

Retail Equity Research

Mahanagar Gas Limited

Gas Utilities

BSE CODE: 539957

NSE CODE: MGL

Bloomberg CODE: MAHGL:IN

SENSEX: 38,370

BUY

12M Investment period

Rating as per Mid Cap

CMP Rs. 982

TARGET Rs. 1,180

RETURN 20% ↑

(Closing: 12-08-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

COVID-19 impacts Q1; Outlook promising

Mahanagar Gas Limited (MGL) is the sole distributor of natural gas in Mumbai. The Company provides gas to customers such as hospitals, nursing homes, hotels, flight kitchens, and restaurants.

- Revenue declined 66.6% YoY in Q1FY21 due to lower CNG volumes (-77.8% YoY) as a result of extended lockdown.
- EBITDA fell 71.1% YoY with margin contracting 4.5pps to 28.8% due to higher fixed costs from delayed pipeline construction activities and labor availability issues.
- Net Profit reduced 73.4% YoY to Rs. 45cr, partly offset by lower tax rates.
- Considering government's expansion plan in CNG sector and company's growth in Compressed Gas Distribution (CGD), we are positive on company's outlook, and reiterate our BUY rating on the stock with a revised target price of Rs. 1,180 based on 14x FY22E EPS

Lower volumes impact topline

MGL's Q1FY21 revenue fell 66.6% YoY to Rs. 277cr with volume drop of 62.5% YoY to 101.3 Standard Cubic Meter (SCMmn). This was primarily due to slump in demand for CNG used in public transport buses, auto-rickshaws and taxis amidst extended lockdown. Henceforth, CNG revenue stood at Rs. 111cr, a decline of 78.6% with sales volume of 43.7SCMmn (-77.8% YoY). PNG segment reported sales of Rs. 149cr (-36.0% YoY). Industrial/ Commercial PNG segment volumes declined 49.3% YoY to 18.6SCMmn and was partially offset by PNG-domestic segment's volume growth of 7.1% YoY. The quarter was negatively impacted by lower spot prices of natural gas. The gradual revival of commercial activities is expected to boost demand over the next few quarters.

Margin contracted over high fixed costs

EBITDA fell 71.1% YoY to Rs.80cr along with EBITDA margin contracting 4.5pps YoY to 28.8% due to reduction in overall sales volume and increase in overhead and other fixed costs. Govt of India has planned investment of Rs.70, 000cr to expand the gas pipeline network. Also, it plans to increase the share of gas from 6% to 15% in India's primary energy mix. In July 2020, it has increased CNG prices by Rs. 1/kg to Rs. 48.95/kg to reduce the impact of higher fixed costs and depreciation of Indian rupee against US dollar.

Key concall highlights

- Management plans Capex of Rs. 550-600cr (Rs. 120cr in Raigad), however construction permits and pipeline infrastructure projects could experience delays.
- After easing of lockdown, sales volume went up to 55% in July compared to 25% in April, while CNG stations have been operating at 50% capacity utilization.
- The company has 256 CNG stations under operations, which includes 184 stations with oil and marketing companies.

Valuation

As per IBEF, Natural gas consumption is expected to grow 4.3% CAGR to 143mnt by 2040 against crude oil's CAGR of 3.6%. We expect the current volume growth (65% in August) to pick up since the commercial activities and movement of vehicles have gradually revived. Owing to regulatory push towards relatively cleaner fuels like natural gas, we remain optimistic on the stock and reiterate our BUY rating on the stock with a revised target price of Rs. 1,180 based on 14x FY22E Adj EPS.

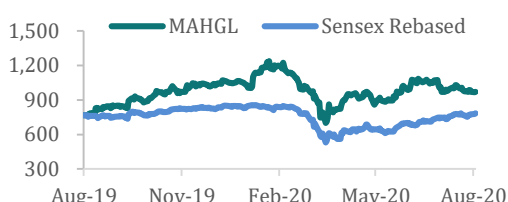
Company Data

Market Cap (cr)	Rs. 9,699
Enterprise Value (cr)	Rs. 9,454
Outstanding Shares (cr)	9.9
Free Float	57.0%
Dividend Yield	3.6%
52 week high	Rs. 1,247
52 week low	Rs. 666
6m average volume (lac)	0.5
Beta	0.96
Face value	Rs. 10

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	32.5	32.5	32.5
FII's	31.9	31.3	29.9
MFs/Insti	26.1	27.0	28.7
Public	7.8	7.6	7.3
Others	1.7	1.6	1.6
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	8.1%	-19.8%	28.2%
Absolute Sensex	22.3%	-7.7%	2.1%
Relative Return*	-14.2%	-12.1%	26.1%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	3,264	2,546	3,183
Growth (%)	6.8	(22.0)	25.0
EBITDA	1,053	913	1,153
EBITDA Margin (%)	32.3	35.9	36.2
Adj. PAT	794	636	833
Growth (%)	45.2	(19.8)	30.9
Adj. EPS	80.3	64.4	84.3
Growth (%)	45.2	(19.8)	30.9
P/E	10.2	15.2	11.7
P/B	2.7	3.0	2.6
EV/EBITDA	7.5	10.4	8.1
ROE (%)	26.9	19.7	22.5
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	277	831	(66.6)	753	(63.1)
EBITDA	80	277	(71.1)	244	(67.2)
EBITDA margins	28.8	33.3	(450bps)	32.4	(360bps)
Depreciation	42	37	13.6	44	(3.9)
EBIT	38	240	(84.3)	200	(81.1)
Interest	2	1	11.7	2	(26.4)
Other Income	25	20	20.6	27	(9.1)
Exceptional Items	-	-	-	-	-
PBT	61	259	(76.5)	225	(73.0)
Tax	15	88	(82.5)	58	(73.4)
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
Reported PAT	45	170	(73.4)	167	(72.8)
Adjustments	-	-	-	-	-
Adj. PAT	45	170	(73.4)	167	(72.8)
No. of shares	9.9	9.9	-	9.9	-
Adj. EPS (Rs.)	4.6	17.2	(73.4)	16.9	(72.8)

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	3,386	3,555	2,546	3,183	(24.8)	(10.5)
EBITDA	1,155	1,213	913	1,153	(20.9)	(5)
Margins (%)	34.1	34.1	35.9	36.2	180bps	210bps
Adj. PAT	814	855	636	833	(21.9)	(2.6)
Adj. EPS	82.5	86.6	64.4	84.3	(21.9)	(2.6)

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	2,453	3,057	3,264	2,546	3,183
% change	9.6	24.6	6.8	(22.0)	25.0
EBITDA	780	885	1,053	913	1,153
% change	21.1	13.5	18.9	(13.2)	26.2
Depreciation	111	126	162	188	189
EBIT	669	760	891	726	964
Interest	0	0	7	5	5
Other Income	58	78	99	113	133
PBT	727	837	984	834	1,091
% change	21.0	15.2	17.5	(15.2)	30.9
Tax	249	291	190	198	259
Tax Rate (%)	34.2	34.7	19.3	23.7	23.7
Reported PAT	478	546	794	636	833
Adj*	-	-	-	-	-
Adj PAT	478	546	794	636	833
% change	21.5	14.3	45.2	(19.8)	30.9
No. of shares (cr)	9.9	9.9	9.9	9.9	9.9
Adj EPS (Rs.)	48.4	55.3	80.3	64.4	84.3
% change	21.5	14.4	45.2	(19.8)	30.9
DPS (Rs.)	19.0	20.0	35.0	36.0	37.0
CEPS (Rs.)	59.6	68.1	96.7	83.4	103.4

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	92	299	229	246	406
Accounts Receivable	91	100	68	56	73
Inventories	24	19	19	14	19
Other Cur. Assets	768	757	1,189	1,234	1,303
Investments	-	-	-	-	-
Gross Fixed Assets	1,809	2,172	2,595	2,926	3,314
Net Fixed Assets	1,528	1,759	1,926	2,070	2,269
CWIP	357	370	487	487	487
Intangible Assets	4	5	123	148	177
Def. Tax (Net)	24	34	41	43	56
Other Assets	122	100	46	108	194
Total Assets	3,010	3,441	4,129	4,404	4,983
Current Liabilities	723	821	947	940	1,036
Provisions	15	14	18	15	16
Debt Funds	1	-	-	-	-
Other Liabilities	176	207	210	217	231
Equity Capital	99	99	99	99	99
Reserves & Surplus	1,997	2,300	2,854	3,134	3,601
Shareholder's Fund	2,095	2,399	2,953	3,233	3,700
Minority Interest	-	-	-	-	-
Total Liabilities	3,010	3,441	4,129	4,404	4,983
BVPS (Rs.)	212	243	299	327	375

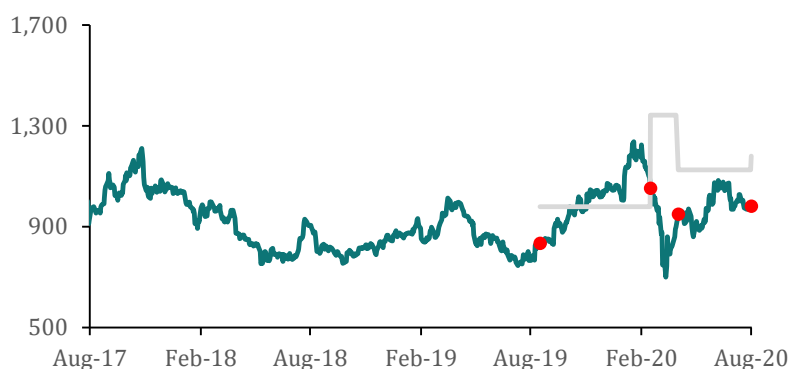
CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	589	672	955	824	1,022
Non-cash adj.	71	(19)	18	31	59
Changes in W.C	(8)	31	10	(10)	7
C.F. Operation	652	685	983	845	1,088
Capital exp.	(269)	(362)	(423)	(331)	(388)
Change in inv.	(179)	(114)	(376)	(143)	(174)
Other invest.CF	30	38	47	0	(0)
C.F - Investment	(419)	(439)	(752)	(474)	(562)
Issue of equity	-	-	-	-	-
Issue/repay debt	(2)	(1)	-	-	-
Dividends paid	(224)	(233)	(218)	(356)	(365)
Other finance.CF	(1)	(0)	(23)	-	-
C.F - Finance	(226)	(235)	(242)	(356)	(365)
Chg. in cash	8	12	(11)	16	160
Closing cash	92	299	229	246	406

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	31.8	29.0	32.3	35.9	36.2
EBIT margin (%)	27.3	24.8	27.3	28.5	30.3
Net profit mgn.(%)	19.5	17.9	24.3	25.0	26.2
ROE (%)	22.8	22.8	26.9	19.7	22.5
ROCE (%)	31.9	31.7	30.2	22.4	26.0
W.C & Liquidity					
Receivables (days)	13.4	11.7	7.5	7.9	8.3
Inventory (days)	6.9	4.1	4.0	4.4	4.7
Payables (days)	31.7	33.0	28.4	32.8	33.2
Current ratio (x)	1.3	1.4	1.6	1.6	1.7
Quick ratio (x)	1.2	1.3	1.5	1.6	1.7
Turnover & Leverage					
Gross asset T.O (x)	1.5	1.5	1.4	0.9	1.0
Total asset T.O (x)	0.9	0.9	0.9	0.6	0.7
Int. coverage ratio (x)	n.m.	n.m.	136.5	144.7	179.6
Adj. debt/equity (x)	0.0	-	-	-	-
Valuation					
EV/Sales (x)	3.8	2.9	2.4	3.7	2.9
EV/EBITDA (x)	11.8	10.2	7.5	10.4	8.1
P/E (x)	19.5	17.0	10.2	15.2	11.7
P/BV (x)	4.4	3.9	2.7	3.0	2.6

Recommendation Summary



Dates	Rating	Target
28-Aug-19	ACCUMULATE	980
27-Feb-20	BUY	1,342
13-Apr-20	BUY	1,126
13-Aug-20	BUY	1,180

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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