

# Gujarat Gas (GUJGA IN)

**Rating: BUY | CMP: Rs772 | TP: Rs896**

August 5, 2021

## Q1FY22 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current FY22E	Previous FY23E	Current FY22E	Previous FY23E
<b>Rating</b>	<b>BUY</b>		<b>UNDER REVIEW</b>	
<b>Target Price</b>	<b>896</b>		-	
Sales (Rs. m)	1,07,077	1,39,353	1,05,629	1,38,491
% Chng.	1.4	0.6		
EBITDA (Rs. m)	25,665	29,801	24,217	28,939
% Chng.	6.0	3.0		
EPS (Rs.)	24.2	29.7	22.6	28.7
% Chng.	7.2	3.6		

### Key Financials - Standalone

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	1,03,004	98,543	1,07,077	1,39,353
EBITDA (Rs. m)	16,346	20,878	25,665	29,801
Margin (%)	15.9	21.2	24.0	21.4
PAT (Rs. m)	11,933	12,755	16,688	20,443
EPS (Rs.)	17.3	18.5	24.2	29.7
Gr. (%)	187.6	6.9	30.8	22.5
DPS (Rs.)	1.3	2.0	2.9	4.5
Yield (%)	0.2	0.3	0.4	0.6
RoE (%)	43.6	32.8	30.8	27.6
RoCE (%)	28.0	33.7	36.8	33.3
EV/Sales (x)	5.3	5.4	4.8	3.6
EV/EBITDA (x)	33.2	25.7	20.2	16.8
PE (x)	44.5	41.7	31.8	26.0
P/BV (x)	16.2	11.9	8.4	6.3

Key Data	GGAS.BO   GUJGA IN
52-W High / Low	Rs.787 / Rs.281
Sensex / Nifty	54,493 / 16,295
Market Cap	Rs.532bn/ \$ 7,166m
Shares Outstanding	688m
3M Avg. Daily Value	Rs.2882.64m

### Shareholding Pattern (%)

Promoter's	60.89
Foreign	8.17
Domestic Institution	7.90
Public & Others	23.04
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	15.8	103.3	150.4
Relative	12.4	89.2	73.1

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**Superlative performance, but cautious Q2 likely**

#### Quick Pointers:

- Record margins compensate for volumes hit by lockdown restrictions in Q1.
- Q2 margins to come off as company delays price hikes, despite volumes recover to Q4FY21 levels of ~12mmscmd.
- GGAS remains a structural growth story given rising judicial activism to control industrial pollution in the long term.

**We increase our FY22/23E earnings by 7%/3% to factor improvement in margins. GGAS reported strong results with EBITDA/PAT of Rs7.2bn (+30%Q/Q; PLe Rs4.9bn) and Rs4.8bn (+36%Q/Q; PLe Rs3bn) respectively, due to record margins of Rs7.9/scm (Q4FY21 Rs5.1). We remain constructive on GGAS volume prospects as imposition of 200-350% import duty on Chinese imports to US has helped domestic exporters in Morbi, which is India's ceramic hub and accounts for ~60% of GGAS volumes. After sharp run up in stock price (up 103% in last six months) we had put the rating 'Under Review' but we like the business hence rate 'BUY' with a DCF based TP of Rs896 as we increase medium term margin assumptions.**

- Operationally strong results:** GGAS reported results higher than our estimates with EBITDA of Rs7.3bn (+30%QoQ; PLe Rs4.9bn) and PAT of Rs4.8bn (+36%QoQ; PLe Rs3.0bn). Strong operational beat was due to higher than expected margins of Rs7.9/scm as the company had supplies from cheaper RIL KGD6 fields.
- Volumes hit by lockdown:** For Q1, GGAS gas sales were at 911mmscm (-17%QoQ; PLe 928) due to lockdown restrictions with industrial volumes at 708mscm (-18%QoQ), while CNG volumes were at 141mscm (-8%QoQ) and domestic volumes at 54mscm (-18%QoQ).
- Q2 volumes have recovered 20%QoQ:** Current volumes have recovered to 12mmscmd (~20% up QoQ) with industrial at 9.5mmscmd, CNG at 1.8mmscmd and domestic at 0.6mmscmd. GGAS industrial volumes are likely to remain robust given strong demand in US as they imposed import duty of 200-350% on Chinese ceramics imports. We model FY22/23E sales volumes at 12.2/14.4 mmmscnd (unchanged).
- Supply of cheaper KGD6 gas lifts margins, but Q2 spreads to come off:** Supply of 0.67mmscmd KGD6 gas and 1.33mmscmd gas from Cairn has cushioned gross margins which were at Rs11/scm (Q4 7.6). Opex/unit for Q1 was at Rs3.1 v/s Rs2.5 in Q4FY21. EBITDA/scm was at Rs7.9/scm v/s Rs5.0 in Q4.
- However, in order to support volume recovery the company has yet to take price hikes and accordingly expects spreads to come off in Q2. However, to factor strong Q1 margins, we increase our margins to Rs5.8/5.6 for FY22/23E. We also increase our medium term margin estimates given strong operating leverage.

**Exhibit 1: Q1FY22 Result Overview (Rs mn)**

Y/e March	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY21	FY22	YoY gr. (%)
<b>Net Sales</b>	30,659	11,074	176.9	34,893	1,00,423	1,09,120	8.7
Operating Costs	23,431	9,216	154.2	29,351	79,546	83,455	4.9
as % of Net Sales	76.4	83.2		84.1	79.2	76.5	
Raw material	20,603	7,297	182.3	26,601	69,898	72,145	3.2
as % of Net Sales	67.2	65.9		76.2	69.6	66.1	
Personnel Costs	505	426	18.5	439	1,775	2,219	25.0
as % of Net Sales	1.6	3.8		1.3	1.8	2.0	
Excise duty	551	244	125.3	604	1,880	2,043	8.7
as % of Net Sales	1.8	2.2		1.7	1.9	1.9	
Other Overheads	1,772	1,249	41.9	1,708	5,992	7,049	17.6
as % of Net Sales	7.6	13.5		5.8	7.5	8.4	
<b>EBITDA</b>	7,229	1,857	289.2	5,542	20,877	25,665	22.9
Other Income	213	149	42.6	188	741	975	31.7
<b>PBDIT</b>	7,441	2,006	270.9	5,730	21,618	26,640	23.2
Depreciation	905	823	10.1	868	3,408	3,861	13.3
Interest	159	401	(60.4)	180	1,163	468	(59.8)
<b>Pre-tax Profit</b>	6,377	783	714.7	4,682	17,046	22,311	30.9
Tax	1,616	196	723.5	1,183	4,292	5,622	31.0
<b>Profit After Tax</b>	4,761	587	711.7	3,499	12,754	16,688	30.8
<b>Gas sales volumes(mmscm)</b>	911	377	141.6	1,092	2,336	2,549	9.1
Gas sales (Rs/000scm)	33.7	29.4	14.6	32.0	43.0	42.8	(0.4)
Gas purchase (Rs/000scm)	22.6	19.4	16.8	24.4	29.7	28.1	(5.4)
Gross margins (Rs/000scm)	11.0	10.0	10.2	7.6	13.3	14.7	10.8
EBIDTA/scm							
Volume (mscmd)	7.9	4.9	61.1	5.1	8.9	10.1	12.7
<b>Volume (mscmd)</b>	10.1	4.1	144.3	12.1	8.5	9.3	9.1
Industrial							
CNG	708	260	172.3	862	1,826	1,961	7.4
Domestic	141	62	127.4	154	322	410	27.3
Commercial	54	52	3.8	66	170	148	(12.9)
<b>Total</b>	8	3	166.7	10	18	30	66.7

Source: Company, PL

**Exhibit 2: Quarterly volume and margin details**

Y/e March	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Gas sales volumes(mmscm)</b>							
Gas sales (Rs/000scm)	857	905	377	906	1053	1092	911
Gas purchase (Rs/000scm)	29.92	30.08	29.37	28.26	27.40	31.95	33.65
Gross margins (Rs/000scm)	22.57	22.23	19.36	17.52	19.11	24.36	22.62
Opex (Rs/scm)	7.35	7.84	10.02	10.73	8.29	7.59	11.04
EBIDTA/scm	3.02	3.13	5.09	2.64	2.45	2.52	3.10
Volume (mscmd)	4.32	4.71	4.93	8.09	5.84	5.08	7.93
<b>Volume (mscmd)</b>	9.42	9.95	4.14	9.85	11.45	12.13	10.12
Industrial							
CNG	654.0	700.0	260.0	723.0	843.0	862.0	708.0
Domestic	139.0	134.0	62.0	118.0	142.0	154.0	141.0
Commercial	53.0	60.0	52.0	59.0	59.0	66.0	54.0
<b>Total</b>	11.0	11.0	3.0	6.0	9.0	10.0	8.0

Source: Company, PL

## Exhibit 3: xxx

	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
EBITDA (Rs mn)	16,346	20,878	25,665	29,801	34,641	39,860	45,420	51,714	58,489	64,819	71,247	76,947	83,103
Depreciation (Rs mn)	3,180	3,408	3,861	4,230	4,648	5,114	5,606	6,098	6,592	7,088	7,584	8,102	8,602
EBIT (Rs mn)	13,166	17,470	21,804	25,571	29,993	34,745	39,814	45,616	51,897	57,731	63,663	68,844	74,500
Current tax on EBIT (Rs mn)	(2,943)	(4,241)	(4,908)	(6,013)	(7,330)	(8,783)	(10,375)	(12,217)	(14,271)	(16,341)	(18,550)	(18,037)	(19,519)
Total capex (Rs mn)	(6,937)	(8,398)	(7,134)	(8,184)	(9,203)	(10,223)	(10,245)	(10,270)	(10,297)	(10,327)	(10,359)	(10,000)	(10,000)
Chg. in net working capital (Rs mn)	(1,240)	(360)	(1,239)	(492)	(1,057)	(1,034)	(1,337)	(1,327)	(1,550)	(1,733)	(1,893)	(1,893)	(1,893)
<b>Total free cash flows (Rs mn)</b>	<b>5,227</b>	<b>7,878</b>	<b>12,383</b>	<b>15,112</b>	<b>17,051</b>	<b>19,820</b>	<b>23,463</b>	<b>27,901</b>	<b>32,372</b>	<b>36,419</b>	<b>40,445</b>	<b>47,017</b>	<b>51,691</b>
growth		50.7%	57.2%	22.0%	12.8%	16.2%	18.4%	18.9%	16.0%	12.5%	11.1%	16.2%	9.9%
ebitda growth		27.7%	22.9%	16.1%	16.2%	15.1%	14.0%	13.9%	13.1%	10.8%	9.9%	8.0%	8.0%
<b>WACC</b>	<b>10.0%</b>												
Terminal growth rate		4.5%											
Terminal value		974507											
Terminal EV/E		11.7											
PV of terminal value		411835											
PV as % of EV		70%											
Enterprise value		5,85,310											
Net debt as on Mar 22		(31,154)											
Equity value		616464											
<b>Value per share</b>	<b>896</b>												

Source: PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Net Revenues</b>	<b>1,03,004</b>	<b>98,543</b>	<b>1,07,077</b>	<b>1,39,353</b>
YoY gr. (%)	32.8	(4.3)	8.7	30.1
Cost of Goods Sold	78,815	69,898	72,145	98,712
<b>Gross Profit</b>	<b>24,189</b>	<b>28,645</b>	<b>34,932</b>	<b>40,641</b>
Margin (%)	23.5	29.1	32.6	29.2
Employee Cost	1,754	1,775	2,219	2,552
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>16,346</b>	<b>20,878</b>	<b>25,665</b>	<b>29,801</b>
YoY gr. (%)	66.4	27.7	22.9	16.1
Margin (%)	15.9	21.2	24.0	21.4
Depreciation and Amortization	3,180	3,408	3,861	4,230
<b>EBIT</b>	<b>13,166</b>	<b>17,470</b>	<b>21,804</b>	<b>25,571</b>
Margin (%)	12.8	17.7	20.4	18.3
Net Interest	1,922	1,163	468	243
Other Income	837	740	975	2,002
<b>Profit Before Tax</b>	<b>12,081</b>	<b>17,047</b>	<b>22,311</b>	<b>27,331</b>
Margin (%)	11.7	17.3	20.8	19.6
Total Tax	149	4,292	5,622	6,887
Effective tax rate (%)	1.2	25.2	25.2	25.2
<b>Profit after tax</b>	<b>11,933</b>	<b>12,755</b>	<b>16,688</b>	<b>20,443</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>11,933</b>	<b>12,755</b>	<b>16,688</b>	<b>20,443</b>
YoY gr. (%)	187.6	6.9	30.8	22.5
Margin (%)	11.6	12.9	15.6	14.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>11,933</b>	<b>12,755</b>	<b>16,688</b>	<b>20,443</b>
YoY gr. (%)	187.6	6.9	30.8	22.5
Margin (%)	11.6	12.9	15.6	14.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,933	12,755	16,688	20,443
<b>Equity Shares O/s (m)</b>	<b>688</b>	<b>688</b>	<b>688</b>	<b>688</b>
<b>EPS (Rs)</b>	<b>17.3</b>	<b>18.5</b>	<b>24.2</b>	<b>29.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>68,307</b>	<b>75,142</b>	<b>82,142</b>	<b>90,142</b>
Tangibles	68,307	75,142	82,142	90,142
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>17,269</b>	<b>20,677</b>	<b>24,538</b>	<b>28,768</b>
Tangibles	17,269	20,677	24,538	28,768
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>54,390</b>	<b>57,981</b>	<b>60,955</b>	<b>64,725</b>
Tangibles	51,039	54,465	57,603	61,373
Intangibles	3,352	3,516	3,352	3,352
Capital Work In Progress	5,695	6,878	7,009	7,009
Goodwill	1,461	1,676	1,844	2,028
Non-Current Investments	796	919	1,010	1,111
Net Deferred tax assets	(8,005)	(8,063)	(8,777)	(9,652)
Other Non-Current Assets	2,248	2,944	3,238	3,562
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	463	522	567	738
Trade receivables	5,101	7,831	8,509	11,074
Cash & Bank Balance	6,919	3,187	15,138	33,854
Other Current Assets	1,074	1,849	2,034	2,237
<b>Total Assets</b>	<b>78,973</b>	<b>84,495</b>	<b>1,01,084</b>	<b>1,27,196</b>
<b>Equity</b>				
Equity Share Capital	1,377	1,377	1,377	1,377
Other Equity	31,529	43,450	61,997	83,604
<b>Total Networth</b>	<b>32,906</b>	<b>44,827</b>	<b>63,374</b>	<b>84,980</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	18,344	7,700	2,700	2,700
Provisions	453	518	569	626
Other non current liabilities	636	629	692	762
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	3,790	4,603	5,002	6,509
Other current liabilities	14,389	17,505	19,255	21,181
<b>Total Equity &amp; Liabilities</b>	<b>78,973</b>	<b>84,494</b>	<b>1,01,084</b>	<b>1,27,196</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	12,081	17,047	22,311	27,331
Add. Depreciation	3,180	3,408	3,861	4,230
Add. Interest	1,922	1,163	468	243
Less Financial Other Income	837	740	975	2,002
Add. Other	-	-	-	-
Op. profit before WC changes	17,183	21,618	26,640	31,804
Net Changes-WC	(922)	5	1,697	1,085
Direct tax	(149)	(4,292)	(5,622)	(6,887)
<b>Net cash from Op. activities</b>	<b>16,113</b>	<b>17,332</b>	<b>22,715</b>	<b>26,001</b>
Capital expenditures	(6,937)	(8,398)	(7,134)	(8,184)
Interest / Dividend Income	-	-	-	-
Others	(12)	(25)	(20)	(22)
<b>Net Cash from Invt. activities</b>	<b>(6,949)</b>	<b>(8,423)</b>	<b>(7,154)</b>	<b>(8,206)</b>
Issue of share cap. / premium	(6)	542	3,861	4,230
Debt changes	(2,548)	(10,644)	(5,000)	-
Dividend paid	(861)	(1,377)	(2,003)	(3,067)
Interest paid	(1,922)	(1,163)	(468)	(243)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(5,336)</b>	<b>(12,642)</b>	<b>(3,609)</b>	<b>921</b>
<b>Net change in cash</b>	<b>3,828</b>	<b>(3,733)</b>	<b>11,952</b>	<b>18,716</b>
Free Cash Flow	9,175	8,934	15,581	17,817

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	17.3	18.5	24.2	29.7
CEPS	22.0	23.5	29.9	35.8
BVPS	47.8	65.1	92.1	123.4
FCF	13.3	13.0	22.6	25.9
DPS	1.3	2.0	2.9	4.5
<b>Return Ratio(%)</b>				
RoCE	28.0	33.7	36.8	33.3
ROIC	18.3	21.5	25.4	27.4
RoE	43.6	32.8	30.8	27.6
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.3	0.1	(0.2)	(0.4)
Net Working Capital (Days)	6	14	14	14
<b>Valuation(x)</b>				
PER	44.5	41.7	31.8	26.0
P/B	16.2	11.9	8.4	6.3
P/CEPS	35.2	32.9	25.9	21.5
EV/EBITDA	33.2	25.7	20.2	16.8
EV/Sales	5.3	5.4	4.8	3.6
Dividend Yield (%)	0.2	0.3	0.4	0.6

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Net Revenue</b>	<b>25,130</b>	<b>28,294</b>	<b>34,289</b>	<b>30,109</b>
YoY gr. (%)	-	12.9	28.6	178.0
Raw Material Expenses	15,876	20,124	26,601	20,603
Gross Profit	9,254	8,170	7,689	9,506
Margin (%)	36.8	28.9	22.4	31.6
<b>EBITDA</b>	<b>7,330</b>	<b>6,148</b>	<b>5,542</b>	<b>7,229</b>
YoY gr. (%)	97.8	65.9	29.9	289.2
Margin (%)	29.2	21.7	16.2	24.0
Depreciation / Depletion	856	862	868	905
<b>EBIT</b>	<b>6,474</b>	<b>5,286</b>	<b>4,674</b>	<b>6,323</b>
Margin (%)	25.8	18.7	13.6	21.0
Net Interest	339	243	180	159
Other Income	208	196	188	213
<b>Profit before Tax</b>	<b>6,343</b>	<b>5,239</b>	<b>4,682</b>	<b>6,377</b>
Margin (%)	25.2	18.5	13.7	21.2
Total Tax	1,595	1,318	1,183	1,616
Effective tax rate (%)	25.2	25.2	25.3	25.3
<b>Profit after Tax</b>	<b>4,747</b>	<b>3,921</b>	<b>3,499</b>	<b>4,761</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>4,747</b>	<b>3,921</b>	<b>3,499</b>	<b>4,761</b>
YoY gr. (%)	(8.2)	99.5	42.3	711.7
Margin (%)	18.9	13.9	10.2	15.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>4,747</b>	<b>3,921</b>	<b>3,499</b>	<b>4,761</b>
YoY gr. (%)	(8.2)	99.5	42.3	711.7
Margin (%)	18.9	13.9	10.2	15.8
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>4,747</b>	<b>3,921</b>	<b>3,499</b>	<b>4,761</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Company Data, PL Research

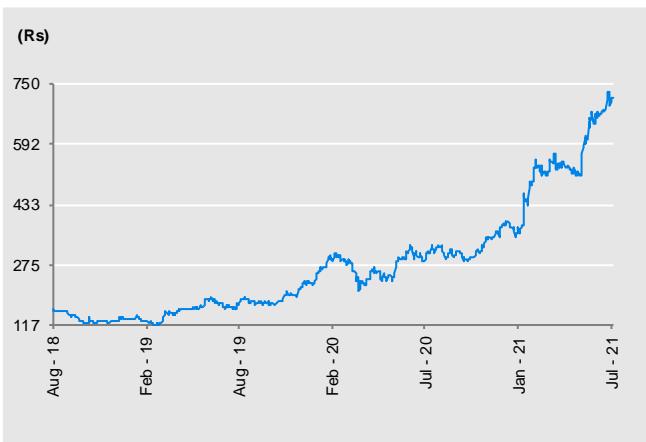
**Key Operating Metrics**

Y/e Mar	FY20	FY21	FY22E	FY23E
CNG (mmscmd)	1.5	1.3	2.1	2.4
Industrial PNG (mmscmd)	7.3	7.4	9.2	11.0
Domestic PNG (mmscmd)	0.6	0.6	0.8	0.9
Commercial PNG (mmscmd)	0.1	0.1	0.1	0.1
USD/INR	70.6	74.3	76.5	78.8
Spreads (Rs/scm)	4.7	6.1	5.8	5.7

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	02-Jul-21	UR	-	665
2	01-Jun-21	BUY	666	540
3	05-Apr-21	UR	-	549
4	06-Feb-21	BUY	528	380
5	08-Jan-21	BUY	403	387
6	06-Jan-21	BUY	403	386
7	05-Nov-20	BUY	403	301
8	07-Oct-20	BUY	388	304
9	05-Oct-20	BUY	388	311

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Hold	814	874
2	Bharat Petroleum Corporation	BUY	581	463
3	GAIL (India)	BUY	184	151
4	Gujarat Gas	UR	-	665
5	Hindustan Petroleum Corporation	BUY	365	298
6	Indian Oil Corporation	BUY	135	106
7	Indraprastha Gas	BUY	662	561
8	Mahanagar Gas	BUY	1,370	1,109
9	NOCIL	BUY	393	283
10	Oil & Natural Gas Corporation	BUY	155	118
11	Oil India	UR	-	169
12	Petronet LNG	BUY	351	223
13	Reliance Industries	BUY	2,416	2,106

PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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