Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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 Jun 08, 2023				34.32
High Risk				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

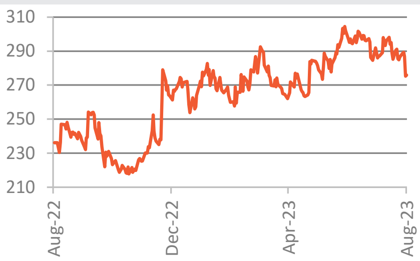
Company details

Market cap:	Rs. 15,569 cr
52-week high/low:	Rs. 311/215
NSE volume: (No of shares)	7.0 lakh
BSE code:	532702
NSE code:	GSPL
Free float: (No of shares)	35.2 cr

Shareholding (%)

Promoters	37.6
FII	16.6
DII	25.2
Others	20.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	(3.5)	(1.1)	6.0	16.9
Relative to Sensex	(4.0)	(8.7)	(2.0)	4.3

Sharekhan Research, Bloomberg

Gujarat State Petronet Ltd

Strong Q1; soft LNG prices offer volume tailwinds

Oil & Gas		Sharekhan code: GSPL		
Reco/View: Buy	↔	CMP: **Rs. 276**	Price Target: **Rs. 342**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Q1FY24 PAT of Rs. 229 crore (up 2.2% q-o-q) was 12% above our estimate led by beat in volume/margin and significantly higher other income.
- Gas transmission volume growth of 17% to 29 mmscmd was marginally better-than-expected while EBITDA margin of Rs. 1.3/scm was 4% above estimate led by lower-than-expected decline in tariff and lower operating cost.
- Soft spot LNG price of $10-11/mmBtu would accelerate volume recovery and PNGRB amendments to natural gas pipeline tariff would allay concerns on steep tariff cuts of 15-20%. We expect 16%/13% EBITDA/PAT CAGR over FY23-25E.
- We maintain a Buy on GSPL with an unchanged PT of Rs. 342 as core pipeline business is available at only 1.7x FY25E EPS and volume recovery for subsidiary Gujarat Gas led by favourable economics of I-PNG versus propane. Gujarat state government's recent policies on dividend distribution and share buyback would improve shareholder returns.

Gujarat State Petronet Limited's (GSPL's) Q1FY24 standalone operating profit of Rs. 336 crore, up 14.2% q-o-q was 5% above our estimate led by 1%/4% beat in gas transmission volume/margins. Gas transmission volume increased by 17% q-o-q to 29.4 mmscmd (1% above our estimate) led by robust recovery from power sector and continued healthy growth from CGD sector. Volume from power/CGD/other sectors rose by 3.2x/5%/38% q-o-q to 4 mmscmd/10.4 mmscmd/4.9 mmscmd, while that from refinery & petchem/fertilizer sector declined by 2%/4% q-o-q to 6.6 mmscmd/3.4 mmscmd. Lower-than-expected decline of 8% q-o-q in net gas transmission tariff to Rs. 1.4/scm and lower operating cost led to a better-than-expected EBITDA margin at Rs. 1.3/scm (down 3.6% q-o-q and beat of 4% versus estimate of Rs. 1.2/scm). Standalone PAT of Rs. 229 crore (up 2.2% q-o-q) was 12% above our estimate of Rs. 204 crore due to beat in volume/margin and significantly higher other income of Rs. 18 crore (versus only Rs. 4 crore in Q1FY23).

Key positives

- Strong recovery in gas transmission volume to 29 mmscmd, up 17% q-o-q.
- Beat of 4% in EBITDA margin at Rs1.3/scm.

Key negatives

- Decline of 4% q-o-q in volume from fertilsier sector.

Revision in estimates – We maintain 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 the market value of GSPL's investment in Gujarat Gas after assuming 20% holding company discount) is valued at just 1.7x FY2025E EPS. Moreover, the Gujarat state government's recent policies on dividend distribution and share buyback would improve shareholder return in the coming years. Hence, we maintain Buy on GSPL with an unchanged SoTP-based price target (PT) of Rs. 342.

Key Risks

Lower-than-expected gas demand from power, fertilisers, refineries, and CGD in case of 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

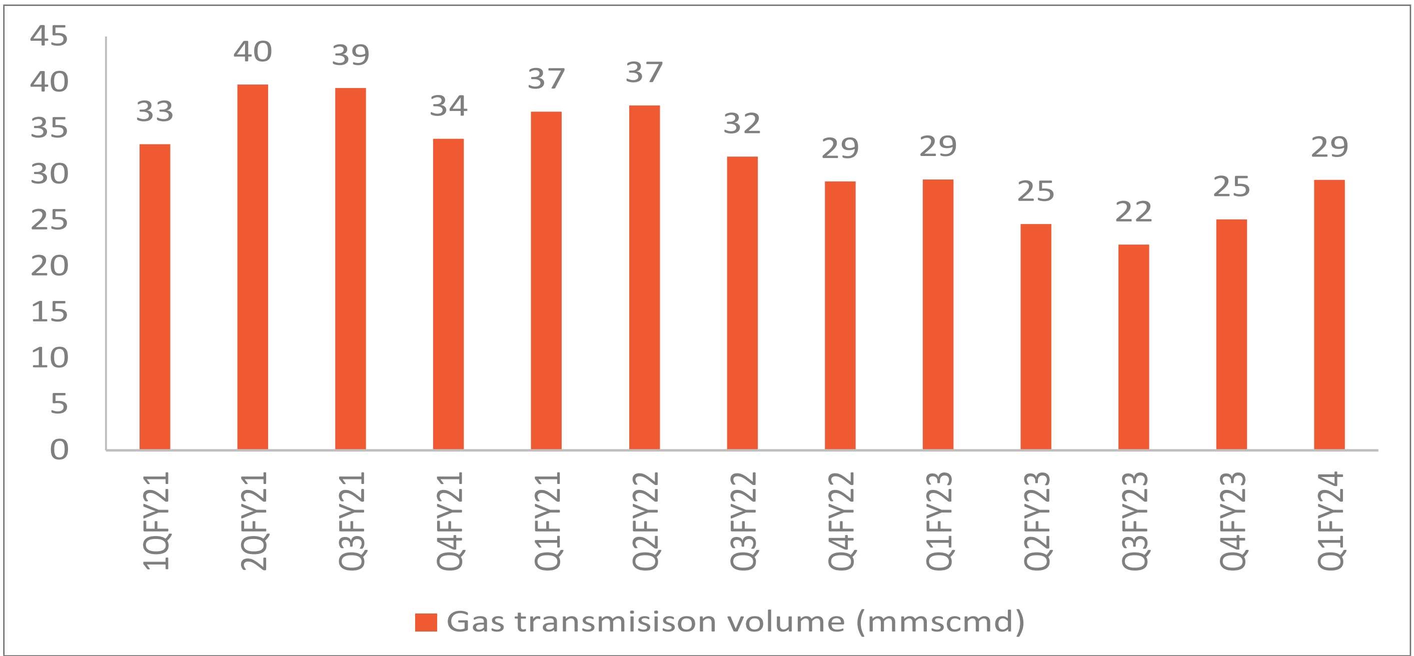
Particulars	FY22	FY23E	FY24E	FY25E
Revenue	2,020	1,762	1,958	2,247
OPM (%)	69.2	71.4	73.1	75.4
Adjusted PAT	979	945	1,022	1,212
YoY growth (%)	5.2	-3.5	8.1	18.6
Adjusted EPS (Rs.)	17.4	16.7	18.1	21.5
P/E (x)	16.6	17.2	15.9	13.4
P/B (x)	1.9	1.8	1.6	1.4
EV/EBITDA (x)	11.7	12.4	11.2	8.9
RoNW (%)	12.2	10.7	10.5	11.3
RoCE (%)	13.8	12.1	12.3	13.2

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

Q1 earnings beat estimate led by volume/margin recovery

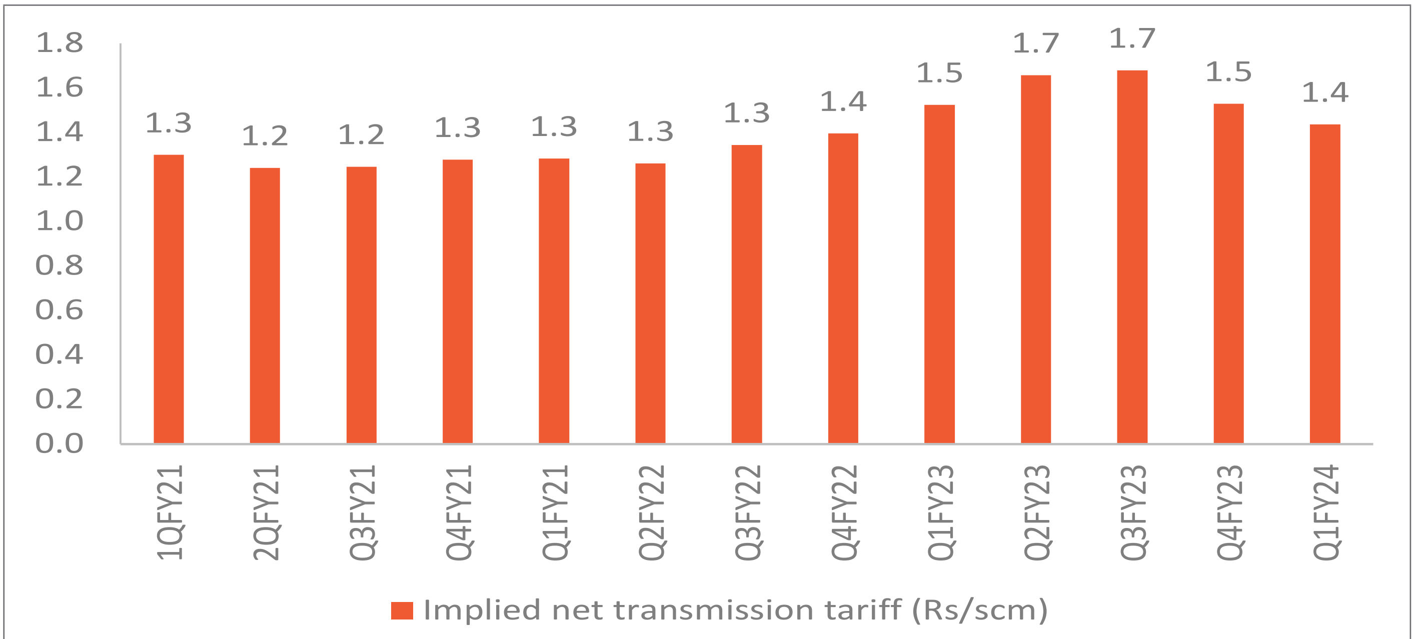
Q1FY24 standalone operating profit of Rs. 336 crore, up 14.2% q-o-q was 5% above our estimate led by 1%/4% beat in gas transmission volume/margins. Gas transmission volume increased by 17% q-o-q to 29.4 mmscmd (1% above our estimate) led by robust recovery from power sector and continued healthy growth from CGD sector. Volume from power/CGD/other sectors rose by 3.2x/5%/38% q-o-q to 4 mmscmd/10.4 mmscmd/4.9 mmscmd, while that from refinery & petchem/fertilizer sector declined by 2%/4% q-o-q to 6.6 mmscmd/3.4 mmscmd. Lower-than-expected decline of 8% q-o-q in net gas transmission tariff to Rs. 1.4/scm and lower operating cost led to better-than-expected EBITDA margin at Rs. 1.3/scm (down 3.6% q-o-q and beat of 4% versus estimate of Rs. 1.2/scm). Standalone PAT of Rs. 229 crore (up 2.2% q-o-q) was 12% above our estimate of Rs. 204 crore due to beat in volume/margin and significantly higher other income of Rs. 18 crore (versus only Rs. 4 crore in Q1FY23).

Volumes slightly beat estimate



Source: Company; Sharekhan Research

Implied net gas transmission tariff declined q-o-q but above expectation



Source: Company; Sharekhan Research

Results (Standalone) Rs cr

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	**441**	**482**	**-8.4**	**443**	**-0.4**
Total Expenditure	105	122	-13.9	148	-29.4
Operating profit	**336**	**360**	**-6.6**	**295**	**14.2**
Other Income	18	4	351.9	48	-62.1
Interest	1	1	-29.0	1	2.1
Depreciation	47	48	-2.2	48	-3.0
PBT	**307**	**315**	**-2.6**	**293**	**4.6**
Tax	77	79	-2.6	69	12.5
Reported PAT	**229**	**235**	**-2.6**	**224**	**2.2**
Equity Cap (cr)	56	56		56	
Reported EPS (Rs)	4.1	4.2	-2.6	4.0	2.2
Margins (%)			**BPS**		**BPS**
OPM	76.3	74.8	150	66.5	973
Tax rate	25.2	25.2	1	23.5	177
NPM	52.0	48.9	310	50.6	134

Source: Company; Sharekhan Research

Key operating metrics

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Gas transportation volume (mmscm)	2,673	2,680	-0.3	2,257	18.4
Gas transportation volume (mmscmd)	29.4	29.5	-0.3	25.1	17.1
Implied transmission tariff (Rs/scm)	1.6	1.8	-8.0	1.9	-13.6
Net transmission tariff (Rs/scm)	1.4	1.5	-5.8	1.6	-8.1
EBITDA (Rs/scm)	1.3	1.3	-6.3	1.3	-3.6

Source: Company; Sharekhan Research

Outlook and Valuation

■ **Sector View – Infrastructure expansion, 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.

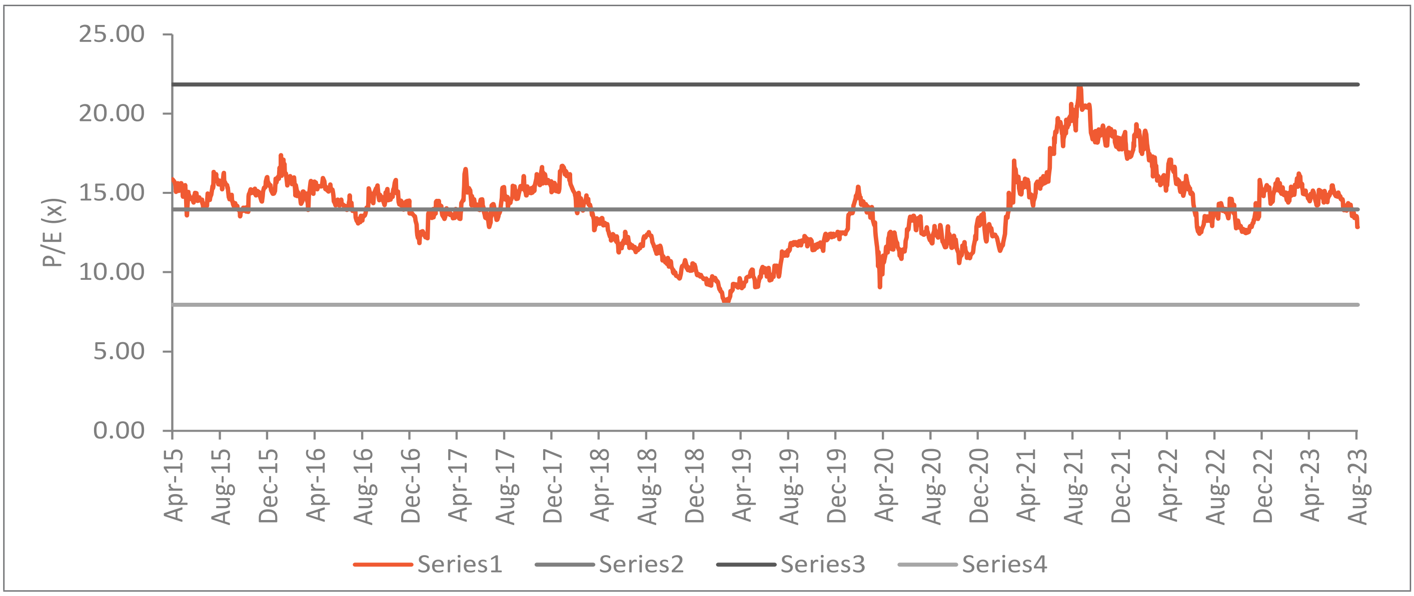
■ **Company Outlook – Volume recovery to drive earnings growth**

We expect GSPL's gas transmission volume to recover in the coming quarters given the recent steep fall in the spot LNG price. We expect GSPL's gas transmission volume to increase strongly at 20% CAGR over FY2023-FY2025E on low base of FY23 (volume decline of 25% y-o-y). The amendment in natural gas pipeline tariff regulations are positive and we model net transmission tariffs of Rs. 1.4-1.5/scm over FY2024E-2025E post expectation of 10% cut in FY24E). We expect GSPL's standalone EBITDA/PAT to post a 16%/13% CAGR over FY2023-FY2022E given low base of FY23. Potential higher pipeline 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 the market value of GSPL's investment in Gujarat Gas after assuming 20% holding company discount) is valued at just 1.7x FY2025E EPS. Moreover, the Gujarat state government's recent policies on dividend distribution and share buyback would improve shareholder return in the coming years. Hence, we maintain Buy on GSPL with an unchanged SoTP-based price target (PT) of Rs. 342.

One-year forward P/E (x) band



Source: Sharekhan Research

About the 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 29-30 mmscmd of gas currently. 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 in case of 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

Raj Kumar	Chairman
Sanjeev Kumar	Joint Managing Director
Ajith Kumar T R	Chief Financial Officer

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Mirae Asset Global Investments Co	7.8
2	GUJARAT MARITIME BOARD	6.6
3	Kotak Mahindra Asset Management Co	3.5
4	Norges Bank	2.8
5	GOVERNMENT PENSI	2.8
6	Gujarat Urja Vikas Nigam Ltd	2.0
7	Invesco Asset Management India Pvt	1.9
8	SBI Funds Management Ltd	1.7
9	Vanguard Group Inc/The	1.6
10	Franklin Resources Inc	1.5

Source: Bloomberg

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 detoriating 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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