



## IDEA2ACT: GSPL

Reco Price	12-months Target Price
BUY @ ₹ 337-325	₹394

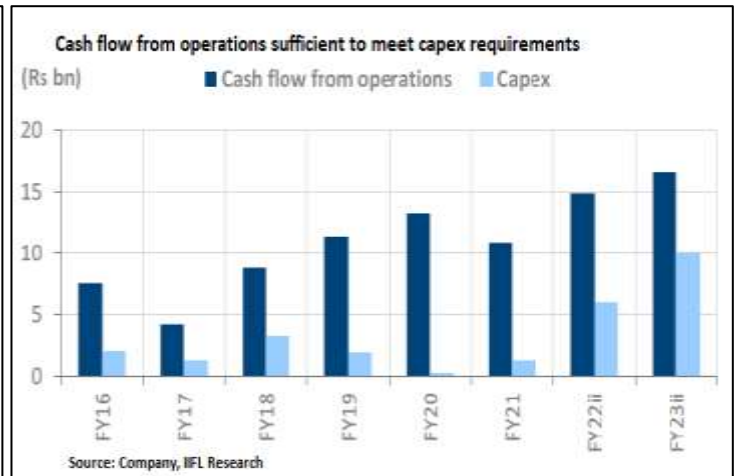
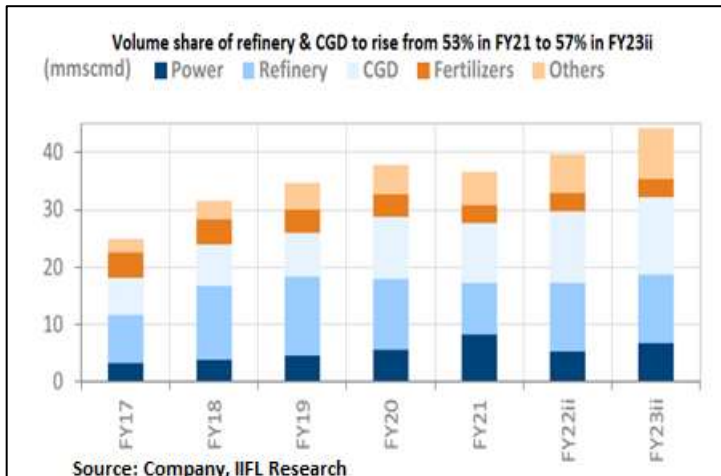
Gujarat State Petronet Ltd. was set up in 1998 by Gujarat State Petroleum Corporation (GSPC), a state-owned entity, to establish and operate a state-wide gas network in Gujarat. Since its incorporation, GSPL has steadily increased its gas pipeline network and at present owns 2,692 km of medium-to-high pressure pipelines. It is India's first pure gas-transmission company to operate on "open access", connecting various gas suppliers and consumers across Gujarat. Further, in a consortium with IOCL (26%), BPCL (11%) and HPCL (11%), GSPL (52%) has won three large cross-country gas pipelines. With the commissioning of these pipelines, GSPL will have a pan-India presence. GSPL also owns stakes in two city gas distribution (CGD) companies operating in Gujarat i.e. Gujarat Gas (54.17%) and Sabarmati Gas (27.47%).

### Investment Rationale

**Government initiatives to boost Gas transmission:** The Indian Power system for planning and operational purposes is divided into five regional grids. One Nation, One Gas Grid refers to the integration of these regional grids, thus establishing a National Grid for providing energy produced by natural gas to various stakeholders. The Government of India has set the energy roadmap, envisaging more than double the share of cleaner natural gas in the consumption basket, diversifying sources of energy, connecting the nation with one gas pipeline grid and bringing affordable fuel to people and industry. This initiative of the Indian government will help meet its target of reaching 15% natural gas in its energy basket mix by 2030, which is currently at 6.2-6.5% whereas the global average is 23-24%. This will directly benefit GSPL which is a Gas transmission company.

**Strong volume outlook:** GSPL's gas transmission volumes in Gujarat are set to register a growth of 10% p.a. through FY21-23ii, on the back of – (a) industrial segment (refineries, petrochemical, steel plants, etc.); (b) demand pull from CGDs – (Morbi and CNG infra expansion by CGD entities); and (c) expansion of its pipeline network. If the LNG prices fall, power sector demand may revive, and further boost the transmission volumes. GSPL's two pipelines outside Gujarat (GIGL and GITL) should see ramp up in volumes through FY21-23ii, thereby boosting consolidated volume growth to 19% p.a. through FY23ii.

**Tariff reset holds key:** GSPL's pipelines in Gujarat earn regulated tariff which is set by the PNGRB; we note the tariff is due revision. The tariff is sensitive to ramp up in volumes and future capital expenditure. GSPL has plans to invest Rs30bn in the next 3 years to grow its network capacity and improve connectivity. However, such capex is subject to the regulatory approvals. Hence, we assume no change in tariff through FY23, and forecast its standalone earnings growth of 21% per annum. The consolidated earnings should grow at a much faster pace (25% p.a.) on the back of Gujarat Gas (54% stake) and other JV companies. We note, a 5% change in tariff leads to 6% swing in standalone EPS.



**Connectivity in new areas:** GSPL has plans to invest Rs30bn to expand its network capacity and establish a uniform gas grid across Gujarat. Though that would require regulatory approvals i.e. Rs20bn investment would be at bay pending such approvals. However, Rs10bn investments in spur lines can be undertaken without any further regulatory approvals. Investment in new pipelines holds key for connecting Mundra terminal to consumption centres up-north through the Mehsana-Bhatinda pipeline. As of now, the 5m MT Mundra LNG terminal utilisation is only 42% vs. ~100% of Dahej; as such these pipelines hold strategic importance to improve gas penetration in India.

### Outlook and valuation

We forecast GSPL's consolidated PAT to grow at 25% p.a. through FY23ii driven by ramp up in transmission volumes, impressive performance of Gujarat Gas (54% holding) and an assumption of unchanged pipeline tariff. GSPL has plans to invest Rs30bn in the next 3 years to grow its pipeline connectivity in Gujarat; this would be scrutinized by the PNGRB while resetting its tariff. A 10% lower tariff implies 12% change to FY22/23 EPS.

GSPL trades at 8x FY23ii consolidated earnings, which we think is cheap. The base case SoTP takes into consideration the following (1) 7x FY23 PAT for its regulated pipeline businesses (in sync with regulated power utilities), (2) 50% discount to value its holdings in Gujarat Gas at CMP, and (3) 20x FY23ii PAT for Sabarmati Gas (27% stake). While overhang of tariff reset would continue for some time, we think GSPL offers a low-risk annuity play on gas penetration in Gujarat and a proxy play on fast growing CGD operations of Gujarat Gas. **The base case SoTP target is Rs394/share and we believe the stock is undervalued at the CMP.**

**Technically,** the stock has given a breakout from the rising channel pattern on the weekly chart and has been forming higher top-higher bottom pattern on the daily chart indicating a positive bias in the medium term. **If the current impulse move accentuates the way it should, we expect GSPL trend higher and test our immediate target price of Rs394 during the next 1-Year.**





[Click Here](#) to watch the Video now.

### Previous Recommendations:

Date	Stock Name	Reco Price	Target	P/L %	Status
26-May-20	Emami Limited	205	241	18%	Target Achieved
02-Jul-20	ITC	201	235	17%	Target Achieved (₹25+ Dividend 10.15 exdate 6th Jul 2020)
02-Jul-20	NHPC	19.5	24	23%	Target Achieved
15-Jul-20	HCL Tech	610	695	14%	Target Achieved
30-Jul-20	INDIGO	920	1074	17%	Target Achieved
11-Aug-20	JB Chemicals & Pharmaceuticals	750	867	16%	Target Achieved
13-Aug-20	UPL	480	555	16%	Target Achieved
18-Aug-20	Crompton Consumer	256	299	17%	Target Achieved
28-Aug-20	Sudarshan Chemical	474	557	18%	Target Achieved
14-Sep-20	Apollo Tyres	114.5	138	21%	Target Achieved
01-Oct-20	Manappuram Finance Ltd	155.5	186	20%	Target Achieved
16-Oct-20	Cyient Ltd	370	440	19%	Target Achieved
28-Oct-20	Amara Raja Batteries	770	898	17%	Target Achieved
02-Nov-20	SIS (I) Ltd	363	423	17%	Target Achieved
03-Dec-20	Bharat Electronics	112	139	24%	Target Achieved
16-Dec-20	RBL Bank	233	273	17%	Target Achieved
06-Jan-21	Alembic Pharmaceuticals	1075	1252	-12%	Open
15-Jan-21	Hindustan Petroleum Corporation Ltd	229	274	20%	Target Achieved
05-Feb-21	State Bank of India	351.5	429	22%	Target Achieved
01-Mar-21	Cummins India	772	914	18%	Target Achieved
10-Mar-21	HCL Tech	962	1140	3%	Open
10-Mar-21	Eicher Motors	2635	2940	-3%	Open
07-Apr-21	Cyient Ltd	669	789	18%	Target Achieved
03-May-21	Persistent Systems Ltd	1990	2400	21%	Target Achieved
04-May-21	SBI Life Insurance Company Ltd	945	1144	11%	Open
17-May-21	HG Infra	325	394	21%	Target Achieved
02-Jun-21	Gujarat Gas Limited	532	674	27%	Target Achieved
22-Jun-21	Jindal Stainless (Hisar) Ltd	184	228	24%	Target Achieved
06-Jul-21	Tata Motors Limited	341	410	-13%	Open

Closing Price as on 23rd July 2021 for Active Calls.



Disclaimer:

**Recommendation Parameters for Fundamental/Technical Reports:**

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

**Please refer to** <http://www.indiainfoline.com/research/disclaimer> for recommendation parameter, analyst disclaimer and other disclosures.

Investments in securities market are subject to market risks, read all the related documents carefully before investing. There is no assurance or guarantee that the investment objectives shall be achieved. IIFL does not guarantee any assured returns on the investments recommended herein. Past performance of securities/ instruments is not indicative of their future performance. IIFL makes no representation/s or warranty/ies, express s or implied, as to the accuracy, completeness or reliability of any information compiled herein, and hereby disclaims any liability with regard to the same, including, without limitation, any direct, indirect, incidental or consequential loss. You shall verify the veracity of the information on your own before using the information provided in the document. Investors are requested to review the prospectus carefully and obtain expert professional advice. IIFL group, associate and subsidiary companies are engaged in providing various financial services and for the said services (including the service for acquiring and sourcing the units of the fund) may earn fees or remuneration.

IIFL Group | IIFL Securities Ltd., IIFL House, Sun Infotech Park, Road No. 16V, Plot No. B-23, MIDC, Thane Industrial Area, Wagle Estate, Thane - 400604. CIN: 99999MH1996PLC132983 Tel.:(91-22)2580 6650. Customer Service: 40071000. Stock Broker SEBI Regn: INZ000164132. NSE: 10975 BSE: 179 MCX: 55995 NCDEX: 01249 Depository: INDP1852016. MF Distributor ARN: 47791. PMS SEBI Regn,: INP000002213. Investment Adviser SEBI Regn. INA00000623. Research Analyst SEBI Regn: INH000000248. Loan products are offered by IIFL Finance Ltd. & IIFL Home Finance Ltd. Kindly refer to [www.indiainfoline.com](http://www.indiainfoline.com) for detailed disclaimer and risk factors.