

Gujarat State Petronet

Estimate changes

TP change

Rating change



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Bloomberg	GUJS IN
Equity Shares (m)	564
M.Cap.(INRb)/(USDb)	124.9 / 1.6
52-Week Range (INR)	263 / 146
1, 6, 12 Rel. Per (%)	6/16/33
12M Avg Val (INR M)	130

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	19.4	20.6	22.9
EBITDA	15.7	16.7	18.4
PAT	11.1	10.2	11.2
EPS (INR)	19.7	18.0	19.9
EPS Gr. (%)	39.5	-8.3	10.4
BV/Sh.(INR)	119.2	134.8	152.3

Ratios

Net D:E	-0.6	-0.7	-0.7
RoE (%)	17.8	14.2	13.9
RoCE (%)	17.5	14.8	14.4
Payout (%)	12.2	13.3	12.1

Valuations

P/E (x)	11.4	12.4	11.3
P/BV (x)	1.9	1.7	1.5
EV/EBITDA (x)	8.3	7.3	6.0
Div. Yield (%)	0.9	0.9	0.9
FCF Yield (%)	11.5	8.6	10.6

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	37.6	37.6	37.6
DII	33.9	33.9	32.0
FII	15.8	15.9	16.5
Others	12.7	12.6	13.9

FII Includes depository receipts

CMP: INR221
TP: INR300 (+36%)
Buy

LNG terminal capacity to underpin volume growth

- Lower-than-expected volumes and implied tariff led to an EBITDA miss, while lower tax rate helped GSPL's PAT (in-line) during 4QFY20. The QoQ volume decline was primarily led by lower gas offtake from various fertilizer and refining/petchem units due to the nationwide COVID-19 led lockdowns.
- Despite the COVID-19 impact, FY20 transmission volumes were up 9% YoY to 37.8mmscmd with implied tariff at INR1,379/scm (v/s INR1,455/scm in FY19).
- The company is a direct beneficiary of the (a) upcoming LNG terminals in Gujarat (the state tops India's gas energy mix at 25%), and (b) renewed focus on reducing industrial pollution by the NGT (Gujarat has five geographical areas (GAs) identified as severely/critically polluted – like Morbi).
- There are concerns over tariff reduction for the company, in line with the revised new tax rate and over-utilization of the pipeline. However, the increase in capex (due to capacity expansion) should ensure lesser impact on its tariff. We maintain **Buy** on the stock.

EBITDA miss led by lower volumes and tariff

- Transmission volume for the quarter stood at 36.8mmscmd (-6% est., +14% YoY), with Implied tariff at INR1,284/scm (-8% est., -12% YoY).
- Thus, net sales came in at INR4.4b (+1% YoY) and EBITDA at INR3.6b (+8% YoY), both lower than est. by 8% for the quarter.
- Lower interest rate led to PBT of INR2.8b. Tax rate for the quarter was lower at 19.3%, clocking in-line PAT at INR2.3b (+47% YoY).
- For FY20, EBITDA was up 2% YoY at INR15.8b with PBT at INR12.8b (+6% YoY). Tax rate for the year stood at 13.3%, resulting in PAT of INR11.1b (+40% YoY).
- The company had written back tax in the previous quarter as it moved to the new lower tax regime.

Key operational highlights – Strong volume growth in CGD continues

- Growth in volumes were led by CGD growing +36% YoY to 11mmscmd (+3% QoQ) and Power growing +89% YoY to 5.5mmscmd (-7% QoQ).
- Refinery/Petchem volumes declined 11% YoY to 10.7mmscmd (-10% QoQ), along with fertilizer volumes at -13% YoY to 3.7mmscmd (-9% QoQ).
- Others stood at 5.5mmscmd (+14% YoY, +36% QoQ).
- The company is envisaging enhancement of its capacity in lieu of the upcoming LNG terminals in Gujarat.

Valuation and view

- Apart from the recently commissioned Mundra LNG terminal (which is currently running at 3.5mmtpa out of 5mmtpa), Swan Energy (Jafrabad-FSRU) and HPCL-Shapoorji (Charra LNG terminal) are expected to come up with 5mmtpa capacity each over the next 2-3 years.
- Apart from this, Petronet LNG is also expanding its Dahej LNG terminal by 2mmtpa to 19.5mmtpa, which should be completed in another two years.

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- The company has already received approvals from PNGRB for developing connectivity for an upcoming RLNG terminal at Chhara.
- All these factors provide GSPL with huge potential to carry additional 13.5mmtpa of gas on its grid (i.e. ~49mmscmd v/s current yearly volumes of ~38mmscmd).
- Even considering the more imminent incremental volumes (PLNG's utilization track record along with strong JV affiliations and ramp-up at Mundra to full capacity), additional volumes of ~3.5mmtpa (i.e. ~12.6mmscmd – ~33% growth on current volumes), are likely in the near term.
- The company currently has pipeline capacity of ~42mmscmd and considering the above volumes, capex is inevitable.
- In FY20, GSPL's debt reduced by INR7.4b. The company generated ~10% FCF yield, which is likely to continue in FY21/FY22E as well. The company plans on using the excess cash flow for capacity expansion, and thus, would try and keep implied tariffs at the same level (as IRR is based on gross block).
- According to our interaction with the company, the volumes that dipped to ~27mmscmd in Apr'20 are up ~37mmscmd currently, and further jump to ~40-42mmscmd is expected once GUJGA's volumes stabilize.
- We model in volume of 37.75mmscmd for FY21 (flat YoY) and 42mmscmd for FY22E, with implied tariff of INR1,470/scm (v/s INR1,410/scm for 9MFY20). However, we highlight that for a 10% change in implied tariff, EBITDA and EPS changes by 12% and 15% for FY21/22E respectively.
- The stock trades at 12.4x FY21 EPS of INR18 and 7.3x FY21 EV/EBITDA, ~38% discount to its last 5-year averages. We value the stock at 8x FY22E EPS of INR19.9 and add investments to arrive at a TP of INR300.
- GSPL's investment in GUJGA and Sabarmati Gas constitutes ~63% of its CMP, implying 4x FY22E P/E for the standalone.

Standalone - Quarterly Earning Model

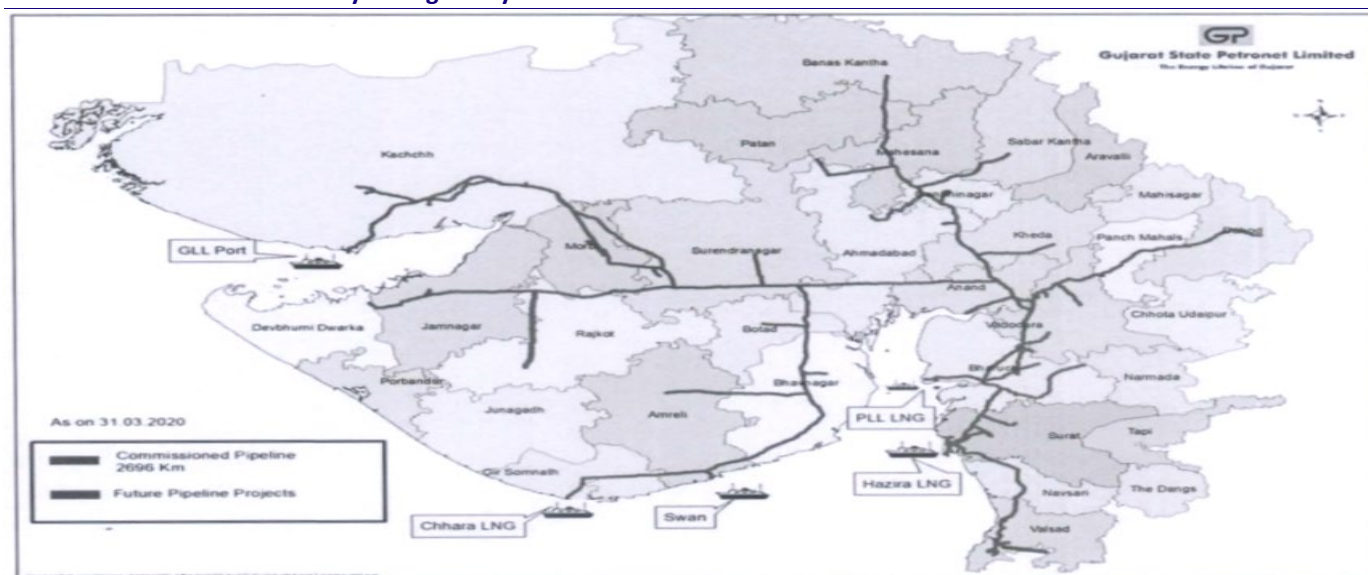
(INR Million)

Y/E March	FY19				FY20				FY19	FY20	FY20	Var. vs
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	est.
Net Sales	3,912	5,983	4,538	4,339	5,126	5,411	4,524	4,388	18,773	19,449	4,782	-8%
YoY Change (%)	32.0	78.7	29.6	23.8	31.0	-9.6	-0.3	1.1	41.0	3.6	10.2	
EBITDA	3,438	5,163	3,532	3,293	4,020	4,371	3,800	3,557	15,426	15,749	3,883	-8%
YoY Change (%)	24.6	80.8	18.9	13.9	16.9	-15.3	7.6	8.0	34.4	2.1	17.9	
Margins (%)	87.9	86.3	77.8	75.9	78.4	80.8	84.0	81.1	82.2	81.0	81.2	
Depreciation	448	436	440	475	489	498	497	483	1,800	1,966	526	-8%
Interest	579	557	551	505	479	438	383	346	2,192	1,645	436	-21%
Other Income	54	384	76	79	77	454	52	67	594	649	71	-6%
PBT	2,466	4,553	2,618	2,392	3,129	3,890	2,972	2,795	12,028	12,786	2,992	-7%
Tax	1,021	1,319	882	859	1,068	-659	751	539	4,081	1,699	754	-28%
Rate (%)	41.4	29.0	33.7	35.9	34.1	-16.9	25.3	19.3	33.9	13.3	25.2	
Reported PAT	1,444	3,233	1,736	1,533	2,061	4,549	2,221	2,256	7,947	11,087	2,238	1%
YoY Change (%)	-5.3	82.7	-4.4	-2.6	42.7	40.7	28.0	47.1	18.9	39.5	46.0	
Margins (%)	36.9	54.0	38.2	35.3	40.2	84.1	49.1	51.4	42.3	57.0	46.8	
Key Operating Parameters												
Transmission Volume (mmscmd)	36.5	35.0	34.5	32.4	38.2	39.2	36.9	36.8	34.6	37.8	39.3	-6%
Implied Tariff (INR/mscm)	1,141	1,810	1,420	1,460	1,434	1,461	1,331	1,284	1,455	1,379	1,389	-8%

E: MOFSL Estimates

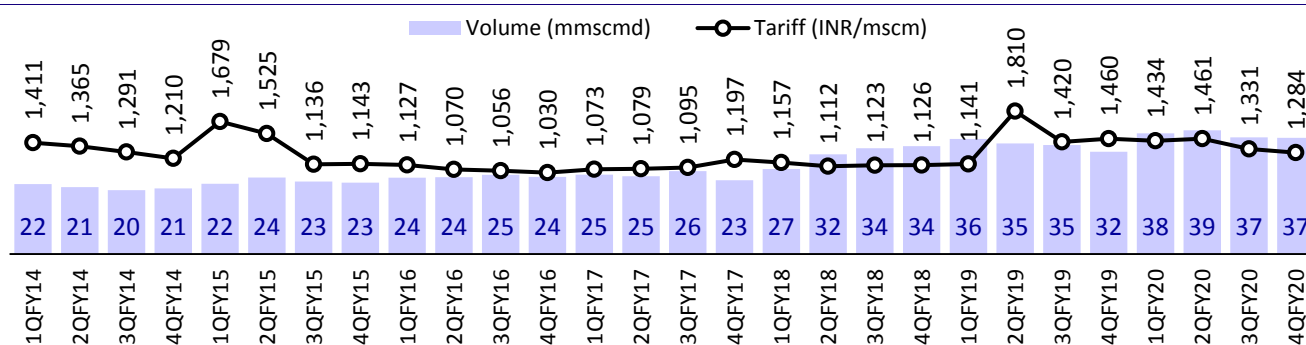
- The company is a key beneficiary of the National Green Tribunal's (NGT) focus on reducing industrial pollution. Gujarat has five GAs, which are classified as severely/critically polluted by the NGT. Any directive by the NGT could see a sudden jump in gas volume offtake for GUJGA (like we encountered at Morbi).
- The GAs are Rajkot, Ankleshwar, Bhavnagar, Vapi and Tarapur (only one outside Gujarat). For GUJGA, we model in volume growth of 10% CAGR for FY22E over FY20. ([link to our report](#))
- The shift to gas economies for various units in India is constrained by the lack of gas availability and infrastructure for the same. However, with increased government impetus on revival of stranded power plants, rising CGD spread or building of cross-country pipeline, the advantage of customers shifting to gas would be more.
- In the near term, the power sector is expected to raise its consumption taking advantage of lower LNG prices. According to a recent [news article](#), in the current low spot price environment, the Central Electricity Authority (CEA) indicates that gas-based unit generation in Apr'20 was up ~20% (v/s in Mar'20).
- Only Gujarat has ~30% of the 22,000MW installed capacity for gas power plants in the country.
- Lower spot prices would keep challenging the advantages and economies of petcoke in the near future; however, even if the volume goes away, power and industrial customers are expected to offset the decline.

Exhibit 1: GSPL's volume to stay strong – only network to connect all 5 LNG terminals in the state

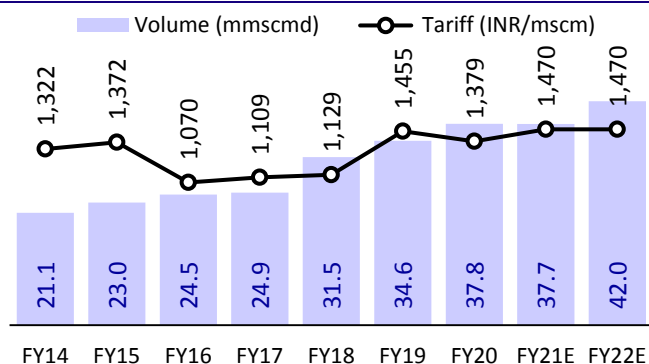


Source: Company, MOFSL

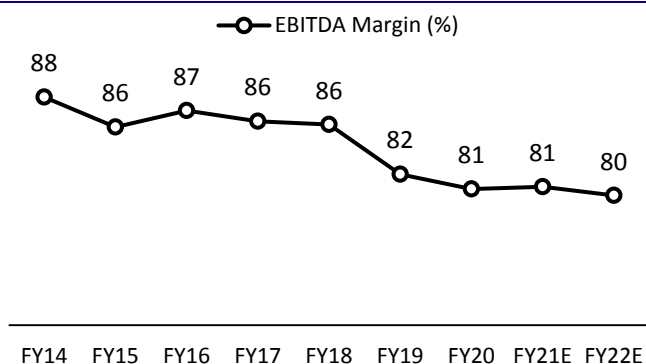
Exhibit 2: Transmission volume declines marginally



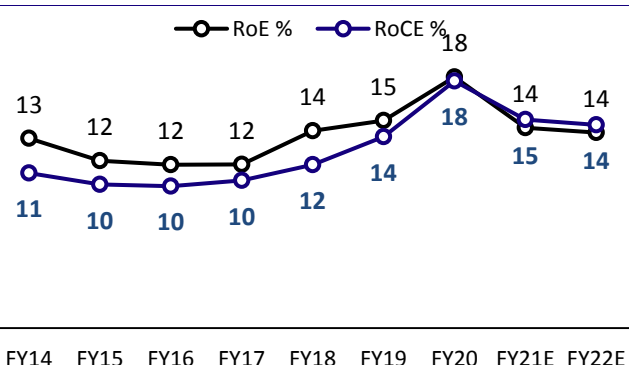
Source: MOFSL, Company

Exhibit 3: GSPL's volume to stay strong

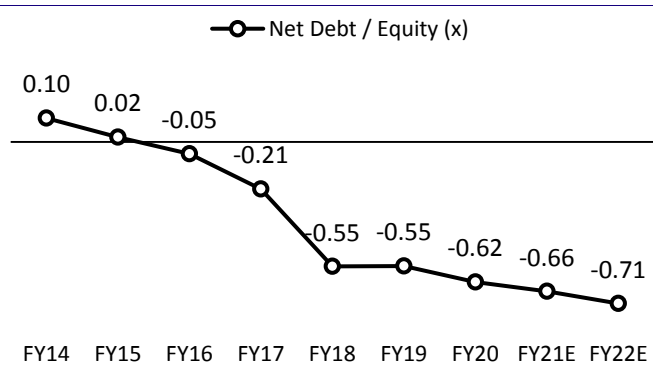
Source: Company, MOFSL

Exhibit 4: With strong EBITDA margin

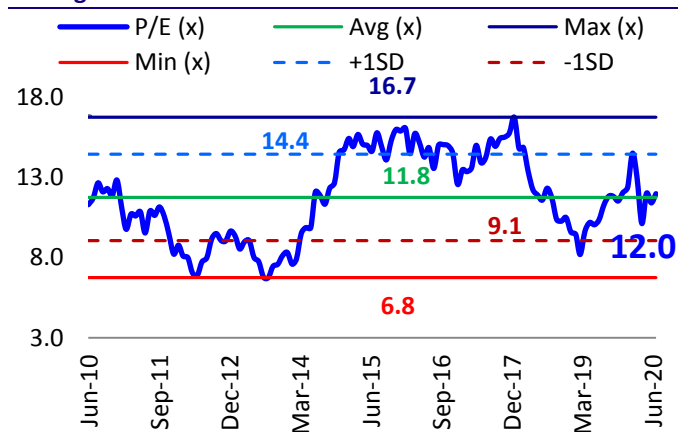
Source: Company, MOFSL

Exhibit 5: Return ratios to stay strong

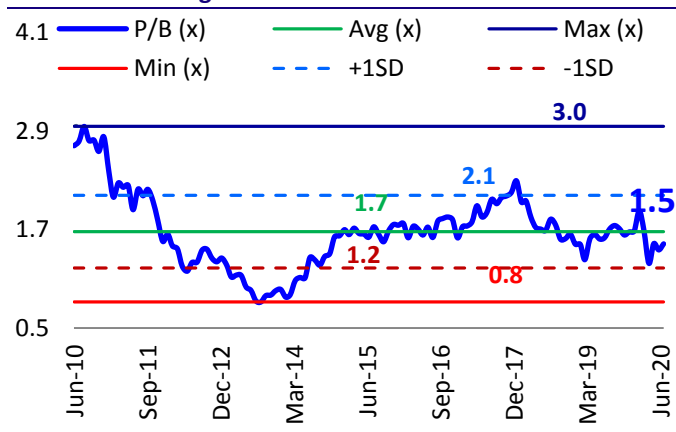
Source: Company, MOFSL

Exhibit 6: Net debt to decline

Source: Company, MOFSL

Exhibit 7: GSPL 1-year forward P/E trades at par with its LT average of 11.8x...

Source: Company, MOFSL

Exhibit 8: ...while 1-year forward P/B trades at a discount of ~10% to LT average of 1.7x

Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement

(INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	10,646	9,919	10,276	13,318	18,773	19,449	20,628	22,911
Change (%)	1.3	-6.8	3.6	29.6	41.0	3.6	6.1	11.1
Total Expenditure	1,492	1,259	1,393	1,839	3,347	3,700	3,885	4,474
% of Sales	14.0	12.7	13.6	13.8	17.8	19.0	18.8	19.5
EBITDA	9,154	8,660	8,883	11,478	15,426	15,749	16,743	18,437
Margin (%)	86.0	87.3	86.4	86.2	82.2	81.0	81.2	80.5
Depreciation	1,892	1,829	1,791	1,750	1,800	1,966	2,195	2,488
EBIT	7,262	6,831	7,092	9,728	13,626	13,783	14,549	15,949
Int. and Finance Charges	1,178	799	596	354	2,192	1,645	1,632	1,632
Other Income	520	656	882	735	594	649	668	688
PBT after EO Exp.	6,603	6,688	7,378	10,108	12,028	12,786	13,584	15,005
Total Tax	2,500	2,235	2,412	3,424	4,081	1,699	3,419	3,781
Tax Rate (%)	37.9	33.4	32.7	33.9	33.9	13.3	25.2	25.2
Reported PAT	4,104	4,454	4,966	6,685	7,947	11,087	10,165	11,224
Change (%)	-2.1	8.5	11.5	34.6	18.9	39.5	-8.3	10.4
Margin (%)	38.5	44.9	48.3	50.2	42.3	57.0	49.3	49.0

Standalone - Balance Sheet

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	5,630	5,633	5,636	5,638	5,640	5,641	5,641	5,641
Total Reserves	30,601	35,058	39,324	45,012	51,800	61,584	70,394	80,261
Net Worth	36,230	40,692	44,960	50,650	57,440	67,226	76,035	85,902
Total Loans	11,575	10,670	6,305	17,595	12,856	5,441	5,441	5,441
Deferred Tax Liabilities	4,504	4,724	4,719	4,984	5,226	4,081	4,081	4,081
Capital Employed	52,309	56,085	55,984	73,229	75,522	76,748	85,557	95,425
Gross Block	48,193	33,059	35,277	36,512	43,245	44,994	48,392	51,117
Less: Accum. Deprn.	17,539	1,829	3,620	5,371	7,170	9,137	11,331	13,819
Net Fixed Assets	30,654	31,230	31,657	31,142	36,075	35,857	37,060	37,298
Capital WIP	7,765	7,679	6,864	8,959	4,194	2,372	1,974	1,541
Total Investments	6,487	7,311	7,655	41,814	42,772	46,111	46,111	46,111
Curr. Assets, Loans&Adv.	10,498	12,243	12,158	7,571	6,459	5,764	14,629	26,385
Account Receivables	1,504	1,518	1,216	1,235	2,081	1,637	1,736	1,928
Cash and Bank Balance	4,352	5,529	8,026	3,645	1,583	957	9,544	20,683
Loans and Advances	3,540	4,019	1,792	1,456	1,516	1,908	2,024	2,248
Curr. Liability & Prov.	3,094	2,378	2,350	16,256	13,978	13,356	14,218	15,911
Account Payables	405	150	138	185	238	410	431	496
Other Current Liabilities	1,776	2,088	2,088	15,932	13,523	12,670	13,494	15,090
Provisions	913	140	124	138	216	276	293	325
Net Current Assets	7,404	9,865	9,808	-8,685	-7,518	-7,592	411	10,474
Appl. of Funds	52,309	56,085	55,983	73,229	75,522	76,748	85,557	95,425

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
EPS	7.3	7.9	8.8	11.9	14.1	19.7	18.0	19.9
Cash EPS	10.6	11.1	12.0	15.0	17.3	23.1	21.9	24.3
BV/Share	64.2	72.2	79.7	89.8	101.8	119.2	134.8	152.3
DPS	1.2	1.5	1.5	1.8	2.0	2.0	2.0	2.0
Payout (%)	19.9	22.8	20.5	16.9	16.1	12.2	13.3	12.1
Valuation (x)								
P/E	30.8	28.4	25.5	18.9	15.9	11.4	12.4	11.3
Cash P/E	21.1	20.1	18.7	15.0	13.0	9.7	10.2	9.2
P/BV	3.5	3.1	2.8	2.5	2.2	1.9	1.7	1.5
EV/Sales	12.6	13.3	12.1	10.5	7.3	6.7	5.9	4.9
EV/EBITDA	14.6	15.2	14.0	12.2	8.9	8.3	7.3	6.0
Dividend Yield (%)	0.5	0.7	0.7	0.8	0.9	0.9	0.9	0.9
FCF per share	7.3	7.6	14.9	33.4	10.9	25.7	19.4	23.8
Return Ratios (%)								
RoE	11.9	11.6	11.6	14.0	14.7	17.8	14.2	13.9
RoCE	10.2	10.1	10.5	11.6	13.6	17.5	14.8	14.4
RoIC	13.3	13.1	13.8	24.6	39.3	44.0	39.4	43.4
Working Capital Ratios								
Fixed Asset Turnover (x)	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2
Inventory (Days)	38	43	40	34	25	24	23	24
Debtor (Days)	52	56	43	34	40	31	31	31
Creditor (Days)	14	6	5	5	5	8	8	8
Leverage Ratio (x)								
Current Ratio	3.4	5.1	5.2	0.5	0.5	0.4	1.0	1.7
Interest Cover Ratio	6.2	8.5	11.9	27.5	6.2	8.4	8.9	9.8
Net Debt/Equity	0.0	-0.1	-0.2	-0.6	-0.5	-0.6	-0.7	-0.7

Standalone - Cash Flow Statement

(INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	6,603	6,688	7,378	10,108	12,028	12,786	13,584	15,005
Depreciation	1,892	1,829	1,791	1,750	1,800	1,966	2,195	2,488
Interest & Finance Charges	720	402	50	-381	1,598	997	964	944
Direct Taxes Paid	-2,195	-2,062	-2,228	-3,424	-4,081	-1,699	-3,419	-3,781
(Inc)/Dec in WC	-871	-650	2,534	14,112	-3,229	373	584	1,077
CF from Operations	6,149	6,208	9,526	22,166	8,116	14,423	13,908	15,732
CF from Operating incl EO	6,268	6,027	9,436	22,166	8,116	14,423	13,908	15,732
(Inc)/Dec in FA	-2,151	-1,767	-1,052	-3,331	-1,967	73	-3,000	-2,292
Free Cash Flow	4,117	4,259	8,384	18,835	6,148	14,496	10,908	13,440
(Pur)/Sale of Investments	-386	-824	-346	-34,159	-958	-3,339	0	0
Others	372	714	826	1,133	961	-1,368	668	688
CF from Investments	-2,166	-1,877	-573	-36,357	-1,965	-4,635	-2,332	-1,604
Inc/(Dec) in Debt	-2,713	-978	-4,329	11,290	-4,739	-7,414	0	0
Interest Paid	-1,389	-1,208	-1,039	-354	-2,192	-1,645	-1,632	-1,632
Dividend Paid	-658	-813	-1,017	-1,128	-1,283	-1,357	-1,356	-1,356
CF from Fin. Activity	-4,743	-2,972	-6,366	9,810	-8,213	-10,415	-2,988	-2,988
Inc/Dec of Cash	-641	1,178	2,497	-4,381	-2,062	-627	8,587	11,140
Opening Balance	4,992	4,352	5,529	8,026	3,645	1,583	957	9,544
Closing Balance	4,352	5,529	8,026	3,645	1,583	957	9,544	20,683

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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