

Gujarat State Petronet

BSE SENSEX
58,444

S&P CNX
16,364

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Bloomberg	GUJS IN
Equity Shares (m)	564
M.Cap.(INRb)/(USDb)	197.8 / 2.7
52-Week Range (INR)	361 / 178
1, 6, 12 Rel. Per (%)	4/44/22
12M Avg Val (INR M)	297

Financials & Valuations (INR b)

Y/E March	FY21	FY22E	FY23E
Sales	17.2	19.1	20.9
EBITDA	14.7	15.8	17.3
PAT	9.3	10.3	11.3
EPS (INR)	16.4	18.3	20.1
EPS Gr. (%)	-16.5	11.2	10.0
BV/Sh.(INR)	133.8	150.0	168.1

Ratios

Net D:E	0.1	0.0	0.0
RoE (%)	13.0	12.9	12.6
RoCE (%)	12.8	12.2	12.0
Payout (%)	14.7	11.0	10.0

Valuations

P/E (x)	21.3	19.2	17.4
P/BV (x)	2.6	2.3	2.1
EV/EBITDA (x)	13.9	12.6	11.1
Div. Yield (%)	0.6	0.6	0.6
FCF Yield (%)	5.7	2.8	3.4

CMP: INR350
TP: INR500 (+43%)
Buy

Right at the dawn – tariff revision to (en)lighten

- Over the last year and a half, as GUJS's volumes reached 38-39mmscmd in 1HFY20, there have been continuous investor concerns over the more than optimal utilization rate of its High Pressure Pipeline (HPP) grid. With an adjustment in lieu of the new tax regime (of 25.17%), the tariff revision became a much larger concern, resulting in a huge de-rating in GUJS's standalone value.
- PNGRB has taken up tariff review of GUJS's HPP grid - [link to draft notification](#) (open house was earlier scheduled on 13th Aug'21, but has been postponed, date of which would be announced later) to determine the new tariff from FY22 onwards. This would also adjust it for the new tax regime (16% pre-tax IRR v/s 18.45% in FY19). The company has proposed to undertake a capex plan of INR45.4b over the remaining life of the pipeline (i.e. over the next 10 years till FY32) on the net block of INR53.8b at the end of FY21 (spent over the last 20 years starting FY01).
- This is in line with management's repeated guidance of increased capex to augment newer LNG terminal capacities on the grid, which would obviate the need for a tariff cut. In our earlier report ([Large appetite for growth](#)), we have focused on the volume prospects available to the company.
- Valuing the company at 7x Sep'23E standalone EPS (trough multiple of the last 10 years), we arrive at our TP of INR500/share and reiterate our Buy rating. With the aforementioned awaited clarity over tariff on the horizon, the stock may see a significant re-rating and catch up to its long term average.

Proposed tariff based on future capex plans

- In its draft to PNGRB, GUJS has proposed a future capex of INR45.4b (over FY22-FY32), against the net block of INR53.8b (over FY01-FY21). The company is working on 13 different pipeline projects (as listed in Exhibit 8), which would constitute a total additional length of 753km (or ~33% of the current length of the HPP grid).
- GUJS has proposed a new tariff of INR54.1/MMBtu (on a GCV basis from FY22 onwards).** This is considering volumes of 26mmscmd from hereon on the HPP grid (v/s 28.8/32.3mmscmd in FY21/20).
- Although the regulator has sought clarification over the lower volume assumption by the company, considering that volume continues to flow at 100% of the nameplate HPP capacity (of 30.5mmscmd), the proposed tariff would fall to INR46/MMBtu (v/s the current tariff of INR34).

Clarity on volumes transported through compressor services

- As per the provisions of sub regulations 12 (2) of NGPL Authorizations (applicable till 22nd Nov'20), the pipeline line entity is required to share 50% of the proposed incremental tariff revenue in the event of an expansion in capacity by over 10%.
- Basis the same, over utilization of the HPP grid stands at 3%/6% in FY19/FY20 (as explained in Exhibit 7), which allays concerns of a higher tariff cut.**
- Furthermore, the pipeline projects proposed as a part of the future capex plan (like Dahej-Bhadbhut: 36km, Anjar-Palanpur: 274km, Jamnagar-Okha: 100km) would redistribute volumes off the HPP grid directly to other cross country pipelines.

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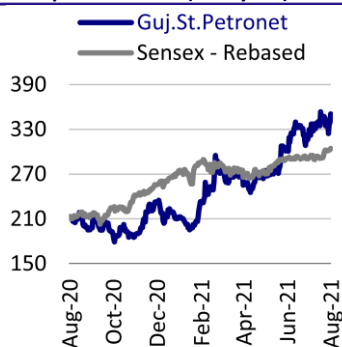
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Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	37.6	37.6	37.6
DII	30.0	30.0	33.6
FII	17.5	17.2	15.5
Others	14.9	15.2	13.2

FII Includes depository receipts

Stock performance (one-year)**Sensitivity to a tariff cut and analysis**

- Considering a gradual ramp up in volumes, with new terminal capacity additions in Gujarat, our sensitivity for a 5%/10%/20% tariff cut from current levels of INR34/MMBtu results in an EBITDA CAGR of 15%/13%/8% (on the back of 16% volumes CAGR over the same period).
- Similar sensitivity, assuming a 10% volume CAGR (in line with the management's guidance), would result in flat EBITDA growth at a 20% tariff cut. A 5%/10% tariff cut would result in an 8%/6% EBITDA CAGR over FY21-24E.
- The aforementioned sensitivity would stand true even in the case of an upward revision in tariffs as well (on our current EBITDA CAGR of ~8% over FY21-24E). **More importantly, the clarity in terms of a tariff revision would reduce the speculation/concerns over the same and would guide a clear path ahead for the company, with a possible re-rating in terms of volume surprises.**

Valuation and view – reiterate Buy

- Over the last five years, EBITDA grew by ~11% CAGR, in line with the ~10% volume CAGR (to ~37mmscmd in FY20; FY21 saw a decline of 7%/3% in EBITDA/volumes respectively due to COVID). **The management expects over 10-12% volume CAGR over the next 4-5 years (as available LNG regas capacity is expected to jump by 75% to 42mmtpa over the next 2-3 years in Gujarat).**
- Our estimates suggest a FCF generation over FY22-24E could be ~INR20.4b, which the management plans to use to fund its capex. With major concerns over the usage of cash already been solved (refer our report [GSPC: Declining debt removes concern on GUJS](#)), the final piece of the puzzle would be an announcement of the revised tariff.
- **Strict action against usage of industrial pollution would further increase the demand for gas and may result in higher transmission volume than that considered. Non-approval of capex proposed by GUJS, resulting in a sharp cut in tariff, remains the biggest risk.**
- The company would turn net cash by the end of FY23E (v/s a net debt of INR6.6b in FY21), despite annual capex plans of INR7b. The stock trades at 16x FY23E EPS and 10x FY23E EV/EBITDA (owing to a huge rally in GUJGA of ~45% in the last two months). **We reiterate our Buy rating.**

Exhibit 1: EBITDA sensitivity to a change in tariff for GUJS

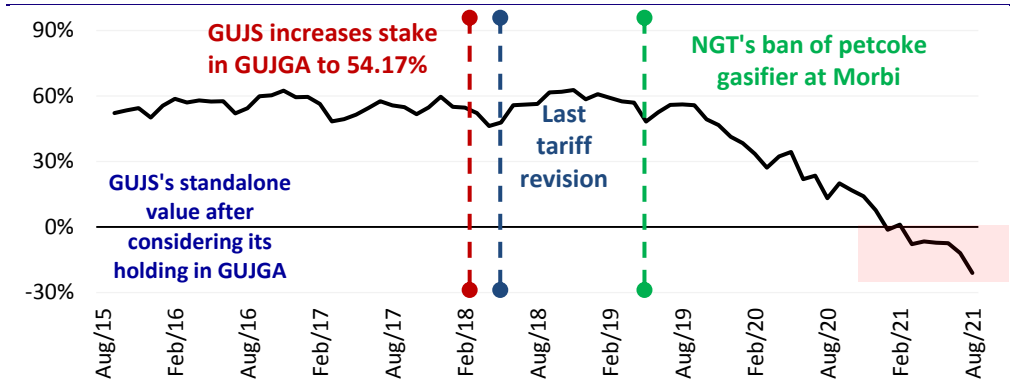
EBITDA (INR b)		Tariff (INR/mmbtu)							
		26	28	30	32	34	40	46	54
Volumes (mmscmd)	30.0	8.6	9.5	10.3	11.2	12.1	14.7	17.3	20.7
	32.5	9.3	10.2	11.2	12.1	13.1	15.9	18.7	22.5
	35.0	10.0	11.0	12.0	13.1	14.1	17.1	20.2	24.2
	37.5	10.7	11.8	12.9	14.0	15.1	18.3	21.6	25.9
	40.0	11.4	12.6	13.8	14.9	16.1	19.6	23.0	27.7
	42.5	12.2	13.4	14.6	15.9	17.1	20.8	24.5	29.4
	45.0	12.9	14.2	15.5	16.8	18.1	22.0	25.9	31.1
	47.5	13.6	15.0	16.3	17.7	19.1	23.2	27.3	32.9
	50.0	14.3	15.8	17.2	18.6	20.1	24.4	28.8	34.6

Source: MOFSL

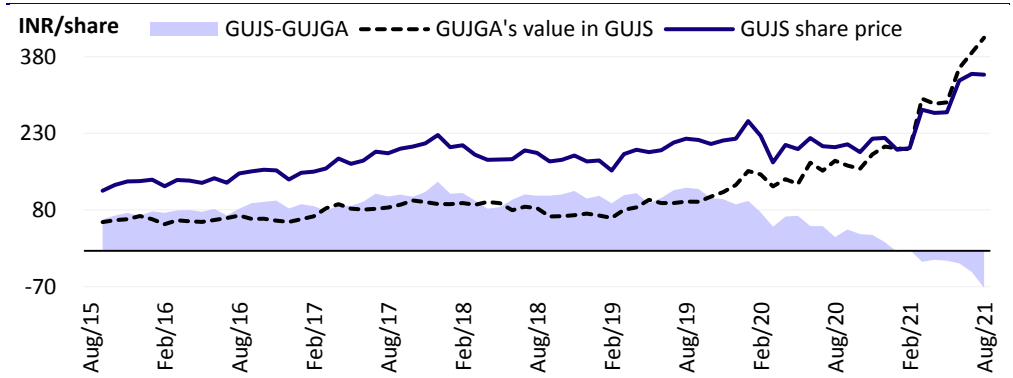
Exhibit 2: GUJS's EBITDA forecast based on gradual volumes ramp up at LNG terminals in Gujarat

Assuming following increase in LNG terminal capacity utilizations (mmtpa):	Mundra at 2.5	Mundra at 2.5 Jaffrabad at 2.0	Mundra at 3.5 Jaffrabad at 3.0 Dahej at 18.0	Mundra at 4.5 Jaffrabad at 4.5 Dahej at 18.5	CAGR
Sensitivity to change in tariff	FY22E	FY23E	FY24E	FY25E	FY21-25E
Volumes (mmscmd)	40.0	47.2	56.2	67.0	16%
Volumes addition YoY (mmscmd)	3.4	7.2	9.0	10.8	
Tariff (INR/mmbtu) - 5% reduction	32.3	32.3	32.3	32.3	
EBITDA (INR m)	15,092	17,809	21,205	25,280	15%
Tariff (INR/mmbtu) - 10% reduction	30.6	30.6	30.6	30.6	
EBITDA (INR m)	14,108	16,647	19,821	23,630	13%
Tariff (INR/mmbtu) - 20% reduction	27.2	27.2	27.2	27.2	
EBITDA (INR m)	12,138	14,322	17,053	20,331	8%

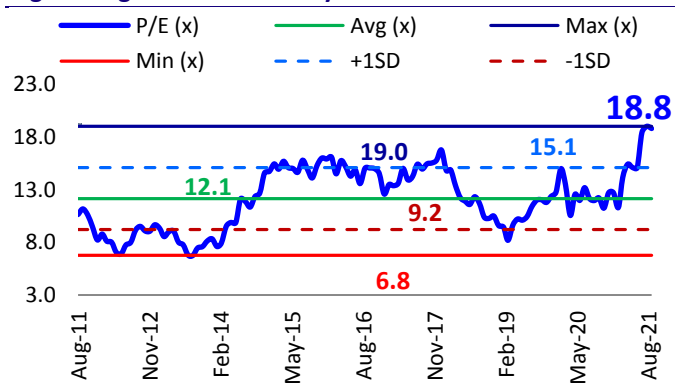
Source: MOFSL

Exhibit 3: GUJS's core business has seen a significant de-rating since 1QFY20...

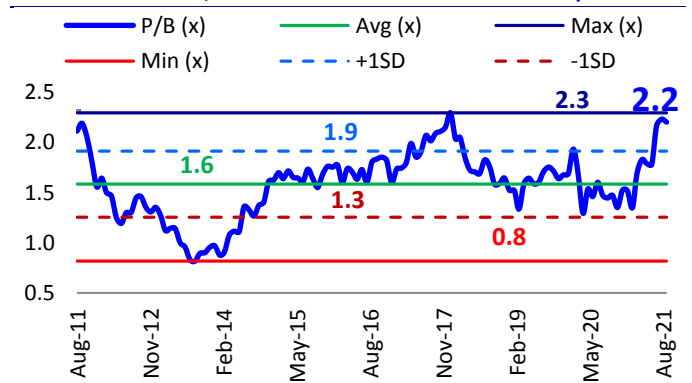
Source: MOFSL

Exhibit 4: ...thus core business trades for free after factoring in its 54.17% stake in GUJGA

Source: MOFSL

Exhibit 5: GUJS's one-year forward P/E – trades at a record high owing to the recent rally in the GUJGA stock...

Source: Company, MOFSL

Exhibit 6: ...along with one-year forward P/B (as highlighted in Exhibit 3 and 4, the core business trades for free)

Source: Company, MOFSL

Key annexures from the draft notification

Exhibit 7: GUJS's calculation for PIL compressor (volumes in mmscmd)

Sr. No	Details	FY18	FY19	FY20
A	Actual transportation volumes	31.4	33.3	35.1
B	Volumes compressed by GUJS using the compression facilities of PIL (mmscmd)	3.0	3.7	5.6
C	50% (Sharing) of additional volumes transported using the services of the PIL Compressor (B*50%)	1.5	1.9	2.8
D	Volumes to be considered for tariff after deducting 50% additional volumes (A-C)	29.9	31.4	32.3
	HPP grid nameplate capacity		30.5	
	Utilization rate of the HPP grid	98%	103%	106%

Source: PNGRB, MOFSL

Exhibit 8: GUJS proposed pipeline capex and total future capex (over the next 10 years)

Sr. No.	Pipeline	Length (km)	Cost (INR m)
1	GAIL Ankot Connectivity	5	550
2	Jamnagar Okha Pipeline Project	100	2,790
3	Vapi-Tarapur Spurline	50	1,395
4	Botad -Jasdan (CGD Connectivity)	48	720
5	Mundra-Mandvi (CGD Connectivity)	45	675
6	Bhayla Connectivity	35	525
7	Amreli - Kunkavav vadia CGD connectivity	28	420
8	Saykha GIDC Connectivity	29	435
9	Dahej Bhadbhut Replacement Pipeline Project	36	3,004
10	Anjar Palanpur Pipeline Project	274	12,330
11	Silvasa Spur Line	29	347
12	Surat region spurline	25	1,000
13	Vanteval Rajpipla	49	1,335
	Total pipeline capex	753	25,526
	O&M capex		5,014
	Other capex		1,890
	Spur Line (future) capex		12,968
	Total future capex proposed/planned		45,398

Source: PNGRB, MOFSL

Financials and valuations

Standalone Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	10,276	13,318	18,773	19,449	17,191	19,062	20,933	22,867
Change (%)	3.6	29.6	41.0	3.6	-11.6	10.9	9.8	9.2
EBITDA	8,883	11,478	15,426	15,749	14,694	15,772	17,346	18,971
Margin (%)	86.4	86.2	82.2	81.0	85.5	82.7	82.9	83.0
Depreciation	1,791	1,750	1,800	1,966	2,049	2,188	2,457	2,763
EBIT	7,092	9,728	13,626	13,783	12,645	13,585	14,889	16,208
Int. and Finance Charges	596	354	2,192	1,645	933	487	487	487
Other Income	882	735	594	649	694	705	733	755
PBT bef. EO Exp.	7,378	10,108	12,028	12,786	12,406	13,802	15,135	16,475
EO Items	0	0	0	0	-17	-14	0	0
PBT after EO Exp.	7,378	10,108	12,028	12,786	12,389	13,789	15,135	16,475
Total Tax	2,412	3,424	4,081	1,699	3,147	3,505	3,814	4,152
Tax Rate (%)	32.7	33.9	33.9	13.3	25.4	25.4	25.2	25.2
Reported PAT	4,966	6,685	7,947	11,087	9,242	10,283	11,321	12,323
Adjusted PAT	4,966	6,685	7,947	11,087	9,255	10,294	11,321	12,323
Change (%)	11.5	34.6	18.9	39.5	-16.5	11.2	10.0	8.9
Margin (%)	48.3	50.2	42.3	57.0	53.8	54.0	54.1	53.9

Standalone Balance Sheet

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	5,636	5,638	5,640	5,641	5,642	5,642	5,642	5,642
Total Reserves	39,324	45,012	51,800	61,584	69,808	78,964	89,158	1,00,354
Net Worth	44,960	50,650	57,440	67,226	75,450	84,606	94,800	1,05,996
Total Loans	6,305	17,595	12,856	5,441	7,499	7,499	7,499	7,499
Deferred Tax Liabilities	4,719	4,984	5,226	4,081	4,218	4,218	4,218	4,218
Capital Employed	55,984	73,229	75,522	76,748	87,167	96,323	1,06,517	1,17,713
Gross Block	35,277	36,512	43,245	44,994	45,854	51,126	57,781	64,711
Less: Accum. Deprn.	3,620	5,371	7,170	9,137	11,186	13,374	15,831	18,594
Net Fixed Assets	31,657	31,142	36,075	35,857	34,668	37,752	41,950	46,117
Capital WIP	6,864	8,959	4,194	2,372	2,215	3,943	4,289	4,358
Total Investments	7,655	41,814	42,772	46,111	50,062	50,062	50,062	50,062
Curr. Assets, Loans, and Adv.	12,158	7,571	6,459	5,764	5,420	10,085	16,408	24,063
Inventory	1,123	1,235	1,279	1,261	1,296	1,121	1,223	1,328
Account Receivables	1,216	1,235	2,081	1,637	1,586	1,604	1,762	1,925
Cash and Bank Balance	8,026	3,645	1,583	957	877	5,489	11,369	18,566
Cash	152	225	700	903	843	5,454	11,335	18,532
Bank Balance	7,875	3,420	883	54	34	34	34	34
Loans and Advances	1,792	1,456	1,516	1,908	1,660	1,870	2,054	2,244
Curr. Liability and Prov.	2,350	16,256	13,978	13,356	5,197	5,518	6,191	6,886
Account Payables	138	185	238	410	620	365	398	432
Other Current Liabilities	2,088	15,932	13,523	12,670	4,270	4,883	5,496	6,130
Provisions	124	138	216	276	307	271	297	325
Net Current Assets	9,808	-8,685	-7,518	-7,592	223	4,567	10,217	17,177
Appl. of Funds	55,983	73,229	75,522	76,748	87,167	96,324	1,06,517	1,17,714

E: MOSL estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
EPS	8.8	11.9	14.1	19.7	16.4	18.3	20.1	21.9
Cash EPS	12.0	15.0	17.3	23.1	20.0	22.1	24.4	26.8
BV/Share	79.7	89.8	101.8	119.2	133.8	150.0	168.1	187.9
DPS	1.5	1.8	2.0	2.0	2.0	2.0	2.0	2.0
Payout (%)	20.5	16.9	16.1	12.2	14.7	11.0	10.0	9.1
Valuation (x)								
P/E	39.7	29.5	24.8	17.8	21.3	19.2	17.4	16.0
Cash P/E	29.2	23.4	20.3	15.1	17.5	15.8	14.3	13.1
P/BV	4.4	3.9	3.4	2.9	2.6	2.3	2.1	1.9
EV/Sales	19.0	15.9	11.1	10.4	11.9	10.5	9.2	8.1
EV/EBITDA	22.0	18.4	13.5	12.8	13.9	12.6	11.1	9.8
Dividend Yield (%)	0.4	0.5	0.6	0.6	0.6	0.6	0.6	0.6
FCF per share	14.9	11.1	15.5	22.2	20.0	9.8	12.0	14.3
Return Ratios (%)								
RoE	11.6	14.0	14.7	17.8	13.0	12.9	12.6	12.3
RoCE	10.5	11.6	13.6	17.5	12.8	12.2	12.0	11.8
RoIC	13.8	24.6	39.3	44.0	30.8	28.6	28.7	28.4
Working Capital Ratios								
Fixed Asset Turnover (x)	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Asset Turnover (x)	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2
Inventory (Days)	40	34	25	24	28	21	21	21
Debtor (Days)	43	34	40	31	34	31	31	31
Creditor (Days)	5	5	5	8	13	7	7	7
Leverage Ratio (x)								
Current Ratio	5.2	0.5	0.5	0.4	1.0	1.8	2.7	3.5
Interest Coverage Ratio	11.9	27.5	6.2	8.4	13.6	27.9	30.5	33.3
Net Debt/Equity	0.0	0.3	0.2	0.1	0.1	0.0	0.0	-0.1

Standalone Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	7,378	10,108	12,028	12,786	12,382	13,802	15,135	16,475
Depreciation	1,791	1,750	1,800	1,966	2,048	2,188	2,457	2,763
Interest and Finance Charges	740	354	2,192	1,645	934	487	487	487
Direct Taxes Paid	-2,228	-3,105	-3,639	-3,082	-3,025	-3,505	-3,814	-4,152
(Inc.)/Dec. in WC	2,534	508	-956	893	684	267	230	238
Others	-780	-672	-542	-606	-611	-705	-733	-755
CF from Operations	9,436	8,943	10,882	13,602	12,412	12,534	13,762	15,057
(Inc)/Dec. in FA	-1,052	-2,691	-2,118	-1,066	-1,119	-7,000	-7,000	-7,000
Free Cash Flow	8,383	6,252	8,764	12,536	11,293	5,534	6,762	8,057
(Pur.)/Sale of Investments	-346	-34,157	-990	-3,340	-3,848	0	0	0
Others	-2,278	5,113	3,029	1,304	589	705	733	755
CF from Investments	-3,676	-31,735	-80	-3,102	-4,379	-6,295	-6,267	-6,245
Inc./Dec. in Debt	-4,329	24,239	-6,912	-7,335	-6,037	0	0	0
Interest Paid	-1,039	-375	-2,299	-1,678	-924	-487	-487	-487
Dividend Paid	-1,016	-1,018	-1,128	-1,283	-1,128	-1,127	-1,127	-1,127
CF from Fin. Activity	-6,365	22,865	-10,328	-10,297	-8,093	-1,628	-1,615	-1,615
Inc./Dec. in Cash	-606	73	475	203	-59	4,612	5,881	7,197
Opening Balance	757	151	225	700	902	843	5,454	11,335
Closing Balance	151	225	700	902	843	5,454	11,335	18,532

E: MOSL estimates

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 within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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