

Gujarat State Petronet

BSE SENSEX
51,445

S&P CNX
15,246

CMP: INR276

TP: INR400 (+45%)

Buy



Bloomberg	GUJS IN
Equity Shares (m)	564
M.Cap.(INRb)/(USDb)	155.8 / 2.1
52-Week Range (INR)	311 / 146
1, 6, 12 Rel. Per (%)	35/5/-16
12M Avg Val (INR M)	208

Financials & Valuations (INR b)

Y/E March	FY21E	FY22E	FY23E
Sales	17.2	19.7	21.1
EBITDA	13.5	15.2	16.3
PAT	8.4	9.5	10.1
EPS (INR)	14.8	16.8	17.9
EPS Gr. (%)	-24.5	13.3	6.3
BV/Sh.(INR)	132.0	146.9	162.8

Ratios

Net D:E	-0.6	-0.6	-0.6
RoE (%)	11.8	12.1	11.6
RoCE (%)	11.9	12.2	11.7
Payout (%)	13.5	11.9	11.2

Valuations

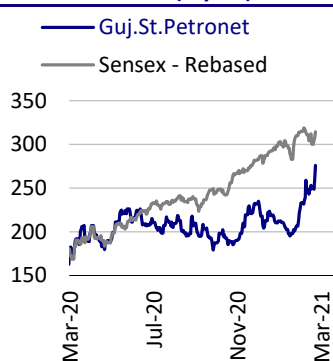
P/E (x)	18.7	16.5	15.5
P/BV (x)	2.1	1.9	1.7
EV/EBITDA (x)	11.5	9.8	8.8
Div. Yield (%)	0.7	0.7	0.7
FCF Yield (%)	4.2	5.2	4.2

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	37.6	37.6	37.6
DII	31.0	30.9	33.9
FII	15.9	15.6	15.9
Others	15.4	15.9	12.6

FII Includes depository receipts

Stock Performance (1-year)



GSPC: Declining debt removes concern on GUJS

- Gujarat State Petroleum (GUJS) has a 54% stake in Gujarat Gas (GUJGA), which amounts to a market capitalization of INR197b, much higher than GUJS' m-cap at INR156b.
- Major concerns for the above anomaly have been: a) expected decline in tariffs of GUJS due to over-utilization of the High Pressure grid, and b) concerns over the usage of cash.
- Gujarat State Petroleum Corporation (GSPC), the parent company of GUJS with a 37.6% stake, has traditionally been a debt ridden company, raising concerns whether the cash generated by GUJS may be used to reward minority shareholders.
- In our earlier report ([Large appetite for growth](#)), we have addressed the first concern on tariff. This note busts the second myth.
- At a 25% holding company discount, the 54% stake in GUJGA provides a valuation of INR275/share to GUJS. We value GUJS' standalone operations at 7x to arrive at our TP of INR400/share (core business continues to trade for free) and reiterate Buy.

Sharp reduction in net debt

- GSPC's tryst with upstream investments has not been successful, resulting in its standalone/consolidated net debt rising to a peak of INR234b/INR277b in FY17.
- It sold off its stake in the KG basin in FY17 to ONGC and wrote off INR149b. It also consolidated its stake in GUJGA with GUJS in FY18.
- As a result of better profitability from subsidiaries/JVs and lack of continued capex in upstream, consolidated net debt has reduced from a peak of INR262b in FY17 to INR76b in FY20.

Rationalizing upstream assets

- The company recorded cumulative impairment losses of ~INR162b over the past five years, with the biggest loss coming in from the KG basin in FY17.
- GSPC has also written-off exploration costs of ~INR36bn over the past decade.
- **The management classified 12 E&P fields as assets held for sale in FY19 and had provided for an impairment loss of ~INR1.5b.** Total cumulative investments since FY05 is INR232b, of which after write-off, left over assets stand at INR22b and liability at INR7b - not leaving much to be written off even in the worst case.

Improving financials bust the second myth

- Post write-offs, the company earned a consol. PAT of INR16b/INR23b in FY19/FY20. The same for the standalone entity remains poor at INR3b/INR4b.
- **FCF stood at INR35b/INR40b in FY19/FY20 led by better profitability of GUJS and GUJGA. Consol./standalone net debt has also declined to 1.7/1.3x in FY20.**
- GSPC Mundra was commissioned in Feb'20 and its ramp up would also contribute to better profitability of the group. The remaining subsidiaries are smaller and would not require much capex going forward. Hence, debt-to-equity is expected to improve going forward, laying to rest concerns that investors may have on the improper use of GUJS' cash.

Valuation and recommendation

- GUJS has a debt of INR11.4b at present. The management targets to become debt free in the next 3-4 quarters. It could reward shareholders by increasing its dividend payout from ~12-13% at present (the company has an interest cost of ~INR1b – similar to dividend payments).

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- Over the last five years, EBITDA grew by ~11% CAGR, in line with the ~10% volume CAGR (to ~38msmcmd in FY20), despite average implied tariff of ~INR1,215, lower than ~INR1,240 in 3QFY21. **The company has been guiding volumes CAGR of over 10% for the next 5 years.** Available LNG regas capacity is expected to jump 55% to 42.5mmtpa (from currently ~27.5mmtpa) over the next 3-4 years in Gujarat.
- Our estimates suggest overall FCF generation over FY21-23E could be ~INR21.3b. The company plans to use the excess cash flow to fund capex of INR24b (via internal accruals) over the same period.**
- Total capex guidance stands at INR40b over next five years against net fixed assets (NFA) of INR43b for the HP pipeline when its tariff was decided in CY18. **The management remains confident that higher utilization is unlikely to result in a cut in tariffs** (note that we are not building in any impact to our model).
- Strict action against usage of industrial pollution would further increase the demand of gas and may result in much higher transmission volume than that considered. On the risk side, non-approval of capex proposed by GUJS, resulting in a sharp cut in tariff, remains the biggest risk.

Exhibit 1: GSPC's net debt on consol. and standalone basis...

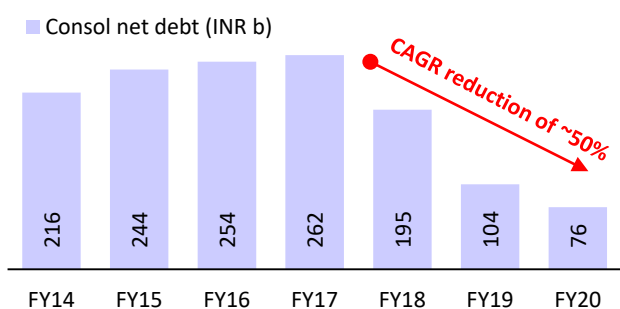


Exhibit 2: ...has fallen drastically over the last four years

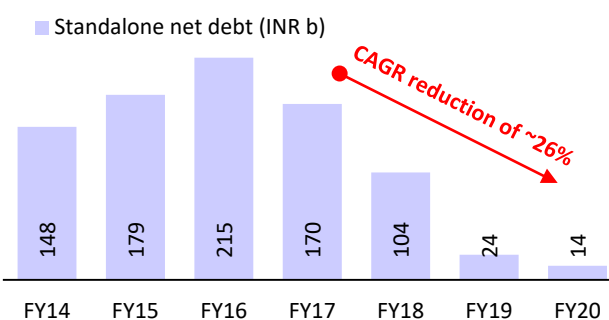


Exhibit 3: GSPC had negative net worth in FY17-18...

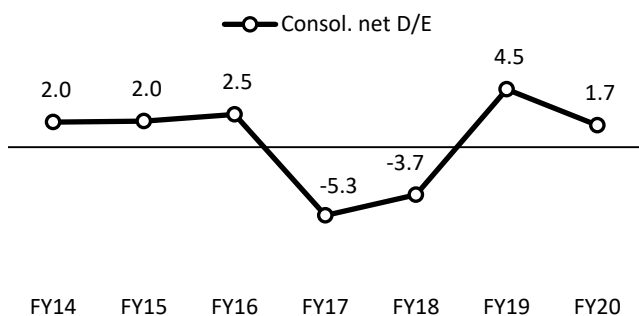


Exhibit 4: ...with net D/E now trending at long-term levels

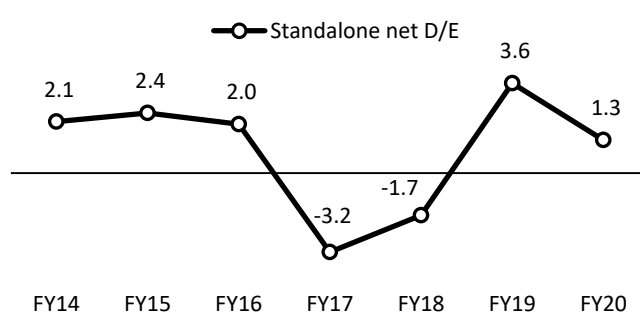
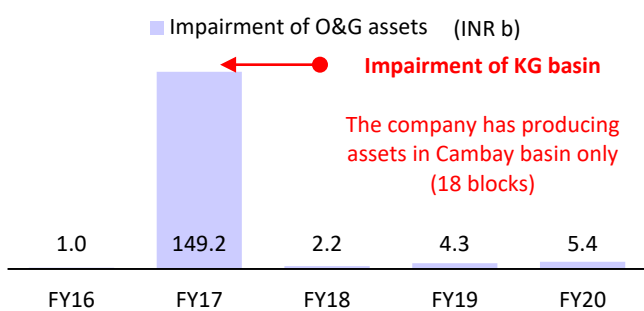
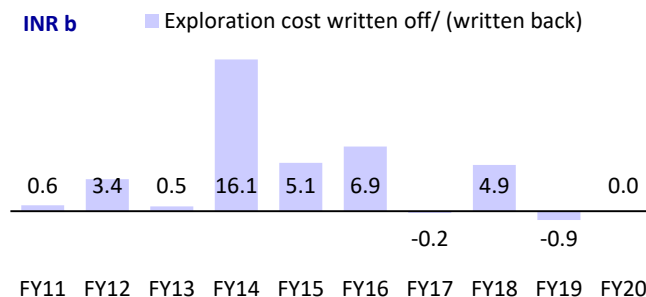


Exhibit 5: GSPC charged a total impairment of ~INR162b



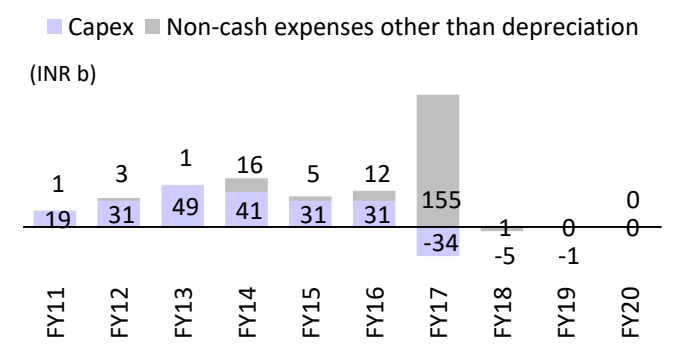
Source: Company, MOFSL

Exhibit 6: Exploration cost of ~INR36b written off



Source: Company, MOFSL

Exhibit 7: No significant E&P capex undertaken in FY19-20



Source: Company, MOFSL

Exhibit 8: OCF: for GSPC's subsidiaries-JVs-associates

Name of entity (FY20 INR b)	Type	Revenue	PAT	OCF
GSPL	Subsidiary	24	11	14
GUJGA	Subsidiary	106	12	14
GSPC Pipavav Power Co Ltd	Subsidiary	14	-1	2
Guj Info Petro Ltd	Subsidiary	0	-0	-0
Sabarmati Gas Ltd	JV	12	1	2
GSPL India Gasnet Ltd	JV	1	-0	0
GSPL India Transco Ltd	JV	0	-0	1
Gujarat State Energy Generation Associate		4	0	1

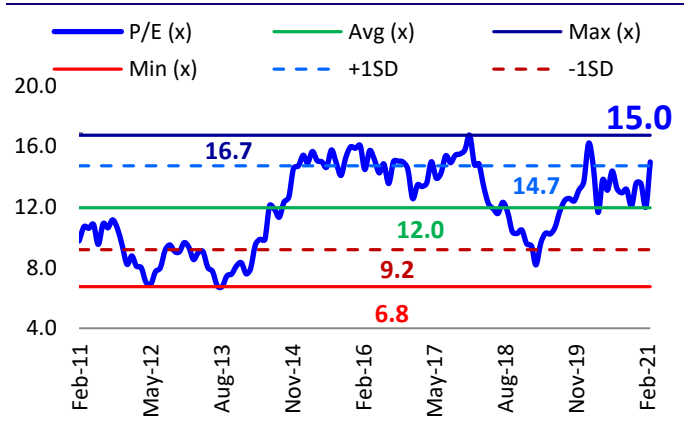
Source: Company, MOFSL

Exhibit 9: GUJS' sensitivity to change in tariff even at 20% reduction, expect 11% EPS CAGR over FY21-25E

Assuming the following increase in LNG terminal capacity utilization (mmtpa):	Mundra @1.5	Mundra @2.5	Mundra @ 3.5 Jafrabad @ 2.0	Mundra @4.5 Jafrabad @3.5 Dahej @18.5	Mundra @4.5 Jafrabad @4.5 Dahej @19.5 Swan @1.0	EPS CAGR
Sensitivity to change in tariff	FY21E	FY22E	FY23E	FY24E	FY25E	FY21-25
Volumes (mmscmd)	36.5	42.0	52.8	65.4	76.2	
Volume addition (mmscmd)		5.5	10.8	12.6	10.8	
Tariff (INR/mmbtu) – 5% reduction	34.0	32.3	32.3	32.3	32.3	
Revenue (INR m)	17,975	19,649	24,702	30,597	35,649	
PAT (INR m) at 50% margin	5,287	6,083	7,648	9,473	11,037	
EBITDA (INR m)	12,688	13,566	17,054	21,124	24,612	18%
Tariff (INR/mmbtu) – 10% reduction	34.0	30.6	30.6	30.6	30.6	
Revenue (INR m)	17,975	18,615	23,402	28,986	33,773	
PAT (INR m) at 50% margin	5,287	6,083	7,648	9,473	11,037	
EBITDA (INR m)	12,688	12,532	15,754	19,514	22,736	16%
Tariff (INR/mmbtu) – 20% reduction	34.0	27.2	27.2	27.2	27.2	
Revenue (INR m)	17,975	16,547	20,802	25,766	30,020	
PAT (INR m) at 50% margin	5,287	6,083	7,648	9,473	11,037	
EBITDA (INR m)	12,688	10,463	13,154	16,293	18,983	11%

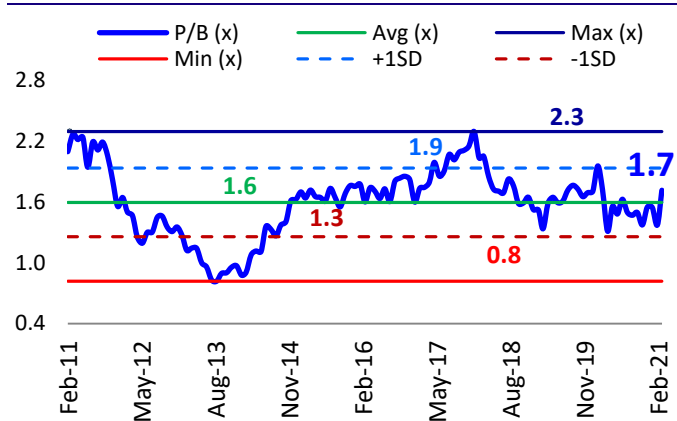
Source: MOFSL

Exhibit 10: One-year forward P/E trades at a premium to its long-term average of 12x...



Source: Company, MOFSL

Exhibit 11: ...while one-year forward P/B trades at par with its long-term average of 1.6x



Source: Company, MOFSL

Financials and valuations

Standalone Income Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Income from Operations	9,919	10,276	13,318	18,773	19,449	17,166	19,686	21,060
Change (%)	-6.8	3.6	29.6	41.0	3.6	-11.7	14.7	7.0
EBITDA	8,660	8,883	11,478	15,426	15,749	13,536	15,220	16,276
Margin (%)	87.3	86.4	86.2	82.2	81.0	78.9	77.3	77.3
Depreciation	1,829	1,791	1,750	1,800	1,966	2,081	2,248	2,547
EBIT	6,831	7,092	9,728	13,626	13,783	11,455	12,972	13,729
Int. and Finance Charges	799	596	354	2,192	1,645	979	979	979
Other Income	656	882	735	594	649	687	689	737
PBT after EO Exp.	6,688	7,378	10,108	12,028	12,786	11,163	12,683	13,487
Total Tax	2,235	2,412	3,424	4,081	1,699	2,791	3,196	3,399
Tax Rate (%)	33.4	32.7	33.9	33.9	13.3	25.0	25.2	25.2
Reported PAT	4,454	4,966	6,685	7,947	11,087	8,372	9,487	10,088
Adjusted PAT	4,454	4,966	6,685	7,947	11,087	8,372	9,487	10,088
Change (%)	8.5	11.5	34.6	18.9	39.5	-24.5	13.3	6.3
Margin (%)	44.9	48.3	50.2	42.3	57.0	48.8	48.2	47.9

Standalone Balance Sheet

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	5,633	5,636	5,638	5,640	5,641	5,641	5,641	5,641
Total Reserves	35,058	39,324	45,012	51,800	61,584	68,829	77,189	86,150
Net Worth	40,692	44,960	50,650	57,440	67,226	74,470	82,830	91,791
Total Loans	10,670	6,305	17,595	12,856	5,441	5,441	5,441	5,441
Deferred Tax Liabilities	4,724	4,719	4,984	5,226	4,081	4,081	4,081	4,081
Capital Employed	56,085	55,984	73,229	75,522	76,748	83,993	92,353	1,01,314
Gross Block	33,059	35,277	36,512	43,245	44,994	48,392	52,471	58,287
Less: Accum. Deprn.	1,829	3,620	5,371	7,170	9,137	11,218	13,466	16,013
Net Fixed Assets	31,230	31,657	31,142	36,075	35,857	37,174	39,006	42,274
Capital WIP	7,679	6,864	8,959	4,194	2,372	1,974	2,895	4,079
Total Investments	7,311	7,655	41,814	42,772	46,111	46,111	46,111	46,111
Curr. Assets, Loans and Adv.	12,243	12,158	7,571	6,459	5,764	10,453	17,950	23,474
Inventory	1,177	1,123	1,235	1,279	1,261	1,238	1,523	1,631
Account Receivables	1,518	1,216	1,235	2,081	1,637	1,445	1,657	1,772
Cash and Bank Balance	5,529	8,026	3,645	1,583	957	6,086	12,839	18,004
Cash	758	152	225	700	903	6,032	12,785	17,950
Bank Balance	4,771	7,875	3,420	883	54	54	54	54
Loans and Advances	4,019	1,792	1,456	1,516	1,908	1,684	1,932	2,067
Curr. Liability and Prov.	2,378	2,350	16,256	13,978	13,356	11,720	13,610	14,625
Account Payables	150	138	185	238	410	402	495	530
Other Current Liabilities	2,088	2,088	15,932	13,523	12,670	11,074	12,835	13,796
Provisions	140	124	138	216	276	244	279	299
Net Current Assets	9,865	9,808	-8,685	-7,518	-7,592	-1,267	4,340	8,849
Appl. of Funds	56,085	55,983	73,229	75,522	76,748	83,992	92,352	1,01,313

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
EPS	7.9	8.8	11.9	14.1	19.7	14.8	16.8	17.9
Cash EPS	11.1	12.0	15.0	17.3	23.1	18.5	20.8	22.4
BV/Share	72.2	79.7	89.8	101.8	119.2	132.0	146.9	162.8
DPS	1.5	1.5	1.8	2.0	2.0	2.0	2.0	2.0
Payout (%)	22.8	20.5	16.9	16.1	12.2	13.5	11.9	11.2
Valuation (x)								
P/E	35.1	31.5	23.4	19.7	14.1	18.7	16.5	15.5
Cash P/E	24.9	23.1	18.5	16.0	12.0	14.9	13.3	12.4
P/BV	3.8	3.5	3.1	2.7	2.3	2.1	1.9	1.7
EV/Sales	16.3	15.0	12.8	8.9	8.3	9.1	7.6	6.8
EV/EBITDA	18.6	17.4	14.8	10.9	10.2	11.5	9.8	8.8
Dividend Yield (%)	0.5	0.5	0.6	0.7	0.7	0.7	0.7	0.7
FCF per share	7.6	14.9	11.1	15.5	22.2	11.6	14.5	11.6
Return Ratios (%)								
RoE	11.6	11.6	14.0	14.7	17.8	11.8	12.1	11.6
RoCE	10.1	10.5	11.6	13.6	17.5	11.9	12.2	11.7
RoIC	13.1	13.8	24.6	39.3	44.0	30.1	32.2	32.3
Working Capital Ratios								
Fixed Asset Turnover (x)	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2
Inventory (Days)	43	40	34	25	24	26	28	28
Debtor (Days)	56	43	34	40	31	31	31	31
Creditor (Days)	6	5	5	5	8	9	9	9
Leverage Ratio (x)								
Current Ratio	5.1	5.2	0.5	0.5	0.4	0.9	1.3	1.6
Interest Coverage Ratio	8.5	11.9	27.5	6.2	8.4	11.7	13.3	14.0
Net Debt/Equity	-0.1	-0.2	-0.6	-0.5	-0.6	-0.6	-0.6	-0.6

Standalone Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
OP/(Loss) before Tax	6,688	7,378	10,108	12,028	12,786	11,163	12,683	13,487
Depreciation	1,829	1,791	1,750	1,800	1,966	2,081	2,248	2,547
Interest and Finance Charges	786	740	354	2,192	1,645	979	979	979
Direct Taxes Paid	-2,062	-2,228	-3,105	-3,639	-3,082	-2,791	-3,196	-3,399
(Inc.)/Dec. in WC	-649	2,534	508	-956	893	-1,196	1,145	656
Others	-566	-780	-672	-542	-606	-687	-689	-737
CF from Operations	6,027	9,436	8,943	10,882	13,602	9,549	13,169	13,534
(Inc.)/Dec. in FA	-1,767	-1,052	-2,691	-2,118	-1,066	-3,000	-5,000	-7,000
Free Cash Flow	4,260	8,383	6,252	8,764	12,536	6,549	8,169	6,534
(Pur.)/Sale of Investments	-824	-346	-34,157	-990	-3,340	0	0	0
Others	-614	-2,278	5,113	3,029	1,304	687	689	737
CF from Investments	-3,205	-3,676	-31,735	-80	-3,102	-2,313	-4,311	-6,263
Inc./(Dec.) in Debt	-978	-4,329	24,239	-6,912	-7,335	0	0	0
Interest Paid	-1,208	-1,039	-375	-2,299	-1,678	-979	-979	-979
Dividend Paid	-814	-1,016	-1,018	-1,128	-1,283	-1,127	-1,127	-1,127
CF from Fin. Activity	-2,973	-6,365	22,865	-10,328	-10,297	-2,106	-2,106	-2,106
Inc./Dec. in Cash	-151	-606	73	475	203	5,130	6,753	5,165
Opening Balance	908	757	151	225	700	902	6,032	12,785
Closing Balance	757	151	225	700	902	6,032	12,785	17,950

E: MOFSL estimates

NOTES

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

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