

Gujarat Gas (GUJGA)

Rating matrix	
Rating	: Buy
Target	: ₹ 750
Target Period	: 12 months
Potential Upside	: 18%

What's changed?	
Target	Changed from ₹ 940 to ₹ 750
EPS FY19E	Changed from ₹ 33.5 to ₹ 26.6
EPS FY20E	Changed from ₹ 37.6 to ₹ 34.1
Rating	Unchanged

Quarterly performance					
	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	1,964.3	1,391.4	41.2	1,765.1	11.3
EBITDA	160.7	202.7	-20.7	248.6	-35.3
EBITDA (%)	8.2	14.6	-43.8	14.1	-590 bps
PAT	41.1	61.1	-32.8	121.4	-66.2

Key financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Revenues	5,093.0	6,174.3	8,209.9	9,658.0
EBITDA	749.0	895.1	925.2	1,121.3
Net Profit	223.1	291.4	366.1	469.0
EPS (₹)	16.2	21.2	26.6	34.1

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	39.4	30.1	24.0	18.7
Target P/E	46.2	35.4	28.2	22.0
EV / EBITDA	14.8	12.1	11.4	9.1
P/BV	5.3	4.8	4.2	3.7
RoNW (%)	13.6	15.8	17.7	19.9
RoCE (%)	12.3	15.3	16.0	20.2

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	8,784.0
Total Debt (FY18) (₹ Crore)	2,214.3
Cash and Investments (FY18) (₹ Crore)	137.7
EV (₹ Crore)	10,860.6
52 week H/L	973/600
Equity capital (₹ Crore)	137.7
Face value (₹)	10.0

Price performance				
Return %	1M	3M	6M	12M
IGL	3.2	(15.1)	(13.8)	(20.9)
Gujarat Gas	(1.7)	(19.7)	(30.0)	(31.5)
Mahanagar Gas	0.3	(8.1)	(8.4)	(32.5)

Research Analyst	
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Margins remain key...

- Gujarat Gas reported a disappointing set of numbers in Q2FY19. Revenues increased 41.2% YoY to ₹ 1964.3 crore and came in above our estimates. Total reported volumes increased 16.5% YoY and came in at 6.7 mmscmd vs. our estimate of 6.5 mmscmd on account of higher sales volumes on the industrial PNG front
- Realisations were higher than our estimate at ₹ 32/scm (our estimate: ₹ 31.6/scm). However, sharp increase in gas costs due to increase in LNG prices and rupee depreciation led to decline in gross margins, which was at ₹ 5.3/scm (our estimate of ₹ 6.7/scm) leading to an EBITDA of ₹ 160.7 crore, below our estimate of ₹ 230.2 crore
- Subsequently, profitability declined 32.8% YoY to ₹ 41.1 crore and came in below our estimate of ₹ 83.5 crore

Growing gas network to drive volumes, going ahead

The quarter continued to witness steady volume growth of 16.5% YoY to 6.7 mmscmd. While industrial volumes were at 4.6 mmscmd, domestic/commercial PNG volumes came in at 0.7 mmscmd. The industrial PNG segment was above our estimates on account of conversion from liquid fuels to gas. Natural gas continues to offer better economics vs. alternatives like fuel oil due to high oil prices and gives an opportunity of higher offtake from ceramic segment. Going forward, the company plans to focus more on the growth of CNG and domestic PNG segment. In lieu of the same, the company has set up 44 CNG stations during FY18 and is aiming to add 200+ CNG stations in coming years to tap the opportunity of robust CNG vehicle conversion rates (~50000 per annum currently). Overall, we believe increase in both the CNG as well as industrial PNG demand will drive Gujarat Gas' volume growth momentum. Volumes in FY19E and FY20E are estimated to be at 6.8 mmscmd and 7.6 mmscmd, respectively.

Margins to witness improvement

Gross margins were impacted due to higher LNG prices and sharp rupee depreciation during the quarter. Resultant gross margins came in at ₹ 5.3/scm (our estimate: ₹ 6.7/scm). However, Gujarat Gas has now taken an appropriate price hike in October to adjust rising LNG costs. The price hike will help the company to improve the margins in the coming quarter. We believe Gujarat Gas will need to strike a balance between right volumes and margins at appropriate time intervals. Relatively good pricing power will enable the company to report a margin of ~₹ 6.4/scm and ₹ 6.7/scm in FY19E and FY20E, respectively.

Efforts towards higher penetration to provide volume growth

Gujarat Gas has been rapidly expanding its reach in Gujarat by way of securing licences to expand its CGD network across five new areas, making it to a total of 20 districts of Gujarat, Dadra and Nagar Haveli, Thane and Palghar in Maharashtra. Also, the company may buy a stake in Vadodara Gas, in future, which may augment its current ambit in Gujarat's CGD. However, due to current high LNG prices and relatively lower growth in profits, we now value Gujarat Gas at 22x FY20E EPS of ₹ 34.1 to arrive at a target price of ₹ 750 with a **BUY** recommendation.

Variance analysis

	Q2FY19	Q1FY19E	Q2FY18	YoY (%)	Q1FY19	QoQ (%)	Comments
Total Revenues	1,964.3	1,898.3	1,391.4	41.2	1,765.1	11.3	Higher on account of robust growth in volumes
Raw materials costs	1,642.3	1,493.5	1,040.0	57.9	1,350.4	21.6	
Employees Cost	37.2	41.8	33.2	12.3	36.0	3.4	
Other Expenses	124.1	132.9	115.6	7.3	130.1	-4.7	
Total Expenditure	1,803.6	1,668.1	1,188.8	51.7	1,516.6	18.9	
EBITDA	160.7	230.2	202.7	-20.7	248.6	-35.3	Lower-than-estimated EBITDA on account of contraction in gross margins
EBITDA margins (%)	8.2	12.1	14.6	-638 bps	14.1	-590 bps	
Depreciation	72.4	70.5	68.3	6.0	70.7	2.4	
EBIT	88.4	159.7	134.4	-34.2	177.9	-50.3	
Interest	49.4	44.1	49.9	-1.0	48.6	1.7	
Other Income	18.8	11.0	8.9	112.2	58.4	-67.8	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	57.8	126.6	93.4	-38.1	187.8	-69.2	
Total Tax	16.7	43.0	32.3	-48.3	66.4	-74.9	
PAT	41.1	83.5	61.1	-32.8	121.4	-66.2	

Key Metrics

Sales Volume (mmscmd)	6.7	6.5	5.7	16.5	6.4	3.5	Industrial PNG volumes came above our estimates
Realisation (₹/scm)	32.0	31.6	26.4	21.2	30.1	6.4	
Gross margin (₹/scm)	5.3	6.7	6.7	-21.3	7.1	-25.8	Higher-than-expected contraction in gross margins

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY19E			FY20E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	7,571.0	8,209.9	8.4	8,559.8	9,658.0	12.8	Increase in realisations led to increase in revenue estimates
EBITDA	1,075.6	925.2	-14.0	1,195.7	1,121.3	-6.2	Downward revision in margin estimates led to change in EBITDA estimates
EBITDA Margin (%)	14.2	11.3	-294 bps	14.0	11.6	-236 bps	
PAT	462.0	366.1	-20.7	518.1	469.0	-9.5	
EPS (₹)	33.6	26.6	-20.7	37.6	34.1	-9.5	

Source: Company, ICICI Direct Research

Assumptions

	Current				Earlier		Comments
	FY17	FY18	FY19E	FY20E	FY19E	FY20E	
Sales Volume (mmscmd)	5.4	6.2	6.8	7.6	6.8	7.6	
Realisation (₹/scm)	25.7	27.2	32.9	34.8	30.5	30.8	
Gross margin (₹/scm)	6.2	6.6	6.4	6.7	7.2	7.1	Margins revised downwards due to increase in raw material (gas) costs and rupee depreciation

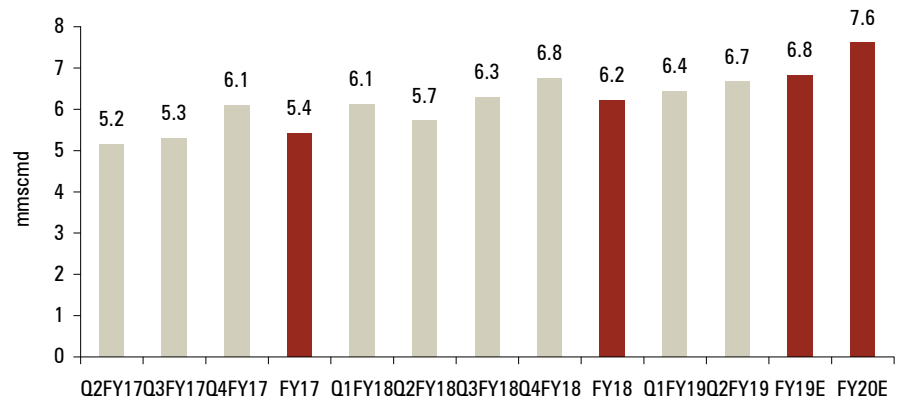
Source: Company, ICICI Direct Research,

Company Analysis

Growing gas network to drive volumes, going ahead

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Exhibit 1: Volume trend

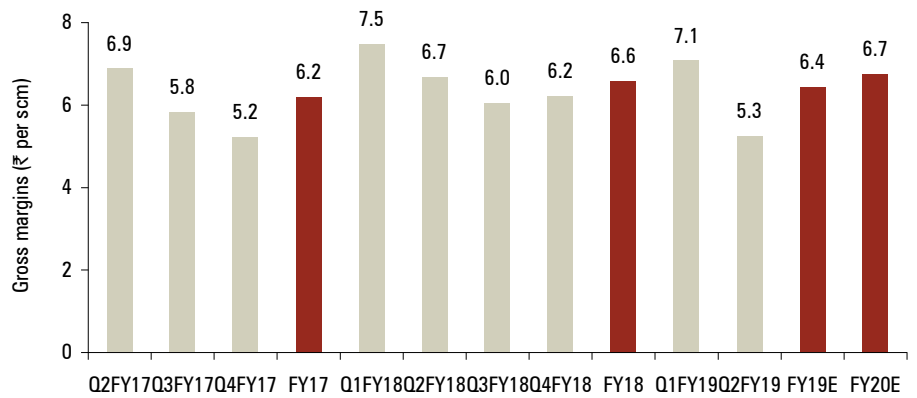


Source: Company, ICICI Direct Research

Steady margins outlook, going ahead

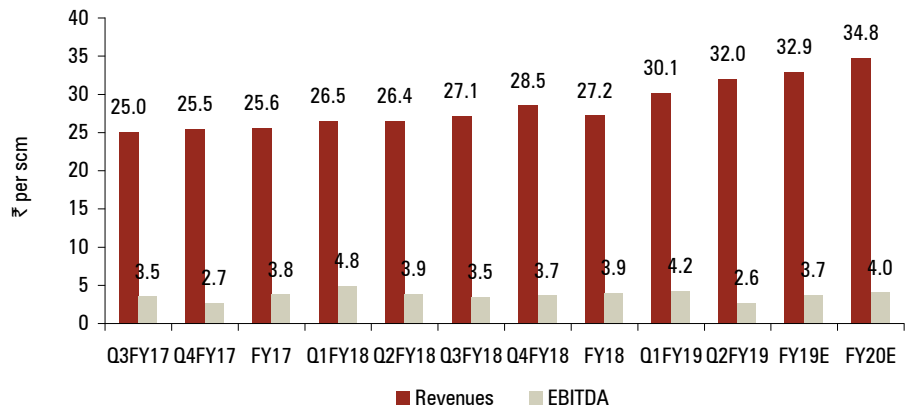
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Exhibit 2: Margin trend



Source: Company, ICICI Direct Research

Exhibit 3: Revenue and EBITDA trend



Source: Company, ICICI Direct Research

Outlook & Valuation

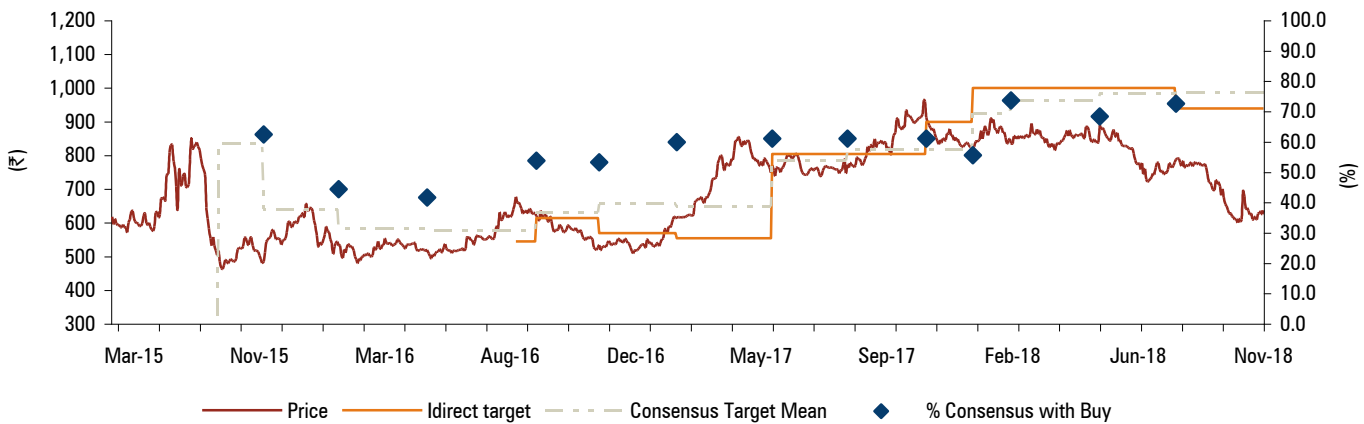
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Exhibit 4: Valuations

Year	Sales (₹ Crore)	Sales Gr. (%)	EPS (₹)	EPS Gr. (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	5093.0	-16.6	16.2	24.9	39.4	14.8	13.6	12.3
FY18	6174.3	21.2	21.2	30.6	30.1	12.1	15.8	15.3
FY19E	8209.9	33.0	26.6	25.7	24.0	11.4	17.7	16.0
FY20E	9658.0	17.6	34.1	28.1	18.7	20.2	19.9	20.2

Source: Company, ICICI Direct Research

Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
Jul-10	The company entered into an agreement with the BG group for purchase of RLNG to meet its gas requirements
Apr-11	Gujarat Gas declares strong results with 33% increase in topline and EBITDA margin expansion of 530 bps to 25.2%
Nov-11	BG Group expresses its desire to sell 65% stake in Gujarat Gas Company Limited
Apr-12	The Petroleum and Natural Gas Regulatory Board (PNGRB) fixed IGL's network tariff rate and compression charge, which was way below market expectations. Negative for the CGD sector
Oct-12	BG group sells its stake in Gujarat Gas for US\$470 million to GSPC group
Feb-13	Gujarat Gas' results were below market expectations on account of higher LNG prices
Aug-13	Gujarat Gas reported its Q2CY13 results with PAT increasing 91.6% YoY to ₹ 100.6 crore
Apr-14	Gujarat Gas announces merger with group companies making it the largest city gas distribution company in India
May-15	As per the scheme of amalgamation and arrangement, Gujarat Gas Limited reduced its equity shares from 500,000,000 share of ₹10 each into 13,157,895 shares of ₹10 each
Sep-15	Listing of Shares of Gujarat Gas Limited
Oct-17	Gujarat gas hikes prices of CNG and PNG in Gujarat for the first time since 2014, on the back of rise in domestic gas prices
Dec-17	Gujarat Gas Hikes prices for its industrial customers by ~10%

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	GSPC Group	30-Sep-18	0.5	74.6	0.0
2	Gujarat State Fertilizers and Chemicals Ltd	30/Sep/18	0.1	9.4	0.0
3	Government of Gujarat	30-Sep-18	0.1	9.0	0.0
4	Gujarat Industrial Development Corporation, Ltd.	30/Sep/18	0.0	5.3	0.0
5	Gujarat Alkalies And Chemicals Ltd	30-Sep-18	0.0	4.3	0.0
6	Aberdeen Standard Investments (Asia) Limited	30/Sep/17	0.0	3.7	-0.5
7	Aberdeen Asset Managers Ltd.	30-Sep-18	0.0	1.9	-0.5
8	Norges Bank Investment Management (NBIM)	30/Sep/18	0.0	1.5	-0.1
9	UTI Asset Management Co. Ltd.	30-Sep-18	0.0	1.4	0.0
10	Goldman Sachs Asset Management International	30/Sep/18	0.0	1.2	0.0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoter	60.9	60.9	50.4	60.9	60.9
FII	14.9	14.3	14.2	13.8	13.4
DII	2.4	2.6	2.7	2.9	3.3
Others	21.8	22.2	32.7	22.4	22.4

Recent Activity

Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
First State Investments (Singapore)	1.16	0.13	Aberdeen Asset Managers Ltd.	-4.70	-0.54
Kotak Mahindra Asset Management Company Ltd.	0.55	0.06	Fidelity Management & Research (Hong Kong) Limited	-3.67	-0.42
The Vanguard Group, Inc.	0.09	0.01	Norges Bank Investment Management (NBIM)	-1.04	-0.12
Asset Management One Co., Ltd.	0.06	0.00	Amundi Hong Kong Limited	-0.58	-0.05
HSBC Global Asset Management (Hong Kong) Limited	0.04	0.00	Fidelity Management & Research Company	-0.26	-0.03

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Revenue	5,093.0	6,174.3	8,209.9	9,658.0	
Growth (%)	-17%	21%	33%	18%	
Raw material Costs	3837.9	4678.0	6607.8	7783.4	
Employee Costs	122.7	139.0	153.9	173.8	
Other Expenditure	383.4	462.3	523.0	579.5	
Op. Expenditure	4343.9	5279.3	7284.7	8536.7	
EBITDA	749.0	895.1	925.2	1,121.3	
Growth (%)	3.3	19.5	3.4	21.2	
Depreciation	257.3	271.8	284.0	308.5	
EBIT	491.7	623.2	641.2	812.8	
Interest	209.0	196.1	186.2	153.2	
Other Income	26.1	35.7	99.2	51.0	
PBT	308.9	462.9	554.1	710.7	
Growth (%)	11.2	49.9	19.7	28.2	
Tax	85.8	171.5	188.0	241.6	
Reported PAT	223.1	291.4	366.1	469.0	
Growth (%)	24.9	30.6	25.7	28.1	
Adjustments	0.0	0.0	0.0	0.0	
Adj. Net Profit	223.1	291.4	366.1	469.0	
EPS	16.2	21.2	26.6	34.1	

Source: Company, ICICI Direct Research

Cash flow statement		₹ crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit after Tax	223.1	291.4	366.1	469.0	
Add: Depreciation	257.3	271.8	284.0	308.5	
Add: Others	-1.6	60.6	50.0	50.0	
Cash Profit	478.8	623.8	700.2	827.6	
Increase/(Decrease) in CL	170.2	159.4	309.7	336.2	
(Increase)/Decrease in CA	-91.1	-98.0	4.9	-149.6	
CF from Operating Activities	557.9	685.2	1014.9	1014.1	
Purchase of Fixed Assets	523.7	435.4	552.0	550.0	
(Inc)/Dec in Investments	52.2	52.2	1.3	0.0	
Others	0.0	0.0	0.0	1.0	
CF from Investing Activities	-471.5	-383.3	-550.6	-550.0	
Inc/(Dec) in Loan Funds	-5.7	-136.6	-275.0	-275.0	
Inc/(Dec) in Sh. Cap. & Res.	-46.3	-40.1	0.0	0.0	
Less: Dividend Paid	41.4	49.7	145.2	177.4	
Others	0.0	0.0	0.0	1.0	
CF from financing activities	-93.4	-226.5	-420.2	-451.4	
Change in cash Eq.	-7.0	75.5	44.1	11.7	
Op. Cash and cash Eq.	67.9	60.9	136.4	180.4	
Cl. Cash and cash Eq.	60.9	136.4	180.4	192.2	

Source: Company, ICICI Direct Research

Balance sheet		₹ crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Source of Funds					
Equity Capital	137.7	137.7	137.7	137.7	
Preference capital	0.0	0.0	0.0	0.0	
Reserves & Surplus	1,507.3	1,708.8	1,929.8	2,221.4	
Shareholder's Fund	1,644.9	1,846.5	2,067.5	2,359.1	
Loan Funds	2,350.9	2,214.3	1,939.3	1,664.3	
Deferred Tax Liability	984.9	1,045.5	1,095.5	1,145.5	
Minority Interest	0.0	0.0	0.0	0.0	
Source of Funds	4,980.7	5,106.3	5,102.2	5,168.9	
Application of Funds					
Gross Block	5,917.0	6,362.2	6,937.2	7,512.2	
Less: Acc. Depreciation	1,014.5	1,269.5	1,551.6	1,860.1	
Net Block	4,902.5	5,092.7	5,385.6	5,652.1	
Capital WIP	504.9	478.3	453.3	428.3	
Total Fixed Assets	5,407.4	5,571.0	5,839.0	6,080.4	
Investments	69.6	17.4	16.1	16.1	
Inventories	41.7	56.8	56.2	66.2	
Debtor	347.5	391.7	359.9	423.4	
Cash	60.9	136.4	180.4	192.2	
Loan & Advance, Other CA	421.4	460.1	487.5	563.8	
Total Current assets	871.4	1,045.0	1,084.1	1,245.5	
Current Liabilities	1,327.8	1,488.8	1,687.0	1,984.5	
Provisions	39.9	38.3	149.9	188.5	
Total CL and Provisions	1,367.7	1,527.1	1,836.9	2,173.1	
Net Working Capital	-496.3	-482.2	-752.8	-927.6	
Miscellaneous expense	0.0	0.0	0.0	0.0	
Application of Funds	4,980.7	5,106.3	5,102.2	5,168.9	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY17	FY18	FY19E	FY20E	
Per share data (₹)					
Book Value	119.5	134.1	150.2	171.3	
Cash per share	4.5	10.0	13.1	14.0	
EPS	16.2	21.2	26.6	34.1	
Cash EPS	34.9	40.9	47.2	56.5	
DPS	3.0	7.0	9.0	11.0	
Profitability & Operating Ratios					
EBITDA Margin (%)	14.7	14.5	11.3	11.6	
PAT Margin (%)	4.4	4.7	4.5	4.9	
Fixed Asset Turnover (x)	0.9	1.1	1.4	1.6	
Inventory Turnover (Days)	3.0	3.4	2.5	2.5	
Debtor (Days)	24.9	23.2	16.0	16.0	
Current Liabilities (Days)	95.2	88.0	75.0	75.0	
Return Ratios (%)					
RoE	13.6	15.8	17.7	19.9	
RoCE	12.3	15.3	16.0	20.2	
RoIC	12.5	15.9	16.8	21.2	
Valuation Ratios (x)					
PE	39.4	30.1	24.0	18.7	
Price to Book Value	5.3	4.8	4.2	3.7	
EV/EBITDA	14.8	12.1	11.4	9.1	
EV/Sales	2.2	1.8	1.3	1.1	
Leverage & Solvency Ratios					
Debt to equity (x)	1.4	1.2	0.9	0.7	
Interest Coverage (x)	2.4	0.0	0.0	0.0	
Debt to EBITDA (x)	1.0	2.0	2.0	3.0	
Current Ratio	0.6	0.7	0.6	0.6	
Quick ratio	0.6	0.6	0.6	0.5	

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Bharat Petroleum (BHAPET)	269	275	Hold	58,353	40.3	30.4	28.7	6.6	6.7	8.8	7.0	6.5	6.9	16.9	15.7	12.6	27.1	23.2	17.4
Castrol India (CASIND)	148	155	Hold	14,639	6.8	7.0	6.8	21.7	21.2	21.7	13.7	13.4	14.0	97.8	96.8	270.9	68.8	67.8	189.4
GAIL (India) (GAIL)	371	450	Buy	83,661	15.5	20.5	26.7	23.9	18.1	13.9	13.6	10.9	8.7	11.7	14.7	17.3	9.2	11.5	13.7
Gujarat Gas (GUJGA)	638	750	Buy	8,784	16.2	21.2	26.6	39.4	30.1	24.0	14.8	12.1	11.4	12.3	15.3	16.0	13.6	17.7	19.9
Gujarat State Petronet (GSPL)	183	200	Hold	10,309	8.8	11.9	15.8	20.8	15.4	11.6	12.3	11.9	7.8	13.8	11.6	17.3	11.0	13.2	15.4
Gulf Oil Lubricants (GULO)	703	910	Hold	3,485	23.7	31.9	34.7	29.7	22.1	22.1	18.7	14.5	12.1	32.5	31.5	35.3	34.2	33.9	30.3
Hindustan Petroleum (HINPET)	230	215	Hold	35,088	13.6	13.9	10.1	5.7	5.5	7.6	5.3	5.2	6.3	19.3	17.5	12.8	30.5	26.5	18.7
Indraprastha Gas (INDGAS)	253	295	Hold	17,710	8.2	9.6	10.1	31.0	26.4	25.1	17.7	15.4	14.5	27.2	26.5	24.3	19.5	19.1	17.6
Mahanagar Gas Ltd (MAHGAS)	854	995	Hold	8,436	39.8	48.4	50.7	21.4	17.7	16.9	12.9	10.7	9.8	29.8	31.9	30.0	21.4	22.8	21.5
Mangalore Refinery (MRPL)	82	95	Buy	14,372	20.8	12.8	9.9	3.9	6.4	8.3	4.5	3.7	3.1	21.6	23.2	17.1	36.2	14.6	15.0
Petronet LNG (PETLNG)	220	275	Buy	33,000	6.1	13.9	14.7	19.3	15.9	15.0	NA	NA	NA	21.4	25.9	28.7	21.1	21.4	21.7

Source: Company, ICICI Direct Research

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