

### Annual Report FY20- Leadership position of largest CGD company

Growing environmental concerns and imminent threats to the ecosystem have compelled the world to identify opportunities for developing clean energy. Natural gas is the cleanest and most efficient of the fossil fuels. It is only fossil fuel whose share of primary energy mix is expected to grow, as it has the potential to play an important role in the world's transition to a cleaner, more affordable and secure energy future due to its high energy content, which results in lower emissions of carbon and volatile organic compounds at combustion, relative to coal and oil. Gujarat Gas has an expanse of around 1,69,700 sq. km of licensed area under its umbrella and continues to hold the leadership position of being the largest City Gas Distribution company in terms of market share catering to more than 14.4 lakh residential consumers, over 12,600 commercial customers, dispensing CNG to 396 CNG stations for vehicular consumers and providing clean energy solutions to over 3,700 industrial units through its wide spread operations with around 24,300 km of Natural Gas pipeline network.

### DART View

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. Sustainance of spreads along with volume growth will be the key determinant. GGL's ability to balance volume and spreads will be the test in coming quarters. GGL'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 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 9<sup>th</sup> and 10<sup>th</sup> 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 334.

### Industry Overview

Historically the Natural Gas usage in India has seen a slowdown with power sector shifting back to coal from Natural Gas due to lower availability of cheap domestic gas and increased dependency on costly R-LNG. However, with R-LNG prices expected to be low, some of the power producers may shift back to Natural Gas. Growth of India's share in the global energy market is expected to increase in the coming years. India has been mainly dependent on high polluting fuels viz. coal, Furnace Oil to meet its ever growing energy needs. GOI; realizing the importance of protecting the environment has announced; one of its important initiatives for a more sustainable future; an aggressive target to increase the share of Natural Gas in the overall energy consumption mix to 15% from the current levels of 6% by 2030.

### MD&A Overview

Gujarat Gas has continued its focused efforts for developing and growing PNG (Domestic) and CNG business. They have added more than 93,000 residential customers and erected / commissioned 52 new CNG stations during FY20. They have been able to sustain the volumes with growth of around 6% in the residential sector and around 10% in CNG (transport) sector. However, the last week of the year witnessed drop in volumes on account of lockdown. Gujarat Gas is aggressively planning for penetration in PNG (domestic), PNG (commercial) and CNG (transport) sector which is comparatively less volatile.

CMP	Rs 289
Target / Upside	Rs 334 / 16%
BSE Sensex	38,281
NSE Nifty	11,317

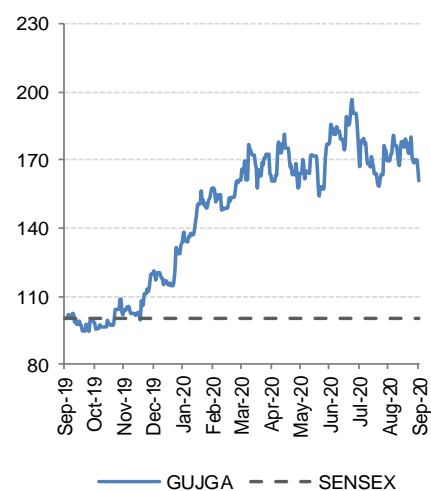
### Scrip Details

Equity / FV	Rs 1,377mn / Rs 2
Market Cap	Rs 199bn
	US\$ 3bn
52-week High/Low	Rs 334/Rs 166
Avg. Volume (no)	9,83,128
NSE Symbol	GUJGASLTD
Bloomberg Code	GUJGA IN

### Shareholding Pattern Jun'20(%)

Promoters	60.9
MF/Banks/FIs	5.7
FII's	12.2
Public / Others	21.2

### Company Relative to Sensex



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### Financial Snapshot

Net sales grew by 32.8% from Rs. 77.5 billion in FY19 to Rs. 103 billion in FY20. EBITDA increased for FY20 at Rs. 16.3 billion while cost of raw materials increased to Rs. 78.8 billion. The Company achieved a PBT of Rs. 12.1 billion which grew by 103% as compared to the previous year. The increase in profits for GGL is primarily driven due to significant improvement in volumes from industrial sector, lower input costs and reduction in corporate tax rates. Achieved a PAT for Rs. 11.9 billion which was a growth of 186% YoY. Debt to equity ratio improved to 0.61x from 1.01x in FY19 due to increase in retained earnings and repayment of debt. The directors have recommended a dividend of 62.5% i.e. Rs. 1.25/share for FY20.

## Annual Report Macro View

<b>Key Management Change</b>	Shri Anil Mukim, IAS, Chief Secretary, Government of Gujarat has been appointed as Additional Director and Chairman with effect from 1st April, 2020. It is proposed to appoint Shri Anil Mukim, IAS in the ensuing 8th Annual General Meeting.		
<b>Board of Directors</b>	<p>Shri Sanjeev Kumar, IAS had been appointed as the Additional Director with effect from 20th September, 2019. Shri Sanjeev Kumar, IAS had been appointed as the Managing Director of the Company with effect from 18th December, 2019.</p> <p>Smt. Sunaina Tomar, IAS, Additional Chief Secretary, Energy and Petrochemicals Department, Government of Gujarat has been appointed as Additional Director with effect from 8th January, 2020.</p> <p>Shri Sandeep Dave, Group General Manager (S&amp;L) has been appointed as the Company Secretary, Compliance Officer and Key Managerial Personnel of the Company with effect from 30th March, 2020.</p>		
<b>Auditors</b>	No Change. M/s S. R. Goyal & Co. continue to be the auditors of the company.		
<b>Pledged Shares</b>	No pledged shares were held during the year.		
<b>Credit Ratings</b>	<b>Ratings</b>	<b>FY2020</b>	<b>FY2019</b>
	Domestic Rating	Credit Rating of AA+/Stable from CRISIL (long term) and AA/Positive/A1+ from CARE.	Credit Rating of AA/Positive from CRISIL (long term) and AA/Positive/A1+ from CARE.
<b>Insider Holdings</b>	There were no insider holdings during the year.		
<b>Macroeconomic Factor</b>	World energy demand has been increasing steadily with Natural Gas accounting nearly half of increased consumption. Gas demand growth was especially strong in China and the United States, where cheap gas continues to replace coal for electricity generation. India along with China is highly dependent on natural gas imports as domestic production exceeds consumption. India is the third largest energy consumer in the world in spite of having very low per capita consumption, leaving past countries like Japan, Germany and the UK behind. Natural gas is the cleanest fossil fuels among the available fossil fuels.		
<b>Key Holders</b>	<b>Category of Shareholder (%)</b>	<b>FY2020</b>	<b>FY2019</b>
	A) Promoter Holding	60.89	60.89
	B) Public		
	i) Mutual Funds/UTI	2.81	6.58
	ii) Banks/Financial Institutions	0.29	0.18
	iii) Insurance Companies	0.84	0.27
	iv) FII's	12.79	9.83
	v) Non-Institutions	22.38	22.24
	<b>Total</b>	<b>100.00</b>	<b>100.00</b>

Source: Company, DART

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## City Gas Distribution in India

- The City Gas Distribution business in India contributes around 17.57% of total natural gas consumption in India and leading the way with the highest CAGR amongst all sectors in the coming decade.
- PNGRB awarded 50 CGD licenses for the Geographical Areas announced during the 10<sup>th</sup> CGD Bidding Round on 8th November, 2018 covering 124 districts (112 complete and 12 part) in 14 states, 18% of India's geographical area and 24% of its population.
- Gujarat Gas was awarded 6 new CGD licenses in the 10<sup>th</sup> round.

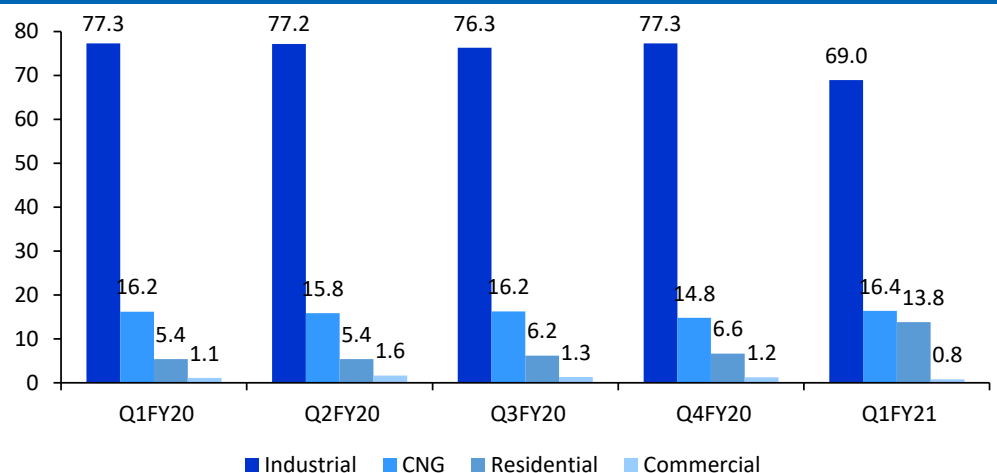
## Future Outlook

- The future outlook for natural gas in India depends on the growth in demand, the evolution of the pricing regime, and the pace of gas infrastructure expansion.
- With outbreak of pandemic COVID-19, the demand for oil & gas has slumped and pulling down the price. The demand will steadily rise with opening of the economy after the pandemic.
- GOI wants to make India a gas-based economy by boosting domestic production and buying cheap LNG. India has set a target to raise the share of gas in its primary energy mix to 15% by 2030.
- To improve the share of Natural Gas and promote a gas-based and clean fuel economy, the GoI has adopted a systematic approach to focus on all aspects of the gas sector viz upstream, midstream and downstream including CGD network development.
- Gujarat Gas shall continue to focus on growing the penetration in the current operating areas by increasing the PNG connections and additional CNG stations while tapping the untapped potential by expeditious rollout of distribution network in the newly acquired geographic areas as well.
- With this focused endeavour they shall continue its efforts in providing clean fuel solutions across all operational area to augment an energetic top-line and bottom-line in coming years.

## Key Highlights from MD&A

- GGL has total 25 CGD licenses and operates in 42 districts and six states and one Union territory which accounts to 11% of total CGD licenses and 10% total Authorized areas issued by PNGRB in India and one transportation pipeline license.
- GGL has an expanse of around 1,69,700 sq. kms. of licensed area under its umbrella and continues to hold the leadership position of being the largest CGD Company in terms of market share with catering to more than 14.4 lakh residential consumers, over 12,600 commercial customers, dispensing CNG from 403 CNG stations for vehicular consumers and providing clean energy solutions to over 3,700 industrial units through its wide spread operations with more than 24,400 kms of Natural Gas pipeline network.
- GGL has been resilient to connect around 329 new industrial units during FY20.
- GGL has witnessed steep volume growth in industrial customers of around 63% YoY. The volume increase was mainly on account of Ban on usage of Coal Gasifier in the Morbi industrial cluster (which is considered as Ceramic Hub of India) resulting in switchover to natural gas.
- This was challenging task technically as well as commercially but GGL was able to meet this challenge through concentrated efforts. For this to happen, GGL laid 6-inch steel pipeline of 5 kms in record time of 28 days.
- The volume in commercial category has also grown by around 9% during FY20.
- GGL has continued its focused efforts for developing and growing PNG (Domestic) and CNG business.
- GGL added more than 93,000 residential customers and erected / commissioned 62 new CNG stations during the year.
- They are aggressively planning for penetration in PNG (domestic), PNG (commercial) and CNG (transport) sector which is comparatively less volatile.

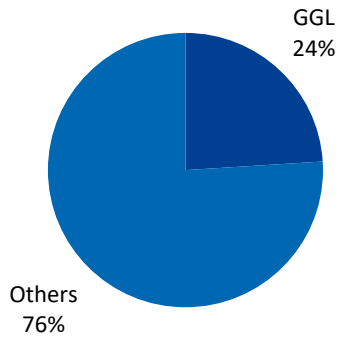
**Exhibit 1: Volumes- Segment Wise (%)**



Source: Company, DART

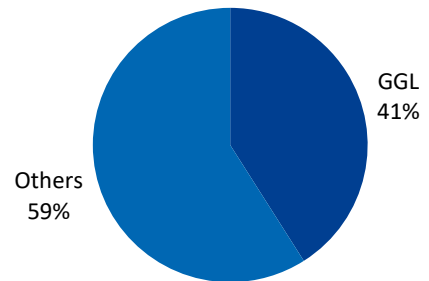
## GGL Market Share in Indian CGD Market

**Exhibit 2: Domestic Connections**



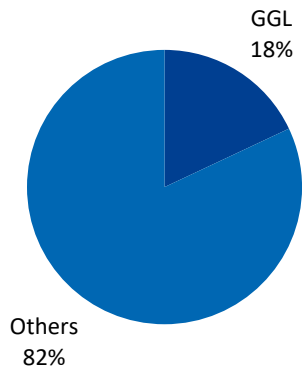
Source: Company, DART

**Exhibit 3: Commercial Connections**



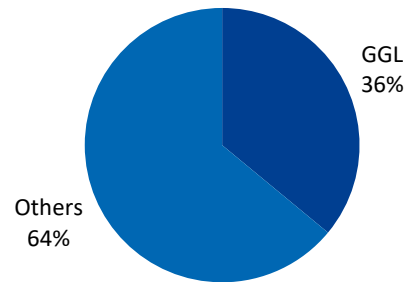
Source: Company, DART

**Exhibit 4: CNG Stations**



Source: Company, DART

**Exhibit 5: Industrial Connections**



Source: Company, DART

## Profit and Loss Analysis

- Sales witnessed a growth of 32.8% YoY, however, some volumes were impacted due to lockdown in last 10 days of March'20.
- EBITDA margin increased by 317 bps from 12.7% in FY19 to 15.9% in FY20, mainly on account of increase in turnover and reduction in procurement cost.
- Net profit margin increased 621 bps from 5.4% in FY19 to 11.6% in FY20 due to increase in turnover, reduction in procurement cost and adoption of new tax regime.
- Tax amount decreased by 91.8% over the year to Rs. 145 million from Rs. 1.8 billion last year. Effective tax rate for the current year was 1.2% compared to 29.8% in FY19
- RoANW increased from 20% to 43% in FY20 due to increase in profitability.
- Interest coverage ratio improved from 4.45 to 7.11 in FY20 due to increase in profitability.
- Company has a consistent track-record of dividend payment. The Board of Directors have approved payment of dividend @ 62.5% on equity share of Rs 2 each (Rs 1.25 per equity share).
- There was an increase of 185% in AEPS from Rs 6.1 to Rs 17.3, while the CEPS increased by 114% from Rs 10.3 to Rs 22

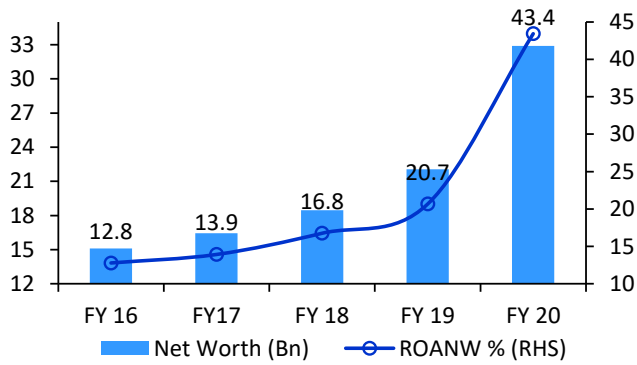
## Balance Sheet Analysis

- Net Block of Assets increased by 6% and capital work in progress increased by 17% because of purchase of fixed assets/CWIP
- Investments decreased by 57% from Rs 434 million to Rs 186 million in the current year because of investments in mutual funds and other companies.
- Cash and bank balance increased to Rs 6.9 billion from Rs 3.1 billion last year.
- Debtor Turnover was 20.63x in FY20 as against 17.65 x in FY19.
- Current ratio changed from 1.22x to 1.58x in FY20 on account of increase in liquidity due to increase in profitability.
- Debt to equity ratio improved to 0.61x due to increase in retained earnings and repayment of debt.

## Cash Flow Analysis

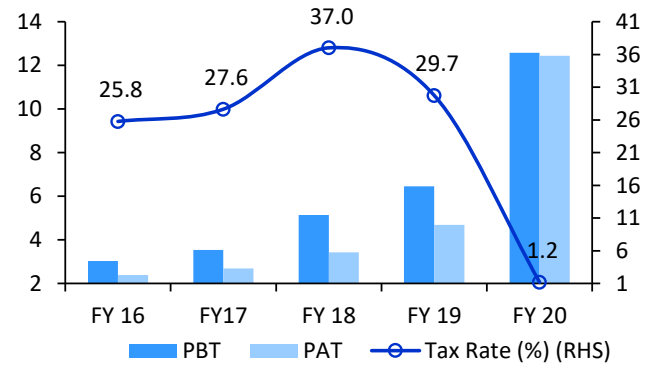
- Free cash flow has increased as cash from operations has increased, due to decline in taxes.
- The Company reported Cash outflow from financing activity of Rs 5 billion compared to an outflow of Rs 3.5 billion in FY19.
- The Company reported Cash outflow from investing activity of Rs 4.7 billion compared to an outflow of Rs 6 billion in FY19.

**Exhibit 6: Return on Network**



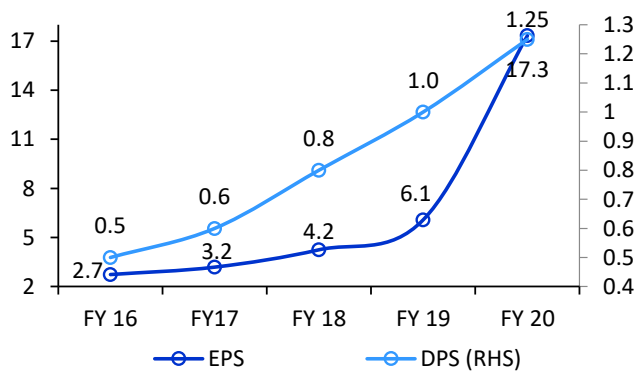
Source: Company, DART

**Exhibit 7: Effective Tax Rate (%)**



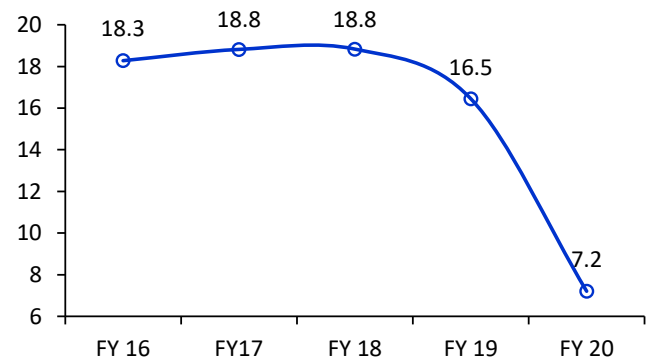
Source: Company, DART

**Exhibit 8: Basic EPS and DPS (Rs / share)**



Source: Company, DART

**Exhibit 9: Dividend Payout (%)**



Source: Company, DART

**Profit and Loss Account**

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>77,544</b>	<b>1,03,003</b>	<b>79,313</b>	<b>99,331</b>
<b>Total Expense</b>	<b>67,698</b>	<b>86,661</b>	<b>67,375</b>	<b>83,190</b>
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
<b>EBIDTA</b>	<b>9,846</b>	<b>16,343</b>	<b>11,937</b>	<b>16,141</b>
Depreciation	2,880	3,180	2,884	2,772
<b>EBIT</b>	<b>6,966</b>	<b>13,163</b>	<b>9,054</b>	<b>13,369</b>
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
<b>EBT</b>	<b>5,956</b>	<b>12,078</b>	<b>9,090</b>	<b>13,858</b>
Tax	1,772	145	2,288	3,488
RPAT	4,185	11,933	6,802	10,370
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>4,185</b>	<b>11,933</b>	<b>6,802</b>	<b>10,370</b>

**Balance Sheet**

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	1,377	1,377	1,377	1,377
Minority Interest	0	0	0	0
Reserves & Surplus	20,676	31,529	37,285	46,607
<b>Net Worth</b>	<b>22,053</b>	<b>32,906</b>	<b>38,661</b>	<b>47,984</b>
Total Debt	22,131	18,344	19,271	20,234
Net Deferred Tax Liability	10,869	8,005	8,005	8,005
<b>Total Capital Employed</b>	<b>55,053</b>	<b>59,255</b>	<b>65,937</b>	<b>76,223</b>

**Applications of Funds**

Net Block	<b>52,887</b>	<b>55,838</b>	<b>60,954</b>	<b>68,182</b>
CWIP	4,889	5,695	5,411	5,141
Investments	434	186	189	193
<b>Current Assets, Loans &amp; Advances</b>	<b>13,366</b>	<b>17,255</b>	<b>17,129</b>	<b>18,778</b>
Inventories	694	463	652	816
Receivables	5,103	5,101	4,129	4,899
Cash and Bank Balances	3,132	6,919	6,993	7,043
Loans and Advances	3,803	3,698	4,068	4,475
Other Current Assets	634	1,074	1,288	1,546
<b>Less: Current Liabilities &amp; Provisions</b>	<b>16,522</b>	<b>19,718</b>	<b>17,746</b>	<b>16,071</b>
Payables	3,558	3,736	3,922	4,118
Other Current Liabilities	12,964	15,982	13,824	11,953
		<i>sub total</i>		
Net Current Assets	(3,156)	(2,464)	(617)	2,707
<b>Total Assets</b>	<b>55,053</b>	<b>59,255</b>	<b>65,937</b>	<b>76,223</b>

E – Estimates



**Important Ratios**

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
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>(B) As Percentage of Net Sales (%)</b>				
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
<b>(C) Measure of Financial Status</b>				
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
<b>(D) Measures of Investment</b>				
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
<b>(E) Valuation Ratios</b>				
CMP (Rs)	289	289	289	289
P/E	47.6	16.7	29.3	19.2
Mcap (Rs Mn)	1,99,016	1,99,016	1,99,016	1,99,016
MCap/ Sales	2.6	1.9	2.5	2.0
EV	2,18,016	2,10,441	2,11,294	2,12,207
EV/Sales	2.8	2.0	2.7	2.1
EV/EBITDA	22.1	12.9	17.7	13.1
P/BV	9.0	6.0	5.1	4.1
Dividend Yield (%)	0.3	0.4	0.4	0.4
<b>(F) Growth Rate (%)</b>				
Revenue	25.6	32.8	(23.0)	25.2
EBITDA	10.0	66.0	(27.0)	35.2
EBIT	11.8	89.0	(31.2)	47.7
PBT	28.3	102.8	(24.7)	52.4
APAT	43.1	185.2	(43.0)	52.4
EPS	43.1	185.2	(43.0)	52.4
<b>Cash Flow</b>				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	9,520	14,221	8,878	10,884
CFI	(6,039)	(4,668)	(6,274)	(9,738)
CFF	(3,494)	(5,024)	(1,083)	(1,096)
FCFF	4,216	8,265	1,162	1,154
Opening Cash	957	944	5,472	6,993
Closing Cash	944	5,472	6,993	7,043

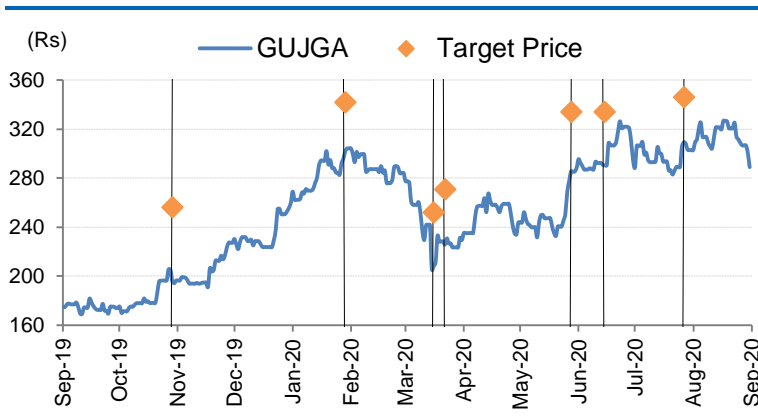
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### 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
Aug-20	Accumulate	346	310

\*Price as on recommendation date

### DART Team

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**Analyst(s) Certification**

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