

# Gujarat State Petronet

BSE SENSEX	S&P CNX
26,653	8,225
Bloomberg	GUJS IN
Equity Shares (m)	563.0
M.Cap.(INR b)/(USD b)	87.9 / 1.3
52-Week Range (INR)	173 / 119
1, 6, 12 Rel. Per (%)	7/14/-1
12M Avg Val (INR M)	63
Free float (%)	62.3

## Financials & Valuations (INR b)

Y/E Mar	2016	2017E	2018E
Sales	9.9	10.5	12.6
EBITDA	8.6	9.3	11.1
Adj. PAT	4.4	5.0	6.2
Adj. EPS (INR)	7.9	8.8	11.0
EPS Gr. (%)	23.9	12.0	24.9
BV/Sh.(INR)	70	77.3	85.9
RoE (%)	11.7	12.0	13.5
RoCE (%)	9.7	9.9	11.3
P/E (x)	19.8	17.7	14.1
P/BV (x)	2.2	2.0	1.8

Estimate change	↔
TP change	↔
Rating change	↔

**CMP: INR156**
**TP: INR163 (+4%)**
**Neutral**

## In-line results; Volumes and tariff increase

Reported revenue rose 6% YoY (+2% QoQ) to INR2.6b (est. of INR2.5b), primarily led by higher volumes. Despite the revenue beat, EBITDA of INR2.2b (+7% YoY, flat QoQ) was in line due to higher employee expenses (INR144m v/s est. of INR96m; +27% YoY, +82% QoQ) and opex (INR185m v/s est. of INR156m; +53% YoY, +58% QoQ). PAT came in line with our estimate of INR1.2b (-9% QoQ and -4% YoY), led by higher other income of INR218m (est. of INR175m; +78% YoY, +49% QoQ).

## Volumes increase; marginally higher implied tariff

- 3Q transmission volumes were 26.2mm scmd (est. of 25mm scmd; +5% YoY, +7% QoQ).
- Implied transmission tariff stood at INR1,095/mscm (est. of INR1,080; +4% YoY, +1% QoQ).
- While lower spot LNG prices have been a positive, competitive liquid fuel prices have delayed the expected gas consumption uptick. PNGRB's pending tariff revision (if above our estimate) will provide an upside (modeling 11% higher tariff in FY18).

## Valuation and view

- We model (a) transmission tariff of INR1,082/mscm in FY17 and INR1,200 in FY18 v/s actual INR1,095 in 3QFY17 and (b) volumes of 26.0/29/32mm scmd in FY17/FY18/FY19 v/s actual 26.2mm scmd in 3QFY17.
- The medium-term risk is some volumes (~5mm scmd) going away with the start of RIL's petcoke gasification project. For every 5% variation in volumes/tariff, earnings change by ~6%. The stock trades at 14.1x FY18E adj. EPS of INR11. Our 10x FY19 P/E based TP stands at INR163. **Neutral**.

## Quarterly Performance

Y/E March	FY16				FY17E				FY16	FY17E	FY17	Var. vs 3QE est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
<b>Net Sales</b>	<b>2,557</b>	<b>2,526</b>	<b>2,475</b>	<b>2,313</b>	<b>2,579</b>	<b>2,564</b>	<b>2,627</b>	<b>2,781</b>	<b>9,870</b>	<b>10,550</b>	<b>2,523</b>	<b>4.1%</b>
Change (%)	11.0	-28.0	1.9	-2.1	0.9	1.5	6.1	20.2	-6.9	6.9	-1.3	
Employee Costs	74	113	89	71	79	77	144	81	347	380	96	49.8%
Operating expenses	193	121	243	130	117	175	185	175	687	652	156	18.1%
Other Expenditure	53	52	57	69	52	67	64	73	231	256	66	-2.8%
<b>EBITDA</b>	<b>2,237</b>	<b>2,240</b>	<b>2,086</b>	<b>2,042</b>	<b>2,330</b>	<b>2,245</b>	<b>2,234</b>	<b>2,452</b>	<b>8,605</b>	<b>9,262</b>	<b>2,205</b>	<b>1.4%</b>
% of Net Sales	87.5	88.7	84.3	88.3	90.4	87.6	85.1	88.2	87.2	87.8	87.4	
% Change	11.9	-30.7	2.7	3.5	4.2	0.2	7.1	20.1	-6.8	7.6	-1.4	
Depreciation	434	464	472	473	430	436	465	483	1,843	1,814	465	0.1%
Interest	207	213	184	168	167	148	165	151	773	631	150	10.3%
Other Income	143	122	288	137	147	304	218	131	690	800	175	24.7%
<b>PBT</b>	<b>1,738</b>	<b>1,685</b>	<b>1,718</b>	<b>1,538</b>	<b>1,881</b>	<b>1,965</b>	<b>1,822</b>	<b>1,949</b>	<b>6,679</b>	<b>7,617</b>	<b>1,765</b>	<b>3.3%</b>
Tax	610	600	483	541	668	666	636	669	2,234	2,640	606	5.1%
Rate (%)	35.1	35.6	28.1	35.2	35.5	33.9	34.9	34.3	33.4	34.7	34.3	
<b>PAT</b>	<b>1,128</b>	<b>1,085</b>	<b>1,235</b>	<b>997</b>	<b>1,213</b>	<b>1,298</b>	<b>1,186</b>	<b>1,280</b>	<b>4,445</b>	<b>4,977</b>	<b>1,159</b>	<b>2.3%</b>
<b>Adj. PAT</b>	<b>1,128</b>	<b>1,085</b>	<b>1,235</b>	<b>997</b>	<b>1,213</b>	<b>1,298</b>	<b>1,186</b>	<b>1,280</b>	<b>4,445</b>	<b>4,977</b>	<b>1,159</b>	<b>2.3%</b>
Change (%)	33	-2	39	35	8	20	-4	28	24	12	3	
<b>EPS (INR)</b>	<b>2.0</b>	<b>1.9</b>	<b>2.2</b>	<b>1.8</b>	<b>2.2</b>	<b>2.3</b>	<b>2.1</b>	<b>2.3</b>	<b>7.9</b>	<b>8.8</b>	<b>2.1</b>	<b>2.3%</b>
Transmission Vol. (mm scmd)	24.2	24.3	25.1	24.4	25.1	24.6	26.2	28.0	24.5	26.0	25.0	4.9%
Implied adj. tariff (INR/mscm)	1,126	1,068	1,054	1,028	1,073	1,079	1,095	1,080	1,069	1,082	1,080	1.4%

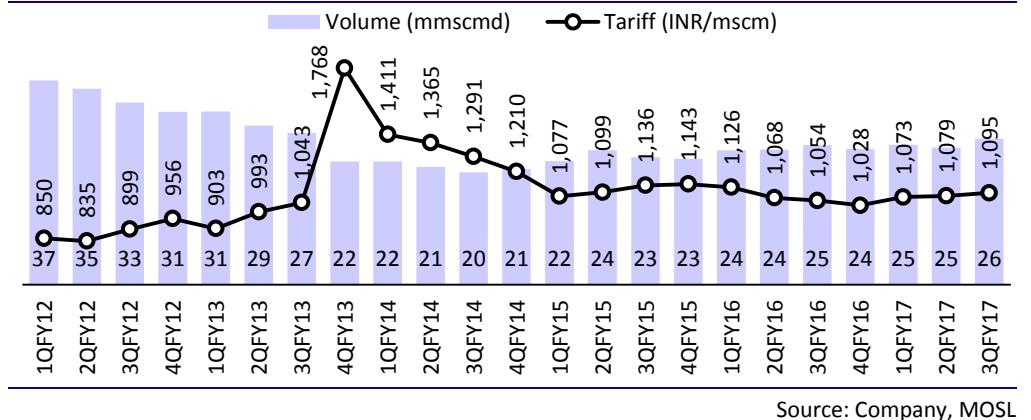
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Investors are advised to refer through important disclosures made at the last page of the Research Report.

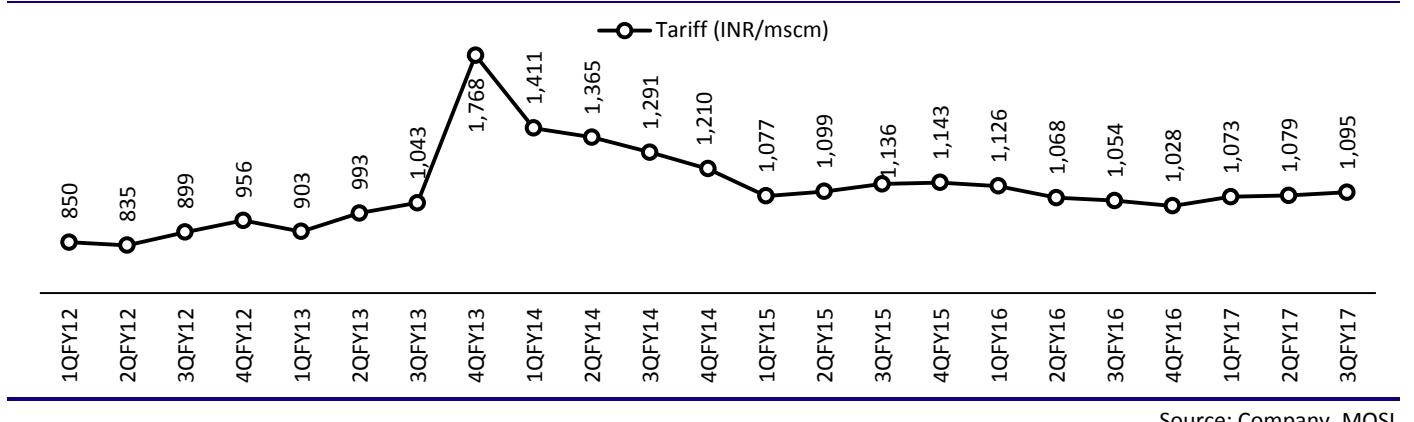
 Motilal Oswal research is available on [www.motilaloswal.com](http://www.motilaloswal.com)/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

## Exhibit 1: Volumes up 5% YoY and 7% QoQ to 26.2 mmSCMD



Source: Company, MOSL

## Exhibit 2: Implied tariff up 4% YoY and 1% QoQ to INR1,095/mscm



Source: Company, MOSL

## Exhibit 3: Planned 3 new pipelines still delayed: GSPL can start GIGL pipeline earlier than GITL

Company	Pipeline Project	Pipeline distance (Kms)	Capacity (mmSCMD)	Capex (INR b)
GIGL (GSPL India Gasnet Ltd.)	Mehsana-Bhatinda	1,670	42	45
	Bhatinda-Srinagar	740	31	12
GITL (GSPL India Transco Ltd.)	Mallavaram-Bhilwara	1,746	52	65

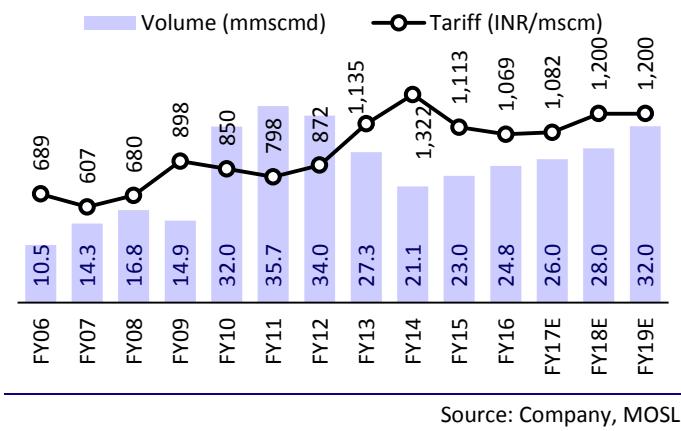
Source: Company, MOSL

## Valuation and view

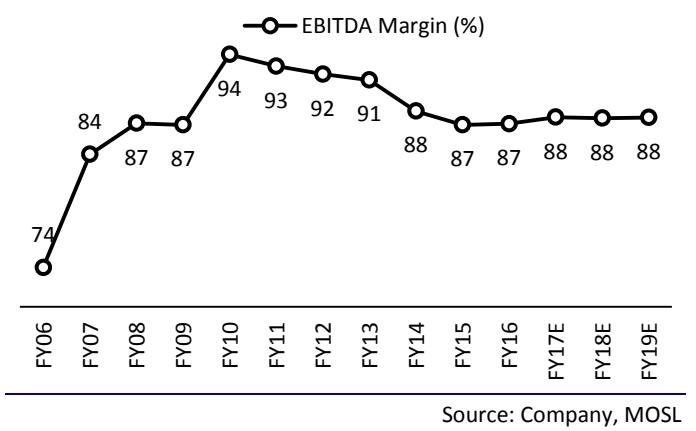
- Key events to watch: (1) Construction of three new trunk pipelines within set timelines and (2) Volume ramp-up
- We do not assign any value to the three new cross-country pipelines due to lack of clarity on gas availability.
- We model (a) transmission tariff of INR1,082/mscm in FY17 and 1,200/mscm in FY18 v/s actual 1,095/mscm in 3QFY17 and (b) volumes of 26.0/29/32mmSCMD in FY17/FY18/FY19 v/s actual 26.2mmSCMD in 3QFY17.
- Medium-term risk is some volumes (~5mmSCMD) going away with the start of RIL's petcoke gasification project. For every 5% variation in volumes/tariff, earnings change by ~6%. The stock trades at 14.1x FY18E adj. EPS of INR11. Our 10x FY19 PE based target price stands at INR163. **Neutral**.

## Story in charts

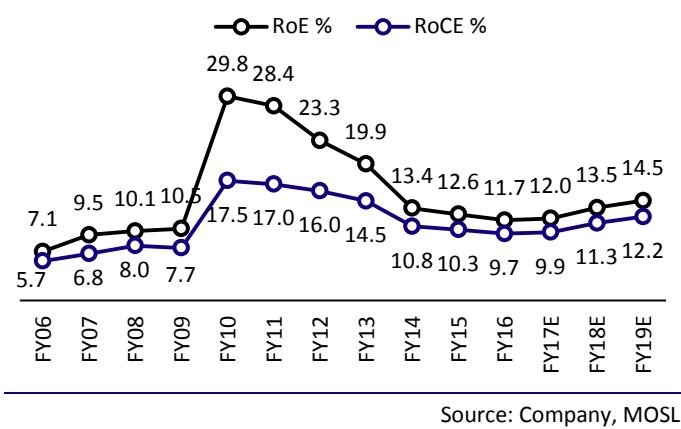
**Exhibit 4: GSPL's volumes growth contingent to gas production/LNG imports**



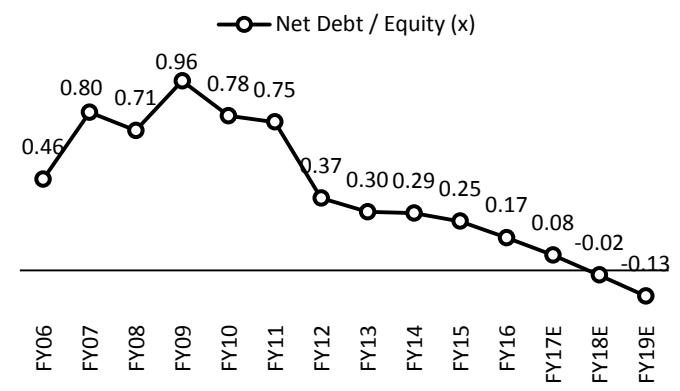
**Exhibit 5: EBITDA Margin to remain strong at ~88%...**



**Exhibit 6: ROE declined from 30% to 12.5% in 4 yrs...**

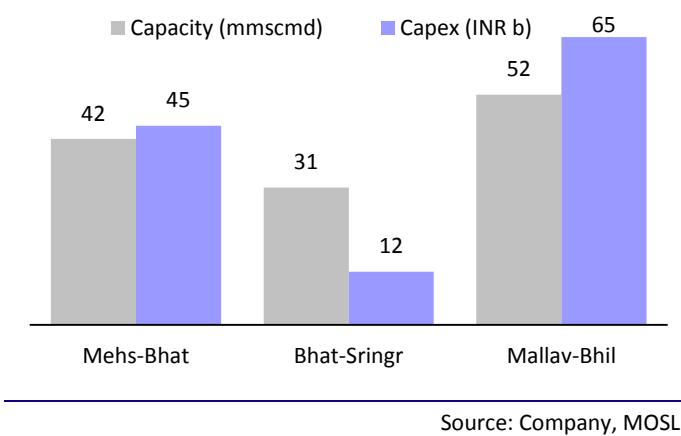


**Exhibit 7: ... Expect D/E ratio to decrease further...**

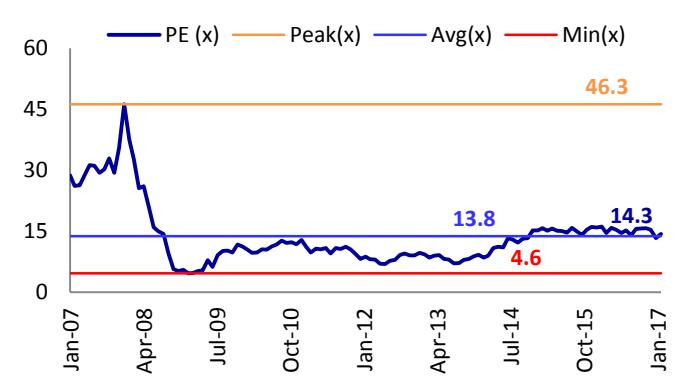


\*New pipeline capex not factored

**Exhibit 8: Total capex of >INR122b for 3 new trunk pipelines**



**Exhibit 9: GSPL 1 yr forward P/E chart**



## Financials and Valuations

Income Statement									(INR Million)
Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E	
<b>Total Income</b>	<b>11,153</b>	<b>11,603</b>	<b>10,473</b>	<b>10,606</b>	<b>9,870</b>	<b>10,550</b>	<b>12,626</b>	<b>14,390</b>	
YoY (%)	7	4	-10	1	-7	7	20	14	
Employee Costs	204	247	287	356	347	380	426	477	
Operating expenses	444	514	671	722	687	652	821	935	
Admin	264	251	260	294	231	256	307	349	
<b>EBITDA</b>	<b>10,241</b>	<b>10,591</b>	<b>9,255</b>	<b>9,234</b>	<b>8,605</b>	<b>9,262</b>	<b>11,073</b>	<b>12,629</b>	
% of Net Sales	91.8	91.3	88.4	87.1	87.2	87.8	87.7	87.8	
Depr. & Exploration w/off	1,819	1,861	1,839	1,892	1,843	1,814	2,012	2,100	
Interest	1,302	1,263	1,418	1,178	773	631	608	623	
Other Income	593	790	585	560	690	800	1,012	1,448	
<b>PBT</b>	<b>7,714</b>	<b>8,257</b>	<b>6,583</b>	<b>6,845</b>	<b>6,679</b>	<b>7,617</b>	<b>9,466</b>	<b>11,354</b>	
Tax	2,493	2,876	2,391	2,500	2,234	2,640	3,249	3,897	
Rate (%)	32.3	34.8	36.3	36.5	33.4	34.7	34.3	34.3	
<b>PAT</b>	<b>5,221</b>	<b>5,381</b>	<b>4,191</b>	<b>4,346</b>	<b>4,445</b>	<b>4,977</b>	<b>6,217</b>	<b>7,457</b>	
<b>Adjusted PAT</b>	<b>5,221</b>	<b>5,381</b>	<b>4,191</b>	<b>3,588</b>	<b>4,445</b>	<b>4,977</b>	<b>6,217</b>	<b>7,457</b>	
Change (%)	3.1	3.1	-22.1	-14.4	23.9	12.0	24.9	19.9	
Balance Sheet									(INR Million)
Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E	
Share Capital	5,627	5,627	5,627	5,630	5,630	5,630	5,630	5,630	
Reserves	19,040	23,779	27,321	30,601	34,057	37,914	42,748	48,558	
<b>Net Worth</b>	<b>24,667</b>	<b>29,406</b>	<b>32,948</b>	<b>36,231</b>	<b>39,687</b>	<b>43,544</b>	<b>48,378</b>	<b>54,188</b>	
Total Loans	10,951	13,389	10,365	8,879	7,890	7,500	7,890	7,890	
Deferred Tax	3,244	3,867	4,202	4,504	4,744	5,035	5,375	5,784	
<b>Capital Employed</b>	<b>38,861</b>	<b>46,661</b>	<b>47,516</b>	<b>49,613</b>	<b>52,322</b>	<b>56,079</b>	<b>61,643</b>	<b>67,862</b>	
Gross Fixed Assets	43,225	46,197	47,106	48,193	50,577	53,077	55,669	57,839	
Less: Depreciation	11,822	13,682	15,512	17,539	19,382	21,196	23,208	25,308	
<b>Net Fixed Assets</b>	<b>31,402</b>	<b>32,515</b>	<b>31,593</b>	<b>30,654</b>	<b>31,195</b>	<b>31,881</b>	<b>32,461</b>	<b>32,531</b>	
Capital WIP	4,182	5,260	6,561	7,765	7,765	7,765	7,765	7,765	
Deferred tax asset	0	0	0	0	0	0	0	0	
Investments	1,164	1,740	5,850	6,487	6,487	6,487	6,487	6,487	
<b>Curr. Assets, L &amp; Adv.</b>									
Inventory	662	772	694	1,102	1,177	1,218	1,458	1,662	
Debtors	814	2,541	2,490	1,504	1,518	1,615	1,933	2,203	
Cash & Bank Balance	5,148	8,531	4,992	4,352	6,074	9,155	14,415	20,724	
Loans & Adv. and Other CA	1,314	1,176	1,847	3,540	4,203	4,203	4,203	4,203	
<b>Current Liab. &amp; Prov.</b>									
Liabilities	5,136	5,162	5,797	4,877	4,970	5,118	5,952	6,587	
Provisions	689	711	715	913	1,126	1,126	1,126	1,126	
<b>Net Current Assets</b>	<b>2,113</b>	<b>7,146</b>	<b>3,512</b>	<b>4,708</b>	<b>6,876</b>	<b>9,947</b>	<b>14,930</b>	<b>21,079</b>	
<b>Application of Funds</b>	<b>38,861</b>	<b>46,661</b>	<b>47,516</b>	<b>49,613</b>	<b>52,322</b>	<b>56,079</b>	<b>61,643</b>	<b>67,862</b>	

E: MOSL Estimates

## Financials and Valuations

### Ratios

Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
<b>Basic (INR)</b>								
<b>Adj. EPS</b>	<b>9.3</b>	<b>9.6</b>	<b>7.4</b>	<b>6.4</b>	<b>7.9</b>	<b>8.8</b>	<b>11.0</b>	<b>13.2</b>
Cash EPS	12.5	12.9	10.7	11.1	11.2	12.1	14.6	17.0
Book Value	43.8	52.3	58.5	64.4	70.5	77.3	85.9	96.3
DPS	1.0	1.0	1.0	1.2	1.5	1.7	2.1	2.5
Payout (incl. Div. Tax.)	12.6	12.2	15.7	18.2	22.2	22.5	22.3	22.1
<b>Valuation (x)</b>								
P/E				24.5	19.8	17.7	14.1	11.8
Cash P/E				14.1	14.0	12.9	10.7	9.2
EV / EBITDA				10.5	11.0	9.9	7.8	6.4
EV / Sales				9.1	9.6	8.7	6.9	5.6
Price / Book Value				2.4	2.2	2.0	1.8	1.6
Dividend Yield (%)				0.8	1.0	1.1	1.3	1.6
<b>Profitability Ratios (%)</b>								
RoE	23.3	19.9	13.4	12.6	11.7	12.0	13.5	14.5
RoCE	16.0	14.5	10.8	10.3	9.7	9.9	11.3	12.2
RoIC	19.3	19.1	15.4	15.3	14.3	15.1	18.2	21.2
<b>Turnover Ratios</b>								
Debtors (No. of Days)	25	53	88	69	56	56	56	56
Fixed Asset Turnover (x)	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.3
<b>Leverage Ratio</b>								
Net Debt / Equity (x)	0.4	0.3	0.3	0.2	0.2	0.1	0.0	-0.1
<b>Cash Flow Statement</b>								
(INR Million)								
Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Profit / (Loss) before Tax	7,690	8,257	6,583	6,603	6,679	7,617	9,466	11,354
Depreciation	1,822	1,861	1,839	1,892	1,843	1,814	2,012	2,100
Direct Taxes Paid	-1,621	-2,246	-2,068	-2,195	-1,994	-2,350	-2,909	-3,489
(Inc)/Dec in Wkg. Capital	-851	-1,599	-869	-871	-445	9	277	161
Other op activities	888	654	966	839	773	631	608	623
<b>CF from Op. Activity</b>	<b>7,927</b>	<b>6,926</b>	<b>6,451</b>	<b>6,268</b>	<b>6,856</b>	<b>7,722</b>	<b>9,454</b>	<b>10,749</b>
(Inc)/Dec in FA & CWIP	-2,581	-3,822	-2,401	-2,151	-2,384	-2,500	-2,592	-2,170
<b>Free Cash Flow</b>	<b>5,346</b>	<b>3,104</b>	<b>4,050</b>	<b>4,117</b>	<b>4,472</b>	<b>5,222</b>	<b>6,861</b>	<b>8,579</b>
Other In activities	440	543	-4,058	633	0	0	0	0
<b>CF from Inv. Activity</b>	<b>-2,141</b>	<b>-3,279</b>	<b>-6,459</b>	<b>-1,518</b>	<b>-2,384</b>	<b>-2,500</b>	<b>-2,592</b>	<b>-2,170</b>
Change in Equity	2	0	0	17	0	0	0	0
Inc / (Dec) in Debt	-824	2,138	-1,808	-2,713	-988	-390	390	0
Dividends Paid	-654	-654	-658	-658	-988	-1,120	-1,383	-1,647
Interest	-1,552	-1,494	-1,601	-1,389	-773	-631	-608	-623
<b>CF from Fin. Activity</b>	<b>-3,028</b>	<b>-9</b>	<b>-4,067</b>	<b>-4,743</b>	<b>-2,749</b>	<b>-2,141</b>	<b>-1,601</b>	<b>-2,270</b>
<b>Inc / ( Dec) in Cash</b>	<b>2,758</b>	<b>3,638</b>	<b>-4,076</b>	<b>7</b>	<b>1,723</b>	<b>3,080</b>	<b>5,261</b>	<b>6,309</b>
Add: Opening Balance	2,390	4,892	9,068	4,345	4,352	6,074	9,155	14,415
<b>Closing Balance</b>	<b>5,148</b>	<b>8,530</b>	<b>4,993</b>	<b>4,352</b>	<b>6,074</b>	<b>9,155</b>	<b>14,415</b>	<b>20,724</b>

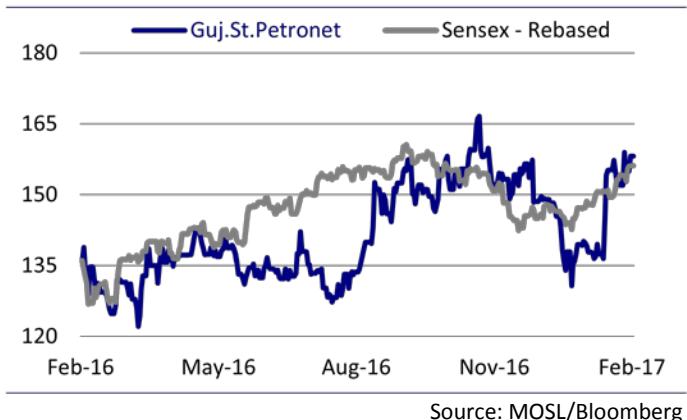
E: MOSL Estimates

## Corporate profile

### Company description

GSPL is the 2<sup>nd</sup> largest gas transmission company in India with 2,239Kms of high pressure gas pipeline network and 31mmmscmd of firm GTAs for gas transmission to various industries and CGD networks in the state of Gujarat. GSPL's parent, GSPC owns 37.7% stake in GSPL and has interest in both upstream and downstream businesses. GSPL as the mid-stream company of the group is the vehicle for transmission of additional gas production by GSPC. In FY12 GSPL promoted 2 SPVs (GIGL and GITL) for implementing 3 cross country gas pipelines.

### Exhibit 1: Sensex rebased



### Exhibit 2: Shareholding pattern (%)

	Dec-16	Sep-16	Dec-15
Promoter	37.7	37.7	37.7
DII	29.9	30.0	30.7
FII	17.1	17.1	15.4
Others	15.4	15.2	16.2

Note: FII Includes depository receipts

Source: Capitaline

### Exhibit 3: Top holders

Holder Name	% Holding
State government owned Bodies Corporate - GUJARAT MARITIME BOARD	6.6
FRANKLIN TEMPLETON MUTUAL FUND A/C	4.2
FRANKLIN INDIA TAXSHIELD	4.2
LIC OF INDIA PENSION PLUS MIXED FUND	4.2
PLATINUM ASIA FUND	3.9
IDFC PREMIER EQUITY FUND	2.4

Source: Capitaline

### Exhibit 4: Top management

Name	Designation
M M Srivastava	Chairman
J N Singh	Managing Director
T Natarajan	Joint Managing Director
Reena Desai	Company Secretary

Source: Capitaline

### Exhibit 5: Directors

Name	Name
Bhadresh Mehta*	Sudhir Kumar Jain*
J N Singh	Sujit Gulati
M M Srivastava	T Natarajan
R Vaidyanathan*	Yogesh Singh*
Shridevi Shukla	

\*Independent

### Exhibit 6: Auditors

Name	Type
Ernst & Young	Internal
Manoj Hurkat & Associates	Secretarial Audit
R K Patel & Co	Cost Auditor
RMA & Associates	Statutory

Source: Capitaline

### Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	8.8	12.1	-27.3
FY18	11.0	13.5	-18.5
FY19	13.2	13.5	-2.2

Source: Bloomberg

NOTES

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