

Accumulate

Muted operational performance. Higher tariffs benefit to start

GSPL numbers were marginally below estimates. Volume at 35 MMSCMD were lower than estimated (36.3 MMSCMD). Tariffs were in line with expectations. Operating profitability was impacted to higher employee cost and higher other expenses. GSPL has recognized ₹ 2.2 bn of unbilled revenue based on new tariffs approved by PNGRB. Key trigger of tariff hike has played out and we feel that from hereon, volume growth trajectory will be the key monitorable. We expect that tariffs should increase approximately by 25% from H2FY19 onwards. We reiterate our Accumulate recommendation.

Volume Outlook

GSPL reported natural gas transmission volumes growth of 10.9% YoY to 35 MMSCMD in Q2FY19. We believe that volume traction should improve for a couple of months due to the ongoing festive season. During this period, lot of small industrial units start taking up short term gas supplies to cater to additional demand.

Transmission Tariff revision

PNGRB has approved transmission tariffs for GSPL high pressure gas pipelines in Q2FY19. Tariffs are approved for ₹ 34 per MMBTU from ₹ 26.6 per MMBTU. With these tariffs applicable from April 1 – 2018, GSPL has recognized ₹ 2.2 bn as unbilled revenue for the period April 2018 – September 2018 as there should not be major changes in this once zonal tariff are finalized.

Based on this number, we infer that tariffs should increase by around ₹ 0.3 per SCM from the current level of ₹ 1.15 per SCM. We have factored this in our assumptions from H2FY19 onwards.

Q2FY19 Result (₹ Mn)

Particulars	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	3,801	3,348	13.5	3,912	(2.9)
Total Expense	821	493	66.5	474	73.1
EBITDA	2,980	2,855	4.4	3,438	(13.3)
Depreciation	436	438	(0.4)	448	(2.6)
EBIT	2,544	2,417	5.2	2,990	(14.9)
Other Income	384	278	37.8	55	602.8
Interest	557	90	516.2	579	(3.8)
EBT	2,370	2,605	5.2	2,466	(3.9)
Tax	758	836	(9.2)	1,021	(25.7)
RPAT	1,612	1,770	(8.9)	1,445	11.6
APAT	1,612	1,770	(8.9)	1,445	11.6
			(bps)		(bps)
Gross Margin (%)	-	-	-	-	-
EBITDA Margin (%)	78.4	85.3	(687)	87.9	(947)
NPM (%)	42.4	52.8	(1044)	36.9	548
Tax Rate (%)	32.0	32.1	(7)	41.4	(941)
EBIT Margin (%)	66.9	72.2	(526)	76.4	(950)

CMP	₹ 182
Target / Upside	₹ 210 / 15%
BSE Sensex	35,012
NSE Nifty	10,553

Scrip Details

Equity / FV	₹ 5,638mn / ₹ 10
Market Cap	₹ 103bn
	US\$ 1bn
52-week High/Low	₹ 236/₹ 156
Avg. Volume (no)	560,863
NSE Symbol	GSPL
Bloomberg Code	GUJS IN

Shareholding Pattern Sep'18(%)

Promoters	37.7
MF/Banks/FIs	20.8
FII	16.9
Public / Others	24.6

Valuation (x)

	FY18A	FY19E	FY20E
P/E	15.3	13.2	11.0
EV/EBITDA	11.3	9.4	7.7
ROE (%)	14.0	14.3	15.1
RoACE (%)	14.7	15.7	16.5

Estimates (₹ mn)

	FY18A	FY19E	FY20E
Revenue	13,317	17,603	20,440
EBITDA	11,478	15,280	17,742
PAT	6,684	7,774	9,357
EPS (₹)	11.9	13.8	16.6

VP Research: Priyank Chandra
Tel: +91 22 40969737
E-mail: priyank@dolatcapital.com

AVP Research: Nidhi Doshi
Tel: +91 22 40969795
E-mail: nidhid@dolatcapital.com

Exhibit 1: KPIs

₹ Mn	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Segment Revenue					
Gas Transportation	3,645.9	3,230.4	12.9	3,785.7	(3.7)
Sale of Electricity	165.2	125.2	31.9	136.3	21.2
Gas Transported (in MMSCM)	3,220	2,904	10.9	3,322	(3.1)
Average Tariff (in ₹ per SCM)	1.132	1.112	1.8	1.140	(0.7)
Gas Transported (in MMSCMD)	35.0	31.6	10.9	36.5	(4.1)

Source: DART, Company

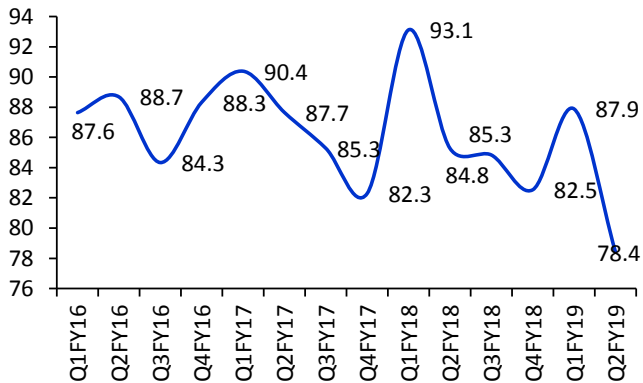
Valuation

Volume growth traction looks stable. With transmission hike trigger now behind, volume growth will be the key monitorable. We value the core business at ₹ 155 per share on DCF basis, three transnational pipelines at ₹ 6 per share and GSPL's stake in Gujarat Gas and Sabarmati Gas at ₹ 46 per share and ₹ 3 per share respectively. We reiterate our Accumulate recommendation with a target price of ₹ 210.

Key highlights

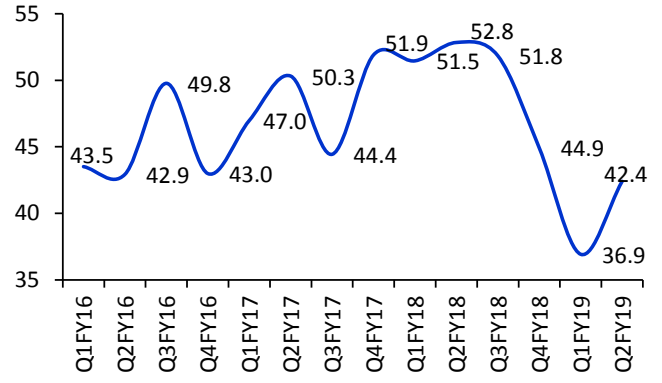
- Revenue increased by 13.5% on a YoY basis to ₹ 3,801 mn. On a sequential basis, revenue was down by 2.9%.
- There was a growth in employee cost of 53.6% on a YoY basis to ₹ 209 mn and a growth of 139.5% on a sequential basis.
- Other expenditure increased by 71.3% on a YoY basis to ₹ 612 mn. Sequentially it was up by 58.2%.
- GSPL made an operating profit of ₹ 2,980 mn in Q2FY19 as compared to an operating profit of ₹ 2,855 mn in Q2FY18. This was a growth of 4.4%.
- Depreciation decreased by 2.6% QoQ to ₹ 436 mn.
- Other income increased by 37.8% on a YoY basis to ₹ 384 mn.
- Net profit decreased by 8.9% on a YoY basis to ₹ 1,612 mn.

Exhibit 2: OPM (%)



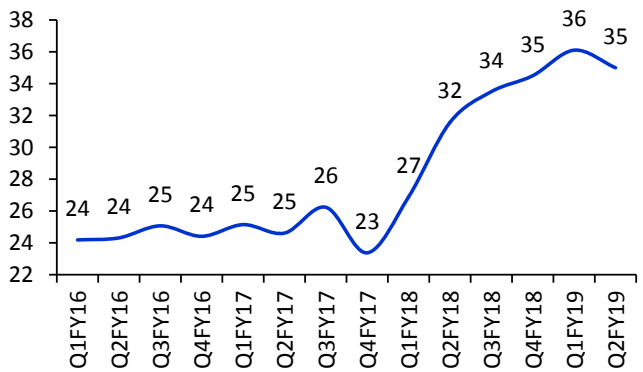
Source: DART, Company

Exhibit 3: NPM (%)



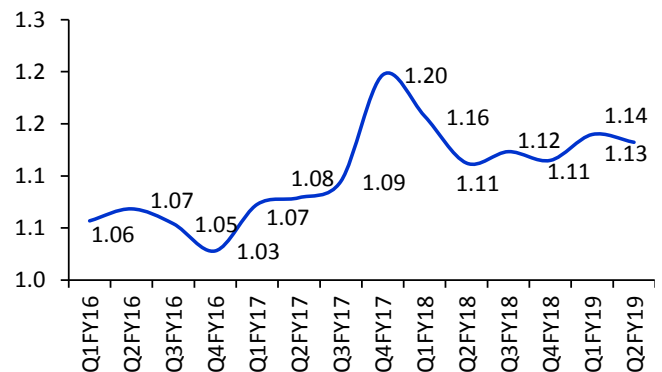
Source: DART, Company

Exhibit 4: Gas Transported (MMSCMD)



Source: DART, Company

Exhibit 5: Average Tariff (₹ / SCM)



Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Revenue	10,276	13,317	17,603	20,440
Total Expense	1,393	1,839	2,323	2,698
Employees Cost	388	432	568	659
Other expenses	1,004	1,407	1,755	2,039
EBIDTA	8,883	11,478	15,280	17,742
Depreciation	1,791	1,750	1,808	2,140
EBIT	7,092	9,728	13,472	15,602
Interest	596	354	2,594	2,424
Other Income	882	735	900	1,000
EBT	7,378	10,108	11,778	14,178
Tax	2,411	3,424	4,005	4,820
RPAT	4,966	6,684	7,774	9,357
APAT	4,966	6,684	7,774	9,357

Balance Sheet

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Sources of Funds				
Equity Capital	5,636	5,638	5,642	5,646
Minority Interest	0	0	0	0
Reserves & Surplus	39,324	45,012	52,492	60,564
Net Worth	44,960	50,650	58,134	66,210
Total Debt	6,305	30,578	32,421	32,321
Net Deferred Tax Liability	4,719	4,984	6,230	6,230
Total Capital Employed	55,984	86,213	96,785	104,761

Applications of Funds

Net Block	31,610	31,142	30,534	29,594
CWIP	6,911	8,959	1,886	1,946
Investments	7,655	41,814	70,995	70,995
Current Assets, Loans & Advances	12,158	7,571	(3,102)	5,860
Inventories	1,123	1,235	1,731	2,011
Receivables	1,189	1,235	2,116	3,352
Cash and Bank Balances	8,026	3,645	(8,542)	(1,245)
Loans and Advances	1,403	1,278	1,406	1,547
Other Current Assets	417	178	186	196
Less: Current Liabilities & Provisions	2,350	3,272	3,527	3,633
Payables	138	185	195	201
Other Current Liabilities	2,212	3,087	3,333	3,433
Net Current Assets	9,808	4,298	(6,629)	2,227
Total Assets	55,984	86,213	96,785	104,761

E – Estimates

Important Ratios

Particulars	FY17A	FY18A	FY19E	FY20E
(A) Margins (%)				
Gross Profit Margin	0	0	0	0
EBIDTA Margin	86.4	86.2	86.8	86.8
EBIT Margin	69.0	73.0	76.5	76.3
Tax rate	32.7	33.9	34.0	34.0
Net Profit Margin	48.3	50.2	44.2	45.8
(B) As Percentage of Net Sales (%)				
COGS	0.0	0.0	0.0	0.0
Employee	3.8	3.2	3.2	3.2
Other	9.8	10.6	10.0	10.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.6	0.6	0.5
Interest Coverage	11.9	27.5	5.2	6.4
Inventory days	40	34	36	36
Debtors days	42	34	44	60
Average Cost of Debt	7.0	1.9	8.2	7.5
Payable days	5	5	4	4
Working Capital days	348	118	(137)	40
FA T/O	0.3	0.4	0.6	0.7
(D) Measures of Investment				
AEPS (₹)	8.8	11.9	13.8	16.6
CEPS (₹)	12.0	15.0	17.0	20.4
DPS (₹)	1.5	1.8	0.5	2.0
Dividend Payout (%)	17.0	14.8	3.6	12.1
BVPS (₹)	79.7	89.8	103.1	117.4
RoANW (%)	11.6	14.0	14.3	15.1
RoACE (%)	8.5	9.0	9.7	10.2
RoAIC (%)	14.2	14.7	15.7	16.5
(E) Valuation Ratios				
CMP (₹)	182	182	182	182
P/E	20.7	15.3	13.2	11.0
Mcap (₹ Mn)	102,590	102,590	102,590	102,590
MCap/ Sales	10.1	7.8	5.8	5.0
EV	100,868	129,523	143,552	136,156
EV/Sales	9.8	9.7	8.2	6.7
EV/EBITDA	11.4	11.3	9.4	7.7
P/BV	2.3	2.0	1.8	1.5
Dividend Yield (%)	0.8	1.0	0.3	1.1
(F) Growth Rate (%)				
Revenue	3.6	29.6	32.2	16.1
EBITDA	2.6	29.2	33.1	16.1
EBIT	3.8	37.2	38.5	15.8
PBT	10.3	37.0	16.5	20.4
APAT	11.5	34.6	16.3	20.4
EPS	11.5	34.6	16.3	20.4
Cash Flow				
(₹ Mn)	FY17A	FY18A	FY19E	FY20E
CFO	9,436	8,944	15,582	12,362
CFI	(3,676)	(31,735)	(23,308)	(1,260)
CFF	(6,366)	22,865	(1,041)	(3,805)
FCFF	8,384	6,253	21,456	11,102
Opening Cash	758	152	225	(8,542)
Closing Cash	152	225	(8,542)	(1,245)

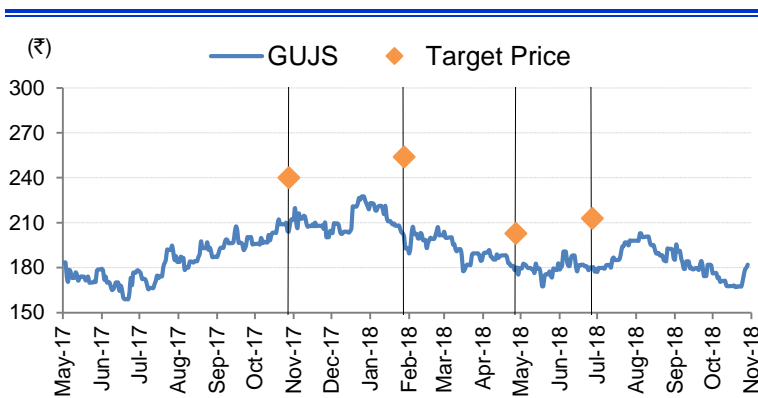
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Nov-17	Accumulate	240	204
Feb-18	Buy	254	200
May-18	Accumulate	203	178
Jul-18	Accumulate	213	180

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	VP - Head Asia Derivatives Sales Trading	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705
Hardik Mehta	Sales Trader	hardikm@dolatcapital.com	+9122 4096 9703

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**II. Disclaimer:**

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatcapital.com
