

Aug 12, 2009

Key Data	(INR)
CMP	68
Target Price	72

Key Data	
Bloomberg Code	GUJS IN
Reuters Code	GSPT.BO
BSE Code	532702
NSE Code	GSPL
Face Value (INR)	10
Market Cap. (INR mn.)	37303
52 Week High (INR)	73
52 Week Low (INR)	52
Avg. Daily Volume (6m)	4729290

Shareholding	%
Promoters	37.8
Mutual Funds /Bank/ FII	11.3
Foreign Institutional Investors	11.0
Bodies Corporate/Individuals/Others	13.9
Total	100.0

Gujarat State Petronet Limited

Financial performance 1Q FY10

Net sales

The company's revenue grew 76% to INR2108.2 million, compared with INR1194.9 million in the year-ago period. Total gas volume transported during the quarter was 2304.3 million metric standard cubic meter (mmscm), compared with 1638.52 mmscm in the year-earlier period. Revenue growth is mainly attributable to volume growth of RIL and Torrent power and increase in net realization because of renewal of contracts in January 09 from 0.75/ standard cubic meter (scm) in Q4 FY09 to 0.91/scm in 1Q FY10, a 21% increase.

INR Mn	Quarter ended		
Particulars	1Q FY10	1Q FY09	YoY change (%)
Income From Operations	2108.2	1194.8	76.4
Other income	35.0	68.0	
Total Income	2143.2	1262.9	69.7
Volume Transported (mmscm)	2304.27	1638.5	41
Pipeline Tariff / scm	0.91	0.72	

Source: Company, ACMIIL research

Operating Profit

During 1Q FY10, OPM increased by 430 bps YoY to INR1980.2 million owing to higher volumes and improvement in net realization/scm.

INR Mn	Quarter ended		
Particulars	1Q FY10	1Q FY09	YoY change (%)
Operating Profit	1980.2	1075.6	84.1
OPM (%)	93.9	90.0	

Source: Company, ACMIIL research

Net Profit after Tax

PATM increased 1100 bps to INR805 million, compared with the previous year.

INR Mn	Quarter ended		
Particulars	1Q FY10	1Q FY09	YoY change (%)
Profit After Tax	805.0	326.4	146.6
PATM (%)	38.2	27.3	

Source: Company, ACMIIL research

Current Volume Breakup

Currently, the company transports 25.6 mmscmd of natural gas to its various customers. Out of that, 4 mmscmd each is consumed by RIL and Torrent power, which drives the current volume spurt. Currently, RIL purchases gas from the Petronet LNG on Spot Basis.

	1Q FY10	1Q FY09
Volume of Natural Gas Transported (mmscm)	2304.3	1638.5
Breakup of Volume Supply (mmscmd)		
Regular Supply	17.6	18.2
RIL	4.0	0
Torrent Power	4.0	0
Total Volume Supply	25.6	18.2

Source: Company, ACMIIL research

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Profit And Loss A/C					(INR Mn)
Particulars	1Q-FY10	1Q-FY09	Change (%)	4Q-FY09	Change (%)
Income From Operations	2108.2	1194.89	76.4	1319.8	59.7
Other income	35.0	68.02	-48.5	44.2	-20.7
Total Income	2143.27	1262.91	69.7	1364	57.1
Total Expenditure	128.0	119.3	7.3	191.4	-33.1
As % of Sales	6%	10%		15%	
Operating profit	1980.2	1075.6	84.1	1128.4	75.5
OPM%	94%	90%		85%	
EBIDTA	2015.2	1143.6	76.2	1172.6	71.9
EBIDTAM%	96%	96%		89%	
Depreciation	550.1	414.6		438.81	25.4
EBIT	1465.1	729.0	101.0	733.8	99.7
Interest	245.2	218.1		199.07	
Profit Before Tax	1220.0	511.0	138.8	534.7	128.1
Tax	415	184.5		187.8	121.0
Profit after tax	805.0	326.4	146.6	347.0	132.0
PATM (%)	38%	27%		26%	
Paid up Equity Share Capital	5621.2	5620.1		5621.2	
EPS	1.43	0.58		0.62	

Source: Company, ACMIIL research

Proposed Pipeline network

GSPL is currently implementing following pipelines;

Under Implementation	Length (Km)
Morbi - Mundra	225
Darud - Pipavav	225
Baroda - Godhra	40
Total	490

Source: Company

Company Outlook

GSPL has been enjoying the benefits of ownership of a unique and valuable asset in India's fast-growing gas market and a visible volume-led growth. Lending continuity to the growth story, GSPL has contracts in place with Torrent Power and RPL, which would boost volume significantly in FY10E and FY11E and provide long-term revenue visibility. The company also has pipeline expansion plans that will fortify its position through deeper connectivity and penetration. GSPL's total pipeline network today stands at around 1400 km and the expansion plans would increase this to 2000 km by CY11. During 1Q FY10, the volume grew 41% and revenue grew 76% YoY. Revenue growth is mainly attributable to volume growth of RIL and Torrent power and increase in net realization because of renewal of contracts in January 09 from INR0.75/scm in Q4 FY09 to INR0.91/scm in 1Q FY10, increase of 21%. According to the new regulation, tariff rate will change at end FY10 and new tariff rate will come in to force by end FY10. The company expects tariff will not go below INR0.75 scm. We assume tariff for FY10E would be at INR0.81 scm and INR0.79 scm for FY11E. However, contribution towards social responsibility still remains a concern on earnings of the company.

Transmission Tariff outlook

GSPL expects tariff will not go below INR0.75 scm. We assume tariff for FY10E would be INR0.81 scm and INR0.79 scm for FY11E. Due to expected change in the tariff rate at FY10 we assume different levels of tariff for FY10E and arrive at earnings for each level.

Tariff	FY10E EPS	Tariff	FY11E EPS
INR/scm	INR/Share	INR/scm	INR/Share
0.75	3.2	0.75	4.3
0.81 (Base Case)	3.7	0.79 (Base Case)	4.7
0.85	4.0	0.85	5.3
0.90	4.4	0.90	5.7

Source: ACMIIL Research

Risk and Concerns

Competitive prices of substitute products: Change in prices of hydrocarbon products such as LPG, Naphtha or fuel oil would change the preference from the natural gas to that product.

Regulatory risk: Unfavorable changes in regulation pertaining to gas pipeline tariffs by Petroleum and Natural Gas Regulatory Board would adversely affect the company's revenue.

Valuation

We expect GSPL's sales to grow at 45.3% CAGR and PAT to grow at 46.1% CAGR from FY09 to FY11E. Long-term contracts with RPL and Torrent Power are expected to lead GSPL's growth in FY10E and FY11E. Given a strong growth story, backed by higher volumes, stable tariff, better margins, company has strong fundamentals in place. However the valuation appears rich at current market price. At the CMP of INR68, GSPL is trading at 2.7x its FY10E P/BV and 2.3x its FY11E P/BV. We recommend a **"Hold"** for GSPL with a target price of INR72, translating to 2.5x FY11 BV.

Profit and Loss A/C						(INR Mn)
Particular	2006	2007	2008	2009	2010E	2011E
Sales	2634.7	3175.6	4178.9	4874.9	8442.0	10284.9
Other income	44.7	174.5	293.8	243.1	253.3	257.1
Total	2679.4	3350.1	4472.7	5118.0	8695.3	10542.0
Total Expenditure	693.3	498.3	534.1	629.9	681.3	817.7
Operating Profit	1941.4	2677.3	3644.8	4245.0	7760.7	9467.2
EBIDTA	1986.1	2851.8	3938.6	4488.1	8014.0	9724.3
Depreciation	790.6	1026.1	1632.1	1704.9	2378.0	2713.5
EBIT	1195.5	1825.7	2306.5	2783.2	5636.0	7010.8
Interest	412.1	456.5	815.1	869.9	1088.9	1177.8
PBT before Adjustment	783.4	1369.2	1491.4	1913.3	4547.1	5833.1
Prior Period Adjustment	0.6	3.4	0.2	0	0	0
PBT	784.0	1372.6	1491.6	1913.3	4547.1	5833.1
Corporate Social Responsibility	-	-	-	-	1364	1750
PBT after CSR	-	-	-	-	3183	4083
Tax	317.3	478.8	492.4	679.4	1129.9	1449.5
PAT	466.7	893.8	999.2	1233.9	2053.0	2633.6

Source: Company, ACMIIL research

Balance Sheet Statement						(INR Mn)
Particular	2006	2007	2008	2009E	2010E	2011E
Source of fund						
Share Capital	5422.4	5428	5620	5621.1	5621.1	5621.1
Reserves and Surplus	3652.5	4231.2	5789.5	6634.0	8360.9	10668.5
Total Share holders Fund	9074.9	9659.2	11409.5	12255.1	13982.0	16289.6
Secured Loans	5701.5	8638.3	9650.4	11500.0	13611.0	14722.0
Unsecured Loans	84.7	0	10	0	0	0
Total Loans	5786.2	8638.3	9660.4	11500.0	13611.0	14722.0
Deferred Tax Liability	784	918.6	1001.5	1001.5	1001.5	1001.5
Total	15645.1	19216.1	22071.4	24756.6	28594.5	32013.1
Application of fund						
Fixed Assets						
Gross Block	9805.1	18889.2	20190.4	24000.0	29000.0	33500.0
Less: Depreciation	2205.2	3228.3	4819.2	6524.1	8902.1	11615.6
Net block	7599.9	15660.9	15371.2	17475.9	20097.9	21884.4
Capital Wrk in Prog.	6050.6	1367.8	5887.9	6500	6700	7400
Total	13650.5	17028.7	21259.1	23975.9	26797.9	29284.4
Deferred Tax Assets	275.7	1.6	2.5	2.5	2.5	2.5
Investments	0	0	355.7	355.7	355.7	355.7
Net Current Assets	1595.8	2093.6	390.8	422.5	1438.4	2370.5
Misc. Exp	123.1	92.2	63.3	0	0	0
Total	15645.1	19216.1	22071.4	24756.6	28594.5	32013.1

Source: Company, ACMIIL research

Cash Flow Statement						(INR Mn)
Particulars	2006	2007	2008	2009E	2010E	2011E
PBT	784.0	1372.6	1491.6	1913.3	4547.1	5833.1
Operating profit before wrk Cap Chng	2017.7	2885.1	3968.7	4488.1	8014.0	9724.3
Net cash flow from Operating Activities	2486.3	1758.4	6018.3	2197.1	5274.6	6550.1
Net Cash Flow from Investing Activities	-6049.2	-4404.2	-6218.4	-4421.7	-5200	-5200
Net Cash Flow from Financing Activities	5508.9	2086.0	958.14	653.6	696.0	-392.8
Net Inc/Dec in Cash and Cash Equivalents	1946.0	-559.9	758.1	-1571.0	770.6	957.3
Cash and Cash Equivalents at the beg. Of the year	426.1	2372.1	1811.1	2569.2	998.2	1768.8
Cash and Cash Equivalents at the End Of the year	2372.1	1812.2	2569.2	998.2	1768.8	2726.1

Source: Company, ACMIIL research

Ratio						
	2006	2007	2008	2009E	2010E	2011E
Profitability Ratios						
EBDITAM (%)	74.1	85.1	88.1	87.7	92.2	92.2
PATM (%)	17.7	28.1	23.9	25.3	24.3	25.6
ROCE (%)	7.6	9.5	10.5	11.2	19.7	21.9
RONW (%)	5.1	9.3	8.8	10.1	14.7	16.2
Capital Structure Ratios						
Debt-Equity Ratio	0.6	0.9	0.8	0.9	1.0	0.9
Turnover Ratios						
Fixed Assets	0.3	0.2	0.3	0.3	0.4	0.5
Inventory	7.3	7.2	10.5	10.5	10.5	10.5
Debtors	19.2	9.1	10.0	9.1	9.1	9.1
Creditors	1.7	2.4	1.0	2.0	2.8	3.2
Solvency Ratios						
Current Ratio	1.9	2.2	1.1	1.1	1.3	1.5
Interest Coverage ratio	2.9	4.0	2.8	3.2	5.2	6.0
Valuation ratios						
EPS	0.9	1.6	1.8	2.2	3.7	4.7
CEPS	2.3	3.5	4.7	5.2	7.9	9.5
BV/share	16.7	17.8	20.3	21.8	24.8	29.0
Price/BV	-	-	-	-	2.7	2.3
P/E	-	-	-	-	18.6	14.5

Source: ACMIIL research

Notes:

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