

Gujarat Gas

Estimate changes

TP change

Rating change



Bloomberg	GUJGA IN
Equity Shares (m)	688
M.Cap.(INRb)/(USDb)	372.3 / 4.4
52-Week Range (INR)	690 / 412
1, 6, 12 Rel. Per (%)	-7/-8/5
12M Avg Val (INR M)	926

Financials & Valuations (INR b)

Y/E March	FY25E	FY26E	FY27E
Sales	164.1	170.5	181.1
EBITDA	21.6	23.6	25.3
PAT	12.8	14.2	15.5
EPS (INR)	18.6	20.6	22.5
EPS Gr. (%)	16.5	10.5	9.4
BV/Sh.(INR)	124.0	137.5	152.4

Ratios

Net D:E	-0.2	-0.2	-0.2
RoE (%)	15.8	15.7	15.5
RoCE (%)	21.5	21.4	21.1
Payout (%)	34.1	34.1	34.1

Valuations

P/E (x)	29.0	26.2	24.0
P/BV (x)	4.4	3.9	3.5
EV/EBITDA (x)	16.6	14.9	13.7
Div. Yield (%)	1.2	1.3	1.4
FCF Yield (%)	2.1	2.5	2.9

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	60.9	60.9	60.9
DII	21.4	21.8	20.1
FII	4.5	4.3	3.8
Others	13.2	13.0	15.2

FII Includes depository receipts

CMP: INR541

TP: INR660 (+22%)

Buy

Healthy margins offset volume weakness

- Gujrat Gas (GUJGA)'s 2QFY25 EBITDA was ahead of our estimates as a strong EBITDA/scm margin offset the volume weakness. Management slightly raised its margin guidance to INR5-6/scm (from INR4.5-5.5). However, the volume guidance commentary has remained cautious, guiding 6-7% growth over the next 18-24 months. We are not too concerned about the CGD companies' necessity to undertake CNG price hikes, given its solid price competitiveness vs. petrol.
- Following the conference call, we cut our FY26/27 PAT by 9/10%. Recovery in ceramic exports (and therefore Morbi volumes) and potential decline in spot LNG prices remain key catalysts in FY26, in our opinion.
- In 2QFY25, GUJGA reported an EBITDA and PAT, which were 10% and 17% above our estimates, respectively. The overall volume was down 4% vs. our estimate, though this was offset by the EBITDA/scm margin of INR6.4 (our est.: INR5.6). The beat at the EBITDA level appeared to be largely driven by gas cost optimization, as gross margin expanded from INR8.6/scm in 1QFY25 to INR10.4/scm in 2QFY25. In 3QFY25, we expect a recovery in volumes QoQ as 2Q volumes were hit by seasonality at Morbi.
- Management guided for an annualized volume CAGR of ~5-7% p.a., despite experiencing a recent shortfall in APM allocation of 26% in 2Q, which has now risen to ~50%. Management expects EBITDA/scm to range between INR5 and INR6 going forward. Management also highlighted: 1) a 12%/25% YoY increase in CNG volumes during 2Q in Gujarat/outside Gujarat, 2) expectation of a pickup in Morbi volumes driven by a decrease in Propane-PNG price differential, 3) hydrogen blending pilot project – completed successfully with 8% blending, and 4) F-DODO station commissioning, which is likely to start from 4QFY25.
- **Other key takeaways from the conference call:**
 - Management expects volume from Morbi to be ~3.5mmscmd in 3QFY25 (vs. 2.86mmscmd in 2QFY25).
 - Management guided a capex of INR8b for FY25. In 2QFY25, GUJGA incurred a capex of INR1.3b.
 - The company added nine new CNG stations in 2QFY25.
- We cut our volume estimates marginally, by 2%, for both FY26/FY27 to 10.9mmscmd/11.6mmscmd. GUJGA's long-term volume growth prospects remain robust, with the addition of new industrial units and expansion of existing units. **Hence, we reiterate our BUY rating on the stock with a TP of INR660 (premised on 30x Dec'26E EPS).**

Beat on EBITDA and PAT as healthy margins outweigh volume weakness

- In 2QFY25, GUJGA reported an EBITDA and PAT, which were 10% and 17% above our estimates, respectively. The overall volume was down 4% vs. our estimate, though this was offset by the EBITDA/scm margin of INR6.4 (our est.: INR5.6). The beat at the EBITDA level appeared to be largely driven by gas cost optimization, as gross margin expanded from INR8.6/scm in 1QFY25 to INR10.4/scm in 2QFY25. In 3QFY25, we expect a recovery in volumes QoQ as 2Q volumes were hit by seasonality at Morbi.

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- EBITDA stood at INR5.1b (est. of INR4.7b; up 4% YoY), and standalone PAT stood at INR3.1b (est. of INR2.6b; up 3% YoY). The sharp variance at the PAT level was a function of depreciation coming in below our estimates.
- Overall volumes in 2QFY25 came in at 8.8mmscmd, missing our estimates by 4%. However, EBITDA/scm stood at INR6.4 (vs. our est. of INR5.6; up 19% QoQ).
- **CNG volumes** were 2.9mmscmd (+12% YoY), in line with 2QFY24.
- **PNG I/C volumes** decreased to 5.1mmscmd (our est. 5.4mmscmd; -16% YoY).
- **PNG domestic volumes** stood at 0.8mmscmd (our est. 0.6mmscmd; +9% YoY).
- The company added more than ~38.5k new domestic customers and nine new CNG stations.
- As of 30 Sep'24, the company secured a signed volume of ~527,000scmd, set to be commissioned in the coming months.
- In **1H FY25**, while net sales grew 8% YoY to INR83.2b, EBITDA/PAT declined 30%/37% YoY to INR12.9b/INR7.3b. In **2H FY25**, we estimate net sales/EBITDA/PAT to grow 1%/12%/3% YoY.

Valuation and view

- The company's long-term volume growth prospects remain robust, with the addition of new industrial units and 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.
- The stock is trading at P/E of 26.2x FY26E and EV/EBITDA of 14.9x for FY26E. **We reiterate our BUY rating on the stock with a TP of INR660, valuing it at 30x Dec'26E EPS.**

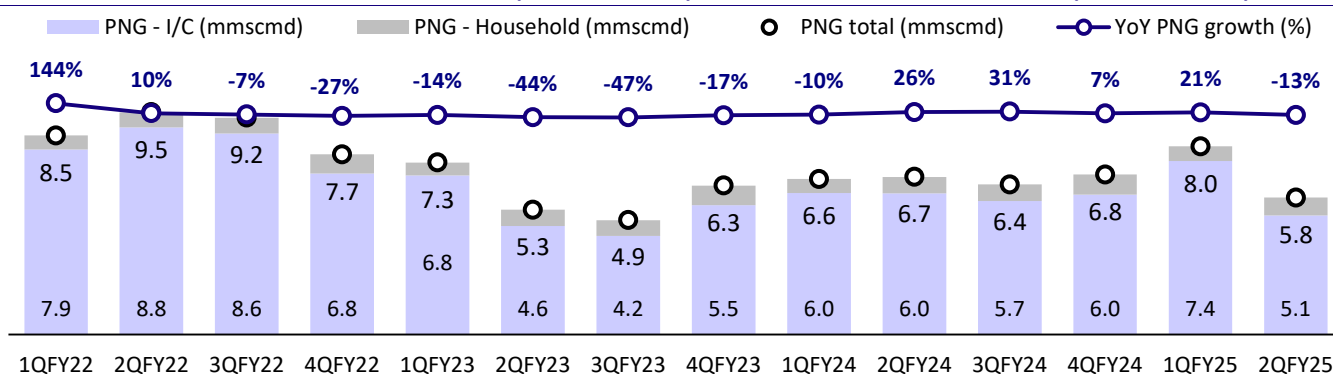
Standalone - Quarterly Earnings Model

Y/E March	(INR m)											
	FY24				FY25				FY24	FY25	FY25	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Net Sales	37,815	38,454	39,291	41,342	44,503	37,818	41,170	40,581	1,56,902	1,64,071	36,770	3%
YoY Change (%)	-26.9	-3.3	6.6	5.2	17.7	-1.7	4.8	-1.8	-6.4	4.6	-4.4	
EBITDA	3,880	4,966	4,007	5,911	5,356	5,142	5,558	5,567	18,764	21,623	4,694	10%
Margin (%)	10.3	12.9	10.2	14.3	12.0	13.6	13.5	13.7	12.0	13.2	12.8	
Depreciation	1,151	1,179	1,201	1,212	1,231	1,295	1,371	1,371	4,743	5,267	1,346	
Interest	74	78	72	69	78	80	74	65	293	297	74	
Other Income	239	298	230	311	386	386	155	155	1,078	1,081	235	
PBT	2,894	4,007	2,964	5,497	4,433	4,152	4,268	4,286	15,362	17,140	3,509	18%
Tax	743	1,029	761	1,402	1,135	1,083	1,076	1,020	3,934	4,314	884	
Rate (%)	25.7	25.7	25.7	25.5	25.6	26.1	25.2	23.8	25.6	25.2	25.2	
Reported PAT	2,151	2,978	2,203	4,095	3,298	3,069	3,193	3,266	11,428	12,826	2,625	17%
Adj. PAT	2,151	2,978	2,203	3,681	3,298	3,069	3,193	3,266	11,013	12,826	2,625	17%
YoY Change (%)	-43.6	-26.3	-40.7	-0.3	53.3	3.1	44.9	-11.3	-27.8	16.5	-11.9	
Total volume (mmscmd)	9.2	9.3	9.2	9.7	11.0	8.8	10.3	10.5	9.3	10.1	9.1	-4%
CNG	2.6	2.6	2.8	2.9	3.0	2.9	3.0	3.1	2.7	3.0	3.1	-5%
PNG – Industrial/Commercial	6.0	6.0	5.7	6.0	7.4	5.1	6.5	6.6	5.9	6.4	5.4	-6%
PNG – Households	0.6	0.7	0.7	0.9	0.6	0.8	0.8	0.8	0.7	0.7	0.6	18%
EBITDA (INR/scm)	4.6	5.8	4.8	6.7	5.4	6.4	5.9	5.9	5.5	5.9	5.6	14%

Operational Highlights

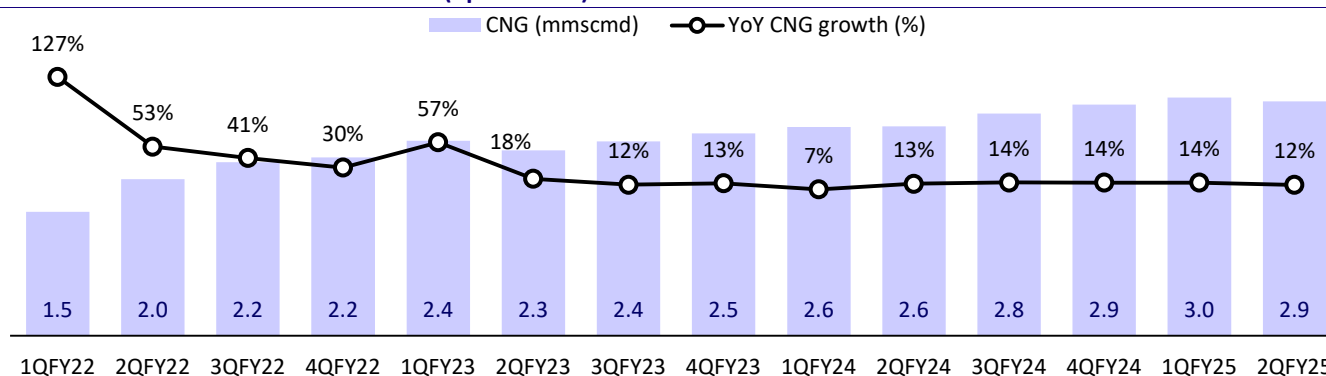
Particulars	FY23				FY24				FY25		2QFY25	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	YoY (%)	QoQ (%)
Net sales	51,701	39,765	36,843	39,286	37,815	38,454	39,291	41,342	44,503	37,818	-2%	-15%
Realization (INR/scm)	58.3	56.7	54.9	49.3	45.1	44.8	46.6	46.9	44.5	47.0	5%	5%
Total raw material	43,015	30,654	28,313	30,781	30,931	30,546	32,248	31,829	35,902	29,473	-4%	-18%
Gas cost (INR/scm)	48.5	43.7	42.2	38.6	36.9	35.6	38.3	36.1	35.9	36.6	3%	2%
Gross margin	8,686	9,111	8,530	8,505	6,884	7,908	7,043	9,513	8,601	8,344	6%	-3%
Gross margin (INR/scm)	9.8	13.0	12.7	10.7	8.2	9.2	8.4	10.8	8.6	10.4	12%	20%
EBITDA	6,066	6,427	5,823	5,603	3,880	4,966	4,007	5,911	5,356	5,142	4%	-4%
EBITDA (INR/scm)	6.8	9.2	8.7	7.0	4.6	5.8	4.8	6.7	5.4	6.4	10%	19%
PAT	3,811	4,039	3,713	3,692	2,151	2,978	2,203	4,095	3,298	3,069	3%	-7%
PAT (INR/scm)	4.3	5.8	5.5	4.6	2.6	3.5	2.6	4.6	3.3	3.8	10%	16%
Volumes												
CNG (mmscmd)	2.4	2.3	2.4	2.5	2.6	2.6	2.8	2.9	3.0	2.9	12%	-2%
PNG - Household (mmscmd)	0.6	0.7	0.7	0.8	0.6	0.7	0.7	0.9	0.6	0.8	9%	23%
PNG - I/C (mmscmd)	6.8	4.6	4.2	5.5	6.0	6.0	5.7	6.0	7.4	5.1	-16%	-31%
Total (mmscmd)	9.8	7.6	7.3	8.9	9.2	9.3	9.2	9.7	11.0	8.8	-6%	-20%

Exhibit 1: Total PNG volumes were 5.8mmscmd (down 13% YoY), with I/C volumes at 5.1mmscmd (down 16% YoY)

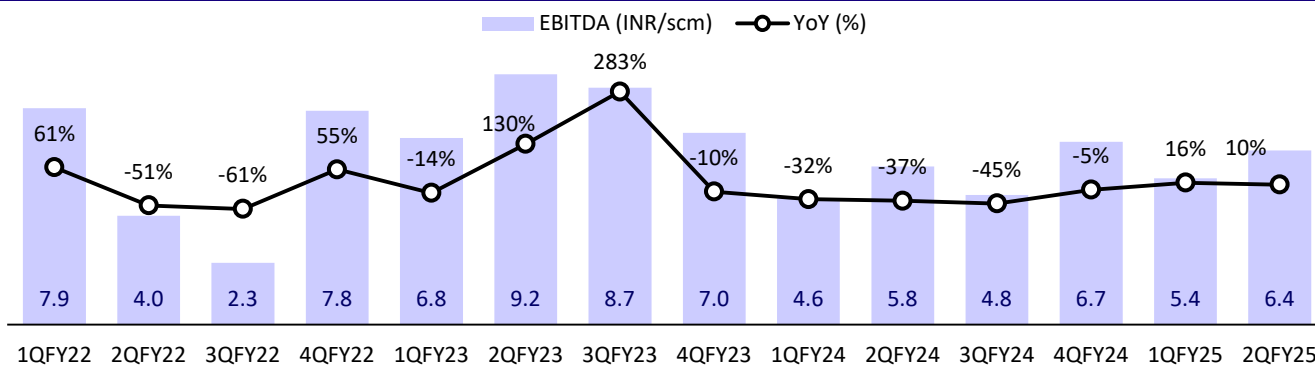


Source: Company, MOFSL

Exhibit 2: CNG volumes were 2.9mmscmd (up 12% YoY)



Source: Company, MOFSL

Exhibit 3: EBITDA/scm stood at INR6.4 (up 10% YoY)

Source: Company, MOFSL



Highlights from the management commentary

1QFY25 performance highlights:

- Scheme of Amalgamation and Merger: GUJGA expects to get clearance from exchanges by Nov'24-end.
- Hydrogen blending pilot project – completed successfully with 8% blending

EBITDA margin guidance:

- EBITDA/scm shall be between INR5 and INR6 going forward (vs. INR4.5-5.5 guided previously).
- CNG growth and new gas sourcing shall drive EBITDA margin improvement.

Volume guidance:

- Management reiterated its volume growth guidance of 5-7% YoY.

Domestic segment

- 38.5k customers added in 2Q, taking the total to 21.9lakh domestic customers

Commercial segment

- 50.4k customers in 2Q.

Industrial segment

- In 2QFY25, Morbi sales stood at 2.86mmcmd (lower due to Janmashtami), while non-Morbi sales stood at 2.05mmcmd. Ceramic market was also affected due to the geopolitical headwinds.
- Industrial gas charges increased ~INR2/scm in 2Q, due to high LNG prices.
- 3Q non-Morbi sales might get impacted marginally due to Diwali.

CNG segment

- Growth: 12% YoY increase in Gujarat, 25% YoY increase outside Gujarat
- Volumes stood at 2.9mmcmd in 2Q. Volumes split: Gujarat: 87%, outside Gujarat: 13%.
- CNG is 47%/9% cheaper than petrol/diesel, respectively.
- 9 new CNG stations added in 2Q
- F-DODO station commissioning shall start from 4QFY25.

Capex

- In 2Q, GUJGA incurred a capex of INR1.3b (1HFY25 capex stood at INR3.3b).
- INR8b capex guidance for FY25 was maintained.

APM gas:

- A 26% shortfall was observed in 2Q which was fulfilled through spot sourcing. The APM allocation shortage is now at 50%.
- New gas is being used to fulfill the shortfall, procured at pricing of 12% of Indian crude basket.

Morbi

- Management expects volume in 3QFY25 to be ~3.5mmscmd, from Morbi (vs. 2.86mmscmd in 2Q).
- The entire Morbi market size is ~7.5-8mmscmd. However, due to the ongoing crisis in the Middle East, the current market is ~6.5-7mmscmd.
- Current propane/gas price at Morbi: INR43.6/INR44.6 per scm, respectively (vs. INR41/INR44 per scm in 2Q).

APM Gas and Non-APM Gas sourcing volume breakup:

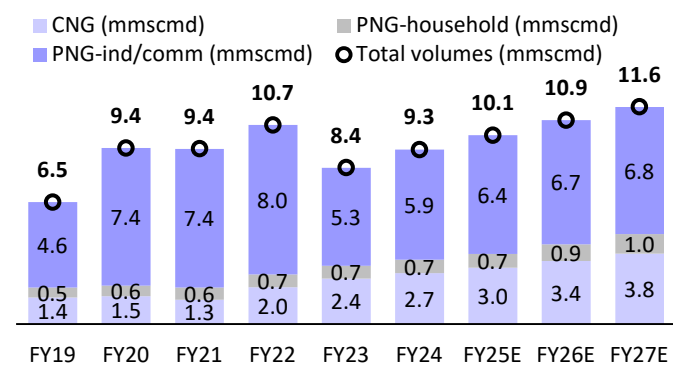
- Total: 8.9mmscmd, APM: 31%, Spot LNG: 34%, Long-term contracts: 35%.

Contracts

- GUJGA does not have any propane linked contracts. However, some contracts are still in discussions but nothing is signed yet.
- The company has a 2.5mmscmd BG contract
- There is another contract of 1mmscmd till 2025, and also a domestic gas contract with Reliance till Dec'24.
- The company will primarily take oil-linked contracts as it competes well with propane.

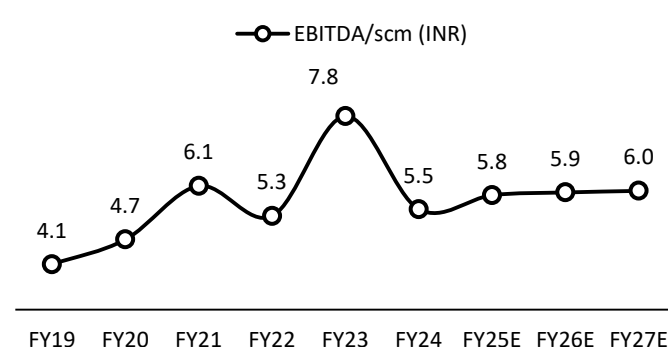
Story in charts

Exhibit 4: Volume snapshot for GUJGA



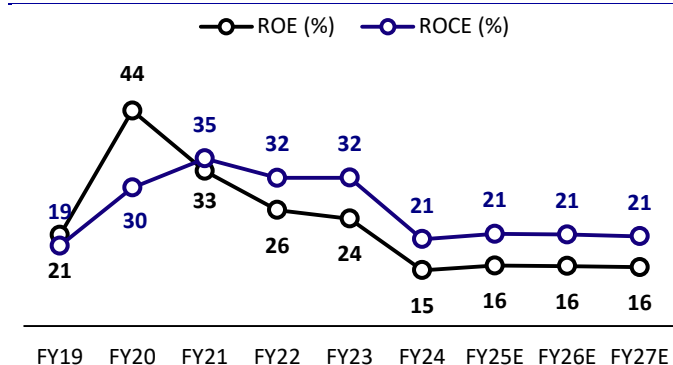
Source: Company, MOFSL

Exhibit 5: EBITDA/scm to be ~INR5.0-6.0 in FY25/26



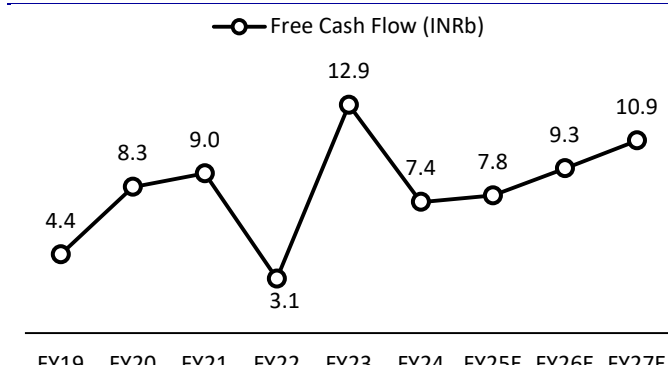
Source: Company, MOFSL

Exhibit 6: Return ratios



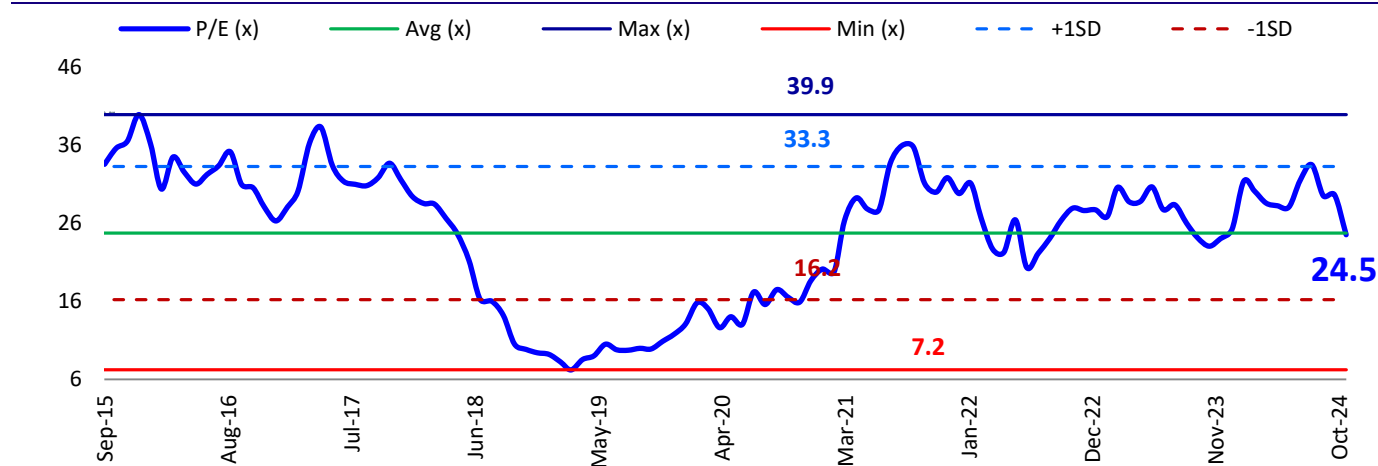
Source: Company, MOFSL

Exhibit 7: Free cash flow



Source: Company, MOFSL

Exhibit 8: One-year forward GUJGA P/E trades at 24.5x vs. its LT average of 24.7x



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	1,67,594	1,56,902	1,64,071	1,70,496	1,81,078
Change (%)	1.8	-6.4	4.6	3.9	6.2
EBITDA	23,920	18,764	21,623	23,620	25,314
Margin (%)	14.3	12.0	13.2	13.9	14.0
Depreciation	4,283	4,743	5,267	5,375	5,626
EBIT	19,637	14,021	16,355	18,245	19,688
Int. and Finance Charges	404	293	297	305	312
Other Income	1,013	1,078	1,081	1,001	1,341
PBT bef. EO Exp.	20,247	14,805	17,140	18,941	20,717
EO Items	0	557	0	0	0
PBT after EO Exp.	20,247	15,362	17,140	18,941	20,717
Current Tax	4,992	3,934	4,314	4,768	5,214
Tax Rate (%)	24.7	25.6	25.2	25.2	25.2
Reported PAT	15,255	11,428	12,826	14,174	15,502
Adjusted PAT	15,255	11,013	12,826	14,174	15,502
Change (%)	17.8	-27.8	16.5	10.5	9.4
Margin (%)	9.1	7.0	7.8	8.3	8.6

Standalone - Balance Sheet

(INR m)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	1,377	1,377	1,377	1,377	1,377
Total Reserves	68,579	75,516	83,968	93,310	1,03,526
Net Worth	69,956	76,893	85,345	94,686	1,04,903
Deferred Tax Liabilities	8,461	9,108	9,108	9,108	9,108
Total Loans	0	0	0	0	0
Capital Employed	78,417	86,000	94,453	1,03,794	1,14,011
Gross Block	1,04,085	1,13,079	1,16,915	1,21,984	1,28,039
Less: Accum. Deprn.	30,721	35,464	40,732	46,107	51,733
Net Fixed Assets	73,364	77,615	76,183	75,877	76,306
Capital WIP	9,831	9,180	15,344	20,275	24,220
Total Investments	317	1,364	1,364	1,364	1,364
Curr. Assets, Loans, and Adv.	25,439	28,425	33,485	39,446	47,372
Inventory	612	587	605	624	662
Account Receivables	10,212	10,298	10,769	11,191	11,885
Cash and Bank Balance	6,810	9,261	13,454	18,636	25,271
Cash balance	6,747	9,160	13,352	18,534	25,169
Bank balance	63	101	101	101	101
Loans and Advances	7,806	8,279	8,657	8,996	9,554
Curr. Liability and Prov.	30,534	30,583	31,922	33,167	35,251
Account Payables	7,156	7,002	7,221	7,445	7,896
Other Current Liabilities	22,554	22,787	23,828	24,762	26,298
Provisions	824	794	874	961	1,057
Net Current Assets	-5,095	-2,158	1,562	6,279	12,121
Appl. of Funds	78,417	86,000	94,453	1,03,795	1,14,011

Financials and valuations

Ratios

Y/E March (INR)	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)					
EPS	22.2	16.0	18.6	20.6	22.5
Cash EPS	28.4	22.9	26.3	28.4	30.7
BV/Share	101.6	111.7	124.0	137.5	152.4
DPS	6.7	5.7	6.4	7.0	7.7
Payout (%)	30.0	34.1	34.1	34.1	34.1
Valuation (x)					
P/E	24.4	33.8	29.0	26.2	24.0
Cash P/E	19.0	23.6	20.5	19.0	17.6
P/BV	5.3	4.8	4.4	3.9	3.5
EV/Sales	2.2	2.3	2.2	2.1	1.9
EV/EBITDA	15.3	19.3	16.6	14.9	13.7
Dividend Yield (%)	1.2	1.0	1.2	1.3	1.4
FCF per share	18.8	10.8	11.3	13.5	15.8
Return Ratios (%)					
RoE	24.2	15.0	15.8	15.7	15.5
RoCE	31.6	20.6	21.5	21.4	21.1
Working Capital Ratios					
Asset Turnover (x)	2.1	1.8	1.7	1.6	1.6
Inventory (Days)	1	1	1	1	1
Debtor (Days)	22	24	24	24	24
Creditor (Days)	16	16	16	16	16
Working Cap. Turnover (Days)	-26	-27	-26	-26	-27
Leverage Ratio (x)					
Current Ratio	0.8	0.9	1.0	1.2	1.3
Debt/Equity ratio	-0.1	-0.1	-0.2	-0.2	-0.2

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	20,247	15,362	17,140	18,941	20,717
Depreciation	4,283	4,743	5,267	5,375	5,626
Interest and Finance Charges	404	293	297	305	312
Direct Taxes Paid	-4,608	-3,227	-4,314	-4,768	-5,214
(Inc.)/Dec. in WC	4,052	-201	472	465	793
Others	-597	-630	-1,081	-1,001	-1,341
CF from Operations	23,780	16,340	17,781	19,318	20,892
(Inc.)/Dec. in FA	-10,867	-8,371	-10,000	-10,000	-10,000
Free Cash Flow	12,912	7,412	7,781	9,318	10,892
Others	454	584	1,081	1,001	1,341
CF from Investments	-10,413	-8,787	-8,919	-8,999	-8,659
Inc./(Dec.) in Debt	-4,779	0	0	0	0
Interest Paid	-381	-273	-297	-305	-312
Dividend Paid	-1,379	-4,575	-4,373	-4,833	-5,286
CF from Fin. Activity	-6,784	-5,141	-4,670	-5,137	-5,598
Inc./Dec. in Cash	6,583	2,413	4,192	5,182	6,635
Opening Balance	165	6,748	9,160	13,352	18,534
Closing Balance	6,748	9,160	13,352	18,534	25,169

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

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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