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Company update and  
earnings revision

## Oil&Gas and Petrochemicals

Target price: Rs375

### Earnings revision

(%)	FY23E	FY24E
Sales	↓ 6.7	↓ 5.2
EBITDA	↓ 7.1	↓ 4.0
EPS	↓ 10.7	↓ 5.2

### Target price revision

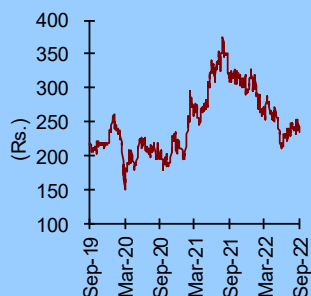
Rs375 from Rs340

### Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	37.6	37.6	37.6
Institutional investors	38.2	38.5	38.3
MFs and others	20.6	22.0	21.5
FIs/ Banks	0.0	0.0	0.0
Insurance	0.1	0.0	0.0
FII	17.5	16.4	16.8
Others	24.2	23.9	24.1

Source: www.nseindia.com

### Price chart



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INDIA

**ICICI Securities**

## Gujarat State Petronet

**BUY**

**Maintain**

Weak demand, but tariff and expansion issues to be resolved over FY23E

**Rs222**

We met with the senior management of GSPL (Exec Director, gas business) for an update on business and the outlook ahead. **Key takeaways:**

- ▶ **Demand remains depressed:** Demand prospects remain muted in Gujarat across sectors, be it power or CGD. As a result, contracted transmission flows have shrunk to <27mmscmd in Q2FY23-TD and are unlikely to see much traction in the near term. Lack of traction would be due to: 1) the widening differential between LPG and gas, and 2) weak economics of gas usage for power at current LNG rates. Nevertheless, 'use or pay' charges and some opportunistic trading of cargoes bought in Jun'22 at <US\$30/mmbtu (in an environment of US\$40-45/mmbtu spot prices) are likely to help keep earnings resilient over the near term.
- ▶ **Regulatory environment has improved:** In recent months, the reconstituted PNGRB has moved ahead on long-pending issues with respect to GSPL tariff and capex inclusions. A longer ramp-up now allowed (10 years vs 5 earlier), likely inclusion of 'system use gas' (SUG) @0.2% and allowing the inclusion of expansion capex of some new pipelines [e.g. the HPCL Chhara connectivity to Londhpur (Rs7bn)] in the network tariff are all material positives. These changes imply that the anticipated 20% reduction in net tariff post the new tariff order (due to volume- and tax-related adjustments) may now be negligible and can materially alter the NPV of GSPL's pipeline network over the life of the assets.
- ▶ **Capex plans are now moving ahead with some urgency:** Post the forward movement being seen on the regulatory front, GSPL has 5 projects lined up, big and small, in the following order of priority: 1) Jamnagar-Dwarka pipeline, 2) HPCL Chhara connectivity, 3) expansion project for connecting new capacity at PLNG Dahej to Bhadbhut, 4) Anjar Palanpur, and 5) Swan energy terminal connectivity. Cumulatively therefore, GSPL has aggressive plans to invest >Rs20bn in various pipeline expansions and utilisation of even 30% of the expansions can net 20-21mmscmd of transmission volumes by end of FY25E (vs the current base of 28-32mmscmd).
- ▶ **A solid play in the long-term perspective:** With a high probability of negligible tariff decline even post the revision order expected in the next few months, GSPL's standalone business value itself can see an appreciation of Rs40/sh as per our rough-cut estimates. While consolidated earnings may remain muted due to weak demand for both GSPL transmission volumes as well weaker prospects for subsidiary GGL at least in FY23E, valuations at <9x FY24E EPS and just 3.2x EV/EBITDA remain extremely skewed towards reward from a risk-reward perspective. We revise our FY23E and FY24E EPS by -11/-5% while longer-term volume and tariff adjustments drive a 10% increase in the target price to Rs375/sh. Reiterate **BUY**.

Market Cap	Rs125bn/US\$1.5bn
Reuters/Bloomberg	GSPT.BO / GUJS IN
Shares Outstanding (mn)	564.2
52-week Range (Rs)	328/212
Free Float (%)	55.0
FII (%)	16.8
Daily Volume (US\$/'000)	2,897
Absolute Return 3m (%)	4.3
Absolute Return 12m (%)	(29.9)
Sensex Return 3m (%)	8.7
Sensex Return 12m (%)	(3.6)

Year to March	FY21	FY22	FY23E	FY24E
Revenue (Rs mn)	1,17,260	1,83,220	1,94,065	2,29,389
Net Income (Rs mn)	16,068	16,383	13,939	14,281
EPS (Rs)	28.5	29.2	24.7	25.3
% Chg YoY	24%	2%	-15%	2%
P/E (x)	7.8	7.6	9.0	8.8
CFPS (Rs)	44.7	32.5	39.7	39.2
EV/E (x)	3.7	3.7	3.8	3.2
Dividend Yield (%)	1%	1%	1%	1%
RoCE (%)	17%	15%	11%	10%
RoE (%)	29%	23%	16%	15%

**Table 1: Quarterly snapshot**

Rs mn	Q1FY23	Q1FY22	YoY chg (%)	Q4FY22	QoQ chg (%)
Sales	4,818	5,272	(8.6)	4,331	11.2
<b>EBITDA</b>	<b>3,602</b>	<b>3,744</b>	<b>(3.8)</b>	<b>3,062</b>	<b>17.6</b>
<b>PAT</b>	<b>2,355</b>	<b>2,333</b>	<b>0.9</b>	<b>2,020</b>	<b>16.5</b>
Adj. PAT	2,355	2,346	0.4	2,020	16.5
Adj. EPS	4.2	4.2	0.4	3.6	16.5
Depreciation	479	481	(0.4)	494	(3.1)
Interest	14	140	(89.7)	34	(57.6)
<b>Volumes mmscmd (adjusted)</b>	<b>29.5</b>	<b>36.8</b>	<b>(20.0)</b>	<b>29.3</b>	<b>0.6</b>
<b>Tariff/mcm (adjusted)</b>	<b>1,523</b>	<b>1,282</b>	<b>18.8</b>	<b>1,394</b>	<b>9.2</b>
Transmission cost/mcm	400	418	(4.2)	427	(6.2)

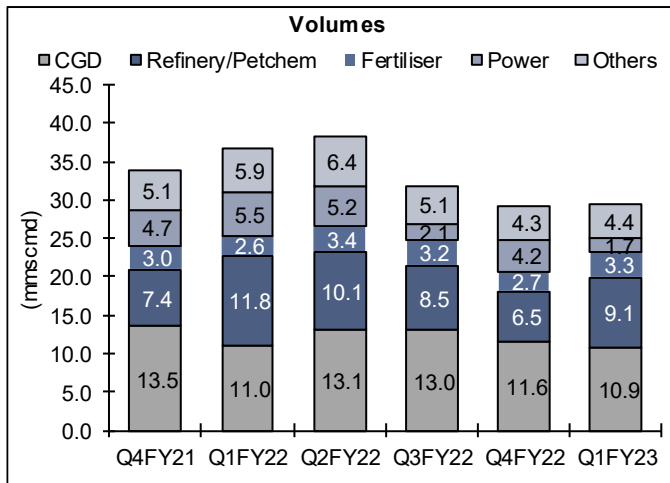
Source: Company data, I-Sec research

**Table 2: Change in earnings estimates – Sharply lower volumes and lower GGL earnings lead to downgrades**

In Mns	Old Estimates		New Estimates		% Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
<b>Standalone</b>						
Revenue	21,068	19,978	18,130	18,532	-13.9%	-7.2%
EBITDA	14,805	13,299	12,401	12,290	-16.2%	-7.6%
Recurring PAT	9,831	8,324	8,157	7,688	-17.0%	-7.7%
Recurring EPS (INR/sh)	17.4	14.8	14.5	13.6	-17.0%	-7.7%
Volumes mmscmd	35.0	38.0	30.0	34.0	-14.3%	-10.5%
Tariff (Rs/TCM)	1,610	1,401	1,610	1,449	0.0%	3.4%
<b>Consolidated</b>						
EBITDA	33,983	35,788	31,568	34,372	-7.1%	-4.0%
PAT	15,617	15,058	13,939	14,281	-10.7%	-5.2%
EPS (INR/sh)	27.7	26.7	24.7	25.3	-10.7%	-5.2%
<b>Target Price INR/sh</b>	<b>340</b>		<b>375</b>		<b>10.3%</b>	

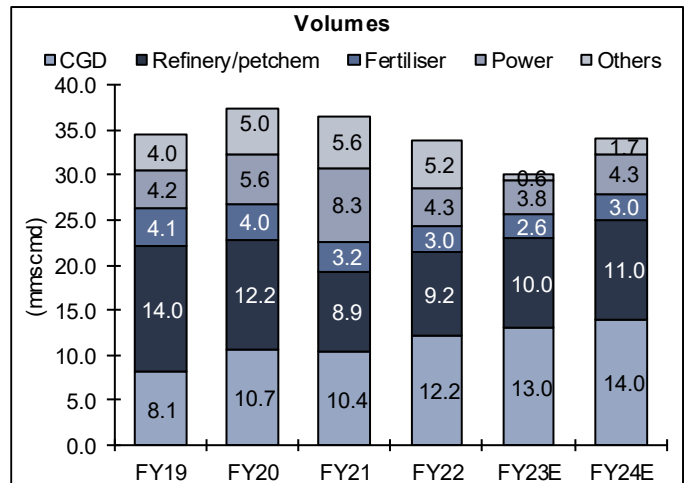
Source: Company data, I-Sec research

**Chart 1: Transmission volumes muted in Q1FY23**



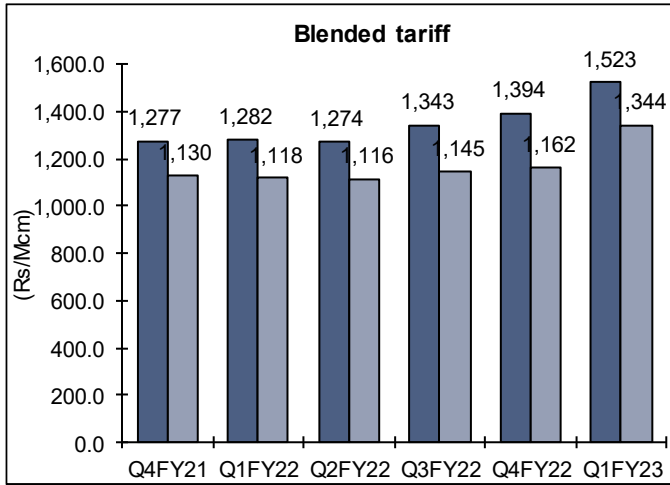
Source: Company data, I-Sec research

**Chart 2: Expect 0.3% volume CAGR over FY22-FY24E**



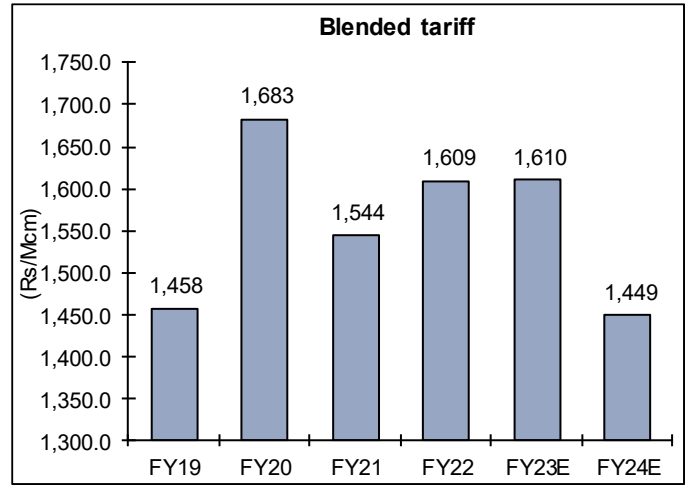
Source: Company data, I-Sec research

**Chart 3: Blended tariffs remained healthy till Q1FY23**



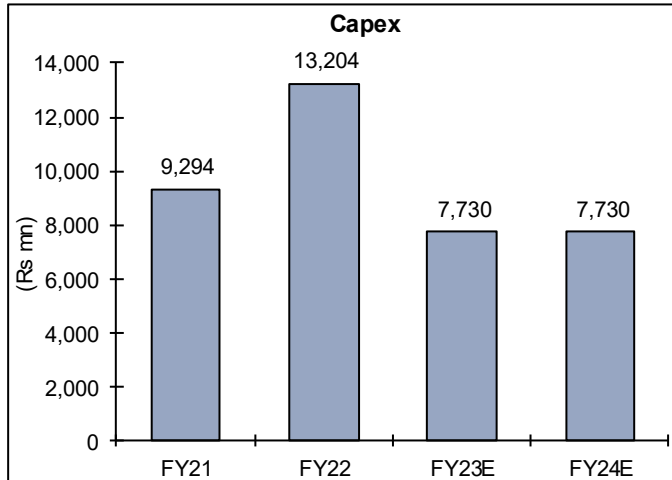
Source: Company data, I-Sec research

**Chart 4: We now factor-in only 10% lower tariffs post FY24E, due to SUC/Capex adjustments**



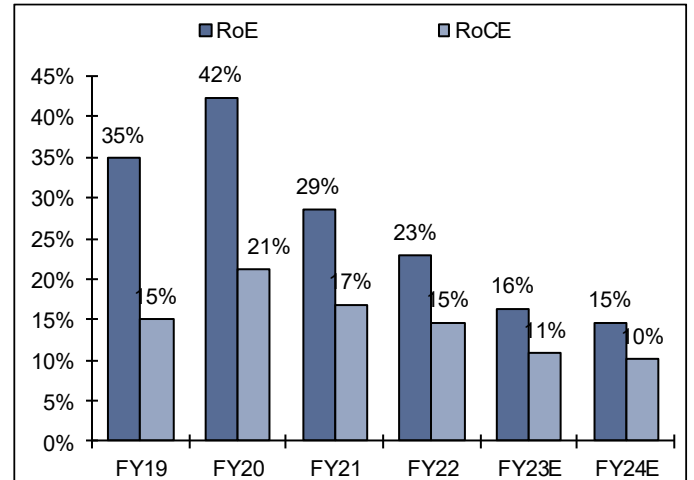
Source: Company data, I-Sec research

**Chart 5: Capex to remain material over FY23E-24E**



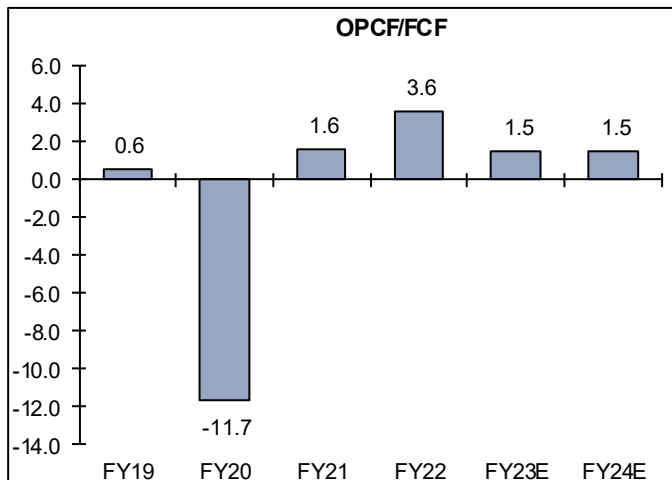
Source: Company data, I-Sec research

**Chart 6: Return ratios to moderate**



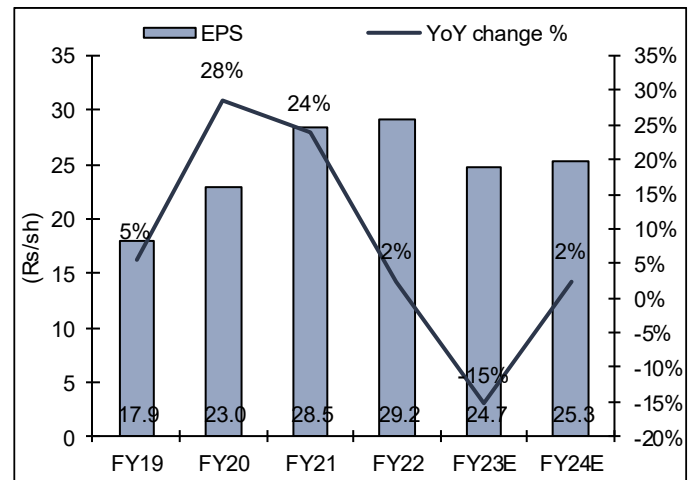
Source: Company data, I-Sec research

**Chart 7: Operating Cash flow/Free Cash Flow to remain at comfortable levels**



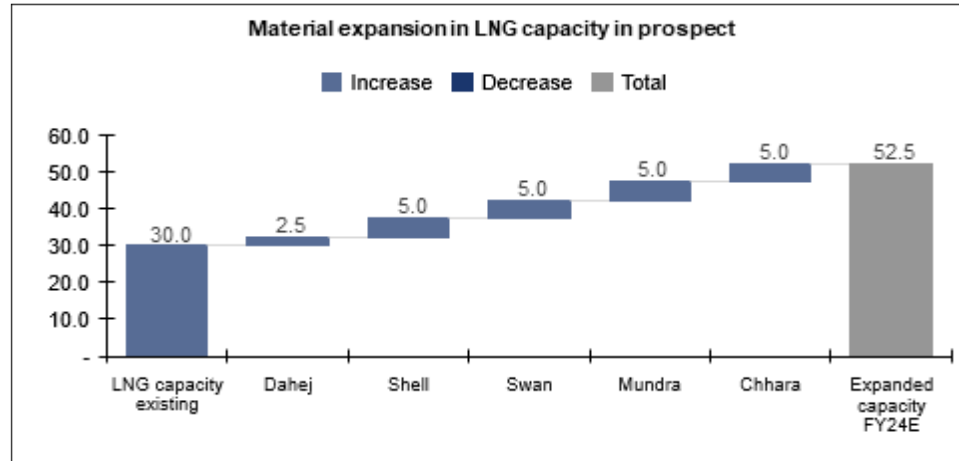
Source: Company data, I-Sec research

**Chart 8: Profitability to take a hit from lower tariffs**



Source: Company data, I-Sec research

**Chart 9: LNG capacity to reach 52.5mtpa by FY24E**



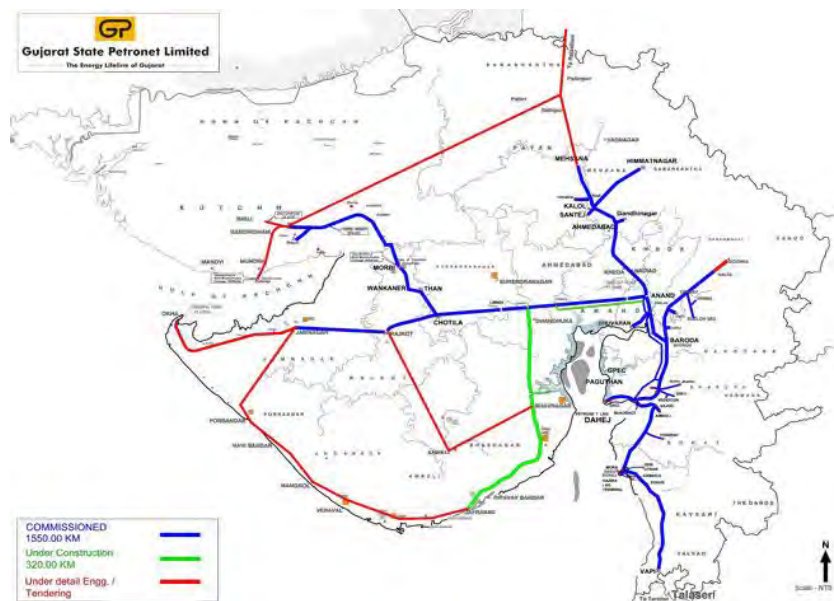
Source: Company data, I-Sec research

**Table 3: GSPL pipeline expansion likely to pick up pace**

Standalone	Capacity (mmscmd)	Operating Length (km)	Completion Target
<b>A) Fully Operational Common Carrier Natural Gas Pipelines</b>			
Low Pressure Gujarat Gas Grid	12	57	
High Pressure Gujarat Gas Grid	31	2,637	
<b>Total A</b>	<b>43</b>	<b>2,695</b>	
<b>B) Under Construction Tie-in connectivities</b>			
Jamnagar –Dwarka pipeline	3	100	Dec-24
HPCL Chhara connectivity	18	85	Dec-23
Expansion project for connecting new capacity at PLNG Dahej to Bhadbhut	14.8	39	Dec-24
Anjar Palanpur	18	274	Dec-23
Swan energy terminal connectivity	18	3	Dec-24
<b>Total B</b>	<b>71.8</b>	<b>501</b>	
<b>Total A+B</b>	<b>114.8</b>	<b>3,196</b>	

Source: Company data, I-Sec research

**Chart 10: GSPL’s pipeline network**



Source: Company data, I-Sec research

## Valuations: **BUY**, target price of Rs375/sh implies 69% upside

We value GSPL's core business by the DCF methodology, using a WACC of 11.2%, DER of 20%, long-term EBITDA assumption of Rs0.99/scm and terminal growth rate of 0.9%. This is complemented by the addition from GGL stake valued at 30% discount to our estimated fair value of Rs535/sh – this delivers a target price of Rs375/sh for GSPL, offering 69% upside from CMP. Reiterate **BUY**.

**Table 4: Valuation summary**

	<b>Assumptions</b>
Cost of Equity	12.5%
Cost of Debt	8.0%
Average D/E ratio	20%
WACC	11.2%
Terminal Growth Rate	0.9%
<b>Average NPV potential (Rs mn) (FY23/FY24E average)</b>	<b>80,992</b>
<b>GGL's stake at 30% discount to FV</b>	<b>231</b>
<b>Target Price</b>	<b>375</b>
<b>CMP</b>	<b>222</b>
<b>Upside</b>	<b>69%</b>

Source: I-Sec research

**Key Risks** i) Sharper decline in transmission volumes even from current levels; ii) longer delay in getting all regulatory clearances for the new pipelines and announcement of the revised tariff order; iii) sharper than expected tariff decline in the new tariff order

## Financial summary

Table 5: Profit and Loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Operating Income (Sales)</b>	<b>1,17,260</b>	<b>1,83,220</b>	<b>1,94,065</b>	<b>2,29,389</b>
<b>Operating Expenses</b>	<b>81,517</b>	<b>1,48,219</b>	<b>1,62,497</b>	<b>1,95,016</b>
<b>EBITDA</b>	<b>35,743</b>	<b>35,001</b>	<b>31,568</b>	<b>34,372</b>
% margins	30%	19%	16%	15%
Depreciation & Amortisation	5,418	5,795	6,471	7,292
Gross Interest	2,266	1,118	818	1,108
Other Income	911	1,056	935	828
<b>Recurring PBT</b>	<b>28,971</b>	<b>29,025</b>	<b>25,213</b>	<b>26,801</b>
Less: Taxes	7,432	7,256	6,584	7,020
Share of Associates	385	541	541	541
<b>Net Income (Reported)</b>	<b>16,068</b>	<b>16,383</b>	<b>13,939</b>	<b>14,281</b>
<b>Recurring Net Income</b>	<b>16,068</b>	<b>16,383</b>	<b>13,939</b>	<b>14,281</b>

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	17,598	23,249	26,961	30,546
of which cash & cash eqv.	4,089	1,077	16,920	25,855
Total Current Liabilities & Provisions	31,071	28,185	33,989	37,844
<b>Net Current Assets</b>	<b>(13,472)</b>	<b>(4,935)</b>	<b>(7,028)</b>	<b>(7,299)</b>
<b>Investments</b>	<b>15,495</b>	<b>16,700</b>	<b>19,700</b>	<b>22,700</b>
<b>Net Fixed Assets</b>	<b>94,973</b>	<b>99,460</b>	<b>1,00,718</b>	<b>1,01,156</b>
Capital Work-in-Progress	9,531	12,454	12,454	12,454
<b>Total Assets</b>	<b>1,10,617</b>	<b>1,24,756</b>	<b>1,42,764</b>	<b>1,54,866</b>
<b>Liabilities</b>				
Borrowings (Includes cash deposits)	10,946	5,365	11,342	11,072
Deferred Tax Liability	15,084	14,217	14,217	14,217
Equity Share Capital	5,642	5,642	5,642	5,642
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus	54,227	69,507	81,538	93,911
Net worth	63,908	79,187	91,218	1,03,591
<b>Total liabilities</b>	<b>1,10,617</b>	<b>1,24,756</b>	<b>1,42,764</b>	<b>1,54,866</b>

Source: Company data, I-Sec research

Table 7: Quarterly trend

(Rs mn, year ending March 31)

	Sep'21	Dec'21	Mar'22	Jun'22
Net sales	5,885	4,712	4,331	4,818
% growth (YoY)	11.6%	-19.9%	-8.1%	11.2%
EBITDA	3,806	3,365	3,062	3,602
Margin (%)	64.7%	71.4%	70.7%	74.8%
Other income	904	39	64	40
Add: Extraordinaries	-27	348	-	-
Net profit	3,277	2,481	2,020	2,355

Source: Company data, I-Sec research

Table 8: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Operating Cashflow</b>	<b>21,941</b>	<b>21,310</b>	<b>20,411</b>	<b>21,573</b>
Working Capital Changes	(1,951)	3,060	(2,093)	(270)
Operating Cash flow	<b>23,892</b>	<b>18,250</b>	<b>22,504</b>	<b>21,843</b>
Capital Commitments	9,294	13,204	7,730	7,730
<b>Cashflow from Investing</b>	<b>(13,590)</b>	<b>(14,409)</b>	<b>(10,730)</b>	<b>(10,730)</b>
<b>Activities</b>				
Inc (Dec) in Borrowings	12,838	5,581	(5,977)	271
Dividend paid	1,272	1,272	1,908	1,908
Cash flow from Financing	(14,110)	(6,854)	4,069	(2,179)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(3,808)</b>	<b>(3,013)</b>	<b>15,843</b>	<b>8,935</b>

Source: Company data, I-Sec research

Table 9: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Per Share Data (in Rs.)</b>				
EPS(Basic Recurring)	28.5	29.2	24.7	25.3
Recurring Cash EPS	38.1	39.3	36.2	38.2
Dividend per share (DPS)	2.0	2.0	3.0	3.0
Book Value per share (BV)	113.3	140.4	161.7	183.6
<b>Growth Ratios (%)</b>				
Operating Income	-6%	56%	6%	18%
EBITDA	11%	-2%	-10%	9%
Recurring Net Income	-7%	2%	-15%	2%
Recurring EPS	24%	2%	-15%	2%
Recurring CEPS	-4%	3%	-8%	6%
<b>Valuation Ratios (% YoY)</b>				
P/E	7.8	7.6	9.0	8.8
P/CFPS	5.0	6.8	5.6	5.7
P/BV	2.0	1.6	1.4	1.2
EV / EBITDA	3.7	3.7	3.8	3.2
EV / FCF	4.6	5.5	4.7	4.3
<b>Operating Ratios</b>				
Other Income / PBT (%)	3%	4%	4%	3%
Effective Tax Rate (%)	26%	25%	26%	26%
D/E Ratio (%)	17%	7%	12%	11%

Return/Profitability Ratios (%)

Recurring Net Income Margins	14%	9%	7%	6%
RoCE	16.8%	14.7%	11%	10%
RoNW	28.5%	22.9%	16%	15%
Dividend Payout Ratio	7%	7%	12%	12%
Dividend Yield	0.9%	0.9%	1.3%	1.3%
EBITDA Margins	30%	19%	16%	15%

Source: Company data, I-Sec research

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