

Higher gas costs impact gross margins...

About the stock: Adani Total Gas (ATGL) is India's largest private city gas distribution company with highest number of geographical areas.

- It has license to cater to 52 geographical areas on a consolidated basis
- The company operates 287 CNG stations as of Q3FY22

Q3FY22 Results: ATGL's results were impacted by increase in gas sourcing costs.

- Revenue was up 78.4% YoY to ₹ 931.8 crore. Sales volume was at 2.1 mmscmd, up ~25% YoY and ~10% QoQ
- Gross margin was at ₹ 14.4/scm, down ₹ 2.7/scm YoY and ₹ 4.1/scm QoQ on account of high gas costs. Subsequently, EBITDA declined 4.4% YoY (and 12.1% QoQ) to ₹ 203.3 crore
- Reported PAT was at ₹ 131.6 crore, down 9.3% YoY and 17.2% QoQ

What should investors do? The company's share price has surged ~25x since listing in November 2018.

- We maintain our HOLD rating on the stock

Target Price and Valuation: We value ATGL at ₹ 1775/share based DCF method.

Key triggers for future price performance:

- Healthy pick-up in volume growth from new geographical areas
- Competitive advantage against traditional fuels and regulatory tailwinds over long term
- Strong capital expenditure plans in newly won geographical areas in the 11th CGD bidding round
- Domestic gas allocation and LNG price trend will be key monitorable for gross margins in the near term

Alternate Stock Idea: Apart from ATGL, in our oil & gas coverage we also like Gail.

- Gail is India's leading gas transmission company, which is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value
- BUY with a target price of ₹ 180



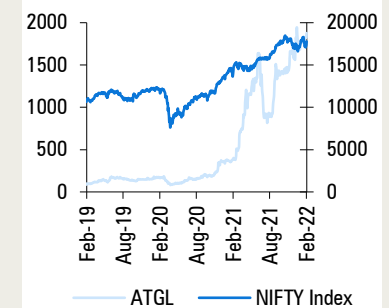
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	2,02,913.1
Total Debt (FY21) (₹ Crore)	756.9
Cash and Investments (FY21)	10.9
EV (₹ Crore)	2,03,659.1
52 week H/L	1987/374
Equity capital (₹ Crore)	110.0
Face value (₹)	1.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	74.8	74.8	74.8	74.8	74.8
FII	20.3	19.1	18.7	18.9	18.2
DII	0.8	2.2	3.4	3.6	4.7
Others	4.2	3.9	3.1	2.7	2.3

Price Chart



Recent event & key risks

- **Key Risk:** (i) Slower than expected volume growth, (ii) higher than expected gross margins

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Revenues (₹ crore)	1,823.5	1,990.9	1,784.5	8.2	3,189.5	4,669.0	5,682.8	47.1
EBITDA (₹ crore)	454.6	594.8	704.3	22.1	942.4	1,495.9	1,847.9	37.9
Net Profit (₹ crore)	228.7	436.2	472.0	42.1	629.6	938.5	1,044.8	30.3
EPS (₹)	2.1	4.0	4.3		5.7	8.5	9.5	
P/E (x)	887.2	465.1	429.9		322.3	216.2	194.2	
Price / Book (x)	182.6	137.1	103.9		82.7	62.2	48.6	
EV/EBITDA (x)	447.4	342.2	289.2		216.7	137.5	112.0	
RoCE (%)	20.6	29.5	24.2		25.7	28.8	25.0	
RoE (%)	21.8	25.2	23.7		21.7	21.1	18.2	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY22 Results: Gross margin impacted by sharp rise in gas sourcing costs

- Revenue was up 35.7% QoQ on account of better realisation as the company had hiked prices in Q3FY22 to pass on higher gas sourcing costs
- Total sales volume was at 2.1 mmscmd. CNG volume was up ~47% QoQ to 1.1 mmscmd and PNG volume grew ~7% QoQ to 1 mmscmd. Exit volume in Q3FY22 was 2.2 mmscmd
- New geographical areas contributed 17% of sales mix during Q3FY22 against 10% in FY21
- On account of increase in APM & LNG costs and higher proportion of high-priced gas in source mix, EBITDA/scm was at ₹ 10.6/scm, down ₹ 3.3/scm YoY and ₹ 2.6/scm QoQ

Q3FY22 Earnings Conference Call highlights

- The management has guided for 10%+ sales volume growth in coming years
- The company received lower allocation of APM gas in Q3FY22 and shortfall has continued in January 2022. The company is in discussion with regulator and is hopeful that full allocation will be provided soon
- Post winning 14 new geographical areas (GAs) in 11th CGD bidding round, the company has said that capex in new GAs will offtake in two years and guided for total capex of ₹ 20000 crore (including new and old GAs)

Peer comparison

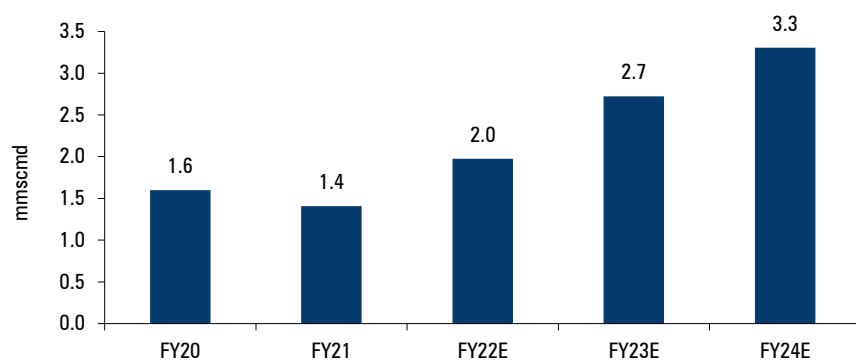
Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
GAIL (India) (GAIL)	147	180	Buy	65,074	11.0	22.4	17.8	13.3	6.5	8.2	10.8	5.1	6.2	8.7	18.5	13.1	10.5	18.5	13.4
Gujarat Gas (GUJGA)	681	645	Hold	46,880	18.5	18.5	23.0	36.8	36.8	29.6	22.8	22.7	18.4	31.7	28.1	30.7	28.5	23.4	24.3
Indraprastha Gas (INDGAS)	398	560	Hold	27,860	14.4	18.1	21.4	27.7	22.0	18.6	18.1	14.8	12.1	20.0	22.0	22.8	17.1	18.7	18.9
Mahanagar Gas (MAHGAS)	828	1120	Hold	8,179	62.7	78.6	101.8	13.2	10.5	8.1	8.3	6.7	4.7	23.1	25.6	28.3	19.2	20.9	22.8
Petronet LNG (PETLNG)	215	245	Hold	32,250	19.7	19.3	21.2	10.9	11.2	10.1	6.7	6.4	5.7	26.0	24.3	24.7	25.3	23.2	23.5
Adani Total Gas(ADAGAS)	1,845	1,775	Hold	2,02,913	4.3	5.7	8.5	429.9	322.3	216.2	289.2	137.5	112.0	23.7	21.7	21.1	24.2	25.7	28.8

Source: Company, ICICI Direct Research

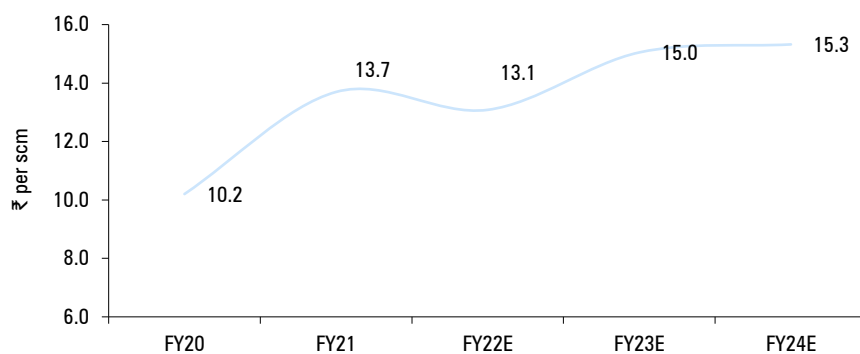
Story in charts

Exhibit 2: Volume trajectory



Source: Company, ICICI Direct Research

Exhibit 3: EBITDA/scm trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Revenue	1784.5	3189.5	4669.0	5682.8	
Growth (%)	-10%	79%	46%	22%	
Raw material Costs	769.6	1703.0	2367.7	2840.4	
Employee Costs	51.5	63.1	105.1	142.1	
Other Expenditure	170.1	303.0	420.2	511.4	
Op. Expenditure	1080.2	2247.1	3173.1	3834.9	
EBITDA	704.3	942.4	1495.9	1847.9	
Growth (%)	18.4	33.8	58.7	23.5	
Depreciation	62.5	93.2	175.7	268.4	
EBIT	641.8	849.2	1320.2	1579.5	
Interest	40.5	49.6	117.6	238.8	
Other Income	44.4	44.3	52.0	56.0	
PBT	631.2	843.9	1254.6	1396.8	
Growth (%)	15.3	33.7	48.7	11.3	
Tax	159.3	214.3	316.2	352.0	
Reported PAT	472.0	629.6	938.5	1044.8	
Growth (%)	8.2	33.4	49.0	11.3	
Adjustments	0.0	0.0	0.0	0.0	
Adj. Net Profit	472.0	629.6	938.5	1044.8	
EPS	4.3	5.7	8.5	9.5	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Profit after Tax	472.0	629.6	938.5	1,044.8	
Add: Depreciation	62.5	93.2	175.7	268.4	
Add: Others	20.2	41.5	25.0	15.0	
Cash Profit	554.7	764.4	1,139.2	1,328.2	
Increase/(Decrease) in CL	168.9	140.7	312.8	182.5	
(Increase)/Decrease in CA	-134.4	-181.9	-399.3	-276.9	
CF from Operating Activities:	589.2	723.2	1052.6	1233.8	
Purchase of Fixed Assets	598.2	961.4	2,168.0	2,276.0	
(Inc)/Dec in Investments	-144.9	-200.0	-200.0	-200.0	
Others	0.0	0.0	0.0	0.0	
CF from Investing Activities	-743.2	-1,161.4	-2,368.0	-2,476.0	
Inc/(Dec) in Loan Funds	75.3	700.0	1,525.0	1,505.0	
Inc/(Dec) in Sh. Cap. & Res.	32.5	0.0	0.0	0.0	
Less: Dividend Paid	32.3	128.9	128.9	128.9	
Others	0.0	0.0	0.0	0.0	
CF from financing activities	75.4	571.1	1,396.1	1,376.1	
Change in cash Eq.	-78.6	133.0	80.8	133.9	
Op. Cash and cash Eq.	89.5	10.9	143.8	224.6	
Cl. Cash and cash Eq.	10.9	143.8	224.6	358.5	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Source of Funds					
Equity Capital	110.0	110.0	110.0	110.0	
Preference capital	0.0	0.0	0.0	0.0	
Reserves & Surplus	1,842.4	2,343.2	3,152.8	4,068.8	
Shareholder's Fund	1,952.4	2,453.2	3,262.8	4,178.8	
Loan Funds	756.9	1,456.9	2,981.9	4,486.9	
Deferred Tax Liability	110.5	152.0	177.0	192.0	
Minority Interest	0.0	0.0	0.0	0.0	
Source of Funds	2819.8	4062.1	6421.7	8857.7	
Application of Funds					
Gross Block	1,727.7	2,677.7	4,227.7	5,735.7	
Less: Acc. Depreciation	348.4	480.2	687.9	988.3	
Net Block	1,379.3	2,197.5	3,539.8	4,747.4	
Capital WIP	696.5	746.5	1,396.5	2,196.5	
Total Fixed Assets	2,075.8	2,944.0	4,936.3	6,943.9	
Investments	435.9	635.9	835.9	1,035.9	
Inventories	52.0	87.4	134.3	163.5	
Debtor	103.7	148.6	217.5	264.7	
Cash	10.9	143.8	224.6	358.5	
Loan & Advance, Other CA	544.0	645.6	929.1	1129.6	
Total Current assets	710.5	1025.4	1505.4	1916.3	
Current Liabilities	391.4	524.3	831.5	1012.0	
Provisions	11.0	18.9	24.5	26.4	
Total CL and Provisions	402.4	543.2	855.9	1038.4	
Net Working Capital	308.1	482.2	649.5	877.8	
Miscellaneous expense	0.0	0.0	0.0	0.0	
Application of Funds	2819.8	4062.1	6421.7	8857.7	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios		FY21	FY22E	FY23E	FY24E
(Year-end March)					
Per share data (₹)					
Book Value		17.8	22.3	29.7	38.0
Cash per share		0.1	1.3	2.0	3.3
EPS		4.3	5.7	8.5	9.5
Cash EPS		4.9	6.6	10.1	11.9
DPS		0.3	1.0	1.0	1.0
Profitability & Operating Ratios					
EBITDA Margin (%)		39.5	29.5	32.0	32.5
PAT Margin (%)		26.4	19.7	20.1	18.4
Fixed Asset Turnover (x)		0.9	1.1	0.9	0.8
Inventory Turnover (Days)		10.6	10.0	10.5	10.5
Debtor (Days)		21.2	17.0	17.0	17.0
Current Liabilities (Days)		80.1	60.0	65.0	65.0
Return Ratios (%)					
RoE		24.2	25.7	28.8	25.0
RoCE		23.7	21.7	21.1	18.2
RoIC		23.8	22.5	21.9	19.0
Valuation Ratios (x)					
PE		429.9	322.3	216.2	194.2
Price to Book Value		103.9	82.7	62.2	48.6
EV/EBITDA		289.2	216.7	137.5	112.0
EV/Sales		114.1	64.0	44.1	36.4
Leverage & Solvency Ratios					
Debt to equity (x)		0.4	0.6	0.9	1.1
Interest Coverage (x)		15.9	17.1	11.2	6.6
Debt to EBITDA (x)		1.1	1.5	2.0	2.4
Current Ratio		1.8	1.9	1.8	1.8
Quick ratio		1.6	1.7	1.6	1.7

Source: Company, ICICI Direct Research

Exhibit 8: ICICI Direct coverage universe

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
BPCL (BHAPET)	376	450	Buy	78,693	91.0	43.4	39.8	4.1	8.7	9.4	6.2	6.5	6.4	14.8	14.7	13.2	34.9	19.0	16.1
GAIL (India) (GAIL)	147	180	Buy	65,074	11.0	22.4	17.8	13.3	6.5	8.2	10.8	5.1	6.2	8.7	18.5	13.1	10.5	18.5	13.4
Gujarat Gas (GUJGA)	681	645	Hold	46,880	18.5	18.5	23.0	36.8	36.8	29.6	22.8	22.7	18.4	31.7	28.1	30.7	28.5	23.4	24.3
HPCL (HINPET)	285	320	Hold	40,439	70.6	46.4	44.2	4.0	6.1	6.4	5.3	6.9	6.2	15.6	9.6	9.2	29.5	16.7	14.5
Indian Oil Corp (INDOIL)	125	150	Buy	1,14,763	23.8	25.4	19.2	5.3	4.9	6.5	3.0	2.7	3.1	13.3	13.9	10.6	19.8	18.3	12.9
Indraprastha Gas (INDGAS)	398	560	Hold	27,860	14.4	18.1	21.4	27.7	22.0	18.6	18.1	14.8	12.1	20.0	22.0	22.8	17.1	18.7	18.9
Mahanagar Gas (MAHGAS)	828	1120	Hold	8,179	62.7	78.6	101.8	13.2	10.5	8.1	8.3	6.7	4.7	23.1	25.6	28.3	19.2	20.9	22.8
ONGC (ONGC)	170	180	Hold	2,18,167	8.9	30.0	26.6	19.0	5.7	6.4	7.2	4.2	3.3	4.5	12.8	14.4	5.5	16.1	12.8
Petronet LNG (PETLNG)	215	245	Hold	32,250	19.7	19.3	21.2	10.9	11.2	10.1	6.7	6.4	5.7	26.0	24.3	24.7	25.3	23.2	23.5
Reliance Industries (RELIND)	2,478	2,950	Buy	16,75,691	76.2	90.2	106.3	32.5	27.5	23.3	23.2	16.7	12.6	5.5	7.7	9.7	7.7	8.6	9.5

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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