RESULT UPDATE

GUJARAT STATE PETRONET

Robust volume momentum sustains

India Equity Research| Oil, Gas and Services

Gujarat State Petronet (GSPL) reported in-line Q4FY18 EBITDA of INR2.9bn, up 44% YoY. Volume surged to 34.1mmscmd (7% ahead) and tariff stood at INR1.13/scm (in line), though offset by 15% higher-than-estimated operating expense. PAT of INR1.6bn rose 24% YoY. Volume growth extended its strong run on higher off-take from refining and city gas. QTD volume momentum remains strong at ~35mmscmd on sustained higher off-take by RIL (10mmscmd) and healthy power segment demand. A favourable tariff order is expected shortly—we estimate 12% tariff hike in FY19. Maintain 'BUY' with DCF-based revised TP of INR221 (INR240 earlier), factoring in higher net debt post Gujarat Gas acquisition and higher risk-free rate of 7.8% versus 7.6% earlier.

Refining, city gas drive volume-led outperformance

Q4 volumes rose 46% YoY and 2% QoQ, extending robust Q3FY18 momentum, boosted by higher off-take from refining (ramp-up in RIL capacities) and city gas (driven by increasing competitiveness of gas versus oil-linked alternatives). EBITDA, however, came in line on higher-than-estimated operating expense. Management expects robust near-term demand from refining (as RIL's new capacities stabilise) and city gas in addition to healthy power demand. We believe, **GSPL will benefit from PLNG's recent expansion (parent GSPC has already booked 2.25mmt) and commissioning of Mundra LNG terminal in CY18 end.**

Favourable tariff order on the anvil

PNGRB is currently considering GSPL's demand of 124% tariff hike (however, we believe it's excessive). Management expects the revised tariff order within one-two months with new members now inducted into PNGRB. Our sensitivity analysis indicates that potential tariff hike by 20%/40%/50% will bolster GSPL's FY19E earnings 9%/32%/43%.

Outlook and valuations: Near-term robust; reiterate 'BUY'

Management indicated GSPL can clock ~30mmscmd volumes even with RIL's reduced off-take, following commissioning of its petcoke gasification unit. We maintain that demand from city gas and higher off-take by OPAL are likely to offset any volume loss. At CMP, the stock trades at 13x FY20E PER. On robust volumes in the medium term and expected higher tariffs, we reiterate **'BUY/SO'**, with revised TP of INR221.

Financials **(INR mn)**

Year to March	Q4FY18	Q4FY17	% Chg	Q3FY18	% Chg	FY18	FY19E	FY20E
Net revenues	3,504	2,446	43.2	3,502	0.1	13,317	15,273	15,804
EBITDA	2,892	2,013	43.7	2,971	(2.7)	11,478	13,600	13,951
Adjusted Profit	1,574	1,270	23.9	1,816	(13.3)	6,684	7,479	7,590
Adjusted Diluted EPS	2.8	2.3	23.9	3.2	(13.3)	11.9	13.3	13.5
Diluted P/E (x)						14.8	13.2	13.0
EV/EBITDA (x)						9.8	8.6	8.1
ROAE (%)						14.0	14.0	12.8

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA *(R: GSPT.BO, B: GUJS IN)*

CMP	: INR 180
Target Price	: INR 221
52-week range (INR)	: 236 / 154
Share in issue (mn)	: 563.8
M cap (INR bn/USD mn)	: 101 / 1,518
Avg. Daily Vol.BSE/NSE('000)	: 851.5

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	37.7	37.7	37.7
MF's, FI's & BK's	30.4	30.4	29.8
FII's	16.7	16.7	17.5
Others	15.2	15.2	15.1

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW O & G Index
1 month	(4.2)	0.7	(2.2)
3 months	(9.6)	1.4	(8.0)
12 months	3.9	12.4	1.1

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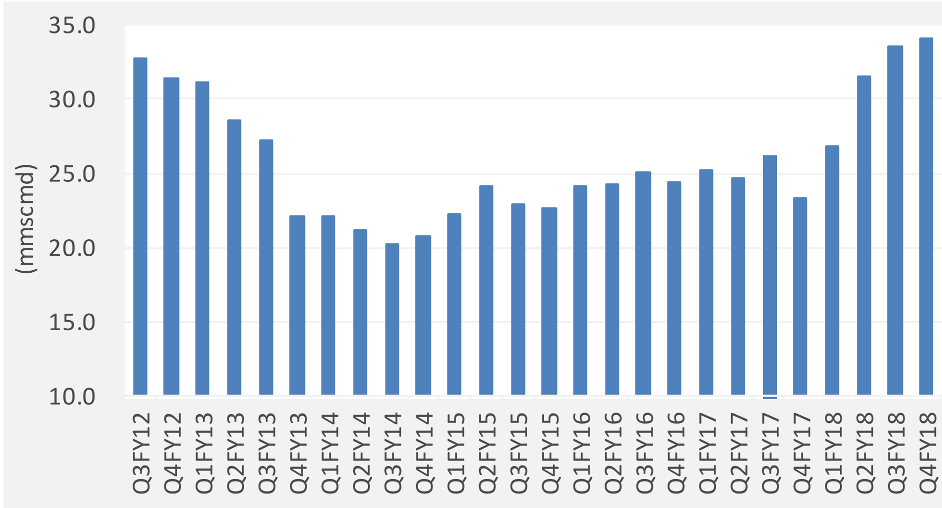
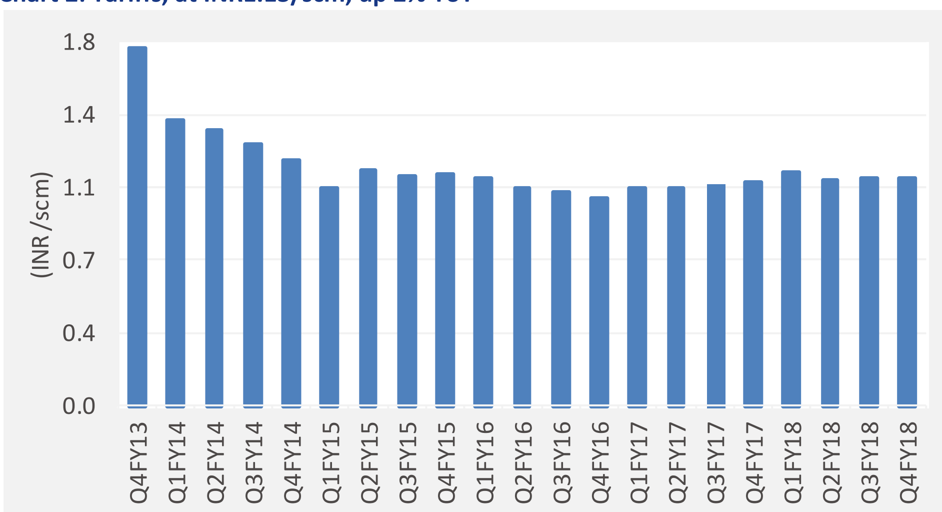
Chart 1: Transmission volumes, at 34.1mmscmd, rose sharply, 46% YoY, 2% QoQ



Source: Edelweiss research

Chart 2: Tariffs, at INR1.13/scm, up 2% YoY



Source: Edelweiss research

Financial snapshot **(INR mn)**

Year to March	Q4FY18	Q4FY17	*% change*	Q3FY18	*% change*	FY18	FY19E	FY20E
Net revenues	3,504	2,446	*43.2*	3,502	*0.1*	13,317	15,273	15,804
Employee expenses	106	89	*19.1*	110	*(3.2)*	432	434	460
Operating expenses	506	344	*47.0*	421	*20.1*	1,407	1,238	1,393
EBITDA	2,892	2,013	*43.7*	2,971	*(2.7)*	11,478	13,600	13,951
Depreciation	440	460	*(4.3)*	442	*(0.4)*	1,750	2,067	2,263
EBIT	2,452	1,553	*57.9*	2,529	*(3.1)*	9,728	11,533	11,687
Interest	103	116	*(10.9)*	55	*88.0*	354	840	975
Other income	171	273	*(37.3)*	121	*42.0*	735	650	800
Add: Prior period items								
Profit before tax	2,520	1,710	*47.3*	2,595	*(2.9)*	10,108	11,343	11,512
Provision for taxes	946	441	*114.7*	779	*21.4*	3,424	3,865	3,922
Add: Exceptional items								
Reported net profit	1,574	1,270	*23.9*	1,816	*(13.3)*	6,684	7,479	7,590
Adjusted Profit	1,574	1,270	*23.9*	1,816	*(13.3)*	6,684	7,479	7,590
Diluted shares (mn)	564	564		564		564	564	564
Adjusted Diluted EPS	2.8	2.3	*23.9*	3.2	*(13.3)*	11.9	13.3	13.5
Diluted P/E (x)	-	-		-		14.8	13.2	13.0
EV/EBITDA (x)	-	-		-		9.8	8.6	8.1
ROAE (%)	-	-		-		14.0	14.0	12.8
As % of net revenues								
Employee cost	3.0	3.6		3.1		3.2	2.8	2.9
Operating expenses	14.4	14.1		12.0		10.6	8.1	8.8
EBITDA	82.5	82.3		84.8		86.2	89.0	88.3
PBT	71.9	69.9		74.1		75.9	74.3	72.8
Reported net profit	44.9	51.9		51.8		50.2	49.0	48.0

Company Description

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.

Investment Theme

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 Appelate Tribunal of Electricity has given a favorable verdict to GSPL against PNGRB's tariff order.

Key Risks

GSPL is likely to suffer from lower capacity utilisation due to limited availability of gas.

Any cut in transmission tariffs can lead to a downward revision in earnings. The company’s profitability and thus its ROE’s can be majorly impacted due to cut in tariffs.

The three new pipelines can get delayed due to land availability issues, leading to losses.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.5	65.0	66.0	66.0
Sector				
% sharing by Govt	100.0	100.0	100.0	81.0
% sharing by upstream	-	-	-	19.0
Company				
Operational assumptions				
Volume trans (mmscmd)	24.9	31.5	32.0	32.5
Financial assumptions				
Trans tariff (INR/scm)	1.1	1.1	1.3	1.3
Employee exp. (%yoy inc)	7.5	5.0	6.5	6.0
Admin exp (y/y % change)	12.2	12.0	13.0	12.0
O&M exp (% revenues)	7.6	6.3	6.2	6.8
Interest(% of Avg loans)	13.2	11.0	6.0	5.0
Ot inc (% cash+inv)	12.8	(35.4)	(12.0)	25.6
Dep (% of Avg GFA)	5.2	4.8	5.0	4.8
B/S assumptions				
Tax rate (%)	32.2	32.2	32.2	32.2
Debtor days	11	11	10	10
Inventory days	11	11	10	10
Capex (INR mn)	1,402	2,004	6,790	3,713
Loans & adv (% net rev)	1.3	10.0	10.0	10.0
CL (% WIP)	45.0	25.0	25.0	25.0

Income statement **(INR mn)**

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	10,276	13,317	15,273	15,804
Gross profit	10,276	13,317	15,273	15,804
Employee costs	388	432	434	460
Operating expenses	1,004	1,407	1,238	1,393
EBITDA	8,883	11,478	13,600	13,951
Depreciation	1,791	1,750	2,067	2,263
EBIT	7,092	9,728	11,533	11,687
Less: Interest Expense	596	354	840	975
Add: Other income	882.02	734.66	650.00	800.00
Profit Before Tax	7,378	10,108	11,343	11,512
Less: Provision for Tax	2,411	3,424	3,865	3,922
Reported Profit	4,966	6,684	7,479	7,590
Adjusted Profit	4,966	6,684	7,479	7,590
Shares o /s (mn)	564	564	564	564
Adjusted Basic EPS	8.8	11.9	13.3	13.5
Diluted shares o/s (mn)	564	564	564	564
Adjusted Diluted EPS	8.8	11.9	13.3	13.5
Adjusted Cash EPS	12.5	15.4	17.8	18.3
Dividend per share (DPS)	1.5	1.8	3.1	3.1
Dividend Payout Ratio(%)	19.9	17.2	27.2	27.2

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Staff costs	3.8	3.2	2.8	2.9
S G & A expenses	9.8	10.6	8.1	8.8
Operating expenses	13.6	13.8	11.0	11.7
Depreciation	17.4	13.1	13.5	14.3
EBITDA margins	86.4	86.2	89.0	88.3
Interest Expense	5.8	2.7	5.5	6.2
Net Profit margins	48.3	50.2	49.0	48.0

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	3.6	29.6	14.7	3.5
EBITDA	2.6	29.2	18.5	2.6
PBT	10.3	37.0	12.2	1.5
Adjusted Profit	11.5	34.6	11.9	1.5
EPS	11.5	34.6	11.9	1.5

Balance sheet (INR mn)

As on 31st March	FY17	FY18	FY19E	FY20E
Share capital	5,636	5,638	5,636	5,636
Reserves & Surplus	39,324	45,012	50,571	56,390
Shareholders' funds	44,960	50,650	56,207	62,026
Long term borrowings	5,012	17,595	20,000	19,000
Total Borrowings	5,012	17,595	20,000	19,000
Long Term Liabilities	407	426	567	589
Def. Tax Liability (net)	4,719	4,984	5,448	5,917
Sources of funds	**55,098**	**73,656**	**82,222**	**87,532**
Gross Block	33,870	-	43,968	48,237
Net Block	30,286	29,730	36,696	38,766
Intangible Assets	1,371	1,411	1,242	1,178
CWIP (incl. intangible)	6,864	8,959	5,560	5,004
Total net fixed assets	38,521	40,101	43,498	44,947
Non current investments	7,655	41,814	34,010	34,010
Cash and Equivalents	8,026	3,645	1,369	4,878
Inventories	1,123	1,235	1,527	1,580
Sundry Debtors	1,189	1,235	1,527	1,580
Loans & Advances	136	132	1,527	1,580
Other Current Assets	1,683	1,324	1,833	1,897
Total current assets	4,132	3,926	6,415	5,283
Trade payable	138	185	305	316
Other Current Liab	3,098	15,644	2,764	1,270
Total Current Liab	3,236	15,830	3,069	1,586
Net Curr Assets-ex cash	896	(11,904)	3,345	3,697
Uses of funds	**55,098**	**73,656**	**82,222**	**87,532**
BVPS (INR)	79.8	89.9	99.7	110.1

Free cash flow (INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Reported Profit	4,966	6,684	7,479	7,590
Add: Depreciation	1,791	1,750	2,067	2,263
Deferred tax	401	234	554	643
Others	(280)	160	98	1
Less: Changes in WC	(3,847)	3,717	(73)	329
Operating cash flow	10,725	5,111	10,270	10,168
Less: Capex	1,402	2,004	6,790	3,713
Free Cash Flow	**9,323**	**3,107**	**3,480**	**6,455**

Cash flow metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	10,725	5,111	10,270	10,168
Financing cash flow	(7,269)	956	9,415	(3,746)
Investing cash flow	(1,064)	(26,270)	(6,140)	(2,913)
Net cash Flow	2,392	(20,202)	13,545	3,509
Capex	(1,402)	(2,004)	(6,790)	(3,713)
Dividend paid	(1,017)	(1,678)	(1,745)	(1,771)

Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
ROACE (%)	15.7	17.7	16.9	15.9
ROAE (%)	11.6	14.0	14.0	12.8
Inventory Days	41	32	33	36
Debtors Days	48	33	33	36
Payable Days	5	4	6	7
Cash Conversion Cycle	84	61	60	65
Current Ratio	3.8	0.5	2.5	6.4
Gross Debt/EBITDA	0.6	1.5	1.5	1.4
Gross Debt/Equity	0.1	0.3	0.4	0.3
Adjusted Debt/Equity	0.1	0.3	0.4	0.3
Net Debt/Equity	(0.1)	0.3	0.3	0.2
Interest Coverage Ratio	11.9	27.5	13.7	12.0

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	0.2	0.2	0.2	0.2
Fixed Asset Turnover	0.3	0.4	0.4	0.4
Equity Turnover	0.2	0.3	0.3	0.3

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	8.8	11.9	13.3	13.5
Y-o-Y growth (%)	*11.5*	*34.6*	*11.9*	*1.5*
Adjusted Cash EPS (INR)	12.5	15.4	17.8	18.3
Diluted P/E (x)	20.4	15.2	13.5	13.3
P/B (x)	2.3	2.0	1.8	1.6
EV / Sales (x)	9.3	8.5	7.7	7.1
EV / EBITDA (x)	11.1	10.0	8.8	8.3
Dividend Yield (%)	0.8	1.0	1.7	1.7
EV	95,641	112,606	117,287	112,778

Peer comparison valuation

	Market cap	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
Name	(USD mn)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Gujarat State Petronet	1,518	13.5	13.3	8.8	8.3	14.0	12.8
GAIL (INDIA)	10,980	12.8	11.7	10.1	10.0	13.4	14.5
Indraprastha Gas	2,819	20.4	17.5	12.9	10.7	23.1	22.6
Median	-	13.5	13.3	10.1	10.0	14.0	14.5
AVERAGE	-	15.6	14.2	10.6	9.7	16.9	16.7

Source: Edelweiss research

Additional Data

Directors Data

M.M.Srivastava, IAS (Retd)	Chairman	Dr. J.N.Singh, IAS	Managing Director
Dr. R.Vaidyanathan	Independent Director	Sujit Gulati, IAS	Additional Director
Prof. Yogesh Singh	Independent Director	Dr. Bakul Dholakia	Independent Director
Shridevi Shukla	Woman Independent Director	Prof. Yogesh Singh	Independent Director
Dr. Sudhir Kumar Jain	Independent Director	Bhadresh Mehta	Independent Director

Auditors - RMA & Associates

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Gujarat state petrol	10.67	Gujarat maritime boa	6.58
Life insurance corp	4.14	Platinum asset mgmt	2.97
Dsp blackrock invest	2.73	Franklin templeton i	2.45
Aditya birla sun lif	2.36	Icici prudential lif	2.3
Gujarat urja vikas n	2.01	Government pension f	1.77

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Bharat Petroleum Corporation	BUY	SO	M	Cairn India	HOLD	SP	M
GAIL (INDIA)	HOLD	SP	L	Gujarat Gas	BUY	SO	M
Gujarat State Petronet	BUY	SO	M	Hindustan Petroleum Corporation	HOLD	SP	L
Indian Oil Corporation	BUY	SO	M	Indraprastha Gas	BUY	SO	M
Mahanagar Gas Ltd	BUY	SO	H	ONGC	BUY	SO	L
Petronet LNG	HOLD	SP	L	Reliance Industries	BUY	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Oil, Gas and Services

Bharat Petroleum Corporation, Cairn India, GAIL (INDIA), Gujarat Gas, Gujarat State Petronet, Hindustan Petroleum Corporation, Indraprastha Gas, Indian Oil Corporation, Mahanagar Gas Ltd, ONGC, Petronet LNG, Reliance Industries

Recent Research

Date	Company	Title	Price (INR)	Recos
14-May-18	**Gujarat Gas**	Strong volumes, margin recovery to accelerate; *Result Update*	838	Buy
28-Apr-18	**Reliance Industries**	Steady show; strong trends for the future; *Result Update*	996	Buy
26-Apr-18	**ONGC**	Unraveling Mumbai High; *Visit Note*	179	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240

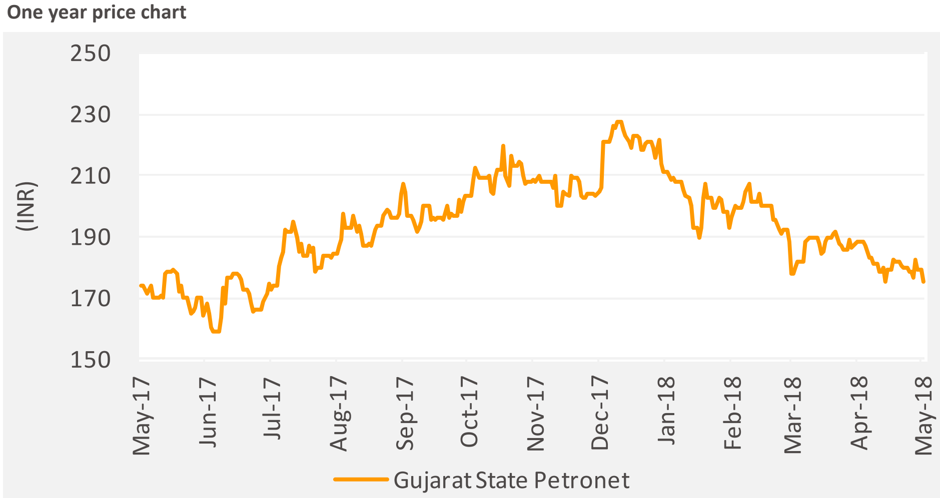
* 1stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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