

Gujarat State Petronet

Estimate changes	↔
TP change	↔
Rating change	↔

Bloomberg	GUJS IN
Equity Shares (m)	564
M.Cap.(INRb)/(USD\$)	131.1 / 1.6
52-Week Range (INR)	333 / 209
1, 6, 12 Rel. Per (%)	1/-20/-27
12M Avg Val (INR M)	265

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	16.6	15.5	19.2
EBITDA	14.0	13.2	16.1
PAT	9.8	8.7	10.9
EPS (INR)	17.4	15.4	19.3
EPS Gr. (%)	5.7	-11.1	25.3
BV/Sh.(INR)	149.7	163.1	180.5

Ratios

Net D:E	0.0	0.0	-0.1
RoE (%)	12.2	9.9	11.3
RoCE (%)	11.9	9.8	11.2
Payout (%)	13.9	13.0	10.3

Valuations

P/E (x)	13.5	15.1	12.1
P/BV (x)	1.6	1.4	1.3
EV/EBITDA (x)	9.4	9.8	7.7
Div. Yield (%)	0.9	0.9	0.9
FCF Yield (%)	7.6	2.5	3.8

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	37.6	37.6	37.6
DII	26.2	32.8	31.0
FII	17.3	16.5	17.5
Others	18.9	13.1	13.9

FII Includes depository receipts

CMP: INR232

TP: INR319 (+37%)

Buy

Lower volumes offset by strong tariff

- Gujarat State Petronet (GUJS) reported marginal beat on our EBITDA estimate at INR3.3b with volumes of 24.6mmscmd (our est. at 27mmscmd; -34% YoY, -17% QoQ) being offset by strong implied tariff at INR1,656/scm (16% ahead of our est., +19% YoY, +9% QoQ) during 2QFY23.
- Volumes were hurt by the shutdown of ceramic units for over a month in 2QFY23. However, Spot LNG price in 3QFY23 to date has fallen to USD28.9/mmBtu (v/s USD45/mmBtu in 2Q). A further cooling of this price will result in a volume recovery in the coming quarters. We remain optimistic on the volume growth for the company with a CAGR of ~14% over the next three years.
- PNGRB has already taken up a tariff review of GUJS' HPP grid to determine the new tariff and would adjust it for the new tax regime. The proposed capex stands at INR45.4b up to FY32E, which would facilitate the transportation of gas from newer LNG terminals and obviate the need for a tariff cut.
- The stock is trading at a P/E of 12x FY24E EPS INR19.3 and EV/EBITDA of 7.7x. Return ratios are expected to be at 10-11% during FY23-24. **We maintain our BUY rating with a TP of INR319, implying an upside potential of 34%.**

Marginal beat on EBITDA; volumes lower than expected

- GUJS' total volumes were below estimate at 24.6mmscmd (-34% YoY, -17% QoQ) during 2QFY23.
- **EBITDA was at INR3.3b (est. of INR3.2b, -12% YoY, -7% QoQ)**, with implied tariff at INR1,656/scm. PAT was at INR3.1b (est. of INR2.1b, -5% YoY, +33% QoQ).
- The company had a total outstanding debt of INR48m as of Sep'22.
- **For 1HFY23**, GUJS' revenue stood at INR8.1b (down 9% YoY), EBITDA was down 8% YoY to INR6.9b, and PAT was at INR5.5b (-4% YoY).
- **Volumes declined 27% YoY to 27mmscmd**, with implied tariff at INR1,590 (+25% YoY) in 1HFY23.

Sectoral volume details

- CGD volumes increased to 8.7mmscmd (-34% YoY, -20% QoQ).
- Fertilizer volumes were at 3.7mmscmd (+9% YoY, +11% QoQ).
- Power/ref-petchem volumes stood at 0.4/7.9mmscmd (-76%/-13% QoQ).
- Volumes from others stood at 3.9mmscmd (-39% YoY, -13% QoQ).

Valuation and view – maintain BUY

- The available LNG capacity in Gujarat is expected to grow 55% to 42.5mmtpa over the next 3–4 years. Most of this volume is likely to flow through GUJS' network. **We believe the company could see a 14% CAGR in transmission volumes over the next three years.**

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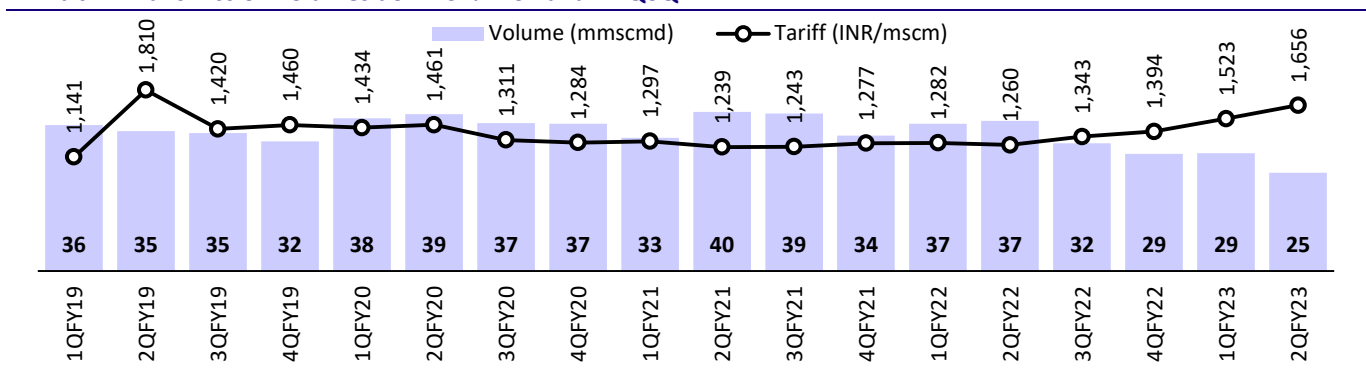
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- **We reiterate our belief that GUJS' volumes would jump to ~40mmscmd in FY24E as the company is also a beneficiary of:** a) the upcoming LNG terminals in Gujarat, b) increased demand owing to the focus on reducing industrial pollution – Gujarat has five geographical areas (GAs) identified as severely/critically polluted, and c) the commissioning of the Mehsana–Bhatinda pipeline.
- **Investments in GUJGA and Sabarmati Gas at a 25% holding discount provide a valuation of INR223.** Valuing the core at 5x, adj. FY24E EPS at INR18.1, and adding the value of investments, we arrive at our TP of INR319. **We maintain our BUY rating on the stock.**

Standalone - Quarterly Earning Model

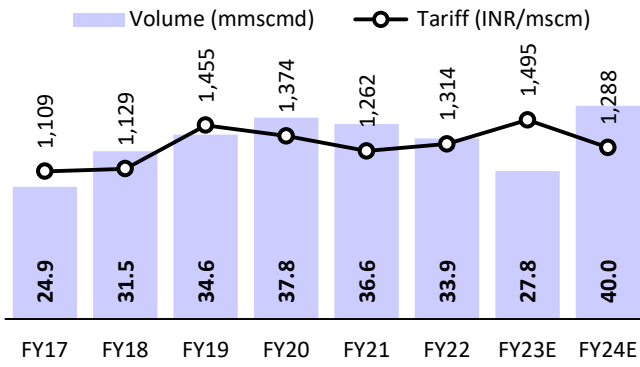
Y/E March	FY22				FY23				(INR m)		
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY22	FY23E	FY23
Net Sales	4,397	4,474	3,991	3,730	4,200	3,850	3,450	3,981	16,591	15,481	3,783
YoY Change (%)	9.1	-3.4	-13.1	-5.3	-4.5	-13.9	-13.6	6.7	-3.5	-6.7	-15.4
EBITDA	3,744	3,806	3,365	3,062	3,602	3,338	2,871	3,342	13,976	13,153	3,159
YoY Change (%)	8.2	0.0	-15.5	-11.1	-3.8	-12.3	-14.7	9.2	-4.9	-5.9	-17.0
Margins (%)	85.2	85.1	84.3	82.1	85.8	86.7	83.2	84.0	84.2	85.0	83.5
Depreciation	481	491	494	494	479	488	527	596	1,960	2,089	523
Interest	140	86	53	34	14	11	11	29	313	66	18
Other Income	38	904	39	64	40	1,037	167	-609	1,045	635	151
PBT before EO expense	3,161	4,133	2,856	2,598	3,149	3,877	2,500	2,108	12,748	11,633	2,769
Extra-Ord expense	14	0	0	0	0	0	0	0	14	0	0
PBT	3,148	4,133	2,856	2,598	3,149	3,877	2,500	2,108	12,735	11,633	2,769
Tax	828	829	723	577	794	735	629	777	2,958	2,932	697
Rate (%)	26.3	20.1	25.3	22.2	25.2	18.9	25.2	36.9	23.2	25.2	25.2
Reported PAT	2,319	3,304	2,133	2,020	2,355	3,142	1,871	1,331	9,777	8,702	2,072
YoY Change (%)	16.8	21.9	-13.8	-2.8	1.1	-4.9	-12.3	-34.1	5.7	-11.1	-37.3
Margins (%)	53.0	73.8	53.5	54.2	56.1	81.6	54.2	33.4	59.0	56.2	54.8
Key Operating Parameters											
Transmission Volume (mmscmd)	36.8	37.5	31.9	29.3	29.5	24.6	27.0	30.0	33.9	27.8	27.0
Implied Tariff (INR/mscm)	1,282	1,260	1,343	1,394	1,523	1,656	1,390	1,410	1,314	1,495	1,523

Exhibit 1: Transmission volumes down 34% YoY and 17 QoQ



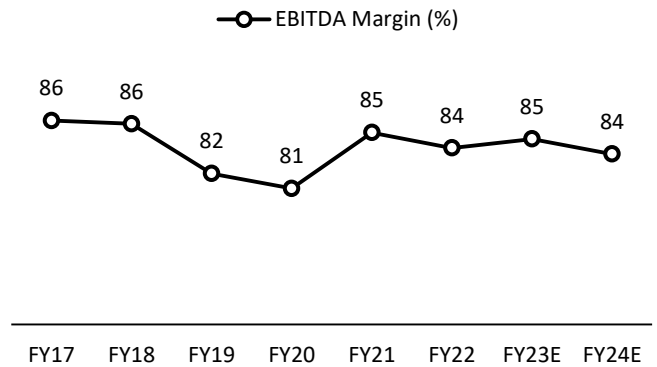
Source: MOFSL, Company

Exhibit 2: GUJS' volume snapshot



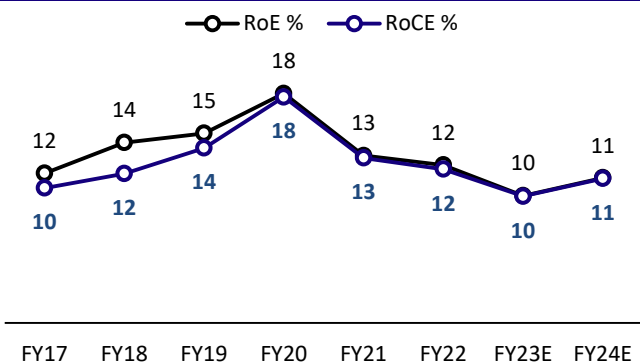
Source: Company, MOFSL

Exhibit 3: EBITDA margin to remain flat



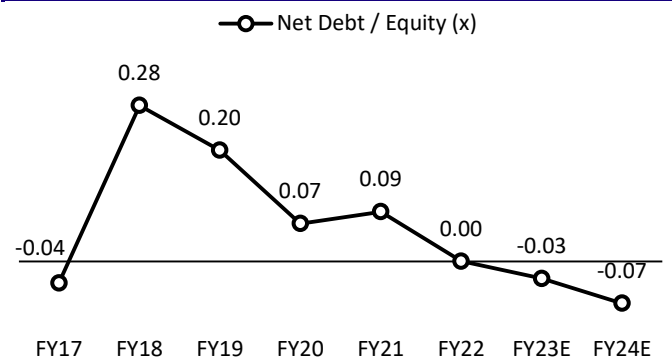
Source: Company, MOFSL

Exhibit 4: Return ratio profile



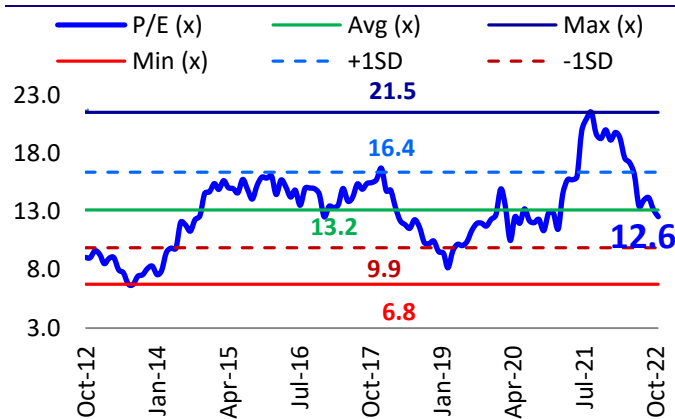
Source: Company, MOFSL

Exhibit 5: GUJS' to become net cash company in FY23E



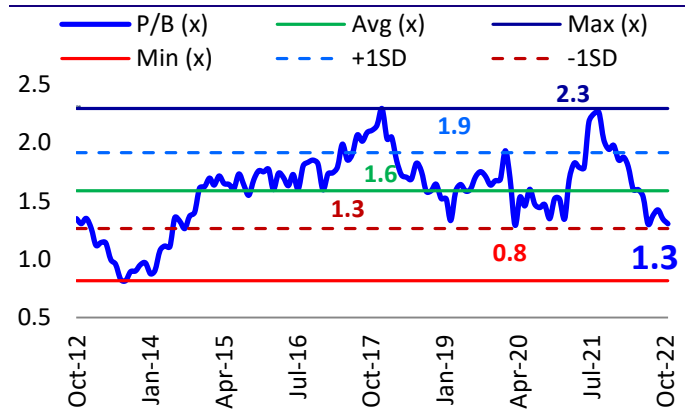
Source: Company, MOFSL

Exhibit 6: GUJS' 1-year forward P/E trades at 12.6x v/s LTA of 13.2x...



Source: Company, MOFSL

Exhibit 7: ...while its 1-year forward P/B trades at 1.3x v/s LTA of 1.6x



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	10,276	13,318	18,773	19,449	17,191	16,591	15,481	19,195
Change (%)	3.6	29.6	41.0	3.6	-11.6	-3.5	-6.7	24.0
EBITDA	8,883	11,478	15,426	15,749	14,694	13,976	13,153	16,076
Margin (%)	86.4	86.2	82.2	81.0	85.5	84.2	85.0	83.8
Depreciation	1,791	1,750	1,800	1,966	2,049	1,960	2,089	2,349
EBIT	7,092	9,728	13,626	13,783	12,645	12,016	11,064	13,727
Int. and Finance Charges	596	354	2,192	1,645	933	313	66	66
Other Income	882	735	594	649	694	1,045	635	912
PBT bef. EO Exp.	7,378	10,108	12,028	12,786	12,406	12,748	11,633	14,573
EO Items	0	0	0	0	0	-14	0	0
PBT after EO Exp.	7,378	10,108	12,028	12,786	12,406	12,735	11,633	14,573
Total Tax	2,412	3,424	4,081	1,699	3,147	2,958	2,932	3,673
Tax Rate (%)	32.7	33.9	33.9	13.3	25.4	23.2	25.2	25.2
Reported PAT	4,966	6,685	7,947	11,087	9,259	9,777	8,702	10,901
Adjusted PAT	4,966	6,685	7,947	11,087	9,259	9,787	8,702	10,901
Change (%)	11.5	34.6	18.9	39.5	-16.5	5.7	-11.1	25.3
Margin (%)	48.3	50.2	42.3	57.0	53.9	59.0	56.2	56.8

Standalone - Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	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	78,787	86,361	96,135
Net Worth	44,960	50,650	57,440	67,226	75,450	84,429	92,004	1,01,777
Total Loans	6,305	17,595	12,856	5,441	7,499	877	877	877
Deferred Tax Liabilities	4,719	4,984	5,226	4,081	4,218	4,250	4,250	4,250
Capital Employed	55,984	73,229	75,522	76,748	87,167	89,557	97,131	1,06,905
Gross Block	35,277	36,512	43,245	44,994	45,854	46,406	51,926	58,631
Less: Accum. Deprn.	3,620	5,371	7,170	9,137	11,186	13,146	15,235	17,584
Net Fixed Assets	31,657	31,142	36,075	35,857	34,668	33,259	36,691	41,047
Capital WIP	6,864	8,959	4,194	2,372	2,215	2,526	4,005	4,301
Total Investments	7,655	41,814	42,772	46,111	50,062	51,737	51,737	51,737
Curr. Assets, Loans&Adv.	12,158	7,571	6,459	5,764	5,420	5,878	8,256	14,290
Inventory	1,123	1,235	1,279	1,261	1,296	1,890	1,683	2,254
Account Receivables	1,216	1,235	2,081	1,637	1,586	1,295	1,208	1,498
Cash and Bank Balance	8,026	3,645	1,583	957	877	864	3,659	8,422
Cash	152	225	700	903	843	738	3,533	8,296
Bank Balance	7,875	3,420	883	54	34	126	126	126
Loans and Advances	1,792	1,456	1,516	1,908	1,660	1,828	1,706	2,115
Curr. Liability & Prov.	2,350	16,256	13,978	13,356	5,197	3,843	3,558	4,469
Account Payables	138	185	238	410	620	654	582	780
Other Current Liabilities	2,088	15,932	13,523	12,670	4,270	2,928	2,732	3,387
Provisions	124	138	216	276	307	262	244	303
Net Current Assets	9,808	-8,685	-7,518	-7,592	223	2,035	4,698	9,820
Appl. of Funds	55,983	73,229	75,522	76,748	87,167	89,557	97,131	1,06,905

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	8.8	11.9	14.1	19.7	16.4	17.4	15.4	19.3
Cash EPS	12.0	15.0	17.3	23.1	20.1	20.8	19.1	23.5
BV/Share	79.7	89.8	101.8	119.2	133.8	149.7	163.1	180.5
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	13.9	13.0	10.3
Valuation (x)								
P/E	26.5	19.7	16.6	11.9	14.2	13.5	15.1	12.1
Cash P/E	19.5	15.6	13.5	10.1	11.6	11.2	12.2	9.9
P/BV	2.9	2.6	2.3	2.0	1.7	1.6	1.4	1.3
EV/Sales	12.6	10.9	7.6	7.0	8.0	7.9	8.3	6.5
EV/EBITDA	14.6	12.7	9.3	8.6	9.4	9.4	9.8	7.7
Dividend Yield (%)	0.6	0.7	0.9	0.9	0.9	0.9	0.9	0.9
FCF per share	14.9	11.1	15.5	22.2	20.0	17.6	5.9	9.0
Return Ratios (%)								
RoE	11.6	14.0	14.7	17.8	13.0	12.2	9.9	11.3
RoCE	10.5	11.6	13.6	17.5	12.8	11.9	9.8	11.2
RoIC	13.8	24.6	39.3	44.0	30.8	27.0	22.9	25.6
Working Capital Ratios								
Fixed Asset Turnover (x)	0.3	0.4	0.4	0.4	0.4	0.4	0.3	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	42	40	43
Debtor (Days)	43	34	40	31	34	28	28	28
Creditor (Days)	5	5	5	8	13	14	14	15
Leverage Ratio (x)								
Current Ratio	5.2	0.5	0.5	0.4	1.0	1.5	2.3	3.2
Interest Cover Ratio	11.9	27.5	6.2	8.4	13.6	38.4	168.7	209.3
Net Debt/Equity	0.0	0.3	0.2	0.1	0.1	0.0	0.0	-0.1

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	7,378	10,108	12,028	12,786	12,382	13,165	11,633	14,573
Depreciation	1,791	1,750	1,800	1,966	2,048	1,960	2,089	2,349
Interest & Finance Charges	740	354	2,192	1,645	934	313	66	66
Direct Taxes Paid	-2,228	-3,105	-3,639	-3,082	-3,025	-3,062	-2,932	-3,673
(Inc)/Dec in WC	2,534	508	-956	893	684	-202	131	-359
Others	-780	-672	-542	-606	-611	-1,448	-635	-912
CF from Operations	9,436	8,943	10,882	13,602	12,412	10,726	10,353	12,044
(Inc)/Dec in FA	-1,052	-2,691	-2,118	-1,066	-1,119	-773	-7,000	-7,000
Free Cash Flow	8,383	6,252	8,764	12,536	11,293	9,953	3,353	5,044
(Pur)/Sale of Investments	-346	-34,157	-990	-3,340	-3,848	-1,690	0	0
Others	-2,278	5,113	3,029	1,304	589	2,452	635	912
CF from Investments	-3,676	-31,735	-80	-3,102	-4,379	-11	-6,365	-6,088
Inc/(Dec) in Debt	-4,329	24,239	-6,912	-7,335	-6,037	-9,348	0	0
Interest Paid	-1,039	-375	-2,299	-1,678	-924	-337	-66	-66
Dividend Paid	-1,016	-1,018	-1,128	-1,283	-1,128	-1,128	-1,127	-1,127
CF from Fin. Activity	-6,365	22,865	-10,328	-10,297	-8,093	-10,819	-1,193	-1,193
Inc/Dec of Cash	-606	73	475	203	-59	-105	2,795	4,763
Opening Balance	757	151	225	700	902	843	738	3,533
Closing Balance	151	225	700	902	843	738	3,533	8,296

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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