MOTILAL OSWAL

11 June 2020

4QFY20 Results Update | Sector: Oil & Gas

Mahanagar Gas

Estimate change	↑
TP change	↑
Rating change	↔

Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We request your ballot.

ASIAMONEY POLL 2020

Bloomberg	MAHGL IN
Equity Shares (m)	99
M.Cap.(INRb)/(USDb)	102.3 / 1.3
52-Week Range (INR)	1247 / 666
1, 6, 12 Rel. Per (%)	9/18/34
12M Avg Val (INR M)	764

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	29.7	20.4	26.1
EBITDA	10.5	8.7	10.8
Adj. PAT	7.9	5.9	7.4
Adj. EPS (INR)	80.3	60.1	75.0
EPS Gr. (%)	45.2	-25.2	24.8
BV/Sh.(INR)	298.9	327.5	363.2
Ratios			
Net D:E	-0.5	-0.4	-0.4
RoE (%)	29.7	19.2	21.7
RoCE (%)	29.8	19.2	21.7
Payout (%)	52.4	52.4	52.4
Valuation			
P/E (x)	12.9	17.2	13.8
P/BV (x)	3.5	3.2	2.8
EV/EBITDA (x)	9.5	11.6	9.0
Div. Yield (%)	3.4	2.5	3.2
FCF Yield (%)	6.8	0.9	6.3

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	32.5	32.5	42.5
DII	27.0	26.1	22.9
FII	31.3	31.9	24.4
Others	9.2	9.5	10.3

FII Includes depository receipts

CMP: INR1,036 TP: INR1,200 (+16%) Buy

A value play – lower volume growth but better margins

- **Mahanagar Gas' (MAHGL) 4QFY20 EBITDA was marginally below est. led by a miss on volumes. The COVID-19 led lockdown in the latter part of Mar'20 impacted entire sales volumes, except for PNG-household.**
- **However, EBIDTA/scm was higher YoY and QoQ, supported by lower spot LNG prices and revision in PMT gas prices to APM prices (in Jan'20).**
- **For FY20, total volumes were flat YoY at 3mmscmd, while EBITDA/scm was higher at INR9.7/scm (v/s INR8.2/scm in FY19). This led to EBITDA jumping 19% YoY to INR10.5b in FY20, while PBT stood at INR9.8b (+18% YoY) in FY20.**
- **Also, while lockdowns have affected demand, the city gas distributors (CGDs) are likely to compensate for the volume loss from lower APM and spot prices. CGDs have retained a portion of the APM gas price cut in Apr'20, and thus, are likely to earn higher margins.**
- **We maintain Buy on MAHGL considering its attractive valuations and value it in line with global peers at 16x FY22E EPS to arrive at a TP of INR1,200.**

Lower than est. volumes lead to EBITDA miss

Total volumes at 2.78mmscmd (-7% YoY, primarily due to CNG)

- CNG volumes were down 10% YoY to 1.98mmscmd.
- PNG-domestic was 7% higher YoY to 0.42mmscmd, while PNG-industrial was down 8% YoY to 0.39mmscmd. This resulted in total PNG volumes declining 1% YoY to 0.8mmscmd.

EBITDA/scm was marginally lower than est. at INR9.6/scm; however, it was up YoY (INR7.9/scm) and QoQ (INR9.2/scm).

- Thus, EBITDA was ~9% lower than est. at INR2.4b (+14% YoY). Reported PAT stood at INR1.7b (-11% est., +25% YoY), with the tax rate at 25.9%.

During FY20, the company adopted the new lower tax rate and recorded INR565.9m of DTL benefits. Hence, full-year FY20 PAT was up 45% YoY to INR7.9b with average tax rate of 19.3%.

Sales volumes – at ~42% of pre-COVID levels (up from 25% in Apr'20)

- **Public transport contributes 60-70% of total CNG consumption for MAHGL; if current norms (constraining pillion passenger) stay, then trips numbers should increase, bolstering a quicker ramp-up in CNG volumes.**
- **Industrial volumes have revived well;** most commercials have not opened yet and many operational consumers are facing challenges.
- The company has given some relief to consumers where minimum offtake contract is in place. MAHGL has also asked GAIL to consider force majeure, and thus, might not incur any liability on the take or pay contracts.
- **The company believes CNG revival to be gradual in the coming months, followed by commercial volumes** (in line with our thesis highlighted in our earlier report).
- **Factoring in the same, we have built in two months of complete shutdown in our volumes, resulting in 2.65mmscmd/3.3mmscmd for FY21/FY22E.**

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Margins/cost snapshot – majority of CNG expenditure variable

- For CNG (which constitutes ~71% of the total volumes), most expenditures are variable; just maintenance related expenses and employee expenses are fixed.
- Power related cost (INR1.25-1.50b is 100% variable), gas carrying cost to daughter booster station, and even commissions are all variable costs.
- Thus, the concerns over fixed costs are pretty well answered by the management in current times of lower demand. Also, the subdued feedstock environment is likely to keep margins healthy, if not boost it.
- **However, on a conservative basis, we model in EBITDA/scm of INR9.0 for FY21/FY22E,** revised up from INR9.0/INR8.2 earlier (v/s INR9.7 in FY20). This translates into EPS revision of +9% in FY22E (FY21 unchanged).

Valuation and view

- The company had earlier guided for volume growth of ~6-7% over the near-to-medium term (barring the one-off lower volume growth in FY20).
- **We model in-line volume CAGR of ~6% over FY20-22E,** in light of the developments at Raigad (peak demand of 0.6mmscmd expected in 3 years) and probable CNG volume boost expected from the BEST bus additions (order of ~500 new buses).
- Even after various initial attempts by the regulator, we are yet to see a notification on introduction of competition. The recent lockdowns might also result in further delay of the same. Nevertheless, **the regulator is also trying to be a facilitator to the incumbent companies along with maintaining the interest of consumers.**
- MAHGL's saturated geographical area (GA) of Mumbai reduces the risk from common carrier as it becomes less attractive for third-party entrants. However, the company enjoys highest EBITDA/scm amongst peers, which we believe would normalize.
- The stock trades at 17.2x FY21 and 13.8x FY22E EPS, with RoEs of ~20% and dividend yield of 3.4% in FY20.
- With an upward EPS revision of 9% in FY22E, at 16x FY22E EPS our TP now stands at INR1,200 (v/s INR1,100 earlier). Maintain **Buy**.

Standalone - Quarterly Earning Model (INR Million)

Y/E March									FY19	FY20	FY20	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	vs Est.
Net Sales	**6,193**	**6,965**	**7,527**	**7,225**	**7,575**	**7,836**	**7,445**	**6,866**	**27,911**	**29,721**	**6,489**	**6%**
YoY Change (%)	16.7	30.5	29.5	23.1	22.3	12.5	-1.1	-5.0	25.0	6.5	-10.2	
EBITDA	**2,109**	**2,215**	**2,391**	**2,140**	**2,768**	**2,734**	**2,588**	**2,438**	**8,855**	**10,528**	**2,687**	**-9%**
EBITDA/SCM	8.1	8.1	8.8	7.9	10.3	9.9	9.2	9.6	8.2	9.7	10.0	-4%
Margins (%)	34.1	31.8	31.8	29.6	36.5	34.9	34.8	35.5	31.7	35.4	41.4	
Depreciation	295	308	328	329	372	391	415	440	1,259	1,617	458	-4%
Interest	1	1	1	1	14	15	16	21	3	65	18	
Other Income	153	182	204	238	203	230	287	270	777	990	289	-7%
PBT	**1,967**	**2,087**	**2,266**	**2,049**	**2,586**	**2,558**	**2,444**	**2,247**	**8,369**	**9,835**	**2,500**	**-10%**
Rate (%)	34.8	34.7	34.6	34.9	34.2	-5.8	23.9	25.9	34.7	19.3	25.2	
Reported PAT	**1,283**	**1,363**	**1,483**	**1,335**	**1,702**	**2,706**	**1,861**	**1,666**	**5,464**	**7,935**	**1,870**	**-11%**
YoY Change (%)	3.2	9.2	19.6	27.4	32.7	98.6	25.4	24.8	14.3	45.2	40.1	
Margins (%)	20.7	19.6	19.7	18.5	22.5	34.5	25.0	24.3	19.6	26.7	28.8	
Sales Volumes (mmscmd)												
CNG	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.0	2.2	2.1	2.1	-7%
PNG – Domestic	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	-2%
PNG - Industry/ Commercial	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0%
PNG - Total	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	-1%
Total Volumes	**2.9**	**3.0**	**3.0**	**3.0**	**3.0**	**3.0**	**3.1**	**2.8**	**2.9**	**3.0**	**2.9**	**-6%**

E: MOFSL Estimates

Management commentary highlights

- **At end-FY20, the company had** ~256 CNG stations (added ~8 stations in 4QFY20), of which ~220 are currently operational.
- MAHGL had connections to ~1.26m households (~32,582 added in 4QFY20) and ~4,021 industrial/commercial consumers (~24 added in 4QFY20).
- Raigad had ~14 CNG stations, with 1 added in the quarter. The company also added 4,200 PNG-household connections in Raigad (4QFY20) and fulfilled the Minimum Work Program (MWP).

Outlook for FY21

- Due to the COVID-19 demand destruction and the consequent lockdown led developmental constraints, the company has refrained from predicting/providing guidance. However, it plans to add 15 new CNG stations in FY21.
- **Capex for FY20 stood at ~INR4.15b; the company is targeting similar and higher capex in FY21** (plans to spend ~INR4-4.5b annually), barring the impact of COVID. Maintenance capex stands at 10-15% of the mentioned capex.
- MAHGL has gas pipeline connectivity in 3 out of 4 GAs classified by the NGT under polluted areas (and it is prepared to supply gas in the 4th GA via virtual pipeline).
- PNG-commercial penetration in MAHGL GAs is just ~20%; the company already has pipeline infrastructure and only last mile connectivity is required.
- **MAHGL is also looking forward to the 11th CGD round (~44 GAs are up for offer) and might bid for the same once bidding is opened.**
- BEST has ordered 500 new buses and ~100 have been delivered, the rest are expected to be delivered in coming month.

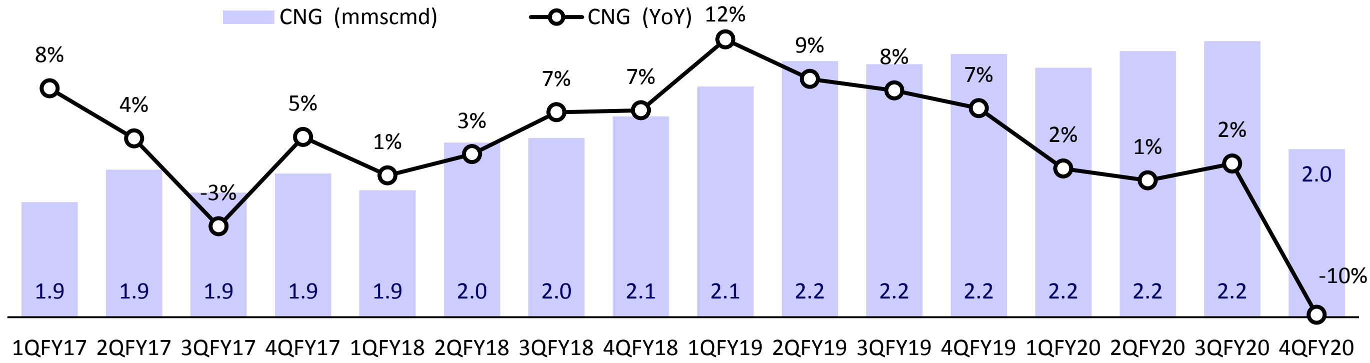
Retained healthy margins

- The CGDs did not pass on the entire reduction in APM gas prices (from USD3.23/mmbtu to USD2.39/mmbtu) starting 1st Apr'20 to end customers.
- Factoring in the price reduction, the CGDs should have taken ~INR4.0/scm cut in their retail selling prices. **However, MAHGL took a price cut of only INR2.0/scm, retaining the ~50% benefit.**
- Also, the company did not cut retail prices in 4QFY20 despite revision in the Panna-Mukti fields (PMT) gas prices to APM prices starting Jan'20.
- For MAHGL, margins are higher for commercial > PNG-household and CNG > industrial. Net realization for commercial was ~INR34/scm and for industrial, it was ~INR29/scm in 4QFY20, which is currently marginally lower.

A value play – maintain Buy

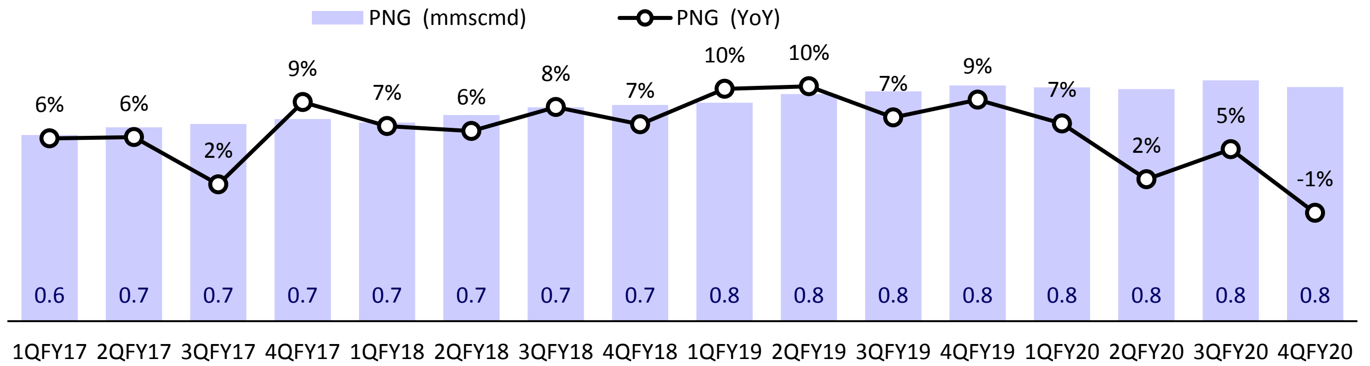
- We maintain **Buy** on MAHGL considering its attractive valuations (at **INR1,200, valuing it in line with global peers at 16x FY22E EPS**).
- **The company trades at >40% discount to IGL's P/E, P/B and EV/EBIDTA** (despite enjoying the highest EBITDA/scm), offering the highest dividend yield among CGDs at ~2.5-3.5%.
- Also, assuming 3% terminal growth rate for MAHGL (considering lower volume growth and no new GAs won), DCF derived target price stands at INR1,207 (implying an upside of ~17%).
- MAHGL has announced total dividend of INR25.5/share (in addition to INR9.5/share declared as interim dividend). **Thus, full-year FY20 dividend stands at INR35/share translating into dividend yield of ~3.4% on CMP.**
- **Thus, we believe MAHGL is a great value company.**

Exhibit 1: CNG volume growth turns negative 10% YoY to 1.98mmscmd in 4QFY20



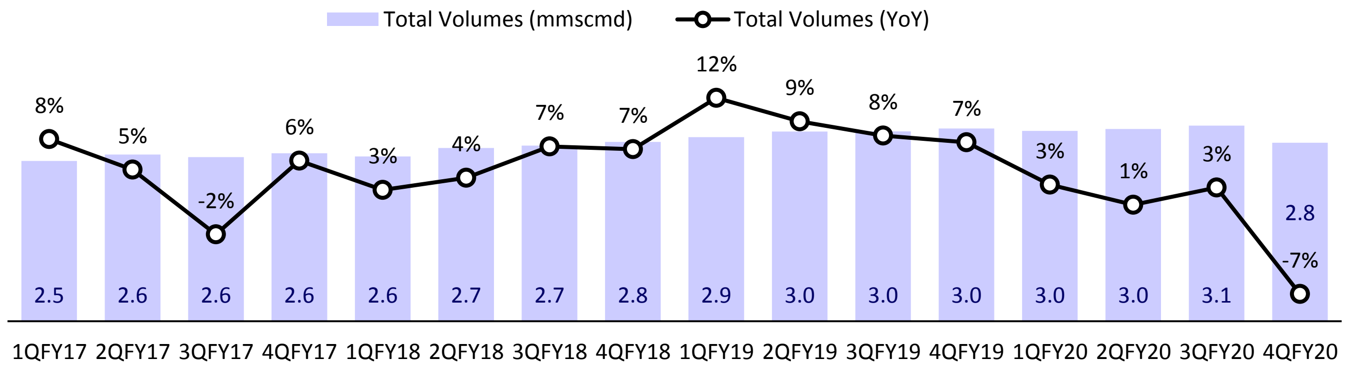
Source: Company, MOFSL

Exhibit 2: PNG volumes down 1% YoY to 0.8mmscmd



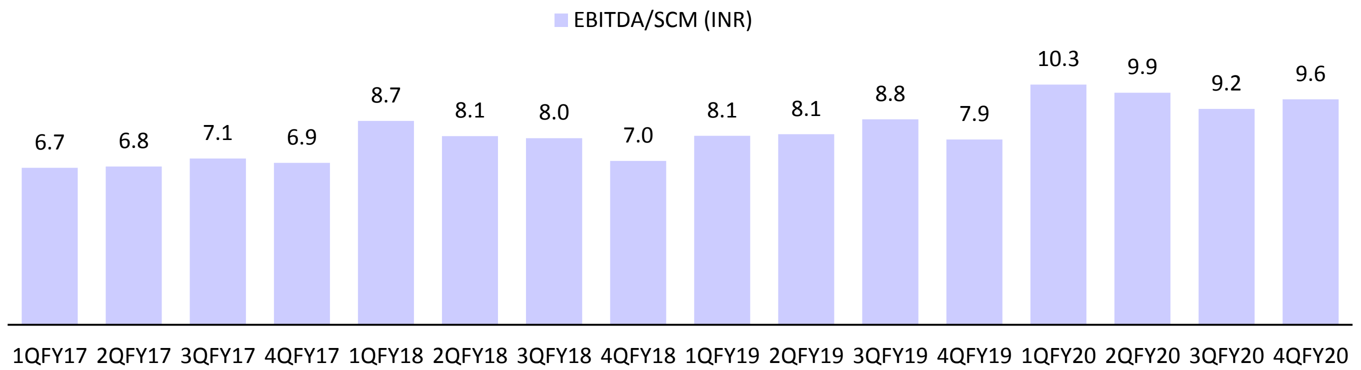
Source: Company, MOFSL

Exhibit 3: Total volumes down 7% YoY to 2.8mmscmd



Source: Company, MOFSL

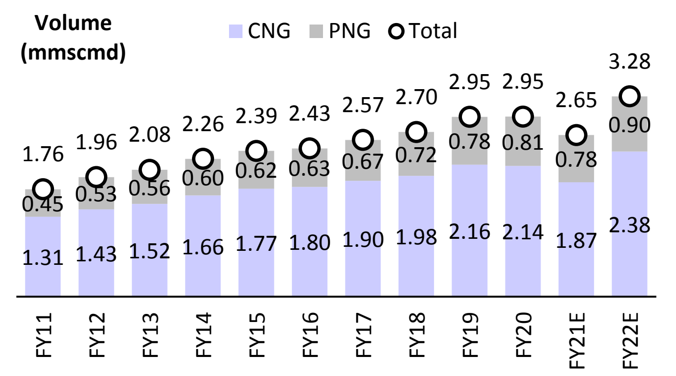
Exhibit 4: EBITDA/scm stood at INR9.6/scm, higher YoY and QoQ



Source: Company, MOFSL

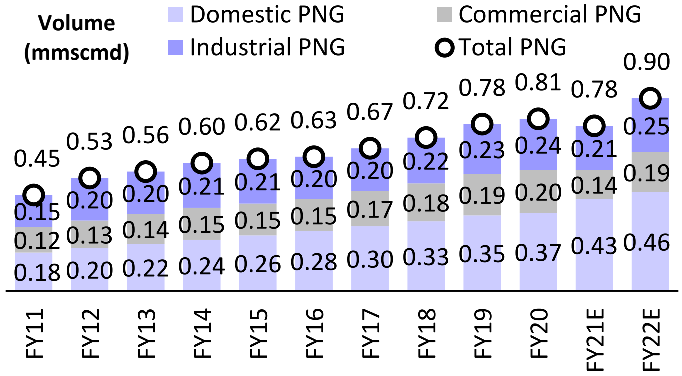
Story in charts

Exhibit 5: Volume growth for FY20/FY21



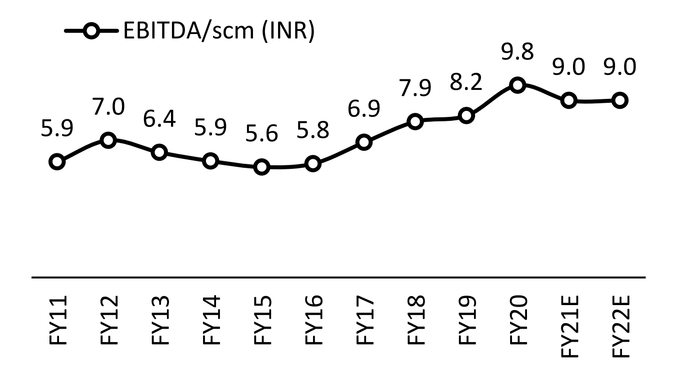
Source: Company, MOFSL

Exhibit 6: Domestic and commercial to drive PNG volumes



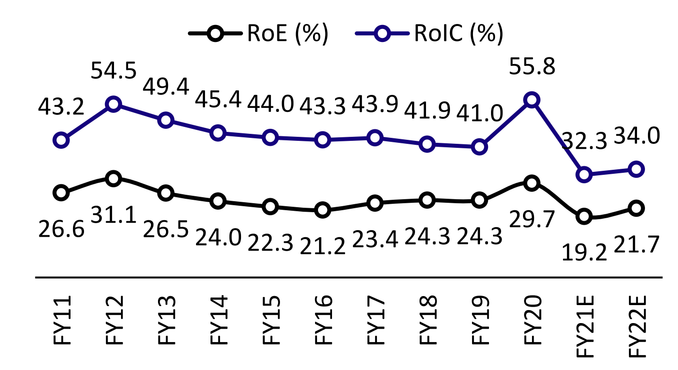
Source: Company, MOFSL

Exhibit 7: EBITDA/scm to normalize to ~9.0mmscmd



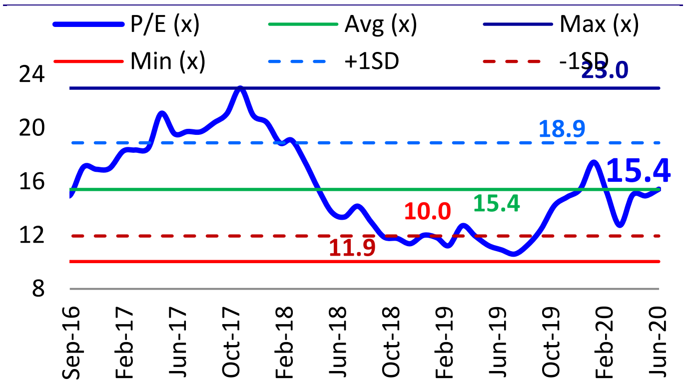
Source: Company, MOFSL

Exhibit 8: RoIC to hover >30% in FY21/22E



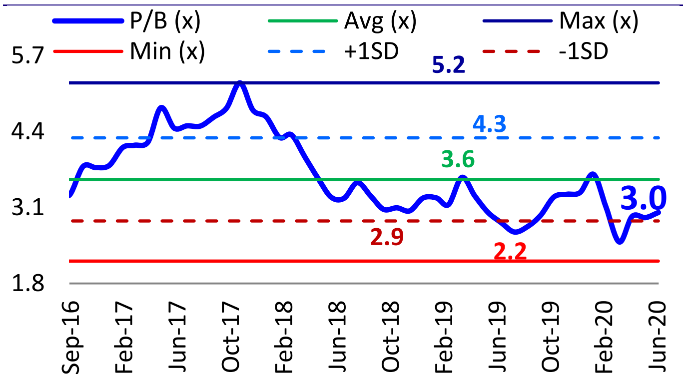
Source: Company, MOFSL

Exhibit 9: MAHGL 1-year forward P/E trades at par with its LT average of 15.4x…



Source: Company, MOFSL

Exhibit 10: …while 1-year forward P/B trades at a discount of ~17% to its LT average of 3.6x



Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement (INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	**20,949**	**20,783**	**20,340**	**22,330**	**27,911**	**29,721**	**20,423**	**26,059**
Change (%)	11.1	-0.8	-2.1	9.8	25.0	6.5	-31.3	27.6
Total Expenditure	**16,053**	**15,690**	**13,898**	**14,524**	**19,056**	**19,193**	**11,716**	**15,271**
% of Sales	76.6	75.5	68.3	65.0	68.3	64.6	57.4	58.6
EBITDA	**4,897**	**5,093**	**6,442**	**7,806**	**8,855**	**10,528**	**8,706**	**10,787**
Margin (%)	23.4	24.5	31.7	35.0	31.7	35.4	42.6	41.4
Depreciation	799	826	951	1,112	1,259	1,617	1,779	2,014
EBIT	**4,098**	**4,267**	**5,490**	**6,694**	**7,595**	**8,911**	**6,928**	**8,773**
Int. and Finance Charges	12	22	10	3	3	65	53	35
Other Income	407	472	527	574	777	990	1,061	1,165
PBT after EO Exp.	**4,493**	**4,716**	**6,007**	**7,265**	**8,369**	**9,835**	**7,936**	**9,903**
Total Tax	1,483	1,607	2,072	2,487	2,905	1,900	1,997	2,493
Tax Rate (%)	33.0	34.1	34.5	34.2	34.7	19.3	25.2	25.2
Reported PAT	**3,010**	**3,109**	**3,934**	**4,779**	**5,464**	**7,935**	**5,938**	**7,410**
Change (%)	1.3	3.3	26.5	21.5	14.3	45.2	-25.2	24.8
Margin (%)	14.4	15.0	19.3	21.4	19.6	26.7	29.1	28.4

Standalone - Balance Sheet (INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	893	893	988	988	988	988	988	988
Total Reserves	13,181	14,386	17,413	19,966	23,001	28,539	31,363	34,888
Net Worth	**14,075**	**15,280**	**18,400**	**20,954**	**23,989**	**29,527**	**32,351**	**35,875**
Total Loans	156	138	27	12	0	176	176	176
Deferred Tax Liabilities	1,027	1,181	1,376	1,748	2,048	1,607	1,607	1,607
Capital Employed	**15,258**	**16,599**	**19,804**	**22,714**	**26,037**	**31,310**	**34,134**	**37,658**
Gross Block	16,714	18,450	14,775	18,159	21,732	25,024	30,562	34,303
Less: Accum. Deprn.	6,074	6,854	1,727	2,839	4,098	5,716	7,494	9,509
Net Fixed Assets	**10,640**	**11,596**	**13,047**	**15,320**	**17,634**	**19,309**	**23,068**	**24,795**
Capital WIP	3,796	4,289	4,115	3,566	3,697	4,865	2,619	2,170
Total Investments	**3,715**	**3,882**	**4,667**	**6,877**	**6,540**	**11,215**	**11,215**	**11,215**
Rights to use assets						1,183	1,183	1,183
Curr. Assets, Loans&Adv.	**3,505**	**3,797**	**4,413**	**4,340**	**6,539**	**4,713**	**2,803**	**6,935**
Inventory	174	180	238	240	191	186	113	148
Account Receivables	962	893	945	914	996	685	470	600
Cash and Bank Balance	1,449	1,721	1,361	919	2,988	2,295	1,155	4,830
Loans and Advances	920	1,003	1,869	2,268	2,364	1,548	1,064	1,357
Curr. Liability & Prov.	**6,398**	**6,964**	**6,439**	**7,389**	**8,373**	**9,976**	**6,754**	**8,639**
Account Payables	1,120	1,119	1,201	1,100	1,524	1,318	804	1,048
Other Current Liabilities	3,238	3,809	5,031	6,089	6,637	8,395	5,768	7,360
Provisions	2,041	2,036	207	199	212	263	181	231
Net Current Assets	**-2,893**	**-3,167**	**-2,026**	**-3,049**	**-1,834**	**-5,263**	**-3,951**	**-1,704**
Appl. of Funds	**15,258**	**16,599**	**19,804**	**22,714**	**26,037**	**31,310**	**34,134**	**37,658**

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
EPS	**30.5**	**31.5**	**39.8**	**48.4**	**55.3**	**80.3**	**60.1**	**75.0**
Cash EPS	38.6	39.8	49.5	59.6	68.1	96.7	78.1	95.4
BV/Share	142.5	154.7	186.3	212.1	242.8	298.9	327.5	363.2
DPS	15.8	15.8	19.0	21.5	20.0	35.0	26.2	32.7
Payout (%)	62.5	60.5	57.4	53.5	43.5	52.4	52.4	52.4
Valuation (x)								
P/E	33.9	32.8	25.9	21.4	18.7	12.9	17.2	13.8
Cash P/E	26.8	25.9	20.9	17.3	15.2	10.7	13.2	10.8
P/BV	7.2	6.7	5.5	4.9	4.3	3.5	3.2	2.8
EV/Sales	4.8	4.8	5.0	4.5	3.5	3.4	4.9	3.7
EV/EBITDA	20.6	19.7	15.6	13.0	11.2	9.5	11.6	9.0
Dividend Yield (%)	1.5	1.5	1.8	2.1	1.9	3.4	2.5	3.2
FCF per share	23.2	20.7	68.0	31.0	31.4	69.9	9.8	65.1
Return Ratios (%)								
RoE	22.3	21.2	23.4	24.3	24.3	29.7	19.2	21.7
RoCE	22.1	21.1	23.3	24.3	24.3	29.8	19.2	21.7
RoIC	44.0	43.3	43.9	41.9	41.0	55.8	32.3	34.0
Working Capital Ratios								
Fixed Asset Turnover (x)	1.3	1.1	1.4	1.2	1.3	1.2	0.7	0.8
Asset Turnover (x)	1.4	1.3	1.0	1.0	1.1	0.9	0.6	0.7
Inventory (Days)	3	3	4	4	3	2	2	2
Debtor (Days)	17	16	17	15	13	8	8	8
Creditor (Days)	20	20	22	18	20	16	14	15
Leverage Ratio (x)								
Current Ratio	0.5	0.5	0.7	0.6	0.8	0.5	0.4	0.8
Interest Cover Ratio	338.6	192.2	533.0	2,574.7	2,373.5	136.7	131.1	249.1
Net Debt/Equity	-0.4	-0.4	-0.3	-0.4	-0.4	-0.5	-0.4	-0.4

Standalone - Cash Flow Statement **(INR Million)**

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	4,493	4,687	6,007	7,265	8,369	9,835	7,936	9,903
Depreciation	799	841	951	1,112	1,259	1,617	1,779	2,014
Interest & Finance Charges	12	30	-516	-571	-774	-924	-1,008	-1,130
Direct Taxes Paid	-1,390	-1,501	-2,072	-2,487	-2,905	-1,900	-1,997	-2,493
(Inc)/Dec in WC	660	471	-1,502	581	855	2,735	-2,451	1,428
CF from Operations	**4,574**	**4,527**	**2,868**	**5,900**	**6,804**	**11,363**	**4,258**	**9,723**
(Inc)/Dec in FA	-1,974	-2,210	3,848	-2,835	-3,705	-4,460	-3,292	-3,292
Free Cash Flow	**2,293**	**2,044**	**6,716**	**3,066**	**3,100**	**6,903**	**966**	**6,431**
(Pur)/Sale of Investments	-278	-127	-785	-2,210	337	-4,675	0	0
CF from Investments	**-1,945**	**-2,068**	**3,590**	**-4,471**	**-2,591**	**-8,145**	**-2,231**	**-2,127**
Inc/(Dec) in Debt	-18	-18	-111	-15	-12	176	0	0
Interest Paid	-8	-2	-10	-3	-3	-65	-53	-35
Dividend Paid	-1,829	-1,882	-2,259	-2,556	-2,378	-4,161	-3,114	-3,886
CF from Fin. Activity	**-1,761**	**-1,914**	**-6,818**	**-1,871**	**-2,144**	**-3,911**	**-3,167**	**-3,921**
Inc/Dec of Cash	**561**	**272**	**-360**	**-442**	**2,070**	**-694**	**-1,140**	**3,675**
Opening Balance	888	1,449	1,721	1,361	919	2,989	2,295	1,155
Closing Balance	**1,449**	**1,721**	**1,361**	**919**	**2,989**	**2,295**	**1,155**	**4,830**

E: MOFSL Estimates

NOTES

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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