

04 August 2023

India | Equity Research | Q1FY24 result review

Gujarat Gas

Oil & Gas

To invest INR 1bn in GSPC LNG for long-term advantages in transportation costs, loading access

Gujarat Gas (GUJGA) has delivered a weak Q1FY24, with 36% YoY dip in EBITDA/ 44% dip in PAT to INR 3.9bn/INR 2.2bn, missing I-Sec estimates of EBITDA/PAT of INR 7/4.6bn, respectively. The miss was due to a 5% YoY dip in volumes and a sharp 32% dip in EBITDA/scm. The drop in margins is despite the 24% YoY decline in blended gas costs, as the pressure from declining propane prices has driven a 23% YoY dip in average sales realisations, while opex/scm has also risen 13% YoY. GUJGA also announced an investment of INR 1bn in GSPC LNG which owns the 5mtpa Mundra LNG regas terminal for a 7.87% equity stake. Management has guided long-term advantages in transportation costs and loading access as key strategic reasons for the investment, but we remain cautious on medium-term prospects of the company on both volumes and margins. **HOLD** rating stays (refer our detailed note dated July 12, 2023 [here](#)).

Chasing volumes may be a risky bet in a weak pricing environment

The sustained decline in LPG prices (hence, propane prices at Morbi) is the major driver of volume pressure for GUJGA over the next 12-18 months. We believe while the management is keen on prioritising volumes, pricing may remain constrained till H2 post which some respite may be seen due to higher propane. Our revised estimates factor in ~9.7mmscmd volumes for FY24E and 10.6mmscmd for FY25E, with Morbi volumes likely to remain rangebound in 4.2-4.5mmscmd range for FY24E vs ~3.2 mmscmd in FY23 and ~6.0mmscmd in FY22.

FY24E price mix of propane to gas improving, but margin guidance is muted

Extrapolating the current trend in LPG prices (LPG prices have declined to USD 400/t for Aug'23 vs USD 610/t six months ago and are likely to only gradually ramp up to USD 550/t by Dec'23) to the next 12-18 months, equivalent propane prices for the key region of Morbi (44% of GUJGA volumes) may remain at <INR 44/scm levels, despite the recent duty increase for propane imports. This implies there is not much leeway for GUJGA to increase prices for Morbi region from the current levels of INR 38.6/scm, given spot LNG prices may rise from current levels of USD 12-13/MMBtu to USD 15-16/MMBtu for H2FY24E. Management's guidance of EBITDA/scm of INR 4.5-5.5/scm underscores that fact and this has majorly led to our downward revision for FY24E/25E earnings.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	1,64,562	1,67,594	1,63,996	2,02,796
EBITDA	20,763	23,920	18,542	21,069
EBITDA %	12.6	14.3	11.3	10.4
Net Profit	12,947	15,255	10,964	12,427
EPS (INR)	18.8	22.2	15.9	18.1
EPS % Chg YoY	1.5	17.8	(28.1)	13.3
P/E (x)	24.2	20.5	28.6	25.2
EV/EBITDA (x)	15.2	12.6	16.2	14.0
RoCE (Pre-tax) (%)	29.3	29.3	18.3	18.9
RoE (%)	25.7	24.2	14.8	15.0

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Market Data

Market Cap (INR)	313bn
Market Cap (USD)	3,787mn
Bloomberg Code	GUJGA IN
Reuters Code	GGAS.BO
52-week Range (INR)	539 /430
Free Float (%)	25.0
ADTV-3M (mn) (USD)	8.4

Price Performance (%)	3m	6m	12m
Absolute	(3.6)	(3.1)	(1.3)
Relative to Sensex	7.4	8.2	13.2

ESG Disclosure	2021	2022	Change
ESG score	28.4	28.4	-
Environment	1.6	1.6	-
Social	17.4	17.4	-
Governance	66.1	66.1	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(3.0)	(1.3)
EBITDA	(14.2)	(20.6)
EPS	(17.3)	(24.7)

Previous Reports

12-07-2023: [Company update](#)

12-05-2023: [Q4FY23 results review](#)

The GSPC LNG acquisition appears cheap, but brings limited strategic benefits, in our view

The Board has approved equity investment of INR 1bn in equity shares of GSPC LNG (operating company of 5mtpa Mundra LNG regas terminal). GUJGA's stake would be 7.87% post the acquisition. At current prices, PLNG with ~19mt of effective operational capacity (17.5mt Dahej, and offtake restricted capacity of ~1.5mt at Kochi) has an equity valuation of INR 337.5bn (the company has negligible debt). With a metric of like for like capacity (5mt to ~19mt), implied value for GSPC LNG comes to ~INR 87.7bn, with the stake bought by GUJGA implying a value of INR 5bn vs INR 1bn paid. However, we note that as per the FY22 annual report, the company has outsized debt of INR 29.6bn, which makes like-for-like comparison impossible. Also, operations for the terminal seem to be at a nascent stage (FY22 revenue was only INR 1.5bn, with net loss of INR 2.8bn), hence, the apparent valuation benefit for this stake purchase may be illusory.

Management has pointed to two key benefits of this stake buy: i) Ability to reduce logistics cost of LNG being supplied to Morbi as it can directly transport LNG from Mundra now and ii) access to loading and storage facilities of the terminal to service other segments such as fleet operators of long haul vehicles as the scale becomes material. However, we remain cautious with the operational scale of this terminal at sub-optimal levels as of now. While absolute contribution from GUJGA side is not that material (annual operating cashflow over FY24-25E estimated at INR 36bn, annual core capex at INR 14bn), we would be wary of any additional capital contribution required by GSPC LNG to de-leverage its balance sheet till the terminal attains breakeven utilisation.

Valuations are not cheap, risk reward not in favour; reiterate HOLD

Despite the recent 4% fall in the stock price (last 3months), GUJGA does not present a compelling risk-reward ratio, in our view. We have taken cognisance of the weakness in operating environment and have revised our FY24/25E EPS estimates down by 17.3/24.7%, respectively, to factor in lower margins. Consequently, long term volume growth and margin assumptions also see a downgrade, leading to a reduction in TP to INR 445/sh (from INR 494/sh). Reiterate HOLD.

Key upside risks: i) Sharper recovery in LPG (propane) prices, ii) faster execution of expansion plans in new areas, iii) sharp drop in LNG prices.

Key downside risks: i) Longer sustained weakness in propane prices, ii) slower ramp up of volumes from new areas, iii) sudden spike in spot LNG prices.

Key takeaways from Q1FY24 conference call

- In Q1, GUJGA added 46K new domestic customers, taking total connection to 1.9mn households. It has ~4,300 industrial customers and ~14,000 commercial customers as of Q1FY24. The company has a cumulative 36,000km pipeline network as on date .
- GUJGA has added 169 CNG stations in new geographic areas (including MP, Haryana and Rajasthan). It has doubled its CNG stations from 400 to 800 in the last 3 years.
- With regards to propane prices, in Q1 import duty on propane prices increased to 19.25% from 2.75%. Propane future prices Sep'23 onwards suggest an upward trajectory and should help improve the price differential between gas and propane, helping boost margins over H2FY24E. Current equivalent price of propane is INR 34-35/scm vs GUJGA Morbi industrial price at INR 38.5/scm.

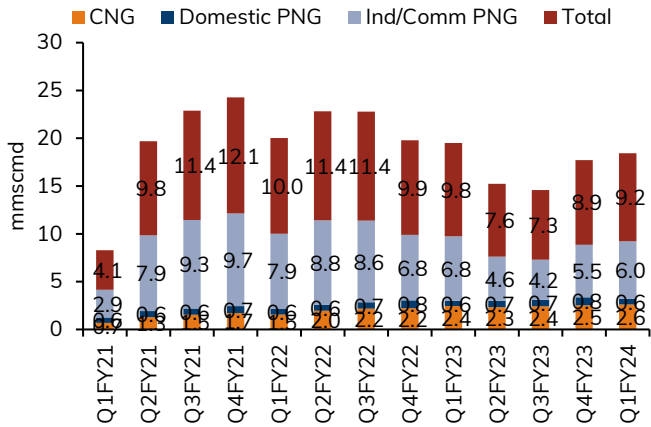
- Management has guided long-term EBITDA guidance of INR 4.5-5/scm (FY21-23 average at INR 6.3/scm).
- Total volume potential for Morbi is around 8.5mmscmd (gas equivalent demand) with current consumption of 7-7.5 mmscmd, out of which, propane consumption is 3-3.5 mmscmd equivalent and 4 mmscmd gas is being supplied by GUJGA.
- Management has guided that Morbi volume is likely to reach 5mmscmd in H2FY24, supported by higher price competitiveness of its gas price vs propane price as winter sets in for CY23.
- Current non-Morbi industrial volume stands at ~2.1mmscmd. Growth in non-Morbi industrial should come from Thane rural area (Palghar and Virar- Vasai), Ahmedabad rural area and Rajasthan GA.
- Current volumes from new GA from CNG and Dom PNG is ~0.5-0.6mmscmd and may grow to ~1mmscmd by FY25. Thane's current volumes have already reached 0.1mmscmd with industrial volume potential of 0.5-0.6mmscmd. Rajasthan's Sirohi and Jalore are mostly CNG and Dom PNG market with current volume of 0.03mmscmd.
- GUJGA's total CNG vehicle base is 0.5-0.6mn, 0.2-0.3mn is three wheeler and 22K is LCV, MHCV and buses taking the total base to 0.85mn. The company is currently seeing vehicle additions of ~30k per quarter.
- Shortage of APM gas supply to priority sector was 10% during Q1FY24. The company has LT volume tie up with Ras gas – 1mmscmd, BG contract of 2-2.5mmscmd (to expire in FY25) and RIL of 0.7mmscmd. Rajasthan gas is a flexible contract and it procures as per requirement.
- Pricing differential of Morbi and non-Morbi industrial was INR 1.8/scm in the past; however, now the differential would be ~INR 8-10/scm depending on an alternative fuel use and the purchasing power of customers in the respective non-Morbi areas.
- The company has guided capex of INR 10-12bn p.a for the next 3 years with capex allocation equally divided for new GA, existing GA and building CNG infrastructure like spur pipeline.
- It plans to convert the existing daughter-booster CNG station to online in FY24 with additional new 60-70 CNG stations to be added each year for FY24 and FY25.
- During the quarter, the Board approved an investment of INR 1bn into GSPC LNG for 7.87% stake. GSPC LNG operates 5mt of LNG terminal at Mundra port. GSPC LNG is raising equity of INR 12-13bn with Gujarat Maritime Board and Gujarat government being other major investors.

Exhibit 1: Q1FY24 result snapshot

Particulars (INRm)	Q1FY24	Q1FY23	YoY chg %	Q4FY23	QoQ chg %
Net Sales	37,815	51,701	(26.9)	39,286	(3.7)
EBITDA	3,880	6,066	(36.0)	5,603	(30.8)
Other income	239	190	25.7	320	(25.4)
PAT	2,151	3,811	(43.6)	3,694	(41.8)
Adj PAT	2,151	3,811	(43.6)	3,694	(41.8)
Volumes (mmscmd)	9.2	9.8	(5.4)	8.9	4.1
CNG	2.6	2.4	7.0	2.5	3.2
Residential PNG	0.6	0.6	9.1	0.8	(27.7)
Industrial/Commercial	6.0	6.8	(11.1)	5.5	9.3
Gross margin (INR/scm)	8.2	9.8	(16.8)	10.6	(23.1)
EBITDA margin (INR/scm)	4.6	6.8	(32.4)	7.0	(34.2)
EPS	3.1	5.5	(43.6)	5.4	(41.8)

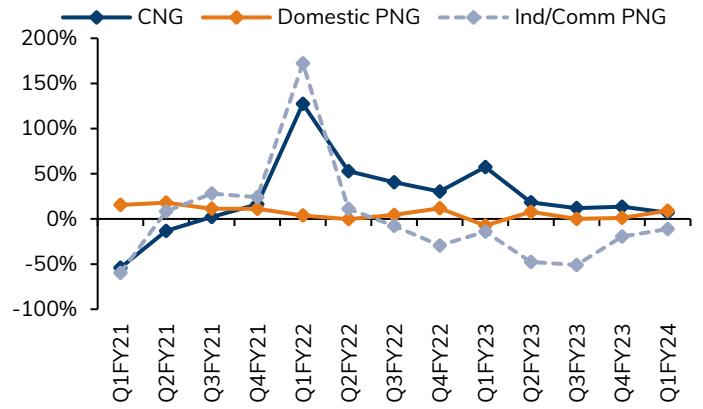
Source: Company data, I-Sec research

Exhibit 2: Volumes dipped YoY, but improved QoQ



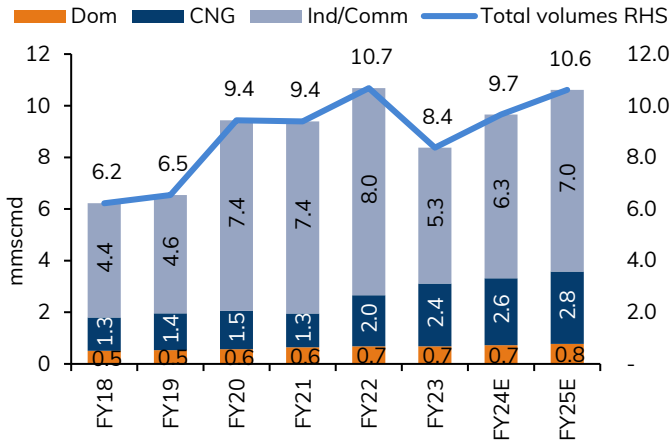
Source: Company data, I-Sec research

Exhibit 3: YoY growth has tapered off in the past couple of quarters



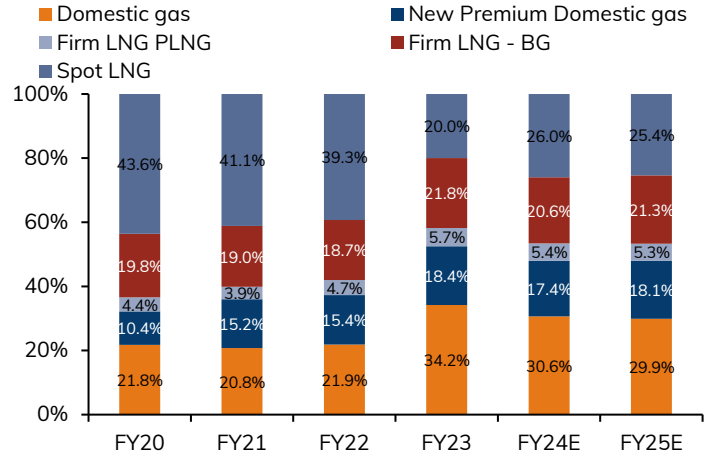
Source: Company data, I-Sec research

Exhibit 4: Volume growth to pick up over FY23-FY25E



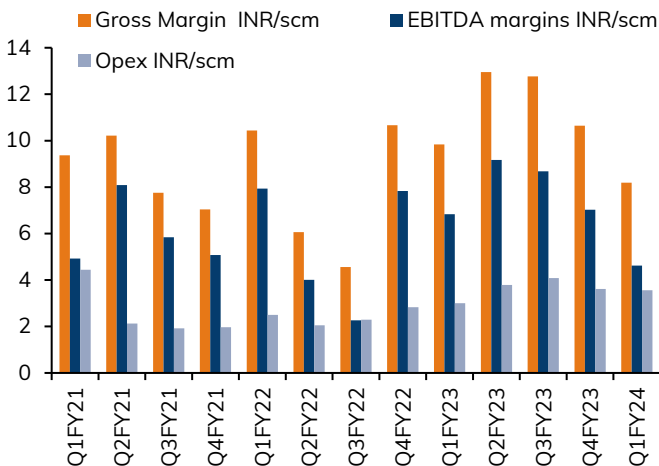
Source: Company data, I-Sec research

Exhibit 5: Sourcing mix more varied than before



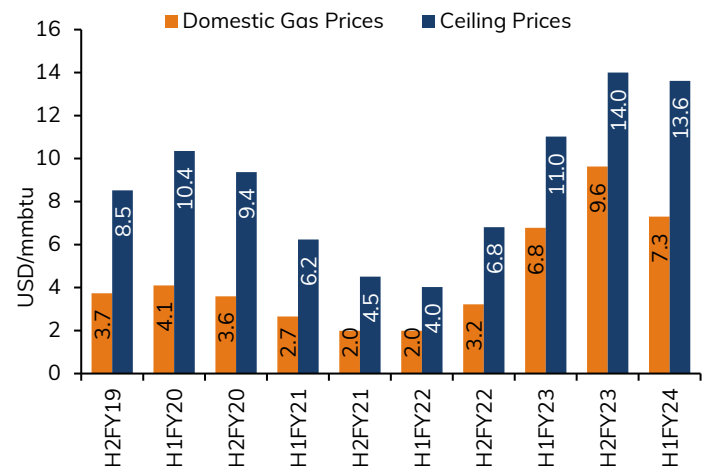
Source: Company data, I-Sec research

Exhibit 6: Margins remained weak in Q1FY24



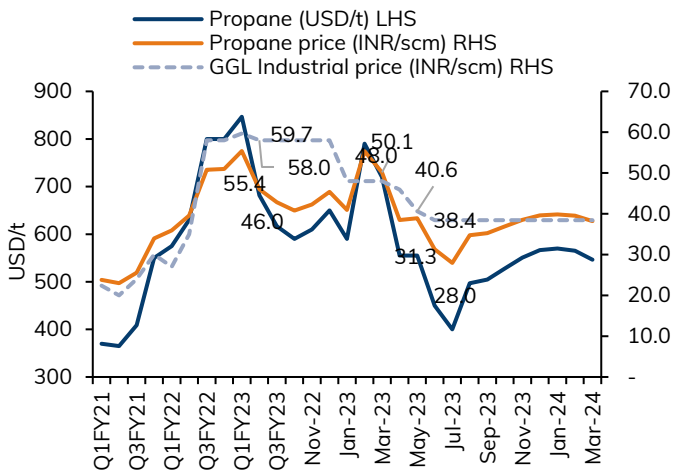
Source: Company data, I-Sec research

Exhibit 7: APM (NCV) gas prices reduced with revised domestic gas policy



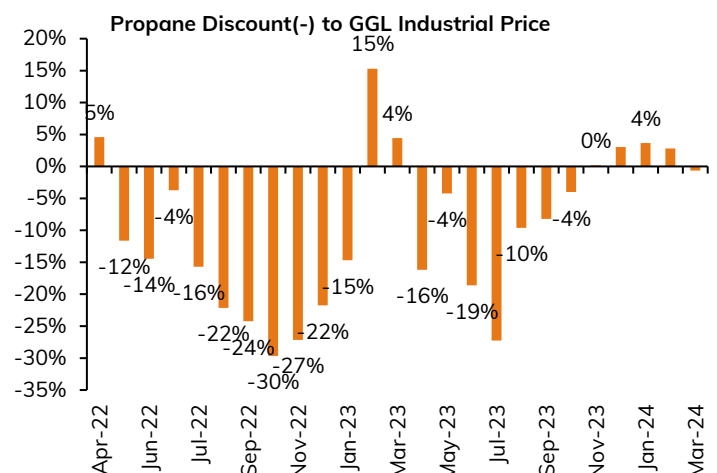
Source: Company data, I-Sec research

Exhibit 8: Propane prices may recover in H2FY24 after likely decline in H1FY24...



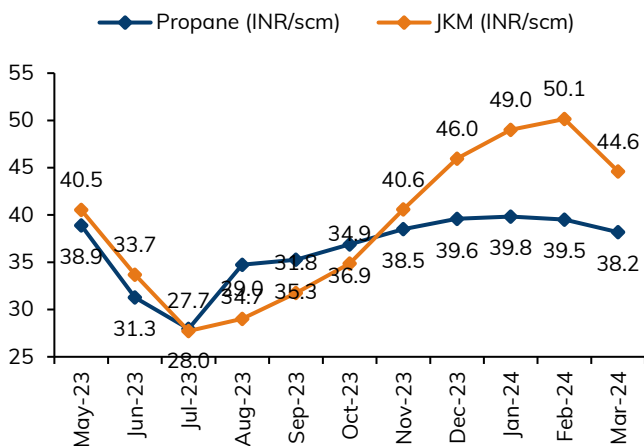
Source: Company data, I-Sec research, Note : Future prices from Aug'23 onwards

Exhibit 9: ...reversal of propane (discount) to gas economics in H2FY24



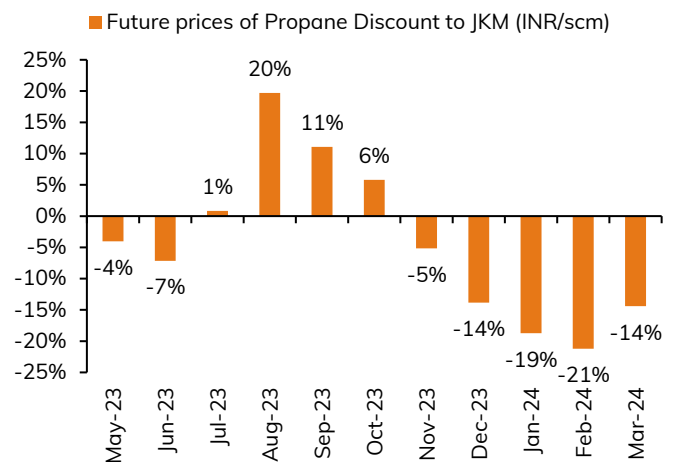
Source: Company data, I-Sec research, Note : Future prices from Aug'23 onwards

Exhibit 10: Futures prices indicate propane and JKM (LNG) prices may increase in H2FY24E



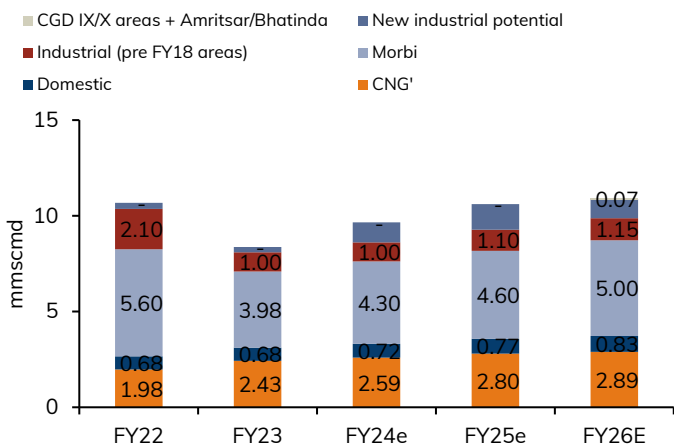
Source: Company data, I-Sec research, Note : Future prices from Aug'23 onwards

Exhibit 11: Propane discount to JKM may increase in H2FY24E due to higher LNG prices in winter



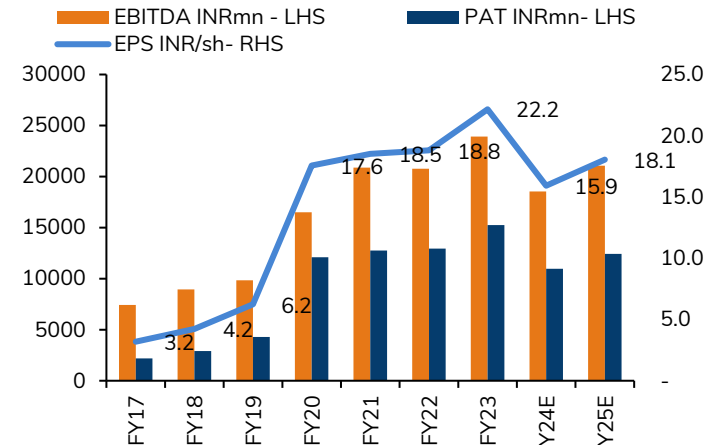
Source: Company data, I-Sec research, Note : Future prices from Aug'23 onwards

Exhibit 12: Volume potential in medium term



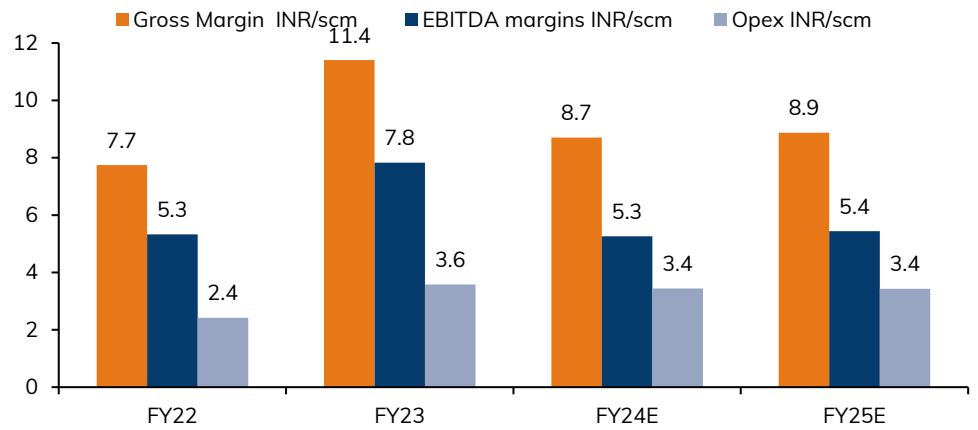
Source: Company data, I-Sec research

Exhibit 13: EBITDA/EPS to grow at a CAGR of 0.5/-1.4% over FY23-FY25E



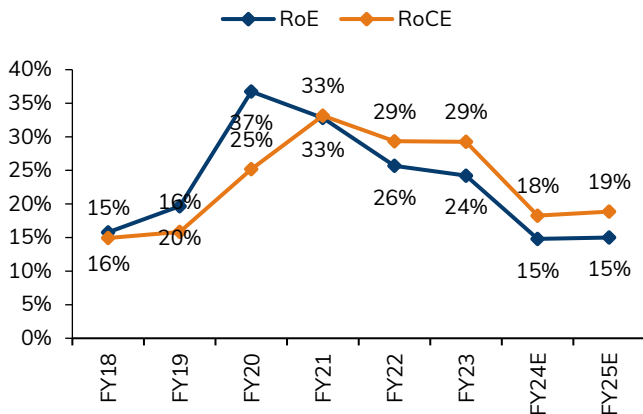
Source: Company data, I-Sec research

Exhibit 14: GGL's margin to sharply dip over FY22-FY25E



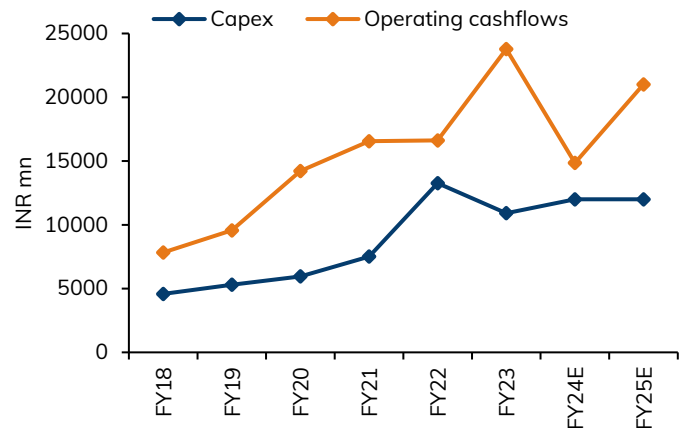
Source: Company data, I-Sec research

Exhibit 15: Return ratios decreasing



Source: Company data, I-Sec research

Exhibit 16: Capex of INR 24.0bn estimated over FY24-FY25E



Source: Company data, I-Sec research

Valuations: Target price of INR 445/sh implies 2% downside

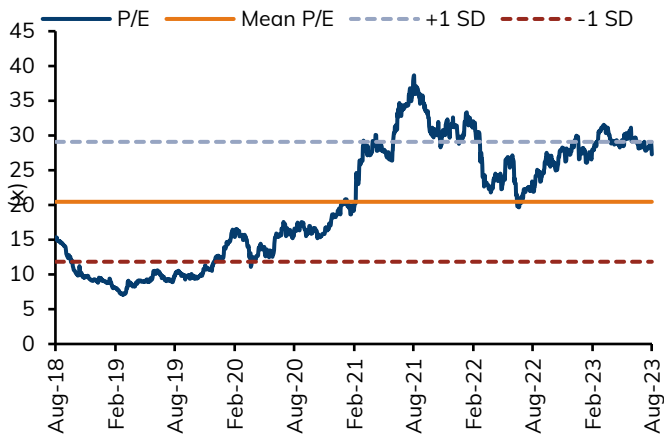
We value GUJGA on DCF methodology, using a WACC of 10.9%, debt equity ratio (DER) of 25%, long-term EBITDA assumption of INR 6.1/scm and terminal growth rate of 4.5%. The gradual build up in volumes from multiple new areas under development and new areas won recently in bidding rounds IX/X imply returns from the same would flow through only over the next decade. Our DCF valuation delivers a target price of INR 445/sh, offering 2% downside from CMP.

Exhibit 17: Valuation summary

	Assumption
Cost of Equity	12.5%
Cost of Debt	6.2%
Average D/E ratio	25.0%
WACC	10.9%
Terminal Growth rate	4.5%
Total NPV potential (INR/sh)	3,06,182
Target Price (INR/sh)	445
CMP (INR/sh)	455
Upside (downside) %	-2%

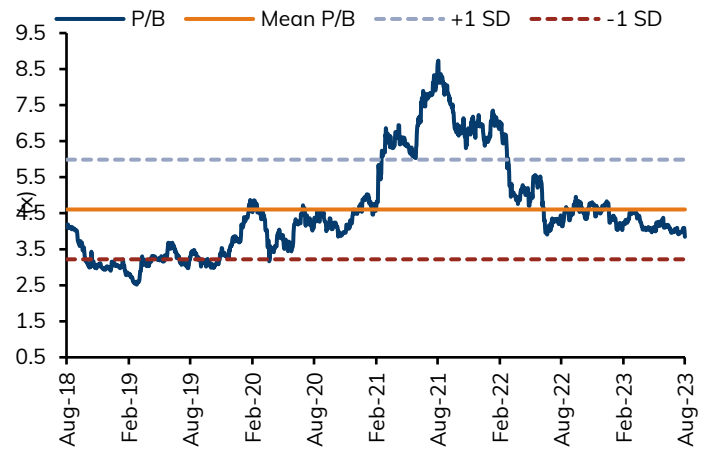
Source: Company data, I-Sec research

Exhibit 18: Gujarat Gas' P/E trading near higher band



Source: Company data, I-Sec research

Exhibit 19: Gujarat Gas' P/B trading below 5-year bands



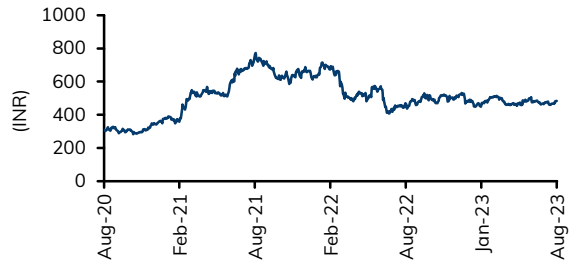
Source: Company data, I-Sec research

Exhibit 20: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	60.9	60.9	60.9
Institutional investors	17.7	17.9	17.7
MFs and others	9.4	9.8	8.4
FIs/Banks	0.0	0.0	0.0
Insurance	2.9	3.2	4.7
FIIIs	5.4	4.9	4.6
Others	21.4	21.2	21.4

Source: Bloomberg

Exhibit 21: Price chart



Source: Bloomberg

Financial Summary

Exhibit 22: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	1,64,562	1,67,594	1,63,996	2,02,796
EBITDA	20,763	23,920	18,542	21,069
EBITDA Margin (%)	12.6	14.3	11.3	10.4
Depreciation & Amortization	3,849	4,283	4,787	5,291
EBIT	16,914	19,637	13,755	15,778
Interest expenditure	568	404	82	42
Other Non-operating Income	909	1,013	878	757
PBT	17,135	20,247	14,551	16,493
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	4,278	4,992	3,588	4,066
PAT	12,858	15,255	10,964	12,427
Less: Minority Interest	-	-	-	-
Net Income (Reported)	12,858	15,255	10,964	12,427
Extraordinaries (Net)	(119)	-	-	-
Recurring Net Income	12,947	15,255	10,964	12,427

Source Company data, I-Sec research

Exhibit 23: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	14,689	19,792	18,596	25,511
of which cash & bank	211	6,810	6,717	12,336
Total Current Liabilities & Provisions	24,730	27,750	26,519	31,798
Net Current Assets	(10,041)	(7,958)	(7,923)	(6,287)
Other Non Current Assets	-	-	-	-
Net Fixed Assets	66,299	73,364	80,577	87,287
Other Fixed Assets	-	-	-	-
Capital Work in Progress	9,923	9,831	9,831	9,831
Non Investment	-	-	-	-
Current Investment	4,642	5,964	6,464	6,964
Deferred Tax assets	(8,077)	(8,461)	(8,461)	(8,461)
Total Assets	62,745	72,740	80,488	89,334
Liabilities				
Borrowings	6,753	1,523	1,023	523
Deferred Tax Liability	-	-	-	-
Lease Liability	-	-	-	-
Other Liabilities	-	1,261	1,286	1,312
Equity Share Capital	1,377	1,377	1,377	1,377
Reserves & Surplus*	54,616	68,579	76,802	86,122
Total Net Worth	55,993	69,956	78,179	87,499
Minority Interest	-	-	-	-
Total Liabilities	62,745	72,740	80,488	89,334

Source Company data, I-Sec research

Exhibit 24: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	39,765	36,843	39,286	37,815
% growth (YOY)	10.0%	-28.4%	-15.9%	-26.9%
EBITDA	6,427	5,823	5,603	3,880
Margin %	16.2%	15.8%	14.3%	10.3%
Other Income	185	320	320	239
Extraordinaries	-	-	-	-
Adjusted Net Profit	4,039	3,713	3,694	2,151

Source Company data, I-Sec research

Exhibit 25: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Cash Flow from operation before working Capital	21,076	24,336	18,542	21,069
Working Capital Changes	(95)	4,052	(103)	4,008
Tax	(4,363)	(4,608)	(3,588)	(4,066)
Operating Cashflow	16,618	23,780	14,852	21,011
Capital Commitments	(13,265)	(10,915)	(12,000)	(12,000)
Free Cashflow	29,883	34,694	26,852	33,011
Others CFI	(43)	518	378	257
Cashflow from Investing Activities	(13,308)	(10,397)	(11,622)	(11,743)
Inc (Dec) in Borrowings	(4,193)	(4,779)	(500)	(500)
Interest Cost	(531)	(381)	(82)	(42)
Others	(1,560)	(1,624)	(2,741)	(3,107)
Cash flow from Financing Activities	(6,284)	(6,784)	(3,323)	(3,649)
Chg. in Cash & Bank balance	(2,975)	6,599	(93)	5,619
Closing cash & balance	211	6,810	6,717	12,336

Source Company data, I-Sec research

Exhibit 26: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Recurring EPS	18.8	22.2	15.9	18.1
Diluted EPS	18.8	22.2	15.9	18.1
Recurring Cash EPS	24.4	28.4	22.9	25.7
Dividend per share (DPS)	2.0	6.7	4.0	4.5
Book Value per share (BV)	81.3	101.6	113.6	127.1
Dividend Payout (%)	10.6	30.0	25.0	25.0
Growth (%)				
Net Sales	67.0	1.8	(2.1)	23.7
EBITDA	(0.6)	15.2	(22.5)	13.6
EPS	1.5	17.8	(28.1)	13.3
Valuation Ratios (x)				
P/E	24.2	20.5	28.6	25.2
P/CEPS	18.7	16.0	19.9	17.7
P/BV	5.6	4.5	4.0	3.6
EV / EBITDA	15.2	12.6	16.2	14.0
EV / Operating Income	17.7	14.6	20.6	17.8
Dividend Yield (%)	0.4	1.5	0.9	1.0
Operating Ratios				
EBITDA Margins (%)	12.6	14.3	11.3	10.4
Effective Tax Rate (%)	25.0	24.7	24.7	24.7
Net Profit Margins (%)	7.9	9.1	6.7	6.1
NWC / Total Assets (%)	(16.0)	(10.9)	(9.8)	(7.0)
Fixed Asset Turnover (x)	1.9	1.7	1.5	1.7
Working Capital Days	12.9	5.8	17.6	19.9
Net Debt / Equity %	3.4	(16.1)	(15.6)	(21.5)
Profitability Ratios				
RoCE (%)	22.0	22.0	13.8	14.2
RoCE (Pre-tax) (%)	29.3	29.3	18.3	18.9
RoE (%)	25.7	24.2	14.8	15.0

Source Company data, I-Sec research

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