



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 Oct 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. 15,070 cr
52-week high/low:	Rs. 333/209
NSE volume: (No of shares)	13.2 lakh
BSE code:	532702
NSE code:	GSPL
Free float: (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	16.1	11.8	8.2	-11.9
Relative to Sensex	13.7	5.7	-5.4	-20.6

Sharekhan Research, Bloomberg

Gujarat State Petronet Ltd

PNGRB tariff amendments remove key overhang

Oil & Gas	Sharekhan code: GSPL		
Reco/View: Buy	↔	CMP: Rs. 267	Price Target: Rs. 342
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Recently the PNGRB has announced several amendments in natural gas pipeline tariff. Key amendments include – Relaxed volume ramp-up period to 10 years, allowance of transmission loss at 0.1%, tax rate of 25% for tariff applicable from FY24 and non-retrospective and exclusion of pipeline capacity addition for tariff calculations due to addition of new gas source.
- Amendments on prospective applicability of a tax rate of 25% for tariff calculation and allowance of transmission loss at 0.1% would allay concern over steep tariff cuts of 15-20% to large extent, while volume ramp-up and exclusion of new gas source bodes well for revival in gas pipeline capex cycle (GSPL has planned capex of Rs. 2000 crore to connect pipelines to LNG terminals in Gujarat).
- Core pipeline business is effectively available free to investors as market value of GSPL's investment in Gujarat Gas (after assuming 20% holding company discount) is close to GSPL's current market capitalisation of Rs. 15,070 crore).
- We maintain a Buy on GSPL with a revised PT of Rs.342 as assign higher valuation multiple to core pipeline business given PNGRB amendments removes tariff overhang and higher value for stake in Gujarat Gas (at 40% holding company discount to our PT of Rs. 560).

The Petroleum and Natural Gas Regulatory Board (PNGRB) has recently in November 2022 made key amendments to natural gas pipeline tariff regulations and we perceive them as positive for Gujarat State Petronet Limited (GSPL) as it removes long pending overhang on gas pipeline tariffs. In our view, GSPL's gas pipeline tariff would benefit from prospective implementation of lower tax rate from FY24 (versus retrospective impact from FY21-23) and allowance of transmission loss at 0.1% of the actual volume. Amendments for volume ramp-up (capacity utilisation ramp-up to 10 years versus 5 years earlier) and exclusion of new gas source for 5 years for tariff calculation would play a crucial part in revival of capex cycle for GSPL's core gas pipeline business. We maintain a Buy on GSPL with a revised PT of Rs.342.

- Recent announcement of gas pipeline tariff reforms – a positive step by regulator:** PNGRB has recently announced several amendments for gas pipeline tariff and key amendments are – 1) An increase in time period for capacity utilization ramp-up to 10 years (as compared to 5 years currently), 2) Allowed accounting for transmission loss at 0.1% of actual volume, 3) Tax rate of 25.17% would be applicable from FY24 and not retrospective, 4) Exclusion of new gas source for five years for tariff calculation, 5) introduced entity level integrated natural gas pipeline tariff, 6) number of tariff zones for unified tariff (applicable from April 2023) has been increased to three from two and 7) tariff computation may provide for annual tariff hike.
- GSPL benefits immensely from tariff amendments:** The impact from shift to a lower tax rate regime of 25.17% (versus 33.3% earlier) on GSPL's tariff is expected to be much lower than street expectation of 15-20% as the tariff amendments excludes impact of lower tax rate on tariff for FY21-23 as it is prospective i.e. from FY24. Additionally, allowing transmission loss at 0.1% of the actual volume, multiplied by the gas price would further support tariff of GSPL. Thus, a likely cut in net transmission tariff would be much lower than our/street estimate of 10%/15-20%. We currently maintain our FY23-25 earnings estimate for GSPL.
- Pipeline tariff amendments to support pipeline capex and drive long-term volume growth:** PNGRB's tariff amendments state that any addition in gas pipeline capacity due to any new natural gas source (like LNG terminal or domestic gas discovery) after April 2020, than in that case addition of such new source shall not be considered in the tariff determination for a period of five years from the date of commissioning of the pipeline connectivity due to the relevant source. This would accelerate completion of connecting pipelines (capex estimated at Rs. 2000 crore) to LNG terminal at Mundra (GSPC), Charra (HPCL) and Pipavav (Swan Energy). Moreover, the relaxation of volume ramp-up to 10 years would aid in development of new pipeline and the same would drive long term transmission volume growth for GSPL.

Our Call

Valuation – Maintain Buy on GSPL with a revised SoTP-based PT of Rs. 342: 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 is effectively available free to investors as the market value of GSPL's investment in Gujarat Gas (after assuming a 20% holding company discount) is close to GSPL current market capitalization of Rs. 15,070 crore). Hence, we maintain Buy on GSPL but with a revised SoTP-based price target (PT) of Rs. 342 (reflects higher valuation for standalone gas pipeline business and for its 54% stake in 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.

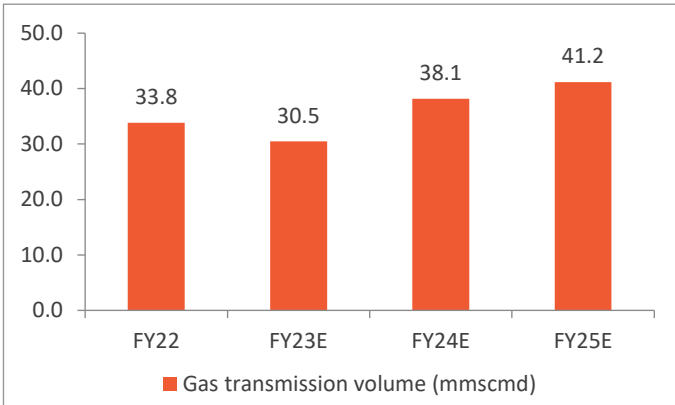
Valuation (Standalone)

Particulars	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)	15.4	16.7	14.6	13.4
P/B (x)	1.8	1.6	1.5	1.4
EV/EBITDA (x)	10.8	11.0	9.4	8.1
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

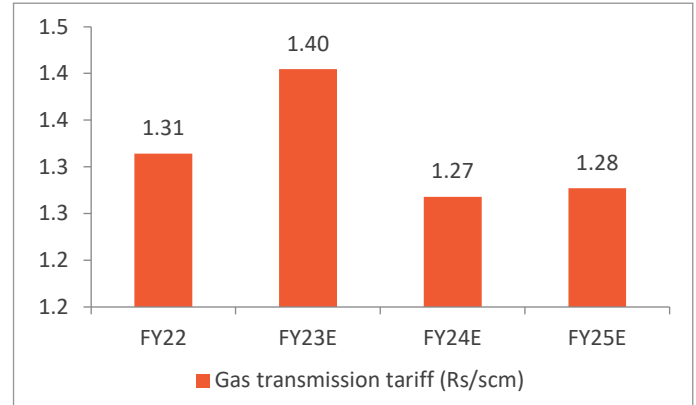
Financials in charts

Gas transmission volume to clock 7% CAGR over FY22-FY25E



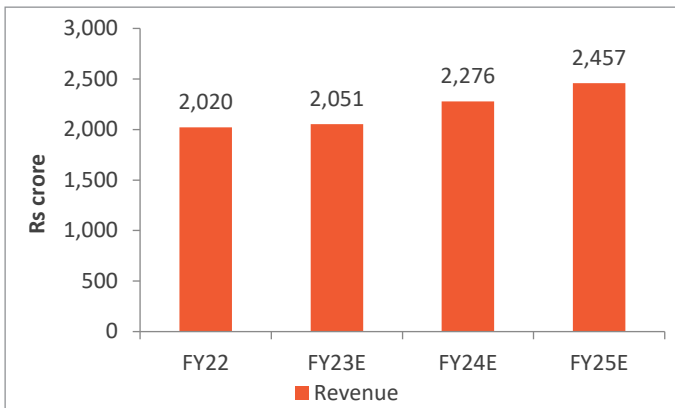
Source: Company, Sharekhan Research

Net transmission tariff to decline in FY24



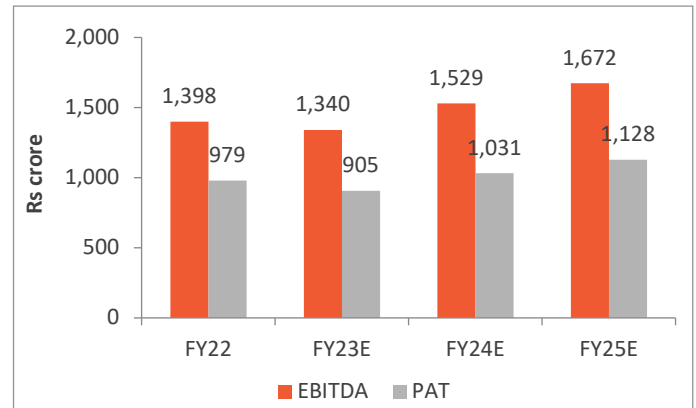
Source: Company, Sharekhan Research

Revenue trend



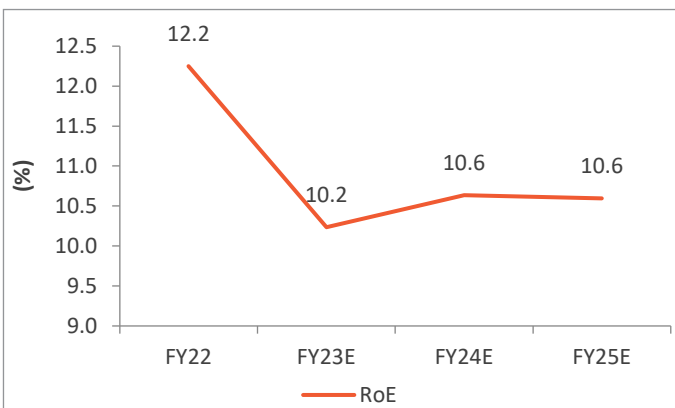
Source: Company, Sharekhan Research

EBITDA/PAT to clock 5%/6% CAGR over FY22-FY25E



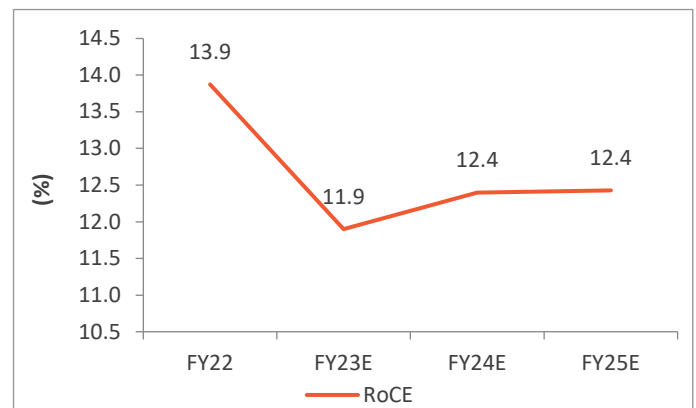
Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

RoCE trend



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 a 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.

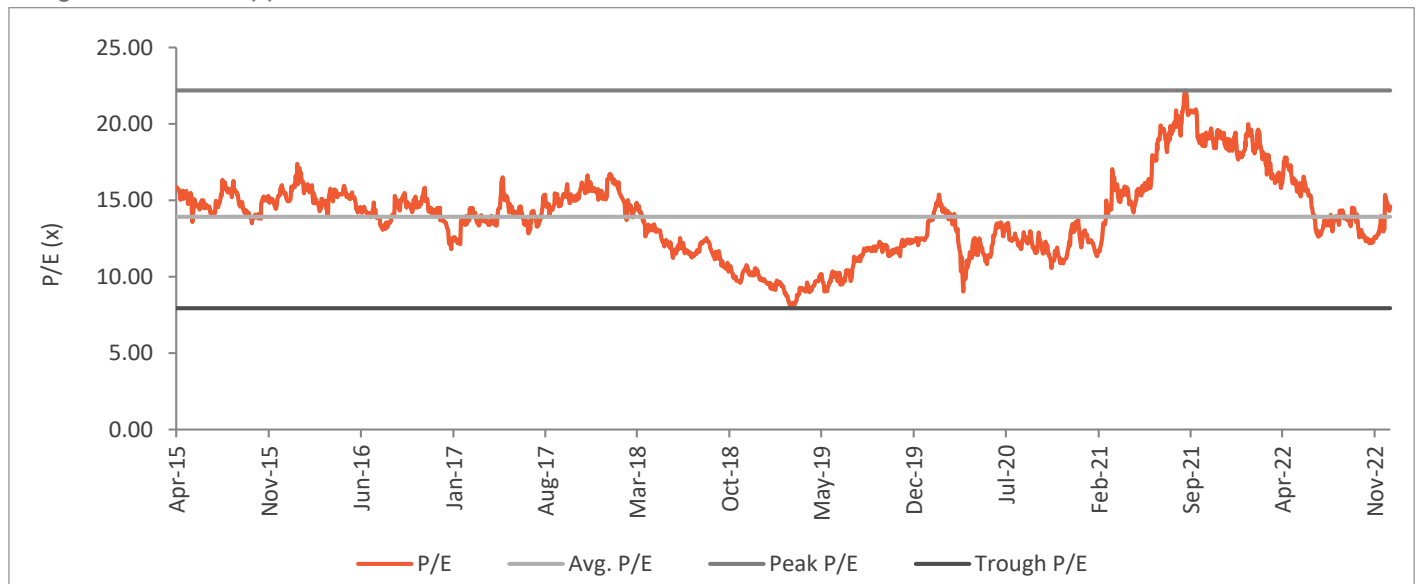
■ Company outlook - Long growth remains intact

Although near-term volumes are likely to remain under pressure given volatility in spot LNG price but long-term growth outlook remain robust as India's focus is towards a gas-based economy. We expect GSPL's gas transmission volume to increase strongly by 7% CAGR over FY2022-FY2025E. The amendment in natural gas pipeline tariff regulations are positive and we model net transmission tariffs of Rs. 1.3/scm over FY2024E-2025E post expectation of 10% cut in FY24E). We expect GSPL's standalone EBITDA/PAT to post a 5% CAGR over FY2022-FY2025E. However, capex to augment pipeline capacities would result in better gas transmission tariff and support earnings of GSPL.

■ Valuation - Maintain Buy on GSPL with a revised SoTP -based PT of Rs. 342

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 is effectively available free to investors as the market value of GSPL's investment in Gujarat Gas (after assuming 20% holding company discount) is close to GSPL current market capitalization of Rs. 15,211 crore). Hence, we maintain a Buy on GSPL but with a revised SoTP-based price target (PT) of Rs. 342 (reflects higher valuation for standalone gas pipeline business and for its 54% stake in 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 38-40 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 close to its market value of investment in Gujarat Gas.

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 PENS	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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