

July 2, 2009

Rating	Reduce
Price	Rs52
Target Price	Rs49
Implied Upside	(-) 5.6%
Sensex	14,658

(Prices as on July 2, 2009)

Trading Data

Market Cap. (Rs bn)	29.1
Shares o/s (m)	562.1
Free Float	62.2%
3M Avg. Daily Vol ('000)	2,088.9
3M Avg. Daily Value (Rs m)	109.1

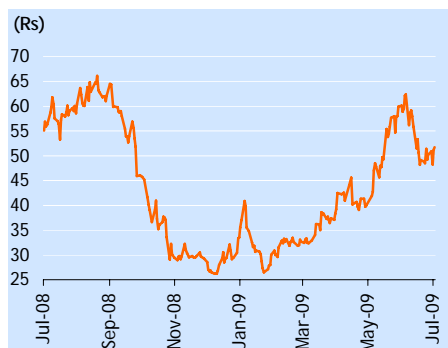
Major Shareholders

Promoters	37.8%
Foreign	3.5%
Domestic Inst.	31.3%
Public & Others	27.4%

Stock Performance

(%)	1M	6M	12M
Absolute	(12.1)	39.9	(9.1)
Relative	(10.7)	(7.3)	(16.3)

Price Performance (RIC: GSPT.BO, BB: GUJS IN)



Source: Bloomberg

- **Transmission volumes remain lower:** The benefit of lower naphtha prices continued in Q4FY09, due to which Gujarat State Petronet's (GSPL's) gas transmission volumes were impacted; volumes dropped by a whopping 28.5% YoY and 3.1% QoQ to 12.7mmcmd (Q4FY09-17.7mmcmd). However, due to a tariff hike in January 2009 and payments from certain take or pay contracts, the revenues jumped by 13.7% YoY to Rs1.3bn (Rs1.2bn).
- **Higher staff costs, O&M expenses depress EBITDA margins:** GSPL provided for arrears on salary revision with a consequent jump in staff costs by 39.9% YoY and 97.3% QoQ to Rs47m (Rs34m). O&M expenses climbed on account of higher compression costs during the quarter. Gas transportation charges arose due to utilisation of another distribution player's network (Sabarmati Gas). These charges are expected to remain for next few quarters. EBITDA margins, thus, declined by 320bps YoY to 85.5% (88.7%). However, operating profit increased by 9.6% YoY to Rs1.13bn (Rs1.03bn)
- **PAT declines by 14.3% YoY:** Depreciation and interest costs remained more or less flattish during Q4FY09. Effective tax rate during Q4FY08 was low at 19.1%, while it was at 34.9% in Q4FY09. Due to this, PAT declined by 14.3% YoY to Rs348m (Rs406m).
- **Valuations:** By March FY10, GSPL's transmission volumes are anticipated to scale-up to 40mmcmd from the current 30-31mmcmd. The volume growth is, thus, expected to remain buoyant over the next couple of years. However, the overhang on contribution towards GSEDS still remains. GSEDS contribution will be earnings dilutive for the shareholders. Hence, we maintain our 'Reduce' rating on the stock.

Key financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	4,179	4,875	7,569	8,774
Growth (%)	31.6	16.7	55.3	15.9
EBITDA (Rs m)	3,645	4,245	6,767	7,887
PAT (Rs m)	999	1,234	1,394	1,526
EPS (Rs)	1.8	2.2	2.5	2.7
Growth (%)	11.8	23.5	12.9	9.5
Net DPS (Rs)	0.5	0.8	0.4	0.7

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	87.2	87.1	89.4	89.9
RoE (%)	9.6	10.5	11.0	11.0
RoCE (%)	7.5	7.6	8.6	7.9
EV / sales (x)	8.7	8.2	5.9	5.3
EV / EBITDA (x)	9.9	9.4	6.6	5.9
PE (x)	29.1	23.6	20.9	19.1
P / BV (x)	2.8	2.5	2.3	2.1
Net dividend yield (%)	1.0	1.4	0.8	1.3

Source: Company Data; PL Research

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Q4FY09 Result Overview

(Rs m)

Y/e March	Q4FY09	Q4FY08	YoY gr. (%)	Q3FY09	FY09	FY08	YoY gr. (%)
Net Sales	1,320	1,161	13.7	1,174	4,875	4,179	16.7
Expenditure							
O & M expenses	78	36	119.1	61	210	159	32.2
<i>% of net sales</i>	<i>5.9</i>	<i>3.1</i>		<i>5.2</i>	<i>4.3</i>	<i>3.8</i>	
Personnel cost	47	34	39.9	24	109	76	43.5
<i>% of net sales</i>	<i>3.6</i>	<i>2.9</i>		<i>2.0</i>	<i>2.2</i>	<i>1.8</i>	
Other expenses	65	62	6.0	73	310	298	3.9
<i>% of net sales</i>	<i>5.0</i>	<i>5.3</i>		<i>6.2</i>	<i>6.4</i>	<i>7.1</i>	
EBITDA	1,129	1,030	9.6	1,016	4,245	3,645	16.5
<i>Margin (%)</i>	<i>85.5</i>	<i>88.7</i>		<i>86.5</i>	<i>87.1</i>	<i>87.2</i>	
Depreciation	439	413	6.1	429	1,705	1,632	4.5
EBIT	690	617	11.9	588	2,540	2,013	26.2
Interest	199	203	(1.7)	222	870	815	6.7
Other Income	44	88	(49.7)	58	243	294	(17.3)
Cont. to GSEDS							
PBT	535	502	6.7	424	1,914	1,492	28.3
Total taxes	187	96	95.2	148	677	487	38.9
<i>ETR (%)</i>	<i>34.9</i>	<i>19.1</i>		<i>34.9</i>	<i>35.4</i>	<i>32.7</i>	
FBT	1	1	131.2	-	3	5	(49.8)
PAT	348	406	(14.3)	276	1,234	999	23.5

Operating Parameters

Y/e March	Q4FY09	Q4FY08	YoY gr. (%)	Q3FY09	FY09	FY08	YoY gr. (%)
Gas transmission volumes (mmscmd)	12.7	17.7	(28.5)	13.1	14.8	16.8	(11.7)
Avg. realisations (Rs/ '000scm)	1,143.1	719.4	58.9	974.9	898.0	680.1	32.1

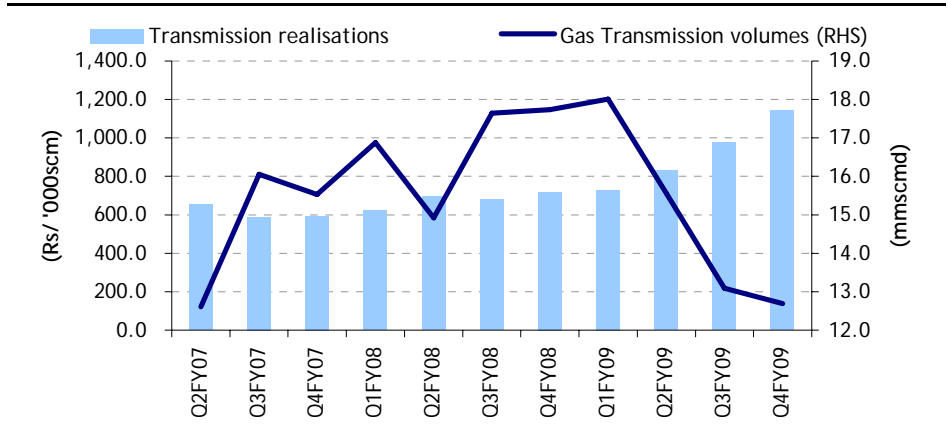
Highlights

Transmission performance

Transmission volumes remained muted during Q4FY09, primarily on account of customers switching from natural gas to cost effective naphtha. However, the tariff hike effected from January 2009 onwards aided the overall revenues. The management also indicated that contribution from certain take or pay contracts also added to the revenues. Average transmission tariff, thus, jumped from Rs720/'000scm in Q4FY09 and Rs975/'000scm in Q3FY09 to Rs1,143/'000scm in Q4FY09. The management indicated that the average tariff is likely to stay at about Rs750/'000scm hereon.

The company is currently transmitting about 30-31mmscmd of natural gas which is anticipated to go up to 40mmscmd by March 2010. The volume growth is expected to arrive from additional volumes from KG basin, spot volumes from Petronet LNG and Shell, Hazira.

Transmission performance

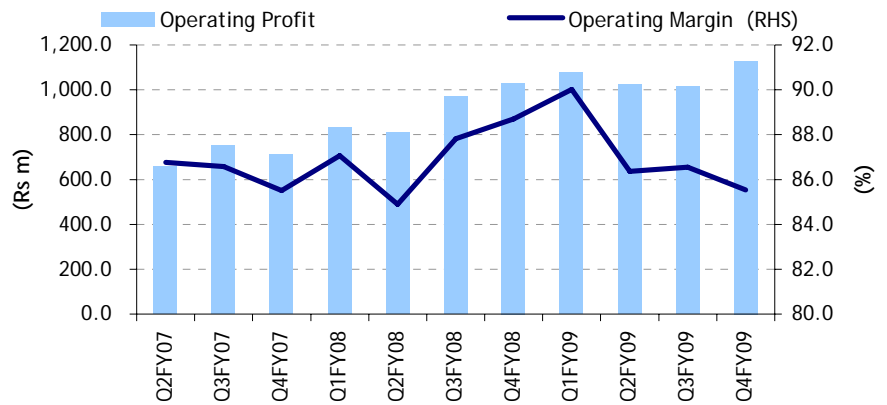


Source: Company Data, PL Research

Operating Performance

The connectivity charges will remain zero from Q4FY09 onwards. However, the gas transportation charges which were zero in Q3FY09 are likely to remain for next few quarters on account of utilising part of Sabarmati Gas' network.

Operating Performance

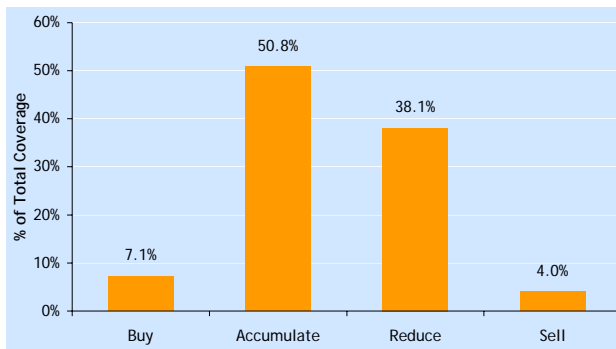


Source: Company Data, PL Research

Capex plans

Current gross block of GSPL stands at about Rs24.0bn, while debt stands at about Rs11.5bn. The average cost of debt currently stands at 9.5%. The company is expected to add another Rs10.0bn each for the next couple of years for network expansion. This capex is likely to be funded in the ratio of 2:1 debt:equity.

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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