

Volumes in line. Margins surprise. Upgrade to Accumulate

Gujarat Gas volumes were in line with estimates at 603 MMSCMD. Revenue at ₹ 21 bn in line with estimates. We are positively surprised by the profitability performance Gujarat Gas took price hikes to negate increase in input cost. Gross spreads were higher by 49% on a sequential basis. This is probably the highest spread ever reported by Gujarat Gas after BG exit. In the past, Gujarat Gas has shown high level of spreads and revert to lower levels in the immediate following quarter. We will like to closely watch this trend in coming quarters. With recent strategy of management to focus on profitable volumes, we believe that margins should sustain around ₹ 8 per SCM in the current quarter. Volumes are expected to increase as the reach expands and hence will take some time. We believe that if Gujarat Gas spreads can be sustained consistently, stock is due for a re-rating. We bring in FY21 estimates. Upgrade to Accumulate with a target price of ₹ 141 based on DCF valuation.

Spreads volatility – key for volatility

Gujarat Gas spreads volatility both at gross and operating level have been a key determinant for stock valuations. During the quarter Q2FY16, gross spreads were at ₹ 4.7 per SCM and in Q3FY19, gross spreads are at ₹ 9 per SCM. At operating level, lowest level of spreads was at ₹ 2.6 per SCM in Q2FY19 and now are at ₹ 5.3 per SCM in Q3FY19. Q3FY19 have been a witness to the highest spreads at gross and operating level. In the past, this volatility has always been high. However, recent management interactions seem to be indicating that this trend should be broken and stable spreads should be the aim in longer run. We believe that if spreads are stabilized, Gujarat Gas will be likely to get re-rated.

Volume Growth – still remains the key

Gujarat Gas volumes are likely to remain under pressure in the ongoing quarter also due to slowdown in the industrial activity. Industrial segment constitutes around 68.3% of Gujarat Gas volumes. Any further slowdown will make Gujarat Gas rethink on pricing and sustainability of spreads will be under threat. On a YoY basis, CNG segment has recorded highest growth. For further growth, Gujarat gas has aggressive expansion plans. Any delay in this will keep volume growth under pressure.

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	21,174	15,713	34.8	19,643	7.8
Total Expense	17,962	13,714	31.0	18,036	(0.4)
EBITDA	3,212	1,999	60.7	1,607	99.8
Depreciation	728	688	5.7	724	0.6
EBIT	2,484	1,311	89.5	884	181.1
Other Income	154	91	69.6	188	(18.0)
Interest	485	487	(0.5)	494	(1.9)
EBT	1,975	915	115.9	578	241.9
Tax	595	315	88.9	167	256.3
RPAT	1,380	600	130.1	411	236.1
APAT	1,380	600	130.1	411	236.1
			(bps)		(bps)
Gross Margin (%)	23.2	22.3	90	16.4	679
EBITDA Margin (%)	15.2	12.7	245	8.2	699
NPM (%)	6.5	3.8	270	2.1	527
Tax Rate (%)	27.6	34.4	(680)	28.9	(129)
EBIT Margin (%)	11.7	8.3	339	4.5	723

CMP	₹ 126
Target / Upside	₹ 141 / 11%
BSE Sensex	36,547
NSE Nifty	10,944

Scrip Details

Equity / FV	₹ 1,377mn / ₹ 2
Market Cap	₹ 86bn
	US\$ 1.2bn
52-week High/Low	₹ 183/₹ 120
Avg. Volume (no)	98,084
NSE Symbol	GUJRATGAS
Bloomberg Code	GUJGA IN

Shareholding Pattern Dec'18(%)

Promoters	60.9
MF/Banks/FIs	3.3
FII	13.6
Public / Others	22.2

Valuation (x)

	FY19E	FY20E	FY21E
P/E	21.4	17.9	15.4
EV/EBITDA	10.8	9.1	8.1
ROE (%)	21.9	26.2	29.7
RoACE (%)	14.5	17.5	19.2

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	80,353	90,156	1,01,155
EBITDA	10,046	11,948	13,354
PAT	4,051	4,850	5,622
EPS (₹)	5.9	7.0	8.2

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Exhibit 1: KPI's

₹ in Mn	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	9MFY19	9MFY18	YoY (%)	FY18
Gas Volumes (in MMSCM)	603	579.0	4.1	613	-1.6	1,801	1,663.0	8.3	2,271
Gas Realizations (₹ / SCM)	36.0	27.9	29.2	32.9	9.6	33.3	27.4	21.4	27.9
Gas Volumes (in MMSCMD)	6.55	6.29	4.1	6.66	-1.6	6.55	6.05	8.3	6.2
Gas Cost (₹ / SCM)	27.0	21.1	27.9	26.8	0.7	25.6	20.0	28.4	20.6
Gross Spread (₹ / SCM)	9.0	6.8	33.2	6.1	49.3	7.7	7.4	2.9	7.3
EBIDTA Spread (₹ / SCM)	5.3	3.5	54.3	2.6	103.2	4.1	4.0	0.3	3.9

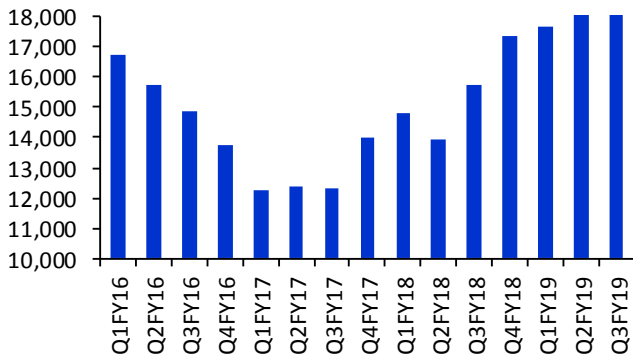
Source: Company, DART

Valuation

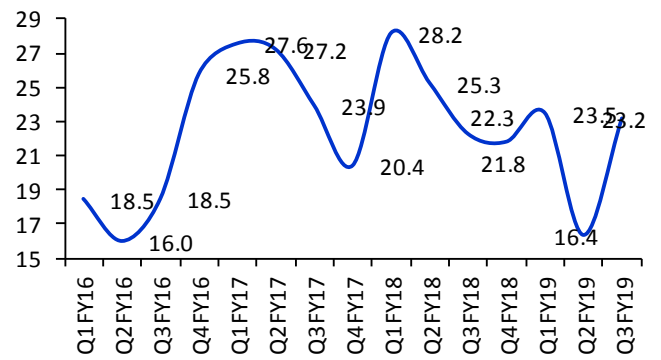
Gujarat Gas would ride on its existing coverage of key industrial regions and growth from Industrial, CNG & PNG segment. Spreads have been a positive surprise and sustenance will be the key for re-rating. Gujarat Gas ability to balance volume and spreads will be the test in coming quarters. With stable volume and better than estimated spreads, we upgrade Gujarat Gas to Accumulate with a DCF based target price of ₹ 141.

Key Highlights

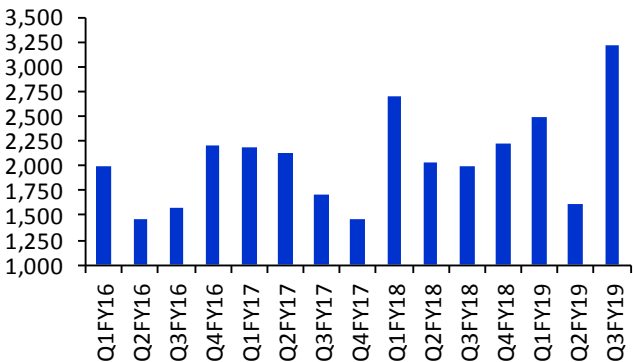
- Revenue is at ₹ 21.2 bn in Q3FY19, which was a growth of 34.8% on a Y-o-Y basis. It was a growth of 7.8% on a Q-o-Q basis.
- Gas cost increased by 27.9% on a Y-o-Y basis to ₹ 27 per SCM
- EBIDTA is at ₹ 3.2 bn in Q3FY19, which was a growth of 60.7% on a Y-o-Y basis. It was a growth of 99.8% on a Q-o-Q basis.
- Net Profit was at ₹ 1.4 bn in Q3FY19, which was a growth of 130% on a Y-o-Y basis
- Volumes were around 6.55 MMSMD in Q3FY19, which was a growth of 4.1% on a Y-o-Y basis.
- Gross spread increased to ₹ 9 per SCM on a Y-o-Y basis, which was a growth of 33.2% on a Y-o-Y basis.
- EBIDTA spread increased to ₹ 5.3 per SCM, which was a growth of 54.3% on a Y-o-Y basis.

Exhibit 2: Revenue (₹ Mn)


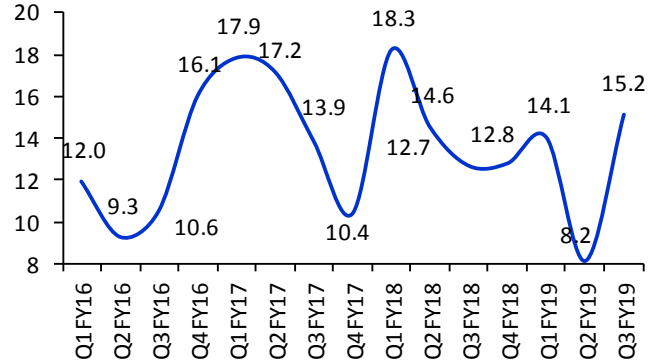
Source: Company, DART

Exhibit 3: Gross Margin (%)


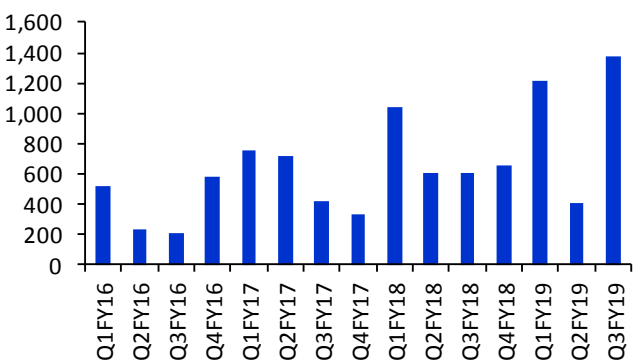
Source: Company, DART

Exhibit 4: Operating Profit


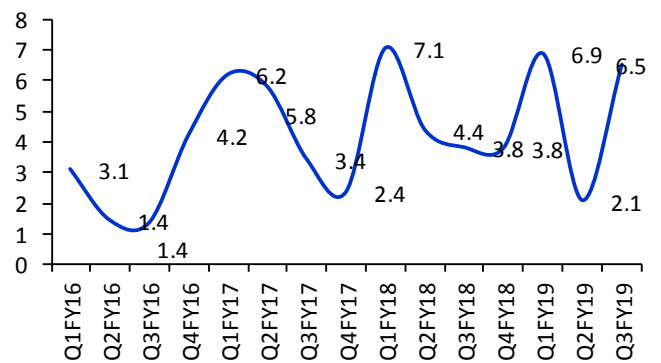
Source: Company, DART

Exhibit 5: OPM %


Source: Company, DART

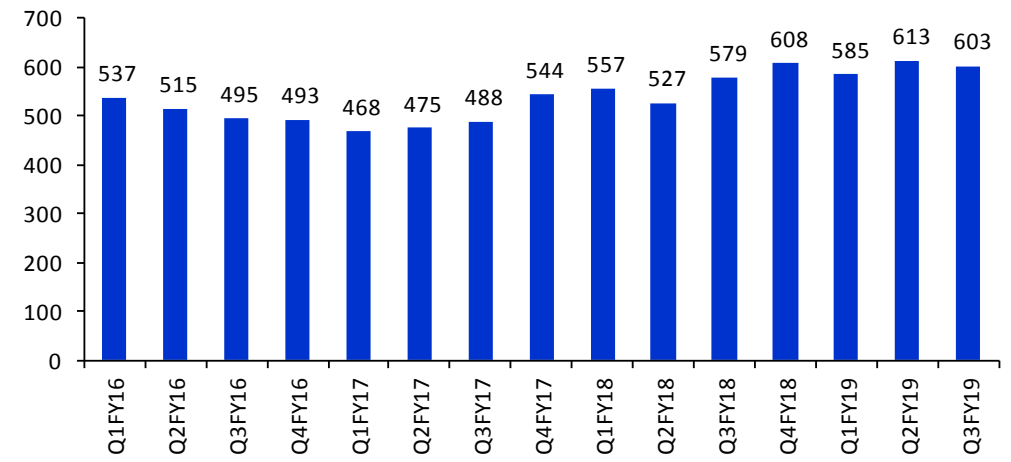
Exhibit 6: Net Profit (₹ Mn)


Source: Company, DART

Exhibit 7: NPM %


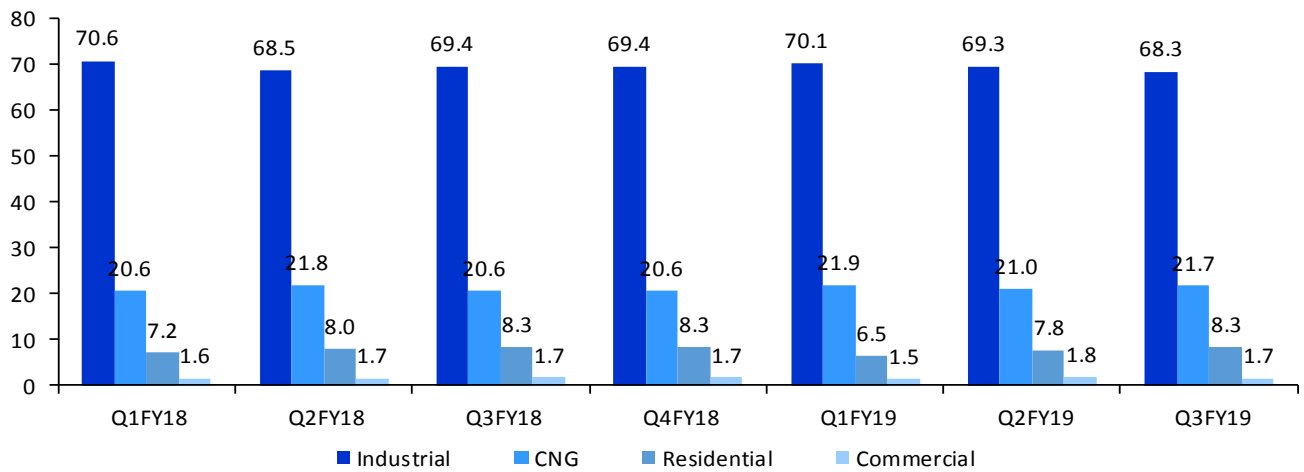
Source: Company, DART

Exhibit 8: Gas Volumes (in MMSCM)



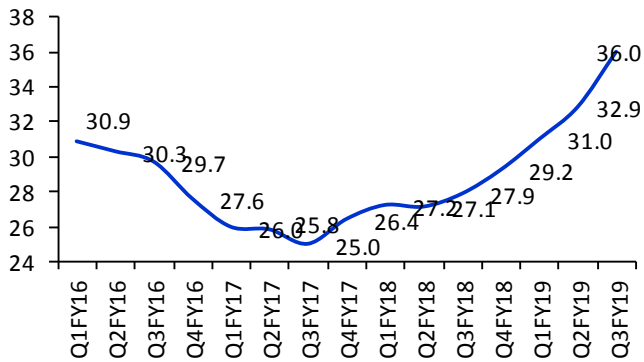
Source: DART, Company

Exhibit 9: Volumes- Segment Wise (%)



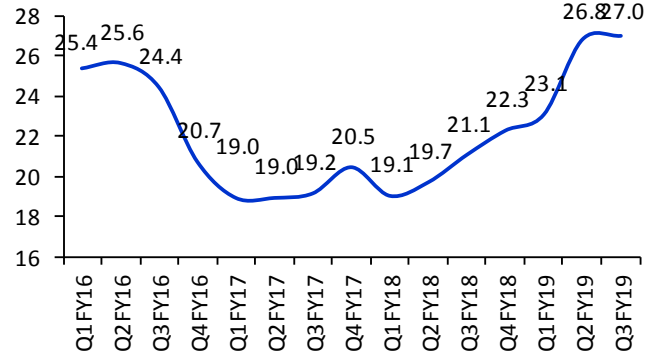
Source: Company, DART

Exhibit 10: Gas Realizations (₹/ SCM)



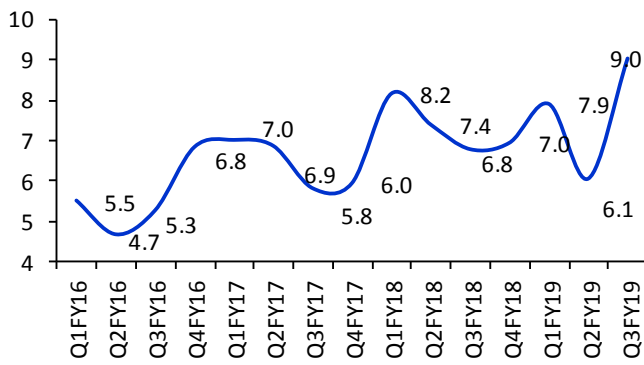
Source: Company, DART

Exhibit 11: Gas Cost (₹/ SCM)



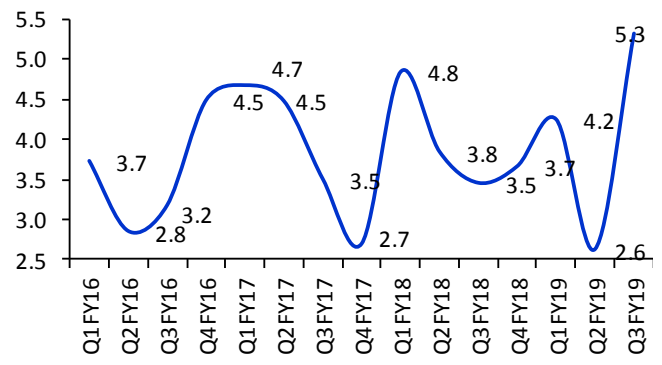
Source: Company, DART

Exhibit 12: Gross Spread (₹/ SCM)



Source: Company, DART

Exhibit 13: EBIDTA Spread (₹/ SCM)



Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	61,743	80,353	90,156	1,01,155
Total Expense	52,793	70,307	78,208	87,801
COGS	46,780	61,637	69,157	77,594
Employees Cost	1,390	1,599	1,838	2,114
Other expenses	4,623	7,071	7,212	8,092
EBIDTA	8,951	10,046	11,948	13,354
Depreciation	2,718	2,777	2,882	2,987
EBIT	6,232	7,269	9,066	10,367
Interest	1,961	2,200	2,310	2,425
Other Income	357	400	430	450
Exc. / E.O. items	0	0	0	0
EBT	4,628	5,958	7,186	8,392
Tax	1,715	1,906	2,335	2,769
RPAT	2,914	4,051	4,850	5,622
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	2,914	4,051	4,850	5,622

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	1,377	1,377	1,377	1,377
Minority Interest	0	0	0	0
Reserves & Surplus	17,087	17,112	17,130	17,920
Net Worth	18,464	18,489	18,507	19,297
Total Debt	23,282	24,444	25,665	26,947
Net Deferred Tax Liability	10,455	10,664	10,877	11,095
Total Capital Employed	52,201	53,597	55,049	57,339

Applications of Funds

Net Block	50,927	50,651	50,271	49,786
CWIP	4,783	4,544	4,317	4,101
Investments	174	177	181	185
Current Assets, Loans & Advances	10,449	11,688	13,111	15,499
Inventories	568	396	445	499
Receivables	3,917	3,302	3,705	4,157
Cash and Bank Balances	1,363	3,101	3,764	5,315
Loans and Advances	3,440	3,612	3,793	3,983
Other Current Assets	1,161	1,277	1,404	1,545
Less: Current Liabilities & Provisions	14,132	16,076	15,312	14,589
Payables	2,931	3,077	3,231	3,393
Other Current Liabilities	11,201	12,998	12,081	11,196
Net Current Assets	(3,683)	(4,388)	(2,201)	910
Total Assets	52,201	53,597	55,049	57,339

E- Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	24.2	23.3	23.3	23.3
EBIDTA Margin	14.5	12.5	13.3	13.2
EBIT Margin	10.1	9.0	10.1	10.2
Tax rate	37.0	34.9	32.5	33.0
Net Profit Margin	4.7	4.4	5.4	5.6
(B) As Percentage of Net Sales (%)				
COGS	75.8	76.7	76.7	76.7
Employee	2.3	2.0	2.0	2.1
Other	7.5	8.8	8.0	8.0
(C) Measure of Financial Status				
Gross Debt / Equity	1.3	1.3	1.4	1.4
Interest Coverage	4.7	4.7	5.4	5.7
Inventory days	3	2	2	2
Debtors days	23	15	15	15
Average Cost of Debt	8.4	9.2	9.2	9.2
Payable days	17	14	13	12
Working Capital days	(22)	(8)	1	12
FA T/O	1.2	1.6	1.8	2.0
(D) Measures of Investment				
AEPS (₹)	4.2	5.9	7.0	8.2
CEPS (₹)	8.2	9.9	11.2	12.5
DPS (₹)	0.8	1.0	1.2	1.2
Dividend Payout (%)	18.9	17.0	17.0	14.7
BVPS (₹)	26.8	26.9	26.9	28.0
RoANW (%)	16.7	21.9	26.2	29.7
RoACE (%)	12.9	14.5	17.5	19.2
RoAIC (%)	12.5	14.3	17.8	20.1
(E) Valuation Ratios				
CMP (₹)	126	126	126	126
P/E	29.8	21.4	17.9	15.4
Mcap (₹ Mn)	86,738	86,738	86,738	86,738
MCap/ Sales	1.4	1.1	1.0	0.9
EV	1,08,658	1,08,082	1,08,639	1,08,370
EV/Sales	1.7	1.3	1.2	1.1
EV/EBITDA	12.1	10.8	9.1	8.1
P/BV	4.7	4.7	4.7	4.5
Dividend Yield (%)	0.6	0.8	1.0	1.0
(F) Growth Rate (%)				
Revenue	21.2	30.1	12.2	12.2
EBITDA	20.4	12.2	18.9	11.8
EBIT	28.2	16.6	24.7	14.4
PBT	52.6	18.2	31.4	16.8
APAT	32.7	39.0	19.7	15.9
EPS	32.7	39.0	19.7	15.9
Cash Flow				
(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	7,829	8,579	8,880	9,835
CFI	(4,306)	(1,332)	(2,295)	(2,309)
CFF	(2,707)	(5,065)	(5,922)	(5,975)
FCFF	3,241	6,317	6,605	7,548
Opening Cash	102	918	3,101	3,764
Closing Cash	918	3,101	3,764	5,315

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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