

November 15, 2018

Mahanagar Gas Ltd.

Volumes in-line with expectations, however, gross margins witnessed steep decline

CNG volume growth in-line with expectations, industrial volumes outperformed

The company's CNG volume grew by 3.8% q-o-q to 2.18 mmscmd. Rising crude prices led to increase in petrol and diesel prices which has shifted the consumer attention to CNG. We expect the CNG 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 2.19 mmscmd and 2.44 mmscmd by FY19E & FY20E respectively. Industrial volumes recorded growth of 9-10% y-o-y in Q2FY19 and majority of this consist of one-off which management expects to normalize to 3-4% in the subsequent quarters.

PNG volumes remained robust and in-line with expectations

The company's PNG segment registered a volume growth of 5.1% q-o-q to 71.8 SCM million in Q2FY19. 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. Management has guided that PNG is showing strong conversion rate and they are targeting 2 lakh new connections for PNG by FY19E. Hence, we expect PNG volumes to grow at 9-10% per annum by FY20E driven by more penetration in domestic households and strong industrial volumes.

High gas prices impacted the margins in Q2FY19

Gas prices stood at \$9 per mmbtu in H1FY19 as compared to \$6.5 per mmbtu in H1FY18, thereby, recording growth of 38.5%. Due to this gross margins were impacted by 680bps y-o-y & 380bps q-o-q and stood at 48.9% in Q2FY19. Also, rupee depreciation is a factor which led to such steep decline in gross margins. Gas prices are a function of crude, hence, crude at higher levels might impact the margins going ahead.

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. 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.

At the CMP of INR 841 the company trades at 7.1x FY20E EBITDA. We have valued the company on DCF and EV/EBITDA method and arrived at a target price of INR 1095 per share, thereby, representing an upside of 30.2% from current valuations.

(INR Millions)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	20,783	20,340	22,330	26,154	29,615
Growth%		-2.1%	9.8%	17.1%	13.2%
EBITDA	5,093	6,442	7,801	9,110	10,907
Growth%		26.5%	21.1%	16.8%	19.7%
PAT	3,109	3,934	4,779	5,478	6,403
Growth%		26.5%	21.5%	14.6%	16.9%
EPS (INR)	31.47	39.83	48.38	55.46	64.82
P/E (x)	16.4	22.5	20.9	15.2	13.0
P/B (x)	2.7	4.8	4.8	3.6	3.3
EV/EBITDA(x)	8.7	13.5	12.8	8.7	7.1

Source: Company, NSPL Research

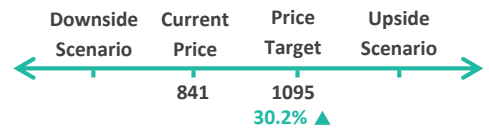
* Read last page for disclaimer & rating rationale

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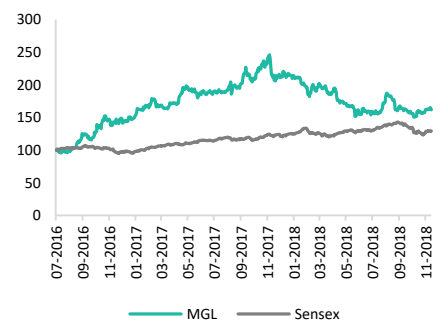
STRONG BUY*



Market Data	
Industry	Oil & Gas
Sensex	35142
Nifty	10576
Bloomberg Code	MAHGL:IN
Eq. Cap. (INR Millions)	988
Face Value (INR)	10
52-w H/L	1163/756
Market Cap (INR Millions)	82978.3

Valuation Data	FY18	FY19E	FY20E
P/E (x)	20.9	15.2	13.0
P/B (x)	4.8	3.6	3.3
EV/EBITDA (x)	12.8	8.7	7.1

Mahanagar Gas Ltd Vs SENSEX



	Shareholding Pattern (in %)		
	Sept'18	Jun'18	Sept'17
Promoters	32.51	32.50	32.50
Foreign promoter	10.00	24.00	32.50
FIIIs	19.03	12.7	9.98
DIIIs	24.25	17.68	16.59
Retail	14.21	13.12	8.43
Total	100.0	100.0	100.0



Q2FY19 Result Analysis

(INR Millions)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Revenue (Net of excise duty)	6965.1	5337.6	6193.4	30.5%	12.5%
COGS	3562.3	2368.3	2929.2	50.4%	21.6%
Employee Expenses	180.1	166.8	168.8	8.0%	6.7%
Other Expenses	1008	801.9	986	25.7%	2.2%
Total Expenses	4750.4	3337	4084	42.4%	16.3%
EBITDA	2214.7	2000.6	2109.4	10.7%	5.0%
Depreciation	307.9	258.5	295.1	19.1%	4.3%
Other Income	181.6	140.9	153.4	28.9%	18.4%
EBIT	2088.4	1883	1967.7	10.9%	6.1%
Finance Cost	1.2	0	0.6	-	-
PBT	2087.2	1883	1967.1	10.8%	6.1%
Taxes	724.3	635.1	683.8	14.0%	5.9%
Net Profit	1362.9	1247.9	1283.3	9.2%	6.2%
EPS in INR	13.8	12.63	12.99	9.3%	6.2%

Source: Company, NSPL Research

- The company's net sales grew 30.5% y-o-y and 12.5% q-o-q to INR 6965.1 million in Q2FY19.
- EBITDA grew by 10.7% y-o-y and 5.0% q-o-q to INR 2214.7 million in Q2FY19. EBITDA Margins stood at 31.8% in Q2FY19 as against 37.5% in Q2FY18 and 34.1% in Q1FY19. Margins remained under pressure owing to sudden rise in the cost of natural gas and rupee depreciation.
- Employee expense grew by 8.0% y-o-y and 6.7% q-o-q to INR 180.1 million.
- PBT grew by 10.8% y-o-y & 6.1% q-o-q to INR 2087.2 million in Q2FY19.
- Reported PAT grew by 9.2% y-o-y and 6.2% q-o-q to INR 1362.9 million in Q2FY19. PAT margins stood at 38.3% in Q2FY19 as compared to 52.7% in Q2FY18 and 43.8% in Q1FY19.

Volumes performance

In SCM Million	Q2FY19	Q1FY19	Q-o-Q
CNG	200.5	193.1	3.8%
PNG - Domestic	33.5	33.3	0.7%
PNG - Industrial	38.3	35.1	9.3%
PNG – Total	71.8	68.3	5.1%
Total Volumes	272.3	261.4	4.2%

Sales performance

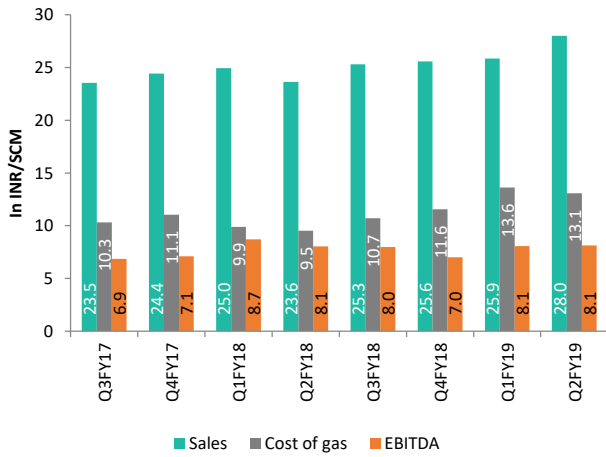
In INR Million	Q1FY19	Q4FY18	Q-o-Q
CNG (Net of excise duty)	4666.8	4161.6	12.1%
PNG	2238.4	1975.8	13.3%
Traded Items	13.0	11.2	16.1%
Other operating income	46.9	44.8	4.7%
Revenue from operations	6965.1	6193.4	12.5%

Source: Company, NSPL Research

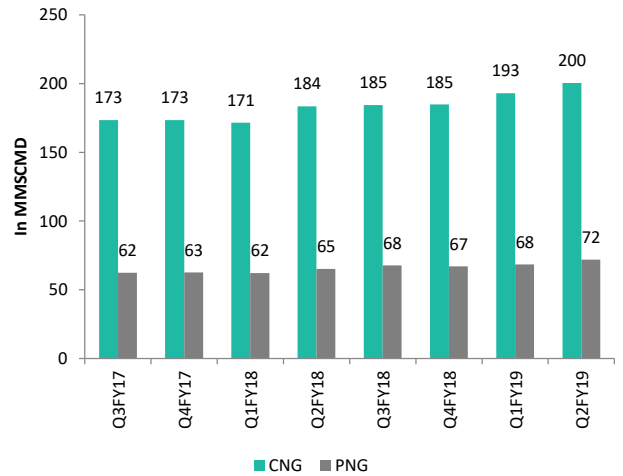
- The CNG volumes reported growth of 3.8% q-o-q to 200.5 SCM million in Q2FY19.
- The PNG domestic volumes reported growth of 0.7% q-o-q to 33.5 SCM million and PNG industrial volumes reported growth of 9.3% to 38.3 SCM million in Q2FY19.
- Overall volumes of CNG & PNG recorded growth of 4.2% q-o-q to 272.3 SCM million in Q2FY19.
- CNG revenue (net of excise duty) reported growth of 12.1% q-o-q to INR 4666.8 million in Q2FY19.
- PNG revenue reported growth of 13.3% q-o-q to INR 2238.4 million in Q2FY19.
- Overall revenue from operations recorded strong growth of 12.5% q-o-q to INR 6965.1 million in Q2FY19.
- Volumes recorded robust growth y-o-y owing to high conversion rate into CNG and PNG in Q2FY19.



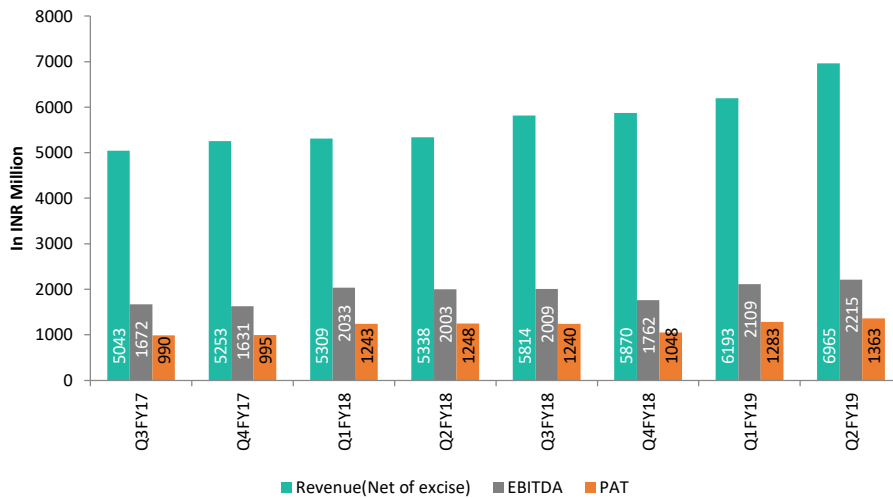
Improved trajectory of sales with strong growth in volumes



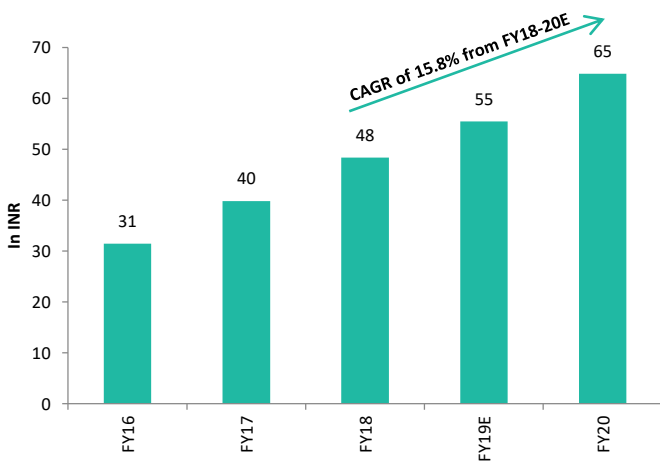
Highest ever quarterly volumes recorded of CNG & PNG



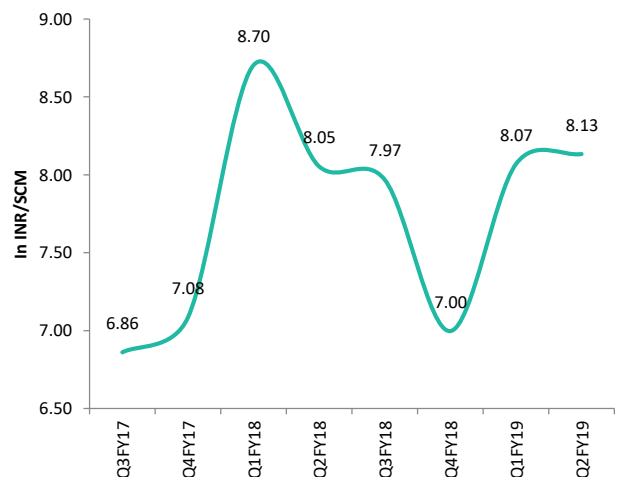
Strong revenue performance seen in Q2FY19



EPS growth to remain robust going ahead



EBITDA/SCM rebounded from Q4FY18



Source: Company, NSPL Research

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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.
- Strong demand from the natural gas segment is expected to push the demand for CNG and PNG ahead.
- Domestic household addition in Q2FY19 is around 21,000.
- 5 new CNG stations are operational in Raigad.
- The company has not been able to win any bid in the 9th round because of destructive tariff levels, however, management is quite confident of winning some bids in the 10th round.
- Increase in R-LNG, rupee depreciation impacted the margins in Q2FY19. Gas prices generally move in tandem with oil prices.
- Spot gas prices are around \$9 mmbtu in H1FY19 as compared to \$6 mmbtu in H1FY18.
- 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 increase in gas prices is very comfortably passed on to the end consumer.
- The company's CNG volume grew by 3.8% q-o-q to 200.5 SCM million. Volume growth in Q2FY19 is largely attributable to addition of 3 & 4 wheelers. Net additions were 10,000 more as compared to Q2FY18 which led to volume growth.
- The management has guided for an overall growth of 6-7% in FY19E because of (i) Increase in per capita consumption of CNG (ii) PNG conversion has been substantially higher and is expected to increase going ahead.
- Industrial volumes in this quarter has shown a strong growth of 9-10% and major portion in this is one-off and management is off the view this will normalize to 3-4% levels from the subsequent quarters.
- Management plans to add 20 stations per annum for the next 2 years. Capex for single station is approx. INR 2.25 crore.
- Realization improved q-o-q owing to price hikes taken in Q1FY19.

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Profit & Loss (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
Net sales	20,783	20,340	22,330	26,154	29,615
COGS	12,297	10,184	10,291	12,660	14,056
Employee Expenses	563	600	670	673	739
Other Expenses	2,830	3,114	3,568	3,711	3,913
EBITDA	5,093	6,442	7,801	9,110	10,907
D&A	826	951	1,112	1,345	1,597
Other income	472	527	577	572	433
EBIT	4,739	6,017	7,266	8,338	9,744
Interest Expense	22	10	1	9	10
PBT	4,716	6,007	7,265	8,328	9,734
Tax	1,607	2,072	2,486	2,850	3,331
PAT	3,109	3,934	4,779	5,478	6,403
EPS in INR	31.47	39.83	48.38	55.46	64.82

Balance Sheet (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
Share Capital	893	988	988	988	988
Reserves & Surplus	16,391	17,413	19,966	21,922	24,208
Shareholder's Funds	17,284	18,400	20,953	22,910	25,196
Long term borrowings	44	27	12	16	11
Long term provisions	5	2	9	9	9
Deferred tax liabilities	112	140	148	179	203
Other non-current liabilities	1,199	1,376	1,748	1,760	1,994
Total Non-current liabilities	1,360	1,545	1,916	1,963	2,217
Security deposits	3,186	3,878	4,432	5,172	5,677
Capital creditors	270	246	249	306	340
Trade payables	1,116	1,490	1,100	1,885	2,093
Other financial liabilities	6	134	1,008	1,176	1,333
Other current liabilities	116	148	51	189	214
Income tax liabilities (net)	10	12	8	9	11
Short-term provisions	357	389	384	449	508
Current liabilities	5,061	6,297	7,233	9,187	10,176
Total Equity and Liabilities	23,705	26,242	30,102	34,059	37,588
Fixed Assets	11,241	13,003	15,281	17,281	18,781
Capital work in progress	4,289	4,115	3,566	2,222	625
Intangible assets	47	44	39	49	53
Other financial assets	183	225	431	263	298
Loans	108	80	240	93	106
Other non current assets	448	815	791	952	1,078
Total Non-current Assets	16,314	18,283	20,347	20,859	20,940
Inventories	180	238	240	668	756
Current Investments	3,934	4,667	6,877	5,967	6,761
Trade receivables	923	945	914	1,145	1,298
Cash and cash equivalents	222	74	150	3,849	6,154
Other bank balance	1,528	1,407	769	769	769
Security deposit	98	122	155	156	177
Other financial assets	323	287	479	367	416
Other current assets	182	220	172	281	318
Total Current Assets	7,390	7,959	9,755	13,200	16,648
Total Assets	23,705	26,242	30,102	34,059	37,588

Source: Company, NSPL Research

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Cash Flow (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
PBT	4,716	6,007	7,265	8,328	9,734
Operating profit before working capital changes	5,247	6,604	8,378	9,682	11,341
Operating profit after working capital changes	5,691	7,329	9,849	11,176	12,066
Less income tax paid	(1,501)	(1,862)	(2,486)	(2,850)	(3,331)
Cash Flow from Operating	4,190	5,467	7,363	8,326	8,734
(Incr)/ Decr in Gross PP&E	(2,154)	(2,569)	(2,271.98)	(2,010)	(1,504)
Interest recieved	(23,495)	(25,616)	(2,210)	910	(794)
Cash Flow from Investing	(2,222)	(2,777)	(4,198)	(1,100)	(2,298)
(Decr)/Incr in Debt	(28)	(18)	(15)	4	(5)
Dividend Paid	(1,882)	(2,816)	(3,072)	(3,522)	(4,116)
Finance costs	(4)	(3)	(1)	(9)	(10)
Cash Flow from Financing	(1,914)	(2,838)	(3,088)	(3,527)	(4,131)
Incr/(Decr) in Balance Sheet Cash	54	(148)	76	3,699	2,305
Cash at the Start of the Year	168	222	74	150	3,849
Cash at the End of the Year	222	74	150	3,849	6,154

RATIOS	FY16	FY17	FY18	FY19E	FY20E
Profitability					
Return on Assets (%)	13.1%	15.0%	15.9%	16.1%	17.0%
Return on Capital (%)	24.6%	29.8%	31.9%	33.9%	36.9%
Return on Equity (%)	18.0%	21.4%	22.8%	23.9%	25.4%
Margin Trend					
Gross Margin (%)	37.1%	45.4%	49.1%	47.1%	48.0%
EBITDA Margin (%)	22.3%	28.8%	31.8%	31.8%	33.6%
Net Margin (%)	13.6%	17.6%	19.5%	19.1%	19.7%
Liquidity					
Current Ratio	1.5	1.3	1.3	1.4	1.6
Quick Ratio	1.0	0.9	1.1	1.2	1.4
Debtor Days	0.17	0.06	0.03	0.05	0.05
Inventory Days	5	9	9	19	20
Creditor Days	33	53	39	54	54
Working Capital Days	-28	-45	-30	-35	-35
Solvency					
Interest Coverage	192	538	7432	846	938
Valuation Ratios					
EV/EBITDA	8.7	13.5	12.8	8.7	7.1
P/E	16.4	22.5	20.9	15.2	13.0
P/B	2.7	4.8	4.8	3.6	3.3

Source: Company, NSPL Research

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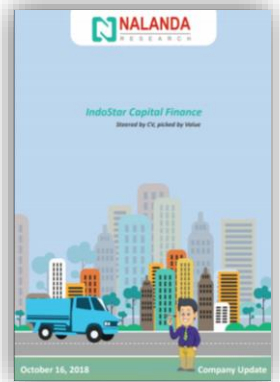
Dalmia Bharat



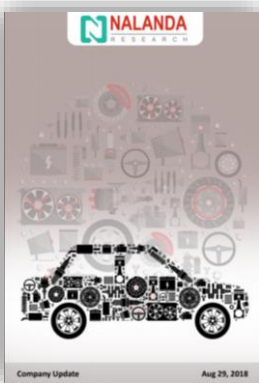
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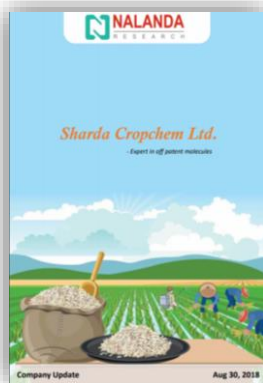
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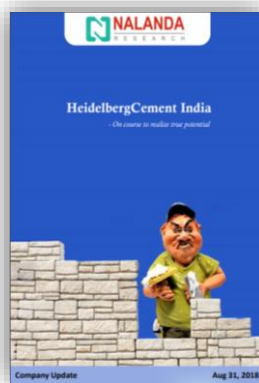
IndoStar Capital



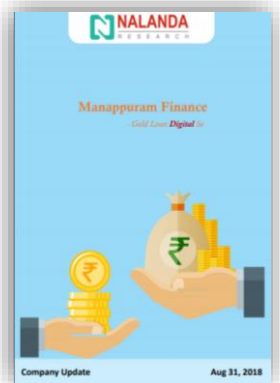
Minda Industries



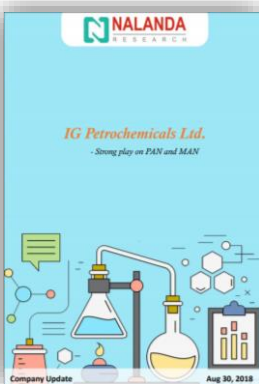
Sharda Cropchem



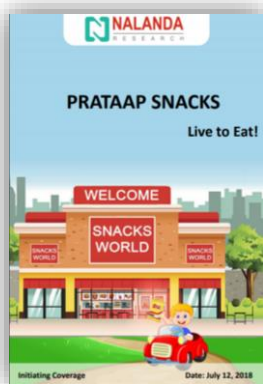
Heidelberg Cements



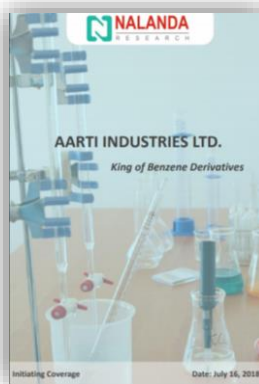
Manappuram Finance



IG Petrochemicals



Prataap Snacks



Aarti Industries



Shriram Transport



Mahanagar Gas Ltd				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
November 15, 2018	841	1095	Strong Buy	Buy	5% - 15%
August 02, 2018	947	1074	Buy	Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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

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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

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