

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 26.2mmcmd (est. of 25mmcmd; +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 26.0/29/32mmcmd in FY17/FY18/FY19 v/s actual 26.2mmcmd in 3QFY17.
- The medium-term risk is some volumes (~5mmcmd) 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

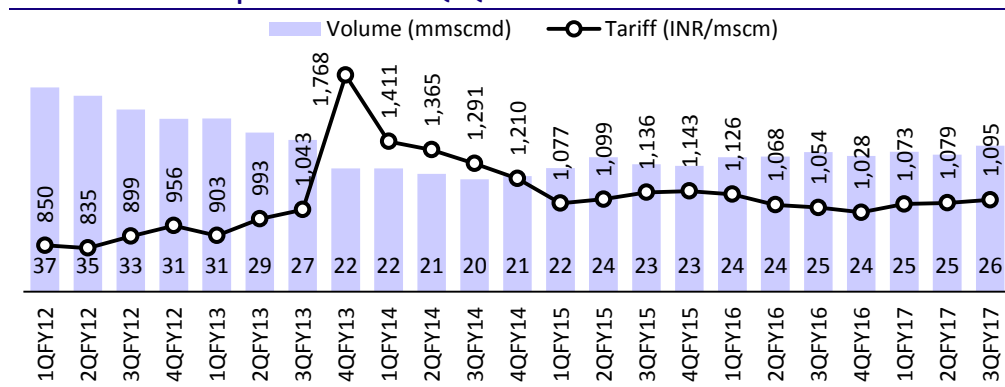
Y/E March	FY16				FY17E				(INR Million)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	FY16	FY17E	FY17 3QE	Var. vs est
Net Sales	2,557	2,526	2,475	2,313	2,579	2,564	2,627	2,781	9,870	10,550	2,523	4.1%
Change (%)	11.0	-28.0	1.9	-2.1	0.9	1.5	6.1	20.2	-6.9	6.9	-1.3	
Employee Costs	74	113	89	71	79	77	144	81	347	380	96	49.8%
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%
EBITDA	2,237	2,240	2,086	2,042	2,330	2,245	2,234	2,452	8,605	9,262	2,205	1.4%
% 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%
PBT	1,738	1,685	1,718	1,538	1,881	1,965	1,822	1,949	6,679	7,617	1,765	3.3%
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	
PAT	1,128	1,085	1,235	997	1,213	1,298	1,186	1,280	4,445	4,977	1,159	2.3%
Adj. PAT	1,128	1,085	1,235	997	1,213	1,298	1,186	1,280	4,445	4,977	1,159	2.3%
Change (%)	33	-2	39	35	8	20	-4	28	24	12	3	
EPS (INR)	2.0	1.9	2.2	1.8	2.2	2.3	2.1	2.3	7.9	8.8	2.1	2.3%
Transmission Vol. (mmcmd)	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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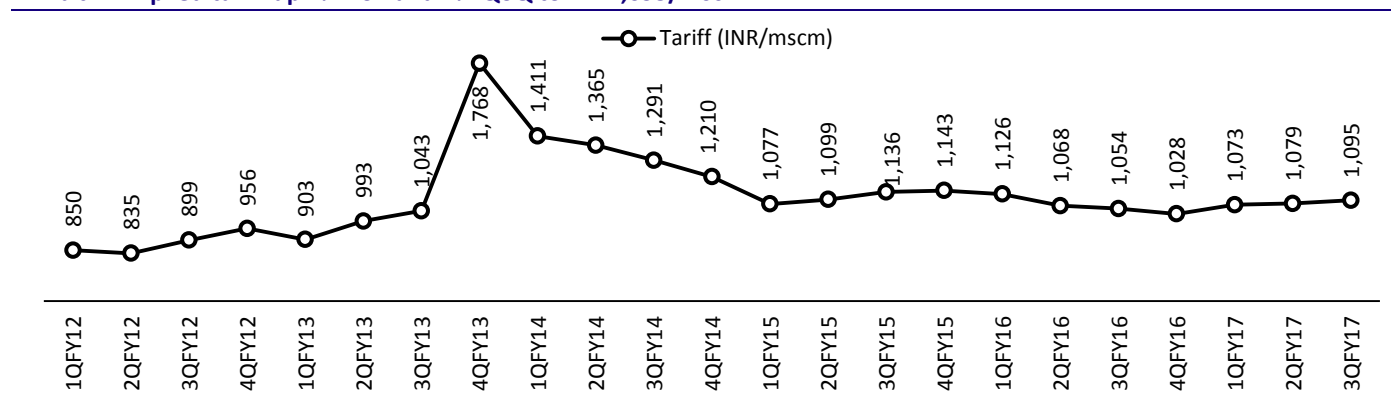
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Exhibit 1: Volumes up 5% YoY and 7% QoQ to 26.2 mmscmd

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

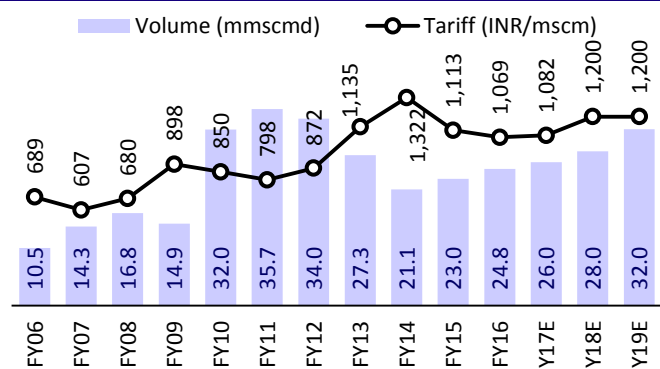
Source: Company, MOSL

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.**

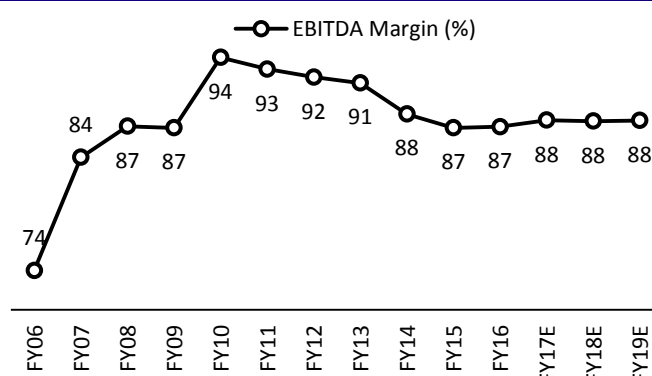
Story in charts

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



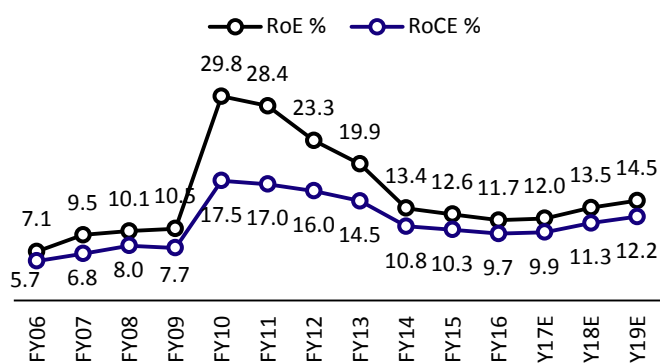
Source: Company, MOSL

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



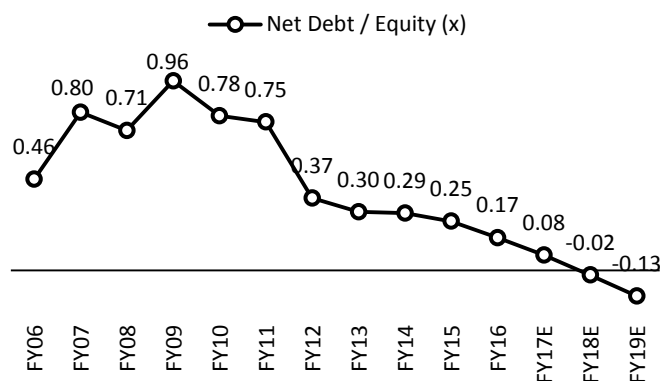
Source: Company, MOSL

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



Source: Company, MOSL

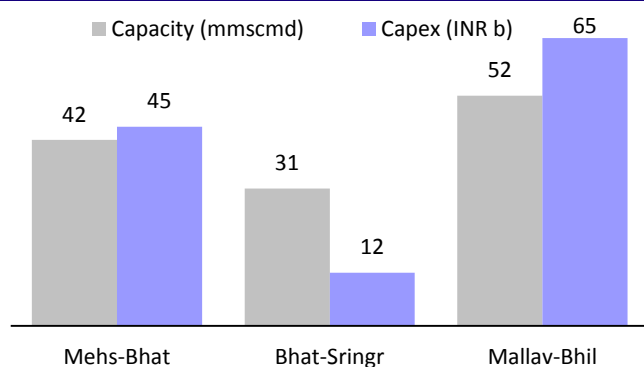
Exhibit 7: ... Expect D/E ratio to decrease further...



*New pipeline capex not factored

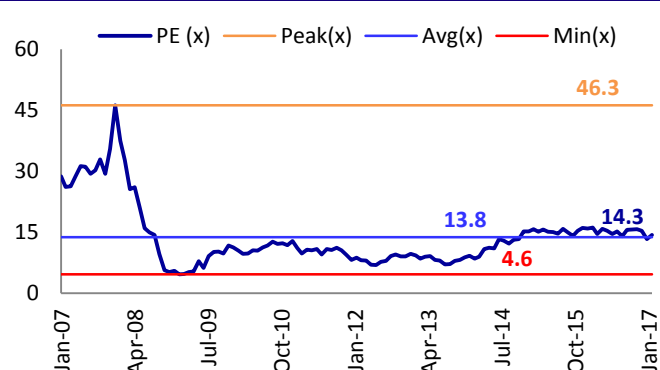
Source: Company, MOSL

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



Source: Company, MOSL

Exhibit 9: GSPL 1 yr forward P/E chart



Source: Company, MOSL

Financials and Valuations

Income Statement

(INR Million)

Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Total Income	11,153	11,603	10,473	10,606	9,870	10,550	12,626	14,390
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
EBITDA	10,241	10,591	9,255	9,234	8,605	9,262	11,073	12,629
% 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
PBT	7,714	8,257	6,583	6,845	6,679	7,617	9,466	11,354
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
PAT	5,221	5,381	4,191	4,346	4,445	4,977	6,217	7,457
Adjusted PAT	5,221	5,381	4,191	3,588	4,445	4,977	6,217	7,457
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
Net Worth	24,667	29,406	32,948	36,231	39,687	43,544	48,378	54,188
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
Capital Employed	38,861	46,661	47,516	49,613	52,322	56,079	61,643	67,862
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
Net Fixed Assets	31,402	32,515	31,593	30,654	31,195	31,881	32,461	32,531
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
Curr. Assets, L & Adv.								
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
Current Liab. & Prov.								
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
Net Current Assets	2,113	7,146	3,512	4,708	6,876	9,947	14,930	21,079
Application of Funds	38,861	46,661	47,516	49,613	52,322	56,079	61,643	67,862

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Basic (INR)								
Adj. EPS	9.3	9.6	7.4	6.4	7.9	8.8	11.0	13.2
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
Valuation (x)								
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
Profitability Ratios (%)								
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
Turnover Ratios								
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
Leverage Ratio								
Net Debt / Equity (x)	0.4	0.3	0.3	0.2	0.2	0.1	0.0	-0.1

Cash Flow Statement

(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
CF from Op. Activity	7,927	6,926	6,451	6,268	6,856	7,722	9,454	10,749
(Inc)/Dec in FA & CWIP	-2,581	-3,822	-2,401	-2,151	-2,384	-2,500	-2,592	-2,170
Free Cash Flow	5,346	3,104	4,050	4,117	4,472	5,222	6,861	8,579
Other In activities	440	543	-4,058	633	0	0	0	0
CF from Inv. Activity	-2,141	-3,279	-6,459	-1,518	-2,384	-2,500	-2,592	-2,170
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
CF from Fin. Activity	-3,028	-9	-4,067	-4,743	-2,749	-2,141	-1,601	-2,270
Inc / (Dec) in Cash	2,758	3,638	-4,076	7	1,723	3,080	5,261	6,309
Add: Opening Balance	2,390	4,892	9,068	4,345	4,352	6,074	9,155	14,415
Closing Balance	5,148	8,530	4,993	4,352	6,074	9,155	14,415	20,724

E: MOSL Estimates

Corporate profile

Company description

GSPL is the 2nd largest gas transmission company in India with 2,239Kms of high pressure gas pipeline network and 31mmcmd 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

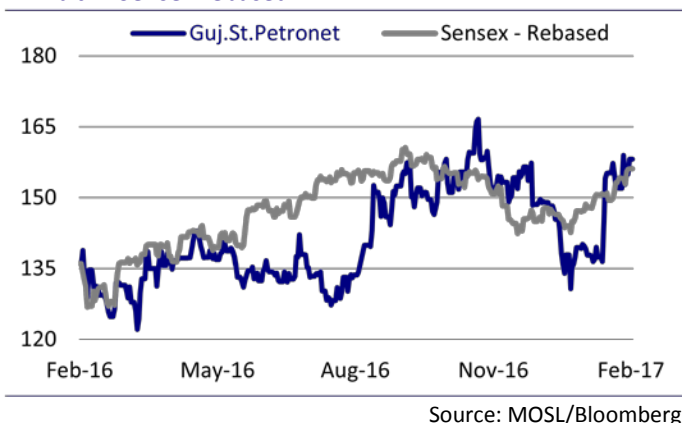


Exhibit 2: Shareholding pattern (%)

	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 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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