

**BUY**

TP: Rs 270 | ▲ 45%

**GUJARAT STATE  
PETRONET**

| Oil &amp; Gas

| 11 November 2020

**Upbeat volume outlook; tariff risks appear priced in**

**Gujarat State Petronet's (GUJS) Q2FY21 EBITDA outperformed at Rs 3.8bn (-13% YoY) on better margins. Volumes were in line at 39.8mmscmd (+19.5% QoQ, +1.5% YoY), retracing to pre-Covid levels. Low LNG prices drove speedy recovery in gas consumption, especially from the power segment, as lockdown restrictions were eased. We cut FY21/FY22/FY23 EPS by 8%/14%/16% to build the risk of tariff decline into our forecast based on H1FY21 data. Our Sep'21 DCF-based TP changes to Rs 270 (from Rs 310). Maintain BUY.**

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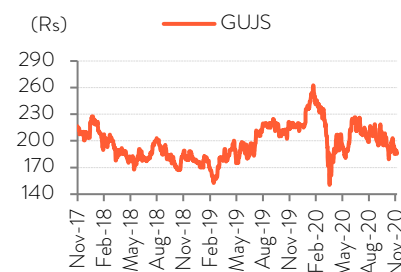
**Volume revival on par with speedy macro recovery trends:** Q2 volumes at 39.8mmscmd recouped to year-ago levels as demand rose substantially from the power sector (9.1mmscmd, +56% YoY) and other miscellaneous segments (6.8mmscmd, +23% YoY). Surprisingly, fertiliser and refinery consumption has been the most affected on a YoY basis despite these segments being operational during the lockdown, as opposed to the CGD segment which has reverted to pre-Covid levels sooner than expected.

**CGD, power segment volumes to offset lower RIL offtake:** RIL continues to absorb ~9mmscmd (stable QoQ), mostly for its petchem units. While GUJS could see volume loss of 4-6mmscmd once RIL's petcoke gasification plant ramps up to ~100% utilisation, this could be made up by incremental demand from the power (as depicted in H1FY21) and CGD (from FY22) segments.

**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 has started to add volumes from Q1FY21. At 10.3x FY22E EPS, valuations look attractive considering stronger volume visibility amid a conducive macro climate.

Ticker/Price	GUJS IN/Rs 186
Market cap	US\$ 1.4bn
Shares o/s	564mn
3M ADV	US\$ 2.1mn
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	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	18,773	23,693	22,203	25,245	27,324
EBITDA (Rs mn)	15,426	15,749	15,004	16,855	17,748
Adj. net profit (Rs mn)	7,947	11,087	8,948	10,164	10,813
Adj. EPS (Rs)	14.1	19.7	15.9	18.0	19.2
Adj. EPS growth (%)	18.9	39.5	(19.3)	13.6	6.4
Adj. ROAE (%)	14.9	17.8	12.7	13.0	12.6
Adj. P/E (x)	13.2	9.5	11.7	10.3	9.7
EV/EBITDA (x)	7.7	8.3	8.4	7.3	6.8

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)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
<b>Net sales</b>	<b>5,774</b>	<b>6,356</b>	<b>(9.2)</b>	<b>4,644</b>	<b>24.3</b>	<b>10,418</b>	<b>11,482</b>	<b>(9.3)</b>
Employee costs	128	171	(24.8)	134	(3.9)	262	299	(12.2)
% of sales	2.2	2.7	-	2.9	-	2.5	2.6	-
Other expenditure	1,839	1,814	1.4	1,048	75.4	2,887	2,792	3.4
% of sales	31.8	28.5	-	22.6	-	27.7	24.3	-
<b>EBITDA</b>	<b>3,807</b>	<b>4,371</b>	<b>(12.9)</b>	<b>3,462</b>	<b>10.0</b>	<b>7,269</b>	<b>8,391</b>	<b>(13.4)</b>
<b>EBITDA margin (%)</b>	<b>65.9</b>	<b>68.8</b>	<b>-</b>	<b>74.5</b>	<b>-</b>	<b>69.8</b>	<b>73.1</b>	<b>-</b>
Depreciation	554	498	11.3	488	13.5	1,042	987	5.6
Interest	249	438	(43.1)	290	(14.2)	539	917	(41.2)
Other income	515	454	13.5	43	1,091.3	558	531	5.2
<b>PBT</b>	<b>3,519</b>	<b>3,890</b>	<b>(9.5)</b>	<b>2,727</b>	<b>29.0</b>	<b>6,246</b>	<b>7,019</b>	<b>(11.0)</b>
Provision for tax	808	(659)	(222.5)	733	10.1	1,541	409	277.0
effective tax rate	23.0	(16.9)	-	26.9	-	24.7	5.8	-
<b>PAT (reported)</b>	<b>2,711</b>	<b>4,549</b>	<b>(40.4)</b>	<b>1,994</b>	<b>36.0</b>	<b>4,705</b>	<b>6,610</b>	<b>(28.8)</b>
<b>NPM (%)</b>	<b>47.0</b>	<b>71.6</b>	<b>-</b>	<b>42.9</b>	<b>-</b>	<b>45.2</b>	<b>57.6</b>	<b>-</b>
Other comprehensive income	-	(7.7)	-	-	-	-	-	-
<b>Total income</b>	<b>2,711</b>	<b>4,541</b>	<b>(40.3)</b>	<b>1,994</b>	<b>36.0</b>	<b>4,705</b>	<b>6,610</b>	<b>(28.8)</b>
<b>EPS (Rs)</b>	<b>4.81</b>	<b>8.06</b>	<b>(40.4)</b>	<b>3.53</b>	<b>36.0</b>	<b>8.34</b>	<b>11.72</b>	<b>(28.8)</b>
<b>Volumes (mmscm)</b>	<b>3,657</b>	<b>3,605</b>	<b>1.5</b>	<b>3,026</b>	<b>20.9</b>	<b>6,683</b>	<b>7,119</b>	<b>(6.1)</b>
<b>Volumes (mmscmd)</b>	<b>39.8</b>	<b>39.2</b>	<b>1.5</b>	<b>33.3</b>	<b>19.5</b>	<b>36.5</b>	<b>38.7</b>	<b>(5.6)</b>
<b>Tariffs (Rs/scm)</b>	<b>1.55</b>	<b>1.72</b>	<b>(10.0)</b>	<b>1.50</b>	<b>3.3</b>	<b>1.53</b>	<b>1.57</b>	<b>(3.0)</b>

Source: Company, BOBCAPS Research

**FIG 2 – VOLUME BREAKUP**

Volumes (mmscmd)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
CGD	10.73	10.58	1.5	4.66	130.6	7.69	10.45	(26.3)
Refinery/Petchem	9.94	12.93	(23.1)	11.31	(12.1)	10.62	13.15	(19.2)
Fertiliser	3.18	4.31	(26.2)	2.66	19.5	2.92	4.06	(28.2)
Power	9.14	5.88	55.6	10.31	(11.3)	9.73	5.42	79.4
Others	6.76	5.49	23.2	4.32	56.3	5.54	5.61	(1.2)
<b>Total</b>	<b>39.75</b>	<b>39.18</b>	<b>1.5</b>	<b>33.25</b>	<b>19.5</b>	<b>36.50</b>	<b>38.69</b>	<b>(5.7)</b>

Source: Company, BOBCAPS Research

## Valuation methodology

Low LNG prices, especially spot, continue to drive speedy recovery in gas consumption (~40mmscmd currently) as lockdown restrictions are eased. We cut FY21/FY22/FY23 EPS estimates by 8%/14%/16% to build the risk of tariff decline into our forecast based on H1FY21 data. Our Sep'21 DCF-based target price reduces to Rs 270 (from Rs 310). At 10.3x FY22E EPS, valuations look attractive considering stronger volume visibility amid a conducive macro climate. Maintain BUY.

**FIG 3 – REVISED ESTIMATES**

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Var (%)	Old	New	Var (%)	Old	New	Var (%)
Revenue	22,601	22,203	(1.8)	26,937	25,245	(6.3)	29,598	27324	(7.7)
EBITDA	15,991	15,004	(6.2)	18,902	16,855	(10.8)	20,303	17748	(12.6)
PAT	9,720	8,948	(7.9)	11,770	10,164	(13.6)	12,811	10813	(15.6)
EPS (Rs)	17.2	15.9	(7.9)	20.9	18.0	(13.6)	22.7	19.17	(15.6)
Volume (mmscmd)	35.0	38.5	10.0	40.5	42.5	4.9	44.5	46.0	3.4
Tariff (Rs/scm)	1.74	1.55	(10.7)	1.79	1.60	(10.7)	1.79	1.60	(10.7)

Source: BOBCAPS Research

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

- cost of equity of 10.5% (from 11.6% earlier),
- terminal growth of 6%, and
- long-term tariffs at ~Rs 1.6/scm (vs. Rs 1.7 earlier).

**FIG 4 – VALUATION SUMMARY**

Valuation type	Value (Rs mn)
PV of FCFE	7,922
PV of terminal value	55,960
Less: Net debt*	(27,318)
Investment values (mostly GUJGA @20% discount to CMP)	60,565
Equity value	151,765
<b>Equity value (Rs/share)</b>	<b>270</b>

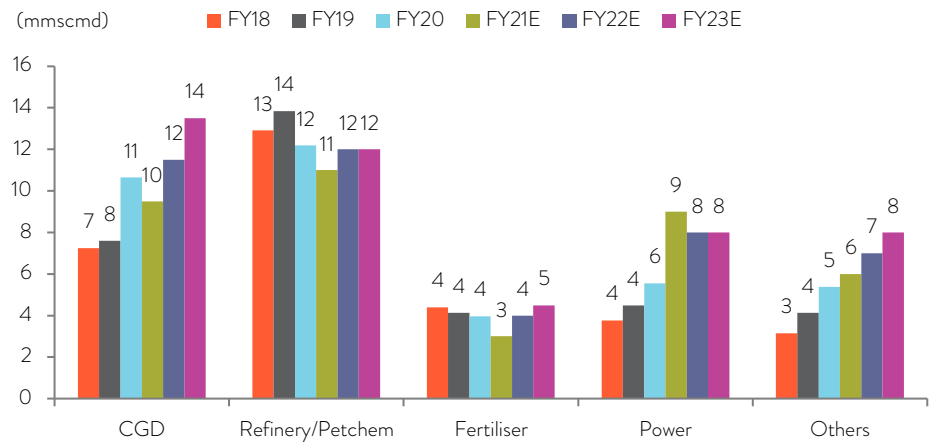
Source: BOBCAPS Research | \*Adjusted for acquisition value of equity in Gujarat Gas

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

		Cost of Equity (%)				
		(Rs)	8.5	9.5	10.5	11.5
Terminal growth (%)	5.0	306	272	250	236	225
	5.5	329	285	259	241	229
	6.0	361	302	270	248	234
	6.5	410	325	282	257	240
	7.0	491	357	299	267	246

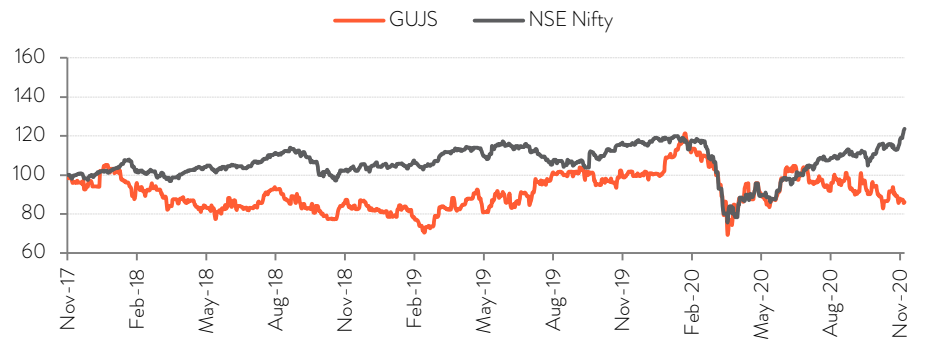
Source: BOBCAPS Research

**FIG 6 – VOLUME BREAKUP**



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)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>18,773</b>	<b>23,693</b>	<b>22,203</b>	<b>25,245</b>	<b>27,324</b>
EBITDA	15,426	15,749	15,004	16,855	17,748
Depreciation	(1,800)	(1,966)	(2,210)	(2,456)	(2,684)
EBIT	13,626	13,783	12,794	14,399	15,065
Net interest income/(expenses)	(2,192)	(1,645)	(1,517)	(1,467)	(1,255)
Other income/(expenses)	594	649	685	656	646
EBT	12,028	12,786	11,962	13,588	14,456
Income taxes	(4,081)	(1,699)	(3,015)	(3,424)	(3,643)
<b>Reported net profit</b>	<b>7,947</b>	<b>11,087</b>	<b>8,948</b>	<b>10,164</b>	<b>10,813</b>
<b>Adjusted net profit</b>	<b>7,947</b>	<b>11,087</b>	<b>8,948</b>	<b>10,164</b>	<b>10,813</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	238	410	384	437	473
Other current liabilities	533	788	788	788	788
Provisions	216	276	276	276	276
Debt funds	25,846	18,248	19,674	17,013	14,351
Other liabilities	5,226	4,081	3,024	1,823	545
Equity capital	5,640	5,641	5,641	5,641	5,641
Reserves & surplus	51,800	61,584	68,414	76,191	84,464
Shareholders' fund	57,440	67,226	74,055	81,832	90,105
<b>Total liabilities and equities</b>	<b>89,500</b>	<b>91,029</b>	<b>98,201</b>	<b>102,168</b>	<b>106,537</b>
Cash and cash eq.	1,583	957	2,252	1,204	799
Accounts receivables	2,081	1,637	1,534	1,745	1,888
Inventories	1,279	1,261	1,182	1,344	1,455
Other current assets	172	376	449	449	449
Investments	42,772	46,111	42,036	42,036	42,036
Net fixed assets	37,298	38,225	44,346	48,950	53,428
CWIP	4,194	2,372	6,400	6,439	6,482
<b>Total assets</b>	<b>89,379</b>	<b>90,939</b>	<b>98,201</b>	<b>102,168</b>	<b>106,537</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	9,746	13,054	11,158	12,620	13,496
Changes in working capital	(1,864)	746	156	(320)	(218)
Other operating cash flows	(352)	(1,794)	(1,743)	(1,858)	(1,923)
<b>Cash flow from operations</b>	<b>7,531</b>	<b>12,006</b>	<b>9,571</b>	<b>10,443</b>	<b>11,355</b>
Capital expenditures	(3,191)	(1,071)	(12,360)	(7,098)	(7,204)
Change in investments	(718)	(3,339)	4,075	0	0
Other investing cash flows	522	679	685	656	646
<b>Cash flow from investing</b>	<b>(3,387)</b>	<b>(3,731)</b>	<b>(7,600)</b>	<b>(6,442)</b>	<b>(6,559)</b>
Equities issued/Others	1	1	0	0	0
Debt raised/repaid	(6,343)	(7,598)	1,426	(2,661)	(2,661)
Dividends paid	(1,320)	(1,320)	(2,102)	(2,387)	(2,540)
Other financing cash flows	0	15	0	0	0
<b>Cash flow from financing</b>	<b>(7,661)</b>	<b>(8,901)</b>	<b>(676)</b>	<b>(5,049)</b>	<b>(5,201)</b>
<b>Changes in cash and cash eq.</b>	<b>(3,518)</b>	<b>(626)</b>	<b>1,295</b>	<b>(1,048)</b>	<b>(405)</b>
<b>Closing cash and cash eq.</b>	<b>127</b>	<b>957</b>	<b>2,252</b>	<b>1,204</b>	<b>799</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	14.1	19.7	15.9	18.0	19.2
Adjusted EPS	14.1	19.7	15.9	18.0	19.2
Book value per share	101.8	119.2	131.3	145.1	159.7

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	6.3	5.5	5.7	4.8	4.4
EV/EBITDA	7.7	8.3	8.4	7.3	6.8
Adjusted P/E	13.2	9.5	11.7	10.3	9.7
P/BV	1.8	1.6	1.4	1.3	1.2

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	66.1	86.7	74.8	74.8	74.8
Interest burden (PBT/EBIT)	88.3	92.8	93.5	94.4	96.0
EBIT margin (EBIT/Revenue)	72.6	58.2	57.6	57.0	55.1
Asset turnover (Revenue/Avg TA)	21.1	26.3	23.5	25.2	26.2
Leverage (Avg TA/Avg Equity)	1.7	1.4	1.3	1.3	1.2
Adjusted ROAE	14.9	17.8	12.7	13.0	12.6

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	41.0	26.2	(6.3)	13.7	8.2
EBITDA	34.4	2.1	(4.7)	12.3	5.3
Adjusted EPS	18.9	39.5	(19.3)	13.6	6.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	82.2	66.5	67.6	66.8	65.0
EBIT margin	72.6	58.2	57.6	57.0	55.1
Adjusted profit margin	42.3	46.8	40.3	40.3	39.6
Adjusted ROAE	14.9	17.8	12.7	13.0	12.6
ROCE	10.9	14.2	10.7	11.2	11.1
<b>Working capital days (days)</b>					
Receivables	32	29	26	24	24
Inventory	197	168	149	135	132
Payables	23	15	20	18	17
<b>Ratios (x)</b>					
Gross asset turnover	0.3	0.4	0.3	0.3	0.3
Current ratio	0.4	0.3	3.7	3.2	3.0
Net interest coverage ratio	6.2	8.4	8.4	9.8	12.0
Adjusted debt/equity	0.4	0.3	0.2	0.2	0.2

Source: Company, BOBCAPS Research

## Disclaimer

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

**BUY** – Expected return >+15%

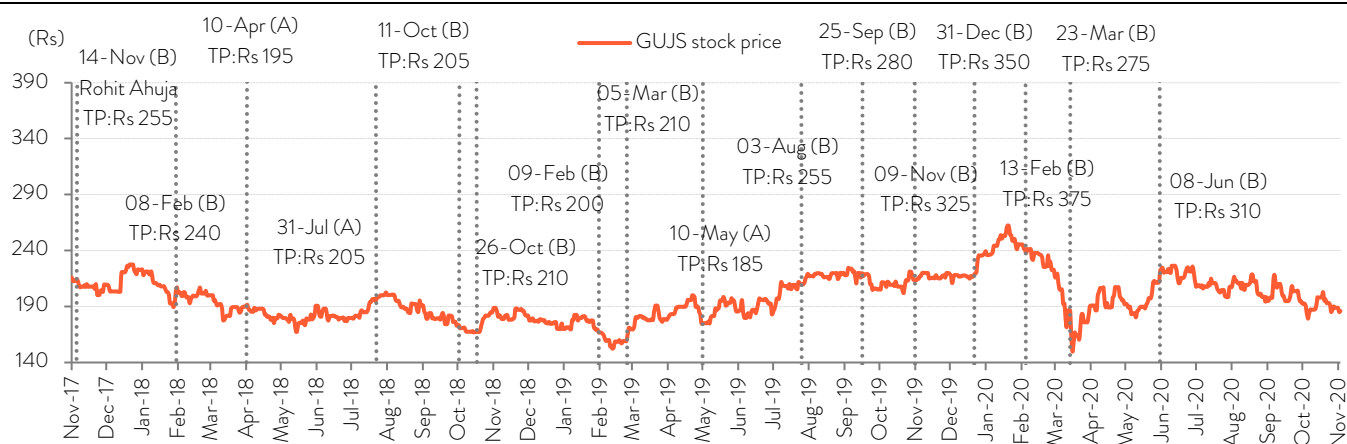
**ADD** – Expected return from >+5% to +15%

**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)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): GUJARAT STATE PETRONET (GUJS IN)



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

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