

Subdued demand to impact profitability...

Gujarat State Petronet's (GSPL operating revenue for Q4FY20 increased sharply by 37.2% YoY to ₹ 595.2 crore on account of growth in transmission volumes. Transmission volumes increased 13.5% YoY to 36.8 mmscmd. EBITDA came in at ₹ 355.7 crore, up 8% YoY. Subsequently, PAT was at ₹ 225.6 crore, up 47.1% YoY, aided by a lower tax rate.

Volume increase due to higher CGD, power offtake

GSPL reported healthy natural gas transmission volumes growth of 13.5% YoY to 36.8 mmscmd. Higher volumes offtake from city gas distribution (30% of total volumes) and power (15% of total volumes) sectors led to YoY growth. On a QoQ basis, volume offtake mix from refining/petchem sector declined to 29% against 32% with CGD sector contribution marginally at 30%. Going forward, we build in lower volumes in the near term as the Covid-19 led lockdown impacted fuel demand from CGD and refining sector and their offtake will be limited. In the long term, the company will be a beneficiary of increasing gas consumption and its connectivity to new LNG terminals in Gujarat. We estimate volumes at 31.6 mmscmd and 35.8 mmscmd for FY21E and FY22E, respectively.

Tariff revision expected

Post the corporate tax rate cut, we expect tariffs to decline as PNGRB will revise transmission tariff downwards as per the regulation of post-tax 12% return. Accordingly, we build in transmission tariff of ₹ 1.2/scm from H2FY21E onwards against ₹ 1.3/scm currently. We estimate transmission tariffs at ₹ 1.7/scm and ₹ 1.6/scm for FY21E and FY22E, respectively.

Valuation & Outlook

In Q1FY21E, GSPL's transmission volumes are expected to decline as the extended lockdown led to lower CNG & industrial PNG demand from Gujarat. However, in the long run, the 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 management indicated at capacity expansion due to new LNG terminals and to support pipelines of its subsidiaries for expansion outside Gujarat. However, expected downward revision of transmission tariffs will have an impact on profitability of the company from H2FY21E. Also, 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 should prefer directly investing in Gujarat Gas instead of GSPL. We value GSPL on an SOTP basis with investments at ~₹ 127/share and standalone business at ~₹ 123/share to arrive at a target price of ₹ 250. We downgrade the stock from BUY to **HOLD** recommendation.

Key Financial Summary

(Year-end March)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Revenues (₹ crore)	1,331.7	1,877.3	2,369.3	1,999.4	2,142.7	6.8
EBITDA (₹ crore)	1,147.8	1,542.6	1,574.9	1,125.0	1,186.4	(12.3)
Net Profit (₹ crore)	668.4	794.7	1,108.7	609.7	653.3	(9.3)
EPS (₹)	11.9	14.1	19.7	10.8	11.6	
P/E (x)	19.0	16.0	11.4	20.8	19.4	
Price / Book (x)	2.5	2.2	1.9	1.8	1.7	
EV/EBITDA (x)	13.9	9.9	9.5	13.0	12.0	
RoCE (%)	11.6	16.3	15.3	9.7	10.1	
RoE (%)	13.2	13.8	16.5	8.6	8.6	

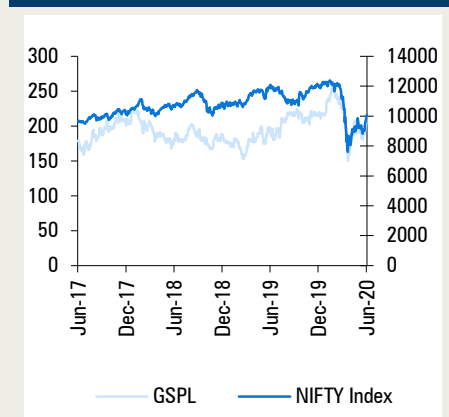
Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization (₹ Cr)	12,689.4
Total Debt (FY 19) (₹ Crore)	2,592.2
Cash and Investments (FY)	158.3
EV (₹ Crore)	15,123.2
52 week H/L	263/146
Equity capital (₹ Crore)	564.0
Face value (₹)	10.0

Price Chart



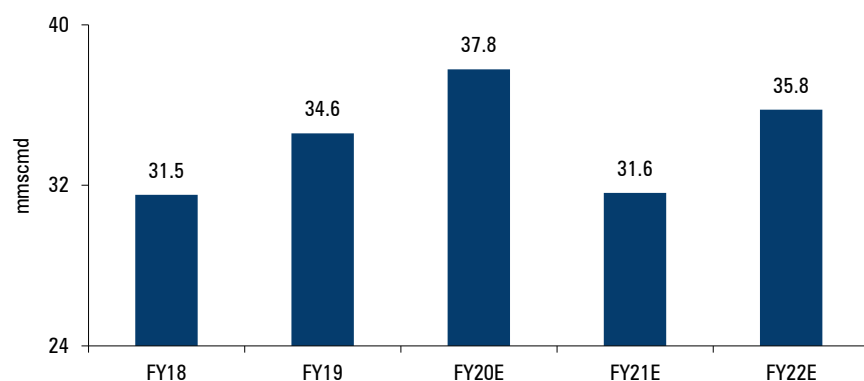
Research Analyst

Mayur Matani
mayur.matani@icicisecurities.com

Amogh Deshpande
amogh.deshpande@icicisecurities.com

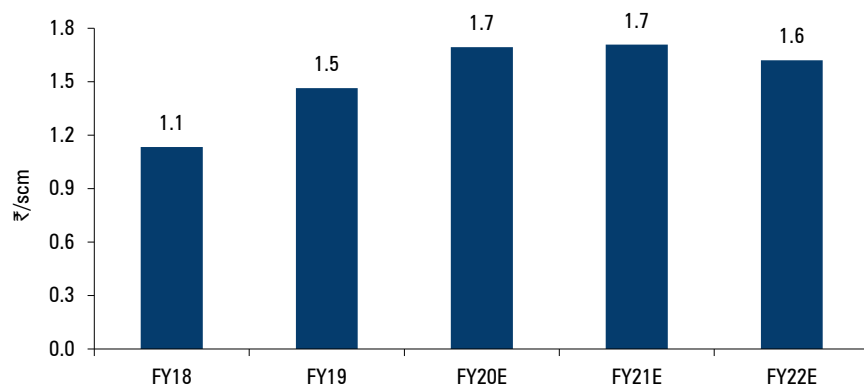
Story in charts

Exhibit 1: Volume trajectory trend



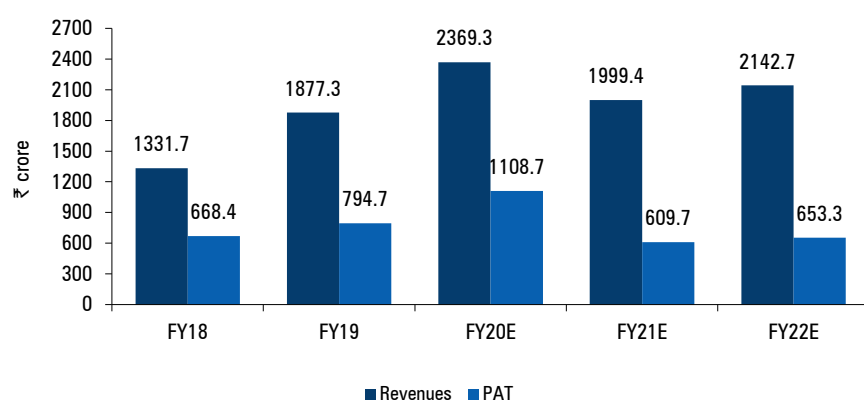
Source: Company, ICICI Direct Research

Exhibit 2: Transmission tariffs trend



Source: Company, ICICI Direct Research

Exhibit 3: Revenue & PAT trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Revenue	1877.3	2369.3	1999.4	2142.7
Growth (%)	41.0	26.2	-15.6	7.2
Employee Costs	64.5	61.9	68.1	74.9
Gas Transmissn exp.	32.8	514.4	560.0	600.0
Op.& Maintainence exp.	237.0	214.5	244.3	279.5
Op. Expenditure	334.7	794.4	874.4	956.4
EBITDA	1542.6	1574.9	1125.0	1186.4
Growth (%)	34.4	2.1	-28.6	5.5
Depreciation	180.0	196.6	243.8	257.4
EBIT	1362.6	1378.3	881.2	928.9
Interest	219.2	164.5	157.7	157.7
Other Income	59.4	64.9	100.4	111.9
PBT	1202.8	1278.6	823.9	883.1
Growth (%)	19.0	6.3	-35.6	7.2
Tax	408.1	169.9	214.2	229.8
Reported PAT	794.7	1108.7	609.7	653.3
Growth (%)	18.9	39.5	-45.0	7.1
Adjustments	0.0	0.0	0.0	0.0
Adj. Net Profit	794.7	1108.7	609.7	653.3
EPS	14.1	19.7	10.8	11.6

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement ₹ crore				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after Tax	794.7	1,108.7	609.7	653.3
Add: Depreciation	180.0	196.6	243.8	257.4
Add: Others	30.2	30.0	30.0	30.0
Cash Profit	892.0	1,203.4	685.5	742.7
Increase/(Decrease) in CI	22.8	378.3	-65.4	28.3
(Increase)/Decrease in C/	-95.1	-220.3	29.0	-80.6
CF from Operating Acti	932.5	1493.4	847.1	888.3
Purchase of Fixed Assets	196.5	316.5	350.0	370.3
(Inc)/Dec in Investments	-95.8	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Acti	-292.3	-316.5	-350.0	-370.3
Inc/(Dec) in Loan Funds	-730.7	-330.5	-330.5	-330.5
Dividend Paid	112.8	132.0	198.0	198.0
Inc/(Dec) in Sh. Cap. & Re	-2.9	-2.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activ	-846.4	-464.5	-528.5	-528.5
Change in cash Eq.	-206.2	712.4	-31.3	-10.4
Op. Cash and cash Eq.	364.5	158.3	870.7	839.4
Cl. Cash and cash Eq.	158.3	870.7	839.4	829.0

Source: Company, ICICI Direct Research; *calculated

Exhibit 6: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Source of Funds				
Equity Capital	564.0	564.0	564.0	564.0
Preference capital	5.0	6.0	6.0	6.0
Reserves & Surplus	5,180.0	6,154.8	6,566.6	7,021.9
Shareholder's Fund	5,744.0	6,718.8	7,130.5	7,585.9
Loan Funds	2,592.2	2,261.7	1,931.2	1,600.7
Deferred Tax Liability	522.6	552.6	582.6	612.6
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	8858.8	9533.1	9644.3	9799.2
Application of Funds				
Gross Block	4,324.5	4,624.5	4,924.5	5,224.8
Less: Acc. Depreciation	717.0	947.2	1,190.9	1,448.4
Net Block	3,607.5	3,677.3	3,733.6	3,776.4
Capital WIP	419.4	469.4	519.4	589.4
Total Fixed Assets	4,026.9	4,146.7	4,252.9	4,365.8
Investments	4,277.2	4,277.2	4,277.2	4,277.2
Inventories	127.9	246.7	208.2	223.1
Debtor	208.1	259.6	219.1	234.8
Cash	158.3	870.7	839.4	829.0
Loan & Advance, Other C	151.6	201.6	251.6	301.6
Total Current assets	645.9	1578.7	1518.3	1588.5
Current Liabilities	69.6	454.4	383.4	410.9
Provisions	21.6	15.1	20.6	21.4
Total CL and Provisions	91.2	469.5	404.1	432.3
Net Working Capital	554.8	1109.2	1114.2	1156.2
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	8858.8	9533.1	9644.3	9799.2

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios ₹ crore				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
Book Value	101.8	119.1	126.4	134.5
Cash per share	10.6	23.2	22.7	22.5
EPS	14.1	19.7	10.8	11.6
Cash EPS	17.3	23.1	15.1	16.1
DPS	2.0	2.0	3.0	3.0
Profitability & Operating Ratios				
EBITDA Margin (%)	82.2	66.5	56.3	55.4
PAT Margin (%)	42.3	46.8	30.5	30.5
Fixed Asset Turnover (x)	0.5	0.6	0.5	0.5
Inventory Turnover (Days)	24.9	38.0	38.0	38.0
Debtor (Days)	40.5	40.0	40.0	40.0
Current Liabilities (Days)	13.5	70.0	70.0	70.0
Return Ratios (%)				
RoE	13.8	16.5	8.6	8.6
RoCE	16.3	15.3	9.7	10.1
RoIC	17.6	18.0	11.3	11.7
Valuation Ratios (x)				
PE	16.0	11.4	20.8	19.4
Price to Book Value	2.2	1.9	1.8	1.7
EV/EBITDA	9.9	9.5	13.0	12.0
EV/Sales	8.1	6.3	7.3	6.7
Leverage & Solvency Ratios				
Debt to equity (x)	0.5	0.3	0.3	0.2
Interest Coverage (x)	6.2	8.4	5.6	5.9
Debt to EBITDA (x)	1.7	1.4	1.7	1.3
Current Ratio	7.1	3.4	3.8	3.7
Quick ratio	5.7	2.8	3.2	3.2

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Mayur Matani, MBA, Amogh Deshpande, PGDM, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited Sebi Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.