

## Accumulate

### Strong revival of demand across segments. Tariffs in line with our estimates.

- Gujarat State Petronet (GSPL) transmission volumes at 39.36 mmscmd (growth of 6.6% YoY and de-growth of 1% sequentially) in line with our estimates of 39.1 mmscmd. Tariffs were at Rs 1.58/scm (de-growth of 13.2% YoY and growth of 1.8% 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 Accumulate with a target price of Rs 265.

### 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 68.7% which improved on a YoY basis and sequentially. 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 44.5% YoY.

### Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	5,800	6,257	(7.3)	5,770	0.5
Total Expense	1,816	2,457	(26.1)	1,963	(7.5)
EBITDA	3,984	3,800	4.8	3,807	4.7
Depreciation	511	497	2.7	554	(7.8)
EBIT	3,473	3,303	5.1	3,253	6.8
Other Income	74	52	44.5	515	(85.6)
Interest	220	383	(42.6)	249	(11.8)
EBT	3,328	2,972	12.0	3,519	(5.4)
Tax	853	751	13.6	808	5.6
RPAT	2,475	2,221	11.4	2,711	(8.7)
APAT	2,475	2,221	11.4	2,711	(8.7)
			(bps)		(bps)
Gross Margin (%)	99.7	99.9	(14)	99.8	(10)
EBITDA Margin (%)	68.7	60.7	795	66.0	271
NPM (%)	42.7	35.5	717	47.0	(431)
Tax Rate (%)	25.6	25.3	37	23.0	267
EBIT Margin (%)	59.9	52.8	709	56.4	351

CMP	Rs 227
Target / Upside	Rs 265 / 17%
NIFTY	15,107

### Script Details

Equity / FV	Rs 5,641mn / Rs 10
Market Cap	Rs 128bn USD 2bn
52-week High/Low	Rs 248/ 146
Avg. Volume (no)	1,081,810
Bloom Code	GUJS IN

Price Performance	1M	3M	12M
Absolute (%)	8	22	(8)
Rel to NIFTY (%)	3	4	(33)

### Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	37.6	37.6	37.6
MF/Banks/FIs	22.8	20.0	20.0
FII's	16.0	15.8	15.8
Public / Others	23.6	26.6	26.6

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	14.6	10.8	10.1
EV/EBITDA	10.2	8.3	7.4
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 6.6% YoY to 39.36 MMSCMD in Q3FY21. Volume breakup: Refinery 7.1 vs 9.9 QoQ, fertiliser 3.9 vs 3.2 QoQ, Power 9.1 vs 9.1 QoQ, CGD 12.6 vs 10.7 QoQ and other 6.6 vs 6.8 mmscmd. CGD sector which was a laggard last quarter has revived and returned to 90% of Pre Covid level, Power sector and fertiliser sector have shown growth in volumes sequentially. 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 for 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. Volumes for Jan'21 was approx. 30 mmscmd.

## Valuation

We value the core business at Rs 189 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 265 by SOTP method.

### Exhibit 1: KPIs

Rs Mn	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)	FY20
<b>Segment Revenue</b>									
Gas Transportation	5,718	6,185	(7.5)	5,670.8	0.8	15,931	17,524	(9.1)	23,385
Gas Transported (in MMSCM)	3,621	3,398	6.6	3,657	(1.0)	10,304	10,479	(1.7)	13,826
Average Tariff (Rs per SCM)	1.579	1.820	(13.2)	1.551	1.8	1.546	1.672	(7.5)	1.691
Gas Transported (in MMSCMD)	39.36	36.9	6.6	39.75	(1.0)	37.5	38.1	(1.7)	37.9

Source: DART, Company

### Exhibit 2: SOTP Valuation

Particulars	(Rs)
Core Business	189
3 transnational pipeline	6
Gujarat Gas stake	67
Sabarmati Gas Stake	3
<b>Total Value</b>	<b>265</b>

Source: Company, DART

### Exhibit 3: Actual V/s DART estimates

Particulars (Rs Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	5,800	5,760	0.7	Volume revival across segments
EBITDA	3,984	3,830	4.0	Hiher RM cost
EBITDA Margin (%)	68.7	66.5	219	
PAT	2,475	2,380	4.0	Low interest expense and higher other income

Source: Company, DART

#### Exhibit 4: Change in estimates

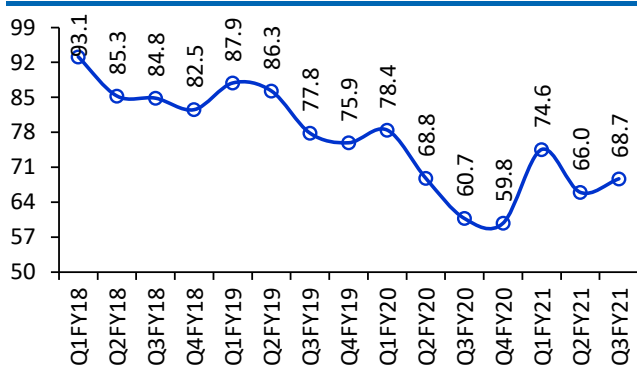
Rs Mn	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	25,182	25,182	0.0	26,456	26,456	0.0
EBITDA	17,451	17,451	0.0	18,334	18,334	0.0
EBITDA Margin (%)	69.3	69.3	0.0	69.3	69.3	0.0
PAT	11,859	11,859	0.0	12,643	12,643	0.0
EPS (Rs)	21.0	21.0	0.0	22.4	22.4	0.0

Source: Company, DART

#### Key Highlights

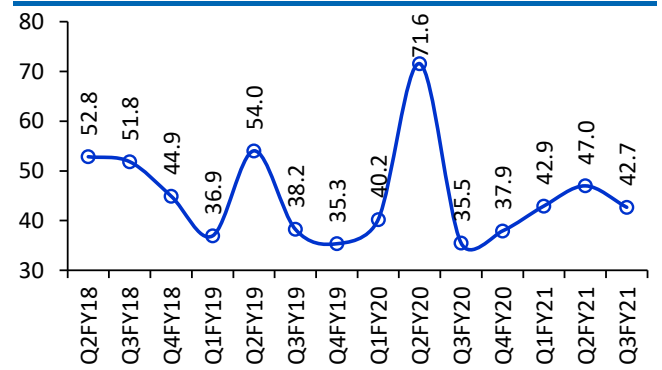
- Revenue decreased by 7.3% on a YoY basis to Rs. 5,800 mn. On a sequential basis, revenue was up 0.5%.
- There was a growth in employee cost of 4% on a YoY basis to Rs. 160 mn and of 24.7% on a sequential basis.
- Other expenditure decreased to Rs. 432 mn in Q3FY21.
- GSPL made an operating profit of Rs. 3,984 mn in Q3FY21 as compared to an operating profit of Rs. 3,800 mn in Q3FY20. This was a growth of 4.8% YoY and de-growth of 4.6% sequentially.
- Depreciation declined sequentially to Rs. 511 mn.
- Other income increased by 44.5% on a YoY basis to Rs. 74 mn
- Net profit increased by 11.4% on a YoY basis to Rs. 2,475 mn. Sequentially it was a de-growth of 8.7%.

#### Exhibit 5: OPM (%)



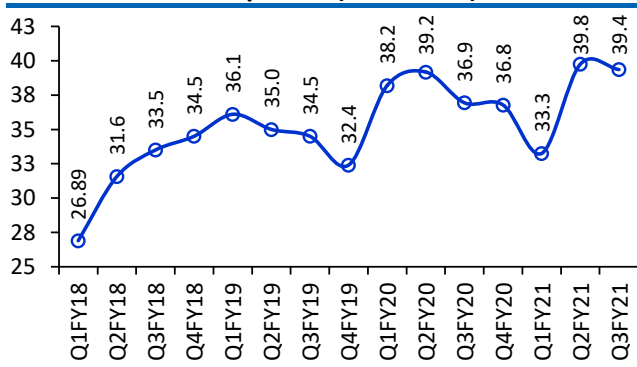
Source: Company, DART

#### Exhibit 6: NPM (%)



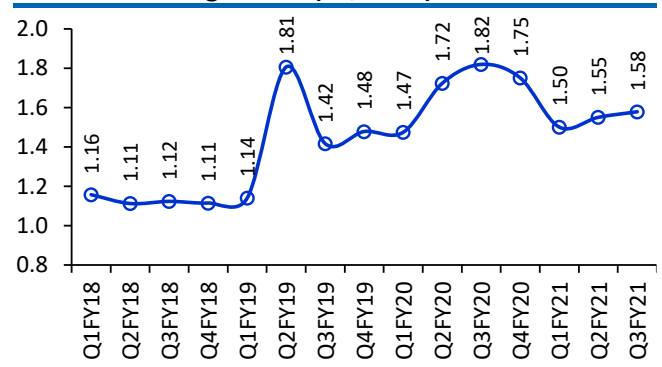
Source: Company, DART

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

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
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
<b>Net Worth</b>	<b>67,226</b>	<b>74,370</b>	<b>84,305</b>	<b>94,695</b>
Total Debt	16,303	18,778	19,178	11,578
Net Deferred Tax Liability	4,081	4,163	4,246	4,331
<b>Total Capital Employed</b>	<b>87,610</b>	<b>97,311</b>	<b>107,730</b>	<b>110,604</b>

**Applications of Funds**

Net Block	<b>36,782</b>	<b>37,346</b>	<b>37,809</b>	<b>39,132</b>
CWIP	2,372	3,874	5,092	5,442
Investments	46,111	51,183	58,861	58,861
<b>Current Assets, Loans &amp; Advances</b>	<b>5,764</b>	<b>8,635</b>	<b>10,030</b>	<b>11,597</b>
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
<b>Less: Current Liabilities &amp; Provisions</b>	<b>3,419</b>	<b>3,727</b>	<b>4,062</b>	<b>4,427</b>
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
<b>Total Assets</b>	<b>87,610</b>	<b>97,311</b>	<b>107,730</b>	<b>110,604</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
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>(B) As Percentage of Net Sales (%)</b>				
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
<b>(C) Measure of Financial Status</b>				
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
<b>(D) Measures of Investment</b>				
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
<b>(E) Valuation Ratios</b>				
CMP (Rs)	227	227	227	227
P/E	11.5	14.6	10.8	10.1
Mcap (Rs Mn)	127,765	127,765	127,765	127,765
Mcap/ Sales	5.4	6.2	5.1	4.8
EV	143,111	144,216	144,358	135,660
EV/Sales	6.0	7.0	5.7	5.1
EV/EBITDA	9.1	10.2	8.3	7.4
P/BV	1.9	1.7	1.5	1.3
Dividend Yield (%)	0.9	1.1	1.3	1.5
<b>(F) Growth Rate (%)</b>				
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

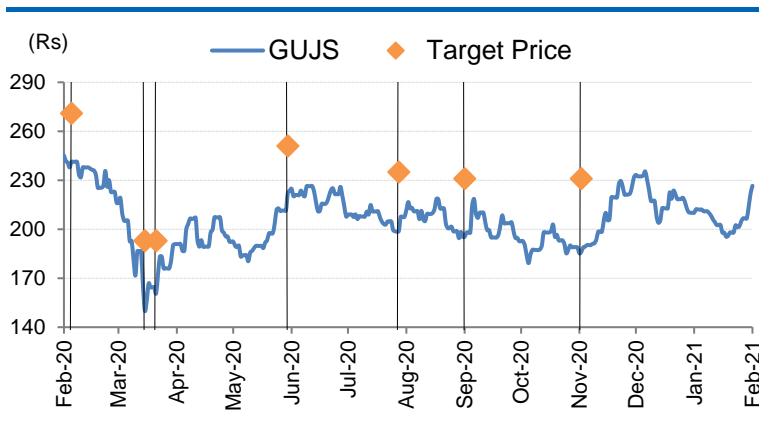
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
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
Nov-20	BUY	231	186

\*Price as on recommendation date

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