

# Gujarat Gas

BSE SENSEX

38,365

S&amp;P CNX

11,317



## Stock Info

Bloomberg	GUJGA IN
Equity Shares (m)	688
M.Cap.(INRb)/(USDb)	198.9 / 2.8
52-Week Range (INR)	335 / 162
1, 6, 12 Rel. Per (%)	-5/0/63
12M Avg Val (INR M)	270
Free float (%)	39.1

## Financials Snapshot (INR b)

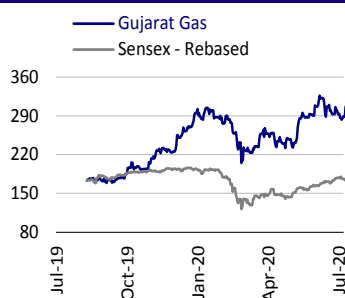
Y/E March	2020	2021E	2022E
Sales	103.0	94.6	132.3
EBITDA	16.3	14.8	19.3
PAT	11.9	7.8	11.3
EPS (INR)	17.3	11.4	16.4
EPS Gr. (%)	177.8	-34.5	44.0
BV/Sh.(INR)	47.8	56.8	69.6
Ratios			
Net D:E	0.6	0.4	0.3
RoE (%)	43.6	21.7	25.9
RoCE (%)	29.8	23.3	29.4
Payout (%)	8.7	21.2	21.2
Valuations			
P/E (x)	16.7	25.4	17.7
P/BV (x)	6.0	5.1	4.2
EV/EBITDA (x)	12.9	13.9	10.1
Div. Yield (%)	0.4	0.7	1.0
FCF Yield (%)	6.4	3.3	6.9

## 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

## Stock Performance (1-year)


**CMP: INR289**
**TP: INR360 (+25%)**
**Buy**

## Gas and LPG prices on a see-saw; Margins to remain stable

- Gujarat Gas (GUJGA) has taken a price cut of INR2.5/scm on PNG Industrial at Morbi, as per our interaction with the company. Therefore, gas price realization now stands at INR24.5/scm, bringing the economics of gas at par with the current low LPG prices.
- According to our observation of the recent movement in prices, LPG prices fell to a record low and subsequently revived off the trough (similar to Brent prices), however, it is still down 35% YoY. Historically, LPG prices are usually cheap during the monsoon season while prices spike during winters, driven by higher heating demand.
- Industrials account for >75% of the sales volume for GUJGA – Morbi constitutes ~75% of the total industrial volume. Thus, it is an uphill task for GUJGA to maintain healthy economics of gas with LPG for its industrial consumers.
- Reflecting on the company's EBITDA margin, we do not see GUJGA breaching INR5/scm on a sustainable level for the time being. However, we would also like to highlight two scenarios in which EBITDA/scm may rise on a sustainable basis:
  - If the NGT comes up with similar orders banning dirty alternate fuels at other industrial clusters in GUJGA's operating areas (refer our [earlier report](#)), and
  - CNG takes a larger pie in the total sales mix since it is the most profitable segment.
- During our recently concluded conference (AGIC), GUJGA stated that total volumes averaged ~9.5mmscmd QTD 2QFY21, of which industrial volumes stood at ~7.6mmscmd (Morbi ~6mmscmd v/s peak of 6.3mmscmd achieved in 4QFY20, which reflects incremental room for growth). However, CNG remains a laggard and recovery is likely to range between 80-85% of pre-COVID levels in the near term.
- GUJGA has seen the fastest recovery in volumes post lifting of the lockdowns. Also, the company should see a major volume boost of ~10% CAGR over the medium term on the highest volume base amongst peers.
- We reiterate GUJGA as our top Buy (at INR360/share, valuing it at 22x FY22E EPS), with the best RoE profile of 22–26% and expected FCF generation of ~INR20b over FY21-FY22E.

## Understanding Gas to LPG economics

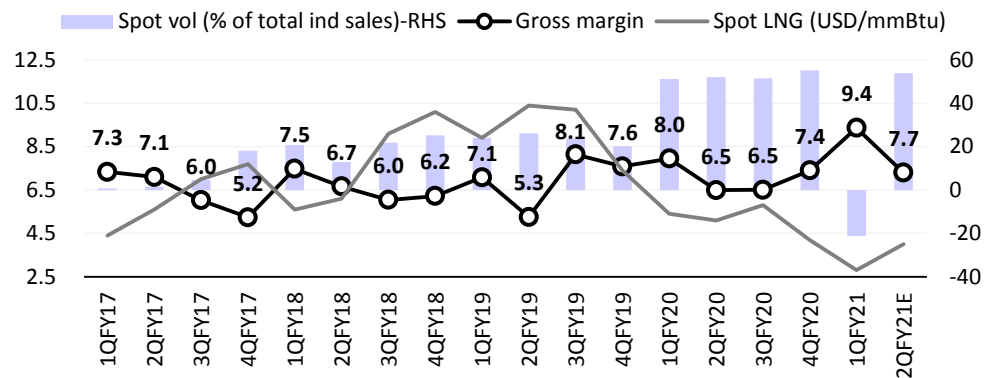
- Prior to the National Green Tribunal's (NGT) mandate to ban coal gasifiers at Morbi, GUJGA's margins and volumes were highly volatile. This was primarily driven by competition from coal gasifiers.
- However, post the NGT's ban, the company's volumes and margins (excluding one off in 1QFY21) stabilized. The low LPG prices have enabled few consumers to install LPG equipment at their premises. The total installed capacity currently stands at ~0.6mmscmd for LPG.
- Normally, LPG prices are cheaper than gas during the monsoons. Thus, LPG usage during the monsoons increases to ~0.6mmscmd, while it stands at ~0.3mmscmd for the rest of the year (forming merely ~3-4% of total volumes).
- In Jun'20, ceramic manufacturers increased prices of tiles by 5-10%, reflecting confidence in sustainable demand from Morbi. Even shifting of the supplier base from China to India is in favor of Morbi's ceramic manufacturers.
- The discretion to adjust prices to compete with LPG remains with GUJGA, and hence, the company might take a price hike whenever deemed necessary.

**Increase in share of spot prices to favor margins**

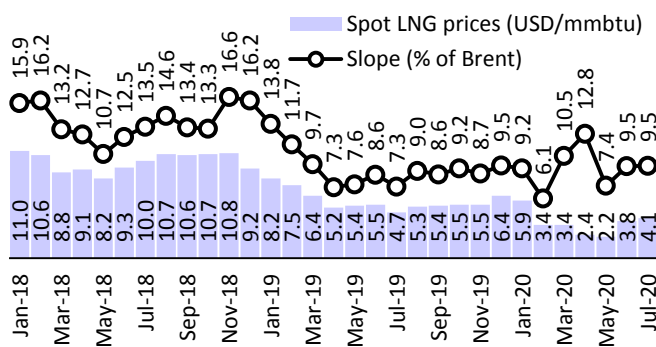
- Since the implementation of the blanket ban on coal gasifiers at Morbi, total industrial sales have increased. Combined with that, BG volumes have also come down slightly from 2.5mmscmd to 2.2mmscmd (the company currently has 3.2mmscmd of long-term contracts).
- The above has resulted in spot commanding much higher 55-60% of total industrial sales volumes vis-à-vis 15-20% seen earlier.
- This broadly means that as long as spot prices remain weak, we would see higher gross margins for the company. Although spot LNG prices have come up to USD4.5/mmBtu (v/s an average of USD2.8/mmBtu in 1QFY21), it is still lower by USD1/mmBtu on YoY basis.
- **As per our calculation (in exhibit 1), despite price cuts, gross margin for GUJGA is likely to remain healthy at ~INR7.7/scm (v/s INR7.4/scm in 4QFY20).**
- We also expect spot prices to again decline as soon as the US LNG terminals come online (back from the recent cyclone) and the Gorgon LNG terminal in Australia recommences operations.

**Valuation and view - Volume CAGR of 10% beyond FY22E as well**

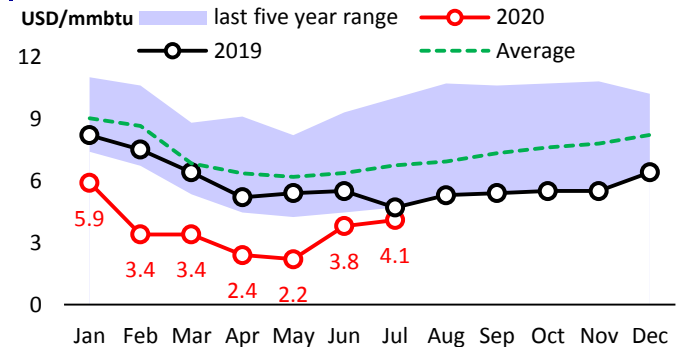
- Strong export orders at Morbi have started seeing an **emergence of a new ceramic cluster at Aniyari**, a potential 0.5mmscmd market in the making.
- Recently, the regulatory board (PNGRB) ruled that GAIL should stop supply to consumers designated for **CGD at Tarapur and Thane. This could add ~0.3mmscmd of volumes in the short term. Similar rulings are expected at Dahej as well.** To put this into perspective, the incremental volumes could offset the aforementioned volume loss due to the switch from gas to LPG (if any).
- **In the long term, we believe industrial volumes (further supported by the NGT's reforms in India) would be the clear winner for growth.** Any directive by the NGT to ban usage of Fuel Oil could lead to short-term incremental volume boost of 2-3mmscmd for GUJGA.
- With ~400 CNG outlets, GUJGA sells only 1.5mmscmd of CNG v/s 4.5mmscmd that IGL sells in NCR alone. **GUJGA is expected to establish ~100 CNG stations over the next 2-3 years, increasing its penetration in the CNG segment.**
- **The newly awarded 16-17 cities could see volumes of 2.5–3mmscmd over the next 4-5 years.** The Vasai-Virar region is the next big focus market for GUJGA after Thane – GUJGA is planning to supply gas through a virtual network there.
- Once gas is included under GST, consumers will be able to take input tax credits, thus, lowering their gas feedstock cost. GUJGA will be able to take tax credit on opex and capex. **Capex plans for FY21 stands at INR6-7b v/s INR5.8b in FY20 (GUJGA plans to fund capex through internal accruals only).**
- GUJGA is trading at 17.7x FY22E EPS of INR16.4 and 10.1x FY22E EV/EBITDA. We value GUJGA at 22x FY22E. With target price of INR360/share, we reiterate **Buy** on the stock.

**Exhibit 1: Gross margin (INR/scm) to normalize in coming quarters**

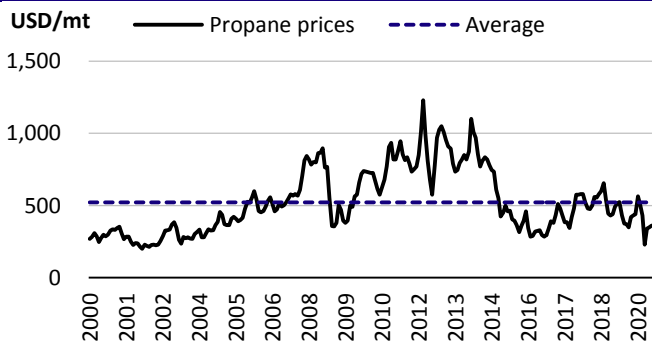
2QFY21E is an estimate Source: Company, MOFSL

**Exhibit 2: LNG spot price has revived off the trough...**

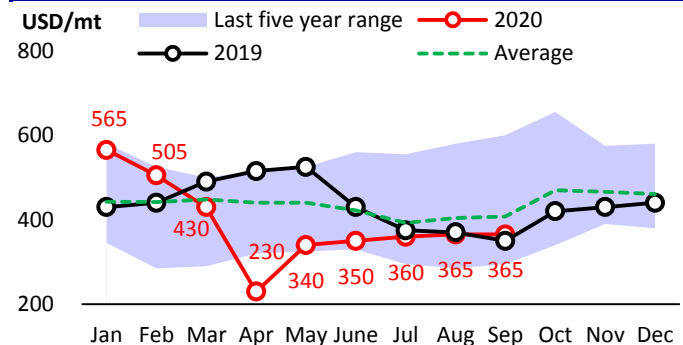
Source: Meti, MOFSL

**Exhibit 3: ...though much below its last five year numbers**

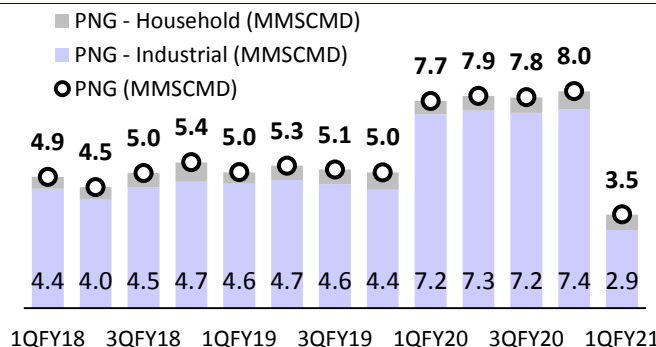
Source: Meti, MOFSL

**Exhibit 4: Propane prices have remained stable in last two months, while spot LNG prices have climbed higher...**

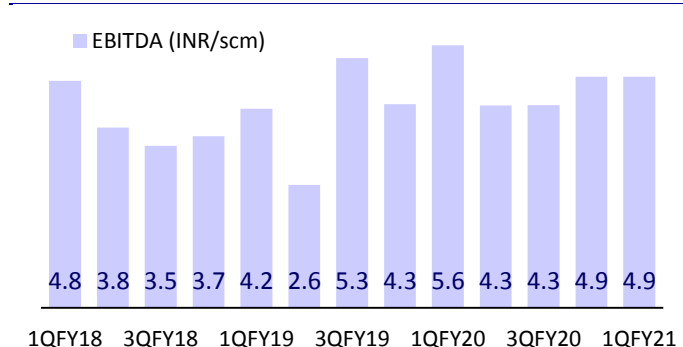
Source: Saudi Aramco, MOFSL

**Exhibit 5: ...although propane prices should climb up in the winter months**

Source: Saudi Aramco, MOFSL

**Exhibit 6: Volumes growth has been stable post NGT order...**

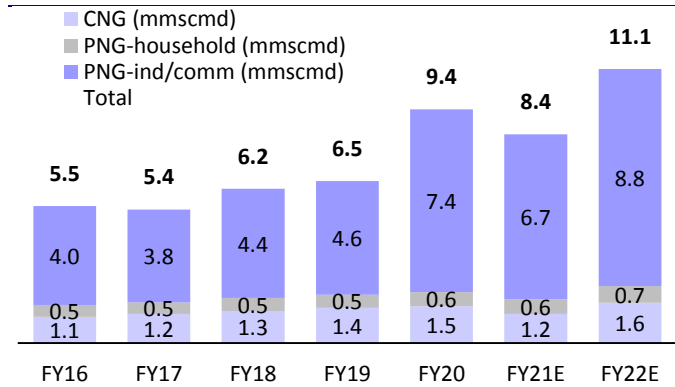
Source: Company, MOFSL

**Exhibit 7: ...along with normalization of EBITDA/scm as well**

Source: Company, MOFSL

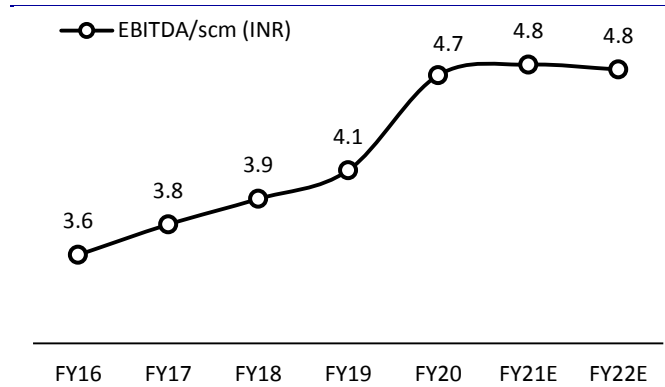
## Key assumption charts

**Exhibit 8: PNG – I/C to boost volume growth**



Source: Company, MOFSL

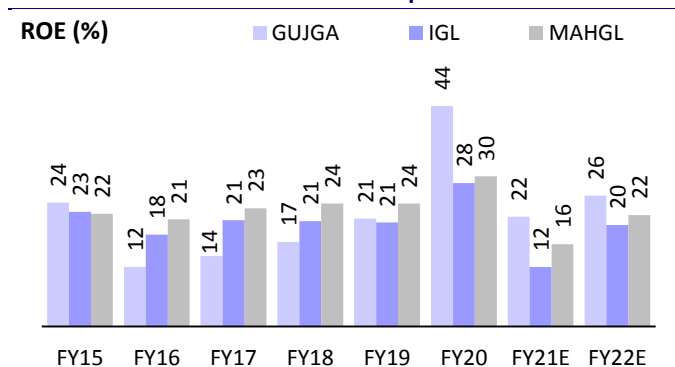
**Exhibit 9: EBITDA/scm to normalize to ~INR4.8 in FY21/22E**



Source: Company, MOFSL

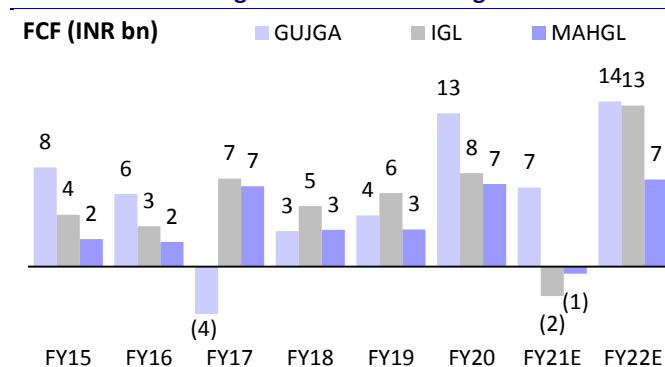
## Peer comparison charts

**Exhibit 10: GUJGA has the best RoE profile...**



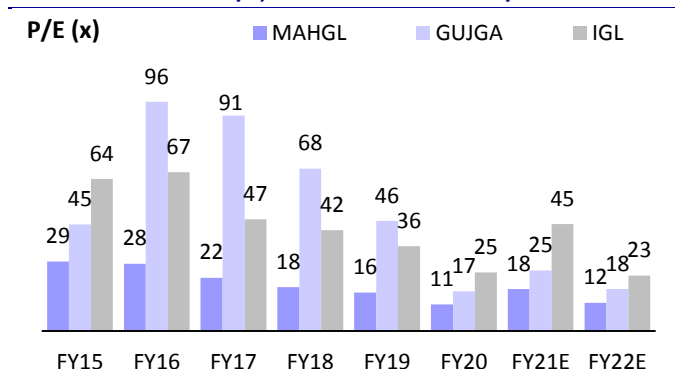
Source: Company, MOFSL

**Exhibit 11: ...with highest Free Cash Flow generation**



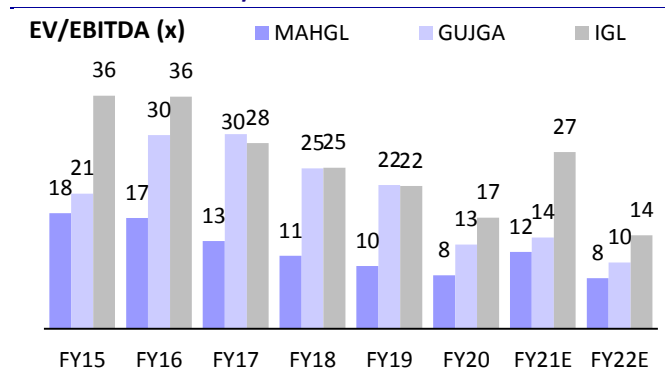
Source: Company, MOFSL

**Exhibit 12: On FY22 P/E, GUJGA trades at 18x v/s IGL at 23x...**



Source: Company, MOFSL

**Exhibit 13: ...with EV/EBITDA of 10x**



Source: Company, MOFSL

## Financials and Valuations

### Standalone - Income Statement

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Total Income from Operations</b>	<b>90,063</b>	<b>61,059</b>	<b>50,926</b>	<b>61,743</b>	<b>77,544</b>	<b>1,03,003</b>	<b>94,617</b>	<b>1,32,347</b>
Change (%)	15.5	-32.2	-16.6	21.2	25.6	32.8	-8.1	39.9
<b>EBITDA</b>	<b>11,062</b>	<b>7,264</b>	<b>7,433</b>	<b>8,951</b>	<b>9,846</b>	<b>16,343</b>	<b>14,806</b>	<b>19,337</b>
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
<b>EBIT</b>	<b>8,685</b>	<b>4,808</b>	<b>4,860</b>	<b>6,232</b>	<b>6,966</b>	<b>13,163</b>	<b>11,448</b>	<b>15,871</b>
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
<b>PBT bef. EO Exp.</b>	<b>6,424</b>	<b>2,779</b>	<b>3,033</b>	<b>4,628</b>	<b>6,117</b>	<b>12,078</b>	<b>10,453</b>	<b>15,053</b>
EO Items	-10	-256	0	0	-179	0	0	0
<b>PBT after EO Exp.</b>	<b>6,414</b>	<b>2,523</b>	<b>3,033</b>	<b>4,628</b>	<b>5,939</b>	<b>12,078</b>	<b>10,453</b>	<b>15,053</b>
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
<b>Reported PAT</b>	<b>4,436</b>	<b>1,875</b>	<b>2,195</b>	<b>2,914</b>	<b>4,170</b>	<b>11,933</b>	<b>7,822</b>	<b>11,264</b>
<b>Adjusted PAT</b>	<b>4,443</b>	<b>2,065</b>	<b>2,195</b>	<b>2,914</b>	<b>4,296</b>	<b>11,933</b>	<b>7,822</b>	<b>11,264</b>
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
<b>Net Worth</b>	<b>19,909</b>	<b>15,095</b>	<b>16,449</b>	<b>18,464</b>	<b>21,840</b>	<b>32,906</b>	<b>39,067</b>	<b>47,938</b>
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
<b>Capital Employed</b>	<b>55,397</b>	<b>42,025</b>	<b>49,285</b>	<b>51,062</b>	<b>53,547</b>	<b>59,255</b>	<b>62,415</b>	<b>68,287</b>
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
<b>Net Fixed Assets</b>	<b>44,867</b>	<b>46,449</b>	<b>49,017</b>	<b>50,927</b>	<b>52,887</b>	<b>54,377</b>	<b>53,161</b>	<b>52,408</b>
Capital WIP	3,574	4,682	5,071	4,797	4,902	5,708	8,567	10,853
<b>Total Investments</b>	<b>10,990</b>	<b>1,218</b>	<b>683</b>	<b>161</b>	<b>160</b>	<b>1,633</b>	<b>1,633</b>	<b>1,633</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>9,495</b>	<b>7,544</b>	<b>8,714</b>	<b>10,449</b>	<b>13,326</b>	<b>17,255</b>	<b>17,363</b>	<b>28,720</b>
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
<b>Curr. Liability &amp; Prov.</b>	<b>13,529</b>	<b>17,868</b>	<b>14,199</b>	<b>15,271</b>	<b>17,727</b>	<b>19,718</b>	<b>18,309</b>	<b>25,328</b>
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
<b>Net Current Assets</b>	<b>-4,034</b>	<b>-10,324</b>	<b>-5,485</b>	<b>-4,822</b>	<b>-4,402</b>	<b>-2,464</b>	<b>-946</b>	<b>3,392</b>
<b>Appl. of Funds</b>	<b>55,397</b>	<b>42,025</b>	<b>49,285</b>	<b>51,062</b>	<b>53,548</b>	<b>59,255</b>	<b>62,415</b>	<b>68,286</b>

E: MOFSL Estimates

## Financials and Valuations

### Ratios

Y/E March (INR)	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>EPS</b>	<b>6.5</b>	<b>3.0</b>	<b>3.2</b>	<b>4.2</b>	<b>6.2</b>	<b>17.3</b>	<b>11.4</b>	<b>16.4</b>
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
<b>Valuation (x)</b>								
P/E	44.8	96.3	90.6	68.3	46.3	16.7	25.4	17.7
Cash P/E	29.2	44.0	41.7	35.3	27.7	13.2	17.8	13.5
P/BV	10.0	13.2	12.1	10.8	9.1	6.0	5.1	4.2
EV/Sales	2.5	3.5	4.3	3.6	2.8	2.0	2.2	1.5
EV/EBITDA	20.7	29.6	29.8	24.5	22.0	12.9	13.9	10.1
Dividend Yield (%)	0.3	0.2	0.2	0.3	0.3	0.4	0.7	1.0
FCF per share	12.0	8.8	-5.7	4.3	6.2	18.6	9.6	20.0
<b>Return Ratios (%)</b>								
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
<b>Working Capital Ratios</b>								
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
<b>Leverage Ratio (x)</b>								
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
<b>CF from Operations</b>	<b>12,514</b>	<b>11,207</b>	<b>1,686</b>	<b>7,328</b>	<b>9,386</b>	<b>18,087</b>	<b>11,606</b>	<b>18,774</b>
<b>CF from Operating incl EO</b>	<b>11,798</b>	<b>11,207</b>	<b>1,686</b>	<b>7,328</b>	<b>9,207</b>	<b>18,266</b>	<b>11,606</b>	<b>18,774</b>
(Inc)/Dec in FA	-3,508	-5,147	-5,629	-4,355	-4,945	-5,476	-5,000	-5,000
<b>Free Cash Flow</b>	<b>8,290</b>	<b>6,060</b>	<b>-3,942</b>	<b>2,973</b>	<b>4,262</b>	<b>12,790</b>	<b>6,606</b>	<b>13,774</b>
(Pur)/Sale of Investments	-2,563	9,773	535	522	0	-1,473	0	0
Others	167	189	263	357	1,113	837	857	996
<b>CF from Investments</b>	<b>-5,904</b>	<b>4,815</b>	<b>-4,830</b>	<b>-3,476</b>	<b>-3,832</b>	<b>-6,112</b>	<b>-4,143</b>	<b>-4,004</b>
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
<b>CF from Fin. Activity</b>	<b>-5,632</b>	<b>-17,721</b>	<b>3,074</b>	<b>-3,098</b>	<b>-3,646</b>	<b>-8,327</b>	<b>-6,514</b>	<b>-7,206</b>
<b>Inc/Dec of Cash</b>	<b>262</b>	<b>-1,699</b>	<b>-70</b>	<b>754</b>	<b>1,729</b>	<b>3,827</b>	<b>949</b>	<b>7,564</b>
Opening Balance	2,116	2,378	678	609	1,363	3,092	6,918	7,867
<b>Closing Balance</b>	<b>2,378</b>	<b>678</b>	<b>609</b>	<b>1,363</b>	<b>3,092</b>	<b>6,918</b>	<b>7,867</b>	<b>15,431</b>

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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