

Faster recovery outlook leads to positive view...

Gujarat Gas' results for Q1FY21 were largely in line with estimates on the profitability front. Revenues declined 58.6% YoY to ₹ 1082.9 crore (our estimate: ₹ 1079.8 crore) due to a sharp fall of 54.7% YoY in sales volume during lockdown. Sales volume at 4.1 mmscmd was below estimate of 4.6 mmscmd. Realisation were at ₹ 28.7/scm (our estimate: ₹ 25.8/scm). Gross margins improved ₹ 1.4/scm YoY and ₹ 2.3/scm QoQ and were at ₹ 9.4/scm (our estimate of ₹ 7.4/scm). Gross margin increase was on account of better-than-expected realisation and low gas costs. EBITDA was at ₹ 185.7 crore, down 60.2% YoY (our estimate: ₹ 184.1 crore). Subsequently, PAT declined 74.9% YoY and was at ₹ 58.7 crore (our estimate - ₹ 62.11 crore).

Volumes hit by lockdown

The quarter witnessed a major dip of 54.7% YoY in volumes to 4.1 mmscmd. Industrial volumes were at 2.9 mmscmd vs. 7.1 mmscmd YoY and 7.7 mmscmd QoQ due to closure of industries. CNG volumes at 0.7 mmscmd were also impacted by the lockdown while domestic/commercial PNG volumes at 0.6 mmscmd were flat YoY. While Gujarat Gas' volumes were under pressure in Q1FY21, a healthy recovery was witnessed post lockdown and currently sales volume is near normal levels. Overall, we believe industrial PNG demand will lead to a recovery in the medium term while CNG will contribute in the long term. We estimate volumes in FY21E and FY22E at 8.5 mmscmd and 11.2 mmscmd, respectively.

Healthy margin outlook

Gross margins increased ₹ 2.3/scm QoQ, ₹ 1.4/scm YoY and were at ₹ 9.4/scm. The gross margin increase was higher than our estimates due to better-than-expected realisations and low gas costs. However, EBITDA/scm was at ₹ 4.9/scm, down ₹ 0.7/scm impacted by negative operating leverage. Gujarat Gas' focus remains on striking a balance between right volumes and margins at appropriate time intervals. Relatively good pricing power and low raw material costs will enable the company to report gross margin of ₹ 8.2/scm for FY21E and ₹ 7.6/scm for FY22E respectively. Subsequently, we expect EBITDA margins at ₹ 5.5/scm for FY21E and ₹ 5.1/scm for FY22E, going forward.

Valuation & Outlook

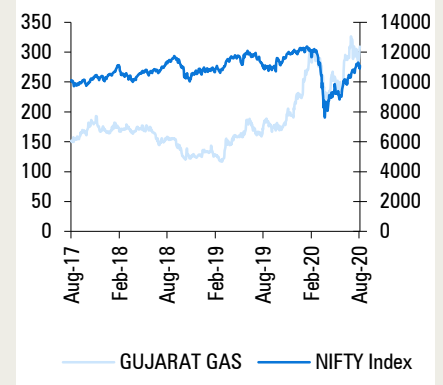
Sales volumes have recovered from April lows and are currently at 9.5 mmscmd with a full recovery in industrial segment. We expect Gujarat Gas to report volume growth from Q2FY21E onwards itself. Over the long term, increase in volumes driven by regulatory tailwinds, further penetration in existing geographical areas (GAs) and aggressive expansion in newly acquired Gas will lead to sustainable growth. We revise the rating for Gujarat Gas from HOLD to **BUY** with a target price of ₹ 350 (19x FY22E EPS).

Particulars	
Particular	Amount
Market Capitalization (₹ Cr)	20,927.4
Total Debt (FY 19) (₹ Crore)	2,148.7
Cash and Investments (FY)	310.5
EV (₹ Crore)	22,765.6
52 week H/L	330/162
Equity capital (₹ Crore)	137.7
Face value (₹)	2.0

Key Highlights

- Results largely in line with estimates on profitability front
- Total volumes fell sharply 54.7% YoY to 4.1 mmscmd. Sharp recovery witnessed post lockdown with current volume at 9.5 mmscmd
- Upgrade to BUY rating on stock with target price of ₹ 350 /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	8,379.4	10,907.7	12.0
EBITDA (₹ crore)	895.1	984.5	1,634.3	1,726.7	2,094.3	28.6
Net Profit (₹ crore)	291.4	416.9	1,193.3	966.7	1,267.4	44.9
EPS (₹)	4.2	6.1	17.3	14.0	18.4	
P/E (x)	71.8	50.2	17.5	21.6	16.5	
Price / Book (x)	11.3	9.6	6.4	5.0	4.0	
EV/EBITDA (x)	25.7	23.1	13.4	12.5	9.8	
RoCE (%)	15.3	16.1	26.7	26.0	30.2	
RoE (%)	15.8	19.1	36.4	23.2	24.1	
RoE (%)	21.4	22.8	22.7	27.5	22.0	

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Total Revenues	1,082.9	1,079.8	2,614.6	-58.6	2,666.6	-59.4	Revenues were in line with estimates. While sales volume was lower, realisation was better than expected
Raw materials costs	729.7	771.5	1,952.2	-62.6	2,026.4	-64.0	
Employees Cost	42.6	37.8	46.4	-8.3	40.6	5.0	
Other Expenses	124.9	86.4	149.5	-16.5	173.0	-27.8	
Total Expenditure	897.2	895.7	2,148.1	-58.2	2,240.0	-59.9	
EBITDA	185.7	184.1	466.5	-60.2	426.7	-56.5	
EBITDA margins (%)	17.2	17.1	17.8	-69 bps	16.0	115 bps	
Depreciation	82.3	82.9	77.9	5.7	80.5	2.2	
EBIT	103.5	101.3	388.6	-73.4	346.2	-70.1	
Interest	40.1	35.0	51.0	-21.3	42.0	-4.5	
Other Income	14.9	17.5	22.5	-33.8	18.9	-21.1	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	78.3	83.8	360.2	-78.3	323.1	-75.8	
Total Tax	19.6	21.7	126.5	-84.5	77.2	-74.6	
PAT	58.7	62.1	233.7	-74.9	245.9	-76.1	Profitability was largely in line with estimates

Key Metrics

Sales Volume (mmscmd)	4.1	4.6	9.2	-54.7	9.9	-58.3	Lower than expected
Realisation (₹/scm)	28.7	25.8	31.4	-8.5	29.5	-2.5	
Gross margin (₹/scm)	9.4	7.4	8.0	17.8	7.1	32.4	Gross margins above estimates due to better than expected realisation and low gas costs

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY21E			FY22E			Comments
	Old	New	Change	Old	New	Change	
Revenue	7962.6	8,379.4	5.2	10663.3	10,907.7	2.3	
EBITDA	1,440.2	1,726.7	19.9	1,872.5	2,094.3	11.8	Faster than expected recovery in industrial segment and lower gas costs led to change in estimates
EBITDA Margin (%)	18.1	20.6	252 bps	17.6	19.2	164 bps	
PAT	759.0	966.7	27.4	1,103.0	1,267.4	14.9	
EPS (₹)	11.0	14.0	27.4	16.0	18.4	14.9	

Source: Company, ICICI Direct Research

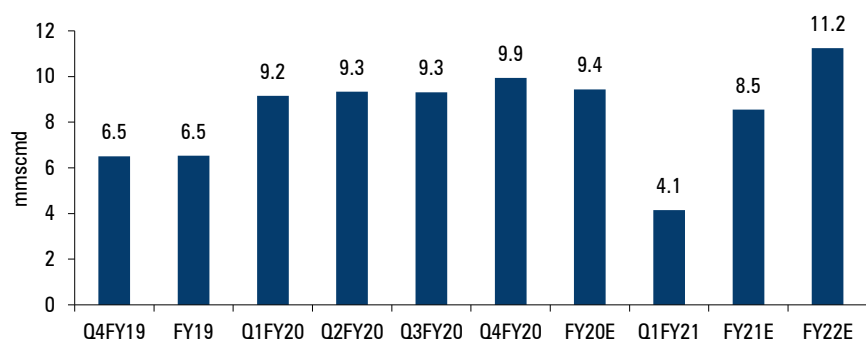
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19	FY20E	FY21E	FY22E	FY21E	FY22E	
Sales Volume (mmscmd)	6.5	9.4	8.5	11.2	8.4	11.2	
Realisation (₹/scm)	32.5	29.8	26.9	26.6	26.0	26.0	
Gross margin (₹/scm)	7.0	7.0	8.2	7.6	7.2	7.0	Increased gross margin estimates due to low spot LNG prices

Source: Company, ICICI Direct Research

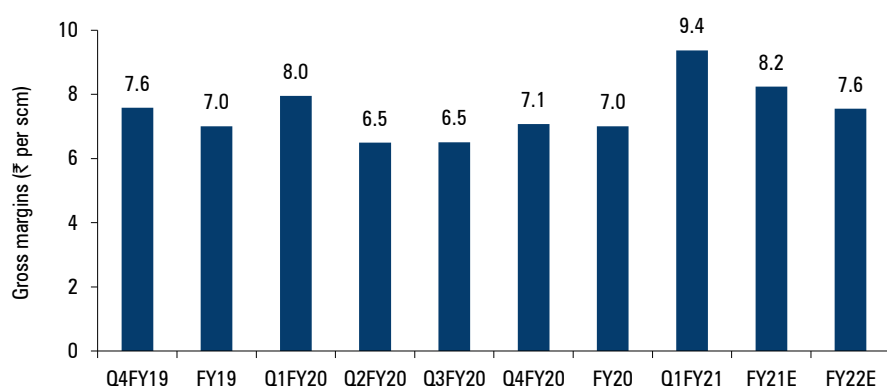
Story in charts

Exhibit 4: Volume trajectory



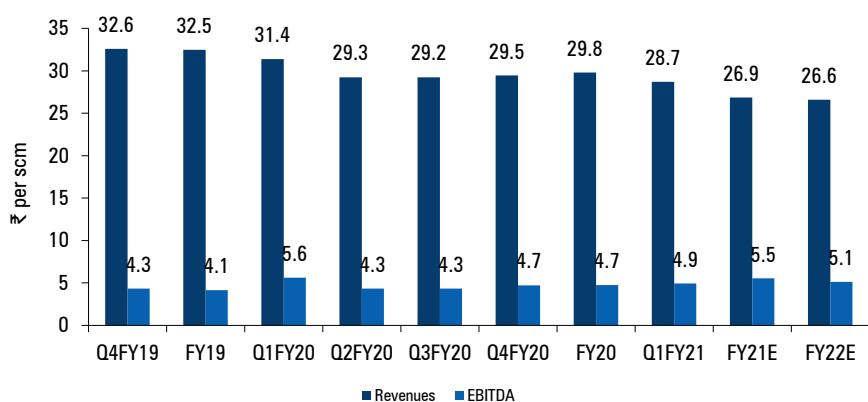
Source: Company, ICICI Direct Research

Exhibit 5: Margin trend



Source: Company, ICICI Direct Research

Exhibit 6: Revenue & EBITDA trend



Source: Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	60.9	60.9	60.9	60.9	60.9
FII	11.9	12.1	11.1	9.8	9.2
DII	5.4	5.7	6.3	7.0	7.4
Others	21.7	21.3	21.8	22.3	22.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Revenue	7754.4	10300.3	8379.4	10907.7
Growth (%)	25.6	32.8	-18.6	30.2
Raw material Costs	6083.0	7881.8	5809.4	7809.8
Employee Costs	160.0	175.4	195.8	229.1
Other Expenditure	526.8	608.9	647.6	774.4
Op. Expenditure	6769.9	8666.1	6652.8	8813.3
EBITDA	984.5	1634.3	1726.7	2094.3
Growth (%)	10.0	66.0	5.7	21.3
Depreciation	288.0	318.0	345.9	382.6
EBIT	696.5	1316.3	1380.8	1711.8
Interest	196.2	192.2	145.0	77.4
Other Income	111.3	83.7	67.9	76.0
PBT	593.8	1207.8	1303.6	1710.4
Growth (%)	28.3	103.4	7.9	31.2
Tax	176.8	14.5	337.0	443.0
Reported PAT	416.9	1193.3	966.7	1267.4
Growth (%)	43.1	186.2	-19.0	31.1
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	416.9	1193.3	966.7	1267.4
EPS	6.1	17.3	14.0	18.4

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	966.7	1,267.4
Add: Depreciation	288.0	318.0	345.9	382.6
Add: Others	36.1	-281.1	50.0	50.0
Cash Profit	741.0	1,230.2	1,362.6	1,700.0
Increase/(Decrease) in CI	186.1	432.1	-319.1	566.1
(Increase)/Decrease in C/	-114.8	-10.2	-147.8	-344.4
CF from Operating Acti	812.3	1652.2	895.7	1921.8
Purchase of Fixed Assets	494.5	625.2	594.4	600.0
(Inc)/Dec in Investments	0.0	1.3	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Acti	-494.5	-623.9	-594.4	-600.0
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
CF from financing activ	-145.0	-600.9	-580.7	-911.3
Change in cash Eq.	172.8	427.5	-279.4	410.5
Op. Cash and cash Eq.	136.4	309.1	736.6	457.2
CI. Cash and cash Eq.	309.1	736.6	457.2	867.7

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Source of Funds				
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	4,024.7	5,130.8
Shareholder's Fund	2,184.0	3,276.4	4,162.4	5,268.5
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
Source of Funds	5414.3	5725.6	6161.6	6567.7
Application of Funds				
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	78.1	101.6
Debtor	510.3	510.1	551.0	717.2
Cash	309.1	736.6	457.2	867.7
Loan & Advance, Other C	443.7	477.2	552.3	706.9
Total Current assets	1332.6	1770.2	1638.5	2393.4
Current Liabilities	1665.2	2116.5	1721.8	2241.3
Provisions	48.0	28.8	104.4	151.1
Total CL and Provisions	1713.2	2145.3	1826.2	2392.4
Net Working Capital	-380.6	-375.2	-187.7	1.0
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	5414.3	5725.6	6161.6	6567.7

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
Book Value	31.7	47.6	60.5	76.5
Cash per share	4.5	10.7	6.6	12.6
EPS	6.1	17.3	14.0	18.4
Cash EPS	10.2	22.0	19.1	24.0
DPS	1.0	1.3	1.0	2.0
Profitability & Operating Ratios				
EBITDA Margin (%)	12.7	15.9	20.6	19.2
PAT Margin (%)	5.4	11.6	11.5	11.6
Fixed Asset Turnover (x)	1.3	1.7	1.3	1.7
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
Return Ratios (%)				
RoE	19.1	36.4	23.2	24.1
RoCE	16.1	26.7	26.0	30.2
RoIC	17.3	31.4	28.4	35.7
Valuation Ratios (x)				
PE	50.2	17.5	21.6	16.5
Price to Book Value	9.6	6.4	5.0	4.0
EV/EBITDA	23.1	13.4	12.5	9.8
EV/Sales	2.9	2.1	2.6	1.9
Leverage & Solvency Ratios				
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	0.9	1.0
Quick ratio	0.7	0.8	0.9	1.0

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)	408	350	Hold	67,267	13.6	30.3	29.9	29.9	13.5	13.6	16.8	10.8	10.1	4.2	8.8	8.7	7.5	15.5	14.6
GAIL (India) (GAIL)	93	100	Hold	41,944	14.7	8.9	9.4	6.3	10.4	9.9	5.3	7.8	7.5	12.6	7.2	7.4	14.0	8.2	8.4
Gujarat Gas (GUJGA)	304	350	Buy	20,927	17.3	14.0	18.4	17.5	21.6	16.5	13.4	12.5	9.8	26.7	26.0	30.2	36.4	23.2	24.1
HPCL (HINPET)	215	215	Hold	32,799	17.3	33.9	25.9	12.4	6.3	8.3	13.3	7.0	7.2	2.8	8.8	6.8	9.1	16.2	12.0
Indian Oil Corp (INDOIL)	87	90	Hold	79,875	1.4	9.9	11.7	60.8	8.8	7.5	4.3	3.3	3.0	4.9	7.6	8.8	1.3	8.5	10.1
Indraprastha Gas (INDGAS)	388	440	Hold	27,160	16.2	14.4	18.9	23.9	26.9	20.6	17.6	18.4	13.8	25.2	20.1	23.0	22.6	17.5	19.7
Mahanagar Gas (MAHGAS)	970	1145	Hold	9,581	80.3	60.1	88.4	12.1	16.1	11.0	8.5	10.3	6.7	32.0	22.7	29.0	28.5	19.1	23.8
ONGC (ONGC)	77	80	Hold	98,817	10.5	4.4	10.9	7.3	17.5	7.1	2.5	4.5	3.4	9.2	1.3	5.7	6.3	2.6	6.3
Petronet LNG (PETLNG)	246	295	Buy	36,900	18.0	15.9	19.6	13.7	15.5	12.5	9.2	8.7	7.2	22.2	23.0	29.0	25.5	22.6	27.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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