

ADD

TP: Rs 335 | ▲ 8%

GUJARAT GAS

| Oil & Gas

| 04 August 2020

Muted Q1 but volumes have normalised; cut to ADD on low upside

Gujarat Gas' (GUJGA) Q1FY21 earnings were well below estimates, plunging 75% YoY to Rs 0.5bn. Key Q1 highlights: (a) volumes much below forecasts at 4.1mmscmd (-55% YoY), but (b) EBITDA margins outperformed at Rs 4.9/scm (-12% YoY). We reduce FY21/FY22 earnings by 7%/1% to factor in lower volumes in FY21, neutralised by higher margins. Our TP remains unchanged at Rs 335 as we roll over to Sep'21. The stock has run up 24% in the past three months and offers limited upside – cut from BUY to ADD.

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Robust volume outlook: Volumes at 4.1mmscmd (-55% YoY) were well below estimates, affected by below-expected industrial segment volumes at 2.9mmscmd (-60% YoY). CNG volumes (0.7mmscmd, -54% YoY) may take longer to recover post lockdown; domestic PNG (0.6mmscmd, +16 YoY) continued to grow. GUJGA's volumes have currently retraced to ~9.5mmscmd levels – ahead of our estimate of ~7mmscmd – validating our expectations of a steep recovery. The company outperformed our EBITDA margin estimate of Rs 3.8/scm, delivering Rs 4.9/scm in Q1 which implies strong pricing power.

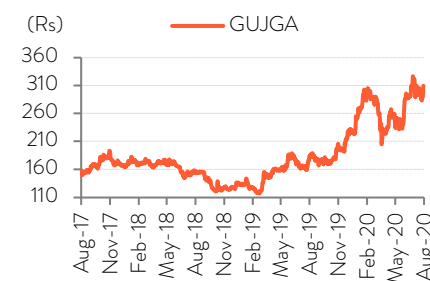
Volume potential from new areas to fructify from FY21: GUJGA's expansion plans are unlikely to be affected by the lockdown as a bulk of its capex usually occurs in H2 each year. The company plans to continue entering newer areas and has maintained capex guidance at Rs 6bn-7bn p.a. The initial strategy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

Downgrade to ADD post rally: At 15.7x FY22E EPS, valuations offer limited upsides, driving our rating cut. Sustained low LNG prices augur well for margins and represent an upside risk to earnings.

Ticker/Price	GUJGA IN/Rs 310
Market cap	US\$ 2.8bn
Shares o/s	688mn
3M ADV	US\$ 3.7mn
52wk high/low	Rs 329/Rs 165
Promoter/FPI/DII	61%/9%/30%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	77,544	103,003	72,475	94,548	103,562
EBITDA (Rs mn)	9,836	16,344	16,230	21,058	22,857
Adj. net profit (Rs mn)	4,159	9,061	9,753	13,597	15,222
Adj. EPS (Rs)	6.0	13.2	14.2	19.8	22.1
Adj. EPS growth (%)	42.7	117.9	7.6	39.4	11.9
Adj. ROAE (%)	20.6	32.9	25.3	28.8	28.5
Adj. P/E (x)	51.2	23.5	21.8	15.7	14.0
EV/EBITDA (x)	23.9	14.2	14.0	10.6	9.5

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Net sales	10,829	26,146	(58.6)	26,666	(59.4)
Gas Purchased	7,297	19,522	(62.6)	20,264	(64.0)
% of sales	67.4	74.7	-	76.0	-
Other expenditure	1,675	1,960	(14.5)	2,135	(21.6)
% of sales	15.5	7.5	-	8.0	-
EBITDA	1,857	4,665	(60.2)	4,267	(56.5)
EBITDA (Rs/scm)	4.9	5.6	(12.0)	4.7	4.5
EBITDA margin (%)	17.2	17.8	-	16.0	-
Depreciation and amortisation	823	779	5.7	805	2.2
Interest	401	510	(21.3)	420	(4.5)
Other income	149	225	(33.8)	189	(21.3)
PBT	783	3,602	(78.3)	3,231	(75.8)
Exceptional item (as reported)	-	-	-	-	-
Provision for tax	196	1,265	(84.5)	772	(74.6)
PAT (reported)	587	2,337	(74.9)	2,459	(76.1)
PAT (adjusted)	587	2,337	(74.9)	2,459	(76.1)
NPM (%)	5.4	8.9	-	9.2	-
EPS adj. (Rs)	0.9	3.4	(74.9)	3.6	(76.1)

Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL VOLUME BREAK UP

Volumes	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
CNG Volume (mmscm)	62	135	(54.1)	134	(53.7)
PNG Volume (mmscm)	315	698	(54.9)	771	(59.1)
Domestic	52	45	15.6	60	(13.3)
Industrial	260	644	(59.6)	700	(62.9)
Commercial	3	9	(66.7)	11	(72.7)
Total Volume (mmscm)	377	833	(54.7)	905	(58.3)
Total Volume (mmscmd)	4.1	9.2	(54.7)	10.1	(58.8)

Source: Company, BOBCAPS Research

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-Gujarat, Rajasthan, Western Maharashtra and Punjab) that are contiguous to its parent Gujarat State Petronet's pipeline networks.

We reduce FY21/FY22 earnings estimates by 7%/1% to factor in lower volumes in FY21, neutralised by higher margins. Our DCF-based Sep'21 target price remains unchanged at Rs 335 on rollover. The stock has run up 24% in the past three months and offers limited upside – downgrade from BUY to ADD.

FIG 3 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E			FY23E
	Old	New	Var (%)	Old	New	Var (%)	New
Gross Revenue	80,102	74,417	(7.1)	97,788.9	96,826	(1.0)	106,056
EBITDA	17,201	16,230	(5.6)	21,232.2	21,058	(0.8)	22,857
EBITDA margin (%)	21.5	21.8	-	21.7	21.7	-	21.6
PAT	10,479	9,753	(6.9)	13,727.8	13,597	(1.0)	15,222
PAT margin (%)	13.1	13.1	-	14.0	14.0	-	14.4
EPS (Rs)	15.2	14.2	(6.9)	19.9	19.8	(1.0)	22.1

Source: Company, BOBCAPS Research

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

- cost of equity of 11.8% and terminal growth of 5%, and
- long-term average EBITDA margins of Rs 5.2/scm.

FIG 4 – VALUATION SUMMARY

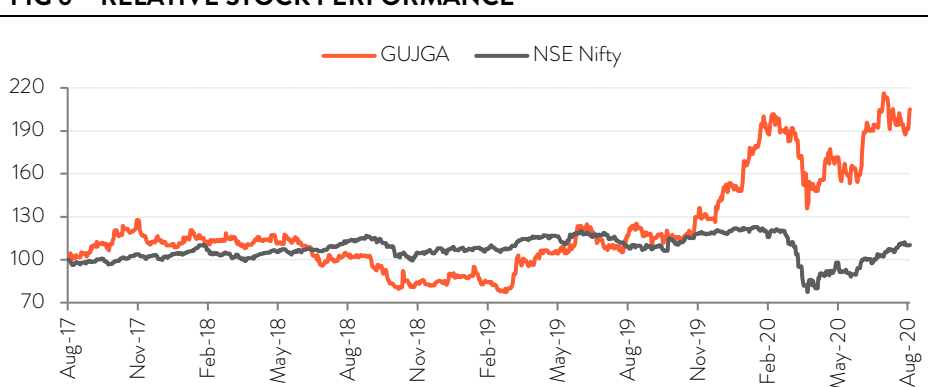
Valuation type	Value (Rs mn)
PV of FCFE	87,818
PV of terminal value	155,634
Less: Net Debt (FY19)	(11,407)
Equity value	232,045
Equity value (Rs/share)	335

Source: BOBCAPS Research

FIG 5 – FAIR VALUE SENSITIVITY TO TERMINAL GROWTH & COST OF EQUITY

Terminal growth (%)	Cost of Equity (%)					
	(Rs)	9.8	10.8	11.8	12.8	13.8
3		371	318	276	243	216
4		414	347	298	259	228
5		475	387	335	279	243
6		568	444	362	305	262
7		727	530	415	339	286

Source: BOBCAPS Research

FIG 6 – 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 is a key risk.
- 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	FY20P	FY21E	FY22E	FY23E
Total revenue	77,544	103,003	72,475	94,548	103,562
EBITDA	9,836	16,344	16,230	21,058	22,857
Depreciation	(2,880)	(3,180)	(3,229)	(3,499)	(3,814)
EBIT	6,956	13,165	13,001	17,559	19,043
Net interest income/(expenses)	(1,962)	(1,922)	(1,262)	(1,113)	(964)
Other income/(expenses)	1,116	839	1,299	1,732	2,270
Exceptional items	(179)	0	0	0	0
EBT	6,110	12,082	13,038	18,178	20,350
Income taxes	(1,772)	(92)	(3,286)	(4,581)	(5,128)
Reported net profit	4,159	11,990	9,753	13,597	15,222
Adjustments	0	(2,929)	0	0	0
Adjusted net profit	4,159	9,061	9,753	13,597	15,222

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Accounts payables	3,523	3,804	2,210	2,921	3,189
Other current liabilities	13,129	14,259	6,754	8,925	9,743
Provisions	83	130	130	130	130
Debt funds	20,892	18,794	16,696	14,598	12,501
Other liabilities	11,808	9,094	10,398	12,216	14,251
Equity capital	1,377	1,377	1,377	1,377	1,377
Reserves & surplus	20,463	31,797	42,454	49,101	55,001
Shareholders' fund	21,840	33,174	43,830	50,478	56,377
Total liabilities and equities	71,275	79,254	80,019	89,269	96,191
Cash and cash eq.	3,092	6,941	9,468	12,678	16,596
Accounts receivables	5,103	5,101	3,590	4,683	5,130
Inventories	694	463	407	531	581
Other current assets	3,742	4,148	4,146	4,148	4,149
Investments	177	446	466	486	506
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	78,870	80,018	89,268	96,191

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Net income + Depreciation	7,039	15,170	12,982	17,096	19,035
Changes in working capital	1,262	1,394	(7,530)	1,663	588
Other operating cash flows	(755)	(3,650)	5	85	(235)
Cash flow from operations	7,546	12,914	5,456	18,844	19,388
Capital expenditures	(5,409)	(6,376)	(3,418)	(8,320)	(6,320)
Other investing cash flows	1,116	839	1,299	1,732	2,270
Cash flow from investing	(4,293)	(5,537)	(2,118)	(6,588)	(4,050)
Debt raised/repaid	(1,251)	(2,098)	(2,098)	(2,098)	(2,098)
Dividends paid	(806)	(3,182)	(3,425)	(4,775)	(5,345)
Other financing cash flows	532	1,751	4,712	(2,175)	(3,977)
Cash flow from financing	(1,525)	(3,529)	(810)	(9,047)	(11,420)
Changes in cash and cash eq.	1,728	3,849	2,528	3,209	3,918
Closing cash and cash eq.	3,091	6,941	9,468	12,678	16,596

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
Reported EPS	6.0	17.4	14.2	19.8	22.1
Adjusted EPS	6.0	13.2	14.2	19.8	22.1
Dividend per share	1.0	3.9	4.3	5.9	6.6
Book value per share	31.7	48.2	63.7	73.3	81.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
EV/Sales	3.0	2.3	3.1	2.4	2.1
EV/EBITDA	23.9	14.2	14.0	10.6	9.5
Adjusted P/E	51.2	23.5	21.8	15.7	14.0
P/BV	9.8	6.4	4.9	4.2	3.8

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	70.1	75.0	74.8	74.8	74.8
Interest burden (PBT/EBIT)	85.3	91.8	100.3	103.5	106.9
EBIT margin (EBIT/Revenue)	9.0	12.8	17.9	18.6	18.4
Asset turnover (Revenue/Avg TA)	112.3	136.8	91.2	111.7	111.7
Leverage (Avg TA/Avg Equity)	3.4	2.7	2.1	1.8	1.7
Adjusted ROAE	20.6	32.9	25.3	28.8	28.5

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	25.6	32.8	(29.6)	30.5	9.5
EBITDA	9.9	66.2	(0.7)	29.7	8.5
Adjusted EPS	42.7	117.9	7.6	39.4	11.9
Profitability & Return ratios (%)					
EBITDA margin	12.7	15.9	22.4	22.3	22.1
EBIT margin	9.0	12.8	17.9	18.6	18.4
Adjusted profit margin	5.4	8.8	13.5	14.4	14.7
Adjusted ROAE	20.6	32.9	25.3	28.8	28.5
ROCE	11.7	27.6	17.3	20.9	21.3
Working capital days (days)					
Receivables	21	18	22	16	17
Inventory	4	3	3	3	3
Payables	17	15	20	13	14
Ratios (x)					
Gross asset turnover	1.2	1.4	0.9	1.1	1.2
Current ratio	0.8	0.9	1.9	1.8	2.0
Net interest coverage ratio	3.5	6.9	10.3	15.8	19.8
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%

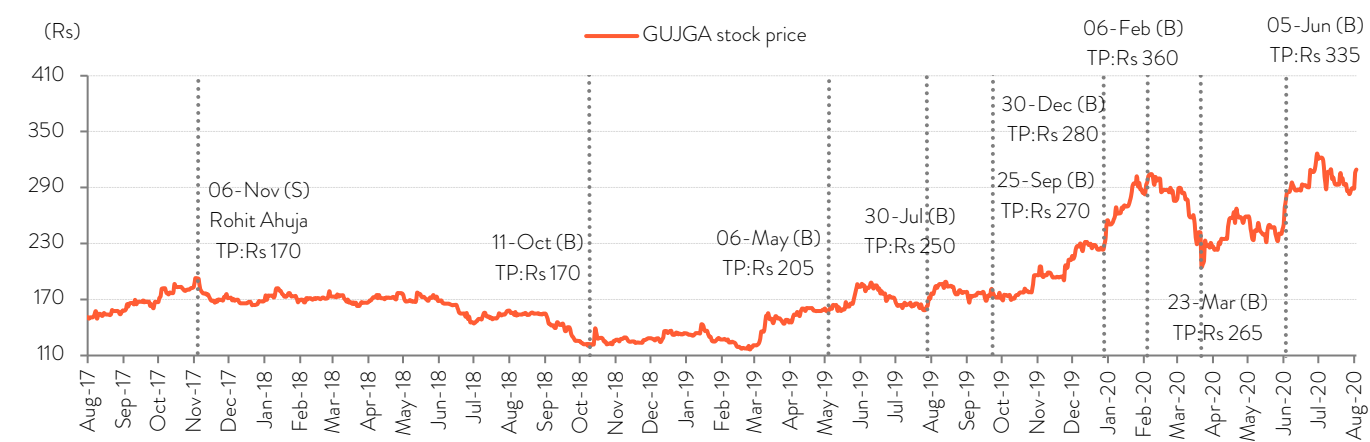
ADD – Expected return from >+5% to +15%

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)



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

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