

November 08, 2024

RESULT REPORT Q2 FY25 | Sector: Energy

# Gujarat Gas Ltd

**EBITDA and PAT marginally lower than our expectations; better EBITDA spreads offsets weaker Morbi volumes**

Gujarat Gas' Q2FY25 results were disappointing, volumes negatively surprised on weaker Morbi demand offset by an improved EBITDA spread. Volumes at 8.75mmscmd versus our expectations of 9.48mmscmd with Morbi contributing 2.9mmscmd and CNG declined from its peak at 2.93mmscmd, while the EBITDA spread of Rs 6.4/scm was higher than anticipated. The trending volumes are morbi are up ~3.5mmscmd but the sector is affected by factors - geopolitical situations globally; propane competition, shipping related issues. The current price for ceramic cluster at Rs 44.68/scm vs propane at Rs43.6/scm. This gives a weak picture for Q2 and the company expects a recovery in H2FY25 where Morbi cluster demand and EBITDA spreads would be a key. We downgrade the stock to a SELL rating with a revised target price of Rs 462/share.

## Result Highlights

- Performance:** The company reported volumes of 8.75mmscmd, lower than estimated of 9.48mmscmd. The EBITDA spread at Rs6.4/scm was better than our expectation of Rs 6.1/scm. Compared to our and consensus, the performance is weaker with volumes a negative surprise. **EBITDA/PAT** at Rs 5.1/3.1bn, up 3.5%/3.1% YoY and down 4%/6.9% QoQ with weaker volumes but better EBITDA spreads for both YoY and QoQ basis.
- Volumes** at 8.75mmscmd were down 6.1% YoY and 20.3% QoQ. CNG volumes were 2.93mmscmd (declines from its peak) up 11.8% YoY but down 1.7% QoQ. D-PNG volumes at 0.76mmscmd were up 8.6% YoY and 22.6% QoQ. Industrial volumes were at 4.91mmscmd (Morbi assumed at ~2.9mmscmd) down 16.2% YoY and 32.3% QoQ. **New industrial customers:** It had added 0.2mmscmd of industrial volumes from new customers during the last quarter and 0.088mmscmd in the current quarter. The company has a signed volume of ~0.527mmscmd which will be commissioned in coming days, totaling ~0.83mmscmd.
- Price hikes:** The Industrial morbi price was increased by Rs 2.5/scm to Rs 44.68/scm on 4-Jul'24 and CNG price on 1-Aug'24 by Rs 2/kg to Rs76.26/kg.
- Spreads:** The gross margin at Rs10.4/scm up 12.3% YoY and 20.2% QoQ on better realizations on price increases in CNG and industrial segment, more than offsetting gas cost increase. **Opex** was Rs3.4/scm; vs Rs2.9 a year ago and Rs2.8 the previous quarter. **Gas cost:** The average blended gas cost was at Rs 36.6/scm (\$12.1/mmbtu) marginally lower than our expectations of \$12.2mmbtu. **EBITDA/scm** was Rs6.4, up 10.3% YoY and 19.1% QoQ, on price hikes and better gross realizations.
- Connections:** The company added 38,500 new domestic customers, supplying to more than 2.19mn D-PNG customers. The company operates in CNG with over 819 stations and added 9 new during this quarter.
- H1FY25 performance:** EBITDA/PAT was at Rs 10.5/6.4bn vs Rs 8.8/5.1bn last year. The volumes at 9.86mmscmd (vs 9.27 last year), of which CNG was at 2.96mmscmd vs 2.62 and Morbi at 4.06mmscmd vs 3.98. The EBITDA spread was at Rs 5.8/scm vs 5.2 the last year.

## Valuation

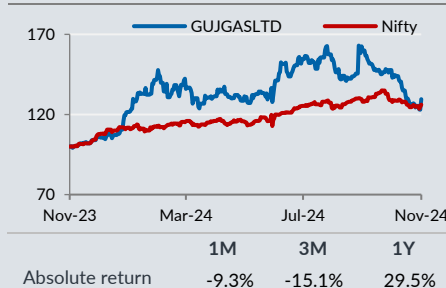
Given its cashflows and reasonable capex the company is rapidly de-levering and maintaining a decent RoCE. We forecast spreads of Rs/scm 5.8/5.9/6.1 for FY25/26/27. The stock trades at 28.3x/24.8x FY26e/27e PER. We value it on a PER basis assigning a 22x multiple and, recommend a SELL with a target price of Rs 462/share.

Reco	: SELL
CMP	: Rs 541
Target Price	: Rs 462
Potential Return	: -14.6%

## Stock data (as on Nov 7, 2024)

Nifty	24,199
52 Week h/l (Rs)	690 / 412
Market cap (Rs/USD mn)	363367 / 4311
Outstanding Shares (mn)	688
6m Avg t/o (Rs mn):	956
Div yield (%):	1.0
Bloomberg code:	GUJGA IN
NSE code:	GUJGASLT

## Stock performance



## Shareholding pattern (As of Sep'24 end)

Promoter	60.9%
FII+DII	26.1%
Others	13.0%

## Δ in stance

(1-Yr)	New	Old
Rating	SELL	REDUCE
Target Price	462	560

## Δ in estimates

(1-Yr)	FY25e	FY26e	FY27e
EPS (New)	17.8	19.0	21.0
EPS (Old)	17.9	20.2	23.3
% Change	(0.4)	(6.1)	(10.0)

## Financial Summary

(Rs bn)	FY25E	FY26E	FY27E
Revenue	146.3	151.8	163.0
YoY Growth	(6.8)	3.8	7.4
EBIDTA	20.9	22.9	25.4
OPM %	14.3	15.1	15.6
PAT	12.3	13.1	14.5
YoY Growth	7.3	6.6	10.6
ROE	15.1	14.5	14.6
EPS	17.8	19.0	21.0
P/E	31.0	29.1	26.3
BV	124.0	137.0	151.2
EV/EBITDA	17.6	16.1	14.5

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## Exhibit 1: Actual vs estimate

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	37,818	40,548	39,992	-6.74	37,818	EBITDA and PAT marginally lower than our expectations; better EBITDA spreads offsets weaker Morbi volumes
EBITDA	5,142	5,323	4,921	-3.41	5,142	
EBITDA Margin (%)	13.60	13.13	12.30	47bps	13.60	
Adjusted PAT	3,069	3,230	3,026	-4.98	3,069	

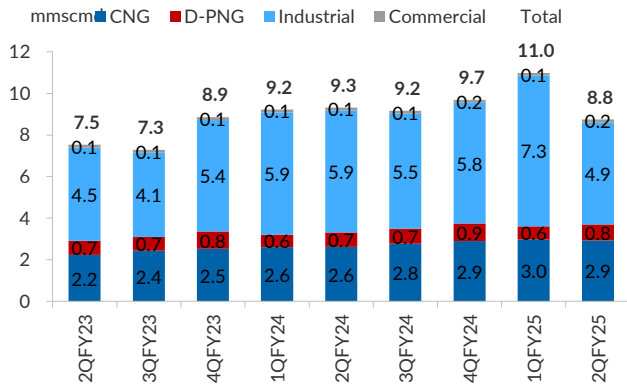
## Exhibit 2: Earnings snapshot

Particulars (Rs mn)	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	y/y (%)	q/q (%)	H1FY24	H1FY25	y/y (%)
Revenue	38,454	39,291	41,342	44,503	37,818	(1.7)	(15.0)	76,269	82,321	7.9
Expenditure	33,488	35,284	35,431	39,147	32,676	(2.4)	(16.5)	67,423	71,823	6.5
-Raw Material	30,535	32,230	31,846	35,887	29,470	(3.5)	(17.9)	61,480	65,357	6.3
-Staff Cost	507	481	481	489	501	(1.2)	2.6	1,027	990	(3.6)
- Other expenses	2,446	2,573	3,103	2,771	2,705	10.6	(2.4)	4,916	5,476	11.4
Operating Profit	4,966	4,007	5,911	5,356	5,142	3.5	(4.0)	8,846	10,498	18.7
OPM(%)	12.9	10.2	14.3	12.0	13.6	68 bps	156 bps	11.6	12.8	115 bps
Other Income	298	230	311	386	386	29.4	-	537	771	43.7
Depreciation	1,179	1,201	1,212	1,231	1,295	9.9	5.2	2,330	2,526	8.4
Interest	78	72	69	78	80	2.1	1.9	152	158	3.8
Excpnl Loss/(Profit)	-	-	(557)	-	-	n.a.	n.a.	-	-	n.a.
PBT	4,007	2,964	4,383	4,433	4,152	3.6	(6.3)	6,901	8,585	24.4
Tax	1,029	761	1,402	1,135	1,083	5.2	(4.6)	1,772	2,218	25.2
PAT	2,978	2,203	2,982	3,298	3,069	3.1	(6.9)	5,129	6,367	24.1
Adj PAT	2,978	2,203	3,539	3,298	3,069	3.1	(6.9)	5,129	6,367	24.1

## Exhibit 3: Operating highlights

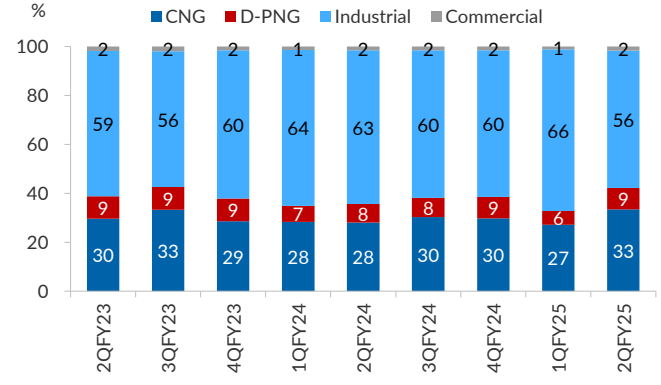
Particulars	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	y/y (%)	q/q (%)	H1FY24	H1FY25	y/y (%)
Volumes (mmscmd)	9.3	9.2	9.7	11.0	8.8	(6.1)	(20.3)	9.3	9.9	6.4
CNG	2.6	2.8	2.9	3.0	2.9	11.8	(1.7)	2.62	2.96	13.0
Domestic PNG	0.7	0.7	0.9	0.6	0.8	8.6	22.6	0.65	0.69	6.2
Morbi	3.9	3.7	3.8	5.2	2.9	(26.1)	(44.1)	3.98	4.06	2.1
Other Industrials	1.9	1.9	2.0	2.0	2.0	4.2	(2.0)	1.90	2.02	6.6
Industrial PNG	5.9	5.5	5.8	7.3	4.9	(16.2)	(32.3)	5.87	6.08	3.6
Commercial PNG	0.1	0.1	0.2	0.1	0.2	7.1	15.4	0.14	0.14	3.7
										-
Margins (Rs/scm)										
Revenue	44.8	46.6	46.9	44.5	47.0	4.8	5.5	44.96	45.60	1.4
GM	9.2	8.4	10.8	8.6	10.4	12.3	20.2	8.72	9.40	7.8
Opex	2.9	3.1	3.5	2.8	3.4	17.8	21.1	3.50	3.58	2.2
EBITDA	5.8	4.8	6.7	5.4	6.4	10.3	19.1	5.21	5.82	11.5

**Exhibit 4: Volume split**



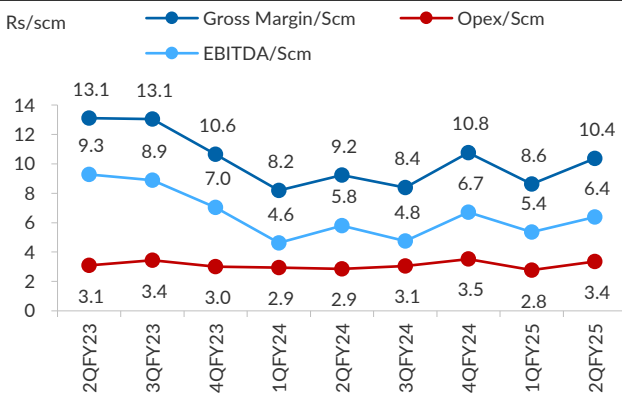
Source: Company, YES Sec

**Exhibit 5: % share of Volumes**



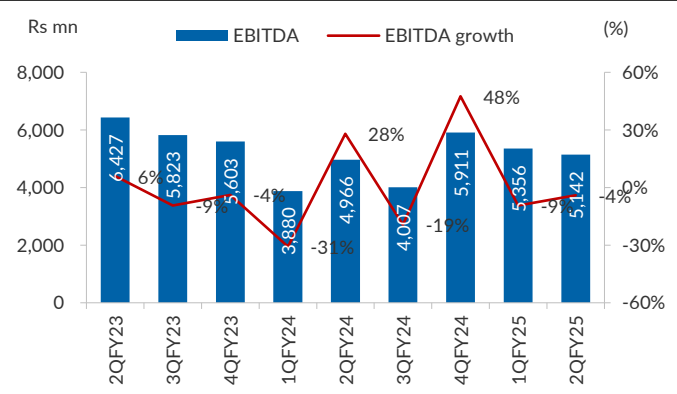
Source: Company, YES Sec

**Exhibit 6: Margins and Opex**



Source: Company, YES Sec

**Exhibit 7: EBITDA growth**



Source: Company, YES Sec

## CONCALL HIGHLIGHTS

- **Connection adds:** GUJGA is catering to over 2.19mn D-PNG customers, Commercial: 15,400, Industrial: 4,410 customers through 41,700kms of pipeline network.
- **CNG Segment:** The CNG segment continues to do well, it achieved higher ever volumes. Gujarat is growing at 12% while at other areas outside, the volumes are growing at 25% YoY. Gujarat contributes 87% of CNG volumes and rest by other areas.
- **CNG stations:** Operating 820 CNG stations (+9 QoQ), of which more than 550 are in Gujarat and remaining in other GAs. Increasing the CNG infrastructure to cover major town, increase adoption in LCV, HCV, and Dumpers. Newer GAs has more CNG volume potential than industrial. Gujarat Gas had launched Full Dealer Owned Dealer Operated (FDODO) scheme for fast-track development of CNG stations infrastructure. Company plans to add more than 200 CNG stations in next 2-3 years under the scheme. This would reduce the investment by the company. In FY25 about 22 new are to be added and upgrading 60 stations expected to be commissioned by Q4FY25. Having ~400 LOI of which 125 have been accepted and received bank guarantee of Rs100mn for those locations and expecting action by mid Dec'24.
- **APM Allocation:** GUJGA previously had a 74% APM gas allocation, with 14% from HP/HT gas and 12% from spot LNG. However, APM allocations currently have been reduced to 50%. The shortfall is being compensated through HP/HT and new well gas, which is priced at a 20% premium over the USD6.5/mmbtu APM price cap (10% slope to brent). Over time, APM

gas will be phased out in favor of new well and HP/HT gas, leading to an increase in gas costs.

- **Industrial Pricing:** During the quarter, GUJGA increased industrial gas prices by Rs2/scm due to a significant rise in LNG prices. Spot LNG prices climbed from USD9.50/mmbtu in April 2024 to ~USD13/mmbtu by the end of Q2FY25. Additionally, LT contracts were impacted by the lag effect of higher crude prices. The company continues to closely monitor LNG price trends and alternative fuels. A temporary demand dip is expected in industrial sales due to the Diwali season, but volumes are likely to recover in Q3FY25.
- **Gas Sourcing:** In Q2FY25, GUJGA sourced 8.9mmscmd of gas, comprising 31% from APM, 35% from LT contracts, and 34% from spot LNG. The average price of spot LNG was Rs37.4/scm during the quarter, reflecting the rising cost of procurement.
- **LT Contracts:** Key LT LNG contracts, accounting for 4.2mmscmd of gas, are nearing expiration. The British Gas (BG) contract for 2.5mmscmd and another contract for 1mmscmd will expire by mid-2025. Additionally, a domestic gas contract with Reliance-BP for 0.7mmscmd is set to expire by Dec'24. GUJGA is in discussions to secure new contracts to replace these volumes.
- **Capex:** The company incurred Rs1.3bn in capex for Q2FY25 and Rs3.3bn in H1FY25, in line with its annual target of Rs8-10bn for FY25.
- **EBITDA Guidance:** EBITDA margins are expected to remain in the range of Rs5-6/scm in the coming quarters.
- **Morbi Market:** The Morbi market, with a size of 7.5-8mmscmd, faced challenges during Q2FY25, including monsoon-related disruptions and propane substitution. Current consumption is ~6.5mmscmd, including propane, while PNG volumes are at a run rate of 3.5mmscmd. Gas is priced at Rs44.7/scm compared to propane at Rs43.6/scm. Factors favoring PNG include credit terms (20 days for PNG vs. prepayment for propane), logistical simplicity, and lower handling risks. As the price differential narrows, PNG is expected to regain market share (currently differential dropped to Rs1-1.5/scm).
- **LNG Initiatives:** GUJGA has begun supplying LNG at four locations by converting it into CNG and is now working on installing LNG dispensers at these stations. The company is surveying routes linked to major Gujarat ports and expressways to expand its LNG business. Targeted regions like Ahmedabad Rural, Silvassa, and Surat offer substantial growth potential, with volumes expected to increase from 2mmscmd to 3-3.5mmscmd over the next few years.
- **Regulatory Developments:** GUJGA successfully obtained a favorable order from the Delhi High Court in July'24, preventing PNGRB from enforcing coercive measures under the 2024 open access regulations. This interim protection allows GUJGA to continue operating without immediate regulatory disruptions, while PNGRB's approach remains consultative.

## VIEW & VALUATION

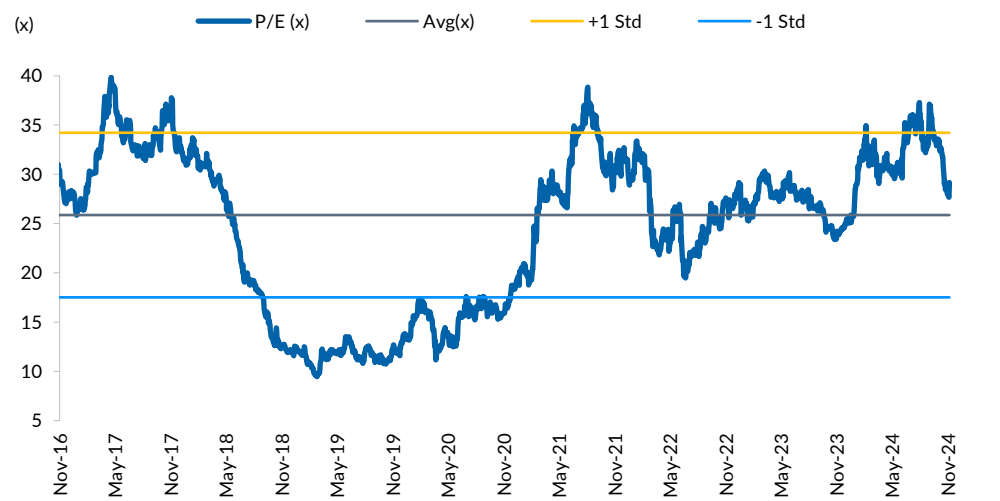
### SELL with a TP of Rs 462/share

Given its cashflows and reasonable capex the company is rapidly de-levering and maintaining a decent RoCE. We forecast spreads of Rs/scm 5.8/5.9/6.1 for FY25/26/27. The stock trades at 29.1x/26.3x FY26e/27e PER. We value it on a PER basis assigning a 22x multiple and, recommend a SELL with a target price of Rs 462/share.

#### Exhibit 8: Valuation table

Valuation	FY27E
EPS (Rs)	21.0
PER (x)	22.0
Target (PER based)	462

#### Exhibit 9: PER (x) band, one-year-forward



Source: Company, YES Sec

## FINANCIALS

### Exhibit 10: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	164,562	167,594	156,902	146,291	151,837	163,038
Total Expense	143,799	143,674	138,138	125,342	128,973	137,630
<b>Operating Profit</b>	<b>20,763</b>	<b>23,920</b>	<b>18,764</b>	<b>20,949</b>	<b>22,865</b>	<b>25,408</b>
Other Income	907	1,013	1,078	1,159	1,209	1,298
Depreciation	3,849	4,283	4,743	5,425	6,310	7,096
EBIT	17,821	20,650	15,098	16,682	17,764	19,610
Interest	568	404	293	297	297	297
Extraordinary Item	(119)	-	557	-	-	-
<b>PBT</b>	<b>17,134</b>	<b>20,247</b>	<b>15,362</b>	<b>16,385</b>	<b>17,467</b>	<b>19,313</b>
Tax	4,278	4,992	3,934	4,124	4,396	4,861
<b>PAT</b>	<b>12,856</b>	<b>15,255</b>	<b>11,428</b>	<b>12,261</b>	<b>13,070</b>	<b>14,452</b>
Adj. PAT	12,856	15,255	11,428	12,261	13,070	14,452
Eps	18.7	22.2	16.6	17.8	19.0	21.0

### Exhibit 11: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	1,377	1,377	1,377	1,377	1,377	1,377
Reserves	54,616	68,579	75,516	83,990	92,930	102,735
<b>Net worth</b>	<b>55,993</b>	<b>69,956</b>	<b>76,893</b>	<b>85,367</b>	<b>94,307</b>	<b>104,112</b>
Debt	5,035	284	325	325	325	325
Deferred tax liab (net)	8,077	8,461	9,108	9,108	9,108	9,108
<b>Capital Employed</b>	<b>69,105</b>	<b>78,701</b>	<b>86,325</b>	<b>94,800</b>	<b>103,740</b>	<b>113,545</b>
Fixed assets	76,235	83,208	86,808	92,566	101,835	110,553
Investments	5,442	5,951	7,488	7,488	7,488	7,488
Net working capital	(12,571)	(10,458)	(7,970)	(5,255)	(5,583)	(4,496)
Inventories	534	612	587	532	543	578
Sundry debtors	9,301	10,212	10,298	9,561	9,924	10,656
Cash & Bank Balance	211	6,810	9,261	12,053	11,478	12,209
Other current assets	3,831	2,159	2,142	2,142	2,142	2,142
Sundry creditors	4,456	7,156	7,002	6,287	6,413	6,824
Other liabilities	21,991	23,094	23,256	23,256	23,256	23,256
<b>Application of Funds</b>	<b>69,105</b>	<b>78,701</b>	<b>86,325</b>	<b>94,800</b>	<b>103,740</b>	<b>113,545</b>

## Exhibit 12: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
PBT	17,134	20,247	15,362	16,385	17,467	19,313
Add: Depreciation & amortization	3,849	4,283	4,743	5,425	6,310	7,096
Add: Interest expense	568	404	293	297	297	297
Less: Interest/Dividend Income Received	(337)	(519)	(649)	-	-	-
(Inc)/Dec in working capital	(95)	4,052	(201)	76	(247)	(356)
Tax paid	(4,363)	(4,608)	(3,227)	(4,124)	(4,396)	(4,861)
Other operating Cash Flow	(139)	(78)	19	-	-	-
<b>Cash flow from operating activities</b>	<b>16,618</b>	<b>23,780</b>	<b>16,340</b>	<b>18,059</b>	<b>19,431</b>	<b>21,489</b>
Capital expenditure	(13,663)	(10,867)	(8,371)	(11,184)	(15,579)	(15,814)
Add: Interest/Dividend Income Received	329	499	622	-	-	-
Inc/(Dec) in investments	398	(45)	(1,037)	-	-	-
<b>Cash flow from investing activities</b>	<b>(12,935)</b>	<b>(10,413)</b>	<b>(8,787)</b>	<b>(11,184)</b>	<b>(15,579)</b>	<b>(15,814)</b>
Inc/(Dec) in share capital	-	-	-	-	-	-
Inc/(Dec) in debt	(4,378)	(5,024)	(293)	-	-	-
Interest Paid	(531)	(381)	(273)	(297)	(297)	(297)
Dividend Paid	(1,375)	(1,379)	(4,575)	(3,786)	(4,130)	(4,647)
Others	-	-	-	-	-	-
<b>Cash flow from financing activities</b>	<b>(6,284)</b>	<b>(6,784)</b>	<b>(5,141)</b>	<b>(4,083)</b>	<b>(4,428)</b>	<b>(4,944)</b>
<b>Net cash flow</b>	<b>(2,602)</b>	<b>6,583</b>	<b>2,413</b>	<b>2,792</b>	<b>(576)</b>	<b>731</b>

## Exhibit 13: Du-pont analysis

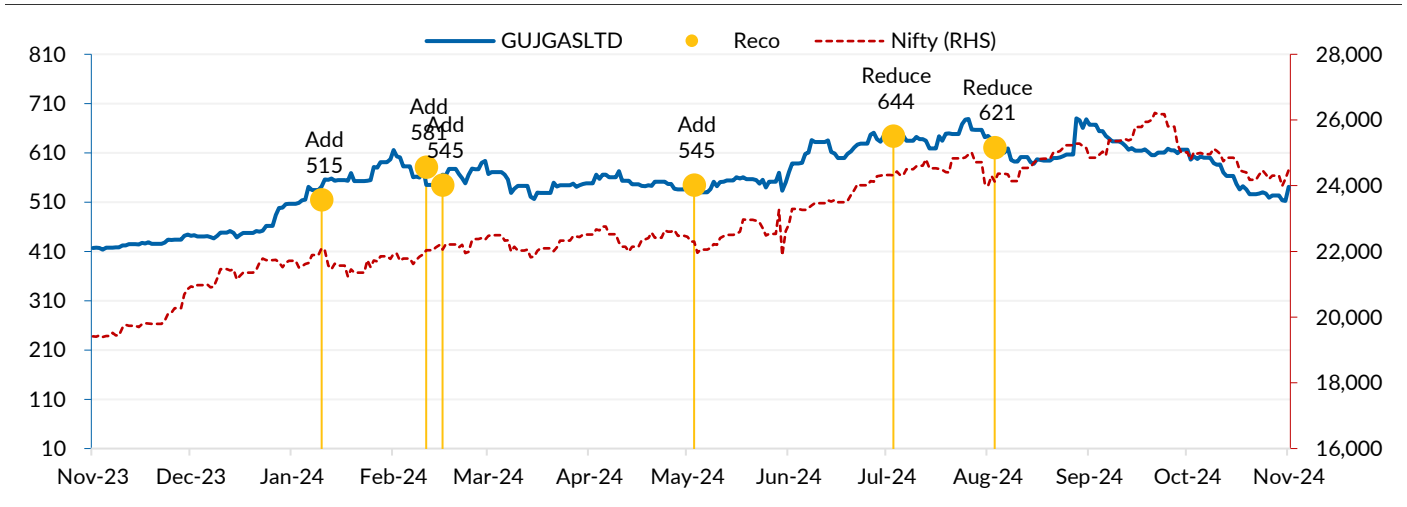
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Tax burden (x)	0.8	0.8	0.7	0.7	0.7	0.7
Interest burden (x)	1.0	1.0	1.0	1.0	1.0	1.0
EBIT margin (x)	0.1	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	1.8	1.6	1.4	1.2	1.2	1.2
Financial leverage (x)	1.8	1.6	1.5	1.5	1.4	1.4
RoE (%)	25.6	24.2	15.6	15.1	14.5	14.6

## Exhibit 14: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth matrix (%)</b>						
Revenue growth	67.0	1.8	(6.4)	(6.8)	3.8	7.4
Op profit growth	(0.6)	15.2	(21.6)	11.6	9.1	11.1
EBIT growth	(2.1)	15.9	(26.9)	10.5	6.5	10.4
Net profit growth	0.8	18.7	(25.1)	7.3	6.6	10.6
<b>Profitability ratios (%)</b>						
OPM	12.6	14.3	12.0	14.3	15.1	15.6
EBIT margin	10.8	12.3	9.6	11.4	11.7	12.0
Net profit margin	7.8	9.1	7.3	8.4	8.6	8.9
RoCE	27.3	27.9	18.3	18.4	17.9	18.0
RoE	25.6	24.2	15.6	15.1	14.5	14.6
RoA	14.2	14.9	10.1	10.2	10.1	10.4
<b>Per share ratios</b>						
EPS	18.7	22.2	16.6	17.8	19.0	21.0
Dividend per share	2.0	6.6	5.7	5.5	6.0	6.8
Cash EPS	24.3	28.4	23.5	25.7	28.2	31.3
Book value per share	81.3	101.6	111.7	124.0	137.0	151.2
<b>Valuation ratios</b>						
P/E	26.9	20.7	33.3	31.0	29.1	26.3
P/CEPS	20.7	16.2	23.5	21.5	19.6	17.6
P/B	6.2	4.5	4.9	4.5	4.0	3.6
EV/EBIDTA	16.9	13.0	19.8	17.6	16.1	14.5
<b>Payout (%)</b>						
Dividend payout	10.7	29.8	34.1	30.9	31.6	32.2
Tax payout	25.0	24.7	25.6	25.2	25.2	25.2
<b>Liquidity ratios</b>						
Debtor days	20.6	22.2	24.0	23.9	23.9	23.9
Inventory days	1.3	1.5	1.6	1.6	1.5	1.5
Creditor days	11.3	14.8	18.7	19.3	18.0	17.6



## Recommendation Tracker



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