Gujarat State Petronet (GSPL)

ICICI direct Research

CMP: ₹ 176 | Target: ₹ 180 (⬆ 2%) | Target Period: 12 months | HOLD

May 13, 2019

Higher costs impact profit...

Gujarat State Petronet (GSPL) reported its Q4FY19 results, which were below our estimates on the profit front on account of higher than estimated other expenses and lower volumes. Revenues increased 23.8% YoY to ₹ 433.9 crore, below our estimate of ₹ 467.1 crore due to lower-than-expected volumes, which was at 32.4 mmscmd vs. our estimate of 35 mmscmd. Increase in other expenses by 77.1% YoY to ₹ 89.6 crore (our estimate: ₹ 57.4 crore) led to EBITDA at ₹ 329.3 crore, below our estimate of ₹ 397.7 crore. Subsequently, PAT was at ₹ 153.3 crore, below our estimate of ₹ 200.2 crore.

Volumes decline; to go down further on lower Reliance offtake

The quarter witnessed disappointing natural gas transmission volumes, below our estimates. Volumes declined 5.1% YoY to 32.4 mmscmd. On a QoQ basis, lower volume offtake of LNG led to 6.1% QoQ decline in volumes. We build in lower volumes in FY20E than FY19E on account of estimated ramp up from RIL's petcoke gasification project. However, higher volumes from the 5 MMTPA Mundra LNG terminal will negate, to some extent, the negative impact on volumes. Also, volumes from Petronet LNG's new expansion by 2019 will benefit GSPL, going ahead. We estimate volumes at 31.5 mmscmd and 32.5 mmscmd for FY20E and FY21E, respectively, taking into account potential reduction in volumes by RIL.

Tariff hikes taken place; other expenses impact profitability

Transmission tariffs at ₹ 1.5/scm (up 30.9% YoY) came in line with our estimates. Post PNGRB considering the volume, costs and other variables, final transportation tariff will be ₹ 34/mmbtu (~1.4/scm). Hence, on the back of the same, we assume higher tariffs of ₹ 1.47/scm for FY20E and FY21E, respectively. However, higher system usage gas costs and other expenses impacted profitability in the quarter. We have increased the same, which has led to ~6% reduction in EPS estimates.

Valuation & Outlook

GSPL's transmission business is expected to report stable volumes, adjusting for lower Reliance volumes, in the backdrop of growth in CGD & PNG sectors and increased LNG capacity in Gujarat. The upward revision of transmission tariffs by PNGRB is a positive for the stock and will lead to decent profitability, going forward. However, nearly 50% of GSPL value is derived from its listed CGD entity Gujarat Gas (54.1% stake) and unlisted Sabarmati Gas, which commands holding company discount. Hence, investors can directly invest in Gujarat Gas instead of GSPL. We value GSPL on an SOTP basis with investments at ~₹ 91 per share and standalone business at ~₹ 89 per share to arrive at a target price of ₹ 180 with **HOLD** recommendation.

Particulars

Particular	Amount
Market Capitalization (₹ Crore)	9,914.8
Total Debt (FY18) (₹ Crore)	3,322.9
Cash and Investments (FY18) (	364.5
EV (₹ Crore)	12,873.1
52 week H/L	235/154
Equity capital (₹ Crore)	563.0
Face value (₹)	10.0

Key Highlights

- Weak quarterly performance on account of higher than estimated other expenses as well as lower volumes
- Volume to decline further in the medium term on lower Reliance offtake
- Higher system usage gas costs and higher other expenses led to decline in profitability estimates
- Investors can directly invest in Gujarat Gas instead of GSPL. We maintain HOLD on the stock with a target price of ₹ 180/share

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Key Financial Summary

(Year-end March)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Revenues (₹ crore)	1,027.5	1,331.7	1,877.3	1,718.1	1,771.8	13.6
EBITDA (₹ crore)	888.3	1,147.8	1,542.6	1,383.1	1,411.2	9.8
Net Profit (₹ crore)	496.6	668.4	794.7	713.7	737.0	3.3
EPS (₹)	8.8	11.9	14.1	12.7	13.1	
P/E (x)	20.0	14.8	12.5	13.9	13.5	
Price / Book (x)	2.2	2.0	1.7	1.6	1.5	
EV/EBITDA (x)	11.9	11.5	8.4	9.1	8.7	
RoCE (%)	13.8	11.6	15.7	13.2	13.1	
RoE (%)	11.0	13.2	13.9	11.4	10.8	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Total Revenues	433.9	467.1	350.4	23.8	453.8	-4.4	Lower-than-expected revenues on account of decline in volumes
Raw materials costs	0.3	0.0	0.0	NA	0.0	NA	
Employees Cost	14.7	11.9	10.6	38.9	20.2	-27.2	
Other Expenses	89.6	57.4	50.6	77.1	80.4	11.5	
Total Expenditure	104.6	69.3	61.2	70.9	100.6	4.0	
EBITDA	329.3	397.7	289.2	13.9	353.2	-6.8	Higher other expenses (system usage gas costs) led to lower EBITDA than estimates
EBITDA margins (%)	75.9	85.2	82.5	-664 bps	77.8	-194 bps	
Depreciation	47.6	49.0	44.0	8.0	44.0	8.1	
EBIT	281.7	348.7	245.2	14.9	309.2	-8.9	
Interest	50.5	53.2	10.3	389.5	55.1	-8.3	
Other Income	7.9	7.7	17.1	-53.8	7.6	3.8	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	239.2	303.3	252.0	-5.1	261.8	-8.6	
Total Tax	85.9	103.1	94.6	-9.2	88.2	-2.7	
PAT	153.3	200.2	157.4	-2.6	173.6	-11.7	
Key Metrics							
Transmission Vol (mmscmd)	32.4	35.0	34.2	-5.1	34.5	-6.1	Volume below our estimates
Transmisn. Tariff (₹/scm)	1.5	1.5	1.1	30.9	1.4	3.8	Tariff increases YoY due to revision in transmission tariffs by the regulator

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E			FY21E			
(₹ Crore)	**Old**	**New**	**% Change**	**Old**	**New**	**% Change**	**Comments**
Revenue	1745.0	1,718.1	-1.5	NA	1,771.8	NA	
EBITDA	1,467.2	1,383.1	-5.7	NA	1,411.2	NA	Increase in operational expenses and marginal lower volume estimates led to reduction in EBITDA estimates
EBITDA Margin (%)	84.1	80.5	-358 bps	NA	79.6	NA	
PAT	759.3	713.7	-6.0	NA	737.0	NA	
EPS (₹)	13.5	12.7	-6.0	NA	13.1	NA	

Source: Company, ICICI Direct Research

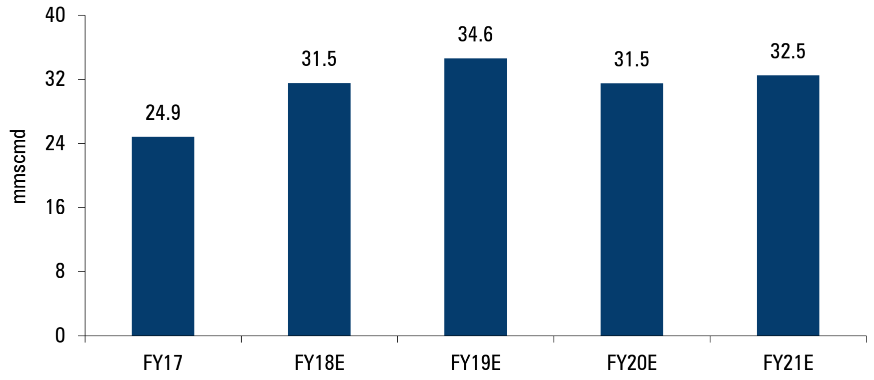
Exhibit 3: Assumptions

			Current		Earlier		Comments
	FY18E	**FY19E**	**FY20E**	**FY21E**	**FY20E**	**FY21E**	
Transmission Vol (mmscmd)	31.5	34.6	31.5	32.5	32.0	NA	Volumes to decline in FY20E due to volume ramp up from Reliance petcoke gasification
Transmisn. Tariff (₹/scm)	1.1	1.5	1.5	1.5	1.5	NA	

Source: Company, ICICI Direct Research

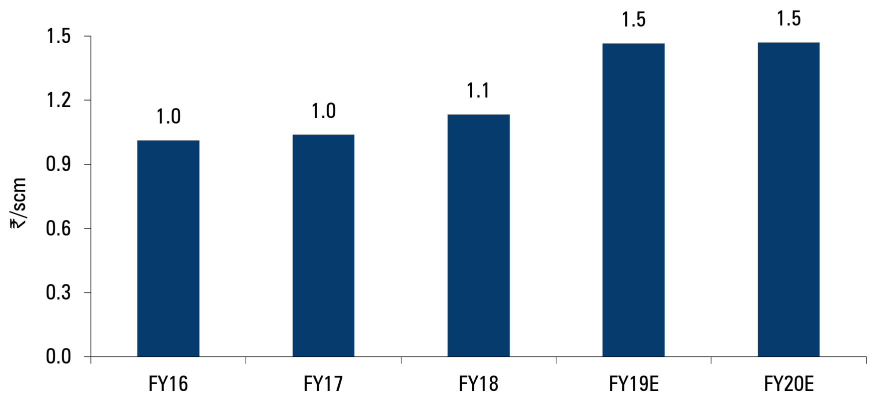
Story in charts

Exhibit 4: Volume trajectory



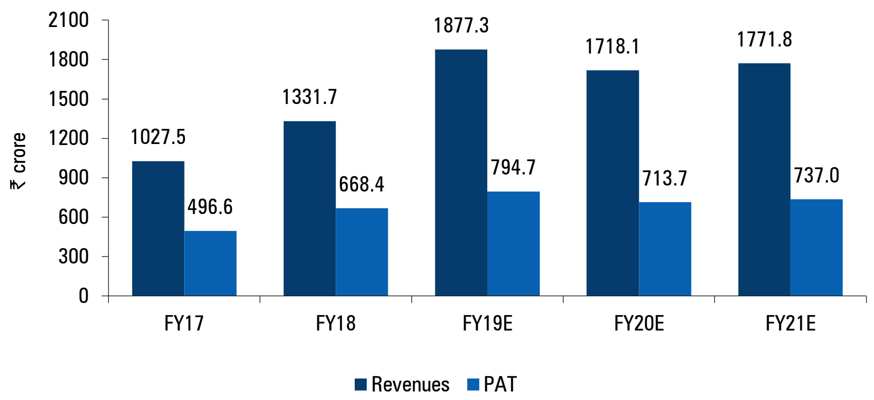
Source: Company, ICICI Direct Research

Exhibit 5: Transmission tariffs trend



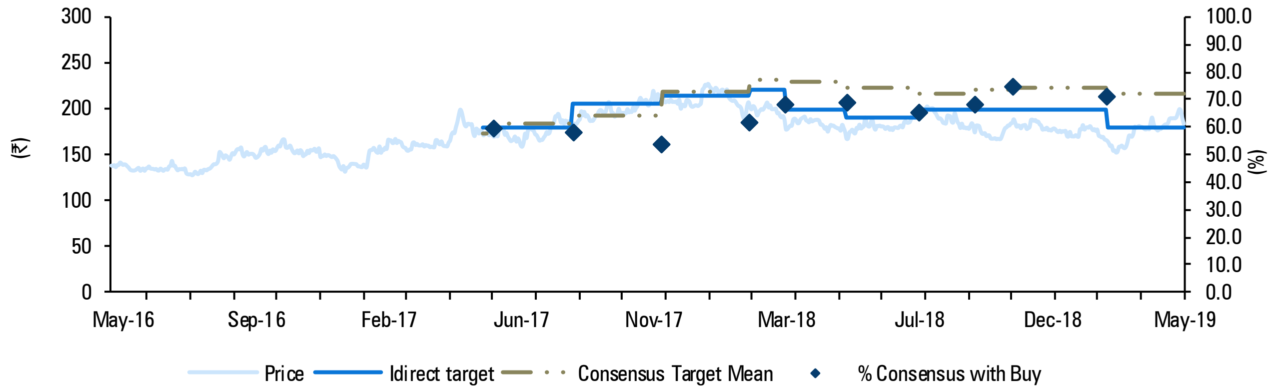
Source: Company, ICICI Direct Research

Exhibit 6: Revenue & PAT trend



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position	Change (m)
1	GSPC Group	31-Mar-19	37.6	212.3	0.0
2	Gujarat Maritime Board, Ltd.	31/Mar/19	6.6	37.1	0.0
3	Life Insurance Corporation of India	31-Mar-19	4.1	23.4	0.0
4	SBI Funds Management Pvt. Ltd.	31/Mar/19	3.4	19.0	0.0
5	Tata Asset Management Limited	31-Mar-19	3.0	17.2	-0.3
6	Franklin Templeton Asset Management (India) Pvt. L	31/Mar/19	3.0	16.8	1.2
7	Platinum Investment Management Ltd.	31-Mar-19	2.1	11.8	-0.6
8	Gujarat Urja Vikas Nigam, Ltd.	31/Mar/19	2.0	11.4	0.0
9	ICICI Prudential Life Insurance Company Ltd.	31-Mar-19	2.0	11.1	-0.2
10	Aditya Birla Sun Life AMC Limited	31/Mar/19	1.8	10.1	0.8

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
Mirae Asset Global Investments (India) Pvt. Ltd.	6.58	2.39	DSP Investment Managers Pvt. Ltd.	-16.70	-6.06
Franklin Templeton Asset Management (India) Pvt. Lt	3.37	1.22	Asset Management One Co., Ltd.	-3.46	-1.29
Aditya Birla Sun Life AMC Limited	2.34	0.85	Norges Bank Investment Management (NBIM)	-2.87	-1.14
HSBC Global Asset Management (Hong Kong) Limitec	2.00	0.81	Platinum Investment Management Ltd.	-1.61	-0.58
Mirae Asset Global Investments (Hong Kong) Limited	1.43	0.59	Tata Asset Management Limited	-0.83	-0.30

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	37.7	37.7	37.7	37.7	37.6
FII	16.6	16.2	16.3	17.1	16.5
DII	19.5	20.7	20.8	20.4	21.0
Others	26.2	25.4	25.2	24.9	24.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement ₹ crore

(Year-end March)	FY18	FY19E	FY20E	FY21E
Revenue	**1331.7**	**1877.3**	**1718.1**	**1771.8**
Growth (%)	30.4	41.0	-8.5	3.1
Employee Costs	43.2	64.5	72.3	79.5
Gas Transmissn exp.	0.0	32.8	89.0	91.9
Op.& Maintainence exp.	140.7	237.0	172.5	187.2
Op. Expenditure	183.9	334.7	335.1	360.6
EBITDA	**1147.8**	**1542.6**	**1383.1**	**1411.2**
Growth (%)	29.2	34.4	-10.3	2.0
Depreciation	175.0	180.0	209.1	212.5
EBIT	972.8	1362.6	1174.0	1198.7
Interest	35.4	219.2	182.5	182.5
Other Income	73.5	59.4	89.9	100.4
PBT	1010.8	1202.8	1081.4	1116.6
Growth (%)	37.0	19.0	-10.1	3.3
Tax	342.4	408.1	367.7	379.7
Reported PAT	**668.4**	**794.7**	**713.7**	**737.0**
Growth (%)	34.6	18.9	-10.2	3.3
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	668.4	794.7	713.7	737.0
EPS	**11.9**	**14.1**	**12.7**	**13.1**

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	668.4	794.7	713.7	737.0
Add: Depreciation	175.0	180.0	209.1	212.5
Add: Others	20.5	30.0	30.0	30.0
Cash Profit	762.2	872.7	787.9	814.6
Increase/(Decrease) in CL	-166.6	318.6	-30.9	10.9
(Increase)/Decrease in CA	20.6	-204.2	-16.0	-61.5
CF from Operating Activities	**718.1**	**1119.1**	**905.9**	**928.9**
Purchase of Fixed Assets	333.3	283.9	350.0	339.8
(Inc)/Dec in Investments	-3,415.9	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	**-3,749.2**	**-283.9**	**-350.0**	**-339.8**
Inc/(Dec) in Loan Funds	2,692.3	-350.0	-330.5	-330.5
Dividend Paid	101.8	131.9	164.9	164.9
Inc/(Dec) in Sh. Cap. & Res.	2.4	-5.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	**2,593.0**	**-486.9**	**-495.4**	**-495.4**
Change in cash Eq.	-438.1	348.2	60.5	93.7
Op. Cash and cash Eq.	802.6	364.5	712.7	773.3
Cl. Cash and cash Eq.	**364.5**	**712.7**	**773.3**	**867.0**

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore

(Year-end March)	FY18	FY19E	FY20E	FY21E
Source of Funds				
Equity Capital	563.8	563.8	563.8	563.8
Preference capital	5.0	5.0	6.0	6.0
Reserves & Surplus	4,501.2	5,159.0	5,707.8	6,279.8
Shareholder's Fund	5,065.0	5,722.8	6,271.6	6,843.7
Loan Funds	3,322.9	2,972.9	2,642.4	2,311.9
Deferred Tax Liability	492.4	522.4	552.4	582.4
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	**8880.3**	**9218.1**	**9466.4**	**9737.9**
Application of Funds				
Gross Block	3,651.2	3,926.2	4,226.2	4,526.2
Less: Acc. Depreciation	536.8	732.8	941.9	1,164.7
Net Block	3,114.4	3,193.4	3,284.3	3,361.5
Capital WIP	895.9	920.9	970.9	1,020.9
Total Fixed Assets	4,010.3	4,114.3	4,255.2	4,382.4
Investments	4,181.4	4,181.4	4,181.4	4,181.4
Inventories	123.5	195.4	178.9	184.5
Debtor	123.5	205.7	188.3	194.2
Cash	364.5	712.7	773.3	0.0
Loan & Advance, Other CA	145.6	195.6	245.6	295.6
Total Current assets	757.0	1309.5	1386.0	674.2
Current Liabilities	54.6	360.0	329.5	339.8
Provisions	13.8	27.0	26.6	27.2
Total CL and Provisions	68.4	387.0	356.1	367.0
Net Working Capital	688.6	922.4	1029.9	307.2
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	**8880.3**	**9218.1**	**9466.4**	**8871.0**

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios ₹ crore

(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
Book Value	89.8	101.5	111.2	121.4
Cash per share	13.5	19.7	20.8	7.1
EPS	11.9	14.1	12.7	13.1
Cash EPS	15.0	17.3	16.4	16.8
DPS	2.0	2.0	2.5	2.5
Profitability & Operating Ratios				
EBITDA Margin (%)	86.2	82.2	80.5	79.6
PAT Margin (%)	50.2	42.3	41.5	41.6
Fixed Asset Turnover (x)	0.3	0.5	0.4	0.4
Inventory Turnover (Days)	33.8	38.0	38.0	38.0
Debtor (Days)	33.9	40.0	40.0	40.0
Current Liabilities (Days)	15.0	70.0	70.0	70.0
Return Ratios (%)				
RoE	13.2	13.9	11.4	10.8
RoCE	11.6	15.7	13.2	13.1
RoIC	12.8	18.0	15.2	13.7
Valuation Ratios (x)				
PE	14.8	12.5	13.9	13.5
Price to Book Value	2.0	1.7	1.6	1.5
EV/EBITDA	11.5	8.4	9.1	8.7
EV/Sales	9.9	6.9	7.3	6.9
Leverage & Solvency Ratios				
Debt to equity (x)	0.7	0.5	0.0	0.0
Interest Coverage (x)	27.5	6.2	6.4	6.6
Debt to EBITDA (x)	2.9	1.9	1.9	1.6
Current Ratio	11.1	3.4	3.9	1.8
Quick ratio	9.3	2.9	3.4	1.3

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
BPCL (BHAPET)	378	320	Hold	81,997	40.3	33.1	34.5	9.4	11.4	10.9	8.4	8.6	7.7	15.7	13.0	13.1	23.2	18.6	18.3
Castrol India (CASIND)	152	140	Reduce	15,035	7.2	7.9	7.4	21.2	19.3	20.5	13.4	11.8	12.6	88.3	91.0	86.1	61.6	63.1	60.3
GAIL (India) (GAIL)	342	390	Buy	77,121	13.6	15.5	20.5	25.2	22.0	16.7	15.0	12.6	10.0	6.8	11.7	14.7	6.6	9.2	11.5
Gujarat Gas (GUJGA)	164	190	Buy	11,290	3.2	4.2	6.3	50.6	38.7	26.0	18.1	14.9	13.2	12.3	15.3	16.8	13.6	15.8	19.8
Gujarat State Petro (GSPL)	176	180	Hold	9,915	8.8	11.9	14.1	20.0	14.8	12.5	11.9	11.5	8.4	13.8	11.6	15.7	11.0	13.2	13.9
Gulf Oil Lubricants (GULO)	827	850	Hold	4,100	23.7	31.9	37.0	34.9	25.9	22.3	22.1	17.1	13.6	32.5	31.5	37.2	34.2	33.9	31.6
HPCL (HINPET)	285	225	Hold	43,478	13.6	13.9	11.1	7.0	6.8	8.6	6.1	6.0	6.7	19.3	17.5	13.8	30.5	26.5	19.3
Indraprastha Gas (INDGAS)	303	300	Hold	21,210	8.2	9.6	10.8	37.1	31.6	28.1	21.4	18.5	16.5	27.2	26.5	25.6	19.5	19.1	18.6
Mahanagar Gas (MAHGAS)	895	1050	Buy	8,841	39.8	48.4	55.3	22.5	18.5	16.2	13.5	11.2	9.4	29.8	31.9	31.5	21.4	22.8	22.7
Mangalore Refinery (MRPL	65	75	Buy	11,392	12.8	0.8	7.5	5.1	82.2	8.7	3.5	10.5	4.9	23.2	3.7	13.5	20.4	1.2	11.4
ONGC (ONGC)	171	153	Hold	219,450	16.9	24.8	22.5	10.1	6.9	7.6	5.8	3.9	4.0	7.9	13.6	12.2	9.4	12.4	10.7
Petronet LNG (PETLNG)	237	225	Hold	35,550	11.4	13.9	14.9	20.8	17.1	15.9	10.9	10.2	8.8	25.9	28.3	29.9	21.1	21.4	22.0

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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