

## Long term story intact...

Gujarat Gas' Q4FY20 results were marginally below our estimates on the profitability front while sales volume were above estimates. Revenues increased 39.8% YoY to ₹ 2666.6 crore (our estimate: ₹ 2281.7 crore). Volumes increased sharply 53% YoY to 9.9 mmscmd. Realisation was at ₹ 29.5/scm (our estimate: ₹ 29/scm). Gross margins were at ₹ 7.1/scm, below our estimate of ₹ 8.1/scm. Although gross margins increased QoQ, growth was lower than our estimates due to higher percentage procurement of high priced contracted LNG. Hence, EBITDA was at ₹ 426.7 crore, up 67.9% YoY (our estimate: ₹ 462.2 crore). Subsequently, PAT increased 111.1% YoY to ₹ 245.9 crore (our estimate: ₹ 259 crore), also supported by lower tax rate.

## Industrial volumes continue to drive overall volumes

The quarter saw a robust increase of 53% YoY in volumes to 9.9 mmscmd. Industrial volumes were at 7.7 mmscmd vs. 4.3 mmscmd YoY and 7.1 mmscmd QoQ due to volume impact from the Morbi industrial area. CNG volumes at 1.5 mmscmd were impacted QoQ due to lockdown. Domestic/commercial PNG volumes at 0.8 mmscmd reported marginal growth YoY. Gujarat Gas continued to benefit from National Green Tribunal (NGT) order as industrial sales volume remained strong for four consecutive quarters. Overall, we believe increase in both CNG and industrial PNG demand will drive Gujarat Gas' volume growth in the long term. However, both segments may stay under pressure in Q1FY21E. We estimate volumes in FY21E, FY22E at 8.5 mmscmd, 11.2 mmscmd, respectively.

## Healthy margin outlook once normalcy is restored

Gross margins increased ₹ 0.6/scm QoQ to ₹ 7.1/scm. Gross margin increase QoQ was lower than our estimates due to higher percentage procurement of high priced contracted LNG. Gujarat Gas' focus remains on striking a balance between right volumes and margins at appropriate time intervals. In the short-term, higher share of high price contracted volumes, we expect margin decline in H1FY21E. We expect margins to turn around once normalcy is restored. Relatively good pricing power and low raw material costs will enable the company to report gross margin of ₹ 6.7/scm for FY21E, ₹ 7/scm for FY22E. Subsequently, we expect EBITDA margins at ₹ 4.1/scm for FY21E and ₹ 4.6/scm for FY22E.

## Valuation & Outlook

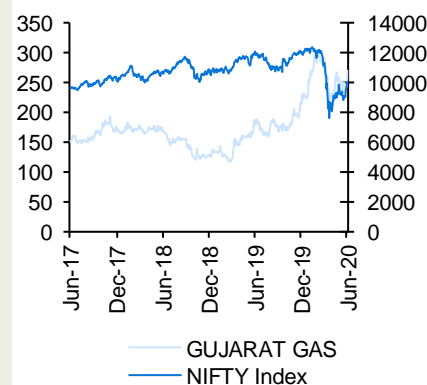
Currently, sales volume are at 5.5 mmscmd, down ~45% from pre-Covid level. In H1FY21E, we expect report volume de-growth with growth set to be seen from Q3FY21E onwards. In the long term, increase in volumes driven by regulatory tailwinds, further penetration in existing geographical areas (GAs) and aggressive expansion in newly acquired gas will lead to sustainable growth. Due to recent run up in stock price, we revise our rating on the stock from BUY to **HOLD** and maintain TP of ₹ 290 (18x FY22E EPS).

Particulars	
Particular	Amount
Market Capitalization (₹Crore)	19,894.8
Total Debt (FY 19) (₹Crore)	2,148.7
Cash and Investments (FY 19)	310.5
EV (₹Crore)	21,733.0
52 week H/L	313/154
Equity capital (₹Crore)	137.7
Face value (₹)	2.0

### Key Highlights

- Results marginally below our estimates on profitability front while sales volume were above estimates
- Total volumes increased sharply 53% YoY to 9.9 mmscmd
- Downgrade from BUY to HOLD rating with target price of ₹ 290 /share

### Key Highlights



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### Key Financial Summary

(Year-end March)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Revenues (₹crore)	6,174.3	7,754.4	10,300.3	8,068.2	10,663.3	17.3
EBITDA (₹crore)	895.1	984.5	1,634.3	1,271.2	1,872.5	37.9
Net Profit (₹crore)	291.4	416.9	1,193.3	630.1	1,103.0	62.6
EPS (₹)	4.2	6.1	17.3	9.2	16.0	
P/E (x)	68.3	47.7	16.7	31.6	18.0	
Price / Book (x)	10.8	9.1	6.1	5.2	4.2	
EV/EBITDA (x)	24.5	22.1	12.7	16.5	10.7	
RoCE (%)	15.3	16.1	26.7	18.5	28.8	
RoE (%)	15.8	19.1	36.4	16.5	23.1	
ROE (%)	21.4	22.8	22.7	27.5	22.0	

**Exhibit 1: Variance Analysis**

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Revenues	2,666.6	2,281.7	1,907.6	39.8	2,506.2	6.4	Higher than estimates due to lower-than-expected impact of Covid-19 in March
Raw materials costs	2,026.4	1,643.8	1,463.9	38.4	1,948.2	4.0	
Employees Cost	40.6	41.1	45.1	-10.1	43.8	-7.3	
Other Expenses	173.0	134.6	144.5	19.7	143.7	20.3	
Total Expenditure	2,240.0	1,819.5	1,653.5	35.5	2,135.7	4.9	
EBITDA	426.7	462.2	254.1	67.9	370.5	15.2	Lower-than-expected due to higher raw material cost and other expenses
EBITDA margins (%)	16.0	20.3	13.3	268 bps	14.8	122 bps	
Depreciation	80.5	80.7	72.2	11.4	79.5	1.3	
EBIT	346.2	381.5	181.8	90.4	291.1	18.9	
Interest	42.0	47.5	49.7	-15.5	46.5	-9.6	
Other Income	18.9	15.5	18.7	1.2	18.6	1.5	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	323.1	349.5	150.8	114.3	263.2	22.7	
Total Tax	77.2	90.5	34.3	125.1	66.7	15.8	
PAT	245.9	259.0	116.5	111.1	196.5	25.1	

**Key Metrics**

Sales Volume (mmscmd)	9.9	8.8	6.5	53.0	9.3	6.8	Higher than expected
Realisation (₹/scm)	29.5	29.0	32.6	-9.6	29.2	0.8	
Gross margin (₹/scm)	7.1	8.1	7.6	-6.7	6.5	8.6	Gross margins below estimates

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	9079.0	8,068.2	-11.1	10663.3	10,663.3	0.0	
EBITDA	1,509.3	1,271.2	-15.8	1,863.7	1,872.5	0.5	Slower than expected ramp up led to reduced estimates in FY21E
EBITDA Margin (%)	16.6	15.8	-87 bps	17.5	17.6	8 bps	
PAT	806.5	630.1	-21.9	1,096.5	1,103.0	0.6	
EPS (₹)	11.7	9.2	-21.9	15.9	16.0	0.6	

Source: Company, ICICI Direct Research

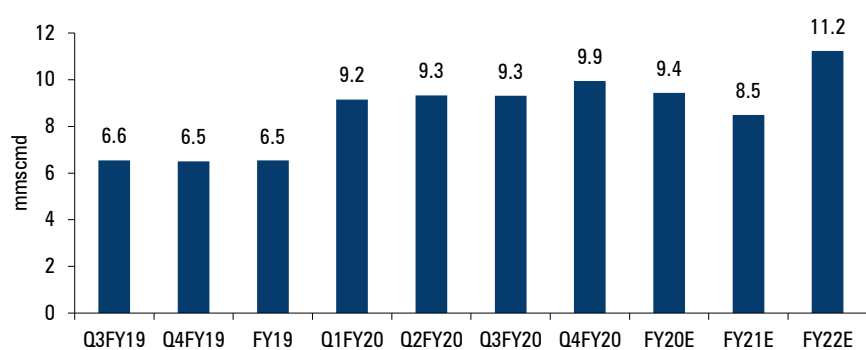
**Exhibit 3: Assumptions**

	Current				Earlier		Comments
	FY19	FY20E	FY21E	FY22E	FY21E	FY22E	
Sales Volume (mmscmd)	6.5	9.4	8.5	11.2	9.6	11.2	Extended lockdown and slower demand recovery led to reduced estimates in FY21E
Realisation (₹/scm)	32.5	29.8	26.0	26.0	25.9	26.0	
Gross margin (₹/scm)	7.0	7.0	6.7	7.0	6.7	6.9	Margins to remain healthy once normalcy is restored

Source: Company, ICICI Direct Research

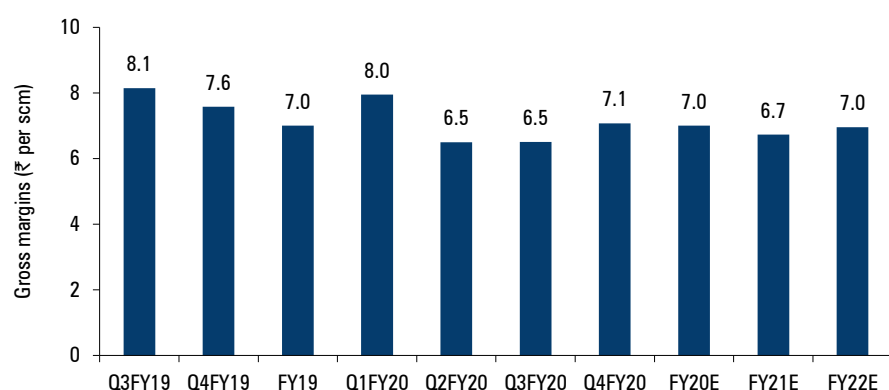
## Story in charts

**Exhibit 4: Volume trajectory**



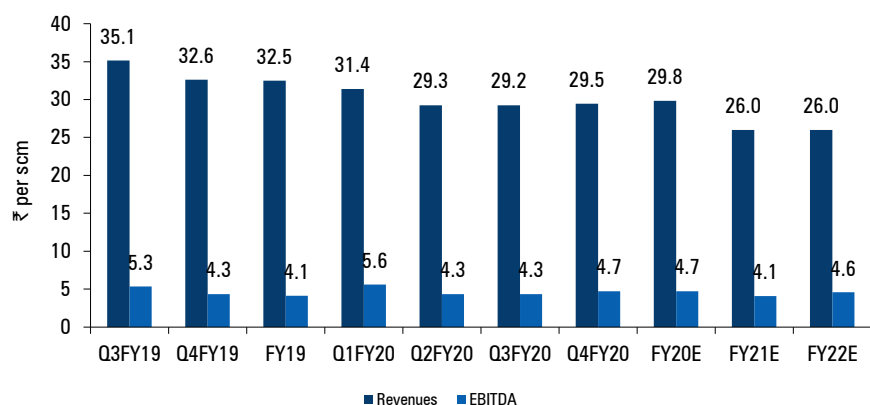
Source: Company, ICICI Direct Research

**Exhibit 5: Margin trend**



Source: Company, ICICI Direct Research

**Exhibit 6: Revenue & EBITDA trend**



Source: Company, ICICI Direct Research

**Exhibit 7: Shareholding Pattern**

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	60.9	60.9	60.9	60.9	60.9
FII	12.8	11.9	12.1	11.1	9.8
DII	3.9	5.4	5.7	6.3	7.0
Others	22.4	21.7	21.3	21.8	22.3

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 8: Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
<b>Revenue</b>	<b>7754.4</b>	<b>10300.3</b>	<b>8068.2</b>	<b>10663.3</b>	
Growth (%)	25.6	32.8	-21.7	32.2	
Raw material Costs	6083.0	7881.8	5980.0	7809.8	
Employee Costs	160.0	175.4	186.0	223.9	
Other Expenditure	526.8	608.9	630.9	757.1	
Op. Expenditure	6769.9	8666.1	6797.0	8790.9	
EBITDA	984.5	1634.3	1271.2	1872.5	
Growth (%)	10.0	66.0	-22.2	47.3	
<b>Depreciation</b>	<b>288.0</b>	<b>318.0</b>	<b>351.6</b>	<b>382.6</b>	
EBIT	696.5	1316.3	919.7	1489.9	
Interest	196.2	192.2	139.9	77.4	
Other Income	111.3	83.7	70.5	76.0	
PBT	593.8	1207.8	850.3	1488.5	
Growth (%)	28.3	103.4	-29.6	75.1	
Tax	176.8	14.5	220.2	385.5	
Reported PAT	416.9	1193.3	630.1	1103.0	
Growth (%)	43.1	186.2	-47.2	75.1	
<b>Adjustments</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	
Adj. Net Profit	416.9	1193.3	630.1	1103.0	
<b>EPS</b>	<b>6.1</b>	<b>17.3</b>	<b>9.2</b>	<b>16.0</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Profit after Tax	416.9	1,193.3	630.1	1,103.0	
Add: Depreciation	288.0	318.0	351.6	382.6	
Add: Others	36.1	-281.1	50.0	50.0	
Cash Profit	741.0	1,230.2	1,031.6	1,535.6	
Increase/(Decrease) in CI	186.1	432.1	-412.3	594.7	
(Increase)/Decrease in C/	-114.8	-10.2	-111.6	-351.5	
<b>CF from Operating Acti</b>	<b>812.3</b>	<b>1652.2</b>	<b>507.8</b>	<b>1778.8</b>	
Purchase of Fixed Assets	494.5	625.2	600.0	600.0	
(Inc)/Dec in Investments	0.0	1.3	0.0	0.0	
Others	0.0	0.0	0.0	0.0	
<b>CF from Investing Acti</b>	<b>-494.5</b>	<b>-623.9</b>	<b>-600.0</b>	<b>-600.0</b>	
Inc/(Dec) in Loan Funds	-65.6	-500.0	-500.0	-750.0	
Inc/(Dec) in Sh. Cap. & Re	-39.0	0.0	0.0	0.0	
Less: Dividend Paid	40.4	100.9	80.7	161.3	
Others	0.0	0.0	0.0	0.0	
<b>CF from financing activ</b>	<b>-145.0</b>	<b>-600.9</b>	<b>-580.7</b>	<b>-911.3</b>	
Change in cash Eq.	172.8	427.5	-672.9	267.5	
Op. Cash and cash Eq.	136.4	309.1	736.6	63.7	
<b>Cl. Cash and cash Eq.</b>	<b>309.1</b>	<b>736.6</b>	<b>63.7</b>	<b>331.2</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
<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	2,046.3	3,138.8	3,688.1	4,629.9	
Shareholder's Fund	2,184.0	3,276.4	3,825.8	4,767.5	
Loan Funds	2,148.7	1,648.7	1,148.7	398.7	
Deferred Tax Liability	1,081.6	800.5	850.5	900.5	
Minority Interest	0.0	0.0	0.0	0.0	
<b>Source of Funds</b>	<b>5414.3</b>	<b>5725.6</b>	<b>5825.0</b>	<b>6066.7</b>	
<b>Application of Funds</b>					
Gross Block	6,841.7	7,441.7	8,016.7	8,663.7	
Less: Acc. Depreciation	1,552.6	1,875.4	2,227.0	2,609.5	
Net Block	5,289.1	5,566.3	5,789.7	6,054.2	
Capital WIP	488.5	518.5	543.5	496.5	
Total Fixed Assets	5,777.6	6,084.8	6,333.2	6,550.7	
Investments	17.4	16.0	16.0	16.0	
Inventories	69.4	46.3	75.2	99.3	
Debtor	510.3	510.1	530.5	701.2	
Cash	309.1	736.6	63.7	331.2	
Loan & Advance, Other C	443.7	477.2	539.5	696.2	
Total Current assets	1332.6	1770.2	1208.8	1827.8	
Current Liabilities	1665.2	2116.5	1657.8	2191.1	
Provisions	48.0	28.8	75.2	136.7	
Total CL and Provisions	1713.2	2145.3	1733.1	2327.8	
Net Working Capital	-380.6	-375.2	-524.3	-500.0	
Miscellaneous expense	0.0	0.0	0.0	0.0	
<b>Application of Funds</b>	<b>5414.3</b>	<b>5725.6</b>	<b>5825.0</b>	<b>6066.7</b>	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
<b>Per share data (₹)</b>					
Book Value	31.7	47.6	55.6	69.3	
Cash per share	4.5	10.7	0.9	4.8	
EPS	6.1	17.3	9.2	16.0	
Cash EPS	10.2	22.0	14.3	21.6	
DPS	1.0	1.3	1.0	2.0	
<b>Profitability &amp; Operating Ratios</b>					
EBITDA Margin (%)	12.7	15.9	15.8	17.6	
PAT Margin (%)	5.4	11.6	7.8	10.3	
Fixed Asset Turnover (x)	1.3	1.7	1.3	1.6	
Inventory Turnover (Days)	3.3	3.4	3.4	3.4	
Debtor (Days)	24.0	24.0	24.0	24.0	
Current Liabilities (Days)	78.4	75.0	75.0	75.0	
<b>Return Ratios (%)</b>					
RoE	19.1	36.4	16.5	23.1	
RoCE	16.1	26.7	18.5	28.8	
RoIC	17.3	31.4	18.7	30.8	
<b>Valuation Ratios (x)</b>					
PE	47.7	16.7	31.6	18.0	
Price to Book Value	9.1	6.1	5.2	4.2	
EV/EBITDA	22.1	12.7	16.5	10.7	
EV/Sales	2.8	2.0	2.6	1.9	
<b>Leverage &amp; Solvency Ratios</b>					
Debt to equity (x)	1.0	0.5	0.3	0.1	
Interest Coverage (x)	0.0	0.0	0.0	0.0	
Debt to EBITDA (x)	2.0	3.0	3.0	3.0	
Current Ratio	0.8	0.8	0.7	0.8	
Quick ratio	0.7	0.8	0.7	0.7	

Source: Company, ICICI Direct Research

**Exhibit 12: ICICI Direct Coverage Universe (Oil & Gas)**

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
BPCL (BHAPET)	357	350	HOLD	67,267	28.4	29.9	0.0	12.6	11.9	0.0	10.4	9.2	0.0	8.2	8.7	0.0	14.7	14.8	0.0
GAIL (India) (GAIL)	85	80	Hold	38,336	11.0	9.1	9.1	7.8	9.4	9.8	5.4	7.5	7.7	12.3	7.8	7.5	10.9	8.7	8.5
Gujarat Gas (GUJGA)	289	290	Hold	19,895	17.3	9.2	16.0	16.7	31.6	18.0	12.7	16.5	10.7	26.7	18.5	28.8	36.4	16.5	23.1
HPCL (HINPET)	189	200	Hold	28,833	13.0	23.7	26.2	14.5	8.0	7.2	10.8	8.1	6.6	3.9	6.6	7.6	7.1	12.3	13.2
Indian Oil Corp (INDOIL)	82	85	Hold	75,285	4.5	10.8	11.6	18.3	7.6	7.0	4.2	3.0	2.6	4.9	8.2	8.6	3.9	9.0	9.7
Indraprastha Gas (INDGAS)	435	425	Buy	30,450	16.1	16.5	18.7	26.9	26.4	25.8	20.1	18.0	17.3	24.6	22.8	22.3	22.4	19.5	19.1
Mahanagar Gas (MAHGAS)	890	1115	Buy	8,791	80.5	75.3	85.8	11.0	11.8	10.3	7.6	7.2	6.0	30.5	26.6	26.1	27.1	21.8	21.4
ONGC (ONGC)	76	65	Reduce	97,533	16.2	3.0	11.3	4.7	25.3	6.7	2.3	5.3	3.4	10.8	0.3	5.8	9.4	1.7	6.4
Petronet LNG (PETLNG)	232	245	Buy	34,800	19.4	16.7	19.7	11.9	13.9	11.8	8.2	8.1	7.0	24.2	24.1	29.0	27.7	23.7	26.9

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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