

Gujarat State Petronet

Estimate changes

TP change

Rating change



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Bloomberg	GUJS IN
Equity Shares (m)	564
M.Cap.(INRb)/(USDb)	183.1 / 2.5
52-Week Range (INR)	361 / 178
1, 6, 12 Rel. Per (%)	-1/40/14
12M Avg Val (INR M)	297

Financials & Valuations (INR b)

Y/E March	FY21	FY22E	FY23E
Sales	17.2	19.1	20.9
EBITDA	14.7	15.8	17.3
PAT	9.3	10.3	11.3
EPS (INR)	16.4	18.3	20.1
EPS Gr. (%)	-16.5	11.2	10.0
BV/Sh.(INR)	133.8	150.0	168.1

Ratios

Net D:E	0.1	0.0	0.0
RoE (%)	13.0	12.9	12.6
RoCE (%)	12.8	12.2	12.0
Payout (%)	14.7	11.0	10.0

Valuations

P/E (x)	19.7	17.8	16.1
P/BV (x)	2.4	2.2	1.9
EV/EBITDA (x)	12.9	11.7	10.3
Div. Yield (%)	0.6	0.6	0.6
FCF Yield (%)	6.2	3.0	3.7

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	37.6	37.6	37.6
DII	30.0	30.0	33.6
FII	17.5	17.2	15.5
Others	14.9	15.2	13.2

FII Includes depository receipts

CMP: INR325

TP: INR500 (+54%)

Buy

Volume recovery ahead of our estimate

- GUJS reported a marginally higher (+5%) transmission volume than our estimate at 36.8mmscmd (+11% YoY and +9% QoQ), with implied tariff at INR1,282/mscm. Demand recovery from the refining/petchem segment offsets weak demand from CGDs, while demand from the Power sector recovered QoQ.
- **Volumes in Jul'21 have recovered further to 39.4mmscmd. The management expects it to improve from here on as the demand from the CGD sector normalizes (after being impacted by the second COVID wave), along with increased flow of gas from RIL's KG basin to customers in Gujarat.**
- RIL has bought ~8mmscmd (4.8mmscmd/3.2mmscmd in auction II/III) of its own KG basin gas. Various companies (GSPC, Essar Steel, GSFC, etc.) have procured gas in the two auction rounds. We believe substantial volumes will flow to Gujarat, and thus on the pipeline of GUJS.
- The Mehsana-Bhatinda pipeline is now guided to be completed by FY22-end as the lockdowns and farmers protest continue to create hurdles in the completion of the same. **We reiterate our belief that volumes for GUJS would jump to ~44mmscmd in FY23E as the company is also a beneficiary of:** a) the upcoming LNG terminals in Gujarat, and b) increased demand due to focus on reducing industrial pollution (Gujarat has five geographical areas identified as severely/critically polluted), and c) commissioning of the Mehsana-Bhatinda pipeline.
- **Investments in GUJGA and Sabarmati Gas, at a 25% holding discount, offer a valuation of INR360** (after a huge run up of ~45% in GUJGA's share prices over the last two months). Valuing the core at 7x adjusted Sep'23E EPS of INR20 and adding the value of investments, we arrive at a valuation of INR500/share.

EBITDA came in line with our estimate

- Revenue stood at INR4.4b (+9% YoY and +12% QoQ). EBITDA stood in line at INR3.7b (+8% YoY and +9% QoQ). Interest cost continues to fall sequentially (-52% YoY and -19% QoQ).
- The company recognized INR14m as loss from discontinued operations on account of the transfer of Amritsar and Bhatinda GAs to GUJGA.
- PAT stood at INR2.3b (+16% YoY and +12% QoQ), with the tax rate at 26.3%.

Sectoral volume details

- Refining and petchem recovered to 11.8mmscmd (+4% YoY and +58% QoQ).
- The above segment offsets lower volumes from CGDs at 11mmscmd (-18% QoQ, impacted by the second COVID wave).
- The Power sector saw a 16% QoQ improvement to 5.5mmscmd (although it was down 46% YoY – as spot prices are higher on a YoY basis).
- Fertilizer volumes stood at 2.6mmscmd (-3% YoY and -15% QoQ).
- Others volumes stood at 5.9mmscmd (+36% YoY and +16% QoQ).

Research Analyst - Swarnendu Bhushan- (Swarnendu.Bhushan@MotilalOswal.com)

Research Analyst - Sarfraz Bhimani, CFA - (Sarfraz.Bhimani@MotilalOswal.com)

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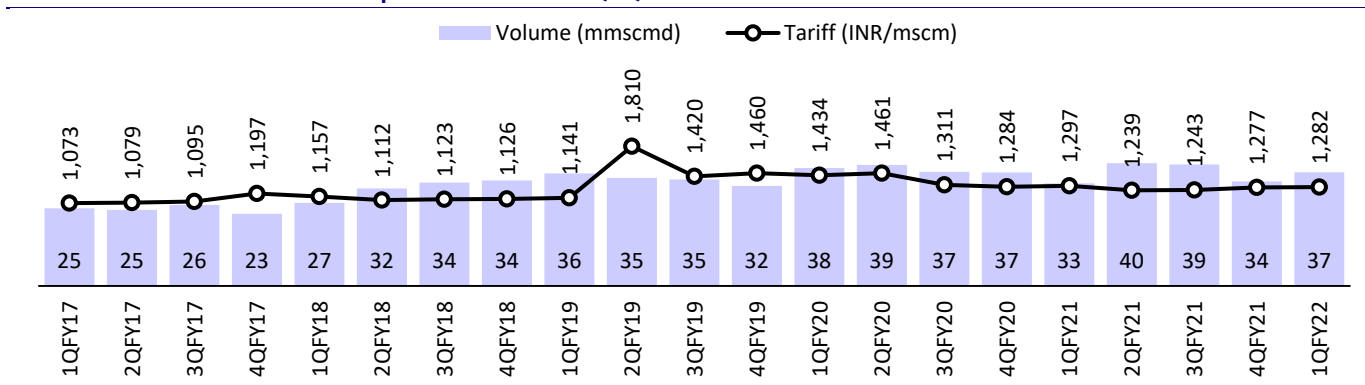
Valuation and view – maintain Buy

- Available LNG capacity in Gujarat is expected to grow by 55% to 42.5mmtpa over the next 3-4 years. Most of this volume is expected to flow through GUJS' network. Based on the same, **we believe that the company can easily record an 8-10% CAGR in transmission volumes over the next 5-6 years** (in line with the 10% volume CAGR over the last five years).
- Around 4mmscmd of gas is currently flowing through Phase-I of the Mehsana-Bhatinda pipeline and has become cash flow profitable. **Phase II commissioning is expected by the end of FY22, post which total volumes should reach 9.5-10mmscmd.** IOCL's Panipat and Bhatinda refinery would start consuming ~2.5mmscmd of gas each.
- Since GUJS is currently operating at 90-95% utilization rate, the company needs to incur a capex of INR45.4b to accommodate the rise in volume. This would ensure that tariffs are not cut for the HP gas grid. The stock trades at 16x FY23E EPS of INR20 and 10x FY23E EV/EBITDA. We maintain our Buy rating with a TP of INR500/share.

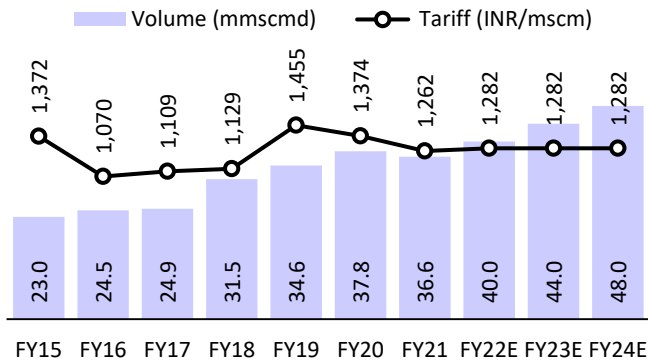
Standalone quarterly earnings model

Standalone quarterly earnings model											(INR m)	
Y/E March	FY21				FY22				FY21	FY22E	FY22E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE		
Net Sales	4,028	4,634	4,590	3,939	4,397	4,718	4,895	5,053	17,191	19,062	4,067	8%
YoY Change (%)	-21.4	-14.4	1.5	-10.2	9.1	1.8	6.6	28.3	-11.6	10.9	1.0	
EBITDA	3,462	3,807	3,984	3,442	3,744	3,933	4,101	3,994	14,694	15,772	3,583	4%
YoY Change (%)	-13.9	-12.9	4.8	-3.2	8.2	3.3	2.9	16.0	-6.7	7.3	3.5	
Margin (%)	85.9	82.2	86.8	87.4	85.2	83.4	83.8	79.0	85.5	82.7	88.1	
Depreciation	488	554	511	497	481	591	545	571	2,049	2,188	521	-8%
Interest	290	249	220	174	140	126	120	101	933	487	165	-15%
Other Income	43	515	74	61	38	524	76	68	694	705	43	-12%
PBT before EO expense	2,727	3,519	3,328	2,833	3,161	3,739	3,512	3,390	12,406	13,802	2,940	8%
Extra-Ord. expense	0	0	0	17	14	0	0	0	17	14	0	
PBT	2,727	3,519	3,328	2,816	3,148	3,739	3,512	3,390	12,389	13,789	2,940	7%
Tax	733	808	853	753	828	941	884	852	3,147	3,505	740	12%
Rate (%)	26.9	23.0	25.6	26.8	26.3	25.2	25.2	25.1	25.4	25.4	25.2	
Reported PAT	1,994	2,711	2,475	2,063	2,319	2,798	2,628	2,539	9,242	10,283	2,200	5%
YoY Change (%)	-3.3	-40.4	11.4	-8.0	16.8	3.2	6.2	22.4	-16.5	11.2	10.4	
Margin (%)	49.5	58.5	53.9	52.7	53.0	59.3	53.7	50.2	53.8	54.0	54.1	
Key Operating Parameters												
Transmission Volumes (mmscmd)	33.3	39.8	39.4	33.8	36.8	40.0	41.5	41.7	36.6	40.0	35.0	5%
Implied Tariff (INR/mscm)	1,297	1,239	1,243	1,277	1,282	1,282	1,282	1,282	1,262	1,282	1,277	0%

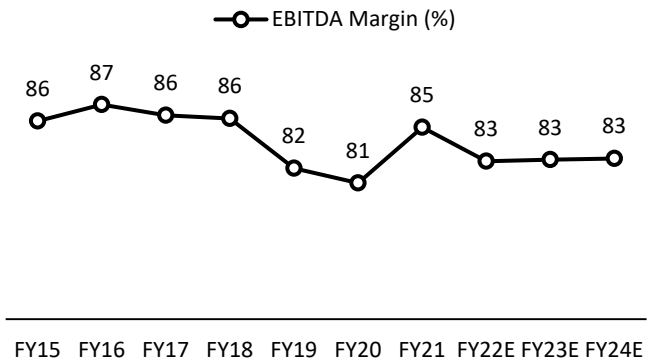
E: MOFSL estimates

Exhibit 1: Transmission volume up 11% YoY and 9% QoQ

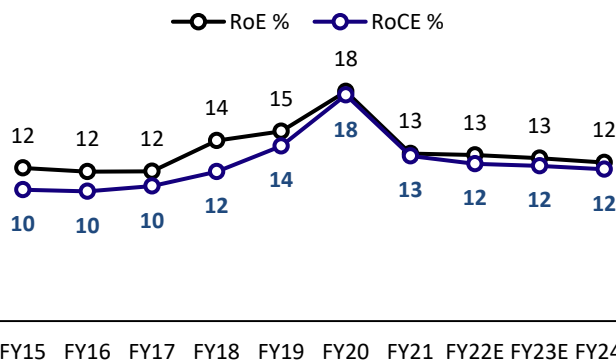
Source: MOFSL, Company

Exhibit 2: GSPL's volume snapshot


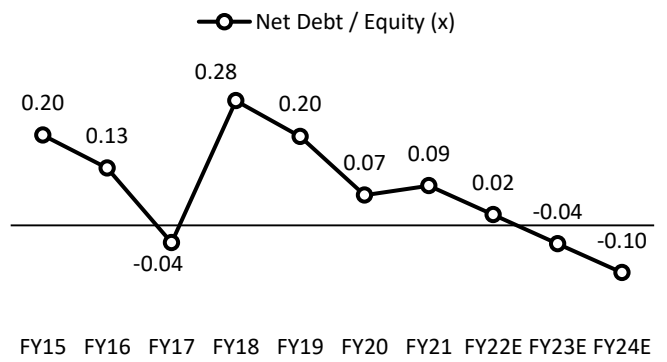
Source: Company, MOFSL

Exhibit 3: EBITDA margin to stay strong


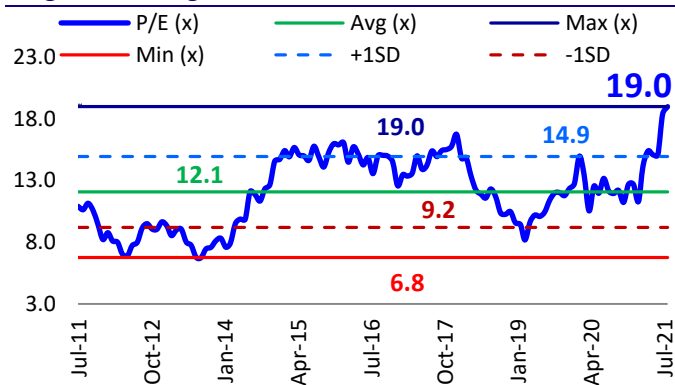
Source: Company, MOFSL

Exhibit 4: Return ratio profile


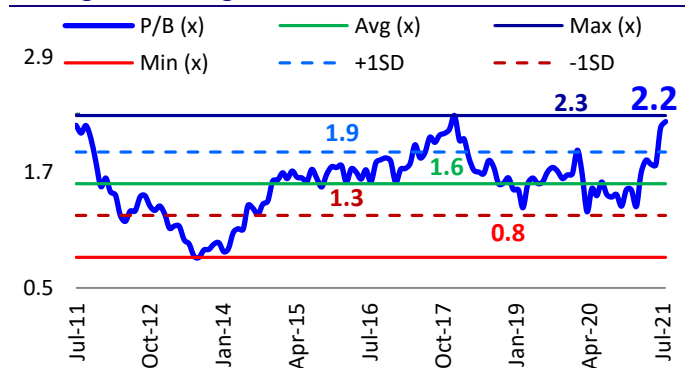
Source: Company, MOFSL

Exhibit 5: Net debt to decline


Source: Company, MOFSL

Exhibit 6: GSPL one-year forward P/E trades at 19x v/s its long-term average of 12.1x...


Source: Company, MOFSL

Exhibit 7: ...while one-year forward P/B trades at 2.2x v/s its long term average of 1.6x


Source: Company, MOFSL

Financials and valuations

Standalone Income Statement								(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	10,276	13,318	18,773	19,449	17,191	19,062	20,933	22,867
Change (%)	3.6	29.6	41.0	3.6	-11.6	10.9	9.8	9.2
EBITDA	8,883	11,478	15,426	15,749	14,694	15,772	17,346	18,971
Margin (%)	86.4	86.2	82.2	81.0	85.5	82.7	82.9	83.0
Depreciation	1,791	1,750	1,800	1,966	2,049	2,188	2,457	2,763
EBIT	7,092	9,728	13,626	13,783	12,645	13,585	14,889	16,208
Int. and Finance Charges	596	354	2,192	1,645	933	487	487	487
Other Income	882	735	594	649	694	705	733	755
PBT bef. EO Exp.	7,378	10,108	12,028	12,786	12,406	13,802	15,135	16,475
EO Items	0	0	0	0	-17	-14	0	0
PBT after EO Exp.	7,378	10,108	12,028	12,786	12,389	13,789	15,135	16,475
Total Tax	2,412	3,424	4,081	1,699	3,147	3,505	3,814	4,152
Tax Rate (%)	32.7	33.9	33.9	13.3	25.4	25.4	25.2	25.2
Reported PAT	4,966	6,685	7,947	11,087	9,242	10,283	11,321	12,323
Adjusted PAT	4,966	6,685	7,947	11,087	9,255	10,294	11,321	12,323
Change (%)	11.5	34.6	18.9	39.5	-16.5	11.2	10.0	8.9
Margin (%)	48.3	50.2	42.3	57.0	53.8	54.0	54.1	53.9

Standalone Balance Sheet								
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	5,636	5,638	5,640	5,641	5,642	5,642	5,642	5,642
Total Reserves	39,324	45,012	51,800	61,584	69,808	78,964	89,158	1,00,354
Net Worth	44,960	50,650	57,440	67,226	75,450	84,606	94,800	1,05,996
Total Loans	6,305	17,595	12,856	5,441	7,499	7,499	7,499	7,499
Deferred Tax Liabilities	4,719	4,984	5,226	4,081	4,218	4,218	4,218	4,218
Capital Employed	55,984	73,229	75,522	76,748	87,167	96,323	1,06,517	1,17,713
Gross Block	35,277	36,512	43,245	44,994	45,854	51,126	57,781	64,711
Less: Accum. Deprn.	3,620	5,371	7,170	9,137	11,186	13,374	15,831	18,594
Net Fixed Assets	31,657	31,142	36,075	35,857	34,668	37,752	41,950	46,117
Capital WIP	6,864	8,959	4,194	2,372	2,215	3,943	4,289	4,358
Total Investments	7,655	41,814	42,772	46,111	50,062	50,062	50,062	50,062
Curr. Assets, Loans and Adv.	12,158	7,571	6,459	5,764	5,420	10,085	16,408	24,063
Inventory	1,123	1,235	1,279	1,261	1,296	1,121	1,223	1,328
Account Receivables	1,216	1,235	2,081	1,637	1,586	1,604	1,762	1,925
Cash and Bank Balance	8,026	3,645	1,583	957	877	5,489	11,369	18,566
Cash	152	225	700	903	843	5,454	11,335	18,532
Bank Balance	7,875	3,420	883	54	34	34	34	34
Loans and Advances	1,792	1,456	1,516	1,908	1,660	1,870	2,054	2,244
Curr. Liability and Prov.	2,350	16,256	13,978	13,356	5,197	5,518	6,191	6,886
Account Payables	138	185	238	410	620	365	398	432
Other Current Liabilities	2,088	15,932	13,523	12,670	4,270	4,883	5,496	6,130
Provisions	124	138	216	276	307	271	297	325
Net Current Assets	9,808	-8,685	-7,518	-7,592	223	4,567	10,217	17,177
Appl. of Funds	55,983	73,229	75,522	76,748	87,167	96,324	1,06,517	1,17,714

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
EPS	8.8	11.9	14.1	19.7	16.4	18.3	20.1	21.9
Cash EPS	12.0	15.0	17.3	23.1	20.0	22.1	24.4	26.8
BV/Share	79.7	89.8	101.8	119.2	133.8	150.0	168.1	187.9
DPS	1.5	1.8	2.0	2.0	2.0	2.0	2.0	2.0
Payout (%)	20.5	16.9	16.1	12.2	14.7	11.0	10.0	9.1
Valuation (x)								
P/E	36.8	27.3	23.0	16.5	19.7	17.8	16.1	14.8
Cash P/E	27.0	21.7	18.7	14.0	16.2	14.6	13.3	12.1
P/BV	4.1	3.6	3.2	2.7	2.4	2.2	1.9	1.7
EV/Sales	17.6	14.8	10.3	9.6	11.0	9.7	8.5	7.5
EV/EBITDA	20.4	17.1	12.6	11.9	12.9	11.7	10.3	9.0
Dividend Yield (%)	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6
FCF per share	14.9	11.1	15.5	22.2	20.0	9.8	12.0	14.3
Return Ratios (%)								
RoE	11.6	14.0	14.7	17.8	13.0	12.9	12.6	12.3
RoCE	10.5	11.6	13.6	17.5	12.8	12.2	12.0	11.8
RoIC	13.8	24.6	39.3	44.0	30.8	28.6	28.7	28.4
Working Capital Ratios								
Fixed Asset Turnover (x)	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Asset Turnover (x)	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2
Inventory (Days)	40	34	25	24	28	21	21	21
Debtor (Days)	43	34	40	31	34	31	31	31
Creditor (Days)	5	5	5	8	13	7	7	7
Leverage Ratio (x)								
Current Ratio	5.2	0.5	0.5	0.4	1.0	1.8	2.7	3.5
Interest Coverage Ratio	11.9	27.5	6.2	8.4	13.6	27.9	30.5	33.3
Net Debt/Equity	0.0	0.3	0.2	0.1	0.1	0.0	0.0	-0.1

Standalone Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	7,378	10,108	12,028	12,786	12,382	13,802	15,135	16,475
Depreciation	1,791	1,750	1,800	1,966	2,048	2,188	2,457	2,763
Interest and Finance Charges	740	354	2,192	1,645	934	487	487	487
Direct Taxes Paid	-2,228	-3,105	-3,639	-3,082	-3,025	-3,505	-3,814	-4,152
(Inc.)/Dec. in WC	2,534	508	-956	893	684	267	230	238
Others	-780	-672	-542	-606	-611	-705	-733	-755
CF from Operations	9,436	8,943	10,882	13,602	12,412	12,534	13,762	15,057
(Inc.)/Dec. in FA	-1,052	-2,691	-2,118	-1,066	-1,119	-7,000	-7,000	-7,000
Free Cash Flow	8,383	6,252	8,764	12,536	11,293	5,534	6,762	8,057
(Pur.)/Sale of Investments	-346	-34,157	-990	-3,340	-3,848	0	0	0
Others	-2,278	5,113	3,029	1,304	589	705	733	755
CF from Investments	-3,676	-31,735	-80	-3,102	-4,379	-6,295	-6,267	-6,245
Inc./(Dec.) in Debt	-4,329	24,239	-6,912	-7,335	-6,037	0	0	0
Interest Paid	-1,039	-375	-2,299	-1,678	-924	-487	-487	-487
Dividend Paid	-1,016	-1,018	-1,128	-1,283	-1,128	-1,127	-1,127	-1,127
CF from Fin. Activity	-6,365	22,865	-10,328	-10,297	-8,093	-1,628	-1,615	-1,615
Inc./Dec. in Cash	-606	73	475	203	-59	4,612	5,881	7,197
Opening Balance	757	151	225	700	902	843	5,454	11,335
Closing Balance	152	225	700	903	843	5,454	11,335	18,532

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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