

# Gujarat Gas

BSE SENSEX 31,369 S&P CNX 9,675

**CMP: INR762**

**TP: INR697 (-9%)**

**Sell**

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## Stock Info

Bloomberg	GUJGA IN
Equity Shares (m)	137.7
52-Week Range (INR)	880 / 487
1, 6, 12 Rel. Per (%)	0/27/27
M.Cap. (INR b)	104.9
M.Cap. (USD b)	1.6
Avg Val, INRm	66
Free float (%)	39.1

## Financials Snapshot (INR b)

Y/E Mar	FY17	FY18E	FY19E
Sales	50.9	68.4	79.3
EBITDA	7.5	10.9	13.3
NP	2.8	4.6	6.4
EPS (INR)	20.4	33.7	46.5
EPS Gr. (%)	36.3	64.7	38.0
BV/Sh. (INR)	119.5	146.9	184.6
RoE (%)	17.8	25.3	28.0
RoCE (%)	14.5	21.5	26.5
P/E (x)	37.3	22.6	16.4
P/BV (x)	6.4	5.2	4.1
EV/EBITDA (x)	17.0	11.5	9.1
Div. Yield (%)	0.4	0.7	1.0

## Shareholding pattern (%)

As On	Mar-17	Dec-16	Mar-16
Promoter	60.9	60.9	60.9
DII	2.3	2.8	4.8
FII	15.4	14.8	12.6
Others	21.4	21.5	21.8

Note: FII Includes depository receipts

## Exclusion of gas from GST adds to pain

### Maintain Sell

### Gas volumes down post GST

- With gas not being included under GST, it has become more uneconomical. Dirtier alternatives like coal and fuel oil have been included under GST.
- As a result, industrial offtake for Gujarat Gas has been suffering. Our discussions with the consumers suggest that the sales volume at Morbi has declined from 2.65mmscmd a few weeks ago to 2.2mmscmd.

### Propane emerges as a new challenge

- In our Initiating Coverage report, we had mentioned that LPG accounted for 4% market share at Morbi.
- We understand that suppliers are building infrastructure at Rajkot, which would facilitate further inroads for LPG.
- Additionally, of the 0.45mmscmd volume lost, 0.1mmscmd has been replaced by propane, which is INR6/kg cheaper than gas at INR24.5/kg. We believe few more companies are contemplating propane usage.

### Coal continues to be a challenge

- With coal at INR8/kg, it remains ~20% cheaper than gas. Gas has a market share of ~35% at Morbi and coal gasifiers have a market share of ~60%; the rest 5% is currently with LPG and Fuel Oil.
- Although ~100 ceramic units are getting added this year, we believe that coal would remain a challenge amid cheaper alternatives.

### Valuation and view

- As we had mentioned in our [Initiating Coverage report](#), *Long Road Ahead* dated April 19, 2017, we acknowledge the long-term demand potential.
- Bhavnagar and Jamnagar are ramping up, and newer cities like Amreli, Ahmedabad rural, Dahej, Dahod, Panchmahal and Anand would add volume growth in the longer run.
- However, as long as industrial exposure remains high at 68%, both volumes and margins would remain highly volatile. If there is stricter enforcement of pollution norms, volumes and margins might stabilize.
- The stock trades at 16.2x FY19E EPS. We assume sales volume of 5.4/6.5/7.3mmscmd and EBITDA/scm of INR3.8/4.6/5 in FY17/18/19.
- We see threat of downgrade to our numbers, if gas continues to be out of GST. We value Gujarat Gas at 15x FY19E EPS of INR46.5. With a target of INR697, we reiterate our **Sell** rating.

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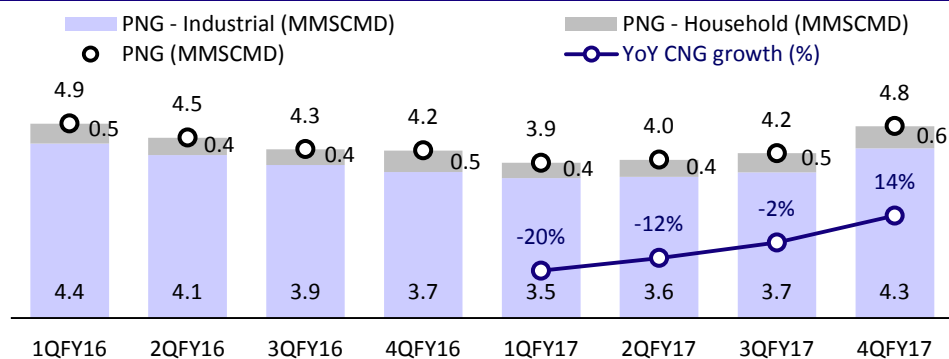
Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Exhibit 1: GUJGA: Operational highlights**

INR Million	FY16				FY17				4QFY17	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY (%)	QoQ (%)
<b>Net sales</b>	<b>16,709</b>	<b>15,722</b>	<b>14,846</b>	<b>13,782</b>	<b>12,248</b>	<b>12,371</b>	<b>12,309</b>	<b>14,002</b>	<b>2%</b>	<b>14%</b>
Realization (INR/scm)	30.6	30.5	30.8	28.5	26.6	26.1	25.2	25.6	-10%	2%
Total raw material	13,573	13,199	12,097	10,228	8,872	9,010	9,362	11,137	9%	19%
Gas cost (INR/scm)	24.9	25.6	25.1	21.2	19.3	19.0	19.1	20.4	-4%	7%
<b>Gross Margin</b>	<b>3,136</b>	<b>2,523</b>	<b>2,749</b>	<b>3,553</b>	<b>3,376</b>	<b>3,361</b>	<b>2,947</b>	<b>2,865</b>	<b>-19%</b>	<b>-3%</b>
Gross Margin (INR/scm)	5.7	4.9	5.7	7.4	7.3	7.1	6.0	5.2	-29%	-13%
<b>EBITDA</b>	<b>2,014</b>	<b>1,469</b>	<b>1,579</b>	<b>2,203</b>	<b>2,190</b>	<b>2,129</b>	<b>1,709</b>	<b>1,463</b>	<b>-34%</b>	<b>-14%</b>
EBITDA (INR/scm)	3.7	2.9	3.3	4.6	4.8	4.5	3.5	2.7	-41%	-23%
<b>PAT</b>	<b>586</b>	<b>278</b>	<b>322</b>	<b>690</b>	<b>759</b>	<b>718</b>	<b>423</b>	<b>331</b>	<b>-52%</b>	<b>-22%</b>
PAT (INR/scm)	1.1	0.5	0.7	1.4	1.6	1.5	0.9	0.6	-57%	-30%
<b>Volumes</b>										
CNG (MMSCMD)	1.1	1.1	1.0	1.1	1.1	1.2	1.2	1.2	8%	6%
PNG - Household (MMSCMD)	0.5	0.4	0.4	0.5	0.4	0.4	0.5	0.6	2%	16%
PNG - Industrial (MMSCMD)	4.4	4.1	3.9	3.7	3.5	3.6	3.7	4.3	16%	16%
<b>Total (MMSCMD)</b>	<b>6.0</b>	<b>5.6</b>	<b>5.2</b>	<b>5.4</b>	<b>5.1</b>	<b>5.2</b>	<b>5.3</b>	<b>6.1</b>	<b>13%</b>	<b>14%</b>

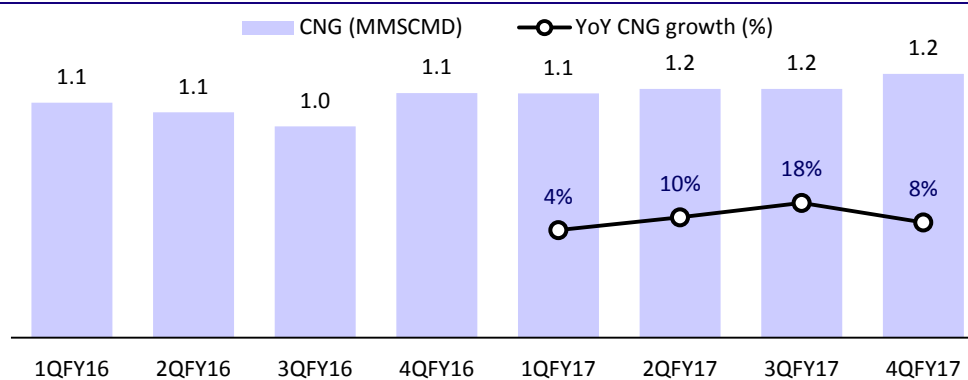
Source: Company, MOSL

**Exhibit 2: PNG volumes were up ~14% YoY to 4.8mmscmd**

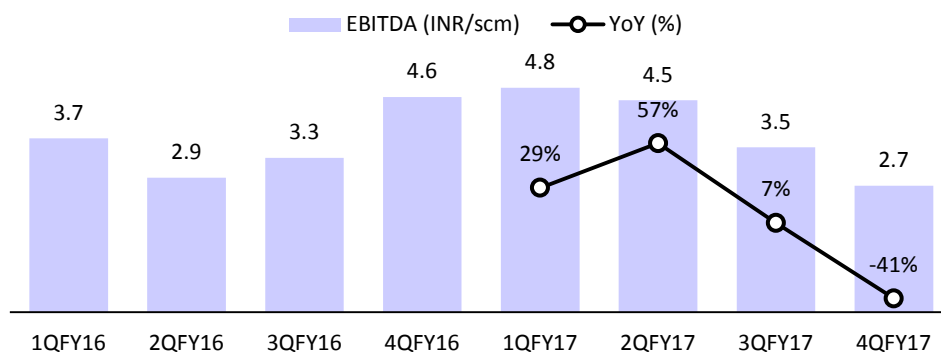


Source: Company, MOSL

**Exhibit 3: YoY growth in CNG volumes was ~8% in 4QFY17**



Source: Company, MOSL

**Exhibit 4: Higher gas costs impacted EBITDA/scm; declined 41% YoY**

Source: Company, MOSL

**Valuation and view**

- The industrial segment constitutes 68% of GUJGA's total sales volumes. Gas competes with fuel oil, coal/petcoke, and other dirty fuels like rice husk and briquette. In the absence of regulatory push, consumers are driven only by economics and switch pretty quickly from one fuel to another.
- Highly volatile commodity prices result in instability in industrial sales volumes and margins. From a peak of 8-9mmscmd, total sales volumes declined to 5.1mmscmd in 1QFY17 before rising to 6.1mmscmd in 4QFY17. Since 1QFY16, EBITDA/scm has seen a low of INR2.7 and a high of INR4.8.
- Global gas utility companies are trading at 17x CY18/FY19 EPS. Due to higher volatility, we value GUJGA at 15x, ~10% discount to global peers. At 15x FY19E EPS of INR46.5, we value GUJGA at INR697, implying 7% downside. Maintain **Sell**.

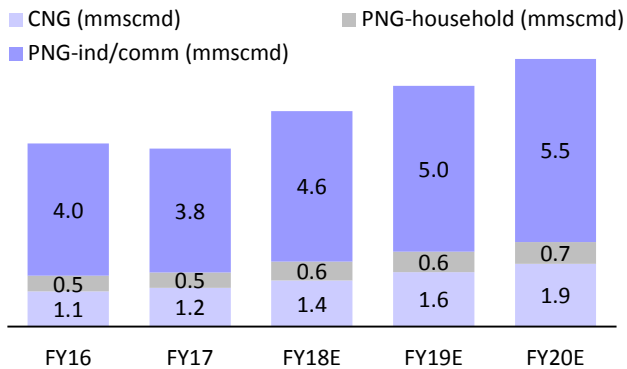
**Exhibit 5: We value Gujarat Gas at 15x FY19E EPS = INR697/share****Valuation table**

FY19 volume (mmscmd)	7.5
FY19 EBITDA/scm (INR)	5.0
FY19 EPS (INR)	46.5
Valuation PE (x)	15.0
<b>Target price (INR/share)</b>	<b>697</b>

Source: Company, MOSL

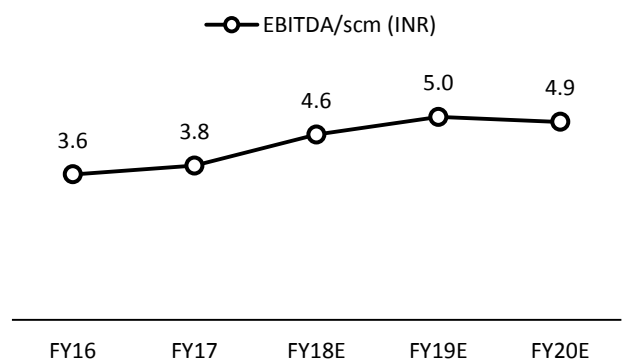
## Story in charts

**Exhibit 6: Volume growth has been volatile**



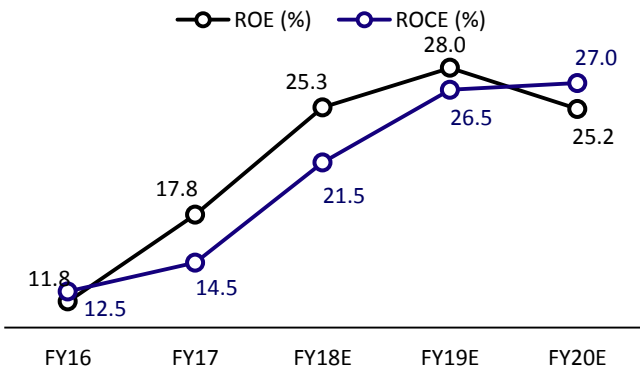
Source: Company, MOSL

**Exhibit 7: EBITDA/scm likely to grow, volatility would be key**



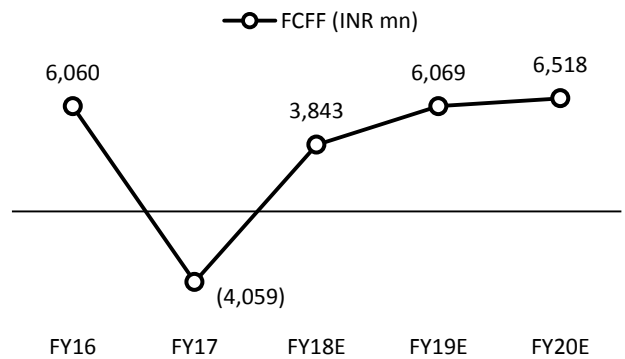
Source: Company, MOSL

**Exhibit 8: Return ratios to improve**



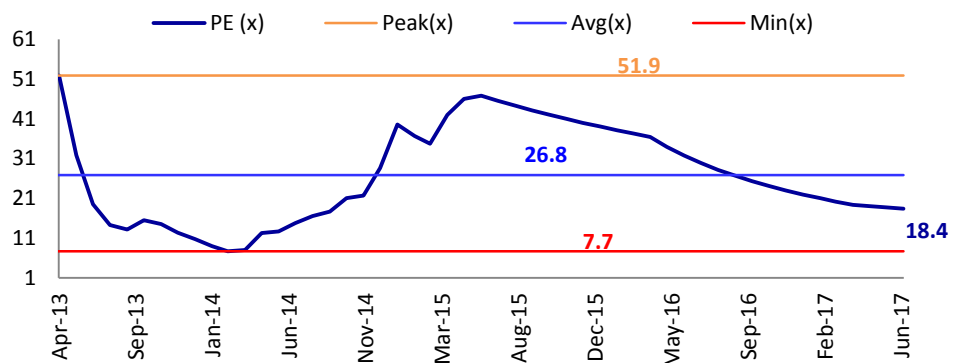
Source: Company, MOSL

**Exhibit 9: Free cash flow to improve**



Source: Company, MOSL

**Exhibit 10: GUJGA 1 Yr forward P/E Chart**



Source: Company, MOSL

## Financials and Valuations

### Standalone - Income Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Income from Operations	77,974	90,063	61,059	50,930	68,352	79,276	87,824
<b>Total Income from Operations</b>	<b>77,974</b>	<b>90,063</b>	<b>61,059</b>	<b>50,930</b>	<b>68,352</b>	<b>79,276</b>	<b>87,824</b>
Change (%)	NA	15.5	-32.2	-16.6	34.2	16.0	10.8
<b>Total Expenditure</b>	<b>72,233</b>	<b>79,001</b>	<b>53,794</b>	<b>43,439</b>	<b>57,463</b>	<b>65,956</b>	<b>73,564</b>
% of Sales	92.6	87.7	88.1	85.3	84.1	83.2	83.8
<b>EBITDA</b>	<b>5,741</b>	<b>11,062</b>	<b>7,264</b>	<b>7,491</b>	<b>10,889</b>	<b>13,320</b>	<b>14,259</b>
Margin (%)	7.4	12.3	11.9	14.7	15.9	16.8	16.2
Depreciation	2,826	2,377	2,457	2,672	2,840	2,949	3,083
<b>EBIT</b>	<b>2,915</b>	<b>8,685</b>	<b>4,808</b>	<b>4,819</b>	<b>8,049</b>	<b>10,371</b>	<b>11,176</b>
Int. and Finance Charges	3,003	3,332	2,475	1,518	1,629	1,402	1,174
Other Income	1,101	1,071	445	372	499	578	641
<b>PBT bef. EO Exp.</b>	<b>1,012</b>	<b>6,424</b>	<b>2,779</b>	<b>3,672</b>	<b>6,919</b>	<b>9,548</b>	<b>10,643</b>
EO Items	-90	-10	-256	0	0	0	0
<b>PBT after EO Exp.</b>	<b>922</b>	<b>6,414</b>	<b>2,523</b>	<b>3,672</b>	<b>6,919</b>	<b>9,548</b>	<b>10,643</b>
Current Tax	638	1,979	648	858	2,283	3,151	3,512
Tax Rate (%)	69.2	30.8	25.7	23.4	33.0	33.0	33.0
<b>Reported PAT</b>	<b>284</b>	<b>4,436</b>	<b>1,875</b>	<b>2,814</b>	<b>4,635</b>	<b>6,397</b>	<b>7,131</b>
<b>Adjusted PAT</b>	<b>312</b>	<b>4,443</b>	<b>2,065</b>	<b>2,814</b>	<b>4,635</b>	<b>6,397</b>	<b>7,131</b>
Change (%)	NA	1,323.3	-53.5	36.3	64.7	38.0	11.5
Margin (%)	0.4	4.9	3.4	5.5	6.8	8.1	8.1

### Standalone - Balance Sheet

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	1,377	1,377	1,377	1,377	1,377	1,377	1,377
Total Reserves	14,981	18,532	13,718	15,072	18,842	24,044	29,843
<b>Net Worth</b>	<b>16,358</b>	<b>19,909</b>	<b>15,095</b>	<b>16,449</b>	<b>20,218</b>	<b>25,421</b>	<b>31,219</b>
Deferred Tax Liabilities	2,892	3,528	9,865	10,018	10,018	10,018	10,018
Total Loans	33,311	31,960	17,066	22,987	19,987	16,987	13,987
<b>Capital Employed</b>	<b>52,561</b>	<b>55,397</b>	<b>42,025</b>	<b>49,453</b>	<b>50,223</b>	<b>52,425</b>	<b>55,224</b>
Gross Block	47,550	50,114	54,153	59,263	61,275	63,884	66,971
Less: Accum. Deprn.	2,815	5,247	7,704	10,376	13,216	16,164	19,247
<b>Net Fixed Assets</b>	<b>44,735</b>	<b>44,867</b>	<b>46,449</b>	<b>48,887</b>	<b>48,059</b>	<b>47,720</b>	<b>47,724</b>
Capital WIP	2,701	3,574	4,682	5,057	8,046	10,437	12,349
<b>Total Investments</b>	<b>8,410</b>	<b>10,990</b>	<b>1,218</b>	<b>696</b>	<b>696</b>	<b>696</b>	<b>696</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>10,694</b>	<b>9,495</b>	<b>7,544</b>	<b>8,248</b>	<b>4,844</b>	<b>6,752</b>	<b>9,081</b>
Inventory	375	411	413	417	299	343	383
Account Receivables	5,451	3,606	3,005	3,475	2,737	3,174	3,516
Cash and Bank Balance	2,116	2,378	678	608	-545	506	2,159
Loans and Advances	2,752	3,101	3,447	3,748	2,353	2,729	3,024
<b>Curr. Liability &amp; Prov.</b>	<b>13,978</b>	<b>13,529</b>	<b>17,868</b>	<b>13,435</b>	<b>11,422</b>	<b>13,179</b>	<b>14,626</b>
Account Payables	5,260	4,262	2,515	3,140	3,464	3,975	4,434
Other Current Liabilities	8,613	8,193	14,986	9,896	7,519	8,720	9,661
Provisions	105	1,074	367	399	439	483	532
<b>Net Current Assets</b>	<b>-3,284</b>	<b>-4,034</b>	<b>-10,324</b>	<b>-5,187</b>	<b>-6,577</b>	<b>-6,427</b>	<b>-5,545</b>
<b>Appl. of Funds</b>	<b>52,561</b>	<b>55,397</b>	<b>42,025</b>	<b>49,453</b>	<b>50,223</b>	<b>52,425</b>	<b>55,224</b>

E: MOSL Estimates

## Financials and Valuations

### Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>2.3</b>	<b>32.3</b>	<b>15.0</b>	<b>20.4</b>	<b>33.7</b>	<b>46.5</b>	<b>51.8</b>
Cash EPS	22.8	49.5	32.8	39.8	54.3	67.9	74.2
BV/Share	118.8	144.6	109.6	119.5	146.9	184.6	226.8
DPS	0.0	5.0	2.1	3.2	5.2	7.2	8.0
Payout (%)	0.0	18.7	18.7	18.7	18.7	18.7	18.7
<b>Valuation (x)</b>							
P/E	336.1	23.6	50.8	37.3	22.6	16.4	14.7
Cash P/E	33.4	15.4	23.2	19.1	14.0	11.2	10.3
P/BV	6.4	5.3	7.0	6.4	5.2	4.1	3.4
EV/Sales	1.7	1.5	2.0	2.5	1.8	1.5	1.3
EV/EBITDA	23.7	12.2	16.7	17.0	11.5	9.1	8.2
Dividend Yield (%)	0.0	0.7	0.3	0.4	0.7	0.9	1.1
FCF per share	5.4	60.2	44.0	-29.5	27.9	44.1	47.3
<b>Return Ratios (%)</b>							
RoE	3.8	24.5	11.8	17.8	25.3	28.0	25.2
RoCE	16.2	19.2	12.5	14.5	21.5	26.5	27.0
<b>Working Capital Ratios</b>							
Asset Turnover (x)	1.5	1.6	1.5	1.0	1.4	1.5	1.6
Inventory (Days)	2	2	2	3	2	2	2
Debtor (Days)	26	15	18	25	15	15	15
Creditor (Days)	25	17	15	23	18	18	18
Working Cap. Turnover (Days)	-25	-26	-66	-42	-32	-32	-32
<b>Leverage Ratio (x)</b>							
Current Ratio	0.8	0.7	0.4	0.6	0.4	0.5	0.6
Interest Cover Ratio	1.0	2.6	1.9	3.2	4.9	7.4	9.5
Debt/Equity	2.0	1.6	1.1	1.4	1.0	0.7	0.4

### Standalone - Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	922	6,414	2,779	3,672	6,919	9,548	10,643
Depreciation	2,826	2,377	2,457	2,672	2,840	2,949	3,083
Interest & Finance Charges	3,003	3,332	2,029	1,147	1,131	823	534
Direct Taxes Paid	-1,599	-1,461	-648	-858	-2,283	-3,151	-3,512
(Inc)/Dec in WC	-309	1,852	4,590	-5,207	237	900	771
<b>CF from Operations</b>	<b>4,844</b>	<b>12,514</b>	<b>11,207</b>	<b>1,427</b>	<b>8,843</b>	<b>11,069</b>	<b>11,518</b>
Others	-726	-716	0	0	0	0	0
<b>CF from Operating incl EO</b>	<b>4,119</b>	<b>11,798</b>	<b>11,207</b>	<b>1,427</b>	<b>8,843</b>	<b>11,069</b>	<b>11,518</b>
(Inc)/Dec in FA	-3,371	-3,508	-5,147	-5,486	-5,000	-5,000	-5,000
<b>Free Cash Flow</b>	<b>748</b>	<b>8,290</b>	<b>6,060</b>	<b>-4,059</b>	<b>3,843</b>	<b>6,069</b>	<b>6,518</b>
(Pur)/Sale of Investments	-12,397	-2,563	9,773	522	0	0	0
Others	2,374	167	189	372	499	578	641
<b>CF from Investments</b>	<b>-13,394</b>	<b>-5,904</b>	<b>4,815</b>	<b>-4,593</b>	<b>-4,501</b>	<b>-4,422</b>	<b>-4,359</b>
Issue of Shares	5,000	0	0	0	0	0	0
Inc/(Dec) in Debt	7,923	-756	-14,894	5,140	-3,000	-3,000	-3,000
Interest Paid	-1,351	-4,874	-2,475	-1,518	-1,629	-1,402	-1,174
Dividend Paid	-601	-2	-352	-526	-866	-1,195	-1,332
Others	0	0	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>10,971</b>	<b>-5,632</b>	<b>-17,721</b>	<b>3,096</b>	<b>-5,495</b>	<b>-5,596</b>	<b>-5,506</b>
<b>Inc/Dec of Cash</b>	<b>1,696</b>	<b>262</b>	<b>-1,699</b>	<b>-70</b>	<b>-1,153</b>	<b>1,051</b>	<b>1,653</b>
Opening Balance	420	2,116	2,378	678	608	-545	506
<b>Closing Balance</b>	<b>2,116</b>	<b>2,378</b>	<b>678</b>	<b>608</b>	<b>-545</b>	<b>506</b>	<b>2,159</b>

**NOTES**

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