

**Company Details**

CMP:	Rs.825.30
Face value:	Rs.10.00
Market cap:	Rs.8152.13 Crs.
TTM EPS	Rs.48.78
52 week high:	Rs.1345
52 week low:	Rs.757
BSE Code:	539957
Sector	Utilities:Non-Elec.

**Financial Highlights (YoY)**

Rs. in crores			
	FY18	FY17	% Var
Net Sales	2452.92	2239.07	9.55
Total Expendit	1672.81	1594.92	4.88
PBDIT	780.11	644.15	21.11
Op.Profit	837.79	696.81	20.23
OPM (%)	34.2%	31.1%	9.75
PBT	726.51	600.65	20.95
PAT	477.87	393.42	21.47
EPS (Rs.)	48.38	39.83	21.47
Equity	98.78	98.78	0.00

**Quarterly Performance (YoY)**

Rs. in crores			
	Q1FY19	Q1FY18	% Var
Net Sales	676.27	582.85	16.03
Total Expe	465.30	379.96	22.46
PBDIT	210.97	202.89	3.98
Op.Profit	226.28	215.08	5.21
OPM (%)	33.46	36.90	-9.33
PBT	196.71	190.44	3.29
PAT	128.33	124.33	3.22
EPS (Rs.)	12.99	12.59	3.22

**Share Price Graph****Company Background**

**Mahanagar Gas Ltd.,(MGL)**, India's leading Natural Gas Distribution Company, was incorporated on 8<sup>th</sup> May 1995. It is promoted by GAIL (India) Ltd., Government of Maharashtra and BG Asia Pacific Holdings Pte. Ltd.(owned by Royal Dutch Shell Group). The company is the sole authorized distributor of CNG and PNG in Mumbai, Thane Urban and adjoining municipalities and the Raigad District.

The company is serving the city of Mumbai and its surrounding areas and has 220 CNG filling stations with compression capacity of 3.1 million Kg/Day, thus providing the gas to circa 0.61 million vehicles. It also supplies PNG to more than .95 million domestic customers, 3537 commercial and 67 industrial customers through a connected pipeline network of over 5042 Km including 427 Km of steel and 4615 Km of polyethylene pipeline.

In recent years, the demand for natural gas has increased remarkably owing to higher availability of transmission & distribution infrastructure, cost advantages of natural gas in comparison to alternate available fuels and environment friendly characteristic of natural gas. The key drivers of the demand of natural gas are the Power and Fertilizer sector which accounts for ~50% of gas consumption.

**Financial Performance**

The company has reported Net sales of Rs 2453 crores and PAT of Rs. 477.8 crores for FY18 which were higher by 9.6% and 21.5%, respectively, over those for FY17. It has paid dividend of Rs. 19/- per share for FY18 and FY17.

For Q1 FY19, the Net sales of the company at Rs 676.27 crores, are higher by 16% than those for Q1 FY18. However, the PAT has gone up only by 3.2% to Rs 128.3 crores over that in Q1 FY18. The company has reported operating and net profit margin of 33.4% and 18.9%, respectively in Q1 FY19. The EPS for Q1 FY19 has marginally improved to Rs. 12.99 against Rs. 12.59 for Q1 FY18.

**Investment Rationale**

- **Underpenetrated market with significant potential for expansion:** The India's natural gas sector account for 7% of the total energy mix of the economy. Environmentally clean fuels, such as natural gas, are expected to play a dominant role in India's economic growth in the coming years.
- The Company holds **Infrastructure Exclusivity in Mumbai, Thane and Raigad** to build, and develop gas distribution. The license for Mumbai city expires in 2020. However, according to the management the same can be extended in block of 10years as long as the contract is not breached.
- The **favorable policy framework and guidelines** in terms of city as distribution footprint expansion, mission PNG, smart cities, green corridors, etc., have also been put in place. Additionally NITI Aayog has laid out the plan to add gas pipeline network of over 10000 Kilometers to the existing pipeline network of 16500 Kilometer and increase the coverage of city gas distribution.
- **Concall Highlights:**
  - In Raigad area, connectivity has been established to **supply gas to about 3000 domestic PNG consumers in Uran** and Gas supply to 6-7 major towns like Ulve, Karjat, Pen in GA 3 is being planned through the virtual pipeline network.
  - **Added 20,000 new consumers in PNG-domestic**, taking the cumulative number to 1.05m.
  - **Added 57 industrial/commercial consumers**, taking the total number to 3,657.
  - As for capex, MGL is **confident of raising any amount required** to carry out the capex. There is cash surplus and company also has ability to borrow or raise any funds.
  - Volume potential from the Andhra and Telangana districts bided would be 0.8-1 mmscmd each and for Chennai it would be ~2 mmscmd.
- The Company has paid a dividend of Rs.19/- per share for FY18 which provides tax free dividend yield of over 190% and the company is **virtually debt free**.
- As on Sep 30<sup>th</sup>, 2018, the promoters hold 42.5% equity of the company, whereas FIIs and DIIs own 19% and 14.3% respectively, government of Maharashtra owns 10% and the balance 14.2% shares are held by the public.

### Concerns

The delay in the implementation of expansion plan and availability & increase in price of gas are the main concerns.

### Valuation

The share of the Company which has declined from 52week high of Rs. 1345 by about 40% is trading at reasonable **P/E of only 16.9x based on the TTM EPS of Rs 48.78 for FY18**. Keeping in view of diversified sourcing strategy, strong infrastructure network, potential for expansion, favorable policy framework, high promoter holding and revenue visibility, we expect the company to report **EPS of Rs.55 for FY19 and based on PE of 21x**, we estimate the price of the scrip to appreciate to Rs.1155 over the next 12 months.

### Research Analyst

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