

**BUY**

TP: Rs 310 | ▲ 40%

**GUJARAT STATE  
PETRONET**

Oil &amp; Gas

08 June 2020

**Volumes buoyant**

**Gujarat State Petronet's (GUJS) Q4FY20 EBITDA underperformed estimates at Rs 3.6bn (+8% YoY) due to higher expenses. Volumes outperformed at 36.8mmscmd (+13% YoY) on higher offtake from the CGD and power segments. Low LNG prices (especially spot) continue to drive gas demand and are ensuring a faster recovery in gas consumption (currently at ~38mmscmd in Jun'20) as lockdown restrictions are eased. We raise our FY21/FY22 EPS estimates by 12%/10%; our DCF-based TP increases to Rs 310 (from Rs 275).**

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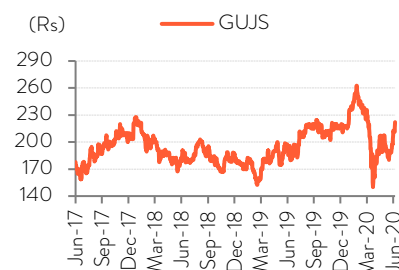
**Volumes sustain as demand from power sector picks up:** Q4 volumes improved to 36.8mmscmd (+13% YoY) as demand from the CGD (11mmscmd, +36% YoY) and power (5.5mmscmd, +89% YoY) segments increased. Offtake from the refinery (10.7mmscmd, -11% YoY) and fertiliser (3.7mmscmd, -13% YoY) sectors was hit by maintenance shutdowns. Volumes to the power segment have surged to ~10mmscmd in June so far, and management sees even higher offtake potential as spot LNG prices remain low (<US\$ 3/mmbtu).

**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 (4-6mmscmd) once RIL's petcoke gasification plant comes online, this could be made up by incremental power or CGD demand in FY20-FY21.

**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 is expected to add volumes from Q4FY20. At 9.6x FY22E EPS, valuations look attractive considering stronger volume visibility. We raise FY21/FY22 earnings estimates by 12%/10% on higher volume assumptions as the macro climate remains conducive for a surge in gas consumption.

Ticker/Price	GUJS IN/Rs 222
Market cap	US\$ 1.7bn
Shares o/s	564mn
3M ADV	US\$ 1.8mn
52wk high/low	Rs 264/Rs 146
Promoter/FPI/DII	38%/16%/47%

Source: NSE

**STOCK PERFORMANCE**

Source: NSE

**KEY FINANCIALS**

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	13,317	18,773	23,692	25,579	29,340
EBITDA (Rs mn)	11,478	15,426	15,749	18,185	20,651
Adj. net profit (Rs mn)	6,684	7,947	11,087	11,356	13,071
Adj. EPS (Rs)	11.9	14.1	19.7	20.1	23.2
Adj. EPS growth (%)	34.5	18.9	39.5	2.4	15.1
Adj. ROAE (%)	14.2	15.2	18.1	15.9	16.1
Adj. P/E (x)	18.7	15.8	11.3	11.0	9.6
EV/EBITDA (x)	11.1	9.0	9.6	8.0	6.9

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)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
<b>Net sales</b>	<b>5,952</b>	<b>4,339</b>	<b>37.2</b>	<b>6,259</b>	<b>(4.9)</b>	<b>23,692</b>	<b>18,773</b>	<b>26.2</b>
Employee costs	166	147	12.9	154	8.0	619	645	(4.1)
% of sales	2.8	3.4	-	2.5	-	2.6	3.4	-
Other expenditure	2,228	899	148.0	2,305	(3.3)	7,324	2,370	209.1
% of sales	37.4	20.7	-	36.8	-	30.9	12.6	-
<b>EBITDA</b>	<b>3,557</b>	<b>3,293</b>	<b>8.0</b>	<b>3,800</b>	<b>(6.4)</b>	<b>15,749</b>	<b>15,757</b>	<b>(0.1)</b>
<b>EBITDA margin (%)</b>	<b>59.8</b>	<b>75.9</b>	<b>-</b>	<b>60.7</b>	<b>-</b>	<b>66.5</b>	<b>83.9</b>	<b>-</b>
Depreciation	483	475	1.5	497	(2.9)	1,966	1,800	9.3
Interest	346	505	(31.5)	383	(9.6)	1,645	2,192	(24.9)
Other income	67	79	(15.9)	52	29.1	649	594	9.3
<b>PBT</b>	<b>2,795</b>	<b>2,392</b>	<b>16.9</b>	<b>2,972</b>	<b>(5.9)</b>	<b>12,786</b>	<b>12,359</b>	<b>3.5</b>
Provision for tax	539	859	(37.2)	751	(28.1)	1,699	4,081	(58.4)
effective tax rate	19.3	35.9	-	25.3	-	13.3	33.0	-
<b>PAT (reported)</b>	<b>2,256</b>	<b>1,533</b>	<b>47.1</b>	<b>2,221</b>	<b>1.6</b>	<b>11,087</b>	<b>8,278</b>	<b>33.9</b>
<b>NPM (%)</b>	<b>37.9</b>	<b>35.3</b>		<b>35.5</b>		<b>46.8</b>	<b>44.1</b>	
Other comprehensive income	-	-	-	-	-	-	-	-
<b>Total income</b>	<b>2,256</b>	<b>1,533</b>	<b>47.1</b>	<b>2,221</b>	<b>1.6</b>	<b>11,087</b>	<b>8,278</b>	<b>33.9</b>
<b>EPS (Rs)</b>	<b>4.00</b>	<b>2.72</b>	<b>47.1</b>	<b>3.94</b>	<b>1.5</b>	<b>19.66</b>	<b>14.68</b>	<b>33.9</b>
<b>Volumes (mmscm)</b>	<b>3,310</b>	<b>2,921</b>	<b>13.3</b>	<b>3,398</b>	<b>(2.6)</b>	<b>13,791</b>	<b>12,626</b>	<b>9.2</b>
<b>Volumes (mmscmd)</b>	<b>36.8</b>	<b>32.5</b>	<b>13.3</b>	<b>36.9</b>	<b>(0.4)</b>	<b>37.7</b>	<b>34.6</b>	<b>8.9</b>
<b>Tariffs (Rs/scm)</b>	<b>1.77</b>	<b>1.49</b>	<b>19.2</b>	<b>1.82</b>	<b>(2.7)</b>	<b>1.69</b>	<b>1.43</b>	<b>17.9</b>

Source: Company, BOBCAPS Research

**FIG 2 – VOLUME BREAKUP**

Volumes (mmscmd)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
CGD	11.03	8.11	36.0	10.71	3.0	10.66	7.61	40.1
Refinery/Petchem	10.67	12.01	(11.2)	11.82	(9.8)	12.20	13.83	(11.8)
Fertiliser	3.68	4.22	(12.8)	4.06	(9.5)	3.97	4.15	(4.4)
Power	5.52	2.92	88.9	5.91	(6.7)	5.57	4.50	23.8
Others	5.88	4.87	20.9	4.43	32.8	5.29	4.15	27.4
<b>Total</b>	<b>36.78</b>	<b>32.5</b>	<b>13.3</b>	<b>36.94</b>	<b>(0.4)</b>	<b>37.68</b>	<b>34.24</b>	<b>10.0</b>

Source: Company, BOBCAPS Research

## Valuation methodology

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 begun to add volumes from Q4FY20.

At 9.6x FY22E EPS, valuations look attractive considering stronger volume visibility. We raise FY21/FY22 earnings estimates by 12%/10% on higher volume assumptions as the macro climate remains conducive for a surge in gas consumption. Maintain BUY with a revised Mar'21 target price of Rs 310 (from Rs 275).

### FIG 3 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22		
	Old	New	Var (%)	Old	New	Var (%)
Revenue	23,200	25,579	10.3	26,758	29,340	9.6
EBITDA	16,003	18,185	13.6	18,793	20,651	9.9
PAT	10,148	11,356	11.9	11,896	13,071	9.9
EPS (Rs)	18.0	20.1	11.8	21.1	23.2	9.8
Volume (mmscmd)	36.6	39.6	8.2	40.0	44.1	10.3
Tariff (Rs/scm)	1.70	1.74	2.1	1.80	1.79	(0.7)

Source: Company, BOBCAPS Research

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

- cost of equity of 11.3% (from 11.8% 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	17,085
PV of terminal value	74,720
Less: Net debt*	(27,145)
Investment values	55,000
Equity value	173,835
<b>Equity value (Rs/share)</b>	<b>310</b>

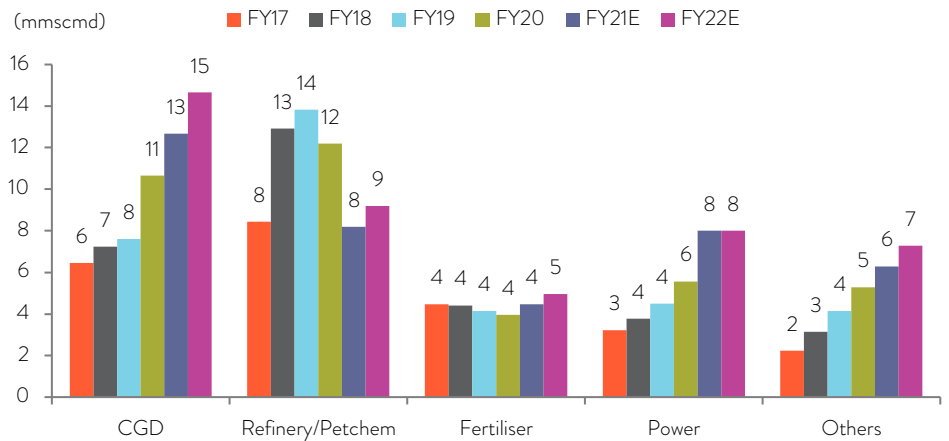
Source: BOBCAPS Research | \*Adjusted for acquisition value of equity in Gujarat Gas

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

Terminal growth (%)	Cost of Equity (%)					
	(Rs)	9.3	10.3	11.3	12.3	13.3
	5.0	356	315	286	266	250
5.5	381	330	296	273	256	
<b>6.0</b>	413	348	<b>310</b>	281	262	
6.5	457	372	323	291	269	
7.0	520	403	341	303	277	

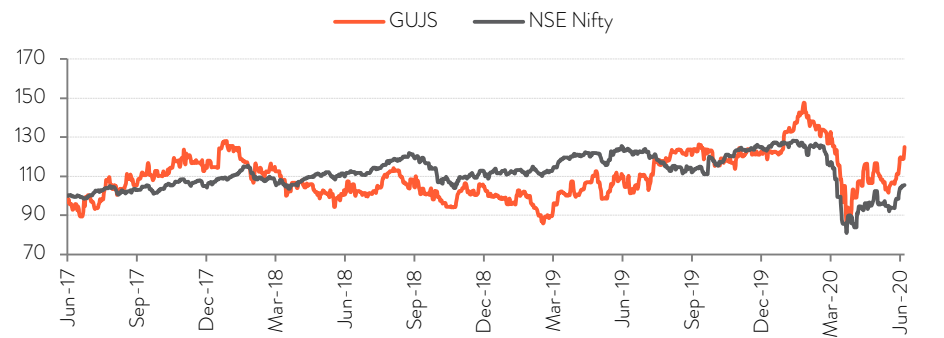
Source: BOBCAPS Research

**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	FY20P	FY21E	FY22E
<b>Total revenue</b>	<b>13,317</b>	<b>18,773</b>	<b>23,692</b>	<b>25,579</b>	<b>29,340</b>
EBITDA	11,478	15,426	15,749	18,185	20,651
Depreciation	(1,750)	(1,800)	(1,966)	(2,182)	(2,397)
EBIT	9,728	13,626	13,782	16,003	18,254
Net interest income/(expenses)	(354)	(2,192)	(1,645)	(1,517)	(1,467)
Other income/(expenses)	735	594	649	695	688
EBT	10,108	12,028	12,786	15,182	17,475
Income taxes	(3,424)	(4,081)	(1,699)	(3,826)	(4,404)
<b>Reported net profit</b>	<b>6,684</b>	<b>7,947</b>	<b>11,087</b>	<b>11,356</b>	<b>13,071</b>
<b>Adjusted net profit</b>	<b>6,684</b>	<b>7,947</b>	<b>11,087</b>	<b>11,356</b>	<b>13,071</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	185	238	410	356	409
Other current liabilities	1,455	533	788	788	788
Provisions	138	216	276	276	276
Debt funds	32,189	25,846	18,248	19,674	17,013
Other liabilities	5,133	5,492	4,081	2,739	1,194
Equity capital	5,638	5,638	5,641	5,641	5,641
Reserves & surplus	43,723	49,762	61,584	70,325	80,326
Shareholders' fund	49,362	55,401	67,226	75,966	85,967
<b>Total liabilities and equities</b>	<b>88,462</b>	<b>87,726</b>	<b>91,029</b>	<b>99,800</b>	<b>105,647</b>
Cash and cash eq.	3,645	1,583	957	3,594	4,066
Accounts receivables	1,235	2,081	1,637	2,387	2,738
Inventories	1,235	1,279	1,261	2,386	2,736
Other current assets	143	172	376	449	449
Investments	42,054	42,772	46,111	42,036	42,036
Net fixed assets	31,142	35,524	38,294	42,558	47,193
CWIP	8,959	4,194	2,372	6,390	6,428
<b>Total assets</b>	<b>88,413</b>	<b>87,605</b>	<b>91,007</b>	<b>99,800</b>	<b>105,647</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	8,434	9,746	13,053	13,538	15,468
Changes in working capital	1,100	(1,599)	480	(1,928)	(649)
Other operating cash flows	(469)	(352)	(1,794)	(2,037)	(2,233)
<b>Cash flow from operations</b>	<b>9,064</b>	<b>7,796</b>	<b>11,740</b>	<b>9,572</b>	<b>12,586</b>
Capital expenditures	(3,330)	(1,417)	(2,914)	(10,464)	(7,071)
Change in investments	(34,399)	(718)	(3,339)	4,075	0
Other investing cash flows	703	522	679	695	688
<b>Cash flow from investing</b>	<b>(37,026)</b>	<b>(1,613)</b>	<b>(5,574)</b>	<b>(5,694)</b>	<b>(6,383)</b>
Equities issued/Others	2	0	3	0	0
Debt raised/repaid	25,883	(6,343)	(7,598)	1,426	(2,661)
Dividends paid	(1,128)	(1,319)	(1,320)	(2,667)	(3,070)
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>(8,915)</b>	<b>(1,241)</b>	<b>(5,731)</b>
<b>Changes in cash and cash eq.</b>	<b>(4,381)</b>	<b>(1,480)</b>	<b>(2,748)</b>	<b>2,637</b>	<b>472</b>
<b>Closing cash and cash eq.</b>	<b>3,646</b>	<b>2,166</b>	<b>(1,165)</b>	<b>3,594</b>	<b>4,066</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	11.9	14.1	19.7	20.1	23.2
Adjusted EPS	11.9	14.1	19.7	20.1	23.2
Dividend per share	1.8	2.0	2.0	4.0	4.7
Book value per share	87.5	98.3	119.2	134.7	152.4

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	9.5	7.4	6.4	5.7	4.8
EV/EBITDA	11.1	9.0	9.6	8.0	6.9
Adjusted P/E	18.7	15.8	11.3	11.0	9.6
P/BV	2.5	2.3	1.9	1.6	1.5

**DuPont Analysis**

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	66.1	66.1	86.7	74.8	74.8
Interest burden (PBT/EBIT)	103.9	88.3	92.8	94.9	95.7
EBIT margin (EBIT/Revenue)	73.0	72.6	58.2	62.6	62.2
Asset turnover (Revenue/Avg TA)	18.2	21.3	26.5	26.8	28.6
Leverage (Avg TA/Avg Equity)	1.6	1.7	1.5	1.3	1.3
Adjusted ROAE	14.2	15.2	18.1	15.9	16.1

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

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	29.6	41.0	26.2	8.0	14.7
EBITDA	29.2	34.4	2.1	15.5	13.6
Adjusted EPS	34.5	18.9	39.5	2.4	15.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	86.2	82.2	66.5	71.1	70.4
EBIT margin	73.0	72.6	58.2	62.6	62.2
Adjusted profit margin	50.2	42.3	46.8	44.4	44.6
Adjusted ROAE	14.2	15.2	18.1	15.9	16.1
ROCE	9.7	11.1	14.3	13.2	13.7
<b>Working capital days (days)</b>					
Receivables	34	32	29	29	32
Inventory	306	170	63	99	117
Payables	32	23	15	19	16
<b>Ratios (x)</b>					
Gross asset turnover	0.2	0.3	0.4	0.4	0.4
Current ratio	0.4	0.4	0.3	6.2	6.8
Net interest coverage ratio	27.5	6.2	8.4	10.6	12.4
Adjusted debt/equity	0.6	0.4	0.3	0.2	0.2

Source: Company, BOBCAPS Research

## Disclaimer

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

**BUY** – Expected return >+15%

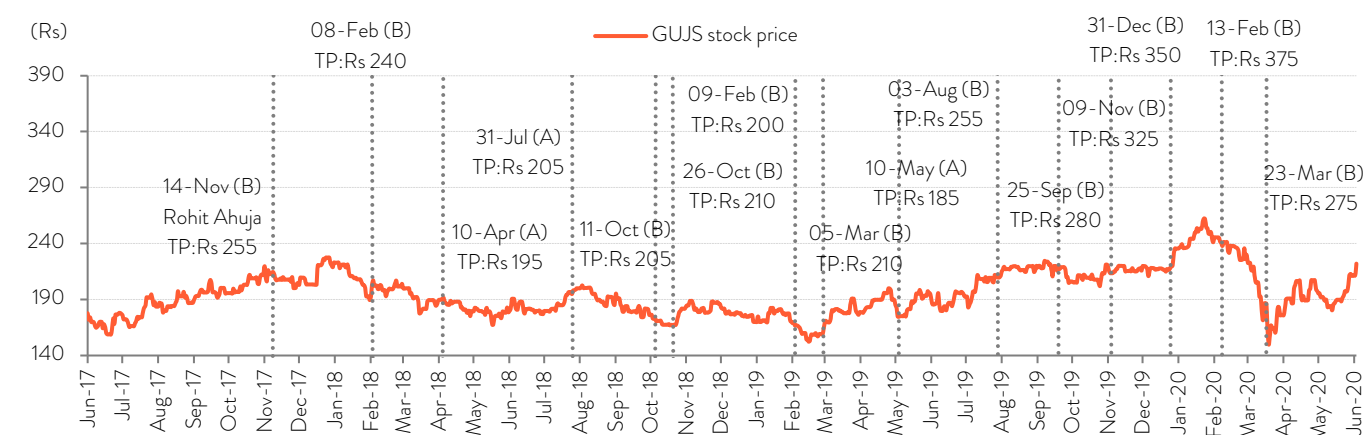
**ADD** – Expected return from >+5% to +15%

**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

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