

09 August 2024

India | Equity Research | Q1FY25 results review

Gujarat Gas

Oil & Gas

Rich valuations, volatile volume trajectory; Reiterate SELL

Gujarat Gas (GUJGA) has reported 38% YoY rise in EBITDA/53% YoY rise in adj. PAT to INR 5.4bn/INR 3.3bn (I-Sec est of 5.6/3.4bn) in Q1FY25. Volume of 11mmscmd vs our estimate of 10.8mmscmd was offset by lower margin (EBITDA margin of INR 5.4/scm vs estimate of INR 5.7/scm). Morbi volume estimated at ~5.2mmscmd (+1.4mmscmd QoQ) saw traction from price cut taken by GUJGA (w.e.f Mar'24) in industrial segment and unfavourable propane prices. The company has taken price hike w.e.f Jul'24 in industrial segment due to increase in spot LNG prices. This, coupled with steady propane prices, can create some pressure on GUJGA volume for rest of FY25E. Our core concern on slow growth from new areas, softening return ratios and optimistic valuations remains unchanged. Maintain **SELL**, with TP of INR 365/sh (earlier INR 350/sh).

Strong volume for Q1, but guidance for Q2 cut sharply

Volume of 11mmscmd saw 19/13% YoY/QoQ growth driven by lower LNG prices, cut in industrial prices and steady propane prices benefiting volume at GUJGA–Morbi region. QoQ industrial/commercial volume of 7.4mmscmd (estimated Morbi 5.3, other areas 2.1) was up 23%/24% YoY/QoQ. Management mentioned Morbi volume in Q2FY25 is likely to be impacted by 20-30% due to subdued export market for ceramic industry, festival (Janmashtami), monsoon season, unfavourable propane gas economics and customers facing shipping issue due to global disturbances. Management has guided an aggressive CNG growth strategy, but overall growth guidance of ~7% suggests caution on prospects of I/C segment due to continued price volatility at Morbi.

Propane gas economics remains uncertain, I/C growth volatile

Extrapolating the current trend in propane prices (at USD 590/t in Aug'24, to remain steady for next 4months), equivalent propane prices are likely to be in ~INR 40–41/scm range. With GUJGA price hike of INR 2/scm in Jul'24 (Morbi price at INR 43.7/scm), there is little leeway to decrease prices to protect margins and increase volumes, particularly as spot LNG prices have also risen by USD 1.5/MMbtu QoQ so far. With GUJGA industrial prices being higher by INR 4/scm vs propane in Q2FY25 along with the above mentioned reasons -Morbi volumes may get impacted in Q2FY25 and beyond as well. While CNG volume will increase at a faster pace, overall volume remains captive to Morbi in near term, which creates meaningful uncertainties on overall volume. Also, management has guided for EBITDA/scm of INR 4.5-5.5 (Q1 INR 5.4/scm)

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	1,56,902	1,83,668	2,18,330	2,42,699
EBITDA	18,764	21,220	24,543	27,312
EBITDA %	12.0	11.6	11.2	11.3
Net Profit	11,013	12,754	14,874	16,575
EPS (INR)	16.0	18.5	21.6	24.1
EPS % Chg YoY	(27.8)	15.8	16.6	11.4
P/E (x)	38.9	33.6	28.8	25.8
EV/EBITDA (x)	22.0	19.4	16.5	14.6
RoCE (Pre-tax) (%)	18.7	19.3	20.3	20.2
RoE (%)	15.0	15.6	16.2	16.0

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Market Data

Market Cap (INR)	428bn
Market Cap (USD)	5,097mn
Bloomberg Code	GUJGA IN
Reuters Code	GGAS.BO
52-week Range (INR)	687 /397
Free Float (%)	25.0
ADTV-3M (mn) (USD)	10.2

Price Performance (%)	3m	6m	12m
Absolute	13.8	3.5	32.2
Relative to Sensex	6.4	(6.9)	12.4

Earnings Revisions (%)	FY25E	FY26E	FY27E
Revenue	(4.2)	(1.6)	(1.7)
EBITDA	(5.4)	(3.4)	(0.9)
EPS	(6.7)	(4.2)	(1.2)

Previous Reports

09-05-2024: [Q4FY24 results review](#)

01-03-2024: [Company Update](#)

Valuation and view: Rich multiples, material risks to consensus estimates

GUJGA has gone through several cycles of focusing on volumes at the cost of margins and vice versa in the past couple of years, with the current management again emphasising volume growth aggressively over the next couple of years. We have created scenarios (refer Exhibit-1) pointing sensitivity on earnings due to a) increase in volumes, b) increase in margins.

Overall, we have increased our target price to INR 365 (earlier INR 350) due to small changes in volume and margin assumptions beyond FY28E to factor a higher share of CNG in volume mix over longer term. However, due to cuts in Q2FY25 volume and slightly lower margin assumptions in the near term, EPS for FY25/26/27E is estimated at INR 18.5/21.6/24.1 per share (down 6.7/4.2/1% vs earlier estimates). We note that Street estimates of ~INR 23/sh for FY26 and INR 28/sh for FY27 seemingly build in a higher volume trajectory and stronger margin trajectory than management guidance, which seems unlikely to play out.

At our revised estimates, EPS CAGR for FY25–27E is 14% (100-150bps higher than peers), which is more than adequately factored in the multiples of 28.8x FY26E PER and 16.5x EV/EBITDA, ~40% premium to its second-largest peer IGL and 2.3x higher than our preferred pick in the CGD space MGL. We also note that the substantial capex done over FY21-24 (INR 40.4bn) and the planned ~INR 35bn over FY25-27E drags down RoE/RoCE to 16/20% over FY26-27E, well below RoE/RoCE of 29/24% seen in FY23. Reiterate **SELL**.

Key upside risks: i) Sharper recovery in LPG (propane) prices, ii) faster execution of expansion plans in new areas, iii) sharp drop in LNG prices.

Key downside risks: i) Longer sustained weakness in propane prices, ii) slower ramp up of volumes from new areas, iii) sudden spike in spot LNG prices.

Q1FY25 conference call: Takeaways

Operational performance

- GUJGA has authorisations in 27 GAs (geographical areas) in six states and one union territory, it has 40,200+km of pipeline network connecting 2.152mn households, 4,400+ industrial, 15,200+ commercial connections and 811 CNG stations serving 4mn vehicles per day. The company added 3 new CNG stations during the quarter and connected 37,400 domestic households.
- In Q1, propane price (gas equivalent) was INR 41/scm while GUJGA's industrial price at Morbi was INR 42/scm. However, after price hike by GUJGA in Jul'24, industrial price is INR 4/scm costlier than propane. Normally, premium of INR 1-2/scm is fine, but post that switching happens between propane and gas.
- During the quarter, APM gas allocation for priority sector was 75%. Of the total requirement, the company has sourced 27% of gas via long-term agreement and 49% by spot.
- Total gas sourced was 11.02mmscmd out of which 2.69mmscmd was APM, 3mmscmd was long term (have total contract of 4.3mmscmd) and the rest was spot. Also, spot price was cheaper during the quarter.

CNG Volume

- Achieved highest ever CNG volume of 2.98mmscmd in Q1FY25 on the back of investments in station infrastructure.

- During the quarter, CNG volume from Gujarat GAs and outside Gujarat grew by 14/27% YoY. CNG volume from Gujarat GAs is ~87% and 13% from outside Gujarat. Outside Gujarat GAs are closed to developed markets like Maharashtra, Punjab, Haryana etc. and so, it is likely to see higher growth.
- At least 1mmmscmd of additional CNG volume will flow from FDODO scheme over 1.5-2 years.

Industrial volume

- Achieved industrial volume of 7.25mmmscmd during the quarter with Morbi volume of 5.21mmmscmd in Q1FY25 vs 3.82mmmscmd in Q4FY24 and 4.01mmmscmd in Q1FY24. Non-Morbi was 2.03mmmscmd in Q1FY25 vs 1.98mmmscmd in Q4FY24 and 1.87mmmscmd in Q1FY24.
- Morbi volume in Q2FY25 is likely to be impacted by 20-30% due to subdued export market for ceramic industry, festival season (Janmashtami), monsoon season, unfavourable propane gas economics and customers facing shipping issue due to global disturbances.
- For industrial volume growth, the company is focusing mainly on developing network in Ahmedabad rural, Thane, Pithampur in Indore, Dadra and Nagar Haveli and Kutch West.
- Expecting volume growth of 7-8% in non-Morbi industrial belt of Surat, Ankleshwar, Bharuch and VAPI.
- Volume growth in non-Morbi areas was limited as the company is facing high competitiveness with alternate fuel prices. In some regions, coal and furnace oil is used which is not at all competitive.

New contracts

- Commissioned new industrial customers having 0.2mmmscmd of volumes in Q1FY25.
- The company has 0.63mmmscmd of industrial volumes signed that are likely to be commissioned within 6 months.
- In Mar'24, the company offered lower price scheme vs propane and received 160 EoI (expression of interest). The company will be signing the agreement soon.

Capex and expansion plans

- The company plans to add 22 new CNG stations and 62 upgradations at exiting stations. Apart from these, new stations will come through FDODO scheme where dealer will do capex. At least 200 EoIs (expression of interest) from FDODO scheme have been received. Nearly 60-75% stations are coming up in Gujarat, where the ecosystem is already developed.
- Capex guidance of INR 10bn for FY25; the company has incurred capex of INR 2bn in Q1. 50% of capex would be towards development of new GAs. The company plans to incur capex of INR 12,00-1,500 p.a. for next 3-5 years.
- In past 3-4 years, the company incurred capex of INR 35-40bn out of which 40-45% was towards new areas.

Guidance

- Management has guided for volume growth of 5-7% for FY25. Similar range of growth is expected from non-Morbi region.
- The company is closely tracking near term and longer period propane futures prices and will try to balance between margin and volume growth.

- The company has guided for EBITDA margin of 4.5-5.5%

Others

- CNG is cheaper by 47/15% vs petrol/diesel.
- As part of its commitment to ESG initiatives, the company has taken various measures including hydrogen blending power project which has been successfully completed with 5% blending and now blending has been increased to 8%.
- The company runs Green Hydrogen Blending (with PNG) pilot project at NTPC.
- Currently, spot LNG price is USD 13/MMBtu and even long-term contract price is USD 13-14/MMBtu.
- If natural gas comes under GST, industrial customer can enjoy the benefit of 6% VAT.

Exhibit 1: GUJGA – earnings sensitivity for change in margins and volumes

		FY25E	FY26E	FY27E
Base Case				
Volume	mmscmd	10.9	12.0	13.0
Gross Margins	INR/scm	8.9	9.1	9.1
Gross Margins	INR mn	35,205	39,534	43,361
Opex	INR mn	13,984	14,991	16,049
EBITDA	INR mn	21,220	24,543	27,312
PAT	INR mn	12,754	14,874	16,575
EPS		18.5	21.6	24.1
No. of ES		688.4	688.4	688.4
Scenario-1				
Volume increases by 1 mmscmd	mmscmd	11.9	13.0	14.0
Gross margins	INR mn	38,437	42,841	46,686
Change in Gross margins	INR mn	3,232	3,307	3,325
EBITDA	INR mn	24,452	27,850	30,637
EPS	INR /sh	22.0	25.2	27.7
Change in earnings		19%	17%	15%
Scenario-2				
Gross margins increase by INR1/scm	INR/scm	9.9	10.1	10.1
Gross margins	INR mn	39,181	43,897	48,120
Change in Gross margins	INR mn	3,976	4,363	4,759
EBITDA	INR mn	25,196	28,906	32,071
EPS	INR /sh	22.8	26.3	29.3
Change in earnings		23%	22%	21%

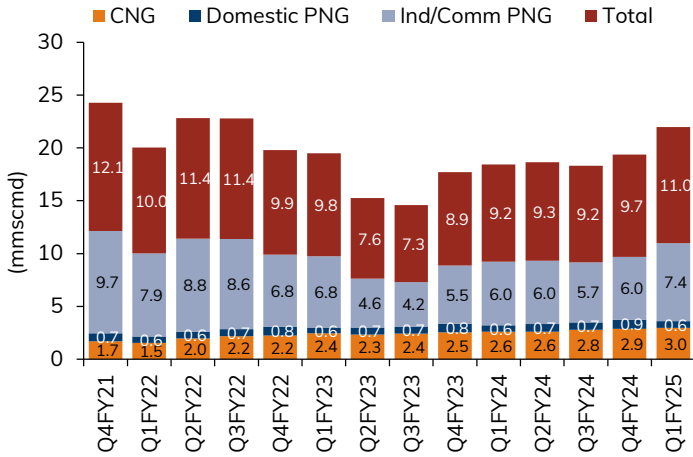
Source: I-Sec research, Company data

Exhibit 2: Q1FY25 result snapshot

Particulars (INRm)	Q1FY25	Q1FY24	YoY chg %	Q1FY24	QoQ chg %
Net Sales	44,503	37,815	17.7	41,342	7.6
EBITDA	5,356	3,880	38.1	5,911	(9.4)
Other income	386	239	61.6	311	24.0
PAT	3,298	2,151	53.3	4,095	(19.5)
Adj. PAT	3,298	2,151	53.3	3,681	(10.4)
Volumes (mmscmd)	11.0	9.2	19.1	9.7	13.3
CNG	3.0	2.6	14.2	2.9	3.1
Residential PNG	0.6	0.6	3.3	0.9	(27.1)
Industrial/Commercial	7.4	6.0	22.8	6.0	24.0
Gross margin (INR/scm)	8.6	8.2	5.3	10.8	(19.9)
EBITDA margin (INR/scm)	5.4	4.6	15.9	6.7	(20.0)
EPS	4.8	3.1	53.3	5.3	(10.4)

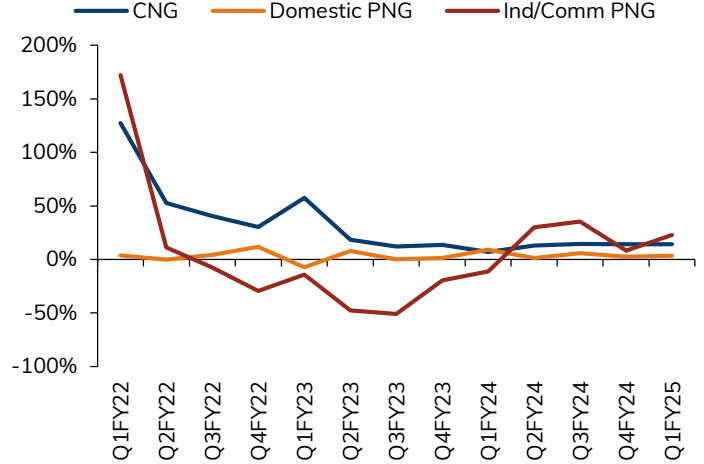
Source: Company data, I-Sec research

Exhibit 3: Volumes jumped YoY and QoQ



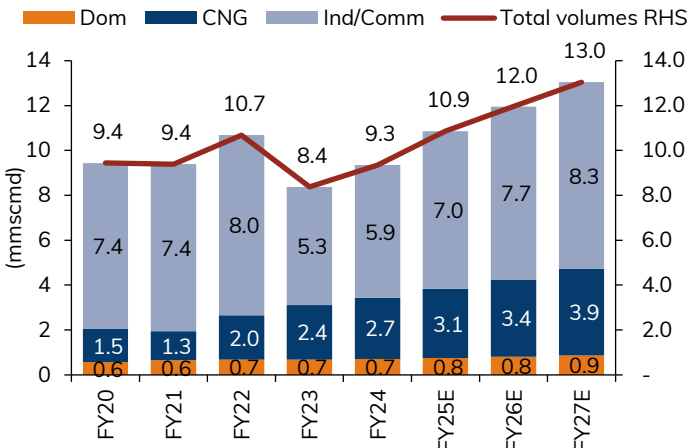
Source: Company data, I-Sec research

Exhibit 4: Strong YoY growth in industrial segment



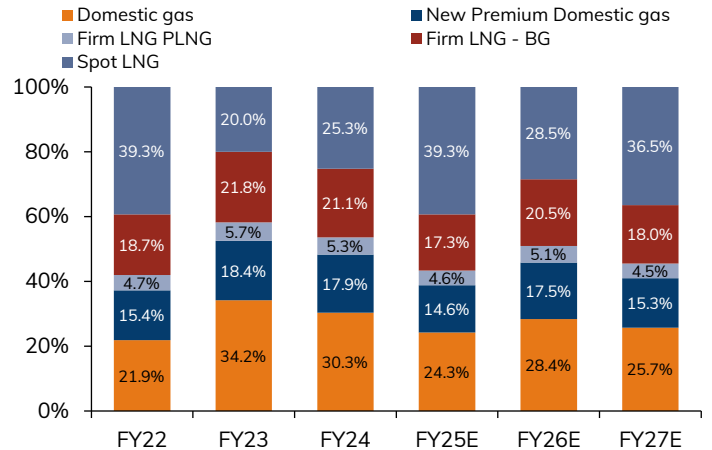
Source: Company data, I-Sec research

Exhibit 5: Volume growth to pick up over FY25-27E



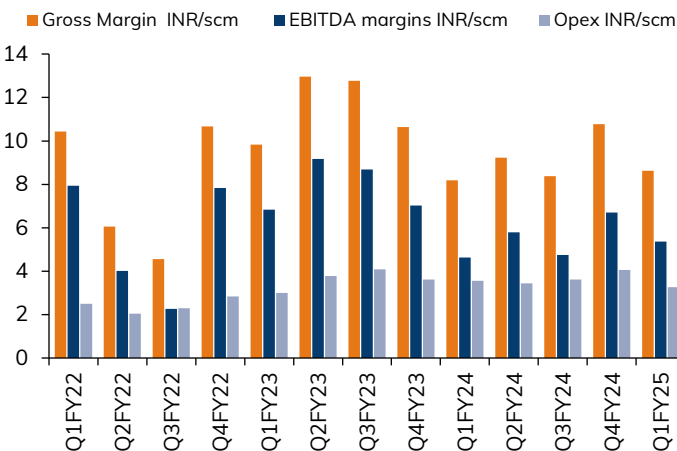
Source: Company data, I-Sec research

Exhibit 6: Sourcing mix more varied than before



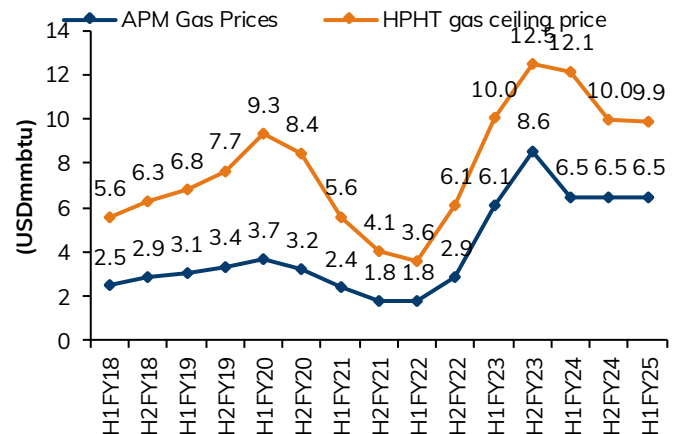
Source: Company data, I-Sec research

Exhibit 7: QoQ margins remained muted in Q1



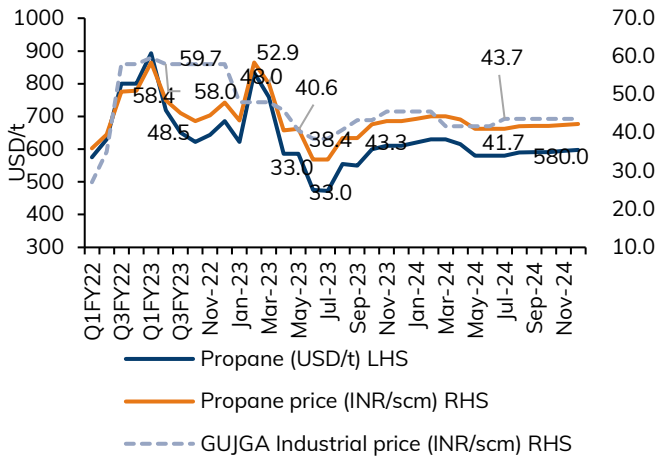
Source: Company data, I-Sec research

Exhibit 8: APM (GCV) gas price capped at USD 6.5/mmBtu and HPHT gas price remained flattish for H1FY25 vs H2FY24



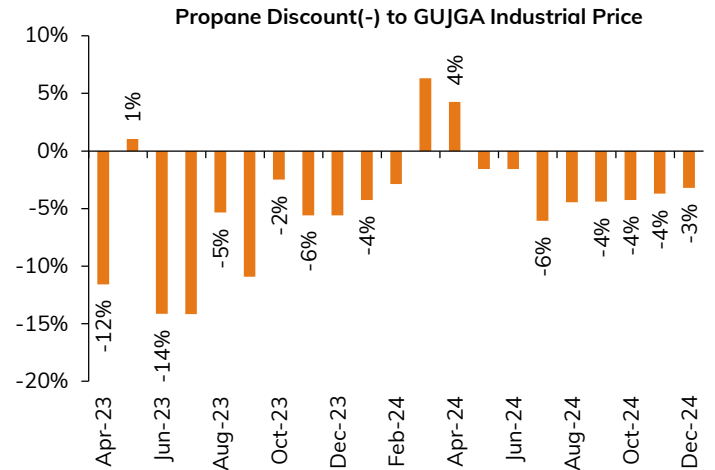
Source: Company data, I-Sec research

Exhibit 9: Propane futures prices remain steady



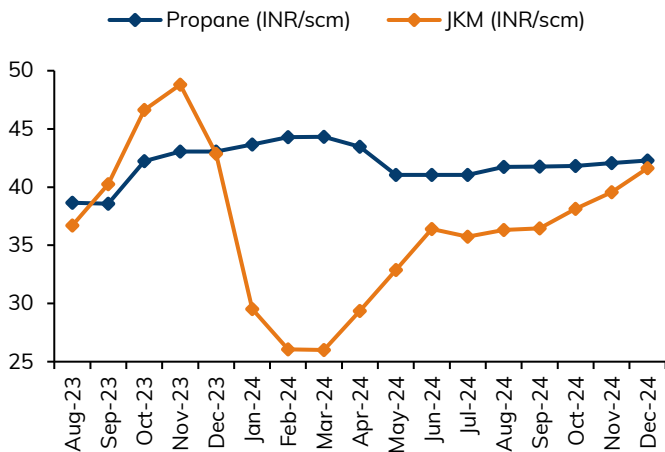
Source: Company data, I-Sec research, Note : Future prices from Sept'24 onwards

Exhibit 10: Propane likely to trade at discount vs GUJGA industrial prices



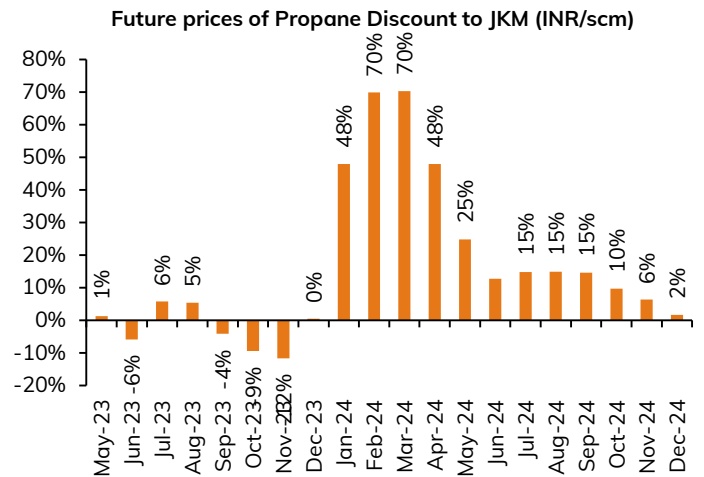
Source: Company data, I-Sec research, Note : Future prices from Sept'24 onwards

Exhibit 11: Futures propane prices remain steady while JKM price may see some uptick



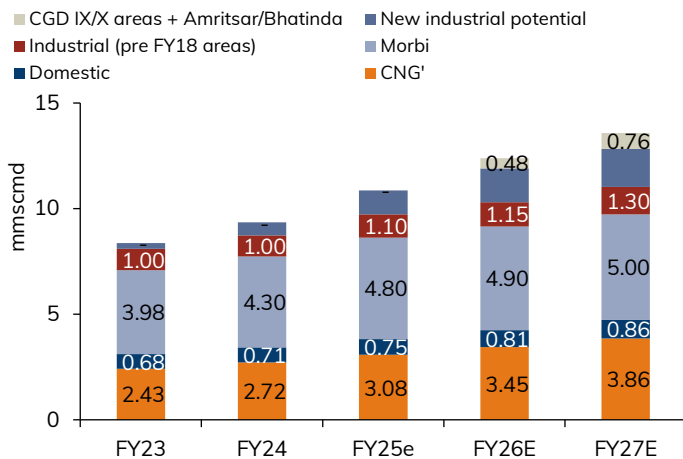
Source: Company data, I-Sec research, Note : Future prices from Aug'24 onwards

Exhibit 12: Propane premium to JKM likely to moderate from Nov'24



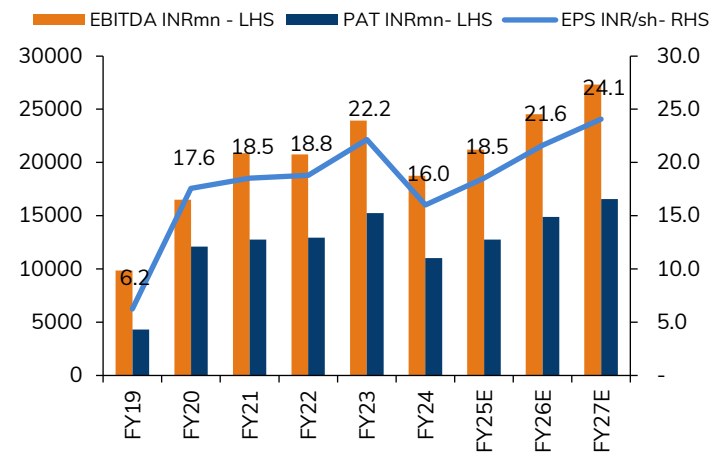
Source: Company data, I-Sec research, Note : Future prices from Sept'24 onwards

Exhibit 13: Volume potential in medium term



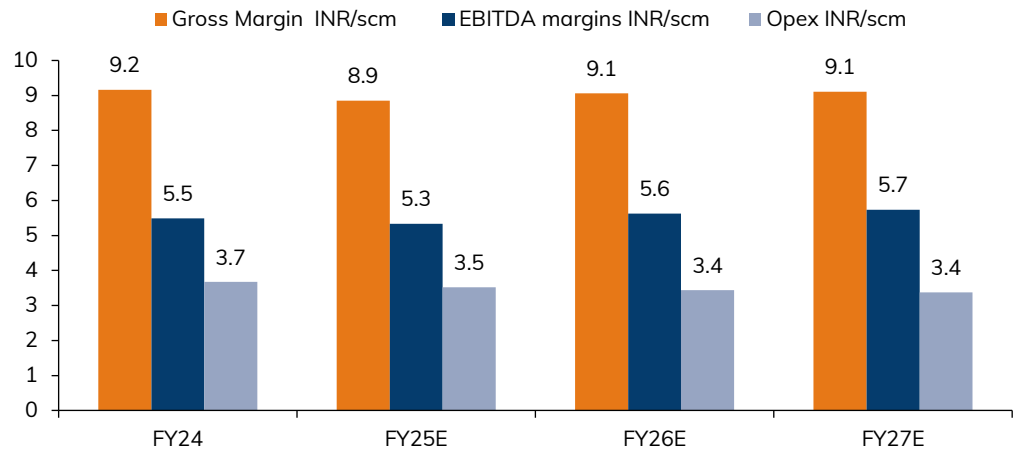
Source: Company data, I-Sec research

Exhibit 14: EBITDA/EPS to grow at a CAGR of 13%/14% over FY25-27E



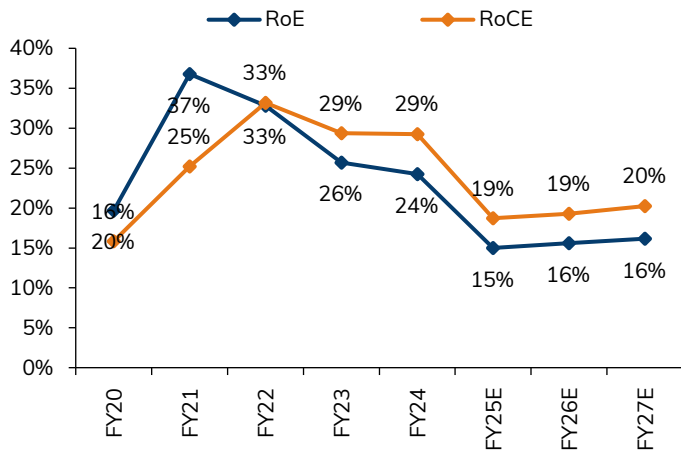
Source: Company data, I-Sec research

Exhibit 15: GUJGA's margin to remain muted over FY25–27E



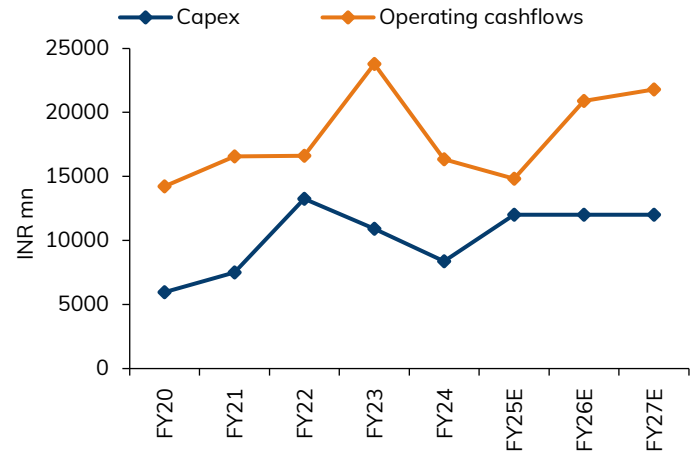
Source: Company data, I-Sec research

Exhibit 16: Return ratios decreasing



Source: Company data, I-Sec research

Exhibit 17: Capex of INR 36.0bn over FY25–27E



Source: Company data, I-Sec research

Valuation: Target price of INR 365 implies 41% downside

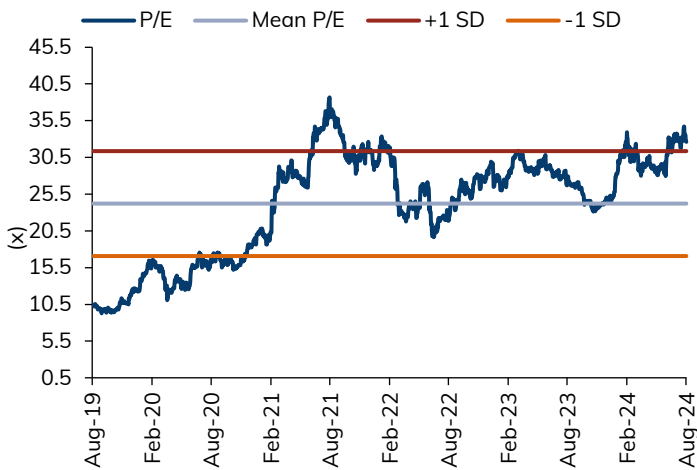
We value GUJGA as per DCF methodology, using a WACC of 11.4%, debt equity ratio (DER) of 25%, long-term EBITDA assumption of INR 5.2/scm. The gradual build-up in volumes from multiple new areas under development and new areas won recently in bidding rounds IX/X imply returns from the same would flow through only over long term. Our DCF valuation delivers a target price of INR 365/share and implies a 41% downside from CMP.

Exhibit 18: Valuation summary

	Assumption
Cost of Equity	13.0%
Cost of Debt	6.5%
Average D/E ratio	25.0%
WACC	11.4%
Terminal Growth rate	2.5%
Total NPV potential (INR/sh)	2,51,323
Target Price (INR/sh)	365
CMP (INR/sh)	622
Upside (downside) %	-41%

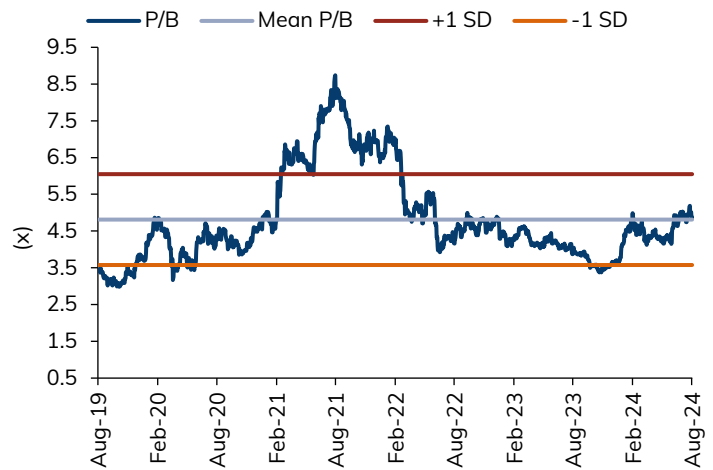
Source: Company data, I-Sec research

Exhibit 19: GUJGA's P/E is trading on higher band



Source: Company data, I-Sec research

Exhibit 20: GUJGA's P/B is trading near 5-year average band



Source: Company data, I-Sec research

Exhibit 21: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	60.9	60.9	60.9
Institutional investors	17.3	18.8	19.1
MFs and others	6.6	7.7	7.5
FIs/Banks	0.0	0.0	0.0
Insurance	7.4	7.3	7.3
FIIIs	3.3	3.8	4.3
Others	21.8	20.3	20.0

Source: Bloomberg

Exhibit 22: Price chart



Source: Bloomberg

Financial Summary

Exhibit 23: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	1,56,902	1,83,668	2,18,330	2,42,699
EBITDA	18,764	21,220	24,543	27,312
EBITDA Margin (%)	12.0	11.6	11.2	11.3
Depreciation & Amortization	4,743	5,247	5,751	6,255
EBIT	14,021	15,973	18,792	21,057
Interest expenditure	293	80	40	0
Other Non-operating Income	1,078	1,034	989	943
PBT	15,362	16,928	19,741	21,999
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	3,934	4,174	4,867	5,424
PAT	11,428	12,754	14,874	16,575
Less: Minority Interest	-	-	-	-
Net Income (Reported)	11,985	12,754	14,874	16,575
Extraordinaries (Net)	557	-	-	-
Recurring Net Income	11,013	12,754	14,874	16,575

Source Company data, I-Sec research

Exhibit 24: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	22,288	22,663	28,811	34,652
of which cash & bank	9,261	8,854	13,973	19,562
Total Current Liabilities & Provisions	27,825	26,362	28,578	28,707
Net Current Assets	(5,536)	(3,699)	233	5,946
Other Non Current Assets	-	-	-	-
Net Fixed Assets	77,615	84,368	90,617	96,362
Other Fixed Assets	-	-	-	-
Capital Work in Progress	9,180	9,180	9,180	9,180
Non Investment	-	-	-	-
Current Investment	7,501	8,001	8,501	9,001
Deferred Tax Assets	(9,108)	(9,108)	(9,108)	(9,108)
Total Assets	79,652	88,742	99,423	1,11,381
Liabilities				
Borrowings	1,503	1,003	503	3
Deferred Tax Liability	-	-	-	-
Lease Liability	-	-	-	-
Other Liabilities	1,256	1,281	1,307	1,333
Equity Share Capital	1,377	1,377	1,377	1,377
Reserves & Surplus*	75,516	85,081	96,237	1,08,668
Total Net Worth	76,893	86,458	97,613	1,10,045
Minority Interest	-	-	-	-
Total Liabilities	79,652	88,742	99,423	1,11,381

Source Company data, I-Sec research

Exhibit 25: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	38,454	39,291	41,342	44,503
% growth (YOY)	-3.3%	6.6%	5.2%	17.7%
EBITDA	4,966	4,007	5,911	5,356
Margin %	12.9%	10.2%	14.3%	12.0%
Other Income	298	230	311	386
Extraordinaries	-	-	-	-
Adjusted Net Profit	2,978	2,203	3,681	3,298

Source Company data, I-Sec research

Exhibit 26: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Cash Flow from operation before working Capital	19,769	21,220	24,543	27,312
Working Capital Changes	(201)	(2,220)	1,212	(97)
Tax	(3,227)	(4,174)	(4,867)	(5,424)
Operating Cashflow	16,340	14,827	20,888	21,791
Capital Commitments	(8,371)	(12,000)	(12,000)	(12,000)
Free Cashflow	24,712	26,827	32,888	33,791
Others CFI	(454)	534	489	443
Cashflow from Investing Activities	(8,825)	(11,466)	(11,511)	(11,557)
Inc (Dec) in Borrowings	-	(500)	(500)	(500)
Interest Cost	(273)	(80)	(40)	0
Others	(4,868)	(3,189)	(3,718)	(4,144)
Cash flow from Financing Activities	(5,141)	(3,769)	(4,259)	(4,644)
Chg. in Cash & Bank balance	2,374	(407)	5,118	5,590
Closing cash & balance	9,184	8,854	13,973	19,562

Source Company data, I-Sec research

Exhibit 27: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Recurring EPS	16.0	18.5	21.6	24.1
Diluted EPS	16.0	18.5	21.6	24.1
Recurring Cash EPS	22.9	26.1	30.0	33.2
Dividend per share (DPS)	5.7	4.6	5.4	6.0
Book Value per share (BV)	111.7	125.6	141.8	159.9
Dividend Payout (%)	35.4	25.0	25.0	25.0
Growth (%)				
Net Sales	(6.4)	17.1	18.9	11.2
EBITDA	(21.6)	13.1	15.7	11.3
EPS	(27.8)	15.8	16.6	11.4
Valuation Ratios (x)				
P/E	38.9	33.6	28.8	25.8
P/CEPS	27.2	23.8	20.7	18.7
P/BV	5.6	4.9	4.4	3.9
EV / EBITDA	22.0	19.4	16.5	14.6
EV / Operating Income	27.3	24.2	20.5	18.2
Dividend Yield (%)	0.9	0.7	0.9	1.0
Operating Ratios				
EBITDA Margins (%)	12.0	11.6	11.2	11.3
Effective Tax Rate (%)	25.6	24.7	24.7	24.7
Net Profit Margins (%)	7.0	6.9	6.8	6.8
NWC / Total Assets (%)	(7.0)	(4.2)	0.2	5.3
Fixed Asset Turnover (x)	1.5	1.6	1.7	1.7
Working Capital Days	7.7	20.6	20.9	20.0
Net Debt / Equity %	(19.8)	(18.3)	(22.5)	(26.0)
Profitability Ratios				
RoCE (%)	13.9	14.5	15.3	15.2
RoCE (Pre-tax) (%)	18.7	19.3	20.3	20.2
RoE (%)	15.0	15.6	16.2	16.0

Source Company data, I-Sec research

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