

09 February 2025

India | Equity Research | Results update

Gujarat State Petronet

Oil & Gas

Q3FY25: Muted quarter, merger with GUJGA the key trigger over the next 12 months

Gujarat State Petronet (GSPL) reported a 49%/48% YoY decline in EBITDA/PAT to INR 1.9/INR 1.36bn with EBITDA/PAT below our estimate of INR 2.1bn /INR 1.4bn. Transmission volumes of 29mmscmd declined 2% QoQ (flattish YoY) driven by 1.1/1.8mmscmd YoY/QoQ dip in power sector demand to 1.3mmscmd for the quarter. Prospects for FY25–27E remain uncertain, with a sharp ~47% cut in tariffs from FY25E, as per PNGRB's order in Q1FY25. We revise our FY25–27E EPS by 7.3%/19.5%/21.4% to factor in lower volumes for GSPL and weaker outlook of its subsidiary GUJGA. Long-term view on GSPL is a moot point with the imminent merger of the company with Gujarat Gas (see report [here](#)). Having said that, the derived TP, based on DCF and a revised Gujarat Gas fair value, is at INR 350, implying 5% upside. Reiterate **HOLD**.

Volume down 2% QoQ; FY26–27E volume to grow steadily

Overall volume (29.03mmscmd) was down 2% QoQ/flattish YoY. CGD volume (11.2mmscmd) was up 3% YoY while refinery/petchem (6.8mmscmd) were up 5% YoY; fertiliser (4.2mmscmd) was down 10% YoY and power (1.3mmscmd) dipped 46% YoY (-58% QoQ). We expect a recovery in volume growth over FY26–27E driven by: 1) a moderation in average gas prices in India; 2) growing CGD and industrial demand; and 3) trans-national pipeline demand. Our estimates factor in a ~6.1% CAGR in volumes over FY25–27E.

Tariff decline, a material hit to business prospects

Blended tariff of INR 0.87/scm and EBITDA of INR 0.72/scm declined 47%/49% YoY. Further, prospects for FY25–27E appear much softer due to the tariff order issued by the regulator PNGRB on 24 Apr'24, cutting the regulated tariffs to INR 0.7/scm, from the earlier approved levels of INR 1.1–1.2/scm – sharply lower vs. asked-for levels of INR 1.7–1.8/scm and roughly what the company has been earning over FY20–24. The difference in GSPL's filing vs. the order in absolute-terms is of INR 18.8bn disallowance in capex and INR 24.6bn in opex over the economic life. Also, volume divisor considered is 32mmscmd vs. the submission of 26mmscmd, which does seem reasonable given the actual volumes delivered in FY24 (average volume of 30.5mmscmd) and forecasts over FY25–27E.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	1,78,976	1,75,447	1,96,780	2,16,425
EBITDA	33,830	24,397	22,842	25,437
EBITDA %	18.9	13.9	11.6	11.8
Net Profit	16,181	8,694	7,643	8,146
EPS (INR)	28.7	15.4	13.5	14.4
EPS % Chg YoY	(1.4)	(46.3)	(12.1)	6.6
P/E (x)	11.6	21.7	24.6	23.1
EV/EBITDA (x)	5.1	7.1	7.7	7.0
RoCE (Pre-tax) (%)	19.9	11.3	9.1	9.7
RoE (%)	16.0	7.8	6.4	6.5

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Market Data

Market Cap (INR)	188bn
Market Cap (USD)	2,153mn
Bloomberg Code	GUJS IN
Reuters Code	GSPT.BO
52-week Range (INR)	470 /260
Free Float (%)	51.0
ADTV-3M (mn) (USD)	4.5

Price Performance (%)	3m	6m	12m
Absolute	(14.5)	0.3 (13.6)	
Relative to Sensex	(12.4)	2.3 (21.5)	

ESG Score	2023	2024	Change
ESG score	65.2	NA	NA
Environment	46.9	NA	NA
Social	67.6	NA	NA
Governance	76.6	NA	NA

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

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E	FY27E
Revenue	(1.3)	(2.6)	(5.0)
EBITDA	(7.9)	(19.4)	(18.8)
EPS	(7.3)	(19.5)	(21.4)

Previous Reports

08-11-2024: [Q2FY25 results review](#)

09-08-2024: [Q1FY25 results review](#)

Maintain HOLD

The GSPC group, through its various entities, has played a major role in establishing and growing Gujarat's energy infrastructure over the last three decades – specifically in the natural gas segment. The decision to consolidate and streamline operations of its EnP/gas trading/holding co. with gas transmission and city gas distribution (CGD) entities reflects the strategic imperatives to: 1) clean up the corporate structure of some of these holdings; 2) create synergies between related businesses; and 3) set up the companies for inorganic growth via greater scale and strength of its balance sheet.

GSPL has challenged the lower tariff order (reduction in tariff by ~45%) and also with increase in capex, tariff should increase going forward. GSPL has a capex plan of INR 35bn for the next two years. New capex tariff calculation should be based on 12% IRR. GSPL has 7-8 pipeline expansion plans– 1) Dahej-Bharuch, 2) Hanja-Palanpur, 3) Rajpipla-Amboli, 4) Jamnagar-Okha for upcoming gas discovery – off shore block, 5) Mundra-Mandvi and a few more projects. As per the agreed swap arrangement, implied fair value of GSPL on date of announcement of merger came to INR 466/share (10 shares of GUJGA valued at INR 6,060, 13 shares of GSPL at INR 5,746). However, as of now, we value the company at INR 350/share, factoring in DCF for the core business and a 20% discount to Gujarat Gas fair value. HOLD.

Key downside risks: Volume declines, execution delays at pipeline expansion, and further cuts to GUJGA EPS.

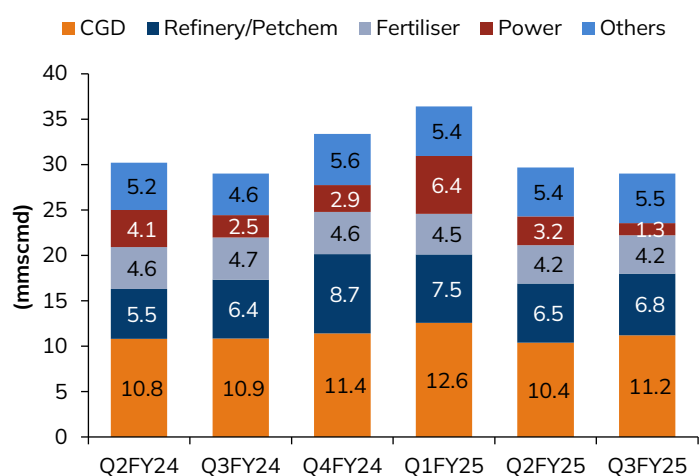
Key upside risks: Higher domestic gas demand propelling higher transmission volumes and a successful revision of tariff in review process.

Exhibit 1: Q3FY25 result snapshot

INR mn	Q3FY25	Q3FY24	YoY chg (%)	Q2FY25	QoQ chg (%)	9MFY25	9MFY24	YoY chg (%)
Sales	2,604	5,542	(53.0)	2,580	1.0	8,727	15,247	(42.8)
EBITDA	1,925	3,796	(49.3)	1,929	(0.2)	6,865	11,263	(39.1)
PAT	1,356	2,622	(48.3)	3,893	(65.2)	7,369	10,235	(28.0)
Adj. PAT	1,356	2,622	(48.3)	3,893	(65.2)	7,369	10,235	(28.0)
Adj. EPS	2.4	4.6	(48.3)	6.9	(65.2)	13.1	18.2	(28.2)
Depreciation	512	488	4.9	511	0.3	1,513	1,434	5.5
Interest	9	12	(25.0)	11	(21.0)	33	32	2.2
Volumes mmscmd (adjusted)	29.0	29.0	0.0	29.7	(2.2)	31.7	29.5	7.3
Tariff/mcm (adjusted)	870	1,628	(46.6)	831	4.7	900	1,551	(41.9)
Transmission cost/mcm	167	577	(71.0)	169	(1.1)	145	425	(65.8)
Employees expenses	232	206	12.7	188	23.6	597	536	11.4
Volume of gas transported (mmscm)	2,671	2,670	0.0	2,731	(2.2)	8,713	8,121	7.3

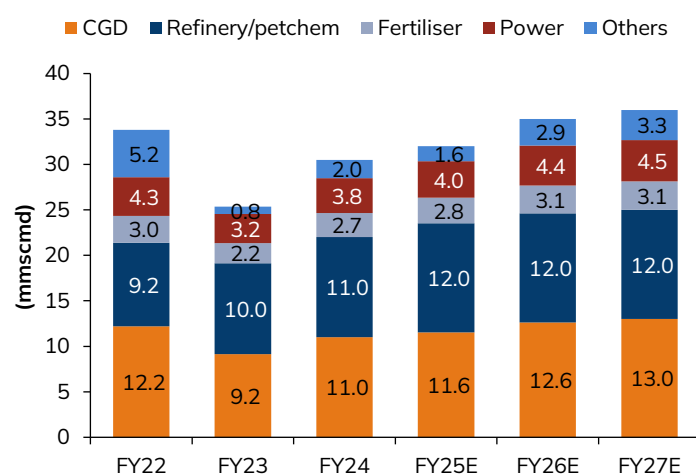
Source: Company data, I-Sec research

Exhibit 2: Transmission volume declined QoQ



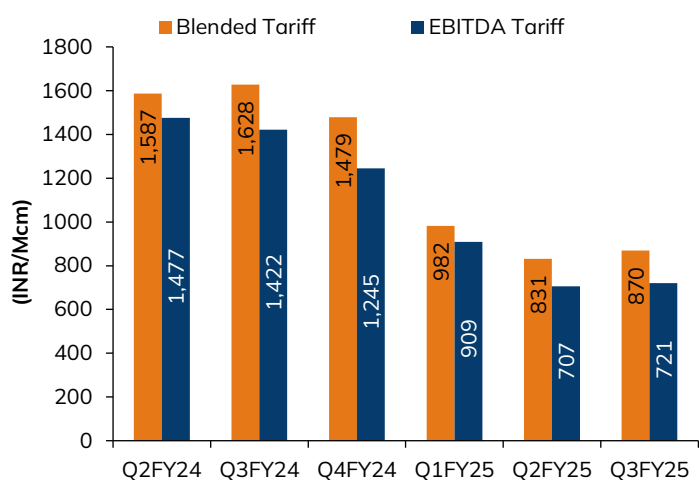
Source: Company data, I-Sec research

Exhibit 3: Volume to increase over FY25-27E



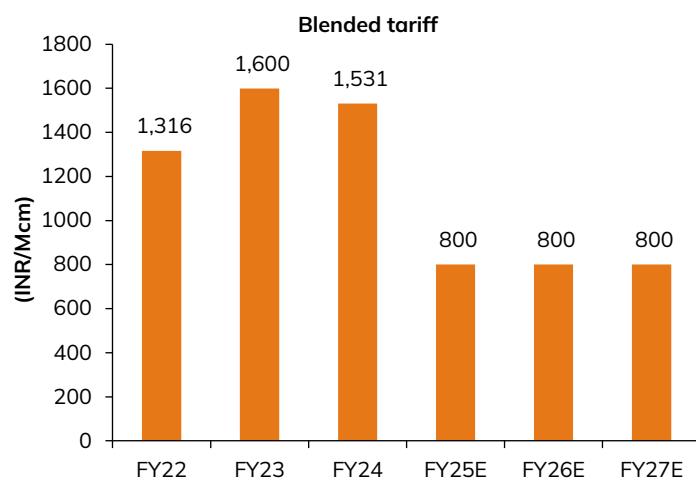
Source: Company data, I-Sec research

Exhibit 4: Blended tariff sharply YoY

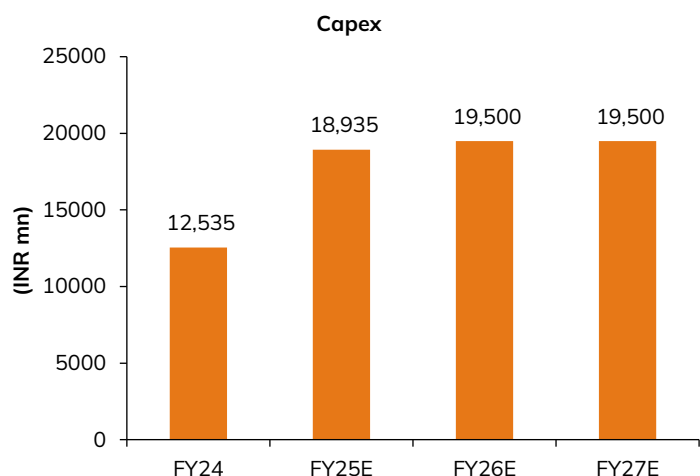


Source: Company data, I-Sec research

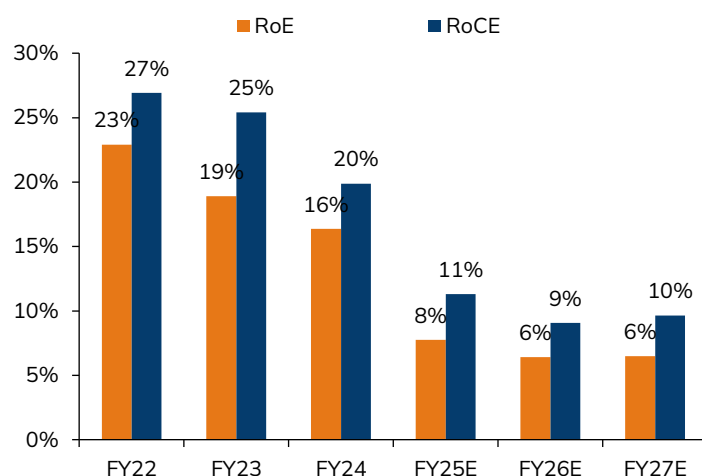
Exhibit 5: Blended tariff likely to see steep decline over FY25-27E vs. FY24



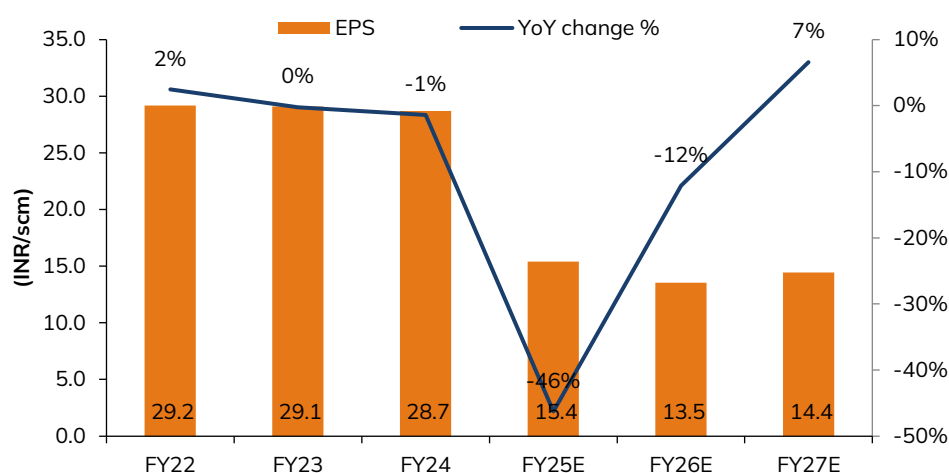
Source: Company data, I-Sec research

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: Earnings to decline at 3.2% CAGR over FY25–27E

Source: Company data, I-Sec research

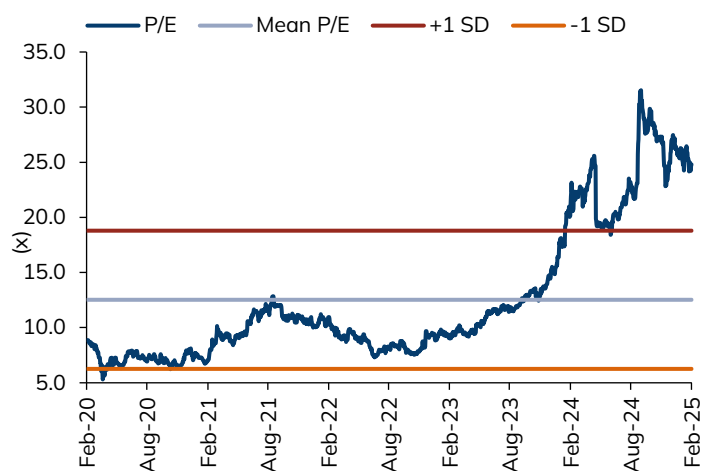
Valuation: Maintain HOLD; TP of INR 350 implies 5% upside

We value GSPL's core business by the DCF methodology, using a WACC of 12.6%, DER of 15%, long-term EBITDA assumption of INR 0.7/scm and terminal growth rate of 0.3%. This is complemented by the addition of GUJGA's stake, valued at our estimated fair value of INR 560/sh. This delivers a target price of INR 350/sh for GSPL, implying a 5% upside from CMP.

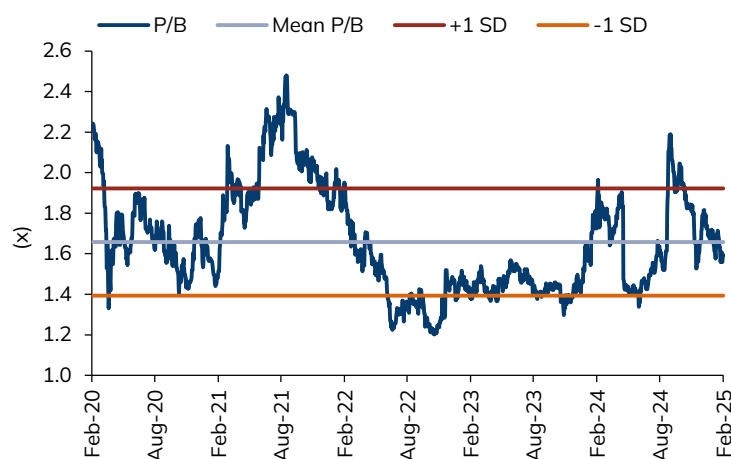
Exhibit 9: Valuation summary

	Assumption
Cost of equity	13.5%
Cost of Debt	8.0%
Avg D/E ratio	15.0%
WACC	12.6%
Growth to perpetuity	0.3%
Total NPV potential (INR mn)	30,334
Per share for GSPL (INR/sh)	54
GUJGA stake (at I-Sec FV)	296
Target Price (INR/sh)	350
CMP (INR/sh)	335
Upside (downside) %	5%

Source: Company data, I-Sec research

Exhibit 10: GSPL's P/E trading above higher band

Source: Bloomberg, Company data, I-Sec research

Exhibit 11: GSPL's P/B trading below 5-year average band

Source: Bloomberg, Company data, I-Sec research

Exhibit 12: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	37.6	37.6	37.6
Institutional investors	39.6	40.1	40.5
MFs and others	22.2	24.1	25.1
FIs/Banks	0.2	0.0	0.1
Insurance	1.3	0.7	0.6
FIIIs	15.9	15.3	14.7
Others	22.8	22.3	21.9

Source: Bloomberg

Exhibit 13: Price chart

Source: Bloomberg

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	1,78,976	1,75,447	1,96,780	2,16,425
EBITDA	33,830	24,397	22,842	25,437
EBITDA Margin (%)	18.9	13.9	11.6	11.8
Depreciation & Amortization	6,638	7,255	8,025	8,596
EBIT	27,192	17,142	14,817	16,841
Interest expenditure	321	104	99	94
Other Non-operating Income	1,865	2,728	2,461	2,074
PBT	16,421	9,326	9,347	9,354
Profit / (Loss) from Associates	55	55	55	55
Less: Taxes	7,510	6,005	5,368	5,843
PAT	21,783	13,762	11,812	12,978
Less: Minority Interest	5,242	5,123	4,224	4,886
Net Income (Reported)	16,595	8,694	7,643	8,146
Extraordinaries (Net)	557	-	-	-
Recurring Net Income	16,181	8,694	7,643	8,146

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	40,108	39,668	38,745	38,759
of which cash & bank	13,996	14,678	10,933	8,173
Total Current Liabilities & Provisions	29,929	30,773	33,119	35,282
Net Current Assets	10,179	8,895	5,626	3,477
Other Non Current Assets	6,972	7,670	8,437	9,280
Net Fixed Assets	1,07,775	1,18,271	1,28,746	1,38,650
Other Fixed Assets	-	-	-	-
Capital Work in Progress	16,798	17,983	18,983	19,983
Non Investment	16,382	18,382	20,382	22,382
Current Investment	2,522	2,522	2,522	2,522
Deferred Tax Assets	-	-	-	-
Total Assets	1,60,629	1,73,722	1,84,696	1,96,295
Liabilities				
Borrowings	1,396	1,587	1,587	1,587
Deferred Tax Liability	13,267	13,267	13,267	13,267
Lease Liability	1,396	1,396	1,396	1,396
Other Liabilities	2,140	2,354	2,589	2,848
Equity Share Capital	5,642	5,642	5,642	5,642
Reserves & Surplus*	1,02,607	1,10,172	1,16,687	1,23,140
Total Net Worth	1,08,249	1,15,814	1,22,329	1,28,782
Minority Interest	35,578	40,700	44,924	49,810
Total Liabilities	1,60,629	1,73,722	1,84,696	1,96,295

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Mar-24	Jun-24	Sep-24	Dec-24
Net Sales	5,068	3,543	2,580	2,604
% growth (YOY)	-8.6%	-30.1%	-27.2%	1.0%
EBITDA	3,780	3,010	1,929	1,925
Margin %	74.6%	84.9%	74.8%	73.9%
Other Income	296	328	2,939	412
Extraordinaries	-	-	-	-
Adjusted Net Profit	2,611	2,120	3,893	1,356

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Cash Flow from operation before working Capital	34,888	24,397	22,842	25,437
Working Capital Changes	(92)	1,483	(1,008)	(1,196)
Tax	(6,761)	(6,005)	(5,368)	(5,843)
Operating Cashflow	28,034	19,875	16,466	18,398
Capital Commitments	(12,535)	(18,935)	(19,500)	(19,500)
Free Cashflow	15,499	940	(3,034)	(1,102)
Others CFI	(9,757)	783	516	129
Cashflow from Investing Activities	(22,291)	(18,152)	(18,984)	(19,371)
Inc (Dec) in Borrowings	(384)	191	-	-
Interest Cost	(173)	(104)	(99)	(94)
Others	(4,916)	(1,128)	(1,128)	(1,693)
Cash flow from Financing Activities	(5,473)	(1,041)	(1,227)	(1,786)
Chg. in Cash & Bank balance	269	682	(3,745)	(2,760)
Closing cash & balance	13,996	14,678	10,933	8,173

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Recurring EPS	28.7	15.4	13.5	14.4
Diluted EPS	28.7	15.4	13.5	14.4
Recurring Cash EPS	40.4	28.3	27.8	29.7
Dividend per share (DPS)	5.0	2.0	2.0	3.0
Book Value per share (BV)	191.9	205.3	216.8	228.3
Dividend Payout (%)	17.4	13.0	14.8	20.8
Growth (%)				
Net Sales	(4.1)	(2.0)	12.2	10.0
EBITDA	(8.1)	(27.9)	(6.4)	11.4
EPS	(1.4)	(46.3)	(12.1)	6.6
Valuation Ratios (x)				
P/E	11.6	21.7	24.6	23.1
P/CEPS	8.3	11.8	12.0	11.2
P/BV	1.7	1.6	1.5	1.5
EV / EBITDA	5.1	7.1	7.7	7.0
EV / Operating Income	6.0	8.7	10.2	9.5
Dividend Yield (%)	1.5	0.6	0.6	0.9
Operating Ratios				
EBITDA Margins (%)	18.9	13.9	11.6	11.8
Effective Tax Rate (%)	25.6	30.4	31.2	31.0
Net Profit Margins (%)	9.0	5.0	3.9	3.8
NWC / Total Assets (%)	6.3	5.1	3.0	1.8
Fixed Asset Turnover (x)	1.2	1.0	1.1	1.1
Working Capital Days	11.9	8.7	9.5	9.6
Net Debt / Equity %	(14.0)	(13.5)	(9.7)	(7.1)
Profitability Ratios				
RoCE (%)	14.8	7.9	6.2	6.7
RoCE (Pre-tax) (%)	19.9	11.3	9.1	9.7
RoE (%)	16.0	7.8	6.4	6.5

Source Company data, I-Sec research

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