Gujarat State Petronet Ltd.

RESULT UPDATE

7th June, 2018

Gujarat State Petronet Ltd.

Surge in volumes drive the quarter

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 181	**INR 196**	**8.28%**	**101,300**	**ACCUMULATE**	**Oil & Gas**

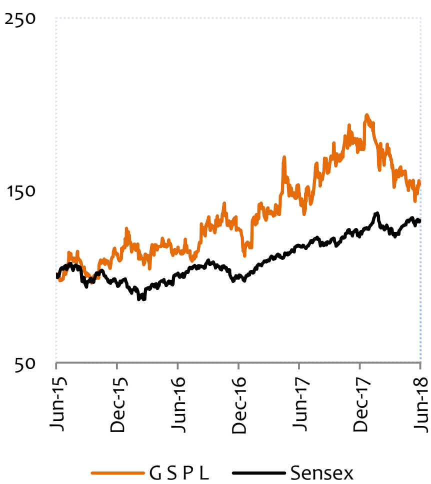
Result highlights

Net revenues came in at INR 3.5 bln (+43% YoY, +0.1% QoQ) driven by higher transmission volumes. The gas transmission volumes increased by 45.7% YoY & 1.7% QoQ to 34.1 mmscmd, while the implied transmission tariff came in at INR 1.14/scm (-1.7% YoY, 0.6% QoQ). The OPM remained unchanged on a YoY basis at 82.5%. However, it declined on a QoQ basis (-230 bps) due to higher other expenses (+20.1% QoQ). EBITDA stood at INR 2.89 bln (+43.7% YoY, -2.7% QoQ). A high tax out-go (38% v/s 26% in Q4FY17) & lower other income (-37% YoY) has negatively impacted NPM to 44.9% (-699 bps YoY, -693 bps QoQ). PAT stood at INR 1.57 bln (23.9% YoY, -13.3% QoQ). The board has recommended a dividend of INR 1.75 per share.

MARKET DATA

Shares outs (Mn)	563
Equity Cap (INR Mn)	5639
Mkt Cap (INR Mn)	101300
52 Wk H/L (INR)	236/154
Volume Avg (3m K)	690
Face Value (INR)	10
Bloomberg Code	GUJS IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	35463
NIFTY	10768

KEY FINANCIALS

Particulars (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operations	9,919	10,276	13,317	14,969	15,741
EBITDA	8,660	8,883	11,478	12,355	12,992
PAT	4,454	4,966	6,684	7,366	7,791
EPS Diluted (Rs.)	7.90	8.81	11.86	13.06	13.82
OPM (%)	87.3%	86.4%	86.2%	82.5%	82.5%
NPM (%)	44.9%	48.3%	50.2%	49.2%	49.5%
P/E (x)	22.9	20.6	15.3	13.9	13.1

Source: Company, KRChoksey Research

Key Highlights

High Transmission volumes drive revenues; Future volumes look flattish

Gas transported for the quarter stood at 34.1 mmscmd (+45.7% YoY, 1.7% QoQ) driven by increase in higher off-take from the power sector as well as RIL due to the fully commissioned off-gas cracker at its refinery in Jamnagar with the implied tariff at INR 1.14/scm (+0.6% QoQ,-1.7% YoY). We believe that going forward, there could be a reduction in the gas transmission volumes sourced to RIL once the pet coke gasification units increase its utilization. We expect the volumes for FY19E/20E to be 29.6/30.5 mmscmd respectively (FY18 – 31.5 mmscmd) on the back reduced volumes sourced to RIL but supported by expansions in LNG terminal capacities in Gujarat as well as rising LNG/PNG consumption.

EBITDA margins in-line; Tax expenses hits profit margin

OPM remained nearly unchanged as Q3FY18 at 82.5% on account of stability in the operational performance with EBITDA at INR 2.89 bn (+43.7% YoY). However, higher tax expense for the quarter (38% v/s 26% in Q4FY17) took a hit on the PAT margins leading to NPM of 44.9% (-699 bps YoY, -693 bps QoQ).

Increased stake in Gujarat Gas to expand connectivity

GSPL is set to acquire an additional 28.4% stake in Gujarat Gas Ltd (GGL) for INR 3,200 crores from its parent company GSPC to support the latter's debt-heavy balance sheet increasing the total stake in GGL to 54%. GSPL already caters in the CGD business and now with the increased stake, it would enable the company to have a better synchronization in the transmission business and gain access to GGL's downstream gas connectivity. It would also give the combined entity, an edge for bidding at PNGRB's 9th round of bidding for CGD projects.

Valuation:

We remain positive on the stock on the back of increase in the LNG consumption supported by terminal expansion in Gujarat as well as rising demand from the power and steel sector. We expect the revenues to grow at a CAGR of 8.7% over FY18-20E and PAT to grow at a CAGR of 8.0% over FY18-20E. At a CMP of INR 181, GSPL is trading at 13.9x FY19E EPS and 13.1x FY20E EPS. We valued the company by assigning a multiple of 15x on the FY19E EPS of INR 13.1 and arrived at a target price of INR 196 (potential upside – 8.28%). **We change our rating to ACCUMULATE on the stock.**

SHARE HOLDING PATTERN (%)

Particulars	Mar 18	Dec 17	Sep 17
Promoters	37.65	37.66	37.66
FIIs	16.63	16.68	17.48
DIIs	19.52	19.44	18.83
Others	26.2	26.22	26.02
Total	100	100	100

8.7%

Revenues CAGR between FY 18 and FY 20E

8.0%

PATCAGR between FY 18 and FY 20E

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QUATERLY PERFORMANCE – INCOME STATEMENT

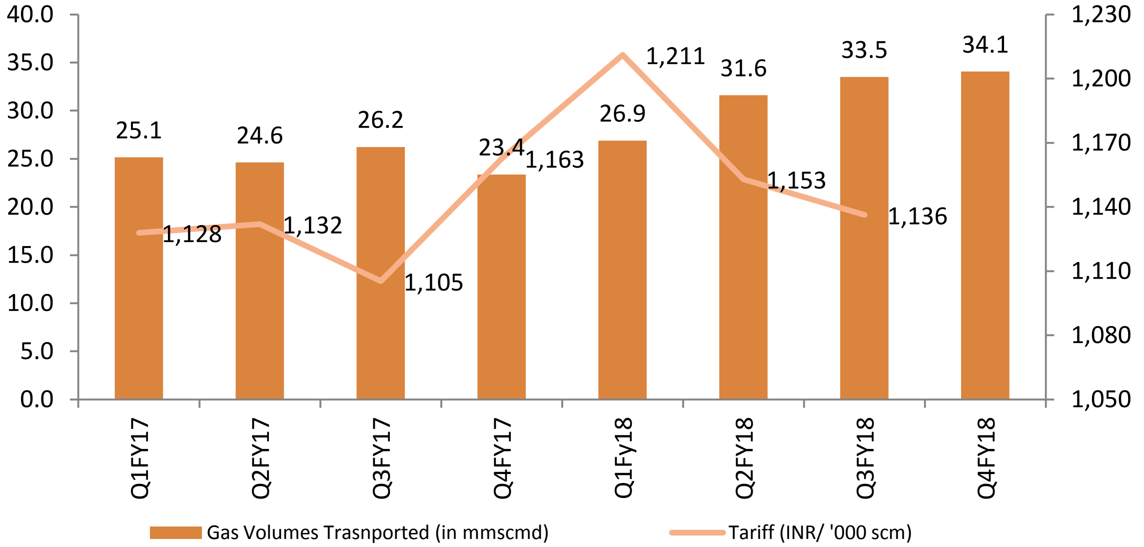
Particulars (INR Mn)	Q4FY18	Q3FY18	Q4FY17	Q-o-Q (%)	Y-o-Y (%)
Revenue from operations	**3,504**	**3,502**	**2,446**	**0.1%**	**43.2%**
Employee benefit expense	106	110	89	-3.2%	19.1%
Other expenses	506	421	344	20.1%	47.0%
Total Expenditure	612	531	433	15.3%	41.3%
EBITDA	**2,892**	**2,971**	**2,013**	**-2.7%**	**43.7%**
EBITDA Margin (%)	**82.5%**	**84.8%**	**82.3%**	***-230 bps***	***24 bps***
Depreciation and Amortization Expense	440	442	460	-0.4%	-4.3%
EBIT	2,452	2,529	1,553	-3.1%	57.9%
Finance Cost	103	55	116	88.0%	-10.9%
Other Income	171	121	273	42.0%	-37.3%
Profit before Tax (PBT)	**2,520**	**2,595**	**1,710**	**-2.9%**	**47.3%**
Tax Expense	946	779	441	21.4%	114.7%
Profit after Tax (PAT)	**1,574**	**1,816**	**1,270**	**-13.3%**	**23.9%**
Net Profit Margin (%)	**44.9%**	**51.8%**	**51.9%**	***-693 bps***	***-699 bps***
EPS Basic (INR)	**2.79**	**3.22**	**2.28**	**-13.3%**	**22.4%**

Source: Company, KRChoksey Research

VOLUME AND TARIFFS

Particulars	Q4FY18	Q3FY18	Q4FY17	QoQ (%)	YoY (%)
Volumes (mmscm)	3,065	3,082	2,104	-0.6%	45.7%
Volumes (mmscmd)	34.1	33.5	23.4	1.7%	45.7%
Tariff	1,136	1,105	1,153	2.8%	-1.4%

Source: Company, KRChoksey Research



Source: Company, KRChoksey Research

Gujarat State Petronet Ltd.

INCOME STATEMENT - STANDALONE

Particulars (INR Million)	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operations	**9,919**	**10,276**	**13,317**	**14,969**	**15,741**
Employee benefit expenses	361	388	432	453	477
Other expenses	898	1,004	1,407	2,161	2,272
Total Operating Expense	1,259	1,393	1,839	2,614	2,749
EBITDA	**8,660**	**8,883**	**11,478**	**12,355**	**12,992**
EBITDA Margin (%)	**87.3%**	**86.4%**	**86.2%**	**82.5%**	**82.5%**
Depreciation	1,829	1,791	1,750	1,798	1,930
EBIT	6,831	7,092	9,728	10,557	11,062
Finance Cost	799	596	354	292	263
Other Income	656	882	735	874	983
Profit before Tax (PBT)	6,688	7,378	10,108	11,140	11,782
Total Tax expense	2,235	2,411	3,424	3,773	3,991
Profit after Tax (PAT)	**4,454**	**4,966**	**6,684**	**7,366**	**7,791**
PAT Margin (%)	**44.9%**	**48.3%**	**50.2%**	**49.2%**	**49.5%**
EPS Basic (INR)	**7.90**	**8.81**	**11.86**	**13.06**	**13.82**

Source: Company, KRChoksey Research

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Gujarat State Petronet Ltd.

BALANCE SHEET - STANDALONE

Particulars (INR Million)	FY15	FY16	FY17	FY18	FY19E	FY20E
EQUITY AND LIABILITIES						
Equity						
Share capital	5,630	5,633	5,636	5,638	5,638	5,638
Reserves and surplus	30,646	34,231	39,324	45,012	51,052	57,441
Total Equity	**36,276**	**39,864**	**44,960**	**50,650**	**56,691**	**63,080**
Non-current liabilities						
Long term borrowings	8,790	7,905	5,012	17,595	14,076	12,668
Other Financial Liabilities	101	124	139	150	150	150
Long-term provisions	109	124	113	128	144	151
Other non-current liabilities	5,348	5,641	4,874	5,133	5,151	5,160
Total non-current liabilities	**14,349**	**13,793**	**10,138**	**23,005**	**19,521**	**18,129**
Current liabilities						
Financial Liabilities	4,227	3,908	2,392	14,629	14,649	14,660
Other Current liabilities	458	802	833	1,190	1,337	1,406
Short Term provisions	15	17	11	10	12	12
Total current liabilities	**4,700**	**4,726**	**3,236**	**15,830**	**15,998**	**16,078**
SOURCES OF FUNDS	**55,325**	**58,384**	**58,334**	**89,485**	**92,209**	**97,287**
ASSETS						
Non-current assets						
Net Block	38,364	38,910	38,521	40,101	41,053	43,872
Investments in associates & JVs	5,856	6,682	7,307	41,463	41,463	41,463
Financial Assets	904	676	647	599	683	753
Other non-current assets	2,735	3,215	1,087	1,015	1,141	1,200
Total non-current assets	**47,860**	**49,482**	**47,561**	**83,178**	**84,340**	**87,288**
Current Assets						
Inventories	1,102	1,177	1,123	1,235	1,435	1,553
Cash and cash equivalents	4,448	5,529	8,026	3,645	4,784	6,713
Other Financial Assets	1,569	1,827	1,287	1,305	1,513	1,588
Other current assets	346	369	336	122	138	145
Total current assets	**7,465**	**8,902**	**10,773**	**6,308**	**7,870**	**9,998**
APPLICATION OF FUNDS	**55,325**	**58,384**	**58,334**	**89,485**	**92,209**	**97,287**

Source: Company, KRChoksey Research

Gujarat State Petronet Ltd.

CASH FLOW STATEMENT - STANDALONE

Particulars (INR Million)	FY16	FY17	FY18	FY19E	FY20E
Profit before Tax (PBT)	**6,688**	**7,378**	**10,108**	**11,140**	**11,782**
Operating profit before working capital changes	8,738	9,130	12,403	13,229	13,975
Cash Generated from/(used in) operations	8,088	11,664	29,942	12,868	13,806
Less: Income Tax Paid (net of refunds)	-2,062	-2,228	-3,424	-3,773	-3,991
Net Cash generated from/(used in) operating activities	6,027	9,436	26,518	9,095	9,815
Net Cash Used In Investing Activities	-3,206	-3,676	-37,489	-2,820	-4,813
Net Cash Used in Financing Activities	-2,972	-6,366	11,045	-5,136	-3,073
Net Increase/(Decrease) in Cash and Cash Equivalents	**-151**	**-606**	**73**	**1,139**	**1,929**
Cash at the beginning of the year	**909**	**758**	**152**	**225**	**1,364**
Cash at the end of the year	**758**	**152**	**225**	**1,364**	**3,293**
Add: Bank balance	4,771	7,875	3,420	3,420	3,420
Cash & cash equivalents	**5,529**	**8,026**	**3,645**	**4,784**	**6,713**

Source: Company, KRChoksey Research

KEY RATIOS

Particulars	FY16	FY17	FY18	FY19E	FY20E
Profitability					
Return on Assets (%)	7.6%	8.5%	7.5%	8.0%	8.0%
Return on Capital (%)	14.3%	14.2%	14.3%	14.9%	14.6%
Return on Equity (%)	11.2%	11.0%	13.2%	13.0%	12.4%
Margin Trend					
EBITDA Margin (%)	87.3%	86.4%	86.2%	82.5%	82.5%
Net Margin (%)	44.9%	48.3%	50.2%	49.2%	49.5%
Liquidity					
Current Ratio	1.9	3.3	0.4	0.5	0.6
Quick Ratio	1.5	2.8	0.3	0.4	0.5
Debtor Days	56	42	34	35	35
Inventory Days	43	40	34	35	36
Creditor Days	6	5	5	5	5
Working Capital Days	94	77	63	65	66
Solvency					
Total Debt / Equity	0.2	0.1	0.3	0.2	0.2
Interest Coverage	8.5	11.9	27.5	36.2	42.1
Valuation Ratios					
EV/EBITDA	12.1	11.2	10.1	9.0	8.3
P/E	22.9	20.6	15.3	13.9	13.1
P/B	2.6	2.3	2.0	1.8	1.6

Source: Company, KRChoksey Research

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GSPL Ltd			
Date	CMP (INR)	TP (INR)	Recommendation
09-Jun-18	181	196	ACCUMULATE
16-Feb-18	198	260	BUY
14-Nov-17	215	250	BUY
09-Nov-15	127	135	ACCUMULATE
08-Aug-15	125	138	ACCUMULATE
23-May-15	118	-	UNDER REVIEW

Rating Legend	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

We, Dhavan Shah [B.Com, MS(Finance)], research analyst, Raghav Garg (B.Com, M.Com (Applied Finance)), research analyst and Neha Raichura (CFA Level III Cleared, M.Com), research associate, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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