

# Gujarat Gas

## Lower volumes impact earnings

Our ADD recommendation on Gujarat Gas (GGL) with a price target of INR 600/sh is premised on (1) pricing competition from alternate fuel in the industrial/commercial segment moderating margin expansion outlook and (2) robust volume growth. Q2FY25 EBITDA/Adj. PAT at INR 5.1/3.1bn came in below our estimates, owing to lower volumes at 9mmscmd (-6% YoY, -20% QoQ).

- Volumes:** Blended volume in Q2 stood at 8.75mmscmd (-6% YoY, -20% QoQ). CNG volume came in at 2.93mmscmd (+12% YoY, -2% QoQ), while industrial volume came in at 5mmscmd (-16% YoY, -32% QoQ). Domestic PNG volume stood at 0.76mmscmd (+9% YoY, +23% QoQ). Commercial PNG volume stood at 0.15mmscmd (+7%YoY, +15% QoQ). Volume growth was impacted due to softness in demand from ceramic industry in the Morbi region. We estimate volumes at 10.3/13mmscmd for FY25/27E, implying a FY24-27e CAGR of 12%
- Margin:** Per-unit gross spread improved to INR 10.4/scm (+12% YoY, +22% QoQ) and EBITDA margin came in at INR 6.4/scm (+10% YoY, +21% QoQ) owing to better realisation at INR 47/scm (+5% YoY, +7% QoQ). However, Gas cost increased to INR 36.6/scm (+3% YoY, +3% QoQ). Opex stood at INR 4.0/scm (+16% YoY, +23% QoQ). We estimate GGL's per unit EBITDA margins at INR 6.3/7.9 per scm over FY25/27E.
- Con call takeaways:** (1) Volumes in Morbi were impacted due to Janmashtmi festival and geopolitical tensions which led to rise in costs, thus affecting the exports. CNG volumes were impacted due to monsoon. (2) Avg non Morbi volume was 2.05mmscmd during Q2FY25. Company expects Diwali to influence non-Morbi volumes in Q3FY25E. (3) PNG(I) prices were increased by INR 2/scm during the quarter (4) Avg Morbi volume for the quarter was 2.8mmscmd. Management believes that Morbi has a demand potential of 7.5-8 mmscmd. With price differential between propane and PNG reducing to INR 1-2, GUJGA expects PNG to gain market share going ahead. (5) Management is in discussion to increase the CNG prices after the recent reduction in APM gas allocation. (6) Company has guided for capex of INR 8-10bn during FY25E. INR 3.3 bn worth capex has been incurred in H1FY25. (7) Volume growth guidance of 5-7% has been maintained. However, EBITDA guidance has been revised upwards to INR 5-6/scm from earlier guidance of INR 4.5-5.5/scm for FY25E.
- Change in estimates:** We cut our EPS estimates for FY25/26 by 0.3/2.3% to INR 21.75/28.2 per sh to factor in lower margin assumption leading to a revised target price of INR 600/sh.
- DCF-based valuation:** Our target price of INR 600/sh is based on Mar-26E free cash flow (WACC 11%, terminal growth rate 3%). The stock is currently trading at 18.5x Mar-26E EPS.

### Standalone financial summary

| YE March<br>(INR bn) | 2Q<br>FY25 | 1Q<br>FY25 | QoQ<br>(%) | 2Q<br>FY24 | YoY<br>(%) | FY22 | FY23 | FY24E | FY25E | FY26E |
|----------------------|------------|------------|------------|------------|------------|------|------|-------|-------|-------|
| Revenue              | 38         | 45         | (15.0)     | 38         | (1.7)      | 165  | 168  | 157   | 178   | 204   |
| EBITDA               | 5          | 5          | (4.0)      | 5          | 3.5        | 21   | 24   | 19    | 24    | 30    |
| APAT                 | 3          | 3          | (6.9)      | 3          | 3.1        | 13   | 15   | 11    | 15    | 19    |
| AEPS (INR)           | 4.5        | 4.8        | (6.9)      | 4.3        | 3.1        | 18.5 | 22.2 | 16.0  | 21.8  | 28.2  |
| P/E (x)              |            |            |            |            |            | 28.2 | 23.6 | 32.7  | 24.1  | 18.5  |
| EV / EBITDA (x)      |            |            |            |            |            | 17.6 | 14.8 | 18.7  | 14.4  | 11.0  |
| RoE (%)              |            |            |            |            |            | 25.4 | 24.2 | 15.0  | 18.3  | 20.9  |

Source: Company, HSIE Research

## ADD

|                        |         |
|------------------------|---------|
| CMP (as on 8 Nov 2024) | INR 523 |
| Target Price           | INR 600 |
| NIFTY                  | 24,148  |

| KEY CHANGES  | OLD            | NEW            |
|--------------|----------------|----------------|
| Rating       | ADD            | ADD            |
| Price Target | INR 580        | INR 655        |
| EPS change % | FY25E<br>+4.6% | FY26E<br>+8.0% |

### KEY STOCK DATA

|                              |             |
|------------------------------|-------------|
| Bloomberg code               | GUJGA IN    |
| No. of Shares (mn)           | 688         |
| MCap (INR bn) / (\$ mn)      | 360/4,271   |
| 6m avg traded value (INR mn) | 1,067       |
| 52 Week high / low           | INR 690/412 |

### STOCK PERFORMANCE (%)

|              | 3M     | 6M     | 12M  |
|--------------|--------|--------|------|
| Absolute (%) | (15.8) | (4.2)  | 25.6 |
| Relative (%) | (16.5) | (12.3) | 3.3  |

### SHAREHOLDING PATTERN (%)

|                 | June-24 | Sep-24 |
|-----------------|---------|--------|
| Promoters       | 60.89   | 60.89  |
| FIs & Local MFs | 15.05   | 14.76  |
| FPIs            | 3.72    | 4.31   |
| Public & Others | 20.34   | 20.04  |
| Pledged Shares  | 0.0     | 0.0    |

Source : BSE

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