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Company update and
earnings revision

Oil & Gas and Petrochemicals

Target price: Rs535

Earnings revision

(%)	FY24E	FY25E
Sales	↓ 4.0	↓ 4.6
EBITDA	↑ 1.9	↑ 1.8
EPS	↑ 2.3	↑ 2.2

Target price revision

Rs535 from Rs554

Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	60.9	60.9	60.9
Institutional investors	15.2	18.0	17.5
MFs and others	10.0	10.6	9.4
FIs/ Banks	0.0	0.0	0.0
Insurance	0.0	2.2	2.9
FII's	5.2	5.2	5.2
Others	23.9	21.1	21.6

Source: www.nseindia.com

ESG disclosure score

Year	2021	2022	Chg
ESG score	28.4	28.4	0.0
Environment	1.6	1.6	0.0
Social	17.4	17.4	0.0
Governance	66.1	66.1	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

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Gujarat Gas

ADD

Maintain

Rs470

Industrial retail prices slashed by Rs3/scm

Gujarat Gas (GGL) has taken a second price cut in 4 months, reducing the base price in industrial retail segment to Rs44-46/scm for Morbi and other regions. The sharply lower spot LNG prices over Feb-Mar'23, coupled with the potential softening in propane prices from Apr'23 (communication from LPG sellers indicates a 14-15% reduction in propane prices from Apr'23 at Morbi) have likely driven GGL's price-cut decision. GGL seems to be following a strategy of maximising volumes by sacrificing margins over H1FY24, with the softer spot LNG prices and softer crude prices both helping reduce sourcing costs. However, for H2FY24, if commodity prices see strength due to EU gas storage top-up and Chinese demand recovery, our sense is that GGL will look to focus on margins and volume growth may taper off a bit. Irrespective of the split between volumes/margins, our FY24E EPS estimate of Rs23/sh (revised with this note) seems to face limited downside risk. Further, FY25E can see stronger growth with additional LNG supplies, some domestic supply boost and normalisation of LPG prices to provide better pricing power for GGL. We factor-in a steady 5% EPS CAGR over FY23E-FY25E, and retain our ADD rating on the stock.

- **Gas propane economics improved in Mar'23, Apr-Jun'23 can see some tightening:** Mar'23 saw for the first time in several months propane prices turning to a premium over GGL's industrial prices (also helped by a sharp price cut taken in Jan'23 by GGL). The higher number of units building capability for dual fuel in the Morbi region, has driven volumes sharply lower for industrial/commercial (I/C) segment (Q3 I/C volumes of 4.2mmcmd declined 51% YoY, 9% QoQ). The Mar'23 spike in propane prices by ~22% helped drive Morbi volumes to ~6mmcmd (highest in the last 15 months). Apr-Jun'23 future prices however indicate that propane prices may again decline to ~Rs40/scm levels. The price cut by GGL therefore indicates the willingness to match the same to keep price-competitiveness, hence demand intact.
- **Longer-term volume growth prospects stronger:** Even at conservative estimates in the near term, growth potential of GGL's geographic areas remains unmatched among peers. We see the following key drivers for the same: i) volume growth visibility from ~20 new areas developed over the past few years, ii) transfer of the lucrative Amritsar/Bhatinda area from parent group, and iii) significant legal win over Adani Gas to get the Ahmedabad extension area. All this adds to the already significant volume growth potential from Morbi and other extant areas. We estimate a volume CAGR of ~4% over FY22-FY28E for GGL.
- **Maintain ADD:** Despite the near-term comfort on pricing and volumes, we do see headwinds from propane to gas economics post H1FY24E and limited traction in earnings over the next 18-24 months (our revised estimates imply a 5% EPS CAGR over FY23E-FY25E). Multiple of 19x FY25E EPS fairly values the risk-reward. Reiterate ADD.
- **Key risks:** 1) Renewed LNG price escalation, 2) inability to take price hikes, and 3) failure to execute the company's ambitious network expansion plans.

Market Cap	Rs323bn/US\$3.9bn
Reuters/Bloomberg	GSPT.BO / GUJGA IN
Shares Outstanding (mn)	688.4
52-week Range (Rs)	664/408
Free Float (%)	39.1
FII (%)	5.2
Daily Volume (US\$/'000)	6992
Absolute Return 3m (%)	(1.8)
Absolute Return 12m (%)	(3.8)
Sensex Return 3m (%)	(5.0)
Sensex Return 12m (%)	1.3

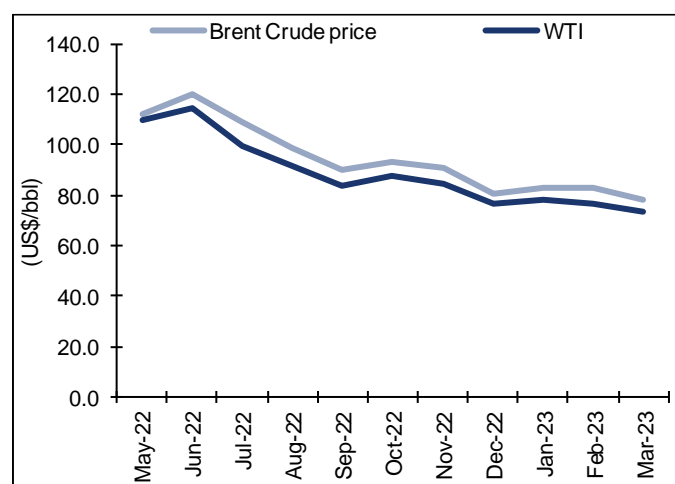
Year to March	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	1,64,562	1,69,561	1,88,141	2,01,911
Net Income (Rs mn)	12,947	15,218	15,735	16,900
EPS (Rs)	18.8	22.1	22.9	24.6
% Chg YoY	2%	18%	3%	7%
P/E (x)	25.0	21.2	20.5	19.1
CFPS (Rs)	24.4	28.4	29.8	32.2
EV/E (x)	15.7	13.2	12.2	11.0
Dividend Yield (%)	0.4%	0.6%	0.6%	0.7%
RoCE (%)	29%	29%	25%	24%
RoE (%)	26%	24%	21%	19%

Table 1: Quarterly snapshot

Particulars (Rs mn)	Q3FY23	Q3FY22	YOY % Change	Q2FY23	QOQ Change %	9MFY23	9MFY22	YOY% Change
Net sales	36,843	51,444	(28.4)	39,765	(7.3)	1,28,308	1,17,698	9.0
EBITDA	5,823	2,375	145.2	6,427	(9.4)	18,317	13,814	32.6
Other income	320	353	(9.3)	185	72.7	695	757	(8.2)
PAT	3,713	1,219	204.5	4,039	(8.1)	11,563	8,471	36.5
Adj PAT	3,713	1,219	204.5	4,039	(8.1)	11,563	8,471	36.5
Volumes (mmscmd)	7.3	11.4	(36.0)	7.6	(4.3)	8.2	10.9	(24.9)
CNG (mmscmd)	2.4	2.2	12.0	2.3	4.7	2.4	1.9	26.5
Residential PNG (mmscmd)	0.7	0.7	-	0.7	(2.9)	0.6	0.6	0.4
Industrial/Commercial(m mscmd)	4.2	8.6	(51.0)	4.6	(9.1)	5.2	8.4	(38.4)
Gross margin (Rs/scm)	12.8	4.6	179.9	13.0	(1.4)	11.7	6.9	70.1
Ebitda margin (Rs/scm)	8.7	2.3	283.1	9.2	(5.3)	8.1	4.6	76.6
EPS (Rs/share)	5.4	1.8	204.5	5.9	(8.1)	16.8	12.3	36.5

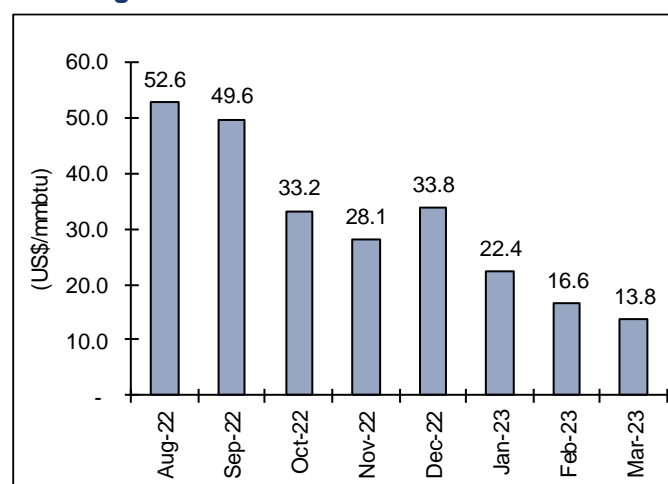
Source: Company data, I-Sec research

Chart 1: Crude prices are softening ...



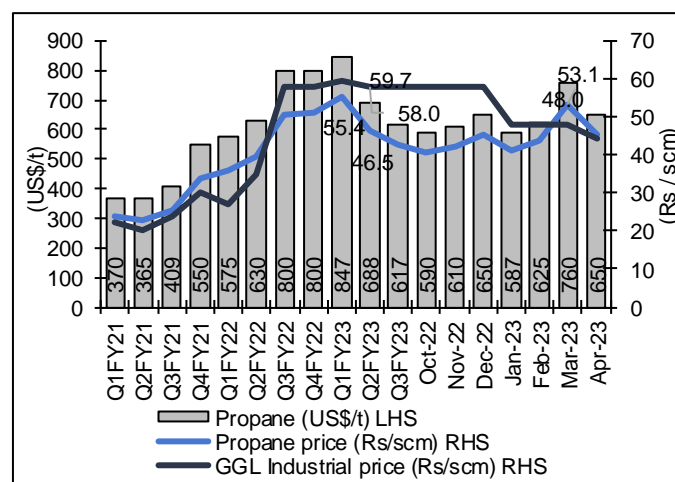
Source: Bloomberg, I-Sec research

Chart 2: ...so are spot LNG prices –helping reduce sourcing cost



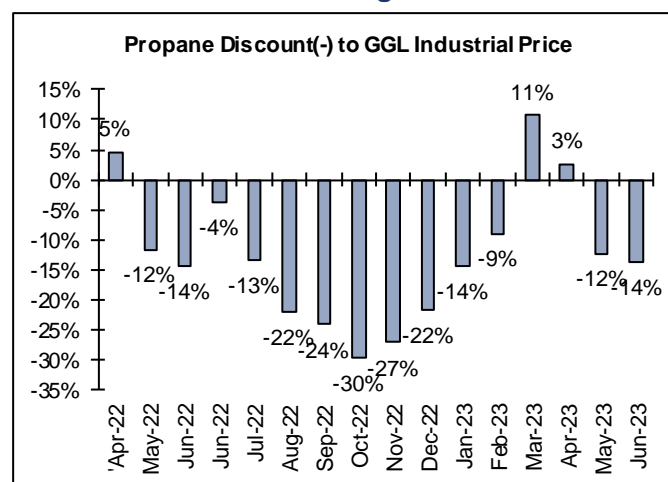
Source: Reuters, I-Sec research

Chart 3: Propane vs GGL industrial gas prices – turned favourable in March'23



Source: Company data, I-Sec research

Chart 4: Apr-Jun'23 may see propane to gas economics turn favorable again

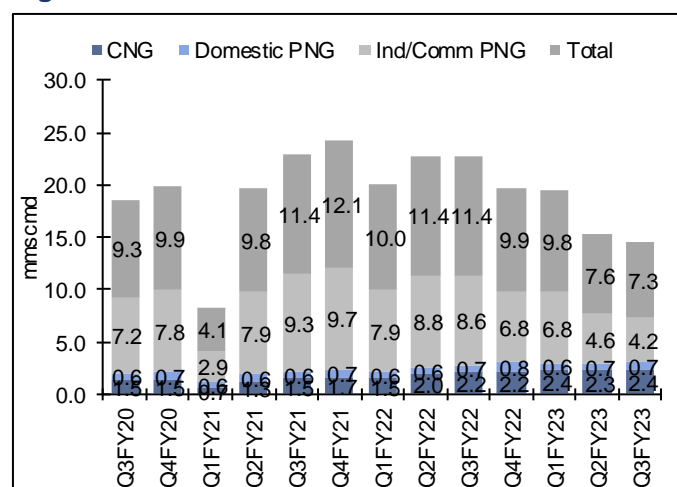


Source: Company data, I-Sec research

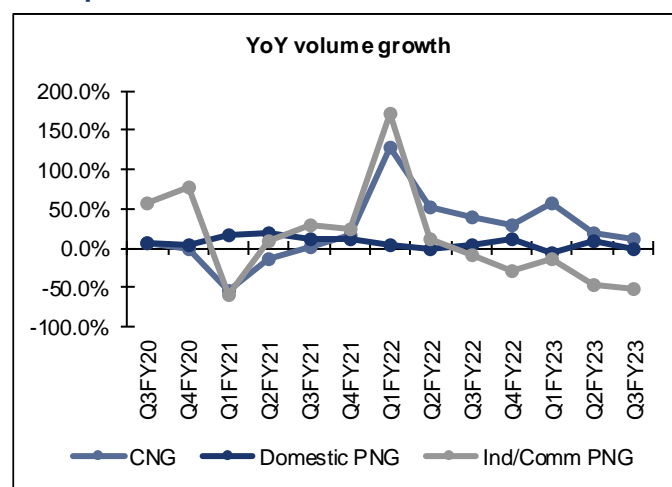
Table 2: GGL's overall gas cost -- Current softness offers leeway for further price moderation to maintain demand or sustain margins

	Gujarat Gas	
	Base Case	FY24E
Total Volume (mmscmd)	9.37	9.37
CNG	0.70	0.70
Domestic PNG	2.62	2.62
Industrial/Commercial	6.05	6.05
Third party sale		
Gurgaon volumes		
Sourcing Volumes		
APM + DOM FOR PNG/CNG	2.92	2.92
Non APM domestic	0.00	0.00
LNG - BG Contract	1.65	1.65
LNG BG Fixed rate	0.48	0.48
LNG- PLNG	0.85	0.85
Domestic Gas R Series	0.70	0.70
Vedanta (Cairn)	1.00	1.00
LNG - other short term	1.77	1.77
Oil Prices US\$/bbl	90.00	80.00
Prices US\$/mmbtu		
APM + DOM FOR PNG/CNG	9.63	7.30
Non APM domestic	9.63	7.30
LNG - BG Contract	13.51	12.09
LNG BG Fixed rate	12.00	12.00
LNG- PLNG	11.96	10.70
Domestic Gas R Series	10.00	10.00
Vedanta (Cairn)	9.95	8.90
LNG - other short term	25.00	15.00
Average	13.62	10.52

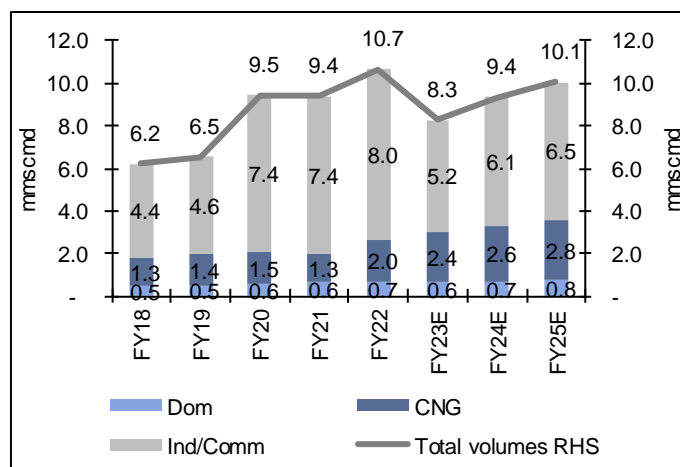
Source: Company data, I-Sec research

Chart 5: Volumes dipped YoY in Q3FY23-due to higher LNG costs

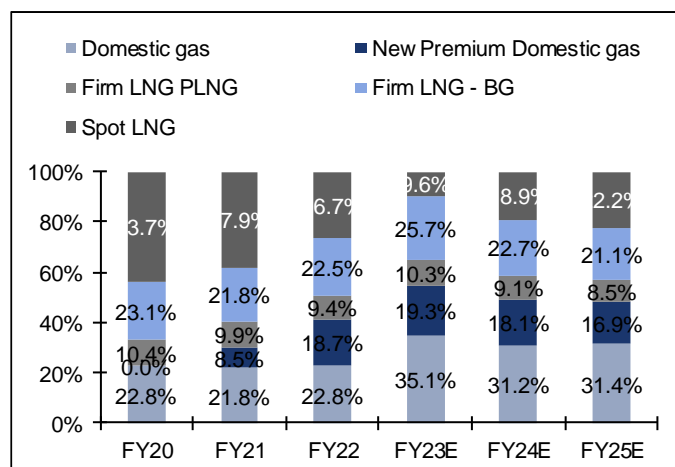
Source: Company data, I-Sec research

Chart 6: Volume Growth has tapered off in the past four quarters

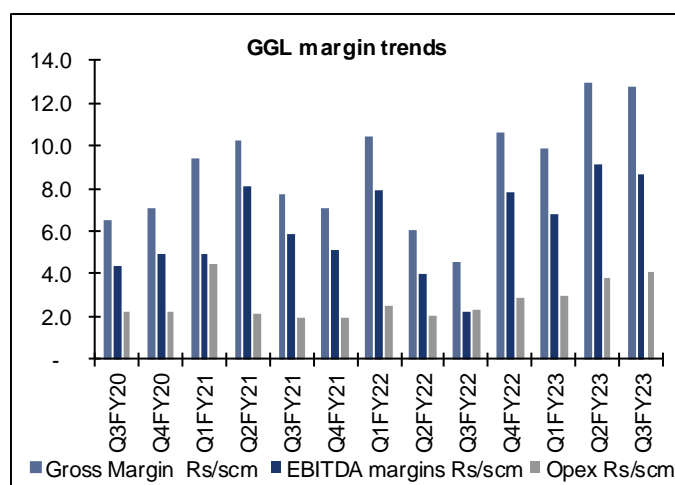
Source: Company data, I-Sec research

Chart 7: Volume growth to pick pace over FY23E-FY25E

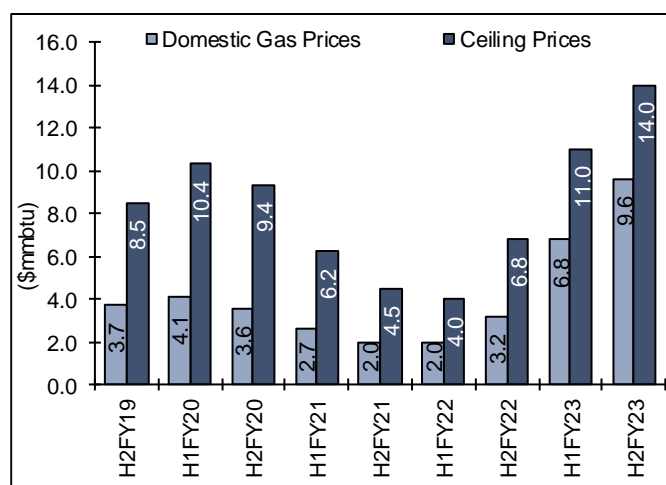
Source: Company data, I-Sec research

Chart 8: Sourcing mix more varied than before

Source: Company data, I-Sec research

Chart 9: Margins expanded in Q3FY23

Source: Company data, I-Sec research

Chart 10: APM (NCV) gas prices increased 42% HoH in Oct'22

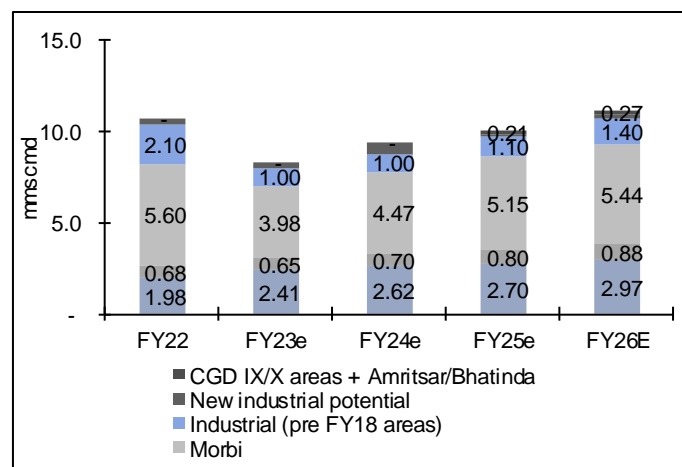
Source: Company data, I-Sec research

Table 3: GGL's volume potential area-wise

GA	Year Won	5-year volume potential
Dahej	Jun-16	1mmscmd (5+ years)
Ahmedabad district	Jun-16	1.5-2mmscmd (5+ years)
Thane rural	Apr-15	1.5mmscmd (5+ years)
Jamnagar	Jan-14	0.5mmscmd (5 years)
Bhavnagar (including Bhotad)	Mar-14	0.5mmscmd (5+ years)
Dadra & Nagar Haveli (Silvassa)	Apr-15	1.2mmscmd (5+ years)
Panchmahal (Halol)	Jul-16	0.5mmscmd (5+ years)
Kutch west	Dec-14	0.3mmscmd (5 years)
Hazira	Jul-14	0.4mmscmd (5 years)
Narmada	Sep-18	0.2mmscmd (5 years)
Amritsar + Bhatinda	NM	0.6mmscmd (5 years)
Total		8.1mmscmd

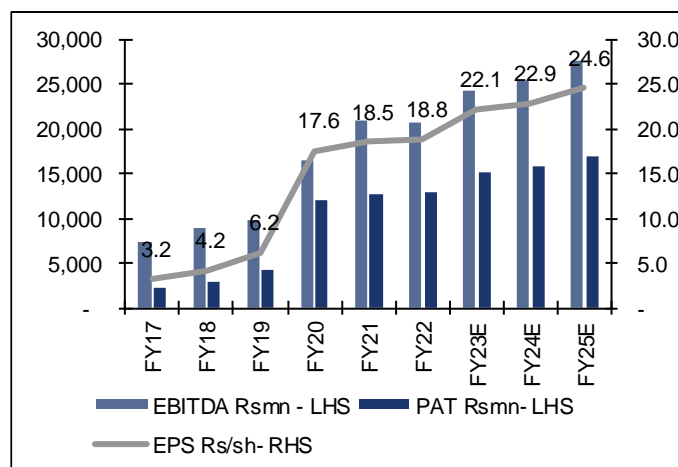
Source: Company data, I-Sec research

Chart 11: Volume potential in medium term



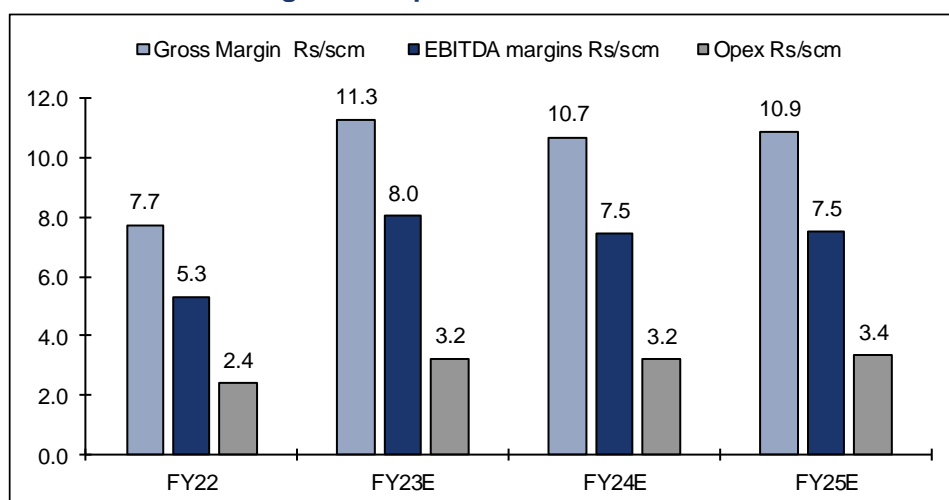
Source: Company data, I-Sec research

Chart 12: EBITDA/EPS CAGR of 5-7% expected over FY23E-FY25E



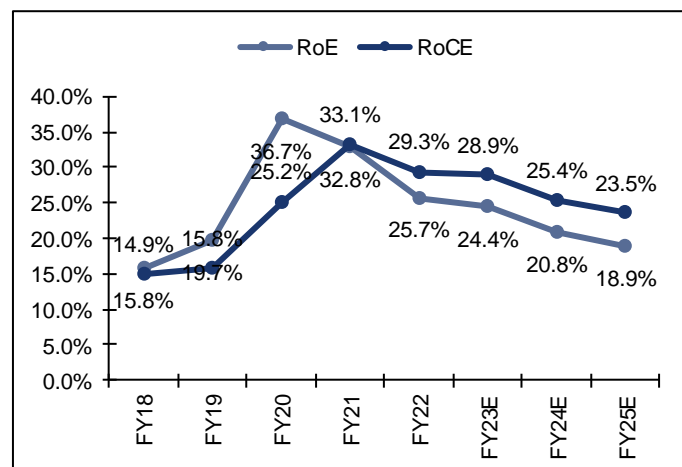
Source: Company data, I-Sec research

Chart 13: GGL's margins to improve over FY22-FY25E



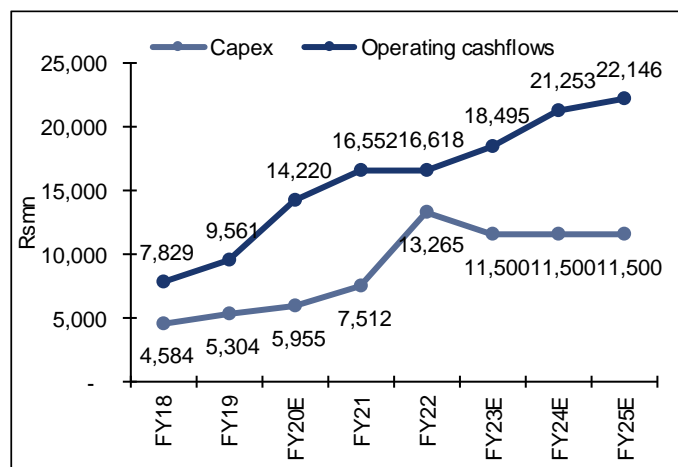
Source: Company data, I-Sec research

Chart 14: Return ratios decreasing



Source: Company data, I-Sec research

Chart 15: Capex of Rs34.5bn estimated over FY23E-FY25E



Source: Company data, I-Sec research

Valuations: Target price of Rs535/sh implies 14% upside

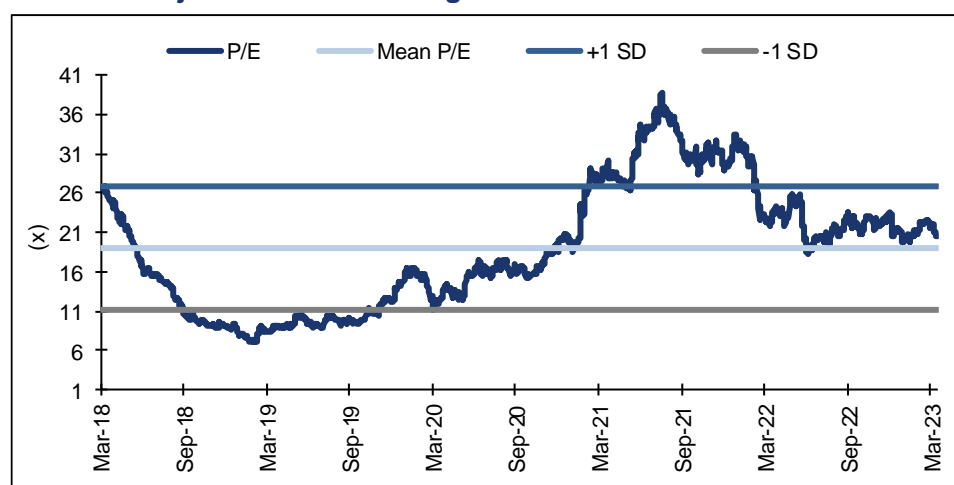
We value GGL by the DCF methodology, using a WACC of 10.9%, debt-equity ratio (DER) of 25%, long-term EBITDA of Rs7.4/scm and terminal growth rate of 4.5%. The gradual build-up in volumes from multiple new areas under development and new areas won recently in bidding rounds IX/X implies returns from the same would flow through only over the next decade. Our DCF valuation delivers a target price of Rs535/sh, offering 14% upside from CMP.

Table 4: Valuation summary

	Assumptions
Cost of Equity	12.5%
Cost of debt	6.2%
Average D/E ratio	25%
WACC	10.9%
Terminal growth rate	4.5%
NPV potential (Rs mn)	3,68,049
Target price	535
CMP	470
Upside	14%

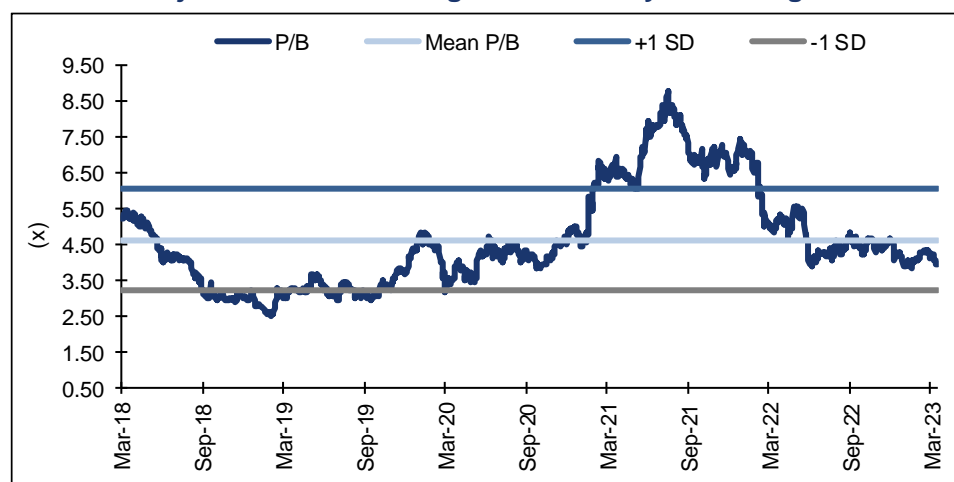
Source: I-Sec research

Chart 16: Gujarat Gas' P/E trading bands near mean

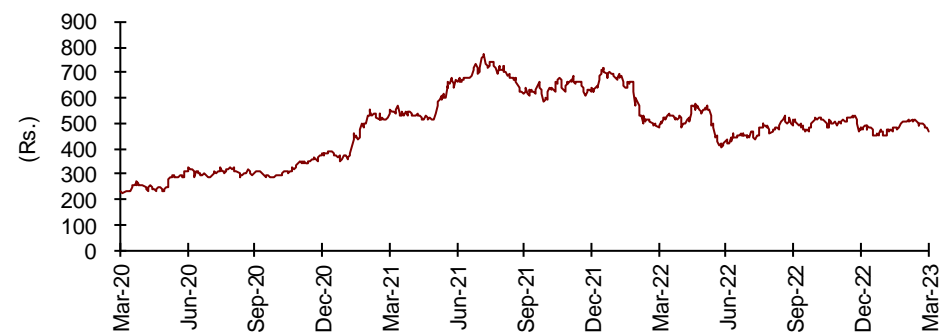


Source: Company data, I-Sec research

Chart 17: Gujarat Gas' P/B trading well below 5-year trading bands



Source: Company data, I-Sec research

Price chart

Source: Bloomberg

Financial summary

Table 5: Profit and loss statement
(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Operating Income (Sales)	1,64,562	1,69,561	1,88,141	2,01,911
Operating Expenses	1,43,799	1,45,308	1,62,643	1,74,310
EBITDA	20,763	24,253	25,498	27,602
% margins	13%	14%	14%	14%
Depreciation & Amortisation	3,849	4,321	4,804	5,287
Gross Interest	568	500	460	420
Other Income	909	906	795	693
Recurring PBT	17,135	20,338	21,029	22,587
Less: Taxes	4,278	5,121	5,295	5,687
Net Income (Reported)	12,858	15,218	15,735	16,900
Recurring Net Income	12,947	15,218	15,735	16,900

Source: Company data, I-Sec research

Table 6: Balance sheet
(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Assets				
Total Current Assets	14,689	18,500	25,676	33,265
of which cash & cash eqv.	211	4,298	10,993	18,340
Total Current Liabilities & Provisions	24,730	23,817	25,349	25,821
Net Current Assets	(10,041)	(5,317)	328	7,444
Investments	4,642	5,142	5,642	6,142
Net Fixed Assets	66,299	73,478	80,175	86,388
Capital Work-in-Progress	9,923	9,923	9,923	9,923
Total Assets	62,746	75,149	87,990	1,01,820

Liabilities

Borrowings (Includes cash deposits)	6,753	6,253	5,753	5,253
Deferred Tax Liability	8,077	8,077	8,077	8,077
Equity Share Capital	1,377	1,377	1,377	1,377
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus	54,616	67,519	80,861	95,191
Net worth	55,993	68,896	82,237	96,567
Total liabilities	62,746	75,149	87,990	1,01,820

Source: Company data, I-Sec research

Table 7: Quarterly trend
(Rs mn, year ending March 31)

	Mar'22	Jun'22	Sept'22	Dec'22
Net sales	46,694	51,701	39,765	36,843
% growth (YoY)	36.2%	71.7%	10.0%	-28.4%
EBITDA	6,974	6,066	6,427	5,823
Margin (%)	14.9%	11.7%	16.2%	15.8%
Other income	177	190	185	320
Add: Extraordinaries				
Net profit	4,533	3,811	4,039	3,713

Source: Company data, I-Sec research

Table 8: Cashflow statement
(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Operating Cashflow	21,076	24,253	25,498	27,602
Working Capital Changes	(95)	(637)	1,050	231
Operating Cash flow	16,618	18,495	21,253	22,146
Capital Commitments	(13,265)	(11,500)	(11,500)	(11,500)
Free Cashflow	3,353	6,995	9,753	10,646
Cashflow from Investing Activities	(12,935)	(11,094)	(11,205)	(11,307)
Inc (Dec) in Borrowings	(4,193)	(500)	(500)	(500)
Inc (Dec) in marketable investments	-	(500)	(500)	(500)
Dividend paid	(1,560)	(2,315)	(2,393)	(2,571)
Cash flow from Financing Activities	(6,284)	(3,315)	(3,353)	(3,491)
Chg. in Cash & Bank balance	(2,602)	4,086	6,695	7,347

Source: Company data, I-Sec research

Table 9: Key ratios
(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Per Share Data (in Rs)				
EPS(Basic Recurring)	18.8	22.1	22.9	24.6
Recurring Cash EPS	24.4	28.4	29.8	32.2
Dividend per share (DPS)	2.0	2.9	3.0	3.2
Book Value per share (BV)	81.3	100.1	119.5	140.3

Growth Ratios (%)

Operating Income	67%	3%	11%	7%
EBITDA	-1%	17%	5%	8%
Recurring Net Income	2%	18%	3%	7%
Recurring EPS	2%	18%	3%	7%
Recurring CEPS	4%	16%	5%	8%

Valuation Ratios (% YoY)

P/E	25.0	21.2	20.5	19.1
P/BV	5.8	4.7	3.9	3.3
EV / EBITDA	15.7	13.2	12.2	11.0
EV / FCF	97.0	45.7	32.0	28.6

Operating Ratios

Other Income / PBT (%)	5%	4%	4%	3%
Effective Tax Rate (%)	25%	25%	25%	25%
D/E Ratio (%)	12%	9%	7%	5%
Net D/E Ratio	3%	-5%	-13%	-20%

Return/Profitability Ratios (%)

Recurring Net Income Margins	8%	9%	8%	8%
RoCE	29%	29%	25%	24%
RoNW	26%	24%	21%	19%
Dividend Payout Ratio	11%	13%	13%	13%
Dividend Yield	0.4%	0.6%	0.6%	0.7%
EBITDA Margins	13%	14%	14%	14%

Source: Company data, I-Sec research

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