

# Gujarat Gas (GUJGA IN)

Rating: BUY | CMP: Rs380 | TP: Rs528

February 6, 2021

## Q3FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	528		403	
Sales (Rs. m)	1,02,680	1,24,653	95,216	1,11,457
% Chng.	7.8	11.8		
EBITDA (Rs. m)	24,998	28,188	22,859	24,599
% Chng.	9.4	14.6		
EPS (Rs.)	23.6	27.9	21.0	23.8
% Chng.	12.1	17.3		

### Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,03,004	67,310	1,02,680	1,24,653
EBITDA (Rs. m)	16,346	20,641	24,998	28,188
Margin (%)	15.9	30.7	24.3	22.6
PAT (Rs. m)	11,933	12,563	16,213	19,205
EPS (Rs.)	17.3	18.2	23.6	27.9
Gr. (%)	187.6	5.3	29.0	18.5
DPS (Rs.)	1.3	1.8	2.8	4.2
Yield (%)	0.3	0.5	0.7	1.1
RoE (%)	43.6	35.8	35.0	29.3
RoCE (%)	28.0	33.5	36.8	33.5
EV/Sales (x)	2.6	4.0	2.4	1.9
EV/EBITDA (x)	16.7	12.9	10.0	8.2
PE (x)	21.9	20.8	16.1	13.6
P/BV (x)	7.9	7.0	4.7	3.5

### Key Data

GGAS.BO | GUJGA IN

52-W High / Low	Rs.412 / Rs.191
Sensex / Nifty	50,732 / 14,924
Market Cap	Rs.261bn / \$ 3,585m
Shares Outstanding	688m
3M Avg. Daily Value	Rs.718.14m

### Shareholding Pattern (%)

Promoter's	60.89
Foreign	9.01
Domestic Institution	7.32
Public & Others	22.78
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(2.5)	23.2	28.2
Relative	(6.9)	(8.5)	4.0

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## Strong operational beat

### Quick Pointers:

- Record volumes (+22%YoY/16%QoQ), healthy spreads drive earnings outperformance.
- GGAS is in a sweet spot post ban on competing liquid fuels in Morbi (India's ceramic hub which accounts for ~70% of GGAS industrial volumes).

**We increase our FY21-23E earnings by 12-17% to factor in strong volume uptick and margin expansion. GGAS reported strong Q3 earnings and we are positive given 1) higher than expected volumes and strong spreads from operating leverage and lower gas cost 2) low competitive intensity post ban on cheaper liquid fuels in FY20, thereby smoothening earnings volatility and reducing valuation discount to IGL 3) remains best play on rising trend to ban polluting fuels in industrial areas. We believe strong demand for Indian ceramic tiles in US given an imposed duty of 200-350% on Chinese imports will drive Morbi gas demand, which is India's ceramic hub and accounts for over 60% of GGAS demand. Reiterate BUY with a revised TP of Rs528 (Rs403) as we increase medium term volume and margin estimates.**

- Operationally strong results:** GGAS reported results higher than our estimates with EBITDA of Rs6.1bn (+66%YoY; PLe Rs4.6bn) and PAT of Rs3.9bn (+100%YoY; PLe Rs2.8bn). Opportunistic sourcing of spot LNG and operating leverage helped margin expansion to Rs5.8 in Q3 vs Rs4.7 in FY20.
- Volumes at record levels:** For Q3, GGAS gas sales were at 11.45mmscmd (+22%YoY; PLe 10.7) with industrial volumes at record 843mscm (+29%Y/Y) while CNG volumes were at 142mscm (+2%Y/Y; +20%QoQ) and domestic volumes at 59mscm (+11%Y/Y). Industrial volumes got boost from strong demand in Morbi, (the ceramics hub of India) given strong demand in US as they imposed import duty of 200-350% on Chinese ceramics imports. Volume traction remains strong with current gas volumes of ~11.5mmscmd vs 9.44 in FY20. While the industrial volumes bounced above pre covid levels, CNG/commercial volumes are also recovering. We increase FY21/22/23E sales volumes to 9.2/12.4/13.9 mmscmd vs 8.9/11.7/12.7 earlier.
- Margins come off after record Q2:** Opportunistic sourcing of spot LNG and smart pricing compared to propane helped GGAS increase margins to Rs5.8/scm in Q3 (Q3FY20 4.3). Also, due to operating leverage, opex/unit for Q3 was at Rs1.9 vs Rs2.2 in Q3FY20. Margins are lower at QoQ level of Rs8.1/scm as the company benefitted from record low spot LNG prices in Q2. After a sharp spike in spot LNG to over USD\$25/mmbtu in Q3 end, given supply disruption and harsh winters causing strong LNG demand in China, prices corrected in Feb 21, which should help margins to stabilize. Accordingly, we factor in Rs6.1/5.5/5.5/scm for FY21/22/23E vs Rs5.7/5.4/5.3 earlier. We also increase our medium term margin and volume assumptions.

**Exhibit 1: Q3FY21 Result Overview (Rs mn)**

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
<b>Net Sales</b>	<b>28,857</b>	<b>25,643</b>	<b>12.5</b>	<b>25,599</b>	<b>65,530</b>	<b>78,043</b>	<b>(16.0)</b>
Operating Costs	22,709	21,938	3.5	18,269	50,195	65,968	(23.9)
<i>as % of Net Sales</i>	<i>78.7</i>	<i>85.6</i>		<i>71.4</i>	<i>76.6</i>	<i>84.5</i>	
Raw material	20,124	19,482	3.3	15,876	43,297	58,554	(26.1)
<i>as % of Net Sales</i>	<i>69.7</i>	<i>76.0</i>		<i>62.0</i>	<i>66.1</i>	<i>75.0</i>	
Personnel Costs	442	438	1.0	468	1,337	1,348	(0.8)
<i>as % of Net Sales</i>	<i>1.5</i>	<i>1.7</i>		<i>1.8</i>	<i>2.0</i>	<i>1.7</i>	
Excise duty	563	581	(3.0)	469	1,276	1,706	(25.2)
<i>as % of Net Sales</i>	<i>2.0</i>	<i>2.3</i>		<i>1.8</i>	<i>1.9</i>	<i>2.2</i>	
Other Overheads	1,580	1,437	9.9	1,456	4,285	4,360	(1.7)
<i>as % of Net Sales</i>	<i>7.0</i>	<i>6.6</i>		<i>8.0</i>	<i>8.5</i>	<i>6.6</i>	
<b>EBITDA</b>	<b>6,148</b>	<b>3,705</b>	<b>65.9</b>	<b>7,330</b>	<b>15,335</b>	<b>12,075</b>	<b>27.0</b>
Other Income	196	186	5.4	208	553	649	(14.8)
<b>PBDIT</b>	<b>6,344</b>	<b>3,891</b>	<b>63.0</b>	<b>7,537</b>	<b>15,887</b>	<b>12,724</b>	<b>24.9</b>
Depreciation	862	795	8.4	856	2,540	2,375	7.0
Interest	243	465	(47.7)	339	983	1,502	(34.5)
<b>Pre-tax Profit</b>	<b>5,239</b>	<b>2,632</b>	<b>99.1</b>	<b>6,343</b>	<b>12,364</b>	<b>8,847</b>	<b>39.8</b>
Tax	1,318	667	97.7	1,595	3,109	-628	(595.3)
<b>Profit After Tax</b>	<b>3,921</b>	<b>1,965</b>	<b>99.5</b>	<b>4,747</b>	<b>9,255</b>	<b>9,475</b>	<b>(2.3)</b>
<b>Gas sales volumes(mmscm)</b>	<b>1,053.0</b>	<b>857.0</b>	<b>22.9</b>	<b>906.0</b>	<b>2336</b>	<b>2549</b>	<b>(8.4)</b>
Gas sales (Rs/000scm)	27.4	29.9	(8.4)	28.3	28.05	30.62	(8.4)
Gas purchase (Rs/000scm)	19.0	22.6	(15.9)	17.4	18.41	22.81	(19.3)
Gross margins (Rs/000scm)	8.4	7.3	14.7	10.9	9.65	7.81	23.6
EBIDTA/scm	5.8	4.3	35.0	8.1	6.56	4.74	38.6
Volume (mscmd)	11.4	9.4	21.5	9.8	8.49	9.27	(8.4)
<b>Volume (mscmd)</b>							
Industrial	843.0	654.0	28.9	723.0	1,826	1,961	(6.9)
CNG	142.0	139.0	2.2	118.0	322	410	(21.5)
Domestic	59.0	53.0	11.3	59.0	170	148	14.9
Commercial	9.0	11.0	(18.2)	6.0	18	30	(40.0)
<b>Total</b>	<b>1053.0</b>	<b>857.0</b>	<b>22.9</b>	<b>906.0</b>	<b>2336.0</b>	<b>2549.0</b>	<b>(8.4)</b>

Source: Company, PL

**Exhibit 2: Quarterly volume and margin details**

Y/e March	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
<b>Transmission income</b>							
Gas sales volumes(mmscm)	833	859	857	905	377	906	<b>1053</b>
Gas sales (Rs/000scm)	32.06	29.91	29.92	30.08	29.37	28.26	27.40
Gas purchase (Rs/000scm)	23.27	22.60	22.57	22.23	19.22	17.40	18.98
Gross margins (Rs/000scm)	8.79	7.31	7.35	7.84	10.15	10.85	8.43
EBIDTA/scm	5.60	4.31	4.32	4.71	4.93	8.09	5.84
Volume (mscmd)	9.15	9.44	9.42	9.95	4.14	9.85	11.45
<b>Volume (mscmd)</b>							
Industrial	644.0	663.0	654.0	700.0	260.0	723.0	843.0
CNG	135.0	136.0	139.0	134.0	62.0	118.0	142.0
Domestic	45.0	50.0	53.0	60.0	52.0	59.0	59.0
Commercial	9.0	10.0	11.0	11.0	3.0	6.0	9.0
<b>Total</b>	<b>833.0</b>	<b>859.0</b>	<b>857.0</b>	<b>905.0</b>	<b>377.0</b>	<b>906.0</b>	<b>1053.0</b>

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>1,03,004</b>	<b>67,310</b>	<b>1,02,680</b>	<b>1,24,653</b>
YoY gr. (%)	32.8	(34.7)	52.5	21.4
Cost of Goods Sold	78,815	39,652	68,611	86,010
Gross Profit	24,189	27,658	34,069	38,643
Margin (%)	23.5	41.1	33.2	31.0
Employee Cost	1,754	1,578	1,973	2,269
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>16,346</b>	<b>20,641</b>	<b>24,998</b>	<b>28,188</b>
YoY gr. (%)	66.4	26.3	21.1	12.8
Margin (%)	15.9	30.7	24.3	22.6
Depreciation and Amortization	3,180	3,441	3,704	4,071
<b>EBIT</b>	<b>13,166</b>	<b>17,199</b>	<b>21,294</b>	<b>24,117</b>
Margin (%)	12.8	25.6	20.7	19.3
Net Interest	1,922	1,229	1,035	585
Other Income	837	826	1,416	2,142
<b>Profit Before Tax</b>	<b>12,081</b>	<b>16,796</b>	<b>21,675</b>	<b>25,675</b>
Margin (%)	11.7	25.0	21.1	20.6
Total Tax	149	4,233	5,462	6,470
Effective tax rate (%)	1.2	25.2	25.2	25.2
<b>Profit after tax</b>	<b>11,933</b>	<b>12,563</b>	<b>16,213</b>	<b>19,205</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>11,933</b>	<b>12,563</b>	<b>16,213</b>	<b>19,205</b>
YoY gr. (%)	187.6	5.3	29.0	18.5
Margin (%)	11.6	18.7	15.8	15.4
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>11,933</b>	<b>12,563</b>	<b>16,213</b>	<b>19,205</b>
YoY gr. (%)	187.6	5.3	29.0	18.5
Margin (%)	11.6	18.7	15.8	15.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,933	12,563	16,213	19,205
<b>Equity Shares O/s (m)</b>	<b>688</b>	<b>688</b>	<b>688</b>	<b>688</b>
<b>EPS (Rs)</b>	<b>17.3</b>	<b>18.2</b>	<b>23.6</b>	<b>27.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>68,307</b>	<b>72,145</b>	<b>79,145</b>	<b>87,145</b>
Tangibles	68,307	72,145	79,145	87,145
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>17,269</b>	<b>20,710</b>	<b>24,414</b>	<b>28,485</b>
Tangibles	17,269	20,710	24,414	28,485
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>54,390</b>	<b>54,789</b>	<b>58,082</b>	<b>62,011</b>
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)	(8,748)	(9,570)
Other Non-Current Assets	2,248	2,355	2,591	2,850
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	463	468	461	560
Trade receivables	5,101	5,543	5,085	6,174
Cash & Bank Balance	6,919	8,391	19,732	32,992
Other Current Assets	1,074	592	652	717
<b>Total Assets</b>	<b>78,973</b>	<b>81,230</b>	<b>96,615</b>	<b>1,15,615</b>
<b>Equity</b>				
Equity Share Capital	1,377	1,377	1,377	1,377
Other Equity	31,529	35,990	53,961	74,356
<b>Total Network</b>	<b>32,906</b>	<b>37,367</b>	<b>55,338</b>	<b>75,733</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	18,344	14,000	9,000	4,000
Provisions	453	503	554	609
Other non current liabilities	636	612	673	740
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	3,790	3,798	3,778	4,587
Other current liabilities	14,389	16,466	18,051	19,856
<b>Total Equity &amp; Liabilities</b>	<b>78,973</b>	<b>81,230</b>	<b>96,615</b>	<b>1,15,615</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	12,081	16,796	21,675	25,675
Add. Depreciation	3,180	3,441	3,704	4,071
Add. Interest	1,922	1,229	1,035	585
Less Financial Other Income	837	826	1,416	2,142
Add. Other	-	-	-	-
Op. profit before WC changes	17,183	21,466	26,413	30,331
Net Changes-WC	(922)	2,369	2,467	1,968
Direct tax	(149)	(4,233)	(5,462)	(6,470)
<b>Net cash from Op. activities</b>	<b>16,113</b>	<b>19,603</b>	<b>23,419</b>	<b>25,828</b>
Capital expenditures	(5,476)	(4,456)	(7,784)	(8,155)
Interest / Dividend Income	-	-	-	-
Others	(12)	-	(17)	(19)
<b>Net Cash from Inv. activities</b>	<b>(5,488)</b>	<b>(4,456)</b>	<b>(7,801)</b>	<b>(8,174)</b>
Issue of share cap. / premium	(6)	(6,846)	3,704	4,071
Debt changes	(2,548)	(4,344)	(5,000)	(5,000)
Dividend paid	(861)	(1,256)	(1,946)	(2,881)
Interest paid	(1,922)	(1,229)	(1,035)	(585)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(5,336)</b>	<b>(13,675)</b>	<b>(4,277)</b>	<b>(4,395)</b>
<b>Net change in cash</b>	<b>5,289</b>	<b>1,472</b>	<b>11,341</b>	<b>13,260</b>
Free Cash Flow	10,636	15,147	15,635	17,674

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
<b>Net Revenue</b>	<b>26,666</b>	<b>10,829</b>	<b>25,130</b>	<b>27,054</b>
YoY gr. (%)	39.8	(58.6)	-	8.0
Raw Material Expenses	20,264	7,297	15,876	20,448
Gross Profit	6,402	3,532	9,254	6,607
Margin (%)	24.0	32.6	36.8	24.4
<b>EBITDA</b>	<b>4,267</b>	<b>1,857</b>	<b>7,330</b>	<b>4,627</b>
YoY gr. (%)	67.9	(60.2)	97.8	24.9
Margin (%)	16.0	17.2	29.2	17.1
Depreciation / Depletion	805	823	856	870
<b>EBIT</b>	<b>3,462</b>	<b>1,035</b>	<b>6,474</b>	<b>3,757</b>
Margin (%)	13.0	9.6	25.8	13.9
Net Interest	420	401	339	300
Other Income	189	149	208	220
<b>Profit before Tax</b>	<b>3,230</b>	<b>783</b>	<b>6,343</b>	<b>3,677</b>
Margin (%)	12.1	7.2	25.2	13.6
Total Tax	772	196	1,595	927
Effective tax rate (%)	23.9	25.1	25.2	25.2
<b>Profit after Tax</b>	<b>2,458</b>	<b>587</b>	<b>4,747</b>	<b>2,750</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>2,458</b>	<b>587</b>	<b>4,747</b>	<b>2,750</b>
YoY gr. (%)	111.0	(74.9)	(8.2)	39.9
Margin (%)	9.2	5.4	18.9	10.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,458</b>	<b>587</b>	<b>4,747</b>	<b>2,750</b>
YoY gr. (%)	111.0	(74.9)	(8.2)	39.9
Margin (%)	9.2	5.4	18.9	10.2
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>2,458</b>	<b>587</b>	<b>4,747</b>	<b>2,750</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	17.3	18.2	23.6	27.9
CEPS	22.0	23.2	28.9	33.8
BVPS	47.8	54.3	80.4	110.0
FCF	15.5	22.0	22.7	25.7
DPS	1.3	1.8	2.8	4.2
<b>Return Ratio(%)</b>				
RoCE	28.0	33.5	36.8	33.5
ROIC	18.3	23.6	27.7	29.2
RoE	43.6	35.8	35.0	29.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.3	0.2	(0.2)	(0.4)
Net Working Capital (Days)	6	12	6	6
<b>Valuation(x)</b>				
PER	21.9	20.8	16.1	13.6
P/B	7.9	7.0	4.7	3.5
P/CEPS	17.3	16.3	13.1	11.2
EV/EBITDA	16.7	12.9	10.0	8.2
EV/Sales	2.6	4.0	2.4	1.9
Dividend Yield (%)	0.3	0.5	0.7	1.1

Source: Company Data, PL Research

### Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
CNG (mmscmd)	1.5	0.9	1.5	1.7
Industrial PNG (mmscmd)	7.3	7.6	10.0	11.2
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	6.2	5.5	5.5

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-21	BUY	403	387
2	06-Jan-21	BUY	403	386
3	05-Nov-20	BUY	403	301
4	07-Oct-20	BUY	388	304
5	05-Oct-20	BUY	388	311

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	BUY	1,314	1,159
2	Bharat Petroleum Corporation	BUY	479	392
3	GAIL (India)	UR	-	133
4	Gujarat Gas	BUY	403	387
5	Hindustan Petroleum Corporation	BUY	280	223
6	Indian Oil Corporation	BUY	124	96
7	Indraprastha Gas	BUY	603	540
8	Mahanagar Gas	BUY	1,275	1,117
9	NOCIL	BUY	182	143
10	Oil & Natural Gas Corporation	BUY	114	98
11	Oil India	Accumulate	117	113
12	Petronet LNG	BUY	399	260
13	Reliance Industries	BUY	2,232	2,050

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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