

Gujarat Gas

BSE SENSEX	S&P CNX
35,536	10,807
Bloomberg	GUJGA IN
Equity Shares (m)	137.7
M.Cap.(INRb)/(USD\$)	121.6/1.9
52-Week Range (INR)	974 / 722
1, 6, 12 Rel. Per (%)	-7/-11/-9
Avg Val, INRm	185.0
Free float (%)	39.1

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	61.7	76.4	84.8
EBITDA	9.0	10.8	12.3
PAT	2.9	4.6	5.7
EPS (INR)	21.2	33.5	41.6
EPS Gr. (%)	32.0	58.1	24.2
BV/Sh (INR)	134.1	161.3	195.1
RoE (%)	16.7	22.7	23.3
RoCE (%)	16.5	20.3	23.2
P/E (x)	39.8	25.2	20.3
P/BV (x)	6.3	5.2	4.3
EV/EBITDA (x)	15.3	12.3	10.5

Estimate change



TP change



Rating change


CMP: INR843
TP: INR1,122 (+33%)
Buy

EBITDA above estimate led by better volumes and EBITDA/scm

- GUJGA reported EBITDA of INR2.2b (+52% YoY, +11% QoQ), slightly above our estimate of INR2.1b, led by better-than-expected volumes and margins. PAT of INR660m (+99% YoY, +10% QoQ) came in lower than our estimate of INR713m due to a higher tax rate of 43.4% v/s 34.4% in 3QFY18 and 20.2% in 4QFY17. For FY18, EBITDA grew by 20% YoY to INR8.9b and PAT by 32% YoY to INR2.9b.
- **Strong PNG household volumes:** PNG industrial/commercial volumes grew 9% YoY (+4% QoQ) to 4.7mmscmd, while PNG household volumes rose 30% YoY (+38% QoQ) to 0.7mmscmd. For FY18, PNG industrial/commercial volumes grew 17% YoY to 4.4mmscmd and PNG household volumes rose 15% YoY to 0.5mmscmd.
- **CNG volumes up 10% YoY:** CNG volumes stood at 1.4mmscmd (+10% YoY, +5% QoQ) in 4QFY18. For FY18, CNG volumes grew 10% YoY to 1.3mmscmd. Unless CNG volumes become a larger contributor, the company would continue witnessing volatility in volumes and margins, in our view.
- **EBITDA/scm at INR3.7:** EBITDA/scm rose 37% YoY (+6% QoQ) to INR3.7 (above our estimate of INR3.6) in 4QFY18 and 3% YoY to INR4.0 in FY18.
- Management recommended a dividend of INR4/share.

Valuation and view

- We expect volumes to continue growing in FY19/20, primarily led by the PNG industrial/commercial segment. Increasing CNG volumes is a positive, as it would reduce volatility in volumes and margins for GUJGA.
- For FY19/20, we model volumes of 6.88/7.63mmscmd and EBITDA/scm of INR4.3/4.4. We value the company at 27x FY20E EPS of INR41.6. Maintain **Buy** with a TP of INR1,122 (upside of 33%).

Standalone - Quarterly Earning Model

Y/E March	FY17				FY18				(INR Million)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY17	FY18	FY18	4QE Var (%)
Net Sales	12,247	12,370	12,309	14,002	14,780	13,914	15,713	17,336	50,927	61,743	17,967	-3.5
YoY Change (%)	-26.7	-21.3	-17.1	1.6	20.7	12.5	27.7	23.8	-16.6	21.2	28.3	
EBITDA	2,173	2,094	1,709	1,463	2,698	2,027	1,999	2,227	7,440	8,951	2,138	4.1
Margins (%)	17.7	16.9	13.9	10.4	18.3	14.6	12.7	12.8	14.6	14.5	11.9	
Depreciation	632	645	653	643	666	683	688	682	2,675	2,718	718	-5.0
Interest	534	541	539	476	496	499	487	479	2,090	1,961	472	1.5
Other Income	62	52	75	71	78	89	91	99	371	357	116	-14.8
PBT	1,070	959	593	415	1,615	934	915	1,165	3,047	4,629	1,065	9.4
Tax	321	265	170	84	571	323	315	506	839	1,715	351	43.9
Rate (%)	30.0	27.6	28.6	20.2	35.4	34.6	34.4	43.4	27.6	37.0	33.0	
Reported PAT	748	695	423	331	1,044	611	600	660	2,207	2,914	713	-7.6
YoY Change (%)	27.7	150.3	31.5	-63.9	39.4	-12.1	41.9	99.0	6.9	32.0	115.3	
Margins (%)	6.1	5.6	3.4	2.4	7.1	4.4	3.8	3.8	4.3	4.7	4.0	
Total volume (mmscmd)	5.1	5.2	5.3	6.1	6.1	5.7	6.3	6.8	5.4	6.2	6.6	3.1
CNG	1.1	1.2	1.2	1.2	1.3	1.3	1.3	1.4	1.2	1.3	1.3	1.2
PNG - Industrials/commercial	3.5	3.6	3.7	4.3	4.4	4.0	4.5	4.7	3.8	4.4	4.7	0.0
PNG - Households	0.4	0.4	0.5	0.6	0.4	0.5	0.5	0.7	0.5	0.5	0.5	35.2
EBITDA (INR/scm)	4.7	4.4	3.5	2.7	4.8	3.8	3.5	3.7	3.8	4.0	3.6	1.0

E: MOSL Estimates

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

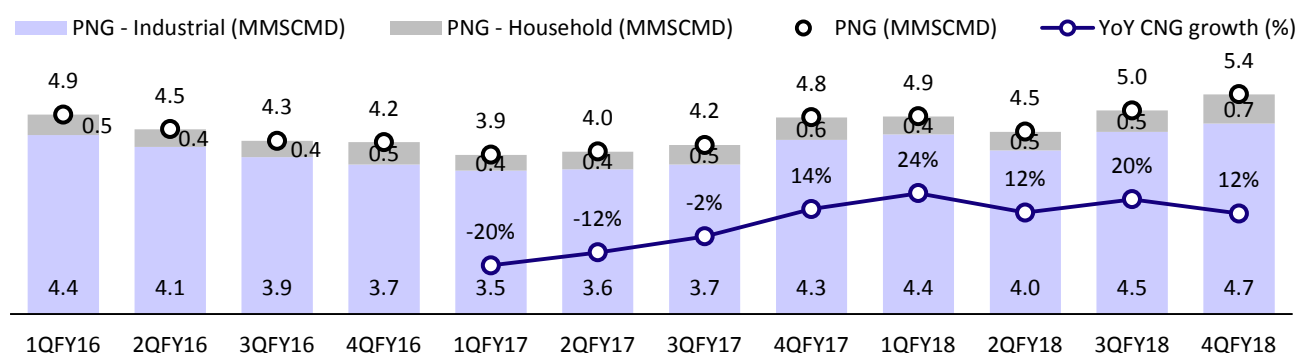
Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: GUJGA: Operational Highlights

INR Million	FY16				FY17				FY18				4QFY18	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY (%)	QoQ (%)
Net sales	16,709	15,722	14,846	13,782	12,247	12,370	12,309	14,002	14,780	13,914	15,713	17,336	24%	10%
Realization (INR/scm)	30.6	30.5	30.8	28.5	26.6	26.1	25.2	25.6	26.5	26.4	27.1	28.5	11%	5%
Total raw material	13,573	13,199	12,097	10,228	8,872	9,010	9,362	11,137	10,614	10,419	12,217	13,553	22%	11%
Gas cost (INR/scm)	24.9	25.6	25.1	21.2	19.3	19.0	19.1	20.4	19.1	19.8	21.1	22.3	9%	6%
Gross Margin	3,136	2,523	2,749	3,553	3,375	3,360	2,947	2,865	4,166	3,496	3,497	3,783	32%	8%
Gross Margin (INR/scm)	5.7	4.9	5.7	7.4	7.3	7.1	6.0	5.2	7.5	6.6	6.0	6.2	19%	3%
EBITDA	2,014	1,469	1,579	2,203	2,173	2,094	1,709	1,463	2,698	2,027	1,999	2,227	52%	11%
EBITDA (INR/scm)	3.7	2.9	3.3	4.6	4.7	4.4	3.5	2.7	4.8	3.8	3.5	3.7	37%	6%
PAT	586	278	322	690	748	695	423	331	1,044	611	600	660	99%	10%
PAT (INR/scm)	1.1	0.5	0.7	1.4	1.6	1.5	0.9	0.6	1.9	1.2	1.0	1.1	79%	5%
Volumes														
CNG (MMSCMD)	1.1	1.1	1.0	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.3	1.4	10%	5%
PNG - Household (MMSCMD)	0.5	0.4	0.4	0.5	0.4	0.4	0.5	0.6	0.4	0.5	0.5	0.7	30%	38%
PNG - Industrial (MMSCMD)	4.4	4.1	3.9	3.7	3.5	3.6	3.7	4.3	4.4	4.0	4.5	4.7	9%	4%
Total (MMSCMD)	6.0	5.6	5.2	5.4	5.1	5.2	5.3	6.1	6.1	5.7	6.3	6.8	11%	7%

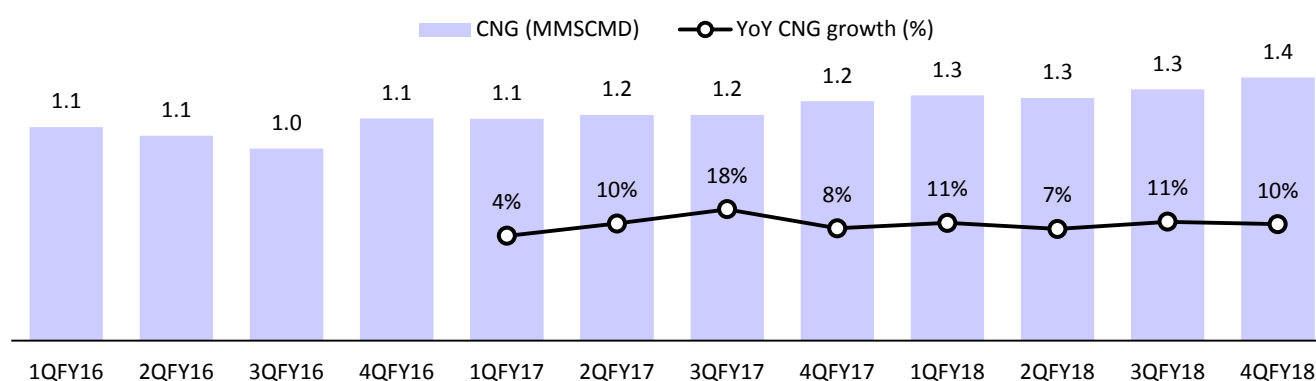
Source: Company, MOSL

Exhibit 2: PNG industrial volumes were up 9% YoY, 4% QoQ

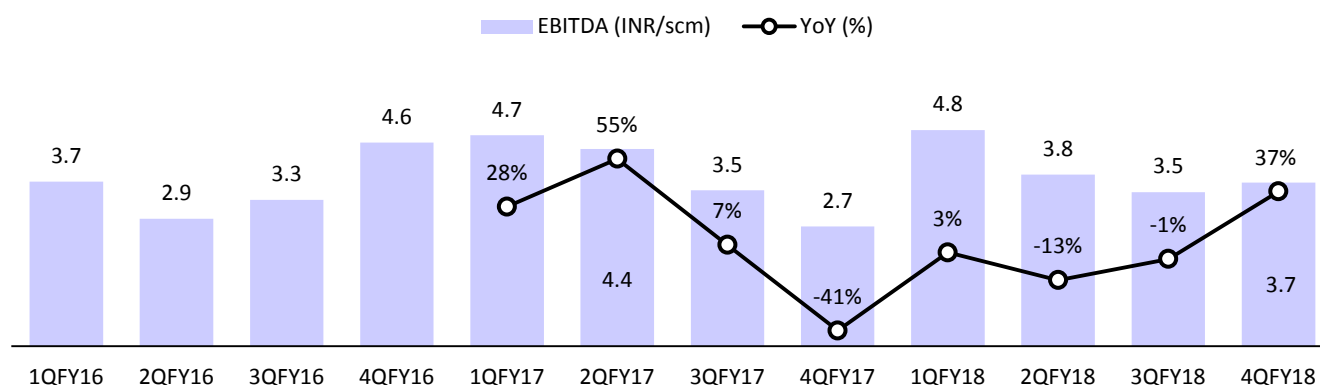


Source: Company, MOSL

Exhibit 3: CNG volumes grew 10% YoY to 1.4mmscmd



Source: Company, MOSL

Exhibit 4: EBITDA/scm improved to INR3.7 (+37% YoY, +6% QoQ)

Source: Company, MOSL

Valuation and view

- We expect 11% volume growth for GUJGA in FY19/20. EBITDA is estimated to grow at a CAGR of 17% and EPS at a CAGR of 40% over FY18-20.
- Higher exposure to the industrial segment and competition from cheaper alternatives result in high volatility in both volumes and EBITDA/scm. However, the potential is high – Morbi alone, where the company sells ~2.7mmscmd, presents an opportunity for ~6mmscmd.
- We have already seen judiciary-led activism against polluting fuels in the National Capital Region (NCR). Any focus on pollution in Gujarat would result in sharp volume growth.
- We value the company at 27x FY20E EPS of INR41.6. Maintain **Buy** with a TP of INR1,122 (upside of 33%).

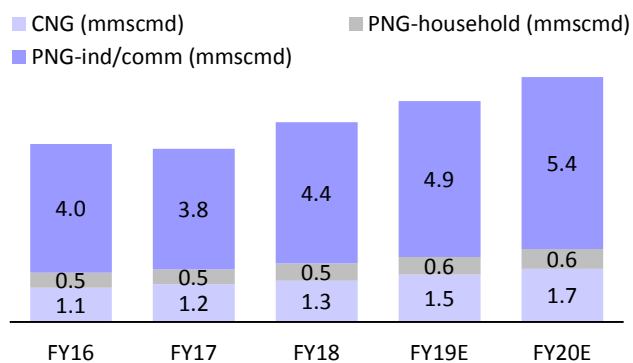
Exhibit 5: We value at 27x FY20E EPS to arrive at a TP of INR1,122/share**Valuation table**

FY20 EPS (INR)	41.6
Valuation PE (x)	27.0
Target price (INR/share)	1,122

Source: Company, MOSL

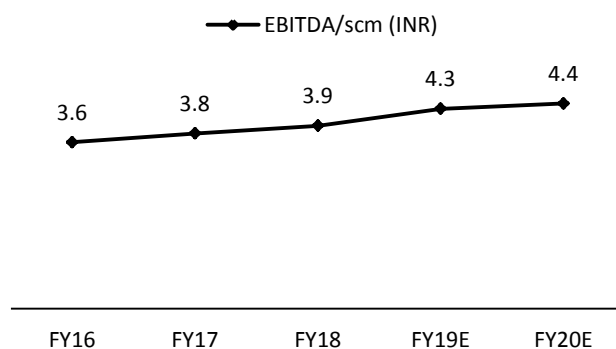
Story in charts

Exhibit 6: Volume growth has been volatile



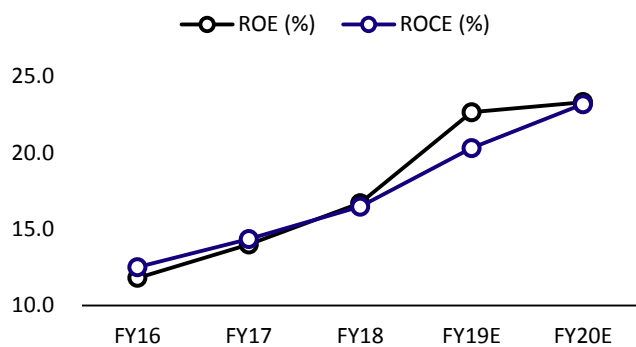
Source: Company, MOSL

Exhibit 7: EBITDA/scm likely to grow; volatility would be key



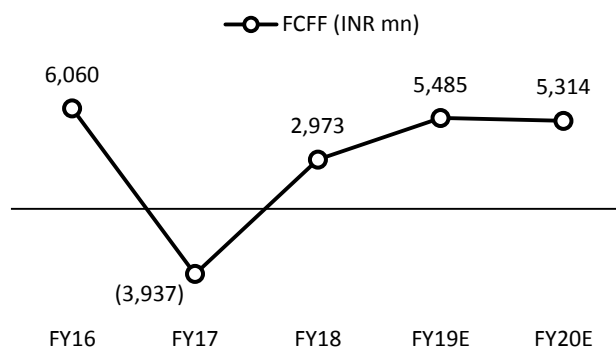
Source: Company, MOSL

Exhibit 8: Return ratios to improve



Source: Company, MOSL

Exhibit 9: Free cash flow to improve



Source: Company, MOSL

Financials and Valuations

Standalone - Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Income from Operations	77,974	90,063	61,059	50,927	61,743	76,421	84,765
Total Income from Operations	77,974	90,063	61,059	50,927	61,743	76,421	84,765
Change (%)		15.5	-32.2	-16.6	21.2	23.8	10.9
Total Expenditure	72,233	79,001	53,794	43,488	52,793	65,596	72,446
% of Sales	92.6	87.7	88.1	85.4	85.5	85.8	85.5
EBITDA	5,741	11,062	7,264	7,440	8,951	10,825	12,319
Margin (%)	7.4	12.3	11.9	14.6	14.5	14.2	14.5
Depreciation	2,826	2,377	2,457	2,675	2,718	3,060	3,163
EBIT	2,915	8,685	4,808	4,765	6,232	7,765	9,156
Int. and Finance Charges	3,003	3,332	2,475	2,090	1,961	1,445	1,235
Other Income	1,101	1,071	445	371	357	557	618
PBT bef. EO Exp.	1,012	6,424	2,779	3,047	4,629	6,877	8,539
EO Items	-90	-10	-256	0	0	0	0
PBT after EO Exp.	922	6,414	2,523	3,047	4,629	6,877	8,539
Current Tax	638	1,979	648	839	1,715	2,269	2,818
Tax Rate (%)	69.2	30.8	25.7	27.6	37.0	33.0	33.0
Reported PAT	284	4,436	1,875	2,207	2,914	4,608	5,721
Adjusted PAT	312	4,443	2,065	2,207	2,914	4,608	5,721
Change (%)		1,323.3	-53.5	6.9	32.0	58.1	24.2
Margin (%)	0.4	4.9	3.4	4.3	4.7	6.0	6.7

Standalone - Balance Sheet

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	1,377	1,377	1,377	1,377	1,377	1,377	1,377
Total Reserves	14,981	18,532	13,718	15,072	17,087	20,836	25,490
Net Worth	16,358	19,909	15,095	16,449	18,464	22,212	26,866
Deferred Tax Liabilities	2,892	3,528	9,865	9,849	10,455	10,455	10,455
Total Loans	33,311	31,960	17,066	22,987	22,143	19,143	16,143
Capital Employed	52,561	55,397	42,025	49,285	51,062	51,810	53,464
Gross Block	47,550	50,114	54,153	59,393	64,021	65,880	68,368
Less: Accum. Deprn.	2,815	5,247	7,704	10,376	13,094	16,155	19,317
Net Fixed Assets	44,735	44,867	46,449	49,017	50,927	49,726	49,051
Capital WIP	2,701	3,574	4,682	5,071	4,797	7,437	9,950
Total Investments	8,410	10,990	1,218	683	161	161	161
Curr. Assets, Loans&Adv.	10,694	9,495	7,544	8,714	10,449	13,349	15,205
Inventory	375	411	413	417	568	706	779
Account Receivables	5,451	3,606	3,005	3,475	3,917	4,848	5,378
Cash and Bank Balance	2,116	2,378	678	608	1,363	2,101	2,731
Loans and Advances	2,752	3,101	3,447	4,214	4,601	5,695	6,316
Curr. Liability & Prov.	13,978	13,529	17,868	14,199	15,271	18,863	20,901
Account Payables	5,260	4,262	2,515	3,140	2,931	3,642	4,022
Other Current Liabilities	8,613	8,193	14,986	10,660	11,957	14,800	16,416
Provisions	105	1,074	367	399	383	421	463
Net Current Assets	-3,284	-4,034	-10,324	-5,485	-4,823	-5,514	-5,697
Appl. of Funds	52,561	55,397	42,025	49,285	51,062	51,810	53,464

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Basic (INR)							
EPS	2.3	32.3	15.0	16.0	21.2	33.5	41.6
Cash EPS	22.8	49.5	32.8	35.5	40.9	55.7	64.5
BV/Share	118.8	144.6	109.6	119.5	134.1	161.3	195.1
DPS	0.0	5.0	2.5	3.0	4.0	5.2	6.4
Payout (%)	0.0	18.7	21.7	22.3	22.9	18.7	18.7
Valuation (x)							
P/E	371.6	26.1	56.2	52.6	39.8	25.2	20.3
Cash P/E	37.0	17.0	25.7	23.8	20.6	15.1	13.1
P/BV	7.1	5.8	7.7	7.1	6.3	5.2	4.3
EV/Sales	1.9	1.6	2.2	2.7	2.2	1.7	1.5
EV/EBITDA	25.6	13.2	18.2	18.6	15.3	12.3	10.5
Dividend Yield (%)	0.0	0.6	0.3	0.4	0.5	0.6	0.8
FCF per share	5.4	60.2	44.0	-28.6	21.6	39.8	38.6
Return Ratios (%)							
RoE	3.8	24.5	11.8	14.0	16.7	22.7	23.3
RoCE	16.2	19.2	12.5	14.3	16.5	20.3	23.2
Working Capital Ratios							
Asset Turnover (x)	1.5	1.6	1.5	1.0	1.2	1.5	1.6
Inventory (Days)	2	2	2	3	3	3	3
Debtor (Days)	26	15	18	25	23	23	23
Creditor (Days)	25	17	15	23	17	17	17
Working Cap. Turnover (Days)	-25	-26	-66	-44	-37	-36	-36
Leverage Ratio (x)							
Current Ratio	0.8	0.7	0.4	0.6	0.7	0.7	0.7
Interest Cover Ratio	1.0	2.6	1.9	2.3	3.2	5.4	7.4
Debt/Equity	2.0	1.6	1.1	1.4	1.2	0.9	0.6

Standalone - Cash Flow Statement

(INR Million)

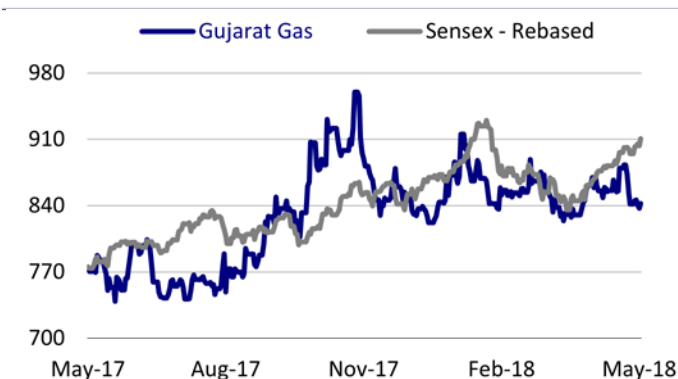
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
OP/(Loss) before Tax	922	6,414	2,779	3,047	4,629	6,877	8,539
Depreciation	2,826	2,377	2,457	2,675	2,718	3,060	3,163
Interest & Finance Charges	3,003	3,332	2,029	1,718	1,604	888	617
Direct Taxes Paid	-1,599	-1,461	-648	-839	-1,715	-2,269	-2,818
(Inc)/Dec in WC	-309	1,852	4,590	-4,909	92	1,429	814
CF from Operations	4,844	12,514	11,207	1,692	7,328	9,985	10,314
Others	-726	-716	0	0	0	0	0
CF from Operating incl EO	4,119	11,798	11,207	1,692	7,328	9,985	10,314
(Inc)/Dec in FA	-3,371	-3,508	-5,147	-5,629	-4,355	-4,500	-5,000
Free Cash Flow	748	8,290	6,060	-3,937	2,973	5,485	5,314
(Pur)/Sale of Investments	-12,397	-2,563	9,773	535	522	0	0
Others	2,374	167	189	371	357	557	618
CF from Investments	-13,394	-5,904	4,815	-4,722	-3,476	-3,943	-4,382
Issue of Shares	5,000	0	0	0	0	0	0
Inc/(Dec) in Debt	7,923	-756	-14,894	5,921	-844	-3,000	-3,000
Interest Paid	-1,351	-4,874	-2,475	-2,090	-1,961	-1,445	-1,235
Dividend Paid	-601	-2	-408	-493	-668	-860	-1,067
Others	0	0	56	-378	376	0	0
CF from Fin. Activity	10,971	-5,632	-17,721	2,960	-3,097	-5,305	-5,302
Inc/Dec of Cash	1,696	262	-1,699	-70	755	738	630
Opening Balance	420	2,116	2,378	678	609	1,363	2,101
Closing Balance	2,116	2,378	678	609	1,363	2,101	2,731

Corporate profile

Company description

Gujarat Gas Limited engages in the processing, transmission, and distribution of natural gas. The Company supplies piped natural gas to residential, commercial, and industrial customers, and compressed natural gas (CNG) through dispensers to natural gas vehicles for refueling. Gujarat Gas serves customers in India.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-18	Dec-17	Mar-17
Promoter	50.4	60.9	60.9
DII	2.7	2.6	2.3
FII	14.2	14.3	15.4
Others	32.7	22.2	21.4

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
SBICAP Securities Limited	10.5
Gujarat State Fertilizers & Chemicals Limited	6.8
Gujarat Industrial Development Corporation	3.9
Gujarat Alkalies and Chemicals Limited	3.1
Aberdeen Global Indian Equity Limited	2.6

Source: Capitaline

Exhibit 4: Top management

Name	Designation
J N Singh	Chairman
Rahul Devi	CFO
Jal Ratanshaw Patel	Director

Source: Capitaline

Exhibit 5: Directors

Name	Name
Jal Ratanshaw Patel	T Natarajan
Manjula Devi Shroff	Sujit Gulati
Krishnadas Chatterjee	Sanjeev Kumar
Ajit Chandulal Kapadia	Jagatheesa Dharmakkan Pandian
Pradip Navin Khandwalla	

*Independent

Exhibit 6: Auditors

Name	Type
Dalwadi & Associates	Cost Auditor
Emst & Young	Internal
Kailash Sankhlecha & Associates	Cost Auditor
Manoj Hurkat & Associates	Secretarial Audit

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	33.5	37.9	-11.7
FY20	41.6	50.7	-17.9

Source: Bloomberg

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 becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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