MOTILAL OSWAL FINANCIAL SERVICES

6 November 2023
2QFY24 Results Update | Sector: Oil & Gas

Gujarat State Petronet

Estimate changes	↑
TP change	↔
Rating change	↔

Bloomberg	GUJS IN
Equity Shares (m)	564
M.Cap.(INRb)/(USDb)	153.8 / 1.8
52-Week Range (INR)	311 / 225
1, 6, 12 Rel. Per (%)	-5/-10/14
12M Avg Val (INR M)	282

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	15.3	17.5	17.9
EBITDA	12.6	15.1	15.0
PAT	9.4	12.8	10.7
EPS (INR)	16.8	22.8	19.0
EPS Gr. (%)	-3.5	35.8	-16.7
BV/Sh.(INR)	164.4	180.4	193.6
Ratios			
Net D:E	-0.1	-0.1	-0.1
RoE (%)	10.7	13.2	10.1
RoCE (%)	10.7	13.2	10.2
Payout (%)	29.8	30.0	30.0
Valuations			
P/E (x)	16.3	12.0	14.4
P/BV (x)	1.7	1.5	1.4
EV/EBITDA (x)	11.7	9.4	9.3
Div. Yield (%)	1.8	2.5	2.1
FCF Yield (%)	5.1	3.0	2.7

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	37.6	37.6	37.6
DII	27.2	27.2	26.2
FII	16.0	16.6	17.3
Others	19.2	18.6	18.9

FII Includes depository receipts

CMP: INR273 TP: INR325 (+19%) Buy

Better volume mix leads to higher realization

- Gujarat State Petronet (GUJS)'s 2QFY24 EBITDA, at INR4.1b, beat our estimate led by lower-than-expected other expenses. EBITDAM, at 90.5%, was 500bp higher than our estimate. Volumes, at 30.2mmscmd, were lower than estimated.
- Management highlighted that there has been an increase in HP volumes that led to better realization with LP volumes declining during the quarter. The implied tariff during the quarter was INR1,587/mmscm. We estimate a tariff of INR1,511/mmscm for FY24 and INR1,374/mmscm for FY25.
- Lower spot LNG prices would benefit GUJS' volumes. Currently, the price is at ~USD18/mmBtu, up from ~USD13/mmBtu (in 2QFY24), which could hurt GUJS' volumes. That being said, the management guided that volumes could remain tepid in the near term for the company.
- The proposed capex for the HP gas grid stands at INR45.4b up to FY32E, which would facilitate gas transportation from newer LNG terminals. Although the company's HP gas grid is also up for tariff revision, there was no specific timeline provided for the same.
- Owing to the outperformance in 2Q, we raise our EBITDA/PAT estimates (mainly because of higher other income in 2Q) by 6%/29% for FY24 while keeping our FY25 estimates unchanged as of now. **The stock is trading at a P/E of ~14x FY25E EPS of INR19 and EV/EBITDA of ~9x. We maintain our BUY rating with a TP of INR325**.

Beat led lower other expenses, and higher other income

- **Total volumes were below our estimate at 30.2mmscmd (+23% YoY**)
- EBITDA was at INR4.1b (our est. of INR3.7b, +23% YoY), with an implied tariff of INR1,587/mscm.
- PAT was at INR5.3b (our est. of INR2.9b, +69% YoY) as other income (at INR2.7b) was higher than expected
- The company had implemented Unified Tariff (UFT) from 1st Apr'23. As of 30th Sep'23, the company had a deficit of INR127m on account of invoicing done as per UFT and entitlement as per the approved tariff.

- **For 1HFY24**, revenue was at INR8.5b (+5% YoY), EBITDA was at INR7.5b (+8% YoY) while PAT was at INR7.6b (+38% YoY). 1HFY24 EBITDA was 52% of its full-year estimate of FY24.
  - Volumes were at 29.8mmscmd (+10% YoY), while implied tariff stood at INR1,511/mscm (-5% YoY).

Sectoral volume details for 2QFY24

- CGD volumes increased to 10.8mmscmd (+25% YoY)
- Fertilizer volumes were at 4.6mmscmd (+25% YoY)
- Power/ref-petchem volumes were at 4.1/5.5mmscmd (+10x/-31% YoY)
- Other volumes stood at 5.2mmscmd (+34% YoY)

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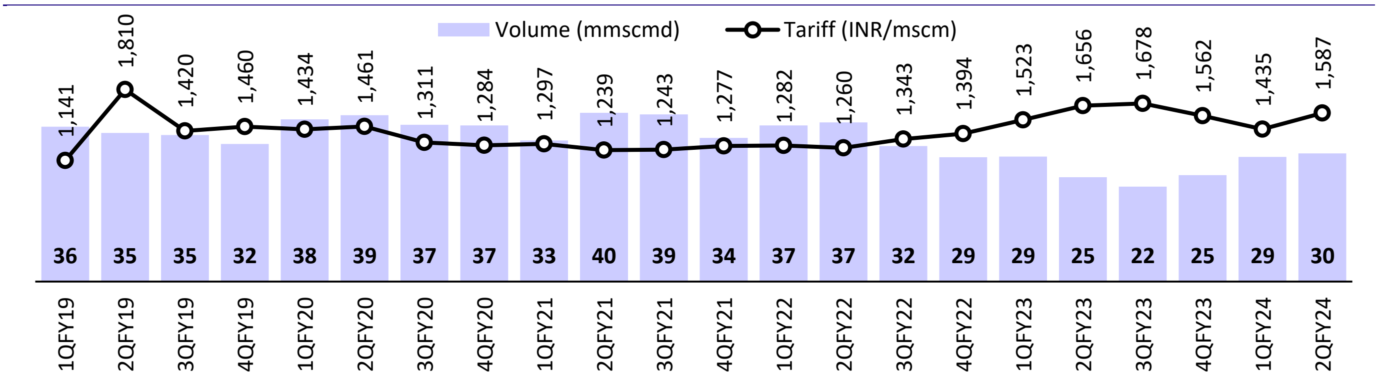
Valuation and view – maintain BUY

- The available LNG capacity in Gujarat is expected to grow 55% to 42.5mmtpa over the next 2-3 years. Most of this volume is likely to flow through GUJS' network. We believe the company could post an 18% CAGR in transmission volumes over FY23-FY25.
- We expect GUJS' volumes to jump to ~35mmscmd in FY25 as the company is also a beneficiary: 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 Phase-II of the Mehsana-Bhatinda pipeline.
- Investments in GUJGA and Sabarmati Gas at a 25% holding discount provide a valuation of INR209. Valuing the core at 7x adj. FY25E EPS of INR16.6, and adding the value of investments, we arrive at our TP of INR325. **We maintain our BUY rating on the stock with a potential upside of 19%.**

Standalone - Quarterly Earnings Model (INR m)

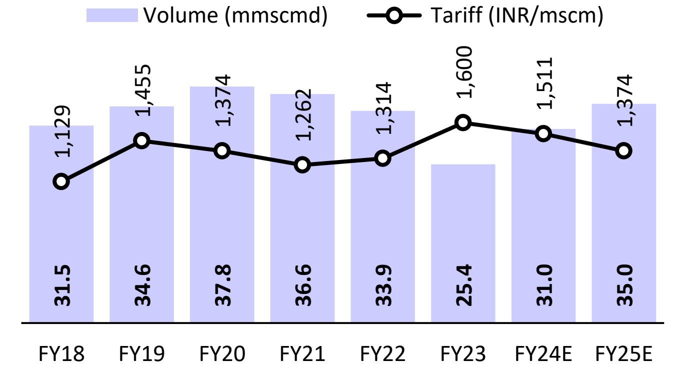
Y/E March	FY23				FY24				FY23	FY24E	FY24	Var. vs
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	est.
Net Sales	**4,200**	**3,850**	**3,484**	**3,740**	**3,937**	**4,533**	**4,438**	**4,616**	**15,275**	**17,523**	**4,301**	**5%**
YoY Change (%)	-4.5	-13.9	-12.7	0.3	-6.3	17.7	27.4	23.4	-7.9	14.7	11.7	
EBITDA	**3,602**	**3,338**	**2,699**	**2,947**	**3,364**	**4,103**	**3,749**	**3,921**	**12,587**	**15,136**	**3,678**	**12%**
YoY Change (%)	-3.8	-12.3	-19.8	-3.7	-6.6	22.9	38.9	33.0	-9.9	20.3	10.2	
Margin (%)	85.8	86.7	77.5	78.8	85.5	90.5	84.5	84.9	82.4	86.4	85.5	
Depreciation	479	488	489	483	468	477	498	510	1,939	1,953	521	
Interest	14	11	11	10	10	10	10	9	47	40	8	
Other Income	40	1,037	130	476	180	2,663	184	188	1,684	3,215	732	
PBT before EO expense	**3,149**	**3,877**	**2,329**	**2,931**	**3,066**	**6,278**	**3,424**	**3,589**	**12,286**	**16,359**	**3,881**	**62%**
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	**3,149**	**3,877**	**2,329**	**2,931**	**3,066**	**6,278**	**3,424**	**3,589**	**12,286**	**16,359**	**3,881**	**62%**
Tax	794	735	620	687	773	958	862	905	2,836	3,524	977	
Rate (%)	25.2	18.9	26.6	23.5	25.2	15.3	25.2	25.2	23.1	21.5	25.2	
Reported PAT	**2,355**	**3,142**	**1,709**	**2,243**	**2,293**	**5,320**	**2,563**	**2,685**	**9,450**	**12,835**	**2,904**	**83%**
YoY Change (%)	1.1	-4.9	-19.9	11.0	-2.6	69.3	49.9	19.7	-3.5	35.8	-7.6	
Margin (%)	56.1	81.6	49.1	60.0	58.2	117.4	57.7	58.2	61.9	73.2	67.5	
Key Operating Parameters												
Transmission Volume (mmscmd)	29.5	24.6	22.3	25.1	29.4	30.2	31.6	32.8	25.4	31.0	33.0	-8%
Implied Tariff (INR/mscm)	1,523	1,656	1,678	1,562	1,435	1,587	1,511	1,510	1,600	1,511	1,374	16%

Exhibit 1: Transmission volumes up 23% YoY with tariff declining 4% YoY



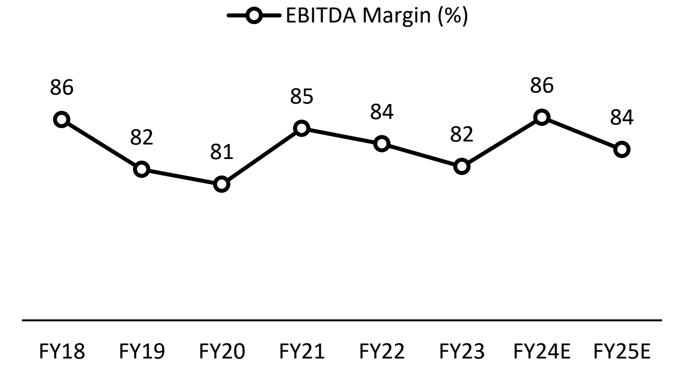
Source: MOFSL, Company

Exhibit 2: GUJS' volume snapshot



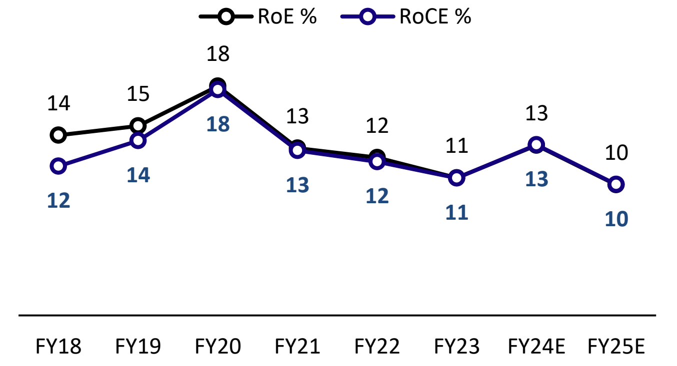
Source: Company, MOFSL

Exhibit 3: EBITDA margin to remain ~82-86%



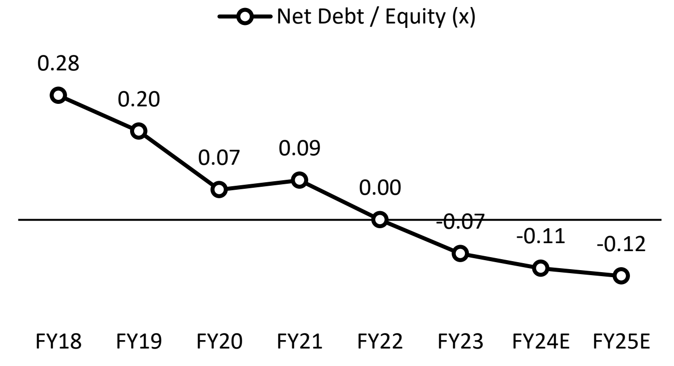
Source: Company, MOFSL

Exhibit 4: Return ratio profile



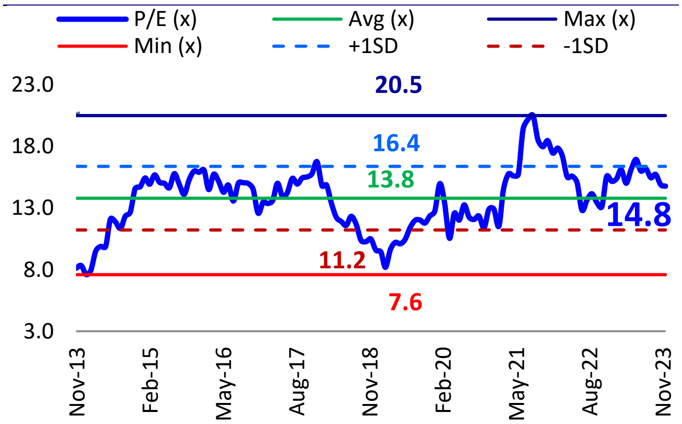
Source: Company, MOFSL

Exhibit 5: GUJS' net Debt/Equity profile



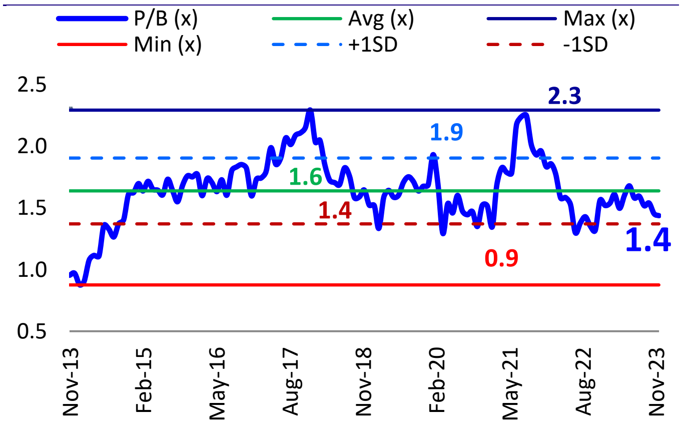
Source: Company, MOFSL

Exhibit 6: GUJS' 1-year forward P/E



Source: Company, MOFSL

Exhibit 7: ...while its 1-year forward P/B



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**	**17,523**	**17,936**
Change (%)	*29.6*	*41.0*	*3.6*	*-11.6*	*-3.5*	*-7.9*	*14.7*	*2.4*
EBITDA	**11,478**	**15,426**	**15,749**	**14,694**	**13,976**	**12,587**	**15,136**	**15,028**
Margin (%)	*86.2*	*82.2*	*81.0*	*85.5*	*84.2*	*82.4*	*86.4*	*83.8*
Depreciation	1,750	1,800	1,966	2,049	1,960	1,939	1,953	2,509
EBIT	**9,728**	**13,626**	**13,783**	**12,645**	**12,016**	**10,648**	**13,183**	**12,519**
Int. and Finance Charges	354	2,192	1,645	933	313	47	40	25
Other Income	735	594	649	694	1,045	1,684	3,215	1,794
PBT bef. EO Exp.	**10,108**	**12,028**	**12,786**	**12,406**	**12,748**	**12,286**	**16,359**	**14,287**
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**	**16,359**	**14,287**
Total Tax	3,424	4,081	1,699	3,147	2,958	2,836	3,524	3,596
Tax Rate (%)	*33.9*	*33.9*	*13.3*	*25.4*	*23.2*	*23.1*	*21.5*	*25.2*
Reported PAT	**6,685**	**7,947**	**11,087**	**9,259**	**9,777**	**9,450**	**12,835**	**10,691**
Adjusted PAT	**6,685**	**7,947**	**11,087**	**9,259**	**9,787**	**9,450**	**12,835**	**10,691**
Change (%)	*34.6*	*18.9*	*39.5*	*-16.5*	*5.7*	*-3.5*	*35.8*	*-16.7*
Margin (%)	*50.2*	*42.3*	*57.0*	*53.9*	*59.0*	*61.9*	*73.2*	*59.6*

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	96,077	1,03,563
Net Worth	**50,650**	**57,440**	**67,226**	**75,450**	**84,429**	**92,732**	**1,01,719**	**1,09,205**
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**	**1,05,957**	**1,13,443**
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	17,038	19,547
Net Fixed Assets	**31,142**	**36,075**	**35,857**	**34,668**	**33,259**	**31,551**	**36,496**	**40,967**
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**	**17,768**	**20,955**
Inventory	1,235	1,279	1,261	1,296	1,890	2,121	1,884	2,296
Account Receivables	1,235	2,081	1,637	1,586	1,295	1,440	1,653	1,692
Cash and Bank Balance	3,645	1,583	957	877	864	6,917	10,899	13,555
Cash	225	700	903	843	738	1,357	5,339	7,995
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	3,334	3,412
Curr. Liability & Prov.	**16,256**	**13,978**	**13,356**	**5,197**	**3,843**	**3,913**	**4,357**	**4,548**
Account Payables	185	238	410	620	654	510	453	552
Other Current Liabilities	15,932	13,523	12,670	4,270	2,928	3,141	3,604	3,689
Provisions	138	216	276	307	262	262	301	308
Net Current Assets	**-8,685**	**-7,518**	**-7,592**	**223**	**2,035**	**9,471**	**13,412**	**16,407**
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**	**1,05,957**	**1,13,443**

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**	**22.8**	**19.0**
Cash EPS	15.0	17.3	23.1	20.1	20.8	20.2	26.2	23.4
BV/Share	89.8	101.8	119.2	133.8	149.7	164.4	180.4	193.6
DPS	1.8	2.0	2.0	2.0	2.0	5.0	6.8	5.7
Payout (%)	16.9	16.1	10.2	12.2	11.5	29.8	30.0	30.0
Valuation (x)								
P/E	23.0	19.3	13.9	16.6	15.7	16.3	12.0	14.4
Cash P/E	18.2	15.8	11.8	13.6	13.1	13.5	10.4	11.6
P/BV	3.0	2.7	2.3	2.0	1.8	1.7	1.5	1.4
EV/Sales	12.6	8.8	8.1	9.3	9.3	9.6	8.1	7.8
EV/EBITDA	14.6	10.7	10.0	10.9	11.0	11.7	9.4	9.3
Dividend Yield (%)	0.6	0.7	0.7	0.7	0.7	1.8	2.5	2.1
FCF per share	11.1	15.5	22.2	20.0	17.6	13.8	8.3	7.3
Return Ratios (%)								
RoE	14.0	14.7	17.8	13.0	12.2	10.7	13.2	10.1
RoCE	11.6	13.6	17.5	12.8	11.9	10.7	13.2	10.2
RoIC	24.6	39.3	44.0	30.8	27.0	23.9	28.3	22.6
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	39	47
Debtor (Days)	34	40	31	34	28	34	34	34
Creditor (Days)	5	5	8	13	14	12	9	11
Leverage Ratio (x)								
Current Ratio	0.5	0.5	0.4	1.0	1.5	3.4	4.1	4.6
Interest Cover Ratio	27.5	6.2	8.4	13.6	38.4	227.5	332.6	500.1
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	16,359	14,287
Depreciation	1,750	1,800	1,966	2,048	1,960	1,939	1,953	2,509
Interest & Finance Charges	354	2,192	1,645	934	313	47	40	25
Direct Taxes Paid	-3,105	-3,639	-3,082	-3,025	-3,062	-2,741	-3,524	-3,596
(Inc)/Dec in WC	508	-956	893	684	-202	-274	42	-339
Others	-672	-542	-606	-611	-1,448	-1,592	-3,215	-1,794
CF from Operations	**8,943**	**10,882**	**13,602**	**12,412**	**10,726**	**9,664**	**11,654**	**11,093**
(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**	**4,654**	**4,093**
(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	3,215	1,794
CF from Investments	**-31,735**	**-80**	**-3,102**	**-4,379**	**-11**	**-7,019**	**-3,785**	**-5,206**
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	-40	-25
Dividend Paid	-1,018	-1,128	-1,283	-1,128	-1,128	-1,128	-3,848	-3,205
CF from Fin. Activity	**22,865**	**-10,328**	**-10,297**	**-8,093**	**-10,819**	**-2,026**	**-3,888**	**-3,230**
Inc/Dec of Cash	**73**	**475**	**203**	**-59**	**-105**	**619**	**3,982**	**2,656**
Opening Balance	151	225	700	902	843	738	1,357	5,339
Closing Balance	**225**	**700**	**902**	**843**	**738**	**1,357**	**5,339**	**7,995**

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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