

Volume growth to take centre stage in FY24...

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 6% CAGR in FY18-23
- The company benefitted from the NGT order for Morbi industrial area

Q4FY23 Results: Gujarat Gas beat I-direct estimates on all fronts.

- Revenue grew 6.6% QoQ to ₹ 3928.6 crore, higher than I-direct estimate of ₹ 3692 crore. Revenue growth was driven by higher volumes. Realisation was at ₹ 49.3/scm due to price cuts taken by the company
- Gross margins were at ₹ 10.6/scm (I-direct estimate: ₹ 9.6/scm). Subsequently, EBITDA was at ₹ 560.3 crore, down 3.8% QoQ (I-direct estimate: ₹ 413 crore)
- PAT was at ₹ 369.2 crore, flat QoQ, higher than our estimate of ₹ 240 crore

What should investors do? Gujarat Gas reported a recovery in sales volume aided by sharp correction in spot LNG prices, which the company decided to pass on to its industrial customers to improve competition vis-à-vis alternative fuels. In the current quarter, spot gas prices have further softened to ~US\$12/mmbtu (from US\$17/mmbtu) and domestic gas prices have declined by US\$2/mmbtu to current ceiling price of US\$6.5/mmbtu. Lucrative raw material prices are helping Gujarat Gas to maintain its share and further claw-back its customers back from LPG fold.

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

Target Price and Valuation: We value Gujarat Gas at ₹ 570 i.e. ~21x 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 the 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 ₹ 550



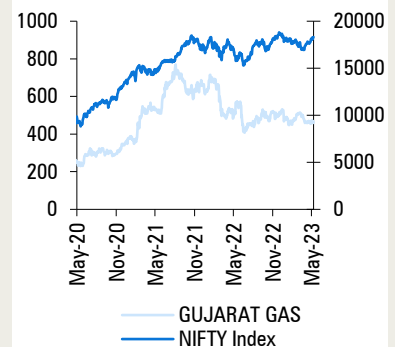
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	32,010.6
Total Debt (FY23) (₹ Crore)	195.0
Cash and Investments (FY23)	682.2
EV (₹ Crore)	31,523.4
52 week H/L	584/ 404
Equity capital (₹ Crore)	137.7
Face value (₹)	2.0

Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	60.9	60.9	60.9	60.9
FII	5.2	5.0	5.2	4.7
DII	10.0	13.0	12.6	13.3
Others	23.9	21.1	21.4	21.2

Price Chart



Recent event & key risks

- **Key Risk:** (i) Higher than expected LNG prices (ii) Negative impact on tile manufacturers in Morbi

Research Analyst

Harshal Mehta
harshal.mehta@icicisecurities.com

Payal Shah
shah.payal@icicisecurities.com

Key Financial Summary

(Year-end March)	FY21	FY22	FY23E	5 Year CAGR (FY18-23)	FY24E	FY25E	2 Year CAGR (FY23-25E)
Revenues (₹ crore)	9,854.3	16,439.2	16,759.4	22.1	14,725.9	15,512.9	(3.8)
EBITDA (₹ crore)	2,087.8	2,078.8	2,392.0	21.7	2,604.9	2,836.3	8.9
Net Profit (₹ crore)	1,275.5	1,303.3	1,525.5	39.2	1,684.7	1,864.5	10.6
EPS (₹)	18.5	18.9	22.2		24.5	27.1	
P/E (x)	25.1	24.6	21.0		19.0	17.2	
Price / Book (x)	7.2	5.7	4.6		4.1	3.6	
EV/EBITDA (x)	15.7	15.7	13.2		12.2	11.1	
RoCE (%)	31.9	27.3	27.3		27.4	26.2	
RoE (%)	28.7	23.3	21.8		21.8	20.8	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q4FY23 Results: Strong volume growth QoQ

- Total volume declined 10.4% YoY but grew 21.5% QoQ to 8.86 mmscmd, higher than I-direct estimate of 8.42 mmscmd. Industrial PNG volume was at 5.36 mmscmd, up 32% QoQ (I-direct estimate: 5.1 mmscmd) on account of recovery in volumes due to correction in LNG prices. Total PNG sales were up 30% QoQ to 6.33 mmscmd. CNG sales were in line with estimates at 2.5 mmscmd, up 4.1% QoQ
- Revenue declined 16% YoY (up 6.6% QoQ). Realisation was at ₹ 49.3/scm, down ₹ 5.7/scm QoQ due to price cuts taken by the company to maintain competition with alternative fuels. Raw material costs declined by ₹ 3.5/scm QoQ to ₹ 38.6/scm due to a decline in LNG prices
- EBITDA/scm was at ₹ 7/scm, down ₹ 1.7/scm QoQ (I-direct estimate: ₹ 5.5/scm)
- The Gujarat government has mandated a minimum of 30% of PAT or 5% of networth, whichever is higher, to be the minimum level of dividend declared for shareholders
- We expect sales volume in FY24E and FY25E at 9.8 mmscmd and 10.7 mmscmd, respectively
- We expect EBITDA/scm at ₹ 7.3/scm in both FY24E and FY25E

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)	485	570	Buy	33,387	0.0	0.0	0.0	31.9	27.3	27.3	0.0	0.0	0.0	76.3	51.1	60.5	28.7	20.6	22.2
Indraprastha Gas (INDGAS)	463	550	Buy	32,410	14.4	18.8	20.4	32.2	24.6	22.7	21.1	16.5	15.3	20.0	22.3	23.5	17.1	19.0	20.0
Mahanagar Gas (MAHGAS)	1077	1,300	Buy	10,638	327.2	364.2	418.5	44.8	35.6	34.3	17.2	17.8	13.5	0.0	0.0	0.0	172.4	123.8	81.5

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Total Revenues	3,928.6	3,691.8	4,669.4	-15.9	3,684.3	6.6	Higher than estimates due to recovery in industrial volume
Raw materials costs	3,079.7	2,964.8	3,719.9	-17.2	2,828.0	8.9	
Employees Cost	49.5	55.4	49.0	1.1	48.6	1.8	
Other Expenses	239.1	258.4	203.1	17.7	225.3	6.1	
Total Expenditure	3,368.3	3,278.6	3,972.0	-15.2	3,102.0	8.6	
EBITDA	560.3	413.2	697.4	-19.7	582.3	-3.8	Better than estimated
EBITDA margins (%)	14.3	11.2	14.9	-67 bps	15.8	-154 bps	
Depreciation	109.4	102.6	102.1	7.2	109.3	0.1	
EBIT	450.9	310.5	595.4	-24.3	473.1	-4.7	
Interest	6.1	17.4	14.5	-58.1	7.6	-20.8	
Other Income	31.8	27.0	17.6	80.2	32.0	-0.6	
Extra Ordinary Item	0.0	0.0	-11.9	NA	0.0	NA	
PBT	476.6	320.1	586.7	-18.8	497.4	-4.2	
Total Tax	107.4	80.7	142.4	-24.5	126.1	-14.8	
PAT	369.2	239.5	444.3	-16.9	371.3	-0.5	Higher than estimates

Key Metrics

Sales Volume (mmscmd)	8.86	8.42	9.9	-10.4	7.3	21.5	Higher than expected volume recovery
Realisation (₹/scm)	49.3	48.7	52.5	-6.1	54.9	-10.3	QoQ decline due to price cuts taken by the company
Gross margin (₹/scm)	10.6	9.6	10.7	-0.2	12.8	-16.6	

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	16522.6	16,759.4	1.4	15576.3	14,725.9	-5.5	17013.0	15,512.9	-8.8	Revision in realisation led to change in revenue estimates
EBITDA	2,244.8	2,392.0	6.6	2,921.6	2,604.9	-10.8	3,224.7	2,836.3	-12.0	Revised realisation and cost estimates led to change in EBITDA estimates
EBITDA Margin (%)	13.6	14.3	69 bps	18.8	17.7	-107 bps	19.0	18.3	-67 bps	
PAT	1,395.7	1,525.5	9.3	1,872.3	1,684.7	-10.0	2,099.0	1,864.5	-11.2	
EPS (₹)	20.3	22.2	9.3	27.2	24.5	-10.0	30.5	27.1	-11.2	

Source: ICICI Direct Research

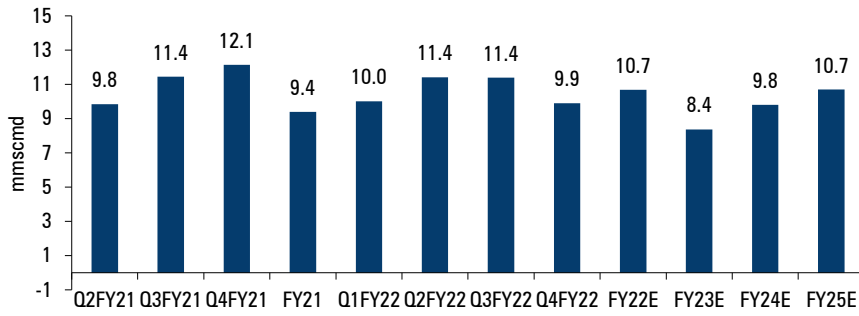
Exhibit 4: Assumptions

	Current					Earlier			Comments
	FY21	FY22E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Sales Volume (mmscmd)	9.4	10.7	8.4	9.8	10.7	8.3	10.0	11.9	Revised sales volume estimates post Q4FY23 results
Realisation (₹/scm)	28.7	42.2	54.8	41.1	39.7	54.8	42.5	39.0	
Gross margin (₹/scm)	8.4	7.7	11.4	10.6	10.8	11.2	11.8	10.4	

Source: ICICI Direct Research

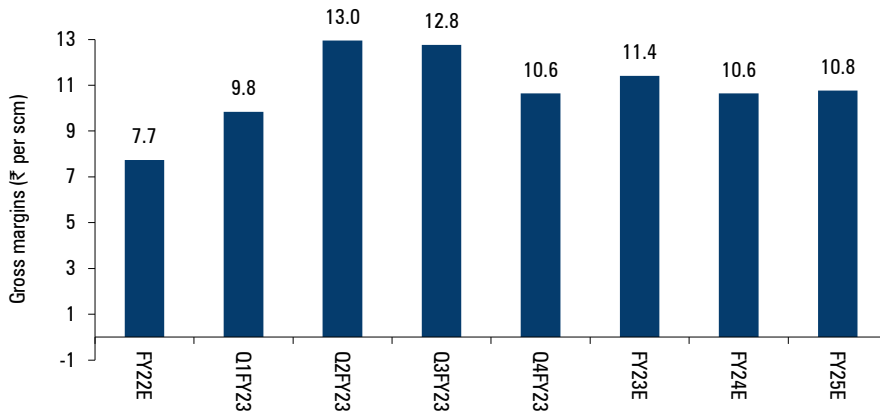
Story in charts

Exhibit 5: Volume trajectory



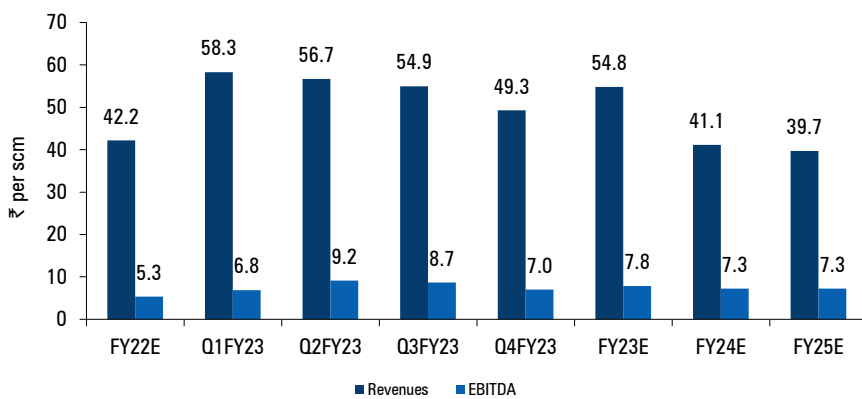
Source: Company, ICICI Direct Research

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
Revenue	16439.2	16759.4	14725.9	15512.9
Growth (%)	66.8	1.9	-12.1	5.3
Raw material Costs	13425.0	13273.4	10913.5	11311.5
Employee Costs	190.9	195.6	206.2	217.2
Other Expenditure	744.5	898.4	1001.4	1148.0
Op. Expenditure	14360.4	14367.4	12121.0	12676.6
EBITDA	2078.8	2392.0	2604.9	2836.3
Growth (%)	-0.4	15.1	8.9	8.9
Depreciation	383.2	428.3	453.9	453.9
EBIT	1695.7	1963.7	2151.0	2382.4
Interest	56.6	40.4	10.1	10.1
Other Income	93.4	101.3	111.4	120.3
PBT	1732.4	2024.7	2252.3	2492.6
Growth (%)	1.6	16.9	11.2	10.7
Tax	429.1	499.2	567.6	628.1
Reported PAT	1303.3	1525.5	1684.7	1864.5
Growth (%)	2.2	17.0	10.4	10.7
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	1303.3	1525.5	1684.7	1864.5
EPS	18.9	22.2	24.5	27.1

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	1,303.3	1,525.5	1,684.7	1,864.5
Add: Depreciation	383.2	428.3	453.9	453.9
Add: Others	0.0	53.6	50.0	50.0
Cash Profit	1,686.5	2,007.3	2,188.6	2,368.3
Increase/(Decrease) in CL	250.8	472.3	-344.9	139.3
(Increase)/Decrease in CA	-283.5	-130.4	228.4	-97.7
Others	0	351	0	0
CF from Operating Activi	1653.9	2349.2	2072.1	2409.9
Purchase of Fixed Assets	1,292.1	1,086.5	1,301.7	1,355.8
(Inc)/Dec in Investments	-1.3	-9.3	1.3	-200.0
Others	0.0	-390.3	0.0	0.0
CF from Investing Activi	-1,293.4	-1,486.1	-1,300.4	-1,555.8
Inc/(Dec) in Loan Funds	-404.9	-425.3	-66.1	5.0
Inc/(Dec) in Sh. Cap. & Res.	-14.6	406.6	-355.0	0.0
Less: Dividend Paid	137.7	535.8	591.5	654.6
Others	0.0	0.0	0.0	0.0
CF from financing activi	-557.2	-554.4	-1,012.6	-649.6
Change in cash Eq.	-196.8	659.8	-240.8	204.5
Op. Cash and cash Eq.	217.9	21.1	680.9	440.1
Cl. Cash and cash Eq.	21	680.9	440.1	644.6

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
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	5,461.6	6,857.9	7,596.2	8,806.0
Shareholder's Fund	5,599.3	6,995.6	7,733.9	8,943.7
Loan Funds	620.3	195.0	128.9	133.9
Deferred Tax Liability	792.5	846.1	896.1	946.1
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	7012.1	8036.7	8758.9	10023.7
Application of Funds				
Gross Block	9,178.7	10,286.7	11,686.7	13,086.7
Less: Acc. Depreciation	2,522.1	2,950.3	3,404.2	3,858.1
Net Block	6,656.6	7,336.4	8,282.5	9,228.6
Capital WIP	965.9	983.1	884.8	840.6
Total Fixed Assets	7,622.5	8,319.5	9,167.3	10,069.2
Investments	22.4	31.7	30.4	230.4
Inventories	52.5	61.2	80.7	85.0
Debtor	930.1	1,021.2	887.6	935.0
Cash	21.1	680.9	440.1	644.6
Loan & Advance, Other CA	750.0	780.6	666.2	712.2
Total Current assets	1753.7	2543.8	2074.6	2376.8
Current Liabilities	2299.4	2776.0	2420.7	2550.1
Provisions	86.7	82.4	92.7	102.6
Total CL and Provisions	2386.1	2858.4	2513.4	2652.7
Net Working Capital	-632.4	-314.6	-438.9	-275.9
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	7012.5	8036.6	8758.8	10023.6

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Book Value	81.3	101.6	112.3	129.9
Cash per share	0.3	9.9	6.4	12.3
EPS	18.9	22.2	24.5	27.1
Cash EPS	24.5	28.4	31.1	33.7
DPS	2.0	6.7	7.3	8.1
Profitability & Operating Ratios				
EBITDA Margin (%)	12.6	14.3	17.7	18.3
PAT Margin (%)	7.9	9.1	11.4	12.0
Fixed Asset Turnover (x)	2.2	2.0	1.6	1.5
Inventory Turnover (Days)	1.2	1.3	2.0	2.0
Debtor (Days)	20.6	22.2	22.0	22.0
Current Liabilities (Days)	51.1	60.5	60.0	60.0
Return Ratios (%)				
RoE	23.3	21.8	21.8	20.8
RoCE	27.3	27.3	27.4	26.2
RoIC	27.4	30.2	29.0	28.9
Valuation Ratios (x)				
PE	24.6	21.0	19.0	17.2
Price to Book Value	5.7	4.6	4.1	3.6
EV/EBITDA	15.7	13.2	12.2	11.1
EV/Sales	2.0	1.9	2.2	2.0
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.0	0.0	0.0
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	0.9	0.8	0.9
Quick ratio	0.7	0.9	0.8	0.9

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	120	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)	485	570	Buy	33,387	0.0	0.0	0.0	31.9	27.3	27.3	0.0	0.0	0.0	76.3	51.1	60.5	28.7	20.6	22.2
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)	463	550	Buy	32,410	14.4	18.8	20.4	32.2	24.6	22.7	21.1	16.5	15.3	20.0	22.3	23.5	17.1	19.0	20.0
Mahanagar Gas (MAHGAS)	1077	1,300	Buy	10,638	327.2	364.2	418.5	44.8	35.6	34.3	17.2	17.8	13.5	0.0	0.0	0.0	172.4	123.8	81.5
ONGC (ONGC)	152	180	Buy	1,95,067	10.4	8.9	32.0	14.6	17.0	4.7	4.2	6.5	3.4	10.2	4.5	14.8	6.7	5.5	17.0
Petronet LNG (PETLNG)	227	240	Hold	34,050	19.7	22.3	21.6	11.5	10.2	10.5	7.0	6.3	6.5	26.0	27.0	22.7	25.3	25.0	21.7
Reliance Industries (RELIND)	2,349	2,850	Buy	15,89,099	89.7	89.7	98.6	30.8	26.2	23.8	22.2	17.0	12.8	5.5	7.3	9.0	7.0	7.8	8.1

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Anoop Goyal
Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabhodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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