

**RESEARCH**
**GUJARAT STATE PETRONET | TARGET: Rs 370 | +25% | BUY**

Discount on standalone business excessive

**SUMMARY**
**GUJARAT STATE PETRONET**

- Standalone business trading at FY24E P/B of 0.4x after adjusting for GUJGA stake at market value minus 30% holding discount
- Multiple growth catalysts, viz. gas offtake revival in near term; connectivity to new RLNG terminals and industrial consumers in medium term
- High valuation discount unwarranted given return profile; we assume coverage with BUY for an SOTP-based TP of Rs 370

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**Daily macro indicators**

Ticker	20-Jun	21-Jun	Chg (%)
US 10Y yield (%)	3.72	3.72	0bps
India 10Y yield (%)	7.06	7.07	1bps
USD/INR	82.12	82.04	0.1
Brent Crude (US\$/bbl)	75.9	77.1	1.6
Dow	34,054	33,952	(0.3)
Hang Seng	19,607	19,218	(2.0)
Sensex	63,328	63,523	0.3
India FII (US\$ mn)	19-Jun	20-Jun	Chg (\$ mn)
FII-D	(28.6)	(46.5)	(18.0)
FII-E	214.3	714.4	500.1

Source: Bank of Baroda Economics Research



**BUY**

TP: Rs 370 | ▲ 25%

**GUJARAT STATE  
PETRONET**

| Oil & Gas

| 22 June 2023

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**Discount on standalone business excessive:** GUJS' consolidated valuation multiple (at 1.6x P/B 1Y forward) masks the implied valuation discount for its standalone transmission business (at 0.4x) after adjusting for the 54% stake in GUJGA valued at a 30% holding discount. This discount is excessive compared to the 0.7x implied by our DCF valuation of the standalone business on modest volume assumptions and given consensus estimates of 9.5-10% ROE over the next 3Y.

**Investment concerns overdone:** GUJS' P/B valuation mean at 0.5x over 5Y (vs. 1.1x over 10Y) reflects undue concern around its investments. The company has already repaid loans for acquiring the GUJGA stake and its CGD business has demonstrated substantial progress. On pipeline JV investments GIGL and GTIL, we factor in potential concerns over debt servicing in our valuation using a conservative volume ramp-up profile.

**Growth catalysts:** Near-term, we expect volume recovery to be driven by a pickup in the refining and petrochemicals businesses as well as city gas distribution. Average monthly LNG imports over Mar-May are around 50% above Jan-Feb levels. Medium-term, GUJS will be a beneficiary of increased gas penetration in Gujarat and across northern India following its connection to four key LNG terminals and expansion of LNG terminal capacity. Longer-term, its JV company GIGL will also benefit from a deeper gas network in northern and northwestern India.

**Muted revenue growth in FY24E is not a negative:** We expect GUJS to see a reversal of Take or Pay (TOP) benefits enjoyed in FY23 as volumes return. Factoring this in along with upcoming tariff revision, we model for 3% revenue growth against 26% volume growth in FY24. Over FY24-FY26, we pencil in a 7.4% CAGR in volumes and expect revenue/EBITDA to grow in line with volumes.

**BUY, TP Rs 370:** We assume coverage on GUJS with BUY and an SOTP-based TP of Rs 370. We use DCF to value the core transmission business at Rs 130/sh (WACC 11.1%, terminal growth 1%). Investments in GUJGA are valued at Rs 219 (market value), Sabarmati Gas at Rs 13 (12x FY23 P/E), GIGL at Rs 6 (0.5x FY22 P/B), GTIL at nil (pipeline stalled), and others at Re 1 after applying a 30% holding discount on all stakes.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	GUJS IN/Rs 297
Market cap	US\$ 2.0bn
Free float	42%
3M ADV	US\$ 2.5mn
52wk high/low	Rs 311/Rs 209
Promoter/FPI/DII	49%/17%/25%

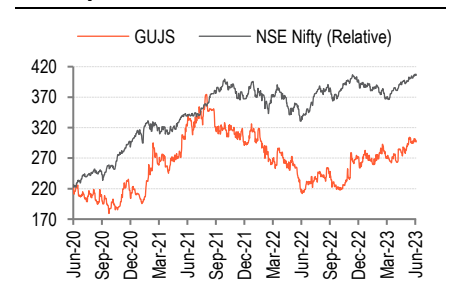
Source: NSE | Price as of 22 Jun 2023

**Key financials**

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	17,618	17,935	19,517
EBITDA (Rs mn)	12,587	11,798	12,653
Adj. net profit (Rs mn)	9,450	8,508	8,996
Adj. EPS (Rs)	16.7	15.1	15.9
Consensus EPS (Rs)	16.7	16.6	16.8
Adj. ROAE (%)	10.7	8.9	8.8
Adj. P/E (x)	17.7	19.7	18.6
EV/EBITDA (x)	13.7	13.9	12.6
Adj. EPS growth (%)	(3.5)	(10.0)	5.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**



Source: NSE



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**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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