

Gujarat State Petronet

Estimate changes	↔
TP change	↔
Rating change	↔

Bloomberg	GUJS IN
Equity Shares (m)	564
M.Cap.(INRb)/(USDb)	162.9 / 2
52-Week Range (INR)	298 / 209
1, 6, 12 Rel. Per (%)	1/24/-4
12M Avg Val (INR M)	285

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	15.3	17.1	18.1
EBITDA	12.6	14.4	15.2
PAT	9.4	10.1	10.5
EPS (INR)	16.8	17.9	18.6
EPS Gr. (%)	-3.5	6.6	4.0
BV/Sh.(INR)	164.4	176.9	189.9

Ratios

Net D:E	-0.1	-0.1	-0.1
RoE (%)	10.7	10.5	10.1
RoCE (%)	10.7	10.5	10.1
Payout (%)	29.8	30.0	30.0

Valuations

P/E (x)	17.2	16.1	15.5
P/BV (x)	1.8	1.6	1.5
EV/EBITDA (x)	12.4	10.7	10.0
Div. Yield (%)	1.7	1.9	1.9
FCF Yield (%)	4.8	2.4	2.7

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	37.6	37.6	37.6
DII	26.9	26.3	33.2
FII	16.7	17.3	16.2
Others	18.8	18.8	12.9

FII Includes depository receipts

CMP: INR289

TP: INR346 (+20%)

Buy

Volumes improve amid declining gas cost

- Gujarat State Petronet (GUJS)'s 4QFY23 EBITDA missed our estimate due to higher-than-estimated other operating expenses. However, PAT was higher-than-estimated led by higher other income of INR476m (v/s INR130m in 3QFY23). Volumes were 6% above estimate at 25.1mmscmd, while implied tariff was 6% below estimate at INR1,562/scm during the quarter.
- CGD demand has grown with falling LNG prices. Spot LNG price continues to dip to ~USD11/mmBtu for May'23 delivery from USD15.6/mmBtu in 4QFY23 that can result in further volume recovery.
- The company's HP gas grid is up for tariff revision and might benefit from the tariff reforms announced last year. The proposed capex for HP gas grid stands at INR45.4b up to FY32E, which would facilitate gas transportation from newer LNG terminals and obviate the need for a tariff cut.
- The stock is trading at a P/E of 16.1x FY24E EPS of INR17.9 and EV/EBITDA of 10.7x. Return ratios are expected to be at 10-11% during FY24-25. **We maintain our BUY rating with a TP of INR346, implying an upside potential of 20%.**

Miss on EBITDA but beat on PAT; volumes higher than expected

- GUJS' total volumes were 6% above our estimate at 25.1mmscmd (-14% YoY, +12% QoQ).
- EBITDA was 6% below estimate of INR2.9b (est. of INR3.1b, -4% YoY, +9%QoQ), with implied tariff at INR1,562/scm.
- EBITDA margin was lower than estimate at 78.8% (est. 84.8%) during the quarter due to higher other operating expenses.
- PAT was 9% above estimate at INR2.2b (est. of INR2.1b, +11% YoY, +31% QoQ) due to higher-than-estimated other income at INR476m (v/s INR130m in 3QFY23).
- For FY23, revenue was at INR15.3b (down 8% YoY), EBITDA was down 10% YoY at INR12.6b, and PAT was at INR9.4b (down 3% YoY).
- Volumes were down 25% YoY at 25.4mmscmd, with implied tariff at INR1,604.9 (+22% YoY).
- The Board declared a final dividend of INR5/share.

Sectoral volume details for 4QFY23

- CGD volumes decreased to 8.4mmscmd (-35% YoY, -3% QoQ).
- Fertilizer volumes were at 3.8mmscmd (+20% YoY, +4% QoQ).
- Power/ref-petchem volumes stood at 0.8/6mmscmd (-24%/+88% QoQ).
- Other volumes stood at 3.3mmscmd (-35% YoY, -15% QoQ).

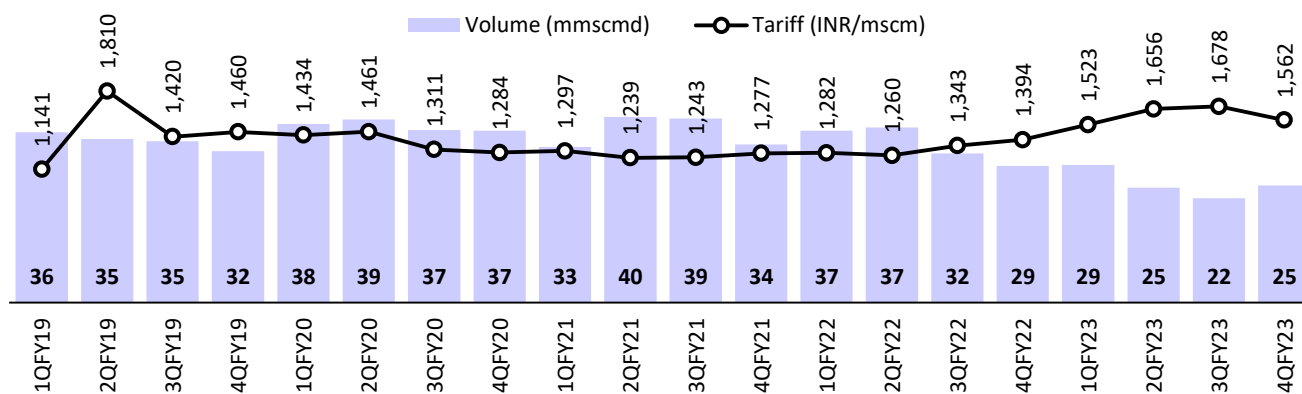
Valuation and view – maintain BUY

- 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 post 18% CAGR in transmission volumes over FY23-FY25E.**

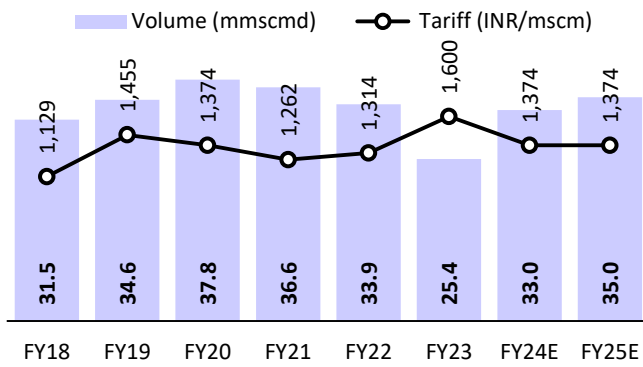
- **We expect GUJS' volumes to jump to ~35mmscmd in FY25 as the company is also a beneficiary of:** a) the upcoming LNG terminals in Gujarat, b) improved demand owing to the focus on reducing industrial pollution – Gujarat has five geographical areas (GAs) identified as severely/ critically polluted, and c) the commissioning of the Mehsana-Bhatinda pipeline.
- **Investments in GUJGA and Sabarmati Gas at a 25% holding discount provide a valuation of INR244.** Valuing the core at 6x adj. FY25E EPS of INR16.9, and adding the value of investments, we arrive at our TP of INR346. **We maintain our BUY rating on the stock.**

Standalone - Quarterly Earnings Model

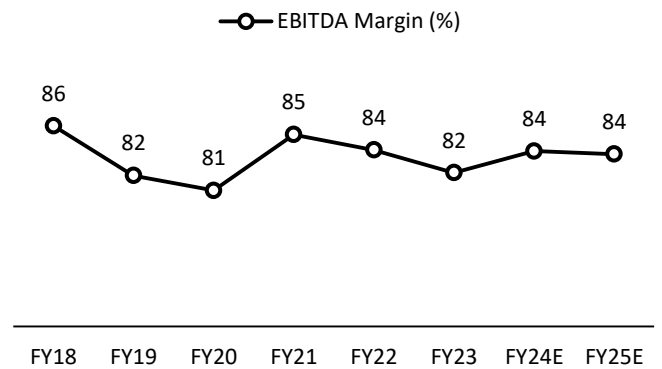
Y/E March	FY22				FY23				FY22	FY23	FY23	(INR m) Var. v/s est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Net Sales	4,397	4,474	3,991	3,730	4,200	3,850	3,484	3,740	16,591	15,275	3,712	1%
YoY Change (%)	9.1	-3.4	-13.1	-5.3	-4.5	-13.9	-12.7	0.3	-3.5	-7.9	-0.5	
EBITDA	3,744	3,806	3,365	3,062	3,602	3,338	2,699	2,947	13,976	12,587	3,148	-6%
YoY Change (%)	8.2	0.0	-15.5	-11.1	-3.8	-12.3	-19.8	-3.7	-4.9	-9.9	2.8	
Margins (%)	85.2	85.1	84.3	82.1	85.8	86.7	77.5	78.8	84.2	82.4	84.8	
Depreciation	481	491	494	494	479	488	489	483	1,960	1,939	486	
Interest	140	86	53	34	14	11	11	10	313	47	12	
Other Income	38	904	39	64	40	1,037	130	476	1,045	1,684	103	
PBT before EO expense	3,161	4,133	2,856	2,598	3,149	3,877	2,329	2,931	12,748	12,286	2,754	6%
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	2,329	2,931	12,735	12,286	2,754	6%
Tax	828	829	723	577	794	735	620	687	2,958	2,836	693	
Rate (%)	26.3	20.1	25.3	22.2	25.2	18.9	26.6	23.5	23.2	23.1	25.2	
Reported PAT	2,319	3,304	2,133	2,020	2,355	3,142	1,709	2,243	9,777	9,450	2,061	9%
YoY Change (%)	16.8	21.9	-13.8	-2.8	1.1	-4.9	-19.9	11.0	5.7	-3.5	2.0	
Margins (%)	53.0	73.8	53.5	54.2	56.1	81.6	49.1	60.0	59.0	61.9	55.5	
Key Operating Parameters												
Transmission Volume (mmscmd)	36.8	37.5	31.9	29.3	29.5	24.6	22.3	25.1	33.9	25.4	23.6	6%
Implied Tariff (INR/mscm)	1,282	1,260	1,343	1,394	1,523	1,656	1,678	1,562	1,314	1,600	1,662	-6%

Exhibit 1: Transmission volumes down 14% YoY but up 12% QoQ

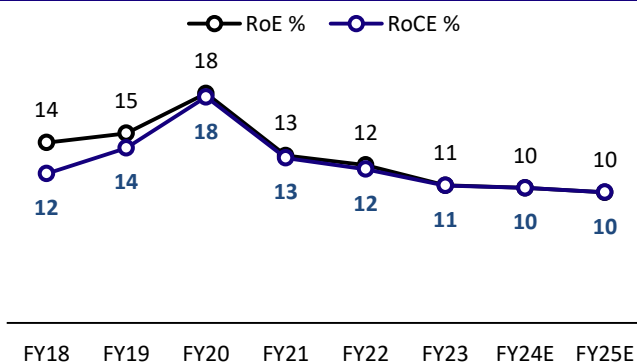
Source: MOFSL, Company

Exhibit 2: GUJS' volume snapshot

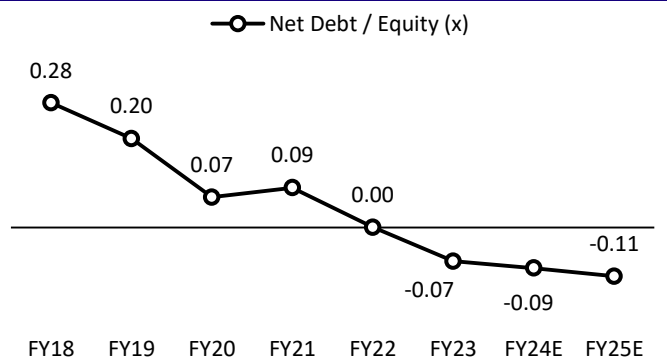
Source: Company, MOFSL

Exhibit 3: EBITDA margin to remain flat

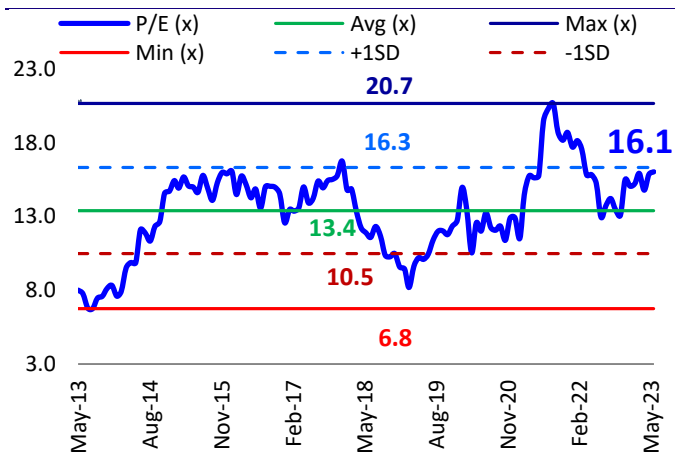
Source: Company, MOFSL

Exhibit 4: Return ratio profile

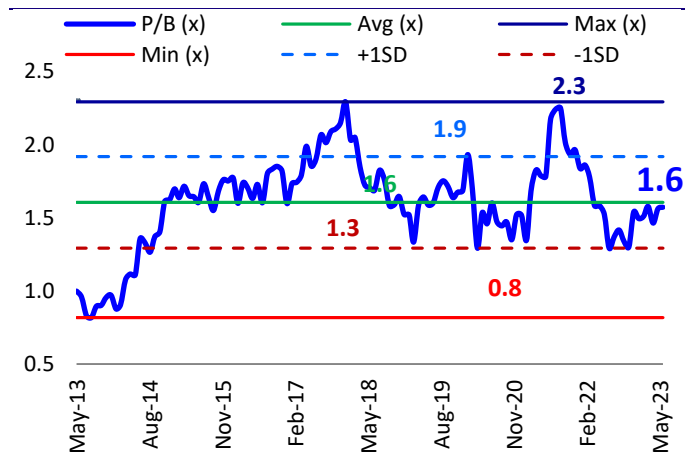
Source: Company, MOFSL

Exhibit 5: GUJS' net Debt/Equity profile

Source: Company, MOFSL

Exhibit 6: GUJS' 1-year forward P/E trades at 16.1x v/s LTA of 13.4x...

Source: Company, MOFSL

Exhibit 7: ...while its 1-year forward P/B trades close to its LTA of 1.6x

Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	13,318	18,773	19,449	17,191	16,591	15,275	17,121	18,079
Change (%)	29.6	41.0	3.6	-11.6	-3.5	-7.9	12.1	5.6
EBITDA	11,478	15,426	15,749	14,694	13,976	12,587	14,407	15,170
Margin (%)	86.2	82.2	81.0	85.5	84.2	82.4	84.1	83.9
Depreciation	1,750	1,800	1,966	2,049	1,960	1,939	2,128	2,423
EBIT	9,728	13,626	13,783	12,645	12,016	10,648	12,279	12,747
Int. and Finance Charges	354	2,192	1,645	933	313	47	6	5
Other Income	735	594	649	694	1,045	1,684	1,198	1,266
PBT bef. EO Exp.	10,108	12,028	12,786	12,406	12,748	12,286	13,471	14,007
EO Items	0	0	0	0	-14	0	0	0
PBT after EO Exp.	10,108	12,028	12,786	12,406	12,735	12,286	13,471	14,007
Total Tax	3,424	4,081	1,699	3,147	2,958	2,836	3,395	3,530
Tax Rate (%)	33.9	33.9	13.3	25.4	23.2	23.1	25.2	25.2
Reported PAT	6,685	7,947	11,087	9,259	9,777	9,450	10,077	10,477
Adjusted PAT	6,685	7,947	11,087	9,259	9,787	9,450	10,077	10,477
Change (%)	34.6	18.9	39.5	-16.5	5.7	-3.5	6.6	4.0
Margin (%)	50.2	42.3	57.0	53.9	59.0	61.9	58.9	58.0

Standalone - Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	5,638	5,640	5,641	5,642	5,642	5,642	5,642	5,642
Total Reserves	45,012	51,800	61,584	69,808	78,787	87,090	94,145	1,01,482
Net Worth	50,650	57,440	67,226	75,450	84,429	92,732	99,787	1,07,124
Total Loans	17,595	12,856	5,441	7,499	877	0	0	0
Deferred Tax Liabilities	4,984	5,226	4,081	4,218	4,250	4,238	4,238	4,238
Capital Employed	73,229	75,522	76,748	87,167	89,557	96,970	1,04,025	1,11,362
Gross Block	36,512	43,245	44,994	45,854	46,406	46,636	53,534	60,514
Less: Accum. Deprn.	5,371	7,170	9,137	11,186	13,146	15,085	17,213	19,636
Net Fixed Assets	31,142	36,075	35,857	34,668	33,259	31,551	36,322	40,879
Capital WIP	8,959	4,194	2,372	2,215	2,526	4,248	4,350	4,370
Total Investments	41,814	42,772	46,111	50,062	51,737	51,700	51,700	51,700
Curr. Assets, Loans&Adv.	7,571	6,459	5,764	5,420	5,878	13,384	15,984	18,993
Inventory	1,235	1,279	1,261	1,296	1,890	2,121	2,142	2,296
Account Receivables	1,235	2,081	1,637	1,586	1,295	1,440	1,615	1,705
Cash and Bank Balance	3,645	1,583	957	877	864	6,917	8,971	11,554
Cash	225	700	903	843	738	1,357	3,411	5,994
Bank Balance	3,420	883	54	34	126	5,560	5,560	5,560
Loans and Advances	1,456	1,516	1,908	1,660	1,828	2,906	3,257	3,439
Curr. Liability & Prov.	16,256	13,978	13,356	5,197	3,843	3,913	4,329	4,580
Account Payables	185	238	410	620	654	510	515	552
Other Current Liabilities	15,932	13,523	12,670	4,270	2,928	3,141	3,521	3,718
Provisions	138	216	276	307	262	262	294	310
Net Current Assets	-8,685	-7,518	-7,592	223	2,035	9,471	11,655	14,414
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	73,229	75,522	76,748	87,167	89,557	96,970	1,04,026	1,11,362

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	11.9	14.1	19.7	16.4	17.4	16.8	17.9	18.6
Cash EPS	15.0	17.3	23.1	20.1	20.8	20.2	21.6	22.9
BV/Share	89.8	101.8	119.2	133.8	149.7	164.4	176.9	189.9
DPS	1.8	2.0	2.0	2.0	2.0	5.0	5.4	5.6
Payout (%)	16.9	16.1	12.2	14.7	13.9	29.8	30.0	30.0
Valuation (x)								
P/E	24.3	20.5	14.7	17.6	16.6	17.2	16.1	15.5
Cash P/E	19.3	16.7	12.5	14.4	13.8	14.3	13.3	12.6
P/BV	3.2	2.8	2.4	2.2	1.9	1.8	1.6	1.5
EV/Sales	13.3	9.3	8.6	9.8	9.8	10.2	9.0	8.4
EV/EBITDA	15.4	11.3	10.6	11.5	11.6	12.4	10.7	10.0
Dividend Yield (%)	0.6	0.7	0.7	0.7	0.7	1.7	1.9	1.9
FCF per share	11.1	15.5	22.2	20.0	17.6	13.8	6.9	7.9
Return Ratios (%)								
RoE	14.0	14.7	17.8	13.0	12.2	10.7	10.5	10.1
RoCE	11.6	13.6	17.5	12.8	11.9	10.7	10.5	10.1
RoIC	24.6	39.3	44.0	30.8	27.0	23.9	25.1	23.0
Working Capital Ratios								
Fixed Asset Turnover (x)	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Asset Turnover (x)	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Inventory (Days)	34	25	24	28	42	51	46	46
Debtor (Days)	34	40	31	34	28	34	34	34
Creditor (Days)	5	5	8	13	14	12	11	11
Leverage Ratio (x)								
Current Ratio	0.5	0.5	0.4	1.0	1.5	3.4	3.7	4.1
Interest Cover Ratio	27.5	6.2	8.4	13.6	38.4	227.5	2,102.3	2,350.4
Net Debt/Equity	0.3	0.2	0.1	0.1	0.0	-0.1	-0.1	-0.1

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	10,108	12,028	12,786	12,382	13,165	12,286	13,471	14,007
Depreciation	1,750	1,800	1,966	2,048	1,960	1,939	2,128	2,423
Interest & Finance Charges	354	2,192	1,645	934	313	47	6	5
Direct Taxes Paid	-3,105	-3,639	-3,082	-3,025	-3,062	-2,741	-3,395	-3,530
(Inc)/Dec in WC	508	-956	893	684	-202	-274	-130	-176
Others	-672	-542	-606	-611	-1,448	-1,592	-1,198	-1,266
CF from Operations	8,943	10,882	13,602	12,412	10,726	9,664	10,882	11,464
(Inc)/Dec in FA	-2,691	-2,118	-1,066	-1,119	-773	-1,892	-7,000	-7,000
Free Cash Flow	6,252	8,764	12,536	11,293	9,953	7,772	3,882	4,464
(Pur)/Sale of Investments	-34,157	-990	-3,340	-3,848	-1,690	0	0	0
Others	5,113	3,029	1,304	589	2,452	-5,127	1,198	1,266
CF from Investments	-31,735	-80	-3,102	-4,379	-11	-7,019	-5,802	-5,734
Inc/(Dec) in Debt	24,239	-6,912	-7,335	-6,037	-9,348	-875	0	0
Interest Paid	-375	-2,299	-1,678	-924	-337	-7	-6	-5
Dividend Paid	-1,018	-1,128	-1,283	-1,128	-1,128	-1,128	-3,021	-3,141
CF from Fin. Activity	22,865	-10,328	-10,297	-8,093	-10,819	-2,026	-3,027	-3,146
Inc/Dec of Cash	73	475	203	-59	-105	619	2,054	2,583
Opening Balance	151	225	700	902	843	738	1,357	3,411
Closing Balance	225	700	902	843	738	1,357	3,411	5,994

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NOTES

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BUY	>=15%
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NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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