

Gujarat State Petronet

BSE SENSEX 62,182 S&P CNX 18,497



Bloomberg	GUJS IN
Equity Shares (m)	564
M.Cap.(INRb)/(USDb)	151.1 / 1.8
52-Week Range (INR)	333 / 209
1, 6, 12 Rel. Per (%)	15/-/19
12M Avg Val (INR M)	269

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	16.6	15.5	19.2
EBITDA	14.0	13.2	16.1
PAT	9.8	8.7	10.9
EPS (INR)	17.4	15.4	19.3
EPS Gr. (%)	5.7	-11.1	25.3
BV/Sh.(INR)	149.7	163.1	180.5

Ratios

Net D:E	0.0	0.0	-0.1
RoE (%)	12.2	9.9	11.3
RoCE (%)	11.9	9.8	11.2
Payout (%)	13.9	13.0	10.3

Valuations

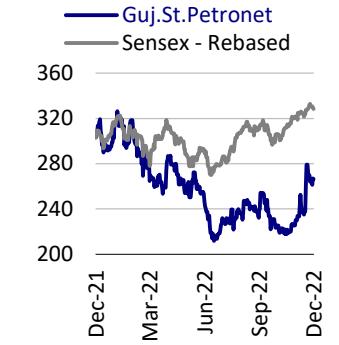
P/E (x)	15.4	17.4	13.9
P/BV (x)	1.8	1.6	1.5
EV/EBITDA (x)	10.8	11.3	8.9
Div. Yield (%)	0.7	0.7	0.7
FCF Yield (%)	6.6	2.2	3.3

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	37.6	37.6	37.6
DII	26.2	32.8	31.0
FII	17.3	16.5	17.5
Others	18.9	13.1	13.9

FII includes depository receipts

Stock performance (one-year)



CMP: INR268

TP: INR351 (+31%)

Buy

Navigating the ifs and buts of the tariff revision that may occur

- Except for FY20, when the tax write back on account of the adoption of the new tax rate resulted in a RoCE of 17.5%, the average RoCE for GUJS stood at 12% since FY18, which is the regulated post-tax return as per the Petroleum and Natural Gas Regulatory Board (PNGRB).
- Excluding long-term investments of INR52b, RoCE over FY18-22 (except FY20) stood at 29.1%, much above the regulated RoCE.
- The above, combined with expected investments of INR45b in two phases, calls for a detailed study of different scenarios to evaluate what the tariff for the high pressure (HP) gas grid may be revised to going forward. A capex of INR20b in Phase I and no extension to the economic life beyond FY32 may result in a tariff of INR49/mmBtu from INR34/mmBtu at present. If we take into account the full capex of INR45b, along with the extension of economic life to FY42, the tariff may be revised to INR48/mmBtu instead.

GUJS' proposal to PNGRB

- GUJS, in its submission to PNGRB, has estimated a capex of INR45b divided into two parts: INR26b on pipelines and INR20b on O&M.
- The main items under pipelines include INR12b on the Anjar-Palanpur pipeline, INR3b on the Dahej-Bhadbhut pipeline replacement, and INR2.8b on the Jamnagar-Okha pipeline. O&M includes INR13b on spur pipelines.
- Using the above capex, the revised lower tax rate, transmission volume of 26mmscmd, and an economic life up to FY32, the company has proposed a tariff of INR54/mmBtu as against the existing INR34/mmBtu.

A study of ifs and buts

- In the past, PNGRB calculations have differed significantly from that of the street. We evaluate various combinations of transmission volume, capex, and economic life. If we were to use only Phase I capex of INR20b, transmission volume of 30mmscmd, and an economic life up to FY32, we estimate that tariff might be revised to INR48/mmBtu, instead of the INR54/mmBtu proposed by GUJS and the existing tariff of INR34/mmBtu.
- Even if we were to factor in a capex of INR20b and extend the economic life to FY42, with higher average transmission volumes of 35mmscmd, then too the implied tariff will stand at INR43/mmBtu.
- In FY18, GUJS raised its stake in GUJGA to 54.2% from 25.8%. GUJGA posted a PAT of INR2.2b in FY17 v/s INR5b for GUJS. Hence, the period up to FY17 may be considered a good proxy for estimating the long-term one-year forward P/E ratio of GUJS' standalone business, which is 12.3x.

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- We do not foresee a reduction in existing tariff due to the high capex proposed. Using the existing tariff, we estimate an FY24 EPS of INR19.3 for GUJS. If the PNGRB were to disallow even Phase I capex and cut tariff by 15%, the EPS will still work out to INR14.4. The value of investments, at a 25% holding company discount, stood at INR260/share. Valuing the core at a long-term one-year forward P/E ratio of 5x, we derive a standalone value of INR91, with no cut in tariff. This will be revised down to INR72, with a 15% cut in tariff.
- While it is difficult to accurately determine the tariff revisions, without any cut in tariff, our TP for GUJS stands at INR351. With a 15% cut in tariff, our TP gets revised down to INR332, resulting in an upside of 24% from its CMP. We reiterate our Buy rating on the stock.

Exhibit 1: Tariff estimate considering a capex of INR20b

Tariff (INR/mmBtu)		Volumes (mmscmd)			
		26	30	35	40
Economic life till	FY32	49	48	46	45
	FY42	46	45	43	42

Source: MOFSL

Exhibit 2: Tariff estimate considering a capex of INR45b

Tariff (INR/mmBtu)		Volumes (mmscmd)			
		26	30	35	40
Economic life till	FY32	52	50	48	47
	FY42	48	46	45	43

Source: MOFSL

Exhibit 3: Valuation without considering any cut in tariff

Valuation	Adjusted EPS (INR)	P/E multiple (x)	Value (INR/share)
GSPL	18.1	5*	91
Value of investments after levying a 25% discount			260
Fair value	351		
CMP	268		
Upside/(downside)	31%		

*GUJS' standalone long-term PE was 12.3x until FY17 Source: MOFSL

Exhibit 4: Valuation considering a 15% cut in tariff

	Adjusted EPS (INR)	P/E multiple (x)	Value (INR/share)
GSPL	14.4	5*	72
Value of investments after levying a 25% discount			260
Fair value	332		
CMP	268		
Upside/(downside)	24%		

Source: MOFSL

Exhibit 5: One-year forward P/E ratio trades at 14.2x v/s its LTA of 13.2x

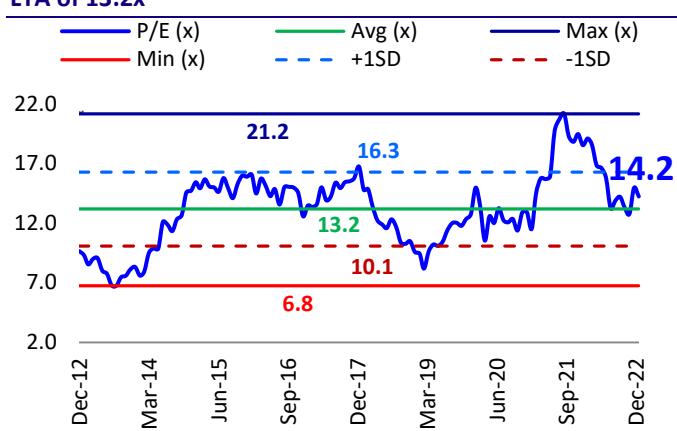
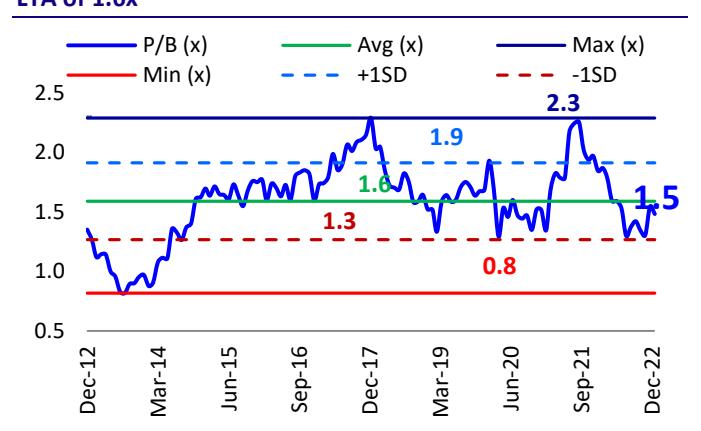


Exhibit 6: One-year forward P/B ratio trades at 1.5x v/s its LTA of 1.6x



Key annexures from the GUJS' proposal

Exhibit 7: GUJS' claimed PE capex till FY32

Sr. no.	Particulars	Length (km)	Cost (INR m)
1	GAIL Ankot Connectivity	5	550
2	Jamnagar Okha Pipeline Project	100	2,790
3	Vapi-Tarapur Spur line	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 spur line	25	1,000
13	Vanteval Rajpipla	49	1,335
Total		753	25,526

Source: PNGRB, MOFSL

Exhibit 8: GUJS' claimed O&M capex till FY32

Sr. no.	Particulars	Cost (INR m)
1	Heating system	640
2	Upgradation of the metering system	500
3	SCADA and telecom upgradation	500
4	Training center and store development	250
5	Future capex – spur lines	12,968
6	Capex on O&M	5,014
Total		19,872

Source: PNGRB, MOFSL

Financials and Valuations

Standalone - Income Statement								
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	10,276	13,318	18,773	19,449	17,191	16,591	15,481	19,195
Change (%)	3.6	29.6	41.0	3.6	-11.6	-3.5	-6.7	24.0
EBITDA	8,883	11,478	15,426	15,749	14,694	13,976	13,153	16,076
Margin (%)	86.4	86.2	82.2	81.0	85.5	84.2	85.0	83.8
Depreciation	1,791	1,750	1,800	1,966	2,049	1,960	2,089	2,349
EBIT	7,092	9,728	13,626	13,783	12,645	12,016	11,064	13,727
Int. and Finance Charges	596	354	2,192	1,645	933	313	66	66
Other Income	882	735	594	649	694	1,045	635	912
PBT bef. EO Exp.	7,378	10,108	12,028	12,786	12,406	12,748	11,633	14,573
EO Items	0	0	0	0	0	-14	0	0
PBT after EO Exp.	7,378	10,108	12,028	12,786	12,406	12,735	11,633	14,573
Total Tax	2,412	3,424	4,081	1,699	3,147	2,958	2,932	3,673
Tax Rate (%)	32.7	33.9	33.9	13.3	25.4	23.2	25.2	25.2
Reported PAT	4,966	6,685	7,947	11,087	9,259	9,777	8,702	10,901
Adjusted PAT	4,966	6,685	7,947	11,087	9,259	9,787	8,702	10,901
Change (%)	11.5	34.6	18.9	39.5	-16.5	5.7	-11.1	25.3
Margin (%)	48.3	50.2	42.3	57.0	53.9	59.0	56.2	56.8

Standalone - Balance Sheet								
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	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	78,787	86,361	96,135
Net Worth	44,960	50,650	57,440	67,226	75,450	84,429	92,004	1,01,777
Total Loans	6,305	17,595	12,856	5,441	7,499	877	877	877
Deferred Tax Liabilities	4,719	4,984	5,226	4,081	4,218	4,250	4,250	4,250
Capital Employed	55,984	73,229	75,522	76,748	87,167	89,557	97,131	1,06,905
Gross Block	35,277	36,512	43,245	44,994	45,854	46,406	51,926	58,631
Less: Accum. Deprn.	3,620	5,371	7,170	9,137	11,186	13,146	15,235	17,584
Net Fixed Assets	31,657	31,142	36,075	35,857	34,668	33,259	36,691	41,047
Capital WIP	6,864	8,959	4,194	2,372	2,215	2,526	4,005	4,301
Total Investments	7,655	41,814	42,772	46,111	50,062	51,737	51,737	51,737
Curr. Assets, Loans&Adv.	12,158	7,571	6,459	5,764	5,420	5,878	8,256	14,290
Inventory	1,123	1,235	1,279	1,261	1,296	1,890	1,683	2,254
Account Receivables	1,216	1,235	2,081	1,637	1,586	1,295	1,208	1,498
Cash and Bank Balance	8,026	3,645	1,583	957	877	864	3,659	8,422
Cash	152	225	700	903	843	738	3,533	8,296
Bank Balance	7,875	3,420	883	54	34	126	126	126
Loans and Advances	1,792	1,456	1,516	1,908	1,660	1,828	1,706	2,115
Curr. Liability & Prov.	2,350	16,256	13,978	13,356	5,197	3,843	3,558	4,469
Account Payables	138	185	238	410	620	654	582	780
Other Current Liabilities	2,088	15,932	13,523	12,670	4,270	2,928	2,732	3,387
Provisions	124	138	216	276	307	262	244	303
Net Current Assets	9,808	-8,685	-7,518	-7,592	223	2,035	4,698	9,820
Appl. of Funds	55,983	73,229	75,522	76,748	87,167	89,557	97,131	1,06,905

Financials and Valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	8.8	11.9	14.1	19.7	16.4	17.4	15.4	19.3
Cash EPS	12.0	15.0	17.3	23.1	20.1	20.8	19.1	23.5
BV/Share	79.7	89.8	101.8	119.2	133.8	149.7	163.1	180.5
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	13.9	13.0	10.3
Valuation (x)								
P/E	30.4	22.6	19.0	13.6	16.3	15.4	17.4	13.9
Cash P/E	22.4	17.9	15.5	11.6	13.4	12.9	14.0	11.4
P/BV	3.4	3.0	2.6	2.2	2.0	1.8	1.6	1.5
EV/Sales	14.5	12.4	8.7	8.0	9.2	9.1	9.6	7.5
EV/EBITDA	16.8	14.4	10.5	9.9	10.7	10.8	11.3	8.9
Dividend Yield (%)	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
FCF per share	14.9	11.1	15.5	22.2	20.0	17.6	5.9	9.0
Return Ratios (%)								
RoE	11.6	14.0	14.7	17.8	13.0	12.2	9.9	11.3
RoCE	10.5	11.6	13.6	17.5	12.8	11.9	9.8	11.2
RoIC	13.8	24.6	39.3	44.0	30.8	27.0	22.9	25.6
Working Capital Ratios								
Fixed Asset Turnover (x)	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.3
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	42	40	43
Debtor (Days)	43	34	40	31	34	28	28	28
Creditor (Days)	5	5	5	8	13	14	14	15
Leverage Ratio (x)								
Current Ratio	5.2	0.5	0.5	0.4	1.0	1.5	2.3	3.2
Interest Cover Ratio	11.9	27.5	6.2	8.4	13.6	38.4	168.7	209.3
Net Debt/Equity	0.0	0.3	0.2	0.1	0.1	0.0	0.0	-0.1

Standalone - Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	7,378	10,108	12,028	12,786	12,382	13,165	11,633	14,573
Depreciation	1,791	1,750	1,800	1,966	2,048	1,960	2,089	2,349
Interest & Finance Charges	740	354	2,192	1,645	934	313	66	66
Direct Taxes Paid	-2,228	-3,105	-3,639	-3,082	-3,025	-3,062	-2,932	-3,673
(Inc)/Dec in WC	2,534	508	-956	893	684	-202	131	-359
Others	-780	-672	-542	-606	-611	-1,448	-635	-912
CF from Operations	9,436	8,943	10,882	13,602	12,412	10,726	10,353	12,044
(Inc)/Dec in FA	-1,052	-2,691	-2,118	-1,066	-1,119	-773	-7,000	-7,000
Free Cash Flow	8,383	6,252	8,764	12,536	11,293	9,953	3,353	5,044
(Pur)/Sale of Investments	-346	-34,157	-990	-3,340	-3,848	-1,690	0	0
Others	-2,278	5,113	3,029	1,304	589	2,452	635	912
CF from Investments	-3,676	-31,735	-80	-3,102	-4,379	-11	-6,365	-6,088
Inc/(Dec) in Debt	-4,329	24,239	-6,912	-7,335	-6,037	-9,348	0	0
Interest Paid	-1,039	-375	-2,299	-1,678	-924	-337	-66	-66
Dividend Paid	-1,016	-1,018	-1,128	-1,283	-1,128	-1,128	-1,127	-1,127
CF from Fin. Activity	-6,365	22,865	-10,328	-10,297	-8,093	-10,819	-1,193	-1,193
Inc/Dec of Cash	-606	73	475	203	-59	-105	2,795	4,763
Opening Balance	757	151	225	700	902	843	738	3,533
Closing Balance	151	225	700	902	843	738	3,533	8,296

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

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