

Strong volumes mostly driven by industrial segment. Higher EBITDA spread. Upgrade to BUY.

Gujarat Gas volumes were higher than expected at 833 mmscm as against our estimates of 792 mmscm. Strong revenues at ₹ 26.1 bn was driven by 43%YoY gas volumes growth. Gross spreads were flat on a sequential basis and higher by 9% on a yearly basis. EBITDA spreads were highest in this quarter at ₹ 5.6/scm due to lower LNG spot prices. EBITDA spreads increased by 32% YoY and 29% QoQ. With recent strategy of management to focus on volumes, we believe that operating spreads should sustain at ₹ 4.5/SCM. Overall volumes increased by 43% YoY and 41% QoQ, with industrial segment growing at 57% YoY and 68% QoQ. Major growth in industrial segment has come from Morbi region post NGT's 6Mar'19 order to ban the use of coal gasifiers in Morbi region. Gujarat gas will benefit from the spurt in demand of natural gas from Morbi region as well as competitive LNG prices over alternate fuels. Upgrade to Buy with a target price of ₹ 216 (DCF Method)

Strong Volume Growth

Gujarat Gas volumes grew 43% YoY to 9.15 mmscmd, highest ever volumes clocked by the company in a quarter. CNG volumes for Q1FY20 was at 1.48 mmscmd which was an increase of 1.5% YoY and 5.5% QoQ. Focus on opening CNG stations continues. CNG proportion in the volume mix has increased. Major volume contributor was the industrial segment which clocked in volumes of 7.1 mmscmd a growth of 57% YoY. Morbi region has contributed to approx. 5 mmscmd of the volumes. Industrial segment constituted around 77.3% of Gujarat Gas volumes. Domestic PNG volumes were at 0.49 mmscmd which was up 8.4% YoY and down 21.1% QoQ. Commercial volumes at 0.1 mmscmd which was down 18.2% QoQ.

Spreads volatility- to be watched for

Gujarat Gas spreads volatility both at gross and operating level have been a key determinant for stock valuations. During the quarter Q1FY20, gross spreads were at ₹ 8.6 per SCM and at operating level, highest level of spreads was at ₹ 5.6 per SCM were clocked. In the past, volatility in the spreads have been high which have stabilized from last 3 quarters. However, recent management interactions seem to be indicating that stable spreads should be the aim in longer run.

Q1FY20 Result (₹ Mn)

Particulars	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Revenue	26,146	17,651	48.1	19,076	37.1
Total Expense	21,481	15,166	41.6	16,534	29.9
EBITDA	4,665	2,486	87.7	2,541	83.6
Depreciation	779	707	10.2	722	7.8
EBIT	3,886	1,779	118.4	1,819	113.6
Other Income	225	584	(61.5)	187	20.5
Interest	510	486	4.9	497	2.5
EBT	3,602	1,878	118.4	1,508	138.8
Tax	1,265	664	90.6	343	268.7
RPAT	2,337	1,214	92.5	1,165	100.5
APAT	2,337	1,214	92.5	1,165	100.5
			(bps)		(bps)
Gross Margin (%)	25.3	23.5	184	23.3	207
EBITDA Margin (%)	17.8	14.1	376	13.3	452
NPM (%)	8.9	6.9	206	6.1	283
Tax Rate (%)	35.1	35.3	(23)	22.7	1238
EBIT Margin (%)	14.9	10.1	478	9.5	533

CMP	₹ 174
Target / Upside	₹ 216 / 24%
BSE Sensex	37,387
NSE Nifty	11,085

Scrip Details

Equity / FV	₹ 1,377mn / ₹ 2
Market Cap	₹ 120bn
	US\$ 2bn
52-week High/Low	₹ 194/₹ 119
Avg. Volume (no)	4,27,085
NSE Symbol	GUJGASLTD
Bloomberg Code	GUJGA IN

Shareholding Pattern Jun'19(%)

Promoters	60.9
MF/Banks/FIs	5.4
FII's	12.2
Public / Others	21.5

Valuation (x)

	FY19A	FY20E	FY21E
P/E	28.6	20.0	16.9
EV/EBITDA	14.0	10.2	8.5
ROE (%)	20.8	24.6	23.7
RoACE (%)	15.3	19.1	19.9

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	77,544	86,679	96,890
EBITDA	9,846	12,852	14,771
PAT	4,185	5,991	7,082
EPS (₹)	6.1	8.7	10.3

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Exhibit 1: KPI's

₹ in Mn	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	FY19
Gas Volumes (in MMSCM)	833	585	42.4	585	42.4	2,386
Gas Realizations (₹ / SCM)	32.1	31.0	3.4	33.6	-4.5	33.4
Gas Volumes (in MMSCMD)	9.15	6.43	42.4	6.50	40.8	6.5
Gas Cost (₹ / SCM)	23.4	23.1	1.5	25.0	-6.3	25.5
Gross Spread (₹ / SCM)	8.6	7.9	9.0	8.5	1.0	7.9
EBIDTA Spread (₹ / SCM)	5.6	4.2	31.8	4.3	28.9	4.1

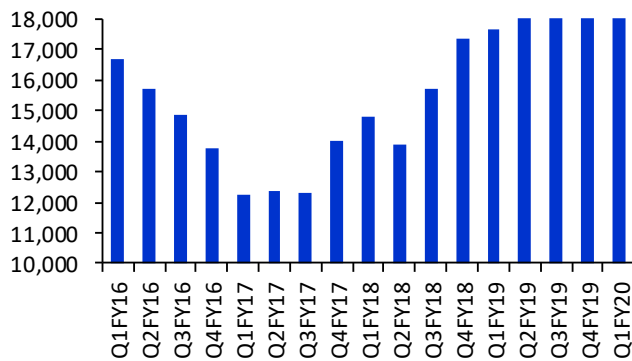
Source: Company, DART

Valuation

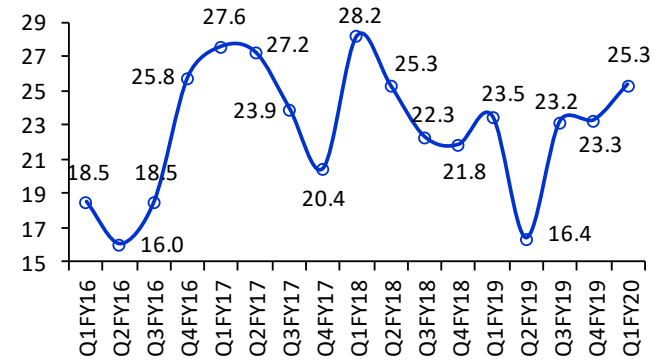
Gujarat Gas would ride on its existing coverage of key industrial regions and growth from Industrial, CNG & PNG segment. Sustenance of spreads along with volume growth will be the key determinant. Gujarat Gas ability to balance volume and spreads will be the test in coming quarters. Gujarat Gas has also recently reduced prices by 10% in Morbi to prevent tile makers from shifting to alternate fuels. Such steps, with high volumes contributed from industrial region of Morbi and additional volumes coming from the recently completed 9th and 10th CGD rounds where Gujarat gas has won 7GA's, such aggressive expansion plans reiterates our confidence on the stock, we upgrade to BUY with a DCF based target price of ₹ 216.

Key Highlights

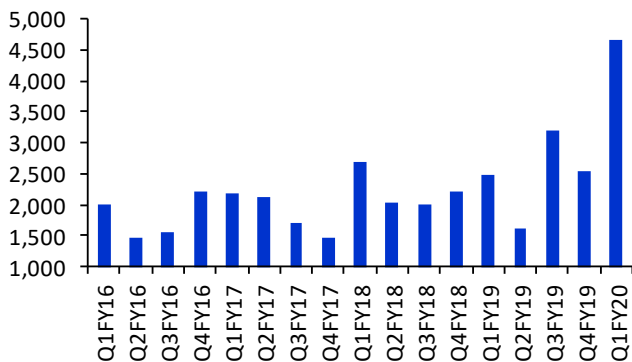
- Revenue is at ₹ 26.2 bn in Q1FY20, which was a growth of 48% on a Y-o-Y basis and 37.1% on a Q-o-Q basis.
- Gas cost increased by 1.5% on a Y-o-Y basis to ₹ 23.4 per SCM
- EBIDTA is at ₹ 4.7 bn in Q1FY20, which was a growth of 87.7% on a Y-o-Y basis and 83.6% on a Q-o-Q basis.
- Net Profit was at ₹ 2.3 bn in Q1FY20, which was a growth of 92.5% on a Y-o-Y basis
- Volumes were around 9.15 MMSMD in Q1FY20, which was a growth of 42.4% on a Y-o-Y basis.
- Gross spread increased to ₹ 8.6 per SCM on a Y-o-Y basis, which was a growth of 9% on a Y-o-Y basis.
- EBIDTA spread increased to ₹ 5.6 per SCM, which was a growth of 31.8% on a Y-o-Y basis.

Exhibit 2: Revenue (₹ Mn)


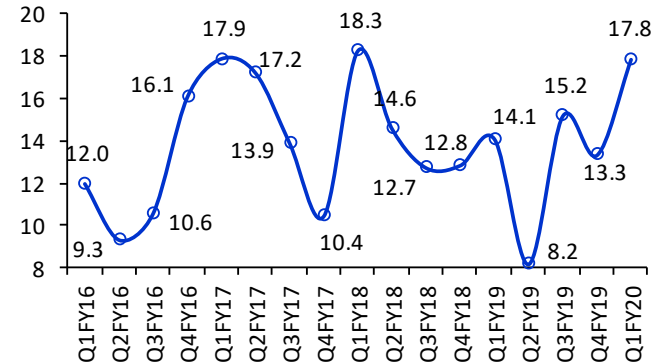
Source: Company, DART

Exhibit 3: Gross Margin (%)


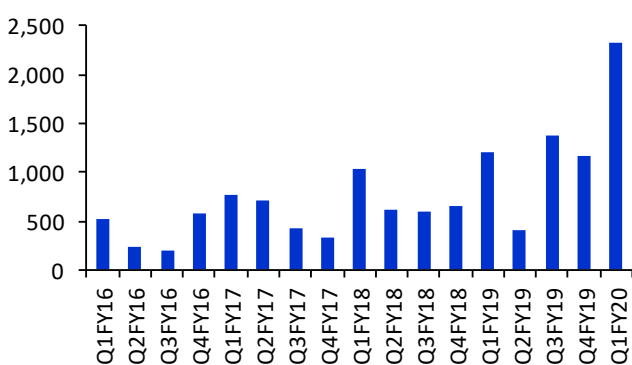
Source: Company, DART

Exhibit 4: Operating Profit (₹ Mn)


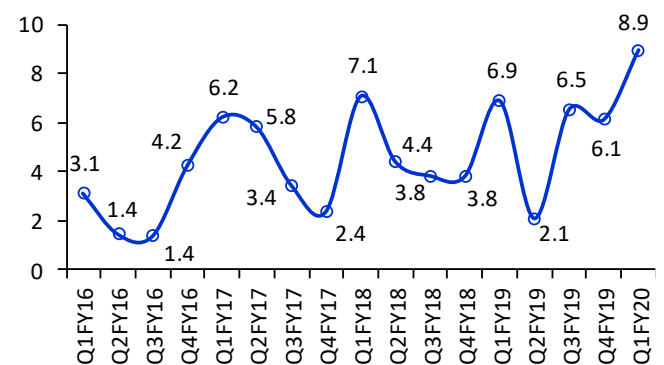
Source: Company, DART

Exhibit 5: OPM %


Source: Company, DART

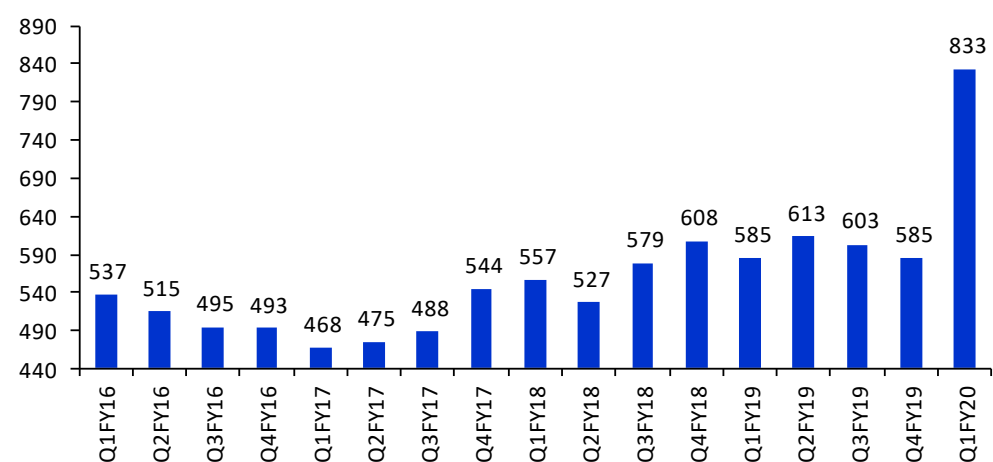
Exhibit 6: Net Profit (₹ Mn)


Source: Company, DART

Exhibit 7: NPM %


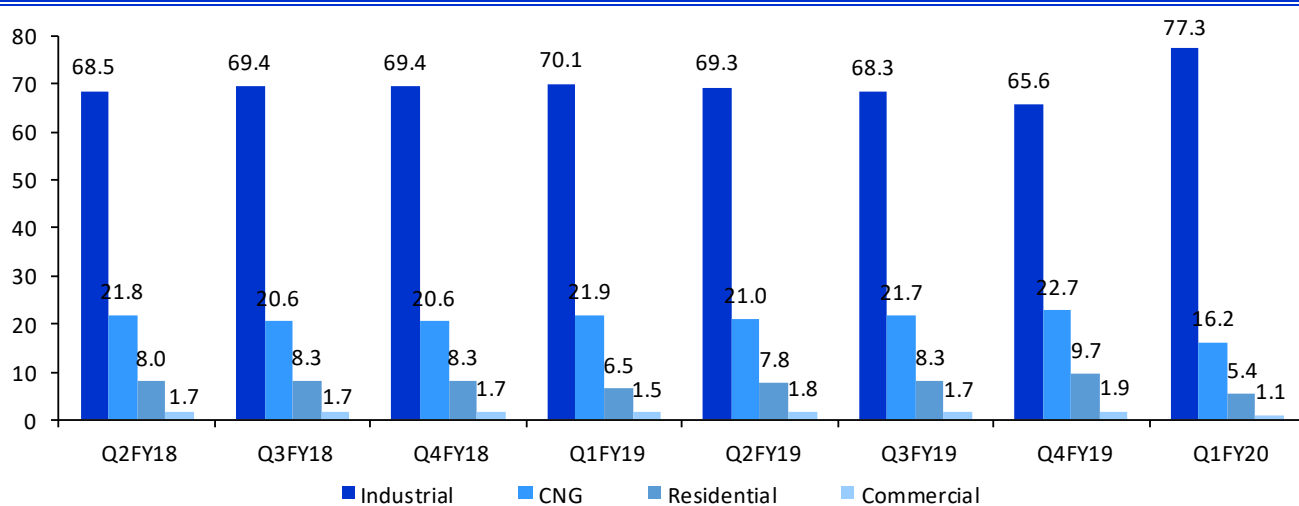
Source: Company, DART

Exhibit 8: Gas Volumes (MMSCM)



Source: Company, DART

Exhibit 9: Volumes- Segment wise (%)



Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	61,743	77,544	86,679	96,890
Total Expense	52,793	67,698	73,827	82,118
COGS	46,780	60,830	66,353	72,736
Employees Cost	1,390	1,600	1,840	2,116
Other expenses	4,623	5,268	5,634	7,267
EBIDTA	8,951	9,846	12,852	14,771
Depreciation	2,718	2,880	3,002	3,128
EBIT	6,232	6,966	9,851	11,644
Interest	1,961	1,962	1,974	2,074
Other Income	359	1,116	1,000	1,000
Exc. / E.O. items	13	(164)	0	0
EBT	4,643	5,956	8,876	10,570
Tax	1,718	1,772	2,885	3,488
RPAT	2,924	4,185	5,991	7,082
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	2,924	4,185	5,991	7,082

Balance Sheet

(₹ Mn)	FY18A	FY19A	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	20,463	25,488	31,603
Net Worth	18,464	21,840	26,865	32,980
Total Debt	23,282	20,892	21,936	23,043
Net Deferred Tax Liability	10,455	10,816	11,032	11,253
Total Capital Employed	52,201	53,547	59,833	67,276

Applications of Funds

Net Block	50,927	52,891	52,889	52,761
CWIP	4,783	4,885	4,641	4,409
Investments	174	174	177	181
Current Assets, Loans & Advances	10,449	13,326	19,016	26,021
Inventories	568	694	427	478
Receivables	3,917	5,103	3,562	3,982
Cash and Bank Balances	1,363	3,092	10,336	16,601
Loans and Advances	3,440	3,803	3,993	4,193
Other Current Assets	1,161	634	697	767
Less: Current Liabilities & Provisions	14,132	17,728	16,889	16,095
Payables	2,931	3,077	3,231	3,393
Other Current Liabilities	11,201	14,650	13,658	12,702
Net Current Assets	(3,683)	(4,402)	2,127	9,925
Total Assets	52,201	53,547	59,833	67,276

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	24.2	21.6	23.4	24.9
EBIDTA Margin	14.5	12.7	14.8	15.2
EBIT Margin	10.1	9.0	11.4	12.0
Tax rate	37.0	29.7	32.5	33.0
Net Profit Margin	4.7	5.4	6.9	7.3
(B) As Percentage of Net Sales (%)				
COGS	75.8	78.4	76.6	75.1
Employee	2.3	2.1	2.1	2.2
Other	7.5	6.8	6.5	7.5
(C) Measure of Financial Status				
Gross Debt / Equity	1.3	1.0	0.8	0.7
Interest Coverage	3.2	3.6	5.0	5.6
Inventory days	3	3	2	2
Debtors days	23	24	15	15
Average Cost of Debt	8.4	8.9	9.2	9.2
Payable days	17	14	14	13
Working Capital days	(22)	(21)	9	37
FA T/O	1.2	1.5	1.6	1.8
(D) Measures of Investment				
AEPS (₹)	4.2	6.1	8.7	10.3
CEPS (₹)	8.2	10.3	13.1	14.8
DPS (₹)	0.8	1.0	1.2	1.2
Dividend Payout (%)	18.8	16.5	13.8	11.7
BVPS (₹)	26.8	31.7	39.0	47.9
RoANW (%)	16.8	20.8	24.6	23.7
RoACE (%)	12.9	15.3	19.1	19.9
RoAIC (%)	12.5	13.8	19.7	23.2
(E) Valuation Ratios				
CMP (₹)	174	174	174	174
P/E	41.0	28.6	20.0	16.9
Mcap (₹ Mn)	1,19,782	1,19,782	1,19,782	1,19,782
MCap/ Sales	1.9	1.5	1.4	1.2
EV	1,41,701	1,37,582	1,31,382	1,26,223
EV/Sales	2.3	1.8	1.5	1.3
EV/EBITDA	15.8	14.0	10.2	8.5
P/BV	6.5	5.5	4.5	3.6
Dividend Yield (%)	0.5	0.6	0.7	0.7
(F) Growth Rate (%)				
Revenue	21.2	25.6	11.8	11.8
EBITDA	20.4	10.0	30.5	14.9
EBIT	28.2	11.8	41.4	18.2
PBT	53.1	28.3	49.0	19.1
APAT	33.2	43.1	43.2	18.2
EPS	33.2	43.1	43.2	18.2

Cash Flow

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	7,829	11,676	10,882	11,550
CFI	(4,306)	(4,345)	(5,019)	(3,187)
CFF	(2,707)	(5,158)	(1,896)	(1,933)
FCFF	3,241	6,731	8,127	8,782
Opening Cash	102	918	3,092	10,336
Closing Cash	918	3,092	10,336	16,601

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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