

## Play on CGD growth story...

MGL has a strong gas pipeline infrastructure of 5393 km in Mumbai and its adjoining areas. CNG and domestic PNG penetration in geographical areas (GA1 & GA2) is at ~35%. Additionally, MGL's planned capex in Pen, Uran and Karjat areas provides visibility for volume growth in the medium to long term. In the CNG segment, MGL plans to add 25 CNG stations per year for the next three years to the existing network of 244 CNG stations. We expect MGL's volumes to increase at ~5% CAGR in FY19-21E. Given the cost economics of natural gas over other alternative fuels in conjunction with rising pollution concerns, sustaining above mentioned growth rate should not be a concern. Going forward, we estimate sales volumes at 3.1 mmscmd and 3.2 mmscmd in FY20E and FY21E, respectively.

## Healthy margin outlook, going ahead

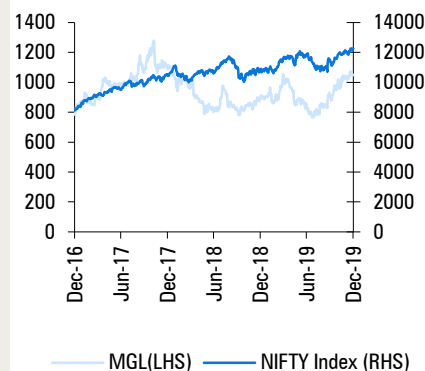
MGL has reduced its CNG & PNG prices at the start of Q3FY20 to pass on lower domestic natural gas costs to consumers. MGL has strong pricing power in the CNG segment while a decline in spot LNG prices over the last six months has improved the profitability in the industrial/commercial PNG segment as well. Hence, we expect MGL to report healthy gross margins of ₹ 14.6/scm and ₹ 14.4/scm for FY20E and FY21E, respectively. Also, we expect EBITDA margins at ₹ 9.7/scm and ₹ 9.4/scm for FY20E and FY21E, respectively, vs. ₹ 8.2/scm in FY19.

## Valuation & Outlook

The government's priority allocation of domestic gas to the CGD sector has enabled MGL to access cheaper gas for the CNG and domestic business segments, constituting ~86% of total sales volume. MGL's strong gas pipeline infrastructure and expanding operations in Mumbai, its adjoining areas and Raigad district will enable the company to capture the benefits of the large and growing market given the low penetration. The company has been able to sustain healthy margins over the last four to five years due to strong pricing power. We expect it to continue. Given the healthy margin and discount in valuation compared to its peers, we revise our P/E multiple from 14x to 16x and arrive at a target price of ₹ 1230 with a **BUY** recommendation on the stock.



### Price Chart



### Key Highlights

- MGL has strong pricing power in the CNG segment while a decline in spot LNG prices over the last six months has improved the profitability in the industrial/commercial PNG segment
- Revise rating from HOLD to BUY on stock with target price of ₹ 1230/sharecc

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### Key Financial Summary

Key Financials	FY17	FY18	FY19E	FY20E	FY21E	CAGR (FY19-21E)
Revenue (₹ crore)	2,239.1	2,452.9	3,056.8	3,362.8	3,578.1	8.2
EBITDA (₹ crore)	644.2	780.6	885.5	1,089.6	1,106.3	11.8
PAT (₹ crore)	393.4	477.9	546.5	816.3	759.1	17.9
EPS(₹)	39.8	48.4	55.3	82.6	76.8	
P/E (x)	26.5	21.8	19.1	12.8	13.7	
P/Book (x)	5.7	5.0	4.3	3.5	3.0	
RoCE (%)	29.8	31.9	31.7	31.6	27.1	
RoE (%)	21.4	22.8	22.8	27.6	22.0	

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Revenue</b>	<b>2452.9</b>	<b>3056.8</b>	<b>3362.8</b>	<b>3578.1</b>
Growth (%)	9.6	24.6	10.0	6.4
Raw material Costs	1029.1	1399.2	1430.7	1551.5
Employee Costs	67.0	70.9	83.8	93.9
Other Expenditure	356.3	435.6	459.4	506.4
Op. Expenditure	1672.3	2171.3	2273.2	2471.8
<b>EBITDA</b>	<b>780.6</b>	<b>885.5</b>	<b>1089.6</b>	<b>1106.3</b>
Growth (%)	21.2	13.4	23.1	1.5
Depreciation	111.2	125.9	153.5	168.9
EBIT	669.4	759.5	936.1	937.4
Interest	0.3	0.3	2.8	0.0
Other Income	57.4	77.7	91.3	94.0
PBT	726.5	837.0	1024.6	1031.4
Growth (%)	21.0	15.2	22.4	0.7
Tax	248.7	290.5	208.3	272.3
<b>Reported PAT</b>	<b>477.9</b>	<b>546.5</b>	<b>816.3</b>	<b>759.1</b>
Growth (%)	21.5	14.4	49.4	-7.0
<b>EPS</b>	<b>48.4</b>	<b>55.3</b>	<b>82.6</b>	<b>76.8</b>

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	477.9	546.5	816.3	759.1
Add: Depreciation	111.2	125.9	153.5	168.9
Add: Others	37.2	30.0	15.0	15.0
Cash Profit	626.3	702.4	984.8	943.0
Increase/(Decrease) in CL	95.4	98.5	177.3	92.5
(Increase)/Decrease in CA	-49.3	-13.0	19.7	-19.5
<b>CF from Operating Activities</b>	<b>672.4</b>	<b>787.9</b>	<b>1181.8</b>	<b>1016.1</b>
Purchase of Fixed Assets	283.5	370.5	249.1	246.0
(Inc)/Dec in Investments	-221.0	33.7	-40.0	-40.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activities</b>	<b>-504.5</b>	<b>-336.8</b>	<b>-289.1</b>	<b>-286.0</b>
Inc/(Dec) in Loan Funds	-1.5	-1.2	0.0	0.0
Inc/(Dec) in Sh. Cap. & Res.	0.0	-11.7	0.0	0.0
Less: Dividend Paid	222.6	231.1	254.3	265.8
Others	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-224.1</b>	<b>-244.0</b>	<b>-254.3</b>	<b>-265.8</b>
Change in cash Eq.	-56.2	207.0	638.5	464.2
Op. Cash and cash Eq.	148.1	91.9	298.9	937.4
<b>Cl. Cash and cash Eq.</b>	<b>91.9</b>	<b>298.9</b>	<b>937.4</b>	<b>1,401.6</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Source of Funds</b>				
Equity Capital	98.8	98.8	98.8	98.8
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1,996.5	2,300.1	2,862.2	3,355.5
Shareholder's Fund	2,095.3	2,398.9	2,961.0	3,454.3
Loan Funds	1.2	0.0	0.0	0.0
Deferred Tax Liability	174.8	204.8	219.8	234.8
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>2271.3</b>	<b>2603.8</b>	<b>3180.8</b>	<b>3689.1</b>
<b>Application of Funds</b>				
Gross Block	1,818.7	2,174.0	2,449.0	2,724.0
Less: Acc. Depreciation	286.8	410.6	565.0	737.9
Net Block	1,531.9	1,763.4	1,884.0	1,986.1
Capital WIP	356.6	369.7	344.7	319.7
Total Fixed Assets	1,888.6	2,133.1	2,228.7	2,305.7
Investments	687.7	654.0	694.0	734.0
Inventories	24.0	19.1	27.6	29.4
Debtor	91.6	99.6	147.4	156.8
Cash	91.9	298.9	937.4	1,401.6
Loan & Advance, Other CA	226.6	236.4	160.3	168.6
Total Current assets	434.0	654.0	1272.7	1756.4
Current Liabilities	719.0	816.1	737.1	784.2
Provisions	19.9	21.2	277.5	322.9
Total CL and Provisions	738.9	837.3	1014.6	1107.1
Net Working Capital	-304.9	-183.3	258.1	649.3
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>2271.4</b>	<b>2603.8</b>	<b>3180.8</b>	<b>3689.1</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Per share data (₹)</b>				
Book Value	212.1	242.9	299.8	349.7
Cash per share	78.9	96.5	165.2	216.2
EPS	48.4	55.3	82.6	76.8
Cash EPS	59.6	68.1	98.2	94.0
DPS	19.0	20.0	22.0	23.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	31.8	29.0	32.4	30.9
PAT Margin (%)	19.5	17.9	24.3	21.2
Fixed Asset Turnover (x)	1.3	1.4	1.5	1.6
Inventory Turnover (Days)	3.6	2.3	3.0	3.0
Debtor (Days)	13.6	11.9	16.0	16.0
Current Liabilities (Days)	107.0	97.4	80.0	80.0
<b>Return Ratios (%)</b>				
RoE	22.8	22.8	27.6	22.0
RoCE	31.9	31.7	31.6	27.1
RoIC	50.8	52.5	70.4	71.1
<b>Valuation Ratios (x)</b>				
PE	21.8	19.1	12.8	13.7
Price to Book Value	5.0	4.3	3.5	3.0
EV/EBITDA	13.2	11.4	8.7	8.1
EV/Sales	4.2	3.3	2.8	2.5
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	2,574.7	NA	NA	NA
Debt to EBITDA (x)	0.0	0.0	0.0	0.0
Current Ratio	0.6	0.8	1.3	1.6
Quick ratio	0.6	0.8	1.2	1.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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