



AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Investor's delight: Mahanagar Gas Limited (MGL) – "BUY"

17th October, 2020

CMP: Rs. 820, Target price: Rs. 1,066, Upside: 30 percent, FV: Rs. 10, Market Capitalisation: Rs. 8,110 crores, FY20 EPS: Rs. 80.33, P/E: 10x, 52 week High/Low: Rs. 1,246/Rs. 663.90

Mahanagar Gas Limited was incorporated on 8th May 1995 with the objective of supplying natural gas as compressed natural gas (CNG) and piped natural gas (PNG) in Mumbai and the adjoining areas. The Company has blue chip shareholders GAIL (India) Ltd. ("GAIL") (32.5%) Government of Maharashtra ("GoM") (10.0%) Public and Other (57.5%). The Company is the Sole authorized distributor of CNG and PNG in Mumbai, its adjoining Areas and Raigad with more than 22 years track record in Mumbai. As on 31st March 2020, the Company has over 5,600 kms of pipeline. MGL supplied gas to more than 11.68 lakhs households and 4,021 industrial and commercial customers. During FY 2019-20, it converted with 105,317 domestic households and supplied piped gas to a cumulative customer base of more than 1.26 million households.

It also opened many new CNG stations in its areas of operation, taking the total count to 256 CNG stations as on 31st March 2020, with a cumulative compression capacity of 35.10 lakhs kg per day.

India was the third-largest energy consumer in the world after China and US in 2019. India's primary energy consumption has increased by ~ 58% between 2009 and 2019, reaching ~813 MToe. India's per capita energy consumption is one-third of the global average, indicating potentially higher energy demand in the long-term. Environmentally clean fuels, such as natural gas, are expected to play a dominant role in India's economic growth in the coming years. With the Government's stated objective to achieve high levels of economic growth in an environmentally benign manner, reliance on usage of Natural Gas is slated to rise and share of Natural Gas in India's total energy mix is expected to increase to 15% by 2030. Apart from its environmental benefits, the growing preference for Natural Gas is also stemming from it being a safe, convenient, reliable and affordable source of energy. Government's emphasis on creation of infrastructure along the entire gas value chain is also going to play an important role in making Natural Gas available across the country

The long-term City Gas Distribution (CGD) business outlook looks very positive in view of the following factors: Favorable regulatory environment addressing previous bidding round impediments with forward looking and investor friendly reforms. Rising population and rapid urbanisation, strong policy framework and guidelines in terms of CGD footprint expansion, mission PNG, smart cities, green corridors, etc., and the developments of CGD network in over 326 cities by 2022 and the ninth round of CGD bidding round called by PNGRB offering 86 new geographical areas in 174 districts, which will cover almost 29% of India's population.

During the lockdown, the company received its gas supplies and maintained the supply of gas to all types of customers as per their requirement. Now with partial easing of lockdown, daily sales volume had increased from 25% in April 2020 to 55% in July 2020 compared to normal volumes recorded in pre-lockdown period. Sales volume has further improved to around 65% level in the month of August. It is estimated that sales volumes are likely to pick up further due to increased vehicular movement, opening up of restaurants, commercial establishments, industries and other businesses that use gas. As the cases of COVID-19 are still rising, and the announcement of responses to it by the statutory authorities may also get modulated from time to time, impact on its operations may turn out to be different as compared to estimates drawn as of today, but the company will continue to closely monitor future changes. As a result of lockdown in Q1FY21, volumes were adversely impacted resulting in reduction in overall sales volume for the quarter by 60% compared to previous quarter. As a result, Q1FY21 EBITDA stood at Rs.80 Crores as compared to previous quarter EBITDA of Rs.244 Crores. On the margin front, EBITDA was 30.6% for Q1 compared to previous quarter EBITDA of 35.5%, expenses per SCM of gas sold are high mainly due to overheads remaining at normal levels with reduced volumes. Net profit after tax was Rs.45 Crores in the quarter as compared to Rs.167 Crores in the previous quarter. In FY20, EBITDA registered a growth of 18.90% YoY to reach Rs. 1,052.84 crores in FY 2019-20 as compared to Rs. 885.45 crores in FY 2018-19. The Company's PAT increased from Rs. 546.39 crore in FY 2018-19 to Rs. 793.50 crore in FY 2019-20, registering a growth of 45.23%.

Our conviction on the Company stems from the fact that CNG is most preferred fuel by auto consumers as it is priced ~60% discount to petrol and 45% discount to diesel. We like the Company considering its Monopoly status in CNG space – Mumbai and adjoining areas, extensive supply network built over 20 years, infrastructure



AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

exclusivity Mumbai – upto 2020, adjoining areas – upto 2030, Raigad – upto – 2040 underpenetrated market with significant potential for expansion, robust infrastructure in place to support future growth, favourable regulatory environment, focused growth strategy in place, significant entry barriers for competitors to enter into its area of operation such as infrastructure exclusivity, requirement of large investments to establish a natural gas distribution network, lead time in allocation of domestic natural gas and obtaining the required regulatory approvals.. Natural gas penetration in Maharashtra is around 30 percent implying huge growth potential. Given the rising awareness of CNG and PNG's benefits over alternative fuels, we believe MGL's volume outlook remains optimistic.

At present, MGL operates 256 CNG stations out of which 184 are with oil marketing companies, supplying CNG to more than 6,00,000 vehicles.

With gradual opening of the economy and easing of travel restrictions, we expect the Company to post improved volume growth going ahead led by increase in CNG consumption both in auto and PNG space. Geographical expansion to Raigad & Karjat and Government's push for PNG's domestic connections will support volume growth.

Post recent correction from a recent high of Rs. 1073 made on July 06, 2020 owing to Q1FY21 result being affected by Lockdown led by COVID-19 crisis. The Company at CMP of Rs.820 (Face Value: Rs. 10), is attractively valued at 10x at reported FY20 EPS of Rs. 80.33. The Company enjoys decent return ratios (ROE: 26.87%) with equity capital of Rs. 98.8 crores. Although earnings for FY21 would be subdued, we expect earnings to improve in FY22. The Company is debt free and has a strong balance sheet. We believe this Company should be part of investor's portfolio as its business model is sound and has big opportunity to be seized. We expect an upside of 30 percent for investors with a horizon of 12 months with a target of Rs. 1,066 (12x at estimated FY22 EPS of Rs. 88.33).



AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Disclosure under SEBI Research Analyst Regulations 2014:

- a) Analyst holding: No
- b) Company holding: No
- c) Directors holding: No
- d) Group/Associates Position: No
- e) Relationship with management: No
- f) Any Compensation Received by our Company/Associate during the last 12 months: No
- g) Our Company/Associate have managed the public offering of securities for the subject Company in the past 12 months:
No

Recommendation parameters for fundamental reports:

Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

Disclaimer

Ajcon Global Services Limited is a fully integrated investment banking, merchant banking, corporate advisory, stock broking, commodity and currency broking. Ajcon Global Services Limited research analysts responsible for the preparation of the research report may interact with trading desk personnel, sales personnel and other parties for gathering, applying and interpreting information.

Ajcon Global Services Limited is a SEBI registered Research Analyst entity bearing registration Number INH000001170 under SEBI (Research Analysts) Regulations, 2014.

Individuals employed as research analyst by Ajcon Global Services Limited or their associates are not allowed to deal or trade in securities that the research analyst recommends within thirty days before and within five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above paragraph, We and our affiliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage.

Ajcon Global Services Limited or its associates may have commercial transactions with the Company mentioned in the research report with respect to advisory services.

The information and opinions in this report have been prepared by Ajcon Global Services Limited and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Ajcon Global Services Limited. While we would endeavour to update the information herein on a reasonable basis, Ajcon Global Services Limited is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Ajcon Global Services Limited from doing so. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Ajcon Global Services Limited will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Ajcon Global Services Limited accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-



AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

looking statements are not predictions and may be subject to change without notice. Ajcon Global Services Limited or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

Ajcon Global Services Limited encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Ajcon Global Services Limited or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Ajcon Global Services Limited nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that Akash Jain – MBA (Financial Markets) or any other Research Analysts of this report has not received any compensation from the company mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Ajcon Global Services Limited or its subsidiaries collectively or Directors including their relatives, Research Analysts, do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that Akash Jain – MBA (Financial Markets) research analyst or any other Research Analysts of Ajcon Global do not serve as an officer, director or employee of the companies mentioned in the report.

Ajcon Global Services Limited may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor Ajcon Global Services Limited have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on Ajcon Global Services Limited by any Regulatory Authority impacting Equity Research Analysis activities.

Analyst Certification

I, Akash Jain MBA (Financial Markets), research analyst, author and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. I also certify that no part of compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view (s) in this report.

For research related queries contact:

Mr. Akash Jain – Vice President (Research) at, 022-67160431 (D)

CIN: L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

Website: www.ajcononline.com

Registered and Corporate office

408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062