

Gujarat Gas

BSE SENSEX
51,823

S&P CNX
15,413

CMP: INR407

TP: INR650 (+60%)

Buy

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Stock Info

Bloomberg	GUJGA IN
Equity Shares (m)	688
M.Cap.(INRb)/(USDb)	280.5 / 3.6
52-Week Range (INR)	787 / 406
1, 6, 12 Rel. Per (%)	-24/-26/-38
12M Avg Val (INR M)	1156
Free float (%)	39.1

Financials Snapshot (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	164.6	148.8	172.6
EBITDA	20.8	23.4	27.1
PAT	12.9	14.6	17.2
EPS (INR)	18.8	21.2	25.0
EPS Gr. (%)	2.1	12.9	17.8
BV/Sh.(INR)	81.3	100.3	122.6

Ratios

Net D:E	0.1	0.0	-0.2
RoE (%)	25.8	23.4	22.4
RoCE (%)	31.5	30.2	29.5
Payout (%)	12.9	10.7	10.7

Valuations

P/E (x)	27.0	23.9	20.3
P/BV (x)	6.3	5.1	4.1
EV/EBITDA (x)	17.1	14.9	12.5
Div. Yield (%)	0.4	0.4	0.5
FCF Yield (%)	0.9	2.2	3.5

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	60.9	60.9	60.9
DII	9.5	8.0	7.4
FII	6.0	7.7	8.6
Others	23.6	23.4	23.1

FII Includes depository receipts

Strong as a hulk!

...Domestic gas to lower sourcing cost

- Spot LNG prices have risen to USD34/mmBtu from USD19/mmBtu in CY21, making alternate fuels such as LPG more attractive in Morbi, Gujarat.
- However, we highlight that over the long term, LNG would continue to remain cheaper than LPG, except during the summer season. Further, increased availability of domestic gas over the few months is likely to help GUJGA reduce its sourcing cost, thereby help improve its margins.
- GUJGA trades at 20x FY24 EPS of INR25. We expect its volume to register a CAGR of 13% over FY22-24E. Valuing the stock at 26x FY24E EPS, we reiterate our Buy rating on the company and retain it as our top pick in the sector.

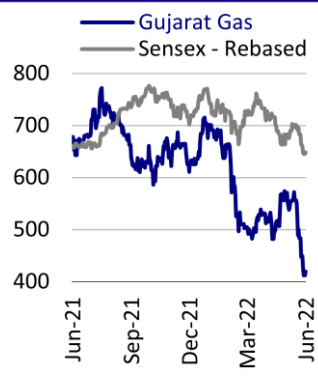
Spot LNG prices create havoc

- Russia is the second largest producer of natural gas, accounting for ~26% of global gas trade via pipeline as well as ~8% of global LNG trade
- The ongoing Russia-Ukraine crisis has driven up LNG prices to USD34/mmBtu from its USD19/mmBtu in CY21
- [GUJGA has offered reduced prices to the district of Morbi until Aug'22.](#) However, prices are still higher at INR58/scm compared with its INR27/scm from about two years ago. In order to hedge against the rise in prices, the company has gotten into a forward contract to buy a large part of its spot requirement till early CY23 at much lower prices.

LNG penetration increases in Morbi, but only a risk during summer

- There are ~700 ceramic units at Morbi, while another 15-20 units are coming up at Aniyari. Out of these, ~160 units are currently undergoing LPG installations, while another 70-80 units are in their various phases of construction
- While total gas demand (LNG/LPG) in Morbi is 8-8.5mmscmd, consumption at its peak stands at ~7.5mmscmd as witnessed in 4QFY21, since some of the ceramic units are under maintenance. The demand peak is expected to reach 9-9.5mmscmd in another 1-1.5 years.
- With the fixed unit cost of LPG installation at INR7-10m, it does not look economical for smaller units consuming less than 2,500-3,000scmd. While the current LPG consumption stands at ~1-1.2mmscmd, we expect the total LPG capacity to rise to ~2mmscmd by CY22-end. However, barring the current flux in LNG markets, we expect LNG prices to remain cheaper than LPG, except during the summers.

Stock Performance (1-year)



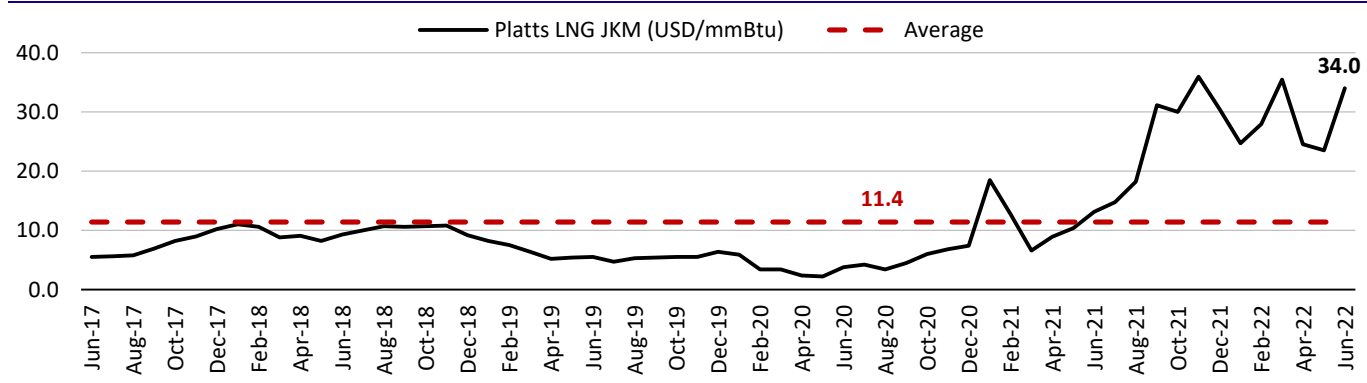
Other demand avenues remain strong

- We expect Ahmedabad rural to have a peak demand of 1-1.5mmscmd in 1-2 years. The recently acquired Amritsar and Bhatinda from GSPL would aid both CNG as well as industrial volumes for the company, and we expect its peak potential to be around 0.5-0.8mmscmd. Other areas for growth are Jhagadia Phase-II, Dahej, Silvassa, and Thane rural.
- After a long time, GUJGA has started adding 100-150 CNG outlets each year. The wider spread of CNG outlets is likely to boost CNG volumes, which already reflects in the company’s quarterly sales performance. CNG volume is expected to grow at 15-20% annually.
- There are five industrial clusters in Gujarat classified as critically/severely polluted with respect to air pollution. Over the long term, with the enforcement of stricter emission control measures by the authorities , we can expect an overall rise in demand for GUJGA.

Valuation and View

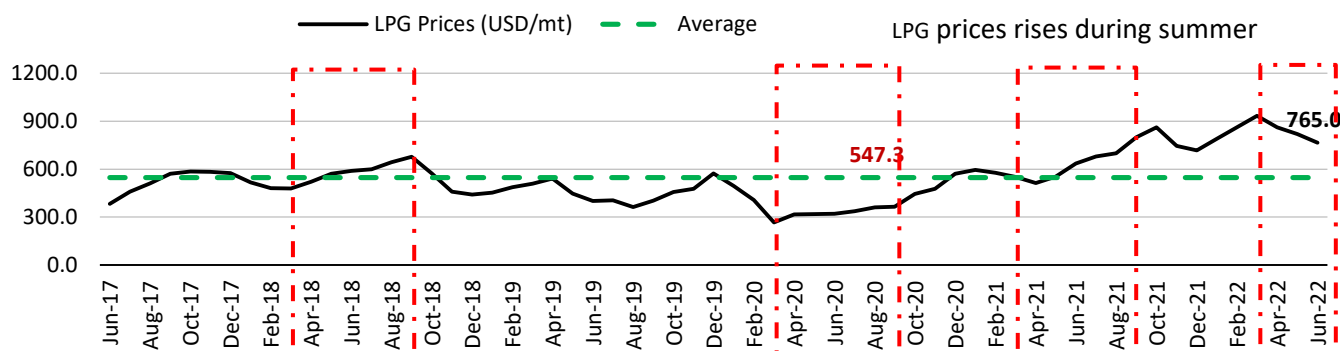
- Domestic gas availability is expected to rise by ~12mmscmd (RIL) and 10mmscmd (ONGC) over the next few months. Even at a 12% slope of Brent, it would be half of the current tied-up spot LNG prices. At current consumption of 10.5mmscmd, GUJGA is expected to have ~1.7mmscmd of spot LNG in its sourcing. If it replaces the whole spot LNG by domestic gas at 12% slope, the sourcing cost for total industrial sales would be reduced by ~INR8/scm.
- While increased LPG installations would affect LNG consumption, especially during the summer season, overall, we do not expect it to be a threat to LNG penetration in the state
- We estimate 11.8/13.5mmscmd of total sales in FY23/24, up from 10.7mmscmd in FY22. Our EBITDA/scm estimate stands at INR5.5 for FY23/24, up from INR5.3 in FY22. We value the stock at 26x FY24E EPS and **reiterate it as the top pick in the sector.**

Exhibit 1: LNG prices for the past 5 years



Sources: Company, MOFSL

Exhibit 2: LPG prices for the past 5 years



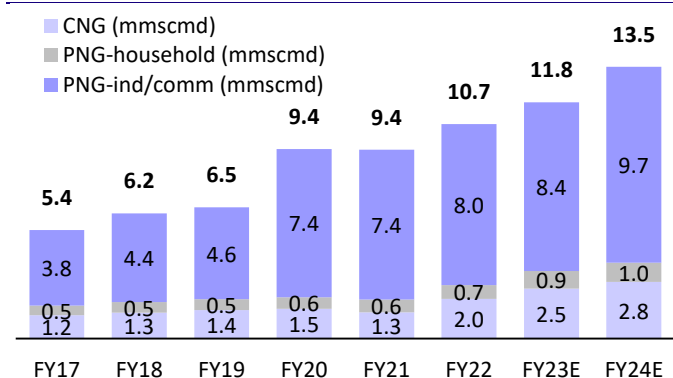
Source: Company, MOFSL

Exhibit 3: Impact of replacing spot LNG by domestic gas

Particulars	mmscmd	Remarks
Industrial		
Cairn India	0.3	
KG basin	0.7	
Vedanta	1.3	1.5 due to high calorific value
BG	2.5	
RasGas	1.0	
PNG-domestic	0.8	
CNG	2.2	
Total sales	10.5	
Spot		
Current tied up price for spot LNG (USD/mmBtu)	25.0	
Assume new domestic gas at 12% slope to Brent	13.8	at USD115/bbl of Brent
Reduction in cost (USD/mmBtu)	11.2	
Reduction in cost for sourcing basket for industrial sales (USD/mmBtu)	2.5	
INR/mmBtu	198.0	
INR/scm	7.9	

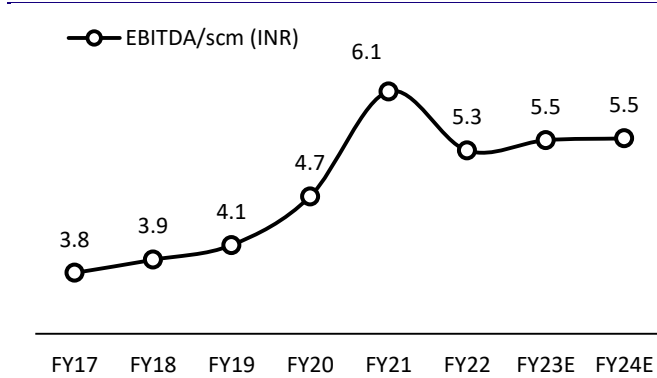
Source: Company, MOFSL

Exhibit 4: PNG Industrial/Commercial to boost volume growth



Sources: Company, MOFSL

Exhibit 5: EBITDA/scm to normalize to ~INR5.5 from FY21 levels



Sources: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	50,926	61,743	77,544	1,03,003	98,664	1,64,562	1,48,787	1,72,617
Change (%)	-16.6	21.2	25.6	32.8	-4.2	66.8	-9.6	16.0
EBITDA	7,433	8,951	9,846	16,343	20,842	20,763	23,425	27,050
Margin (%)	14.6	14.5	12.7	15.9	21.1	12.6	15.7	15.7
Depreciation	2,573	2,718	2,880	3,180	3,436	3,849	4,284	4,495
EBIT	4,860	6,232	6,966	13,163	17,406	16,914	19,141	22,555
Int. and Finance Charges	2,090	1,961	1,962	1,922	1,168	568	331	181
Other Income	263	357	1,113	837	714	907	722	641
PBT bef. EO Exp.	3,033	4,628	6,117	12,078	16,953	17,253	19,532	23,016
EO Items	0	0	-179	0	0	-119	0	0
PBT after EO Exp.	3,033	4,628	5,939	12,078	16,953	17,134	19,532	23,016
Current Tax	838	1,715	1,768	145	4,272	4,278	4,916	5,793
Tax Rate (%)	27.6	37.0	29.8	1.2	25.2	25.0	25.2	25.2
Reported PAT	2,195	2,914	4,170	11,933	12,682	12,856	14,616	17,223
Adjusted PAT	2,195	2,914	4,296	11,933	12,682	12,946	14,616	17,223
Change (%)	6.3	32.7	47.4	177.8	6.3	2.1	12.9	17.8
Margin (%)	4.3	4.7	5.5	11.6	12.9	7.9	9.8	10.0

Standalone - Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	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	43,110	54,616	67,667	83,045
Net Worth	16,449	18,464	21,840	32,906	44,486	55,993	69,044	84,422
Deferred Tax Liabilities	9,849	10,455	10,816	8,005	7,925	8,077	8,077	8,077
Total Loans	22,987	22,143	20,892	18,344	7,700	4,811	1,811	1,811
Capital Employed	49,285	51,062	53,547	59,255	60,111	68,881	78,932	94,310
Gross Block	59,393	64,021	68,861	73,531	81,252	90,156	94,090	99,238
Less: Accum. Deprn.	10,376	13,094	15,974	19,154	22,590	26,439	30,722	35,217
Net Fixed Assets	49,017	50,927	52,887	54,377	58,662	63,717	63,368	64,020
Capital WIP	5,071	4,797	4,902	5,708	7,088	9,672	15,738	20,590
Total Investments	683	161	160	1,633	1,926	2,806	2,806	2,806
Curr. Assets, Loans, and Adv.	8,714	10,449	13,326	17,255	17,411	19,358	21,162	34,848
Inventory	417	568	694	463	525	534	465	540
Account Receivables	3,475	3,917	5,103	5,101	7,747	9,301	8,409	9,756
Cash and Bank Balance	608	1,363	3,092	6,919	3,189	180	3,839	14,751
...of which cash	175	931	944	5,482	2,767	164	3,824	14,735
Bank balance	433	432	2,148	1,447	422	15	15	15
Loans and Advances	4,214	4,601	4,437	4,772	5,950	9,344	8,448	9,801
Curr. Liability and Prov.	14,199	15,271	17,727	19,718	24,976	26,672	24,141	27,954
Account Payables	3,140	2,931	3,523	3,670	4,473	4,456	3,885	4,511
Other Current Liabilities	10,660	11,957	13,724	15,015	19,740	21,349	19,302	22,394
Provisions	399	383	480	1,033	763	867	954	1,049
Net Current Assets	-5,485	-4,822	-4,402	-2,464	-7,565	-7,314	-2,979	6,894
Appl. of Funds	49,285	51,062	53,548	59,255	60,111	68,881	78,932	94,311

Financials and valuations

Ratios

Y/E March (INR)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	3.2	4.2	6.2	17.3	18.4	18.8	21.2	25.0
Cash EPS	6.9	8.2	10.4	22.0	23.4	24.4	27.5	31.5
BV/Share	23.9	26.8	31.7	47.8	64.6	81.3	100.3	122.6
DPS	0.6	0.8	1.0	1.3	2.0	2.0	2.3	2.7
Payout (%)	22.6	22.8	19.9	8.7	13.1	12.9	10.7	10.7
Valuation (x)								
P/E	159.4	120.1	81.5	29.3	27.6	27.0	23.9	20.3
Cash P/E	73.4	62.1	48.8	23.2	21.7	20.8	18.5	16.1
P/BV	21.3	19.0	16.0	10.6	7.9	6.3	5.1	4.1
EV/Sales	7.3	6.0	4.7	3.5	3.6	2.2	2.3	2.0
EV/EBITDA	50.1	41.4	37.4	22.1	17.0	17.1	14.9	12.5
Dividend Yield (%)	0.1	0.2	0.2	0.2	0.4	0.4	0.4	0.5
FCF per share	3.2	4.8	6.5	12.0	13.1	4.5	11.4	17.9
Return Ratios (%)								
RoE	13.9	16.7	21.3	43.6	32.8	25.8	23.4	22.4
RoCE	14.3	16.5	19.4	29.8	35.0	31.5	30.2	29.5
Working Capital Ratios								
Asset Turnover (x)	1.0	1.2	1.4	1.7	1.6	2.4	1.9	1.8
Inventory (Days)	3	3	3	2	2	1	1	1
Debtor (Days)	25	23	24	18	29	21	21	21
Creditor (Days)	23	17	17	13	17	10	10	10
Working Cap. Turnover (Days)	-44	-37	-35	-33	-40	-17	-17	-17
Leverage Ratio (x)								
Current Ratio	0.6	0.7	0.8	0.9	0.7	0.7	0.9	1.2
Debt/Equity ratio	1.4	1.1	0.8	0.3	0.1	0.1	0.0	-0.2

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	3,033	4,628	5,939	12,078	16,953	17,134	19,532	23,016
Depreciation	2,573	2,718	2,880	3,180	3,436	3,849	4,284	4,495
Interest and Finance Charges	2,090	1,961	1,962	1,922	1,168	568	331	181
Direct Taxes Paid	-489	-1,040	0	-2,801	-4,166	-4,363	-4,916	-5,793
(Inc.)/Dec. in WC	-118	-231	-288	413	-437	-95	-675	1,038
Others	-80	-190	-849	-571	-365	-476	-722	-641
CF from Operations	7,010	7,847	9,644	14,220	16,588	16,617	17,833	22,295
(Inc.)/Dec. in FA	-4,805	-4,555	-5,376	-5,956	-7,556	-13,663	-10,000	-10,000
Free Cash Flow	2,205	3,292	4,447	8,265	9,033	3,073	7,833	12,295
Others	296	198	-761	1,287	1,432	728	722	641
CF from Investments	-4,509	-4,357	-6,137	-4,668	-6,124	-12,935	-9,278	-9,359
Inc./(Dec.) in Debt	176	-248	-1,139	-2,149	-11,016	-4,193	-3,000	0
Interest Paid	-2,316	-1,986	-1,947	-1,864	-1,165	-531	-331	-181
Dividend Paid	-414	-499	-408	-837	-863	-1,375	-1,565	-1,844
CF from Fin. Activity	-2,553	-2,733	-3,494	-5,015	-13,179	-6,284	-4,896	-2,025
Inc./Dec. in Cash	-52	757	13	4,537	-2,714	-2,602	3,659	10,911
Opening Balance	228	176	933	945	5,482	2,767	165	3,824
Closing Balance	176	933	945	5,482	2,767	165	3,824	14,735

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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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