

Contributor to Gas Grid

Government of Gujarat has always played a pro-active role in the development of the energy value chain. Gujarat is first state to plan and execute a State-wide Gas Grid on an Open Access Principle and the pipeline grid has been designed as per the highest international standards with inbuilt flexibility to cater to varying loads. GSPL has Cross-Country Natural Gas Transmission pipelines being implemented. GSPL owns and operates the largest Gas Transmission network in Gujarat totaling to approximately 2,682 kms.

DART View: Due to NGT's order to ban the use of coal gasifiers in Morbi region, spurred Gujarat Gas's volumes from its industrial belt in Morbi, however, due to shut down on non-essential industrial units, volumes from CGD business was low in Q1FY21. We expect GSPL's transmission volumes to increase from H2FY21 from Gujarat Gas volumes, other CGD projects and power sector. With volume and tariff outlook looking strong, we expect robust revenue growth along with profitability to reach normalized levels from H2FY21. Investments in Gujarat Gas and Sabarmati Gas will reap benefits. Investments in consortium for transnational pipelines is a concern in medium term. We value the core business at Rs 155 per share on DCF basis, three transnational pipelines at Rs 6 per share and GSPL's stake in Gujarat Gas and Sabarmati Gas at Rs 67 per share and Rs 3 per share respectively. Considering scope of growth in core business, we value GSPL at Rs 231 by SOTP method.

Industry Overview: The uncertainty surrounding global economy and hence energy over the rest of 2020 is unprecedented. Moreover, the LNG market is oversupplied and players need to brace themselves for continued glut as further production is added, outpacing global demand potentially for another two years. This will mean continued depressed prices. Retaining its position as the 4th largest LNG Buyer in the World, LNG imports in India were pegged at 24 MMT during CY19, an increase of around 7% YoY. LNG imported in India during CY19 was the highest since its inception as LNG prices touched new lows.

MD&A Overview: FY20 witnessed some slowing down due to financial sector weaknesses but favourable gas prices ensured good growth in gas demand. Low LNG prices shall spur gas demand growth and incentivize infrastructure development, thereby leading to improvement in capacity utilization of existing as well as upcoming investments in gas sector. GSPL continues to expand its gas grid to reach new markets and connect to new supply sources. The infrastructure developed by the Company enabled the flow of LNG and domestic gas from various sources, including gas from Rajasthan fields, to reach various regions of Gujarat.

Financial Snapshot: Net sales grew by 26.2% from Rs. 18.7 billion in FY19 to Rs. 23.7 billion in FY20. EBITDA increased for FY20 at Rs. 15.7 billion while gas transmission expenses increased significantly to Rs. 5.1 billion. The Company achieved a PBT of Rs. 12.8 billion which grew by 6.3% as compared to the previous year. The increase in profits for GSPL is primarily driven due to significant improvement in gas transmission volumes and reduction in corporate tax rates. Achieved a PAT for Rs. 11.1 billion which was a growth of 39.5% YoY. Company continues to have a healthy Debt to equity ratio of less than 1. The directors have recommended a dividend of 20% i.e. Rs. 2/share for FY20.

CMP	Rs 195
Target / Upside	Rs 231 / 18%
BSE Sensex	38,220
NSE Nifty	11,278

Scrip Details

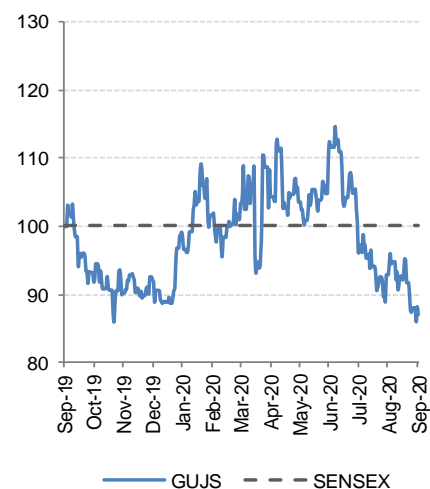
Equity / FV	Rs 5,641mn / Rs 10
Market Cap	Rs 110bn
	US\$ 1bn

52-week High/Low	Rs 264/Rs 146
Avg. Volume (no)	9,98,644
NSE Symbol	GSPL
Bloomberg Code	GUJS IN

Shareholding Pattern Jun'20(%)

Promoters	37.6
MF/Banks/FIs	22.8
FII's	16.0
Public / Others	23.6

GSPL Relative to Sensex



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Annual Report Macro View

Key Management Change	Shri Anil Mukim, IAS has been appointed as an Additional Director and also as Managing Director of the Company w.e.f. 13th December, 2019 to hold office till the ensuing Annual General Meeting. Further, he is also acting as Chairman of the Board of Directors of the Company w.e.f. 27th February, 2020.		
Board of Directors	<p>Shri Pankaj Joshi, IAS, was appointed as an Additional Director w.e.f. 5th October, 2019 upto 18th December, 2019. Thereafter, he has again been appointed as an Additional Director w.e.f. 31st January, 2020.</p> <p>The Board has appointed Shri Pankaj Joshi, IAS and Smt. Sunaina Tomar, IAS as Additional Directors w.e.f. 31st January, 2020.</p> <p>Shri Sanjeev Kumar, IAS, Joint Managing Director of the Company shall retire by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment as Director.</p>		
Auditors	No Change. M/s Anoop Agarwal & Co. continue to be the auditors of the company.		
Pledged Shares	No pledged shares were held during the year.		
Credit Ratings	Ratings	FY2020	FY2019
	Domestic Rating	Credit Rating of CARE AA+/Stable and CARE A1+ from CARE	Credit Rating of CARE AA+/Stable and CARE A1+ from CARE
Insider Holdings	There were no insider holdings during the year.		
Macroeconomic Factor	With regards to global gas demand, though IEA in its Global Energy Review 2020, notes that natural gas consumption could decrease by 5% in 2020, it also goes on to mention that faster post-lockdown recovery in Europe and North America and shorter lockdowns in other regions would reduce the negative impacts on Asian manufacturing economies and gas exporting regions, leading natural gas consumption to decrease by about 2.7% instead of 5%.		
Key Holders	Category of Shareholder (%)	FY2020	FY2019
	A) Promoter Holding	37.64	37.64
	B) Public		
	i) Mutual Funds/UTI	19.30	16.48
	ii) Banks/Financial Institutions	3.42	4.33
	iii) State Government	10.98	10.98
	iv) FII's	15.75	16.53
	iv) AIF	0.17	0.16
	v) Non-Institutions	12.74	13.88
	Total	100.00	100.00

Source: Company, DART

Capital

- During FY20, the Board has approved allotment of 1,29,888 Shares to the eligible employees under ESOP – 2010 Scheme of the Company upon exercise of Options by them, consequent to which the paid up Share Capital of the Company has increased to Rs 564.10 Crore.

Subsidiary Company

- GSPL India Gasnet Limited (GIGL) for development of Mehsana – Bhatinda (approx 1834 Kms) and Bhatinda – Jammu - Srinagar (approx 740 Kms) Pipeline Projects.
- GSPL India Transco Limited (GITL) for development of Mallavaram - Bhopal – Bhilwara – Vijaipur (approx. 1881 Kms) Pipeline Project.
- Gujarat Gas Limited (GGL) is India's largest city gas distribution player with presence spread across 42 Districts in the State of Gujarat, Punjab, Rajasthan, Haryana, Madhya Pradesh, Maharashtra and Union Territory of Dadra and Nagar Haveli. During FY20, Gujarat Gas Limited contributed to approx 19% of total transmission revenues of GSPL

Associate Company

Sabarmati Gas Limited

- SGL is engaged in the business of development of CGD networks in Gandhinagar, Sabarkantha and Mehsana Districts of North Gujarat.
- The sales volumes of SGL from all the segments have increased to 9.47 Lakh SCMD during FY20 as compared to 9.25 Lakh SCMD during FY19.
- SGL has network of 601 Kms of steel pipeline and 5135 Kms of MDPE pipeline and customer base of 189333 domestic customers, 336 industrial customers and 801 commercial customers as well as 105 CNG stations
- GSPL has a total shareholding of 27.47% in Sabarmati Gas Limited.
- During FY20, SGL contributed to approx 2% of total transmission revenues of GSPL

Industry Overview

- On the infrastructure front, India witnessed interesting developments in the year. Though trunk pipeline infrastructure was recorded as 16,981 Kms, several major trunk pipeline networks (totaling over 14000 Kms) are under development.
- Amongst them, phase 2 of GSPL India Gasnet Limited (GIGL) – a subsidiary of GSPL, is also underway and a total of 930 Kms are under construction. Development of GIGL's network is crucial not only for the State of Gujarat, but also for the northern hinterlands as it shall provide customers enroute with access to all the LNG receiving terminals in Gujarat (3 are already operational) and the greenfield ones being developed.
- Further, Cross Country pipelines are also being developed in various parts of the Country, including the Eastern and North Eastern belts, thereby slowly inching towards the Government's dream of a gas based economy.
- City Gas Distribution segment also saw a growth in demand and while total number of CNG stations in the Country went up by about 27% YoY, growth in domestic, commercial and industrial connections were 20%, 9% and 16%, respectively.
- Industrial units across the Country are incentivized to use natural gas as fuel not only due to environmental reasons but also owing to its competitiveness vis-à-vis alternate fossil fuels and this is one of the major reasons why CGD sector is set to act as a driver for natural gas consumption in India.

Key Highlights from MD&A

- GSPL is now the only Company to have established pipeline with all the 3 operational LNG receiving terminals in the State of Gujarat.
- Advent of gas from Mundra has played an important role in providing a certain level of operational flexibility to GSPL's grid.
- GSPL has received necessary approvals from PNGRB for developing additional connectivity with PLL, Dahej terminal in order to ensure requisite infrastructure for offtake of higher volumes from the terminal.
- Further, discussions with PNGRB for achieving connectivity with other upcoming terminals in Gujarat, are also underway.

Projects Commissioned:

- During FY20, GSPL has successfully commissioned 18" dia Pipavav - Gundala Pipeline and provided natural gas connectivity to various customers in Dahej SEZ, Gundala, Anjar etc.
- The grid operations account for approx. 2,682 Kms and approx. 11 Kms pipeline completed & ready for Gas-In as on 31st March, 2020.
- Gas is flowing from Hazira / Dahej / Vapi to various industries and CGD Networks located in various Districts of Gujarat.

Projects under execution:

- GSPL continues to develop additional pipeline infrastructure in the State of Gujarat.
- They have also started laying 30" dia pipeline to Swan LNG in Jafrabad, additional customer connectivities in the areas of Kheda, Surendranagar, Sanand, Dahej SEZ etc.
- GSPL is a co-developer in Dahej SEZ and is developing pipeline infrastructure therein. Several customers have started receiving gas in Dahej SEZ through GSPL's network with more getting connected on regular basis.

City Gas Distribution Project

- GSPL is being authorized to develop the CGD Network in the GA of Amritsar District and Bhatinda District has commissioned 3 CNG Stations and started gas supplies in GA of Amritsar. Further, ground works for development of CGD Network in Bhatinda is progressing steadily.
- PNGRB has vide its Letters dated 29th June, 2020, accepted the proposal made by GSPL to transfer the Authorizations for developing CGD Network in the GA's of Amritsar District and Bhatinda District to Gujarat Gas Limited.
- PNGRB has permitted GGL to take over the activities of laying, building, operating or expanding CGD Network of Amritsar District GA and Bhatinda District GA from GSPL.

Wind Power Project

- GSPL is being committed to promote clean and green energy has set up Wind Power Project of 52.5 MW in the areas of Maliya Miyana, Rajkot and Gorsar & Adodar, Porbandar.
- During FY20, GSPL has sold 11,05,31,451 KWH of electricity generated through Windmill.

Performance Profile

- GSPL transported 13826 MMSCM of natural gas during FY20, an increase of 10% YoY, volumes transportation of 12618 MMSCM (FY19)
- GSPL is in the process of implementing Pipeline Integrity Management System in line with PNGRB guidelines to safeguard the pipeline assets.

Future Plans

- GSPL is working on future expansion projects based on the demand in various regions around the gas grid.
- They are also gearing up its pipeline by developing connectivity with new terminals that are being developed in Gujarat to ensure connectivity with all sources in Gujarat.

Profit and Loss Analysis

- Sales witnessed a growth of 26.2% YoY, however, some volumes from the CGD sector were impacted due to lockdown in last 10 days of March'20.
- EBITDA margin decreased by 1,500 bps from 82.2% in FY19 to 66.5% in FY20, mainly on account of increase in gas transmission expenses and other expenses.
- Net profit margin increased 450 bps from 42.3% in FY19 to 46.8% in FY20 due to increase in gas transmission volumes and adoption of new tax regime.
- Tax amount decreased by 58.4% over the year to Rs. 1.7 billion from Rs. 4.1 billion last year. Effective tax rate for the current year was 13.3% compared to 33.9% in FY19
- RoANW increased from 14.7% to 17.8% in FY20 due to increase in profitability.
- Interest coverage ratio improved from 6.22 to 8.69 in FY20 due to lower interest expenses.
- Company has a consistent track-record of dividend payment. The Board of Directors have approved payment of dividend @ 20% on equity share of ₹2 each (Rs 2 per equity share). The total cash outflow on account of the proposed Dividend for the FY20 would be approx Rs 1.1 billion.
- There was an increase of 39.5% in AEPS from Rs 14.1 to Rs. 19.7, while the CEPS increased by 34% from Rs. 17.3 to Rs. 23.1

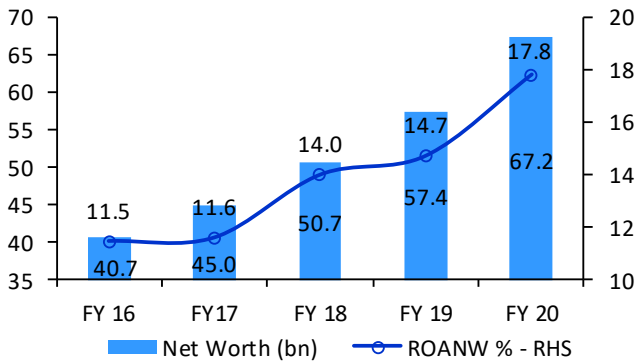
Balance Sheet Analysis

- Net Block of Assets increased by 2% and capital work in progress decreased by 43%.
- Investments increased by 7.8% from Rs 42.8 billion to Rs 46.1 billion in the current year because of investments in mutual funds and other companies.
- Cash and bank balance decreased to Rs 957 million from Rs 1.6 billion last year.
- Debt Equity Ratio was at 0.24 as compared to 0.41 YoY due to repayment of ₹ 73.3 million of the outstanding loan during FY20.
- Current Ratio as at 31st March, 2020 is 0.33 vs 0.39 as at 31st March, 2019.

Cash Flow Analysis

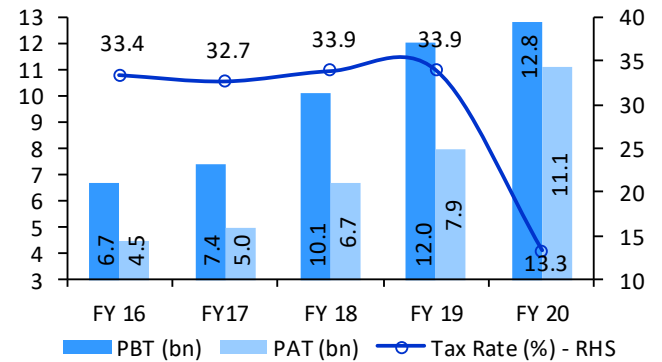
- Free cash flow has increased by 43% as cash from operations has increased by 25%, due to decline in taxes and interest expenses.
- The Company reported Cash outflow from financing activity of Rs. 10.2 billion compared to an outflow of Rs. 10.3 billion in FY19.
- The Company reported Cash outflow from investing activity of Rs. 3.1 billion compared to an outflow of Rs. 80 million in FY19.

Exhibit 1: Return on Net Worth



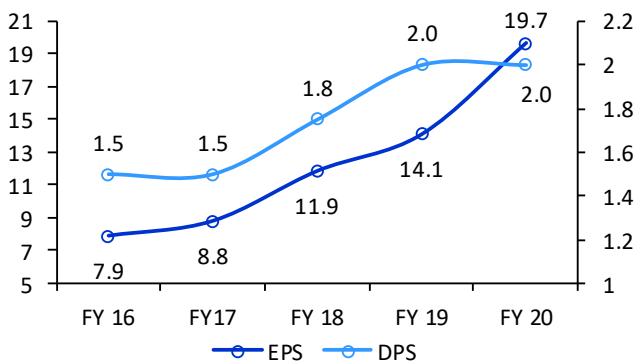
Source: Company, DART

Exhibit 2: Effective Tax Rate (%)



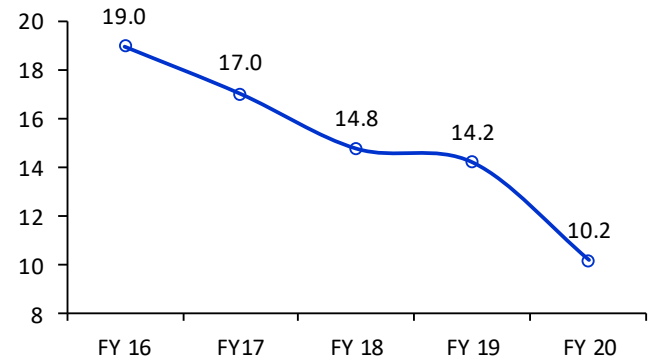
Source: Company, DART

Exhibit 3: Basic EPS and DPS (Per share)



Source: Company, DART

Exhibit 4: Dividend Payout (%)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	18,772	23,686	20,573	25,182
Total Expense	3,346	7,937	6,419	7,605
COGS	3	29	41	50
Employees Cost	645	619	617	504
Other expenses	2,697	7,289	5,761	7,051
EBIDTA	15,426	15,748	14,154	17,577
Depreciation	1,800	1,966	1,937	2,037
EBIT	13,626	13,782	12,218	15,540
Interest	2,192	1,645	1,127	767
Other Income	594	649	600	1,200
Exc. / E.O. items	0	0	0	1
EBT	12,028	12,785	11,691	15,974
Tax	4,081	1,699	2,943	4,021
RPAT	7,947	11,087	8,748	11,953
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	7,947	11,087	8,748	11,953

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	5,640	5,641	5,641	5,641
Minority Interest	0	0	0	1
Reserves & Surplus	51,800	61,584	68,729	78,758
Net Worth	57,440	67,226	74,370	84,400
Total Debt	23,660	16,303	18,778	19,178
Net Deferred Tax Liability	5,226	4,081	4,163	4,246
Total Capital Employed	86,326	87,610	97,311	1,07,825

Applications of Funds

Net Block	36,075	36,782	37,346	37,809
CWIP	4,194	2,372	3,874	5,092
Investments	42,772	46,111	51,183	58,861
Current Assets, Loans & Advances	6,459	5,764	8,635	10,125
Inventories	1,279	1,261	1,691	2,070
Receivables	2,081	1,637	2,536	3,105
Cash and Bank Balances	1,583	957	2,326	2,679
Loans and Advances	1,360	1,549	1,704	1,875
Other Current Assets	157	359	377	396
Less: Current Liabilities & Provisions	3,173	3,419	3,727	4,062
Payables	238	410	422	435
Other Current Liabilities	2,935	3,009	3,304	3,627
		<i>sub total</i>		
Net Current Assets	3,286	2,345	4,908	6,063
Total Assets	86,326	87,610	97,311	1,07,825

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	100.0	99.9	99.8	99.8
EBIDTA Margin	82.2	66.5	68.8	69.8
EBIT Margin	72.6	58.2	59.4	61.7
Tax rate	33.9	13.3	25.2	25.2
Net Profit Margin	42.3	46.8	42.5	47.5
(B) As Percentage of Net Sales (%)				
COGS	0.0	0.1	0.2	0.2
Employee	3.4	2.6	3.0	2.0
Other	14.4	30.8	28.0	28.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.4	0.2	0.3	0.2
Interest Coverage	6.2	8.4	10.8	20.3
Inventory days	25	19	30	30
Debtors days	40	25	45	45
Average Cost of Debt	8.1	8.2	6.4	4.0
Payable days	5	6	7	6
Working Capital days	64	36	87	88
FA T/O	0.5	0.6	0.6	0.7
(D) Measures of Investment				
AEPS (Rs)	14.1	19.7	15.5	21.2
CEPS (Rs)	17.3	23.2	19.0	24.8
DPS (Rs)	2.0	2.0	2.5	3.0
Dividend Payout (%)	14.2	10.2	16.1	14.2
BVPS (Rs)	101.9	119.2	131.9	149.7
RoANW (%)	14.7	17.8	12.4	15.1
RoACE (%)	11.8	14.6	10.7	12.4
RoAIC (%)	16.3	16.1	13.5	15.5
(E) Valuation Ratios				
CMP (Rs)	195	195	195	195
P/E	13.9	9.9	12.6	9.2
Mcap (Rs Mn)	1,10,173	1,10,173	1,10,173	1,10,173
MCap/ Sales	5.9	4.7	5.4	4.4
EV	1,32,250	1,25,519	1,26,625	1,26,671
EV/Sales	7.0	5.3	6.2	5.0
EV/EBITDA	8.6	8.0	8.9	7.2
P/BV	1.9	1.6	1.5	1.3
Dividend Yield (%)	1.0	1.0	1.3	1.5
(F) Growth Rate (%)				
Revenue	41.0	26.2	(13.1)	22.4
EBITDA	34.4	2.1	(10.1)	24.2
EBIT	40.1	1.1	(11.4)	27.2
PBT	19.0	6.3	(8.6)	36.6
APAT	18.9	39.5	(21.1)	36.6
EPS	18.9	39.5	(21.1)	36.6

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	10,882	13,602	10,699	14,039
CFI	(80)	(3,102)	(9,020)	(11,396)
CFF	(10,328)	(10,297)	(256)	(2,291)
FCFF	8,764	12,536	6,697	10,320
Opening Cash	225	700	903	2,326
Closing Cash	700	903	2,326	2,679

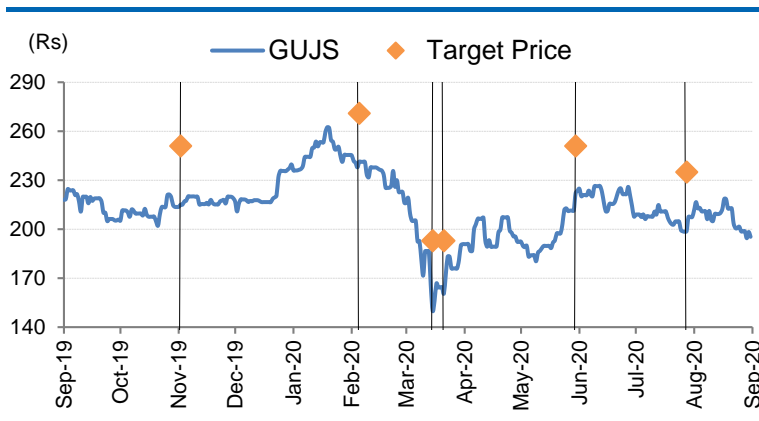
E – Estimates

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 (Rs.)	Price (Rs.)
Nov-19	Accumulate	251	215
Feb-20	Accumulate	271	241
Mar-20	Accumulate	193	150
Mar-20	Accumulate	193	161
Jun-20	Accumulate	251	222
Aug-20	Accumulate	235	199

*Price as on recommendation date

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