



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Stock Idea for Retail Clients@ Dalal & Broacha

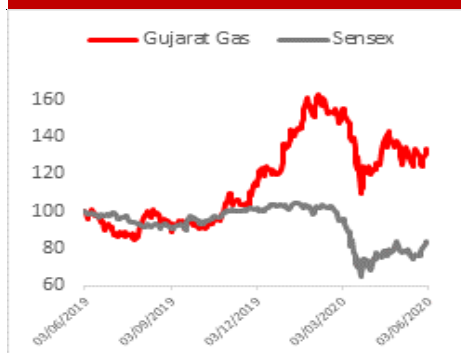
ACCUMULATE

Current Price	278
52 Week Range	154/313
Target Price	330
Upside	20%

Key Share Data

Market Cap (Rs.bn)	186.38
Market Cap (US\$ mn)	2469.59
No of o/s shares (mn)	688.39
Face Value	2
Monthly Avg. vol(BSE+NSE) Nos'000	572.46
BSE Code	539336
NSE Code	GUJGASLTD
Bloomberg	GUJGA:IN

Price performance



% Shareholding	Mar-20	Dec-19
Promoters	60.89	60.89
Public	39.11	39.11
Others	0.00	0.00
Total	100.0	100.0

Company Background: Gujarat Gas Limited (GGL), is India's largest City Gas Distribution player with its presence spread across 23 Districts in the State of Gujarat, Union Territory of Dadra & Nagar Haveli and Thane Geographical Area (GA) (excluding already authorised areas) which includes Palghar District of Maharashtra. In 10th CGD bidding round announced by PNGRB the company has won 6 GAs comprising of 17 cities in the state of Punjab, Haryana, Madhya Pradesh and Rajasthan, making GGL a pan India Company. The company has India's largest customer base in Residential, Commercial and Industrial segments. The company has more than 24,000 kms. of gas pipeline network. It has more than 375 CNG stations and distributes approximately 9.30 mmscmd of natural gas to over 14,00,000 households, ~ 2 lakh CNG vehicles (fueled per day) and more than 3700 industrial customers.

Secular growth in Gas Consumption: Growth of India's share in the global energy market is expected to increase going forward. India has been mainly dependant on high polluting fuels viz. coal, Furnace Oil to meet its ever-growing energy needs. GOI; realising the importance of protecting the environment announced an important initiative for a more sustainable future; **an aggressive target to increase the share of Natural Gas in the overall energy consumption mix to 15% from the current levels of 6%** The City Gas Distribution business in India is expected to take centre stage as a priority sector, with several programs and initiatives being announced to bolster city gas demand. **The expected growth in consumption under this category is around 10% between FY 2018 and FY 2030.** Natural Gas prices are currently ruling at near all-time lows due to global supply glut and more LNG terminals coming up globally. Low natural gas prices should aid the expected growth in gas consumption.

Volumes to get a boost from new pollution norms in Morbi: Morbi, situated in Gujarat, is a big ceramics manufacturing cluster. Historically, the ceramic manufacturers were dependent on conventional sources of energy for their fuel requirements. However, due to pollution issues, the National Green Tribunal (NGT) has mandated ceramic manufacturers to shift to natural gas. **As a result, gas volumes in Morbi has jumped from 5.2 mmscmd in the Q3FY20 to almost 6 mmscmd in Q4FY20. We believe as more ceramic manufacturers shift to gas, Gujarat Gas volumes will get a boost.**

Q3FY20 Result Update: Revenues came in at Rs. 2506mn as against Rs. 2117mn in Q3FY19 and Rs. 2513 mn in Q2FY20, growth of 18.4% YoY and (0.3)% QoQ. **Total volumes** were 9.32mmscmd, +42.1/-0.2% YoY/QoQ, largely led **by boom in industrial volumes (76% of vol mix) that grew 58.7/-1.4% YoY/QoQ to 7.11 mmscmd. CNG volumes (16.2% of vol mix) were 1.51mmscmd, +6.1/+2.2% YoY/QoQ. EBITDA** has jumped 15.4% YoY primarily due to a YoY jump in blended volumes by 42.1% to 9.32mmscmd and offset by decline in per unit EBITDA margins by 18.8% YoY to Rs 4.32/scm. This has resulted in per unit EBITDA profit of Rs 4.65/scm for 9MFY20. Company reported an EPS of Rs. 13.76 for 9MFY20.

Valuation and outlook: While Covid will negatively impact the working of the company in the near term, we believe the long-term prospects of the company are good. Expansion in new geographical areas will aid healthy long-term growth in volumes. Margins should also remain benign as gas prices continue to remain low. As per Bloomberg estimates, the stock is trading at 16.2 FY22 EPS of Rs. 17.18, **which we believe is attractive and thus recommend investors to ACCUMULATE the stock.**

FINANCIALS (Rs. mn)

Year	Net Sales	% growth	EBITDA	OPM%	PAT	% growth	EPS (Rs)	PE(x)	ROE (%)	ROCE (%)
FY19	77544.1	25.6%	9783.1	12.6%	4184.5	43.1%	6.08	45.73	20.6	11.7
FY20e*	102181	31.8%	16094	15.8%	10539	151.9%	15.31	18.16	45.8	28
FY21e*	103143	0.9%	17468	16.9%	10238	-2.9%	14.87	18.69	27.9	18.7
FY22e*	118179	14.6%	19360	16.4%	11828	15.5%	17.18	16.18	32.1	21.9

*- Bloomberg Estimates (BE)



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