

BSE SENSEX  
51,325

S&P CNX  
15,119

**CMP: INR479**

**TP: INR560 (+17%)**

**Buy**



**Stock Info**

	GUJGA IN
Bloomberg	GUJGA IN
Equity Shares (m)	688
M.Cap.(INRb)/(USDb)	329.6 / 4.2
52-Week Range (INR)	527 / 191
1, 6, 12 Rel. Per (%)	25/23/42
12M Avg Val (INR M)	330
Free float (%)	39.1

**Financials Snapshot (INR b)**

Y/E March	FY21E	FY22E	FY23E
Sales	96.6	141.6	163.8
EBITDA	20.4	21.9	24.7
PAT	12.3	13.7	16.0
EPS (INR)	17.8	19.9	23.3
EPS Gr. (%)	2.9	11.8	17.0
BV/Sh.(INR)	62.8	79.5	99.1

**Ratios**

Net D:E	0.4	0.2	0.1
RoE (%)	32.2	28.0	26.1
RoCE (%)	32.5	31.2	31.1
Payout (%)	16.0	16.0	16.0

**Valuations**

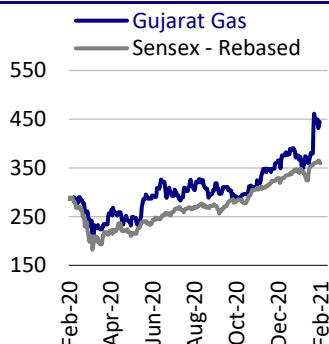
P/E (x)	27.8	24.8	21.2
P/BV (x)	7.9	6.2	5.0
EV/EBITDA (x)	16.8	15.1	12.8
Div. Yield (%)	0.6	0.6	0.8
FCF Yield (%)	3.1	4.8	4.8

**Shareholding pattern (%)**

As On	Dec-20	Sep-20	Dec-19
Promoter	60.9	60.9	60.9
DII	7.3	7.3	6.3
FII	9.0	9.1	11.1
Others	22.8	22.7	21.8

FII Includes depository receipts

**Stock Performance (1-year)**



**The Green Wave – upgrading the multiple**

- Gujarat Gas (GUJGA) has proved to be a clear outperformer since the curbing of polluting fuels at Morbi – an impetus by the government toward the adoption of greener fuel.
- Since our upgrade in Dec'19, the stock is up 116% – it has outperformed the Nifty by ~95% – despite which the stock trades at 21x FY23E EPS currently.
- Interestingly, we have upgraded our EPS every quarter since then (from INR12.3 to INR19.9 for FY22E) on the back of better-than-expected volume growth.
- CGDs have been a true consumption story and, as highlighted in Exhibit 1, the market has always valued volume growth for these names. GUJGA has clocked volume growth of ~8% QoQ each time since 1QFY20 – despite the COVID-led disruption witnessed in 1HFY21. Over the past five years, the company has posted a volume CAGR of ~11%; we build in the same volume growth over the next two years as well.
- The Ceramic Association of Morbi expects growth of 25–30% in FY22 (v/s ~15% in FY21) as 60 more industrial units are likely to be commissioned over Oct–Dec'21 and the current units would undergo further expansions.
- Also, we have been highlighting that any further pollution control measure or impetus on growing gas consumption in India hereafter would benefit GUJGA significantly (v/s the other two incumbents).
  - GUJGA would be the biggest beneficiary of any directive on Green Tax announced by MoRHT ([refer to our report](#)) – as Gujarat has no government directive on the use of CNG yet.
  - Once gas is included under GST, GUJGA would benefit from increased volume offtake, as industrial consumers would be able to take input tax credits, thus lowering their gas feedstock cost. GUJGA would be able to take tax credit on opex and capex as well.
- Factoring in all of the above, the stock demands an upgrade, thus closing the gap v/s IGL (same volume growth potential of 10–12% over the medium term) – we value the stock at 24x (from 22x earlier) to arrive at Target Price of INR560/share. Reiterate Buy, with the possibility of further earnings upgrades going forward.

**Green Tax – Industries to be the biggest beneficiary**

- On 17<sup>th</sup> Feb, PM Modi stated that the government was committed to bringing natural gas under the GST regime ([article](#)). We have discussed the topic in detail in our report, '[Inclusion of natural gas in GST would be positive](#)'.

**Basic tenets remain the same**

- Since 2014, the focus on gas has been increasing to tackle pollution in the country – via increased CNG/PNG penetration and higher offtake from industries (in line with an increase in the gas mix to 15% v/s 6–7% currently).
- The implementation of GST would also reduce the various anomalies that currently prevail, such as different states charging a different VAT on CNG. For example, Delhi charges nil, Maharashtra charges 13.5%, and Gujarat charges 15% VAT.
- Our study suggests an 18% GST rate could marginally benefit CNG. However, it may be marginally negative for PNG-domestic. It would also benefit industrial consumers the most.

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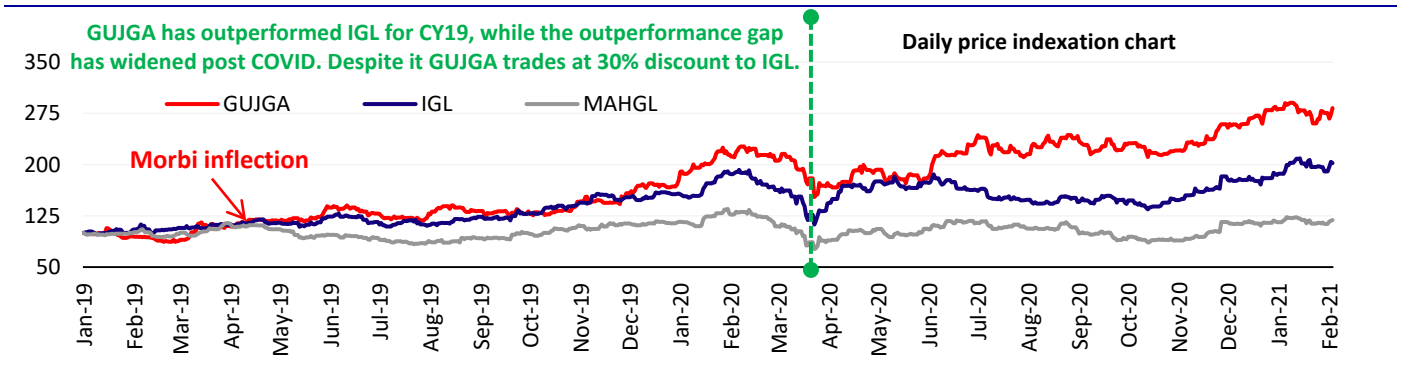
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**Valuation and view – volume CAGR of 10% beyond FY22 as well**

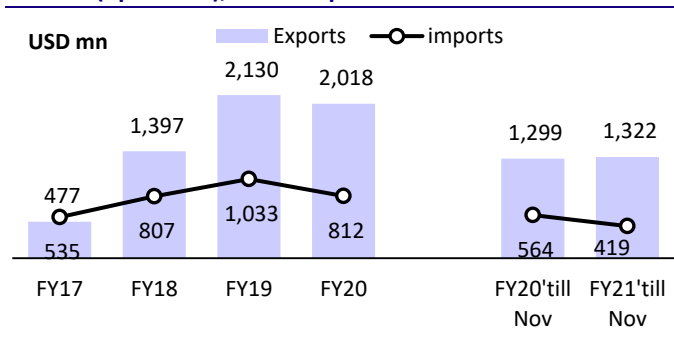
- **To emphasize, the input tax credit from GST would increase the competitive advantage / aid margins for ceramic units that are seeing increased demand from GCC and the US, while consumers are adopting the China+1 strategy.**  
Volume growth over the last couple of quarters has been a reflection of strong export orders at Morbi. This has also resulted in the emergence of a new ceramic cluster at Aniyari – a potential 0.5mmscmd market in the making.
- GUJGA could also see the highest volume boost (2–3mmscmd in the short term) from any directive by NGT to curb industrial pollution.
- The company has commercialized ~90 new CNG stations in FY21TD and plans to add ~160 new CNG stations by the end of FY21. Despite having ~480 CNG stations (v/s more than 560 for IGL), GUJGA’s CNG volumes are only one-third that of IGL.
- GUJGA has started taking ~0.7mmscmd of RIL’s KG Basin gas at an 8.5% slope to Brent, further facilitating margin stability. Considering the management’s efforts toward delivering volume growth and maintaining sustainable margins, we build in volumes of 9.2mmscmd/12mmscmd/13.5mmscmd for FY21E/FY22E/FY23E.
- **Assuming ~11% volume growth potential in the medium term, GUJGA (at 21x FY23E EPS) trades at a 30% discount to IGL SA (at 30x FY23E EPS).**
- In addition to volumes, the company could surprise on the EBITDA margin front as well under the following two scenarios:
  - If NGT announces similar bans on dirty alternate fuels at other industrial clusters in GUJGA’s operating areas
  - If CNG takes a larger pie in the total sales mix – as it is the most profitable segment.

**Exhibit 1: GUJGA trades at 30% discount to IGL**



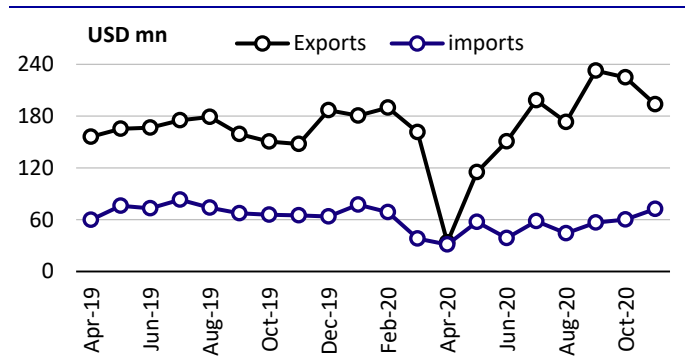
Source: Company, MOFSL

**Exhibit 2: Ceramic (and allied product) exports were up ~2% in FY21 (up to Nov), while imports were down ~26%...**



Source: Ministry of commerce, MOFSL

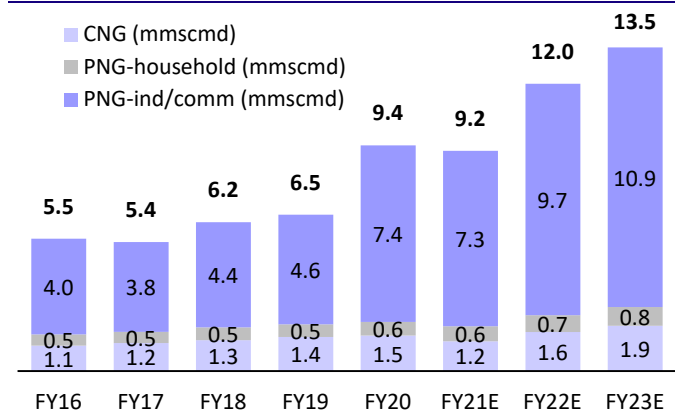
**Exhibit 3: ...exports saw sharp recovery post lockdown, led by demand in GCC countries and the US markets**



Source: Ministry of commerce, MOFSL

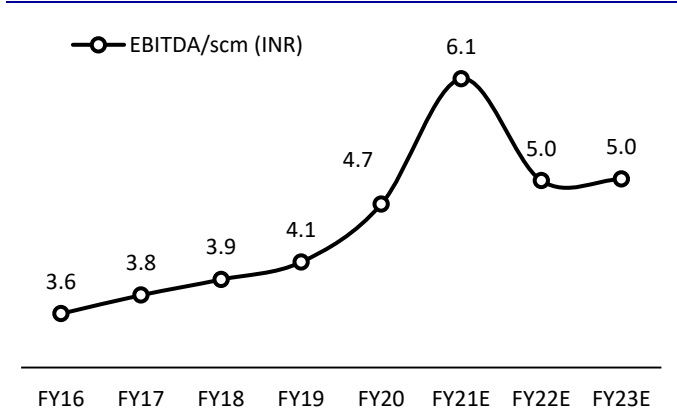
## Key assumption charts

**Exhibit 4: PNG – I/C to boost volume growth**



Source: Company, MOFSL

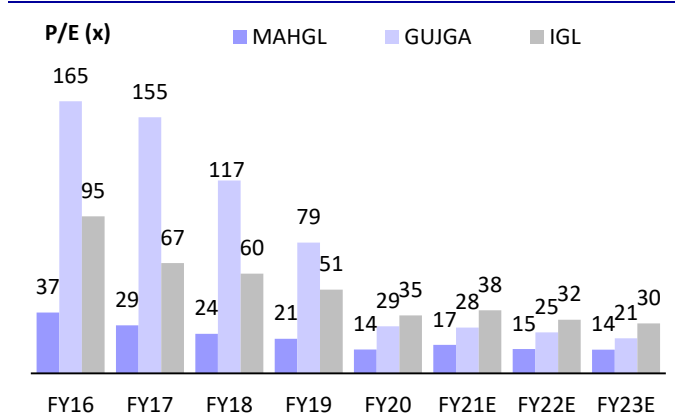
**Exhibit 5: EBITDA/scm to normalize at ~INR5.0 in FY22/FY23E**



Source: Company, MOFSL

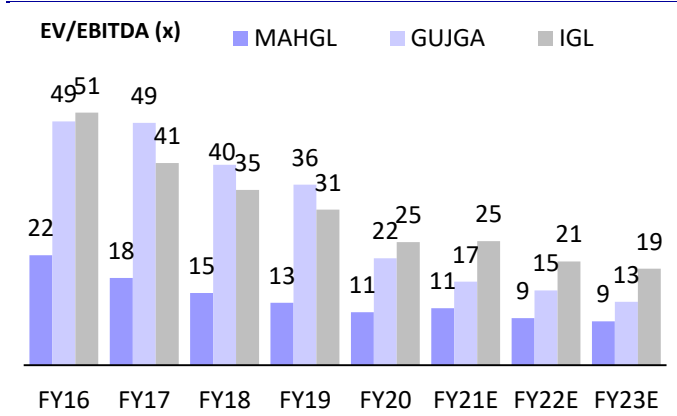
## Peer comparison charts – GUJGA at a discount to IGL

**Exhibit 6: On FY23 PE, GUJGA trades at 21x v/s IGL at 30x**



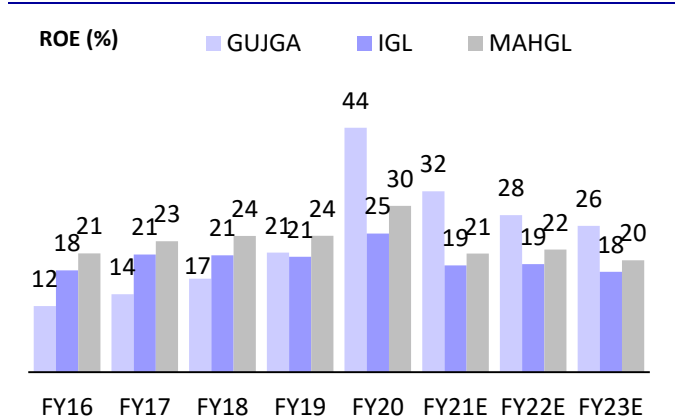
Source: Company, MOFSL

**Exhibit 7: ...with EV/EBITDA of 13x v/s IGL at 19x**



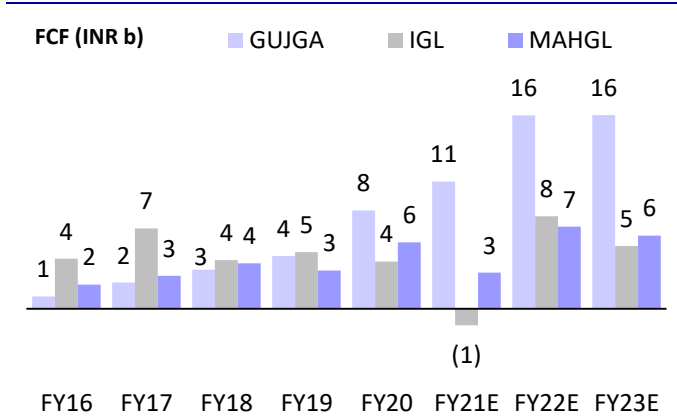
Source: Company, MOFSL

**Exhibit 8: GUJGA has the best ROE profile...**



Source: Company, MOFSL

**Exhibit 9: ...with highest Free Cash Flow generation**



Source: Company, MOFSL

## Financials and Valuations

Standalone - Income Statement						(INR M)		
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Total Income from Operations</b>	<b>61,059</b>	<b>50,926</b>	<b>61,743</b>	<b>77,544</b>	<b>1,03,003</b>	<b>96,625</b>	<b>1,41,582</b>	<b>1,63,751</b>
Change (%)	-32.2	-16.6	21.2	25.6	32.8	-6.2	46.5	15.7
<b>EBITDA</b>	<b>7,264</b>	<b>7,433</b>	<b>8,951</b>	<b>9,846</b>	<b>16,343</b>	<b>20,438</b>	<b>21,902</b>	<b>24,746</b>
Margin (%)	11.9	14.6	14.5	12.7	15.9	21.2	15.5	15.1
Depreciation	2,457	2,573	2,718	2,880	3,180	3,357	3,466	3,599
<b>EBIT</b>	<b>4,808</b>	<b>4,860</b>	<b>6,232</b>	<b>6,966</b>	<b>13,163</b>	<b>17,081</b>	<b>18,436</b>	<b>21,147</b>
Int. and Finance Charges	2,475	2,090	1,961	1,962	1,922	1,432	1,246	1,084
Other Income	445	263	357	1,113	837	754	1,146	1,385
<b>PBT bef. EO Exp.</b>	<b>2,779</b>	<b>3,033</b>	<b>4,628</b>	<b>6,117</b>	<b>12,078</b>	<b>16,403</b>	<b>18,336</b>	<b>21,447</b>
EO Items	-256	0	0	-179	0	0	0	0
<b>PBT after EO Exp.</b>	<b>2,523</b>	<b>3,033</b>	<b>4,628</b>	<b>5,939</b>	<b>12,078</b>	<b>16,403</b>	<b>18,336</b>	<b>21,447</b>
Current Tax	648	838	1,715	1,768	145	4,129	4,615	5,398
Tax Rate (%)	25.7	27.6	37.0	29.8	1.2	25.2	25.2	25.2
<b>Reported PAT</b>	<b>1,875</b>	<b>2,195</b>	<b>2,914</b>	<b>4,170</b>	<b>11,933</b>	<b>12,275</b>	<b>13,721</b>	<b>16,049</b>
<b>Adjusted PAT</b>	<b>2,065</b>	<b>2,195</b>	<b>2,914</b>	<b>4,296</b>	<b>11,933</b>	<b>12,275</b>	<b>13,721</b>	<b>16,049</b>
Change (%)	-53.5	6.3	32.7	47.4	177.8	2.9	11.8	17.0
Margin (%)	3.4	4.3	4.7	5.5	11.6	12.7	9.7	9.8

Standalone - Balance Sheet						(INR M)		
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	1,377	1,377	1,377	1,377	1,377	1,377	1,377	1,377
Total Reserves	13,718	15,072	17,087	20,463	31,529	41,845	53,376	66,864
<b>Net Worth</b>	<b>15,095</b>	<b>16,449</b>	<b>18,464</b>	<b>21,840</b>	<b>32,906</b>	<b>43,222</b>	<b>54,753</b>	<b>68,241</b>
Deferred Tax Liabilities	9,865	9,849	10,455	10,816	8,005	8,005	8,005	8,005
Total Loans	17,066	22,987	22,143	20,892	18,344	15,344	12,344	9,344
<b>Capital Employed</b>	<b>42,025</b>	<b>49,285</b>	<b>51,062</b>	<b>53,547</b>	<b>59,255</b>	<b>66,570</b>	<b>75,102</b>	<b>85,590</b>
Gross Block	54,153	59,393	64,021	68,861	73,531	75,672	78,386	81,556
Less: Accum. Deprn.	7,704	10,376	13,094	15,974	19,154	22,511	25,977	29,576
<b>Net Fixed Assets</b>	<b>46,449</b>	<b>49,017</b>	<b>50,927</b>	<b>52,887</b>	<b>54,377</b>	<b>53,161</b>	<b>52,408</b>	<b>51,980</b>
Capital WIP	4,682	5,071	4,797	4,902	5,708	8,567	10,853	12,683
<b>Total Investments</b>	<b>1,218</b>	<b>683</b>	<b>161</b>	<b>160</b>	<b>1,633</b>	<b>1,633</b>	<b>1,633</b>	<b>1,633</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>7,544</b>	<b>8,714</b>	<b>10,449</b>	<b>13,326</b>	<b>17,255</b>	<b>21,657</b>	<b>37,164</b>	<b>50,425</b>
Inventory	413	417	568	694	463	407	639	742
Account Receivables	3,005	3,475	3,917	5,103	5,101	4,785	7,012	8,110
Cash and Bank Balance	678	608	1,363	3,092	6,919	11,989	22,954	33,987
...of which cash	227	175	931	944	5,472	10,542	21,507	32,541
Bank balance	451	433	432	2,148	1,447	1,447	1,447	1,447
Loans and Advances	3,447	4,214	4,601	4,437	4,772	4,476	6,559	7,586
<b>Curr. Liability &amp; Prov.</b>	<b>17,868</b>	<b>14,199</b>	<b>15,271</b>	<b>17,727</b>	<b>19,718</b>	<b>18,448</b>	<b>26,957</b>	<b>31,132</b>
Account Payables	2,515	3,140	2,931	3,523	3,670	3,226	5,068	5,887
Other Current Liabilities	14,986	10,660	11,957	13,724	15,015	14,085	20,638	23,870
Provisions	367	399	383	480	1,033	1,137	1,250	1,375
<b>Net Current Assets</b>	<b>-10,324</b>	<b>-5,485</b>	<b>-4,822</b>	<b>-4,402</b>	<b>-2,464</b>	<b>3,209</b>	<b>10,207</b>	<b>19,293</b>
<b>Appl. of Funds</b>	<b>42,025</b>	<b>49,285</b>	<b>51,062</b>	<b>53,548</b>	<b>59,255</b>	<b>66,570</b>	<b>75,102</b>	<b>85,590</b>

E: MOFSL Estimates

## Financials and Valuations

### Ratios

Y/E March (INR)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>EPS</b>	<b>3.0</b>	<b>3.2</b>	<b>4.2</b>	<b>6.2</b>	<b>17.3</b>	<b>17.8</b>	<b>19.9</b>	<b>23.3</b>
Cash EPS	6.6	6.9	8.2	10.4	22.0	22.7	25.0	28.5
BV/Share	21.9	23.9	26.8	31.7	47.8	62.8	79.5	99.1
DPS	0.5	0.6	0.8	1.0	1.3	2.8	3.2	3.7
Payout (%)	22.1	22.6	22.8	19.9	8.7	16.0	16.0	16.0
<b>Valuation (x)</b>								
P/E	165.0	155.2	117.0	79.3	28.6	27.8	24.8	21.2
Cash P/E	75.4	71.5	60.5	47.5	22.5	21.8	19.8	17.3
P/BV	22.6	20.7	18.5	15.6	10.4	7.9	6.2	5.0
EV/Sales	5.8	7.1	5.9	4.6	3.4	3.6	2.3	1.9
EV/EBITDA	49.2	48.9	40.4	36.4	21.5	16.8	15.1	12.8
Dividend Yield (%)	0.1	0.1	0.2	0.2	0.3	0.6	0.6	0.8
FCF per share	1.5	3.2	4.8	6.5	12.0	15.6	23.6	23.7
<b>Return Ratios (%)</b>								
RoE	11.8	13.9	16.7	21.3	43.6	32.2	28.0	26.1
RoCE	12.5	14.3	16.5	19.4	29.8	32.5	31.2	31.1
<b>Working Capital Ratios</b>								
Asset Turnover (x)	1.5	1.0	1.2	1.4	1.7	1.5	1.9	1.9
Inventory (Days)	2	3	3	3	2	2	2	2
Debtor (Days)	18	25	23	24	18	18	18	18
Creditor (Days)	15	23	17	17	13	12	13	13
Working Cap. Turnover (Days)	-66	-44	-37	-35	-33	-33	-33	-33
<b>Leverage Ratio (x)</b>								
Current Ratio	0.4	0.6	0.7	0.8	0.9	1.2	1.4	1.6
Interest Cover Ratio	1.9	2.3	3.2	3.6	6.8	11.9	14.8	19.5
Debt/Equity	1.1	1.4	1.2	1.0	0.6	0.4	0.2	0.1

### Standalone - Cash Flow Statement

(INR M)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
OP/(Loss) before Tax	2,537	3,033	4,628	5,939	12,078	16,403	18,336	21,447
Depreciation	2,454	2,573	2,718	2,880	3,180	3,357	3,466	3,599
Interest & Finance Charges	2,474	2,090	1,961	1,962	1,922	1,432	1,246	1,084
Direct Taxes Paid	-576	-489	-1,040	0	-2,801	-4,129	-4,615	-5,398
(Inc)/Dec in WC	-224	-118	-231	-288	413	-603	3,968	1,947
Others	-295	-80	-190	-849	-571	-754	-1,146	-1,385
<b>CF from Operations</b>	<b>6,371</b>	<b>7,010</b>	<b>7,847</b>	<b>9,644</b>	<b>14,220</b>	<b>15,707</b>	<b>21,254</b>	<b>21,294</b>
(Inc)/Dec in FA	-5,585	-4,805	-4,555	-5,376	-5,956	-5,000	-5,000	-5,000
<b>Free Cash Flow</b>	<b>1,042</b>	<b>2,205</b>	<b>3,292</b>	<b>4,447</b>	<b>8,265</b>	<b>10,707</b>	<b>16,254</b>	<b>16,294</b>
Others	-35	296	198	-761	1,287	754	1,146	1,385
<b>CF from Investments</b>	<b>3,752</b>	<b>-4,509</b>	<b>-4,357</b>	<b>-6,137</b>	<b>-4,668</b>	<b>-4,246</b>	<b>-3,854</b>	<b>-3,615</b>
Inc/(Dec) in Debt	-8,892	176	-248	-1,139	-2,149	-3,000	-3,000	-3,000
Interest Paid	-2,518	-2,316	-1,986	-1,947	-1,864	-1,432	-1,246	-1,084
Dividend Paid	-831	-414	-499	-408	-837	-1,959	-2,190	-2,561
<b>CF from Fin. Activity</b>	<b>-12,241</b>	<b>-2,553</b>	<b>-2,733</b>	<b>-3,494</b>	<b>-5,025</b>	<b>-6,391</b>	<b>-6,436</b>	<b>-6,646</b>
<b>Inc/Dec of Cash</b>	<b>-2,118</b>	<b>-52</b>	<b>757</b>	<b>13</b>	<b>4,527</b>	<b>5,070</b>	<b>10,965</b>	<b>11,033</b>
Opening Balance	2,346	228	176	933	945	5,472	10,542	21,507
<b>Closing Balance</b>	<b>228</b>	<b>176</b>	<b>933</b>	<b>945</b>	<b>5,472</b>	<b>10,542</b>	<b>21,507</b>	<b>32,541</b>

E: MOFSL Estimates

**NOTES**



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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