

Estimate changes

TP change

Rating change



CMP: INR455

TP: INR550 (+21%)

Buy

Competition from propane leads to margin deterioration

- GUJGA's EBITDA came in 13% below our est. at INR3.9b due to 6% lower than est. volumes at 9.2mmscmd and 7% lower than est. EBITDA/scm at INR4.6.
- EBITDA/scm declined 34% QoQ as the company had to sharply cut gas prices to stay competitive against propane. Currently natural gas is priced at INR38.5/scm (excluding VAT), while propane is priced at INR35/scm at Morbi. EBITDA/scm guidance stands at INR4.5-5.5/scm.
- Morbi volumes improved to ~4mmscmd in 1QFY24 (vs. 3.6mmscmd in 4QFY23) as a result of price cuts by GUJGA. The management highlighted that peak volume potential at Morbi stands at ~8-8.5mmscmd.
- Spot gas cost for the company has declined to USD10.5-11/mmBtu in 2QFY24 TD from USD13/mmBtu in 1QFY24, which could benefit margins in the current quarter. Additionally, global propane prices are also set to increase by 18% MoM to USD470/mt in Sep'23.
- We lower our EBITDA/scm assumption to INR5.5 from 2QFY24 onward from ~INR6/scm earlier, in line with company guidance. Subsequently, we cut our EBITDA/PAT estimates by 10%/14% for FY24 and 9%/11% for FY25.
- GUJGA's long-term volume growth prospects remain robust, with the addition of new industrial units and the expansion of existing units. Hence, we reiterate our BUY rating on the stock with a TP of INR550 (at 26x FY25E EPS). Key risks include a poor ceramic outlook or a sustained discount of propane/LPG to natural gas.

Miss due to lower volumes and margins

- Total volumes were 6% below our estimates at 9.2mmscmd.
- CNG volumes stood at 2.61mmscmd (+7% YoY).
- PNG I/C volumes were at 6.01mmscmd (-11% YoY).
- The company added 225 commercial and 36 new industrial customers during the quarter.
- PNG domestic volumes were at 0.6mmscmd (+9% YoY).
- It added more than 46,000 new domestic customers during the quarter.
- EBITDA/scm came in 7% below our est. at INR4.6 (INR7 in 4QFY23).
- Gross margin stood at INR8.2/scm (down from INR10.6 in 4QFY23).
- Thus, EBITDA was 13% below our est. at INR3.9b (-36% YoY).
- PAT was 19% below our est. at INR2.2b (-44% YoY) due to lower than est. other income and higher interest expenses.
- The board of directors approved equity investment of INR1b in equity shares of GSPC LNG Ltd with an aim of having better synergy and integration in gas value chain.
- The company's holding in GSPC LNG would be at 7.87% post the acquisition of equity shares.



Bloomberg	GUJGA IN
Equity Shares (m)	688
M.Cap.(INRb)/(USDb)	313.4 / 3.8
52-Week Range (INR)	539 / 434
1, 6, 12 Rel. Per (%)	-4/-12/-13
12M Avg Val (INR M)	651

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY24E
Sales	167.6	170.4	181.5
EBITDA	23.9	20.0	23.6
PAT	15.3	11.9	14.6
EPS (INR)	22.2	17.3	21.2
EPS Gr. (%)	17.8	-21.9	22.3
BV/Sh.(INR)	101.6	113.7	128.5

Ratios

Net D:E	-0.1	-0.1	-0.2
RoE (%)	24.2	16.1	17.5
RoCE (%)	31.6	21.8	23.6
Payout (%)	30.0	30.0	30.0

Valuations

P/E (x)	20.5	26.3	21.5
P/BV (x)	4.5	4.0	3.5
EV/EBITDA (x)	12.8	15.2	12.6
Div. Yield (%)	1.5	1.1	1.4
FCF Yield (%)	4.1	2.1	3.0

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	60.9	60.9	60.9
DII	20.3	20.3	10.0
FII	4.5	4.7	5.2
Others	14.4	14.2	23.9

FII Includes depository receipts

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Motilal Oswal research is available on www.motiloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- The capex guidance stands at INR10-12b annually over the next three years and will be split equally between new GAs, old GAs and CNG. The company will be adding ~60-70 new CNG stations annually over the next two years.
- The company's long-term volume growth prospects remain robust, with the addition of new industrial units and the 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.
- We reiterate our BUY rating on the stock with a TP of INR550, valuing it at 26x FY25E EPS).

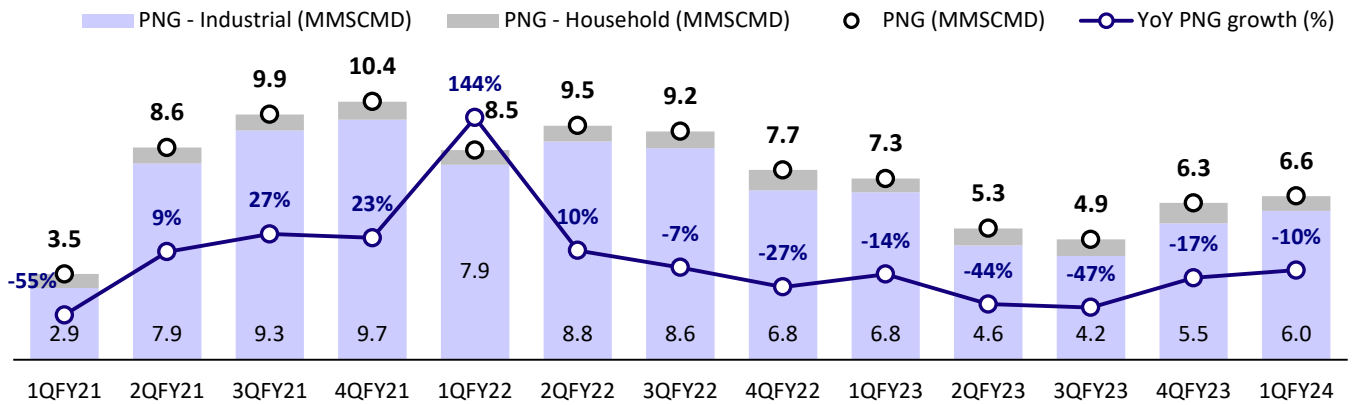
Standalone - Quarterly Earning Model

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE	(%)	
Net Sales	51,701	39,765	36,843	39,286	37,815	40,961	44,276	47,348	167,594	170,400	44,703	-15
YoY Change (%)	71.7	9.7	-28.4	-15.9	-26.9	3.0	20.2	20.5	1.8	1.7	-13.5	
EBITDA	6,066	6,427	5,823	5,603	3,880	5,056	5,416	5,646	23,920	19,998	4,449	-13
Margin (%)	11.7	16.2	15.8	14.3	10.3	12.3	12.2	11.9	14.3	11.7	10.0	
Depreciation	1,032	1,064	1,093	1,094	1,151	1,194	1,209	1,233	4,283	4,787	1,149	
Interest	136	131	76	61	74	69	69	63	404	274	34	
Other Income	190	185	320	318	239	246	239	253	1,013	977	280	
PBT	5,089	5,418	4,974	4,766	2,894	4,039	4,378	4,603	20,247	15,913	3,546	-18
Tax	1,278	1,379	1,261	1,074	743	1,018	1,103	1,142	4,992	4,005	894	
Rate (%)	25.1	25.4	25.4	22.5	25.7	25.2	25.2	24.8	24.7	25.2	25.2	
Reported PAT	3,811	4,039	3,713	3,692	2,151	3,021	3,275	3,461	15,255	11,908	2,652	-19
Adj. PAT	3,811	4,039	3,713	3,692	2,151	3,021	3,275	3,461	15,255	11,908	2,652	-19
YoY Change (%)	-20.0	64.6	204.5	-18.5	-43.6	-25.2	-11.8	-6.3	17.8	-21.9	-30.4	
Total volume (mmscmd)	9.8	7.6	7.3	8.9	9.2	9.9	10.6	11.3	8.4	10.3	9.9	-6
CNG	2.4	2.3	2.4	2.5	2.6	2.7	2.8	2.9	2.4	2.8	2.6	-1
PNG – Industrial/Commercial	6.8	4.6	4.2	5.5	6.0	6.5	7.0	7.5	5.3	6.8	6.3	-5
PNG – Households	0.6	0.7	0.7	0.8	0.6	0.7	0.8	0.9	0.7	0.8	0.9	-35
EBITDA (INR/scm)	6.8	9.2	8.7	7.0	4.6	5.5	5.5	5.5	7.9	5.3	5.0	-7

Operational Highlights

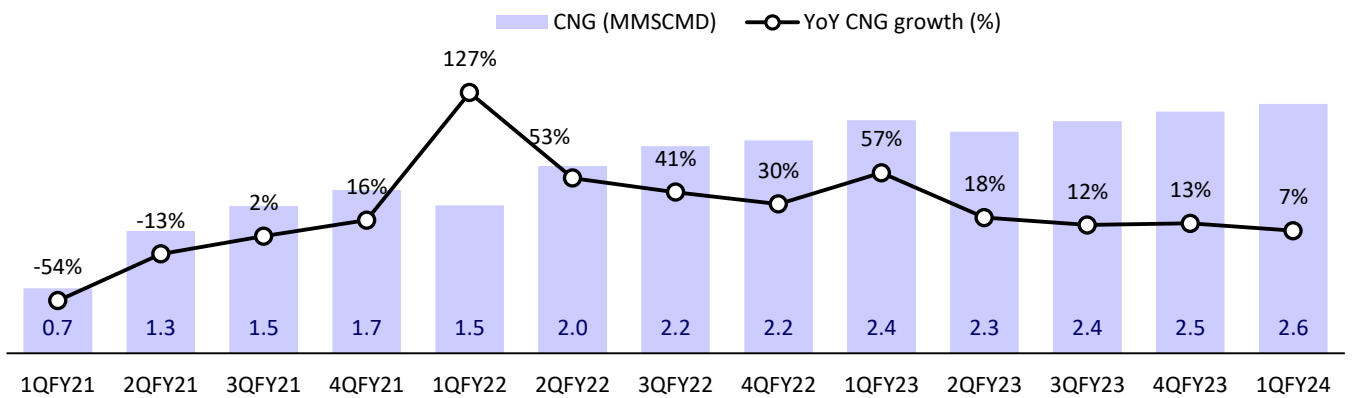
INR m	FY22				FY23				FY24	1QFY24	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	YoY (%)	QoQ (%)
Net sales	30,109	36,249	51,444	46,694	51,701	39,765	36,843	39,286	37,815	-27	-4
Realization (INR/scm)	33.1	34.5	49.1	52.5	58.3	56.7	54.9	49.3	45.1	-23	-9
Total raw material	20,609	29,887	46,714	37,197	43,015	30,654	28,313	30,781	30,931	-28	0
Gas cost (INR/scm)	22.6	28.5	44.6	41.8	48.5	43.7	42.2	38.6	36.9	-24	-4
Gross margin	9,500	6,361	4,731	9,497	8,686	9,111	8,530	8,505	6,884	-21	-19
Gross margin (INR/scm)	10.4	6.1	4.5	10.7	9.8	13.0	12.7	10.7	8.2	-16	-23
EBITDA	7,229	4,190	2,375	6,974	6,066	6,427	5,823	5,603	3,880	-36	-31
EBITDA (INR/scm)	7.9	4.0	2.3	7.8	6.8	9.2	8.7	7.0	4.6	-32	-34
PAT	4,762	2,454	1,219	4,443	3,811	4,039	3,713	3,692	2,151	-44	-42
PAT (INR/scm)	5.2	2.3	1.2	5.0	4.3	5.8	5.5	4.6	2.6	-40	-45
Volumes											
CNG (MMSCMD)	1.5	2.0	2.2	2.2	2.4	2.3	2.4	2.5	2.6	7	3
PNG - Household (MMSCMD)	0.6	0.6	0.7	0.8	0.6	0.7	0.7	0.8	0.6	9	-28
PNG - Industrial (MMSCMD)	7.9	8.8	8.6	6.8	6.8	4.6	4.2	5.5	6.0	-11	9
Total (MMSCMD)	10.0	11.4	11.4	9.9	9.8	7.6	7.3	8.9	9.2	-5	4

Exhibit 1: Total domestic PNG volume was up 9% YoY, with Industrial/Commercial down 11% YoY



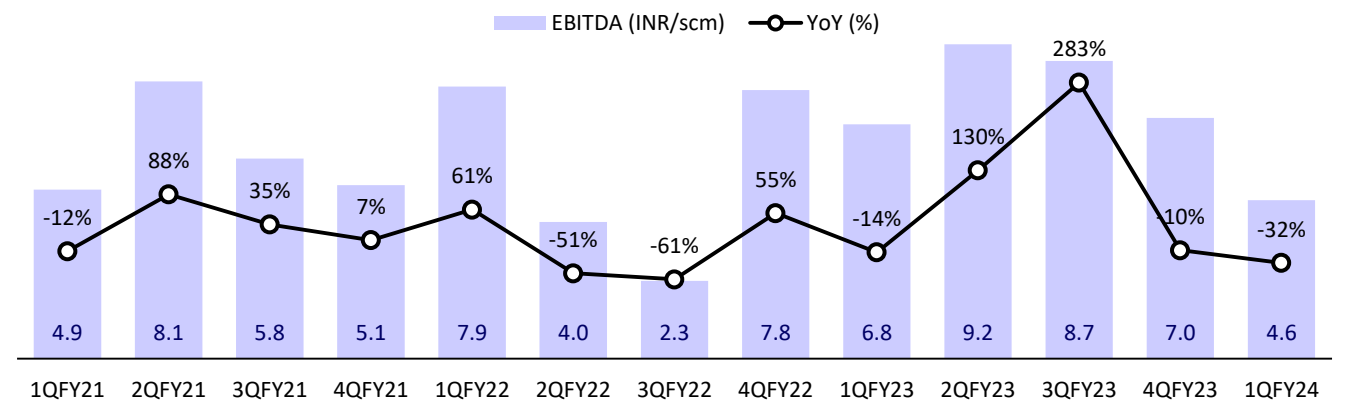
Source: Company, MOFSL

Exhibit 2: CNG volumes rose 7% YoY and 3% QoQ



Source: Company, MOFSL

Exhibit 3: EBITDA/scm stood at INR4.6 in 1QFY24



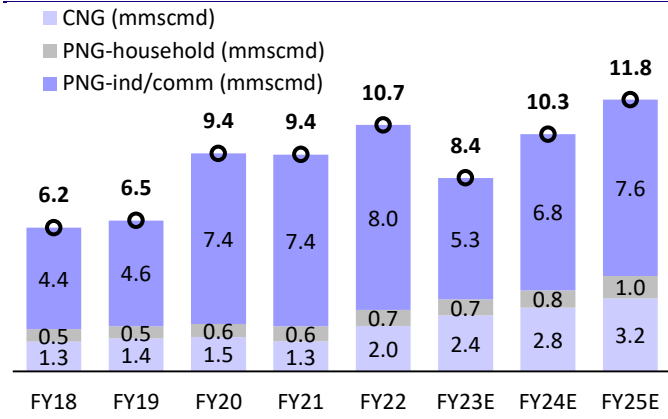
Source: Company, MOFSL

Concall Highlights

- Over the past three years, CNG station network increased to 800 from 400
- 60-70 new CNG stations/year to be added for next two years
- Morbi volumes at ~4mmscmd during 1QFY24
- Around 50% Morbi customers can switch between gas and propane
- Propane demand is 3mmscmd
- Maximum potential at Morbi is 8-8.5mmscmd
- Morbi gas price is INR38.5/scm (excluding VAT), Propane is INR34-35/scm
- The company had to cut I-PNG prices to bring prices at par with alternate fuels
- It is looking to strike a balance between margins and volumes
- Propane is generally cheaper in summer
- EBITDA/scm guidance at INR4.5-5.5/scm
- 12%QoQ growth in SCV category of three wheelers
- CNG now 45%-50% cheaper compared to alternate fuels
- Gujarat reduced VAT on CNG and PNG to 5% in Oct'22 from 15% earlier
- Import duty on propane increased to 19.75% from Jul'23 compared to 2.75% earlier
- GUJGA sources 4-4.5mmscmd of LNG to serve I-PNG customers
- Spot gas cost was ~USD13/mmBtu in 1QFY24
- Spot gas cost reduced to USD10.5-11/mmBtu in 2QFY24'td but may go up in winter
- Capex guidance at INR10-12b annually for next three years
- To be split equally between new GAs, old GAs and CNG
- 1QFY24 capex was INR2-2.5b
- APM shortfall was around 10%
- Shortfall was met through sourcing HPHT and spot gas when it was cheaper
- GUJGA is investing in infrastructure to push industrial gas in Thane rural, Ahmedabad rural and new areas in Rajasthan
- Thane CNG demand currently at 0.1mil. kg/day and PNG demand is 0.5mmscmd
- Gas sourcing mix: 32% APM, 20% non-APM domestic, 34% long-term RLNG and 14% short-term RLNG
- Long-term LNG contracts are British gas (2-2.5mmscmd), RIL (0.7mmscmd), RasGas (1mmscmd) and Rajasthan gas on need basis
- I-PNG prices are at slight premium in non-Morbi regions

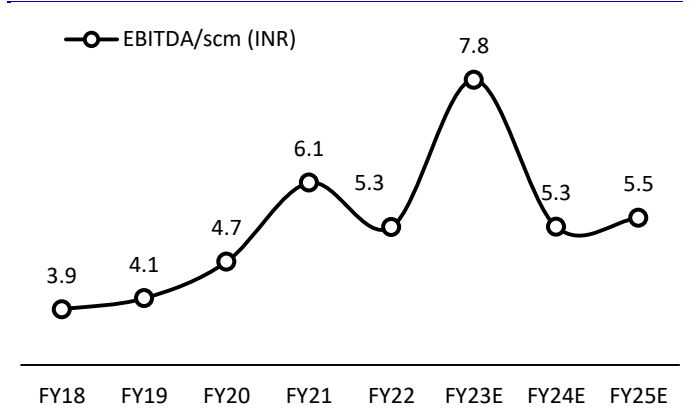
Story in charts

Exhibit 4: Volume snapshot for GUJGA



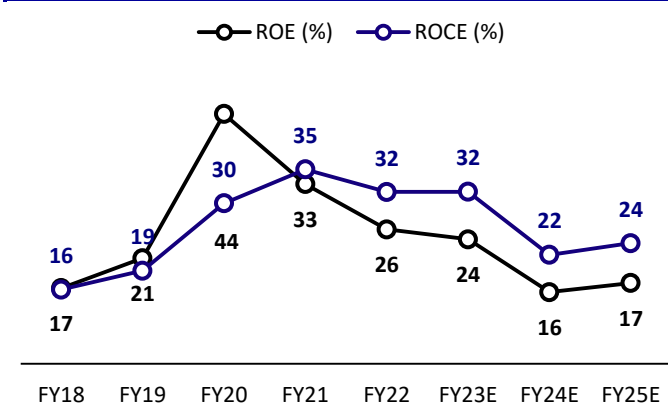
Source: Company, MOFSL

Exhibit 5: EBITDA/scm to normalize to ~INR5.5 in FY24-25



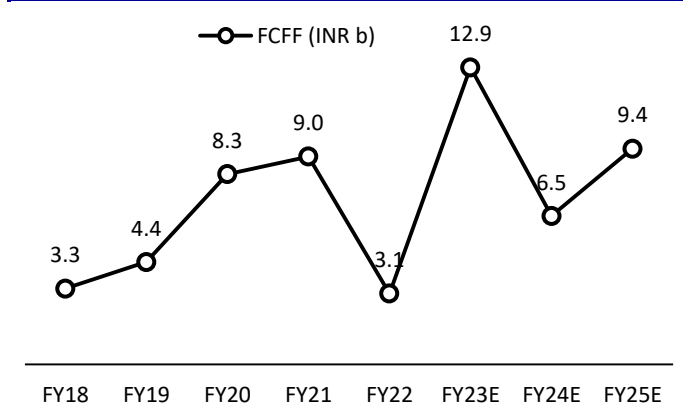
Source: Company, MOFSL

Exhibit 6: Return ratios



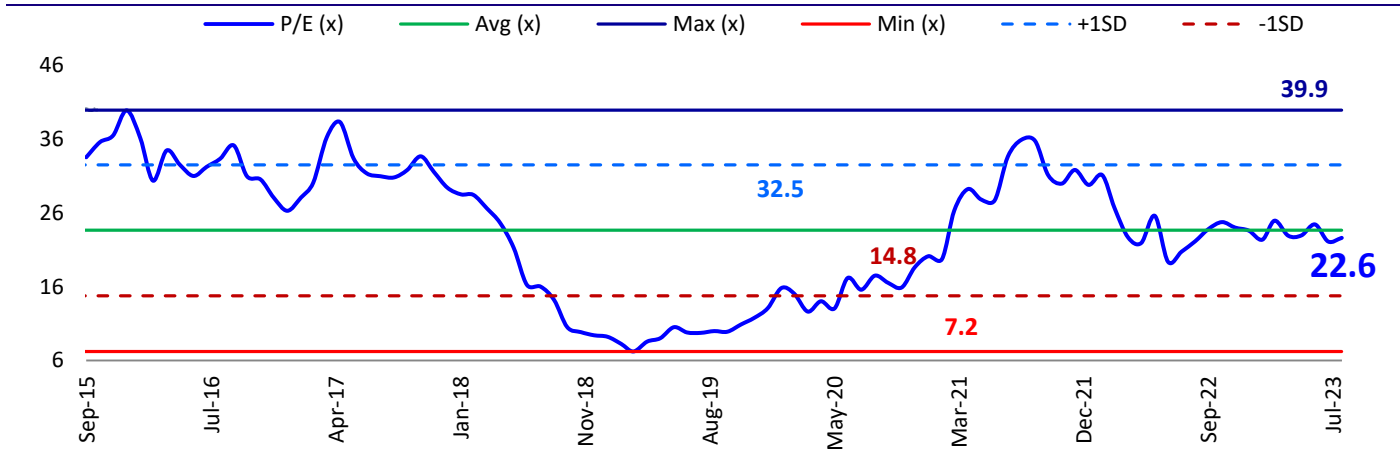
Source: Company, MOFSL

Exhibit 7: Free cash flow



Source: Company, MOFSL

Exhibit 8: One-year forward GUJGA P/E trades at 22.6x v/s its LT average of 23.6x



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	61,743	77,544	1,03,003	98,664	1,64,562	1,67,594	1,70,400	1,81,547
Change (%)	21.2	25.6	32.8	-4.2	66.8	1.8	1.7	6.5
EBITDA	8,951	9,846	16,343	20,842	20,763	23,920	19,998	23,557
Margin (%)	14.5	12.7	15.9	21.1	12.6	14.3	11.7	13.0
Depreciation	2,718	2,880	3,180	3,436	3,849	4,283	4,787	4,946
EBIT	6,232	6,966	13,163	17,406	16,914	19,637	15,211	18,611
Int. and Finance Charges	1,961	1,962	1,922	1,168	568	404	274	244
Other Income	357	1,113	837	714	907	1,013	977	1,102
PBT bef. EO Exp.	4,628	6,117	12,078	16,953	17,253	20,247	15,913	19,470
EO Items	0	-179	0	0	-119	0	0	0
PBT after EO Exp.	4,628	5,939	12,078	16,953	17,134	20,247	15,913	19,470
Current Tax	1,715	1,768	145	4,272	4,278	4,992	4,005	4,901
Tax Rate (%)	37.0	29.8	1.2	25.2	25.0	24.7	25.2	25.2
Reported PAT	2,914	4,170	11,933	12,682	12,856	15,255	11,908	14,569
Adjusted PAT	2,914	4,296	11,933	12,682	12,946	15,255	11,908	14,569
Change (%)	32.7	47.4	177.8	6.3	2.1	17.8	-21.9	22.3
Margin (%)	4.7	5.5	11.6	12.9	7.9	9.1	7.0	8.0

Standalone - Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	1,377	1,377	1,377	1,377	1,377	1,377	1,377	1,377
Total Reserves	17,087	20,463	31,529	43,110	54,616	68,579	76,914	87,111
Net Worth	18,464	21,840	32,906	44,486	55,993	69,956	78,291	88,488
Deferred Tax Liabilities	10,455	10,816	8,005	7,925	8,077	8,461	8,461	8,461
Total Loans	22,143	20,892	18,344	7,700	4,811	0	0	0
Capital Employed	51,062	53,547	59,255	60,111	68,881	78,417	86,752	96,949
Gross Block	64,021	68,861	73,531	81,252	90,156	1,01,501	1,05,419	1,10,553
Less: Accum. Deprn.	13,094	15,974	19,154	22,590	26,439	30,721	35,508	40,454
Net Fixed Assets	50,927	52,887	54,377	58,662	63,717	70,780	69,911	70,099
Capital WIP	4,797	4,902	5,708	7,088	9,672	9,589	15,671	20,537
Total Investments	161	160	1,633	1,926	2,806	2,888	2,888	2,888
Curr. Assets, Loans, and Adv.	10,449	13,326	17,255	17,411	19,358	25,694	29,611	36,723
Inventory	568	694	463	525	534	612	640	673
Account Receivables	3,917	5,103	5,101	7,747	9,301	10,212	10,382	11,062
Cash and Bank Balance	1,363	3,092	6,919	3,189	180	6,810	10,392	16,257
Cash balance	931	944	5,482	2,767	164	6,747	10,329	16,194
Bank balance	432	2,148	1,447	422	15	63	63	63
Loans and Advances	4,601	4,437	4,772	5,950	9,344	8,061	8,196	8,732
Curr. Liability and Prov.	15,271	17,727	19,718	24,976	26,672	30,534	31,329	33,298
Account Payables	2,931	3,523	3,670	4,473	4,456	7,156	7,491	7,869
Other Current Liabilities	11,957	13,724	15,015	19,740	21,349	22,554	22,932	24,432
Provisions	383	480	1,033	763	867	824	906	997
Net Current Assets	-4,822	-4,402	-2,464	-7,565	-7,314	-4,840	-1,718	3,426
Appl. of Funds	51,062	53,548	59,255	60,111	68,881	78,417	86,752	96,949

Financials and valuations

Ratios

Y/E March (INR)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	4.2	6.2	17.3	18.4	18.8	22.2	17.3	21.2
Cash EPS	8.2	10.4	22.0	23.4	24.4	28.4	24.3	28.3
BV/Share	26.8	31.7	47.8	64.6	81.3	101.6	113.7	128.5
DPS	0.8	1.0	1.3	2.0	2.0	6.7	5.2	6.4
Payout (%)	22.8	19.9	8.7	13.1	12.9	30.0	30.0	30.0
Valuation (x)								
P/E	107.6	73.0	26.3	24.7	24.2	20.5	26.3	21.5
Cash P/E	55.7	43.7	20.7	19.4	18.7	16.0	18.8	16.1
P/BV	17.0	14.4	9.5	7.0	5.6	4.5	4.0	3.5
EV/Sales	5.4	4.3	3.2	3.2	1.9	1.8	1.8	1.6
EV/EBITDA	37.3	33.6	19.9	15.3	15.3	12.8	15.2	12.6
Dividend Yield (%)	0.2	0.2	0.3	0.4	0.4	1.5	1.1	1.4
FCF per share	4.8	6.5	12.0	13.1	4.5	18.8	9.4	13.6
Return Ratios (%)								
RoE	16.7	21.3	43.6	32.8	25.8	24.2	16.1	17.5
RoCE	16.5	19.4	29.8	35.0	31.5	31.6	21.8	23.6
Working Capital Ratios								
Asset Turnover (x)	1.2	1.4	1.7	1.6	2.4	2.1	2.0	1.9
Inventory (Days)	3	3	2	2	1	1	1	1
Debtor (Days)	23	24	18	29	21	22	22	22
Creditor (Days)	17	17	13	17	10	16	16	16
Working Cap. Turnover (Days)	-37	-35	-33	-40	-17	-25	-26	-26
Leverage Ratio (x)								
Current Ratio	0.7	0.8	0.9	0.7	0.7	0.8	0.9	1.1
Debt/Equity ratio	1.1	0.8	0.3	0.1	0.1	-0.1	-0.1	-0.2

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	4,628	5,939	12,078	16,953	17,134	20,247	15,913	19,470
Depreciation	2,718	2,880	3,180	3,436	3,849	4,283	4,787	4,946
Interest and Finance Charges	1,961	1,962	1,922	1,168	568	404	274	244
Direct Taxes Paid	-1,040	0	-2,801	-4,166	-4,363	-4,608	-4,005	-4,901
(Inc.)/Dec. in WC	-231	-288	413	-437	-95	4,052	460	721
Others	-190	-849	-571	-365	-476	-597	-977	-1,102
CF from Operations	7,847	9,644	14,220	16,588	16,617	23,780	16,453	19,378
(Inc.)/Dec. in FA	-4,555	-5,376	-5,956	-7,556	-13,663	-10,867	-10,000	-10,000
Free Cash Flow	3,292	4,447	8,265	9,033	3,073	12,912	6,453	9,378
Others	198	-761	1,287	1,432	728	454	977	1,102
CF from Investments	-4,357	-6,137	-4,668	-6,124	-12,935	-10,413	-9,023	-8,898
Inc./(Dec.) in Debt	-248	-1,139	-2,149	-11,016	-4,193	-4,779	0	0
Interest Paid	-1,986	-1,947	-1,864	-1,165	-531	-381	-274	-244
Dividend Paid	-499	-408	-837	-863	-1,375	-1,379	-3,574	-4,372
CF from Fin. Activity	-2,733	-3,494	-5,015	-13,179	-6,284	-6,784	-3,848	-4,616
Inc./Dec. in Cash	757	13	4,537	-2,714	-2,602	6,583	3,582	5,864
Opening Balance	176	933	945	5,482	2,767	165	6,748	10,329
Closing Balance	933	945	5,482	2,767	165	6,748	10,329	16,194

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

NOTES

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

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