

Volume de-growth across segments. Healthy spreads at gross and operating levels. Maintain ACCUMULATE.

- Gujarat Gas results were below our estimates on revenue front and in line with estimates on profitability front.
- Volumes were at 377 mmscm which was a decrease of 54.7%YoY and of 58.3% QoQ, with industrial segment de-growth at 59.6% YoY and 62.9% QoQ. Major de-growth in industrial segment has come as most of the units were shut due to lockdown. However, their sales volume has shown robust recovery post lockdown.
- Realisations were flat sequentially at Rs 29.4/scm and EBITDA Spreads increased to Rs 4.9/scm sequentially. Gas cost declined to Rs 19.4/scm.
- With recent strategy of management to focus on volumes, we believe that operating spreads should sustain at Rs 4.5/SCM- Rs. 5/SCM
- Gujarat Gas will benefit from the spurt in demand of natural gas from Morbi and other industrial regions as well as competitive LNG prices over alternate fuels. Maintain Accumulate with a target price of Rs 346 (DCF Method)

Volume de-Growth

Gujarat Gas volumes de-grew 54.7% YoY to 4.14 mmscmd and 58.3% on a sequential basis. CNG volumes for Q1FY21 was at 0.68 mmscmd which de-grew 54% YoY and 53.7% QoQ. Focus on opening CNG stations continues. During the quarter, they commercialized 13 new CNG stations. CNG proportion in the volume mix is increased. Industrial segment which constituted 69% of Gujarat Gas volumes, de-grew 59.6% YoY and 62.9% QoQ. Morbi region has contributed to approx. 65-70% of industrial sales of the total 2.86 mmscmd. Domestic PNG and commercial volumes were at 0.57 and 0.03 mmscmd resp. Commercial segment has taken the hardest hit. Gas volumes were hit in April and May due to nationwide lockdown and shutting down of non-essential industries. However, gas sales volume has shown a robust recovery post lockdown. With opening up of economy, Gujarat Gas is flowing total volume close to 9.5 mmscmd as against FY20 average sales of 9.44 mmscmd.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	10,829	26,146	(58.6)	26,666	(59.4)
Total Expense	8,972	21,481	(58.2)	22,400	(59.9)
EBITDA	1,857	4,665	(60.2)	4,267	(56.5)
Depreciation	823	779	5.7	805	2.2
EBIT	1,035	3,886	(73.4)	3,462	(70.1)
Other Income	149	225	(33.8)	189	(21.1)
Interest	401	510	(21.3)	420	(4.5)
EBT	783	3,602	(78.3)	3,231	(75.8)
Tax	196	1,265	(84.5)	772	(74.6)
RPAT	587	2,337	(74.9)	2,459	(76.1)
APAT	587	2,337	(74.9)	2,459	(76.1)
			(bps)		(bps)
Gross Margin (%)	32.6	25.3	728	24.0	861
EBITDA Margin (%)	17.2	17.8	(69)	16.0	115
NPM (%)	5.4	8.9	(352)	9.2	(380)
Tax Rate (%)	25.1	35.1	(1005)	23.9	117
EBIT Margin (%)	9.6	14.9	(531)	13.0	(343)

CMP	Rs 310
Target / Upside	Rs 346 / 12%
BSE Sensex	37,724
NSE Nifty	11,095

Script Details

Equity / FV	Rs 1,377mn / Rs 2
Market Cap	Rs 213bn
	USD 3bn
52-week High/Low	Rs 329/Rs 165
Avg. Volume (no)	951,828
NSE Symbol	GUJGASLTD
Bloomberg Code	GUJGA IN

Shareholding Pattern Jun'20(%)

Promoters	60.9
MF/Banks/FIs	5.7
FIIs	12.2
Public / Others	21.2

Valuation (x)

	FY20A	FY21E	FY22E
P/E	17.9	31.3	20.6
EV/EBITDA	13.7	18.9	14.0
ROE (%)	43.4	19.0	23.9
RoACE (%)	24.2	12.4	16.0

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	103,003	79,313	99,331
EBITDA	16,343	11,937	16,141
PAT	11,933	6,798	10,366
EPS (Rs.)	17.3	9.9	15.1

AVP Research: Nidhi Doshi

Tel: +91 22 40969795

E-mail: nidhid@dolatcapital.com

Strong Volume Growth

Gujarat Gas spreads volatility both at gross and operating level have been a key determinant for stock valuations. During Q1FY21, gross spreads were at Rs 10 per SCM and at operating level, spreads of Rs 4.9 per SCM were clocked. In the past, volatility in the spreads have been high which have stabilized from last many quarters. However, recent management interactions seem to be indicating that stable spreads should be the aim in longer run. Also APM gas prices which reduced by 25% from 1st April, 2020, brought down the blended cost for Gujarat Gas with benefits passed on to CNG and PNG household.

Valuation

Gujarat Gas would ride on its existing coverage of key industrial regions, growth from Industrial, CNG & PNG segment and benefits from falling spot LNG prices. 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's performance in H1FY21 will be a key determinant to be watched for as with opening up and slowdown in economy, industrial units will not be running at full capacity utilization. We however expect major volumes to be start clocking in from H2FY21. NGT's order to switch to gas in other industrial areas than Morbi, increasing CNG consumption 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 maintain Accumulate with a DCF based target price of Rs 346.

Exhibit 1: KPI's

(Rs Mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20
Gas Volumes (in MMSCM)	377	833	(54.7)	905	(58.3)	3,454
Gas Realizations (Rs / SCM)	29.4	32.1	(8.4)	30.1	(2.3)	30.5
Gas Volumes (in MMSCMD)	4.14	9.15	(54.7)	9.9	(58.3)	9.5
Gas Cost (Rs / SCM)	19.4	23.4	(17.4)	22.4	(13.6)	22.8
Gross Spread (Rs / SCM)	10.0	8.6	16.1	7.7	30.3	7.7
EBIDTA Spread (Rs / SCM)	4.9	5.6	(12.0)	4.7	4.5	4.7

Source: Company, DART

Exhibit 2: Actual V/s DART estimates

Particulars (Rs Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	10,829	14,560	(25.6)	Lower volumes from Industrial and CNG segment. Commercial segment taken the highest hit.
EBITDA	1,857	1,894	(1.9)	
EBITDA Margin (%)	17.2	13.0	414.4	Lower gas cost
PAT	587	597	(1.7)	

Source: Company, DART

Exhibit 3: Change in estimates

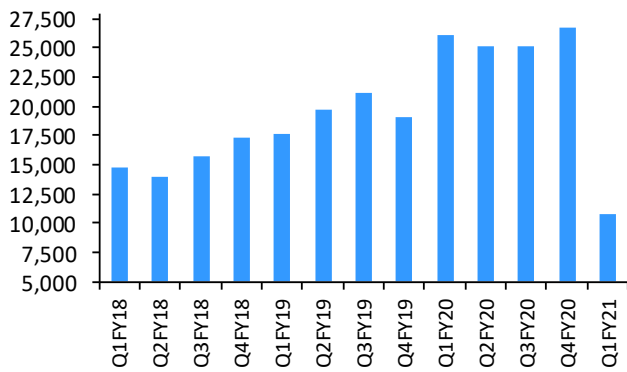
Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	79,313	78,283	1.3	99,331	90,526	9.7
EBITDA	11,937	16,635	(28.2)	16,141	20,386	(20.8)
EBITDA Margin (%)	15.1	21.3	(619.9)	16.2	22.5	(627.0)
PAT	6,798	10,004	(32.1)	10,366	12,476	(16.9)
EPS (Rs)	9.9	18.1	(32.1)	15.1	18.1	(16.9)

Source: Company, DART

Key Highlights

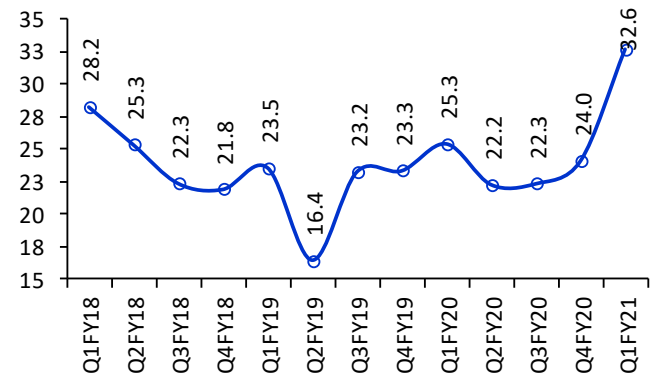
- Revenue is at Rs 10.8 bn in Q1FY21, which was a de-growth of 58.6% on a Y-o-Y basis and of 59.4% on a Q-o-Q basis.
- Gas cost decreased by 17.4% on a Y-o-Y basis to Rs. 19.4 per SCM and by 13.6% sequentially.
- EBIDTA is at Rs 1.9 bn in Q1FY21, which was a de-growth of 60.2% on a Y-o-Y basis and of 56.5% on a Q-o-Q basis.
- Net Profit de-grew to Rs. 587 mn in Q1FY21 which was a de-growth of 74.9% YoY.
- Volumes were around 377 MMSMD in Q1FY21, which was a de-growth of 54.7% on a Y-o-Y basis and 58.3% sequentially.
- Gross spread increased to Rs 10 per SCM on a Y-o-Y basis and increased on a Q-o-Q basis by 30%.
- EBIDTA spread decreased to Rs 4.9 per SCM on a YoY basis and improved on Q-o-Q basis by 4.5%.

Exhibit 4: Revenue (Rs Mn)



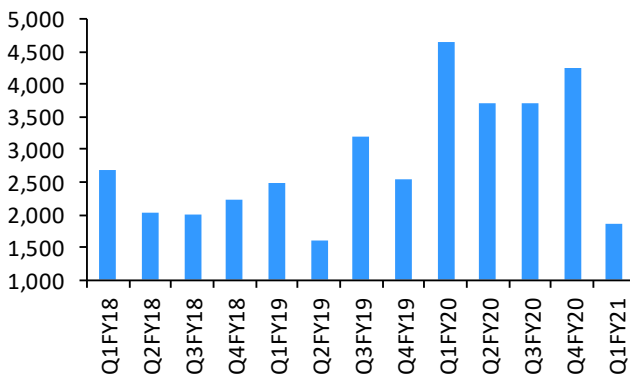
Source: Company, DART

Exhibit 5: Gross Margin (%)



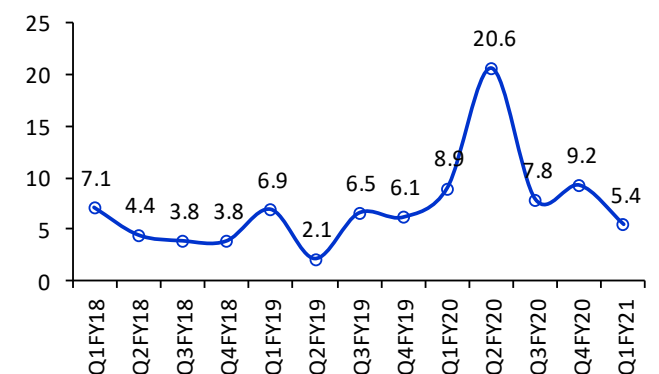
Source: Company, DART

Exhibit 6: Operating Profit (Rs Mn)



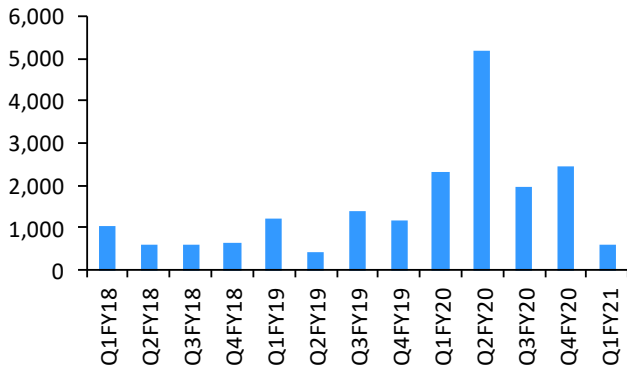
Source: Company, DART

Exhibit 7: OPM %



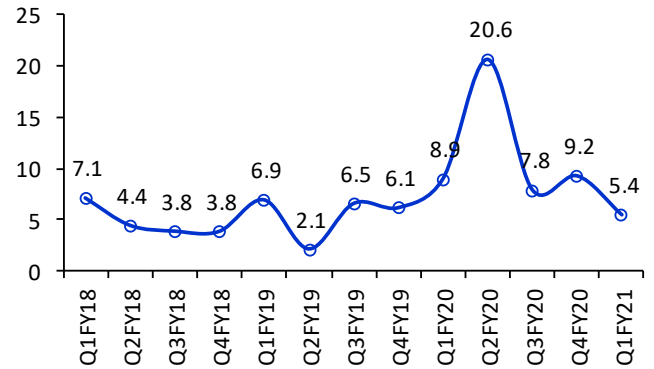
Source: Company, DART

Exhibit 8: Net Profit (Rs Mn)



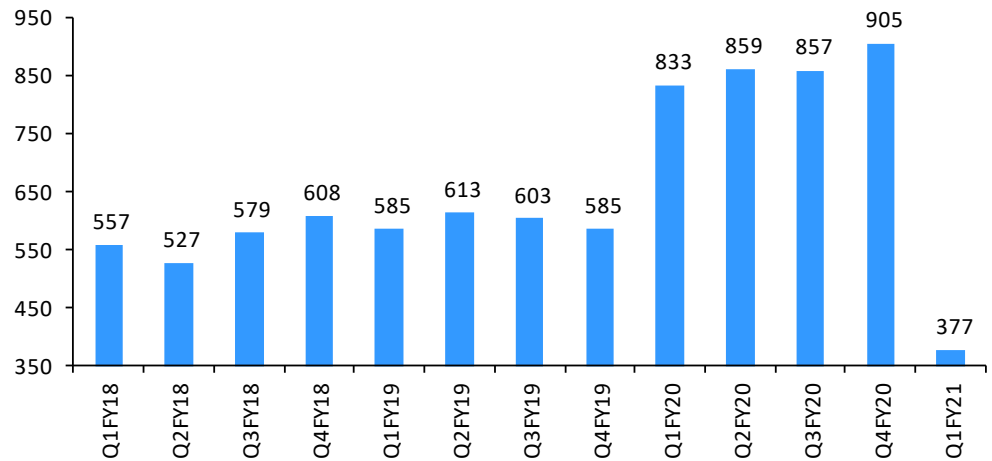
Source: Company, DART

Exhibit 9: NPM %



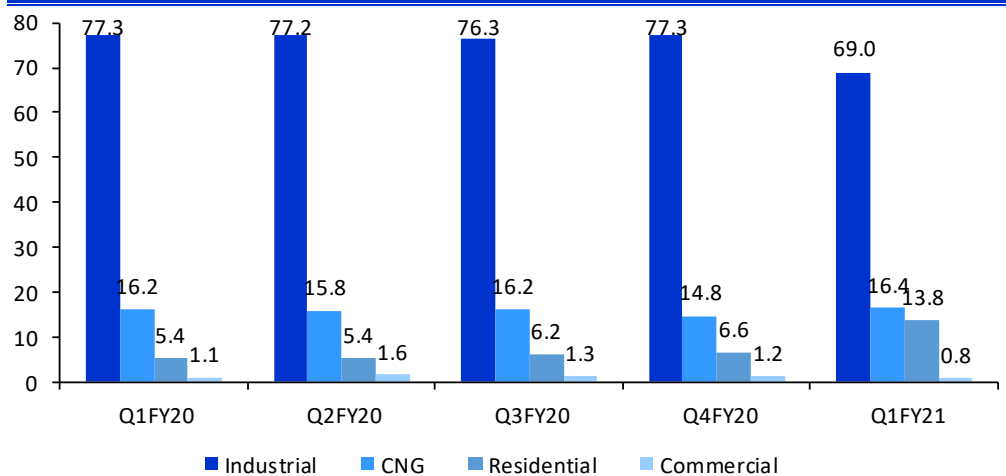
Source: Company, DART

Exhibit 10: Gas Volumes (MMSCM)



Source: Company, DART

Exhibit 11: Volumes- Segment wise (%)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	77,544	103,003	79,313	99,331
Total Expense	67,698	86,661	67,375	83,190
COGS	60,830	78,818	57,655	72,922
Employees Cost	1,600	1,754	1,789	1,824
Other expenses	5,268	6,089	7,931	8,443
EBIDTA	9,846	16,343	11,937	16,141
Depreciation	2,880	3,180	2,889	2,777
EBIT	6,966	13,163	9,048	13,364
Interest	1,962	1,922	964	1,012
Other Income	1,116	837	1,000	1,500
Exc. / E.O. items	(164)	0	0	0
EBT	5,956	12,078	9,084	13,853
Tax	1,772	145	2,287	3,487
RPAT	4,185	11,933	6,798	10,366
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	4,185	11,933	6,798	10,366

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	1,377	1,377	1,377	1,377
Minority Interest	0	0	0	0
Reserves & Surplus	20,676	31,529	37,280	46,599
Net Worth	22,053	32,906	38,657	47,976
Total Debt	22,131	18,344	19,271	20,234
Net Deferred Tax Liability	10,869	8,005	8,005	8,005
Total Capital Employed	55,053	59,255	65,933	76,215

Applications of Funds

Net Block	52,887	55,851	60,961	68,185
CWIP	4,889	5,695	5,411	5,141
Investments	434	173	176	179
Current Assets, Loans & Advances	13,366	17,255	17,131	18,782
Inventories	694	463	652	816
Receivables	5,103	5,101	4,129	4,899
Cash and Bank Balances	3,132	6,919	6,994	7,046
Loans and Advances	3,803	3,698	4,068	4,475
Other Current Assets	634	1,074	1,288	1,546
Less: Current Liabilities & Provisions	16,522	19,718	17,746	16,071
Payables	3,558	3,736	3,922	4,118
Other Current Liabilities	12,964	15,982	13,824	11,953
sub total				
Net Current Assets	(3,156)	(2,464)	(615)	2,710
Total Assets	55,053	59,255	65,933	76,215

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	21.6	23.5	27.3	26.6
EBIDTA Margin	12.7	15.9	15.1	16.2
EBIT Margin	9.0	12.8	11.4	13.5
Tax rate	29.7	1.2	25.2	25.2
Net Profit Margin	5.4	11.6	8.6	10.4
(B) As Percentage of Net Sales (%)				
COGS	78.4	76.5	72.7	73.4
Employee	2.1	1.7	2.3	1.8
Other	6.8	5.9	10.0	8.5
(C) Measure of Financial Status				
Gross Debt / Equity	1.0	0.6	0.5	0.4
Interest Coverage	3.6	6.8	9.4	13.2
Inventory days	3	2	3	3
Debtors days	24	18	19	18
Average Cost of Debt	8.6	9.5	5.1	5.1
Payable days	17	13	18	15
Working Capital days	(15)	(9)	(3)	10
FA T/O	1.5	1.8	1.3	1.5
(D) Measures of Investment				
AEPS (Rs)	6.1	17.3	9.9	15.1
CEPS (Rs)	10.3	22.0	14.1	19.1
DPS (Rs)	1.0	1.3	1.3	1.3
Dividend Payout (%)	16.5	7.2	13.2	8.6
BVPS (Rs)	32.0	47.8	56.2	69.7
RoANW (%)	20.7	43.4	19.0	23.9
RoACE (%)	11.8	24.2	12.4	16.0
RoAIC (%)	13.6	25.3	16.3	20.9
(E) Valuation Ratios				
CMP (Rs)	310	310	310	310
P/E	50.9	17.9	31.3	20.6
Mcap (Rs Mn)	213,060	213,060	213,060	213,060
MCap/ Sales	2.7	2.1	2.7	2.1
EV	232,059	224,485	225,336	226,248
EV/Sales	3.0	2.2	2.8	2.3
EV/EBITDA	23.6	13.7	18.9	14.0
P/BV	9.7	6.5	5.5	4.4
Dividend Yield (%)	0.3	0.4	0.4	0.4
(F) Growth Rate (%)				
Revenue	25.6	32.8	(23.0)	25.2
EBITDA	10.0	66.0	(27.0)	35.2
EBIT	11.8	89.0	(31.3)	47.7
PBT	28.3	102.8	(24.8)	52.5
APAT	43.1	185.2	(43.0)	52.5
EPS	43.1	185.2	(43.0)	52.5
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	9,520	14,221	8,879	10,885
CFI	(6,039)	(4,668)	(6,274)	(9,738)
CFF	(3,494)	(5,024)	(1,083)	(1,096)
FCFF	4,216	8,265	1,163	1,155
Opening Cash	957	944	5,472	6,994
Closing Cash	944	5,472	6,994	7,046

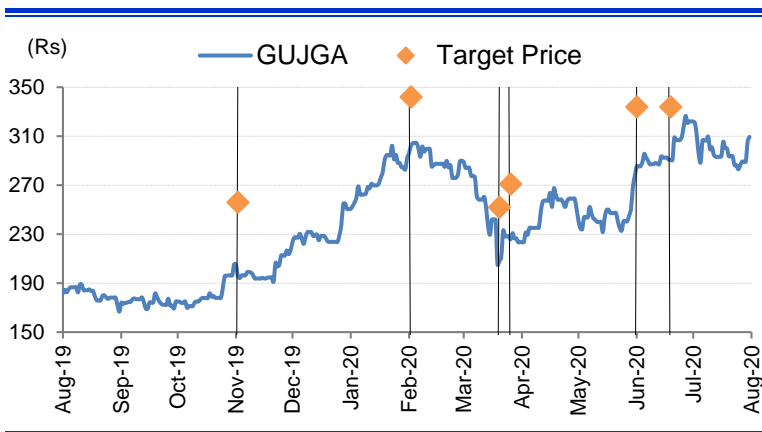
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

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

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-19	BUY	256	196
Feb-20	Accumulate	342	302
Mar-20	Buy	252	208
Mar-20	Accumulate	271	226
Jun-20	Accumulate	334	286
Jun-20	Accumulate	334	291

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740

Equity Trading	Designation	E-mail	Direct Lines
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
