

Gujarat Gas

Volumes surprise positively!

Our ADD recommendation on Gujarat Gas (GGL) with a price target of INR 404 is premised on (1) volume growth of 17% CAGR over FY21-23E, (2) portfolio of mature, semi-mature and new geographical areas (GAs) and (3) compelling valuations, given superior return ratios among the city gas distribution players. 3QFY21 EBITDA/APAT was 27/40% above our estimates owing to, higher-than-expected per unit gross margin, 16% higher-than-anticipated volumes at 11.45mmscmd, lower-than-anticipated depreciation and finance cost, offset by a higher-than-expected tax outgo.

- Volumes:** Blended volume stood at 11.45mmscmd (HSIE 9.90), pushed by strong industrial demand (9.16mmscmd or 80% of volume mix). CNG/Domestic PNG/Commercial PNG volumes stood at 1.54/0.64/0.10mmscmd in 3Q vs 1.28/0.64/0.07mmscmd in 2Q. Volumes were at a record high in 3Q, the highest-ever in a quarter in the past five years. The company's gas sales volume has shown a robust recovery post lockdown.
- Margin:** Per unit gross spread expanded by INR 1.25 YoY to INR 7.8/scm. This is attributable to part retention of the benefit of falling RMC. Per unit EBITDA came to INR 5.8/scm (vs. INR 4.3/8.1 per scm in 3QFY20/2QFY21). However, we believe that these margins are not sustainable, and expect them to correct from the current levels in the future. For FY21/22E, we are factoring in a per unit EBITDA margin of INR 5.1/5.1/scm.
- Change in estimates:** We raise our FY21/22E EPS estimate by 17.1/8.0% each to INR 18.8/20.1 to factor in better-than-expected volumes and the overall performance in 9MFY21.
- DCF-based valuation:** Our target price of INR 404 is based on Dec-22E free cash flows (WACC 11%, terminal growth rate 3.0%). The stock is currently trading at 18.9x FY22E EPS.

Standalone financial summary

YE March (INR bn)	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	28	25	12.6	25	12.9	78	103	94	117	130
EBITDA	6	7	(16.1)	4	65.9	10	16	21	22	24
APAT	4	5	(17.4)	2	99.5	4	12	13	14	15
AEPS (INR)	5.7	6.9	(17.4)	2.9	99.5	6.1	17.2	18.8	20.1	22.4
P/E (x)						62.6	22.1	20.3	18.9	16.9
EV/EBITDA (x)						27.4	16.8	12.7	12.0	10.5
RoE (%)						20.6	43.3	33.6	27.7	24.5

Source: Company, HSIE Research

Standalone change in estimates

	FY21E			FY22E			FY23E		
	Old	New	% Ch	Old	New	% Ch	Old	New	% Ch
Volume (mmscmd)	8.5	9.3	9.6	11.1	11.8	6.7	11.9	12.7	6.6
Per unit EBITDA (INR/scm)	5.9	5.9	-	5.0	5.1	1.7	5.0	5.1	1.0
EBITDA (INR bn)	18.9	21.3	12.8	20.1	21.8	8.5	21.9	23.6	7.7
AEPS (INR/sh)	16.0	18.8	17.1	18.6	20.1	8.0	21.1	22.4	6.5

Source: Company, HSIE Research

ADD

CMP (as on 5 Feb 2021)	INR 380
Target Price	INR 404
NIFTY	14,924

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 346	INR 404
EPS %	FY21E +17.1%	FY22E +8.0%

KEY STOCK DATA

Bloomberg code	GUJGA IN
No. of Shares (mn)	688
MCap (Rs bn) / (\$ mn)	262/3,586
6m avg traded value (Rs mn)	302
52 Week high / low	Rs 412/191

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.0	23.2	28.2
Relative (%)	3.3	(11.5)	4.9

SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	60.89	60.89
FIs & Local MFs	7.31	7.32
FPIs	9.07	9.01
Public & Others	22.73	22.78
Pledged Shares	0.00	0.00

Source : BSE

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Disclosure:

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