

May 11, 2022

RESULT REPORT Q4 FY22 | Sector: Energy

Gujarat Gas Ltd

Margins expand on sales optimization

Our view

The 4QFY22 reported Ebitda at Rs 6.97bn (+26% YoY; 194% QoQ), stood in-line with our estimates. The sharp sequential improvement in operating profits was driven by a) optimization and tempering of gas sales to limit dependence on expensive LNG and b) price revision undertaken in CNG and PNG-Domestic. During the quarter on one hand LNG prices continued to be high and averaged ~USD 31/mmbtu (3Q: USD 35/mmbtu) and on the other hand APM availability remained restricted, as a result GUJGA moderated sales leading to a 13% QoQ and 18% YoY drop in sales to 9.9mmscmd, in order to protect margins. As a result Ebitda/unit expanded to Rs 7.8/scm (3Q: Rs 2.27/scm), leading to stronger profitability. However moving into 1QFY23, the demand environment remains robust, with appetite for expensive gas among consumers, as result GUJGA has normalized gas sales to 10.5-11mmscmd, and has also revised the prices for Industrial consumer (by ~Rs 5/unit), CNG (Rs 2.5/unit) and PNG-D (Rs 4/unit), to keep margins steady. We upgrade GUJGA to BUY with a TP of Rs 650/sh.

Result Highlights

- 4QFY22 Profitability:** The operating profit and PAT for the quarter stood at Rs 6.97bn (+26%YoY; +194% QoQ) and Rs 4.46bn (+27% YoY & +265% QoQ); The profitability improved YoY & QoQ, despite weaker gas sales on account of better per unit metrics.
- Per unit margins:** The Gross spread and EBITDA per unit stood in-line at Rs 10.7/scm (3QFY22: 4.6/scm) and Rs 7.84/scm (3QFY22: 2.27). A restriction on gas sales, helped GUJGA reduce its gas costs by 6% QoQ despite the prevailing high LNG price environment.
- Gas Sales:** Total gas sales stood QoQ & YoY lower at 9.9mmscmd (-18% YoY; -13% QoQ); with Industrial sales at 6.7mmscmd (-30% YoY; -20% QoQ); CNG: 2.23mmscmd (+30% YoY+3% QoQ); PNG Domestic: 0.82mmscmd (+12% YoY; +22% QoQ) and PNG commercial at 0.14mmscmd (+26% YoY; Flat QoQ). The sale in Morbi region during the quarter stood at ~5mmscmd.
- Infrastructure development:** During the 4QFY22, GUJGA added 60 new CNG stations and 155 during the 9MFY22, including 2LCNG stations, taking the tally to a total of 711 stations. GUJGA also added 2495 kms of pipeline over FY22
- Customer addition:** GUJGA has added approximately 154 thousand domestic consumers, 423 industrial customers, over FY22

Valuation

We value GUJGA at Rs 650/sh (Mar'23) on DCF basis, were we estimate an earnings CAGR of ~14.8% (FY21-30e) backed by a volume growth of ~11.5% CAGR (FY21 -30e).

Exhibit 1: Actual vs estimate

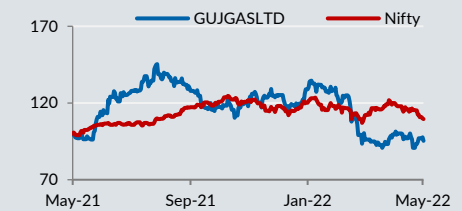
Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	46,694	45516	49333	2.6	-5.3	In-line with estimates
EBITDA	6,977	6620	4911	5.4	42.1	
EBITDA Margin (%)	14.9	14.5	10.0	40bps	499bps	
Adjusted PAT	4,446	4342	2595	2.4	71.3	

Reco	: BUY
CMP	: Rs 507
Target Price	: Rs 650
Potential Return	: 28%

Stock data (as on May 10, 2022)

Nifty	16,240
52 Week h/l (Rs)	786/478
Market cap (Rs/USD mn)	349048/4514
Outstanding Shares (mn)	688
6m Avg t/o (Rs mn):	819
Div yield (%):	0.4
Bloomberg code:	GUJGA IN
NSE code:	GUJGASLTD

Stock performance



	1M	3M	1Y
Absolute return	-4%	-21.7%	-3..5%

Shareholding pattern (As of Dec'21 end)

Promoter	60.9%
FII+DII	15.9%
Others	23.2%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	ADD
Target Price	650	655

Δ in earnings estimates

	FY23e	FY24e
EPS (New)	23.4	27.8
EPS (Old)	24.2	30.5
% change	-3%	-9%

Financial Summary

(Rs bn)	FY22	FY23E	FY24E
Revenue	164.6	235.4	227.5
YoY Growth	67.0	43.0	(3.3)
EBIDTA	20.8	24.1	27.1
YoY Growth	(0.6)	16.0	12.5
PAT	13.2	16.1	19.1
YoY Growth	2.8	21.7	18.9
ROE	26.1	25.3	24.0
EPS	19.0	23.4	27.8
P/E	26.6	21.7	18.2
BV	81.8	103.2	128.5
EV/EBITDA	17.0	13.4	11.2

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Exhibit 2: Earnings table

Particulars (Rs mn)	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	y/y (%)	q/q (%)	FY21	FY22	y/y (%)
Revenue	34,289	30,109	36,249	51,444	46,694	36.2	(9.2)	98,543	164,496	66.9
Expenditure	28,747	22,880	32,077	49,069	39,717	38.2	(19.1)	77,657	143,743	85.1
-Raw Material	26,601	20,603	29,885	46,664	37,196	39.8	(20.3)	69,898	134,349	92.2
-Staff Cost	439	505	445	469	490	11.7	4.5	1,775	1,909	7.5
- Other expenses	1,708	1,772	1,747	1,937	2,031	18.9	4.9	5,985	7,486	25.1
Operating Profit	5,543	7,229	4,172	2,375	6,977	25.9	193.8	20,885	20,752	(0.6)
OPM(%)	16.2	24.0	11.5	4.6	14.9	-122 bps	1033 bps	21.2	12.6	858 bps
Other Income	188	213	192	353	176	(6)	(50)	741	934	26.0
Depreciation	868	905	947	969	1,021	18	5	3,408	3,842	12.7
Interest	180	159	123	140	145	(20)	3	1,163	566	(51.3)
Exceptional Loss/(Profit)	-	-	-	-	(119)			-	(119)	
PBT	4,682	6,377	3,294	1,619	5,869	25.3	262.6	17,054	17,159	0.6
Tax	1,183	1,616	843	400	1,424	20.4	256.4	4,292	4,282	(0.2)
PAT	3,500	4,762	2,451	1,219	4,446	27.0	264.6	12,762	12,877	0.9
Adj PAT	3,500	4,762	2,451	1,219	4,565	30.4	274.4	12,762	12,996	1.8

Source: Company, YES Sec

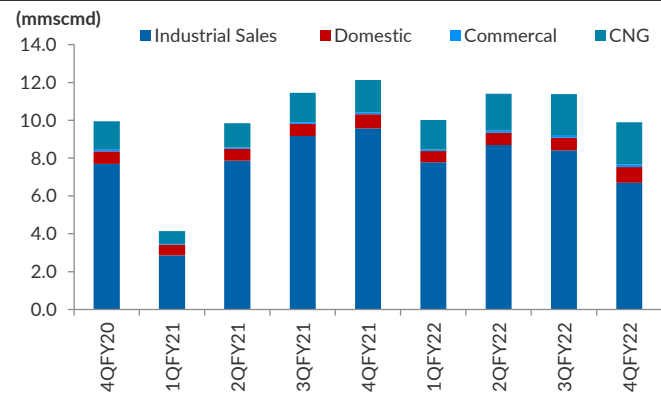
Exhibit 3: Operating highlights

Particulars	Units	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	y/y (%)	q/q (%)	FY21	FY22	y/y (%)
Industrial Sales	mmscmd	9.6	7.8	8.7	8.4	6.7	(30.0)	(20.3)	7.4	7.9	7.3
CNG sales	mmscmd	1.7	1.5	2.0	2.2	2.2	30.3	2.8	1.3	2.0	51.6
PNG Domestic	mmscmd	0.7	0.6	0.6	0.7	0.8	11.8	22.4	0.6	0.7	5.2
PNG Commercial	mmscmd	0.11	0.09	0.12	0.14	0.14	26.0	-	0.1	0.1	59.0
Total Gas sales	mmscmd	12.1	10.0	11.4	11.4	9.9	(18.5)	(13.2)	9.4	10.7	13.7
Avg. Realization	Rs/scm	31.4	33.1	34.5	49.1	52.5	67.1	6.9	28.7	42.2	46.8
Gross Spread	Rs/scm	7.0	10.4	6.1	4.6	10.7	51.5	133.9	8.4	7.7	(7.5)
EBITDA	Rs/scm	5.1	7.9	4.0	2.3	7.8	54.4	245.9	6.1	5.3	(12.6)
Material Cost	Rs/scm	24.4	22.6	28.5	44.5	41.8	71.6	(6.2)	20.4	34.5	69.0

Source: Company, YES Sec

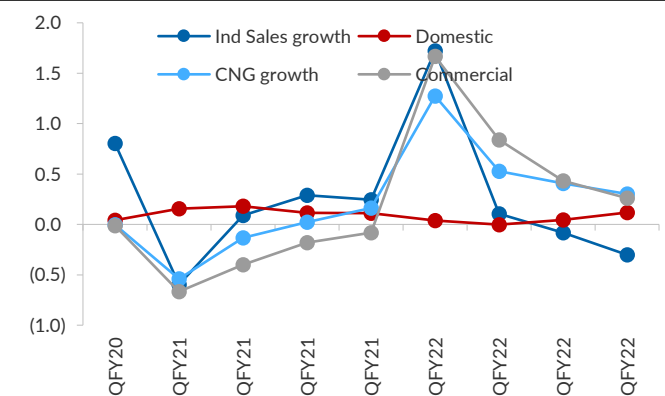
CHARTS

Exhibit 4: Total sales stood at 9.9mmscmd (-18% YoY & -13%QoQ) as GUJGA tempered sales to protect margins



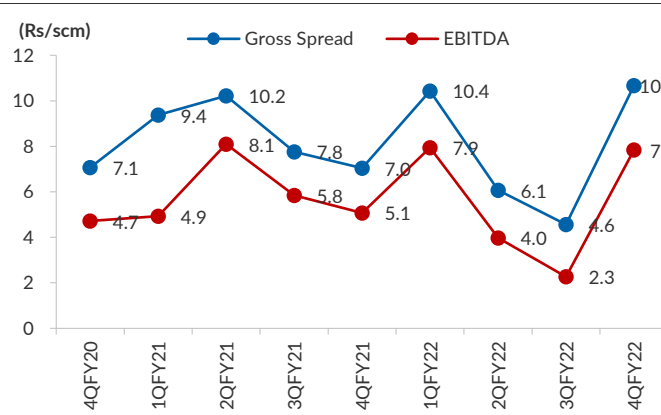
Source: Company, YES Sec

Exhibit 5: While industrial sales stood weaker by 30% YoY, CNG, PNG-Dom and PNG-Comm improved by 30% YoY, 12% YoY and 26% YoY respectively



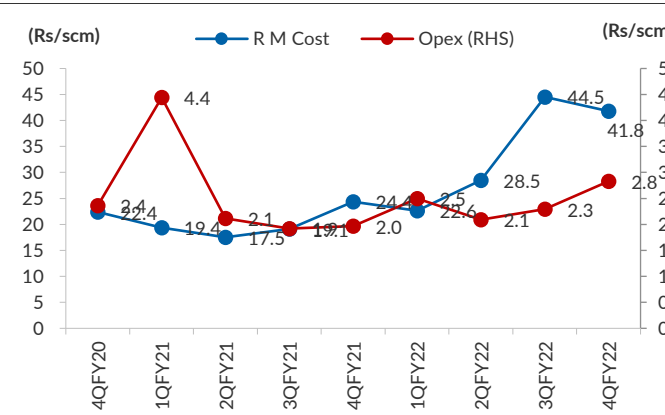
Source: Company, YES Sec

Exhibit 6: The Gross spread and EBITDA per unit improved QoQ as gas cost sales and cost was tempered



Source: Company, YES Sec

Exhibit 7: Gas cost declined 6% QoQ despite high LNG price environment



Source: Company, YES Sec

VIEW & VALUATIONS

BUY with a TP of Rs 650/sh.

We upgrade GUJGA to BUY (from ADD) with a Mar'23 TP of Rs 650/sh. Given the appetite for gas among industrial consumers remains high, despite price revisions undertaken by GUJGA to pass through the exceptional increase in LNG prices over 2Q-4QFY22, we are led to believe that in the coming quarters, sales volume for GUJGA shall continue to grow, along with fairly steady margins. Besides, there is a possibility of moderation in global LNG prices, once geo-political conflicts near resolution. Also, Gol's decision to pool the APM gas with RLNG in order to ensure adequate supply towards CNG (T) and PNG (D), would have limited bearing for GUJGA, as its predominant business is already dependent on imported LNG.

We value GUJGA at Rs 650/sh (Mar'23) on DCF basis, where we estimate an earnings CAGR of ~14.8% (FY21-30e) backed by a volume growth of ~11.5% CAGR (FY21 -30e). Our target price implies a target multiple of 23.4x, as against 18.2x stock is currently trading at.

Exhibit 8: Cashflow analysis

	FY20	FY21	FY22e	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e
EBIT	13,193	17,563	17,027	19,935	22,812	26,044	29,676	34,643	38,409	42,576	49,442
EBIT*(1-T)	13,093	13,170	12,865	14,911	17,064	19,481	22,198	25,913	28,730	31,847	36,982
Depreciation	3,149	3,315	3,736	4,155	4,289	4,445	4,624	4,802	4,980	5,159	5,337
Capex	(5,185)	(4,244)	(18,840)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)
Change in W/C	(1,358)	(194)	(899)	17,455	5,239	(1,085)	384	2,459	4,458	4,935	5,297
FCFF	9,700	12,048	(3,138)	30,521	20,592	16,840	21,206	27,174	32,168	35,941	41,616

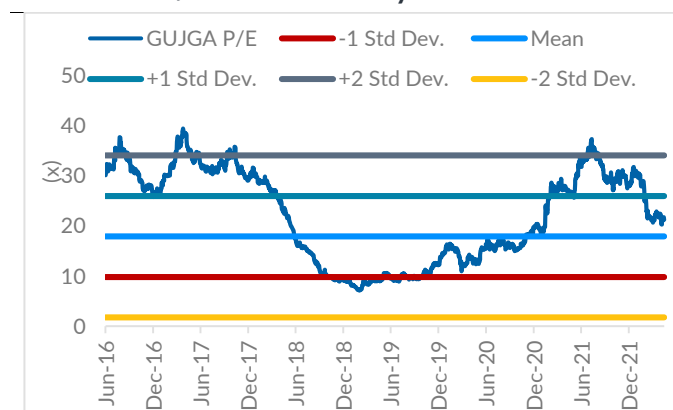
Exhibit 9: Valuation table

	Rs mn	USD mn	Rs/sh
Discounted FCFF	124,017	1,654	180
Terminal Value	298,371	3,978	434
EV	422,388	5,632	614
Net Debt /(cash)	(25,054)	(334)	(36)
Equity	447,442	5,966	650
Rs/USD	75		
Terminal Growth	4%		
WACC	11%		
Shares outstanding	688		

Exhibit 10: Key Assumptions

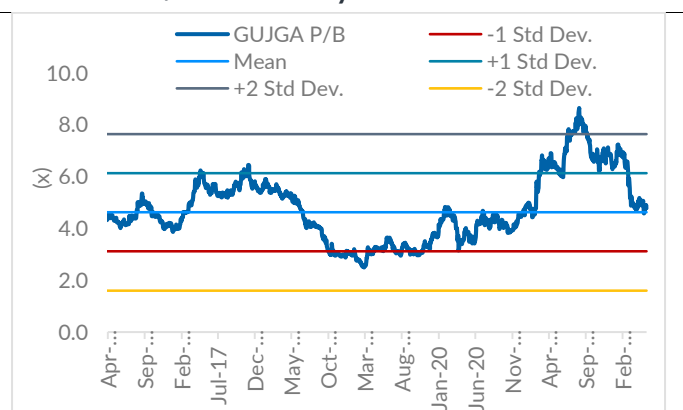
	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e	FY25e
CNG											
Sales (mmscmd)	1.0	1.04	1.18	1.29	1.42	1.49	1.30	1.98	2.24	2.41	2.57
CNG Growth (%)		8%	13%	9.4%	10.4%	4.6%	-12.7%	52.0%	13.3%	7.5%	6.5%
CNG price (Rs/kg)	49	46	47	40	46	48	46	46	46	46	46
PNG											
Domestic	0.4	0.48	0.47	0.51	0.53	0.57	0.65	0.68	0.71	0.75	0.78
Commercial	0.3	0.60	0.10	0.10	0.11	0.11	0.08	0.12	0.16	0.19	0.22
Industrial	4.8	3.47	3.70	4.32	4.47	7.29	7.36	7.90	8.89	10.16	11.62
Total PNG	5.5	4.55	4.27	4.93	5.11	7.97	8.09	8.70	9.76	11.09	12.62
PNG Growth (%)		-18%	-6%	15%	4%	56%	1%	8%	12%	14%	14%
Domestic PNG (INR/SCM)	32	27	25	21	23	25	24	24	24	24	24
Commercial/Industrial PNG (INR/SCM)	40	30	27	28	32	29	26	58	62	52	46
Total gas consumption (mmscmd)	6.5	5.6	5.5	6.2	6.5	9.5	9.4	10.7	12.0	13.5	15.2
Total gas consumption Growth (%)		-14%	-3%	14%	5%	45%	-1%	14%	12.3%	12.5%	12.5%
EBITDA/scm	4.6	3.6	3.8	3.94	4.13	4.73	6.09	5.33	5.50	5.5	5.5
INR/USD	61.0	65.5	67.0	64.5	70.0	71.0	74.2	75.0	75.0	75.0	75.0

Exhibit 11: P/E band chart one year forward



Source: Bloomberg, YES Sec

Exhibit 12: P/BV band chart one year forward



Source: Bloomberg, YES Sec

FINANCIALS

Exhibit 13: Balance sheet

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	1,377	1,377	1,377	1,377	1,377	1,377	1,377	1,377	1,377
Reserves	15,260	17,287	20,463	31,797	43,739	54,923	69,644	87,056	107,424
Net worth	16,637	18,664	21,840	33,174	45,115	56,299	71,021	88,433	108,801
Debt	22,987	22,143	20,892	18,794	8,349	4,811	2,811	811	(1,189)
Deferred tax liab (net)	9,897	10,506	10,816	8,005	8,063	8,077	8,743	9,409	10,075
Capital Employed	49,521	51,312	53,547	59,972	61,528	69,187	82,574	98,653	117,686
Fixed assets	54,074	55,710	57,776	61,546	66,535	76,235	78,080	79,791	81,346
Investments	929	420	174	432	478	520	1,200	1,200	1,200
Net working capital	(5,483)	(4,819)	(4,402)	(2,006)	(5,485)	(7,568)	3,295	17,662	35,141
Inventories	417	568	694	463	522	534	1,156	1,332	1,296
Sundry debtors	3,475	3,917	5,103	5,104	7,831	9,301	15,538	17,984	17,838
Cash & Bank Balance	645	1,401	3,092	6,941	3,210	213	27,865	46,805	62,532
Other current assets	4,214	4,601	4,437	4,772	6,222	9,071	9,524	10,000	10,500
Sundry creditors	13,665	14,896	17,248	18,699	22,506	25,819	49,835	57,410	55,872
Other liabilities	568	410	480	586	763	867	954	1,049	1,154
Application of Funds	49,521	51,312	53,548	59,972	61,528	69,187	82,574	98,653	117,686

Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	50,926	61,743	77,544	103,003	98,543	164,562	235,356	227,503	231,604
Total Expense	43,493	52,793	67,698	86,661	77,664	143,799	211,266	200,401	201,115
Operating Profit	7,433	8,951	9,846	16,342	20,878	20,763	24,090	27,101	30,489
Other Income	263	359	1,113	837	742	909	1,909	2,909	3,909
Depreciation	2,573	2,718	2,945	3,149	3,315	3,736	4,155	4,289	4,445
EBIT	5,123	6,591	8,014	14,029	18,304	17,936	21,844	25,721	29,953
Interest	2,090	1,961	1,962	1,922	1,163	568	343	163	(17)
Extraordinary Item	-	-	(179)	-	-	119	-	-	-
PBT	3,033	4,643	5,874	12,107	17,162	17,503	21,522	25,579	29,991
Tax	838	1,718	1,768	92	4,292	4,278	5,423	6,446	7,558
PAT	2,195	2,924	4,105	12,016	12,870	13,225	16,098	19,133	22,433
Adj. PAT	2,195	2,924	4,284	12,016	12,870	13,106	16,098	19,133	22,433
Eps	3.2	4.2	6.2	17.5	18.7	19.0	23.4	27.8	32.6

Exhibit 15: Cash flow statement

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PBT	3,033	4,643	5,874	12,107	17,162	17,503	21,522	25,579	29,991
Depreciation & amortisation	2,573	2,718	2,945	3,149	3,315	3,736	4,155	4,289	4,445
Interest expense	2,090	1,961	1,962	1,922	1,163	568	343	163	(17)
(Inc)/Dec in working capital	(5,205)	701	1,583	(1,358)	(194)	(899)	17,455	5,239	(1,085)
Tax paid	(838)	(1,718)	(1,768)	(92)	(4,230)	(4,471)	(5,423)	(6,446)	(7,558)
Less: Interest/Dividend Income Received	(263)	(359)	(1,113)	(837)	(742)	(909)	(1,909)	(2,909)	(3,909)
Other operating Cash Flow	-	(168)	(113)	(1,735)	(4,123)	5,597	-	-	-
Cash flow from operating activities	1,389	7,778	9,370	13,158	12,352	21,125	36,142	25,915	21,867
Capital expenditure	(5,177)	(4,187)	(4,897)	(5,185)	(4,244)	(18,840)	(6,000)	(6,000)	(6,000)
Inc/(Dec) in investments	509	509	247	(259)	(46)	(42)	(680)	-	-
Add: Interest/Dividend Income Received	263	359	1,113	837	742	909	1,909	2,909	3,909
Cash flow from investing activities	(4,405)	(3,319)	(3,537)	(4,607)	(3,548)	(17,973)	(4,771)	(3,091)	(2,091)
Inc/(Dec) in share capital	-	-	-	-	(0)	-	-	-	-
Inc/(Dec) in debt	5,921	(844)	(1,251)	(2,098)	(10,444)	(3,539)	(2,000)	(2,000)	(2,000)
Dividend Paid	(483)	(664)	(830)	(861)	(1,377)	(1,205)	(1,377)	(1,721)	(2,065)
Others	(2,457)	(2,195)	(2,061)	(1,743)	(714)	(1,405)	(343)	(163)	17
Cash flow from financing activities	2,981	(3,703)	(4,142)	(4,702)	(12,536)	(6,148)	(3,720)	(3,884)	(4,048)
Net cash flow	(35)	756	1,691	3,849	(3,732)	(2,996)	27,652	18,940	15,727

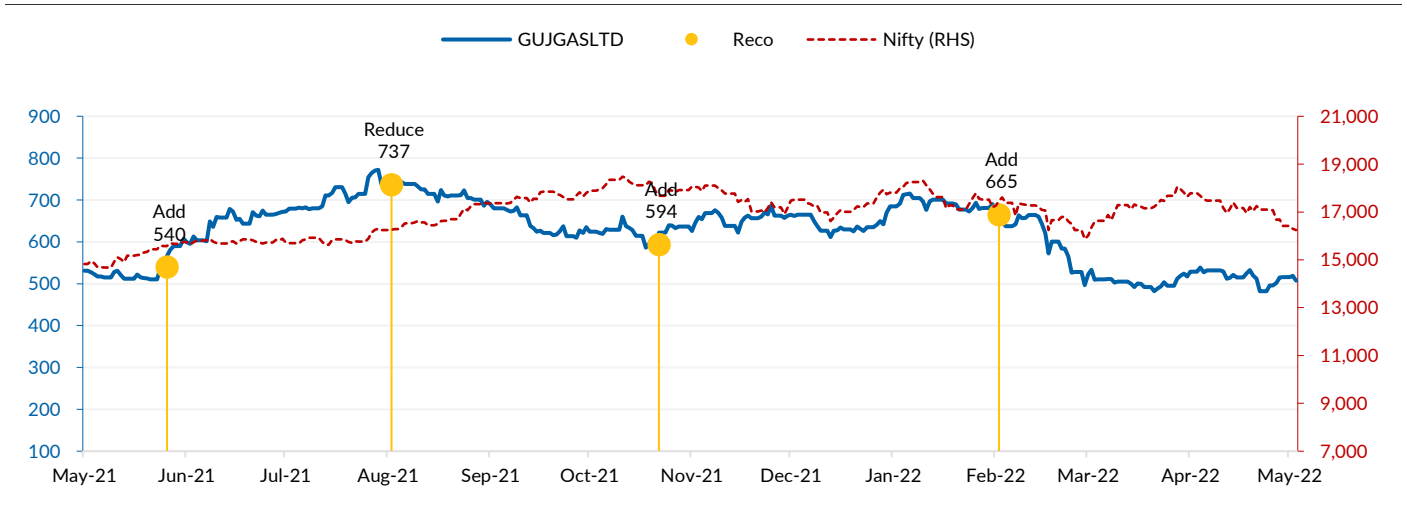
Exhibit 16: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Tax burden (x)	0.7	0.6	0.7	1.0	0.7	0.8	0.7	0.7	0.7
Interest burden (x)	0.6	0.7	0.7	0.9	0.9	1.0	1.0	1.0	1.0
EBIT margin (x)	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Asset turnover (x)	0.8	0.9	1.1	1.4	1.2	1.8	2.1	1.6	1.4
Financial leverage (x)	3.9	3.7	3.4	2.7	2.1	1.8	1.8	1.8	1.7
RoE (%)	13.8	16.6	20.3	43.7	32.9	26.1	25.3	24.0	22.7

Exhibit 17: Ratio analysis

Y/e 31 Mar	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)									
Revenue growth	(16.6)	21.2	25.6	32.8	(4.3)	67.0	43.0	(3.3)	1.8
Op profit growth	2.1	20.4	10.0	66.0	27.8	(0.6)	16.0	12.5	12.5
EBIT growth	0.8	28.2	10.7	91.2	33.1	(3.1)	17.1	14.4	14.2
Net profit growth	16.6	33.2	40.4	192.7	7.1	2.8	21.7	18.9	17.2
Profitability ratios (%)									
OPM	14.6	14.5	12.7	15.9	21.2	12.6	10.2	11.9	13.2
EBIT margin	10.1	10.7	10.3	13.6	18.6	10.9	9.3	11.3	12.9
Net profit margin	4.3	4.7	5.3	11.7	13.1	8.0	6.8	8.4	9.7
RoCE	11.2	13.1	15.3	24.7	30.1	27.4	28.8	28.4	27.7
RoE	13.8	16.6	20.3	43.7	32.9	26.1	25.3	24.0	22.7
RoA	3.5	4.5	6.0	16.0	15.7	14.6	14.0	13.2	13.5
Per share ratios									
EPS	3.2	4.2	6.0	17.5	18.7	19.2	23.4	27.8	32.6
Dividend per share	0.7	1.0	1.2	1.3	2.0	1.7	2.0	2.5	3.0
Cash EPS	11.2	13.5	15.9	25.0	31.4	31.5	37.8	43.6	50.0
Book value per share	24.2	27.1	31.7	48.2	65.5	81.8	103.2	128.5	158.0
Valuation ratios									
P/E	159.0	119.3	81.5	29.0	27.1	26.6	21.7	18.2	15.6
P/CEPS	45.3	37.5	31.8	20.3	16.1	16.1	13.4	11.6	10.1
P/B	21.0	18.7	16.0	10.5	7.7	6.2	4.9	3.9	3.2
EV/EBIDTA	50.0	41.3	37.3	22.1	17.0	17.0	13.4	11.2	9.4
Payout (%)									
Dividend payout	22.0	22.7	20.2	7.2	10.7	9.1	8.6	9.0	9.2
Tax payout	27.6	37.0	30.1	0.8	25.0	24.4	25.2	25.2	25.2
Liquidity ratios									
Debtor days	22.7	25.4	26.7	20.6	28.4	28.4	28.4	28.4	28.4
Inventory days	3.5	4.9	4.7	2.4	2.6	2.6	2.6	2.6	2.6
Creditor days	26.5	25.4	23.9	19.9	22.7	20.0	20.0	20.0	20.0

Recommendation Tracker



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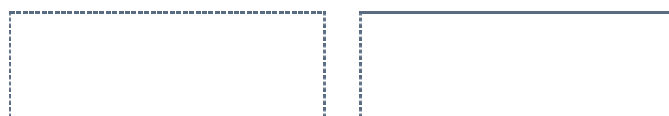
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