

## Macros getting better in medium 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

### Q3FY23 Results: Profitability higher than I-direct estimates

- Revenue declined 28% YoY, 7.3% QoQ to ₹ 3684.3 crore (I-direct estimate: ₹ 3621 crore) due to reduced offtake from industrial customers
- Gross margins were at ₹ 12.8/scm (I-direct estimate: ₹ 9.6/scm). Subsequently, EBITDA stood at ₹ 582.3 crore, up 145% YoY (on a weak base), down 9.4% QoQ (I-direct estimate: ₹ 460 crore)
- PAT was at ₹ 371.3 crore, down 8% QoQ (I-direct estimate: ₹ 275 crore)

**What should investors do?** Industrial volumes declined in Q3 as customers switched to alternate fuels. However, the sharp decline in LNG prices will likely help Gujarat Gas regain its Industrial PNG volumes going ahead. Also, elevated crude prices would help offset concerns regarding higher competitiveness with LPG

- As we expect the growth to pick up in the medium term, we maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value Gujarat Gas at ₹ 520 i.e. ~24x P/E on FY25E EPS

### Key triggers for future price performance:

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

**Alternate Stock Idea:** Apart from Gujarat Gas, in our oil & gas coverage we also like IGL.

- Indraprastha Gas (IGL) is one of India's leading CGD companies, which primarily operates in NCT of Delhi and will benefit from stricter environmental regulations in Delhi
- BUY with a target price of ₹490



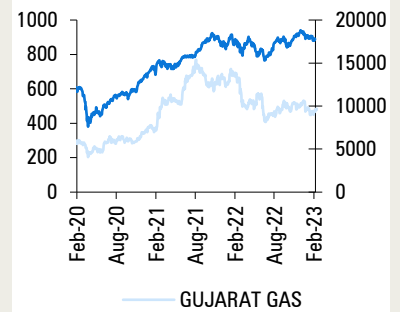
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	33,043.2
Total Debt (FY22) (₹ Crore)	620.3
Cash and Investments (FY22)	20.7
EV (₹ Crore)	33,642.7
52 week H/L	721/ 403
Equity capital (₹ Crore)	137.7
Face value (₹)	2.0

### Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	60.9	60.9	60.9	60.9
FII	6.0	5.2	5.0	5.2
DII	9.5	10.0	13.0	12.6
Others	23.6	23.9	21.1	21.4

### Price Chart



### Recent event & key risks

- **Key Risk:** (i) Faster than expected volume growth, (ii) Lower than estimated margins

### Research Analyst

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### Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22	CAGR (FY17-22)	FY23E	FY24E	FY25E	3 Year CAGR (FY22-25E)
Revenues (₹ crore)	7,754.4	10,300.3	9,854.3	16,439.2	26.6	16,209.9	15,252.6	16,525.2	0.2
EBITDA (₹ crore)	984.5	1,634.3	2,087.8	2,078.8	22.6	2,328.0	2,209.8	2,637.5	8.3
Net Profit (₹ crore)	416.9	1,193.3	1,275.5	1,303.3	42.3	1,457.9	1,339.9	1,659.8	8.4
EPS (₹)	6.1	17.3	18.5	18.9		21.2	19.5	24.1	
P/E (x)	79.3	27.7	25.9	25.4		22.7	24.7	19.9	
Price / Book (x)	15.1	10.0	7.4	5.9		4.9	4.2	3.6	
EV/EBITDA (x)	35.4	21.0	16.2	16.2		14.3	14.8	12.0	
RoCE (%)	16.1	25.2	31.9	27.3		24.1	20.0	22.4	
RoE (%)	19.1	36.3	28.7	23.3		21.5	17.2	18.2	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter

### Q3FY23 Results: Volumes decline YoY, QoQ due to high gas prices

- Total volume declined 36% YoY and 4.3% QoQ to 7.29 mmscmd, in line with I-direct estimate of 7.36 mmscmd. Industrial PNG volume stood at 4.05 mmscmd, down 52% YoY, 9% QoQ (I-direct estimate: 4 mmscmd) on account of reduced offtake as customers switched to alternate fuels. Total PNG sales were down 47% YoY and 8.3% QoQ to 4.9 mmscmd. CNG sales were in line with estimates at 2.4 mmscmd, up 12% YoY, 4.7% QoQ (I-direct estimate: 2.5 mmscmd)
- Revenue declined 7.3% QoQ to ₹ 3684.3 crore. Realisation stood at ₹ 54.9/scm, up ₹ 5.8/scm YoY and down ₹ 1.8/scm QoQ. Raw material costs declined ₹ 2.4/scm YoY, ₹ 1.6/scm QoQ to ₹ 42.2/scm due to decline in LNG prices.
- EBITDA/scm stood at ₹ 8.7/scm, up ₹ 6.4/scm YoY, down ₹ 0.5/scm QoQ (I-direct estimate: ₹ 6.8/scm)
- We expect sales volume in FY23E, FY24E and FY25E at 8.04 mmscmd, 10 mmscmd and 11.95 mmscmd, respectively
- We expect EBITDA/scm at ₹ 7.9/scm, ₹6/scm and ₹ 6/scm in FY23E, FY24E and FY25E, 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)	480	520	Hold	33,043	18.5	18.9	21.2	25.9	25.4	22.7	16.2	16.2	14.3	31.9	27.3	24.1	28.7	23.3	21.5
Indraprastha Gas (INDGAS)	418	490	Buy	29,260	14.4	18.8	20.1	29.1	22.3	20.8	19.0	14.9	13.7	20.0	22.3	20.8	17.1	19.0	17.7
Mahanagar Gas (MAHGAS)	855	1,000	Buy	8,446	62.7	60.4	71.1	13.6	14.1	12.0	8.6	8.7	7.4	23.1	19.8	20.8	19.2	16.6	17.6

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Total Revenues	3,684.3	3,620.9	5,144.4	-28.4	3,976.5	-7.3	In line with estimates
Raw materials costs	2,828.0	2,972.1	4,666.4	-39.4	3,068.4	-7.8	Lower than estimated
Employees Cost	48.6	43.5	46.9	3.7	50.3	-3.4	
Other Expenses	225.3	144.8	193.7	16.4	215.0	4.8	
Total Expenditure	3,102.0	3,160.4	4,906.9	-36.8	3,333.7	-7.0	
EBITDA	582.3	460.4	237.5	145.2	642.7	-9.4	Higher than estimates mainly due to lower than expected input cost
EBITDA margins (%)	15.8	12.7	4.6	1119 bps	16.2	-36 bps	
Depreciation	109.3	102.6	96.9	12.8	106.4	2.7	
EBIT	473.1	357.8	140.6	236.5	536.3	-11.8	
Interest	7.6	17.4	14.0	-45.4	13.1	-41.6	
Other Income	32.0	27.0	35.3	-9.3	18.5	72.7	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	497.4	367.4	161.9	207.3	541.8	-8.2	
Total Tax	126.1	92.6	40.0	215.7	137.9	-8.5	
PAT	371.3	274.8	121.9	204.5	403.9	-8.1	

Key Metrics

Sales Volume (mmscmd)	7.29	7.36	11.4	-36.0	7.6	-4.3	Broadly In line with estimates
Realisation (₹/scm)	54.9	53.5	49.1	11.9	56.7	-3.2	
Gross margin (₹/scm)	12.8	9.6	4.6	179.9	13.0	-1.4	Higher than estimated due to lower costs

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E			Comments
	Old	New	Change	Old	New	Change	Old	New	Change	
Revenue	17185.3	16,209.9	-5.7	18693.7	15,252.6	-18.4	-	16,525.2	-	Revision in realisation led to change in revenue estimates
EBITDA	1,702.2	2,328.0	36.8	2,976.9	2,209.8	-25.8	-	2,637.5	-	Revised realisation and cost estimates led to change in EBITDA estimates
EBITDA Margin (%)	9.9	14.4	446 bps	15.9	14.5	-141 bps	-	16.0	-	
PAT	986.0	1,457.9	47.9	1,919.7	1,339.9	-30.2	-	1,659.8	-	
EPS (₹)	14.3	21.2	48.1	27.9	19.5	-30.2	-	24.1	-	

Source: ICICI Direct Research

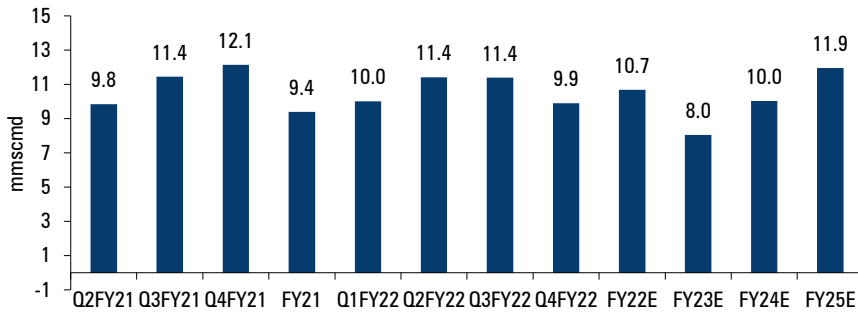
Exhibit 4: Assumptions

	Current					Earlier			Comments
	FY21	FY22E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Sales Volume (mmscmd)	9.4	10.7	8.0	10.0	11.9	8.5	9.5	-	Revised sales volume estimates post Q3FY23 results
Realisation (₹/scm)	28.7	42.2	55.2	41.7	37.9	55.5	53.6	-	
Gross margin (₹/scm)	8.4	7.7	11.7	9.7	8.9	8.5	11.2	-	

Source: ICICI Direct Research

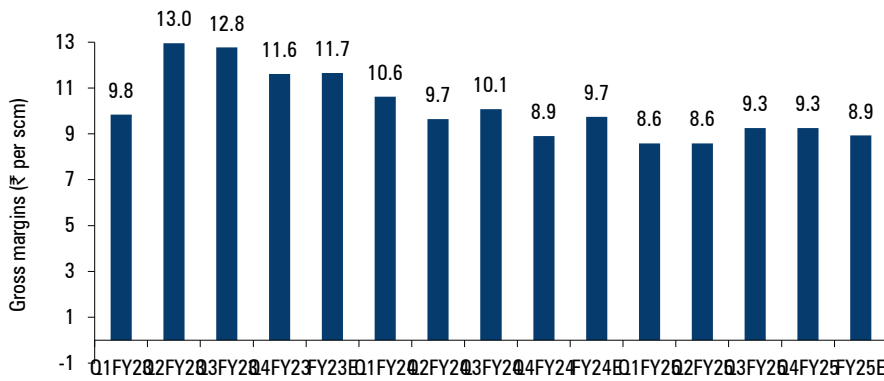
## Story in charts

Exhibit 5: Volume trajectory



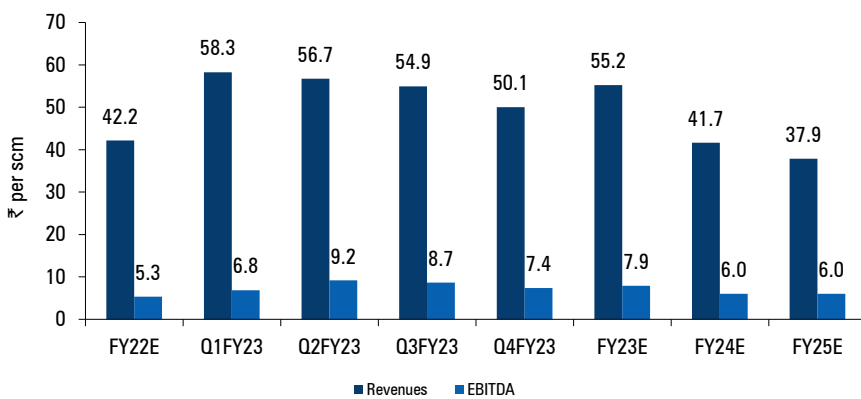
Source: Company, ICICI Direct Research

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)	FY22	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>16439.2</b>	<b>16209.9</b>	<b>15252.6</b>	<b>16525.2</b>
Growth (%)	66.8	-1.4	-5.9	8.3
Raw material Costs	13425.0	12789.3	11685.3	12631.8
Employee Costs	190.9	196.8	244.0	264.4
Other Expenditure	744.5	895.9	1113.4	991.5
Op. Expenditure	14360.4	13881.9	13042.8	13887.7
<b>EBITDA</b>	<b>2078.8</b>	<b>2328.0</b>	<b>2209.8</b>	<b>2637.5</b>
Growth (%)	-0.4	12.0	-5.1	19.4
Depreciation	383.2	421.5	453.9	453.9
EBIT	1695.7	1906.5	1755.9	2183.6
Interest	56.6	51.7	84.6	84.6
Other Income	93.4	96.5	120.0	120.0
PBT	1732.4	1951.3	1791.3	2219.0
Growth (%)	1.6	12.6	-8.2	23.9
Tax	429.1	493.4	451.4	559.2
<b>Reported PAT</b>	<b>1303.3</b>	<b>1457.9</b>	<b>1339.9</b>	<b>1659.8</b>
Growth (%)	2.2	11.9	-8.1	23.9
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	1303.3	1457.9	1339.9	1659.8
<b>EPS</b>	<b>18.9</b>	<b>21.2</b>	<b>19.5</b>	<b>24.1</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	1,303.3	1,457.9	1,339.9	1,659.8
Add: Depreciation	383.2	421.5	453.9	453.9
Add: Others	0.0	50.0	50.0	50.0
Cash Profit	1,686.5	1,929.4	1,843.8	2,163.7
Increase/(Decrease) in CL	250.8	-265.2	-291.5	159.1
(Increase)/Decrease in CA	-283.5	-444.1	9.0	-189.8
<b>CF from Operating Activi</b>	<b>1653.9</b>	<b>1220.0</b>	<b>1561.3</b>	<b>2133.0</b>
Purchase of Fixed Assets	1,292.1	600.0	650.0	650.0
(Inc)/Dec in Investments	-1.3	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activi</b>	<b>-1,293.4</b>	<b>-600.0</b>	<b>-650.0</b>	<b>-650.0</b>
Inc/(Dec) in Loan Funds	-404.9	500.0	-125.0	-375.0
Inc/(Dec) in Sh. Cap. & Res.	-15.0	51.7	0.0	0.0
Less: Dividend Paid	137.7	322.3	322.3	322.3
Others	0.0	0.0	0.0	0.0
<b>CF from financing activi</b>	<b>-557.6</b>	<b>229.3</b>	<b>-447.3</b>	<b>-697.3</b>
Change in cash Eq.	-197.2	849.4	463.9	785.7
Op. Cash and cash Eq.	217.9	20.7	870.1	1,334.0
<b>Cl. Cash and cash Eq.</b>	<b>21</b>	<b>870.1</b>	<b>1,334.0</b>	<b>2,119.7</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<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	5,461.6	6,648.8	7,666.4	9,003.8
Shareholder's Fund	5,599.3	6,786.5	7,804.1	9,141.5
Loan Funds	620.3	1,120.3	995.3	620.3
Deferred Tax Liability	792.5	842.5	892.5	942.5
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>7012.1</b>	<b>8749.3</b>	<b>9691.8</b>	<b>10704.3</b>
<b>Application of Funds</b>				
Gross Block	9,178.7	9,678.7	10,178.7	10,678.7
Less: Acc. Depreciation	2,522.1	2,943.6	3,397.4	3,851.3
Net Block	6,656.6	6,735.1	6,781.2	6,827.3
Capital WIP	965.9	1,065.9	1,215.9	1,365.9
Total Fixed Assets	7,622.5	7,801.0	7,997.1	8,193.3
Investments	22.4	22.4	22.4	22.4
Inventories	52.5	88.8	83.6	90.5
Debtor	930.1	888.2	877.5	950.8
Cash	20.7	870.1	1,334.0	2,119.7
Loan & Advance, Other CA	750.0	1,199.6	1,206.6	1,316.2
Total Current assets	1,753.3	3,046.8	3,501.7	4,477.2
Current Liabilities	2,299.4	1,998.5	1,713.3	1,856.3
Provisions	86.7	122.4	116.1	132.2
Total CL and Provisions	2,386.1	2,120.8	1,829.4	1,988.5
Net Working Capital	-632.8	925.9	1,672.3	2,488.7
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>7012.1</b>	<b>8749.3</b>	<b>9691.8</b>	<b>10704.3</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
Book Value	81.3	98.6	113.4	132.8
Cash per share	0.3	12.6	19.4	30.8
EPS	18.9	21.2	19.5	24.1
Cash EPS	24.5	27.3	26.1	30.7
DPS	2.0	4.0	4.0	4.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	12.6	14.4	14.5	16.0
PAT Margin (%)	7.9	9.0	8.8	10.0
Fixed Asset Turnover (x)	2.2	2.1	1.9	2.0
Inventory Turnover (Days)	1.2	2.0	2.0	2.0
Debtor (Days)	20.6	20.0	21.0	21.0
Current Liabilities (Days)	50.0	45.0	41.0	41.0
<b>Return Ratios (%)</b>				
RoE	23.3	21.5	17.2	18.2
RoCE	27.3	24.1	20.0	22.4
RoC	27.4	27.1	23.5	28.6
<b>Valuation Ratios (x)</b>				
PE	25.4	22.7	24.7	19.9
Price to Book Value	5.9	4.9	4.2	3.6
EV/EBITDA	16.2	14.3	14.8	12.0
EV/Sales	2.0	2.1	2.1	1.9
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.1	0.2	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	0.7	1.4	1.9	2.3
Quick ratio	0.7	1.4	1.9	2.2

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)	343	380	Hold	73,040	91.0	43.7	5.2	3.8	7.9	65.8	5.8	6.3	13.0	14.8	13.9	2.7	34.9	18.5	2.2
GAIL (India) (GAIL)	96	115	Buy	63,121	11.0	23.3	9.4	8.7	4.1	10.2	7.3	3.4	8.4	8.7	18.8	9.0	10.5	18.6	10.5
Gujarat Gas (GUJGA)	480	520	Hold	33,043	18.5	18.9	21.2	25.9	25.4	22.7	16.2	16.2	14.3	31.9	27.3	24.1	28.7	23.3	21.5
HPCL (HINPET)	232	275	Buy	32,919	70.6	44.9	-66.7	3.3	5.2	-3.5	4.8	7.8	-12.8	15.6	7.3	-12.9	29.5	16.5	-32.4
Indian Oil Corp (INDOIL)	81	90	Hold	1,14,382	15.5	17.1	5.2	5.2	4.7	15.5	3.0	2.6	5.0	13.3	12.9	4.0	19.8	18.4	5.8
Indraprastha Gas (INDGAS)	418	490	Buy	29,260	14.4	18.8	20.1	29.1	22.3	20.8	19.0	14.9	13.7	20.0	22.3	20.8	17.1	19.0	17.7
Mahanagar Gas (MAHGAS)	855	1,000	Buy	8,446	62.7	60.4	71.1	13.6	14.1	12.0	8.6	8.7	7.4	23.1	19.8	20.8	19.2	16.6	17.6
ONGC (ONGC)	149	155	Hold	1,91,217	10.4	8.9	32.0	14.3	16.7	4.7	4.2	6.4	3.3	10.2	4.5	14.8	6.7	5.5	17.0
Petronet LNG (PETLNG)	225	230	Hold	33,750	19.7	22.3	22.0	11.4	10.1	10.2	7.0	6.2	6.2	26.0	27.0	23.7	25.3	25.0	22.6
Reliance Industries (RELIND)	2,443	3,050	Buy	16,52,690	89.7	89.7	100.6	32.0	27.2	24.3	22.9	17.9	13.1	5.5	7.1	9.2	7.0	7.8	8.1

Source: Bloomberg, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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