

Equity Research Report Gujarat State Petronet Ltd (Gspl) A Complete Overview for both Long and Short-Term Investments.

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I. BUSINESS MODEL

The company Gujarat state petronet ltd.is engaged in the primarily in the business of transmission of natural gas (mainly LNG) through it's widely spread pipeline network, from major natural gas supply sources to the demand points. It is the first company in India to transmit power on open access basis.

The company also produces power with the help of windmills in the state of Gujarat.

GSPL has three subsidiary companies, namely:

- GSPL India gasnet limited
- GSPL India Transco limited
- Gujarat Gas limited

The 1st two for the purpose of building transmission network robustly throughout the country and help in expansion. The last one(GGL) works in City Gas Distribution and has largest consumer base in the country across segments.

GSPL led Joint Venture Companies have achieved Financial Closure for the three Cross Country Pipeline Projects.

The company started its business in the 2000 with only a 14km long grid but in the year ending 2020 had 2700 km fully operational pipeline network along with 930km under construction.

GSPL has presence in over 42 districts, mainly in the state of Gujarat, Punjab, Haryana, Rajasthan, Maharashtra and Madhya Pradesh.

II. INDUSTRY OUTLOOK

Industrial units across the country are given incentives by the government to use Natural gas as an alternate for fossil fuels.

The consumption of natural witnessed a growth of 5.2% in 19-20 asto previous year and the demand is expected to see 6.8% CAGR growth till year 29-30.

The government is planning to build another 14000km of transmission pipeline in the country in coming years.

India is 4th largest buyer of LNG in the world, its imports saw a rise of 7% in 19-20 year on year.

The city gas distribution segment also witnessed growth in demand and the number of CNG stations in India surged by 27% y-o-y.

III. CROSS-SECTIONAL ANALYSIS

The major peers of the company are ADANI GAS, INDRAPRASTHA GAS, MAHANAGAR GAS and DEEP ENERGY.

Considering the recent September quarter(Q2) the company GSPL triumphs over its peers as follows:

- Recording sales of 2980cr, highest in the above mentioned companies.
- Net profit of 498cr, again the most in the above companies.
- Dividend yield(0.97%), ranking 2nd in above 5 mentioned companies.

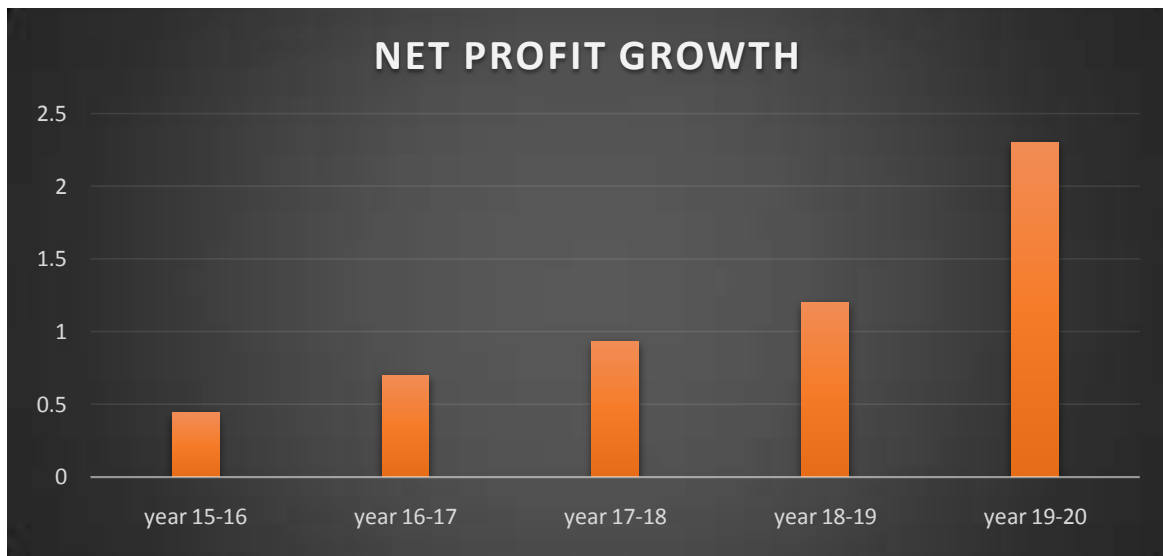
IV. FUNDAMENTAL OVERVIEW

Considering the Balance Sheet, P&L account and cash flow statement of Gujarat State Petronet Ltd, the company looks quite promising.



(figures in thousand crores)

The company witnessed a robust sales growth of 62% 5yr CAGR and 27.5% 3yr CAGR. It also had 31% Y-o-y rise.



(figures in thousand crores)

The net profit as well surged massively at 40% 5yr CAGR and 48% 3yr CAGR. The company also saw 94% rise in 19-20 on y-o-y basis.



(figures in crores)

The company registered a remarkable 5yr CAGR of 29%.

SOME KEY POINTS ARE AS FOLLOWS:-

- a) Though the company saw increased profits every year, the OPM% was standing strong at 26%. Debt/equity = 0.24
- b) The company has significantly reduced borrowing from 1,285cr in 18-19 to 544cr in March 2020.
- c) On Q-O-Q basis the company almost doubled its revenue and profits which shows it's recovering at pace from the impact of covid-19 induced lockdowns.
- d) It is constantly paying dividends every year.

e) Over the past 3 years, the reserves of the company have also gone up from 1,900cr to 4,320cr as at march2020.

f) The fixed assets increased from 8,082cr to 9,256cr since previous 3 years.

g) DU-PONT ANALYSIS

NPM= 18.6%, which reflects high operational efficiency.

Asset Turnover= 1.44, indicates very optimum use of assets.

Equity multiplier= 1.37, company is utilizing financial leverage.

Now multiplying above 3 to get the Return on equity i.e 37%.

Thus, the company has a remarkable efficiency in all three measure with a good ROE.

V. TECHNICAL ANALYSIS

➔ TREND LINES AND MOMENTUM OSCILLATOR



-The company is showing a strong breakout around level 197-200 with three strong green candles.

-Price chart is showing a downward trend since June, but the momentum oscillator suggests upward trend, now followed by a breakout, this might make a trend reversal and mark the start of a good surge.

➔ BOLLINGER BAND AND MACD



-As is visible in the upper chart the price rose above the upper band accompanied by strong momentum in MACD.

-This is clear signal of strong bullish behavior which might continue for a while.

➔ MOVING AVERAGES AND RSI



-The red line is 50 days and green one 200 days moving average which cross by red cutting green from below marked by blue cross.

-Thus, it is a very evident bullish signal. Even though the RSI is pretty high, it most certainly

means overbought but this trend is likely to hold and price might continue to rally.

VI. MOATS AND RECENT DEVELOPMENTS

- a) GSPL is under the management of very reputed and efficient:
- Anil Mukkim, IAS (chairman and managing director)
 - M M Srivastava, ret. IAS (non-executive director)
 - Sunaina Tomar, IAS (non-executive director)
 - Prof. Yogesh Singh (independent director)
 - Dr. Bakul Dholakia (independent director)
- b) Taking into consideration the risk associated with the work of the company, GSPL had zero accidents in the year march 2020, which throws light on the able and efficient management.
- c) The company proudly presented that new pipelines will increase the supply by around 25% in year ending 22.
- d) GSPL has 52.2 mw of wind power project that generated rs40cr. of revenues. This sustainable energy generation is expected to see vigorous growth in the coming years.
- e) The promoters have maintained their holding at 37% over the years with 0% pledging.
- f) The government said it will invest rs.10,000cr in the next three years in sector of LNG.

VII. VALUATION

The current industry P/E ratio of the sector is around 40 but it very fascinating that GSPL is at a P/E of 9, also the P/BV is 2.26.

Considering the robust growth the company has been showing over the last few years, it is highly likely that these numbers shoot up and provide good gains to the investors.

Now we would understand the intrinsic value of the company:

- A) Graham value = 504rs.
- B) Discounted Cash Flow = 538rs.
- C) Fair value = 416rs.

These are the price of the stock according to 3 most famous methods of valuation; these are calculated by taking very conservative estimates and figures.

VIII. CONCLUSION

The company is an ideal BUY for both long and short-term buyers.

→ LONG TERM VIEW

The company GSPL is very strong fundamentally and passes on every quality check measure, thus a BUY is recommended. The valuations of the company are also quite cheap compared to the competitors and considering robust expansion and growth rates, it is expected to give and 300 level of price in coming 4-6 quarters. The

company is remarkable at fundamentals and management thus one must hold after buying.

→ SHORT TERM TRADING

The company is currently trading at 206rs levels. One must place a stop loss around 180rs as it has been a strong support zone and if prices breach and go down then it might create some issues, but the happening of such an event is highly unlikely. Profit shall be booked in three instalments, 1st when prices touch 227rs and 2nd at 240rs and the final profit book shall come around rs.260. All of these targets might meet in the coming 2-3 quarters.

(NOTE: the report is based on consolidated results of the company and all the figures are in crores. This report is purely for educational purpose and does not assure anything at all. A good investor shall consult professionals before investing in the markets.)

-MUKUL BHARDWAJ

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