Mahanagar Gas Ltd.	
No. of shares (m)	98.78
Mkt cap (Rs crs/$m)	8963/1257.3
Current price (Rs/$)	907/12.7
Price target (Rs/$)	1087/15.3
52 W H/L (Rs.)	1071/756
Book Value (Rs/$)	226/3.2
Beta	0.7
Daily volume NSE (avg. monthly)	213400
P/BV (FY19e/20e)	4.0/3.4
EV/EBITDA (FY19e/20e)	8.5/7.3
P/E (FY19e/20e)	16.6/14.2
EPS growth (FY18/19e/20e)	20.4/13.3/17.0
OPM (FY18/19e/20e)	35.0/32.1/32.2
ROE (FY18/19e/20e)	25.9/25.6/25.8
ROCE(FY18/19e/20e)	25.9/25.6/25.8
Net D/E ratio (FY18/19e/20e)	-0.4/-0.4/-0.5
BSE Code	539957
NSE Code	MGL
Bloomberg	MAHGL IN
Reuters	MGAS.NS

Shareholding pattern	%
Promoters	42.5
MFs / Banks / FIIs/FIs	13.4
Foreign Portfolio Investors	21.6
Govt. Holding	10.0
Public & Others	12.5
Total	**100.0**

As on Dec 31, 2018

Recommendation

ACCUMULATE

Phone: + 91 (33) 4488 0055

E- mail: research@cdequi.com

Quarterly Highlights

- BP Energy reckons that India would drive the global energy demand driver over the next 25 years. India is expected to witness an investment of ~ USD 300 bn over the next 10 years in setting up of oil refineries, oil and gas pipelines and CGD network expansion as it builds infrastructure to cater to the massive demand surge, according to Dharmendra Pradhan, Oil Minister, India. India is the third largest energy consumer in the world (after US and China) and its energy demand is expected to grow three fold by 2040.
- MGL witnessed an overall volume growth of 9.5% (yoy) in Q2FY19, with CNG and PNG posting volume growth of 9.2% (yoy) and 10.2% (yoy) respectively, owing to increase in per capita consumption of CNG, improvement in PNG conversion and supply disruptions of alternate fuels like briquettes, bagasse, etc. Better realizations further aided topline growth of 30.5% (yoy) to Rs 696.51 crs ($99.5m) in Q2FY19.
- Higher raw material cost restricted operating profit growth to only 10.7% (yoy). OPMs fell abysmally by 568 bps to 31.8% from 37.5% in Q2FY18 due to increase in RLNG prices, increase in APM gas price and unfavorable rupee dollar exchange rate. Post tax earnings increased by 9.2% (yoy) to Rs 136.29 crs ($19.5m).
- The stock currently trades at 16.6x FY19e EPS of Rs 54.65 and 14.2x FY20e EPS of Rs 63.97. MGL's focus on increasing its penetration in its currently authorized geographical areas by setting up more CNG stations and increasing number of domestic connections- entailing capex of over Rs 600 crs ($84.2m)- would lead to its topline growth of CAGR 18.6% during FY18-20 and help it leverage new opportunities in the CGD sector, due to favorable policy framework in terms of CGD footprint expansion (NITI Aayog aims to expand CGD in 326 cities by 2022 from existing 92 authorized geographical areas), introduction of stringent emission norms for vehicles and reforms in CGD authorization regulations by PNGRB to address the impediments encountered during previous bid rounds to a large extent. In view of its lower operating margin, we have revised our earnings estimate for current fiscal (EPS of Rs 54.65 vs earlier estimate of Rs 57.51) and assign 'accumulate' rating on the stock with target price of Rs 1087 (previous target Rs 1093) based on 17x FY20e EPS of Rs 63.97.

Figures in Rs crs	FY16	FY17	FY18	FY19e	FY20e
Income from operations	2078.29	2033.97	2233.01	2732.07	3141.03
Other Income	47.18	52.66	57.68	75.17	95.20
EBITDA (other income included)	556.46	696.81	837.79	951.67	1106.54
PAT after EO	308.23	389.54	476.61	539.83	631.87
EPS (Rs)	34.50	40.07*	48.25	54.65	63.97
EPS growth (%)	2.8	16.2	20.4	13.3	17.0

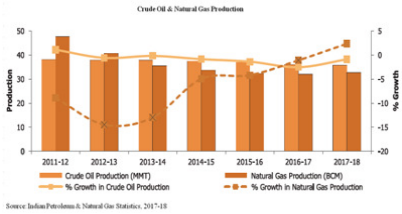
*calculated on weighted average equity

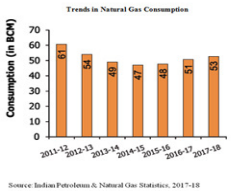
Outlook & Recommendation

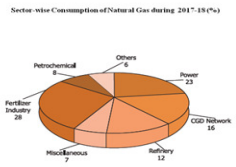
Natural Gas Industry Outlook

Despite being a popular fuel constituting ~24% of world's energy mix, natural gas accounts for only 7% of India's total energy mix. Owing to its cost-effectiveness in comparison to alternate fuels and environmental friendly characteristics, the GOI plans to increase its share to 15% by 2030, for which it is racing to construct and improve infrastructure such as pipelines and import facilities to incorporate larger amounts of natural gas usage (53 BCM last fiscal; Source Indian Petroleum & Natural Gas Statistics, FY18). According to the country's Oil Ministry, India's natural gas production is anticipated to hit 72 bcm in the next four years (32.6 BCM in FY18).

Although domestic production of natural gas increased marginally last fiscal (up by 2.4% yoy) to 32.6 BCM, overall there has been a downward trend- it declined from 40.7 BCM in FY13 to 31.9 BCM in FY17- due to the ageing fields of ONGC and OIL India and lower than expected output from Krishna Godavari Basin. The drop in production can also be attributed to sand and water flooding- due to high water and sand ingress, oil and natural gas fields have to remain shut, which hinder production (source: ICRA).







Along with increase in production and usage, a major change in composition of India's natural gas producers is also expected to be witnessed in the coming years. ONGC accounted for ~70% of India's total natural gas production last fiscal, and the rest was produced by private firms and their joint ventures. However, according to industry experts, this mix is expected to witness a significant change going forward, when private and joint ventures would produce over 50% of total natural gas production by 2022.

Indian Railways, one of country's biggest oil consumers, has signed a preliminary agreement with GAIL, India's largest state owned natural gas processing and distributing company, to shift from diesel, towards cleaner fuel, primarily natural gas, which is expected to be ~25% cheaper than other alternate fuels. It aims to transition all of its workshops to use natural gas by June 2019.

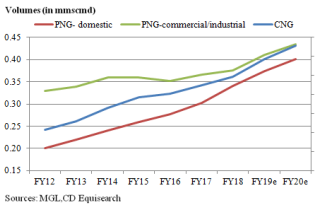
GOI also plans to establish a natural gas trading exchange as part of a shift away from reliance on crude oil based products, to enable a transparent market for natural gas where the price is determined on exchange. It has also taken a number of other initiatives to increase the use of natural gas in the CGD sector such as mandating CNG in various cities (e.g. Mumbai and Delhi), inclusion of more number of cities by Petroleum and Natural Gas Regulatory Board (PNGRB) for development of CGD network, creating of CGD infrastructure in smart cities, etc.

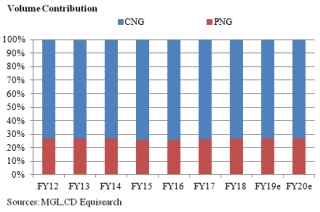
Expansion Plans

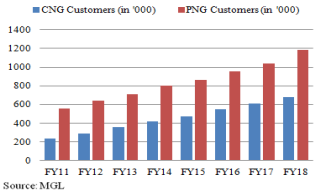
With a wide distribution network of 5130 kms connecting over a million households and 221 CNG stations catering to more than 650,000 vehicles, MGL enjoys the advantage of pioneering natural gas distribution network in Mumbai, Thane urban and adjoining municipalities and the Raigad district. With natural gas gaining popularity, it has witnessed a CAGR growth of 16.4% and 10% in CNG and PNG customers respectively in five years ending FY18. To capitalize on the large and growing CNG market, it expects to set up around 50 new CNG stations within next two years (3 opened in H1FY19), while upgrading existing ones (8 upgraded in H1FY19). MGL has expanded its network in Raigad by currently operating 6 CNG stations and is planning to add another 4-5 stations by FY19. It is also planning to extend gas supply across 5 to 6 underpenetrated towns like Pen, Ulve, Karjat etc., initially through virtual pipeline network to serve domestic PNG customers. We expect MGL to earmark Rs 300 crs ($42.1m) in FY19 and Rs 320 crs ($44.9m) in FY20 towards capital expansion. Yet, availability of space, getting approvals and creating distribution infrastructure in a time bound manner remains a challenge.

Financials & Valuations

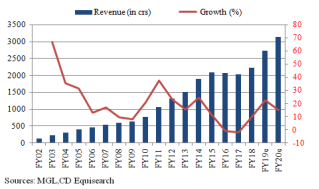
Sizeable infrastructure network, which has grown at a CAGR of 4.8% from 3984 kms in FY13 to 5042 kms last fiscal, and a well established customer base – 0.6 mn and 1.03 mn of CNG and PNG customers respectively at the of FY18, have helped MGL post volume growth of CAGR 5.4% during FY13-18, leading to topline growth of CAGR 8.1% during the same period. However, sales remained almost flat in FY16 (down 0.8% yoy) and declined by 2.1% (yoy) in FY17 owing to pass through of net reduction in input gas cost. With revenue already up by 23.6% (yoy) in H1FY19, we expect MGL to post an overall topline growth of 22.3% in FY19 and 15.0% in FY20, supported by overall volume growth of 9.6% and 6.5% in current and next fiscal respectively, thanks to increased penetration in existing markets, increase in demand for clean fuel and further development of infrastructure. We expect CNG volume to grow by 9.7% and 6.5% in FY19 and FY20 respectively and PNG volume to grow by 9.6% in current fiscal and 6.5% in next fiscal.

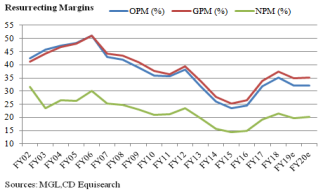


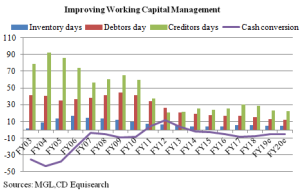




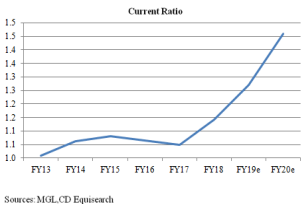
With a diversified and cost effective sourcing strategy – access to domestic natural gas equal to 110% of CNG and domestic PNG requirements under Administered Price Mechanism (APM), Panna Mukti Tapti Agreements (PMT) and non-APM agreements as per MoPNG guidelines, along with mix of spot and term RLNG contracts for its industrial and commercial PNG customers- MGL has been able to report CAGR growth of 10.1% in operating profits during FY13-18 period. Yet, it witnessed a slowdown for three years ending FY16, with OPM falling to an average of ~25% (31.9% in FY13) due to higher raw material costs. Operating margins were impacted in H1FY19 as well (32.9% vs 37.8% in H1FY18) due to rise in RLNG and APM gas prices (raw material to sales increased to 49.3% vs 44.0% in the same period last year). However, it took price hike in the months of June and October, 2018, which would help it protect margins going forward. Keeping in view the maintenance activities undertaken by the company during Q3 and Q4, we expect FY19's OPM to stand at 32.1% and that of next fiscal to stand at 32.2%.

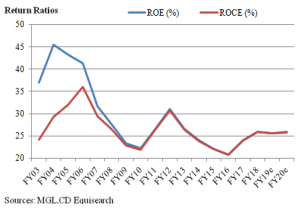


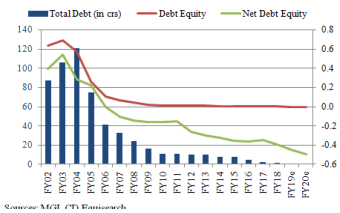




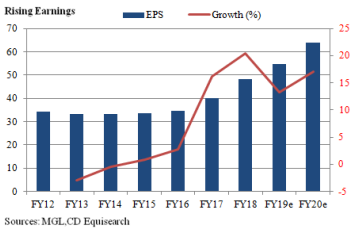
As India is moving towards greener fuel, it is also facing threat of longer queues at CNG filling stations. There has been an increase in number of CNG vehicles (currently, more than 7 lakh vehicles in MMR), but not enough CNG dispensing points. In order to tackle this problem and reduce long queues that are outside CNG stations, MGL is promoting more CNG stations and inviting third parties who have land and permission to set up CNG stations. Additionally, MGL has also launched MGL ConnectApp to assist consumers in locating nearest CNG station in MMR, for convenient re-fuelling experience.







Although electric vehicles (EVs) may dent CNG volumes in future as the GOI proposes to boost EV sales by undertaking list of non-fiscal incentives to ensure that EVs account for 15% of total vehicle sales in the next five years (currently forming less than 1% of total vehicle sales in the country), the GOI, in the short term, is focusing on increasing the supply of CNG vehicles to push vehicle manufacturers away from the development of petrol and diesel driven vehicles and has planned to increase the number of CNG filling stations to at least 10,000 (current ~1430 stations) by 2030. Maruti Suzuki is expected to be the biggest beneficiary of this decision as it has a portfolio of seven models that come with factory fitted CNG engines. Despite high demand for CNG-powered cars and low cost of fuel, less number of filling stations resulting in long queues has kept people away from purchasing CNG cars. But with expansion in CNG footprint, number of CNG cars is expected to rise to 17 mn by 2030.



The stock currently trades at 16.6x FY19e EPS of Rs 54.65 and 14.2x FY20e EPS of Rs 63.97. Clean fuel drive by the GOI – it plans to raise market share of natural gas in the overall energy basket to 15% by 2030 from 6.5% in 2015- would give a boost to MGL's operations and help it post topline growth of 22.3% in FY19 and 15.0% in FY20. Strong untapped demand in Mumbai and infrastructure rollout in Raigad would continue to augment its growth. It is also preparing to expand its area of operations by participating in the CGD bidding under the supervision of PNGRB (although it did not win any new area in the recently concluded ninth round of bidding). Government's push towards electric vehicles and risk of change in regulations of PNGRB, MoPNG, and other regulatory authorities persists (for example change in bidding norms for CNG and PNG retail license, changes in pipeline tariff formula, etc). Threat of alternate fuels becoming more cost-effective, thereby impacting MGL's volume, cannot be overlooked either. On balance, we assign 'accumulate' rating on the stock with target price of Rs 1087 (previous target Rs 1093) based on 17x FY20e EPS of Rs 63.97. For more information, refer to our May 2018 report.

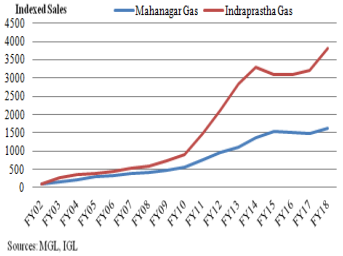
Cross Sectional Analysis

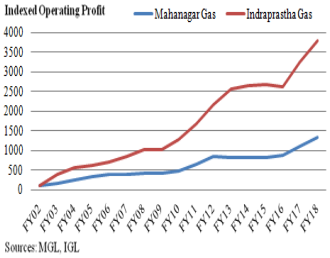
Company	Equity	CMP	MCAP*	Sales*	Profit*	OPM (%)	NPM (%)	ROE (%)	Mcap/ Sales	P/BV	P/E
Mahanagar Gas	99	907	8963	2484	492	32.6	19.8	23.5	3.6	4.0	18.2
Indraprastha Gas	140	283	19803	5093	710	22.9	13.9	20.6	3.9	5.3	27.9

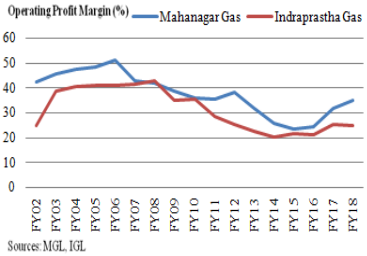
*figures in crores; calculations on ttm basis

IGL posted topline growth of 27.8% (yoy) last quarter, with total volume growth of 12.9% (yoy). Operating margin was however impacted due to increase in power and fuel expenses on account of uptick in CNG sales volume at IGL and OMC stations and increase in AMC cost of compressors and dispensers. It has agreed to take over supply of natural gas in Gurugram district from Haryana City Gas Distribution (HCDGL), which would add to the company's volumes in the years ahead.

Rising environmental concerns in Delhi has put IGL in a sweet spot. As the GOI is moving towards a gas based economy, IGL is targeting to add ~50 CNG stations (30 added in FY18) and 3 lakh PNG customers (1.5 lakh added last fiscal) this fiscal. To ease queues at CNG pumps, it is planning to set up CNG dispensing stations within residential housing complexes (one already set up in Noida on pilot basis). It also plans to set up e-vehicle charging facility at its CNG stations, for which it has tied up with a Dutch company.







Note: Standalone data for Indraprastha Gas.

Financials

Quarterly Results

Figures in Rs crs

	Q2FY19	Q2FY18	% chg.	H1FY19	H1FY18	% chg.
Income From Operations	**696.51**	**533.76**	**30.5**	**1315.85**	**1064.62**	**23.6**
Other Income	18.16	14.09	28.9	33.50	26.28	27.5
Total Income	**714.67**	**547.85**	**30.4**	**1349.35**	**1090.90**	**23.7**
Total Expenditure	475.04	333.70	42.4	883.44	661.67	33.5
EBITDA (other income included)	**239.63**	**214.15**	**11.9**	**465.91**	**429.23**	**8.5**
Interest	0.12	-	-	0.18	0.01	1700.0
Depreciation	30.79	25.85	19.1	60.30	50.48	19.5
PBT	**208.72**	**188.30**	**10.8**	**405.43**	**378.74**	**7.0**
Tax	72.43	63.51	14.0	140.81	129.62	8.6
PAT	**136.29**	**124.79**	**9.2**	**264.62**	**249.12**	**6.2**
EO	-	-	-	-	-	-
Adjusted Net Profit	**136.29**	**124.79**	**9.2**	**264.62**	**249.12**	**6.2**
EPS(Rs)	13.80	12.63	9.2	26.79	25.22	6.2

Income Statement

Figures in Rs crs

	FY16	FY17	FY18	FY19e	FY20e
Income From Operations	**2078.29**	**2033.97**	**2233.01**	**2732.07**	**3141.03**
Growth (%)	-0.8	-2.1	9.8	22.3	15.0
Other Income	47.18	52.66	57.68	75.17	95.20
Total Income	**2125.47**	**2086.63**	**2290.69**	**2807.24**	**3236.23**
Total Expenditure	1569.01	1389.82	1452.90	1855.57	2129.69
EBITDA (other income included)	**556.46**	**696.81**	**837.79**	**951.67**	**1106.54**
Interest	2.22	1.02	0.09	0.36	0.30
Depreciation	82.61	95.13	111.18	124.61	138.59
PBT	**471.63**	**600.66**	**726.51**	**826.70**	**967.65**
Tax	160.74	207.23	248.64	286.86	335.77
PAT	**310.89**	**393.43**	**477.87**	**539.83**	**631.87**
EO	2.66	3.89	1.27	-	-
Adjusted Net Profit	**308.23**	**389.54**	**476.61**	**539.83**	**631.87**
EPS (Rs)	34.50	40.07	48.25	54.65	63.97

*calculated on weighted average equity

Balance Sheet

Figures in Rs crs

	FY16	FY17	FY18	FY19e	FY20e
Sources of Funds					
Share Capital	89.34	98.78	98.78	98.78	98.78
Reserves	1639.09	1741.26	1996.57	2310.36	2692.15
Total Shareholders' Funds	**1728.43**	**1840.04**	**2095.35**	**2409.13**	**2790.93**
Long Term Debt	4.38	2.70	1.20	-	-
Total Liabilities	**1732.80**	**1842.74**	**2096.54**	**2409.13**	**2790.93**
Application of Funds					
Gross Block	1211.24	1481.74	1818.73	2075.35	2395.35
Less: Accumulated Depreciation	82.49	176.99	286.78	411.39	549.98
Net Block	**1128.75**	**1304.75**	**1531.95**	**1663.96**	**1845.37**
Capital Work in Progress	428.87	411.53	356.62	400.00	400.00
Investments	393.39	466.67	687.68	820.00	1150.00
Current Assets, Loans and Advances					
Inventory	18.03	23.76	24.00	26.40	27.72
Trade receivables	92.33	94.54	91.35	100.48	105.50
Cash and Bank	175.03	136.11	91.88	190.62	159.13
Other Assets	60.25	73.51	80.59	92.71	102.86
Total CA & LA	**345.64**	**327.93**	**287.82**	**410.21**	**395.21**
Current Liabilities	494.45	623.03	718.11	807.62	897.58
Provisions-Short term	11.63	6.65	5.14	5.42	5.69
Total Current Liabilities	**506.08**	**629.68**	**723.25**	**813.04**	**903.27**
Net Current Assets	**-160.44**	**-301.76**	**-435.44**	**-402.83**	**-508.06**
Net Deferred Tax Liability	-119.95	-137.63	-174.83	-197.73	-229.73
Net long term assets (net of liabilities)	62.19	99.17	130.55	125.74	133.34
Total Assets	**1732.80**	**1842.74**	**2096.54**	**2409.13**	**2790.93**

Key Financial Ratios

	FY16	FY17	FY18	FY19e	FY20e
Growth Ratios(%)					
Revenue	-0.8	-2.1	9.8	22.3	15.0
EBITDA	4.5	25.1	21.0	13.9	16.3
Net Profit	2.8	26.4	22.4	13.3	17.0
EPS	2.8	16.2	20.4	13.3	17.0
Margins (%)					
Operating Profit Margin	24.5	31.7	35.0	32.1	32.2
Gross profit Margin	26.5	33.9	37.4	34.8	35.2
Net Profit Margin	14.8	19.2	21.3	19.8	20.1
Return (%)					
ROCE	20.9	23.9	25.9	25.6	25.8
ROE	20.9	24.0	25.9	25.6	25.8
Valuations					
Market Cap/ Sales	-	4.3	4.2	3.3	2.9
EV/EBITDA	-	11.9	10.4	8.5	7.3
P/E	-	22.3	19.9	16.6	14.2
P/BV	-	5.2	4.8	4.0	3.4
Other Ratios					
Debt Equity	0.0	0.0	0.0	-	-
Net Debt-Equity Ratio	-0.4	-0.4	-0.4	-0.4	-0.5
Current Ratio	1.1	1.0	1.1	1.3	1.5
Turnover Ratios					
Fixed Asset Turnover	1.9	1.7	1.6	1.7	1.8
Total Asset Turnover	1.4	1.2	1.2	1.3	1.3
Inventory Turnover	88.7	66.5	60.8	73.6	78.7
Debtors Turnover	22.1	21.8	24.0	28.5	30.5
Creditor Turnover	14.4	12.0	12.6	15.8	16.6
WC Ratios					
Inventory Days	4.1	5.5	6.0	5.0	4.6
Debtor Days	16.5	16.8	15.2	12.8	12.0
Creditor Days	25.4	30.4	28.9	23.2	21.9
Cash Conversion Cycle	-4.7	-8.2	-7.7	-5.4	-5.3

Cumulative Financial Data

	FY05-08	FY09-12	FY13-16	FY17-20e
Income from operations	2001	3784	7573	10140
Operating profit	912	1402	1970	3316
EBIT	815	1255.07	1804	3115
PBT	800	1251	1799	3114
PAT	531	842	1204	2038
Dividends	160	356	742	948
OPM (%)	45.6	37.1	26.0	32.7
NPM (%)	26.5	22.3	15.9	20.1
ROE (%)	33.5	25.6	23.1	24.4
ROCE (%)	28.9	25.1	23.0	24.4
Interest Coverage	55.2	290.5	383.4	1758.6
Debt Equity*	0.0	0.0	0.0	-
Fixed asset turnover	1.4	1.6	2.0	1.7
Debtors turnover	9.2	12.2	21.7	25.6
Inventory turnover	27.4	43.9	86.7	74.6
Creditors turnover	4.9	12.2	18.9	14.1
Debtor days	39.8	30.0	16.8	14.2
Inventory days	13.3	8.3	4.2	4.9
Creditor days	74.5	29.9	19.3	25.9
Cash conversion	-21.4	8.4	1.8	-6.8
Dividend payout ratio (%)	30.2	42.2	61.5	46.4

FY 05-08 implies four year period ending fiscal 08;*as on terminal year

Gaining importance of natural gas, constant regulatory push by the government, growing infrastructure network and increase in customer base have allowed MGL's cumulative revenue to grow 3.8x from FY05-08 to four years ending FY16. However, its operating margin has witnessed continuous downtrend, largely owing to sharp increase in raw material price-cumulative raw material to sales ratio zoomed to 59.2% during FY13-16 period from 34.2% in FY05-08 period. Growth in earnings and subsequent reduction in debt from Rs 23.88 crs ($6.0m) in FY08 to Rs 10.47 crs ($2.0m) in FY12 and to Rs 4.98 crs ($0.8m) in FY16 explain rise in interest coverage ratio (see table).

Going forward, with MGL's expansion plans and its development of infrastructure network in underpenetrated Raigad district, we expect its revenue to grow by 33.9% during FY17-20 period. Increase in volumes (expected to be up by CAGR 5.3% from FY17 to FY20) would help margins resurrect in four years ending FY20 (see table). Although reduction in creditor days deteriorated cash conversion cycle during FY09-12 period (see table), we expect improved working capital management to reduce cash conversion cycle (See table). Return ratios would also improve – ROE and ROCE of 24.4% each during FY17-20 period.

Financial Summary- US Dollar denominated

million $	FY16	FY17	FY18	FY19e	FY20e
Equity capital	13.5	15.2	15.2	13.9	13.9
Shareholders' funds	232.2	264.0	302.0	316.3	369.8
Total debt	0.8	0.4	0.2	-	-
Net fixed assets (incl. CWIP)	234.8	264.7	290.4	289.5	315.0
Investments	59.3	72.0	105.7	115.0	161.3
Net current assets	-52.6	-66.4	-87.1	-78.2	-93.0
Total assets	232.9	264.4	302.2	316.3	369.8
Revenues	317.5	303.2	346.5	383.3	440.6
EBITDA	84.4	103.0	129.7	133.5	155.2
EBDT	84.1	102.8	129.7	133.5	155.2
PBT	71.4	88.6	112.4	116.0	135.7
PAT	47.1	58.1	74.0	75.7	88.6
EPS($)	0.53	0.60	0.75	0.77	0.90
Book value ($)	2.60	2.67	3.06	3.20	3.74

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs 71.28/$).
All dollar denominated figures are adjusted for extraordinary items.

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CD Equisearch Private Limited (CIN: U67120WB1995PTC071521)
Registered Office: 37, Shakespeare Sarani, 3rd Floor, Kolkata – 700 017; Phone: +91(33) 4488 0000; Fax: +91(33) 2289 2557 Corporate Office: 10, Vasawani Mansion, 5th Floor, Dinshaw Wachha Road, Churchgate, Mumbai – 400 020. Phone: +91(22) 2283 0652/0653; Fax: +91(22) 2283, 2276 Website: www.cdequi.com; Email: research@cdequi.com

buy: >20%	accumulate: >10% to ≤20%	hold: ≥-10% to ≤10%	reduce: ≥-20% to <-10%	sell: <-20%

Exchange Rates Used- Indicative

Rs/$	FY15	FY16	FY17	FY18
Average	61.15	65.46	67.09	64.45
Year end	62.59	66.33	64.84	65.04

All $ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.