

Gujarat State Petronet ACCUMULATE

Volume growth surprises

Summary

Gujarat State Petronet's (GSPL) Q1FY20 results were a beat to our estimates owing to higher transmission volumes. Revenue was up 31% YoY to Rs5.1bn, EBITDA increased by 16.9% YoY to Rs4.0bn and PAT grew by 42.7% YoY to Rs2.1bn. The company's volume increased 5% YoY to 38.2mmscmd while net implied tariff grew by 28.4% YoY to Rs1.46/scm.

We raise our estimates owing to increase in volumes and expect its revenue/EBITDA/PAT to grow at a CAGR of 6.9%/8%/12.4% during FY20-FY21E. We revise our target price to Rs200 (8x on FY21EPS and Rs39/share to its stake in Gujarat Gas) from Rs164 and upgrade to ACCUMULATE from REDUCE.

Key Highlights and Investment Rationale

Higher volume and realizations boost profits

The company reported volume growth of 5% YoY to 38.2mmscmd while net realizations grew by 28.4% YoY to Rs1.46/scm. EBITDA margin declined by 944bps to 78.4% owing to higher operating expense which stood at 21.5% of sales as against 12.1% in Q1FY19. Also, the company's other income increased 40.2% YoY to Rs77mn.

Volumes to increase due to petcoke ban in Morbi

We expect GSPL's volume to grow to 38mmscmd in FY20 and 40mmscmd in FY21 owing to the recent ban on import of petcoke as a fuel for many industries. We believe that this would benefit gas pipeline entities as industrial units will shift from petcoke to alternative fuels such as natural gas.

Raising TP to Rs200 from Rs164; Upgrade to ACCUMULATE

Due to the recent ban on petcoke import in Morbi the industrials are likely to shift to natural gas which will increase the transmission volumes. We raise our estimates owing to increase in volumes and expect its revenue/EBITDA/PAT to grow at a CAGR of 6.9%/8%/12.4% during FY20-FY21E. We revise our target price to Rs200 (8x on FY21EPS and Rs39/share to its stake in Gujarat Gas) from Rs164 and upgrade to ACCUMULATE from REDUCE.

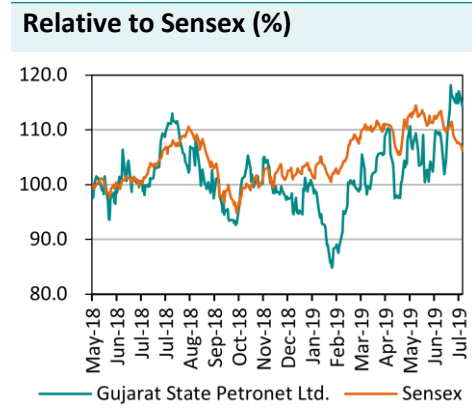
TP	Rs200
CMP	Rs210
Potential upside / downside	-5%
Previous Rating	REDUCE

V/s Consensus		
EPS (Rs)	FY20E	FY21E
IDBI Capital	16.5	17.9
Consensus	17.6	23.5
% difference	(6.4)	(23.8)

Shareholding Pattern (%)	
Promoters	37.6
FII	15.4
DII	22.7
Public	24.3

Price Performance (%)			
	-1m	-3m	-12m
Absolute	6.6	5.5	5.6
Rel to Sensex	13.1	10.4	6.6

Key Stock Data	
Bloomberg / Reuters	GUJS IN /GSPT.BO
Sector	Oil & Gas
Shares o/s (mn)	564
Market cap. (Rs mn)	117,653
Market cap. (US\$ mn)	1,704
3-m daily avg Trd value (Rs mn)	36.8
52-week high / low	Rs214 / 149
Sensex / Nifty	37,118/10,997



Financial snapshot					(Rs mn)
Year	FY2017	FY2018	FY2019	FY2020E	FY2021E
Revenue	10,276	13,317	18,773	20,368	21,443
EBITDA	8,883	11,478	15,426	17,095	18,004
EBITDA (%)	86.4	86.2	82.2	83.9	84.0
Adj. PAT	4,966	6,684	7,947	9,288	10,046
EPS (Rs)	8.8	11.9	14.1	16.5	17.9
EPS Growth (%)	11.5	34.6	18.9	16.9	8.2
PE (x)	19.8	14.7	12.4	10.6	9.8
Dividend Yield (%)	0.5	0.6	0.6	0.6	0.6
EV/EBITDA (x)	12.4	9.6	7.1	6.4	6.1
RoE (%)	11.7	14.0	14.7	15.3	14.7
RoCE (%)	11.0	11.7	13.6	14.5	14.2

Source: Company; IDBI Capital Research

Exhibit 1: Actual vs. estimates

Year to March	Actual	Estimated	Variance (%)
Net sales	5,125	4,601	11.4
EBITDA	4,020	3,547	13.3
EBITDA margin (%)	78.4	77.1	135bps
Adj net income	2,061	1,793	15.0
FDEPS (Rs)	3.7	3.2	15.0

Source: Company; IDBI Capital Research

Exhibit 2: Quarterly performance

(Rs mn)

Year-end: March	Q1FY20	Q1FY19	YoY (%)	Q4FY19	% Chg QoQ
Net sales	5,125	3,912	31.0	4,339	18.1
Expenditure	1,104	474	133.0	1,046	5.6
EBITDA	4,020	3,438	16.9	3,293	22.1
EBITDA margin (%)	78.4	87.9	(944bps)	75.9	256bps
Other income	77	55	40.2	79	(3.2)
Interest	479	579	(17.3)	505	(5.1)
Depreciation	489	448	9.1	475	2.8
PBT	3,129	2,466	26.9	2,392	30.8
Tax	1,068	1,021	4.6	859	24.4
PAT	2,061	1,445	42.7	1,533	34.4
EPS (Rs)	3.7	2.6	42.7	2.7	34.4
Volume (mmscmd)	38.2	36.5	4.7	32.4	17.9
Net Implied Tariff (Rs/scm)	1.46	1.14	28.4	1.47	(0.7)

Source: Company; IDBI Capital Research

Exhibit 3: Change in estimates

Particulars	FY20E			FY21E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	19,317	20,368	5.4	19,866	21,443	7.9
EBITDA (Rs mn)	16,213	17,095	5.4	16,625	18,004	8.3
EBITDA Margin (%)	83.9	83.9	NA	83.7	84.0	3.3bps
Net Profit (Rs mn)	8705	9208	5.8	9135	10046	10.0
EPS (Rs)	15.5	16.5	6.5	16.3	17.9	9.8

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Revenues	13,317	18,773	20,368	21,443
<i>Growth (%)</i>	29.6	41.0	8.5	5.3
EBITDA	11,478	15,426	17,095	18,004
<i>Growth (%)</i>	29.2	34.4	10.8	5.3
Depreciation & amortisation	1,750	1,800	1,839	2,007
EBIT	9,728	13,626	15,256	15,997
<i>Growth (%)</i>	37.2	40.1	12.0	4.9
Interest	354	2,192	1,851	1,510
Other income	735	594	653	718
EBT	10,108	12,028	14,058	15,205
Income taxes	3,424	4,081	4,770	5,159
<i>Effective tax rate (%)</i>	33.9	33.9	33.9	33.9
Reported net income	6,684	7,947	9,288	10,046
Adjusted net income	6,684	7,947	9,288	10,046
<i>Growth (%)</i>	34.6	18.9	16.9	8.2
Shares outstanding (mn)	563.8	564.0	564.0	564.0
Adjusted EPS (Rs)	11.9	14.1	16.5	17.9
<i>Growth (%)</i>	34.6	18.9	16.9	8.2
DPS (Rs)	1.8	2.0	2.0	2.0

Cash Flow Statement

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net income + Depreciation	8,435	9,746	11,127	12,053
Non-cash adjustments	1,574	(2,028)	5,200	4,921
Changes in working capital	11,332	(1,913)	4,445	1,184
Cashflow from operations	21,340	5,805	20,773	18,159
Capital expenditure	(3,331)	(1,234)	(12,766)	(7,000)
Change in investments	(34,159)	(958)	-	-
Other investing cashflow	-	-	-	-
Cashflow from investing	(37,489)	(2,193)	(12,766)	(7,000)
Issue of equity	5	1	(0)	(0)
Issue/repay debt	12,583	(4,739)	(2,000)	(2,000)
Dividends paid	(820)	(938)	(938)	(938)
Other financing cashflow	-	-	-	-
Change in cash & cash eq	(4,381)	(2,063)	5,070	8,221
Closing cash & cash eq	3,646	1,583	5,521	12,209

Balance Sheet

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Cash and cash eq	3,645	1,583	6,633	14,824
Accounts receivable	1,235	2,081	1,850	1,519
Inventories	1,235	1,279	1,184	1,032
Others current assets	5,928	1,516	1,645	1,732
Investments	41,814	42,772	42,772	42,772
Gross fixed assets	53,605	59,605	65,605	71,605
Net fixed assets	31,142	36,075	39,551	43,544
CWIP	8,959	4,194	10,959	11,959
Intangible assets	-	-	-	-
Deferred tax assets, net	(4,984)	(5,226)	(6,682)	(7,481)
Total assets	88,973	84,273	97,913	109,901
Accounts payable	185	238	259	272
Other current liabilities	15,932	13,523	14,673	15,447
Provisions	138	216	7,113	11,577
Debt funds	17,595	12,856	10,856	8,856
Other liabilities	4,472	-	993	994
Equity capital	5,638	5,640	5,640	5,640
Reserves & surplus	45,012	51,800	58,380	67,116
Shareholder's funds	50,650	57,440	64,020	72,756
Total liabilities	88,973	84,273	97,913	109,901
BVPS (Rs)	89.8	101.8	113.5	129.0

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY18	FY19	FY20E	FY21E
Profitability & Return ratios				
EBITDA margin (%)	86.2	82.2	83.9	84.0
EBIT margin (%)	73.0	72.6	74.9	74.6
Net profit margin (%)	50.2	42.3	45.6	46.8
ROE (%)	14.0	14.7	15.3	14.7
ROCE (%)	11.7	13.6	14.5	14.2
Working capital & Liquidity ratios				
Receivables (days)	33	32	35	29
Inventory (days)	32	24	22	19
Payables (days)	4	4	4	5
Current ratio (x)	0.7	0.5	0.8	1.2
Quick ratio (x)	0.3	0.3	0.5	0.9
Turnover & Leverage ratios				
Gross asset turnover (x)	0.3	0.3	0.3	0.3
Total asset turnover (x)	0.2	0.2	0.2	0.2
Interest coverage ratio (x)	27.5	6.2	8.2	10.6
Adjusted debt/equity (x)	0.3	0.2	0.2	0.1
Valuation ratios				
EV/Sales (x)	8.3	5.9	5.4	5.1
EV/EBITDA (x)	9.6	7.1	6.4	6.1
P/E (x)	14.7	12.4	10.6	9.8
P/BV (x)	1.9	1.7	1.5	1.4



Notes

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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