Result Update

India I Oil & Gas

09 August, 2021

Institutional Research

Gujarat State Petronet Ltd

Stellar performance in a difficult quarter

GSPL reported volumes of 36.8mmscmd, ahead of our estimate of 35mmscmd, and up 11/9% YoY/QoQ. Volumes remained strong despite the renewed Covid restrictions and July has trended even higher at 39.4mmscmd. However, EBITDA/PAT declined 3/9% YoY to Rs3.7/2.3bn, despite a 13% YoY rise in revenue due to higher opex. Revenue grew 14/13% YoY/QoQ to Rs5.3bn vs our estimate of Rs4.9bn due to higher volumes while tariffs remained flat YoY and QoQ at Rs1.28/scm. With strong recovery in demand from Q2, adequate domestic and LNG supplies, and attractive valuations of just 4.1x FY23E EPS (adjusting for implied GujGas value in CMP at 50% discount) and similarly just 2.8x EV/EBITDA, we see material upside. BUY with a TP of Rs380.

Volumes stay strong

GSPL's transmission volumes came at 36.8mmscmd (CenE 35mmscmd), up 11/9% YoY/QoQ. Gas offtake in Q1 from *CGD was at 11mmscmd (+137/-18% YoY/QoQ), refinery/petchem at 11.8mmscmd (+4/58% YoY/QoQ), fertilizer at 2.6mmscmd (-3/-15% YoY/QoQ), others at 5.9mmscmd (+36/16% YoY/QoQ, and power sector at 5.5mmscmd (-46/+16% YoY/QoQ). We factor FY23E volumes at 42.5mmscmd, with multiple levers for growth, despite factoring an estimated ~4mmscmd reduction from RIL.

Net transmission tariffs in line

GSPL's gross transmission tariff of Rs1.28/scm (flat YoY/QoQ) came broadly in line. We now build in Rs1.3/scm transmission tariffs over FY22-23E, as we do not see any changes until further revision by regulator, PNGRB (post FY23E ~20% reduction assumed in DCF).

Capex likely to see momentum in next six months

GSPL had upgraded its capex guidance, as it is confident of getting some clarity regarding tariff revision now that the new PNGRB chairman has been appointed. We factor in Rs35/40bn capex spend in FY22/23E. Dahej-Bhadbhut pipeline (capex Rs3bn), HPCL-Chhara pipeline (capex Rs6bn), and Anjar-Chotila pipeline (capex Rs8bn) are the priority projects for GSPL.

Valuation and risks – material upside from here

We see very strong prospects for GSPL over the next 2-3 years. We have increased our volume assumptions to 39.6/42.5mmscmd for FY22/23E (earlier 38/42mmscmd), driving EPS revision of 5/1%. With very strong demand momentum from CGD, Power and other segments, we see growth at comfortable levels for GSPL over FY23. We have, however, factored lower offtake from RIL (4mmscmd vs 7mmscmd due to higher spot LNG prices, driving higher petcoke gasification usage). While nominally valuations of 16x FY23E EPS / 11x EV/EBITDA seem high, we note that even removing the value of GujGas 54% stake @50% discount to GujGas CMP drags these multiples down to 4x PER / 3x EV/EBITDA, leaving material upside on the table from the core business alone. Reiterate BUY, with a TP of Rs380 (17% upside from CMP).

Financial and valuation summary

YE Mar (Rs mn)	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY21A	FY22E	FY23E
Revenue	5,272	4,644	13.5%	4,650	13.4%	20,794	22,508	23,807
EBITDA	3,744	3,462	8.2%	3,442	8.8%	14,733	15,951	16,959
EBITDA margin(%)	71.0%	74.5%		74.0%		70.9%	70.9%	71.2%
EBIT	3,263	2,974	9.7%	2,945	10.8%	12,703	13,824	14,664
EBIT margin (%)	61.9%	64.0%		63.3%		61.1%	61.4%	61.6%
Adj. PAT	2,333	1,994	17.0%	2,079	12.2%	9,307	10,476	11,238
Diluted EPS	4.1	3.5	17.0%	3.7	12.2%	16.5	18.6	19.9
PER						19.7	17.5	16.3
EV/EBITDA						12.9	11.7	10.9
P/BV						2.4	2.2	2.0

Source: Company, Centrum Broking

BUY

Price: Rs325

Target Price: Rs380

Forecast return: 17%

Market Data

Bloomberg:	GUJS IN
52 week H/L:	361/177
Market cap:	Rs183.1bn
Shares Outstanding:	564.2mn
Free float:	39.9%
Avg. daily vol. 3mth:	12,93,344

Source: Bloomberg

Changes in the report

Rating:	BUY; unchanged
Target price:	Rs380; raised from Rs325
EPS:	FY22E: Rs18.6; up 5.1% FY23E: Rs19.9; up 1.4%

Source: Centrum Broking

Shareholding pattern

	Jun-21	Mar-21	Dec-20	Sep-20
Promoter	37.6	37.6	37.6	37.6
FIIs	17.5	17.2	15.9	15.6
DIIs	18.8	18.7	19.6	19.5
Public/other	26.1	26.5	26.9	27.3

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY22	Actual Q1FY22	Variance (%)
Revenue	4,911	5,272	7.4%
EBITDA	3,336	3,744	12.2%
EBITDA margin	67.9%	71.0%	
PBT	2,701	3,161	17.0%
Adj. PAT	2,021	2,333	15.4%

Source: Bloomberg, Centrum Broking

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Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY22E New	FY22E Old	% chg	FY23E New	FY23E Old	% chg
Revenue	22,508	21,593	4.2%	23,807	23,531	1.2%
EBITDA	15,951	15,268	4.5%	16,959	16,752	1.2%
EBITDA margin	70.9%	70.7%		71.2%	71.2%	
Adj. PAT	10,476	9,965	5.1%	11,238	11,083	1.4%
Diluted EPS (Rs)	18.6	17.7	5.1%	19.9	19.6	1.4%

Source: Centrum Broking

GSPL versus NIFTY Midcap 100

	1m	6m	1 year
GUJS IN	2.5	46.2	56.3
NIFTY Midcap 100	1.3	22.0	72.3

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY22E	FY23E
Brent (US$/bbl)	61.3	60.0
INR/USD	74.5	75.5
Transmission Volumes (mmscm)	14,467	15,513
Transmission Volumes (mmscmd)	39.6	42.5
Transmission tariff (Rs/mcm)	1,266	1,250
Cost (Rs/mcm)	453	441
EBITDA (Rs/mcm)	1,103	1,093

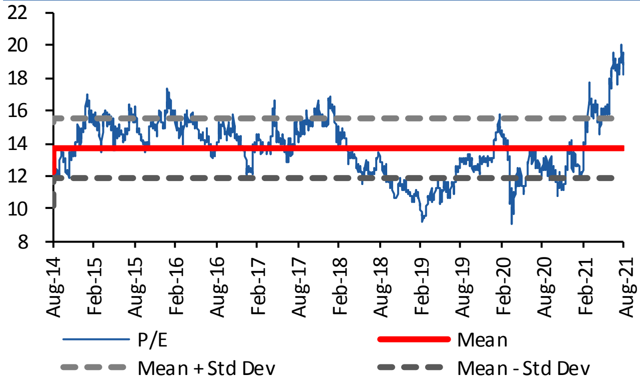
Source: Centrum Broking

Valuations

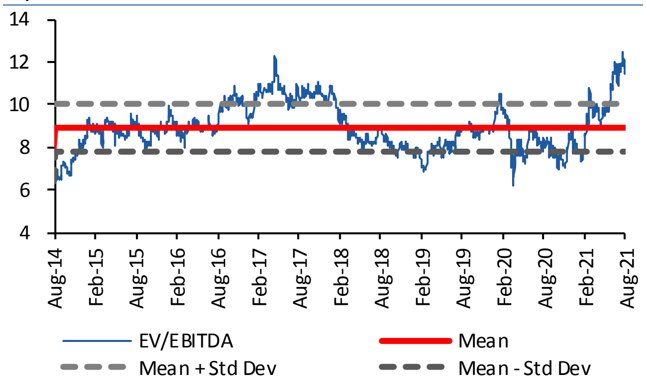
We use DCF to value the core transmission business and value the 54% stake in Gujarat Gas at a 50% discount to 3M average price. We assume WACC of 10.5% and terminal growth rate of 2%.

Valuations	Rs/share
Total Core NPV (Rsmn)	36,101
TV (Rsmn)	91,380
PV of Terminal value (Rsmn)	41,239
Total NPV potential (Rsmn)	77,340
Per share for GSPL (Rs/sh)	137
GGL stake (50% Discount) (Rs/sh)	243
Target Price (Rs/sh)	380
CMP Rs/sh	325
Upside (downside) %	17.1%

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap (Rs mn)	EPS CAGR (FY21-23E) (%)	PE (x)			P/Bv (x)			EV/EBITDA (x)			RoE (%)	RoCE (%)
			FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY23E	FY23E
GSPL	**1,83,087**	**9.5%**	**19.5**	**17.5**	**16.3**	**2.4**	**2.2**	**2.0**	**12.9**	**11.7**	**10.9**	**12.6**	**12.3**
GGL	4,97,369	28.8%	39.0	29.5	23.5	11.1	8.4	6.5	24.0	19.2	15.1	31.1	30.2
GAIL	6,47,187	28.7%	13.2	8.8	8.0	1.4	1.3	1.1	10.7	6.7	6.2	15.0	13.9
PLNG	3,20,250	1.1%	10.9	11.1	10.6	2.7	2.5	2.3	5.6	5.5	4.9	22.5	22.5
IGL	3,67,990	23.6%	36.6	26.6	24.0	6.3	5.4	4.7	24.1	17.9	15.2	20.8	20.7
MGL	1,12,856	26.4%	18.2	12.9	11.4	3.5	3.1	2.7	10.4	7.8	6.7	25.1	25.2

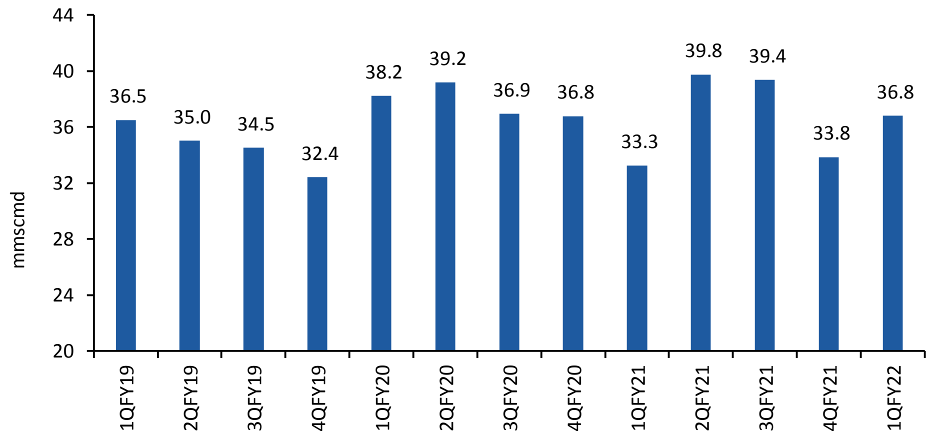
Source: Company, Centrum Broking

Exhibit 1: Quarterly Summary

Particulars (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Sales	**6,356**	**6,259**	**5,952**	**4,644**	**5,770**	**5,800**	**4,650**	**5,272**
Other Operating Income	-	-	-	-	-	-	-	-
Total Income	**6,356**	**6,259**	**5,952**	**4,644**	**5,770**	**5,800**	**4,650**	**5,272**
Raw Material Consumed	1,754	2,245	2,168	988	1,775	1,596	979	1,339
Employee Expenses	171	154	166	134	128	160	169	130
Other Exp	60	60	60	60	60	60	60	60
Operating Profit (Core EBITDA)	**4,371**	**3,800**	**3,557**	**3,462**	**3,807**	**3,984**	**3,442**	**3,744**
Depreciation	498	497	483	488	554	511	497	481
EBIT	**3,873**	**3,303**	**3,075**	**2,974**	**3,253**	**3,473**	**2,945**	**3,263**
Interest	438	383	346	290	249	220	174	140
Other Revenue/Income	454	52	67	43	515	74	61	38
Other Excep. Items (restructuring, asset sales etc)	1,638	-	(29)	-	1	(14)	(17)	-
Profit Before Tax	**3,890**	**2,972**	**2,795**	**2,727**	**3,519**	**3,328**	**2,833**	**3,161**
Tax	(659)	751	539	733	808	853	753	828
Tax rate (%)	-16.9%	25.3%	19.3%	26.9%	23.0%	25.6%	26.6%	26.2%
Profit After Tax	**4,549**	**2,221**	**2,256**	**1,994**	**2,711**	**2,475**	**2,079**	**2,333**
PAT attributable to Consolidated Group	**4,549**	**2,221**	**2,256**	**1,994**	**2,711**	**2,475**	**2,079**	**2,333**
Adjusted PAT for the group	**2,911**	**2,221**	**2,285**	**1,994**	**2,710**	**2,489**	**2,096**	**2,333**
Growth (%)								
Net Sales	30.2%	37.9%	37.2%	-9.4%	-9.2%	-7.3%	-21.9%	13.5%
EBITDA	7.6%	7.6%	8.0%	-13.9%	-12.9%	4.8%	-3.2%	8.2%
Adj. PAT	16.6%	28.0%	49.0%	-3.3%	-6.9%	12.1%	-8.3%	17.0%
Margin (%)								
EBITDA	68.8%	60.7%	59.8%	74.5%	66.0%	68.7%	74.0%	71.0%
EBIT	60.9%	52.8%	51.7%	64.0%	56.4%	59.9%	63.3%	61.9%
PAT (reported bef minority interest)	71.6%	35.5%	37.9%	42.9%	47.0%	42.7%	44.7%	44.2%
Key Drivers								
Brent (US$/bbl)	61.9	62.4	50.0	32.0	42.7	44.5	60.0	68.0
INR/USD	70.4	71.2	72.6	75.5	73.6	74.0	74.4	73.6
Transmission Volumes (mmscm)	3,605	3,398	3,347	3,026	3,657	3,621	3,046	3,348
Transmission Volumes (mmscmd)	39.2	36.9	36.8	33.3	39.8	39.4	33.8	36.8
Transmission tariff (Rs/mcm)	1,336	1,310	1,284	1,298	1,252	1,245	1,277	1,282
Cost (Rs/mcm)	503	678	666	346	502	457	341	418
EBITDA (Rs/mcm)	1,213	1,118	1,063	1,144	1,041	1,100	1,130	1,118

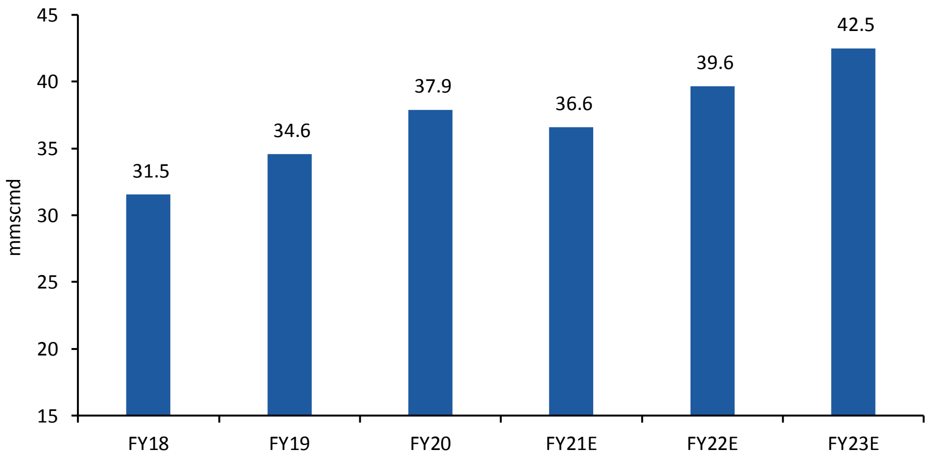
Source: Centrum Broking, Company Data

Exhibit 2: Volumes jump qoq



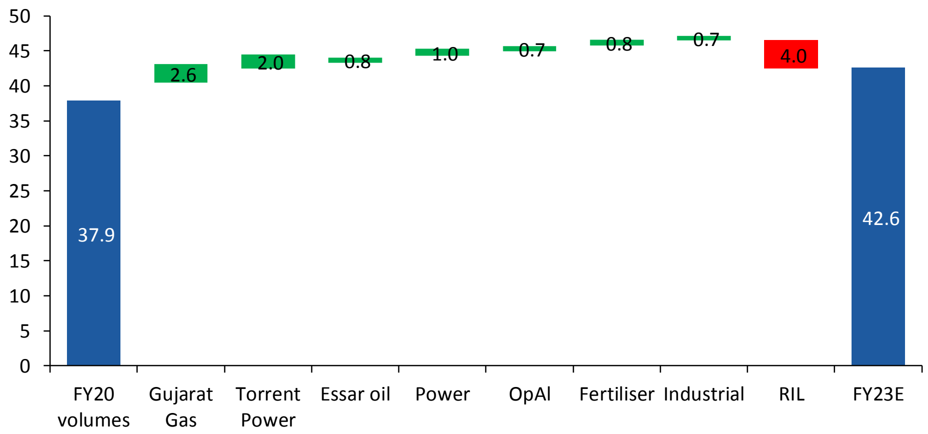
Source: Centrum Broking, Company Data

Exhibit 3: We build a sharp improvement in volumes over FY23e



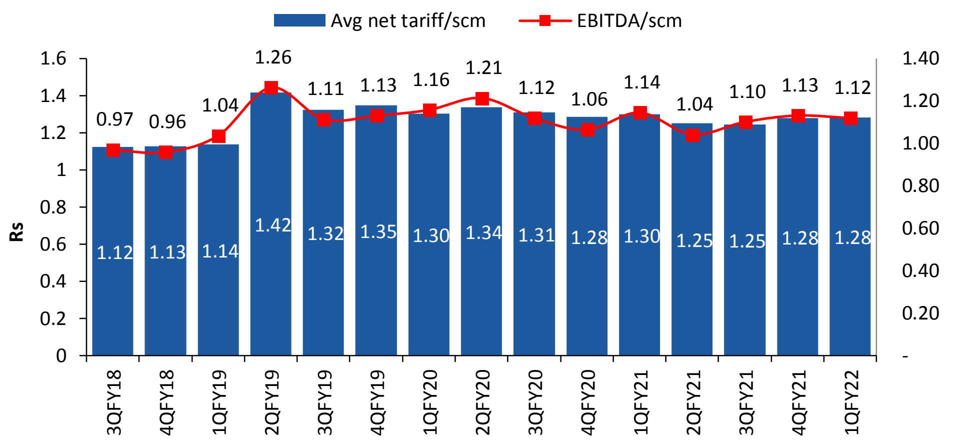
Source: Centrum Broking, Company Data

Exhibit 4: Multiple levers for growth in volumes over FY23E



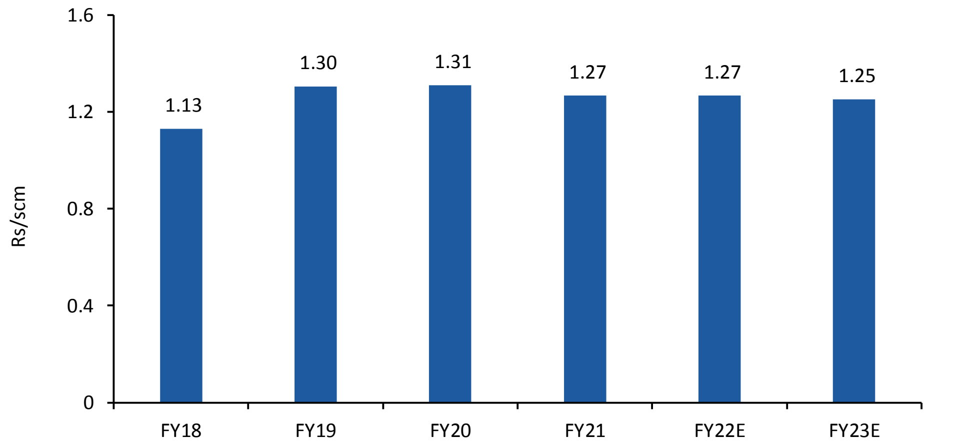
Source: Centrum Broking, Company Data

Exhibit 5: Net tariffs stay flat



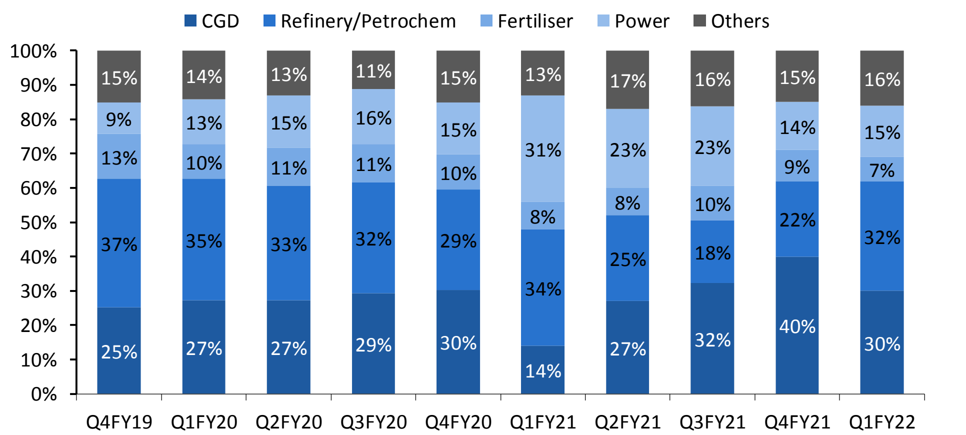
Source: Centrum Broking, Company Data

Exhibit 6: We expect tariffs remain strong over FY22e before marginal decline in FY23E



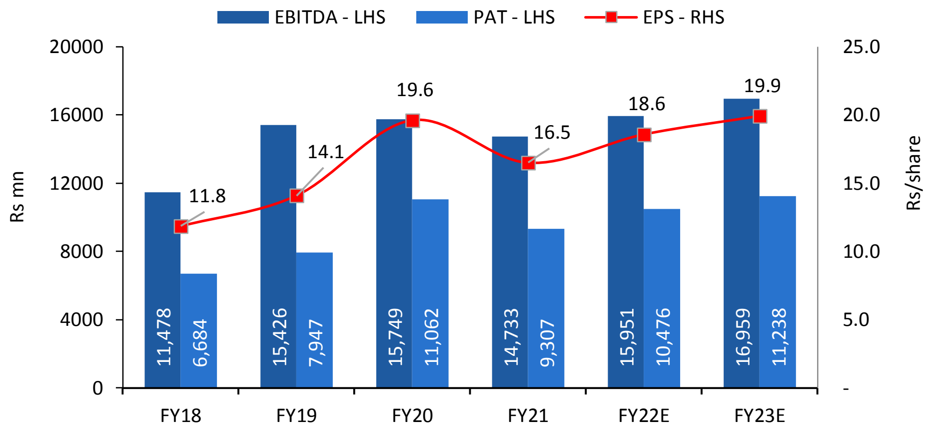
Source: Centrum Broking, Company Data

Exhibit 7: CGD Declines qoq, Refinery + petchem pick up the slack



Source: Centrum Broking, Company Data

Exhibit 8: We expect sustained earnings improvement ahead



Source: Centrum Broking, Company Data

Exhibit 9: Valuation Summary – material upside from here

	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E
Volumes mmscmd	36.6	39.6	42.5	45.0	46.0	47.0	48.0	49.0	50.0
yoy growth	-3.4%	8.4%	7.2%	5.9%	2.2%	2.2%	2.1%	2.1%	2.0%
EBITDA/Scm	1.10	1.10	1.09	0.85	0.85	0.85	0.85	0.85	0.85
EBITDA	14,733	15,951	16,959	14,006	14,317	14,629	14,940	15,251	15,562
Less Depreciation	2,030	2,127	2,295	1,938	2,086	2,234	2,382	2,493	2,604
EBIT	12,703	13,824	14,664	12,068	12,232	12,395	12,558	12,758	12,958
Less Interest	929	1,087	1,185	1,283	1,381	1,479	1,577	1,651	1,724
PBT	**11,774**	**12,737**	**13,478**	**10,785**	**10,850**	**10,916**	**10,981**	**11,108**	**11,234**
Less Tax	3,197	3,480	3,691	3,038	3,079	3,120	3,161	3,211	3,262
NOPAT	**8,577**	**9,257**	**9,788**	**7,747**	**7,772**	**7,796**	**7,820**	**7,896**	**7,973**
Add Depreciation	2,030	2,127	2,295	1,938	2,086	2,234	2,382	2,493	2,604
Less Capex	1,126	3,500	4,000	4,000	4,000	4,000	4,000	3,000	3,000
FCF	9,480	7,885	8,083	5,685	5,858	6,030	6,202	7,389	7,577
GBA	40,876	44,376	48,376	52,376	56,376	60,376	64,376	67,376	70,376
Debt	8,600	15,532	16,932	18,332	19,732	21,132	22,532	23,582	24,632
Year	-	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0
Disc factor	1.0	0.9	0.8	0.7	0.7	0.6	0.6	0.5	0.5
NPV	**9,480**	**7,138**	**6,625**	**4,219**	**3,935**	**3,667**	**3,415**	**3,683**	**3,419**
Total Core NPV (Rsmn)	**36,101**								
TV (Rsmn)	**91,380**								
PV of Terminal value (Rsmn)	**41,239**								
Total NPV potential (Rsmn)	**77,340**								
Per share for GSPL (Rs/sh)	**137**								
GGL stake (50% Discount) (Rs/sh)	**243**								
Target Price (Rs/sh)	**380**								
CMP Rs/sh	**325**								
Upside (downside) %	**17.1%**								

Source: Centrum Broking, Company Data

P&L

YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenues	**18,773**	**23,693**	**20,794**	**22,508**	**23,807**
Operating Expense	2,452	7,063	5,195	5,629	5,855
Employee cost	645	619	592	639	690
Others	249	261	274	288	303
EBITDA	**15,426**	**15,749**	**14,733**	**15,951**	**16,959**
Depreciation & Amortisation	1,800	1,966	2,030	2,127	2,295
EBIT	**13,626**	**13,783**	**12,703**	**13,824**	**14,664**
Interest expenses	2,192	1,645	929	546	403
Other income	594	649	693	727	764
PBT	**12,028**	**12,786**	**12,467**	**14,005**	**15,024**
Taxes	4,081	1,699	3,160	3,529	3,786
Effective tax rate (%)	33.9	13.3	25.3	25.2	25.2
PAT	**7,947**	**11,087**	**9,307**	**10,476**	**11,238**
Minority/Associates	0	0	0	0	0
Recurring PAT	**7,947**	**11,113**	**9,371**	**10,476**	**11,238**
Extraordinary items	0	(25)	(64)	0	0
Reported PAT	**7,947**	**11,087**	**9,307**	**10,476**	**11,238**

Ratios

YE Mar	FY19A	FY20A	FY21A	FY22E	FY23E
Growth (%)					
Revenue	41.0	26.2	(12.2)	8.2	5.8
EBITDA	34.4	2.1	(6.5)	8.3	6.3
Adj. EPS	18.9	39.8	(15.7)	11.8	7.3
Margins (%)					
Gross	100.0	100.0	100.0	100.0	100.0
EBITDA	82.2	66.5	70.9	70.9	71.2
EBIT	72.6	58.2	61.1	61.4	61.6
Adjusted PAT	42.3	46.9	45.1	46.5	47.2
Returns (%)					
ROE	14.7	17.8	13.1	13.1	12.6
ROCE	11.6	15.2	12.0	12.6	12.3
ROIC	10.7	13.8	10.8	11.4	11.3
Turnover (days)					
Gross block turnover ratio (x)	0.4	0.5	0.5	0.5	0.4
Debtors	32	29	28	27	27
Inventory	nm	nm	nm	nm	nm
Creditors	nm	nm	nm	nm	nm
Net working capital	55	49	5	19	36
Solvency (x)					
Net debt-equity	0.4	0.2	0.1	0.0	0.0
Interest coverage ratio	7.0	9.6	15.9	29.2	42.0
Net debt/EBITDA	1.4	1.0	0.4	0.3	0.1
Per share (Rs)					
Adjusted EPS	14.1	19.7	16.6	18.6	19.9
BVPS	101.8	119.1	133.7	149.3	166.1
CEPS	17.3	23.2	20.2	22.3	24.0
DPS	2.0	2.0	2.0	3.0	3.2
Dividend payout (%)	14.0	10.0	12.1	16.0	16.0
Valuation (x)					
P/E	23.0	16.5	19.5	17.5	16.3
P/BV	3.2	2.7	2.4	2.2	2.0
EV/EBITDA	13.3	12.6	12.9	11.7	10.9
Dividend yield (%)	0.6	0.6	0.6	0.9	1.0

Source: Company, Centrum Broking

Balance sheet

YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Equity share capital	5,640	5,641	5,642	5,642	5,642
Reserves & surplus	51,800	61,584	69,808	78,608	88,048
Shareholders fund	57,440	67,226	75,450	84,250	93,690
Minority Interest	0	0	0	0	0
Total debt	23,660	16,303	7,499	5,499	3,499
Non Current Liabilities	457	975	1,101	1,112	1,123
Def tax liab. (net)	5,226	4,081	4,218	4,229	4,201
Total liabilities	**86,784**	**88,585**	**88,268**	**95,089**	**1,02,513**
Gross block	43,245	44,848	45,688	49,188	53,188
Less: acc. Depreciation	(7,170)	(8,990)	(11,020)	(13,147)	(15,443)
Net block	36,075	35,857	34,668	36,041	37,745
Capital WIP	4,194	2,372	2,215	2,215	2,215
Net fixed assets	40,269	38,229	36,883	38,256	39,960
Non Current Assets	0	0	0	0	0
Investments	43,684	47,159	51,101	55,669	60,236
Inventories	1,279	1,261	1,296	1,403	1,484
Sundry debtors	2,081	1,637	1,586	1,717	1,816
Cash & Cash Equivalents	1,583	957	877	1,382	2,235
Loans & advances	604	1,785	1,985	2,191	2,364
Other current assets	0	0	0	0	0
Trade payables	238	410	620	671	710
Other current liab.	2,262	1,757	4,533	4,533	4,533
Provisions	216	276	307	324	340
Net current assets	2,831	3,197	284	1,165	2,316
Total assets	**86,784**	**88,585**	**88,268**	**95,089**	**1,02,513**

Cashflow

YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Profit Before Tax	12,028	12,786	12,382	14,005	15,024
Depreciation & Amortisation	1,800	1,966	2,048	2,127	2,295
Net Interest	1,983	1,491	837	546	403
Net Change – WC	(955)	893	684	(376)	(298)
Direct taxes	(3,639)	(3,082)	(3,025)	(3,519)	(3,814)
Net cash from operations	**10,882**	**13,602**	**12,412**	**12,783**	**13,611**
Capital expenditure	(2,118)	(1,066)	(1,119)	(3,500)	(4,000)
Acquisitions, net	0	0	0	0	0
Investments	1,476	(2,594)	(3,846)	(4,568)	(4,568)
Others	563	558	586	0	0
Net cash from investing	**(80)**	**(3,102)**	**(4,379)**	**(8,068)**	**(8,568)**
FCF	**8,764**	**12,536**	**11,293**	**9,283**	**9,611**
Issue of share capital	12	8	8	0	0
Increase/(decrease) in debt	(6,912)	(7,344)	(6,047)	(1,989)	(1,989)
Dividend paid	(1,128)	(1,283)	(1,128)	(1,676)	(1,798)
Interest paid	(2,299)	(1,678)	(924)	(546)	(403)
Others	0	0	0	0	0
Net cash from financing	**(10,328)**	**(10,297)**	**(8,091)**	**(4,211)**	**(4,190)**
Net change in Cash	475	203	(57)	504	853

Source: Company, Centrum Broking

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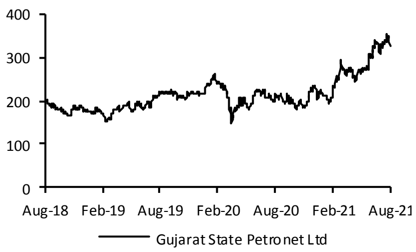
Gujarat State Petronet Ltd



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