

Viewpoint

Volume and margin recovery on cards

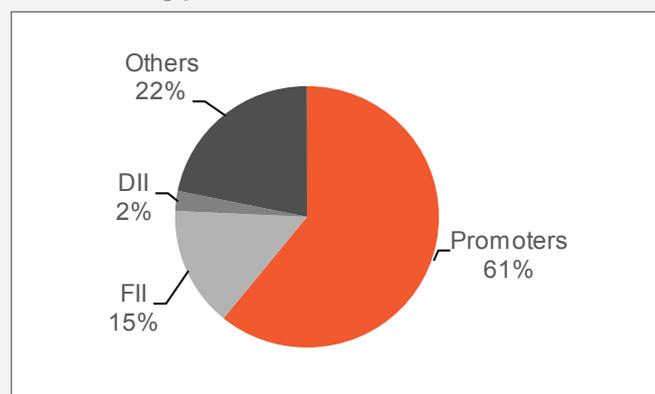
Gujarat Gas

View: Positive | CMP: Rs765

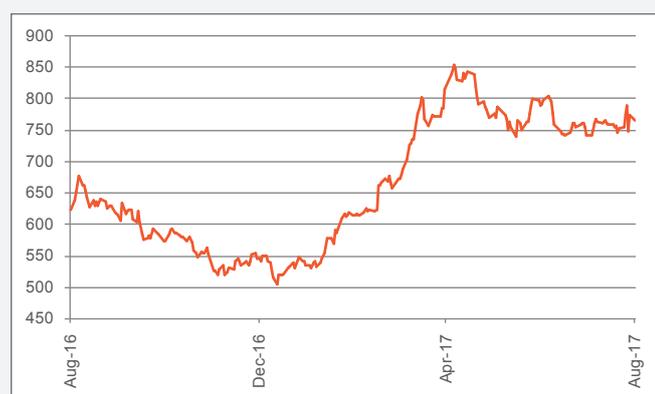
Company details

Market cap:	Rs10,531 cr
52-week high/low:	Rs880/487
NSE volume: (No of shares)	97,680
BSE code:	539336
NSE code:	GUJGASLTD
Sharekhan code:	GUJGASLTD
Free float: (No of shares)	5.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.4	-0.4	25.1	24.6
Relative to Sensex	2.8	-4.2	12.4	9.7

Key points

- Largest CGD player in India:** Gujarat Gas Limited (GGAS) is the largest city gas distribution (CGD) player in India with volume of 5.5mmscmd in FY2017. GGAS derives around 70% of volumes from industrial PNG and the remaining from CNG and domestic PNG.
- Strong volume growth prospects:** GGAS's volumes increased strongly by 19% YoY in Q1FY2018 to 6.1mmscmd on account of improvement in economics for gas usage vs. coal/fuel oil for the Morbi ceramic cluster and revival in demand from chemical plants in Vapi-Valsad-Ankleshwar region. We expect GGAS to continue to benefit from better gas economics and, thus, expect volumes to post a 15% CAGR over FY2017-FY2019E to 7.2mmscmd. Moreover, the likely ban on usage of fuel oil (Gujarat state consumes around 0.73mmt of fuel oil annually) could generate incremental volumes of around 1.6mmscmd for GGAS over the next 2-3years, which we do not factor in our volume growth assumptions.
- Low LNG price and rupee appreciation to help sustain margins at Rs4.5/Rs4.7 per scm in FY2018E/FY2019E:** GGAS's EBITDA margin improved sharply by 82% QoQ to Rs.4.8/scm (standard cubic meter) in Q1FY2018 due to a decline in spot LNG price and hike of Rs.2-2.5/scm for industrial PNG price in March 2017. Moreover, appreciation of Indian rupee by 3.8% QoQ to Rs.64.5 has also reduced the cost of imported LNG for GGAS. We expect EBITDA margin of GGAS to sustain at Rs.4.5/Rs.4.7 per scm in FY2018E/FY2019E as compared to Rs.3.8/scm in FY2017.
- Expansion in new territories to help volume growth in the long term:** GGAS has won the rights to build CGD network in new geographical areas, including Thane extension, Dadra and Nagar Haveli, Dahej, Hazira, Panchmahal, Outer Ahmedabad, Dahod, Bhavnagar/Botad, Amreli, Kutch West, Jamnagar and Anand. We expect these new geographical areas to generate 5-6mmscmd of volumes over the next 4-5 years.
- Strong earnings growth outlook – We expect 12-15% upside from here:** We expect GGAS's earnings to grow at 61% CAGR over FY2017-FY2019E on account of revival in volume growth and margins (lower LNG price and Rupee appreciation). Moreover, expansion into new geographical areas would drive long-term volume and earnings growth for the company. Therefore, we are positive on GGAS and expect 12-15% upside from current levels. At the CMP, the stock is trading at 21.8x FY2018E EPS and 18.3x FY2019E EPS.

Valuation (consolidated)

Particulars	Rs cr			
	FY2016	FY2017	FY2018E	FY2019E
Revenues	6,106	5,093	6,524	7,215
Operating profit	728	743	1,139	1,286
OPM (%)	11.9	14.6	17.5	17.8
Adjusted PAT	190	221	483	575
% YoY growth	-57.4	16.1	119.1	19.0
Adjusted EPS (Rs)	13.8	16.0	35.1	41.8
P/E (x)	55.4	47.7	21.8	18.3
P/B (x)	6.9	6.3	5.2	4.3
EV/EBITDA (x)	16.7	17.2	10.8	9.1
RoNW (%)	10.8	13.8	26.2	25.5
RoCE (%)	12.2	11.2	17.4	18.7

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