

**Target Price ` 1245**
**CMP ` 670**
**FY21E EV/EBITDA 4.6X**
**Index Details**

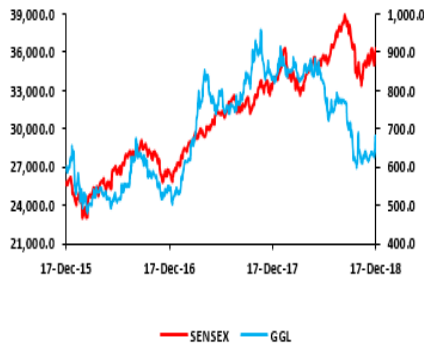
Sensex	35,270
Nifty	10,888
Industry	Integrated Oil & Gas

**Scrip Details**

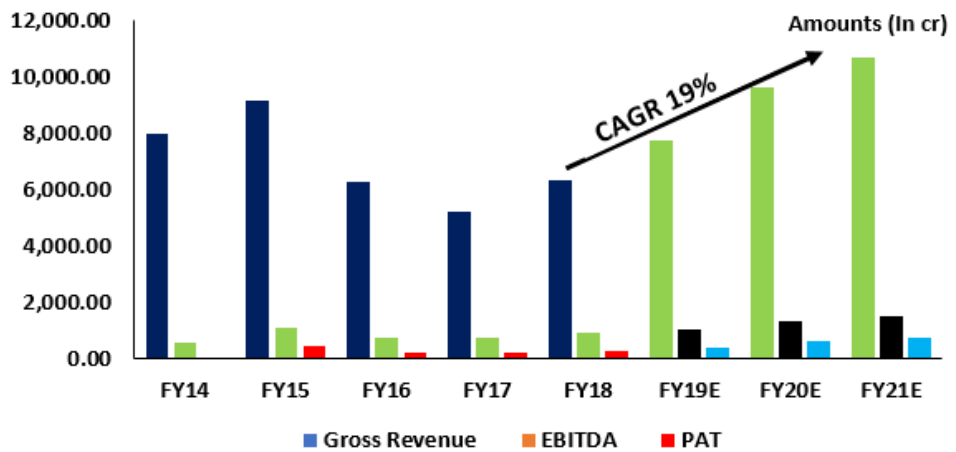
MktCap (` cr)	9,228
BVPS (`)	134.11
O/s Shares (Cr)	13.7
AvVol (Lacs)	0.64
52 Week H/L	955/593
Div Yield (%)	0.36
FVPS (`)	10.0

**Shareholding Pattern**

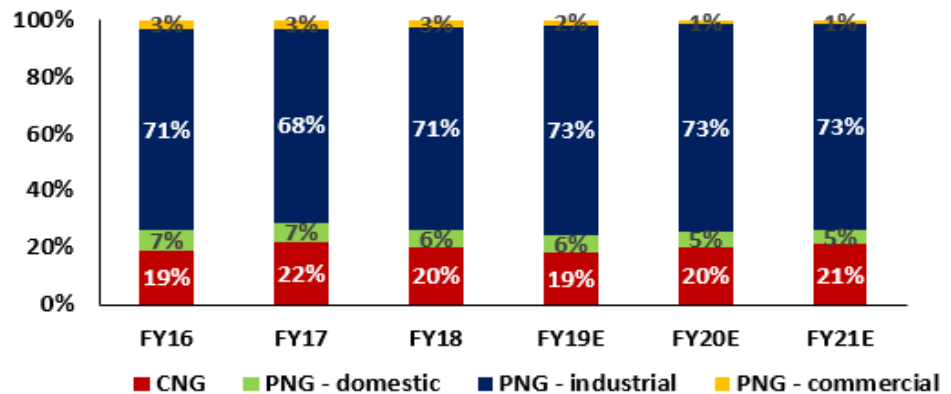
Shareholders	%
Promoters	60.9
Public	39.1
Total	100.0

**GGL vs. Sensex**


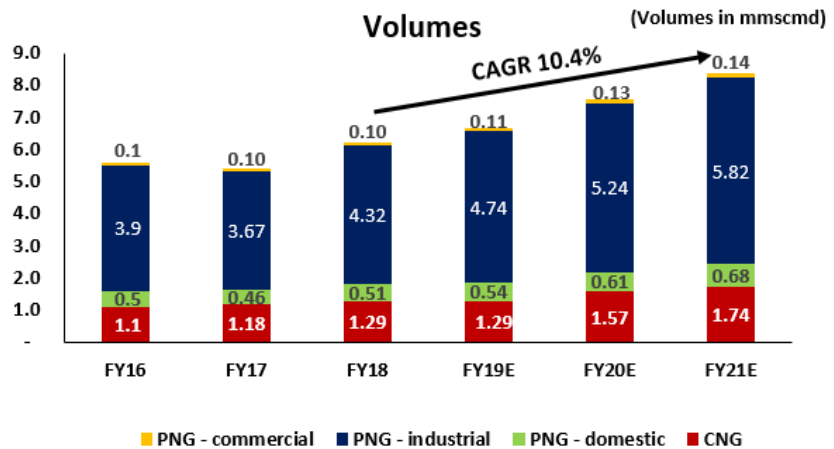
Gujarat Gas driven by a sustainable double-digit volume growth (10% CAGR) and gradual uptick in average realizations (8% CAGR) is expected to clock a revenue growth of 19% CAGR to INR 10,730 cr by FY21. Increasing industrial usage of NG, gradual roll out of CNG pumps and increasing urbanization is expected to contribute to volume growth. With improvement in blended realizations we expect the EBIDTA to grow at a faster CAGR of 18% to INR 1,508 cr over the same period. Net profit is expected to outpace the trend of EBIDTA growth and scale to INR 766 cr (38% CAGR) on the back of subdued capex and lower debt.



Source: Company, Ventura Research

**Segment-wise Revenue**


Source: Company, Ventura Research



Source: Company, Ventura Research

We are extremely optimistic about the long-term volume growth visibility given that ~62% of DMIC passes through the state of Gujarat. Once operational we expect industrial usage of NG to pick up favorably. The Gujarat local transport is expected to migrate to usage of NG post a favorable verdict from the Gujarat High Court. The PIL seeking the ban on diesel-run commercial and public transport vehicles in favor of NG over traditional fuel is pending with the High Court. Given the global concern over deteriorating environment and the fact that India is close to surpassing China as the most polluting country we expect faster migration to green fuels, especially NG. The recent drive by the GOI to have a pan India network with a capex of INR 70,000 crore bears testimony to the same.

❖ **Valuation: -**

We retain our buy on the stock with the revised DCF valuation price target of INR 1,245 which is an upside of 86% over the next 24 months.

**Key DCF Assumptions**

Projected Years	FY19 to FY26
Risk Premium	4.5%
Beta	0.7
Cost of Equity	10.7%
Cost of Debt (After Tax)	6.3%
Target D/E	0.0%
Terminal Growth Rate	4.0%

### ❖ Volume Growth – Remains the key

We expect strong growth across all four segments i.e. PNG Industrial, PNG Domestic, PNG Commercial and CNG.

#### PNG Industrial – Increasing utilization in the offing

Industrial volumes which currently stand at 4.6 mmscmd (Q2FY19) are expected to surge by 11% CAGR to 5.9 mmscmd by FY21 on favorable tail winds and increasing prices of alternative fuels like FO, coal and lignite.

PNG Industrial Volumes and Realizations					
Particulars	FY17	FY18	FY19	FY20	FY21
Volumes (in mmscmd)	3.7	4.3	4.7	5.3	5.9
YoY Growth %		18.0	10.0	12.0	12.0
Average Realisation	26.9	32.8	36.7	36.7	36.8
YoY Growth %		22.0	12.0	0.0	0.0

Source: Company, Ventura Research

#### PNG Domestic – Steady onboarding of consumers

Gujarat Gas enjoys a dominant position in terms of reach of residential customers and volumes. Currently, it has a base of 12,50,000 subscribers expected to reach 15,38,000 by FY21, with volume to grow at a CAGR of 7% from 0.5 mmscmd to 0.6 mmscmd over the forecast period on the back of increasing urbanization.

PNG Domestic Volumes and Realizations					
Particulars	FY17	FY18	FY19	FY20	FY21
Volumes (in mmscmd)	0.4	0.5	0.5	0.6	0.6
YoY Growth %		11.0	6.0	7.0	7.0
Average Realisation	20.4	23.8	24.9	25.1	25.3
YoY Growth %		15.0	7.0	1.0	0.0

Source: Company, Ventura Research

### PNG Commercial – Small segment but growth remains robust

The commercial segment has a minimal share of the revenue and the volume is currently at 0.1 mmscmd and is expected to reach 0.12 mmscmd by FY21 giving a CAGR of 4.7%.

#### PNG Commercial Volumes and Realizations

Particulars	FY17	FY18	FY19	FY20	FY21
Volumes (in mmscmd)	0.1	0.1	0.1	0.1	0.1
YoY Growth %		0.0	10.0	0.0	9.0
Average Realisation	42.0	43.3	43.5	43.9	44.6
YoY Growth %		3.0	1.0	1.0	2.0

Source: Company, Ventura Research

### CNG Segment – High growth potential with strong margins

CNG contributes to around 20% of the revenue and is supported by 291 existing CNG stations. The growth of the CNG segment is sporadic as setting up of new stations requires government sanction. Although, GGL is willing to add 40-50 stations a year the empirical evidence suggests that on an average 15-10 new gas stations have been commissioned in the past. We have assumed the number of stations to grow by 14% to reach a total of 333 CNG stations by FY21 and we expect volumes to grow at the CAGR of 14.3% leading to revenue growth of 23% CAGR to INR. 2,263 cr aided by periodic hikes in average pricing.

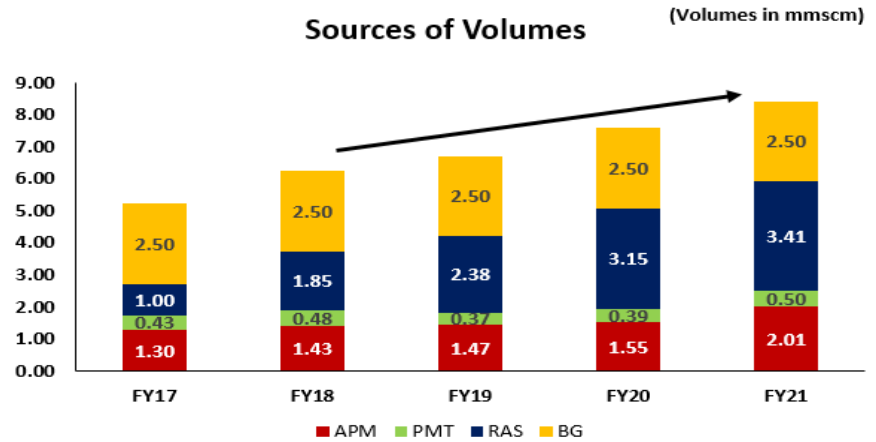
#### CNG Volumes and Realizations

Particulars	FY17	FY18	FY19	FY20	FY21
Volumes (in mmscmd)	1.2	1.3	1.3	1.35	1.4
YoY Growth %		9.0	0.0	5.0	4.0
Average Realisation	34.0	33.8	40	42	42.3
YoY Growth %		-1.0	19.0	5.0	1.0

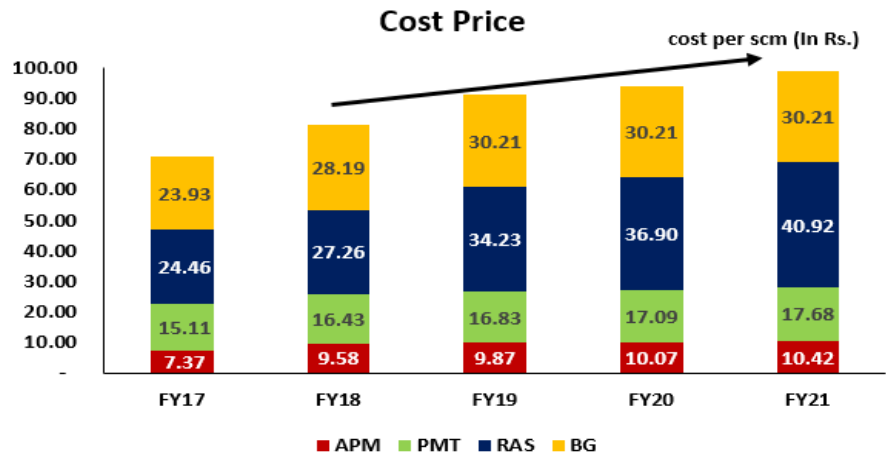
Source: Company, Ventura Research

❖ **Diversified sourcing mix**

Gujarat Gas procures its PNG for its Industrial and Commercial purpose from British Gas and Ras Gas and at spot rates. Procurement for CNG and PNG domestic is sourced from APM and PMT. The cost for the procurement of gas is expected to increase at the CAGR of 8.5% till FY21.



Source: Company, Ventura Research



Source: Company, Bloomberg

❖ **Capital Expenditure to remain subdued going forward: -**

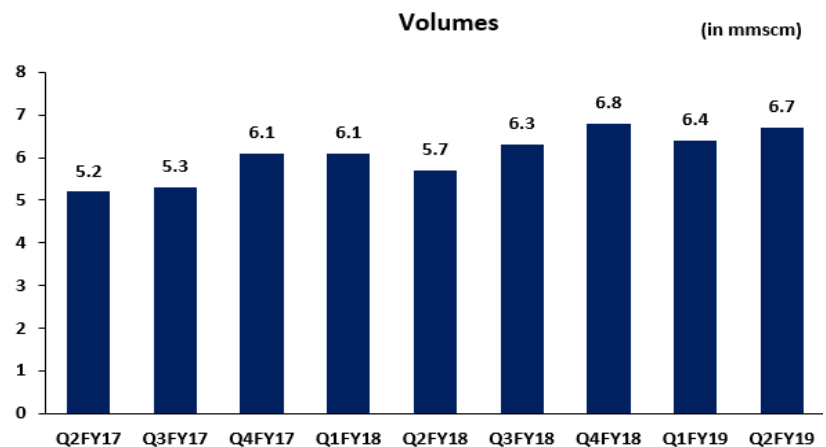
Gujarat Gas is expecting to have a subdued capex of around INR 200 cr annually due to an increase in the utilization of existing network.

❖ **Upside risks to Valuation: -**

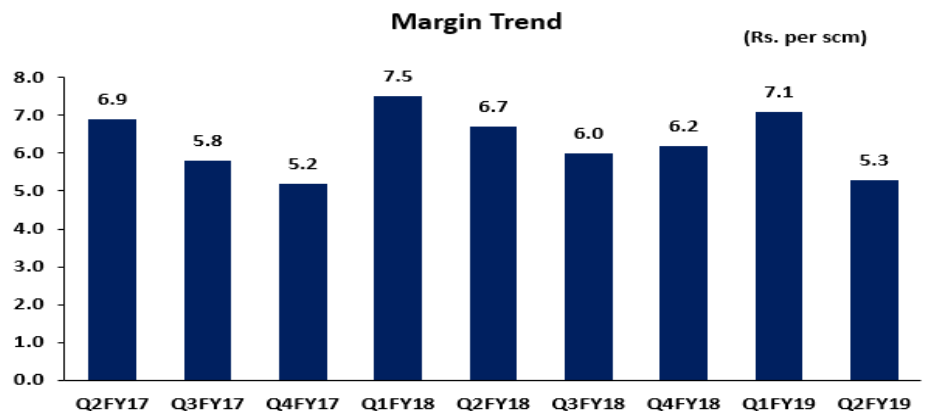
1. In the current scenario of aggressive bidding across the industry, GGL has restrained itself from participating in such an excessively priced bidding for acquiring new geographical areas. It has used its 21 years of presence in the gas industry and is expected to increase its profitability by optimizing its existing 19 districts and expanding its reach in the known territory of Gujarat by way of securing licenses to expand its CGD network across the region.
2. A PIL has been filed with the Gujarat High Court in Dec-15, seeking a ban on diesel-run commercial and public transport vehicles (in Gujarat). The verdict is awaited. With the trend towards clean fuels citing the deterioration of the ambient air quality, we expect a favorable outcome which will give an upward trend to the volumes.
3. The legal battle relating to unauthorized development of CGD network in Ahmedabad district area by the private sector player Adani Gas has culminated in a ruling in favor of Gujarat Gas, upholding the rights of GGL to develop infrastructure for supply of PNG, CNG and natural gas to commercial and industrial units in the areas of Sanand, Bavla and Dholka of Ahmedabad district. Adani Gas has taken the issue to the Supreme Court but, we expect a decision in favour of GGL

❖ **Poor Quarterly Results: -**

1. Gujarat Gas reported a disappointing set of numbers in Q2FY19. Gross margins were impacted due to higher LNG prices and sharp rupee depreciation during the quarter. Despite steady volume growth of 12.9% YoY and 17.5% QoQ to 6.7 mmscmd along with 40.8% YoY and 11.0% growth in revenue to INR 2,013.8 cr EBITDA witnessed a negative growth of 20.7% YoY and 35.3% QoQ to INR 160.7cr. This was on account of a sharp increase in the input cost as the regulated prices of British Gas and Ras Gas were increased with retrospective effect and booked during this quarter. Resultantly net income too suffered, and the company reported a profit of INR 41.2cr against a profit of INR 61.1 cr in Q2FY18 and INR 121.4 cr in Q1FY19.
2. Resultant gross margins declined and came in at Rs. 5.3/scm (-21% YoY & -25% QoQ). However, Gujarat Gas has now taken an appropriate price hike which will help the company recoup the losses in fiscal FY19 itself.



Source: Company, Ventura Research



Source: Company, Ventura Research



### Financial performance (Rs in crores)

Particulars	Q2FY19	YoY	QoQ	Q1FY19	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY17	Q2FY17	Q3FY17	Q4FY17	FY17	FY18
<b>Net Sales</b>	2,013.8	40.8%	11.0%	1,813.5	1,516.9	1,430.2	1,614.4	1,777.8	1,260.2	1,273.5	1,266.5	1,437.7	5,092.6	6,174.3
<b>Growth %</b>	-11.0%			-19.6%	-6.1%	11.4%	9.2%	-41.1%	1.0%	-0.6%	11.9%	71.8%		
Total Expenditure	1,853.1	51.0%	18.4%	1,565.0	1,247.1	1,227.5	1,414.5	1,555.2	1,042.9	1,064.0	1,096.2	1,291.4	4,340.3	5,269.2
<b>EBDITA</b>	160.7	-20.7%	-35.3%	248.6	269.8	202.7	199.9	222.7	217.3	209.4	170.3	146.3	752.3	905.2
<b>EBDITA Margin %</b>	8.0%	-43.7%	-41.8%	13.7%	17.8%	14.2%	12.4%	12.5%	17.2%	16.4%	13.4%	10.2%	14.8%	14.7%
Other Income	18.8	112.2%	-67.8%	58.4	7.8	8.9	9.1	9.9	6.2	5.2	7.9	7.1	26.3	35.7
<b>PBDIT</b>	179.5	-15.1%	-41.5%	307.0	277.7	211.5	209.0	232.6	223.5	214.6	178.1	153.5	778.7	940.9
Depreciation	72.4	6.0%	2.4%	70.7	66.6	68.3	68.8	68.2	63.2	64.5	65.3	64.3	257.3	271.8
Interest	49.4	-1.0%	1.7%	48.6	49.6	49.9	48.7	47.9	53.4	54.1	53.9	47.6	218.0	206.2
Exceptional items	0.0	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>PBT</b>	57.8	-38.1%	-69.2%	187.8	161.5	93.4	91.5	116.5	107.0	95.9	58.9	41.5	303.3	462.8
Tax Provisions	16.7	-48.3%	-74.9%	66.4	57.1	32.3	31.5	50.6	32.1	26.5	16.9	8.4	83.8	171.5
<b>PAT</b>	41.1	-32.8%	-66.2%	121.4	104.4	61.1	60.0	65.9	74.8	69.5	42.1	33.1	219.5	291.4
<b>PAT Margin (%)</b>	2.0%	-52.2%	-69.5%	6.7%	6.9%	4.3%	3.7%	3.7%	5.9%	5.5%	3.3%	2.3%	4.3%	4.7%

Source: Company, Ventura Research



## Financials and Projection

Y/E March, Fig in ` Cr	FY18	FY19E	FY20E	FY21E	Y/E March, Fig in ` Cr	FY18	FY19E	FY20E	FY21E
<b>Profit &amp; Loss Statement</b>					<b>Per Share Data (Rs)</b>				
<b>Net Sales</b>	<b>6,174.3</b>	<b>7,539.4</b>	<b>9,160.5</b>	<b>10,462.1</b>	Adj. EPS	21.1	29.1	43.9	55.6
% Chg.		22.1%	21.5%	14.2%	Cash EPS	40.9	47.1	62.0	74.3
Total Expenditure	5,269.8	6,527.3	7,870.9	8,953.9	DPS	2.3	3.2	4.8	8.1
% Chg.		23.9%	20.6%	13.8%	Book Value	134.1	160.0	199.2	246.7
<b>EBDITA</b>	<b>904.5</b>	<b>1,012.1</b>	<b>1,289.6</b>	<b>1,508.1</b>	<b>Capital, Liquidity, Returns Ratio</b>				
EBDITA Margin %	14.7%	13.4%	14.1%	14.4%	Debt / Equity (x)	1.3	1.0	0.7	0.5
Other Income	35.9	21.3	24.4	29.5	Current Ratio (x)	0.5	0.6	0.9	1.3
<b>PBDIT</b>	<b>940.4</b>	<b>1,033.4</b>	<b>1,314.0</b>	<b>1,537.6</b>	ROE (%)	15.7%	18.2%	22.0%	22.6%
Depreciation	271.8	247.5	249.4	257.4	ROCE (%)	0.2	0.2	0.2	0.2
Interest	206.2	201.0	182.1	161.8	Dividend Yield (%)	0.4%	0.5%	0.8%	1.3%
Exceptional items	0.0	0.0	0.0	0.0	<b>Valuation Ratio (x)</b>				
<b>PBT</b>	<b>462.4</b>	<b>584.9</b>	<b>882.5</b>	<b>1,118.3</b>	P/E	30.1	21.8	14.5	44.4
Tax Provisions	171.8	184.3	278.0	352.3	P/BV	4.7	3.9	3.2	2.6
<b>PAT</b>	<b>290.6</b>	<b>400.7</b>	<b>604.5</b>	<b>766.1</b>	EV/Sales	1.4	1.2	1.0	0.9
PAT Margin (%)	4.7%	5.3%	6.6%	7.3%	EV/EBIDTA	7.0	6.5	5.2	4.6
RM / Sales (%)	76.9%	78.0%	77.0%	76.5%	<b>Efficiency Ratio (x)</b>				
Tax Rate (%)	37.2%	31.5%	31.5%	31.5%	Inventory (days)	3.0	5.0	5.0	6.0
					Debtors (days)	22.0	23.0	23.0	24.0
					Creditors (days)	14.0	13.0	12.0	12.0
<b>Balance Sheet</b>					<b>Cash Flow Statement</b>				
Share Capital	137.7	137.7	137.7	137.7	Profit Before Tax	462.4	584.9	882.5	1118.3
Reserves & Surplus	1,708.7	2,065.8	2,604.4	3,259.2	Depreciation	271.8	247.5	249.4	257.4
Deferred Tax Liabilities (Net)	1,045.5	615.0	727.0	645.8	Working Capital Changes	-24.8	-292.9	-102.0	-118.4
Long Term Borrowings	2,213.0	2,133.0	1,933.0	1,713.0	Others	73.0	11.7	-99.0	-193.3
Long Term Provision	33.4	36.1	39.7	44.4	<b>Operating Cash Flow</b>	<b>782.4</b>	<b>551.3</b>	<b>930.9</b>	<b>1064.1</b>
<b>Total Liabilities</b>	<b>5,138.3</b>	<b>4,987.5</b>	<b>5,441.8</b>	<b>5,800.1</b>	Capital Expenditure	-458.9	-200.0	-200.0	-200.0
Gross Block	6,362.2	6,036.0	6,236.0	6,436.0	Other Investment Activities	27.8	10.6	10.0	10.0
Less: Acc. Depreciation	1,269.5	1,547.0	1,796.5	2,053.9	<b>Cash Flow from Investing</b>	<b>-431.1</b>	<b>-189.4</b>	<b>-190.0</b>	<b>-190.0</b>
Net Block	5,092.7	4,489.0	4,439.5	4,382.1	Changes in Share Capital	0.0	0.0	0.0	0.0
Intangible assets under development	0.0	1.0	1.0	1.0	Changes in Borrowings	-24.8	-94.0	-210.0	-225.0
Capital Work in Progress	478.3	631.6	697.3	551.8	Dividend and Interest	-245.9	-244.6	-247.9	-273.1
Non Current Investments	17.4	15.0	12.0	11.0	<b>Cash Flow from Financing</b>	<b>-270.7</b>	<b>-338.6</b>	<b>-457.9</b>	<b>-498.1</b>
Other Non Current Assets	51.3	52.4	53.4	54.5	<b>Net Change in Cash</b>	<b>80.6</b>	<b>23.3</b>	<b>283.0</b>	<b>376.0</b>
Long term Loans & Advances	291.2	302.8	315.0	327.6	<b>Opening Cash Balance</b>	<b>10.2</b>	<b>91.8</b>	<b>115.5</b>	<b>398.1</b>
Net Current Assets	(792.7)	(504.3)	(76.4)	472.2	<b>Closing Cash Balance</b>	<b>90.8</b>	<b>115.2</b>	<b>398.5</b>	<b>774.1</b>
<b>Total Assets</b>	<b>5,138.3</b>	<b>4,987.5</b>	<b>5,441.8</b>	<b>5,800.1</b>					

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