7 November 2024

2QFY25 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)	220.3 / 2.6
52-Week Range (INR)	470 / 260
1, 6, 12 Rel. Per (%)	-2/26/15
12M Avg Val (INR M)	1014

Financials & Valuations (INR b)

Y/E March	FY25E	FY26E	FY27E
Sales	10.9	12.2	12.5
EBITDA	8.9	9.8	10.1
PAT	9.0	6.4	6.4
EPS (INR)	16.0	11.4	11.4
EPS Gr. (%)	-29.6	-29.2	0.0
BV/Sh.(INR)	193.3	201.3	209.3
Ratios			
Net D:E	-0.1	-0.1	-0.1
RoE (%)	8.5	5.8	5.5
RoCE (%)	8.6	5.8	5.6
Payout (%)	30.0	30.0	30.0
Valuations			
P/E (x)	24.3	34.3	34.3
P/BV (x)	2.0	1.9	1.9
EV/EBITDA (x)	23.4	21.5	20.9
Div. Yield (%)	1.2	0.9	0.9
FCF Yield (%)	1.7	-0.1	0.3

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	37.6	37.6	37.6
DII	34.9	25.6	27.2
FII	15.2	15.9	16.0
Others	12.3	20.9	19.2

FII Includes depository receipts

CMP: INR390 **TP: INR415 (+6%)** **Neutral**

EBITDA miss amid lower volumes, weaker tariff

- Gujarat State Petronet (GUJS)'s 2QFY25 EBITDA was 18% below our estimate at INR1.9b, as total volumes came in 13% lower than our estimate. This marks a slowdown compared to the strong 1Q trend. Implied tariff also came in ~13% below our estimate at INR831/mmscm. PAT was boosted by strong other income (dividend from Gujarat Gas and Sabarmati Gas).
- Given lower gas demand from the power sector, we have trimmed our volume assumptions and consequently reduced our FY26/27E PAT by 6%/2%.
- Following Gujarat Gas's announcement of the scheme of amalgamation and arrangement in Sep'24, under which GSPC, GUJS, and GEL shall amalgamate with GUJGA, the swap ratio for GUJS was fixed at 10:13 (i.e., 10 shares of GUJGA (at an FV of INR2) shall be issued for every 13 equity shares of GUJS (at an FV of INR10)).
- Based on this swap ratio, we derive our TP of GUJS at INR415/share. **We reiterate our Neutral rating on the stock.**

Lower-than-expected volumes and tariffs lead to EBITDA miss

- GUJS' 2QFY25 EBITDA was 18% below our estimate at INR1.9b (-53% YoY), as
  - The total volumes came in 13% below our estimate and had a marked slowdown compared to the strong 1Q trend,
  - Tariff came in ~13% below our estimate, at INR831/mmscm.
- EBITDA was also impacted by a sharp rise in other expenses (+56% QoQ).
- Total volumes were 13% below our est. at 29.7mmscmd (-2% YoY):
  - CGD volumes increased to 12.6mmscmd (+21% YoY)
  - Fertilizer volumes were at 4.5mmscmd (+30% YoY)
  - Power/ref-petchem volumes at 6.4/7.5mmscmd (+58%/+14% YoY)
  - Other volumes stood at 5.4mmscmd (+11% YoY)
- PAT came in 103% above our est. at INR3.9b (-27% YoY), as other income stood at INR2.9b (our est. INR758m, +10% YoY).
- GUJS's Board approved an additional equity infusion of INR420m in GSPL India Gasnet Ltd. (GIGL), taking the cumulative equity infusion approval to INR13.3b. GUJS shall continue to hold 52% shareholding in GIGL.

Valuation and view

- The available LNG capacity in Gujarat is expected to grow 55% to 42.5mmtpa over the next two years. Most of this volume is likely to flow through GUJS's network. We believe the company could post a 7% CAGR in transmission volumes over FY24-27.
- We expect volumes to jump to ~37mmscmd in FY27, as it is a beneficiary of: a) the upcoming LNG terminals in Gujarat, and b) an improved demand owing to the focus on reducing industrial pollution (Gujarat has five geographical areas identified as severely/critically polluted).
- Based on the announced share swap ratio of 10:13 (GUJS:GUJGA), we arrive at our TP of INR415. **We reiterate our Neutral rating on the stock.**

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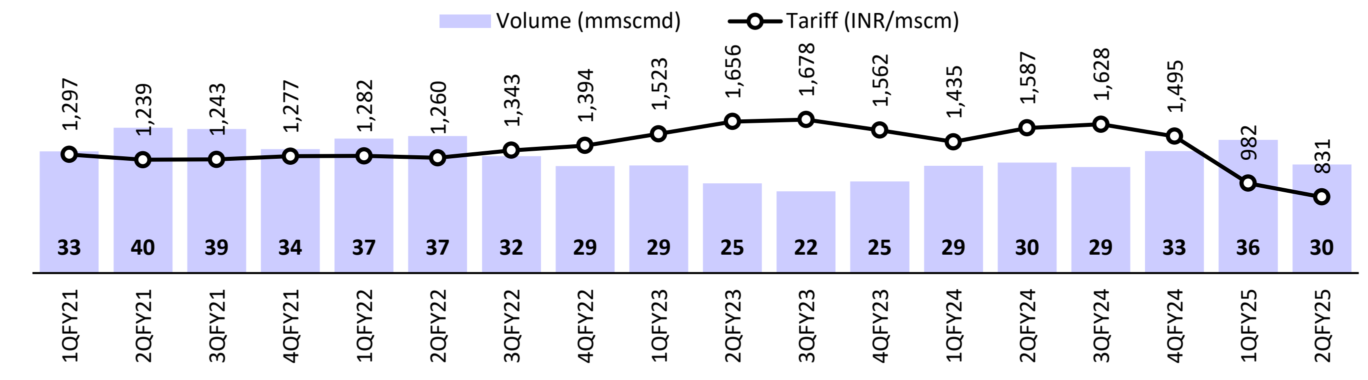
Standalone - Quarterly Earnings Model **(INR m)**

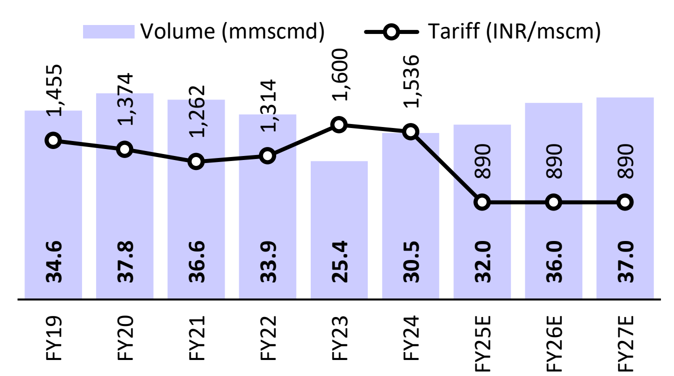
Y/E March	FY24				FY25E				FY24	FY25	FY25	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Net Sales	**3,937**	**4,533**	**4,555**	**4,547**	**3,354**	**2,379**	**2,603**	**2,564**	**17,572**	**10,884**	**3,094**	**-23%**
YoY Change (%)	*-6.3*	*17.7*	*30.7*	*21.6*	*-14.8*	*-47.5*	*-42.8*	*-43.6*	*15.0*	*-38.1*	*-31.7*	
EBITDA	**3,364**	**4,103**	**3,795**	**3,780**	**3,010**	**1,929**	**2,119**	**1,906**	**15,041**	**8,948**	**2,364**	**-18%**
YoY Change (%)	*-6.6*	*22.9*	*40.6*	*28.2*	*-10.5*	*-53.0*	*-44.1*	*-49.6*	*19.5*	*-40.5*	*-42.4*	
Margin (%)	*85.5*	*90.5*	*83.3*	*83.1*	*89.7*	*81.1*	*81.4*	*74.3*	*85.6*	*82.2*	*76.4*	
Depreciation	468	477	488	486	490	511	522	564	1,920	2,086	574	
Interest	10	10	11	19	13	11	11	9	50	44	11	
Other Income	180	2,663	211	296	328	2,939	588	499	3,351	4,354	758	
PBT before EO expense	**3,066**	**6,278**	**3,506**	**3,571**	**2,835**	**4,346**	**2,175**	**1,832**	**16,422**	**11,172**	**2,537**	**71%**
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	**3,066**	**6,278**	**3,506**	**3,571**	**2,835**	**4,346**	**2,175**	**1,832**	**16,422**	**11,172**	**2,537**	**71%**
Tax	773	958	884	960	715	453	531	422	3,576	2,123	623	
Rate (%)	*25.2*	*15.3*	*25.2*	*26.9*	*25.2*	*10.4*	*24.4*	*23.0*	*21.8*	*19.0*	*24.5*	
Reported PAT	**2,293**	**5,320**	**2,622**	**2,611**	**2,120**	**3,893**	**1,645**	**1,410**	**12,846**	**9,049**	**1,915**	**103%**
YoY Change (%)	*-2.6*	*69.3*	*53.4*	*16.4*	*-7.5*	*-26.8*	*-37.3*	*-46.0*	*35.9*	*-29.6*	*-64.0*	
Margin (%)	*58.2*	*117.4*	*57.6*	*57.4*	*63.2*	*163.6*	*63.2*	*55.0*	*73.1*	*83.1*	*61.9*	
Key Operating Parameters												
Transmission Volume (mmscmd)	29.4	30.2	29.0	33.4	36.4	29.7	31.0	30.9	30.5	32.0	34.0	-13%
Implied Tariff (INR/mmscm)	1,435	1,587	1,628	1,495	982	831	870	877	1,536	890	950	-13%

Exhibit 1: Transmission volumes down 2% YoY, with tariff declining 48% on a YoY basis



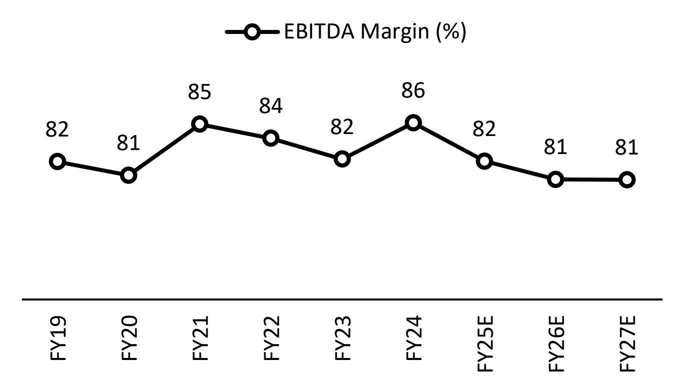
Source: MOFSL, Company

Exhibit 2: GUJS's volume snapshot



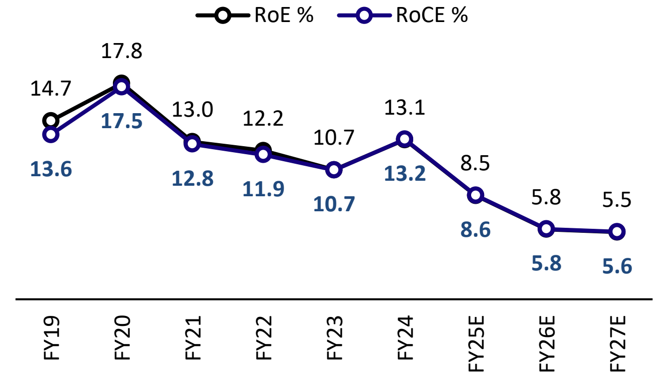
Source: Company, MOFSL

Exhibit 3: EBITDA margin to remain between 80% and 82%



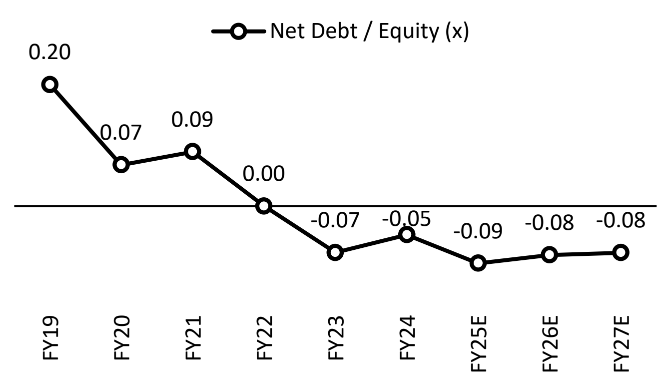
Source: Company, MOFSL

Exhibit 4: Return ratio profile



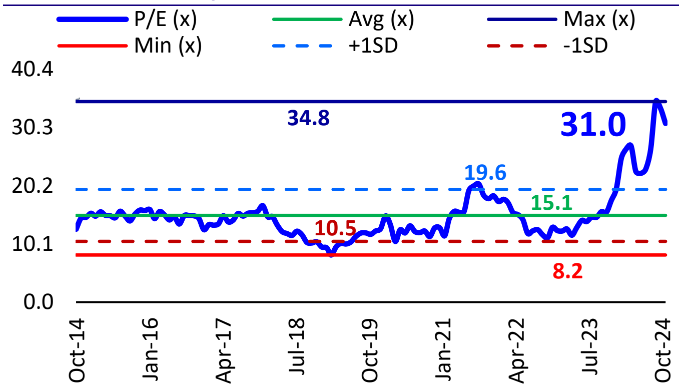
Source: Company, MOFSL

Exhibit 5: GUJS's net Debt/Equity profile



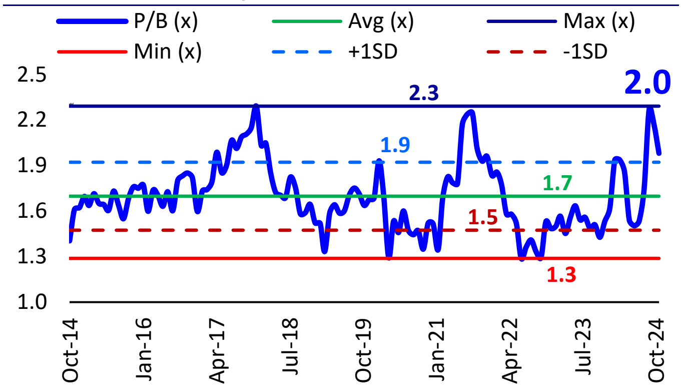
Source: Company, MOFSL

Exhibit 6: GUJS' 1-year forward P/E…



Source: Company, MOFSL

Exhibit 7: …and its 1-year forward P/B



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement					(INR m)
Y/E March	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Total Income from Operations	**15,275**	**17,572**	**10,884**	**12,184**	**12,508**
Change (%)	*-7.9*	*15.0*	*-38.1*	*11.9*	*2.7*
EBITDA	**12,587**	**15,041**	**8,948**	**9,821**	**10,078**
Margin (%)	*82.4*	*85.6*	*82.2*	*80.6*	*80.6*
Depreciation	1,939	1,920	2,086	2,368	2,653
EBIT	**10,648**	**13,121**	**6,862**	**7,453**	**7,425**
Int. and Finance Charges	47	50	44	46	46
Other Income	1,684	3,351	4,354	1,157	1,188
PBT bef. EO Exp.	**12,286**	**16,422**	**11,172**	**8,565**	**8,568**
EO Items	0	0	0	0	0
PBT after EO Exp.	**12,286**	**16,422**	**11,172**	**8,565**	**8,568**
Total Tax	2,836	3,576	2,123	2,156	2,157
Tax Rate (%)	*23.1*	*21.8*	*19.0*	*25.2*	*25.2*
Reported PAT	**9,450**	**12,846**	**9,049**	**6,409**	**6,411**
Adjusted PAT	**9,450**	**12,846**	**9,049**	**6,409**	**6,411**
Change (%)	*-3.5*	*35.9*	*-29.6*	*-29.2*	*0.0*
Margin (%)	*61.9*	*73.1*	*83.1*	*52.6*	*51.3*

Standalone - Balance Sheet					(INR m)
Y/E March	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Equity Share Capital	5,642	5,642	5,642	5,642	5,642
Total Reserves	87,090	97,059	1,03,395	1,07,882	1,12,372
Net Worth	**92,732**	**1,02,701**	**1,09,037**	**1,13,524**	**1,18,014**
Deferred Tax Liabilities	4,238	4,159	4,159	4,159	4,159
Capital Employed	**96,970**	**1,06,860**	**1,13,196**	**1,17,684**	**1,22,173**
Gross Block	46,636	47,357	56,952	64,471	71,575
Less: Accum. Deprn.	15,085	17,005	19,091	21,459	24,112
Net Fixed Assets	**31,551**	**30,353**	**37,861**	**43,012**	**47,463**
Capital WIP	4,248	7,618	5,024	4,505	4,401
Total Investments	**51,700**	**53,297**	**53,297**	**53,297**	**53,297**
Curr. Assets, Loans&Adv.	**13,384**	**19,541**	**19,515**	**19,698**	**19,916**
Inventory	2,121	2,108	1,614	1,969	2,025
Account Receivables	1,440	1,412	875	979	1,005
Cash and Bank Balance	6,917	4,734	10,036	8,925	8,852
Cash	1,357	83	5,384	4,273	4,200
Bank Balance	5,560	4,652	4,652	4,652	4,652
Loans and Advances	2,906	11,285	6,990	7,825	8,034
Curr. Liability & Prov.	**3,913**	**3,949**	**2,501**	**2,828**	**2,904**
Account Payables	510	375	287	351	361
Other Current Liabilities	3,141	3,253	2,015	2,255	2,315
Provisions	262	321	199	222	228
Net Current Assets	**9,471**	**15,592**	**17,014**	**16,870**	**17,012**
Appl. of Funds	**96,970**	**1,06,860**	**1,13,196**	**1,17,684**	**1,22,173**

Financials and valuations

Ratios

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)					
EPS	**16.8**	**22.8**	**16.0**	**11.4**	**11.4**
Cash EPS	20.2	26.2	19.7	15.6	16.1
BV/Share	164.4	182.1	193.3	201.3	209.3
DPS	5.0	5.0	4.8	3.4	3.4
Payout (%)	29.8	21.9	30.0	30.0	30.0
Valuation (x)					
P/E	23.3	17.1	24.3	34.3	34.3
Cash P/E	19.3	14.9	19.8	25.1	24.3
P/BV	2.4	2.1	2.0	1.9	1.9
EV/Sales	13.9	12.2	19.3	17.3	16.9
EV/EBITDA	16.9	14.3	23.4	21.5	20.9
Dividend Yield (%)	1.3	1.3	1.2	0.9	0.9
FCF per share	13.8	13.4	6.6	-0.5	1.3
Return Ratios (%)					
RoE	10.7	13.1	8.5	5.8	5.5
RoCE	10.7	13.2	8.6	5.8	5.6
RoIC	23.9	27.3	12.9	11.6	10.4
Working Capital Ratios					
Fixed Asset Turnover (x)	0.3	0.4	0.2	0.2	0.2
Asset Turnover (x)	0.2	0.2	0.1	0.1	0.1
Inventory (Days)	51	44	54	59	59
Debtor (Days)	34	29	29	29	29
Creditor (Days)	12	8	10	11	11
Leverage Ratio (x)					
Current Ratio	3.4	4.9	7.8	7.0	6.9
Interest Cover Ratio	227.5	262.8	156.6	162.4	161.8
Net Debt/Equity	-0.1	0.0	-0.1	-0.1	-0.1

Standalone - Cash Flow Statement **(INR m)**

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	12,286	16,422	11,172	8,565	8,568
Depreciation	1,939	1,920	2,086	2,368	2,653
Interest & Finance Charges	47	49	44	46	46
Direct Taxes Paid	-2,741	-3,534	-2,123	-2,156	-2,157
(Inc)/Dec in WC	-274	109	3,879	-967	-215
Others	-1,592	-3,242	-4,354	-1,157	-1,188
CF from Operations	**9,664**	**11,724**	**10,705**	**6,699**	**7,707**
(Inc)/Dec in FA	-1,892	-4,164	-7,000	-7,000	-7,000
Free Cash Flow	**7,772**	**7,561**	**3,705**	**-301**	**707**
(Pur)/Sale of Investments	0	-1,660	0	0	0
Others	-5,127	-4,332	4,354	1,157	1,188
CF from Investments	**-7,019**	**-10,156**	**-2,646**	**-5,843**	**-5,812**
Inc/(Dec) in Debt	-875	0	0	0	0
Interest Paid	-7	-5	-44	-46	-46
Dividend Paid	-1,128	-2,821	-2,713	-1,921	-1,922
CF from Fin. Activity	**-2,026**	**-2,843**	**-2,757**	**-1,967**	**-1,968**
Inc/Dec of Cash	**619**	**-1,274**	**5,302**	**-1,111**	**-73**
Opening Balance	738	1,357	83	5,384	4,273
Closing Balance	**1,357**	**83**	**5,384**	**4,273**	**4,200**

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

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