HOLD
TP: Rs 335 | ⮝ 13%

GUJARAT STATE PETRONET | Oil & Gas | 30 April 2024

Downgrade to Hold, decoding HP Gas grid tariff order

- **Sharp tariff cut due to recognition of higher volumes, adjustment of past excess revenue and extension of pipeline's economic life**
- **We cut value of core transmission business to Rs 50/sh from Rs 115, recognising a regulatory cap on returns for transmission pipeline**
- **We lower SOTP-based TP to Rs 335 and downgrade the rating to HOLD; GUJGA value and holding discount are key drivers for GUJS's value**

Kirtan Mehta, CFA
research@bobcaps.in

Sharp cut in HP Gas grid tariff: PNGRB has cut HP Gas grid's tariff by 47% to Rs 18.1/MMBtu from Rs 34/MMBtu. A sharper cut has been driven by (i) adjustment of excess cash flow from +5.3mmscmd of higher actual volume over FY18-FY24 from the prospective tariff, (ii) 5.67mmscmd of higher volume forecast over FY25-FY27 and (iii) extension of economic life by five years to FY32 assuming continuation of 31.67mmscmd. While the first two factors resulted in a tariff cut of Rs 17.2MMBtu, the third factor had an impact of Rs 4.7/MMBtu.

Lower chance of favourable outcome on appeal: The revised tariff has been significantly below GUJS's ask of Rs 50.8/MMBtu. The disallowance is primarily due to the recognition of higher volumes, un-firm capex and different basis for approval of quantity of system use gas. PNGRB has offered to review tariff next year, if the actual volume turns out to be significantly lower than the assumption. If there is an appeal on review of other aspects of the order, a favourable outcome is unlikely.

Lower core transmission value: We lower the DCF-based value of the core transmission business to Rs 50/sh from Rs 115/sh (WACC 11.1%) now recognising (i) economic life only up to FY32/FY31 for HP/LP Gas grids and (ii) using cash flow and terminal value estimates used by the regulator. Any excess cash flow will be adjusted in present value terms at the next tariff review.

Earnings forecasts reduced: We sharply cut our EBITDA estimates for FY25 by 41% and FY26 by 44%, factoring in the tariff cut from 1 May and volume reduction. We do not yet account for a risk of moving out of 5.5-6.0mmscmd of volume should three customers opt for dedicated pipelines (flagged by GUJS).

Downgrade to HOLD, lower TP to Rs 335: We downgrade GUJS's rating to HOLD from BUY as we cut our SOTP-based TP to Rs 335, from Rs 370, factoring in the cut in value of core transmission. This is offset by the increase in value of investment in Gujarat Gas (GUJGA) at market value to Rs 253 (Rs 219) after applying a 30% holding discount. GUJGA's value and the level of holding discount are the key drivers for GUJS now as this accounts for 75% of GUJS's value.

Key changes

Target	Rating
▼	▼

Ticker/Price	GUJS IN/Rs 296
Market cap	US$ 2.0bn
Free float	51%
3M ADV	US$ 11.4mn
52wk high/low	Rs 407/Rs 255
Promoter/FPI/DII	38%/16%/25%

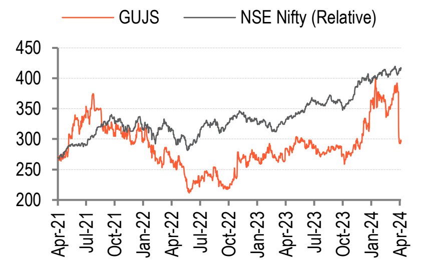
Source: NSE | Price as of 30 Apr 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	17,458	20,495	13,263
EBITDA (Rs mn)	12,427	14,799	7,425
Adj. net profit (Rs mn)	9,289	12,453	6,436
Adj. EPS (Rs)	16.5	22.1	11.4
Consensus EPS (Rs)	16.5	22.7	14.9
Adj. ROAE (%)	10.5	12.8	6.2
Adj. P/E (x)	18.0	13.4	25.9
EV/EBITDA (x)	13.8	11.1	21.5
Adj. EPS growth (%)	(5.1)	34.1	(48.3)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



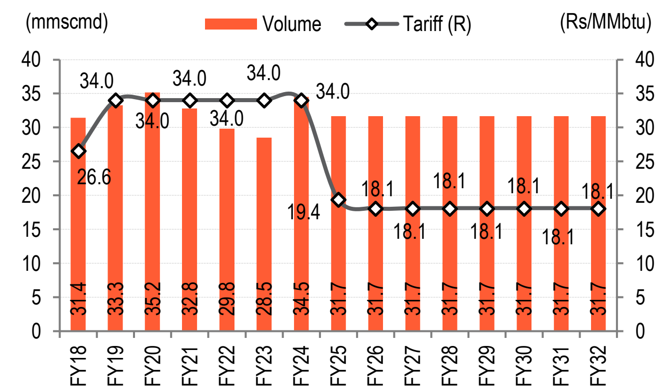
Source: NSE

Tariff cut lowers valuation of transmission pipeline

Regulator sharply lowered HP Gas grid's tariff

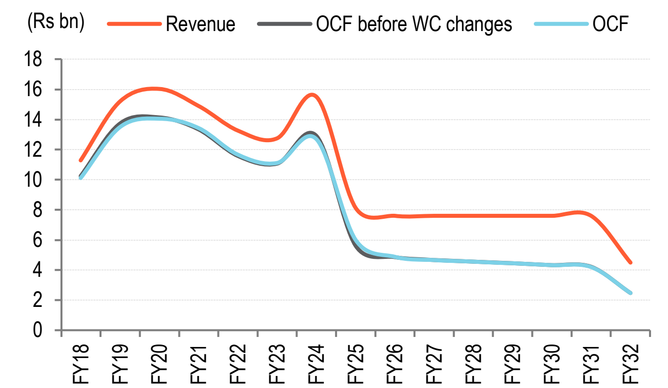
The Petroleum and Natural Gas Regulatory Board (PNGRB) has sharply cut levelised unit natural gas pipeline tariff for GUJS's HP Gas grid to Rs18.1/MMBtu (on gross calorific value basis) prospectively from 1 May 2024. The revised tariff is 47% below the current provisional tariff of Rs 34/MMBtu (applicable for FY19-FY24) and is also 64% below GUJS's ask of Rs 50.8/MMBtu.

Fig 1 – HP Gas grid tariff: Sharp cut prospectively



Source: PNGRB, BOBCAPS Research

Fig 2 – Tariff cut led to sharp reduction in operating cash flow from FY25



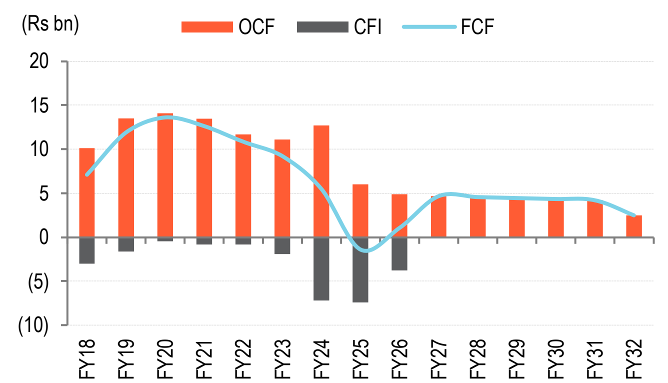
Source: PNGRB, BOBCAPS Research, Note: OCF: Operating cash flow, WC: Working capital

HP Gas grid's cash flow entitlement reduced

The regulator expects volume to continue at a healthy rate of 31.7mmscmd based on the recent historical average over FY20 to Feb'24, excluding one-off volume from Rohtak Panipat Pipeline. This is significantly higher than 26mmscmd during the previous tariff order.

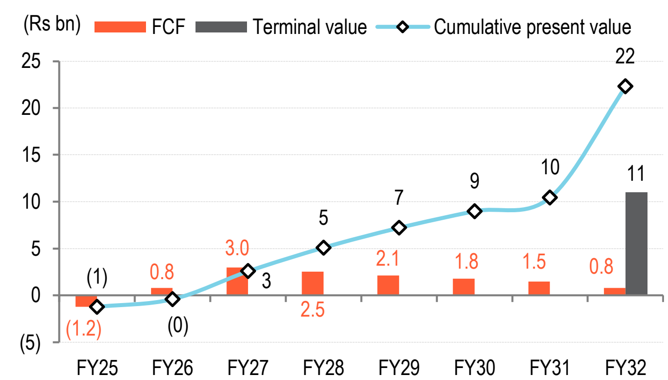
The tariff revision leads to a sharp reduction in operating cash flow (OCF) from an average of Rs 12.7bn over FY19-FY24 (the period since the last tariff revision) to an average of Rs 4.7bn over FY25-FY32 (the residual life). Even the free cash flow (FCF) sharply comes down from an average of Rs 10.6bn over FY19-FY24 to Rs 3bn over FY25-FY32.

Fig 3 – FCF reduces despite recent capital investments



Source: PNGRB, BOBCAPS Research | CFI: Capital Investments FCF: Free Cash Flow

Fig 4 – Present value of future cash flow assessed by regulator works out to Rs 22bn as of Mar'24



Source: PNGRB, BOBCAPS Research

Present value of residual pre-tax cash flow at Rs 22bn for HP Gas grid

With a cap of 12% post-tax return (16.1% pre-tax) on the transmission pipeline, the regulator has now allowed entitlement of only Rs 24.4bn over the residual life, whose present value (PV) works out to Rs 11.3bn. This, together with the terminal value of Rs 34.1bn at the end of life (Nov'31), results in an HP Gas grid present value of Rs 22bn as of Mar'24.

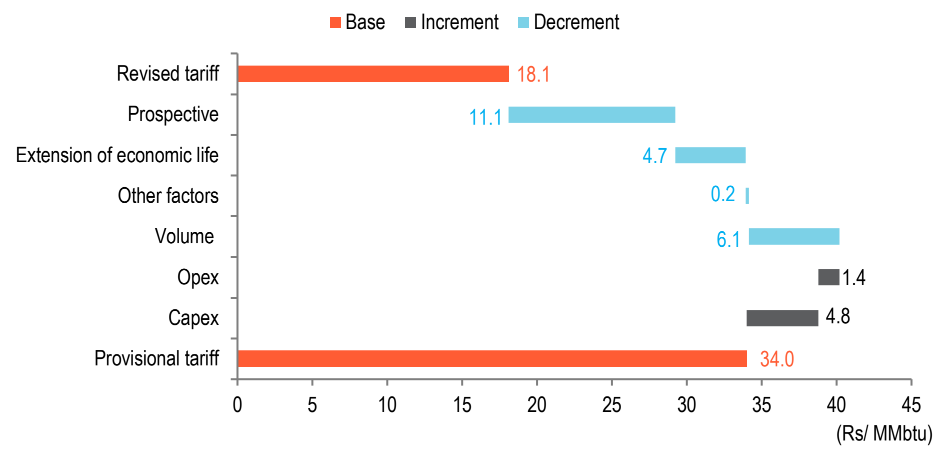
The regulatory order also highlights that the tariff provisions pass on any benefit of extension of economic life, higher volume than normative assumption, etc, to users of the pipeline in terms of lower transportation tariff.

The regulator allows for coverage of higher capex or opex (than the assumptions) to maintain and operate the pipeline and factors the same in tariff calculation at each review. However, this allowance is subject to proving the need for the transmission pipeline as well as subject to following due procedure in obtaining regulatory approval.

Higher volumes, recovery of past revenue and extension of pipeline life were key drivers of tariff reduction

First, we compare the drivers of reduction from the PNGRB's previously approved tariff.

Fig 5 – Drivers of the tariff cut from 1 May 2024 to end of economic life



Source: PNGRB, BOBCAPS Research

Increase in tariff for higher capex/opex

Tariff increase of Rs 6.2/MMBtu was granted accepting additional capex (Rs 4.8bn) for network expansion and more opex (Rs 1.4bn) than was allowed during the last tariff order.

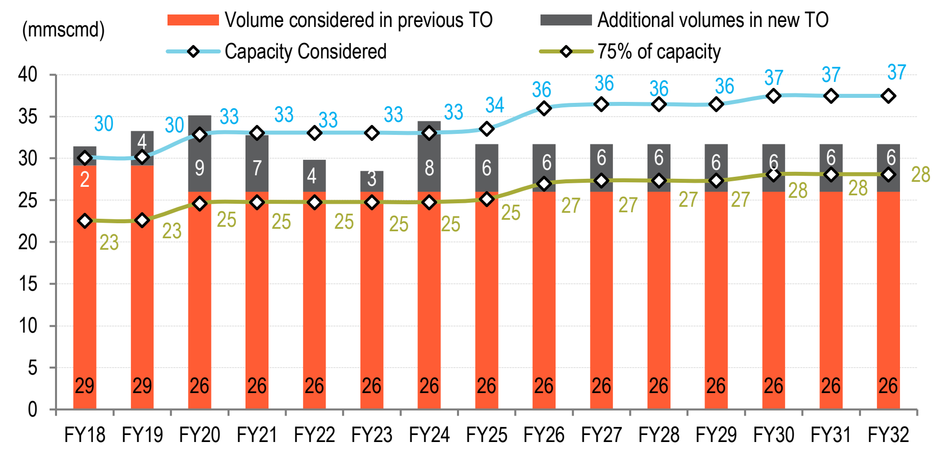
Decrease in tariff for higher volumes

The tariff reduction of Rs 6.4/MMBtu for higher volume flow than the assumptions used at the time of setting the last tariff. This includes – (i) actual higher volume over FY18-FY24 than the prior assumption of 26mmscmd and (ii) higher assumption even for the future period at 31.67mmsmd over the residual economic life of the pipeline (ie, over FY25-FY32). The regulator has justified the usage of a higher volume divisor for the tariff calculation considering actual volumes over the recent past, ie, FY20 to Feb'24.

Against GUJS's concerns of potential reductions in volume, the regulator has allowed for a tariff review next year should actual volume turn out significantly different than the assumptions used by the regulator.

As volumes are higher than normative utilisation of 75%, the entire benefit of excess revenue is passed on as a reduction in tariff.

Fig 6 – Benefit of higher volumes than the assumptions in the past tariff order is passed on as reduced tariff



Source: PNGRB, BOBCAPS Research | TO: Tariff Order

Decrease in tariff for extension of economic life

Tariff was cut by Rs 4.7/MMBtu for considering the extension of economic life up to 30 years from 25 years previously. Accrual of additional revenue during the extension period lowers entitlement of revenue over the residual life to earn the required rate of return.

Fig 7 – Estimate of PV of additional cash flow over extension period

Parameter	Unit	Value
Volume	mmscmd	31.67
Tariff	Rs/MMBtu	18.10
Annual revenue	Rs bn	7.6
Annual free cash flow	Rs bn	21.9
Economic life extension	Years	5.0
Additional revenue over 5-year extension period	Rs bn	38.0
Additional free cash flow over 5-year extension period	Rs bn	21.9
PV of additional free cash flow	**Rs bn**	**9.9**

Source: PNGRB, BOBCAPS Research

Decrease in tariff for recovery of past excess revenue

Tariff was cut by Rs 11.1/MMBtu for the prospective implementation of tariff from 1 May 2024. This is basically the adjustment of higher revenue and cashflow received for the past period than the assumptions during the last review of pipeline tariff. Instead of passing on the benefit from a retrospective period, this is adjusted against the allowed return for the transmission pipeline.

As highlighted in Fig 6, GUJS transmitted 13.1bcm of higher volume than envisaged during the previous review. Assuming unit revenue and opex did not change materially with a change in volume, GUJS earned Rs 14.7bn of additional EBITDA over FY18-FY24. In present values, this translates to an additional benefit of Rs 22.9bn. This excess benefit for the past period lowered tariff by Rs 11.1/MMBtu.

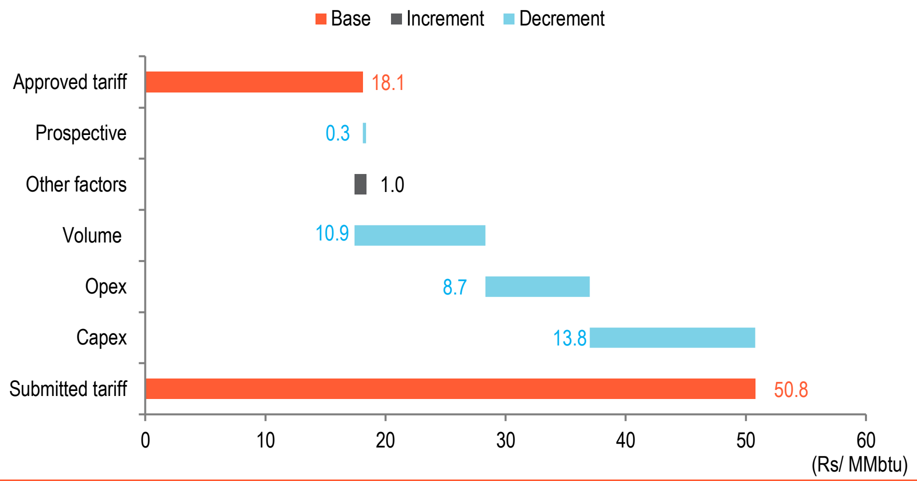
The adjustment for this tariff order has been significantly large due to the delay in approving the tariff. While the company had submitted a proposal for the revision of the HP Gujarat gas grid tariff on 9 Jul 2021, the approval only came through in Apr'24. This resulted in truing up revenues and expenses from FY18-FY24 – a significantly long period.

Drivers of reduction from GUJS's ask

The approved tariff of Rs 18.1/MMBtu is significantly below GUJS's ask of Rs 50.8/MMBtu. Three key drivers for the reduction in tariff were the approval for lower capex than the ask (translating to a Rs 13.75/MMBtu reduction), lower opex (Rs 8.7/MMBtu reduction) and lower volumes (Rs 10.9/MMBtu reduction).

As GUJS had already accounted for economic life of 30 years and accounted for close to actual volumes over FY18-FY24 (period since the last tariff approval), there are no major adjustments on the same.

Fig 8 – Approved tariff significantly below GUJS's ask



Source: PNGRB, BOBCAPS Research: Note: Tariff applicable from 1 May 2024 up to residual economic life of pipeline

Partial acceptance of capex claim

PNGRB accepted a capex claim of Rs 73.9bn against GUJS's ask of Rs 91.7bn. The reduction explains the Rs 13.75/MMBtu reduction in tariff. As most of the disallowance relate to unconfirmed capex, there is less likelihood of any revision under this category in an interim appeal.

- The main disallowance has been related largely to capex proposed to upgrade operations and maintenance (O&M) of the pipeline. Of the O&M capex, the regulator has approved capex to the extent of firm orders after obtaining in-principal approval from the regulator. Any un-firm capex at this point has not been considered for tariff determination.

- Of the completed capex, the main disallowance has been related to interest during construction to avoid double counting of returns

Fig 9 – Partial disallowance of capex

(Rs bn)	Claimed by GUJS	Considered by PNGRB	Disallowance/ Not considered
1) Net block as on 27.07.2012	**36.8**	**35.7**	**(1.0)**
2) Actual capex FY13-FY23	**21.2**	**19.7**	**(1.5)**
3) Future capex FY24-FY31	**-**	**-**	**-**
i) PE capex: Projects under development	7.9	6.8	(1.1)
ii) PE capex: Projects under execution	10.5	10.3	(0.1)
iii) Total O&M capex	15.3	1.3	(14.0)
Subtotal future capex	**33.7**	**18.4**	**(15.3)**
Total	**91.7**	**73.9**	**(17.8)**

Source: PNGRB, BOBCAPS Research

Partial acceptance of opex claim

PNGRB accepted an opex claim of Rs 39.3bn against GUJS's ask of Rs 63.9bn. The reduction explains the Rs 8.7/MMBtu reduction in tariff. Main disallowance is under the future opex category. In the future category, while two-third of the disallowance relates to different basis for calculation of future system use gas and transmission loss, the other third relates to escalation in future salaries, estimates of opex on future pipeline and other capex and consideration of related other income. The regulator has provided for gas price based on the latest gas price ceiling for high pressure, high temperature (HPHT) gas and has explicitly provided for future truing up of expense at the next tariff review. Under this approach, there is lesser chances of a tariff revision under an interim appeal, if made by GUJS.

Fig 10 – Partial acceptance of opex claim

Rs bn	Claimed by GUJS	Considered by PNGRB	Disallowance/ Not considered
Actual opex 27-Jul-12 to FY23	14.2	13.8	(0.5)
Future opex FY24 to 2-Nov-31	49.7	25.6	(24.1)
Subtotal	**63.9**	**39.3**	**(24.6)**

Source: Company, PNGRB, BOBCAPS Research

Fig 11 – Disallowance under future opex category

(Rs bn)	Claimed by Entity	Considered by PNGRB	Disallowance/ Not considered
Utilities, consumables, chemicals	1.4	1.4	0.0
SUG			
i) System	0.4	0.1	(0.3)
ii) Gana compressor	9.7	1.5	(8.2)
iii) New heaters	4.5	0.1	(4.4)
Subtotal SUG	**14.5**	**1.7**	**(12.9)**
Transmission loss- LUAG	6.1	3.2	(2.9)
R&M	6.0	6.0	0.0
Salaries	10.3	7.6	(2.8)

(Rs bn)	Claimed by Entity	Considered by PNGRB	Disallowance/ Not considered
G&A	3.2	3.2	0.0
Opex on future pipeline and other capex	7.6	3.6	(4.0)
Adjustment for unrecovered tariff on SUG	0.5	0.1	(0.4)
Subtotal	**49.7**	**26.8**	**(22.9)**
Less: Deduction for related income	0.0	1.2	1.2
Total future opex	**49.7**	**25.6**	**(24.1)**

Source: Company, PNGRB, BOBCAPS Research | SUG: System use gas, R&M: Repair and Maintenance, G&A: General and administrative expenses

Usage of higher volume divisor by the regulator

As highlighted on page 4, the regulator has used a higher volume divisor than the assumptions of the previous tariff order as well as the ask by GUJS. This explains the Rs 10.9/MMBtu reduction in the tariff asked by GUJS.

GUJS's submissions highlight the following risks to volume over the near to medium term:

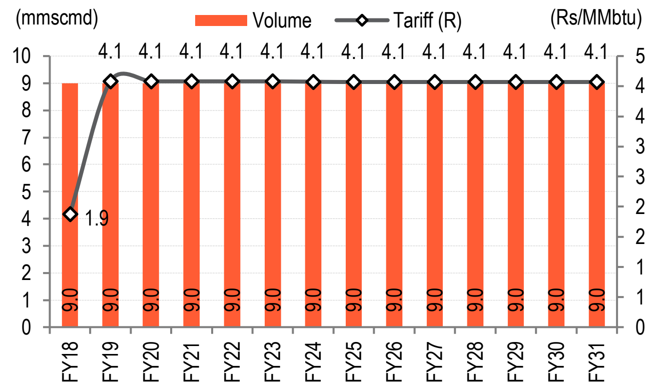
- **Potential exit of three anchor customers:** Potential reduction of 5.5-6mmscmd of natural gas transmission demand if the company's three anchor customers – (i) Torrent Power, (ii) Indian Oil Corporation (IOCL) and (iii) OPAL (ONGC Petro Additions) move to the use of dedicated pipelines. These customers have got approvals for dedicated pipelines from PNGRB and IOCL has already laid a dedicated pipeline.
- **Potential exit of other customers near gas source:** GUJS has further highlighted the possibility of exit by some more customers near the gas source. We believe that this risk arose after the implementation of zonal tariff, which increased the tariff for near-by customers due to their grouping with customers up to a 300km distance from the source.
- **Expiry of long-term contracts of some customers:** GUJS flagged that long-term contracts for two customers will expire soon and they may switch to more short-term contracts and/ or reduce their capacity commitments closer to their current needs. This could lower supply or pay revenue for HP's grid.
- **Reduction in volume usage by a specific customer:** GUJS has flagged the risk of volume reduction by a specific customer as it solves its operational issues with internal gas generation equipment.
- **Uncertainty of usage by few customer segments:** GUJS highlights the uncertainty thrown up by usage of gas transmission capacity by some of its customers like Reliance Industries (RIL) Jamnagar Refinery, the power sector, and GUJS's anchor customer GUJGA. The uncertainty from RIL is attributable to a significantly flexible refinery configuration enabling the easy switch between alternative fuels. The uncertainty of usage by the power sector is due to the high sensitivity of its demand to gas prices. The uncertainty of volume from GUJGA is due to large Morbi ceramic consumers having developed the ability to switch between propane and natural gas.

Valuation of LP Gas grid

For the LP Gas grid, the tariff review order was finalised in Jun'23, maintaining the tariff broadly unchanged at Rs 4.08/MMBtu from Rs 4.07 earlier.

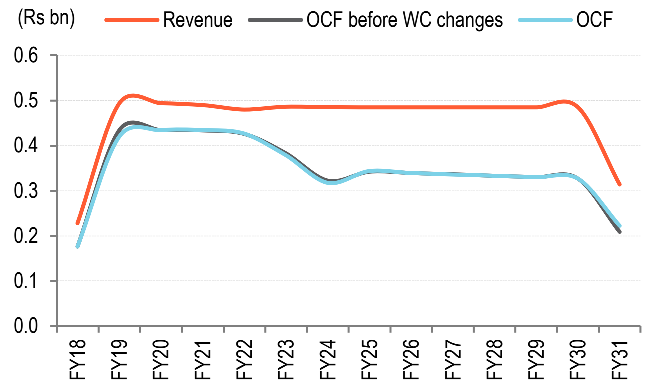
As per the projections approved by the regulator, the LP Gas grid is likely to generate annual free cash flow of Rs 0.33bn on average over FY25-FY31 from transmission of around 9mmscmd of volume. With a cap of 12% post-tax return (or 16.1% pre-tax) on the transmission pipeline, the regulator has now allowed entitlement of only Rs 2.2bn over the residual life, whose present value is Rs 1.3bn. This, together with the terminal value of Rs 0.1bn at the end of life, results in a present value of Rs 1.4bn as of Mar'24 for HP Gas grid.

Fig 12 – LP Gas grid tariff: Tariff was maintained



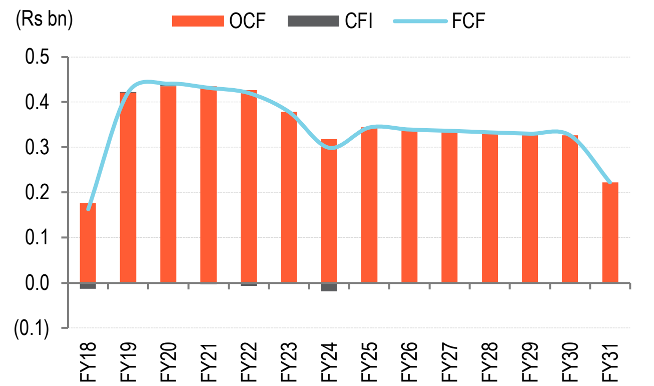
Source: PNGRB, BOBCAPS Research

Fig 13 – Stable tariff led to steady revenue and OCF



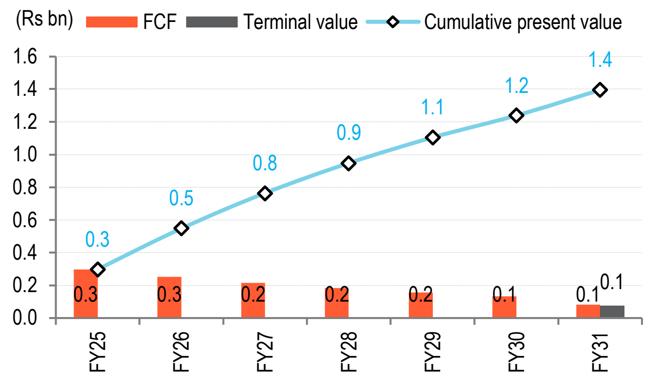
Source: PNGRB, BOBCAPS Research, Note: OCF: Operating cash flow, WC: Working capital

Fig 14 – Stable tariff also led to minor reduction in FCF



Source: PNGRB, BOBCAPS Research

Fig 15 – Present value of future cash flow works out at Rs 1.4bn as of Mar'24



Source: Company, BOBCAPS Research

Valuation methodology

Sharp reduction in standalone estimates with tariff cut

We sharply cut our EBITDA estimates by 41% for FY25E and 44% for FY26E, factoring in the reductions in tariff and volume.

- **Tariff cut:** We incorporate the 46% tariff cut for the HP Gas grid prospectively from 1 May 2024. This results in a 28% blended tariff for FY24E/ FY25E. We arrive at the blended tariff by factoring in YoY reduction in revenues assessed by the regulator for both the HP and LP Gas grids and assume that other recovery components remain unchanged in FY25.

  Volume cut: We lower our volume forecasts for FY25 by 7% to 32.4mmscmd and for FY26 by 11% to 32.8mmscmd. With GSPL raising concerns of a possible shift of some customers to dedicated pipelines, which could impact transmission volumes by 5.5-6mmscmd, we now assume volumes close to the assumptions used by the regulator under the tariff order. With a recent sharp cut in the tariff for the HP Gas grid sharply lowering transmission costs for consumers, we do not yet factor in shifting out of this volume in our forecasts.

Fig 16 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	20,495	13,263	13,515	17,925	19,507	20,973	14.3	(32.0)	(35.6)
EBITDA	**14,799**	**7,425**	**7,451**	**11,798**	**12,653**	**13,386**	**25.4**	**(41.3)**	**(44.3)**
EBITDA growth YoY (%)	19.1	(49.8)	0.4	(6.3)	7.2	5.8	-	-	-
Net income	12,453	6,436	6,354	8,508	8,996	9,366	46.4	(28.5)	(32.2)

Source: BOBCAPS Research

Fig 17 – Key assumptions

Parameter	FY23	FY24E	FY25E	FY26E
Transmission volume (mmscmd)	25.4	30.0	32.2	32.8
Blended tariff (Rs/mscm)	1,847	1,837	1,101	1,101
EBITDA (Rs/scm)	1.3	1.3	0.6	0.6
Capex (Rs bn)	1,952	5,198	6,764	6,847
Growth				
Transmission volume (% YoY)	(25.2)	18.3	7.3	2.0
Blended tariff (% YoY)	15.1	(0.6)	(40.0)	0.0
EBITDA/scm (% YoY)	18.9	0.4	(53.1)	(1.6)

Source: Company, BOBCAPS Research

Our FY25E/ FY26E EBITDA forecasts are -24%/ -31% below Refinitiv consensus mean. However, at this stage there is a significant variability among consensus estimates. We attribute it to uncertainly on the impact on blended realisation due to less clarity related to other revenue elements such as ship or pay, pay out to PIL (Pipeline Infrastructure**)** from compressor usage charge, and revenue collection on behalf of other pipelines under the zonal tariff mechanism. As an example, FY24 consensus EBITDA ranges from Rs 5.5bn to Rs 16.7bn and our forecast of Rs 7.4bn is within the range.

Fig 18 – Comparison of forecasts with consensus

(Rs bn)	Forecasts			Consensus			Delta to consensus		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	20,495	13,263	13,515	19,514	14,508	15,797	5.0	(8.6)	(14.4)
EBITDA	**14,799**	**7,425**	**7,451**	**14,779**	**9,740**	**10,717**	**0.1**	**(23.8)**	**(30.5)**
EBITDA growth YoY (%)	19.1	(49.8)	0.4	18.9	(34.1)	10.0	-	-	-
Net income	12,453	6,436	6,354	12,807	8,416	9,374	(2.8)	(23.5)	(32.2)

Source: Bloomberg, BOBCAPS Research

Downgrade to HOLD, TP cut to Rs 335

We downgrade our rating on GUJS to HOLD from BUY as we cut our SOTP-based TP to Rs 335 from Rs 370, resulting in a 13% upside to the current market price.

- The cut in TP is the result of a sharp reduction in the value of the core transmission business to Rs 50/sh from Rs 115/sh. The tariff order has ascertained the regulatory principal that the transmission company does not enjoy the benefit of higher volumes (above 75% of capacity) or extension of economic life for an asset like pipeline. The regulator also adjusts for benefit of excess revenue earned by the pipeline company on a present value basis from the prospective tariff.
- The reduction in TP was partially offset by the increase in the value of the stake in Gujarat Gas (GUJGA) due to the increase in market value for the same. We apply for an unchanged holding discount of 30% of the investment value.

SOTP valuation

- **Core transmission business:** We now value the core business at Rs 50/sh using the DCF method, assuming WACC of 11.1% and an economic life up to FY32 for the HP Gas grid and upto FY31 for the LP Gas grid and terminal value of the grids as assessed by the regulator in the latest tariff orders.
- **Investments:** We value investments applying a holding company discount of 30%.
    - **Investments in city gas distribution:** While GUJS's stake in GUJGA is assessed at Rs 253/sh based on market price, we ascribe to Sabarmati Gas a trailing P/E of 12x on a conservative basis for a value of Rs 13/sh.
    - **Investment in pipelines:** For stakes in cross-country pipeline JVs, we use a trailing P/B given regulated returns. While we value GSPL India Gasnet (GIGL) at Rs 6/sh using an FY23 P/B of 0.5x given the long ramp-up period ahead, we do not factor in any value for GSPL Transco India (GTIL) at this stage due to the regulatory overhang on tariffs and potential penalty for the incomplete pipeline sections. Our DCF model for these two pipelines confirms these multiples after accounting for the impact of additional support for debt service coverage.
    - **Other investments:** We value other investments in GSPC LNG, Gujarat State Energy Generation and Swan LNG at book value.

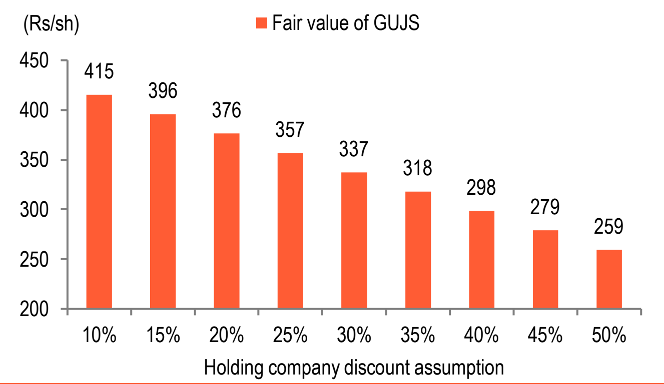
Fig 19 – Valuation summary

Valuation parameters	Value (Rs bn)	Value per share (Rs)	Valuation approach
GUJS Core Transmission			DCF, WACC of 11.1%, Economic life of HP and LP Gas grid up to FY32 and FY31
PV of FCF FY26E-FY32E	14.6	-	
PV of terminal value	13.8	-	As assessed by the regulator in the latest Tariff Orders
Fair value of core transmission Mar'25	**28.4**	**50**	
Net cash Mar'25	8.0	14	
Value of investments			
Gujarat Gas (54.17% stake)	142.8	253	Market price, 30% holding discount
Sabarmati Gas (27.47% stake)	7.4	13	Trailing P/E of 12x, 30% holding discount
GIGL (52% stake)	3.2	6	Trailing P/B of 0.5x, 30% holding discount. Factors in potential debt-service support as confirmed by our DCF approach
GTIL (52% stake)	0.0	0	Trailing P/B of 0x, 30% holding discount. Factors in potential debt-service support as confirmed by our DCF approach
Other investments	0.6	1	Trailing P/B of 1x, 30% holding discount
Fair equity value of investments	**154.0**	**273**	
Fair value GUJS	**190.4**	**337**	
Target price rounded to nearest Rs 5	**-**	**335**	

Source: BOBCAPS Research

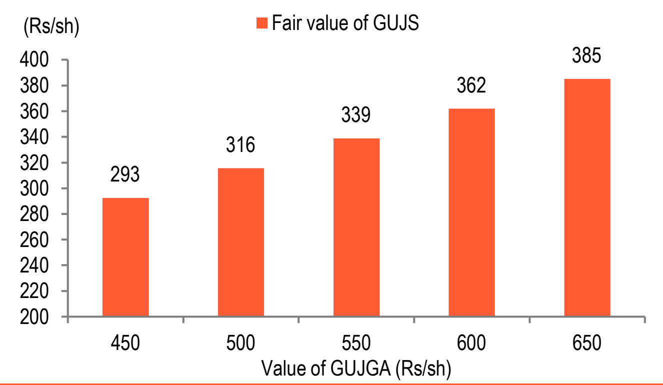
While the value of the stake in GUJGA now accounts for 75% of our value of GUJS, the value of all investments account for 80% of the value. We highlight below the sensitivity of fair value of GUJS to the (i) holding company discount and (ii) value of GUJGA.

Fig 20 – Sensitivity of GUJS fair value to assumption of holding company discount



Source: BOBCAPS Research

Fig 21 – Sensitivity of GUJS fair value to GUJGA value



Source: BOBCAPS Research

Key risks

Key upside/downside risks to our estimates and target price are:

- **Regulations:** PNGRB regulates GUJS's pipeline tariffs. Any subsequent reduction in tariffs due to a change in guidelines could impact the value of the transmission pipeline. Any upward revision in the HP Gas grid tariff against a potential appeal on review of the recently approved tariff could impact the value positively.
- **Below-expected volume growth:** Slower recovery in transmission volumes below the level of 32.67mmscmd assumed by the regulator for setting the HP Gas grid tariff could impact revenues and returns for GUJS. However, the regulator has mentioned in the Tariff Order that it would review the tariff next year if volume falls significantly below the assumptions used by the regulator. The company is exposed to delays in obtaining regulatory clearances for new pipelines.
- **Above-expected debt coverage support for two JV pipelines:** Slower volume ramp-up than our current assumptions could result in higher support for debt service coverage from project sponsors.
- **Penalty on GTIL:** PNGRB is yet to finalise the penalty for non-completion of the GTIL pipeline, which is no longer financially viable. At this stage, we do not incorporate any value for GUJS' investment in GTIL.
- **Upside or downside risk to value of GUJGA:** As GUJGA's value is material to the value of GUJS, any upside/downside risk to GUJGA's volume and margin will also impact the value of GUJS.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**20,200**	**17,458**	**20,495**	**13,263**	**13,515**
EBITDA	13,976	12,427	14,799	7,425	7,451
Depreciation	(1,960)	(1,939)	(2,048)	(2,095)	(2,216)
EBIT	12,016	10,488	12,751	5,330	5,235
Net interest inc./(exp.)	(313)	(47)	0	0	0
Other inc./(exp.)	1,045	1,684	3,214	3,072	3,060
Exceptional items	0	0	0	0	0
EBT	12,748	12,125	15,965	8,402	8,296
Income taxes	(2,958)	(2,836)	(3,512)	(1,966)	(1,941)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**9,791**	**9,289**	**12,453**	**6,436**	**6,354**
Adjustments	0	0	0	0	0
Adjusted net profit	**9,791**	**9,289**	**12,453**	**6,436**	**6,354**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	654	510	598	600	611
Other current liabilities	1,844	1,914	1,914	1,914	1,914
Provisions	262	262	350	350	350
Debt funds	877	0	0	0	0
Other liabilities	5,334	5,465	5,482	5,492	5,501
Equity capital	5,642	5,642	5,642	5,642	5,642
Reserves & surplus	78,787	87,090	95,807	1,00,312	1,04,760
Shareholders' fund	84,429	92,732	1,01,449	1,05,954	1,10,402
Total liab. and equities	**93,400**	**1,00,883**	**1,09,794**	**1,14,310**	**1,18,779**
Cash and cash eq.	864	6,917	8,165	7,999	7,688
Accounts receivables	1,295	1,440	1,547	1,500	1,529
Inventories	1,890	2,121	2,210	2,200	2,243
Other current assets	1,828	2,896	5,553	5,623	5,699
Investments	51,737	51,700	53,360	53,360	53,360
Net fixed assets	33,255	31,552	33,901	37,323	41,921
CWIP	2,531	4,257	5,059	6,306	6,339
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	**93,400**	**1,00,883**	**1,09,794**	**1,14,310**	**1,18,779**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**11,648**	**8,148**	**8,628**	**5,457**	**5,382**
Capital expenditures	(864)	(1,952)	(5,198)	(6,764)	(6,847)
Change in investments	(1,675)	37	(1,660)	0	0
Other investing cash flows	1,072	1,684	3,214	3,072	3,060
Cash flow from investing	**(1,467)**	**(231)**	**(3,645)**	**(3,692)**	**(3,787)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(9,383)	(877)	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(1,128)	(2,821)	(3,736)	(1,931)	(1,906)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	**(10,511)**	**(3,698)**	**(3,736)**	**(1,931)**	**(1,906)**
Chg in cash & cash eq.	**(330)**	**4,218**	**1,248**	**(166)**	**(311)**
Closing cash & cash eq.	**547**	**5,082**	**8,165**	**7,999**	**7,688**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	17.4	16.5	22.1	11.4	11.3
Adjusted EPS	17.4	16.5	22.1	11.4	11.3
Dividend per share	2.0	5.0	6.6	3.4	3.4
Book value per share	149.6	164.4	179.8	187.8	195.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	8.6	9.8	8.0	12.0	11.8
EV/EBITDA	12.4	13.8	11.1	21.5	21.3
Adjusted P/E	17.1	18.0	13.4	25.9	26.3
P/BV	2.0	1.8	1.6	1.6	1.5

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	76.8	76.6	78.0	76.6	76.6
Interest burden (PBT/EBIT)	106.1	115.6	125.2	157.6	158.5
EBIT margin (EBIT/Revenue)	59.5	60.1	62.2	40.2	38.7
Asset turnover (Rev./Avg TA)	21.6	18.0	19.5	11.8	11.6
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.1	1.1	1.1
Adjusted ROAE	12.2	10.5	12.8	6.2	5.9

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	(2.9)	(13.6)	17.4	(35.3)	1.9
EBITDA	(5.1)	(11.1)	19.1	(49.8)	0.4
Adjusted EPS	5.2	(5.1)	34.1	(48.3)	(1.3)
Profitability & Return ratios (%)					
EBITDA margin	69.2	71.2	72.2	56.0	55.1
EBIT margin	59.5	60.1	62.2	40.2	38.7
Adjusted profit margin	48.5	53.2	60.8	48.5	47.0
Adjusted ROAE	12.2	10.5	12.8	6.2	5.9
ROCE	10.8	9.0	10.2	3.9	3.7
Working capital days (days)					
Receivables	26	29	27	42	41
Inventory	161	293	257	271	267
Payables	37	42	36	37	36
Ratios (x)					
Gross asset turnover	0.4	0.4	0.4	0.2	0.2
Current ratio	1.6	5.0	6.1	6.0	6.0
Net interest coverage ratio	38.4	224.1	0.0	0.0	0.0
Adjusted debt/equity	0.0	(0.1)	(0.1)	(0.1)	(0.1)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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

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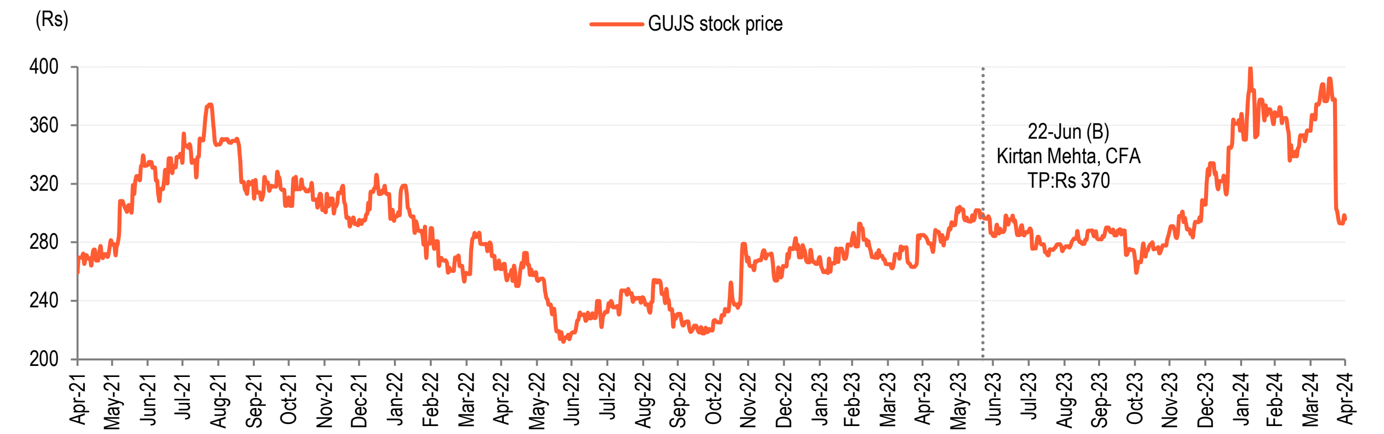
Note: Recommendation structure changed with effect from 21 June 2021

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.

Ratings and Target Price (3-year history): GUJARAT STATE PETRONET (GUJS IN)



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