

Gujarat State Petronet

Refer to important disclosures at the end of this report

Earnings impacted by higher SUG expense; valuations cheap

- Gujarat State Petronet (GSPL) reported EBITDA/PAT of Rs3.53bn/1.74bn, up 19%/down 4% yoy, down 13%/46% qoq and 12%/22% lower than our estimates due to higher-than-expected Other Expense which had Rs300mn of SUG adjustment. Other Income was also lower than our estimate at Rs76mn while the tax rate of 34% was higher.
 - Gas transmission volume at 34.5mmscmd was down 2% qoq (up 3% yoy), largely in line. The sequential volume drop was contributed by some dip in Reliance and power sector volumes though partially offset by other sectors. Average tariff realization was down 3% qoq at Rs1.42/scm, 3% lower than our estimate.
 - GSPL's near-term volumes are likely to be impacted by the ramp-up of RIL's petcoke project though would be later offset by new gas sources like Cairn Rajasthan and Mundra LNG terminal ramp-up. We cut our FY19/20/21E EPS by 7%/9%/11%, building in higher expenses, while reducing TP by 7% to Rs210. We maintain Buy due to cheap valuations.
- Management Guidance:** Management has highlighted lower SUG in earlier years (FY18 it was negative Rs20mn) as the reason behind higher run-rate this year, and going forward expects it to reverse. Tax rate guidance is a normal 33-34%. There has been no communication from RIL on lowering volumes and no official update on petcoke project commissioning. Currently, volumes are at 32-33mmscmd with RIL taking under 10mmscmd. Tariff review with the PNGRB is likely to come in Q1FY20, post tariffs of other players (such as GAIL) having finalized. GSPL does not expect much change as against higher RIL-led volumes in FY18/19, opex/capex assumptions would also go up in the review. Gas-based power sector demand is weak.
- Outlook and Valuation:** We note that GSPL's near-term volumes would be impacted by the ramp-up of RIL's petcoke gasification project, and our channel checks suggest that RIL's current R-LNG intake is ~8mmscmd which could further go down to 4-5mmscmd as its petcoke project starts operating at optimal capacity. However, against this, new gas supply sources like Cairn's Rajasthan fields, Mundra LNG terminal and Dahej LNG expansion would ramp up. Hence, we maintain our volume estimate of 34/30/32mmscmd for FY19/20/21. However, we raise our expense assumption with an increase in employee costs and higher Other Expenditure. We also lower our book tariff slightly along with Other Income. Hence, we reduce our FY19/20/21E EPS by 7%/9%/11% and our DCF-SOTP based target price by 7% to Rs210, with Rs79 coming from Gujarat Gas (30% discount to FV). We thereby maintain our Buy rating. The bottoming out of volumes and stable expenses remain key upside triggers.

Financial Snapshot (Standalone)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	10,276	13,317	17,524	16,172	17,198
EBITDA	8,883	11,478	14,689	13,430	14,311
EBITDA Margin (%)	86.4	86.2	83.8	83.0	83.2
APAT	4,966	6,684	8,265	6,637	7,260
EPS (Rs)	8.8	11.9	14.7	11.8	12.9
EPS (% chg)	11.5	34.6	23.6	(19.7)	9.4
ROE (%)	11.6	14.0	15.4	11.2	11.3
P/E (x)	18.9	14.1	11.4	14.2	13.0
EV/EBITDA (x)	10.4	10.6	8.0	8.5	7.7
P/BV (x)	2.1	1.9	1.7	1.5	1.4

Source: Company, Emkay Research

CMP	Target Price
Rs 167 as of (February 8, 2019)	Rs 210 (▼) 12 months
Rating	Upside
BUY (■)	25.8 %

Change in Estimates

EPS Chg FY19E/FY20E (%)	(7)/(9)
Target Price change (%)	(7)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY19E	FY20E
Emkay	14.7	11.8
Consensus	15.2	15.0
Mean Consensus TP (12M)	Rs 217	

Stock Details

Bloomberg Code	GUJS IN
Face Value (Rs)	10
Shares outstanding (mn)	564
52 Week H/L	211 / 156
M Cap (Rs bn/USD bn)	94 / 1.32
Daily Avg Volume (nos.)	378,161
Daily Avg Turnover (US\$ mn)	0.9

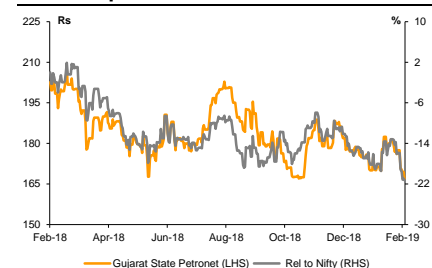
Shareholding Pattern Dec '18

Promoters	37.7%
FIIIs	17.1%
DIIIs	20.4%
Public and Others	24.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	(10)	(18)	(20)
Rel. to Nifty	(3)	(13)	(14)	(22)

Relative price chart



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Exhibit 1: Actual vs. Estimate (Q3FY19)

Rs mn	Actual	Estimate (Emkay)	Consensus Estimate (Bloomberg)	Variation		Comment
				Emkay	Consensus	
Total Revenue	4,538	4,636	4,671	-2%	-3%	
EBITDA	3,532	4,017	3,962	-12%	-11%	Due to higher expenses/SUG
EBITDA Margin (%)	78%	87%	85%	-883 bps	-699 bps	
Adjusted Net Profit	1,736	2,233	2,100	-22%	-17%	Due to lower Other Income, higher tax rate

Source: Company, Emkay Research

Exhibit 2: Detailed Quarterly Highlights

Rs.mn	Q3FY19	Q3FY18	yoy	Q2FY19	qoq	9MFY19	9MFY18	yoy
Gas Transportation Revenue	4,506	3,462	30%	4,715	-4%	13,007	9,524	37%
Other Revenues (Electricity Adj.)	32	40	-21%	155	-80%	313	289	8%
Net Revenue	4,538	3,502	30%	4,870	-7%	13,321	9,814	36%
Employee Cost	202	110	85%	209	-3%	498	326	53%
Other Expenses	804	421	91%	612	31%	1,803	902	100%
Total Expenditure	1,006	531	90%	821	23%	2,301	1,228	87%
EBITDA	3,532	2,971	19%	4,050	-13%	11,020	8,586	28%
Depreciation	440	442	-1%	436	1%	1,324	1,310	1%
EBIT	3,092	2,529	22%	3,613	-14%	9,696	7,276	33%
Interest Cost	551	55	904%	557	-1%	1,687	251	572%
Other Income	76	121	-37%	384	-80%	515	563	-9%
PBT Before Exceptional Items	2,618	2,595	1%	3,440	-24%	8,523	7,588	12%
Exceptional Items	-	-		1,113		1,113	-	
PBT	2,618	2,595	1%	4,553	-43%	9,636	7,588	27%
Current Tax	850	737	15%	1,287	-34%	3,129	2,330	34%
Deferred Tax	32	42	-25%	32	-2%	94	148	-37%
Total Tax	882	779	13%	1,319	-33%	3,223	2,478	30%
Reported PAT	1,736	1,816	-4%	3,233	-46%	6,413	5,110	25%
Reported EPS (Rs.)	3.1	3.2	-4%	5.7	-46%	11.4	9.1	25%
Adjusted PAT	1,736	1,816	-4%	2,443	-29%	5,623	5,110	10%
Adjusted EPS (Rs.)	3.1	3.2	-4%	4.3	-29%	10.0	9.1	10%
Shares O/S (mn)	564	564	0%	564	0%	564	564	0%
EBITDA Margin	78%	85%		83%		83%	87%	
NPM	38%	52%		66%		48%	52%	
Effective Tax Rate	34%	30%		29%		33%	33%	
Segmental Revenue	4,546	3,514	29%	4,880	-7%	13,348	9,846	36%
Gas Transportation	4,506	3,462	30%	4,715	-4%	13,007	9,524	37%
Sale of Electricity	40	52	-24%	165	-76%	341	321	6%
Segmental PBIT	3,198	2,624	22%	3,798	-16%	10,081	7,663	32%
Gas Transportation	3,205	2,623	22%	3,680	-13%	9,881	7,495	32%
Sale of Electricity	-7	1	NM	118	NM	200	167	19%
Less Interest Cost	551	55	904%	557	-1%	1,687	251	572%
Add Unallocable Income	-30	26	NM	199	NM	130	177	-27%
EBIT	2,618	2,595	1%	3,440	-24%	8,523	7,588	12%
Segmental Capital Employed	55,929	49,068	14%	54,198	3%	55,929	49,068	14%
Gas Transportation	41,478	38,372	8%	40,106	3%	41,478	38,372	8%
Sale of Electricity	916	1,024	-11%	3,147	-71%	916	1,024	-11%
Unallocable	13,535	9,672	40%	10,945	24%	13,535	9,672	40%
Gas Volumes (mmscmd)	34.4	33.5	3%	35.0	-2%	35.3	30.7	15%
Average Tariff (Rs./scm)	1.42	1.12	27%	1.47	-3%	1.34	1.13	19%

Source: Company, Emkay Research

Exhibit 3: Revised Estimates

Rs mn	FY19E			FY20E			FY21E		
	Previous	Revised	Variance	Previous	Revised	Variance	Previous	Revised	Variance
Revenue	17,663	17,524	-1%	16,452	16,172	-2%	17,496	17,198	-2%
EBITDA	15,569	14,689	-6%	14,186	13,430	-5%	15,115	14,311	-5%
EBITDA Margins	88%	84%	-432 bps	86%	83%	-319 bps	86%	83%	-318 bps
PAT	8,847	8,265	-7%	7,305	6,637	-9%	8,119	7,260	-11%
EPS	15.7	14.7	-7%	13.0	11.8	-9%	14.4	12.9	-11%

Source: Company, Emkay Research

Exhibit 4: Core Business DCF Valuation

DCF Assumptions		FY21E (Rs.mn)	Standalone
Risk Free Rate	8.0%	NPV Of FCF	51,465
Risk Premium	5.0%	Terminal Value	113,205
Beta	0.9	PV Of TV	39,994
Cost Of Equity	12.5%	Total Value	91,459
Cost Of Debt	9.0%	Less: Net Debt (Y/E)	19,735
Post Tax Cost Of Debt	5.9%	Equity Value	71,724
Average Debt:Equity Ratio	30.0%	No. Of Shares O/S (mn)	564
WACC	11.0%	Core Business Fair Value (Rs.)	127
Terminal Growth Rate	0.0%		

Source: Company, Emkay Research

Exhibit 5: Core PE-based Valuation

Rs.	FY17	FY18	FY19E	FY20E	FY21E
GSPL's Core EPS	8.8	11.9	14.7	11.8	12.9
Less: GGL/SGL Div. Inc.	0.2	0.3	0.8	1.0	1.4
GSPL Adjusted EPS	8.7	11.5	13.9	10.7	11.5
Target Multiple (x)					11.0
Core Business Target Price					127

Source: Company, Emkay Research

Exhibit 6: Value of Gujarat Gas Stake

Gujarat Gas Ltd at CMP (Rs.mn)	
CMP (Rs./sh)	170
No. Of Shares O/S (m)	689
FV of GGL	117,130
At 30% Haircut	81,991
GSPL's Stake	54.2%
GSPL's Value	44,406
GSPL's Shares O/S (mn)	564
Value/sh For GSPL	79

Source: Company, Emkay Research

Exhibit 7: SOTP Valuation

Parts (Rs.)	Method	Value
Core Gujarat Business	DCF Based	127
Gujarat Gas Stake	FV Based	79
3 New Pipelines	DCF Based	-2
Others	BV Based	6
Target Price		210

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	10,276	13,317	17,524	16,172	17,198
Expenditure	1,393	1,839	2,835	2,742	2,887
EBITDA	8,883	11,478	14,689	13,430	14,311
Depreciation	1,791	1,750	1,807	2,048	2,229
EBIT	7,092	9,728	12,882	11,382	12,082
Other Income	882	735	751	860	1,067
Interest expenses	596	354	2,224	2,186	2,149
PBT	7,378	10,108	11,409	10,055	11,000
Tax	2,411	3,424	4,257	3,419	3,740
Extraordinary Items	0	0	1,113	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	4,966	6,684	9,378	6,637	7,260
Adjusted PAT	4,966	6,684	8,265	6,637	7,260

Balance Sheet

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Equity share capital	5,636	5,638	5,638	5,638	5,638
Reserves & surplus	39,324	45,012	51,095	55,900	61,069
Net worth	44,960	50,650	56,733	61,538	66,707
Minority Interest	0	0	0	0	0
Loan Funds	6,600	30,877	30,778	30,680	30,581
Net deferred tax liability	4,719	4,984	5,238	5,480	5,709
Total Liabilities	56,278	86,511	92,750	97,698	102,998
Net block	31,657	31,142	34,877	37,762	38,476
Investment	7,835	41,945	42,095	42,095	42,095
Current Assets	11,978	7,439	11,718	15,238	19,816
Cash & bank balance	8,026	3,645	7,085	10,794	15,116
Other Current Assets	1,205	1,132	1,188	1,248	1,310
Current liabilities & Provision	2,055	2,974	3,107	3,131	3,180
Net current assets	9,923	4,465	8,611	12,106	16,636
Misc. exp	0	0	0	0	0
Total Assets	56,278	86,511	92,750	97,698	102,998

Cash Flow

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
PBT (Ex-Other income) (NI+Dep)	6,496	9,373	10,658	9,195	9,934
Other Non-Cash items	247	63	1,113	0	0
Chg in working cap	2,526	1,342	(452)	455	23
Operating Cashflow	9,436	8,944	11,095	10,467	10,596
Capital expenditure	(1,402)	(3,331)	(3,750)	(3,500)	(3,000)
Free Cash Flow	8,034	5,613	7,345	6,967	7,596
Investments	(322)	(34,110)	(150)	0	0
Other Investing Cash Flow	270	517	0	0	0
Investing Cashflow	(573)	(36,189)	(3,149)	(2,640)	(1,933)
Equity Capital Raised	2	2	0	0	0
Loans Taken / (Repaid)	(4,364)	24,277	(99)	(98)	(98)
Dividend paid (incl tax)	(1,017)	(1,018)	(2,182)	(1,832)	(2,091)
Other Financing Cash Flow	(392)	(43)	(1)	(2)	(2)
Financing Cashflow	(6,366)	22,865	(4,506)	(4,118)	(4,340)
Net chg in cash	2,497	(4,381)	3,439	3,709	4,323
Opening cash position	5,529	8,026	3,645	7,085	10,794
Closing cash position	8,026	3,645	7,085	10,794	15,116

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY17	FY18	FY19E	FY20E	FY21E
EBITDA Margin	86.4	86.2	83.8	83.0	83.2
EBIT Margin	69.0	73.0	73.5	70.4	70.3
Effective Tax Rate	32.7	33.9	37.3	34.0	34.0
Net Margin	48.3	50.2	40.8	41.0	42.2
ROCE	14.2	14.7	15.2	12.9	13.1
ROE	11.6	14.0	15.4	11.2	11.3
RoIC	20.5	29.7	37.7	30.2	30.6

Per Share Data (Rs)	FY17	FY18	FY19E	FY20E	FY21E
EPS	8.8	11.9	14.7	11.8	12.9
CEPS	12.0	15.0	17.9	15.4	16.8
BVPS	79.7	89.8	100.6	109.1	118.3
DPS	1.5	1.7	3.2	2.7	3.1

Valuations (x)	FY17	FY18	FY19E	FY20E	FY21E
PER	18.9	14.1	11.4	14.2	13.0
P/CEPS	13.9	11.2	9.3	10.8	9.9
P/BV	2.1	1.9	1.7	1.5	1.4
EV / Sales	9.0	9.1	6.7	7.0	6.4
EV / EBITDA	10.4	10.6	8.0	8.5	7.7
Dividend Yield (%)	0.9	1.0	1.9	1.6	1.9

Gearing Ratio (x)	FY17	FY18	FY19E	FY20E	FY21E
Net Debt/ Equity	0.0	0.5	0.4	0.3	0.2
Net Debt/EBIDTA	(0.2)	2.4	1.6	1.5	1.1
Working Cap Cycle (days)	47.0	30.9	30.9	30.9	30.9

Growth (%)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	3.6	29.6	31.6	(7.7)	6.3
EBITDA	2.6	29.2	28.0	(8.6)	6.6
EBIT	3.8	37.2	32.4	(11.6)	6.2
PAT	11.5	34.6	40.3	(29.2)	9.4

Quarterly (Rs mn)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Revenue	3,502	3,504	3,912	4,870	4,538
EBITDA	2,971	2,892	3,438	4,050	3,532
EBITDA Margin (%)	84.8	82.5	87.9	83.2	77.8
PAT	1,816	1,574	1,445	3,233	1,736
EPS (Rs)	3.2	2.8	2.6	5.7	3.1

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoters	37.7	37.7	37.7	37.7	37.7
FIs	16.7	16.6	16.2	16.3	17.1
DIs	19.4	19.5	20.7	20.8	20.4
Public and Others	26.2	26.2	25.5	25.2	24.9

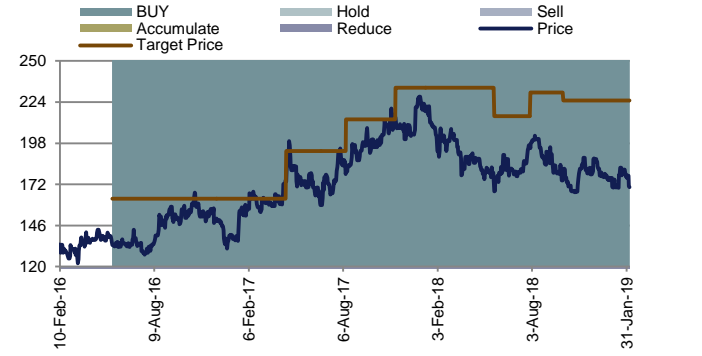
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
28-Jan-19	179	225	12m	Buy	Sabri Hazarika
24-Jan-19	180	225	12m	Buy	Sabri Hazarika
31-Dec-18	176	225	12m	Buy	Sabri Hazarika
11-Dec-18	179	225	12m	Buy	Sabri Hazarika
5-Nov-18	182	225	12m	Buy	Sabri Hazarika
1-Oct-18	182	225	12m	Buy	Sabri Hazarika
4-Sep-18	186	230	12m	Buy	Sabri Hazarika
30-Jul-18	195	230	12m	Buy	Sabri Hazarika
13-Jul-18	182	215	12m	Buy	Sabri Hazarika
8-Jun-18	191	215	12m	Buy	Sabri Hazarika
22-May-18	168	215	12m	Buy	Sabri Hazarika
14-Nov-17	214	233	12m	Buy	Dhaval Joshi
11-Aug-17	180	213	12m	Buy	Dhaval Joshi
25-May-17	174	193	12m	Buy	Dhaval Joshi
18-Apr-17	174	193	12m	Buy	Dhaval Joshi
6-Feb-17	157	163	12m	Buy	Dhaval Joshi
30-Nov-16	157	163	12m	Buy	Dhaval Joshi
9-Sep-16	158	163	12m	Buy	Dhaval Joshi
6-Sep-16	156	163	12m	Buy	Dhaval Joshi
2-Jun-16	135	163	12m	Buy	Dhaval Joshi
20-May-16	134	163	12m	Buy	Dhaval Joshi

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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A handwritten signature in black ink, appearing to read 'Sabri Hazarika', with a long horizontal stroke extending to the right.

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