

# Gujarat State Petronet Ltd

BUY

CMP Rs287

Target Rs345

Upside 20.2%

## Result Highlights- In line with estimates

- ✓ **4QFY21 Profitability:** The Operating profit and PAT for the quarter stood at Rs 3.4bn (-3.2% YoY; -13.6% QoQ) and Rs 2.1bn (-8% YoY; -16% QoQ), respectively, broadly in line with our estimates. The YoY and QoQ drop in profitability was primarily on account of reduction in gas throughput as consumption dropped across segments (other than CGD).
- ✓ **4QFY21 Gas Sales:** Total gas throughput stood lower by 8% YoY and 14% QoQ at 33.8mmcmd as consumption dropped across segments viz. Refinery (-30% YoY; +5% QoQ), Fertilizer (-17% YoY; -23% QoQ) and Power (-14%YoY; -47% QoQ), other than CGD where consumption improved (+23% ; +7.5% QoQ). Sharp increase in LNG prices was the primary reason for drop in consumption.
- ✓ **FY21 Profitability:** The FY21 operating profit and PAT at Rs 14.7bn and Rs 9.3bn, respectively, stood lower by 7% YoY and 16% YoY, respectively. The YoY reduction in profitability was primarily on account of 3% YoY lower gas throughput at 36.6mmcmd and 9% YoY lower tariff at Rs 1.5/scm.
- ✓ **FY21 Gas sales:** While the annual volumes stood lower for CGD at 10.4mmcmd (-3% YoY), Refinery at 8.9mmcmd (-27% YoY) and Fertilizer at 3.2mmcmd (-19% YoY) segments, the same was offset by 49% YoY higher consumption in Power segment at 8.3mmcmd and 12% YoY higher in others at 5.6mmcmd.
- ✓ **Per unit metrics:** The per unit revenue for the quarter as well as FY21 stood lower at 1.5/scm (-14% YoY, -4.3%QoQ) and Rs 1.5/scm (-9% YoY), respectively. The key reason for drop was shift in volumes to lower tariff LP system.
- ✓ **Debt:** The gross debt for FY21 increased to Rs 7.5bn (FY20: Rs 5.4bn) on account increase in current borrowing to Rs 4.3bn (FY20: Nil), even as non-current borrowing reduced to Rs 3.25bn (FY20: 5.4bn).
- ✓ **Discontinued Operation:** GUJS has classified its CGD business in Amritsar and Bhatinda as discontinued operation and transferred the same to its subsidiary Gujarat Gas Ltd for a consideration of Rs 16.3bn, on slump sale basis.
- ✓ **Dividend:** GUJGA declared a dividend of Rs 2/sh for the year FY21.

## View & Valuation

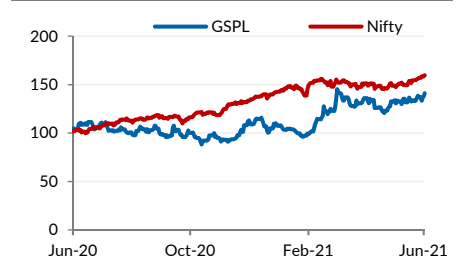
GUJS' reported earnings in 4QFY21 stood in-line with estimates, on account of anticipated drop in gas throughput. The gas throughput remains impacted in 1QFY22 as well, as Covid 2<sup>nd</sup> wave impacts demand. CGD segment is the most impacted, with ~ 30% QoQ erosion in demand, along with the Power segment (QoQ decline of 30-40%), where higher LNG prices have impacted offtake. However going ahead, improvement is expected, as demand picks up at least from CGD sector. We accordingly adjust our earnings estimate for FY22e and FY23e to reflect the same.

We maintain our BUY rating on GUJS, with a TP of Rs 345/sh, as we believe that at CMP the standalone business is available at a ~50% discount to fair-value, given that the valuation of GUJS' subsidiary GUJGA has increased by 117% over last one year. Our SOTP valuation of Rs 345/sh involves a) valuing the standalone business at Rs 119/sh, implying a P/E of 8x FY23e (SA), b) the investment in GUJGA at Rs 211/sh valued at 40% discount to 3M average market price, c) investment in Sabarmati gas at 3.0x FY20 BV and d) investment in under-construction trunk pipelines GIGL & GITL at 30% discount to FY20BV.

## Stock data (as on Jun 03, 2021)

Sensex:	15,690
52 Week h/l (Rs)	311 / 177
Market cap (Rs/USD mn)	161731 / 2218
Outstanding Shares	564
6m Avg t/o (Rs mn):	270
Div yield (%):	0.7
Bloomberg code:	GUJS IN
NSE code:	GSPL

## Stock performance



	1M	3M	1Y
Absolute return	+5.3%	+3.6%	36.1%

## Shareholding pattern (As of Dec'20 end)

Promoter	37.6%
FII+DII	35.5%
Others	15.8%

## Financial Summary

(Rs bn)	FY21	FY22e	FY23e
Net Revenue	20.8	18.0	18.6
YoY Growth (%)	(12.2)	(13.3)	3.2
EBIDTA	14.7	10.9	11.2
YoY Growth (%)	(6.5)	(26.3)	2.9
PAT	9.3	6.5	6.8
YoY Growth (%)	(16.1)	(29.7)	4.3
ROE	13.0	8.4	8.2
EPS	16.5	11.6	12.1
P/E	17.4	24.7	23.7
BV	134.0	143.1	152.2
P/BV	2.1	2.0	1.9

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## Exhibit 1: Comparison with estimates

(Rs mn)	Actual	YES Estimate	%Variance	Consensus Estimate	% Variance
Revenue	4,650	5,037	(7.7)	5,234	(11.2)
EBITDA	3,442	3,578	(3.8)	3,329	3.4
PBT	2,832	2,763	2.5	2,604	8.8
Adj net income	2,079	2,073	0.3	1,953	6.5
FDEPS (Rs)	3.7	3.7	0.3	3.5	6.5

## Exhibit 2: Earnings snapshot

(Rs mn)	4QFY21	4QFY20	% Chg YoY	3QFY21	% Chg QoQ	FY21	FY20	% Chg YoY
Revenue	4,650	5,952	(21.9)	5,808	(19.9)	20,876	23,693	(11.9)
Expenditure	1,208	2,395	(49.5)	1,824	(33.8)	6,182	7,943	(22.2)
<b>Operating profit</b>	<b>3,442</b>	<b>3,557</b>	<b>(3.2)</b>	<b>3,984</b>	<b>(13.6)</b>	<b>14,694</b>	<b>15,749</b>	<b>(6.7)</b>
Other income	61	67	(8.3)	74	(18.1)	694	649	7.0
Interest	174	346	(49.8)	220	(20.9)	933	1,687	(44.7)
Depreciation	497	483	2.9	511	(2.7)	2,049	1,966	4.2
<b>PBT</b>	<b>2,833</b>	<b>2,795</b>	<b>1.3</b>	<b>3,328</b>	<b>(14.9)</b>	<b>12,406</b>	<b>12,745</b>	<b>(2.7)</b>
Tax	753	539	39.7	853	(11.6)	3,147	1,698	85.3
<b>Reported PAT</b>	<b>2,079</b>	<b>2,256</b>	<b>(7.8)</b>	<b>2,475</b>	<b>(16.0)</b>	<b>9,259</b>	<b>11,046</b>	<b>(16.2)</b>
EBITDA margin (%)	74%	60%	23.8	69%	7.9	70%	66%	5.9
FDEPS (Rs)	3.7	4.0	(7.8)	4.4	(16.0)	16.4	19.6	(16.2)

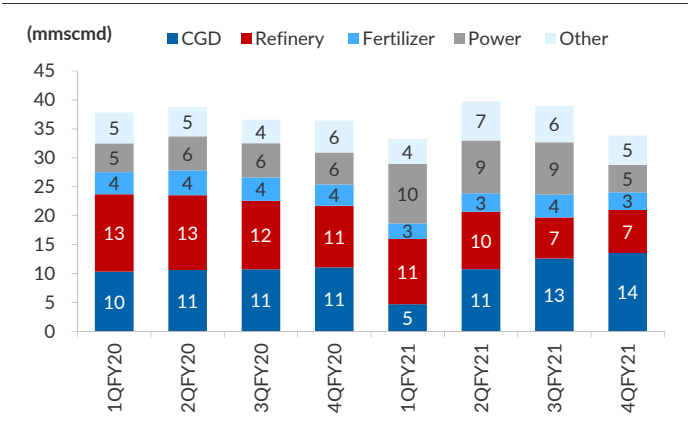
## Exhibit 3: Operating highlights

	4QFY21	4QFY20	% Chg YoY	3QFY21	% Chg QoQ	FY21	FY20	% Chg YoY
<b>Volume (mmscmd)</b>								
CGD	13.5	11.0	22.7	12.6	7.5	10.4	10.7	(2.6)
Refinery	7.4	10.7	(30.2)	7.1	5.1	8.9	12.2	(26.7)
Fertilizer	3.0	3.7	(17.2)	3.9	(22.6)	3.2	4.0	(19.2)
Power	4.7	5.5	(14.1)	9.1	(47.7)	8.3	5.6	49.3
Other	5.1	5.5	(8.0)	6.3	(19.4)	5.6	5.0	12.1
<b>Total</b>	<b>33.8</b>	<b>36.8</b>	<b>(8.0)</b>	<b>39.4</b>	<b>(14.0)</b>	<b>36.6</b>	<b>37.8</b>	<b>(3.2)</b>
Revenue (INR/scm)	1.5	1.8	(13.7)	1.6	(4.3)	1.5	1.7	(8.7)
EBIDTA (INR/scm)	1.1	1.1	6.3	1.1	2.7	1.1	1.1	(3.0)

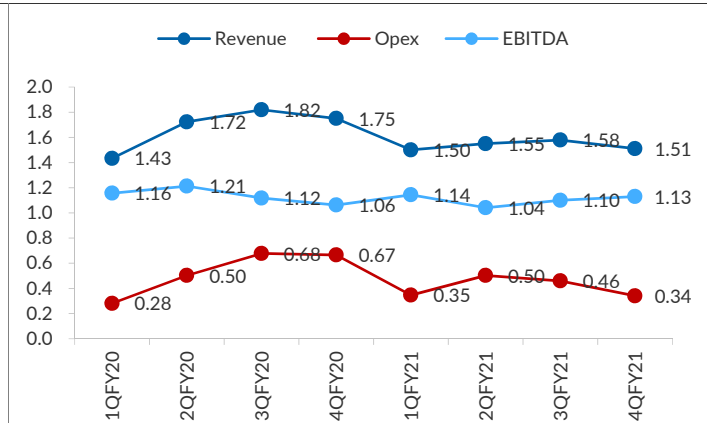
## CHARTS

**Exhibit 4: Volume drop sequentially on higher LNG prices**

**Exhibit 5: While revenue per unit declined YoY and QoQ but EBITDA was steady on commensurate reduction in operating cost**



Source: Company, YES Sec – Research



Source: Company, YES Sec – Research

**Exhibit 6: Change in estimates**

(Rs mn)	FY22		% Chg	FY23		%Chg
	Revised	Old		Revised	Old	
Revenue	18019	20264	-11%	18477	19545	-5%
EBITDA	11946	12225	-2%	12217	11715	4%
PAT	7350	7943	-7%	7597	7607	0%
Volume	39	44	-11%	40	43	-6%
Revenue/scm	1.23	1.246	-1%	1.23	1.246	-1%

## VIEW & VALUATION

### Maintain BUY with a TP of Rs 345/sh.

We maintain our BUY rating on GUJS, with a TP of Rs 345/sh, as we believe that at CMP the standalone business is available at a ~50% discount to fair-value, given that the valuation of GUJS' subsidiary GUJGA has increased by 117% over last one year. Our fair value estimate for standalone business at Rs 119/sh is based on DCF valuation on FCFF projection over FY21-30e, where we model for 20% reduction in tariffs going ahead, to accommodate revised corporate taxes and to adjust for higher throughput.

Our SOTP valuation of Rs 345/sh involves a) valuing the standalone business at Rs 119/sh, implying a P/E of 8x FY23e (SA), b) the investment in GUJGA at Rs 211/sh valued at 40% discount to 3M average market price, c) investment in Sabarmati gas at 3.0x FY20 BV and d) investment in under-construction trunk pipelines GIGL & GITL at 30% discount to FY20BV

### Exhibit 7: Cashflow analysis

	FY20	FY21	FY22e	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e
EBIT *(1-T)	12515	10001	7873	8045	8847	9436	9834	10279	10777	11332	11950
Depreciation	1966	2030	2150	2240	2352	2487	2622	2757	2892	3027	3162
Change in WC	(552)	(7894)	(701)	(54)	133	70	9	(625)	(2)	7	18
Capex	299	(1846)	(4999)	(5000)	(7000)	(7000)	(7000)	(5000)	(4000)	(4000)	(4000)
<b>FCFF</b>	<b>14228</b>	<b>2290</b>	<b>4322</b>	<b>5231</b>	<b>4332</b>	<b>4994</b>	<b>5465</b>	<b>7411</b>	<b>9667</b>	<b>10366</b>	<b>11130</b>

### Exhibit 8: Valuation table

	Rs mn	USD mn	Rs/sh	Notes
Value of operations	21218	283	38	PV of PCFF over FY23-30e
Terminal Value	50023	667	89	
<b>Standalone EV</b>	<b>71241</b>	<b>950</b>	<b>127</b>	
Net (Debt)/Cash	(4284)	(57)	(8)	
<b>Investments</b>	<b>128579</b>	<b>1714</b>	<b>229</b>	
GSPL India Gasnet Limited (at Cost)	3220	43	6	At 30% discount to BV
GSPL India Transco Limited (at Cost)	1662	22	3	At 30% discount to BV
Sabarmati gas	4924	66	9	At 3 x BV
Gujarat Gas Limited	118774	1584	211	At 40% discount to 3M average mkt price
<b>Equity value</b>	<b>195536</b>	<b>2607</b>	<b>347</b>	
Exchange rate	75			
Terminal Growth Rate	2%			
WACC	12%			
Shares Outstanding	563			

## Exhibit 9: Key assumptions

	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e	FY25e
<b>Gas Volumes (mmscmd)</b>	<b>32</b>	<b>34.6</b>	<b>37.8</b>	<b>36.5</b>	<b>39</b>	<b>40</b>	<b>44</b>	<b>47</b>
Refining -RIL	7.5	9.0	10.0	6.5	6.0	5.0	5.0	7.5
Refining -Other (Nayara, Koyaii, Opal)	3.5	4.8	2.2	2.4	2.5	3.0	4.0	3.5
Power	4.5	4.4	5.6	8.3	5.0	6.0	7.0	4.5
Steel	2.3	2.3	3.0	3.6	5.0	4.0	4.1	2.3
Fertiliser	4.6	4.2	4.0	3.2	5.5	5.5	5.5	4.6
CGD	6.9	7.8	10.7	10.4	13.0	14.3	15.7	6.9
Other	2.3	2.0	2.0	2.0	2.2	2.4	2.7	2.3
Tariffs (Rs/mscm)	1129	1407	1682	1538	1230	1230	1230	1129

## FINANCIALS

### Exhibit 10: Balance sheet

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Equity capital	5,636	5,636	5,640	5,641	5,642	5,642	5,642	5,642	5,642
Reserves	38,819	45,012	51,800	61,584	69,808	75,748	81,652	88,151	95,032
Net worth	44,455	50,648	57,440	67,226	75,450	81,390	87,294	93,793	100,674
Debt	5,012	17,595	12,856	5,441	7,499	6,499	5,499	4,499	3,499
Deferred tax liab (net)	5,627	4,984	5,226	4,081	4,218	4,218	4,218	4,218	4,218
<b>Capital Employed</b>	<b>55,094</b>	<b>73,227</b>	<b>75,522</b>	<b>76,748</b>	<b>87,167</b>	<b>92,107</b>	<b>97,011</b>	<b>102,510</b>	<b>108,391</b>
Fixed assets	38,521	40,101	40,268	38,229	36,884	39,733	42,494	47,142	51,655
Investments	7,710	41,814	42,772	46,111	50,062	50,162	50,262	50,362	50,462
Net working capital	8,863	(8,685)	(7,518)	(7,592)	223	2,212	4,256	5,007	6,275
Inventories	1,123	1,235	1,279	1,261	1,296	1,234	1,266	1,382	1,472
Sundry debtors	1,216	1,235	2,081	1,637	1,586	1,383	1,418	1,548	1,649
Cash & Bank Balance	8,026	3,645	1,583	957	877	2,165	4,155	5,039	6,377
Other current assets	2,140	1,455	1,516	2,833	3,024	3,175	3,334	3,501	3,676
Sundry creditors	3,519	16,118	13,762	14,004	6,254	5,407	5,545	6,053	6,449
Other liabilities	124	138	216	276	307	338	372	409	450
<b>Application of Funds</b>	<b>55,094</b>	<b>73,229</b>	<b>75,522</b>	<b>76,748</b>	<b>87,168</b>	<b>92,107</b>	<b>97,011</b>	<b>102,510</b>	<b>108,391</b>

### Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Revenue	10,276	13,317	18,772	23,687	20,794	18,019	18,477	20,171	21,491
Total Expense	1,393	1,839	3,350	7,936	6,061	6,072	6,260	6,818	7,264
Operating Profit	8,883	11,478	15,422	15,750	14,733	11,946	12,217	13,353	14,227
Other Income	882	735	594	649	693	743	793	843	893
Depreciaton	(1,791)	(1,750)	(1,800)	(1,966)	(2,030)	(2,150)	(2,240)	(2,352)	(2,487)
EBIT	7,974	10,462	14,216	14,432	13,396	10,540	10,770	11,844	12,632
Interest	(596)	(354)	(2,192)	(1,645)	(929)	(700)	(600)	(500)	(400)
Extraordinary Item	-	-	-	-	-	-	-	-	-
PBT	7,378	10,108	12,024	12,787	12,467	9,840	10,170	11,344	12,233
Tax	(2,411)	(3,424)	(4,081)	(1,699)	(3,160)	(2,489)	(2,573)	(2,870)	(3,095)
PAT	4,966	6,684	7,943	11,088	9,307	7,350	7,597	8,474	9,138
Adj. PAT	4,966	6,684	7,943	11,088	9,307	7,350	7,597	8,474	9,138
Eps	8.8	11.9	14.1	19.7	16.5	13.1	13.5	15.1	16.2

## Exhibit 13: Cash flow statement

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
PBT	7,378	10,108	12,024	12,787	12,467	9,840	10,170	11,344	12,233
Depreciation & amortisation	1,791	1,750	1,800	1,966	2,030	2,150	2,240	2,352	2,487
Interest expense	596	354	2,192	1,645	929	700	600	500	400
(Inc)/Dec in working capital	1,083	13,168	(3,229)	(552)	(7,894)	(701)	(54)	133	70
Tax paid	(2,256)	(4,067)	(3,839)	(2,844)	(3,023)	(2,489)	(2,573)	(2,870)	(3,095)
Less: Interest/Dividend Income Received	(882)	(735)	(594)	(649)	(693)	(743)	(793)	(843)	(893)
Other operating Cash Flow	-	-	-	-	-	-	-	-	-
<b>Cash flow from operating activities</b>	<b>7,710</b>	<b>20,579</b>	<b>8,354</b>	<b>12,354</b>	<b>3,816</b>	<b>8,755</b>	<b>9,590</b>	<b>10,616</b>	<b>11,202</b>
Capital expenditure	(1,402)	(3,330)	(1,968)	73	(685)	(4,999)	(5,000)	(7,000)	(7,000)
Inc/(Dec) in investments	(828)	(34,104)	(958)	(3,340)	(3,951)	(100)	(100)	(100)	(100)
Add: Interest/Dividend Income Received	882	735	594	649	693	743	793	843	893
<b>Cash flow from investing activities</b>	<b>(1,349)</b>	<b>(36,699)</b>	<b>(2,332)</b>	<b>(2,618)</b>	<b>(3,943)</b>	<b>(4,356)</b>	<b>(4,307)</b>	<b>(6,257)</b>	<b>(6,207)</b>
Inc/(Dec) in share capital	0	(0)	3	0	0	-	(0)	-	-
Inc/(Dec) in debt	(2,893)	12,583	(4,739)	(7,414)	2,057	(1,000)	(1,000)	(1,000)	(1,000)
Dividend Paid	(930)	(1,127)	(1,269)	(1,128)	(1,128)	(1,411)	(1,693)	(1,975)	(2,257)
Others	(42)	283	(2,079)	(1,819)	(925)	(751)	(600)	(500)	(400)
<b>Cash flow from financing activities</b>	<b>(3,864)</b>	<b>11,738</b>	<b>(8,084)</b>	<b>(10,361)</b>	<b>4</b>	<b>(3,161)</b>	<b>(3,293)</b>	<b>(3,475)</b>	<b>(3,657)</b>
Net cash flow	2,497	(4,382)	(2,062)	(625)	(123)	1,238	1,990	884	1,338

## Exhibit 14: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Tax burden (x)	0.7	0.7	0.7	0.9	0.7	0.7	0.7	0.7	0.7
Interest burden (x)	0.9	1.0	0.8	0.9	0.9	0.9	0.9	1.0	1.0
EBIT margin (x)	0.8	0.8	0.8	0.6	0.6	0.6	0.6	0.6	0.6
Asset turnover (x)	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Financial leverage (x)	1.4	1.6	1.7	1.4	1.3	1.2	1.2	1.2	1.2
RoE (%)	11.8	14.1	14.7	17.8	13.0	9.4	9.0	9.4	9.4

## Exhibit 15: Ratio analysis

Y/e 31 Mar	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
<b>Growth matrix (%)</b>									
Revenue growth	3.6	29.6	41.0	26.2	(12.2)	(13.3)	2.5	9.2	6.5
Op profit growth	2.6	29.2	34.4	2.1	(6.5)	(18.9)	2.3	9.3	6.5
EBIT growth	3.8	37.2	40.0	1.2	(7.8)	(22.9)	1.8	10.3	6.7
Net profit growth	11.5	34.6	18.8	39.6	(16.1)	(21.0)	3.4	11.5	7.8
<b>Profitability ratios (%)</b>									
OPM	86.4	86.2	82.2	66.5	70.9	66.3	66.1	66.2	66.2
EBIT margin	69.0	73.0	72.6	58.2	61.1	54.4	54.0	54.5	54.6
Net profit margin	44.5	47.6	41.0	45.6	43.3	39.2	39.4	40.3	40.8
RoCE	14.7	16.3	19.1	19.0	16.3	11.8	11.4	11.9	12.0
RoE	11.8	14.1	14.7	17.8	13.0	9.4	9.0	9.4	9.4
RoA	8.5	9.0	8.9	12.3	10.1	7.7	7.6	8.0	8.1
<b>Per share ratios</b>									
EPS	8.8	11.9	14.1	19.7	16.5	13.1	13.5	15.1	16.2
Dividend per share	1.5	2.0	2.3	2.0	2.0	2.5	3.0	3.5	4.0
Cash EPS	12.0	15.0	17.3	23.2	20.1	16.9	17.5	19.2	20.6
Book value per share	79.0	90.0	102.0	119.4	134.0	144.6	155.1	166.6	178.8
<b>Valuation ratios</b>									
P/E	32.5	24.2	20.3	14.6	17.4	22.0	21.3	19.1	17.7
P/CEPS	23.9	19.2	16.6	12.4	14.3	17.0	16.4	14.9	13.9
P/B	3.6	3.2	2.8	2.4	2.1	2.0	1.9	1.7	1.6
EV/EBIDTA	17.9	15.3	11.2	10.5	11.4	13.9	13.3	12.1	11.2
<b>Payout (%)</b>									
Dividend payout	17.0	16.9	16.0	10.2	12.1	19.2	22.3	23.3	24.7
Tax payout	32.7	33.9	33.9	13.3	25.3	25.3	25.3	25.3	25.3
<b>Liquidity ratios</b>									
Debtor days	43.2	33.9	40.5	25.2	27.7	28.0	28.0	28.0	28.0
Inventory days	39.9	33.8	24.9	19.4	22.6	25.0	25.0	25.0	25.0
Creditor days	38.0	41.9	33.5	26.5	27.0	27.0	27.0	27.0	27.0



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