

November 3, 2023

## Q2FY24 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	477		480	
Sales (Rs. bn)	166	189	166	187
% Chng.	(0.2)	1.2		
EBITDA (Rs. bn)	19	21	19	23
% Chng.	2.1	(8.4)		
EPS (Rs.)	16.3	17.9	15.9	20.0
% Chng.	2.7	(10.6)		

### Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. bn)	168	166	189	209
EBITDA (Rs. bn)	24	19	21	23
Margin (%)	14.3	11.6	11.1	11.0
PAT (Rs. bn)	15	11	12	14
EPS (Rs.)	22.2	16.3	17.9	19.9
Gr. (%)	18.7	(26.3)	9.4	11.3
DPS (Rs.)	6.7	4.9	5.4	6.0
Yield (%)	1.6	1.2	1.3	1.4
RoE (%)	24.2	15.2	15.0	15.0
RoCE (%)	30.0	19.5	19.5	19.4
EV/Sales (x)	1.7	1.7	1.4	1.3
EV/EBITDA (x)	11.8	14.5	13.0	11.6
PE (x)	18.9	25.6	23.4	21.0
P/BV (x)	4.1	3.7	3.3	3.0

### Key Data

GGAS.BO | GUJGA IN

52-W High / Low	Rs.539 / Rs.397
Sensex / Nifty	64,364 / 19,231
Market Cap	Rs.288bn/ \$ 3,460m
Shares Outstanding	688m
3M Avg. Daily Value	Rs.690.54m

### Shareholding Pattern (%)

Promoter's	60.89
Foreign	3.80
Domestic Institution	13.09
Public & Others	22.22
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(1.5)	(11.3)	(19.0)
Relative	0.2	(15.7)	(23.4)

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## Lacklustre industrial volumes

### Quick Pointers:

- Morbi volume came in at 3.9 mmscmd in Q2FY24.
- CNG volume grew by 12.9% YoY to 2.6 mmscmd.

**We cut FY24/25 EPS estimates by 10.6/9.1% due to reduction in EBITDA/scm estimates. Gujarat Gas (Gujga) reported an EBITDA/PAT of Rs 5bn (+28% QoQ, Ple: Rs 4.1bn) and Rs 3bn (+38% QoQ, Ple: Rs 2.3bn) respectively. Total volumes grew 22% YoY to 9.3 mmscmd, driven by 31.1% YoY growth in industrial volumes. EBITDA/scm came in at Rs 5.8/scm in Q2. The stock is currently trading at 25.7x P/E. We build in 10% CAGR volume growth over FY24-26E. Owing to competition from alternate fuels we estimate an EBITDA of Rs5.5/scm going forward. Maintain 'Accumulate' rating with a TP of Rs 477 based on 24x FY26E EPS.**

- Sales volume growth YoY:** Total sales volume grew 22.3% YoY to 9.3 mmscmd. The recovery in volumes was led by industrial segment which grew by 31.1% YoY to 5.9 mmscmd. Commercial volumes remained flat YoY at 0.1 mmscmd. Domestic volume grew 1.4% YoY to 0.7 mmscmd. CNG sales increased 12.9% YoY to 2.6 mmscmd. On QoQ basis, total volumes grew 1%. CNG and industrial/commercial volume remained flat QoQ while domestic sales increased by 17% QoQ. Going ahead, we factor in 10% CAGR volume growth of 11.5 mmscmd for FY26E.
- Margins grow sequentially:** EBITDA at Rs 5bn was up 28% QoQ, aided by price hikes undertaken by the company. EBITDA/scm came in at Rs 5.8/scm, up by Rs1.2/scm QoQ. PAT came in at Rs 3bn, up 38% QoQ. On a YoY basis, EBITDA and PAT fell 23% and 26% respectively. For H1FY24, EBITDA stood at Rs 8.8bn, down 29.2% YoY while PAT fell 34.7% YoY to Rs 5.1bn. Going forward, we anticipate an EBITDA/scm of Rs 5.5/scm for FY24-26E.
- Conference Call highlights:** **1)** EBITDA/scm guidance stands at Rs4.5-5.5/scm. **2)** Management has guided 10% YoY volume growth for medium to long term led by CNG and industrial segment. **3)** Morbi volume for Q2 was 3.9 mmscmd expected to remain in the range of 4 mmscmd for next few months. **4)** Q2 average realization for ceramic units was Rs 41-42/scm, while that for non-ceramic units was higher at Rs48/scm. Current realization for ceramic units is Rs48-48.5/scm **5)** Total market size in Morbi is 8 to 8.5 mmscmd and is currently running at 75-80%. Propane accounts for 3 to 3.5 mmscmd, while gas accounts for 4 mmscmd. **6)** Spot LNG exposure is currently 35% for industrial customers and rest is long term. **7)** APM shortfall was 10-12% in Q2 and company has sourced HPHT gas to bridge the gap.

**Exhibit 1: Gujarat Gas' Quarterly and Half Yearly Income Statement**

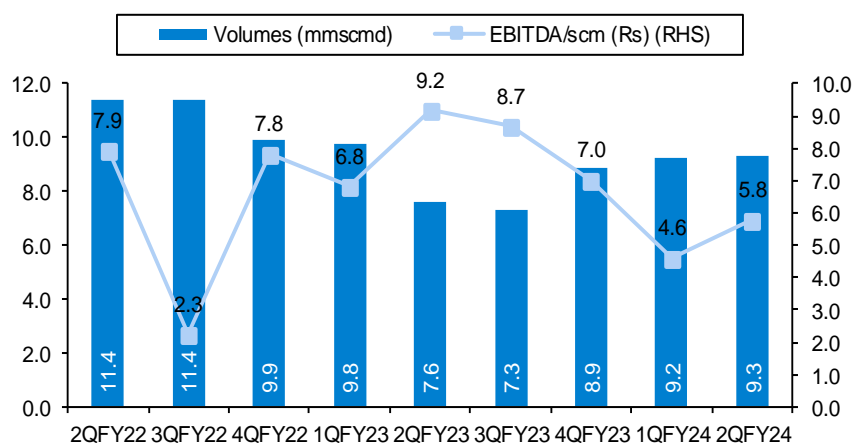
(Rs bn)	Q2FY24	Q1FY24	QoQ gr.	Q2FY23	YoY gr.	H1FY24	H1FY23	YoY gr.
<b>Net Sales</b>	<b>38.5</b>	<b>37.8</b>	<b>1.7%</b>	<b>39.8</b>	<b>-3.3%</b>	<b>76.3</b>	<b>91.5</b>	<b>-16.6%</b>
Total Expenditure	33.5	33.9	-1.3%	33.3	0.5%	67.4	79.0	-14.6%
<b>EBITDA</b>	<b>5.0</b>	<b>3.9</b>	<b>28.0%</b>	<b>6.4</b>	<b>-22.7%</b>	<b>8.8</b>	<b>12.5</b>	<b>-29.2%</b>
<i>Margins (%)</i>	<i>12.9</i>	<i>10.3</i>		<i>16.2</i>				
Depreciation	1.2	1.2	2.4%	1.1	10.8%	2.3	2.1	11.2%
Interest	0.1	0.1	5.6%	0.1	-40.5%	0.2	0.3	-43.1%
Other Income	0.3	0.2	24.9%	0.2	60.9%	0.5	0.4	43.1%
PBT	4.0	2.9	38.5%	5.4	-26.0%	6.9	10.5	-34.3%
Tax	1.0	0.7	38.6%	1.4	-25.4%	1.8	2.7	-33.3%
<i>Rate (%)</i>	<i>25.7</i>	<i>25.7</i>		<i>25.4</i>				
<b>Reported PAT</b>	<b>3.0</b>	<b>2.2</b>	<b>38.5%</b>	<b>4.0</b>	<b>-26.3%</b>	<b>5.1</b>	<b>7.8</b>	<b>-34.7%</b>
<i>YoY Change (%)</i>	<i>-26.3</i>	<i>-43.6</i>		<i>64.6</i>				
<i>Margins (%)</i>	<i>7.7</i>	<i>5.7</i>		<i>10.2</i>				
<b>EPS</b>	<b>4.3</b>	<b>3.1</b>	<b>38.5%</b>	<b>5.9</b>	<b>-26.3%</b>	<b>7.5</b>	<b>11.4</b>	<b>-34.7%</b>

Source: Company, PL

**Exhibit 2: Industrial/commercial volumes grew 30.2% YoY**

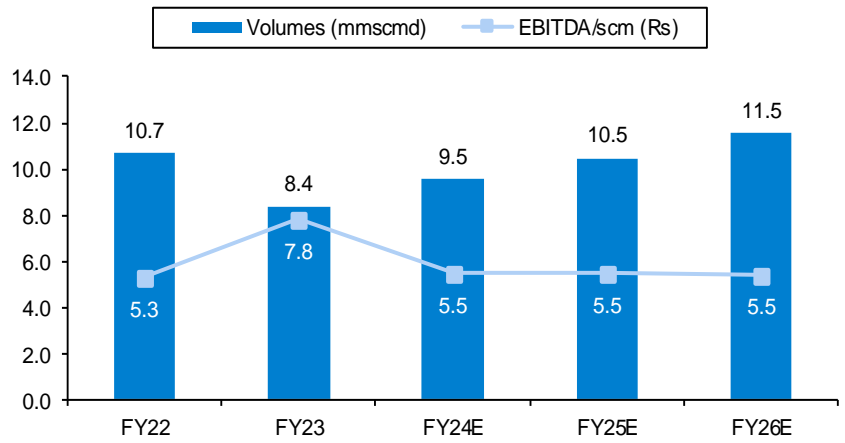
Volume Variation	Q2FY24	Q1FY24	QoQ gr.	Q2FY23	YoY gr.
<b>Total volume (mmscmd)</b>	<b>9.3</b>	<b>9.2</b>	<b>1.1%</b>	<b>7.6</b>	<b>22.3%</b>
CNG	2.6	2.6	0.4%	2.3	12.9%
PNG - Industrials/commercial	6.0	6.0	-0.2%	4.6	30.2%
PNG - Households	0.7	0.6	16.7%	0.7	1.4%
EBITDA (INR/scm)	5.8	4.6	25.2%	9.2	-36.8%

Source: Company, PL

**Exhibit 3: Total volumes grew 22% YoY**


Source: Company, PL

Exhibit 4: EBITDA/scm estimated at Rs5.5/scm



Source: Company, PL

## Financials

### Income Statement (Rs bn)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>168</b>	<b>166</b>	<b>189</b>	<b>209</b>
YoY gr. (%)	1.8	(1.0)	13.7	10.5
Cost of Goods Sold	133	136	158	175
Gross Profit	35	30	31	33
Margin (%)	20.1	17.6	16.3	16.0
Employee Cost	2	2	2	2
Other Expenses	9	9	8	8
<b>EBITDA</b>	<b>24</b>	<b>19</b>	<b>21</b>	<b>23</b>
YoY gr. (%)	15.2	(19.7)	9.6	9.0
Margin (%)	14.3	11.6	11.1	11.0
Depreciation and Amortization	4	5	5	5
<b>EBIT</b>	<b>20</b>	<b>14</b>	<b>16</b>	<b>18</b>
Margin (%)	11.7	8.7	8.5	8.5
Net Interest	0	0	0	0
Other Income	1	1	1	1
<b>Profit Before Tax</b>	<b>20</b>	<b>15</b>	<b>16</b>	<b>18</b>
Margin (%)	12.1	9.1	8.7	8.8
Total Tax	5	4	4	5
Effective tax rate (%)	24.7	25.2	25.2	25.2
<b>Profit after tax</b>	<b>15</b>	<b>11</b>	<b>12</b>	<b>14</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>15</b>	<b>11</b>	<b>12</b>	<b>14</b>
YoY gr. (%)	18.7	(26.3)	9.4	11.3
Margin (%)	9.1	6.8	6.5	6.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>15</b>	<b>11</b>	<b>12</b>	<b>14</b>
YoY gr. (%)	18.7	(26.3)	9.4	11.3
Margin (%)	9.1	6.8	6.5	6.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	15	11	12	14
<b>Equity Shares O/s (m)</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>EPS (Rs)</b>	<b>22.2</b>	<b>16.3</b>	<b>17.9</b>	<b>19.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs bn)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>102</b>	<b>105</b>	<b>111</b>	<b>117</b>
Tangibles	102	105	111	117
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>31</b>	<b>36</b>	<b>41</b>	<b>46</b>
Tangibles	31	36	41	46
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>71</b>	<b>70</b>	<b>70</b>	<b>71</b>
Tangibles	71	70	70	71
Intangibles	-	-	-	-
Capital Work In Progress	10	16	21	24
Goodwill	-	-	-	-
Non-Current Investments	3	3	3	3
Net Deferred tax assets	(8)	(8)	(8)	(8)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	1	1	1	1
Trade receivables	10	10	12	13
Cash & Bank Balance	7	10	15	21
Other Current Assets	-	-	-	-
<b>Total Assets</b>	<b>109</b>	<b>117</b>	<b>130</b>	<b>143</b>
<b>Equity</b>				
Equity Share Capital	1	1	1	1
Other Equity	69	76	85	95
<b>Total Networkth</b>	<b>70</b>	<b>78</b>	<b>86</b>	<b>96</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	7	7	8	9
Other current liabilities	23	23	26	29
<b>Total Equity &amp; Liabilities</b>	<b>109</b>	<b>117</b>	<b>130</b>	<b>143</b>

Source: Company Data, PL Research

**Cash Flow (Rs bn)**

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	20	15	16	18
Add. Depreciation	4	5	5	5
Add. Interest	0	0	0	0
Less Financial Other Income	1	1	1	1
Add. Other	(1)	(1)	(1)	(1)
Op. profit before WC changes	24	19	21	23
Net Changes-WC	4	0	2	1
Direct tax	(5)	(4)	(4)	(5)
<b>Net cash from Op. activities</b>	<b>24</b>	<b>16</b>	<b>19</b>	<b>20</b>
Capital expenditures	(11)	(10)	(10)	(10)
Interest / Dividend Income	0	-	-	-
Others	1	1	1	1
<b>Net Cash from Inv. activities</b>	<b>(10)</b>	<b>(9)</b>	<b>(9)</b>	<b>(9)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(5)	-	-	-
Dividend paid	(1)	(3)	(4)	(4)
Interest paid	0	0	0	0
Others	0	-	-	-
<b>Net cash from Fin. activities</b>	<b>(7)</b>	<b>(4)</b>	<b>(4)</b>	<b>(5)</b>
<b>Net change in cash</b>	<b>7</b>	<b>3</b>	<b>5</b>	<b>6</b>
Free Cash Flow	13	6	9	10

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	22.2	16.3	17.9	19.9
CEPS	28.4	23.3	25.2	27.6
BVPS	101.6	113.1	125.6	139.5
FCF	18.8	8.1	12.4	14.2
DPS	6.7	4.9	5.4	6.0
<b>Return Ratio(%)</b>				
RoCE	30.0	19.5	19.5	19.4
ROIC	19.2	13.4	14.0	14.5
RoE	24.2	15.2	15.0	15.0
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	(41)	(41)	(41)	(41)
<b>Valuation(x)</b>				
PER	18.9	25.6	23.4	21.0
P/B	4.1	3.7	3.3	3.0
P/CEPS	14.8	18.0	16.6	15.2
EV/EBITDA	11.8	14.5	13.0	11.6
EV/Sales	1.7	1.7	1.4	1.3
Dividend Yield (%)	1.6	1.2	1.3	1.4

Source: Company Data, PL Research

**Quarterly Financials (Rs bn)**

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
<b>Net Revenue</b>	<b>37</b>	<b>39</b>	<b>38</b>	<b>38</b>
YoY gr. (%)	(28.4)	(15.9)	(26.9)	(3.3)
Raw Material Expenses	28	31	31	31
Gross Profit	9	8	7	8
Margin (%)	23.2	21.6	18.2	20.6
<b>EBITDA</b>	<b>6</b>	<b>6</b>	<b>4</b>	<b>5</b>
YoY gr. (%)	145.2	(19.7)	(36.0)	(22.7)
Margin (%)	15.8	14.3	10.3	12.9
Depreciation / Depletion	1	1	1	1
<b>EBIT</b>	<b>5</b>	<b>5</b>	<b>3</b>	<b>4</b>
Margin (%)	12.8	11.5	7.2	9.8
Net Interest	-	-	-	-
Other Income	-	-	-	-
<b>Profit before Tax</b>	<b>5</b>	<b>5</b>	<b>3</b>	<b>4</b>
Margin (%)	13.5	12.1	7.7	10.4
Total Tax	1	1	1	1
Effective tax rate (%)	25.4	22.5	25.7	25.7
<b>Profit after Tax</b>	<b>4</b>	<b>4</b>	<b>2</b>	<b>3</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>4</b>	<b>4</b>	<b>2</b>	<b>3</b>
YoY gr. (%)	204.5	(101.6)	(43.6)	(26.3)
Margin (%)	10.1	9.4	5.7	7.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>4</b>	<b>4</b>	<b>2</b>	<b>3</b>
YoY gr. (%)	204.5	(101.6)	(43.6)	(26.3)
Margin (%)	10.1	9.4	5.7	7.7
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>4</b>	<b>4</b>	<b>2</b>	<b>3</b>
Avg. Shares O/s (m)	1	1	1	1
<b>EPS (Rs)</b>	<b>5.4</b>	<b>5.4</b>	<b>3.1</b>	<b>4.3</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-23	Accumulate	480	425
2	04-Aug-23	Accumulate	516	455
3	04-Jul-23	Hold	450	475
4	11-May-23	Hold	450	463
5	08-May-23	Hold	450	461
6	06-Apr-23	Hold	450	462
7	13-Feb-23	Hold	530	485
8	03-Jan-23	Hold	530	490
9	10-Nov-22	Hold	530	495

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Hold	472	489
2	Bayer Cropscience	Accumulate	4,720	5,270
3	Bharat Petroleum Corporation	Hold	365	347
4	Bharti Airtel	Accumulate	936	926
5	Clean Science and Technology	Hold	1,368	1,374
6	Deepak Nitrite	Reduce	1,854	2,125
7	Dhanuka Agritech	BUY	950	854
8	Fine Organic Industries	Hold	4,252	4,303
9	GAIL (India)	BUY	139	120
10	Godrej Agrovet	Hold	420	515
11	Gujarat Fluorochemicals	Accumulate	3,230	2,846
12	Gujarat Gas	Accumulate	480	425
13	Gujarat State Petronet	BUY	327	290
14	Hindustan Petroleum Corporation	Hold	263	258
15	Indian Oil Corporation	Hold	94	92
16	Indraprastha Gas	Hold	406	390
17	Insecticides India	Accumulate	550	514
18	Jubilant Ingrevia	Hold	433	412
19	Laxmi Organic Industries	Reduce	220	254
20	Mahanagar Gas	Hold	1,065	1,015
21	Mangalore Refinery & Petrochemicals	Hold	94	96
22	Navin Fluorine International	BUY	4,007	3,430
23	NOCIL	Hold	228	226
24	Oil & Natural Gas Corporation	BUY	202	181
25	Oil India	BUY	341	296
26	P.I. Industries	BUY	4,850	3,421
27	Petronet LNG	Hold	208	202
28	Rallis India	Reduce	190	217
29	Reliance Industries	BUY	2,618	2,266

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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