

Gujarat State Petronet

Estimate changes	↔
TP change	↔
Rating change	↔

Bloomberg	GUJS IN
Equity Shares (m)	564
M.Cap.(INRb)/(USDb)	183.3 / 2.5
52-Week Range (INR)	383 / 184
1, 6, 12 Rel. Per (%)	2/-3/27
12M Avg Val (INR M)	339

Financials & Valuations (INR b)

Y/E March	FY22E	FY23E	FY24E
Sales	17.7	20.7	22.6
EBITDA	14.5	17.1	18.7
PAT	10.1	11.6	12.7
EPS (INR)	17.8	20.7	22.5
EPS Gr. (%)	8.7	15.8	9.1
BV/Sh.(INR)	149.6	168.3	188.8

Ratios

Net D:E	0.0	0.0	-0.1
RoE (%)	12.6	13.0	12.6
RoCE (%)	11.8	12.3	12.0
Payout (%)	11.2	9.7	8.9

Valuations

P/E (x)	18.2	15.7	14.4
P/BV (x)	2.2	1.9	1.7
EV/EBITDA (x)	12.8	10.5	9.2
Div. Yield (%)	0.6	0.6	0.6
FCF Yield (%)	2.4	3.6	4.2

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	37.6	37.6	37.6
DII	31.0	30.0	30.9
FII	17.5	17.5	15.6
Others	13.9	14.9	15.9

FII Includes depository receipts

CMP: INR325
TP: INR450 (+39%)
Buy

Volumes strong, to be even stronger from here on

- GUJS reported numbers in line with our estimates, with volumes at 37.5mmscmd (improves QoQ – supported by growth in CGDs and the Fertilizer sector).
- **We continue to remain optimistic about volume growth for the company** as CGD volumes grow further on the back of festive season demand and economy opening up to its fullest, and higher offtake from the ramp-up/commissioning of fertilizer plants over the next couple of quarters.
- **We expect spot LNG prices to return to normal levels post winter** (i.e. end of FY22) as seasonal gas demand subsides, with supply constraints being resolved.
- RIL has bought ~8mmscmd (4.8mmscmd/3.2mmscmd in auction-II/III) of its own KG basin gas. Various companies (like GSPC, Essar Steel, and GSFC) have procured gas in two rounds of auctions. **We believe substantial volume will flow to Gujarat and thus on the pipeline of GUJS.**
- Mehsana-Bhatinda pipeline is guided to be completed by the end of FY22. Around 4mmscmd of gas is currently flowing through Phase-I of Mehsana-Bhatinda pipeline and has already become cash flow profitable. **Phase II commissioning is expected by FY22-end, post which total volumes should reach 9.5-10mmscmd.** IOCL's Panipat and Bhatinda refinery would start consuming ~2.5mmscmd of gas each.
- **PNGRB has taken up tariff review of GUJS' HPP grid** – [link to draft notification](#) (open house date to be announced later) – to determine the new tariff from FY22 onwards and would adjust it for the new tax regime (16% pre-tax IRR v/s 18.45% in FY19). **GUJS has proposed to undertake a capex plan of INR45.4b over the remaining life of the pipeline** (i.e. over the next 10 years till FY32) on the net block of INR53.8b at the end of FY21 (spent over the last 20 years starting FY01).

EBITDA came in line with our estimate

- In line volumes and implied tariff at INR1,260, led to in line revenue at INR4.5b (-3% YoY, +2% QoQ). EBITDA stood at INR3.8b (flat YoY and QoQ), with PAT at INR3.3b (+22% YoY, +42% QoQ) due to higher other income. **EPS translated to INR5.9 (est. INR4.5).**
- **In 1HFY22**, EBITDA rose 4% YoY to INR7.6b, with PAT at INR5.6b (+20% YoY), owing to lower interest cost and higher other income. Volumes were up 2% YoY at 37.1mmscmd, with implied tariff at INR1,271.

Sectoral volume details

Volumes were in line with our estimate at 37.5mmscmd (-6% YoY, +2% QoQ)

- CGD volumes increased to 13.1mmscmd (+22% YoY, +19% QoQ).
- Fertilizer volumes continue to grow at 3.4mmscmd (+31% QoQ).
- Power/refining-petchem segment volumes stood at 5.2mmscmd/10.1mmscmd (-5%/-14% QoQ) owing to a spurt in spot LNG prices.
- Volumes from others stood at 6.4mmscmd (+8% QoQ).

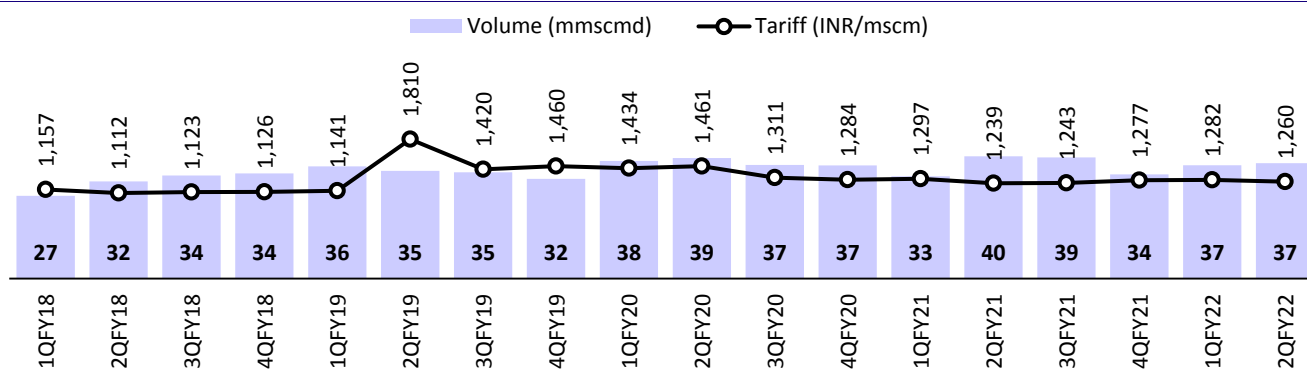
Valuation and view – maintain Buy

- Available LNG capacity in Gujarat is expected to grow by 55% to 42.5mmtpa over the next 3-4 years. Most of this volume is expected to flow through GUJS' network. Based on the same, **the company can easily record an 8-10% CAGR in transmission volumes for the next 5-6 years** (in line with the 10% volume CAGR over the last five years).
- We reiterate our belief that volumes for GUJS would jump to ~44mmscmd in FY23 as the company is also a beneficiary of:** a) the upcoming LNG terminals in Gujarat, and b) increased demand due to focus on reducing industrial pollution (Gujarat has five geographical areas, or GAs, identified as severely/critically polluted), and c) commissioning of Mehsana-Bhatinda pipeline.
- The stock trades at 16x FY23E EPS and 10x FY23E EV/EBITDA. **Investments in GUJGA and Sabarmati Gas, at 25% holding discount, offer a valuation of INR307.** Valuing the core at 7x (long term trough valuation) adjusted Dec'23E EPS of INR20.5 and adding the value of investments, we arrive at a TP of INR450/share.

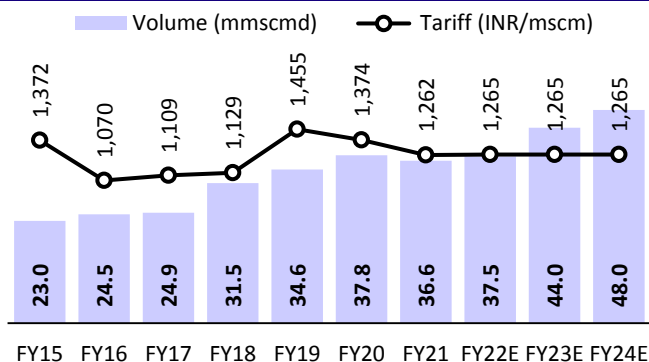
Standalone quarterly earnings model

Y/E March	FY21				FY22				FY21	FY22E	FY22E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
Net Sales	4,028	4,634	4,590	3,939	4,397	4,474	4,288	4,501	17,191	17,659	4,423	1%
YoY Change (%)	-21.4	-14.4	1.5	-10.2	9.1	-3.4	-6.6	14.3	-11.6	2.7	-4.5	
EBITDA	3,462	3,807	3,984	3,442	3,744	3,806	3,534	3,453	14,694	14,537	3,638	5%
YoY Change (%)	-13.9	-12.9	4.8	-3.2	8.2	0.0	-11.3	0.3	-6.7	-1.1	-4.4	
Margin (%)	85.9	82.2	86.8	87.4	85.2	85.1	82.4	76.7	85.5	82.3	82.3	
Depreciation	488	554	511	497	481	491	511	530	2,049	2,012	591	-17%
Interest	290	249	220	174	140	86	77	71	933	375	126	-32%
Other Income	43	515	74	61	38	904	74	43	694	1,060	492	84%
PBT before EO expense	2,727	3,519	3,328	2,833	3,161	4,133	3,020	2,895	12,406	13,209	3,412	21%
Extra-Ord. expense	0	0	0	17	14	0	0	0	17	14	0	
PBT	2,727	3,519	3,328	2,816	3,148	4,133	3,020	2,895	12,389	13,195	3,412	21%
Tax	733	808	853	753	828	829	760	727	3,147	3,144	859	-3%
Rate (%)	26.9	23.0	25.6	26.8	26.3	20.1	25.2	25.1	25.4	23.8	25.2	
Reported PAT	1,994	2,711	2,475	2,063	2,319	3,304	2,260	2,168	9,242	10,051	2,553	29%
YoY Change (%)	-3.3	-40.4	11.4	-8.0	16.8	21.9	-8.7	4.5	-16.5	8.7	-5.8	
Margin (%)	49.5	58.5	53.9	52.7	53.0	73.8	52.7	48.2	53.8	57.0	57.7	
Key Operating Parameters												
Transmission Volume (mmscmd)	33.3	39.8	39.4	33.8	36.8	37.5	37.0	38.7	36.6	37.5	37.5	0%
Implied Tariff (INR/mscm)	1,297	1,239	1,243	1,277	1,282	1,260	1,260	1,259	1,262	1,265	1,282	-2%
E: MOFSL estimates												

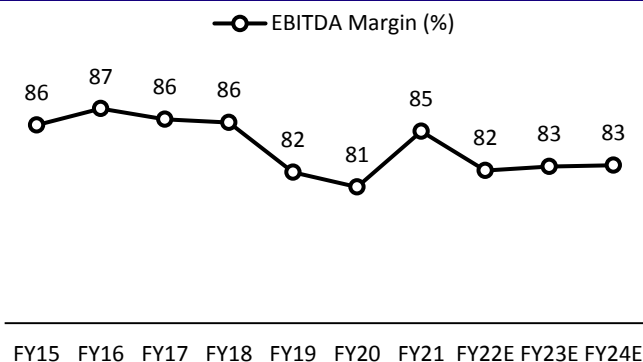
E: MOFSL estimates

Exhibit 1: Transmission volume declines by 6% YoY, but grew 2% QoQ

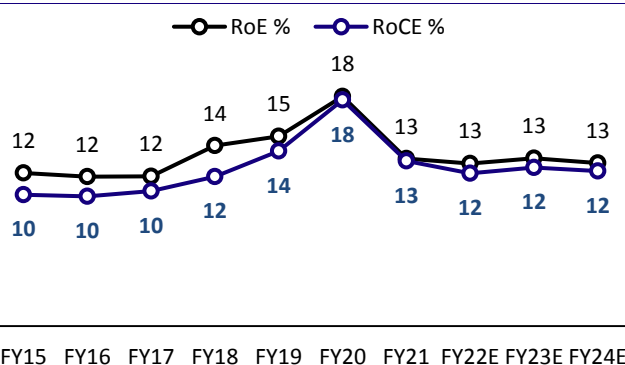
Source: MOFSL, Company

Exhibit 2: GSPL's volume snapshot

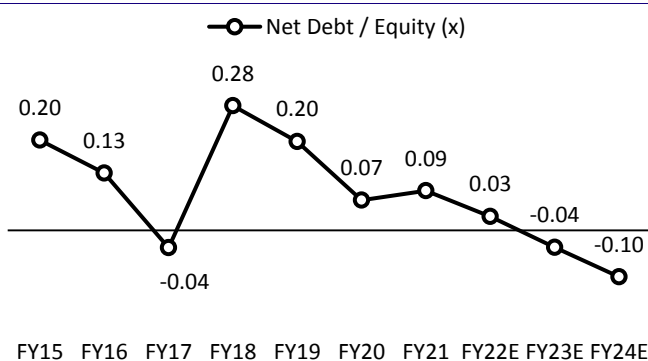
Source: Company, MOFSL

Exhibit 3: EBITDA margin to stay strong

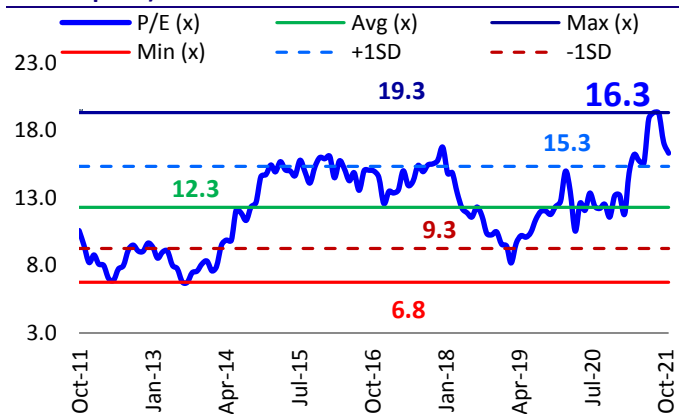
Source: Company, MOFSL

Exhibit 4: Return ratios profile

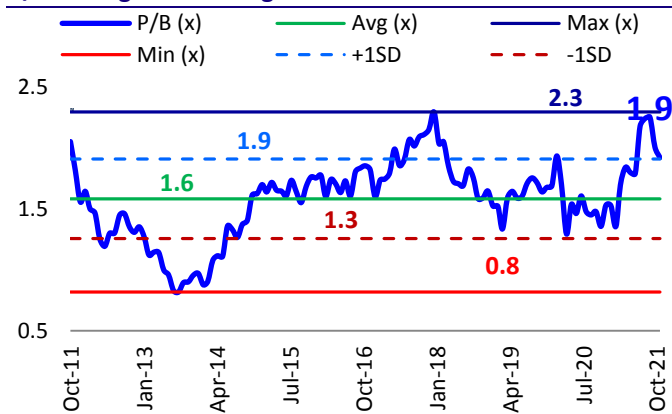
Source: Company, MOFSL

Exhibit 5: Net debt to decline

Source: Company, MOFSL

Exhibit 6: One-year forward P/E for GSPL, at 16.3x, v/s its long-term average of 12.3x (owing to the run-up in the GUJGA price)...

Source: Company, MOFSL

Exhibit 7: ...while its one-year forward P/B trades at 1.9x v/s its long-term average of 1.6x

Source: Company, MOFSL

Financials and valuations

Standalone Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	10,276	13,318	18,773	19,449	17,191	17,659	20,660	22,568
Change (%)	3.6	29.6	41.0	3.6	-11.6	2.7	17.0	9.2
EBITDA	8,883	11,478	15,426	15,749	14,694	14,537	17,073	18,673
Margin (%)	86.4	86.2	82.2	81.0	85.5	82.3	82.6	82.7
Depreciation	1,791	1,750	1,800	1,966	2,049	2,012	2,260	2,542
EBIT	7,092	9,728	13,626	13,783	12,645	12,524	14,813	16,131
Int. and Finance Charges	596	354	2,192	1,645	933	375	375	375
Other Income	882	735	594	649	694	1,060	1,136	1,241
PBT bef. EO Exp.	7,378	10,108	12,028	12,786	12,406	13,209	15,575	16,997
EO Items	0	0	0	0	-17	-14	0	0
PBT after EO Exp.	7,378	10,108	12,028	12,786	12,389	13,195	15,575	16,997
Total Tax	2,412	3,424	4,081	1,699	3,147	3,144	3,925	4,283
Tax Rate (%)	32.7	33.9	33.9	13.3	25.4	23.8	25.2	25.2
Reported PAT	4,966	6,685	7,947	11,087	9,242	10,051	11,650	12,714
Adjusted PAT	4,966	6,685	7,947	11,087	9,255	10,061	11,650	12,714
Change (%)	11.5	34.6	18.9	39.5	-16.5	8.7	15.8	9.1
Margin (%)	48.3	50.2	42.3	57.0	53.8	57.0	56.4	56.3

Standalone Balance Sheet

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	5,636	5,638	5,640	5,641	5,642	5,642	5,642	5,642
Total Reserves	39,324	45,012	51,800	61,584	69,808	78,731	89,254	1,00,841
Net Worth	44,960	50,650	57,440	67,226	75,450	84,374	94,896	1,06,483
Total Loans	6,305	17,595	12,856	5,441	7,499	7,499	7,499	7,499
Deferred Tax Liabilities	4,719	4,984	5,226	4,081	4,218	4,218	4,218	4,218
Capital Employed	55,984	73,229	75,522	76,748	87,167	96,091	1,06,613	1,18,200
Gross Block	35,277	36,512	43,245	44,994	45,854	51,126	57,781	64,711
Less: Accum. Deprn.	3,620	5,371	7,170	9,137	11,186	13,199	15,458	18,000
Net Fixed Assets	31,657	31,142	36,075	35,857	34,668	37,928	42,322	46,711
Capital WIP	6,864	8,959	4,194	2,372	2,215	3,943	4,289	4,358
Total Investments	7,655	41,814	42,772	46,111	50,062	50,062	50,062	50,062
Curr. Assets, Loans, and Adv.	12,158	7,571	6,459	5,764	5,420	9,179	16,039	23,854
Inventory	1,123	1,235	1,279	1,261	1,296	1,065	1,223	1,328
Account Receivables	1,216	1,235	2,081	1,637	1,586	1,486	1,739	1,899
Cash and Bank Balance	8,026	3,645	1,583	957	877	4,895	11,050	18,412
Cash	152	225	700	903	843	4,861	11,015	18,377
Bank Balance	7,875	3,420	883	54	34	34	34	34
Loans and Advances	1,792	1,456	1,516	1,908	1,660	1,733	2,027	2,214
Curr. Liability and Prov.	2,350	16,256	13,978	13,356	5,197	5,020	6,097	6,784
Account Payables	138	185	238	410	620	346	398	432
Other Current Liabilities	2,088	15,932	13,523	12,670	4,270	4,423	5,407	6,032
Provisions	124	138	216	276	307	251	293	320
Net Current Assets	9,808	-8,685	-7,518	-7,592	223	4,159	9,942	17,070
Appl. of Funds	55,983	73,229	75,522	76,748	87,167	96,091	1,06,614	1,18,201

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
EPS	8.8	11.9	14.1	19.7	16.4	17.8	20.7	22.5
Cash EPS	12.0	15.0	17.3	23.1	20.0	21.4	24.7	27.1
BV/Share	79.7	89.8	101.8	119.2	133.8	149.6	168.3	188.8
DPS	1.5	1.8	2.0	2.0	2.0	2.0	2.0	2.0
Payout (%)	20.5	16.9	16.1	12.2	14.7	11.2	9.7	8.9
Valuation (x)								
P/E	36.9	27.4	23.1	16.5	19.8	18.2	15.7	14.4
Cash P/E	27.1	21.7	18.8	14.0	16.2	15.2	13.2	12.0
P/BV	4.1	3.6	3.2	2.7	2.4	2.2	1.9	1.7
EV/Sales	17.7	14.8	10.4	9.7	11.0	10.5	8.7	7.6
EV/EBITDA	20.4	17.2	12.6	11.9	12.9	12.8	10.5	9.2
Dividend Yield (%)	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6
FCF per share	14.9	11.1	15.5	22.2	20.0	7.9	11.6	13.5
Return Ratios (%)								
RoE	11.6	14.0	14.7	17.8	13.0	12.6	13.0	12.6
RoCE	10.5	11.6	13.6	17.5	12.8	11.8	12.3	12.0
RoIC	13.8	24.6	39.3	44.0	30.8	26.8	28.3	27.9
Working Capital Ratios								
Fixed Asset Turnover (x)	0.3	0.4	0.4	0.4	0.4	0.3	0.4	0.3
Asset Turnover (x)	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2
Inventory (Days)	40	34	25	24	28	22	22	21
Debtor (Days)	43	34	40	31	34	31	31	31
Creditor (Days)	5	5	5	8	13	7	7	7
Leverage Ratio (x)								
Current Ratio	5.2	0.5	0.5	0.4	1.0	1.8	2.6	3.5
Interest Coverage Ratio	11.9	27.5	6.2	8.4	13.6	33.4	39.5	43.0
Net Debt/Equity	0.0	0.3	0.2	0.1	0.1	0.0	0.0	-0.1

Standalone Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	7,378	10,108	12,028	12,786	12,382	13,209	15,575	16,997
Depreciation	1,791	1,750	1,800	1,966	2,048	2,012	2,260	2,542
Interest and Finance Charges	740	354	2,192	1,645	934	375	375	375
Direct Taxes Paid	-2,228	-3,105	-3,639	-3,082	-3,025	-3,144	-3,925	-4,283
(Inc.)/Dec. in WC	2,534	508	-956	893	684	82	372	234
Others	-780	-672	-542	-606	-611	-1,060	-1,136	-1,241
CF from Operations	9,436	8,943	10,882	13,602	12,412	11,474	13,520	14,623
(Inc.)/Dec. in FA	-1,052	-2,691	-2,118	-1,066	-1,119	-7,000	-7,000	-7,000
Free Cash Flow	8,383	6,252	8,764	12,536	11,293	4,474	6,520	7,623
(Pur.)/Sale of Investments	-346	-34,157	-990	-3,340	-3,848	0	0	0
Others	-2,278	5,113	3,029	1,304	589	1,060	1,136	1,241
CF from Investments	-3,676	-31,735	-80	-3,102	-4,379	-5,940	-5,864	-5,759
Inc./(Dec.) in Debt	-4,329	24,239	-6,912	-7,335	-6,037	0	0	0
Interest Paid	-1,039	-375	-2,299	-1,678	-924	-375	-375	-375
Dividend Paid	-1,016	-1,018	-1,128	-1,283	-1,128	-1,127	-1,127	-1,127
CF from Fin. Activity	-6,365	22,865	-10,328	-10,297	-8,093	-1,515	-1,502	-1,502
Inc./Dec. in Cash	-606	73	475	203	-59	4,018	6,155	7,362
Opening Balance	757	151	225	700	902	843	4,861	11,015
Closing Balance	152	225	700	903	843	4,861	11,015	18,377

E: MOFSL estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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