

GUJARAT STATE PETRONET LTD.

BUY
CMP Rs91
TP Rs110

28 May 2010

Gujarat State Petronet (GSPL) registered a robust 184% YoY volume growth to 3.3 bn scm, ~12% lower than our estimate of 3.7bn scm. On the back of strong volume growth net sales surged by 95% to Rs2.6bn. OPM expanded by 642 bps to 91.9% due to increase in volumes. Consequently net profit grew by 211% to Rs1.1bn, which was ~11% lower than our estimate of Rs1.2bn mainly due to lower than expected volumes.

Strong volume growth: GSPL showed a strong volume growth of 184% at a record 3.3 bn scm. The robust growth was driven by marked improvement in natural gas (NG) availability following RIL KG D6 coming on stream and the capacity expansion of imported LNG terminals.

Lower realisation: The average realisation at Rs787/mscm was much lower than the 9 month average of Rs880/mscm. While the management guided that the average realisation is expected to fluctuate by 5-10%, the overhang of PNGRB price regulation remains. We have assumed average realisation of Rs800/mscm in our estimate as compared with the average of Rs850/mscm in FY10.

Wind power: The company is investing Rs3bn in wind turbines in parts in FY10 and FY11. We have accounted for the benefit of accelerated depreciation in FY11, thereby revising the FY11E EPS to Rs4.2 as compared with earlier Rs7.1.

Outlook: GSPL has already registered an average of 32 mmscmd in FY10. We expect the volumes to reach an average level of ~40mmscmd in FY11. However, implementation of PNGRB price regulation remains the key concern. While the management is confident of negligible downside, an average tariff below Rs800/mscm and further retrospective implementation of the same would result in a downside to our estimates.

VALUATIONS AND RECOMMENDATION

At the CMP of Rs91 the stock trades at 21.6x and 11x our revised FY11E and FY12E EPS of Rs4.2 and Rs8.3 respectively. We re-iterate our 'BUY' recommendation with a price target of Rs110 with 1 year investment perspective based on DCF valuation.

KEY FINANCIALS						Rs mn
	FY08	FY09	FY10	FY11E	FY12E	
Net Sales	4,179	4,875	9,920	11,915	13,224	
YoY Gr.(%)	31.6	16.7	103.5	20.1	11.0	
Op. Profits	3,645	4,245	9,325	10,755	11,606	
Op. Marg.(%)	87.2	87.1	94.0	90.3	87.8	
Net Profits	999	1,234	4,138	2,366	4,654	
YoY Gr.(%)	11.8	23.5	235.3	(42.8)	96.7	
KEY RATIOS						
EPS (Rs)	1.8	2.2	7.4	4.2	8.3	
ROCE (%)	13.6	16.2	33.8	18.4	26.3	
RONW (%)	9.5	10.5	29.8	14.3	24.0	
P/E (x)	51.2	41.4	12.4	21.6	11.0	
EV/Sales (x)	13.9	12.7	6.3	5.1	4.6	
EV/EBDIT (x)	16.0	14.5	6.7	5.6	5.3	

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Sep-09	Dec-09	Mar-10
Net Sales	2,548	2,685	2,579
YoY Gr. (%)	114.8	128.6	95.4
Op. Profits	2,406	2,531	2,371
Op. Marg. (%)	94.4	94.3	91.9
Net Profits	1,101	1,154	1,079
YoY Gr. (%)	287.8	317.4	210.9

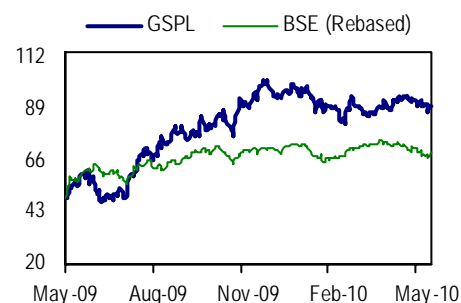
STOCK DATA

Market Cap	Rs51.2bn.
Book Value per share	Rs28
Eq Shares O/S (F.V. Rs1)	562.2mn
Free Float	62.2%
Avg Traded Value (6 mnths)	Rs273mn
52 week High/Low	Rs103/48
Bloomberg Code	GUJSIN
Reuters Code	GUJS.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	(4.7)	9.6	56.6
Relative	1.1	8.0	32.6

RELATIVE PERFORMANCE



Financial Table

Rs mn	Mar-09	Mar-10	YoY (%)	Dec-09	QoQ (%)	FY09	FY10E	YoY (%)
Volume (mmscm)	1,155	3,278	183.9	3,137	4.5	5,428	11,673	115.0
Net Sales	1,320	2,579	95.4	2,685	(3.9)	4,875	9,920	103.5
EBITDA	1,173	2,491	112.5	2,564	(2.8)	4,488	9,572	113.3
OPM	85.5	91.9	7.5	94.3	(2.5)	87.1	94.0	7.9
Interest	199	225	13.0	218	3.3	870	938	7.9
Depreciation	439	632	44.1	596	6.2	1,705	2,365	38.7
PBT	535	1,634	205.5	1,750	(6.6)	1,913	6,269	227.6
PAT	347	1,079	210.9	1,154	(6.5)	1,234	4,138	235.3
EPS	0.6	1.9	210.9	2.1	(6.5)	2.2	7.4	235.3

DCF Valuation (Rs mn)

	2008	2009	2010	2011E	2012E	2013E	2014E
PAT	999	1,234	4,138	2,366	4,654	6,419	6,568
Depreciation	1,632	1,705	2,365	5,789	3,814	4,323	4,740
Change in Working Capital	2,460	(1,458)	1,866	(1,048)	1,976	915	218
Capex	(356)	(4,412)	(8,396)	(4,303)	(10,406)	(3,389)	(4,653)
Additional Borrowing	888	1,839	1,086	1,579	1,264	246	1,142
FCFE	5,623	(1,092)	1,059	4,383	1,302	8,514	8,016

Source: PINC Research

Sensitivity Analysis (Discount rate 17.6%)

	Volume transported in FY14 (mmscmd)				
	56	58	60	62	64
0.5%	90	96	103	109	115
1.0%	93	99	107	113	119
1.5%	96	103	110	117	124
2.0%	100	107	115	121	128
2.5%	103	111	119	126	133
3.0%	108	115	124	131	138

Source: PINC Research

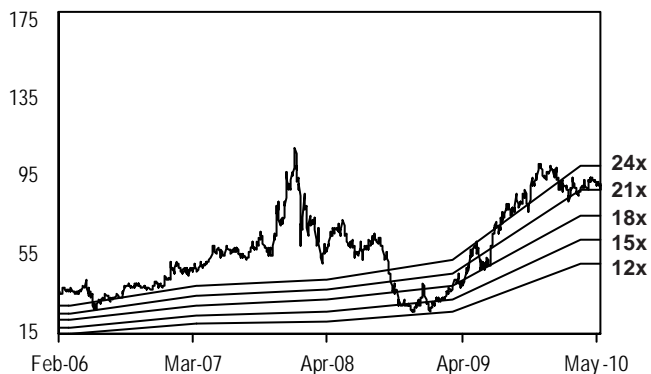
Income Statement	FY08	FY09	FY10E	FY11E	FY12E
Volume (mmscm)	17	15	32	41	45
Net sales	4,179	4,875	9,920	11,915	13,224
Growth (%)	31.6	16.7	103.5	20.1	11.0
Operating profit	3,645	4,245	9,325	10,755	11,606
Other operating income	-	-	-	-	-
EBITDA	3,939	4,488	9,572	10,874	12,320
Growth (%)	38.1	14.0	113.3	13.6	13.3
Depreciation	1,632	1,705	2,365	5,789	3,814
Other income	294	243	247	119	714
EBIT	2,306	2,783	7,207	5,084	8,506
Interest paid	815	870	938	1,411	1,507
PBT (before E/o items)	1,491	1,914	6,269	3,674	6,999
Tax provision	405	679	2,131	1,308	2,345
E/o Income / (loss)	-	-	-	-	-
Net profit	999	1,234	4,138	2,366	4,654
Adjusted net profit	999	1,234	4,138	2,366	4,654
Growth (%)	11.8	23.5	235.3	(42.8)	96.7
Diluted EPS (Rs)	1.8	2.2	7.4	4.2	8.3
Diluted EPS Growth (%)	11.8	23.5	235.3	(42.8)	96.7

Cash Flow Statement	FY08	FY09	FY10E	FY11E	FY12E
Pre-tax profit	1,491	1,914	6,269	3,674	6,999
Depreciation	1,632	1,705	2,365	5,789	3,814
Income from inv and inte	-	(243)	(247)	(119)	(714)
Interest paid	815	870	938	1,411	1,507
Taxes	(410)	(679)	(1,870)	(1,308)	(2,345)
(Inc)/Dec in working capi	2,460	(1,458)	1,866	(1,048)	1,976
Miscellaneous exp	30	(30)	(30)	-	-
Cash flow from oper.	6,018	2,078	9,291	8,399	11,237
Net capital expenditure	(5,863)	(4,412)	(8,396)	(4,303)	(10,406)
Net investments	(356)	(0)	(310)	(134)	(88)
Cash flow from inv.	(6,218)	(4,412)	(8,706)	(4,437)	(10,494)
Issue of eq. shares	192	1	11	-	-
Inc/ (Dec) in Share prem	888	-	-	-	-
Inc/ (Dec) in Share secur	1,022	1,839	1,086	1,579	1,264
Dividend and Div tax	(329)	(474)	(633)	(633)	(633)
Interest and finance charç	(815)	(627)	(691)	(1,292)	(792)
Cash flow from fin.	958	739	(227)	(345)	(161)
GSEDS contribution	-	-	-	-	-
Inc/Dec in Cash	758	(1,595)	358	3,616	582

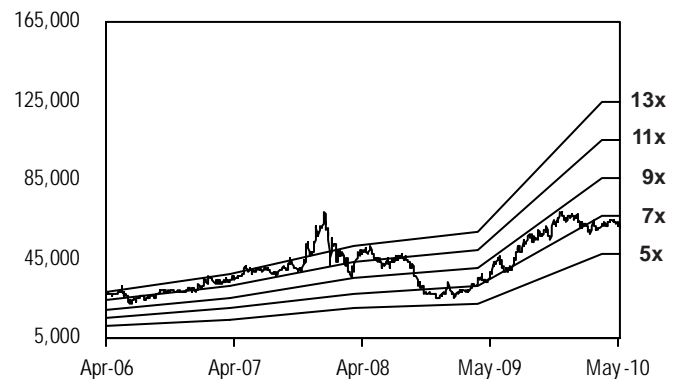
Balance Sheet	FY08	FY09	FY10E	FY11E	FY12E
Equity Share Capital	5,620	5,621	5,624	5,624	5,624
Reserves & Surplus	5,789	6,531	10,014	11,747	15,768
Net worth	11,410	12,152	15,638	17,371	21,393
Total Debt	9,660	11,509	12,595	14,175	15,438
Deferred Tax liability	1,002	1,144	1,405	1,405	1,405
Capital Employed	22,072	24,805	29,639	32,951	38,237
Fixed Assets	21,412	24,132	30,163	28,677	35,269
Net current assets	391	284	(1,194)	3,471	2,077
Investments	356	356	666	800	888
Misc exp.	63	33	3	3	3
Deferred tax assets	3	-	-	-	-
Total Assets	22,225	24,805	29,639	32,951	38,237

Key ratios	FY08	FY09	FY10E	FY11E	FY12E
OPM (%)	87.2	87.1	94.0	90.3	87.8
Net margin (%)	23.9	25.3	41.7	19.9	35.2
Yield (%)	0.5	0.8	1.1	1.1	1.1
Net debt/ Equity (x)	0.8	0.9	0.8	0.8	0.7
Net Working Capital (day)	(2,798)	(2,097)	(1,931)	(1,931)	(1,931)
ROCE (%)	13.6	16.2	33.8	18.4	26.3
RoE (%)	9.5	10.5	29.8	14.3	24.0
EV/Sales (x)	13.9	12.7	6.3	5.1	4.6
EV/EBITDA (x)	16.0	14.5	6.7	5.6	5.3
PER (x)	51.2	41.4	12.4	21.6	11.0
PCE (x)	19.4	17.4	9.0	7.1	6.5
Price/ Book (x)	4.5	4.2	3.3	2.9	2.4

P/E Band



EV/EBITDA Band



T E A M

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