

Accumulate

Volume recovery across segments coupled with higher margins due to lower gas cost. Recommend Accumulate.

- MGL's Q3FY21 results were above estimates on revenue and profitability front.
- Volumes at 2.77 mmscmd (down 9.2% YoY and up 33.6% QoQ), against our estimates of 2.6 mmscmd. Strong recovery was seen in volumes from industrial and CNG segment, however Domestic segment continue to outperform.
- The CNG segment (down 15.3% YoY and up 47.6% 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 growth of 7.2% YoY and up 11.3% QoQ, due to strong growth witnessed in Domestic PNG segment of 23.5% YoY, which was offset by a de-growth of 9% 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 277 bps QoQ and 1,541 bps YoY and operating margins expanded by 390 bps QoQ and 1,276 bp YoY, due to low gas cost and MGL did not pass on the entire domestic gas price cut (Oct-20) and as industrial and commercial margins did not decline much.
- 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 Jan'21. 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 Accumulate with a target price of Rs 1,251 (DCF Method).

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	6,664	7,445	(10.5)	5,067	31.5
Total Expense	3,497	4,856	(28.0)	2,856	22.4
EBITDA	3,167	2,589	22.4	2,211	43.3
Depreciation	441	415	6.4	425	3.9
EBIT	2,726	2,174	25.4	1,786	52.6
Other Income	204	286	(28.6)	184	10.6
Interest	17	16	6.2	20	(15.3)
EBT	2,913	2,444	19.2	1,950	49.3
Tax	741	583	27.0	507	46.1
RPAT	2,172	1,861	16.7	1,443	50.5
APAT	2,172	1,861	16.7	1,443	50.5
			(bps)		(bps)
Gross Margin (%)	67.8	52.4	1541	65.1	277
EBITDA Margin (%)	47.5	34.8	1276	43.6	390
NPM (%)	32.6	25.0	760	28.5	411
Tax Rate (%)	25.4	23.9	156	26.0	(56)
EBIT Margin (%)	40.9	29.2	1170	35.3	565

CMP	Rs 1,129
Target / Upside	Rs 1,251 / 11%
NIFTY	15,107

Scrip Details

Equity / FV	Rs 988mn / Rs 10
Market Cap	Rs 111bn
	USD 2bn
52-week High/Low	Rs 1,234/ 664
Avg. Volume (no)	1,114,040
Bloom Code	MAHGL IN

Price Performance

	1M	3M	12M
Absolute (%)	1	32	(6)
Rel to NIFTY (%)	(4)	14	(31)

Shareholding Pattern

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

Valuation (x)

	FY21E	FY22E	FY23E
P/E	15.8	12.7	11.3
EV/EBITDA	10.7	8.9	7.4
ROE (%)	22.2	24.0	23.3
RoACE (%)	21.3	23.1	22.5

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	24,950	30,516	34,633
EBITDA	10,061	12,070	14,003
PAT	7,034	8,785	9,873
EPS (Rs.)	71.2	88.9	100.0

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Volume growth outlook look positive

Volume de-growth in Q3FY21 was 9.2% 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 23.5% YoY. The CNG volumes de-grew 15.3% YoY. However, overall volumes are expected to be positive from Q4FY21 onwards and volumes in Jan'21 have surpassed the average Pre Covid levels.

Currently, volume mix of CNG segment is increasing sequentially to 68% which have revived by 90%, Domestic PNG which is 18.4% is unaffected and I/C segment which is rest 13.6% of revenues has seen 100% recovery in industrial segment while the recovery in commercial segment is picking up.

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 and margin expansion due to low cost per unit

CNG realizations were flat sequentially in Q3FY21 as CNG per unit margins were lower due to reduction in natural gas prices. However, MGL has taken a price increase of Re. 1.5/kg in CNG and Rs. 1.05/scm in domestic PNG segment to meet their higher expenses, which will improve the margins for them. Industrial and Commercial segment realizations improved due to increase in prices of alternate fuels. Spot gas prices had risen further in Q4FY21, but they should be offset as MGL is now getting 0.1 mmscmd new gas from KG-D6 block (currently priced at \$4.1/mmbtu). MGL has demonstrated its pricing power by timely revising prices to mitigate input costs and increase in operational expenditure. EBITDA spreads of Rs. 12.4/scm (up 34.8% YoY and 7.2% 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 8.4/scm, however not passing on full advantage of domestic natural gas price cut help them in expansion of margins.

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 18 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 Accumulate rating with a target price of Rs 1,251.

Exhibit 1: KPI's

Volume Data	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)	FY20
CNG (in MMSCM)	173.3	204.6	(15.3)	117.4	47.6	334.4	604.2	(44.7)	828.0
PNG- Domestic (in MMSCM)	46.8	37.9	23.5	42.6	9.9	128.4	109.4	17.4	186.5
PNG - Industrial/Commercial (in MMSCM)	34.8	38.3	(9.0)	30.7	13.2	84.1	113.3	(25.8)	167.0
PNG- Total (in MMSCM)	81.6	76.2	7.2	73.3	11.3	212.5	222.7	(4.5)	353.5
Total Volume (in MMSCM)	254.9	280.8	(9.2)	190.7	33.6	546.9	826.8	(33.9)	1181.5
Total Volume (MMSCMD)	2.77	3.05	(9.2)	2.07	33.6	1.99	3.01	(33.9)	3.2
CNG Net Sales Value (Rs Mn)	4,268	5,226	(18.3)	2,963	44.0	8,337	15,878	(47.5)	21,620
PNG Sales Value (Rs Mn)	2,345	2,169	8.1	2,070	13.3	5,909	6,821	(13.4)	10,490
Total Sales Value (Rs Mn)	6,613	7,395	(10.6)	5,033	31.4	14,246	22,699	(37.2)	32,111
CNG Net Realization Value (Rs /SCM)	24.6	25.5	(3.5)	25.2	(2.4)	24.9	26.3	(5.1)	26.1
Spread Earned (Rs / SCM)	16.2	12.9	25.5	16.0	1.7	16.0	13.2	20.9	14.4
PNG Realization Value (Rs / SCM)	28.7	28.5	0.9	28.2	1.8	27.8	30.6	(9.2)	29.7
Spread Earned (Rs / SCM)	20.3	15.9	28.1	18.9	7.2	18.8	17.6	7.3	18.0
Gas Cost (Rs / SCM)	8.4	12.6	(33.3)	9.3	(9.4)	9.0	13.1	(31.4)	11.7
Blended Realization (Rs / SCM)	25.9	26.3	(1.5)	26.4	(1.7)	26.0	27.5	(5.1)	27.2
Blended Spread (Rs / SCM)	17.5	13.7	27.8	17.1	2.5	17.1	14.4	18.8	15.5
EBIDTA Spread (Rs / SCM)	12.4	9.2	34.8	11.6	7.2	11.3	9.8	15.4	8.9

Source: Company, DART

Exhibit 2: Actual V/s DART estimates

Particulars (Rs Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	6,664	6,240	6.8	Volume recovery across segments
EBITDA	3,167	2,600	21.8	
EBITDA Margin (%)	47.5	41.7	586	Lower gas cost as full benefit was not passed on to customers
PAT	2,172	1,850	17.4	

Source: Company, DART

Exhibit 3: Change in estimates

Rs Mn	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	30,516	29,590	3.1	34,633	33,575	3.2
EBITDA	12,070	11,706	3.1	14,003	13,566	3.2
EBITDA Margin (%)	39.6	39.6	(0.5)	40.4	40.4	2.6
PAT	8,784	8,511	3.2	9,896	9,545	3.7
EPS (Rs)	88.9	86.2	3.2	99.9	96.6	3.4

Source: Company, DART

Key Highlights

- Revenue increased by 31.5% on a sequential basis and declined by 10.5% on a YoY basis to Rs. 6,664 mn.
- Raw Material cost increased by 21.1% on a sequential basis and decreased by 39.5% on a YoY basis to Rs. 2,144 mn.
- Employee cost decreased by 19.8% on a sequential basis and grew by 3.8% on a YoY basis to Rs. 199 mn.
- Other expenditure increased by 37.7% on a sequential and by 2.9% on YoY basis to Rs. 1,154 mn.
- MGL made an operating profit Rs. 3,167 mn in Q3FY21 as compared to an operating profit of Rs. 2,589 mn in Q3FY20 which was a growth of 22.4% YoY.
- Depreciation was flat on a sequential basis and increased by 6.4% on a YoY basis to Rs. 441 mn.
- Other income increased by 10.6% on a sequential basis and decreased by 28.6% on a YoY basis to Rs. 204 mn.
- MGL made a net profit of Rs. 2,172 mn in Q3FY21 as compared to a net profit of Rs. 1,861 mn in Q3FY20 registering a growth of 16.7% on a YoY basis.
- Volume de-growth in CNG segment was at 15.3% YoY and PNG segment volume growth was 7.2% on YoY basis. Overall volumes decreased by 9.2% on a YoY basis to 2.77 MMSCMD for this quarter.
- Gross spread in the CNG segment was at Rs. 16.2 per SCM registering a growth of 25.5% on a YoY basis.
- Gross spread in the PNG segment increased by 28.1% on a YoY basis to Rs. 20.3 per SCM on a YoY basis.
- Gross spread on a blended basis was at Rs. 17.5 per SCM and EBIDTA spread was at Rs. 12.4 per SCM.

Conference Call Highlights

CNG Segment

- CNG sales in the quarter was 12.46 cr kgs as against 8.47 cr kg QoQ
- Added 6 new CNG stations in the quarter. Total of 265 CNG stations.
- CNG conversion of 4,000 vehicles per month. Added 12,000 vehicles in the quarter.
- In Jan'21 there was an addition of 4,500 vehicles.
- Large new CNG additions to the fleet are the OE fitted cars. Retrofit share is stagnant/going down. Rickshaws and black yellow cabs addition is stagnant.
- They usually add 20 greenfield CNG stations and 15-20 CNG stations upgradation is done every year. This trend will continue.
- In GA3, addition of CNG outlets can improve as there is availability of plot. In GA1, they have to be dependent on OMC's for freehold land and similar is the case for GA2.

PNG Segment

- Connected 49,171 domestic PNG connections in the quarter. Total domestic PNG connections are 1.5 mn

- Added steel and PE pipeline of 97.19 km. Total steel and PE pipeline of 5,700 kms.
- Added 47 new Industrial/Commercial customers. Total Industrial / Commercial customers are 4,093.
- In Jan –Feb there was a spurt in spot gas which are expected to soften as elevated demand during winter subsides.
- Realisations for industrial segment this quarter was higher QoQ at Rs. 30.78/scm as against Rs. 29.23 /scm in Q2FY21.
- Commercial segment realisation also improved QoQ at Rs. 33.72/scm as against Rs. 32/scm QoQ.
- Industrial volume in Q3FY21 is 0.244 mmscmd as against 0.233 mmscmd (QoQ).

Raigad

- Raigad has a total of 39,500 Domestic PNG customers and 18 CNG stations.
- CNG sales on an average is 41,000 kg per day as on Dec'20 which is expected to go up.
- Laid 41.92 kms of pipeline. Total pipeline is 192.33 kms.

Volume Recovery

- Volume recovery is expected in Q4FY21 as improvement is seen across categories.
- In Jan'21, domestic PNG clocked in was 0.467 mmscmd which was up 15% from Pre Covid levels, Industrial segment saw a growth of 7% of 0.249 mmscmd, commercial segment was still down from Pre Covid levels and is fast improving. CNG segment was down by 9% of the Pre Covid levels.
- Expect a CAGR volume growth of 5-6% from 3 GA's for next 5 years. Next year will see a high double digit growth.
- 75% of the black yellow cabs are on road, 85% auto rickshaws and 90% private cars and aggregators are back on road.
- Volume contribution to CNG- 37% from autos, 43% from Private cars and aggregators, 9.5-10% from State Transport Corporation majorly BEST, 5-6% from black yellow cabs and rest 3-4% from CV category.
- Recent price increases were taken in CNG and domestic PNG segment to meet rising expenses like minimum wages increase, opex increased significantly and pending negotiations with OMC's.

Capex

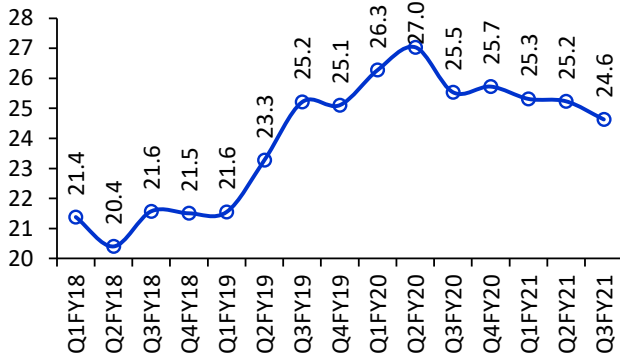
- Capex target for FY21 is Rs. 3,500-4,000 Mn which will depend on the speed at which approvals are received from statutory authorities.
- Capex spent in 9MFY21 is Rs. 1,750 Mn
- Capex target for FY22 is Rs. 6,500 Mn plus.

Recent Developments

- MGL is now getting 0.1 mmscmd new gas from KG-D6 block (currently priced at \$4.1/mmbtu), which can be 25% of total industrial/commercial sales.

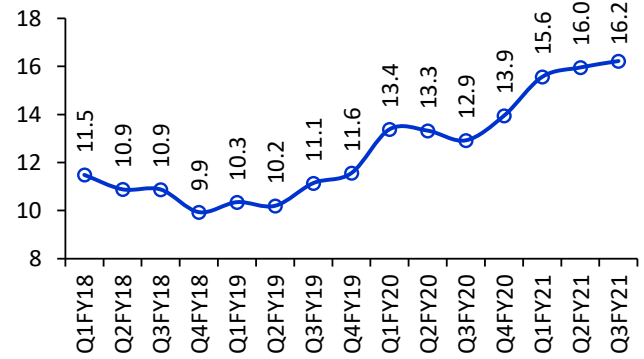
- OMC's have demanded for a steep hike in commission for selling CNG. Negotiations of CGD companies are going on with the OMC's
- Received permission from PWD to lay 8.5 km pipeline in Raigad region.
- JNPT work has started where a SEZ is developed.

Exhibit 4: CNG Realization Value (Rs / SCM)



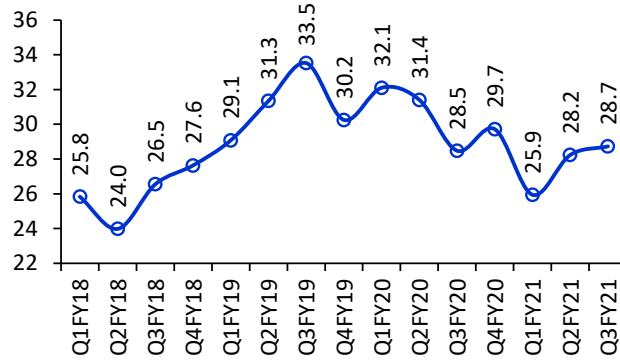
Source: Company, DART

Exhibit 5: CNG Spread (Rs / SCM)



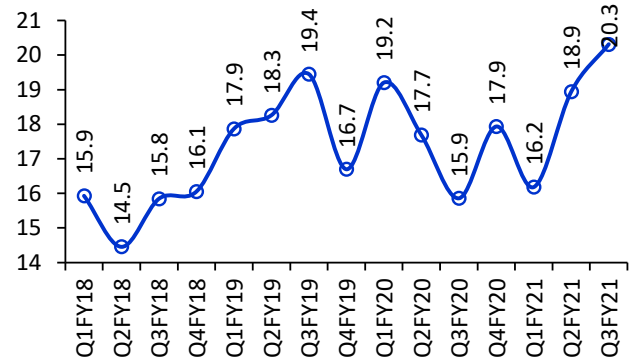
Source: Company, DART

Exhibit 6: PNG Realization (Rs / SCM)



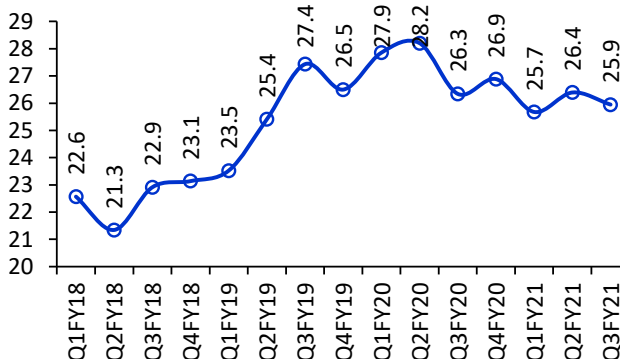
Source: Company, DART

Exhibit 7: PNG Spread (Rs / SCM)



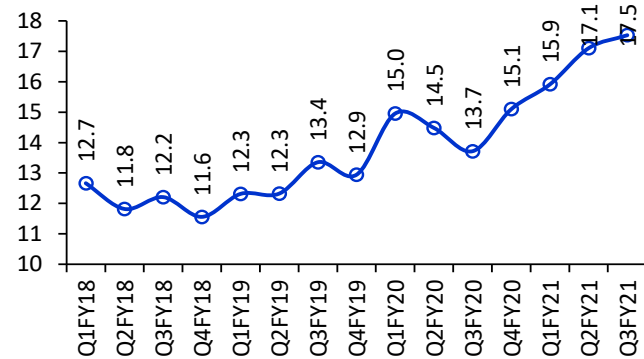
Source: Company, DART

Exhibit 8: Blended Realization (Rs / SCM)



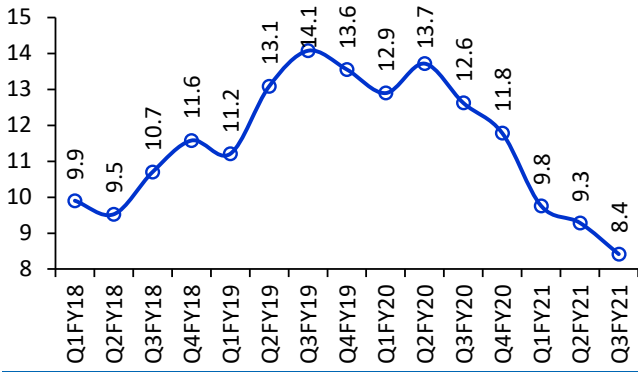
Source: Company, DART

Exhibit 9: Blended Spread (Rs / SCM)



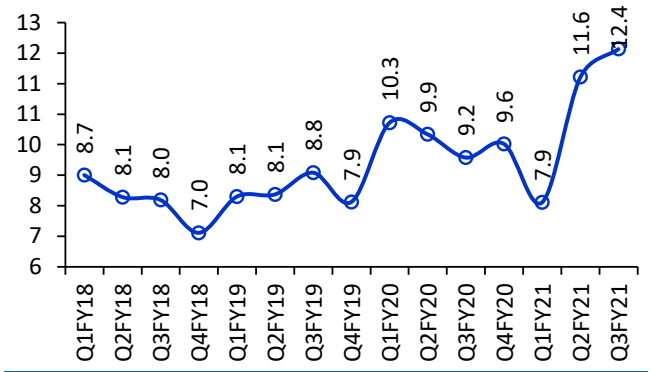
Source: Company, DART

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	24,950	30,516	34,633
Total Expense	19,193	14,890	18,445	20,630
COGS	13,795	9,494	12,109	13,571
Employees Cost	806	941	879	861
Other expenses	4,591	4,455	5,457	6,198
EBIDTA	10,528	10,061	12,070	14,003
Depreciation	1,617	1,247	1,130	1,340
EBIT	8,911	8,814	10,940	12,663
Interest	65	70	90	90
Other Income	990	700	900	700
Exc. / E.O. items	0	0	0	0
EBT	9,835	9,444	11,750	13,273
Tax	1,900	2,410	2,965	3,399
RPAT	7,935	7,034	8,785	9,873
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	7,935	7,034	8,785	9,873

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	32,832	38,414	44,392
Net Worth	29,527	33,820	39,401	45,379
Total Debt	0	0	0	0
Net Deferred Tax Liability	1,607	1,687	1,771	1,860
Total Capital Employed	31,133	35,507	41,173	47,239

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	6,013	6,886	10,869
Inventories	186	170	208	236
Receivables	685	746	914	1,038
Cash and Bank Balances	2,295	3,330	3,746	7,289
Loans and Advances	1,416	1,628	1,873	2,153
Other Current Assets	132	139	146	153
Less: Current Liabilities & Provisions	10,152	6,622	7,341	7,478
Payables	1,318	884	1,128	1,264
Other Current Liabilities	8,834	5,737	6,213	6,213
	<i>sub total</i>			
Net Current Assets	(5,439)	(609)	(456)	3,391
Total Assets	31,133	35,507	41,173	47,239

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	53.6	61.9	60.3	60.8
EBIDTA Margin	35.4	40.3	39.6	40.4
EBIT Margin	30.0	35.3	35.9	36.6
Tax rate	19.3	25.5	25.2	25.6
Net Profit Margin	26.7	28.2	28.8	28.5
(B) As Percentage of Net Sales (%)				
COGS	46.4	38.1	39.7	39.2
Employee	2.7	3.8	2.9	2.5
Other	15.4	17.9	17.9	17.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	136.5	125.9	121.6	140.7
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)	(9)	(5)	36
FA T/O	1.5	1.0	1.0	1.0
(D) Measures of Investment				
AEPS (Rs)	80.3	71.2	88.9	100.0
CEPS (Rs)	96.7	83.8	100.4	113.5
DPS (Rs)	35.0	24.0	28.0	34.0
Dividend Payout (%)	43.6	33.7	31.5	34.0
BVPS (Rs)	298.9	342.4	398.9	459.4
RoANW (%)	29.7	22.2	24.0	23.3
RoACE (%)	28.0	21.3	23.1	22.5
RoAIC (%)	34.3	28.9	31.4	32.7
(E) Valuation Ratios				
CMP (Rs)	1129	1129	1129	1129
P/E	14.0	15.8	12.7	11.3
Mcap (Rs Mn)	111,476	111,476	111,476	111,476
MCap/ Sales	3.8	4.5	3.7	3.2
EV	109,181	108,146	107,730	104,187
EV/Sales	3.7	4.3	3.5	3.0
EV/EBITDA	10.4	10.7	8.9	7.4
P/BV	3.8	3.3	2.8	2.5
Dividend Yield (%)	3.1	2.1	2.5	3.0
(F) Growth Rate (%)				
Revenue	6.5	(16.1)	22.3	13.5
EBITDA	18.9	(4.4)	20.0	16.0
EBIT	17.3	(1.1)	24.1	15.7
PBT	17.5	(4.0)	24.4	13.0
APAT	45.2	(11.4)	24.9	12.4
EPS	45.2	(11.4)	24.9	12.4
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	9,826	6,745	10,346	11,079
CFI	(7,522)	(733)	(6,585)	(3,500)
CFF	(2,416)	(2,836)	(3,345)	(4,036)
FCFF	5,594	4,740	2,703	3,519
Opening Cash	265	154	3,330	3,746
Closing Cash	154	3,330	3,746	7,289

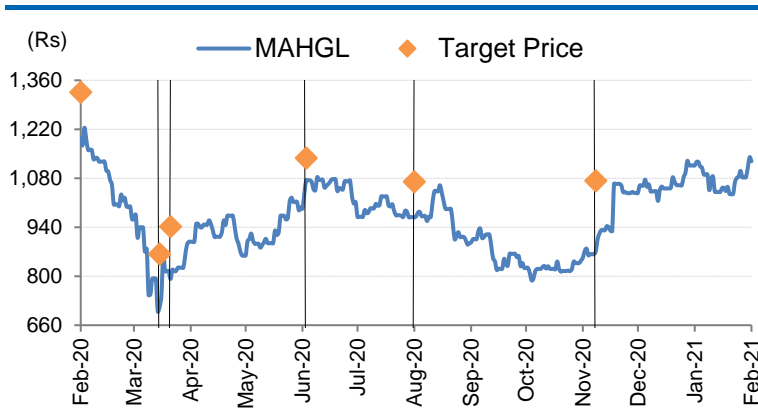
E – Estimates

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
Nov-20	Buy	1,073	870

*Price as on recommendation date

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