

Mahanagar Gas

BUY

Margins lead the way

MGL's Q3 EBITDA/PAT was above our estimates owing to better per unit margins. We maintain our BUY despite muted volume growth given its remarkable pricing power (hence, better spreads) and inexpensive valuations (15.6/15.3x FY21/22E PER) versus its peers (IGL 27.8/24.6x and GGL 24.5/21.3x). Our TP is Rs 1,475 (19x Dec-21 EPS) vs the consensus TP of Rs 1,165.

HIGHLIGHTS OF THE QUARTER

- MGL's total volume jumped merely 3.0% YoY to 3.05mmscmd (est 3.16), led by increase in PNG vols (+4.8% YoY to 0.83mmscmd). CNG volumes were up 2.4% YoY to 2.2mmscmd. CNG volume was low owing to the decline in per capita vehicular consumption.
- Per unit gross spread expanded by 35bps YoY to Rs 13.9/scm. This is attributable to part retention of the benefit of falling RMC viz. (1) APM (85% of sourcing mix) prices corrected by 3.9% YoY to USD 3.23/mmbtu on Oct 1, and (2) Spot LNG (~14% of total sourcing mix) prices fell by 50.6% YoY.
- GM expansion coupled with 10bps YoY contraction in per unit opex led to the 45bps YoY jump in per unit EBITDA margin to Rs 9.2/scm (Rs 9.8/8.5 in 9MFY20/9MFY19). In the absence of volume growth levers, we believe MGL will

maintain its EBITDA spreads at the current elevated level. Hence, we expect EBITDA spreads of Rs 9.5/scm in FY21/22E.

- We reduce our volume estimate by 4.2/7.1% to 3.1/3.2mmscmd in FY21/22E basis the 9MFY20 performance. We expect (1) ~24% sequential correction in APM prices in Apr-20, and (2) Benign spot LNG prices given the global supply glut. Considering that MGL is likely to part retain the benefit of the falling RMC, we bump up our per unit EBITDA estimate by Rs 1.3/1.2 (+15.4/14.0%). Thus, our EPS increases by 11.0/6.7% to Rs 76.5/78.0 (vs consensus of Rs 78.7/82.9) in FY21/22E.

STANCE

We like MGL since we do not foresee any significant regulatory adversity in its CGD business either through a change in gas allocation or capping returns. Its loyal customer base of CNG and commercial establishments (who together comprised 79% of Q3's sales mix), that are less price sensitive than industrial customers enable it to maintain per unit margins higher than peers. We see the risk/reward as favorable. Weaker operational metrics in terms of volume growth, feeble earnings growth and lower return ratios compel us to value MGL at 19x Dec-21E EPS vs 25/20x for IGL/GGL.

Financial Summary (Standalone)

Year Ending March (Rs bn)	3QFY20	3QFY19	YoY (%)	2QFY20	QoQ (%)	FY19	FY20E	FY21E	FY22E
Revenues	7.45	7.53	(1.1)	7.84	(5.0)	27.91	30.37	29.57	31.04
EBITDA	2.59	2.39	8.3	2.73	(5.3)	8.85	10.49	10.83	11.17
APAT	1.86	1.48	25.4	2.14	(13.2)	5.46	7.47	7.56	7.71
AEPS (Rs)	19.6	15.0	30.6	21.7	(9.6)	55.3	75.7	76.5	78.0
P/E (x)						21.6	15.8	15.6	15.3
EV/EBITDA (x)						12.2	10.0	9.4	8.7
RoE (%)						24.3	27.9	23.5	20.5

Source: Company, HDFC sec Inst Research

INDUSTRY	OIL & GAS
CMP (as on 10 Feb 2020)	Rs 1,195
Target Price	Rs 1,475
Nifty	12,032
Sensex	40,980
KEY STOCK DATA	
Bloomberg	MAHGL IN
No. of Shares (mn)	99
MCap (Rs bn) / (\$ mn)	118/1,655
6m avg traded value (Rs mn)	869
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 1,247/754
	3M 6M 12M
Absolute (%)	23.3 52.3 29.3
Relative (%)	21.7 43.2 17.2
SHAREHOLDING PATTERN (%)	
	Sep-19 Dec-19
Promoters	32.50 32.50
FIs & Local MFs	18.20 16.10
FPIs	28.85 31.87
Public & Others	20.45 19.53
Pledged Shares	0.00 0.00
Source : BSE	

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EBITDA expanded 8.3% YoY primarily owing to 5.1% jump in per unit EBITDA margin and 3.1% YoY increase in sales volumes to 3.0mmscmd

The company clocked per unit EBITDA spread of Rs 9.2/scm in 2QFY19 consequential to higher spreads earned from the sticky industrial/commercial customer base (14% of total volumes)

Quarterly Financials Snapshot

(Rs. bn)	3QFY20	3QFY19	YoY (%)	2QFY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Net Sales	7.45	7.53	-1.1	7.84	-5.0	22.86	13.85	65.0
Raw material and Traded Goods	3.54	3.83	-7.6	3.78	-6.4	7.33	6.76	8.4
Employee Expenses	0.19	0.17	9.9	0.19	0.3	0.38	0.34	11.6
Other Operating Expenses	1.12	1.13	-0.4	1.13	-0.4	2.25	2.11	6.4
EBITDA	2.59	2.39	8.3	2.73	-5.3	5.32	4.63	14.9
Depreciation	0.41	0.33	26.5	0.39	6.0	0.81	0.62	29.4
EBIT	2.17	2.06	5.4	2.34	-7.2	4.52	4.01	12.7
Other Income including EO	0.29	0.20	40.2	0.23	24.3	0.52	0.23	126.2
Interest	0.02	0.00	NA	0.01	NA	0.03	0.00	NA
PBT	2.44	2.27	7.8	2.56	-4.5	5.00	4.23	18.2
Provision for tax	0.58	0.78	-25.5	(0.15)	NA	0.44	1.47	-70.3
RPAT	1.86	1.48	25.4	2.71	-31.3	4.57	2.77	65.1
One-offs	-	-	NA	0.03	NA	0.03	(0.13)	NA
APAT	1.86	1.48	25.4	2.14	-13.2	4.00	2.85	40.4
Reported EPS (Rs)	18.8	15.0	25.4	27.4	-31.3	46.2	28.0	65.1
Adjusted EPS (Rs)	19.6	15.0	30.6	21.7	-9.6	41.3	28.9	43.1

Margin Analysis

	3QFY20	3QFY19	YoY (bps)	2QFY20	QoQ (bps)	9MFY20	9MFY19	YoY (bps)
Raw material as % of Net Sales	47.6	50.9	(336)	48.3	(71)	32.1	48.8	(1,677)
Employee Expenses as % of Net Sales	2.6	2.3	26	2.4	14	1.7	2.5	(80)
Other Operating Expenses as % of Net Sales	15.1	15.0	10	14.4	70	9.8	15.3	(542)
EBITDA Margin (%)	34.8	31.8	300	34.9	(12)	23.3	33.4	(1,015)
Net Profit Margin (%)	25.0	19.7	528	27.3	(236)	17.5	20.6	(308)
Tax Rate (%)	23.9	34.6	(1,069)	(4.7)	NA	9.3	34.7	(2,540)

Source: Company, HDFC sec Inst Research

Volume growth will pick up once 500 buses are added to the fleet in Mumbai by BEST

Capex guidance for FY20/21E is ~Rs 4.0-4.5bn. Rs 3bn has been spent in 9MFY20

Space constraints and regulatory approvals prior to building CNG stations are common challenges faced by all CGD companies alike. However, the problem is more severe for MGL. The company has been able to add only ~50 CNG stations since Jun-16. We expect CAGR for CNG to be 2.5% over FY19-22E, beyond which growth is possible only by increasing the pace of addition of CNG stations/dispensers

We change our estimates to factor in the higher per unit EBITDA margins and slow volume growth outlook

Key Operational Data

	3QFY20	3QFY19	YoY (%)	2QFY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Total Sales Volumes (mmscm)	280.7	272.5	3.0	276.0	1.7	826.7	806.2	2.5
CNG	204.5	199.8	2.4	202.6	1.0	604.1	593.4	1.8
PNG	76.2	72.7	4.8	73.4	3.7	222.7	212.9	4.6
Total Volume (mmscmd)	3.05	2.96	3.0	3.00	1.7	3.01	2.93	2.5
CNG	2.22	2.17	2.4	2.20	1.0	2.20	2.16	1.8
PNG	0.83	0.79	4.8	0.80	3.7	0.81	0.77	4.6

Margins (Rs/scm)	3QFY20	3QFY19	YoY (bps)	2QFY20	QoQ (bps)	9MFY20	9MFY19	YoY (bps)
Realisation	26.5	27.6	(110)	28.4	(187)	27.7	25.8	186
Gross Spread	13.9	13.5	35	14.7	(78)	14.6	13.0	157
Opex	4.7	4.8	(10)	4.8	(9)	4.8	4.5	27
EBITDA Spreads	9.2	8.8	45	9.9	(69)	9.8	8.5	130
PAT	6.6	5.4	119	9.8	(318)	7.6	5.1	246
RM	12.6	14.1	(145)	13.7	(109)	13.1	12.8	29

Source: Company, HDFC sec Inst Research

Change In Estimates

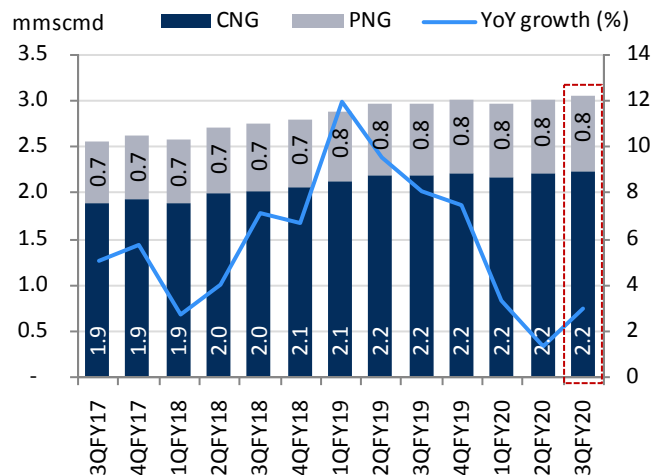
	Unit	FY20E			FY21E			FY22E		
		Old	New	Ch %	Old	New	Ch %	Old	New	Ch %
Volumes										
CNG	mmscmd	2.3	2.2	(1.8)	2.4	2.3	(4.9)	2.5	2.3	(8.2)
PNG	mmscmd	0.8	0.8	(0.4)	0.9	0.9	(2.4)	0.9	0.9	(4.0)
Exchange Rate	Rs/USD	69.6	69.6	-	72.0	72.0	-	72.0	72.0	-
Revenues	Rs bn	30.52	30.37	(0.5)	32.69	29.57	(9.5)	35.28	31.04	(12.0)
EBITDA	Rs bn	10.16	10.49	3.3	9.81	10.83	10.3	10.51	11.17	6.3
APAT	Rs bn	7.24	7.47	3.3	6.81	7.56	11.0	7.22	7.71	6.7
AEPS	Rs/sh	73.3	75.7	3.3	68.9	76.5	11.0	73.1	78.0	6.7

Source: HDFC sec Inst Research

MGL added 4 CNG stations in Q3 and now operates 248 CNG stations

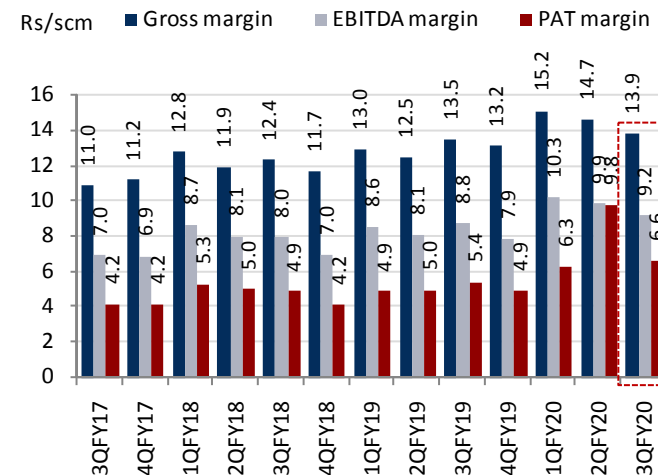
We expect that MGL will be able to maintain per unit EBITDA margin of Rs 9+ /scm over FY20-22E

Volume Trend



Source: Company, HDFC sec Inst Research

Margin Trend



Source: Company, HDFC sec Inst Research

Assumptions

	FY17	FY18	FY19	FY20E	FY21E	FY22E
Volumes (mmscmd)	2.6	2.7	2.9	3.0	3.1	3.2
CNG	1.9	2.0	2.2	2.2	2.3	2.3
PNG	0.7	0.7	0.8	0.8	0.9	0.9
YoY growth (%)	5.7	5.1	9.2	2.7	3.4	3.2
CNG	5.5	4.5	9.2	2.1	2.8	2.5
PNG	6.3	7.1	9.2	4.4	4.9	5.3
Gross margin (Rs/scm)	10.7	12.0	12.7	14.3	14.6	14.6
EBITDA margin	6.7	7.7	8.0	9.4	9.5	9.5
PAT	4.2	4.8	5.1	7.1	6.6	6.5
Exchange rate	66.9	67.0	69.9	69.6	72.0	72.0

Source: Company, HDFC sec Inst Research

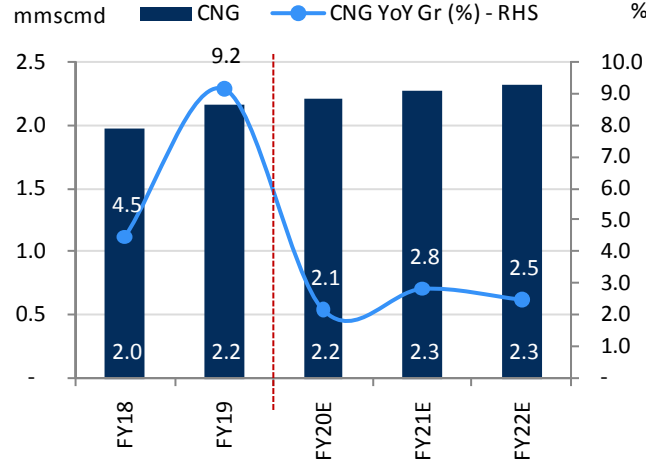
CNG volumes to grow by ~2.5% CAGR while PNG volumes to grow by ~4.9% CAGR over FY19-22E

Currently, CNG prices are at a 24-32% discount to that of diesel and petrol respectively. This discount is adequate to incentivise the conversion to CNG from petrol but the congestion at the CNG outlets acts as a key hindrance

Overall volume to grow by ~3.1% CAGR over FY19-22E

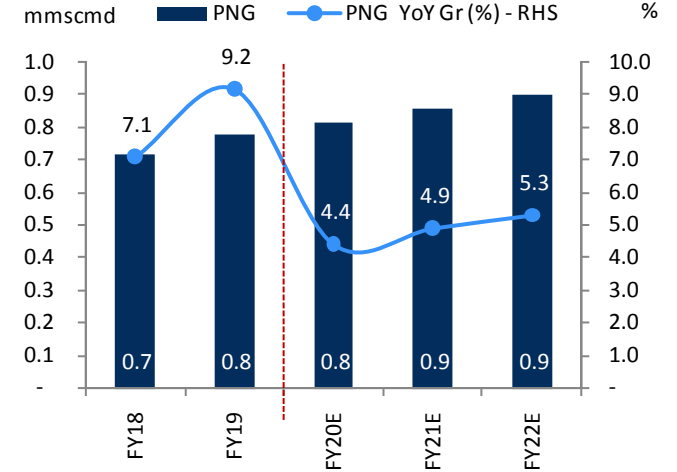
Update on Raigad GA in 3Q:
(1) 6,000 D-PNG connections added
(2) Now operating a total of 13 CNG stations in the area
(3) CNG volume sales of 0.027mmscmd up from 0.03in 1Q

CNG Volumes Growth



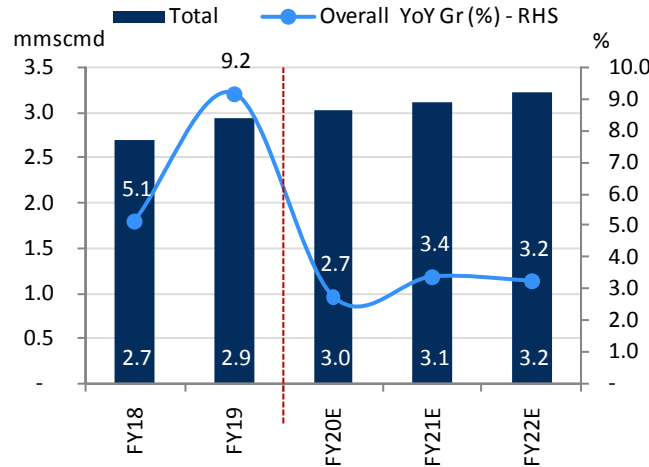
Source: Company, HDFC sec Inst Research

PNG Volumes Growth



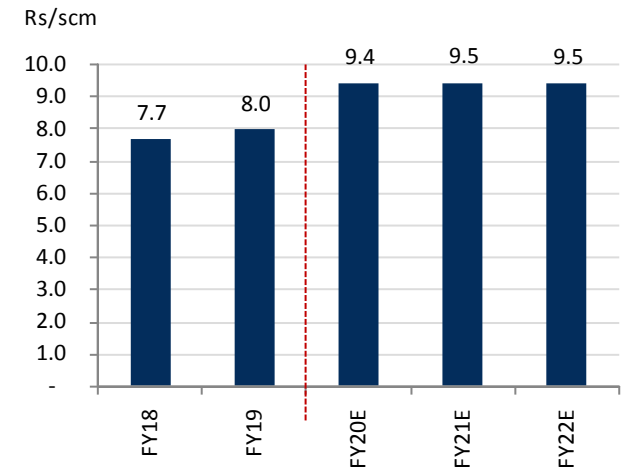
Source: Company, HDFC sec Inst Research

Overall Volume Growth



Source: Company, HDFC sec Inst Research

Per Unit EBITDA Trend



Source: Company, HDFC sec Inst Research

SOTP Valuation Based on Dec-21E

	EPS (Rs/sh)	Multiple (x)	Value Rs/sh	Valuation Basis
Standalone business	77.6	19	1,475	P/E multiple on Dec FY21E
Value per share			1,475	

Source: HDFC sec Inst Research

Peer Set Comparison

	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Upside %	EPS (Rs/sh)				P/E (x)				P/BV (x)				ROE (%)			
						FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
Reliance Industries	9,109	1,437	NEU	1,562	8.7	55.5	54.1	60.9	65.8	25.9	26.6	23.6	21.9	2.2	2.1	1.9	1.8	9.8	8.2	8.6	8.6
ONGC	1,334	106	BUY	181	71.1	21.2	18.7	21.1	21.0	5.0	5.7	5.0	5.0	0.7	0.6	0.6	0.6	13.5	11.3	12.2	11.5
Indian Oil Corp	1,065	116	BUY	181	55.8	18.4	14.5	19.4	22.1	6.3	8.0	6.0	5.2	1.0	0.9	0.9	0.8	15.4	11.9	14.8	15.6
BPCL	956	457	NEU	452	(1.1)	36.3	37.5	39.5	39.0	12.6	12.2	11.6	11.7	2.6	2.3	2.1	1.9	20.1	19.0	18.1	16.3
GAIL	550	122	BUY	190	56.0	13.8	10.0	10.9	14.2	8.8	12.2	11.2	8.6	1.2	1.2	1.1	1.0	14.8	9.9	10.1	12.2
Petronet LNG	405	270	BUY	397	47.0	14.4	18.0	22.0	23.8	18.8	15.0	12.3	11.3	4.0	3.9	3.7	3.5	21.8	26.2	30.5	31.8
HPCL	364	239	BUY	315	31.6	39.9	25.0	29.0	30.9	6.0	9.6	8.2	7.7	1.3	1.2	1.1	1.0	23.3	13.0	13.8	13.4
Indraprastha Gas	359	513	BUY	545	6.3	11.2	15.8	18.5	20.9	45.6	32.4	27.8	24.6	8.7	7.3	6.3	5.4	20.6	24.6	24.5	23.6
Gujarat Gas	207	300	NEU	273	(9.1)	6.3	12.4	12.3	14.1	47.5	24.2	24.5	21.3	9.4	6.5	5.3	4.3	21.3	31.7	23.9	22.5
Oil India	145	134	BUY	229	71.0	33.4	30.8	31.7	32.7	4.0	4.3	4.2	4.1	0.5	0.5	0.4	0.4	13.0	11.4	10.5	9.8
GSPL	138	244	BUY	256	5.0	14.1	16.6	20.2	21.4	17.3	14.7	12.1	11.4	2.4	2.1	1.9	1.7	14.7	15.3	16.4	15.5
Mahanagar Gas	118	1,195	BUY	1,475	23.6	55.3	75.7	76.5	78.0	21.6	15.8	15.6	15.3	4.9	4.0	3.4	2.9	24.3	27.9	23.5	20.5

Source: Company, HDFC sec Inst Research

Standalone Income Statement

(Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
Revenues	22.33	27.91	30.37	29.57	31.04
Growth %	9.8	25.0	8.8	(2.6)	5.0
Raw Material	10.29	13.99	14.43	12.92	13.74
Employee Cost	0.67	0.71	0.83	0.88	0.93
Other Expenses	3.57	4.36	4.62	4.95	5.20
EBITDA	7.80	8.85	10.49	10.83	11.17
EBITDA Margin (%)	34.9	31.7	34.5	36.6	36.0
EBITDA Growth %	21.1	13.5	18.5	3.2	3.2
Depreciation	1.11	1.26	1.60	1.80	2.00
EBIT	6.69	7.60	8.89	9.02	9.17
Other Income (Including EO Items)	0.58	0.78	0.97	1.02	1.07
Interest	0.00	0.00	-	-	-
PBT	7.26	8.37	9.87	10.04	10.24
Tax	2.49	2.91	2.39	2.49	2.54
RPAT	4.78	5.46	7.47	7.56	7.71
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
APAT	4.78	5.46	7.47	7.56	7.71
APAT Growth (%)	21.4	14.3	36.8	1.1	2.0
AEPS	48.4	55.3	75.7	76.5	78.0
AEPS Growth %	21.4	14.3	36.8	1.1	2.0

Source: Company, HDFC sec Inst Research

Standalone Balance Sheet

(Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital	0.99	0.99	0.99	0.99	0.99
Reserves And Surplus	19.97	23.00	28.61	33.84	39.21
Total Equity	20.95	23.99	29.60	34.82	40.20
Long-term Debt	0.01	-	-	-	-
Short-term Debt	-	-	-	-	-
Total Debt	0.01	-	-	-	-
Deferred Tax Liability	1.75	2.05	1.33	1.75	1.79
Long-term Provision	0.16	0.16	0.17	0.17	0.17
TOTAL SOURCES OF FUNDS	22.87	26.20	31.09	36.75	42.16
APPLICATION OF FUNDS					
Net Block	15.32	17.63	19.14	20.43	21.53
Capital WIP	3.57	3.70	3.70	3.70	3.70
LT Loans And Advances	1.46	1.32	1.32	1.32	1.32
Total Non-current Investments	-	-	-	-	-
Inventories	0.24	0.19	0.20	0.18	0.19
Debtors	0.92	1.00	1.08	1.05	1.11
Cash and Cash Equivalents	7.80	9.53	12.99	16.55	21.23
Other Current Assets	0.81	1.04	1.14	1.11	1.16
Total Current Assets	9.76	11.76	15.40	18.89	23.68
Creditors	1.10	1.52	1.57	1.41	1.50
Other Current Liabilities & Provns	6.13	6.69	6.89	6.18	6.57
Total Current Liabilities	7.23	8.21	8.46	7.59	8.07
Net Current Assets	2.52	3.55	6.94	11.30	15.62
TOTAL APPLICATION OF FUNDS	22.87	26.20	31.09	36.75	42.16

Source: Company, HDFC sec Inst Research

Standalone Cash Flow

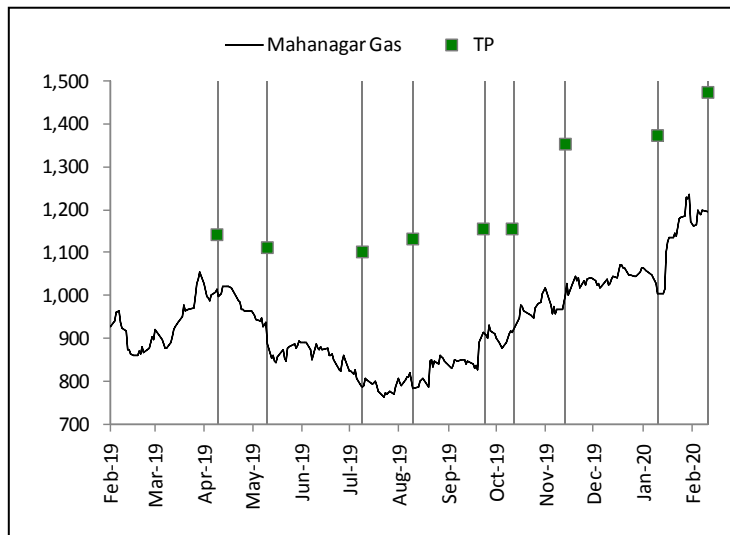
(Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	7.27	8.37	9.87	10.04	10.24
Non-operating & EO Items	(0.58)	(0.78)	(0.97)	(1.02)	(1.07)
Interest Expenses	0.00	0.00	-	-	-
Depreciation	1.11	1.26	1.60	1.80	2.00
Working Capital Change	0.54	0.84	0.07	(0.79)	0.37
Tax Paid	(2.11)	(2.61)	(3.11)	(2.06)	(2.50)
OPERATING CASH FLOW (a)	6.22	7.09	7.45	7.97	9.03
Capex	(2.83)	(3.70)	(3.10)	(3.10)	(3.10)
Free Cash Flow (FCF)	3.39	3.39	4.35	4.87	5.93
Investments	0.04	0.00	-	-	-
Non-operating Income	0.58	0.78	0.97	1.02	1.07
Others	-	-	-	-	-
INVESTING CASH FLOW (b)	(2.22)	(2.93)	(2.13)	(2.08)	(2.03)
Debt Issuance/(Repaid)	0.02	(0.10)	0.47	-	-
Interest Expenses	(0.00)	(0.00)	-	-	-
FCFE	3.41	3.28	4.81	4.87	5.93
Share Capital Issuance	-	-	(0.00)	-	-
Dividend	(2.26)	(2.33)	(2.33)	(2.33)	(2.33)
FINANCING CASH FLOW (c)	(2.23)	(2.43)	(1.86)	(2.33)	(2.33)
NET CASH FLOW (a+b+c)	1.77	1.73	3.46	3.57	4.68

Source: Company, HDFC sec Inst Research

Standalone Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY %					
EBITDA Margin	34.9	31.7	34.5	36.6	36.0
EBIT Margin	30.0	27.2	29.3	30.5	29.5
APAT Margin	21.4	19.6	24.6	25.6	24.8
RoE	24.3	24.3	27.9	23.5	20.5
RoIC	30.4	31.2	38.7	35.4	27.9
RoCE	22.3	22.3	26.1	22.3	19.5
EFFICIENCY					
Tax Rate %	34.2	34.7	24.3	24.8	24.8
Fixed Asset Turnover (x)	1.4	1.4	1.3	1.1	1.1
Inventory (days)	4	3	2	2	2
Debtors (days)	15	13	13	13	13
Other Current Assets (days)	13	14	14	14	14
Payables (days)	18	20	19	17	18
Other Current Liab & Provns (days)	100	87	83	76	77
Cash Conversion Cycle (days)	(86)	(78)	(73)	(65)	(66)
Net Debt/EBITDA (x)	(1.0)	(1.1)	(1.2)	(1.5)	(1.9)
Net D/E	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)
Interest Coverage	0.0	0.0	-	-	-
PER SHARE DATA (Rs)					
EPS	48.4	55.3	75.7	76.5	78.0
CEPS	59.6	68.0	91.8	94.8	98.3
Dividend	19.0	23.6	23.6	23.6	23.6
Book Value	212.1	242.9	299.6	352.6	407.0
VALUATION					
P/E (x)	24.7	21.6	15.8	15.6	15.3
P/Cash EPS (x)	20.0	17.5	13.0	12.6	12.1
P/BV (x)	5.6	4.9	4.0	3.4	2.9
EV/EBITDA (x)	14.1	12.2	10.0	9.4	8.7
EV/Revenue (x)	4.9	3.9	3.5	3.4	3.1
Dividend Yield (%)	1.6	2.0	2.0	2.0	2.0
OCF/EV (%)	5.7	6.5	7.1	7.9	9.4
FCFF/EV (%)	3.1	3.1	4.1	4.8	6.1
FCFE/M Cap (%)	2.9	2.8	4.1	4.1	5.0

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
9-Apr-19	1,017	BUY	1,141
10-May-19	889	BUY	1,113
9-Jul-19	787	BUY	1,104
10-Aug-19	785	BUY	1,133
22-Sep-19	847	BUY	1,157
11-Oct-19	918	BUY	1,157
13-Nov-19	1,004	BUY	1,355
10-Jan-20	1,030	BUY	1,375
11-Feb-20	1,195	BUY	1,475

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

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