

August 4, 2023

Q1FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

| | Current | | Previous | |
|----------------|------------|----------|----------|----------|
| | FY24E | FY25E | FY24E | FY25E |
| Rating | ACCUMULATE | | HOLD | |
| Target Price | 516 | | 450 | |
| Sales (Rs. m) | 1,78,972 | 2,01,764 | 1,34,395 | 1,48,117 |
| % Chng. | 33.2 | 36.2 | | |
| EBITDA (Rs. m) | 20,428 | 24,275 | 21,382 | 24,438 |
| % Chng. | (4.5) | (0.7) | | |
| EPS (Rs.) | 17.7 | 21.5 | 19.3 | 23.3 |
| % Chng. | (8.0) | (7.7) | | |

Key Financials - Standalone

| Y/e Mar | FY22 | FY23 | FY24E | FY25E |
|----------------|----------|----------|----------|----------|
| Sales (Rs. m) | 1,64,562 | 1,67,594 | 1,78,972 | 2,01,764 |
| EBITDA (Rs. m) | 20,763 | 23,920 | 20,428 | 24,275 |
| Margin (%) | 12.6 | 14.3 | 11.4 | 12.0 |
| PAT (Rs. m) | 12,946 | 15,255 | 12,205 | 14,814 |
| EPS (Rs.) | 18.8 | 22.2 | 17.7 | 21.5 |
| Gr. (%) | 2.1 | 17.8 | (20.0) | 21.4 |
| DPS (Rs.) | 2.0 | 6.7 | 5.3 | 6.5 |
| Yield (%) | 0.4 | 1.5 | 1.2 | 1.4 |
| RoE (%) | 25.8 | 24.2 | 16.4 | 17.7 |
| RoCE (%) | 29.9 | 30.0 | 21.0 | 23.0 |
| EV/Sales (x) | 1.9 | 1.8 | 1.7 | 1.5 |
| EV/EBITDA (x) | 15.3 | 12.8 | 14.8 | 12.2 |
| PE (x) | 24.2 | 20.5 | 25.7 | 21.1 |
| P/BV (x) | 5.6 | 4.5 | 4.0 | 3.5 |

Key Data

GGAS.BO | GUJGA IN

| | |
|---------------------|---------------------|
| 52-W High / Low | Rs.539 / Rs.430 |
| Sensex / Nifty | 65,241 / 19,382 |
| Market Cap | Rs.313bn/ \$ 3,786m |
| Shares Outstanding | 688m |
| 3M Avg. Daily Value | Rs.697.18m |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoter's | 60.89 |
| Foreign | 4.47 |
| Domestic Institution | 13.28 |
| Public & Others | 21.36 |
| Promoter Pledge (Rs bn) | - |

Stock Performance (%)

| | 1M | 6M | 12M |
|----------|-------|-------|--------|
| Absolute | (4.1) | (3.1) | (1.7) |
| Relative | (4.2) | (9.6) | (12.1) |

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Sales volume grow sequentially, margin declines

Quick Pointers:

- Industrial volumes grew 9.7% QoQ to 5.88 mmscmd.
- Rise in alternate fuel prices to help the company increase its sales volume.

We upgrade our rating from 'Hold' to 'Accumulate' given expectation of steady gas prices over rising propane prices, thereby helping the company grow industrial volumes. Gujarat Gas (GGAS) reported weaker than expected results with EBITDA/PAT of Rs 3.9 bn (-31% Q/Q; PLe Rs 4.5 bn)/Rs 2.2 bn (-42% Q/Q; PLe Rs 2.6 bn) respectively, owing to lower realization led by price cuts taken by the company. Fall in APM prices from US\$8.57/mmbtu to a ceiling of US\$6.5/mmbtu coupled with lower VAT charges (since October 2022) and increase in import duty of propane (since July 2023) will likely help in growing gas sales, going forward. The company also incurred capex of Rs2-2.5 bn in Q1 and guided for further Rs 10-12 bn per annum for next three years to be funded through internal accruals. Upgrade to 'Accumulate' with a TP of Rs 516 (previous TP Rs 450) based on 24x P/E FY25E.

- Sales volume grows sequentially:** Gas sales volume grew 4% QoQ to 9.22 mmscmd driven by industrial volumes which increased 9.7% QoQ due to softer spot LNG prices which the company passed on to the customers. CNG volumes too grew 3.2% QoQ to 2.6 mmscmd. The company witnessed a 28% QoQ decline in domestic PNG volumes to 0.6 mmscmd while commercial PNG volumes declined 7.1% QoQ to 0.13 mmscmd.
- Gross Margin impacted:** Gross margins for Q1 stood at Rs 8.2/scm which is down 23.1% QoQ due to price cuts taken by the company to maintain competition vis-à-vis propane. Consequently, EBITDA/scm came in at Rs 4.6/scm (-34.2% QoQ).
- GGAS acquires stake in GSPC LNG:** GGAS announced an equity investment of Rs 100 crores in equity shares of GSPC LNG Ltd. Post-acquisition of equity shares, GGAS will hold a 7.87% stake in the company.

Conference Call Highlights

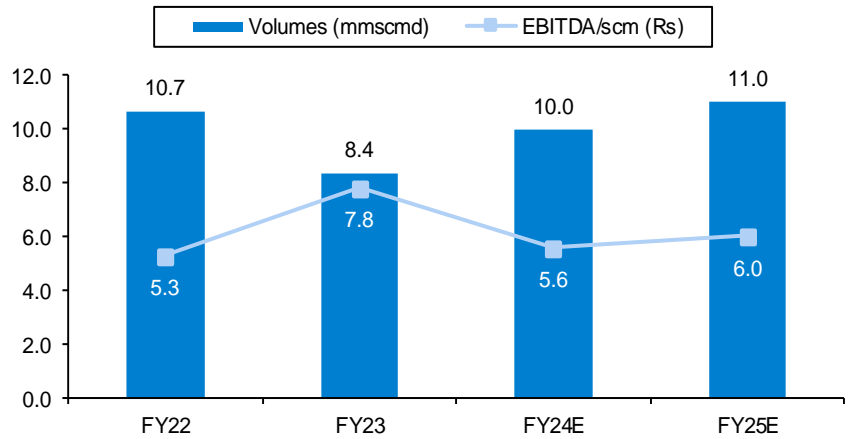
- Gujarat Gas was able to supply 4.41 mmscmd of gas to customers in Morbi due to softer LNG prices, availability of cheaper domestic gas and higher propane prices since March.
- Fall in APM prices from US\$8.57/mmbtu to a ceiling of US\$6.5/mmbtu coupled with lower VAT charges (since October 2022) and increase in import duty of propane (since July 2023) is likely to help the company grow its gas sales going forward.
- Current Morbi sales are around 4 mmscmd and pricing for the same in August is Rs38-38.5/scm.
- The company incurred a capex of Rs2 to Rs2.5 bn in Q1 and has guided for a capex of Rs 10 to Rs 12 bn per annum for the next three years which would mostly be funded through internal accruals, across 3 parts- new Geographical Areas, existing geographical areas and CNG stations.
- The company is laying infrastructure in Thane, Ahmedabad and new GAs in Rajasthan to acquire new customers.
- Management has stated that the company is likely to maintain an EBITDA/scm of Rs 4.5 to Rs 5.5.
- With respect to CNG vehicles, the company is catering to 5-6 lakh four wheelers, 2-2.5 lakh three wheelers and around 22000 LCV/buses.
- The company plans to add 60 to 70 new CNG stations in the current year mainly in Ahmedabad GA.

Exhibit 1: QoQ and YoY Performance

| (Rs bn) | Q1FY24 | Q1FY23 | YoY gr. | Q4FY23 | QoQ gr. |
|-----------------------|--------|--------|---------|--------|---------|
| Net Sales | 37.8 | 51.7 | -27% | 39.3 | -4% |
| Operating Profit | 3.9 | 6.1 | -36% | 5.6 | -31% |
| Profit Before Tax | 2.9 | 5.1 | -43% | 4.8 | -39% |
| Net Profit | 2.2 | 3.8 | -44% | 3.7 | -42% |
| Sales volume (mmscmd) | 9.2 | 9.8 | -5% | 8.9 | 4% |
| EBITDA/scm (Rs) | 4.6 | 6.8 | -32% | 7.0 | -34% |

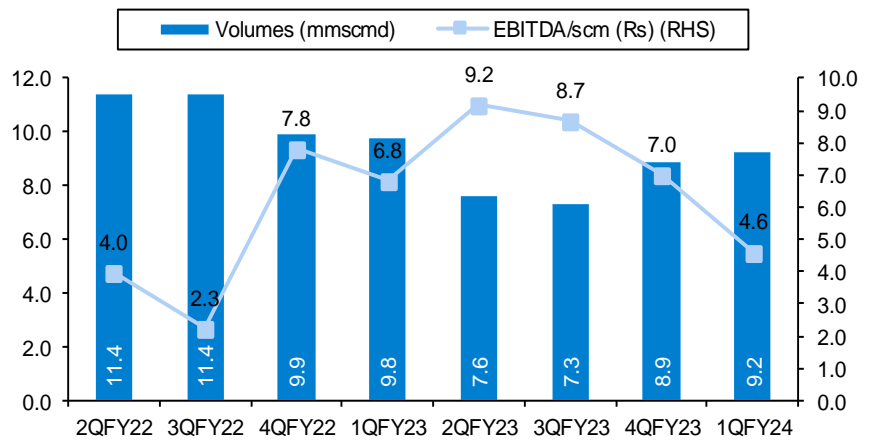
Source: Company, PL

Exhibit 2: YoY Volume and EBITDA/scm trend



Source: Company, PL

Exhibit 3: QoQ Volume and EBITDA/scm trend



Source: Company, PL

Financials

Income Statement (Rs m)

| Y/e Mar | FY22 | FY23 | FY24E | FY25E |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|
| Net Revenues | 1,64,562 | 1,67,594 | 1,78,972 | 2,01,764 |
| YoY gr. (%) | 69.2 | 1.8 | 6.8 | 12.7 |
| Cost of Goods Sold | 1,34,369 | 1,32,734 | 1,48,416 | 1,67,419 |
| Gross Profit | 30,194 | 34,860 | 30,556 | 34,345 |
| Margin (%) | 18.0 | 20.1 | 16.9 | 17.0 |
| Employee Cost | 1,909 | 1,956 | 2,019 | 2,019 |
| Other Expenses | 7,522 | 8,984 | 8,109 | 8,052 |
| EBITDA | 20,763 | 23,920 | 20,428 | 24,275 |
| YoY gr. (%) | 6.8 | 15.2 | (14.6) | 18.8 |
| Margin (%) | 12.6 | 14.3 | 11.4 | 12.0 |
| Depreciation and Amortization | 3,849 | 4,283 | 4,811 | 5,021 |
| EBIT | 16,914 | 19,637 | 15,617 | 19,253 |
| Margin (%) | 10.3 | 11.7 | 8.7 | 9.5 |
| Net Interest | 568 | 404 | 318 | 387 |
| Other Income | 907 | 1,013 | 1,011 | 931 |
| Profit Before Tax | 17,134 | 20,247 | 16,310 | 19,797 |
| Margin (%) | 10.4 | 12.1 | 9.1 | 9.8 |
| Total Tax | 4,278 | 4,992 | 4,105 | 4,983 |
| Effective tax rate (%) | 25.0 | 24.7 | 25.2 | 25.2 |
| Profit after tax | 12,856 | 15,255 | 12,205 | 14,814 |
| Minority interest | - | - | - | - |
| Share Profit from Associate | - | - | - | - |
| Adjusted PAT | 12,946 | 15,255 | 12,205 | 14,814 |
| YoY gr. (%) | 2.1 | 17.8 | (20.0) | 21.4 |
| Margin (%) | 7.9 | 9.1 | 6.8 | 7.3 |
| Extra Ord. Income / (Exp) | (119) | - | - | - |
| Reported PAT | 12,856 | 15,255 | 12,205 | 14,814 |
| YoY gr. (%) | 14.0 | 18.7 | (20.0) | 21.4 |
| Margin (%) | 7.8 | 9.1 | 6.8 | 7.3 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 12,856 | 15,255 | 12,205 | 14,814 |
| Equity Shares O/s (m) | 688 | 688 | 688 | 688 |
| EPS (Rs) | 18.8 | 22.2 | 17.7 | 21.5 |

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

| Y/e Mar | FY22 | FY23 | FY24E | FY25E |
|---------------------------------------|---------------|-----------------|-----------------|-----------------|
| Non-Current Assets | | | | |
| Gross Block | 90,156 | 1,01,501 | 1,05,419 | 1,10,553 |
| Tangibles | 90,156 | 1,01,501 | 1,05,419 | 1,10,553 |
| Intangibles | - | - | - | - |
| Acc: Dep / Amortization | 26,439 | 30,721 | 35,532 | 40,554 |
| Tangibles | 26,439 | 30,721 | 35,532 | 40,554 |
| Intangibles | - | - | - | - |
| Net fixed assets | 63,717 | 70,780 | 69,887 | 70,000 |
| Tangibles | 63,717 | 70,780 | 69,887 | 70,000 |
| Intangibles | - | - | - | - |
| Capital Work In Progress | 9,672 | 9,589 | 15,671 | 20,537 |
| Goodwill | - | - | - | - |
| Non-Current Investments | 2,806 | 2,888 | 2,888 | 2,888 |
| Net Deferred tax assets | (8,077) | (8,461) | (8,461) | (8,461) |
| Other Non-Current Assets | - | - | - | - |
| Current Assets | | | | |
| Investments | - | - | - | - |
| Inventories | 534 | 612 | 675 | 756 |
| Trade receivables | 9,301 | 10,212 | 10,905 | 12,293 |
| Cash & Bank Balance | 180 | 6,810 | 11,214 | 18,140 |
| Other Current Assets | - | - | - | - |
| Total Assets | 95,553 | 1,08,951 | 1,19,848 | 1,34,318 |
| Equity | | | | |
| Equity Share Capital | 1,377 | 1,377 | 1,377 | 1,377 |
| Other Equity | 54,616 | 68,579 | 77,121 | 87,490 |
| Total Networkth | 55,993 | 69,956 | 78,498 | 88,867 |
| Non-Current Liabilities | | | | |
| Long Term borrowings | 4,811 | - | - | - |
| Provisions | - | - | - | - |
| Other non current liabilities | - | - | - | - |
| Current Liabilities | | | | |
| ST Debt / Current of LT Debt | - | - | - | - |
| Trade payables | 4,456 | 7,156 | 7,896 | 8,840 |
| Other current liabilities | 22,216 | 23,378 | 24,992 | 28,149 |
| Total Equity & Liabilities | 95,553 | 1,08,951 | 1,19,847 | 1,34,317 |

Source: Company Data, PL Research

Cash Flow (Rs m)

| Y/e Mar | FY22 | FY23 | FY24E | FY25E |
|--------------------------------------|-----------------|-----------------|----------------|----------------|
| PBT | 17,134 | 20,247 | 16,310 | 19,797 |
| Add. Depreciation | 3,849 | 4,283 | 4,811 | 5,021 |
| Add. Interest | 568 | 404 | 318 | 387 |
| Less Financial Other Income | 907 | 1,013 | 1,011 | 931 |
| Add. Other | (476) | (597) | (1,011) | (931) |
| Op. profit before WC changes | 21,076 | 24,336 | 20,428 | 24,275 |
| Net Changes-WC | (95) | 4,052 | 1,050 | 1,536 |
| Direct tax | (4,363) | (4,608) | (4,105) | (4,983) |
| Net cash from Op. activities | 16,617 | 23,780 | 17,373 | 20,827 |
| Capital expenditures | (13,663) | (10,867) | (10,000) | (10,000) |
| Interest / Dividend Income | 329 | (47) | - | - |
| Others | 399 | 501 | 1,011 | 931 |
| Net Cash from Inv. activities | (12,935) | (10,413) | (8,989) | (9,069) |
| Issue of share cap. / premium | - | - | - | - |
| Debt changes | (4,193) | (4,779) | - | - |
| Dividend paid | (1,375) | (1,379) | (3,663) | (4,446) |
| Interest paid | (531) | (381) | (318) | (387) |
| Others | (185) | (245) | - | - |
| Net cash from Fin. activities | (6,284) | (6,784) | (3,981) | (4,832) |
| Net change in cash | (2,602) | 6,583 | 4,403 | 6,926 |
| Free Cash Flow | 2,954 | 12,912 | 7,373 | 10,827 |

Source: Company Data, PL Research

Key Financial Metrics

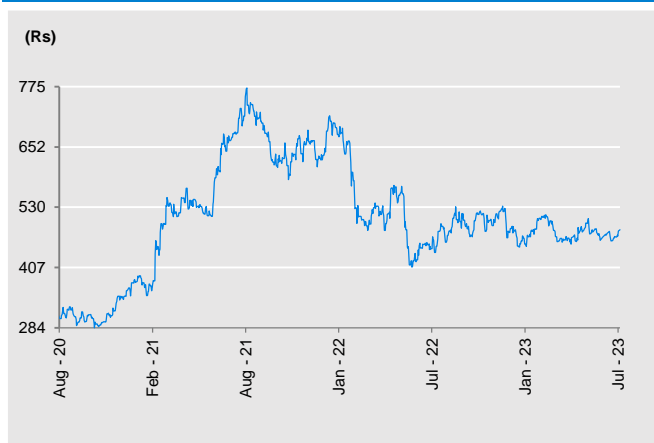
| Y/e Mar | FY22 | FY23 | FY24E | FY25E |
|----------------------------|------|-------|-------|-------|
| Per Share(Rs) | | | | |
| EPS | 18.8 | 22.2 | 17.7 | 21.5 |
| CEPS | 24.4 | 28.4 | 24.7 | 28.8 |
| BVPS | 81.3 | 101.6 | 114.0 | 129.1 |
| FCF | 4.3 | 18.8 | 10.7 | 15.7 |
| DPS | 2.0 | 6.7 | 5.3 | 6.5 |
| Return Ratio(%) | | | | |
| RoCE | 29.9 | 30.0 | 21.0 | 23.0 |
| ROIC | 17.7 | 19.2 | 14.4 | 16.6 |
| RoE | 25.8 | 24.2 | 16.4 | 17.7 |
| Balance Sheet | | | | |
| Net Debt : Equity (x) | 0.1 | (0.1) | (0.1) | (0.2) |
| Net Working Capital (Days) | (35) | (41) | (41) | (41) |
| Valuation(x) | | | | |
| PER | 24.2 | 20.5 | 25.7 | 21.1 |
| P/B | 5.6 | 4.5 | 4.0 | 3.5 |
| P/CEPS | 18.7 | 16.0 | 18.4 | 15.8 |
| EV/EBITDA | 15.3 | 12.8 | 14.8 | 12.2 |
| EV/Sales | 1.9 | 1.8 | 1.7 | 1.5 |
| Dividend Yield (%) | 0.4 | 1.5 | 1.2 | 1.4 |

Source: Company Data, PL Research

Quarterly Financials (Rs m)

| Y/e Mar | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 |
|-----------------------------------|---------------|---------------|---------------|---------------|
| Net Revenue | 39,765 | 36,843 | 39,286 | 37,815 |
| YoY gr. (%) | 9.7 | (28.4) | (15.9) | (26.9) |
| Raw Material Expenses | 30,684 | 28,280 | 30,797 | 30,945 |
| Gross Profit | 9,081 | 8,563 | 8,489 | 6,870 |
| Margin (%) | 22.8 | 23.2 | 21.6 | 18.2 |
| EBITDA | 6,427 | 5,823 | 5,603 | 3,880 |
| YoY gr. (%) | 53.4 | 145.2 | (19.7) | (36.0) |
| Margin (%) | 16.2 | 15.8 | 14.3 | 10.3 |
| Depreciation / Depletion | 1,064 | 1,093 | 1,094 | 1,151 |
| EBIT | 5,363 | 4,731 | 4,509 | 2,729 |
| Margin (%) | 13.5 | 12.8 | 11.5 | 7.2 |
| Net Interest | 131 | 76 | 61 | 74 |
| Other Income | 185 | 320 | 318 | 239 |
| Profit before Tax | 5,418 | 4,974 | 4,766 | 2,894 |
| Margin (%) | 13.6 | 13.5 | 12.1 | 7.7 |
| Total Tax | 1,379 | 1,261 | 1,074 | 743 |
| Effective tax rate (%) | 25.4 | 25.4 | 22.5 | 25.7 |
| Profit after Tax | 4,039 | 3,713 | 3,692 | 2,151 |
| Minority interest | - | - | - | - |
| Share Profit from Associates | - | - | - | - |
| Adjusted PAT | 4,039 | 3,713 | 3,692 | 2,151 |
| YoY gr. (%) | 64.6 | 204.5 | (18.5) | (43.6) |
| Margin (%) | 10.2 | 10.1 | 9.4 | 5.7 |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 4,039 | 3,713 | 3,692 | 2,151 |
| YoY gr. (%) | 64.6 | 204.5 | (16.9) | (43.6) |
| Margin (%) | 10.2 | 10.1 | 9.4 | 5.7 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 4,039 | 3,713 | 3,692 | 2,151 |
| Avg. Shares O/s (m) | 688 | 688 | 688 | 688 |
| EPS (Rs) | 5.9 | 5.4 | 5.4 | 3.1 |

Source: Company Data, PL Research

Price Chart
Recommendation History


| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|-----|-----------|--------|----------|-------------------|
| 1 | 04-Jul-23 | Hold | 450 | 475 |
| 2 | 11-May-23 | Hold | 450 | 463 |
| 3 | 08-May-23 | Hold | 450 | 461 |
| 4 | 06-Apr-23 | Hold | 450 | 462 |
| 5 | 13-Feb-23 | Hold | 530 | 485 |
| 6 | 03-Jan-23 | Hold | 530 | 490 |
| 7 | 10-Nov-22 | Hold | 530 | 495 |
| 8 | 01-Oct-22 | Hold | 530 | 503 |

Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---------|---------------------------------|--------|---------|------------------|
| 1 | Hindustan Petroleum Corporation | Hold | 264 | 276 |
| 2 | NOCIL | Hold | 230 | 228 |

PL's Recommendation Nomenclature (Absolute Performance)

| | |
|--------------------------|-----------------------------------|
| Buy | : > 15% |
| Accumulate | : 5% to 15% |
| Hold | : +5% to -5% |
| Reduce | : -5% to -15% |
| Sell | : < -15% |
| Not Rated (NR) | : No specific call on the stock |
| Under Review (UR) | : Rating likely to change shortly |

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