

June 24, 2022

Company Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	553		650	
Sales (Rs. m)	1,76,679	1,66,522	1,76,670	1,62,023
% Chng.	-	2.8		
EBITDA (Rs. m)	22,973	26,012	21,839	26,039
% Chng.	5.2	(0.1)		
EPS (Rs.)	21.6	25.8	20.4	25.8
% Chng.	6.2	0.1		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	98,664	1,64,562	1,76,679	1,66,522
EBITDA (Rs. m)	20,842	20,763	22,973	26,012
Margin (%)	21.1	12.6	13.0	15.6
PAT (Rs. m)	12,681	12,856	14,880	17,752
EPS (Rs.)	18.4	18.7	21.6	25.8
Gr. (%)	6.3	1.4	15.7	19.3
DPS (Rs.)	2.0	2.0	3.2	4.4
Yield (%)	0.5	0.5	0.8	1.1
RoE (%)	32.6	24.5	21.7	20.5
RoCE (%)	33.5	29.3	26.3	23.9
EV/Sales (x)	2.9	1.7	1.5	1.5
EV/EBITDA (x)	13.7	13.3	11.3	9.3
PE (x)	22.2	21.9	18.9	15.9
P/BV (x)	6.3	4.7	3.7	2.9

Key Data

GGAS.BO | GUJGA IN

52-W High / Low	Rs.787 / Rs.404	
Sensex / Nifty	52,266 / 15,557	
Market Cap	Rs.282bn / \$ 3,596m	
Shares Outstanding	688m	
3M Avg. Daily Value	Rs.1132.36m	

Shareholding Pattern (%)

Promoter's	60.89
Foreign	5.98
Domestic Institution	9.53
Public & Others	23.60
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(26.0)	(35.5)	(37.3)
Relative	(23.1)	(29.3)	(37.3)

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Deftly negotiating through tough times

Quick Pointers:

- Spot LNG tie-ups till Feb-23 to insulate GGAS in a gas inflationary environment.
- GGAS to maximize volumes in H2 when competing propane prices are higher.

GGAS has underperformed the broader index by ~50% over last four months, as geopolitical tensions keep spot LNG prices at elevated levels of >USD30/mmbtu. Reports of ceramic units in Morbi switching to propane usage (competing fuel) have also impacted the stock performance. At CMP stock trades closer to -1 standard deviation consensus PER of last three years of 17.6x. We believe GGAS is very well placed to navigate this situation and has tied spot LNG purchase till Feb 2023 at ~USD28/mmbtu, when winter gas demand from EU will be highest. In the near term, we do not expect GGAS to compete with propane as prices are seasonally weak in Q2 and will increase in H2 (prices are higher in H2 for last five years except in FY19 due to pandemic). Further, sustained high spot LNG prices due to geopolitical tension will lead to more users setting up LPG plants which could put GGAS margins under pressure.

In a high gas cost environment, we expect GGAS to prioritize margins over volumes (like in Q4FY22) and limit spot purchase to contracted amount. We lower our FY23/24E volumes by ~6%, but factor in higher margins and our earnings change is ~6% for FY23E. We factor in ~9% volume growth and ~18% CAGR earnings growth over FY22-24E. We also reduce medium term volumes, even as we maintain margins of ~Rs6/scm and increase risk free rate to 7.4% (6.5% earlier) Accordingly, our revised DCF based PT stands at Rs553 (Rs650). Reiterate 'BUY'.

All round turbulence to keep volume growth muted: Global turbulence due to lower gas supplies by Russia and disruptions at Freeport LNG plant have pushed spot LNG prices back to ~USD35/mmbtu in Jun-22 from USD22/mmbtu in early Apr-22. Meanwhile propane prices (which is a competing fuel to GGAS) have corrected ~10% to ~\$16/mmbtu recently from Q4 average. Propane prices are seasonally weak in Q2 (refer the chart below) and generally pick up from H2 (over last five years except in FY19 due to pandemic).

Accordingly, we expect GGAS's quarterly volumes to be volatile with pick up in H2 when competing propane prices are high. Currently propane prices of Rs58/scm are ~6% cheaper to gas supplied by GGAS, due to VAT of 6%. But as propane prices inch up in H2 this differential will narrow and GGAS will be in a much better position to moderate margins and volumes.

We lower our FY23/24E gas sales volume assumption to 11.2/12.6 mmscmd from 11.9/13.5 mmscmd earlier and also lower our medium term volume (FY25-30E) assumptions by ~7%.

Focus shifts to profitable volume growth: In an unusually high gas price environment, we don't expect GGAS to compete with seasonally weak propane and drive volumes in H2 when propane prices are higher. GGAS has tied in spot volumes till Sept 22 at USD22-25/bbl while for winters at USD28/mmbtu. With GGAS tying in spot LNG price at till Feb 2023, the company looks very well placed to navigate any further flare up in global gas prices. Accordingly, we expect GGAS to focus on margins in H1, while focusing on volume + margin expansion in H2FY23. We inch up our FY23/24E margins to Rs5.6/scm from Rs5.0/5.3 earlier; and keep our medium term margins unchanged at ~Rs6/scm.

Threat of propane overblown: Recent report suggests that Morbi ceramic units plan to set up LPG supply plants. Our interaction with ceramic players suggest that ~15% of plants have a dual fuel system. While large units will be better placed to set up LPG storage tanks and logistics, we do not expect large scale move to LPG.

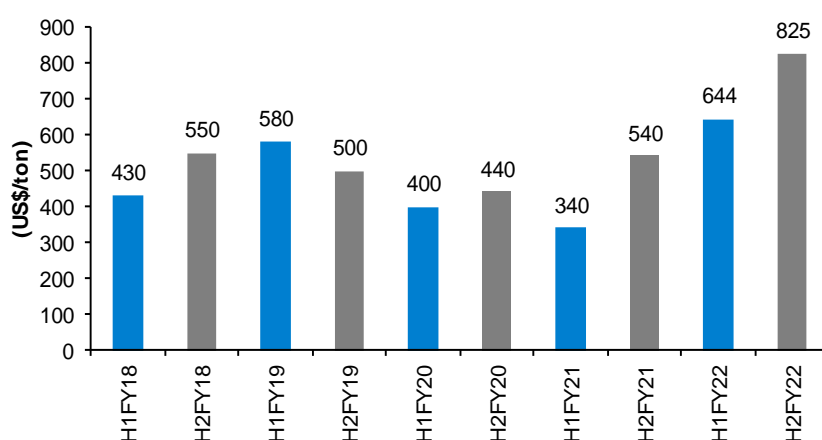
Currently, ~1.5mmscmd Morbi energy demand is met by propane while ~5mmscmd is gas supplied by GGAS and we expect propane supplies to come down in H2 when prices are higher. Currently, propane prices of Rs58/scm are ~6% cheaper to gas supplied by GGAS and the trend reverses as propane prices go up in H2. Also with company tying up spot LNG at USD28/mmbtu, GGAS can manage winter volumes better as compared to last year (when spot LNG prices were ~USD35/mmbtu).

Exhibit 1: Competing fuel cost for GGAS

(USD/mmbtu)	Spot LNG	LPG	Qatar LNG	GGAS blended LNG cost
Q1FY22	8.0	11.8	8.3	10.2
Q2FY22	18.0	15.0	8.8	13.1
Q3FY22	35.0	16.6	9.7	20.4
Q4FY22	35.0	17.8	11.8	20.1
Q1FY23	27.0	17.1	13.6	17.5

Source: Company, PL

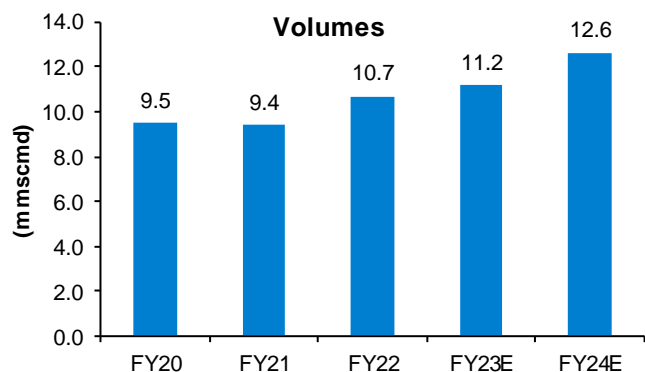
Exhibit 2: Propane prices higher in H2 in five years except in FY19



Source: PL, Industry

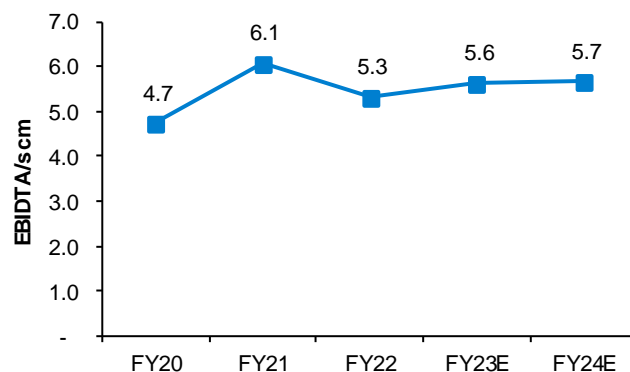
Q1 earnings to be strong: We expect GGAS Q1 PAT of Rs4.1bn vs Rs4.6bn in Q4. We factor in higher volumes of 10.1mmscmd in Q1 vis-à-vis Q4 levels of 9.7mmscmd, as there was no offtake limit in current quarter. We build in margins at Rs7/scm vs Rs7.8/scm in Q4, as the company has tied in spot LNG volumes at USD22/mmbtu for Q1 vs over USD30/mmbtu in Q4.

Exhibit 3: We factor in ~9% CAGR volume growth



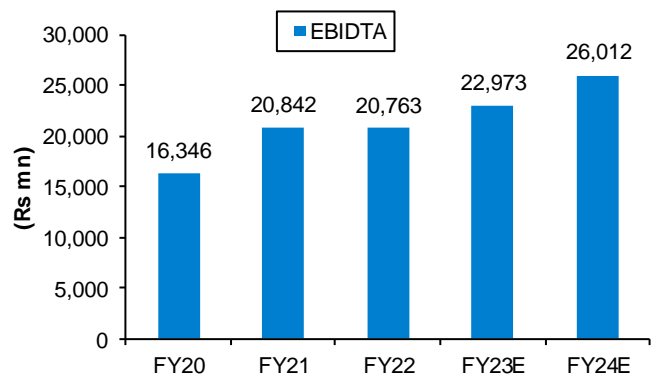
Source: Company, PL

Exhibit 4: We build in steady margins for GGAS



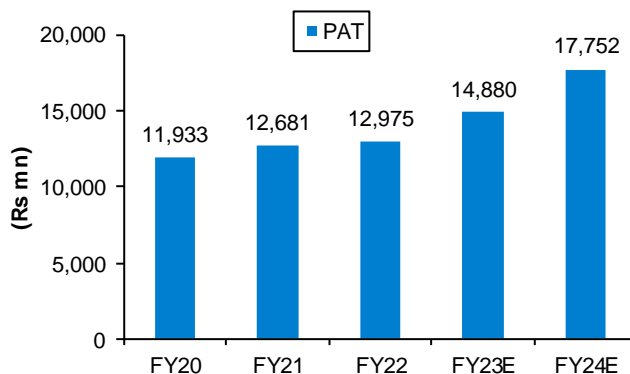
Source: Company, PL

Exhibit 5: Expect steady growth in operating profits



Source: Company, PL

Exhibit 6: Build in 18% CAGR earnings growth over FY22-24



Source: Company, PL

Exhibit 7: GGAS earnings and margins sensitivity for FY23E

Bear case	Margins (Rs/scm)	5
	Volume (mmscmd)	10
	EPS	16.4
Base case	Margins (Rs/scm)	5.6
	Volume (mmscmd)	11.2
	EPS	21.6
Bull case	Margins (Rs/scm)	7
	Volume (mmscmd)	12.5
	EPS	31.6

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	98,664	1,64,562	1,76,679	1,66,522
YoY gr. (%)	(4.2)	66.8	7.4	(5.7)
Cost of Goods Sold	69,965	1,34,369	1,43,912	1,29,298
Gross Profit	28,699	30,194	32,767	37,224
Margin (%)	29.1	18.3	18.5	22.4
Employee Cost	1,775	1,909	2,195	2,524
Other Expenses	-	-	-	-
EBITDA	20,842	20,763	22,973	26,012
YoY gr. (%)	27.5	(0.4)	10.6	13.2
Margin (%)	21.1	12.6	13.0	15.6
Depreciation and Amortization	3,436	3,849	4,231	4,649
EBIT	17,406	16,914	18,741	21,363
Margin (%)	17.6	10.3	10.6	12.8
Net Interest	1,168	568	243	243
Other Income	714	907	1,395	2,613
Profit Before Tax	16,953	17,253	19,893	23,733
Margin (%)	17.2	10.5	11.3	14.3
Total Tax	4,272	4,278	5,013	5,981
Effective tax rate (%)	25.2	24.8	25.2	25.2
Profit after tax	12,681	12,975	14,880	17,752
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	12,681	12,856	14,880	17,752
YoY gr. (%)	6.3	1.4	15.7	19.3
Margin (%)	12.9	7.8	8.4	10.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12,681	12,856	14,880	17,752
YoY gr. (%)	6.3	1.4	15.7	19.3
Margin (%)	12.9	7.8	8.4	10.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,681	12,856	14,880	17,752
Equity Shares O/s (m)	688	688	688	688
EPS (Rs)	18.4	18.7	21.6	25.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	75,169	82,169	90,169	99,169
Tangibles	75,169	82,169	90,169	99,169
Intangibles	-	-	-	-
Acc: Dep / Amortization	20,704	24,553	28,785	33,434
Tangibles	20,704	24,553	28,785	33,434
Intangibles	-	-	-	-
Net fixed assets	57,981	60,967	64,736	69,087
Tangibles	54,465	57,616	61,384	65,735
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)	(8,181)	(8,817)	(9,577)
Other Non-Current Assets	2,944	3,238	3,562	3,918
Current Assets				
Investments	-	-	-	-
Inventories	522	871	935	881
Trade receivables	7,831	13,061	14,023	13,217
Cash & Bank Balance	3,187	9,131	23,650	41,184
Other Current Assets	1,849	2,034	2,237	2,461
Total Assets	84,495	99,945	1,20,149	1,42,154
Equity				
Equity Share Capital	1,377	1,377	1,377	1,377
Other Equity	43,450	58,778	75,658	95,041
Total Network	44,827	60,155	77,035	96,418
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	7,677	8,243	7,769
Other current liabilities	17,505	19,255	21,181	23,299
Total Equity & Liabilities	84,494	99,945	1,20,149	1,42,154

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	16,953	17,253	19,893	23,733
Add. Depreciation	3,436	3,849	4,231	4,649
Add. Interest	1,168	568	243	243
Less Financial Other Income	714	907	1,395	2,613
Add. Other	-	-	-	-
Op. profit before WC changes	21,556	21,670	24,367	28,625
Net Changes-WC	5	(1,079)	1,615	2,728
Direct tax	(4,272)	(4,278)	(5,013)	(5,981)
Net cash from Op. activities	17,290	16,313	20,969	25,373
Capital expenditures	(8,425)	(7,134)	(8,184)	(9,203)
Interest / Dividend Income	-	-	-	-
Others	(25)	(20)	(22)	(24)
Net Cash from Inv. activities	(8,450)	(7,154)	(8,206)	(9,227)
Issue of share cap. / premium	616	3,730	4,231	4,649
Debt changes	(10,644)	(5,000)	-	-
Dividend paid	(1,377)	(1,377)	(2,232)	(3,018)
Interest paid	(1,168)	(568)	(243)	(243)
Others	-	-	-	-
Net cash from Fin. activities	-	-	-	-
Net change in cash	-	-	-	-
Free Cash Flow	8,865	9,180	12,785	16,170

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Revenue	30,109	36,145	51,444	46,694
YoY gr. (%)	178.0	43.8	81.8	36.2
Raw Material Expenses	20,603	29,784	46,664	37,194
Gross Profit	9,506	6,361	4,780	9,500
Margin (%)	31.6	17.6	9.3	20.3
EBITDA	7,229	4,210	2,375	6,974
YoY gr. (%)	289.2	(42.6)	(61.4)	25.8
Margin (%)	24.0	11.6	4.6	14.9
Depreciation / Depletion	905	937	969	1,021
EBIT	6,323	3,273	1,406	5,954
Margin (%)	21.0	9.1	2.7	12.8
Net Interest	159	123	140	145
Other Income	213	192	363	176
Profit before Tax	6,377	3,342	1,629	5,986
Margin (%)	21.2	9.2	3.2	12.8
Total Tax	1,616	852	400	1,424
Effective tax rate (%)	25.3	25.5	24.5	23.8
Profit after Tax	4,761	2,490	1,229	4,562
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,761	2,490	1,229	4,443
YoY gr. (%)	711.7	(47.5)	(68.6)	27.0
Margin (%)	15.8	6.9	2.4	9.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,761	2,490	1,229	4,443
YoY gr. (%)	711.7	(47.5)	(68.6)	27.0
Margin (%)	15.8	6.9	2.4	9.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,761	2,490	1,229	4,443
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	18.4	18.7	21.6	25.8
CEPS	23.4	24.3	27.8	32.5
BVPS	65.1	87.4	111.9	140.1
FCF	12.9	13.3	18.6	23.5
DPS	2.0	2.0	3.2	4.4
Return Ratio(%)				
RoCE	33.5	29.3	26.3	23.9
ROIC	21.4	18.6	19.4	21.2
RoE	32.6	24.5	21.7	20.5
Balance Sheet				
Net Debt : Equity (x)	0.1	(0.1)	(0.3)	(0.4)
Net Working Capital (Days)	14	14	14	14
Valuation(x)				
PER	22.2	21.9	18.9	15.9
P/B	6.3	4.7	3.7	2.9
P/CEPS	17.5	16.9	14.7	12.6
EV/EBITDA	13.7	13.3	11.3	9.3
EV/Sales	2.9	1.7	1.5	1.5
Dividend Yield (%)	0.5	0.5	0.8	1.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
CNG (mmscmd)	1.3	2.0	2.4	2.8
Industrial PNG (mmscmd)	7.4	7.9	7.9	8.8
Domestic PNG (mmscmd)	0.6	0.7	0.7	0.8
Commercial PNG (mmscmd)	0.1	0.1	0.1	0.1
USD/INR	74.3	76.5	78.8	81.2
Spreads (Rs/scm)	6.1	5.3	5.6	5.7

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	23-May-22	BUY	650	571
2	11-May-22	BUY	650	507
3	04-Apr-22	BUY	675	512
4	14-Mar-22	BUY	675	511
5	08-Feb-22	BUY	764	665
6	10-Jan-22	BUY	764	685
7	06-Jan-22	BUY	764	644
8	28-Oct-21	BUY	845	594
9	05-Oct-21	BUY	845	610
10	27-Sep-21	BUY	845	621

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	416	326
2	GAIL (India)	BUY	170	143
3	Gujarat Gas	BUY	650	571
4	Hindustan Petroleum Corporation	BUY	368	244
5	Indian Oil Corporation	Hold	131	117
6	Indraprastha Gas	BUY	589	379
7	Mahanagar Gas	BUY	1,103	761
8	Oil & Natural Gas Corporation	BUY	180	144
9	Oil India	BUY	344	251
10	Petronet LNG	BUY	315	228
11	Reliance Industries	BUY	3,000	2,624

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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