

**BUY**

TP: Rs 375 | ▲ 58%

**GUJARAT STATE  
PETRONET**

| Oil &amp; Gas

| 13 February 2020

**EBITDA underperforms; volume outlook improving**

**Gujarat State Petronet's (GUJS) Q3FY20 EBITDA underperformed estimates at Rs 3.8bn (+7.6% YoY) due to lower volumes (37mmscmd, -5.7% QoQ).**

**Volumes were affected by reduced offtake from refineries – this could reverse from Q4FY20 following the recent crash in LNG prices. Power offtake is guided to pick up (from FY21) on an improved power demand outlook coupled with low LNG prices. We broadly maintain EPS estimates; our DCF-based TP increases to Rs 375 (from Rs 350) on higher value of investments (GUJGA).**

Rohit Ahuja | Harleen Manglani

research@bobcaps.in

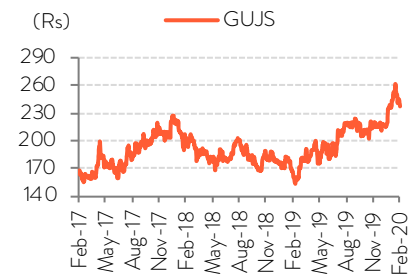
**Volumes decline:** Lower offtake from the refinery/petchem segment at 11.8mmscmd (-16% YoY) dampened volumes. Offtake increased from the CGD (10.7mmscmd, +35% YoY), power (5.9mmscmd, +32% YoY) and fertiliser (4.06mmscmd, +7.3% YoY) segments. Management sees better potential ahead from the power segment as spot LNG prices remain low (<US\$ 3/mmbtu) and demand for power is improving.

**RIL offtake steady for now:** RIL continues to absorb ~9mmscmd (stable QoQ), implying its petcoke gasifiers are some time away from being commissioned. While GUJS could see volume loss (4-6mmscmd) once RIL's petcoke gasification plant comes online, this could be made up by incremental power and CGD demand in FY20-FY21.

**Maintain BUY:** GUJS has healthy volumes levers in place, viz. (a) planned connectivity to all the five LNG regasification terminals in Gujarat, and (b) an improving demand outlook from CGD and power. Commissioning of the Mundra LNG terminal is expected add to volumes from Q4FY20. At 11.3x FY22E EPS, valuations look attractive considering stronger volume visibility.

Ticker/Price	GUJS IN/Rs 238
Market cap	US\$ 1.9bn
Shares o/s	564mn
3M ADV	US\$ 1.8mn
52wk high/low	Rs 264/Rs 149
Promoter/FPI/DII	38%/16%/46%

Source: NSE

**STOCK PERFORMANCE**

Source: NSE

**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)	20.1	16.9	12.9	13.2	11.3
EV/EBITDA (x)	11.8	9.6	9.4	9.3	7.9

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**

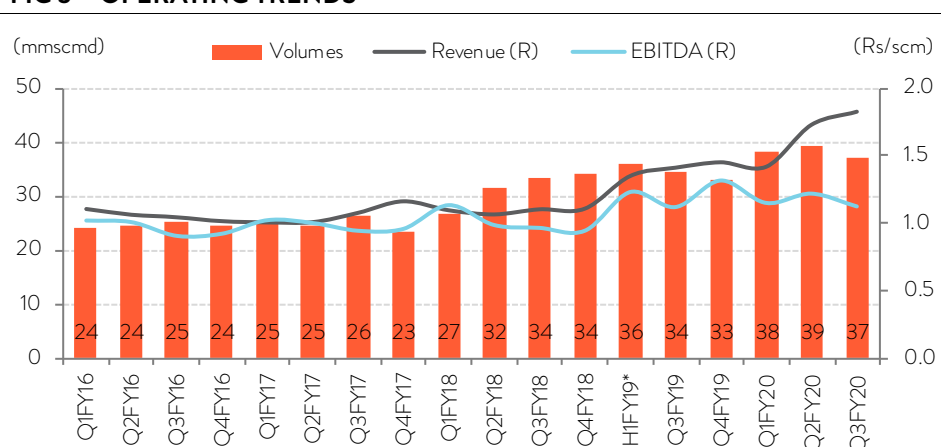
Y/E March (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
<b>Net sales</b>	<b>6,259</b>	<b>4,538</b>	<b>37.9</b>	<b>6,356</b>	<b>(1.5)</b>	<b>17,741</b>	<b>14,434</b>	<b>22.9</b>
Employee costs	154	202	(23.9)	171	(9.8)	453	498	(9.1)
% of sales	2.5	4.5	-	2.7	-	2.6	3.5	-
Other expenditure	2,305	804	186.8	1,814	27.1	5,096	1,803	182.7
% of sales	36.8	17.7	-	28.5	-	28.7	12.5	-
<b>EBITDA</b>	<b>3,800</b>	<b>3,532</b>	<b>7.6</b>	<b>4,371</b>	<b>(13.1)</b>	<b>12,192</b>	<b>12,133</b>	<b>0.5</b>
<b>EBITDA margin (%)</b>	<b>60.7</b>	<b>77.8</b>	<b>-</b>	<b>68.8</b>	<b>-</b>	<b>68.7</b>	<b>84.1</b>	<b>-</b>
Depreciation	497	440	13.0	498	(0.1)	1,484	1,324	12.0
Interest	383	551	(30.5)	438	(12.6)	1,299	1,687	(23.0)
Other income	52	76	(32.4)	454	(88.7)	582	515	13.1
<b>PBT</b>	<b>2,972</b>	<b>2,618</b>	<b>13.5</b>	<b>3,890</b>	<b>(23.6)</b>	<b>9,991</b>	<b>9,636</b>	<b>3.7</b>
Provision for tax	751	882	(14.9)	(659)	(213.9)	1,159	3,223	(64.0)
effective tax rate	25.3	33.7	-	(16.9)	-	11.6	33.4	-
<b>PAT (reported)</b>	<b>2,221</b>	<b>1,736</b>	<b>28.0</b>	<b>4,549</b>	<b>(51.2)</b>	<b>8,831</b>	<b>6,413</b>	<b>37.7</b>
<b>NPM (%)</b>	<b>35.5</b>	<b>38.2</b>	<b>-</b>	<b>71.6</b>	<b>-</b>	<b>49.8</b>	<b>44.4</b>	<b>-</b>
Other comprehensive income	-	(9.4)	-	(7.7)	-	-	(18.2)	-
<b>Total income</b>	<b>2,221</b>	<b>1,726</b>	<b>28.7</b>	<b>4,541</b>	<b>(51.1)</b>	<b>8,831</b>	<b>6,395</b>	<b>38.1</b>
<b>EPS (Rs)</b>	<b>3.94</b>	<b>3.08</b>	<b>28.0</b>	<b>8.07</b>	<b>(51.2)</b>	<b>15.66</b>	<b>11.37</b>	<b>37.7</b>
<b>Volumes (mmscm)</b>	<b>3,398</b>	<b>3,168</b>	<b>7.3</b>	<b>3,605</b>	<b>(5.7)</b>	<b>10,517</b>	<b>9,705</b>	<b>8.4</b>
<b>Volumes (mmscmd)</b>	<b>36.9</b>	<b>34.4</b>	<b>7.3</b>	<b>39.2</b>	<b>(5.7)</b>	<b>38.1</b>	<b>35.3</b>	<b>8.0</b>
<b>Tariffs (Rs/scm)</b>	<b>1.82</b>	<b>1.41</b>	<b>29.1</b>	<b>1.72</b>	<b>5.6</b>	<b>1.65</b>	<b>1.41</b>	<b>17.6</b>

Source: Company, BOBCAPS Research

**FIG 2 – VOLUME BREAKUP**

Volumes (mmscmd)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
CGD	10.71	7.92	35.3	10.58	1.3	8.22	10.56	(22.1)
Refinery/Petchem	11.82	14.12	(16.3)	12.93	(8.6)	13.53	12.66	6.9
Fertiliser	4.06	3.79	7.3	4.31	(5.7)	3.89	4.03	(3.6)
Power	5.91	4.48	32.0	5.88	0.6	4.83	5.81	(16.8)
Others	4.43	4.13	7.3	5.49	(19.2)	4.59	4.92	(6.6)
<b>Total</b>	<b>36.94</b>	<b>34.43</b>	<b>7.3</b>	<b>39.18</b>	<b>(5.7)</b>	<b>35.06</b>	<b>37.97</b>	<b>(7.7)</b>

Source: Company, BOBCAPS Research

**FIG 3 – OPERATING TRENDS**

Source: Company, BOBCAPS Research

## 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 11.3x FY22E EPS, valuations look attractive considering stronger volume visibility. We raise our DCF-based target price to Rs 375 (from Rs 350) on higher value of investments in Gujarat Gas (GUJGA). Maintain BUY.

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

- cost of equity of 10.1% (from 9.9%),
- terminal growth of 6%, and
- long-term tariffs at ~Rs 1.55/scm

### FIG 4 – VALUATION SUMMARY

Valuation type	Value (Rs mn)
PV of FCFE	20,477
PV of terminal value	202,797
Less: Net debt*	(14,645)
Investment values	57,576
Equity value	212,160
<b>Equity value (Rs/share)</b>	<b>375</b>

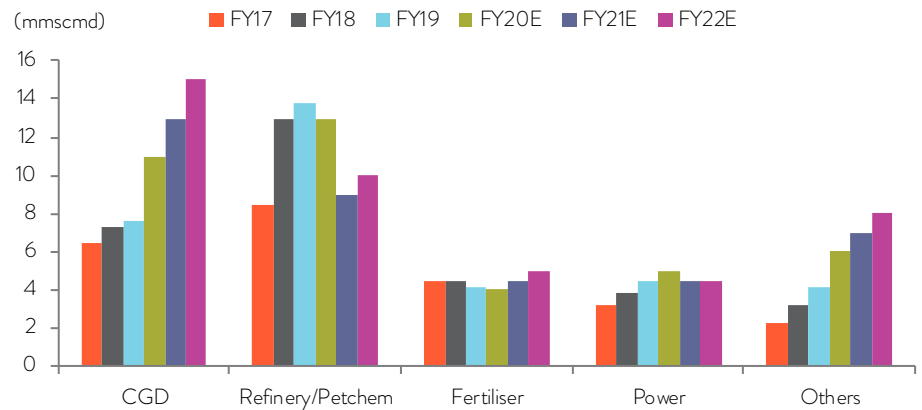
Source: BOBCAPS Research | \*Adjusted for acquisition value of equity in Gujarat Gas

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

		Cost of Equity (%)				
		(Rs)	8.1	9.1	10.1	11.1
Terminal growth (%)	5.0	473	386	333	298	273
	5.5	534	418	353	311	282
	<b>6.0</b>	624	460	<b>375</b>	326	292
	6.5	770	518	407	344	304
	7.0	1,048	605	447	367	319

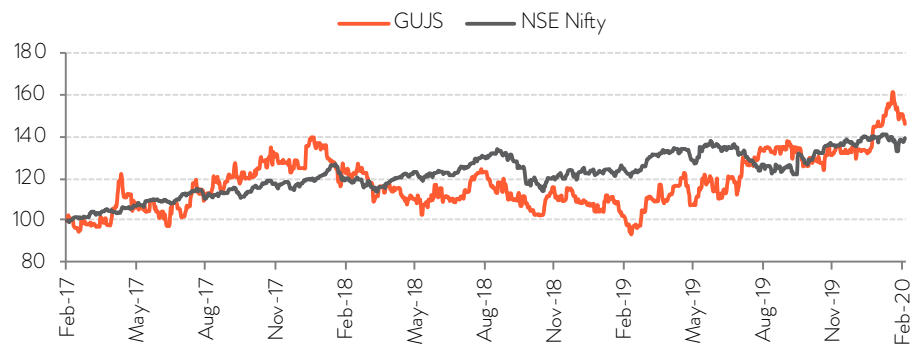
Source: BOBCAPS Research

**FIG 6 – VOLUME BREAK-UP**



Source: BOBCAPS Research, Company

**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
<b>Total revenue</b>	<b>13,317</b>	<b>18,773</b>	<b>22,760</b>	<b>22,779</b>	<b>26,241</b>
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)
<b>Reported net profit</b>	<b>6,684</b>	<b>7,947</b>	<b>10,395</b>	<b>10,165</b>	<b>11,912</b>
<b>Adjusted net profit</b>	<b>6,684</b>	<b>7,947</b>	<b>10,395</b>	<b>10,165</b>	<b>11,912</b>

### 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
<b>Total liabilities and equities</b>	<b>88,462</b>	<b>87,726</b>	<b>93,919</b>	<b>99,296</b>	<b>106,146</b>
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
<b>Total assets</b>	<b>88,413</b>	<b>87,605</b>	<b>93,919</b>	<b>99,296</b>	<b>106,146</b>

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)
<b>Cash flow from operations</b>	<b>9,064</b>	<b>7,796</b>	<b>11,257</b>	<b>11,956</b>	<b>13,365</b>
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
<b>Cash flow from investing</b>	<b>(37,026)</b>	<b>(1,613)</b>	<b>(4,995)</b>	<b>(6,290)</b>	<b>(6,371)</b>
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
<b>Cash flow from financing</b>	<b>23,581</b>	<b>(7,662)</b>	<b>(5,914)</b>	<b>(5,085)</b>	<b>(5,458)</b>
<b>Changes in cash and cash eq.</b>	<b>(4,381)</b>	<b>(1,480)</b>	<b>348</b>	<b>581</b>	<b>1,536</b>
<b>Closing cash and cash eq.</b>	<b>3,646</b>	<b>2,166</b>	<b>1,931</b>	<b>3,859</b>	<b>5,396</b>

**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	10.2	7.9	7.1	6.8	5.8
EV/EBITDA	11.8	9.6	9.4	9.3	7.9
Adjusted P/E	20.1	16.9	12.9	13.2	11.3
P/BV	2.7	2.4	2.1	1.9	1.6

**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
<b>YoY growth (%)</b>					
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
<b>Profitability &amp; Return ratios (%)</b>					
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
<b>Working capital days (days)</b>					
Receivables	34	32	34	34	32
Inventory	306	170	124	146	130
Payables	32	23	18	19	17
<b>Ratios (x)</b>					
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

## Disclaimer

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

**BUY** – Expected return >+15%

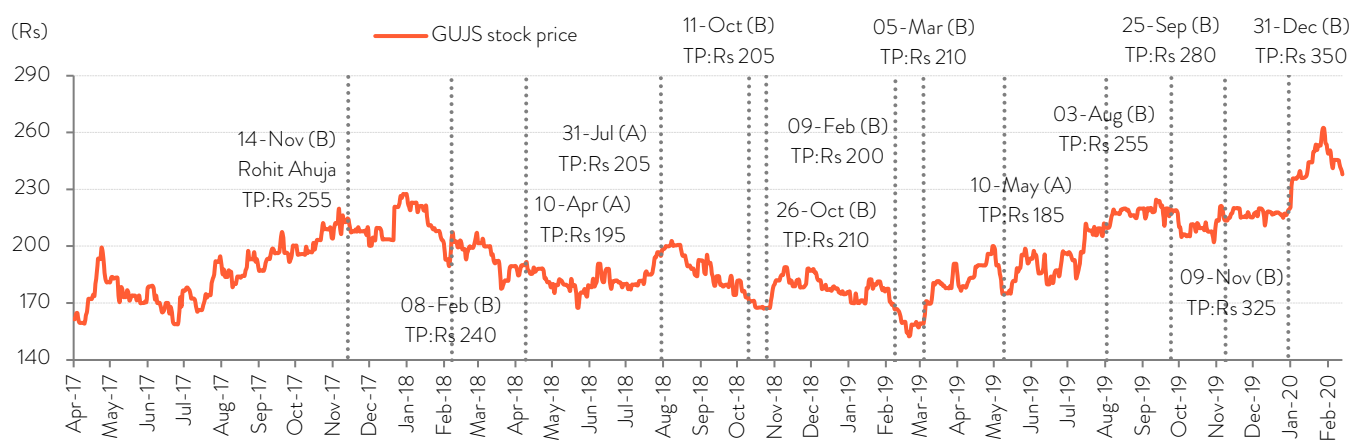
**ADD** – Expected return from >+5% to +15%

**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)

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



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

### Rating distribution

As of 31 January 2020, out of 85 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 50 have BUY ratings, 18 are rated ADD, 8 are rated REDUCE and 9 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

### Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

### General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations



expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

### **Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014**

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.