

Mahanagar Gas

Growth triggers missing

Our ADD recommendation on Mahanagar Gas with a TP of INR 1,137 is premised on its loyal customer base of CNG and commercial establishments (who together comprised 77% of 4Q's sales mix), that are less price sensitive than industrial customers that enable MGL to maintain its per unit margins higher than peers.

- **View on the result:** Volumes and EBITDA were in-line with our estimates
- **Volumes:** MGL's total volume dipped 6.3% YoY to 2.8mmscmd (estimated 2.8mmscmd), led by a drop in CNG vols (-8.8% YoY to 2.0mmscmd). PNG volumes increased marginally to 0.8mmscmd (+0.4% YoY). Overall volumes were affected by the lockdown in the last week of March.
- **Margins:** Per unit gross spread expanded by 215bps YoY to INR 15.3/scm. This is attributable to part retention of the benefit of falling RMC (SPOT LNG). Consequently, per unit EBITDA expanded by 171bps YoY to INR 9.6/scm (vs. INR 9.8/8.3 per scm in FY20/FY19).
- **Outlook on volumes:** We expect volume to dip 15.4% YoY to 2.5mmscmd in FY21 given a poor CNG sales and low offtake by commercial customers in 1HFY21. Thereafter, blended volumes should recover to 3.1mmscmd in FY22 (+23.7% YoY).
- **Outlook on margins/EBITDA:** Per unit EBITDA should dip by 6.2% YoY from the current levels to INR 9.1/scm in FY21 as decline in volumes will result in increase in per unit opex. Subsequently, per unit EBITDA should expand to INR 10.0/scm in FY22 (+9.1% YoY). In-line with per unit EBITDA and volumes, absolute EBITDA should dip 20.9% YoY in FY21 to INR 8bn but subsequently expand by 34.9% YoY in FY22 to INR 11bn driven by a robust volume outlook and healthy per unit margins.
- **View on the balance sheet:** MGL's cash/bank balance and current investments jumped 41% YoY to INR 14bn in the absence of any significant capital outlay. The company does seem to have surplus cash to fund future projects, however, MGL did not win any new Geographical areas in the recently concluded 9th or 10th bidding rounds which remains a big concern.
- **Change in estimates:** We raise our FY21/22E EPS estimates by 18.9/51.5% to INR 61.3/83.3 driven by (1) Faster than expected ramp-up in volumes in 2HFY21 and FY22 (+3.3/8.6% in FY21/22 to 2.5/3.1mmscmd), and (2) Higher than expected per unit EBITDA margins (+6.9/27.4% to INR 9.1/10.0 per scm).
- **DCF based valuation:** Our TP is INR 1,137 (WACC 10%, Terminal growth rate 3.0%). The stock is trading at 12.4x FY22 EPS.

Financial Summary

YE Mar (INR bn)	4QFY20	3QFY20	QoQ(%)	4QFY19	YoY (%)	FY19	FY20P	FY21E	FY22E
Revenues	6.87	7.45	(7.8)	7.23	(5.0)	27.91	29.72	22.96	29.49
EBITDA	2.44	2.59	(5.8)	2.14	14.0	8.85	10.53	8.33	11.24
APAT	1.70	1.86	(8.8)	1.33	27.1	5.46	7.94	6.06	8.22
AEPS (Rs)	17.2	19.6	(12.4)	13.5	27.1	55.3	80.3	61.3	83.3
P/E (x)						18.7	12.9	16.9	12.4
EV/EBITDA (x)						10.5	8.4	10.7	7.5
RoE (%)						24.3	29.7	19.5	23.6

Source: Company, HSIE Research

ADD

CMP (as on 11 Jun 2020)	INR 1,035
Target Price	INR 1,137
NIFTY	9,902

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,012	INR 1,137
	FY21E	FY22E
EPS %	18.9	51.5

KEY STOCK DATA

Bloomberg code	MAHGL IN
No. of Shares (mn)	99
MCap (INR bn) / (\$ mn)	102/1,352
6m avg traded value (INR mn)	936
52 Week high / low	INR 1,247/664

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.2	0.8	17.9
Relative (%)	12.3	17.8	33.9

SHAREHOLDING PATTERN (%)

	Mar-20	Dec-19
Promoters	32.50	32.50
FIs & Local MFs	17.03	18.20
FPIs	31.28	28.85
Public & Others	19.19	20.45
Pledged Shares	0.0	0.0

Source : BSE

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- **Takeaways from the 4Q earnings conference call:**
 - **1QFY21 volumes:** Blended volumes dipped to 25/42% of the pre-COVID levels in Apr/May-20. However, with the easing of lockdown, industrial and CNG volumes have improved in June.
 - **Customer addition in 4Q:** MGL added 32,500 domestic and 24 industrial PNG customers and now supply gas to 1.3mn domestic households and 4,021 industrial/commercial customers. The company added 8 CNG stations in the quarter and operates 256 stations and fuels 0.8mn CNG vehicles.
 - **Net retail prices for industrial and commercial customers:** In 4Q, MGL was charging its commercial customers at INR 36/scm and industrial customers at ~INR 29/scm. Given its monopolistic power, MGL has reduced these prices only marginally in 1Q.
 - **Capex:** The company incurred INR 4.2bn on capex in FY20, of which INR 3.6bn was on laying of pipeline network, CNG forming the balance. In FY21, the company plans to spend INR 4.5-5bn depending on how quickly India recovers from the COVID-19 pandemic.
 - **Marketing exclusivity:** The matter on the finite period of network and marketing exclusivity is still pending in the Delhi High Court. In the absence of more clarity, MGL continues to exercise full exclusivity over its existing geographical areas.
 - **Liability due to lower offtake:** Given a minimum offtake agreement with GAIL, MGL has communicated the latter about lower volumes in 1Q and GAIL has in turn informed ONGC. However, MGL does not expect a liability for take or pay yet.
 - **Raigad district:** MGL sold 2.6mmscm of CNG in Raigad in 4Q; CNG forms bulk of the sales mix at the district. 4,200 domestic households were added by the company in 4Q.

Quarterly Financial Snapshot

INR bn	4QFY20	3QFY20	QoQ (%)	4QFY19	YoY (%)	FY20	FY19	YoY (%)
Net Sales	6.87	7.45	-7.8	7.23	-5.0	29.72	28.04	6.0
Raw material and Traded Goods	2.99	3.54	-15.7	3.67	-18.6	13.80	13.99	-1.4
Employee Expenses	0.18	0.19	-6.5	0.19	-3.2	0.81	0.71	13.8
Other Operating Expenses	1.26	1.12	12.6	1.24	2.2	4.59	4.36	5.4
EBITDA	2.44	2.59	-5.8	2.14	14.0	10.53	8.98	17.2
Depreciation	0.44	0.41	6.1	0.33	33.8	1.62	1.26	28.4
EBIT	2.00	2.17	-8.1	1.81	10.4	8.91	7.72	15.4
Other Income including EO	0.27	0.29	-5.6	0.24	13.1	0.99	0.65	52.6
Interest	0.02	0.02	28.4	0.00	NA	0.07	0.00	NA
PBT	2.25	2.44	-8.0	2.05	9.7	9.84	8.37	17.5
Provision for tax	0.58	0.58	-0.3	0.71	-18.6	1.90	2.91	-34.6
RPAT	1.67	1.86	-10.5	1.33	24.9	7.93	5.46	45.2
Adjustment for deferred tax	-	-	NA	-	NA	0.56	-	NA
APAT	1.70	1.86	-8.8	1.33	27.1	7.40	5.55	33.4
Reported EPS (INR)	16.9	18.8	-10.5	13.5	24.9	80.3	55.3	45.2
Adjusted EPS (INR)	17.2	19.6	-12.4	13.5	27.1	75.7	56.2	34.8

Source: Company, HSIE Research

Margin Analysis

	4QFY20	3QFY20	QoQ (%)	4QFY19	YoY (%)	FY20	FY19	YoY(%)
Raw material as % of Net Sales	43.5	47.6	(411)	50.7	(725)	46.4	49.9	(348)
Employee Expenses as % of Net Sales	2.6	2.6	4	2.6	5	2.7	2.5	19
Other Operating Expenses as % of Net Sales	18.4	15.1	333	17.1	129	15.4	15.5	(9)
EBITDA Margin (%)	35.5	34.8	75	29.6	591	35.4	32.0	339
Net Profit Margin (%)	24.7	25.0	(29)	18.5	624	24.9	19.8	511
Tax Rate (%)	25.9	23.9	200	34.9	(899)	25.0	34.7	(967)

Source: Company, HSIE Research

Key Operational Data (Volume)

	4QFY20	3QFY20	QoQ (%)	4QFY19	YoY (%)	FY20	FY19	YoY(%)
Total Sales Volumes (mmscm)	253.4	280.7	-9.7	270.5	-6.3	1,080.1	1,076.7	0.3
CNG	180.2	204.5	-11.9	197.6	-8.8	784.2	791.0	-0.9
PNG	73.2	76.2	-3.8	72.9	0.4	295.9	285.8	3.5
Total Volume (mmscmd)	2.75	3.05	-9.9	3.01	-8.5	2.95	2.95	0.0
CNG	1.98	2.22	-10.9	2.20	-9.8	2.14	2.17	-1.1
PNG	0.77	0.83	-6.9	0.81	-4.9	0.81	0.78	3.3

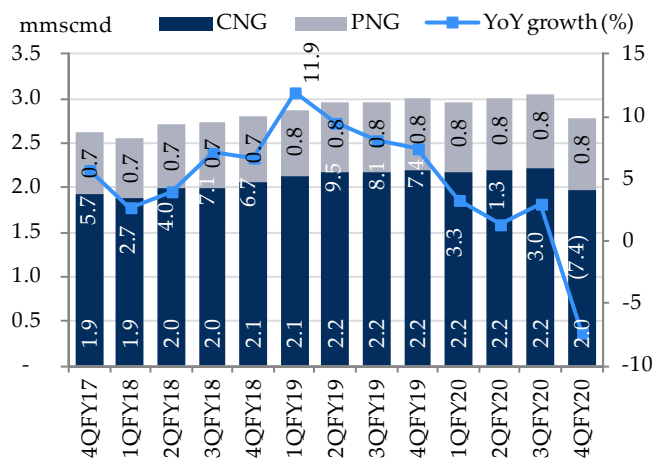
Source: Company, HSIE Research

Key Operational Data (Margins)

INR/scm	4QFY20	3QFY20	QoQ (%)	4QFY19	YoY (%)	FY20	FY19	YoY(%)
Realisation	27.1	26.5	57	26.7	38	27.5	26.0	149
Gross Spread	15.3	13.9	141	13.2	215	14.8	13.0	171
Opex	5.7	4.7	101	5.3	44	5.0	4.7	31
EBITDA Spreads	9.6	9.2	40	7.9	171	9.8	8.3	141
PAT	6.6	6.6	(5)	4.9	164	7.3	5.1	226

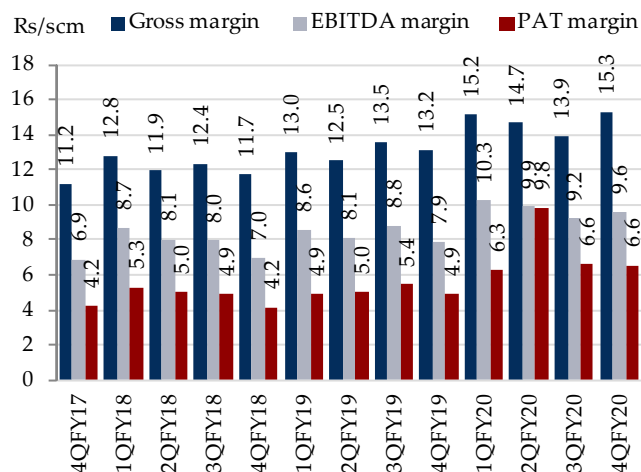
Source: Company, HSIE Research

Historical Volume trend



Source: Company, HSIE Research

Historical Margin trend



Source: Company, HSIE Research

Change in estimates

	FY21E			FY22E		
	Old	New	% Ch	Old	New	% Ch
Volumes (mmscmd)	2.4	2.5	3.3	2.8	3.1	8.6
Per unit EBITDA margin (INR/mmscmd)	8.6	9.1	6.9	7.8	10.0	27.4
Revenues (INR bn)	22.4	23.0	2.6	26.1	29.5	13.1
EBITDA (INR bn)	7.5	8.3	10.4	8.1	11.2	38.3
APAT (INR bn)	5.1	6.1	18.9	5.4	8.2	51.5
AEPS (INR/sh)	51.6	61.3	18.9	54.9	83.3	51.5

Source: Company, HSIE Research

Peer Set Comparison

Company	Mcap (INR bn)	CMP (INR/sh)	Reco	TP	EPS (INR/sh)			P/E (x)			P/BV (x)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
GAIL	383	255	ADD	241	18.0	15.7	24.5	14.2	16.2	10.4	3.6	3.8	3.6	26.2	22.8	35.5
Petronet LNG	333	475	ADD	504	15.0	12.3	24.4	31.6	38.8	19.5	6.8	6.1	5.1	23.4	16.7	28.6
Indraprastha Gas	200	290	ADD	323	13.1	10.9	17.9	22.2	26.5	16.2	6.0	5.0	3.9	32.6	20.7	27.4
Gujarat Gas	124	220	ADD	251	17.3	14.6	19.8	12.7	15.1	11.1	1.8	1.7	1.5	15.6	11.7	14.4
GSPL	383	255	ADD	241	18.0	15.7	24.5	14.2	16.2	10.4	3.6	3.8	3.6	26.2	22.8	35.5
Mahanagar Gas	102	1,035	ADD	1,137	80.3	61.3	83.3	12.9	16.9	12.4	3.5	3.1	2.8	29.7	19.5	23.6

Source: Company, HSIE Research

Financials

Income Statement

YE Mar (INR bn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenues	20.34	22.33	27.91	29.72	22.96	29.49
<i>Growth %</i>	(2.2)	9.8	25.0	6.5	(22.7)	28.4
Raw Material	10.18	10.29	13.99	13.79	9.44	12.78
Employee Cost	0.60	0.67	0.71	0.81	0.83	0.88
Other Expenses	3.11	3.57	4.36	4.59	4.36	4.58
EBITDA	6.44	7.80	8.85	10.53	8.33	11.24
<i>EBITDA Margin (%)</i>	31.7	34.9	31.7	35.4	36.3	38.1
<i>EBITDA Growth %</i>	25.6	21.1	13.5	18.9	(20.9)	34.9
Depreciation	0.95	1.11	1.26	1.62	1.86	2.14
EBIT	5.49	6.69	7.60	8.91	6.47	9.10
Other Income (Including EO Items)	0.53	0.58	0.78	0.99	1.04	1.09
Interest	0.01	0.00	0.00	0.07	-	-
PBT	6.01	7.26	8.37	9.84	7.51	10.19
Tax	2.07	2.49	2.91	1.90	1.45	1.97
RPAT	3.93	4.78	5.46	7.94	6.06	8.22
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-	-
APAT	3.93	4.78	5.46	7.94	6.06	8.22
<i>APAT Growth (%)</i>	27.5	21.4	14.3	45.2	(23.7)	35.8
AEPS	39.8	48.4	55.3	80.3	61.3	83.3
<i>AEPS Growth %</i>	27.5	21.4	14.3	45.2	(23.7)	35.8

Source: Company, HSIE Research

Balance Sheet

YE Mar (INR bn)	FY17	FY18	FY19	FY20P	FY21E	FY22E
SOURCES OF FUNDS						
Share Capital	0.99	0.99	0.99	0.99	0.99	0.99
Reserves And Surplus	17.41	19.97	23.00	28.54	31.69	35.96
Total Equity	18.40	20.95	23.99	29.53	32.68	36.95
Long-term Debt	0.03	0.01	-	-	-	-
Short-term Debt	-	-	-	-	-	-
Total Debt	0.03	0.01	-	-	-	-
Deferred Tax Liability	1.38	1.75	2.05	1.61	1.23	1.67
Long-term Provision	0.14	0.16	0.16	0.68	0.69	0.69
TOTAL SOURCES OF FUNDS	19.95	22.87	26.20	31.81	34.59	39.31
APPLICATION OF FUNDS						
Net Block	13.05	15.32	17.63	19.31	21.60	24.07
Capital WIP	4.12	3.57	3.70	4.87	4.87	4.87
LT Loans And Advances	1.13	1.46	1.32	2.05	2.10	2.14
Total Non-current Investments	-	-	-	-	-	-
Inventories	0.24	0.24	0.19	0.19	0.13	0.17
Debtors	0.95	0.92	1.00	0.68	0.53	0.68
Cash and Cash Equivalents	6.03	7.80	9.53	13.51	13.12	17.89
Other Current Assets	0.74	0.81	1.04	0.68	0.52	0.67
Total Current Assets	7.95	9.76	11.76	15.06	14.30	19.41
Creditors	1.20	1.10	1.52	1.32	0.90	1.22
Other Current Liabilities & Provns	5.10	6.13	6.69	8.15	7.37	9.96
Total Current Liabilities	6.30	7.23	8.21	9.47	8.28	11.18
Net Current Assets	1.65	2.52	3.55	5.58	6.02	8.23
TOTAL APPLICATION OF FUNDS	19.95	22.87	26.20	31.81	34.59	39.31

Source: Company, HSIE Research

Cash Flow

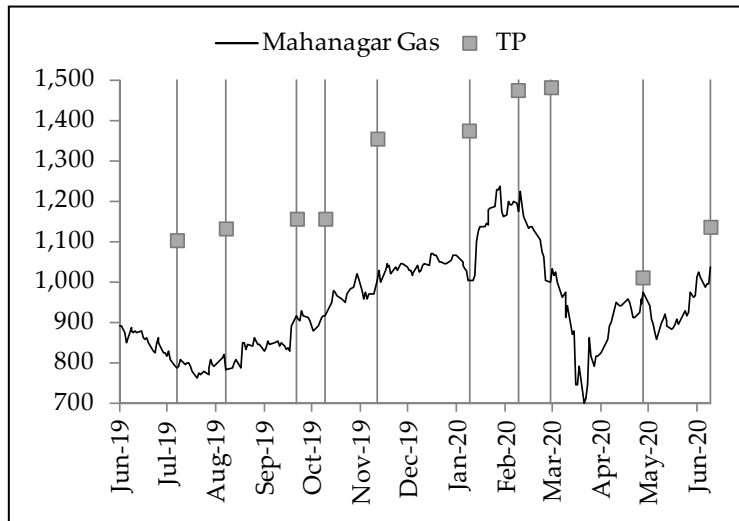
YE Mar (INR bn)	FY17	FY18	FY19	FY20P	FY21E	FY22E
Reported PBT	6.01	7.27	8.37	9.84	7.51	10.19
Non-operating & EO Items	(0.53)	(0.58)	(0.78)	(0.99)	(1.04)	(1.09)
Interest Expenses	0.01	0.00	0.00	0.07	-	-
Depreciation	0.95	1.11	1.26	1.62	1.86	2.14
Working Capital Change	1.21	0.54	0.84	1.83	(0.82)	2.56
Tax Paid	(1.90)	(2.11)	(2.61)	(2.34)	(1.83)	(1.53)
OPERATING CASH FLOW (a)	5.75	6.22	7.09	10.01	5.68	12.28
Capex	(2.54)	(2.83)	(3.70)	(4.46)	(4.16)	(4.61)
Free Cash Flow (FCF)	3.21	3.39	3.39	5.55	1.52	7.67
Investments	(0.55)	0.04	0.00	(0.58)	(0.04)	(0.04)
Non-operating Income	0.53	0.58	0.78	0.99	1.04	1.09
Others	-	-	-	-	-	-
INVESTING CASH FLOW (b)	(2.56)	(2.22)	(2.93)	(4.05)	(3.16)	(3.56)
Debt Issuance/(Repaid)	(0.67)	0.02	0.37	2.23	-	-
Interest Expenses	(0.01)	(0.00)	(0.00)	(0.07)	-	-
FCFE	2.53	3.41	3.75	7.72	1.52	7.67
Share Capital Issuance	0.09	-	-	0.00	(0.00)	-
Dividend	(2.26)	(2.26)	(2.80)	(4.15)	(2.91)	(3.95)
FINANCING CASH FLOW (c)	(2.85)	(2.23)	(2.43)	(1.98)	(2.91)	(3.95)
NET CASH FLOW (a+b+c)	0.34	1.77	1.73	3.98	(0.39)	4.77
EO Items, Others	-	-	-	-	-	-
Closing Cash & Equivalents	6.03	7.80	9.90	15.26	13.12	17.89

Key Ratios

	FY17	FY18	FY19	FY20P	FY21E	FY22E
PROFITABILITY %						
EBITDA Margin	31.7	34.9	31.7	35.4	36.3	38.1
EBIT Margin	27.0	30.0	27.2	30.0	28.2	30.9
APAT Margin	19.3	21.4	19.6	26.7	26.4	27.9
RoE	22.1	24.3	24.3	29.7	19.5	23.6
RoIC	26.8	30.4	31.2	41.1	26.2	27.9
RoCE	20.4	22.3	22.3	27.5	18.2	22.3
EFFICIENCY						
Tax Rate %	34.5	34.2	34.7	19.3	19.3	19.3
Fixed Asset Turnover (x)	1.5	1.4	1.4	1.3	0.9	0.9
Inventory (days)	4	4	3	2	2	2
Debtors (days)	17	15	13	8	8	8
Other Current Assets (days)	13	13	14	8	8	8
Payables (days)	22	18	20	16	14	15
Other Current Liab & Provns (days)	91	100	87	100	117	123
Cash Conversion Cycle (days)	(79)	(86)	(78)	(97)	(113)	(120)
Net Debt/EBITDA (x)	(0.9)	(1.0)	(1.1)	(1.3)	(1.6)	(1.6)
Net D/E	(0.3)	(0.4)	(0.4)	(0.5)	(0.4)	(0.5)
Interest Coverage	0.0	0.0	0.0	0.0	-	-
PER SHARE DATA (Rs)						
EPS	39.8	48.4	55.3	80.3	61.3	83.3
CEPS	49.5	59.6	68.0	96.7	80.2	104.9
Dividend	19.0	19.0	23.6	35.0	24.5	33.3
Book Value	186.3	212.1	242.9	298.9	330.8	374.1
VALUATION						
P/E (x)	26.0	21.4	18.7	12.9	16.9	12.4
P/Cash EPS (x)	20.9	17.4	15.2	10.7	12.9	9.9
P/BV (x)	5.6	4.9	4.3	3.5	3.1	2.8
EV/EBITDA (x)	14.9	12.1	10.5	8.4	10.7	7.5
EV/Revenue (x)	4.7	4.2	3.3	3.0	3.9	2.9
Dividend Yield (%)	1.8	1.8	2.3	3.4	2.4	3.2
OCF/EV (%)	6.0	6.6	7.6	11.3	6.4	14.6
FCFF/EV (%)	3.3	3.6	3.7	6.3	1.7	9.1
FCFE/M Cap (%)	2.5	3.3	3.7	7.5	1.5	7.5

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
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
2-Mar-20	1,004	BUY	1,482
29-Apr-20	959	ADD	1,012
12-Jun-20	1,035	ADD	1,137

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

Disclosure:

We, **Harshad Katkar, MBA, Nilesh Ghuge, MMS & Divya Singhal, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Any holding in stock –No

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