

Gujarat Gas

Strong growth optionalities, but fairly valued; maintaining a Hold

Rating: **Hold**

Target Price: Rs.550

Share Price: Rs.484

Higher gas prices and the shift to propane hurt Gujarat Gas' Q3 industrial volume growth. The gross margin fell q/q as the company cut prices at Morbi and was unable to pass on APM price rises. It was expecting the Kirit Parikh Committee to reduce APM prices; this did not happen. The CNG price cut in Oct'22 (from Rs82.16/kg to Rs75.02 was due to VAT cut fully passed on). The Morbi price cut was to capture volumes lost to propane and due to falling crude and spot LNG prices. We retain a Hold rating on the stock at an unchanged TP of Rs550, 22x FY25e EPS.

In line volumes, slightly lower spreads than expected. Q3 FY23 volumes of 7.29mmscmd, was in line with our estimate. The Rs8.68/scm EBITDA spread was less than the Rs9.24/scm we expected, but nearly double that of the consensus. EBITDA/PAT were up 145.2%/204.5% y/y to Rs5.8bn/ Rs3.7bn, on better spreads, though q/q down 9.4%/8.1%. Volumes at 7.29mmscmd were down 36% y/y, 3.2% q/q. CNG volumes at 2.43mmscmd were up 12% y/y, 9% q/q. Industrial volumes were down 51.8% y/y, 9.4% q/q, to 4.05mmscmd (Morbi ~2.15mmscmd). EBITDA/scm was Rs8.68, up ~3x y/y, though q/q down 6.4%, hit by lower realisations and inability to receive the full domestic contracted-for low priced volumes, vs spot LNG.

Outlook, Valuation. We expect EBITDA spreads of Rs6.8/scm in FY24 and Rs6.9 in FY25. We prefer Indraprastha Gas to Mahanagar Gas and Gujarat Gas; all three would further benefit from lower gas prices after Cabinet approval of the Kirit Parikh Committee recommendations. The stock trades at 22.4x/19.4x FY24e/FY25e PE. We maintain a Hold, with a TP of Rs550.

Risks: Given the large exposure to the Morbi tile cluster, demand revival may be back-ended because of its discretionary nature. Slower volume growth, margin compression on the lower difference vs alternatives, regulatory changes, steep increase in LNG prices, sustained discount of propane to natural gas, slower infrastructure rollout, competition from alternative fuels such as EVs.

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Sales (Rs m)	98,543	164,562	131,978	140,985	138,773
Net profit (Rs m)	12,755	12,856	14,279	14,883	17,202
EPS (Rs)	18.5	18.7	20.7	21.6	25.0
P/E (x)	29.7	26.9	23.4	22.4	19.4
EV / EBITDA (x)	18.5	17.0	14.5	13.5	11.5
P/BV (x)	8.5	6.2	4.9	4.1	3.5
RoE (%)	33.0	25.6	23.0	20.0	19.5
RoCE (%)	22.0	20.0	19.0	17.0	17.0
Dividend yield (%)	0.4	0.4	0.6	0.7	0.8
Net debt / equity (x)	0.2	0.1	-0.0	-0.1	-0.1

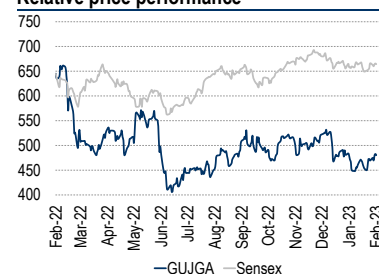
Source: Company, Anand Rathi Research

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Key data	GUJGA IN / GGAS.BO
52-week high / low	Rs.675 / 404
Sensex / Nifty	60432 / 17771
3-m average volume	\$7.6m
Market cap	Rs.334bn / \$4,032.9m
Shares outstanding	688m

Shareholding pattern (%)	Dec'22	Sep'22	Jun'22
Promoters	60.89	60.89	60.89
- of which, Pledged	-	-	-
Free float	39.11	39.11	39.11
- Foreign institutions	5.17	5.03	5.18
- Domestic institutions	12.55	13.03	10.01
- Public	21.39	21.05	23.92

Relative price performance



Source: Bloomberg

Harshraj Aggarwal
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Net revenues	98,543	164,562	131,978	140,985	138,773
Growth (%)	-4.3	67.0	-19.8	6.8	-1.6
Direct costs	71,673	136,278	100,654	107,518	100,794
SG&A	5,992	7,522	8,424	9,267	10,193
EBITDA	20,878	20,763	22,900	24,200	27,786
EBITDA margins (%)	21.2	12.6	17.4	17.2	20.0
- Depreciation	3,408	3,849	4,468	5,087	5,706
Other income	740	907	1,076	1,202	1,335
Interest expenses	1,163	568	427	427	427
PBT	17,047	17,134	19,082	19,889	22,988
Effective tax rate (%)	25.2	25.0	25.2	25.2	25.2
+ Associates / (Minorities)					
Net income	12,755	12,856	14,279	14,883	17,202
Adjusted income	12,755	12,856	14,279	14,883	17,202
WANS	688	688	688	688	688
FDEPS (Rs / sh)	18.5	18.7	20.7	21.6	25.0

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
PBT (Adj. OI and interest)	17,470	16,795	18,432	19,113	22,080
+ Non-cash items	3,408	3,849	4,468	5,087	5,706
Oper. prof. before WC	20,878	20,644	22,900	24,200	27,786
- Incr. / (decr.) in WC	-1,649	2,006	-2,108	226	120
Others incl. taxes					
Operating cash-flow	22,528	18,638	25,009	23,975	27,666
- Capex (tang. + intang.)	11,042	12,366	11,239	12,151	12,849
Free cash-flow	11,486	6,272	13,770	11,824	14,817
Acquisitions					
- Div.(incl. buyback & taxes)	1,377	1,543	2,142	2,232	2,580
+ Equity raised	-	-	-	-	-
+ Debt raised	-9,221	-4,087	-	-	-
- Fin investments	25	26	-	-	-
- Misc. (CFI + CFF)	221	(532)	(649)	(775)	(908)
Net cash-flow	642	1,148	12,278	10,367	13,144

Source: Company, Anand Rath Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

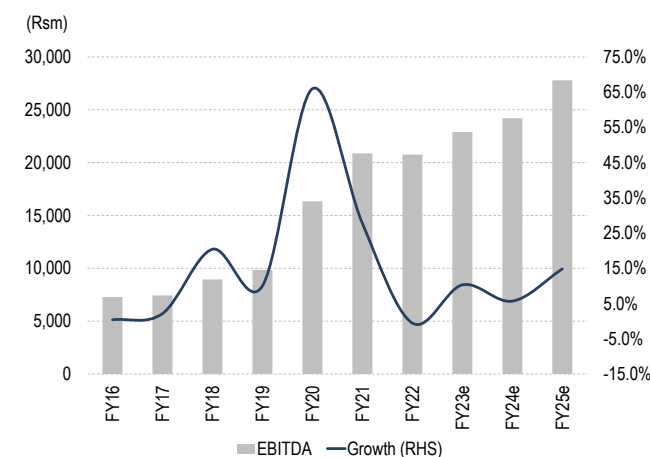
Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	1,377	1,377	1,377	1,377	1,377
Net worth	44,486	55,993	68,130	80,780	95,402
Debt	10,782	6,695	6,695	6,695	6,695
Minority interest	-	-	-	-	-
DTL / (Assets)	7,925	8,077	8,077	8,077	8,077
Capital employed	63,194	70,765	82,902	95,553	110,174
Net tangible assets	56,624	62,273	69,528	76,441	82,735
Net intangible assets	4,020	4,303	4,303	4,303	4,303
Good will	-	-	-	-	-
CWIP (tang. & intang.)	7,075	9,659	9,175	9,325	10,175
Investments (strategic)	198	224	224	224	224
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	13,982	18,883	16,367	16,865	16,699
Cash	3,189	211	7,686	13,047	20,405
Current liabilities	21,893	24,787	24,380	24,653	24,367
Working capital	-7,911	-5,905	-8,013	-7,788	-7,668
Capital deployed	63,194	70,765	82,903	95,553	110,174
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	29.7	26.9	23.4	22.4	19.4
EV / EBITDA (x)	18.5	17.0	14.5	13.5	11.5
EV / sales (x)	3.9	2.1	2.5	2.3	2.3
P/B (x)	8.5	6.2	4.9	4.1	3.5
RoE (%)	33.0	25.6	23.0	20.0	19.5
RoCE (%) - after tax	22.0	20.0	19.0	17.0	17.0
ANDA filings					
DPS (Rs / sh)	2.0	2.0	3.1	3.2	3.7
Dividend yield (%)	0.4	0.4	0.6	0.7	0.8
Dividend payout (%) - incl. DDT	10.8	12.0	15.0	15.0	15.0
Net debt / equity (x)	0.2	0.1	-0.0	-0.1	-0.1
Receivables (days)	29	21	18	18	18
Inventory (days)	2	1	2	2	2
Payables (days)	17	10	11	11	11
CFO : PAT %	176.6	145.0	175.1	161.1	160.8

Source: Company, Anand Rath Research

Fig 6 – EBITDA growth



Source: Company, Anand Rath Research

Result Highlights

Fig 7 – Quarterly trend

Particulars	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Y/Y (%)	Q/Q (%)
Net sales	11,074	25,599	28,902	34,959	30,659	36,859	52,412	47,734	53,032	41,078	38,213	(27.1)	(7.0)
Total expenses	7,297	15,876	20,139	26,640	20,603	29,784	46,664	37,199	42,973	30,684	28,280	(39.4)	(7.8)
EBITDA	1,857	7,330	6,145	5,527	7,229	4,210	2,375	6,974	6,066	6,427	5,823	145.2	(9.4)
EBITDA margins (%)	16.8	28.6	21.3	15.8	23.6	11.4	4.5	14.6	11.4	15.6	15.2		
Other income	149	208	190	180	213	192	353	176	190	185	320	(9.3)	72.7
Depreciation	823	856	868	876	905	937	969	1,021	1,032	1,064	1,093	12.8	2.7
Interest	401	339	244	181	159	123	140	145	136	131	76	(45.4)	(41.6)
One-off expense	-	-	-	-	-	-	-	119	-	-	-		
PBT	783	6,343	5,222	4,649	6,377	3,343	1,619	5,867	5,089	5,418	4,974	207.3	(8.2)
Provision for tax	196	1,595	1,318	1,175	1,616	852	400	1,424	1,278	1,379	1,261		
PAT	587	4,748	3,904	3,474	4,762	2,491	1,219	4,442	3,811	4,039	3,713	204.5	(8.1)
Adj. PAT	587	4,748	3,904	3,474	4,762	2,491	1,219	4,561	3,811	4,039	3,713	204.5	(8.1)
Adj. EPS (Rs)	0.9	6.9	5.7	5.0	6.9	3.6	1.8	6.6	5.5	5.9	5.4	204.5	(8.1)

Source: Company, Anand Rathi Research

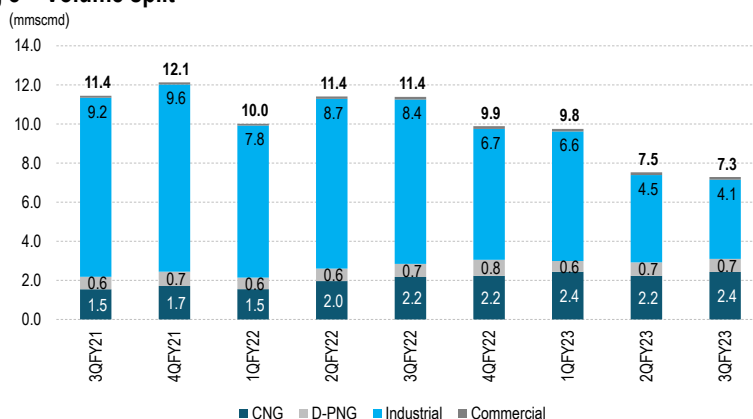
Key highlights

Performance. The company reported volumes of 7.29mmscmd, in line with our estimates. The EBITDA spread at Rs8.68/scm was less than the Rs9.24/scm we expected. Compared to the consensus, it is far higher.

EBITDA/PAT was Rs5.8bn/3.7bn, up 145.2%/204.5% y/y on better spreads, though q/q down 9.4%/8.1%, impacted by price cuts at Morbi and lower spreads in CNG, and the inability to pass on APM gas price rises.

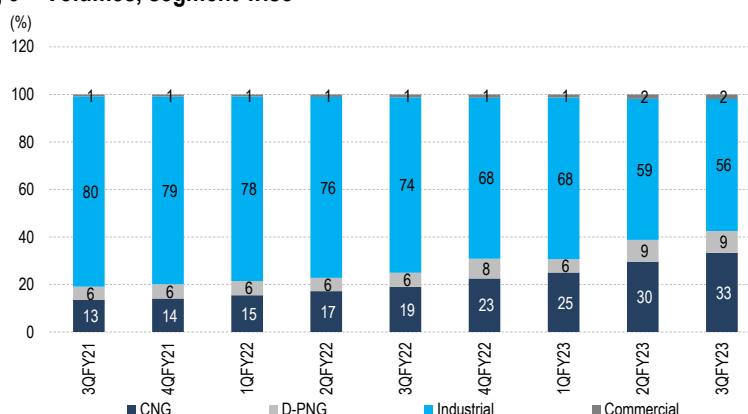
Volumes at 7.29mmscmd were down 36% y/y, 3.2% q/q. CNG volumes were 2.43mmscmd (near the quarterly high) up 12% y/y, 9% q/q. D-PNG volumes at 0.67mmscmd were flat y/y, down 2.9% q/q. Industrial volumes were lower at 4.05mmscmd (Morbi at ~2.15mmscmd) down 51.8% y/y, 9.4% q/q.

Fig 8 – Volume split



Source: Company, Anand Rathi Research

Fig 9 – Volumes, segment-wise

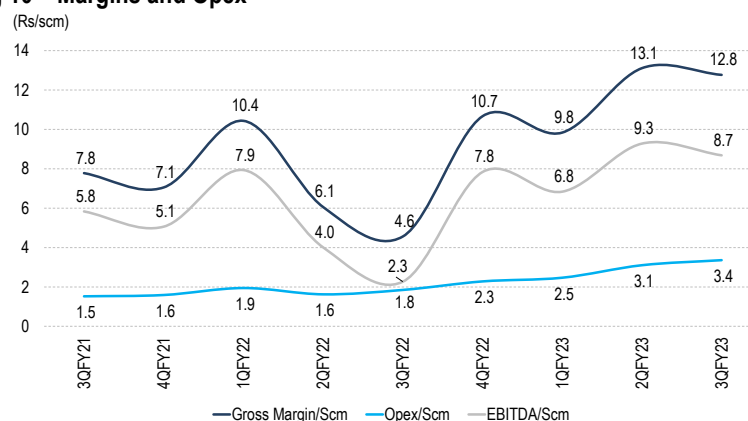


Source: Company, Anand Rathi Research

Spreads. The gross margin was Rs12.8/scm up 180% y/y, though q/q down 4.3%. **Opex** was higher (Rs3.4/scm; vs Rs3.1 the previous quarter, Rs1.8 a year ago). **EBITDA/scm** was Rs8.68, up ~3x y/y, but q/q down 6.4%, impacted by a drop in realisations and the inability to receive the full domestic contracted-for low priced volumes, vs spot LNG.

CNG has been priced at Rs75.02/kg since 18th Oct'22 after the cut in VAT from 15% to 5%, which was fully passed on. To capture greater volumes, the company had not passed on the APM price increase from Oct'22. On 10th Dec'22, it had cut Morbi gas price from Rs58 to Rs53/scm as a push from the Gujarat government. Nevertheless this did not result in greater volumes as the demand at the cluster is still weak, and switching to propane has been high due to better economics.

Fig 10 – Margins and Opex



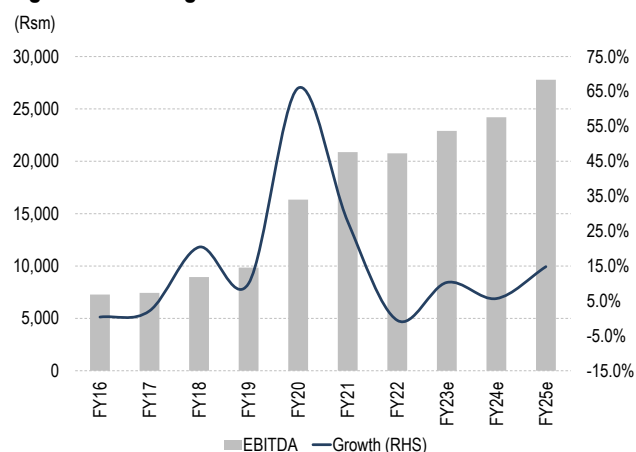
Source: Company, Anand Rathi Research

CNG stations and connections. The company now has over 750 CNG stations, (12 added) vs 711 in FY22. Management expects ~800 by end-FY23 with some replacements to new locations. It also added 48,600 domestic customers and 228/49 commercial/industrial customers in the quarter. Besides, the company signed a contract for volume offtake of 0.53mmcmd, yet to be commissioned, and which could take over four months for supplies.

9M FY23 capex was Rs7.65bn (FY23 targeted at Rs11bn); FY24 capex is estimated at Rs12bn.

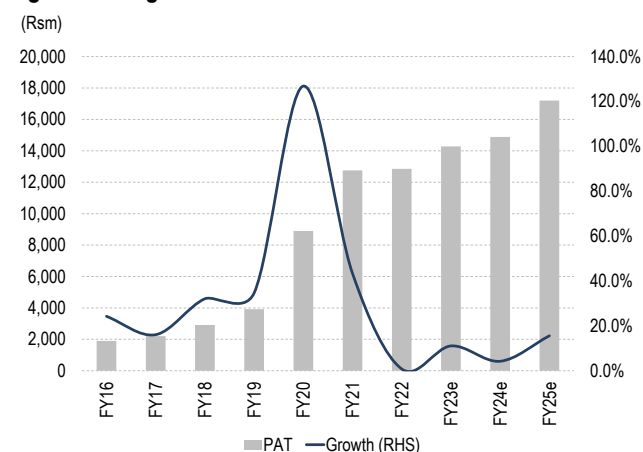
Key Charts

Fig 11 – EBITDA growth



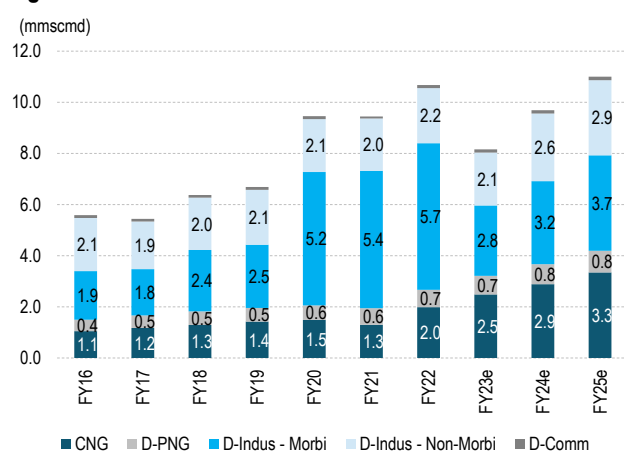
Source: Company, Anand Rathi Research

Fig 12 – PAT growth



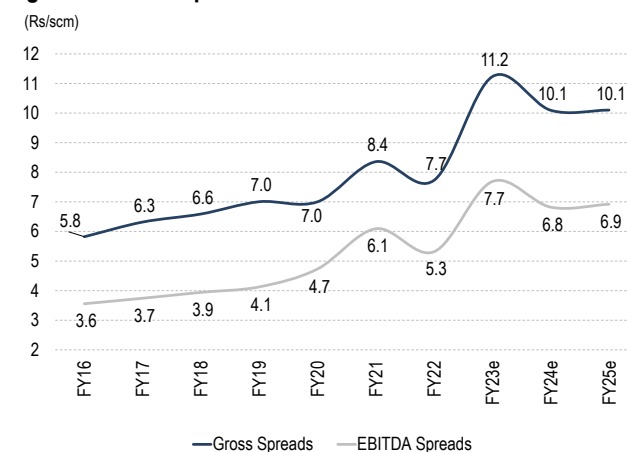
Source: Company, Anand Rathi Research

Fig 13 – Volumes



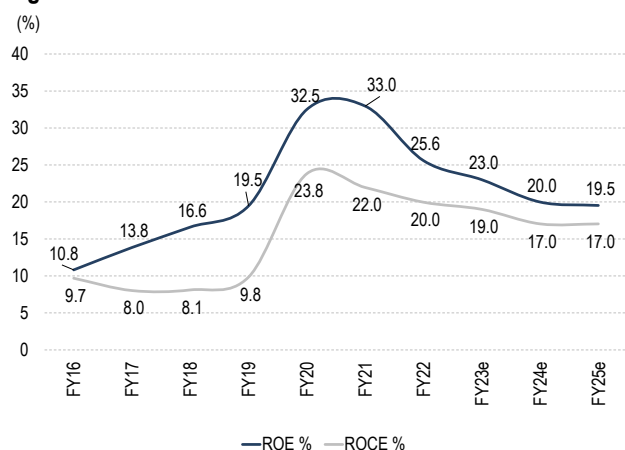
Source: Company, Anand Rathi Research

Fig 14 – EBITDA spreads



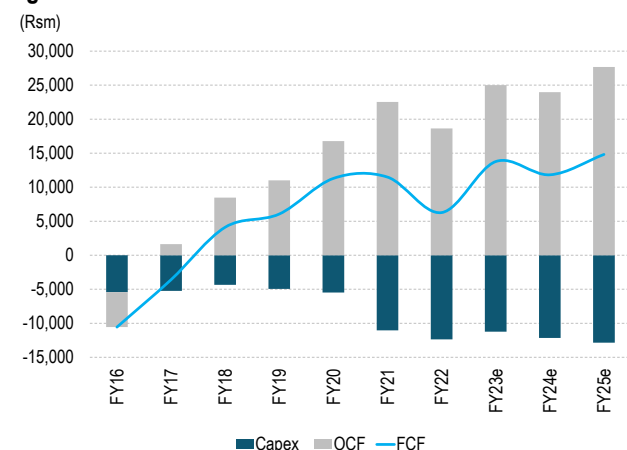
Source: Company, Anand Rathi Research

Fig 15 – Return ratios



Source: Company, Anand Rathi Research

Fig 16 – Free cash-flows



Source: Company, Anand Rathi Research

Valuations

We see strong volume growth optionality for GUJGA driven by (1) rising industrial demand, strong focus on exports, product quality and greater compliance with environmental norms at the Morbi and non-Morbi clusters, (2) growing CNG network as GUJGA aims to add at least 150 stations annually, (3) rising residential penetration and d) volume ramp-up from new GAs in which infrastructure has been added and for the recently won GAs in the recent bidding rounds.

Various optionalities arise for the company which can add volumes: a new ceramic cluster, Aniyari (Rajkot), the ship-breaking industry at Bhavnagar, and from Ahmedabad, Dahej/Thane, Amritsar, Bhatinda, etc., which have not yet been built into the calculations. CNG infrastructure growth has been quite robust; we expect this to flow in to CNG volumes once domestic gas is cheaper, and should be supported by strong vehicle additions, which could be over 6,000/month.

We expect EBITDA spreads of Rs6.8/scm in FY24 and Rs6.9 in FY25. We prefer Indraprastha Gas to Mahanagar Gas and Gujarat Gas; all three would further benefit from lower gas prices after Cabinet approval of the Kirit Parikh Committee recommendations. The stock trades at 22.4x/19.4x FY24e/FY25e PE. We maintain a Hold, with a TP of Rs550.

Sensitivity matrix (FY25e)

Fig 17 – EBITDA sensitivity

		EBITDA (Rs bn)					
EBITDA / scm	Volume growth %	1.2%	5.2%	9.2%	13.2%	17.2%	21.2%
	5.7	20.5	21.3	22.2	23.0	23.8	24.6
	6.0	21.6	22.5	23.3	24.2	25.0	25.9
	6.3	22.7	23.6	24.5	25.4	26.3	27.2
	6.6	23.8	24.7	25.6	26.6	27.5	28.5
	6.9	24.8	25.8	26.8	27.8	28.8	29.8
	7.2	25.9	26.9	28.0	29.0	30.0	31.0

Source: Anand Rath Research

Fig 18 – Target-price sensitivity

		Target (Rs / sh)					
EBITDA / scm	Volume growth %	1.2%	5.2%	9.2%	13.2%	17.2%	21.2%
	5.7	411	426	442	458	473	489
	6.0	432	448	464	481	497	513
	6.3	452	469	487	504	521	538
	6.6	473	491	509	527	545	563
	6.9	494	512	531	550	569	588
	7.2	514	534	553	573	593	612

Source: Anand Rath Research

Fig 19 – EV / EBITDA band, one-year-forward

Source: Bloomberg, Anand Rathi Research

Fig 20 – P/E band, one-year-forward

Source: Bloomberg, Anand Rathi Research

Risks

- Given the large exposure to the Morbi tile cluster, demand revival may be back-ended because of its discretionary nature.
- Slower volume growth
- Sustained discount of propane to natural gas
- Margin compression on lower differences than alternatives
- Regulatory changes
- Steep increase in LNG prices
- Competition from alternative fuels such as electricity for vehicles.

Appendix

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Large Caps (>US\$1bn)	>15%	5-15%	<5%
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