GSPL's near-term earnings face a 30% hit; the co is expected challenge the ruling

GSPL Skids 19% After Regulator Halves HP Transmission Tariff

Our Bureau

Mumbai: Shares of Gujarat State Petronet (GSPL) fell more than 19% on Monday after Petroleum and Natural Gas Regulatory Board (PNGRB) cut its tariffs for high pressure (HP) transmission by 47%. Analysts expect the company will challenge this order and are divided on the company's prospects.

PNGRB reduced the tariffs to ₹18.1/mmbtu (million British Thermal Unit), from the earlier price of ₹34/mmbtu. GSPL had asked a revision of price to ₹50.8/mmbtu to the board, which was not approved.

"Authorised tariffs were below our estimates, and much below Street's estimates, which had built in significant optimism, factoring only a moderate cut," said Nomura's Hemang Khanna in a note to clients. "We sharply cut FY25-26F EBITDA by 37%/42% and EPS by 34%/40%."

Shares of GSPL closed at ₹305.45 on the NSE on Monday, after a 19.12% decline. Brokerage Nomura in its latest report had reduced the target price for the company to ₹320, from the earlier level of ₹440, and has given a rating of 'reduce' from a 'buy' earlier.

Analysts expect the company to challenge this price revision and get favourable pricing from the board. "In near term GSPL's earnings will take a hit of ~30% from sharp downward revision of tariffs," said Avishek Datta, research analyst at Anand Rathi Institutional Equities. "I expect the company to challenge this order and any favourable tariff will be an upside risk to earnings."

The brokerage has a 'buy' rating on the stock and Datta says it is better placed than its peers.

"Competitors like GAIL have got a favourable tariff order and are better placed but the company is exposed to commodity risk from fluctuations in petchem and LPG prices. We have a hold rating on the stock after a sharp run up," said Datta.

Shares of GSPL have declined 4.6% in 2024 so far, against GAIL which has gained 19.8% in the same period.

"Ironically, such tariff orders will discourage entities from growing volumes, in our view," said Sumit Pokharna, VP - analyst, Kotak Securities. "Stock will remain under pressure till further clarity."

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Gujarat State Petronet shares tank 20% after regulator cuts tariffs

ARUNIMA BHARADWAJ
New Delhi, April 22

SHARES OF GUJARAT State Petronet (GSPL) fell nearly 20% to end at ₹303.80 on the BSE on Monday after the Petroleum and Natural Gas Regulatory Board's (PNGRB) announcement of a 47% cut in tariffs for its HP Pipeline network.

In its order, the board reduced the tariff to ₹18.1 per mmbtu (metric million British thermal unit) from ₹34. The new tariff will be applicable from May 1. The company had requested for an upward tariff revision to ₹50.77 per mmbtu.

The board attributed the cut in tariff to higher volume assumption and economic life extension of the pipeline network. PNGRB's tariff order determines the prices that a company can charge for transporting natural gas through its pipeline networks.

"The tariff of GSPL HP would be reviewed in the next financial year if there is a considerable variation in actual volume flows (in line with GSPL's submission of 26 mmscmd, or million metric standard cubic meters per day) compared with the expected volume ie 31.67 mmscmd considered by the board in this tariff order," the regulatory board said.

The difference in the views of the two entities comes from the difference in assumptions of three key factors — capex (reduced by ₹13.7/mmbtu), opex (reduced by ₹8.7/mmbtu), and volumes (reduced by ₹11/mmbtu).

"This is just an adjustment of tariffs and not a cut," PNGRB member AK Tiwari told a TV channel on Monday. He said the regulator had undertaken public consultations before issuing the final order.

GSPL can come up with an appeal if there are concerns and there is no question of renegotiations with GSPL on the volume front, Tiwari said, adding that there will be revisions in tariffs for GAIL as well.

A cut in tariffs could lead to lower prices of natural gas for consumers and industries. However, for GSPL, it could lead to a decline in its earnings per share by 30-40% in FY25, analysts say.

GUJARAT STATE PETRONET

Intra-day on BSE (₹), Apr 22