

Gujarat Gas

Estimate changes

TP change

Rating change



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Bloomberg	GUJGA IN
Equity Shares (m)	688
M.Cap.(INRb)/(USD\$b)	318.5 / 4
52-Week Range (INR)	787 / 404
1, 6, 12 Rel. Per (%)	-1/-31/-48
12M Avg Val (INR M)	1025

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	164.6	205.2	210.0
EBITDA	20.8	22.0	24.8
PAT	12.9	13.7	15.5
EPS (INR)	18.8	19.9	22.5
EPS Gr. (%)	2.1	5.8	13.2
BV/Sh.(INR)	81.3	99.1	119.2
Ratios			
Net D:E	0.1	-0.1	-0.1
RoE (%)	25.8	22.1	20.6
RoCE (%)	31.5	28.3	27.0
Payout (%)	12.9	10.7	10.7
Valuations			
P/E (x)	24.7	23.3	20.6
P/BV (x)	5.7	4.7	3.9
EV/EBITDA (x)	15.6	14.3	12.4
Div. Yield (%)	0.4	0.5	0.5
FCF Yield (%)	1.0	2.9	3.1

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	60.9	60.9	60.9
DII	10.0	9.5	7.9
FII	5.2	6.0	8.2
Others	23.9	23.6	23.0

FII Includes depository receipts

CMP: INR464

TP: INR586 (+26%)

Buy

Margin surprises; volumes dip, likely to remain muted ahead

- Lower-than-estimated volumes resulted in lower-than-estimated spot/short-term cargoes, thereby reducing gas cost. As a result, GUJGA reported a beat on our EBITDA estimate, with higher EBITDA/scm (at INR6.8). Volumes stood at 9.8mmscmd (Morbi: ~4.7mmscmd) in 1QFY23
- It is currently clocking volumes of ~9mmscmd. Of this, Morbi stands at 4.3mmscmd. LPG consumption at Morbi stands ~2mmscmd. Volumes are expected to decline further in Aug'22, led by plant shutdowns, amid higher inventory and weak demand.
- Spot LNG prices rose to USD42.2/mmBtu in Jul'22 v/s USD28/mmBtu in 1QFY23. However, GUJGA has contracted short-term cargoes for most of its requirements for the remainder of FY23, thereby shielding it against currently high spot LNG prices.
- Due to weak demand from Ceramic players, we lower our FY23/ FY24 volume assumption to 10mmscmd/12mmscmd and our EBITDA estimate by -8/-10%.
- GUJGA's volume growth prospects remain robust with the addition of new industrial units, expansion in existing units, and the emergence of a new Ceramic cluster at Aniyari (with a potential of ~0.5mmscmd). The Supreme Court order, which was in favor of the company for **Ahmedabad rural, offers prospects of 0.8-1.2mmscmd over the next two-to-three years.**
- We maintain our Buy rating on the stock and arrive at our TP of INR586 (at 26x FY24E EPS). Any underperformance in terms of EBITDA/scm or volume growth v/s our projection can pose a key risk for GUJGA.

Beat led by higher EBITDA/scm (at INR6.8)

- EBITDA/PAT fell 16%/20% YoY to INR6b/INR3.8b, 16%/19% ahead of our estimate.
- Volumes stood at 9.8mmscmd, 7% below our estimate.
- The company is currently flowing volumes of ~9mmscmd.
- While volumes at Morbi stood at 4.7mmscmd in 1QFY23, it is currently at 4.3mmscmd. Volumes are expected to remain muted due to higher inventory and weak demand from Ceramic players.
- CNG volumes were in line at 2.4mmscmd (up 57% YoY and 9% QoQ) – its **highest ever. PNG I/C volumes** fell 14% YoY (flat QoQ) to 6.8mmscmd (8% below our estimate). **PNG domestic** volumes stood at 0.6mmscmd.
- EBITDA/scm stood at INR6.8 (est. INR5.5) in 1QFY23. Gross margin stood at INR9.8/scm, down from INR10.7/scm in 4QFY22.

Swarnendu Bhushan - Research Analyst (Swarnendu.Bhushan@MotilalOswal.com)

Shubham Mittal - Research Analyst (Shubham.Mittal@MotilalOswal.com)

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Valuation and view – maintain our Buy rating

- GUJGA added ~35,000 domestic customers, 10 CNG stations, 131 Commercial customers, and 63 Industrial customers in 1QFY23.
- With the infrastructure in place, it will be the biggest beneficiary of any directive on Green Tax by MoRHT (refer [our report](#)) as Gujarat has no government directive on the use of CNG yet.
- The transfer of the Amritsar and Bhatinda GAs (for INR1.54b) to GUJGA from GSPL had been completed in Nov'21. Bhatinda has a huge potential for Industrial gas consumption.
- GUJGA has the best RoCE profile at 25-30%. We expect a FCF generation of ~INR19b over FY23-24. The company is likely to turn net cash in FY23, despite capex plans of INR20b over FY23-24E.
- We maintain our Buy valuing on the stock and arrive at our TP of INR586 (at 26x FY24E EPS).

Standalone - Quarterly Earning Model

(INR m)

Y/E March	FY22				FY23				FY22	FY23	FY23	Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE		(%)
Net Sales	30,109	36,249	51,444	46,694	51,701	45,547	53,158	54,837	1,64,562	2,05,243	57,153	-10%
YoY Change (%)	178.0	44.2	81.6	36.0	71.7	25.7	3.3	17.4	66.8	24.7	89.8	
EBITDA	7,229	4,190	2,375	6,974	6,066	4,981	5,272	5,726	20,763	22,045	5,228	16%
Margin (%)	24.0	11.6	4.6	14.9	11.7	10.9	9.9	10.4	12.6	10.7	9.1	
Depreciation	905	947	969	1,021	1,032	1,095	1,100	1,057	3,849	4,284	1,071	
Interest	159	124	140	145	136	96	98	51	568	381	83	
Other Income	213	178	353	176	190	247	248	239	907	924	224	
PBT	6,377	3,297	1,619	5,867	5,089	4,037	4,322	4,857	17,134	18,304	4,298	18%
Tax	1,616	843	400	1,424	1,278	1,017	1,089	1,223	4,278	4,607	1,083	
Rate (%)	25.3	25.6	24.7	24.3	25.1	25.2	25.2	25.2	25.0	25.2	25.2	
Reported PAT	4,762	2,454	1,219	4,443	3,811	3,020	3,233	3,633	12,856	13,697	3,215	19%
Adj. PAT	4,762	2,454	1,219	4,533	3,811	3,020	3,233	3,633	12,946	13,697	3,215	19%
YoY Change (%)	711.7	-48.3	-68.8	30.5	-20.0	23.1	165.1	-19.8	2.1	5.8	-32.5	
Total volume (mmscmd)	10.0	11.4	11.4	9.9	9.8	9.1	10.1	11.1	10.7	10.0	10.5	-7%
CNG	1.5	2.0	2.2	2.2	2.4	2.5	2.7	2.8	2.0	2.6	2.3	4%
PNG – Industrial/Commercial	7.9	8.8	8.6	6.8	6.8	6.0	6.9	7.8	8.0	6.8	7.3	-8%
PNG – Households	0.6	0.6	0.7	0.8	0.6	0.6	0.6	0.6	0.7	0.6	0.8	-35%
EBITDA (INR/scm)	7.9	4.0	2.3	7.8	6.8	6.0	5.7	5.7	5.5	6.0	5.5	25%

Operational Highlights

INR m	FY20				FY21				FY22				FY23	1QFY23	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	YoY (%)	QoQ (%)
Net sales	26,146	25,129	25,062	26,666	10,829	25,130	28,331	34,342	30,109	36,249	51,444	46,694	51,701	72	11
Realization (INR/scm)	31.4	29.3	29.2	29.5	28.7	27.7	26.9	31.4	33.1	34.5	49.1	52.5	58.3	76	11
Total raw material	19,521	19,551	19,482	20,263	7,292	15,876	20,146	26,653	20,609	29,887	46,714	37,197	43,015	109	16
Gas cost (INR/scm)	23.4	22.8	22.7	22.4	19.3	17.5	19.1	24.4	22.6	28.5	44.6	41.8	48.5	114	16
Gross margin	6,626	5,578	5,580	6,403	3,537	9,254	8,185	7,689	9,500	6,361	4,731	9,497	8,686	-9	-9
Gross margin (INR/scm)	8.0	6.5	6.5	7.1	9.4	10.2	7.8	7.0	10.4	6.1	4.5	10.7	9.8	-6	-8
EBITDA	4,665	3,706	3,705	4,267	1,857	7,330	6,145	5,527	7,229	4,190	2,375	6,974	6,066	-16	-13
EBITDA (INR/scm)	5.6	4.3	4.3	4.7	4.9	8.1	5.8	5.1	7.9	4.0	2.3	7.8	6.8	-14	-13
PAT	2,337	5,173	1,965	2,458	587	4,748	3,908	3,474	4,762	2,454	1,219	4,443	3,811	-20	-14
PAT (INR/scm)	2.8	6.0	2.3	2.7	1.6	5.2	3.7	3.2	5.2	2.3	1.2	5.0	4.3	-18	-14
Volumes															
CNG (MMSCMD)	1.5	1.5	1.5	1.5	0.7	1.3	1.5	1.7	1.5	2.0	2.2	2.2	2.4	57	9
PNG - Household (MMSCMD)	0.5	0.5	0.6	0.7	0.6	0.6	0.6	0.7	0.6	0.6	0.7	0.8	0.6	-7	-33
PNG - Industrial (MMSCMD)	7.2	7.3	7.2	7.8	2.9	7.9	9.3	9.7	7.9	8.8	8.6	6.8	6.8	-14	-1
Total (MMSCMD)	9.2	9.3	9.3	9.9	4.1	9.8	11.4	12.1	10.0	11.4	11.4	9.9	9.8	-3	-1

Exhibit 1: Total domestic PNG volumes fell 7% YoY, with Industrial/Commercial down 14% YoY

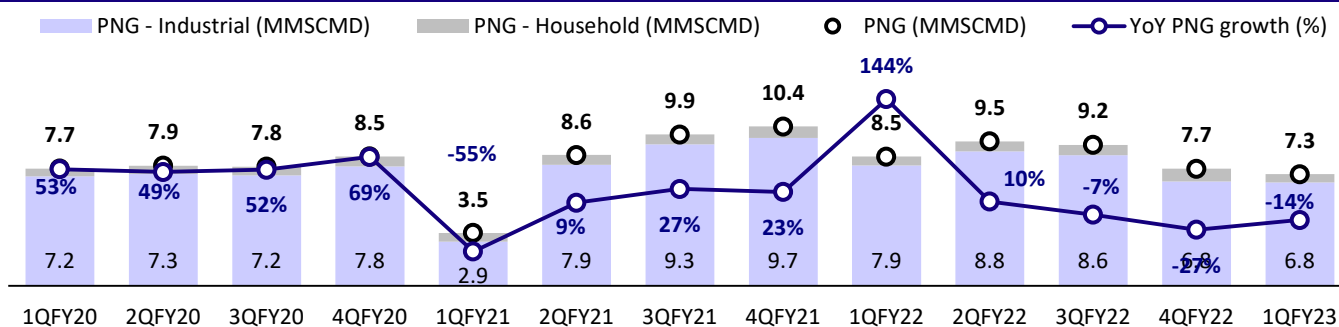


Exhibit 2: CNG volumes rose 57% YoY and 9% QoQ – recording the highest ever volumes

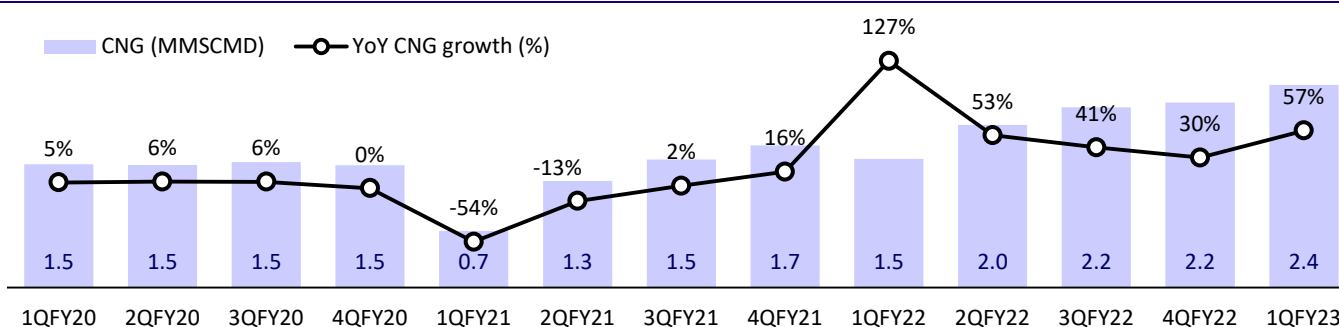
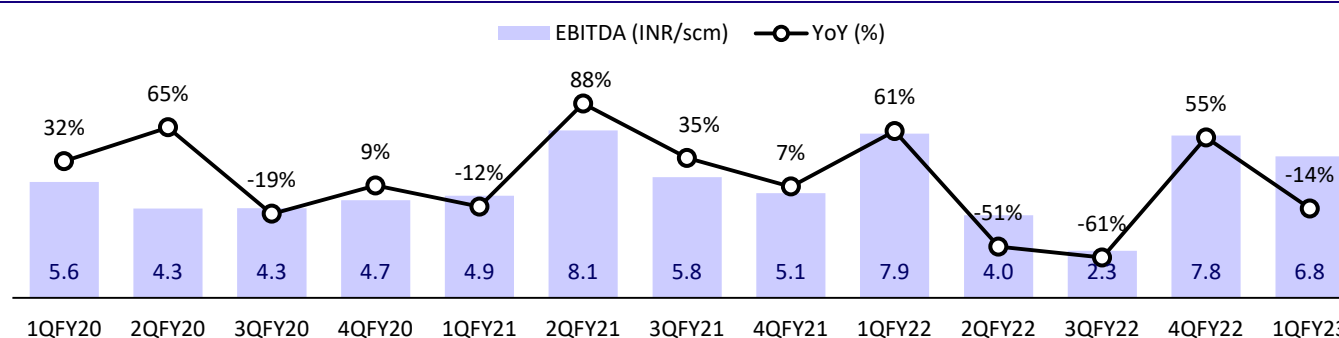


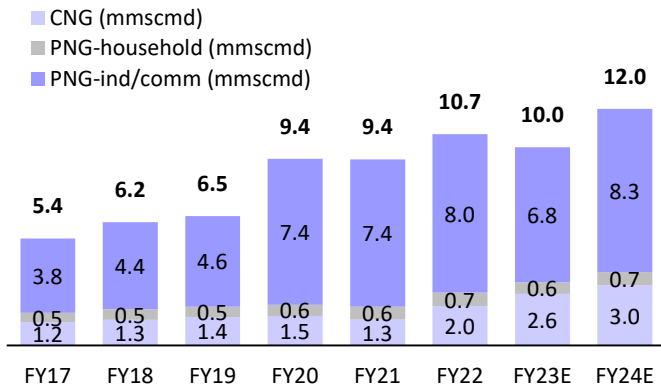
Exhibit 3: EBITDA/scm at INR6.8 in 1QFY23



Source: Company, MOFSL

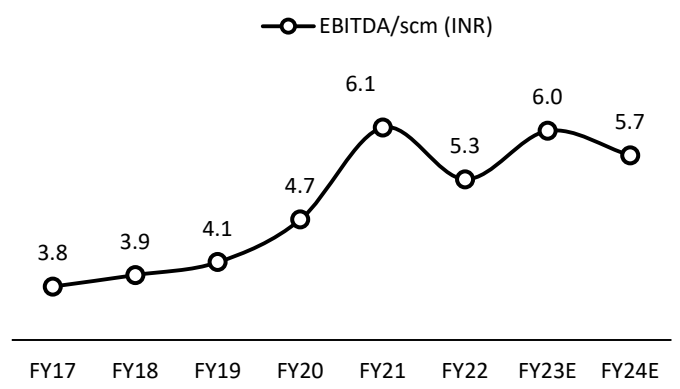
Story in charts

Exhibit 4: PNG Industrial/Commercial to boost volume growth



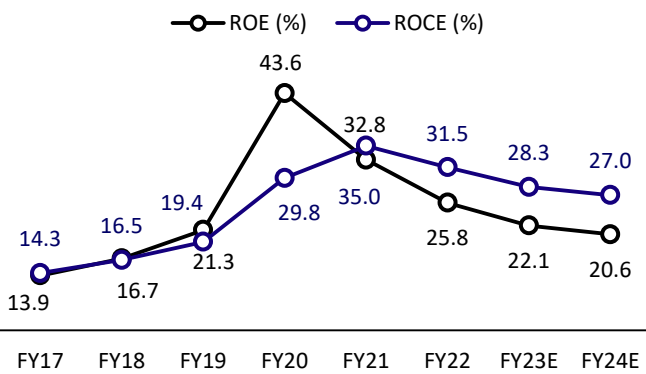
Source: Company, MOFSL

Exhibit 5: EBITDA/scm to normalize ~INR5.7-6.0 in FY23-24



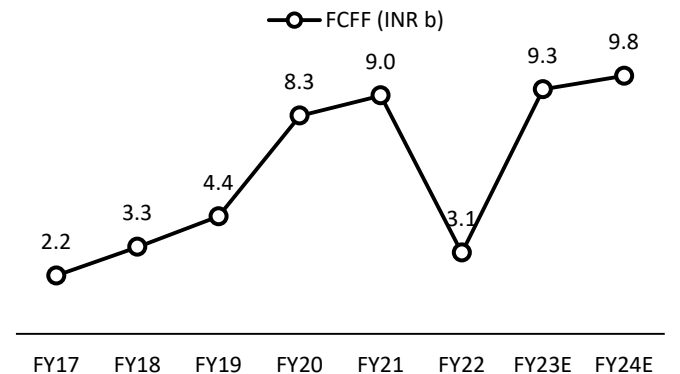
Source: Company, MOFSL

Exhibit 6: Return ratios



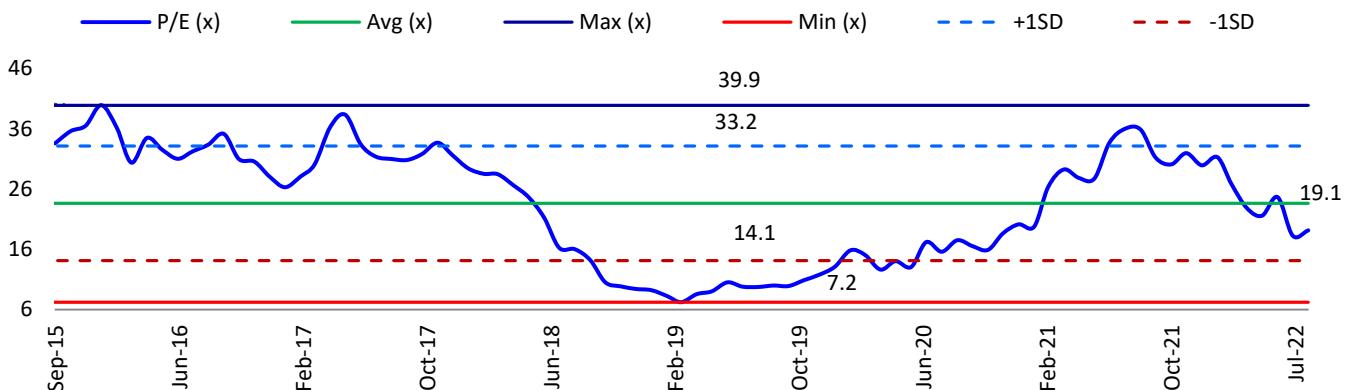
Source: Company, MOFSL

Exhibit 7: Free cash flow



Source: Company, MOFSL

Exhibit 8: One-year forward GUJGA P/E trades at 19.1x v/s its LT average of 23.6x



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	50,926	61,743	77,544	1,03,003	98,664	1,64,562	2,05,243	2,10,048
Change (%)	-16.6	21.2	25.6	32.8	-4.2	66.8	24.7	2.3
EBITDA	7,433	8,951	9,846	16,343	20,842	20,763	22,045	24,764
Margin (%)	14.6	14.5	12.7	15.9	21.1	12.6	10.7	11.8
Depreciation	2,573	2,718	2,880	3,180	3,436	3,849	4,284	4,495
EBIT	4,860	6,232	6,966	13,163	17,406	16,914	17,762	20,269
Int. and Finance Charges	2,090	1,961	1,962	1,922	1,168	568	381	256
Other Income	263	357	1,113	837	714	907	924	708
PBT bef. EO Exp.	3,033	4,628	6,117	12,078	16,953	17,253	18,304	20,721
EO Items	0	0	-179	0	0	-119	0	0
PBT after EO Exp.	3,033	4,628	5,939	12,078	16,953	17,134	18,304	20,721
Current Tax	838	1,715	1,768	145	4,272	4,278	4,607	5,215
Tax Rate (%)	27.6	37.0	29.8	1.2	25.2	25.0	25.2	25.2
Reported PAT	2,195	2,914	4,170	11,933	12,682	12,856	13,697	15,506
Adjusted PAT	2,195	2,914	4,296	11,933	12,682	12,946	13,697	15,506
Change (%)	6.3	32.7	47.4	177.8	6.3	2.1	5.8	13.2
Margin (%)	4.3	4.7	5.5	11.6	12.9	7.9	6.7	7.4

Standalone - Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	1,377	1,377	1,377	1,377	1,377	1,377	1,377	1,377
Total Reserves	15,072	17,087	20,463	31,529	43,110	54,616	66,847	80,692
Net Worth	16,449	18,464	21,840	32,906	44,486	55,993	68,223	82,068
Deferred Tax Liabilities	9,849	10,455	10,816	8,005	7,925	8,077	8,077	8,077
Total Loans	22,987	22,143	20,892	18,344	7,700	4,811	2,811	2,311
Capital Employed	49,285	51,062	53,547	59,255	60,111	68,881	79,111	92,456
Gross Block	59,393	64,021	68,861	73,531	81,252	90,156	94,090	99,238
Less: Accum. Deprn.	10,376	13,094	15,974	19,154	22,590	26,439	30,722	35,217
Net Fixed Assets	49,017	50,927	52,887	54,377	58,662	63,717	63,368	64,020
Capital WIP	5,071	4,797	4,902	5,708	7,088	9,672	15,738	20,590
Total Investments	683	161	160	1,633	1,926	2,806	2,806	2,806
Curr. Assets, Loans, and Adv.	8,714	10,449	13,326	17,255	17,411	19,358	30,458	39,081
Inventory	417	568	694	463	525	534	680	688
Account Receivables	3,475	3,917	5,103	5,101	7,747	9,301	11,600	11,871
Cash and Bank Balance	608	1,363	3,092	6,919	3,189	180	6,524	14,595
...of which cash	175	931	944	5,482	2,767	164	6,509	14,580
Bank balance	433	432	2,148	1,447	422	15	15	15
Loans and Advances	4,214	4,601	4,437	4,772	5,950	9,344	11,654	11,927
Curr. Liability and Prov.	14,199	15,271	17,727	19,718	24,976	26,672	33,257	34,041
Account Payables	3,140	2,931	3,523	3,670	4,473	4,456	5,677	5,742
Other Current Liabilities	10,660	11,957	13,724	15,015	19,740	21,349	26,626	27,250
Provisions	399	383	480	1,033	763	867	954	1,049
Net Current Assets	-5,485	-4,822	-4,402	-2,464	-7,565	-7,314	-2,799	5,040
Appl. of Funds	49,285	51,062	53,548	59,255	60,111	68,881	79,111	92,456

Financials and valuations

Ratios

Y/E March (INR)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	3.2	4.2	6.2	17.3	18.4	18.8	19.9	22.5
Cash EPS	6.9	8.2	10.4	22.0	23.4	24.4	26.1	29.1
BV/Share	23.9	26.8	31.7	47.8	64.6	81.3	99.1	119.2
DPS	0.6	0.8	1.0	1.3	2.0	2.0	2.1	2.4
Payout (%)	22.6	22.8	19.9	8.7	13.1	12.9	10.7	10.7
Valuation (x)								
P/E	145.5	109.6	74.4	26.8	25.2	24.7	23.3	20.6
Cash P/E	67.0	56.7	44.5	21.1	19.8	19.0	17.8	16.0
P/BV	19.4	17.3	14.6	9.7	7.2	5.7	4.7	3.9
EV/Sales	6.7	5.5	4.3	3.2	3.3	2.0	1.5	1.5
EV/EBITDA	46.0	38.0	34.2	20.2	15.5	15.6	14.3	12.4
Dividend Yield (%)	0.1	0.2	0.2	0.3	0.4	0.4	0.5	0.5
FCF per share	3.2	4.8	6.5	12.0	13.1	4.5	13.5	14.2
Return Ratios (%)								
RoE	13.9	16.7	21.3	43.6	32.8	25.8	22.1	20.6
RoCE	14.3	16.5	19.4	29.8	35.0	31.5	28.3	27.0
Working Capital Ratios								
Asset Turnover (x)	1.0	1.2	1.4	1.7	1.6	2.4	2.6	2.3
Inventory (Days)	3	3	3	2	2	1	1	1
Debtor (Days)	25	23	24	18	29	21	21	21
Creditor (Days)	23	17	17	13	17	10	10	10
Working Cap. Turnover (Days)	-44	-37	-35	-33	-40	-17	-17	-17
Leverage Ratio (x)								
Current Ratio	0.6	0.7	0.8	0.9	0.7	0.7	0.9	1.1
Debt/Equity ratio	1.4	1.1	0.8	0.3	0.1	0.1	-0.1	-0.1

Standalone - Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
(INR m)								
OP/(Loss) before Tax	3,033	4,628	5,939	12,078	16,953	17,134	18,304	20,721
Depreciation	2,573	2,718	2,880	3,180	3,436	3,849	4,284	4,495
Interest and Finance Charges	2,090	1,961	1,962	1,922	1,168	568	381	256
Direct Taxes Paid	-489	-1,040	0	-2,801	-4,166	-4,363	-4,607	-5,215
(Inc.)/Dec. in WC	-118	-231	-288	413	-437	-95	1,830	231
Others	-80	-190	-849	-571	-365	-476	-924	-708
CF from Operations	7,010	7,847	9,644	14,220	16,588	16,617	19,268	19,779
(Inc.)/Dec. in FA	-4,805	-4,555	-5,376	-5,956	-7,556	-13,663	-10,000	-10,000
Free Cash Flow	2,205	3,292	4,447	8,265	9,033	3,073	9,268	9,779
Others	296	198	-761	1,287	1,432	728	924	708
CF from Investments	-4,509	-4,357	-6,137	-4,668	-6,124	-12,935	-9,076	-9,292
Inc./(Dec.) in Debt	176	-248	-1,139	-2,149	-11,016	-4,193	-2,000	-500
Interest Paid	-2,316	-1,986	-1,947	-1,864	-1,165	-531	-381	-256
Dividend Paid	-414	-499	-408	-837	-863	-1,375	-1,467	-1,660
CF from Fin. Activity	-2,553	-2,733	-3,494	-5,015	-13,179	-6,284	-3,848	-2,417
Inc./Dec. in Cash	-52	757	13	4,537	-2,714	-2,602	6,344	8,071
Opening Balance	228	176	933	945	5,482	2,767	165	6,509
Closing Balance	176	933	945	5,482	2,767	165	6,509	14,580

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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