

Steady performance...

Mahanagar Gas' (MGL) results for Q4FY20 were in line with our estimates on the profitability front. Topline fell 5.1% YoY to ₹ 752.7, above our estimate of ₹ 696.2 crore due to higher realisations. Volumes were at 2.8 mmcmd, down 7.4% YoY, due to lockdown impact. Gross margins were up ₹ 2.1/scm YoY to ₹ 15.3/scm due to lower gas costs and better pricing power. EBITDA was at ₹ 243.8 crore, up 14% YoY, in line with our estimate of ₹ 244.7 crore. On the profitability front, PAT increased 24.8% YoY to ₹ 166.6 crore, in line with our estimate of ₹ 168.7 crore, aided by lower tax rate.

Lockdown lead to volume de-growth

MGL reported volume de-growth of 7.4% YoY as the lockdown impacted sales volume in the last week of the quarter. CNG volume de-grew 9.8% YoY (our estimate: 13.4%) to 2 mmcmd. On the PNG front, volumes were in line with estimates and declined marginally 0.7% YoY to 0.8 mmcmd. While industrial/commercial segment were affected, domestic PNG segment reported growth of 7.2% YoY. Given the cost economics of natural gas over other alternative fuels in conjunction with rising pollution concerns, posting a higher growth rate over the long term should not be a concern. However, in the near term, sales will remain subdued. The management indicated that setting up new CNG stations in FY21 will be affected. We revise our FY21E estimates on account of an extended lockdown in April and May. Going forward, we estimate sales volumes at 2.5 mmcmd and 3.4 mmcmd in FY21E and FY22E, respectively.

Strong margins outlook, going ahead

MGL's gross margins increased ₹ 2.1/scm YoY to ₹ 15.3/scm on account of lower gas prices. Even on a QoQ basis, gross margins improved ₹ 1.4/scm. On account of the same, EBITDA/scm also increased to ₹ 9.6/scm. Following the decline in APM gas price in the current quarter, MGL has reduced its CNG and domestic PNG prices to pass on some cost benefits to consumers. Going ahead, gross margins are expected to remain strong at ₹ 15/scm and ₹ 14.9/scm for FY21E and FY22E, respectively.

Valuation & Outlook

The government's priority allocation of domestic gas to CGD sector has enabled MGL to access cheaper gas for CNG, domestic business segments (~85% of sales mix). MGL's strong gas pipeline infrastructure and expanding operations in Mumbai, its adjoining areas and Raigad district will enable it to capture the benefits of the large and growing market given the low penetration. However, sales volume currently is at 42% of pre-Covid level. Given Mumbai is one of the more affected cities by spread of Covid-19, we believe recovery in demand (mainly commercial PNG, CNG) will take time and sales growth will be seen only from Q3FY21E. The stock price has also surged sharply since our last recommendation. We downgrade the stock from BUY to **HOLD** with a target price of ₹ 1145/share (13x FY22E EPS).

Key Financial Summary

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Revenue (₹ crore)	2,452.9	3,056.8	3,264.5	2,521.8	3,420.6	3.8
EBITDA (₹ crore)	780.6	885.5	1,052.9	843.7	1,236.5	11.8
PAT (₹ crore)	477.9	546.5	793.5	575.6	869.6	16.8
EPS (₹)	48.4	55.3	80.3	58.3	88.0	
P/E (x)	22.2	19.4	13.4	18.4	12.2	
P/Book (x)	5.1	4.4	3.8	3.4	2.9	
RoCE (%)	31.9	31.7	32.0	22.1	29.0	
RoE (%)	22.8	22.8	28.5	18.7	23.8	
RoCE (%)	29.8	31.9	31.5	31.5	27.1	
RoE (%)	21.4	22.8	22.7	27.5	22.0	

Source: Company, ICICI Direct Research

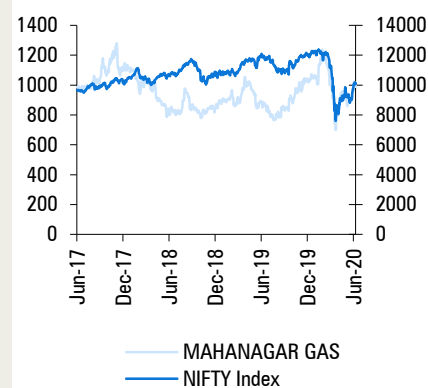
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	10,618.6
Total Debt (FY 19) (₹ Crore)	-
Cash and Investments (FY 1)	298.9
EV (₹ Crore)	10,319.7
52 week H/L	1246/666
Equity capital (₹ Crore)	98.8
Face value (₹)	10.0

Key Highlights

- Results in line with our estimates on profitability front
- Total volumes reported de-growth of 7.4% YoY to 2.8 mmcmd
- Margins expected to remain healthy on account of lower gas costs
- Downgrade stock from BUY to HOLD with target price of ₹ 1145/share

Key Highlights



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Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Revenues	752.7	696.2	793.2	-5.1	819.1	-8.1	Better than estimates due to higher realisation
Raw materials costs	298.5	269.6	366.5	-18.6	354.3	-15.7	
Employees Cost	17.9	20.8	18.5	-3.2	19.2	-6.5	
Other Expenses	192.4	161.2	194.2	-1.0	186.7	3.0	
Total Expenditure	508.8	451.5	579.3	-12.2	560.2	-9.2	
EBITDA	243.8	244.7	214.0	14.0	258.9	-5.8	In line with estimates
EBITDA margins (%)	32.4	35.1	27.0	542 bps	31.6	79 bps	
Depreciation	44.0	40.4	32.9	33.8	41.5	6.1	
EBIT	199.8	204.3	181.1	10.4	217.4	-8.1	
Interest	2.1	1.5	0.0	NA	1.6	28.4	
Other Income	27.0	24.0	23.8	13.1	28.6	-5.6	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	224.7	226.8	204.9	9.7	244.4	-8.0	
Total Tax	58.1	58.1	71.4	-18.6	58.3	-0.3	
PAT	166.6	168.7	133.5	24.8	186.1	-10.5	Profitability YoY aided by lower tax rate

Key Metrics

Sales Volumes (mmscmd)	2.8	2.7	3.0	-7.4	3.1	-8.8	CNG and industrial/commercial PNG segments reported volume de-growth. Domestic PNG grew 7.2% YoY
Realisation (₹/scm)	29.7	28.9	29.3	1.3	29.2	1.8	Higher than expected
Gross Margin (₹/scm)	15.3	15.2	13.2	16.3	13.9	10.2	Gross margins in line with estimates

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2935.5	2,521.8	-14.1	3316.8	3,420.6	3.1	Revised sales estimates downwards for FY21E due to extended impact of Covid-19
EBITDA	1,069.9	843.7	-21.1	1,206.4	1,236.5	2.5	Better pricing power and low gas costs lead to change in marginal change in FY22E estimates
EBITDA Margin (%)	36.4	33.5	-299 bps	36.4	36.1	-22 bps	
PAT	743.8	575.6	-22.6	847.2	869.6	2.7	
EPS (₹)	75.3	58.3	-22.6	85.8	88.0	2.7	

Source: Company, ICICI Direct Research

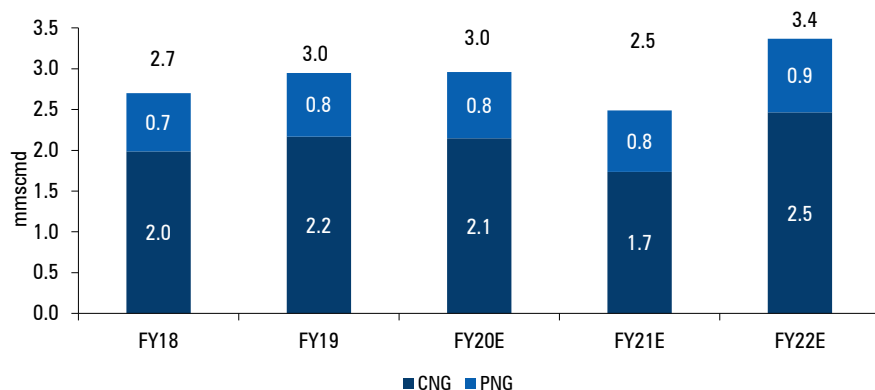
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19	FY20E	FY21E	FY22E	FY21E	FY22E	
Sales Volumes (mmscmd)	2.95	2.95	2.49	3.37	2.98	3.37	Lower FY21E volume estimates due to extended lockdown
Realisation (₹/scm)	28.4	30.2	27.8	27.8	27.0	27.0	
Gross Margin (₹/scm)	12.9	14.7	15.0	14.9	14.7	14.6	Revise gross margins upwards due to low raw material costs

Source: Company, ICICI Direct Research

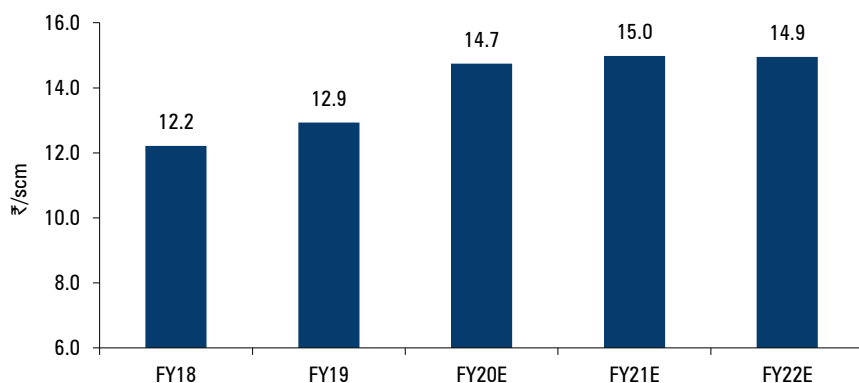
Story in charts

Exhibit 4: Volume to grow at steady pace



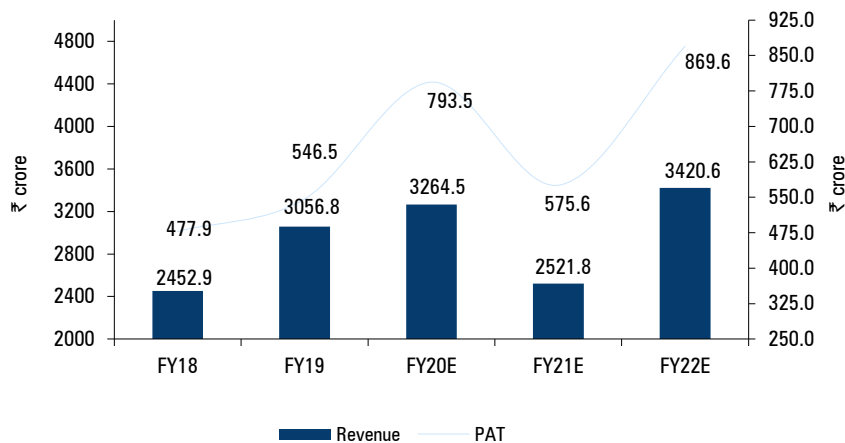
Source: Company, ICICI Direct Research

Exhibit 5: Margin trend



Source: Company, ICICI Direct Research

Exhibit 6: Revenues, PAT to continue to show upward trend



Source: Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	42.5	42.5	32.5	32.5	32.5
FII	24.4	24.3	28.9	31.9	31.3
DII	12.9	12.7	18.2	16.1	17.0
Others	20.3	20.5	20.5	19.5	19.2

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Revenue	3056.8	3264.5	2521.8	3420.6
Growth (%)	24.6	6.8	-22.8	35.6
Raw material Costs	1399.2	1379.6	944.3	1274.8
Employee Costs	70.9	80.6	90.3	96.6
Other Expenditure	435.6	459.0	426.8	504.7
Op. Expenditure	2171.3	2211.6	1678.0	2184.1
EBITDA	885.5	1052.9	843.7	1236.5
Growth (%)	13.4	18.9	-19.9	46.6
Depreciation	125.9	161.7	163.1	175.2
EBIT	759.5	891.2	680.6	1061.3
Interest	0.3	6.5	6.0	6.0
Other Income	77.7	98.9	99.0	112.0
PBT	837.0	983.5	773.6	1167.3
Growth (%)	15.2	17.5	-21.3	50.9
Tax	290.5	190.0	198.0	297.7
Reported PAT	546.5	793.5	575.6	869.6
Growth (%)	14.4	45.2	-27.5	51.1
EPS	55.3	80.3	58.3	88.0

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after Tax	546.5	793.5	575.6	869.6
Add: Depreciation	125.9	161.7	163.1	175.2
Add: Others	30.0	15.0	15.0	15.0
Cash Profit	702.4	970.2	753.7	1,059.9
Increase/(Decrease) in CI	98.5	98.7	-211.8	254.9
(Increase)/Decrease in C/	-13.0	-39.1	75.8	-95.1
CF from Operating Acti	787.9	1029.8	617.7	1219.6
Purchase of Fixed Assets	370.5	258.1	271.0	293.0
(Inc)/Dec in Investments	33.7	-40.0	-40.0	-40.0
Others	0.0	0.0	0.0	0.0
CF from Investing Acti	-336.8	-298.1	-311.0	-333.0
Inc/(Dec) in Loan Funds	-1.2	0.0	0.0	0.0
Inc/(Dec) in Sh. Cap. & Re	-11.7	0.0	0.0	0.0
Less: Dividend Paid	231.1	404.5	277.4	300.5
Others	0.0	0.0	0.0	0.0
CF from financing activ	-244.0	-404.5	-277.4	-300.5
Change in cash Eq.	207.0	327.2	29.3	586.1
Op. Cash and cash Eq.	91.9	298.9	626.1	655.4
Cl. Cash and cash Eq.	298.9	626.1	655.4	1,241.5

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Source of Funds				
Equity Capital	98.8	98.8	98.8	98.8
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	2,300.2	2,689.1	2,987.3	3,556.5
Shareholder's Fund	2,398.9	2,787.9	3,086.1	3,655.3
Loan Funds	0.0	0.0	0.0	0.0
Deferred Tax Liability	204.8	219.8	234.8	249.8
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	2603.8	3007.8	3321.0	3905.1
Application of Funds				
Gross Block	2,174.0	2,449.0	2,724.0	2,999.0
Less: Acc. Depreciation	410.6	564.2	731.3	913.5
Net Block	1,763.4	1,884.8	1,992.7	2,085.5
Capital WIP	369.7	344.7	344.7	369.7
Total Fixed Assets	2,133.1	2,229.5	2,337.4	2,455.1
Investments	654.0	694.0	734.0	774.0
Inventories	19.1	26.8	20.7	28.1
Debtor	99.6	134.2	103.6	140.6
Cash	298.9	626.1	655.4	1,241.5
Loan & Advance, Other C	236.4	233.2	194.0	244.8
Total Current assets	654.0	1020.3	973.7	1655.0
Current Liabilities	816.1	894.4	690.9	937.2
Provisions	21.2	41.6	33.3	41.9
Total CL and Provisions	837.3	936.0	724.2	979.0
Net Working Capital	-183.3	84.3	249.6	675.9
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	2603.8	3007.8	3321.0	3905.1

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
Book Value	242.9	282.2	312.4	370.0
Cash per share	96.5	133.6	140.7	204.0
EPS	55.3	80.3	58.3	88.0
Cash EPS	68.1	96.7	74.8	105.8
DPS	20.0	35.0	24.0	26.0
Profitability & Operating Ratios				
EBITDA Margin (%)	29.0	32.3	33.5	36.1
PAT Margin (%)	17.9	24.3	22.8	25.4
Fixed Asset Turnover (x)	1.4	1.5	1.1	1.4
Inventory Turnover (Days)	2.3	3.0	3.0	3.0
Debtor (Days)	11.9	15.0	15.0	15.0
Current Liabilities (Days)	97.4	100.0	100.0	100.0
Return Ratios (%)				
RoE	22.8	28.5	18.7	23.8
RoCE	31.7	32.0	22.1	29.0
RoIC	52.5	60.7	40.1	64.7
Valuation Ratios (x)				
PE	19.4	13.4	18.4	12.2
Price to Book Value	4.4	3.8	3.4	2.9
EV/EBITDA	11.7	9.5	11.8	7.6
EV/Sales	3.4	3.1	4.0	2.7
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	NA	NA	NA	NA
Debt to EBITDA (x)	0.0	0.0	0.0	0.0
Current Ratio	0.8	1.1	1.3	1.7
Quick ratio	0.8	1.1	1.3	1.7

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
BPCL (BHAPET)	357	350	HOLD	67,267	28.4	29.9	0.0	12.6	11.9	0.0	10.4	9.2	0.0	8.2	8.7	0.0	14.7	14.8	0.0
GAIL (India) (GAIL)	85	80	Hold	38,336	11.0	9.1	9.1	7.8	9.4	9.8	5.4	7.5	7.7	12.3	7.8	7.5	10.9	8.7	8.5
Gujarat Gas (GUJGA)	289	290	Hold	19,895	17.3	9.2	16.0	16.7	31.6	18.0	12.7	16.5	10.7	26.7	18.5	28.8	36.4	16.5	23.1
HPCL (HINPET)	189	200	Hold	28,833	13.0	23.7	26.2	14.5	8.0	7.2	10.8	8.1	6.6	3.9	6.6	7.6	7.1	12.3	13.2
Indian Oil Corp (INDOIL)	82	85	Hold	75,285	4.5	10.8	11.6	18.3	7.6	7.0	4.2	3.0	2.6	4.9	8.2	8.6	3.9	9.0	9.7
Indraprastha Gas (INDGAS)	435	425	Buy	30,450	16.1	16.5	18.7	26.9	26.4	25.8	20.1	18.0	17.3	24.6	22.8	22.3	22.4	19.5	19.1
Mahanagar Gas (MAHGAS)	1075	1145	Hold	10,619	80.3	58.3	88.0	13.4	18.4	12.2	9.5	11.8	7.6	32.0	22.1	29.0	28.5	18.7	23.8
ONGC (ONGC)	76	65	Reduce	97,533	16.2	3.0	11.3	4.7	25.3	6.7	2.3	5.3	3.4	10.8	0.3	5.8	9.4	1.7	6.4
Petronet LNG (PETLNG)	232	245	Buy	34,800	19.4	16.7	19.7	11.9	13.9	11.8	8.2	8.1	7.0	24.2	24.1	29.0	27.7	23.7	26.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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