

BUY

Volume recovery with flat realisations from CNG segment and lower gas cost. Recommend BUY.

- MGL's Q2FY21 results were in line with estimates on revenue front and above estimates on profitability front.
- Volumes at 2.07 mmscmd (down 30.9% YoY and up 86.3% QoQ), against our estimates of 2.3 mmscmd. Strong recovery was seen in volumes from industrial and CNG segment, however Domestic segment continue to outperform.
- The CNG segment (down 42% YoY and up 168.6% QoQ) have recovered to 90% of Pre Covid levels and BEST segment is operating at higher volumes than Pre Covid levels.
- The PNG segment reported flattish growth YoY and up 27.3% QoQ, due to strong growth witnessed in Domestic PNG segment of 21.6% YoY, which was offset by a de-growth of 20% YoY in Industrial/ Commercial segment. Volumes recovered sequentially in the industrial segment which is almost operating at full capacity with higher price realization QoQ, however, commercial segment saw a slow recovery.
- Gross margins have gone up by 282 bps QoQ and 1,336 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 higher as cost per unit was lower due to increase in 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. (Growth of 10x on low base).
- However, sales volumes have surpassed Pre Covid levels in November'20. CNG volumes have reached 90%-95% of Pre Covid levels in November'20. The green fuel push by the government will entail easy availability of gas supplies. We recommend Buy with a target price of Rs 1,073 (DCF Method).

Volume growth outlook look positive

Volume de-growth in Q2FY21 was 31% YoY as full recovery was not seen in CNG and commercial segment, which was offset by recovery in industrial segment and strong growth from domestic segment of 21.6% YoY. The CNG volumes de-grew 42% YoY. However, overall volumes are expected to be positive from Q3FY21 onwards and volumes in November'20 are at 3 mmscmd plus which have surpassed the average Pre Covid levels.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	5,067	7,836	(35.3)	2,618	93.6
Total Expense	2,856	5,102	(44.0)	1,818	57.2
EBITDA	2,211	2,733	(19.1)	800	176.4
Depreciation	425	391	8.6	423	0.5
EBIT	1,786	2,342	(23.7)	377	373.4
Other Income	184	230	(19.8)	245	(24.8)
Interest	20	15	40.0	15	32.7
EBT	1,950	2,558	(23.7)	607	221.2
Tax	507	(148)	(443.0)	155	227.7
RPAT	1,443	2,706	(46.6)	453	219.0
APAT	1,443	2,706	(46.6)	453	219.0
			(bps)		(bps)
Gross Margin (%)	65.1	51.7	1336	62.2	282
EBITDA Margin (%)	43.6	34.9	875	30.6	1307
NPM (%)	28.5	34.5	(604)	17.3	1120
Tax Rate (%)	26.0	(5.8)	3177	25.5	51
EBIT Margin (%)	35.3	29.9	536	14.4	2084

CMP	Rs 870
Target / Upside	Rs 1,073 / 23%
NIFTY	12,874

Scrip Details

Equity / FV	Rs 988mn / Rs 10
Market Cap	Rs 86bn
	USD 1bn
52-week High/Low	Rs 1,246/ 664
Avg. Volume (no)	1,041,810
Bloom Code	MAHGL IN
Price Performance	1M 3M 12M
Absolute (%)	6 (10) (15)
Rel to NIFTY (%)	(4) (24) (25)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	32.5	32.5	32.5
MF/Banks/FIs	12.9	12.9	20.1
FIIIs	24.9	24.9	26.2
Public / Others	29.7	29.7	21.2

Valuation (x)

	FY21E	FY22E	FY23E
P/E	12.9	10.1	9.0
EV/EBITDA	8.7	7.1	5.9
ROE (%)	21.2	23.6	23.0
RoACE (%)	20.3	22.7	22.2

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	23,845	29,590	33,575
EBITDA	9,575	11,706	13,566
PAT	6,670	8,512	9,547
EPS (Rs.)	67.5	86.2	96.6

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Currently, volume mix of CNG segment which is reduced to 61.6% have revived by 90%, Domestic PNG which is 22.3% is unaffected and I/C segment which is rest 16.1% of revenues has seen 100% recovery in industrial segment while the recovery in commercial segment is slow.

Induction of 38,000 new vehicles (4W and 3W) in CNG fleet in last 6-8 months and addition of 500 BEST CNG buses in March'20 and plans to add 500-800 BEST CNG buses will improve volume traction. 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 as Q1FY21 was a lean after picking up in FY22E.

Flat Realisations sequentially and margin expansion due to low cost per unit

CNG realizations were flat sequentially in Q2FY21 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 improved due to increase in prices of 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. 11.6/scm (up 17% YoY and 46.8% QoQ) due to low cost per unit as volumes increased. 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 9.3/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 recommend BUY rating with a target price of Rs 1,073.

Exhibit 1: KPI's

Volume Data	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)	FY20
CNG (in MMSCM)	117.4	202.6	(42.0)	43.7	168.6	161.1	399.5	(59.7)	828.0
PNG- Domestic (in MMSCM)	42.6	35.0	21.6	39.0	9.2	81.6	71.5	14.2	186.5
PNG - Industrial/Commercial (in MMSCM)	30.7	38.4	(19.9)	18.6	65.3	49.3	75.1	(34.3)	167.0
PNG- Total (in MMSCM)	73.3	73.4	(0.1)	57.6	27.3	130.9	146.5	(10.6)	353.5
Total Volume (in MMSCM)	190.7	276.0	(30.9)	101.3	88.3	292.0	546.0	(46.5)	1181.5
Total Volume (MMSCMD)	2.07	3.00	(30.9)	1.11	86.3	1.60	2.98	(46.5)	3.2
CNG Net Sales Value (Rs Mn)	2,963	5,477	(45.9)	1,106	167.8	4,069	10,652	(61.8)	21,620
PNG Sales Value (Rs Mn)	2,070	2,305	(10.2)	1,494	38.6	3,564	4,652	(23.4)	10,490
Total Sales Value (Rs Mn)	5,033	7,782	(35.3)	2,600	93.5	7,634	15,304	(50.1)	32,111
CNG Net Realization Value (Rs / SCM)	25.2	27.0	(6.7)	25.3	(0.3)	25.3	26.7	(5.3)	26.1
Spread Earned (Rs / SCM)	16.0	13.3	19.7	15.6	2.5	15.8	13.4	18.4	14.4
PNG Realization Value (Rs / SCM)	28.2	31.4	(10.1)	25.9	8.8	27.2	31.8	(14.3)	29.7
Spread Earned (Rs / SCM)	18.9	17.7	7.1	16.2	17.1	17.8	18.4	(3.6)	18.0
Gas Cost (Rs / SCM)	9.3	13.7	(32.3)	9.8	(4.9)	9.4	13.3	(29.0)	11.7
Blended Realization (Rs / SCM)	26.4	28.2	(6.4)	25.7	2.8	26.1	28.0	(6.7)	27.2
Blended Spread (Rs / SCM)	17.1	14.5	18.1	15.9	7.5	16.7	14.7	13.4	15.5
EBIDTA Spread (Rs / SCM)	11.6	9.9	17.0	7.9	46.8	10.3	10.1	2.3	8.9

Source: Company, DART

Exhibit 2: Actual V/s DART estimates

Particulars (Rs Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	5,067	5,414	(6.4)	Lower realisation from CNG segment.
EBITDA	2,211	1,814	21.9	
EBITDA Margin (%)	43.6	33.5	1,013	Lower gas cost
PAT	1,443	1,234	17.0	

Source: Company, DART

Exhibit 3: Change in estimates

Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	23,845	20,126	18.5	29,590	24,854	19.1
EBITDA	9,575	6,957	37.6	11,706	9,191	27.4
EBITDA Margin (%)	40.2	34.6	558.5	39.6	37.0	257.8
PAT	6,670	4,676	42.6	8,511	6,674	27.5
EPS (Rs)	67.5	47.3	42.6	86.2	67.6	27.5

Source: Company, DART

Key Highlights:

- Revenue increased by 93.6% on a sequential basis and declined by 35.3% on a YoY basis to Rs. 5,067 mn.
- Raw Material cost increased by 79.2% on a sequential basis and decreased by 53% on a YoY basis to Rs. 1,771 mn.
- Employee cost was flat on a sequential basis and grew by 29.8% on a YoY basis to Rs. 248 mn.
- Other expenditure increased by 43.7% on a sequential and decreased by 25.6% on YoY basis to Rs. 838 mn.
- MGL made an operating profit Rs. 2,211 mn in Q2FY21 as compared to an operating profit of Rs. 2,734 mn in Q2FY20 which was a de-growth of 19.1% YoY.
- Depreciation was flat on a sequential basis and increased by 8.6% on a YoY basis to Rs. 425 mn.
- Other income decreased by 24.8% on a sequential basis and by 19.8% on a YoY basis to Rs. 184 mn.
- MGL made a net profit of Rs. 1,443 mn in Q2FY21 as compared to a net profit of Rs. 2,706 mn in Q2FY20 registering a de-growth of 46.7% on a YoY basis.
- Volume de-growth in CNG segment was at 42% YoY and PNG segment was flat on YoY basis. Overall volumes decreased by 30.9% on a YoY basis to 2.07 MMSCMD for this quarter.
- Gross spread in the CNG segment was at Rs. 16 per SCM registering a growth of 19.7% on a YoY basis.
- Gross spread in the PNG segment increased by 7% to Rs. 18.9 per SCM on a YoY basis.
- Gross spread on a blended basis was at Rs. 17.1 per SCM and EBIDTA spread was at Rs. 11.6 per SCM.

Conference Call Highlights

CNG segment:

- CNG sales in the quarter was 8.47 cr kgs as against 3.20 cr kg QoQ
- Added 3 new CNG stations in the quarter. Total of 259 CNG stations.
- OMC's earn a commission of Rs.3.7-Rs4/kg of gas sold, which is different for different GA's. Higher amount is charged in main city and adjacent areas. Contracts with OMC's are for 3-5 years which they keep rolling. OMC's quantum is 50-65% of total CNG sales.
- In Oct' 20, conversions of 6,000+ vehicles took place, which has reached Pre Covid levels. Opportunities with OEM is very good.
- In the last 6 months, 25,000 new 4W and 13,000 new 3W were inducted in CNG fleet.
- In March-April'20, 500 new CNG buses were added. BEST sales volumes is higher than last 6-8 months. 500-800 new CNG buses will be inducted in next 6 months.

PNG Segment:

- Connected 16,223 domestic PNG connections in the quarter. Total domestic PNG connections are 1.5 mn
- Added steel and PE pipeline of 18.53 km. Total steel and PE pipeline of 5,650 kms.
- Added 28 new Industrial/Commercial customers. Total Industrial / Commercial customers are 4,046.
- Alternate fuel prices in industrial segment (LSHS) in Q1FY21 which was Rs. 24,000/MT increased to Rs. 33,000/MT in Q2FY21, so realisations were higher in industrial segment.
- Prices of 19 kg LPG cylinder used in commercial segment also increased, hence better margins.
- Realisations for industrial segment this quarter was higher QoQ at Rs. 29.23/scm as against Rs. 22.8 /scm in Q1FY21.
- Commercial segment realisation also improved QoQ at Rs. 32/scm as against Rs. 28/scm QoQ.
- Industrial volume in Q2FY21 is 0.233 mmcmd as against 0.146 mmcmd (QoQ).

Raigad Region:

- Raigad has a total of 26,500 Domestic PNG customers and 15 CNG stations.
- CNG sales on an average is 30,900 kg per day as on Sep'20 which is expected to go up.
- Laid 7.82 kms of pipeline. Total pipeline is 109.82 kms.
- Out of the total volume in this region, 95% is from CNG and the rest is industrial and domestic.
- Raigad contributed 1-2% of total volumes of MGL.

Volume Recovery:

- Volume recovery continues to Pre Covid levels.
- Currently, there are flowing 3 mmcmd plus volumes in Nov'20. Overall volumes are more than Pre Covid levels. Growth will be on much positive side.
- If spot prices are low, Brent and Forex is stable then steady/improved margins will be witnessed.
- Domestic PNG is more than Pre Covid levels. Industrial PNG is more than full. Recovery in Commercial segment is slow.
- CNG is on an increasing trend and is 90-95% of Pre Covid levels.
- Volumes from cab aggregators at 70-80% of Pre Covid levels, volume from buses is much higher than Pre Covid and rickshaws have reached 80% of Pre Covid levels.

Capex:

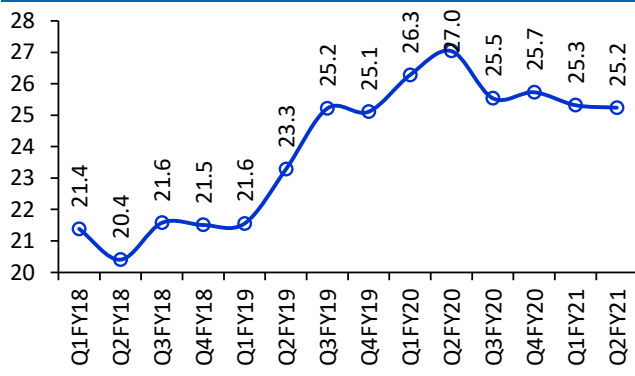
- Capex target for FY21 is Rs. 5,000 Mn which will depend on the speed at which approvals are received from statutory authorities.
- Capex target for FY22 is Rs. 6,000 Mn plus.

- They plan to add 20+ new CNG stations every year and in addition upgrade 15+ existing CNG stations with additional capacity every year.
- Maintain 5-6% volume CAGR.

Recent Developments:

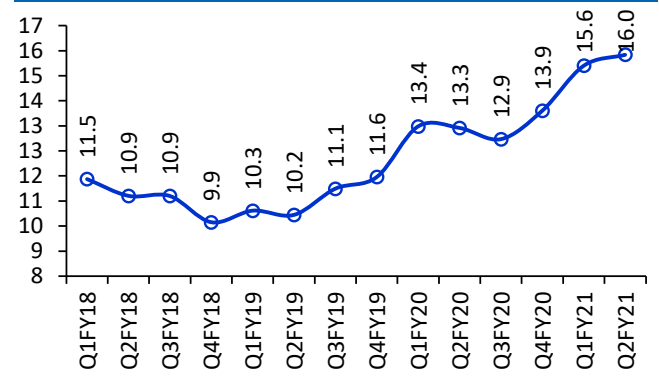
- Had requested PNGRB to extend MWP for building of inch-km pipeline due to work disruption due to Covid 19. PNGRB has granted of extending the MWP for various GA's. They have extended it by 251 days for Raigad GA.
- The common carrier regulation still awaits further notification.
- OMC's have demanded for a steep hike in commission for selling CNG. Negotiations of CGD companies are going on with the OMC's
- Received permission from PWD to lay 8.5 km pipeline in Raigad region.
- Procured land for City Gas Station in Raigad Region.

Exhibit 4: CNG Realization Value (Rs / SCM)



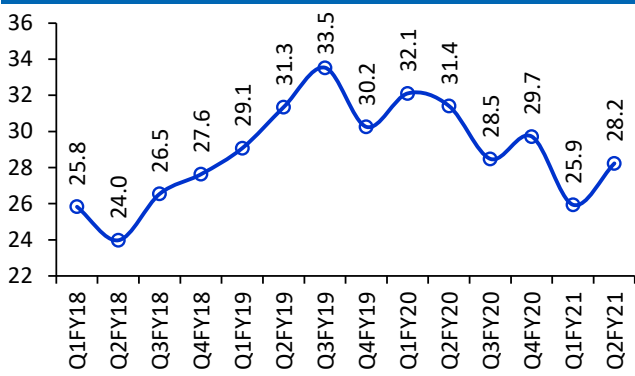
Source: Company, DART

Exhibit 5: CNG Spread (Rs / SCM)



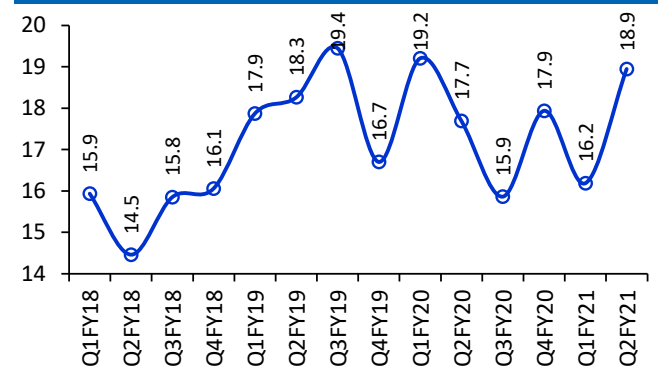
Source: Company, DART

Exhibit 6: PNG Realization (Rs / SCM)



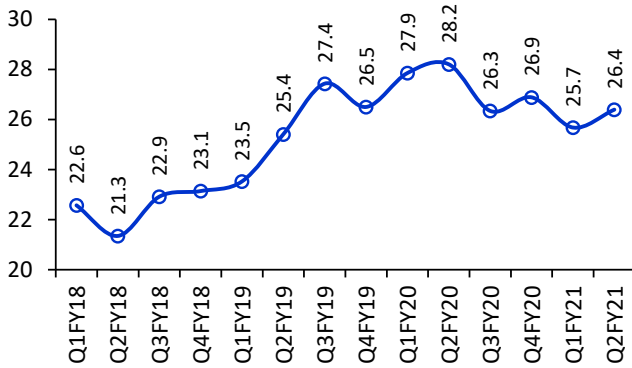
Source: Company, DART

Exhibit 7: PNG Spread (Rs / SCM)



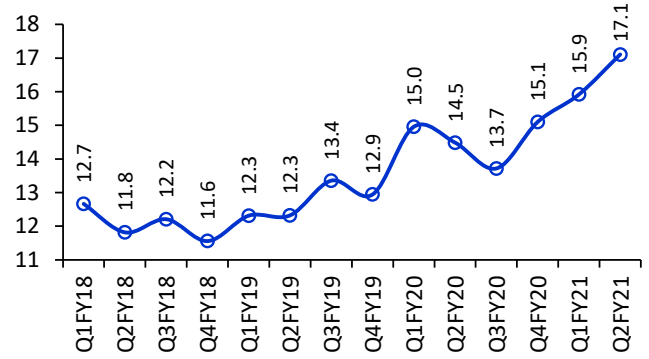
Source: Company, DART

Exhibit 8: Blended Realization (Rs / SCM)



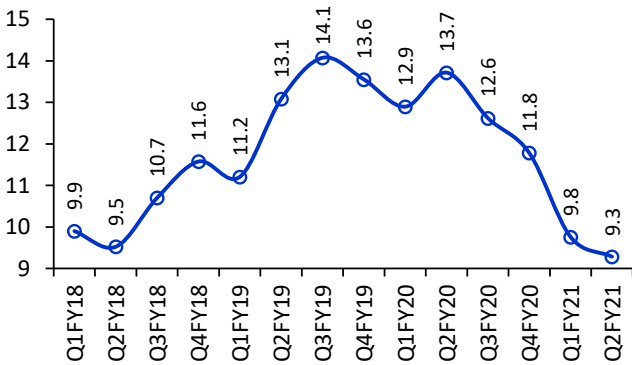
Source: Company, DART

Exhibit 9: Blended Spread (Rs / SCM)



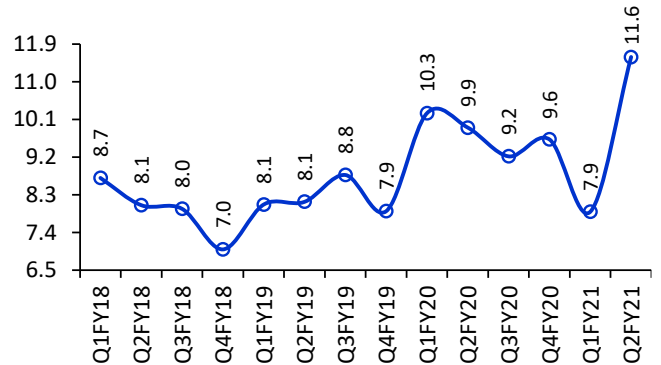
Source: Company, DART

Exhibit 10: Gas Cost (Rs / SCM)



Source: Company, DART

Exhibit 11: EBIDTA Spread (Rs / SCM)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	29,721	23,845	29,590	33,575
Total Expense	19,193	14,271	17,884	20,009
COGS	13,795	9,116	11,742	13,167
Employees Cost	806	899	852	834
Other expenses	4,591	4,256	5,290	6,007
EBIDTA	10,528	9,575	11,706	13,566
Depreciation	1,617	1,247	1,130	1,340
EBIT	8,911	8,327	10,575	12,226
Interest	65	70	90	90
Other Income	990	700	900	700
Exc. / E.O. items	0	0	0	0
EBT	9,835	8,957	11,385	12,836
Tax	1,900	2,288	2,873	3,289
RPAT	7,935	6,670	8,512	9,547
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	7,935	6,670	8,512	9,547

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	988	988	988	988
Minority Interest	0	0	0	0
Reserves & Surplus	28,539	32,468	37,777	43,428
Net Worth	29,527	33,456	38,765	44,416
Total Debt	0	0	0	0
Net Deferred Tax Liability	1,607	1,687	1,771	1,860
Total Capital Employed	31,133	35,143	40,536	46,276

Applications of Funds

Net Block	20,492	24,245	29,614	35,274
CWIP	4,865	1,871	3,014	3,574
Investments	11,215	10,000	9,000	5,000
Current Assets, Loans & Advances	4,713	5,614	6,215	9,868
Inventories	186	162	201	229
Receivables	685	713	886	1,006
Cash and Bank Balances	2,295	2,972	3,109	6,327
Loans and Advances	1,416	1,628	1,873	2,153
Other Current Assets	132	139	146	153
Less: Current Liabilities & Provisions	10,152	6,586	7,307	7,440
Payables	1,318	849	1,094	1,227
Other Current Liabilities	8,834	5,737	6,213	6,213
<i>sub total</i>				
Net Current Assets	(5,439)	(973)	(1,093)	2,428
Total Assets	31,133	35,143	40,536	46,276

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	53.6	61.8	60.3	60.8
EBIDTA Margin	35.4	40.2	39.6	40.4
EBIT Margin	30.0	34.9	35.7	36.4
Tax rate	19.3	25.5	25.2	25.6
Net Profit Margin	26.7	28.0	28.8	28.4
(B) As Percentage of Net Sales (%)				
COGS	46.4	38.2	39.7	39.2
Employee	2.7	3.8	2.9	2.5
Other	15.4	17.8	17.9	17.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	136.5	119.0	117.5	135.8
Inventory days	2	2	2	2
Debtors days	8	11	11	11
Average Cost of Debt				
Payable days	16	13	13	13
Working Capital days	(67)	(15)	(13)	26
FA T/O	1.5	1.0	1.0	1.0
(D) Measures of Investment				
AEPS (Rs)	80.3	67.5	86.2	96.6
CEPS (Rs)	96.7	80.1	97.6	110.2
DPS (Rs)	35.0	24.0	28.0	34.0
Dividend Payout (%)	43.6	35.5	32.5	35.2
BVPS (Rs)	298.9	338.7	392.4	449.7
RoANW (%)	29.7	21.2	23.6	23.0
RoACE (%)	28.0	20.3	22.7	22.2
RoAIC (%)	34.3	27.3	30.4	31.6
(E) Valuation Ratios				
CMP (Rs)	870	870	870	870
P/E	10.8	12.9	10.1	9.0
Mcap (Rs Mn)	85,927	85,927	85,927	85,927
MCap/ Sales	2.9	3.6	2.9	2.6
EV	83,632	82,955	82,817	79,600
EV/Sales	2.8	3.5	2.8	2.4
EV/EBITDA	7.9	8.7	7.1	5.9
P/BV	2.9	2.6	2.2	1.9
Dividend Yield (%)	4.0	2.8	3.2	3.9
(F) Growth Rate (%)				
Revenue	6.5	(19.8)	24.1	13.5
EBITDA	18.9	(9.1)	22.3	15.9
EBIT	17.3	(6.5)	27.0	15.6
PBT	17.5	(8.9)	27.1	12.7
APAT	45.2	(15.9)	27.6	12.2
EPS	45.2	(15.9)	27.6	12.2
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	9,826	6,387	10,068	10,754
CFI	(7,522)	(733)	(6,585)	(3,500)
CFF	(2,416)	(2,836)	(3,345)	(4,036)
FCFF	5,594	4,382	2,424	3,194
Opening Cash	265	154	2,972	3,109
Closing Cash	154	2,972	3,109	6,327

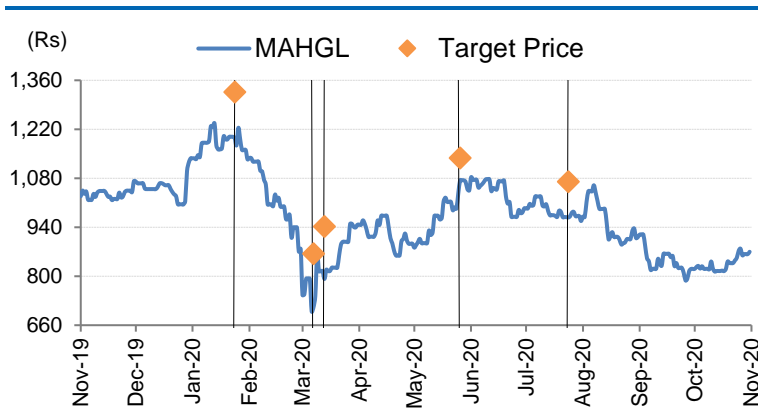
E – Estimates

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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