



TM

Gujarat State Petronet

09 May 2024

Volume growth surprised positively; Upgrade to HOLD

RESULT UPDATE

Sector: Natural Gas Rating: HOLD

CMP: Rs 294 Target Price: Rs 327

Stock Info

Sensex/Nifty 73,466/22,303

Bloomberg GUJS IN

Equity shares (mn) 564

52-wk High/Low Rs 407/255

Face value Rs 10

M-Cap Rs166bn/ USD 2bn

3-m Avg value USD 5.4mn

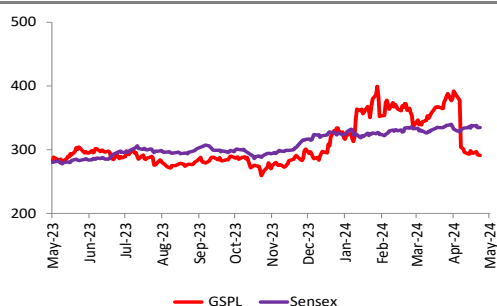
Financial Snapshot (Rs bn)

Y/E Mar	FY24	FY25E	FY26E
Sales	20	16	16
EBITDA	15	10	10
PAT	13	9	9
EPS (Rs)	23	16	16
PE (x)	12.9	18.5	18.0
EV/EBITDA (x)	12.6	10.7	15.4
RoE (%)	12.5	8.3	8.0
RoCE (%)	12.1	7.1	6.5
Dividend yield (%)	1.7	1.6	1.7

Shareholding Pattern (%)

	Sep'23	Dec'23	Mar'24
Promoter	37.6	37.6	37.6
FII	16.0	16.0	15.7
DII	25.2	24.8	24.7
Others	21.2	21.6	22.0

Stock Performance (1-year)



Sudeep Anand

sudeepanand@systematixgroup.in
+91 22 6704 8085

Prathmesh Kamath

prathmeshkamath@systematixgroup.in
+91 22 6704 8022

Jennisa Popat

jennisapopat@systematixgroup.in
+91 22 6704 8066

Investors are advised to refer disclosures made at the end of the research report.

Gujarat State Petronet (GSPL) Q4FY24 result was largely in line with our expectation where strong volume growth was offset by lower implied tariff. The company reported a strong volume growth of 33% YoY/15% QoQ to 33.4 mmscmd led by a sharp uptick in volume offtake from refinery/petchem sector (+35% QoQ), power sector (+20%), and other industry (+23%). CGD saw an offtake growth of 5% QoQ to 11.4mmscmd. However, due to recent tariff cut from PNGRB, the company's implied tariff dipped to Rs1.33/scm from earlier Rs1.63/scm. Consequently, Revenue declined 9% to Rs5.1 bn while EBITDA was flattish QoQ to Rs3.8 bn, supported by a sharp decline in the gas transmission cost. Led by strong volume growth, we are raising our volume estimates by 6.5% for both FY25E/FY26E which led to a 11% increase in the EBITDA estimates. We forecast EBITDA/PAT to see a decline of 34%/28% over FY24-FY26E led by recent tariff cut. On the back of higher EBITDA estimates, we are raising our SOTP-based TP to Rs327, valuing its core business at Rs130, its 54% stake in Gujarat Gas at Rs181 (with 50% holding discount) and its investment in GIGL and Sabarmati Gas at Rs17. However, the stock has seen a sharp correction of 20% since our last report on the tariff cut. Therefore, we are upgrading the stock to HOLD from SELL.

Volume growth saw a sharp uptick while tariff moved down

The company witnessed a strong surge in demand from the Power and Refinery/Petchem sectors on the back of lower gas cost and favourable pricing. Offtake from these sectors grew 20%/35% QoQ to 2.9/8.7mmscmd. CGD saw a marginal uptick of 5% during the quarter to 11.4mmscmd while Other sector's offtake grew 23% to 5.6mmscmd. Overall, the company reported a strong volume growth of 15% QoQ to 33.4mmscmd. This positive was offset by lower tariff on the back of recent tariff cut by PNGRB. GSPL's implied tariff dipped to Rs1.33/scm from earlier Rs1.63/scm.

Valuation and Outlook

PNGRB came out with a new tariff order for the GSPL's high-pressure pipeline which has seen a massive cut of 46.8% from the current tariff to Rs18.1/mmbtu (GSPL's expectation of Rs50.8/mmbtu). New tariff has seen a two-year delay and would be effective from 1st May 2024. We expect the valuation to remain muted on the back of lower tariff while we would await to see the stability in the volume growth. Led by strong volume growth, we are raising our volume estimates by 6.5% for both FY25E/FY26E which led to a 11% increase in the EBITDA estimates. We forecast EBITDA/PAT to see a decline of 34%/28% over FY24-FY26E led by recent tariff cut. On the back of higher EBITDA estimates, we are raising our SOTP-based TP to Rs327 from earlier Rs309. We value its core business at a PER of 10x FY26E and valuing its 54.2% stake in Gujarat gas at Rs181/sh by giving 50% holding discount. The stock has corrected by nearly 20% since our last downgrade post tariff cut. Therefore, we upgrade the stock to HOLD from earlier SELL.

Exhibit 1: Actual vs Estimates

(Rs mn)	Actual	Estimates	%Variance
Net sales	5,068	5,634	(10.0)
EBITDA	3,780	4,164	(9.2)
EBITDA margin (%)	74.6	73.9	67
Net income	2,611	2,925	(10.7)
FDEPS (Rs)	4.6	5.2	(10.7)

Source: Company, Systematix Institutional Research

Exhibit 2: Quarterly Highlights

Rs mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	% Chg YoY	% Chg QoQ
Net sales	4,430	4,412	5,293	5,543	5,068	14.4%	-8.6%
Expenditure	1,483	1,047	1,190	1,746	1,288	-13.1%	-26.2%
EBITDA	2,947	3,364	4,103	3,796	3,780	28.2%	-0.4%
EBITDA margin (%)	66.5	76.3	77.5	68.5	74.6	805	609
Depreciation	483	468	477	488	486	0.7%	-0.4%
Interest	10	10	10	12	19	88.0%	58.5%
Other income	476	180	2,663	211	296	-37.8%	40.5%
PBT	2,931	3,066	6,278	3,507	3,571	21.8%	1.8%
Tax	687	773	958	884	960	39.6%	8.5%
Effective tax rate (%)	23.5	25.2	15.3	25.2	26.9	342	165
PAT	2,243	2,293	5,320	2,622	2,611	16.4%	-0.4%
EPS (Rs)	4.0	4.1	9.4	4.6	4.6	16.4%	-0.4%
Volume (mmscmd)	25.1	29.4	30.2	29.0	33.4	33.1%	15.0%
CGD	10.0	10.9	10.8	10.9	11.4	14.8%	5.2%
Refinery/Petchem	6.7	9.0	5.5	6.4	8.7	29.8%	35.2%
Fertilizer	3.6	3.3	4.6	4.7	4.6	28.6%	-0.3%
Power	1.2	1.7	4.1	2.5	2.9	135.4%	19.6%
Others	3.6	4.4	5.2	4.6	5.6	58.8%	22.9%
Reported tariff (Rs/scm)	1.87	1.61	1.86	2.00	1.65	-11.6%	-17.4%
Implied tariff (Rs/scm)	1.56	1.44	1.59	1.63	1.33	-15.2%	-18.6%
Opex (Rs/scm)	0.66	0.39	0.43	0.65	0.42	-35.4%	-35.1%
EBITDA (Rs/scm)	1.31	1.26	1.48	1.42	1.24	-4.7%	-12.5%

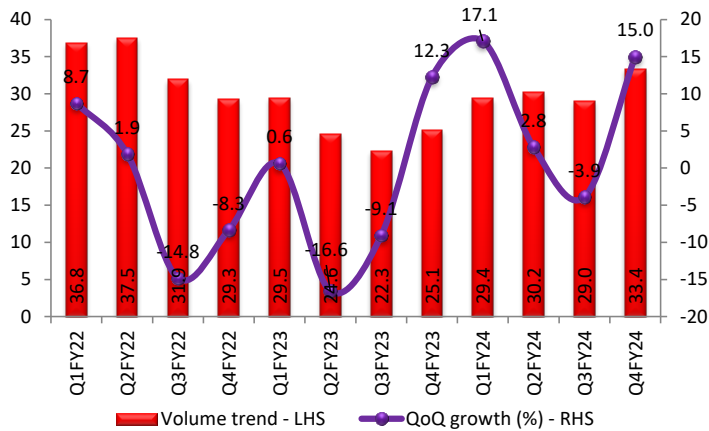
Source: Company, Systematix Institutional Research

Exhibit 3: Change in Estimates

Key Parameters (Rs mn)	FY25E			FY26E		
	Old	New	%Chg	Old	New	%Chg
Volume (mmscfd)	31.0	33.0	6.5	32.6	34.7	6.5
Revenue	14,598	15,639	7.1	14,596	15,634	7.1
EBITDA	9,119	10,139	11.2	8,847	9,863	11.5
Net Profit	8,157	8,947	9.7	9,212	9,192	(0.2)
EPS (Rs)	14.5	15.9	9.7	16.3	16.3	(0.2)

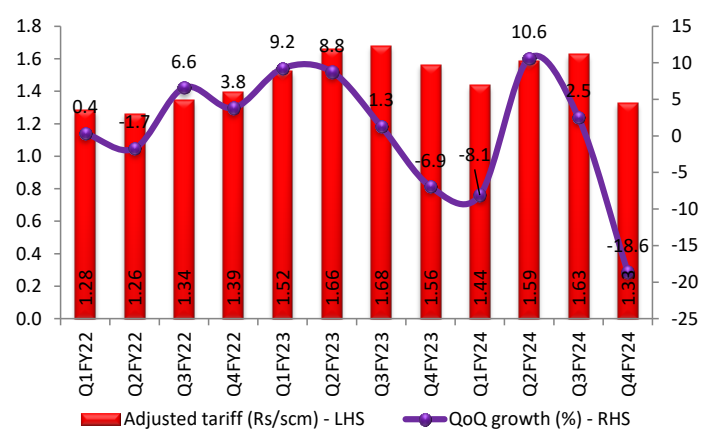
Source: Company, Systematix Institutional Research

Exhibit 4: Volume (mmscmd) and QoQ growth



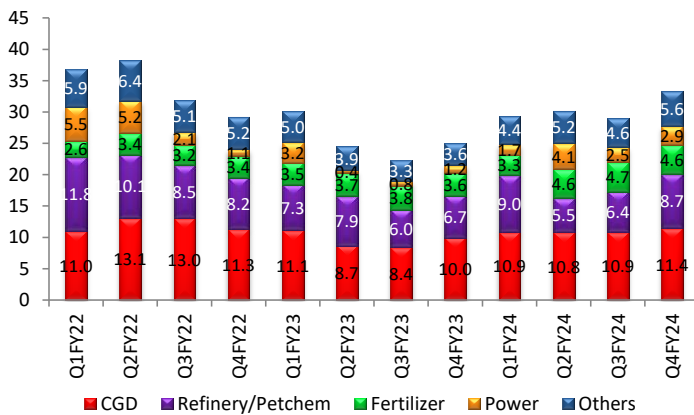
Source: Company, Systematix Institutional Research

Exhibit 5: Adjusted tariff (Rs/scm) and QoQ growth



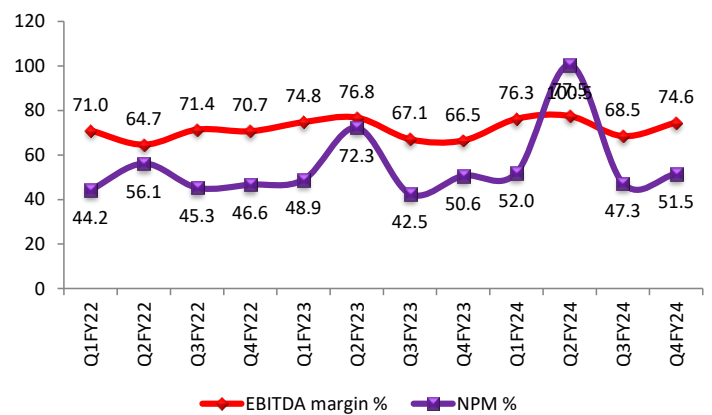
Source: Company, Systematix Institutional Research

Exhibit 6: Segmental Volume Split (mmscmd)



Source: Company, Systematix Institutional Research

Exhibit 7: EBITDA and Net Profit Margin (%)



Source: Company, Systematix Institutional Research

FINANCIALS (STANDALONE)

Profit & Loss Statement

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net revenue	20,200	17,618	20,315	15,639	15,634
Employee cost	653	722	803	817	870
Op. & maintenance exp	3,609	2,502	2,909	2,595	2,709
Other expenses	1,962	1,807	1,563	2,088	2,192
EBITDA	13,976	12,587	15,041	10,139	9,863
Depreciation	1,960	1,939	1,920	1,995	2,114
EBIT	12,016	10,648	13,121	8,144	7,749
Interest Cost	313	47	49	30	20
Other Income	1,045	1,684	3,351	3,518	4,222
PBT Before Exceptionals	12,748	12,286	16,422	11,632	11,951
Exceptional Items	0	0	0	0	0
PBT	12,748	12,286	16,422	11,632	11,951
Tax	2,958	2,836	3,576	2,685	2,759
Reported PAT	9,791	9,450	12,846	8,947	9,192
Adjusted PAT	9,791	9,450	12,846	8,947	9,192
Reported EPS (Rs)	17.4	16.7	22.8	15.9	16.3
Adjusted EPS (Rs)	17.4	16.7	22.8	15.9	16.3

Source: Company, Systematix Institutional Research

Cash Flow

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Pre-Tax Profit	13,165	12,286	16,422	11,632	11,951
Depreciation	1,960	1,939	1,920	1,995	2,114
Change in Working Capital	-202	-274	109	604	-209
Tax Paid	-3,062	-2,741	-3,534	-2,720	-2,792
Other Operating Activities	-1,135	-1,546	-3,192	-3,488	-4,202
Operating Cash Flow	10,727	9,664	11,724	8,023	6,863
Capital Expenditure	-773	-1,892	-4,157	-3,000	-3,000
Change in Investments	-149	-830	-10,155	0	0
Other Investing Activities	912	1,137	3,249	3,518	4,222
Investing Cash Flow	-11	-1,585	-11,064	518	1,222
Free Cash Flow	10,716	8,079	660	8,541	8,084
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	-9,348	-875	0	0	0
Other Financing Activities	-1,380	-1,151	-2,843	-3,251	-3,329
Financing Cash Flow	-10,729	-2,026	-2,843	-3,251	-3,329
Change in Cash	-13	6,053	-2,182	5,290	4,755
Opening Cash Balance	877	864	6,917	4,734	10,024
Closing Cash Balance	864	6,917	4,734	10,024	14,779

Source: Company, Systematix Institutional Research

Key Assumptions

Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
Transmission vol. (mmcmd)	33.9	25.4	30.5	33.0	34.7
Average Tariff (Rs/mmbtu)	38.4	44.4	42.5	29.8	28.3

Source: Company, Systematix Institutional Research

Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share Capital	5,642	5,642	5,642	5,642	5,642
Reserves & Surplus	78,787	87,090	97,059	1,02,785	1,08,668
Networth	84,429	92,732	1,02,701	1,08,427	1,14,310
Short + Long Term Debt	877	0	0	0	0
Capital Employed	90,887	98,435	1,08,399	1,14,117	1,19,995
Net Block	33,255	31,552	30,353	31,282	32,091
Capital WIP	2,531	4,257	7,618	7,694	7,771
Total Fixed Assets	35,785	35,809	37,971	38,976	39,862
Long Term Inv. & Others	53,383	53,248	54,758	54,831	54,907
Current Assets	4,231	11,825	18,080	22,756	27,710
Short Term Investments	0	0	0	0	0
Inventories	1,890	2,121	2,108	1,623	1,623
Sundry Debtors	1,295	1,440	1,412	1,087	1,087
Cash & Bank Balance	864	6,917	4,734	10,024	14,779
Short Term Loans & Adv.	14	15	14	14	14
Others	168	1,333	9,811	10,007	10,207
Current Liab. & Provisions	2,513	2,448	2,409	2,446	2,485
Creditors	654	510	375	391	411
Other Current Liabilities	1,859	1,938	2,034	2,054	2,075
Net Current Assets	1,718	9,378	15,671	20,310	25,225
Total Assets	90,887	98,435	1,08,399	1,14,117	1,19,995

Source: Company, Systematix Institutional Research

Ratios (Consolidated)

Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
EBITDA growth	-5.1%	-9.9%	19.5%	-32.6%	-2.7%
Adjusted PAT growth	5.2%	-3.5%	35.9%	-30.4%	2.7%
PBT margin	63.1%	69.7%	80.8%	74.4%	76.4%
Effective Tax rate	23.2%	23.1%	21.8%	23.1%	23.1%
Adjusted PAT margin	48.5%	53.6%	63.2%	57.2%	58.8%
Operating Cycle					
Inventory days	34	44	38	38	38
Debtor days	23	30	25	25	25
Creditor days	38	37	26	26	26
Working Capital Cycle	19	37	37	37	37
Return Ratios					
ROE	11.6%	10.2%	12.5%	8.3%	8.0%
Pre-tax ROCE	13.2%	10.8%	12.1%	7.1%	6.5%
Capex/revenue	-2.5%	11.1%	20.1%	19.2%	19.2%
Net debt / Equity	0.0	-0.1	0.0	-0.1	-0.1
Yield Analysis					
CFO Yield	6.5%	5.8%	7.1%	4.8%	4.1%
FCF Yield	6.8%	4.6%	4.7%	3.4%	2.8%
Dividend Yield	0.7%	1.7%	1.7%	1.6%	1.7%
Valuation					
P/E (x)	16.9	17.6	12.9	18.5	18.0
P/B (x)	2.0	1.8	1.6	1.5	1.5
EV/EBITDA (x)	11.9	11.9	12.6	10.7	15.4

Source: Company, Systematix Institutional Research

Institutional Equities Team

Nikhil Khandelwal	Managing Director	+91-22-6704 8001	nikhil@systematixgroup.in
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Equity Research

Analysts	Industry Sectors	Desk-Phone	E-mail
Dhananjay Sinha	Co Head of Equities & Head of Research - Strategy & Economics	+91-22-6704 8095	dhananjaysinha@systematixgroup.in
Abhishek Mathur	FMCG	+91-22-6704 8059	abhishekmathur@systematixgroup.in
Ashish Poddar	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8039	ashishpoddar@systematixgroup.in
Himanshu Nayyar	Consumer Staples & Discretionary	+91-22-6704 8079	himanshunayyar@systematixgroup.in
Manjith Nair	Banking, Insurance	+91-22-6704 8065	manjithnair@systematixgroup.in
Pradeep Agrawal	NBFCs & Diversified Financials	+91-22-6704 8024	pradeepagrawal@systematixgroup.in
Pratik Tholiya	Specialty & Agro Chem, Fertilisers, Sugar, Textiles and Select Midcaps	+91-22-6704 8028	pratiktholiya@systematixgroup.in
Sameer Pardikar	IT & ITES	+91-22-6704 8041	sameerpardikar@systematixgroup.in
Santosh Yellapu	Capital Goods	+91-22-6704 8094	santoshiyellapu@systematixgroup.in
Shweta Dikshit	Metals & Mining	+91-22-6704 8042	shwetadikshit@systematixgroup.in
Sudeep Anand	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8085	sudeepanand@systematixgroup.in
Vishal Manchanda	Pharmaceuticals and Healthcare	+91-22-6704 8064	vishalmanchanda@systematixgroup.in
Chetan Mahadik	Consumer Staples & Discretionary	+91-22-6704 8091	chetanmahadik@systematixgroup.in
Deeksha Bhardwaj	Strategy & Economics	+91-22-6704 8017	deekshabhardwaj@systematixgroup.in
Devanshi Kamdar	IT & ITES	+91-22-6704 8098	devanshikamdar@systematixgroup.in
Hinal Kothari	Metals & Mining	+91-22-6704 8076	hinalkothari@systematixgroup.in
Jennisa Popat	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8066	jennisapopat@systematixgroup.in
Kalash Jain	Midcaps	+91-22-6704 8038	kalashjain@systematixgroup.in
Krishna Zaveri	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8023	krishnazaveri@systematixgroup.in
Mahek Shah	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8040	mahekshah@systematixgroup.in
Nirali Chheda	Banking, Insurance	+91-22-6704 8019	niralichheda@systematixgroup.in
Pashmi Chheda	Banking, Insurance	+91-22-6704 8063	pashmichheda@systematixgroup.in
Pravin Mule	NBFCs & Diversified Financials	+91-22-6704 8034	pravinmule@systematixgroup.in
Prathmesh Kamath	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8022	prathmeshkamath@systematixgroup.in
Purvi Mundhra	Macro-Strategy	+91-22-6704 8078	purvimundhra@systematixgroup.in
Rajesh Mudaliar	Consumer Staples & Discretionary	+91-22-6704 8084	rajeshmudaliar@systematixgroup.in
Ronak Dhruv	NBFCs & Diversified Financials	+91-22-6704 8045	ronakdhruv@systematixgroup.in
Rushank Mody	Pharmaceuticals and Healthcare	+91-22-6704 8046	rushankmody@systematixgroup.in
Swati Saboo	Midcaps	+91-22-6704 8043	swatisaboo@systematixgroup.in
Vivek Mane	Pharmaceuticals and Healthcare	+91-22-6704 8046	vivekmane@systematixgroup.in
Yogeeta Rathod	Midcaps	+91-22-6704 8081	yogeetarathod@systematixgroup.in

Equity Sales & Trading

Name		Desk-Phone	E-mail
Vipul Sanghvi	Co Head of Equities & Head of Sales	+91-22-6704 8062	vipulsanghvi@systematixgroup.in
Jignesh Desai	Sales	+91-22-6704 8068	jigneshdesai@systematixgroup.in
Sidharth Agrawal	Sales	+91-22-6704 8090	sidharthagrawal@systematixgroup.in
Shreya Chaudhary	Sales	+91-22-6704 8033	shreyachaudhary@systematixgroup.in
Rahul Khandelwal	Sales	+91-22-6704 8003	rahul@systematixgroup.in
Chintan Shah	Sales	+91-22-6704 8061	chintanshah@systematixgroup.in
Pawan Sharma	Director and Head - Sales Trading	+91-22-6704 8067	pawansharma@systematixgroup.in
Mukesh Chaturvedi	Vice President and Co Head - Sales Trading	+91-22-6704 8074	mukeshchaturvedi@systematixgroup.in
Vinod Bhuwad	Sales Trading	+91-22-6704 8051	vinodbhuwad@systematixgroup.in
Rashmi Solanki	Sales Trading	+91-22-6704 8097	rashmisolanki@systematixgroup.in
Karan Damani	Sales Trading	+91-22-6704 8053	karandamani@systematixgroup.in
Vipul Chheda	Dealer	+91-22-6704 8087	vipulchheda@systematixgroup.in
Paras Shah	Dealer	+91-22-6704 8047	parasshah@systematixgroup.in
Rahul Singh	Dealer	+91-22-6704 8054	rahulsingh@systematixgroup.in
Niraj Singh	Dealer	+91-22-6704 8096	nirajsingh@systematixgroup.in

Corporate Access

Mrunal Pawar	Vice President & Head Corporate Access	+91-22-6704 8088	mrunalpawar@systematixgroup.in
Darsha Hiwrale	Associate Corporate Access	+91-22-6704 8083	darshahiwrale@systematixgroup.in

Production

Madhu Narayanan	Editor	+91-22-6704 8071	madhunarayanan@systematixgroup.in
Mrunalip Pagdhare	Production	+91-22-6704 8057	mrunalip@systematixgroup.in
Vijayendra Achrekar	Production	+91-22-6704 8089	vijayendraachrekar@systematixgroup.in

Operations

Sachin Malusare	Vice President	+91-22-6704 8055	sachinmalusare@systematixgroup.in
Jignesh Mistry	Manager	+91-22-6704 8049	jigneshmistry@systematixgroup.in
Hiren Patel	Assistant Manager	+91-22-6704 8056	hirenpatel@systematixgroup.in

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BUY (B): The stock's total return is expected to exceed 15% over the next 12 months.

HOLD (H): The stock's total return is expected to be within -15% to +15% over the next 12 months.

SELL (S): The stock's total return is expected to give negative returns of more than 15% over the next 12 months.

NOT RATED (NR): The analyst has no recommendation on the stock under review.

INDUSTRY VIEWS

ATTRACTIVE (AT): Fundamentals/valuations of the sector are expected to be attractive over the next 12-18 months.

NEUTRAL (NL): Fundamentals/valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.

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Systematix Shares and Stocks (India) Limited:

Registered and Corporate address: The Capital, A-wing, No. 603 – 606, 6th Floor, Plot No. C-70, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051

Tel no. 022-66198000/40358000 Fax no. 022-66198029/40358029 Email id contactus@systematixgroup.in. Visit us at: www.systematixgroup.in

Details of Compliance officer: Ms Nipa Savla, Compliance officer Tel no. 022-66198092/4035808092 Email id compliance@systematixgroup.in

Details of Email id grievance redressal cell : grievance@systematixgroup.in

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