

BUY

TP: Rs 430 | ▲ 13%

GUJARAT GAS

Oil & Gas

06 February 2021

Volumes ahead of estimates

Gujarat Gas' (GUJGA) Q3FY21 performance sustained the traction seen in Q2, with adj. PAT doubling YoY to Rs 3.9bn. Q3 highlights: (a) Volumes beat estimates at 11.45mmscmd (+23% YoY, +16% QoQ), and (b) EBITDA margins were in line at Rs 5.8/scm (+35% YoY). Despite a surge in spot LNG prices (>US\$ 20/mmbtu), GUJGA's current volumes are holding at 11.5mmscmd aided by improved industrial activity. On rolling valuations over, we move to a new Mar'22 TP of Rs 430 (vs. Rs 400). Volume acceleration calls for higher multiples – BUY.

Rohit Ahuja

research@bobcaps.in

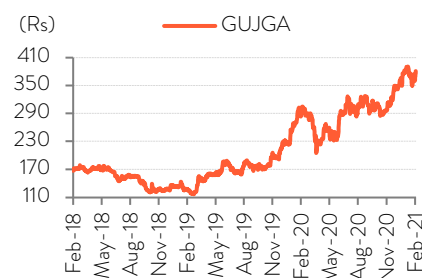
Volumes accelerate: Volumes improved to 11.45mmscmd despite a spike in LNG prices, driven by resilience in the industrial segment (9.2mmscmd, +17% QoQ), followed by CNG (1.5mmscmd, +20% QoQ). Strong recovery in consumption from ceramic units (primarily in Morbi) and the chemicals segment continued to aid industrial volumes. Domestic PNG grew 11% YoY to 0.64mmscmd. We expect CNG volumes to generate >10% CAGR over FY21-FY23 as the state of Gujarat emerges fully out of lockdown.

Ticker/Price	GUJGA IN/Rs 380
Market cap	US\$ 3.6bn
Shares o/s	688mn
3M ADV	US\$ 4.9mn
52wk high/low	Rs 412/Rs 191
Promoter/FPI/DII	61%/9%/30%

Source: NSE

LNG price surge dilutes margins: GUJGA's margins were in line at Rs 5.8/scm, declining 28% QoQ (but up 35% YoY) owing to a surge in LNG prices. Margins could decline further to ~Rs 5/scm in Q4 considering the recent sharp increase in spot prices (>US\$ 20/mmbtu). However, once LNG prices stabilise, we expect the company to consistently average at Rs 6-7/scm EBITDA as incremental volumes bring in advantages of scale.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: GUJGA is trading at 14.3x FY23E EPS, well below peers such as Indraprastha Gas (~17x). Considering acceleration in volumes (well ahead of peers), valuations leave ample room for upsides. Over the long term, an improving volume mix and relatively benign oil prices augur well for margins and represent an upside risk to earnings.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	77,544	103,003	80,419	96,998	106,288
EBITDA (Rs mn)	9,846	16,343	20,746	24,890	27,091
Adj. net profit (Rs mn)	4,170	9,058	13,005	16,349	18,285
Adj. EPS (Rs)	6.1	13.2	18.9	23.7	26.6
Adj. EPS growth (%)	43.1	117.2	43.6	25.7	11.8
Adj. ROAE (%)	20.7	33.1	35.1	36.7	36.2
Adj. P/E (x)	62.7	28.9	20.1	16.0	14.3
EV/EBITDA (x)	28.7	17.2	13.3	10.9	9.8

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Net sales	28,295	25,062	12.9	25,130	12.6	64,254	76,337	(15.8)
Gas Purchased	20,124	19,482	3.3	15,876	26.8	43,297	58,554	(26.1)
% of sales	71.1	77.7	-	63.2	-	67.4	76.7	-
Other expenditure	2,022	1,875	7.8	1,924	5.1	5,621	5,707	(1.5)
% of sales	7.1	7.5	-	7.7	-	8.7	7.5	-
EBITDA	6,149	3,705	65.9	7,330	(16.1)	15,336	12,076	27.0
EBITDA (Rs/scm)	5.8	4.3	35.1	8.1	(27.8)	6.6	4.7	38.6
EBITDA margin (%)	21.7	14.8	-	29.2	-	23.9	15.8	-
Depreciation and amortisation	862	795	8.4	856	0.6	2,540	2,375	7.0
Interest	243	465	(47.7)	339	(28.2)	983	1,502	(34.5)
Other income	196	187	5.0	208	(5.6)	552	648	(14.8)
PBT	5,240	2,633	99.0	6,343	(17.4)	12,365	8,848	39.8
Exceptional item (as reported)	-	-	-	-	-	-	-	-
Provision for tax	1,318	668	97.2	1,595	(17.4)	3,109	(626)	(597.0)
PAT (adjusted)	3,922	1,964	99.7	4,748	(17.4)	9,256	9,473	(2.3)
EPS adj. (Rs)	5.7	2.9	99.7	6.9	(17.4)	13.5	13.8	(2.1)

Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL VOLUME BREAKUP

Volumes (mmscm)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
CNG	142	139	2.2	118	20.3	322	410	(21.5)
PNG	911	718	26.9	788	15.6	2,014	2,139	(5.8)
Domestic	59	53	11.3	59	-	170	148	14.9
Industrial	843	654	28.9	723	16.6	1,826	1,961	(6.9)
Commercial	9	11	(18.2)	6	50.0	18	30	(40.0)
Total	1,053	857	22.9	906	16.2	2,336	2,549	(8.4)
Total (mmscmd)	11.4	9.3	22.9	9.8	16.2	8.5	9.3	(8.4)

Source: Company, BOBCAPS Research

Valuation methodology

GUJGA is trading at 14.3x FY23E EPS, well below peers such as Indraprastha Gas (~17x). Considering the recent acceleration in volumes (well ahead of peers), valuations leave ample room for upsides. Over the long term, an improving volume mix and relatively benign oil prices augur well for margins and represent an upside risk to earnings. On rolling valuations over, we move to a revised Mar'22 target price of Rs 430 (vs. Rs 400) – maintain BUY.

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

- cost of equity of 11.8%,
- terminal growth of 5%, and
- long-term average EBITDA margins of Rs 6.5/scm.

FIG 3 – VALUATION SUMMARY

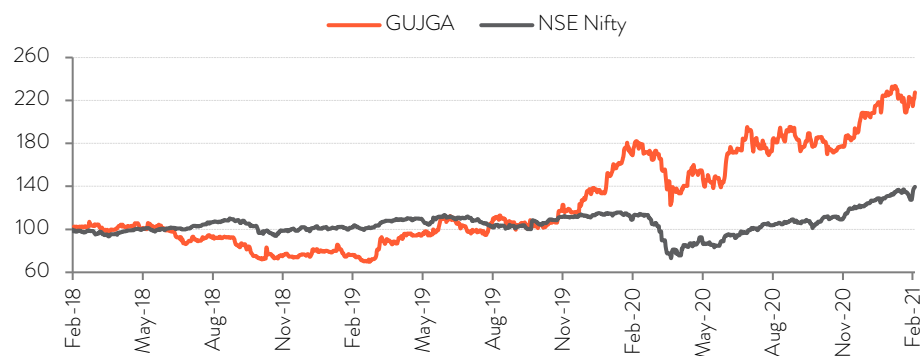
Valuation type	Value (Rs mn)
PV of FCFE	111,224
PV of terminal value	192,548
Less: Net Debt (FY19)	(7,043)
Equity value	296,729
Equity value (Rs/share)	430

Source: BOBCAPS Research

FIG 4 – FAIR VALUE SENSITIVITY TO TERMINAL GROWTH & COST OF EQUITY

		Cost of Equity (%)				
		(Rs)	9.8	10.8	11.8	12.8
Terminal growth (%)	3	482	417	367	328	295
	4	537	456	395	348	311
	5	614	507	430	374	330
	6	733	580	479	408	355
	7	935	691	548	453	387

Source: BOBCAPS Research

FIG 5 – 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)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	77,544	103,003	80,419	96,998	106,288
EBITDA	9,846	16,343	20,746	24,890	27,091
Depreciation	(2,880)	(3,180)	(3,229)	(3,499)	(3,814)
EBIT	6,966	13,163	17,517	21,391	23,277
Net interest income/(expenses)	(1,962)	(1,922)	(1,388)	(1,224)	(1,060)
Other income/(expenses)	1,113	837	1,257	1,690	2,228
Exceptional items	(179)	0	0	0	0
EBT	6,117	12,078	17,386	21,857	24,445
Income taxes	(1,768)	(145)	(4,381)	(5,508)	(6,160)
Reported net profit	4,170	11,933	13,005	16,349	18,285
Adjustments	0	(2,875)	0	0	0
Adjusted net profit	4,170	9,058	13,005	16,349	18,285

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	3,523	3,790	2,384	2,865	3,128
Other current liabilities	13,129	14,259	8,928	10,730	11,716
Provisions	83	130	130	130	130
Debt funds	20,892	18,794	16,696	14,598	12,501
Other liabilities	11,808	9,094	10,833	13,019	15,463
Equity capital	1,377	1,377	1,377	1,377	1,377
Reserves & surplus	20,463	31,529	39,828	46,404	51,745
Shareholders' fund	21,840	32,906	41,204	47,781	53,122
Total liabilities and equities	71,275	78,973	80,175	89,122	96,060
Cash and cash eq.	3,092	6,919	9,447	12,656	16,574
Accounts receivables	5,103	5,101	3,984	4,805	5,265
Inventories	694	463	452	545	597
Other current assets	3,742	4,148	4,147	4,149	4,149
Investments	177	187	207	227	247
Net fixed assets	53,347	55,467	56,538	61,339	63,825
CWIP	4,885	5,686	4,783	4,783	4,783
Intangible assets	4	9	9	9	9
Other assets	678	610	610	610	610
Total assets	71,722	78,589	80,175	89,122	96,059

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	7,050	15,113	16,234	19,848	22,099
Changes in working capital	1,262	1,380	(5,606)	1,367	736
Other operating cash flows	(752)	(3,648)	482	496	217
Cash flow from operations	7,560	12,845	11,109	21,710	23,052
Capital expenditures	(5,409)	(6,116)	(3,418)	(8,320)	(6,320)
Other investing cash flows	1,113	837	1,257	1,690	2,228
Cash flow from investing	(4,296)	(5,279)	(2,161)	(6,630)	(4,092)
Debt raised/repaid	(1,251)	(2,098)	(2,098)	(2,098)	(2,098)
Dividends paid	(806)	(4,190)	(4,567)	(5,741)	(6,421)
Other financing cash flows	521	2,549	244	(4,032)	(6,523)
Cash flow from financing	(1,536)	(3,739)	(6,420)	(11,871)	(15,041)
Changes in cash and cash eq.	1,728	3,827	2,528	3,210	3,918
Closing cash and cash eq.	3,091	6,919	9,447	12,656	16,574

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	6.1	17.3	18.9	23.7	26.6
Adjusted EPS	6.1	13.2	18.9	23.7	26.6
Dividend per share	1.0	5.2	5.7	7.1	8.0
Book value per share	31.7	47.8	59.9	69.4	77.2

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	3.7	2.7	3.4	2.8	2.5
EV/EBITDA	28.7	17.2	13.3	10.9	9.8
Adjusted P/E	62.7	28.9	20.1	16.0	14.3
P/BV	12.0	7.9	6.3	5.5	4.9

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	70.2	75.0	74.8	74.8	74.8
Interest burden (PBT/EBIT)	85.2	91.8	99.3	102.2	105.0
EBIT margin (EBIT/Revenue)	9.0	12.8	21.8	22.1	21.9
Asset turnover (Revenue/Avg TA)	112.3	137.1	101.3	114.6	114.8
Leverage (Avg TA/Avg Equity)	3.4	2.7	2.1	1.9	1.8
Adjusted ROAE	20.7	33.1	35.1	36.7	36.2

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	25.6	32.8	(21.9)	20.6	9.6
EBITDA	10.0	66.0	26.9	20.0	8.8
Adjusted EPS	43.1	117.2	43.6	25.7	11.8
Profitability & Return ratios (%)					
EBITDA margin	12.7	15.9	25.8	25.7	25.5
EBIT margin	9.0	12.8	21.8	22.1	21.9
Adjusted profit margin	5.4	8.8	16.2	16.9	17.2
Adjusted ROAE	20.7	33.1	35.1	36.7	36.2
ROCE	11.7	27.5	23.9	26.6	27.2
Working capital days (days)					
Receivables	21	18	21	17	17
Inventory	4	3	3	3	3
Payables	17	15	19	13	14
Ratios (x)					
Gross asset turnover	1.2	1.4	1.1	1.2	1.2
Current ratio	0.8	0.9	1.6	1.6	1.8
Net interest coverage ratio	3.6	6.8	12.6	17.5	22.0
Adjusted debt/equity	0.8	0.4	0.2	0.0	(0.1)

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

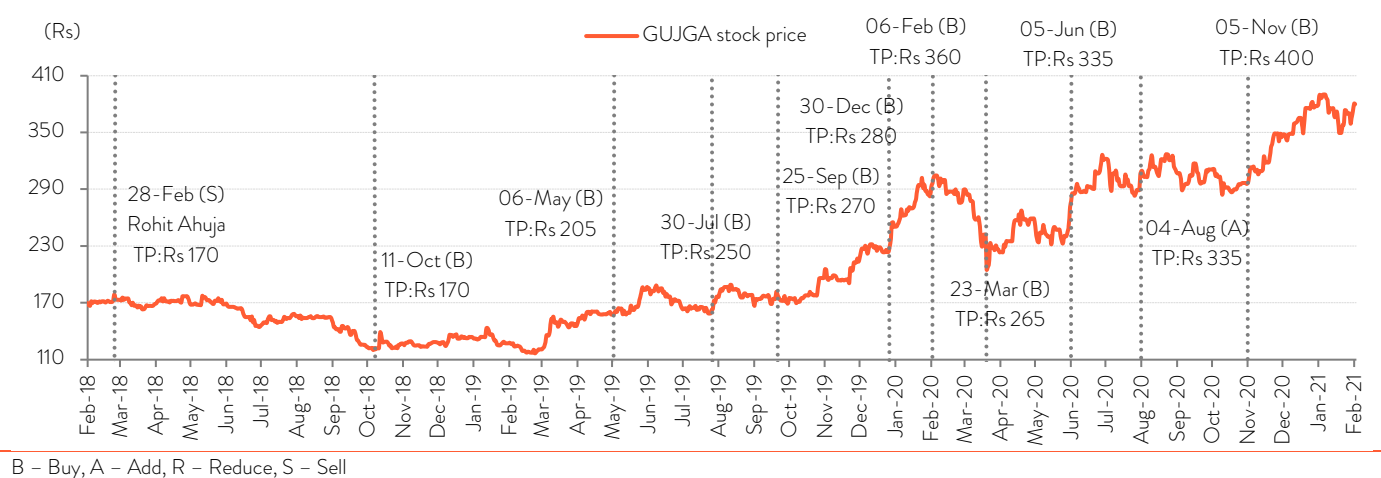
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): GUJARAT GAS (GUJGA IN)



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