

**BUY**

TP: Rs 280 | ▲ 25%

**GUJARAT GAS**

Oil &amp; Gas

30 December 2019

## Improving outlook on volumes

At our recent meeting, GUJGA's management assured robust outlook on volumes driven by (a) implementation of anti-pollution measures by the state government (new CNG state buses), and (b) relatively low LNG prices.

Volumes continue to trend above 9 mmscmd, as Morbi units sustain >6 mmscmd offtake, and carry additional 1-2 mmscmd potential. We raise GUJGA's TP to Rs280 (from Rs270), as we roll forward valuation to Mar'21. At 12.7x FY22 EPS, GUJGA remains most attractively value among its peers.

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**Buoyant volume outlook:** Ceramic units in Morbi (Gujarat) continue to offtake >6 mmscmd volumes, and carry potential for another 1-2 mmscmd as new units get connected. Concerns on Morbi customers shifting to GAIL for sourcing gas seems to have alleviated, as GUJGA's pricing remains most attractive, along with its commitment to add incremental pipeline capacity to connect more units. CNG volume growth could improve as Gujarat state transportation (GSRTC) has approved induction of 1000 CNG buses (250 in Q4 FY20). Over the long-term, management expects most of the GSRTC's ~7000 fleet of buses to convert to CNG.

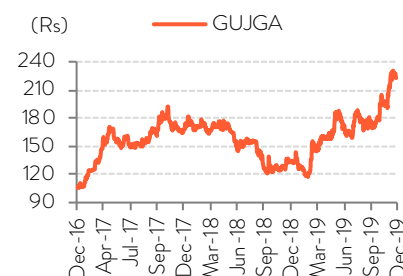
**Volume potential from new areas to fructify from FY21/22:** GUJGA is aggressively pursuing expansion into newer areas, maintaining capex guidance of Rs6-7bn annually. Initial strategy is to tap potential from existing network from Rajasthan until rural Thane region near Mumbai. Simultaneously, this would help tapping volumes from new areas such as Dahej, Punjab (GUJGA has license for about 6 areas) and Rajasthan, that offer 4-5 mmscmd potential.

**Undemanding valuations:** At 12.7x FY22E EPS, GUJGA's valuations remain relatively attractive to CGD peers (~16x for IGL/MAHGL). This gap may get bridged gradually, given stability in volumes and margins.

Ticker/Price	GUJGA IN/Rs 224
Market cap	US\$ 2.2bn
Shares o/s	688mn
3M ADV	US\$ 2.4mn
52wk high/low	Rs 237/Rs 115
Promoter/FPI/DII	61%/12%/27%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	61,743	77,544	120,558	138,467	146,207
EBITDA (Rs mn)	8,951	9,836	15,593	18,407	19,326
Adj. net profit (Rs mn)	2,914	4,160	11,502	11,103	12,097
Adj. EPS (Rs)	4.2	6.0	16.7	16.1	17.6
Adj. EPS growth (%)	32.7	42.8	176.5	(3.5)	9.0
Adj. ROAE (%)	16.7	20.6	44.2	36.5	38.5
Adj. P/E (x)	52.9	37.0	13.4	13.9	12.7
EV/EBITDA (x)	19.4	17.9	11.1	9.2	8.6

Source: Company, BOBCAPS Research

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## Valuation methodology

GUJGA's unique positioning in the CGD space makes it one of the best bets on gas volume growth potential, based on a) access to more than 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 GUJS' pipeline networks.

At 12.7x FY22E EPS, GUJGA's valuations remain one of the lowest among CGD peers (13x-17x for MAHGL/IGL). This gap may get bridged gradually, as volumes and margins sustain as elevated levels. We raise GUJGA's TP to Rs280 (from Rs270), as we roll forward DCF valuation to Mar'21.

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

- Cost of equity of 11.9% (from 11.4% earlier) and terminal growth of 5%
- Long-term average EBITDA margins at Rs5/scm

### FIG 1 – VALUATION SUMMARY

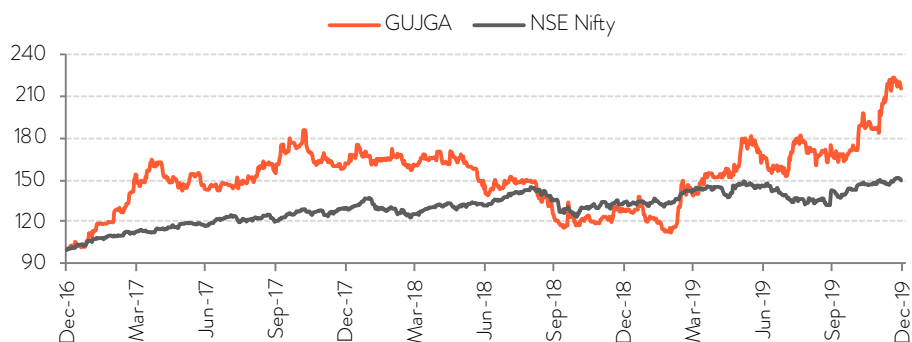
Valuation type	Value (Rs mn)
PV of FCFE	86,491
PV of terminal value	123,137
Less: Net Debt (FY19)	(17,623)
Equity value	192,005
<b>Equity value (Rs/share)</b>	<b>280</b>

Source: BOBCAPS Research

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

		Cost of Equity (%)				
		(Rs)	9.9	10.9	11.9	12.9
Terminal growth (%)	3	318	273	239	211	189
	4	353	298	256	224	198
	5	402	330	<b>280</b>	240	211
	6	477	376	309	262	226
	7	603	445	352	290	245

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 the PNGRB regulations, or an unfavorable court ruling (against NGT ruling for ceramic units), could alter volume growth outlook.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>61,743</b>	<b>77,544</b>	<b>120,558</b>	<b>138,467</b>	<b>146,207</b>
EBITDA	8,951	9,836	15,593	18,407	19,326
Depreciation	(2,718)	(2,880)	(3,026)	(3,195)	(3,308)
EBIT	6,232	6,956	12,567	15,212	16,019
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	11,760	14,843	16,172
Income taxes	(1,715)	(1,768)	(259)	(3,740)	(4,075)
<b>Reported net profit</b>	<b>2,914</b>	<b>4,160</b>	<b>11,502</b>	<b>11,103</b>	<b>12,097</b>
<b>Adjusted net profit</b>	<b>2,914</b>	<b>4,160</b>	<b>11,502</b>	<b>11,103</b>	<b>12,097</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	2,931	3,523	6,246	7,169	7,551
Other current liabilities	11,957	13,129	12,983	14,901	15,694
Provisions	49	83	83	83	83
Debt funds	22,143	20,892	19,640	18,389	17,138
Other liabilities	10,789	11,808	9,103	10,588	12,205
Equity capital	1,377	1,377	1,377	1,377	1,377
Reserves & surplus	17,087	20,463	28,876	29,174	30,882
Shareholders' fund	18,464	21,840	30,253	30,551	32,259
<b>Total liabilities and equities</b>	<b>66,333</b>	<b>71,275</b>	<b>78,309</b>	<b>81,681</b>	<b>84,929</b>
Cash and cash eq.	1,363	3,092	5,090	7,617	10,827
Accounts receivables	3,917	5,103	7,217	8,289	8,752
Inventories	568	694	961	1,104	1,165
Other current assets	3,906	3,742	3,759	3,763	3,765
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
<b>Total assets</b>	<b>66,333</b>	<b>71,722</b>	<b>78,309</b>	<b>81,681</b>	<b>84,930</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	5,632	7,040	14,528	14,298	15,405
Changes in working capital	66	1,262	180	1,622	647
Other operating cash flows	249	(752)	(3,347)	500	200
<b>Cash flow from operations</b>	<b>5,947</b>	<b>7,550</b>	<b>11,361</b>	<b>16,420</b>	<b>16,252</b>
Capital expenditures	(3,665)	(5,409)	(5,218)	(2,820)	(2,820)
Other investing cash flows	357	1,113	642	984	1,417
<b>Cash flow from investing</b>	<b>(3,308)</b>	<b>(4,296)</b>	<b>(4,577)</b>	<b>(1,836)</b>	<b>(1,403)</b>
Debt raised/repaid	(844)	(1,251)	(1,251)	(1,251)	(1,251)
Dividends paid	(664)	(806)	(4,039)	(3,899)	(4,248)
Other financing cash flows	(376)	532	503	(6,907)	(6,140)
<b>Cash flow from financing</b>	<b>(1,884)</b>	<b>(1,525)</b>	<b>(4,787)</b>	<b>(12,057)</b>	<b>(11,639)</b>
<b>Changes in cash and cash eq.</b>	<b>755</b>	<b>1,729</b>	<b>1,998</b>	<b>2,527</b>	<b>3,210</b>
<b>Closing cash and cash eq.</b>	<b>1,363</b>	<b>3,092</b>	<b>5,089</b>	<b>7,617</b>	<b>10,827</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	4.2	6.0	16.7	16.1	17.6
Adjusted EPS	4.2	6.0	16.7	16.1	17.6
Dividend per share	0.8	1.0	5.0	4.8	5.3
Book value per share	26.8	31.7	43.9	44.4	46.9

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	2.8	2.3	1.4	1.2	1.1
EV/EBITDA	19.4	17.9	11.1	9.2	8.6
Adjusted P/E	52.9	37.0	13.4	13.9	12.7
P/BV	8.3	7.1	5.1	5.0	4.8

**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	93.6	97.6	101.0
EBIT margin (EBIT/Revenue)	10.1	9.0	10.4	11.0	11.0
Asset turnover (Revenue/Avg TA)	95.1	112.3	160.7	173.1	175.5
Leverage (Avg TA/Avg Equity)	3.7	3.4	2.9	2.6	2.7
Adjusted ROAE	16.7	20.6	44.2	36.5	38.5

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

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	21.2	25.6	55.5	14.9	5.6
EBITDA	20.4	9.9	58.5	18.0	5.0
Adjusted EPS	32.7	42.8	176.5	(3.5)	9.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	14.5	12.7	12.9	13.3	13.2
EBIT margin	10.1	9.0	10.4	11.0	11.0
Adjusted profit margin	4.7	5.4	9.5	8.0	8.3
Adjusted ROAE	16.7	20.6	44.2	36.5	38.5
ROCE	9.8	11.7	26.5	23.0	24.4
<b>Working capital days (days)</b>					
Receivables	22	21	19	20	21
Inventory	4	4	3	3	4
Payables	21	17	17	20	21
<b>Ratios (x)</b>					
Gross asset turnover	1.0	1.2	1.7	1.8	1.9
Current ratio	0.7	0.8	0.9	0.9	1.1
Net interest coverage ratio	3.2	3.5	8.7	11.2	12.7
Adjusted debt/equity	1.1	0.8	0.5	0.4	0.2

Source: Company, BOBCAPS Research

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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

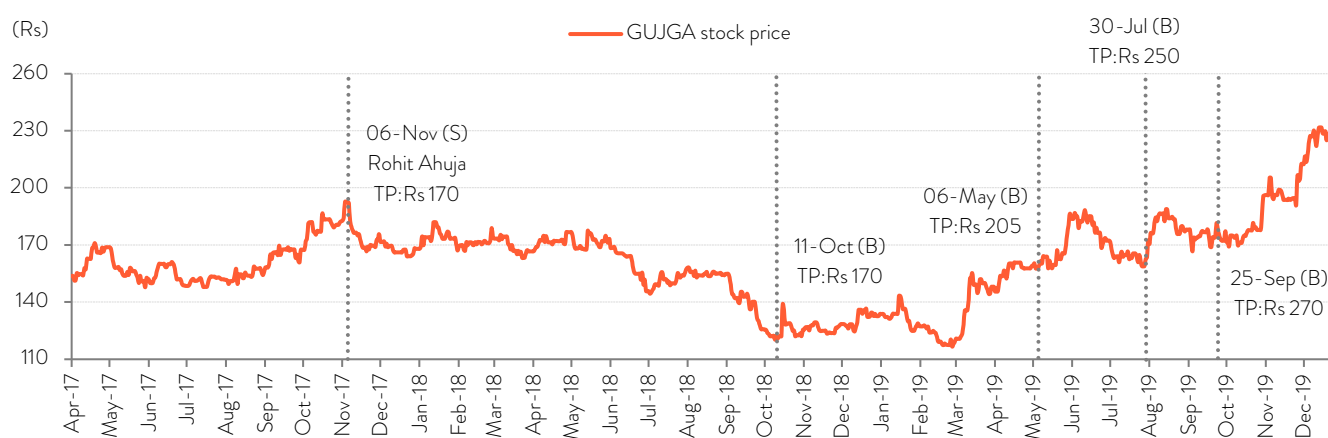
**ADD** – Expected return from >+5% to +15%

**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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