

February 07, 2024

RESULT REPORT Q3 FY25 | Sector: Energy

Gujarat Gas Ltd

EBITDA spreads in line while volumes were marginally higher

Gujarat Gas' Q3FY25 results were in line, volumes marginally higher on recovery in Morbi demand and in-line EBITDA spread. Volumes at 9.5mmscmd versus our expectations of 9.3mmscmd with Morbi contributing 3.35mmscmd and CNG reached a new peak at 3.1mmscmd, while the EBITDA spread of Rs 4.37/scm met our expectations. The trending volumes are Morbi are ~2.8-3mmscmd as the sector is affected by factors - geopolitical situations globally and propane competition. The current price for ceramic cluster at Rs 47/scm vs propane at Rs43/scm. We maintain our SELL rating on the stock with a revised target price of Rs 400/share.

Result Highlights

- Performance:** The reported volumes of 9.5mmscmd, higher than estimated of 9.3mmscmd. The EBITDA spread at Rs4.37/scm was in line with our expectation of Rs 4.34/scm. Compared to our estimates the EBITDA performance is in line while PAT is stronger on higher other income. **EBITDA/PAT** at Rs 3.8/2.2bn, down 5%/ flat YoY and down 26%/27.8% QoQ due to an increase in gas cost on reduction in APM allocation which the company was unable to fully pass on.
- Volumes** at 9.5mmscmd were up 3.4% YoY and 8.2% QoQ. CNG volumes were 3.1mmscmd (attaining new peak) up 12.2% YoY and 6.5% QoQ. D-PNG volumes at 0.74mmscmd were up 4.2% YoY but down 2.6% QoQ. Industrial volumes were at 5.5mmscmd (Morbi at 3.35mmscmd) down 7.9% YoY but up 15.5% QoQ.
- Price hikes:** The Industrial morbi price was increased by Rs 2.3/scm to Rs 46.95/scm (exclude VAT) on 11-Dec'24 and CNG price was increased on 1-Dec'24 by Rs 1.5/kg to Rs77.76/kg.
- Spreads: The gross margin** at Rs8.3/scm flat YoY and down 19.6% QoQ on higher gas cost despite price increases in CNG and industrial segment as they were lower hikes. **Opex** was Rs4/scm; vs Rs3.1 a year ago and Rs4 the previous quarter. **Gas cost:** The average blended gas cost was at Rs 39.3/scm (USD13.1/mmbtu) marginally higher than our expectations of USD12.7mmbtu. **EBITDA/scm** was Rs4.4, down 8.2% YoY and 31.6% QoQ, on higher gas costs.
- APM Allocation shortfall:** During Q3FY25, the APM gas allocation for the CNG segment was reduced twice, impacting the company's gas sourcing strategy. The first reduction occurred on 16th Oct'24, bringing the allocation down from 63% to 51%. A further reduction to 37% was implemented on 16th Nov'24. However effective 16th Jan'25, the APM gas allocation was increased back to 51%, a positive development expected to alleviate sourcing pressures.
- Q4FY25 Outlook:** On 1-Jan'25 CNG price was further hiked by Rs1.5/kg to Rs79.26/kg, the benefit would be witnessed in Q4FY25 which would also be supported by increased APM supply and possible NWG allocation in mid Feb'25 and result in better EBITDA spread outlook for Q4FY25. **9MFY25 performance:** EBITDA/PAT was at Rs 14.3/8.6bn vs Rs 12.9/7.3bn last year. The volumes at 9.7mmscmd (vs 9.2 last year), of which CNG was at 3mmscmd vs 2.7 and Morbi at 3.86mmscmd flat YoY. The EBITDA spread was at Rs 5.3/scm vs 5.1 the last year.
- Connections:** The company added 38,200 new domestic customers, supplying to more than 2.23mn D-PNG customers. The company operates in CNG with over 825 stations and added 5 new during this quarter.

Valuation

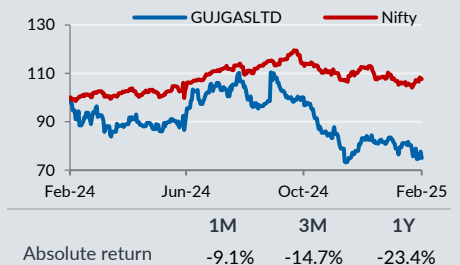
Given its cashflows and reasonable capex the company is rapidly de-levering and maintaining a decent RoCE. We forecast spreads of Rs/scm 5.5/5.8/6 for FY25/26/27. The stock trades at 26.2x/23.1x FY26e/27e PER. We value it on a PER basis assigning a 20x multiple and, recommend a SELL with a target price of Rs 400/share.

Reco	: SELL
CMP	: Rs 462
Target Price	: Rs 400
Potential Return	: -13.2%

Stock data (as on Feb 7, 2024)

Nifty	23,561
52 Week h/l (Rs)	690 / 443
Market cap (Rs/USD mn)	329188 / 3766
Outstanding Shares (mn)	688
6m Avg t/o (Rs mn):	810
Div yield (%):	1.2
Bloomberg code:	GUJGA IN
NSE code:	GUJGASLTD

Stock performance



Shareholding pattern (As of Dec'24 end)

Promoter	60.9%
FII+DII	25.9%
Others	13.2%

Δ in stance

(1-Yr)	New	Old
Rating	SELL	SELL
Target Price	400	430

Δ in estimates

(1-Yr)	FY25e	FY26e	FY27e
EPS (New)	16.0	17.6	20.0
EPS (Old)	17.8	19.2	21.5
% Change	(10.1)	(8.1)	(6.8)

Financial Summary

(Rs bn)	FY25E	FY26E	FY27E
Revenue	141.4	145.3	157.8
YoY Growth	(9.9)	2.8	8.6
EBIDTA	19.3	21.4	24.1
OPM %	13.6	14.7	15.2
PAT	11.0	12.1	13.8
YoY Growth	(3.4)	9.9	13.6
ROE	13.7	13.7	14.1
EPS	16.0	17.6	20.0
P/E	28.8	26.2	23.1
BV	122.5	134.6	148.6
EV/EBITDA	15.8	14.0	12.2

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Uvais Khatri, Associate

Exhibit 1: Actual vs estimate

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	41,529	40,258	40,143	3.16	3.45	EBITDA spreads in line while volumes were marginally higher
EBITDA	3,805	3,723	4,252	2.19	-10.52	
EBITDA Margin (%)	9.16	9.25	10.59	-9bps	-143bps	
Adjusted PAT	2,216	1,984	2,665	11.68	-16.84	

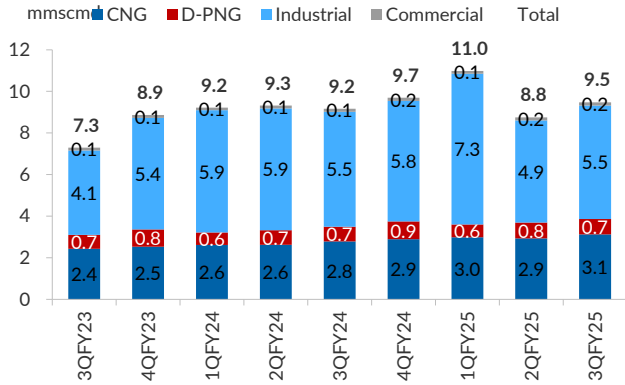
Exhibit 2: Earnings snapshot

Particulars (Rs mn)	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	y/y (%)	q/q (%)	9MFY24	9MFY25	y/y (%)
Revenue	39,291	41,342	44,503	37,818	41,529	5.7	9.8	115,560	123,849	7.2
Expenditure	35,284	35,431	39,147	32,676	37,724	6.9	15.5	102,707	109,547	6.7
-Raw Material	32,230	31,846	35,887	29,470	34,269	6.3	16.3	93,710	99,625	6.3
-Staff Cost	481	481	489	501	466	(3.2)	(7.1)	1,508	1,455	(3.5)
- Other expenses	2,573	3,103	2,771	2,705	2,990	16.2	10.6	7,489	8,466	13.0
Operating Profit	4,007	5,911	5,356	5,142	3,805	(5.0)	(26.0)	12,853	14,303	11.3
OPM(%)	10.2	14.3	12.0	13.6	9.2	-104 bps	-443 bps	11.1	11.5	43 bps
Other Income	230	311	386	386	585	154.2	51.8	767	1,356	76.9
Depreciation	1,201	1,212	1,231	1,295	1,294	7.8	(0.1)	3,531	3,821	8.2
Interest	72	69	78	80	93	29.2	17.0	224	251	12.0
Excpnl Loss/(Profit)	-	(557)	-	-	-	n.a.	n.a.	-	-	n.a.
PBT	2,964	4,383	4,433	4,152	3,002	1.3	(27.7)	9,865	11,588	17.5
Tax	761	1,402	1,135	1,083	786	3.3	(27.4)	2,533	3,004	18.6
PAT	2,203	2,982	3,298	3,069	2,216	0.6	(27.8)	7,332	8,583	17.1
Adj PAT	2,203	3,539	3,298	3,069	2,216	0.6	(27.8)	7,332	8,583	17.1

Exhibit 3: Operating highlights

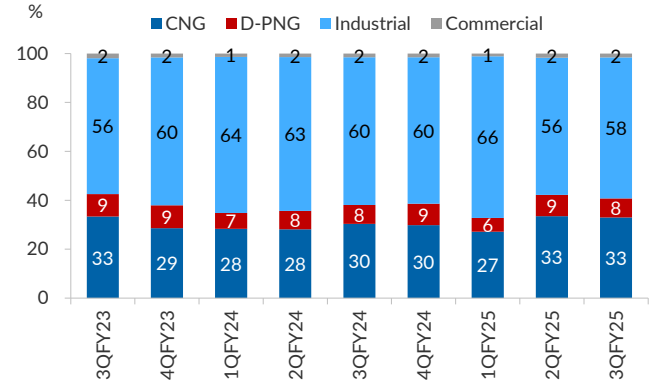
Particulars	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	y/y (%)	q/q (%)	9MFY24	9MFY25	y/y (%)
Volumes (mmscmd)	9.2	9.7	11.0	8.8	9.5	3.4	8.2	9.2	9.7	5.4
CNG	2.8	2.9	3.0	2.9	3.1	12.2	6.5	2.67	3.01	12.7
Domestic PNG	0.7	0.9	0.6	0.8	0.7	4.2	(2.6)	0.67	0.71	5.5
Morbi	3.7	3.8	5.2	2.9	3.4	(7.9)	15.5	3.87	3.83	(1.0)
Other Industrials	1.9	2.0	2.0	2.0	2.1	11.7	5.0	1.89	2.05	8.3
Industrial PNG	5.5	5.8	7.3	4.9	5.5	(1.3)	11.2	5.76	5.87	2.0
Commercial PNG	0.1	0.2	0.1	0.2	0.2	7.1	-	0.14	0.14	4.9
										-
Margins (Rs/scm)										
Revenue	46.6	46.9	44.5	47.0	47.7	2.2	1.5	45.51	46.27	1.7
GM	8.4	10.8	8.6	10.4	8.3	(0.5)	(19.6)	8.61	9.05	5.2
Opex	3.6	4.1	3.3	4.0	4.0	9.5	(0.4)	3.54	3.71	4.6
EBITDA	4.8	6.7	5.4	6.4	4.4	(8.2)	(31.6)	5.06	5.34	5.6

Exhibit 4: Volume split



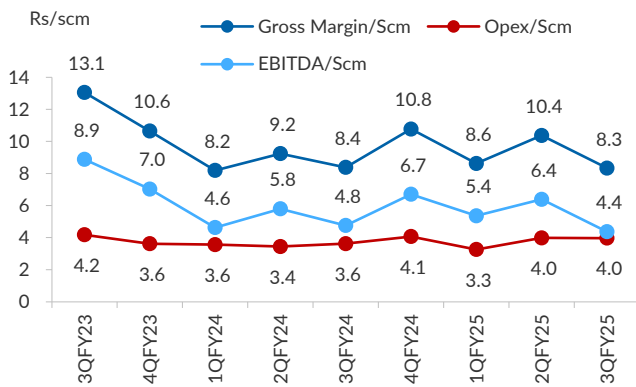
Source: Company, YES Sec

Exhibit 5: % share of Volumes



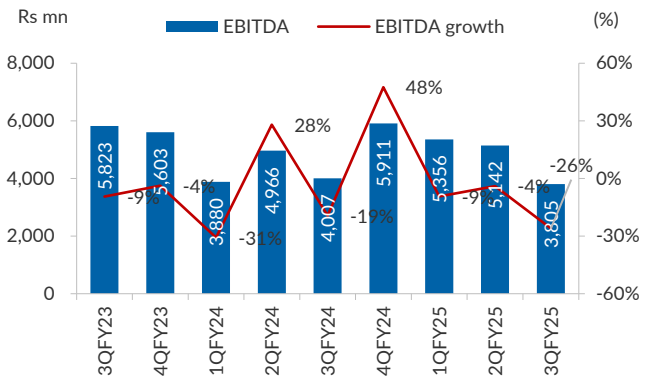
Source: Company, YES Sec

Exhibit 6: Margins and Opex



Source: Company, YES Sec

Exhibit 7: EBITDA growth



Source: Company, YES Sec

CONCALL HIGHLIGHTS

- **CNG:** Added 5 new CNG stations, now operating 825 CNG stations, serving ~4 lakh vehicles per day (up from 3.45lakh last year). In Gujarat, 30% of 4W sold in Q3FY25 was CNG. The CNG sales in Gujarat increased 11% YoY, while sales outside Gujarat surged 25% YoY, leading to an overall 12% annual growth in CNG sales.
- **Connection Adds:** GUJGA serves 2.23mn D-PNG customers, along with 15,590 commercial and 4,430 industrial customers, through a 42,000km PE and steel pipeline network.
- **APM Allocation:** The overall shortfall in APM gas stood at 45% for both CNG and PNG segments. Despite partial restoration in Jan'25, the shortfall is expected to persist in Q4FY25.
- **Gas Sourcing:** In Q3FY25, GUJGA sourced 6.16mmscmd from GSPC, including 2.57mmscmd from spot LNG, 3.25mmscmd from long-term contracts, and 1.35mmscmd from other domestic sources like IGX, GAIL, and NWG (0.54mmscmd).
- **LT Contracts:** Key long-term LNG contracts totaling 3.8mmscmd are nearing expiration. The British Gas (BG) contract for 2.5mmscmd and another 1mmscmd contract will expire by mid-2025, while the 0.7mmscmd domestic gas contract with Reliance-BP expired in Dec'24. GUJGA is negotiating replacements through GSPC.
- **Morbi Market:** With improving geopolitical conditions, volume recovery is expected. Current sales stand at 2.75-3mmscmd (down from 3.35mmscmd in Q3). The price differential with propane has widened, with PNG at Rs47/scm in Morbi and Rs49/scm in non-Morbi areas, while propane is at Rs43/scm, making propane more economical with a delta of Rs4/scm. The total market size remains 8-9mmscmd, with GUJGA holding a 50% share of the Morbi market. Over 150 customers have propane-linked gas sales agreements. Industrial areas in South Gujarat experienced shutdowns during Diwali.
- **Capex:** Invested Rs2.13bn in Q3 and Rs5.49bn in 9MFY25. The FY25 capex target is Rs8-8.5bn, with ~Rs10bn planned for FY26.
- **GSPC Performance:** H1FY25 revenue was Rs110bn, with EBITDA of Rs12bn and PAT of Rs9bn. Volumes stood at 11-12mmscmd.
- **EBITDA Guidance:** Revised down to Rs4.5-5.5/scm from the previous Rs5-6/scm due to the APM allocation reduction.
- **Hydrogen Blending:** A pilot project is underway with NTPC in its Kava housing colony. Started with a 5% blend, currently at 8%, with plans to scale up to 15% pending regulatory approval.
- **FDODO Model:** Signed 50 agreements under the Full Dealer Owned Dealer Operated (FDODO) model, with commissioning required within one year. The target is to surpass 100 agreements in Q4FY25. Discussions are ongoing with OMCs, who have shown interest in participating. For online stations, commissions range from Rs5-8/kg, while booster stations receive Rs10/kg. ROCE is expected to improve as the investment is borne by dealers.
- **CBG:** GUJGA was the first to introduce CBG in its network. Currently sourcing from 3 suppliers, with 6 more in the pipeline.

VIEW & VALUATION

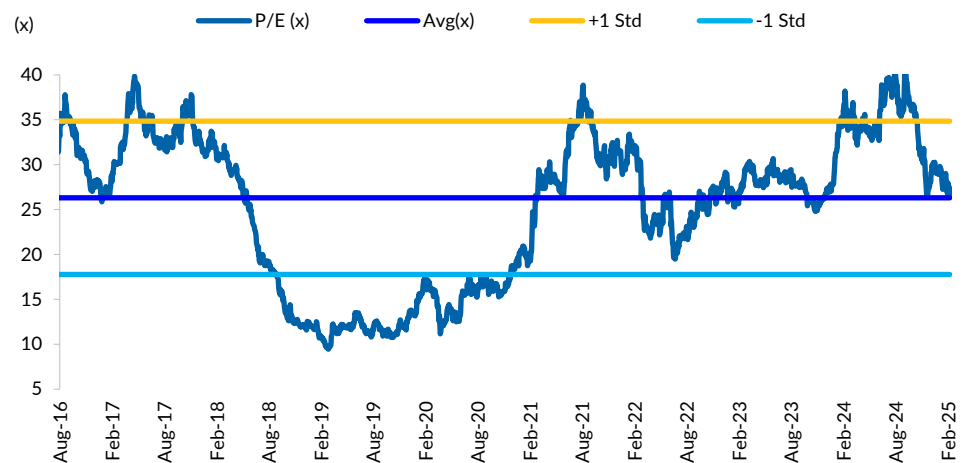
SELL with a TP of Rs 400/share

Given its cashflows and reasonable capex the company is rapidly de-levering and maintaining a decent RoCE. We forecast spreads of Rs/scm 5.5/5.8/6 for FY25/26/27. The stock trades at 26.2x/23.1x FY26e/27e PER. We value it on a PER basis assigning a 20x multiple and, recommend a SELL with a target price of Rs 400/share.

Exhibit 8: Valuation table

Valuation	FY27E
EPS (Rs)	20
PER (x)	20
Target (PER based)	400

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	141,363	145,312	157,791
Total Expense	143,799	143,674	138,138	122,092	123,923	133,729
Operating Profit	20,763	23,920	18,764	19,271	21,389	24,062
Other Income	907	1,013	1,078	1,159	1,209	1,267
Depreciation	3,849	4,283	4,743	5,352	6,027	6,543
EBIT	17,821	20,650	15,098	15,078	16,571	18,785
Interest	568	404	293	322	351	366
Extraordinary Item	(119)	-	557	-	-	-
PBT	17,134	20,247	15,362	14,756	16,220	18,419
Tax	4,278	4,992	3,934	3,714	4,082	4,636
PAT	12,856	15,255	11,428	11,042	12,137	13,783
Adj. PAT	12,856	15,255	11,428	11,042	12,137	13,783
Eps	18.7	22.2	16.6	16.0	17.6	20.0

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	82,944	91,295	100,947
Net worth	55,993	69,956	76,893	84,320	92,671	102,324
Debt	5,035	284	325	325	325	325
Deferred tax liab (net)	8,077	8,461	9,108	9,108	9,108	9,108
Capital Employed	69,105	78,701	86,325	93,753	102,104	111,757
Fixed assets	76,235	83,208	86,808	89,701	93,844	97,664
Investments	5,442	5,951	7,488	7,488	7,488	7,488
Net working capital	(12,571)	(10,458)	(7,970)	(3,436)	772	6,605
Inventories	534	612	587	517	519	558
Sundry debtors	9,301	10,212	10,298	9,239	9,497	10,313
Cash & Bank Balance	211	6,810	9,261	14,026	17,999	23,436
Other current assets	3,831	2,159	2,142	2,142	2,142	2,142
Sundry creditors	4,456	7,156	7,002	6,103	6,129	6,587
Other liabilities	21,991	23,094	23,256	23,256	23,256	23,256
Application of Funds	69,106	78,701	86,325	93,753	102,104	111,757

Exhibit 12: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
PBT	17,134	20,247	15,362	14,756	16,220	18,419
Add: Depreciation & amortization	3,849	4,283	4,743	5,352	6,027	6,543
Add: Interest expense	568	404	293	322	351	366
Less: Interest/Dividend Income Received	(337)	(519)	(649)	-	-	-
(Inc)/Dec in working capital	(95)	4,052	(201)	230	(235)	(396)
Tax paid	(4,363)	(4,608)	(3,227)	(3,714)	(4,082)	(4,636)
Other operating Cash Flow	(139)	(78)	19	-	-	-
Cash flow from operating activities	16,618	23,780	16,340	16,946	18,281	20,297
Capital expenditure	(13,663)	(10,867)	(8,371)	(8,245)	(10,170)	(10,363)
Add: Interest/Dividend Income Received	329	499	622	-	-	-
Inc/(Dec) in investments	398	(45)	(1,037)	-	-	-
Cash flow from investing activities	(12,935)	(10,413)	(8,787)	(8,245)	(10,170)	(10,363)
Inc/(Dec) in share capital	-	-	-	-	-	-
Inc/(Dec) in debt	(4,378)	(5,024)	(293)	-	-	-
Interest Paid	(531)	(381)	(273)	(322)	(351)	(366)
Dividend Paid	(1,375)	(1,379)	(4,575)	(3,614)	(3,786)	(4,130)
Others	-	-	-	-	-	-
Cash flow from financing activities	(6,284)	(6,784)	(5,141)	(3,936)	(4,138)	(4,496)
Net cash flow	(2,602)	6,583	2,413	4,764	3,973	5,437

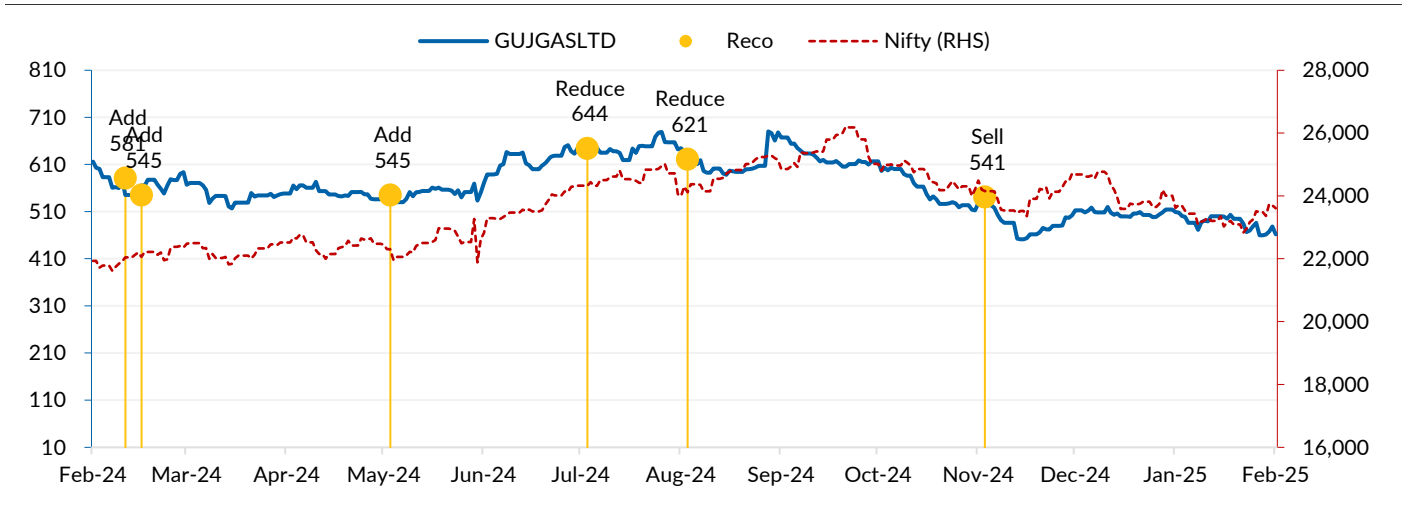
Exhibit 13: Du-pont analysis

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	1.1	1.2
Financial leverage (x)	1.8	1.6	1.5	1.5	1.4	1.4
RoE (%)	25.6	24.2	15.6	13.7	13.7	14.1

Exhibit 14: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth matrix (%)						
Revenue growth	67.0	1.8	(6.4)	(9.9)	2.8	8.6
Op profit growth	(0.6)	15.2	(21.6)	2.7	11.0	12.5
EBIT growth	(2.1)	15.9	(26.9)	(0.1)	9.9	13.4
Net profit growth	0.8	18.7	(25.1)	(3.4)	9.9	13.6
Profitability ratios (%)						
OPM	12.6	14.3	12.0	13.6	14.7	15.2
EBIT margin	10.8	12.3	9.6	10.7	11.4	11.9
Net profit margin	7.8	9.1	7.3	7.8	8.4	8.7
RoCE	27.3	27.9	18.3	16.7	16.9	17.6
RoE	25.6	24.2	15.6	13.7	13.7	14.1
RoA	14.2	14.9	10.1	9.2	9.5	10.1
Per share ratios						
EPS	18.7	22.2	16.6	16.0	17.6	20.0
Dividend per share	2.0	6.6	5.7	5.3	5.5	6.0
Cash EPS	24.3	28.4	23.5	23.8	26.4	29.5
Book value per share	81.3	101.6	111.7	122.5	134.6	148.6
Valuation ratios						
P/E	26.9	20.7	27.8	28.8	26.2	23.1
P/CEPS	20.7	16.2	19.7	19.4	17.5	15.6
P/B	6.2	4.5	4.1	3.8	3.4	3.1
EV/EBIDTA	16.9	13.0	16.5	15.8	14.0	12.2
Payout (%)						
Dividend payout	10.7	29.8	34.1	32.7	31.2	30.0
Tax payout	25.0	24.7	25.6	25.2	25.2	25.2
Liquidity ratios						
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	19.6	18.0	17.4

Recommendation Tracker



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Analyst signature

Analyst signature

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