

CGD, domestic output to drive volume growth...

Gujarat State Petronet's (GSPL) operating revenue for Q4FY21 fell 21.9% YoY to ₹ 485 crore on account of decline in transmission volume. Gas transmission volumes dipped 8% YoY to 33.8 mmscmd mainly owing to reduced offtake from power and refineries sector. EBITDA came in at ₹ 344.2 crore, down 3.2% YoY as decline was limited due to lower other expenses. Subsequently, reported PAT was at ₹ 206.3 crore, down 8.6% YoY.

Power offtake hit by rise in spot LNG prices

Natural gas transmission volumes de-grew 8% YoY, 14% QoQ to 33.8 mmscmd. City gas distribution sector's offtake has continued sequential growth momentum with further relaxations in lockdown. On a QoQ basis, volume offtake mix for CGD sector increased to 40% vs. 32% while refinery/petchem sector's offtake increased to 22% from 18. However, power sector offtake saw a sharp reduction to 14% from 23% due to increase in spot LNG prices, which led to overall de-growth. We build in gradual QoQ growth from Q1FY22E onwards. In the long term, the company will be a beneficiary of increasing gas consumption and its connectivity to new LNG terminals in Gujarat. Ramp-up in domestic gas output will also support volume growth in the near term. We estimate volumes at 38 mmscmd and 41.8 mmscmd for FY22E and FY23E, respectively.

Tariff revision expected

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.

Valuation & Outlook

GSPL's transmission volumes witnessed de-growth on account of a fall in demand from the power sector. However, the CGD segment has seen a sharp rebound in demand as industrial PNG demand remained robust and CNG demand recovered to normal in unlock phases. In the long run, the transmission business is expected to report stable volumes in the backdrop of growth in CGD sector and increased LNG capacity in Gujarat. The management intends to increase capacity due to new LNG terminals and support pipelines of its subsidiaries for expansion outside Gujarat. We value GSPL's standalone business at ~₹ 166/share. At the CMP, GSPL's investments in its listed CGD entity Gujarat Gas (54.1% stake) and unlisted Sabarmati Gas, is trading at ~65% discount. We value its investments at ~₹ 194/share at 50% discount. Hence, we maintain **BUY** and arrive at a target price of ₹ 360/share (earlier ₹ 285).

Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Revenues (₹ crore)	1,877.3	2,369.3	2,087.6	2,237.5	2,396.8	0.4
EBITDA (₹ crore)	1,542.6	1,574.9	1,469.4	1,360.4	1,435.6	(3.0)
Net Profit (₹ crore)	794.7	1,108.7	925.9	837.7	914.6	(6.2)
EPS (₹)	14.1	19.7	16.4	14.8	16.2	
P/E (x)	21.4	15.4	18.4	20.3	18.6	
Price / Book (x)	3.0	2.5	2.3	2.1	1.9	
EV/EBITDA (x)	12.7	12.0	12.5	13.2	12.3	
RoCE (%)	16.3	16.2	14.4	12.1	12.3	
RoE (%)	13.8	16.5	12.3	10.3	10.3	

Source: Company, ICICI Direct Research



Gujarat State Petronet Limited (GSPL)

Particulars

Particular	Amount
Market Capitalization (₹ Crore)	17,031.9
Total Debt (FY 20) (₹ Crore)	1,806.0
Cash and Investments (FY 20)	95.7
EV (₹ Crore)	18,742.3
52 week H/L	311/177
Equity capital (₹ Crore)	564.1
Face value (₹)	10.0

Key risks to our call

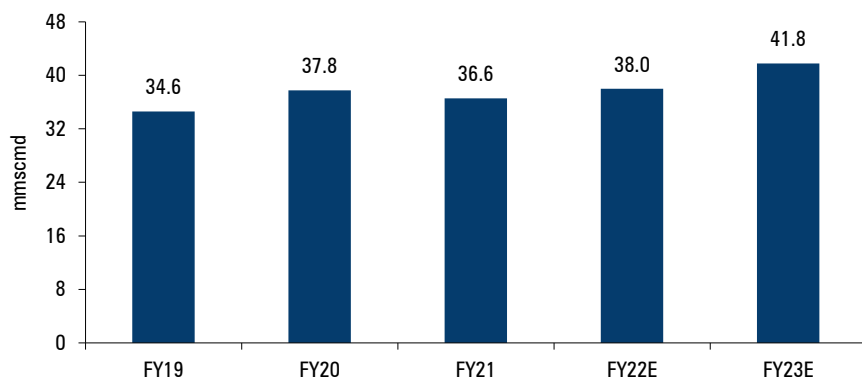
- Slower growth in gas demand can impact earnings
- Lower than expected tariffs post PNGRB regulations can impact profitability

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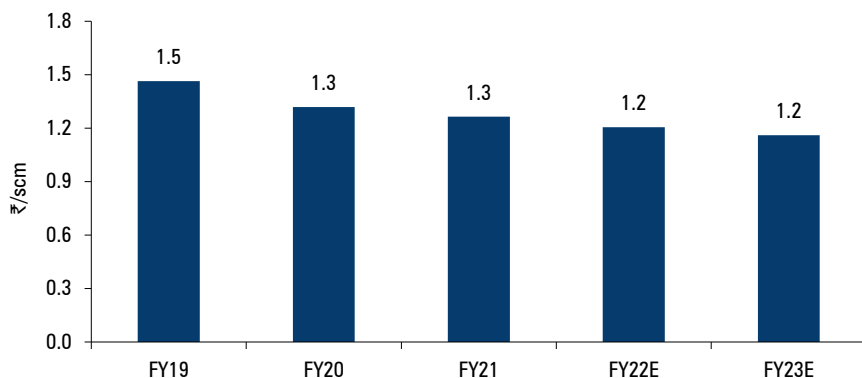
Story in charts

Exhibit 1: Volume trajectory



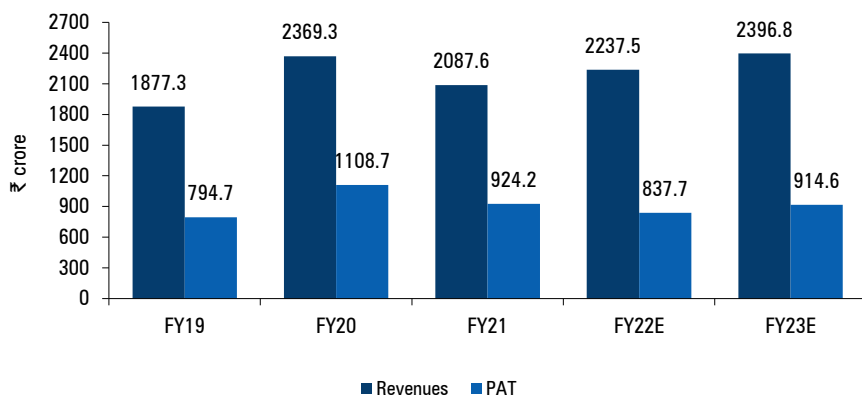
Source: Company, ICICI Direct Research

Exhibit 2: Transmission tariffs



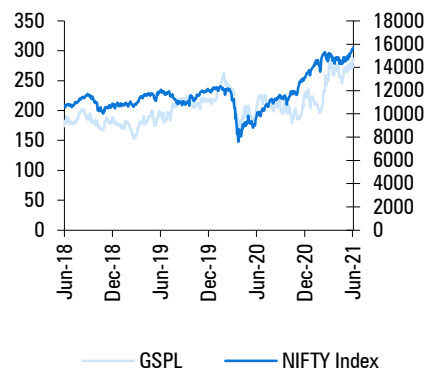
Source: Company, ICICI Direct Research

Exhibit 3: Revenue & PAT trend



Source: Company, ICICI Direct Research

Exhibit 4: Price Performance



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	2237.5	2396.8
Growth (%)	26.2	-11.9	7.2	7.1
Employee Costs	61.9	59.2	65.1	71.6
Gas Transmissn exp.	514.4	367.2	540.0	600.0
Op.& Maintenance exp.	214.5	187.7	270.0	287.6
Op. Expenditure	794.4	618.2	877.1	961.2
EBITDA	1574.9	1469.4	1360.4	1435.6
Growth (%)	2.1	-6.7	-7.4	5.5
Depreciation	196.6	204.9	252.6	266.3
EBIT	1378.3	1264.5	1107.8	1169.4
Interest	164.5	93.3	73.5	52.0
Other Income	64.9	69.4	97.9	118.9
PBT	1278.6	1240.6	1132.3	1236.3
Growth (%)	6.3	-3.2	-8.6	9.2
Tax	169.9	314.0	294.6	321.7
Reported PAT	1108.7	924.2	837.7	914.6
Growth (%)	39.5	-16.6	-9.4	9.2
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	1108.7	924.2	837.7	914.6
EPS	19.7	16.4	14.8	16.2

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	7,588.7	8,305.3
Shareholder's Fund	6,722.6	7,513.2	8,152.9	8,869.5
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	9569.8	9985.9
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	1,390.5	1,656.8
Net Block	3,585.7	3,646.8	3,694.5	3,728.6
Capital WIP	237.2	287.2	357.2	427.2
Total Fixed Assets	3,822.9	3,934.0	4,051.7	4,155.7
Investments	4,611.1	4,611.1	4,611.1	4,611.1
Inventories	126.1	217.3	232.9	249.5
Debtor	163.7	228.8	245.2	262.7
Cash	95.7	88.5	499.2	759.2
Loan & Advance, Other C	283.3	333.3	383.3	433.3
Total Current assets	668.9	868.0	1360.7	1704.7
Current Liabilities	138.5	160.1	429.1	459.7
Provisions	27.6	22.3	24.6	26.0
Total CL and Provisions	166.1	182.4	453.7	485.6
Net Working Capital	502.7	685.6	907.0	1219.0
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	8936.7	9230.6	9569.8	9985.9

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	837.7	914.6
Add: Depreciation	196.6	204.9	252.6	266.3
Add: Others	-114.5	13.7	30.0	30.0
Cash Profit	1,062.5	1,010.9	922.2	1,012.9
Increase/(Decrease) in CL	75.0	16.3	271.3	31.9
(Increase)/Decrease in CA	-85.5	-206.3	-82.0	-84.0
CF from Operating Activities	1180.3	952.9	1309.5	1158.8
Purchase of Fixed Assets	-7.3	316.0	370.3	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	-370.3	-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	410.7	259.9
Op. Cash and cash Eq.	158.3	95.7	88.5	499.2
Cl. Cash and cash Eq.	95.7	88.5	499.2	759.2

Source: Company, ICICI Direct Research; *calculated

Exhibit 8: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	119.2	133.2	144.5	157.2
Cash per share	14.9	14.8	22.1	26.7
EPS	19.7	16.4	14.8	16.2
Cash EPS	23.1	20.0	19.3	20.9
DPS	2.0	2.0	3.0	3.0
Profitability & Operating Ratios				
EBITDA Margin (%)	66.5	70.4	60.8	59.9
PAT Margin (%)	46.8	44.3	37.4	38.2
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	10.3	10.3
RoCE	16.2	14.4	12.2	12.3
RoIC	17.9	15.9	14.1	14.6
Valuation Ratios (x)				
PE	15.4	18.4	20.3	18.6
Price to Book Value	2.5	2.3	2.1	1.9
EV/EBITDA	12.0	12.5	13.2	12.3
EV/Sales	8.0	8.8	8.0	7.4
Leverage & Solvency Ratios				
Debt to equity (x)	0.3	0.2	0.1	0.1
Interest Coverage (x)	8.4	13.6	15.1	22.5
Debt to EBITDA (x)	1.1	0.9	0.7	0.4
Current Ratio	4.0	4.8	3.0	3.5
Quick ratio	3.3	3.6	2.5	3.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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