



## 3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	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

Updated Dec 08, 2022

34.32

## High Risk

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

Source: Morningstar

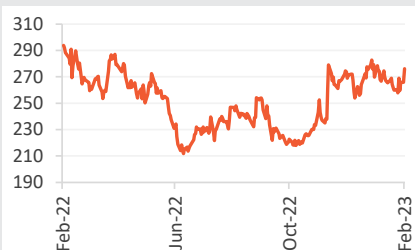
## Company details

Market cap:	Rs. 15,586 cr
52-week high/low:	Rs. 299/209
NSE volume: (No of shares)	9.7 lakh
BSE code:	532702
NSE code:	GSPL
Free float: (No of shares)	35.2 cr

## Shareholding (%)

Promoters	37.6
FII	17.3
DII	24.3
Others	20.8

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-0.8	9.4	12.0	-6.0
Relative to Sensex	-2.4	10.8	10.0	-11.0

Sharekhan Research, Bloomberg

## Gujarat State Petronet Ltd

## Weak Q3; core pipeline business attractively valued

## Oil &amp; Gas

## Sharekhan code: GSPL

Reco/View: Buy



Upgrade



CMP: Rs. 276

Price Target: Rs. 342



Downgrade

## Summary

- Q3FY23 PAT of Rs. 171 crore (down 46% q-o-q) was 15% below our estimates due to lower-than-expected gas transmission volume of 22 mmscmd (down 9% q-o-q) and higher operating costs.
- Net transmission tariffs remained resilient at Rs. 1.7/scm (up 1.3% q-o-q) but EBITDA margins fell by 11% q-o-q to Rs. 1.3/scm given lower volume/high costs. Volume from CGD/refinery & petchem declined by 3%/24% q-o-q while that from fertilizer/power sector increased by 4%/88% q-o-q.
- Recent PNGRB amendments to the natural gas pipeline tariff allays concern over steep tariff cuts of 15-20% to a large extent and bodes well for revival in gas pipeline capex cycle. Moreover, a recent steep fall in spot LNG price to \$17-18/mmBtu would help in volume recovery.
- We maintain a Buy on GSPL with an unchanged PT of Rs. 342 as core pipeline business is available at only 1x FY24E EPS and we expect subsidiary Gujarat Gas' volumes to also recover given narrowing down of pricing gap between propane and I-PNG.

Gujarat State Petronet Limited's (GSPL's) Q3FY23 standalone operating profit at Rs. 270 crore (down 20% y-o-y; down 19% q-o-q) was 14% below our estimate of Rs. 314 crore due miss in gas transmission volume at 22 mmscmd (down 9% q-o-q) and sharply higher operating cost (up 31% q-o-q as employee/other expenses rise 60%/50% q-o-q). Higher other expenses were due to rise in CSR expenses. Thus, EBITDA margin declined by 11% q-o-q to Rs. 1.3/scm (5% below estimates). Net transmission tariff remained strong at Rs. 1.7/scm (up 1.3% q-o-q). Volume from CGD/refinery & petchem declined by 3%/24% q-o-q while that from the fertiliser/power sectors increased by 4%/88% q-o-q; high growth in volume from power segment is due to low base of Q2FY23. Standalone PAT of Rs. 171 crore (down 31% y-o-y; up 45.6% q-o-q) was 15% below our estimate of Rs. 201 crore due to miss in volume/margin partially offset by higher-than-expected other income.

## Key positives

- Better-than-expected net gas transmission tariff of Rs. 1.7/scm (up 1.3% q-o-q).

## Key negatives

- Weak gas transmission volumes of 22 mmscmd, down 9% q-o-q and 11% below estimate.
- EBITDA margin declined by 11% q-o-q to Rs. 1.3/scm due to high operating costs.

**Revision in estimates** – We have lowered our FY23 earnings estimate to factor lower volume assumption and fine-tuned our FY24-25 earnings estimate.

## Our Call

**Valuation – Maintain Buy on GSPL with an unchanged 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 (excluding market value of GSPL's investment in Gujarat Gas after assuming 20% holding company discount) valued at just 1x FY2024E EPS. Hence, we maintain Buy on GSPL but with an unchanged SoTP-based price target (PT) of Rs. 342.

## 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	1,810	2,193	2,367
OPM (%)	69.2	63.3	68.2	69.0
Adjusted PAT	979	774	1,021	1,116
YoY growth (%)	5.2	-21.0	31.9	9.3
Adjusted EPS (Rs.)	17.4	13.7	18.1	19.8
P/E (x)	15.8	20.0	15.1	13.8
P/B (x)	1.8	1.7	1.5	1.4
EV/EBITDA (x)	11.0	13.3	10.0	8.6
RoNW (%)	12.2	8.8	10.7	10.6
RoCE (%)	14.0	10.3	12.4	12.4

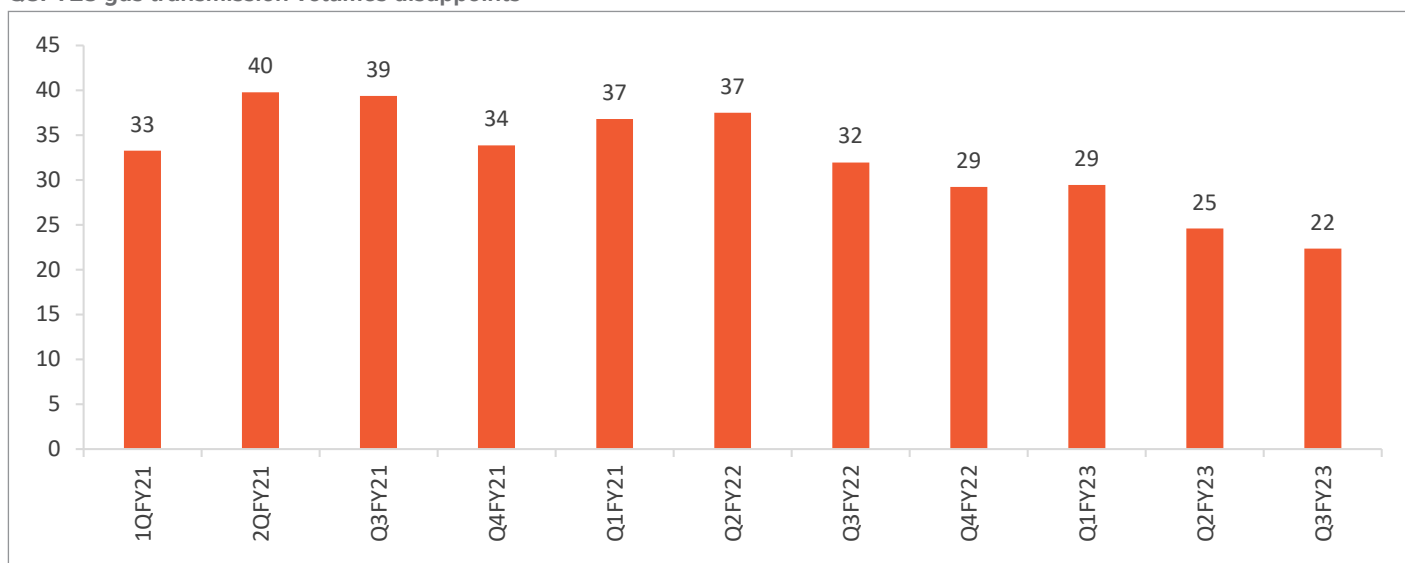
Source: Company; Sharekhan estimates

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

### Q3 PAT missed estimate on lower volume and high cost

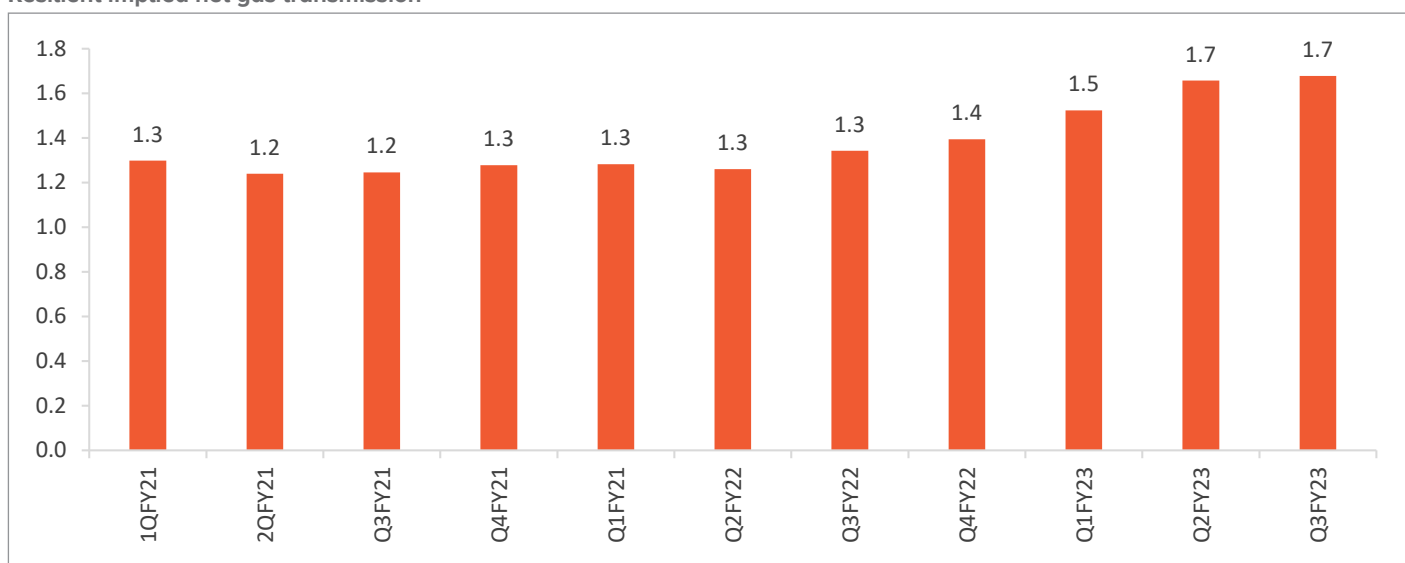
Q3FY23 standalone operating profit at Rs. 270 crore (down 20% y-o-y; down 19% q-o-q) was 14% below our estimate of Rs. 314 crore due miss in gas transmission volume at 22 mmcmd (down 9% q-o-q) and sharply higher operating cost (up 31% q-o-q as employee/other expenses rise 60%/50% q-o-q). Higher other expenses were due to rise in CSR expenses. Thus, EBITDA margin declined by 11% q-o-q to Rs. 1.3/scm (5% below estimates). Net transmission tariff remained strong at Rs. 1.7/scm (up 1.3% q-o-q). Volume from CGD/refinery & petchem declined by 3%/24% q-o-q while that from the fertiliser/power sectors increased by 4%/88% q-o-q; high growth in volume from power segment is due to low base of Q2FY23. Standalone PAT of Rs. 171 crore (down 31% y-o-y; up 45.6% q-o-q) was 15% below our estimate of Rs. 201 crore due to miss in volume/margin partially offset by higher-than-expected other income.

### Q3FY23 gas transmission volumes disappoints



Source: Company; Sharekhan Research

### Resilient implied net gas transmission



Source: Company; Sharekhan Research

## Results (standalone)

	Rs cr				
Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
<b>Revenues</b>	<b>402</b>	<b>471</b>	<b>-14.6</b>	<b>435</b>	<b>-7.4</b>
Total Expenditure	132	135	-1.7	101	31.4
<b>Reported operating profit</b>	<b>270</b>	<b>336</b>	<b>-19.8</b>	<b>334</b>	<b>-19.1</b>
Other Income	13	4	238.0	104	-87.4
Interest	1	5	-79.3	1	-4.2
Depreciation	49	49	-1.0	49	0.3
<b>PBT</b>	<b>233</b>	<b>286</b>	<b>-18.4</b>	<b>388</b>	<b>-39.9</b>
Tax	62	72	-14.2	73	-15.6
Profit/(loss) from discontinued operations		35			
<b>Reported PAT</b>	<b>171</b>	<b>248</b>	<b>-31.1</b>	<b>314</b>	<b>-45.6</b>
<b>Adjusted PAT</b>	<b>171</b>	<b>213</b>	<b>-19.9</b>	<b>314</b>	<b>-45.6</b>
Equity Cap (cr)	56	56		56	
Reported EPS (Rs. )	3.0	4.4	-31.1	5.6	-45.6
Adjusted EPS	3.0	3.8	-19.9	5.6	-45.6
<b>Margins (%)</b>			<b>BPS</b>		<b>BPS</b>
OPM	67.1	71.4	-433	76.8	-973
Effective tax rate	26.6	25.3	131	18.9	767
NPM	42.5	45.3	-280	72.3	-2982

Source: Company, Sharekhan Research

## Key operating metrics

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Gas transportation volume (mmscm)	2,055	2,938	-30.0	2,260	-9.1
Gas transportation volume (mmscmd)	22.3	31.9	-30.0	24.6	-9.1
Implied transmission tariff (Rs. /scm)	1.9	1.6	22.2	1.9	3.5
Net transmission tariff (Rs. /scm)	1.7	1.3	25.0	1.7	1.3
EBITDA (Rs. /scm)	1.3	1.1	14.7	1.5	-11.1

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Infrastructure expansion and regulatory push to drive strong gas demand; volatile spot LNG price a concern

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. However, volatile spot LNG (although moderated recently) and alternate fuel price would volatility in near term volumes for gas utilities

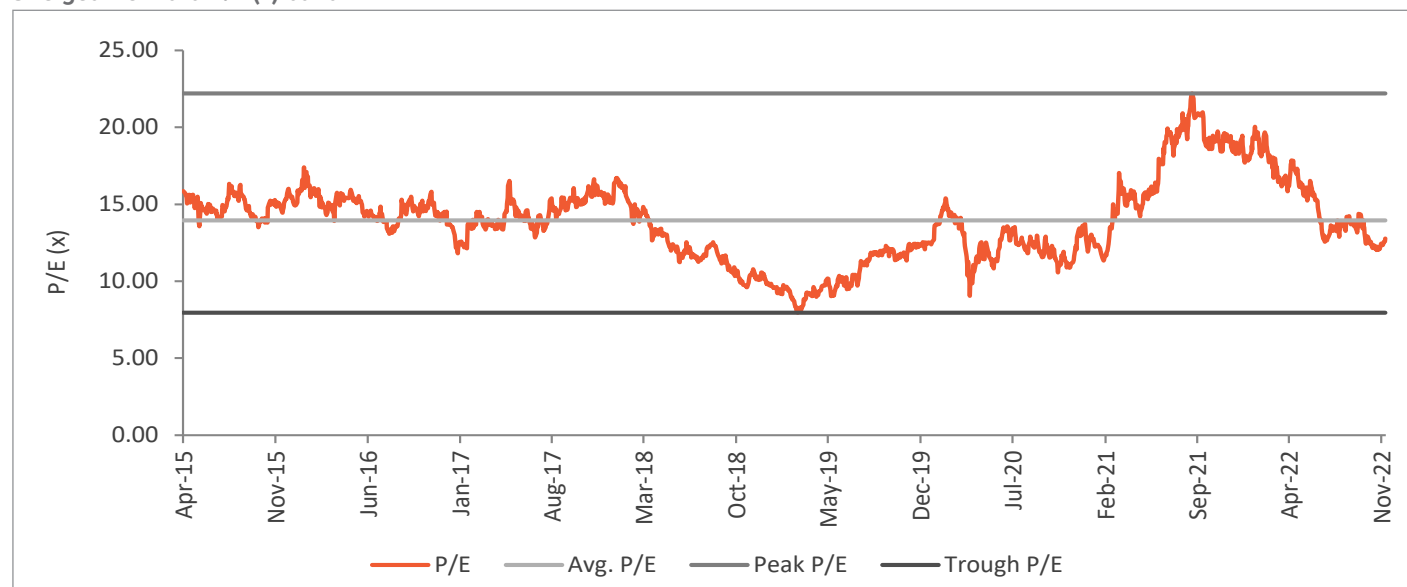
### ■ Company outlook - Near term volume concern but long growth remains intact

Although near-term volumes are likely to remain under pressure given volatility in spot LNG price but long-term growth outlook remain robust as India's focus is towards a gas- based economy. We expect GSPL's gas transmission volume to increase strongly by 4% CAGR over FY2022-FY2025E and largely stable transmission tariffs of Rs. 1.65/scm for FY2024E-2025E versus Rs. 1.61/scm in FY22) by. We expect GSPL's standalone EBITDA/PAT to post a 5%/4% CAGR over FY2022-FY2022E. However, capex to augment pipeline capacities would result in better gas transmission tariff and support earnings of GSPL

### ■ Valuation - Maintain Buy on GSPL with an unchanged 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 (excluding market value of GSPL's investment in Gujarat Gas after assuming 20% holding company discount) valued at just 1x FY2024E EPS. Hence, we maintain Buy on GSPL but with an unchanged SoTP-based price target (PT) of Rs. 342.

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 available at attractive valuation.

## 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

Sanjeev Kumar	Managing Director
Ajith Kumar T R	Chief Financial Officer
Rajeshwari Sharma	Company Secretary & Compliance Officer

Source: Bloomberg

### 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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