

Gujarat Gas

Estimate changes



TP change



Rating change



CMP: INR461

TP: INR535 (+16%)

Buy

Bloomberg	GUJGA IN
Equity Shares (m)	688
M.Cap.(INRb)/(USDb)	317.2 / 3.6
52-Week Range (INR)	690 / 443
1, 6, 12 Rel. Per (%)	-9/-25/-31
12M Avg Val (INR M)	837

Financials & Valuations (INR b)

Y/E March	FY25E	FY26E	FY27E
Sales	161.8	164.9	177.2
EBITDA	17.9	20.7	22.3
PAT	10.4	11.9	13.1
EPS (INR)	15.2	17.2	19.0
EPS Gr. (%)	-5.2	13.6	10.3
BV/Sh.(INR)	121.7	133.0	145.6

Ratios

Net D:E	-0.1	-0.2	-0.2
RoE (%)	13.0	13.5	13.6
RoCE (%)	18.0	18.4	18.6
Payout (%)	34.1	34.1	34.1

Valuations

P/E (x)	31.5	27.7	25.1
P/BV (x)	3.9	3.6	3.3
EV/EBITDA (x)	17.7	15.2	13.8
Div. Yield (%)	1.1	1.2	1.4
FCF Yield (%)	1.4	2.1	2.7

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	60.9	60.9	60.9
DII	21.2	21.4	21.0
FII	4.5	4.5	3.3
Others	13.4	13.2	14.8

FII Includes depository receipts

Morbi slowdown emerges as a key concern

- Gujarat Gas (GUJGA)'s EBITDA was in line, as overall volumes and EBITDA/scm came in line with our estimates. The impact of APM twin de-allocation was visible as margins contracted INR2.1/scm QoQ. Spot LNG prices have remained high, averaging ~USD14/mmbtu, over the past four months, and are expected to remain elevated in the medium term.
- Margins are likely to remain under pressure in 4QFY25 amid high spot LNG prices, as the APM shortfall is likely to be ~47-48% in 4Q (vs. 45% in 3Q). Further, with Propane vs. PNG delta at Morbi being ~INR4/scm now (in favor of Propane), management expects a ~0.5mmscmd dip in Morbi volumes in 4Q.
- GUJGA currently trades at 26.8x 1Y fwd. P/E. We reiterate our BUY rating on the stock with a TP of INR535, valuing it at 28x Dec'26E EPS.

Margin guidance downgraded; 4Q Morbi volumes under pressure

- In the 2QFY25 earnings call, management revised its EBITDA margin guidance up to INR5-INR6 per scm. However, amid the recent APM de-allocation and elevated spot LNG prices, management downgraded its margin guidance back to INR4.5-INR5.5 per scm. We retain our EBITDA/scm assumptions of INR4.3/scm for 4QFY25 and INR5.4/scm for both FY26/FY27.
- With spot LNG prices averaging above USD14/mmbtu during the last few months, GUJGA had taken an INR2/scm industrial gas price hike in 3Q. While PNG prices stood at INR47/INR49 per scm in Morbi/non-Morbi regions, propane costs were ~INR43/scm. Hence, management foresees a volume dip of ~0.5mmscmd in 4QFY25.

Other key takeaways from the conference call

- In 4QFY25, the APM shortfall shall be 47-48%, as the twin deallocation will now have an entire quarter's impact.
- Management guided a capex of INR8.5b/INR10b for FY25/FY26. In 3QFY25, GUJGA incurred a capex of INR2.2b.
- GSPC booked PAT of INR8.9b in 1HFY25, with volumes of 11-12mmscmd.
- Under the F-DODO scheme, 50 agreements were signed. Hence, more than 50 stations would be commissioned within one year. Further, 50 more agreements shall be signed in 4QFY25.

EBITDA in line; volumes rise QoQ

- In 3QFY25, GUJGA's EBITDA stood at INR3.8b, in line with our estimates (-5% YoY). Both overall volumes and EBITDA/scm came in line with our estimate at 9.5mmscmd and INR4.4, respectively. 3QFY25 showed a QoQ recovery in volume, driven by an 11% growth in the PNG I/C segment. The impact of the APM twin deallocation was visible as the margin contracted INR2.1/scm QoQ. We note that spot LNG prices were high, averaging USD13.9/mmbtu in 3Q (up 7% QoQ), and have continued to remain elevated in 4QFY25YTD, averaging USD14.1/mmbtu.

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- Revenue stood at INR41.5b (est. of INR41.2b, up 6% YoY).
- Overall volumes in 3QFY25 came in at 9.5mmcmd, in line with our estimate.
- EBITDA also came in line with our estimates, at INR3.8b. EBITDA/scm stood at INR4.4 (vs. our est. of INR4.3, down 32% QoQ).
- PAT stood at INR2.2b (est. of INR1.9b, up 1% YoY).
- The variance at the PAT level was driven by other income surpassing our estimates.
- The company has added ~38.2k new domestic customers and five new CNG stations.
- The commissioning of new industrial customers has driven a volume of ~172,000scmd.
- The company added 771km of gas pipelines during the quarter, bringing the total to ~42,000km.
- In **9MFY25**, revenue/EBITDA/PAT grew 7%/11%/17% YoY.

Valuation and view

- The company's long-term volume growth prospects remain robust, with the addition of new industrial units and expansion of existing units. It is aggressively investing in infrastructure to push industrial gas adoption in Thane rural, Ahmedabad rural, and newly acquired areas in Rajasthan.
- The stock is trading at a P/E of 26.8x FY26E and EV/EBITDA of 14.6x for FY26E.
We reiterate our BUY rating on the stock with a TP of INR535, valuing it at 28x Dec'26E EPS.

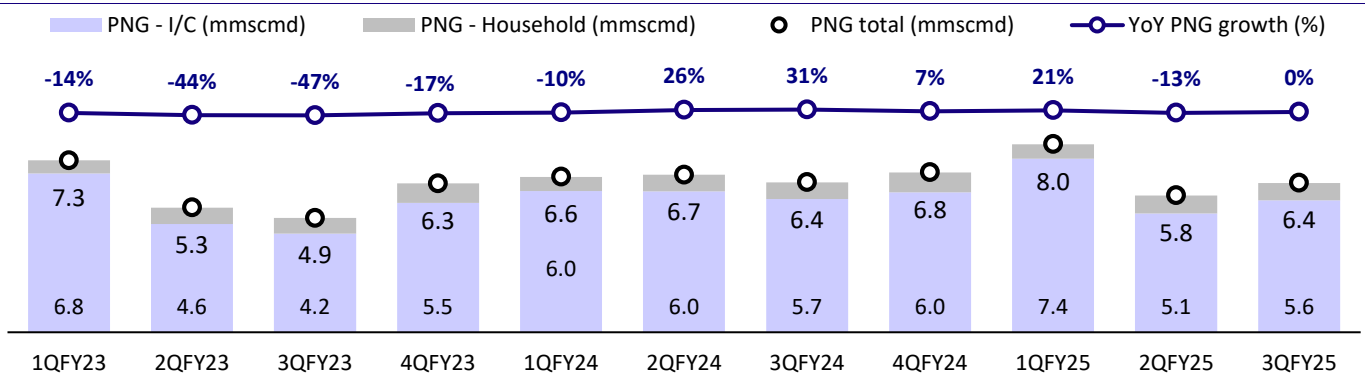
Standalone - Quarterly Earnings Model

Y/E March	FY24				FY25				FY24	FY25	FY24	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
Net Sales	37,815	38,454	39,291	41,342	44,503	37,818	41,529	37,942	156,902	161,791	41,169	1%
YoY Change (%)	-26.9	-3.3	6.6	5.2	17.7	-1.7	5.7	-8.2	-6.4	3.1	4.8	
EBITDA	3,880	4,966	4,007	5,911	5,356	5,142	3,805	3,558	18,764	17,860	3,792	0%
Margin (%)	10.3	12.9	10.2	14.3	12.0	13.6	9.2	9.4	12.0	11.0	9.2	
Depreciation	1,151	1,179	1,201	1,212	1,231	1,295	1,294	1,274	4,743	5,094	1,371	
Interest	74	78	72	69	78	80	93	82	293	332	74	
Other Income	239	298	230	311	386	386	585	303	1,078	1,659	127	
PBT before EO expense	2,894	4,007	2,964	4,940	4,433	4,152	3,002	2,506	14,805	14,093	2,474	21%
Extra-Ord expense	0	0	0	-557	0	0	0	0	-557	0	0	
PBT	2,894	4,007	2,964	5,497	4,433	4,152	3,002	2,506	15,362	14,093	2,474	21%
Tax	743	1,029	761	1,402	1,135	1,083	786	653	3,934	3,657	623	
Rate (%)	25.7	25.7	25.7	25.5	25.6	26.1	26.2	26.1	25.6	26.0	25.2	
Reported PAT	2,151	2,978	2,203	4,095	3,298	3,069	2,216	1,853	11,428	10,436	1,850	20%
Adj. PAT	2,151	2,978	2,203	3,681	3,298	3,069	2,216	1,853	11,013	10,436	1,850	20%
YoY Change (%)	-43.6	-26.3	-40.7	-0.3	53.3	3.1	0.6	-49.7	-27.8	-5.2	-16.0	
Total volume (mmcmd)	9.2	9.3	9.2	9.7	11.0	8.8	9.5	9.2	9.3	9.6	9.7	-2%
CNG	2.6	2.6	2.8	2.9	3.0	2.9	3.1	3.2	2.7	3.1	3.0	3%
PNG – Industrial/Commercial	6.0	6.0	5.7	6.0	7.4	5.1	5.6	5.3	5.9	5.8	5.9	-4%
PNG – Households	0.6	0.7	0.7	0.9	0.6	0.8	0.7	0.8	0.7	0.7	0.8	-6%
EBITDA (INR/scm)	4.6	5.8	4.8	6.7	5.4	6.4	4.4	4.3	5.5	5.1	4.3	3%

Operational Highlights

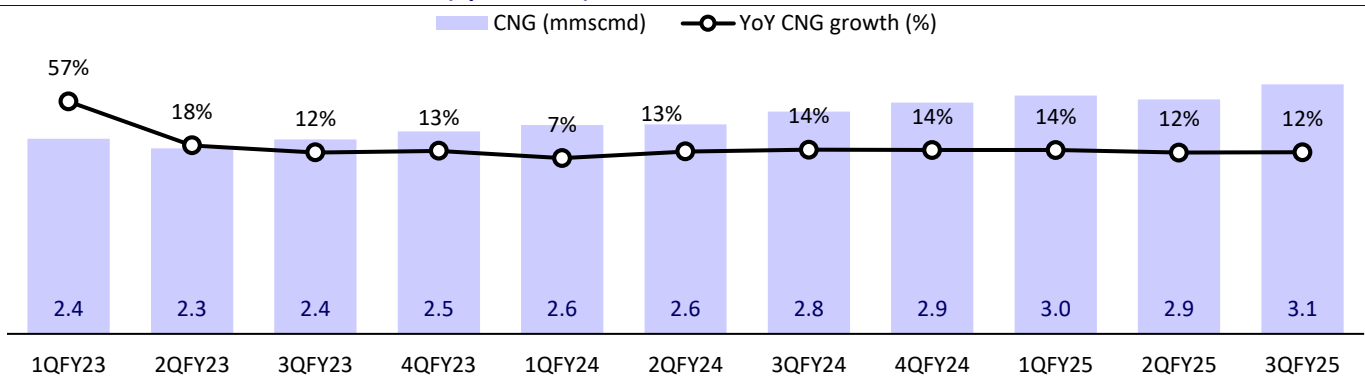
Particulars	FY23				FY24				FY25			3QFY25	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY (%)	QoQ (%)
Net sales	51,701	39,765	36,843	39,286	37,815	38,454	39,291	41,342	44,503	37,818	41,529	6%	10%
Realization (INR/scm)	58.3	56.7	54.9	49.3	45.1	44.8	46.6	46.9	44.5	47.0	47.7	2%	1%
Total raw material	43,015	30,654	28,313	30,781	30,931	30,546	32,248	31,829	35,902	29,473	34,295	6%	16%
Gas cost (INR/scm)	48.5	43.7	42.2	38.6	36.9	35.6	38.3	36.1	35.9	36.6	39.4	3%	8%
Gross margin	8,686	9,111	8,530	8,505	6,884	7,908	7,043	9,513	8,601	8,344	7,234	3%	-13%
Gross margin (INR/scm)	9.8	13.0	12.7	10.7	8.2	9.2	8.4	10.8	8.6	10.4	8.3	-1%	-20%
EBITDA	6,066	6,427	5,823	5,603	3,880	4,966	4,007	5,911	5,356	5,142	3,805	-5%	-26%
EBITDA (INR/scm)	6.8	9.2	8.7	7.0	4.6	5.8	4.8	6.7	5.4	6.4	4.4	-8%	-32%
PAT	3,811	4,039	3,713	3,692	2,151	2,978	2,203	4,095	3,298	3,069	2,216	1%	-28%
PAT (INR/scm)	4.3	5.8	5.5	4.6	2.6	3.5	2.6	4.6	3.3	3.8	2.5	-3%	-33%
Volumes													
CNG (mmscmd)	2.4	2.3	2.4	2.5	2.6	2.6	2.8	2.9	3.0	2.9	3.1	12%	6%
PNG - Household (mmscmd)	0.6	0.7	0.7	0.8	0.6	0.7	0.7	0.9	0.6	0.8	0.7	4%	-3%
PNG - I/C (mmscmd)	6.8	4.6	4.2	5.5	6.0	6.0	5.7	6.0	7.4	5.1	5.6	-1%	11%
Total (mmscmd)	9.8	7.6	7.3	8.9	9.2	9.3	9.2	9.7	11.0	8.8	9.5	3%	8%

Exhibit 1: Total PNG volumes were 6.4mmscmd (flat YoY), with I/C volumes at 5.6mmscmd (down 1% YoY)

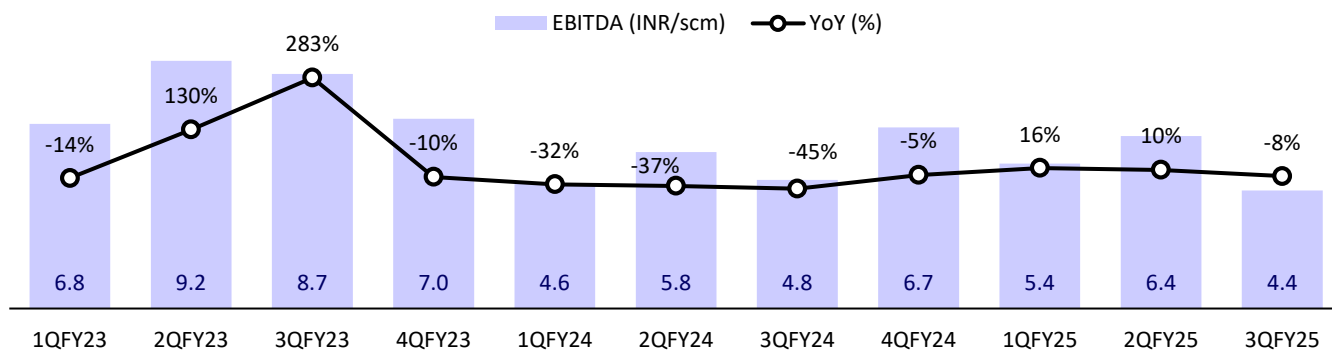


Source: Company, MOFSL

Exhibit 2: CNG volumes were 3.1mmscmd (up 12% YoY)



Source: Company, MOFSL

Exhibit 3: EBITDA/scm stood at INR4.4 (down 8% YoY)

Source: Company, MOFSL



Highlights from the management commentary

EBITDA margin guidance:

- EBITDA/scm shall be between INR4.5-INR5.5 going forward (vs. INR5-6 guided previously).

Industrial segment

- **In 3Q, average Morbi volumes 3.35mmscmd (2.86mmscmd in 2QFY25)** (current price: INR47/scm);
 - The entire Morbi market size is ~8-9mmscmd.
- In 3Q, non-Morbi volumes: 2.10mmscmd (1.88mmscmd in 3QFY24) (current price: INR49/scm)
 - In 3Q, INR2/scm increase in industrial gas prices was taken, led by elevated spot LNG prices.
- Management expects **Morbi volumes to decline QoQ (~2.75-3mmscmd in 4Q vs. 3.35mmscmd in 3Q)**.
 - **The current propane vs. NG delta is INR4/scm** (current Propane price: INR43/scm).

CNG segment

- Growth: 12% YoY increase overall, +25% YoY increase outside Gujarat
- CNG is 40%/15% cheaper than petrol/diesel.

Capex

- In 3Q, GUJGA incurred a capex of INR2.2b (9MFY25 capex stood at INR5.5b).
- INR8.5b/INR10b capex guided for FY25/FY26.

APM gas:

- 45% (D-PNG + CNG segment) APM shortfall in 3Q was fulfilled by NW gas, HPHT RIL, and Spot LNG.
 - In 4Q, the shortfall shall be similar (47-48%) as the twin de-allocation will now have an entire quarter's impact.

Gas sourcing contracts:

- No new contracts have been signed recently.
- GSPC, GUJGA's sourcing partner, is already looking for new contracts.
- Sourcing mix:
 - 2.57mmscmd was Spot LNG (price in 3Q: INR41/scm, current prices INR48/scm)
 - 1.35mmscd gas was sourced from other domestic sources (0.5mmscmd NW gas)

GSPC 1HFY25 performance:

- Volumes traded: 11-12mmscmd
- EBITDA ~INR12b, PAT INR8.9b.

F-DODO scheme:

- 50 agreements signed. Hence, 50+ stations would be commissioned within one year.
- Another 50 agreements shall be signed in 4Q.
- RoCE (%) shall increase due to the F-DODO model.

Dealer commission:

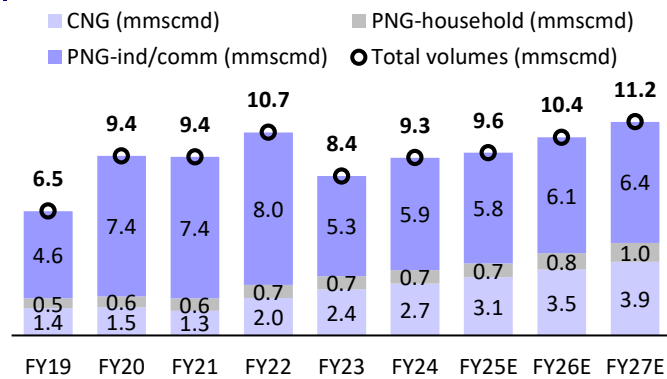
- F-DODO: INR5/kg
- Other: INR10/kg

Other highlights:

- Scheme of Amalgamation and Merger: Filing with MCA will be done next week.
- Positive growth in the domestic segment (48lakh customers added in 3Q).
- The commercial segment showed steady growth (15,500+ customers).

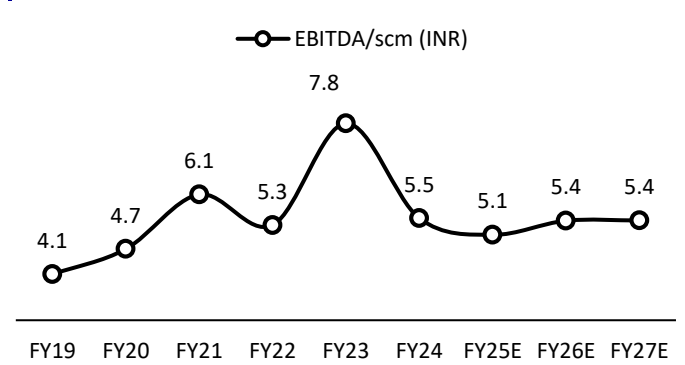
Story in charts

Exhibit 4: Volume snapshot for GUJGA



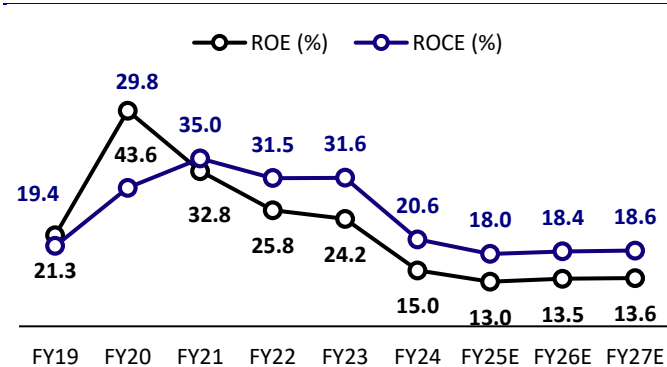
Source: Company, MOFSL

Exhibit 5: EBITDA/scm to be ~INR5.0-5.5 in FY25/26



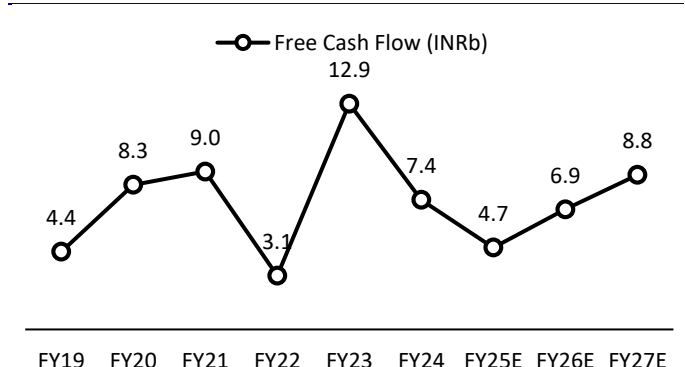
Source: Company, MOFSL

Exhibit 6: Return ratios



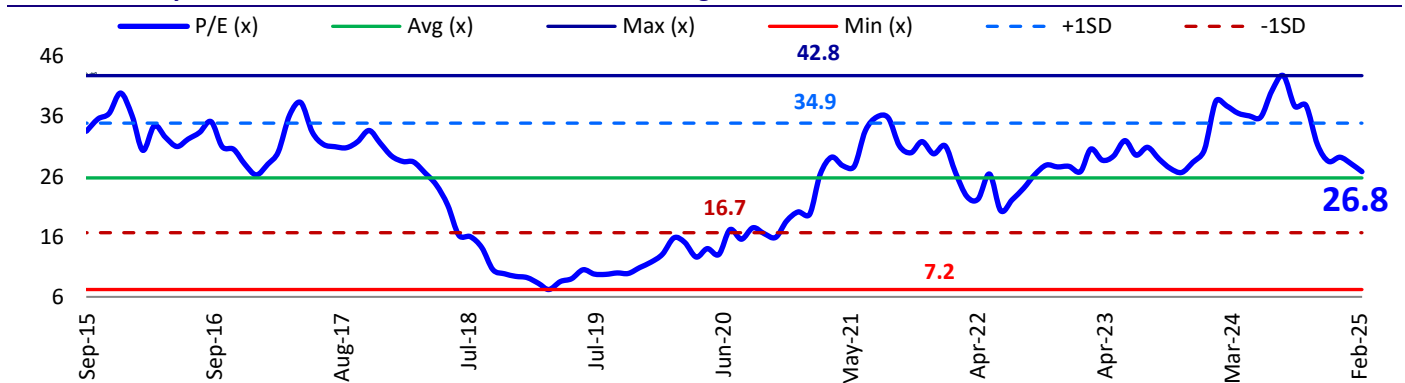
Source: Company, MOFSL

Exhibit 7: Free cash flow



Source: Company, MOFSL

Exhibit 8: One-year forward P/E trades at 26.8x vs. its LT average of 25.8x



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	167,594	156,902	161,791	164,912	177,206
Change (%)	1.8	-6.4	3.1	1.9	7.5
EBITDA	23,920	18,764	17,860	20,670	22,320
Margin (%)	14.3	12.0	11.0	12.5	12.6
Depreciation	4,283	4,743	5,094	5,375	5,626
EBIT	19,637	14,021	12,766	15,294	16,694
Int. and Finance Charges	404	293	332	305	312
Other Income	1,013	1,078	1,659	849	1,094
PBT bef. EO Exp.	20,247	14,805	14,093	15,839	17,476
EO Items	0	557	0	0	0
PBT after EO Exp.	20,247	15,362	14,093	15,839	17,476
Current Tax	4,992	3,934	3,657	3,987	4,399
Tax Rate (%)	24.7	25.6	26.0	25.2	25.2
Reported PAT	15,255	11,428	10,436	11,852	13,077
Adjusted PAT	15,255	11,013	10,436	11,852	13,077
Change (%)	17.8	-27.8	-5.2	13.6	10.3
Margin (%)	9.1	7.0	6.5	7.2	7.4

Standalone - Balance Sheet

(INR m)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	1,377	1,377	1,377	1,377	1,377
Total Reserves	68,579	75,516	82,394	90,205	98,823
Net Worth	69,956	76,893	83,770	91,581	100,200
Deferred Tax Liabilities	8,461	9,108	9,108	9,108	9,108
Total Loans	0	0	0	0	0
Capital Employed	78,417	86,000	92,878	100,689	109,307
Gross Block	104,085	113,079	116,915	121,984	128,039
Less: Accum. Deprn.	30,721	35,464	40,559	45,934	51,559
Net Fixed Assets	73,364	77,615	76,356	76,050	76,480
Capital WIP	9,831	9,180	15,344	20,275	24,220
Total Investments	317	1,364	1,364	1,364	1,364
Curr. Assets, Loans, and Adv.	25,439	28,425	31,480	35,223	41,888
Inventory	612	587	611	613	658
Account Receivables	10,212	10,298	10,619	10,824	11,631
Cash and Bank Balance	6,810	9,261	11,713	15,084	20,249
Cash balance	6,747	9,160	11,611	14,983	20,147
Bank balance	63	101	101	101	101
Loans and Advances	7,806	8,279	8,537	8,701	9,350
Curr. Liability and Prov.	30,534	30,583	31,667	32,223	34,644
Account Payables	7,156	7,002	7,296	7,312	7,851
Other Current Liabilities	22,554	22,787	23,497	23,951	25,736
Provisions	824	794	874	961	1,057
Net Current Assets	-5,095	-2,158	-187	3,000	7,244
Appl. of Funds	78,417	86,000	92,877	100,688	109,307

Financials and valuations

Ratios

Y/E March (INR)	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)					
EPS	22.2	16.0	15.2	17.2	19.0
Cash EPS	28.4	22.9	22.6	25.0	27.2
BV/Share	101.6	111.7	121.7	133.0	145.6
DPS	6.7	5.7	5.2	5.9	6.5
Payout (%)	30.0	34.1	34.1	34.1	34.1
Valuation (x)					
P/E	20.8	28.8	30.4	26.8	24.3
Cash P/E	16.2	20.1	20.4	18.4	17.0
P/BV	4.5	4.1	3.8	3.5	3.2
EV/Sales	1.9	2.0	1.9	1.8	1.7
EV/EBITDA	13.0	16.4	17.1	14.6	13.3
Dividend Yield (%)	1.4	1.2	1.1	1.3	1.4
FCF per share	18.8	10.8	6.8	10.0	12.8
Return Ratios (%)					
RoE	24.2	15.0	13.0	13.5	13.6
RoCE	31.6	20.6	18.0	18.4	18.6
Working Capital Ratios					
Asset Turnover (x)	2.1	1.8	1.7	1.6	1.6
Inventory (Days)	1	1	1	1	1
Debtor (Days)	22	24	24	24	24
Creditor (Days)	16	16	16	16	16
Working Cap. Turnover (Days)	-26	-27	-27	-27	-27
Leverage Ratio (x)					
Current Ratio	0.8	0.9	1.0	1.1	1.2
Debt/Equity ratio	-0.1	-0.1	-0.1	-0.2	-0.2

Standalone - Cash Flow Statement

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	20,247	15,362	14,093	15,839	17,476
Depreciation	4,283	4,743	5,094	5,375	5,626
Interest and Finance Charges	404	293	332	305	312
Direct Taxes Paid	-4,608	-3,227	-3,657	-3,987	-4,399
(Inc.)/Dec. in WC	4,052	-201	480	186	920
Others	-597	-630	-1,659	-849	-1,094
CF from Operations	23,780	16,340	14,683	16,869	18,841
(Inc.)/Dec. in FA	-10,867	-8,371	-10,000	-10,000	-10,000
Free Cash Flow	12,912	7,412	4,683	6,869	8,841
Others	454	584	1,659	849	1,094
CF from Investments	-10,413	-8,787	-8,341	-9,151	-8,906
Inc./Dec. in Debt	-4,779	0	0	0	0
Interest Paid	-381	-273	-332	-305	-312
Dividend Paid	-1,379	-4,575	-3,558	-4,041	-4,459
CF from Fin. Activity	-6,784	-5,141	-3,890	-4,346	-4,771
Inc./Dec. in Cash	6,583	2,413	2,452	3,372	5,164
Opening Balance	164	6,747	9,159	11,611	14,983
Closing Balance	6,747	9,159	11,611	14,983	20,147

(INR m)

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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