

October 27, 2021

Q2FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,345		1,370	
Sales (Rs. m)	42,676	46,874	34,545	37,946
% Chng.	23.5	23.5		
EBITDA (Rs. m)	14,519	15,479	15,958	16,822
% Chng.	(9.0)	(8.0)		
EPS (Rs.)	101.9	109.7	112.8	112.8
% Chng.	(9.7)	(2.7)		

Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	21,525	33,220	42,676	46,874
EBITDA (Rs. m)	9,341	12,451	14,519	15,479
Margin (%)	43.4	37.5	34.0	33.0
PAT (Rs. m)	6,197	8,590	10,066	10,839
EPS (Rs.)	62.7	87.0	101.9	109.7
Gr. (%)	(21.9)	38.6	17.2	7.7
DPS (Rs.)	23.0	26.1	30.6	32.9
Yield (%)	2.3	2.6	3.1	3.3
RoE (%)	20.0	24.3	24.0	22.0
RoCE (%)	24.2	29.3	28.9	25.9
EV/Sales (x)	3.9	2.4	1.7	1.5
EV/EBITDA (x)	9.0	6.4	5.1	4.4
PE (x)	15.9	11.5	9.8	9.1
P/BV (x)	3.0	2.6	2.2	1.9

Key Data

MGAS.BO | MAHGL IN

52-W High / Low	Rs.1,284 / Rs.807
Sensex / Nifty	61,143 / 18,211
Market Cap	Rs.98bn / \$ 1,312m
Shares Outstanding	99m
3M Avg. Daily Value	Rs.1037.38m

Shareholding Pattern (%)

Promoter's	32.50
Foreign	29.38
Domestic Institution	17.80
Public & Others	20.32
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.7)	(10.0)	18.4
Relative	(9.3)	(28.0)	(21.6)

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High gas prices dent profits

Quick Pointers:

- High gas cost dents Q2 performance, but volumes are 4% above Q2FY20 levels.
- 2,500 commercial vehicles converted to CNG in Q2; MGL plans on offering schemes to incentivize this growth.
- Around 500 new CNG buses to be added in next two months; MGL in talks about retrofitting 185 BEST buses to CNG.

We lower our estimates for FY23/24E by 3-10% as we lower our margin assumption to Rs11/scm (earlier Rs12.8-13) and increase our volumes by ~8%. Q2 results were hit, as MGL had to meet 5% CNG/PNG domestic demand through LNG (prices were at USD14.5/mmbtu) to make up for reduced domestic gas supplies; incremental hit of Rs400m. Q2 blended gas cost/scm was at Rs13.3 (+52%Q/Q) which led to drop in gross margins at Rs18.3/scm (-16%Q/Q). Currently, domestic gas supplies for CNG/PNG (domestic) are based on 110% of last six-month usage which will improve by mid-November as per management.

MGL remains a play on increased gas usage from rising vehicle and PNG penetration and we like the business, given its dominating share in growing markets of Mumbai and suburbs. Reiterate 'BUY' with a TP of Rs1,345 (Rs1,370 earlier).

- Lower than expected performance:** Mahanagar Gas' (MGL's) reported lower than expected results with Q2FY22 EBITDA and PAT at Rs3bn (-1% QoQ PLe: Rs3.6bn) and Rs2.0bn (flat QoQ; PLe: Rs2.6bn), respectively. Lower than expected margins dragged earnings.
- For Q2, MGL's gross margins were at Rs18.3/scm v/s Rs21.8 in Q1FY22 as gas cost was at Rs13.3/scm (+52%QoQ) due to higher usage of LNG. The company had to blend 5% of CNG and PNG domestic demand was met by imported LNG where prices were at USD14.5/mmbtu which cost an incremental Rs400m. With opex/scm at Rs5.1/scm (Rs5.5 in Q1), EBITDA spreads came down to Rs10.5/scm (Q1FY22:Rs13.9/scm; PLe Rs13.6/scm).
- Volumes above pre-covid levels:** For Q2, CNG and PNG volumes were at 205mscm (+46% QoQ) and 82mscm (+6% QoQ), respectively. Q2 volumes were 4% above Q2FY20 levels. Receding pandemic concerns, rising vaccination coverage and opening up of schools will further support volumes.
- Gradual opening** up of economic activities is expected to drive volumes. We believe introduction of new CNG buses by state government, new three wheelers along with geographical expansion to Raigad and Karjat will support volumes. Also, government's push towards PNG's domestic connections will add volume traction.

- We increase our volume growth estimates and factor in 52%/15% YoY growth in CNG volumes to 785/903mscm, while model PNG volumes at 337/421mscm for FY22/23E.
- **Gas prices to rise from recent lows:** Domestic gas prices are likely to rise as international prices go up. However, favorable fuel economics (CNG is 64% cheaper to petrol) mean MGL's EBIDTA/scm margins likely to remain elevated at Rs11/scm levels against our earlier estimate of Rs12.8/13.0/scm.

Exhibit 1: Q2FY22 Result Overview (Rs mn)

Y/e March	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	H1FY22	H1FY21	YoY gr. (%)
Net Sales	9,076	5,490	65.3	6,669	15,744	8,265	90.5
Operating Costs	6,058	3,279	84.7	3,629	9,687	5,254	84.4
<i>as % of Net Sales</i>	<i>66.8</i>	<i>59.7</i>		<i>54.4</i>	<i>61.5</i>	<i>63.6</i>	
Material Costs	3,819	1,771	115.6	1,910	5,729	2,760	107.6
<i>as % of Net Sales</i>	<i>42.1</i>	<i>32.3</i>		<i>28.6</i>	<i>36.4</i>	<i>33.4</i>	
Personnel Costs	225	248	(9.1)	200	426	495	(13.9)
<i>as % of Net Sales</i>	<i>2.5</i>	<i>4.5</i>		<i>3.0</i>	<i>2.7</i>	<i>6.0</i>	
Other Overheads	1,239	838	47.9	1,005	2,244	1,421	57.9
<i>as % of Net Sales</i>	<i>13.7</i>	<i>15.3</i>		<i>15.1</i>	<i>14.3</i>	<i>17.2</i>	
Excise duty	774	422	83.4	514	1,288	579	122.3
EBITDA	3,018	2,211	36.5	3,040	6,058	3,011	101.2
Other Income	226	184	22.6	186	412	430	(4.0)
PBDIT	3,244	2,395	35.4	3,226	6,470	3,440	88.1
Depreciation	473	425	11.4	453	926	847	9.2
Interest	20	20		17	37	36	
Pre-tax Profit	2,751	1,950	41.0	2,756	5,507	2,557	115.4
Tax	708	507	39.6	716	1,423	662	115.1
PAT from ordinary activity	2,043	1,443	41.6	2,041	4,084	1,896	115.4

Source: Company, PL

Exhibit 2: MGL quarterly details

Y/e March	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	H1FY22	H1FY21	YoY gr. (%)
Sales volume -mmscmd							
CNG mscm	206	117	75.1	141	347	161	115.2
PNG - mmscm							
Domestic	42	43	(2.5)	43	84	82	3.1
Commercial/industrial	40	31	31.5	35	75	49	52.0
PNG total mscm	82	73	11.7	77	159	131	21.5
Total	287	191	50.7	218	506	292	73.2
Sales Rs mn							
CNG	5,339	2,963	80.2	3,537	8,876	4,069	118.1
PNG	2,904	2,061	40.9	2,547	5,451	3,549	53.6
Realisation							
CNG Rs/kg	34.8	33.8	2.9	33.6	34.3	33.8	1.4
PNG Rs/scm	35.5	28.1	26.1	33.0	34.3	27.1	26.4
Cost of gas (Rs/scm)	13.3	9.3	43.1	8.8	11.3	9.5	19.9
Opex (Rs/scm)	5.1	5.7	(10.5)	5.5	5.3	6.6	(19.5)
EBITDA (Rs/scm)	10.50	11.59	(9.4)	13.93	11.98	10.31	16.2
Gross margin (Rs/scm)	18.3	19.5	(6.2)	21.8	19.8	18.9	5.1

Source: Company, PL

Conference Call Highlights:

- For Q2, MGL added 78,214 domestic connections taking total to 1.71mn. 16,800 CNG vehicles were added with 12,600 private vehicles.
- 2,500 commercial vehicles were added and 1,500 three wheelers were added to CNG.
- Three new CNG stations were opened and total station count stands at 277.
- Management remains hopeful of domestic gas allocation by mid-November.
- Allocation of 0.1mmcmd RIL KGD6 gas will help cushion overall gas cost.
- Capex of Rs6bn has been earmarked for FY22/23E.

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	21,525	33,220	42,676	46,874
YoY gr. (%)	(27.6)	54.3	28.5	9.8
Cost of Goods Sold	7,472	14,342	20,735	23,261
Gross Profit	14,053	18,878	21,941	23,612
Margin (%)	65.3	56.8	51.4	50.4
Employee Cost	875	945	1,021	1,103
Other Expenses	-	-	-	-
EBITDA	9,341	12,451	14,519	15,479
YoY gr. (%)	(11.3)	33.3	16.6	6.6
Margin (%)	43.4	37.5	34.0	33.0
Depreciation and Amortization	1,737	2,033	2,412	2,742
EBIT	7,604	10,418	12,106	12,736
Margin (%)	35.3	31.4	28.4	27.2
Net Interest	72	-	-	-
Other Income	805	1,190	1,497	1,912
Profit Before Tax	8,337	11,609	13,603	14,648
Margin (%)	38.7	34.9	31.9	31.2
Total Tax	2,140	3,018	3,537	3,808
Effective tax rate (%)	25.7	26.0	26.0	26.0
Profit after tax	6,197	8,590	10,066	10,839
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,197	8,590	10,066	10,839
YoY gr. (%)	(21.9)	38.6	17.2	7.7
Margin (%)	28.8	25.9	23.6	23.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,197	8,590	10,066	10,839
YoY gr. (%)	(21.9)	38.6	17.2	7.7
Margin (%)	28.8	25.9	23.6	23.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,197	8,590	10,066	10,839
Equity Shares O/s (m)	99	99	99	99
EPS (Rs)	62.7	87.0	101.9	109.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	27,552	34,052	39,052	44,052
Tangibles	27,552	34,052	39,052	44,052
Intangibles	-	-	-	-
Acc: Dep / Amortization	7,143	9,176	11,588	14,331
Tangibles	7,143	9,176	11,588	14,331
Intangibles	-	-	-	-
Net fixed assets	20,409	24,876	27,464	29,721
Tangibles	20,409	24,876	27,464	29,721
Intangibles	-	-	-	-
Capital Work In Progress	5,660	5,562	5,568	5,575
Goodwill	-	-	-	-
Non-Current Investments	333	366	402	443
Net Deferred tax assets	(1,275)	(1,275)	(1,275)	(1,275)
Other Non-Current Assets	342	376	414	455
Current Assets				
Investments	10,250	11,275	12,402	13,642
Inventories	222	244	268	295
Trade receivables	1,275	1,968	2,528	2,777
Cash & Bank Balance	5,119	7,367	11,719	16,851
Other Current Assets	127	140	154	169
Total Assets	44,784	53,857	63,345	73,152
Equity				
Equity Share Capital	988	988	988	988
Other Equity	31,336	37,349	44,395	51,983
Total Networkth	32,324	38,337	45,383	52,971
Non-Current Liabilities				
Long Term borrowings	573	-	-	-
Provisions	225	247	272	299
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,559	2,405	3,090	3,394
Other current liabilities	9,551	10,506	11,557	12,712
Total Equity & Liabilities	46,011	53,857	63,345	73,152

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	8,337	11,609	13,603	14,648
Add. Depreciation	1,737	2,033	2,412	2,742
Add. Interest	72	-	-	-
Less Financial Other Income	805	1,190	1,497	1,912
Add. Other	-	-	-	-
Op. profit before WC changes	10,146	13,641	16,015	17,390
Net Changes-WC	(813)	(2,270)	(4,422)	(5,289)
Direct tax	(1,978)	(2,438)	(2,857)	(3,076)
Net cash from Op. activities	7,355	8,934	8,737	9,025
Capital expenditures	(3,676)	(5,175)	(5,006)	(5,007)
Interest / Dividend Income	-	-	-	-
Others	0	0	0	0
Net Cash from Invt. activities	(3,676)	(5,175)	(5,006)	(5,007)
Issue of share cap. / premium	(1,291)	(580)	(680)	(732)
Debt changes	83	(573)	-	-
Dividend paid	(2,272)	(2,577)	(3,020)	(3,252)
Interest paid	(72)	-	-	-
Others	-	-	-	-
Net cash from Fin. activities	(3,551)	(3,731)	(3,700)	(3,984)
Net change in cash	128	28	31	34
Free Cash Flow	3,679	3,759	3,731	4,018

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	6,664	7,177	6,155	8,301
YoY gr. (%)	(10.5)	4.5	135.1	63.8
Raw Material Expenses	2,144	2,570	1,910	3,819
Gross Profit	4,520	4,607	4,245	4,482
Margin (%)	67.8	64.2	69.0	54.0
EBITDA	3,167	3,162	3,040	3,018
YoY gr. (%)	22.4	29.7	280.1	36.5
Margin (%)	47.5	44.1	49.4	36.4
Depreciation / Depletion	441	448	453	473
EBIT	2,726	2,713	2,587	2,545
Margin (%)	40.9	37.8	42.0	30.7
Net Interest	17	19	17	20
Other Income	204	172	186	226
Profit before Tax	2,913	2,866	2,756	2,751
Margin (%)	43.7	39.9	44.8	33.1
Total Tax	741	738	716	708
Effective tax rate (%)	25.4	25.8	26.0	25.7
Profit after Tax	2,172	2,128	2,041	2,043
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,172	2,128	2,041	2,043
YoY gr. (%)	16.8	27.7	351.1	41.6
Margin (%)	32.6	29.6	33.2	24.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,172	2,128	2,041	2,043
YoY gr. (%)	16.8	27.7	351.1	41.6
Margin (%)	32.6	29.6	33.2	24.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

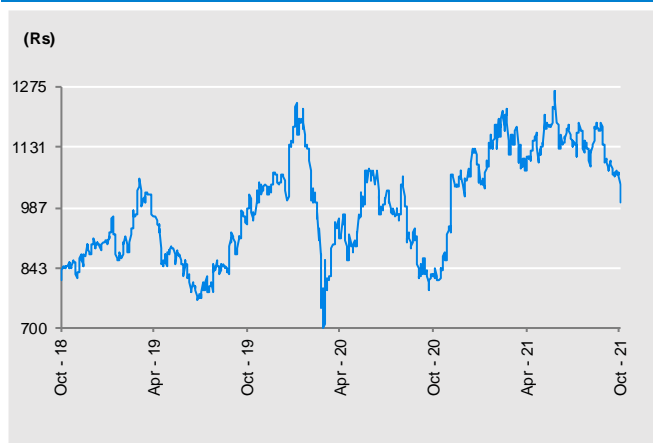
Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	62.7	87.0	101.9	109.7
CEPS	80.3	107.5	126.3	137.5
BVPS	327.2	388.1	459.4	536.3
FCF	37.2	38.1	37.8	40.7
DPS	23.0	26.1	30.6	32.9
Return Ratio(%)				
RoCE	24.2	29.3	28.9	25.9
ROIC	25.8	29.6	30.9	29.9
RoE	20.0	24.3	24.0	22.0
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.5)	(0.5)	(0.6)
Net Working Capital (Days)	(1)	(2)	(3)	(3)
Valuation(x)				
PER	15.9	11.5	9.8	9.1
P/B	3.0	2.6	2.2	1.9
P/CEPS	12.4	9.3	7.9	7.3
EV/EBITDA	9.0	6.4	5.1	4.4
EV/Sales	3.9	2.4	1.7	1.5
Dividend Yield (%)	2.3	2.6	3.1	3.3

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Total sales volumes (mscm)	807	1,122	1,324	1,412
CNG sales volumes (mscm)	517	785	903	957
PNG sales volumes (mscm)	291	337	421	455
CNG retail price (Rs/kg)	33	38	43	45
PNG retail price (Rs/scm)	29	32	32	32

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Oct-21	BUY	1,370	1,091
2	29-Jul-21	BUY	1,370	1,109
3	02-Jul-21	BUY	1,296	1,142
4	25-May-21	BUY	1,296	1,139
5	05-Apr-21	BUY	1,275	1,134
6	10-Feb-21	BUY	1,313	1,129
7	08-Jan-21	BUY	1,275	1,117
8	17-Nov-20	BUY	1,275	872

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Hold	985	1,021
2	Bharat Petroleum Corporation	BUY	581	436
3	Burger King India	BUY	250	168
4	GAIL (India)	BUY	184	162
5	Gujarat Gas	BUY	845	610
6	Hindustan Petroleum Corporation	BUY	404	303
7	Indian Oil Corporation	UR	-	126
8	Indraprastha Gas	BUY	662	528
9	Mahanagar Gas	BUY	1,370	1,091
10	NOCIL	BUY	393	296
11	Oil & Natural Gas Corporation	UR	-	148
12	Oil India	BUY	328	242
13	Petronet LNG	BUY	351	236
14	Reliance Industries	BUY	2,955	2,627

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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