



GSPL GUJS IN

INDIA / GAS UTILITIES

TARGET INR144.00
PRIOR TP INR125.00
CLOSE INR113.80
UP/DOWNSIDE +26.5%

BUY

UNCHANGED

HOW WE DIFFER FROM THE STREET

	BNP	Consensus	% Diff
Target Price (INR)	144.00	122.5	18
EPS 2011 (INR)	7.35	7.6	(3)
EPS 2012 (INR)	8.33	8.23	1
	Positive	Neutral	Negative
Market Recs.	19	7	3

KEY STOCK DATA

YE Mar (INR m)	2011E	2012E	2013E
Revenue	10,528	11,994	13,073
Rec. net profit	4,133	4,687	5,139
Recurring EPS (INR)	7.35	8.33	9.14
Prior rec. EPS (INR)	7.18	8.61	9.66
Chg. In EPS est. (%)	2.4	(3.3)	(5.4)
EPS growth (%)	0.9	13.4	9.7
Recurring P/E (x)	15.5	13.7	12.5
Dividend yield (%)	1.5	2.1	1.8
EV/EBITDA (x)	7.4	6.3	5.7
Price/book (x)	3.4	2.9	2.4
Net debt/Equity	37.3	32.6	19.6
ROE (%)	24.0	22.9	21.3

INDUSTRY OUTLOOK ↑

CHANGE IN NUMBERS

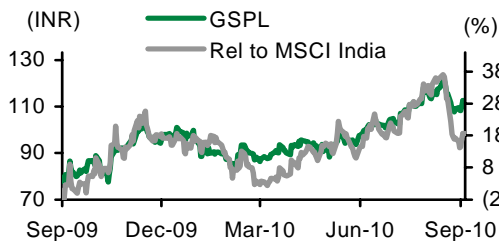
Valuations Attractive

- Current stock price factoring a 22% cut to tariffs.
- Reiterate BUY; Don't see average tariffs below INR 750/tcm.
- Trimming FY11 estimates on delay in volume ramp-up.
- Raising TP by 15% on roll-over to FY12.

Stock is undervalued
The Petroleum and Natural Gas Regulatory Board (PNGRB) is in the process of authorizing GSPL's pipeline network. GSPL will file its tariff petition in October and the company indicated that PNGRB plans to determine the tariffs by Dec 2010. We do not see tariffs going below INR 750/tcm and we believe the stock is under-valued on account of the tariff overhang. Assuming 8x FY12 EV-EBITDA, we estimate that the current stock price is factoring in a 22% cut to tariffs i.e from INR763/tcm in Q1FY11 to INR599.4 for FY12 – unlikely in our view.



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Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(0.9)	12.9	45.3
Relative to country (%)	(10.6)	4.0	25.0

Next results	October 2010
Mkt cap (USD m)	1,414
3m avg daily turnover (USD m)	5.3
Free float (%)	51
Major shareholder	Gujarat State Petroleum Corp. Ltd (38%)
12m high/low (INR)	121.20/77.45
3m historic vol. (%)	27.6
ADR ticker	-
ADR closing price (USD)	-

Sources : Bloomberg consensus; BNP Paribas estimates

RECENT COMPANY & SECTOR RESEARCH

Lacking catalysts	23 Jun 2010
Conviction BUY	28 Jan 2010

Lower than regulated returns likely for bids
GSPL has formed a JV to bid for the Mallavaram-Bhilwara, Mehsana-Bhatinda and Bhatinda-Jammu & Srinagar pipelines. GSPL will have 52% share in its JV with the Oil Marketing Companies (OMCs) viz. IOCL [IOCL IN, Not Covered] (26% share), BPCL (BPCL IN, REDUCE, CP INR788.4) (11%) and HPCL (HPCL IN, REDUCE, CP INR541.4) (11%). This is GSPL's first foray outside Gujarat and GSPL should benefit from the OMCs' government support and their pan-India distribution and marketing strengths. The OMCs would also be customers for the pipelines. However, we expect the bids to be aggressive and the returns on these pipelines will be significantly lower than the regulated returns of 12% IRR (post tax) leading to lower ROEs for the winners. Although our TP does not build in any value attributable to pipelines that GSPL could win in the bid process, we believe the stock will get de-rated if it fails to win at least one of the three bids as GSPL's growth prospects will be limited as its market remains restricted to Gujarat.

Raising TP by 15% on roll-over of TP; Reiterate BUY
We reduce our FY11 and FY12 volume assumptions by 10.4% and 5.4% to 38.3 mmscmd and 45.6 mmscmd respectively on account of a delay in the start of new gas based power plants. (see exhibit 1 for details) This results in our FY11 and FY12 EBITDA estimates going down slightly by 8% and 3.3%. However, our TP goes up by 15% (from INR125.00 to INR144.00) as we roll-over our TP to FY12. We value GSPL at 8x our FY12 EBITDA estimates to arrive at our TP of INR144.00. We believe the stock is undervalued – trading at FY12 EV-EBITDA of 6.3x, which is a significant discount to that of global peers at 10.8x. Key risks include lower than expected regulated tariffs. A 10 % reduction in regulated tariffs below INR 750/tcm would result in a 10.1% fall in our FY11E EBITDA and a 13.4% downside to our TP.

Exhibit 1: GSPL – Gas Transmission Volume Outlook

(mmscmd)	FY10	1QFY11	2QFY11E	3QFY11E	4QFY11E	FY11E	FY12E
Existing volumes	32.0	36.3	36.3	36.3	36.3	36.3	36.3
GSEG (350 MW)					0.45	0.1	1.3
GSPC Pipavav Power Co U-1 (351 MW)					0.45	0.4	1.3
GSPC Pipavav Power Co U-2 (351 MW)						-	1.2
Essar Power				1.53	2.4	1.0	2.4
GNFC				0.7	0.7	0.4	0.7
CGD			0.5	0.5	0.5	0.4	0.5
Total	32.0	36.3	36.8	39.03	40.8	38.2	43.6
Growth (y-y %)						20	14

Source: BNP Paribas estimates

Change in Estimates

Exhibit 2: Changes To Our Estimates

	FY11E		FY12E		FY13E	
	New	Previous	New	Previous	New	Previous
Tariff (INR/tcm)	753	750	750	750	750	750
Volumes	38.2	42.7	43.6	48.2	47.6	50.7
Sales	10,528	11,692	11,994	13,231	13,073	13,917
EBITDA	9,894	10,764	11,262	12,170	12,256	12,762

Source: BNP Paribas estimates

Exhibit 3: Pipelines Put Out For Bidding By PNGRB

Project	Distance	Capacity	Estimated Capex	
	(km)	(mmscmd)	(INR m)	(USD m)
Mehsana Bhatinda Pipeline	1,670	30	70,140	1,559
Bhatinda to Jammu & Srinagar	740	15	15,540	345
Mallavaram to Bhilwara	1,439	30	60,438	1,343
Total			146,118	3,247

Source: PNGRB

Exhibit 4: Relative Valuations

Company	Ticker	Price	Mcap	EV-EBITDA			2-Yr EBITDA			PE			P/B			ROE		
				FY11E	FY12E	FY13E	growth	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E		
		(LC)	(USD m)	(x)	(x)	(x)	(%)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)	(%)	
GSPL (BNPP estimates)	GUJS IN	113.80	1,422	7.6	6.7	5.9	12.9	15.4	13.6	11.7	3.4	2.9	2.4	24.8	23.7	21.4		
GAIL India (BNPP estimates)	GAIL IN	479.85	13,521	12.7	11.1	10.2	11.3	18.3	17.4	16.9	3.2	2.9	2.7	19.4	19.0	17.6		
Gujarat Gas	GGAS IN	386.9	1,102	13.4	11.6	10.3	14.3	21.8	19.4	17.2	5.2	4.4	3.6	25.5	24.2	23.5		
India Gas Utilities Median (ex GSPL)				13.1	11.4	10.3	12.8	20.1	18.4	17.0	4.2	3.6	3.1	22.4	21.6	20.5		
Copano Energy LLC	CPNO US	27.09	1,777	15.9	13.6	11.1	19.8	117.3	44.2	25.2	1.8	2.0	2.2	1.0	5.8	7.4		
Buckeye Partners LP	BPL US	62.02	3,196	12.5	11.7	10.9	7.3	17.3	16.3	16.0	2.7	2.8	2.9	15.6	16.6	16.5		
Holly Energy Partners	HEP US	51.49	1,137	14.2	12.0	10.9	13.9	25.5	20.4	19.8	10.4	4.0	5.1	32.9	NA	NA		
Energy Transfer Partners LP	ETP US	48.07	9,126	10.0	8.8	8.1	11.0	27.3	18.3	17.9	1.9	2.0	2.2	9.6	11.7	12.3		
Kinder Morgan Energy Partners	KMP US	68.83	14,817	11.2	9.8	9.1	10.8	41.3	36.7	32.2	3.0	3.3	3.3	7.5	8.2	10.8		
Oneok Partners	OKE US	44.83	4,771	8.7	8.9	8.5	1.4	15.1	14.0	13.5	2.0	1.9	1.8	13.8	13.9	16.1		
Boardwalk Pipeline Partners LP	BWP US	32.12	5,451	13.8	12.6	12.2	6.4	22.1	19.2	18.5	1.7	1.8	1.9	7.9	9.2	11.2		
Williams Cos. Inc	WMB US	18.85	11,021	6.2	5.5	4.8	12.7	14.6	13.4	11.1	1.3	1.3	1.3	8.9	8.8	11.8		
US Pipeline Cos Median (ex-GSPL)				11.9	10.8	10.0	10.9	23.8	18.7	18.2	1.9	2.0	2.2	9	9	12		
Overall Median (Ex-GSPL)				11.9	10.4	10.2	11.2	20.1	17.9	17.2	2.3	2.4	2.2	15	15	14		

*Year ending March for India. For rest of the world, estimates are for immediate previous year ending December
Source: Bloomberg, ^BNP Paribas

RISK EXPERTS



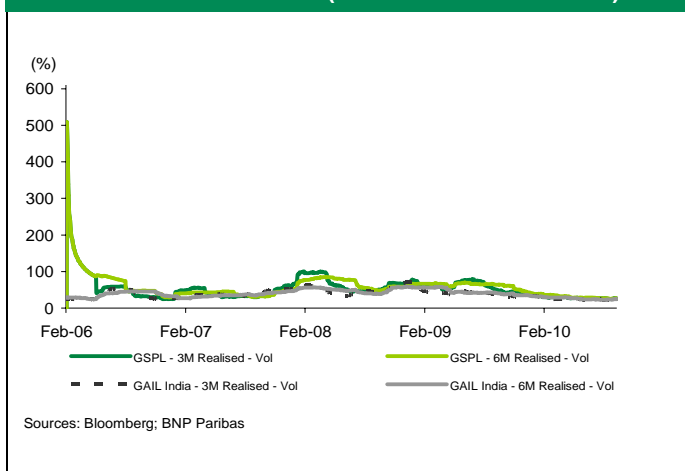
Key Earnings Drivers & Sensitivity

- Tariffs – A 10% change in average tariff earned will impact our FY12 EPS by 10.1%
- Volumes – A 10% change in gas transmission volumes will impact our FY12 EPS by 10%

	Base		Best		Worst	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Tariff (INR/tcm)	750	750	800	800	609	609
EPS (INR)	7.35	8.33	7.95	9.23	5.66	5.80
Change (%)			8	11	(23)	(30)
Volumes (mmscmd)	38.2	43.4	40	48	36.3	36.3
EPS (INR)	7.35	8.33	7.82	9.67	6.76	6.04
Change (%)			6	16	(8)	(27)

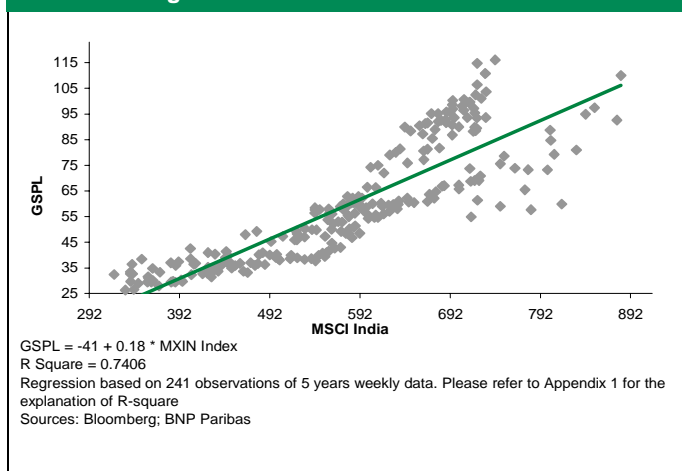
Sources: BNP Paribas estimates

GSPL And GAIL India (3M And 6M Realised-Vol)



Sources: Bloomberg; BNP Paribas

Regression – GSPL Rel to MSCI India

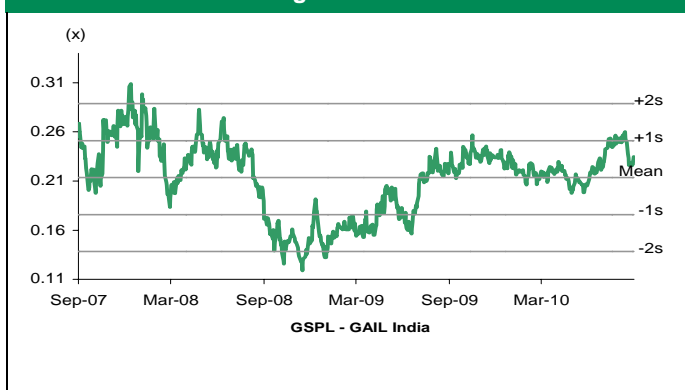


India Sector Correlation Matrix at 15 July 2010

	India Autos	India Banks	India Engineering & Construct	India Software & Services	India Metals & Mining	India Oil & Gas	India Property	India Telcos	India Utilities
India Autos	1.000	0.688	0.701	0.569	0.724	0.672	0.630	0.599	0.688
India Banks		1.000	0.838	0.582	0.713	0.733	0.747	0.683	0.781
India Engineering & Construct			1.000	0.593	0.739	0.756	0.785	0.711	0.792
India Software & Services				1.000	0.555	0.584	0.452	0.500	0.563
India Metals & Mining					1.000	0.768	0.716	0.642	0.744
India Oil & Gas						1.000	0.656	0.671	0.787
India Property							1.000	0.672	0.733
India Telcos								1.000	0.733
India Utilities									1.000

Source: BNP Paribas Sector Strategy

Long/Short Chart



Sources: BNP Paribas estimates

The Risk Experts

The Risk Experts

- Our starting point for this page is recognition of the macro factors that can have a significant impact on stock-price performance, sometimes independently of bottom-up factors.
- With our Risk Expert page, we identify the key macro risks that can impact stock performance.
- This analysis enhances the fundamental work laid out in the rest of this report, giving investors yet another resource to use in their decision-making process.

FINANCIAL STATEMENTS

GSPL

Profit and Loss (INR m) Year Ending Mar	2009A	2010A	2011E	2012E	2013E
Revenue	4,875	9,920	10,528	11,994	13,073
Cost of sales ex depreciation	0	(4)	0	0	0
Gross profit ex depreciation	4,875	9,916	10,528	11,994	13,073
Other operating income	0	0	0	0	0
Operating costs	(483)	(619)	(634)	(732)	(817)
Operating EBITDA	4,392	9,297	9,894	11,262	12,256
Depreciation	(1,705)	(2,365)	(2,820)	(3,260)	(3,740)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	2,687	6,933	7,074	8,001	8,516
Net financing costs	(627)	(691)	(878)	(900)	(730)
Associates	0	0	0	0	0
Recurring non operating income	0	0	0	0	0
Non recurring items	(147)	28	0	0	0
Profit before tax	1,914	6,270	6,196	7,101	7,786
Tax	(679)	(2,139)	(2,063)	(2,414)	(2,646)
Profit after tax	1,234	4,130	4,133	4,687	5,139
Minority interests	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	1,234	4,130	4,133	4,687	5,139
Non recurring items & goodwill (net)	95	(36)	0	0	0
Recurring net profit	1,329	4,094	4,133	4,687	5,139

Gas transmission revenue more than doubled as RIL's KG Basin gas production started

Per share (INR)

Recurring EPS *	2.36	7.28	7.35	8.33	9.14
Reported EPS	2.20	7.35	7.35	8.33	9.14
DPS	0.58	0.88	1.76	2.34	2.05

Growth

Revenue (%)	16.7	103.5	6.1	13.9	9.0
Operating EBITDA (%)	20.0	111.7	6.4	13.8	8.8
Operating EBIT (%)	32.6	158.0	2.0	13.1	6.4
Recurring EPS (%)	29.5	208.0	0.9	13.4	9.7
Reported EPS (%)	21.3	234.5	0.0	13.4	9.7

Operating performance

Gross margin inc depreciation (%)	-	76.1	-	-	-
Operating EBITDA margin (%)	90.1	93.7	94.0	93.9	93.8
Operating EBIT margin (%)	55.1	69.9	67.2	66.7	65.1
Net margin (%)	27.3	41.3	39.3	39.1	39.3
Effective tax rate (%)	35.5	34.1	33.3	34.0	34.0
Dividend payout on recurring profit (%)	24.7	12.0	23.9	28.1	22.4
Interest cover (x)	4.3	10.0	8.1	8.9	11.7
Inventory days	-	0.0	-	-	-
Debtor days	35.9	23.8	33.5	38.5	39.3
Creditor days	-	0.0	-	-	-
Operating ROIC (%)	7.7	16.4	15.3	16.2	15.8
Operating ROIC – WACC (%)	(6.2)	2.5	1.4	2.4	-
ROIC (%)	7.6	16.1	14.9	15.9	15.5
ROIC – WACC (%)	(6.3)	2.2	1.1	2.0	-
ROE (%)	11.3	29.5	24.0	22.9	21.3
ROA (%)	6.0	13.4	11.1	11.2	11.6

* Pre exceptional, pre-goodwill and fully diluted

Revenue By Division (INR m)	2009A	2010A	2011E	2012E	2013E
Gas Transmission	4,875	9,920	10,528	11,994	13,073

Sources: GSPL; BNP Paribas estimates

GSPL

Cash Flow (INR m)					
Year Ending Mar	2009A	2010A	2011E	2012E	2013E
Recurring net profit	1,329	4,094	4,133	4,687	5,139
Depreciation	1,705	2,365	2,820	3,260	3,740
Associates & minorities	0	0	0	0	0
Other non-cash items	0	(18)	0	0	0
Recurring cash flow	3,034	6,441	6,953	7,947	8,880
Change in working capital	(1,752)	1,420	2,881	(2,125)	(937)
Capex - maintenance	0	0	0	0	0
Capex – new investment	(4,579)	(7,774)	(5,000)	(5,000)	(5,000)
Free cash flow to equity	(3,298)	87	4,834	822	2,943
Net acquisitions & disposals	0	0	0	0	1
Dividends paid	(329)	(493)	(987)	(1,316)	(1,152)
Non recurring cash flows	297	157	0	0	1
Net cash flow	(3,330)	(250)	3,847	(494)	1,793
Equity finance	2	5	0	0	1
Debt finance	1,849	1,486	2,642	(1,495)	(2,078)
Movement in cash	(1,479)	1,241	6,488	(1,989)	(284)

Firm is free cash flow positive

Per share (INR)					
Recurring cash flow per share	5.40	11.45	12.36	14.13	15.79
FCF to equity per share	(5.87)	0.15	8.59	1.46	5.23

Balance Sheet (INR m)					
Year Ending Mar	2009A	2010A	2011E	2012E	2013E
Working capital assets	4,641	5,808	5,815	6,592	7,351
Working capital liabilities	(3,742)	(4,848)	(7,320)	(5,650)	(5,598)
Net working capital	899	959	(1,506)	942	1,753
Tangible fixed assets	24,132	29,755	31,934	33,674	34,934
Operating invested capital	25,031	30,714	30,429	34,616	36,687
Goodwill	0	0	0	0	0
Other intangible assets	33	3	3	3	3
Investments	356	666	666	666	667
Other assets	0	0	0	0	1
Invested capital	25,420	31,383	31,098	35,285	37,358
Cash & equivalents	(975)	(1,742)	(8,230)	(6,528)	(6,553)
Short term debt	0	0	0	0	1
Long term debt *	11,509	12,595	15,237	13,742	11,663
Net debt	10,535	10,854	7,007	7,214	5,112
Deferred tax	1,144	1,405	1,405	1,693	2,008
Other liabilities	0	0	0	0	1
Total equity	12,152	15,638	18,784	22,154	26,140
Minority interests	0	0	0	0	0
Invested capital	25,420	31,383	31,098	35,285	37,357

* includes convertibles and preferred stock which is being treated as debt

Per share (INR)					
Book value per share	21.62	27.80	33.40	39.39	46.48
Tangible book value per share	21.56	27.80	33.39	39.38	46.47

Financial strength					
Net debt/equity (%)	86.7	69.4	37.3	32.6	19.6
Net debt/total assets (%)	35.0	28.6	15.0	15.2	10.3
Current ratio (x)	1.5	1.6	1.9	2.3	2.5
CF interest cover (x)	3.0	12.4	12.2	7.5	11.9

Valuation					
	2009A	2010A	2011E	2012E	2013E
Recurring P/E (x) *	48.1	15.6	15.5	13.7	12.5
Recurring P/E @ target price (x) *	60.9	19.8	19.6	17.3	15.8
Reported P/E (x)	51.8	15.5	15.5	13.7	12.5
Dividend yield (%)	0.5	0.8	1.5	2.1	1.8
P/CF (x)	21.1	9.9	9.2	8.1	7.2
P/FCF (x)	(19.4)	737.4	13.2	77.8	21.8
Price/book (x)	5.3	4.1	3.4	2.9	2.4
Price/tangible book (x)	5.3	4.1	3.4	2.9	2.4
EV/EBITDA (x) **	16.6	8.0	7.4	6.3	5.7
EV/EBITDA @ target price (x) **	20.4	9.9	9.1	7.8	7.1
EV/invested capital (x)	2.9	2.4	2.3	2.0	1.9

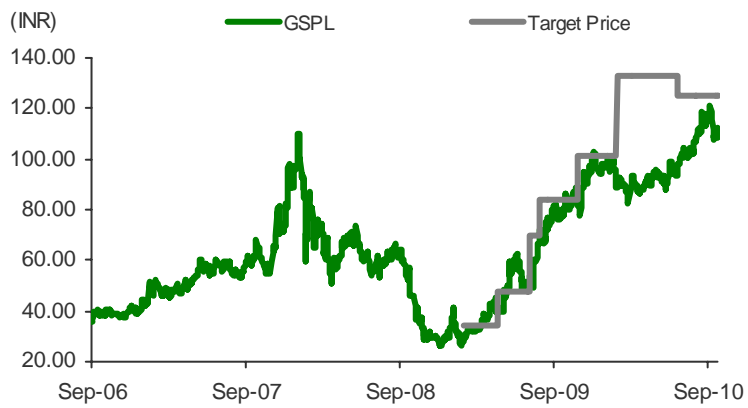
* Pre exceptional, pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non-operating income

Sources: GSPL; BNP Paribas estimates

HISTORY OF CHANGE IN INVESTMENT RATING AND/OR TARGET PRICE

Gujarat State Petronet (GUJS IN)



Date	Reco	TP
30-Jan-09	BUY	34.00
11-May-09	HOLD	48.00
7-Jul-09	BUY	70.00

Girish Nair started covering this stock from 30 January 2009
Price and TP are in local currency

Valuation and risks: Our TP is based on an FY12 EV-EBITDA multiple of 8x. Key risks include lower than expected regulated tariffs. A 10% reduction in regulated tariffs below INR 750/tcm would result in a 10.3% fall in our FY11 E EBITDA and a 13.4% downside to our TP.

Sources: Bloomberg, BNP Paribas

DISCLAIMERS & DISCLOSURES

ANALYST(S)

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Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Rating distribution (as at 27 September 2010)

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