

August 08, 2024

RESULT REPORT Q1 FY25 | Sector: Energy

Gujarat Gas Ltd

In line EBITDA and PAT, industrial volumes better than expected but EBITDA spreads lower

Our View

Gujarat Gas' Q1FY25 results were in line, volumes positively surprise driven by Morbi cluster demand and EBITDA spreads weaker. Volumes at 10.98mmscmd versus our expectations of 10.45mmscmd with Morbi contributing 5.21mmscmd and CNG hitting new peak at 3mmscmd, while the EBITDA spread of Rs 5.4/scm was lower than anticipated. The trending volumes are morbi are down 30-40% over Q1FY25 and are affected by factors - 1) geopolitical situations globally; 2) Propane prices which are cheaper; 3) Janmashtami shut period and monsoon impact; 4) Shipping related issues. The current price for ceramic cluster at Rs 44/scm vs propane at Rs40/scm. This gives a weak picture for Q2 and the company expects a recovery in H2FY25 where Morbi cluster demand would be a key. We retain our REDUCE rating on the stock with an unchanged target price of Rs 600/share.

Result Highlights

- Performance:** The company reported volumes of 10.98mmscmd (at 10-qtr high), higher than estimated of 10.45mmscmd. The EBITDA spread at Rs5.4/scm was lower than our expectation of Rs 5.8/scm. Compared to our and consensus, the performance is more or less in line but higher volumes are a positive surprise.
- EBITDA/PAT** at Rs 5.4/3.3bn, up 38.1%/ 53.3% YoY with better volumes on YoY and EBITDA spreads, while it was down 9.4%/6.8% QoQ on improved volumes but weaker EBITDA spreads.
- Volumes** at 10.98mmscmd were up 19.1% YoY and 13.3% QoQ. CNG volumes were 2.98mmscmd (at quarterly peak) up 14.2% YoY, 3.1% QoQ. D-PNG volumes at 0.62mmscmd were up 3.3% YoY and down 27.1% QoQ. Industrial volumes were at 7.25mmscmd (Morbi at 5.21mmscmd) up 30% YoY and 37% QoQ. It also added 0.2mmscmd of industrial volumes from new customers during the quarter.
- Spreads:** The gross margin at Rs8.6/scm up 5.3% YoY and down 19.9% QoQ due to a decline in industrial morbi gas realization. **Opex** was Rs2.8/scm; vs Rs2.9 a year ago and Rs3.5 the previous quarter. **Gas cost:** The average blended gas cost was at Rs 35.9/scm (\$12/mmbtu) marginally higher than our expectations of \$11.8mmbtu. **EBITDA/scm** was Rs5.4, up 15.9% YoY, but down 20% QoQ, on a reduction in blended realizations.
- Connections.** The company added 37,400 new domestic customers, supplying to more than 2.15mn D-PNG customers and operates in CNG with over 810 stations.

Valuation

Given robust cashflows and reasonable capex the company is rapidly de-levering and maintaining a strong RoCE. We forecast spreads of Rs/scm 6.5/6.7 for FY25/26. The stock trades at 28.3x/24.8x FY25e/26e PER. We value it on a PER basis assigning a 24x multiple and, recommend a REDUCE with unchanged target price of Rs 600/share.

Exhibit 1: Actual vs estimate

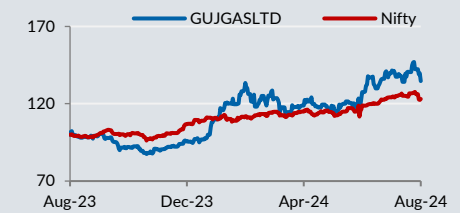
| Rs mn | Actual | Estimate | | % Variation | | Remarks |
|-------------------|--------|----------|-----------|-------------|-----------|--|
| | | YES Sec | Consensus | YES Sec | Consensus | |
| Sales | 41,342 | 40,985 | 39,770 | 0.87 | 3.95 | Industrial volumes better than expected but EBITDA spreads lower |
| EBITDA | 5,911 | 5,254 | 5,228 | 12.50 | 13.07 | |
| EBITDA Margin (%) | 14.30 | 12.82 | 13.14 | 148bps | 115bps | |
| Adjusted PAT | 4,095 | 3,216 | 3,180 | 27.35 | 28.78 | |

| | |
|------------------|----------|
| Reco | : REDUCE |
| CMP | : Rs 621 |
| Target Price | : Rs 600 |
| Potential Return | : -3.4% |

Stock data (as on Aug 8, 2024)

| | |
|-------------------------|---------------|
| Nifty | 24,117 |
| 52 Week h/l (Rs) | 687 / 397 |
| Market cap (Rs/USD mn) | 438470 / 5224 |
| Outstanding Shares (mn) | 688 |
| 6m Avg t/o (Rs mn): | 783 |
| Div yield (%): | 0.9 |
| Bloomberg code: | GUJGA IN |
| NSE code: | GUJGASLTD |

Stock performance



| | 1M | 3M | 1Y |
|-----------------|-------|-------|-------|
| Absolute return | -4.9% | 13.8% | 32.2% |

Shareholding pattern (As of Mar'24 end)

| | |
|----------|-------|
| Promoter | 60.9% |
| FII+DII | 25.8% |
| Others | 13.3% |

Δ in stance

| (1-Yr) | New | Old |
|--------------|--------|--------|
| Rating | REDUCE | REDUCE |
| Target Price | 600 | 600 |

Δ in estimates

| (1-Yr) | FY25e | FY26e |
|-----------|-------|-------|
| EPS (New) | 21.9 | 25.0 |
| EPS (Old) | 21.9 | 25.0 |
| % Change | - | - |

Financial Summary

| (Rs bn) | FY24 | FY25E | FY26E |
|------------|--------|-------|-------|
| Revenue | 156.9 | 153.5 | 163.4 |
| YoY Growth | (6.4) | (2.2) | 6.5 |
| EBIDTA | 18.8 | 24.4 | 27.7 |
| OPM % | 12.0 | 15.9 | 17.0 |
| PAT | 11.4 | 15.1 | 17.2 |
| YoY Growth | (25.1) | 32.0 | 14.1 |
| ROE | 15.6 | 18.4 | 18.4 |
| EPS | 16.6 | 21.9 | 25.0 |
| P/E | 37.4 | 28.3 | 24.8 |
| BV | 111.7 | 127.1 | 144.6 |
| EV/EBITDA | 22.3 | 17.0 | 14.7 |

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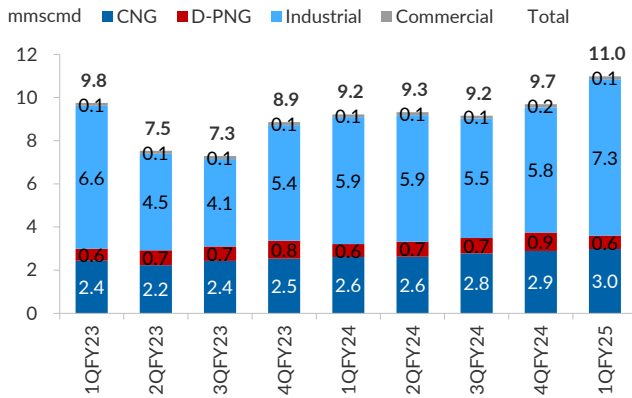
Exhibit 2: Earnings snapshot

| Particulars (Rs mn) | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 | Q1 FY25 | y/y (%) | q/q (%) | FY23 | FY24 | y/y (%) |
|----------------------|---------|---------|---------|---------|---------|---------|----------|---------|---------|----------|
| Revenue | 37,815 | 38,454 | 39,291 | 41,342 | 44,503 | 17.7 | 7.6 | 167,594 | 156,902 | (6.4) |
| Expenditure | 33,935 | 33,488 | 35,284 | 35,431 | 39,147 | 15.4 | 10.5 | 143,674 | 138,138 | (3.9) |
| -Raw Material | 30,945 | 30,535 | 32,230 | 31,846 | 35,887 | 16.0 | 12.7 | 132,734 | 125,557 | (5.4) |
| -Staff Cost | 520 | 507 | 481 | 481 | 489 | (6.0) | 1.5 | 1,956 | 1,989 | 1.7 |
| - Other expenses | 2,470 | 2,446 | 2,573 | 3,103 | 2,771 | 12.2 | (10.7) | 8,984 | 10,593 | 17.9 |
| Operating Profit | 3,880 | 4,966 | 4,007 | 5,911 | 5,356 | 38.1 | (9.4) | 23,920 | 18,764 | (21.6) |
| OPM(%) | 10.3 | 12.9 | 10.2 | 14.3 | 12.0 | 178 bps | -226 bps | 14.3 | 12.0 | -231 bps |
| Other Income | 239 | 298 | 230 | 311 | 386 | 61.6 | 24.0 | 1,013 | 1,078 | 6.4 |
| Depreciation | 1,151 | 1,179 | 1,201 | 1,212 | 1,231 | 6.9 | 1.6 | 4,283 | 4,743 | 10.8 |
| Interest | 74 | 78 | 72 | 69 | 78 | 5.7 | 12.4 | 404 | 293 | (27.4) |
| Excpnl Loss/(Profit) | - | - | - | (557) | - | n.a. | n.a. | - | (557) | n.a. |
| PBT | 2,894 | 4,007 | 2,964 | 4,383 | 4,433 | 53.2 | 1.1 | 20,247 | 14,248 | (29.6) |
| Tax | 743 | 1,029 | 761 | 1,402 | 1,135 | 52.8 | (19.0) | 4,992 | 3,934 | (21.2) |
| PAT | 2,151 | 2,978 | 2,203 | 2,982 | 3,298 | 53.3 | 10.6 | 15,255 | 10,314 | (32.4) |
| Adj PAT | 2,151 | 2,978 | 2,203 | 3,539 | 3,298 | 53.3 | (6.8) | 15,255 | 10,871 | (28.7) |

Exhibit 3: Operating highlights

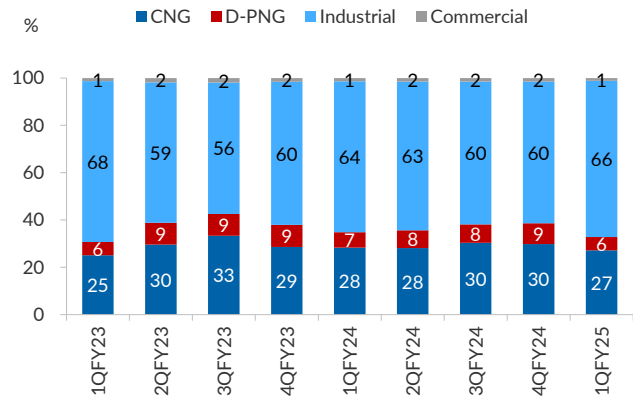
| Particulars | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 | Q1 FY25 | y/y (%) | q/q (%) | FY23 | FY24 | y/y (%) |
|-------------------|---------|---------|---------|---------|---------|---------|---------|-------|-------|---------|
| Volumes (mmscmd) | 9.2 | 9.3 | 9.2 | 9.7 | 11.0 | 19.1 | 13.3 | 8.4 | 9.3 | 11.8 |
| CNG | 2.6 | 2.6 | 2.8 | 2.9 | 3.0 | 14.2 | 3.1 | 2.41 | 2.73 | 13.2 |
| Domestic PNG | 0.6 | 0.7 | 0.7 | 0.9 | 0.6 | 3.3 | (27.1) | 0.69 | 0.72 | 4.4 |
| Morbi | 4.0 | 3.9 | 3.7 | 3.9 | 5.3 | 33.2 | 35.9 | 3.26 | 3.87 | 18.6 |
| Other Industrials | 1.9 | 1.9 | 1.9 | 1.9 | 2.0 | 2.6 | 2.6 | 1.85 | 1.90 | 2.8 |
| Industrial PNG | 5.9 | 5.9 | 5.5 | 5.8 | 7.3 | 23.3 | 25.0 | 5.13 | 5.77 | 12.5 |
| Commercial PNG | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | - | (13.3) | 0.14 | 0.14 | 1.8 |
| | | | | | | | | | | - |
| Margins (Rs/scm) | | | | | | | | | | |
| Revenue | 45.1 | 44.8 | 46.6 | 46.9 | 44.5 | (1.2) | (5.0) | 54.79 | 45.86 | (16.3) |
| GM | 8.2 | 9.2 | 8.4 | 10.8 | 8.6 | 5.3 | (19.9) | 11.40 | 9.16 | (19.6) |
| Opex | 2.9 | 2.9 | 3.1 | 3.5 | 2.8 | (5.8) | (21.2) | 3.58 | 3.68 | 2.8 |
| EBITDA | 4.6 | 5.8 | 4.8 | 6.7 | 5.4 | 15.9 | (20.0) | 7.82 | 5.48 | (29.9) |

Exhibit 4: Volume split



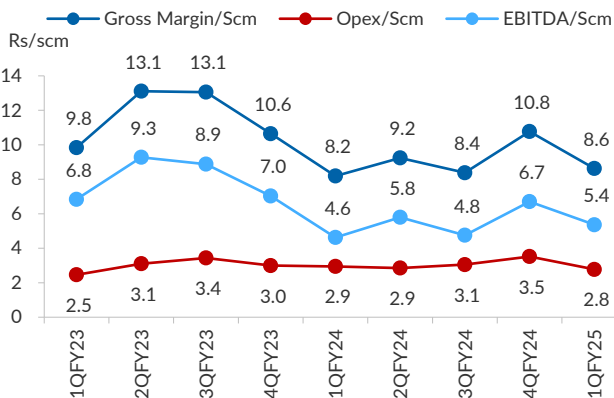
Source: Company, YES Sec

Exhibit 5: % share of Volumes



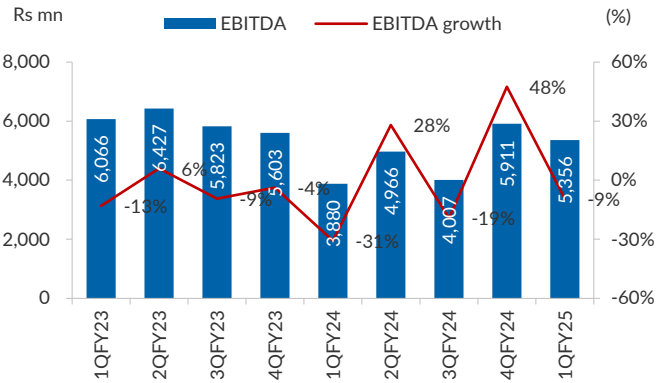
Source: Company, YES Sec

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 2.15mn D-PNG customers, Commercial: 15,200, Industrial: 4,400 customers through 40,200kms of pipeline network. New Industrial customers volumes of 1.1mmscmd was signed in FY24, of which 0.63mmscmd in expected to be commissioned by H2FY25.
- CNG Segment:** The CNG segment continues to do well, it achieved higher ever volumes. Gujarat is growing at 12-15% while at other areas outside, the volumes are growing at 27%. Gujarat contributes 87% of CNG volumes and rest by others. The volumes for CNG are expected to grow more than 14%. Majority of CNG consumption in Gujarat is by 3W and 4W.
- CNG stations:** Operating 811 CNG stations (+3 QoQ), of which 554 are in Gujarat and 257 in other GAs. Increasing the CNG infrastructure to cover major town, increase adoption in LCV, HCV, and Dumpers. Newer GA have more CNG volume potential than industrial. Gujarat Gas has 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. F-DODO scheme is introduced, all investme by them and we provide help and 600 interests have come. To issue 200 LOI in the first stage in near term. Of these, more than 60-70% coming in Gujarat.

- **Gas Sourcing:** Of the total sourced volumes of 11.09mmscmd, 24% (2.69mmscmd) is sourced from APM and 49% (5.4mmscmd) from short term contracts which includes HP/HT, remaining 27% (3mmscmd) gas is sourced through long term contracts. The company is looking to add long term agreements and it currently stands at 4.3mmscmd. The spot LNG today is priced at USD13/mmbtu and long term at 13-14/mmbtu.
- **Term contract:** They have a contract with Reliance Industries which expires in Dec'24, while other contracts are through its parent entity Gujarat State Petronet (GSPL).
- **Morbi:** Ceramic cluster volumes were at 5.21mmscmd in Q1FY25. The company had rolled out a tender for contract of volumes and it has received a strong response to its Expression of Interest (EOI) for natural gas supply in the Morbi market which will add volumes. This initiative specifically targets competition with propane. Morbi cluster has a total demand potential of 8mmscmd of which 2.5-3mmscmd are sticky volumes. The trending volumes are morbi are down 30-40% over Q1FY25 and are affected by factors – 1) geopolitical situations globally; 2) Propane prices which are cheaper; 3) Janmashtami shut period and monsoon impact; 4) Shipping related issues. The Q1FY25 Morbi gas prices were at Rs 42/scm and Propane at Rs 41/scm. The current price for ceramic cluster at Rs 44/scm vs propane at Rs40/scm.
- **Non-Morbi Industrial:** Current demand of 2.03mmscmd and have a potential of 2.5mmscmd. A new industrial area is coming up in Surat while there are clusters in Thane rural, Ahmedabad rural, Punjab and MP. Expect a 5-6% volumes growth from this segment over next 2-3 qtrs.
- **EBITDA Guidance:** To maintain in the range of Rs 4.5 to 5.5/scm, with an aim to balance between the volume and margins.
- **Growth Guidance:** Volumes to grow at 10% YoY in the long term, led by CNG and followed by D-PNG and commercial. The volumes from newer GA will take time to grow while older GAs is expected to lead the growth. The volume growth for FY25 can be between 5-7%.
- **Capex:** The capex in Q1FY25 was at Rs2.06bn and to incur ~Rs 10bn each year for FY25 & FY26 for laying steel and PE pipeline. CNG station additions will be through FDODO scheme where GUJGA would not require deploying capex into CNG station. In terms of the capex split, 50% would be spent in new GAs. The capex over last 5-years amounted to Rs 35b of which 40-45% was in new areas.
- **Hydrogen Blending:** After successfully running operation of green hydrogen blending in pilot project along with NTPC at 5%. The company has now been authorized by PNGRB to increase blending level from 5% to 8%.

VIEW & VALUATION

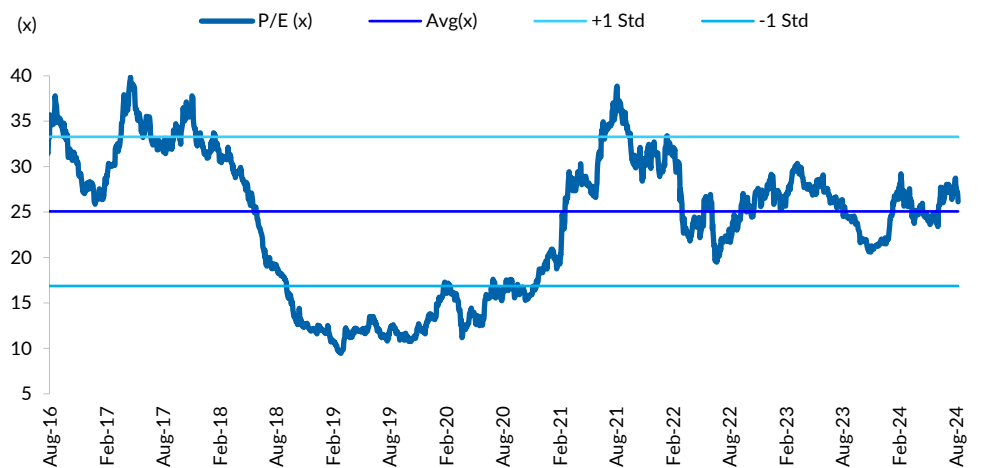
REDUCE with a TP of Rs 600/share

Given robust cashflows and reasonable capex the company is rapidly de-levering and maintaining a strong RoCE. We forecast spreads of Rs/scm 6.5/6.7 for FY25/26. The stock trades at 28.3x/24.8x FY25e/26e PER. We value it on a PER basis assigning a 24x multiple and, recommend a REDUCE with unchanged target price of Rs 600/share.

Exhibit 8: Valuation table

| Valuation | FY26E |
|--------------------|-------|
| EPS (Rs) | 25.0 |
| PER (x) | 24.0 |
| Target (PER based) | 600 |

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 |
|--------------------|---------|---------|---------|---------|---------|
| Revenue | 164,562 | 167,594 | 156,902 | 153,461 | 163,398 |
| Total Expense | 143,799 | 143,674 | 138,138 | 129,073 | 135,679 |
| Operating Profit | 20,763 | 23,920 | 18,764 | 24,388 | 27,719 |
| Other Income | 907 | 1,013 | 1,078 | 1,302 | 1,321 |
| Depreciation | 3,849 | 4,283 | 4,743 | 5,229 | 5,739 |
| EBIT | 17,821 | 20,650 | 15,098 | 20,461 | 23,301 |
| Interest | 568 | 404 | 293 | 297 | 297 |
| Extraordinary Item | (119) | - | 557 | - | - |
| PBT | 17,134 | 20,247 | 15,362 | 20,164 | 23,004 |
| Tax | 4,278 | 4,992 | 3,934 | 5,075 | 5,790 |
| PAT | 12,856 | 15,255 | 11,428 | 15,089 | 17,214 |
| Adj. PAT | 12,856 | 15,255 | 11,428 | 15,089 | 17,214 |
| Eps | 18.7 | 22.2 | 16.6 | 21.9 | 25.0 |

Exhibit 11: Balance sheet

| Y/e 31 Mar (Rs mn) | FY22 | FY23 | FY24 | FY25E | FY26E |
|-------------------------|----------|----------|---------|---------|---------|
| Equity capital | 1,377 | 1,377 | 1,377 | 1,377 | 1,377 |
| Reserves | 54,616 | 68,579 | 75,516 | 86,130 | 98,181 |
| Net worth | 55,993 | 69,956 | 76,893 | 87,507 | 99,558 |
| Debt | 5,035 | 284 | 325 | 325 | 325 |
| Deferred tax liab (net) | 8,077 | 8,461 | 9,108 | 9,108 | 9,108 |
| Capital Employed | 69,105 | 78,701 | 86,325 | 96,939 | 108,990 |
| Fixed assets | 76,235 | 83,208 | 86,808 | 93,272 | 98,745 |
| Investments | 5,442 | 5,951 | 7,488 | 7,488 | 7,488 |
| Net working capital | (12,571) | (10,458) | (7,970) | (3,820) | 2,757 |
| Inventories | 534 | 612 | 587 | 550 | 574 |
| Sundry debtors | 9,301 | 10,212 | 10,298 | 10,030 | 10,680 |
| Cash & Bank Balance | 211 | 6,810 | 9,261 | 13,211 | 19,401 |
| Other current assets | 3,831 | 2,159 | 2,142 | 2,142 | 2,142 |
| Sundry creditors | 4,456 | 7,156 | 7,002 | 6,497 | 6,784 |
| Other liabilities | 21,991 | 23,094 | 23,256 | 23,256 | 23,256 |
| Application of Funds | 69,106 | 78,701 | 86,325 | 96,939 | 108,990 |

Exhibit 12: Cash flow statement

| Y/e 31 Mar (Rs mn) | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|----------|----------|---------|----------|----------|
| PBT | 17,134 | 20,247 | 15,362 | 20,164 | 23,004 |
| Depreciation & amortization | 3,849 | 4,283 | 4,743 | 5,229 | 5,739 |
| Interest expense | 568 | 404 | 293 | 297 | 297 |
| (Inc)/Dec in working capital | (337) | (519) | (649) | - | - |
| Tax paid | (95) | 4,052 | (201) | (200) | (387) |
| Less: Interest/Dividend Income Received | (4,363) | (4,608) | (3,227) | (5,075) | (5,790) |
| Other operating Cash Flow | (139) | (78) | 19 | - | - |
| Cash flow from operating activities | 16,618 | 23,780 | 16,340 | 20,415 | 22,863 |
| Capital expenditure | (13,663) | (10,867) | (8,371) | (11,693) | (11,213) |
| Inc/(Dec) in investments | 329 | 499 | 622 | - | - |
| Add: Interest/Dividend Income Received | 398 | (45) | (1,037) | - | - |
| Cash flow from investing activities | (12,935) | (10,413) | (8,787) | (11,693) | (11,213) |
| Inc/(Dec) in share capital | - | - | - | - | - |
| Inc/(Dec) in debt | (4,378) | (5,024) | (293) | - | - |
| Interest Paid | (531) | (381) | (273) | (297) | (297) |
| Dividend Paid | (1,375) | (1,379) | (4,575) | (4,475) | (5,163) |
| Others | - | - | - | - | - |
| Cash flow from financing activities | (6,284) | (6,784) | (5,141) | (4,772) | (5,460) |
| Net cash flow | (2,602) | 6,583 | 2,413 | 3,950 | 6,190 |

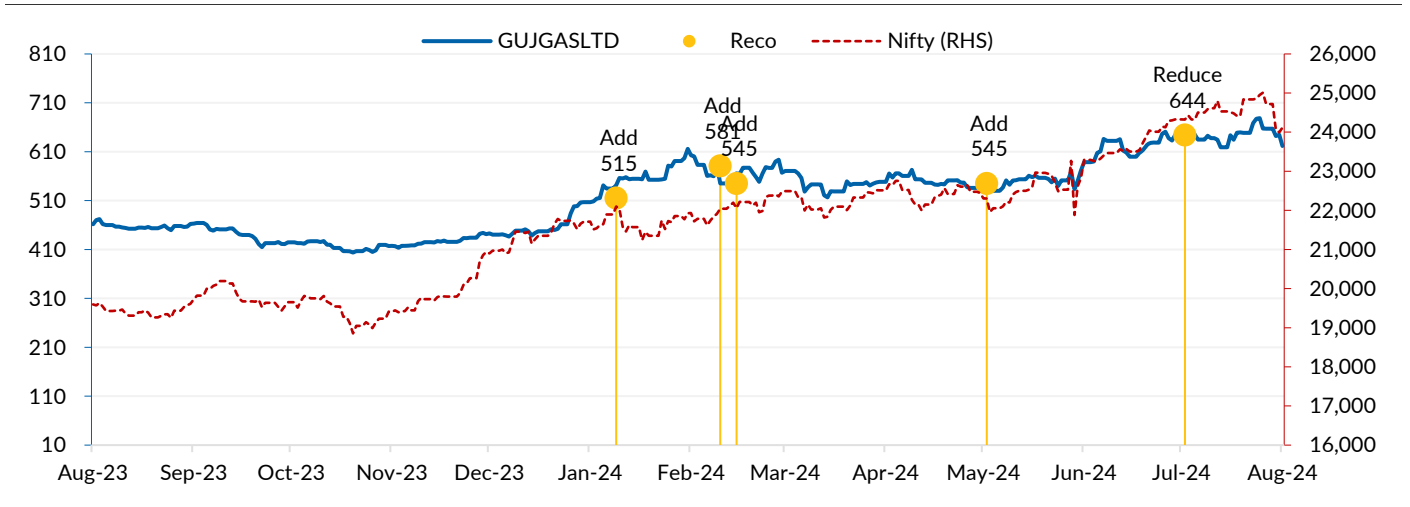
Exhibit 13: Du-pont analysis

| Y/e 31 Mar (Rs mn) | FY22 | FY23 | FY24 | FY25E | FY26E |
|------------------------|------|------|------|-------|-------|
| Tax burden (x) | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 |
| Interest burden (x) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| EBIT margin (x) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Asset turnover (x) | 1.8 | 1.6 | 1.4 | 1.3 | 1.2 |
| Financial leverage (x) | 1.8 | 1.6 | 1.5 | 1.5 | 1.4 |
| RoE (%) | 25.6 | 24.2 | 15.6 | 18.4 | 18.4 |

Exhibit 14: Ratio analysis

| Y/e 31 Mar | FY22 | FY23 | FY24 | FY25E | FY26E |
|---------------------------------|-------|-------|--------|-------|-------|
| Growth matrix (%) | | | | | |
| Revenue growth | 67.0 | 1.8 | (6.4) | (2.2) | 6.5 |
| Op profit growth | (0.6) | 15.2 | (21.6) | 30.0 | 13.7 |
| EBIT growth | (2.1) | 15.9 | (26.9) | 35.5 | 13.9 |
| Net profit growth | 0.8 | 18.7 | (25.1) | 32.0 | 14.1 |
| Profitability ratios (%) | | | | | |
| OPM | 12.6 | 14.3 | 12.0 | 15.9 | 17.0 |
| EBIT margin | 10.8 | 12.3 | 9.6 | 13.3 | 14.3 |
| Net profit margin | 7.8 | 9.1 | 7.3 | 9.8 | 10.5 |
| RoCE | 27.3 | 27.9 | 18.3 | 22.3 | 22.6 |
| RoE | 25.6 | 24.2 | 15.6 | 18.4 | 18.4 |
| RoA | 14.2 | 14.9 | 10.1 | 12.4 | 13.0 |
| Per share ratios | | | | | |
| EPS | 18.7 | 22.2 | 16.6 | 21.9 | 25.0 |
| Dividend per share | 2.0 | 6.6 | 5.7 | 6.5 | 7.5 |
| Cash EPS | 24.3 | 28.4 | 23.5 | 29.5 | 33.3 |
| Book value per share | 81.3 | 101.6 | 111.7 | 127.1 | 144.6 |
| Valuation ratios | | | | | |
| P/E | 26.9 | 20.7 | 37.4 | 28.3 | 24.8 |
| P/CEPS | 20.7 | 16.2 | 26.4 | 21.0 | 18.6 |
| P/B | 6.2 | 4.5 | 5.6 | 4.9 | 4.3 |
| EV/EBIDTA | 16.9 | 13.0 | 22.3 | 17.0 | 14.7 |
| Payout (%) | | | | | |
| Dividend payout | 10.7 | 29.8 | 34.1 | 29.7 | 30.0 |
| Tax payout | 25.0 | 24.7 | 25.6 | 25.2 | 25.2 |
| Liquidity ratios | | | | | |
| Debtor days | 20.6 | 22.2 | 24.0 | 23.9 | 23.9 |
| Inventory days | 1.3 | 1.5 | 1.6 | 1.6 | 1.5 |
| Creditor days | 11.3 | 14.8 | 18.7 | 19.1 | 17.9 |

Recommendation Tracker



STANDARD DISCLAIMER:

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