



Company Name	: GUJARAT GAS LTD.
BSE Code	: 539336
Time Duration	: 1 year
CMP	: ₹196.70 (as on 13 November, 2019)
Target Price	: ₹245

Our Value Pick for the month of November 2019 is Gujarat Gas Ltd. The company is among India's largest city gas distribution players with business presence across 23 districts in the state of Gujarat, union territory of Dadra & Nagar Haveli and Thane geographical area, and has around 23,200 kms of gas pipeline network. The company has India's largest customer base in residential, commercial and industrial segments in its field of operation. It has around 344 CNG stations and distributes approximately 8.5 mmcmd of natural gas to ~13,55,000 households, ~2 lakh CNG vehicles (per day) and to over 3,540 industrial customers. The company has presence in PNG-domestic, PNG-industrial, PNG-commercial and CNG segments.

Expansion to fuel growth

The company enjoys a market share of nearly 47 per cent in commercial connections, 44 per cent in industrial connections, 30 per cent in domestic connections and 23 per cent in CNG stations. Further, in the recent 9th and 10th round of City Gas Distribution, the company won nearly 7 new geographical areas, ie in the states of Rajasthan, Punjab, Haryana and Madhya Pradesh, thereby expanding its geographical presence in newer markets.

Government impetus on natural gas augurs well for Co

Natural Gas is the cleanest and most efficient of the fossil fuels and the cost of CNG is far lower, i.e. 35-45 per cent cheaper than diesel and petrol. This augurs well for companies like Gujarat Gas Ltd to sustain as well as further boost business growth, amid rising concerns of pollution. Besides, in line with its focus on shift to cleaner fuels to reduce pollution, the government is offering incentives for adoption of CNG as a transportation fuel as well as for industrial and commercial usage. Fuels like petrol, diesel and LPG rely on imports and this is another reason for the government's emphasis on shifting to CNG as an import substitution measure. The government has set a target to increase the share

of natural gas in the overall energy consumption mix to 15 per cent from the current 6 per cent by 2022, which should be business accretive for companies like Gujarat Gas Ltd.

NGT order spurs gas demand at Morbi

Morbi is India's largest ceramic manufacturing cluster and earlier this year, the National Green Tribunal (NGT) has asked tile makers to shut down coal gasifiers. Consequently, the company witnessed a sharp rise in CNG demand to 6.5 mmcmd. Going forward, if such regulatory push is implemented in Bharuch, Surat, Ankaleshwar, and Vapi, like in Morbi, then the company's volumes could shoot up sharply, which in turn, will strongly trigger the top-line.

Financial performance

In the recently concluded quarter (Q2FY20), the company's net sales grew by 27.6 per cent YoY to Rs. 2,569.25 crore. During this period, the company recorded ~40 per cent YoY volume growth to 9.3 mmcmd, of which, industrial volumes surged by ~56 per cent YoY to 7.2 mmcmd while CNG and PNG volumes were at ~1.5 mmcmd and ~0.7 mmcmd, respectively.

The EBITDA for the period surged 131 per cent YoY to Rs. 370.61 crore with corresponding margin expansion of 644 bps. Profit after tax jumped to Rs. 517.25 crore from Rs. 41 crore in Q2FY18. This was led by benefit of tax credit.

The company has given capex guidance of Rs. 600 crore for FY20E.

Valuation & outlook

Gujarat Gas Ltd is among the largest natural gas distribution companies in the country, which has a pipeline network spread across 41 districts and six states and one UT and it's further expanding. With the government's impetus on substitution to nat-

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ural gas over other fuels, Gujarat Gas is expected to benefit in the coming years, given its established city gas distribution model. Further, the company has benefited from the decision of the NGT and this will create additional demand for natural gas, going forward. In terms of return ratios, the company's ROE and ROCE stood healthy at ~20.7 per cent and 18.7 per cent, respectively.

Despite, the recent rally in the company's stock price, valuation at 13.62x P/E on TTM earnings as compared to its three-year median P/E of 34.60x, is still attractive. With these favourables, we recommend a BUY on the stock and believe that it has potential to touch the mark of Rs. 245, representing nearly 24 per cent upside.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	7754.41	6174.33	5092.61	6105.58	9006.26
Total Income	7865.72	6210.01	5118.93	6150.08	9113.41
Total Expenditure	6758.26	5269.15	4340.27	5375.71	7899.11
PBITD	1107.46	940.86	778.66	774.37	1214.30
PAT	417.03	291.36	219.50	188.33	443.58
Dividend %	50.00	40.00	30.00	25.00	50.00
Adj. EPS(Rs)	6.06	4.23	3.19	2.74	6.44

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201909	201906	Q on Q Var%	201809	Y on Y Var%
Net Sales	2569.25	2670.82	-3.80	2013.83	27.58
Total Expenditure	2198.64	2204.33	-0.26	1853.10	18.65
PBITD (Excl OI)	370.61	466.49	-20.55	160.73	130.58
PAT	517.25	233.69	121.34	41.07	1159.44
PBITDM% (Excl OI)	14.42	17.47	-17.46	7.98	80.70
PBITDM%	15.35	18.31	-16.17	8.91	72.28
PATM%	20.13	8.75	130.06	2.04	886.76
Adj. EPS(Rs)	0.00	3.39	-100.00	0.60	-100.00

Stock vs. Index



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