

Mahanagar Gas Limited (MGL)

Date: 05/12/17

Reco. Price: 1075-1085 • Target: 1150-1200 • Stoploss: 1030

Time Frame: 2 months



MGL-Weekly Chart

Technical Rationales

- The stock on weekly scale is making a **higher top, higher bottom** formation indicating uptrend as highlighted in the above chart.
- Moreover, the stock is placed close to weekly trendline support, which will provide a good entry point for the medium term.
- RSI is placed above the center point of 50 and Stochastic oscillator has witnessed bullish crossover from the oversold zone.
- Based on the above bullish set up, we recommend to **BUY** MGL in the range of 1075-1085 with a stop loss of 1030 on closing basis for a price target of 1150-1200 for the medium term.

Key Data

Reco Price (Rs)	1075-1085
Sector	Refineries
BSE Code	539957
NSE Code	MGL
Face Value (Rs)	10
Market Cap (Rs.Cr)	10,916.43
52 Week high / Low	1377.50 / 741
Source: BSE,NSE	

Company background

Mahanagar Gas Limited (MGL) is one of India's leading natural gas distribution companies. Established on 8th May, 1995, MGL is a joint venture between GAIL (India) Ltd and BGAPH (a subsidiary of Royal Dutch Shell Plc). MGL mainly operates in Mumbai, Thane, Mira Bhayander, and Navi Mumbai. Besides these areas, the company is also spreading its network in its authorized areas of Kalyan, Dombivali, Ambernath, Badlapur, Ulhasnagar, Bhiwandi Panvel, Taloja, and Kharghar. MGL's current area is inhabited by almost 2 crore people and offers a natural gas potential of about 5 MMSCMD. MGL has plans to develop its CGD networks in a few more cities through the bidding route.

Investment Rationale

- In the next five years, MGL has plans to increase its customer base to about 10 lakh households and operate about 330 CNG stations. Moreover, it has plans to expand the steel pipeline network to around 600 kms and the PE pipeline network to more than 5500 kms.
- The volumes for CNG vehicles are expected to pick up for the rest of the year as the Maharashtra RTO as permitted the registration of 1000 new 3-wheelers and the same is expected to be on board in the next couple of months.
- The CNG sales in kg for Q2FY18 have been 1.4 mn kgs/day while for Q2FY17 it stood at 1.35 mn kgs/day.
- Out of the 200 cities that the government plans to build CGD network in, MGL believes about 70-75% of the companies to have a target of 1-2 mmscmd, while the rest of the cities can be expected to have a target of more than 0.5 mmscmd. The capex to set up a CGD infrastructure could range anywhere between INR 15-500 Crore depending upon the location, population, etc.
- The company believes in maintaining a balance between higher margins and volume growth as a result of which it intends to keep CNG prices at a discount of 25-30% from alternate fuels.
- The capex for FY18 is targeted at INR 250 Crores. However it is subject to the approvals and licenses obtained the MGL to build the CGD infrastructure. The company had targeted to set up 20 CNG stations in FY18 out of which 4 were set up in Q1FY18, 9 are in the offing while the rest will be completed by the end of the financial year. The company has also set up 3-4 stations in Karjat and 1 in Uran.
- For FY17, MGL reported total revenue of Rs. 20,340mn with volume growth of 2.5695 mmscmd in natural gas. EBITDA was Rs.6442mn with 31.67% margin. Net profits were Rs.3932mn with 19.33% profit margin. We believe, moving ahead, with the geographical expansion, MGL will be maintaining margin in double digits. EPS for FY17 was Rs.39.83 according to which at the recommended price of Rs.1080, the stock is trading at PE of 27x, which is quite less than the industry PE of 37x.

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