BUY (Maintained)

CMP: **INR 273** Target Price: **INR 350 (INR 345)** ▲ 28%

ICICI Securities

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07 November 2023

India | Equity Research | Q2FY24 result review

Gujarat State Petronet

Oil & Gas

Other income offsets disappointing volume performance

Gujarat State Petronet's (GSPL) Q2FY24 revenue was up 22/20% YoY/QoQ, with volume up 23% YoY (up only 3% QoQ). Blended tariffs have been volatile over the last couple of quarters with a drop in Q1 followed by a recovery in Q2 (tariffs up 11% QoQ, down 4% YoY). Volume of 30.2mmscmd was up 23% YoY, but we believe momentum may build up further over H2 led by: i) higher domestic supplies, ii) moderate LNG prices, and iii) subsequent pricing comfort leading to growth in demand. Consolidated earnings were helped by strong QoQ performance of subsidiary GUJGA, with its consolidated EBITDA / PAT up 24.9% / 35.7% YoY, respectively. The recent moderation in spot LNG prices and higher domestic supplies make us optimistic about GSPL's FY24-25E prospects. Additionally, with positive read-through from tariff amendments announced in recent months (refer our note here), we see earnings growth steadily recovering over the next 2 years. Reiterate **BUY**.

Volume up 23% YoY; FY24E volume may stage steady growth

Overall volume (30.2 mmscmd) was up 23% YoY and 3% QoQ. CGD volume (10.8mmscmd) jumped 25% YoY while refinery/petchem (5.5mmscmd) was down 31% YoY, fertiliser (4.6mmscmd) was up 25% YoY and power (4.1mmscmd) surged 10x YoY (due to seasonal demand for peak load power and lower rainfall in early phase of monsoon). We note QoQ volume was up for most segments except refinery and petchem which was impacted more than expected due to maintenance shutdowns at several refineries, including Reliance Industries. We continue to expect higher volume growth over FY24E driven by: i) Sharp moderation in average gas prices for India, ii) growing CGD and industrial demand, and iii) transnational pipeline demand. Our estimates factor-in a material 13% CAGR in volumes over FY23-FY26E.

Tariff decline to depend on capex approvals

A longer ramp-up to full capacity is now allowed (10 years vs 5 earlier), inclusion of 'system use gas' (SUG) @0.2%, and allowing the inclusion of expansion capex of some new pipelines [e.g. HPCL Chhara connectivity to Londhpur (INR 7bn) in the network tariff are all material positives from a tariff perspective. With the recent tariff orders (effective from Apr'23) now reflecting in blended tariffs for GSPL, our blended tariff estimates factor flat tariffs vs FY22 levels (FY23 reported tariffs have material take or pay component). Overall, higher volume growth ensures an upward trend in standalone earnings over FY24-25E (with consolidated earnings seeing a rise due to stronger margin from subsidiary GUJGA for FY24E).

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	1,86,634	1,83,725	2,25,143	2,51,496
EBITDA	36,797	32,777	34,849	38,075
EBITDA %	19.7	17.8	15.5	15.1
Net Profit	16,415	15,350	15,606	16,564
EPS (INR)	29.1	27.2	27.7	29.4
EPS % Chg YoY	(0.3)	(6.5)	1.7	6.1
P/E (x)	9.4	10.0	9.9	9.3
EV/EBITDA (x)	3.8	4.3	4.0	3.5
RoCE (Pre-tax) (%)	25.4	18.7	17.3	16.7
RoE (%)	18.9	15.1	13.5	12.8

Probal Sen
probal.sen@icicisecurities.com
+91 22 6807 7274
Hardik Solanki
solanki.hardik@icicisecurities.com

Market Data

Market Cap (INR)	154bn
Market Cap (USD)	1,848mn
Bloomberg Code	GUJS IN
Reuters Code	GSPT.BO
52-week Range (INR)	311 /225
Free Float (%)	51.0
ADTV-3M (mn) (USD)	3.1

Price Performance (%)	3m	6m	12m
Absolute	0.6	(0.6)	23.2
Relative to Sensex	1.4	(8.2)	15.2

ESG Disclosure	2021	2022	Change
ESG score	37.0	38.9	1.9
Environment	15.9	15.9	-
Social	16.4	21.9	5.6
Governance	78.6	78.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	0.3%	0.7%
EBITDA	1.9%	-2.6%
EPS	7.5%	0.1%

Previous Reports

05-08-2023: Q1FY24 results review

12-05-2023: Q4FY23 results review

EPS estimates raised for FY24E; maintain BUY

We have revised our FY24E/FY25E consolidated EPS estimates by 7.5%/0.1%, respectively, to factor in higher other income and marginally higher tariff for GSPL, even as volumes see a reduced trajectory owing to the miss in Q2. This implies a revised target price of INR 350/sh (earlier INR 345/sh). Current valuation seems to more than compensate for holdco discount (for GUJGA stake) while underplaying the structural growth we see in core transmission business over the next 5-7 years. Valuation of 9.9x FY25E P/E /4.1x EV/EBITDA remains attractive. Maintain **BUY**.

Key downside risks: Slower demand recovery, and execution delays on pipeline expansions.

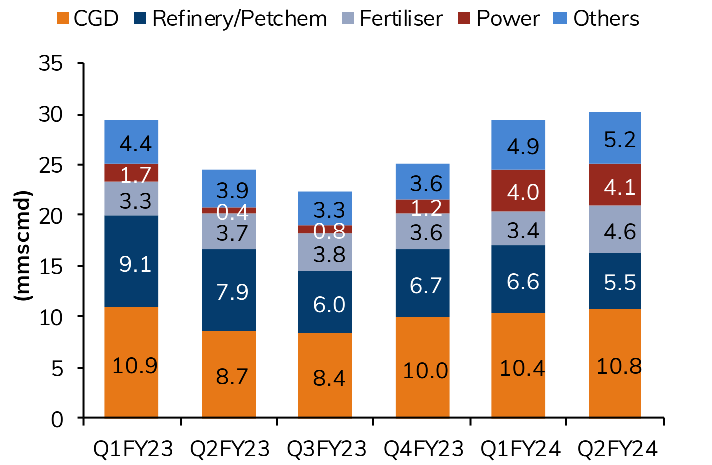
Key upside risks: Faster improvement in demand, LNG prices remaining subdued through FY25, higher domestic gas supplies.

Exhibit 1: Q2FY24 result snapshot

INRm	2QFY24	2QFY23	YoY chg (%)	1QFY24	QoQ chg (%)	H1FY24	H1FY23	YoY chg (%)
Sales	5,293	4,346	21.8	4,412	20.0	9,705	9,164	5.9
EBITDA	4,103	3,338	22.9	3,364	21.9	7,467	6,940	7.6
PAT	5,320	3,142	69.3	2,293	132.0	7,613	5,497	38.5
Adj. PAT	5,320	3,142	69.3	2,293	132.0	7,613	5,497	38.5
Adj. EPS	9.4	5.6	69.3	4.1	132.0	13.5	9.8	38.1
Depreciation	477	488	(2.2)	468	1.9	945	966	(2.2)
Interest	10	11	(10.8)	10	(1.0)	20	26	(21.0)
Volumes mmscmd (adjusted)	**30.2**	**24.6**	22.9	**29.4**	2.8	**29.8**	**27.0**	10.3
Tariff/mcm (adjusted)	**1,587**	**1,656**	(4.2)	**1,435**	10.6	**1,513**	**1,584**	(4.5)
Transmission cost/mcm	368	375	(1.9)	332	10.9	**350**	**389**	(9.9)
Employees expenses	169	161	5.1	161	4.6	330	304	8.5
Volume of Gas Transported(in mmscm)	2,778	2,260	22.9	2,673	4.0	5,451	4,940	10.3

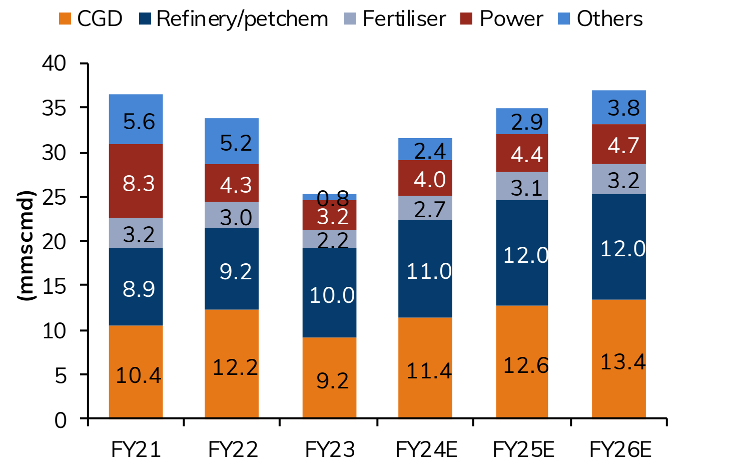
Source: Company data, I-Sec research

Exhibit 2: Improvement in transmission volumes QoQ



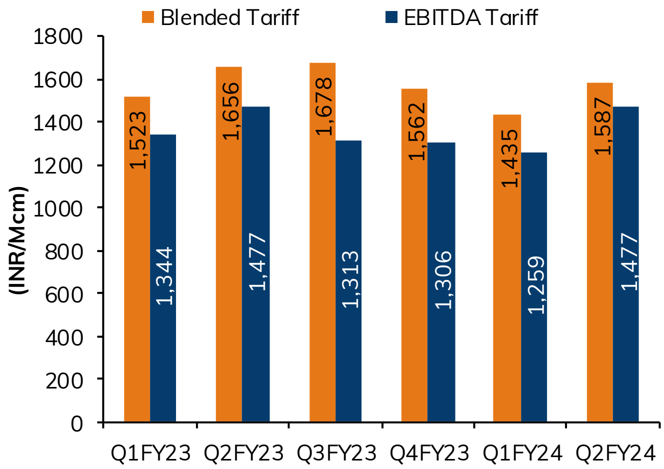
Source: Company data, I-Sec research

Exhibit 3: Expect volume to recover over FY23-FY26E



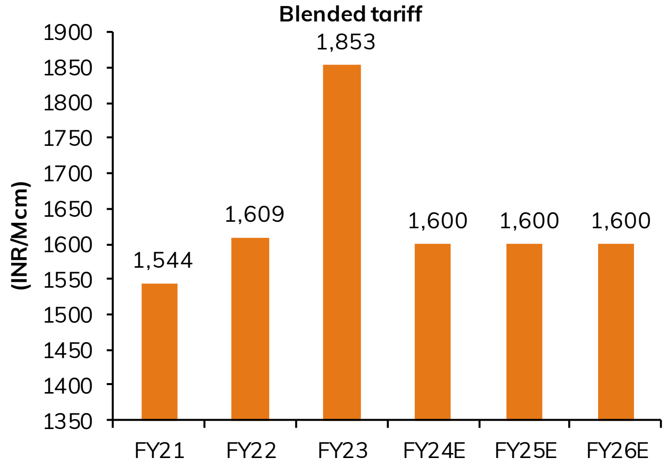
Source: Company data, I-Sec research

Exhibit 4: Blended tariffs improved QoQ



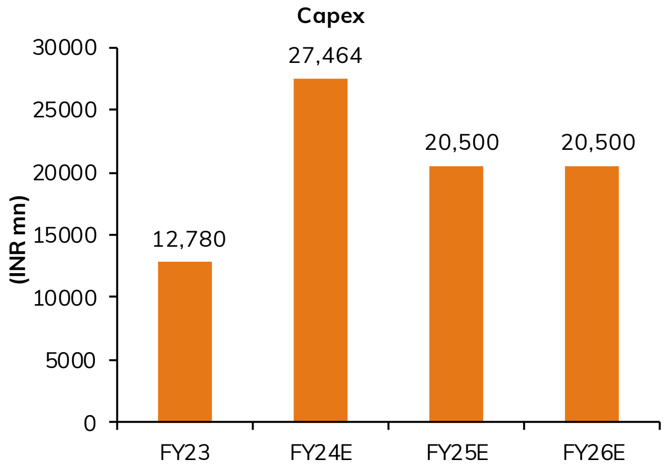
Source: Company data, I-Sec research

Exhibit 5: Blended tariff likely to remain muted over FY24-26E



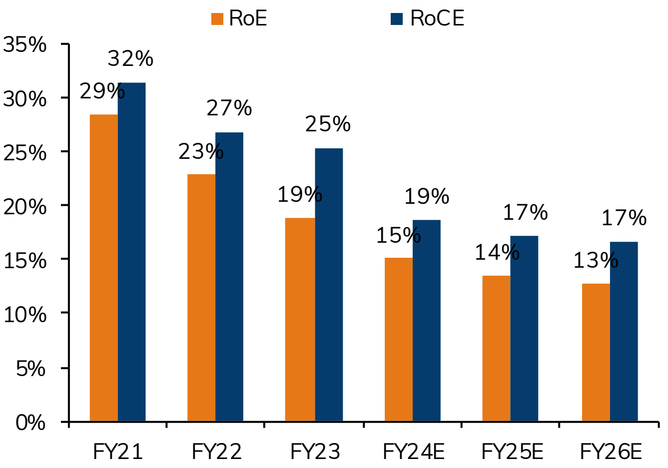
Source: Company data, I-Sec research

Exhibit 6: Approval of planned capex to be key



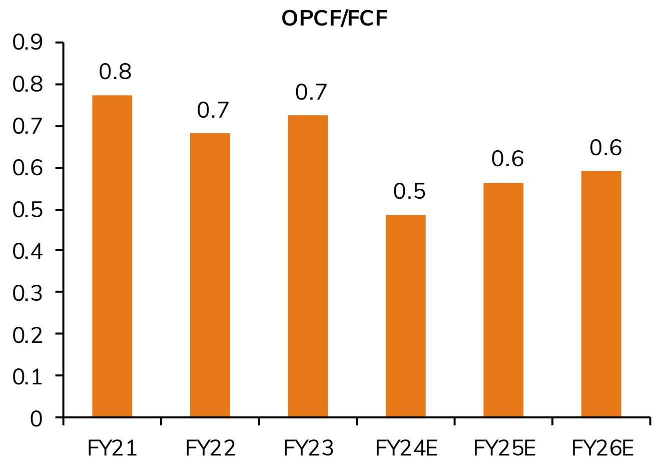
Source: Company data, I-Sec research

Exhibit 7: Return ratios to moderate



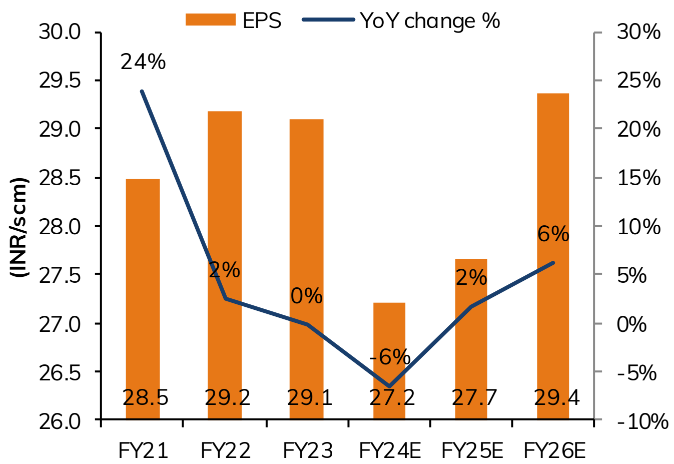
Source: Company data, I-Sec research

Exhibit 8: OPCF/FCF to remain muted



Source: Company data, I-Sec research

Exhibit 9: Earnings to remain muted over FY23-FY26E



Source: Company data, I-Sec research

Valuations: **BUY**, target price of INR 350/sh implies 28% upside

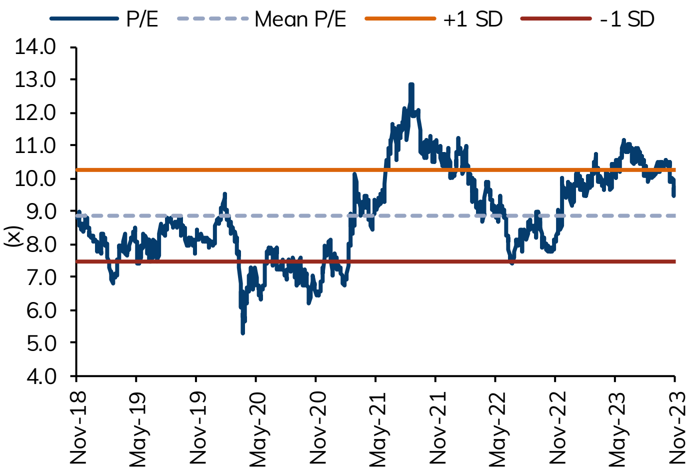
We value GSPL's core business by DCF methodology, using a WACC of 11.5%, DER of 15%, long-term EBITDA assumption of INR 1.2/scm and terminal growth rate of 0%. This is complemented by the addition of GUJGA's stake, valued at 30% discount to our estimated fair value of INR 425/sh. This delivers a target price of INR 350/sh for GSPL, offering 28% upside from CMP.

Exhibit 10: Valuation summary

	Assumption
Cost of equity	12.5%
Cost of Debt	8.0%
Avg D/E ratio	15.0%
WACC	11.5%
Growth to perpetuity	0.0%
Total NPV potential (INR mn)	86,100
Per share for GSPL (INR/sh)	153
GUJGA stake 30% discount to FV (INR/sh)	197
Target Price (INR/sh)	350
CMP (INR/sh)	273
Upside (downside) %	28%

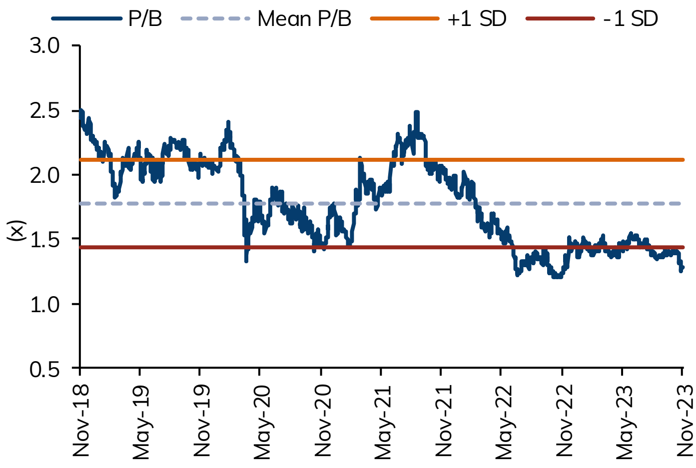
Source: Company data, I-Sec research

Exhibit 11: GSPL's P/E trading on higher band



Source: Company data, I-Sec research

Exhibit 12: GSPL's P/B trading well below 5-year band



Source: Company data, I-Sec research

Exhibit 13: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	37.6	37.6	37.6
Institutional investors	41.6	41.8	42.3
MFs and others	21.8	22.3	22.5
FIs/Banks	0.0	0.0	1.4
Insurance	2.7	2.6	2.4
FIIs	17.1	16.9	16.0
Others	20.8	20.6	20.1

Source: Bloomberg

Exhibit 14: Price chart

Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	**1,86,634**	**1,83,725**	**2,25,143**	**2,51,496**
EBITDA	**36,797**	**32,777**	**34,849**	**38,075**
EBITDA Margin (%)	19.7	17.8	15.5	15.1
Depreciation & Amortization	6,205	6,886	7,703	8,520
EBIT	30,592	25,890	27,146	29,555
Interest expenditure	701	105	100	95
Other Non-operating Income	1,330	2,215	1,239	983
PBT	**12,286**	**14,181**	**14,570**	**15,115**
Profit / (Loss) from Associates	**28**	**28**	**28**	**28**
Less: Taxes	7,828	7,364	7,433	8,013
PAT	23,392	20,637	20,852	22,430
Less: Minority Interest	7,005	5,314	5,274	5,894
Net Income (Reported)	**16,415**	**15,350**	**15,606**	**16,564**
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	**16,415**	**15,350**	**15,606**	**16,564**

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	31,356	29,255	35,828	44,018
of which cash & bank	13,726	11,434	14,373	20,109
Total Current Liabilities & Provisions	29,895	31,173	34,415	36,929
Net Current Assets	**1,461**	**(1,918)**	**1,413**	**7,089**
Other Non Current Assets	6,693	7,362	8,098	8,908
Net Fixed Assets	1,04,795	1,17,566	1,29,362	1,40,342
Other Fixed Assets	-	-	-	-
Capital Work in Progress	14,088	21,895	22,895	23,895
Non Investment	14,689	16,689	18,689	20,689
Current Investment	1,538	1,538	1,538	1,538
Deferred Tax assets	-	-	-	-
Total Assets	**1,43,264**	**1,63,132**	**1,81,995**	**2,02,461**
Liabilities				
Borrowings	**1,494**	**1,607**	**1,607**	**1,607**
Deferred Tax Liability	**12,699**	**12,699**	**12,699**	**12,699**
Lease Liability	1,494	1,494	1,494	1,494
Other Liabilities	2,187	2,406	2,647	2,912
Equity Share Capital	5,642	5,642	5,642	5,642
Reserves & Surplus	88,847	1,03,069	1,16,418	1,30,725
Total Net Worth	**94,489**	**1,08,711**	**1,22,060**	**1,36,367**
Minority Interest	32,394	37,709	42,983	48,877
Total Liabilities	**1,43,264**	**1,63,132**	**1,81,995**	**2,02,461**

Source Company data, I-Sec research

Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sep-23
Net Sales	4,024	4,430	4,412	5,293
% growth (YOY)	-7.4%	10.1%	-0.4%	20.0%
EBITDA	2,699	2,947	3,364	4,103
Margin %	67.1%	66.5%	76.3%	77.5%
Other Income	130	476	180	2,663
Extraordinaries	-	-	-	-
Adjusted Net Profit	1,709	2,243	2,293	5,320

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Cash Flow from operation before working Capital	**36,996**	**32,777**	**34,849**	**38,075**
Working Capital Changes	3,754	636	(887)	(486)
Tax	(7,349)	(7,364)	(7,433)	(8,013)
Operating Cashflow	**33,400**	**26,049**	**26,529**	**29,576**
Capital Commitments	(12,780)	(27,464)	(20,500)	(20,500)
Free Cashflow	**20,620**	**(1,415)**	**6,029**	**9,076**
Others CFI	75	243	(733)	(989)
Cashflow from Investing Activities	**(12,705)**	**(27,221)**	**(21,233)**	**(21,489)**
Inc (Dec) in Borrowings	(5,898)	113	-	-
Interest Cost	(387)	(105)	(100)	(95)
Others	(1,761)	(1,128)	(2,257)	(2,257)
Cash flow from Financing Activities	**(8,046)**	**(1,121)**	**(2,357)**	**(2,352)**
Chg. in Cash & Bank balance	**12,649**	**(2,292)**	**2,939**	**5,736**
Closing cash & balance	13,726	11,434	14,373	20,109

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Recurring EPS	29.1	27.2	27.7	29.4
Diluted EPS	29.1	27.2	27.7	29.4
Recurring Cash EPS	40.1	39.4	41.3	44.5
Dividend per share (DPS)	5.0	2.0	4.0	4.0
Book Value per share (BV)	167.5	192.7	216.3	241.7
Dividend Payout (%)	17.2	7.4	14.5	13.6
Growth (%)				
Net Sales	1.9	(1.6)	22.5	11.7
EBITDA	5.1	(10.9)	6.3	9.3
EPS	(0.3)	(6.5)	1.7	6.1
Valuation Ratios (x)				
P/E	9.4	10.0	9.9	9.3
P/CEPS	6.8	6.9	6.6	6.1
P/BV	1.6	1.4	1.3	1.1
EV / EBITDA	3.8	4.3	4.0	3.5
EV / Operating Income	4.4	5.1	4.9	4.4
Dividend Yield (%)	1.8	0.7	1.5	1.5
Operating Ratios				
EBITDA Margins (%)	19.7	17.8	15.5	15.1
Effective Tax Rate (%)	25.1	26.3	26.3	26.3
Net Profit Margins (%)	8.8	8.4	6.9	6.6
NWC / Total Assets (%)	1.0	(1.2)	0.8	3.5
Fixed Asset Turnover (x)	1.3	1.2	1.3	1.3
Working Capital Days	11.0	10.7	11.8	11.5
Net Debt / Equity %	(14.6)	(10.5)	(11.7)	(14.7)
Profitability Ratios				
RoCE (%)	19.0	13.8	12.7	12.3
RoCE (Pre-tax) (%)	25.4	18.7	17.3	16.7
RoE (%)	18.9	15.1	13.5	12.8

Source Company data, I-Sec research

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