



JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555

RESEARCH REPORT

20th Nov 2017

GUJARAT STATE PETRONET LIMITED

BSE : GSPL

Sector: GAS TRANSMISSION

BSE: 532702

View - BUY

CMP : Rs. 207

Target Price: Rs 316 (In next 12 to 18 mths)

BUSINESS BACKGROUND

Gujarat State Petronet Ltd (GSPL), a GSPC group company, is a pioneer in developing energy transportation infrastructure and connecting natural gas supply basins and LNG terminals to growing markets. GSPL is continuously expanding its pipeline network in Gujarat. Currently, GSPL has a gas transmission pipeline network of 2600 km connecting Hazira, Vadodara, Ahmedabad, Kalol, Himmatnagar, Mehsana, Rajkot, Morbi and Vapi. GSPL transported approximately 9071 mmscmd of gas last year. Out of this, a majority of the gas supply was made by R-LNG. GSPL has also acquired strategic stakes in the Krishna Godavari Gas Network (KGGN), GSPC Gas Company and Sabarmati Gas. KGGN is planning to develop a gas transmission network in Andhra Pradesh while GSPC Gas Company and Sabarmati Gas will be developing a city gas distribution (CGD) network in Gujarat

GSPL transports gas to around 133 Customers including Refineries, Steel Plants, Fertilizer Plants, Petrochemical Plants, Power Plants, Glass industries, Textiles, Chemical, City Gas Distribution (CGD) Companies and other miscellaneous industries.

INVESTMENT HIGHLIGHTS

Healthy business growth in FY18 continues –

GSPL reported healthy Q2FY18 numbers with Topline placed at Rs 334 crs from Rs 258 crs on a consolidated basis – up by 29% YoY, a EBIDTA of Rs 285.64 crs from Rs 226.87 crs in Q2 last year on a consolidated basis – up by 26% YoY. The PAT on a consolidated basis for Q2FY18 stood at Rs 176 crs as compared to Rs 128 crs in Q2 last year – up by 38% YoY. For H1 of FY18, sales have totalled Rs 631.17 crs, a EBIDTA of Rs 561.26 crs and a PAT of Rs 323.88 crs – up by 32% YoY

For FY17, on a consolidated basis GSPL reported a Topline of Rs 1088.60 crs from Rs 996.60 crs last year, a EBIDTA of Rs 964.90 crs from Rs 870.10 crs last year followed by a PAT of Rs 549.50 crs from Rs 449.20 crs. GSPL has declared a dividend of 15% for FY17

Large potential for natural gas in India –

India is a significant consumer of energy resources. The country's economy is growing at a fast pace which in turn has led to the growth in primary energy consumption at a CAGR of over 6.5% from 2006 to 2010 (Source: BP Statistical Review of World Energy, June 2011).

Coal, oil, and natural gas are the three primary commercial energy sources in India. India's energy mix has coal as a major contributor (53%), with power generation being predominantly dependent on coal.

The share of oil is 30% in the overall energy mix. The share of natural gas is 11% (Source: BP Statistical Review of World Energy, June 2011) in the overall energy mix of India. With gas becoming the 'preferred fuel' for industries, the latent potential for gas remains very large in the country. Predominantly, India has been a gas-starved nation. In fact, Gujarat alone accounts for almost 1/3rd of the total natural gas consumption in India.

KEY DATA

FACE VALUE	Rs	10.00
DIVID YIELD %		0.72
52 WK HI/LOW		223/119
NSE CODE		GSPL
BSE CODE		532702
MARKET CAP		RS 11709 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	38%
BANKS, MFs & DIs	-	19%
FIs	-	18%
PUBLIC	-	25%

KEY FUNDAMENTALS

YE	FY18	FY19	FY20
Rev Gr%	19	10	8
EBIDTA Gr%	20	9	6
PAT Gr%	26	14	15
EPS Gr%	26	14	15
EPS (Rs)	12.25	14	16
ROE %	14	14	14
ROCE %	14	14	13
P/E (x)	17	15	13



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GSPL enjoys a well established Business Model which has great scalability potential –

GSPL is well-known as an “open access / contract carrier” gas transmission pipeline operator, which means that it offers the service of transporting gas to customers who have the demand and have tied up the supply source for a transportation fee. Thus commodity price risk does not impact GSPL and its revenue growth mainly comes from the volume game

It has signed a 15 year agreement with Reliance Industries Ltd (RIL) to transport 11 mmscmd. It also signed a 20 year agreement with Torrent Power (Torrent) to transport – 4.5 mmscmd. GSPL has signed firm Gas Transmission Agreements (GTA) for transporting 31.99 mmscmd of gas to various customers and interruptible short term GTA for 11.17 mmscmd. Also boost in re-gasification capacity at Dahej & Hazira, and commissioning of the new R-LNG terminal at Dabhol are expected to provide an opportunity to GSPL to transmit additional R-LNG volumes going ahead.

The major customers of GSPL include RIL, Essar group, Torrent Power, Shell, Petronet LNG, Cairn India and GSPC. GSPL has also acquired strategic stakes in Krishna Godavari Gas Network Limited (planning to develop gas transmission) CGD (Compressed Gas Distribution) network in Andhra Pradesh & Gujarat.

GSPL has successfully commissioned various pipeline projects like Bhadbhut- Gana, Rajkot-Jamnagar, Padmala Halol, and Suzlon Spur. Further, GSPL also continues to develop several spur lines to connect industrial clusters and medium size customers along the pipeline network, which include regions like Tarapur, Vilayat, Dahej, Silvassa, Bhavnagar, Amreli, Veraval, Gandhidham, Anjar, Mundra, Jafrabad region.

GSPL has expanded its gas pipeline network beyond the traditional markets of South Gujarat and extended it to the Central and Northern parts of Gujarat. It is currently building a pipeline to Mundra and Pipavav ports, which will improve its presence in the Western parts of the State.

GSPL's customer space includes both suppliers as well as users of natural gas. Suppliers of natural gas include marketers, producers of natural gas and LNG terminals. Producers/suppliers of gas have direct Gas Sale Agreements (GSA) with the buyers and either of the parties can enter the Gas Transmission Agreement (GTA) with GSPL to use its network for gas shipment. Users of natural gas comprise bulk customers (power and fertilizer companies) and local distribution companies. GSPL operates as a pure natural gas transmission company and as such does not own any natural gas transported through its network which insulates it from the fluctuations of the prices in natural gas.

A typical contract period varies between 5 and 25 years. Long term agreement accounts for major portion of revenue for GSPL. GSPL's GTAs include "ship or pay" provisions, which require its customers to pay the capacity charges for the capacity reserved by them, regardless of the amount of natural gas they transport. GTAs also include provisions for payment security mechanisms, such as bank guarantees and letters of credit.

GGCL is a gas transmission and distribution company operating in the industrial hub of South Gujarat. It distributes gas to domestic, commercial and industrial consumers in Ankleshwar, Surat and Bharuch. GGCL has a total pipeline length of about 2,700 km and services 2.30 lakh customers.

GGCL is obtaining gas from GAIL, GSPC as well as Cairn Energy. GGCL also operates two trunk pipelines viz. Hazira-Surat and Hazira-Ankleshwar. The former is a 15 km pipeline carrying natural gas from gas fields in the Cambay basin to the distribution network in Surat. The latter is a 73 km trunk pipeline running from Hazira to Ankleshwar. GGCL has also extended the network to Jhagadia.



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The potential for growth derives from the ever-increasing energy demand-supply gap in this economically vibrant area. GSPC Gas is a distribution arm of GSPC with more than 64 CNG Stations and 0.92 Lacs domestic and industrial customers across Gujarat. GSPC Gas envisages to connect 2 Lacs customers very soon and it currently sells approximately 2.3 MMSCMD gas to several customers located in 14 Districts of Gujarat. Adani Energy Limited, Ahmedabad, Sabarmati Gas Limited Gandhinagar, HPCL, Ahmedabad, GAIL (VMC), Vadodara, and Charotar Gas Sahakari Mandali Limited are other distribution companies.

Projects Commissioned IN FY17 –

During the year under review, GSPL has successfully completed commissioning of Mandali-Becharaji pipeline and provided natural gas connectivity to automobile majors Honda and Maruti, Bodighodi Ambardi pipeline connected to Gujarat Gas Ltd and various customer(s) connectivity projects namely Sanand GIDC ring network, Dahej - PCPIR and Dahej SEZ-II network.

The grid operations account for approx 2454 Kms as on 31st March, 2017. Gas is flowing from Hazira / Dahej / Vapi to various industries and City Gas Distribution (“CGD”) Networks located in various districts of Gujarat including Surat, Bharuch, Narmada, Baroda, Anand, Ahmedabad, Dahod, Gandhinagar, Sabarkantha, Panchmahal, Patan, Bhavnagar, Mehsana, Banaskantha, Surendranagar, Botad, Rajkot, Morbi, Jamnagar, Navsari, Kutchh, Kheda, Valsad, Amreli, Gir Somnath.

Current Projects under execution by GSPL –

GSPL continues to develop additional pipeline infrastructure in the State of Gujarat. GSPL has also started laying Anjar-Mundra pipeline connecting GSPC LNG Terminal at Mundra to GSPL’s gas grid network.

Additionally, GSPL is also installing Gas Compressor station at Gana which is under construction. GSPL is a co-developer in Dahej SEZ and is developing pipeline infrastructure therein. Several customers have started receiving gas in Dahej SEZ through its network with more getting connected on regular basis.

Financial closure achieved for interstate gas pipeline projects –

GSPL has achieved financial closure for the Mallavaram-Bhopal-Bhilwara-Vijapur (MBBV) gas pipeline. The total cost of the MBBV pipeline project is Rs7,255 crs, of which Rs 2,175 crs will be raised through equity infusion by JV partners, and the remaining Rs5,080 crore through debt.

The GSPL India Transco Ltd (GITL), a joint venture between GSPL and three central oil PSUs, has entered in to an agreement for a syndicated loan of Rs 5,080 crs with a consortium of 14 banks for the project. The JV would pay an average of 11.25% interest for the loans. The financial closure for the pipeline comes close on the heels of a financial tie-up of GSPL India Gasnet Ltd (GIGL), another JV of GSPL and three central PSUs, for the Rs6,449 crs Mehsana-Bhatinda-Jammu-Srinagar pipeline.

The cost of these pipeline projects would be around Rs 13,704 crs of which Rs 4,108 crs would be raised through internal accruals and remaining Rs9,596 crs through debt.

The pipelines will carry natural gas from gas fields on the country’s east coast, as well as that imported at various LNG terminals, to the central and northern parts of the country. The pipelines will crisscross through Andhra Pradesh, Maharashtra, MP, Gujarat, Rajasthan, Punjab, Haryana and J&K.



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GSPL has set up two Subsidiary Companies 1) GSPL India Gasnet Limited (GIGL) for development of Mehsana – Bhatinda (approx 1670 Kms) and Bhatinda - Jammu - Srinagar (approx 740 Kms) Pipeline Projects; 2) GSPL India Transco Limited (GITL) for development of Mallavaram - Bhopal – Bhilwara – Vijaipur (approx. 1881 Kms) Pipeline Project.

GSPL slowly emerging as a national player in gas transportation –

The cross-country pipelines signify the emergence of GSPL as a national firm in gas transportation. The company currently operates about 2,600 km of pipelines in Gujarat. The MBBV and Mehsana-Bhatinda-Srinagar pipelines will eventually be integrated with other pipelines such as the Hazira-Vijaipur-Jagdishpur and Surat-Paradip pipelines as part of the evolution of the long-awaited national gas grid, important for the country's energy security.

Currently, natural gas transmission infrastructure in India is approx. 10000 kms and is restricted only to a few states namely: Gujarat, Maharashtra, Madhya Pradesh, Uttar Pradesh, Haryana, Rajasthan, NCR, Assam, Tamil Nadu, Andhra Pradesh and Tripura

Gas Industry Overview –

Growing Indian Economy requires higher energy consumption, and thereby triggers development of Indian Energy Sector, and Gas sector in particular. The Supply-Demand gap for natural gas is becoming prominent in India.

Gujarat itself has huge demand potential. With its large industrial base, growing energy needs and proactive government approach, it has emerged as a Vibrant Hub for gas industry. According to EIA International Energy Outlook Report 2009, Global Natural Gas consumption is estimated to increase @ 1.6% per annum from about 104 trillion cubic feet in 2006 to 153 trillion cubic feet by 2030.

The Natural gas transmission industry is primarily being driven by the level of demand for natural gas and other fossil fuels in regions that lack energy resources and assets. Also governments across the world encourage Industrial consumers, especially power industry and fertiliser industry players to make a move towards environment friendly fuels, such as Natural gas which is more efficient, cost effective and environment friendly over other fossil fuels

Growth plans for Natural gas sector are being laid by Indian Government. Several gas pipelines are planned for development across the world in coming few years, including cross country pipelines like Iran-Pakistan-India Pipeline, Myanmar India Pipeline, Trans-Afghan Pipeline, Central Asia Gas Pipeline, Nabucco Gas Pipeline, etc.

Supply mark of natural gas has taken a hike with the commencement of Reliance KG (D-6) basin natural gas production in March 2009, expansion of capacity of LNG terminals by Petronet LNG, and Hazira LNG being completed, opening doors of volume growth for transmission players. Moreover, focus on Power / fertiliser companies coming on stream in Gujarat would drive the growth for transmission players in the state. Thus with substantial demand estimated for natural gas, future of Gas Transmission Industry players, which play on volume metrics, is supposed to be bright.



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Major beneficiary from Gujarat's huge demand potential –

Gujarat is the largest gas consuming state in India. GSPL, the largest gas transmission player in Gujarat, stands to benefit from the increasing demand due to its pre-eminent pipeline connectivity and reach within Gujarat.

As per CRISIL's report, natural gas demand in the State is expected to increase from 54.1 mmscmd in 2005 to 146 mmscmd by 2020. Albeit expansion of the gas grid in state, expansion of capacities of existing projects, setting up of new Industries and development of CGD networks in Gujarat has resulted in increase in demand but overall trend of industrial players moving towards natural gas to satisfy their fuel and feedstock requirements has also played its part.

Growing Demand of Natural gas in India –

The macro outlook is favorable given India's huge appetite for cleaner fuels like natural gas, which should get a boost from new discoveries by RIL, ONGC, GSPC and others, going ahead. Apart from power and fertilizer sector, Growth plans of compressed gas distribution (CGD) sector in India boosts the growth of Gas transmission industry. CGD sector in India currently consumes 5-6% of the total available gas, or 5-6 mmscmd, but the consumption is expected to quadruple in a few years. Petroleum and Natural Gas Regulatory Board (PNGRB) is targeting CGD bidding in 200 cities by 2012.

Cities covered in the first phase of CGD were Kakinada (Andhra Pradesh), Kota (Rajasthan), Sonipat (Haryana), Mathura and Meerut (Uttar Pradesh), and Dewas (Madhya Pradesh). As of now the CGD work in progress cities toll has crossed the number 77.

GSPL has recognized the mounting market potential beyond Gujarat. GSPL has filed EOI with regulator for four new Pipelines to grab more pipelines in its pocket.

Sole Operator Rights –

Recent Petroleum and Natural Gas Regulatory Board (PNGRB) Regulations have provided pipeline operators exclusivity (from the date of commencement of respective pipeline) for 25 years. GSPL is benefited from early mover's advantage in Gujarat and after undergoing process of authorisation will be the sole operator in its current areas of operation for the next around 20-25 years as most of its assets are not too old.

GSPL also has strategic equity stakes in Gujarat Gas and Sabarmati Gas Ltd –

Gujarat Gas Limited is the largest City Gas Distribution Company with its presence spread across various districts in the State of Gujarat, Union Territory of Dadra and Nagar Haveli and the State of Maharashtra distributing natural gas to various retail, industrial, commercial and domestic residential segment customers in the State of Gujarat.

Further, it is also engaged in the business of distribution of CNG to transport segment customers through CNG filling stations at major cities and towns of Gujarat State. Gujarat Gas Limited has been continuously growing and expanding its horizon by venturing into new geographic areas and is committed to reach every possible natural gas users across its licensed expanse of around 96,000 square kilometres through its ever growing pipeline network spread across 22 districts.



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Gujarat Gas Limited, through competitive bidding, has won 6 new geographical areas in State of Gujarat which includes the Dahej-Vagra Taluka (District Bharuch), Panchmahal District, Ahmedabad District (excluding areas already authorized), Anand District (excluding areas already authorized), Dahod District and Amreli District and has aggressively rolled out the expansion plans to develop networks to tap the unexplored CGD potential in new geographies.

Gujarat Gas Limited has, now, total 18 CGD licenses spread across 22 districts which accounts to almost 24% of total CGD licenses issued by PNGRB in India and 1 pipeline license. Gujarat Gas Limited is supplying natural gas to more than 11.6 Lakh residential, over 12,750 commercial and non-commercial segments and around 3,050 industrial customers as on 31st March, 2017. Gujarat Gas Limited also supplies natural gas in the form of Compressed Natural Gas (CNG) through 252 CNG stations catering to the automotive sector in the operational areas.

GSPL has a total shareholding of 25.76% in Gujarat Gas Limited as on 31st March, 2017. During the year ending 31st March 2017, Gujarat Gas Limited contributed to approx 19% of total transmission revenues of GSPL.

Sabarmati Gas Limited (SGL) is engaged in the business of development of City Gas Distribution networks in Gandhinagar, Sabarkantha and Mehsana districts of North Gujarat. SGL has also been granted authorization by PNGRB for undertaking CGD Business activity in GA of Patan District and it has initiated activities to develop City Gas Distribution network in Patan District.

The sales volumes of the Sabarmati Gas Limited from all the segments have increased to 7.08 Lakh SCMD during the financial year 2016-17 as compared to 6.66 Lakh SCMD during the previous financial year. SGL has network of 340.43 kilometers of steel pipeline and 2985 kilometers of MDPE pipeline and customer base of 1,09,958 domestic customers, 273 industrial customers and 504 commercial customers as well as 56 CNG stations as on 31st March, 2017.

GSPL has a total shareholding of 27.47% in Sabarmati Gas Limited as on 31st March, 2017. During the year ending 31st March 2017, Sabarmati Gas Limited contributed to approx 3% of total transmission revenues of GSPL.

Transmission tariff revision keenly awaited from GSPL –

The transmission tariff in Q2FY18 declined 3.9% QoQ to Rs 1.1/scm. In its last published public consultation document, GSPL has proposed final tariffs of Rs 2.1/scm) for 2017-18 to 2026-27 vs. Rs 1/scm) in 2016-17. As per PNGRB regulations, transportation tariff is determined by DCF method using actual and projected pipeline capex and opex costs over the pipeline's entire economic life of 25 years to arrive at a single level transportation tariff. We expect the tariff revision to be implemented in FY19.

If tariff hikes are higher than our expectations, then it will be an incremental trigger for the stock, going forward.

Going ahead in the medium to long term, GSPL's transmission business is expected to report stable volumes in the backdrop of growth in the CGD & PNG sectors and increased LNG capacity in Gujarat. GSPL continued to report robust natural gas transmission volumes of 28.2% YoY, 17.4% QoQ to 31.6 mmscmd in Q2FY18 and above our estimate of 28.5 mmscmd mainly on account of higher offtake from Reliance ROGC plant and power sector.

GSPL's volumes are expected to remain healthy until commissioning of RIL's petcoke gasification project, which will weigh on the company's volume growth rate, going ahead. However, the expected commissioning of the 5 MTPA Mundra LNG terminal would relatively negate the volume decline. In addition, volumes from Petronet LNG's Dahej terminal from its newly commissioned 5 MMTPA capacity and plans for further expansion by 2019 will benefit GSPL, going ahead.



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Volume to pick up in coming quarters –

We believe that the exit rate for FY18 can be c.+34-35mmscmd on the back of strong incremental demand from RIL, Essar Steel, Gujarat Gas and other industries. Also from RIL we expect volume to pick up further in the coming quarters, due to ROGC start-up, which is expected to translate into an offtake of c.4-5mmscmd. Also, RIL's Ethane sourcing for its Jamnagar refinery is from the GSPL pipeline, which would add another c.2-3mmscmd. Also utilisation of Essar Steel has gone up significantly from 35% in FY17 to 85% currently, which led to higher demand in Q2FY18. Going ahead Essar Steel's utilization can rise further to 100% in a couple of quarters, which would require incremental gas of 0.5mmscmd.

Volume from Gujarat Gas: In the next 5-6 months, 50 new vitrified tiles manufacturing units are expected to start, which would consume c.0.5-0.6mmscmd of gas. Also, Gujarat Gas is planning to start CGD business in 11 new geographical areas (GAs) by 2018, which should ultimately translate into an incremental volume of c.4-5mmscmd over the next 5 years. As a result, GSPL's transmission volume should also grow commensurately

Gas pooling- An opportunity to grab for GSPL –

The Oil Ministry & 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.

Solid financial performance - topline growth and margin expansion –

We estimate GSPL's earnings to witness a CAGR of 19% plus over FY17-20E.

Over the years, the company has improved its operational performance significantly with its operating margins having remained in a range between 86 to 88% since last 2 years. Also it has been able to increase the return on equity to 12% and a ROCE of 11% as on FY17. Also, considering that GSPL is largely a domestic player, the net leverage at 0.11:1x as on FY17 seems reasonable.

GSPL has incurred a capex of Rs 80 crs in H1 of FY2018 and full year capex is estimated at Rs 200 crs. GSPL has also reduced its debt to Rs 219.47 crs upto Sept 2017 from Rs 501.18 crs last year. We expect the total debt to come down to Rs 50 crs by FY20. This reduction in debt has already resulted in a sharp drop of 37% in interest costs in H1 of FY18 and going ahead ROE and ROCE is also set to improve over the next 2-3 years starting FY18 onwards. In fact we expect that by FY20E the ROE to touch 14% from 12-13% currently while ROCE is also expected to increase to 13-14% from 11-12% in FY17.

The big trigger in the near term for GSPL would come from a increase in tariffs. In its last published public consultation document, GSPL has proposed final tariffs of Rs 2.1/scm) for 2017-18 to 2026-27 vs. Rs 1/scm) in 2016-17. We expect the tariff revision to be implemented in FY19 and hence we believe that the future big picture over the next 2-3 years for GSPL looks very strong.

Peer Comparison

Company	Market Cap	FY17A	FY18E	FY19E	FY20E
	Rs	P/E	P/E	P/E	P/E
GSPL	11709 crs	20	17	15	13
GAIL	75186 crs	20	18	15	14
IGL	21116 crs	38	32	28	26
MGL	10638 crs	27	26	24	22
GGL	11648 crs	52	27	20	18
Average		25	25	20	19

Source – Annual Reports, our estimates



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What is GSPL's key USP and competitive edge –

In summary GSPL has some key competitive advantages which stand out.

Firstly GSPL has an extensive gas transmission network of 2600 km connecting major industrial demand areas and supply sources in Gujarat. GSPL covers the key markets of Surat, Bharuch, Baroda, Anand, Ahmedabad and Mehsana, which are the main demand centres of Gujarat. GSPL's close proximity to the LNG terminals (Dahej and Hazira) and gas fields in Gujarat also ensures secure gas supplies, in turn, leading to higher gas demand.

Secondly going forward, we expect higher demand from gas consuming sectors due to the announcement of a reduction in basic custom duty on LNG in the current Budget and lower APM gas prices. Dahej LNG terminal has fully commissioned its 5 mmtpa terminal in October and is expected to ramp up with additional LNG volumes, which will benefit GSPL, going forward. Also, the expected commissioning of the 5 mmtpa Mundra LNG terminal in FY18E would lead to additional volumes.

In its last published public consultation document, GSPL has proposed final tariffs of Rs 2.1/scm) for 2017-18 to 2026-27 vs. Rs 1/scm) in 2016-17.. We expect the tariff revision to be implemented in FY19. If tariff hikes are higher than our expectations, then it will be an incremental trigger for the stock, going forward

The cross-country pipelines signify the emergence of GSPL as a national firm in gas transportation. The company currently operates about 2,600 km of pipelines in Gujarat. The MBBV and Mehsana-Bhatinda-Srinagar pipelines will eventually be integrated with other pipelines such as the Hazira-Vijaipur-Jagdishpur and Surat-Paradip pipelines as part of the evolution of the long-awaited national gas grid, important for the country's energy security.

In fact GSPL has effectively created a business with strong entry barriers considering the fact that the macro outlook is favorable given India's huge appetite for cleaner fuels like natural gas, which should get a boost from new discoveries by RIL, ONGC, GSPC and others, going ahead. Apart from power and fertilizer sector, growth plans of compressed gas distribution (CGD) sector in India is likely to boost the growth of Gas transmission industry. Hence GSPL with a well established pipe transmission network and its future plans looks well positioned to capture a large market audience.



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Business Outlook & Stock Valuation –

On a rough cut basis, in FY18, Topline is expected to touch Rs 1300 crs.

On the bottomline level we expect the company to record a PAT of Rs 690 crs in FY18E. Thus on a conservative basis, GSPL should record a EPS of Rs 12.25 for FY18E. For FY19E and FY20E our expectation is that earnings traction for GSPL would continue to be robust wherein we expect a EPS of Rs 14 and Rs 16 respectively.

Being a pure gas transmission player, GSPL is not comparable to other companies in natural gas transmission / distribution business. The closest peers to GSPL are Gujarat Gas Company Ltd (GGCL) and Indraprastha Gas Ltd (IGL).

GGCL is India's largest private sector player in the natural gas transmission and distribution segment and supplies gas to more than 230000 domestic, commercial, industrial customers and serve over 80000 compressed natural gas users. IGL is the sole supplier of Compressed Natural Gas (CNG) and Piped Natural Gas (PNG) in the National Capital Region of Delhi and supplies CNG to automotive, PNG to domestic and commercial sectors.

As compared to peers, GSPL has more visibility of future revenues as well as margins, due to mix of long term and short term gas supply agreements, make it worthy of higher valuations than its peers.

GSPL's transmission business is expected to report stable volumes in the backdrop of growth in the CGD & PNG sectors and increased LNG capacity in Gujarat. The expected upward revision of transmission tariffs by PNGRB in coming months would be a key positive for the stock, going ahead. Also, GSPL's investments in CGD entities like Gujarat Gas (25.8% stake) and Sabarmati Gas (27.5%) would create value for shareholders.

In fact GSPL has effectively created a business with strong entry barriers considering the fact that the macro outlook is favorable given India's huge appetite for cleaner fuels like natural gas, which should get a boost from new discoveries by RIL, ONGC, GSPC and others, going ahead. Apart from power and fertilizer sector, growth plans of compressed gas distribution (CGD) sector in India is likely to boost the growth of Gas transmission industry. Hence GSPL with a well established pipe transmission network and its future plans looks well positioned to capture a large market audience.

Hence we believe that the GSPL stock should be purchased at the current price for a price target of around Rs 316 over the next 12 to 18 months.



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FINANCIALS

For the Year Ended March RsCrs	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	996.6	1088.6	1300.5	1440.7	1553.6
EBIDTA	870.1	964.9	1160.1	1265.1	1340.1
EBIDTA %	87.31	88.64	89.20	87.81	86.26
Interest	77.3	59.6	39	15	5
Depreciation	184.3	177.3	165	175	180
Non Operational Other Income	64.1	88.2	75	75	75
Profit Before Tax	672.6	816.2	1031.1	1150.1	1230.10
Profit After Tax	449.2	549.5	690.00	784	900.00
Diluted EPS (Rs)	7.97	9.76	12.25	13.92	15.98
Equity Capital	563.3	563.3	563.3	563.3	563.3
Reserves	3505.8	3932.4	4622.40	5406.40	6306.40
Borrowings	790.5	501.2	180	75	50
GrossBlock	3123.10	3165.70	3365.70	3515.70	3665.70
Investments	55.1	34.8	34.8	34.8	34.8

Source Company our Estimates

KEY CONCERNS

Regulatory risk –

Board appointed for the determination of transmission tariffs and authorisation of gas transportation pipelines is Petroleum and Natural Gas Regulatory Board (PNGRB). It also dictates technical operating parameters for gas transporting companies. GSPL's failure to abide by the dictations would lead to heavy fine and it would come under the scanner of the regulator.

Competitive prices of substitute products –

In the recent past, price of alternative feedstock like Naphtha had fallen sharply due to a weak demand outlook. These competitive Naphtha prices could have led to some customers (with dual-feedstock capabilities) opting for the alternative feedstock, and although price economics now started tilting towards gas again Naphtha prices have risen lately but any reduction in prices of Naphtha in future would impact the demand of Natural Gas adversely.

Lower than expected gas supply volumes –

GSPL's profitability and valuations may be negatively impacted on lower than expected gas supply volumes. Any reduction in existing gas supply volumes from Petronet LNG and Reliance will also have an impact on the earnings estimates of the company. Currently, natural gas has better economics against alternative fuels like naphtha and fuel oil. However, any competitiveness of alternative fuels vis-à-vis natural gas would impact the volumes of GSPL

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