

Muted volume outlook in near term...

About the stock: Gujarat Gas is one of India's largest city gas distribution companies with highest sales volume among listed peers.

- Sales volume grew at 15% CAGR in FY17-22 driven by industrial PNG
- The company benefitted from NGT order for Morbi industrial area

Q1FY23 Results: Gujarat Gas (GGL) reported results that were higher than estimates on the profitability front driven by realisation and gross margins.

- Revenue was up 71.7% YoY to ₹ 5170.1 crore (estimate: ₹ 5110.8 crore) driven by higher realisation
- Gross margin was at ₹ 9.8/scm, down ₹ 0.6/scm YoY as higher realisation was offset by surge in gas costs. Subsequently, EBITDA was at ₹ 606.6 crore, down 16.1% YoY (estimate: ₹ 482.4 crore)
- PAT was at ₹ 381.1 crore, down 20% YoY (estimate: ₹ 292.9 crore)

What should investors do? GGL's sales volume is expected to remain subdued in near term. Additionally, gas sourcing costs are expected to remain elevated in medium term amid potential increase in domestic gas costs.

- We change our rating on the stock from BUY to **HOLD**

Target Price and Valuation: We value GGL at ₹ 500 i.e. 23x P/E on FY24E EPS

Key triggers for future price performance:

- Volume growth in industrial PNG segment driven by Morbi industrial volume. Growth in CNG, domestic PNG to support volume growth
- Better pricing power and regulatory tailwinds over long term
- In the near term, price hikes/global LNG costs trend will be key monitorable

Alternate Stock Idea: Apart from GGL, in our oil & gas coverage we also like Gail.

- Gail is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value
- BUY with a target price of ₹ 180



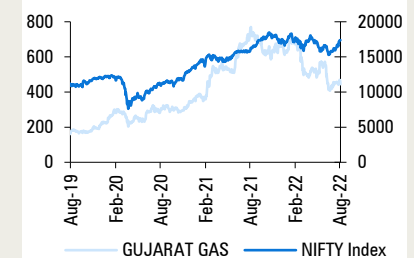
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	30,565.0
Total Debt (FY21) (₹ Crore)	1,025.2
Cash and Investments (FY21)	319.9
EV (₹ Crore)	31,270.3
52 week H/L	787/ 404
Equity capital (₹ Crore)	137.7
Face value (₹)	2.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	60.9	60.9	60.9	60.9
FII	7.9	7.7	6.0	5.2
DII	8.1	8.0	9.5	10.0
Others	23.2	23.4	23.6	23.9

Price Chart



Recent event & key risks

- GGL's sales volume is currently ~9 mmscmd.
- **Key Risk:** (i) Faster than expected volume growth, (ii) Lower than estimated margins

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22E	5 Year CAGR (FY17-22E)	FY23E	FY24E	2 Year CAGR (FY22E-24E)
Revenues (₹ crore)	7,754.4	10,300.3	9,854.3	16,439.2	26.6	20,150.0	22,396.9	16.7
EBITDA (₹ crore)	984.5	1,634.3	2,087.8	2,078.8	22.6	2,047.8	2,375.4	6.9
Net Profit (₹ crore)	416.9	1,193.3	1,275.5	1,303.3	42.3	1,259.6	1,494.2	7.1
EPS (₹)	6.1	17.3	18.5	18.9		18.3	21.7	
P/E (x)	73.3	25.6	24.0	23.5		24.3	20.5	
Price / Book (x)	14.0	9.3	6.8	5.4		4.7	4.0	
EV/EBITDA (x)	32.9	19.5	15.0	15.0		15.1	12.7	
RoCE (%)	16.1	25.2	31.7	26.9		22.9	23.4	
RoE (%)	19.1	36.3	28.5	23.2		19.2	19.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q1FY23 Results: Growth in realisation, margin drives earnings

- Total volume declined 2.6% YoY, 1.4% QoQ to 9.8 mmscmd and was lower than estimated 10.2 mmscmd. Industrial PNG volume was at 6.6 mmscmd, down 14.8% YoY and 1% QoQ (our estimate: 7.1 mmscmd). Total PNG sales were down 13.6% YoY, 4.6% QoQ to 7.7 mmscmd on account of lower industrial & domestic PNG sales. CNG sales were marginally ahead of estimate at 2.4 mmscmd, up 57.5% YoY and 9.4% QoQ (our estimate: 2.3 mmscmd)
- Revenue increased 10.7% QoQ owing to higher realisation QoQ. Realisation was at ₹ 58.3/scm, up ₹ 5.8/scm QoQ. On a QoQ basis, raw material costs increased ₹ 6.6/scm QoQ
- Gross margins declined ₹ 0.8/scm QoQ and ₹ 0.6/scm YoY to ₹ 9.8/scm (our estimate: ₹ 8/scm). EBITDA was at ₹ 606.6 crore, down 16.1% YoY and 13% QoQ (our estimate: ₹ 482.4 crore). EBITDA/scm was at ₹ 6.8/scm, down ₹ 1.1/scm YoY and ₹ 1/scm QoQ (our estimate: ₹ 5.2/scm)
- We expect sales volume in FY23E and FY24E at 10 mmscmd and 11.4 mmscmd, respectively
- We expect EBITDA/scm at ₹ 5.6/scm and ₹ 5.7/scm in FY23E and FY24E, respectively

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Gujarat Gas (GUJGA)	444	500	Hold	30,565	18.9	18.3	21.7	23.5	24.3	20.5	15.0	15.1	12.7	26.9	22.9	23.4	23.2	19.2	19.3
Indraprastha Gas (INDGAS)	366	440	Buy	25,620	18.8	20.6	23.0	19.4	17.7	15.9	12.9	11.1	9.7	22.3	22.0	21.1	19.0	18.1	17.5
Mahanagar Gas (MAHGAS)	779	820	Hold	7,695	60.4	71.3	78.1	12.9	10.9	10.0	7.9	6.7	5.9	20.1	21.4	21.1	16.9	17.9	17.5

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Revenues	5,170.1	5,110.8	3,010.9	71.7	4,669.4	10.7	
Raw materials costs	4,297.3	4,372.8	2,060.3	108.6	3,719.9	15.5	
Employees Cost	47.2	51.1	50.5	-6.6	49.0	-3.7	
Other Expenses	219.0	204.4	177.2	23.6	203.1	7.9	
Total Expenditure	4,563.5	4,628.4	2,288.0	99.5	3,972.0	14.9	
EBITDA	606.6	482.4	722.9	-16.1	697.4	-13.0	Higher-than-expected on account of better gross margin
EBITDA margins (%)	11.7	9.4	24.0	-1228 bps	14.9	-320 bps	
Depreciation	103.2	103.4	90.5	14.0	102.1	1.1	
EBIT	503.5	379.0	632.4	-20.4	595.4	-15.4	
Interest	13.6	12.5	15.9	-14.5	14.5	-6.1	
Other Income	19.0	25.0	21.3	-10.7	17.6	7.5	
Extra Ordinary Item	0.0	0.0	0.0	NA	-11.9	NA	
PBT	508.9	391.5	637.7	-20.2	586.7	-13.3	
Total Tax	127.8	98.7	161.6	-20.9	142.4	-10.3	
PAT	381.1	292.9	476.2	-20.0	444.3	-14.2	

Key Metrics

Sales Volume (mmscmd)	9.8	10.2	10.0	-2.6	9.9	-1.4	Lower than estimates. CNG volume grew 57.5% YoY
Realisation (₹/scm)	58.3	55.1	33.1	76.3	52.5	11.1	
Gross margin (₹/scm)	9.8	8.0	10.4	-5.7	10.7	-7.8	Higher than estimates on account of higher-than-expected realisation

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	22294.5	20,150.0	-9.6	23505.6	22,396.9	-4.7	
EBITDA	2,164.1	2,047.8	-5.4	2,591.8	2,375.4	-8.3	Revised realisation and cost estimates led to change in EBITDA estimates
EBITDA Margin (%)	9.7	10.2	46 bps	11.0	10.6	-42 bps	
PAT	1,352.8	1,259.6	-6.9	1,656.0	1,494.2	-9.8	
EPS (₹)	19.7	18.3	-6.9	24.1	21.7	-9.8	

Source: ICICI Direct Research

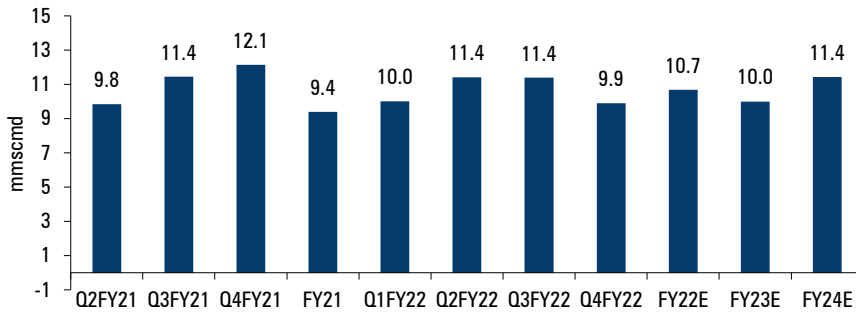
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22E	FY23E	FY24E	FY23E	FY24E	
Sales Volume (mmscmd)	9.4	10.7	10.0	11.4	11.3	13.0	Revised sales volume estimates taking into account current volume trend
Realisation (₹/scm)	28.7	42.2	55.2	53.7	54.1	49.6	Revised realisation estimates
Gross margin (₹/scm)	8.4	7.7	8.4	8.4	8.0	8.0	

Source: ICICI Direct Research

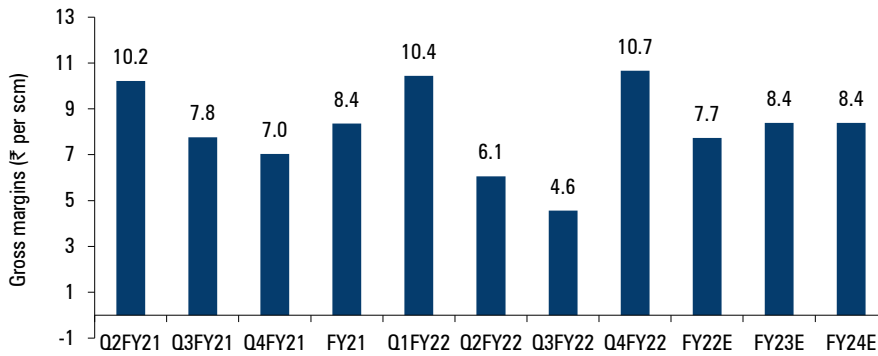
Story in charts

Exhibit 5: Volume trajectory



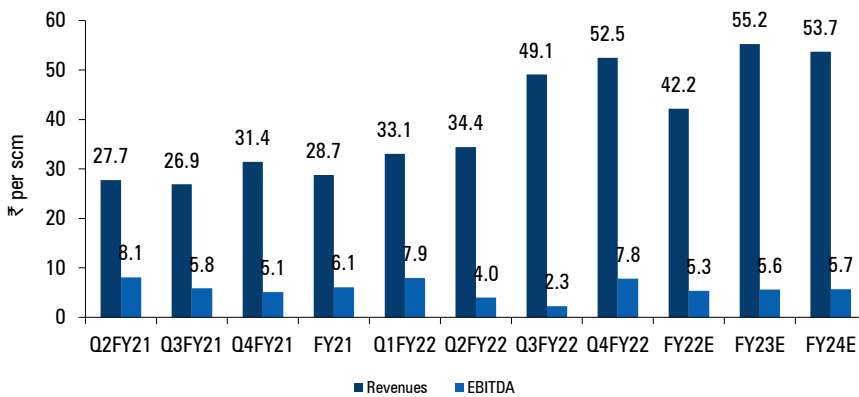
Source: Company, ICICI Direct Research

Exhibit 6: Margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Revenue & EBITDA trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Revenue	9854.3	16439.2	20150.0	22396.9
Growth (%)	-4.3	66.8	22.6	11.2
Raw material Costs	6989.8	13425.0	17087.1	18901.6
Employee Costs	177.5	190.9	197.0	224.0
Other Expenditure	599.2	744.5	818.2	895.9
Op. Expenditure	7766.4	14360.4	18102.2	20021.5
EBITDA	2087.8	2078.8	2047.8	2375.4
Growth (%)	27.8	-0.4	-1.5	16.0
Depreciation	340.8	383.2	413.3	456.8
EBIT	1747.0	1695.7	1634.5	1918.6
Interest	116.3	56.6	51.1	41.0
Other Income	74.0	93.4	100.0	120.0
PBT	1704.7	1732.4	1683.4	1997.6
Growth (%)	41.1	1.6	-2.8	18.7
Tax	429.2	429.1	423.7	503.4
Reported PAT	1275.5	1303.3	1259.6	1494.2
Growth (%)	6.9	2.2	-3.4	18.6
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	1275.5	1303.3	1259.6	1494.2
EPS	18.5	18.9	18.3	21.7

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	1,275.5	1,303.3	1,259.6	1,494.2
Add: Depreciation	340.8	383.2	413.3	456.8
Add: Others	5.8	50.0	50.0	50.0
Cash Profit	1,622.2	1,736.5	1,722.9	2,001.0
Increase/(Decrease) in CL	272.1	203.4	257.5	289.0
(Increase)/Decrease in CA	-423.9	-526.5	-421.7	-264.7
CF from Operating Activities	1470.4	1413.4	1558.7	2025.3
Purchase of Fixed Assets	839.9	1,201.5	949.8	1,050.0
(Inc)/Dec in Investments	-2.5	1.3	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-842.4	-1,200.2	-949.8	-1,050.0
Inc/(Dec) in Loan Funds	-917.8	-350.0	-100.0	-125.0
Inc/(Dec) in Sh. Cap. & Res.	2.6	0.0	0.0	0.0
Less: Dividend Paid	86.1	161.3	322.3	322.3
Others	0.0	0.0	0.0	0.0
CF from financing activities	-1,001.3	-511.3	-422.3	-447.3
Change in cash Eq.	-373.3	-298.0	186.6	527.9
Op. Cash and cash Eq.	691.9	318.5	20.5	207.1
Cl. Cash and cash Eq.	318.5	20.5	207.1	735.0

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Source of Funds				
Equity Capital	137.7	137.7	137.7	137.7
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	4,345.0	5,487.0	6,424.3	7,596.1
Shareholder's Fund	4,482.6	5,624.7	6,562.0	7,733.8
Loan Funds	1,025.2	675.2	575.2	450.2
Deferred Tax Liability	806.3	856.3	906.3	956.3
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	6314.1	7156.2	8043.5	9140.3
Application of Funds				
Gross Block	8,140.4	9,050.4	9,900.4	10,800.4
Less: Acc. Depreciation	2,175.7	2,545.6	2,959.1	3,416.0
Net Block	5,964.7	6,504.8	6,941.3	7,384.4
Capital WIP	687.6	965.9	1,065.9	1,215.9
Total Fixed Assets	6,652.3	7,470.7	8,007.2	8,600.3
Investments	21.1	19.7	19.7	19.7
Inventories	52.2	53.4	110.4	122.7
Debtor	783.1	930.1	1,104.1	1,227.2
Cash	318.5	20.5	207.1	735.0
Loan & Advance, Other CA	622.2	1000.5	1191.1	1320.4
Total Current assets	1776.0	2004.4	2612.7	3405.4
Current Liabilities	2058.9	2251.9	2484.2	2761.3
Provisions	76.3	86.7	111.9	123.9
Total CL and Provisions	2135.3	2338.6	2596.2	2885.1
Net Working Capital	-359.3	-334.2	16.6	520.3
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	6314.1	7156.2	8043.5	9140.3

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
Book Value	65.1	81.7	95.3	112.3
Cash per share	4.6	0.3	3.0	10.7
EPS	18.5	18.9	18.3	21.7
Cash EPS	23.5	24.5	24.3	28.3
DPS	2.0	2.0	4.0	4.0
Profitability & Operating Ratios				
EBITDA Margin (%)	21.2	12.6	10.2	10.6
PAT Margin (%)	12.9	7.9	6.3	6.7
Fixed Asset Turnover (x)	1.5	2.2	2.5	2.6
Inventory Turnover (Days)	1.9	1.2	2.0	2.0
Debtor (Days)	29.0	20.6	20.0	20.0
Current Liabilities (Days)	76.3	50.0	45.0	45.0
Return Ratios (%)				
RoE	28.5	23.2	19.2	19.3
RoCE	31.7	26.9	22.9	23.4
RoIC	33.7	27.0	23.6	25.8
Valuation Ratios (x)				
PE	24.0	23.5	24.3	20.5
Price to Book Value	6.8	5.4	4.7	4.0
EV/EBITDA	15.0	15.0	15.1	12.7
EV/Sales	3.2	1.9	1.5	1.4
Leverage & Solvency Ratios				
Debt to equity (x)	0.2	0.1	0.1	0.1
Interest Coverage (x)	0.0	0.0	0.0	0.0
Debt to EBITDA (x)	3.0	3.0	3.0	3.0
Current Ratio	0.8	0.9	1.0	1.2
Quick ratio	0.8	0.8	1.0	1.1

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	332	360	Hold	70,698	41.6	25.3	44.8	8.0	13.1	7.4	6.3	8.9	5.9	13.9	7.7	13.2	17.8	10.6	17.0
GAIL (India) (GAIL)	146	180	Buy	64,830	23.2	20.0	18.8	6.3	7.3	7.8	5.0	5.7	6.0	19.0	14.5	12.4	18.5	14.5	12.5
Gujarat Gas (GUJGA)	444	500	Hold	30,565	18.9	18.3	21.7	23.5	24.3	20.5	15.0	15.1	12.7	26.9	22.9	23.4	23.2	19.2	19.3
HPCL (HINPET)	231	255	Hold	32,778	44.9	8.0	42.8	5.1	29.0	5.4	7.8	16.4	7.1	7.3	0.8	7.3	16.5	3.0	15.0
Indian Oil Corp (INDOIL)	71	80	Hold	1,00,614	17.1	7.7	13.1	4.2	9.3	5.4	2.3	3.4	2.5	12.9	6.4	9.6	18.4	8.3	13.3
Indraprastha Gas (INDGAS)	366	440	Buy	25,620	18.8	20.6	23.0	19.4	17.7	15.9	12.9	11.1	9.7	22.3	22.0	21.1	19.0	18.1	17.5
Mahanagar Gas (MAHGAS)	779	820	Hold	7,695	60.4	71.3	78.1	12.9	10.9	10.0	7.9	6.7	5.9	20.1	21.4	21.1	16.9	17.9	17.5
Petronet LNG (PETLNG)	217	210	Hold	32,550	22.3	17.6	21.2	9.7	12.3	10.2	6.0	6.9	5.7	27.0	20.3	22.7	25.0	18.9	21.1
Reliance Industries (RELIND)	2,572	2,700	Hold	17,39,958	89.7	104.1	123.7	28.7	24.7	20.8	18.6	13.8	11.5	7.1	9.2	10.4	7.8	8.3	9.1

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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