

Gujarat Gas

Estimate changes	↔
TP change	↔
Rating change	↔

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Bloomberg	GUJGA IN
Equity Shares (m)	688
M.Cap.(INRb)/(USDb)	213.2 / 2.8
52-Week Range (INR)	330 / 162
1, 6, 12 Rel. Per (%)	-8/14/74
12M Avg Val (INR M)	249

Financials & Valuations (INR b)

Y/E March	2020E	2021E	2022E
Sales	103.0	94.6	132.3
EBITDA	16.3	14.8	19.3
PAT	11.9	7.8	11.3
EPS (INR)	17.3	11.4	16.4
EPS Gr. (%)	177.8	-34.5	44.0
BV/Sh.(INR)	47.8	56.8	69.6

Ratios

Net D:E	0.6	0.4	0.3
RoE (%)	43.6	21.7	25.9
RoCE (%)	29.8	23.3	29.4
Payout (%)	8.7	21.2	21.2

Valuations

P/E (x)	17.7	27.0	18.8
P/BV (x)	6.4	5.4	4.4
EV/EBITDA (x)	13.6	14.8	10.8
Div. Yield (%)	0.4	0.7	0.9
FCF Yield (%)	6.1	3.1	6.5

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	60.9	60.9	60.9
DII	7.4	7.0	5.4
FII	9.2	9.8	11.9
Others	22.5	22.2	21.7

FII Includes depository receipts

CMP: INR310

TP: INR360 (+16%)

Buy

Quarter led by better margin; Brisk recovery in volumes

- GUJGA reported better-than-expected margin of INR4.9/scm (higher QoQ as well), while volumes were in line with est. (at 4.1mmscmd), leading to EBITDA of INR1.85b.
- The company mentioned that current sales volume stands at 9.5mmscmd (v/s 9.4mmscmd of average sales in FY20), aided by strong recovery post lockdown. As per our interaction with the company, Morbi volumes are back at ~5.5mmscmd (v/s exit rate of ~6.5–6.8mmscmd in FY20).
- Despite lockdown, GUJGA was able to add 13 new CNG stations during the quarter and plans to add ~60 new CNG stations this year (of the total 100 planned outlets – which should further grow the reach of CNG in Gujarat and encourage conversions).
- COVID-19-led lockdown has led to some delay in the implementation of various directives announced by the National Green Tribunal (NGT) last year. However, a bench of the NGT recently sought an Action Taken Report (ATR) within four months to ensure a ban on the usage of pet coke and furnace oil by all states and UTs. The date for a further hearing is set as 15th Jan'21 ([article](#)).
- According to the NGT's list of critically/severely (air) polluted industrial clusters, Gujarat has five clusters wherein the volume boost (as for Morbi) could come up.
- Also, GUJGA expects non-Morbi industrial volumes to reach ~2.9mmscmd by the end of FY21 from ~2.5mmscmd in FY20. Tarapur is a large industrial cluster with huge potential for industrial volumes (along with Thane, expect ~0.5mmscmd).
- The newly awarded 16–17 cities could see volumes of 2.5–3mmscmd over the next four to five years. Thus, GUJGA could see a major boost in volumes at CAGR of ~10% over the medium term on the highest volume base among peers.
- We reiterate GUJGA as our top buy (at INR360, valuing it at 22x FY22E EPS), with the best RoE profile of 22–25% and expected FCF generation of ~INR20.4b over FY21-FY22.

Better margins, in-line volumes

- EBITDA/scm was better than est. at INR4.9/scm (v/s est. INR4.1) and higher QoQ as well (INR4.7 in 4QFY20). Reported EBITDA was at INR1.85b (-60% YoY; -56% QoQ), with PBT at INR0.8b. PAT came in at INR0.6b (-75% YoY and QoQ).

Total volumes were in-line, est. at 4.1mmscmd (-55% YoY; -58% QoQ).

- CNG volumes stood at 0.7mmscmd (-54% YoY and QoQ).
- PNG I/C stood at 2.9mmscmd (-60% YoY; -63% QoQ).
- PNG Domestic was at 0.6mmscmd (+16% YoY; -13% QoQ).

Valuation and view

- PNGRB is expected to introduce competition in areas where marketing exclusivity has already expired. This would impact all CGDs. However, due to the increasing focus on industrial pollution, we expect it would be easier for GUJGA to coup up lost volumes (from the five clusters and newer GAs mentioned above).
- On a conservative basis, we assume total volumes of 8.4mmscmd for FY21 (against 9.4mmscmd in FY20) and 11.1mmscmd for FY22, with EBITDA/scm of INR4.8 for FY21/22E (unchanged). However, **continued outperformance in volumes and margins could lead to upward revision in estimates, along with the re-rating of the stock.**
- GUJGA is trading at 18.8x FY22 EPS of INR16.4 and 10.8x FY21 EV/EBITDA. We value the company at 22x FY22E EPS to arrive at target price of INR360.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Standalone – Quarterly Earnings Model

(INR m)

Y/E March	FY20				FY21				FY20	FY21E	FY21	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	26,146	25,129	25,062	26,666	10,829	27,197	27,865	28,726	1,03,003	94,617	12,601	-14.1
YoY Change (%)	48.1	27.9	18.4	39.8	-58.6	8.2	11.2	7.7	32.8	-8.1	-51.8	
EBITDA	4,665	3,706	3,705	4,267	1,857	4,215	4,389	4,345	16,343	14,806	1,550	19.8
Margins (%)	17.8	14.7	14.8	16.0	17.2	15.5	15.7	15.1	15.9	15.6	12.3	
Depreciation	779	802	795	805	823	845	845	845	3,180	3,357	839	-2.0
Interest	510	528	465	420	401	463	463	463	1,922	1,853	463	-13.4
Other Income	225	237	186	189	149	236	236	236	837	857	210	-29.2
PBT	3,602	2,614	2,632	3,230	783	3,143	3,317	3,273	12,078	10,453	458	70.8
Rate (%)	35.1	-97.9	25.3	23.9	25.1	25.2	25.2	24.7	1.2	25.2	25.2	
Reported PAT	2,337	5,173	1,965	2,458	587	2,351	2,481	2,466	11,933	7,822	343	71.1
Adj PAT	2,337	5,173	1,965	2,458	587	2,351	2,481	2,466	11,933	7,822	343	71.1
YoY Change (%)	92.5	1,159.4	30.6	111.0	-74.9	-54.5	26.2	0.3	177.8	-34.5	-85.3	
Total volume (mmscmd)	9.2	9.3	9.3	9.9	4.1	9.6	9.9	10.1	9.4	8.4	4.2	-0.4
CNG	1.5	1.5	1.5	1.5	0.7	1.2	1.4	1.5	1.5	1.2	0.3	NM
PNG - Industrials/commercial	7.2	7.3	7.2	7.8	2.9	7.8	7.9	8.0	7.4	6.7	3.2	-10.4
PNG - Households	0.5	0.5	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.7	-15.5
EBITDA (INR/scm)	5.6	4.3	4.3	4.7	4.9	4.8	4.8	4.8	4.7	4.8	4.1	20.2

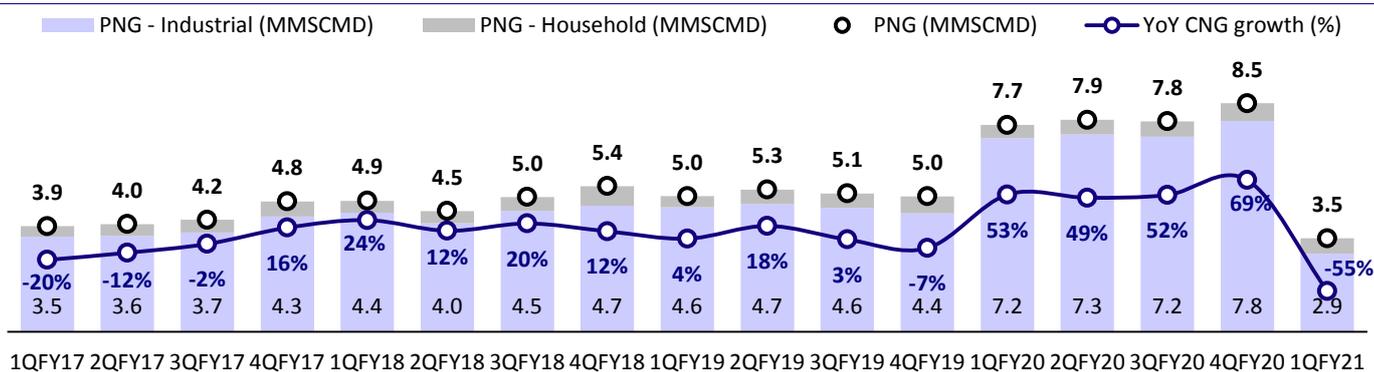
E: MOFSL Estimates

Volume growth prospects (expect CAGR of 10–12% beyond FY22)

- **We believe industrial volumes (further supported by NGT reforms in India) would be the clear winner for long-term growth.** Rajkot, Ankleshwar, Batala, Bhavnagar, Tarapur, and Vapi have been categorized as critically/severely polluted areas. The replacement of dirty industrial fuel could support further volume growth for the company.
- **GUJGA is expected to establish ~100 CNG stations over the next two to three years. With a growing number of CNG stations and the focus on reducing vehicular pollution, penetration in the CNG segment is expected to increase.** Gujarat is home to ~78k buses, 90k taxis, and 850k autos (link). However, GUJGA sells only 1.5mmscmd of CNG v/s 4.9mmscmd by IGL. With an improving ecosystem, CNG holds a bright future for GUJGA.
- **The newly awarded 16–17 cities could see volumes of 2.5–3mmscmd in the next four to five years.** The list of newer (6) GAs won by GUJGA across India in the 10th round: (a) Sirsa, Fatehabad, and Mansa, (b) Ujjain, Dewas, and Indore, (c) Jhabua, Banswara, Ratlam, and Dungarpur, (d) Ferozepur, Faridkot, and Sri Muktsar Sahib, (e) Hoshiarpur and Gurdaspur, and (f) Jalore and Sirohi.
- **The company target's an EBITDA/scm margin of INR4.5–5/scm in a normalized scenario.** GUJGA has a total LT contract of ~3.2mmscmd, of which British Gas accounts for ~2.2mmscmd (the contract is set to expire in 2024). The company believes British Gas volumes could be reduced to ~2mmscmd, but not any lower. That said, the CGD business needs LT volumes in terms of operating stability. The company has the lowest margins among peers; thus, it is not lucrative for third-party competitors. GUJGA has been passing on the benefits in sourcing cost to its customers. The current discount at Morbi is INR3.8/scm, on selling price of ~INR30/scm for non-Morbi players.

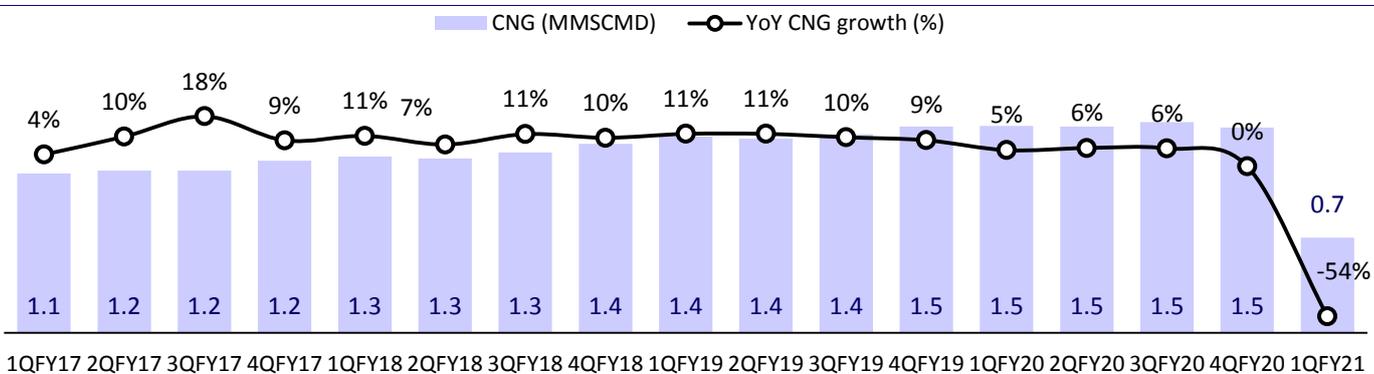
INR m	FY19				FY20				FY21		1QFY21	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	YoY (%)	QoQ (%)	
Net sales	17,651	19,643	21,174	19,076	26,146	25,129	25,062	26,666	10,829	-59%	-59%	
Realization (INR/scm)	30.1	32.0	35.1	32.6	31.4	29.3	29.2	29.5	28.7	-8%	-3%	
Total raw material	13,509	16,433	16,267	14,632	19,521	19,551	19,482	20,263	7,292	-63%	-64%	
Gas cost (INR/scm)	23.1	26.8	27.0	25.0	23.4	22.8	22.7	22.4	19.3	-17%	-14%	
Gross Margin	4,143	3,211	4,907	4,444	6,626	5,578	5,580	6,403	3,537	-47%	-45%	
Gross Margin (INR/scm)	7.1	5.2	8.1	7.6	8.0	6.5	6.5	7.1	9.4	18%	33%	
EBITDA	2,486	1,607	3,212	2,541	4,665	3,706	3,705	4,267	1,857	-60%	-56%	
EBITDA (INR/scm)	4.2	2.6	5.3	4.3	5.6	4.3	4.3	4.7	4.9	-12%	5%	
PAT	1,214	411	1,380	1,165	2,337	5,173	1,965	2,458	587	-75%	-76%	
PAT (INR/scm)	2.1	0.7	2.3	2.0	2.8	6.0	2.3	2.7	1.6	-45%	-43%	

Exhibit 1: Total PNG volumes were down ~55% YoY and 59% QoQ at 3.5mmscmd



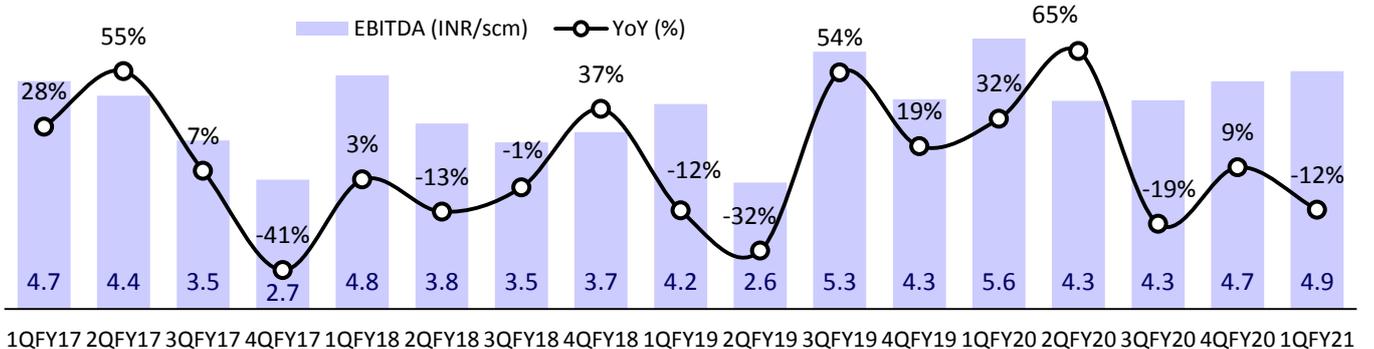
Source: Company, MOFSL

Exhibit 2: CNG volume was down 54% YoY and QoQ at ~0.7mmscmd in 1QFY21



Source: Company, MOFSL

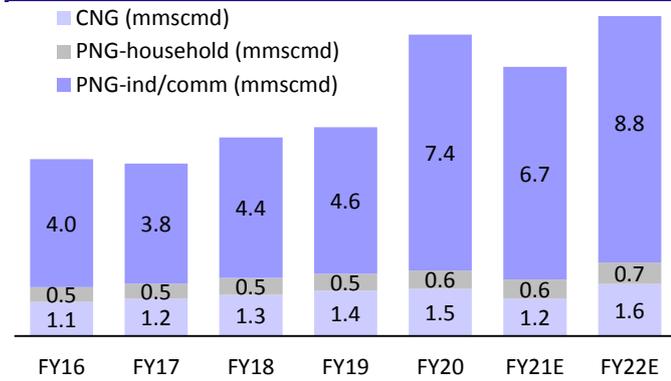
Exhibit 3: EBITDA/scm stood at INR4.9 in 1QFY21 (-12% YoY and 5% QoQ)



Source: Company, MOFSL

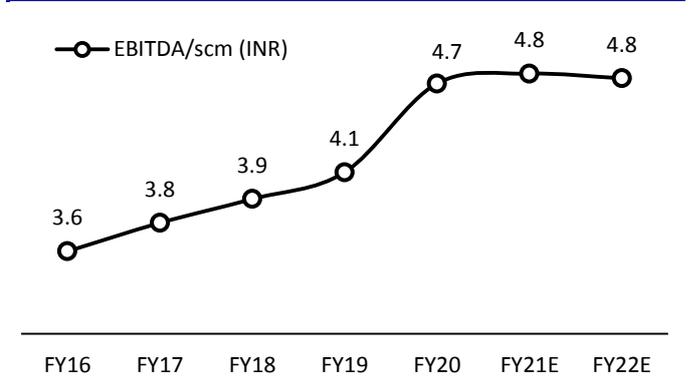
Story in charts

Exhibit 4: PNG – I/C to boost volume growth



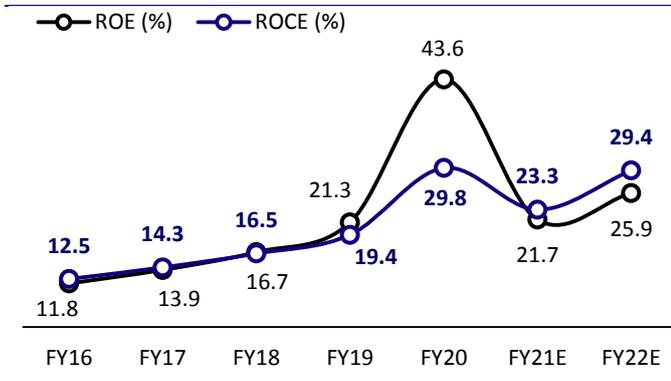
Source: Company, MOFSL

Exhibit 5: EBITDA/scm to normalize ~INR4.8 in FY21/22E



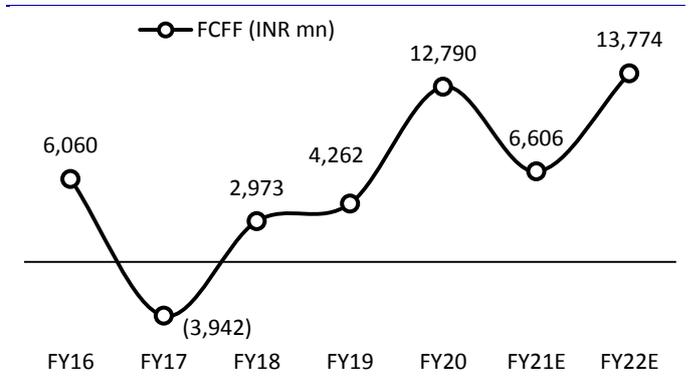
Source: Company, MOFSL

Exhibit 6: Return ratios



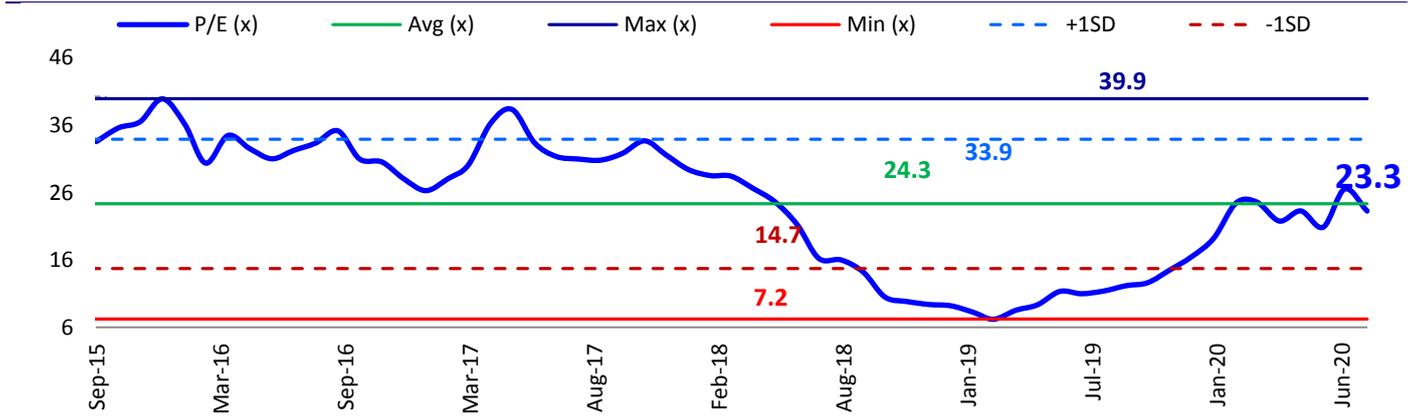
Source: Company, MOFSL

Exhibit 7: Free cash flow



Source: Company, MOFSL

Exhibit 8: 1-year forward GUJGA P/E trades at around its LT average of 24.3x



Source: Company, MOFSL

Financials and valuations

Standalone – Income Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	90,063	61,059	50,926	61,743	77,544	1,03,003	94,617	1,32,347
Change (%)	15.5	-32.2	-16.6	21.2	25.6	32.8	-8.1	39.9
EBITDA	11,062	7,264	7,433	8,951	9,846	16,343	14,806	19,337
Margin (%)	12.3	11.9	14.6	14.5	12.7	15.9	15.6	14.6
Depreciation	2,377	2,457	2,573	2,718	2,880	3,180	3,357	3,466
EBIT	8,685	4,808	4,860	6,232	6,966	13,163	11,448	15,871
Int. and Finance Charges	3,332	2,475	2,090	1,961	1,962	1,922	1,853	1,814
Other Income	1,071	445	263	357	1,113	837	857	996
PBT bef. EO Exp.	6,424	2,779	3,033	4,628	6,117	12,078	10,453	15,053
EO Items	-10	-256	0	0	-179	0	0	0
PBT after EO Exp.	6,414	2,523	3,033	4,628	5,939	12,078	10,453	15,053
Current Tax	1,979	648	838	1,715	1,768	145	2,631	3,789
Tax Rate (%)	30.8	25.7	27.6	37.0	29.8	1.2	25.2	25.2
Reported PAT	4,436	1,875	2,195	2,914	4,170	11,933	7,822	11,264
Adjusted PAT	4,443	2,065	2,195	2,914	4,296	11,933	7,822	11,264
Change (%)	1,323.3	-53.5	6.3	32.7	47.4	177.8	-34.5	44.0
Margin (%)	4.9	3.4	4.3	4.7	5.5	11.6	8.3	8.5

Standalone – Balance Sheet

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	1,377	1,377	1,377	1,377	1,377	1,377	1,377	1,377
Total Reserves	18,532	13,718	15,072	17,087	20,463	31,529	37,690	46,562
Net Worth	19,909	15,095	16,449	18,464	21,840	32,906	39,067	47,938
Deferred Tax Liabilities	3,528	9,865	9,849	10,455	10,816	8,005	8,005	8,005
Total Loans	31,960	17,066	22,987	22,143	20,892	18,344	15,344	12,344
Capital Employed	55,397	42,025	49,285	51,062	53,547	59,255	62,415	68,287
Gross Block	50,114	54,153	59,393	64,021	68,861	73,531	75,672	78,386
Less: Accum. Deprn.	5,247	7,704	10,376	13,094	15,974	19,154	22,511	25,977
Net Fixed Assets	44,867	46,449	49,017	50,927	52,887	54,377	53,161	52,408
Capital WIP	3,574	4,682	5,071	4,797	4,902	5,708	8,567	10,853
Total Investments	10,990	1,218	683	161	160	1,633	1,633	1,633
Curr. Assets, Loans&Adv.	9,495	7,544	8,714	10,449	13,326	17,255	17,363	28,720
Inventory	411	413	417	568	694	463	426	603
Account Receivables	3,606	3,005	3,475	3,917	5,103	5,101	4,686	6,555
Cash and Bank Balance	2,378	678	608	1,363	3,092	6,919	7,867	15,431
Loans and Advances	3,101	3,447	4,214	4,601	4,437	4,772	4,383	6,131
Curr. Liability & Prov.	13,529	17,868	14,199	15,271	17,727	19,718	18,309	25,328
Account Payables	4,262	2,515	3,140	2,931	3,523	3,670	3,380	4,786
Other Current Liabilities	8,193	14,986	10,660	11,957	13,724	15,015	13,792	19,292
Provisions	1,074	367	399	383	480	1,033	1,137	1,250
Net Current Assets	-4,034	-10,324	-5,485	-4,822	-4,402	-2,464	-946	3,392
Appl. of Funds	55,397	42,025	49,285	51,062	53,548	59,255	62,415	68,286

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March (INR)	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
EPS	6.5	3.0	3.2	4.2	6.2	17.3	11.4	16.4
Cash EPS	9.9	6.6	6.9	8.2	10.4	22.0	16.2	21.4
BV/Share	28.9	21.9	23.9	26.8	31.7	47.8	56.8	69.6
DPS	1.0	0.5	0.6	0.8	1.0	1.3	2.0	2.9
Payout (%)	18.7	22.1	22.6	22.8	19.9	8.7	21.2	21.2
Valuation (x)								
P/E	47.6	102.3	96.3	72.5	49.2	17.7	27.0	18.8
Cash P/E	31.0	46.7	44.3	37.5	29.5	14.0	18.9	14.3
P/BV	10.6	14.0	12.8	11.4	9.7	6.4	5.4	4.4
EV/Sales	2.7	3.7	4.6	3.8	3.0	2.2	2.3	1.6
EV/EBITDA	21.8	31.3	31.4	25.9	23.3	13.6	14.8	10.8
Dividend Yield (%)	0.3	0.2	0.2	0.3	0.3	0.4	0.7	0.9
FCF per share	12.0	8.8	-5.7	4.3	6.2	18.6	9.6	20.0
Return Ratios (%)								
RoE	24.5	11.8	13.9	16.7	21.3	43.6	21.7	25.9
RoCE	19.2	12.5	14.3	16.5	19.4	29.8	23.3	29.4
Working Capital Ratios								
Asset Turnover (x)	1.6	1.5	1.0	1.2	1.4	1.7	1.5	1.9
Inventory (Days)	2	2	3	3	3	2	2	2
Debtor (Days)	15	18	25	23	24	18	18	18
Creditor (Days)	17	15	23	17	17	13	13	13
Working Cap. Turnover (Days)	-26	-66	-44	-37	-35	-33	-34	-33
Leverage Ratio (x)								
Current Ratio	0.7	0.4	0.6	0.7	0.8	0.9	0.9	1.1
Interest Cover Ratio	2.6	1.9	2.3	3.2	3.6	6.8	6.2	8.8
Debt/Equity	1.6	1.1	1.4	1.2	1.0	0.6	0.4	0.3

Standalone – Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	6,414	2,779	3,033	4,628	6,117	12,078	10,453	15,053
Depreciation	2,377	2,457	2,573	2,718	2,880	3,180	3,357	3,466
Interest & Finance Charges	3,332	2,029	1,826	1,604	849	1,085	995	817
Direct Taxes Paid	-1,461	-648	-838	-1,715	-1,768	-145	-2,631	-3,789
(Inc)/Dec in WC	1,852	4,590	-4,909	92	1,308	1,889	-569	3,226
CF from Operations	12,514	11,207	1,686	7,328	9,386	18,087	11,606	18,774
CF from Operating incl EO	11,798	11,207	1,686	7,328	9,207	18,266	11,606	18,774
(Inc)/Dec in FA	-3,508	-5,147	-5,629	-4,355	-4,945	-5,476	-5,000	-5,000
Free Cash Flow	8,290	6,060	-3,942	2,973	4,262	12,790	6,606	13,774
(Pur)/Sale of Investments	-2,563	9,773	535	522	0	-1,473	0	0
CF from Investments	-5,904	4,815	-4,830	-3,476	-3,832	-6,112	-4,143	-4,004
Inc/(Dec) in Debt	-756	-14,894	5,921	-844	-1,251	-2,548	-3,000	-3,000
Interest Paid	-4,874	-2,475	-2,090	-1,961	-1,962	-1,922	-1,853	-1,814
Dividend Paid	-2	-416	-499	-666	-830	-1,037	-1,662	-2,393
CF from Fin. Activity	-5,632	-17,721	3,074	-3,098	-3,646	-8,327	-6,514	-7,206
Inc/Dec of Cash	262	-1,699	-70	754	1,729	3,827	949	7,564
Opening Balance	2,116	2,378	678	609	1,363	3,092	6,918	7,867
Closing Balance	2,378	678	609	1,363	3,092	6,918	7,867	15,431

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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