

Industry	Oil & Gas
Bloomberg	MAHGL IN
BSE CODE	539957

Strong volume growth but margin pressure continues

RATING	BUY
CMP	844
Price Target	1086
Potential Upside	29%

Rating Change	↔
Estimate Change	↑
Target Change	↑

Stock Info

52wk Range H/L	1163/756
Mkt Capital (Rs Cr)	8312
Free float (%)	35%
Avg. Vol 1M (,000)	315
No. of Shares (Cr)	10
Promoters Pledged %	0%

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Key Highlights-

- Revenue has grown by 30% YoY to Rs.763 Cr where as PAT has grown by 9% YoY to Rs. 136 Cr in Q2 FY19 on account of 24% and 43% rise in revenue from CNG and PNG segment respectively.
- EBITDA margins have declined by 220bps on sequential basis to 29% in the last quarter due to hike in the price of the natural gas by 10% on sequential basis to USD 3.06/bbl in Q2 FY19.
- Natural gas price has further increased by 9% to USD 3.36/bbl in the October, 2018.
- Overall volume of the company has increased by 9% YoY to 272 million SCM in Q2 FY19

Q2 FY19 result update:

Mahanagar Gas Ltd. has posted all time high profits of Rs.136 Cr, despite ongoing margin pressure in Q2 FY19. The company has reported revenue growth of 30% YoY to Rs.763 Cr where as PAT has grown by 9% YoY to Rs. 136 Cr. This growth is led by the 9% growth in overall volumes and increased realization to the tune of 8-9% on sequential basis in the last quarter. The price of the domestic gas has increased significantly in the last 6 months to the tune of about 18%. %. The company has partially passed on this hike to its customers which have impacted its EBITDA margins by 220bps QoQ to 29%. The company enjoys the pricing power and hence it will increase the prices of gas in all segments gradually which will improve margins going ahead.

View and valuation:

MGL is going through short term margin pressure from the last three quarters. This is because in the last one year gas prices have surged by almost 25% and the company has partially passed on the hike on its customers. Generally there is a lag of one-two quarters in passing price hike on its customers. Company has taken another price hike in october,2018 post which margins are expected to normalize(provided gas prices remains at current levels). On the volume front, lower penetration of PNG, higher conversion rate of vehicles to CNG and increasing number of CNG stations will lead to the volume growth to the tune of 8-10% CAGR over FY18-20e. We expect revenue and PAT to grow at CAGR of 18% and 12% respectively over FY18-20e.Considering above arguments, we are positive on the stock and value at 18x FY20e EPS to arrive at target price of Rs.1086 and assign BUY rating to the stock.

Key Risks to our rating and target

- Decline in the prices of the alternate fuel
- Price hike in domestic gas
- Slow rate of vehicles conversion to CNG

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	2285	2239	2453	3046	3424
EBITDA	509	644	780	872	981
EBIT	427	549	669	744	841
PAT	311	393	478	526	596
EPS (Rs)	35	40	48	53	60
EPS growth (%)	3%	14%	21%	10%	13%
ROE (%)	18%	21%	23%	23%	24%
ROCE (%)	25%	30%	32%	32%	33%
BV	193	186	212	232	255
P/B (X)	0.0	4.8	3.8	3.6	3.3
P/E (x)	0.0	22.4	16.5	15.9	14.0

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2Q FY 19
Result In line expectation
Better performance

<i>Financials</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY17</i>	<i>FY18</i>	<i>YoY %</i>
Net Sales	588	638	644	676	763	29.7%	12.8%	2239	2453	9.6%
Other Income	14	14	17	15	18	31.0%	18.4%	53	58	10%
COGS	237	270	291	293	356	50.4%	21.6%	1018	1029	1.1%
Gross Margin	60%	58%	55%	57%	53%	-6.4%	-3.4%	56%	59%	3.4%
Employee Cost	17	17	16	17	18	8.0%	6.7%	60	67	11.7%
Other Expenses	80	94	103	99	101	26.1%	2.2%	311	357	15%
EBITDA	200	201	176	211	221	10.6%	5.0%	644	780	21.1%
EBITDA%	34%	31%	27%	31%	29%	-5.0%	-2.2%	28%	31%	3.0%
Depreciation	26	27	34	30	31	19.1%	4.3%	95	111	16.9%
EBIT	174	174	142	181	191	9.3%	5.1%	549	669	21.8%
Interest	0	0	0	0	0			1	0	
PBT	188	188	160	197	209	10.8%	6.1%	601	727	21.0%
Exceptional	-	-	-	-	-			0	-	
Tax	64	64	55	68	72	14.0%	5.9%	207	249	20.0%
PAT	124	124	106	128	136	9.5%	6.2%	393	478	21.5%
PAT Margin	21%	19%	16%	19%	18%	-3.4%	-1.1%	17%	19%	1.9%

PNG Volume growth-

Mahanagar Gas has added 26,000 new PNG connections in Q2 FY19. Total PNG customers reached to 1.07mn implying 30% penetration of addressable market. Further the company has extended its steel pipeline network to 5130 km and targeted to add more than 1.5 lakh new PNG customers in FY19. This gives us long term volume growth visibility of 8-10% every year for the next 3-4 years.

Expanding City Gas distribution network

MGL plans to expand its distribution network in authorized areas of Kalyan, Dombivali, Ambernath, Badlapur, Ulhasnagar, Bhiwandi, Panvel, Taloja and Kharghar. With the target of adding 20 new CNG stations every year. Total number of CNG stations reached to 223 and management is planning to add 30 new stations in FY19 in order to tap the untapped market in the best possible manner.

Government focus on clean fuel

The government is gradually converting the public transport system to CNG fuel. Going forward, the government is expected to promote CNG gas by framing policies/ guidelines to steer bulk of transport sector towards cleaner fuel. To achieve this aim, PNGRB has announced 10th round of bidding of 50 new Geographical areas covering 326 cities by 2022. This will open new doors for MGL to apply in new geographies.

Management highlights:

- ❑ Management has maintained its volume growth guidance to 6% plus for FY19.
- ❑ Ola and Uber strike is likely to have impact on CNG volumes in Q3 FY19.
- ❑ Company plans to open 20 new CNG stations every year. 3 already opened in H1 FY19 and rest in second half is likely to open.
- ❑ Company Plans to upgrade 20 existing station (excluding Raigad expansion.) in FY19.
- ❑ MGL plans to expand its network in Raigad by adding 7000-8000 PNG connections, 3-4 new CNG stations in FY19.
- ❑ Management has guided for EBITAD margins of Rs. 8+ /SCM in upcoming quarters.
- ❑ Capex guidance for FY19 is Rs. 300 Cr. out of which Rs. 150 Cr capex is already done.
- ❑ Company has taken price hike in October 2018, and has factored all cost hike of natural gas(till date) in this hike.
- ❑ In Q2 FY19, realizations have increased due to price hike taken in the month of June 2018.
- ❑ Company has added 26,000 new PNG connections in Q2 FY19, and plans to add connections in similar range in upcoming quarters.
- ❑ In 2020, MGL will lose monopoly of Gas distribution in Mumbai, however the management is optimistic to get 10 years rollover post expiry of exclusive marketing authorization in 2020.
- ❑ Proportion of APM(Domestic gas) and PMT(Spot LNG) gas mix is 78:22

Exhibit: CNG volume (SCM Million) trend

Lower CNG pricing policy of company helped to gain volume growth in last two quarters

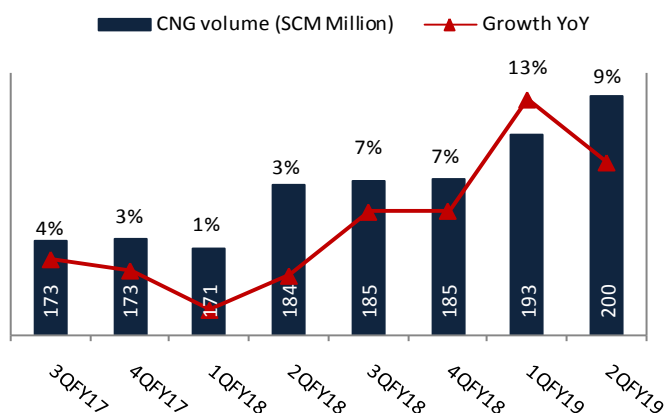


Exhibit: CNG Realization(Rs./SCM Million) trend

Company has raised prices of the CNG gas so as to pass on gas cost hike on its customers

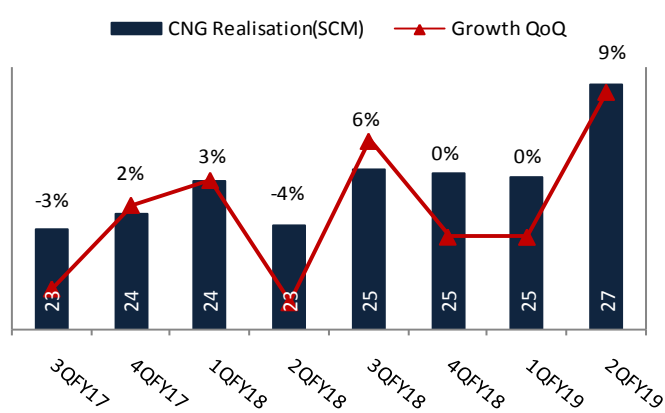


Exhibit: PNG volume (SCM Million) trend

Growing number of PNG connections helped the company to gain volume in PNG

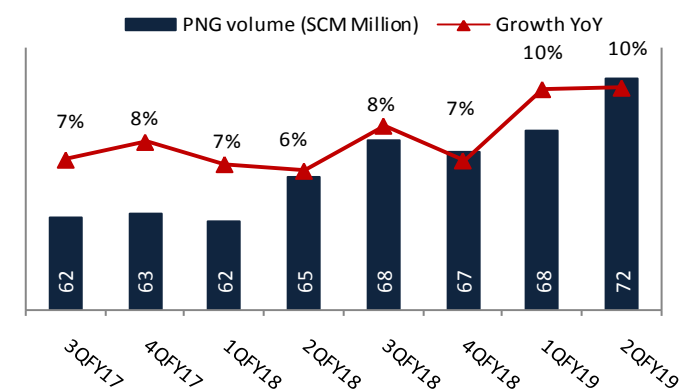


Exhibit: PNG Realization(Rs./SCM Million) trend

Company has raised prices of the PNG gas so as to pass on gas cost hike on its customers

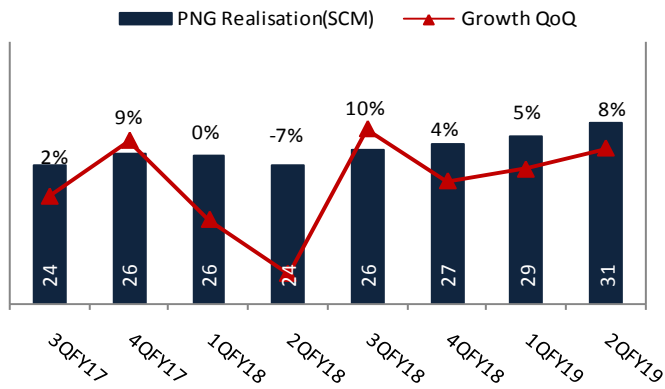


Exhibit: Revenue and PAT Trend YoY

Revenue has increased gradually over the last few quarters on the back of rising volumes in CNG and PNG

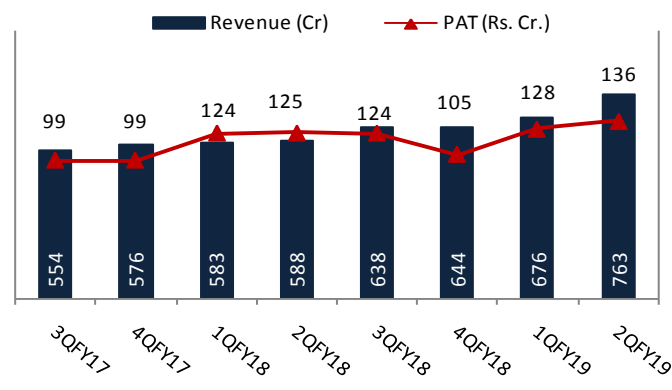
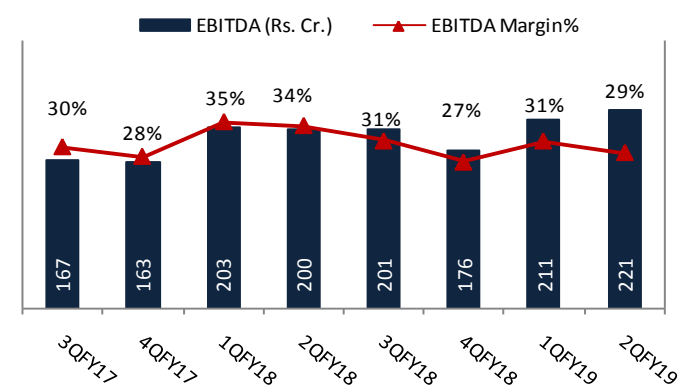


Exhibit: EBITDA and EBITDA margin%

Margins of the company has slightly came under pressure due to hike in the natural gas price



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	89	89	89	89	99	99	99	99
Reserves	1093	1208	1515	1639	1741	1997	2194	2417
Networth	1183	1297	1604	1728	1840	2095	2292	2516
Debt	10	8	7	4	3	1	1	1
Total Capital Employed	1192	1305	1611	1733	1843	2097	2294	2517
Net Fixed Assets (incl CWIP)	1240	1337	1413	1558	1716	1889	2041	2182
<i>Non Current Investments</i>								
Other Non Current Assets	2	2	44	45	82	79	79	79
Non Current Assets	1268	1362	1487	1631	1828	2035	2187	2328
Inventory	14	16	17	18	24	24	30	34
Debtors	90	109	96	92	95	91	113	128
Cash & Bank	66	89	137	175	148	107	263	434
Other Current Assets	22	28	16	18	22	17	21	24
Current Assets	515	612	680	739	796	976	1037	1212
Creditors	86	106	106	112	120	110	137	154
Provisions	188	194	10	12	7	5	6	7
Other Current Liabilities	236	275	33	36	39	38	48	54
Curr Liabilities	511	576	441	506	630	723	740	832
Net Current Assets	5	36	239	233	166	252	297	380
Total Assets	1783	1974	2167	2370	2624	3010	3225	3540

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	1,651	2,052	2,292	2,285	2,239	2,453	3,046	3,424
Change (%)	52%	45%	44%	47%	56%	59%	55%	55%
Other Income	32	34	41	47	53	58	59	70
EBITDA	483	488	490	509	644	780	872	981
Change (%)		24%	12%	0%	-2%	10%	24%	13%
Margin (%)	29%	23%	21%	22%	28%	31%	28%	28%
Depr & Amor.	71	81	80	83	95	111	128	140
EBIT	412	407	410	427	549	669	744	841
Int. & other fin. Cost	1	0	1	2	1	0	0	0
EBT	442	442	449	472	601	727	803	910
Exp Item	-	-	-	0	0	0	0	-
Tax	143.848	145	148	161	207	249	277	314
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	299	297	301	311	393	478	526	596
Adjusted PAT	299	297	301	311	393	478	526	596
Change (%)	0%	0%	1%	3%	27%	21%	10%	13%
Margin(%)	18%	14%	13%	13%	17%	19%	17%	17%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	25%	23%	19%	18%	21%	23%	23%	24%
ROCE	35%	31%	25%	25%	30%	32%	32%	33%
Asset Turnover	0.9	1.1	1.1	1.0	0.9	0.8	1.0	1.0
Debtor Days	20	19	15	15	15	14	14	14
Inv Days	3	3	3	3	4	4	4	4
Payable Days	19	19	17	18	20	16	16	16
Int Coverage	385	1,965	340	192	538	7,432	1,647	1,860
P/E	-	-	-	-	22	16	16	14
Price / Book Value	-	-	-	-	4.8	3.8	3.6	3.3
EV/EBITDA	-	-	-	-	13	10	9	8
FCF per Share	23.8	24.7	25.6	22.8	29.3	38.8	49.0	55.1
Div Yield					2.0%	0.0%	3.3%	3.7%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	442	442	449	472	601	727	803	910
(inc)/Dec in Working Capital	96	30	66	44	72	82	111	88
Non Cash Op Exp	71	81	80	83	95	111	128	140
Int Paid (+)	0	0	1	2	1	0	0	0
Tax Paid	-146	-129	-139	-150	-186	-228	-277	-314
others	-24	-26	-31	-33	-38	-40	0	0
CF from Op. Activities	439	398	427	419	547	652	765	825
(inc)/Dec in FA & CWIP	-225	-177	-197	-215	-257	-269	-281	-281
Free Cashflow	214	221	229	204	290	383	484	544
(Pur)/Sale of Inv	-67	-40	-28	-13	-60	-204	0	0
others	6	17	-35	6	40	54	0	0
CF from Inv. Activities	-285	-200	-261	-222	-278	-419	-281	-281
inc/(dec) in NW	0	0	9	0	0	0	0	0
inc/(dec) in Debt	-1	-2	-2	-3	-2	-2	0	0
Int. Paid	-1	0	-1	0	0	-1	0	0
Div Paid (inc tax)	-156	-183	-183	-188	-282	-224	-329	-373
others								
CF from Fin. Activities	-157	-185	-176	-191	-284	-226	-329	-373
Inc(Dec) in Cash	-3	13	-10	5	-15	8	155	171
Add: Opening Balance	17	13	26	17	22	7	107	263
Closing Balance	13	26	16	22	7	15	263	434

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