

Gujarat State Petronet

Refer to important disclosures at the end of this report

Tariff review may seem future ambiguous, but outlook positive

- Gujarat State Petronet's (GSPL) long-awaited tariff hike came last week as PNGRB approved the final rate for the high-pressure Gujarat grid at Rs34/mmmbtu (GCV), a 28% hike from the previous level, effective from April 1, 2018. This is more than our expectation of 20%. The low-pressure grid tariff was also raised by 2x+ to Rs4.08/mmmbtu (GCV).
- The tariff review is marked by PNGRB cutting down capex and opex assumptions by 30-60% from those filed by GSPL and has also excluded compressor capex (that would be included eventually). Volume divisors were largely in line except for FY13 (taken higher based on actual rate) and FY19 in which RIL's run-rate is assumed to continue.
- From FY20 onward, 26mmscmd is taken as future volumes, which are below expectation of 30mmscmd+ and may have raised concerns that the hike is built on a lower divisor and as volumes rise, tariff would self-adjust in future reviews. PNGRB has also advised GSPL to submit tariff filing within one month based on updated data, adding to the ambiguity,
- Although this was a major positive, its impact on the stock price was meagre, presumably due to concerns on the lack of more triggers and the upcoming decline in RIL volumes, and as the tariff-volume trade-off is likely to self-adjust in future reviews to regress returns back to the regulated 12%.

Company would try to work on optimal assumptions to maximize returns: Management has stated that GSPL would try to work around an optimal divisor, which is 75% of capacity. The 26mmscmd, from FY20 onwards is premised on 35mmscmd of HP capacity, which is after additional compressors. In addition, until FY20, higher volumes from Mundra would not be accounted as source-based capacity addition would enjoy a holiday until then. Once the review happens, revised capex figures and capacity of 40mmscmd+ would apply, and tariffs would remain stable. It is unlikely that another review would happen soon despite PNGRB seeking revised numbers in a month. Management has submitted updated data till FY18 end and there is nothing new to file as of now.

New volume triggers in the offing, RIL's decline largely discounted: We reiterate that volume triggers continue despite the largely discounted decline from RIL, expected in Q3/4. The newly commissioned Mundra LNG terminal is targeting for 30% utilization by next year (5mmscmd+ volumes), while the start of the Palanpur-Pali-Barmer pipeline this month should bring in Cairn Rajasthan gas — starting at 1mmscmd+ and expected to reach 3-4mmscmd by FY19-end. Overall demand growth is expected to be healthy at 10%+ which would support these supply sources and aid GSPL's throughput.

Valuation and outlook: We note that the tariff process is ambiguous and seemingly difficult to compute across the asset life. We, however, have adjusted our DCF to build in 12% average ROE/ROCE for FY13-27. Based on that we arrive at a value of Rs139 for the core business (12x FY20 PE), while Rs83/Rs2 comes from Gujarat Gas/others, implying a target price of Rs225, a 23% upside. We raise FY19/20 EPS by 37%/4%. Reiterate Buy.

Financial Snapshot (Standalone)

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	9,919	10,276	13,317	17,965	16,427
EBITDA	8,660	8,883	11,478	15,867	14,162
EBITDA Margin (%)	87.3	86.4	86.2	88.3	86.2
APAT	4,454	4,966	6,684	8,006	6,986
EPS (Rs)	7.9	8.8	11.9	14.2	12.4
EPS (% chg)	8.5	11.5	34.6	19.8	(12.7)
ROE (%)	11.6	11.6	14.0	14.9	11.8
P/E (x)	23.0	20.7	15.4	12.8	14.7
EV/EBITDA (x)	11.6	10.5	7.7	5.3	5.7
P/BV (x)	2.5	2.3	2.0	1.8	1.7

Source: Company, Emkay Research

CMP	Target Price
Rs 182 as of (October 1, 2018)	Rs 225 (▼) 12 months
Rating	Upside
BUY (■)	23.5 %

Change in Estimates

EPS Chg FY19E/FY20E (%)	37/4
Target Price change (%)	(2)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY19E	FY20E
Emkay	14.2	12.4
Consensus	13.1	13.7
Mean Consensus TP (12M)	Rs 225	

Stock Details

Bloomberg Code	GUJS IN
Face Value (Rs)	10
Shares outstanding (mn)	564
52 Week H/L	236 / 156
M Cap (Rs bn/USD bn)	103 / 1.41
Daily Avg Volume (nos.)	592,544
Daily Avg Turnover (US\$ mn)	1.5

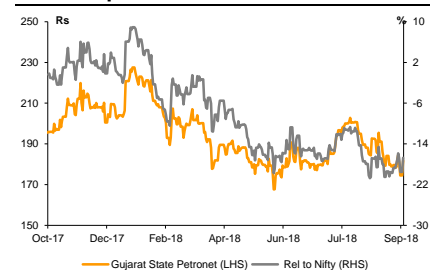
Shareholding Pattern Jun '18

Promoters	37.7%
FIIIs	16.2%
DIIIs	20.7%
Public and Others	25.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(5)	1	(4)	(9)
Rel. to Nifty	-	(2)	(12)	(19)

Relative price chart



Source: Bloomberg

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Tariff order details

Exhibit 1: HP Pipeline: New tariff approved vs. new tariff filed and old tariff

Filed (Rs/mmbtu)-GCV	Change (-)	64.7
Unaccounted Gas	2.6	62.1
All Opex	9.9	52.1
Capex	9.7	42.4
Volume Divisor	8.7	33.8
Others	-0.2	
Approved		34.0

Old (Rs/mmbtu)-GCV	Change (+)	26.6
Volume Divisor	5.0	31.6
Opex	-4.4	27.2
Capex	3.1	30.3
Prospective Impact	5.0	35.2
Others	-1.2	
New		34.0

Source: PNGRB, Emkay Research

Exhibit 2: LP Pipeline: New tariff approved vs. new tariff filed and old tariff

Filed (Rs/mmbtu)-GCV	Change (-)	9.4
Unaccounted Gas	3.2	6.2
All Opex	1.0	5.2
Capex	0.9	4.2
Others	0.1	
Approved		4.1

Old (Rs/mmbtu)-GCV	Change (+)	1.88
Volume Divisor	0.7	2.5
Change in opening asset base	0.3	2.8
Prospective Impact	1.4	4.2
Others	-0.1	
New		4.1

Source: PNGRB, Emkay Research

Tariff Review Assumptions (GSPL filed versus PNGRB approved)

Exhibit 3: Gross Block

	GSPL	PNGRB
Net fixed assets + CWIP (26/07/2012)	36,609	35,294
FY13-17 Capex	10,865	8,488
FY18-27 Capex	28,539	10,876
Total	76,013	54,658

Source: PNGRB, Emkay Research

Exhibit 4: Opex

	GSPL	PNGRB
FY13-17	5,400	4,410
FY18-27	52,602	18,662
Total	58,002	23,072

Source: PNGRB, Emkay Research

Exhibit 5: Terminal Value

	GSPL	PNGRB
Net fixed assets	40,375	29,195
Working capital	1,033	471
Linepack	1,128	1,128
Total	42,537	30,795

Source: PNGRB, Emkay Research

Exhibit 6: Volume Divisor

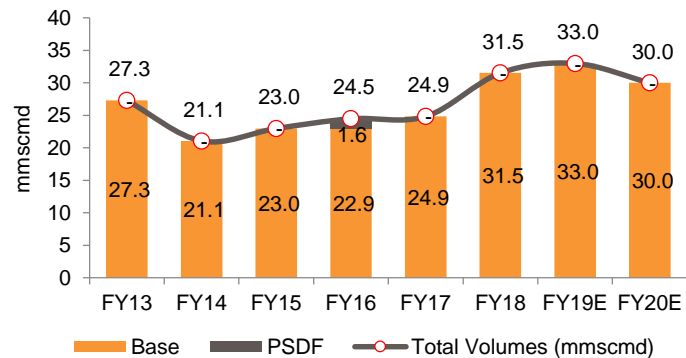
mmscmd	GSPL	Actual	PNGRB
FY13	22.1	26.9	26.9
FY14	23.3	20.6	23.7
FY15	23.5	22.7	23.6
FY16	24.5	24.3	24.7
FY17	24.7	24.7	24.7
FY18	29.1		29.1
FY19+	23.3		29.1
FY20+			26.0

Source: PNGRB, Emkay Research

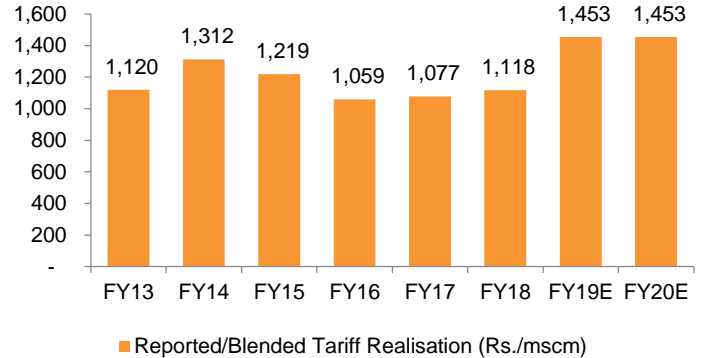
Exhibit 7: Return profile

	FY13	FY14	FY15	FY16	FY17	FY18	FY19+
Pre Tax Return	17.8%	18.2%	18.2%	18.4%	18.4%	18.4%	18.5%
Post Tax Return	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.1%

Source: PNGRB, Emkay Research

Exhibit 8: Volumes

Source: Company, Emkay Research

Exhibit 9: Tariff

Source: Company, Emkay Research

Exhibit 10: Snip on tariff review from order**6.11. Tariff Review**

In terms of clause 2 (1) (e) (i) of Tariff Regulations, the initial unit natural gas pipeline tariff of HP Gas Grid was notified on 11.07.2014, which is being finalized now based on the data up to FY 2016-17.

In respect of tariff review, clause 2 (1) (h) of Tariff Regulations states as under:

“The review of the unit natural gas pipeline tariff after every five consecutive years by the Board with the first tariff review to be done after the end of five consecutive years after the end of the initial unit natural gas pipeline tariff period as specified under sub-section (e):

In view of the above provisions of Tariff Regulations, first tariff review becomes due on 01.04.2018. Accordingly, GSPL is advised to submit the tariff filing, based on updated tariff data within one month from the date of issuance of this tariff order.

Source: PNGRB, Emkay Research

Exhibit 11: Capacity breakup

Sections	Capitalization	Capacity (mmscmd)
As on 01-04-2008	3-Nov-01	17.97
Bhadhut-Gana	28-Apr-09	9.88
Gana-Hadala	30-Mar-10	1.80
Darod-Jafrabad	25-Mar-11	1.35
Total		31.00
Additional Compressor	FY19	4.00
Anjar-Mundra	FY19 (holiday till FY20)	6.00
Grand Total		41.00

Source: PNGRB, Emkay Research

Exhibit 12: PE based valuation

Rs	FY16	FY17	FY18	FY19E	FY20E
GSPL's Core EPS	7.6	8.8	11.9	13.9	12.4
Less: GGL/SGL Div. Inc.	0.1	0.2	0.3	0.8	1.0
GSPL Adjusted EPS	7.5	8.7	11.5	13.1	11.4
Target Multiple (x)					12.3
Core Business Target Price					139

Source: Company, Emkay Research

Exhibit 13: DCF/SOTP Valuation

FY20E (Rs.mn)	Standalone
NPV Of FCF	52,505
Terminal Value	137,894
PV Of TV	49,909
Total Value	102,414
Less: Net Debt (Y/E)	23,781
Equity Value	78,633
No. Of Shares O/S (mn)	564
Target Price (Rs.)	139

Gujarat Gas Ltd at FV (Rs.mn)

CMP (Rs./sh)	630
No. Of Shares O/S (m)	138
FV of GGL	86,814
At 0% Haircut	86,814
GSPL's Stake	54.2%
GSPL's Value	47,018
GSPL's Shares O/S (mn)	564
Value/sh For GSPL	83

Exhibit 14: DCF/SOTP Valuation

DCF Assumptions	
Risk Free Rate	8.0%
Risk Premium	5.0%
Beta	0.8
Cost Of Equity	12.2%
Cost Of Debt	8.8%
Post Tax Cost Of Debt	5.7%
Average Debt:Equity Ratio	30.0%
WACC	10.7%
Terminal Growth Rate	1.0%

GSPL's SOTP Valuation

Parts (Rs.)	Method	Value
Core Gujarat Business	DCF Based	139
Gujarat Gas Stake	FV Based	83
3 New Pipelines	DCF Based	-4
Others	BV Based	6
Target Price		225

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	9,919	10,276	13,317	17,965	16,427
Expenditure	1,259	1,393	1,839	2,098	2,265
EBITDA	8,660	8,883	11,478	15,867	14,162
Depreciation	1,829	1,791	1,750	1,916	2,171
EBIT	6,831	7,092	9,728	13,952	11,991
Other Income	656	882	735	940	1,315
Interest expenses	799	596	354	2,761	2,721
PBT	6,688	7,378	10,108	12,131	10,585
Tax	2,235	2,411	3,424	4,124	3,599
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	4,454	4,966	6,684	8,006	6,986
Adjusted PAT	4,454	4,966	6,684	8,006	6,986

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity share capital	5,633	5,636	5,638	5,638	5,638
Reserves & surplus	35,058	39,324	45,012	50,905	55,963
Net worth	40,692	44,960	50,650	56,543	61,601
Minority Interest	0	0	0	0	0
Loan Funds	10,963	6,600	30,877	30,778	30,680
Net deferred tax liability	4,723	4,719	4,984	5,238	5,480
Total Liabilities	56,379	56,278	86,511	92,560	97,760
Net block	31,231	31,657	31,142	34,768	37,530
Investment	7,513	7,835	41,945	42,095	42,095
Current Assets	12,041	11,978	7,439	11,562	15,484
Cash & bank balance	5,529	8,026	3,645	6,847	10,993
Other Current Assets	3,339	1,205	1,132	1,188	1,248
Current liabilities & Provision	2,085	2,055	2,974	3,033	3,083
Net current assets	9,956	9,923	4,465	8,529	12,401
Misc. exp	0	0	0	0	0
Total Assets	56,379	56,278	86,511	92,560	97,760

Cash Flow

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
PBT (Ex-Other income) (NI+Dep)	6,032	6,496	9,373	11,191	9,270
Other Non-Cash items	78	247	63	0	0
Chg in working cap	(1,012)	2,526	1,342	(608)	515
Operating Cashflow	6,027	9,436	8,944	11,137	11,080
Capital expenditure	(2,320)	(1,402)	(3,331)	(3,750)	(3,500)
Free Cash Flow	3,707	8,034	5,613	7,387	7,580
Investments	(918)	(322)	(34,110)	(150)	0
Other Investing Cash Flow	704	270	517	0	0
Investing Cashflow	(1,878)	(573)	(36,189)	(2,960)	(2,185)
Equity Capital Raised	4	2	2	0	0
Loans Taken / (Repaid)	(862)	(4,364)	24,277	(99)	(98)
Dividend paid (incl tax)	(813)	(1,017)	(1,018)	(2,114)	(1,928)
Other Financing Cash Flow	(501)	(392)	(43)	(1)	(2)
Financing Cashflow	(2,972)	(6,366)	22,865	(4,975)	(4,750)
Net chg in cash	1,177	2,497	(4,381)	3,202	4,146
Opening cash position	4,352	5,529	8,026	3,645	6,847
Closing cash position	5,529	8,026	3,645	6,847	10,993

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY16	FY17	FY18	FY19E	FY20E
EBITDA Margin	87.3	86.4	86.2	88.3	86.2
EBIT Margin	68.9	69.0	73.0	77.7	73.0
Effective Tax Rate	33.4	32.7	33.9	34.0	34.0
Net Margin	44.9	48.3	50.2	44.6	42.5
ROCE	13.7	14.2	14.7	16.6	14.0
ROE	11.6	11.6	14.0	14.9	11.8
RoIC	19.7	20.5	29.7	40.8	31.8

Per Share Data (Rs)	FY16	FY17	FY18	FY19E	FY20E
EPS	7.9	8.8	11.9	14.2	12.4
CEPS	11.1	12.0	15.0	17.6	16.2
BVPS	72.2	79.7	89.8	100.3	109.3
DPS	1.5	1.5	1.7	3.1	2.8

Valuations (x)	FY16	FY17	FY18	FY19E	FY20E
PER	23.0	20.7	15.4	12.8	14.7
P/CEPS	16.3	15.2	12.2	10.3	11.2
P/BV	2.5	2.3	2.0	1.8	1.7
EV / Sales	10.1	9.1	6.6	4.7	4.9
EV / EBITDA	11.6	10.5	7.7	5.3	5.7
Dividend Yield (%)	0.8	0.8	1.0	1.7	1.6

Gearing Ratio (x)	FY16	FY17	FY18	FY19E	FY20E
Net Debt/ Equity	(0.1)	(0.2)	(0.3)	(0.3)	(0.4)
Net Debt/EBIDTA	(0.2)	(1.0)	(1.3)	(1.1)	(1.6)
Working Cap Cycle (days)	162.9	67.4	22.5	34.2	31.3

Growth (%)	FY16	FY17	FY18	FY19E	FY20E
Revenue	(6.8)	3.6	29.6	34.9	(8.6)
EBITDA	(6.6)	2.6	29.2	38.2	(10.7)
EBIT	(5.9)	3.8	37.2	43.4	(14.1)
PAT	8.5	11.5	34.6	19.8	(12.7)

Quarterly (Rs mn)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Revenue	2,963	3,348	3,502	3,504	3,662
EBITDA	2,760	2,855	2,971	2,892	3,161
EBITDA Margin (%)	93.1	85.3	84.8	82.5	86.3
PAT	1,525	1,770	1,816	1,574	1,397
EPS (Rs)	1.0	1.2	1.2	1.0	0.9

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Promoters	37.7	37.7	37.7	37.7	37.7
FIs	17.5	17.5	16.7	16.6	16.2
DIs	19.2	18.8	19.4	19.5	20.7
Public and Others	25.7	26.0	26.2	26.2	25.5

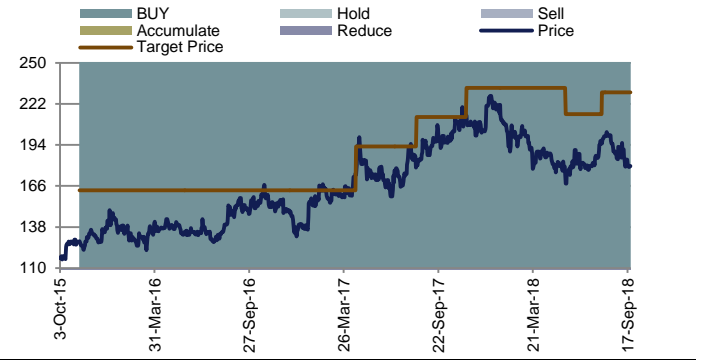
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
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
5-Feb-16	136	163	12m	Buy	Dhaval Joshi
26-Nov-15	131	163	12m	Buy	Dhaval Joshi
9-Nov-15	128	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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