

Domestic output growth drives profitability...

About the stock: Gujarat State Petronet (GSPL) is a gas utility company with its transmission network and investment in CGD companies.

- It operates a 2682-km transmission network in Gujarat as of March 2020
- Major portion of gas flowing through its network is contributed by refinery/petchem and CGD companies

Q1FY22 Results: GSPL's results were driven by growth in transmission volume.

- Revenue was up 13.5% YoY to ₹ 527.2 crore on account of volume growth of 10.6% YoY to 36.8 mmscmd. Volume grew 8.7% QoQ
- EBITDA was at ₹ 374.4 crore, up 8.2% YoY
- PAT was at ₹ 231.9 crore, up 16.3% YoY

What should investors do? In the long run, the transmission business is expected to report stable volumes on the back of growth in CGD sector, increasing domestic production and increased LNG capacity in Gujarat.

- We maintain our BUY rating on the stock

Target Price and Valuation: We value GSPL's transmission business at ~₹ 170/share. At the CMP, GSPL's investments in its listed CGD entity Gujarat Gas (54.1% stake) and unlisted Sabarmati Gas, is trading at ~66% discount. We value its investments at ~₹ 244/share at 50% discount to arrive at a target price of ₹ 415/share.

Key triggers for future price performance:

- Beneficiary of increasing gas consumption and its connectivity to new LNG terminals in Gujarat
- Ramp up in domestic gas output and growing CGD sector in Gujarat to aid volume growth
- Potential appreciation/lower holding company discount in value of its listed subsidiary, Gujarat Gas
- Any downward revision in tariff can impact profits

Alternate Stock Idea: Besides GSPL, in our oil & gas coverage we also like Gail.

- Gail is India's leading gas transmission company. It is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value
- BUY with a target price of ₹ 175



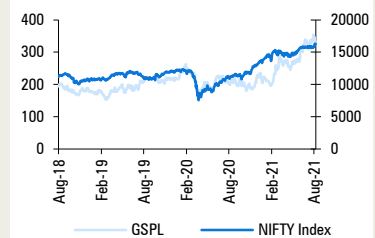
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	19,062.2
Total Debt (FY20) (₹ Crore)	1,806.0
Cash and Investments (FY20)	95.7
EV (₹ Crore)	20,772.6
52 week H/L	360/177
Equity capital (₹ Crore)	564.1
Face value (₹)	10.0

Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	37.6	37.6	37.6	37.6	37.6
FII	15.5	15.6	15.9	17.2	17.5
DII	22.7	20.0	20.0	19.1	19.1
Others	24.2	26.8	26.4	26.2	25.9

Price Chart



Recent event & key risks

- Volume in July 2021 was 39.4 mmscmd
- Key Risk:** (i) Lower than expected volume growth, (ii) Lower than expected tariffs post PNGRB regulation

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	5 year CAGR (FY16-21E)	FY22E	FY23E	2 year CAGR (FY16-21E)
Revenues (₹ crore)	1,877.3	2,369.3	2,087.6	16.0	2,282.9	2,368.3	6.5
EBITDA (₹ crore)	1,542.6	1,574.9	1,469.4	11.2	1,470.7	1,449.1	(0.7)
Net Profit (₹ crore)	794.7	1,108.7	924.2	15.8	936.5	949.1	1.3
EPS (₹)	14.1	19.7	16.4		16.6	16.8	
P/E (x)	24.0	17.2	20.6		20.4	20.1	
Price / Book (x)	3.3	2.8	2.5		2.3	2.1	
EV/EBITDA (x)	14.0	13.3	13.9		13.6	13.6	
RoCE (%)	16.3	16.2	14.4		13.5	12.5	
RoE (%)	13.8	16.5	12.3		11.3	10.5	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q1FY22 Results: Domestic output led to volume growth, CGD declined QoQ

- City gas distribution sector's offtake reduced QoQ due to second wave of Covid-19 as its share in volume mix reduced from 40% to 30%
- Refinery/petchem segment's volume grew QoQ as its share increased to 32% (vs. 22% in Q4FY21). Power sector's offtake (which was impacted due to high spot LNG prices in Q4FY21) grew marginally with a reduction in spot LNG prices during Q1FY22
- We build in gradual growth from Q2FY22E onwards and estimate volume at 39.6 mmscmd and 42 mmscmd in FY22E and FY23E, respectively
- PNGRB has notified regulations for unified transmission tariff structure with unified tariff at 12% post-tax RoCE. Unified tariffs will encourage gas transmission companies to set up new pipelines as transmission volumes from distant areas will increase and result in long term volume growth benefitting companies like GSPL. However, tariff revision post the corporate tax rate cut has not yet been implemented. Accordingly, we estimate transmission tariffs at ~₹ 1.2/scm for both FY22E and FY23E

Peer comparison

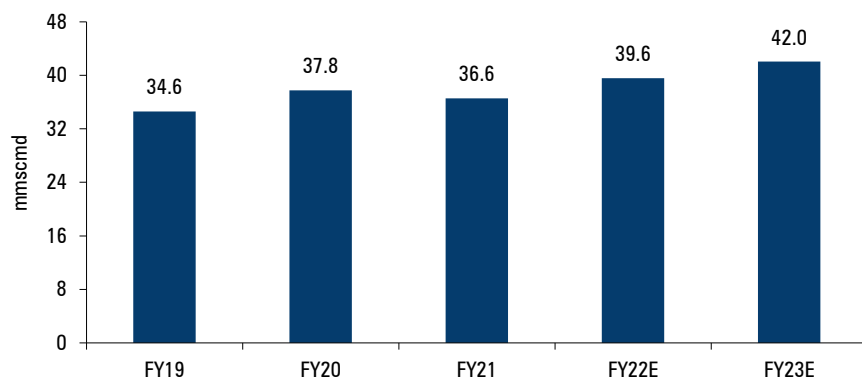
Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
GAIL (India) (GAIL)	147	175	Buy	65,274	11.0	15.7	16.4	13.3	9.4	9.0	10.9	6.9	7.0	8.7	14.0	12.5	10.6	13.8	13.3
Gujarat Gas (GUJGA)	722	735	Hold	49,702	18.5	24.9	26.3	39.0	29.0	27.5	24.1	18.7	17.4	33.0	36.5	32.8	29.0	29.6	25.4
Indraprastha Gas (INDGAS)	558	595	Hold	39,060	14.4	18.8	21.0	38.8	29.7	26.6	25.6	20.0	17.6	20.7	23.7	22.7	17.4	19.6	18.8
Mahanagar Gas (MAHGAS)	1167	1340	Buy	11,527	62.7	95.6	107.2	18.6	12.2	10.9	11.9	7.9	6.6	22.6	29.7	28.1	18.7	23.9	22.5
Petronet LNG (PETLNG)	218	250	Hold	32,700	19.7	18.8	21.7	11.1	11.6	10.1	6.7	6.7	5.9	25.3	22.9	24.6	24.4	22.0	23.3
Gujarat State Petronet (GSF 338)	415	415	Buy	19,062	16.4	16.6	16.8	20.6	20.4	20.1	13.9	13.6	13.6	14.4	13.5	12.5	12.3	11.3	10.5

Source: Company, ICICI Direct Research

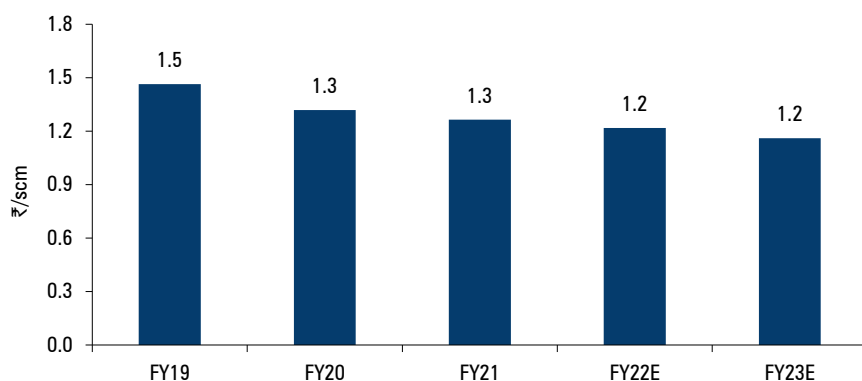
Story in charts

Exhibit 2: Volume trajectory



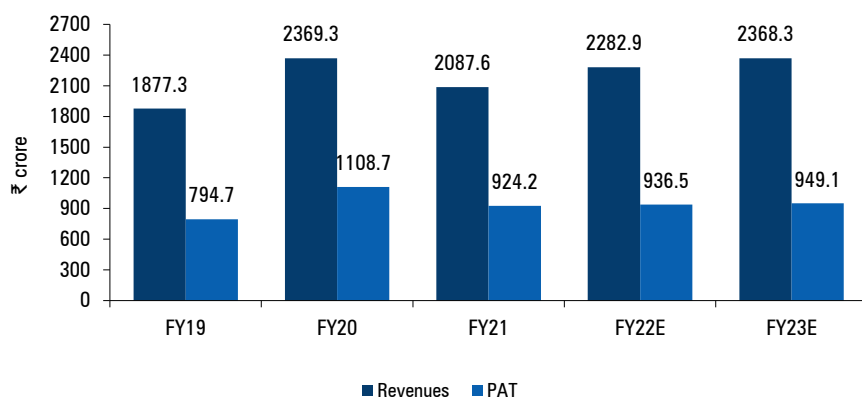
Source: Company, ICICI Direct Research

Exhibit 3: Transmission tariffs



Source: Company, ICICI Direct Research

Exhibit 4: Revenue & PAT trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenue	2369.3	2087.6	2282.9	2368.3
Growth (%)	26.2	-11.9	9.4	3.7
Employee Costs	61.9	59.2	63.3	69.7
Gas Transmissn exp.	514.4	367.2	492.6	560.0
Op.& Maintainence exp.	214.5	187.7	254.8	287.6
Op. Expenditure	794.4	618.2	812.2	919.2
EBITDA	1574.9	1469.4	1470.7	1449.1
Growth (%)	2.1	-6.7	0.1	-1.5
Depreciation	196.6	204.9	224.9	248.2
EBIT	1378.3	1264.5	1245.8	1200.9
Interest	164.5	93.3	69.1	52.0
Other Income	64.9	69.4	90.0	133.9
PBT	1278.6	1240.6	1266.7	1282.8
Growth (%)	6.3	-3.2	2.3	1.3
Tax	169.9	314.0	330.2	333.8
Reported PAT	1108.7	924.2	936.5	949.1
Growth (%)	39.5	-16.6	1.3	1.3
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	1108.7	924.2	936.5	949.1
EPS	19.7	16.4	16.6	16.8

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	1,108.7	924.2	936.5	949.1
Add: Depreciation	196.6	204.9	224.9	248.2
Add: Others	-114.5	13.7	30.0	30.0
Cash Profit	1,062.5	1,010.9	993.3	1,029.2
Increase/(Decrease) in CL	75.0	16.3	281.8	16.6
(Increase)/Decrease in CA	-85.5	-206.3	-91.7	-68.3
CF from Operating Activities	1180.3	952.9	1381.4	1175.6
Purchase of Fixed Assets	-7.3	316.0	359.5	370.3
(Inc)/Dec in Investments	-333.9	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-326.6	-316.0	-359.5	-370.3
Inc/(Dec) in Loan Funds	-786.1	-510.5	-330.5	-330.5
Dividend Paid	128.3	132.0	198.0	198.0
Inc/(Dec) in Sh. Cap. & Res.	-1.9	-1.5	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-916.3	-644.1	-528.5	-528.5
Change in cash Eq.	-62.6	-7.2	493.4	276.7
Op. Cash and cash Eq.	158.3	95.7	88.5	581.9
Cl. Cash and cash Eq.	95.7	88.5	581.9	858.7

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Source of Funds				
Equity Capital	564.1	564.2	564.2	564.2
Preference capital	6.0	6.0	6.0	6.0
Reserves & Surplus	6,158.5	6,949.0	7,687.4	8,438.5
Shareholder's Fund	6,722.6	7,513.2	8,251.7	9,002.7
Loan Funds	1,806.0	1,295.5	965.0	634.5
Deferred Tax Liability	408.1	421.8	451.8	481.8
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	8936.7	9230.6	9668.6	10119.1
Application of Funds				
Gross Block	4,484.8	4,784.8	5,085.1	5,385.4
Less: Acc. Depreciation	899.0	1,138.0	1,373.7	1,621.9
Net Block	3,585.7	3,646.8	3,711.4	3,763.5
Capital WIP	237.2	287.2	357.2	427.2
Total Fixed Assets	3,822.9	3,934.0	4,068.5	4,190.6
Investments	4,611.1	4,611.1	4,611.1	4,611.1
Inventories	126.1	217.3	237.7	246.6
Debtor	163.7	228.8	250.2	259.5
Cash	95.7	88.5	581.9	858.7
Loan & Advance, Other CA	283.3	333.3	383.3	433.3
Total Current assets	668.9	868.0	1453.1	1798.1
Current Liabilities	138.5	160.1	437.8	454.2
Provisions	27.6	22.3	26.4	26.6
Total CL and Provisions	166.1	182.4	464.2	480.8
Net Working Capital	502.7	685.6	988.9	1317.3
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	8936.7	9230.6	9668.6	10119.1

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	119.2	133.2	146.3	159.6
Cash per share	14.9	14.8	23.5	28.4
EPS	19.7	16.4	16.6	16.8
Cash EPS	23.1	20.0	20.6	21.2
DPS	2.0	2.0	3.0	3.0
Profitability & Operating Ratios				
EBITDA Margin (%)	66.5	70.4	64.4	61.2
PAT Margin (%)	46.8	44.3	41.0	40.1
Fixed Asset Turnover (x)	0.6	0.5	0.6	0.6
Inventory Turnover (Days)	19.4	38.0	38.0	38.0
Debtor (Days)	25.2	40.0	40.0	40.0
Current Liabilities (Days)	21.3	28.0	70.0	70.0
Return Ratios (%)				
RoE	16.5	12.3	11.3	10.5
RoCE	16.2	14.4	13.5	12.5
RoIC	17.9	15.9	15.8	14.9
Valuation Ratios (x)				
PE	17.2	20.6	20.4	20.1
Price to Book Value	2.8	2.5	2.3	2.1
EV/EBITDA	13.3	13.9	13.6	13.6
EV/Sales	8.8	9.8	8.8	8.3
Leverage & Solvency Ratios				
Debt to equity (x)	0.3	0.2	0.1	0.1
Interest Coverage (x)	8.4	13.6	18.0	23.1
Debt to EBITDA (x)	1.1	0.9	0.7	0.4
Current Ratio	4.0	4.8	3.1	3.7
Quick ratio	3.3	3.6	2.6	3.2

Source: Company, ICICI Direct Research

Exhibit 9: ICICI Direct coverage universe (Oil & gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
BPCL (BHAPET)	446	495	Hold	87,723	91.0	35.2	39.0	4.9	12.7	11.4	7.1	9.0	8.2	14.7	11.3	12.0	35.6	16.6	17.1
GAIL (India) (GAIL)	147	175	Buy	65,274	11.0	15.7	16.4	13.3	9.4	9.0	10.9	6.9	7.0	8.7	14.0	12.5	10.6	13.8	13.3
Gujarat Gas (GUJGA)	722	735	Hold	49,702	18.5	24.9	26.3	39.0	29.0	27.5	24.1	18.7	17.4	33.0	36.5	32.8	29.0	29.6	25.4
HPCL (HINPET)	264	265	Hold	38,344	70.6	34.3	29.0	3.7	7.7	9.1	5.3	7.6	7.4	14.9	7.4	6.1	29.5	13.0	10.6
Indian Oil Corp (INDOIL)	104	120	Buy	95,483	23.8	15.8	15.6	4.4	6.6	6.7	2.5	2.9	2.9	13.3	10.0	9.5	19.8	12.2	11.5
Indraprastha Gas (INDGAS)	558	595	Hold	39,060	14.4	18.8	21.0	38.8	29.7	26.6	25.6	20.0	17.6	20.7	23.7	22.7	17.4	19.6	18.8
Mahanagar Gas (MAHGAS)	1167	1340	Buy	11,527	62.7	95.6	107.2	18.6	12.2	10.9	11.9	7.9	6.6	22.6	29.7	28.1	18.7	23.9	22.5
Petronet LNG (PETLNG)	218	250	Hold	32,700	19.7	18.8	21.7	11.1	11.6	10.1	6.7	6.7	5.9	25.3	22.9	24.6	24.4	22.0	23.3

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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