



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

03 August 2023

## Gujarat Gas

### Competition eroding the margins; Downgrade to SELL

#### RESULT UPDATE

Sector: Natural Gas Rating: SELL

CMP: Rs 455 Target Price: Rs 386

#### Stock Info

Sensex/Nifty 65,241/ 19,382

Bloomberg GUJGA IN

Equity shares (mn) 688

52-wk High/Low Rs 539/434

Face value Rs 2

M-Cap Rs 313bn/ USD 3.8bn

3-m Avg value USD 37mn

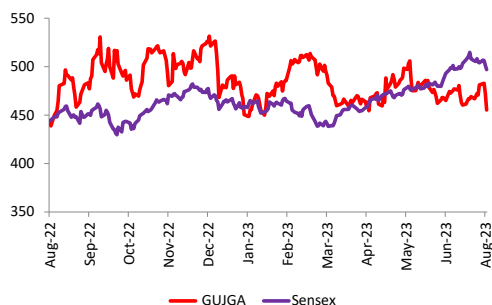
#### Financial Snapshot (Rs bn)

Y/E Mar	FY23	FY24E	FY25E
Sales	168	161	151
EBITDA	24	18	23
PAT	15	11	14
EPS (Rs)	22.2	15.8	20.3
PE (x)	20.5	28.7	22.4
EV/EBITDA (x)	12.9	16.9	13.2
RoE (%)	21.8	13.8	15.3
RoCE (%)	24.2	14.7	16.7
Dividend yield (%)	0.6	0.4	0.5

#### Shareholding Pattern (%)

	Jun'23	Mar'23	Dec'22
Promoter	60.9	60.9	60.9
FII	4.5	4.7	5.2
DII	13.3	13.3	12.6
Others	21.3	21.1	21.3

#### Stock Performance (1-year)



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Gujarat Gas Q1FY24 results were significantly below our expectations on the back of a sharp contraction in the Industrial PNG margin owing to stiff competition from alternate fuel i.e. propane. Volume increased 4% QoQ to 9.2mmscmd (our est. 8.7mmscmd) as IPNG/CNG volume increased 10%/3% QoQ to 5.9/2.6mmscmd while DPNG/CPNG volume was own 28%/7% to 0.6/0.1mmscmd. However, despite lower LNG prices, overall EBITDA/scm declined 33% QoQ to Rs4.7/scm as focus on volume at Morbi led to a series of price cut which impacted the margin. Currently, volume from Morbi is in tune of 4mmscmd while nearly 3mmscmd is getting fulfilled by propane while the total potential could be around 8-8.5mmscmd. Overall, the company is shifting is focusing more on CNG and looking to invest one-third of Rs10-12 bn capex for CNG infrastructure. Also, the company has cut EBITDA margin guidance to Rs4.5-5.5 per scm from earlier Rs6.5-7.5/scm. Accordingly, we cut our volume estimates by 9.6%/5% for FY24E/FY25E while cut EBITDA/scm estimate to Rs5.1/5.8 from earlier Rs7.0/8.0, respectively. Therefore, we cut our EBITDA estimates by 32%/30% to Rs18/22.5 bn for FY24E/FY25E. We, consequently, cut our TP to Rs386 from earlier Rs528 and downgrade the stock to SELL from earlier HOLD. We believe the threat of propane is here to stay for a longer period of time and volatility in LNG prices would keep pressure on IPNG margins. Though, new GAS, current lower spot LNG prices and increased contribution from CNG are a few tailwinds but risk on IPNG margin remains a potential threat.

#### Margin under serious pressure and likely to remain volatile

Gross margin declined 22% QoQ (-16% YoY) to touch the four-year lowest level of Rs8.3/scm despite 3% cut in gas cost as sales price at Morbi was down sharply. The company sourced 32% of APM, 20% of non-APM domestic gas, 34% of LT while 14% of short/spot LNG during the quarter. Spot LNG was priced at \$12-13/mmbtu in Q1FY24 which has currently come down to ~\$11/mmbtu. Currently, IPNG is priced at Rs38.5/scm at Morbi compared to equivalent propane is priced at Rs34.5-35/scm. Morbi is using nearly ~4mmscmd of IPNG and ~3mmscmd of propane and the company has guided for improvement in offtake given higher propane prices in winter. Though, we expect volatility in volume and margin to remain higher in winter as spot LNG price also moves up due to higher winter demand from Europe and Northern hemisphere. GUJGA also acquired 7.87% stake in Mundra LNG terminal with an equity investment of Rs1 bn in order to create a long term value.

#### Downgrade to SELL from HOLD with a revised TP of Rs386 from earlier Rs528

Overall, we cut EBITDA estimates sharply by 32%/30% for FY24E/FY25E on lower volume and margin estimates. The stock is trading at a PER of 28.7x/22.4x on FY24E/FY25E which we find expensive given risk of propane is getting higher along with volatility in earnings and declining return ratios. We downgrade the stock to SELL from earlier HOLD with a new TP of Rs386 from earlier Rs528 based on 19x on FY25E.

## Q1FY24 Concall Highlights

**Volumes at Morbi:** Gas volumes at Morbi are LNG 4mmscmd while propane volume is 3mmscmd against a total potential of 8-8.5mmscmd. Expecting volume to increase on the back of rising propane trend during the winter season.  
**Capex plan:** Rs10-12 bn p.a. range for next 3 years, funded largely through the internal cash accrual. Looking to invest nearly one-third of the capex for creating the CNG infrastructure. Capex in Q1FY24 was Rs2-2.5 bn.

**Sourcing:** For priority sector, 90% APM and 10% balance shortfall through HPHT and spot. Overall, 32% APM, 20% non-APM domestic, 34% from long term and 14% from the short term RLNG.

**Margin guidance:** The company has given a long term EBITDA margin guidance of Rs4.5-5.5/scm.

**Pricing:** For Q1FY24, Spot price was USD12-13/mmbtu. Currently gas right now they are getting at ~USD11/mmbtu.

**GSPC LNG terminal acquisition:** GUJGAS will invest 100 cr and hold 7.87% in Mundra terminal. Other partners are Gujarat Maritime Board, Govt of Guj, GSPC and GSPL. Overall, higher synergy and to create a long term value, the company has invested in GSPC LNG.

**Volumes in new GAs:** Total volumes in new areas stood at 0.5-0.6 mmscmd this can go up to 1mmscmd by the end of FY25. These are primarily CNG-focused markets and a small part will be PNG. Hence mix of GUJGA will tilt towards CNG. Most of the new GAs company has put backbone infrastructure, but pipeline infra is still needed. Balance Capex will go to existing GAs as more industries come, they need to be ready with spending in those areas to connect them. Thane has a descent industrial market, company currently flowing about 0.5mmscmd. Looking at the industrial clusters more demand will kick in. A good amount of commercial clusters will form in the Rajasthan area. Udaipur, Pali, and Delhi will be those areas they will cater to post Delhi-Mumbai corridor via long haul vehicles. Rolling mills to come up in some areas of Rajasthan. And in Jalore Rajasthan we have started selling 30kmmscmd kind of volumes.

**Vehicles company is serving:** 5lakh CNG vehicles (4W), 2.5L(3W), 21k (buses). Company added 46k DPNG, 225 CPNG and 36 IPNG in Q1FY24.

**CNG outlet additions:** Doubled capacity from 400 to 800 CNG stations. Currently focusing on Daughter boosters to online and daughter to daughter boosters. Looking to add 60-70 CNG stations mostly in Ahmedabad rural region.

## Exhibit 1: Actual vs Estimates

(Rs mn)	Actual	Estimates	Variance
Revenue	37,815	44,617	-15.2%
EBITDA	3,880	5,716	-32.1%
EBITDA margin (Rs./scm)	4.7	7.4	-36.8%
PAT	2,151	3,547	-39.4%
EPS	3.1	5.2	-39.4%

Source: Company, Systematix Institutional Research

## Exhibit 2: Quarterly Highlights

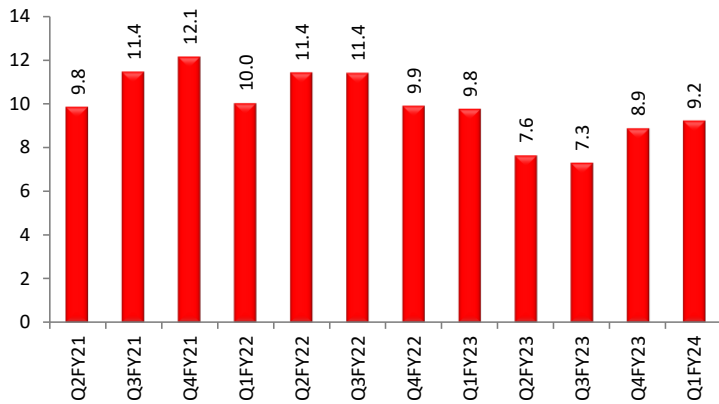
Rs mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY%	QoQ%
<b>Net Revenues</b>	51,701	39,765	36,845	39,286	37,815	-27%	-4%
Total COGS	42,973	30,684	28,280	30,797	30,945	-28%	0%
<b>Gross Profit</b>	<b>8,728</b>	<b>9,081</b>	<b>8,565</b>	<b>8,489</b>	<b>6,870</b>	<b>-21%</b>	<b>-19%</b>
Employee Cost	472	503	486	495	520	10%	5%
Other Expenses	2,190	2,150	2,253	2,391	2,470	13%	3%
OPEX	2,662	2,653	2,739	2,886	2,990	12%	4%
Total Expenditure	45,635	33,337	31,020	33,683	33,935	-26%	1%
<b>EBITDA</b>	<b>6,066</b>	<b>6,427</b>	<b>5,825</b>	<b>5,603</b>	<b>3,880</b>	<b>-36%</b>	<b>-31%</b>
Depreciation & Amortisation	1,032	1,064	1,093	1,094	1,151	12%	5%
<b>EBIT</b>	<b>5,035</b>	<b>5,363</b>	<b>4,733</b>	<b>4,509</b>	<b>2,729</b>	<b>-46%</b>	<b>-39%</b>
Interest & Finance Charges	136	131	76	61	74	-46%	22%
Other Income	190	185	320	318	239	26%	-25%
PBT	5,089	5,418	4,979	4,766	2,894	-43%	-39%
Total Tax	1,278	1,379	1,261	1,074	743	-42%	-31%
Reported PAT	3,811	4,039	3,718	3,692	2,151	-44%	-42%
<b>Adjusted PAT</b>	<b>3,811</b>	<b>4,039</b>	<b>3,715</b>	<b>3,692</b>	<b>2,151</b>	<b>-44%</b>	<b>-42%</b>
Reported EPS (Rs.)	5.5	5.9	5.4	5.4	3.1	-44%	-42%
<b>Adjusted EPS (Rs.)</b>	<b>5.5</b>	<b>5.9</b>	<b>5.4</b>	<b>5.4</b>	<b>3.1</b>	<b>-44%</b>	<b>-42%</b>
<b>Volumes (mmscm)</b>							
<b>Sales Volume (mmscmd)</b>	<b>9.8</b>	<b>7.6</b>	<b>7.3</b>	<b>8.9</b>	<b>9.2</b>	<b>-5%</b>	<b>4%</b>
Industrial PNG	6.6	4.5	4.1	5.4	5.9	-11%	10%
Commercial PNG	0.1	0.1	0.1	0.1	0.1	0%	-7%
Domestic PNG	0.6	0.7	0.7	0.8	0.6	9%	-28%
CNG	2.4	2.3	2.4	2.53	2.6	7%	3%
<b>Average Realisation (Rs./scm)</b>	<b>58.3</b>	<b>56.7</b>	<b>54.9</b>	<b>49.3</b>	<b>45.6</b>	<b>-22%</b>	<b>-8%</b>
Gas cost (Rs./scm)	48.4	43.8	42.2	38.6	37.3	-23%	-3%
Gross Margin (Rs./scm)	9.8	13.0	12.8	10.6	8.3	-16%	-22%
Opex (Rs./scm)	3.0	3.8	4.1	3.6	3.6	20%	0%
<b>EBITDA/scm (Rs.)</b>	<b>6.8</b>	<b>9.2</b>	<b>8.7</b>	<b>7.0</b>	<b>4.7</b>	<b>-32%</b>	<b>-33%</b>

Source: Company, Systematix Institutional Research

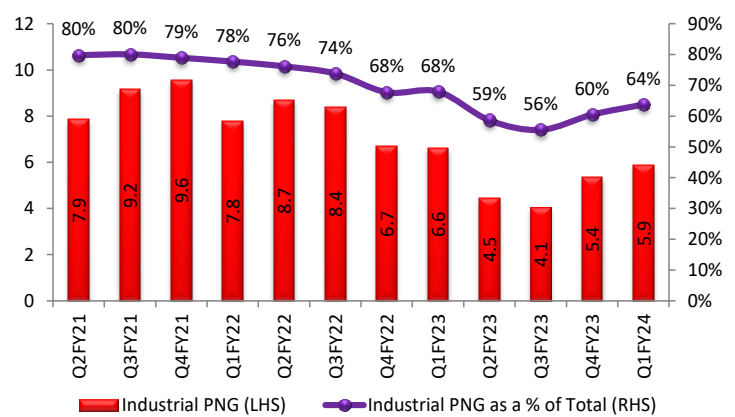
**Exhibit 3: Change in Estimates**

Key Parameters (Rs mn)	FY24E			FY25E		
	Old	New	% Chg	Old	New	% Chg
Volume (mmscmd)	10.4	9.4	(9.6)	11.0	10.5	(5.0)
Revenue	1,77,837	1,60,459	(9.8)	1,59,194	1,51,282	(5.0)
EBITDA	26,600	18,063	(32.1)	32,358	22,525	(30.4)
Net Profit	17,308	10,902	(37.0)	21,372	13,994	(34.5)
EPS (Rs)	25.1	15.8	(37.0)	31.0	20.3	(34.5)

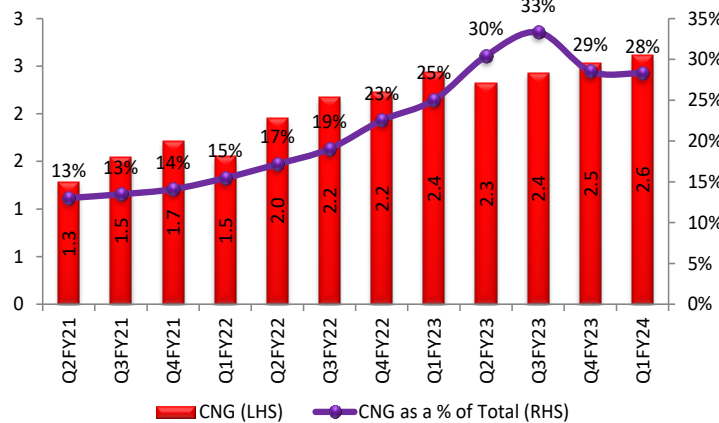
Source: Company, Systematix Institutional Research

**Exhibit 4: Volumes jumped 4.1% QoQ to 9.2mmscmd**

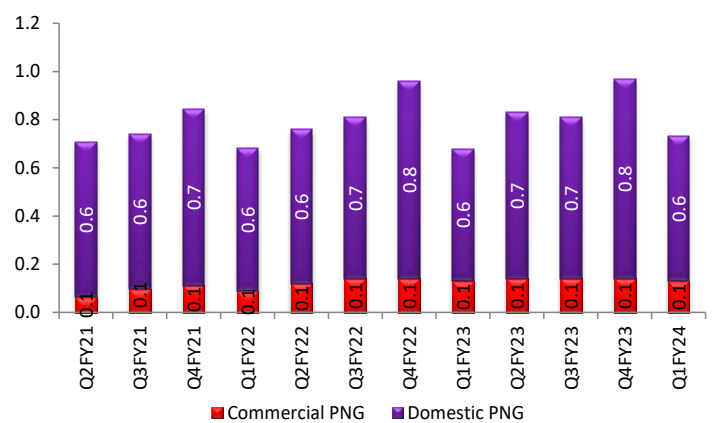
Source: Company, Systematix Institutional Research

**Exhibit 5: Industrial PNG volumes pick up as a % of total volumes**

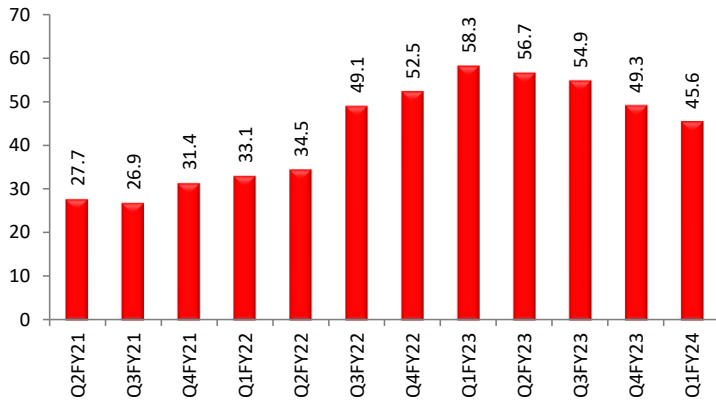
Source: Company, Systematix Institutional Research

**Exhibit 6: CNG Volumes (mmscmd) ascend as a % of total volumes**

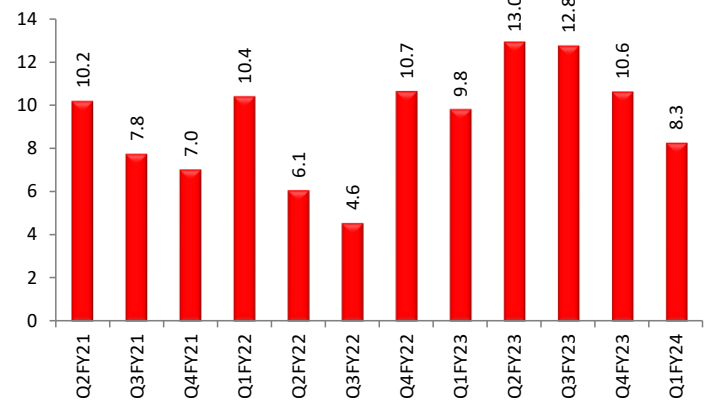
Source: Company, Systematix Institutional Research

**Exhibit 7: CPNG/DPNG volumes flattish/decline in QoQ change**

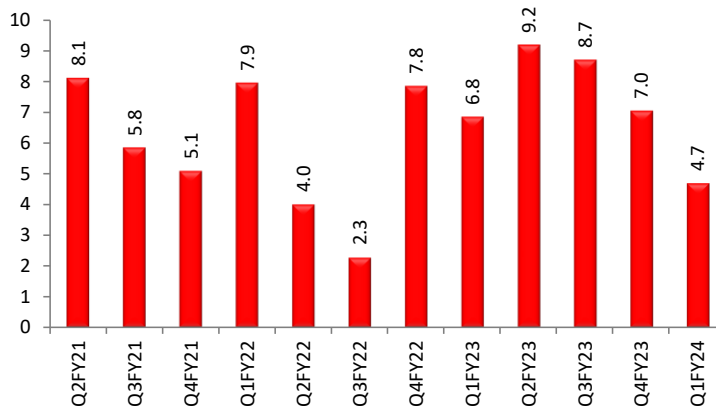
Source: Company, Systematix Institutional Research

**Exhibit 8: Net Realisation -7.5% QoQ due to lower volumes (Rs/scm)**

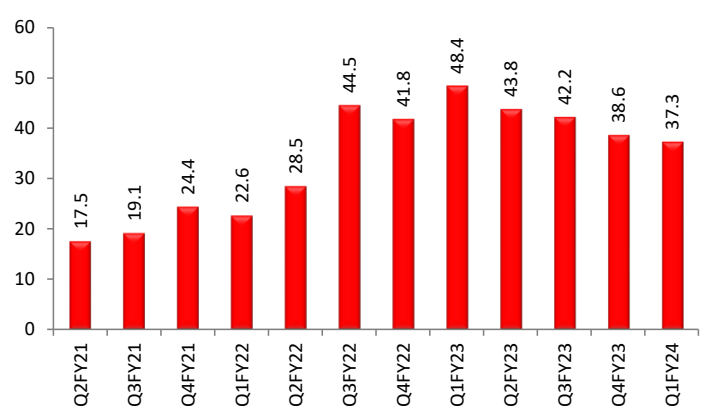
Source: Company, Systematix Institutional Research

**Exhibit 9: Gross margin declined sharply (Rs/scm)**

Source: Company, Systematix Institutional Research

**Exhibit 10: EBITDA down by 33.5% QoQ to Rs4.7 (Rs/scm)**

Source: Company, Systematix Institutional Research

**Exhibit 11: Gas cost was lower QoQ (Rs/scm)**

Source: Company, Systematix Institutional Research

## FINANCIALS (STANDALONE)

### Profit & Loss Statement

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
<b>Net revenue</b>	<b>98,664</b>	<b>1,64,562</b>	<b>1,67,594</b>	<b>1,60,459</b>	<b>1,51,282</b>
Raw Material & purchases	69,965	1,34,369	1,32,734	1,30,851	1,16,571
<b>Gross Profit</b>	<b>28,699</b>	<b>30,194</b>	<b>34,860</b>	<b>29,608</b>	<b>34,711</b>
Employee cost	1,775	1,909	1,956	2,112	2,281
Other expenses	6,082	7,522	8,984	9,433	9,905
<b>EBITDA</b>	<b>20,842</b>	<b>20,763</b>	<b>23,920</b>	<b>18,063</b>	<b>22,525</b>
Depreciation	3,436	3,849	4,283	4,604	5,138
<b>EBIT</b>	<b>17,406</b>	<b>16,914</b>	<b>19,637</b>	<b>13,458</b>	<b>17,387</b>
Interest Cost	1,168	568	404	93	18
Other Income	714	907	1,013	1,165	1,281
<b>PBT Before Exceptionals</b>	<b>16,953</b>	<b>17,253</b>	<b>20,247</b>	<b>14,530</b>	<b>18,650</b>
Exceptional Items	0	-119	0	0	0
PBT	16,953	17,134	20,247	14,530	18,650
Tax	4,272	4,278	4,992	3,627	4,656
Reported PAT	12,682	12,856	15,255	10,902	13,994
<b>Adjusted PAT</b>	<b>12,682</b>	<b>12,946</b>	<b>15,255</b>	<b>10,902</b>	<b>13,994</b>
Reported EPS (Rs)	18.4	18.7	22.2	15.8	20.3
<b>Adjusted EPS (Rs)</b>	<b>18.4</b>	<b>18.8</b>	<b>22.2</b>	<b>15.8</b>	<b>20.3</b>

Source: Company, Systematix Institutional Research

### Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Pre-Tax Profit	16,953	17,134	20,247	14,530	18,650
Depreciation	3,436	3,849	4,283	4,604	5,138
Change in Working Capital	-437	-95	4,052	785	309
Tax Paid	-4,166	-4,363	-4,608	-3,266	-4,291
Other Operating Activities	803	93	-194	-1,071	-1,263
<b>Operating Cash Flow</b>	<b>16,588</b>	<b>16,618</b>	<b>23,780</b>	<b>15,582</b>	<b>18,542</b>
Capital Expenditure	-7,551	-13,265	-10,912	-11,462	-11,462
Change in Investments	996	0	0	0	0
Other Investing Activities	432	329	499	1,165	1,281
<b>Investing Cash Flow</b>	<b>-6,124</b>	<b>-12,935</b>	<b>-10,413</b>	<b>-10,297</b>	<b>-10,181</b>
Free Cash Flow	10,464	3,682	13,366	5,284	8,361
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	-11,150	-4,378	-5,024	523	0
Other Financing Activities	-2,029	-1,906	-1,744	-1,670	-2,042
<b>Financing Cash Flow</b>	<b>-13,179</b>	<b>-6,284</b>	<b>-6,768</b>	<b>-1,147</b>	<b>-2,042</b>
Change in Cash	-2,715	-2,602	6,599	4,137	6,319
Opening Cash Balance	5,904	2,813	211	6,810	10,947
<b>Closing Cash Balance</b>	<b>3,189</b>	<b>211</b>	<b>6,810</b>	<b>10,947</b>	<b>17,266</b>

Source: Company, Systematix Institutional Research

### Key Assumptions

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Total volume (mmscmd)	9.4	10.7	8.4	9.4	10.5
CNG (mmscmd)	1.3	2.0	2.4	2.7	3.1
Industrial PNG (mmscmd)	7.4	7.9	5.1	5.8	6.5
Domestic PNG (mmscmd)	0.6	0.7	0.7	0.7	0.8
Commercial PNG (mmscmd)	0.1	0.1	0.1	0.1	0.1
Net Realization (Rs/scm)	28.7	42.1	54.7	46.5	39.5
Gross Margin (Rs/scm)	8.3	7.7	11.4	8.5	9.0
EBITDA/scm (Rs)	6.0	5.2	7.8	5.1	5.8

Source: Company, Systematix Institutional Research

### Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share Capital	1,377	1,377	1,377	1,377	1,377
Reserves & Surplus	43,110	54,616	68,579	77,904	89,874
<b>Networth</b>	<b>44,486</b>	<b>55,993</b>	<b>69,956</b>	<b>79,281</b>	<b>91,251</b>
Short + Long Term Debt	9,826	6,289	1,523	2,046	2,046
Deferred Tax Liabilities	7,925	8,077	8,461	8,823	9,188
Other Long Term Liabilities	1,147	1,226	1,261	1,299	1,338
<b>Capital Employed</b>	<b>63,385</b>	<b>71,585</b>	<b>81,201</b>	<b>91,449</b>	<b>1,03,822</b>
Gross Block	80,513	89,417	1,00,763	1,13,208	1,25,555
Accumulated Depreciation	21,851	25,700	29,983	34,587	39,725
Net Block	58,662	63,717	70,780	78,621	85,830
Capital WIP	7,315	9,923	9,831	8,848	7,963
Total Fixed Assets	65,977	73,640	80,611	87,469	93,793
Long Term Investments & Others	5,728	8,037	8,548	8,548	8,548
<b>Current Assets</b>	<b>13,382</b>	<b>13,876</b>	<b>19,792</b>	<b>23,533</b>	<b>29,326</b>
Short Term Investments	0	0	0	0	0
Inventories	525	534	612	586	552
Sundry Debtors	7,747	9,301	10,212	9,777	9,218
Cash & Bank Balance	3,189	211	6,810	10,947	17,266
Short Term Loans & Advances	13	29	38	40	41
Others	1,908	3,802	2,120	2,184	2,250
<b>Current Liabilities &amp; Provisions</b>	<b>21,702</b>	<b>23,968</b>	<b>27,750</b>	<b>28,101</b>	<b>27,844</b>
Creditors	4,473	4,456	7,156	7,092	6,413
Other Current Liabilities	17,229	19,512	20,594	21,009	21,432
Net Current Assets	-8,320	-10,092	-7,958	-4,568	1,481
<b>Total Assets</b>	<b>63,385</b>	<b>71,585</b>	<b>81,201</b>	<b>91,449</b>	<b>1,03,822</b>

Source: Company, Systematix Institutional Research

### Ratios (Consolidated)

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
<b>Growth</b>					
Revenue growth	-4.2%	66.8%	1.8%	-4.3%	-5.7%
EBITDA growth	27.5%	-0.4%	15.2%	-24.5%	24.7%
Adjusted PAT growth	6.3%	1.4%	18.7%	-28.5%	28.4%
<b>Margins</b>					
Gross margin	29.1%	18.3%	20.8%	18.5%	22.9%
EBITDA margin	21.1%	12.6%	14.3%	11.3%	14.9%
PBT margin	17.2%	10.4%	12.1%	9.1%	12.3%
Effective Tax rate	25.2%	25.0%	24.7%	25.0%	25.0%
Adjusted PAT margin	12.9%	7.8%	9.1%	6.8%	9.3%
<b>Operating Cycle</b>					
Inventory days	2	1	1	1	1
Debtor days	29	21	22	22	22
Creditor days	21	11	18	18	18
Working Capital Cycle	10	11	5	5	5
<b>Return Ratios</b>					
ROE	28.5%	23.0%	21.8%	13.8%	15.3%
Pre-tax ROCE	27.5%	23.6%	24.2%	14.7%	16.7%
Capex/revenue	9.5%	7.0%	6.7%	7.1%	7.6%
Net debt / Equity	0.1	0.1	-0.1	-0.1	-0.2
<b>Yield Analysis</b>					
CFO Yield	14.9%	12.2%	14.2%	17.0%	17.0%
FCF Yield	2.1%	1.6%	3.8%	1.3%	2.2%
Dividend Yield	0.4%	0.4%	0.6%	0.4%	0.5%
<b>Valuation</b>					
P/E (x)	24.7	24.2	20.5	28.7	22.4
P/B (x)	7.0	5.6	4.5	4.0	3.4
EV/Sales (x)	3.2	1.9	1.8	1.9	2.0
EV/EBITDA (x)	15.4	15.4	12.9	16.9	13.2

Source: Company, Systematix Institutional Research

## Institutional Equities Team

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### Equity Research

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