

BUY
TP: Rs 325 | ▲ 52%

**GUJARAT STATE
PETRONET**

Oil & Gas

09 November 2019

EBITDA above estimates; volume outlook improving

Gujarat State Petronet’s (GUJS) Q2FY20 EBITDA outperformed estimates at Rs 4.4bn (–15% YoY), backed by higher margins of Rs 1.2/scm (Rs 1.1/scm estimated). Volumes at 39mmscmd (+13% YoY) were in line, driven by higher offtake from the CGD and power sectors. Management maintained guidance of robust volume trends over FY20-FY22. We broadly maintain our EPS estimates; lower cost of equity assumption translate to a higher Sep’20 DCF-based TP of Rs 325 (from Rs 280).

Rohit Ahuja | Harleen Manglani
research@bobcaps.in

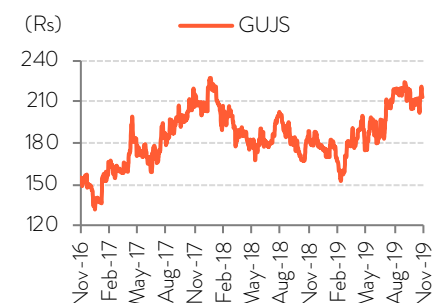
Volumes stable; CGD/power demand picks up: Q2 volumes at 39mmscmd (+13% YoY) were in line with our estimates. Demand increased from the CGD (10.6mmscmd, +12% YoY) and power (5.9mmscmd, +29% YoY) segments. Management indicated better potential from the power segment as spot LNG prices remain low (~US\$ 5/mmbtu) and demand for power is improving.

Ticker/Price	GUJS IN/Rs 214
Market cap	US\$ 1.7bn
Shares o/s	564mn
3M ADV	US\$ 1.9mn
52wk high/low	Rs 230/Rs 149
Promoter/FPI/DII	38%/15%/47%

Source: NSE

RIL continues to offtake ~9mmscmd (stable QoQ), implying its petcoke gasifiers are some time away from commissioning. While GUJS could see volume loss (4-6mmscmd) once RIL’s petcoke gasification plant comes online, this could be made up by incremental power/CGD demand in FY20-FY21.

STOCK PERFORMANCE



Source: NSE

Margins improve: Operating margins improved to Rs 1.2/scm as GUJS was able to pass on higher transmission costs (at Rs 1.4bn, ~3x QoQ) that stemmed from higher tariffs for Reliance Gas Transportation’s (RGTL) east-west pipeline.

Maintain BUY: GUJS has healthy volumes levers in place – (a) planned connectivity to all the five LNG regasification terminals in Gujarat, and (b) an improving demand outlook from CGD and power. At 14x FY22E EPS, valuations look attractive considering stronger volume visibility.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	13,317	18,773	22,760	22,779	26,241
EBITDA (Rs mn)	11,478	15,426	17,073	16,770	19,090
Adj. net profit (Rs mn)	6,684	7,947	10,395	10,165	11,912
Adj. EPS (Rs)	11.9	14.1	18.4	18.0	21.1
Adj. EPS growth (%)	34.5	18.9	30.8	(2.2)	17.2
Adj. ROAE (%)	14.2	15.2	17.3	14.8	15.5
Adj. P/E (x)	18.0	15.2	11.6	11.9	10.1
EV/EBITDA (x)	10.3	9.7	8.5	8.3	7.1

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

Y/E March (Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
Net sales	6,356	5,983	6.2	5,126	24.0	11,482	9,896	16.0
Employee costs	171	209	(18.1)	128	33.4	299	296	1.1
% of sales	2.7	3.5	-	2.5	-	2.6	3.0	-
Other expenditure	1,814	612	196.4	978	85.5	2,792	999	179.5
% of sales	28.5	10.2	-	19.1	-	24.3	10.1	-
EBITDA	4,371	5,163	(15.3)	4,020	8.7	8,391	8,601	(2.4)
EBITDA margin (%)	68.8	86.3	-	78.4	-	73.1	86.9	-
Depreciation	498	436	14.1	489	1.9	987	884	11.5
Interest	438	557	(21.4)	479	(8.6)	917	1,137	(19.3)
Other income	454	384	18.3	77	493.0	531	438	21.0
PBT	3,890	4,553	(14.6)	3,129	24.3	7,019	7,018	0.0
Provision for tax	(659)	1,319	(150.0)	1,068	(161.7)	409	2,340	(82.5)
effective tax rate	(16.9)	29.0	-	34.1	-	5.8	33.3	-
PAT (reported)	4,549	3,233	40.7	2,061	120.7	6,610	4,678	41.3
NPM (%)	50.4	54.0	-	40.2	-	57.6	47.3	-
Other comprehensive income	(7.7)	(12.7)	-	(3.1)	-	-	(5.5)	-
Total income	3,194	3,221	(0.8)	2,058	55.2	6,610	4,672	41.5
EPS (Rs)	5.68	5.73	(1.0)	3.66	55.3	11.72	8.30	41.3
Volumes (mmscm)	3,605	3,220	11.9	3,514	2.6	7,119	6,538	8.9
Volumes (mmscmd)	39.2	35.0	11.9	38.2	2.6	38.7	35.7	8.3
Tariffs (Rs/scm)	1.72	1.76	(2.0)	1.42	21.6	1.57	1.42	10.5

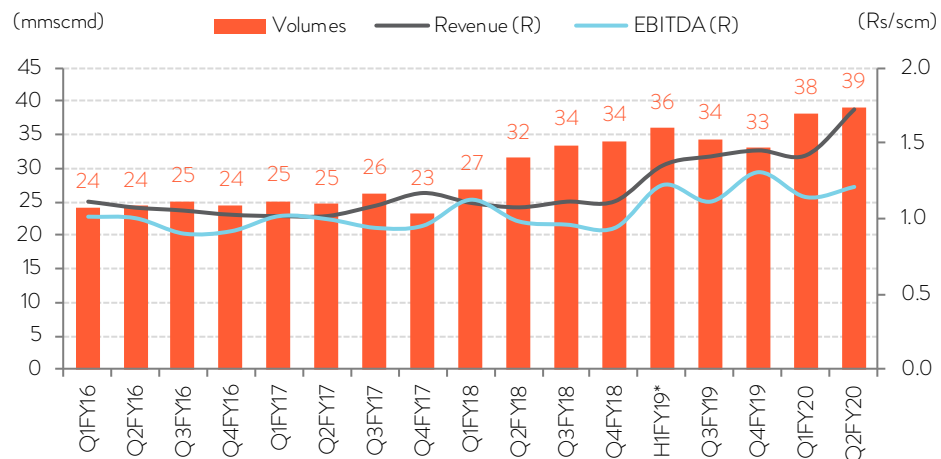
Source: Company, BOBCAPS Research

FIG 2 – VOLUME BREAKUP

Volumes (mmscmd)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
CGD	10.58	9.45	11.9	10.31	2.6	10.45	8.37	24.8
Refinery/Petchem	12.93	12.25	5.5	13.37	(3.3)	13.15	13.23	(0.6)
Fertiliser	4.31	3.50	23.1	3.82	12.8	4.06	3.94	3.2
Power	5.88	4.55	29.2	4.97	18.3	5.42	5.01	8.2
Others	5.49	4.90	11.9	5.35	2.6	5.42	4.82	12.4
Total	39.18	34.65	13.1	37.82	3.6	38.50	35.37	8.8

Source: Company, BOBCAPS Research

FIG 3 – OPERATING TRENDS



Source: Company, BOBCAPS Research | *Carries tariff adjustments retrospectively from Apr'18

Valuation methodology

GUJS has healthy volumes levers in place – (a) planned connectivity to all the five LNG regasification terminals in Gujarat, and (b) an improving demand outlook from CGD and power. At 14x FY22E EPS, valuations look attractive considering stronger volume visibility.

We broadly maintain our EPS estimates, while lower cost of equity assumptions translate to a higher Sep'20 DCF-based TP of Rs 325 (from Rs 280). Retain BUY. Key assumptions for our DCF-based fair value are as under:

- cost of equity of 9.7% (from 11.3% earlier),
- terminal growth of 6%, and
- long-term tariffs at ~Rs 1.55/scm (from Rs 1.45 earlier), factoring pass-through of higher operating expenses.

FIG 4 – VALUATION SUMMARY

Valuation type	Value (Rs mn)
PV of FCFE	18,328
PV of terminal value	1,22,002
Less: Net debt*	(14,645)
Investment values	27,081
Equity value	1,82,056
Equity value (Rs/share)	325

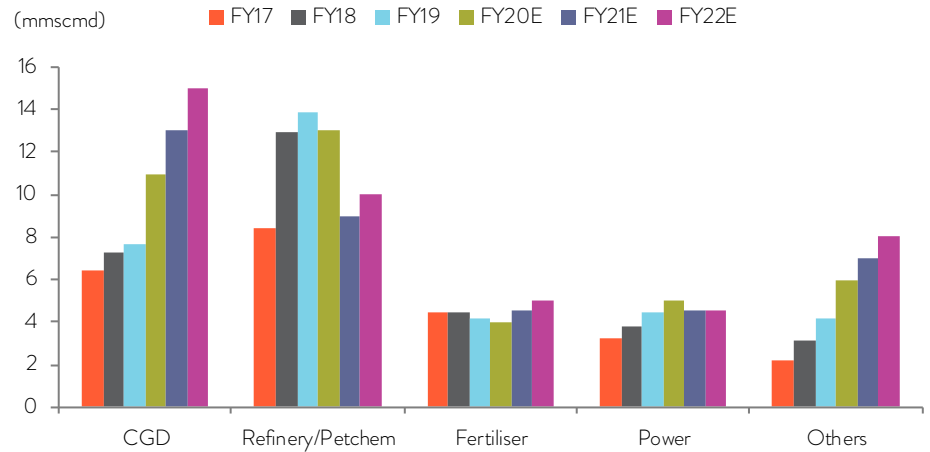
Source: BOBCAPS Research | *Adjusted for acquisition value of equity in Gujarat Gas

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

		Cost of Equity (%)				
		(Rs)	8.5	9.0	9.7	10.7
Terminal growth (%)	5.0	347	311	275	238	212
	5.5	388	342	296	251	221
	6.0	446	382	325	268	232
	6.5	532	439	358	288	245
	7.0	677	523	407	313	260

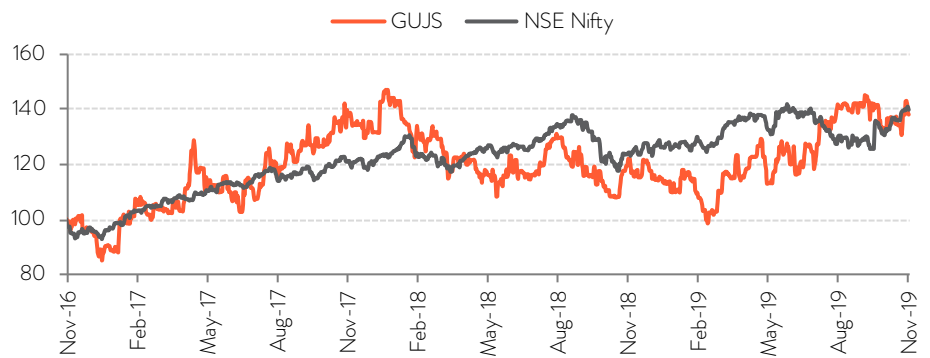
Source: BOBCAPS Research

FIG 6 – VOLUME BREAK-UP



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)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	13,317	18,773	22,760	22,779	26,241
EBITDA	11,478	15,426	17,073	16,770	19,090
Depreciation	(1,750)	(1,800)	(2,003)	(2,182)	(2,397)
EBIT	9,728	13,626	15,070	14,588	16,693
Net interest income/(expenses)	(354)	(2,192)	(1,929)	(1,682)	(1,467)
Other income/(expenses)	735	594	673	684	700
EBT	10,108	12,028	13,814	13,590	15,925
Income taxes	(3,424)	(4,081)	(2,072)	(3,425)	(4,013)
Reported net profit	6,684	7,947	10,395	10,165	11,912
Adjusted net profit	6,684	7,947	10,395	10,165	11,912

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	185	238	317	317	365
Other current liabilities	1,455	533	533	533	533
Provisions	138	216	216	216	216
Debt funds	32,189	25,846	22,372	19,674	17,013
Other liabilities	5,133	5,492	5,793	6,090	6,437
Equity capital	5,638	5,638	5,638	5,638	5,638
Reserves & surplus	43,723	49,762	59,049	66,828	75,943
Shareholders' fund	49,362	55,401	64,687	72,466	81,582
Total liabilities and equities	88,462	87,726	93,919	99,296	1,06,146
Cash and cash eq.	3,645	1,583	3,278	3,859	5,396
Accounts receivables	1,235	2,081	2,104	2,106	2,426
Inventories	1,235	1,279	2,104	2,105	2,425
Other current assets	143	172	278	278	278
Investments	42,054	42,772	42,036	42,036	42,036
Net fixed assets	31,142	35,524	38,257	42,521	47,156
CWIP	8,959	4,194	5,861	6,390	6,428
Total assets	88,413	87,605	93,919	99,296	1,06,146

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	8,434	9,746	12,398	12,347	14,309
Changes in working capital	1,100	(1,599)	(769)	(3)	(592)
Other operating cash flows	(469)	(352)	(371)	(388)	(353)
Cash flow from operations	9,064	7,796	11,257	11,956	13,365
Capital expenditures	(3,330)	(1,417)	(6,403)	(6,974)	(7,071)
Change in investments	(34,399)	(718)	735	0	0
Other investing cash flows	703	522	673	684	700
Cash flow from investing	(37,026)	(1,613)	(4,995)	(6,290)	(6,371)
Equities issued/Others	2	0	0	0	0
Debt raised/repaid	25,883	(6,343)	(3,474)	(2,698)	(2,661)
Dividends paid	(1,128)	(1,319)	(2,440)	(2,386)	(2,797)
Other financing cash flows	(1,177)	0	0	0	0
Cash flow from financing	23,581	(7,662)	(5,914)	(5,085)	(5,458)
Changes in cash and cash eq.	(4,381)	(1,480)	348	581	1,536
Closing cash and cash eq.	3,646	2,166	1,931	3,859	5,396

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	11.9	14.1	18.4	18.0	21.1
Adjusted EPS	11.9	14.1	18.4	18.0	21.1
Dividend per share	1.8	2.0	3.7	3.6	4.2
Book value per share	87.5	98.3	114.7	128.5	144.7

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	8.9	7.9	6.4	6.1	5.2
EV/EBITDA	10.3	9.7	8.5	8.3	7.1
Adjusted P/E	18.0	15.2	11.6	11.9	10.1
P/BV	2.4	2.2	1.9	1.7	1.5

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	66.1	66.1	75.2	74.8	74.8
Interest burden (PBT/EBIT)	103.9	88.3	91.7	93.2	95.4
EBIT margin (EBIT/Revenue)	73.0	72.6	66.2	64.0	63.6
Asset turnover (Revenue/Avg TA)	18.2	21.3	25.1	23.6	25.5
Leverage (Avg TA/Avg Equity)	1.6	1.7	1.5	1.4	1.3
Adjusted ROAE	14.2	15.2	17.3	14.8	15.5

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	29.6	41.0	21.2	0.1	15.2
EBITDA	29.2	34.4	10.7	(1.8)	13.8
Adjusted EPS	34.5	18.9	30.8	(2.2)	17.2
Profitability & Return ratios (%)					
EBITDA margin	86.2	82.2	75.0	73.6	72.7
EBIT margin	73.0	72.6	66.2	64.0	63.6
Adjusted profit margin	50.2	42.3	45.7	44.6	45.4
Adjusted ROAE	14.2	15.2	17.3	14.8	15.5
ROCE	9.7	11.1	15.2	12.2	13.1
Working capital days (days)					
Receivables	34	32	34	34	32
Inventory	306	170	124	146	130
Payables	32	23	18	19	17
Ratios (x)					
Gross asset turnover	0.2	0.3	0.4	0.3	0.4
Current ratio	0.4	0.4	7.3	7.8	9.4
Net interest coverage ratio	27.5	6.2	7.8	8.7	11.4
Adjusted debt/equity	0.6	0.4	0.3	0.2	0.1

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

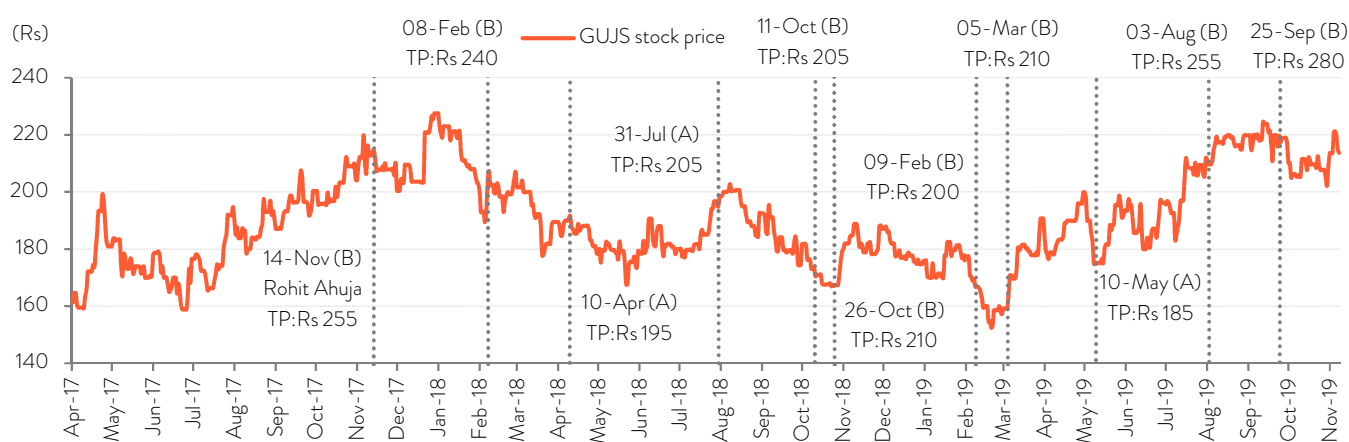
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: GUJARAT STATE PETRONET (GUJS IN)



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

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