Gujarat State Petronet

SELL

DART
DOLAT ANALYSIS & RESEARCH THEMES
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Result Update

Volume miss

Gujarat State Petronet (GSPL) volumes were below our estimates. Revenue and profitability were below estimates due to lower than expected volumes and higher than expected other expenses. However, this was offset to some extent by increase in transmission tariffs. Transmission tariffs increased by 32.6% YoY to ₹ 1.48/SCM. With lower economic activities, spot volume proportion should have been lower and impacted tariff and revenue. Considering that RIL volume off-take will reduce in FY20, volumes are expected to reduce on a sequential and yearly basis. Transmission tariff orders are implemented and there is no near term trigger on this front. With both volume and tariff outlook looking muted, we expect limited revenue growth along with profitability. Investments in Gujarat Gas and Sabarmati Gas will reap limited fruits. Investments in consortium for transnational pipelines is a concern in medium term. Considering these factors, we downgrade the stock to Sell with a target price of ₹ 172.

Below par operational performance

GSPL operating profitability was below estimates. Other expenditure was higher by 84% on a YoY basis and 14% on a sequential basis. Gas transmission expense also increased by 66% on a YoY basis and 8% sequentially. GSPL's operating margins at 75.9% were the lowest. We expect this cost to subside to some extent in coming quarters, and revert to operating profitability margins of 80% looks achievable. Other Income reduced by 53.8% and interest cost increased substantially, which further affected net profitability.

Volume Outlook

GSPL reported natural gas transmission volumes de-grew of 6% YoY to 32.4 MMSCMD in Q4FY19. We believe that volume outlook should get deteriorated as RIL pet coke gasifier has started. With a major exposure to industrial volumes, slowdown in the economic activity hurts GSPL volume outlook. We do not see any major respite in the short to medium term on this front. On a best case basis also, GSPL volumes are unlikely to grow beyond 1% CAGR for FY19 – FY21E.

Q4FY19 Result (₹ Mn)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue	4,338	3,504	23.8	4,538	(4.4)
Total Expense	1,045	612	70.8	1,006	3.9
EBITDA	3,293	2,892	13.9	3,532	(6.8)
Depreciation	475	440	8.0	440	8.1
EBIT	2,817	2,452	14.9	3,092	(8.9)
Other Income	79	171	(53.8)	76	3.8
Interest	505	103	389.5	551	(8.3)
EBT	2,392	2,520	14.9	2,618	(8.6)
Tax	859	946	(9.2)	882	(2.7)
RPAT	1,533	1,574	(2.6)	1,736	(11.7)
APAT	1,533	1,574	(2.6)	1,736	(11.7)
			(bps)		(bps)
Gross Margin (%)	-	-	-	-	-
EBITDA Margin (%)	75.9	82.5	(663)	77.8	(193)
NPM (%)	35.3	44.9	(958)	38.2	(290)
Tax Rate (%)	35.9	37.5	(164)	33.7	220
EBIT Margin (%)	64.9	70.0	(503)	68.1	(320)

CMP	₹ 175
Target / Downside	₹ 172 / 2%
BSE Sensex	37,564
NSE Nifty	11,279

Scrip Details

Equity / FV	₹ 5,640mn / ₹ 10
Market Cap	₹ 99bn
	US$ 1bn
52-week High/Low	₹ 207/₹ 149
Avg. Volume (no)	5,46,061
NSE Symbol	GSPL
Bloomberg Code	GUJS IN

Shareholding Pattern Mar'19(%)

Promoters	37.7
MF/Banks/FIs	21.0
FIIs	17.1
Public / Others	24.3

Valuation (x)

	FY19A	FY20E	FY21E
P/E	12.4	12.1	11.9
EV/EBITDA	7.1	7.9	7.9
ROE (%)	14.7	13.5	12.7
RoACE (%)	17.6	16.5	14.8

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	18,772	18,483	18,946
EBITDA	15,426	15,048	15,469
PAT	7,947	8,119	8,286
EPS (₹)	14.1	14.4	14.7

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DOLAT CAPITAL

Exhibit 1: KPIs

₹ Mn	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Segment Revenue					
Gas Transportation	4,311.6	3,461.7	24.6	4,506	(4.3)
Gas Transported (in MMSCM)	2,916	3,105	(6.1)	3,174	(8.1)
Average Tariff (in ₹ per SCM)	1.479	1.115	32.6	1.420	4.1
Gas Transported (in MMSCMD)	32.4	34.5	(6.1)	34.5	(6.1)

Source: DART, Company

Transmission Tariff revision

With zonal tariff also finalized by PNGRB in December 2018, there is no trigger left on this for GSPL in medium to long term. We expect GSPL average transmission tariff to be in the range of ₹ 1.45 per SCM to ₹ 1.50 per SCM. With this being capped and volume outlook also muted, revenue growth trajectory looks flat in next 2- 3 years.

Valuation

We value the core business at ₹ 105.2 per share on DCF basis, three transnational pipelines at ₹ 6 per share and GSPL's stake in Gujarat Gas and Sabarmati Gas at ₹ 57.6 per share and ₹ 3 per share respectively. Considering limited scope of growth in core business, we value GSPL at ₹ 172 by SOTP method.

Exhibit 2: SOTP Valuation

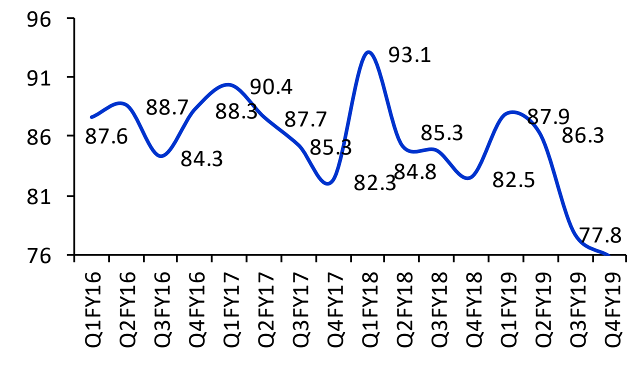
Particulars	(₹)
GSPL Core Business	105.2
GSPL Stake in Gujarat Gas	57.6
GSPL Stake in Sabarmati Gas	3
GSPL Stake in Consortium for transnational pipelines	6

Source: Company, DART

Key highlights

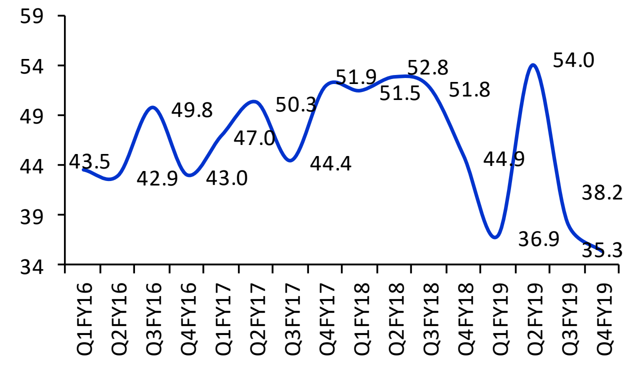
- Revenue increased by 23.8% on a YoY basis to ₹ 4,338 mn. On a sequential basis, revenue was down by 4.4%.
- There was a growth in employee cost of 38.9% on a YoY basis to ₹ 147 mn and a de-growth of 27.2% on a sequential basis.
- Other expenditure increased by 84% on a YoY basis to ₹ 567 mn. Sequentially it was up by 13.7%.
- GSPL made an operating profit of ₹ 3,293 mn in Q4FY19 as compared to an operating profit of ₹ 2,892 mn in Q4FY18. This was a growth of 13.9%.
- Depreciation increased 8% QoQ to ₹ 475 mn.
- Other income decreased by 53.8% on a YoY basis and increased by 3.8% QoQ. to ₹ 79 mn
- Net profit decreased by 2.6% on a YoY basis to ₹ 1,533 mn. Sequentially it was down 11.7%.

Exhibit 3: OPM (%)



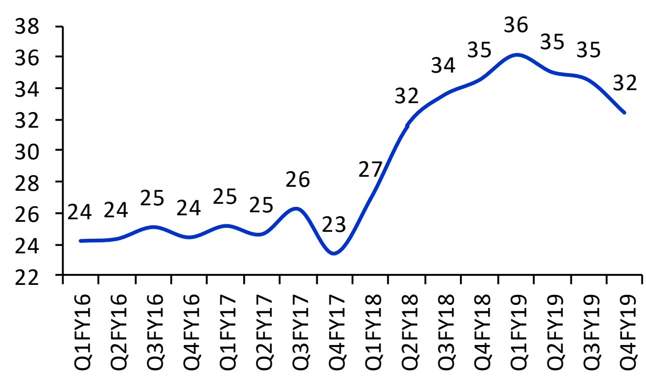
Source: Company, DART

Exhibit 4: NPM (%)



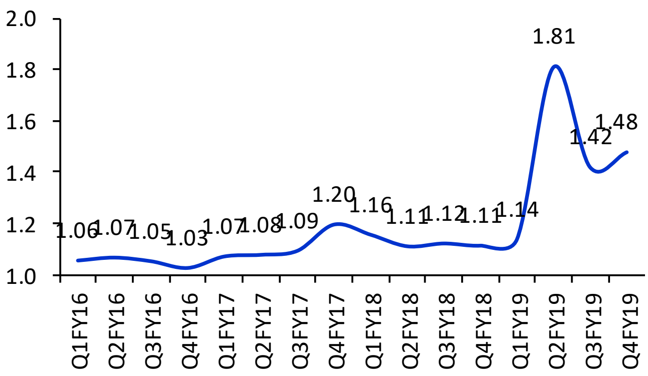
Source: Company, DART

Exhibit 5: Gas Transported (MMSCMD)



Source: Company, DART

Exhibit 6: Average Tariff (₹/ SCM)



Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	**13,317**	**18,772**	**18,483**	**18,946**
Total Expense	**1,839**	**3,346**	**3,436**	**3,477**
COGS	0	3	37	38
Employees Cost	432	645	634	605
Other expenses	1,407	2,697	2,765	2,834
EBIDTA	**11,478**	**15,426**	**15,048**	**15,469**
Depreciation	1,750	1,800	2,030	2,316
EBIT	**9,728**	**13,626**	**13,017**	**13,154**
Interest	354	2,192	1,665	1,599
Other Income	735	594	950	1,000
Exc. / E.O. items	0	0	0	0
EBT	**10,108**	**12,028**	**12,302**	**12,554**
Tax	3,424	4,081	4,183	4,268
RPAT	6,684	7,947	8,119	8,286
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**6,684**	**7,947**	**8,119**	**8,286**

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	5,638	5,640	5,643	5,648
Minority Interest	0	0	0	0
Reserves & Surplus	45,012	51,800	57,315	62,343
Net Worth	**50,650**	**57,440**	**62,958**	**67,991**
Total Debt	30,578	12,856	27,756	26,656
Net Deferred Tax Liability	4,984	5,226	2,613	2,665
Total Capital Employed	**86,213**	**75,522**	**93,327**	**97,312**
Applications of Funds				
Net Block	**31,142**	**36,075**	**41,170**	**45,979**
CWIP	8,959	4,194	10,152	8,683
Investments	41,814	42,772	42,772	47,049
Current Assets, Loans & Advances	**7,571**	**6,459**	**13,354**	**9,867**
Inventories	1,235	1,279	1,818	1,864
Receivables	1,235	2,081	2,273	3,106
Cash and Bank Balances	3,645	1,583	7,604	3,080
Loans and Advances	1,278	1,360	1,496	1,645
Other Current Assets	178	157	164	173
Less: Current Liabilities & Provisions	**3,272**	**13,978**	**14,122**	**14,267**
Payables	185	238	246	253
Other Current Liabilities	3,087	13,739	13,876	14,014
Net Current Assets	4,298	(7,518)	(767)	(4,400)
Total Assets	**86,213**	**75,522**	**93,327**	**97,312**

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	-	-	-	-
EBIDTA Margin	86.2	82.2	81.4	81.6
EBIT Margin	73.0	72.6	70.4	69.4
Tax rate	33.9	33.9	34.0	34.0
Net Profit Margin	50.2	42.3	43.9	43.7
(B) As Percentage of Net Sales (%)				
COGS	0.0	0.0	0.2	0.2
Employee	3.2	3.4	3.4	3.2
Other	10.6	14.4	15.0	15.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.6	0.2	0.4	0.4
Interest Coverage	27.5	6.2	7.8	8.2
Inventory days	34	25	36	36
Debtors days	34	40	45	60
Average Cost of Debt	1.9	10.1	8.2	5.9
Payable days	5	5	5	5
Working Capital days	118	(146)	(15)	(85)
FA T/O	0.4	0.5	0.4	0.4
(D) Measures of Investment				
AEPS (₹)	11.9	14.1	14.4	14.7
CEPS (₹)	15.0	17.3	18.0	18.8
DPS (₹)	1.8	2.0	4.0	5.0
Dividend Payout (%)	14.8	14.2	27.8	34.1
BVPS (₹)	89.8	101.9	111.7	120.6
RoANW (%)	14.0	14.7	13.5	12.7
RoACE (%)	14.7	17.6	16.5	14.8
RoAIC (%)	14.9	17.4	16.3	14.6
(E) Valuation Ratios				
CMP (₹)	175	175	175	175
P/E	14.7	12.4	12.1	11.9
Mcap (₹ Mn)	98,558	98,558	98,558	98,558
MCap/ Sales	7.4	5.3	5.3	5.2
EV	1,25,491	1,09,831	1,18,710	1,22,134
EV/Sales	9.4	5.9	6.4	6.4
EV/EBITDA	10.9	7.1	7.9	7.9
P/BV	1.9	1.7	1.6	1.4
Dividend Yield (%)	1.0	1.1	2.3	2.9
(F) Growth Rate (%)				
Revenue	29.6	41.0	(1.5)	2.5
EBITDA	29.2	34.4	(2.5)	2.8
EBIT	37.2	40.1	(4.5)	1.0
PBT	37.0	19.0	2.3	2.1
APAT	34.6	18.9	2.2	2.1
EPS	34.6	18.9	2.2	2.1

Cash Flow

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	8,944	26,359	8,471	11,362
CFI	(31,735)	365	(13,084)	(9,933)
CFF	22,865	(25,367)	10,633	(5,952)
FCFF	6,253	23,999	(4,613)	5,706
Opening Cash	152	225	1,583	7,604
Closing Cash	225	1,583	7,604	3,080

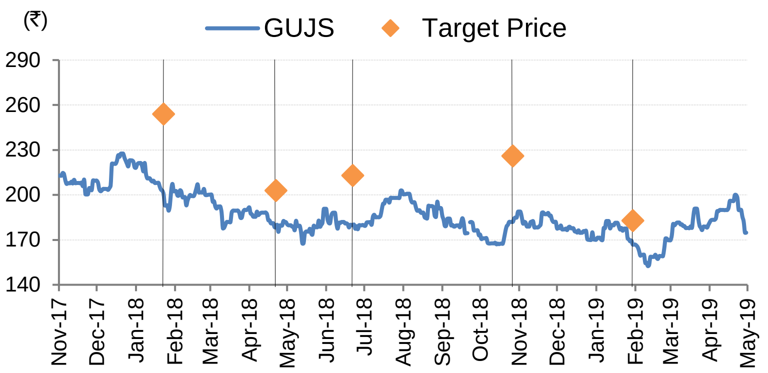
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Feb-18	Buy	254	200
May-18	Accumulate	203	178
Jul-18	Accumulate	213	180
Nov-18	BUY	226	182
Feb-19	Reduce	183	167

*Price as on recommendation date

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