



FUND LAUNCHED

2005

FUNDS UNDER MANAGEMENT

£522.1
MILLION

NET ASSET VALUE PER SHARE

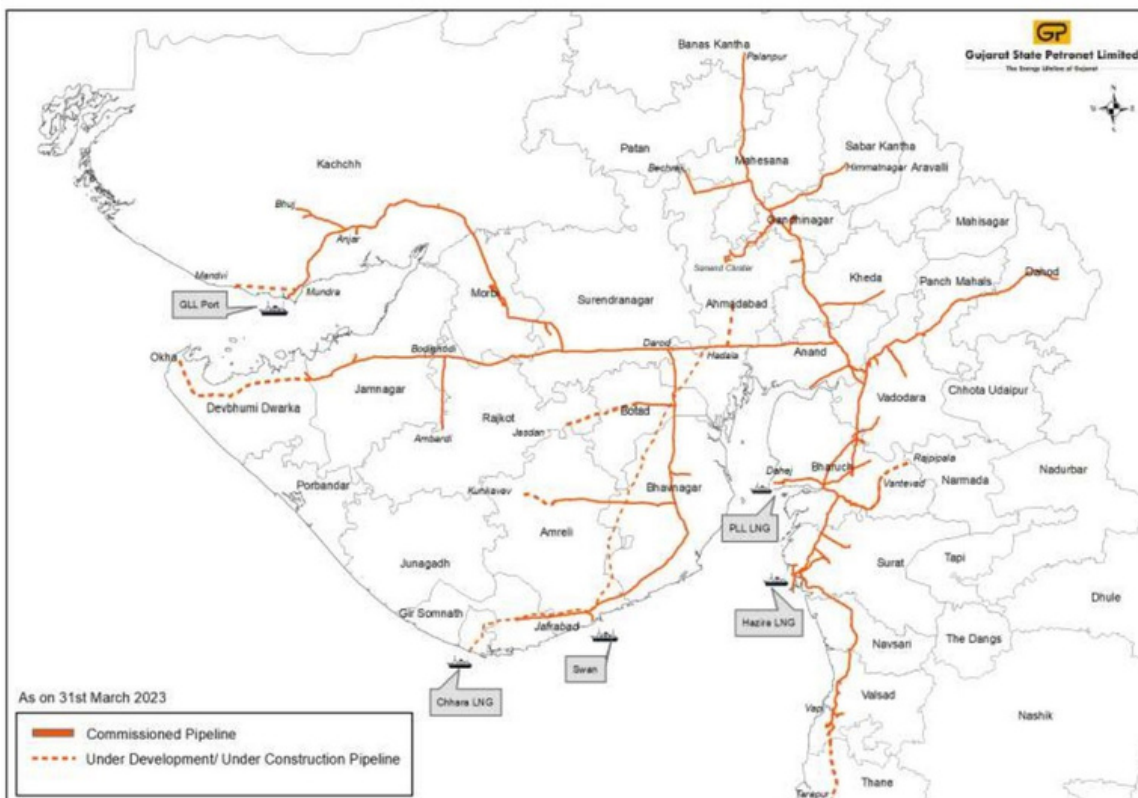
398.8%
SINCE INCEPTION*



Gujarat State Petronet Limited - deep value waiting to be unlocked

September 2023

Gujarat is one of the most industrialised states in India, with a dominant presence in sectors such as textiles, pharmaceuticals, fertilizers, cement and ceramics. These industries have high energy consumption, and whilst historically this may have been supported by fuel oil or coal, there is a major push towards cleaner fuels. In February 2023, Indian Prime Minister Narendra Modi stated the government's mission to increase the consumption of natural gas in India's energy mix from 6% to 15% by 2030. To enable this, gas transmission networks in India are expected to be expanded from 22,000km to 35,000km over the next five years.



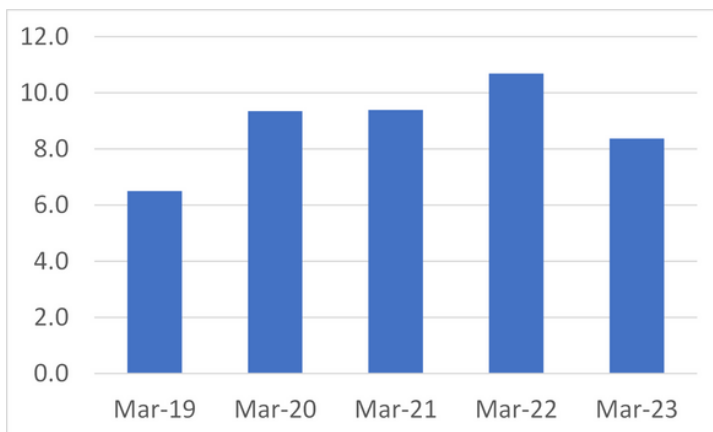
Source: GSPL 2023 Annual Report

Central to this vision is Gujarat State Petronet Limited (GSPL), the dominant gas pipeline operator in Gujarat with a 2,700km transmission network as well as a controlling stake in distribution operator Gujarat Gas (GGAS). GGAS is also listed in on the Stock Exchange and has a 36,000km network serving 1.9m households as well as commercial and industrial clients. The transmission grid is critical infrastructure for the State, being the principal connection to Liquefied Natural Gas (LNG) terminals through which gas is imported into India.

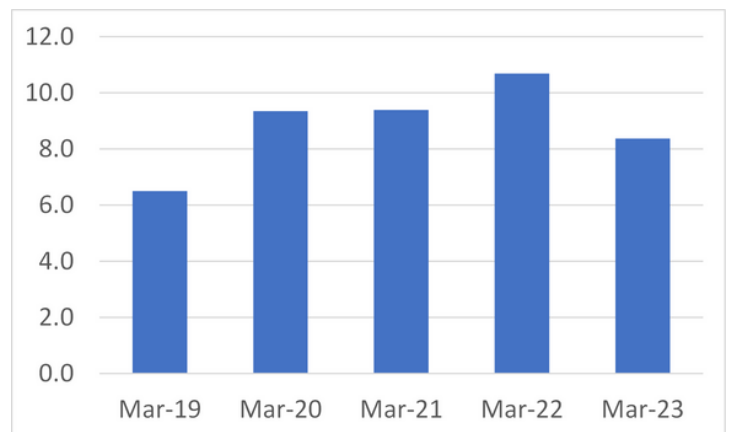
As a natural monopoly infrastructure asset, GSPL’s transmission network is regulated by the Petroleum and Natural Gas Regulatory Board with a structure which allows 12% post-tax project returns. This means that the transmission business cash flows are highly predictable, and this stable entity has built up a noteworthy cash pile in recent years. This will partly be used to expand the transmission network to support additional LNG imports from key terminals, with a project pipeline over the next five years totalling INR40bn (\$480m) of investment. This investment should deliver increased earnings in the longer term.

In addition to the transmission network, GSPL has a 54.2% stake in Gujarat Gas, which provides the last-mile connections to gas customers. GGAS is the largest city gas distribution operator in India with a presence in 44 districts across a licensed area totalling 175,600 km. This business has delivered remarkable growth with gas volumes sold growing at 18.0% CAGR in the three years to March 2022, predominantly driven by commercial and industrial (C&I) demand. Whilst GGAS has flexibility on pricing, these customers are highly price-sensitive, and the spike in LNG prices following the Russian invasion of Ukraine meant that natural gas was not economically competitive versus competing fuels such as propane and LPG. This resulted in demand falling 21.6% in the twelve months to March 2023, driven by C&I volumes plummeting 34.5%. As LNG prices have fallen back from the highs of 2022, we expect demand to stabilise and recover. Growth prospects will be further bolstered by the investment which GGAS is making in its regions to expand its network presence, connecting up new customers.

Gujarat Gas volumes (mmscm per day)



GSPL EBITDA (INR bn)



Source: GSPL 2023 Annual Report

The attraction of GSPL's core business activities is predictable regulated cash flows from transmission operations combined with commercial growth potential from distribution. However, it is evident to us that there is deep value which is being overlooked by the market due to the nature of reporting and the peculiarities of the Indian market. GSPL produces standalone accounts for the transmission business, and many market participants evaluate the company solely on this basis, rather than consolidated figures. This situation has been neglected by the state-appointed management team at GSPL, who in many ways encourage this view – for example, by announcing dividends based on standalone accounts, not the consolidated figures in which GSPL investors are actually participating in.

What this means is that the market is currently failing to fully recognise the value of GSPL's assets, a situation which is starkly revealed in the fact that the listed equity value of GSPL (the parent) is less than the listed equity value of its stake in GGAS (a subsidiary)! In effect, the market is attributing negative value to a fully-regulated, 100% owned gas transmission business which last year delivered INR9.5bn (\$114m) in net profits and INR7.9bn (\$96m) free cash flow.

If this value can be unlocked – for example through a prorata distribution of the GGAS stake to GSPL shareholders – this represents a remarkable opportunity for investors. At the same time, GSPL has the capacity to significantly increase dividend distributions – these are well supported by the cash accumulating on GSPL's balance sheet. Unfortunately, to date there has been limited progress on catalysing this value, notwithstanding ongoing engagement efforts by the ICM management team, which reflects poorly on the governance at the Board of Directors. But we are hopeful that in time the voice of minority shareholders will be heard, and the true value of these businesses unveiled. GSPL is one of UEM's top five largest investments with a 1.2% stake in the company.

Jonathan Grocock

5 September, 2023

Source Data: GSPL 2023 Annual Report, and ICM Limited as of 5 September, 2023.

*Total return is calculated based on undiluted Net Asset Value, plus dividends reinvested and adjusted for the exercise of warrants and subscription shares

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