

### Volume de-growth with low realisations and lower gas cost. Maintain Accumulate.

- MGL's Q1FY21 results were below our estimates on revenue front and profitability front.
- Volume de-growth at 1.11 mmscmd (down 62.5% YoY and 60% QoQ), against our estimates of 1.9 mmscmd. Full quarter volumes were impacted due to the lockdown, with CNG segment taken the biggest hit.
- The CNG segment (down 77.8% YoY and 75.7% QoQ) due to no movement of people and vehicles during the lockdown
- The domestic PNG segment reported flattish growth sequentially and up 7.1% YoY which was offset by a de-growth of 47% QoQ and 49.3% YoY in Industrial/commercial PNG segment. Overall PNG segment de-grew 21.2% YoY and 21.3% QoQ—domestic PNG segment increased which was offset by decline in industrial and commercial volumes.
- Gross margins have gone up by 573 bps QoQ and 821.4 bps YoY, due to low gas cost and spot prices. MGL got the advantage of relatively low spot prices rather than tied up long term and medium term volumes. Operating margins were lower as expenses of gas sold was higher because of higher overheads due to reduced 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.
- However, sales volumes have reached 65% of Pre Covid levels in August'20. CNG volumes have reached 50% of Pre Covid levels in August'20. The green fuel push by the government will entail easy availability of gas supplies. We maintain Accumulate with a target price of Rs 1,070 (DCF Method).

### Volume growth outlook should improve in H2FY21E

Volume de-growth in Q1FY21 was 62.5% YoY. The CNG volumes de-grew 77.8% YoY due to sales lost because of lockdown and PNG segment de-grew mainly due to low volumes from industrial/commercial segments, however PNG domestic volumes grew 7.1% YoY. However, overall volumes are expected to decline in H1FY21E before picking up in H2FY21E once economy opens up fully and movement of individuals start.

### Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	2,618	7,575	(65.4)	6,866	(61.9)
Total Expense	1,818	4,807	(62.2)	4,427	(58.9)
EBITDA	800	2,768	(71.1)	2,438	(67.2)
Depreciation	423	372	13.6	440	(3.9)
EBIT	377	2,396	(84.3)	1,998	(81.1)
Other Income	245	203	20.6	270	(9.1)
Interest	15	14	11.7	21	(26.4)
EBT	607	2,586	(76.5)	2,247	(73.0)
Tax	155	884	(82.5)	581	(73.4)
RPAT	453	1,702	(73.4)	1,666	(72.8)
APAT	453	1,702	(73.4)	1,666	(72.8)
			(bps)		(bps)
Gross Margin (%)	62.2	54.0	821	56.5	573
EBITDA Margin (%)	30.6	36.5	(599)	35.5	(496)
NPM (%)	17.3	22.5	(519)	24.3	(698)
Tax Rate (%)	25.5	34.2	(869)	25.9	(39)
EBIT Margin (%)	14.4	31.6	(1722)	29.1	(1469)

CMP	Rs 968
Target / Upside	Rs 1,070 / 11%
BSE Sensex	38,206
NSE Nifty	11,270

### Script Details

Equity / FV	Rs 988mn / Rs 10
Market Cap	Rs 96bn
	USD 1bn
52-week High/Low	Rs 1,246/Rs 664
Avg. Volume (no)	980,094
NSE Symbol	MGL
Bloomberg Code	MAHGL IN

### Shareholding Pattern Jun'20(%)

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

### Valuation (x)

	FY20A	FY21E	FY22E
P/E	12.0	20.5	13.9
EV/EBITDA	8.9	13.5	9.9
ROE (%)	29.7	15.3	20.5
RoACE (%)	28.0	14.8	19.7

### Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	29,721	20,126	25,157
EBITDA	10,528	6,957	9,431
PAT	7,935	4,675	6,854
EPS (Rs.)	80.3	47.3	69.4

AVP Research: Nidhi Doshi

Tel: +91 22 40969795

E-mail: nidhid@dolatcapital.com

Currently, volume mix of CNG segment which is reduced to 43% have revived by 50%, Domestic PNG which has improved to 38.5% is unaffected and I/C segment which is rest 18% of revenues has recovered 40%-50%.

Addition of 500 BEST CNG buses recently and plans to add 800-1,000 BEST CNG buses will improve volume traction. BEST buses consume 1 lakh kg a day of gas. 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 with a slowdown in volumes in FY21E after picking up in FY22E.

#### **Lower Realisations and margin contraction due to higher expenses**

CNG realizations were flat sequentially in Q1FY21 as CNG per unit margins were lower due to reduction in natural gas prices passed on to the customers. However, MGL has taken a price increase of Re. 1 in end of July to meet their higher expenses due to lower volumes, which will improve the margins for them. Industrial and Commercial segment realizations have reduced currently due to competition from alternate fuels. MGL has demonstrated its pricing power by timely revising prices to mitigate input costs and increase in operational expenditure. EBITDA spreads of Rs 7.9/cm (down 23% YoY and 17.9% QoQ) due to higher opex. 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 Rs 9.8/scm, however lower spot prices helped maintain margins at gross levels.

#### **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 plans to open 15 new CNG stations in FY21. CNG is a big opportunity and we expect MGL to capitalize on this next year by adding new stations and upgrading the existing stations in this region. For PNG growth, MGL has laid pipelines and only capex related to last mile connectivity is pending. (only 30% penetrated)

#### **Valuation**

MGL is an excellent cash annuity model with decent dividend yield. With volume outlook looking stable from H2FY21E and spreads likely to sustain, outlook gets better. Based on DCF valuation, we maintain our Accumulate rating with a target price of Rs 1,070.

**Exhibit 1: KPI's**

Volume Data	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20
CNG (in MMSCM)	43.7	197.0	(77.8)	180.2	(75.7)	828.0
PNG- Domestic (in MMSCM)	39.0	36.4	7.1	38.2	2.2	186.5
PNG - Industrial/Commercial (in MMSCM)	18.6	36.7	(49.3)	35.1	(47.0)	167.0
PNG- Total (in MMSCM)	57.6	73.1	(21.2)	73.2	(21.3)	353.5
<b>Total Volume (in MMSCM)</b>	<b>101.3</b>	<b>270.1</b>	<b>(62.5)</b>	<b>253.4</b>	<b>(60.0)</b>	<b>1181.5</b>
<b>Total Volume (MMSCMD)</b>	<b>1.11</b>	<b>2.97</b>	<b>(62.5)</b>	<b>2.8</b>	<b>(60.0)</b>	<b>3.2</b>
CNG Net Sales Value (Rs Mn)	1,106	5,175	(78.6)	4,635	(76.1)	21,620
PNG Sales Value (Rs Mn)	1,494	2,347	(36.3)	2,176	(31.3)	10,490
<b>Total Sales Value (Rs Mn)</b>	<b>2,600</b>	<b>7,522</b>	<b>(65.4)</b>	<b>6,811</b>	<b>(61.8)</b>	<b>32,111</b>
CNG Net Realization Value (Rs / SCM)	25.3	26.3	(3.6)	25.7	(1.6)	26.1
Spread Earned (Rs / SCM)	15.6	13.4	16.3	13.9	11.6	14.4
PNG Realization Value (Rs / SCM)	25.9	32.1	(19.2)	29.7	(12.7)	29.7
Spread Earned (Rs / SCM)	16.2	19.2	(15.7)	17.9	(9.8)	18.0
Gas Cost (Rs / SCM)	9.8	12.9	(24.3)	11.8	(17.2)	11.7
Blended Realization (Rs / SCM)	25.7	27.9	(7.8)	26.9	(4.5)	27.2
Blended Spread (Rs / SCM)	15.9	15.0	6.4	15.1	5.4	15.5
EBIDTA Spread (Rs / SCM)	7.9	10.3	(23.0)	9.6	(17.9)	8.9

Source: Company, DART

**Exhibit 2: Actual V/s DART estimates**

Particulars (Rs Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	2,618	4,524	(42.1)	Volumes impacted due to lockdown
EBITDA	800	1,494	(46.5)	
EBITDA Margin (%)	30.6	33.0	(246)	Higher overheads due to reduced volumes
PAT	453	893	(49.3)	

Source: Company, DART

**Exhibit 3: Change in estimates**

Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	20,126	21,892	(8.1)	25,157	29,054	(13.4)
EBITDA	6,957	9,130	(23.8)	9,431	10,941	(13.8)
EBITDA Margin (%)	34.6	41.7	(713.4)	37.5	37.7	(16.8)
PAT	4,675	6,300	(25.8)	6,853	7,982	(14.1)
EPS (Rs)	47.3	63.8	(25.8)	69.3	80.7	(14.1)

Source: Company, DART

## Key Highlights

- Revenue decreased by 61.9% on a sequential basis and by 65.4% on a YoY basis to Rs. 2,618 mn.
- Raw Material cost decreased by 66.9% on a sequential basis and by 71.6% on a YoY basis to Rs. 988 mn.
- Employee cost grew 37.4% on a sequential basis and by 1% on a YoY basis to Rs. 246 mn.
- Other expenditure decreased by 53.8% on a sequential and by 46% on YoY basis to Rs. 583 mn.
- MGL made an operating profit Rs. 800 mn in Q1FY21 as compared to an operating profit of Rs. 2,768 mn in Q1FY20 which was a de-growth of 71.1%.
- Depreciation decreased by 3.9% on a sequential basis and improved by 13.6% on a YoY basis to Rs. 423 mn.
- Other income decreased by 9.1% on a sequential basis and increased by 20.6% on a YoY basis to Rs. 245 mn.
- MGL made a net profit of Rs. 453 mn in Q1FY21 as compared to a net profit of Rs. 1,702 mn in Q1FY20 registering a de-growth of 73.4% on a YoY basis.
- Volume de-growth in CNG segment was at 77.8% YoY and PNG segment witnessed a de-growth of 21.2% on YoY basis. Overall volumes decreased by 62.5% on a YoY basis to 1.11 MMSCMD for this quarter.
- Gross spread in the CNG segment was at Rs. 15.6 per SCM registering a growth of 16.3% on a YoY basis.
- Gross spread in the PNG segment decreased by 15.7% to Rs. 16.2 per SCM on a YoY basis.
- Gross spread on a blended basis was at Rs. 15.9 per SCM and EBIDTA spread was at Rs. 7.9 per SCM.

## Conference Call Key Highlights

### CNG Segment:

- 3 main growth driver of CNG in last 3 years:
  1. Auto segment- Cap on number of permit of auto rickshaws was lifted 3 years back. Due to which there was a sustained growth in autos for next 1-1.5 years.
  2. Advent of aggregators which provided competitive rates. Diesel was found to be expensive, so CNG conversions took place.
  3. Private car segment have grown in last 2 years as a lot of OE companies are coming up with company fitted CNG kits.
- Total CNG stations operated by MGL are 256 stations out of which 184 stations are with OMC's. OMC's earn a commission of Rs.3.5-Rs4/kg of gas sold. Higher amount is charged in main city and adjacent areas. Contracts with OMC's are for 3-5 years which they keep rolling.
- BEST had planned to add 500 CNG buses last year. Due to complications of the lockdown they could add only 350 buses. Rest 150 BEST CNG buses will be on road by this month or next month. With the addition of these buses total BEST buses fleet will reach to 2,350. Volumes consumed by them is 1 lakh kg/day.

- BEST have plans to add 800-1000 CNG buses in the future (tenders still not announced).
- There is still a potential growth of 30-35% of CNG vehicles for MGL.
- MGL provides small trade discount to BEST for gas which is lesser than a Re.
- Cab aggregators have reached 40% of Pre Covid levels. Half of the auto rickshaws are back.
- There is a rule in Mumbai that all commercial vehicles less than 8 years can only run in Mumbai. Otherwise they get converted to CNG.

#### **PNG Segment:**

- Restaurant segment has reached around 55% of Pre Covid levels. 5 star hotels have reached 40% of Pre Covid levels.
- Total consumption of Restaurant: 5 star Hotels is 0.98 mmscmd :0.5 mmscmd (normal scenario)
- In Q1FY21, Industrial:commercial is 0.146 mmscmd: 0.05 mmscmd.
- Realisations for industrial segment this quarter was lower QoQ at Rs. 23/scm as against Rs. 28.5 /scm in Q4FY20. Currently it has improved to Rs. 25/scm
- Commercial segment realisation were also down QoQ at Rs. 28/scm as against Rs. 36/scm QoQ. No significant change currently.

#### **Capex:**

- Capex target for FY21 is Rs. 5,500-6,000 Mn which will depend on the speed at which approvals are received from statutory authorities. Out of this Rs. 1,200 Mn capex will be spent in Raigad area.

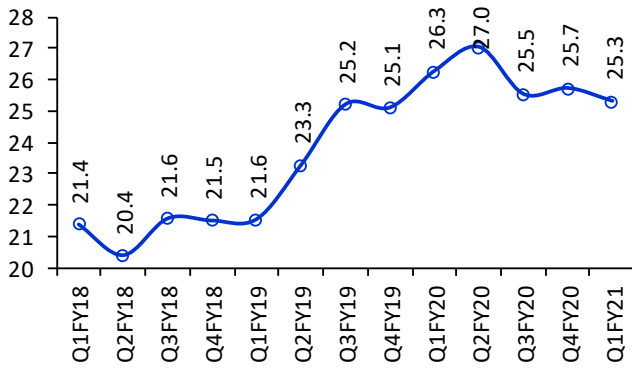
#### **Covid and Timelines:**

- Pipeline laying work was stalled as government offices were working with low staff capacity which was taking approvals longer, shortage of contract manpower and societies not allowing MGL staff for connections.
- MGL is facing labor challenges for project work, plumber issues for connections but they expect this to normalise in next 3 months.

#### **MWP:**

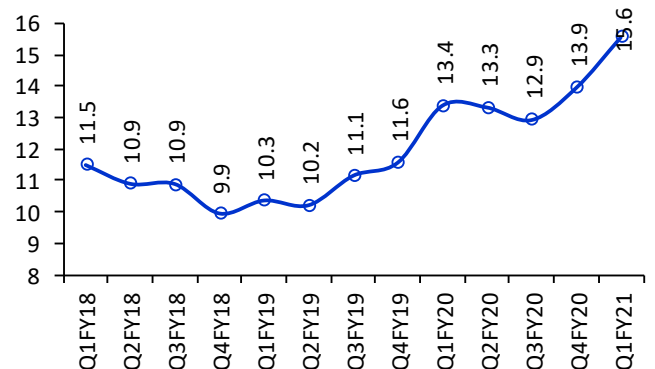
- MWP for 26,000 domestic connections is achieved, however, the target for inch-km pipeline is not reached. Only 45% of the target is met.
- Cash as on June 30'20 is Rs. 1,000 cr.

**Exhibit 4: CNG Realization Value (Rs / SCM)**



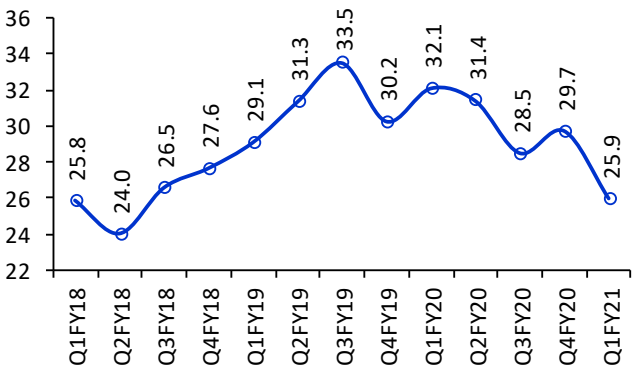
Source: Company, DART

**Exhibit 5: CNG Spread (Rs / SCM)**



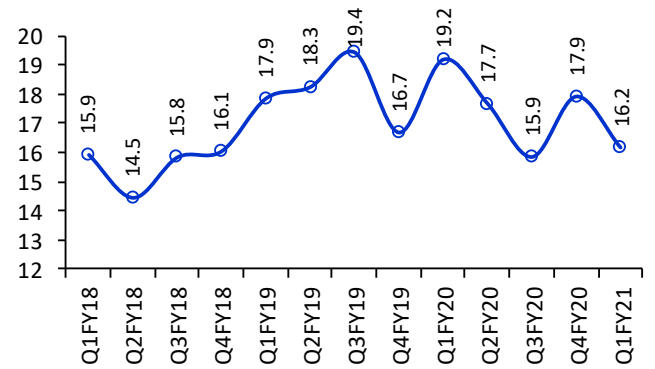
Source: Company, DART

**Exhibit 6: PNG Realization (Rs / SCM)**



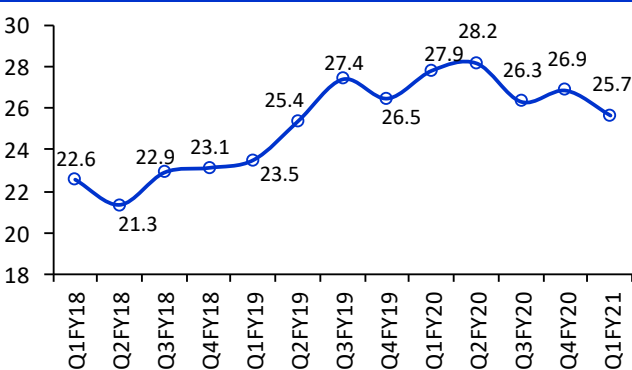
Source: Company, DART

**Exhibit 7: PNG Spread (Rs / SCM)**



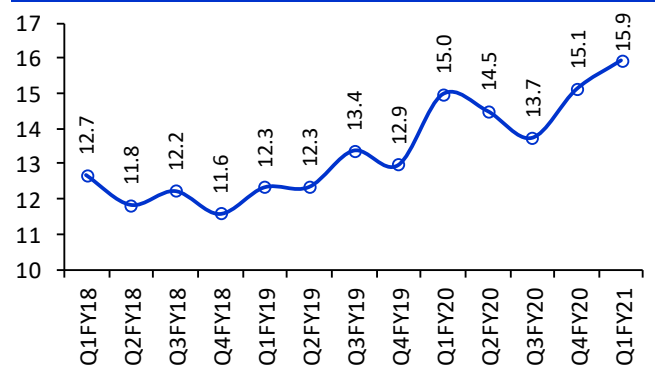
Source: Company, DART

**Exhibit 8: Blended Realization (Rs / SCM)**



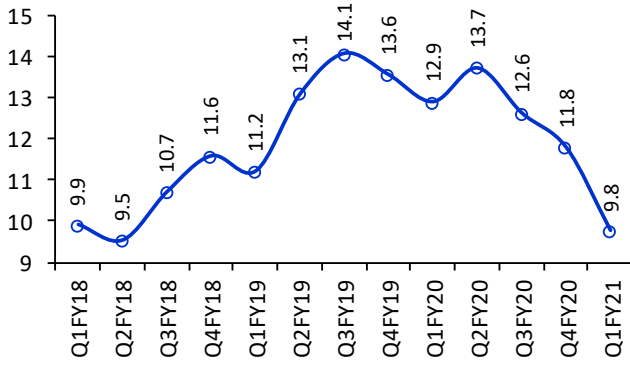
Source: Company, DART

**Exhibit 9: Blended Spread (Rs / SCM)**



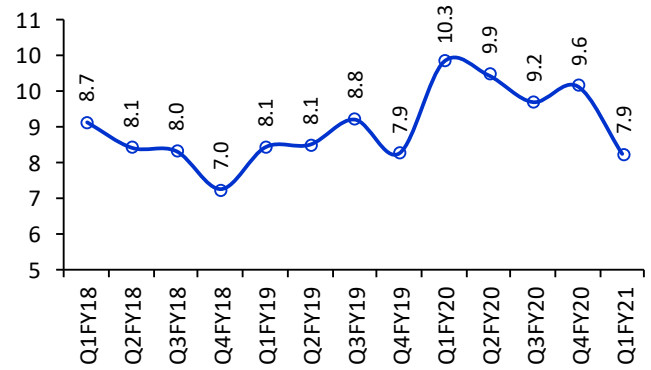
Source: Company, DART

**Exhibit 10: Gas Cost (Rs / SCM)**



Source: Company, DART

**Exhibit 11: EBIDTA Spread (Rs / SCM)**



Source: Company, DART



**Profit and Loss Account**

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>27,911</b>	<b>29,721</b>	<b>20,126</b>	<b>25,157</b>
<b>Total Expense</b>	<b>19,056</b>	<b>19,193</b>	<b>13,168</b>	<b>15,726</b>
COGS	13,992	13,795	8,825	10,510
Employees Cost	709	806	757	724
Other expenses	4,356	4,591	3,587	4,492
<b>EBIDTA</b>	<b>8,855</b>	<b>10,528</b>	<b>6,957</b>	<b>9,431</b>
Depreciation	1,259	1,617	1,229	1,071
<b>EBIT</b>	<b>7,595</b>	<b>8,911</b>	<b>5,728</b>	<b>8,360</b>
Interest	3	65	70	90
Other Income	777	990	700	900
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>8,369</b>	<b>9,835</b>	<b>6,358</b>	<b>9,170</b>
Tax	2,905	1,900	1,684	2,316
RPAT	5,464	7,935	4,675	6,854
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>5,464</b>	<b>7,935</b>	<b>4,675</b>	<b>6,854</b>

**Balance Sheet**

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	988	988	988	989
Minority Interest	0	0	0	1
Reserves & Surplus	23,001	28,539	30,473	34,582
<b>Net Worth</b>	<b>23,989</b>	<b>29,527</b>	<b>31,461</b>	<b>35,571</b>
Total Debt	0	0	0	0
Net Deferred Tax Liability	2,048	1,607	1,687	1,771
<b>Total Capital Employed</b>	<b>26,037</b>	<b>31,133</b>	<b>33,148</b>	<b>37,343</b>

**Applications of Funds**

Net Block	17,634	20,492	23,763	27,692
CWIP	3,697	4,865	1,843	2,857
Investments	6,540	11,215	10,000	9,000
<b>Current Assets, Loans &amp; Advances</b>	<b>6,539</b>	<b>4,713</b>	<b>4,197</b>	<b>5,073</b>
Inventories	191	186	136	171
Receivables	996	685	600	752
Cash and Bank Balances	2,988	2,295	1,693	2,131
Loans and Advances	2,181	1,416	1,628	1,873
Other Current Assets	183	132	139	146
<b>Less: Current Liabilities &amp; Provisions</b>	<b>8,373</b>	<b>10,152</b>	<b>6,656</b>	<b>7,279</b>
Payables	1,524	1,318	919	1,066
Other Current Liabilities	6,849	8,834	5,737	6,213
sub total				
Net Current Assets	(1,834)	(5,439)	(2,459)	(2,206)
<b>Total Assets</b>	<b>26,037</b>	<b>31,133</b>	<b>33,148</b>	<b>37,343</b>

E – Estimates



**Important Ratios**

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	49.9	53.6	56.2	58.2
EBIDTA Margin	31.7	35.4	34.6	37.5
EBIT Margin	27.2	30.0	28.5	33.2
Tax rate	34.7	19.3	26.5	25.3
Net Profit Margin	19.6	26.7	23.2	27.2
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	50.1	46.4	43.8	41.8
Employee	2.5	2.7	3.8	2.9
Other	15.6	15.4	17.8	17.9
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	2352.9	136.5	81.8	92.9
Inventory days	3	2	2	2
Debtors days	13	8	11	11
Average Cost of Debt	54.0			
Payable days	20	16	17	15
Working Capital days	(24)	(67)	(45)	(32)
FA T/O	1.6	1.5	0.8	0.9
<b>(D) Measures of Investment</b>				
AEPS (Rs)	55.3	80.3	47.3	69.4
CEPS (Rs)	68.1	96.7	59.8	80.2
DPS (Rs)	20.0	35.0	24.0	24.0
Dividend Payout (%)	36.2	43.6	50.7	34.6
BVPS (Rs)	242.9	298.9	318.5	360.1
RoANW (%)	24.3	29.7	15.3	20.5
RoACE (%)	22.4	28.0	14.8	19.7
RoAIC (%)	33.9	34.3	19.0	25.1
<b>(E) Valuation Ratios</b>				
CMP (Rs)	968	968	968	968
P/E	17.5	12.0	20.5	13.9
Mcap (Rs Mn)	95,607	95,607	95,607	95,607
MCap/ Sales	3.4	3.2	4.8	3.8
EV	92,619	93,312	93,914	93,475
EV/Sales	3.3	3.1	4.7	3.7
EV/EBITDA	10.5	8.9	13.5	9.9
P/BV	4.0	3.2	3.0	2.7
Dividend Yield (%)	2.1	3.6	2.5	2.5
<b>(F) Growth Rate (%)</b>				
Revenue	25.0	6.5	(32.3)	25.0
EBITDA	13.5	18.9	(33.9)	35.6
EBIT	13.5	17.3	(35.7)	45.9
PBT	15.2	17.5	(35.4)	44.2
APAT	14.3	45.2	(41.1)	46.6
EPS	14.3	45.2	(41.1)	46.6
<b>Cash Flow</b>				
<b>(Rs Mn)</b>	<b>FY19A</b>	<b>FY20A</b>	<b>FY21E</b>	<b>FY22E</b>
CFO	6,844	9,826	4,581	8,279
CFI	(4,383)	(7,522)	(205)	(4,956)
CFF	(2,346)	(2,416)	(2,836)	(2,886)
FCFF	3,222	5,594	3,103	2,265
Opening Cash	150	265	154	1,693
Closing Cash	265	154	1,693	2,131

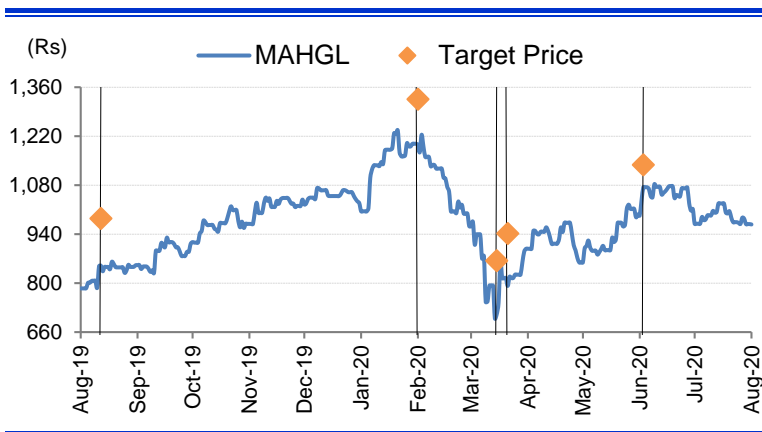
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-19	Accumulate	985	850
Feb-20	Accumulate	1,326	1,195
Mar-20	Buy	864	711
Mar-20	Accumulate	942	792
Jun-20	Accumulate	1,138	1,074

*\*Price as on recommendation date*

### DART Team

<b>Purvag Shah</b>	<b>Managing Director</b>	<b>purvag@dolatcapital.com</b>	<b>+9122 4096 9747</b>
<b>Amit Khurana, CFA</b>	<b>Head of Equities</b>	<b>amit@dolatcapital.com</b>	<b>+9122 4096 9745</b>

### CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	yomika@dolatcapital.com	+9122 4096 979
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

**Dolat** Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com

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