



IDEA2ACT : Gujarat Gas

Reco Price	12-months Target Price
BUY @ ₹ 522-542	₹ 674

Gujarat Gas Limited (GGL) was formed in FY15 by amalgamating Gujarat Gas Company Ltd. and GSPC Gas Ltd. It has emerged as India's largest city gas distribution player with a total sales volume of 9.4mmcmd in FY20 and presence spread across 23 districts in the State of Gujarat, Maharashtra and Union Territory of Dadra Nagar Haveli. It has a network of 15000 km-long gas pipeline and 396 CNG stations constituting 17% of all CNG stations in the country. Within promoters- GSPL holds 54% and Gujarat Govt holds 6.5% in the company.

Beat on earnings: GGAS reported 4QFY21 PAT of Rs3.5bn up 42% YoY, EBITDA grew by 27% YoY. In 4Q, volumes grew 22% YoY led largely by the industrial segment, where sales volumes were up 24% YoY. Morbi cluster volumes averaged at 7.3mmcmd, up 33% YoY, despite the pandemic, and remained a key driver of the volume growth. CNG sales were up 16% YoY, driven by beefing up CNG infrastructure and greater personal vehicle consumption, despite school buses, autos, taxis operating well below normal levels. Net realization rose 17% QoQ as the company raised prices for industrial customers (to pass on higher spot LNG prices) in January; ebitda/scm was Rs5.1 vs Rs4.8 YoY reflecting the benefits of gas sourcing. Repayment of debt has led to 57% YoY fall in interest outgo. Share of industrial sales were 80%, vs 79% YoY and 81% QoQ.

Ties up domestic gas: Through FY21-23ii, we forecast GGAS to grow volumes at 18% pa, on the back of Morbi, CNG, and acquisition of two operational GAs (Amritsar and Bathinda from GSPL). We note, while its QTD volumes are averaging 10mmcmd, outlook on Morbi volumes is strong. We also think the shift in gas sourcing mix towards domestic supplies (tied up additional ~2.2mmcmd gas from RIL and Vedanta), has cut down its spot LNG exposure to 30-35% vs ~50% YoY, and enhanced its pricing power. Our FY22/23ii ebitda/scm of Rs6/5.9 (flat vs FY21) assumes GGAS passing on the benefits of gas sourcing to end consumers.

Upgrade EPS: To reflect the beat on margins, and favorable change in gas mix, we upgrade FY22/23 EPS by 16/12%, and see upside risk if the oil rally sustains. Our FY21-23ii EPS growth now stands at 21% pa, notwithstanding the higher base of FY21. GGAS is or top pick in the CGD space, and we see a pick up in Morbi volumes during the year as one of the strongest catalysts for the stock's rerating.



Valuation Metrics: Despite a strong run-up in the stock price, GGas is currently trading at 22x FY22ii, in line with its historical average. We expect the stock to double its free cash flow during FY22ii-Fy23ii led by a strong operating performance. At a ROCE/ROE of 35%/32% in Fy22ii, we expect GGas to continue its outperformance. **We recommend a Buy rating on the stock with a target of Rs 674.**

Technically, the stock is trading in a strong higher top higher bottom chart structure, indicating a positive bias according to the Dow theory. The stock has given a bullish flag pattern breakout on the weekly chart and is showing positive signs on the MACD Histogram. **If the current impulse move accentuates the way it should, we expect Gujarat Gas to trend higher and test our immediate target price of Rs674 during the next 1-Year.**

Previous Recommendations:

Date	Stock Name	Reco Price	Target Price	P & L %	Status
26-May-20	Emami Limited	205	241	18%	Target Achieved
2-Jul-20	ITC	201	235	17%	Target Achieved (₹225 + Dividend ₹10.15 exdate 6th Jul 2020)
2-Jul-20	NHPC	19.5	24	23%	Target Achieved
15-Jul-20	HCL Tech	610	695	14%	Target Achieved
30-Jul-20	INDIGO	920	1074	17%	Target Achieved
11-Aug-20	JB Chemicals & Pharmaceuticals	750	867	16%	Target Achieved
13-Aug-20	UPL	480	555	16%	Target Achieved
18-Aug-20	Crompton Consumer	256	299	17%	Target Achieved
28-Aug-20	Sudarshan Chemical	474	557	18%	Target Achieved
14-Sep-20	Apollo Tyres	114.5	138	21%	Target Achieved
1-Oct-20	Manappuram Finance Ltd	155.5	186	3%	Open
16-Oct-20	Cyient Ltd	370	440	19%	Target Achieved
28-Oct-20	Amara Raja Batteries	770	898	17%	Target Achieved
2-Nov-20	SIS (I) Ltd	363	423	17%	Target Achieved
3-Dec-20	Bharat Electronics	112	139.0	24%	Target Achieved
16-Dec-20	RBL Bank	233	273	17%	Target Achieved
6-Jan-21	Alembic Pharmaceuticals	1075	1252	-12%	Open
15-Jan-21	Hindustan Petroleum Corporation Ltd	229	274	20%	Target Achieved
5-Feb-21	State Bank of India	351.5	429	22%	Target Achieved
1-Mar-21	Cummins India	772	914	18%	Target Achieved
10-Mar-21	HCL Tech	962	1140	-1%	Open
10-Mar-21	Eicher Motors	2635	2940	-1%	Open
07-Apr-21	Cyient Ltd	669	789	18%	Target Achieved

Date	Stock Name	Reco Price	Target Price	P & L %	Status
03-May-21	Persistent Systems Ltd	1990	2400	21%	Target Achieved
04-May-21	SBI Life Insurance Company Ltd	945	1144	2%	Open
17-May-21	HG Infra	325	394	21%	Target Achieved





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Disclaimer:

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

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