

Gujarat State Petro. | HOLD

EBIDTA in line, PAT misses on lower other income and higher tax

GSPL reported 4QFY18 EBIDTA of INR 2.89bn (-3% QoQ/+27% YoY) marginally below JMFe of 3.08bn mainly on account of higher expenses, which were reported at INR 612mn, against our estimate of INR 495mn. However, a higher tax rate of 38% (against our estimate of 33%) and lower other income resulted in PAT of INR 1.57bn, significantly below our estimate of INR 1.82bn. We believe the higher tax rate was only due to year-end adjustments. We continue to like GSPL's strong cash flow business but the increased debt on back of the recently-acquired additional stake in Gujarat Gas and the investment for the new cross-country pipelines constrain us to maintain a HOLD with a revised DCF based TP of INR 180 (INR 150 previously).

- **4QFY18 results – EBIDTA in line but PAT disappoints:** 4QFY18 volume – at 3073 mmscm (34 mmscmd) – was marginally lower than our estimate of 35 mmscmd, but tariff at INR 1.13/ scm was higher than our estimate of INR 1.1/scm. The lower volume and higher tariff offset each other and resulted in revenue of INR 3.513bn, in line with our estimates of INR 3.575bn. EBIDTA was lower than JMFe (INR 3.08bn), mainly due to higher other expenses, while lower other income and higher tax impacted PAT. We note that 2Q and 3Q tax rates were lower at c. 32%/30% respectively and therefore, higher tax rate in 4Q was likely due to the balancing figure.
- **Awaiting revision of tariff; current volume to sustain:** GSPL has previously proposed a significant increase in tariff. However, we believe that currently, the Petroleum & Natural Gas Regulatory Board (PNGRB) is focused on city gas distribution (CGD) and is conducting road-shows for awarding authorisation for 86 city gas circles. Therefore, any decision on tariff is likely to be only after these CGDs are awarded. This leads to uncertainty on the timeline and quantum of increase in tariff and we are constrained not to incorporate any tariff hike. Therefore, we currently maintain tariff at INR 1.1/scm to INR 1.15/scm over the DCF period. Also, we believe that with the likely commissioning of the Mundra terminal and the commissioning of the Mehsana-Bhatinda pipeline, GSPL would be able to sustain the current volume of c. 35 mmscmd over FY19-FY20.
- **Maintain HOLD; TP 180:** We believe that increase in tariff (which is not built into our tariff estimate) could be a potential trigger for the stock price, while the increase in debt to acquire Gujarat Gas and investment in Mehsana Bhatinda pipeline could limit near-term upside to equity valuation. Hence, we continue to maintain HOLD with a revised DCF based TP of INR 180/share (previously INR 150/share). Key risk to our view is higher LNG price resulting into lower volumes vis-à-vis our estimates



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Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	180
Upside/(Downside)	2.8%
Previous Price Target	150
Change	20.0%

Key Data – GUJS IN

Current Market Price	INR175
Market cap (bn)	INR98.7/US\$1.4
Free Float	71%
Shares in issue (mn)	563.8
Diluted share (mn)	563.8
3-mon avg daily val (mn)	INR126.9/US\$1.9
52-week range	236/154
Sensex/Nifty	34,616/10,517
INR/US\$	68.1

Price Performance

%	1M	6M	12M
Absolute	-7.0	-15.7	0.6
Relative*	-7.5	-18.5	-11.5

* To the BSE Sensex

Financial Summary

Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	9,919	10,276	13,317	14,309	15,213
Sales Growth (%)	-6.5	3.6	29.6	7.4	6.3
EBITDA	8,660	8,883	11,478	12,411	13,109
EBITDA Margin (%)	87.3	86.4	86.2	86.1	85.6
Adjusted Net Profit	4,454	4,966	6,684	8,229	8,780
Diluted EPS (INR)	7.9	8.8	11.9	14.6	15.6
Diluted EPS Growth (%)	8.5	11.5	34.5	23.1	6.7
ROIC (%)	13.0	13.6	22.5	33.6	31.1
ROE (%)	11.6	11.6	14.0	15.4	15.0
P/E (x)	22.1	19.9	14.8	12.0	11.2
P/B (x)	2.7	2.4	2.2	2.0	1.8
EV/EBITDA (x)	11.7	10.8	9.8	8.9	8.3
Dividend Yield (%)	0.8	0.8	1.5	2.3	2.8

Source: Company data, JM Financial. Note: Valuations as of 21/May/2018

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

4QFY18 : Revenue in-line but expenses impact EBITDA and PAT

Exhibit 1. GSPL : 4QFY18 : Key Highlights

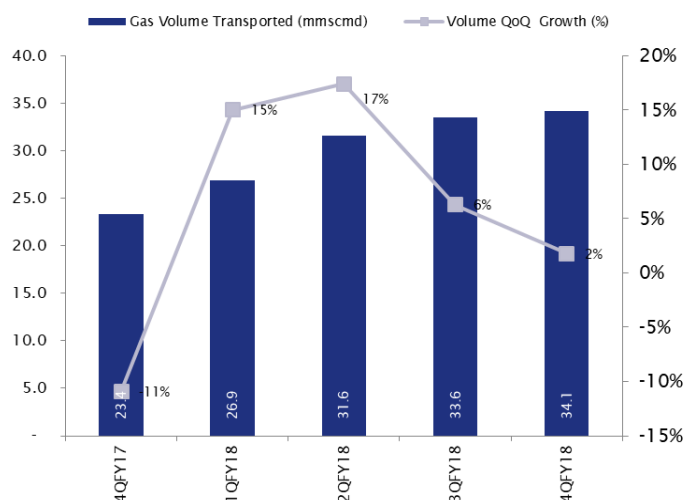
Particulars	Unit	Mar-18 Actual	Mar-18 Estimate	Variance	Dec-17 Actual	QoQ	Mar-17 Actual	YoY
Operating Income	INR mn	3,504	3,575	-2%	3,502	0%	2,446	43%
Operating Expenses	INR mn	612	495	24%	531	15%	433	41%
EBITDA	INR mn	2,892	3,080	-6%	2,971	-3%	2,013	44%
EBITDA margin	%	83%	86%		85%		82%	
PBT	INR mn	2,520	2,722	-7%	2,595	-3%	1,710	47%
PAT	INR mn	1,574	1,818	-13%	1,816	-13%	1,270	24%
OCI	INR mn	7	0	NA	5	NA	13	NA
Total comprehensive income	INR mn	1,581	1,818	NA	1,820	-13%	1,283	23%
PAT margin	%	45%	51%		52%		52%	

Source: JM Financial, Company

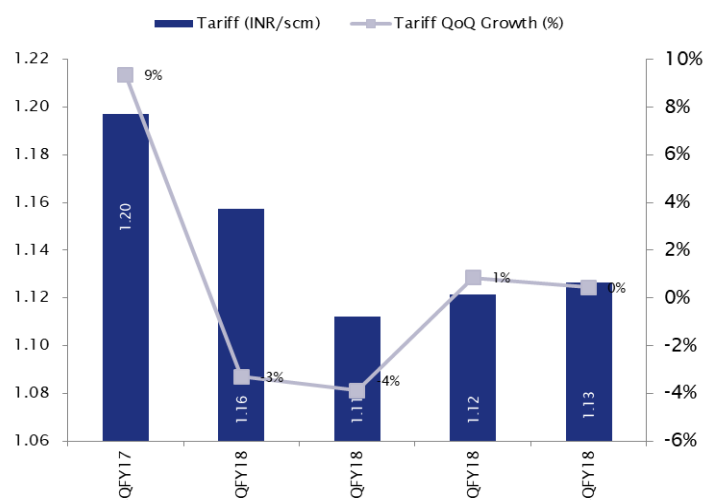
Exhibit 2. GSPL : 4QFY18 : Detailed Results

Particulars	Unit	Mar-18 Actual	Mar-18 Estimate	Variance	Dec-17 Actual	QoQ	Mar-17 Actual	YoY
Operational:								
Tariff	INR/scm	1.13	1.10	2%	1.12	0%	1.20	-6%
Gas Volume Transported	mmscm	3,073	3,150	-2%	3,087	0%	2,104	46%
Gas Volume Transported (mmscmd)	mmscmd	34.14	35.00	-2%	34	2%	23	46%
Financial:								
Net Sales	INR mn	3,513	3,575	-2%	3,502	0%	2,446	44%
Operating Income	INR mn	3,504	3,575	-2%	3,502	0%	2,446	43%
Employee Cost	INR mn	106	112	-5%	110	-3%	89	19%
Other Expenses	INR mn	506	383	32%	421	20%	344	47%
Operating Expenses	INR mn	612	495	24%	531	15%	433	41%
EBITDA	INR mn	2,892	3,080	-6%	2,971	-3%	2,013	44%
EBITDA Margin	%	83%	86%		85%		82%	
Depreciation	INR mn	440	461	-4%	442	0%	460	-4%
EBIT	INR mn	2,452	2,620	-6%	2,529	-3%	1,553	58%
Other Income	INR mn	171	215	-20%	121	42%	273	-37%
Interest Expense	INR mn	103	113	-9%	55	88%	116	-11%
PBT	INR mn	2,520	2,722	-7%	2,595	-3%	1,710	47%
Current Tax	INR mn	826	841	-2%	737	12%	360	129%
Deferred Tax	INR mn	119	63	88%	42	182%	80	48%
Tax as % of PBT	%	38%	33%		30%		26%	
PAT	INR mn	1,574	1,818	-13%	1,816	-13%	1,270	24%
PAT Margin	%	45%	51%		52%		52%	
EPS	INR/share	2.79	3.23	-14%	3.22	-13%	2.28	22%

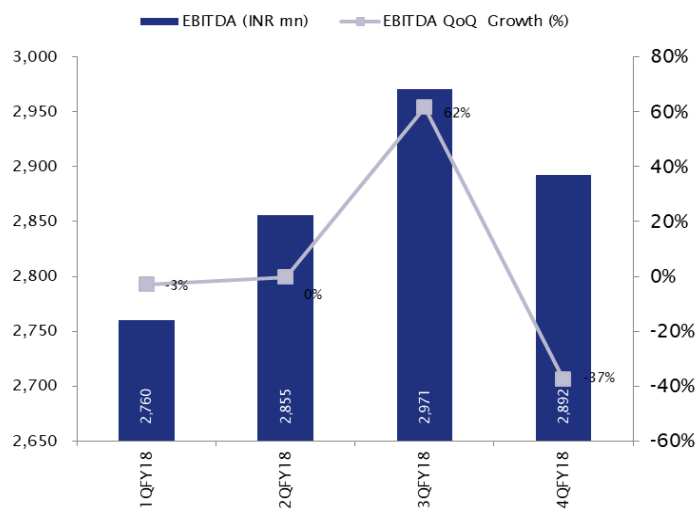
Source: Company, JM Financial

Exhibit 3. GSPL : 4QFY18 : Volume increases but slowly

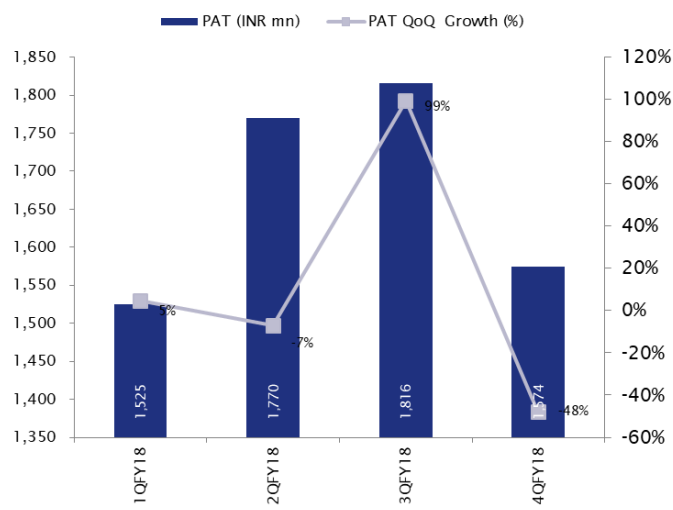
Source: Company, JM Financial

Exhibit 4. GSPL : 4QFY18 : Tariff steady on a relatively lower base

Source: Company, JM Financial

Exhibit 5. GSPL : 4QFY18 : Stable EBITDA at INR 2.8bn

Source: Company, JM Financial

Exhibit 6. PAT impacted by higher tax and lower other income

Source: Company, JM Financial

Exhibit 7. GSPL : Basis of Valuation

		FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
Volume	mmscmd	24.50	24.85	31.54	33.11	34.77	35.05	35.05	35.05	35.05	35.05
Tariff	INR/scm	1.07	1.11	1.13	1.15	1.16	1.10	1.10	1.10	1.10	1.10

Source: JM Financial

Exhibit 8. GSPL : Valuation

Discounted FCF	INR mn	70,985
Gross Debt	INR mn	17,595
Cash + Current Investment	INR mn	3,645
Net Debt	INR mn	13,950
		57,036
Number of Share outstanding	Mn	564
Standalone business value (Mar'19)	INR/share	101
Standalone business value (Dec'18)	INR/share	99
Add : Holding company valuation		
GGAS share price (At our TP)	INR	750
Total no. of shares of GGAS	Mn	138
GSPL's stake in the merged entity		54%
Value of investment in GGAS	INR mn	55,760
Holding company discount	%	20%
Value of investment in GGAS	INR mn	44,608
	INR/sh	79
GSPL TP (Mar'19)		180

Source: JM Financial

Company background

- GSPL, promoted by Gujarat State Petroleum Corporation Limited, was incorporated in December 1998 for the purpose of constructing and managing a state-wide gas transmission network in Gujarat. GSPL, a pure natural gas transmission company, is a pioneer in developing energy transportation infrastructure and connecting major natural gas supply sources and demand markets. GSPL is the first company in India to transport natural gas on 'open access' basis i.e. it makes the gas transmission capacity available to any shipper on a non-discriminatory basis.

Investment Rationale

- **Open access pipeline network in Gujarat:** GSPL has a network of c.2000 km of pipeline in Gujarat, India's most industrialized state. With 2 LNG terminals, and access to RIL's KG gas (connectivity with the east-west pipeline), GSPL has built a robust network in the state and now has plans to have a pan-India presence by laying three cross-country pipelines.
- **Strong cash flows and stable operations:** Gas volumes have been stable over the last few quarters and GSPL has used the cash flow to acquire 54% stake in Gujarat Gas Limited, a city gas distribution company. This ensures synergies and results into a strong moat.

Key Risks

- **Gas volume visibility:** Gas price volatility, particularly vis-à-vis alternate fuels poses a risk to GSPL's volumes.
- **Regulatory risks:** While tariff risks are already behind, any further negative developments on the regulatory front, especially those pertaining to the new pipelines, remain risks

Financial Tables (Standalone)

Income Statement (INR mn)					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	9,919	10,276	13,317	14,309	15,213
Sales Growth	-6.5%	3.6%	29.6%	7.4%	6.3%
Other Operating Income	0	0	0	100	100
Total Revenue	9,919	10,276	13,317	14,409	15,313
Cost of Goods Sold/Op. Exp	0	0	0	0	0
Personnel Cost	361	388	432	458	490
Other Expenses	898	1,004	1,407	1,540	1,714
EBITDA	8,660	8,883	11,478	12,411	13,109
EBITDA Margin	87.3%	86.4%	86.2%	86.1%	85.6%
EBITDA Growth	-6.6%	2.6%	29.2%	8.1%	5.6%
Depn. & Amort.	1,829	1,791	1,750	15	50
EBIT	6,831	7,092	9,728	12,396	13,059
Other Income	656	882	735	589	689
Finance Cost	799	596	354	664	600
PBT before Excep. & Forex	6,688	7,378	10,108	12,322	13,148
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	6,688	7,378	10,108	12,322	13,148
Taxes	2,235	2,411	3,424	4,093	4,367
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	4,454	4,966	6,684	8,229	8,780
Adjusted Net Profit	4,454	4,966	6,684	8,229	8,780
Net Margin	44.9%	48.3%	50.2%	57.1%	57.3%
Diluted Share Cap. (mn)	563.3	563.6	563.8	563.8	563.8
Diluted EPS (INR)	7.9	8.8	11.9	14.6	15.6
Diluted EPS Growth	8.5%	11.5%	34.5%	23.1%	6.7%
Total Dividend + Tax	995	995	1,671	2,879	3,583
Dividend Per Share (INR)	1.4	1.4	2.7	4.0	4.9

Source: Company, JM Financial

Cash Flow Statement (INR mn)					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profit before Tax	6,688	7,378	10,108	12,322	13,148
Depn. & Amort.	1,829	1,791	-21,160	15	50
Net Interest Exp. / Inc. (-)	799	596	354	664	600
Inc (-) / Dec in WCap.	-1,338	1,087	12,821	-188	-158
Others	0	0	0	0	0
Taxes Paid	-2,015	-2,416	-3,159	-6,004	-5,947
Operating Cash Flow	5,964	8,436	-1,035	6,808	7,692
Capex	-2,320	-1,402	50,721	-1,546	-1,623
Free Cash Flow	3,644	7,034	49,686	5,262	6,069
Inc (-) / Dec in Investments	175	-49	-34,159	0	0
Others	0	0	0	0	0
Investing Cash Flow	-2,145	-1,452	16,562	-1,546	-1,623
Inc / Dec (-) in Capital	4	2	2	0	0
Dividend + Tax thereon	-995	-995	0	-2,879	-3,583
Inc / Dec (-) in Loans	-974	-2,893	12,583	0	0
Others	-799	-596	-354	-664	-600
Financing Cash Flow	-2,765	-4,481	12,231	-3,542	-4,184
Inc / Dec (-) in Cash	1,054	2,503	27,758	1,720	1,885
Opening Cash Balance	4,352	5,529	8,026	3,645	5,365
Closing Cash Balance	5,405	8,032	35,785	5,365	7,250

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Shareholders' Fund	40,692	44,960	50,650	56,000	61,197
Share Capital	5,633	5,636	5,638	5,638	5,638
Reserves & Surplus	35,058	39,324	45,012	50,362	55,559
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	7,905	5,012	17,595	17,595	17,595
Def. Tax Liab. / Assets (-)	4,723	4,719	4,984	3,073	1,493
Total - Equity & Liab.	53,320	54,690	73,229	76,668	80,285
Net Fixed Assets	38,910	38,521	-13,951	-12,420	-10,847
Gross Fixed Assets	50,599	52,816	0	928	2,064
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	19,368	21,160	22,910	22,925	22,975
Capital WIP	7,679	6,864	8,959	9,578	10,064
Investments	7,111	7,655	41,814	41,814	41,814
Current Assets	12,442	12,158	7,571	9,479	11,522
Inventories	1,177	1,123	1,235	1,321	1,400
Sundry Debtors	1,518	1,189	1,235	1,336	1,416
Cash & Bank Balances	5,529	8,026	3,645	5,365	7,250
Loans & Advances	3,560	1,403	1,278	1,278	1,278
Other Current Assets	659	417	178	178	178
Current Liab. & Prov.	5,143	3,643	16,256	16,256	16,256
Current Liabilities	5,127	3,632	16,246	16,246	16,246
Provisions & Others	17	11	10	10	10
Net Current Assets	7,299	8,515	-8,685	-6,777	-4,734
Total - Assets	53,320	54,690	19,178	22,617	26,233

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	44.9%	48.3%	50.2%	57.1%	57.3%
Asset Turnover (x)	0.2	0.2	0.3	0.4	0.4
Leverage Factor (x)	1.5	1.4	1.0	0.7	0.7
RoE	11.6%	11.6%	14.0%	15.4%	15.0%

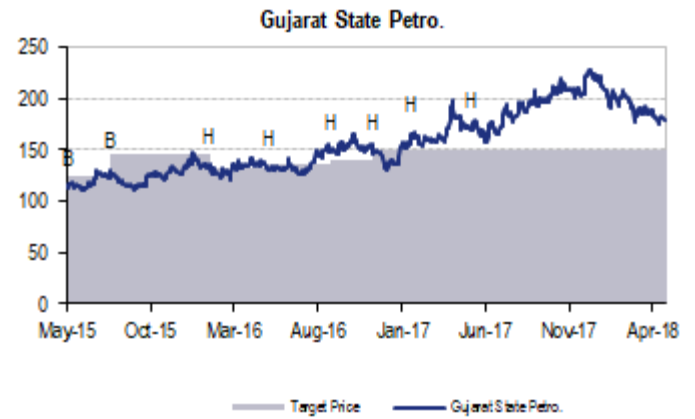
Key Ratios					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (INR)	65.2	72.0	81.1	89.7	98.0
ROIC	13.0%	13.6%	22.5%	33.6%	31.1%
ROE	11.6%	11.6%	14.0%	15.4%	15.0%
Net Debt/Equity (x)	0.1	-0.1	0.3	0.2	0.2
P/E (x)	22.1	19.9	14.8	12.0	11.2
P/B (x)	2.7	2.4	2.2	2.0	1.8
EV/EBITDA (x)	11.7	10.8	9.8	8.9	8.3
EV/Sales (x)	10.2	9.3	8.5	7.7	7.1
Debtor days	56	42	34	34	34
Inventory days	43	40	34	33	33
Creditor days	1,365	845	3,139	2,890	2,620

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
25-May-15	Buy	125	
10-Aug-15	Buy	145	16.0
5-Feb-16	Hold	132	-9.0
23-May-16	Hold	135	2.3
14-Sep-16	Hold	140	3.7
1-Dec-16	Hold	150	7.1
7-Feb-17	Hold	150	0.0
26-May-17	Hold	150	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
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Sell	Price expected to move downwards by more than 10%

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