

Buy

Volumes ahead of our estimates due to strong revival of demand across segments. Tariffs below our estimates.

- Gujarat State Petronet (GSPL) transmission volumes at 39.75 mmscmd (growth of 1.5% YoY and of 19.5% sequentially) above our estimates of 35.3 mmscmd. Tariffs were at ` 1.55/scm (de-growth of 10% YoY and growth of 3.3% QoQ).
- Revenue in line with our estimates. Revival of volumes were seen across segments hence the offtake of gas.
- 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 in the previous quarters, however with industrial units starting up and sales reaching 100% Pre Covid levels, volumes from CGD business have revived. We expect GSPL's transmission volumes to increase from H2FY21 from Gujarat Gas volumes, other CGD projects and power sector. Volumes which was subdued from CGD segment in Q1FY21 because of lower industrial activity due lockdown is gaining pace.
- With both volume and tariff outlook looking strong, we expect robust revenue growth along with profitability to reach normalized levels 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 recommend Buy with a target price of Rs 231.

Operational performance

GSPL revenues were in line with our estimates on back of strong volumes across all sectors, with CGD sector returning to Pre Covid levels. Gas transmission expense declined YoY. GSPL's operating margins at 66% was lower on a sequentially basis due to increase in other expenses. We expect this cost to be stabilize at these levels to some extent in coming quarters, and revert to operating profitability margins of 70-75% looks achievable. Other Income increase by 13.5% YoY.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	5,770	6,354	(9.2)	4,643	24.3
Total Expense	1,963	1,983	(1.0)	1,181	66.2
EBITDA	3,807	4,371	(12.9)	3,462	10.0
Depreciation	554	498	11.3	488	13.5
EBIT	3,253	3,873	(16.0)	2,974	9.4
Other Income	515	454	13.5	43	1091.3
Interest	249	438	(43.1)	290	(14.2)
EBT	3,519	3,890	(9.5)	2,727	29.0
Tax	808	(659)	(222.5)	733	10.1
RPAT	2,711	4,549	(40.4)	1,994	36.0
APAT	2,711	4,549	(40.4)	1,994	36.0
			(bps)		(bps)
Gross Margin (%)	99.8	99.9	(9)	99.9	(8)
EBITDA Margin (%)	66.0	68.8	(282)	74.6	(858)
NPM (%)	47.0	71.6	(2459)	42.9	405
Tax Rate (%)	23.0	(16.9)	3990	26.9	(394)
EBIT Margin (%)	56.4	61.0	(458)	64.0	(767)

CMP	Rs 186
Target / Upside	Rs 231 / 24%
NIFTY	12,749

Script Details

Equity / FV	Rs 5,641mn / Rs 10
Market Cap	Rs 105bn
	USD 1bn
52-week High/Low	Rs 264/ 146
Avg. Volume (no)	779,054
Bloom Code	GUJS IN

Price Performance	1M	3M	12M
Absolute (%)	(3)	(14)	(13)
Rel to NIFTY (%)	(11)	(28)	(22)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	37.6	37.6	37.6
MF/Banks/FIs	22.8	22.8	20.0
FIIIs	16.0	16.0	15.8
Public / Others	23.6	23.6	26.6

Valuation (x)

	FY21E	FY22E	FY23E
P/E	12.0	8.8	8.3
EV/EBITDA	8.6	7.0	6.2
ROE (%)	12.4	14.9	14.1
RoACE (%)	10.7	12.3	12.0

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	20,573	25,182	26,456
EBITDA	14,154	17,451	18,334
PAT	8,748	11,858	12,641
EPS (Rs.)	15.5	21.0	22.4

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Volume Outlook

GSPL reported natural gas transmission volumes grew by 1.5% YoY to 39.75 MMSCMD in Q2FY21. Volume breakup: Refinery 9.9 vs 11.3 QoQ, fertiliser 3.2 vs 2.7 QoQ, Power 9.1 vs 10.3 QoQ, CGD 10.7 vs 4.7 QoQ and other 6.8 vs 4.3 mmscmd. CGD sector which was a laggard last quarter has revived and returned to 80% of Pre Covid level, Power sector and refinery sector has also contributed to volumes. We believe that CGD sector volumes will be more and return to normalized levels with volume outlook getting 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. GSPL will be the only network connected with all 5 LNG terminals (existing/upcoming) in Gujarat.

Valuation

We value the core business at Rs 155 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 231 by SOTP method.

Exhibit 1: KPIs

Rs Mn	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)	FY20
Segment Revenue									
Gas Transportation	5,670.8	6,213.2	(8.7)	4,542	24.9	10,212.5	11,339.1	(9.9)	23,385
Gas Transported (in MMSCM)	3,657	3,605	1.5	3,026	20.9	6,683	7,081	(5.6)	13,826
Average Tariff (Rs per SCM)	1.551	1.724	(10.0)	1.501	3.3	1.528	1.601	(4.6)	1.691
Gas Transported (in MMSCMD)	39.75	39.18	1.5	33.3	19.5	36.5	38.7	(5.6)	37.9

Source: DART, Company

Exhibit 2: SOTP Valuation

Particulars	(Rs)
Core Business	155
3 transnational pipeline	6
Gujarat Gas stake	67
Sabarmati Gas Stake	3
Total Value	231

Source: Company, DART

Exhibit 3: Actual V/s DART estimates

Particulars (Rs Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	5,770	5,525	4.4	Volume revival across segments
EBITDA	3,807	3,991	(4.6)	Higher RM cost
EBITDA Margin (%)	66.0	72.2	(626)	
PAT	2,711	2,575	5.3	Increase in other income

Source: Company, DART

Exhibit 4: Change in estimates

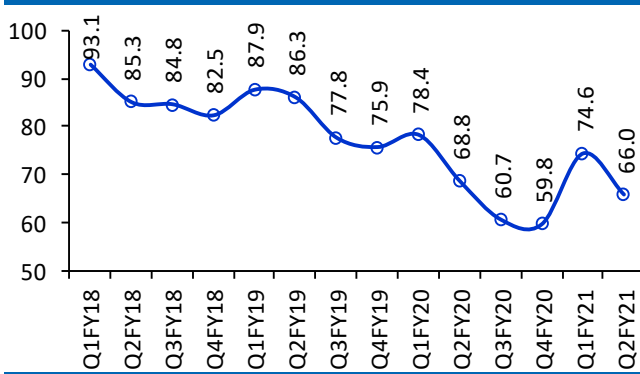
Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	20,573	20,573	0.0	25,182	25,182	0.0
EBITDA	14,154	14,154	0.0	17,451	17,577	(0.7)
EBITDA Margin (%)	68.8	68.8	0.0	69.3	69.8	-50.0
PAT	8,748	8,748	0.0	11,859	11,953	(0.8)
EPS (Rs)	15.5	15.5	0.0	21.0	21.2	(0.8)

Source: Company, DART

Key Highlights

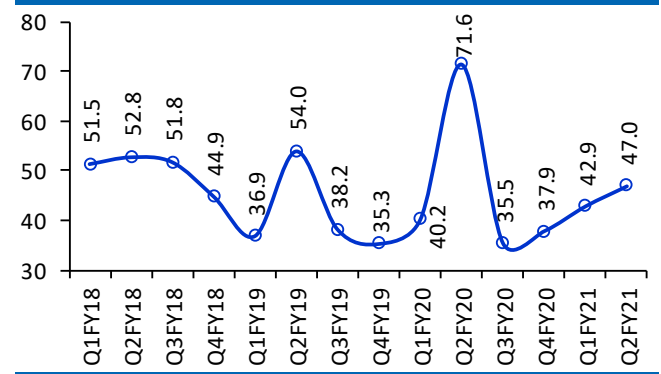
- Revenue decreased by 9.2% on a YoY basis to Rs. 5,770 mn. On a sequential basis, revenue was up 24.3%.
- There was a de-growth in employee cost of 24.8% on a YoY basis to Rs. 128 mn and de-growth of 3.9% on a sequential basis.
- Other expenditure increased to Rs. 689 mn in Q2FY21.
- GSPL made an operating profit of Rs. 1,963 mn in Q2FY21 as compared to an operating profit of Rs. 1,983 mn in Q2FY20. This was a de-growth of 1% YoY and growth of 66.2% sequentially.
- Depreciation improved sequentially at Rs. 554 mn.
- Other income increased by 13.5% on a YoY basis to Rs. 515 mn
- Net profit decreased by 40.4% on a YoY basis to Rs. 2,711 mn. Sequentially it was a growth of 36%.

Exhibit 5: OPM (%)



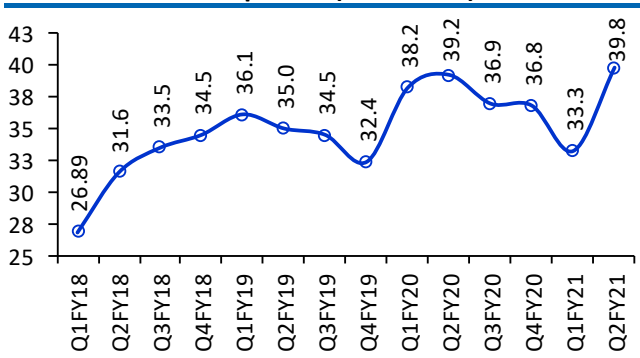
Source: Company, DART

Exhibit 6: NPM (%)



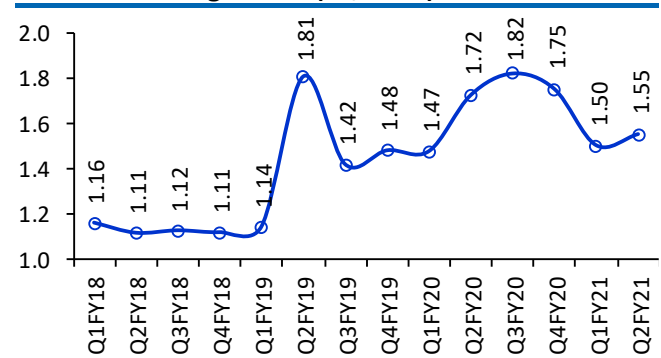
Source: Company, DART

Exhibit 7: Gas Transported (MMSCMD)



Source: Company, DART

Exhibit 8: Average Tariff (Rs/ SCM)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	23,686	20,573	25,182	26,456
Total Expense	7,937	6,419	7,731	8,122
COGS	29	41	50	53
Employees Cost	619	617	630	661
Other expenses	7,289	5,761	7,051	7,408
EBIDTA	15,748	14,154	17,451	18,334
Depreciation	1,966	1,937	2,037	2,177
EBIT	13,782	12,218	15,414	16,157
Interest	1,645	1,127	767	463
Other Income	649	600	1,200	1,200
Exc. / E.O. items	0	0	0	0
EBT	12,785	11,691	15,847	16,894
Tax	1,699	2,943	3,989	4,253
RPAT	11,087	8,748	11,858	12,641
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	11,087	8,748	11,858	12,641

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	5,641	5,641	5,641	5,641
Minority Interest	0	0	0	0
Reserves & Surplus	61,584	68,729	78,664	89,054
Net Worth	67,226	74,370	84,305	94,695
Total Debt	16,303	18,778	19,178	11,578
Net Deferred Tax Liability	4,081	4,163	4,246	4,331
Total Capital Employed	87,610	97,311	107,730	110,604

Applications of Funds

Net Block	36,782	37,346	37,809	39,132
CWIP	2,372	3,874	5,092	5,442
Investments	46,111	51,183	58,861	58,861
Current Assets, Loans & Advances	5,764	8,635	10,030	11,597
Inventories	1,261	1,691	2,070	2,174
Receivables	1,637	2,536	3,105	3,262
Cash and Bank Balances	957	2,326	2,585	3,683
Loans and Advances	1,549	1,704	1,875	2,062
Other Current Assets	359	377	396	416
Less: Current Liabilities & Provisions	3,419	3,727	4,062	4,427
Payables	410	422	435	448
Other Current Liabilities	3,009	3,304	3,627	3,979
<i>sub total</i>				
Net Current Assets	2,345	4,908	5,968	7,169
Total Assets	87,610	97,311	107,730	110,604

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	99.9	99.8	99.8	99.8
EBIDTA Margin	66.5	68.8	69.3	69.3
EBIT Margin	58.2	59.4	61.2	61.1
Tax rate	13.3	25.2	25.2	25.2
Net Profit Margin	46.8	42.5	47.1	47.8
(B) As Percentage of Net Sales (%)				
COGS	0.1	0.2	0.2	0.2
Employee	2.6	3.0	2.5	2.5
Other	30.8	28.0	28.0	28.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.3	0.2	0.1
Interest Coverage	8.4	10.8	20.1	34.9
Inventory days	19	30	30	30
Debtors days	25	45	45	45
Average Cost of Debt	8.2	6.4	4.0	3.0
Payable days	6	7	6	6
Working Capital days	36	87	87	99
FA T/O	0.6	0.6	0.7	0.7
(D) Measures of Investment				
AEPS (Rs)	19.7	15.5	21.0	22.4
CEPS (Rs)	23.2	19.0	24.6	26.3
DPS (Rs)	2.0	2.5	3.0	3.5
Dividend Payout (%)	10.2	16.1	14.3	15.6
BVPS (Rs)	119.2	131.9	149.5	167.9
RoANW (%)	17.8	12.4	14.9	14.1
RoACE (%)	14.6	10.7	12.3	12.0
RoAIC (%)	16.1	13.5	15.4	15.2
(E) Valuation Ratios				
CMP (Rs)	186	186	186	186
P/E	9.5	12.0	8.8	8.3
Mcap (Rs Mn)	104,929	104,929	104,929	104,929
Mcap/ Sales	4.4	5.1	4.2	4.0
EV	120,276	121,381	121,523	112,825
EV/Sales	5.1	5.9	4.8	4.3
EV/EBITDA	7.6	8.6	7.0	6.2
P/BV	1.6	1.4	1.2	1.1
Dividend Yield (%)	1.1	1.3	1.6	1.9
(F) Growth Rate (%)				
Revenue	26.2	(13.1)	22.4	5.1
EBITDA	2.1	(10.1)	23.3	5.1
EBIT	1.1	(11.4)	26.2	4.8
PBT	6.3	(8.6)	35.5	6.6
APAT	39.5	(21.1)	35.5	6.6
EPS	39.5	(21.1)	35.5	6.6

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	13,602	10,699	13,946	15,265
CFI	(3,102)	(9,020)	(11,396)	(3,850)
CFF	(10,297)	(256)	(2,291)	(10,317)
FCFF	12,536	6,697	10,227	11,415
Opening Cash	700	903	2,326	2,585
Closing Cash	903	2,326	2,585	3,683

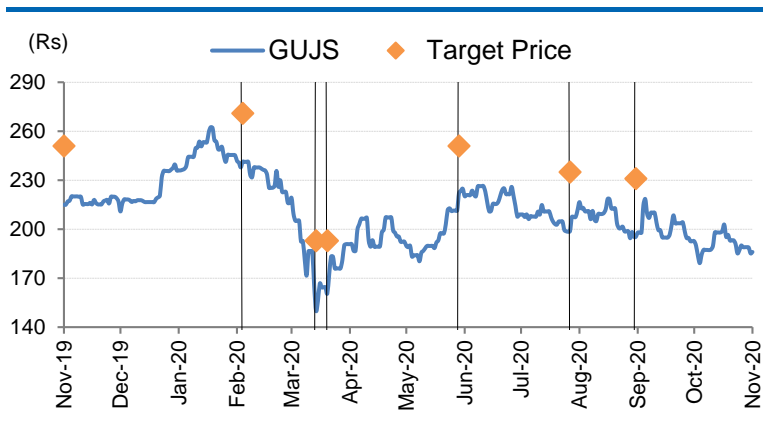
E – Estimates

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.)
Nov-19	Accumulate	251	215
Feb-20	Accumulate	271	241
Mar-20	Accumulate	193	150
Mar-20	Accumulate	193	161
Jun-20	Accumulate	251	222
Aug-20	Accumulate	235	199
Sep-20	Accumulate	231	195

*Price as on recommendation date

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