

High gross margin drives earnings...

About the stock: Gujarat Gas is one of India's largest city gas distribution companies with highest sales volume among listed peers.

- Sales volume grew at 15% CAGR in FY17-22 driven by industrial PNG
- The company benefitted from NGT order for Morbi industrial area

Q4FY22 Results: Gujarat Gas (GGL) reported results that were higher than estimates on the profitability front driven by gross margins.

- Revenue was up 36.2% YoY to ₹ 4669.4 crore (estimate: ₹ 4798.7 crore) driven by higher realisation
- Gross margin was at ₹ 10.7/scm, up ₹ 3.6/scm YoY as higher realisation offset surge in gas costs. Subsequently, EBITDA was at ₹ 697.4 crore, up 25.8% YoY (estimate: ₹ 288.9 crore)
- PAT was at ₹ 444.3 crore, up 27% YoY (estimate: ₹ 152.5 crore)

What should investors do? GGL's share price has seen ~25% correction from January 2022 due to higher gas prices. With easing LNG prices and pricing power of company, margins are likely to normalise over the near to medium term.

- We upgrade our rating on the stock from HOLD to **BUY**

Target Price and Valuation: We value GGL at ₹ 625 i.e. 26x P/E on FY24E EPS

Key triggers for future price performance:

- Volume growth in industrial PNG segment driven by Morbi industrial volume. Growth in CNG, domestic PNG to support volume growth
- Better pricing power and regulatory tailwinds over long term
- In the near term, price hikes/global LNG costs trend will be key monitorable

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

- Gail 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



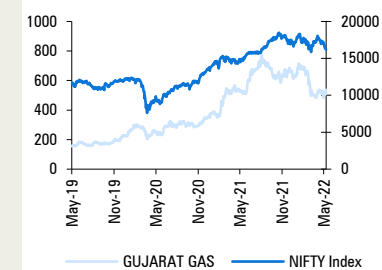
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	36,994.6
Total Debt (FY21) (₹ Crore)	1,025.2
Cash and Investments (FY21)	319.9
EV (₹ Crore)	37,699.9
52 week H/L	786/478
Equity capital (₹ Crore)	137.7
Face value (₹)	2.0

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	60.9	60.9	60.9	60.9	60.9
FII	8.6	8.2	7.9	7.7	6.0
DII	7.4	7.9	8.1	8.0	9.5
Others	23.1	23.0	23.2	23.4	23.6

Price Chart



Recent event & key risks

- GGL hiked prices in the current quarter.
- **Key Risk:** (i) Slower than expected volume growth, (ii) Lower than estimated 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)	7,754.4	10,300.3	9,854.3	10.2	16,439.2	22,294.5	23,505.6	33.6
EBITDA (₹ crore)	984.5	1,634.3	2,087.8	23.6	2,078.8	2,164.1	2,591.8	7.5
Net Profit (₹ crore)	416.9	1,193.3	1,275.5	48.2	1,303.3	1,352.8	1,656.0	9.1
EPS (₹)	6.1	17.3	18.5		18.9	19.7	24.1	
P/E (x)	88.7	31.0	29.0		28.4	27.3	22.3	
Price / Book (x)	16.9	11.2	8.3		6.6	5.6	4.6	
EV/EBITDA (x)	39.4	23.4	18.1		18.1	17.2	14.1	
RoCE (%)	16.1	25.2	31.7		26.9	24.2	25.3	
RoE (%)	19.1	36.3	28.5		23.2	20.3	20.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q4FY22 Results: Growth in margin drives earnings

- Total volume declined 18.5% YoY and 13.2% QoQ to 9.9 mmscmd and was lower than estimated 10.7 mmscmd. Industrial PNG volume was at 6.7 mmscmd, down 30% YoY and 20.3% QoQ (our estimate: 7.5 mmscmd). Total PNG sales were down 26.5% YoY and 16.9% QoQ to 7.7 mmscmd on account of lower industrial PNG sales. CNG sales were marginally below estimate at 2.2 mmscmd, up 30.3% YoY and 2.8% QoQ (our estimate: 2.4 mmscmd)
- Revenue fell 9.2% QoQ owing to lower volume QoQ. Realisation was at ₹ 52.5/scm, up ₹ 3.4/scm QoQ ahead of estimate. On a QoQ basis, raw material costs declined ₹ 2.7/scm QoQ
- Gross margins increased ₹ 6.1/scm QoQ and ₹ 3.6/scm YoY to ₹ 10.7/scm (our estimate: ₹ 5.5/scm). EBITDA was at ₹ 697.4 crore, up 25.8% YoY and 193.7% QoQ (our estimate: ₹ 288.9 crore). EBITDA/scm was at ₹ 7.8/scm, up ₹ 2.7/scm YoY and ₹ 5.5/scm QoQ (our estimate: ₹ 3/scm)
- The company reported an exceptional item of ₹ 11.9 crore regarding transfer of two geographical areas from GSPL to Gujarat Gas
- We expect sales volume in FY23E and FY24E at 11.3 mmscmd and 13 mmscmd, respectively
- We expect EBITDA/scm at ₹ 5.3/scm and ₹ 5.5/scm in FY23E and FY24E, respectively

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Gujarat Gas (GUJGA)	537	625	Buy	36,995	18.9	19.7	24.1	28.4	27.3	22.3	18.1	17.2	14.1	26.9	24.2	25.3	23.2	20.3	20.7
Indraprastha Gas (INDGAS)	349	395	Buy	24,430	18.7	15.2	18.2	18.7	22.9	19.2	12.5	14.5	12.0	22.9	16.4	17.7	19.2	14.2	15.1
Mahanagar Gas (MAHGAS)	764	850	Hold	7,547	58.5	71.3	81.4	13.1	10.7	9.4	8.1	6.5	5.6	19.6	21.7	22.2	16.5	18.0	18.2

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Total Revenues	4,669.4	4,798.7	3,428.9	36.2	5,144.4	-9.2	
Raw materials costs	3,719.9	4,269.9	2,660.1	39.8	4,666.4	-20.3	
Employees Cost	49.0	48.0	43.9	11.7	46.9	4.5	
Other Expenses	203.1	191.9	170.8	18.9	193.7	4.9	
Total Expenditure	3,972.0	4,509.8	2,874.7	38.2	4,906.9	-19.1	
EBITDA	697.4	288.9	554.3	25.8	237.5	193.7	Higher-than-expected on account of better gross margin
EBITDA margins (%)	14.9	6.0	16.2	-123 bps	4.6	1032 bps	
Depreciation	102.1	92.5	86.8	17.6	96.9	5.3	
EBIT	595.4	196.4	467.4	27.4	140.6	323.4	
Interest	14.5	16.5	18.0	-19.8	14.0	3.2	
Other Income	17.6	24.0	18.8	-6.2	35.3	-50.0	
Extra Ordinary Item	-11.9	0.0	0.0	NA	0.0	NA	Exceptional item regarding transfer of CGD business from GSPL to Gujarat Gas
PBT	586.7	203.9	468.2	25.3	161.9	262.4	
Total Tax	142.4	51.4	118.3	20.4	40.0	256.4	
PAT	444.3	152.5	349.9	27.0	121.9	264.4	

Key Metrics

Sales Volume (mmscmd)	9.9	10.7	12.1	-18.5	11.4	-13.2	Lower than estimates. CNG volume grew ~30% YoY
Realisation (₹/scm)	52.5	49.8	31.4	67.1	49.1	6.9	
Gross margin (₹/scm)	10.7	5.5	7.0	51.5	4.6	133.8	Higher than estimates on account of higher-than-expected realisation and lower gas sourcing costs

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	21868.9	22,294.5	1.9	23215.7	23,505.6	1.2	
EBITDA	1,882.9	2,164.1	14.9	2,312.0	2,591.8	12.1	Revised cost estimates taking into account current gas price trend post Q4FY22 results
EBITDA Margin (%)	8.6	9.7	110 bps	10.0	11.0	107 bps	
PAT	1,148.4	1,352.8	17.8	1,452.8	1,656.0	14.0	
EPS (₹)	16.7	19.7	17.8	21.1	24.1	14.0	

Source: ICICI Direct Research

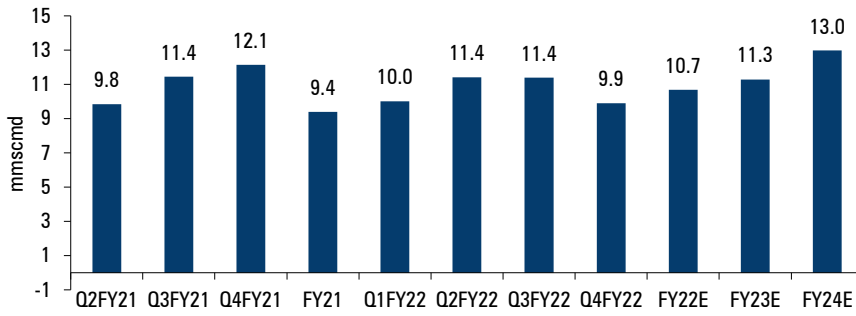
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22E	FY23E	FY24E	FY23E	FY24E	
Sales Volume (mmscmd)	9.4	10.7	11.3	13.0	11.1	13.4	
Realisation (₹/scm)	28.7	42.2	54.1	49.6	53.7	47.4	Increased realisation estimates post price hikes
Gross margin (₹/scm)	8.4	7.7	8.0	8.0	7.4	7.1	

Source: ICICI Direct Research

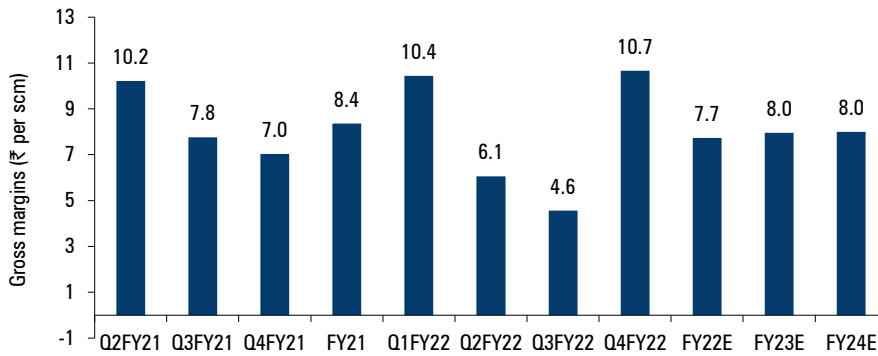
Story in charts

Exhibit 5: Volume trajectory



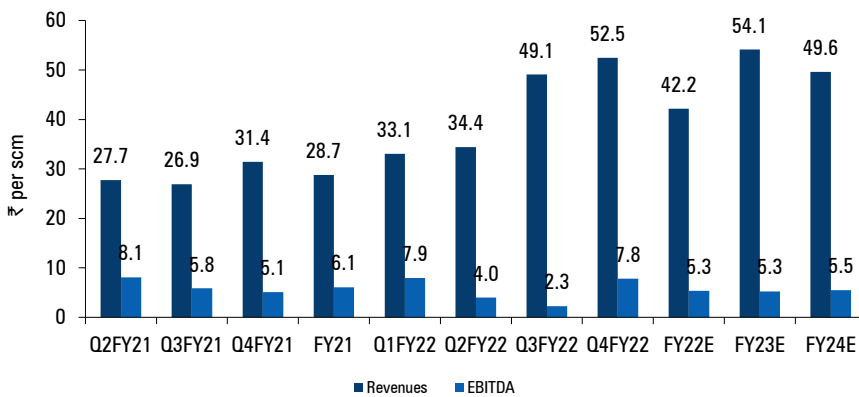
Source: Company, ICICI Direct Research

Exhibit 6: Margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Revenue & EBITDA trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Revenue	9854.3	16439.2	22294.5	23505.6
Growth (%)	-4.3	66.8	35.6	5.4
Raw material Costs	6989.8	13425.0	19015.7	19715.0
Employee Costs	177.5	190.9	222.9	258.6
Other Expenditure	599.2	744.5	891.8	940.2
Op. Expenditure	7766.4	14360.4	20130.4	20913.8
EBITDA	2087.8	2078.8	2164.1	2591.8
Growth (%)	27.8	-0.4	4.1	19.8
Depreciation	340.8	383.2	413.5	456.8
EBIT	1747.0	1695.7	1750.6	2135.0
Interest	116.3	56.6	50.0	41.0
Other Income	74.0	93.4	108.0	120.0
PBT	1704.7	1732.4	1808.6	2213.9
Growth (%)	41.1	1.6	4.4	22.4
Tax	429.2	429.1	455.8	557.9
Reported PAT	1275.5	1303.3	1352.8	1656.0
Growth (%)	6.9	2.2	3.8	22.4
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	1275.5	1303.3	1352.8	1656.0
EPS	18.5	18.9	19.7	24.1

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	1,275.5	1,303.3	1,352.8	1,656.0
Add: Depreciation	340.8	383.2	413.5	456.8
Add: Others	5.8	50.0	50.0	50.0
Cash Profit	1,622.2	1,736.5	1,816.3	2,162.9
Increase/(Decrease) in CL	272.1	203.4	526.7	164.6
(Increase)/Decrease in CA	-423.9	-526.5	-645.0	-156.9
CF from Operating Activities	1470.4	1413.4	1698.0	2170.6
Purchase of Fixed Assets	839.9	1,201.5	950.0	1,050.0
(Inc)/Dec in Investments	-2.5	1.3	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-842.4	-1,200.2	-950.0	-1,050.0
Inc/(Dec) in Loan Funds	-917.8	-350.0	-100.0	-125.0
Inc/(Dec) in Sh. Cap. & Res.	2.6	0.0	0.0	0.0
Less: Dividend Paid	86.1	161.3	322.3	322.3
Others	0.0	0.0	0.0	0.0
CF from financing activities	-1,001.3	-511.3	-422.3	-447.3
Change in cash Eq.	-373.3	-298.0	325.7	673.3
Op. Cash and cash Eq.	691.9	318.5	20.5	346.2
Cl. Cash and cash Eq.	318.5	20.5	346.2	1,019.5

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
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	4,345.0	5,487.0	6,517.5	7,851.2
Shareholder's Fund	4,482.6	5,624.7	6,655.2	7,988.8
Loan Funds	1,025.2	675.2	575.2	450.2
Deferred Tax Liability	806.3	856.3	906.3	956.3
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	6314.1	7156.2	8136.7	9395.3
Application of Funds				
Gross Block	8,140.4	9,050.4	9,900.4	10,800.4
Less: Acc. Depreciation	2,175.7	2,545.6	2,959.1	3,416.0
Net Block	5,964.7	6,504.8	6,941.3	7,384.4
Capital WIP	687.6	965.9	1,065.9	1,215.9
Total Fixed Assets	6,652.3	7,470.7	8,007.2	8,600.3
Investments	21.1	19.7	19.7	19.7
Inventories	52.2	53.4	122.2	128.8
Debtor	783.1	930.1	1,221.6	1,288.0
Cash	318.5	20.5	346.2	1,019.5
Loan & Advance, Other CA	622.2	1000.5	1285.1	1369.0
Total Current assets	1776.0	2004.4	2975.1	3805.3
Current Liabilities	2058.9	2251.9	2748.6	2897.9
Provisions	76.3	86.7	116.7	132.0
Total CL and Provisions	2135.3	2338.6	2865.4	3030.0
Net Working Capital	-359.3	-334.2	109.8	775.3
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	6314.1	7156.2	8136.7	9395.3

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
Book Value	65.1	81.7	96.7	116.0
Cash per share	4.6	0.3	5.0	14.8
EPS	18.5	18.9	19.7	24.1
Cash EPS	23.5	24.5	25.7	30.7
DPS	2.0	2.0	4.0	4.0
Profitability & Operating Ratios				
EBITDA Margin (%)	21.2	12.6	9.7	11.0
PAT Margin (%)	12.9	7.9	6.1	7.0
Fixed Asset Turnover (x)	1.5	2.2	2.8	2.7
Inventory Turnover (Days)	1.9	1.2	2.0	2.0
Debtor (Days)	29.0	20.6	20.0	20.0
Current Liabilities (Days)	76.3	50.0	45.0	45.0
Return Ratios (%)				
RoE	28.5	23.2	20.3	20.7
RoCE	31.7	26.9	24.2	25.3
RoIC	33.7	27.0	25.4	28.8
Valuation Ratios (x)				
PE	29.0	28.4	27.3	22.3
Price to Book Value	8.3	6.6	5.6	4.6
EV/EBITDA	18.1	18.1	17.2	14.1
EV/Sales	3.8	2.3	1.7	1.5
Leverage & Solvency Ratios				
Debt to equity (x)	0.2	0.1	0.1	0.1
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	0.8	0.9	1.0	1.3
Quick ratio	0.8	0.8	1.0	1.2

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	357	450	Buy	74,717	47.8	39.8	44.2	7.5	9.0	8.1	5.7	6.0	5.4	15.8	13.1	13.7	20.6	15.8	16.0
GAIL (India) (GAIL)	160	180	Buy	71,046	23.5	17.8	18.2	6.8	9.0	8.8	5.2	6.7	6.6	19.3	13.0	12.2	19.3	13.3	12.6
Gujarat Gas (GUJGA)	537	625	Buy	36,995	18.9	19.7	24.1	28.4	27.3	22.3	18.1	17.2	14.1	26.9	24.2	25.3	23.2	20.3	20.7
HPCL (HINPET)	268	320	Hold	38,027	40.6	44.2	45.4	6.6	6.1	5.9	7.5	6.0	5.6	8.1	9.3	9.0	14.9	14.8	13.9
Indian Oil Corp (INDOIL)	126	150	Buy	1,15,681	28.6	19.2	21.9	4.4	6.6	5.8	2.5	3.1	2.8	15.5	10.5	11.1	20.1	12.7	13.3
Indraprastha Gas (INDGAS)	349	395	Buy	24,430	18.7	15.2	18.2	18.7	22.9	19.2	12.5	14.5	12.0	22.9	16.4	17.7	19.2	14.2	15.1
Mahanagar Gas (MAHGAS)	764	850	Hold	7,547	58.5	71.3	81.4	13.1	10.7	9.4	8.1	6.5	5.6	19.6	21.7	22.2	16.5	18.0	18.2
Petronet LNG (PETLNG)	215	220	Hold	32,250	21.3	19.7	22.1	10.1	10.9	9.7	5.8	6.2	5.5	26.5	22.7	23.9	25.1	21.7	22.3
Reliance Industries (RELIND)	2,621	3,050	Buy	17,73,208	89.7	128.7	130.9	29.2	20.4	20.0	18.0	11.9	10.9	7.7	11.5	11.4	8.5	11.0	10.4

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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