

Gujarat Gas

BSE SENSEX

59,745

S&P CNX

17,822



Stock Info

Bloomberg	GUJGA IN
Equity Shares (m)	688
M.Cap.(INRb)/(USDb)	432 / 5.8
52-Week Range (INR)	787 / 281
1, 6, 12 Rel. Per (%)	-13/-7/48
12M Avg Val (INR M)	841
Free float (%)	39.1

Financials Snapshot (INR b)

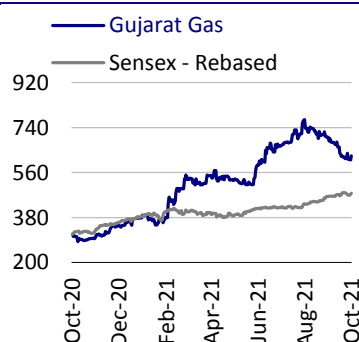
Y/E March	FY22E	FY23E	FY24E
Sales	124.9	187.0	213.9
EBITDA	21.9	29.7	32.9
PAT	13.8	19.7	22.1
EPS (INR)	20.0	28.6	32.1
EPS Gr. (%)	7.8	43.2	12.2
BV/Sh.(INR)	83.1	108.8	137.7
Ratios			
Net D:E	-0.1	-0.3	-0.4
RoE (%)	27.0	29.8	26.0
RoCE (%)	33.1	38.5	34.3
Payout (%)	10.0	10.0	10.0
Valuations			
P/E (x)	31.4	22.0	19.6
P/BV (x)	7.6	5.8	4.6
EV/EBITDA (x)	19.6	13.8	12.0
Div. Yield (%)	0.3	0.5	0.5
FCF Yield (%)	2.3	4.4	4.2

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	60.9	60.9	60.9
DII	7.9	7.4	7.4
FII	8.2	8.6	9.2
Others	23.0	23.1	22.5

FII Includes depository receipts

Stock Performance (1-year)


CMP: INR628
TP: INR850 (+35%)
Buy

Bold move to protect margins

- Spot LNG prices surged to as high as USD35/mmBtu for Jan'22 delivery. To combat this impact, GUJGA took price hikes of INR9.5/scm in PNG-industrial and INR16/scm in PNG-commercial.
- Since domestic gas prices rose to USD2.9/mmBtu (GCV) from USD1.8/mmBtu, the company also took a hike of INR2.5/kg in CNG.
- Contrary to earlier instances, the pricing strategy surely confirms the management's resolve to protect EBITDA/scm at INR4.5–5.5/scm. We reiterate Buy on GUJGA with Target Price of INR850/share.

Spot LNG prices wreaking havoc

- Spot LNG prices have risen to USD35/mmBtu for Jan'22, from lows of USD2/mmBtu in May 2020. Low gas prices, coupled with low oil production and associated gas production, resulted in low gas inventory across the globe.
- A severe winter in the US further worsened supply, resulting in spot LNG prices surging to USD32/mmBtu in Jan'21. However, as the production of associated gas rose, prices soon fell to USD10/mmBtu.
- However, an unusually hot summer in Europe, coupled with low supply from Russia and Norway, resulted in European gas inventory declining to 50% full, compared with 80% full a year ago. Meanwhile, delays reported at LNG terminals forced the current spike in spot LNG prices.

GUJGA hikes gas prices

- Owing to high spot usage in its mix, GUJGA has taken hikes of INR9.5/scm in its PNG-industrial and INR16/scm in PNG-commercial. **Unless LNG prices rise sharply hereafter, management's margin guidance at INR4.5–5.5/scm would be well-protected.**
- After the shutdowns implemented by some consumers in 2QFY22, sales volumes at Morbi appear to be back at 6.5–7mmcmd. Even after the hike, PNG-industrial is the cheapest green option available in Morbi. However, the hike may result in some pressure on sales volumes in the near term.
- Nonetheless, we reiterate the volume potential for GUJGA remains the best among the CGDs owing to its highest exposure in the Industrial segment. The recent Supreme Court order in favor of the company for Ahmedabad rural further presents the prospect of 0.8–1mmcmd over the next 2–3 years.

Valuation and recommendation – maintain Buy

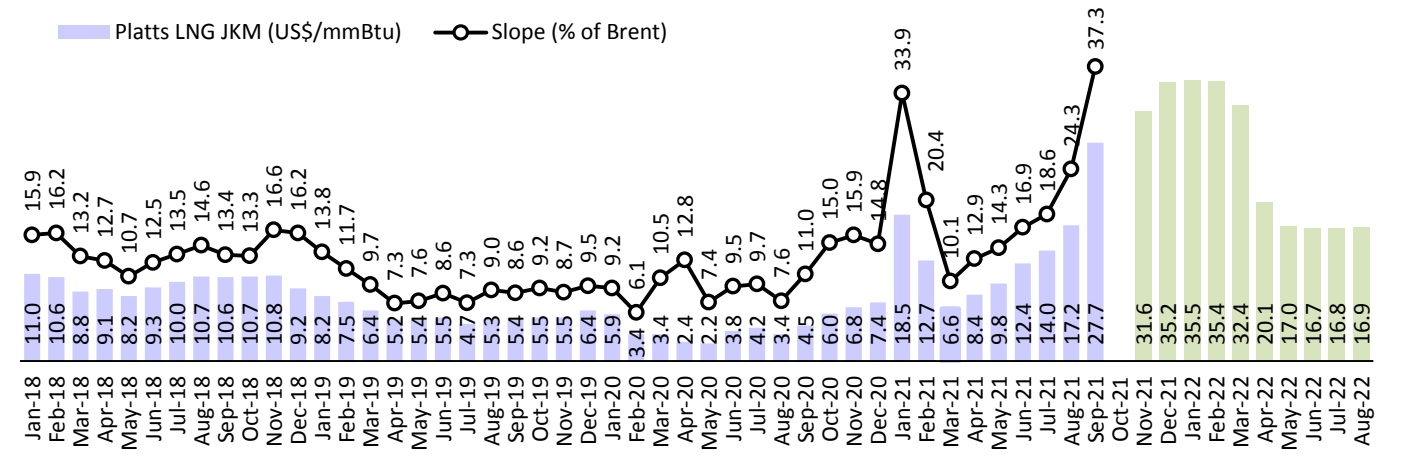
- The sharp hike in gas prices by GUJGA clearly indicates the company would try to protect its margins even in adverse situations. On the contrary, since CNG impacts the lower strata of the economic population, we expect margin contraction in the CNG segment for all CGDs.
- Gujarat is home to five industrial clusters, classified as 'severely/critically polluted' in terms of air pollution. As we emerge from the COVID pandemic, we expect to see stricter norms implemented in these industrial clusters, which may raise GUJGA's volume prospects.
- GUJGA trades at 22x FY23 EPS. On strong volume prospects, we value the company at 28x Sep'23 EPS; we re-iterate Buy, with TP of INR850.

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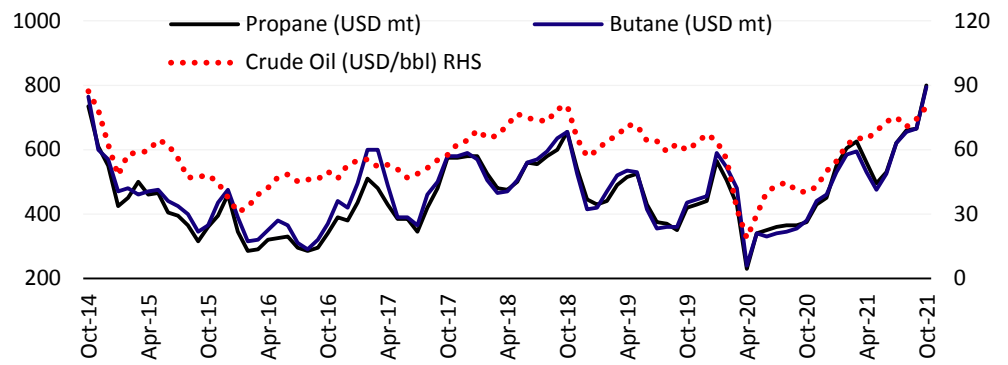
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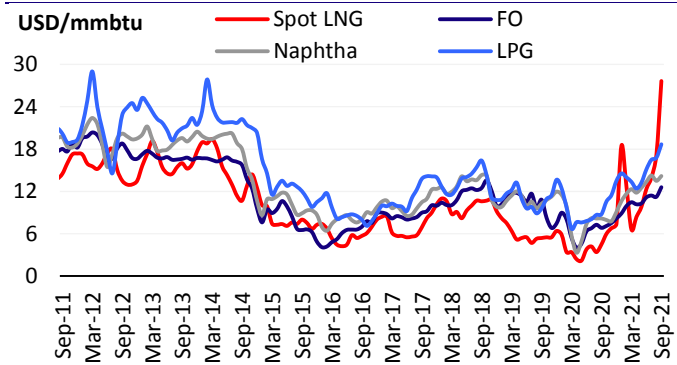
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Exhibit 1: Spot LNG prices – forward curve suggests spot LNG prices at ~USD35/mmbtu in Jan'22

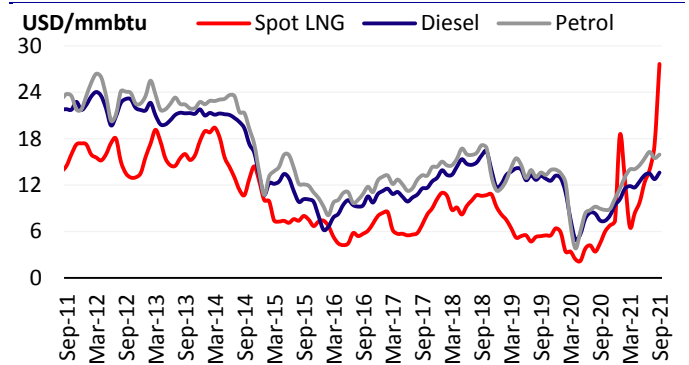
Source: Reuters, MOFSL

Exhibit 2: Propane prices move up in tandem with Brent prices...

Source: Saudi Aramco, MOFSL

Exhibit 3: ...but recent spurt in spot LNG prices makes it most expensive v/s other fuels...

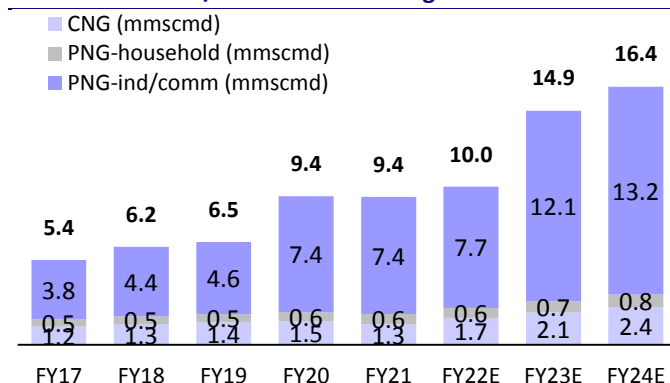
Source: Reuters, MOFSL

Exhibit 4: ...resulting in higher demand for Brent as a substitute fuel

Source: Reuters, MOFSL

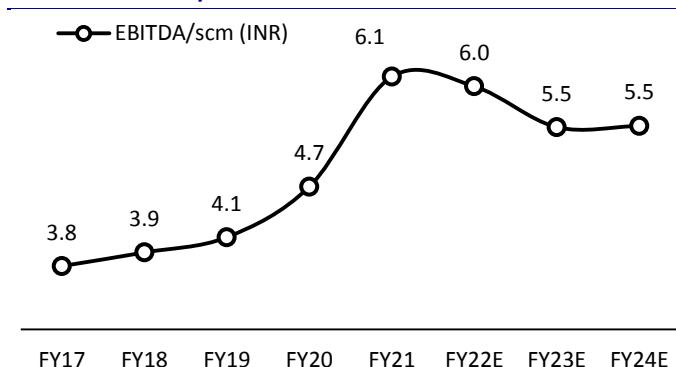
Key assumption charts

Exhibit 5: PNG – I/C to boost volume growth



Source: Company, MOFSL

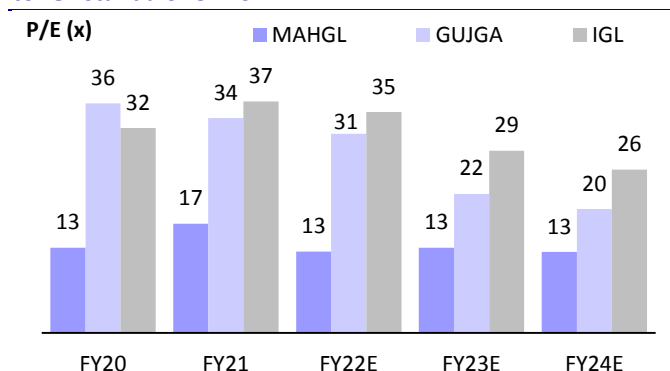
Exhibit 6: EBITDA/scm to normalize at ~INR5.5 over FY23–24E



Source: Company, MOFSL

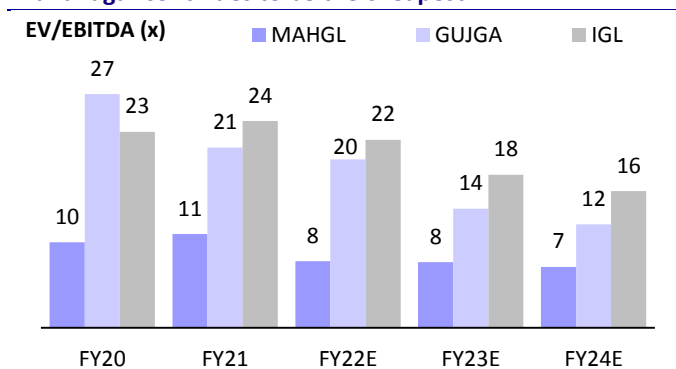
Peer comparison charts – GUJGA trades at discount to IGL

Exhibit 7: On FY23–24 P/E, GUJGA trades at (~24%) discount to IGL standalone EPS



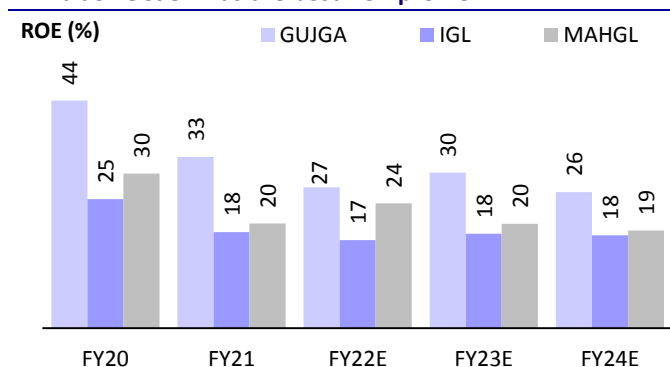
Source: Company, MOFSL

Exhibit 8: ...with similar EV/EBITDA discount as well; Mahanagar continues to be the cheapest



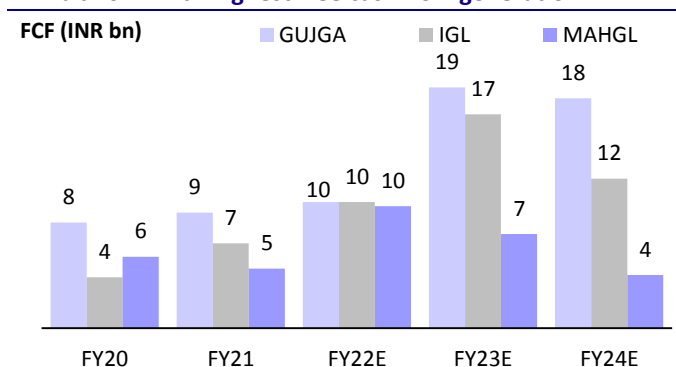
Source: Company, MOFSL

Exhibit 9: GUJGA has the best ROE profile...



Source: Company, MOFSL

Exhibit 10: ...with highest free cash flow generation



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	50,926	61,743	77,544	1,03,003	98,543	1,24,949	1,87,017	2,13,869
Change (%)	-16.6	21.2	25.6	32.8	-4.3	26.8	49.7	14.4
EBITDA	7,433	8,951	9,846	16,343	20,878	21,895	29,711	32,858
Margin (%)	14.6	14.5	12.7	15.9	21.2	17.5	15.9	15.4
Depreciation	2,573	2,718	2,880	3,180	3,408	3,700	3,882	4,117
EBIT	4,860	6,232	6,966	13,163	17,470	18,196	25,829	28,741
Int. and Finance Charges	2,090	1,961	1,962	1,922	1,163	558	320	170
Other Income	263	357	1,113	837	740	751	806	968
PBT bef. EO Exp.	3,033	4,628	6,117	12,078	17,047	18,388	26,316	29,539
EO Items	0	0	-179	0	0	0	0	0
PBT after EO Exp.	3,033	4,628	5,939	12,078	17,047	18,388	26,316	29,539
Current Tax	838	1,715	1,768	145	4,292	4,634	6,624	7,435
Tax Rate (%)	27.6	37.0	29.8	1.2	25.2	25.2	25.2	25.2
Reported PAT	2,195	2,914	4,170	11,933	12,755	13,754	19,692	22,104
Adjusted PAT	2,195	2,914	4,296	11,933	12,755	13,754	19,692	22,104
Change (%)	6.3	32.7	47.4	177.8	6.9	7.8	43.2	12.2
Margin (%)	4.3	4.7	5.5	11.6	12.9	11.0	10.5	10.3

Standalone - Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	1,377	1,377	1,377	1,377	1,377	1,377	1,377	1,377
Total Reserves	15,072	17,087	20,463	31,529	43,450	55,829	73,552	93,445
Net Worth	16,449	18,464	21,840	32,906	44,827	57,206	74,928	94,822
Deferred Tax Liabilities	9,849	10,455	10,816	8,005	8,063	8,063	8,063	8,063
Total Loans	22,987	22,143	20,892	18,344	7,700	4,700	1,700	1,700
Capital Employed	49,285	51,062	53,547	59,255	60,589	69,968	84,691	1,04,584
Gross Block	59,393	64,021	68,861	73,531	80,530	83,909	88,611	94,373
Less: Accum. Deprn.	10,376	13,094	15,974	19,154	22,562	26,262	30,144	34,261
Net Fixed Assets	49,017	50,927	52,887	54,377	57,968	57,646	58,467	60,112
Capital WIP	5,071	4,797	4,902	5,708	6,892	13,513	18,811	23,048
Total Investments	683	161	160	1,633	1,873	1,873	1,873	1,873
Curr. Assets, Loans&Adv.	8,714	10,449	13,326	17,255	17,761	27,381	50,951	71,506
Inventory	417	568	694	463	522	693	1,057	1,217
Account Receivables	3,475	3,917	5,103	5,101	7,831	9,929	14,862	16,996
Cash and Bank Balance	608	1,363	3,092	6,919	3,187	8,870	23,225	39,791
...of which cash	175	931	944	5,472	2,764	8,447	22,802	39,369
Bank balance	433	432	2,148	1,447	423	423	423	423
Loans and Advances	4,214	4,601	4,437	4,772	6,222	7,889	11,807	13,503
Curr. Liability & Prov.	14,199	15,271	17,727	19,718	23,905	30,445	45,412	51,956
Account Payables	3,140	2,931	3,523	3,670	4,458	5,915	9,030	10,390
Other Current Liabilities	10,660	11,957	13,724	15,015	18,684	23,691	35,459	40,550
Provisions	399	383	480	1,033	763	839	923	1,016
Net Current Assets	-5,485	-4,822	-4,402	-2,464	-6,144	-3,065	5,540	19,551
Appl. of Funds	49,285	51,062	53,548	59,255	60,589	69,968	84,691	1,04,585

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March (INR)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
EPS	3.2	4.2	6.2	17.3	18.5	20.0	28.6	32.1
Cash EPS	6.9	8.2	10.4	22.0	23.5	25.4	34.2	38.1
BV/Share	23.9	26.8	31.7	47.8	65.1	83.1	108.8	137.7
DPS	0.6	0.8	1.0	1.3	2.0	2.0	2.9	3.2
Payout (%)	22.6	22.8	19.9	8.7	10.8	10.0	10.0	10.0
Valuation (x)								
P/E	197.0	148.4	100.6	36.2	33.9	31.4	22.0	19.6
Cash P/E	90.7	76.8	60.2	28.6	26.7	24.8	18.3	16.5
P/BV	26.3	23.4	19.8	13.1	9.6	7.6	5.8	4.6
EV/Sales	8.9	7.3	5.8	4.3	4.4	3.4	2.2	1.8
EV/EBITDA	61.2	50.6	45.7	27.2	20.9	19.6	13.8	12.0
Dividend Yield (%)	0.1	0.1	0.2	0.2	0.3	0.3	0.5	0.5
FCF per share	3.2	4.8	6.5	12.0	13.1	14.3	27.4	26.1
Return Ratios (%)								
RoE	13.9	16.7	21.3	43.6	32.8	27.0	29.8	26.0
RoCE	14.3	16.5	19.4	29.8	35.1	33.1	38.5	34.3
Working Capital Ratios								
Asset Turnover (x)	1.0	1.2	1.4	1.7	1.6	1.8	2.2	2.0
Inventory (Days)	3	3	3	2	2	2	2	2
Debtor (Days)	25	23	24	18	29	29	29	29
Creditor (Days)	23	17	17	13	17	17	18	18
Working Cap. Turnover (Days)	-44	-37	-35	-33	-35	-35	-35	-35
Leverage Ratio (x)								
Current Ratio	0.6	0.7	0.8	0.9	0.7	0.9	1.1	1.4
Debt/Equity	1.4	1.1	0.8	0.3	0.1	-0.1	-0.3	-0.4

Standalone - Cash Flow Statement

	(INR m)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	3,033	4,628	5,939	12,078	17,047	18,388	26,316	29,539
Depreciation	2,573	2,718	2,880	3,180	3,408	3,700	3,882	4,117
Interest & Finance Charges	2,090	1,961	1,962	1,922	1,163	558	320	170
Direct Taxes Paid	-489	-1,040	0	-2,801	-4,166	-4,634	-6,624	-7,435
(Inc)/Dec in WC	-118	-231	-288	413	-537	2,604	5,751	2,556
Others	-80	-190	-849	-571	-364	-751	-806	-968
CF from Operations	7,010	7,847	9,644	14,220	16,552	19,866	28,838	27,979
(Inc)/Dec in FA	-4,805	-4,555	-5,376	-5,956	-7,513	-10,000	-10,000	-10,000
Free Cash Flow	2,205	3,292	4,447	8,265	9,039	9,866	18,838	17,979
Others	296	198	-761	1,287	1,430	751	806	968
CF from Investments	-4,509	-4,357	-6,137	-4,668	-6,083	-9,249	-9,194	-9,032
Inc/(Dec) in Debt	176	-248	-1,139	-2,149	-11,016	-3,000	-3,000	0
Interest Paid	-2,316	-1,986	-1,947	-1,864	-1,163	-558	-320	-170
Dividend Paid	-414	-499	-408	-837	-863	-1,375	-1,969	-2,210
CF from Fin. Activity	-2,553	-2,733	-3,494	-5,025	-13,177	-4,933	-5,289	-2,380
Inc/Dec of Cash	-52	757	13	4,527	-2,708	5,683	14,355	16,566
Opening Balance	228	176	933	945	5,472	2,764	8,447	22,802
Closing Balance	175	931	944	5,472	2,764	8,447	22,802	39,369

E: MOFSL Estimates

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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