

Gujarat Gas Ltd (GGL)

- Stable business with proven track record

Recommendation : Buy
 CMP : Rs 175
 Sector : Oil & Gas

NSE Code : GUJGASLTD
 BSE Code : 539336

Financial break up

Market Cap (Rs. Cr) : 12067
 EPS (FY19) : 6.06
 PE : 28.28
 Face Value : Rs.2/-

Share Holding Pattern:

Promoters : 60.89
 Others : 39.11

Background: GGL is the largest CGD player in India with diversified customer profile. It comprises more than 1.36mn of domestic households, 3,540 industrial units & over 13,500 commercial establishments. It has a strong and established market position in the CGD industry with leading position in the state of Gujarat, the union territory of Dadra and Nagar Haveli, and one GA in the state of Maharashtra. The company has presence spread across 24 districts of Gujarat including the newly awarded Geographical Area (GA) of Narmada (Rajpipla) district, Union Territory of Dadra Nagar Haveli and Thane GA which includes Palghar district of Maharashtra.

Largest city gas distribution player

GGL is the largest city gas distribution company in India in terms of gas volume supplied. Hence, it's a volume growth story. GGCL has total 18 CGD licenses spread across 24 districts amounting ~20% of total CGD licenses issued by PNGRB in India and 1 pipeline license. It has ~96,000 square kilometers of licensed area and catering to more than 13 lakh residential consumers, over 13,440 commercial customers, dispensing CNG from 294 CNG stations for vehicular consumers and providing clean energy solutions to over 3,421 industrial units through its wide spread operations with ~22,200 kilometers of natural gas pipeline network.

Expanded geographical network

The company operates in 20 districts of the state of Gujarat, 2 districts of the state of Maharashtra and in the Union Territory of Dadra & Nagar Haveli. GGL sells ~6.3 mmscmd of gas. Morbi is the company's biggest market (2.5-2.6 mmscmd), followed by Bharuch/Ankleshwar/Surat/Vapi (~ 2.3 mmscmd), Rajkot (~0.3 mmscmd), Bhavnagar/Jamnagar (~0.1 mmscmd) and other Geographical Areas (GAs).

Growing natural gas demand

India's city gas distribution (CGD) network is poised to grow with an increasing adoption of natural gas as a fuel due to better cost economics and favorable government policies. This makes the company to remain bullish on natural gas volume growth trajectory of CGD entities. The company expects its near term volume growth to be driven by recently connected areas like Palghar, Dahej, Silvasa and Panchmahal. These GAs are dominated by Chemical and FMCG suppliers as well as small-scale industrial estates that have liquid fuel replacement market.

Outlook & Valuation

We recommend a **Buy** on GGL for long term investors. Given the Large gas distribution network, Growing natural gas demand, government thrust on clean energy, Expanded geographical network and strong track record are key positives for the stock. At the CMP of INR 175, the stock trades at 28.28x EPS of FY19. The key risks to the business include high cost long term contract, Sharp uptick in LNG price, Change in allocation policy or increase in domestic gas price and entry of new players post the end of marketing exclusivity are factors which will impact the profitability of the company.

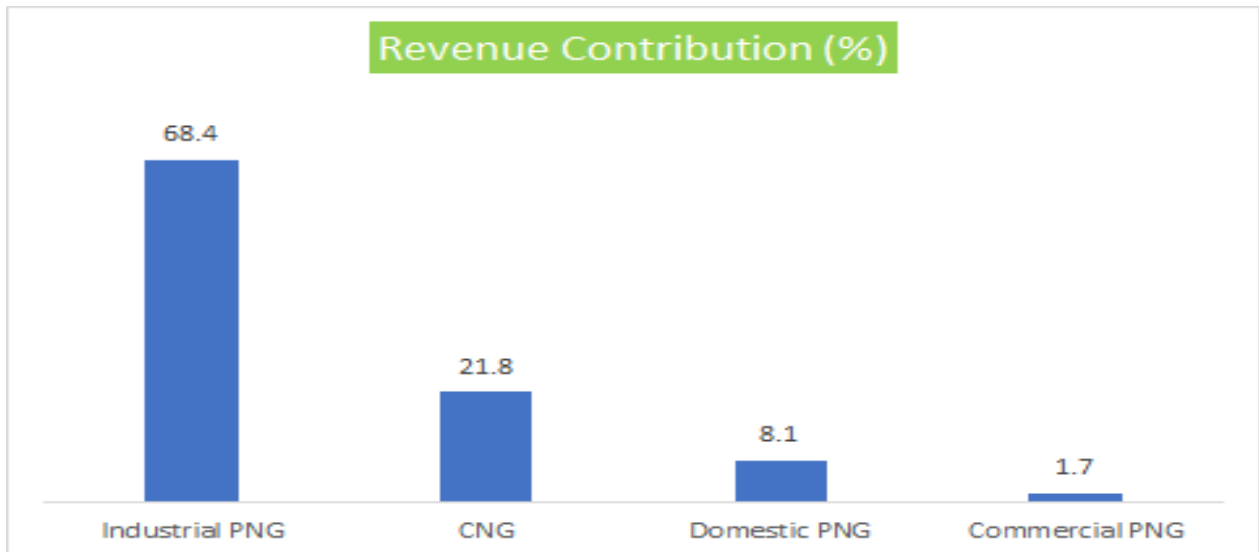
Investment Arguments

Company Profile:

GGL is the largest CGD player in India with diversified customer profile. It comprises more than 1.36mn of domestic households, 3,540 industrial units & over 13,500 commercial establishments. It has a strong and established market position in the CGD industry with leading position in the state of Gujarat, the union territory of Dadra and Nagar Haveli, and one GA in the state of Maharashtra.

Its sales volume mix is skewed towards cyclical industrial and commercial segment (70% of its volumes), while the steadier high margin domestic segment (CNG and residential) contributes the remaining volumes.

The company has presence spread across 24 districts of Gujarat including the newly awarded Geographical Area (GA) of Narmada (Rajpipla) district, Union Territory of Dadra Nagar Haveli and Thane GA which includes Palghar district of Maharashtra.



Largest city gas distribution player by volumes

On a comparative basis, GGL is the largest city gas distribution company in India in terms of gas volume supplied. Hence, it's a volume growth story. GGL has total 18 CGD licenses spread across 24 districts amounting ~20% of total CGD licenses issued by PNGRB in India and 1 pipeline license.

It has ~96,000 square kilometers of licensed area and catering to more than 13 lakh residential consumers, over 13,440 commercial customers, dispensing CNG from 294 CNG stations for vehicular consumers and providing clean energy solutions to over 3,421 industrial units through its wide spread operations with ~22,200 kilometers of natural gas pipeline network. It has added ~250 new industrial units and around 690 new commercial establishments in FY18.

Geographical area of operation

The company operates in 20 districts of the state of Gujarat, 2 districts of the state of Maharashtra and in the Union Territory of Dadra & Nagar Haveli. GGL sells ~6.3 mmscmd of gas. Morbi is the company's biggest market (2.5-2.6 mmscmd), followed by Bharuch/Ankleshwar/Surat/Vapi (~ 2.3 mmscmd), Rajkot (~0.3 mmscmd), Bhavnagar/Jamnagar (~0.1 mmscmd) and other Geographical Areas (GAs).

GGL's area of operations

Domestic			Industrial			Commercial		
Saurashtra	Central Gujarat	South Gujarat	Saurashtra	Central Gujarat	South Gujarat	Saurashtra	South Gujarat	Central Gujarat
Rajkot	Gandhinagar	Surat	Rajkot	Gandhinagar	Surat	Rajkot	Gandhinagar	Surat
Jamnagar	Chandkheda	Ankleshwar	Jamnagar	Karjan	Ankleshwar	Jamnagar	Chandkheda	Ankleshwar
Bhavnagar	Halol	Bharuch	Bhavnagar	Halol	Bharuch	Bhavnagar	Halol	Bharuch
Botad	Nadiad	Tapi	Botad	Nadiad	Tapi	Botad	Nadiad	Tapi
Surendranagar	Khambhat	Vapi	Surendranagar	Palej	Vapi	Surendranagar	Khambhat	Vapi
Morbi	Petlad	Umargam	Wadhwan	Khambhat	Umargam	Morbi	Petlad	Umargam
Thangadh	Kheda	Bhilad	Morbi	Dahej	Sarigam	Thangadh	Kheda	Sarigam
Limbd	Mahemdabad	Sarigam	Thangadh	Bilimora	Limbd	Mahemdabad	Bilimora	
		Bilimora			Valsad			Valsad
		Valsad			Navsari			Dharampur
		Dharampur			Hazira			Navsari
		Navsari			Gundlav			Hazira
		Hazira			Morai			

New districts won in 2018

During the year 2018 PNGRB has granted authorization to GGL to lay, build, operate, or expand city or local natural gas distribution network (CGD network) for the geographical area of Narmada (Rajpipla) district in the state of Gujarat.

As per the provisions of the PNGRB Regulation, 2008, it has been granted 300 months of infrastructure exclusivity i.e. valid up to September 05, 2043 and 96 months of marketing exclusivity valid up to September 05, 2026 for the CGD network. Further, the authorized area for laying, building, operating or expanding the proposed CGD network shall cover a geographical area of 2,817 sq. kms. This not only ensures long term gas demand growth for GGL but the size and scale of the combined entity gives GGL the ability to achieve efficiencies and execute effectively.

Growing Natural Gas Demand

India's city gas distribution (CGD) network is poised to grow with an increasing adoption of natural gas as a fuel due to better cost economics and favorable government policies. This makes the company to remain bullish on natural gas volume growth trajectory of CGD entities.

GGL, India's biggest gas distribution company, is a key beneficiary of the Goods and service tax (GST) and demonetization-led shift of industries (unorganized to organized theme) towards natural gas. Further, ban on petcoke usage could potentially ramp-up natural gas consumption.

The management expects GGL to report strong earnings growth in medium to long term led by strong volume growth which includes expansion in existing & new areas (Amritsar, Bathinda, and Ahmedabad), ramp up in retail gas consumption and rebound in industrial gas demand.

More than 30-40% discount over petrol price is adequate to convert private vehicle conversion from petrol to CNG. Beyond this threshold discount, the accessibility of CNG filling station and waiting time at the CNG outlet drives conversion.

Space constraints and regulatory approvals prior to building CNG stations are common challenges faced by all CGD companies alike. However, for GGL space constraint isn't as severe an issue as it is for others. Hence, infrastructure debottleneck does not restrict its volumes.

The company expects its near term volume growth to be driven by recently connected areas like Palghar, Dahej, Silvassa and Panchmahal. These GAs are dominated by Chemical and FMCG suppliers as well as small-scale industrial estates that have liquid fuel replacement market.

Commercial & Industrial Use

GGL is currently supplying 4.6 mmsmcd of gas to industrial users and 0.6 mmsmcd of gas to commercial users. The company expect I-PNG to grow at a CAGR of ~9.2% and C-PNG to grow at a CAGR of ~7.7% during 2020-2022E.

The industrial segment constitutes 70% of GGCL's total sales volume and out of that Morbi accounts for almost 50% of its industrial volumes.

PNG offers a low-cost convenient alternative to commercial establishments such as hotels, hospitals and restaurants, as subsidized LPG is not available to these consumers. PNG is also used in smaller industries as a heating fuel instead of fuel oil, LSHS, commercial LPG and LDO.

Natural gas continues to offer better economics vs alternatives like fuel oil due to high fuel prices and gives an opportunity of higher off-take from ceramic segment.

CNG/PNG versus alternative fuels - Competitive Analysis

One of the most compelling reasons for any vehicle owner to switch from Diesel/Petrol vehicle to CNG vehicle is better cost-economics. Hence, we have tried to work out cost-benefit analysis of gas over alternative liquid fuels for transportation.

The economics of CNG is quite favorable as compared to alternative liquid fuels such as diesel and gasoline, primarily due to (1) allocation of cheaper domestic produced gas and (2) favorable taxation structure by central government as well as the state governments.

Fuel		CNG	Diesel	Petrol
Maruti Ertiga	Unit	Kg	liters	liters
Fuel Cost -Gujarat	Rs/unit	54.7	70.7	69.6
Mileage	Kms/unit	21	18	15
Fuel Operating Cost	Rs/Km	2.6	3.93	4.64
% compared to petrol		44%	18%	-
% compared to Diesel		34%	-	-
Average Vehicle running per day	Kms/day	50	50	50
Operating cost	Rs/day	130	196	232
Savings per day v/s CNG	Rs/day		66	102
No. of days in a year	Days/year		360	360
Annual Savings	Rs.		23,774	36,634
Cost of kit- one-time cost	Rs		35,000	35,000
Pay-back period	Months		18	11
Break-Even	Kms		26,499	17,197

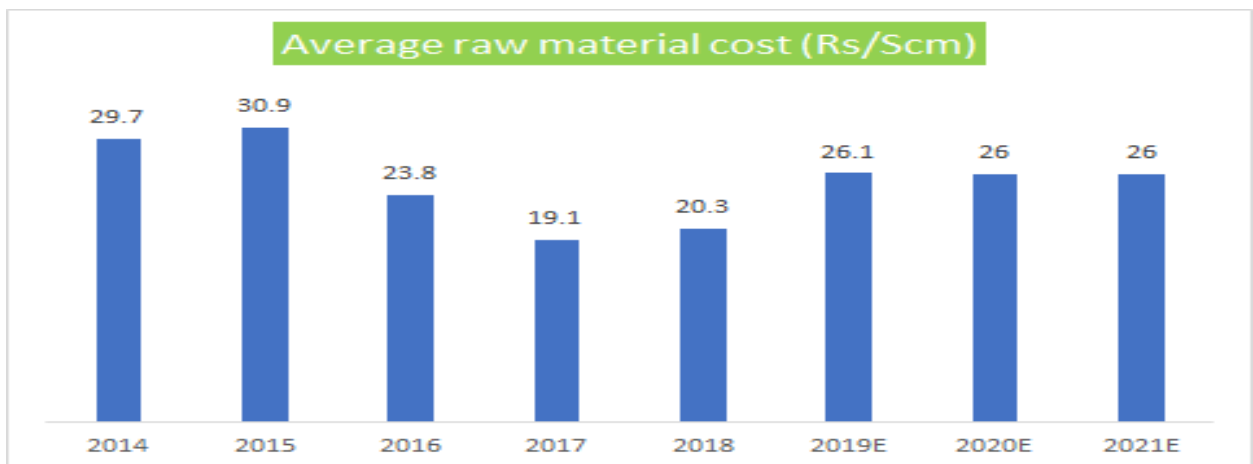
Comparison of domestic PNG versus LPG for cooking

Currently, GGL is selling around 0.5 mmscmd of gas to domestic PNG consumer and the same is sourced from domestic upstream companies which is priced attractively. Domestic PNG (Piped natural gas) is meaningfully attractive as compared to non-subsidized LPG cylinders in the current pricing environment, although the cost of cooking fuel indeed forms a relatively small share of consumers' wallet.

There is adequate impetus such as convenience, safety factors - prevents hassles of ordering and changing cylinders, no waiting period and does not require any storage space for the end-consumers to switch from LPG cylinders to PNG.

Raw Material Cost

The company procures gas from multiple sources with different cost. The sourcing basket comprises of 3.5 mmscmd term RLNG, 1.4 mmscmd of spot and 1.85 mmscmd of domestic gas. Among all, PNG (domestic) and CNG gas procured from domestic sources is the cheapest due to favorable government policy.



Government domestic gas allocation policy

Domestic supply agreement - MoPNG allocates gas for entire requirement of CNG and domestic PNG under Administered Price Mechanism (APM), PMT and Non-APM Agreements.

Allocation of 110% of consumption in previous 6 months to be compulsorily supplied by GAIL and to be only used for the domestic PNG & CNG segments.

Price to be fixed on 6 monthly basis (market linked - US\$ 3.36 / MMBTU on GCV basis).

Gas sourcing mix:

APM gas - for Domestic CNG and PNG

PMT gas - for Domestic CNG and PNG

Long term LNG- BG contract (valid till 2025) - Long-term contract till CY25 for 2 mmcmd volumes at ~14% linkage to the Brent crude price.

Long term LNG- Rasgas contract (valid till 2028) - Long-term contract till CY28 for 1 mmcmd volume at ~13% linkage to the JCC crude price.

Spot LNG - LNG from spot market to meet balance demand

Key-Risks

High Cost long term contract:

GGL's high-cost long-term LNG contract coupled with strength in spot LNG prices will continue to challenge its business model.

Sharp uptick in LNG price or correction in oil price:

Sharp uptick in LNG price or correction in oil prices will lower competitiveness of gas versus alternatives, which will impact volumes.

Change in Allocation or increase in price of domestic gas:

Change in allocation or increase in price of domestic gas will impact steady CNG and residential PNG business.

Entry of new players:

Entry of new players post the end of its marketing exclusivity will impair its quasi-monopoly in the state.

Financials

Consolidated P&L

Consolidated Profit & Loss account (Rs Cr)	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Income					
Sales Turnover	9,137.43	6,245.48	5,237.87	6,339.35	7,962.48
Excise Duty	131.17	0	145.26	165.02	208.07
Net Sales	9,006.26	6,245.48	5,092.61	6,174.33	7,754.41
Other Income	106.32	16.92	23.76	36.33	91.63
Stock Adjustments	-0.48	-0.31	0.13	0.62	1.05
Total Income	9,112.10	6,262.09	5,116.50	6,211.28	7,847.09
Expenditure					
Raw Materials	36.54	18.84	3,853.57	4,690.68	6,096.22
Power & Fuel Cost	7,501.24	4,970.09	59.31	71.7	78.03
Employee Cost	115.19	128.73	128.21	139.01	159.98
Miscellaneous Expenses	248.57	259.92	308.36	378.5	436.59
Total Expenses	7,901.54	5,377.58	4,349.45	5,279.89	6,770.82
Operating Profit	1,104.24	867.59	743.29	895.06	984.64
PBDIT	1,210.56	884.51	767.05	931.39	1,076.27
Interest	331.28	247.44	208.96	196.08	196.19
PBDT	879.28	637.07	558.09	735.31	880.08
Depreciation	237.68	245.42	257.33	271.82	288.01
Profit Before Tax	641.6	391.65	300.76	463.49	592.07
Extra-ordinary items	-0.16	0	0	0	0
PBT (Post Extra-ord Items)	641.44	391.65	300.76	463.49	592.07
Tax	197.86	65.82	84.1	171.83	177.17
Reported Net Profit	443.58	187.9	219.24	291.19	416.96
Earning Per Share (Rs)	32.22	13.65	15.92	21.15	6.06

Consolidated Balance Sheet (Rs.Cr)

Consolidated Balance Sheet (Rs Cr)	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Sources Of Funds					
Total Share Capital	137.68	137.68	137.68	137.68	137.68
Equity Share Capital	137.68	137.68	137.68	137.68	137.68
Reserves	1,872.33	1,385.61	1,526.04	1,728.70	2,067.59
Networth	2,010.01	1,523.29	1,663.72	1,866.38	2,205.27
Secured Loans	990.78	1,706.58	2,291.41	2,212.99	2,089.15
Unsecured Loans	500	0	7.28	1.28	0
Total Debt	1,490.78	1,706.58	2,298.69	2,214.27	2,089.15
Total Liabilities	3,500.79	3,229.87	3,962.41	4,080.65	4,294.42
Application Of Funds					
Gross Block	4,976.42	5,385.32	5,847.24	6,276.27	6,736.36
Less: Accum. Depreciation	489.76	711.14	944.26	1,182.26	1,446.00
Net Block	4,486.66	4,674.18	4,902.98	5,094.01	5,290.36
Capital Work in Progress	357.39	468.16	505.72	478.33	488.49
Investments	1,118.12	142.51	91.64	40.74	42.08
Inventories	41.09	41.34	41.65	56.78	69.41
Sundry Debtors	360.6	300.49	347.51	391.71	510.31
Cash and Bank Balance	237.41	67.98	64.5	140.12	313.19
Total Current Assets	639.1	409.81	453.66	588.61	892.91
Loans and Advances	313.43	374.57	421.4	460.09	443.69
Total CA, Loans & Advances	952.53	784.38	875.06	1,048.70	1,336.60
Current Liabilities	3,306.53	2,802.69	2,373.05	2,542.83	2,823.43
Provisions	107.38	36.67	39.94	38.3	39.68
Total CL & Provisions	3,413.91	2,839.36	2,412.99	2,581.13	2,863.11
Net Current Assets	-2,461.38	-2,054.98	-1,537.93	-1,532.43	-1,526.51
Total Assets	3,500.79	3,229.87	3,962.41	4,080.65	4,294.42

Cash Flow Statement

Cash Flow Statement (Rs Cr)	Mar-17	Mar-18	Mar-19
Net Profit/Loss Before Extraordinary Items And Tax	303.33	462.84	593.85
Net CashFlow From Operating Activities	700.98	782.92	956.13
Net Cash Used In Investing Activities	-458.2	-430.6	-604.19
Net Cash Used From Financing Activities	-255.31	-270.68	-349.42
Net Inc/Dec In Cash And Cash Equivalents	-12.53	81.64	2.52
Cash And Cash Equivalents Begin of Year	22.73	10.2	91.84
Cash And Cash Equivalents End Of Year	10.2	91.84	94.36

Key Financial ratio's

Consolidated Key Financial Ratios	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Operating Profit Margin(%)	12.26	13.89	14.59	14.49	12.69
Profit Before Interest And Tax Margin(%)	9.5	9.89	9.49	10.03	8.85
Gross Profit Margin(%)	9.62	9.96	9.54	10.09	8.98
Net Profit Margin(%)	4.95	3.04	4.33	4.73	5.39
Return On Capital Employed(%)	27.81	20.64	12.92	16.15	18.81
Return On Net Worth(%)	22.21	12.47	13.25	15.66	18.97
Return on Assets Including Revaluations	145.99	110.64	120.84	135.56	32.04
Current Ratio	0.28	0.28	0.36	0.41	0.47
Quick Ratio	0.27	0.26	0.35	0.38	0.44
Debt Equity Ratio	0.74	1.12	1.38	1.19	0.95
Long Term Debt Equity Ratio	0.74	1.12	1.38	1.19	0.95
Interest Cover	2.94	2.69	2.45	3.36	4.12
Inventory Turnover Ratio	222.38	151.08	125.76	111.65	114.72
Debtors Turnover Ratio	--	18.89	15.72	16.71	17.19
Investments Turnover Ratio	222.38	151.08	125.76	111.65	114.72
Fixed Assets Turnover Ratio	1.87	1.2	0.91	1.03	1.21
Total Assets Turnover Ratio	2.7	2.06	1.38	1.63	1.95

Disclaimer

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