

## 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 the NGT order for Morbi industrial area

**Q2FY23 Results:** Gujarat Gas (GGL) reported results that were broadly in line with our estimates on the profitability front.

- Revenue increased 10% YoY to ₹ 3976.5 crore (I-direct estimate: ₹ 3889.6 crore)
- Gross margins were at ₹ 13/scm (I-direct estimate: ₹ 12.1/scm). Subsequently, EBITDA was at ₹ 642.7 crore, up 52.7% YoY, 6% QoQ (I-direct estimate: ₹ 641.4 crore)
- PAT was at ₹ 403.9 crore, up 62.2% YoY, 6% QoQ (our estimate: ₹ 414.5 crore)

**What should investors do?** GGL's sales volume is expected to remain subdued in near term. Although gas sourcing costs have gone up, a new gas pricing mechanism is expected to bring down costs in the medium term.

- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value GGL at ₹ 550 i.e. 19.8x 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
- It operates a natural gas pipeline network of 14500 km as of end of FY22



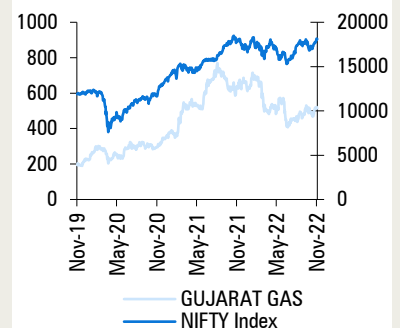
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	33,318.6
Total Debt (FY22) (₹ Crore)	620.3
Cash and Investments (FY22)	20.7
EV (₹ Crore)	33,918.1
52 week H/L	721/ 403
Equity capital (₹ Crore)	137.7
Face value (₹)	2.0

### Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	60.9	60.9	60.9	60.9
FII	7.7	6.0	5.2	5.0
DII	8.0	9.5	10.0	13.0
Others	23.4	23.6	23.9	21.1

### Price Chart



### Recent event & key risks

- **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	FY22	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	17,185.3	18,693.7	6.6
EBITDA (₹ crore)	984.5	1,634.3	2,087.8	2,078.8	22.6	1,702.2	2,976.9	19.7
Net Profit (₹ crore)	416.9	1,193.3	1,275.5	1,303.3	42.3	984.6	1,913.7	21.2
EPS (₹)	6.1	17.3	18.5	18.9		14.3	27.8	
P/E (x)	79.9	27.9	26.1	25.6		33.8	17.4	
Price / Book (x)	15.3	10.1	7.5	6.0		5.3	4.2	
EV/EBITDA (x)	35.7	21.2	16.3	16.3		20.0	11.0	
RoCE (%)	16.1	25.2	31.9	27.3		17.3	28.3	
RoE (%)	19.1	36.3	28.7	23.3		15.6	24.2	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter

### Q2FY23 Results: Volumes decline YoY, QoQ

- Total volume declined 33% YoY and 22% QoQ to 7.62 mmscmd and were marginally lower than the estimated 7.8 mmscmd. Industrial PNG volume was at 4.47 mmscmd, down 48.6% YoY and 32.6% QoQ (our estimate: 4.5 mmscmd) on account of reduced offtake due to customer plant shutdown. Total PNG sales were down 43.9% YoY and 27.5% QoQ to 5.3 mmscmd. CNG sales were marginally lower than estimates at 2.3 mmscmd, up 18.4% YoY (down 4.9% QoQ) (our estimate: 2.6 mmscmd)
- Revenue declined 23% QoQ to ₹ 3976.5 crore. Realisation was at ₹ 56.7/scm, up ₹ 22.3/scm YoY and down ₹ 1.5/scm QoQ. Raw material costs increased ₹ 15.4/scm YoY but declined ₹ 4.7/scm QoQ to ₹ 43.8/scm
- EBITDA/scm was at ₹ 9.2/scm, up ₹ 5.2/scm YoY and ₹ 2.4/scm QoQ (our estimate: ₹ 9.3/scm)
- We expect sales volume in FY23E and FY24E at 8.5 mmscmd and 9.5 mmscmd, respectively
- We expect EBITDA/scm at ₹ 5.8/scm and ₹ 8.5/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 (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Gujarat Gas (GUJGA)	515	550	Hold	35,453	18.9	15.3	27.8	27.2	33.6	18.5	17.3	20.1	11.7	27.3	18.4	28.1	23.3	16.5	24.0
Indraprastha Gas (INDGAS)	381	430	Hold	26,670	18.8	21.7	20.9	20.3	17.6	18.3	13.5	11.5	10.8	22.3	22.5	20.2	19.0	18.8	16.1
Mahanagar Gas (MAHGAS)	900	1,000	Hold	8,890	60.4	50.4	79.6	14.9	17.9	11.3	9.2	10.6	6.9	19.8	15.1	22.2	16.6	13.1	18.4

Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Revenues	3,976.5	3,889.6	3,614.5	10.0	5,170.1	-23.1	In line with estimates
Raw materials costs	3,068.4	3,053.7	2,978.4	3.0	4,297.3	-28.6	
Employees Cost	50.3	38.9	44.5	13.0	47.2	6.7	
Other Expenses	215.0	155.6	170.6	26.0	219.0	-1.8	
Total Expenditure	3,333.7	3,248.2	3,193.5	4.4	4,563.5	-26.9	
EBITDA	642.7	641.4	421.0	52.7	606.6	6.0	
EBITDA margins (%)	16.2	16.5	11.6	452 bps	11.7	443 bps	
Depreciation	106.4	102.9	93.7	13.6	103.2	3.2	
EBIT	536.3	538.5	327.3	63.8	503.5	6.5	
Interest	13.1	11.4	12.3	6.7	13.6	-3.5	
Other Income	18.5	27.0	19.2	-3.4	19.0	-2.4	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	541.8	554.1	334.3	62.1	508.9	6.5	
Total Tax	137.9	139.6	85.2	61.8	127.8	7.9	
PAT	403.9	414.5	249.1	62.2	381.1	6.0	Broadly in line with estimates

**Key Metrics**

Sales Volume (mmscmd)	7.62	7.8	11.4	-33.2	9.8	-21.8	Marginally below estimates
Realisation (₹/scm)	56.7	56.4	34.4	64.7	58.3	-2.7	In line with estimates
Gross margin (₹/scm)	13.0	12.1	6.1	113.8	9.8	31.7	

Source: Company, ICICI Direct Research

**Exhibit 3: Change in estimates**

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	Change	Old	New	Change	
Revenue	19534.2	17,185.3	-12.0	22646.4	18,693.7	-17.5	Decline in volume estimates led to change in revenue estimates
EBITDA	2,513.2	1,702.2	-32.3	2,294.9	2,976.9	29.7	Revised realisation and cost estimates led to change in EBITDA estimates
EBITDA Margin (%)	12.9	9.9	-296 bps	10.1	15.9	579 bps	
PAT	1,611.3	986.0	-38.8	1,438.7	1,919.7	33.4	
EPS (₹)	23.4	14.3	-38.8	20.9	27.9	33.4	

Source: ICICI Direct Research

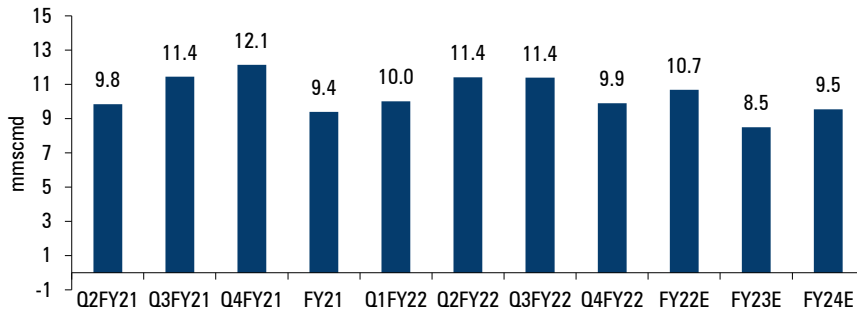
**Exhibit 4: Assumptions**

	Current				Earlier		Comments
	FY21	FY22E	FY23E	FY24E	FY23E	FY24E	
Sales Volume (mmscmd)	9.4	10.7	8.5	9.5	9.6	11.4	Revised sales volume estimates taking into account current volume trend
Realisation (₹/scm)	28.7	42.2	55.5	53.6	55.8	54.2	
Gross margin (₹/scm)	8.4	7.7	8.5	11.2	10.0	8.2	

Source: ICICI Direct Research

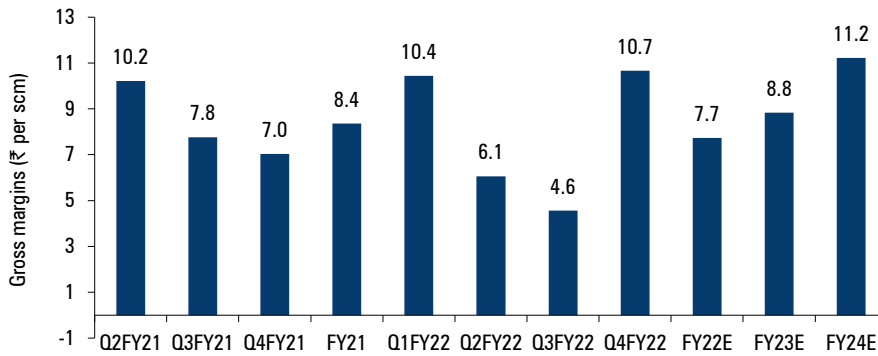
## Story in charts

Exhibit 5: Volume trajectory



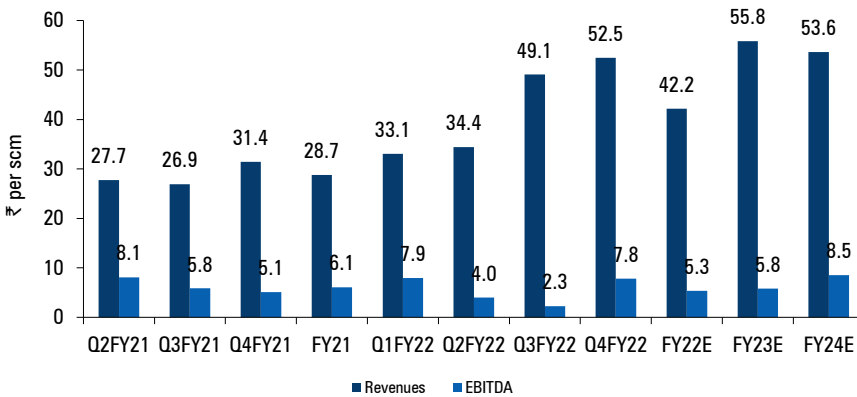
Source: Company, ICICI Direct Research

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	FY22	FY23E	FY24E
<b>Revenue</b>	<b>9854.3</b>	<b>16439.2</b>	<b>17185.3</b>	<b>18693.7</b>
Growth (%)	-4.3	66.8	4.5	8.8
Raw material Costs	6989.8	13425.0	14549.6	14782.0
Employee Costs	177.5	190.9	177.9	186.9
Other Expenditure	599.2	744.5	755.5	747.7
Op. Expenditure	7766.4	14360.4	15483.0	15716.7
<b>EBITDA</b>	<b>2087.8</b>	<b>2078.8</b>	<b>1702.2</b>	<b>2976.9</b>
Growth (%)	27.8	-0.4	-18.1	74.9
Depreciation	340.8	383.2	414.8	453.9
EBIT	1747.0	1695.7	1287.4	2523.0
Interest	116.3	56.6	61.5	84.6
Other Income	74.0	93.4	91.5	120.0
PBT	1704.7	1732.4	1317.4	2558.4
Growth (%)	41.1	1.6	-24.0	94.2
Tax	429.2	429.1	332.9	644.7
<b>Reported PAT</b>	<b>1275.5</b>	<b>1303.3</b>	<b>984.6</b>	<b>1913.7</b>
Growth (%)	6.9	2.2	-24.5	94.4
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	1275.5	1303.3	984.6	1913.7
<b>EPS</b>	<b>18.5</b>	<b>18.9</b>	<b>14.3</b>	<b>27.8</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	1,275.5	1,303.3	984.6	1,913.7
Add: Depreciation	340.8	383.2	414.8	453.9
Add: Others	-8.0	0.0	50.0	50.0
Cash Profit	1,608.4	1,686.5	1,449.4	2,417.6
Increase/(Decrease) in CL	272.1	250.8	-169.1	27.9
(Increase)/Decrease in CA	-415.5	-283.5	-545.7	-257.2
<b>CF from Operating Activi</b>	<b>1464.9</b>	<b>1653.9</b>	<b>734.7</b>	<b>2188.3</b>
Purchase of Fixed Assets	901.1	1,292.1	600.0	650.0
(Inc)/Dec in Investments	-2.5	-1.3	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activi</b>	<b>-903.7</b>	<b>-1,293.4</b>	<b>-600.0</b>	<b>-650.0</b>
Inc/(Dec) in Loan Funds	-917.8	-404.9	500.0	-125.0
Inc/(Dec) in Sh. Cap. & Res.	-31.4	-15.0	51.7	0.0
Less: Dividend Paid	86.1	137.7	322.3	322.3
Others	0.0	0.0	0.0	0.0
<b>CF from financing activi</b>	<b>-1,035.3</b>	<b>-557.6</b>	<b>229.3</b>	<b>-447.3</b>
Change in cash Eq.	-474.0	-197.2	364.0	1,091.0
Op. Cash and cash Eq.	691.9	217.9	20.7	384.7
<b>Cl. Cash and cash Eq.</b>	<b>217.9</b>	<b>21</b>	<b>384.7</b>	<b>1,475.7</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Source of Funds</b>				
Equity Capital	137.7	137.7	137.7	137.7
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	4,311.0	5,461.6	6,175.5	7,766.8
Shareholder's Fund	4,448.6	5,599.3	6,313.2	7,904.5
Loan Funds	1,025.2	620.3	1,120.3	995.3
Deferred Tax Liability	792.5	792.5	842.5	892.5
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>6266.4</b>	<b>7012.1</b>	<b>8275.9</b>	<b>9792.3</b>
<b>Application of Funds</b>				
Gross Block	8,185.3	9,178.7	9,678.7	10,178.7
Less: Acc. Depreciation	2,179.2	2,522.1	2,936.9	3,390.8
Net Block	6,006.1	6,656.6	6,741.7	6,787.9
Capital WIP	707.5	965.9	1,065.9	1,215.9
Total Fixed Assets	6,713.6	7,622.5	7,807.7	8,003.8
Investments	21.1	22.4	22.4	22.4
Inventories	52.2	52.5	94.2	102.4
Debtor	774.7	930.1	941.7	1,075.5
Cash	217.9	20.7	384.7	1,475.7
Loan & Advance, Other CA	622.2	750.0	1242.4	1357.4
Total Current assets	1667.0	1753.3	2662.9	4011.1
Current Liabilities	2058.9	2299.4	2118.7	2099.8
Provisions	76.3	86.7	98.3	145.1
Total CL and Provisions	2135.3	2386.1	2217.0	2244.9
Net Working Capital	-468.3	-632.8	445.9	1766.2
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>6266.4</b>	<b>7012.1</b>	<b>8275.9</b>	<b>9792.3</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Book Value	64.6	81.3	91.7	114.8
Cash per share	3.2	0.3	5.6	21.4
EPS	18.5	18.9	14.3	27.8
Cash EPS	23.5	24.5	20.3	34.4
DPS	2.0	2.0	4.0	4.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	21.2	12.6	9.9	15.9
PAT Margin (%)	12.9	7.9	5.7	10.2
Fixed Asset Turnover (x)	1.5	2.2	2.2	2.3
Inventory Turnover (Days)	1.9	1.2	2.0	2.0
Debtor (Days)	28.7	20.6	20.0	21.0
Current Liabilities (Days)	76.3	50.0	45.0	41.0
<b>Return Ratios (%)</b>				
RoE	28.7	23.3	15.6	24.2
RoCE	31.9	27.3	17.3	28.3
RoIC	33.2	27.4	18.3	34.0
<b>Valuation Ratios (x)</b>				
PE	26.1	25.6	33.8	17.4
Price to Book Value	7.5	6.0	5.3	4.2
EV/EBITDA	16.3	16.3	20.0	11.0
EV/Sales	3.5	2.1	2.0	1.8
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.2	0.1	0.2	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	0.7	1.2	1.8
Quick ratio	0.8	0.7	1.2	1.7

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 (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	309	330	Hold	65,800	42.0	-11.2	55.3	7.4	-27.6	5.6	6.2	29.1	4.7	13.2	-2.2	15.2	17.9	-5.0	21.4
GAIL (India) (GAIL)	88	95	Hold	57,861	23.3	9.9	8.8	3.8	8.9	9.9	3.2	7.1	7.8	18.8	10.3	8.6	18.6	11.1	9.4
Gujarat Gas (GUJGA)	515	550	Hold	35,453	18.9	15.3	27.8	27.2	33.6	18.5	17.3	20.1	11.7	27.3	18.4	28.1	23.3	16.5	24.0
HPCL (HINPET)	204	220	Hold	28,946	44.9	-39.6	47.8	4.5	-5.2	4.3	7.4	-17.4	6.4	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	68	75	Hold	96,024	17.1	3.4	14.0	4.0	19.9	4.8	2.2	4.9	2.3	12.9	2.9	10.1	18.4	3.8	14.8
Indraprastha Gas (INDGAS)	381	430	Hold	26,670	18.8	21.7	20.9	20.3	17.6	18.3	13.5	11.5	10.8	22.3	22.5	20.2	19.0	18.8	16.1
Mahanagar Gas (MAHGAS)	900	1,000	Hold	8,890	60.4	50.4	79.6	14.9	17.9	11.3	9.2	10.6	6.9	19.8	15.1	22.2	16.6	13.1	18.4
ONGC (ONGC)	124	135	Hold	1,59,133	8.9	32.0	40.6	13.9	3.9	3.1	5.4	2.8	1.9	4.5	14.8	21.8	5.5	17.0	18.7
Petronet LNG (PETLNG)	212	215	Hold	31,800	22.3	18.2	19.4	9.5	11.6	11.0	5.8	6.9	6.2	27.0	20.5	20.9	25.0	19.4	19.5
Reliance Industries (RELIND)	2,472	2,700	Hold	16,72,274	89.7	94.5	118.0	27.5	26.2	20.9	18.0	13.6	11.2	7.1	8.7	10.3	7.8	7.6	8.7

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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