

Volumes in line with our estimates. Tariffs ahead of estimates

- Gujarat State Petronet (GSPL) transmission volumes at 36.8 mmscmd (growth of 13.5% YoY and flat sequentially) in line with our estimates of 37 mmscmd. Tariffs were at Rs 1.75/scm (growth of 20% YoY and de-growth of 3.8% QoQ).
- Revenue was in line with our estimates. Strong volumes clocked in due to strong Gujarat Gas volumes and offtake from RIL due to low spot LNG prices.
- Due to NGT's 6Mar'19 order to ban the use of coal gasifiers in Morbi region, spurred Gujarat Gas volumes from its industrial belt of Morbi, hence, we expect GSPL's transmission volumes to increase from H2FY21 from Gujarat Gas volumes, other CGD projects and power sector. Volumes can be subdued in H1FY21 because of lower industrial activity due lockdown and slower revival of economy.
- With both volume and tariff outlook looking strong, we expect robust revenue growth along with profitability from H2FY21. Investments in Gujarat Gas and Sabarmati Gas will reap benefits. Investments in consortium for transnational pipelines is a concern in medium term. Considering these factors, we maintain Accumulate with a target price of Rs 251.

Operational performance

GSPL revenues were in line with estimates on back of strong volumes YoY and transmission tariff hike. Gas transmission expense declined sequentially. GSPL's operating margins at 59.8% was lower by 95 bps due to higher other expenses. We expect this cost to subside to some extent in coming quarters, and revert to operating profitability margins of 65%-70% looks achievable. Other Income increased by 29% sequentially.

Volume Outlook

GSPL reported natural gas transmission volumes grew by 13.5% YoY to 36.8 MMSCMD in Q4FY20. Volume breakup: Refinery 10.7, fertiliser 3.7, Power 5.5, CGD 11 and other 5.5 mmscmd. We believe that volume outlook should get better by ban on coal gasifiers, which will move volumes from cheap fuel to natural gas from the industrial regions, RIL offtaking more LNG due to soft LNG prices and upcoming terminals of Mundra and expansion of Dahej terminal. With a major exposure to industrial volumes, increase in volumes from Morbi will further boost volume outlook in long term. However, some short term hiccups can be seen in the stock due to slowdown of industrial activities in Morbi belt due to overall demand slowdown and migrant labour issues.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	5,950	4,338	37.1	6,257	(4.9)
Total Expense	2,392	1,045	128.8	2,457	(2.6)
EBITDA	3,557	3,293	8.0	3,800	(6.4)
Depreciation	483	475	1.5	497	(2.9)
EBIT	3,075	2,817	9.1	3,303	(6.9)
Other Income	67	79	(15.9)	52	29.1
Interest	346	505	(31.5)	383	(9.6)
EBT	2,795	2,392	16.9	2,972	(5.9)
Tax	539	859	(37.2)	751	(28.1)
RPAT	2,256	1,533	47.1	2,221	1.6
APAT	2,256	1,533	47.1	2,221	1.6
			(bps)		(bps)
Gross Margin (%)	99.8	99.9	(14)	99.9	(8)
EBITDA Margin (%)	59.8	75.9	(1611)	60.7	(95)
NPM (%)	37.9	35.3	258	35.5	242
Tax Rate (%)	19.3	35.9	(1660)	25.3	(596)
EBIT Margin (%)	51.7	64.9	(1326)	52.8	(111)

CMP	Rs 222
Target / Upside	Rs 251 / 13%
BSE Sensex	34,404
NSE Nifty	10,168

Script Details

Equity / FV	Rs 5,641mn / Rs 10
Market Cap	Rs 125bn
	USD 2bn
52-week High/Low	Rs 264/Rs 146
Avg. Volume (no)	716,428
NSE Symbol	GSPL
Bloomberg Code	GUJS IN

Shareholding Pattern Mar'20(%)

Promoters	37.6
MF/Banks/FIs	22.8
FII's	16.0
Public / Others	23.6

Valuation (x)

	FY20A	FY21E	FY22E
P/E	11.3	14.0	11.7
EV/EBITDA	9.1	10.1	9.0
ROE (%)	17.8	12.6	13.6
RoACE (%)	14.5	10.8	11.2

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	23,686	20,573	23,923
EBITDA	15,748	14,154	15,956
PAT	11,087	8,930	10,712
EPS (Rs.)	19.7	15.8	19.0

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Exhibit 1: KPIs

Rs Mn	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Segment Revenue								
Gas Transportation	5,861	4,258	37.6	6,185	(5.2)	23,385	18,773	24.6
Gas Transported (in MMSCM)	3,347	2,916	14.8	3,398	(1.5)	13,826	12,632	9.5
Average Tariff (in Rs per SCM)	1.75	1.5	19.9	1.820	(3.8)	1.691	1.486	13.8
Gas Transported (in MMSCMD)	36.8	32.4	13.5	36.9	(0.4)	37.9	34.6	9.5

Source: DART, Company

Valuation

We value the core business at Rs 175 per share on DCF basis, three transnational pipelines at Rs 6 per share and GSPL's stake in Gujarat Gas and Sabarmati Gas at Rs 67 per share and Rs 3 per share respectively. Considering scope of growth in core business, we value GSPL at Rs 251 by SOTP method.

Exhibit 2: SOTP Valuation

Particulars	(Rs)
GSPL Core Business	175
GSPL Stake in Gujarat Gas	67
GSPL Stake in Sabarmati Gas	3
GSPL Stake in Consortium for transnational pipelines	6

Source: Company, DART

Exhibit 3: Actual V/s DART estimates

Particulars (Rs Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	5,950	5,724	3.9	Strong volumes due to Morbi region
EBITDA	3,557	3,910	(9.0)	Increase in gas transmission expense and other expenses
EBITDA Margin (%)	59.8	68.3	(852)	
PAT	2,256	2,296	(1.7)	

Source: Company, DART

Exhibit 4: Change in estimates

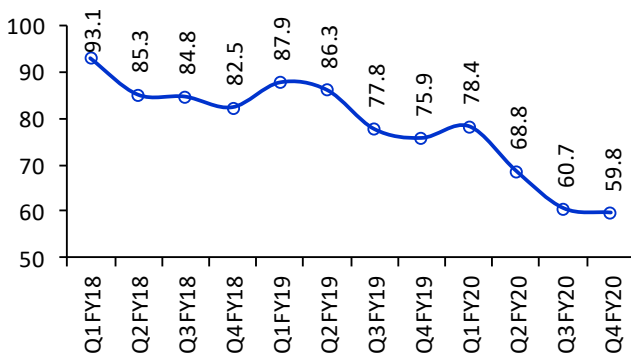
Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	20,573	21,927	(6.2)	23,923	23,110	3.5
EBITDA	14,154	15,177	(6.7)	15,956	15,197	5.0
EBITDA Margin (%)	68.8	69.2	(41.6)	66.7	65.8	94
PAT	8,930	10,686	(16.4)	10,712	11,435	(6.3)
EPS (Rs)	15.8	18.9	(16.2)	19.0	20.2	(6.0)

Source: Company, DART

Key Highlights

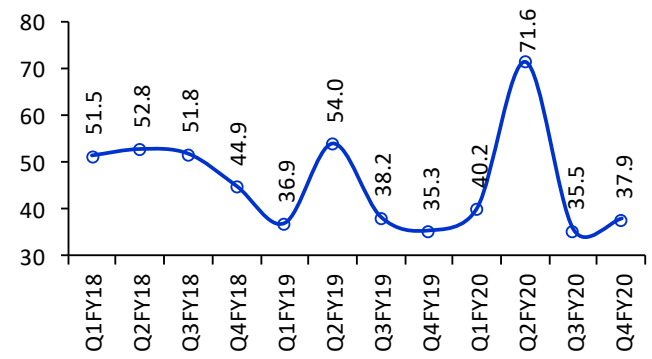
- Revenue increased by 37.1% on a YoY basis to Rs. 5,950 mn. On a sequential basis, revenue was down 4.9%.
- There was a growth in employee cost of 12.9% on a YoY basis to Rs. 166 mn and by 8% on a sequential basis.
- Other expenditure increased to Rs. 653 mn in Q4FY20.
- GSPL made an operating profit of Rs. 3,557 mn in Q4FY20 as compared to an operating profit of Rs. 3,293 mn in Q4FY19. This was a growth of 8% and de-growth of 6.4% sequentially.
- Depreciation was flat sequentially at Rs. 483 mn.
- Other income decreased by 15.9% on a YoY basis to Rs. 67 mn
- Net profit increased by 47% on a YoY basis to Rs. 2,256 mn. Sequentially it was flat.

Exhibit 5: OPM (%)



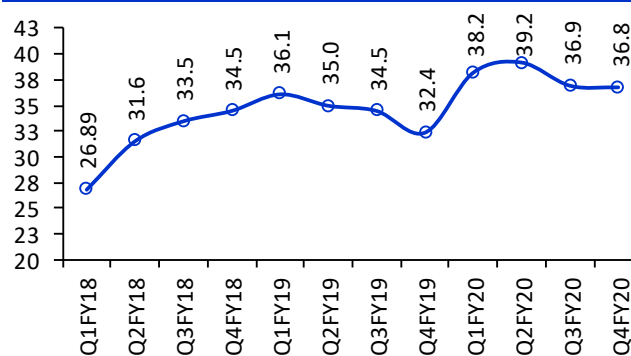
Source: Company, DART

Exhibit 6: NPM (%)



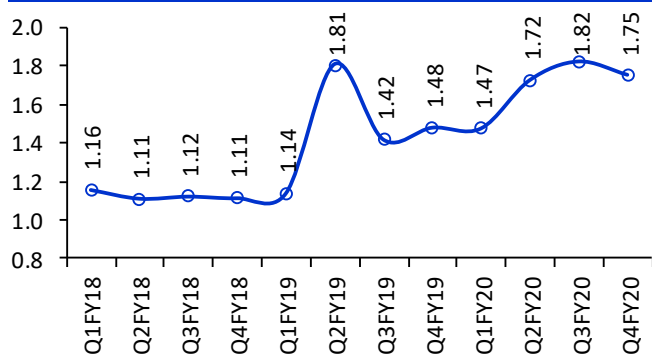
Source: Company, DART

Exhibit 7: Gas Transported (MMSCMD)



Source: Company, DART

Exhibit 8: Average Tariff (Rs/ SCM)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	18,772	23,686	20,573	23,923
Total Expense	3,346	7,937	6,419	7,966
COGS	3	29	41	72
Employees Cost	645	619	617	718
Other expenses	2,697	7,289	5,761	7,177
EBIDTA	15,426	15,748	14,154	15,956
Depreciation	1,800	1,966	1,937	2,037
EBIT	13,626	13,782	12,218	13,920
Interest	2,192	1,645	1,183	805
Other Income	594	649	900	1,200
Exc. / E.O. items	0	0	0	1
EBT	12,028	12,785	11,934	14,316
Tax	4,081	1,699	3,004	3,603
RPAT	7,947	11,087	8,930	10,712
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	7,947	11,087	8,930	10,712

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	5,640	5,641	5,641	5,641
Minority Interest	0	0	0	1
Reserves & Surplus	51,800	61,584	68,911	77,700
Net Worth	57,440	67,226	74,552	83,341
Total Debt	23,660	18,248	19,723	20,123
Net Deferred Tax Liability	5,226	4,081	4,163	4,246
Total Capital Employed	86,326	89,555	98,438	107,711

Applications of Funds

Net Block	36,075	36,782	37,346	37,809
CWIP	4,194	2,372	3,874	5,092
Investments	42,772	46,111	50,722	56,809
Current Assets, Loans & Advances	6,459	5,764	8,103	9,753
Inventories	1,279	1,261	1,691	1,966
Receivables	2,081	1,637	2,536	2,949
Cash and Bank Balances	1,583	957	1,795	2,565
Loans and Advances	1,360	1,549	1,704	1,875
Other Current Assets	157	359	377	396
Less: Current Liabilities & Provisions	3,173	1,474	1,606	1,751
Payables	238	410	422	435
Other Current Liabilities	2,935	1,064	1,184	1,316
sub total				
Net Current Assets	3,286	4,290	6,497	8,002
Total Assets	86,326	89,555	98,438	107,711

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	100.0	99.9	99.8	99.7
EBIDTA Margin	82.2	66.5	68.8	66.7
EBIT Margin	72.6	58.2	59.4	58.2
Tax rate	33.9	13.3	25.2	25.2
Net Profit Margin	42.3	46.8	43.4	44.8
(B) As Percentage of Net Sales (%)				
COGS	0.0	0.1	0.2	0.3
Employee	3.4	2.6	3.0	3.0
Other	14.4	30.8	28.0	30.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.4	0.3	0.3	0.2
Interest Coverage	6.2	8.4	10.3	17.3
Inventory days	25	19	30	30
Debtors days	40	25	45	45
Average Cost of Debt	8.1	7.9	6.2	4.0
Payable days	5	6	7	7
Working Capital days	64	66	115	122
FA T/O	0.5	0.6	0.6	0.6
(D) Measures of Investment				
AEPS (Rs)	14.1	19.7	15.8	19.0
CEPS (Rs)	17.3	23.2	19.3	22.6
DPS (Rs)	2.0	2.0	2.5	3.0
Dividend Payout (%)	14.2	10.2	15.8	15.8
BVPS (Rs)	101.9	119.2	132.2	147.8
RoANW (%)	14.7	17.8	12.6	13.6
RoACE (%)	11.8	14.5	10.8	11.2
RoAIC (%)	16.3	15.9	13.2	13.8
(E) Valuation Ratios				
CMP (Rs)	222	222	222	222
P/E	15.8	11.3	14.0	11.7
Mcap (Rs Mn)	125,256	125,256	125,256	125,256
MCap/ Sales	6.7	5.3	6.1	5.2
EV	147,332	142,547	143,184	142,813
EV/Sales	7.8	6.0	7.0	6.0
EV/EBITDA	9.6	9.1	10.1	9.0
P/BV	2.2	1.9	1.7	1.5
Dividend Yield (%)	0.9	0.9	1.1	1.4
(F) Growth Rate (%)				
Revenue	41.0	26.2	(13.1)	16.3
EBITDA	34.4	2.1	(10.1)	12.7
EBIT	40.1	1.1	(11.4)	13.9
PBT	19.0	6.3	(6.7)	20.0
APAT	18.9	39.5	(19.4)	20.0
EPS	18.9	39.5	(19.4)	20.0

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	10,882	13,602	10,763	12,904
CFI	(80)	(3,102)	(8,559)	(9,805)
CFF	(10,328)	(10,297)	(1,312)	(2,329)
FCFF	8,764	12,536	6,761	9,185
Opening Cash	225	700	903	1,795
Closing Cash	700	903	1,795	2,565

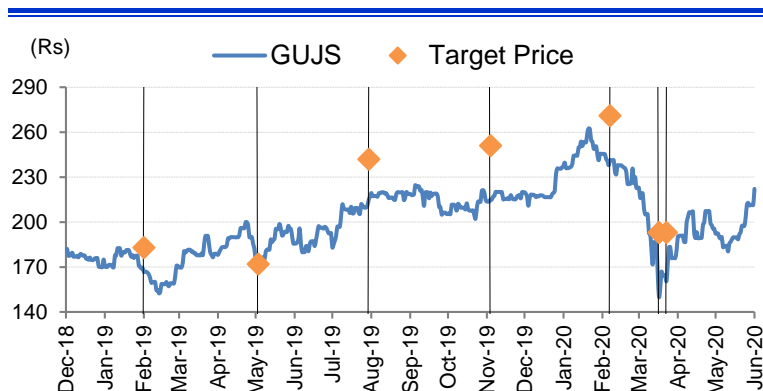
E – Estimates

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 (Rs.)	Price (Rs.)
Feb-19	Buy	183	167
May-19	Buy	172	175
Aug-19	Sell	242	215
Nov-19	Accumulate	251	215
Feb-20	Accumulate	271	241
Mar-20	Accumulate	193	150
Mar-20	Accumulate	193	161

*Price as on recommendation date

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