Gujarat Gas

BUY

Solid, not gas

Gujarat Gas' (GGL) volumes grew at 5% CAGR over FY18-19, while unit gross margins expanded 57bps despite a 26% jump in LNG prices. Since over two thirds of sales vols (industrial/commercial) do not qualify for domestic procurement, GGL buys via LT contracts. It also bore the brunt of ~9% INR depreciation, even as EBITDA growth was in line with volumes. The stock is flat vs. 16% appreciation of the BSE Sensex. We think this presents an opportunity, in view of volume growth visibility. The company is well positioned given (1) Low LNG prices will boost industrial gas sales volume, (2) The development of CGD ecosystem across Gujarat will push CNG volumes.

- With global liquefaction capacity on a rise, the LNG market is currently in a supply glut. This is empirically evident from the prevailing spot LNG prices. Industrial and commercial customers that constitute 70% of GGL's volumes are catered by a blend of LT and spot LNG. As sourcing mix tilts towards spot LNG, blended purchase price will fall. We believe this benefit will be part-retained, driving up margins. Low spot LNG prices will also spur demand.
- Volume growth will kick in as GGL invests in CNG/D-PNG distribution in existing geographical areas (GAs) and new areas. If the recent decision of the National Green Tribunal (NGT) to ban coal gasifiers (to curb air pollution) is any indication of environmental awareness in Gujarat, industrial volumes will further expand.
- Gujarat is a price-sensitive market. Despite the relatively narrower benefit of using CNG vs. alternate auto fuels in the state, Gujarat's CNG volume growth over FY15-18 was second only to Delhi. This is attributable to the widespread network of CNG stations and low congestion. The scenario will improve further as the bid winners of the 9th CGD round add 140+ CNG stations (on the base of ~350+), as per the Minimum Work Program, over the next eight years.
- GGL's dominant presence in Tier-III cities gives it an edge over its peers who struggle to grow their CNG volumes (22% of sales mix), due to space constraints in metro and Tier-II cities.
- CGD entities deserve higher valuation multiples than utilities considering they are (1) Unregulated, (2) Relatively less capex-intensive, and (3) Competing for sales against viable alternatives (in industrial/commercial markets). We believe their pricing freedom derives from the fact that superior returns in CGD can be reinvested and help increase the share of gas in India's energy mix from 20% (from 6% currently) by 2025. This premium can only expand with time. We value GGL at 20x FY21EPS (vs. 25x for IGL and 19x for MGL). Our TP is Rs 222. Initiate with BUY.

Financial Summary (Standalone)

Rs bn	FY17	FY18	FY19P	FY20E	FY21E
Revenues	50.93	61.74	77.54	90.39	101.23
Growth (%)	*(16.6)*	*21.2*	*25.6*	*16.6*	*12.0*
EBITDA	7.76	8.95	10.23	13.38	15.78
Margin (%)	15.2	14.5	13.2	14.8	15.6
Growth (%)	7.1	15.3	14.3	30.7	17.9
APAT	2.44	2.91	4.22	6.06	7.63
AEPS	*3.5*	*4.2*	*6.1*	*8.8*	*11.1*
P/E (x)	*51.7*	*43.3*	*29.8*	*20.8*	*16.5*
EV/EBITDA (x)	19.5	16.8	14.4	10.8	8.9

Source: Company, HDFC sec Inst Research

INDUSTRY	OIL & GAS
CMP *(as on 31 May 2019)*	**Rs 183**
Target Price	**Rs 222**
Nifty	11,923
Sensex	39,714

KEY STOCK DATA	
Bloomberg	GUJGA IN
No. of Shares (mn)	688
MCap (Rs bn) / ($ mn)	127/1,811
6m avg traded value (Rs mn)	89

STOCK PERFORMANCE (%)			
52 Week high / low			**Rs 192/115**
	3M	6M	12M
Absolute (%)	54.5	43.0	6.2
Relative (%)	43.7	33.3	(6.3)

SHAREHOLDING PATTERN (%)	**Dec-18**	**Mar-19**
Promoters	60.89	60.89
FIs & Local MFs	3.44	3.94
FPIs	14.03	12.79
Public & Others	21.64	22.38
Pledged Shares	0.00	0.00

Source : BSE

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The largest CGD player in India, GGL's customer profile includes more than 1.36mn of domestic households, 3,540 industrial units & over 13,500 commercial establishments

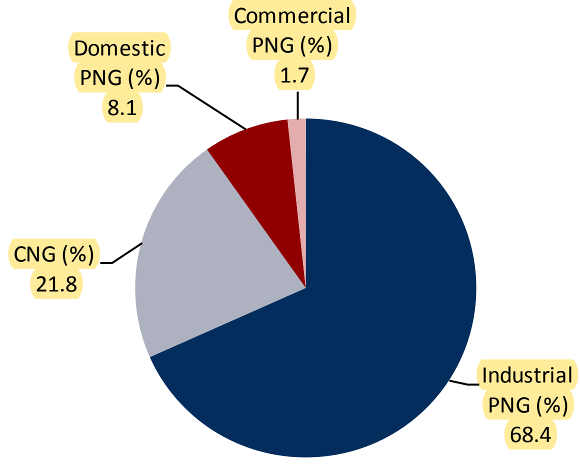
Space constraint is not as severe an issue for GGL as it is for other CGD players given the easy availability of land in Gujarat vs Mumbai/Delhi

Near term volume growth to be driven by areas like Palghar, Dahej, Silvasa and Panchmahal dominated by Chemical & FMCG suppliers as well as small-scale industrial estates

Robust volume growth of ~11% CAGR over FY19-24E led by Industrial/Commercial and CNG segments

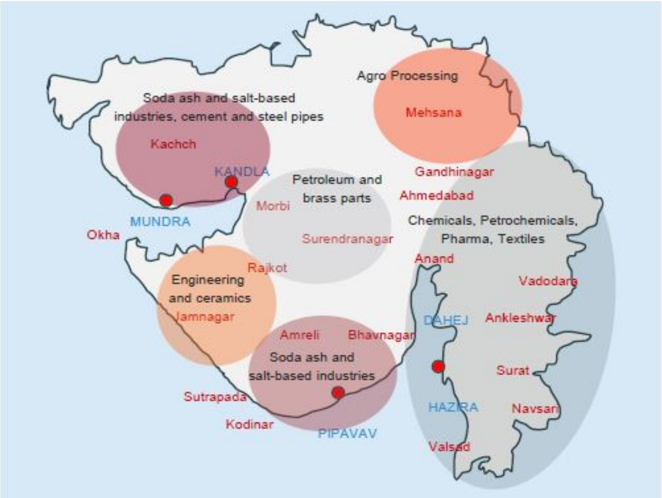
- GGL is the largest CGD player in India with diversified customer profile. It comprises more than 1.36mn of domestic households, 3,540 industrial units & over 13,500 commercial establishments. It has a strong and established market position in the CGD industry with leading position in the state of Gujarat, the union territory of Dadra and Nagar Haveli, and one GA in the state of Maharashtra.
- Its total gas sale volume was 6.5 million metric standard cubic metres per day (mmscmd) in 4QFY19. The company's sales mix is skewed towards Industrial and Commercial Volume growth for this segment is mainly driven by (1) Price of gas over alternatives, (2) Business requirements, and (3) Pipeline connectivity with industrial hubs.
- 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.
- Near term volume growth for the company will 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.

Sales Mix (FY19)



Source: Company, HDFC sec Inst Research

Industrial Profile Of Gujarat



Source: Government of Gujarat, HDFC sec Inst Research

- Existing high volume areas, namely Surat, Bharuch and Ankaleshwar that currently contribute ~1.3mmscmd (predominately industrial volumes) continue to grow. These areas are dominated by Pharma, Chemicals and Textile industries. There is a further potential of 1-1.5mmscmd from these areas.

GGL has won 7 GAs in the recently concluded 9th and 10th rounds of the CGD auction

- Besides, the company has already connected 8 industrial customers in Palghar district, which has an overall potential of 0.8-1mmscmd. Silvasa and Dahej have the potential of 0.5mmscmd and 0.25-0.3mmscmd respectively.
- Moreover, GGL has won one GA in the 9th round and six GAs in the recently concluded 10th round of CGD auction. However, considerable volume flow from these seven areas will take some time.

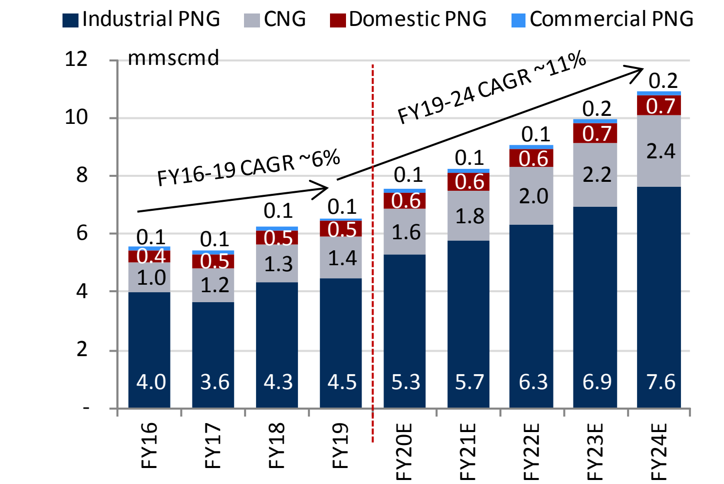
Newly Won GAs In Recent CGD Auctions

Round	Name of GA	State
9th	Narmada (Rajpipla) district	Gujarat
10th	Jalore and Sirohi districts	Rajasthan
10th	Jhabua, Banswara, Ratlam and Durgarpur districts	MP and Rajasthan
10th	Ujjain, Dewas and Indore districts	MP
10th	Ferozepur, Faridkot and Sri Muktsar Sahib districts	Punjab
10th	Hoshiarpur and Gurdaspur districts	Punjab
10th	Sirsa, Fatehabad and Mansa districts	Punjab and Haryana

Source: PNGRB, HDFC sec Inst Research

- Penetration in new markets and pick-up in industrial development in Gujarat will drive volume growth for GGL.
- We anticipate comprehensive growth from all businesses in FY19-24E. Total volume should increase from ~6.54mmscmd in FY19 to 10.91mmscmd in FY24 at 10.8% CAGR. High margin CNG business should grow at 11.22% CAGR and Industrial PNG at 11.34% CAGR despite the already high volume base.

Segment Wise Volume Break-Up



Source: Company, HDFC sec Inst Research

The company has gained 2mmscmd of volume in Morbi after National Green Tribunal (NGT) ordered all ceramic units using coal gasifier to either shut down or shift to natural gas

- National Green Tribunal (NGT) had recently ordered all ceramic units in Morbi using coal gasifier to either shut down or move to natural gas in order to curb air pollution. This has resulted in a jump in gas demand from ~2.5mmscmd to 4.5mmscmd from Morbi. If the current NGT decision used as a directive for a potential ban on use of fuel oil and petcoke in the state, it will be serve as a massive advantage for the company.

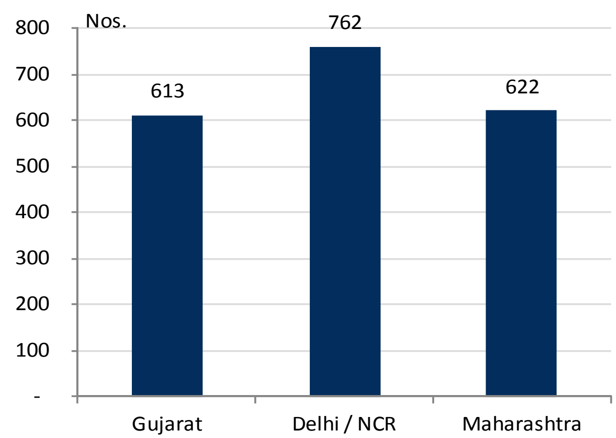
Gujarat has the lowest vehicles to dispenser ratio of 613

MGL has its vehicular population clustered largely in Mumbai that adds exertion on the dispensers. On the contrary, Gujarat has widespread CNG stations that reduces congestion at each station

Gujarat has high potential for CNG demand

- After the recently concluded 9th round of CNG bidding, 100% geographical area and population in Gujarat is covered under the City Gas Distribution (CGD) network. Over the next three to five years, bid owners will expand their infrastructure rapidly in the newly won GAs. The infrastructure development will not only create corridors for CNG across Gujarat but also give confidence about availability of fuel to CNG users. This will inturn give GGL the opportunity to explore untapped markets, hence taking advantage of its presence in 22 out of 33 districts.
- Gujarat has the least number of vehicles per dispenser (~613) among the major CNG consuming states/region. Maharashtra comes to a close second with 622 vehicles per dispenser while it is highest in Delhi at 762. Though in Maharashtra, the number of vehicles per dispensor is close to that of in Gujarat but the CNG vehicle population is concentrated (~75%) in Mumbai and Thane alone. This results in congestion at outlets and deters conversion of Petrol vehicles to CNG.

Number Of Vehicles Per Dispenser Is The Lowest In Gujarat



Source: PNGRB, HDFC sec Inst Research

Region-Wise CNG Vehicular Population in FY17

Particulars	Number	Percentage
Mumbai & Suburban	2,52,701	43.36
Thane	1,31,327	22.53
Panvel	56,015	9.61
Mumbai and Thane	**4,40,043**	**75.51**
Pune region	1,42,673	24.48
Others	62	0.01

Category-Wise CNG Vehicular List in FY17

Particulars	Number
Cars	2,54,000
Auto rickshaws	2,31,616
Metered Taxis	51,160
Luxury/ Tourist cabs	32,356
Others	13,646
Total	**5,82,778**

Source: State Transport Department, HDFC sec Inst Research

- Unlike Maharashtra, the CNG vehicle population is widely spread across Gujarat, thus, the waiting time for refueling at the CNG outlet, is the lowest in the state as compared to Delhi and Mumbai.
- Further, as per the commitments made by the winners of the 9th CGD round, a minimum of 140 CNG stations i.e. >28% of the current CNG stations in Gujarat will be added over the next 8 years. This will further ease out congestion at outlets. Addition of new CNG stations can easily cater to the incremental vehicle population of 0.26 milion (29% of the current number) leaving the current vehicles per dispenser ratio unchanged.

The vehicle per dispenser ratio will remain unchanged as 140 new stations come up in the state

Despite the delta between CNG and petrol/diesel prices being the least in Gujarat, CNG volume grew at the highest rate in Gujarat, second to only Delhi that has a regulatory push. This is attributable to the marketing campaigns that GGL runs on an ongoing basis

Number Of CNG Outlets To Be Added Over 8 Years

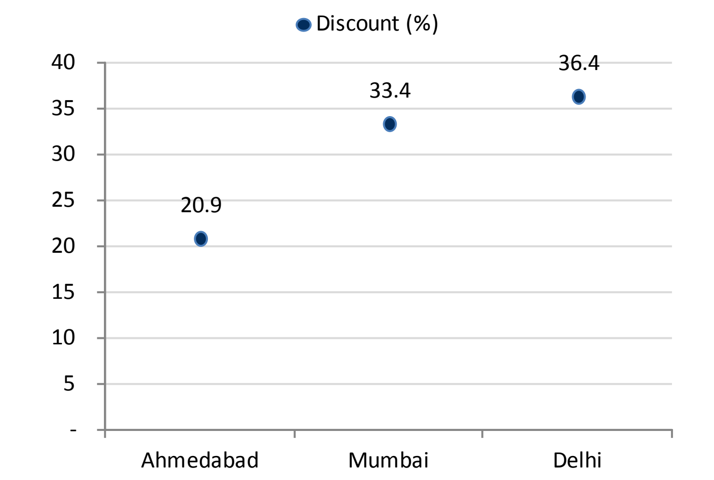
	GA Name	CGD entity	CNG Outlets
1	Surendranagar district	Adani Gas	20
2	Barwala & Ranpur Talukas	Adani Gas	4
3	Navsari, Surat, Tapi & the Dangs district	Adani Gas	25
4	Junagadh district	Torrent Gas	45
5	Kheda, Morbi & Mahisagar districts	Adani Gas	30
6	Narmada (Rajpipla) District	Gujarat Gas	4
7	Porbandar district	Adani Gas	12
	Total		**140**

Source: Company, HDFC sec Inst Research

It is not only economic benefit but something else

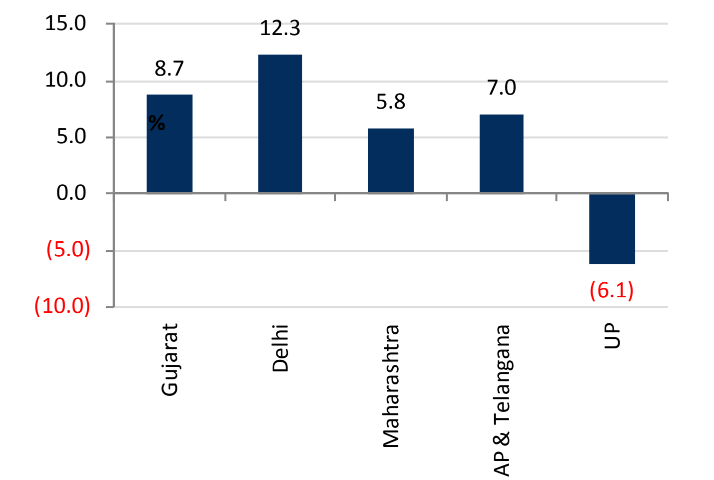
- CNG is 6% and 20% costlier in Gujarat compared Mumbai and Delhi respectively. On other hand, Petrol price is 10.7% and 3.7% cheaper there compared to Mumbai and Delhi. Thus, economic benefits of using CNG is the lowest in Gujarat relative to that of in Mumbai and Delhi. Despite this adversity, CNG volume grew at a CAGR of 8.7% in Gujarat over FY15-18, which is higher than all but Delhi, where growth was led by conversion of a fleet of taxi owners.

Gujarat Is The Least Attractive For CNG Consumers As The Discount Vis-A-Vis Petrol In Ahmedabad Is The Lowest (Petrol Prices As on 29 May-19)



Source: IOCL, Company, HDFC sec Inst Research

Gujarat Has Shown 2nd Highest CNG Growth Rate Over FY15-18



Source: PNGRB, HDFC sec Inst Research

GGL has to compete against the cheaper petrol and diesel prices in Gujarat. In such a scenario, it deploys methods like incentives, advertising to appeal to its price sensitive customers

- GGL has presence in a market that is predominantly mature and price-sensitive. The company understands that CGD business is not a utility but a commodity business. Thus, they market their product through promotions, incentives and advertising. These conscious marketing efforts and infrastructure developments have resulted in strong volume growth.
- GGL has already commissioned 53 new CNG stations in FY19. The company aims to open ~100 CNG stations each year, which would drive its CNG volume.

As road connectivity between Mumbai and Vadodara increases, GGL will benefit from the (1) CNG volume uptake on the highway, (2) New industrial establishments

66% of the Mumbai- Vadodara expressway runs along GAs owned by Gujarat Gas

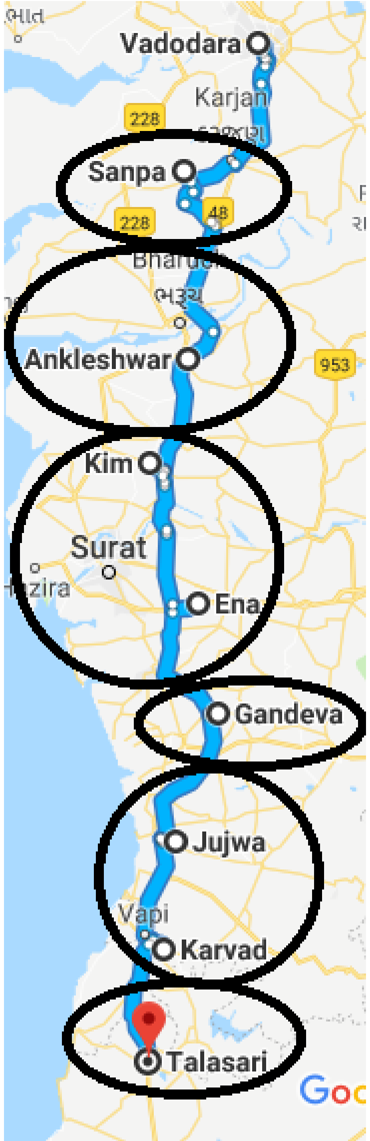
- The construction of a 380km long greenfield Mumbai-Vadodara expressway is underway under the National Highway Development Project (NHDP). All contracts have already been awarded and it is expected to be completed in phases by FY22 . Out of these 380km, 220km lie in the GA wherein Gujarat Gas operates. Moreover, this expressway connects not only the industrial belt of Ankleshwar-Surat-Vapi-Thane but also major cities like Thane, Surat, Vadodara and Ahmedabad. Thus, there is strong potential for CNG demand along the way. GSPL, the sole supplier of gas to Gujarat Gas, is sure to be a huge beneficiary of this development.

All Tenders Have Been Awarded As On Date And Expected Completion Is At The End Of FY22

No.	From	To	District	Stretch (kms)
1	Vadodara	Padra	Vadodara	24
2	Padra	Sanpa	Panch Mahal	32
3	Sanpa	Manubar	Bharuch	31
4	Manubar	Ankleshwar	Bharuch	13
5	Ankleshwar	Kim	Surat	25
6	Kim	Ena	Surat	37
7	Ena	Gandeva	Navsari	28
8	Gandeva	Jujuwa	Valsad	35
9	Jujuwa	Karvad	Valsad	27
10	Karvad	Talasari	Palghar	25

Source: Company, HDFC sec Inst Research

251kms Of The Mumbai-Vadodara Highway Pass Through GAs Where Gujarat Gas Operates



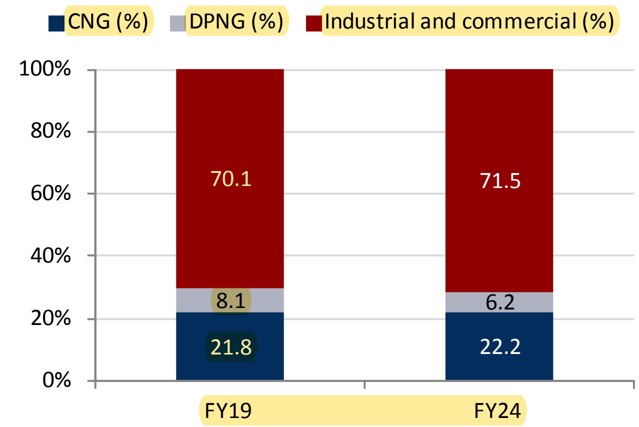
As sourcing mix tilts towards the cheaper spot LNG, blended purchase price will fall. We believe this benefit will partly be retained, driving up margins

Low spot LNG prices will in turn boost volumes. This will continue in a virtuous cycle giving GGL a massive advantage

Turnaround in gross margins

- The industrial and commercial segment accounted volume was 4.58mmscmd (~70.1% share in volume mix) in FY19. We expect this to increase to 7.81mmsmcd in FY24.

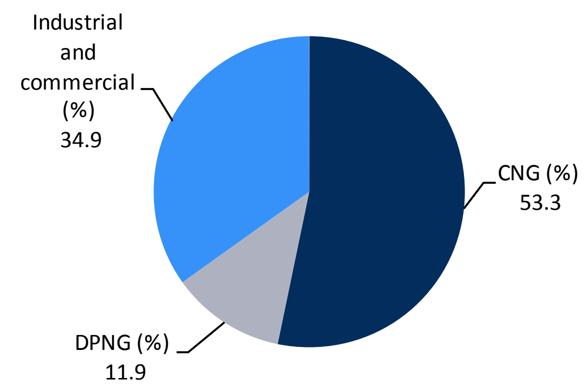
Customer-Wise Sales Mix



Source: Company, HDFC sec Inst Research

- As per our calculations, the contribution of this segment in overall gross margins was merely 34.9% in FY19. This could be attributable to the costly Long Term (LT) LNG contracts.

Industrial And Commercial Segment Contributed 34.9% In Gross Margin In FY19



Source: Company, HDFC sec Inst Research

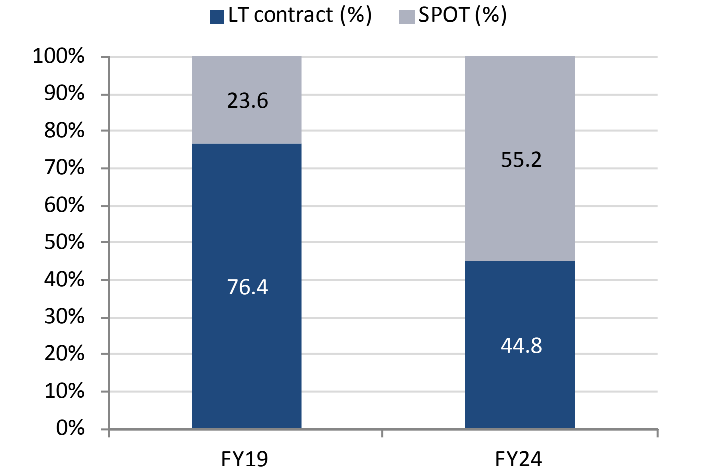
- GGL has two Long term contracts, namely with (1) British Gas (BG) for 2.5mmscmd volume at ~14% slope to Brent price and (2) RasGas to buy 1mmscmd. Oil price linked contracts lead to higher LNG prices for GGL.

- The LNG procurement mix for the Industrial and Commercial segment consists of, (1) Pricey LT contracts, (2) Cheap Spot LNG.

NG will become more competitive as prices fall. This will in turn boost volume from untapped markets

Volatility in Gross margins on a quarterly basis is owing to fluctuation in R-LNG prices and the exchange rate. Although, on an overall level, the trend is upwards

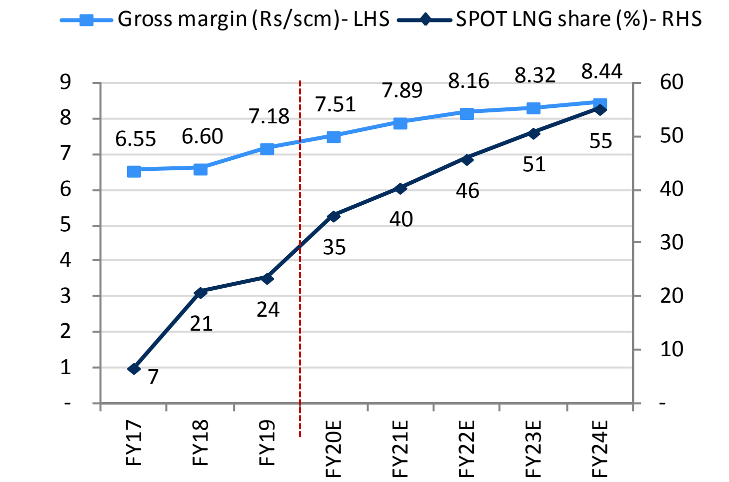
Share Of Spot LNG To Double In Total LNG



Source: Company, HDFC sec Inst Research

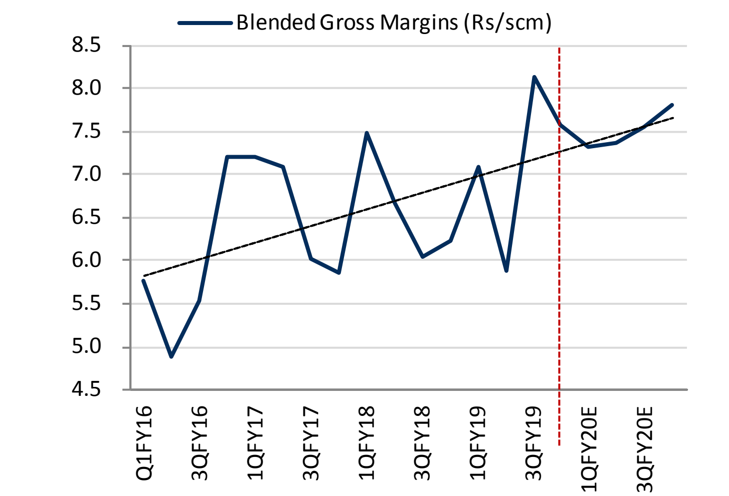
- We expect Spot LNG prices to remain benign in the near term. Hence, blended purchase price should reduce drastically as GGL will fulfil incremental demand with relatively cheaper Spot LNG.
- While we agree that GGL will pass-on maximum benefit to the end users, we expect it to retain a certain portion that will enable margin improvement. Besides, this will make NG more competitive than alternatives, such as fuel oil, which in turn should further boost demand for gas from untapped markets.

GM Rises Proportionately With Share Of Spot LNG



Source: Company, HDFC sec Inst Research

Quarterly Per Unit Gross Margin Trend



Source: Company, HDFC sec Inst Research

~40% opex being fixed in nature and the rise in per unit gross margin has led to Rs 0.62 expansion in per unit EBITDA margin from Rs 3.73 in Q1FY16 to Rs 4.34 in Q4FY19

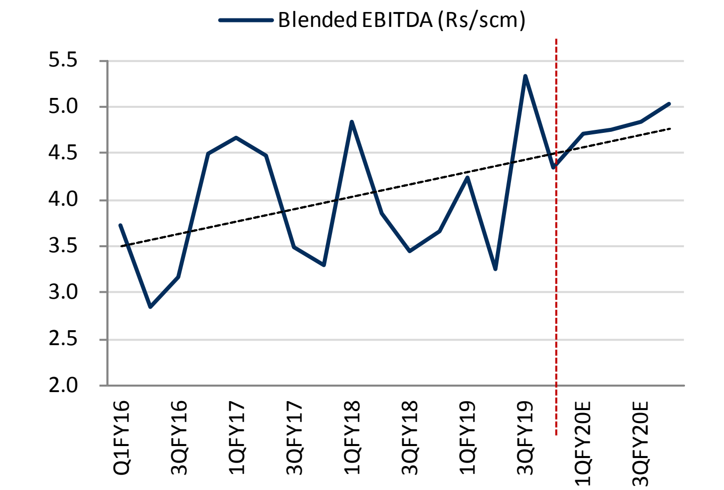
CNG is the highest driver of gross margins for GGL and it compensates the low margins from the industrial and commercial segments

Back-calculated per unit gross margins for the CNG segment for GGL is the highest versus IGL/MGL at Rs 18.3 in Q4FY19 versus Rs 12.1/12.5 respectively

Margins from D-PNG increased by 2.5% sequentially to Rs 11.3/scm from Rs 11.1/scm in Q3FY19

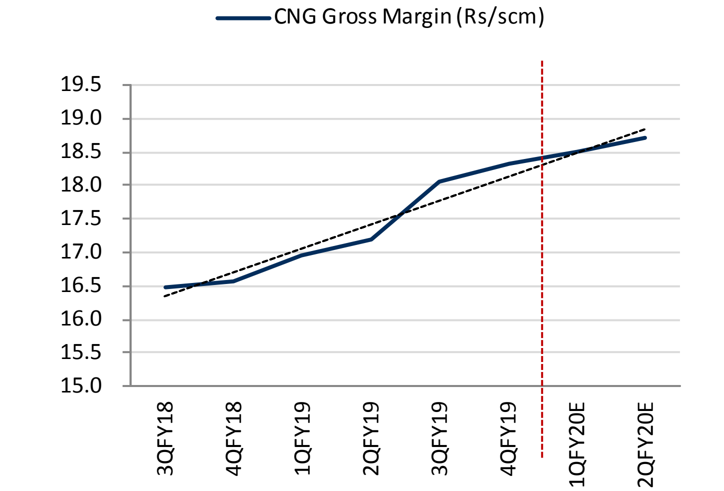
Per unit PAT margin has improved by ~Re 1 over FY16-19 despite expansion in volume from 5.6 to 6.5mmscmd

Quarterly Per Unit EBITDA Margin Trend



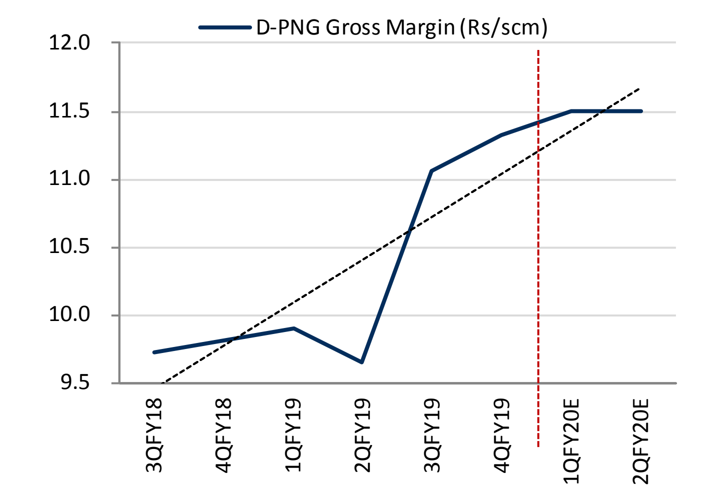
Source: Company, HDFC sec Inst Research

Per Unit Gross Margin For The CNG Segment



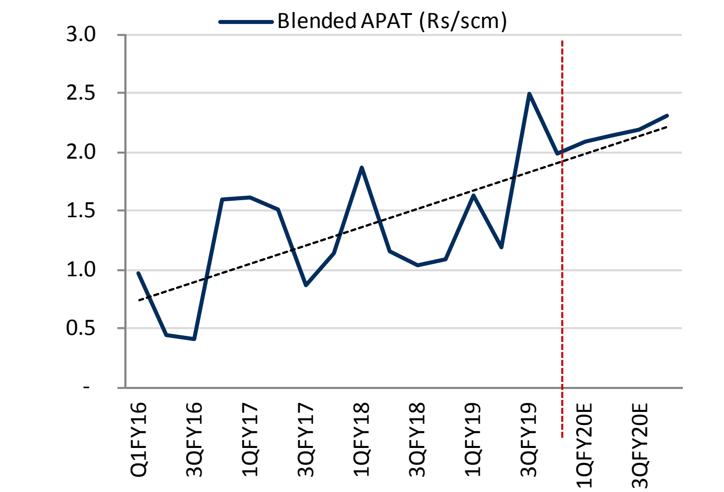
Source: Company, HDFC sec Inst Research

Per Unit Gross Margin For The D-PNG Segment



Source: Company, HDFC sec Inst Research

Quarterly Per Unit PAT Margin Trend

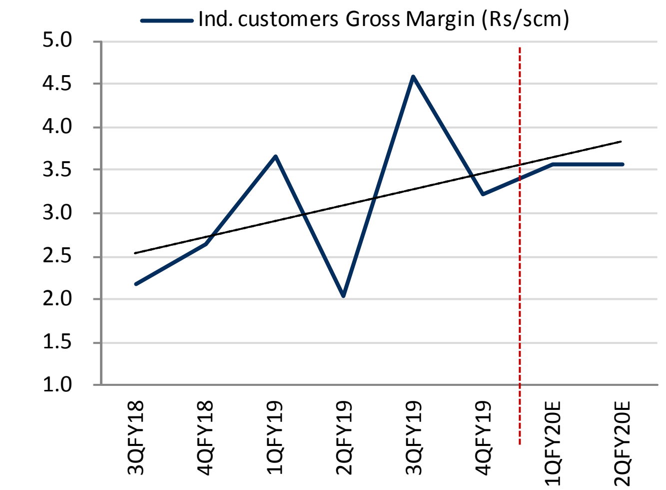


Source: Company, HDFC sec Inst Research

The industrial segment is the highest volume but the lowest margin segment for GGL

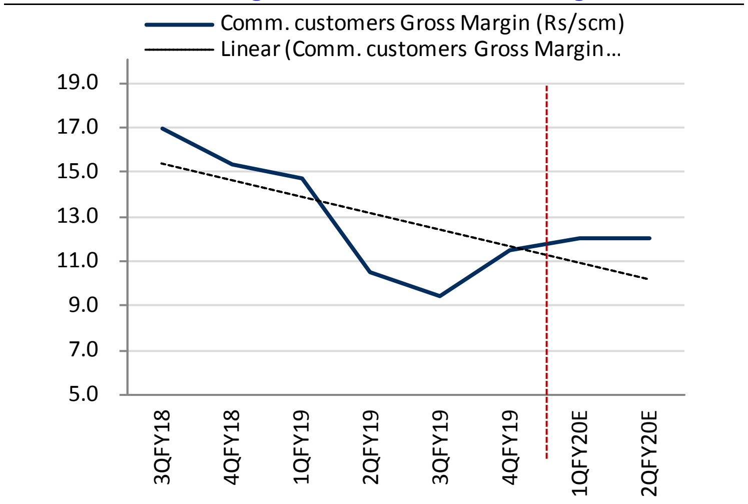
Margin from commercial customers rose 21.9% QoQ in Q4FY19 to Rs11.5/scm from Rs 9.5 in Q3

Per Unit Gross Margin For The Industrial Segment



Source: Company, HDFC sec Inst Research

Per Unit Gross Margin For The Commercial Segment



Source: Company, HDFC sec Inst Research

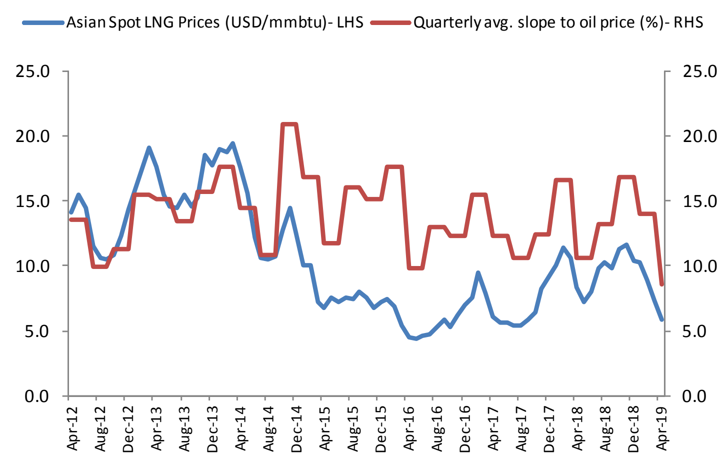
As the gas market matured, it developed its own demand-supply dynamics. This weakened the link between LNG and oil prices and led to the emergence of gas hubs

LNG prices are expected to stay benign as the supply is set to rise and the demand is beginning to fall

Soft LNG prices, a significant tailwind

- Globally, the gas market has developed with emergence of supply from Australia, Russia and USA. The surge of NG liquefaction capacities in these countries has augured well for the development of the overall market.
- The regional nature of NG market prevented the unearthing of a benchmark gas price globally which could be used to link bilateral Long Term (LT) LNG contracts. Thus, traditionally, LT LNG contracts were linked to crude oil prices. Emergence of new supply and demand centers for LNG has resulted in widespread NG trading. This led to discovery of natural gas price based on its own demand-supply dynamics and weakening of the link between LNG and oil prices. Thus, the last decade witnessed an increase in share of contracts being linked with benchmark gas prices rather than oil prices.

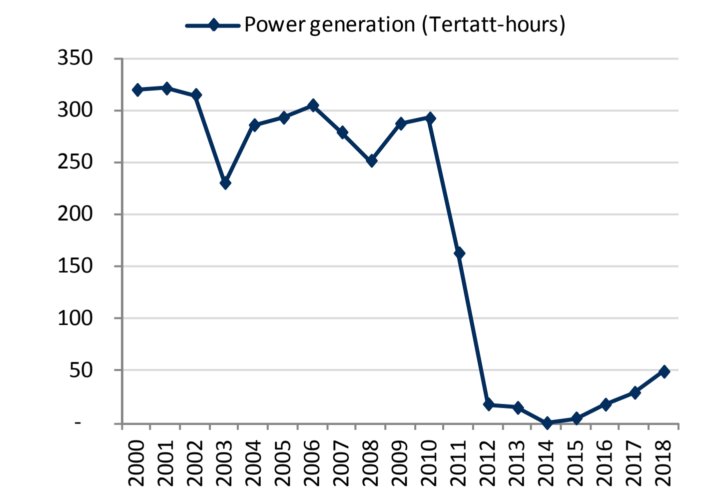
LNG prices And Slope To Oil Price Corrected



Source: HDFC sec Inst Research

- Demand in the largest gas consuming countries is expected to slow down. The demand of the largest LNG consumer, Japan, (83.23mmtpa in 2018) is slowing down with the start of nuclear power plants.The Japanease government intends to resume nuclear energy as a power source. The government has approved '2030 Policy For Electricity Generation' to reduce the share of LNG in power generation.
- Consequently, Japan has restarted nine nuclear reactors that were shut down after the 2011 Fukushima accident so far. As those reactors return to running on full capacities in coming years, the resulting increase in nuclear generation is likely to displace fossil sources, in particular natural gas.

Japan is increasing nuclear power plant capacity



Source: BP Statistical Of World Energy, International Atomic Energy Agency, HDFC sec Inst Research

The biggest global consumers of natural gas (Japan and China) have started reducing dependence on imported LNG…

…They are rather opting for other sources like nuclear power plants and cross-country pipelines to meet domestic demand

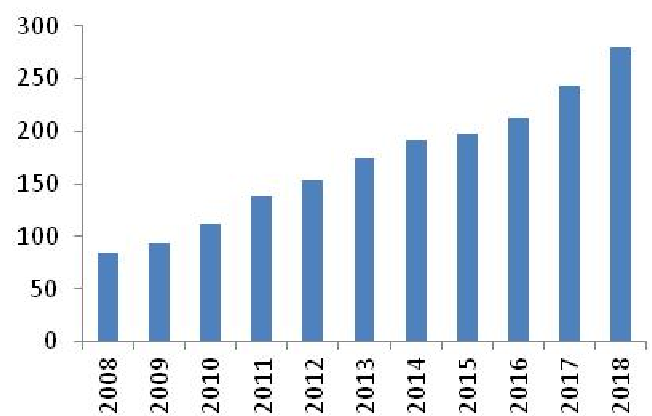
Japan's Operational Nuclear Power Plant

No	Plant	Reactors	Remarks	Capacity (MW)
1	Kyushu	Sendai 1&2	Unit 1 in August-2014 and Unit 2 in October-2015	1,780
2	Kyushu	Genkai 3&4	Unit 3 in March-2018 and Unit 4 in June-2018	2,360
3	Kansai	Takahama 3&4	Unit 4 in May-2017 and Unit 3 in June-2017	1,740
4	Kansai	Ohi 3&4	Unit 3 in March-2018 and Unit 4 in May-2018	2,360
5	Shikoku	Ikata 3	September-2016	890
Total operating units	**9**			**9,130**

Source: Companies, HDFC sec Inst Research

- Similarly, the pace of Chinese LNG demand (54.96mmtpa in 2018) is expected to slow down in coming years with the share of gas imports through pipeline on a rise with completion of cross country pipelines.
- The Chinese coal-to-gas switch policy to curb air pollution is the main catalyst for the increased demand for natural gas. It grew by 82.4bcm (~62.7mmtpa of LNG) at 12.3% CAGR from 197.8bcm in CY15 to 280bcm in CY18.

China's Gas Consumption (BCM)



Source: British Petroleum, HDFC sec Inst Research

- The 56% (46bcm) of the incremental demand was fulfilled mainly through import of LNG during this period. The construction wave of LNG regasification terminals during the last decade bode well to facilitate the import of LNG. Chinese LNG regasification terminal capacity increased from 37.8bcm in CY13 to 90bcm in CY18. Imported LNG volumes shot up by 46.2bcm (35.1mmtpa of LNG) from 25.8bcm in CY15 to 72bcm in CY18.
- LNG is significantly costlier than pipeline gas and China has multiple options at its disposal to import gas thorugh pipelines. Currently, it has two pipelines that are operational. Another 38bcm pipeline from Russia is expected to become operational from Dec-19. This will enable China to import a total of 105bcm of gas alone from pipelines by CY19 end. Thus, we believe that China will eventually decrease share of LNG imports and increase pipeline imports.

As the 38bcm pipeline from Russia becomes operational from Dec-19, China will be able to import a total of 105bcm of gas alone from pipelines by the end of CY19

The upcoming liquefaction capacities in Australia/US (175/127mtpa over CY20-21) will further increase supply in an already over-supplied global LNG market

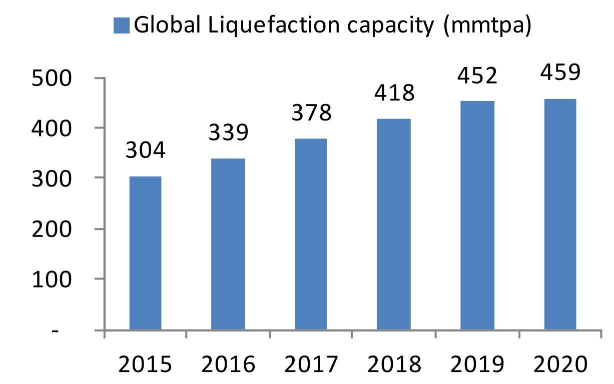
Existing And Proposed Pipelines To Import Natural Gas To China

No	Gas pipeline Name	Route	Start date	Capacity per annum	JV
1	Central Asia-China pipeline	Turkmenistan, Uzbekistan, Kazakhstan, China	Dec-09	15 bcm	CNPC, Turkmengaz, Uzbekneftegaz, Kazmunaygas
2	Central Asia-China pipeline	Turkmenistan, Uzbekistan, Kazakhstan, China	December	15 bcm	CNPC, Turkmengaz, Uzbekneftegaz, Kazmunaygas
3	Central Asia-China pipeline	Turkmenistan, Uzbekistan, Kazakhstan, China	Jun-14	25 bcm	CNPC, Turkmengaz, Uzbekneftegaz, Kazmunaygas
4	China-Myanmar pipeline	Myanmar, China	Oct-13	12 bcm	CNPC, Myanma Oil & Gas Enterprise
5	Power of Sibera pipeline	Russia, China	December 2019 (estimated)	38 bcm	Gazprom, CNPC
	Proposed pipeline				
1	Central Asia-China pipeline	Turkmenistan, Uzbekistan, Tajikistan, Kyrgyzstan, China		30 bcm	
2	Altai / Power of Siberia 2 pipeline	Russia, China (or Russia, Mongolia, China)		30 bcm	

Source: CNPC, Gazprom, HDFC sec Inst Research

- On the contrary, the surge in gas production coupled with upcoming liquefaction capacity will create LNG supply glut in exporting countries, The USA, Russia and Australia.
- In 2018, global LNG supply glut began to take shape. With substantial new sources of LNG now coming online, the global gas market is becoming increasingly liquid, leading to cost declines and in turn the driver of consumption in critical markets like China and India.

Liquefaction Capacities Grew At A CAGR Of 7.85% Over 6 Years



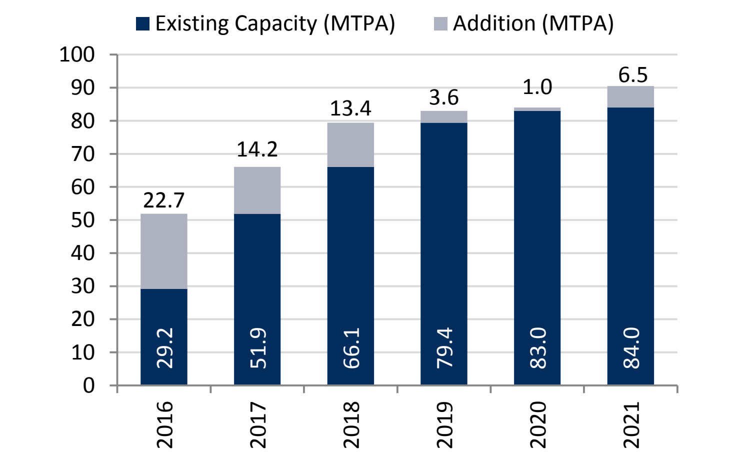
Source: International Gas Union, HDFC sec Inst Research

Liquefaction capacities grew by 108mmtpa over 2015-18 led by Australia and Russia

USA's total liquefaction capacity will touch 73.79mtpa by CY22 vs 10.5 in CY16, growing at a CAGR of 38.5% over FY16-22

- The development of relatively new LNG liquefaction capacities initiated in 2015 and went on till 2018. These capacities grew by 108mmtpa over 2015-18 led by Australia and Russia.

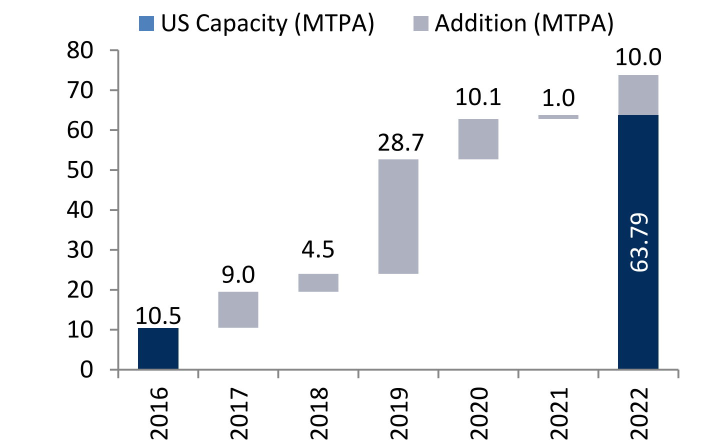
Australian Liquefaction Capacities Grew At A Tremendous CAGR Of 23.69% Over FY16-18



Source: International Gas Union, HDFC sec Inst Research

- In 2018, The US has merely added 4.5mmtpa of liquefaction capacity. However, the wave of liquefaction capacity will be coming in 2019 and 2020. It will add 28.7 and 10.1mmtpa of liquefaction capacity to take the total to 62.8mmtpa. Further, US will augment the capacity by 11mmtpa in 2021-22.

Total Liquefaction Capacities in US To Grow At A CAGR Of 38.5% Over FY16-22E



Source: International Gas Union, HDFC sec Inst Research

- Global liquefaction capacity has increased by CAGR of 5.77% over 2011-18 while LNG trade grew at 4.06% CAGR. Looking ahead, a further 57.7mmtpa of liquefaction capacity is under development and is expected to come online over 2019-21.

- Surge in shale gas production in US and discovery of huge gas fields in Australia compels them to export NG. We believe that incremental LNG supply will surpass incremental demand, at least in the near to midterm. This should keep LNG prices under pressure.

With a rise in volumes and expansion in new areas, the company will reduce its gross debt by Rs 14.72bn over FY20-24E and eventually reach a net cash position in FY24E

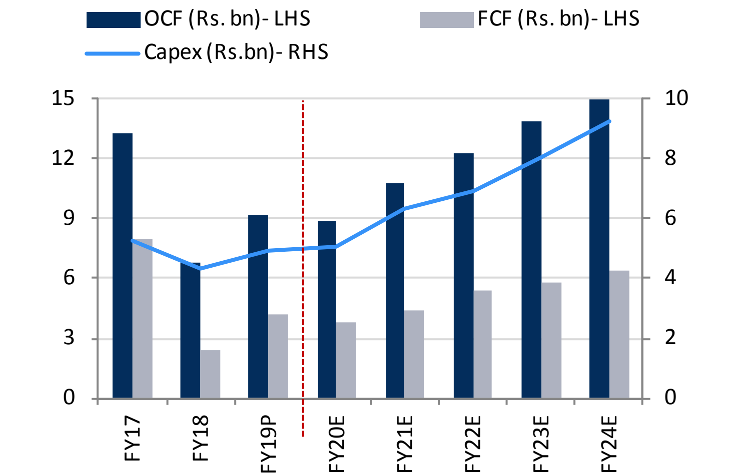
Cumulative capex will be Rs 36.7bn through FY20-24E to develop new markets and to penetrate in the existing markets

Total debt is expected to go down and GGL will have a net cash position of Rs 3.7bn by FY24E

Cumulative FCF of ~Rs 26bn expected over FY20-24E

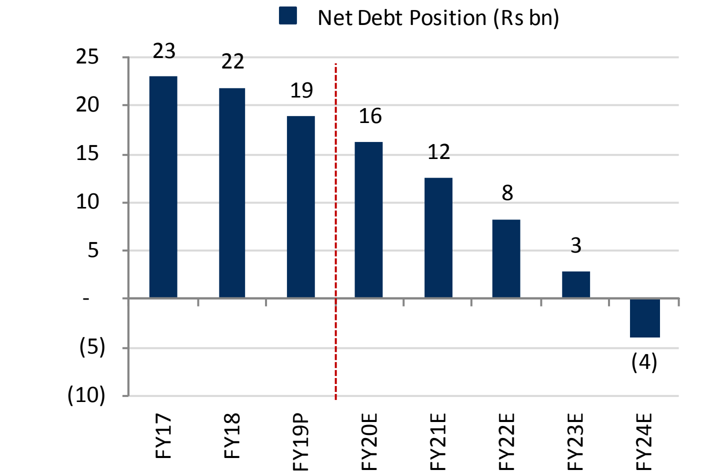
- GGL will generate Opearating Cash Flow (OCF) of Rs 61bn over FY20-24E. GGL is expanding its infrastructure in new areas like Palghar, Silvasa, Dahej. Besides, the company will start rolling infrastructure in recently acquired GAs in the coming years. Thus, we expect capex outflow to be Rs 36.7bn over FY20-24E. Free Cash Flow will be Rs 25.8bn over the same period.

Cash Flow Components Over FY17-24E



Source: Company, HDFC sec Inst Research

Net Cash Position To Be Reached By FY24E



Source: Company, HDFC sec Inst Research

GGL's total volume to grow at a CAGR of 12.3% vs 10.9/6.8% for IGL/MGL over FY19-21E…

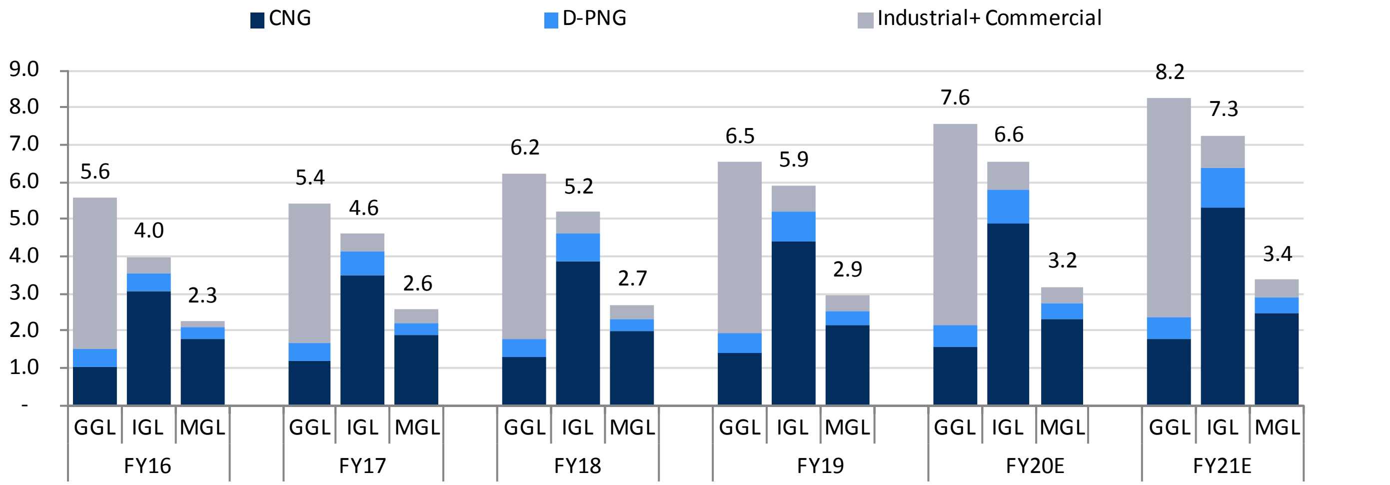
…volume mix will remain skewed towards industrial customers

Per unit margins are lower for GGL given (1) The price sensitive industrial customers forming ~70% of total volume mix, (2) Dependence on the expensive R-LNG, (3) NG being costlier than alternative fuels (like coal/FO/LSHS), ripping away its natural advantage

IGL/MGL enjoy higher margins on the back of (1) Loyal customer base of CNG and D-PNG users (~86% of total volumes), (2) High tax on alternate fuels enable them to protect margins

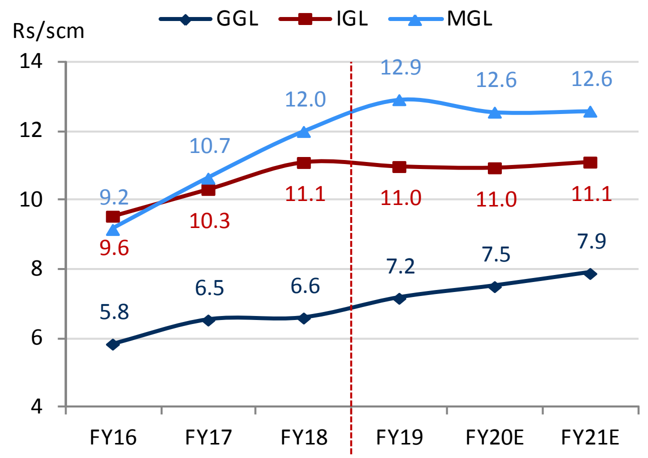
Comparison with CGD peers

Customer-Wise Volume Break-Up For CGD Companies



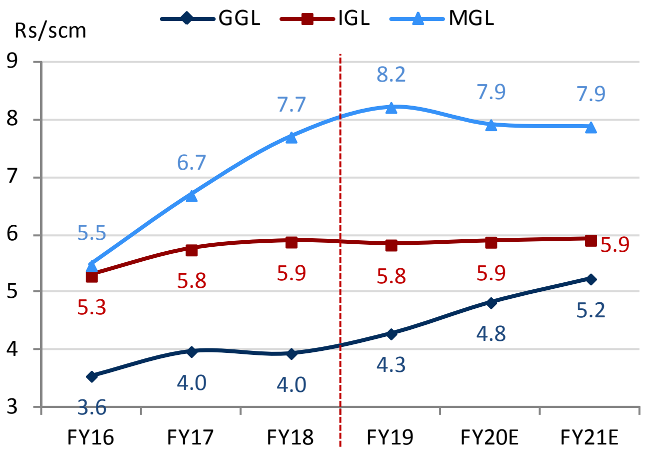
Source: Companies, HDFC sec Inst Research

Blended Per Unit Gross Margins



Source: Companies, HDFC sec Inst Research

Blended Per Unit EBITDA Margins

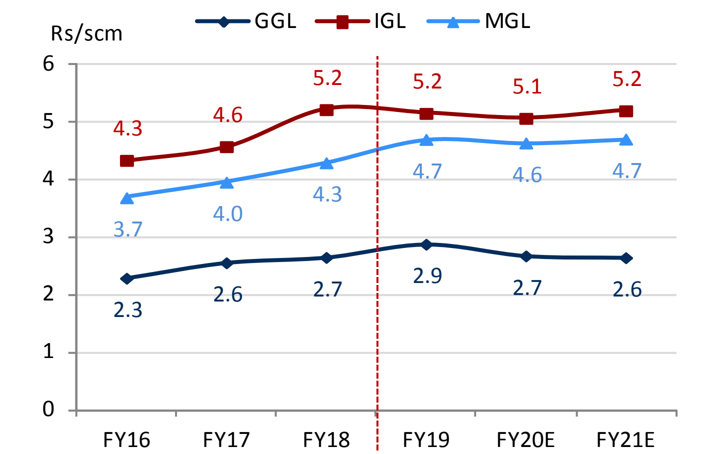


Source: Companies, HDFC sec Inst Research

CNG compression cost being higher, IGL and MGL are compelled to incur more opex as that forms a bigger chunk of volumes compared to GGL

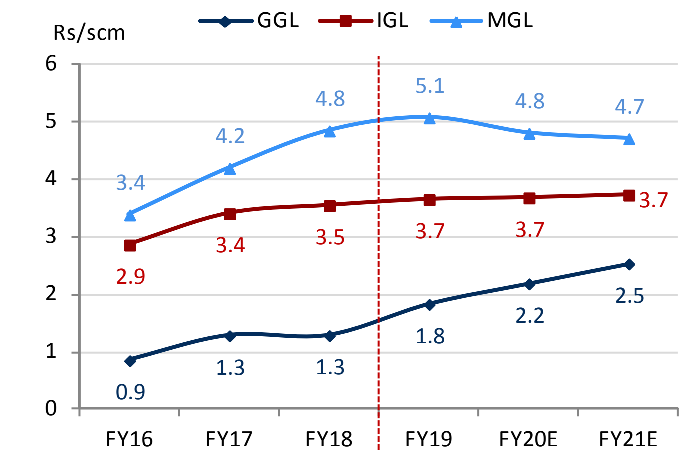
GGL has shown PAT CAGR of 33.2% over FY16-19 versus 23.7/21.0% for IGL/MGL. Margin expansion coupled with volume growth will help maintain the PAT CAGR for GGL of 34.4%. While for IGL, PAT (CAGR 12.1%) will be driven only by volume growth. MGL to witness a flat CAGR of 2.9% over FY19-21E as correction in per unit EBITDA margin will rip away this growth

Per Unit Operating Cost



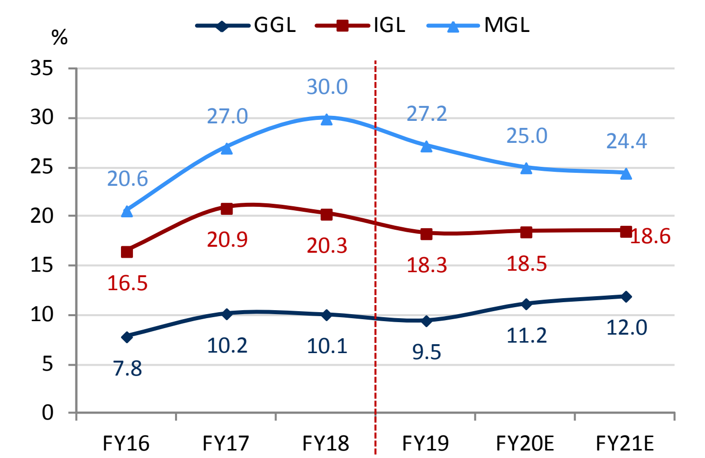
Source: Companies, HDFC sec Inst Research

Per Unit PAT Margins



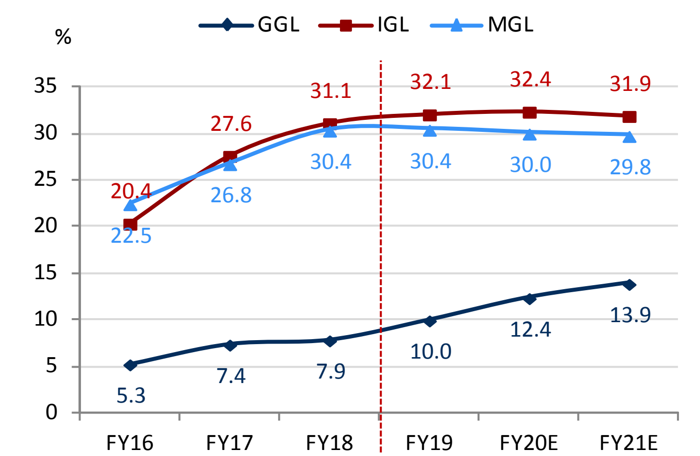
Source: Companies, HDFC sec Inst Research

EBIT Margin



Source: Companies, HDFC sec Inst Research

Return On Invested Capital

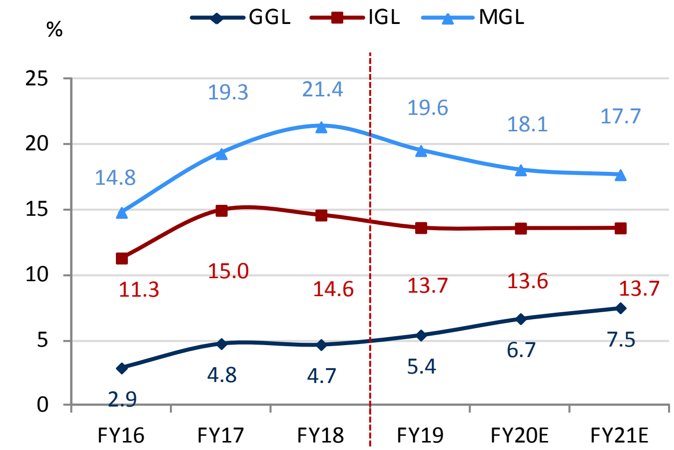


Source: Companies, HDFC sec Inst Research

RoE has grown from 8.7% in FY16 to 20.6% in FY19 on account of 250bps jump in Net profit margin and improvement in the Asset turnover from 1.05x to 1.43x, the leverage ratio remaining flat

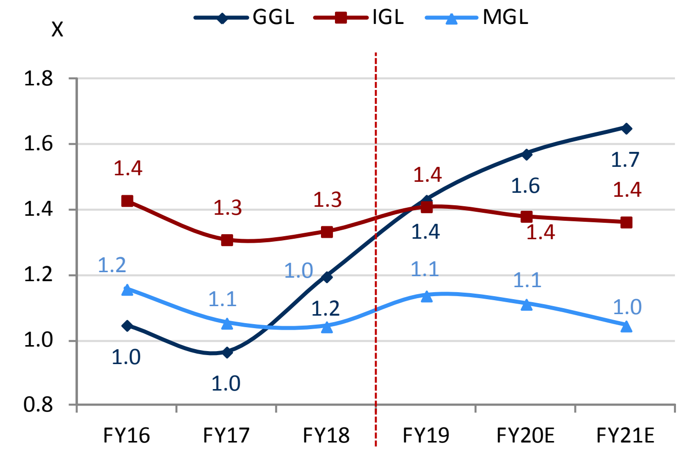
We expect RoE to touch ~24% in FY21 driven by further expansion in margins by 210bps and asset turnover ratio from 1.43x to 1.65x. This will be partially offset by the leverage ratio as we expect debt to be repaid

Net Profit Margin



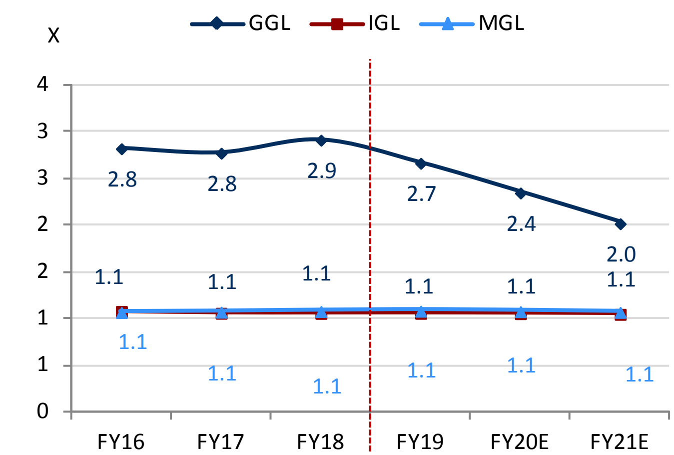
Source: Companies, HDFC sec Inst Research

Asset Turnover Ratio



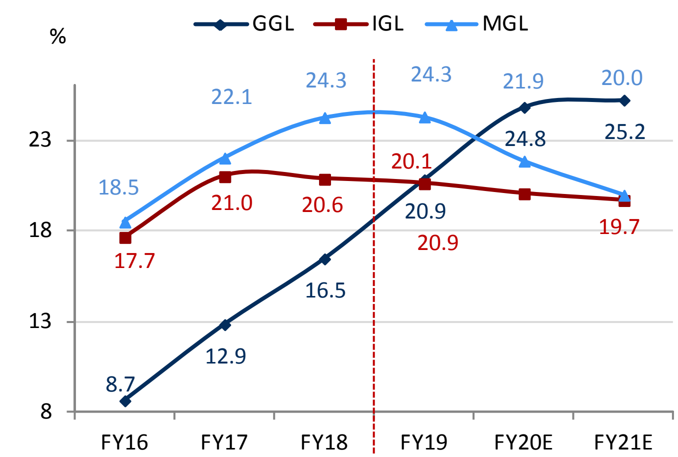
Source: Companies, HDFC sec Inst Research

Leverage Ratio



Source: Companies, HDFC sec Inst Research

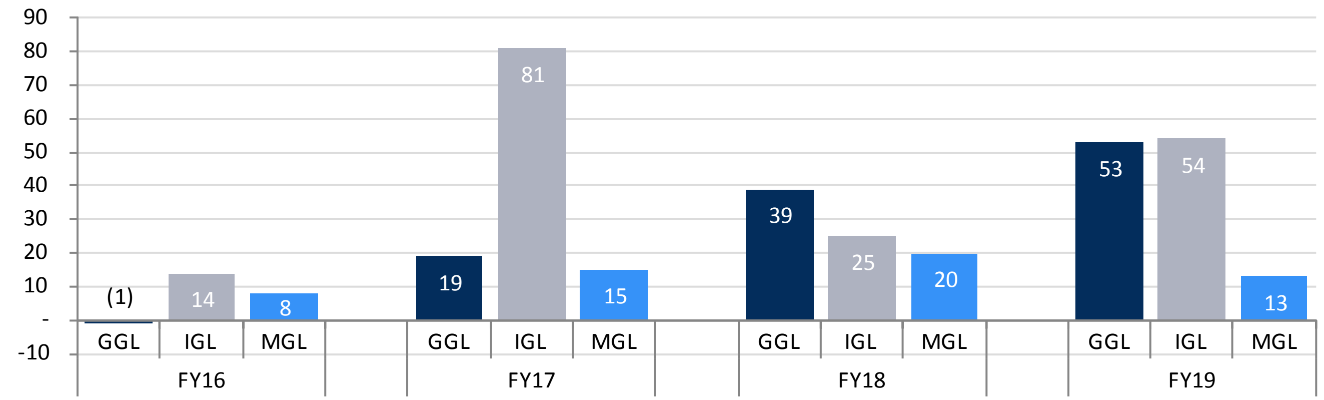
Return On Equity



Source: Companies, HDFC sec Inst Research

Space constraints being less of an issue for GGL, CNG stations have been added at a tremendous rate over FY17-19

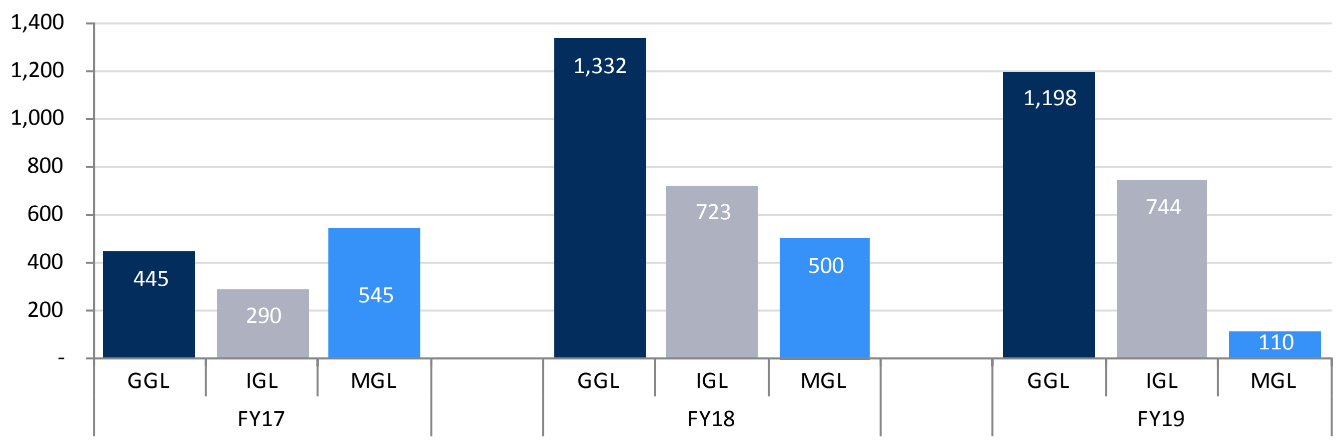
Incremental Number Of CNG Stations



Source: Companies, HDFC sec Inst Research

Addition of industrial and commercial customers for GGL far exceed its peers despite the higher base of 15k+ customers in FY17

Incremental Number Of Industrial & Commercial Customers Added



Source: Companies, HDFC sec Inst Research

The superior returns in CGD will be reinvested and help increase the share of gas in India's energy mix from 20% (from 6% currently) by 2025. Hence, the premium over utility companies should inch upwards for CGD companies

CGD companies deserve higher valuations

- CGD companies should implicitly get better valuations than utility companies. Utility companies get a lower multiple because they (1) Are subject to relatively more government regulations (2) Are capex-heavy (3) Require less marketing efforts due to lack of close substitute goods or services (4) Are more closely monitored by regulating bodies in the absence of economic competitor.
- CGD sector, on the other hand, (1) Is unregulated from a marketing perspective in the market exclusivity period, (2) Requires lesser capex than regulated businesses like gas/power transmission (3) Has viable alternatives available in each business (4) Keeps pricing at a comparable level with substitutes. Hence, in a pure sense they are not utility companies. These companies are now entering into high volume growth trajectory and will continue to generate RoE of >20%. These superior returns in the CGD business will be reinvested in the development of assets and will help in increasing the share of gas in India's energy mix from 6% in 2018 to 20% in 2025. Therefore, not only do CGD companies deserve premium in valuation multiples but also the swing in business dynamics should widen this premium in coming years.

Utilities (30-May-19)

	MCap (Rs bn)	CMP (Rs)	P/E (x)				P/B (x)				EV/EBITDA (x)				ROE (%)			
			FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19
NTPC Ltd	1,337	133	9.8	12.8	13.3	10.5	1.2	1.4	1.4	1.2	10.8	11.2	11.6	14.3	12.4	11.3	10.5	11.8
Power Grid Corp of India	1,000	189	12.2	13.9	12.3	8.2	1.7	2.1	1.9	1.8	9.8	9.7	8.8	7.8	14.5	15.9	15.7	17.7
Adani Transmission Ltd	257	236	10.3	16.9	18.6	42.8	1.4	2.4	3.5	3.0	6.0	7.7	10.7	14.8	19.6	14.8	25.4	7.9
NHPC Ltd	250	25	10.3	11.8	11.3	9.7	0.8	1.1	0.9	0.8	9.0	10.8	11.1	8.6	8.3	10.0	8.5	8.5
Torrent Power Ltd	121	246	12.4	25.8	11.7	13.8	1.7	1.6	1.4	1.4	6.0	7.7	6.2	6.4	13.8	6.4	12.9	10.8
CESC Ltd	99	745	10.5	20.8	15.5	8.2	0.6	1.1	1.6	1.1	6.4	9.6	8.8	7.4	7.2	6.5	9.6	13.6
PTC India Ltd	21	69	5.9	6.7	7.3	4.4	0.5	0.7	0.7	0.5	8.4	9.1	10.0	7.2	9.7	11.2	9.1	12.4
Gujarat Inds Power Co Ltd	12	76	6.4	6.8	6.0	4.2	0.6	0.7	0.6	0.4	3.6	3.8	3.8	1.6	9.7	10.7	10.6	10.3

Source: Bloomberg, HDFC Sec Inst Research

CGD Companies (30-May-19)

	MCap (Rs bn)	CMP (Rs)	P/E (x)				P/B (x)				EV/EBITDA (x)				RoE (%)				RoIC (%)			
			FY18	FY19	FY20	FY21	FY18	FY19	FY20	FY18	FY19	FY18	FY19	FY21	FY18	FY19	FY20	FY21	FY18	FY19	FY20	FY21
IGL	236	337	35.2	30.0	26.6	23.8	6.7	5.7	5.0	4.4	19.9	17.3	15.2	13.5	20.9	20.6	20.1	19.7	31.1	32.1	32.4	31.9
GGL	**126**	**183**	**43.3**	**29.8**	**20.8**	**16.5**	**6.7**	**5.8**	**4.7**	**3.8**	**16.5**	**14.2**	**10.6**	**8.8**	**16.5**	**20.9**	**24.8**	**25.2**	**7.9**	**10.0**	**12.4**	**13.9**
MGL	88	892	18.5	16.2	15.8	15.3	4.2	3.7	3.2	2.9	9.8	8.5	7.8	7.2	24.3	24.3	21.9	20.0	30.4	30.4	30.0	29.8

Source: Company, HDFC Sec Inst Research

GGL is positioned in a convenient situation as the subdued LNG prices will boost its industrial volumes as the sourcing mix tilts more towards spot LNG. The low spot LNG prices will in turn boost volumes

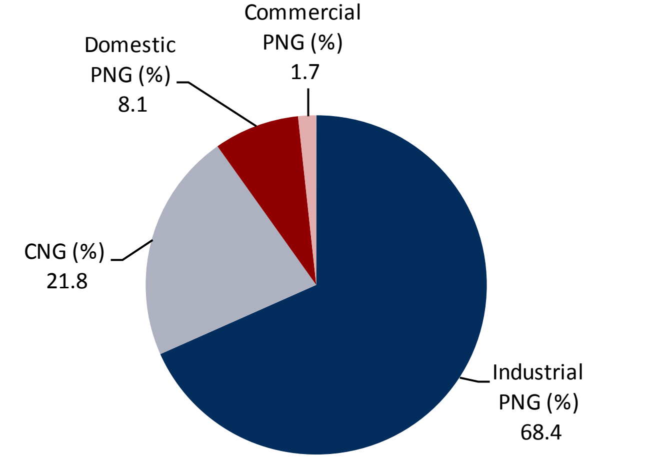
The development of CGD ecosystem across Gujarat is likely to push its CNG volumes and GGL will be the biggest beneficiary from this as it operates in 22/33 districts in the state and dominates the CGD network by covering ~50% of the total area

The sourcing mix is likely to comprise 39.5% of spot LNG alone by FY24E as against 16.5% in FY19

About GGL

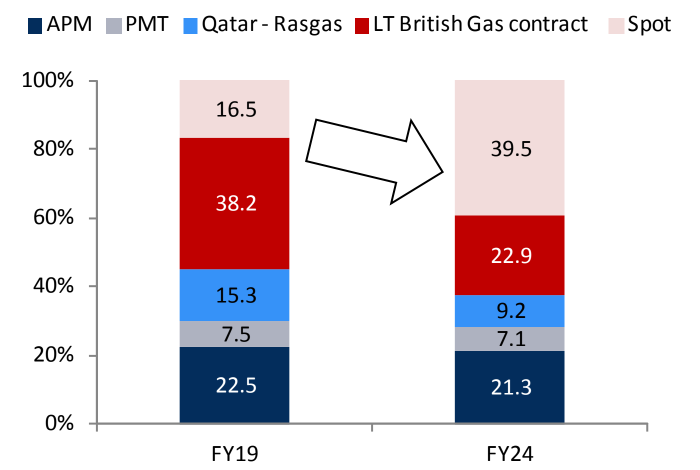
- Gujarat Gas Limited (erstwhile GSPC Distribution Networks Limited), is India's largest city gas distribution player with presence spread across 23 districts in the State of Gujarat (including the newly awarded GA of Narmada district). With a portfolio of 17 GAs in the state, GGL dominates the CGD network covering ~50% of Gujarat's total area. Additionally, it has 8 GAs outside Gujarat (1 each in Rajasthan, Maharashtra, Haryana and Union Territory of Dadra Nagar Haveli, and 2 each in Punjab and Madhya Pradesh).
- With its ~22,200 km of gas pipeline network, GGL provides 6.5mmscmd natural gas to over 1.36mn households (versus IGL: 1.10mn, MGL: 1.14mn), 17,938 industrial and commercial customers (IGL: 4,337, MGL: 3,810) and serves ~0.84mn vehicles per day through 344 CNG stations (IGL: 500, MGL: 236). Natural gas is domestically consumed largely by the fertilizer industry (~28%) followed by power (~22%) and CGD (~17%) companies.
- GGL's sales mix is inclined towards the industrial and commercial customers comprising 70% of the total and CNG forming only 22% of the total mix. This is unlike its peers IGL and MGL that derive 70%+ revenues solely from the CNG segment.

Sales Mix (FY19)



Source: Company, HDFC sec Inst Research

Sourcing Mix



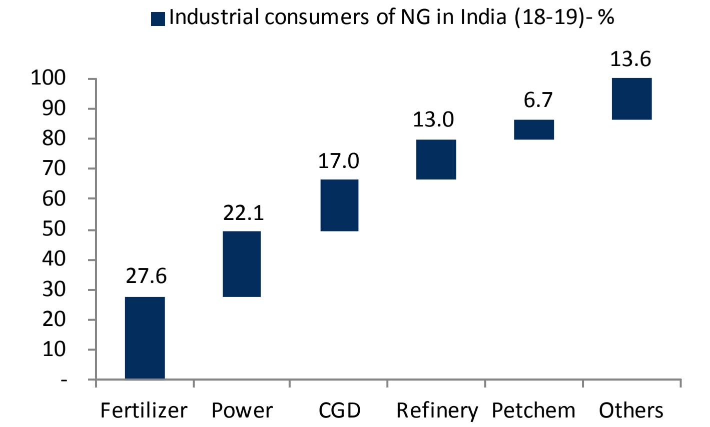
Source: Company, HDFC sec Inst Research

The biggest off-taker of NG is the fertilizer industry, closely followed the power sector. NG volume growth is to remain robust given the strong demand from CGD companies and the power sector

RoIC is continuously set to rise from the current 10.0% to 16.4% in FY24E as earnings grow at 24.0% CAGR over the same period

- A large part of GGL's volume (~38%) is sourced from LT contracts with British Gas, followed by domestic APM gas that forms ~22% of the total sourcing mix. Spot LNG, which comprises ~17% of the mix in FY19, is estimated to increase to ~40% by FY24E, displacing the volume procured by way of LT contracts, given the new trend of benign global LNG prices.

Domestic Consumption Of NG Has Grown 3.3%YoY



Source: PPAC, HDFC sec Inst Research

Volume growth of ~11% CAGR over FY19-24E led by ~11% volume CAGR for both Industrial/Commercial and CNG segments each

As sourcing mix tilts towards spot LNG (from 17% in FY19 to 40 in FY24E, blended purchase price will fall

We believe the benefit of using the cheaper LNG will partly be retained before being passed-on driving up margins

Assumptions

Particulars	Unit	FY18	FY19	FY20E	FY21E	FY22E	FY23E	FY24E
Volumes								
CNG	mmscmd	1.3	1.4	1.6	1.8	2.0	2.2	2.4
D-PNG	mmscmd	0.5	0.5	0.6	0.6	0.6	0.7	0.7
Industrial	mmscmd	4.3	4.5	5.3	5.7	6.3	6.9	7.6
Commercial	mmscmd	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Total	mmscmd	**6.2**	**6.5**	**7.6**	**8.2**	**9.1**	**9.9**	**10.9**
Sourcing Mix								
APM	mmscmd	1.4	1.5	1.6	1.8	1.9	2.1	2.3
PMT	mmscmd	0.4	0.5	0.5	0.6	0.6	0.7	0.8
Qatar – Rasgas	mmscmd	1.0	1.0	1.0	1.0	1.0	1.0	1.0
LT BG contract - 14% slope	mmscmd	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Spot	mmscmd	0.9	1.1	1.9	2.4	3.0	3.6	4.3
Total	mmscmd	**6.2**	**6.5**	**7.6**	**8.2**	**9.1**	**9.9**	**10.9**
Gross margin business wise								
CNG	Rs/scm	16.5	17.6	18.9	19.6	20.0	20.5	21.0
DPNG	Rs/scm	9.8	10.5	11.5	12.0	12.5	13.0	13.0
Industrial	Rs/scm	2.4	3.4	3.6	3.7	3.9	3.9	3.9
Commercial	Rs/scm	16.2	11.5	12.3	13.0	13.0	13.5	13.5
Calculated Gross margin	Rs/scm	**6.1**	**7.2**	**7.5**	**7.9**	**8.2**	**8.3**	**8.4**
Exchange rate	Rs/USD	64.4	69.9	70.0	70.0	70.0	70.0	70.0
APM base price (GCV)*	USD/mmbtu	2.7	3.2	3.7	3.7	3.7	3.7	3.7
PMT	USD/mmbtu	6.8	6.8	6.8	6.8	6.8	6.8	6.8
Qatar gas delivered Cost	USD/mmbtu	8.8	11.3	11.4	11.9	12.0	12.0	12.1
Other LT contract gas delivered Cost	USD/mmbtu	9.5	11.7	11.7	12.3	12.4	12.5	12.5
Spot LNG prices	USD/mmbtu	9.6	8.6	7.7	7.9	7.9	8.4	8.3
Regasifiaction charges at Dahej	Rs/mmbtu	45.3	47.6	49.9	52.4	55.0	57.8	60.7

Source: Company, HDFC Sec Inst Research|*Gross Calorific Value

We value GGL at 20x FY21EPS and arrive at a target price of Rs 222/sh

Valuation

P/E based Target Price

Particulars	Unit	FY21E
FY21E EPS	Rs/sh	11.1
P/E	x	20
Target price	Rs/sh	**222**

Source: Company, HDFC Sec Inst Research

Peer Set Comparison

	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Upside %	EPS (Rs/sh)				P/E (x)				P/BV (x)				ROE (%)			
						FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19P	FY20E	FY21E	FY18	FY19P	FY20E	FY21E
Reliance Industries	8,437	1,330	BUY	1,535	15.3	53.0	55.5	66.8	69.1	25.1	24.0	19.9	19.3	19.5	18.5	15.6	15.0	11.1	9.8	10.0	9.5
ONGC	2,139	172	BUY	283	66.3	15.9	21.7	32.5	32.7	10.7	7.8	5.2	5.2	1.1	1.1	1.0	0.9	10.5	13.8	19.3	17.8
Indian Oil Corp	1,497	166	BUY	190	16.5	22.8	18.4	18.9	21.1	7.1	8.9	8.6	7.7	1.4	1.4	1.3	1.2	19.9	15.4	15.3	15.8
BPCL	802	409	NEU	409	0.3	41.6	36.3	33.8	34.3	9.8	11.3	12.1	11.9	2.3	2.2	2.0	1.8	25.6	20.1	17.3	16.0
GAIL	810	361	BUY	408	13.8	20.4	27.7	27.6	29.6	17.6	13.0	13.0	12.1	2.0	1.8	1.7	1.5	11.7	14.8	13.5	13.3
HPCL	485	324	BUY	346	8.8	41.7	39.6	32.7	35.1	7.6	8.0	9.7	9.1	2.0	1.7	1.5	1.4	28.7	23.1	16.7	16.1
Petronet LNG	365	247	BUY	345	42.0	13.9	14.4	16.6	20.3	17.5	16.9	14.7	12.0	3.7	3.6	3.5	3.2	23.3	21.8	24.1	27.7
Indraprastha Gas	236	337	BUY	385	14.1	9.6	11.2	12.7	14.2	35.2	30.0	26.6	23.8	6.7	5.7	5.0	4.4	20.9	20.6	20.1	19.7
Oil India	195	180	BUY	234	30.6	24.6	33.4	32.2	32.6	7.3	5.4	5.6	5.5	0.7	0.7	0.6	0.6	9.4	13.0	11.8	10.7
Gujarat Gas	**126**	**183**	**BUY**	**222**	**21.1**	**4.2**	**6.1**	**8.8**	**11.1**	**43.3**	**29.8**	**20.8**	**16.5**	**6.7**	**5.8**	**4.7**	**3.8**	**16.5**	**20.9**	**24.8**	**25.2**
GSPL	109	194	BUY	209	8.0	11.9	14.1	14.4	14.7	16.4	13.8	13.5	13.2	2.2	1.9	1.7	1.6	14.0	14.7	13.4	12.5
Mahanagar Gas	88	892	BUY	1,113	24.5	48.4	55.3	56.7	58.6	18.5	16.2	15.8	15.3	4.2	3.7	3.2	2.9	24.3	24.3	21.9	20.0

Standalone Income Statement

(Rs bn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	**50.93**	**61.74**	**77.54**	**90.39**	**101.23**
Growth %	***(16.6)***	***21.2***	***25.6***	***16.6***	***12.0***
Raw Material	38.05	46.78	60.44	69.60	77.48
Employee Cost	1.28	1.39	1.60	1.71	1.83
Other Expenses	3.83	4.62	5.27	5.70	6.13
EBITDA	**7.76**	**8.95**	**10.23**	**13.38**	**15.78**
EBIDTA Margin (%)	***15.2***	***14.5***	***13.2***	***14.8***	***15.6***
EBITDA Growth %	***7.1***	***15.3***	***14.3***	***30.7***	***17.9***
Depreciation	2.57	2.72	2.88	3.25	3.67
EBIT	**5.19**	**6.23**	**7.35**	**10.12**	**12.11**
Other Income (Including EO Items)	(0.07)	0.36	0.55	0.80	0.95
Interest	2.09	1.96	1.96	1.75	1.51
PBT	**3.03**	**4.63**	**5.94**	**9.18**	**11.55**
Tax	0.84	1.72	1.77	3.12	3.93
RPAT	**2.19**	**2.91**	**4.17**	**6.06**	**7.63**
EO (Loss) / Profit (Net Of Tax)	(0.33)	-	(0.08)	-	-
APAT	**2.44**	**2.91**	**4.22**	**6.06**	**7.63**
APAT Growth (%)	***36.6***	***19.4***	***45.0***	***43.4***	***25.9***
AEPS	**3.5**	**4.2**	**6.1**	**8.8**	**11.1**
AEPS Growth %	***36.6***	***19.4***	***45.0***	***43.4***	***25.9***

Source: Company, HDFC sec Inst Research

Standalone Balance Sheet

(Rs bn)	FY17	FY18	FY19P	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	1.38	1.38	1.38	1.38	1.38
Reserves And Surplus	15.26	17.29	20.46	25.54	32.12
Total Equity	**16.64**	**18.66**	**21.84**	**26.92**	**33.49**
Long-term Debt	22.91	22.13	20.89	18.89	15.39
Short-term Debt	0.67	1.15	1.08	0.97	0.79
Total Debt	**23.59**	**23.28**	**21.97**	**19.86**	**16.18**
Deferred Tax Liability	9.90	10.51	10.82	11.45	12.25
Long-term Provision	0.31	0.33	0.99	1.14	1.27
TOTAL SOURCES OF FUNDS	**50.43**	**52.79**	**55.62**	**59.38**	**63.20**
APPLICATION OF FUNDS					
Net Block	49.04	50.94	52.90	54.04	56.07
Capital WIP	**5.05**	**4.78**	**4.89**	**5.58**	**6.23**
LT Loans And Advances	3.48	3.43	3.00	4.47	5.40
Total Non-current Investments	**0.92**	**0.41**	**0.16**	**0.16**	**0.16**
Inventories	0.42	0.57	0.69	0.73	0.81
Debtors	3.48	3.92	5.10	5.24	5.89
Cash and Cash Equivalent	0.65	1.40	3.09	3.66	3.69
Other Current Assets	**0.73**	**1.18**	**1.44**	**1.67**	**1.88**
Total Current Assets	5.27	7.06	10.33	11.30	12.26
Creditors	**3.17**	**2.97**	**3.52**	**3.74**	**4.16**
Other Current Liabilities & Provns	10.15	10.87	12.14	12.44	12.77
Total Current Liabilities	**13.32**	**13.83**	**15.66**	**16.18**	**16.93**
Net Current Assets	**(8.05)**	**(6.77)**	**(5.33)**	**(4.88)**	**(4.67)**
TOTAL APPLICATION OF FUNDS	**50.43**	**52.79**	**55.62**	**59.38**	**63.20**

Source: Company, HDFC sec Inst Research

Standalone Cash Flow Statement

(Rs bn)	FY17	FY18	FY19P	FY20E	FY21E
Reported PBT	3.03	4.63	5.94	9.18	11.55
Non-operating & EO Items	0.07	(0.36)	(0.55)	(0.80)	(0.95)
Interest Expenses	2.09	1.96	1.96	1.75	1.51
Depreciation	2.57	2.72	2.88	3.25	3.67
Working Capital Change	6.35	(0.47)	0.68	(1.37)	(1.10)
Tax Paid	(0.84)	(1.72)	(1.77)	(3.12)	(3.93)
OPERATING CASH FLOW (a)	**13.27**	**6.76**	**9.14**	**8.89**	**10.75**
Capex	(5.26)	(4.35)	(4.95)	(5.08)	(6.36)
Free Cash Flow (FCF)	*8.01*	*2.41*	*4.20*	*3.81*	*4.40*
Investments	0.92	0.51	0.25	-	-
Non-operating Income	(0.07)	0.36	0.55	0.80	0.95
INVESTING CASH FLOW (b)	**(4.40)**	**(3.49)**	**(4.15)**	**(4.28)**	**(5.41)**
Debt Issuance/(Repaid)	0.24	(0.31)	(1.31)	(2.10)	(3.68)
Interest Expenses	(2.09)	(1.96)	(1.96)	(1.75)	(1.51)
FCFE	*6.16*	*0.14*	*0.92*	*(0.05)*	*(0.79)*
Share Capital Issuance	(0.00)	-	0.00	-	-
Dividend	(0.50)	(0.66)	(0.81)	(0.99)	(1.07)
FINANCING CASH FLOW (c)	**(2.35)**	**(2.93)**	**(4.08)**	**(4.85)**	**(6.26)**
NET CASH FLOW (a+b+c)	**6.52**	**0.34**	**0.91**	**(0.23)**	**(0.91)**
EO Items, Others					
Closing Cash & Equivalents	**7.20**	**0.99**	**2.31**	**2.86**	**2.75**

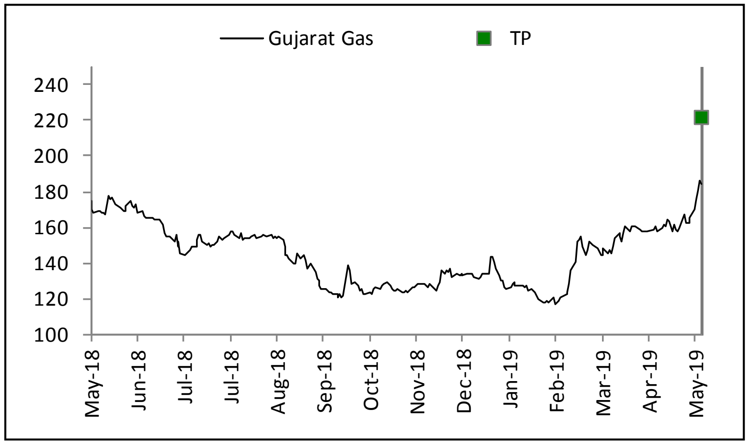
Source: Company, HDFC sec Inst Research

Standalone Key Ratios

	FY17	FY18	FY19P	FY20E	FY21E
PROFITABILITY %					
EBITDA Margin	15.2	14.5	13.2	14.8	15.6
EBIT Margin	10.2	10.1	9.5	11.2	12.0
APAT Margin	4.8	4.7	5.4	6.7	7.5
RoE	12.9	16.5	20.9	24.8	25.2
Core RoCE	7.4	7.9	10.0	12.4	13.9
RoCE	7.5	8.0	10.3	12.5	14.1
EFFICIENCY					
Tax Rate %	27.7	37.1	29.8	34.0	34.0
Fixed Asset Turnover (x)	0.9	1.1	1.3	1.4	1.4
Inventory (days)	3	3	3	3	3
Debtor (days)	22	22	21	21	21
Other Current Assets (days)	5	7	7	7	7
Payables (days)	27	24	20	20	20
Other Current Liab & Provns (days)	73	64	57	50	46
Cash Conversion Cycle (days)	(70)	(56)	(46)	(39)	(35)
Net Debt/EBITDA (x)	3.0	2.4	1.8	1.2	0.8
Net D/E	1.4	1.2	0.9	0.6	0.4
Interest Coverage	0.4	0.3	0.3	0.2	0.1
PER SHARE DATA (Rs)					
EPS	3.5	4.2	6.1	8.8	11.1
CEPS	7.3	8.2	10.3	13.5	16.4
Dividend	0.6	0.8	1.0	1.2	1.3
Book Value	24.2	27.1	31.7	39.1	48.7
VALUATION					
P/E (x)	51.7	43.3	29.8	20.8	16.5
P/Cash EPS (x)	25.1	22.4	17.7	13.5	11.2
P/BV (x)	7.6	6.7	5.8	4.7	3.8
EV/EBITDA (x)	19.2	16.5	14.2	10.6	8.8
EV/Revenue (x)	2.9	2.4	1.9	1.6	1.4
Dividend Yield (%)	0.3	0.4	0.5	0.7	0.7
OCF/EV (%)	8.9	4.6	6.3	6.3	7.8
FCFF/EV (%)	5.4	1.6	2.9	2.7	3.2
FCFE/M Cap (%)	4.9	0.1	0.7	(0.0)	(0.6)

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
31-May-19	183	BUY	222

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BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

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