

Gujarat State Petronet

BSE SENSEX 81,688 S&P CNX 25,015

CMP: INR428 TP: INR472 (+10%) Downgrade to Neutral



Stock Info

Bloomberg	GUJS IN
Equity Shares (m)	564
M.Cap.(INRb)/(USD\$b)	241.7 / 2.9
52-Week Range (INR)	470 / 255
1, 6, 12 Rel. Per (%)	-3/6/22
12M Avg Val (INR M)	997
Free float (%)	62.4

Financials Snapshot (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	17.6	12.6	13.5
EBITDA	15.0	9.7	10.3
PAT	12.8	7.4	6.8
EPS (INR)	22.8	13.1	12.1
EPS Gr. (%)	35.9	-42.4	-7.7
BV/Sh.(INR)	182.1	191.3	199.8

Ratios

Net D:E	0.0	-0.1	-0.1
RoE (%)	13.1	7.0	6.2
RoCE (%)	13.2	7.1	6.2
Payout (%)	21.9	30.0	30.0

Valuations

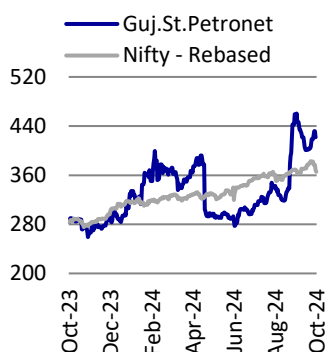
P/E (x)	18.9	32.9	35.6
P/BV (x)	2.4	2.3	2.2
EV/EBITDA (x)	15.9	24.3	23.0
Div. Yield (%)	1.2	0.9	0.8
FCF Yield (%)	3.1	1.0	0.1

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	37.6	37.6	37.6
DII	25.6	26.8	27.2
FII	15.9	15.7	16.6
Others	20.9	20.0	18.6

FII Includes depository receipts

Stock Performance (1-year)



Merger key event to watch for in FY26

- After a strong 1Q, 2Q will likely be a weak quarter for GUJS owing to fading power demand, a one-month shutdown at Morbi, and the full-quarter impact of the tariff cut. We build in EBITDA of INR2.4b and transmission volume of 34mmscmd (down 7% QoQ). We estimate EBITDA/PAT to decline by 21%/10% QoQ. However, we estimate transmission volumes to reach 38.5mmscmd by FY26 (12% CAGR over FY24-26), driven by upcoming LNG terminals in Gujarat and improved demand owing to the focus on reducing the industrial pollution.
- As part of the company's merger with Gujarat Gas (GUJGA), the swap ratio for GUJS was fixed at 10:13, i.e., 10 shares of GUJGA (FV INR2) will be issued for every 13 equity shares of GUJS (FV INR10). Based on this swap ratio, we revise our TP for GUJS to INR472/share and downgrade the stock to Neutral.

2Q likely to be a weak quarter for GUJS

- Amid fading power demand, a one-month shutdown at Morbi and the full-quarter impact of the tariff cut, 2Q is likely to be a weak quarter for GUJS.
 - We estimate transmission volumes to decline 7% QoQ and EBITDA/PAT to decline 21%/10% QoQ.
- We build in EBITDA of INR9.7b/INR10.3b for FY25/FY26.
 - We estimate transmission volumes to reach 38.5mmscmd by FY26 (12% CAGR over FY24-26), driven by upcoming LNG terminals in Gujarat and improved demand owing to the focus on reducing the industrial pollution.

Tariff-related uncertainty remains

- On 20th Apr'24, the PNGRB issued a tariff order for 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 tariff order, we had cut our FY25E/FY26E EPS by ~41% each.
- However, GUJS has filed an appeal with APTEL challenging the tariff order and seeking to set aside the order. Even though we do not expect an early resolution in this matter, we understand that GUJS will continue to pursue a revision of this tariff order.

Start of new LNG terminals in Gujarat

- The available LNG capacity in Gujarat is expected to grow 55% to ~42.5mmtpa over the next two years and GUJS will be a key beneficiary of higher volume growth.
- HPCL's 5mmtpa Chhara terminal (expandable to 10mmtpa) would also be commissioned in Nov'24/Dec'24. Similarly, PLNG's Dahej terminal expansion from 17.5mmtpa to 22.5mmtpa is expected to be completed by Mar'25.
- Swan LNG's upcoming LNG regasification terminal at Jaffrabad is also a 5mmtpa terminal (expandable to 10mmtpa). A recent [media article](#) states that Swan Energy is planning to sell its stake in the floating LNG terminal through the sale of FSRU. This transaction is expected to be executed in six months, which is likely to cause further delay in the commissioning of the terminal.

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GSPC, GUJS and GEL to amalgamate with GUJGA

In the board meeting held on 30th Aug'24, the board of GUJS approved the composite scheme of arrangement and amalgamation among the transferor companies - Gujarat State Petroleum Corporation Limited (GSPC), Gujarat State Petronet Limited (GUJS) and GSPC Energy Limited (GEL), transferee company - Gujarat Gas (GUJGA), and resultant company - GSPL Transmission Limited (GTL). The scheme results in the amalgamation of GSPC, GUJS and GEL with GUJGA, followed by the demerger of Gas Transmission Business Undertaking into GTL.

Following are the key details pertaining to the scheme:

■ Share Exchange Ratio:

- To shareholders of GSPC, 10 shares of GUJGA (FV INR2) shall be issued for every 305 equity shares of GSPC (FV INR1).
- To shareholders of GUJS, 10 shares of GUJGA (FV INR2) shall be issued for every 13 equity shares of GUJS (FV INR10).
- Post amalgamation, gas transmission business shall be demerged into GTL, and GUJGA's shareholders shall receive 1 equity share (FV INR10) of GTL for every 3 equity shares of GUJGA (FV INR2). GTL shall get listed subsequently.

■ Timeline

Approval from SEBI and stock exchanges is expected by Dec'24. Approval of shareholders, regulatory authorities and MCA is expected by May'25. Shares pursuant to the scheme shall be issued within one month of receipt of all the approvals, post which, trading of GUJS shall be suspended. Listing of additional share of GUJGA and listing of GTL is expected to complete by Aug'25, marking completion of the scheme.

■ Benefits for the shareholders:

Related-party transactions between GSPC and GUJGA will be eliminated.

Shareholders of GUJS will experience value unlocking as they receive shares of both GUJGA and GTL. Also, the demerger shall facilitate an independent, market-driven valuation of GTL.

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 12% CAGR in transmission volumes over FY24-26.
- We expect volumes to jump to ~38.5mmcmd in FY26, 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 a TP of INR472 (basis 2nd Oct'24 price). Hence, we downgrade our rating on the stock to Neutral with a potential upside of 10%.

Financials and Valuations

Standalone - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	18,773	19,449	17,191	16,591	15,275	17,572	12,625	13,488	13,488
Change (%)	41.0	3.6	-11.6	-3.5	-7.9	15.0	-28.1	6.8	0.0
EBITDA	15,426	15,749	14,694	13,976	12,587	15,041	9,707	10,267	10,157
Margin (%)	82.2	81.0	85.5	84.2	82.4	85.6	76.9	76.1	75.3
Depreciation	1,800	1,966	2,049	1,960	1,939	1,920	2,295	2,368	2,653
EBIT	13,626	13,783	12,645	12,016	10,648	13,121	7,412	7,900	7,504
Int. and Finance Charges	2,192	1,645	933	313	47	50	44	46	46
Other Income	594	649	694	1,045	1,684	3,351	2,525	1,281	1,281
PBT bef. EO Exp.	12,028	12,786	12,406	12,748	12,286	16,422	9,893	9,135	8,740
EO Items	0	0	0	-14	0	0	0	0	0
PBT after EO Exp.	12,028	12,786	12,406	12,735	12,286	16,422	9,893	9,135	8,740
Total Tax	4,081	1,699	3,147	2,958	2,836	3,576	2,490	2,299	2,200
Tax Rate (%)	33.9	13.3	25.4	23.2	23.1	21.8	25.2	25.2	25.2
Reported PAT	7,947	11,087	9,259	9,777	9,450	12,846	7,403	6,836	6,540
Adjusted PAT	7,947	11,087	9,259	9,787	9,450	12,846	7,403	6,836	6,540
Change (%)	18.9	39.5	-16.5	5.7	-3.5	35.9	-42.4	-7.7	-4.3
Margin (%)	42.3	57.0	53.9	59.0	61.9	73.1	58.6	50.7	48.5

Standalone - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	5,640	5,641	5,642	5,642	5,642	5,642	5,642	5,642	5,642
Total Reserves	51,800	61,584	69,808	78,787	87,090	97,059	1,02,242	1,07,029	1,11,608
Net Worth	57,440	67,226	75,450	84,429	92,732	1,02,701	1,07,884	1,12,671	1,17,250
Total Loans	12,856	5,441	7,499	877	0	0	0	0	0
Deferred Tax Liabilities	5,226	4,081	4,218	4,250	4,238	4,159	4,159	4,159	4,159
Capital Employed	75,522	76,748	87,167	89,557	96,970	1,06,860	1,12,044	1,16,830	1,21,409
Gross Block	43,245	44,994	45,854	46,406	46,636	47,357	56,952	64,471	71,575
Less: Accum. Deprn.	7,170	9,137	11,186	13,146	15,085	17,005	19,300	21,667	24,320
Net Fixed Assets	36,075	35,857	34,668	33,259	31,551	30,353	37,652	42,804	47,254
Capital WIP	4,194	2,372	2,215	2,526	4,248	7,618	5,024	4,505	4,401
Total Investments	42,772	46,111	50,062	51,737	51,700	53,297	53,297	53,297	53,297
Curr. Assets, Loans&Adv.	6,459	5,764	5,420	5,878	13,384	19,541	19,071	19,445	19,694
Inventory	1,279	1,261	1,296	1,890	2,121	2,108	2,432	2,683	2,775
Account Receivables	2,081	1,637	1,586	1,295	1,440	1,412	1,015	1,084	1,084
Cash and Bank Balance	1,583	957	877	864	6,917	4,734	7,516	7,015	7,172
Cash	700	903	843	738	1,357	83	2,864	2,364	2,520
Bank Balance	883	54	34	126	5,560	4,652	4,652	4,652	4,652
Loans and Advances	1,516	1,908	1,660	1,828	2,906	11,285	8,109	8,662	8,662
Curr. Liability & Prov.	13,978	13,356	5,197	3,843	3,913	3,949	3,000	3,220	3,237
Account Payables	238	410	620	654	510	375	433	478	494
Other Current Liabilities	13,523	12,670	4,270	2,928	3,141	3,253	2,337	2,497	2,497
Provisions	216	276	307	262	262	321	230	246	246
Net Current Assets	-7,518	-7,592	223	2,035	9,471	15,592	16,071	16,225	16,457
Misc Expenditure	0	0	0	0	0	0	0	0	0
Appl. of Funds	75,522	76,748	87,167	89,557	96,970	1,06,860	1,12,044	1,16,830	1,21,410

Financials and Valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)									
EPS	14.1	19.7	16.4	17.4	16.8	22.8	13.1	12.1	11.6
Cash EPS	17.3	23.1	20.1	20.8	20.2	26.2	17.2	16.3	16.3
BV/Share	101.8	119.2	133.8	149.7	164.4	182.1	191.3	199.8	207.9
DPS	2.0	2.0	2.0	2.0	5.0	5.0	3.9	3.6	3.5
Payout (%)	16.1	10.2	12.2	11.5	29.8	21.9	30.0	30.0	30.0
Valuation (x)									
P/E	30.6	21.9	26.3	24.9	25.8	18.9	32.9	35.6	37.2
Cash P/E	25.0	18.6	21.5	20.7	21.4	16.5	25.1	26.4	26.5
P/BV	4.2	3.6	3.2	2.9	2.6	2.4	2.3	2.2	2.1
EV/Sales	13.6	12.7	14.5	14.7	15.5	13.6	18.7	17.5	17.5
EV/EBITDA	16.5	15.7	17.0	17.4	18.8	15.9	24.3	23.0	23.2
Dividend Yield (%)	0.5	0.5	0.5	0.5	1.2	1.2	0.9	0.8	0.8
FCF per share	15.5	22.2	20.0	17.6	13.8	13.4	4.5	0.6	1.6
Return Ratios (%)									
RoE	14.7	17.8	13.0	12.2	10.7	13.1	7.0	6.2	5.7
RoCE	13.6	17.5	12.8	11.9	10.7	13.2	7.1	6.2	5.7
RoIC	39.3	44.0	30.8	27.0	23.9	27.3	12.7	12.0	10.3
Working Capital Ratios									
Fixed Asset Turnover (x)	0.4	0.4	0.4	0.4	0.3	0.4	0.2	0.2	0.2
Asset Turnover (x)	0.2	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Inventory (Days)	25	24	28	42	51	44	70	73	75
Debtor (Days)	40	31	34	28	34	29	29	29	29
Creditor (Days)	5	8	13	14	12	8	13	13	13
Leverage Ratio (x)									
Current Ratio	0.5	0.4	1.0	1.5	3.4	4.9	6.4	6.0	6.1
Interest Cover Ratio	6.2	8.4	13.6	38.4	227.5	262.8	169.2	172.1	163.5
Net Debt/Equity	0.2	0.1	0.1	0.0	-0.1	0.0	-0.1	-0.1	-0.1

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	12,028	12,786	12,382	13,165	12,286	16,422	9,893	9,135	8,740
Depreciation	1,800	1,966	2,048	1,960	1,939	1,920	2,295	2,368	2,653
Interest & Finance Charges	2,192	1,645	934	313	47	49	44	46	46
Direct Taxes Paid	-3,639	-3,082	-3,025	-3,062	-2,741	-3,534	-2,490	-2,299	-2,200
(Inc)/Dec in WC	-956	893	684	-202	-274	109	2,303	-655	-76
Others	-542	-606	-611	-1,448	-1,592	-3,242	-2,525	-1,281	-1,281
CF from Operations	10,882	13,602	12,412	10,726	9,664	11,724	9,519	7,314	7,882
(Inc)/Dec in FA	-2,118	-1,066	-1,119	-773	-1,892	-4,164	-7,000	-7,000	-7,000
Free Cash Flow	8,764	12,536	11,293	9,953	7,772	7,561	2,519	314	882
(Pur)/Sale of Investments	-990	-3,340	-3,848	-1,690	0	-1,660	0	0	0
Others	3,029	1,304	589	2,452	-5,127	-4,332	2,525	1,281	1,281
CF from Investments	-80	-3,102	-4,379	-11	-7,019	-10,156	-4,475	-5,719	-5,719
Inc/(Dec) in Debt	-6,912	-7,335	-6,037	-9,348	-875	0	0	0	0
Interest Paid	-2,299	-1,678	-924	-337	-7	-5	-44	-46	-46
Dividend Paid	-1,128	-1,283	-1,128	-1,128	-1,128	-2,821	-2,219	-2,049	-1,961
CF from Fin. Activity	-10,328	-10,297	-8,093	-10,819	-2,026	-2,843	-2,263	-2,095	-2,007
Inc/Dec of Cash	475	203	-59	-105	619	-1,274	2,781	-500	157
Opening Balance	225	700	902	843	738	1,357	83	2,864	2,364
Closing Balance	700	902	843	738	1,357	83	2,864	2,364	2,520

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