

January 31, 2019

## Mahanagar Gas Ltd.

*Realizations remained strong, volumes remained subdued*

**CNG volume growth remained robust on yearly basis and muted sequentially, however realizations drive growth in Q3FY19**

The company's CNG volume grew by 8.3% y-o-y and flat on q-o-q basis to 2.17 mmscmd in Q3FY19. Rising crude prices led to increase in petrol and diesel prices which has shifted the consumer attention to CNG. Management plans to bid in 10<sup>th</sup> round of PNGRB bidding which might drive additional volume growth from Q1FY20E. 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 2.18 mmscmd and 2.35 mmscmd by FY19E & FY20E respectively.

**PNG volumes remained robust and in-line with expectations**

The company's PNG segment registered a muted volume growth of 1.2% q-o-q to 72.68 million SCM in Q3FY19. 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 Q3FY19**

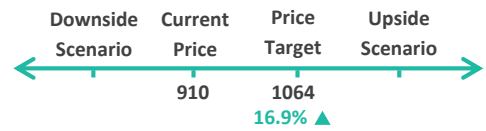
Gas prices stood at \$9 per mmbtu in Q3FY19 as compared to \$6.0 per mmbtu in Q3FY18, thereby, recording growth of 50%. Due to this gross margins were impacted by 460 bps y-o-y to 50.9% in Q3FY19. Also, rupee depreciation is a factor which led to such steep decline in gross margins. Gas prices are a 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 and increase spread in PNG connections going ahead. Stabilized crude oil prices might bring the cost of gas prices under control, thereby benefitting the company. 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 910 the company trades at 8.3x FY20E EBITDA. We have valued the company on P/E, DCF and EV/EBITDA method and arrived at a target price of INR 1064 per share, thereby, representing an upside of 16.9% from current valuations.

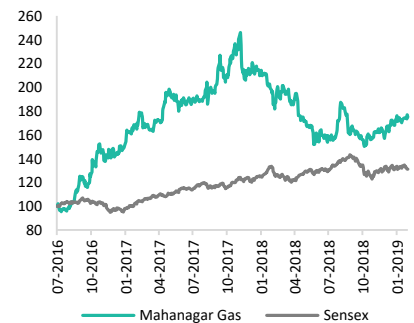
**STRONG BUY\***



Market Data	
Industry	Oil & Gas
Sensex	35591
Nifty	10652
Bloomberg Code	MAHGL:IN
Eq. Cap. (INR Millions)	988
Face Value (INR)	10
52-w H/L	1070/911
Market Cap (INR Millions)	89947.0

Valuation Data	FY18	FY19E	FY20E
P/E (x)	20.9	16.4	15.1
P/B (x)	4.8	3.9	3.6
EV/EBITDA (x)	12.8	9.5	8.3

### Mahanagar Gas Ltd Vs SENSEX



	Shareholding Pattern (in %)		
	Dec'18	Sept'18	Dec'17
Promoters	32.50	32.51	32.50
Foreign promoter	10.00	10.00	32.50
FIIIs	21.61	19.03	9.44
DIIIs	23.40	24.25	16.19
Retail	12.49	14.21	9.37
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

(INR Millions)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	22,851	22,391	24,529	30,852	35,309
<b>Growth%</b>		<b>-2%</b>	<b>10%</b>	<b>26%</b>	<b>14%</b>
EBITDA	5,093	6,442	7,801	9,089	10,208
<b>Growth%</b>		<b>26%</b>	<b>21%</b>	<b>17%</b>	<b>12%</b>
PAT	3,109	3,934	4,779	5,481	5,966
<b>Growth%</b>		<b>27%</b>	<b>21%</b>	<b>15%</b>	<b>9%</b>
EPS (INR)	31.47	39.83	48.38	55.49	60.4
P/E (x)	16.4	22.5	20.9	16.4	15.1
P/B (x)	2.7	4.8	4.8	3.9	3.6
EV/EBITDA(x)	8.7	13.5	12.8	9.5	8.3

Source: Company, NSPL Research

\* Read last page for disclaimer & rating rationale

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### Q3FY19 Result Analysis

(INR Millions)	Q3FY19	Q2FY19	Q3FY18	Y-o-Y	Q-o-Q
Revenue (Net of excise duty)	7526.8	6965.1	5814.1	29.46%	8.06%
COGS	3834.8	3562.3	2696.9	42.19%	7.65%
Employee Expenses	174.5	180.1	167.8	3.99%	-3.11%
Other Expenses	1126.5	1008	939.6	19.89%	11.76%
<b>Total Expenses</b>	<b>5135.8</b>	<b>4750.4</b>	<b>3804.3</b>	<b>35.00%</b>	<b>8.11%</b>
<b>EBITDA</b>	<b>2391</b>	<b>2214.7</b>	<b>2009.8</b>	<b>18.97%</b>	<b>7.96%</b>
Depreciation	327.6	307.9	267.7	22.38%	6.40%
Other Income	203.8	181.6	140.5	45.05%	12.22%
<b>EBIT</b>	<b>2267.2</b>	<b>2088.4</b>	<b>1882.6</b>	<b>20.43%</b>	<b>8.56%</b>
Finance Cost	0.9	1.2	0.1		
<b>PBT (before exceptional item)</b>	<b>2266.3</b>	<b>2087.2</b>	<b>1882.5</b>	<b>20.39%</b>	<b>8.58%</b>
Taxes	783.1	724.3	642.7	14.00%	5.90%
<b>Net Profit</b>	<b>1483.2</b>	<b>1362.9</b>	<b>1239.8</b>	<b>19.63%</b>	<b>8.83%</b>
<b>EPS in INR</b>	<b>15.02</b>	<b>13.8</b>	<b>12.55</b>	<b>19.68%</b>	<b>8.84%</b>

Source: Company, NSPL Research

- The company's net sales grew 29.4% y-o-y and 8.0% q-o-q to INR 7526.8 million in Q3FY19.
- EBITDA grew by 18.9% y-o-y and 7.9% q-o-q to INR 2391 million in Q3FY19. 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 rise in the cost of natural gas and rupee depreciation.
- Employee expense grew by 4% y-o-y and declined by 3.1% q-o-q to INR 174.5 million.
- PBT grew by 19.7% y-o-y & 8.8% q-o-q to INR 15.0 million in Q3FY19.
- Reported PAT grew by 19.6% y-o-y and 8.8% q-o-q to INR 1483.2 million in Q3FY19. PAT margins stood at 19.7% in Q3FY19 as compared to 21.3% in Q3FY18 and 19.6% in Q2FY19.

### Volumes performance

In SCM Million	Q3FY19	Q2FY19	Q-o-Q
CNG	199.83	200.47	-0.32%
PNG - Domestic	35.54	33.51	6.06%
PNG - Industrial	37.14	38.32	-3.08%
PNG – Total	72.68	71.83	1.18%
<b>Total Volumes</b>	<b>272.51</b>	<b>272.3</b>	<b>0.08%</b>

Source: Company, NSPL Research

### Sales performance

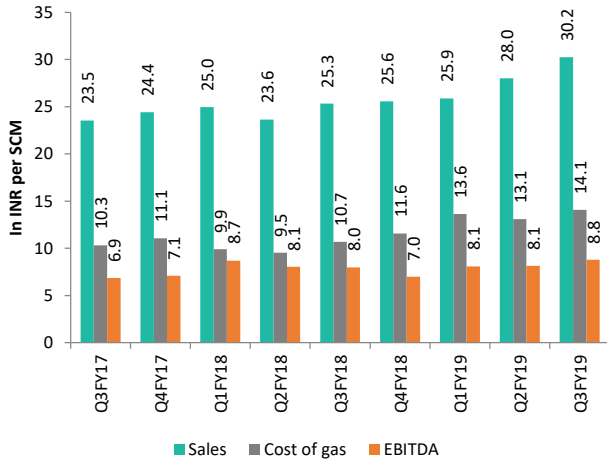
In INR Million	Q3FY19	Q2FY19	Q-o-Q
CNG (Net of excise duty)	5038.2	4666.8	7.96%
PNG	2423.4	2238.4	8.26%
Traded Items	12.9	13	-0.77%
Other operating income	52.3	46.9	11.51%
<b>Revenue from operations</b>	<b>7526.8</b>	<b>6965.1</b>	<b>8.06%</b>

Source: Company, NSPL Research

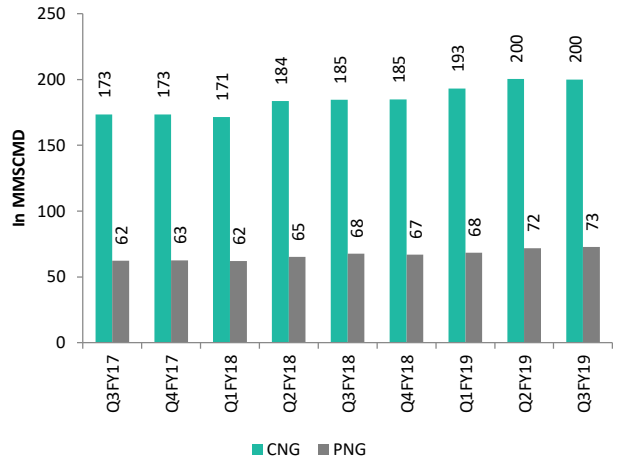
- The CNG volumes were muted at 199.83 SCM million in Q3FY19 as compared to 200.47 SCM million in Q2FY19.
- The PNG domestic volumes reported growth of 6% q-o-q to 35.54 SCM million and PNG industrial volumes reported de-growth of 3.1% to 37.14 SCM million in Q3FY19.
- Overall volumes of CNG & PNG recorded muted growth of 0.08% q-o-q to 272.51 SCM million in Q3FY19.
- CNG revenue (net of excise duty) reported growth of 7.9% q-o-q to INR 5038.2 million in Q3FY19.
- PNG revenue reported growth of 8.3% q-o-q to INR 2423.4 million in Q3FY19.
- Overall revenue from operations recorded growth of 8.06% q-o-q to INR 7526.8 million in Q3FY19.



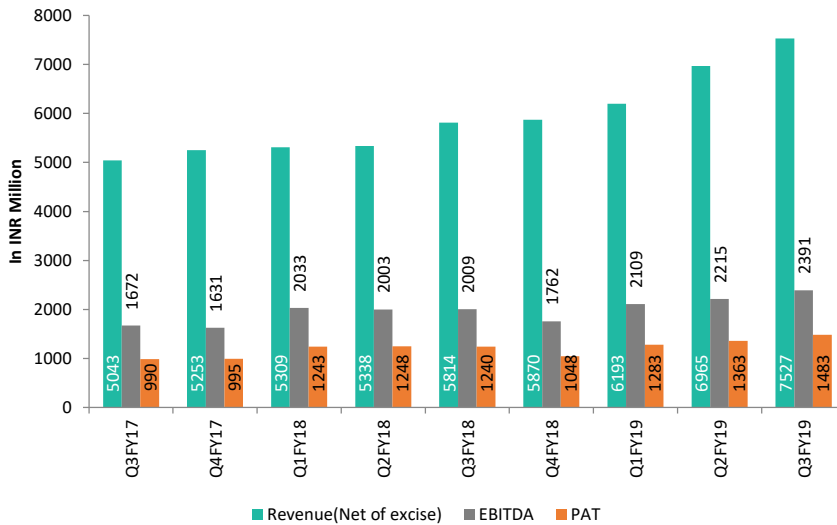
**Improved trajectory of sales with supported by realization growth**



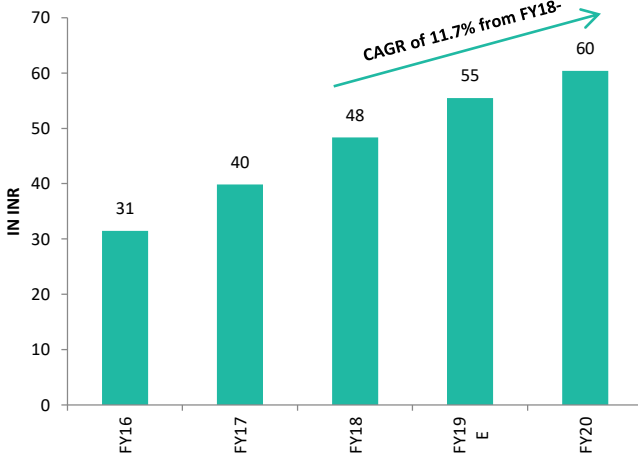
**Volumes remained muted in Q3FY19**



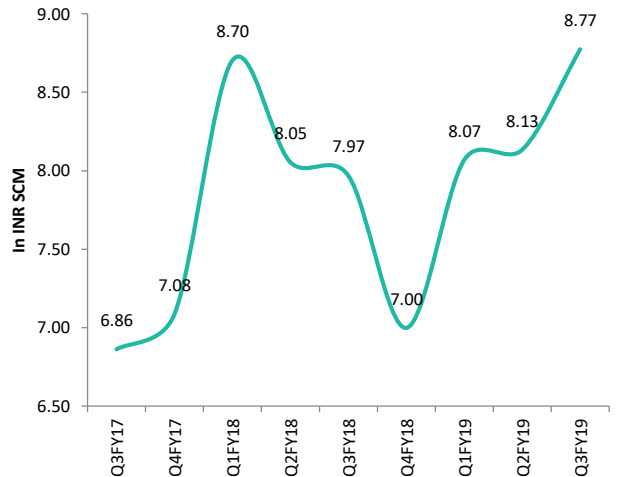
**Strong revenue performance seen in Q3FY19**



**EPS growth to remain robust going ahead**



**EBITDA/SCM rebounded from Q4FY18 and continue to be on growth trajectory**



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 26,826.
- Auto rickshaw conversion to CNG was much higher in Q3FY19 as compared to 4 wheelers.
- Other expenses witnessed growth in the quarter owing to one-offs amounting to INR 9.5 crore and management guided there could be further one-off taken in the coming quarters and particular guidance can be given on the quantum of one-offs. Majority of the one-offs are for obsolete inventory and IND-As reclassification expense.
- Increase in R-LNG, rupee depreciation impacted the margins in Q3FY19. Gas prices generally move in tandem with oil prices and with sudden drop in crude prices management expect the cost of gas to come down significantly.
- Spot gas prices are around \$9 mmbtu in Q3FY19 as compared to \$6 mmbtu in Q3FY18.
- The company's CNG volume remained muted owing to OLA and UBER strike of 15 days and school vacation. The overall volumes stood at 272.5 SCM million in Q3FY19 as compared to 272.3 SCM million in Q3FY18. Realization led growth in revenues for the quarter.
- Since crude prices corrected drastically from the peak, we believe realization to remain muted or might decline in low single digits for Q4FY19E. Current Spot LNG prices already indicating the pressure of downward crude prices.
- Commercial realizations are INR 44 per SCM in Q3FY19 as compared to INR 40 per SCM in Q2FY19. Industrial realizations are INR 38 per SCM as compared to INR 35 per SCM in Q2FY19.
- The management has raised the growth guidance to 9-10% in FY19E from earlier guidance of 6-7%.
- Management plans to add 20 stations per annum for the next 2 years. Capex for single station is approx. INR 2.25 crore.
- The overall capex guidance is INR 375 crore for FY19E.

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Profit & Loss (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
Net sales	22,851	22,391	24,529	30,852	35,309
COGS	12,297	10,184	10,291	14,154	16,443
Employee Expenses	563	600	670	697	748
Other Expenses	2,830	3,114	3,568	4,253	4,868
<b>EBITDA</b>	<b>5,093</b>	<b>6,442</b>	<b>7,801</b>	<b>9,089</b>	<b>10,208</b>
D&A	826	951	1,112	1,345	1,597
Other income	472	527	577	598	468
<b>EBIT</b>	<b>4,738.5</b>	<b>6,016.8</b>	<b>7,265.9</b>	<b>8,342.5</b>	<b>9,079.8</b>
Interest Expense	22	10	1	9	10
<b>PBT</b>	<b>4,716</b>	<b>6,007</b>	<b>7,265</b>	<b>8,333</b>	<b>9,070</b>
Tax	1,607	2,072	2,486	2,852	3,104
<b>PAT</b>	<b>3,109</b>	<b>3,934</b>	<b>4,779</b>	<b>5,481</b>	<b>5,966</b>
<b>EPS in INR</b>	<b>31.47</b>	<b>39.83</b>	<b>48.38</b>	<b>55.49</b>	<b>60.40</b>

Balance Sheet (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
<b>Share Capital</b>	<b>893</b>	<b>988</b>	<b>988</b>	<b>988</b>	<b>988</b>
Reserves & Surplus	16,391	17,413	19,966	21,923	24,053
<b>Shareholder's Funds</b>	<b>17,284</b>	<b>18,400</b>	<b>20,953</b>	<b>22,911</b>	<b>25,041</b>
Long term borrowings	44	27	12	16	11
Long term provisions	5	2	9	9	9
Deferred tax liabilities	112	140	148	193	221
Other non-current liabilities	1,199	1,376	1,748	1,896	2,170
<b>Total Non-current liabilities</b>	<b>1,360</b>	<b>1,545</b>	<b>1,916</b>	<b>2,114</b>	<b>2,411</b>
Security deposits	3,186	3,878	4,432	5,574	6,179
Capital creditors	270	246	249	343	398
Trade payables	1,116	1,490	1,100	2,108	2,449
Other financial liabilities	6	134	1,008	1,267	1,451
Other current liabilities	116	148	51	203	233
Income tax liabilities (net)	10	12	8	10	12
Short-term provisions	357	389	384	483	553
<b>Current liabilities</b>	<b>5,061</b>	<b>6,297</b>	<b>7,233</b>	<b>9,989</b>	<b>11,274</b>
<b>Total Equity and Liabilities</b>	<b>23,705</b>	<b>26,242</b>	<b>30,102</b>	<b>35,013</b>	<b>38,726</b>
<b>Fixed Assets</b>	<b>11,241</b>	<b>13,003</b>	<b>15,281</b>	<b>17,281</b>	<b>18,781</b>
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	283	324
Loans	108	80	240	101	115
Other non current assets	448	815	791	1,026	1,174
<b>Total Non-current Assets</b>	<b>16,314</b>	<b>18,283</b>	<b>20,347</b>	<b>20,960</b>	<b>21,071</b>
Inventories	180	238	240	719	823
Current Investments	3,934	4,667	6,877	6,430	7,359
Trade receivables	923	945	914	1,234	1,412
Cash and cash equivalents	222	74	150	4,034	6,300
Other bank balance	1,528	1,407	769	769	769
Security deposit	98	122	155	168	192
Other financial assets	323	287	479	395	452
Other current assets	182	220	172	303	346
<b>Total Current Assets</b>	<b>7,390</b>	<b>7,959</b>	<b>9,755</b>	<b>14,053</b>	<b>17,655</b>
<b>Total Assets</b>	<b>23,705</b>	<b>26,242</b>	<b>30,102</b>	<b>35,013</b>	<b>38,726</b>

Source: Company, NSPL Research

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Cash Flow (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
PBT	4,716	6,007	7,265	8,333	9,070
Operating profit before working capital changes	5,247	6,604	8,378	9,687	10,677
Operating profit after working capital changes	5,691	7,329	9,849	11,829	11,653
Less income tax paid	(1,501)	(1,862)	(2,486)	(2,852)	(3,104)
<b>Cash Flow from Operating</b>	<b>4,190</b>	<b>5,467</b>	<b>7,363</b>	<b>8,977</b>	<b>8,549</b>
(Incr)/ Decr in Gross PP&E	(2,154)	(2,569)	(2,272)	(2,010)	(1,504)
Interest received	(23,495)	(25,616)	(2,210)	447	(929)
<b>Cash Flow from Investing</b>	<b>(2,222)</b>	<b>(2,777)</b>	<b>(4,198)</b>	<b>(1,564)</b>	<b>(2,433)</b>
(Decr)/Incr in Debt	(28)	(18)	(15)	4	(5)
Dividend Paid	(1,882)	(2,816)	(3,072)	(3,524)	(3,836)
Finance costs	(4)	(3)	(1)	(9)	(10)
Cash Flow from Financing	(1,914)	(2,838)	(3,088)	(3,530)	(3,850)
<b>Incr/(Decr) in Balance Sheet Cash</b>	<b>54</b>	<b>(148)</b>	<b>76</b>	<b>3,884</b>	<b>2,266</b>
Cash at the Start of the Year	168	222	74	150	4,034
<b>Cash at the End of the Year</b>	<b>222</b>	<b>74</b>	<b>150</b>	<b>4,034</b>	<b>6,300</b>

RATIOS	FY16	FY17	FY18	FY19E	FY20E
<b>Profitability</b>					
Return on Assets (%)	13.1%	15.0%	15.9%	15.7%	15.4%
Return on Capital (%)	24.6%	29.8%	31.9%	33.8%	34.4%
Return on Equity (%)	18.0%	21.4%	22.8%	23.9%	23.8%
<b>Margin Trend</b>					
Gross Margin (%)	37.1%	45.4%	49.1%	45.5%	44.8%
EBITDA Margin (%)	22.3%	28.8%	31.8%	29.5%	28.9%
Net Margin (%)	13.6%	17.6%	19.5%	17.8%	16.9%
<b>Liquidity</b>					
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	19	18
Creditor Days	33	53	39	54	54
Working Capital Days	-28	-45	-30	-36	-36
<b>Solvency</b>					
Interest Coverage	192	538	7432	844	868
<b>Valuation Ratios</b>					
EV/EBITDA	8.7	13.5	12.8	9.5	8.3
P/E	16.4	22.5	20.9	16.4	15.1
P/B	2.7	4.8	4.8	3.9	3.6

Source: Company, NSPL Research

# OUR RECENT REPORTS



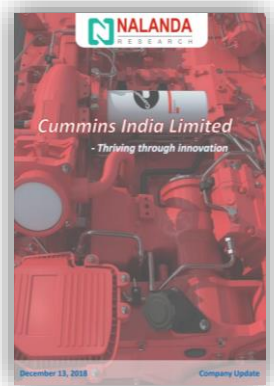
**NOCIL Ltd.**



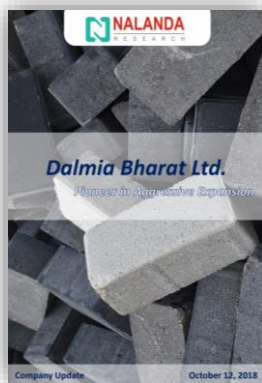
**JK Cement Ltd.**



**Suprajit Engineering Ltd.**



**Cummins India Ltd.**



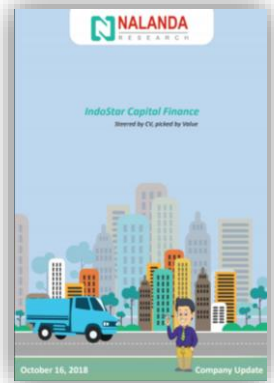
**Dalmia Bharat**



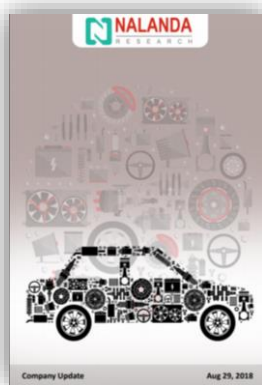
**Coromandel International**



**Meghmani Organics**



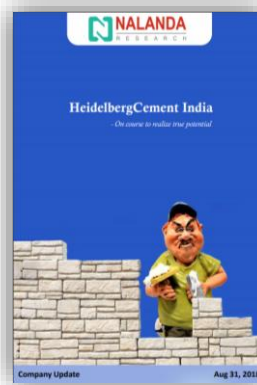
**IndoStar Capital**



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Mahanagar Gas Ltd				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
January 31, 2019	910	1064	Strong Buy	Buy	5% - 15%
November 15, 2018	841	1095	Strong Buy	Hold	0 - 5%
August 02, 2018	947	1074	Buy	Reduce	-5% - 0
				Sell	Less than -5%

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Other disclosures	NO

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