

September 27, 2021

Company Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	845		896	
Sales (Rs. m)	1,18,443	1,45,697	1,07,077	1,39,353
% Chng.	10.6	4.6		
EBITDA (Rs. m)	23,999	28,511	25,665	29,801
% Chng.	(6.9)	(4.3)		
EPS (Rs.)	22.2	28.1	24.2	29.7
% Chng.	(8.3)	(5.3)		

Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	98,543	1,18,443	1,45,697	1,63,266
EBITDA (Rs. m)	20,878	23,899	28,511	32,818
Margin (%)	21.2	20.2	19.6	20.1
PAT (Rs. m)	12,755	15,310	19,361	23,386
EPS (Rs.)	18.5	22.2	28.1	34.0
Gr. (%)	6.9	20.0	26.5	20.8
DPS (Rs.)	2.0	2.7	4.2	5.8
Yield (%)	0.3	0.4	0.7	0.9
RoE (%)	32.8	28.6	26.7	24.6
RoCE (%)	33.7	34.1	32.3	28.9
EV/Sales (x)	4.4	3.5	2.7	2.3
EV/EBITDA (x)	20.7	17.4	14.0	11.5
PE (x)	33.5	27.9	22.1	18.3
P/BV (x)	9.5	6.9	5.2	4.0

Key Data

GGAS.BO | GUJGA IN

52-W High / Low	Rs.787 / Rs.281
Sensex / Nifty	60,048 / 17,853
Market Cap	Rs.428bn / \$ 5,803m
Shares Outstanding	688m
3M Avg. Daily Value	Rs.2576.04m

Shareholding Pattern (%)

Promoter's	60.89
Foreign	8.17
Domestic Institution	7.90
Public & Others	23.04
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(14.2)	21.5	110.0
Relative	(20.0)	(0.5)	27.8

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Risk-reward turns favorable

Quick Pointers:

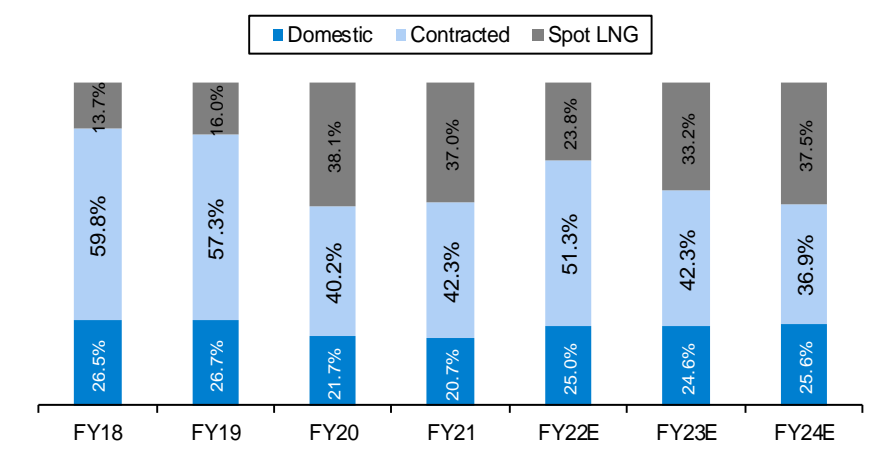
- High spot LNG prices and low gas inventory in EU might accelerate certification of Nord Stream 2 pipeline, likely in four months, which will ease spot LNG prices.
- GGAS's strategic oil linked contracts cut spot volume exposure to 24% for FY22E from ~37% in FY21.

GGAS stock price fell 20%, as soaring spot LNG price of over \$20/MMBtu (3x from Q1FY22 levels) and lower container availability hit Morbi volumes which accounts for ~60% of company's volumes. However, we believe recent correction offers an attractive entry point given 1) likely start of new gas (Nord Stream 2) pipeline (40MTPA capacity) supplies from Russia by early CY22 to help ease spot LNG prices 2) GGAS has entered into oil linked contracts for cutting reliance on spot volumes to 24% in FY22 (~37% in FY21) 3) recent price hikes in CNG and PNG of 4%/15% to shield margins and 4) aggressive expansion of CNG station network to increase CNG share to 19.5% in FY24E (15.7% in FY20). Underpinned by resilient downstream demand across ceramics, chemicals, pharma, GGAS remains a formidable business model. We expect CAGR of 22.4% in earnings over FY21-24E. Reiterate BUY with revised DCF based PT of Rs845 (Rs896 earlier) as we reduce volume estimates to factor in lower than expected H1FY22E and increase WACC to 10.4% from 10% earlier to factor higher market return.

- Near term blip in growth:** GGAS corrected sharply as high spot LNG prices, and exorbitant container freights hit production and exports especially in Morbi market. While Q1FY22 volumes were hit by pandemic restrictions, demand recovery was strong in early Q2 and volume run-rate was at ~12mmcmd in early August (at Q4FY21 levels). But sharp spike in spot LNG prices from mid-August 21 coupled with lower production at Morbi due to maintenance shutdown would result average of gas volumes for Q2 to slide to ~11mmcmd vis-à-vis earlier expectation of ~12mmcmd (Q4FY21 levels of 12.1mmcmd). Accordingly, H1FY22E volume is expected to increase 13.7% YoY. Given the high base in H2, we lower our gas volume assumptions by 6.0%/5.4% for FY22/23E to 11.5/13.6mmcmd (12.2/14.4 earlier).
- Demand recovery on mend:** For GGAS demand recovery is coming back led by CNG where demand is ~2mmcmd. However, industrial volumes while lower than Q4FY21 levels of 9.2mmcmd are also expected to recover as operations restart and container issues ease. Also, resilient demand in downstream industries like ceramics, chemicals and pharmaceuticals will drive volumes. GGAS has taken price hikes of Rs2/kg/Rs5/scm for CNG/PNG last month to pass on high input prices and we expect Q2 EBITDA margins at Rs4.5/scm (Q1 Rs7.9 was an aberration).
- High gas prices, low inventory in EU might accelerate certification and start supplies:** Currently spot LNG prices increased to over USD20/mmbtu from Q1FY22 levels of ~USD8/mmbtu due to strong demand from Asia and Latin America amid lower supplies from Russia. Gas prices are likely to remain elevated in near term as Europe builds gas inventory before start of winter season.

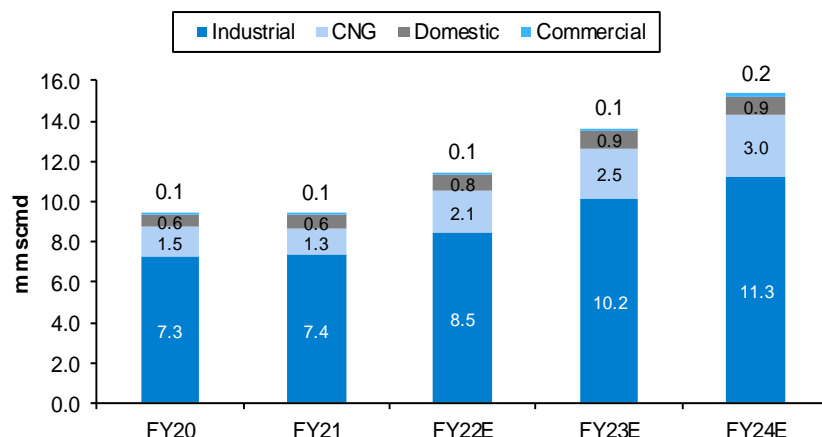
- **New pipeline to ease spot LNG prices:** However, start of recently completed Nord Stream 2 pipeline from Russia to Germany with capacity of 55bcm (~40MTPA) could significantly ease pressure on spot LNG prices. The pipeline needs to be certified by Germany before supplies starts which is likely in next four months. Media reports suggests that high spot LNG prices and low inventory in Europe might accelerate the certification process and supplies can possibly start by early CY22. [\(Click here for Details\)](#).
- **Smart sourcing agreements to de-risk from spot volumes:** To reduce exposure to spot volumes, GGAS smartly entered into medium to long term oil linked contracts. New gas supplies from RIL's KGD6 and Vedanta in H1CY21 amounting to 2.17mmscmd helped reduce spot LNG share to ~24% in FY22E vis-à-vis ~37% in FY21. Also, potential tie up for additional gas supplies from RIL and ONGC will further reduce spot price volatility. Accordingly, we expect margin volatility to come down further for GGAS.

Exhibit 1: GGAS spot volumes are set to come down to 23.8% in FY22E

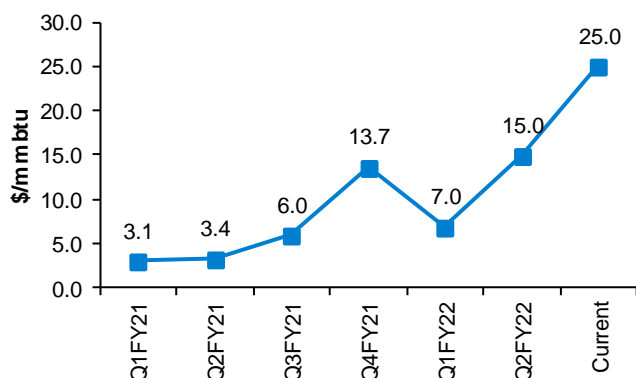


Source: Company, PL

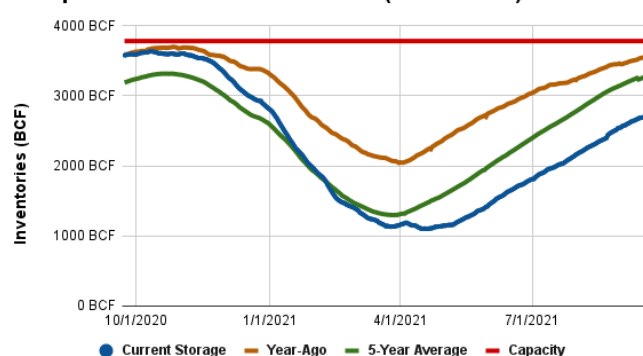
- **Rising share of lucrative CNG to help cushion volatility:** GGAS stepped up its presence in lucrative CNG business and opened 150 CNG stations in FY21 while planning to add similar number of stations, over next two years. Accordingly, we expect share of CNG to rise to 19.5% by FY24E vis-à-vis 15.7% in FY20. CNG share came down to 13.9% in FY21 due to pandemic restrictions on mobility which impacted growth. However, steady increase in CNG share will support margins and earnings going ahead.

Exhibit 2: CNG share to increase to 19.5% in FY24E from 15.7% in FY20


Source: Company, PL

Exhibit 3: Spot LNG prices have soared in recent times


Source: Industry

Exhibit 4: EU gas inventory lags 5yr avg inventory levels
European Natural Gas Inventories (Past 1 Year)


Source: Industry

Exhibit 5: GGAS key assumptions and financial highlights

	FY20	FY21	FY22	FY23	FY24
Gas sales volume (mmcmd)	9.5	9.4	11.5	13.6	15.4
EBIDTA/scm	4.7	6.1	5.7	5.7	5.9
Revenue (Rs mn)	103,004	98,543	118,443	145,697	163,266
EBIDTA (Rs mn)	16,346	20,878	23,899	28,511	32,818
PBT (Rs mn)	12,081	17,047	20,467	25,884	31,265
PAT (Rs mn)	11,933	12,755	15,310	19,361	23,386

Source: Company, PL

Exhibit 6: GGAS earnings change

	Current			% chg		
(Rs mn)	FY22	FY23	FY24	FY22	FY23	FY24
Sales	118,443	145,697	163,266	10.6%	4.6%	1.2%
EBIDTA	23,899	28,511	32,818	-6.9%	-4.3%	-5.3%
PAT	15,310	19,361	23,386	-8.3%	-5.3%	-6.2%

Source: PL

Exhibit 7: DCF

	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
EBITDA (Rs mn)	16,346	20,878	23,899	28,511	32,818	37,627	43,210	49,479	56,084	62,745	71,061	78,167	85,202
Depreciation (Rs mn)	3,180	3,408	3,861	4,230	4,648	5,114	5,606	6,098	6,592	7,088	7,584	8,102	8,602
EBIT (Rs mn)	13,166	17,470	20,037	24,281	28,171	32,513	37,604	43,381	49,491	55,657	63,476	70,065	76,600
Current tax on EBIT (Rs mn)	(2,943)	(4,241)	(4,503)	(5,695)	(6,878)	(8,220)	(9,790)	(11,600)	(13,592)	(15,709)	(18,318)	(18,357)	(20,069)
Total capex (Rs mn)	(6,937)	(8,398)	(7,134)	(8,184)	(9,203)	(10,223)	(10,245)	(10,270)	(10,297)	(10,327)	(10,359)	(10,000)	(10,000)
Chg. in net working capital (Rs mn)	(1,240)	(360)	(807)	(684)	(1,224)	(1,169)	(1,271)	(1,612)	(1,781)	(2,112)	(2,107)	(2,107)	(2,107)
Total free cash flows (Rs mn)	5,227	7,878	11,455	13,949	15,513	18,016	21,904	25,996	30,414	34,597	40,276	47,703	53,025
<i>Growth</i>		50.7%	45.4%	21.8%	11.2%	16.1%	21.6%	18.7%	17.0%	13.8%	16.4%	18.4%	11.2%
<i>Ebitda growth</i>		27.7%	14.5%	19.3%	15.1%	14.7%	14.8%	14.5%	13.3%	11.9%	13.3%	10.0%	9.0%
WACC	10.4%												
Terminal growth rate	4.5%												
Terminal value	945173												
Terminal EV/E	11.1												
PV of terminal value	389148												
PV as % of EV	70%												
Enterprise value	553,242												
Net debt as on Mar 22	(28,675)												
Equity value	581917												
Value per share	845												

Source: PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	98,543	1,18,443	1,45,697	1,63,266
YoY gr. (%)	(4.3)	20.2	23.0	12.1
Cost of Goods Sold	69,898	85,432	1,06,510	1,18,240
Gross Profit	28,645	33,011	39,187	45,026
Margin (%)	29.1	27.9	26.9	27.6
Employee Cost	1,775	2,219	2,552	2,934
Other Expenses	-	-	-	-
EBITDA	20,878	23,899	28,511	32,818
YoY gr. (%)	27.7	14.5	19.3	15.1
Margin (%)	21.2	20.2	19.6	20.1
Depreciation and Amortization	3,408	3,861	4,230	4,648
EBIT	17,470	20,037	24,281	28,171
Margin (%)	17.7	16.9	16.7	17.3
Net Interest	1,163	468	243	243
Other Income	740	898	1,846	3,337
Profit Before Tax	17,047	20,467	25,884	31,265
Margin (%)	17.3	17.3	17.8	19.1
Total Tax	4,292	5,158	6,523	7,879
Effective tax rate (%)	25.2	25.2	25.2	25.2
Profit after tax	12,755	15,310	19,361	23,386
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	12,755	15,310	19,361	23,386
YoY gr. (%)	6.9	20.0	26.5	20.8
Margin (%)	12.9	12.9	13.3	14.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12,755	15,310	19,361	23,386
YoY gr. (%)	6.9	20.0	26.5	20.8
Margin (%)	12.9	12.9	13.3	14.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,755	15,310	19,361	23,386
Equity Shares O/s (m)	688	688	688	688
EPS (Rs)	18.5	22.2	28.1	34.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	75,142	82,142	90,142	99,142
Tangibles	75,142	82,142	90,142	99,142
Intangibles	-	-	-	-
Acc: Dep / Amortization	20,677	24,538	28,768	33,416
Tangibles	20,677	24,538	28,768	33,416
Intangibles	-	-	-	-
Net fixed assets	57,981	60,955	64,725	69,077
Tangibles	54,465	57,603	61,373	65,726
Intangibles	3,516	3,352	3,352	3,352
Capital Work In Progress	6,878	7,009	7,009	7,009
Goodwill	1,676	1,844	2,028	2,231
Non-Current Investments	919	1,010	1,111	1,222
Net Deferred tax assets	(8,063)	(8,718)	(9,546)	(10,547)
Other Non-Current Assets	2,944	3,238	3,562	3,918
Current Assets				
Investments	-	-	-	-
Inventories	522	628	772	865
Trade receivables	7,831	9,412	11,578	12,974
Cash & Bank Balance	3,187	13,433	31,374	52,768
Other Current Assets	1,849	2,034	2,237	2,461
Total Assets	84,495	1,00,342	1,25,254	1,53,469
Equity				
Equity Share Capital	1,377	1,377	1,377	1,377
Other Equity	43,450	60,784	81,471	1,05,529
Total Network	44,827	62,160	82,847	1,06,906
Non-Current Liabilities				
Long Term borrowings	7,700	2,700	2,700	2,700
Provisions	518	569	626	689
Other non current liabilities	629	692	762	838
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	4,603	5,533	6,806	7,626
Other current liabilities	17,505	19,255	21,181	23,299
Total Equity & Liabilities	84,494	1,00,342	1,25,254	1,53,469

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	17,047	20,467	25,884	31,265
Add. Depreciation	3,408	3,861	4,230	4,648
Add. Interest	1,163	468	243	243
Less Financial Other Income	740	898	1,846	3,337
Add. Other	-	-	-	-
Op. profit before WC changes	21,618	24,797	30,357	36,156
Net Changes-WC	5	1,206	1,230	1,915
Direct tax	(4,292)	(5,158)	(6,523)	(7,879)
Net cash from Op. activities	17,332	20,845	25,064	30,191
Capital expenditures	(8,398)	(7,134)	(8,184)	(9,203)
Interest / Dividend Income	-	-	-	-
Others	(25)	(20)	(22)	(24)
Net Cash from Inv. activities	(8,423)	(7,154)	(8,206)	(9,227)
Issue of share cap. / premium	542	3,861	4,230	4,648
Debt changes	(10,644)	(5,000)	-	-
Dividend paid	(1,377)	(1,837)	(2,904)	(3,976)
Interest paid	(1,163)	(468)	(243)	(243)
Others	-	-	-	-
Net cash from Fin. activities	(12,642)	(3,444)	1,083	429
Net change in cash	(3,733)	10,247	17,941	21,394
Free Cash Flow	8,934	13,711	16,880	20,989

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	25,130	28,294	34,289	30,109
YoY gr. (%)	-	12.9	28.6	178.0
Raw Material Expenses	15,876	20,124	26,601	20,603
Gross Profit	9,254	8,170	7,689	9,506
Margin (%)	36.8	28.9	22.4	31.6
EBITDA	7,330	6,148	5,542	7,229
YoY gr. (%)	97.8	65.9	29.9	289.2
Margin (%)	29.2	21.7	16.2	24.0
Depreciation / Depletion	856	862	868	905
EBIT	6,474	5,286	4,674	6,323
Margin (%)	25.8	18.7	13.6	21.0
Net Interest	339	243	180	159
Other Income	208	196	188	213
Profit before Tax	6,343	5,239	4,682	6,377
Margin (%)	25.2	18.5	13.7	21.2
Total Tax	1,595	1,318	1,183	1,616
Effective tax rate (%)	25.2	25.2	25.3	25.3
Profit after Tax	4,747	3,921	3,499	4,761
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,747	3,921	3,499	4,761
YoY gr. (%)	(8.2)	99.5	42.3	711.7
Margin (%)	18.9	13.9	10.2	15.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,747	3,921	3,499	4,761
YoY gr. (%)	(8.2)	99.5	42.3	711.7
Margin (%)	18.9	13.9	10.2	15.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,747	3,921	3,499	4,761
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	18.5	22.2	28.1	34.0
CEPS	23.5	27.8	34.3	40.7
BVPS	65.1	90.3	120.3	155.3
FCF	13.0	19.9	24.5	30.5
DPS	2.0	2.7	4.2	5.8
Return Ratio(%)				
RoCE	33.7	34.1	32.3	28.9
ROIC	21.5	23.1	25.9	28.0
RoE	32.8	28.6	26.7	24.6
Balance Sheet				
Net Debt : Equity (x)	0.1	(0.2)	(0.3)	(0.5)
Net Working Capital (Days)	14	14	14	14
Valuation(x)				
PER	33.5	27.9	22.1	18.3
P/B	9.5	6.9	5.2	4.0
P/CEPS	26.5	22.3	18.1	15.3
EV/EBITDA	20.7	17.4	14.0	11.5
EV/Sales	4.4	3.5	2.7	2.3
Dividend Yield (%)	0.3	0.4	0.7	0.9

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
CNG (mmscmd)	1.3	2.1	2.5	3.0
Industrial PNG (mmscmd)	7.4	8.5	10.2	11.3
Domestic PNG (mmscmd)	0.6	0.8	0.9	0.9
Commercial PNG (mmscmd)	0.1	0.1	0.1	0.2
USD/INR	74.3	76.5	78.8	81.2
Spreads (Rs/scm)	6.1	5.7	5.7	5.9

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Aug-21	BUY	896	772
2	02-Jul-21	UR	-	665
3	01-Jun-21	BUY	666	540
4	05-Apr-21	UR	-	549
5	06-Feb-21	BUY	528	380
6	08-Jan-21	BUY	403	387
7	06-Jan-21	BUY	403	386
8	05-Nov-20	BUY	403	301
9	07-Oct-20	BUY	388	304
10	05-Oct-20	BUY	388	311

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Hold	985	952
2	Bharat Petroleum Corporation	BUY	581	448
3	Burger King India	BUY	250	168
4	GAIL (India)	BUY	184	143
5	Gujarat Gas	BUY	896	772
6	Hindustan Petroleum Corporation	BUY	404	265
7	Indian Oil Corporation	BUY	135	106
8	Indraprastha Gas	BUY	662	535
9	Mahanagar Gas	BUY	1,370	1,109
10	NOCIL	BUY	393	283
11	Oil & Natural Gas Corporation	BUY	155	116
12	Oil India	BUY	328	167
13	Petronet LNG	BUY	351	215
14	Reliance Industries	BUY	2,416	2,106

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

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