

BUY

TP: Rs 265 | ▲ 13%

GUJARAT GAS

| Oil & Gas

| 13 April 2020

Resilient in the face of near-term headwinds

Our recent interaction with the Gujarat Gas (GUJGA) management reinforces our core investment thesis: (a) a V-shaped recovery in gas consumption from industrial segments (80% of volumes) post lifting of the economic lockdown, (b) resilient operating margin outlook given benign spot LNG prices, and (c) improved long-term demand outlook for pharma/chemical/ceramic units in Gujarat vis-à-vis Chinese imports post Covid-19 disruptions. At 12.7x FY22E EPS, GUJGA remains most attractive among CGD peers.

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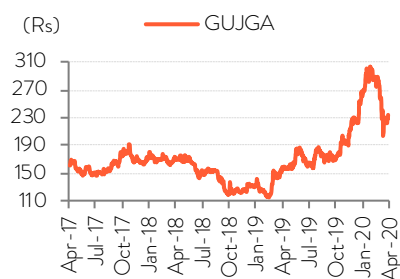
Improved long-term volume prospects: Ceramic units in Morbi (Gujarat) were absorbing >6mmscmd of GUJGA's volumes until Mar'20. Management expects these units (as also pharma/chemical plants) to benefit from a preference for 'Made in India' products post Covid-19. We expect industrial volumes that are currently down ~50% due to the economic lockdown to show a V-shaped recovery within a month of restrictions being lifted and to potentially retrace to growth of 1mmscmd p.a. from H2FY21. In PNG, domestic demand has made up for the fall in commercial volumes. CNG (down >80%) may take longer to stabilise.

Ticker/Price	GUJGA IN/Rs 235
Market cap	US\$ 2.1bn
Shares o/s	688mn
3M ADV	US\$ 4.1mn
52wk high/low	Rs 314/Rs 151
Promoter/FPI/DII	61%/12%/27%

Source: NSE

Volume potential from new areas to fructify from FY21: GUJGA's expansion plans are unlikely to be affected by the lockdown as a bulk of its capex usually occurs in H2 each year. The company plans to continue entering newer areas and has maintained capex guidance at Rs 6bn-7bn p.a. The initial strategy is to tap potential from existing networks (Rajasthan to rural Thane near Mumbai). This would help it to simultaneously tap volumes from new areas such as Dahej, Punjab (licenced for six areas) and Rajasthan, that offer 4-5mmscmd potential.

STOCK PERFORMANCE



Source: NSE

Undemanding valuations: At 12.7x FY22E EPS, GUJGA's valuations remain attractive vs. CGD peers (~15x for IGL/MAHGL). Expected volume and margin stability could narrow this gap. Maintain BUY with a Mar'21 TP of Rs 265.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	61,743	77,544	103,191	78,379	91,749
EBITDA (Rs mn)	8,951	9,836	16,670	16,924	20,001
Adj. net profit (Rs mn)	2,914	4,160	12,555	9,993	12,602
Adj. EPS (Rs)	4.2	6.0	18.2	14.5	18.3
Adj. EPS growth (%)	32.7	42.8	201.8	(20.4)	26.1
Adj. ROAE (%)	16.7	20.6	45.8	27.9	32.1
Adj. P/E (x)	55.6	38.9	12.9	16.2	12.8
EV/EBITDA (x)	20.3	18.7	10.9	10.5	8.7

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



Valuation methodology

GUJGA's unique positioning in the city gas distribution space makes it one of the best plays on gas volume growth potential, based on (a) its access to over 80% of CGD potential in Gujarat, and (b) strategic expansion into new areas (such as Dahej in Gujarat, Rajasthan, Western Maharashtra and Punjab) that are contiguous to its parent Gujarat State Petronet's pipeline networks.

At 12.7x FY22E EPS, GUJGA's valuations remain one of the lowest among CGD peers (~15x for Mahanagar Gas/Indraprastha Gas). Maintain BUY with a Mar'21 target price of Rs 265.

Key assumptions for our DCF-based fair value are as under:

- Cost of equity of 12.5% and terminal growth of 5%
- Long-term average EBITDA margins of Rs 5/scm

FIG 1 – VALUATION SUMMARY

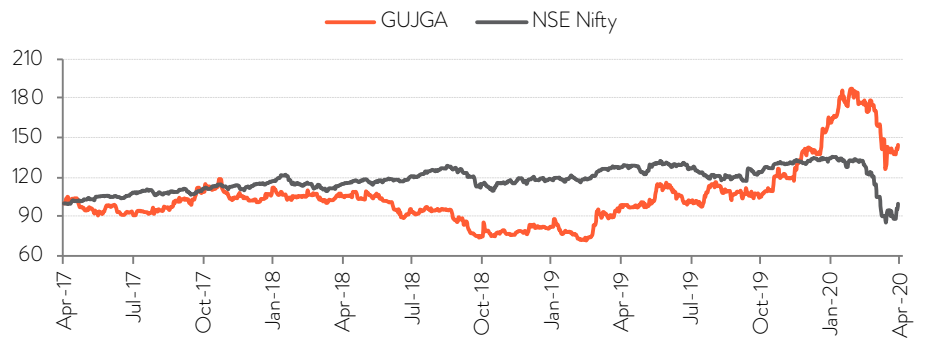
Valuation type	Value (Rs mn)
PV of FCFE	87,053
PV of terminal value	113,132
Less: Net Debt (FY19)	(17,623)
Equity value	182,563
Equity value (Rs/share)	265

Source: BOBCAPS Research

FIG 2 – FAIR VALUE SENSITIVITY TO TERMINAL GROWTH & COST OF EQUITY

	(Rs)	Cost of Equity (%)				
		10.5	11.5	12.5	13.5	14.5
Terminal growth (%)	3	302	262	231	205	184
	4	331	283	246	217	193
	5	371	310	265	231	204
	6	428	347	290	249	217
	7	518	400	325	272	234

Source: BOBCAPS Research

FIG 3 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

- Lower-than-expected margins over FY21-FY22 could change our valuation outlook for GUJGA.
- Below-expected volume growth.
- Change in PNGRB regulations or an unfavourable court ruling (against the NGT order for ceramic units) could alter our volume growth outlook.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	61,743	77,544	103,191	78,379	91,749
EBITDA	8,951	9,836	16,670	16,924	20,001
Depreciation	(2,718)	(2,880)	(3,026)	(3,195)	(3,308)
EBIT	6,232	6,956	13,643	13,728	16,693
Net interest income/(expenses)	(1,961)	(1,962)	(1,448)	(1,353)	(1,264)
Other income/(expenses)	357	1,113	642	984	1,417
Exceptional items	0	(179)	0	0	0
EBT	4,628	6,107	12,837	13,360	16,847
Income taxes	(1,715)	(1,768)	(282)	(3,367)	(4,245)
Reported net profit	2,914	4,160	12,555	9,993	12,602
Adjusted net profit	2,914	4,160	12,555	9,993	12,602

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	2,931	3,523	5,056	3,373	3,981
Other current liabilities	11,957	13,129	10,508	7,011	8,274
Provisions	49	83	83	83	83
Debt funds	22,143	20,892	19,640	18,389	17,138
Other liabilities	10,789	11,808	8,856	10,192	11,876
Equity capital	1,377	1,377	1,377	1,377	1,377
Reserves & surplus	17,087	20,463	31,608	37,165	38,493
Shareholders' fund	18,464	21,840	32,985	38,542	39,869
Total liabilities and equities	66,333	71,275	77,127	77,591	81,222
Cash and cash eq.	1,363	3,092	5,090	7,617	10,827
Accounts receivables	3,917	5,103	6,177	4,692	5,492
Inventories	568	694	823	625	731
Other current assets	3,906	3,742	3,755	3,749	3,752
Investments	161	177	197	217	237
Net fixed assets	50,940	53,347	55,620	55,225	54,718
CWIP	4,783	4,885	4,783	4,783	4,783
Intangible assets	0	4	4	4	4
Other assets	695	678	678	678	678
Total assets	66,333	71,222	77,127	77,590	81,223

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	5,632	7,040	15,581	13,188	15,909
Changes in working capital	66	1,262	(2,304)	(3,489)	961
Other operating cash flows	249	(752)	(3,594)	352	267
Cash flow from operations	5,947	7,550	9,683	10,051	17,137
Capital expenditures	(3,665)	(5,409)	(5,218)	(2,820)	(2,820)
Other investing cash flows	357	1,113	642	984	1,417
Cash flow from investing	(3,308)	(4,296)	(4,577)	(1,836)	(1,403)
Debt raised/repaid	(844)	(1,251)	(1,251)	(1,251)	(1,251)
Dividends paid	(664)	(806)	(4,409)	(3,509)	(4,425)
Other financing cash flows	(376)	532	503	(6,907)	(6,140)
Cash flow from financing	(1,884)	(1,525)	(5,157)	(11,667)	(11,816)
Changes in cash and cash eq.	755	1,729	(51)	(3,452)	3,918
Closing cash and cash eq.	1,363	3,092	3,041	1,637	11,536

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	4.2	6.0	18.2	14.5	18.3
Adjusted EPS	4.2	6.0	18.2	14.5	18.3
Dividend per share	0.8	1.0	5.5	4.4	5.5
Book value per share	26.8	31.7	47.9	56.0	57.9

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	2.9	2.4	1.8	2.3	1.9
EV/EBITDA	20.3	18.7	10.9	10.5	8.7
Adjusted P/E	55.6	38.9	12.9	16.2	12.8
P/BV	8.8	7.4	4.9	4.2	4.1

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	63.0	70.2	97.8	74.8	74.8
Interest burden (PBT/EBIT)	74.3	85.2	94.1	97.3	100.9
EBIT margin (EBIT/Revenue)	10.1	9.0	13.2	17.5	18.2
Asset turnover (Revenue/Avg TA)	95.1	112.3	138.7	101.3	115.5
Leverage (Avg TA/Avg Equity)	3.7	3.4	2.7	2.2	2.0
Adjusted ROAE	16.7	20.6	45.8	27.9	32.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	21.2	25.6	33.1	(24.0)	17.1
EBITDA	20.4	9.9	69.5	1.5	18.2
Adjusted EPS	32.7	42.8	201.8	(20.4)	26.1
Profitability & Return ratios (%)					
EBITDA margin	14.5	12.7	16.2	21.6	21.8
EBIT margin	10.1	9.0	13.2	17.5	18.2
Adjusted profit margin	4.7	5.4	12.2	12.7	13.7
Adjusted ROAE	16.7	20.6	45.8	27.9	32.1
ROCE	9.8	11.7	28.0	18.7	21.9
Working capital days (days)					
Receivables	22	21	20	25	20
Inventory	4	4	4	5	4
Payables	21	17	18	25	19
Ratios (x)					
Gross asset turnover	1.0	1.2	1.4	1.0	1.2
Current ratio	0.7	0.8	1.0	1.6	1.7
Net interest coverage ratio	3.2	3.5	9.4	10.1	13.2
Adjusted debt/equity	1.1	0.8	0.4	0.3	0.2

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

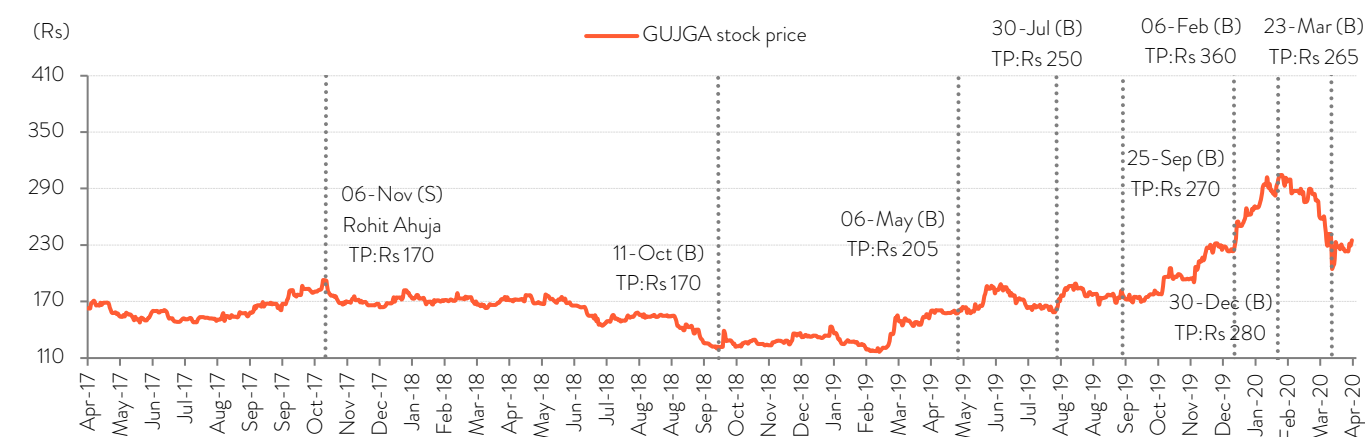
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: GUJARAT GAS (GUJGA IN)



B – Buy, A – Add, R – Reduce, S – Sell

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