

Long term outlook positive...

Gujarat Gas' Q4FY21 results were ahead of our estimates on the operational and profitability front. Revenues increased 28.6% YoY to ₹ 3428.9 crore (our estimate: ₹ 3465.1 crore) as sales volume jumped 22% YoY during the quarter. Sales volume at 12.1 mmscmd was above estimate of 11.7 mmscmd. Realisation was at ₹ 31.4/scm (our estimate: ₹ 32.9/scm). Gross margins at ₹ 7/scm were in line with expectations. EBITDA was at ₹ 554.3 crore (up 29.9% YoY) above our estimate of ₹ 507.3 crore on account of better operating leverage. Subsequently, reported PAT increased 42.3% YoY to ₹ 349.9 crore, above our estimate of ₹ 302 crore.

Healthy volume growth across segments

The quarter witnessed strong growth of 22% YoY in volumes to 12.1 mmscmd. Industrial volumes continued their growth momentum and were at 9.6 mmscmd vs. 7.7 mmscmd YoY and 9.2 mmscmd QoQ. CNG volumes at 1.7 mmscmd also reported strong growth on YoY (16%) as well as sequential basis (11%). Domestic/commercial PNG volumes at 0.8 mmscmd recovered fully and were up 8% YoY. While volume growth across segments was encouraging, current quarter (Q1FY22E-TD) has seen a decline in demand owing to Covid-19 led restrictions. However, the decline is limited compared to the first wave of Covid-19. We expect sales volume growth from Q3FY22E onwards (over base of Q4FY21). Overall, we believe industrial PNG demand will lead volume growth in the medium term while CNG will contribute in the long term. We revise estimates and expect volume in FY22E and FY23E at 11.8 mmscmd and 13.5 mmscmd, respectively.

Margins dip from highs; expected to stabilise, going ahead

Gross margins were flat YoY to ₹ 7/scm. On QoQ basis, gross margins fell by ₹ 0.7/scm as expected due to increase in gas costs. Similarly, EBITDA/scm was at ₹ 5.1/scm, up ₹ 0.4/scm, down ₹ 0.7/scm QoQ. Margins have fallen from historic high in Q2FY21 and are expected to stabilise, going forward. Gujarat Gas' focus remains on striking a balance between right volumes and margins at appropriate time intervals. The company has good pricing power that enabled it to take a price hike in Q4FY21 to pass on increased spot LNG costs, resulting in stable margins in coming months. Going ahead, we expect gross margins at ₹ 8.1 scm and ₹ 7.9/scm for FY22E and FY23E, respectively. Subsequently, we expect EBITDA margins at ₹ 5.6/scm for FY22E and ₹ 5.4/scm for FY23E, going forward.

Valuation & Outlook

On account of second wave of Covid-19, sales volumes fell in the current quarter and were at ~10 mmscmd. As per our interaction with the management, sales volume has started picking up and will improve further with gradual relaxations in restrictions. We expect the growth trajectory to continue with healthy demand from industrial segment. 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 maintain **BUY** rating on Gujarat Gas with a revised TP of ₹ 655 (26x FY23E EPS, earlier TP ₹ 505/share).

Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Revenues (₹ crore)	7,754.4	10,300.3	9,854.3	13,312.5	15,071.9	13.5
EBITDA (₹ crore)	984.5	1,634.3	2,087.8	2,405.4	2,647.5	17.4
Net Profit (₹ crore)	416.9	1,193.3	1,275.5	1,558.5	1,735.1	13.3
EPS (₹)	6.1	17.3	18.5	22.6	25.2	
P/E (x)	93.3	32.6	30.5	25.0	22.4	
Price / Book (x)	17.8	11.8	8.8	6.9	5.6	
EV/EBITDA (x)	41.4	24.6	18.9	16.0	14.1	
RoCE (%)	16.1	25.2	33.0	33.8	32.4	
RoE (%)	19.1	36.3	29.0	27.6	25.2	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	38,894.6
Total Debt (FY 20) (₹ Crore)	1,943.0
Cash and Investments (FY 20)	693.2
EV (₹ Crore)	40,144.4
52 week H/L	580/244
Equity capital (₹ Crore)	137.7
Face value (₹)	2.0

Key Highlights

- Results better than expected on account of higher volume and better operating leverage
- Total volumes rose 22% YoY to 12.1 mmscmd. Industrial PNG segment recovered grew 24% YoY
- Maintain BUY on stock with target price of ₹ 655 /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

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Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Revenues	3,428.9	3,465.1	2,666.6	28.6	2,829.4	21.2	
Raw materials costs	2,660.1	2,729.1	2,026.4	31.3	2,012.4	32.2	
Employees Cost	43.9	55.4	40.6	8.1	44.2	-0.8	
Other Expenses	170.8	173.3	173.0	-1.3	158.0	8.1	
Total Expenditure	2,874.7	2,957.8	2,240.0	28.3	2,214.6	29.8	
EBITDA	554.3	507.3	426.7	29.9	614.8	-9.9	Higher than expected on account of better operating leverage and higher volumes
EBITDA margins (%)	16.2	14.6	16.0	16 bps	21.7	-557 bps	
Depreciation	86.8	87.4	80.5	7.9	86.2	0.8	
EBIT	467.4	419.9	346.2	35.0	528.7	-11.6	
Interest	18.0	36.1	42.0	-57.1	24.3	-25.9	
Other Income	18.8	20.0	18.9	-0.4	19.6	-4.0	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	468.2	403.8	323.1	44.9	523.9	-10.6	
Total Tax	118.3	101.8	77.2	53.2	131.8	-10.2	
PAT	349.9	302.0	245.9	42.3	392.2	-10.8	

Key Metrics

Sales Volume (mmscmd)	12.1	11.7	9.9	22.0	11.4	6.0	CNG and industrial PNG sales ahead of estimates
Realisation (₹/scm)	31.4	32.9	29.5	6.6	26.9	16.9	
Gross margin (₹/scm)	7.0	7.0	7.1	-0.5	7.8	-9.2	In line with expectations

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	Change	Old	New	Change	
Revenue	12718.4	13,312.5	4.7	13889.1	15,071.9	8.5	
EBITDA	2,321.7	2,405.4	3.6	2,580.1	2,647.5	2.6	Better realisations led to change in estimates
EBITDA Margin (%)	18.3	18.1	-19 bps	18.6	17.6	-101 bps	
PAT	1,459.4	1,558.5	6.8	1,657.8	1,735.1	4.7	
EPS (₹)	21.2	22.6	6.8	24.1	25.2	4.7	

Source: Company, ICICI Direct Research

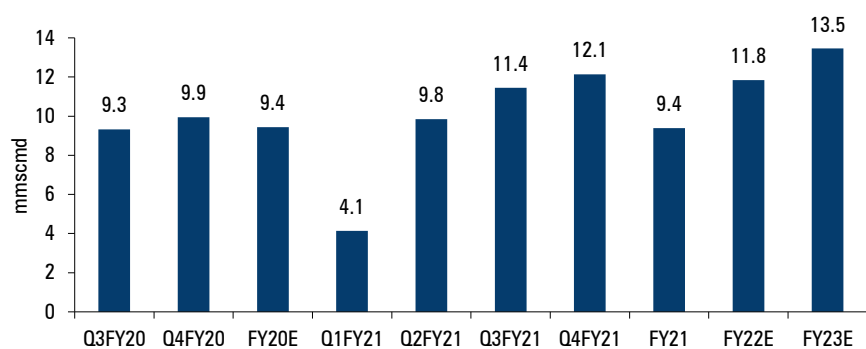
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY20E	FY21E	FY22E	FY23E	FY22E	FY23E	
Sales Volume (mmscmd)	9.4	9.4	11.8	13.5	12.3	13.4	Fall in demand due to second wave of Covid-19 led to change in estimates
Realisation (₹/scm)	29.8	28.7	30.8	30.7	28.3	28.4	
Gross margin (₹/scm)	7.0	8.4	8.1	7.9	7.8	7.9	Increased gross margin estimates due to better pricing power

Source: Company, ICICI Direct Research

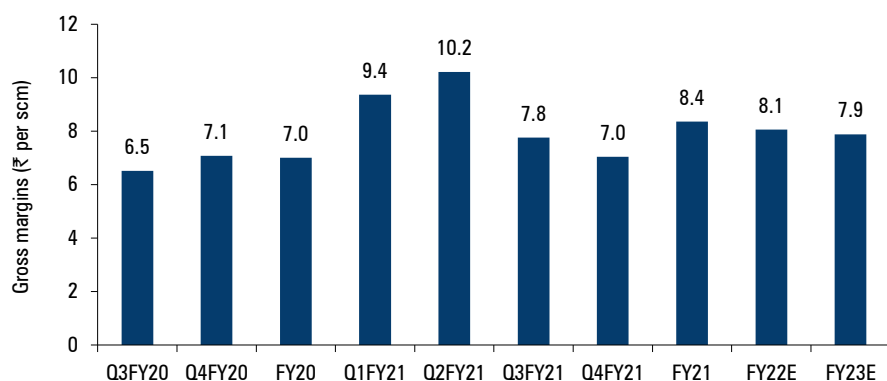
Story in charts

Exhibit 4: Volume trajectory



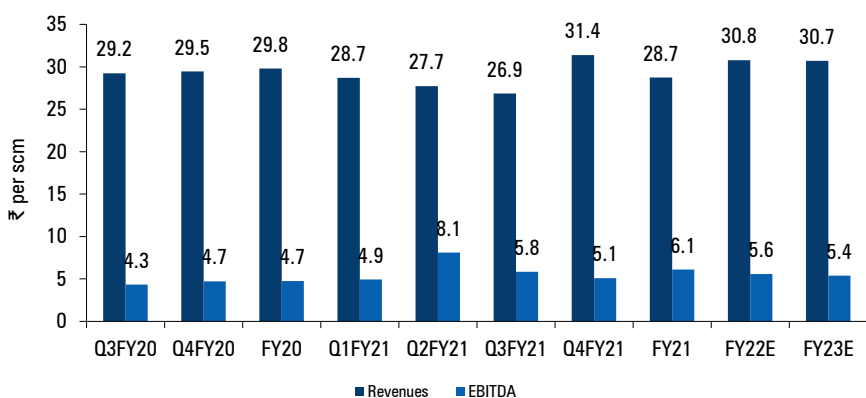
Source: Company, ICICI Direct Research

Exhibit 5: Margin trend



Source: Company, ICICI Direct Research

Exhibit 6: Revenue & EBITDA trend



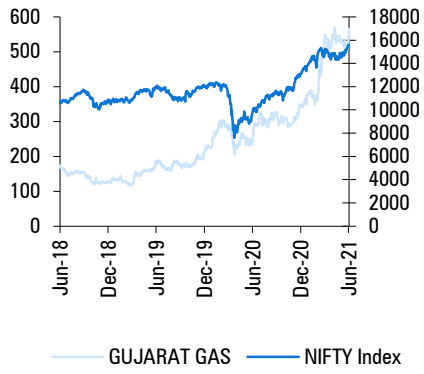
Source: Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	60.9	60.9	60.9	60.9	60.9
FII	9.8	9.2	9.1	9.0	8.6
DII	7.0	7.4	7.3	7.3	7.4
Others	22.3	22.5	22.7	22.8	23.1

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	9854.3	13312.5	15071.9
Growth (%)	32.8	-4.3	35.1	13.2
Raw material Costs	7881.8	6989.8	9828.8	11203.6
Employee Costs	175.4	177.5	279.6	316.5
Other Expenditure	608.9	599.2	798.8	904.3
Op. Expenditure	8666.1	7766.4	10907.2	12424.4
EBITDA	1634.3	2087.8	2405.4	2647.5
Growth (%)	66.0	27.8	15.2	10.1
Depreciation	318.0	340.8	366.4	407.7
EBIT	1316.3	1747.0	2038.9	2239.9
Interest	192.2	116.3	51.4	16.3
Other Income	83.7	74.0	96.0	96.0
PBT	1207.8	1704.7	2083.5	2319.6
Growth (%)	103.4	41.1	22.2	11.3
Tax	14.5	429.2	525.0	584.5
Reported PAT	1193.3	1275.5	1558.5	1735.1
Growth (%)	186.2	6.9	22.2	11.3
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	1193.3	1275.5	1558.5	1735.1
EPS	17.3	18.5	22.6	25.2

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	1,193.3	1,275.5	1,558.5	1,735.1
Add: Depreciation	318.0	340.8	366.4	407.7
Add: Others	-281.1	5.8	50.0	50.0
Cash Profit	1,230.2	1,622.2	1,974.9	2,192.7
Increase/(Decrease) in CL	150.0	373.4	710.7	416.7
(Increase)/Decrease in CA	-10.2	-421.4	-408.7	-237.3
CF from Operating Activities	1370.0	1574.2	2276.9	2372.1
Purchase of Fixed Assets	693.7	685.1	963.0	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	-683.8	-963.0	-750.0
Inc/(Dec) in Loan Funds	-205.7	-1,050.0	-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	322.3	483.4
Others	0.0	0.0	0.0	0.0
CF from financing activities	-292.4	-1,211.3	-822.3	-862.8
Change in cash Eq.	382.7	-320.8	491.6	759.3
Op. Cash and cash Eq.	309.1	691.9	371.0	862.6
Cl. Cash and cash Eq.	691.9	371.0	862.6	1,621.9

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	4,267.2	5,503.3	6,754.9
Shareholder's Fund	3,290.6	4,404.8	5,641.0	6,892.6
Loan Funds	1,943.0	893.0	393.0	13.6
Deferred Tax Liability	800.5	806.3	856.3	906.3
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	6034.1	6104.1	6890.2	7812.5
Application of Funds				
Gross Block	7,440.6	8,015.6	8,925.6	9,675.6
Less: Acc. Depreciation	1,855.9	2,205.7	2,572.1	2,979.7
Net Block	5,584.7	5,809.9	6,353.5	6,695.8
Capital WIP	568.6	687.6	740.6	740.6
Total Fixed Assets	6,153.3	6,497.5	7,094.1	7,436.4
Investments	18.6	17.2	17.2	17.2
Inventories	46.3	52.2	124.0	140.4
Debtor	510.1	783.1	875.3	991.0
Cash	691.9	371.0	862.6	1,621.9
Loan & Advance, Other CA	477.2	619.7	864.3	969.5
Total Current assets	1725.5	1826.0	2726.3	3722.8
Current Liabilities	1804.9	2159.8	2735.5	3097.0
Provisions	58.3	76.8	211.8	267.0
Total CL and Provisions	1863.2	2236.6	2947.3	3364.0
Net Working Capital	-137.7	-410.6	-221.0	358.8
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	6034.1	6104.1	6890.2	7812.5

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	47.8	64.0	81.9	100.1
Cash per share	10.1	5.4	12.5	23.6
EPS	17.3	18.5	22.6	25.2
Cash EPS	22.0	23.5	28.0	31.1
DPS	1.3	2.0	4.0	6.0
Profitability & Operating Ratios				
EBITDA Margin (%)	15.9	21.2	18.1	17.6
PAT Margin (%)	11.6	12.9	11.7	11.5
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	80.0	75.0	75.0
Return Ratios (%)				
RoE	36.3	29.0	27.6	25.2
RoCE	25.2	33.0	33.8	32.4
RoIC	29.0	35.5	39.4	42.4
Valuation Ratios (x)				
PE	32.6	30.5	25.0	22.4
Price to Book Value	11.8	8.8	6.9	5.6
EV/EBITDA	24.6	18.9	16.0	14.1
EV/Sales	3.9	4.0	2.9	2.5
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	0.8	0.9	1.1
Quick ratio	0.9	0.8	0.9	1.1

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
BPCL (BHAPET)	472	495	Hold	92,837	36.3	13.6	91.0	13.0	34.6	5.2	10.3	21.2	7.5	13.1	3.5	14.7	19.4	8.1	35.6
GAIL (India) (GAIL)	146	150	Hold	65,848	14.7	10.8	14.6	9.9	13.5	10.0	8.2	11.5	7.7	13.7	7.8	12.4	15.1	10.5	13.2
Gujarat Gas (GUJGA)	565	655	Buy	38,895	17.3	18.5	22.6	32.6	30.5	25.0	24.6	18.9	16.0	25.2	33.0	33.8	36.3	29.0	27.6
Indian Oil Corp (INDOIL)	104	115	Hold	95,850	1.4	23.8	11.3	73.0	4.4	9.2	5.1	2.5	3.4	4.8	13.8	7.9	1.4	21.3	9.7
Indraprastha Gas (INDGAS)	502	595	Hold	35,140	16.2	14.6	20.9	30.9	34.3	24.0	21.7	22.4	16.0	25.0	20.8	25.2	22.5	17.7	21.2
Mahanagar Gas (MAHGAS)	1165	1340	Buy	11,508	80.3	62.7	90.1	14.5	18.6	12.9	10.8	11.9	8.4	29.7	22.6	28.4	26.9	18.7	22.9
Petronet LNG (PETLNG)	236	275	Hold	35,400	18.0	20.1	21.5	13.1	11.8	11.0	8.6	7.1	6.4	22.3	26.3	29.0	24.6	26.1	26.6

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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