



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✓	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
+ Positive = Neutral - Negative			

What has changed in 3R MATRIX

	Old		New
RS	✓	↓	✗
RQ	✓	↔	✓
RV	✓	↔	✓

ESG Disclosure Score NEW

ESG RISK RATING Updated July 08, 2022 **34.32**

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

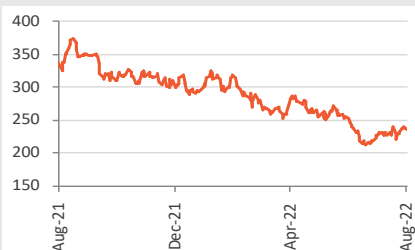
Company details

Market cap:	Rs. 13,321 cr
52-week high/low:	Rs. 383/209
NSE volume: (No of shares)	8.9 lakh
BSE code:	532702
NSE code:	GSPL
Free float: (No of shares)	35.2 cr

Shareholding (%)

Promoters	37.6
FII	16.5
DII	21.8
Others	24.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.7	-8.5	-26.1	-30.2
Relative to Sensex	-5.0	-15.0	-25.7	-37.8

Sharekhan Research, Bloomberg

Gujarat State Petronet Ltd

Decent Q1; core pipeline business attractively valued

Oil & Gas	Sharekhan code: GSPL		
Reco/View: Buy	↔	CMP: Rs. 236	Price Target: Rs. 288 ↓
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Q1FY23 PAT of Rs. 235 crore (up 16.5% q-o-q) beat our estimate led by better gas transmission margin given improvement in net transmission tariff. However, volumes remained muted at 29.5 mmcmd, up 1.7% q-o-q.
- Net transmission tariff increased by 9% q-o-q to Rs. 1.52/scm on 'use or pay' clause; volume from CGD/fertilisers was down 4% q-o-q each due to high spot LNG prices.
- Although high spot LNG price of ~\$40/mmBtu and lower volume at Gujarat Gas would remain near term headwind for gas transmission volume but new LNG terminal and proposed capex to augment capacities bodes well for long term growth.
- We maintain Buy on GSPL but with a lower PT of Rs. 288 (due to lower value for Gujarat Gas) as core pipeline business is available at only 1.8x FY24E EPS and we expect subsidiary Gujarat Gas volume to also recover gradually.

Gujarat State Petronet Limited's (GSPL's) Q1FY23 standalone operating profit of Rs. 360 crore (down 3.8% y-o-y; up 17.6% q-o-q) was 8% above our estimate due to better-than-expected EBITDA margins of Rs. 1.3/scm (up 20% y-o-y; up 15.6% q-o-q) offsetting weak volumes of 29.5 mmcmd (down 20% y-o-y; up 1.7% q-o-q). Stronger-than-expected profitability was led by increase of 19%/9% y-o-y/q-o-q in net transmission tariff to Rs. 1.5/scm, which we believe was led by a use-or-pay contract. Weak volume was due to muted gas demand given elevated spot LNG price and the same could be seen in a 4%/4% q-o-q decline in volume from CGD/fertilisers to 10.9 mmcmd/3.3 mmcmd while volume from power/refinery & petchem increased by 61%/10% q-o-q to 1.7 mmcmd/9.1 mmcmd but still below normal levels. PAT of Rs. 235 crore (up 0.9% y-o-y; up 16.5% q-o-q) was 10% above our estimate due to better-than-expected profitability at gas transmission and lower-than-expected depreciation.

Key positives

- Better-than-expected net gas transmission tariff of Rs. 1.52/scm (up 9.2% q-o-q).
- Company is almost net debt-free with negligible debt of Rs. 4.8 crore as of June 2022.

Key negatives

- Gas transmission volumes remained weak at 29 mmcmd (8% below estimate).

Revision in estimates – We have lowered our FY23 earnings estimate to factor lower volume assumption and have fine-tuned our FY24 earnings estimate.

Our Call

Valuation – Maintain Buy on GSPL with a revised PT of Rs. 288: Regulatory tailwinds, potential higher domestic gas production and proximity to LNG terminals (27.5 MTPA re-gas capacity) make GSPL a strong long-term bet on the robust outlook for gas demand in India. We highlight here that GSPL's core pipeline business (excluding market value of GSPL's investment in Gujarat Gas, after assuming 30% holding company discount) valued at just 1.8x FY2023E EPS. Hence, we maintain Buy on GSPL but with a revised SoTP-based price target (PT) of Rs. 288 (reflecting lower value for subsidiary Gujarat Gas).

Key Risks

- Lower-than-expected gas demand from power, fertilisers, refineries, and CGD due to a spike in LNG prices could affect gas transmission volumes. Any adverse regulatory changes in terms of gas transmission tariffs.
- Delay in volume ramp-up at new LNG terminals.

Valuation (Standalone)

Particulars	FY21	FY22	FY23E	FY24E
Revenue	2,079	2,020	2,133	2,265
OPM (%)	70.9	69.2	68.0	68.3
Adjusted PAT	931	979	987	1,044
YoY growth (%)	-16.2	5.2	0.8	5.8
Adjusted EPS (Rs)	16.5	17.4	17.5	18.5
P/E (x)	14.3	13.6	13.5	12.8
P/B (x)	1.8	1.6	1.4	1.3
EV/EBITDA (x)	9.5	9.5	8.9	8.1
RoNW (%)	13.0	12.2	11.1	10.7
RoCE (%)	15.0	13.8	12.9	12.5

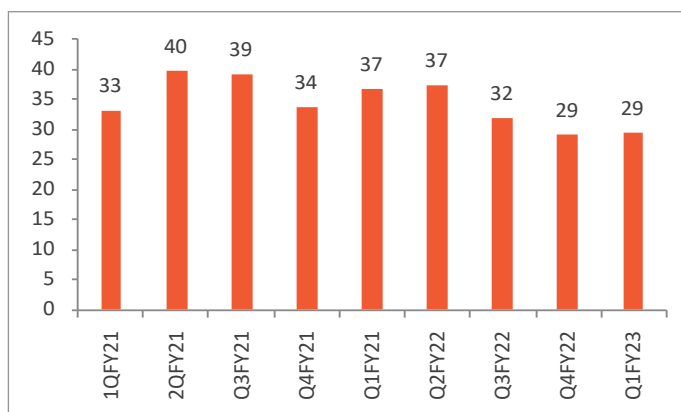
Source: Company; Sharekhan estimates

Note: Valuation is based on current market capitalisation, which includes value of a 54% stake in Gujarat Gas

Q1 PAT beat estimate on better-than-expected gas transmission profitability; volume continue to remain weak

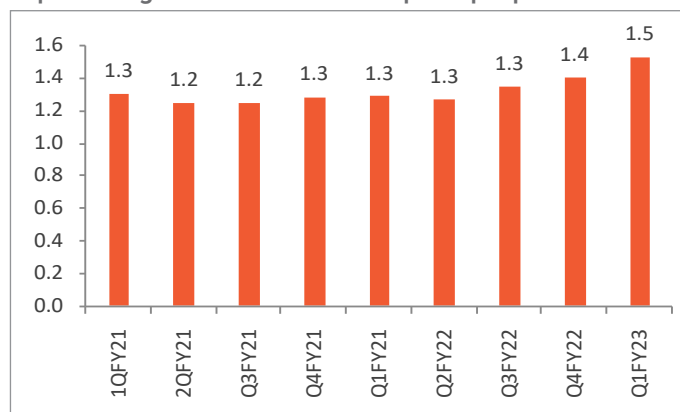
Q1FY23 standalone operating profit of Rs. 360 crore (down 3.8% y-o-y; up 17.6% q-o-q) was 8% above our estimate due to better-than-expected EBITDA margins of Rs. 1.3/scm (up 20% y-o-y; up 15.6% q-o-q) offsetting weak volumes of 29.5 mmscmd (down 20% y-o-y; up 1.7% q-o-q). Stronger-than-expected profitability was led by increase of 19%/9% y-o-y/q-o-q in net transmission tariff to Rs. 1.5/scm, which we believe was led by a use-or-pay contract. Weak volume was due to muted gas demand given elevated spot LNG price and the same could be seen in a 4%/4% q-o-q decline in volume from CGD/fertilisers to 10.9 mmscmd/3.3 mmscmd while volume from power/refinery & petchem increased by 61%/10% q-o-q to 1.7 mmscmd/9.1 mmscmd but still below normal levels. PAT of Rs. 235 crore (up 0.9% y-o-y; up 16.5% q-o-q) was 10% above our estimate due to better-than-expected profitability at gas transmission and lower-than-expected depreciation.

Gas transmission volumes remain weak



Source: Company, Sharekhan Research

Implied net gas transmission tariff up 9% q-o-q in Q1FY23



Source: Company, Sharekhan Research

Results (standalone)

Particulars	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Revenue	482	527	-8.6	433	11.2
Total Expenditure	122	153	-20.4	127	-4.2
Operating profit	360	374	-3.8	306	17.6
Other Income	4	4	5.3	6	-37.7
Interest	1	14	-89.7	3	-57.6
Depreciation	48	48	-0.4	49	-3.1
PBT	315	316	-0.4	260	21.2
Tax	79	83	-4.2	58	37.5
Reported PAT	235	233	0.9	202	16.5
Equity Cap (cr)	56	56		56	
Reported EPS (Rs.)	4.2	4.1	0.9	3.6	16.5
Margins (%)			BPS		BPS
OPM	74.8	71.0	375	70.7	407
Effective tax rate	25.2	26.2	-99	22.2	299
NPM	48.9	44.2	463	46.6	223

Source: Company, Sharekhan Research

Key operating metrics

Particulars	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Gas transportation volume (mmscm)	2,680	3,348	-20.0	2,634	1.7
Gas transportation volume (mmscmd)	29.5	36.8	-20.0	29.3	0.6
Implied transmission tariff (Rs. /scm)	1.8	1.5	13.6	1.6	8.1
Net transmission tariff (Rs. /scm)	1.5	1.3	18.8	1.4	9.2
EBITDA (Rs. /scm)	1.3	1.1	20.2	1.2	15.6

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Infrastructure expansion and regulatory push to drive strong gas demand

We expect strong growth in transmission volumes for gas utilities such as GAIL and GSPL to be supported by robust demand outlook for gas, which in turn would be led by: 1) Demand recovery from the power, CGD, and fertiliser sectors and 2) regulatory push to switch to gas from polluting industrial/automobile fuels. Moreover, the recently notified unified tariff for gas pipeline operators (although revenue neutral in the short term) provides a massive volume opportunity and would drive growth in the long term.

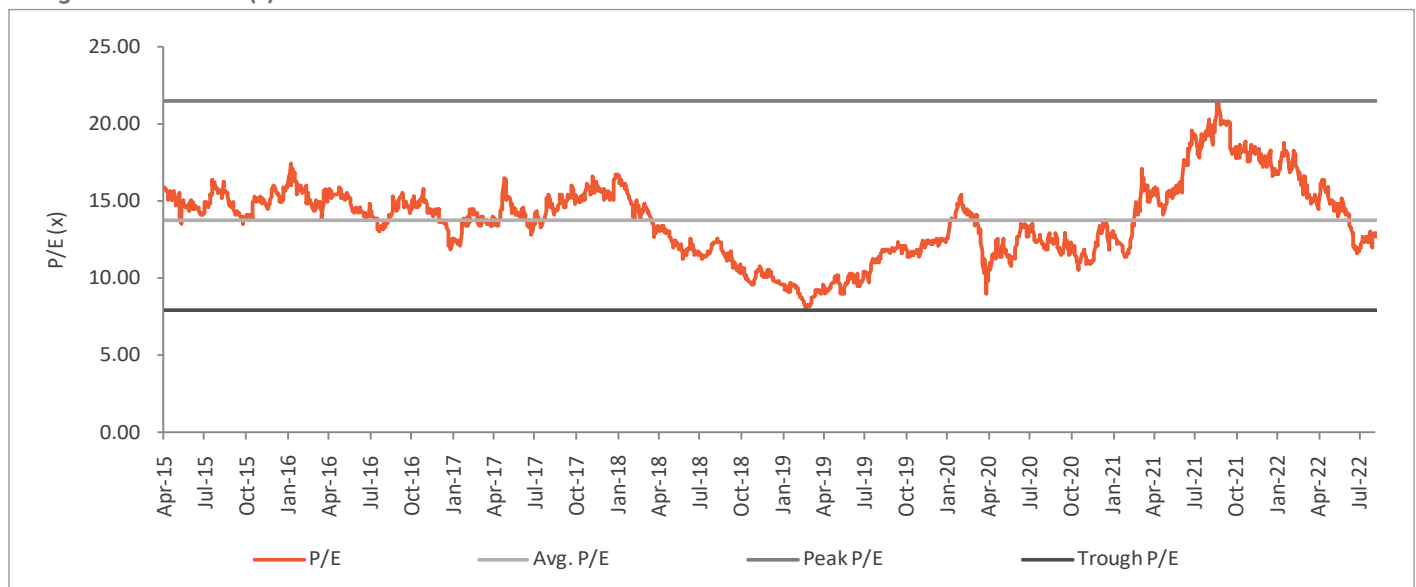
■ Company outlook - Near-term volume concern but long growth remains intact

Although near-term volumes are likely to remain under pressure given volatility in spot LNG price but long-term growth outlook remains robust as India's focus is towards a gas-based economy. We expect GSPL's gas transmission volume to increase strongly at an 11% CAGR over FY2021-FY2024E, but there could be some reduction in transmission tariffs (we model it at Rs. 1.45/scm for FY2023E-24E versus Rs. 1.61/scm in FY22) by the PNGRB to reflect a revision in corporate tax rate. We expect GSPL's standalone EBITDA/PAT to post a 3% CAGR over FY2022-FY2024E. However, capex to augment pipeline capacities would result in better gas transmission tariffs and support GSPL's earnings.

■ Valuation - Maintain Buy on GSPL with a revised PT of Rs. 288

Regulatory tailwinds, potential higher domestic gas production and proximity to LNG terminals (27.5 MTPA re-gas capacity) make GSPL a strong long-term bet on the robust outlook for gas demand in India. We highlight here that GSPL's core pipeline business (excluding market value of GSPL's investment in Gujarat Gas, after assuming 30% holding company discount) valued at just 1.8x FY2023E EPS. Hence, we maintain Buy on GSPL but with a revised SoTP-based price target (PT) of Rs. 288 (reflecting lower value for subsidiary Gujarat Gas).

One-year forward P/E (x) band



Source: Sharekhan Research

About company

GSPL, a group entity of the GSPC group, is currently a Gujarat-focused natural gas transmission firm operating on an open access basis. The company owns approximately 2,500 km natural gas pipeline, transporting 38 mmscmd -40 mmscmd of gas. To increase its geographical spread, the company had participated and won bids to put up three major pipelines outside Gujarat (1) Mallavaram (Andhra Pradesh) - Bhilwara (Rajasthan), (2) Mehsana (Gujarat) - Bhatinda (Punjab), and (3) Bhatinda (Punjab) - Srinagar (J&K). GSPL owns stake in two city gas distribution firms – Sabarmati Gas and Gujarat Gas. The company is the second largest gas pipeline player in the country after GAIL.

Investment theme

Higher gas supplies with commissioning of new LNG terminals in Gujarat, rise in domestic gas supply, and government's target to increase share of gas in India's energy mix to ~15% by 2030 (from 6% currently) and thrust to reduce pollution provide a strong gas transmission volume opportunity for GSPL. Investment in CGD space (Gujarat Gas and Sabarmati Gas) is likely to create long-term value for investors. Core pipeline business is effectively available free to investors as GSPL's market capitalisation is lower compared to its market value of investment in GGAS.

Key Risks

- ♦ Lower-than-expected gas demand from power, fertiliser, and CGD due to spike in LNG prices could impact gas transmission volume.
- ♦ Any adverse regulatory changes in terms of gas transmission tariff.
- ♦ Delay in volume ramp-up at new LNG terminals.

Additional Data

Key management personnel

Anil Mukim	Chairman and Managing Director
Sanjeev Kumar	Joint Managing Director
Ajith Kumar T R	Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Mirae Asset Global Investments Co Ltd	8.04
2	Gujarat Maritime Board	6.57
3	Kotak Mahindra Asset Management Co Ltd	3.33
4	Government PENSI	2.70
5	DSP Investment Managers Pvt Ltd	2.62
6	Norges Bank	2.53
7	Gujarat Urja Vikas Nikam Ltd	2.01
8	Franklin Resources Inc	1.69
9	Vanguard Group Inc	1.59
10	Gujarat Narmada Valley Fertilizers & Chemicals	1.42

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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