

## Dividend payout to increase, going ahead...

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

- It operates a 2703-km transmission network in Gujarat as of March 2022
- Major portion of gas flowing through its network is contributed by CGD and refining/petchem companies

**Q4FY23 Results:** GSPL's performance improved QoQ.

- Revenue was up 10% QoQ to ₹ 443 crore on account of 12.4% growth in volume to 25.1 mmscmd
- EBITDA came in at ₹ 294.7 crore, up 9.2% QoQ
- The company received other income of ₹ 47.6 crore, up 2.7x QoQ. PAT for the quarter was at ₹ 224.3 crore, up 31.2% QoQ

**What should investors do?** GSPL reported growth in transmission volumes due to the sharp correction in spot LNG prices. In the current quarter, LNG prices have further softened to US\$12/mmbtu (from US\$17/mmbtu in Q4) and domestic gas prices have also been revised downwards. Owing to this, volumes are likely to grow, going forward, along with the expected growth in the CGD sector and increase in domestic gas production.

- We maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value GSPL's transmission business at ~₹ 202/share. We value its investments in Gujarat Gas (54.1% stake) and unlisted Sabarmati Gas at ~₹ 138/share at 60% discount to arrive at a TP of ₹ 340/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 ₹ 120



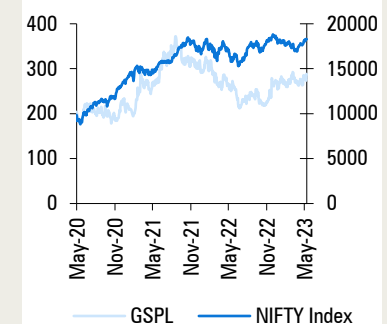
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	16,186.0
Total Debt (FY23) (₹ Crore)	122.7
Cash and Investments (FY23)	691.7
EV (₹ Crore)	15,617.0
52 week H/L	298/ 209
Equity capital (₹ Crore)	564.1
Face value (₹)	10.0

### Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	37.6	37.6	37.6	37.6
FII	16.5	17.3	17.3	16.7
DII	21.8	24.2	24.3	24.9
Others	24.1	20.9	20.8	20.8

### Price Chart



### Recent event & key risks

- **Key Risk:** (i) Lower than expected volume growth, (ii) Increase in gas prices

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### Key Financial Summary

(Year-end March)	FY21	FY22	FY23E	5 year CAGR (FY18-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Revenues (₹ crore)	2,087.6	2,020.0	1,761.8	5.8	2,081.4	2,188.2	11.4
EBITDA (₹ crore)	1,469.4	1,397.6	1,258.7	1.9	1,529.7	1,614.4	13.3
Net Profit (₹ crore)	924.2	1,029.1	944.7	7.2	1,033.1	1,095.8	7.7
EPS (₹)	16.4	18.2	16.7		18.3	19.4	
P/E (x)	17.5	15.7	17.1		15.7	14.8	
Price / Book (x)	2.1	1.9	1.7		1.6	1.5	
EV/EBITDA (x)	11.5	11.7	13.0		10.7	10.1	
RoCE (%)	15.2	14.0	11.3		12.7	12.7	
RoE (%)	12.2	12.2	10.2		10.4	10.3	

## Key takeaways of recent quarter

### Q4FY23 Results: Volume grows due to decline in spot LNG price

- Revenue grew 2.3% YoY due to increase in transmission tariff by 27%
- Volumes declined 14% YoY but grew 12% QoQ amid a decline in spot LNG prices. City gas distribution, refinery and power sectors reported growth in volumes QoQ while fertilisers reported reduced offtake
- CGD offtake came in at 10 mmscmd, up 18% QoQ. Refinery offtake was also steady at 6.7 mmscmd, up 12% QoQ. Power sector volume was at 1.25 mmscmd, up 62% QoQ. Fertiliser sector reported de-growth of 6% QoQ to 3.6 mmscmd
- The Gujarat Government has mandated a minimum of 30% of PAT or 5% of networth, whichever is higher, to be the minimum level of dividend declared for shareholders
- We build in gradual growth from Q1FY24E onwards and estimate volume at ~30 mmscmd and ~32 mmscmd in FY24E and FY25E, respectively

## Peer comparison

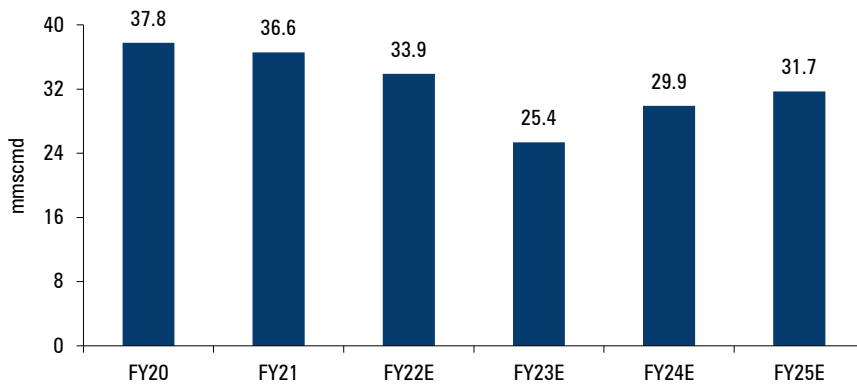
Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
GAIL (India) (GAIL)	96	120	Buy	63,121	11.0	23.3	9.4	8.7	4.1	10.2	7.3	3.4	8.4	8.7	18.8	9.0	10.5	18.6	10.5
Gujarat Gas (GUJGA)	485	570	Buy	33,387	0.0	0.0	0.0	31.9	27.3	27.3	0.0	0.0	0.0	76.3	51.1	60.5	28.7	20.6	22.2
Indraprastha Gas (INDGAS)	463	550	Buy	32,410	14.4	18.8	20.4	32.2	24.6	22.7	21.1	16.5	15.3	20.0	22.3	23.5	17.1	19.0	20.0
Mahanagar Gas (MAHGAS)	1077	1,300	Buy	10,638	327.2	364.2	418.5	44.8	35.6	34.3	17.2	17.8	13.5	0.0	0.0	0.0	172.4	123.8	81.5
Petronet LNG (PETLNG)	227	240	Hold	34,050	19.7	22.3	21.6	11.5	10.2	10.5	7.0	6.3	6.5	26.0	27.0	22.7	25.3	25.0	21.7
Gujarat State Petronet (GSPL)	287	340	Buy	16,186	19.7	16.4	18.2	14.6	17.5	15.7	11.4	11.5	11.7	16.2	15.2	14.0	16.5	12.2	12.2

Source: Company, ICICI Direct Research

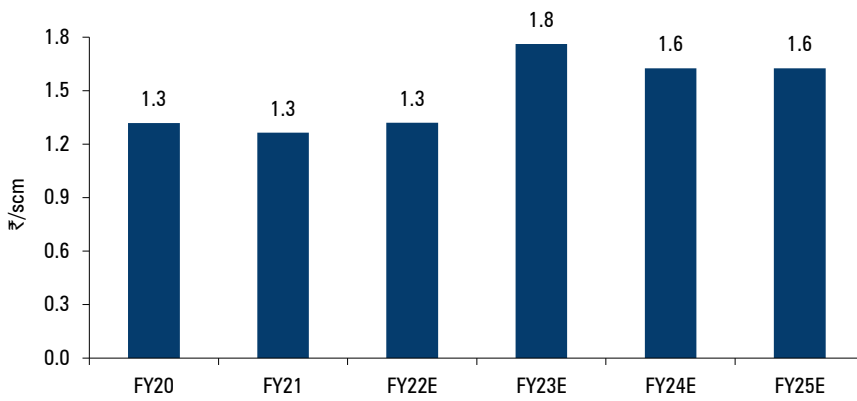
## Story in charts

Exhibit 2: Volume trajectory



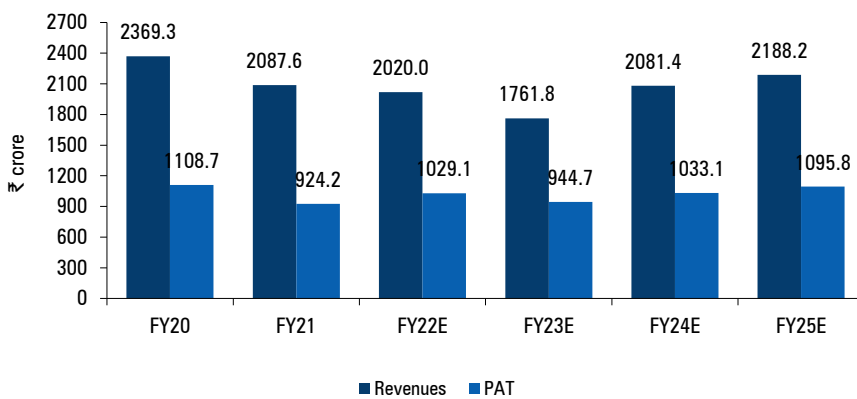
Source: Company, ICICI Direct Research

Exhibit 3: Transmission tariffs



Source: Company, ICICI Direct Research

Exhibit 4: Revenue & PAT trend



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 5: Standalone Profit and loss statement				
	₹ crore			
(Year-end March)	FY22E	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>2020.0</b>	<b>1761.8</b>	<b>2081.4</b>	<b>2188.2</b>
Growth (%)	-3.2	-12.8	18.1	5.1
Employee Costs	65.3	72.2	79.4	87.4
Gas Transmissn exp.	360.9	234.4	280.0	280.0
Op. & Maintenance exp.	196.2	180.7	192.3	206.4
Op. Expenditure	622.4	503.1	551.8	573.8
<b>EBITDA</b>	<b>1397.6</b>	<b>1258.7</b>	<b>1529.7</b>	<b>1614.4</b>
Growth (%)	-4.9	-9.9	21.5	5.5
Depreciation	196.0	193.9	244.2	244.2
EBIT	1201.6	1064.8	1285.5	1370.2
Interest	31.3	4.7	8.0	8.0
Other Income	104.5	168.4	118.9	118.9
PBT	1325.1	1228.6	1396.4	1481.2
Growth (%)	7.0	-7.3	13.7	6.1
Tax	296.0	283.8	363.3	385.3
<b>Reported PAT</b>	<b>1029.1</b>	<b>944.7</b>	<b>1033.1</b>	<b>1095.8</b>
Growth (%)	11.3	-8.2	9.4	6.1
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	1029.1	944.7	1033.1	1095.8
<b>EPS</b>	<b>18.2</b>	<b>16.7</b>	<b>18.3</b>	<b>19.4</b>

Source: Company, ICICI Direct Research

Exhibit 6: Standalone Cash flow statement				
	₹ crore			
(Year-end March)	FY22E	FY23E	FY24E	FY25E
Profit after Tax	1,029.1	944.7	1,033.1	1,095.8
Add: Depreciation	196.0	193.9	244.2	244.2
Add: Others	3.2	-1.2	30.0	30.0
Cash Profit	1,096.2	807.3	723.9	745.7
Increase/(Decrease) in CL	-301.4	-81.5	80.9	18.7
(Increase)/Decrease in CA	89.3	-144.4	-191.6	-141.9
<b>CF from Operating Activi</b>	<b>1016.2</b>	<b>1296.5</b>	<b>1196.7</b>	<b>1246.8</b>
Purchase of Fixed Assets	86.4	189.2	105.1	114.6
(Inc)/Dec in Investments	-167.5	3.7	-553.7	-400.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activi</b>	<b>-253.9</b>	<b>-577.5</b>	<b>-658.8</b>	<b>-514.6</b>
Inc/(Dec) in Loan Funds	-632.5	0.7	0.0	0.0
Dividend Paid	132.0	330.1	583.4	624.4
Inc/(Dec) in Sh. Cap. & Res.	0.8	215.6	250.3	228.5
Others	0.0	0.0	0.0	0.0
<b>CF from financing activiti</b>	<b>-763.7</b>	<b>-113.7</b>	<b>-333.1</b>	<b>-395.8</b>
Change in cash Eq.	-1.4	605.3	204.8	336.3
Op. Cash and cash Eq.	87.8	86.4	691.7	896.5
<b>Cl. Cash and cash Eq.</b>	<b>86.4</b>	<b>691.7</b>	<b>896.5</b>	<b>1,232.8</b>

Source: Company, ICICI Direct Research

Exhibit 7: Standalone Balance Sheet				
	₹ crore			
(Year-end March)	FY22E	FY23E	FY24E	FY25E
<b>Source of Funds</b>				
Equity Capital	564.2	564.2	564.2	564.2
Preference capital	6.0	6.0	6.0	6.0
Reserves & Surplus	7,878.7	8,709.0	9,409.0	10,109.0
Shareholder's Fund	8,442.9	9,273.2	9,973.2	10,673.2
Loan Funds	122.0	122.7	122.7	122.7
Deferred Tax Liability	425.0	423.8	453.8	483.8
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>8989.9</b>	<b>9819.7</b>	<b>10549.7</b>	<b>11279.7</b>
<b>Application of Funds</b>				
Gross Block	4,633.9	4,657.5	4,807.5	4,957.5
Less: Acc. Depreciation	1,308.5	1,502.3	1,782.9	2,041.6
Net Block	3,325.5	3,155.2	3,024.6	2,915.9
Capital WIP	253.1	425.7	417.2	396.3
Total Fixed Assets	3,578.5	3,580.9	3,441.8	3,312.2
Investments	5,173.7	5,170.0	5,723.7	6,123.7
Inventories	189.0	212.1	256.6	269.8
Debtor	129.5	144.0	171.1	179.9
Cash	86.4	691.7	896.5	1,232.8
Loan & Advance, Other CA	182.8	289.6	409.6	529.6
Total Current assets	587.7	1337.4	1733.8	2212.1
Current Liabilities	323.9	242.4	302.2	317.7
Provisions	26.2	26.2	47.3	50.5
Total CL and Provisions	350.1	268.6	349.6	368.2
Net Working Capital	237.6	1068.8	1384.3	1843.8
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>8989.9</b>	<b>9819.7</b>	<b>10549.7</b>	<b>11279.7</b>

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY22E	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
Book Value	149.6	164.4	176.8	189.2
Cash per share	21.6	32.3	35.9	41.9
EPS	18.2	16.7	18.3	19.4
Cash EPS	21.7	20.2	22.6	23.8
DPS	2.0	5.0	8.8	9.5
<b>Profitability &amp; Operating</b>				
EBITDA Margin (%)	69.2	71.4	73.5	73.8
PAT Margin (%)	50.9	53.6	49.6	50.1
Fixed Asset Turnover (x)	0.6	0.5	0.6	0.7
Inventory Turnover (Days)	34.2	43.9	45.0	45.0
Debtor (Days)	23.4	29.8	30.0	30.0
Current Liabilities (Days)	58.5	50.2	53.0	53.0
<b>Return Ratios (%)</b>				
RoE	12.2	10.2	10.4	10.3
RoCE	14.0	11.3	12.7	12.7
RoIC	16.4	14.1	15.9	16.2
<b>Valuation Ratios (x)</b>				
PE	15.7	17.1	15.7	14.8
Price to Book Value	1.9	1.7	1.6	1.5
EV/EBITDA	11.7	13.0	10.7	10.1
EV/Sales	8.1	9.3	7.8	7.5
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	38.4	227.5	161.2	171.8
Debt to EBITDA (x)	0.1	0.1	0.1	0.1
Current Ratio	1.7	5.0	5.0	6.0
Quick ratio	1.1	4.2	4.2	5.3

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 (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	343	380	Hold	73,040	91.0	43.7	5.2	3.8	7.9	65.8	5.8	6.3	13.0	14.8	13.9	2.7	34.9	18.5	2.2
GAIL (India) (GAIL)	96	120	Buy	63,121	11.0	23.3	9.4	8.7	4.1	10.2	7.3	3.4	8.4	8.7	18.8	9.0	10.5	18.6	10.5
Gujarat Gas (GUJGA)	485	570	Buy	33,387	0.0	0.0	0.0	31.9	27.3	27.3	0.0	0.0	0.0	76.3	51.1	60.5	28.7	20.6	22.2
HPCL (HINPET)	232	275	Buy	32,919	70.6	44.9	-66.7	3.3	5.2	-3.5	4.8	7.8	-12.8	15.6	7.3	-12.9	29.5	16.5	-32.4
Indian Oil Corp (INDOIL)	81	90	Hold	1,14,382	15.5	17.1	5.2	5.2	4.7	15.5	3.0	2.6	5.0	13.3	12.9	4.0	19.8	18.4	5.8
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ONGC (ONGC)	152	180	Buy	1,95,067	10.4	8.9	32.0	14.6	17.0	4.7	4.2	6.5	3.4	10.2	4.5	14.8	6.7	5.5	17.0
Petronet LNG (PETLNG)	227	240	Hold	34,050	19.7	22.3	21.6	11.5	10.2	10.5	7.0	6.3	6.5	26.0	27.0	22.7	25.3	25.0	21.7
Reliance Industries (RELIND)	2,349	2,850	Buy	15,89,099	89.7	89.7	98.6	30.8	26.2	23.8	22.2	17.0	12.8	5.5	7.3	9.0	7.0	7.8	8.1

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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