Gujarat Gas (GUJGA)

ICICI direct Research

CMP: ₹ 435 | Target: ₹ 505 (16%) | Target Period: 12 months | **BUY**

February 9, 2021

Result Update

Strong volume growth leads to profitability...

Gujarat Gas' Q3FY21 results were better than our estimates on all fronts. Revenues increased 12.9% YoY at ₹ 2829.4 crore (our estimate: ₹ 2608.5 crore) as sales volume jumped 22.9% YoY during the quarter. Sales volume at 11.4 mmscmd was above estimate of 10.6 mmscmd. Realisation was at ₹ 26.9/scm (our estimate: ₹ 26.7/scm). Higher-than-expected realisation coupled with lower gas costs led to increase in gross margins that improved by ₹ 1.2/scm YoY to ₹ 7.8/scm (our estimate: ₹ 7.3/scm). EBITDA was at ₹ 614.8 crore, up 65.9% YoY (our estimate: ₹ 476.4 crore). Subsequently, PAT increased 99.5% YoY to ₹ 392.2 crore (our estimate: ₹ 280.1 crore).

Industrial PNG leads volume growth again

The quarter witnessed robust growth of 22.9% YoY in volumes to 11.4 mmscmd. Industrial volumes were at 9.2 mmscmd vs. 7.1 mmscmd YoY and 7.9 mmscmd QoQ due to sharp growth in unlock phases. CNG volumes at 1.5 mmscmd also recovered fully and grew 2% YoY whereas domestic/commercial PNG volumes at 0.7 mmscmd were up 6% YoY. All segments reported volume growth YoY, which is encouraging. Gujarat Gas is seeing good demand from ceramic and pharma as well as chemical industries. Overall, we believe industrial PNG demand will lead volume growth in the medium term while CNG will contribute in the long term. For FY21E, we expect volume at 9.3 mmscmd. We estimate volumes in FY22E and FY23E at 12.3 mmscmd and 13.4 mmscmd, respectively.

Margins drop from historic highs

Gross margins improved ₹ 1.2/scm YoY to ₹ 7.8/scm. On a sequential basis, gross margins fell by ₹ 2.5/scm due to lower realisation and increase in gas costs. The gross margin decline was lower than our estimates. Similarly, EBITDA/scm was at ₹ 5.8/scm, up ₹ 1.5/scm and down ₹ 2.3/scm QoQ. Gujarat Gas' focus remains on striking a balance between right volumes and margins at appropriate time intervals. The company has good pricing power that has enabled it to take a price hike of ₹ 5/scm in February to pass on increased spot LNG costs. This will lead to stable margins in coming months. We expect margins at ₹ 8.6/scm for FY21E. Going ahead, we expect margins at ₹ 7.8/scm, ₹ 7.9/scm for FY22E, FY23E, respectively. Hence, we expect EBITDA margins at ₹ 5.2/scm for FY22E, ₹ 5.3/scm for FY23E, going forward.

Valuation & Outlook

Sales volumes have seen sharp growth in unlock phases and are currently at 11.5 mmscmd. CNG segment's recovery was faster than expected. We expect growth momentum in industrial PNG segment to continue and CNG segment to support volume growth. In the long term, rise 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 roll over valuations to FY23 and maintain **BUY** on the stock with a revised TP of ₹ 505 (21x FY23E EPS) (earlier ₹ 400/share).

Particulars

Particular	Amount
Market Capitalization (₹ Crore)	29,945.4
Total Debt (FY20) (₹ Crore)	1,943.0
Cash and Investments (FY20)	693.2
EV (₹ Crore)	31,195.2
52 week H/L	449/191
Equity capital (₹ Crore)	137.7
Face value (₹)	2.0

Key Highlights

- Results better than expected on account of higher volume and lower than anticipated decline in margins
- Total volumes rose 22.9% YoY to 11.4 mmscmd. CNG segment recovered fully and grew 2% YoY
- Maintain BUY on stock with target price of ₹ 505 /share

Key risks to our call

- Slower than expected growth in sales volume will impact earnings growth
- Higher than estimated gas costs will affect profitability

Research Analyst

Mayur Matani
mayur.matani@icicisecurities.com

Amogh Deshpande
amogh.deshpande@icicisecurities.com

ICICI Securities – Retail Equity Research

Key Financial Summary

(Year-end March)	FY19	FY20E	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Revenues (₹ crore)	7,754.4	10,300.3	9,890.5	12,718.4	13,889.1	10.5
EBITDA (₹ crore)	984.5	1,634.3	2,044.3	2,321.7	2,580.1	16.4
Net Profit (₹ crore)	416.9	1,193.3	1,230.2	1,459.4	1,657.8	11.6
EPS (₹)	6.1	17.3	17.9	21.2	24.1	
P/E (x)	71.8	25.1	24.3	20.5	18.1	
Price / Book (x)	13.7	9.1	6.9	5.3	4.2	
EV/EBITDA (x)	32.3	19.1	14.8	12.5	10.7	
RoCE (%)	16.1	25.2	32.1	31.8	29.9	
RoE (%)	19.1	36.3	28.2	25.8	23.2	

Source: Company, ICICI Direct Research

RoE (%) 21.4 22.8 22.7 27.5 22.0

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Total Revenues	2,829.4	2,608.5	2,506.2	12.9	2,513.0	12.6	Revenues were better than estimates on account of higher than expected sales volume
Raw materials costs	2,012.4	1,892.2	1,948.2	3.3	1,587.6	26.8	
Employees Cost	44.2	54.8	43.8	1.0	46.8	-5.6	
Other Expenses	158.0	185.2	143.7	9.9	145.6	8.5	
Total Expenditure	2,214.6	2,132.2	2,135.7	3.7	1,780.0	24.4	
EBITDA	614.8	476.4	370.5	65.9	733.0	-16.1	Better than expected margins led to strong EBITDA
EBITDA margins (%)	21.7	18.3	14.8	695 bps	29.2	-744 bps	
Depreciation	86.2	85.8	79.5	8.4	85.6	0.6	
EBIT	528.7	390.5	291.1	81.6	647.4	-18.3	
Interest	24.3	36.1	46.5	-47.7	33.9	-28.2	
Other Income	19.6	20.0	18.6	5.3	20.8	-5.6	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	523.9	374.5	263.2	99.1	634.3	-17.4	
Total Tax	131.8	94.4	66.7	97.7	159.5	-17.4	
PAT	392.2	280.1	196.5	99.5	474.8	-17.4	
Key Metrics							
Sales Volume (mmscmd)	11.4	10.6	9.3	22.9	9.8	16.2	CNG and industrial PNG sales ahead of estimates
Realisation (₹/scm)	26.9	26.7	29.2	-8.1	27.7	-3.1	
Gross margin (₹/scm)	7.8	7.3	6.5	19.2	10.2	-24.0	Higher than expected

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			
(₹ Crore)	**Old**	**New**	**% Change**	**Old**	**New**	**% Change**	**Comments**
Revenue	8860.8	9,890.5	11.6	11352.8	12,718.4	12.0	
EBITDA	1,938.5	2,044.3	5.5	2,107.9	2,321.7	10.1	Strong volume growth and better margins led to change in estimates
EBITDA Margin (%)	21.9	20.7	-121 bps	18.6	18.3	-31 bps	
PAT	1,143.7	1,230.2	7.6	1,304.7	1,459.4	11.9	
EPS (₹)	16.6	17.9	7.6	19.0	21.2	11.9	

Source: Company, ICICI Direct Research

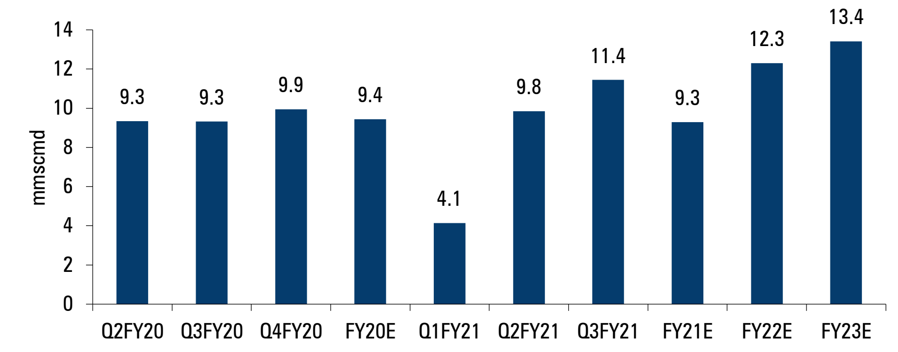
Exhibit 3: Assumptions

		Current			Earlier		Comments
	FY20E	FY21E	FY22E	FY23E	FY21E	FY22E	
Sales Volume (mmscmd)	9.4	9.3	12.3	13.4	8.9	11.3	Better demand across segments led to change in estimates
Realisation (₹/scm)	29.8	29.2	28.3	28.4	27.4	27.6	
Gross margin (₹/scm)	7.0	8.6	7.8	7.9	8.6	7.7	Increased gross margin estimates due to better pricing power

Source: Company, ICICI Direct Research

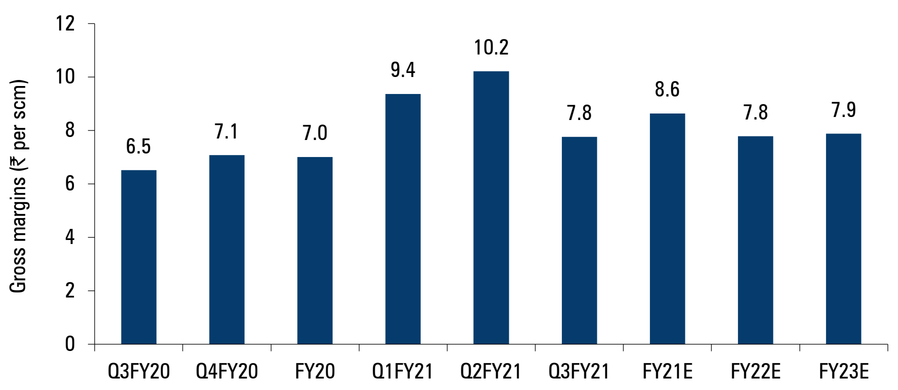
Story in charts

Exhibit 4: Volume trajectory



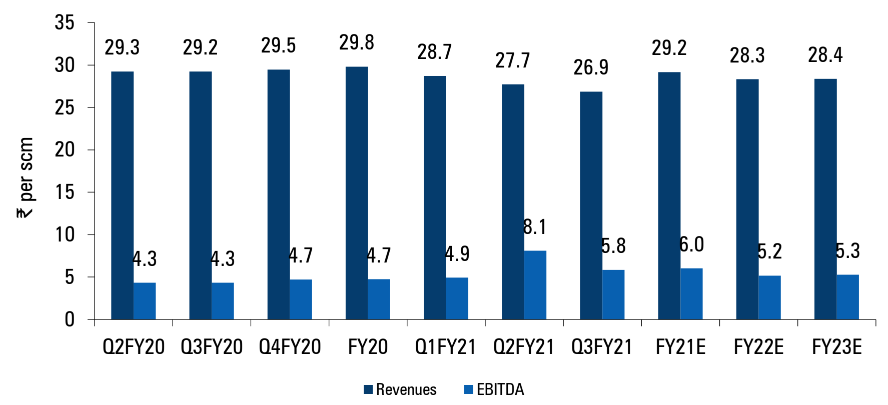
Source: Company, ICICI Direct Research

Exhibit 5: Margin trend



Source: Company, ICICI Direct Research

Exhibit 6: Revenue & EBITDA trend



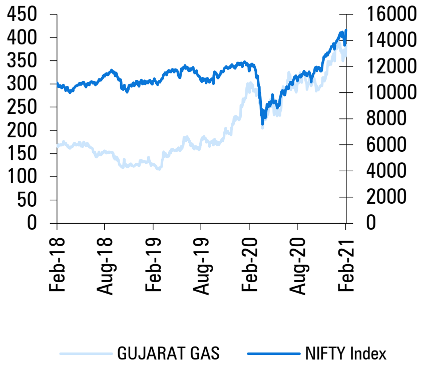
Source: Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	60.9	60.9	60.9	60.9	60.9
FII	11.1	9.8	9.2	9.1	9.0
DII	6.3	7.0	7.4	7.3	7.3
Others	21.8	22.3	22.5	22.7	22.8

Source: Company, ICICI Direct Research

Exhibit 8: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenue	**10300.3**	**9890.5**	**12718.4**	**13889.1**
Growth (%)	32.8	-4.0	28.6	9.2
Raw material Costs	7881.8	6965.3	9226.6	10031.2
Employee Costs	175.4	206.4	267.1	291.7
Other Expenditure	608.9	674.4	903.0	986.1
Op. Expenditure	8666.1	7846.1	10396.7	11309.0
EBITDA	1634.3	2044.3	2321.7	2580.1
Growth (%)	66.0	25.1	13.6	11.1
Depreciation	**318.0**	**341.5**	**381.4**	**418.4**
EBIT	1316.3	1702.9	1940.3	2161.6
Interest	192.2	134.4	69.3	25.3
Other Income	83.7	75.2	80.0	80.0
PBT	1207.8	1643.7	1951.0	2216.3
Growth (%)	103.4	36.1	18.7	13.6
Tax	14.5	413.5	491.7	558.5
Reported PAT	1193.3	1230.2	1459.4	1657.8
Growth (%)	186.2	3.1	18.6	13.6
Adjustments	**0.0**	**0.0**	**0.0**	**0.0**
Adj. Net Profit	1193.3	1230.2	1459.4	1657.8
EPS	**17.3**	**17.9**	**21.2**	**24.1**

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	1,193.3	1,230.2	1,459.4	1,657.8
Add: Depreciation	318.0	341.5	381.4	418.4
Add: Others	-281.1	50.0	50.0	50.0
Cash Profit	1,230.2	1,621.7	1,890.7	2,126.3
Increase/(Decrease) in CL	150.0	312.8	600.6	257.3
(Increase)/Decrease in CA	-10.2	-323.3	-384.1	-162.1
CF from Operating Activities	**1370.0**	**1611.2**	**2107.2**	**2221.4**
Purchase of Fixed Assets	693.7	591.7	600.0	750.0
(Inc)/Dec in Investments	-1.2	1.3	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	**-694.9**	**-590.4**	**-600.0**	**-750.0**
Inc/(Dec) in Loan Funds	-205.7	-1,000.0	-500.0	-379.4
Inc/(Dec) in Sh. Cap. & Res.	-3.7	0.0	0.0	0.0
Less: Dividend Paid	83.0	161.3	161.3	161.3
Others	0.0	0.0	0.0	0.0
CF from financing activities	**-292.4**	**-1,161.3**	**-661.3**	**-540.7**
Change in cash Eq.	382.7	-140.4	845.9	930.8
Op. Cash and cash Eq.	309.1	691.9	551.4	1,397.4
Cl. Cash and cash Eq.	**691.9**	**551.4**	**1,397.4**	**2,328.2**

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
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	3,152.9	4,221.9	5,520.0	7,016.5
Shareholder's Fund	3,290.6	4,359.5	5,657.6	7,154.2
Loan Funds	1,943.0	943.0	443.0	63.6
Deferred Tax Liability	800.5	850.5	900.5	950.5
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	**6034.1**	**6153.0**	**7001.1**	**8168.3**
Application of Funds				
Gross Block	7,440.6	8,015.6	8,662.6	9,412.6
Less: Acc. Depreciation	1,855.9	2,205.7	2,587.0	3,005.5
Net Block	5,584.7	5,809.9	6,075.5	6,407.1
Capital WIP	568.6	593.6	546.6	546.6
Total Fixed Assets	6,153.3	6,403.5	6,622.1	6,953.7
Investments	18.6	17.2	17.2	17.2
Inventories	46.3	92.1	118.5	129.4
Debtor	510.1	650.3	836.3	913.3
Cash	691.9	551.4	1,397.4	2,328.2
Loan & Advance, Other C	477.2	614.4	786.2	860.4
Total Current assets	1725.5	1908.3	3138.4	4231.2
Current Liabilities	1804.9	2032.3	2613.4	2853.9
Provisions	58.3	143.7	163.2	179.9
Total CL and Provisions	1863.2	2176.0	2776.6	3033.9
Net Working Capital	-137.7	-267.7	361.8	1197.4
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	**6034.1**	**6153.0**	**7001.1**	**8168.3**

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	47.8	63.3	82.2	103.9
Cash per share	10.1	8.0	20.3	33.8
EPS	17.3	17.9	21.2	24.1
Cash EPS	22.0	22.8	26.7	30.2
DPS	1.3	2.0	2.0	2.0
Profitability & Operating Ratios				
EBITDA Margin (%)	15.9	20.7	18.3	18.6
PAT Margin (%)	11.6	12.4	11.5	11.9
Fixed Asset Turnover (x)	1.7	1.5	1.9	2.0
Inventory Turnover (Days	1.6	3.4	3.4	3.4
Debtor (Days)	18.1	24.0	24.0	24.0
Current Liabilities (Days)	64.0	75.0	75.0	75.0
Return Ratios (%)				
RoE	36.3	28.2	25.8	23.2
RoCE	25.2	32.1	31.8	29.9
RoIC	29.0	35.8	41.3	44.2
Valuation Ratios (x)				
PE	25.1	24.3	20.5	18.1
Price to Book Value	9.1	6.9	5.3	4.2
EV/EBITDA	19.1	14.8	12.5	10.7
EV/Sales	3.0	3.1	2.3	2.0
Leverage & Solvency Ratios				
Debt to equity (x)	0.6	0.2	0.1	0.0
Interest Coverage (x)	0.0	0.0	0.0	0.0
Debt to EBITDA (x)	3.0	3.0	3.0	3.0
Current Ratio	0.9	0.9	1.1	1.4
Quick ratio	0.9	0.8	1.1	1.4

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
GAIL (India) (GAIL)	130	105	Hold	58,632	14.7	8.8	10.9	8.9	14.8	11.9	7.4	11.9	9.2	13.7	6.8	8.8	15.1	8.8	10.4
Gujarat Gas (GUJGA)	435	505	Buy	29,945	17.3	17.9	21.2	25.1	24.3	20.5	19.1	14.8	12.5	25.2	32.1	31.8	36.3	28.2	25.8
Indian Oil Corp (INDOIL)	99	105	Hold	90,892	1.4	16.7	11.3	69.2	5.9	8.8	4.8	2.9	3.2	4.8	10.7	8.1	1.4	15.0	9.7
Indraprastha Gas (INDGAS)	554	490	Hold	38,780	16.2	13.7	18.2	34.1	40.3	30.5	24.1	27.2	20.4	25.0	18.9	22.3	22.5	16.8	19.2
Mahanagar Gas (MAHGAS)	1080	1150	Hold	10,668	80.3	63.0	95.7	13.4	17.1	11.3	10.0	11.5	7.4	29.7	22.2	29.0	26.9	18.7	23.8
Petronet LNG (PETLNG)	246	275	Hold	36,900	18.0	20.3	21.9	13.7	12.1	11.3	9.0	7.3	6.7	22.3	26.8	29.3	24.6	26.3	26.8

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey   Head – Research   pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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