

Gujarat Gas (GUJGA IN)

Rating: BUY | CMP: Rs386 | TP: Rs403

January 6, 2021

Company Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	403		403	
Sales (Rs. m)	95,216	1,11,457	95,216	1,11,457
% Chng.	-	-	-	-
EBITDA (Rs. m)	22,859	24,599	22,859	24,599
% Chng.	-	-	-	-
EPS (Rs.)	21.0	23.8	21.0	23.8
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,03,004	65,362	95,216	1,11,457
EBITDA (Rs. m)	16,346	18,611	22,859	24,599
Margin (%)	15.9	28.5	24.0	22.1
PAT (Rs. m)	11,933	10,909	14,463	16,368
EPS (Rs.)	17.3	15.8	21.0	23.8
Gr. (%)	187.6	(8.6)	32.6	13.2
DPS (Rs.)	1.3	1.6	2.5	3.6
Yield (%)	0.3	0.4	0.7	0.9
RoE (%)	43.6	31.0	31.7	26.1
RoCE (%)	28.0	29.6	33.6	29.6
EV/Sales (x)	2.7	4.2	2.7	2.2
EV/EBITDA (x)	17.0	14.6	11.2	9.8
PE (x)	22.3	24.4	18.4	16.2
P/BV (x)	8.1	7.1	4.9	3.7

Key Data

GGAS.BO | GUJGA IN

52-W High / Low	Rs.412 / Rs.191
Sensex / Nifty	48,174 / 14,146
Market Cap	Rs.266bn / \$ 3,637m
Shares Outstanding	688m
3M Avg. Daily Value	Rs.626.07m

Shareholding Pattern (%)

Promoter's	60.89
Foreign	9.07
Domestic Institution	7.31
Public & Others	22.73
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.1	20.5	52.7
Relative	3.9	(8.8)	29.0

Avishek Datta

avishek.datta@plindia.com | 91-22-66322254

Strong tile demand provides visibility to GGAS volumes

Quick Pointers:

- Domestic housing market revival and export market growth drives ceramic tile demand.
- GGAS remains sole gas supplier post ban on dirty competing fuels. Management likely to pass gas price hikes on consumers if demand momentum sustains.
- Addition of fifteen new units along with expansion of existing units to drive GGAS volumes; we factor in 10.3% CAGR volume over FY20-23E.

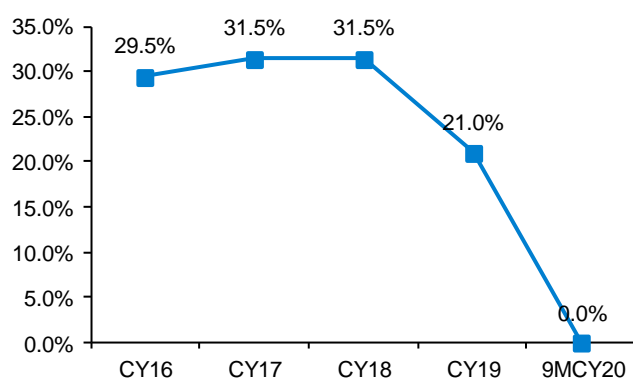
We hosted a call with one of the largest ceramic tile player in Morbi to better understand demand dynamics in domestic and export markets. Demand traction remains robust led by 1) revival in domestic housing market supported by govt. initiated liquidity measures and 2) strong export demand given cost competitiveness along with opening of new markets in US and Brazil. Improved ceramic market demand augurs well for GGAS as Morbi accounts for over 60% of total sales volumes. Also, ban on competing dirty fuel has led to restricted competition with propane in summer months, thereby improving GGAS's margin visibility. Rising pollution in industrial zones is likely to drive gas usage. Reiterate BUY with a PT of Rs403.

Key Highlights:

- Demand revival in domestic and export markets:** Management highlighted that initial demand recovery was more in Tier 2/3 towns, but has now recovered in large cities also, due to relaxation in lockdown restrictions. Export market demand is supported by cost competitiveness vis-à-vis China and opening up of new markets in US and Brazil.
- US duty imposition of 200-350% on Chinese imports has led to exports falling to near zero for 9MCY20 (Source: TCNA) vs 30% for CY18.** US is the largest ceramic tile importer at 207mn sq ft for CY19 (Source: TCNA). Also, demand has been strong from Saudi Arabia despite imposition of duties.
- Fifty new units are likely to come up:** Management expects fifty new tile units to likely come up in Morbi given increased demand traction. Also, capacity expansion of existing units is on cards over next 4-5months.
- GGAS has near complete monopoly on gas supplies:** Management cited that ban on competing dirty fuels like furnace oil, coal has led to near complete dependence on GGAS for gas supplies. Few smaller units however, also use propane during summer months but logistics challenge remains a major issue. Tile players however are likely to pass the gas price hikes to consumers, if the healthy demand trend continues.

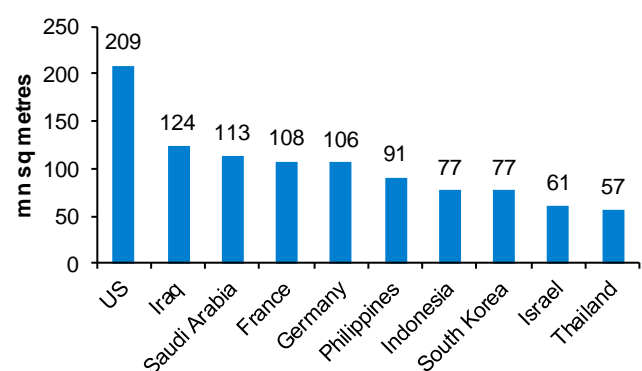
- **Tightening pollution norms has led to declining Chinese production:** Tightening environment norms has led to Chinese production decline 20% to 5,187mn sq metres for CY19 vis-a-vis CY16 levels (Souce: Kajaria ceramics).
- **Improvement in working capital for tile players:** Improving demand traction for tile players has helped to reduce working capital cycle by ~15 days for the industry.
- **Container availability has restricted exports:** Management cited tight container market conditions that led to lower than expected exports. However the situation can improve over next 3 months.

Exhibit 1: US % imports from China



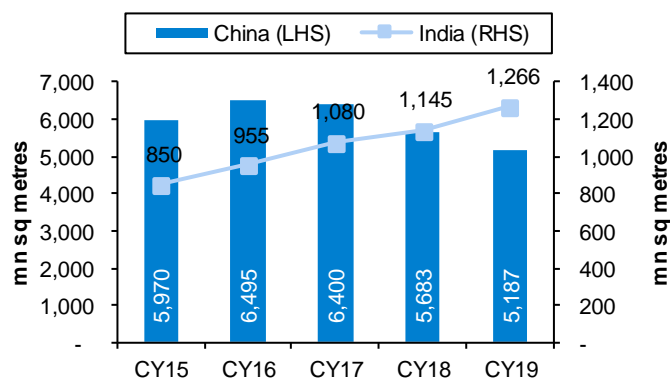
Source: TCNA, PL

Exhibit 2: US accounts for 20% of global imports



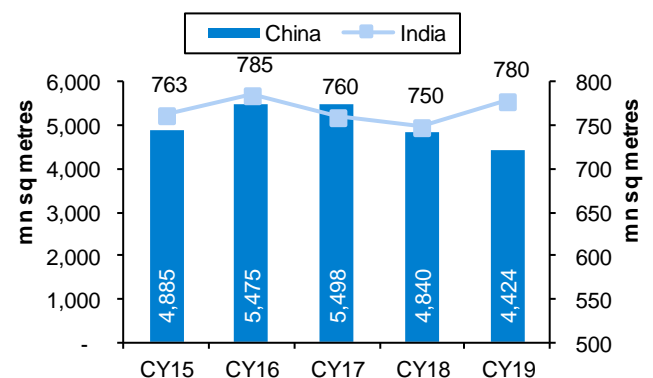
Source: Asian Granito, PL

Exhibit 3: China tile production down 20% from CY16 levels



Source: Company, PL

Exhibit 4: China tile consumption down 19% from CY16



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,03,004	65,362	95,216	1,11,457
YoY gr. (%)	32.8	(36.5)	45.7	17.1
Cost of Goods Sold	78,815	39,795	63,443	76,665
Gross Profit	24,189	25,567	31,773	34,792
Margin (%)	23.5	39.1	33.4	31.2
Employee Cost	1,754	1,578	1,973	2,269
Other Expenses	-	-	-	-
EBITDA	16,346	18,611	22,859	24,599
YoY gr. (%)	66.4	13.9	22.8	7.6
Margin (%)	15.9	28.5	24.0	22.1
Depreciation and Amortization	3,180	3,441	3,704	4,071
EBIT	13,166	15,170	19,155	20,527
Margin (%)	12.8	23.2	20.1	18.4
Net Interest	1,922	1,334	1,035	585
Other Income	837	749	1,216	1,940
Profit Before Tax	12,081	14,584	19,336	21,882
Margin (%)	11.7	22.3	20.3	19.6
Total Tax	149	3,675	4,873	5,514
Effective tax rate (%)	1.2	25.2	25.2	25.2
Profit after tax	11,933	10,909	14,463	16,368
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	11,933	10,909	14,463	16,368
YoY gr. (%)	187.6	(8.6)	32.6	13.2
Margin (%)	11.6	16.7	15.2	14.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	11,933	10,909	14,463	16,368
YoY gr. (%)	187.6	(8.6)	32.6	13.2
Margin (%)	11.6	16.7	15.2	14.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,933	10,909	14,463	16,368
Equity Shares O/s (m)	688	688	688	688
EPS (Rs)	17.3	15.8	21.0	23.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	68,307	72,145	79,145	87,145
Tangibles	68,307	72,145	79,145	87,145
Intangibles	-	-	-	-
Acc: Dep / Amortization	17,269	20,710	24,414	28,485
Tangibles	17,269	20,710	24,414	28,485
Intangibles	-	-	-	-
Net fixed assets	54,390	54,789	58,082	62,011
Tangibles	51,039	51,435	54,731	58,660
Intangibles	3,352	3,355	3,352	3,352
Capital Work In Progress	5,695	6,363	7,009	7,009
Goodwill	1,461	1,408	1,548	1,703
Non-Current Investments	796	794	873	960
Net Deferred tax assets	(8,005)	(8,055)	(8,673)	(9,374)
Other Non-Current Assets	2,248	2,355	2,591	2,850
Current Assets				
Investments	-	-	-	-
Inventories	463	468	428	501
Trade receivables	5,101	5,543	4,716	5,520
Cash & Bank Balance	6,919	8,391	18,246	29,072
Other Current Assets	1,074	592	652	717
Total Assets	78,973	81,230	94,726	1,10,982
Equity				
Equity Share Capital	1,377	1,377	1,377	1,377
Other Equity	31,529	35,990	52,422	70,406
Total Network	32,906	37,367	53,799	71,782
Non-Current Liabilities				
Long Term borrowings	18,344	14,000	9,000	4,000
Provisions	453	503	554	609
Other non current liabilities	636	612	673	740
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	3,790	3,798	3,504	4,101
Other current liabilities	14,389	16,466	18,051	19,856
Total Equity & Liabilities	78,973	81,230	94,726	1,10,982

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	12,081	14,584	19,336	21,882
Add. Depreciation	3,180	3,441	3,704	4,071
Add. Interest	1,922	1,334	1,035	585
Less Financial Other Income	837	749	1,216	1,940
Add. Other	-	-	-	-
Op. profit before WC changes	17,183	19,360	24,075	26,538
Net Changes-WC	(922)	2,369	2,521	1,945
Direct tax	(149)	(3,675)	(4,873)	(5,514)
Net cash from Op. activities	16,113	18,054	21,723	22,969
Capital expenditures	(5,476)	(4,509)	(7,643)	(8,000)
Interest / Dividend Income	-	-	-	-
Others	(12)	-	(17)	(19)
Net Cash from Inv. activities	(5,488)	(4,509)	(7,660)	(8,019)
Issue of share cap. / premium	(6)	(5,357)	3,704	4,071
Debt changes	(2,548)	(4,344)	(5,000)	(5,000)
Dividend paid	(861)	(1,091)	(1,736)	(2,455)
Interest paid	(1,922)	(1,334)	(1,035)	(585)
Others	-	-	-	-
Net cash from Fin. activities	(5,336)	(12,126)	(4,067)	(3,969)
Net change in cash	5,289	1,419	9,996	10,981
Free Cash Flow	10,636	13,545	14,080	14,969

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	25,062	26,666	10,829	25,130
YoY gr. (%)	18.4	39.8	(58.6)	-
Raw Material Expenses	19,482	20,264	7,297	15,876
Gross Profit	5,580	6,402	3,532	9,254
Margin (%)	22.3	24.0	32.6	36.8
EBITDA	3,705	4,267	1,857	7,330
YoY gr. (%)	15.4	67.9	(60.2)	97.8
Margin (%)	14.8	16.0	17.2	29.2
Depreciation / Depletion	795	805	823	856
EBIT	2,910	3,462	1,035	6,474
Margin (%)	11.6	13.0	9.6	25.8
Net Interest	465	420	401	339
Other Income	186	189	149	208
Profit before Tax	2,632	3,230	783	6,343
Margin (%)	10.5	12.1	7.2	25.2
Total Tax	667	772	196	1,595
Effective tax rate (%)	25.3	23.9	25.1	25.2
Profit after Tax	1,965	2,458	587	4,747
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,965	2,458	587	4,747
YoY gr. (%)	42.4	111.0	(74.9)	(8.2)
Margin (%)	7.8	9.2	5.4	18.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,965	2,458	587	4,747
YoY gr. (%)	42.4	111.0	(74.9)	(8.2)
Margin (%)	7.8	9.2	5.4	18.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,965	2,458	587	4,747
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	17.3	15.8	21.0	23.8
CEPS	22.0	20.8	26.4	29.7
BVPS	47.8	54.3	78.2	104.3
FCF	15.5	19.7	20.5	21.7
DPS	1.3	1.6	2.5	3.6
Return Ratio(%)				
RoCE	28.0	29.6	33.6	29.6
ROIC	18.3	20.8	25.0	25.1
RoE	43.6	31.0	31.7	26.1
Balance Sheet				
Net Debt : Equity (x)	0.3	0.2	(0.2)	(0.3)
Net Working Capital (Days)	6	12	6	6
Valuation(x)				
PER	22.3	24.4	18.4	16.2
P/B	8.1	7.1	4.9	3.7
P/CEPS	17.6	18.5	14.6	13.0
EV/EBITDA	17.0	14.6	11.2	9.8
EV/Sales	2.7	4.2	2.7	2.2
Dividend Yield (%)	0.3	0.4	0.7	0.9

Source: Company Data, PL Research

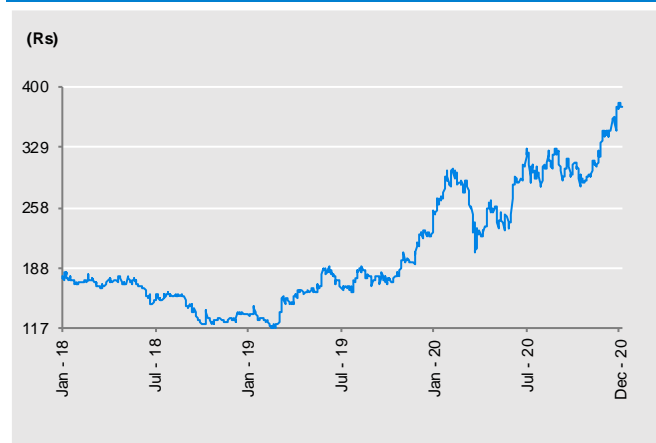
Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
CNG (mmscmd)	1.5	0.9	1.5	1.8
Industrial PNG (mmscmd)	7.3	7.3	9.3	9.9
Domestic PNG (mmscmd)	0.6	0.6	0.8	0.8
Commercial PNG (mmscmd)	0.1	0.1	0.1	0.2
USD/INR	70.6	74.1	76.4	78.6
Spreads (Rs/scm)	4.7	5.7	5.4	5.3

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Nov-20	BUY	403	301
2	07-Oct-20	BUY	388	304
3	05-Oct-20	BUY	388	311

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	1,020	1,048
2	Bharat Petroleum Corporation	BUY	479	342
3	GAIL (India)	Accumulate	108	90
4	Gujarat Gas	BUY	403	301
5	Hindustan Petroleum Corporation	BUY	280	186
6	Indian Oil Corporation	BUY	118	78
7	Indraprastha Gas	BUY	603	448
8	Mahanagar Gas	BUY	1,275	872
9	NOCIL	BUY	169	143
10	Oil & Natural Gas Corporation	BUY	114	71
11	Oil India	Accumulate	110	89
12	Petronet LNG	BUY	399	241
13	Reliance Industries	BUY	2,232	2,055

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Avishek Datta- MBA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Avishek Datta- MBA Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com