

Gujarat State Petronet

In-line performance

Our BUY recommendation on Gujarat State Petronet with a TP of INR 252 is premised on the following: (1) robust transmission volume (+11% CAGR over FY21-23E to 50mmscmd) as benign spot LNG prices should continue to drive volume growth from industrial customers and encourage RIL to continue using LNG. This should translate into growth in standalone EBITDA and APAT by 12% and 15% CAGR to INR 21bn and INR 14bn in FY23E; (2) compelling valuation at 6.2x FY22E EPS, considering the high return ratios (RoE of 25% in FY21 and FY22E) and steady cash flows (combined FCF of INR 29bn over FY21-22E).

- **View on the result:** 1QFY21 volumes, EBITDA and APAT were in line with our estimates.
- **Volumes:** Gas transmission volume for the quarter was 33.3mmscmd (-10/-13% YoY/QoQ) as against our estimate of 34.0mmscmd. Volume break-up in mmscmd was: Refinery 11.3, Power 10.3, CGD 4.7, Fertilisers 2.7, and others 4.3.
- **Tariffs:** Calculated blended transmission tariff for 1Q stood at was INR 1,298/tscm (+1% YoY and QoQ), which was in line with our estimates.
- **Mundra LNG terminal:** Currently operating at 40% capacity owing to capacity constraints of the Mundra-Chotalia pipeline. Once this pipeline's capacity is augmented, the terminal's utilisation should improve as well, since it would then be connected to the high demand area of Morbi.
- **Change in estimates:** We tweak our FY21/22E EPS estimates by +2/1% in FY21/FY22E to INR 25.0/32.0 to factor in the company's 1QFY21 performance.
- **DCF-based valuation:** We value the transmission business using Discounted Cash Flow (DCF) at INR 93/sh (WACC of 11% and terminal growth rate of 3%). To this, we add INR 159/sh as the value of its investments in Gujarat Gas, Sabarmati Gas, etc., to arrive at the target price of INR 252/sh. The stock is trading at 6.2x FY22E PER.

Standalone financial summary

YE Mar (INR bn)	1Q FY21	4Q FY20	QoQ (%)	1Q FY20	YoY (%)	FY19*	FY20*	FY21E*	FY22E*
Net Sales	5	6	(22.0)	5	(9.4)	93	122	130	137
EBITDA	3	4	(2.7)	4	(13.9)	25	32	31	39
APAT	2	2	(11.6)	2	(3.3)	10	17	14	18
Adj. EPS (INR/sh)	3.5	4.0	(11.6)	3.7	(3.3)	17.9	30.7	25.0	32.0
P/E (x)						11.0	6.5	7.9	6.2
EV/EBITDA(x)						6.4	4.4	4.4	3.1
RoE (%)						35.3	42.3	25.2	25.1

Source: Company, HSIE Research | *Consolidated

Consolidated change in estimates

(INR bn)	FY21E Old	FY21E New	% Ch	FY22E Old	FY22E New	% Ch
EBITDA	30	31	1.1	39	39	0.9
EPS (INR/sh)	24.6	25.0	1.6	31.6	32.0	1.3

Source: Company, HSIE Research

BUY

CMP (as on 07 Aug 2020)	INR 207
Target Price	INR 252
NIFTY	11,214

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 252	INR 252
EPS %	FY21E +1.6%	FY22E +1.3%

KEY STOCK DATA

Bloomberg code	GUJS IN
No. of Shares (mn)	564
MCap (Rs bn) / (\$ mn)	117/1,559
6m avg traded value (Rs mn)	163
52 Week high / low	Rs 264/146

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.9	(15.6)	(4.6)
Relative (%)	(15.1)	(8.1)	(8.2)

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	37.64	37.63
FIs & Local MFs	33.88	33.64
FPIs	15.75	15.54
Public & Others	12.73	13.19
Pledged Shares	0.00	0.00

Source : BSE

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Disclosure:

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