

# Mahanagar Gas

**NEUTRAL**

## INDUSTRY OIL & GAS

**CMP (as on 12 FEB 2018)** Rs 1,030

**Target Price** Rs 1,240

Nifty	10,540
Sensex	34,300

### KEY STOCK DATA

Bloomberg	MAHGL IN
No. of Shares (mn)	99
MCap (Rs bn) / (\$ mn)	102/1,581
6m avg traded value (Rs mn)	276

### STOCK PERFORMANCE (%)

52 Week high / low	Rs 1,378/844		
	3M	6M	12M
Absolute (%)	(1.6)	24.3	78.7
Relative (%)	(9.9)	6.5	61.9

### SHAREHOLDING PATTERN (%)

Promoters	65.00
FIs & Local MFs	6.59
FPIs	9.98
Public & Others	18.43

Source : BSE

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## Muted volume growth

MGL's 3QFY18 revenue came in at Rs 5.8bn, up 15.3% YoY led by 7.1% YoY increase in volumes to 2.74mmscmd and higher realisations at Rs23.1/scm (+8.4% YoY). EBITDA stood at Rs 2bn up 20.2% YoY and 0.3% QoQ. EBITDA margin was at Rs 8.0/scm up 20.2% YoY owing to favourable exchange rate. APAT came in at Rs1.2 bn (+24.7% YoY), owing to higher other income at Rs 141mn (+14% YoY).

The company has started work on building an infrastructure in Raigad district, and is expanding in the authorised areas close to Thane city (Ambernath, Kalyan, Dombivali, Ulhasnagar). Company is targeting industrial customers in these areas. Expansion in these geographies is very slow, the shift to gas is very sluggish. In the near term, there are no plans to add CNG-driven buses by State Transport Undertakings (STUs) operating in the area of operation of MGL. Instead of that, these entities are experimenting with electric vehicles. Therefore, we expect an overall volume growth of 4-5% over FY18E-20E. There will be pressure on margins as in near term as company is expanding its network into area where volumes growth will be predominately driven

### Financial Summary (Standalone)

Year Ending March (Rs bn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)	FY17	FY18E	FY19E	FY20E
Revenues	5.8	5.0	15.3	5.3	8.9	20.3	22.1	23.1	24.8
EBITDA	2.0	1.7	20.2	2.0	0.3	6.4	7.7	7.4	7.7
APAT	1.2	1.0	24.7	1.2	(0.6)	3.9	4.7	4.4	4.5
AEPS (Rs)	12.6	10.1	24.7	12.6	(0.6)	39.8	47.6	44.8	45.9
P/E (x)						24.4	20.4	21.7	21.2
EV/EBITDA (x)						14.0	11.7	12.0	11.4
RoE (%)						22.1	24.2	20.7	19.5

Source: Company, HDFC sec Inst Research

by price sensitive industrial customers. Our target is Rs 1,240/sh (27x FY20E standalone EPS). Maintain Neutral.

### Highlights of the quarter

- Total volumes were at 2.74 mmscmd (+7.08% YoY, +1.37 QoQ). CNG volumes were at 2.01 (+6.6% YoY, +0.53% QoQ). Jump in sales volumes is misleading as sales were low in 3QFY17 due to demonetisation.
- Net realisation was Rs 23.1/scm (+179bps YoY, -98.4bps QoQ), whereas cost of gas was Rs 10.7/scm (+37bps YoY, +117.5bps QoQ). This resulted in increase in gross margin. Opex was Rs 4.4/scm (+39.7bps YoY). Higher opex owing to increase in repair and maintenance cost.
- The company has announced interim dividend of Rs8/share.
- Capex:** In 9MFY18 company incurred capex of Rs1.5bn.
- Near-term outlook:** Volume growth will be driven PNG (Domestic and Industrial/Commercial) business so there could be margin pressure.

**Higher RM cost owing to higher APM price (+15.6% YoY) and RLNG prices (+29% YoY)**

**Increase in repair and maintenance cost led to increase in opex**

### Quarterly Financials Snapshot

(Rs. bn)	3QFY18	3QFY17	YoY Chg. (%)	2QFY18	QoQ Chg (%)
<b>Net Sales</b>	<b>5.81</b>	<b>5.04</b>	<b>15.3</b>	<b>5.34</b>	<b>8.9</b>
Raw material and Traded Goods	2.70	2.43	11.0	2.37	13.9
Employee Expenses	0.17	0.14	17.0	0.17	0.6
Other Operating Expenses	0.94	0.80	17.8	0.80	17.6
<b>EBITDA</b>	<b>2.01</b>	<b>1.67</b>	<b>20.2</b>	<b>2.00</b>	<b>0.3</b>
Depreciation	0.27	0.25	8.2	0.26	3.6
<b>EBIT</b>	<b>1.74</b>	<b>1.42</b>	<b>22.3</b>	<b>1.74</b>	<b>-0.2</b>
Other Income	0.14	0.12	14.0	0.14	2.0
<b>PBT</b>	<b>1.88</b>	<b>1.55</b>	<b>21.6</b>	<b>1.88</b>	<b>0.0</b>
Provision for tax	0.64	0.55	16.1	0.64	1.2
RPAT	1.24	0.99	24.7	1.25	-0.6
<b>APAT</b>	<b>1.24</b>	<b>0.99</b>	<b>24.7</b>	<b>1.25</b>	<b>-0.6</b>
EPS (Rs)	12.6	10.1	24.7	12.6	-0.6
<b>Adjusted EPS (Rs)</b>	<b>12.6</b>	<b>10.1</b>	<b>24.7</b>	<b>12.64</b>	<b>-0.6</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis

	3QFY18	3QFY17	YoY (bps)	2QFY18	QoQ (bps)
Raw material as % of Net Sales	46.4	48.2	(180)	44.4	202
Employee Expenses as % of Net Sales	2.9	2.8	4	3.1	(24)
Other Operating Expenses as % of Net Sales	16.2	15.8	35	15.0	120
EBITDA Margin (%)	34.6	33.1	141	37.5	(297)
Net Profit Margin (%)	21.3	19.7	161	23.4	(205)
Tax Rate (%)	34.1	35.8	(161)	33.7	42

Source: Company, HDFC sec Inst Research

*Jump in sales volumes is misleading as sales were low in 3QFY17 due to demonetisation*

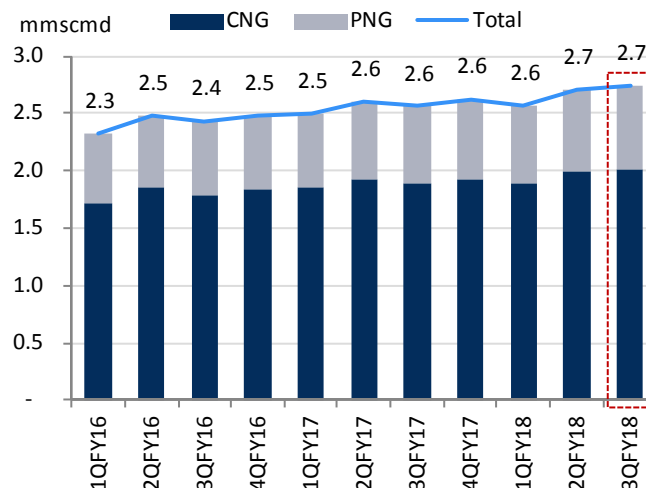
*Company able to protect its margin on account of better LNG sourcing arrangements and favourable exchange rate*

### Quarterly Operational Data

	3QFY18	3QFY17	YoY Chg. (%)	2QFY18	QoQ Chg (%)
<b>Total Sales Volumes (mmscm)</b>	252.1	235.4	7.1	248.7	1.4
CNG	184.5	173.1	6.6	183.5	0.5
PNG	67.6	62.4	8.4	65.2	3.7
<b>Total Volume (mmscmd)</b>	2.7	2.6	7.1	2.7	1.4
CNG	2.0	1.9	6.6	2.0	0.5
PNG	0.7	0.7	8.4	0.7	3.7
<b>Margins (Rs/scm)</b>	3QFY18	3QFY17	YoY (bps)	2QFY18	QoQ (bps)
Realisation	23.1	21.3	178.8	21.5	(98.4)
Gross Spread	12.4	11.0	141.4	11.9	(99.6)
Opex	4.4	4.0	39.7	3.9	(99.5)
EBITDA Spreads	8.0	7.0	101.7	8.1	(100.1)
PAT	4.9	4.2	71.4	5.0	(100.1)

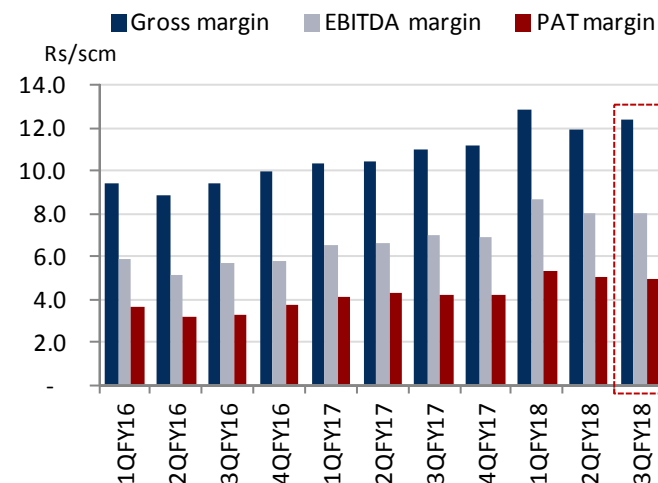
Source: Company, HDFC sec Inst Research

### Volume Trend



Source: Company, HDFC sec Inst Research

### Margin Trend



Source: Company, HDFC sec Inst Research

### Assumptions

	FY16	FY17	FY18E	FY19E	FY20E
<b>Volumes</b>	<b>2.4</b>	<b>2.6</b>	<b>2.7</b>	<b>2.8</b>	<b>3.0</b>
CNG	1.8	1.9	1.98	2.06	2.1
PNG	0.6	0.7	0.7	0.8	0.8
<b>YoY growth of Total Volumes</b>		<b>5.7</b>	<b>5.1</b>	<b>4.5</b>	<b>4.7</b>
Of CNG Volumes		5.5	4.2	4.1	4.3
Of PNG Volumes		6.3	7.7	5.6	5.9
Gross margin (Rs/scm)	9.2	10.7	11.9	11.1	11.1
EBITDA margin (Rs/scm)	5.5	6.7	7.8	7.0	7.0
PAT (Rs/scm)	3.4	4.2	4.8	4.3	4.2
Exchange Rate (Rs/USD)	60.4	61.1	64.5	67.1	67.0

Source: Company, HDFC sec Inst Research

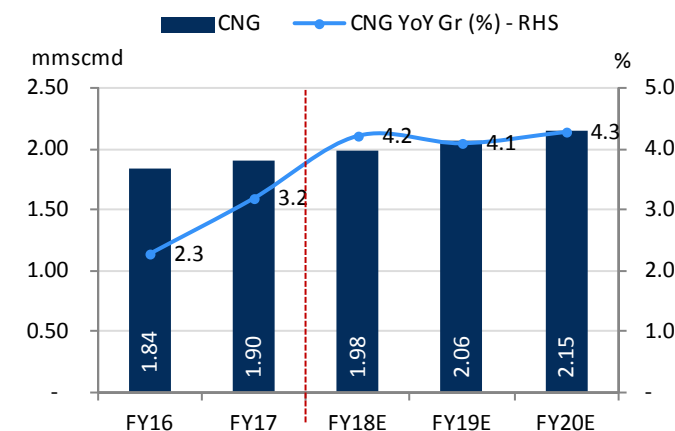
*There will be pressure on margins as in near term as company is expanding its network into area where volumes growth will be predominately driven by price sensitive industrial customers*

**CNG volumes to grow by ~4.2% CAGR over FY18E-20E**

**New areas have a large potential of PNG (Domestic and Industrial/commercial) customers, resulting in 5.8% CAGR over FY18E-20E in PNG volumes**

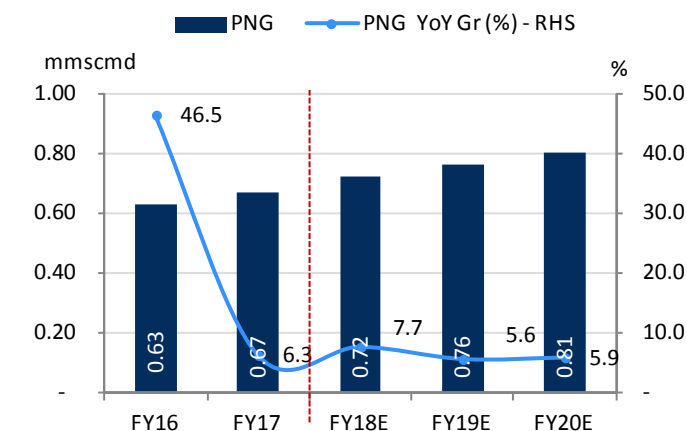
**Overall volumes to grow by ~4.6% CAGR over FY18E-20E**

### CNG Volumes Growth



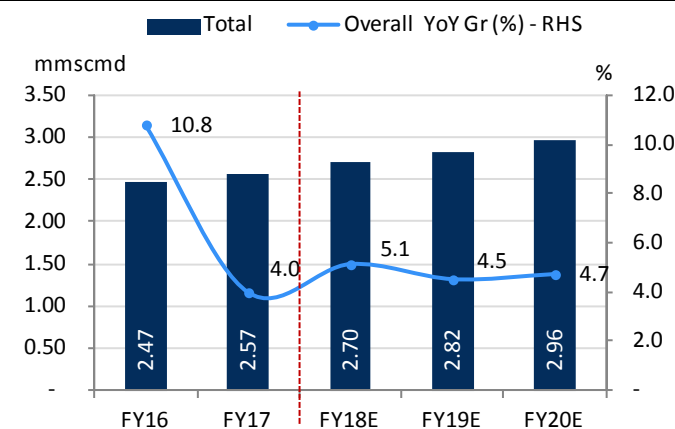
Source: Company, HDFC sec Inst Research

### PNG Volumes Growth



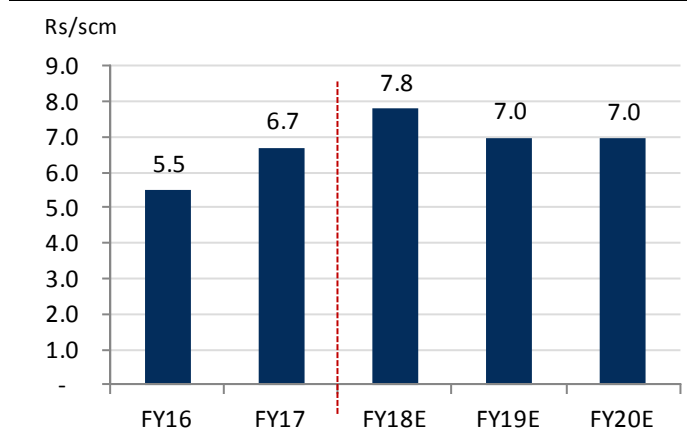
Source: Company, HDFC sec Inst Research

### Overall Volume Growth



Source: Company, HDFC sec Inst Research

### EBITDA Margin Trend



### SOTP Valuation

	EPS (Rs/sh)	Multiple (x)	Value Rs/sh	Valuation Basis
Standalone business	45.9	27	1,240	P/E multiple on FY20E
<b>Value per share</b>			<b>1,240</b>	

Source: HDFC sec Inst Research

## Peer Valuations

	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	EPS (Rs/sh)				P/E (x)				P/BV (x)				ROE (%)			
					FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Reliance Industries	5,670.7	894	BUY	1,081	49.5	65.5	74.1	80.4	18.0	13.6	12.1	11.1	2.0	1.8	1.6	1.4	11.6	13.6	13.7	13.2
ONGC	2,438.3	190	BUY	290	13.9	17.1	22.1	23.2	13.3	10.9	8.4	8.0	1.3	1.2	1.1	1.1	10.2	11.5	14.0	13.8
Indian Oil Corp	1,910.2	403	BUY	500	78.9	-	-	-	19.0	20.5	14.0	14.7	-	-	-	-	11.0	8.0	7.7	7.7
BPCL	950.5	476	BUY	591	40.2	33.8	42.0	45.5	11.8	14.1	11.3	10.5	3.2	2.8	2.4	2.1	28.2	21.2	22.8	21.4
HPCL	604.1	396	NEU	460	40.6	29.4	30.5	29.5	9.8	13.5	13.0	13.4	3.0	2.6	2.3	2.1	32.3	20.6	18.8	16.2
Petronet LNG	370.5	248	BUY	304	11.4	12.3	13.8	16.9	21.7	20.1	17.9	14.6	4.6	3.9	3.3	2.8	23.2	20.9	20.1	20.9
Oil India	285.3	356	BUY	471	33.7	32.4	41.2	43.6	10.6	11.0	8.6	8.2	1.0	0.9	0.8	0.7	10.5	8.5	9.9	9.5
IGL	204.4	292	BUY	421	8.2	9.9	11.7	13.0	35.8	29.5	25.0	22.4	7.0	6.1	5.2	4.5	20.4	22.0	22.4	21.7
<b>MGL</b>	<b>101.7</b>	<b>1,030</b>	<b>NEU</b>	<b>1,240</b>	<b>39.8</b>	<b>45.3</b>	<b>43.7</b>	<b>44.8</b>	<b>24.4</b>	<b>21.5</b>	<b>22.3</b>	<b>21.7</b>	<b>5.2</b>	<b>4.7</b>	<b>4.3</b>	<b>4.0</b>	<b>22.1</b>	<b>23.1</b>	<b>20.3</b>	<b>19.2</b>
Asian Oil Field Services	6.3	240	NA	312	1.5	19.7	38.4	24.1	137.6	10.2	5.2	8.3	15.5	3.7	2.2	1.7	17.3	62.2	52.1	22.9

Source: Company, HDFC sec Inst Research

## Standalone Income Statement

(March ending) (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
<b>Revenues</b>	<b>20.79</b>	<b>20.34</b>	<b>22.06</b>	<b>23.14</b>	<b>24.78</b>
<b>Growth %</b>	<b>(0.8)</b>	<b>(2.2)</b>	<b>8.5</b>	<b>4.9</b>	<b>7.1</b>
Raw Material	12.30	10.18	10.30	11.53	12.61
Employee Cost	0.54	0.60	0.68	0.71	0.75
Other Expenses	2.83	3.11	3.41	3.55	3.72
<b>EBITDA</b>	<b>5.13</b>	<b>6.44</b>	<b>7.68</b>	<b>7.36</b>	<b>7.70</b>
<b>EBITDA Margin (%)</b>	<b>24.7</b>	<b>31.7</b>	<b>34.8</b>	<b>31.8</b>	<b>31.1</b>
<b>EBITDA Growth %</b>	<b>4.7</b>	<b>25.6</b>	<b>19.2</b>	<b>(4.2)</b>	<b>4.6</b>
Depreciation	0.84	0.95	1.06	1.24	1.44
<b>EBIT</b>	<b>4.29</b>	<b>5.49</b>	<b>6.62</b>	<b>6.12</b>	<b>6.26</b>
Other Income (Including EO Items)	0.43	0.53	0.53	0.56	0.59
Interest	0.03	0.01	0.00	0.01	0.01
<b>PBT</b>	<b>4.69</b>	<b>6.01</b>	<b>7.15</b>	<b>6.67</b>	<b>6.84</b>
Tax	1.60	2.07	2.44	2.25	2.30
<b>RPAT</b>	<b>3.09</b>	<b>3.93</b>	<b>4.70</b>	<b>4.42</b>	<b>4.54</b>
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
<b>APAT</b>	<b>3.09</b>	<b>3.93</b>	<b>4.70</b>	<b>4.42</b>	<b>4.54</b>
<b>APAT Growth (%)</b>	<b>2.6</b>	<b>27.5</b>	<b>19.6</b>	<b>(6.0)</b>	<b>2.6</b>
<b>AEPS</b>	<b>31.2</b>	<b>39.8</b>	<b>47.6</b>	<b>44.8</b>	<b>45.9</b>
<b>AEPS Growth %</b>	<b>2.5</b>	<b>27.5</b>	<b>19.6</b>	<b>(6.0)</b>	<b>2.6</b>

Source: Company, HDFC sec Inst Research

## Standalone Balance Sheet

(Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
<b>SOURCES OF FUNDS</b>					
Share Capital	0.89	0.99	0.99	0.99	0.99
Reserves And Surplus	16.39	17.41	19.42	21.30	23.23
<b>Total Equity</b>	<b>17.28</b>	<b>18.40</b>	<b>20.40</b>	<b>22.29</b>	<b>24.22</b>
Long-term Debt	0.04	0.03	0.03	0.03	0.03
Short-term Debt	-	-	-	-	-
<b>Total Debt</b>	<b>0.04</b>	<b>0.03</b>	<b>0.03</b>	<b>0.03</b>	<b>0.03</b>
Deferred Tax Liability	1.20	1.38	1.38	1.38	1.38
Long-term Provision	0.12	0.14	0.14	0.14	0.14
<b>TOTAL SOURCES OF FUNDS</b>	<b>18.64</b>	<b>19.95</b>	<b>21.95</b>	<b>23.83</b>	<b>25.76</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	11.29	13.05	14.45	15.91	17.43
<b>Capital WIP</b>	<b>4.29</b>	<b>4.12</b>	<b>4.12</b>	<b>4.12</b>	<b>4.12</b>
LT Loans And Advances	0.73	1.12	1.12	1.12	1.12
<b>Total Non-current Investments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Inventories	0.18	0.24	0.24	0.27	0.29
Debtors	0.93	0.95	1.03	1.08	1.16
Cash and Cash Equivalents	5.68	6.15	6.69	7.73	8.64
Other Current Assets	0.60	0.63	0.68	0.72	0.77
<b>Total Current Assets</b>	<b>7.40</b>	<b>7.96</b>	<b>8.64</b>	<b>9.80</b>	<b>10.86</b>
Creditors	1.12	1.49	1.51	1.69	1.84
Other Current Liabilities & Provns	3.94	4.81	4.86	5.42	5.92
<b>Total Current Liabilities</b>	<b>5.06</b>	<b>6.30</b>	<b>6.37</b>	<b>7.11</b>	<b>7.76</b>
<b>Net Current Assets</b>	<b>2.34</b>	<b>1.67</b>	<b>2.27</b>	<b>2.69</b>	<b>3.10</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>18.64</b>	<b>19.95</b>	<b>21.95</b>	<b>23.83</b>	<b>25.76</b>

Source: Company, HDFC sec Inst Research

## Standalone Cash Flow

Rs bn	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	4.69	6.01	7.15	6.67	6.84
Non-operating & EO Items	(0.43)	(0.53)	(0.53)	(0.56)	(0.59)
Interest Expenses	0.03	0.01	0.00	0.01	0.01
Depreciation	0.84	0.95	1.06	1.24	1.44
Working Capital Change	0.65	0.80	(0.07)	0.63	0.50
Tax Paid	(1.43)	(1.90)	(2.44)	(2.25)	(2.30)
<b>OPERATING CASH FLOW ( a )</b>	<b>4.35</b>	<b>5.34</b>	<b>5.17</b>	<b>5.74</b>	<b>5.89</b>
Capex	(2.28)	(2.54)	(2.46)	(2.71)	(2.96)
Free Cash Flow (FCF)	2.07	2.81	2.71	3.03	2.94
Investments	0.01	(0.02)	-	-	-
Non-operating Income	0.43	0.53	0.53	0.56	0.59
Others	-	-	-	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(1.84)</b>	<b>(2.03)</b>	<b>(1.93)</b>	<b>(2.15)</b>	<b>(2.37)</b>
Debt Issuance/(Repaid)	0.01	(0.67)	0.00	0.00	-
Interest Expenses	(0.03)	(0.01)	(0.00)	(0.01)	(0.01)
FCFE	2.05	2.12	2.71	3.03	2.93
Share Capital Issuance	-	0.09	(0.00)	-	-
Dividend	(1.88)	(2.26)	(2.70)	(2.54)	(2.61)
<b>FINANCING CASH FLOW ( c )</b>	<b>(1.90)</b>	<b>(2.85)</b>	<b>(2.70)</b>	<b>(2.55)</b>	<b>(2.61)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>0.61</b>	<b>0.46</b>	<b>0.54</b>	<b>1.05</b>	<b>0.91</b>
EO Items, Others				0.00	-
<b>Closing Cash &amp; Equivalents</b>	<b>5.68</b>	<b>6.15</b>	<b>6.69</b>	<b>7.73</b>	<b>8.64</b>

Source: Company, HDFC sec Inst Research

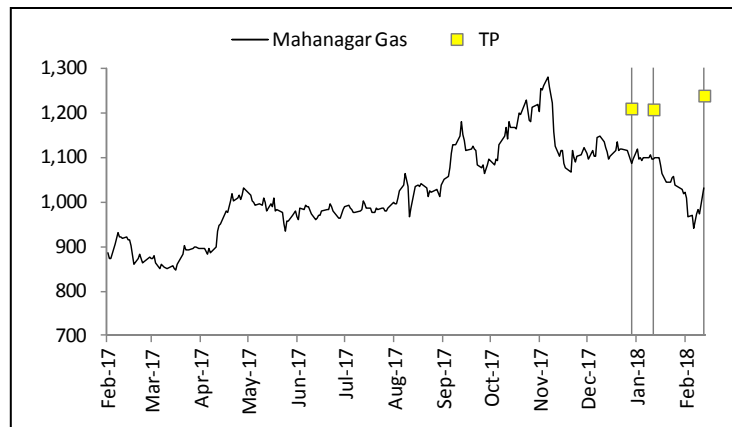
## Standalone Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
<b>PROFITABILITY %</b>					
EBITDA Margin	24.7	31.7	34.8	31.8	31.1
EBIT Margin	20.6	27.0	30.0	26.4	25.3
APAT Margin	14.8	19.3	21.3	19.1	18.3
RoE	18.5	22.1	24.2	20.7	19.5
Core RoCE	21.3	24.2	26.0	22.2	20.8
RoCE	17.3	20.4	22.5	19.3	18.3
<b>EFFICIENCY</b>					
Tax Rate %	34.1	34.5	34.2	33.7	33.7
Fixed Asset Turnover (x)	0.9	0.8	0.8	0.8	0.8
Inventory (days)	3	4	4	4	4
Debtors (days)	16	17	17	17	17
Other Current Assets (days)	11	11	11	11	11
Payables (days)	20	27	25	27	27
Other Current Liab & Provns (days)	69	86	80	86	87
Cash Conversion Cycle (days)	(59)	(80)	(73)	(80)	(82)
Net Debt/EBITDA (x)	(1.1)	(1.0)	(0.9)	(1.0)	(1.1)
Net D/E	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)
Interest Coverage	0.0	0.0	0.0	0.0	0.0
<b>PER SHARE DATA (Rs)</b>					
EPS	31.2	39.8	47.6	44.8	45.9
CEPS	39.8	49.5	58.4	57.3	60.5
Dividend	15.8	19.0	22.7	21.4	21.9
Book Value	175.0	186.3	206.6	225.6	245.2
<b>VALUATION</b>					
P/E (x)	31.1	24.4	20.4	21.7	21.2
P/Cash EPS (x)	24.5	19.7	16.7	17.0	16.1
P/BV (x)	5.6	5.2	4.7	4.3	4.0
EV/EBITDA (x)	17.6	14.0	11.7	12.0	11.4
EV/Revenue (x)	4.4	4.4	4.1	3.8	3.5
Dividend Yield (%)	1.6	2.0	2.3	2.2	2.3
OCF/EV (%)	4.8	5.9	5.8	6.5	6.7
FCFF/EV (%)	2.3	3.1	3.0	3.4	3.4
FCFE/M Cap (%)	2.1	2.2	2.8	3.1	3.0

Source: Company, HDFC sec Inst Research



## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
28-Dec-17	1,097	NEU	1,211
11-Jan-18	1,097	NEU	1,209
12-Feb-18	1,030	NEU	1,240

### Rating Definitions

**BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period

**NEUTRAL** : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

**SELL** : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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