

Estimate change	↑
TP change	↑
Rating change	↔

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	GUJGA IN
Equity Shares (m)	688
M.Cap.(INRb)/(USDb)	531.6 / 7.2
52-Week Range (INR)	787 / 281
1, 6, 12 Rel. Per (%)	13/96/106
12M Avg Val (INR M)	717

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Sales	98.5	146.5	186.2
EBITDA	20.9	23.4	29.8
PAT	12.8	15.0	20.0
EPS (INR)	18.5	21.7	29.0
EPS Gr. (%)	6.9	17.3	33.4
BV/Sh.(INR)	65.1	84.7	110.8
Ratios			
Net D:E	0.1	-0.1	-0.3
RoE (%)	32.8	29.0	29.7
RoCE (%)	35.1	35.6	38.3
Payout (%)	10.8	10.0	10.0
Valuations			
P/E (x)	41.7	35.5	26.6
P/BV (x)	11.9	9.1	7.0
EV/EBITDA (x)	25.7	22.4	17.1
Div. Yield (%)	0.3	0.3	0.4
FCF Yield (%)	1.7	2.4	3.1

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	60.9	60.9	60.9
DII	7.9	7.4	7.4
FII	8.2	8.6	9.2
Others	23.0	23.1	22.5

FII Includes depository receipts

CMP: INR772 **TP: INR860 (+11%)** **Buy**

Ecstatic margins; unlikely to sustain

- Gujarat Gas (GUJGA) reported a beat on our numbers, driven by better-than-estimated EBITDA/scm (INR7.9), while volumes were in-line (at 10mmSCMD, with Morbi at 5.6mmSCMD). The **gross margin stood at INR10.4/scm (v/s our estimate of INR7.8)**, led by lower gas costs. In 1QFY22, GUJGA began procuring 1.33mmSCMD of gas from the Barmer field in Rajasthan (in addition to 0.67mmSCMD gas from the KG Basin in the previous quarter). **Thus, long-term gas sourcing for the company stands at 6mmSCMD (v/s 4.2mmSCMD earlier)**.
- However, owing to the current spike in Brent and spot LNG prices (JKM forward curve at USD15–16/mmbtu v/s USD10 in 1QFY22), the **gross margin for 2QFY22 would face downward pressure – if no price hike is taken by the company**. GUJGA has been agile in its pricing strategy in line with alternative fuel prices; although, conservatively, we estimate EBITDA/scm of INR4 for 2QFY22.
- The streak of quarterly EPS revisions continues, with 1QFY22 being the sixth consecutive quarter of EPS upgrades. **Volumes recovery post the last two lockdowns has been the quickest for GUJGA (current volumes at 12mmSCMD, with Morbi at 7.1mmSCMD)**, and we continue to reiterate our optimism on the company's volume growth (triggers highlighted below).
- In line with the same, assuming volumes of 14.8/16.3mmSCMD for FY23E/FY24E (a 20% CAGR over FY21–24E) and EBITDA/scm normalization at ~INR5.5/scm, we revise up our EPS by +12%, translating to EPS of INR29.0/32.5 for FY23E/FY24E. **Furthermore, (a) the addition of 60+ new industrial units at Morbi over the next year, with current units undergoing expansion, and (b) the emergence of a new ceramic cluster at Aniyari (potential of ~0.5mmSCMD) could result in a volume growth surprise**.
- The aforementioned aptitude of the company has also resulted in the stock price posting a run of 43% in the last two months (i.e., since the last quarterly earnings) and 155% in the last year.
- We upgrade our PE multiple from 24x to 28x owing to continued strength in volume pickup and EBITDA/scm. We maintain Buy, with TP of INR860. However, **we highlight that any underperformance in terms of EBITDA/scm or volume growth v/s our projection could be key risks for the stock**.

Volumes in-line; EBITDA/scm expands on lower gas cost

- Volumes were in-line at 10mmSCMD (-17% QoQ, impacted by the second wave).**
 - CNG volumes stood at 1.5mmSCMD (-9% QoQ).
 - PNG household stood at 0.6mmSCMD (-19% QoQ).
 - PNG I/C came in at 7.9mmSCMD (-19% QoQ).
- The company reported revenue in line with estimates at INR30.1b (-12% QoQ).

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- EBITDA stood at INR7.3b (+44% est.), with EBITDA/scm at INR7.9 (v/s our estimate of INR5.5; +61% YoY / +56% QoQ).
- PAT stood at INR4.8b (+36% QoQ).

Valuation and view

- **The company added 11 new CNG stations in 1QFY22. GUJGA plans to add 150 CNG stations in FY22, taking the total to 700+ stations (resulting in more CNG stations v/s IGL).** With the infrastructure in place, GUJGA would be the biggest beneficiary of any directive on Green Tax by MoRHT ([refer to our report](#)) – as Gujarat has no government directive on the use of CNG yet.
- PNGRB recently granted authorization to transfer Amritsar and Bhatinda Gas from GSPL to GUJGA. Bhatinda has huge potential for industrial gas consumption.
- **GUJGA has the best RoCE profile of 34–38% and expected FCF generation of ~INR48b over the next three years.** The company would supposedly turn net cash in FY22, despite capex plans of INR30b over FY22–24E. Maintain Buy.

Standalone - Quarterly Earnings Model

Y/E March											(INR m)	
	FY21					FY22				FY21	FY22E	FY22E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE	Var (%)	
Net Sales	10,829	25,130	28,294	34,289	30,109	36,090	39,449	40,817	98,543	1,46,464	28,951	4.0
YoY Change (%)	-58.6	0.0	12.9	28.6	178.0	43.6	39.4	19.0	-4.3	48.6	167.3	
EBITDA	1,857	7,330	6,148	5,543	7,229	4,289	5,785	6,098	20,878	23,400	5,023	43.9
Margins (%)	17.2	29.2	21.7	16.2	24.0	11.9	14.7	14.9	21.2	16.0	17.3	
Depreciation	823	856	862	868	905	923	933	939	3,408	3,700	894	1.2
Interest	401	339	243	180	159	143	129	128	1,163	558	162	-2.1
Other Income	149	208	196	188	213	239	225	175	740	851	156	36.4
PBT	783	6,343	5,239	4,682	6,377	3,461	4,949	5,206	17,047	19,993	4,122	54.7
Rate (%)	25.1	25.1	25.2	25.3	25.3	25.2	25.2	24.9	25.2	25.2	25.2	
Reported PAT	587	4,748	3,922	3,499	4,762	2,589	3,702	3,909	12,755	14,961	3,083	54.4
Adj PAT	587	4,748	3,922	3,499	4,762	2,589	3,702	3,909	12,755	14,961	3,083	54.4
YoY Change (%)	-74.9	-8.2	99.5	42.3	711.7	-45.5	-5.6	11.7	6.9	17.3	425.6	
Total volume (mmscmd)	4.1	9.8	11.4	12.1	10.0	11.7	12.5	13.5	9.4	11.9	10.0	0.2
CNG	0.7	1.3	1.5	1.7	1.5	1.6	1.7	1.8	1.3	1.7	1.5	0.6
PNG - Industrials/commercial	2.9	7.9	9.3	9.7	7.9	9.5	10.2	11.1	7.4	9.7	7.7	2.2
PNG - Households	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.8	-21.1
EBITDA (INR/scm)	4.9	8.1	5.8	5.1	7.9	4.0	5.0	5.0	6.0	5.5	5.5	43.6

E: MOFSL Estimates

INR m	FY20					FY21				FY22	1QFY22	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	YoY (%)	QoQ (%)	
Net sales	26,146	25,129	25,062	26,666	10,829	25,130	28,294	34,289	30,109	NM	-12%	
Realization (INR/scm)	31.4	29.3	29.2	29.5	28.7	27.7	26.9	31.4	33.1	15%	5%	
Total raw material	19,521	19,551	19,482	20,263	7,292	15,876	20,131	26,613	20,609	NM	-23%	
Gas cost (INR/scm)	23.4	22.8	22.7	22.4	19.3	17.5	19.1	24.4	22.6	17%	-7%	
Gross Margin	6,626	5,578	5,580	6,403	3,537	9,254	8,163	7,677	9,500	NM	24%	
Gross Margin (INR/scm)	8.0	6.5	6.5	7.1	9.4	10.2	7.8	7.0	10.4	11%	48%	
EBITDA	4,665	3,706	3,705	4,267	1,857	7,330	6,148	5,543	7,229	NM	30%	
EBITDA (INR/scm)	5.6	4.3	4.3	4.7	4.9	8.1	5.8	5.1	7.9	61%	56%	
PAT	2,337	5,173	1,965	2,458	587	4,748	3,922	3,499	4,762	NM	36%	
PAT (INR/scm)	2.8	6.0	2.3	2.7	1.6	5.2	3.7	3.2	5.2	NM	63%	

Gujarat Gas – following volume triggers

- The Ceramic Association of Morbi expects growth of 25–30% in FY22 (v/s ~15% in FY21) – as 60 more industrial units are likely to be commissioned by end-FY22 and the current units would undergo further expansion.
- Strong export orders at Morbi have resulted in the emergence of a new ceramic cluster at Aniyari – a potential **0.5mmscmd market in the making**.
- **Non-Morbi industrial volumes are expected to reach ~3mmscmd at end-FY22**, from ~2.3mmscmd in FY21. Volumes at Dahej, Thane, Nadiad, and Silvassa are witnessing a boost.
- Any directive by the NGT to ban the use of fuel oil could lead to a short-term **incremental volume boost of 2–3mmscmd for GUJGA**.
- The Vasai–Virar region is the next big focus market for GUJGA after Thane – GUJGA plans to supply gas through a virtual network there. Recently, PNGRB ruled that GAIL should stop supply to consumers designated for CGD at Tarapur and Thane. **This could add ~0.3mmscmd to volumes in the short term. Similar rulings are expected at Dahej as well**.
- Despite having over 559 CNG stations v/s more than 573 of IGL, GUJGA's CNG volumes were only one-third that of IGL at 4.75mmscmd in FY21. Any directive on the total transition to CNG in Gujarat (at least for public transportation) could result in a huge volume boost for the company.
- The newly awarded 16–17 cities could see **volumes of 2.5–3mmscmd** over the next 4–5 years. **Thus, in total, the company is set to benefit from another ~10mmscmd volume boost over the medium term**.

Exhibit 1: Total PNG volumes down 19% QoQ (with PNG Industrial down 19% QoQ)

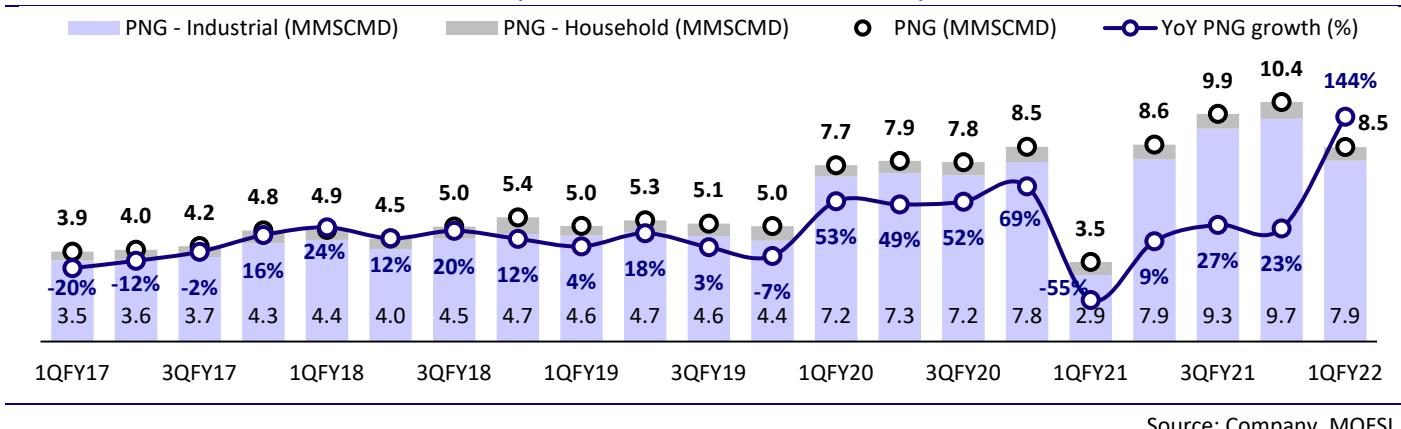
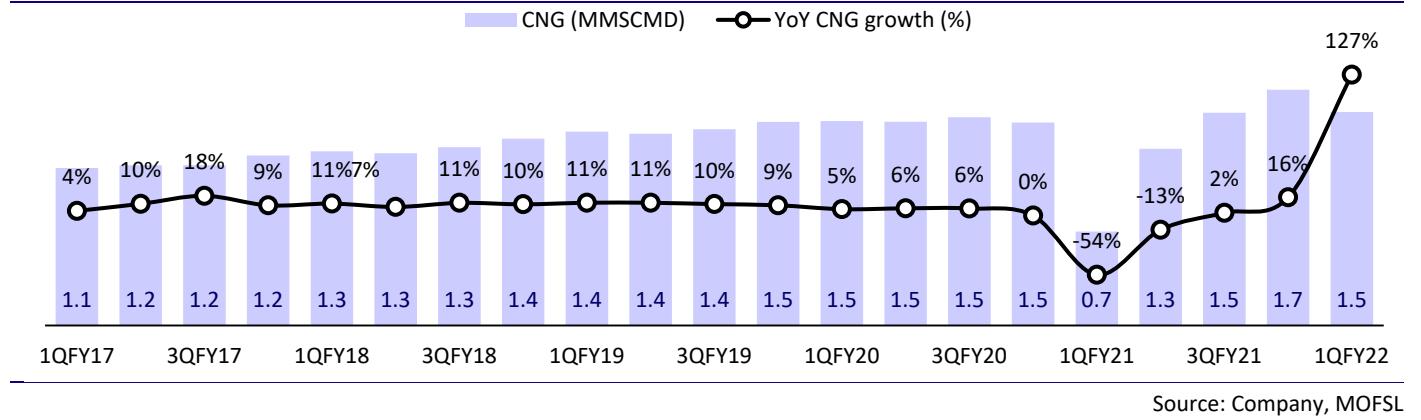
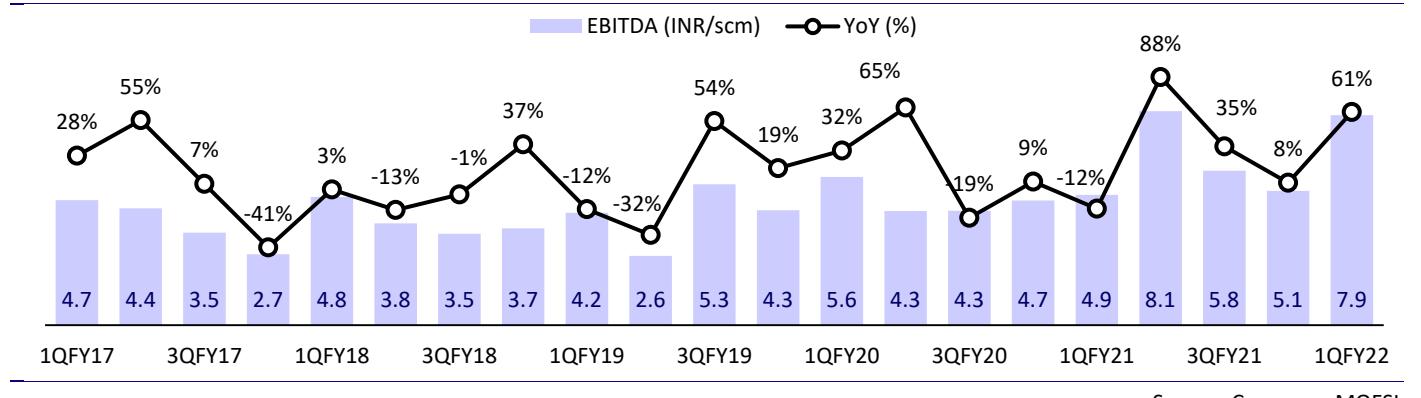


Exhibit 2: CNG volumes up 127% YoY (-9% QoQ – impacted by second COVID wave)

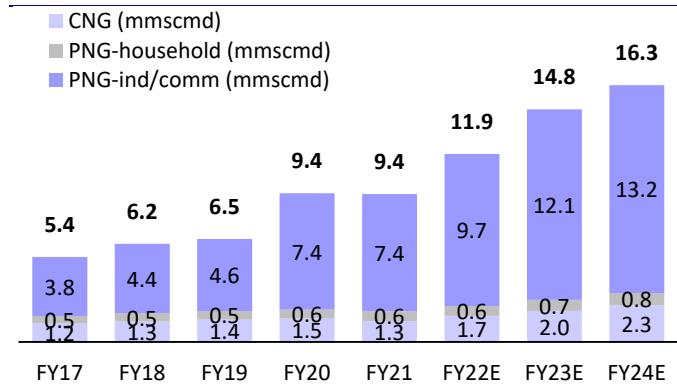
Source: Company, MOFSL

Exhibit 3: EBITDA/scm at INR7.9 in 1QFY22 (primarily due to lower gas costs)

Source: Company, MOFSL

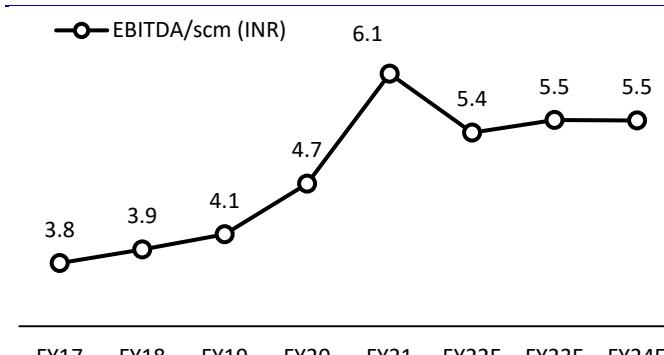
Story in charts

Exhibit 4: PNG – I/C to boost volume growth



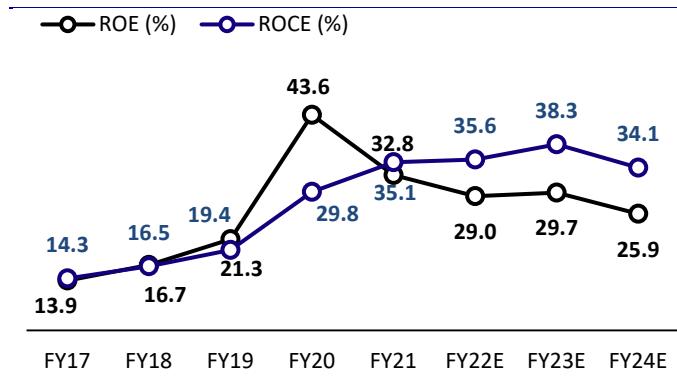
Source: Company, MOFSL

Exhibit 5: EBITDA/scm to normalize ~INR5.5



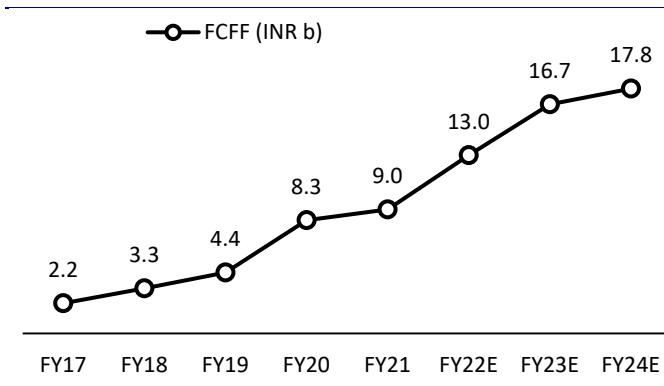
Source: Company, MOFSL

Exhibit 6: Return ratios



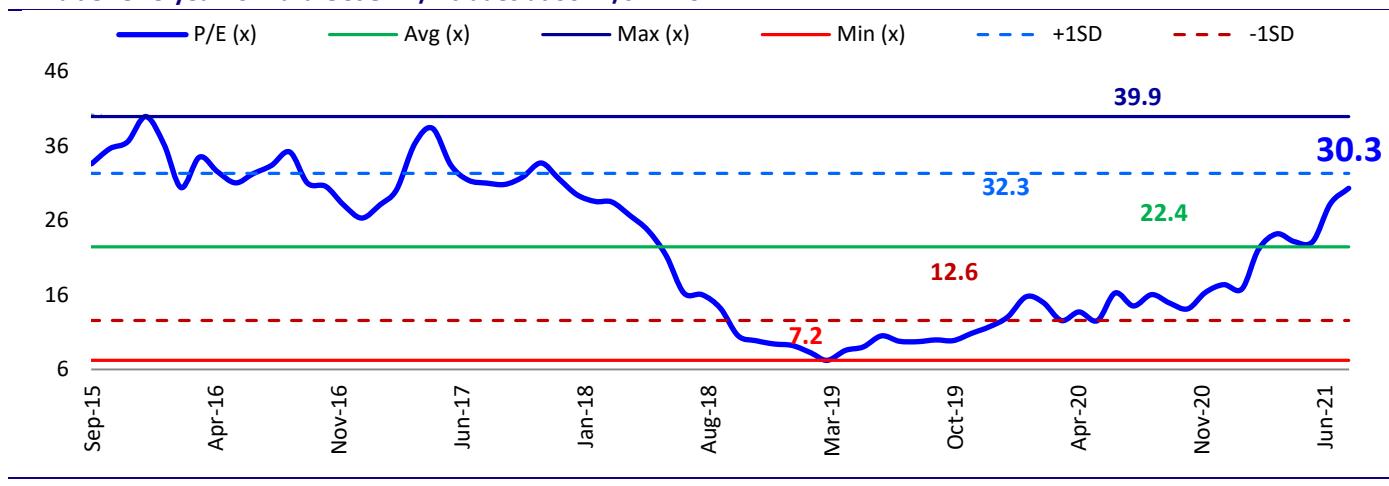
Source: Company, MOFSL

Exhibit 7: Free cash flow



Source: Company, MOFSL

Exhibit 8: One-year forward GUJGA P/E trades at 30x v/s LTA of 22.4x



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement								
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	(INR m) FY24E
Total Income from Operations	50,926	61,743	77,544	1,03,003	98,543	1,46,464	1,86,240	2,12,887
Change (%)	-16.6	21.2	25.6	32.8	-4.3	48.6	27.2	14.3
EBITDA	7,433	8,951	9,846	16,343	20,878	23,400	29,770	32,821
Margin (%)	14.6	14.5	12.7	15.9	21.2	16.0	16.0	15.4
Depreciation	2,573	2,718	2,880	3,180	3,408	3,700	3,882	4,117
EBIT	4,860	6,232	6,966	13,163	17,470	19,700	25,889	28,704
Int. and Finance Charges	2,090	1,961	1,962	1,922	1,163	558	320	170
Other Income	263	357	1,113	837	740	851	1,106	1,320
PBT bef. EO Exp.	3,033	4,628	6,117	12,078	17,047	19,993	26,674	29,854
EO Items	0	0	-179	0	0	0	0	0
PBT after EO Exp.	3,033	4,628	5,939	12,078	17,047	19,993	26,674	29,854
Current Tax	838	1,715	1,768	145	4,292	5,032	6,714	7,514
Tax Rate (%)	27.6	37.0	29.8	1.2	25.2	25.2	25.2	25.2
Reported PAT	2,195	2,914	4,170	11,933	12,755	14,961	19,960	22,340
Adjusted PAT	2,195	2,914	4,296	11,933	12,755	14,961	19,960	22,340
Change (%)	6.3	32.7	47.4	177.8	6.9	17.3	33.4	11.9
Margin (%)	4.3	4.7	5.5	11.6	12.9	10.2	10.7	10.5

Standalone - Balance Sheet								
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	(INR m) FY24E
Equity Share Capital	1,377	1,377	1,377	1,377	1,377	1,377	1,377	1,377
Total Reserves	15,072	17,087	20,463	31,529	43,450	56,915	74,879	94,985
Net Worth	16,449	18,464	21,840	32,906	44,827	58,291	76,256	96,362
Deferred Tax Liabilities	9,849	10,455	10,816	8,005	8,063	8,063	8,063	8,063
Total Loans	22,987	22,143	20,892	18,344	7,700	4,700	1,700	1,700
Capital Employed	49,285	51,062	53,547	59,255	60,589	71,054	86,018	1,06,124
Gross Block	59,393	64,021	68,861	73,531	80,530	83,909	88,611	94,373
Less: Accum. Deprn.	10,376	13,094	15,974	19,154	22,562	26,262	30,144	34,261
Net Fixed Assets	49,017	50,927	52,887	54,377	57,968	57,646	58,467	60,112
Capital WIP	5,071	4,797	4,902	5,708	6,892	13,513	18,811	23,048
Total Investments	683	161	160	1,633	1,873	1,873	1,873	1,873
Curr. Assets, Loans&Adv.	8,714	10,449	13,326	17,255	17,761	33,695	52,084	72,806
Inventory	417	568	694	463	522	827	1,052	1,210
Account Receivables	3,475	3,917	5,103	5,101	7,831	11,639	14,800	16,918
Cash and Bank Balance	608	1,363	3,092	6,919	3,187	11,981	24,473	41,237
...of which cash	175	931	944	5,472	2,764	11,559	24,051	40,814
Bank balance	433	432	2,148	1,447	423	423	423	423
Loans and Advances	4,214	4,601	4,437	4,772	6,222	9,247	11,758	13,441
Curr. Liability & Prov.	14,199	15,271	17,727	19,718	23,905	35,673	45,216	51,715
Account Payables	3,140	2,931	3,523	3,670	4,458	7,064	8,981	10,336
Other Current Liabilities	10,660	11,957	13,724	15,015	18,684	27,770	35,311	40,364
Provisions	399	383	480	1,033	763	839	923	1,016
Net Current Assets	-5,485	-4,822	-4,402	-2,464	-6,144	-1,979	6,867	21,090
Appl. of Funds	49,285	51,062	53,548	59,255	60,589	71,054	86,019	1,06,125

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March (INR)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
EPS	3.2	4.2	6.2	17.3	18.5	21.7	29.0	32.5
Cash EPS	6.9	8.2	10.4	22.0	23.5	27.1	34.6	38.4
BV/Share	23.9	26.8	31.7	47.8	65.1	84.7	110.8	140.0
DPS	0.6	0.8	1.0	1.3	2.0	2.2	2.9	3.2
Payout (%)	22.6	22.8	19.9	8.7	10.8	10.0	10.0	10.0
Valuation (x)								
P/E	242.1	182.4	123.7	44.5	41.7	35.5	26.6	23.8
Cash P/E	111.5	94.4	74.1	35.2	32.9	28.5	22.3	20.1
P/BV	32.3	28.8	24.3	16.2	11.9	9.1	7.0	5.5
EV/Sales	10.9	8.9	7.1	5.3	5.4	3.6	2.7	2.3
EV/EBITDA	74.5	61.7	55.8	33.2	25.7	22.4	17.1	15.0
Dividend Yield (%)	0.1	0.1	0.1	0.2	0.3	0.3	0.4	0.4
FCF per share	3.2	4.8	6.5	12.0	13.1	18.9	24.3	25.9
Return Ratios (%)								
RoE	13.9	16.7	21.3	43.6	32.8	29.0	29.7	25.9
RoCE	14.3	16.5	19.4	29.8	35.1	35.6	38.3	34.1
Working Capital Ratios								
Asset Turnover (x)	1.0	1.2	1.4	1.7	1.6	2.1	2.2	2.0
Inventory (Days)	3	3	3	2	2	2	2	2
Debtor (Days)	25	23	24	18	29	29	29	29
Creditor (Days)	23	17	17	13	17	18	18	18
Working Cap. Turnover (Days)	-44	-37	-35	-33	-35	-35	-35	-35
Leverage Ratio (x)								
Current Ratio	0.6	0.7	0.8	0.9	0.7	0.9	1.2	1.4
Debt/Equity	1.4	1.1	0.8	0.3	0.1	-0.1	-0.3	-0.4

Standalone - Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	3,033	4,628	5,939	12,078	17,047	19,993	26,674	29,854
Depreciation	2,573	2,718	2,880	3,180	3,408	3,700	3,882	4,117
Interest & Finance Charges	2,090	1,961	1,962	1,922	1,163	558	320	170
Direct Taxes Paid	-489	-1,040	0	-2,801	-4,166	-5,032	-6,714	-7,514
(Inc)/Dec in WC	-118	-231	-288	413	-537	4,629	3,646	2,540
Others	-80	-190	-849	-571	-364	-851	-1,106	-1,320
CF from Operations	7,010	7,847	9,644	14,220	16,552	22,997	26,703	27,848
(Inc)/Dec in FA	-4,805	-4,555	-5,376	-5,956	-7,513	-10,000	-10,000	-10,000
Free Cash Flow	2,205	3,292	4,447	8,265	9,039	12,997	16,703	17,848
Others	296	198	-761	1,287	1,430	851	1,106	1,320
CF from Investments	-4,509	-4,357	-6,137	-4,668	-6,083	-9,149	-8,894	-8,680
Inc/(Dec) in Debt	176	-248	-1,139	-2,149	-11,016	-3,000	-3,000	0
Interest Paid	-2,316	-1,986	-1,947	-1,864	-1,163	-558	-320	-170
Dividend Paid	-414	-499	-408	-837	-863	-1,496	-1,996	-2,234
CF from Fin. Activity	-2,553	-2,733	-3,494	-5,025	-13,177	-5,054	-5,316	-2,404
Inc/Dec of Cash	-52	757	13	4,527	-2,708	8,794	12,492	16,763
Opening Balance	228	176	933	945	5,472	2,764	11,559	24,051
Closing Balance	175	931	944	5,472	2,764	11,559	24,051	40,814

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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