

Retail Equity Research

Mahanagar Gas Limited

Gas Utilities

BSE CODE: 539957

NSE CODE: MGL

Bloomberg CODE: MAHGL: IN

SENSEX: 44,077

BUY

12M Investment period

Rating as per Mid Cap

CMP Rs. 942

TARGET Rs. 1,147

RETURN 22% ↑

(Closing: 23-11-20)

KEY CHANGES:
TARGET ↓
RATING ↔
EARNINGS ↓

Quarter recovers sequentially; Outlook positive

Mahanagar Gas Limited (MGL) distributes natural gas. The Company provides gas to domestic customers such as hospitals, nursing homes, hotels, flight kitchens, and restaurants. MGL serves customers in India.

- Revenue declined 36.3% YoY (+97.8% QoQ) in Q2FY21 primarily as CNG volumes dropped (-42.0% YoY) partially offset by a growth in domestic PNG (+21.6% YoY).
- EBITDA fell 19.1% YoY despite margin expanding 8.6pps YoY to 40.3% as operating costs reduced. As a result, Net Profit reduced 46.7% YoY further impacted by higher taxes.
- In view of rapidly expanding CGDs and various government initiatives for the Oil & Gas industry, we remain positive on the stock and reiterate our BUY rating with a revised target price of Rs. 1,147 based on 14x FY22E EPS.

Gradual recovery – Revenue grows QoQ

Revenue for Q2FY21 dropped 36.3% YoY to Rs. 549cr primarily as volumes shrank 30.9% YoY to 190.7 Standard Cubic Meter (SCMmn). CNG and PNG Industry/Commercial volumes declined by 42.0%/19.9% YoY, respectively, as lockdown and transport restrictions extended whereas Domestic PNG increased 21.6% YoY. Despite the impact of COVID-19 during the quarter, MGL achieved a growth in volumes QoQ. Blended volume stood at 2.07SCMmn, led by a strong demand recovery in CNG segment post lockdown (1.28SCMmn - 62% of total volume). Witnessed recovery at 90-95% of pre-COVID levels in Nov'20 as commercial activities gradually kicked off. PNG segment's volume in Q2FY21 was at 0.80SCMmn. CNG and PNG revenues stood at Rs. 296cr & Rs. 206cr, down 45.9% & 10.0% YoY respectively, due to unfavorable spot gas prices.

Margin expands on curbing costs

MGL's EBITDA dropped 19.1% YoY to Rs. 221cr, but EBITDA margin expanded 8.6pps YoY to 40.3% with reduced operating costs (-51.9% YoY). Taxes were high at ~25.0% of profits (vs. ~16.0% in Q2FY20). Resultantly, net profit fell 46.7% YoY to Rs. 144cr (vs. Rs. 271cr in Q2FY20). GOI is planning to invest USD 2.86bn in the upstream oil and gas production to double natural gas production to 60bcm.

Key concall highlights

- Aiming to open 20+ new CNG outlets p.a. alternately, 15-20 capacity upgradations may take place for FY22. Added 3 new CNG stations (Total- 259) in Q2FY21.
- For H1FY21, almost 25K new 4 wheelers + 13K 3 wheelers have been inducted in the CNG fleet (CNG conversion at 36K – 37K vehicles).
- Management is aiming at a Capex of Rs. 500cr for FY21 (Rs. 600cr or more for FY22).
- In Raigad GA, MGL has laid 7.82kms of pipeline during Q2FY21, thereby making total length of pipeline to 109.82kms.

Valuation

With progressive resurgence of commercial activities, current volume growth (3 SCMmn in Nov'20) is expected to further pick up with a favorable spot price and exchange rate. MGL looks convincing with stable cash flows, healthy margins and robust returns. The management is positive about its growth in Mumbai & Raigad (10x). Hence, we remain optimistic on the stock and reiterate our BUY rating on the stock with a revised target price of Rs. 1,147 based on 14x FY22E Adj EPS.

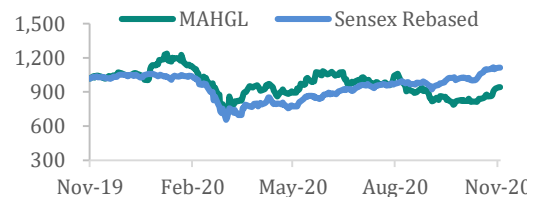
Company Data

Market Cap (cr)	Rs. 9,308
Enterprise Value (cr)	Rs. 9,037
Outstanding Shares (cr)	9.9
Free Float	57.0%
Dividend Yield	3.7%
52 week high	Rs. 1,247
52 week low	Rs. 666
6m average volume (lacs)	0.6
Beta	0.9
Face value	Rs. 10

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	32.5	32.5	32.5
FII's	31.3	29.9	25.6
MFs/Insti	27.0	28.7	30.1
Public	7.6	7.3	10.1
Others	1.6	1.6	1.7
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-9.7%	5.4%	-7.5%
Absolute Sensex	14.7%	43.7%	9.2%
Relative Return*	-24.4%	-38.3%	-16.7%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	3,264	2,050	3,100
Growth (%)	6.8	(37.2)	51.2
EBITDA	1,053	772	1,182
EBITDA Margin (%)	32.3	37.6	38.1
Adj. PAT	794	519	809
Growth (%)	45.2	(34.6)	55.9
Adj. EPS	80.3	52.5	81.9
Growth (%)	45.2	(34.6)	55.9
P/E	10.2	17.9	11.5
P/B	2.7	3.0	2.6
EV/EBITDA	7.5	11.7	7.6
ROE (%)	26.9	16.7	22.7
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	549	862	(36.3)	277	97.8	826	1,693	(51.2)
EBITDA	221	273	<i>(19.1)</i>	80	<i>177.1</i>	301	550	<i>(45.3)</i>
EBITDA margins	40.3	31.7	860bps	28.8	1150bps	36.4	32.5	390bps
Depreciation	42	39	8.6	42	0.5	85	76	11.0
EBIT	179	234	<i>(23.8)</i>	38	<i>376.1</i>	216	474	<i>(54.4)</i>
Interest	2	1	40.0	2	32.7	4	3	26.2
Other Income	18	23	(19.8)	25	(24.8)	43	43	(0.9)
Exceptional Items	-	-	-	-	-	-	-	-
PBT	195	256	<i>(23.8)</i>	61	<i>222.3</i>	256	514	<i>(50.3)</i>
Tax	51	(15)	443.0	15	227.7	66	74	(10.1)
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	144	271	<i>(46.7)</i>	45	<i>220.5</i>	189	441	<i>(57.0)</i>
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	144	271	<i>(46.7)</i>	45	<i>220.5</i>	189	441	<i>(57.0)</i>
No. of shares	9.9	9.9	0.0	9.9	0.0	9.9	9.9	0.0
Adj. EPS (Rs.)	14.6	27.4	<i>(46.7)</i>	4.6	<i>220.4</i>	19.2	44.6	<i>(57.0)</i>

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	2,546	3,183	2,050	3,100	(19.5)	(2.6)
EBITDA	913	1,153	772	1,182	(15.5)	2.5
Margins (%)	35.9	36.2	37.6	38.1	170bps	190bps
Adj. PAT	636	833	519	809	(18.4)	(2.8)
Adj. EPS	64.4	84.3	52.5	81.9	(18.4)	(2.8)

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	2,453	3,057	3,264	2,050	3,100
% change	9.6	24.6	6.8	(37.2)	51.2
EBITDA	780	885	1,053	772	1,182
% change	21.1	13.5	18.9	(26.7)	53.1
Depreciation	111	126	162	188	201
EBIT	669	760	891	584	981
Interest	0	0	7	5	6
Other Income	58	78	99	113	133
PBT	727	837	984	692	1,108
% change	21.0	15.2	17.5	(29.6)	60.1
Tax	249	291	190	173	299
Tax Rate (%)	34.2	34.7	19.3	25.0	27.0
Reported PAT	478	546	794	519	809
Adj*	-	-	-	-	-
Adj PAT	478	546	794	519	809
% change	21.5	14.3	45.2	(34.6)	55.9
No. of shares (cr)	9.9	9.9	9.9	9.9	9.9
Adj EPS (Rs.)	48.4	55.3	80.3	52.5	81.9
% change	21.5	14.4	45.2	(34.6)	55.9
DPS (Rs.)	19.0	20.0	35.0	36.0	37.0
CEPS (Rs.)	59.6	68.1	96.7	71.5	102.2

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	589	672	955	707	1,009
Non-cash adj.	71	(19)	18	162	233
Changes in W.C	(8)	31	10	(118)	1
C.F. Operation	652	685	983	750	1,243
Capital exp.	(269)	(362)	(423)	(492)	(620)
Change in inv.	(179)	(114)	(376)	138	(160)
Other invest.CF	30	38	47	0	0
C.F - Investment	(419)	(439)	(752)	(354)	(780)
Issue of equity	-	-	-	-	-
Issue/repay debt	(2)	(1)	-	-	-
Dividends paid	(224)	(233)	(218)	(356)	(365)
Other finance.CF	(1)	(0)	(23)	-	-
C.F - Finance	(226)	(235)	(242)	(356)	(365)
Chg. in cash	8	12	(11)	40	97
Closing cash	92	299	229	270	367

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	92	299	229	270	367
Accounts Receivable	91	100	68	137	180
Inventories	24	19	19	10	18
Other Cur. Assets	768	757	1,189	946	1,007
Investments	-	-	-	-	-
Gross Fixed Assets	1,809	2,172	2,595	3,087	3,707
Net Fixed Assets	1,528	1,759	1,926	2,231	2,650
CWIP	357	370	487	487	487
Intangible Assets	4	5	123	148	177
Def. Tax (Net)	24	34	41	37	64
Other Assets	122	100	46	108	194
Total Assets	3,010	3,441	4,129	4,373	5,144
Current Liabilities	723	821	947	1,047	1,309
Provisions	15	14	18	15	16
Debt Funds	1	-	-	-	-
Other Liabilities	176	207	210	196	259
Equity Capital	99	99	99	99	99
Reserves & Surplus	1,997	2,300	2,854	3,017	3,461
Shareholder's Fund	2,095	2,399	2,953	3,116	3,559
Minority Interest	-	-	-	-	-
Total Liabilities	3,010	3,441	4,129	4,373	5,144
BVPS (Rs.)	212	243	299	315	360

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	31.8	29.0	32.3	37.6	38.1
EBIT margin (%)	27.3	24.8	27.3	28.5	31.6
Net profit mgn.(%)	19.5	17.9	24.3	25.3	26.1
ROE (%)	22.8	22.8	26.9	16.7	22.7
ROCE (%)	31.9	31.7	30.2	18.7	27.6
W.C & Liquidity					
Receivables (days)	13.4	11.7	7.5	24.1	20.9
Inventory (days)	6.9	4.1	4.0	4.4	4.7
Payables (days)	31.7	33.0	28.4	32.8	33.2
Current ratio (x)	1.3	1.4	1.6	1.3	1.2
Quick ratio (x)	1.2	1.3	1.5	1.2	1.1
Turnover & Leverage					
Gross asset T.O (x)	1.5	1.5	1.4	0.7	0.9
Total asset T.O (x)	0.9	0.9	0.9	0.5	0.7
Int. coverage ratio (x)	n.m.	n.m.	136.5	116.5	166.3
Adj. debt/equity (x)	0.0	-	-	-	-
Valuation					
EV/Sales (x)	3.8	2.9	2.4	4.4	2.9
EV/EBITDA (x)	11.8	10.2	7.5	11.7	7.6
P/E (x)	19.5	17.0	10.2	17.9	11.5
P/BV (x)	4.4	3.9	2.7	3.0	2.6

Recommendation Summary



Dates	Rating	Target
28-Aug-19	ACCUMULATE	980
27-Feb-20	BUY	1,342
13-Apr-20	BUY	1,126
13-Aug-20	BUY	1,180
24-Nov-20	BUY	1,147

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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