

BUY Gujarat State Petronet

Your success is our success

Higher HP grid volume drives the beat; tariff event awaitedOil & Gas ▶ Result Update ▶ **November 6, 2023****TARGET PRICE (Rs): 335**

GSPL posted a 17% EBITDA beat at Rs4.1bn in Q2FY24, led by 13% higher than expected tariff of Rs1.59/scm (up 11% QoQ) owing to a greater share of HP in the mix, amid largely in-line volume. Q2 PAT came in at a 25% beat, at Rs5.3bn, due to lower ETR of 15% (from Gujarat Gas dividend). GSPL's H1 capex stood at Rs3.3bn vs. Rs462mn YoY/1.98bn HoH, implying rebound in the capex cycle which should lead to favorable tariff revision—albeit, still awaited. Gas transmission volume rose 3% QoQ to 30.2mmscmd (up 23% YoY, in-line) and fertilizer/CGD/others' offtake was up 1.2/0.4/0.3mmscmd QoQ, while refinery volume fell 1.1mmscmd. We raise FY24E/25E EPS by 22-23% each, to build-in higher Other Income (H1 rate) and slightly higher volume. We maintain BUY with revised Sep-24E TP of Rs335 (roll-over gains offset by lower GUJGA FV).

Gujarat State Petronet: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	20,200	17,458	13,777	13,646	14,699
EBITDA	13,976	12,585	8,698	8,440	9,119
Adj. PAT	9,536	9,447	7,433	7,172	7,705
Adj. EPS (Rs)	16.9	16.7	13.2	12.7	13.6
EBITDA margin (%)	69.2	72.1	63.1	61.9	62.0
EBITDA growth (%)	(5.1)	(10.0)	(30.9)	(3.0)	8.0
Adj. EPS growth (%)	14.8	(10.1)	(21.4)	(3.6)	7.4
RoE (%)	11.9	10.7	7.8	7.1	7.3
RoIC (%)	23.9	23.6	13.7	11.8	11.7
P/E (x)	16.1	16.3	20.7	21.5	20.0
EV/EBITDA (x)	11.0	11.7	16.6	16.8	15.3
P/B (x)	1.8	1.7	1.6	1.5	1.4
FCFF yield (%)	6.5	5.3	1.3	0.7	0.9

Source: Company, Emkay Research

Result Highlights

GSPL's Q2FY24 SA EBITDA/PAT of Rs4.1bn/Rs5.3bn was up 23%/69% YoY and 22%/2.3x QoQ. Tariff realization rose 11% QoQ to Rs1.59/scm, on higher share of high-pressure (HP) gas grid volume (up 1.55mmscmd, while LP was down 0.7 mmscmd) and swapping benefits. Other Expenses fell 26% YoY/36% QoQ to Rs261mn, while employee cost rose 5% YoY and QoQ to Rs169mn. For Q2, GSPL's gas transmission expense rose 53% YoY and 60% QoQ to Rs760mn. Depreciation rose 2% QoQ to Rs477mn. Electricity income was up 15% YoY to Rs122mn (up 21% QoQ). EBITDA/scm rose 17% QoQ (an 18% beat) to Rs1.48 (flat YoY). Other Income was in-line, at Rs2.7bn, up 2.6x YoY, with higher GUJGA dividend payout. Tax rate was lower, at 15%. Cash balance fell 24% HoH to Rs5.3bn, mainly due to Rs1.5bn investments in JVs, etc (as indicated in the cashflows).

Management KTAs

Tariff realization was up, as HP grid volume share was higher. There is no further update on the tariff review, which is though still awaited. Capex was largely for Chhara LNG terminal connectivity. Investments include infusion on GIGL at SA level and GSPC LNG by Gujarat Gas at a consolidated level. GIGL/GITL's net share loss was Rs132.2/5.8mn. Share of profit from associate/JV was Rs99mn, supported by Sabarmati Gas.

Valuation and Outlook

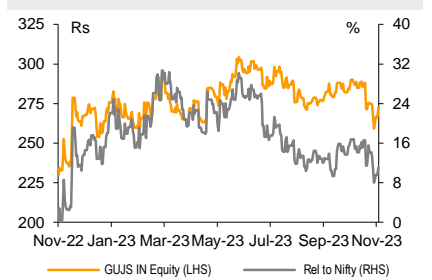
We value GSPL on SOTP basis, with TP of Rs335/sh, comprising of core business (using DCF method) at Rs133/share (implied Sep-25E target SA P/E of ~13x), GUJGA's stake at Rs175/share, building-in 40% holdco discount to our FV/TP, and Rs28/share derived from stake in Sabarmati Gas & new pipelines. GSPL's upcoming tariff review (we build-in ~30% effective cut) is crucial to our medium-term earnings visibility, as the stock continues to trade at attractive valuation. We cut our 12M TP by ~1%, as our lowered FV for GUJGA, from Rs480 to Rs440 is offset by the roll-over. Key risks: Adverse oil-gas prices/demand, industrial slowdown, cost overruns, project delays & regulatory aspects.

Target Price – 12M	Sep-24
Change in TP (%)	(1.4)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	23.0
CMP (06-Nov-23) (Rs)	272.6

Stock Data	Ticker
52-week High (Rs)	311
52-week Low (Rs)	225
Shares outstanding (mn)	564.2
Market-cap (Rs bn)	154
Market-cap (USD mn)	1,848
Net-debt, FY24E (Rs mn)	-9,489
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	258.6
ADTV-3M (USD mn)	3.1
Free float (%)	51.0
Nifty-50	19,412
INR/USD	83.2
Shareholding, Sep-23	
Promoters (%)	37.6
FPIs/MFs (%)	16.0/25.2

Price Performance

(%)	1M	3M	12M
Absolute	(6.0)	(1.2)	21.0
Rel. to Nifty	(4.8)	(0.7)	12.9

1-Year share price trend (Rs)**Sabri Hazarika**

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Exhibit 1: Actuals vs. Estimates (Q2FY24)

(Rs mn)	Actual	Estimates (Emkay)	Consensus Estimates (Bloomberg)	Variation		Comments
				Emkay	Consensus	
Total Revenue	5,293	4,565	4,545	16%	16%	Higher tariff realization
Adjusted EBITDA	4,103	3,506	3,650	17%	12%	Lower opex
EBITDA margin	77.5%	76.8%	80.3%	70bps	-280bps	
Adjusted Net Profit	5,320	4,244	4,597	25%	16%	Lower tax rate

Source: Company, Emkay Research

Exhibit 2: Quarterly Summary

(Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY	QoQ	H1FY23	H1FY24	YoY
Reported Net Revenue	4,346	4,024	4,270	4,412	5,293	22%	20%	9,164	9,705	6%
Gas Transmission	4,240	3,989	4,215	4,311	5,171	22%	20%	8,940	9,482	6%
Sale of Electricity	106	35	55	101	122	15%	21%	224	223	-1%
CGD Business/Adj.	-0	-0	-0	-0	-0			0	-0	
OPEX	1,008	1,325	1,325	1,047	1,190	18%	14%	2,224	2,238	1%
Employee Cost	161	257	161	161	169	5%	5%	304	330	9%
Gas Transmission	496	540	690	475	760	53%	60%	1,114	1,236	11%
Others	351	528	474	411	261	-26%	-36%	806	672	-17%
EBITDA	3,338	2,699	2,945	3,364	4,103	23%	22%	6,940	7,467	8%
Depreciation	488	489	483	468	477	-2%	2%	966	945	-2%
EBIT	2,851	2,210	2,462	2,896	3,626	27%	25%	5,974	6,522	9%
Interest Cost	11	11	10	10	10	-11%	-1%	26	20	-21%
Other Income	1,037	130	476	180	2,663	157%		1,077	2,844	164%
PBT	3,877	2,329	2,928	3,066	6,278	62%	105%	7,025	9,345	33%
Exceptional Items	-	-	2	-	-			-	-	
PBT After Exceptionals	3,877	2,329	2,931	3,066	6,278	62%	105%	7,025	9,345	33%
Current Tax	735	613	684	785	972	32%	24%	1,525	1,757	15%
Deferred Tax	-0	7	4	-11	-14			3	-25	
Total Tax	735	620	687	773	958	30%	24%	1,529	1,732	13%
Reported PAT	3,142	1,709	2,243	2,293	5,320	69%	132%	5,497	7,613	38%
Reported EPS (Rs.)	5.6	3.0	4.0	4.1	9.4	69%	132%	9.7	13.5	38%
Adjusted PAT	3,142	1,709	2,241	2,293	5,320	69%	132%	5,497	7,613	38%
Adjusted EPS (Rs.)	5.6	3.0	4.0	4.1	9.4	69%	132%	9.7	13.5	38%
Shares O/S (mn)	564	564	564	564	564	0%	0%	564	564	0%
EBITDA Margin	77%	67%	69%	76%	78%	1%	2%	76%	77%	2%
NPM	72%	42%	53%	52%	101%	39%	93%	60%	78%	31%
Effective Tax Rate	19%	27%	23%	25%	15%	-19%	-39%	22%	19%	
Gas Volumes (mmscmd)	24.6	22.3	25.1	29.4	30.2	23%	3%	27.0	29.8	10%
CGD Share	35%	38%	40%	35%	36%			36%	36%	
Refinery/Petchem Share	32%	27%	27%	22%	18%			31%	20%	
Fertilizer Share	15%	17%	14%	12%	15%			13%	13%	
Power Share	2%	3%	5%	14%	14%			4%	14%	
Other Segments - Share	16%	15%	14%	17%	17%			15%	17%	
Adjusted Tariff (Rs/scm)	1.66	1.68	1.56	1.44	1.59	-4%	11%	1.58	1.51	-5%
Adjusted OPEX/scm (Rs)	0.23	0.38	0.28	0.21	0.15	-32%	-28%	0.22	0.18	-18%
EBITDA/scm (Rs)	1.48	1.31	1.30	1.26	1.48	0%	17%	1.40	1.37	-3%

Source: Company, Emkay Research

Exhibit 3: Change in assumptions

	FY24E			FY25E			FY26E
	Previous	Revised	Variance	Previous	Revised	Variance	Introduced
Adj Tariff (Rs/mscm)	1,008	1,004	0%	937	934	0%	934
Growth	-37%	-37%	0bps	-7%	-7%	0bps	0%
Volumes (mmscmd)	29.0	30.0	3%	31.0	32.0	3%	34.5
Growth	14%	18%	394bps	7%	7%	-23bps	8%

Source: Company, Emkay Research

Exhibit 4: Change in estimates

(Rs mn)	FY24E			FY25E			FY26E
	Previous	Revised	Variance	Previous	Revised	Variance	Introduced
Revenue	13,377	13,777	3%	13,279	13,646	3%	14,699
EBITDA	8,415	8,698	3%	8,185	8,440	3%	9,119
EBITDA margin	62.9%	63.1%	23bps	61.6%	61.9%	21bps	62.0%
PAT	6,059	7,433	23%	5,885	7,172	22%	7,705
EPS (Rs)	10.7	13.2	23%	10.4	12.7	22%	13.6

Source: Company, Emkay Research

Exhibit 5: DCF-based valuation of core business (Sep-24E)

DCF assumptions		Rs. mn
Risk Free Rate	7.0%	NPV Of FCF (Sep'25-Sep'36)
Risk Premium	5.3%	Terminal Value
Beta	0.8	PV Of TV
Cost Of Equity	11.1%	Total Value
Cost Of Debt	9.0%	Less: Net Debt (Sep'24E)
Post Tax Cost Of Debt	6.8%	Equity Value
Average Debt:Equity Ratio	0.0%	No. Of Shares O/S (mn)
WACC	11.1%	Core Business FV (Rs.)
Terminal Growth Rate	0.0%	

Source: Company, Emkay Research

Exhibit 6: Value of Gujarat-Gas stake

Gujarat Gas at FV (Rs mn)	
FV (Rs/sh)	440
No. of shares O/S (mn)	689
FV of GGL	3,03,160
At 40% HoldCo Disc.	1,81,896
GSPL's Stake	54.2%
GSPL's Value	98,533
GSPL's Shares O/S (mn)	565
Value/sh For GSPL (Rs)	175

Source: Company, Emkay Research

Exhibit 7: SOTP-based valuation

	Method	Value (Rs)
Core Gujarat Business	DCF-based	133
Gujarat Gas Stake	FV-based	175
3 New Pipelines	DCF-based	15
Sabarmati Gas	PER-based	13
Target Price per share		335

Source: Company, Emkay Research

Gujarat State Petronet: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	20,200	17,458	13,777	13,646	14,699
Revenue growth (%)	(2.9)	(13.6)	(21.1)	(0.9)	7.7
EBITDA	13,976	12,585	8,698	8,440	9,119
EBITDA growth (%)	(5.1)	(10.0)	(30.9)	(3.0)	8.0
Depreciation & Amortization	1,960	1,939	2,119	2,351	2,582
EBIT	12,016	10,646	6,579	6,089	6,537
EBIT growth (%)	(5.4)	(11.4)	(38.2)	(7.5)	7.4
Other operating income	0	0	0	0	0
Other income	1,045	1,684	3,395	3,532	3,792
Financial expense	313	47	37	32	29
PBT	12,748	12,283	9,937	9,589	10,300
Extraordinary items	416	2	0	0	0
Taxes	3,067	2,836	2,504	2,416	2,596
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	10,514	9,452	7,433	7,172	7,705
PAT growth (%)	14.8	(10.1)	(21.4)	(3.5)	7.4
Adjusted PAT	9,536	9,447	7,433	7,172	7,705
Diluted EPS (Rs)	16.9	16.7	13.2	12.7	13.6
Diluted EPS growth (%)	14.8	(10.1)	(21.4)	(3.6)	7.4
DPS (Rs)	2.0	5.0	4.0	3.8	4.1
Dividend payout (%)	10.7	29.8	30.0	30.0	30.0
EBITDA margin (%)	69.2	72.1	63.1	61.9	62.0
EBIT margin (%)	59.5	61.0	47.8	44.6	44.5
Effective tax rate (%)	28.5	23.1	25.2	25.2	25.2
NOPLAT (pre-IndAS)	8,596	8,186	4,921	4,554	4,890
Shares outstanding (mn)	564.2	564.2	564.5	564.8	565.1

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	12,748	12,283	9,937	9,589	10,300
Others (non-cash items)	850	393	(1,239)	(1,149)	(1,181)
Taxes paid	(3,062)	(2,741)	(2,491)	(2,404)	(2,584)
Change in NWC	(202)	(274)	708	(28)	(248)
Operating cash flow	10,752	9,664	6,914	6,008	6,288
Capital expenditure	(798)	(1,892)	(5,000)	(5,000)	(5,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	912	1,137	3,395	3,532	3,792
Investing cash flow	59	(1,585)	(1,605)	(1,468)	(1,208)
Equity raised/(repaid)	0	0	3	3	3
Debt raised/(repaid)	(9,354)	(886)	(10)	(10)	(10)
Payment of lease liabilities	(9)	(9)	(9)	(9)	(9)
Interest paid	(341)	(12)	(37)	(32)	(29)
Dividend paid (incl tax)	(1,128)	(1,128)	(2,230)	(2,152)	(2,311)
Others	0	0	0	0	0
Financing cash flow	(10,823)	(2,026)	(2,274)	(2,191)	(2,348)
Net chg in Cash	(13)	6,053	3,035	2,349	2,732
OCF	10,752	9,664	6,914	6,008	6,288
Adj. OCF (w/o NWC chg.)	10,953	9,938	6,206	6,036	6,535
FCFF	9,953	7,772	1,914	1,008	1,288
FCFE	10,552	8,863	5,272	4,507	5,051
OCF/EBITDA (%)	76.9	76.8	79.5	71.2	68.9
FCFE/PAT (%)	100.4	93.8	70.9	62.8	65.6
FCFF/NOPLAT (%)	115.8	94.9	38.9	22.1	26.3

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	5,642	5,642	5,645	5,648	5,651
Reserves & Surplus	78,787	87,090	92,293	97,313	1,02,706
Net worth	84,429	92,732	97,938	1,02,961	1,08,357
Minority interests	0	0	0	0	0
Deferred tax liability (net)	4,250	4,238	4,251	4,263	4,274
Total debt	1,275	473	463	453	443
Total liabilities & equity	89,955	97,443	1,02,651	1,07,676	1,13,074
Net tangible fixed assets	31,528	29,826	33,132	36,164	38,927
Net intangible assets	1,434	1,434	1,434	1,434	1,434
Net ROU assets	292	292	292	292	292
Capital WIP	2,531	4,257	3,831	3,448	3,103
Goodwill	0	0	0	0	0
Investments [JV/Associates]	51,737	51,700	51,700	51,700	51,700
Cash & equivalents	864	6,917	9,952	12,300	15,032
Current assets (ex-cash)	5,013	6,457	5,810	5,891	6,218
Current Liab. & Prov.	3,445	3,440	3,501	3,554	3,633
NWC (ex-cash)	1,568	3,017	2,309	2,338	2,585
Total assets	89,955	97,443	1,02,651	1,07,676	1,13,074
Net debt	411	(6,444)	(9,489)	(11,848)	(14,590)
Capital employed	89,955	97,443	1,02,651	1,07,676	1,13,074
Invested capital	34,823	34,569	37,168	40,228	43,239
BVPS (Rs)	149.6	164.4	173.5	182.3	191.8
Net Debt/Equity (x)	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Net Debt/EBITDA (x)	0.0	(0.5)	(1.1)	(1.4)	(1.6)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	14.5	13.2	10.0	9.1	9.4

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	16.1	16.3	20.7	21.5	20.0
P/CE(x)	13.4	13.5	16.1	16.2	15.0
P/B (x)	1.8	1.7	1.6	1.5	1.4
EV/Sales (x)	7.6	8.4	10.5	10.4	9.5
EV/EBITDA (x)	11.0	11.7	16.6	16.8	15.3
EV/EBIT(x)	12.8	13.8	21.9	23.3	21.3
EV/IC (x)	4.4	4.3	3.9	3.5	3.2
FCFF yield (%)	6.5	5.3	1.3	0.7	0.9
FCFE yield (%)	6.9	5.8	3.4	2.9	3.3
Dividend yield (%)	0.7	1.8	1.4	1.4	1.5
DuPont-RoE split					
Net profit margin (%)	47.2	54.1	54.0	52.6	52.4
Total asset turnover (x)	0.2	0.2	0.1	0.1	0.1
Assets/Equity (x)	1.1	1.1	1.0	1.0	1.0
RoE (%)	11.9	10.7	7.8	7.1	7.3
DuPont-RoIC					
NOPLAT margin (%)	42.6	46.9	35.7	33.4	33.3
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	23.9	23.6	13.7	11.8	11.7
Operating metrics					
Core NWC days	19.2	36.3	36.3	36.3	36.3
Total NWC days	19.2	36.3	36.3	36.3	36.3
Fixed asset turnover	0.4	0.4	0.3	0.2	0.2
Opex-to-revenue (%)	30.8	27.9	36.9	38.1	38.0

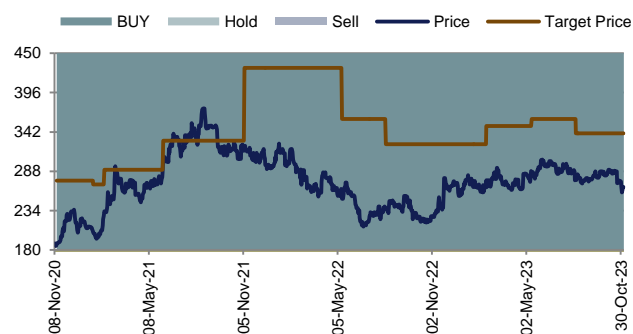
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
05-Aug-23	276	340	Buy	Sabri Hazarika
13-Jul-23	292	360	Buy	Sabri Hazarika
12-May-23	287	360	Buy	Sabri Hazarika
14-Feb-23	276	350	Buy	Sabri Hazarika
22-Nov-22	238	325	Buy	Sabri Hazarika
11-Nov-22	233	325	Buy	Sabri Hazarika
05-Aug-22	236	325	Buy	Sabri Hazarika
13-May-22	250	360	Buy	Sabri Hazarika
11-Feb-22	298	430	Buy	Sabri Hazarika
23-Nov-21	309	430	Buy	Sabri Hazarika
07-Nov-21	316	430	Buy	Sabri Hazarika
26-Jul-21	341	330	Buy	Sabri Hazarika
23-Jun-21	334	330	Buy	Sabri Hazarika
04-Jun-21	308	330	Buy	Sabri Hazarika
29-May-21	279	290	Buy	Sabri Hazarika
23-Apr-21	250	290	Buy	Sabri Hazarika
23-Mar-21	260	290	Buy	Sabri Hazarika
11-Feb-21	233	290	Buy	Sabri Hazarika
21-Jan-21	204	270	Buy	Sabri Hazarika
27-Nov-20	220	275	Buy	Sabri Hazarika
12-Nov-20	189	275	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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