



# 5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

## GUJARAT STATE PETRONET LTD

### WHAT WE LIKE

#### OPEN ACCESS MODEL & LONG TERM SALES VISIBILITY DUE TO GTAS

GSPL operates as a pure-play transmission player thereby it minimizes the risk associated with fluctuation of gas prices. Open access system helps the consumers to directly negotiate with the suppliers, keeping GSPL out of the process. However, project of establishing and operating a CGD network like the ones in Amritsar & Bhatinda do create a **marginal exposure to natural gas price fluctuation**. Gas Transmission Agreements (GTA) between GSPL and its customers are typically of a tenure between 1 year and 15 years where all commercial terms are fixed to protect the interest of both parties. The management expects >10% volume growth CAGR in next 3-5 years which should provide good revenue visibility going forward given the GTAs in place.

#### STRATEGIC LOCATION

Gujarat is the primary origination or entry point for both domestic natural gas produced in the Arabian Sea and imported LNG for Western and Northern India, owing to its strategic location and oceanic access to LNG exporting countries in the Middle East and Asia. It is also the highest natural gas consuming state with around 32% of total domestic gas consumption. GSPL's pipeline network is close natural gas fields of Cairn Energy, GSPC and GSPC-Niko (all located in Hazira), & the LNG terminals of SHELL & Petronet LNG which creates a competitive advantage for GSPL.

#### RISING DEMAND FOR GAS

Natural gas accounts for near 7% of the total energy mix currently. But it is expected to steadily rise with the widespread use of the fuel to replace coal in the power and steel sectors and through the replacement of LPG for cooking fuel. As the 2nd largest gas transmission player in India, GSPL should benefit a lot from the rise of the gas sector.

#### STRONG FINANCIALS & GOOD RESULTS FOR GUJARAT GAS

In last 5 years, Revenue: 25% CAGR; PAT: 24% CAGR; ROE: 29% GSPL stake in Gujarat Gas: 54.17% Value of GSPL stake in Gujarat Gas: Rs 21.2k Cr GSPL Market Cap: Rs 14k Cr

This shows that GSPL's core business is available for free even after applying a 33% holding company discount on the Gujarat Gas stake.

Gujarat Gas has seen a 67% YoY rise in revenues in FY22 which augurs well for GSPL.

### WHAT WE DON'T LIKE

#### LARGE SIZE CAPEX PLANS TO POSE STRESS ON THE BALANCE SHEET

GSPL has planned to undertake capex over the next few years towards the expansion of the existing pipeline network, laying new spur lines, and capacity augmentation. The cross country pipelines are to be made through an SPV in partnership with IOCL, HPCL & BPCL. The total project cost was estimated at Rs 13,000 Cr, which is to be funded in a debt to equity ratio of 70:30. But it has already seen cost overrun of Rs 1000 Cr and now the debt to equity mix has become 61:39. Execution of these projects within time and minimization of cost overruns is very critical for GSPL's performance.

#### ROLE OF PNGRB IN DETERMINING TARIFF

Petroleum and Natural Gas Regulatory board (PNGRB) determines tariff for natural gas pipelines. In September 2018, PNGRB increased the tariff for the transportation of natural gas by approx. 27%. However, in future, there is always a risk of any change in the government policy keeping in mind the interest of the end consumers at large.

#### AFFORDABILITY AND AVAILABILITY OF NATURAL GAS

Current estimates and outlooks for natural gas availability are positive and the likelihood of over-supply is nil. However, for an emerging economy like India, affordability of natural gas vis-à-vis other fuels, especially in the wake of rising oil prices definitely remains a concern. In fact, the biggest risk for gas is its affordability in key demand sectors, such as Industries and Power.

The ongoing Russia Ukraine War has already pushed oil & gas prices up and if these prices remain at such high levels then industry demand is expected to suffer a lot.

This has already resulted in a fall of 18% in Q4 volumes for Gujarat Gas but the company was able to maintain good revenue rise & high margins by passing on the price rise to customers.

#### ABILITY TO RENEW EXPIRING GTAS

Some of the GTAs are scheduled to expire in the near future for GSPL. As per past experience, this is an ongoing process and over the years the company has seen renewal of its contracts. However, there is still a risk whether they would be able to continue to get them renewed on their favorable terms.

