

High gas prices impact volume offtake...

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

- It operates a 2700-km transmission network in Gujarat as of March 2021
- Major portion of gas flowing through its network is contributed by CGD and refining/petchem companies

Q3FY22 Results: GSPL's results were impacted by decline in transmission volume.

- Revenue was down 18.9% YoY to ₹ 471.2 crore on account of volume decline of 18.9% YoY to 31.9 mmscmd. Volume fell 14.8% QoQ
- EBITDA was at ₹ 336.5 crore, down 15.5% YoY
- The company recognised gain of ₹ 50.3 crore post transfer of CGD business to its subsidiary, Gujarat Gas. PAT was at ₹ 248.1 crore, flat 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 ~₹ 185/share. At the CMP, GSPL's investments in its listed CGD entity Gujarat Gas (54.1% stake) and unlisted Sabarmati Gas, is trading at ~74% discount. We value its investments at ~₹ 175/share at 60% discount to arrive at a target price of ₹ 360/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



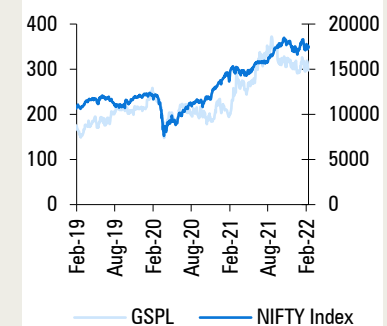
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	16,411.6
Total Debt (FY21) (₹ Crore)	754.5
Cash and Investments (FY21)	87.8
EV (₹ Crore)	17,078.2
52 week H/L	383/223
Equity capital (₹ Crore)	564.1
Face value (₹)	10.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	37.6	37.6	37.6	37.6	37.6
FII	15.9	17.2	17.5	17.5	16.6
DII	20.0	19.1	19.1	20.0	21.6
Others	26.4	26.2	25.9	24.9	24.2

Price Chart



Recent event & key risks

- **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	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Revenues (₹ crore)	1,877.3	2,369.3	2,087.6	16.0	2,150.5	2,286.3	2,472.5	5.8
EBITDA (₹ crore)	1,542.6	1,574.9	1,469.4	11.2	1,472.1	1,396.8	1,511.5	0.9
Net Profit (₹ crore)	794.7	1,108.7	924.2	15.8	1,068.4	930.9	1,015.4	3.2
EPS (₹)	14.1	19.7	16.4		18.9	16.5	18.0	
P/E (x)	20.7	14.8	17.8		15.4	17.6	16.2	
Price / Book (x)	2.9	2.4	2.2		2.0	1.8	1.7	
EV/EBITDA (x)	12.3	11.6	11.7		11.4	12.0	11.0	
RoCE (%)	16.3	16.2	15.2		14.4	12.3	12.6	
RoE (%)	13.8	16.5	12.2		12.7	10.3	10.4	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q3FY22 Results: Volume decline amid surge in spot LNG price

- City gas distribution and fertiliser sectors' offtake was flat QoQ while other sectors reported reduced offtake
- CGD offtake was 13 mmscmd, flat QoQ while fertiliser offtake was also steady at 3.2 mmscmd. Power offtake was 2.1 mmscmd (share in volume mix fell from 14% to 7%) and refining/petchem offtake was 8.5 mmscmd (share in volume mix stable at 27%)
- We build in gradual growth from Q4FY22E onwards and estimate volume at 40.1 mmscmd and 43.6 mmscmd in FY23E and FY24E, 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 FY23E and FY24E

Peer comparison

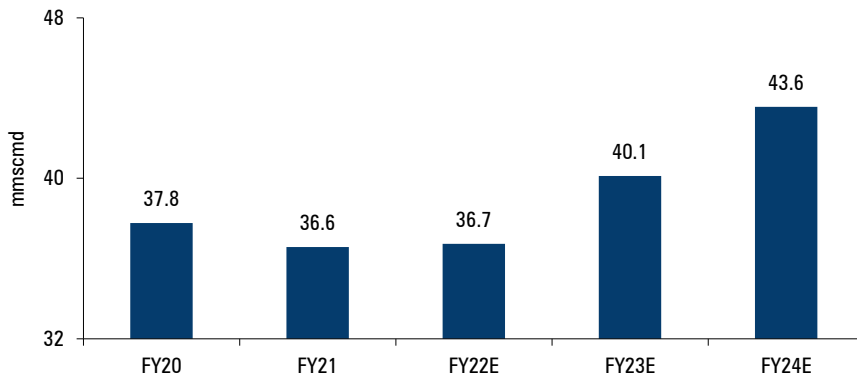
Exhibit 1: Peer Comparison

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	180	Buy	65,074	11.0	22.4	17.8	13.3	6.5	8.2	10.8	5.1	6.2	8.7	18.5	13.1	10.5	18.5	13.4
Gujarat Gas (GUJGA)	647	700	Hold	44,539	18.5	16.4	23.3	34.9	39.5	27.7	21.7	24.1	17.5	31.7	24.8	30.4	28.5	21.3	25.0
Indraprastha Gas (INDGAS)	390	475	Buy	27,300	14.4	19.8	20.4	27.1	19.7	19.1	17.7	13.3	12.4	20.0	24.1	21.5	17.1	20.1	17.9
Mahanagar Gas (MAHGAS)	793	885	Hold	7,833	62.7	65.4	89.6	12.6	12.1	8.8	7.9	7.6	5.3	23.1	21.7	26.2	19.2	18.1	21.3
Petronet LNG (PETLNG)	223	220	Hold	33,450	19.7	21.3	19.7	11.3	10.5	11.3	6.9	6.1	6.4	26.0	26.5	22.7	25.3	25.1	21.7
Gujarat State Petronet (GSPL)	291	360	Buy	16,412	16.4	18.9	16.5	17.8	15.4	17.6	11.7	11.4	12.0	15.2	14.4	12.3	12.2	12.7	10.3

Source: Company, ICICI Direct Research

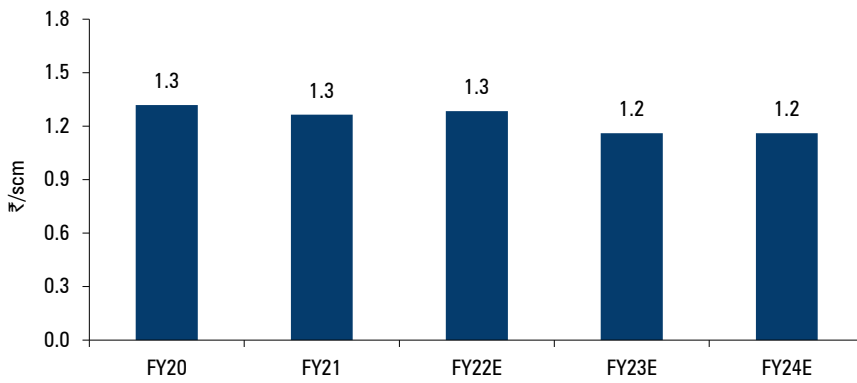
Story in charts

Exhibit 2: Volume trajectory



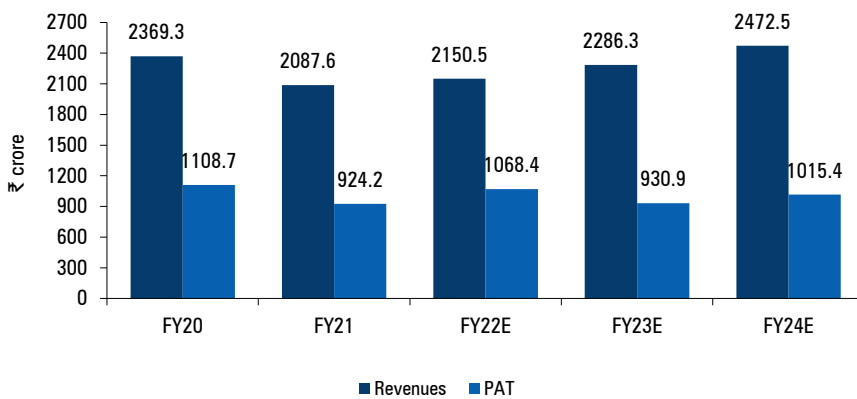
Source: Company, ICICI Direct Research

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)	FY21	FY22E	FY23E	FY24E
Revenue	2087.6	2150.5	2286.3	2472.5
Growth (%)	-11.9	3.0	6.3	8.1
Employee Costs	59.2	69.4	76.4	84.0
Gas Transmissn exp.	367.2	400.7	560.0	600.0
Op. & Maintainence exp.	187.7	208.2	253.2	277.0
Op. Expenditure	618.2	678.3	889.5	961.0
EBITDA	1469.4	1472.1	1396.8	1511.5
Growth (%)	-6.7	0.2	-5.1	8.2
Depreciation	204.9	203.3	239.6	253.6
EBIT	1264.5	1268.9	1157.2	1257.9
Interest	93.3	37.5	23.8	16.3
Other Income	69.4	109.8	124.9	130.9
PBT	1240.6	1391.5	1258.3	1372.5
Growth (%)	-3.2	12.4	-9.6	9.1
Tax	314.0	323.1	327.4	357.1
Reported PAT	924.2	1068.4	930.9	1015.4
Growth (%)	-16.6	15.6	-12.9	9.1
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	924.2	1068.4	930.9	1015.4
EPS	16.4	18.9	16.5	18.0

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Source of Funds				
Equity Capital	564.2	564.2	564.2	564.2
Preference capital	6.0	6.0	6.0	6.0
Reserves & Surplus	6,980.8	7,841.1	8,508.0	9,226.4
Shareholder's Fund	7,545.0	8,405.4	9,072.2	9,790.6
Loan Funds	754.5	424.0	309.0	194.0
Deferred Tax Liability	421.8	451.8	481.8	511.8
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	8721.3	9281.2	9863.0	10496.4
Application of Funds				
Gross Block	4,579.0	4,879.3	5,204.6	5,554.9
Less: Acc. Depreciation	1,112.3	1,338.9	1,578.5	1,832.1
Net Block	3,466.7	3,540.4	3,626.1	3,722.8
Capital WIP	221.5	291.5	386.5	506.5
Total Fixed Assets	3,688.2	3,831.9	4,012.6	4,229.3
Investments	5,006.2	5,006.2	5,006.2	5,006.2
Inventories	129.6	223.9	238.0	257.4
Debtor	158.6	235.7	250.6	271.0
Cash	87.8	69.7	351.4	647.1
Loan & Advance, Other CA	302.4	352.4	472.4	592.4
Total Current assets	678.5	881.6	1312.3	1767.9
Current Liabilities	620.8	412.4	438.5	474.2
Provisions	30.7	26.1	29.6	32.7
Total CL and Provisions	651.5	438.5	468.0	506.9
Net Working Capital	27.0	443.2	844.3	1261.0
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	8721.3	9281.2	9863.0	10496.4

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	924.2	1,068.4	930.9	1,015.4
Add: Depreciation	204.9	203.3	239.6	253.6
Add: Others	13.7	30.0	30.0	30.0
Cash Profit	1,030.1	1,103.6	936.4	1,002.0
Increase/(Decrease) in CL	485.3	-213.0	29.6	38.8
(Increase)/Decrease in CA	-17.5	-221.3	-149.0	-159.8
CF from Operating Activities	1610.7	867.4	1081.0	1178.1
Purchase of Fixed Assets	70.2	347.0	420.3	470.3
(Inc)/Dec in Investments	-395.1	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-465.2	-347.0	-420.3	-470.3
Inc/(Dec) in Loan Funds	-1,051.6	-330.5	-115.0	-115.0
Dividend Paid	112.8	198.0	264.1	297.1
Inc/(Dec) in Sh. Cap. & Res.	11.0	-10.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-1,153.4	-538.6	-379.1	-412.1
Change in cash Eq.	-7.9	-18.2	281.7	295.7
Op. Cash and cash Eq.	95.7	87.8	69.7	351.4
Cl. Cash and cash Eq.	87.8	69.7	351.4	647.1

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
Book Value	133.7	149.0	160.8	173.5
Cash per share	21.6	21.3	26.3	31.5
EPS	16.4	18.9	16.5	18.0
Cash EPS	20.0	22.5	20.7	22.5
DPS	2.0	3.0	4.0	4.5
Profitability & Operating Ratios				
EBITDA Margin (%)	70.4	68.5	61.1	61.1
PAT Margin (%)	44.3	49.7	40.7	41.1
Fixed Asset Turnover (x)	0.6	0.6	0.6	0.6
Inventory Turnover (Days)	22.7	38.0	38.0	38.0
Debtor (Days)	27.7	40.0	40.0	40.0
Current Liabilities (Days)	108.5	70.0	70.0	70.0
Return Ratios (%)				
RoE	12.2	12.7	10.3	10.4
RoCE	15.2	14.4	12.3	12.6
RoIC	17.9	16.6	14.6	15.3
Valuation Ratios (x)				
PE	17.8	15.4	17.6	16.2
Price to Book Value	2.2	2.0	1.8	1.7
EV/EBITDA	11.7	11.4	12.0	11.0
EV/Sales	8.2	7.8	7.3	6.7
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.1	0.0	0.0
Interest Coverage (x)	13.6	33.9	48.6	77.0
Debt to EBITDA (x)	0.5	0.3	0.2	0.1
Current Ratio	1.0	2.0	2.8	3.5
Quick ratio	0.8	1.5	2.3	3.0

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)	376	450	Buy	78,693	91.0	43.4	39.8	4.1	8.7	9.4	6.2	6.5	6.4	14.8	14.7	13.2	34.9	19.0	16.1
GAIL (India) (GAIL)	147	180	Buy	65,074	11.0	22.4	17.8	13.3	6.5	8.2	10.8	5.1	6.2	8.7	18.5	13.1	10.5	18.5	13.4
Gujarat Gas (GUJGA)	647	700	Hold	44,539	18.5	16.4	23.3	34.9	39.5	27.7	21.7	24.1	17.5	31.7	24.8	30.4	28.5	21.3	25.0
HPCL (HINPET)	285	320	Hold	40,439	70.6	46.4	44.2	4.0	6.1	6.4	5.3	6.9	6.2	15.6	9.6	9.2	29.5	16.7	14.5
Indian Oil Corp (INDOIL)	125	150	Buy	1,14,763	23.8	25.4	19.2	5.3	4.9	6.5	3.0	2.7	3.1	13.3	13.9	10.6	19.8	18.3	12.9
Indraprastha Gas (INDGAS)	390	475	Buy	27,300	14.4	19.8	20.4	27.1	19.7	19.1	17.7	13.3	12.4	20.0	24.1	21.5	17.1	20.1	17.9
Mahanagar Gas (MAHGAS)	793	885	Hold	7,833	62.7	65.4	89.6	12.6	12.1	8.8	7.9	7.6	5.3	23.1	21.7	26.2	19.2	18.1	21.3
ONGC (ONGC)	170	180	Hold	2,18,167	8.9	30.0	26.6	19.0	5.7	6.4	7.2	4.2	3.3	4.5	12.8	14.4	5.5	16.1	12.8
Petronet LNG (PETLNG)	223	220	Hold	33,450	19.7	21.3	19.7	11.3	10.5	11.3	6.9	6.1	6.4	26.0	26.5	22.7	25.3	25.1	21.7
Reliance Industries (RELIND)	2,478	2,950	Buy	16,75,691	76.2	90.2	106.3	32.5	27.5	23.3	23.2	16.7	12.6	5.5	7.7	9.7	7.7	8.6	9.5

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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