

August 02, 2018

Mahanagar Gas Ltd.

Strong volume and healthy margins drive earnings

Higher CNG volume growth came as a surprise, expect further upside

The company's CNG volume grew by 12.6% y-o-y and 3.2% q-o-q to 2.12 mmscmd. Rising crude prices led to increase in petrol and diesel prices which has shifted the consumer attention to CNG. We expect the volume growth trend to continue for few more quarters till crude prices remain at elevated levels which will directly benefit the company. We forecast CNG volumes to average 2.18 mmscmd and 2.44 mmscmd by FY19E & FY20E respectively.

PNG volumes to grow at 10.8% from FY18-20E

The company's PNG segment registered a volume CAGR of 6-7% from FY16-18 contributing 25-26% to the overall volumes. The company is currently providing PNG to 1 million domestic households. The company has penetration of approx. 30% in Mumbai metropolitan region including Thane. With government gradually phasing out LPG subsidy, we expect substitution to PNG is only set to increase. The management is targeting 2 lakh new connections for PNG in FY19E. Hence, we expect PNG volumes to grow at CAGR of approx. 10.8% over FY18-20E driven by more penetration in domestic households and strong industrial volumes.

Low gas prices to support margins going ahead

In Q1FY19, R-LNG prices dipped by 20% to \$8.74 mmbtu as compared to \$11 mmbtu. This has helped to maintain the margins to INR 8.07/SCM. We factor in margins of INR 8.43/SCM and INR 8.79/SCM for FY19E & FY20E respectively. We believe R-LNG prices will not rise significantly and margins to remain healthy.

Valuations

Mahanagar Gas Ltd has a monopolistic business model. We believe volume growth is expected to rise on the back of addition of new areas and increase spread in PNG connections. Cost control on the back of falling gas prices has benefitted the company in the quarter. Rupee depreciation is a concern. Overall with growing cleaner fuel demand like CNG, PNG etc and increasing household connections we believe the company is well placed in the center of gas business.

We have valued the company on DCF and EV/EBITDA method. In DCF we factor in WACC of 10.8%, Risk free rate of 7.5% and terminal growth rate of 5%,thereby, arriving at a target of INR 1077 per share. In EV/EBITDA method the company trades at 8.4x FY20E EBITDA of INR 10594 million. We assign a forward multiple of 10x of FY20E EBITDA and arrive at a target price of INR 1123 per share. We prefer average of DCF and EV/EBITDA method and arrive at a final target price of INR 1100 per share, representing an upside of 16.2% from current valuations.

Financial Snapshot

(INR Millions)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	20,783	20,340	22,330	25,849	29,748
Growth%		-2%	10%	16%	15%
EBITDA	5093	6442	7801	9108	10594
Growth%		26%	21%	17%	16%
PAT	3109	3934	4779	5462	6197
Growth%		27%	21%	14%	13%
EPS (INR)	31.4	39.8	48.4	55.3	62.7
P/E (x)	33.3	26.3	19.6	17.1	15.1
P/B (x)	5.4	5.6	4.5	4.1	3.7
EV/EBITDA(x)	18.0	15.8	12.0	9.9	8.4

Source: NSPL Research

* Read last page for disclaimer & rating rationale

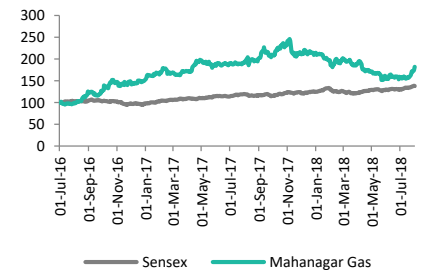
STRONG BUY *

Downside Scenario	Current Price	Price Target	Upside Scenario
	947	1100	
		16.2%▲	

Stock Details	
Industry	Oil & Gas
Sensex	37521
Nifty	11346
Bloomberg Code	MAHGL:IN
Eq. Cap. (INR. Mn.)	988
Face Value (INR.)	10
52-w H/L	1378/772
Market Cap (INR. Mn.)	93564

Valuation Data			
	FY18	FY19E	FY20E
P/E (x)	19.6	17.1	15.1
P/B (x)	4.5	4.1	3.7
EV/EBITDA(x)	12.0	9.9	8.4

Mahanagar Gas Ltd Vs SENSEX



Shareholding Pattern (in %)			
	Jun'18	Mar'18	Jun'17
Promoters	56.50	65.00	65.00
FIIIs	13.31	10.06	10.08
DIIIs	7.68	5.56	7.33
Retail	12.51	9.39	7.60
Total	100.0	100.0	100.0

ANALYST

Vaibhav Chowdhry, vaibhav.chowdhry@nalandasecurities.com, +91-22-6281-9649
Aditya khetan, aditya.khetan@nalandasecurities.com, +91-22-6281-9647

NALANDA SECURITIES PRIVATE LIMITED

310-311 Hubtown Solaris, NS Phadke Marg, Opp Teli Gali, Andheri East, Mumbai 69
+91-22-6281-9600 | research@nalandasecurities.com | www.nalandasecurities.com



Q1FY19 Result Analysis

(INR Millions)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Revenue	6193	5309	5870	16.7%	5.5%
COGS	2929	2312	2914	26.7%	0.5%
Employee Expenses	169	175	161	-3.3%	4.8%
Other Expenses	986	793	1033	24.3%	-4.6%
Total Expenses	4084	3280	4108	24.5%	-0.6%
EBITDA	2109	2029	1762	4.0%	19.7%
Depreciation	295	246	339	19.8%	-13.1%
Other Income	153	122	174	25.8%	-11.6%
EBIT	1968	1905	1596	3.3%	23.3%
Finance Cost	1	0.1	1	-	-
PBT	1967	1904	1595	3.3%	23.3%
Taxes	684	661	548	3.4%	24.9%
Net Profit	1283	1243	1048	3.2%	22.5%
EPS in INR	13.1	12.7	10.8	2.9%	20.5%

- The company reported revenue growth of 16.7% y-o-y & 5.5% q-o-q to INR 6193.4 million in Q1FY19.
- Cost of goods sold (COGS) reported growth of 26.7% y-o-y & 0.5% q-o-q to INR 2929.2 million in Q1FY19.
- Other expenses reported growth of 24.3% y-o-y & decline by 4.6% q-o-q to INR 986 million.
- EBITDA reported growth of 4% y-o-y & 19.7% q-o-q to INR 2109.4 million in Q1FY19.
- EBITDA margins stood at 31.2% in Q1FY19 as compared to 27.4% in Q4FY18 & 34.8% in Q1FY18.
- PBT reported growth of 3.3% y-o-y & 23.3% q-o-q to INR 1967.1 million in Q1FY19.
- PAT reported growth of 3.2% y-o-y & 22.5% q-o-q to INR 1283.3 million in Q1FY19.
- PAT margins stood at 19% in Q1FY19 as compared to 16.3% in Q4FY18 & 21.3% in Q1FY18.

Volumes performance

In SCM Million	Q1FY19	Q4FY18	Q-o-Q
CNG	193.08	184.87	4.4%
PNG - Domestic	32.89	31.72	3.7%
PNG - Industrial	35.45	35.16	0.8%
PNG – Total	68.34	66.87	2.2%
Total Volumes	261.42	251.75	3.8%

Sales performance

In INR Million	Q1FY19	Q4FY18	Q-o-Q
CNG (Net of excise duty)	4161.6	3976.1	4.7%
PNG	1975.8	1833.2	7.8%
Traded Items	11.2	14.8	-24.3%
Other operating income	44.9	45.7	-1.8%
Revenue from operations	6193.5	5869.8	5.5%

Source: Company, NSPL Research

- The CNG volumes reported growth of 4.4% q-o-q to 193.08 SCM million in Q1FY19.
- The PNG domestic volumes reported growth of 3.7% q-o-q to 32.89 SCM million and PNG industrial volumes reported growth of 0.8% to 35.45 SCM million in Q1FY19.
- The volume growth was on the back of 3 wheelers addition of 15,000 which led to increase in volume offtake also the new domestic household addition collectively led to volume growth in the quarter.
- CNG revenue (net of excise duty) reported growth of 4.7% q-o-q to INR 4161.6 million in Q1FY19.
- PNG revenue reported growth of 7.8% q-o-q to INR 1975.8 million in Q1FY19.

ANALYST

Vaibhav Chowdhry, vaibhav.chowdhry@nalandasecurities.com, +91-22-6281-9649
Aditya Khetan, aditya.khetan@nalandasecurities.com, +91-22-6281-9647

NALANDA SECURITIES PRIVATE LIMITED

310-311 Hubtown Solaris, NS Phadke Marg, Opp Teli Gali, Andheri East, Mumbai 69
+91-22-6281-9600 | research@nalandasecurities.com | www.nalandasecurities.com



Q1FY19 conference call highlights

- Management stated that LNG imports witnessed significant increase over the past few years.
- LNG demand is expected to witness significant growth going ahead due to (i) Shift to cleaner fuels like CNG, PNG etc in order to reduce emission (ii) Government's push towards clean energy is prompting all public vehicles in the city to convert to CNG.
- The company has total 1 million household connections as on June 2018. Domestic household addition in Q1FY19 is around 20,000.
- 5 new CNG stations have become operational in Raigad.
- The company has put 3 bids in the 9th round of gas bidding and management is quite confident of winning the 3 bids in the coming quarters.
- Spot gas prices have increased by \$2/mmbtu.
- CNG prices have increased to INR 46/kg from INR 42/kg.
- Rupee depreciation is a cause of concern and if rupee continues to hover around current levels of INR 68-69 then the company may witness pressure on the margins.
- The company's CNG volume grew by 12.6% y-o-y and 3.2% q-o-q to 2.12 mmscmd. Volume growth in Q1FY19 is largely attributable to addition of 15,000 vehicles in 3 wheelers.
- In Q1FY19 R-LNG gas prices stood at \$8.74 mmbtu as compared to \$11 mmbtu in Q1FY18. This decrease in prices led to almost flat gas cost on y-o-y basis.
- Commercial prices stood at INR 35.63 paisa/SCM in Q1FY19 as compared to INR 34.14 paisa/SCM.
- Industrial prices stood at INR 31.11 paisa/SCM in Q1FY19 as compared to INR 24.34 paisa/SCM. Realization in industrial improved significantly.
- The company plans to incur an capex of INR 400 crore per annum. Maintenance capex is INR 50 crore (Included in INR 400 crore).
- Management is of the view that gas cost might go up in the coming months. However, company is comfortable to pass on the increased cost considering the exchange rate remains in their favor. Since, Mahanagar Gas has monopolistic business model pass on the to end consumer is very much comfortable.

ANALYST

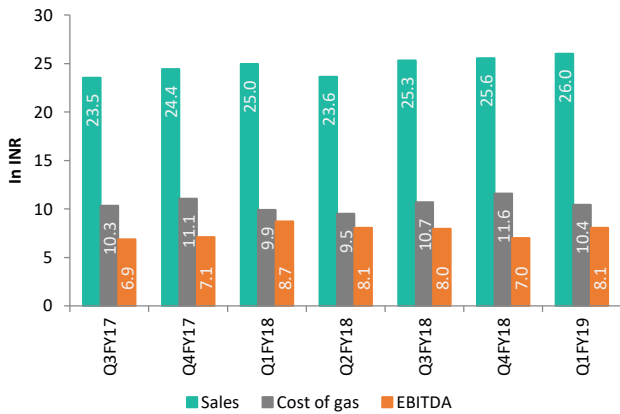
Vaibhav Chowdhry, vaibhav.chowdhry@nalandasecurities.com, +91-22-6281-9649
Aditya Khetan, aditya.khetan@nalandasecurities.com, +91-22-6281-9647

NALANDA SECURITIES PRIVATE LIMITED

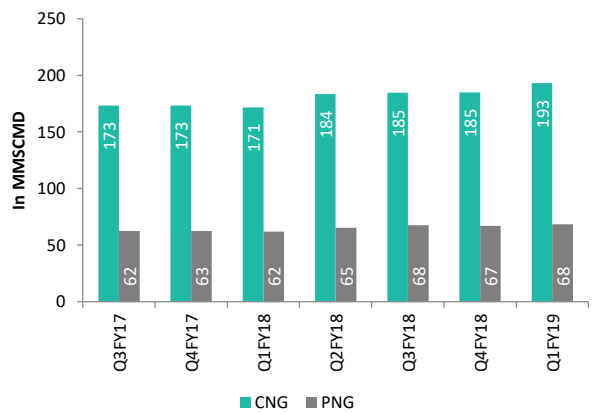
310-311 Hubtown Solaris, NS Phadke Marg, Opp Teli Gali, Andheri East, Mumbai 69
+91-22-6281-9600 | research@nalandasecurities.com | www.nalandasecurities.com



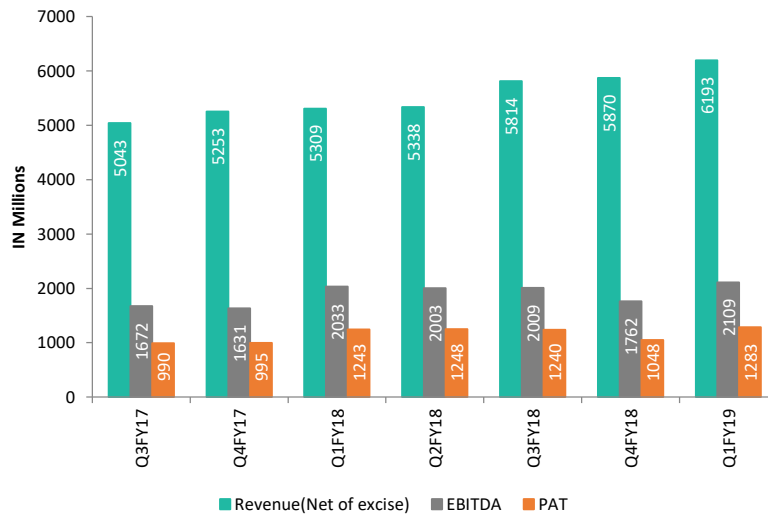
Improved trajectory of sales with strong growth in volumes



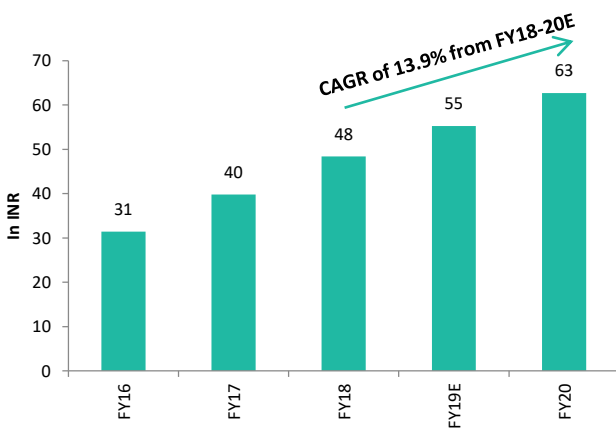
Volumes show a growth trend in Q1FY19



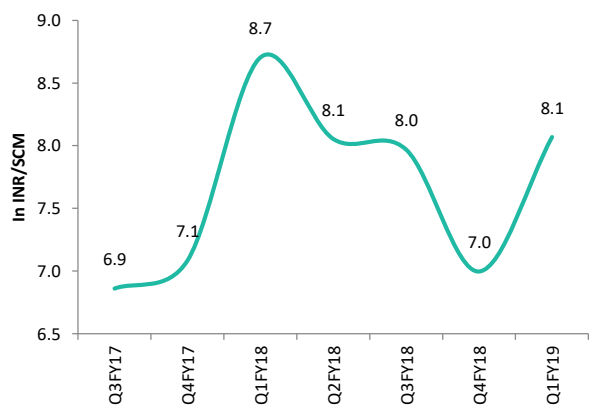
Strong revenue performance seen in Q1FY19



EPS growth to remain robust going ahead



EBITDA/SCM rebounded from Q4FY18



Source: NSPL Research

ANALYST

Vaibhav Chowdhry, vaibhav.chowdhry@nalandasecurities.com, +91-22-6281-9649
 Aditya Khetan, aditya.khetan@nalandasecurities.com, +91-22-6281-9647

NALANDA SECURITIES PRIVATE LIMITED

310-311 Hubtown Solaris, NS Phadke Marg, Opp Teli Gali, Andheri East, Mumbai 69
 +91-22-6281-9600 | research@nalandasecurities.com | www.nalandasecurities.com



Profit & Loss (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
Net sales	20,783	20,340	22,330	25,849	29,748
COGS	12,297	10,184	10,291	12,230	14,074
Employee Expenses	563	600	670	659	743
Other Expenses	2,830	3,114	3,568	3,852	4,337
EBITDA	5,093	6,442	7,801	9,108	10,594
D&A	826	951	1,112	1,345	1,597
Other income	472	527	577	549	434
EBIT	4,739	6,017	7,266	8,312	9,431
Interest Expense	22	10	1	9	10
PBT	4,716	6,007	7,265	8,303	9,421
Tax	1,607	2,072	2,486	2,842	3,224
PAT	3,109	3,934	4,779	5,462	6,197
EPS in INR	19.5	32.9	47.4	59.4	64.1
Balance Sheet (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
Share Capital	893	988	988	988	988
Reserves & Surplus	16,391	17,413	19,966	21,916	24,128
Shareholder's Funds	17,284	18,400	20,953	22,904	25,116
Long term borrowings	44	27	12	16	11
Long term provisions	112	140	148	177	203
Deferred tax liabilities	1,199	1,376	1,748	1,735	1,997
Other non-current liabilities	5	2	9	9	9
Total Non-current liabilities	1,360	1,545	1,916	1,936	2,220
Security deposits	3,186	3,878	4,432	5,099	5,684
Capital creditors	270	246	249	296	341
Trade payables	1,116	1,490	1,100	1,821	2,096
Other financial liabilities	6	134	1,008	1,160	1,334
Other current liabilities	357	389	384	442	509
Income tax liabilities (net)	10	12	8	9	11
Short-term provisions	116	148	51	186	214
Current liabilities	5,061	6,297	7,233	9,014	10,189
Total Equity and Liabilities	23,705	26,242	30,102	33,853	37,525
Fixed Assets	11,241	13,003	15,281	17,281	18,781
Capital work in progress	4,289	4,115	3,566	2,504	1,095
Intangible assets	47	44	39	49	53
Other financial assets	183	225	431	259	298
Loans	108	80	240	92	106
Other non current assets	448	815	791	938	1,080
Total Non-current Assets	16,314	18,283	20,347	21,123	21,412
Inventories	180	238	240	658	757
Current Investments	3,934	4,667	6,877	5,883	6,770
Trade receivables	923	945	914	1,129	1,299
Cash and cash equivalents	222	74	150	3,500	5,606
Other bank balance	1,528	1,407	769	769	769
Security deposit	98	122	155	154	177
Other current assets	505	507	651	639	739
Total Current Assets	2,304	2,899	3,151	4,014	6,322
Total Assets	23,705	26,242	30,102	33,853	37,525

Source: NSPL Research

ANALYST
 Vaibhav Chowdhry, vaibhav.chowdhry@nalandasecurities.com, +91-22-6281-9649
 Aditya khetan, aditya.khetan@nalandasecurities.com, +91-22-6281-9647

Source: NSPL Research

NALANDA SECURITIES PRIVATE LIMITED
 310-311 Hubtown Solaris, NS Phadke Marg, Opp Teli Gali, Andheri East, Mumbai 69
 +91-22-6281-9600 | research@nalandasecurities.com | www.nalandasecurities.com



Cash Flow (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
PBT	4716	6007	7265	8303	9421
Operating profit before working capital changes	5247	6604	8378	9657	11028
Operating profit after working capital changes	5691	7329	9849	11006	11908
Less income tax paid	(1501)	(1862)	(2486)	(2842)	(3224)
Cash Flow from Operating	4190	5467	7363	8165	8684
(Incr)/ Decr in Gross PP&E	(2154)	(2569)	(2272)	(2010)	(1504)
Purchase of investments	(23,495)	(25,616)	(2210)	994	(887)
Cash Flow from Investing	(2222)	(2777)	(4198)	(1016)	(2391)
(Decr)/Incr in Debt	(28)	(18)	(15)	4	(5)
Dividend paid	(1882)	(2816)	(3072)	(3511)	(3984)
Finance costs	(4)	(3)	(1)	(9)	(10)
Cash Flow from Financing	(1914)	(2838)	(3088)	(3517)	(3999)
Incr/(Decr) in Balance Sheet Cash	54	(148)	76	3632	2294
Cash at the Start of the Year	168	222	74	150	3500
Cash at the End of the Year	222	74	150	3782	5794

RATIOS	FY16	FY17	FY18	FY19E	FY20E
Profitability					
Return on Assets(%)	13.1%	15.0%	15.9%	16.1%	16.5%
Return on Capital (%)	24.6%	29.8%	31.9%	33.9%	35.8%
Return on Equity (%)	18.0%	21.4%	22.8%	23.8%	24.7%
Margin Trend					
Gross Margin (%)	37.1%	45.4%	49.1%	48.3%	48.3%
EBITDA Margin (%)	22.3%	28.8%	31.8%	32.3%	32.6%
Net profit Margin (%)	13.6%	17.6%	19.5%	19.3%	19.1%
Liquidity					
Current ratio	1.5	1.3	1.3	1.4	1.6
Quick ratio	1.0	0.9	1.1	1.2	1.3
Debtor days	0.17	0.06	0.03	0.05	0.05
Inventory days	5	9	9	20	20
Creditor days	33	53	39	54	54
Working capital days	-28	-45	-30	-35	-35
Solvency					
Total Debt / Equity	0.00	0.00	0.00	0.00	0.00
Interest coverage	192	538	7432	846	907
Valuation Ratios					
EV/EBITDA	18.0	15.8	12.0	9.9	8.4
P/E	33.3	26.3	19.6	17.1	15.1
P/B	5.4	5.6	4.5	4.1	3.7

Source: NSPL Research

ANALYST
 Vaibhav Chowdhry, vaibhav.chowdhry@nalandasecurities.com, +91-22-6281-9649
 Aditya Khetan, aditya.khetan@nalandasecurities.com, +91-22-6281-9647

NALANDA SECURITIES PRIVATE LIMITED
 310-311 Hubtown Solaris, NS Phadke Marg, Opp Teli Gali, Andheri East, Mumbai 69
 +91-22-6281-9600 | research@nalandasecurities.com | www.nalandasecurities.com



Mahanagar Gas Ltd				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
August 02, 2018	947	1100	Strong Buy	Buy	5% - 15%
				Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

Disclaimer:

This report has been prepared by Nalanda Securities Pvt. Ltd. ("NSPL") and published in accordance with the provisions of Regulation 18 of the Securities and Exchange Board of India (Research Analysts) Regulations, 2014, for use by the recipient as information only and is not for circulation or public distribution. NSPL includes subsidiaries, group and associate companies, promoters, directors, employees and affiliates. This report is not to be altered, transmitted, reproduced, copied, redistributed, uploaded, published or made available to others, in any form, in whole or in part, for any purpose without prior written permission from NSPL. The projections and the forecasts described in this report are based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections are forecasts were based will not materialize or will vary significantly from actual results and such variations will likely increase over the period of time. All the projections and forecasts described in this report have been prepared solely by authors of this report independently. None of the forecasts were prepared with a view towards compliance with published guidelines or generally accepted accounting principles.

This report should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this report nor anything contained therein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. It does not constitute a personal recommendation or take into account the particular investment objective, financial situation or needs of individual clients. The research analysts of NSPL have adhered to the code of conduct under Regulation 24 (2) of the Securities and Exchange Board of India (Research Analysts) Regulations, 2014. The recipients of this report must make their own investment decisions, based on their own investment objectives, financial situation or needs and other factors. The recipients should consider and independently evaluate whether it is suitable for its/ his/ her/their particular circumstances and if necessary, seek professional / financial advice as there is substantial risk of loss. NSPL does not take any responsibility thereof. Any such recipient shall be responsible for conducting his/her/its/their own investigation and analysis of the information contained or referred to in this report and of evaluating the merits and risks involved in securities forming the subject matter of this report. The price and value of the investment referred to in this report and income from them may go up as well as down, and investors may realize profit/loss on their investments. Past performance is not a guide for future performance. Actual results may differ materially from those set forth in the projection.

Except for the historical information contained herein, statements in this report, which contain words such as 'will', 'would', etc., and similar expressions or variations of such words may constitute 'forward-looking statements'. These forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements are not predictions and may be subject to change without notice. NSPL undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date thereof. NSPL accepts no liabilities for any loss or damage of any kind arising out of use of this report.

This report has been prepared by NSPL based upon the information available in the public domain and other public sources believed to be reliable. Though utmost care has been taken to ensure its accuracy and completeness, no representation or warranty, express or implied is made by NSPL that such information is accurate or complete and/or is independently verified. The contents of this report represent the assumptions and projections of NSPL and NSPL does not guarantee the accuracy or reliability of any projection, assurances or advice made herein. Nothing in this report constitutes investment, legal, accounting and/or tax advice or a representation that any investment or strategy is suitable or appropriate to recipients' specific circumstances. This report is based / focused on fundamentals of the Company and forward-looking statements as such, may not match with a report on a company's technical analysis report. This report may not be followed by any specific event update/ follow-up.

Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

Disclosure of Interest Statement	
Details of Nalanda Securities Pvt. Limited (NSPL)	<ul style="list-style-type: none"> NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI SEBI Registration Number: INH000004617
Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
Research analyst or NSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or NSPL or its relatives'/associates')
Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document	NO
Research analyst or NSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	NO
Has research analyst or NSPL or its associates received any compensation from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates managed or co-managed public offering of securities for the subject company in the past 12 month	NO
Has research analyst or NSPL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation or other benefits from the subject company or third party in connection with the document.	NO
Has research analyst served as an officer, director or employee of the subject company	NO
Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO

ANALYST

Vaibhav Chowdhry, vaibhav.chowdhry@nalandasecurities.com, +91-22-6281-9649
Aditya Khetan, aditya.khetan@nalandasecurities.com, +91-22-6281-9647

NALANDA SECURITIES PRIVATE LIMITED

310-311 Hubtown Solaris, NS Phadke Marg, Opp Teli Gali, Andheri East, Mumbai 69
+91-22-6281-9600 | research@nalandasecurities.com | www.nalandasecurities.com