

9 August 2024

Gujarat State Petronet

Lower tariffs eat into earnings; retaining a Buy

Rating: Buy

Target Price (12-mth): Rs.417

Share Price: Rs. 334

Less-than-expected tariffs led to Gujarat State Petronet's Q1 operating earnings miss. Q1 gas transmission volumes of 36.4m scm/d (up 24% y/y, 9% q/q) appear impressive, aided by recovery in CGD, power and refinery supplies. We model 34m/36m scm/d for FY25/26, given decline in supplies to the power sector in Q2 post the onset of the monsoon. We maintain our estimates and our Buy rating with a higher 12-mth TP of Rs417 (Rs381 earlier) as we incorporate target upgrade for its subsidiary Gujarat Gas (company holds a 54.17% stake). Also, we believe it's a cheaper way to play the Gujarat Gas story.

Lower tariffs hurt operating performance. In Q1, the Rs3bn EBIDTA (down 20% q/q; ARe Rs3.3bn) and Rs2.1bn PAT (down 19% q/q; ARe Rs2.2bn) slipped due to lower tariffs of Rs982/scm vs. Rs1,478 the last quarter, post the tariff cut to Rs18.1/m Btu (Rs34 earlier) by the Regulator. The revised tariff became applicable from May'24.

CGD/refineries drive volumes. Q1 gas transmission volumes were 36.4m scm/d, up 24% y/y, 9% q/q. Among sectors, CGD, refinery, fertiliser and power volumes were 12.5m/9.5m/5.1m/3.2m scm/d. We expect gas supplies to the power sector to decline with the monsoon.

Adverse tariff order to hurt prospects. The recent order by the Regulator to cut high-pressure pipeline tariffs to Rs18.1/m Btu (Rs34 now) is likely to be challenged. We cut our blended tariff for FY25/26 to Rs22.7.

Outlook, valuation. We maintain our FY25e/26e earnings with a higher 12-mth TP of Rs417 (Rs381 earlier) as we incorporate target upgrade for its subsidiary, Gujarat Gas (the company has a 54.17% stake).

Risks: Slower volume growth, risen LNG prices, slower infrastructure roll-out.

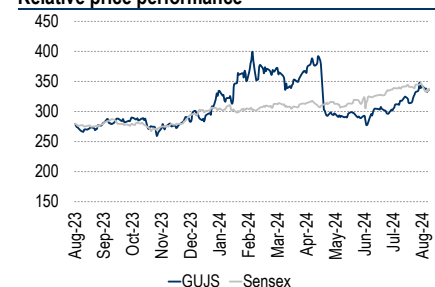
Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	20,200	17,618	20,315	14,556	15,400
EBITDA (Rs m)	13,976	12,587	15,041	8,446	8,946
Net profit (Rs m)	9,791	9,450	12,847	6,613	6,912
EPS (Rs)	17.4	16.8	22.8	11.7	12.3
P/E (x)	15.0	15.8	14.7	28.5	27.3
EV / EBITDA (x)	10.5	11.3	12.2	20.7	19.3
P/BV (x)	1.7	1.6	1.8	1.8	1.7
RoE (%)	12.2	10.7	13.1	6.3	6.3
RoCE (%)	11.2	10.2	12.6	6.1	6.1
Dividend yield (%)	0.6	1.5	1.5	1.1	1.1
Net debt / equity (x)	0.0	-0.1	-0.0	-0.1	-0.1

Source: Company, Anand Rathi Research

Key data	GUJS IN / GSPT.BO
52-week high / low	Rs.407 / 255
Sensex / Nifty	79,740 / 24,373
3-m average volume	\$6.3m
Market cap	Rs.189bn / \$2,257.6m
Shares outstanding	564m

Shareholding pattern (%)	Jun-24	Mar-23	Dec-23
Promoters	37.63	37.63	37.63
- of which, Pledged	-	-	-
Free float	62.37	62.37	62.37
- Foreign institutions	15.85	15.67	16.03
- Domestic institutions	23.57	24.74	24.76
- Public	22.95	21.96	21.58

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net revenues	20,200	17,618	20,315	14,556	15,400
<i>Growth (%)</i>	-2.9	-12.8	15.3	-28.3	5.8
Direct costs	653	722	803	883	971
SG&A	5,571	4,309	4,472	5,227	5,483
EBITDA	13,976	12,587	15,041	8,446	8,946
<i>EBITDA margins (%)</i>	69.2	71.4	74.0	58.0	58.1
- Depreciation	1,960	1,939	1,920	2,288	2,469
Other income	1,045	1,684	3,351	2,700	2,781
Interest expenses	313	47	49	21	21
PBT	12,748	12,286	16,422	8,837	9,237
<i>Effective tax rates (%)</i>	23.2	23.1	21.8	25.2	25.2
+ Associates / (Minorities)					
Net income	9,791	9,450	12,847	6,613	6,912
Adj. income	9,791	9,450	12,847	6,613	6,912
WANS	564	564	564	564	564
FDEPS (Rs)	17.4	16.8	22.8	11.7	12.3

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT (Adj. Ol and interest)	12,016	10,648	13,121	6,158	6,477
+ Non-cash items	1,960	1,939	1,920	2,288	2,469
Oper. prof. before WC	13,976	12,587	15,041	8,446	8,946
- Incr. / (decr.) in WC	-937	1,374	8,313	-4,170	580
Others incl. taxes					
Operating cash-flow	14,913	11,213	6,728	12,616	8,366
- Capex (tang. + intang.)	863	1,962	4,082	1,951	5,019
Free cash-flow	14,051	9,251	2,647	10,666	3,347
Acquisitions					
- Div. (incl. buyback & taxes)	1,128	2,820	2,820	1,984	2,074
+ Equity raised	-	-	-	-	-
+ Debt raised	-9,383	-877	-	-	-
- Fin investments	1,675	-37	1,597	-	-
- Misc. (CFI + CFF)	(1,049)	(3,310)	(3,243)	(2,679)	(2,760)
Net cash-flow	2,913	8,901	1,473	11,361	4,034

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

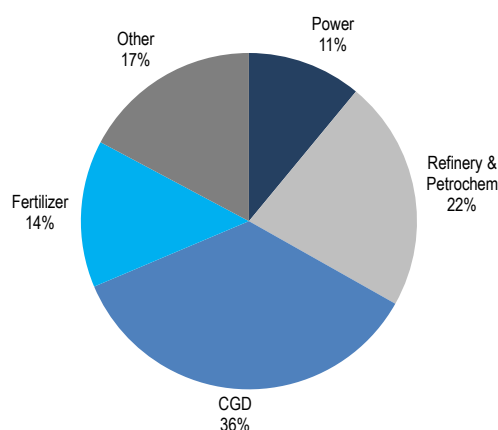
Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	5,642	5,642	5,642	5,642	5,642
Net worth	84,429	92,732	102,701	107,330	112,168
Debt	877	-	-	-	-
Minority interest					
DTL / (Assets)	4,250	4,238	4,159	4,159	4,159
Capital employed	89,557	96,970	106,860	111,489	116,327
Net tangible assets	31,820	30,112	28,875	33,662	36,210
Net intangible assets	1,439	1,449	1,478	1,445	1,446
Goodwill					
CWIP (tang. & intang.)	2,526	4,248	7,618	2,526	2,526
Investments (strategic)	51,737	51,700	53,297	53,297	53,297
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	5,013	6,457	14,806	10,608	11,223
Cash	864	6,917	4,734	13,872	15,580
Current liabilities	3,843	3,913	3,949	3,921	3,956
Working capital	1,170	2,544	10,857	6,687	7,267
Capital deployed	89,557	96,970	106,859	111,489	116,327
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	15.0	15.8	14.7	28.5	27.3
EV / EBITDA (x)	10.5	11.3	12.2	20.7	19.3
EV / Sales (x)	7.3	8.1	9.0	12.0	11.2
P/B (x)	1.7	1.6	1.8	1.8	1.7
RoE (%)	12.2	10.7	13.1	6.3	6.3
RoCE (%) - after tax	11.2	10.2	12.6	6.1	6.1
DPS (Rs)	2.0	5.0	5.0	3.5	3.7
Dividend yield (%)	0.6	1.5	1.5	1.1	1.1
Dividend payout (%) - incl. DDT	11.5	29.8	22.0	30.0	30.0
Net debt / equity (x)	0.0	-0.1	-0.0	-0.1	-0.1
Receivables (days)	23	30	25	25	25
Inventory (days)	34	44	38	38	38
Payables (days)	12	11	7	11	11
CFO : PAT %	152.3	118.7	52.4	190.8	121.0

Source: Company, Anand Rathi Research

Fig 6 – FY24 gas sales volumes (m scm)


Source: Company, Anand Rathi Research

Results Highlights

Fig 7 – Quarterly trend

	Q1 FY25	Q4 FY24	% Q/Q	Q1 FY24	% Y/Y
Sales	3,543	5,068	-30.1	4,412	-19.7
RM costs	-	-		-	
Gross spreads	3,543	5,068	-30.1	4,412	-19.7
Employee expenses	177	267	-33.6	161	9.8
Other expenses	356	1,021	-65.1	886	-59.8
Other operating income	-	-		-	
EBITDA	3,010	3,780	-20.4	3,364	-10.5
EBITDA margins (%)	85	75		76	
Other income	328	296	10.7	180	
Depreciation	490	486	0.8	468	
Interest	13	19	-32.0	10	
One-off loss	-	-		-	
PBT	2,835	3,571	-20.6	3,066	-7.5
Tax	715	960	-25.5	773	-7.5
Tax rates (%)	25	27		25	
PAT	2,120	2,612	-18.8	2,293	-7.5
Net profit margins (%)	-	-		52	

Source: Company, Anand Rathi Research

Fig 8 – Results details

Revenue break-up, by segment	Q1 FY25	Q4 FY24	% Q/Q	Q1 FY24	% Y/Y
Gas transmission	3,441	5,011	-31.3	4,311	-20.2
Sale of electricity	103	57	80.2	101	2.0
Reported revenue	3,543	5,068	-30.1	4,412	-19.7
Gas transmission expense	189	521	-63.7	475	-60.2
Transmission, net of expenses	3,252	4,491	-27.6	3,836	-15.2
Gas transmission exp	(332)	(467)		(215)	
Operational details					
Volumes (m scm)	3,311	3,037		2,673	
Volumes (m scm/d)	36	33		29	
Tariffs (Rs / scm)	982	1,479		1,435	
Industry-wise consumption					
Power	3	3	9.1	4	-20.5
Refinery	10	9	9.1	7	44.9
CGD	12	11	9.1	10	19.6
Fertilizers	5	5	9.1	3	46.8
Others	6	6	9.1	5	25.4

Source: Company, Anand Rathi Research

Key highlights

Lower tariffs hurt operating performance. In Q1, the Rs3bn EBIDTA (down 20% q/q; ARe Rs3.1bn) and Rs2.1bn PAT (down 18% q/q; ARe Rs2bn) came lower due to lower tariffs of Rs981/scm vs. Rs1478 the last quarter, post the tariff cut to Rs18.1/m Btu by the Regulator vs. Rs34 earlier. The revised tariff became applicable from May'24.

CGD/refineries drive volume. Q1 gas transmission volumes were 33.11m scm/d, up 24% y/y, 9% q/q. Among sectors, CGD, refinery, fertiliser and power volumes were 12.5m/9.5m/5.1m/3.2m scm/d.

Valuations

Over the medium term, we expect GSP's gas transmission volumes to benefit from stable gas prices. The spot LNG price of \$13/m Btu would drive user demand from varied customers, including the power sector.

We maintain our FY25e/26e transmission volumes at 34m/36m scm/d and model a tariff of Rs900/scm. Any potential tariff revision is likely to be an upside risk to our estimates.

Our 12-mth TP of Rs417 (Rs381 earlier) is based on 1.7x FY26e book value, to which we add the value of the Gujarat Gas stake at Rs237/sh, at a 15% discount to our TP.

Risks

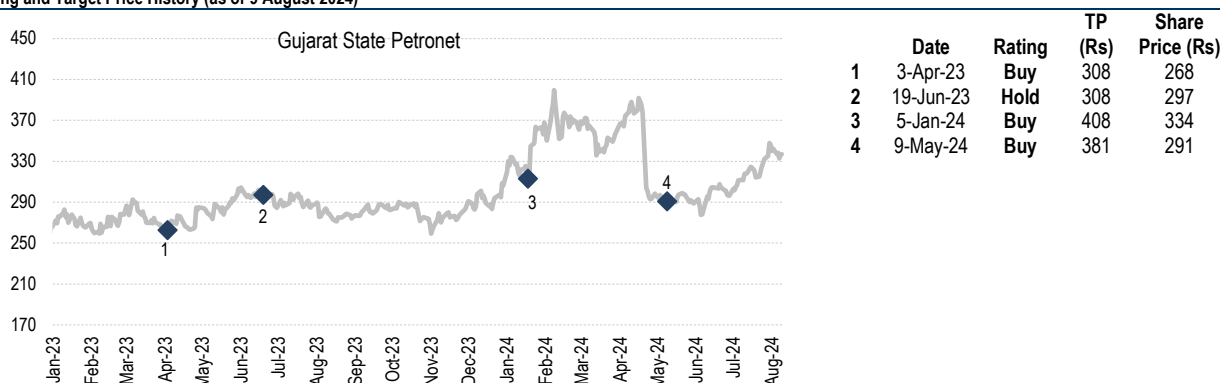
- Slower volume growth due to higher gas prices.
- Potential tariff revision.

Appendix

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