

Gujarat State Petronet Ltd.

Scaling new Heights

- Expect softening in spot LNG prices to drive demand and consequently, volumes. We have assumed conservative volumes of 25/28mmscmd for FY16/17 respectively. From FY16, we expect gradual pick up in offtake from Essar Steel, Essar Oil and OPAL to ~2.5mmscmd
 - PNGRB is likely to take 1.5-2 months to calculate and revert with the revised tariff. Assuming 10% higher transmission tariff from current levels i.e. Rs1.26/scm, our FY16/FY17 EPS works out to Rs9.6/11.1, a 14% upside from base case estimates
 - Value un-locking from CGD investment to further improve valuations. Company expects consolidated CGD volume to touch 10mmscmd in 2.5-3yrs, implying an incremental EPS of Rs3.5 for GSPL, which adds Rs34/share (12x PE) to our target price
 - We expect multiple triggers for GSP, going ahead i.e. 1) sharp correction in spot LNG, 2) upward revision in tariff and 3) expected improvement in transmission volumes from Essar and OPAL. Maintain Buy with target price of Rs151, a 26% upside from current levels. Any development on gas pooled pricing will provide further upsides
- Expect uptick in volumes, going ahead** - Expect volumes to improve from Q1FY16 due to improving offtake from Essar Steel, Essar Oil and OPAL. Combined volumes supplied to Essar Steel and Essar Oil currently stand at 0.5mmscmd, which can go up to 1.7mmscmd by FY17E. Also, we expect steady volume ramp-up from OPAL - from 0.1-0.2mmscmd to 0.7-0.8mmscmd.
 - Softer LNG prices to drive more demand** - With LNG prices stabilizing at \$6.5-7.5mmbtu, company expects new demand from captive power plants and other players like Torrent Power. Softening LNG prices can result in demand of 1.5 to 2 mmscmd from Torrent Power and 7 to 7.5 mmscmd from captive & other power plants.
 - Management foresees tariff revision by 8-10%** - PNGRB is likely to take a while to calculate and revert with the updated tariff (expected in 1.5-2months). Assuming 10% higher transmission tariff from current level i.e. Rs1.26/scm and unchanged volumes, our FY16/FY17 EPS works out to Rs9.6/11.1, a 14% upside from base case estimates.
 - Value unlocking from CGD investment** - We believe value un-locking from CGD investment would add premium to valuation. Company expects consolidated CGD volume to touch 10mmscmd in 2.5-3yrs, implying an incremental EPS of Rs3.5/share for GSPL, which adds Rs34/share (12xPE) to our target price.
 - Gas pooling- An opportunity to grab for GSPL** - The OilMin & Power ministry are considering gas price pooling for gas based power plants across India. Considering the gas based capacity in Gujarat, there would be an additional demand of 8-10 mmscmd of gas in Gujarat alone. As GSPL is a direct beneficiary of this, we feel any development on gas price pooling is a positive trigger for GSPL in the medium-long term.

Financial Snapshot (Standalone)

(Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	11,731	10,507	10,688	10,814	12,073
EBITDA	10,720	9,289	9,415	9,538	10,667
EBITDA Margin (%)	91.4	88.4	88.1	88.2	88.4
APAT	5,381	4,191	4,354	4,712	5,481
EPS (Rs)	9.6	7.4	7.7	8.4	9.7
EPS (% chg)	3.1	(22.1)	3.9	8.2	16.3
ROE (%)	19.9	13.4	12.5	12.2	12.7
P/E (x)	11.6	14.9	14.4	13.3	11.4
EV/EBITDA (x)	6.3	7.3	6.8	6.2	5.1
P/BV (x)	2.1	1.9	1.7	1.5	1.4

Source: Company, Emkay Research

CMP Rs120	Target Price Rs151 (▪)
Rating BUY (▪)	Upside 25.8 %

Change in Estimates

EPS Chg FY15E/FY16E (%)	NA
Target Price change (%)	NA
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY15E	FY16E
Emkay	7.7	8.4
Consensus	7.9	9.1
Mean Consensus TP	Rs 129	

Stock Details

Bloomberg Code	GUJS IN
Face Value (Rs)	10
Shares outstanding (mn)	563
52 Week H/L	136 / 59
M Cap (Rs bn/USD bn)	63 / 1.00
Daily Avg Volume (nos.)	6,61,488
Daily Avg Turnover (US\$ mn)	1.1

Shareholding Pattern Dec '14

Promoters	37.7%
FIs	8.7%
DIs	23.4%
Public	30.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(8)	4	18	84
Rel. to Nifty	5	-	12	40

Relative price chart



Source: Bloomberg

Dhaval Joshi

dhaval.joshi@emkayglobal.com
 +91 22 66121282

Ashutosh Dhuru

ashutosh.dhuru@emkayglobal.com
 +91 22 66121384

Outlook and Valuation

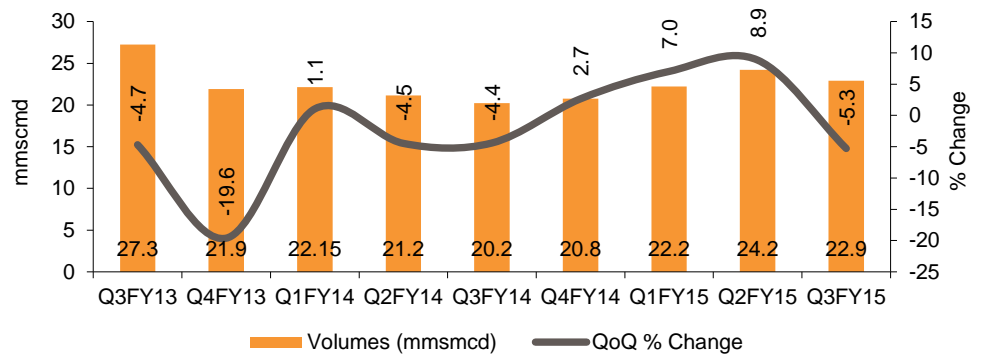
Considering revised tariff calculation post APTEL's verdict, new tariffs are likely to be higher by 8-10%. LNG capacity addition at Dahej and other parts of India will bring more volumes. We expect value un-locking from CGD investment to further improve valuations. At CMP, GSPL trades at 12x FY17EPS and 1.4x P/BV. We maintain Buy with TP of Rs151 (core value Rs117 and CGD investment Rs34). Gas pooled pricing in power sector would be an additional trigger for GSPL.

Exhibit 1: Valuation

Particulars	FY17	Multiple	Fair value	Comment
EPS	9.7	12	117	
CGD value (25% stake in GDNL)	3.5	12	34	20% Holding company discount
Fair value			151	

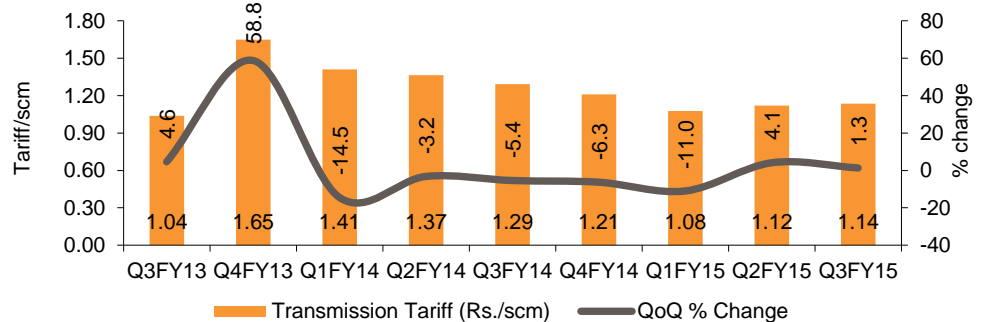
Source: Emkay Research

Exhibit 2: Transmission volume trend



Source: Company, Emkay Research

Exhibit 3: Transmission tariff trend



Source: Company, Emkay Research

Exhibit 4: Gujarat power scenario: ~ 10 mmscmd of additional gas required for 40% plant load factor

Power station	Capacity MW	Company Operator	Gas allocated (mmscmd)	Gas supply (mmscmd)	Supplies (%)	Required at 40% PLF (mmscmd)
Baroda	160	Gujarat Industrial Power	0.75	0.02	2.67	0.34
Dhuvaran	219	Gujarat State Electricity	0.94	0.01	1.06	0.47
Dhuvaran III	376	Gujarat State Electricity	-	-	-	0.80
DGEN	800	Torrent Power	-	-	-	1.70
Essar GT Imp.	515	Essar Power	1.17	-	-	1.10
Gandhar GT	657	NTPC	1.23	1.42	115.45	1.39
GSEG Hazira I	351	GSPC	-	-	-	0.75
Hazira	156	GSPC	0.81	0.15	18.52	0.33
Kawas GT	656	NTPC	4.62	1.31	28.35	1.40
Peguthan	655	China Light & Power	1.83	0.23	12.57	1.40
Pipavav CCGP	702	GSPC / GPCL / Swan	-	-	-	1.49
Sugen CCCP	1,148	Torrent Power	4.60	1.29	28.04	2.45
Unosugen	383	Torrent Power	-	-	-	0.81
Utran Ext	518	Gujarat State Electricity	1.97	-	-	1.11
Vatwa	100	Torrent Power	0.37	-	-	0.21
Total Gujarat	7,396		18.29	4.43	24.22	15.75

Source: CEA, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	11,731	10,507	10,688	10,814	12,073
Expenditure	1,012	1,218	1,273	1,276	1,406
EBITDA	10,720	9,289	9,415	9,538	10,667
Depreciation	1,861	1,839	1,909	2,018	2,079
EBIT	8,859	7,450	7,506	7,519	8,587
Other Income	660	552	533	585	585
Interest expenses	1,262	1,419	1,255	1,019	930
PBT	8,257	6,583	6,784	7,085	8,243
Tax	2,876	2,391	2,430	2,374	2,761
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	5,381	4,191	4,354	4,712	5,481
Adjusted PAT	5,381	4,191	4,354	4,712	5,481

Balance Sheet

Y/E Mar (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Equity share capital	5,627	5,627	5,627	5,627	5,627
Reserves & surplus	23,779	27,321	30,949	35,007	39,834
Net worth	29,406	32,948	36,576	40,634	45,461
Minority Interest	0	0	0	0	0
Loan Funds	13,389	10,365	8,406	6,447	4,488
Net deferred tax liability	3,867	4,202	4,202	4,202	4,202
Total Liabilities	46,661	47,515	49,184	51,283	54,152
Net block	32,515	31,593	30,684	29,666	28,586
Investment	1,740	5,850	5,850	5,850	5,850
Current Assets	13,019	10,024	12,022	14,374	17,804
Cash & bank balance	8,531	4,992	7,121	9,409	12,331
Other Current Assets	244	153	156	158	176
Current liabilities & Provision	5,874	6,513	7,360	8,096	9,078
Net current assets	7,145	3,510	4,661	6,279	8,726
Misc. exp	1	0	(72)	(72)	(72)
Total Assets	46,661	47,515	49,184	51,283	54,152

Cash Flow

Y/E Mar (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
PBT (Ex-Other income) (NI+Dep)	8,257	6,583	6,784	7,085	8,243
Other Non-Cash items	(609)	1,432	(533)	(585)	(585)
Chg in working cap	(1,599)	(869)	978	671	473
Operating Cashflow	6,926	6,451	7,963	7,835	8,379
Capital expenditure	(3,822)	(2,401)	(2,500)	(2,500)	(2,500)
Free Cash Flow	3,104	4,050	5,463	5,335	5,879
Investments	(300)	(4,109)	0	0	0
Other Investing Cash Flow	843	52	0	0	0
Investing Cashflow	(3,279)	(6,459)	(2,500)	(2,500)	(2,500)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	2,138	(1,808)	(1,959)	(1,959)	(1,959)
Dividend paid (incl tax)	(654)	(658)	(654)	(654)	(654)
Other Financing Cash Flow	0	0	533	585	585
Financing Cashflow	(9)	(4,067)	(3,334)	(3,047)	(2,957)
Net chg in cash	3,638	(4,076)	2,129	2,289	2,921
Opening cash position	5,148	8,531	4,992	7,121	9,409
Closing cash position	4,977	4,992	7,121	9,409	12,331

Key Ratios

Profitability (%)	FY13	FY14	FY15E	FY16E	FY17E
EBITDA Margin	91.4	88.4	88.1	88.2	88.4
EBIT Margin	75.5	70.9	70.2	69.5	71.1
Effective Tax Rate	34.8	36.3	35.8	33.5	33.5
Net Margin	45.9	39.9	40.7	43.6	45.4
ROCE	21.5	17.0	16.6	16.1	17.4
ROE	19.9	13.4	12.5	12.2	12.7
RoIC	30.5	26.1	27.6	29.7	35.7

Per Share Data (Rs)	FY13	FY14	FY15E	FY16E	FY17E
EPS	9.6	7.4	7.7	8.4	9.7
CEPS	12.9	10.7	11.1	12.0	13.4
BVPS	52.3	58.6	65.1	72.3	80.9
DPS	1.0	1.0	1.0	1.0	1.0

Valuations (x)	FY13	FY14	FY15E	FY16E	FY17E
PER	11.6	14.9	14.4	13.3	11.4
P/CEPS	7.2	8.6	8.3	7.7	6.9
P/BV	2.1	1.9	1.7	1.5	1.4
EV / Sales	5.7	6.5	6.0	5.5	4.5
EV / EBITDA	6.3	7.3	6.8	6.2	5.1
Dividend Yield (%)	0.9	0.9	0.9	0.9	0.9

Gearing Ratio (x)	FY13	FY14	FY15E	FY16E	FY17E
Net Debt/ Equity	0.2	0.2	0.0	(0.1)	(0.2)
Net Debt/EBIDTA	0.3	(0.1)	(0.5)	(0.9)	(1.3)
Working Cap Cycle (days)	(57.5)	(90.8)	(124.7)	(148.8)	(154.0)

Growth (%)	FY13	FY14	FY15E	FY16E	FY17E
Revenue	4.4	(10.4)	1.7	1.2	11.6
EBITDA	3.9	(13.4)	1.4	1.3	11.8
EBIT	4.2	(15.9)	0.7	0.2	14.2
PAT	3.1	(22.1)	3.9	8.2	16.3

Shareholding Pattern (%)	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Promoters	37.7	37.7	37.7	37.7	37.7
FIIIs	4.4	5.1	6.6	7.6	8.7
DIIIs	22.8	22.9	22.7	22.3	23.4
Private Corp	9.5	9.0	8.4	8.6	7.8
Public	25.6	25.2	24.5	23.7	22.4

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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