

Estimate changes 

 TP change 

 Rating change 

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Bloomberg	GUJGA IN
Equity Shares (m)	688
M.Cap.(INRb)/(USDb)	196.6 / 2.5
52-Week Range (INR)	313 / 154
1, 6, 12 Rel. Per (%)	9/44/69
12M Avg Val (INR M)	198

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	103.0	102.4	133.3
EBITDA	16.3	15.6	19.7
PAT	11.9	8.5	11.6
EPS (INR)	17.3	12.3	16.8
EPS Gr. (%)	177.8	-28.8	36.4
BV/Sh.(INR)	47.8	57.5	70.8
Ratios			
Net D:E	0.6	0.4	0.3
RoE (%)	43.6	23.4	26.2
RoCE (%)	29.8	24.9	29.8
Payout (%)	8.7	21.2	21.2
Valuations			
P/E (x)	16.2	22.7	16.6
P/BV (x)	5.9	4.9	4.0
EV/EBITDA (x)	12.5	12.8	9.6
Div. Yield (%)	0.4	0.8	1.1
FCF Yield (%)	6.6	4.1	7.0

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	60.9	60.9	60.9
DII	7.0	6.3	3.9
FII	9.8	11.1	12.8
Others	22.2	21.8	22.4

FII Includes depository receipts

CMP: INR286
TP: INR370 (+30%)
Buy

Robust volume growth continues

- GUJGA's 4QFY20 EBITDA was 4% higher than estimate. This was led by higher-than-expected volumes at ~9.9mmscmd (of this, industrial volumes stood at 7.7mmscmd) with EBITDA/scm at INR4.7/scm in the quarter.
- The growth in FY20 is completely attributable to Morbi, where the overnight shift to gas from dirtier fuel led to the huge demand boost. PNG I/C clocked growth of 61% YoY to 7.4mmscmd (up 2.8mmscmd) in FY20, while CNG/PNG-Domestic grew 4%/7% YoY. According to the NGT's list of critically/severely polluted industrial clusters, Gujarat has five clusters where the volume boost (like Morbi) could come up.
- Thus, GUJGA has a huge advantage of volume boost from the NGT's stringent directives, which should drive volume CAGR of ~10% over the medium term on the highest volume base among its peers.
- We reiterate GUJGA as our top buy (at INR370 valuing it at 22x FY22E EPS), with best RoE profile of ~24-26% and expected FCF generation of ~INR21.3b over the next 2 years (~11% of its current market cap).

Strong volumes drive marginal beat on EBITDA

- EBITDA/scm was marginally lower than est. at INR4.7/scm (v/s est. INR5.0), however, it was higher YoY and QoQ (v/s INR4.3 in 4QFY19 and 3QFY20).
- Reported EBITDA was 4% higher than estimate at INR4.3b (+68% YoY), led by better-than-expected volumes. Tax rate for the quarter stood at 23.9%. PAT came in at INR2.5b (v/s est. +9%, 2x YoY).
- **Total volumes were higher than est. at 9.9mmscmd (+53% YoY).**
- PNG I/C stood at 7.8mmscmd (v/s est. +10%, +78% YoY) – Industrial volumes came in at 7.7mmscmd.
- PNG Domestic was also higher than est. at 0.7mmscmd (+4% YoY, +14% QoQ). CNG volumes were in line at 1.5mmscmd (flat YoY, -3% QoQ).

FY20 growth completely attributable to Morbi

- EBITDA/scm margin stood at INR4.7 (up 15% YoY), while total volumes were up 44% YoY to 9.4mmscmd for FY20. Thus, reported EBITDA stood 66% higher YoY at INR16.3b, while PBT turned 2x YoY to INR12.1b.
- The company has adopted the new tax rate and measured its DTL during 2QFY20, which led to deferred tax realization of INR3.0b.
- The average tax rate for the year stood at 1.2%, resulting in adj. PAT coming in at INR11.9b (v/s INR4.3b in FY19).

COVID-led impact on GUJGA

- Owing to the nationwide lockdown, GUJGA had invoked the provision of force majeure under the gas purchase agreement with its suppliers, thus securing themselves against any liability.
- **However, with gradual lifting of the lockdown, several units at Morbi have resumed operations.** The company is also ramping up its capacity at Morbi to enable it to handle ~8mmscmd.
- Our recent interactions with the company suggests that demand for Industrial volumes is also picking up from Pharma units in Panoli, Ankleshwar and Vapi, along with higher volume off-take by chemicals and pesticide companies.

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- We believe that while lockdowns have affected demand, the city gas distribution (CGD) companies would be able to partially compensate the lost volumes through better margins.

Valuation and view

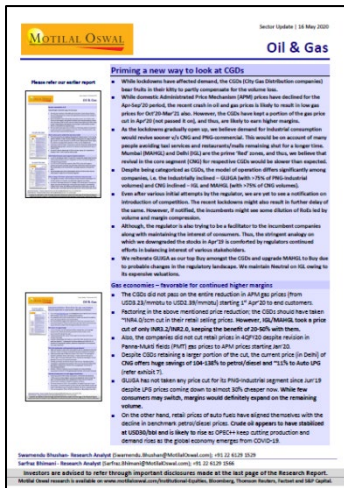
- According to 'Shell LNG Outlook 2020', global LNG demand is expected to double by 2040 with incremental demand primarily coming in from the Power (~40%) and Industrial sector (~28%). Transportation sector demand growth, however, is expected at only ~9% over the next two decades.
- We believe that industrial volumes (further supported by NGT reforms in India) would be a clear winner for long-term growth.
- On a conservative basis, we take a sales volume of 9mmscmd for FY21 against 9.4mmscmd in FY20 and 11.3mmscmd for FY22, with EBITDA/scm of INR4.8 for FY21/22E (unchanged).
- GUJGA is trading at 22.7x FY21 EPS of INR12.3 and 12.8x FY21 EV/EBITDA. We value the company at 22x FY22E EPS to arrive at a target price of INR370.
- Also, assuming 5% terminal growth rate for GUJGA, the DCF-derived target price stands at INR433, implying an upside of ~55%. **We reiterate GUJGA as our top Buy amongst the CGDs.**

Standalone - Quarterly Earning Model

(INR M)

Y/E March	FY19				FY20				FY19	FY20	FY20	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	17,651	19,643	21,174	19,076	26,146	25,129	25,062	26,666	77,544	1,03,003	28,209	-5.5
YoY Change (%)	19.4	41.2	34.8	10.0	48.1	27.9	18.4	39.8	25.6	32.8	47.9	
Total Expenditure	15,166	18,036	17,962	16,534	21,481	21,423	21,357	22,400	67,698	86,661	24,124	
EBITDA	2,486	1,607	3,212	2,541	4,665	3,706	3,705	4,267	9,846	16,343	4,086	4.4
Margins (%)	14.1	8.2	15.2	13.3	17.8	14.7	14.8	16.0	12.7	15.9	14.5	
Depreciation	707	724	728	722	779	802	795	805	2,880	3,180	803	0.2
Interest	486	494	485	497	510	528	465	420	1,962	1,922	496	-15.3
Other Income	584	188	154	187	225	237	186	189	1,113	837	232	-18.6
PBT	1,878	578	1,975	1,508	3,602	2,614	2,632	3,230	5,939	12,078	3,018	7.0
Rate (%)	35.3	28.9	30.1	22.7	35.1	-97.9	25.3	23.9	29.8	1.2	25.2	
Reported PAT	1,214	411	1,380	1,165	2,337	5,173	1,965	2,458	4,170	11,933	2,258	8.9
Adj PAT	1,214	411	1,505	1,165	2,337	5,173	1,965	2,458	4,296	11,933	2,258	8.9
YoY Change (%)	16.3	-32.8	150.9	76.7	92.5	1,159.4	30.6	111.0	47.4	177.8	93.7	
Total volume (mmscmd)	6.4	6.7	6.6	6.5	9.2	9.3	9.3	9.9	6.5	9.4	9.2	8.5
CNG	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.5	1.4	1.5	1.5	0.6
PNG - Industrials/commercial	4.6	4.7	4.6	4.4	7.2	7.3	7.2	7.8	4.6	7.4	7.1	10.3
PNG - Households	0.4	0.5	0.5	0.6	0.5	0.5	0.6	0.7	0.5	0.6	0.6	6.3
EBITDA (INR/scm)	4.2	2.6	5.3	4.3	5.6	4.3	4.3	4.7	4.1	4.7	5.0	-4.8

E: MOFSL Estimates



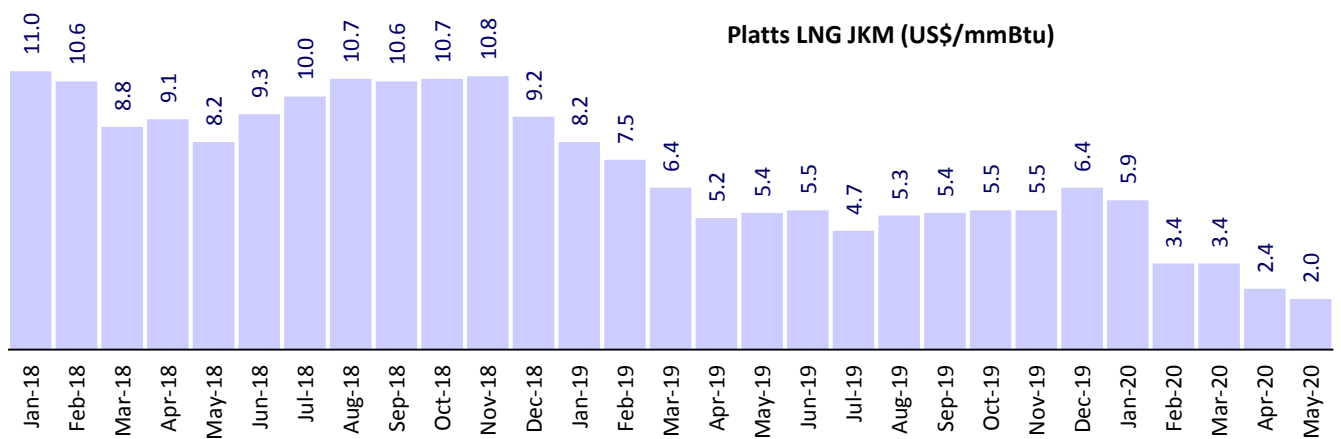
Volume growth prospects (from new CNG station and new GAs)

- **GUJGA is expected to come up with ~100 CNG stations over the next three years. This should increase the reach of CNG in Gujarat and encourage conversion.**
- **With increasing number of CNG stations and focus on reducing vehicular pollution, penetration in the CNG segment is expected to increase.**
- Gujarat is home to ~78,000 buses, 90,000 taxis and 8.5lac autos (link). However, GUJGA sells only 1.5mmcmd of CNG compared to 4.9mmcmd by IGL. With improving ecosystem, CNG holds bright future for GUJGA.
- **Volume growth would also come from new GAs (6) across India won by GUJGA in the 10th round – (a) Sirsa, Fatehabad and Mansa , (b) Ujjain, Dewas and Indore, (c) Jhabua, Banswara, Ratlam and Dungarpur, (d) Ferozepur, Faridkot and Sri Muktsar Sahib, (e) Hoshiarpur and Gurdaspur, and (f) Jalore and Sirahi.**
- Gujarat is also facilitated by better availability of gas and pipeline infrastructure and already has a high market share of natural gas in its energy mix (~25%).
- Rajkot, Ankleshwar, Batala, Bhavnagar, Tarapur and Vapi have been categorized as critically and severely polluted areas. **Replacement of dirty industrial fuel could support further volume growth for the company.**

Gas cost (long term, APM and spot prices) snapshot

- **GUJGA has a long-term contract with Shell, which would expire gradually by 2024. Volumes under the contract have already reduced from 2.5mmcmd to 2.2mmcmd, and are expected to further decline to 2mmcmd (starting CY20). However, replacement by low-cost LNG would improve profitability.**
- Also, the long-term contracts (which are average of the last 3/6-month Brent prices – down ~60-65%) are expected to see a downward revision in FY21 owing to the crash in crude prices over recent months.
- Domestic APM prices have also declined for the Apr-Sep’20 period. **The recent demand destruction due to COVID-19 has led to huge inventory build-up and spot prices have tumbled ~USD2/mmBtu currently (article).**
- Assuming APM and LT contracts are crude linked, GUJGA has the highest spot volumes of ~43% v/s ~10-14% for IGL and MAHGL.

Exhibit 1: Spot prices continue to decline amid global supply glut at ~USD2/mmBtu currently

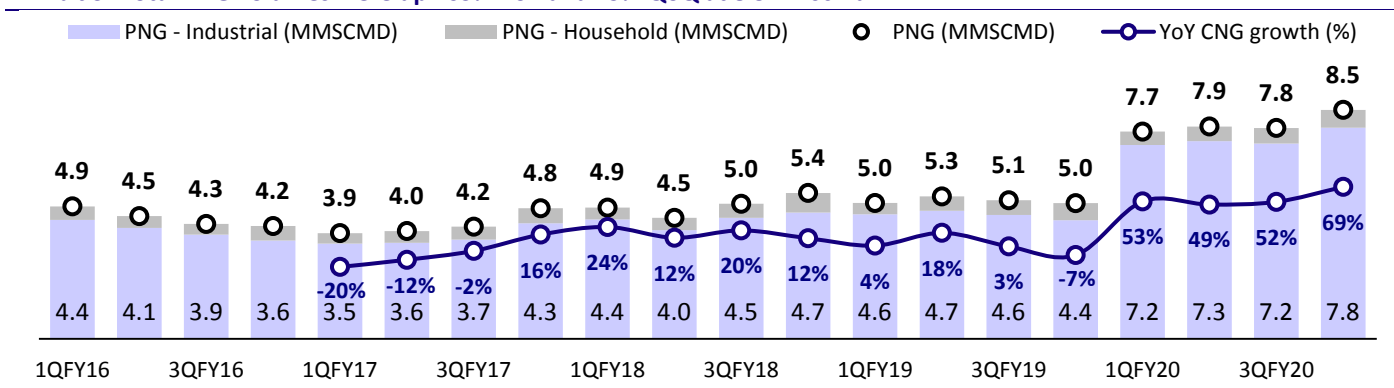


Source: Company, Meti, MOFSL

Exhibit 2: Key valuations

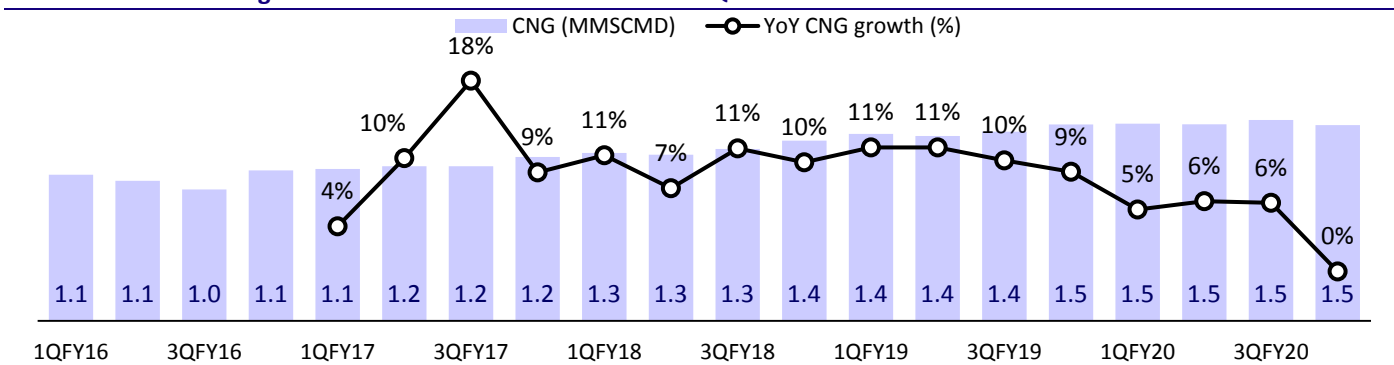
INR Million	FY19				FY20				4QFY20	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY (%)	QoQ (%)
Net sales	17,651	19,643	21,174	19,076	26,146	25,129	25,062	26,666	40%	6%
Realization (INR/scm)	30.1	32.0	35.1	32.6	31.4	29.3	29.2	29.5	-10%	1%
Total raw material	13,509	16,433	16,267	14,632	19,521	19,551	19,482	20,263	38%	4%
Gas cost (INR/scm)	23.1	26.8	27.0	25.0	23.4	22.8	22.7	22.4	-10%	-2%
Gross Margin	4,143	3,211	4,907	4,444	6,626	5,578	5,580	6,403	44%	15%
Gross Margin (INR/scm)	7.1	5.2	8.1	7.6	8.0	6.5	6.5	7.1	-7%	9%
EBITDA	2,486	1,607	3,212	2,541	4,665	3,706	3,705	4,267	68%	15%
EBITDA (INR/scm)	4.2	2.6	5.3	4.3	5.6	4.3	4.3	4.7	9%	9%
PAT	1,214	411	1,380	1,165	2,337	5,173	1,965	2,458	NM	25%
PAT (INR/scm)	2.1	0.7	2.3	2.0	2.8	6.0	2.3	2.7	36%	18%

Exhibit 3: Total PNG volumes were up ~69% YoY and +9% QoQ at 8.5mmscmd



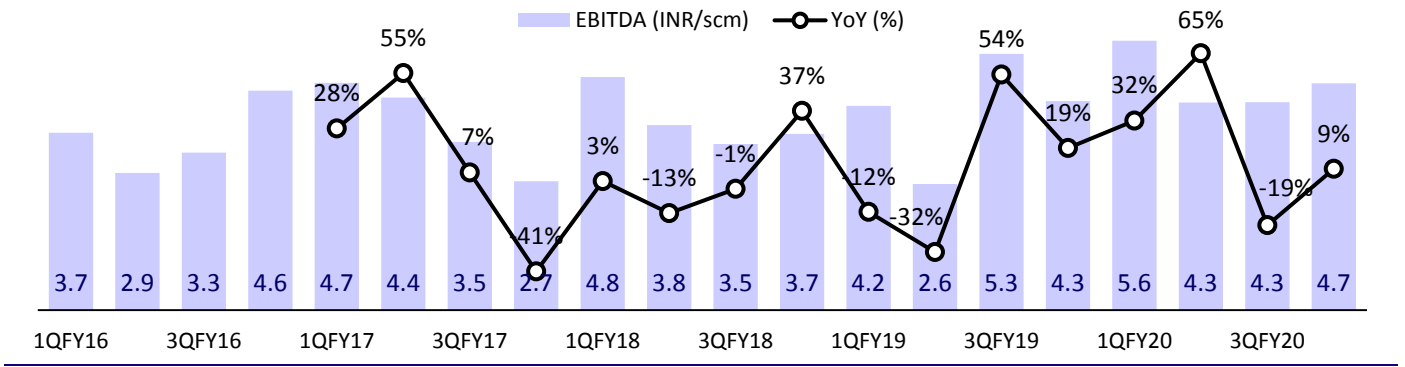
Source: Company, MOFSL

Exhibit 4: CNG volume growth was flat YoY at ~1.5mmscmd in 4QFY20



Source: Company, MOFSL

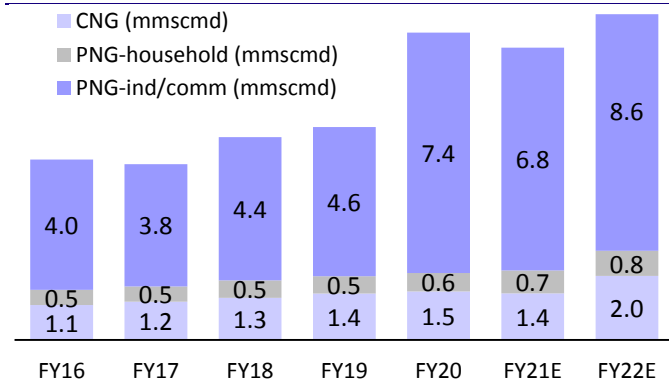
Exhibit 5: EBITDA/scm stood at INR4.7 in 4QFY20 (~9% higher both YoY and QoQ)



Source: Company, MOFSL

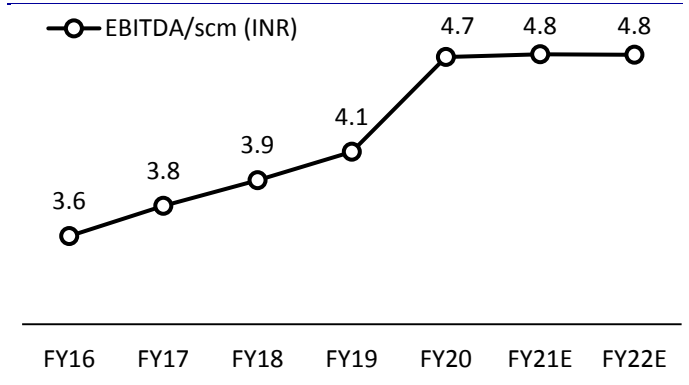
Story in charts

Exhibit 6: PNG – I/C to boost volume growth



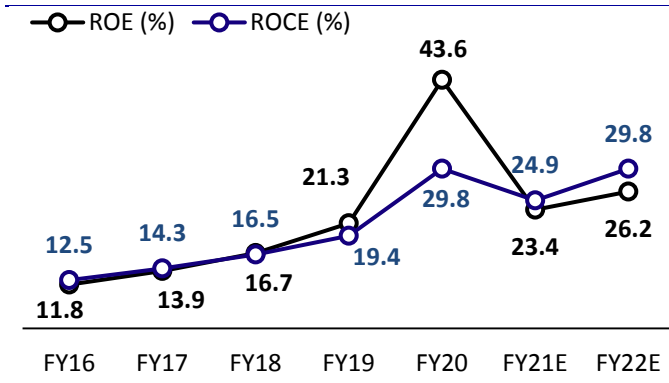
Source: Company, MOFSL

Exhibit 7: EBITDA/scm to normalize ~INR4.5 in FY21/22E



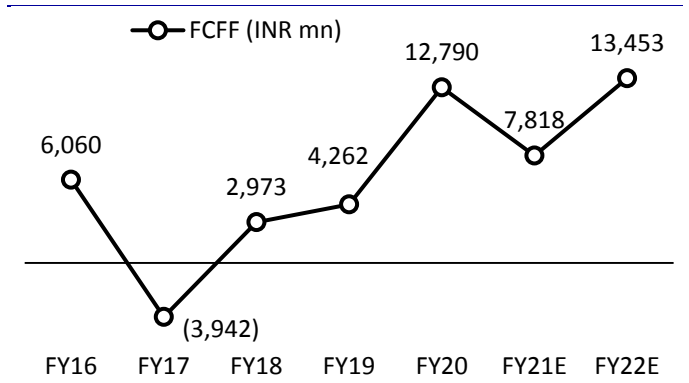
Source: Company, MOFSL

Exhibit 8: Return ratios



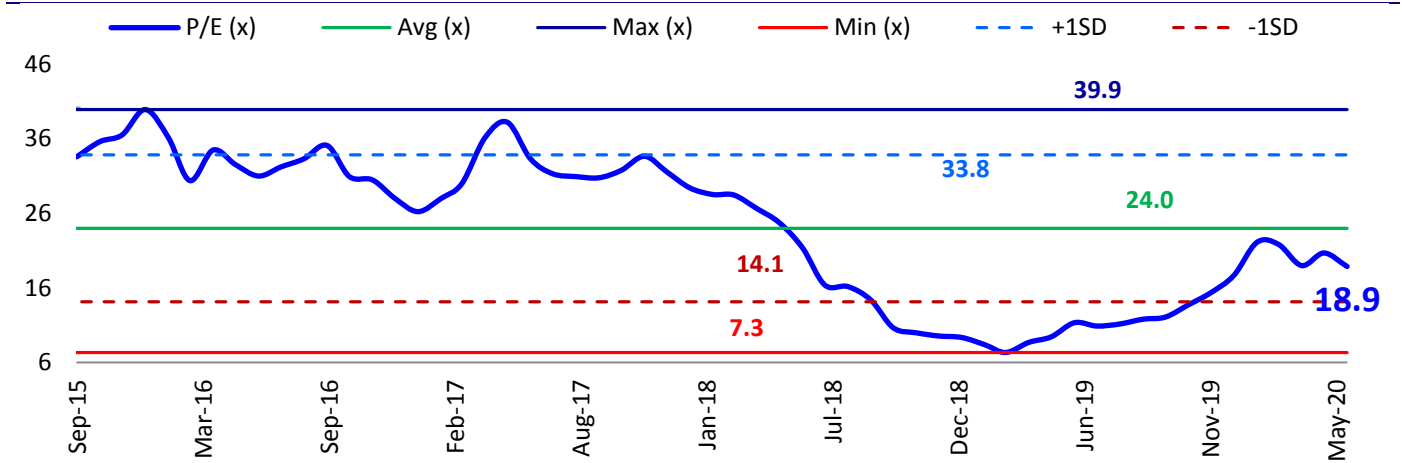
Source: Company, MOFSL

Exhibit 9: Free cash flow



Source: Company, MOFSL

Exhibit 10: 1-year forward GUJGA P/E trades at ~21% discount to its LT average of 24x



Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Income from Operations	90,063	61,059	50,926	61,743	77,544	1,03,003	1,02,375	1,33,289
Total Income from Operations	90,063	61,059	50,926	61,743	77,544	1,03,003	1,02,375	1,33,289
Change (%)	15.5	-32.2	-16.6	21.2	25.6	32.8	-0.6	30.2
EBITDA	11,062	7,264	7,433	8,951	9,846	16,343	15,598	19,699
Margin (%)	12.3	11.9	14.6	14.5	12.7	15.9	15.2	14.8
Depreciation	2,377	2,457	2,573	2,718	2,880	3,180	3,357	3,466
EBIT	8,685	4,808	4,860	6,232	6,966	13,163	12,241	16,233
Int. and Finance Charges	3,332	2,475	2,090	1,961	1,962	1,922	1,853	1,800
Other Income	1,071	445	263	357	1,113	837	961	1,043
PBT bef. EO Exp.	6,424	2,779	3,033	4,628	6,117	12,078	11,349	15,476
EO Items	-10	-256	0	0	-179	0	0	0
PBT after EO Exp.	6,414	2,523	3,033	4,628	5,939	12,078	11,349	15,476
Current Tax	1,979	648	838	1,715	1,768	145	2,857	3,895
Tax Rate (%)	30.8	25.7	27.6	37.0	29.8	1.2	25.2	25.2
Less: Mionrity Interest	0	0	0	0	0	0	0	0
Reported PAT	4,436	1,875	2,195	2,914	4,170	11,933	8,493	11,581
Adjusted PAT	4,443	2,065	2,195	2,914	4,296	11,933	8,493	11,581
Change (%)	1,323.3	-53.5	6.3	32.7	47.4	177.8	-28.8	36.4
Margin (%)	4.9	3.4	4.3	4.7	5.5	11.6	8.3	8.7

Standalone - Balance Sheet

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	1,377	1,377	1,377	1,377	1,377	1,377	1,377	1,377
Total Reserves	18,532	13,718	15,072	17,087	20,463	31,529	38,218	47,339
Net Worth	19,909	15,095	16,449	18,464	21,840	32,906	39,595	48,716
Deferred Tax Liabilities	3,528	9,865	9,849	10,455	10,816	8,005	8,005	8,005
Total Loans	31,960	17,066	22,987	22,143	20,892	18,344	15,344	12,344
Capital Employed	55,397	42,025	49,285	51,062	53,547	59,255	62,943	69,064
Gross Block	50,114	54,153	59,393	64,021	68,861	73,531	75,672	78,386
Less: Accum. Deprn.	5,247	7,704	10,376	13,094	15,974	19,154	22,511	25,977
Net Fixed Assets	44,867	46,449	49,017	50,927	52,887	54,377	53,161	52,408
Capital WIP	3,574	4,682	5,071	4,797	4,902	5,708	8,567	10,853
Total Investments	10,990	1,218	683	161	160	1,633	1,633	1,633
Curr. Assets, Loans&Adv.	9,495	7,544	8,714	10,449	13,326	17,255	19,317	29,659
Inventory	411	413	417	568	694	463	463	606
Account Receivables	3,606	3,005	3,475	3,917	5,103	5,101	5,070	6,601
Cash and Bank Balance	2,378	678	608	1,363	3,092	6,919	9,041	16,277
Loans and Advances	3,101	3,447	4,214	4,601	4,437	4,772	4,743	6,175
Curr. Liability & Prov.	13,529	17,868	14,199	15,271	17,727	19,718	19,735	25,490
Account Payables	4,262	2,515	3,140	2,931	3,523	3,670	3,675	4,810
Other Current Liabilities	8,193	14,986	10,660	11,957	13,724	15,015	14,923	19,429
Provisions	1,074	367	399	383	480	1,033	1,137	1,250
Net Current Assets	-4,034	-10,324	-5,485	-4,822	-4,402	-2,464	-418	4,169
Appl. of Funds	55,397	42,025	49,285	51,062	53,548	59,255	62,943	69,064

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March (INR)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
EPS	0.5	6.5	3.0	3.2	4.2	6.2	17.3	12.3	16.8
Cash EPS	4.6	9.9	6.6	6.9	8.2	10.4	22.0	17.2	21.9
BV/Share	23.8	28.9	21.9	23.9	26.8	31.7	47.8	57.5	70.8
DPS	0.0	1.0	0.5	0.6	0.8	1.0	1.3	2.2	3.0
Payout (%)	0.0	18.7	22.1	22.6	22.8	19.9	8.7	21.2	21.2
Valuation (x)									
P/E	617.5	43.4	93.3	87.8	66.2	44.9	16.2	22.7	16.6
Cash P/E	61.4	28.3	42.6	40.4	34.2	26.9	12.8	16.3	12.8
P/BV	11.8	9.7	12.8	11.7	10.4	8.8	5.9	4.9	4.0
EV/Sales	2.9	2.5	3.4	4.2	3.5	2.7	2.0	1.9	1.4
EV/EBITDA	39.0	20.1	28.8	28.9	23.9	21.4	12.5	12.8	9.6
Dividend Yield (%)	0.0	0.4	0.2	0.2	0.3	0.4	0.4	0.8	1.1
FCF per share	1.1	12.0	8.8	-5.7	4.3	6.2	18.6	11.4	19.5
Return Ratios (%)									
RoE	3.8	24.5	11.8	13.9	16.7	21.3	43.6	23.4	26.2
RoCE	16.2	19.2	12.5	14.3	16.5	19.4	29.8	24.9	29.8
Working Capital Ratios									
Asset Turnover (x)	1.5	1.6	1.5	1.0	1.2	1.4	1.7	1.6	1.9
Inventory (Days)	2	2	2	3	3	3	2	2	2
Debtor (Days)	26	15	18	25	23	24	18	18	18
Creditor (Days)	25	17	15	23	17	17	13	13	13
Working Cap. Turnover (Days)	-25	-26	-66	-44	-37	-35	-33	-34	-33
Leverage Ratio (x)									
Current Ratio	0.8	0.7	0.4	0.6	0.7	0.8	0.9	1.0	1.2
Interest Cover Ratio	1.0	2.6	1.9	2.3	3.2	3.6	6.8	6.6	9.0
Debt/Equity	2.0	1.6	1.1	1.4	1.2	1.0	0.6	0.4	0.3

Standalone - Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	922	6,414	2,779	3,033	4,628	6,117	12,078	11,349	15,476
Depreciation	2,826	2,377	2,457	2,573	2,718	2,880	3,180	3,357	3,466
Interest & Finance Charges	3,003	3,332	2,029	1,826	1,604	849	1,085	892	756
Direct Taxes Paid	-1,599	-1,461	-648	-838	-1,715	-1,768	-145	-2,857	-3,895
(Inc)/Dec in WC	-309	1,852	4,590	-4,909	92	1,308	1,889	76	2,649
CF from Operations	4,844	12,514	11,207	1,686	7,328	9,386	18,087	12,818	18,453
CF from Operating incl EO	4,119	11,798	11,207	1,686	7,328	9,207	18,266	12,818	18,453
(Inc)/Dec in FA	-3,371	-3,508	-5,147	-5,629	-4,355	-4,945	-5,476	-5,000	-5,000
Free Cash Flow	748	8,290	6,060	-3,942	2,973	4,262	12,790	7,818	13,453
(Pur)/Sale of Investments	-12,397	-2,563	9,773	535	522	0	-1,473	0	0
CF from Investments	-13,394	-5,904	4,815	-4,830	-3,476	-3,832	-6,112	-4,039	-3,957
Issue of Shares	5,000	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	7,923	-756	-14,894	5,921	-844	-1,251	-2,548	-3,000	-3,000
Interest Paid	-1,351	-4,874	-2,475	-2,090	-1,961	-1,962	-1,922	-1,853	-1,800
Dividend Paid	-601	-2	-416	-499	-666	-830	-1,037	-1,804	-2,460
CF from Fin. Activity	10,971	-5,632	-17,721	3,074	-3,098	-3,646	-8,327	-6,657	-7,260
Inc/Dec of Cash	1,696	262	-1,699	-70	754	1,729	3,827	2,122	7,236
Opening Balance	420	2,116	2,378	678	609	1,363	3,092	6,918	9,041
Closing Balance	2,116	2,378	678	609	1,363	3,092	6,918	9,041	16,277

E: MOFSL Estimates

NOTES

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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