

Gujarat State Petronet

BUY

Huge Value-BUY

Summary

Gujarat State Petronet's (GSPL) Q3FY21 result was in-line with our estimates. Gas transmission volume grew 6.6% YoY/-1% QoQ led by CGD and Power segment while offtake from refining remained low owing to lower utilisation. Average realizations came at Rs 1.58/scm, +1.8% QoQ and was in-line with our estimates. EBITDA/scm was up 6% higher QoQ led by lower other expenses. We largely keep our estimates unchanged. Higher domestic volume, strong recovery from industrial PNG demand would accrue more value to GSPL. At current valuation of Gujarat Gas, GSPL's 54.17% stake is valued at Rs150/share even at 50% holdco discount. We maintain BUY with a TP of Rs306.

Key Highlights and Investment Rationale

■ Volumes in-line with expectations; CGD and power boosts sales

The company reported transmission volume of 39.4mmscmd, growing 6.6% YoY while implied tariff fell 5% YoY, flattish QoQ to Rs1.25/scm. Out of total volume, volume to CGD grew 16% to 12.6mmscmd while offtake from Power grew 53% YoY to 9.1mmscmd. However, refining/petchem and fertilisers offtake witnessed a de-growth of 41% and 5% respectively to 7.1mmscmd and 3.9mmscmd.

■ Lower other expenses boosted EBITDA/scm

Other expenses fell by 28% on a YoY basis to Rs 1.7bn resulted in higher EBITDA/scm, which was up 6% QoQ. Further, continuous debt reduction resulted in improvement in interest expense and saw fifth consecutive fall in interest expense. Consequently, net profit rose 11.4% YoY to Rs2.5 bn, in line with our estimate.

■ Gujarat Gas stake is valued at more than its valuation; Maintain BUY with a TP of Rs306

We expect a volume CAGR of 10% during FY21-FY23 to reach to 42.4mmscmd in FY22E and 46.4mmscmd in FY23E. Further, we expect higher capex of more than Rs2 bn would take care of its tariff and hence building flattish growth. At current valuation of Gujarat Gas, GSPL's 54.17% stake is valued at Rs150/share, even at 50% holdco discount. We maintain BUY with a TP of Rs306 (Rs171 for its core business at PER of 8x FY23E and Rs135 for its investment in GGas and others).

TP	Rs306		
CMP	Rs227		
Potential upside / downside	+35%		
Previous Rating	BUY		
V/s Consensus			
EPS (Rs)	FY21E	FY22E	FY23E
IDBI Capital	17.3	20.2	23.6
Consensus	24.8	29.7	35.3
% difference	(30.1)	(31.9)	(33.1)

Shareholding Pattern (%)

Promoters	37.6
FII	15.9
DII	19.6
Public	26.9

Price Performance (%)

	-1m	-3m	-12m
Absolute	7.8	22.3	(7.4)
Rel to Sensex	2.6	3.8	(32.6)

Key Stock Data

Bloomberg / Reuters	GUJS IN /GSPT.BO
Sector	Oil & Gas
Shares o/s (mn)	564
Market cap. (Rs mn)	1,27,850
Market cap. (US\$ mn)	1,755
3-m daily avg Trd value (Rs mn)	182.6
52-week high / low	Rs247 / 146
Sensex / Nifty	51,309 / 15,107

Relative to Sensex (%)



Financial snapshot

Year	FY19	FY20E	FY21E	FY22E	FY23E
Revenue	18,772	23,686	22,280	24,750	27,467
EBITDA	15,426	15,749	15,374	17,072	19,340
EBITDA (%)	82.2	66.5	69.0	69.0	70.4
Adj. PAT	7,947	11,087	9,758	11,419	13,324
EPS (Rs)	14.1	19.7	17.3	20.2	23.6
EPS Growth (%)	18.9	39.5	-12.0	17.0	16.7
PE (x)	16.0	11.4	13.0	11.1	9.5
Dividend Yield (%)	0.9	0.9	1.2	1.8	2.1
EV/EBITDA (x)	9.7	9.0	8.7	7.3	5.9
RoE (%)	14.7	17.8	13.7	14.4	15.0
RoCE (%)	15.7	15.7	14.9	16.3	17.4

Source: Company; IDBI Capital Research

Exhibit 1: Quarterly performance

(Rs mn)

Year-end: March	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	% Chg YoY	% Chg QoQ
Net sales	6,257	5,950	4,643	5,770	5,800	-7.3%	0.5%
Expenditure	2,457	2,392	1,181	1,963	1,816	-26.1%	-7.5%
EBITDA	3,800	3,557	3,462	3,807	3,984	4.8%	4.6%
EBITDA margin (%)	60.7	59.8	74.6	66.0	68.7	13.1%	4.1%
Depreciation	497	483	488	554	511	2.7%	-7.8%
Interest	383	346	290	249	220	-42.6%	-11.8%
Other income	52	67	43	515	74	44.5%	-85.6%
PBT	2,972	2,795	2,727	3,519	3,328	12.0%	-5.4%
Tax	751	539	733	808	853	13.6%	5.6%
<i>Effective tax rate (%)</i>	<i>25.3</i>	<i>19.3</i>	<i>26.9</i>	<i>23.0</i>	<i>25.6</i>	<i>1.5%</i>	<i>11.6%</i>
PAT	2,221	2,256	1,994	2,711	2,475	11.4%	-8.7%
EPS (Rs)	3.9	4.0	3.5	4.8	4.4	11.4%	-8.7%
Volume (mmscmd)	36.9	36.8	33.3	39.75	39.359	6.5%	-1.0%
CGD	10.9	11.2	4.7	10.7	12.6	16.0%	17.4%
Refinery/Petchem	12.0	10.8	11.3	9.9	7.1	-40.8%	-28.7%
Fertilizer	4.1	3.8	2.7	3.2	3.9	-4.9%	23.8%
Power	5.9	5.5	10.3	9.1	9.1	53.2%	-1.0%
Others	4.1	5.5	4.3	6.8	6.3	55.0%	-6.8%
Reported tariff (Rs/scm)	1.82	1.75	1.50	1.55	1.58	-13.2%	1.8%
Implied tariff (Rs/scm)	1.31	1.28	1.30	1.24	1.25	-4.9%	0.4%
Opex/scm	722.9	714.8	390.4	536.8	501.6	-30.6%	-6.6%
EBITDA/scm	1.12	1.06	1.14	1.04	1.10	-1.6%	5.7%

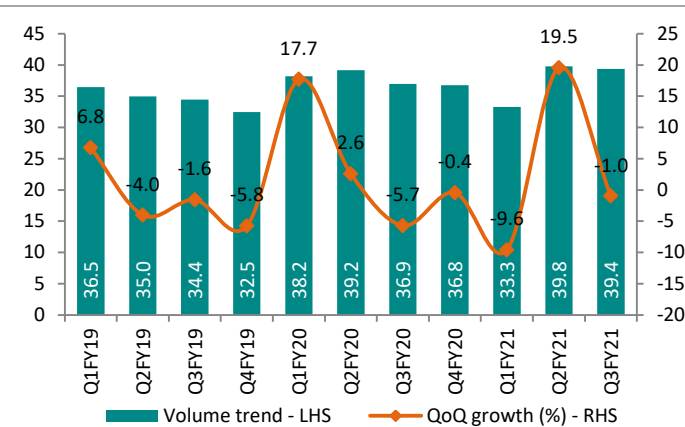
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs Exstimate

(Rs mn)	Actual	Estimated	% Variance
Net sales	5,800	5,919	(2.0)
EBITDA	3,984	3,894	2.3
<i>EBITDA margin (%)</i>	<i>68.7</i>	<i>65.8</i>	<i>290</i>
Net income	2,475	2,417	2.4
FDEPS (Rs)	4.4	4.3	2.4

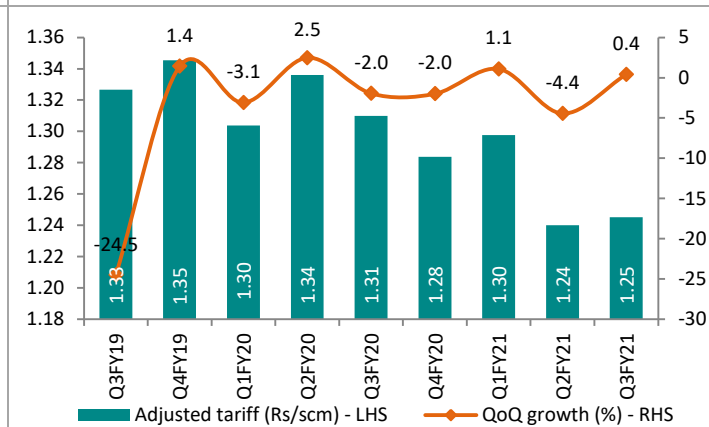
Source: Company; IDBI Capital Research

Exhibit 3: Volume trend (mmscmd)



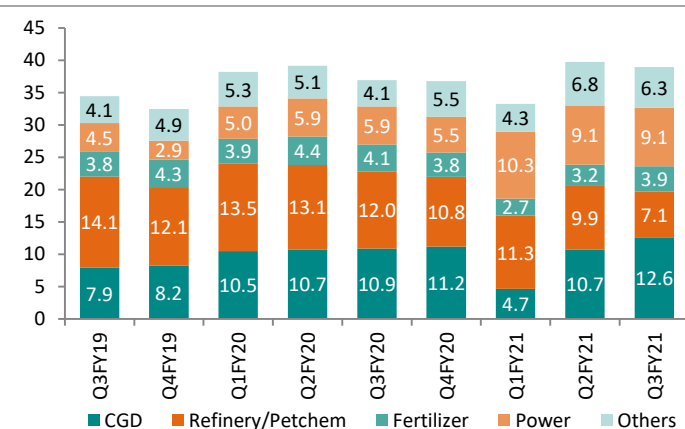
Source: Company; IDBI Capital Research

Exhibit 4: Adjusted Tariff (Rs/scm)



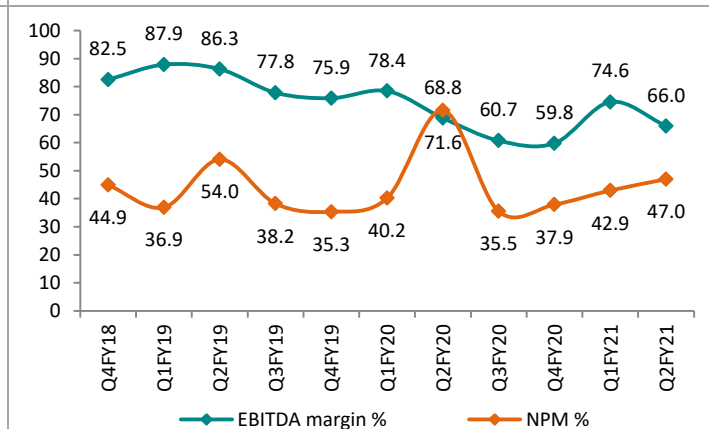
Source: Company; IDBI Capital Research

Exhibit 5: Sectoral Volumes (mmscmd)



Source: Company; IDBI Capital Research

Exhibit 6: EBITDA margin (%) & NPM (%)



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net sales	23,686	22,280	24,750	27,467
<i>growth (%)</i>	26.2	(5.9)	11.1	11.0
Operating expenses	(7,937)	(6,906)	(7,677)	(8,126)
EBITDA	15,749	15,374	17,072	19,340
<i>growth (%)</i>	2.1	-2.4	11.0	13.3
Depreciation	(1,966)	(2,093)	(2,164)	(2,253)
EBIT	13,783	13,281	14,909	17,088
Interest paid	(1,645)	(963)	(530)	(343)
Other income	649	722	881	1,061
Pre-tax profit	12,786	13,040	15,259	17,806
Tax	(1,699)	(3,282)	(3,841)	(4,482)
<i>Effective tax rate (%)</i>	13.3	25.2	25.2	25.2
Minority Interest	-	-	-	-
Net profit	11,087	9,758	11,419	13,324
Exceptional items	-	-	-	-
Adjusted net profit	11,087	9,758	11,419	13,324
<i>growth (%)</i>	39.5	(12.0)	17.0	16.7
<i>Shares o/s (mn nos)</i>	564	564	564	564

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	12,786	13,040	15,259	17,806
Depreciation	1,966	2,093	2,164	2,253
Tax paid	(3,082)	(3,262)	(3,822)	(4,464)
Chg in working capital	893	81	(303)	(353)
Other operating activities	1,039	241	(351)	(718)
Cash flow from operations (a)	13,602	12,193	12,948	14,524
Capital expenditure	(1,066)	(1,200)	(2,000)	(2,000)
Chg in investments	(2,594)	-	-	-
Other investing activities	(829)	-	-	-
Cash flow from investing (b)	(3,931)	(478)	(1,119)	(939)
Equity raised/(repaid)	8	-	-	-
Debt raised/(repaid)	(7,335)	(7,000)	(5,000)	(100)
Dividend (incl. tax)	(1,292)	(1,756)	(2,740)	(3,198)
Chg in minorities	-	-	-	-
Other financing activities	(1,678)	(963)	(530)	(343)
Cash flow from financing (c)	(10,297)	(9,719)	(8,270)	(3,641)
Net chg in cash (a+b+c)	(626)	1,995	3,558	9,944

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net fixed assets	39,154	38,261	38,098	37,845
Investments	46,111	46,111	46,111	46,111
Other non-curr assets	1,442	1,514	1,590	1,670
Current assets	4,321	6,149	10,015	20,296
Inventories	1,261	1,186	1,318	1,463
Sundry Debtors	1,637	1,540	1,710	1,898
Cash and Bank	957	2,952	6,510	16,455
Marketable Securities	-	-	-	-
Loans and advances	449	454	458	463
Total assets	91,029	92,036	95,813	105,922
Shareholders' funds	67,226	75,227	83,905	94,031
Share capital	5,641	5,641	5,641	5,641
Reserves & surplus	61,584	69,586	78,264	88,390
Total Debt	16,337	9,337	4,337	4,237
Secured loans	16,337	9,337	4,337	4,237
Unsecured loans	-	-	-	-
Other liabilities	4,913	4,950	4,988	5,025
Curr Liab & prov	2,553	2,522	2,583	2,628
Current liabilities	2,515	2,483	2,544	2,589
Provisions	38	39	39	39
Total liabilities	23,803	16,809	11,908	11,891
Total equity & liabilities	91,029	92,036	95,813	105,922
Book Value (Rs)	119	133	149	167

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21E	FY22E	FY23E
Adj. EPS (Rs)	19.7	17.3	20.2	23.6
Adj EPS growth (%)	39.5	-12.0	17.0	16.7
EBITDA margin (%)	66.5	69.0	69.0	70.4
Pre-tax margin (%)	54.0	58.5	61.7	64.8
ROE (%)	17.8	13.7	14.4	15.0
ROCE (%)	15.7	14.9	16.3	17.4
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.3	0.2	0.3	0.3
Leverage factor (x)	1.4	1.3	1.2	1.1
Net margin (%)	46.8	43.8	46.1	48.5
Net Debt/Equity (x)	0.2	0.1	0.0	-0.1
Working Capital & Liquidity ratio				
Inventory days	19.4	19.4	19.4	19.4
Receivable days	25.2	25.2	25.2	25.2
Payable days	18.9	18.9	18.9	18.9

Valuation

Year-end: March	FY20	FY21E	FY22E	FY23E
PER (x)	11.4	13.0	11.1	9.5
Price / Book value (x)	1.9	1.7	1.5	1.3
PCE (x)	9.7	10.7	9.3	8.1
EV / Net sales (x)	6.0	6.0	5.0	4.2
EV / EBITDA (x)	9.0	8.7	7.3	5.9
Dividend Yield (%)	0.9	1.2	1.8	2.1



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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