Mahanagar Gas

Accumulate

DART
DOLAT ANALYSIS & RESEARCH THEMES
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Result Update

Flat volumes with lower realisations. Maintain Accumulate.

- MGL's Q3FY20 results were below our estimates on revenue front and operating profitability front.
- Volume growth at 3.05 mmscmd (up 3% YoY and 1.8% QoQ), against our estimates of 3.1 mmsmcd.
- The CNG growth (up 2.4% YoY and 1% QoQ) due to non-addition of 500 BEST buses expectd by Dec end. Only 100 BEST buses were added.
- The growth in the PNG segment—domestic increased 8.2% and industrial and commercial volumes were flat sequentially. Industrial volumes as few industries were closed or moved out.
- Gross margins have gone up by 336 bps YoY and 71 bps QoQ due to low spot prices and price realisations across segments. MGL got the advantage of relatively low spot prices rather than tied up long term and medium term volumes.
- With the ongoing capital expenditure, MGL is trying to increase its footprint, especially in the Raigad region. Raigad is expected to peak volumes of 0.6 mmscmd in 3-5 years. The green fuel push by the government will entail easy availability of gas supplies. We maintain Accumulate with a target price of ₹ 1,326 (DCF Method).

Volume growth outlook – should improve

Volume growth in Q3FY20 was 3%. The CNG volumes were flat sequentially however PNG domestic volumes grew 8% sequentially. BEST plans to added 500 new buses by the end of March, Q4FY20 will boost CNG volumes. They also plan to add, 500 CNG run BEST buses in FY21. The thrust to expand reach has benefitted the company, as it has attracted new domestic and industrial customers. We believe that MGL will have a volume CAGR of 5-6% in next 5 years.

Q3FY20 Result (₹ Mn)

Particulars	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)
Revenue	7,445	7,527	(1.1)	7,836	(5.0)
Total Expense	4,856	5,136	(5.4)	5,102	(4.8)
EBITDA	2,589	2,391	8.3	2,733	(5.3)
Depreciation	415	328	26.5	391	6.0
EBIT	2,174	2,063	5.4	2,342	(7.2)
Other Income	286	204	40.2	230	24.3
Interest	16	1	1700.0	15	11.7
EBT	2,444	2,266	7.8	2,558	(4.5)
Tax	583	783	(25.5)	(148)	(494.5)
RPAT	1,861	1,483	25.4	2,706	(31.2)
APAT	1,861	1,483	25.4	2,706	(31.2)
			(bps)		(bps)
Gross Margin (%)	52.4	49.1	336	51.7	71
EBITDA Margin (%)	34.8	31.8	300	34.9	(11)
NPM (%)	25.0	19.7	528	34.5	(954)
Tax Rate (%)	23.9	34.6	(1069)	(5.8)	2964
EBIT Margin (%)	29.2	27.4	179	29.9	(69)

CMP	₹ 1,195
Target / Upside	₹ 1,326 / 11%
BSE Sensex	40,980
NSE Nifty	12,032

Scrip Details

Equity / FV	₹ 988mn / ₹ 10
Market Cap	₹ 118bn
	US$ 2bn
52-week High/Low	₹ 1,246/₹ 754
Avg. Volume (no)	897,488
NSE Symbol	MGL
Bloomberg Code	MAHGL IN

Shareholding Pattern Dec'19(%)

Promoters	42.5
MF/Banks/FIs	12.9
FIIs	24.9
Public / Others	19.8

Valuation (x)

	FY20E	FY21E	FY22E
P/E	15.3	15.1	14.5
EV/EBITDA	11.1	10.8	9.8
ROE (%)	28.9	24.6	22.1
RoACE (%)	35.4	30.0	27.1

Estimates (₹ mn)

	FY20E	FY21E	FY22E
Revenue	31,404	32,591	34,817
EBITDA	10,425	10,716	11,646
PAT	7,713	7,823	8,116
EPS (₹)	78.1	79.2	82.2

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DOLAT CAPITAL

Low Realisations

CNG realizations were lower sequentially in Q3FY20 as CNG per unit margins were lower due to reduction in natural gas prices passed on to the customers. Also the industrial and commercial segment faced competition from alternate fuels as their prices were down from 2%-17%. MGL has demonstrated its pricing power by timely revising prices to mitigate input costs and increase in operational expenditure. Healthy EBITDA spreads of ₹ 9.2/cm (up 5.1% YoY and down 6.9%) was maintained. MGL also has the advantage of paying lower transmission tariff than its peers, due to its proximity to the source of gas. Gas cost decreased to ₹ 12.6/scm, however lower spot prices helped maintain margins at gross levels. We do not expect significant expansion in gross/EBITDTA spreads from current levels as H2FY20 Opex is generally higher than H1FY20.

Distribution Reach – Key for growth

MGL's distribution network in Mumbai is strong. However, the same level is lacking in other areas, like Raigad. MGL is fast expanding reach through a pipeline network and has opened of 13 new CNG stations. CNG is a big opportunity and we expect MGL to capitalize on this next year by adding new stations in this region. For PNG growth, pipeline approvals are necessary and it has received them. MGL is likely to expand its steel and PE pipeline significantly in this region in coming years.

Valuation

MGL is an excellent cash annuity model with decent dividend yield. 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 ₹ 1,326.

Exhibit 1: KPI's

Volume Data	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
CNG (in MMSCM)	204.6	199.8	2.4	202.6	1.0	604.2	593.4	1.8
PNG- Domestic (in MMSCM)	37.9	35.5	6.6	35.0	8.2	109.4	102.3	6.8
PNG - Industrial/Commercial (in MMSCM)	38.3	37.1	3.0	38.4	(0.3)	113.3	110.5	2.5
PNG- Total (in MMSCM)	76.2	72.7	4.8	73.4	3.7	222.7	212.9	4.6
Total Volume (in MMSCM)	**280.8**	**272.5**	3.0	**276.0**	1.8	**826.8**	**806.2**	2.6
Total Volume (MMSCMD)	3.05	2.96	3.0	3.00	1.8	3.01	2.93	2.6
CNG Net Sales Value (₹ Mn)	5,226	5,038	3.7	5,477	(4.6)	15,878	13,867	14.5
PNG Sales Value (₹ Mn)	2,169	2,436	(11.0)	2,305	(5.9)	6,821	6,675	2.2
Total Sales Value (₹ Mn)	**7,395**	**7,475**	(1.1)	**7,782**	(5.0)	**22,699**	**20,541**	10.5
CNG Net Realization Value (₹ / SCM)	25.5	25.2	1.3	27.0	(5.5)	26.3	23.4	12.5
Spread Earned (₹ / SCM)	12.9	11.1	16.0	13.3	(3.0)	13.2	10.6	25.1
PNG Realization Value (₹ / SCM)	28.5	33.5	(15.0)	31.4	(9.3)	30.6	31.4	-2.3
Spread Earned (₹ / SCM)	15.9	19.4	(18.5)	17.7	(10.3)	17.6	18.6	-5.4
Gas Cost (₹ / SCM)	12.6	14.1	(10.3)	13.7	(8.0)	13.1	12.8	2.1
Blended Realization (₹ / SCM)	26.3	27.4	(4.0)	28.2	(6.6)	27.5	25.5	7.8
Blended Spread (₹ / SCM)	13.7	13.4	2.7	14.5	(5.3)	14.4	12.7	13.5
EBIDTA Spread (₹ / SCM)	9.2	8.8	5.1	9.9	(6.9)	9.8	8.3	17.5

Source: Company, DART

Exhibit 2: Actual V/s DART estimates

Particulars (₹ Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	7,445	8,290	(10.2)	Lower volumes sequentially.
EBITDA	2,589	2,840	(8.9)	Decrease in prices passed on to customers.
EBITDA Margin (%)	34.8	34.3	51	
PAT	1,861	1,822	2.1	

Source: Company, DART

Exhibit 3: Change in estimates

₹ Mn	FY20E			FY21E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	32,591	32,944	(1.1)	34,817	-	-
EBITDA	10,716	11,134	(3.8)	11,646	-	-
EBITDA Margin (%)	32.9	33.8	(91.8)	33.4	-	-
PAT	7,823	7,863	(0.5)	8,115	-	-
EPS (₹)	79.2	79.6	(0.5)	82.1	-	-

Source: Company, DART

Key Highlights

- Revenue decreased by 5% on a sequential basis and by 1.1% on a YoY basis to Rs. 7,445 mn.
- Raw Material cost decreased by 6.4% on a sequential basis and by 7.6% on a YoY basis to Rs. 3,543 mn.
- Employee cost was flat on a sequential basis and grew by 9.9% on a YoY basis to Rs. 192 mn.
- Other expenditure was flat on a sequential and YoY basis to Rs. 1,122 mn.
- MGL made an operating profit Rs. 2,589 mn in Q3FY20 as compared to an operating profit of Rs. 2,391 mn in Q3FY19 which was a growth of 8.3%.
- Depreciation increased by 6% on a sequential basis and by 26.5% on a YoY basis to Rs. 415 mn.
- Other income increased by 24.3% on a sequential basis and by 40.2% on a YoY basis to Rs. 286 mn.
- MGL made a net profit of Rs. 1,861 mn in Q3FY20 as compared to a net profit of Rs. 1,483 mn in Q3FY19 registering a growth of 25.4% on a YoY basis.
- Volume growth in CNG segment was at 2.4% and PNG segment witnessed a growth of 4.8% on YoY basis. Overall volumes increased by 3% on a YoY basis to 3.05 MMSCMD for this quarter.
- Gross spread in the CNG segment was at Rs. 12.9 per SCM registering a growth of 16% on a YoY basis.
- Gross spread in the PNG segment decreased by 18.5% to Rs. 15.9 per SCM on a YoY basis.
- Gross spread on a blended basis was at Rs. 13.7 per SCM and EBIDTA spread was at Rs. 9.2 per SCM.

Conference Call Key Highlights

Industry Overview

- The government has plans to raise the share of gas in India's primary energy mix to 15% by 2030 from the present level of about 6%. Consumption in City Gas Distribution plays a very important role.
- The supply of total gas till Q3FY20: 54.3% was imported and 45.7% was domestic gas.
- Government initiatives like Gas Grid and price discovery is likely to strengthen natural gas market and boost CGD.
- Spot prices have been low from last 3 quarters and is expected to be lower at $3/mmbtu in Feb 2020.
- PNGRB has tentatively listed down 44 GA's for the 11th CGD bidding round.

Q3FY20 Highlights

- Gross margin improved due to marginally higher volumes in CNG and PNG -- domestic PNG segments, with better price realization and lower cost of spot gas used for industrial and commercial customers.
- Alternate fuels prices were lower in the range of 2-17% for industrial and commercial customers, which dropped operating profit sequentially.

CNG Segment

- Total CNG stations as on Dec 31, 2019 were 248 supplying gas to 7.42 lakh vehicles with a steel and PE pipeline of 5,513 kms.
- Out of the 248 CNG stations- 175 are with OMC's where the commission of OMC's is slightly more than ₹ 4/kg, 140 stations are private (DODO), 14 with BEST and 17 stations owned by MGL.
- Average OMC per capita thruput is lower as OMC station is co-located.
- OMCs account for 60% of the total CNG volumes and rest is from non-OMCs.
- CNG realizations were lower sequentially in Q3FY20 as CNG per unit margins were lower due to reduction in natural gas prices passed on to the customers.

Domestic PNG

- In Q3FY20, MGL added 31,006 domestic households, and the total number of piped natural gas connections is 1.24 mn +.

Industrial and Commercial PNG

- In Q3FY20, MGL added 73 industrial and commercial customers. Total industrial/commercial customers are 3,997.
- Industrial volumes for the quarter were 0.227 mmscmd and commercial volumes were 0.189 mmscmd.
- Industrial segment volume outlook is slightly better than present but not significant as few industries are closing or moving out from Mumbai and Thane. However, MGL is compensating by adding new customers.
- Once Raigad is fully commissioned industrial volumes should go up.
- If government imposed NGT order in GA's of MGL as done for Morbi, Industrial volumes will go up three times.

- Industrial realisations for the quarter were ₹ 26.21/scm and commercial realisations were ₹ 32.97/scm.

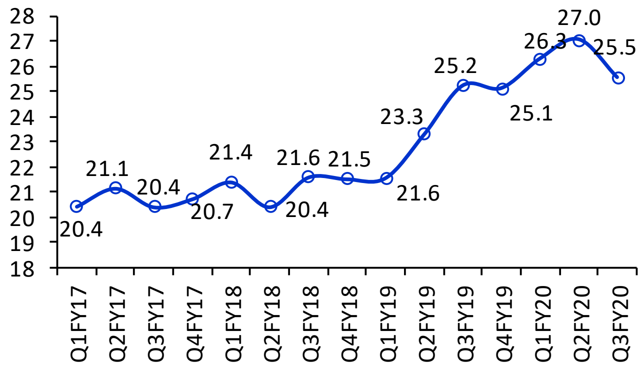
Raigad Region

- In Q3FY20, MGL added 6,000 plus domestic household connections.
- 13 CNG stations are operational supplying total gas of 32,000 kg. As the number of CNG stations will increase CNG consumption will increase. By end of FY20 they plan to have 20-25 CNG stations.
- Capex spent of Raigad region by FY20 will be ₹ 100 cr and further by FY21 capex spent will be ₹ 150 cr.
- Initial volumes planned for Raigad region was 0.6 mmscmd which will come in next 3-5 years.

Growth Drivers

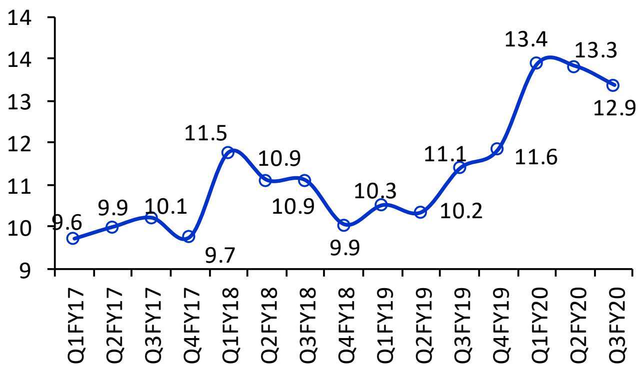
- There are 6,000 vehicles which are getting added every month, out of which 3,500 + are private cars and taxis and 2,500 + are auto. A year back autos were converting at a faster rate.
- BEST planned to add 500 BEST buses in FY20. 100 buses are already on streets running and the rest will be added by end of March. BEST buses consume 60 kg a day of gas.
- They have planned to added 500 BEST buses in FY21.
- Capex spent till Dec 31, 2019 was 300 cr and estimated capex spend for FY20 is ₹ 450-500 cr. Approximately ₹ 2 cr in spent on each CNG outlet.

Exhibit 4: CNG Realization Value (₹ / SCM)



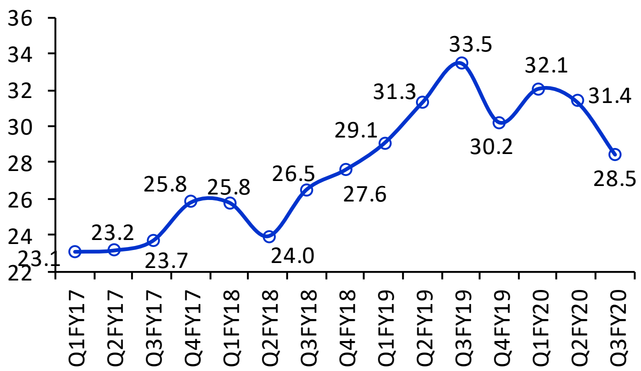
Source: Company, DART

Exhibit 5: CNG Spread (₹ / SCM)



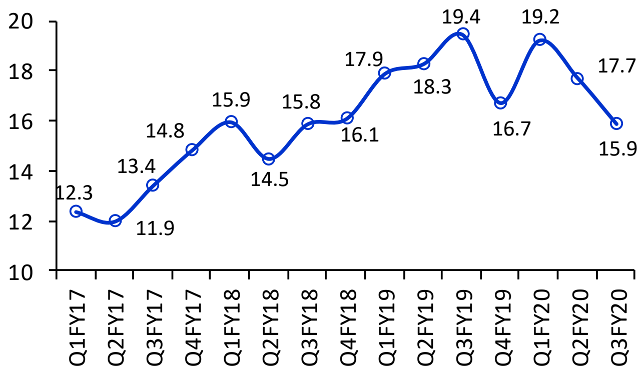
Source: Company, DART

Exhibit 6: PNG Realization (₹ / SCM)



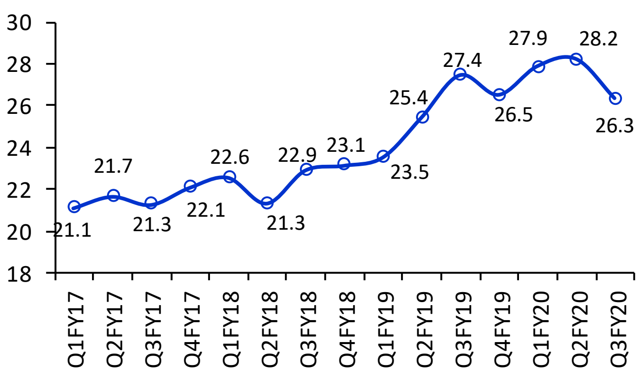
Source: Company, DART

Exhibit 7: PNG Spread (₹ / SCM)



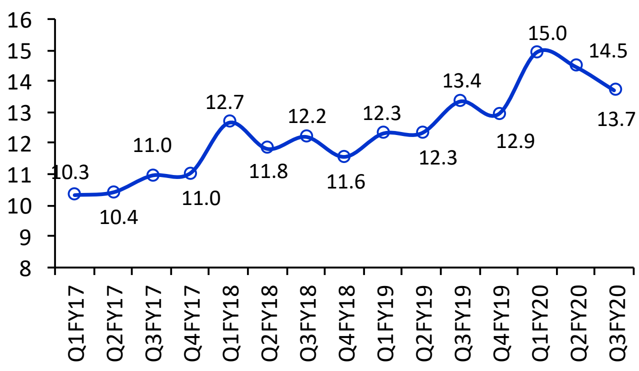
Source: Company, DART

Exhibit 8: Blended Realization (₹ / SCM)



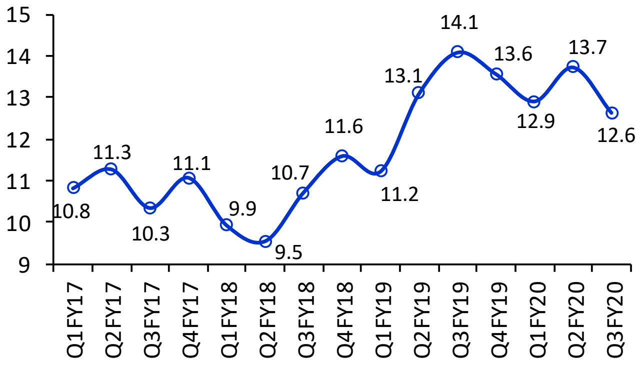
Source: Company, DART

Exhibit 9: Blended Spread (₹ / SCM)



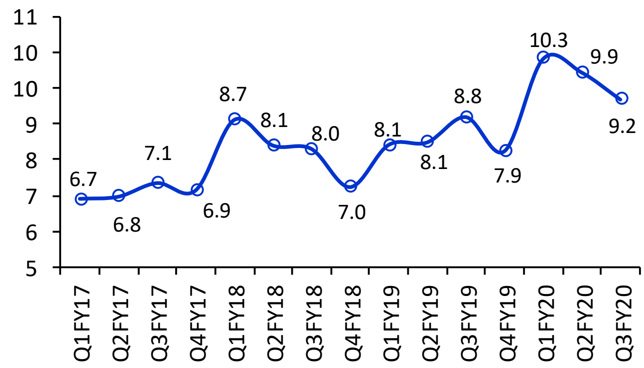
Source: Company, DART

Exhibit 10: Gas Cost (₹ / SCM)



Source: Company, DART

Exhibit 11: EBIDTA Spread (₹ / SCM)



Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY19A	FY20E	FY21E	FY22E
Revenue	**27,911**	**31,404**	**32,591**	**34,817**
Total Expense	**19,056**	**20,978**	**21,876**	**23,171**
COGS	13,992	14,913	15,579	16,401
Employees Cost	709	778	807	868
Other expenses	4,356	5,288	5,490	5,902
EBIDTA	**8,855**	**10,425**	**10,716**	**11,646**
Depreciation	1,259	1,158	1,537	1,993
EBIT	**7,595**	**9,267**	**9,179**	**9,653**
Interest	3	50	65	80
Other Income	777	1,000	1,250	1,250
Exc. / E.O. items	0	0	0	0
EBT	**8,369**	**10,217**	**10,364**	**10,823**
Tax	2,905	2,504	2,541	2,707
RPAT	5,464	7,713	7,823	8,116
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**5,464**	**7,713**	**7,823**	**8,116**

Balance Sheet

(₹ Mn)	FY19A	FY20E	FY21E	FY22E
Sources of Funds				
Equity Capital	988	988	988	989
Minority Interest	0	0	0	0
Reserves & Surplus	23,001	28,434	33,286	38,196
Net Worth	**23,989**	**29,422**	**34,273**	**39,185**
Total Debt	0	450	900	1,350
Net Deferred Tax Liability	2,048	2,151	2,258	2,371
Total Capital Employed	**26,037**	**32,023**	**37,432**	**42,906**
Applications of Funds				
Net Block	**17,634**	**20,476**	**23,939**	**27,446**
CWIP	3,697	1,544	1,844	2,174
Investments	6,540	6,606	6,870	7,007
Current Assets, Loans & Advances	**6,539**	**6,338**	**7,863**	**9,538**
Inventories	191	341	354	380
Receivables	996	937	973	1,046
Cash and Bank Balances	2,988	2,510	3,624	4,782
Loans and Advances	2,181	2,355	2,709	3,115
Other Current Assets	183	194	203	214
Less: Current Liabilities & Provisions	**8,373**	**2,941**	**3,085**	**3,259**
Payables	1,524	1,710	1,792	1,992
Other Current Liabilities	6,849	1,231	1,293	1,267
Net Current Assets	(1,834)	3,397	4,779	6,279
Total Assets	**26,037**	**32,023**	**37,432**	**42,906**

E – Estimates

Important Ratios

Particulars	FY19A	FY20E	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	49.9	52.5	52.2	52.9
EBIDTA Margin	31.7	33.2	32.9	33.4
EBIT Margin	27.2	29.5	28.2	27.7
Tax rate	34.7	25.2	25.2	25.2
Net Profit Margin	19.6	24.6	24.0	23.3
(B) As Percentage of Net Sales (%)				
COGS	50.1	47.5	47.8	47.1
Employee	2.5	2.5	2.5	2.5
Other	15.6	16.8	16.8	17.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	2352.9	185.3	141.2	120.7
Inventory days	3	4	4	4
Debtors days	13	11	11	11
Average Cost of Debt	54.0	22.2	9.6	7.1
Payable days	20	19	19	19
Working Capital days	(24)	40	55	68
FA T/O	1.6	1.5	1.4	1.3
(D) Measures of Investment				
AEPS (₹)	55.3	78.1	79.2	82.2
CEPS (₹)	68.1	89.8	94.8	102.3
DPS (₹)	20.0	20.0	26.0	28.0
Dividend Payout (%)	36.2	25.6	32.8	34.1
BVPS (₹)	242.9	297.9	347.0	396.7
RoANW (%)	24.3	28.9	24.6	22.1
RoACE (%)	34.3	35.4	30.0	27.1
RoAIC (%)	33.9	35.3	29.0	26.8
(E) Valuation Ratios				
CMP (₹)	1195	1195	1195	1195
P/E	21.6	15.3	15.1	14.5
Mcap (₹ Mn)	118,084	118,084	118,084	118,084
MCap/ Sales	4.2	3.8	3.6	3.4
EV	115,096	116,024	115,359	114,650
EV/Sales	4.1	3.7	3.5	3.3
EV/EBITDA	13.0	11.1	10.8	9.8
P/BV	4.9	4.0	3.4	3.0
Dividend Yield (%)	1.7	1.7	2.2	2.3
(F) Growth Rate (%)				
Revenue	25.0	12.5	3.8	6.8
EBITDA	13.5	17.7	2.8	8.7
EBIT	13.5	22.0	(1.0)	5.2
PBT	15.2	22.1	1.4	4.4
APAT	14.3	41.2	1.4	3.8
EPS	14.3	41.2	1.4	3.8

Cash Flow

(₹ Mn)	FY19A	FY20E	FY21E	FY22E
CFO	6,844	6,010	9,232	9,926
CFI	(4,383)	(1,861)	(5,507)	(5,909)
CFF	(2,346)	(1,905)	(2,611)	(2,859)
FCFF	3,222	4,163	3,932	4,096
Opening Cash	150	265	2,510	3,624
Closing Cash	265	2,510	3,624	4,782

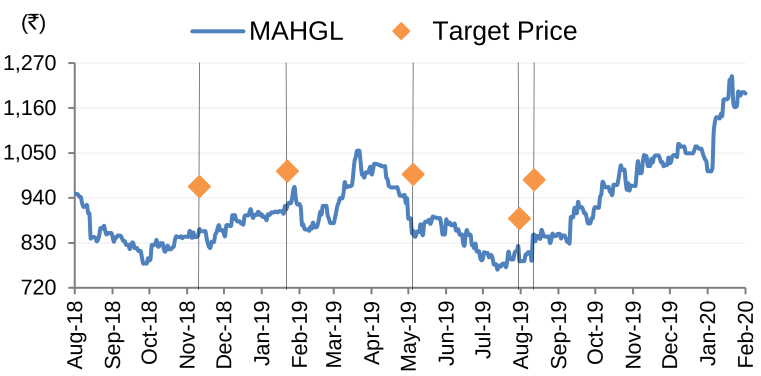
E – Estimates

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 (₹)
Nov-18	Accumulate	968	863
Jan-19	Accumulate	1,006	920
May-19	Accumulate	998	860
Aug-19	Accumulate	890	785
Aug-19	Accumulate	985	850

*Price as on recommendation date

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Analyst(s) Certification

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