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Q2FY21 concall update

Oil & Gas and Petrochemicals

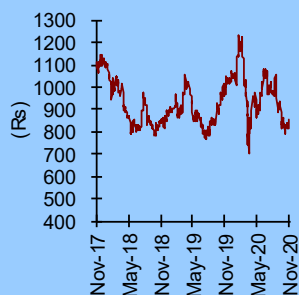
Target price: Rs817

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	32.5	32.5	32.5
Institutional investors	48.3	48.6	45.9
MFs & others	7.9	8.2	7.7
FIs/ Banks	1.9	1.7	1.1
Insurance	6.9	8.4	11.1
FII	31.6	30.3	26.0
Others	19.2	18.9	21.6

Source: www.nseindia.com

Price chart



INDIA

Mahanagar Gas

REDUCE

Maintain

Rs870

High margins may prove to be Achilles' heel

MGL in its Q2FY21 earnings call indicated total volumes in Nov'20-TD are above pre-lockdown levels and that it expects margins to rise further in Q3 from record levels in Q2. EBITDA margin at US\$3.8-4.3/mmbtu in H1-Q2FY21 is 43-63% higher than ONGC's gas price realisation. MGL is set to oppose PNGRB allowing competition and is also suggesting any volume loss due to competition may be made up by boosting margins. Policy rejig to give better deal to gas producers by hiking gas prices and to consumers by allowing competition appears imminent, which would not augur well for MGL. Reiterate **REDUCE**.

Key takeaways from Q2FY21 earnings call:

- ▶ **Gas volumes at 3mmscmd in Nov'20-TD are above pre-lockdown levels.** CNG volumes at 90-95% of pre-lockdown level and YoY higher residential and industrial volumes have helped more than make up for YoY lower commercial volumes.
- ▶ **CNG volume recovery guided to boost EBITDA margin further:** In Q2FY21, EBITDA margin surged to a record high of Rs11.6/scm, despite 31% YoY lower volumes, driven by: 1) raw material cost fall not being fully passed on in case of CNG, and 2) realisation (linked to FO/LHSH/non-subsidised LPG) rise exceeding spot LNG price rise in industrial and commercial segment. MGL has guided for further rise in margins. 81% QoQ rise in spot LNG prices and 5% QoQ fall in Brent may result in QoQ fall in margins on industrial and commercial volumes in Q3FY21. However, **>70% QoQ rise in CNG volumes (down 7% YoY in Q3E vs down 42% YoY in Q2)** would cut opex, help make up for fall in margins on industrial and commercial volumes, and boost EBITDA margin further QoQ. We estimate Q3FY21 EBITDA margin to be up 6% QoQ at Rs12.3/scm.
- ▶ **MGL has opposed/sought clarifications on multiple issues** in draft regulations issued by PNGRB on capacity determination, allowing competitors to put up own infrastructure if not provided for by incumbent, and cherry-picking by new entrants.
- ▶ **MGL believes any loss of revenue by allotting 20% capacity to new entrants can be made up by CNG price hikes given headroom vs petrol and diesel.**
- ▶ **Confident of passing on any rise in OMCs' commission:** OMCs, who we expect to emerge as competitors to MGL, have demanded 90-100% rise in commission w.e.f. Apr'18. Commission paid to OMCs at Rs3.7-4/kg is 10-11% of prevailing CNG realisation. 90-100% rise would imply commission at Rs7.0-8.0/kg (19-22% of CNG realisation). MGL has asked OMCs to share the study report on the basis of which hike was demanded before it can negotiate the proposed commission hike. MGL is confident of passing on any rise in commission to the consumers as in the past.
- ▶ **MGL expects 10x volume growth to 0.5-0.6mmscmd in Raigad** geographical area over the next 5-6 years driven by CNG.
- ▶ **Capex is guided at Rs5bn in FY21 and >Rs6bn in FY22E.** Over 20 new CNG stations and capacity upgradation at over 15 stations are planned for every year.

Market Cap	Rs86bn/US\$1.2bn	Year to March	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	MGAS.BO/MAHGL IN	Revenue (Rs mn)	30,697	32,645	25,758	31,666
Shares Outstanding (mn)	98.8	Net Income (Rs mn)	5,594	7,447	5,383	6,590
52-week Range (Rs)	1237/700	EPS (Rs)	56.6	75.4	54.5	66.7
Free Float (%)	67.5	% Chg YoY	17%	33%	-28%	22%
FII (%)	26.0	P/E (x)	15.5	11.6	16.1	13.1
Daily Volume (US\$/'000)	13,609	CFPS (Rs)	61.5	86.7	63.0	75.4
Absolute Return 3m (%)	(6.6)	EV/E (x)	9.4	8.1	10.3	8.3
Absolute Return 12m (%)	(9.8)	Dividend Yield (%)	3%	4%	3%	3%
Sensex Return 3m (%)	15.8	RoCE (%)	35%	34%	22%	24%
Sensex Return 12m (%)	10.2	RoE (%)	25%	28%	17%	19%

Please refer to important disclosures at the end of this report

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Financial summary

Table 1: Profit and Loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Income (Sales)	30,697	32,645	25,758	31,666
Operating Expenses	21,713	22,116	17,652	21,942
EBITDA	8,984	10,529	8,106	9,724
% margins	29%	32%	31%	31%
Depreciation & Amortisation	1,259	1,617	1,731	1,851
Gross Interest	3	65	72	63
Other Income	777	989	890	996
Recurring PBT	8,499	9,835	7,194	8,807
Less: Taxes	2,905	2,388	1,811	2,217
Net Income (Reported)	5,594	7,935	5,383	6,590
Recurring Net Income	5,594	7,447	5,383	6,590

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	4,448	3,842	6,358	8,703
of which cash & cash eqv.	2,040	2,295	4,218	6,180
Total Current Liabilities & Provisions	7,108	9,656	8,931	9,167
Net Current Assets	(2,660)	(5,814)	(2,573)	(464)
Investments	8,339	12,086	11,215	11,215
Net Fixed Assets	20,126	25,357	26,127	27,388
of which Capital Work-in-Progress	4,066	4,865	5,366	5,867
Total Assets	25,805	31,629	34,769	38,138
Liabilities				
Borrowings (Incl. cash deposits)	12	496	796	696
Deferred Tax Liability	1,904	1,607	1,607	1,607
Equity Share Capital	988	988	988	988
Face Value per share (Rs)	10	10	11	11
Reserves & Surplus*	22,901	28,539	31,379	34,848
Net Worth	23,888	29,527	32,367	35,836
Total Liabilities	25,805	31,629	34,769	38,138

Source: Company data, I-Sec research

Table 3: Quarterly trend

(Rs mn, year ending March 31)

	Dec'19	Mar'20	Jun'20	Sep'20
Net sales	8,191	7,527	2,775	5,490
% growth (YoY)	-1	-5	-67	-36
EBITDA	2,589	2,438	800	2,211
Margin (%)	32	32	29	40
Other income	286	270	245	184
Add: Extraordinaries	-	-	-	-
Net profit	1,861	1,666	453	1,443

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	6,076	8,564	6,224	7,445
Working Capital Changes	(573)	5,615	(1,317)	(148)
Capital Commitments	(2,500)	(7,719)	(1,630)	(3,111)
Free Cashflow	3,003	6,460	3,277	4,186
Cashflow from Investing Activities	777	989	890	996
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	-	484	300	(100)
Inc (Dec) in marketable investments	-	(3,747)	871	-
Dividend paid	(2,659)	(4,046)	(2,543)	(3,121)
Cash flow from Financing Activities	(2,659)	(1,813)	(2,243)	(3,221)
Chg. in Cash & Bank balance	1,121	2,759	1,923	1,962

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (in Rs.)				
EPS(Basic Recurring)	56.6	75.4	54.5	66.7
Recurring Cash EPS	69.4	91.8	72.0	85.5
Dividend per share (DPS)	23.0	35.0	22.0	27.0
Book Value per share (BV)	241.8	298.9	327.7	362.8
Growth Ratios (%)				
Operating Income	37%	6%	-21%	23%
EBITDA	15%	17%	-23%	20%
Recurring Net Income	17%	33%	-28%	22%
Recurring EPS	17%	33%	-28%	22%
Recurring CEPS	16%	32%	-22%	19%
Valuation Ratios (% YoY)				
P/E	15.5	11.6	16.1	13.1
P/CEPS	12.6	9.6	12.2	10.3
P/BV	3.6	2.9	2.7	2.4
EV/EBITDA	9.4	8.1	10.3	8.3
EV/FCF	28.2	23.7	25.4	19.4

Operating Ratios

Other Income / PBT (%)	9%	10%	12%	11%
Effective Tax Rate (%)	34%	24%	25%	25%
D/E Ratio (%)	0%	2%	2%	2%
Net D/E Ratio	-40%	-41%	-42%	-44%

Return/Profitability Ratios (%)

Recurring Net Income Margins	18%	23%	21%	21%
RoCE	35%	34%	22%	24%
RoNW	25%	28%	17%	19%
Dividend Payout Ratio	41%	46%	40%	40%
Dividend Yield	2.6%	4.0%	2.5%	3.1%
EBITDA Margins	29%	32%	31%	31%

Source: Company data, I-Sec research

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