

**BUY**

TP: Rs 310 | ▲ 56%

**GUJARAT STATE  
PETRONET**

| Oil & Gas

| 06 August 2020

## Swiftly returning to normal

Gujarat State Petronet's (GUJS) Q1FY20 EBITDA was in line at Rs 3.5bn (-14% YoY). Volumes came in below estimates at 33.2mmscmd on lower offtake from the CGD and fertiliser segments. Low LNG prices (especially spot) continue to drive speedy recovery in gas consumption (~40mmscmd in Jul'20) as lockdown restrictions are eased. We cut FY21/FY22 EPS estimates by 14%/10%; our Sep'21 DCF-based TP remains unchanged at Rs 310 despite rollover.

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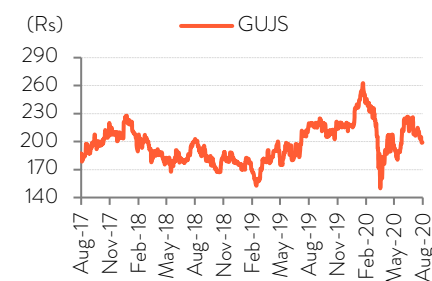
**Volumes muted despite robust macro trends:** Q1 volumes fell 13% YoY to 33.3mmscmd as demand from the CGD (4.7mmscmd, -55% YoY) and fertiliser (2.7mmscmd, -30% YoY) segments crashed. CGD was the most affected by the lockdown. Offtake from the power sector surged (10.3mmscmd, +2x YoY). Management sees even higher demand potential as spot LNG prices remain low at <US\$ 3/mmbtu. Refining segment offtake was robust (11.3mmscmd, +6% QoQ) due to a preference for gas over fuel oil as an input.

|                  |                |
|------------------|----------------|
| Ticker/Price     | GUJS IN/Rs 199 |
| Market cap       | US\$ 1.5bn     |
| Shares o/s       | 564mn          |
| 3M ADV           | US\$ 2.4mn     |
| 52wk high/low    | Rs 264/Rs 146  |
| Promoter/FPI/DII | 38%/16%/47%    |

Source: NSE

**CGD, power volumes to offset lower RIL offtake:** RIL continues to absorb ~9mmscmd (stable QoQ), mostly for its petchem units. While GUJS could see volume loss (of 4-6mmscmd) once RIL's petcoke gasification plant ramps up to ~100% utilisation, this could be made up by incremental power (in FY21) and CGD demand (from FY22).

## STOCK PERFORMANCE



**Maintain BUY:** GUJS has healthy volumes levers in place – planned connectivity to all the five LNG regasification terminals in Gujarat and an improving demand outlook from CGD and power. Commissioning of the Mundra LNG terminal has started to add volumes from Q1FY21. At 9.5x FY22E EPS, valuations look attractive considering stronger volume visibility. The macro climate remains conducive for a surge in gas consumption.

## KEY FINANCIALS

| Y/E 31 Mar              | FY19A  | FY20P  | FY21E  | FY22E  | FY23E  |
|-------------------------|--------|--------|--------|--------|--------|
| Total revenue (Rs mn)   | 18,773 | 23,692 | 22,601 | 26,937 | 29,598 |
| EBITDA (Rs mn)          | 15,426 | 15,749 | 15,991 | 18,902 | 20,303 |
| Adj. net profit (Rs mn) | 7,947  | 11,087 | 9,720  | 11,770 | 12,811 |
| Adj. EPS (Rs)           | 14.1   | 19.7   | 17.2   | 20.9   | 22.7   |
| Adj. EPS growth (%)     | 18.9   | 39.5   | (12.3) | 21.1   | 8.8    |
| Adj. ROAE (%)           | 15.2   | 18.1   | 13.7   | 14.9   | 14.5   |
| Adj. P/E (x)            | 14.1   | 10.1   | 11.5   | 9.5    | 8.8    |
| EV/EBITDA (x)           | 8.1    | 8.8    | 8.3    | 6.8    | 6.2    |

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – QUARTERLY PERFORMANCE**

| Y/E March (Rs mn)          | Q1FY21       | Q1FY20       | YoY (%)       | Q4FY20       | QoQ (%)       |
|----------------------------|--------------|--------------|---------------|--------------|---------------|
| <b>Net sales</b>           | <b>4,644</b> | <b>5,126</b> | <b>(9.4)</b>  | <b>5,952</b> | <b>(22.0)</b> |
| Employee costs             | 134          | 128          | 4.5           | 166          | (19.6)        |
| % of sales                 | 2.9          | 2.5          | -             | 2.8          | -             |
| Other expenditure          | 1,048        | 978          | 7.2           | 2,228        | (53.0)        |
| % of sales                 | 22.6         | 19.1         | -             | 37.4         | -             |
| <b>EBITDA</b>              | <b>3,462</b> | <b>4,020</b> | <b>(13.9)</b> | <b>3,557</b> | <b>(2.7)</b>  |
| <b>EBITDA margin (%)</b>   | <b>74.5</b>  | <b>78.4</b>  | <b>-</b>      | <b>59.8</b>  | <b>-</b>      |
| Depreciation               | 488          | 489          | (0.1)         | 483          | 1.1           |
| Interest                   | 290          | 479          | (39.4)        | 346          | (16.1)        |
| Other income               | 43           | 77           | (43.5)        | 67           | (35.0)        |
| <b>PBT</b>                 | <b>2,727</b> | <b>3,129</b> | <b>(12.9)</b> | <b>2,795</b> | <b>(2.5)</b>  |
| Provision for tax          | 733          | 1,068        | (31.3)        | 539          | 35.9          |
| effective tax rate         | 26.9         | 34.1         | -             | 19.3         | -             |
| <b>PAT (reported)</b>      | <b>1,994</b> | <b>2,061</b> | <b>(3.3)</b>  | <b>2,256</b> | <b>(11.6)</b> |
| <b>NPM (%)</b>             | <b>42.9</b>  | <b>40.2</b>  | <b>-</b>      | <b>37.9</b>  | <b>-</b>      |
| Other comprehensive income | -            | (3.1)        | -             | -            | -             |
| <b>Total income</b>        | <b>1,994</b> | <b>2,058</b> | <b>(3.1)</b>  | <b>2,256</b> | <b>(11.6)</b> |
| <b>EPS (Rs)</b>            | <b>3.53</b>  | <b>3.66</b>  | <b>(3.3)</b>  | <b>4.00</b>  | <b>(11.6)</b> |
| <b>Volumes (mmscmd)</b>    | <b>3,026</b> | <b>3,514</b> | <b>(13.9)</b> | <b>3,310</b> | <b>(8.6)</b>  |
| <b>Volumes (mmscmd)</b>    | <b>33.3</b>  | <b>38.2</b>  | <b>(13.0)</b> | <b>36.8</b>  | <b>(9.6)</b>  |
| <b>Tariffs (Rs/scm)</b>    | <b>1.50</b>  | <b>1.42</b>  | <b>5.8</b>    | <b>1.77</b>  | <b>(15.2)</b> |

Source: Company, BOBCAPS Research

**FIG 2 – VOLUME BREAKUP**

| Volumes (mmscmd) | Q1FY21       | Q1FY20       | YoY (%)       | Q4FY20       | QoQ (%)      |
|------------------|--------------|--------------|---------------|--------------|--------------|
| CGD              | 4.66         | 10.31        | (54.9)        | 11.03        | (57.8)       |
| Refinery/Petchem | 11.31        | 13.37        | (15.4)        | 10.67        | 6.0          |
| Fertiliser       | 2.66         | 3.82         | (30.4)        | 3.68         | (27.7)       |
| Power            | 10.31        | 4.97         | 107.6         | 5.52         | 86.8         |
| Others           | 4.32         | 5.73         | (24.6)        | 5.88         | (26.5)       |
| <b>Total</b>     | <b>33.25</b> | <b>38.20</b> | <b>(13.0)</b> | <b>36.78</b> | <b>(9.6)</b> |

Source: Company, BOBCAPS Research

## Valuation methodology

Low LNG prices, especially spot, continue to drive speedy recovery in gas consumption (~40mmscmd in Jul'20) as lockdown restrictions are eased. We cut FY21/FY22 EPS estimates by 14%/10% on lower volume assumptions, given reduced offtake from the CGD and fertiliser segments. Our Sep'21 DCF-based target price remains unchanged at Rs 310 despite rollover. At 9.5x FY22E EPS, valuations look attractive considering stronger volume visibility. The macro climate remains conducive for a surge in gas consumption. Maintain BUY.

**FIG 3 – REVISED ESTIMATES**

| (Rs mn)         | FY21E  |        |         | FY22E  |        |         | FY23E  |
|-----------------|--------|--------|---------|--------|--------|---------|--------|
|                 | Old    | New    | Var (%) | Old    | New    | Var (%) | New    |
| Revenue         | 25,579 | 22,601 | (11.6)  | 29,340 | 26,937 | (8.2)   | 29,598 |
| EBITDA          | 18,185 | 15,991 | (12.1)  | 20,651 | 18,902 | (8.5)   | 20,303 |
| PAT             | 11,356 | 9,720  | (14.4)  | 13,071 | 11,770 | (10.0)  | 12,811 |
| EPS (Rs)        | 20.1   | 17.2   | (14.4)  | 23.2   | 20.9   | (10.0)  | 22.7   |
| Volume (mmscmd) | 39.6   | 35.0   | (11.6)  | 44.1   | 40.5   | (8.2)   | 44.5   |
| Tariff (Rs/scm) | 1.74   | 1.74   | -       | 1.79   | 1.79   | -       | 1.79   |

Source: Company, BOBCAPS Research

Key assumptions for our DCF-based fair value are as under:

- cost of equity of 11.6% (from 11.3% earlier),
- terminal growth of 6%, and
- long-term tariffs at ~Rs 1.7/scm.

**FIG 4 – VALUATION SUMMARY**

| Valuation type                 | Value (Rs mn) |
|--------------------------------|---------------|
| PV of FCFE                     | 12,614        |
| PV of terminal value           | 75,362        |
| Less: Net debt*                | (28,276)      |
| Investment values              | 58,174        |
| Equity value                   | 174,425       |
| <b>Equity value (Rs/share)</b> | <b>310</b>    |

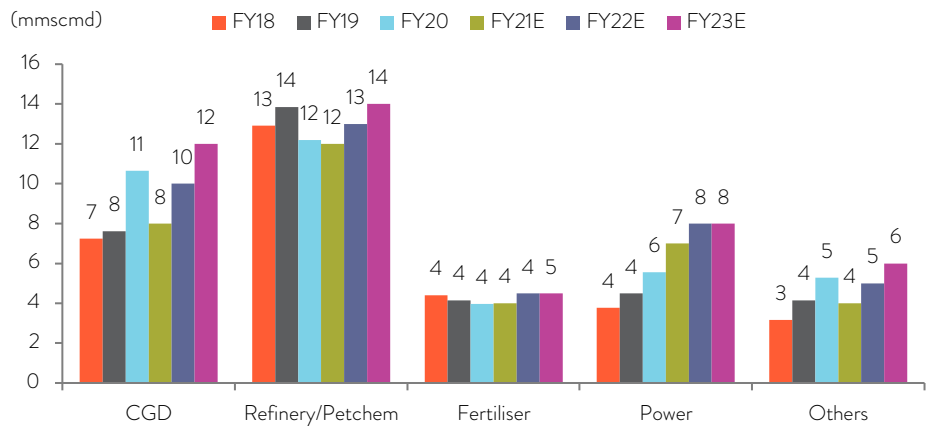
Source: BOBCAPS Research | \*Adjusted for acquisition value of equity in Gujarat Gas

**FIG 5 – FAIR VALUE SENSITIVITY TO TERMINAL GROWTH & COST OF EQUITY**

| Terminal growth (%) | Cost of Equity (%) |     |            |      |      |      |
|---------------------|--------------------|-----|------------|------|------|------|
|                     | (Rs)               | 9.6 | 10.6       | 11.6 | 12.6 | 13.6 |
|                     | 5.0                | 349 | 313        | 288  | 270  | 256  |
| 5.5                 | 371                | 327 | 298        | 277  | 261  |      |
| <b>6.0</b>          | 399                | 344 | <b>310</b> | 285  | 267  |      |
| 6.5                 | 436                | 366 | 323        | 295  | 274  |      |
| 7.0                 | 488                | 393 | 340        | 306  | 282  |      |

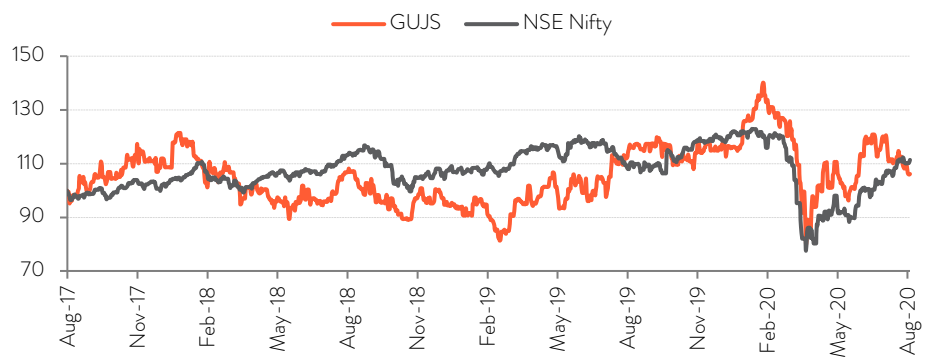
Source: BOBCAPS Research

**FIG 6 – VOLUME BREAKUP**



Source: Company, BOBCAPS Research

**FIG 7 – RELATIVE STOCK PERFORMANCE**



Source: NSE

**Key risks**

- **Regulations:** GUJS’s pipeline tariffs are regulated by PNGRB. Any reduction in tariffs on account of a change in guidelines could severely hit earnings.
- **Below-expected volume growth:** It can take longer than expected for GUJS to make up for the loss of 4-6mmscmd of volumes from RIL (post commissioning of the latter’s petcoke gasification plant), which could affect near-term earnings.

## FINANCIALS

### Income Statement

| Y/E 31 Mar (Rs mn)             | FY19A         | FY20P         | FY21E         | FY22E         | FY23E         |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Total revenue</b>           | <b>18,773</b> | <b>23,692</b> | <b>22,601</b> | <b>26,937</b> | <b>29,598</b> |
| EBITDA                         | 15,426        | 15,749        | 15,991        | 18,902        | 20,303        |
| Depreciation                   | (1,800)       | (1,966)       | (2,182)       | (2,397)       | (2,624)       |
| EBIT                           | 13,626        | 13,782        | 13,809        | 16,505        | 17,678        |
| Net interest income/(expenses) | (2,192)       | (1,645)       | (1,517)       | (1,467)       | (1,255)       |
| Other income/(expenses)        | 594           | 649           | 703           | 698           | 703           |
| EBT                            | 12,028        | 12,786        | 12,995        | 15,735        | 17,126        |
| Income taxes                   | (4,081)       | (1,699)       | (3,275)       | (3,965)       | (4,316)       |
| <b>Reported net profit</b>     | <b>7,947</b>  | <b>11,087</b> | <b>9,720</b>  | <b>11,770</b> | <b>12,811</b> |
| <b>Adjusted net profit</b>     | <b>7,947</b>  | <b>11,087</b> | <b>9,720</b>  | <b>11,770</b> | <b>12,811</b> |

### Balance Sheet

| Y/E 31 Mar (Rs mn)                    | FY19A         | FY20P         | FY21E         | FY22E          | FY23E          |
|---------------------------------------|---------------|---------------|---------------|----------------|----------------|
| Accounts payables                     | 238           | 410           | 391           | 466            | 512            |
| Other current liabilities             | 533           | 788           | 788           | 788            | 788            |
| Provisions                            | 216           | 276           | 276           | 276            | 276            |
| Debt funds                            | 25,846        | 18,248        | 19,674        | 17,013         | 14,351         |
| Other liabilities                     | 5,492         | 4,081         | 2,933         | 1,541          | 27             |
| Equity capital                        | 5,638         | 5,641         | 5,641         | 5,641          | 5,641          |
| Reserves & surplus                    | 49,762        | 61,584        | 69,074        | 78,079         | 87,881         |
| Shareholders' fund                    | 55,401        | 67,226        | 74,715        | 83,720         | 93,522         |
| <b>Total liabilities and equities</b> | <b>87,726</b> | <b>91,029</b> | <b>98,776</b> | <b>103,805</b> | <b>109,477</b> |
| Cash and cash eq.                     | 1,583         | 957           | 4,578         | 4,403          | 5,197          |
| Accounts receivables                  | 2,081         | 1,637         | 1,561         | 1,861          | 2,045          |
| Inventories                           | 1,279         | 1,261         | 1,203         | 1,434          | 1,576          |
| Other current assets                  | 172           | 376           | 449           | 449            | 449            |
| Investments                           | 42,772        | 46,111        | 42,036        | 42,036         | 42,036         |
| Net fixed assets                      | 35,524        | 38,294        | 42,558        | 47,193         | 51,703         |
| CWIP                                  | 4,194         | 2,372         | 6,390         | 6,428          | 6,471          |
| <b>Total assets</b>                   | <b>87,605</b> | <b>91,007</b> | <b>98,776</b> | <b>103,805</b> | <b>109,477</b> |

Source: Company, BOBCAPS Research

**Cash Flows**

| Y/E 31 Mar (Rs mn)                  | FY19A          | FY20P          | FY21E          | FY22E          | FY23E          |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Net income + Depreciation           | 9,746          | 13,053         | 11,902         | 14,168         | 15,435         |
| Changes in working capital          | (1,599)        | 480            | 115            | (455)          | (279)          |
| Other operating cash flows          | (352)          | (1,794)        | (1,851)        | (2,089)        | (2,217)        |
| <b>Cash flow from operations</b>    | <b>7,796</b>   | <b>11,740</b>  | <b>10,165</b>  | <b>11,623</b>  | <b>12,939</b>  |
| Capital expenditures                | (1,417)        | (2,914)        | (10,464)       | (7,071)        | (7,177)        |
| Change in investments               | (718)          | (3,339)        | 4,075          | 0              | 0              |
| Other investing cash flows          | 522            | 679            | 703            | 698            | 703            |
| <b>Cash flow from investing</b>     | <b>(1,613)</b> | <b>(5,574)</b> | <b>(5,687)</b> | <b>(6,373)</b> | <b>(6,474)</b> |
| Equities issued/Others              | 0              | 3              | 0              | 0              | 0              |
| Debt raised/repaid                  | (6,343)        | (7,598)        | 1,426          | (2,661)        | (2,661)        |
| Dividends paid                      | (1,319)        | (1,320)        | (2,283)        | (2,765)        | (3,009)        |
| Other financing cash flows          | 0              | 2,122          | 0              | 0              | 0              |
| <b>Cash flow from financing</b>     | <b>(7,662)</b> | <b>(6,793)</b> | <b>(857)</b>   | <b>(5,426)</b> | <b>(5,670)</b> |
| <b>Changes in cash and cash eq.</b> | <b>(1,480)</b> | <b>(626)</b>   | <b>3,621</b>   | <b>(176)</b>   | <b>794</b>     |
| <b>Closing cash and cash eq.</b>    | <b>2,166</b>   | <b>957</b>     | <b>4,578</b>   | <b>4,403</b>   | <b>5,197</b>   |

**Per Share**

| Y/E 31 Mar (Rs)      | FY19A | FY20P | FY21E | FY22E | FY23E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS         | 14.1  | 19.7  | 17.2  | 20.9  | 22.7  |
| Adjusted EPS         | 14.1  | 19.7  | 17.2  | 20.9  | 22.7  |
| Dividend per share   | 2.0   | 2.0   | 3.5   | 4.2   | 4.6   |
| Book value per share | 98.3  | 119.2 | 132.4 | 148.4 | 165.8 |

**Valuations Ratios**

| Y/E 31 Mar (x) | FY19A | FY20P | FY21E | FY22E | FY23E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales       | 6.7   | 5.8   | 5.9   | 4.8   | 4.3   |
| EV/EBITDA      | 8.1   | 8.8   | 8.3   | 6.8   | 6.2   |
| Adjusted P/E   | 14.1  | 10.1  | 11.5  | 9.5   | 8.8   |
| P/BV           | 2.0   | 1.7   | 1.5   | 1.3   | 1.2   |

**DuPont Analysis**

| Y/E 31 Mar (%)                  | FY19A | FY20P | FY21E | FY22E | FY23E |
|---------------------------------|-------|-------|-------|-------|-------|
| Tax burden (Net profit/PBT)     | 66.1  | 86.7  | 74.8  | 74.8  | 74.8  |
| Interest burden (PBT/EBIT)      | 88.3  | 92.8  | 94.1  | 95.3  | 96.9  |
| EBIT margin (EBIT/Revenue)      | 72.6  | 58.2  | 61.1  | 61.3  | 59.7  |
| Asset turnover (Revenue/Avg TA) | 21.3  | 26.5  | 23.8  | 26.6  | 27.8  |
| Leverage (Avg TA/Avg Equity)    | 1.7   | 1.5   | 1.3   | 1.3   | 1.2   |
| Adjusted ROAE                   | 15.2  | 18.1  | 13.7  | 14.9  | 14.5  |

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**Ratio Analysis**

| Y/E 31 Mar                                   | FY19A | FY20P | FY21E  | FY22E | FY23E |
|--|-------|-------|--------|-------|-------|
| <b>YoY growth (%)</b>                        |       |       |        |       |       |
| Revenue                                      | 41.0  | 26.2  | (4.6)  | 19.2  | 9.9   |
| EBITDA                                       | 34.4  | 2.1   | 1.5    | 18.2  | 7.4   |
| Adjusted EPS                                 | 18.9  | 39.5  | (12.3) | 21.1  | 8.8   |
| <b>Profitability &amp; Return ratios (%)</b> |       |       |        |       |       |
| EBITDA margin                                | 82.2  | 66.5  | 70.8   | 70.2  | 68.6  |
| EBIT margin                                  | 72.6  | 58.2  | 61.1   | 61.3  | 59.7  |
| Adjusted profit margin                       | 42.3  | 46.8  | 43.0   | 43.7  | 43.3  |
| Adjusted ROAE                                | 15.2  | 18.1  | 13.7   | 14.9  | 14.5  |
| ROCE   | 11.1  | 14.3  | 11.5   | 12.7  | 12.7  |
| <b>Working capital days (days)</b>           |       |       |        |       |       |
| Receivables                                  | 32    | 29    | 26     | 23    | 24    |
| Inventory                                    | 170   | 63    | 76     | 66    | 64    |
| Payables                                     | 23    | 15    | 22     | 19    | 19    |
| <b>Ratios (x)</b>                            |       |       |        |       |       |
| Gross asset turnover                         | 0.3   | 0.4   | 0.3    | 0.4   | 0.4   |
| Current ratio                                | 0.4   | 0.3   | 5.4    | 5.3   | 5.9   |
| Net interest coverage ratio                  | 6.2   | 8.4   | 9.1    | 11.2  | 14.1  |
| Adjusted debt/equity                         | 0.4   | 0.3   | 0.2    | 0.2   | 0.1   |

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

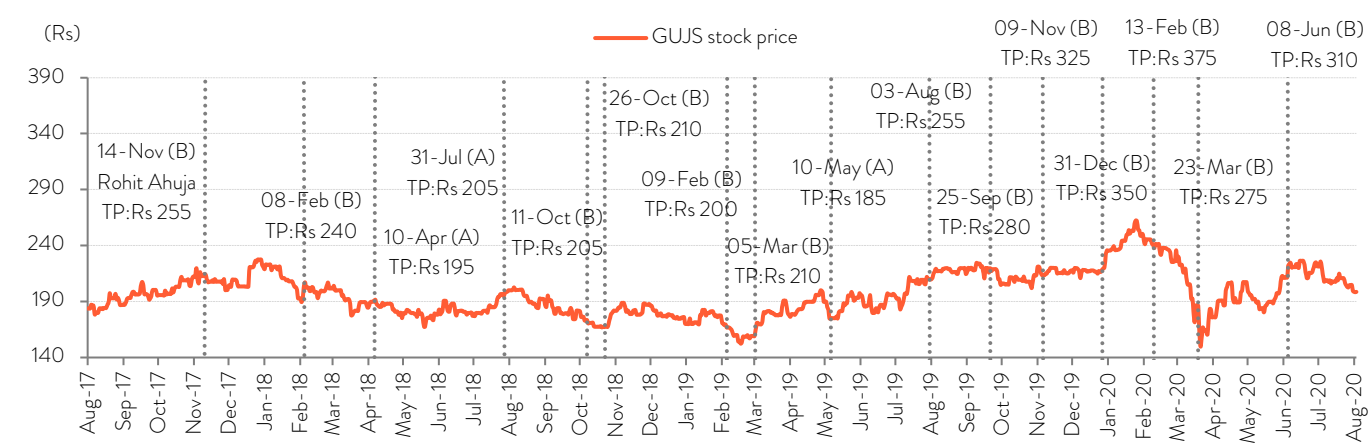
**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): GUJARAT STATE PETRONET (GUJS IN)



B – Buy, A – Add, R – Reduce, S – Sell

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