

Gujarat Gas

Aggressive pricing to protect margins

Gujarat Gas (GGL) announced a price increase of Rs4/scm for industrial customers and a price increase of Rs2/kg for the CNG segment with effect from August 24, 2021. The effective price for the key region of Morbi is now at ~Rs38/scm and CNG price in Gujarat is at Rs54.45/kg (Rs34/scm and Rs52.45/kg earlier). For non-Morbi customers, the effective industrial price would be ~Rs40/scm or so. The higher prices will help protect GGL's margins. We reiterate BUY, with a revised price target of Rs865.

Margin hit due to higher LNG price contained to part of Q2FY22

The relentless rise in spot LNG prices over the last six months has meant that average cost of gas for GGL has been on the upswing. Part of this swing was offset by higher domestic gas supply starting Q1FY22 (0.6-0.7mm scmd from Vedanta (Cairn) and 1.6mm scmd from RIL's new fields), but as volumes moved back to 12mm scmd levels in Q2 from lows of 10mm scmd in Q1, spot LNG as a % of overall gas has increased to 32-33% from 24% in Q1. We expect average gas costs for GGL to increase by Rs5/scm QoQ for Q2; the blended improvement of Rs1.3/scm in Q2 (as the price increase is only for 3 days) will help keep EBITDA/scm at 4.5/scm – H1 EBITDA/scm will sustain at Rs6.2/scm therefore, much above earlier estimates.

Limited threat to volumes as of now

Given the sharply higher price increases for the industrial segment at one go, demand growth particularly from the smaller unorganized portion of Morbi may take a hit in the near term. However, we note that the prices of LPG (the only real alternative for customers at Morbi) have also seen a sustained rise in the last 12 months. LPG is priced at >Rs40/scm currently, preserving the pricing power and demand prospects for GGL.

Morbi continues to show strong traction

The Morbi region has made giant strides in the export market, becoming one of the top 10 exporters of ceramic/vitrified tiles from one of the top 20 earlier. There are 50-60 new units coming up by December, which will add volume. Additionally, steady improvement in new area volumes, focus on CNG and the increment of Amritsar/Bhatinda can support 12-13% volume growth over the next 5-6 years for GGL.

Strong growth ahead, margins to be stronger; BUY

We raise FY22E EPS by 7.6% to factor stronger margins, but leave FY23E largely unchanged, which also raises the target price marginally to Rs865, 19% upside from here. Valuations of 23.6x FY23E EPS / 15.2x EV/EBITDA have shown sharp improvement in the last one year, but we believe higher premium and further re-rating is warranted, given the strong 34/22/29% CAGR in revenue/EBITDA/PAT over FY21-23E, topped by RoE/RoCE of 27/30% by FY23E vs 28/29% in FY21. Reiterate BUY.

Financial and valuation summary

YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenues	77,544	1,03,003	98,543	1,53,211	1,77,333
EBITDA	9,846	16,503	20,878	27,026	31,002
EBITDA margin (%)	12.7	16.0	21.2	17.6	17.5
Adj. Net profit	4,290	9,158	12,755	18,115	21,128
Adj. EPS (Rs)	6.2	13.3	18.5	26.3	30.7
EPS growth (%)	47.2	113.5	39.3	42.0	16.6
PE (x)	116.2	54.4	39.1	27.5	23.6
EV/EBITDA (x)	52.6	31.0	24.1	17.9	15.2
PBV (x)	22.8	15.1	11.1	8.3	6.4
RoE (%)	21.3	33.5	32.8	34.5	30.6
RoCE (%)	13.2	28.9	25.9	31.7	29.7

Source: Bloomberg, Centrum Broking

Event Update

India I Oil & Gas

24 August, 2021

BUY

Price: Rs724

Target Price: Rs865

Forecast return: 19%

Market Data

Bloomberg:	GUJGA IN
52 week H/L:	787/281
Market cap:	Rs479.1bn
Shares Outstanding:	688.4mn
Free float:	18.5%
Avg. daily vol. 3mth:	25,89,090

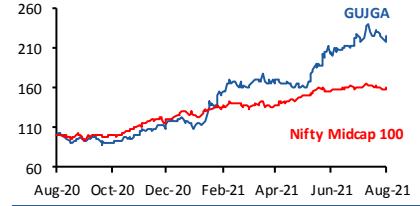
Source: Bloomberg

Changes in the report

Rating:	BUY; unchanged
Target price:	Rs865; earlier Rs860
EPS:	FY22E EPS: Rs26.3; +7.6% FY23E EPS: Rs30.7; -0.2%

Source: Centrum Broking

GUJGA relative to Nifty 50



Source: Bloomberg

Shareholding pattern

	Jun-21	Mar-21	Dec-20	Sep-20
Promoter	60.9	60.9	60.9	60.9
FII	8.2	8.6	9.0	9.1
DII	7.9	7.4	7.3	7.3
Public/other	23.0	23.1	22.8	22.7

Source: BSE



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Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY22E New	FY22E Old	% chg	FY23E New	FY23E Old	% chg
Revenue	1,53,211	1,44,730	5.9%	1,77,333	1,69,969	4.3%
EBITDA	27,026	25,324	6.7%	31,002	31,231	-0.7%
EBITDA margin	17.6%	17.5%		17.5%	18.4%	
Adj. PAT	18,115	16,841	7.6%	21,128	21,164	-0.2%
Diluted EPS (Rs)	26.3	24.5	7.6%	30.7	30.7	-0.2%

Source: Centrum Broking

GSPL versus NIFTY Midcap 100

	1m	6m	1 year
GUJS IN	(0.9)	46.0	126.2
NIFTY Midcap 100	(1.1)	17.1	59.5

Source: Bloomberg, NSE

Centrum vs consensus

YE Mar (Rs mn)	Centrum FY22E	Consensus FY22E	Variance (%)	Centrum FY23E	Consensus FY23E	Variance (%)
Revenue	1,53,211	1,54,805	-1.0%	1,77,333	1,88,851	-6.1%
EBITDA	27,026	28,407	-4.9%	31,002	32,691	-5.2%
PAT	18,115	18,553	-2.4%	21,128	21,689	-2.6%
EPS (Rs)	26	26.7	-1.4%	31	30.8	-0.4%

Source: Bloomberg, Centrum Broking

Key assumptions

Y/E Mar	FY22E	FY23E
Brent (US\$/bbl)	70.0	70.0
INR/USD	74.0	75.0
Volumes (mmscm)	4,370	5,016
Volumes (mmscmd)	12.0	13.7
CNG (mmscmd)	2.1	2.4
Domestic (mmscmd)	0.7	0.8
Industrial/Commercial (mmscmd)	9.2	10.6
Avg realisation (Rs/scm)	35.1	35.4
Raw material cost (Rs/scm)	26.7	27.0
Gross margin (Rs/scm)	8.4	8.4
EBITDA margin (Rs/scm)	6.2	6.2

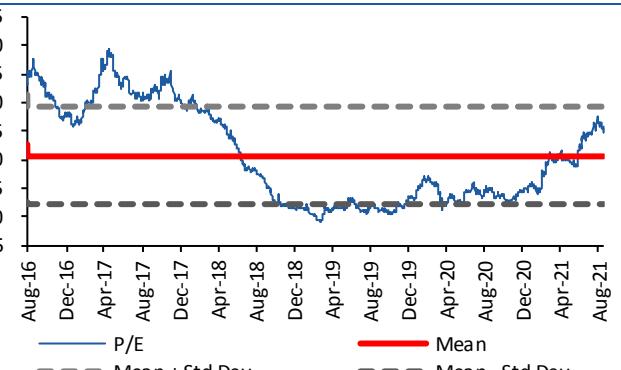
Source: Centrum Broking

Valuations

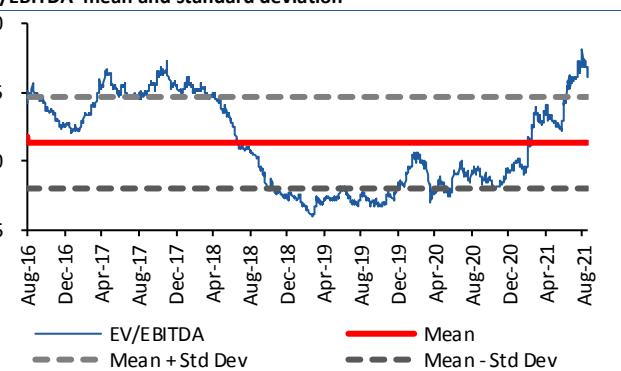
We value GGL on DCF, with explicit period forecasting till FY23E and then broad assumptions of 12-13% volume growth and EBITDA/scm of Rs6.2/scm over FY24-29E. WACC of 10.1% and terminal growth of 5%.

Valuations	Rs/share
NPV total	1,47,127
TV	10,70,145
PV of Terminal value	4,48,317
Total NPV potential	5,95,444
Per share for GGL	865
CMP	724
Upside (downside)	19.4%
NPV total	1,47,127

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



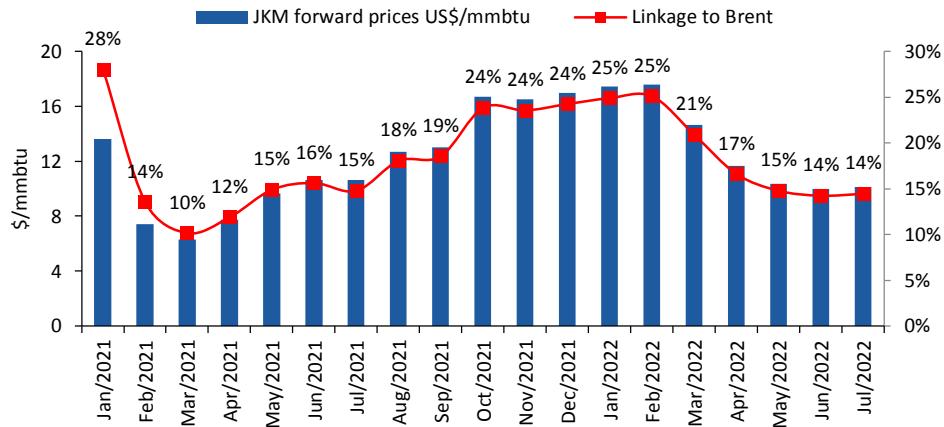
Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap		EPS CAGR (FY21-23E)		PE (x)		P/Bv (x)		EV/EBITDA (x)		RoE (%)	RoCE (%)	
	(Rs bn)	(%)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E		
GGL	498	28.7	39.1	27.5	23.6	11.1	8.3	6.4	24.1	17.9	15.2	30.6	29.7
IGL	367	23.6	36.5	26.5	23.9	6.3	5.4	4.6	24.1	17.8	15.2	20.8	20.7
MGL	111	26.4	17.9	12.7	11.2	3.4	3.0	2.6	10.2	7.6	6.6	25.1	25.2

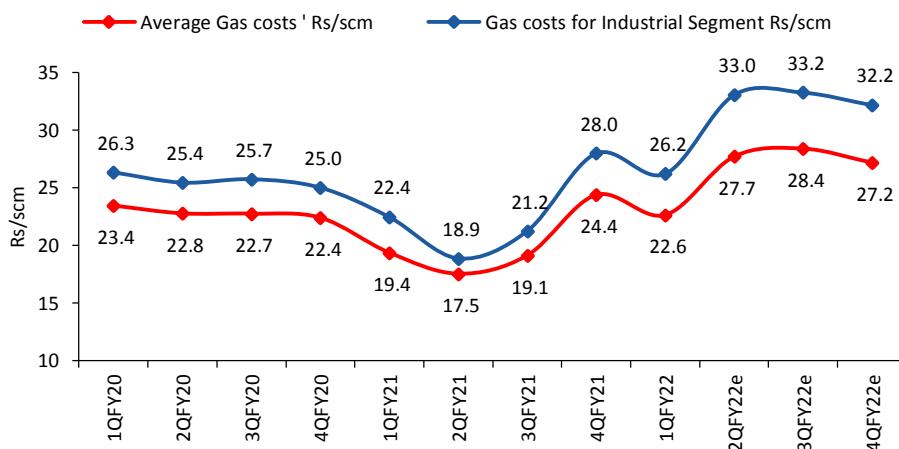
Source: Company, Centrum Broking

Exhibit 1: LNG prices have been strong; futures prices suggest moderation by Q4FY22



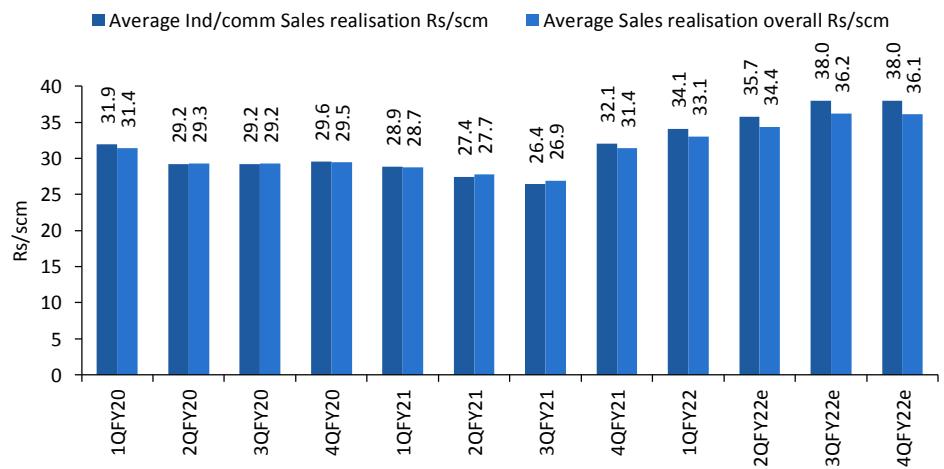
Source: Centrum Broking, Bloomberg

Exhibit 2: Driving a steady accretion in average gas costs



Source: Centrum Broking, Company Data, Bloomberg

Exhibit 3: Average sales realizations have kept pace, however, and now will go up



Source: Centrum Broking, Company Data

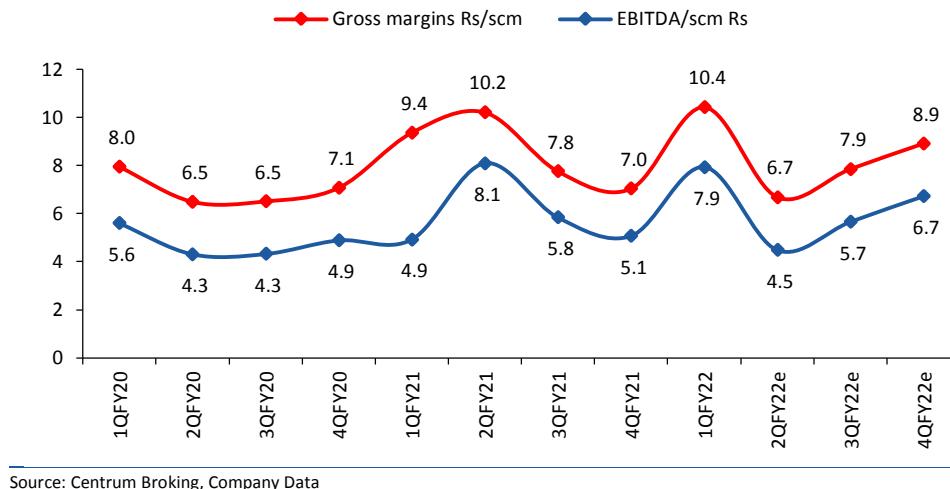
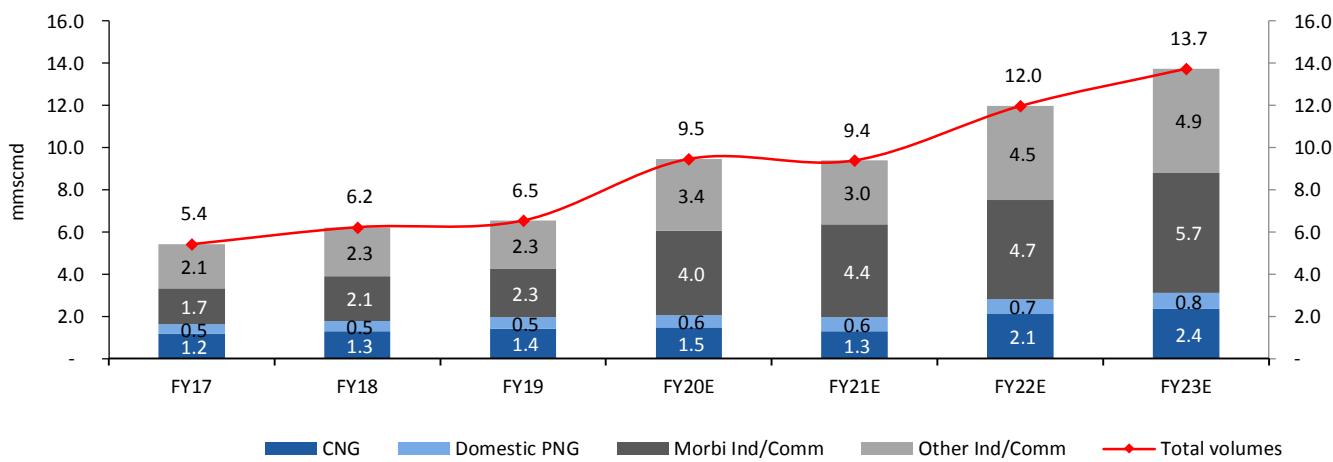
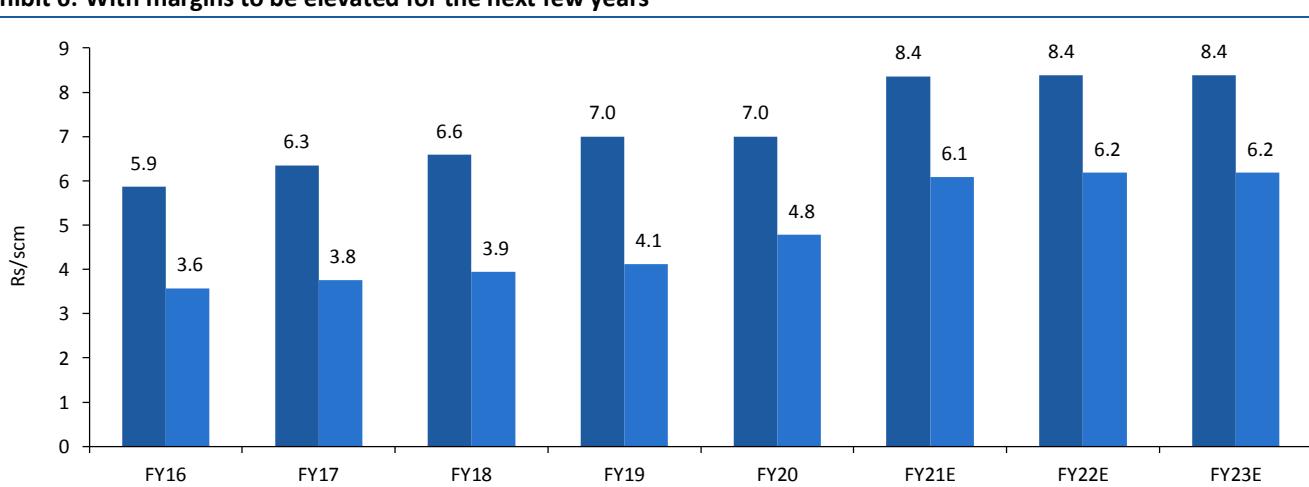
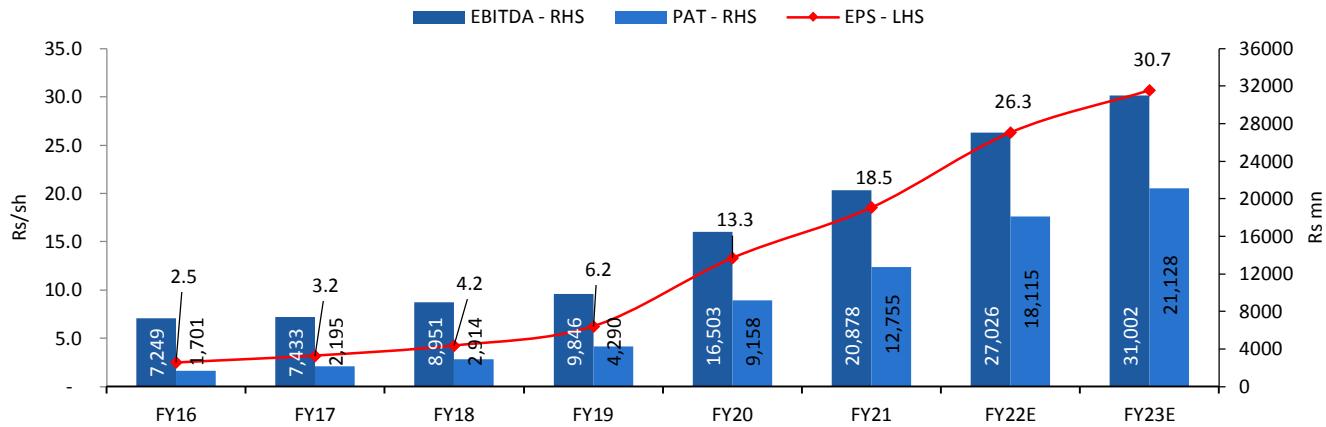
Exhibit 4: Margins have been volatile, but will average >Rs6.2/scm over FY22E

Exhibit 5: Sustained volume growth ahead

Exhibit 6: With margins to be elevated for the next few years


Exhibit 7: Driving strong profitability



Source: Centrum Broking, Company Data

Exhibit 8: Material upside from here

DCF	FY21	FY22E	FY23E	FY24E	FY25E...	FY30E
Volumes mm scmd	9.4	12.0	13.7	14.9	16.8	31.1
yoY growth	-0.8%	27.5%	14.8%	8.2%	13.1%	12.0%
EBITDA/Scm	6.1	6.2	6.2	6.2	6.2	6.2
EBITDA	20,878	27,026	31,002	33,653	38,062	70,433
Less Depreciation	3,408	3,765	4,114	4,450	4,217	5,308
EBIT	17,470	23,260	26,888	29,203	33,845	65,124
Less Interest	1,163	243	198	153	2,593	3,264
Other Income	740	1,193	1,547	1,617	1,829	3,215
PBT	17,047	24,210	28,238	30,667	33,081	65,075
Less Tax	4,398	5,856	6,770	7,353	8,521	16,397
NOPAT	12,649	18,354	21,468	23,315	24,560	48,679
Add Depreciation	3,408	3,765	4,114	4,450	4,217	5,308
Less Capex	7,513	8,500	8,500	8,000	7,500	1,500
FCF	8,544	13,619	17,082	19,765	21,277	52,487
NPV	8,544	12,364	14,079	14,789	14,453	21,989
NPV total	1,47,127					
TV	10,70,145					
PV of Terminal value	4,48,317					
Total NPV potential	5,95,444					
Per share for GGL	865					
CMP	724					
Upside (downside)	19.4%					

Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenues	77,544	1,03,003	98,543	1,53,211	1,77,333
Operating Expense	60,830	78,818	69,898	1,16,576	1,35,252
Employee cost	1,600	1,754	1,775	2,307	2,769
Others	5,268	5,929	5,992	7,302	8,310
EBITDA	9,846	16,503	20,878	27,026	31,002
Depreciation & Amortisation	2,880	3,180	3,408	3,765	4,114
EBIT	6,966	13,323	17,470	23,260	26,888
Interest expenses	1,962	1,922	1,163	243	198
Other income	1,113	837	740	1,193	1,547
PBT	5,939	12,078	17,047	24,210	28,238
Taxes	1,768	145	4,292	6,095	7,110
Effective tax rate (%)	29.8	1.2	25.2	25.2	25.2
PAT	4,170	11,933	12,755	18,115	21,128
Minority/Associates	0	0	0	0	0
Recurring PAT	4,290	9,158	12,755	18,115	21,128
Extraordinary items	(120)	2,776	0	0	0
Reported PAT	4,170	11,933	12,755	18,115	21,128
Ratios					
YE Mar	FY19A	FY20A	FY21A	FY22E	FY23E
Growth (%)					
Revenue	25.6	32.8	(4.3)	55.5	15.7
EBITDA	10.0	67.6	26.5	29.4	14.7
Adj. EPS	47.2	113.5	39.3	42.0	16.6
Margins (%)					
Gross	21.6	23.5	29.1	23.9	23.7
EBITDA	12.7	16.0	21.2	17.6	17.5
EBIT	9.0	12.9	17.7	15.2	15.2
Adjusted PAT	5.5	8.9	12.9	11.8	11.9
Returns (%)					
ROE	21.3	33.5	32.8	34.5	30.6
ROCE	13.2	28.9	25.9	31.7	29.7
ROIC	12.0	30.3	27.4	36.2	41.2
Turnover (days)					
Gross block turnover ratio (x)	1.1	1.4	1.2	1.7	1.8
Debtors	21	18	24	22	23
Inventory	4	3	3	2	2
Creditors	89	78	106	94	104
Net working capital	(26)	(11)	(34)	(14)	9
Solvency (x)					
Net debt-equity	0.9	0.4	0.1	(0.2)	(0.3)
Interest coverage ratio	5.0	8.6	18.0	111.2	156.6
Net debt/EBITDA	1.9	0.8	0.2	(0.5)	(0.9)
Per share (Rs)					
Adjusted EPS	6.2	13.3	18.5	26.3	30.7
BVPS	31.7	47.8	65.1	87.4	113.5
CEPS	10.4	17.9	23.5	31.8	36.7
DPS	1.2	1.5	2.0	4.0	4.7
Dividend payout (%)	19.9	8.4	10.8	15.2	15.2
Valuation (x)					
P/E	116.2	54.4	39.1	27.5	23.6
P/BV	22.8	15.1	11.1	8.3	6.4
EV/EBITDA	52.6	31.0	24.1	17.9	15.2
Dividend yield (%)	0.2	0.2	0.3	0.6	0.6

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Equity share capital	1,377	1,377	1,377	1,377	1,377
Reserves & surplus	20,463	31,529	43,450	58,809	76,724
Shareholders fund	21,840	32,906	44,827	60,186	78,101
Minority Interest	0	0	0	0	0
Total debt	22,131	19,983	7,700	2,700	2,200
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	0	0	0	0	0
Total liabilities	43,971	52,890	52,526	62,885	80,300
Gross block	68,417	74,263	81,470	89,970	98,470
Less: acc. Depreciation	(15,526)	(18,416)	(21,824)	(25,589)	(29,703)
Net block	52,891	55,847	59,646	64,381	68,767
Capital WIP	4,885	5,686	6,876	6,876	6,876
Net fixed assets	57,776	61,533	66,522	71,257	75,643
Non Current Assets	0	0	0	0	0
Investments	2,496	2,448	3,163	5,663	8,163
Inventories	694	463	522	812	940
Sundry debtors	5,103	5,101	7,831	10,958	11,415
Cash & Cash Equivalents	3,092	6,919	3,187	16,119	29,456
Loans & advances	1,481	1,436	1,420	1,704	2,044
Other current assets	634	1,074	1,849	1,942	2,039
Trade payables	16,008	17,495	23,142	36,666	40,413
Other current liab.	0	0	0	0	0
Provisions	480	583	763	839	923
Net current assets	(5,484)	(3,086)	(9,097)	(5,972)	4,557
Total assets	43,971	52,890	52,526	62,885	80,300
Cashflow					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Profit Before Tax	5,939	12,078	17,047	24,210	28,238
Depreciation & Amortisation	2,880	3,180	3,408	3,765	4,114
Net Interest	976	1,341	747	243	198
Net Change – WC	(289)	413	(537)	9,808	2,809
Direct taxes	0	(2,801)	(4,166)	(6,095)	(7,110)
Net cash from operations	9,561	14,220	16,552	30,738	26,701
Capital expenditure	(5,304)	(5,955)	(7,512)	(8,500)	(8,500)
Acquisitions, net	0	0	0	0	0
Investments	(1,696)	711	998	(2,500)	(2,500)
Others	958	576	431	1,193	1,547
Net cash from investing	(6,042)	(4,668)	(6,083)	(9,807)	(9,453)
FCF	4,257	8,266	9,040	22,238	18,201
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	(1,139)	(2,322)	(11,150)	(5,000)	(500)
Dividend paid	(408)	(837)	(863)	(2,755)	(3,214)
Interest paid	(1,947)	(1,864)	(1,163)	(243)	(198)
Others	0	0	0	0	0
Net cash from financing	(3,494)	(5,024)	(13,177)	(7,998)	(3,912)
Net change in Cash	25	4,528	(2,708)	12,933	13,337

Source: Company, Centrum Broking

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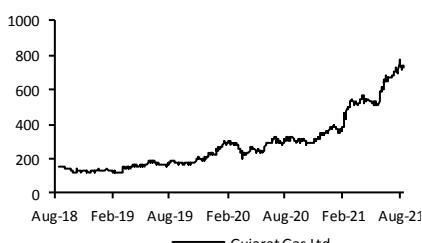
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Gujarat Gas Ltd



Source: Bloomberg

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