

## Robust volume growth...

Gujarat Gas reported its Q1FY20 results above our estimates mainly on account of a robust increase in volumes. Total reported volumes increased 42.2% YoY and were at 9.2 mmcmd vs. our estimate of 8.4 mmcmd. Volumes were above our estimates on account of higher sales volumes from Morbi that led to industrial volumes of 7.1 mmcmd vs. 4.3 mmcmd QoQ. Hence, revenue increased 48.1% to ₹ 2,614.6 crore (our estimate of ₹ 2,473 crore). Gross margins were at ₹ 8/scm, (~up 12.4% YoY), above our estimate due to lower LNG prices. Subsequently, PAT increased 91.6% to ₹ 234 crore vs. ₹ 122.1 crore (our estimate of ₹ 161.8 crore).

## NGT order to boost industrial sales volumes

The quarter witnessed a robust increase of 42.2% YoY in volumes to 9.2 mmcmd. Industrial volumes were at 7.1 mmcmd vs. 5.1 mmcmd YoY and 4.3 mmcmd QoQ due to volume impact from the Morbi industrial area. Morbi industrial volumes were at ~5 mmcmd for the quarter (2-2.5 mmcmd volumes last year) i.e. 70% of industrial volumes. CNG volumes at 1.5 mmcmd showed stable growth while domestic/commercial PNG volumes were at ~0.6 mmcmd. The volume outlook remains robust as National Green Tribunal (NGT) has ordered a ban on coal based gasifiers, which would further increase sales volumes from Morbi ceramic industry. Volumes from Morbi have increased from 5 mmcmd last quarter to 5.5 mmcmd currently. Going forward, the company plans to increase focus on growth of CNG and domestic PNG segment. Overall, we believe an increase in both CNG and industrial PNG demand will drive Gujarat Gas' volume growth. Volumes in FY20E and FY21E are estimated at 9.5 mmcmd and 10.2 mmcmd, respectively.

## Margins outlook stable

Gross margins were at ₹ 8/scm, ~up 12.4% YoY on account of lower LNG prices. We believe gross margins will decline and return to normalised margins in coming quarters as Gujarat Gas has reduced industrial PNG prices in the current quarter. Gujarat Gas' focus remains on striking a balance between right volumes and margins at appropriate time intervals. Relatively good pricing power will enable the company to report margin of ₹ 6.8/scm and ₹ 6.6/scm in FY20E and FY21E, respectively.

## Valuation & Outlook

Gujarat Gas has benefited immensely from the latest NGT order. This will further help the company to maintain steady profit growth. Also, a rapid expansion by way of securing licences in newer areas will lead to sustainable volume growth. We value Gujarat Gas at 18x FY21E EPS of ₹ 11.5 to arrive at a target price of ₹ 205 with a **BUY** recommendation.

Particulars	
Particular	Amount
Market Capitalization (₹ Crore)	11,978.2
Total Debt (FY18) (₹ Crore)	2,214.3
Cash and Investments (FY18)	137.7
EV (₹ Crore)	14,054.7
52 week H/L	195/116
Equity capital (₹ Crore)	137.7
Face value (₹)	2.0

### Key Highlights

- Strong quarterly performance on account of higher industrial sales volumes mainly from Morbi region
- Volume outlook remains robust as NGT order banning coal based gasifiers would further increase industrial sales volumes
- CNG volume to show steady growth and margins outlook remains stable
- Maintain BUY on stock with target price of ₹ 205 /share

### Research Analyst

Mayur Matani  
mayur.matani@icicisecurities.com

### Key Financial Summary

(Year-end March)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Revenues (₹ crore)	5,063.6	6,174.3	7,754.4	10,334.8	11,037.0	19.3
EBITDA (₹ crore)	749.0	895.1	984.5	1,575.2	1,590.6	27.1
Net Profit (₹ crore)	223.1	291.4	434.8	767.6	789.6	34.8
EPS (₹)	3.2	4.2	6.3	11.2	11.5	
P/E (x)	53.7	41.1	27.5	15.6	15.2	
Price / Book (x)	7.3	6.5	5.4	4.2	3.4	
EV/EBITDA (x)	19.0	15.7	13.9	8.2	7.7	
RoCE (%)	13.6	15.8	19.8	26.7	22.3	
RoE (%)	12.3	15.3	16.8	27.9	25.5	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Total Revenues	2,614.6	2,473.0	1,765.1	48.1	1,907.6	37.1	Above estimates on account of higher volumes
Raw materials costs	1,952.2	1,917.8	1,350.4	44.6	1,463.9	33.4	
Employees Cost	46.4	49.5	36.0	28.8	45.1	2.9	
Other Expenses	149.5	160.7	130.1	14.9	144.5	3.5	
Total Expenditure	2,148.1	2,128.0	1,516.6	41.6	1,653.5	29.9	
EBITDA	466.5	345.0	248.6	87.7	254.1	83.6	Higher-than-estimated EBITDA on account of higher volumes, gross margins as well as lower than estimated other expenses
EBITDA margins (%)	17.8	14.0	14.1	376 bps	13.3	452 bps	
Depreciation	77.9	77.1	70.7	10.2	72.2	7.8	
EBIT	388.6	267.9	177.9	118.4	181.8	113.7	
Interest	51.0	38.3	48.6	4.9	49.7	2.5	
Other Income	22.5	15.5	58.4	-61.5	18.7	20.5	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	360.2	245.1	187.8	91.8	150.8	138.9	
Total Tax	126.5	83.3	66.4	90.6	34.3	268.7	
PAT	233.7	161.8	121.4	92.5	116.5	100.7	

**Key Metrics**

Sales Volume (mmscmd)	9.2	8.4	6.4	42.2	6.5	40.8	Higher Morbi volumes lead to increase in industrial PNG volumes QoQ
Realisation (₹/scm)	31.4	32.4	30.1	4.2	32.6	-3.7	
Gross margin (₹/scm)	8.0	7.3	7.1	12.4	7.6	4.9	Gross margins better than our estimate due to higher volume of low priced spot LNG

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	10027.5	10,334.8	3.1	10759.2	11,037.0	2.6	
EBITDA	1,329.8	1,575.2	18.5	1,381.1	1,590.6	15.2	Increase in volumes lead to change in estimates
EBITDA Margin (%)	13.3	15.2	198 bps	12.8	14.4	158 bps	
PAT	613.9	767.6	25.0	651.3	789.6	21.2	
EPS (₹)	8.9	11.2	25.0	9.5	11.5	21.2	

Source: Company, ICICI Direct Research

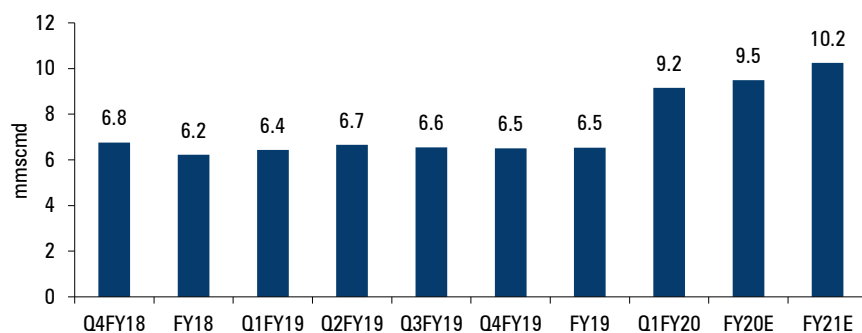
**Exhibit 3: Assumptions**

	Current				Earlier		Comments
	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
Sales Volume (mmscmd)	6.2	6.5	9.5	10.2	8.5	9.0	Higher industrial volumes offtake mainly Morbi region led to increase in volumes estimate
Realisation (₹/scm)	27.2	32.5	29.9	29.5	32.4	32.7	
Gross margin (₹/scm)	6.6	7.0	6.8	6.6	6.9	6.8	Margins may largely remain stable

Source: Company, ICICI Direct Research

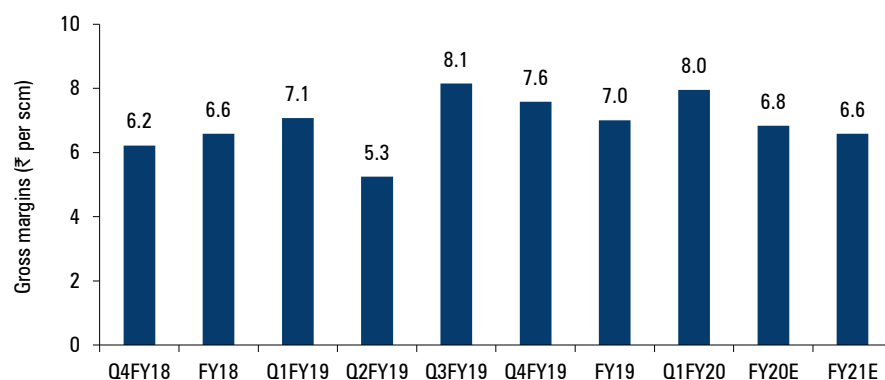
## Story in charts

**Exhibit 4: Volume trajectory**



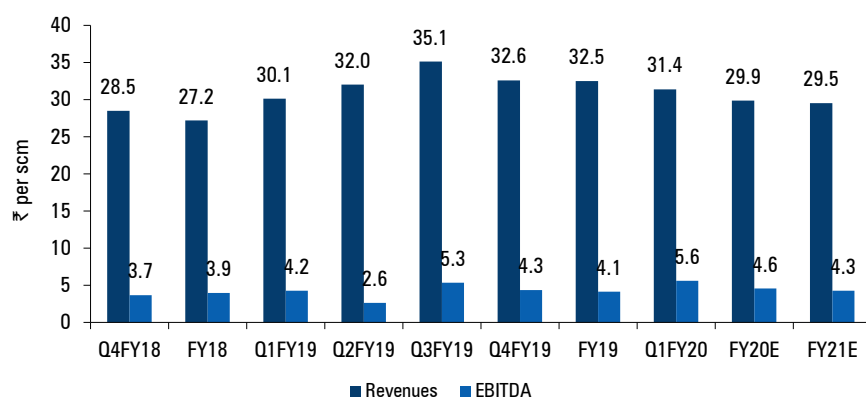
Source: Company, ICICI Direct Research

**Exhibit 5: Margin trend**



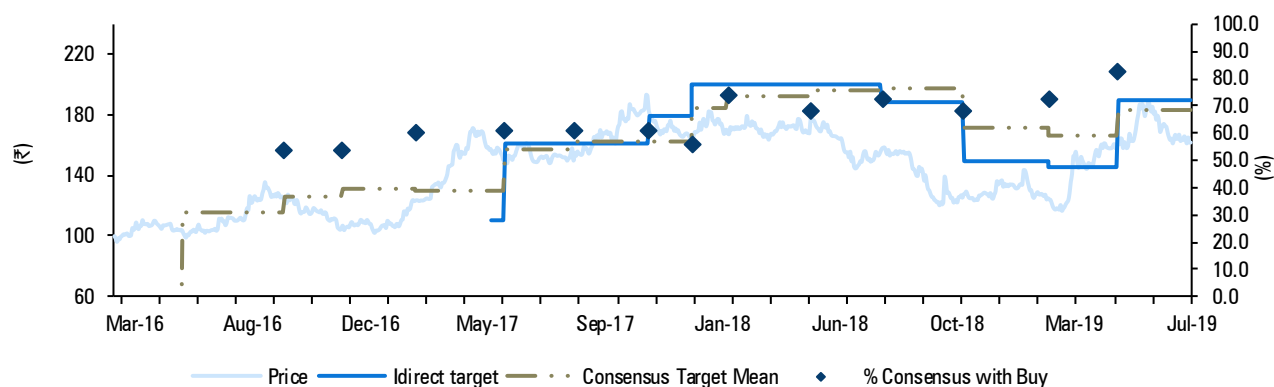
Source: Company, ICICI Direct Research

**Exhibit 6: Revenue & EBITDA trend**



Source: Company, ICICI Direct Research

### Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

### Exhibit 8: Top 10 Shareholders

Rank	Name	Filing Date	% O/S	sition (m)	Change (m)
1	GSPC Group	30-Jun-19	54.2	372.9	0.0
2	Gujarat State Fertilizers and Chemicals Ltd	30-Jun-19	6.8	46.9	0.0
3	Government of Gujarat	30-Jun-19	6.5	45.0	0.0
4	Gujarat Industrial Development Corporation, Ltd.	30-Jun-19	3.9	26.6	0.0
5	Gujarat Alkalies And Chemicals Ltd	30-Jun-19	3.1	21.3	0.0
6	Aberdeen Standard Investments (Asia) Limited	31/May-19	2.1	14.4	-1.0
7	Stewart Investors	31-May-19	1.7	11.7	8.3
8	UTI Asset Management Co. Ltd.	30-Jun-19	1.3	8.6	0.0
9	Aberdeen Asset Managers Ltd.	30-Jun-19	1.2	8.4	0.9
10	HSBC Global Asset Management (Hong Kong) Limited	31/Mar-19	1.2	7.9	0.0

Source: Reuters, ICICI Direct Research

### Exhibit 9: Recent Activity

BUYS			SELLS		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
Caisse de Depot et Placement du Quebec	6.50	3.38	BlackRock Asset Management North Asia Limited	-5.78	-3.00
Aditya Birla Sun Life AMC Limited	1.81	0.72	Stewart Investors	-3.34	-1.26
IDFC Asset Management Company Private Limited	0.88	0.35	BNP Paribas Asset Management India Pvt. Ltd.	-0.38	-0.15
Canara Robeco Asset Management Company Ltd.	0.51	0.21	Kotak Mahindra Asset Management Company Ltd.	-0.37	-0.15
Mahindra Asset Management Company Pvt. Ltd.	0.23	0.09	DHFL Pramerica Asset Managers Private Limited	-0.33	-0.14

Source: Reuters, ICICI Direct Research

### Exhibit 10: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	60.9	60.9	60.9	60.9	60.9
FII	13.8	13.4	14.0	12.8	11.9
DII	2.9	3.3	3.4	3.9	5.4
Others	22.4	22.4	21.6	22.4	21.7

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 11: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Revenue</b>	<b>6174.3</b>	<b>7754.4</b>	<b>10334.8</b>	<b>11037.0</b>
Growth (%)	0.2	0.3	0.3	0.1
Raw material Costs	4678.0	6083.0	7969.2	8574.5
Employee Costs	139.0	160.0	185.4	198.7
Other Expenditure	462.3	526.8	605.0	673.3
Op. Expenditure	5279.3	6769.9	8759.6	9446.4
EBITDA	895.1	984.5	1575.2	1590.6
Growth (%)	19.5	10.0	60.0	1.0
<b>Depreciation</b>	<b>271.8</b>	<b>288.0</b>	<b>309.2</b>	<b>335.0</b>
EBIT	623.2	696.5	1266.0	1255.7
Interest	196.1	196.2	165.8	129.8
Other Income	35.7	111.3	69.0	70.5
PBT	462.9	611.6	1169.1	1196.4
Growth (%)	49.9	32.1	91.2	2.3
Tax	171.5	176.8	401.5	406.8
Reported PAT	291.4	434.8	767.6	789.6
Growth (%)	30.6	49.2	76.5	2.9
<b>Adjustments</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Adj. Net Profit	291.4	434.8	767.6	789.6
<b>EPS</b>	<b>4.2</b>	<b>6.3</b>	<b>11.2</b>	<b>11.5</b>

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	291.4	434.8	767.6	789.6
Add: Depreciation	271.8	288.0	309.2	335.0
Add: Others	60.6	50.0	50.0	50.0
Cash Profit	623.8	772.8	1,126.9	1,174.6
Increase/(Decrease) in CL	159.4	182.1	638.6	157.5
(Increase)/Decrease in CA	-98.0	48.0	-256.7	-80.4
<b>CF from Operating Activities</b>	<b>685.2</b>	<b>1002.9</b>	<b>1508.8</b>	<b>1251.7</b>
Purchase of Fixed Assets	435.4	555.9	600.7	550.0
(Inc)/Dec in Investments	52.2	1.3	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activities</b>	<b>-383.3</b>	<b>-554.6</b>	<b>-600.7</b>	<b>-550.0</b>
Inc/(Dec) in Loan Funds	-136.6	-275.0	-275.0	-275.0
Inc/(Dec) in Sh. Cap. & Res.	-40.1	0.0	0.0	0.0
Less: Dividend Paid	49.7	80.7	96.8	121.0
Others	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-226.5</b>	<b>-355.7</b>	<b>-371.8</b>	<b>-396.0</b>
Change in cash Eq.	75.5	92.6	536.2	305.7
Op. Cash and cash Eq.	60.9	136.4	229.0	765.2
<b>Cl. Cash and cash Eq.</b>	<b>136.4</b>	<b>229.0</b>	<b>765.2</b>	<b>1,070.9</b>

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Source of Funds</b>				
Equity Capital	137.7	137.7	137.7	137.7
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1,708.8	2,062.9	2,733.7	3,402.3
Shareholder's Fund	1,846.5	2,200.6	2,871.4	3,540.0
Loan Funds	2,214.3	1,939.3	1,664.3	1,389.3
Deferred Tax Liability	1,045.5	1,095.5	1,145.5	1,195.5
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>5106.3</b>	<b>5235.3</b>	<b>5681.1</b>	<b>6124.7</b>
<b>Application of Funds</b>				
Gross Block	6,362.2	6,937.2	7,512.2	8,087.2
Less: Acc. Depreciation	1,269.5	1,551.6	1,860.1	2,195.1
Net Block	5,092.7	5,385.6	5,652.1	5,892.1
Capital WIP	478.3	453.3	478.3	453.3
Total Fixed Assets	5,571.0	5,839.0	6,130.4	6,345.5
Investments	17.4	16.1	16.1	16.1
Inventories	56.8	53.1	70.8	75.6
Debtor	391.7	339.9	453.0	483.8
Cash	136.4	229.0	765.2	1,070.9
Loan & Advance, Other CA	460.1	467.6	593.5	638.3
Total Current assets	1045.0	1089.6	1882.5	2268.6
Current Liabilities	1488.8	1593.4	2123.6	2267.9
Provisions	38.3	115.9	224.3	237.5
Total CL and Provisions	1527.1	1709.3	2347.9	2505.4
Net Working Capital	-482.2	-619.7	-465.4	-236.8
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>5106.3</b>	<b>5235.3</b>	<b>5681.1</b>	<b>6124.7</b>

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Per share data (₹)</b>				
Book Value	26.8	32.0	41.7	51.4
Cash per share	2.0	3.3	11.1	15.6
EPS	4.2	6.3	11.2	11.5
Cash EPS	8.2	10.5	15.6	16.3
DPS	1.4	1.0	1.2	1.5
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	14.5	12.7	15.2	14.4
PAT Margin (%)	4.7	5.6	7.4	7.2
Fixed Asset Turnover (x)	1.1	1.3	1.7	1.7
Inventory Turnover (Days)	3.4	2.5	2.5	2.5
Debtor (Days)	23.2	16.0	16.0	16.0
Current Liabilities (Days)	88.0	75.0	75.0	75.0
<b>Return Ratios (%)</b>				
RoE	15.8	19.8	26.7	22.3
RoCE	15.3	16.8	27.9	25.5
RoIC	15.9	17.8	33.6	32.5
<b>Valuation Ratios (x)</b>				
PE	41.1	27.5	15.6	15.2
Price to Book Value	6.5	5.4	4.2	3.4
EV/EBITDA	15.7	13.9	8.2	7.7
EV/Sales	2.3	1.8	1.2	1.1
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	1.2	0.9	0.6	0.4
Interest Coverage (x)	0.0	0.0	0.0	0.0
Debt to EBITDA (x)	2.0	2.0	3.0	3.0
Current Ratio	0.7	0.6	0.8	0.9
Quick ratio	0.6	0.6	0.8	0.9

Source: Company, ICICI Direct Research

**Exhibit 15: ICICI Direct Coverage Universe (Oil & Gas)**

Sector / Company	CMP	TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)			FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
BPCL (BHAPET)	336	375	Hold	72,886	40.3	36.3	32.0	8.3	9.3	10.5	7.7	7.8	8.1	15.7	13.0	11.6	23.2	19.3	16.0
Castrol India (CASIND)	127	120	Reduce	12,562	7.2	7.2	7.1	17.7	17.7	17.9	11.0	10.8	10.9	88.3	87.6	90.7	61.6	60.9	63.1
GAIL (India) (GAIL)	129	160	Hold	58,179	10.2	13.4	11.7	12.6	9.7	11.0	7.6	6.3	7.3	14.7	16.9	13.4	11.5	13.8	11.5
Gujarat Gas (GUJGA)	174	205	Buy	11,978	3.2	4.2	6.3	53.7	41.1	27.5	19.0	15.7	13.9	12.3	15.3	16.8	13.6	15.8	19.8
Gujarat State Petro (GSPL)	205	180	Hold	11,548	8.8	11.9	14.1	23.3	17.3	14.5	13.7	13.0	9.4	13.8	11.6	15.7	11.0	13.2	13.9
Gulf Oil Lubricants (GULO)	756	810	Hold	3,748	31.9	35.8	41.5	23.7	21.1	18.2	15.6	12.9	11.1	31.5	35.8	34.4	33.9	30.7	29.3
HPCL (HINPET)	258	300	Hold	39,359	13.9	13.2	9.8	6.2	6.5	8.8	5.6	5.2	6.9	17.5	16.6	10.2	26.5	22.1	15.5
Indian Oil Corp (INDOIL)	134	170	Hold	65,069	22.5	18.4	15.8	6.0	7.3	8.5	3.2	3.6	3.9	19.4	13.4	12.6	19.4	15.0	12.3
Indraprastha Gas (INDGAS)	300	350	Hold	21,000	9.6	11.2	12.5	31.3	26.7	24.0	18.4	16.5	14.5	26.5	25.6	24.0	19.1	19.2	18.3
Mahanagar Gas (MAHGAS)	786	1050	Buy	7,764	39.8	48.4	55.3	19.7	16.2	14.2	11.8	9.8	8.2	29.8	31.9	31.5	21.4	22.8	22.7
Mangalore Refinery (MRPL)	55	68	Hold	9,640	12.8	1.8	3.8	4.3	30.1	14.5	3.1	8.6	6.8	23.2	5.7	7.7	20.4	2.9	5.8
ONGC (ONGC)	139	180	Hold	178,383	15.9	16.9	26.3	8.7	8.2	5.3	4.7	5.0	3.7	8.7	7.9	11.5	9.7	9.4	13.0
Petronet LNG (PETLNG)	233	245	Hold	34,950	13.9	14.4	16.9	16.8	16.2	13.8	10.7	10.7	8.6	25.9	26.5	32.9	21.4	21.3	23.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com

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