

Mahanagar Gas Ltd.

16th June, 2016

Rating:



Issue Summary:

Price band (Rs)	380-421
Face Value (Rs)	10
Opens	21 st June, 2016
Closes	23 rd June, 2016
Issue Size (Rs)	1,039 Cr
Listing	BSE, NSE

Issue Break Up:

QIB portion	50%
NIB portion	15%
Retail portion	35%

Book Running Lead Managers:

➤ Kotak Mahindra Capital Company Ltd.
➤ Citigroup Global Markets India Pvt. Ltd.

Registrar

➤ Link Intime India Pvt. Ltd.

Company & Business Profile

Mahanagar Gas Limited (MGL) is one of India's leading natural gas distribution companies. Established in May, 1995, MGL is a joint venture between GAIL (India) Ltd and the BG Group, (U.K.). MGL has to its credit the distinction of pioneering the natural gas distribution network in Mumbai and its neighboring areas. MGL is an ISO 9001:2008, ISO-14001:2004 and OHSAS 18001: 2007 certified organization.

MGL has already connected approx. 0.86 million households and over 2866 commercial and 60 industrial establishments. MGL also supplies CNG to over 0.47 million vehicles which include above 0.19 million rickshaws and over 0.05 million taxis & above 0.18 million cars in Mumbai, Thane, Mira-Bhayander, Navi Mumbai and beyond. Besides, about 3400 BEST/TMT/MSRTC/NMMT buses and above 5000 LCVs/Tempos/Trucks/Private buses are running on CNG supplied through its wide distribution network of above 400 kms of steel and over 4000 kms of MDPE pipeline system and over 188 CNG filling stations having more than 1000 dispensing points.

MGL has all the resources and competencies required from concept to commissioning of gas distribution networks available in-house. The entire business in MGL has been integrated through ERP-SAP system. MGL has got a track record of almost 100% reliability in its gas supply. During the devastating floods of Mumbai in July 2005, when most other utilities failed, MGL's gas supply continued uninterrupted.

Objects of the Issue

The objects of the Offer are to achieve the benefits of listing the Equity Shares on the Stock Exchanges and to carry out the Offer for Sale. The Company believes that the listing of the Equity Shares will enhance its brand name and provide liquidity to the existing shareholders. Listing will also provide a public market for the Equity Shares in India. The Company will not receive any proceeds from the Offer and all proceeds from the offer shall go to the Selling Shareholders.

Investment Positives

- Company is sole authorised distributor of CNG and PNG in Mumbai, its adjoining areas and the Raigad district in the state of Maharashtra.
- MGLs geographical locations enables it to access natural gas from variety of sources as it is close to source of production in Mumbai off shore bhasin as well as import terminals at Dahej, Hajira & Dabhol offering lower transportation tariff compared to other City Gas Distribution (CGD) Companies.
- Government support stands strong. Allocation of natural gas increased to GAIL, for supplying to CGD entities. Such increased allocation is expected to meet the full requirement of all CGD entities. (Natural Gas is first allocated to GAIL, which then supplies it to the respective CGDs).
- Infrastructure exclusivity in the business helps restrict new entrants to the industry.

Concern

- The company operates in a regulated business environment.
- Company has 70 indirect tax cases pending with amount over 174 Cr.

**Outlook & Valuations:**

In the last decade, the demand for natural gas in India has increased due to its increased availability, the development of natural gas transmission and distribution infrastructure and the environment friendly characteristics of natural gas as a fuel source. By end of 2014, India had natural gas pipeline network length of 14,988 km with 401 MMSCMD (GAIL has 73% of existing pipeline work). Natural gas consumption grew at CAGR of 3.7% for FY09-14 driven by growth in consumption from Power, Fertilizers and City Gas Distribution (CGD). ICRA Research projects domestic Natural Gas Production from existing discovered Gas fields to increase from 93 MMSCMD in Fiscal 2015 to 114 MMSCMD by Fiscal 2018 & to 162 MMSCMD by Fiscal 2025. While demand is high, actual off take is critically dependent on price competitiveness. The Indian CGD size is estimated at 24000 Cr (20 MMSCMD) which is 13% of Gas consumption. Total CGD demand is expected to grow at CAGR of 8.9% for FY15-25. Mumbai CGD market is expected to grow 7.5% by volume and 12% in value terms. CGD demand is well poised for healthy growth over the long term because of favorable economics of CNG usages when compared with the alternative fuels, convenience in use of PNG for households, and moderate outlook for industrial and commercial with the likely pick up in manufacturing sector growth in line with the GDP recovery.

The issue has been offered in a price band of Rs 380-421 per equity share. At the upper price band the stock is available at P/E of 12.2 (x) based on FY16 financials. The issue looks undervalued against its peer group companies IGL and GGL which are trading at 18.4 (x) and 45.7 (x) respectively. Industry composite PE for the company stands at 31 (x). However, the RoE for the stock has dropped down from about 31% in FY12 to about 21% in FY16. We have “4 star” rating for the issue.

Comparison (Mar' 16):

Company	Revenue (Rs in Crs)	EPS (Rs)	P/E (x)	RoNW (%)	NAV (Rs)	Price (Rs)	EBITDA (%)	Regions
Mahanagar Gas Ltd.	2,078.9	34.6	12.2	20.2	171	421.0	26.0	Mumbai, Thane
Indraprasth Gas Ltd.	3,685.8	33.2	18.4	18.7	177	611.6	21.0	Delhi, Noida, Greater Noida, Ghaziabad
Gujarata Gas Ltd.	6,105.9	11.3	45.7	7.3	154	517.1	12.0	Surat, Ankleshwar, Baruch

Financials (Rs. in Crs):

Description	Mar-16	Mar-15	Mar-14	Mar-13	Mar-12
Total Income	2,122	2,136	1,920	1,546	1,328
PBIDT	556	530	523	515	518
PBIT	472	450	442	443	454
PBT	469	449	442	442	454
PAT	309	301	297	299	308
Net Worth	1,528	1,407	1,297	1,183	1,067
Total Debt	4	16	8	10	10
Cash and Bank balance	172	145	89	66	51
RONW(%)	21.0	22.3	24.0	26.5	31.1
PBIDTM(%)	26.2	23.1	25.5	31.2	36.2
PATM(%)	14.5	13.1	14.5	18.1	21.5
CPM(%)	18.5	16.6	18.4	22.4	25.9

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