8
Other Operating Expenses	1.13	1.01	11.7	1.08	4.2	2.21	1.99	10.6
EBITDA	2.73	2.21	23.5	2.77	-1.2	5.50	4.45	23.5
Depreciation	0.39	0.31	27.0	0.37	5.1	0.76	0.60	26.5
EBIT	2.34	1.91	22.9	2.40	-2.2	4.74	3.85	23.1
Other Income including EO	0.23	0.18	26.5	0.20	13.0	0.43	0.21	110.6
Interest	0.01	0.00	NA	0.01	NA	0.03	0.00	NA
PBT	2.56	2.09	22.6	2.59	-1.1	5.14	4.05	26.9
Provision for tax	(0.15)	0.72	-120.4	0.88	-116.7	0.74	1.41	-47.7
RPAT	2.71	1.36	98.6	1.70	59.0	4.41	2.65	66.6
One-offs	0.56	-	NA	-	NA	0.56	(0.13)	NA
APAT	2.14	1.36	57.3	1.70	25.9	3.85	2.73	40.8
Reported EPS (Rs)	27.4	13.8	98.6	17.2	59.0	44.6	26.8	66.6
Adjusted EPS (Rs)	21.7	13.8	57.3	17.2	25.9	38.9	27.7	40.8

Margin Analysis

	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)	1HFY20	1HFY19	YoY (bps)
Raw material as % of Net Sales	48.3	51.1	(285)	46.0	233	47.2	48.8	(169)
Employee Expenses as % of Net Sales	2.4	2.6	(15)	3.2	(78)	2.8	2.6	20
Other Operating Expenses as % of Net Sales	14.4	14.5	(10)	14.3	11	14.3	15.0	(69)
EBITDA Margin (%)	34.9	31.8	310	36.5	(165)	35.7	33.5	218
Net Profit Margin (%)	27.3	19.6	778	22.5	488	25.0	20.6	440
Tax Rate (%)	16.2	34.7	(1,847)	34.2	(1,794)	25.3	34.7	(948)

Source: Company, HDFC sec Inst Research

Volume growth will pick up once 500 buses are added to the fleet in Mumbai by BEST

Capex guidance for FY20 is ~Rs 3.5bn and ~Rs3bn for FY21

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 ~50 CNG stations since Jun-16. We expect CAGR for CNG to be 5.4% over FY19-22E, beyond which growth is possible only by increasing the pace of addition of CNG stations/dispensers.

We change our estimates to factor in better per unit EBITDA margins and slow volume growth outlook

Key Operational Data

	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	1H FY20	1H FY19	YoY (%)
Total Sales Volumes (mmscm)	276.0	272.3	1.3	270.1	2.2	546.0	533.7	2.3
CNG	202.6	200.5	1.0	197.0	2.8	399.5	393.6	1.5
PNG	73.4	71.8	2.2	73.1	0.4	146.5	140.2	4.5
Total Volume (mmscmd)	3.00	2.96	1.3	2.97	1.1	5.97	5.83	2.3
CNG	2.20	2.18	1.0	2.16	1.7	4.37	4.30	1.5
PNG	0.80	0.78	2.2	0.80	-0.7	1.60	1.53	4.5

Margins (Rs/scm)	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)	1H FY20	1H FY19	YoY (bps)
Realisation	28.4	25.6	282	28.0	35	28.2	24.9	334
Gross Spread	14.7	12.5	218	15.2	(47)	14.9	12.7	218
Opex	4.8	4.4	41	4.9	(13)	4.8	4.4	45
EBITDA Spreads	9.9	8.1	178	10.3	(34)	10.1	8.4	173
PAT	9.8	5.0	480	6.3	350	8.1	5.0	310
RM	13.7	13.1	63	12.9	82	13.3	12.1	116

Source: Company, HDFC sec Inst Research

Change In Estimates

	Unit	FY20E			FY21E			FY22E		
		Old	New	Ch %	Old	New	Ch %	Old	New	Ch %
Volumes										
CNG	mmscmd	2.3	2.3	(1.2)	2.5	2.4	(3.2)	2.6	2.5	(2.8)
PNG	mmscmd	0.8	0.8	(1.1)	0.9	0.9	(1.0)	0.9	0.9	0.0
Exchange Rate	Rs/USD	70.6	69.6	(1.4)	72.0	72.0	-	72.0	72.0	-
Revenues	Rs bn	30.08	30.94	2.8	32.47	32.94	1.4	34.71	35.55	2.4
EBITDA	Rs bn	8.59	10.06	17.1	8.80	9.93	12.9	9.17	10.64	16.1
APAT	Rs bn	5.92	7.04	18.8	5.97	6.83	14.4	6.13	7.25	18.2
AEPS	Rs/sh	60.0	71.3	18.8	60.5	69.2	14.4	62.1	73.4	18.2

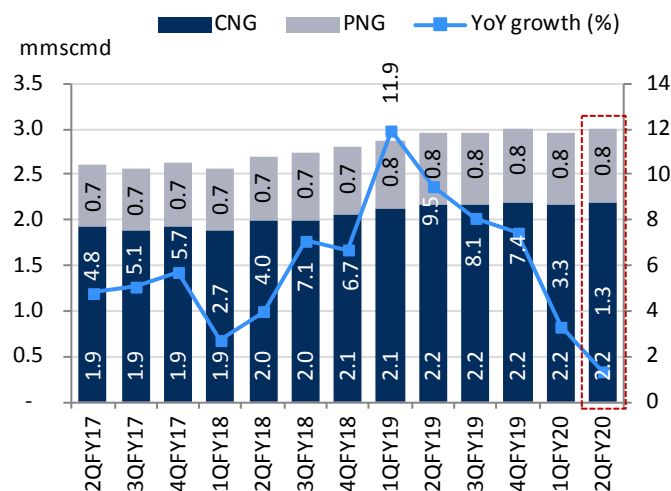
Source: HDFC sec Inst Research

MGL added 4 CNG stations in Q2 and now operates 244 CNG stations. It intends to add a total of 46 stations in FY20

Industrial and commercial volumes were 0.24mmscmd and 0.18mmscmd in Q2 respectively

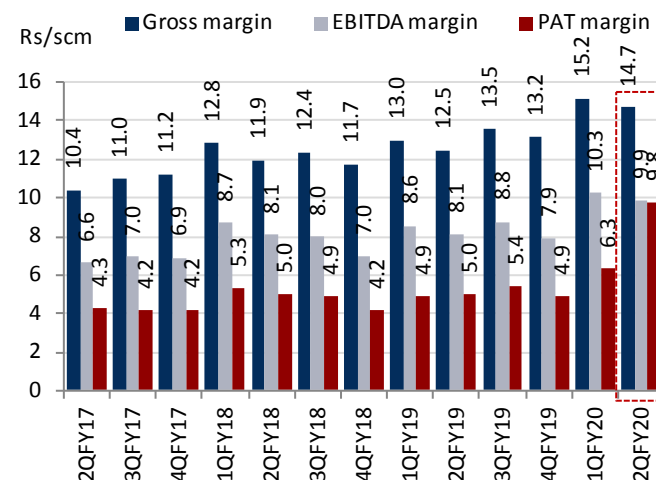
We expect that MGL will be able to maintain per unit EBITDA margin of Rs 8+/scm over FY20-22E

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	3.1	3.3	3.5
CNG	1.9	2.0	2.2	2.3	2.4	2.5
PNG	0.7	0.7	0.8	0.8	0.9	0.9
YoY growth (%)	5.7	5.1	9.2	4.2	6.4	6.4
CNG	5.5	4.5	9.2	4.0	6.3	6.1
PNG	6.3	7.1	9.2	4.9	7.0	7.1
Gross margin (Rs/scm)	10.7	12.0	12.7	13.9	13.4	13.4
EBITDA margin	6.7	7.7	8.0	8.9	8.3	8.4
PAT	4.2	4.8	5.1	6.7	5.7	5.7
Exchange rate	66.9	67.0	69.9	69.6	72.0	72.0

Source: Company, HDFC sec Inst Research

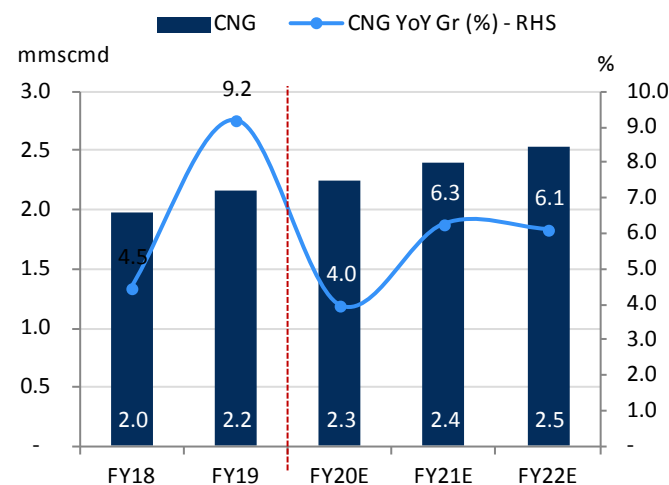
CNG volumes to grow by ~5.44% CAGR while PNG volumes to grow by ~6.3% CAGR over FY19-22E

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 ~5.7% CAGR over FY19-22E

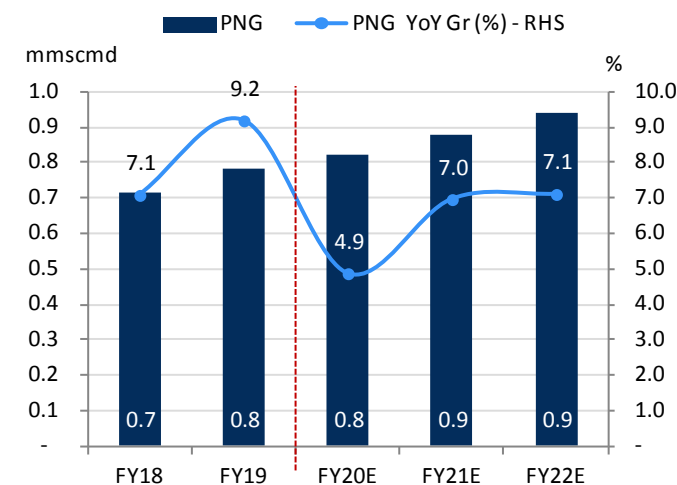
Update on Raigad GA in 2Q:
 (1) 4,300 D-PNG connections added
 (2) Now operating a total of 13 CNG stations in the area
 (3) CNG volume sales of 0.04mmscmd up from 0.03in 1Q

CNG Volumes Growth



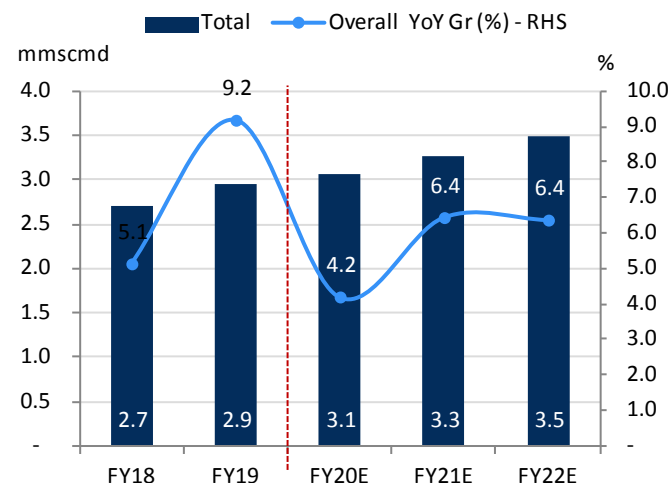
Source: Company, HDFC sec Inst Research

PNG Volumes Growth



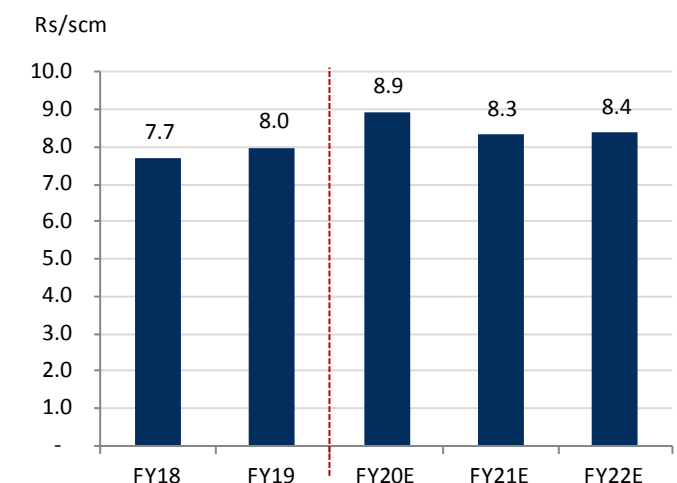
Source: Company, HDFC sec Inst Research

Overall Volume Growth



Source: Company, HDFC sec Inst Research

Per Unit EBITDA Trend



Source: Company, HDFC sec Inst Research

SOTP Valuation Based on Sep-21E

	EPS (Rs/sh)	Multiple (x)	Value Rs/sh	Valuation Basis
Standalone business	71.3	19	1,355	P/E multiple on Sep FY21E
Value per share			1,355	

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 (%)			
						FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
Reliance Industries	9,331	1,472	NEU	1,527	3.8	55.5	61.2	60.6	65.4	26.5	24.0	24.3	22.5	2.3	2.1	2.0	1.8	9.8	9.2	8.4	8.5
ONGC	1,736	138	BUY	207	49.8	21.2	23.0	23.5	24.1	6.5	6.01	5.9	5.7	0.9	0.8	0.7	0.7	13.5	13.8	13.2	12.7
Indian Oil Corp	1,230	134	BUY	185	38.4	18.4	16.5	20.3	23.1	7.3	8.1	6.6	5.8	1.1	1.1	1.0	0.9	15.4	13.5	15.4	16.1
BPCL	1,003	510	SELL	451	(11.6)	36.3	37.5	39.5	39.0	14.1	13.6	12.9	13.1	2.7	2.5	2.2	2.0	20.1	19.0	18.1	16.3
GAIL	559	124	BUY	197	58.9	13.8	12.0	14.3	15.4	9.0	10.3	8.7	8.0	1.3	1.2	1.1	1.0	14.8	11.8	13.0	12.9
HPCL	444	291	BUY	362	24.5	39.9	29.1	33.5	35.9	7.3	10.0	8.7	8.1	1.6	1.4	1.3	1.2	23.3	15.0	15.6	15.1
Petronet LNG	417	278	BUY	390	40.3	14.4	18.0	22.0	23.8	19.3	15.5	12.6	11.7	4.1	4.0	3.8	3.7	21.8	26.2	30.5	31.8
Indraprastha Gas	296	423	BUY	483	14.2	11.2	15.5	16.7	18.7	37.6	27.3	25.3	22.6	7.2	6.1	5.3	4.6	20.6	24.1	22.4	21.7
Oil India	174	160	BUY	229	43.0	33.4	30.8	31.7	32.7	4.8	5.2	5.0	4.9	0.6	0.6	0.5	0.5	13.0	11.4	10.5	9.8
Gujarat Gas	136	198	BUY	261	32.0	6.3	12.5	12.2	13.9	31.4	15.8	16.2	14.2	6.2	4.3	3.5	2.9	21.3	32.1	23.7	22.2
GSPL	122	217	BUY	251	15.7	14.1	16.6	20.2	21.4	15.4	13.0	10.8	10.1	2.1	1.9	1.7	1.5	14.7	15.3	16.4	15.5
Mahanagar Gas	99	1,004	BUY	1,355	34.9	55.3	71.3	69.2	73.4	18.2	14.1	14.5	13.7	4.1	3.4	2.9	2.6	24.3	26.5	21.7	20.0

Source: Company, HDFC sec Inst Research

Standalone Income Statement

(March ending) (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
Revenues	22.33	27.91	30.94	32.94	35.55
Growth %	9.8	25.0	10.8	6.5	7.9
Raw Material	10.29	13.99	15.24	16.98	18.58
Employee Cost	0.67	0.71	0.83	0.88	0.93
Other Expenses	3.57	4.36	4.80	5.14	5.40
EBITDA	7.80	8.85	10.06	9.93	10.64
EBITDA Margin (%)	34.9	31.7	32.5	30.2	29.9
EBITDA Growth %	21.1	13.5	13.6	(1.2)	7.1
Depreciation	1.11	1.26	1.55	1.75	1.95
EBIT	6.69	7.60	8.51	8.18	8.69
Other Income (Including EO Items)	0.58	0.78	0.90	0.94	0.99
Interest	0.00	0.00	-	-	-
PBT	7.26	8.37	9.41	9.12	9.68
Tax	2.49	2.91	2.37	2.29	2.43
RPAT	4.78	5.46	7.04	6.83	7.25
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
APAT	4.78	5.46	7.04	6.83	7.25
APAT Growth (%)	21.4	14.3	28.9	(2.9)	6.1
AEPS	48.4	55.3	71.3	69.2	73.4
AEPS Growth %	21.4	14.3	28.9	(2.9)	6.1

Source: Company, HDFC sec Inst Research

Standalone Balance Sheet

(Rs bn)	FY18	FY19	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	28.25	32.75	37.67
Total Equity	20.95	23.99	29.24	33.74	38.66
Long-term Debt	0.01	-	-	-	-
Short-term Debt	-	-	-	-	-
Total Debt	0.01	-	-	-	-
Deferred Tax Liability	1.75	2.05	1.27	1.61	1.71
Long-term Provision	0.16	0.16	0.17	0.17	0.17
TOTAL SOURCES OF FUNDS	22.87	26.20	30.67	35.52	40.55
APPLICATION OF FUNDS					
Net Block	15.32	17.63	19.14	20.43	21.53
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	0.21	0.23	0.25
Debtors	0.92	1.00	1.10	1.17	1.27
Cash and Cash Equivalents	7.80	9.53	12.99	17.39	22.03
Other Current Assets	0.81	1.04	1.16	1.23	1.33
Total Current Assets	9.76	11.76	15.46	20.03	24.88
Creditors	1.10	1.52	1.66	1.85	2.02
Other Current Liabilities & Provns	6.13	6.69	7.28	8.10	8.86
Total Current Liabilities	7.23	8.21	8.94	9.95	10.88
Net Current Assets	2.52	3.55	6.52	10.08	14.00
TOTAL APPLICATION OF FUNDS	22.87	26.20	30.67	35.52	40.55

Source: Company, HDFC sec Inst Research

Standalone Cash Flow

(Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	7.27	8.37	9.41	9.12	9.68
Non-operating & EO Items	(0.58)	(0.78)	(0.90)	(0.94)	(0.99)
Interest Expenses	0.00	0.00	-	-	-
Depreciation	1.11	1.26	1.55	1.75	1.95
Working Capital Change	0.54	0.84	0.49	0.85	0.72
Tax Paid	(2.11)	(2.61)	(3.14)	(1.95)	(2.33)
OPERATING CASH FLOW (a)	6.22	7.09	7.41	8.83	9.03
Capex	(2.83)	(3.70)	(3.05)	(3.05)	(3.05)
Free Cash Flow (FCF)	3.39	3.39	4.36	5.79	5.98
Investments	0.04	0.00	-	-	-
Non-operating Income	0.58	0.78	0.90	0.94	0.99
Others	-	-	-	-	-
INVESTING CASH FLOW (b)	(2.22)	(2.93)	(2.15)	(2.11)	(2.06)
Debt Issuance/(Repaid)	0.02	(0.10)	0.54	-	-
Interest Expenses	(0.00)	(0.00)	-	-	-
FCFE	3.41	3.28	4.90	5.79	5.98
Share Capital Issuance	-	-	(0.00)	-	-
Dividend	(2.26)	(2.33)	(2.33)	(2.33)	(2.33)
FINANCING CASH FLOW (c)	(2.23)	(2.43)	(1.79)	(2.33)	(2.33)
NET CASH FLOW (a+b+c)	1.77	1.73	3.46	4.40	4.64

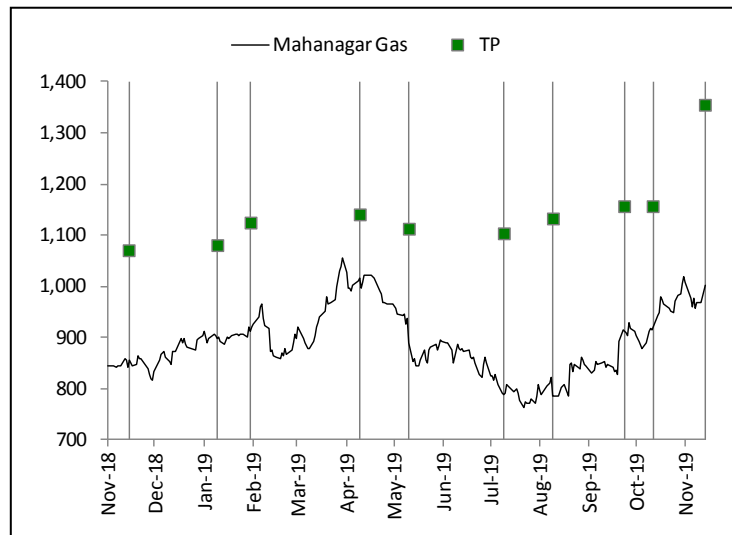
Source: Company, HDFC sec Inst Research

Standalone Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY %					
EBITDA Margin	34.9	31.7	32.5	30.2	29.9
EBIT Margin	30.0	27.2	27.5	24.8	24.5
APAT Margin	21.4	19.6	22.8	20.7	20.4
RoE	24.3	24.3	26.5	21.7	20.0
RoIC	30.4	31.2	37.1	34.2	26.0
RoCE	22.3	22.3	24.8	20.6	19.1
EFFICIENCY					
Tax Rate %	34.2	34.7	25.2	25.1	25.1
Fixed Asset Turnover (x)	1.4	1.4	1.3	1.3	1.2
Inventory (days)	4	3	2	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	86	90	91
Cash Conversion Cycle (days)	(86)	(78)	(76)	(81)	(82)
Net Debt/EBITDA (x)	(1.0)	(1.1)	(1.3)	(1.8)	(2.1)
Net D/E	(0.4)	(0.4)	(0.4)	(0.5)	(0.6)
Interest Coverage	0.0	0.0	-	-	-
PER SHARE DATA (Rs)					
EPS	48.4	55.3	71.3	69.2	73.4
CEPS	59.6	68.0	86.9	86.9	93.2
Dividend	19.0	23.6	23.6	23.6	23.6
Book Value	212.1	242.9	296.0	341.6	391.4
VALUATION					
P/E (x)	20.8	18.2	14.1	14.5	13.7
P/Cash EPS (x)	16.8	14.8	11.5	11.5	10.8
P/BV (x)	4.7	4.1	3.4	2.9	2.6
EV/EBITDA (x)	11.7	10.1	8.6	8.2	7.2
EV/Revenue (x)	4.1	3.2	2.8	2.5	2.2
Dividend Yield (%)	1.9	2.3	2.3	2.3	2.3
OCF/EV (%)	6.8	7.9	8.6	10.8	11.7
FCFF/EV (%)	3.7	3.8	5.1	7.1	7.8
FCFE/M Cap (%)	3.4	3.3	4.9	5.8	6.0

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
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
22-Sep-19	847	BUY	1,157
11-Oct-19	918	BUY	1,157
13-Nov-19	1,004	BUY	1,355

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

Disclosure:

We, **Nilesh Ghuge, MMS & Divya Singhal, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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