

Higher volumes lead to improved profit...

Gujarat State Petronet (GSPL) reported its Q1FY20 results, which were above our estimates on account of higher volume sales than expected. Revenues increased 31% YoY to ₹ 512.6 crore, above our estimate of ₹ 442.4 crore due to higher volumes of 38.2 mmcmd (our estimate of 32.7 mmcmd). The company also benefitted from revision in tariffs on a YoY basis. However, other expenses increased 151.3% YoY to ₹ 97.2 crore, which led to lower EBITDA growth of 16.9% YoY. PAT was at ₹ 206.1 crore (up 42.7% YoY), above our estimate of ₹ 172.8 crore.

Volumes increase due to higher CGD, industry offtake

GSPL reported healthy natural gas transmission volume growth of 4.8% YoY to 38.2 mmcmd. On a QoQ basis, higher volume offtake from city gas distribution (CGD) sector, power and refining/petchem sector led to 17.9% QoQ increase in volumes. However, we build in lower volumes, going forward, on account of the estimated ramp up from private refinery petcoke gasification project. This would impact GSPL's volume growth in the near term. In the medium term, volumes from CGD and power sector will negate, to some extent, the negative impact on volumes. In the long term, new Mundra terminal and Petronet LNG's new expansion will benefit GSPL. We estimate volumes at 36.3 mmcmd and 35 mmcmd for FY20E and FY21E, respectively.

Tariff hikes take 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/mmmbtu (~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 gas transportation costs and higher other expenses impacted profitability in the quarter. We increase the same, which has led to lower upward revision in FY21E EPS estimates.

Valuation & Outlook

GSPL's transmission business is expected to report stable volumes, adjusting for lower refinery 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 ~₹ 115/share and standalone business at ~₹ 95/share to arrive at a target price of ₹ 210 with **HOLD** recommendation.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	11,886.5
Total Debt (FY18) (₹ Crore)	3,322.9
Cash and Investments (FY18) (₹ Crore)	364.5
EV (₹ Crore)	14,844.8
52 week H/L	216/149
Equity capital (₹ Crore)	563.0
Face value (₹)	10.0

Key Highlights

- Healthy quarterly performance on account of higher than estimated volumes
- Volume increased mainly due to higher CGD & power sector volumes. We have built lower volumes going ahead on account of lower off-take of gas from refineries
- Investors can directly invest in Gujarat Gas instead of GSPL. Maintain HOLD on stock with target price of ₹ 210/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	1,972.4	1,905.9	0.8
EBITDA (₹ crore)	888.3	1,147.8	1,542.6	1,518.7	1,433.8	(3.6)
Net Profit (₹ crore)	496.6	668.4	794.7	803.6	745.2	(3.2)
EPS (₹)	8.8	11.9	14.1	14.3	13.2	
P/E (x)	23.9	17.8	15.0	14.8	16.0	
Price / Book (x)	2.6	2.3	2.1	1.9	1.7	
EV/EBITDA (x)	14.1	13.3	9.6	9.6	9.9	
RoCE (%)	13.8	11.6	15.7	14.6	13.1	
RoE (%)	11.0	13.2	13.9	12.6	10.7	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Total Revenues	512.6	442.4	391.2	31.0	433.9	18.1	Higher-than-expected revenues on account of sharp increase in volumes QoQ
Raw materials costs	0.6	0.3	0.0	NA	0.3	NA	
Employees Cost	12.8	9.8	8.7	47.0	14.7	-13.2	
Other Expenses	97.2	80.4	38.7	151.3	89.6	8.5	Higher than expected gas transportation charges led to increase in other expenditure
Total Expenditure	110.6	90.4	47.4	133.3	104.6	5.7	
EBITDA	402.0	352.0	343.8	16.9	329.3	22.1	Higher volumes led to EBITDA above our estimates
EBITDA margins (%)	78.4	79.6	87.9	-946 bps	75.9	254 bps	
Depreciation	48.9	52.3	44.8	9.1	47.6	2.8	
EBIT	353.2	299.7	299.0	18.1	281.7	25.3	
Interest	47.9	45.6	57.9	-17.3	50.5	-5.1	
Other Income	7.7	7.7	5.5	40.3	7.9	-3.2	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	312.9	261.8	246.6	26.9	239.2	30.8	
Total Tax	106.8	89.0	102.1	4.6	85.9	24.4	
PAT	206.1	172.8	144.5	42.7	153.3	34.5	

Key Metrics

Transmission Vol (mmscmd)	38.2	32.7	36.5	4.8	32.4	17.9	Higher volumes in the backdrop of growth in the CGD, power & refinery/petchem volume
Transmisn. Tariff (₹/scm)	1.5	1.5	1.1	29.2	1.5	0.0	In line with our estimates

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1734.2	1,972.4	13.7	1771.8	1,905.9	7.6	
EBITDA	1,384.1	1,518.7	9.7	1411.2	1,433.8	1.6	Increase in volume estimates led to increase in EBITDA estimates
EBITDA Margin (%)	79.8	77.0	-281 bps	79.6	75.2	-442 bps	
PAT	714.4	803.6	12.5	737.0	745.2	1.1	
EPS (₹)	12.7	14.3	12.5	13.1	13.2	1.1	

Source: Company, ICICI Direct Research

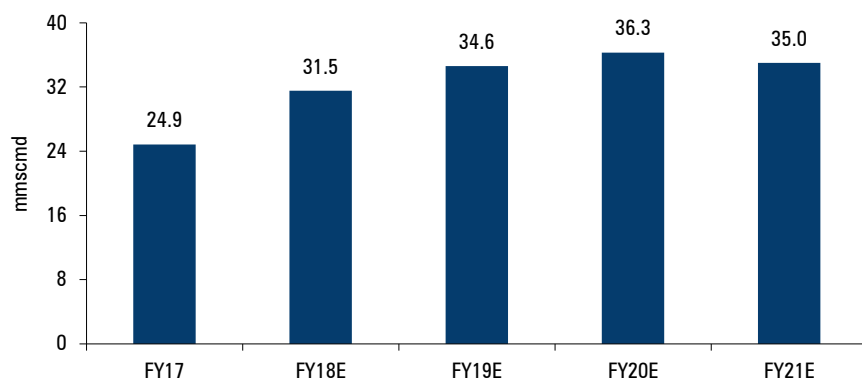
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY18E	FY19E	FY20E	FY21E	FY20E	FY21E	
Transmission Vol (mmscmd)	31.5	34.6	36.3	35.0	31.8	32.5	Increased volumes estimates due to higher CGD and power sector volumes. However, volume ramp up from Reliance petcoke gasification will negate volume growth from other sectors
Transmisn. Tariff (₹/scm)	1.1	1.5	1.5	1.5	1.5	1.5	

Source: Company, ICICI Direct Research

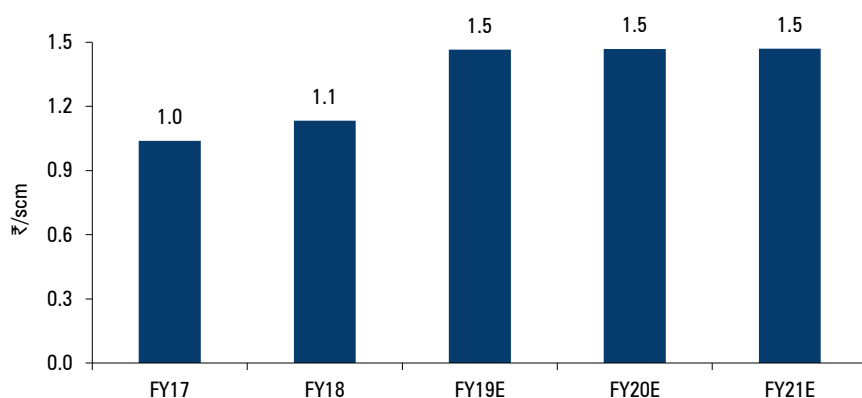
Story in charts

Exhibit 4: Volume trajectory



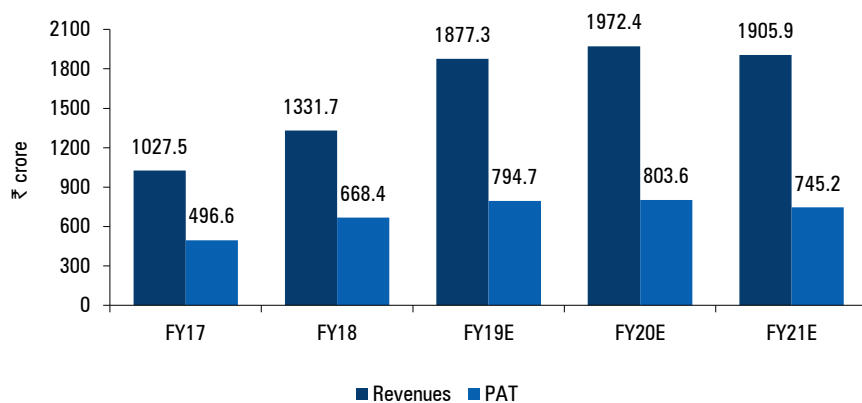
Source: Company, ICICI Direct Research

Exhibit 5: Transmission tariffs



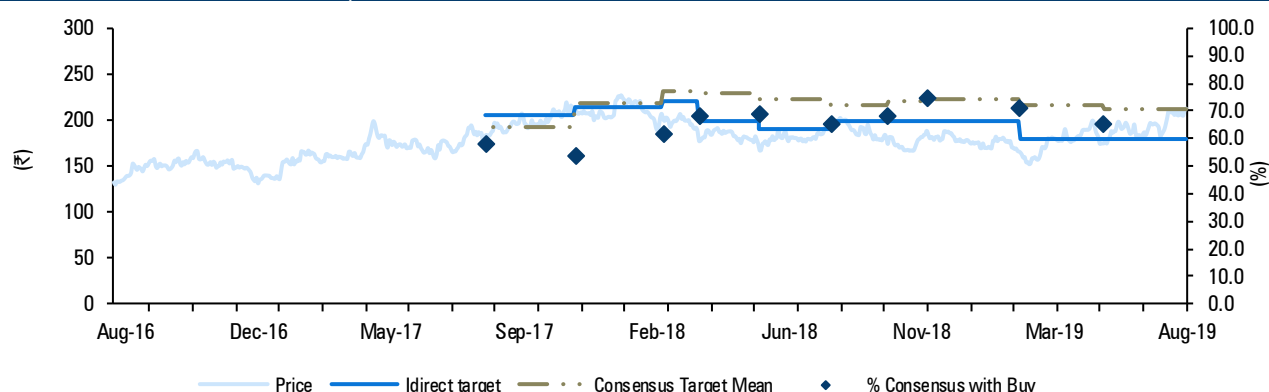
Source: Company, ICICI Direct Research

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	30-Jun-19	37.6	212.3	0.0
2	Gujarat Maritime Board, Ltd.	30-Jun-19	6.6	37.1	0.0
3	Life Insurance Corporation of India	30-Jun-19	4.1	23.4	0.0
4	SBI Funds Management Pvt. Ltd.	30-Jun-19	3.7	20.8	0.1
5	Tata Asset Management Limited	30-Jun-19	3.1	17.7	0.2
6	Franklin Templeton Asset Management (India) Pvt. L	30-Jun-19	2.9	16.3	0.0
7	Mirae Asset Global Investments (India) Pvt. Ltd.	30-Jun-19	2.1	12.1	1.8
8	Gujarat Urja Vikas Nigam, Ltd.	30-Jun-19	2.0	11.4	0.0
9	Aditya Birla Sun Life AMC Limited	30-Jun-19	1.9	10.8	0.7
10	ICICI Prudential Life Insurance Company Ltd.	30-Jun-19	1.8	10.1	-1.0

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.	5.22	1.83	DSP Investment Managers Pvt. Ltd.	-16.70	-6.06
Aditya Birla Sun Life AMC Limited	1.91	0.67	BlackRock Asset Management North Asia Limited	-8.18	-3.24
Invesco Asset Management (India) Private Limited	0.75	0.26	Norges Bank Investment Management (NBIM)	-5.48	-1.99
Tata Asset Management Limited	0.68	0.24	Platinum Investment Management Ltd.	-4.80	-1.69
SBI Funds Management Pvt. Ltd.	0.39	0.14	ICICI Prudential Life Insurance Company Ltd.	-2.88	-1.01

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	37.7	37.7	37.7	37.6	37.6
FII	16.2	16.3	17.1	16.5	15.4
DII	20.7	20.8	20.4	21.0	22.8
Others	25.4	25.2	24.9	24.9	24.1

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	1972.4	1905.9
Growth (%)	30.4	41.0	5.1	-3.4
Employee Costs	43.2	64.5	75.3	82.9
Gas Transmissn exp.	0.0	32.8	169.6	162.6
Op. & Maintainence exp.	140.7	237.0	207.3	224.6
Op. Expenditure	183.9	334.7	453.7	472.1
EBITDA	1147.8	1542.6	1518.7	1433.8
Growth (%)	29.2	34.4	-1.5	-5.6
Depreciation	175.0	180.0	205.7	222.7
EBIT	972.8	1362.6	1313.0	1211.1
Interest	35.4	219.2	184.8	182.5
Other Income	73.5	59.4	89.9	100.4
PBT	1010.8	1202.8	1218.1	1129.1
Growth (%)	37.0	19.0	1.3	-7.3
Tax	342.4	408.1	414.5	383.9
Reported PAT	668.4	794.7	803.6	745.2
Growth (%)	34.6	18.9	1.1	-7.3
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	668.4	794.7	803.6	745.2
EPS	11.9	14.1	14.3	13.2

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	803.6	745.2
Add: Depreciation	175.0	180.0	205.7	222.7
Add: Others	20.5	30.0	30.0	30.0
Cash Profit	762.2	872.7	874.3	833.0
Increase/(Decrease) in CL	-166.6	318.6	20.2	-14.3
(Increase)/Decrease in CA	20.6	-204.2	-70.3	-35.8
CF from Operating Activities	718.1	1119.1	989.1	947.8
Purchase of Fixed Assets	333.3	283.9	346.6	350.0
(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	-346.6	-350.0
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	147.1	102.4
Op. Cash and cash Eq.	802.6	364.5	712.7	859.9
Cl. Cash and cash Eq.	364.5	712.7	859.9	962.3

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	5,797.6	6,377.9
Shareholder's Fund	5,065.0	5,722.8	6,361.4	6,941.7
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	9556.2	9836.0
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	205.3	198.4
Debtor	123.5	205.7	216.1	208.9
Cash	364.5	712.7	859.9	0.0
Loan & Advance, Other CA	145.6	195.6	245.6	295.6
Total Current assets	757.0	1309.5	1526.9	702.9
Current Liabilities	54.6	360.0	378.3	365.5
Provisions	13.8	27.0	29.0	27.4
Total CL and Provisions	68.4	387.0	407.2	393.0
Net Working Capital	688.6	922.4	1119.7	309.9
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	8880.3	9218.1	9556.2	8873.7

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	112.8	123.1
Cash per share	13.5	19.7	22.3	7.1
EPS	11.9	14.1	14.3	13.2
Cash EPS	15.0	17.3	17.9	17.2
DPS	2.0	2.0	2.5	2.5
Profitability & Operating Ratios				
EBITDA Margin (%)	86.2	82.2	77.0	75.2
PAT Margin (%)	50.2	42.3	40.7	39.1
Fixed Asset Turnover (x)	0.3	0.5	0.5	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	12.6	10.7
RoCE	11.6	15.7	14.6	13.1
RoIC	12.8	18.0	17.0	13.7
Valuation Ratios (x)				
PE	17.8	15.0	14.8	16.0
Price to Book Value	2.3	2.1	1.9	1.7
EV/EBITDA	13.3	9.6	9.6	9.9
EV/Sales	11.4	7.9	7.4	7.5
Leverage & Solvency Ratios				
Debt to equity (x)	0.7	0.5	0.0	0.0
Interest Coverage (x)	27.5	6.2	7.1	6.6
Debt to EBITDA (x)	2.9	1.9	1.7	1.6
Current Ratio	11.1	3.4	3.7	1.8
Quick ratio	9.3	2.9	3.2	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 (%)		
	(₹)	(₹)			FY19	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
BPCL (BHAPET)	336	375	Hold	72,886	36.3	32.0	41.0	9.3	10.5	8.2	7.8	8.1	6.5	13.0	11.6	14.8	19.3	16.0	18.8
Castrol India (CASIND)	127	120	Reduce	12,562	7.2	7.2	7.1	17.7	17.7	17.9	11.0	10.8	10.9	88.3	87.6	90.7	61.6	60.9	63.1
GAIL (India) (GAIL)	129	160	Hold	58,179	13.4	11.7	12.2	9.7	11.0	10.6	6.3	7.3	7.8	16.9	13.4	11.8	13.8	11.5	11.4
Gujarat Gas (GUJGA)	174	205	Buy	11,978	6.3	11.2	11.5	27.5	15.6	15.2	13.9	8.2	7.7	16.8	27.9	25.5	19.8	26.7	22.3
Gujarat State Petro (GSPL)	211	210	Hold	11,886	14.1	14.3	13.2	15.0	14.8	16.0	9.6	9.6	9.9	15.7	14.6	13.1	13.9	12.6	10.7
Gulf Oil Lubricants (GULO)	756	810	Hold	3,748	35.8	41.5	45.0	21.1	18.2	16.8	12.9	11.1	10.0	35.8	34.4	32.0	30.7	29.3	26.4
HPCL (HINPET)	258	300	Hold	39,359	39.5	29.3	36.0	6.5	8.8	7.2	5.2	6.9	6.0	16.6	10.2	11.2	22.1	15.5	17.4
Indian Oil Corp (INDOIL)	138	170	Hold	126,699	18.4	17.9	21.1	7.5	7.7	6.6	3.7	3.6	3.4	13.4	14.3	15.3	15.0	13.6	15.0
Indraprastha Gas (INDGAS)	300	350	Hold	21,000	11.2	12.5	13.1	26.7	24.0	22.8	16.5	14.5	13.3	25.6	24.0	22.0	19.2	18.3	16.9
Mahanagar Gas (MAHGAS)	786	1050	Buy	7,764	55.3	61.9	65.6	14.2	12.7	12.0	8.2	7.1	6.3	31.5	30.5	28.4	22.7	22.1	20.6
Mangalore Refinery (MRPL)	53	50	Hold	9,289	1.8	0.5	5.1	29.0	98.9	10.3	8.4	11.0	5.6	5.7	3.0	9.8	2.9	0.8	7.6
ONGC (ONGC)	139	180	Hold	178,383	21.2	20.1	22.6	6.5	6.9	6.1	3.3	3.3	3.0	15.4	14.4	15.2	13.0	11.4	11.9
Petronet LNG (PETLNG)	233	245	Hold	34,950	14.4	16.9	18.9	16.2	13.8	12.3	10.7	8.6	7.5	26.5	32.9	34.6	21.3	23.5	24.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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