

Annual Report FY20- Sustainable Business

MGL reiterates its position as a trusted natural gas supplier, it remains steadfast to further expand and extend green footprints far and wide, taking strides to responsibly fuel India. During the Pandemic MGL strived to ensure that all customers who need natural gas have an uninterrupted access to the same and they have proactively geared itself to sustain its business in this situation and is firmly on the way to recovery towards Pre-Covid levels. While there is ample scope for growing the business of MGL organically in its currently authorized GA's, they are continuously looking out for inorganic growth opportunities. Favourable regulatory environment, Government's initiative to replace LPG connections with PNG in urban areas, increased availability of CNG filling facilities, replacement of polluting fuels with natural gas in industrial sector, are likely momentum to in the CGD sector. MGL top priority will be expanding their core operations in the existing license areas of Mumbai and adjoining areas as well as in Raigad district. These areas have large untapped opportunities and offer good potential for long term growth.

DART View: MGL is an excellent cash annuity model with decent dividend yield. 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. Raigad is expected to peak volumes of 0.6 mmscmd in 3-5 years. 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). With volume outlook looking stable from H2FY21E and spreads likely to sustain, outlook gets better. 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. Based on DCF valuation, we maintain our Accumulate rating with a target price of Rs 1,007.

Industry Overview: Currently, India is the 3rd largest energy consumer in the world, after US and China. It is also the 4th largest importer of LNG. Natural gas has emerged as a reliable alternative for more polluting fossil fuels. It is safe, reliable, eco-friendly and cost effective fuel, additionally consumer preference is also rapidly shifting towards this segment. The Government of India has set an ambitious target of increasing the share of natural gas in its primary energy basket from 6% to 15% by 2030 pursuant to its clean energy agenda. After the conclusion of the 9th and 10th rounds of bidding for CGD networks, natural gas coverage now extends to around 53% of the country's geographical area and 70% of its population.

MD&A Overview: As on March 2020, MGL supplied gas to more than 11.68 lakhs households and 4,021 industrial and commercial customers. It also opened many new CNG stations in its areas of operation, taking the total count to 256 CNG stations as on 31st March 2020, with a cumulative compression capacity of 35.10 lakhs kg per day. With Covid 19 uncertainties, other situations emerged with regard to termination of marketing exclusivity and the likely start of trading of domestic gas in commodity exchanges which would make it market linked. While the impact of these changes will be felt across the CGD sector but the established players who have developed the local gas markets will be affected more than the others. Other step changes are also taking place in the business environment primary of which are advent of electric vehicles and introduction of BS VI fuels, both of which have the potential to impact the CNG business. Setting up of LNG dispensing stations could potentially pit LNG against CNG but only in the long haul segment.

CMP	Rs 906
Target / Upside	Rs 1,007 / 11%
BSE Sensex	38,976
NSE Nifty	11,470

Scrip Details

Equity / FV	Rs 988mn / Rs 10
Market Cap	Rs 89bn
	US\$ 1bn
52-week High/Low	Rs 1,246/Rs 664
Avg. Volume (no)	11,16,520
NSE Symbol	MGL
Bloomberg Code	MAHGL IN

Shareholding Pattern Jun'20(%)

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

Company Relative to Sensex



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Financial Snapshot

Net sales grew by 6.5% from Rs. 27,911 million in FY19 to Rs. 29,721 million in FY20. EBITDA increased for FY20 at Rs. 10,528 million while cost of raw materials decreased to Rs. 13,795 million. The Company achieved a PBT of Rs. 9,835 million which grew by 17.5% as compared to the previous year. The increase in profits for MGL is primarily driven by an improved gross margin on account of lower gas prices, efficient gas sourcing and operations and reduction in corporate tax rates. Achieved a PAT for Rs. 7,935 million which was a growth of 45.2% YoY. The directors have recommended a final dividend of 255% in addition to a special dividend of 150%. Total dividend for FY20 was Rs. 35 per share. Net worth increased by 23% driven by rise in Reserves and Surplus.

Annual Report Macro View

Key Management Changes	Dr. Ashutosh Karnatak was appointed by board as Chairman and Additional Director w.e.f August 1, 2019 and regularized by shareholders as Director at AGM held on September 9, 2019.		
Board of Directors	<p>The following directors were appointed:</p> <p>Mr. Deepak Sawant was appointed by board as Additional Director on May 9, 2019 and regularized by shareholders as Whole-Time Director at the AGM held on September 9, 2019.</p> <p>Mr. Trivikram Arun R. was appointed as the Non-Executive Director 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>Mrs. Radhika Haribhakti was appointed as independent Director for a second term on March 5, 2020.</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	FY2020	FY2019
	Long-term rating	ICRA-AAA (Stable)	ICRA-AAA (Stable)
	Short term rating	ICRA-A1+	ICRA-A1+
Insider Holdings	Number of securities acquired/disposed/pledged during the year:		
		FY2020	FY2019
	Acquired	-	-
	Disposed	-	30,621,005
	Pledged	-	-
	Pledge revoked	-	-
Macroeconomic Factors	<p>India's energy demand is projected to double to 1516 Mtoe by 2035 from 753.7 in 2017. Moreover, India's share in global primary energy consumption is projected to reach 11% by 2040. This increase in consumption is expected to be supplemented by an alteration in the primary energy mix, on account of the substitution of oil by natural gas. The proportion of gas in the country's primary energy mix stood at 6% of the total. The current consumption comprises about 80-90 MMSCMD of domestic production and the remaining comes by way of imports</p>		
Key Holders	Category of Shareholder (%)	FY2019	FY2019
	A) Promoter Holding	32.50	42.50
	B) Public		
	i) Mutual Funds	7.91	5.97
	ii) Banks/FIs	1.9	0.49
	iii) Foreign Portfolio Corporate	31.29	24.36
	iv) Insurance Co.	6.93	5.97
	v) State Govt.	10.00	10.00
	C) Non-Institutions	9.47	10.28
	Total	100.00	100.00

Source: Company

What's New

PNG

With a wide network of over 5,630 kms of carbon steel (CS) and polyethylene (PE) pipeline, MGL has the distinction of pioneering the Natural Gas distribution network in Mumbai and its adjoining areas, serving over 1.26 million domestic customers.

- Improved PNG coverage by adding 1,05,371 households during FY20, thereby taking the cumulative customer base to more than 1.26 million households
- Added 329 industrial and commercial customers, to reach over 3,949 small commercial establishments and 72 industrial establishments
- Augmented the capacity of 21 stations to serve an estimated 0.75 million vehicles
- Propelled the current compression capacity to about 35.10 lakh kg/day, an increase in capacity by 2.05 lakh kg/day
- Expanded their network in Raigad with 14 CNG stations and plan to add more stations in the coming financial year

CNG

With a well-established network of 256 CNG stations and over 1,511 dispensing points spread across Mumbai and its adjoining areas, MGL offers CNG, an extremely efficient fossil fuel substitute for replacing the use of petrol, diesel, and auto LPG in automobiles.

- Since inception, for the first time, MGL crossed 24 Million Man-Hours successfully without any Loss Time Injury and a milestone of 250 CNG stations
- Achieved 100% completion of total target of Minimum Work Program, ahead of time, in GA -3
- For GA 3, they received their first Emergency Response and Disaster Management Plan (ERDMP) accreditation from PNGRB empanelled Third Party Agency
- Successfully done registration of 7,290 sq. mtr. plot at Savroli in Raigad district for constructing a City Gate Station. This will enable to further extent out pipeline network in GA-3 area
- Successfully commissioned main trunk Steel Pipeline laid from Durgadi Creek to Bhiwandi Bypass naka of length of 5,158 mtrs facilitating gas availability for Kongaon area.
- Successfully commissioned 12" NB Steel Pipeline laid across Kalamboli railway crossing of total length 800 mtrs. This has made looping of both CGS (Mahape and Taloja) in Navi Mumbai area and will facilitate uninterrupted gas supply.

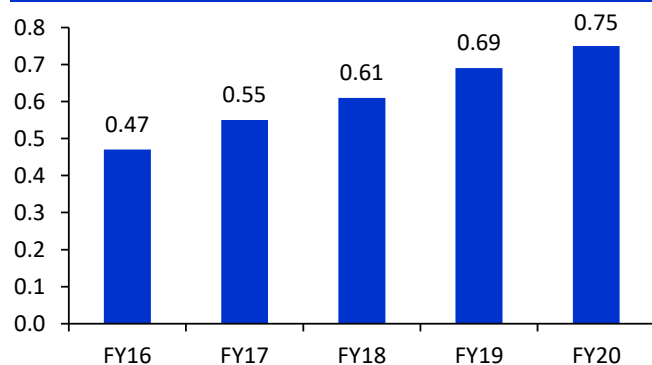
Future Plan

- We plan to further augment our coverage area by taking our services to an additional 11 lakh households and 400 CNG stations
- We plan to expand the steel pipeline network to around 600 kms, and the PE pipeline network to over 7,600 kms

Capex

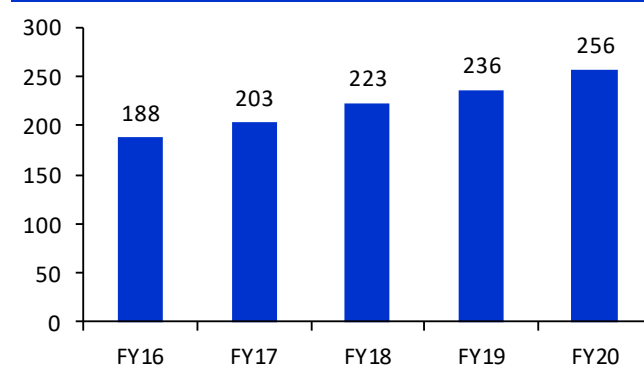
- Total Capex in FY20 was Rs. 4,150 Mn out of which CNG was Rs. 600 Mn and rest was steel and PE pipeline and others
- Annual recurring capex will be in the range of Rs. 4,500-5,000 Mn
- Cost of setting up a new CNG station is Rs. 20-25 Mn except from the transmission pipeline from source to station.
- 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.

Exhibit 1: CNG Customers (mn)



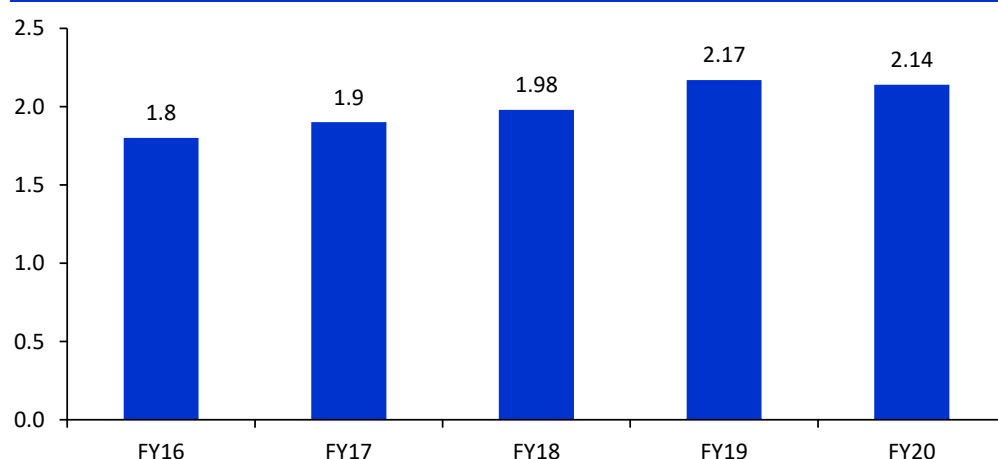
Source: Company, DART

Exhibit 2: CNG Stations

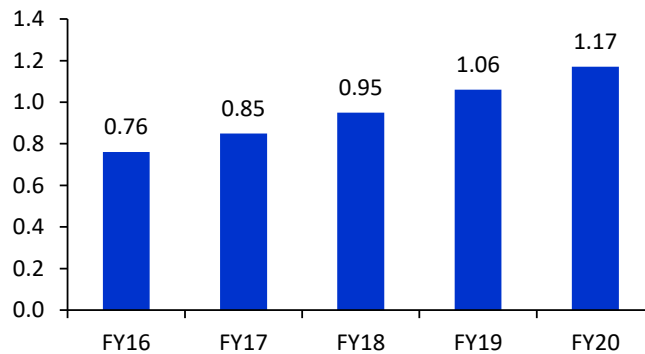


Source: Company, DART

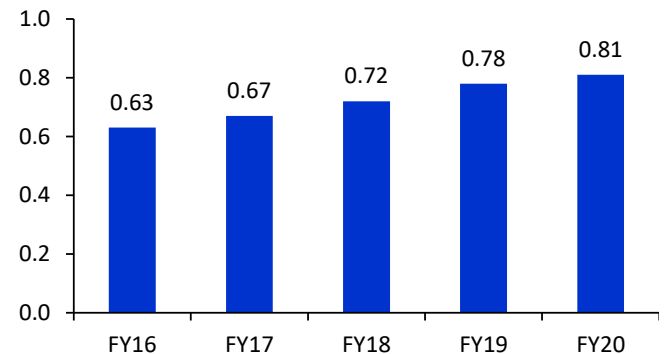
Exhibit 3: CNG Volumes (mmscmd)



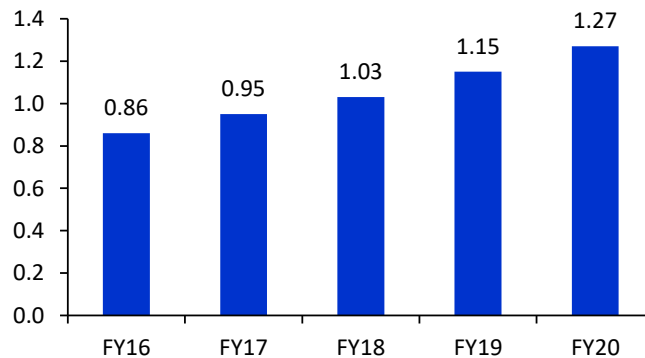
Source: Company, DART

Exhibit 4: PNG Burning Customers (mn)


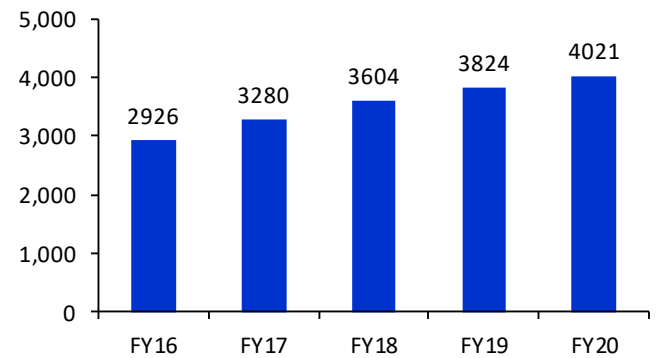
Source: Company, DART

Exhibit 5: PNG Volume (mmscmd)


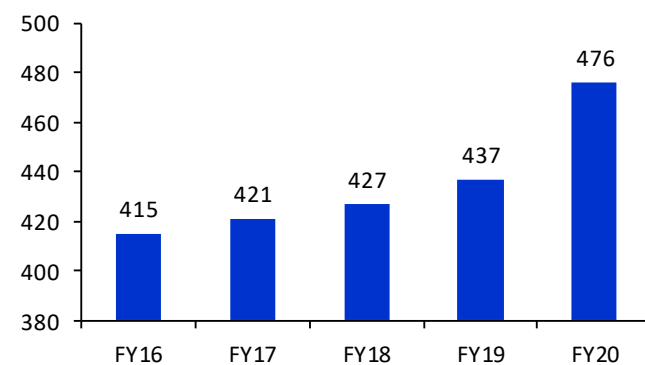
Source: Company, DART

Exhibit 6: Household Covered (mn)


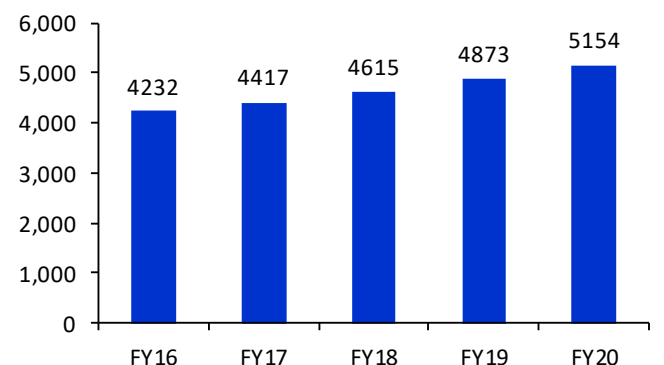
Source: Company, DART

Exhibit 7: Commercial and Industrial Customers


Source: Company, DART

Exhibit 8: Steel Pipeline (kms)


Source: Company, DART

Exhibit 9: PE Pipeline (kms)


Source: Company, DART

Key Takeaways from the MD&A

Industry Outlook

- Growth in LNG demand largely depends on the pace of city gas and re-gasification infrastructure build-out.
- Demand for LNG in the country grew 2% YoY, owing to a slowdown. Overall, RLNG usage was driven by the fertiliser sector which increased 9% YoY and CGD increased 7% YoY. Together, these sectors offset decreased consumption in the industrial sector, which registered a decline of 8% YoY.
- CGD market in India is projected to grow at a CAGR of 10% from an estimated 9,223 mmscm in 2020 to 25,570 mmscm by 2030.
- Growth in the sector is anticipated on account of increasing natural gas demand from automotive, industrial, commercial as well as residential end-user segments.
- With an increasing number of favourable initiatives taken in the CGD sector by the Government of India, an increasing number of companies have been authorized and granted licenses in Round 9 and 10 to expand the CGD network in the country.
- In 2019, CGD sales in India were dominated by the CNG segment, owing to stringent environmental regulations and rapidly growing penetration of CNG fitted vehicles in India.

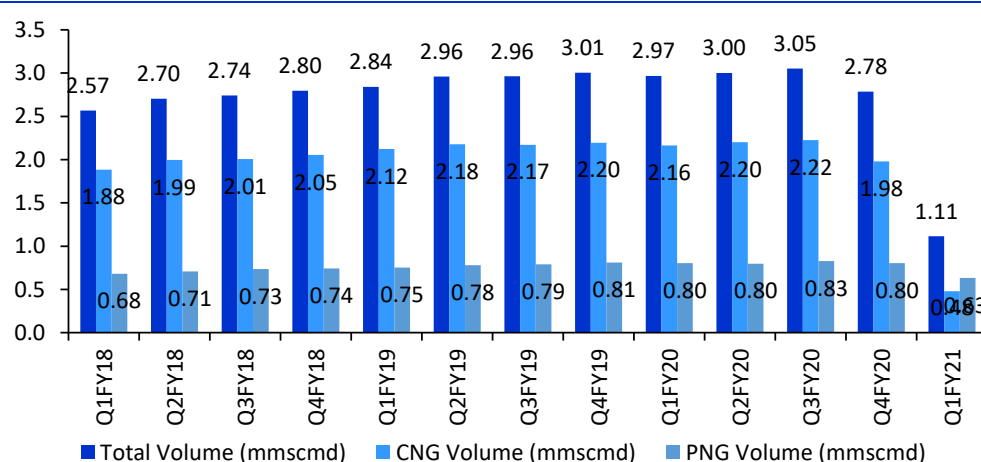
CGD in India

- PNGRB has authorized 228 Geographical Areas spread over 406 districts with a potential to cover about 53% of the country's area and 70% of country's population. There are 2,086 CNG stations, 6.06 million domestic connections and 40,588 industrial and commercial connections in India as on February 2020.
- Approximately 76% of the CNG stations and around 80-90% of the PNG connections are concentrated in Delhi, Gujarat and Maharashtra.
- With the conclusion of the 9th and 10th rounds of bidding for CGD networks, the numbers of CNG stations and domestic PNG connections are expected to increase by 8,181 and 4.2 crore, respectively. Additionally, the PNGRB has proposed 44 new geographical areas for the upcoming 11th round of bidding for city gas distribution (CGD). The aim is to make environment friendly fuel available to public at large.
- To promote the development of CGD networks, the Government of India has accorded priority in domestic gas allocation to PNG and CNG segments and 100% gas requirement of CNG and PNG segments are being met through supply of domestic gas which is cheaper than imported gas.
- At present, CGD sector is consuming about 14.36 MMSCMD of domestic Gas in CNG and domestic PNG sectors. About 10.91 MMSCMD of imported Re-gasified Liquefied Natural Gas (RLNG) is used by the Commercial and Industrial segments of CGD sector.

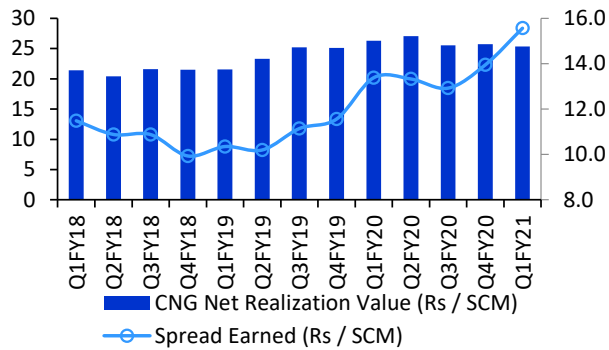
Company Overview

- MGL connects with over 1.26 million households, over 3,949 small commercial establishments, 72 industrial establishments and supplies CNG to more than 0.75 million vehicles in Mumbai, Thane, Mira-Bhayander, Navi Mumbai and its adjoining areas.
- As of March 31, 2020, it had a supply network of over 476 kms of steel pipelines, over 5154 kms of polyethylene pipeline and 256 CNG filling stations with more than 1511 dispensing points.
- To cater to the growing demand for natural gas in existing as well as new areas, MGL sources gas from existing suppliers through its 04 City Gate Stations.
- In the next four years, MGL plans to further augment its coverage area by taking its services to an additional 11 lakh households and 400 CNG stations.
- It also aims to expand the steel pipeline network to around 600 kms, and the PE pipeline network to over 7600 kms.
- During FY20, the MGL improved its PNG coverage by 1,05,371 households and added 329 industrial and commercial customers, to reach over 3,949 small commercial establishments and 72 industrial establishments.
- To further boost capacity of its current CNG network of 256 stations, the capacity of 21 stations were upgraded to serve an estimated 0.75 million vehicles.
- MGL also expanded its network in Raigad with 14 CNG stations and plans to add more stations in the coming financial year. It is also planning to extend its supply services across under-penetrated regions of Pen, Ulwe and Karjat amongst others, initially with the help of virtual pipeline networks to serve domestic PNG customers.

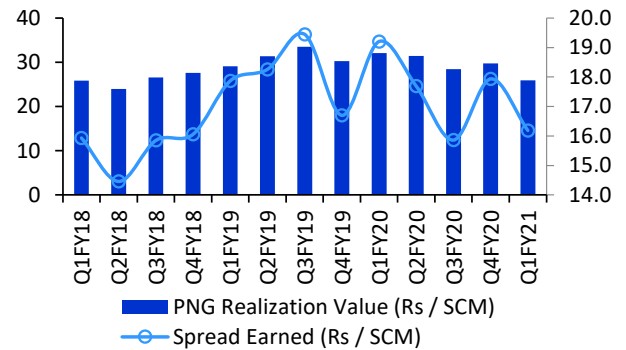
Exhibit 10: Volumes (mmscmd)



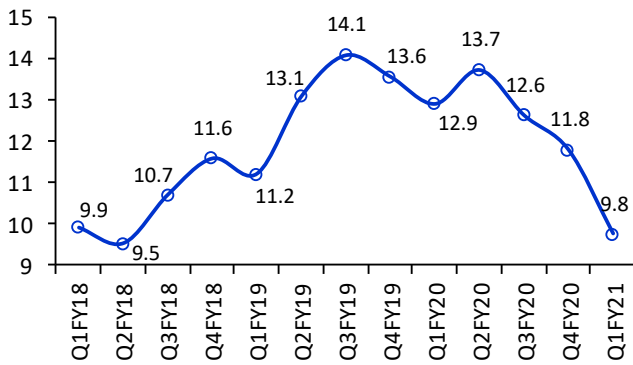
Source: Company, DART

Exhibit 11: CNG Realization and Spread (Rs./SCM)


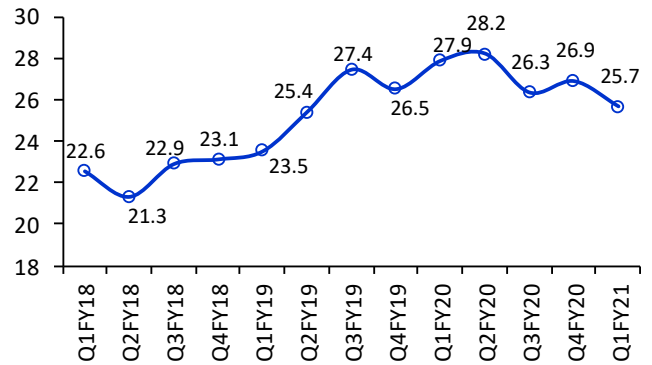
Source: Company, DART

Exhibit 12: CNG Realization and Spread (Rs./SCM)


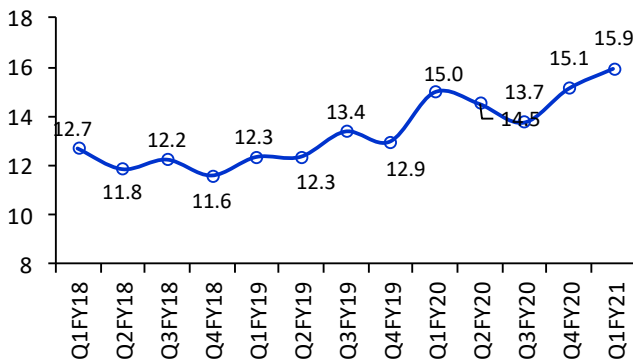
Source: Company, DART

Exhibit 13: Gas Cost (Rs./SCM)


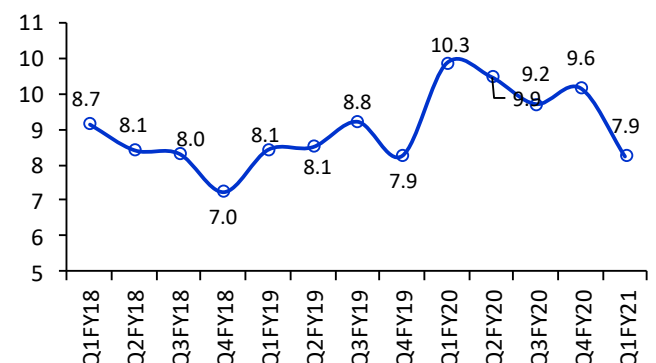
Source: Company, DART

Exhibit 14: Blended Realization (Rs./SCM)


Source: Company, DART

Exhibit 15: Blended Spread (Rs./SCM)


Source: Company, DART

Exhibit 16: EBITDA Spread (Rs./SCM)


Source: Company, DART

Profit and Loss Analysis

- Net sales grew 6.5% YoY to Rs 29.7 billion, driven by flat volume growth and realization growth of 6.2% YoY. Net sales witnessed a CAGR of 7.2% over a period of five years (FY15-FY19).
- There was a de-growth witnessed in CNG segment of 0.8% YoY due to volumes lost in last 10 days of March '20 due to lockdown, which was offset by growth in domestic PNG segment of 7.2% and flat volumes from Industrial/Commercial PNG segment. Overall PNG segment grew 3.5% YoY.
- Raw materials as a percentage of sales was 46.4% in FY20 as compared to 50.1% in FY19.
- Other operational income increased by 4% YoY to Rs 211 million. During FY20, MGL witnessed strong growth profits due to low input cost and reduction of corporate taxes.
- EBITDA including other income grew by 18.9% YoY while EBITDA margin increased by 370 bps from 31.7% in FY19 to 35.4% in FY20, due to lower input cost. Further, employee benefits expenses increased by 13.8% from Rs 708.8 million to Rs 806.3 million in FY20. MGL's total expenditure was flat.
- Net profit margin increased by 712 bps from 19.6% in FY19 to 26.7% in FY20, on account of reduction in corporate taxes.
- Tax amount decreased by 34.6% over the year to Rs 1.9 billion from Rs 2.9 billion in FY19.
- Interest coverage ratio decreased due to a significant increase in interest expense to Rs 65.3 million in FY20 compared to Rs 3.2 million in FY19.
- RoANW increased to 26.9% in FY20.
- Other income increased by 27.3% to Rs 990 million from Rs 777 million.
- The Board of Directors had earlier approved payment of an interim dividend of Rs 9.5 per share which was paid to shareholders on record as of February 26, 2020. Further, the Board has recommended payment of final dividend of Rs 10.5 per share and an additional interim dividend of Rs. 15 per share to mark the completion of 25 years for the company.
- There was an increase of 45.2% in EPS from Rs 55.3 in FY19 to Rs 80.3 in FY20, while the CEPS rose 42% over the same period from Rs 68.1 to Rs 96.7.

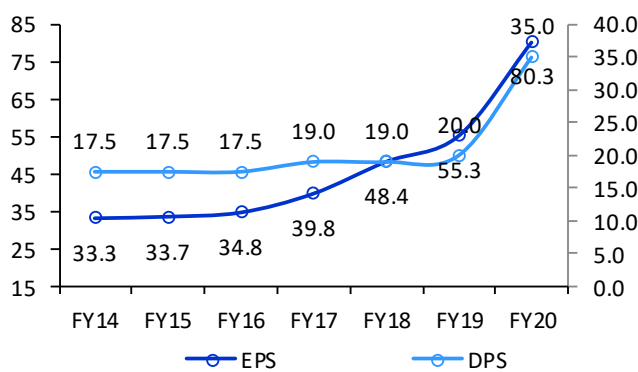
Balance Sheet Analysis

- Net Block of Assets increased by 16% to Rs 20.5 billion in FY20 from Rs 17.6 billion in FY19. Depreciation expense increased by 38.5% YoY to Rs 5.7 billion in FY20. Capital work in progress increased by 31.6%.
- The Company made full repayment of borrowings and is debt free.
- Investments increased by 71.5% from Rs 6.5 billion to Rs 11.2 billion in the current year due to sale of investments.
- Inventories decreased by 3% from ~Rs 191 million in FY19 to Rs 186 million in FY20.
- Inventory days reduced from 2.5 to 2.3 while inventory turnover ratio increased to 158.9x in FY20. Debtor days decreased from 13.1 to 8.5 in FY20, though debtors declined by 31%.
- Cash balance decreased to ~`2.3 billion from `3 billion in FY20.

Cash Flow Analysis

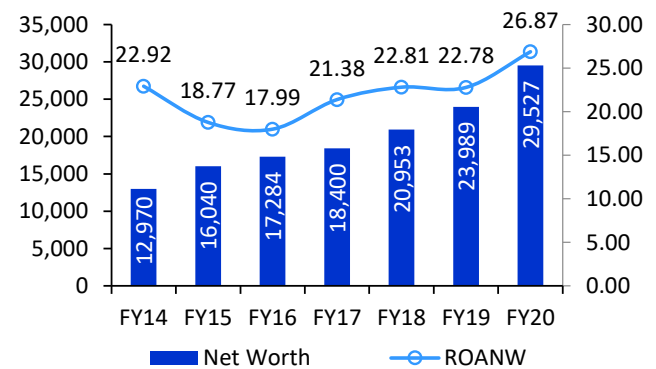
- Free cash flow increased by 73%. There was an increase of 43.5% in cash flow from operations, due to changes in working capital.
- The Company reported a net cash outflow from financing activity of Rs 2.4 billion compared to Rs 2.3 billion in FY19, due to repayment of long-term borrowings, payment of dividend (including dividend distribution tax) and net interest expense.
- The Company reported a net cash outflow from investing activities of Rs 7.5 billion as compared to Rs 4.4 billion in FY19.

Exhibit 17: Basic EPS and DPS (Rs.)



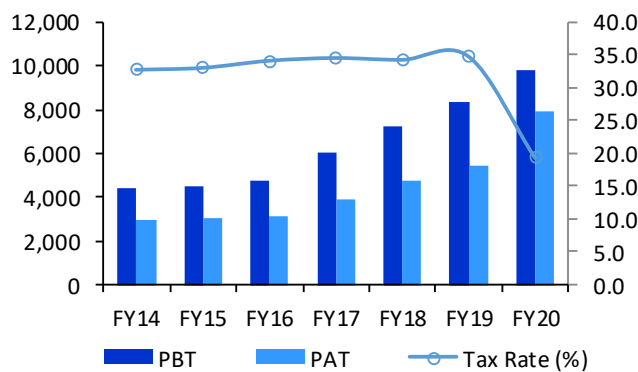
Source: Company, DART

Exhibit 18: Return on Net Worth



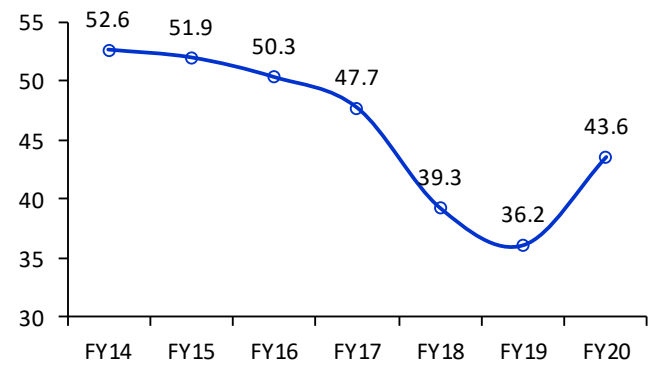
Source: Company, DART

Exhibit 19: Profit and Effective Tax Rate



Source: Company, DART

Exhibit 20: Dividend Payout (%)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	27,911	29,721	20,126	25,157
Total Expense	19,056	19,193	13,168	15,726
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
EBIDTA	8,855	10,528	6,957	9,431
Depreciation	1,259	1,617	1,227	1,070
EBIT	7,595	8,911	5,730	8,361
Interest	3	65	70	90
Other Income	777	990	700	900
Exc. / E.O. items	0	0	0	0
EBT	8,369	9,835	6,360	9,171
Tax	2,905	1,900	1,684	2,316
RPAT	5,464	7,935	4,676	6,855
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	5,464	7,935	4,676	6,855

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	988	988	988	989
Minority Interest	0	0	0	1
Reserves & Surplus	23,001	28,539	30,474	34,584
Net Worth	23,989	29,527	31,462	35,573
Total Debt	0	0	0	0
Net Deferred Tax Liability	2,048	1,607	1,687	1,771
Total Capital Employed	26,037	31,133	33,149	37,345

Applications of Funds

Net Block	17,634	20,492	23,765	27,694
CWIP	3,697	4,865	1,841	2,854
Investments	6,540	11,215	10,000	9,000
Current Assets, Loans & Advances	6,539	4,713	4,199	5,075
Inventories	191	186	136	171
Receivables	996	685	600	752
Cash and Bank Balances	2,988	2,295	1,695	2,133
Loans and Advances	2,181	1,416	1,628	1,873
Other Current Assets	183	132	139	146
Less: Current Liabilities & Provisions	8,373	10,152	6,656	7,279
Payables	1,524	1,318	919	1,066
Other Current Liabilities	6,849	8,834	5,737	6,213
<i>sub total</i>				
Net Current Assets	(1,834)	(5,439)	(2,457)	(2,203)
Total Assets	26,037	31,133	33,149	37,345

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
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) As Percentage of Net Sales (%)				
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
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	2352.9	136.5	81.9	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
(D) Measures of Investment				
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
(E) Valuation Ratios				
CMP (Rs)	906	906	906	906
P/E	16.4	11.3	19.1	13.1
Mcap (Rs Mn)	89,478	89,478	89,478	89,478
MCap/ Sales	3.2	3.0	4.4	3.6
EV	86,489	87,183	87,783	87,344
EV/Sales	3.1	2.9	4.4	3.5
EV/EBITDA	9.8	8.3	12.6	9.3
P/BV	3.7	3.0	2.8	2.5
Dividend Yield (%)	2.2	3.9	2.6	2.7
(F) Growth Rate (%)				
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	(35.3)	44.2
APAT	14.3	45.2	(41.1)	46.6
EPS	14.3	45.2	(41.1)	46.6

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	6,844	9,826	4,580	8,279
CFI	(4,383)	(7,522)	(203)	(4,955)
CFF	(2,346)	(2,416)	(2,836)	(2,886)
FCFF	3,222	5,594	3,105	2,266
Opening Cash	150	265	154	1,695
Closing Cash	265	154	1,695	2,133

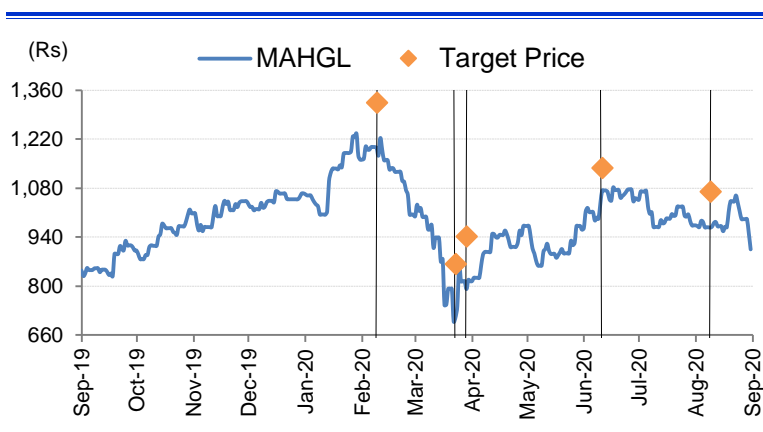
E – Estimates

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 (Rs.)	Price (Rs.)
Feb-20	Accumulate	1,326	1,195
Mar-20	Buy	864	711
Mar-20	Accumulate	942	792
Jun-20	Accumulate	1,138	1,074
Aug-20	Accumulate	1,070	968

**Price as on recommendation date*

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