

Gujarat Gas Ltd.

Market Capital: ₹ 46,700.39 Cr.
Enterprise Value: ₹ 48,006.85 Cr.
No. Of Shares: ₹ 68.84 Cr.
Div. Yield: 0.29%

52 Week High: ₹ 687
52 Week Low: ₹ 281
Face Value: ₹ 2



Gujarat Gas Ltd.

Buy

We recommend a Buy position on Gujarat Gas Ltd. with a medium to long-term view owing to Strong capitalisation target, Outsourced Peers, strong development body like GIDC, LPG Subsidy and Strong Brand Presence.

Financials

Consolidated (cr)	FY2020	FY2019	FY2018
Sales	10,300	7,754	6,174
Profit	10,300	7754	6174
EBIT	1,400	790	659
Basic EPS	17.41	6.08	4.25
ROE (%)	36.13	18.97	15.66
ROCE (%)	22.93	14.74	12.76
D/E (%)	0.55	0.95	1.19
Asset Turnover Ratio (%)	129.96	108.33	92.68
P/E (%)	13.26	24.36	39.21
P/B (%)	4.83	4.63	6.12
EV/EBITDA (%)	9.98	10.93	14.51
P/S (%)	1.55	1.32	1.85

Shareholding Pattern

Shareholding %	March 2021	March 2020	March 2019
Promoters	60.9	51.02	56.1
Promoter's Pledged	0	0	0
FII's	8.6	9.8	12.8
DII's	7.4	7.0	3.9
Public	23.1	22.3	22.4
Others	0	0	0
Total	100	100	100

Investment Hypothesis

GGL outcores MGL & IGL in no of GAs, Volume of gas distributed, and pipeline network

The development of seven new GAs (won in the 9th and 10th CGD bidding round) has volume potential of 3mmscmd-3.5mmscmd over the next 3-5 years. Dahej offers a peak potential of 0.5mmscmd. GUJGA is developing newer applications for replacement of LPG by gas. This could be used for ship breaking in Bhavnagar and foundries in Jamnagar – each a potential 0.2-0.3mmscmd market

Gujarat Industrial Development Corporation (GIDC) has a total of 202 estates across Gujarat, including 47 Special Economic Zones (SEZs)

GUJGA has access to most part of Gujarat and is expanding its presence in places like Halol, Dahej, Bhavnagar/Jamnagar, Anand, Amreli, Dadra & Nagar Haveli and Thane. There is currently a court order in Ahmedabad staying any development work on gas network. Hearings are over and judgment is expected soon. Ahmedabad offers a peak potential of 0.3-0.4mmscmd GUJGA is developing Amritsar & Bhatinda city gas distribution (CGD) networks for GSPL. There is a possibility that these could also be transferred to GUJGA in future.

LPG Subsidy

Prime Minister Narendra Modi launched the scheme in May 2016. The initial target for the scheme was to provide Liquefied Petroleum Gas connections to five crore families by 2019, which has since been raised to eight crore families by 2021. The initial budget of the scheme was Rs 8,000 crore. The government announced an additional Rs 4,800 crore in February 2018, bringing the total allocation for the scheme to Rs 12,800 crore.

In January 2019, the government released data to show it has provided about six crore connections so far, exceeding its targets for every year since the launch of the scheme.

Strong Brand Presence

GGL is committed to reach out to every possible natural gas user in its expanded GAs. The size and scale of the combined entity gives it the ability to achieve efficiencies and effectively manage the transformational changes in the sector. This major gain in productivity would benefit all the key stakeholders i.e. Customers and Shareholders.

Sector

Overview

Gas demand at inflection point; Gujarat-based players well placed given access to gas infrastructure

The CGD sector in India is at an inflection point being a priority sector (allocation of cheap domestic gas and focus on rapid expansion of CGD infrastructure) for the government. With the government's focus to increase the share of gas in India's energy mix to 15% by 2025 (from 6% currently), consumption growth for the CGD sector is estimated at 10% annually over the next 5 years. Gujarat is at the forefront of CGD development in India supported by availability of the state gas grid, access to LNG terminals, and natural gas infrastructure. Post the ninth CGD bidding round, all districts of Gujarat have been authorised for CGD development; and after completion of minimum work program (MWP), 100% of its GA and population would be covered by CGD network. Gujarat accounts for 29% of India's CNG station and CNG vehicles, 35% of domestic PNG connections, 65% of PNG connections, and 50% of industrial PNG connections. Massive investment linked up over the next 5-8 years and crackdown of critically/severely polluted industrial areas would provide huge volume growth opportunities to Gujarat-based CGD players.

About Company

GGAS is India's gas distribution company with volume of 9.4 mmscmd in FY2020. Gujarat GAS derives around 77% of its volumes from industrial PNG, 16% from CNG, 6% from domestic PNG, and remaining from commercial PNG. The company is present across 23 districts in Gujarat, the Union Territory of Dadra & Nagar Haveli, and Thane GA (excluding already authorised areas). GGAS' gas requirement is largely met through imported LNG as it derives majority of its volume from industrial customers. In the recently concluded 10th CGD bidding round, the company has won 6 GAs in 17 cities in Punjab, Haryana, Madhya Pradesh, and Rajasthan.

policies. In 2019, NTPC was recognized as "Laureate" for consistently ranking among "Top 50 Best Companies to Work for in India" for the last 11 years in the Great Place to Work and Economic Times survey. Besides, NTPC was also recognized as the best among PSUs and in Manufacturing.

Projects

New GAs won by Gujarat Gas in 9th and 10th CGD bidding rounds

S.no	Geographical Area	State	CGD Bidding round
1	Narmada (Rajpipla) district	Gujrat	9th
2	Jalore and Sirohi districts	Rajasthan	10th
3	Jhabua, Banswara, Ratlam and Durgapur districts	MP and Rajasthan	10th
4	Ujjain, Dewas and Indore districts	MP	10th
5	Ferozepur, Faridkot and Sri Muktsar Sahib districts	Punjab	10th
6	Hoshiarpur and Gurdaspur districts	Punjab	10th
7	Sirsa, Fatehabad and Mansa districts	Punjab and Haryana	10th

Minimum Work Program for 7 new GAs won under CGD bidding round 9 and 10

Geographical Area	State	Png Domestic connections	CNG retail outlet	Steel pipelines (Inch KMs)
Narmada (Rajpipla) district	Gujarat	1,750	4	55
Jalore and Sirohi districts	Rajasthan	4,00,0084,50,000	30	1,800
Jhabua, Banswara, Ratlam and Durgarpur districts	MP and Rajasthan	4,84,5003,50,004	54	2,100
Ujjain, Dewas and Indore districts	MP	4,84,500	42	1,800
Hoshiarpur and Gurdaspur districts	Punjab	6,00,123	81	1,800
Ferozepur, Faridkot and Sri Muktsar Sahib districts	Punjab	3,50,004	45	1,200
Sirsa, Fatehabad and Mansa districts	Punjab and Haryana	5,00,001	5455	1,500

Related to Industry

Residential and commercial buildings:

According to the report, the construction industry in India is expected to record a CAGR of 15.9% to reach INR 54,914.4 billion by 2024. The residential construction industry in value terms increased at a CAGR of 11.1% during 2015-2019. The commercial building construction market in value terms is expected to record a CAGR of 16.1% over the forecast period. The infrastructure construction was estimated to be INR 16,145.6 billion in 2019, posting a CAGR of 13% during the review period.

Transportation Sector

The transportation sector is a category of companies that provide services to move people or goods, as well as transportation infrastructure. Technically, transportation is a sub-group of the industrial sector according to the Global Industry Classification Standard (GICS). The transportation sector consists of several industries including air freight and logistics, airlines, marine, road and rail, and transportation infrastructure. These industries are further broken down into the sub-industries air freight and logistics, airlines, marine, railroads, trucking, airport services, highways and rail tracks, and marine ports and services.

Manufacturing Sector

Manufacturing has emerged as one of the high growth sectors in India. Prime Minister of India, Mr Narendra Modi, launched the 'Make in India' program to place India on the world map as a manufacturing hub and give global recognition to the Indian economy. Government aims to create 100 million new jobs in the sector by 2022. The Gross Value Added (GVA) at basic current prices from the manufacturing sector in India grew at a CAGR of 5% during FY16 and FY20 as per the annual national income published by Government of India. The sector's GVA at current prices was estimated at US\$ 397.14 billion in FY20PE. Business conditions in the Indian manufacturing sector continue to remain positive. The manufacturing component of IIP stood at 129.8 during FY20. Strong growth was recorded in the production of basic metals (10.8%), intermediate goods (8.8%), food products (2.7%) and tobacco products (2.9%). India's Index of eight core industries stood at 131.9 in FY20.

Peer Comparison

Company	MCap	P/B	P/E	EPS	ROE(%)	ROCE(%)	P/S	EV/EBITA
Power Grid Corp.	1,26,682.94	2.31	12.85	18.85	22.47	12.37	3.50	7.65
Adani Total Gas Ltd.	1,37,690.72	70.52	291.75	4.29	27.50	31.07	81.20	184.53
Indraprastha Gas	37,359.04	6.74	40.26	13.26	24.73	31.18	5.76	23.09
NHPC	27,121.59	0.86	9.02	2.99	13.44	10.31	3.10	8.68
Mahanagar Gas	11,771.35	3.64	19.00	62.72	29.66	37.00	3.96	11.37
NTPC	1,16,166.06	1.02	17.55	6.83	9.32	9.91	1.20	8.42

Adani Gas

Adani Total Gas Ltd., incorporated in the year 2005, is a Large Cap company (having a market cap of Rs 75,749.42 Crore) operating in Gas & Petroleum sector.

Adani Total Gas Ltd. key Products/Revenue Segments include Piped Natural Gas (PNG), Compressed Natural Gas (CNG), Other Operating Revenue, Connection Income, Transportation Income for the year ending 31-Mar-2020. For the quarter ended 31-12-2020, the company has reported a Consolidated Total Income of Rs 504.88 Crore, up 18.54 % from last quarter Total Income of Rs 425.90 Crore and up 1.08 % from last year same quarter Total Income of Rs 499.50 Crore. Company has reported net profit after tax of Rs 145.13 Crore in latest quarter.

Indraprastha Gas

Indraprastha Gas Ltd., incorporated in the year 1998, is a Large Cap company (having a market cap of Rs 36,571.54 Crore) operating in Gas & Petroleum sector.

Indraprastha Gas Ltd. key Products/Revenue Segments include Gas Natural and Other Operating Revenue for the year ending 31-Mar-2020.

For the quarter ended 31-12-2020, the company has reported a Consolidated Total Income of Rs 1,472.07 Crore, up .07 % from last quarter Total Income of Rs 1,471.05 Crore and down 13.50 % from last year same quarter Total Income of Rs 1,701.73 Crore. Company has reported net profit after tax of Rs 334.87 Crore in the latest quarter.

Mahanagar Gas

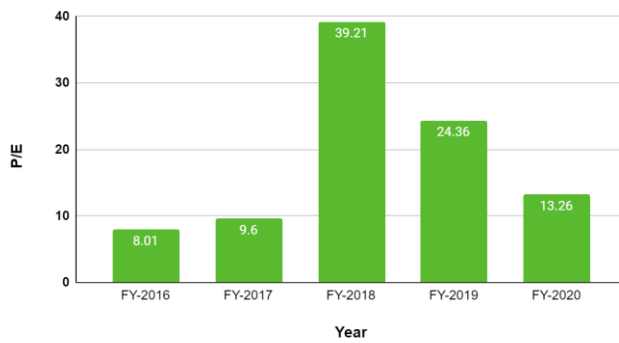
Mahanagar Gas Ltd., incorporated in the year 1995, is a Mid Cap company (having a market cap of Rs 11,865.19 Crore) operating in Gas & Petroleum sector.

Mahanagar Gas Ltd. key Products/Revenue Segments include Gas Natural, Other Operating Revenue and Pipes & Fittings for the year ending 31-Mar-2019.

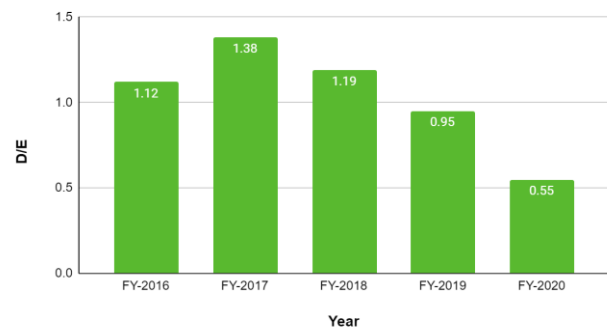
For the quarter ended 31-12-2020, the company has reported a Standalone Total Income of Rs 686.79 Crore, up 21.05 % from last quarter Total Income of Rs 567.38 Crore and down 18.98 % from last year same quarter Total Income of Rs 847.64 Crore. Company has reported net profit after tax of Rs 217.21 Crore in the latest quarter.

Charts

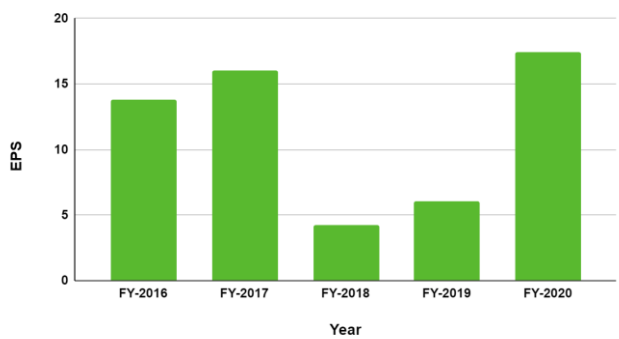
P/E(Profit/Equity(%))



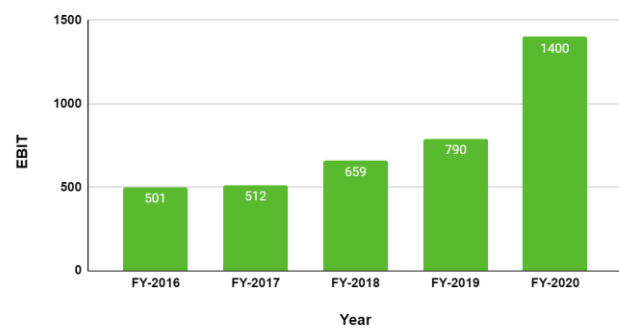
D/E(Debt/Equity(%))



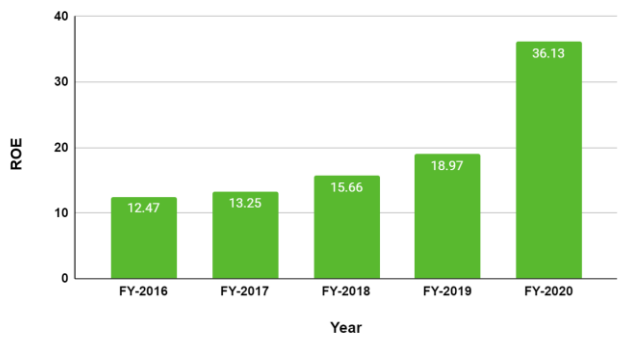
EPS(Earning Per Share(in Rs.))



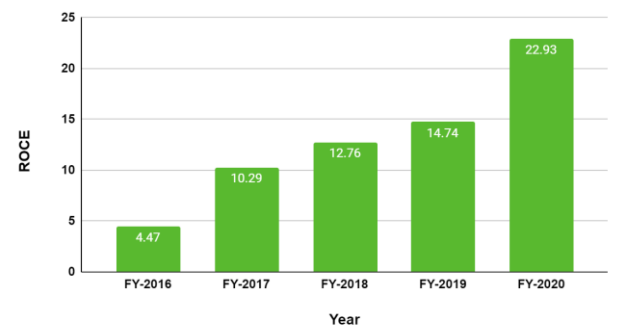
EBIT



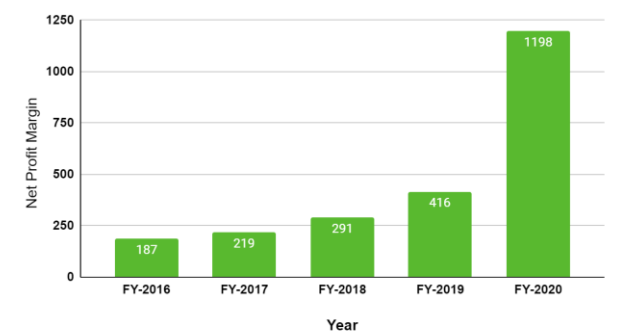
ROE(Return Of Equity(%))



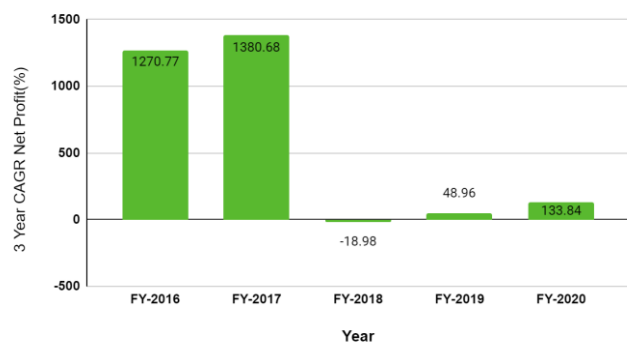
ROCE(%)



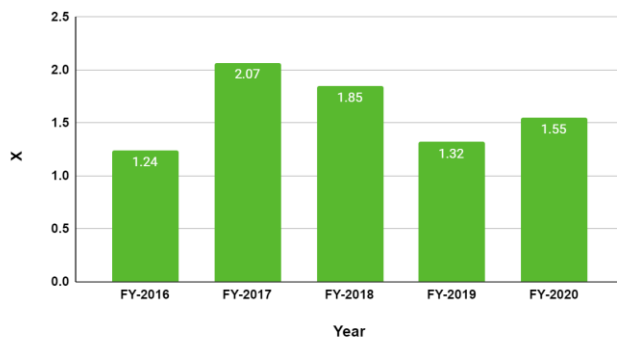
Net Profit



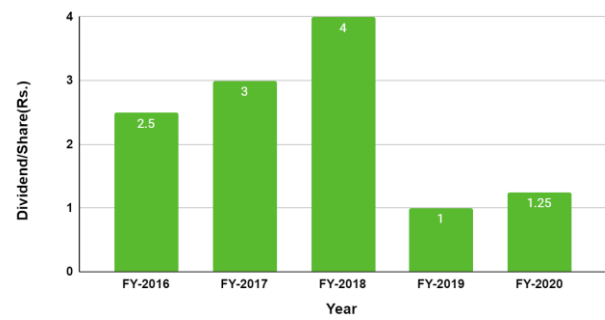
3 Year CAGR Net Profit(%)



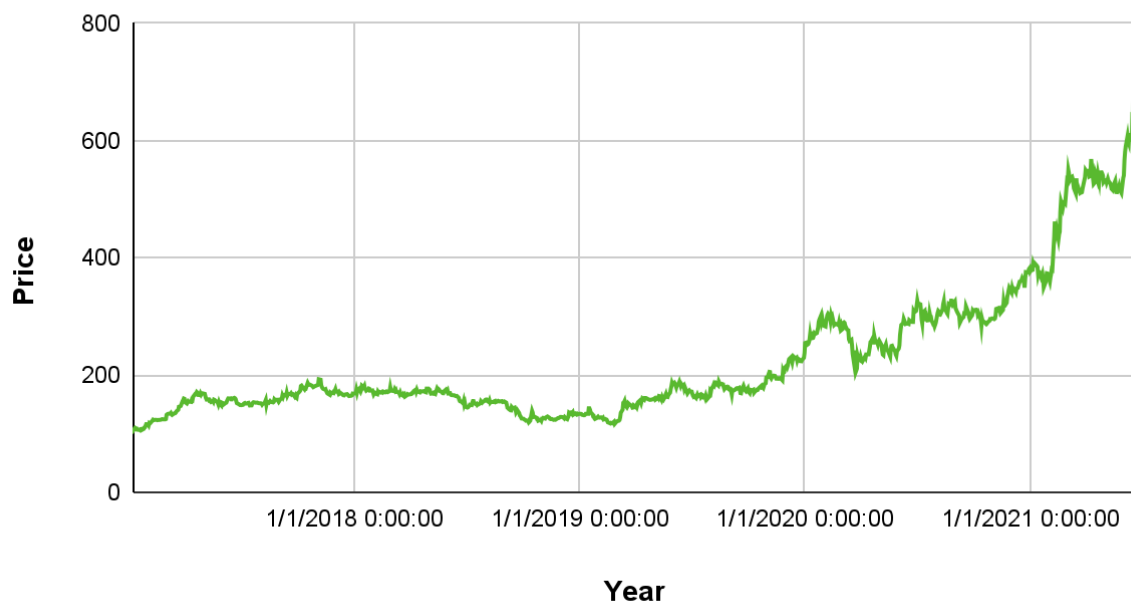
Market Cap/ Net Operating Revenue(X)



Dividend/Share(Rs.)



Share Price



Risks and Concerns

Domestic and Global macroeconomic risks: Energy industry is a cyclical one, is susceptible to changes in domestic and global macro conditions and sometimes can significantly affect the company.

Input Materials : Any changes in availability of input materials as Coal etc could lead to many challenges a major one is production challenge.

High Competition: Recently this sector is facing a high level competition, with many mid level players gaining market share and with the presence of some established Large peers, the Industry will remain highly competitive which could lead to pressure on prices of products.

Summing up:

We recommend a **Buy** position on Gujarat Gas Ltd. with a medium to long-term view owing to following:-

- Strong capitalisation target
- Outsourced Peers
- Strong development body like GIDC
- LPG Subsidy
- Strong Brand Presence

After looking at sector growth from recent years, and policies that the government has made recently, we expect a high growth in the energy sector.

The following industries are directly or indirectly related to cement sector:

- Residential and commercial buildings:
- Transportation Sector
- Manufacturing Sector

Any major change in these sectors will strongly affect the growth of the energy industry.

Gujarat Gas Ltd. is strongly placed to face the competition and its management is constantly trying to come up with new policies to take it's growth further.

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