

25 June 2018

Initiating Coverage (BUY)

MAHANAGAR GAS LTD

CMP INR 824
Target Price INR 995
Stock Details

Industry	Utilities: Non- Elec.
Bloomberg Code	MAHGL:IN
BSE Code	539957
Face Value (Rs.)	10.00
Market Cap. (Rs. mn)	81682.8
52wk. Low/High (Adjusted) (Rs.)	774.00/1345.00

Shareholding Pattern Mar '18

Promoter (%)	65.00
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	35.00
No. of Share Outstanding (mn)	98.77

Valuation Summary

	FY 16A	FY 17A	FY 18P	FY 19P
P/E (x)*	15.06	20.76	20.00	20.00
EV/EBITDA (x)	9.99	12.67	11.03	10.80
P/BV (x)	3.36	4.44	4.16	4.05

*TTM for Current Year

 Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 16A	FY 17A	FY 18P	FY 19P
Net Sales	20,653	20,340	21,967	24,164
EBITDA	5,129	6,442	7,553	8,307
Net Profit	3,087	3,934	4,389	4,915
EPS (Rs.)*	34.6	39.8	44.5	49.8

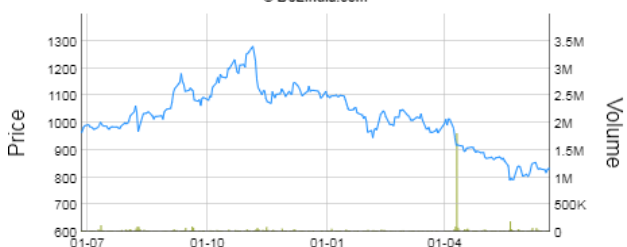
*Un adjusted

Key Ratios

	FY 16A	FY 17A	FY 18P	FY 19P
EBITDA Margin (%)	24.7	31.7	34.2	34.2
EBIT Margin (%)	20.6	27.0	30.3	30.7
Net Pro. Margin (%)	14.8	19.3	19.9	20.2
Debt/Equity (x)	0.00	0.00	0.00	0.00
RoNW (%)	21.0	23.4	22.2	21.6
RoCE (%)	19.4	21.6	20.6	20.2

One Year Price / Volume

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We recommend 'BUY' on MAHANAGAR GAS LTD for a target of INR 995 - valuing the company at P/E 20x of FY19E Earning.

INVESTMENT RATIONALE:

- Mahanagar Gas Limited (MGL) is one of the largest city gas distribution (CGD) companies in India.
- The Company has an experience of over two decades in successful development and operation of CGD business.
- MGL is the sole authorised distributor of CNG and PNG in Mumbai, Thane urban and adjoining municipalities and the Raigad district.
- Strong financial position provides with the financial flexibility to expand their network in the existing and new markets.
- Despite financing its growth from its internal cash flows from operations and high dividend pay-outs, MGL continues to be a debt free company.
- Over the years, it has developed strong in-house project management capabilities, complemented by robust operation and maintenance processes.
- Efficient operator and services levels of MGL provide significant natural guard against third party entry in our Geographical Area.
- The Company undertakes various initiatives towards continuous improvement in Safety.

VALUATIONS AND VIEW:

Mahanagar Gas is one of the largest City Gas Distribution (CGD) companies in India having over 20 years of experience in supplying natural gas in Mumbai and is presently the sole authorised distributor of CNG and PNG. We value the business at 20x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 995 per share.

RISK & CONCERNS:

- **Credit Risk:** Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Company. The credit risk arises from trade receivables, security deposits, cash and cash equivalents and deposits with banks.
- **Liquidity Risk:** Liquidity risk is the risk that the Company will find it difficult in meeting its obligations associated with its financial liabilities in time.
- **Foreign Exchange Risk:** Company is exposed to foreign exchange risk arising from direct transactions in foreign currency and also indirectly through transactions denominated in foreign currency though settled in functional currency (INR), primarily with respect to the US Dollar (USD). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the company's functional currency (INR).

COMPANY BACKGROUND:

Mahanagar Gas Limited (MGL) is one of the largest City Gas Distribution (CGD) companies in India having over 20 years of experience in supplying natural gas in Mumbai and is presently the sole authorised distributor of Compressed Natural Gas (CNG) and Piped Natural Gas (PNG) in Mumbai, Thane urban and adjoining municipalities, and the Raigad district in the state of Maharashtra, India. It is promoted by GAIL (India) Limited (GAIL) and BG Asia Pacific Holdings Pte. Limited (BGAPH), each of them holding 32.5% of its equity shares. The Government of Maharashtra also holds 10% stake in the Company.

MGL distributes CNG for use in vehicles and PNG for domestic household use, as well as commercial and industrial use. As at March 31, 2017, it supplied CNG to over 5,45,505 vehicles through network of 203 CNG filling stations. It also provided PNG connections to over 9,48,892 domestic households, over 3,218 commercial and 62 industrial consumers in Mumbai and its adjoining areas.

MGL distributes natural gas through an extensive CGD network of pipelines. As of March 31, 2017, it had a supply network of over 4,838 kms of pipelines, including approximately 4,417 kms of polyethylene (medium and low pressure) pipelines and 421 kms of steel pipelines.

INDUSTRY OVERVIEW:

India is among the top five energy consumers in the world, and has been witnessing consistent growth in demand for energy. Out of the total energy basket, natural gas is the cleanest source of energy and has environment friendly characteristics, which are making it more popular as compared to other fuels. Globally, natural gas accounts for 24% of primary energy consumption, however, in India, it has a relatively small share of over 6% of the total energy basket.

In India, natural gas consumption grew at a CAGR of 3.1% over the previous seven years, reaching 46.6 Billion Cubic Metre (BCM) in FY 2015-16 from 37.6 BCM in FY 2008-09. As per World Energy Outlook 2015 report, the consumption is expected to grow at a CAGR of 4.6% over a period of 2013-40, higher than growth in Coal and Oil consumption over the same period. The demand growth for natural gas in India is likely to be driven by the development of transmission and distribution infrastructure, the savings from the usage of natural gas, the rising awareness of the environment friendly characteristics of natural gas as a fuel, and the overall favorable economics of supplying gas at reasonable prices to end consumers. The demand for natural gas in India is majorly driven by the Power, Fertiliser, Petrochem/Refineries and City Gas Distribution (CGD) sectors.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
GAIL (India)	343	16.8	77,348.9	2.45	1,020.9	101.90	15,430.7	14.71	1.81
Indraprastha Gas	166	20.3	17,727.5	0.67	174.7	30.32	1,232.9	23.06	5.24
Guj.St.Petronet	181	15.3	10,228.7	0.83	157.4	23.94	350.4	43.23	1.98
Filtra Consult.	24	15.7	16.3	-	NaN	NaN	NaN	NaN	1.78
Va Tech Wabag	407	15.1	2,223.2	0.98	63.4	(20.21)	1,037.5	(8.33)	1.95
Jiya Eco-Product	125	15.9	134.4	-	4.5	4,218.18	35.8	241.18	4.33
Mahanagar Gas	824.0	20.0	8,168.3	2.29	104.8	5.32	587.0	11.74	4.44

*TTM

FINANCIAL OVERVIEW

Q1 FY18 Performance Highlight							
(in Million)	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	YoY (%)	QoQ (%)
Revenue	5,764.10	5,828.50	5,880.40	6,382.50	6,437.80	11.69%	0.87%
Other Income	129.5	120.1	138.6	141.4	173.5		
Total Income	5,893.60	5,948.60	6,019.00	6,523.90	6,611.30	12.18%	1.34%
Expenditure	-4,132.10	-3,797.90	-3,877.50	-4,373.60	-4,676.80		
As a % of Sales	71.69%	65.16%	65.94%	68.52%	72.65%		
Interest	0.7	-2	--	--	-0.6	-185.71%	#VALUE!
PBDT	1761.5	2150.7	2141.5	2150.3	1934.5		
As a % of Sales	30.56%	36.90%	36.42%	33.69%	30.05%		
Depreciation	-256.8	-246.3	-258.5	-267.7	-339.4		
PBT	1504.7	1904.4	1883	1882.6	1595.1	6.01%	-15.27%
As a % of Sales	26.10%	32.67%	32.02%	29.50%	24.78%		
Tax	-510	-661.1	-635.1	-642.8	-547.5	7.35%	-14.83%
Net Profit	994.7	1243.3	1247.9	1239.8	1047.6	5.32%	-15.50%
As a % of Sales	17.26%	21.33%	21.22%	19.42%	16.27%		
Equity	987.8	987.8	987.8	987.8	987.8	0.00%	0.00%
EPS (Rs)	10.07	12.59	12.63	12.55	10.61	5.36%	-15.46%
CEPS (Rs)	12.67	15.08	15.25	15.26	14.04		
OPM %	30.56	36.9	36.42	33.69	30.05		
NPM %	17.26	21.33	21.22	19.42	16.27		

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NPM %	17.26	21.33	21.22	19.42	16.27		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Net Sales	18,686	20,778	20,653	20,340	21,967	24,164	25,372
Other Operating Income	165	171	136	-	131	126	113
Expenditure	13,969	16,052	15,660	13,898	15,010	16,511	17,336
EBITDA	4,882	4,897	5,129	6,442	7,088	7,779	8,148
Depreciation	807	799	841	951	848	850	852
EBIT	4,075	4,098	4,289	5,490	6,240	6,929	7,296
Interest Expenses	2	12	29	10	21	18	22
PBT	4,073	4,086	4,259	5,480	6,219	6,911	7,275
Tax	1,445	1,483	1,600	2,072	2,286	2,524	2,652
Other Income	345	407	427	527	465	528	568
Extraordinary Items	-	-	-	-	-	-	-
Net Income Before Adjustment	2,972	3,010	3,087	3,934	4,398	4,915	5,191
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	2,972	3,010	3,087	3,934	4,398	4,915	5,191

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Equity share capita	893	893	893	988	988	988	988
Reserves & surplus	12,076	13,181	14,386	17,413	20,174	23,261	26,521
Share Warrants	-	-	-	-	-	-	-
Net worth	12,970	14,075	15,280	18,400	21,162	24,249	27,509
Minority Interest	-	-	-	-	-	-	-

Loan Funds	80	156	44	27	29	27	25
Net deferred tax liability	887	1,027	1,181	1,376	1,376	1,376	1,376
Other Long-term Liabilities	8	11	5	2	2	2	2
Long-term Provisions	40	68	53	140	151	166	175
Total Liabilities	13,985	15,338	16,564	19,948	22,722	25,823	29,089
Net block	13,369	14,436	15,885	17,163	16,648	16,247	15,645
Investment, Loan & Adv.	253	314	441	1,120	1,124	760	922
Total Current Assets	6,121	6,905	7,237	7,959	11,392	16,012	20,089
Current Liabilities & Provisions	5,758	6,319	7,000	6,297	6,443	7,199	7,569
Net Current Assets	363	586	237	1,662	4,949	8,813	12,521
Total Assets	13,985	15,338	16,564	19,948	22,722	25,823	29,089

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 17A	FY 18E	FY 19P	FY 20P
Operating Cash Flow	5,467	6,876	5,294	5,765
Cash Flow from Investments	(2,777)	(442)	(111)	(436)
Cash Flow from Financing	(2,838)	(1,855)	(1,237)	(1,621)
Net Changes in Cash	(148)	4,578	3,946	3,707
Opening Cash	222	74	4,652	8,598
Closing Cash Balance	74	4,652	8,598	12,305

Research Analyst Details

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