

Gujarat Gas

BSE SENSEX

82,366

S&P CNX

25,236



Stock Info

Bloomberg	GUJGA IN
Equity Shares (m)	688
M.Cap.(INRb)/(USDb)	417.8 / 5
52-Week Range (INR)	687 / 397
1, 6, 12 Rel. Per (%)	-12/-7/3
12M Avg Val (INR M)	777
Free float (%)	39.1

Financials Snapshot (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	156.9	171.8	187.1
EBITDA	18.8	23.3	26.4
PAT	11.4	14.1	16.4
EPS (INR)	16.0	20.6	23.8
EPS Gr. (%)	-27.8	28.5	15.8
BV/Sh.(INR)	111.7	125.2	140.9

Ratios

Net D:E	-0.1	-0.2	-0.2
RoE (%)	15.0	17.3	17.9
RoCE (%)	20.6	23.5	24.2
Payout (%)	34.1	34.1	34.1

Valuations

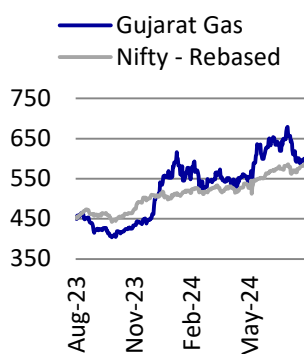
P/E (x)	38.9	30.2	26.1
P/BV (x)	5.6	5.0	4.4
EV/EBITDA (x)	22.3	17.7	15.4
Div. Yield (%)	0.9	1.1	1.3
FCF Yield (%)	1.7	2.2	2.8

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	60.9	60.9	60.9
DII	21.8	22.1	20.3
FII	4.3	3.7	4.5
Others	13.0	13.3	14.4

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR607

TP: INR715 (+18%)

Buy

Merger to unlock value for GUJGA and GUJS

Gujarat Gas has announced a scheme of amalgamation and arrangement, under which Gujarat State Petroleum Corp. (GSPC), Gujarat State Petronet (GUJS) and GSPC Energy (GEL) will merge with Gujarat Gas. This will be followed by the merged entity de-merging the transmission business into a new entity, GSPL Transmission Limited (GTL). Gujarat Gas management expects to complete the transactions by Aug'25.

Based on the proposed share swap, we see ~5% upside for GUJS. For Gujarat Gas shareholders, we see the following key implications after the merger:

- We estimate a combined value of the business at INR633/share, implying 4.7% upside on CMP.
- EPS is estimated to be INR28.7, up 39% vs. our FY25 EPS estimate.
- The company may not pay taxes for the next four years due to INR72b of accumulated tax losses at GSPC (based on FY24 PBT).

We maintain our BUY rating on Gujarat Gas with a TP of INR715. While 2QFY25 volume momentum is expected to be weak QoQ amid high spot LNG prices and a one-month shutdown in the Morbi cluster, we believe volumes should pick up in 2HFY25-FY26 amid improved competitiveness vs. propane. We keep our estimates unchanged as the scheme is expected to be completed in Aug'25.

Details of the scheme of amalgamation

In a meeting held on 30th Aug'24, the board of GUJS approved the composite scheme of arrangement and amalgamation among the group companies – GSPC, GUJS, GEL and Gujarat Gas (GUJGA). The scheme results in amalgamation of GSPC, GUJS and GEL with GUJGA, followed by the demerger of the gas transmission business into GTL.

Following are the key details pertaining to the scheme:

- **Share exchange ratio:**
 - **GSPC shareholders** will receive 10 shares of GUJGA (FV INR2) for every 305 equity shares of GSPC (FV INR1).
 - **GUJS shareholders** will be issued 10 shares of GUJGA (FV INR2) for every 13 equity shares of GUJS (FV INR10).
 - In the demerger of the gas transmission business into GTL, **GUJGA shareholders** will receive 1 equity share (FV INR10) of GTL for every 3 equity shares of GUJGA (FV INR2). GTL will be listed subsequently.

Timeline

Approval from SEBI and stock exchanges is expected by Dec'24. Approval of shareholders, regulatory authorities and MCA is expected by May'25. Shares pursuant to the scheme will be issued within one month of the receipt of all the approvals, after which trading of GUJS will be suspended. The listing of additional shares of GUJGA and the listing of GTL should be completed by Aug'25, marking the completion of the scheme.

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■ Objectives of the scheme

The objective of the scheme is to simplify the complex structure and boost business synergies and growth opportunities by merging interconnected operations of GSPC and GUJGA. Removing related-party transactions will further improve GUJGA's EBITDA and RoCE. The management aims to expand the group's market share and competitiveness in the gas trading business, and improve operational scale and efficiency through optimal resource use.

■ Benefits for the shareholders:

GUJGA is expected to see improved margins and return ratios, along with enhanced cash flows. Additionally, related-party transactions between GSPC and GUJGA will be eliminated. Shareholders of GUJS will witness value unlocking as they receive shares of both GUJGA and GTL. Moreover, the demerger will facilitate an independent, market-driven valuation of GTL.

Valuation and View

- GUJGA's long-term volume growth prospects remain robust, with the addition of new industrial units and the expansion of the 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 INR715, valuing it at 30x FY26E EPS.

Exhibit 1: GUJGA's EPS after the completion of the scheme is estimated to increase by 39% vs. our FY25 EPS estimate

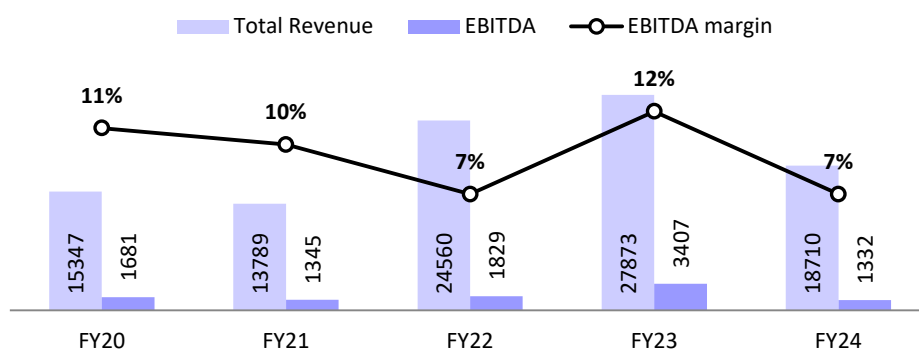
Company	FY24 PAT (INR m)	PAT Post merger (INR m)	Comments
GUJGA	11510	11,510	❖ Assumed Same as FY24
GSPC	12420	4,968	❖ Assumed lower due to weak spot LNG price outlook + elimination of profits from GUJGA business
GUJS	12850	6,500	❖ MOFSL Estimate for FY25
Tax shield		4,000	❖ Tax shield due to accumulated losses at GSPC
		26,978	❖ Profit of merged entity
		28.7	❖ EPS based on 940m shares
FY25 EPS		20.6	❖ MOFSL Estimate
EPS accretion		39%	

Source: Company, MOFSL

Exhibit 2: Value of the merged entity

Particulars	INR m	Comments
Gujarat Gas	4,16,820	Current MCap
GSPC valuation as per Mgt	2,10,000	
GUJS valuation as per Mgt	35,000	
GIGL	10,400	
GITL	941	
Less: GUJS value in GSPC books	-94,340	89% of INR106b
Tax shield	16,413	PV of tax shield on INR72b of tax losses
Value of combined business	5,95,235	
Combined value per sh	633	Based on 940mn shares
CMP	605	
Upside	4.7%	

Source: Company, MOFSL

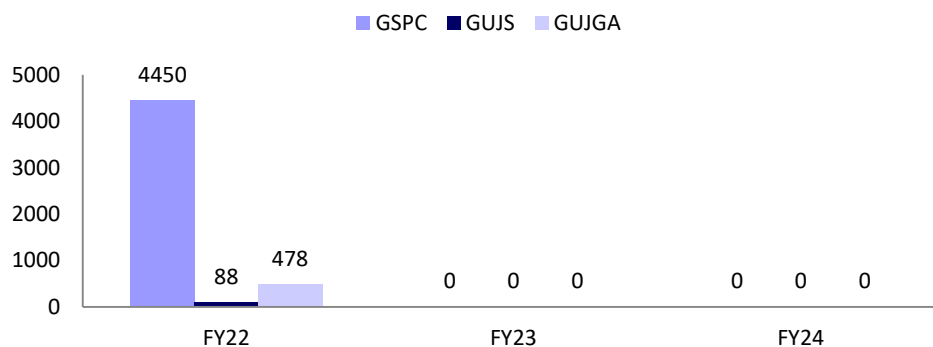
Exhibit 3: GSPC's revenue and EBITDA trends

Source: Company, MOFSL

Exhibit 4: Scheme is expected to be completed by Aug'25

Approval required from	Indicative
SEBI and Stock Exchange	Dec'24
Shareholders Approval	Jan'25-Mar'25
Regulatory authorities	Apr'25-May'25
MCA	Jan'25-May'25
Issuance of shares	Jun'25
Listing of additional shares of GUJGA	Jul'25-Aug'25
Listing of GTL	Jul'25-Aug'25

Source: Company, MOFSL

Exhibit 5: GSPC, GUJS and GUJGA are debt free for the past two years

Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	77,544	1,03,003	98,664	1,64,562	1,67,594	1,56,902	1,71,828	1,87,071
Change (%)	25.6	32.8	-4.2	66.8	1.8	-6.4	9.5	8.9
EBITDA	9,846	16,343	20,842	20,763	23,920	18,764	23,332	26,427
Margin (%)	12.7	15.9	21.1	12.6	14.3	12.0	13.6	14.1
Depreciation	2,880	3,180	3,436	3,849	4,283	4,743	5,267	5,375
EBIT	6,966	13,163	17,406	16,914	19,637	14,021	18,065	21,052
Int. and Finance Charges	1,962	1,922	1,168	568	404	293	297	305
Other Income	1,113	837	714	907	1,013	1,078	1,139	1,138
PBT bef. EO Exp.	6,117	12,078	16,953	17,253	20,247	14,805	18,907	21,885
EO Items	-179	0	0	-119	0	557	0	0
PBT after EO Exp.	5,939	12,078	16,953	17,134	20,247	15,362	18,907	21,885
Current Tax	1,768	145	4,272	4,278	4,992	3,934	4,759	5,508
Tax Rate (%)	29.8	1.2	25.2	25.0	24.7	25.6	25.2	25.2
Reported PAT	4,170	11,933	12,682	12,856	15,255	11,428	14,148	16,377
Adjusted PAT	4,296	11,933	12,682	12,946	15,255	11,013	14,148	16,377
Change (%)	47.4	177.8	6.3	2.1	17.8	-27.8	28.5	15.8
Margin (%)	5.5	11.6	12.9	7.9	9.1	7.0	8.2	8.8

Standalone - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	1,377	1,377	1,377	1,377	1,377	1,377	1,377	1,377
Total Reserves	20,463	31,529	43,110	54,616	68,579	75,516	84,840	95,633
Net Worth	21,840	32,906	44,486	55,993	69,956	76,893	86,217	97,010
Deferred Tax Liabilities	10,816	8,005	7,925	8,077	8,461	9,108	9,108	9,108
Total Loans	20,892	18,344	7,700	4,811	0	0	0	0
Capital Employed	53,547	59,255	60,111	68,881	78,417	86,000	95,324	1,06,117
Gross Block	68,861	73,531	81,252	90,156	1,04,085	1,13,079	1,16,915	1,21,984
Less: Accum. Deprn.	15,974	19,154	22,590	26,439	30,721	35,464	40,732	46,107
Net Fixed Assets	52,887	54,377	58,662	63,717	73,364	77,615	76,183	75,877
Capital WIP	4,902	5,708	7,088	9,672	9,831	9,180	15,344	20,275
Total Investments	160	1,633	1,926	2,806	317	1,364	1,364	1,364
Curr. Assets, Loans, and Adv.	13,326	17,255	17,411	19,358	25,439	28,425	35,789	44,875
Inventory	694	463	525	534	612	587	631	682
Account Receivables	5,103	5,101	7,747	9,301	10,212	10,298	11,278	12,279
Cash and Bank Balance	3,092	6,919	3,189	180	6,810	9,261	14,814	22,043
Cash balance	944	5,482	2,767	164	6,747	9,160	14,713	21,942
Bank balance	2,148	1,447	422	15	63	101	101	101
Loans and Advances	4,437	4,772	5,950	9,344	7,806	8,279	9,066	9,871
Curr. Liability and Prov.	17,727	19,718	24,976	26,672	30,534	30,583	33,355	36,273
Account Payables	3,523	3,670	4,473	4,456	7,156	7,002	7,527	8,143
Other Current Liabilities	13,724	15,015	19,740	21,349	22,554	22,787	24,955	27,169
Provisions	480	1,033	763	867	824	794	874	961
Net Current Assets	-4,402	-2,464	-7,565	-7,314	-5,095	-2,158	2,434	8,602
Appl. of Funds	53,548	59,255	60,111	68,881	78,417	86,000	95,325	1,06,118

Financials and Valuations

Ratios

Y/E March (INR)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	6.2	17.3	18.4	18.8	22.2	16.0	20.6	23.8
Cash EPS	10.4	22.0	23.4	24.4	28.4	22.9	28.2	31.6
BV/Share	31.7	47.8	64.6	81.3	101.6	111.7	125.2	140.9
DPS	1.0	1.3	2.0	2.0	6.7	5.7	7.0	8.1
Payout (%)	19.9	8.7	10.9	10.7	30.0	34.1	34.1	34.1
Valuation (x)								
P/E	99.6	35.9	33.7	33.1	28.1	38.9	30.2	26.1
Cash P/E	59.6	28.3	26.6	25.5	21.9	27.2	22.0	19.7
P/BV	19.6	13.0	9.6	7.6	6.1	5.6	5.0	4.4
EV/Sales	5.7	4.3	4.4	2.6	2.5	2.7	2.4	2.2
EV/EBITDA	45.3	26.9	20.7	20.8	17.6	22.3	17.7	15.4
Dividend Yield (%)	0.2	0.2	0.3	0.3	1.1	0.9	1.1	1.3
FCF per share	6.5	12.0	13.1	4.5	18.8	10.8	13.9	17.4
Return Ratios (%)								
RoE	21.3	43.6	32.8	25.8	24.2	15.0	17.3	17.9
RoCE	19.4	29.8	35.0	31.5	31.6	20.6	23.5	24.2
Working Capital Ratios								
Asset Turnover (x)	1.4	1.7	1.6	2.4	2.1	1.8	1.8	1.8
Inventory (Days)	3	2	2	1	1	1	1	1
Debtor (Days)	24	18	29	21	22	24	24	24
Creditor (Days)	17	13	17	10	16	16	16	16
Working Cap. Turnover (Days)	-35	-33	-40	-17	-26	-27	-26	-26
Leverage Ratio (x)								
Current Ratio	0.8	0.9	0.7	0.7	0.8	0.9	1.1	1.2
Debt/Equity ratio	0.8	0.3	0.1	0.1	-0.1	-0.1	-0.2	-0.2

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	5,939	12,078	16,953	17,134	20,247	15,362	18,907	21,885
Depreciation	2,880	3,180	3,436	3,849	4,283	4,743	5,267	5,375
Interest and Finance Charges	1,962	1,922	1,168	568	404	293	297	305
Direct Taxes Paid	0	-2,801	-4,166	-4,363	-4,608	-3,227	-4,759	-5,508
(Inc.)/Dec. in WC	-288	414	-437	-95	4,052	-201	961	1,061
Others	-849	-571	-365	-476	-597	-630	-1,139	-1,138
CF from Operations	9,644	14,221	16,588	16,617	23,780	16,340	19,534	21,979
(Inc.)/Dec. in FA	-5,376	-5,956	-7,556	-13,663	-10,867	-8,371	-10,000	-10,000
Free Cash Flow	4,447	8,266	9,033	3,073	12,912	7,412	9,534	11,979
Others	-761	1,287	1,432	728	454	584	1,139	1,138
CF from Investments	-6,137	-4,668	-6,124	-12,935	-10,413	-8,787	-8,861	-8,862
Inc./(Dec.) in Debt	-1,139	-2,149	-11,016	-4,193	-4,779	0	0	0
Interest Paid	-1,947	-1,864	-1,165	-531	-381	-273	-297	-305
Dividend Paid	-408	-837	-863	-1,375	-1,379	-4,575	-4,824	-5,584
CF from Fin. Activity	-3,494	-5,015	-13,179	-6,284	-6,784	-5,141	-5,121	-5,888
Inc./Dec. in Cash	13	4,538	-2,714	-2,602	6,583	2,413	5,553	7,229
Opening Balance	931	944	5,482	2,767	165	6,748	9,160	14,713
Closing Balance	944	5,481	2,767	165	6,748	9,160	14,713	21,942

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