

Gujarat Gas Ltd

5 July 2021

Reuters: GGASau.NS; Bloomberg: GUJGA IN

Growing CGD leader looks rich on valuation

We initiate coverage on Indian CGD giant GGL Ltd (GGL) with Accumulate rating using our DCF based target price (TP) of Rs710 (implies 6.8% upside from CMP). GGL, the 54.17% CGD subsidiary of Gujarat state PSU gas transporter GSPL, dominates India's CGD space with gas volume of 9.4mmscmd and assets worth Rs84.8bn. The company is licensed by gas regulator PNGRB to operate in 27 areas (GAs), including 17 areas in Gujarat and 7 new areas it has won in the 9th/10th CGD bidding rounds held by PNGRB. GGL's CGD business is dominated by PNG, ~86.1% of its volume, and the rest is CNG. As a result, the company's financials are driven by the volume growth in PNG – particularly the industrial segment that faces competition from fossil fuel substitutes.

Key catalysts: (i) FY21-23E revenue CAGR at 28.8%, EBITDA CAGR at 10.9% and EPS CAGR at 13.6%, supported by 16.5% FY21-23E CAGR in gas volume (ii) Growth capex of Rs7-7.5bn/year ~ 60% on new CGD networks in 7 new GAs (iii) sustained FCFF of ~Rs8.7-10.1bn, and ROIC of ~22.5%/23.7% in FY22E/23E and (iv) policy advocacy/other enablers for CGD. **Concerns:** (a) Potential increase in gas cost that implies pressure on PNG under soft oil prices (b) risk to scale in new GAs and (c) rich valuation of FY23E P/E of 26.8x/P/BV of 6.3x post the 90.2% rally ~ average RoE of 22.2% over the next 4 years vs sustainable RoE of 32% implied at above P/BV. We suggest entry below Rs615.

Healthy outlook for PNG/CNG based on secular growth, infra build-up and new GAs: We expect GGL to see volume grow from 9.39mmscmd in FY21 to 17.93mmscmd/29.83mmscmd by FY25E/FY30E, implying CAGR of 17.6%/13.7% over FY21-25E/FY21-FY30E. This is driven by (i) growth from the Morbi ceramic tiles cluster – based on potential increase in production by existing tile units and addition of new units in the area. Morbi hosts the world's second largest ceramic tiles cluster with a capacity of 4mn sq mtrs/day spread across 950+ tile factories, which export at least 27% of their output to Asia, Europe, Africa and North America. Also, GGL sells 5mmscmd out of its PNG sales volume of 8.09mmscmd to industries in Morbi; 90% of which are in the Morbi ceramic tiles cluster. (ii) growth in CNG based on expansion in CNG stations from 546 nos. to 700/900 nos. by FY23E and FY25E. CNG's share in volume will rise from 13.9% in FY21 to 14.9%/14.8% by FY23E/FY25E (iii) CGD network expansion in the 7 GAs to add 1.15mmscmd/2.29mmscmd to volume by FY23E/FY25E.

Earnings CAGR of 13.6% over FY21-23E: We estimate revenue CAGR of 28.8% over FY21-23E vs. 26.5% CAGR over FY17-20. This will likely be driven by (i) 20.9%/26.1% growth in PNG/CNG volumes vs. CAGR of 22.8%/7.4% over FY17-20 (ii) EBITDA margin of 16.5%/15.7% in FY22E/FY23 and (iii) Unit EBITDA of Rs4.98/scm/Rs5.07/scm vs. FY17-20 average of Rs4.13/scm.

Robust FCFF and net cash balance sheet augur well for growth capex: We see FCFF at Rs8.72bn/Rs10.1bn in FY22E/FY23E and net debt to decline from Rs6.13bn in FY21 to net cash of Rs8.4bn over FY21-FY23E after aggregate capex of Rs14bn. And, long-term FCFF should keep rising to Rs18.3bn/Rs45.4bn by FY25E/FY30E. This puts GGL in a sweet spot to use this cash for growth capex, including PNGRB's proposed 11th round of auctions of CGD licenses and inorganic growth through buyouts of CGD licenses.

Healthy return ratios: We expect attractive return ratios - ROIC of 22.5%/23.7% and RoE of 23.6%/22.9% in FY22E/23E. This compares with average ROE of 28.5% over FY18-FY21. ROIC over FY24E-25E is estimated at 25.1%/26.8%

Key risks: Slowdown in the Morbi cluster, open access impact, potential increase in gas input cost and slower growth in new GAs.

Y/E March (Rsmn)	FY20	FY21	FY22E	FY23E	FY24E
Gas Volume (mmscmd)	9.44	9.39	11.45	12.75	14.12
Revenues	1,03,003	98,543	1,31,799	1,63,497	1,79,696
EBITDA	16,343	20,878	21,710	25,699	29,657
Net Profit Adj	11,988	12,777	13,503	16,478	19,613
EPS (Rs)	17.41	18.56	19.61	23.94	28.49
EPS gr (%)	174.8	6.6	5.7	22.0	19.0
EBITDA Margin (%)	15.9	21.2	16.5	15.7	16.5
P/E	38.2	35.8	33.9	27.8	23.3
EV/EBITDA	28.4	22.2	21.4	18.1	15.6
P/BV	13.80	10.15	8.02	6.38	5.12
FCF yield %	2.1	2.3	1.9	2.2	3.2
Post-tax RoCE (%)	22.0	20.6	19.3	19.9	19.6
RoIC (%)	26.6	25.1	22.5	23.7	25.1
RoE (%)	43.4	32.6	23.6	22.9	21.9

Source: Company, Nirmal Bang Institutional Equities Research

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ACCUMULATE

Sector: Oil & Gas

CMP: Rs665

Target Price: Rs710

Upside: 6.8%

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Key Data

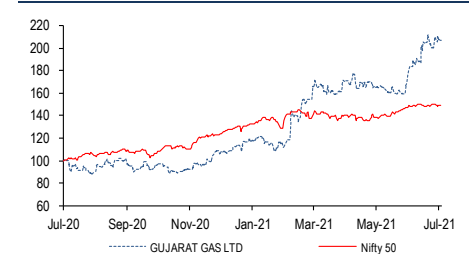
Current Shares O/S (mn)	688.4
Mkt Cap (Rsbm/US\$b)	421.7/5.6
52 Wk H / L (Rs)	705/281
Daily Vol. (3M NSE Avg.)	2,157,544

Shareholding (%)

	4QFY21	3QFY21	2QFY21
Promoter*	60.89	60.89	60.89
Public#	39.11	39.11	39.11
Others	-	-	-

*includes GSPL stake of 54.17%,# includes FII/DII/PSUs

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
GGL	3.9	57.3	90.2
Nifty Index	0.3	10.7	48.2

Source: Bloomberg

Consensus	FY22E	FY23E
EPS (Rs)	22.1	26.2
P/E	30.2	25.4

Rating rationale

We initiate coverage on GGL with an **Accumulate** rating using our DCF-based TP of Rs710 (implies 6.8% upside from CMP).

CGD subsidiary of Gujarat state PSU gas transporter GSPL (holds 54.17% stake), GGL is India's leader in CGD, operating in 27 geographical areas (GAs), including 17 areas in Gujarat. This also includes 7 new GAs, and covers 43 districts across 6 states - Gujarat, Maharashtra, Rajasthan, Madhya Pradesh, Punjab, Haryana and UT of Dadra & Nagar Haveli. **As per PNGRB's CGD licensing policy, GGL enjoys a CGD infrastructure monopoly in all its existing areas and will enjoy this in new GAs as well.** Marketing exclusivity has ended in all its existing areas, except two, which expired by May 21, 2021. All existing GAs and new GAs will enjoy infrastructure exclusivity for 25 years from the date of authorization.

Once PNGRB notifies open access and fixed regulated tariff for network access in GGL's existing GAs to third parties, **GGL may see 10%/20% of existing and future PNG volumes shift to third parties starting FY24E/FY25E.** Even after considering this impact in our earnings and DCF model, we remain positive on GGL's future growth prospects.

Exhibit 1: GGL CGD infrastructure – existing and new GAs:

Nos.	Existing GAs					Existing plus New GAs			
	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
CNG STATIONS No	252	291	344	396	546	600	700	800	900
PNG – Household	11,64,461	12,50,000	13,50,000	14,40,000	15,84,000	17,19,000	18,54,000	19,91,000	20,13,000
PNG –Commercial	12,341	13,440	12,300	12,600	13,356	13,906	14,456	15,006	15,556
PNG – Industrial	3,067	3,300	3,500	3,700	3,996	4,346	4,696	5,046	5,396
Total PNG customers	11,79,869	12,66,740	13,65,800	14,56,300	16,01,352	17,37,852	18,73,852	20,11,852	20,34,852
Pipeline Km	19,974	21,640	23,200	24,300	25,050	27,050	29,050	31,550	34,050
CNG Vol mmscmd	1.20	1.30	1.40	1.49	1.30	1.65	2.07	2.36	2.65
PNG Vol mmscmd	4.30	4.90	5.10	7.98	8.09	10.30	11.83	13.48	15.28
Total volume mmscmd	5.50	6.20	6.50	9.46	9.39	11.95	13.90	15.84	17.93

Source: Company, Nirmal Bang Institutional Equities Research

Our Accumulate call is based on subdued risk-reward based on the following positives and concerns:

Positives: GGL's attractive fundamentals and the healthy gas industry outlook supported by policy/enablers

Concerns: Potential risk to PNG margins - from fall in competing fuel prices and any increase in gas cost in future, risk to new GA scale up and rich valuations. Hence, we suggest entry below Rs615.

Exhibit 2: Past and future trend in earnings and return ratios

GGL financial performance parameter	Historical avg growth/returns %	Forecast growth/returns %
	FY18-21	FY21-24E
Gas volume	14.8	19.0
Gross block	8.4	10.9
Revenue	16.9	22.2
EBIDTA	32.6	12.4
PAT	63.4	15.4
EPS (adjust for split)	63.4	15.4
RoAE	32.5	22.8
Post tax ROCE	17.3	19.6
ROIC	20.8	23.8

Source: Company, Nirmal Bang Institutional Equities Research

Positive catalysts for GGL

- 13.7% FY20-23E CAGR in gas volume, supported by 11.4%/10.6% CAGR in gross block over FY21-23E/FY20-23E supporting CGD infrastructure expansion.
- FY20-23E revenue CAGR at 16.6%, EBITDA CAGR at 16.3% and EPS CAGR at 11.2%.
- Capex of Rs7-7.5bn/year ~ 60% of this – Rs26.6bn for new CGD network in 17 cities across the 7 new GAs over the next 10 years.
- Sustained FCFF, and ROIC in excess of 22.5%/23% over FY22E-23E vs FY20/21 range of 26.6%/25.1%. GGL's ROIC will likely catch up with FY21 value by FY24E/25E, as per long term estimates.
- India policy advocacy favoring gas/CGD business, improving availability of gas and other enablers, including transportation infrastructure, gas trading exchange, unified tariff and gas transportation system operator (TSO) to support equitable access to cross-country gas pipelines.
- Experts expect the national gas grid and CGD expansion, supported by these enablers, to create a green CNG corridor straddling many GAs. This could enhance growth in CNG volumes beyond what we have experienced so far based on local network demand within a GA.

Risks/concerns:

- Potential increase in input gas cost that implies pressure on PNG under soft oil prices, which could cap the price of substitutes in industrial/commercial PNG – a 1% increase in gas cost, which GGL is unable to pass due to pressure from competing fuels, implies 5.6-5.8% hit on EPS in FY22E/FY23E.
- Risk of scale in new license GAs – the scalable volumes in CNG and PNG in the new areas where GGL is developing the new CGD network depends on the number of 3 and 4 wheelers that can be converted to CNG and the industrial/commercial units, which offer potential for switching from petroleum fuels or coal to gas for energy/feedstock. We estimate new GA volumes to be 7.9% of GGL volumes on average between FY22E and FY24E and 12.8% of GGL volumes from FY25E.
- Rich valuation of FY23E P/E at 27.8x and P/BV at 6.4x post the 90.2% rally YoY. Please note that the average RoE of 22.4% over the next 4 years is less than the sustainable RoE of 32.5% implied at FY23E P/BV at CMP.

Exhibit 3: Open access impact on GGL's unit EBITDA for existing GAs

EBITDA Rs/scm	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
EBITDA open access	Not applicable	Not applicable	3.4	3.2	2.8	2.3	2.3	2.1	1.8
EBITDA free volumes	5.1	5.3	5.5	5.8	6.1	6.4	6.6	6.9	7.2
Blended EBITDA	5.1	5.3	5.3	5.2	5.4	5.5	5.8	6.0	6.1

Source: Nirmal Bang Institutional Equities Research

Exhibit 4: New GA Share in GGL gas volume %

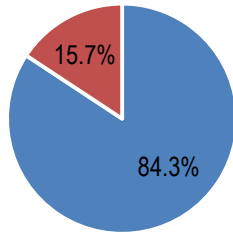
	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
CNG share	4.3	13.9	18.3	21.6	21.9	22.3	22.6	22.9	23.2
PNG share	4.2	7.3	9.6	11.2	11.2	11.1	11.0	10.8	10.7
Total gas volume	4.2	8.2	10.8	12.8	12.7	12.6	12.6	12.5	12.4

Source: Nirmal Bang Institutional Equities Research

GGL's CGD business is dominated by PNG, which makes up 86.1% of its volumes, and the rest is CNG. As a result, the company's financials are driven by volume growth in PNG, with the selling price benchmarked against fossil fuel alternatives. In the Morbi ceramic tiles industry cluster, the PNG price is comparable to propane/LPG - the only alternative permitted in that area.

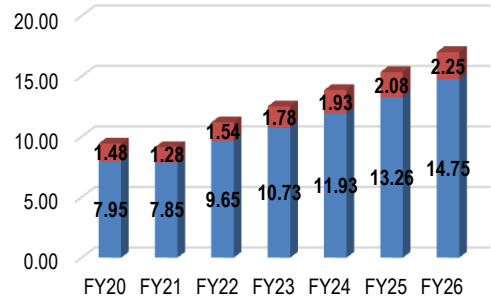
Exhibit 5: GGL's CNG PNG mix and trend in volume

GGL PNG CNG MIX % FY20



■ PNG ■ CNG

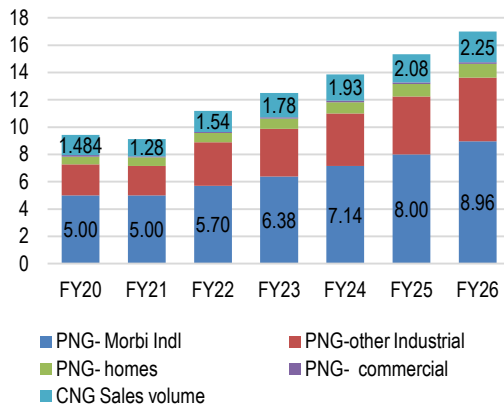
Trend in GGL PNG CNG mix mmcmd



■ PNG ■ CNG

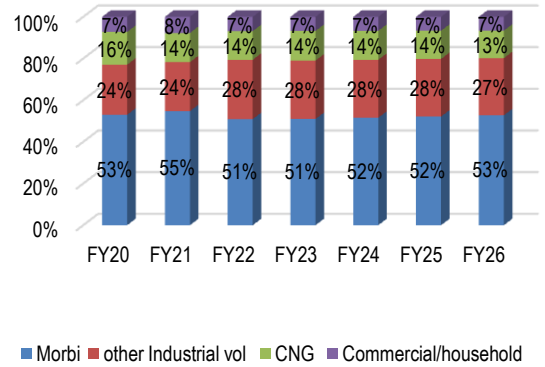
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Morbi impact on GGL gas volume



■ PNG- Morbi Indl ■ PNG-other Industrial
■ PNG- homes ■ PNG- commercial
■ CNG Sales volume

GGL Gas volume pie



Source: Company, Nirmal Bang Institutional Equities Research

GGL's business model is driven by

A. Growth in existing areas based on:

1. Further growth potential in Morbi industrial/Ceramic cluster – based on increase in utilisation in existing tile units and new capacities expected in tiles in Morbi
 - a. Ceramic tile units consume 90% of the gas sold in Morbi
 - b. The NGT order allows only gas and LPG for gasifiers in Morbi tile units
 - c. This implies growth based on additional production or new capacity
2. Higher penetration potential in PNG/CNG ~ currently estimated at less than 20%/30%
3. Capex on
 - a. Upgradation/renewal of existing CNG and PNG distribution network ~ may not give volume upside commensurate with capex
 - b. Growth in infrastructure, including new CNG stations and pipelines ~ adds to volume
4. Growth in customer numbers in PNG ~ no of industrial customers, commercial entities and households (domestic as per company release)
5. Growth in CNG vehicles through conversion of cars, autos, taxis, buses and new CNG models of cars; and

B. Capex on expansion of PNG and CNG network in the 7 new GAs won by GGL in recent years

As we can see, the business is not asset light either in existing and new areas. The positive aspect is that **pricing freedom and operating leverage along with volume growth support visibility and earnings/cash flows.**
 This would enable GGL's business to consistently deliver healthy ROIC and RoE over the next few years.

Exhibit 7: Volume Trend

MMSCMD	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
CNG	1.20	1.30	1.40	1.49	1.30	1.65	2.07	2.36	2.65	2.88
PNG	4.30	4.90	5.10	7.98	8.09	10.30	11.83	13.48	15.28	16.97
TOTAL VOLUME	5.50	6.20	6.50	9.46	9.39	11.95	13.90	15.84	17.93	19.85

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Volume growth trend

Gr %	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Gross block Rsmn	59,162	63,622	68,798	74,397	79,554	90,405	99,030	1,08,934	1,16,335	1,20,074
Vol gr % - CNG	-	8.45	7.58	6.29	-12.55	26.83	25.41	14.13	12.32	8.43
Vol gr % - PNG	-	13.95	4.08	56.34	1.41	27.30	14.88	14.32	13.00	11.09
GGL Volume gr %	-	12.75	4.81	45.56	-0.79	27.24	16.33	14.29	12.90	10.69

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Revenue, EBITDA and PAT growth trend

Financial growth %	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Revenue	21.2	25.6	32.8	(4.3)	33.7	24.1	9.9	7.9	11.30
EBITDA	20.4	10.0	66.0	27.8	4.0	18.4	15.4	12.7	14.60
PAT	32.3	43.1	187.5	6.4	5.7	22.1	19.0	16.2	18.74

Source: Company, Nirmal Bang Institutional Equities Research

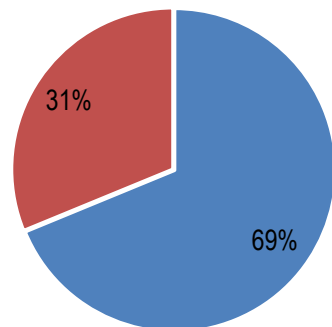
Growth drivers for CGD business and GGL

Morbi growth

- **CGD monopoly in Morbi cluster** offers further growth potential based on the prospects linked to the ceramic tiles industry that has 90% share of GGL's gas sales volume in Morbi.
 - Increase in capacity utilisation in existing units (~950 nos)
 - Expansion in existing units and new units based on growth outlook in domestic and export volume
- Morbi cluster represents 69% of GGL's PNG volumes and 53% of overall volume
 - And industry/channel checks reveal that Morbi tiles cluster can sustain double digit growth in the coming years based on domestic and export potential (~35% of Morbi tile sales as per recent trends).

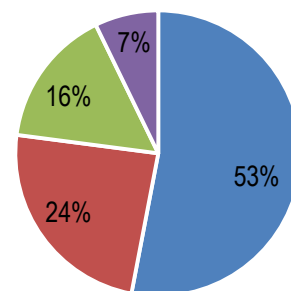
Exhibit 10: Morbi impact on industrial PNG volume FY20 Exhibit 11: Morbi impact on GGL gas volume FY20

Morbi impact on industrial PNG Vol FY20



■ Morbi vol ■ other Industrial vol

Morbi impact on GGL Gas Vol FY20



■ Morbi ■ other Industrial vol
■ CNG ■ Commercial/household

Source: Company, Nirmal Bang Institutional Equities Research

Morbi ceramic cluster:

Morbi hosts the second largest ceramic tiles cluster in the world with capacity of 955mn Sq Mtrs (2.8mn Sq Mtrs/day) as of CY18/19, spread over 610-850 units, as per media/third party reports. The number of units is reported at 950 as on date, of which 880-890 are in operation. Capacity utilisation is reported at 80-85%.

The NGT order on March 6, 2019 forced the gasifiers in 450-500 ceramic units in Morbi to switch from coal to natural gas – impacted the units making wall and soluble salt tiles, which were still using coal. Other types of tiles had already switched from coal some years ago.

The Morbi ceramic tiles cluster accounts for

- **90% of GGL's gas demand from Morbi** (under steady state basis)
- **Prior to NGT's ban, the gas consumption in Morbi was 2.5mmscmd** or 22% of GGL's overall volume in FY19.
- **Post the ban, Morbi demand doubled to 5mmscmd** in FY20 ~ 53% of GGL's gas volume.
- **FY20 revenue of Rs450bn ~ US\$6.5bn/ exports of Rs120bn ~ US\$1.7bn** from Morbi, as per the local Morbi Ceramic Industry Association.
- **However, according to FY21 Indian industry data gathered by NB ceramic tiles research team:** Overall exports stood at ~Rs75bn and overall industry sales at ~Rs285bn (US\$3.85bn)
- If we assume 80% - 90% share, **Morbi ceramic cluster's FY21 sales** were ~Rs228-256bn, of which 30-35% are exports.
- Exports are growing at 7% and cater to 170 countries, 40% of exports are to the Gulf markets.
- **Saudi Arabia has levied anti-dumping duty** on Indian tiles ~ overhang for exports growth.

Global ceramic tiles industry capacity at 13.1mn Sq Mtrs

- No. 1 China – 5.7bn Sq Mtrs has 40% of global capacity
- No. 2. India – 1.15mn Sq Mtrs with 8.8% share
- Many units were reported to have closed down or reduced operations due to shortage of abrasive used in polishing vitrified tiles, as per media reports.

According to the company, the Morbi cluster suffered a 30% cut in volumes in May-June due to transport and shipping bottlenecks due to the second wave of the pandemic. The situation is expected to improve in July.

Policy advocacy support for CGD business

- This is based on CNG/PNG offering a green alternative to reduce pollution from other fossil fuel substitutes
- Infrastructure investments on gas imports (LNG terminals), gas transportation pipeline and domestic gas production to enhance availability of gas at a reasonable price to encourage fuel switching to gas

Gas industry reforms and other enablers to boost CGD business

- The reforms initiated by the Indian government are likely to accelerate increase in the share of gas in the Indian energy pie from the current level of 6-6.5% to government's target of 15%
 - Unified tariff system for notified trunk gas transmission pipelines ~ to normalize transmission tariff across locations, irrespective of their proximity to landfall point of imported LNG/domestic gas. The PNRGB has to implement the system by notifying the unified tariff and operating guidelines as well as settlement & grievance redressal mechanism
 - Gas trading exchange ~ Indian Energy Exchange has set up the Indian gas exchange to promote buying and selling of gas through an exchange mechanism to achieve gas price discovery and encourage gas to gas competition
 - Gas grid management system under an nodal officer (TSO) to ensure smooth operation/availability of gas grid for gas transportation and trading entities ~ the TSO and the management system are pending PNGRB/government action in this regard

Exhibit 12: India CGD demand CAGR

	Last 3 yrs.	Las 5 yrs	Last 10yrs	FY21E	FY22E	FY22E-25E
Growth rate %	12	14	15	13	30	12

Source: Crisil, Nirmal Bang Institutional Equities Research, note: FY21E and FY22E could get revised based on 4QFY21 and the impact of the new wave of COVID/lockdowns on 1Q/1HFY22E volumes

US\$16.4bn industry capex on CGD infrastructure expansion to aid seamless CNG corridor

- The CGD business is likely to lead future growth in India's gas demand based on the massive nationwide investment in new CGD networks awarded to sponsors in the 9th and 10 rounds. This covers 132 GAs and entails an aggregate capex of Rs1.2trn (US\$16.4bn) by various successful CGD entities who have won these licenses.
- Industry experts are betting on the CGD network expansion to create a seamless green CNG corridor. This will likely boost CNG demand for long haul transportation based on CNG passenger vehicles and buses in the long run.
- We see growth in inter-city long haul road transport getting a fillip once the CGD network expansion gathers critical mass in the 132 new GAs and access to CNG filling stations along state as well as national highways ceases to be a constraint.
- The optics of this capex is also likely to have a rub-off on gas demand in GGL's exiting GAs. Potential CNG and PNG users will be encouraged to switch to gas due to cost savings and convenience and in the institutional context, the advantage offered by gas as a clean fuel.
- Rating agency CRISIL estimates CGD growth of 12% between FY22E and FY25E, based on the nationwide CGD network expansion.

Preferential allocation of natural gas at low price for CNG and PNG as cooking fuel

- CNG and household PNG gets preferential allocation of natural gas at government notified price (announced every six months based on 4 global gas price benchmarks)
- GGL gets 22% of its gas volume from CNG and household PNG taken together, which is eligible for the above preferential allocation
- The price for this gas – ‘APM gas’ – is fixed at US\$1.79/mmbtu on GCV (Gross Calorific Value) basis. This is positive for 1HFY22 margins on this segment.
- The caveat is that the price of APM gas and the ceiling for high temp/high pressure gas fields will likely see an increase of 50-60% in 2HFY22. This and the firm trend in imported gas (currently at US\$10.5/mmbtu) pose the risk of an increase in gas cost for CGD players, including GGL.

Increased penetration in existing GAs outside Morbi

- We expect increased penetration in existing industrial and commercial clusters in other GAs outside Morbi to support GGL’s PNG growth
- New users getting added based on fuel switching and investments on new capacity is also likely to aid growth in PNG in other GAs

Conversion of petrol fleet, new CNG models and capex on new CNG stations

The higher margin CNG segment in its existing GAs will likely see growth from higher penetration in terms of increased personal mobility in 4 wheelers and aggregators.

- This will encourage conversion of exiting petrol vehicles to CNG given the steep increase in retail prices in the last few months ~ conversion of 100 cars can add ~500-1000kg/day of incremental sales of CNG (assuming 5-10kg/day of filling per car)
- This will also boost sales of CNG car models by OEMs, which will in turn aid CNG demand growth ~ every 100 CNG vehicles sold implies potential growth in CNG demand of 500-1000kg/day
- The company is adding new CNG stations, which will increase access to CNG filling and encourage conversion and new CNG model sales, apart from increase in the use of personal transport. The latter will be driven by cost savings vs petrol and safety from crowded public transport, which poses the risk of Covid-19 and other infections, apart from the convenience factor
 - Assuming sales of ~1,000-2,000kg/CNG pump per day, every 10 CNG stations can add 10,000-20,000kg/day of CNG volume

Exhibit 13: Typical gas volume for new GA – indicative estimate

Segment	Customers No.	SCMD/user	Demand SCMD	Demand mmscmd
CNG CARS	10,000	4.2	42,000	0.042
HOMES	1,00,000	0.4	40,000	0.04
INDL	10	5,000	50,000	0.05
Commercial	100	150	15,000	0.015
Total for new GA	1,10,110	1.34	1,47,000	0.147

Source: Nirmal Bang Institutional Equities Research

New GAs to bring in 10.6% of GGL's EBITDA by FY25

- GGL has a capex plan of Rs7bn - 8bn each year over the next few years. This includes 60% on the 7 new GAs, which we estimate at Rs26.6bn over FY22-FY30 to develop the CNG and PNG network in the 17 towns and cities spread over 7 districts.
- This is likely to add to GGL's CNG and PNG volumes as the local public and institutional customers switch to CNG and PNG based on the advantages discussed above.
- GGL is planning to mitigate the risk of front-end loading capex and is waiting for scale-up in volumes and cashflows by adapting virtual pipeline to seed and develop CNG and PNG demand.

This will help the company see early visibility on volumes and EBITDA and achieve scale in volumes over 5-6 years. We see new GA CGD volumes at 2.3/3.7 mmscmd by FY25E-FY30E

New GA share in GGL volume by FY25:

- CNG – 21.6%, PNG 11.2% (due to GGL's mix being skewed towards PNG)
- New GA CNG/PNG mix – 25%/75% ~ we believe CNG potential could be restricted based on small size of these towns and the relatively smaller 3 and 4 wheeler fleet population that could be targeted for conversion to CNG.

Discussion on volumes and margins in context:

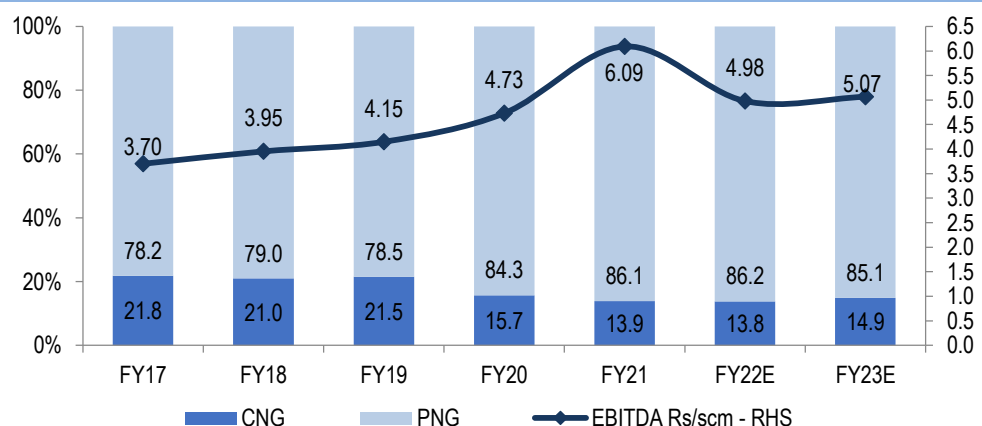
FY20 growth boosted by Morbi cluster switching to gas under the NGT order

GGL's business was bolstered in FY20 by ~45.6% growth in CGD volumes as a result of the 56.3% spurt in its PNG sales in Morbi/Wankaner area, driven by the March'2019 NGT order forcing the ceramic units in these clusters to switch from coal to PNG. The Morbi belt is the world's second largest ceramic tiles cluster with close to 550-600 units.

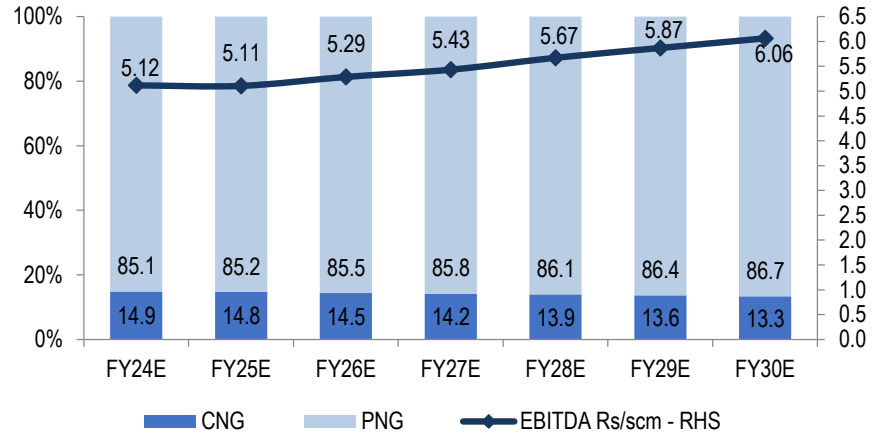
This upswing in volumes supported 32.8%/66%/188% growth in overall Revenue/EBITDA/PAT in FY20, even as EBITDA/scm inched up by 14% to Rs4.73/scm.

- The blended EBITDA for GGL will depend on the share of PNG in its volumes, the cost of gas purchased and the price of petroleum substitutes, which is driven by global oil prices
- The ramp up in CNG stations from 546 to 700 is likely to support 26.1% annual growth in CNG over the next two years and 19.7% annual growth over the next 3-4 years
- CNG's share in the company's volume mix will likely be 13.8%-14.9% over FY22E-23E vs. 13.9% in FY21. We expect blended unit EBITDA margins of Rs4.98/scm to Rs5.07/scm over FY22E-23E
- However, the expansion in PNG volumes and the growth in the 7 new GAs won in 9/10 bidding rounds could see the PNG share still dominate the company's volume mix at 85.2%/86.7% in FY25E/FY30E
- This is likely to result in FY25E/FY30E unit EBITDA coming in at Rs5.1/scm/Rs6.1/scm

Exhibit 14: Trend in gas volume mix and EBITDA/scm - FY17 to FY23E



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Trend in gas volume mix and EBITDA/scm – FY24E to FY30E


Source: Company, Nirmal Bang Institutional Equities Research

Operating assumptions

Exhibit 16: Operating assumptions and margins

	FY19	FY20	FY21	FY22E	FY23E	FY24E
Daily volume run rate - mmscmd						
CNG	1.40	1.48	1.30	1.65	2.07	2.36
PNG Vol	5.10	7.05	8.09	10.30	11.83	13.48
Total volume	6.50	9.44	9.39	11.95	13.90	15.84
Annual volume - MMSCM						
CNG	511	543	475	602	755	862
PNG	1,862	2,911	2,952	3,758	4,317	4,935
Total	2,373	3,454	3,427	4,360	5,073	5,797
PER SCM financials						
Revenue	32.68	29.82	28.75	30.23	32.23	31.00
Gas cost	25.63	22.82	20.40	23.21	25.08	23.82
Gross margin	7.04	7.00	8.36	7.01	7.15	7.17
OPEX	2.89	2.27	2.27	2.04	2.09	2.06
EBITDA	4.15	4.73	6.09	4.98	5.07	5.12
PBT	2.58	3.50	4.97	4.13	4.34	4.52
PAT	1.83	3.47	3.72	3.09	3.24	3.38

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Key Financials and Margins

Rs mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	77,544	1,03,003	98,543	1,31,799	1,63,497	1,79,696
Gross Margin	16,715	24,186	28,645	30,587	36,283	41,592
EBITDA	9,846	16,343	20,878	21,710	25,699	29,657
PAT	4,363	11,988	12,777	13,503	16,478	19,613
OCF	9,561	14,200	16,552	13,871	17,090	22,049
Capex	5,304	5,955	7,512	6,688	8,068	8,848
FCF	3,522	9,534	10,449	8,720	10,113	14,793
Margins/ Tax rate %						
Gross margin	21.6	23.5	29.1	23.2	22.2	23.1
EBITDA Margin	12.7	15.9	21.2	16.5	15.7	16.5
PAT margin	5.6	11.6	12.9	10.2	10.1	10.9
Tax rate	28.9	0.8	25.2	25.2	25.2	25.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Growth rate – Volume and Financials %

	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
CNG	7.58	6.26	-12.52	26.83	25.41	14.13	12.32
PNG	4.08	56.34	1.41	27.30	14.88	14.32	13.00
Total volume	4.81	45.55	-0.78	27.24	16.33	14.29	12.90
Revenue	25.6	32.8	(4.3)	33.7	24.1	9.9	7.9
EBITDA	10.0	66.0	27.8	4.0	18.4	15.4	12.7
EPS	49.1	174.8	6.6	5.7	22.0	19.0	16.2

Source: Company, Nirmal Bang Institutional Equities Research

Valuation: TP of Rs710 per share/equity value of Rs489bn

The combined cashflows from existing and 7 new GAs valued at Rs710 per share/equity value of Rs489bn. We are assuming 12% volume CAGR and blended EBITDA/scm of Rs5.2-5.3 in our open access based DCF model over FY23-30E. This is based on open access kicking in for all the existing GAs at 10%/20% on a blended basis over FY24E-25E.

Exhibit 19: Valuation summary

WACC assumptions	%	Valuation	Rs mn
Risk free rate	6.0	Terminal value	6,80,750
Risk premium	5.0	PV of terminal value	3,51,390
Cost of equity	9.4	PV of FCFE	1,37,027
Beta of the Stock (x)	0.67	Enterprise Value	4,88,417
Cost of debt	6.4	FY22 Net Debt	(446)
Gearing (x)	0.25	Equity Value	4,88,863
Stable growth rate	5.0	Shares outstanding (mn)	688.4
Discounting period	9.0	Equity value Rs/share	710
WACC	8.6	CMP (Rs)	665
		Upside/(Downside) %	6.8

Source: Nirmal Bang Institutional Equities Research

New GAs: We estimate potential volumes from new GAs under development based on an aggregate capex of Rs26.6bn in the new CGD networks. We use our thumb rule estimates for the physical network expected to be in place over FY21E-29E, as per PNGRB.

The TP implies FY23E EV/EBITDA of 19.3x, PE of 29.7x and P/BV of 6.8x. This compares with 5-year median PE of 20.4x and 5-year median P/BV of 4.4x.

Upside case in volumes from ban on coal and liquid petroleum fuels favoring gas:

NGT/state agency extending ban on fossil fuels in favour of gas:

The management expects ban similar to that imposed in the Morbi cluster to be announced in other areas too. Such a ban could see GGL's PNG sales increasing by another 5-10% on our ballpark estimates. The actual impact would depend on current volumes and the industry concentration where the ban will force a switch to gas in the GAs impacted by any such order in future. We believe that timing this and building this into base case is difficult.

Exhibit 20: Impact of deferred Volume upside from base case

10% upside in volume	EPS estimate (Rs)				DCF value	change in TP
	FY22E	FY23E	FY24E	FY25E		
year of impact					Rs	%
Base case	19.61	23.94	28.49	33.11	710	0
FY23E	21.97	26.73	31.71	36.74	790	11.2
FY24E	19.61	23.94	31.71	36.74	788	10.9
FY25E	19.61	23.94	28.49	36.74	785	10.5

Source: Nirmal Bang Institutional Equities Research

Our bull case analysis under nil open access post exclusivity values GGL as Rs814

Higher growth and margins can add to our valuation

Every Rs1/scm increase in EBITDA/scm implies 22% upside in FY23E EPS and 19.3% upside in GGL's valuation to Rs847/share.

Every 10% increase in additional volumes implies 10.9% upside in FY23 EPS and 11.3% upside to GGL valuation from our base case TP.

Exhibit 21: Impact of open access volume and margins - Base case vs Bull case

Case	Scenario	FY23E EPS	FY24E EPS	FY25E EPS	DCF value
Base case	20% open access by FY25E	23.94	28.49	33.11	710
Bull case 1	Unregulated	23.78	29.48	36.04	814
Bull case 2	Ebitda/scm up Re. 1	29.20	33.73	38.31	847
Bull case 3	volume Upside 10%	26.56	31.52	36.51	790

Source: Nirmal Bang Institutional Equities Research

Note: Base open access on volumes - 10% - FY24; 20% - from FY25E; this also applies to case 2 and case3.

Exhibit 22: Impact analysis on PAT and DCF value- Change in gas volume and EBITDA/scm

Upside case	change	Change in PAT%				DCF value Rs	Chg in GGL valuation (%)
		FY22E	FY23E	FY24E	FY25E		
Base case	EPS Rs	19.6	23.9	28.5	33.1	710	0.00
Volume - V up A	+10%	12.0	11.7	11.3	11.0	790	11.25
EBITDA E Rs/scm B	0.1	2.4	2.3	2.2	2.1	724.0	1.95
Downside case	change	FY22E	FY23E	FY24E	FY25E	DCF value	Chg in GGL valuation (%)
Volume down C	-10%	-12.0	-11.7	-11.3	-11.0	630	-11.28
E Down Rs/scm D	0.1	-2.4	-2.3	-2.2	-2.1	696	-1.99
E Down Rs/scm E	0.5	-12.1	-11.5	-11.1	-10.7	642	-9.59
E Down Rs/scm F	1	-24.2	-23.0	-22.1	-21.5	573	-19.31

Source: Nirmal Bang Institutional Equities Research

Sensitivity Analysis
Exhibit 23: Impact of Gas Cost/Margins Per SCM and Volumes on Earnings/Valuations

Case A	FY22E	FY23E	FY24E	FY25E
CNG Volumes down	-10%	-10%	-10%	-10%
Base case Volumes	4,360	5,073	5,797	6,545
Impact of 10% cut on volume	-436	-507	-580	-655
Change in Revenue	-13,180	-16,350	-17,970	-19,392
Change in EBITDA	-2,171	-2,564	-2,966	-3,341
Change in EBITDA	-2,171	-2,570	-2,966	-3,341
Change in PAT	-1,624	-1,923	-2,219	-2,500
Change in PAT%	-12.0	-11.7	-11.3	-11.0
Case B	FY22E	FY23E	FY24E	FY25E
Cost of gas up	5%	5%	5%	5%
Per scm impact	-1.16	-1.25	-1.19	-1.12
Change in EBITDA	-5,061	-6,361	-6,905	-7,356
Change in PAT	-3,786	-4,759	-5,167	-5,504
Change in PAT%	-28.0	-28.9	-26.3	-24.1
Case B - Impact on margin				
EBITDA Margin hit %	-3.8	-3.9	-3.8	-3.8
New EBITDA margin %	12.6	11.8	12.7	13.4
Base case EBITDA Margin %	16.5	15.7	16.5	17.2

Source: Nirmal Bang Institutional Equities Research

Regulations/policy impacting CGD/GGL

1. Open access:

The licenses for existing areas under GGL have outlived their marketing exclusivity and could see PNGRB initiate the process to open these up to third party access as per the “open access code for CGD networks” notified by PNGRB in end Nov’20.

We have already modelled the potential impact of open access kicking in all the existing GAs of GGL at 10% in FY24E and max at 20% by FY25E. This is based on blended EBITDA/scm of Rs5.12 /Rs5.1.

As compared to its smaller but higher margin peers IGL and MGL, open access poses a higher risk to GGL as its 86% dependence on industrial/commercial PNG makes it vulnerable to losing market share to new entrants.

In CNG, there are two key physical entry and cost barriers

- i. Capex and access to land to set up new CNG stations
- ii. Existing petrol pumps in these GAs cannot be used by third parties

These two factors will likely pose roadblocks, which is likely to delay third party competition building up the volumes as per open access rule.

In PNG, the existing CGD network is readily available to the extent of 20% of its capacity under open access and new entrants can source their gas and use this open access capacity to sell PNG to existing and new industrial as well as commercial customers.

Every 10% loss of volume implies 12.1% hit on FY23E EPS.

Impact of competition under open access in existing GAs:

Price competition is unlikely given that PNG prices in all markets are set based on prices of competing alternatives~ in Morbi, we learn that its set based on Propane/LPG prices as this is the other fuel option allowed in that region apart from PNG/LNG.

Price cutting is possible if the competitors are able to enjoy a lower delivered cost of gas sourced by them, which might be sporadic based on spot volumes and not sustainable. The company’s ultimate promoter GSPC has a presence in LNG import and sourcing through the Mundra LNG import terminal operated by GSPL LNG LTD. This should help GGL by and larger match gas procurement costs in GAs in Gujarat vs. that of competition, barring short periods of time.

Existing relationships could help GGL retain some of the larger customers who may not switch material volumes unless there is a lasting cost benefit without sacrificing stability of gas supplies.

It is however possible that a third party may offer lower prices and settle for lower margins as the competitor does not have to invest in fixed assets. This could hurt GGL’s PNG margins in the short term; eventually, the operator’s margins and third party margins will likely move in tandem.

However, the key to this whole discussion is the volume impacted, which is currently ~1.5mmscmd, if we assume that competition eats into 20% of the entire industrial and commercial PNG volume in existing GAs (7.44mmscmd).

- On this volume, if there is a price cut of Rs0.1/scm, it implies a hit on margins of Rs54mn hit/year
- And at the worst assuming Rs0.5-1/scm price cut, it implies a hit on margins of Rs270mn to Rs540mn/year.
- **Hence, this is not a cause for concern; unless the extent of price cuts widen to Rs2/scm ~ this would imply a hit on margins of Rs1.08bn and post-tax hit of Rs810mn or a downside in EPS of Rs1.2/share. This impact could marginally increase to the extent that the entire industrial and commercial PNG volume in existing GAs will see growth in future.**

Another dimension to competition is the potential impact of third-party gas marketing companies entering GGL's GAs in PNG post open access notification. This could imply some pressure on GGL's pricing for the free volumes in these GAs, although technically PNG pricing can be different as final consumer price of CNG/PNG is deregulated. One outcome is that in GAs under open access, the PNG price for the 80% free volume may have to be cut in line with that charged by the new third party shippers. This may be required for at least some large customers who may have some buying power and may seek parity in pricing as in open access volumes. And, GGL may cut prices across the board or announce a marginal cut compared to third party prices and offer discount to large customers on a tactical basis.

We estimate a 5.8% to 11.6% potential downside to our TP assuming a price cut of Rs0.5-1/scm in the price for 80% of PNG volumes that is not under open access, in all of GGL's GAs. This is based on third party shippers offering similar cuts on open access volumes compared to the previous price.

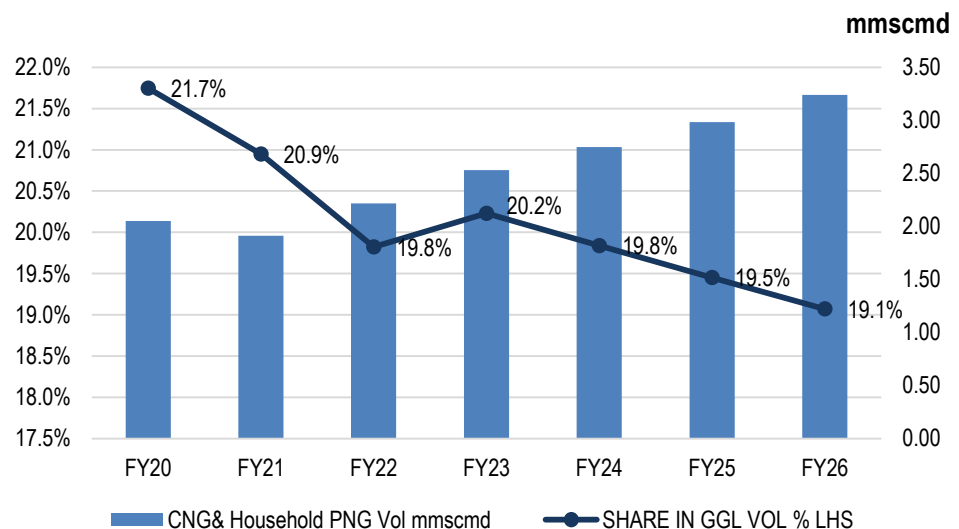
Exhibit 24: Impact of third party price cutting on free PNG volumes

Price cut Rs/scm	Hit on EPS %							DCF value Rs	ch in TP %
	FY24	FY25	FY26	FY27	FY28	FY29	FY30		
-0.5	-7.6	-6.5	-6.1	-5.5	-5.4	-5.1	-4.8	669	-5.8
-1	-15.3	-13.0	-12.2	-11.0	-10.7	-10.2	-9.6	628	-11.6
Price inc Rs/sm									
0.5	7.5	6.4	6.0	5.4	5.3	5.0	4.8	751	5.8

Source: Nirmal Bang Institutional Equities Research

- Gas pricing** – CNG is based on domestic gas allocation at government notified price – “APM price” - which has boosted CNG margins. Once the formula for this is changed and linked to JKM benchmark, the cost of gas may rise. The extent to which this can be passed on will depend on (a) excise duty/VAT on MS /HSD the oil substitutes for CNG (b) future changes in the PNGRB Act, which currently leaves CNG/PNG prices unregulated. It is possible that the PNGRB Act is amended to put a cap on selling price of CNG, while allowing full pass-through of gas cost increase and opex/ capex recovery, as per norms.

Exhibit 25: Preferential gas allocation segment share in GGL volume



Source: Company, Nirmal Bang Institutional Equities Research

Change in gas pricing formula could impact gas cost for CNG and household PNG

If the benchmark gets changed and the gas price for CNG and household PNG goes up, this would impact GGL to the extent of gas sales in these two segments, which get the first preference for gas allocation at the 'APM gas' price. The volume sold in these two segments was 22%/21% of GGL gas volumes in FY20/21. This will remain at least 20% in FY22E-FY24E and 19% in FY25E-26E.

The risk to GGL from APM gas price increase is less than that for IGL (ACCUMULATE) and MGL (ACCUMULATE), both of which have a higher proportion of sales volume coming in from CNG and household PNG segments.

Market based gas/LNG price: The cost of market based gas – domestic/LNG is under free pricing and can put margins on PNG at risk if price of oil based substitutes don't increase as much as the cost of gas or worse declines.

Every 5% increase in gas cost implies material downside to EPS and TP

- **Potential hit on FY23E EPS: 28.9% cut in FY23E implied EPS to Rs17.02**
- **Potential hit on DCF based TP: 21.8% cut to implied TP of Rs555**

3. GST on gas

a) **The bull case:** This is the elephant in the room, which is difficult to predict as to the shape and size. Prima facie, gas under GST is positive as users get input credit on the GST paid on gas, which then is at par with fuel oil that already enjoys this benefit. This is likely to encourage substitution of fuel oil with gas and hence a potential upside catalyst for gas demand in future. If GST input credit is also made available to CGD Cos on GST paid on operating expenses and capex, it could reduce Opex and Capex.

Every 10% gain of volume implies 11.7% upside in FY23E EPS and 11.2% upside in TP

b) **The bear case:** However, it is unrealistic in our view to assume that this benefit of input tax credit can be retained by the CGD industry in full to perpetuity given the government's intent to promote gas as a cheap green alternative to the polluting oil based fuels and coal.

4. Operating leverage and pricing power for Indian CGD stocks could be at risk over time:

- In fact, the market's comfort on sustained pricing power supporting above average EPS growth and return ratios/FCF for CGD stocks could get shaken if the government puts in policy levers to force the industry to pass on all or part of the savings on input costs and Opex, including those from GST input tax credit.
- Also, the room for operating leverage benefits may dwindle as the regulations mature with policy makers' view on "attractive returns", for what is after all a public utility, could be at a level below what the market is currently building in assuming volume growth, operating leverage and unregulated pricing power.

Regulatory issues and climate change goals:

Potential impact of Indian gas price reform on CGD companies:

The other risk from a policy angle is the change in pricing for preferential allocation to CNG/household PNG at the domestic gas price linked to US, UK, Canada and Russia benchmarks.

Low domestic gas price (APM gas) hurting Indian E&P companies:

The sustained fall in the domestic gas price to US\$1.79/mmbtu in 2HFY21 and 1HFY22 (on GCV basis) has put pressure on upstream gas producers like ONGC and Oil India (both are Not Rated at NBIE) for the gas they produce in the PRE-NELP fields (which has a lion's share of their gas sales volume). The government is reported to be considering change in the gas pricing formula by adding or shifting it to JKM benchmark, which industry believes is more representative of gas demand and hence is a better indication of a "market price" for gas.

Under normal circumstances and based on past experience, the CGD industry has the pricing power to pass on any gas cost increase. This is based on the prevailing discount that CNG enjoys in Gujarat vs petrol/diesel at 46.5%-48.5% in terms of cost/km.

The discount may increase or decrease based on the rise or fall in global price for these fuels (linked to oil price) and the tax differential, which is currently very high – excise duty on CNG is 14% or ~5/kg at Rs50/kg pump price. This is very low vs Rs38-43/kg of excise duty on HSD/MS.

However, a sharp increase in gas price of more than Rs1-2/scm (US\$0.4-0.8/MMBTU) may not be possible to pass on at one go. And, this could get accentuated if (a) the global price of MS and HSD fall, which is possible if oil prices were to see a downward correction in future and (b) the steep increase in excise duty effected on MS/HSD in MAY'20, is rolled back by Rs5-10/litre, to reduce the impact of high fuel prices on retail consumers and the transportation cost on daily necessities and industrial goods.

Gas pricing may entail strategy on long term tariff differentials as per climate change/green fuel goals

This move may depend on how the government views the issue of balancing need for revenue and rationalizing taxes. Key elements that may determine the tactical approach in the near term and the longer term would be as follows:

- a) The need for a green tax on MS and HSD to discourage polluting petroleum fuels
- b) The thinking on tax on gas, including moving it to GST – this would enable the government to have a stable source of revenue for central and state budgets and at the same time arrive at a well-defined and stable tariff differential in favor of gas to encourage shift towards a less polluting fuel
- c) In turn, this would support India's journey towards reducing the carbon footprint and
- d) Make progress towards its commitments on sustainable development and the fight against climate change

India appears less worried about emission risk posed by gas compared to OECD

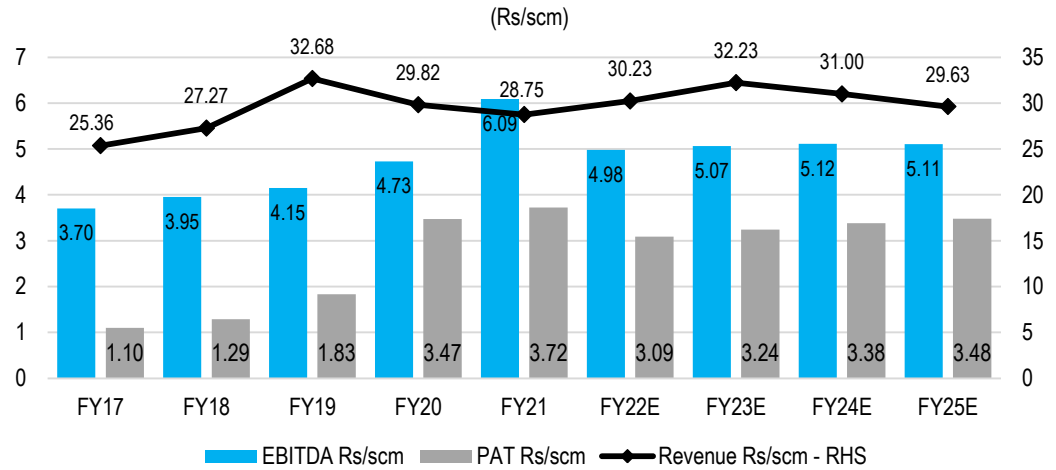
The rider in this framework is the recent disconcerting questions being raised on methane emissions and carbon footprint left by natural gas in the OECD and climate change policy deliberations at various official forums.

The Indian government has so far not acknowledged this risk in natural gas and is yet to assess the emission from CGD and the other segments that consume gas. As things stand, the CGD industry and PNG importers like PLNG have maintained that gas is pollution free and does not leave a carbon emission footprint that would thwart India's goals towards zero carbon economy. And, the boards of the OMCs and ONGC also have endorsed the increasing role of gas in our energy basket and have not yet articulated any visible concerns on the risk posed by natural gas on India's emission goals.

For long-term investors and those who have an ESG framework, may eventually desire clarity on Indian gas industry's emission norms and the sustainability of the current thumbs-up given to gas on its status as a green fuel that can be consistent with reducing India's carbon footprint over time.

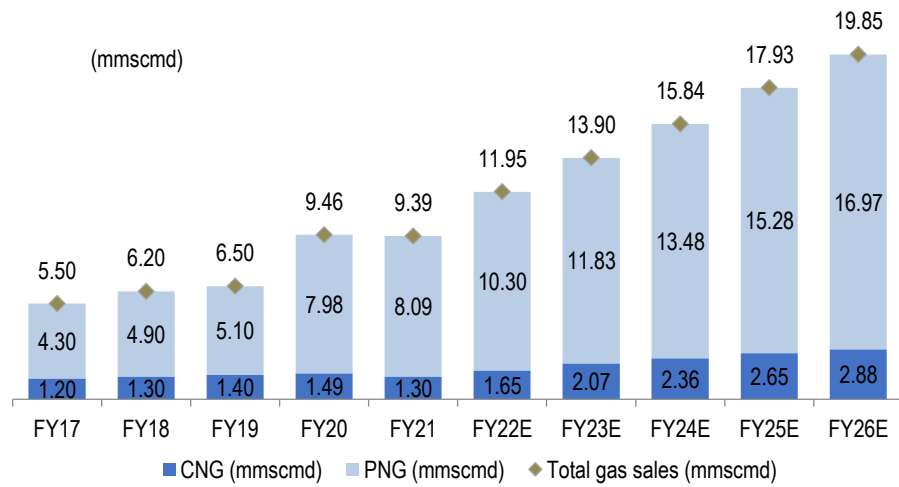
Gujarat Gas in pictures

Exhibit 26: Trend in revenue and earnings per scm of gas of gas sold



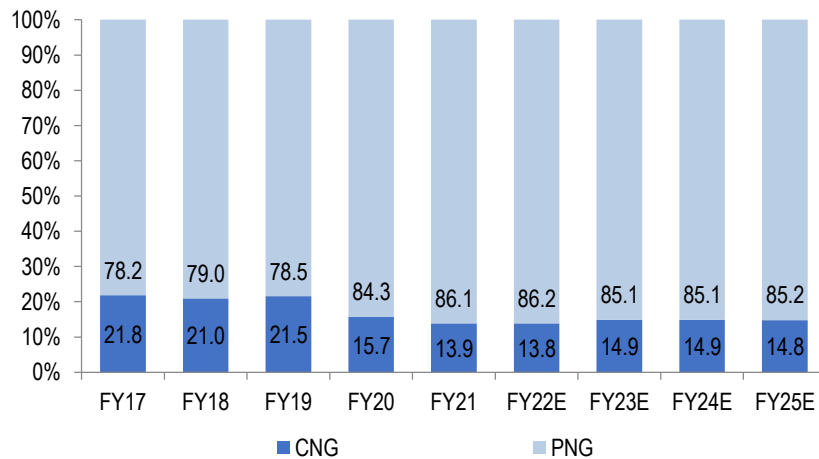
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 27: Trend in GGL gas volume



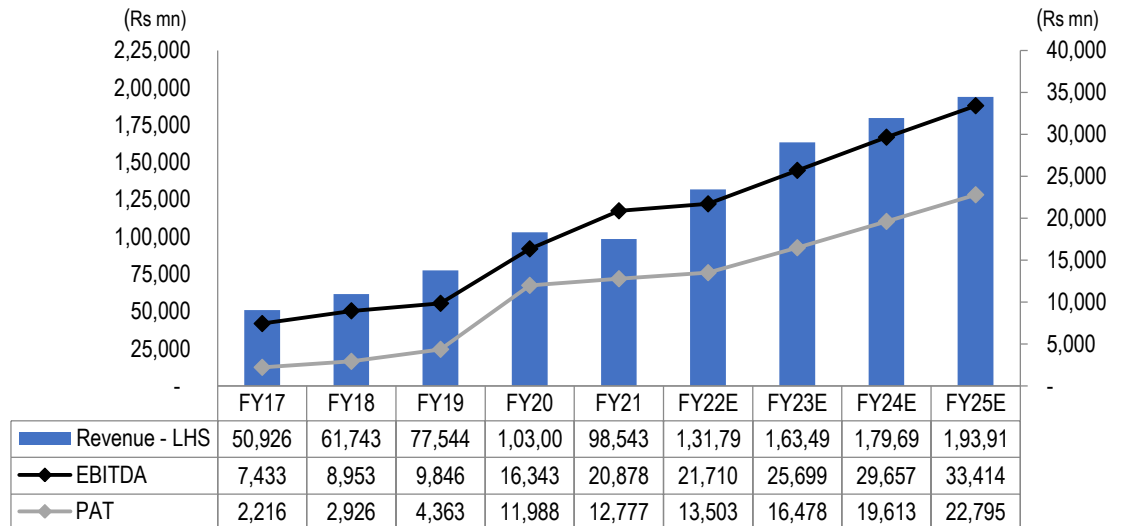
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 28: Trend in PNG&CNG mix



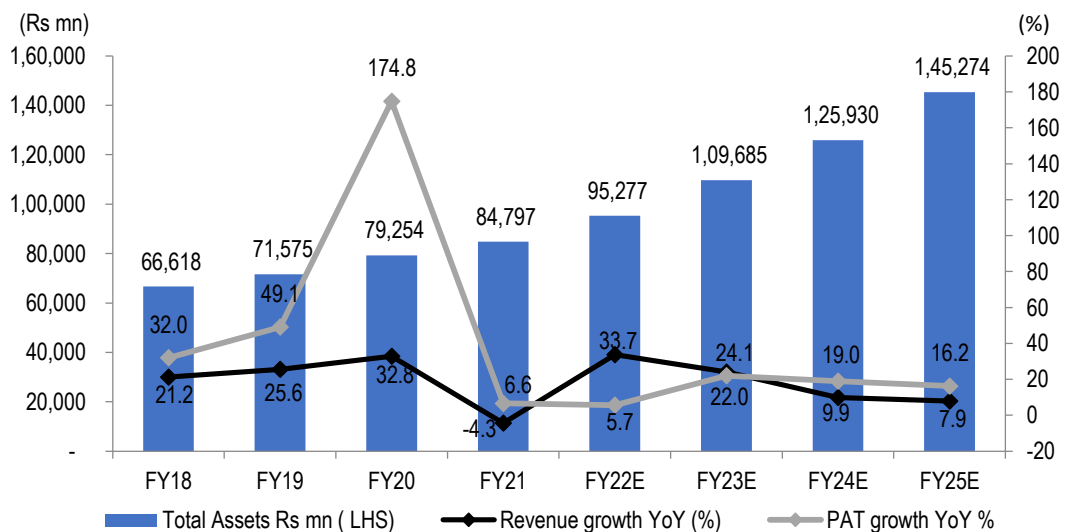
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 29: Revenue and earnings trend



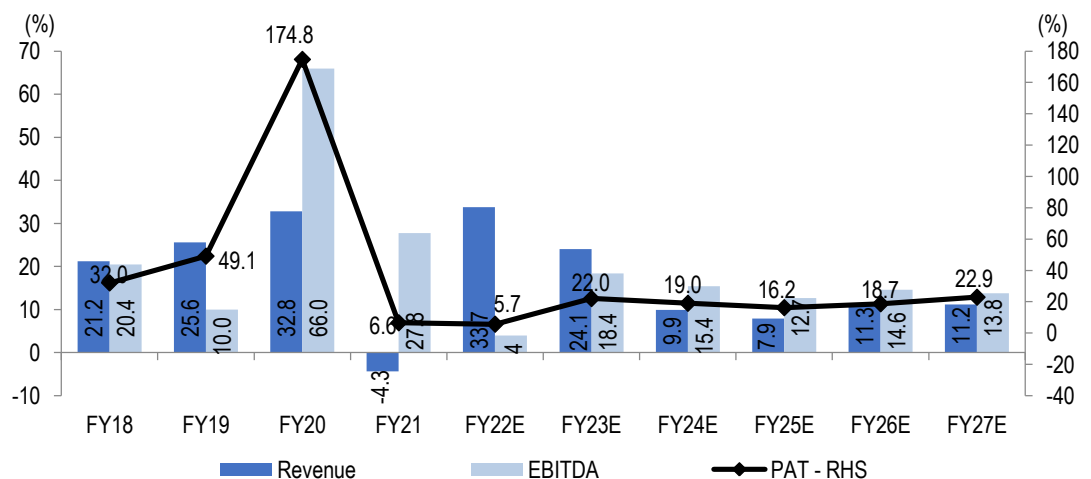
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 30: Trend in Revenue & PAT growth and Assets



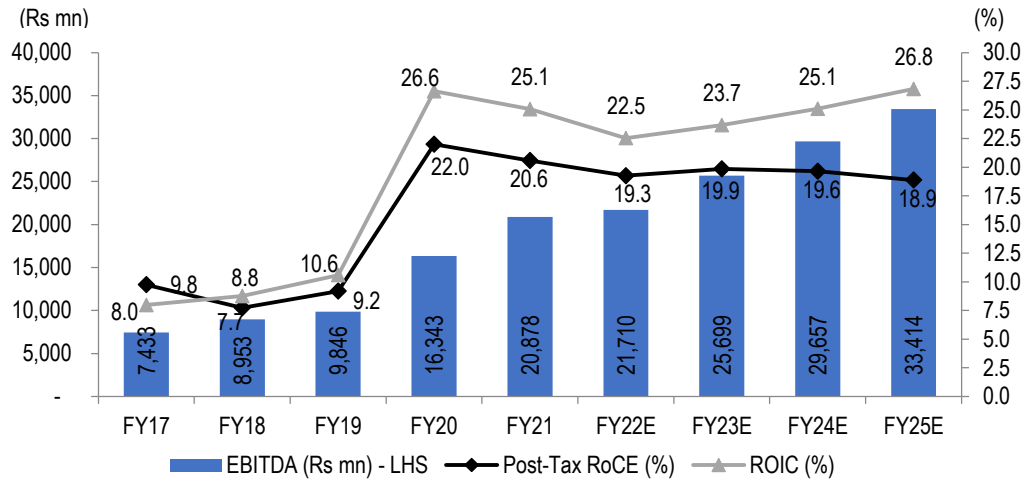
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 31: Revenue, EBITDA & PAT growth YoY



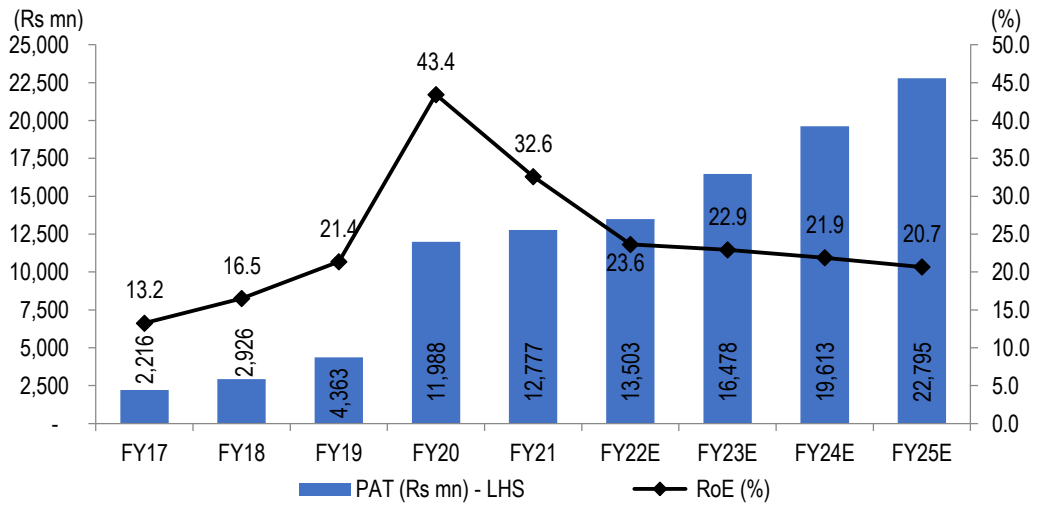
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 32: EBITDA, RoCE and RoIC trend



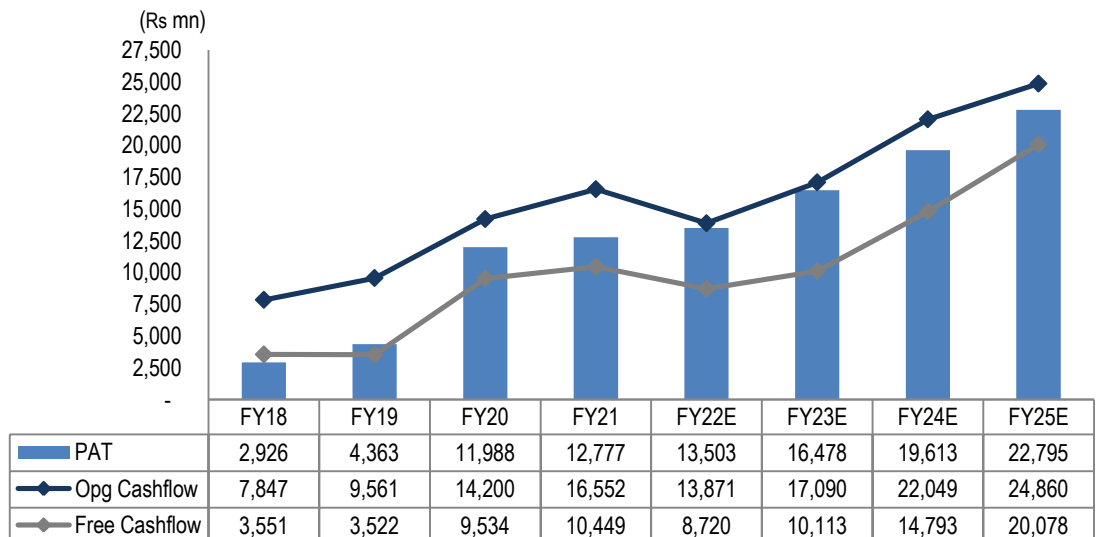
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 33: PAT & RoE trend



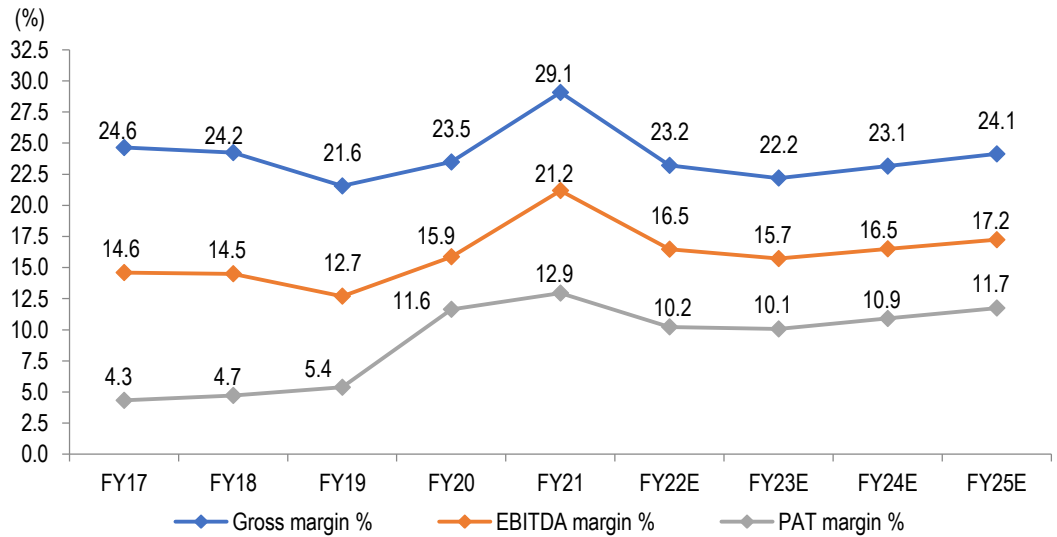
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 34: PAT, OCF & FCF Trend



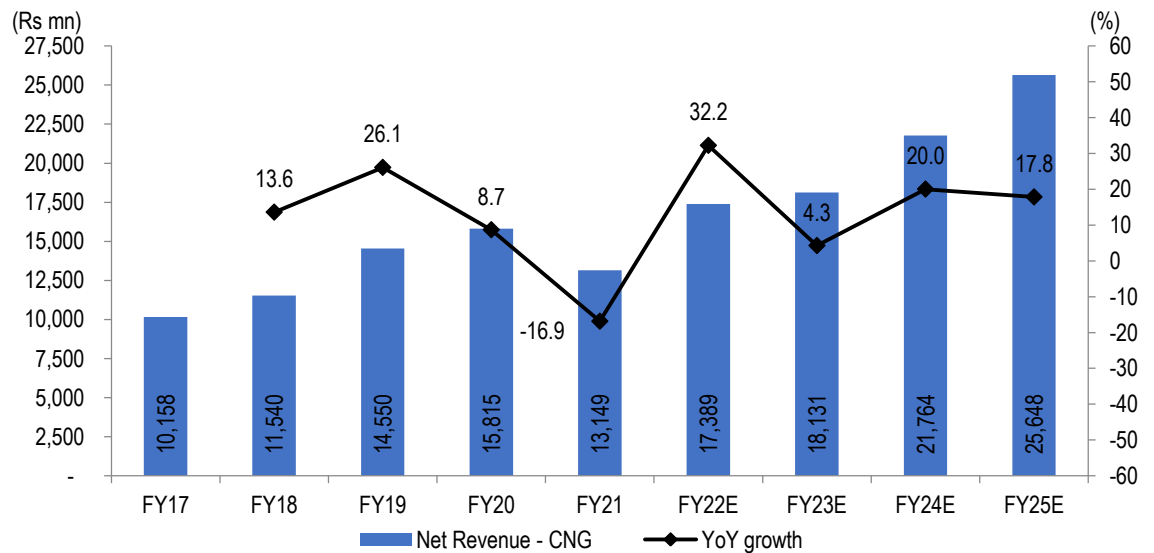
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 35: Trend in margins



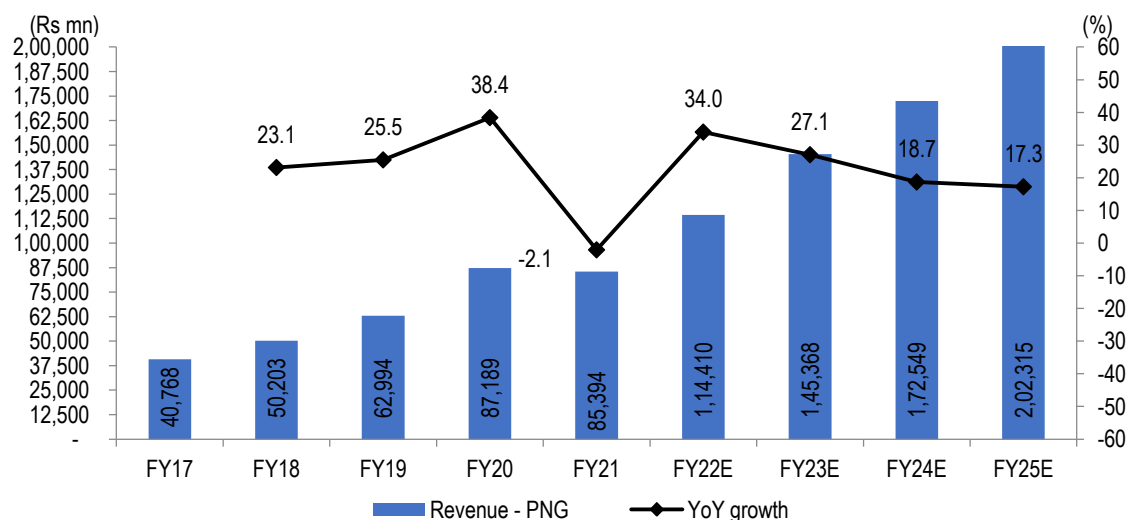
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 36: CNG - Net revenue trend



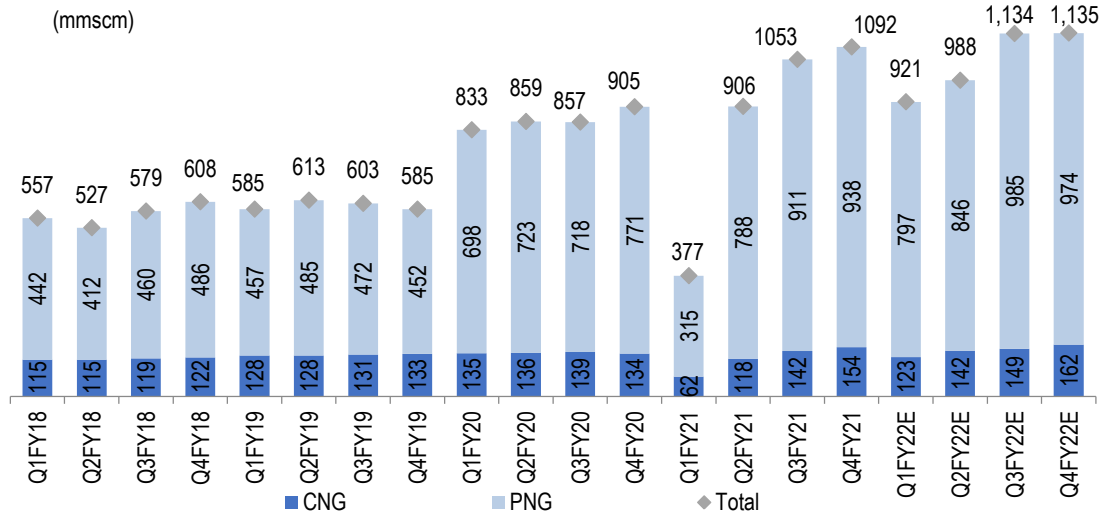
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 37: PNG - Revenue trend



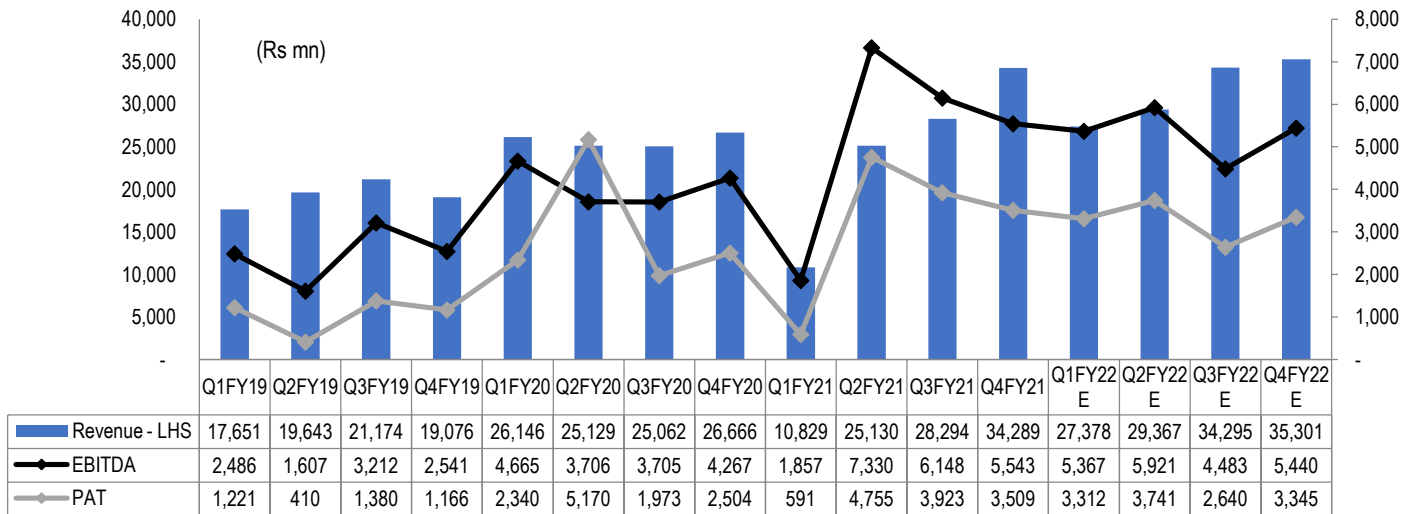
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 38: Quarterly aggregate volume trend (mmscm)



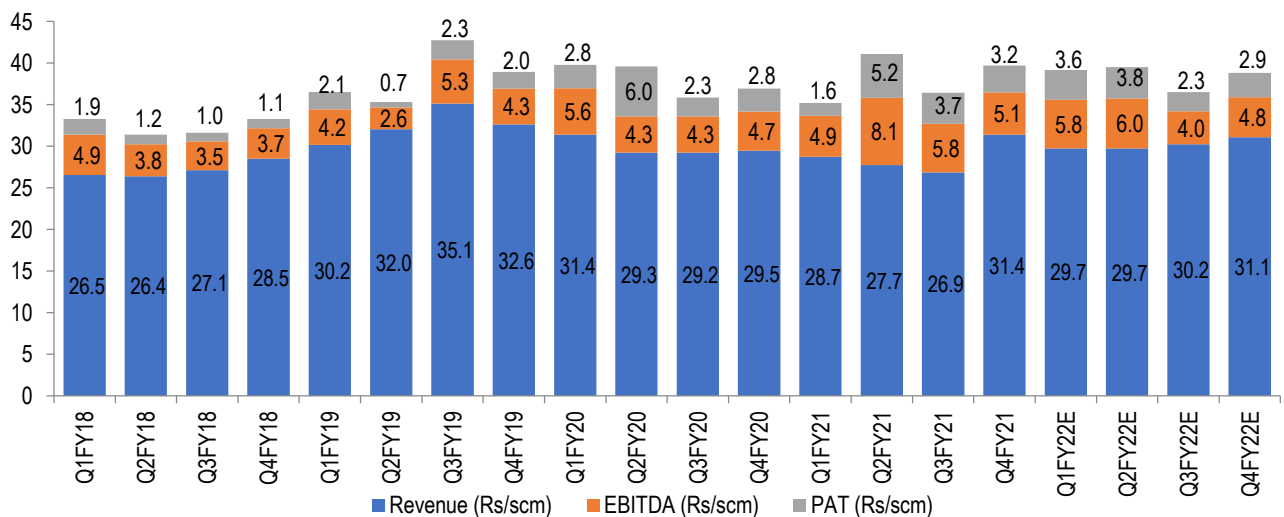
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 39: Quarterly trend – Revenue, EBITDA and PAT



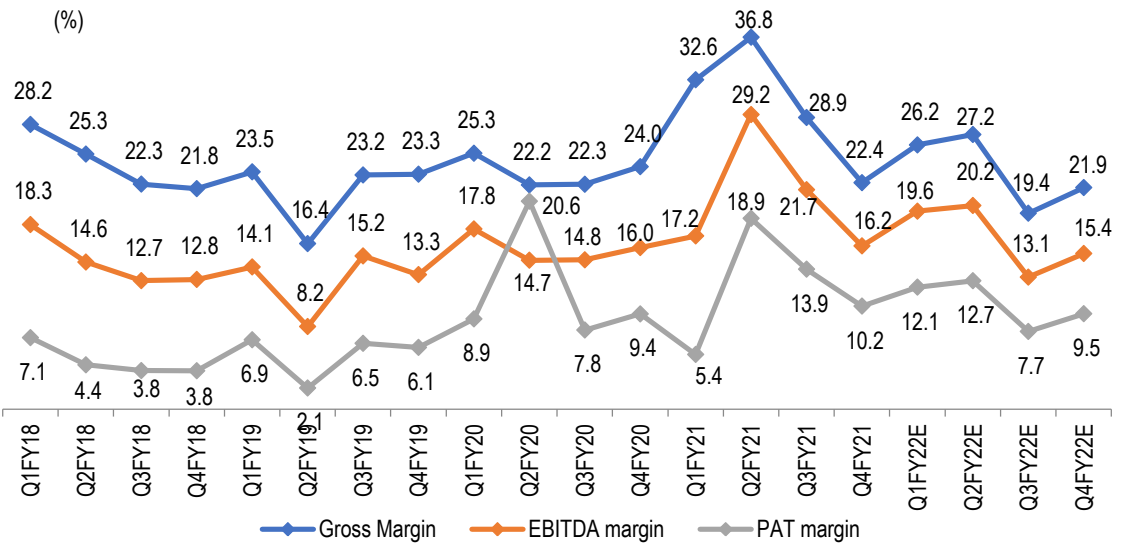
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 40: Quarterly trend in revenue and earnings per scm



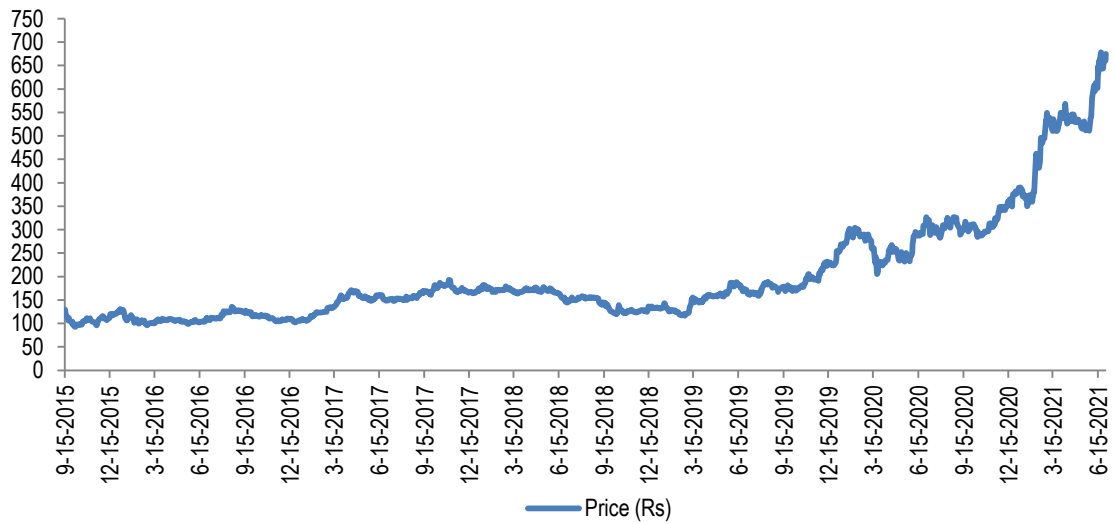
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 41: Quarterly Margin Trend



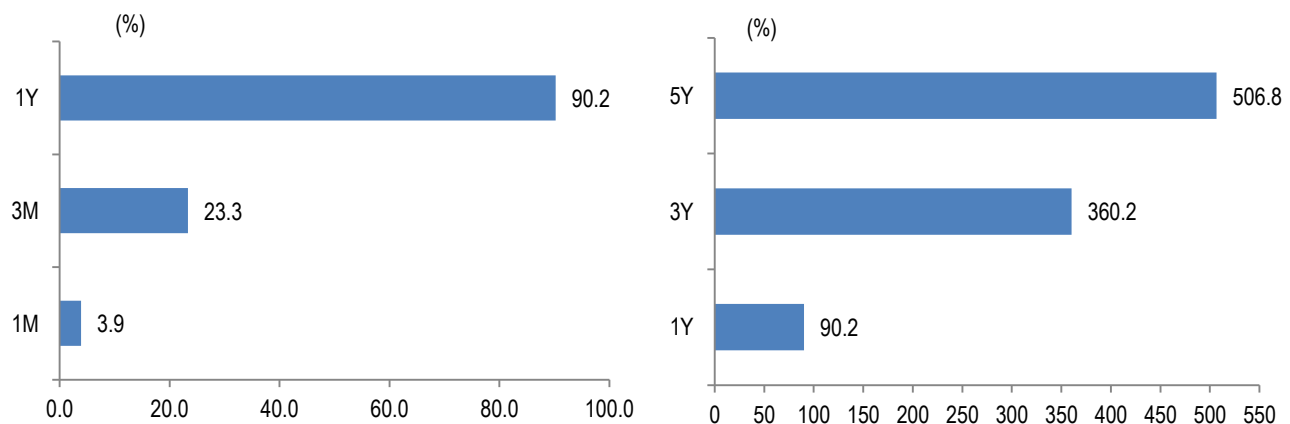
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 42: GGL stock price chart



Source: Company, Nirmal Bang Institutional Equities Research

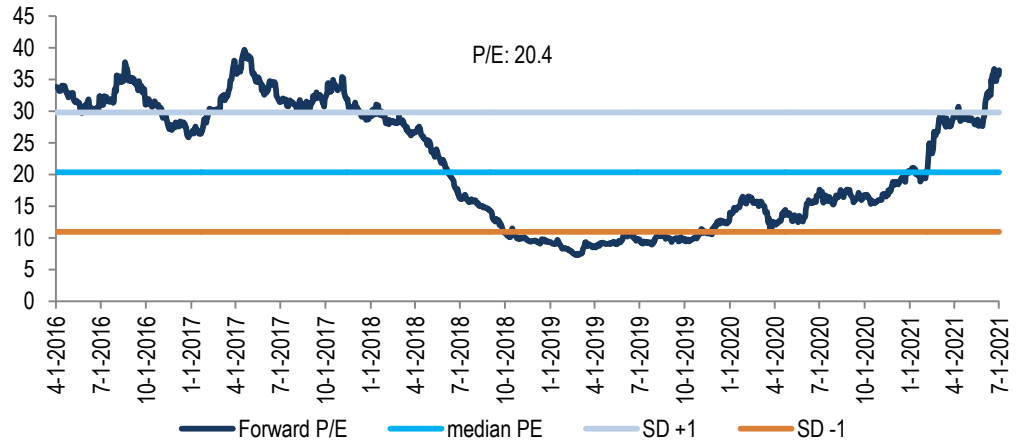
Exhibit 43: Price performance trend (%)



Source: Company, Nirmal Bang Institutional Equities Research

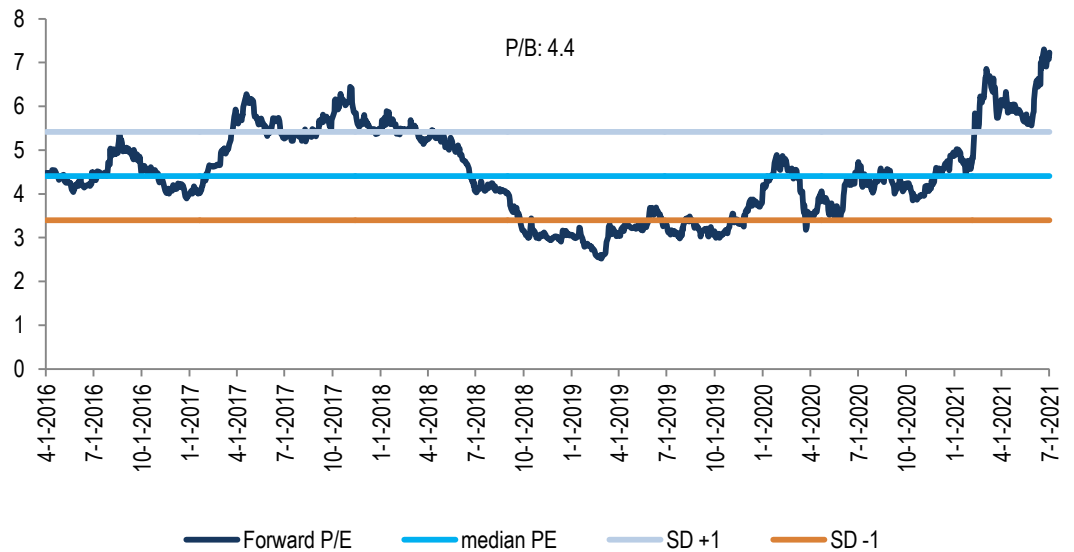
ANNEXURE 1–Valuation charts and peer group comps

Exhibit 44: 5-year P/E Chart



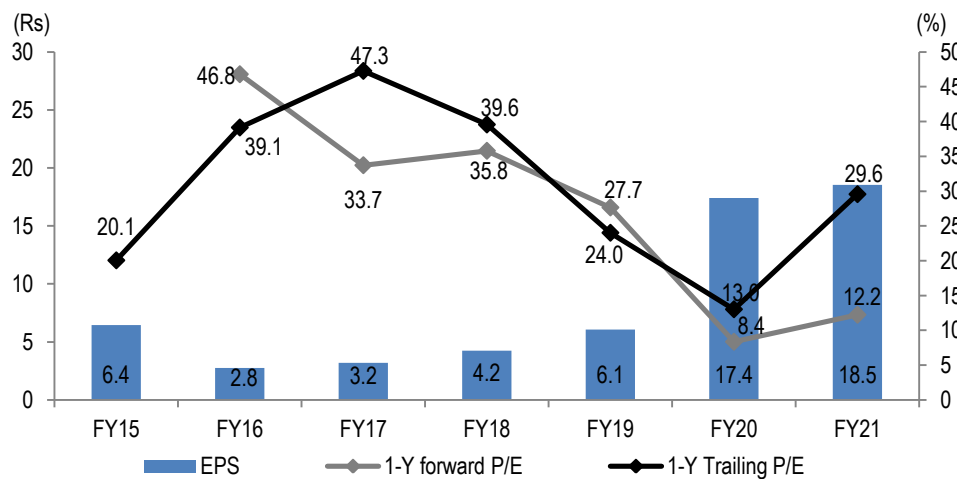
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 45: 5-year P/B Chart

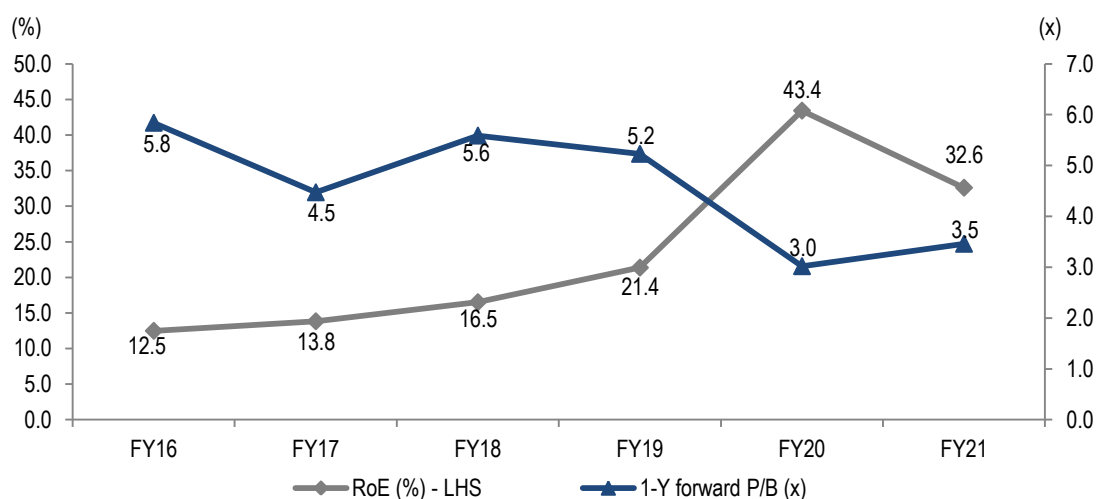


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 46: Historic P/E vs EPS trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 47: P/BV and RoE (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 48: Peer comparison

	Code	CMP	Mkt cap \$bn	EPS	EPS	P/E (x)	P/E (x)	EV/EBITDA (x)	EV/EBITDA (x)
				FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
India (INR)									
Petronet LNG	PLNG IN Equity	223	4.5	18.16	20.65	12.28	10.80	5.71	5.06
GSPL	GUJS IN Equity	331	2.5	19.17	20.93	17.26	15.82	11.59	10.70
GAIL	GAIL IN Equity	151	9.0	13.93	15.85	10.84	9.53	8.09	6.71
IGL	IGL IN Equity	564	5.3	21.23	24.41	26.57	23.11	18.71	15.97
MGL	MAHGL IN Equity	1142	1.5	88.16	108.00	12.95	10.57	7.98	6.03
Average						15.98	13.96	10.42	8.90
Unrated									
Gujarat Gas	GUJGA IN Equity	665	6.2	19.61	23.94	33.9	27.78	21.37	18.05
Global									
Shenzhen Gas Corp Ltd	601139 ch Equity	6.5	2.8	0.62	0.68	10.53	9.60	5.74	5.48
SNAM SPA	SRG IM Equity	4.9	19.8	0.34	0.34	14.37	14.37	13.37	12.89
ITALGAS SPA	IG IM Equity	5.6	5.4	0.43	0.46	13.02	12.03	9.19	8.68
ENAGAS SA	ENG SM EQUITY	19.9	6.2	1.46	1.45	13.59	13.70	10.84	11.14
Global Average						12.88	12.43	9.79	9.55
Overall Average						14.60	13.28	10.14	9.19

Source: Company, Nirmal Bang Institutional Equities Research; Global peers' CMP in local currency; Average excludes Gujarat Gas

ANNEXURE 2: INDIA CGD BUSINESS AND GLOBAL COMPS

Exhibit 49: China Gas market trend (bcm)

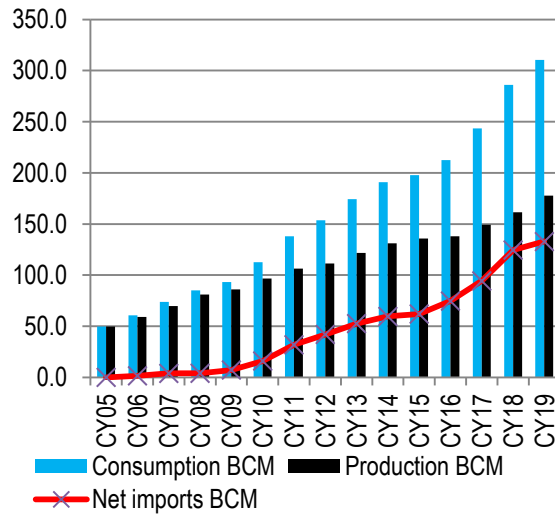
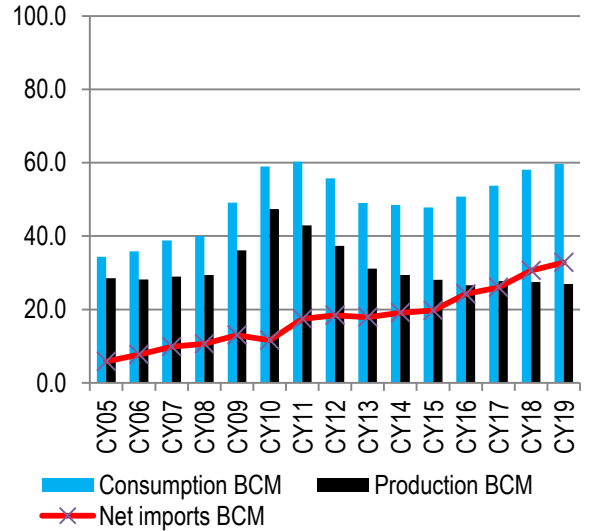
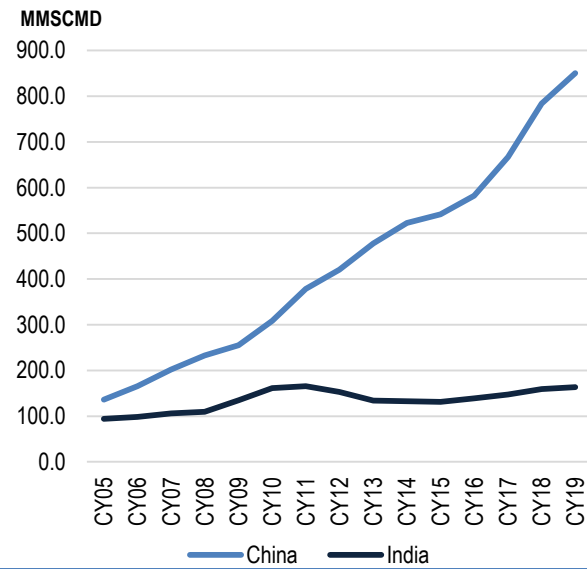


Exhibit 50: India gas market trend (bcm)



Source: BP statistical review

Exhibit 51: Gas consumption trend MMSCMD



Source: BP statistical review

Exhibit 52: Gas consumption CAGR %

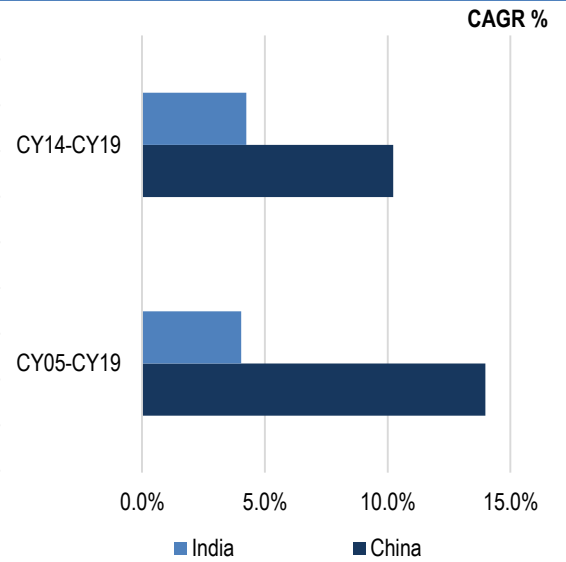


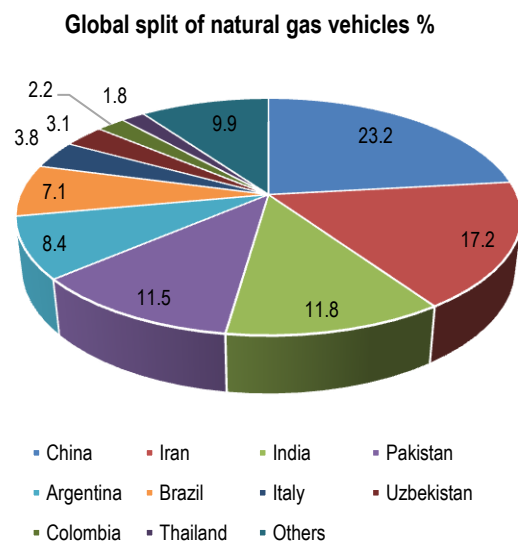
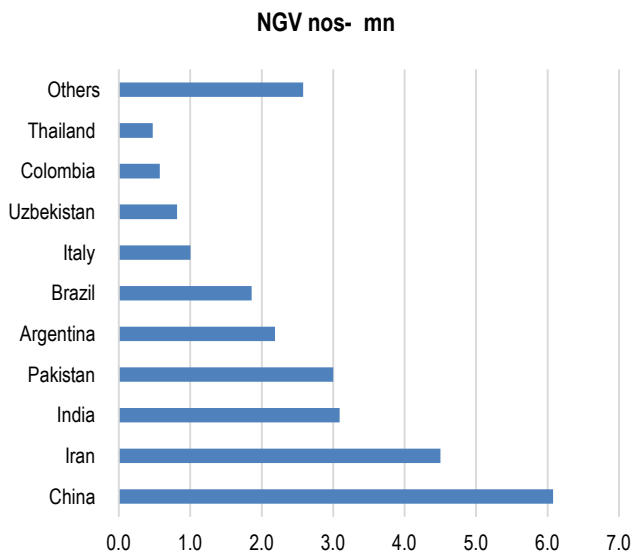
Exhibit 53: India compared to China in Natural Gas industry

	India	China
CNG Vehicles (Mn)	3	6.64
CNG Stations Nos.	#2,290	5,600
Gas production mmscmd	73.70	486.6
Overall gas consumption mmscmd	155-160	820 – 890
CGD volumes mmscmd	30	309
CGD share in gas demand %	17-18	36.3
Share of LNG Imports in gas basket %	54.9	27.3
Share of LNG+ Pipeline imports %	54.9	42.8
Segments	Indian companies	Chinese companies
CGD	IGL, MGL & GGL	Kunlun Energy, China Gas, China Resources Gas, Enn Energy And Town Gas
Gas Pipeline operators	GAIL, Gujarat State Petronet, IOC	China National Petroleum Corporation, Posco, PJSC Gazprom, PJSC Transneft, And China Petroleum & Chemical Corporation, Pipechina
LNG Imports	PLNG	Tianjin (Cnooc), Tianjin (Sinopec), Shangdong (Qingdao), Liaoning Dalian, Fujian Putian
Gas E&P	ONGC, Oil India & Reliance (all unrated)	Sinopec Shanghai Petrochemical Co, China National Petroleum Corporation, China National Offshore Oil Corporation, Beijing Enterprises Holdings Limited, Shenergy Group Company Limited

Source: PPAC; BP statistical review CY19, # As of Mar 21, CNG stations in India >2837 Nos; NRDC: National Development and Reform Commission of the People's Republic of China

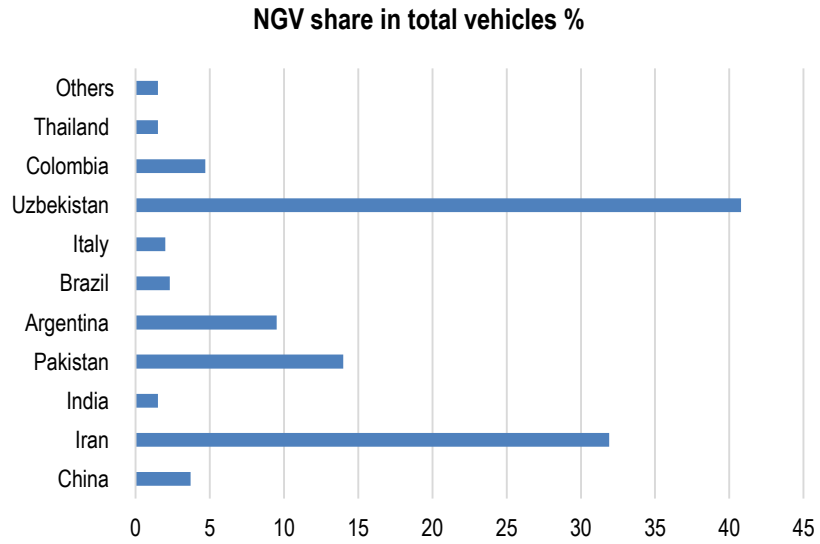
Exhibit 54: India ranks third in NGV nos - CY18

Exhibit 55: Share in total vehicles % - CY18



Source: <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2019/04/A-review-of-prospects-for-natural-gas-as-a-fuel-in-road-transport-Insight-50.pdf>; NBIE

Exhibit 56: Share of natural gas vehicles in total vehicle population % - CY18



Source: <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2019/04/A-review-of-prospects-for-natural-gas-as-a-fuel-in-road-transport-Insight-50.pdf>; NBIE

ANNEXURE 3: GGL Background

GGL holds 27 CGD licenses spread across 43 districts and six states and one Union Territory - around 11% of total CGD licenses and ~10% of total authorized areas issued by PNGRB in India, according to the company. GGL also holds one transportation pipeline license.

The company's 30,000 kilometers of natural gas pipeline network covers 1,69,700 square kilometers of licensed area that serves more than 1.55mn residential consumers, 4,000 industrial units and over 13,000 commercial customers. GGL also sells CNG from 546 CNG stations as of March 2021.

The company had an overall sales volume of 9.39mmscmd in FY21, including 8.09/1.3 mmscmd of PNG/CNG in FY21.

In the most recent 4QFY21 results, GGL reported CGD volume in excess of 12mmscmd, including close to 10.4mmscmd of PNG – mainly industrial and another 1.7mmscmd of CNG (FY21). The CGD run-rate in 1QFY22 was reported at 10 mmscmd.

Exhibit 57: GGL - GAs/licensed areas

1. Surat- Bharuch- Ankleshwar	11. Union Territory of Dadra & Nagar Haveli	19. Narmada (Rajpipla) District
2. Nadiad	12. Palghar District and Thane Rural	20. Sirsa, Fatehabad and Mansa (Punjab) Districts
3. Navsari	13. Amreli District	21. *Ujjain District, *Dewas District and *Indore District
4. Rajkot	14. Dahej- Vagra Taluka	22. Jhabua, Banswara, Ratlam and Dungarpur Districts
5. Surendranagar	15. *Ahmedabad District	23. Ferozepur, Faridkot and Sri Muksar Sahib Districts
6. Jamnagar	17. *Anand District	24. Hoshiarpur and Gurdaspur Districts
7. Bhavnagar	18. Panchmahal District	25. Jalore and Sirohi Districts
8. Hazira		26. Amritsar District
9. Kutch (West)		27. Bhatinda District
10. Valsad		

Source: Company, Nirmal Bang Institutional Equities Research; note: * (Except area already authorized)

Exhibit 58: shareholding pattern

	%
Promoter group	60.89
FII/FPI	8.64
DII	7.38
Others	23.09

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 59: Key management personnel

Name	Designation
Shri Anil Mukim	Chairman of the Board of Directors
Shri Sanjeev Kumar	Managing Director
Smt. Sunaina Tomar	Director
Shri Milind Torawane	Director
Dr. Manjula Subramaniam	Independent Woman Director
Shri Jal Patel	Independent Director
Shri K.D. Chatterjee	Independent Director
Prof. Piyush Kumar Sinha	Independent Director
Prof. Vishal Gupta	Independent Director

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 60: Top shareholders

Shareholder	Holding %
DSP Investment Managers	1.45
UTI Asset Management	0.99
Standard Life Aberdeen PLC	0.95
Canara Robeco Asset Management	0.94
Vanguard Group	0.93
Kotak Mahindra Asset Management	0.85
Axis Asset Management	0.71
Aditya Birla Sun Life Asset Management	0.48

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Annexure 4: QUARTERLY RESULTS
Exhibit 61: Consolidated 4QFY21 results

Y/E March (Rsmn)	4QFY20	4QFY21	Ch YoY%	3QFY21	Ch QoQ%
Net sales	26,666.3	34,289.2	28.6	28,294.0	21.19
Cost of goods	20,264.3	26,600.5	31.3	20,124.2	32.18
Contribution	6,402.0	7,688.7	20.1	8,169.8	-5.89
Employee benefits expenses	405.7	438.5	8.1	442.1	-0.81
Other expenses	1,729.7	1,707.7	(1.3)	1,579.6	8.11
EBITDA	4,266.6	5,542.5	29.9	6,148.1	-9.85
EBITDAM (%)	16.00	16.16	16.4	21.73	(556.5)
Depreciation	804.9	868.2	7.9	861.5	0.78
Other income	188.8	188.3	(0.3)	195.9	-3.88
Interest expenses	420.0	180.2	(57.1)	243.2	-25.90
PBT	3,230.5	4,682.4	44.9	5,239.3	-10.63
Tax	716.6	1,182.9	65.1	1,317.8	-10.24
PAT	2,513.9	3,499.5	39.2	3,921.5	-10.76
Share of Profits from Associates	(9.6)	9.1	(194.8)	1.2	658.33
Consol Adj PAT	2,504.3	3,508.6	40.1	3,922.7	-10.56
Margins (%)					
Gross	24.0	22.4	(158)	28.9	(645.2)
EBITDA	16.0	16.2	16	21.7	(556.5)
PAT	9.4	10.2	78	13.9	(365.4)
Effective Tax rate	22.2	25.3	308.0	25.2	11.0
Current tax rate	23.3	23.9	59	26.4	(254.3)
Per scm (Rs)					
Net Revenues	29.5	31.4	6.6	26.9	16.9
Gross	7.1	7.0	(0.5)	7.8	(9.2)
EBITDA	4.7	5.1	7.7	5.8	(13.1)
PAT	2.8	3.2	16.1	3.7	(13.8)
Volumes (MMSCM)					
Industrial	700.0	862.0	23.1	843.0	2.3
CNG	134.0	154.0	14.9	142.0	8.5
Domestic PNG	60.0	66.0	10.0	59.0	11.9
Commercial PNG	11.0	10.0	(9.1)	9.0	11.1
Total mmscm	905.0	1092.0	20.7	1053.0	3.7
Total Volumes (mmscmd)	9.9	12.1	22.0	11.4	6.0

Source: Company, Nirmal Bang Institutional Equities Research

Financials- Consolidated

Exhibit 62: Income statement

Y/E March (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenue	1,03,003	98,543	1,31,799	1,63,497	1,79,696
y/y	32.83	-4.33	33.75	24.05	9.91
Raw Material Expenses	78,818	69,898	1,01,211	1,27,214	1,38,104
RM/Sales %	76.5	70.9	76.8	77.8	76.9
Employee cost	1,754	1,775	2,114	2,473	2,743
Other expenses	6,089	5,992	6,764	8,111	9,192
EBITDA	16,343	20,878	21,710	25,699	29,657
y/y	65.98	27.75	3.98	18.37	15.40
Depreciation	3,180	3,408	3,939	4,377	4,794
EBIT	13,163	17,470	17,771	21,322	24,863
Interest Expense	1,922	1,163	595	419	272
Other Income	839	742	842	1,092	1,592
PBT (adjusted)	12,080	17,048	18,018	21,995	26,184
Income Tax Expense	92	4,292	4,536	5,537	6,592
Associates inc/loss(+/-)	(0)	21	21	21	21
PAT	11,988	12,777	13,503	16,478	19,613
EPS (Rs)	17.41	18.56	19.61	23.94	28.49
y/y	174.76	6.58	5.68	22.04	19.02

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 64: Balance sheet

Y/E March (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	1,377	1,377	1,377	1,377	1,377
Reserves and Surplus	31,797	43,739	55,671	70,407	88,106
Networth	33,174	45,116	57,048	71,784	89,483
Long Term Borrowings	18,344	7,700	5,264	3,624	1,984
Deferred Tax Liabilities [Net]	8,005	8,063	8,063	8,063	8,063
Other Long term liab.	636	649	649	649	649
Provisions	453	518	518	518	518
Lease Liabilities	450	630	630	630	630
Current Maturities	1,640	1,640	1,640	1,640	1,156
Trade Payable	3,684	4,472	5,454	6,766	7,437
Security Deposits	9,076	9,076	9,076	9,076	9,076
Short term provisions	130	245	245	245	245
Other current liabilities	3,663	6,689	6,689	6,689	6,689
Total Capital And	79,254	84,797	95,277	1,09,685	1,25,930
Net Block	55,838	59,644	65,854	70,102	75,212
Capital Work-In-Progress	5,686	6,876	2,713	2,156	1,100
Intangibles under	9	2	9	9	9
Investments in JVs and	281	281	281	281	281
Non-Current Investments	172	197	197	197	197
Long term loans and	610	712	712	712	712
Other Non-Current Assets	2,276	2,966	2,965	2,965	2,965
Inventories	463	522	1,805	2,240	2,462
Trade Receivables	5,101	7,831	10,833	14,782	16,246
Cash And Cash Equivalents	5,494	2,766	6,907	13,240	23,745
Bank balances other than	1,447	444	444	444	444
Other Current Assets	1,879	2,557	2,557	2,557	2,557
Total Assets	79,254	84,797	95,277	1,09,685	1,25,930

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 63: Cash flow

Y/E March (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT	12,080	17,048	18,018	21,995	26,184
Add depreciation	3,180	3,408	3,939	4,377	4,794
Other expenses/(Income)	1,348	798	(246)	(672)	(1,320)
Change in W/C	(393)	537	3,303	3,072	1,016
Income tax	2,802	4,166	4,536	5,537	6,592
Cashflow from Operations (A)	14,200	16,552	13,871	17,090	22,049
Capex	(5,955)	(7,512)	(5,993)	(8,068)	(8,848)
Purchase/(Sale) of Investments	704	974	-	-	-
Income on Investments	578	432	842	1,092	1,592
Other Income	7	3	-	-	-
Total Investments	(4,666)	(6,103)	(5,151)	(6,977)	(7,257)
Free cash flow	9,534	10,449	8,720	10,113	14,793
Cashflow from Investing (B)	(4,666)	(6,103)	(5,151)	(6,977)	(7,257)
Increase/(Decrease) in borrowings	(2,149)	(11,016)	(2,436)	(1,640)	(2,123)
Lease liability payments	(131)	(134)	-	-	-
Dividends (including tax) paid	-837.4	-863.3	-1548.9	-1721	-1893.1
Interest expense	-1,906	-1,163	-595	-419	-272
Cashflow from Financing (C)	-5,024	-13,177	-4,580	-3,780	-4,288
Ch in Cash and Cash equity	4,510	-2,728	4,140	6,333	10,505
Opening cash	984	5,494	2,766	6,907	13,240
Closing cash	5,494	2,766	6,907	13,240	23,745

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 65: Key ratios

Y/E March	FY20	FY21	FY22E	FY23E	FY24E
Profitability & return ratios					
EBITDA margin (%)	15.9	21.2	16.5	15.7	16.5
EBIT margin (%)	12.8	17.7	13.5	13.0	13.8
Adj Net profit margin (%)	11.6	12.9	10.2	10.1	10.9
RoE (%)	43.4	32.6	23.6	22.9	21.9
Pre-tax RoCE (%)	22.0	20.6	19.3	19.9	19.6
RoIC (%)	26.6	25.1	22.5	23.7	25.1
Working capital ratios					
Receivables (days)	18.1	24.0	30.0	33.0	33.0
Inventory (days)	2.0	1.8	5.0	5.0	5.0
Payables (days)	12.8	15.1	15.1	15.1	15.1
Cash conversion cycle	7.3	10.7	19.9	22.9	22.9
Leverage ratios					
Net debt/(Cash) (Rsmn)	13,043	6,130	-446	-8,420	-21,048
Net Debt (cash)/Equity (X)	0.39	0.14	-0.01	-0.12	-0.24
Net Debt/EBITDA	0.80	0.29	-0.02	-0.33	-0.71
Valuation ratios					
EV/sales (x)	4.5	4.7	3.5	2.8	2.6
EV/EBITDA (x)	28.4	22.2	21.4	18.1	15.6
EV/FCF	48.7	44.4	53.2	45.9	31.4
P/E (x)	38.2	35.8	33.9	27.8	23.3
P/BV (x)	13.80	10.15	8.02	6.38	5.12
FCF Yield (%)	2.08	2.28	1.90	2.21	3.23
Dividend Yield (%)	0.19	0.30	0.34	0.38	0.41
Per share ratios					
EPS	17.41	18.56	19.61	23.94	28.49
Cash EPS	22.03	23.51	25.34	30.30	35.45
BVPS	48.19	65.54	82.87	104.28	129.99
DPS	1.25	2.00	2.25	2.50	2.75

Source: Company, Nirmal Bang Institutional Equities Research

DISCLOSURES

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BUY > 15%

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