

GUJARAT STATE PETRONET LTD

21 May 2018

Initiating Coverage (BUY)

CMP

INR 172

Target Price

INR 212

Stock Details

Industry	Utilities: Non- Elec.
Bloomberg Code	GUJS:IN
BSE Code	532702
Face Value (Rs.)	10.00
Market Cap. (Rs. mn)	97,091.5
52wk. Low/High (Adjusted) (Rs.)	154.00/235.50

Shareholding Pattern Mar '18

Promoter (%)	37.65
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	62.35
No. of Share Outstanding (mn)	563.83

Valuation Summary

	FY 16A	FY 17A	FY 18P	FY 19P
P/E (x)*	16.40	18.01	18.00	18.00
EV/EBITDA (x)	9.10	10.56	9.25	9.05
P/BV (x)	1.91	2.18	2.11	2.21

*TTM for Current Year

 Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 16A	FY 17A	FY 18P	FY 19P
Net Sales	9,919	10,276	11,817	13,235
EBITDA	9,141	9,671	11,161	12,500
Net Profit	4,647	5,389	5,723	5,723
EPS (Rs.)*	08.3	09.6	10.2	11.8

*Un adjusted

Key Ratios

	FY 16A	FY 17A	FY 18P	FY 19P
EBITDA Margin (%)	87.8	87.4	87.5	87.5
EBIT Margin (%)	70.1	71.2	76.1	77.3
Net Pro. Margin (%)	44.7	48.7	44.8	46.4
Debt/Equity (x)	0.20	0.12	0.11	0.10
RoNW (%)	12.0	12.8	12.3	12.9
RoCE (%)	8.6	9.8	9.9	10.6

One Year Price / Volume

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We recommend 'BUY' on GUJARAT STATE PETRONET LTD for a target of INR 212 - valuing the company at P/E 18x of FY19E Earning.

INVESTMENT RATIONALE:

- GSPL is India's second largest Natural Gas Infrastructure and Transmission Company.
- Gujarat Gas: Strong play on rapidly growing city gas space.
- Strong balance sheet/ FCF generation to meet debt requirement.
- GSPL - Now integrated play on India's gas market.
- The Company continues to expand its gas grid to reach new markets and connect to new supply sources.
- The gas grid is equipped with the latest bi-directional gas transmission technology to enable two-way gas flow.
- Flexibility of transmission.
- Another innovation is in the open access or contract carrier principle of transmission.
- GSPL has already put in place a pipeline network of about 2600 km and further extension of pipeline network is going on.
- Advanced engineering practices that provide efficient Natural Gas Transportation.

VALUATIONS AND VIEW:

GSPL (Gujarat State Petronet Ltd), a GSPC Group company is a pioneer in developing energy transportation infrastructure and connecting natural gas supply sources including LNG terminals to growing markets. The company has developed requisite expertise and confidence with proven project management competencies. **We value the business at 18x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 212 per share.**

RISK & CONCERNS:

- **Affordability and Availability of Natural Gas:** Although, the current and future demand for natural gas exceeds supply, the supply of and demand for natural gas is subject to several factors which may adversely affect its operations.
- **Regulatory Risk:** The evolving nature of regulations in the sector, especially on critical aspects like third party access, CGD network exclusivity as well as with regards to the long pending list of final tariff notifications for all major pipeline networks in India (including that of your Company), pose uncertainties and challenges for all stakeholders.
- **Safety and Operational Risk:** The changing technologies and the natural ageing of existing facilities pose the risk of Pipelines and stations. Aged Pipelines are prone to unplanned shutdowns, increased maintenance and operating costs.

COMPANY BACKGROUND:

Gujarat State Petronet (GSPL), a group entity of the GSPC group, is currently a Gujarat focused natural gas transmission firm operating on an open access basis. It owns approximately 2,180 km natural gas pipeline transporting ~21 mmscmd of gas. To increase its geographical spread it had participated and won bids to put up 3 major pipelines outside Gujarat (1) Mallavaram (Andhra Pradesh) - Bhilwara (Rajasthan), (2) Mehsana (Gujarat) - Bhatinda (Punjab), and (3) Bhatinda (Punjab) - Srinagar (J&K). GSPL owns stake in two city gas distribution firms – Sabarmati Gas and Gujarat Gas. It is the second largest gas pipeline player in the country after GAIL.

GSPL faces potential tailwinds, with its gas transmission volumes poised to rise on top priority allocation to city gas distribution. GSPL holds ~25% stake in 2 city gas geographies, which account for one-third of its volume offtake. Its transmission tariff is also likely to increase retrospectively as recently Appellate Tribunal of Electricity has given a favorable verdict to GSPL against PNGRB's tariff order.

Gujarat State Petronet Limited (GSPL) was set up to complement the efforts of GSPC. While GSPC harnesses and procures natural gas, GSPL is building the infrastructure that transmits the gas across the state of Gujarat and ultimately allows last-mile linkage to the end-user. GSPL is laying a gas grid, to facilitate gas transmission from supply points to demand centres.

GSPL, a GSPC Group company is a pioneer in developing energy transportation infrastructure and connecting natural gas supply sources including LNG terminals to growing markets. GSPL is continuously expanding its pipeline network currently in Gujarat to reach the demand centres by laying gas pipeline network. The company has developed requisite expertise and confidence with proven project management competencies.

INDUSTRY OVERVIEW:

Energy plays a pivotal role in economic growth of a country. Sustainable development and inclusive growth of the overall economy requires adequate, affordable and reliable energy. India is at present one of the fastest growing large economy of the world, with its share in global primary energy consumption pegged at 5.5% in 2016, surpassing Russia to become the world's third largest energy consumer. Rising income, population growth and urbanization are breaking ground to harness huge potential for energy demand in India, which is home to about a fifth of the world's population, but uses only about 6% of the world's energy.

Government of India (GoI) has launched several incentivizing policy reforms including giving marketing and pricing freedom for gas to be produced from High Pressure-High Temperature, Deepwater and Ultra Deepwater Areas, Coal Bed Methane (CBM) blocks and Marginal Fields, a move which is likely to improve domestic gas production in the next 5 years timeframe. This would also ensure in achieving the vision of the Hon'ble Prime Minister of India of reducing the import dependence in energy sector by 10% by 2022.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
GAIL (India)	322	17.7	72,500.5	2.61	1,262.2	28.42	14,414.3	18.81	1.74
Filtra Consult.	166	20.3	13.7	-	NaN	NaN	NaN	NaN	5.24
Indraprastha Gas	266	29.5	18,616.5	0.64	165.9	14.58	1,183.9	25.05	5.44
Mahanagar Gas	861	18.0	8,506.3	2.21	124.0	25.23	581.4	15.29	3.84
Va Tech Wabag	456	20.9	2,489.9	0.88	41.1	(36.27)	460.9	21.03	2.72
Jiya Eco-Product	126	15.3	135.3	-	3.2	151.18	27.5	106.06	4.74
Guj.St.Petronet	172.2	18.0	9,709.2	0.84	181.6	53.14	350.2	31.26	2.18

*TTM

FINANCIAL OVERVIEW

Q4 FY17 Performance Highlight

(in Million)	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	YoY (%)	QoQ (%)
Revenue	2,667.88	2,705.95	3,109.51	3,348.37	3,608.14	35.24%	7.76%
Other Income	177.37	13.55	18.27	278.4	14.31		
Total Income	2,845.25	2,719.49	3,127.78	3,626.76	3,622.45	27.32%	-0.12%
Expenditure	-392.66	-548.80	-309.47	-583.40	-585.73		
As a % of Sales	14.72%	20.28%	9.95%	17.42%	16.23%		
Interest	-165.39	-115.68	-105.71	-90.44	-54.86	-66.83%	-39.34%
PBDT	2287.2	2170.69	2818.32	3043.36	3036.72		
As a % of Sales	85.73%	80.22%	90.64%	90.89%	84.16%		
Depreciation	-465.26	-460.25	-429.55	-438.25	-442.2		
PBT	1821.94	1710.44	2388.77	2605.11	2594.52	42.40%	-0.41%
As a % of Sales	68.29%	63.21%	76.82%	77.80%	71.91%		
Tax	-636.36	-440.56	-863.6	-835.53	-778.9	22.40%	-6.78%
Net Profit	1185.57	1269.88	1525.16	1769.58	1815.62	53.14%	2.60%
As a % of Sales	44.44%	46.93%	49.05%	52.85%	50.32%		
Equity	5635.17	5635.88	5636.96	5637.67	5638.09	0.05%	0.01%
EPS (Rs)	2.1	2.28	2.71	3.14	3.22	53.33%	2.55%
CEPS (Rs)	2.93	3.07	3.47	3.92	4		
OPM %	91.93	80.22	90.64	90.89	84.16		
NPM %	44.44	46.93	49.05	52.85	50.32		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Net Sales	10,507	10,646	9,919	10,276	11,817	13,235	13,897
Other Operating Income	569	553	486	788	945	1,059	992
Expenditure	1,218	1,366	1,264	1,393	1,601	1,794	1,883
EBITDA	9,858	9,833	9,141	9,671	11,161	12,500	13,006
Depreciation	1,839	1,892	1,843	1,791	1,452	1,453	1,455
EBIT	8,019	7,940	7,297	7,880	9,709	11,047	11,551
Interest Expenses	1,418	1,178	773	596	817	843	916
PBT	6,600	6,762	6,525	7,284	8,891	10,204	10,635
Tax	2,407	2,513	2,244	2,571	3,168	3,567	3,699
Other Income	-	-	-	-	-	-	-
Extraordinary Items	(1)	(126)	(1)	676	-	-	-
Net Income Before Adjustment	4,193	4,123	4,280	5,389	5,723	6,637	6,937
Minority Int./Income from Assoc.	35	(740)	(367)	-	-	-	-
Adjusted PAT	4,158	4,863	4,647	5,389	5,723	6,637	6,937

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Equity share capita	5,627	5,630	5,633	5,636	5,636	5,636	5,636
Reserves & surplus	28,227	32,170	34,324	38,819	43,251	48,435	53,854
Net worth	33,854	37,800	39,958	44,455	48,887	54,071	59,490
Minority Interest	1,233	1,606	1,895	-	-	611	476
Loan Funds	10,365	8,879	7,890	5,151	5,153	5,151	5,149
Net deferred tax liability	4,202	4,504	4,744	5,627	5,627	5,627	5,627
Other Long-term Liabilities	240	252	272	155	178	200	209
Long-term Provisions	45	91	109	113	130	145	152
Total Liabilities	49,939	53,132	54,869	55,503	59,976	65,807	71,106
Net block	40,093	41,182	42,137	46,230	45,819	45,325	44,324
Investment, Loan & Adv.	7,030	9,699	9,328	1,734	1,616	1,077	1,309
Total Current Assets	9,125	7,801	9,208	10,773	6,802	13,573	20,113
Current Liabilities & Provisions	6,308	5,551	5,806	3,236	(5,738)	(5,831)	(5,358)
Net Current Assets	2,816	2,250	3,402	7,537	12,540	19,404	25,471
Total Assets	49,939	53,132	54,869	55,503	59,976	65,807	71,106

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 17A	FY 18E	FY 19P	FY 20P
Operating Cash Flow	9,436	7,279	8,803	9,232
Cash Flow from Investments	(3,676)	(941)	(438)	(705)
Cash Flow from Financing	(6,366)	(1,554)	(1,818)	(2,091)
Net Changes in Cash	(606)	4,784	6,546	6,436
Opening Cash	758	152	4,935	11,482
Closing Cash Balance	152	4,935	11,482	17,918

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