

Strong margins drive profitability

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 FY17-21 driven by industrial PNG
- The company benefitted from NGT order for Morbi industrial area

Q1FY22 Results: Gujarat Gas reported results that were better than estimates on account of better realisation and low gas costs.

- Revenue was up 178% YoY to ₹ 3010.9 crore (estimate: ₹ 2870.5 crore) driven by 141.6% growth in volume to 10 mmscmd on a lower base
- Gross margins at ₹ 10.4/scm were well ahead of estimated margins of ₹ 8.1/scm due higher realisation and lower gas costs. Subsequently, EBITDA came in at ₹ 722.9 crore, up 289.2% YoY (estimate: ₹ 509 crore)
- PAT was at ₹ 476.2 crore, up 711.7% YoY (estimate: ₹ 320.5 crore)

What should investors do? Gujarat Gas' share price has grown by ~2.5x over the last one year (from ~₹ 300 in August 2020 to ~₹ 730 levels in August 2021).

- On account of the sharp run up in stock price, we downgrade our rating from BUY to HOLD on the stock

Target Price and Valuation: We value GGL at ₹ 735 i.e. 28x P/E on FY23E EPS

Key triggers for future price performance:

- Strong volume growth in industrial PNG segment driven by Morbi industrial volume. Steady growth in CNG, domestic PNG to support volume growth
- Better pricing power and regulatory tailwinds over long term
- In the medium term, higher gas prices to reduce margins from current level (Q1FY22)

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

- MGL is a beneficiary of India's increasing gas demand and will continue to grow on account of steady volume growth, better pricing power and favourable regulatory scenario
- BUY with a target price of ₹ 1,340



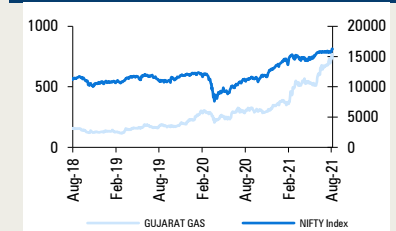
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	49,702.5
Total Debt (FY20) (₹ Crore)	1,943.0
Cash and Investments (FY20)	693.2
EV (₹ Crore)	50,952.3
52 week H/L	786/281
Equity capital (₹ Crore)	137.7
Face value (₹)	2.0

Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	60.9	60.9	60.9	60.9	60.9
FI	9.2	9.1	9.0	8.6	8.2
DII	7.4	7.3	7.3	7.4	7.9
Others	22.5	22.7	22.8	23.1	23.0

Price Chart



Recent event & key risks

- Sales volume recovered to ~12 mmscmd post relaxations.
- **Key Risk:** (i) Slower than expected volume growth, (ii) Better than estimated margins

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	5 Year CAGR (FY16-21E)	FY22E	FY23E	2 Year CAGR (FY21E-23E)
Revenues (₹ crore)	7,754.4	10,300.3	9,854.3	10.2	14,316.9	16,285.1	28.6
EBITDA (₹ crore)	984.5	1,634.3	2,087.8	23.6	2,622.8	2,747.9	14.7
Net Profit (₹ crore)	416.9	1,193.3	1,275.5	48.2	1,716.7	1,810.1	19.1
EPS (₹)	6.1	17.3	18.5		24.9	26.3	
P/E (x)	119.2	41.7	39.0		29.0	27.5	
Price / Book (x)	22.8	15.1	11.3		8.6	7.0	
EV/EBITDA (x)	52.4	31.2	24.1		18.7	17.4	
RoCE (%)	16.1	25.2	33.0		36.5	32.8	
RoE (%)	19.1	36.3	29.0		29.6	25.4	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q1FY22 Results: Low gas costs led to margin beat

- Sales volume at 10 mmscmd was in line with estimate. While all segments reported growth YoY, industrial PNG de-grew 18.8% QoQ, CNG declined 9.4% and domestic/commercial PNG fell 19.3% QoQ due to second wave of Covid-19
- We expect sales volume to normalise in Q2FY22 and grow from Q3FY22 onwards. We expect volume in FY22E and FY23E at 12 mmscmd and 13.6 mmscmd, respectively
- The company benefited from relatively cheaper domestic gas (compared to spot LNG) during the quarter
- We expect EBITDA margins to stabilise in the range of ₹ 5.5-6/scm in FY22E and FY23E

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (?)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Gujarat Gas (GUJGA)	722	735	Hold	49,702	18.5	24.9	26.3	39.0	29.0	27.5	24.1	18.7	17.4	33.0	36.5	32.8	29.0	29.6	25.4
Indraprastha Gas (INDGAS)	558	595	Hold	39,060	14.4	18.8	21.0	38.8	29.7	26.6	25.6	20.0	17.6	20.7	23.7	22.7	17.4	19.6	18.8
Mahanagar Gas (MAHGAS)	1167	1340	Buy	11,527	62.7	95.6	107.2	18.6	12.2	10.9	11.9	7.9	6.6	22.6	29.7	28.1	18.7	23.9	22.5

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Revenues	3,010.9	2,870.5	1,082.9	178.0	3,428.9	-12.2	
Raw materials costs	2,060.3	2,129.0	729.7	182.3	2,660.1	-22.5	
Employees Cost	50.5	60.3	42.6	18.6	43.9	15.2	
Other Expenses	177.2	172.2	124.9	41.9	170.8	3.8	
Total Expenditure	2,288.0	2,361.5	897.2	155.0	2,874.7	-20.4	
EBITDA	722.9	509.0	185.7	289.2	554.3	30.4	Higher than expected on account of better realisation and low gas costs
EBITDA margins (%)	24.0	17.7	17.2	686 bps	16.2	785 bps	
Depreciation	90.5	91.6	82.3	10.1	86.8	4.3	
EBIT	632.4	417.4	103.5	511.0	467.4	35.3	
Interest	15.9	12.9	40.1	-60.4	18.0	-11.9	
Other Income	21.3	24.0	14.9	42.7	18.8	13.0	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	637.7	428.5	78.3	714.7	468.2	36.2	
Total Tax	161.6	108.0	19.6	723.5	118.3	36.6	
PAT	476.2	320.5	58.7	711.7	349.9	36.1	

Key Metrics

Sales Volume (mmscmd)	10.0	10.1	4.1	141.6	12.1	-17.5	In line with estimates
Realisation (₹/scm)	33.1	31.2	28.7	15.1	31.4	5.3	
Gross margin (₹/scm)	10.4	8.1	9.4	11.4	7.0	48.2	Higher than estimates on account of relatively cheaper domestic gas

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	13316.5	14,316.9	7.5	15071.9	16,285.1	8.0	
EBITDA	2,358.3	2,622.8	11.2	2,647.5	2,747.9	3.8	Better realisations led to change in estimates
EBITDA Margin (%)	17.7	18.3	61 bps	17.6	16.9	-69 bps	
PAT	1,523.2	1,716.7	12.7	1,735.1	1,810.1	4.3	
EPS (₹)	22.1	24.9	12.7	25.2	26.3	4.3	

Source: ICICI Direct Research

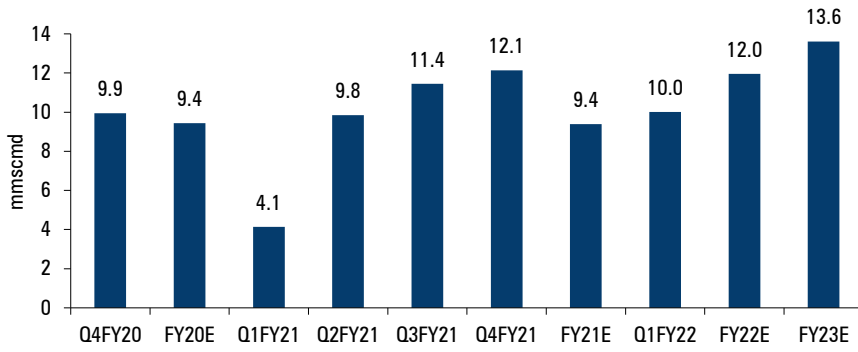
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY20E	FY21E	FY22E	FY23E	FY22E	FY23E	
Sales Volume (mmscmd)	9.4	9.4	12.0	13.6	11.8	13.5	Marginally revised estimates
Realisation (₹/scm)	29.8	28.7	32.8	32.8	30.8	30.7	
Gross margin (₹/scm)	7.0	8.4	8.5	8.0	7.9	7.9	Revised estimates post Q1FY22 performance

Source: ICICI Direct Research

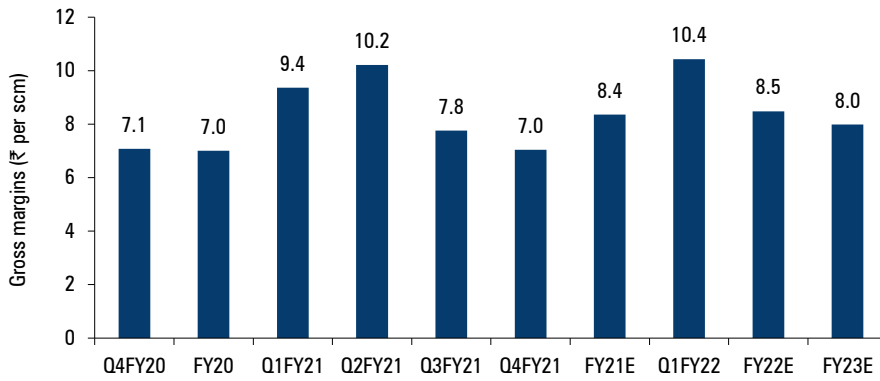
Story in charts

Exhibit 5: Volume trajectory



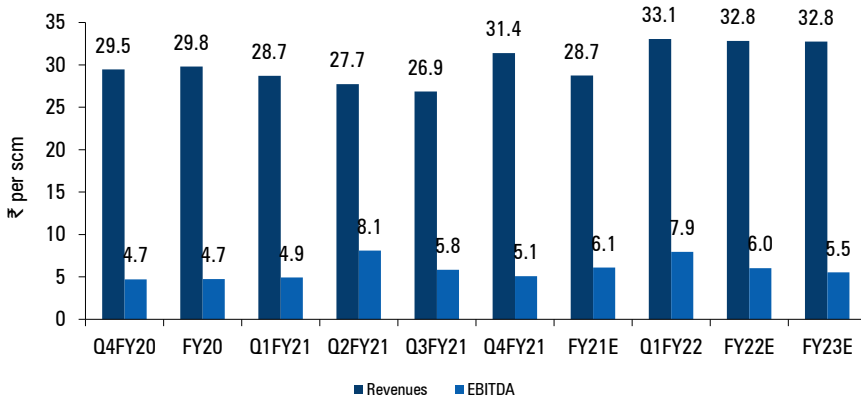
Source: Company, ICICI Direct Research

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)	FY20	FY21E	FY22E	FY23E
Revenue	10300.3	9854.3	14316.9	16285.1
Growth (%)	32.8	-4.3	45.3	13.7
Raw material Costs	7881.8	6989.8	10618.4	12315.9
Employee Costs	175.4	177.5	276.6	325.7
Other Expenditure	608.9	599.2	799.0	895.7
Op. Expenditure	8666.1	7766.4	11694.1	13537.2
EBITDA	1634.3	2087.8	2622.8	2747.9
Growth (%)	66.0	27.8	25.6	4.8
Depreciation	318.0	340.8	365.4	407.7
EBIT	1316.3	1747.0	2257.5	2340.2
Interest	192.2	116.3	54.4	16.3
Other Income	83.7	74.0	93.3	96.0
PBT	1207.8	1704.7	2296.3	2420.0
Growth (%)	103.4	41.1	34.7	5.4
Tax	14.5	429.2	579.5	609.8
Reported PAT	1193.3	1275.5	1716.7	1810.1
Growth (%)	186.2	6.9	34.6	5.4
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	1193.3	1275.5	1716.7	1810.1
EPS	17.3	18.5	24.9	26.3

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	1,193.3	1,275.5	1,716.7	1,810.1
Add: Depreciation	318.0	340.8	365.4	407.7
Add: Others	-281.1	5.8	50.0	50.0
Cash Profit	1,230.2	1,622.2	2,132.1	2,267.8
Increase/(Decrease) in CL	150.0	373.4	930.7	452.3
(Increase)/Decrease in CA	-10.2	-421.4	-528.1	-262.1
CF from Operating Activities	1370.0	1574.2	2534.7	2458.0
Purchase of Fixed Assets	693.7	685.1	961.9	750.0
(Inc)/Dec in Investments	-1.2	1.3	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-694.9	-683.8	-961.9	-750.0
Inc/(Dec) in Loan Funds	-205.7	-1,050.0	-500.0	-379.4
Inc/(Dec) in Sh. Cap. & Res.	-3.7	0.0	0.0	0.0
Less: Dividend Paid	83.0	161.3	322.3	483.4
Others	0.0	0.0	0.0	0.0
CF from financing activities	-292.4	-1,211.3	-822.3	-862.8
Change in cash Eq.	382.7	-320.8	750.5	845.1
Op. Cash and cash Eq.	309.1	691.9	371.0	1,121.5
Cl. Cash and cash Eq.	691.9	371.0	1,121.5	1,966.6

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
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	3,152.9	4,267.2	5,661.6	6,988.3
Shareholder's Fund	3,290.6	4,404.8	5,799.2	7,125.9
Loan Funds	1,943.0	893.0	393.0	13.6
Deferred Tax Liability	800.5	806.3	856.3	906.3
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	6034.1	6104.1	7048.5	8045.8
Application of Funds				
Gross Block	7,440.6	8,015.6	8,925.6	9,675.6
Less: Acc. Depreciation	1,855.9	2,205.7	2,572.1	2,979.7
Net Block	5,584.7	5,809.9	6,353.5	6,695.8
Capital WIP	568.6	687.6	740.6	740.6
Total Fixed Assets	6,153.3	6,497.5	7,094.1	7,436.4
Investments	18.6	17.2	17.2	17.2
Inventories	46.3	52.2	133.4	151.7
Debtor	510.1	783.1	941.4	1,070.8
Cash	691.9	371.0	1,121.5	1,966.6
Loan & Advance, Other C	477.2	619.7	908.3	1022.6
Total Current assets	1725.5	1826.0	3104.5	4211.8
Current Liabilities	1804.9	2159.8	2941.8	3346.3
Provisions	58.3	76.8	225.5	273.3
Total CL and Provisions	1863.2	2236.6	3167.3	3619.6
Net Working Capital	-137.7	-410.6	-62.8	592.2
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	6034.1	6104.1	7048.5	8045.8

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	47.8	64.0	84.2	103.5
Cash per share	10.1	5.4	16.3	28.6
EPS	17.3	18.5	24.9	26.3
Cash EPS	22.0	23.5	30.2	32.2
DPS	1.3	2.0	4.0	6.0
Profitability & Operating Ratios				
EBITDA Margin (%)	15.9	21.2	18.3	16.9
PAT Margin (%)	11.6	12.9	12.0	11.1
Fixed Asset Turnover (x)	1.7	1.5	2.0	2.2
Inventory Turnover (Days)	1.6	3.4	3.4	3.4
Debtor (Days)	18.1	24.0	24.0	24.0
Current Liabilities (Days)	64.0	80.0	75.0	75.0
Return Ratios (%)				
RoE	36.3	29.0	29.6	25.4
RoCE	25.2	33.0	36.5	32.8
RoIC	29.0	35.5	44.5	45.2
Valuation Ratios (x)				
PE	41.7	39.0	29.0	27.5
Price to Book Value	15.1	11.3	8.6	7.0
EV/EBITDA	31.2	24.1	18.7	17.4
EV/Sales	4.9	5.1	3.4	2.9
Leverage & Solvency Ratios				
Debt to equity (x)	0.6	0.2	0.1	0.0
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	0.9	0.8	1.0	1.2
Quick ratio	0.9	0.8	0.9	1.1

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
BPCL (BHAPET)	446	495	Hold	87,723	91.0	35.2	39.0	4.9	12.7	11.4	7.1	9.0	8.2	14.7	11.3	12.0	35.6	16.6	17.1
GAIL (India) (GAIL)	147	175	Buy	65,274	11.0	15.7	16.4	13.3	9.4	9.0	10.9	6.9	7.0	8.7	14.0	12.5	10.6	13.8	13.3
Gujarat Gas (GUJGA)	722	735	Hold	49,702	18.5	24.9	26.3	39.0	29.0	27.5	24.1	18.7	17.4	33.0	36.5	32.8	29.0	29.6	25.4
HPCL (HINPET)	264	265	Hold	38,344	70.6	34.3	29.0	3.7	7.7	9.1	5.3	7.6	7.4	14.9	7.4	6.1	29.5	13.0	10.6
Indian Oil Corp (INDOIL)	104	120	Buy	95,483	23.8	15.8	15.6	4.4	6.6	6.7	2.5	2.9	2.9	13.3	10.0	9.5	19.8	12.2	11.5
Indraprastha Gas (INDGAS)	558	595	Hold	39,060	14.4	18.8	21.0	38.8	29.7	26.6	25.6	20.0	17.6	20.7	23.7	22.7	17.4	19.6	18.8
Mahanagar Gas (MAHGAS)	1167	1340	Buy	11,527	62.7	95.6	107.2	18.6	12.2	10.9	11.9	7.9	6.6	22.6	29.7	28.1	18.7	23.9	22.5
Petronet LNG (PETLNG)	218	250	Hold	32,700	19.7	18.8	21.7	11.1	11.6	10.1	6.7	6.7	5.9	25.3	22.9	24.6	24.4	22.0	23.3

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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