

Robust margins lead to PAT growth...

Adani Gas' (AGL) operating revenues fell 12.3% YoY to ₹ 441.2 crore in Q2FY21 due to a drop in CNG and commercial PNG sales volume. However, revenues recovered sharply 113.6% QoQ as sales volume doubled QoQ. Total sales volume came in at 1.4 mmscmd, down 10.3% YoY, up 102.5% QoQ. EBITDA for the quarter increased 54.3% YoY to ₹ 209.5 crore. Gross margins were strong at ₹ 19.9/scm, up ₹ 6.8/scm YoY due to lower gas prices. EBITDA/scm was at ₹ 16/scm, ₹ 6.7/scm higher YoY. Reported PAT was at ₹ 135.7 crore, up 12.7% YoY.

Full recovery in industrial PNG volumes

AGL reported sales volume decline of 10.3% YoY for Q2FY21. CNG sales were down ~21% YoY to 0.6 mmscmd due to lower transportations vs. pre-Covid level. However, CNG sales improved 146% QoQ post relaxations in lockdown. PNG sales registered an increase of ~1% YoY to 0.8 mmscmd mainly due to full recovery in the industrial segment. On QoQ basis, PNG sales increased 80%. However, commercial PNG sales are still lower. During the quarter, sales increased MoM from 84% of pre-Covid level in July to 98% of pre-Covid level in September. Going forward, we estimate sales volume at 1.4 mmscmd and 2.1 mmscmd in FY21E and FY22E, respectively.

Low gas prices lead to strong margins

Gross margins were at ₹ 19.9/scm YoY, up ₹ 6.8/scm YoY, ₹ 0.9/scm QoQ as the company benefitted from low spot LNG prices. Adani Gas' strategy to focus on spot and mid-term contracts in source mix will keep margins healthy in the medium term. Gross margins for FY21E will remain strong due to low gas prices in H1 and margins will normalise in FY22E. We estimate gross margins at ₹ 17.8/scm and ₹ 15.6/scm for FY21E and FY22E, respectively. EBITDA/scm increased by ₹ 6.7/scm YoY and was at ₹ 16/scm. Considering recent increase in spot LNG prices, we expect EBITDA/scm to normalise from Q3FY21E onwards. We estimate AGL's EBITDA/scm at ₹ 13.5/scm and ₹ 11.9/scm for FY21E and FY22E, respectively.

Valuation & Outlook

AGL's sales volume reached pre-Covid level of 1.6 mmscmd by September end with full recovery in industrial PNG segment. The continued strong capex in existing, new GAs along with favourable regulatory scenario is expected to lead to long term stable volume growth. With lower domestic gas & global LNG prices, the company is comfortably placed on margins front and also enjoys competitive advantage against other fuels. Its plan to develop integrated CGD model and auto fuel retailing under the JV Total Adani fuels marketing will also lead to creation of long term shareholder value. We have a positive outlook on the stock from a long term perspective as AGL is well poised to benefit from India's growing CGD sector. However, due to sharp run-up in stock price, we change our rating from BUY to **HOLD** with a revised target price of ₹ 230.

Key Financial Summary

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Revenues (₹ crore)	1,457.7	1,823.5	1,990.9	1,650.2	2,246.4	6.2
EBITDA (₹ crore)	365.3	454.6	594.8	699.9	900.2	23.0
Net Profit (₹ crore)	164.6	228.7	436.2	465.9	535.0	10.7
EPS (₹)	1.5	2.1	4.0	4.2	4.9	
P/E (x)	160.4	115.4	60.5	56.7	49.3	
Price / Book (x)	30.0	23.7	17.8	13.8	11.4	
EV/EBITDA (x)	76.5	59.2	45.4	38.4	30.6	
RoCE (%)	18.7	20.6	29.5	24.4	23.1	
RoE (%)	12.4	21.8	25.2	18.5	16.8	

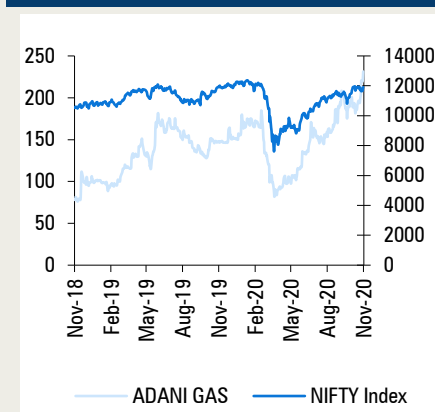
Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	26,395.2
Total Debt (FY 20) (₹ Crore)	681.7
Cash and Investments (FY 20)	89.5
EV (₹ Crore)	26,987.4
52 week H/L	242/76
Equity capital (₹ Crore)	110.0
Face value (₹)	1.0

Price Performance



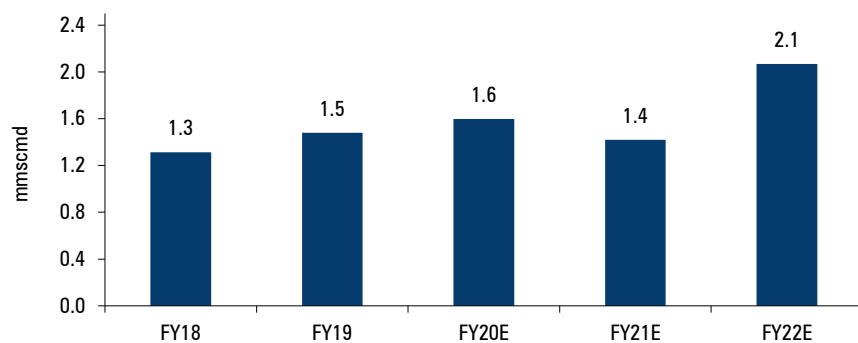
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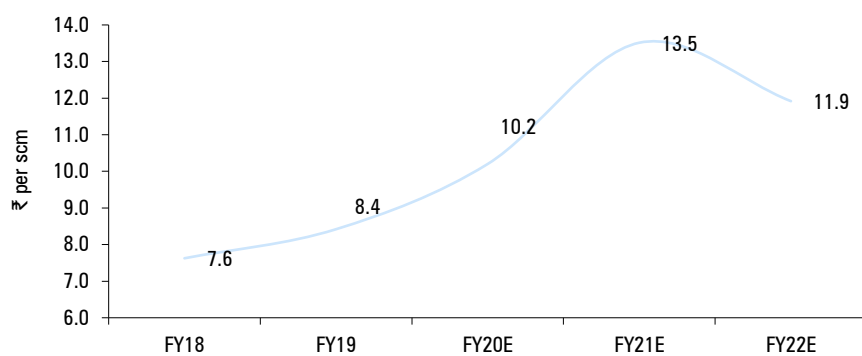
Story in charts

Exhibit 1: Volume trajectory



Source: Company, ICICI Direct Research

Exhibit 2: EBITDA/scm trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Revenue	1823.5	1990.9	1650.2	2246.4
Growth (%)	0.3	0.1	-0.2	0.4
Raw material Costs	1092.7	1060.0	637.7	930.6
Employee Costs	42.0	47.5	49.8	56.2
Other Expenditure	129.7	172.4	169.9	224.6
Op. Expenditure	1368.9	1396.1	950.3	1346.2
EBITDA	454.6	594.8	699.9	900.2
Growth (%)	24.5	30.8	17.7	28.6
Depreciation	67.3	50.7	73.8	138.5
EBIT	387.3	544.1	626.1	761.7
Interest	89.9	41.1	42.3	98.5
Other Income	86.7	44.4	37.4	52.0
PBT	356.5	547.4	621.2	715.2
Growth (%)	37.7	53.5	13.5	15.1
Tax	127.8	111.2	155.3	180.2
Reported PAT	228.7	436.2	465.9	535.0
Growth (%)	39.0	90.7	6.8	14.8
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	228.7	436.2	465.9	535.0
EPS	2.1	4.0	4.2	4.9

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	228.7	436.2	465.9	535.0
Add: Depreciation	67.3	50.7	73.8	138.5
Add: Others	2.4	-11.8	61.7	0.0
Cash Profit	298.5	475.2	601.5	673.4
Increase/(Decrease) in CL	-79.4	56.6	3.2	88.0
(Increase)/Decrease in CA	1,061.2	-26.7	337.8	-63.1
CF from Operating Activities	1280.3	505.1	942.5	698.4
Purchase of Fixed Assets	242.6	416.9	468.8	988.0
(Inc)/Dec in Investments	3.8	-105.5	-350.0	-200.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-238.9	-522.4	-818.8	-1,188.0
Inc/(Dec) in Loan Funds	-910.0	14.5	800.0	750.0
Inc/(Dec) in Sh. Cap. & Res.	35.2	-28.6	0.0	0.0
Less: Dividend Paid	31.3	38.8	38.8	128.9
Others	0.0	0.0	0.0	0.0
CF from financing activities	-906.2	-52.9	761.2	621.1
Change in cash Eq.	135.3	-70.3	884.9	131.5
Op. Cash and cash Eq.	24.5	159.8	89.5	974.4
Cl. Cash and cash Eq.	159.8	89.5	974.4	1,105.9

Source: Company, ICICI Direct Research; *calculated

Exhibit 5: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Source of Funds				
Equity Capital	110.0	110.0	110.0	110.0
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1,001.5	1,370.3	1,797.5	2,203.6
Shareholder's Fund	1,111.5	1,480.3	1,907.5	2,313.6
Loan Funds	667.2	681.7	1,481.7	2,231.7
Deferred Tax Liability	102.0	90.3	152.0	152.0
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	1880.7	2252.2	3541.1	4697.2
Application of Funds				
Gross Block	1,214.1	1,483.3	2,033.3	2,983.3
Less: Acc. Depreciation	230.8	285.3	390.3	540.8
Net Block	983.4	1,198.0	1,643.0	2,442.5
Capital WIP	190.5	342.1	292.1	342.1
Total Fixed Assets	1,173.8	1,540.1	1,935.0	2,784.6
Investments	185.5	291.0	641.0	841.0
Inventories	44.0	41.3	47.5	64.6
Debtor	82.8	61.2	76.9	104.6
Cash	159.8	89.5	974.4	1,105.9
Loan & Advance, Other CA	411.8	462.8	103.1	121.2
Total Current assets	698.3	654.7	1,201.8	1,396.4
Current Liabilities	170.3	224.3	226.0	307.7
Provisions	6.7	9.2	10.7	17.0
Total CL and Provisions	177.0	233.5	236.7	324.7
Net Working Capital	521.3	421.2	965.1	1,071.6
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	1880.7	2252.2	3541.1	4697.2

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Book Value	10.1	13.5	17.3	21.0
Cash per share	1.5	0.8	8.9	10.1
EPS	2.1	4.0	4.2	4.9
Cash EPS	2.7	4.4	4.9	6.1
DPS	0.3	0.3	0.3	1.0
Profitability & Operating Ratios				
EBITDA Margin (%)	24.9	29.9	42.4	40.1
PAT Margin (%)	12.5	21.9	28.2	23.8
Fixed Asset Turnover (x)	1.6	1.3	0.9	0.8
Inventory Turnover (Days)	8.8	7.6	10.5	10.5
Debtor (Days)	16.6	11.2	17.0	17.0
Current Liabilities (Days)	34.1	41.1	50.0	50.0
Return Ratios (%)				
RoE	20.6	29.5	24.4	23.1
RoCE	21.8	25.2	18.5	16.8
RoIC	23.9	26.3	25.9	22.1
Valuation Ratios (x)				
PE	115.4	60.5	56.7	49.3
Price to Book Value	23.7	17.8	13.8	11.4
EV/EBITDA	59.2	45.4	38.4	30.6
EV/Sales	14.8	13.6	16.3	12.3
Leverage & Solvency Ratios				
Debt to equity (x)	0.6	0.5	0.8	1.0
Interest Coverage (x)	4.3	13.3	14.8	7.7
Debt to EBITDA (x)	1.5	1.1	2.1	2.5
Current Ratio	3.9	2.8	5.1	4.3
Quick ratio	3.7	2.6	4.9	4.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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