

Gujarat State Petronet

BSE SENSEX 73,649
S&P CNX 22,336

CMP: INR304

TP: INR355 (+17%)

Buy



	GUJS IN
Bloomberg Equity Shares (m)	564
M.Cap.(INRb)/(USD\$b)	171.4 / 2.1
52-Week Range (INR)	407 / 255
1, 6, 12 Rel. Per (%)	-15/-9/-11
12M Avg Val (INR M)	390
Free float (%)	62.4

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
Sales	17.6	12.6	13.3
EBITDA	15.1	9.8	10.3
PAT	13.0	6.4	6.7
EPS (INR)	23.0	11.3	11.8
EPS Gr. (%)	37.2	-50.9	4.8
BV/Sh.(INR)	180.5	188.4	196.7

Ratios

Net D:E	-0.1	-0.1	-0.1
RoE (%)	13.3	6.1	6.1
RoCE (%)	13.4	6.2	6.2
Payout (%)	30.0	30.0	30.0

Valuations

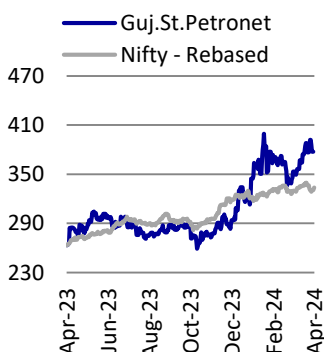
P/E (x)	13.3	27.1	25.8
P/BV (x)	1.7	1.6	1.6
EV/EBITDA (x)	10.7	16.4	15.6
Div. Yield (%)	2.3	1.1	1.2
FCF Yield (%)	2.6	0.5	0.5

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	37.6	37.6	37.6
DII	26.8	27.2	26.3
FII	16.0	16.0	17.3
Others	19.6	19.2	18.8

FII Includes depository receipts

Stock performance (one-year)



Tariff order disappointing; volume outlook remains robust

- On 20th Apr'24, the Petroleum and Natural Gas Regulatory Board (PNGRB) issued a tariff order (TO) for Gujarat State Petronet (GUJS)'s HP gas network. The tariff was reduced to INR18.1/mmBtu from INR34.0/mmBtu (provisional), which was a major disappointment. Following the TO, we cut our FY25/26E EPS estimates for GUJS by ~41% each. We also reduce our TP by 21% to INR355.
- However, we see limited downside for the stock from the current levels, considering the value of GUJS' stake in Gujarat Gas (GUJGA) itself is ~INR270/ share vs. its CMP of INR305/share. GUJS' CMP implies a holding company discount of ~38% vs. our assumption of 25%
- While the stock may remain under pressure in the near term, we highlight a favorable spot LNG price environment that bodes well for the utilization outlook of LNG terminals. Recently, the Central Government invoking Section XI to stimulate gas-fired power generation is also a positive development. Reiterate BUY with a revised TP of INR355.

Limited downside from current levels despite the disappointing TO

- Based on our estimates, GUJS is likely to generate an ROE of ~6% in FY26. We value its core business at 8x FY26E P/E (EPS adjusted for dividend income). As such, we believe that even in the worst-case scenario, its core business value should not drop below INR50/share.
- We now value its stake in GUJGA and Sabarmati Gas at INR273/share. This valuation is based on GUJGA's CMP and assumes a 25% holding company discount.
- Overall, we believe there is limited downside to GUJS' share price from these levels.

PNGRB's tariff revision a major disappointment

- On 20th Apr'24, PNGRB issued a tariff order for GUJS' HP gas network. The tariff was reduced to INR18.1/mmBtu from INR34.0/mmBtu (provisional). GUJS had requested for an upward tariff revision to INR50.77/mmBtu. The key difference between GUJS and the regulator's view stems from three heads: 1) capex (INR13.7/mmBtu reduction), 2) opex (INR8.7/mmBtu reduction), and 3) volume divisor (INR11/mmBtu reduction).
- The revised tariff will be applicable from 1st May'24. The tariff can be reviewed in the event that actual volume flows (GUJS' submission: 26mmscmd) vary considerably from PNGRB's assumption of 32mmscmd. Further, we believe that GUJS may appeal to PNGRB to review its tariff decision, though we do not expect any near-term relief.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

We cut our FY25/26E EPS by ~41% each; TP reduced by 21%

- We were building in a tariff decline of ~15% YoY in FY25, while the actual decline in tariff for the HP gas grid stands at ~47% (vs provisional). At this revised tariff, our FY25/26E EPS has been cut by ~41% each. The TP, though, has been reduced by 21%. The core business now accounts for only INR81/share out of our TP of INR355.
- We remain positive on the prospects of gas utilities given: 1) the bleak spot LNG price outlook, which we believe will continue to stimulate demand, and 2) the [Central Government's recent decision to impose Section XI for gas-fired power plants.](#)
- Further, the available LNG capacity in Gujarat is expected to grow 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 a 15% CAGR in transmission volumes over FY23-FY26. We expect GUJS' volumes to jump to ~38mmscmd in FY26, up from ~30 mmscmd in FY24.
- Further, improved demand owing to the focus on reducing industrial pollution {Gujarat has five geographical areas (GAs) identified as severely/ critically polluted} is a key catalyst.

Valuation and view

- Investments in GUJGA and Sabarmati Gas at a 25% holding company discount provide a valuation of INR273. Valuing the core business at 8x adj. FY26E EPS of INR10.2, and adding the value of investments, we arrive at our TP of INR355. We reiterate our BUY rating on the stock with a potential upside of 17%.

Exhibit 1: Historical trend of GUJS's HP grid tariff

Particulars	(INR/mmBtu on GCV basis)	
	Submitted by GSPL	Determined by PNGRB
Provisional tariff from 2012-13 to 2017-18	39.55	26.58
Final tariff from 2018-19 to 31.04.2024	64.70	34.00
Tariff Review from 01.05.2024 onwards	50.77*	18.10

*GSPL has submitted tariff from 01.04.2024

Source: PNGRB, MOFSL

Exhibit 2: PNGRB's final tariff for GUJS's HP grid is 47% lower than provisional numbers

Particulars	(INR/mmBtu on GCV basis)	
	Impact	Tariff
Provisional Tariff determined by PNGRB		34.00
Economic Life Extension	(4.70)	29.30
Capex	4.79	34.09
Opex	1.41	35.50
Calorific Value, Working Days, Discounting Factor, Tax Rate etc.	(0.23)	35.27
Volume Divisor	(6.05)	29.22
Prospective implementation from 01.05.2024	(11.12)	18.10
Final Levelized Tariff		18.10

Source: PNGRB, MOFSL

Exhibit 3: PNGRB has adjusted the tariff submitted by GUJS on three main counts, viz. capex estimates, gas price considered for opex, and volume estimates

Particulars	Impact	Tariff
Submitted Tariff		50.77
Working Days	1.05	51.82
Opening working capital/Discounting factor/Tax Rate	(0.09)	51.73
Capex	(13.75)	37.98
Opex	(8.7)	29.28
Calorific Value	0.01	29.29
Volume Divisor	(10.92)	18.37
Tariff applicability 01.05.2024	(0.27)	18.10
Levelized Tariff Determined by PNGRB		18.10

Source: PNGRB, MOFSL

Exhibit 4: PNGRB's assessment of GUJS's pipeline capacity based on EIL's estimate is higher than the company's own estimates

Assessment years	Pipeline Capacity as determined by Entity (in MMSCMD)	Pipeline Capacity as assessed by EIL (in MMSCMD)	Remark
2017-18	28.29	30.10	
2018-19	29.62	30.20	
2019-20	32.13	32.20	
2020-21	35.22	36.00	GLL Mundra source added to network
2021-22	35.21	36.00	
2022-23	34.17	36.00	
2023-24	34.17	36.00	

Source: PNGRB, MOFSL

Exhibit 5: PNGRB has maintained gas price consistency in its recent tariff orders, based on historical average HP-HT price at ~USD7.6/mmbtu vs. USD12.1/mmbtu claimed by GUJS

Particulars	(INR/mmbtu)			
	Claimed by Entity	Considered by PNGRB		
		FY 23-24	FY 24-25	FY 25-26 onwards
Transportation Tariff of UFT-Zone 3	114.52	114.52	114.52	114.52
12% GST on Transportation Tariff	13.74	-	-	-
Exchange Charges	8.00	-	-	-
Broker Charges for Exchange	1.00	-	-	-
18% GST on Exchange Charges	1.62	-	-	-
Total transportation charges	138.88	114.52	114.52	114.52
Exchange Rate (Rs/US\$)	85*	83.18	83.18	83.18
US\$ Equivalent cost of transportation	1.63	1.38	1.38	1.38
Gas Price considered (US\$/MMBTU)	12.12	11.04	8.75	7.63
AP Vat on Gas Price @ 24.5%, 5%	2.97	2.70	0.44	0.38
Total Gas Price (\$/MMBTU)	16.72	15.12	10.56	9.39

Source: PNGRB, MOFSL

Exhibit 6: Lower opex estimates by the PNGRB are mainly attributable to lower gas price considered by the PNGRB on SUG and unaccounted gas

Particulars	Claimed by Entity	Disallowance/Not Considered	Considered by PNGRB
Consumables & Chemicals	43.8	-	43.80
Utilities (Power, Fuel and Water)	91.54	-	91.54
SUG Cost	37.68	(25.89)	11.79
Gana Compressor SUG	967.56	(816.19)	151.36
LAUG Claim	610.19	(286.66)	323.53
Salaries	1,013.29	(275.41)	755.88
Repair & Maintainance	534.70	-	534.70
Repair & Maintainance-Compressor	68.11	-	68.11
Gen Administrative Expense	281.35	(1.70)	279.66
Insurance	43.59	-	43.59
Sub Total	3,709.80	(1,405.84)	2303.95
Add: Opex for Future Pipeline Capex	496.54	(167.42)	329.13
Add: Opex for Future Other Capex	258.62	(230.91)	27.72
Add: SUG for New gas heaters	449.48	(444.41)	5.07
Less: Non-Operating Income	-	78.56	78.56
Less: Connectivity Charges	-	43.9	43.9
Less: Operating Charges Income	-	-	-
Tariff not recovered System Usage Gas	50.63	(38.95)	11.68
Total	4,965.07	(2,409.98)	2,555.09

Source: PNGRB, MOFSL

Exhibit 7: O&M capex estimates are considered to be materially lower at INR1.3b vs. INR15.3b submitted by GUJS

Particulars	(INR. In Cr.)	
	Amount Claimed	Amount Considered
GAIL Ankot Connectivity	55.00	0.00
Jamnagar Okha Pipeline Project	279.00	279.00
Vapi-Tarapur Spurline	139.50	139.50
Botad-Jasdan Spurline	72.00	72.00
Mundra-Mandvi Spurline	67.50	67.50
Bhayal Connectivity	52.50	52.50
Amreli-Kunkavav vadia Spurline	42.00	42.00
Saykha GIDC Connectivity	43.5*	9.50
Silvasa Spur Line	43.5*	17.80
Projects Under Development(A)	794.50	679.80
Vantevad Rajpipal	133.92	133.92
Chhara LNG Source Connectivity	608.52	608.52
Swan LNG Connectivity	2.92	2.92
Dahej Bhadbhut Pipeline Project	299.69	288.96#
Project Under Execution(B)	1045.04	1034.32
Heating System	64.00	7.02
Metering System Upgradation	50.00	36.20
SCADA & Telecom Upgradation	100.00	60.59
Staff Training Centre	8.43	8.43
High Pressure Pipeline in Hazira Region	100.00	0.00
Future Capex - LMCs	883.34	3.32
O&M Capex	64.00	12.81
Total O&M capex (C)	1529.83	128.37
Total Future Capex (A+B+C)	3369.37	1842.49

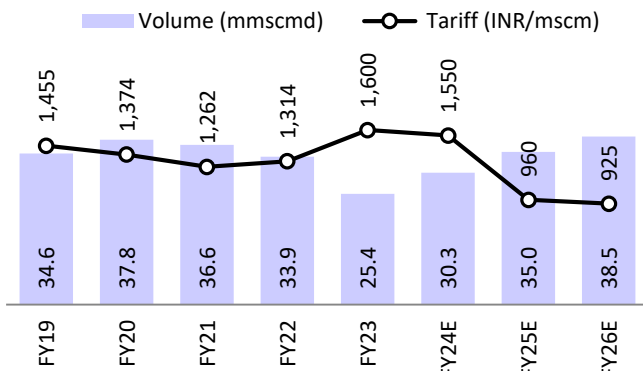
*Revised xapex vide email dated 15.02.2024

#NFA Rs. 10.73 Crore reduced on account of old pipeline

Source: PNGRB, MOFSL

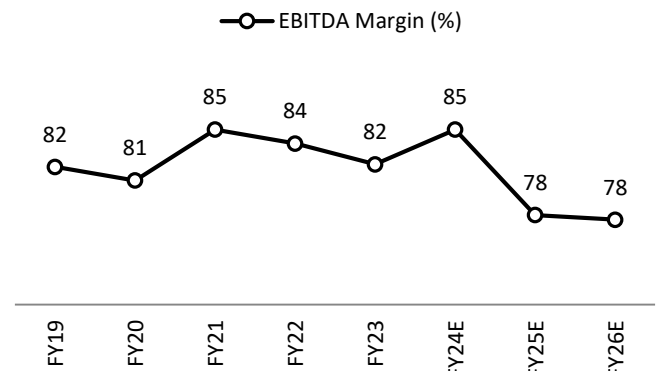
Story in charts

Exhibit 8: GUJS's volume snapshot



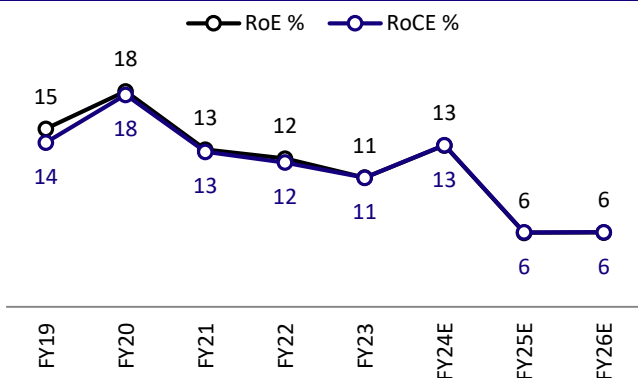
Source: Company, MOFSL

Exhibit 9: EBITDA margin to decline to 78%



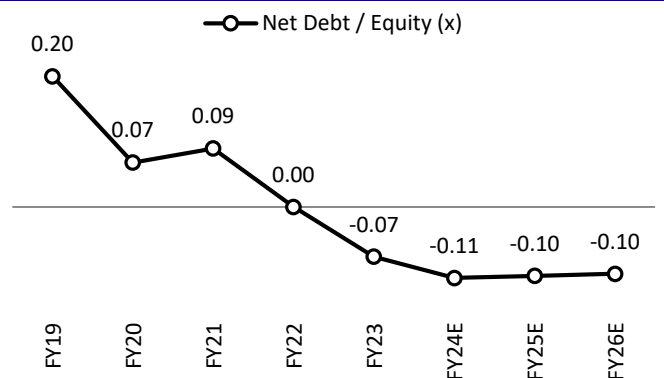
Source: Company, MOFSL

Exhibit 10: Return ratio profile



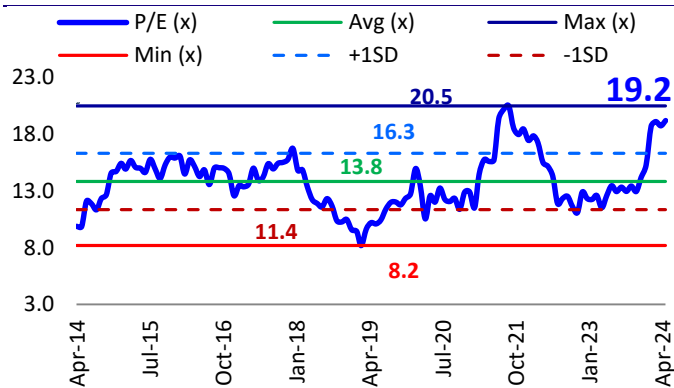
Source: Company, MOFSL

Exhibit 11: GUJS's net Debt/Equity profile



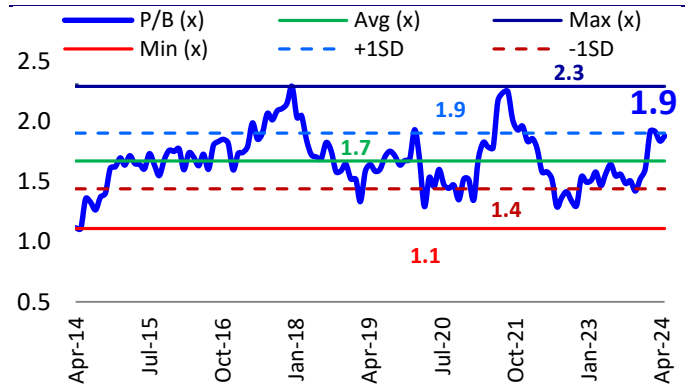
Source: Company, MOFSL

Exhibit 12: One year forward P/E



Source: Company, MOFSL

Exhibit 13: One year forward P/B



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	18,773	19,449	17,191	16,591	15,275	17,646	12,582	13,316
Change (%)	41.0	3.6	-11.6	-3.5	-7.9	15.5	-28.7	5.8
EBITDA	15,426	15,749	14,694	13,976	12,587	15,083	9,804	10,321
Margin (%)	82.2	81.0	85.5	84.2	82.4	85.5	77.9	77.5
Depreciation	1,800	1,966	2,049	1,960	1,939	1,916	2,509	2,624
EBIT	13,626	13,783	12,645	12,016	10,648	13,167	7,295	7,696
Int. and Finance Charges	2,192	1,645	933	313	47	42	44	46
Other Income	594	649	694	1,045	1,684	3,353	1,258	1,265
PBT bef. EO Exp.	12,028	12,786	12,406	12,748	12,286	16,478	8,509	8,915
EO Items	0	0	0	-14	0	0	0	0
PBT after EO Exp.	12,028	12,786	12,406	12,735	12,286	16,478	8,509	8,915
Total Tax	4,081	1,699	3,147	2,958	2,836	3,517	2,142	2,244
Tax Rate (%)	33.9	13.3	25.4	23.2	23.1	21.3	25.2	25.2
Reported PAT	7,947	11,087	9,259	9,777	9,450	12,961	6,367	6,671
Adjusted PAT	7,947	11,087	9,259	9,787	9,450	12,961	6,367	6,671
Change (%)	18.9	39.5	-16.5	5.7	-3.5	37.2	-50.9	4.8
Margin (%)	42.3	57.0	53.9	59.0	61.9	73.5	50.6	50.1

Standalone - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	5,640	5,641	5,642	5,642	5,642	5,642	5,642	5,642
Total Reserves	51,800	61,584	69,808	78,787	87,090	96,165	1,00,624	1,05,295
Net Worth	57,440	67,226	75,450	84,429	92,732	1,01,807	1,06,266	1,10,937
Total Loans	12,856	5,441	7,499	877	0	0	0	0
Deferred Tax Liabilities	5,226	4,081	4,218	4,250	4,238	4,238	4,238	4,238
Capital Employed	75,522	76,748	87,167	89,557	96,970	1,06,045	1,10,504	1,15,175
Gross Block	43,245	44,994	45,854	46,406	46,636	53,534	60,514	67,510
Less: Accum. Deprn.	7,170	9,137	11,186	13,146	15,085	17,001	19,510	22,134
Net Fixed Assets	36,075	35,857	34,668	33,259	31,551	36,534	41,004	45,376
Capital WIP	4,194	2,372	2,215	2,526	4,248	4,350	4,370	4,374
Total Investments	42,772	46,111	50,062	51,737	51,700	51,700	51,700	51,700
Curr. Assets, Loans&Adv.	6,459	5,764	5,420	5,878	13,384	17,880	16,760	17,261
Inventory	1,279	1,261	1,296	1,890	2,121	2,023	2,192	2,364
Account Receivables	2,081	1,637	1,586	1,295	1,440	1,664	1,187	1,256
Cash and Bank Balance	1,583	957	877	864	6,917	10,836	10,988	11,108
Cash	700	903	843	738	1,357	5,276	5,428	5,548
Bank Balance	883	54	34	126	5,560	5,560	5,560	5,560
Loans and Advances	1,516	1,908	1,660	1,828	2,906	3,357	2,394	2,533
Curr. Liability & Prov.	13,978	13,356	5,197	3,843	3,913	4,418	3,330	3,535
Account Payables	238	410	620	654	510	486	527	568
Other Current Liabilities	13,523	12,670	4,270	2,928	3,141	3,629	2,587	2,739
Provisions	216	276	307	262	262	303	216	228
Net Current Assets	-7,518	-7,592	223	2,035	9,471	13,463	13,430	13,726
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	75,522	76,748	87,167	89,557	96,970	1,06,046	1,10,504	1,15,175

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	14.1	19.7	16.4	17.4	16.8	23.0	11.3	11.8
Cash EPS	17.3	23.1	20.1	20.8	20.2	26.4	15.7	16.5
BV/Share	101.8	119.2	133.8	149.7	164.4	180.5	188.4	196.7
DPS	2.0	2.0	2.0	2.0	5.0	6.9	3.4	3.5
Payout (%)	16.1	10.2	12.2	11.5	29.8	30.0	30.0	30.0
Valuation (x)								
P/E	21.7	15.5	18.6	17.6	18.2	13.3	27.1	25.8
Cash P/E	17.7	13.2	15.2	14.7	15.1	11.6	19.4	18.5
P/BV	3.0	2.6	2.3	2.0	1.9	1.7	1.6	1.6
EV/Sales	9.8	9.1	10.4	10.4	10.8	9.1	12.8	12.1
EV/EBITDA	11.9	11.2	12.2	12.3	13.1	10.7	16.4	15.6
Dividend Yield (%)	0.7	0.7	0.7	0.7	1.6	2.3	1.1	1.2
FCF per share	15.5	22.2	20.0	17.6	13.8	8.0	1.5	1.6
Return Ratios (%)								
RoE	14.7	17.8	13.0	12.2	10.7	13.3	6.1	6.1
RoCE	13.6	17.5	12.8	11.9	10.7	13.4	6.2	6.2
RoIC	39.3	44.0	30.8	27.0	23.9	28.3	13.2	12.6
Working Capital Ratios								
Fixed Asset Turnover (x)	0.4	0.4	0.4	0.4	0.3	0.3	0.2	0.2
Asset Turnover (x)	0.2	0.3	0.2	0.2	0.2	0.2	0.1	0.1
Inventory (Days)	25	24	28	42	51	42	64	65
Debtor (Days)	40	31	34	28	34	34	34	34
Creditor (Days)	5	8	13	14	12	10	15	16
Leverage Ratio (x)								
Current Ratio	0.5	0.4	1.0	1.5	3.4	4.0	5.0	4.9
Interest Cover Ratio	6.2	8.4	13.6	38.4	227.5	315.6	166.5	167.7
Net Debt/Equity	0.2	0.1	0.1	0.0	-0.1	-0.1	-0.1	-0.1

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	12,028	12,786	12,382	13,165	12,286	16,478	8,509	8,915
Depreciation	1,800	1,966	2,048	1,960	1,939	1,916	2,509	2,624
Interest & Finance Charges	2,192	1,645	934	313	47	42	44	46
Direct Taxes Paid	-3,639	-3,082	-3,025	-3,062	-2,741	-3,517	-2,142	-2,244
(Inc)/Dec in WC	-956	893	684	-202	-274	-72	184	-176
Others	-542	-606	-611	-1,448	-1,592	-3,353	-1,258	-1,265
CF from Operations	10,882	13,602	12,412	10,726	9,664	11,494	7,846	7,901
(Inc)/Dec in FA	-2,118	-1,066	-1,119	-773	-1,892	-7,000	-7,000	-7,000
Free Cash Flow	8,764	12,536	11,293	9,953	7,772	4,494	846	901
(Pur)/Sale of Investments	-990	-3,340	-3,848	-1,690	0	0	0	0
Others	3,029	1,304	589	2,452	-5,127	3,353	1,258	1,265
CF from Investments	-80	-3,102	-4,379	-11	-7,019	-3,647	-5,742	-5,735
Inc/(Dec) in Debt	-6,912	-7,335	-6,037	-9,348	-875	0	0	0
Interest Paid	-2,299	-1,678	-924	-337	-7	-42	-44	-46
Dividend Paid	-1,128	-1,283	-1,128	-1,128	-1,128	-3,886	-1,909	-2,000
CF from Fin. Activity	-10,328	-10,297	-8,093	-10,819	-2,026	-3,928	-1,953	-2,046
Inc/Dec of Cash	475	203	-59	-105	619	3,919	152	120
Opening Balance	225	700	902	843	738	1,357	5,276	5,428
Closing Balance	700	902	843	738	1,357	5,276	5,428	5,548

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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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