



**3R MATRIX**

|                      |                  |                 |            |
|----------------------|------------------|-----------------|------------|
|                      | +                | =               | -          |
| Right Sector (RS)    | Green            | Grey with check | Red        |
| Right Quality (RQ)   | Green with check | Grey            | Red        |
| Right Valuation (RV) | Green with check | Grey            | Red        |
|                      | + Positive       | = Neutral       | - Negative |

**What has changed in 3R MATRIX**

|    |       |   |       |
|----|-------|---|-------|
|    | Old   |   | New   |
| RS | Grey  | ↔ | Grey  |
| RQ | Green | ↔ | Green |
| RV | Green | ↔ | Green |

**ESG Disclosure Score** NEW

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

**High Risk**

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

Source: Morningstar

**Company details**

|                               |               |
|-------------------------------|---------------|
| Market cap:                   | Rs. 13,160 cr |
| 52-week high/low:             | Rs. 333/209   |
| NSE volume:<br>(No of shares) | 9.3 lakh      |
| BSE code:                     | 532702        |
| NSE code:                     | GSPL          |
| Free float:<br>(No of shares) | 35.2 cr       |

**Shareholding (%)**

|           |      |
|-----------|------|
| Promoters | 37.6 |
| FII       | 17.3 |
| DII       | 24.2 |
| Others    | 20.9 |

**Price chart**



**Price performance**

| (%)                | 1m   | 3m   | 6m    | 12m   |
|--------------------|------|------|-------|-------|
| Absolute           | 6.2  | -5.6 | -10.1 | -25.9 |
| Relative to Sensex | -1.0 | -9.5 | -26.9 | -27.8 |

Sharekhan Research, Bloomberg

**Gujarat State Petronet Ltd**

**Decent Q2 on strong tariff; Volume disappoints**

|                       |                             |                     |                              |
|-----------------------|-----------------------------|---------------------|------------------------------|
| <b>Oil &amp; Gas</b>  | <b>Sharekhan code: GSPL</b> |                     |                              |
| <b>Reco/View: Buy</b> | ↔                           | <b>CMP: Rs. 233</b> | <b>Price Target: Rs. 288</b> |
| ↑ Upgrade             | ↔ Maintain                  | ↓ Downgrade         |                              |

**Summary**

- ♦ Q2FY2023 PAT of Rs. 314 crore (up 33% q-o-q) was 56% above our estimate, led by beat in gas transmission margin, higher other income, and lower tax rate, offsetting disappointing gas transmission volume of 24.6 mmscmd (down 17% q-o-q).
- ♦ Net transmission tariff increased by 8.8% q-o-q to Rs1.66/scm, which led to a 10% q-o-q improvement in EBITDA margin to Rs1.48/scm. Volume from power/CGD/refinery and petchem declined sharply by 76%/20%/13% q-o-q due to elevated spot LNG price.
- ♦ Spot LNG price has declined to \$24/mmbtu and further correction is expected in Q4FY2023, and the same would help in volume recovery especially from power and industrial PNG. Moreover, new LNG terminals and proposed capex to augment capacities bode well for long-term growth.
- ♦ We maintain Buy on GSPL with an unchanged PT of Rs. 288, as the core pipeline business is available at only 0.5x its FY2024E EPS. We expect, the company's subsidiary, Gujarat Gas's volume to also recover gradually.

Gujarat State Petronet Limited's (GSPL) Q2FY2023 standalone operating profit at Rs. 334 crore (down 12.3% y-o-y; down 7.3% q-o-q) was 7% above our estimate of Rs. 312 crore due surprisingly steep rise in net transmission tariff by 8.8% q-o-q to Rs. 1.66/scm, which offsets weaker-than-expected gas transmission volume of 24.6 mmscmd, down 34.5%/16.6% y-o-y/q-o-q. Thus, EBITDA margin improved by 33.9%/9.9% y-o-y/q-o-q to Rs1.48/scm. Volume from power/CGD/refinery and petchem declined by 76%/20%/13% q-o-q, given lower gas demand on elevated spot LNG price, while volume from the fertiliser sector increased by 11% q-o-q. Adjusted PAT of Rs. 314 crore (down 4.1% y-o-y; up 33.4% q-o-q) was 56% above our estimate of Rs. 201 crore due better tariff, substantially higher other income, and lower-than-expected tax rate of 18.9% (versus assumption of 25.2%).

**Key positives**

- ♦ Better-than-expected net gas transmission tariff of Rs. 1.7/scm (up 8.8% q-o-q).
- ♦ EBITDA margin increased by 33.9%/9.9% y-o-y/q-o-q to Rs. 1.5/scm, supported by higher transmission tariff.
- ♦ Net cash of Rs. 537 crore as of September 2022.

**Key negatives**

- ♦ Weak gas transmission volume of 25 mmscmd, down 17% q-o-q and 14% below estimate.

**Revision in estimates** – We have lowered our FY2023 earnings estimate to factor in lower volume assumption and have fine-tuned our FY2025 earnings estimate. We have also introduced our FY2025 earnings estimate in this report.

**Our Call**

**Valuation – Maintain Buy on GSPL with an unchanged SoTP-based 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) is valued at just 0.5x FY2024E EPS. Hence, we maintain our Buy rating on GSPL with an unchanged SoTP-based price target (PT) of Rs. 288.

**Key Risks**

Lower-than-expected gas demand from power, fertilisers, refineries, and CGD due to 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.

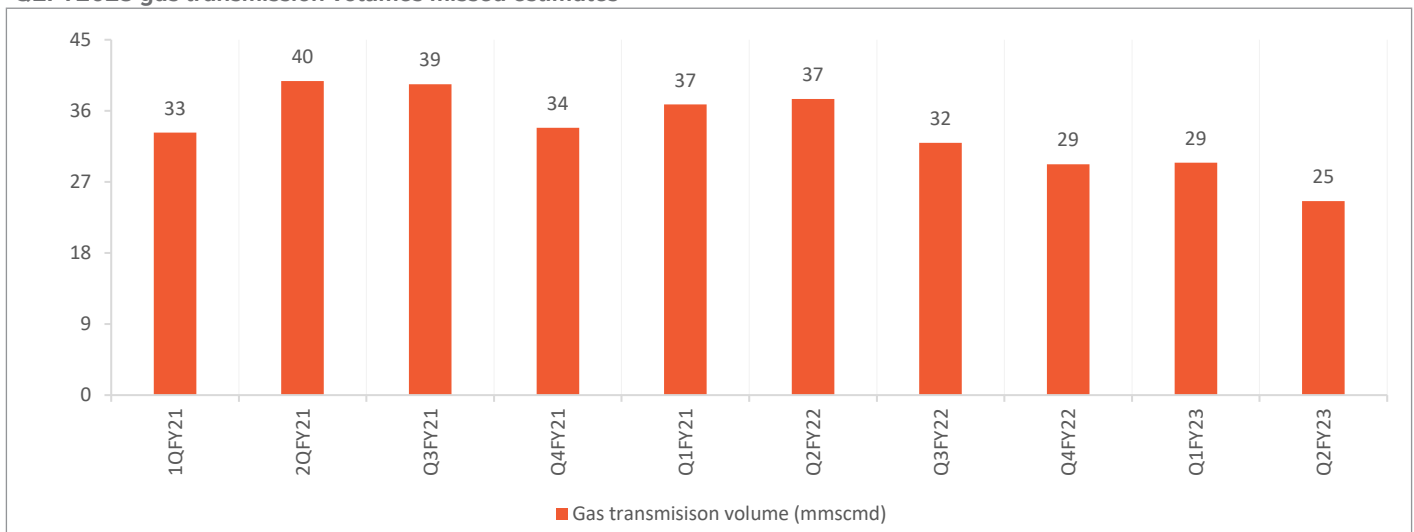
| Valuation (Standalone) |       |       |       | Rs cr |
|------------------------|-------|-------|-------|-------|
| Particulars            | FY22  | FY23E | FY24E | FY25E |
| Revenue                | 2,020 | 2,051 | 2,276 | 2,457 |
| OPM (%)                | 69.2  | 65.3  | 67.2  | 68.1  |
| Adjusted PAT           | 979   | 905   | 1,031 | 1,128 |
| YoY growth (%)         | 5.2   | -7.6  | 13.9  | 9.4   |
| Adjusted EPS (Rs)      | 17.4  | 16.0  | 18.3  | 20.0  |
| P/E (x)                | 13.4  | 14.5  | 12.8  | 11.7  |
| P/B (x)                | 1.6   | 1.4   | 1.3   | 1.2   |
| EV/EBITDA (x)          | 9.4   | 9.5   | 8.2   | 6.9   |
| RoNW (%)               | 12.2  | 10.2  | 10.6  | 10.6  |
| RoCE (%)               | 13.9  | 11.9  | 12.4  | 12.4  |

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

## Q2 PAT beats estimate on higher tariff/other income; Volume continues to disappoint

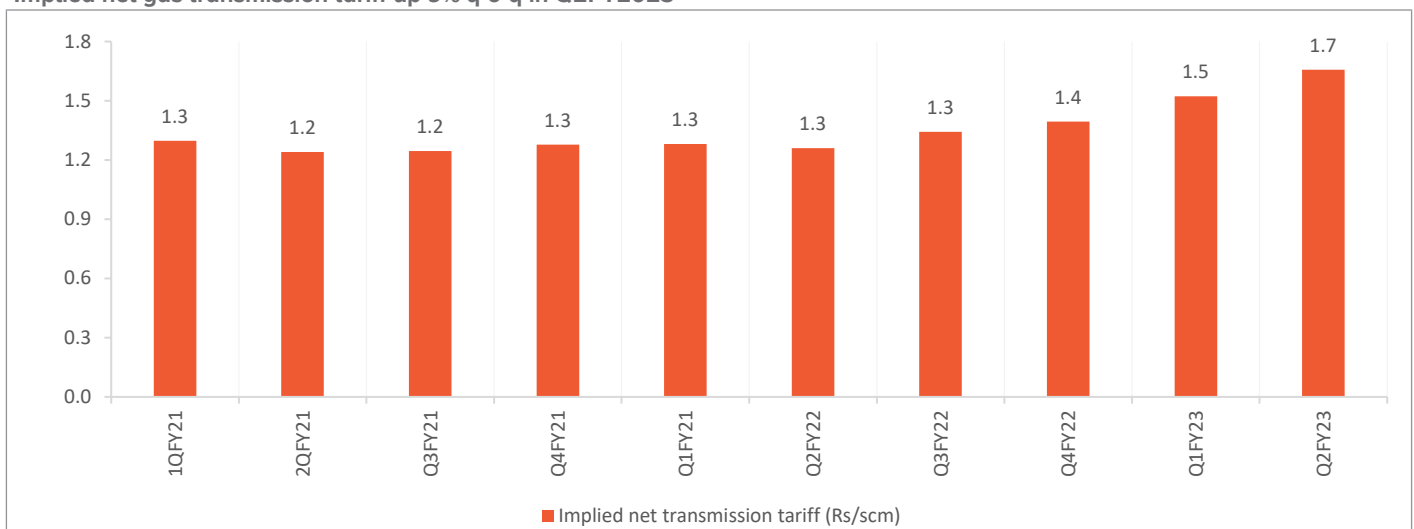
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### Q2FY2023 gas transmission volumes missed estimates



Source: Company; Sharekhan Research

### Implied net gas transmission tariff up 9% q-o-q in Q2FY2023



Source: Company; Sharekhan Research

Results (standalone)

| Particulars                                | Rs cr      |            |              |            |             |
|--|------------|------------|--------------|------------|-------------|
|  | Q2FY23     | Q2FY22     | YoY (%)      | Q1FY23     | QoQ (%)     |
| <b>Revenue</b>                             | <b>435</b> | <b>589</b> | <b>-26.1</b> | <b>482</b> | <b>-9.8</b> |
| Total Expenditure                          | 101        | 208        | -51.5        | 122        | -17.1       |
| <b>Reported operating profit</b>           | <b>334</b> | <b>381</b> | <b>-12.3</b> | <b>360</b> | <b>-7.3</b> |
| Other Income                               | 104        | 90         | 14.7         | 4          | NA          |
| Interest                                   | 1          | 9          | -86.8        | 1          | -21.2       |
| Depreciation                               | 49         | 49         | -0.7         | 48         | 1.9         |
| Reported PBT                               | 388        | 413        | -6.2         | 315        | 23.1        |
| <b>Adjusted PBT</b>                        | <b>388</b> | <b>413</b> | <b>-6.2</b>  | <b>315</b> | <b>23.1</b> |
| Tax  | 73         | 83         | -11.4        | 79         | -7.5        |
| Profit/(loss) from discontinued operations | 0          | -3         | NA           | 0          | NA          |
| <b>Reported PAT</b>                        | <b>314</b> | <b>328</b> | <b>-4.1</b>  | <b>235</b> | <b>33.4</b> |
| <b>Adjusted PAT</b>                        | <b>314</b> | <b>330</b> | <b>-4.9</b>  | <b>235</b> | <b>33.4</b> |
| Equity Cap (cr)                            | 56         | 56         |              | 56         |             |
| Reported EPS (Rs.)                         | 5.6        | 5.8        | -4.1         | 4.2        | 33.4        |
| Adjusted EPS (Rs.)                         | 5.6        | 5.9        | -4.9         | 4.2        | 33.4        |
| <b>Margins (%)</b>                         |            |            | <b>BPS</b>   |            | <b>BPS</b>  |
| OPM  | 76.8       | 64.7       | 1214         | 74.8       | 205         |
| Tax rate                                   | 18.9       | 20.1       | -111         | 25.2       | -626        |
| NPM  | 72.3       | 56.1       | 1615         | 48.9       | 2342        |

Source: Company, Sharekhan Research

Key operating metrics

| Particulars                           | Q2FY23 | Q2FY22 | YoY (%) | Q1FY23 | QoQ (%) |
|---------------------------------------|--------|--------|---------|--------|---------|
| Gas transportation volume (mmscm)     | 2,260  | 3,449  | -34.5   | 2,680  | -15.7   |
| Gas transportation volume (mmscmd)    | 24.6   | 37.5   | -34.5   | 29.5   | -16.6   |
| Implied transmission tariff (Rs./scm) | 1.9    | 1.7    | 12.4    | 1.8    | 7.0     |
| Net transmission tariff (Rs./scm)     | 1.66   | 1.3    | 31.5    | 1.52   | 8.8     |
| EBITDA (Rs./scm)                      | 1.5    | 1.1    | 33.9    | 1.3    | 9.9     |

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 gas demand outlook, which in turn would be due to: 1) demand recovery from the power, CGD, and fertiliser sectors and 2) regulatory push to switch to gas from polluting industrial/auto fuels. Moreover, the recently notified unified tariff for gas pipeline operators (although it is revenue neutral in the short term) provides a massive volume opportunity and would drive growth in the long term.

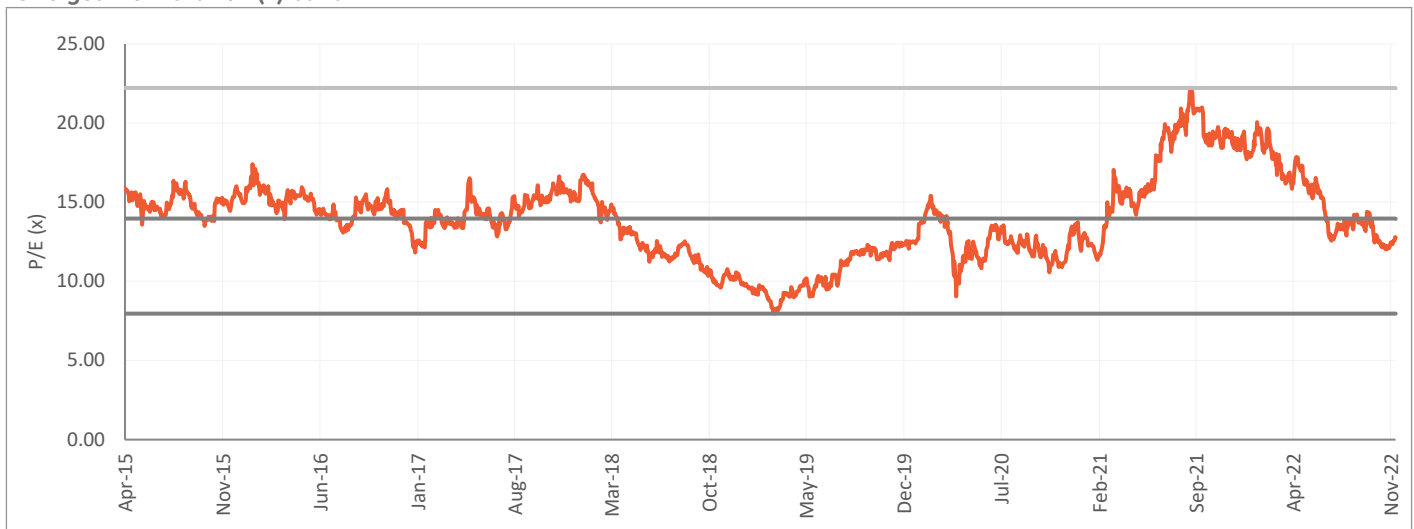
### ■ Company Outlook – Near-term volume concern but long growth remains intact

Although near-term volumes are likely to remain under pressure, given volatility in spot LNG price, long-term growth outlook remain robust as India's focus is towards a gas-based economy. We expect GSPL's gas transmission volume to report a strong 7% CAGR over FY2022-FY2025E and largely stable transmission tariffs of Rs. 1.6/scm for FY2024E-FY2025E versus Rs. 1.61/scm in FY2022). We expect GSPL's standalone EBITDA/PAT to post a 5% CAGR over FY2022-FY2022E. However, capex to augment pipeline capacities would result in better gas transmission tariff and support GSPL's earnings.

### ■ Valuation – Maintain Buy on GSPL with an unchanged SoTP-based 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) is valued at just 0.5x FY2024E EPS. Hence, we maintain our Buy rating on GSPL with an unchanged SoTP-based PT of Rs. 288.

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 ~2,500 km natural gas pipeline, transporting 38 mmscmd-40 mmscmd of gas. To increase its geographical spread, the company 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, the government's target to increase the share of gas in India's energy mix to ~15% by 2030 (from 6% currently), and the thrust to reduce pollution provide a strong gas transmission volume opportunity for GSPL. Investment in the CGD space (Gujarat Gas and Sabarmati Gas) is likely to create long-term value for investors. The 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 a 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 Website

### 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 (Old data)

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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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