

April 22, 2024

Company Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		ACCUMULATE	
Target Price	392		399	
Sales (Rs. m)	14	14	18	18
% Chng.	(21.9)	(21.9)		
EBITDA (Rs. m)	12	12	16	16
% Chng.	(25.7)	(25.7)		
EPS (Rs.)	13.7	13.3	19.5	19.0
% Chng.	(29.6)	(30.2)		

Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. bn)	15.3	17.2	14.4	14.4
EBITDA (Rs. bn)	12.6	14.8	11.7	11.7
Margin (%)	82.4	86.1	81.4	81.2
PAT (Rs. bn)	9.4	12.6	7.7	7.5
EPS (Rs.)	16.8	22.4	13.7	13.3
Gr. (%)	(3.2)	33.6	(38.7)	(3.1)
DPS (Rs.)	5.0	6.7	4.1	4.0
Yield (%)	1.3	1.8	1.1	1.1
RoE (%)	10.7	13.0	7.4	6.8
RoCE (%)	12.0	13.1	9.0	8.3
EV/Sales (x)	13.5	11.7	13.9	13.9
EV/EBITDA (x)	16.4	13.6	17.1	17.1
PE (x)	22.5	16.9	27.5	28.4
P/BV (x)	2.3	2.1	2.0	1.9

Key Data

GSPT.BO | GUJS IN

52-W High / Low	Rs.407 / Rs.255
Sensex / Nifty	73,088 / 22,147
Market Cap	Rs.213bn/ \$ 2,553m
Shares Outstanding	564m
3M Avg. Daily Value	Rs.708.27m

Shareholding Pattern (%)

Promoter's	37.63
Foreign	16.03
Domestic Institution	24.75
Public & Others	21.59
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.4	32.3	42.4
Relative	9.8	18.8	16.0

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Sharp cut in HP Gas Grid tariff

Quick Pointers:

- HP Gas Grid tariff revised downward to Rs18.1/mmBtu against company's submission of Rs50.77/mmBtu (vs existing tariff of Rs34/mmBtu)
- Although the tariff cut is harsher than expected, we believe the worst is behind for the company, both in terms of tariff and transmission volume.

PNGRB, in its tariff order, revised GSPL's HP Gas Grid tariff to Rs18.1/mmBtu wef from 1st May,2024, a sharp cut of 46.7% against the existing tariff of Rs34/mmBtu. GSPL had proposed the tariff to be revised to Rs50.77/mmBtu. Out of the current volume of 29mmscmd, ~24-25mmscmd would be through HP Gas Grid and we believe this would result in ~30% cut in EPS forecasts for FY25/26E. Going ahead, we estimate transmission volume of 35mmscmd for FY25/26E with a tariff of Rs1,088/mscm. We upgrade our rating from 'Accumulate' to 'Buy' as no further negatives are expected in the stock, with a TP of Rs392 based on 10x FY26 adj EPS of ~Rs12 and adding the value of its stake in Gujarat Gas and Sabarmati Gas at 25% holding company discount.

Sharp tariff cut higher than street expectations: The provisional tariff for the HP Gas Grid for the period 2012-13 to 2017-18 was Rs26.58/mmBtu. This was later revised upwards to Rs34/mmBtu from 2018-19 to 31/1/2024. Wef from 1st May, 2024 the tariff has been revised downwards to Rs18.1/mmBtu against GSPL's expectation of Rs50.77/mmBtu. The much awaited tariff cut came in higher than what the street and we were expecting. This was primarily due to prospective implementation (~Rs11), volume divisor (Rs6) and economic life extension (Rs4.7).

Earnings impact: Out of GSPL's current volume of 29mmscmd, ~24-25mmscmd of gas would be flowing through the HP Gas Grid, whose tariff has been cut. This downward revision in tariff would impact our EPS estimate of Rs19-20 in FY25/26E by ~30%. Going ahead, we estimate a tariff of Rs1,088/mscm for FY25/26E.

Outlook going forward: This tariff revision was pending since long and with this cut, there are no further negatives expected in the stock. In fact, the volumes are also currently much lower than ~37mmscmd peak that the company has done in the past. Gas demand from power sector would rise going forward and along with rise in ceramic demand, Morbi consumption would also rise. Completion of Mehsana-Bhatinda pipeline would add another ~6mmscmd to the volume. We reiterate that this is indeed a very good price to buy the stock with a TP of Rs392.

Exhibit 1: Comparison between proposed and final tariff

Particulars (Rs/mmBtu)	Submitted by GSPL	Determined by PNGRB
Provisional tariff from 2012-13 to 2017-18	39.55	26.58
Final Tariff from 2018-19 to 31.01.2024	64.7	34
Tariff Review from 01.05.2024 onwards	50.77	18.1

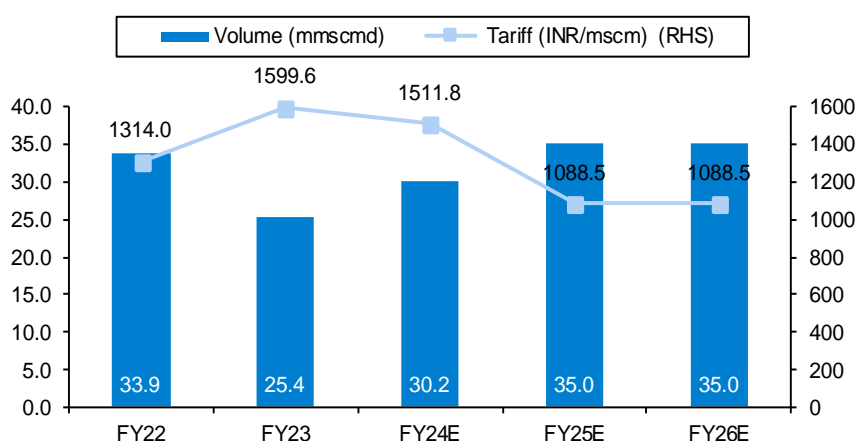
Source: Industry, PL

Exhibit 2: Determination of Final Levelized Tariff

Particulars (Rs/mmBtu)	Impact	Tariff
Provisional Tariff determined by PNGRB		34
Economic Life Extension	-4.7	29.3
Capex	4.79	34.09
Opex	1.41	35.5
Calorific Value, Working Days, Discounting Factor, Tax Rate	-0.23	35.27
Volume Divisor	-6.05	29.22
Prospective implementation from 01.05.2024	-11.12	18.1
Final Levelized Tariff		18.1

Source: Industry, PL

Exhibit 3: We cut our tariff estimates to Rs1,088.5/mscm

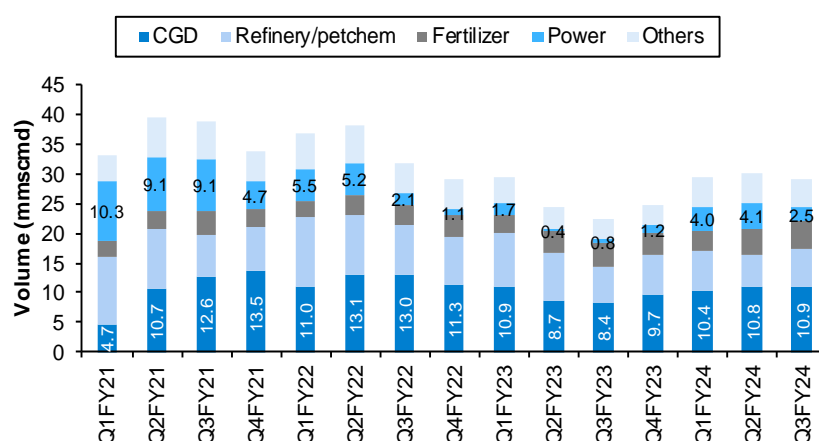


Source: Company, PL

Gas demand from power sector is expected to rise going forward.

Q3FY24's power sector's volume of 2.5mmscmd is way below peak demand of 10.3mmscmd witnessed in FY21.

Exhibit 4: GSPL's total volume grew 30% YoY to 29mmscmd in Q3FY24



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	15.3	17.2	14.4	14.4
YoY gr. (%)	(7.9)	12.8	(16.3)	-
Cost of Goods Sold	-	-	-	-
Gross Profit	15.3	17.2	14.4	14.4
Margin (%)	100.0	100.0	100.0	100.0
Employee Cost	0.7	0.8	0.8	0.8
Other Expenses	2.0	1.6	1.9	1.9
EBITDA	12.6	14.8	11.7	11.7
YoY gr. (%)	(9.9)	17.9	(20.8)	(0.3)
Margin (%)	82.4	86.1	81.4	81.2
Depreciation and Amortization	1.9	2.1	2.4	2.7
EBIT	10.6	12.7	9.4	9.0
Margin (%)	69.7	74.0	64.9	62.7
Net Interest	0.0	0.0	0.0	0.0
Other Income	1.7	3.4	1.0	1.0
Profit Before Tax	12.3	16.1	10.3	10.0
Margin (%)	80.4	93.7	71.6	69.4
Total Tax	3	4	3	3
Effective tax rate (%)	23.1	21.9	25.2	25.2
Profit after tax	9.4	12.6	7.7	7.5
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	9.4	12.6	7.7	7.5
YoY gr. (%)	(3.2)	33.6	(38.7)	(3.1)
Margin (%)	61.9	73.2	53.6	51.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	9.4	12.6	7.7	7.5
YoY gr. (%)	(3.2)	33.6	(38.7)	(3.1)
Margin (%)	61.9	73.2	53.6	51.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	9.4	12.6	7.7	7.5
Equity Shares O/s (m)	0.6	0.6	0.6	0.6
EPS (Rs)	16.8	22.4	13.7	13.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	46.6	53.5	60.5	67.5
Tangibles	46.6	53.5	60.5	67.5
Intangibles	-	-	-	-
Acc: Dep / Amortization	15.1	17.2	19.5	22.2
Tangibles	15.1	17.2	19.5	22.2
Intangibles	-	-	-	-
Net fixed assets	31.6	36.4	41.0	45.3
Tangibles	31.6	36.4	41.0	45.3
Intangibles	-	-	-	-
Capital Work In Progress	4.2	4.3	4.4	4.4
Goodwill	-	-	-	-
Non-Current Investments	51.7	51.7	51.7	51.7
Net Deferred tax assets	(4.2)	(4.2)	(4.2)	(4.2)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	2.1	1.9	2.1	2.1
Trade receivables	1.4	1.6	1.4	1.4
Cash & Bank Balance	6.9	10.9	11.7	12.6
Other Current Assets	-	-	-	-
Total Assets	100.9	110.1	114.9	120.2
Equity				
Equity Share Capital	5.6	5.6	5.6	5.6
Other Equity	87.1	95.9	101.3	106.6
Total Network	92.7	101.6	107.0	112.2
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	0.5	0.5	0.5	0.5
Other current liabilities	3.4	3.8	3.2	3.2
Total Equity & Liabilities	100.9	110.1	114.9	120.2

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	12.3	16.1	10.3	10.0
Add. Depreciation	1.9	2.1	2.4	2.7
Add. Interest	0.0	0.0	0.0	0.0
Less Financial Other Income	1.7	3.4	1.0	1.0
Add. Other	(1.6)	(3.4)	(1.0)	(1.0)
Op. profit before WC changes	12.7	14.8	11.7	11.7
Net Changes-WC	(0.3)	0.1	-	0.0
Direct tax	(2.7)	(3.5)	(2.6)	(2.5)
Net cash from Op. activities	9.7	11.4	9.1	9.2
Capital expenditures	(1.9)	(7.0)	(7.0)	(7.0)
Interest / Dividend Income	0.2	-	-	-
Others	(5.3)	3.4	1.0	1.0
Net Cash from Invt. activities	(7.0)	(3.6)	(6.0)	(6.0)
Issue of share cap. / premium	-	-	-	-
Debt changes	(0.9)	-	-	-
Dividend paid	(1.1)	(3.8)	(2.3)	(2.2)
Interest paid	0.0	0.0	0.0	0.0
Others	0.0	-	-	-
Net cash from Fin. activities	(2.0)	(3.8)	(2.4)	(2.3)
Net change in cash	0.6	4.0	0.8	0.9
Free Cash Flow	7.8	4.4	2.1	2.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24E
Net Revenue	4	5	5	4
YoY gr. (%)	(6.3)	17.7	30.7	17.0
Raw Material Expenses	-	-	-	-
Gross Profit	-	-	-	-
Margin (%)	-	-	-	-
EBITDA	3	4	4	4
YoY gr. (%)	(6.6)	22.9	40.6	26.9
Margin (%)	85.5	90.5	83.3	85.5
Depreciation / Depletion	-	-	-	1
EBIT	3	4	3	3
Margin (%)	73.6	80.0	72.6	70.6
Net Interest	-	-	-	-
Other Income	-	3	-	-
Profit before Tax	3	6	4	3
Margin (%)	77.9	138.5	77.0	79.2
Total Tax	1	1	1	1
Effective tax rate (%)	25.2	15.3	25.2	25.4
Profit after Tax	2	5	3	3
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2	5	3	3
YoY gr. (%)	(2.6)	69.3	53.4	15.3
Margin (%)	58.2	117.4	57.6	59.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2	5	3	3
YoY gr. (%)	(2.6)	69.3	53.4	15.3
Margin (%)	58.2	117.4	57.6	59.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2	5	3	3
Avg. Shares O/s (m)	1	1	1	1
EPS (Rs)	4.1	9.4	4.7	4.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	16.8	22.4	13.7	13.3
CEPS	20.2	26.1	17.9	18.0
BVPS	164.4	180.2	189.8	199.1
FCF	13.8	7.7	3.8	3.8
DPS	5.0	6.7	4.1	4.0
Return Ratio(%)				
RoCE	12.0	13.1	9.0	8.3
ROIC	11.3	12.9	9.1	8.4
RoE	10.7	13.0	7.4	6.8
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	1,094	942	1,007	979
Valuation(x)				
PER	22.5	16.9	27.5	28.4
P/B	2.3	2.1	2.0	1.9
P/CEPS	18.7	14.5	21.1	21.0
EV/EBITDA	16.4	13.6	17.1	17.1
EV/Sales	13.5	11.7	13.9	13.9
Dividend Yield (%)	1.3	1.8	1.1	1.1

Source: Company Data, PL Research

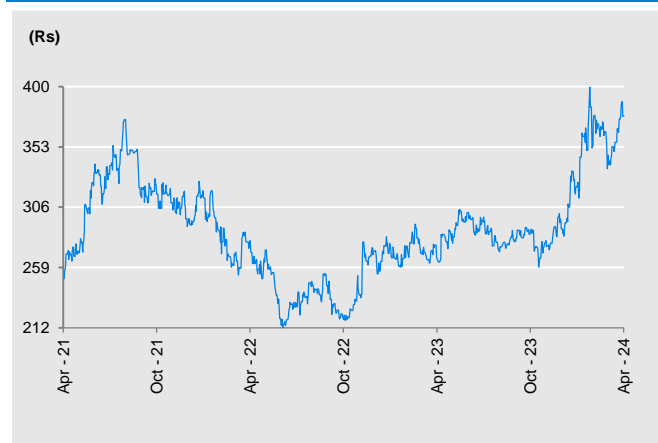
Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Volume (mmscmd)	25	30	35	35
Implied Tariff (Rs/mscm)	1,600	1,512	1,088	1,088

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Apr-24	Accumulate	399	378
2	14-Feb-24	Accumulate	402	353
3	08-Jan-24	Accumulate	374	334
4	07-Nov-23	BUY	328	273
5	06-Oct-23	BUY	327	290
6	06-Aug-23	BUY	327	276

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	599	705
2	Ashok Leyland	BUY	210	176
3	Bajaj Auto	Sell	7,267	9,021
4	Bharat Forge	Accumulate	1,270	1,146
5	Bharat Petroleum Corporation	Sell	504	592
6	Bharti Airtel	Accumulate	1,269	1,204
7	CEAT	Accumulate	2,980	2,686
8	Clean Science and Technology	Hold	1,386	1,335
9	Deepak Nitrite	Reduce	1,985	2,208
10	Divgi Torqtransfer Systems	BUY	1,135	843
11	Eicher Motors	Accumulate	4,215	4,031
12	Endurance Technologies	Hold	1,980	1,900
13	Exide Industries	Accumulate	350	322
14	Fine Organic Industries	Hold	4,351	4,361
15	GAIL (India)	Sell	162	201
16	Gujarat Fluorochemicals	Hold	3,313	3,270
17	Gujarat Gas	Hold	548	565
18	Gujarat State Petronet	Accumulate	399	378
19	Hero Motocorp	Accumulate	5,070	4,525
20	Hindustan Petroleum Corporation	Reduce	400	462
21	Indian Oil Corporation	Sell	144	170
22	Indraprastha Gas	Sell	383	475
23	Jubilant Ingrevia	Hold	480	486
24	Laxmi Organic Industries	Sell	206	251
25	Mahanagar Gas	Sell	1,125	1,485
26	Mahindra & Mahindra	BUY	2,306	2,013
27	Mangalore Refinery & Petrochemicals	Sell	142	233
28	Maruti Suzuki	BUY	14,350	12,422
29	Navin Fluorine International	BUY	3,929	3,093

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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