

Gujarat State Petronet Ltd

 22nd October 2010

CMP Rs 124
BUY
TARGET Rs 149
Sector : Oil & Gas
Analyst: Naini Thakore
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BSE Code	532702
NSE Code	GSPL

KEY DATA

Sensex	20317
52 week H/L (Rs)	128.3/76.3
Market Cap (Rs Cr)	7073
Avg. daily vol. (6m)	502892

SHAREHOLDING PATTERN (%)

Promoters	37.7
FII	12.3
DII	29.4
Public & Others	20.6

Source: Capitaline

ONE-YEAR PERFORMANCE: (REL. TO SENSEX)



Source: Capitaline

GSPL wins the bid for Mallavaram – Bhilwara pipeline from PNGRB which is 1585 kms and Mehsana Bhatinda which is nearly 1671 kms long. **It 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. IOC, BPCL (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 they have bid for.

It will file its tariff petition in October and the company indicated that PNGRB plans to determine the tariffs by Dec 2010. Our expectations are the tariffs will not go below Rs 750/tcm.

Additional 450 kms of pipeline is under execution. The company has given four EOIs to Petroleum and Natural Gas Regulatory Board (PNGRB) for extending its natural gas transmission system across the country with grid length totaling 5,675kms.

The company is expected to transmit about 2.5 mmscmd of gas to Essar in near term. It is also expected to transmit some gas to other players like GNFC, GSPC power plant etc which is 8 mmscmd of additional volume by the end of FY11.

Valuation

Currently the stock is trading at TTM P/E of 16 and TTM EPS of Rs. 7.8. Recently the company has won 2 bids for Mehsana – Bhatinda and Mallavaram- Bhilwara which is 3256 kms in total. GSPL owns 52% in JV with OMCs in both these pipelines. We recommend BUY on the stock with FY11 EPS of Rs. 8.7 and target price of Rs. 149 based on DCF valuation.

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Company Overview

GSPL owns and operates a 1666 kms gas pipeline network in the western Indian state of Gujarat.

GSPL owns and operates a 1666 kms gas pipeline network in the western Indian state of Gujarat. It is second largest gas transmission network in India. It currently carries 36.7 mmscmd of gas through its network. RIL's KG basin gas supplies into Gujarat and additional LNG imports will be the key drivers for the stock. Further, more than one-third of the production from D6 gas fields from RIL's field in KG Basin coming in to Gujarat is transported through GSPL's pipeline network. GSPL holds 13.75% in Sabarmati Gas Ltd. and 36.51% in GSPC Gas Co. Ltd.

GSPL transmits 36.7 mmscmd of gas out of which over 64% is sourced from RIL KG D 6, 25% from Petronet LNG and rest from GSPC, Cairn India and PMT. The company has 1666 kms of gas pipeline in operation from Hazira – Vadodra - Ahmedabad - Kalol – Himmatnagar- Mehsana- Rajkot- Morbi- Anjar- Jamnagar. The gas grid of the Company has reached to 16 of 26 districts in Gujarat. Company has been successful in reaching remote industrial / coastal areas of Gujarat thereby enabling supply of natural gas to industries spread across regions in the State. Pro-active development of gas transportation infrastructure has not only helped in development of the market but also in monetization of the gas fields and commercialization of LNG terminals & your Company would continue its effort in this direction.

GSPL is currently expanding its network and expects to complete the construction of approx 1100 kilometres of pipelines during the next 2 - 3 years.

Company is currently expanding its network and expects to complete the construction of approx 1100 kilometres of pipelines during the next 2 - 3 years. Further, the Company also continues to develop several other spur lines to connect remaining industrial clusters and medium size customers along the pipeline network in Gujarat. Further augmentation of existing pipeline network is required due to increase in the gas demand, emergence of interstate pipeline from GSPL gas grid such as at Mehsana.

The Company is putting up a wind power project of 52.5 MW at Maliya Miyana, Rajkot and Gorsar, Porbandar in the State of Gujarat. By 31st March, 2010, the Company has already commissioned 6 MW capacities and the balance capacity shall come online during the year 2010-11.

EOI to PNGRB

Particulars	Length of Pipeline (in Kms)	Capacity (mmscmd)	Capital Expenditure (Rs Crs)
Mehsana - Bhatinda	1670	30	6680
Bhatinda- Jammu- Srinagar	740	15	1850
Mallavaram - Bhilwara	1585	30	6340
Surat - Paradip	1680	30	6720

Sources:- Company / Anagram research

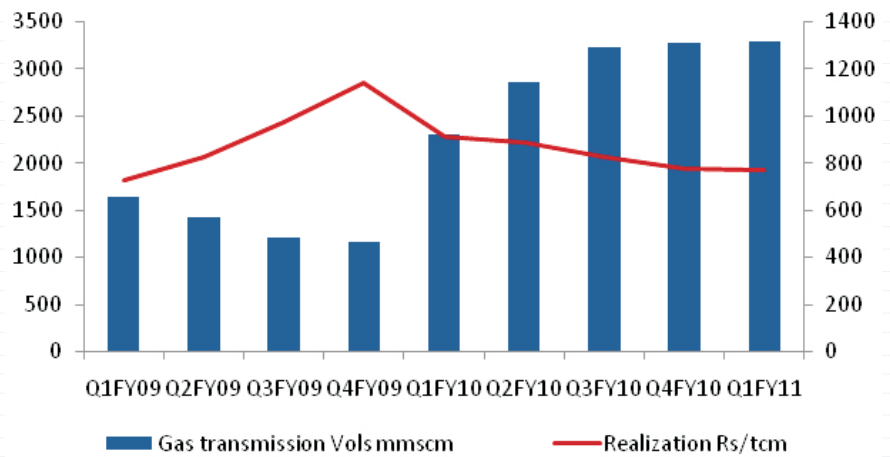
GSPL Volumes and Tariffs

Particulars	Q1FY11	Q1FY10	YoY	FY10	FY09	YoY
Volumes (mmscmd)	36.7	25.6	43%	32	14.9	115%
Tariff (Rs/tcm)	770	915	-15.8%	857	898	-5%

Sources:- Company / Anagram research

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Transmission Volumes and Realization Trends

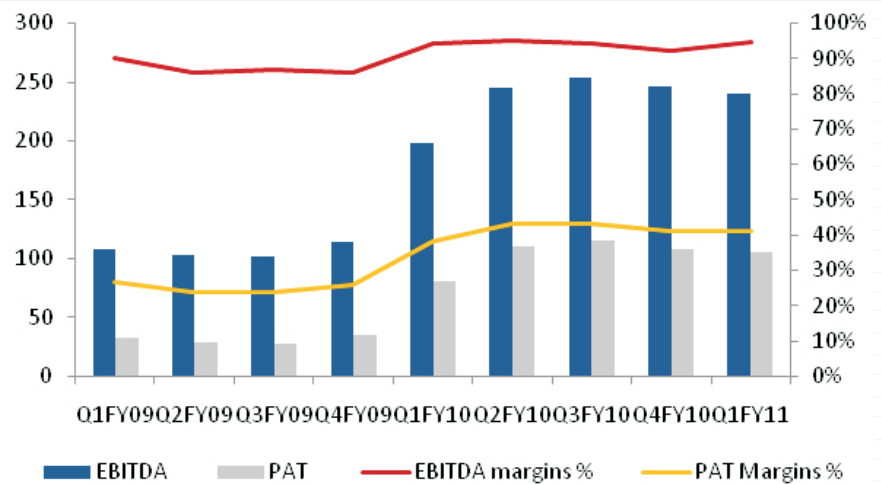


Sources:- Company / Anagram research

On QoQ basis we expect realization not to go below Rs. 750/tcm.

Though the realisations are declining on QoQ basis we expect realization not to go below Rs. 750/tcm. Volume growth is expected to increase by 26% in FY11E.

Operating Performance



Sources:- Company / Anagram research

Profit and Loss Statement

(Rs. Crs)	FY09	FY10E	FY11E	FY12E
Net Sales	487.5	1,000.9	1,259.3	1,461.5
% growth	16.7%	105.3%	25.8%	16.1%
Expenditure				
Gas transportation charge	3.6	0.4	0.0	0.0
Connectivity charge	9.1	0.0	0.0	0.0
Employee Cost	10.9	9.9	15.1	24.8
Other Manufacturing Exp	22.5	28.3	37.8	36.5
Selling and Admin Exp	16.9	20.9	31.5	40.9
Cost of sales	63.0	59.5	84.4	102.3
EBITDA	424.6	941.4	1,174.9	1,359.2
% margins	87.1%	94.1%	93.3%	93.0%
Depreciation	170.5	236.5	333.7	416.3
Gross Profit	254.1	704.9	841.2	942.8
Gross Profit Margins	52.1%	70.4%	66.8%	64.5%
Interest	87.0	93.8	112.9	133.4
Other Income	24.3	15.9	15.9	15.9
PBT	191.4	627.0	744.1	825.4
PBT Margins %	39%	63%	59%	56%
Tax	68.0	213.0	253.0	280.6
Net Profit	123.4	414.0	491.1	544.7
Net Profit Margins %	25%	41%	39%	37%
Net Profit after MI	123.4	414.0	491.1	544.7

Balance Sheet

(Rs. Crs)	FY09	FY10E	FY11E	FY12E
Equity Share Capital	562.1	562.5	562.5	562.5
Total reserves	653.0	1001.4	1354.1	1738.6
Total Shareholders Fund	1215.2	1563.9	1916.6	2301.1
Total Debt	1151.0	1259.5	1506.0	1755.0
Deferred Tax Liability	114.4	140.5	109.5	75.1
Total Liabilities	2480.5	2963.8	3532.0	4131.1
Fixed Assets				
Gross Block	2421.2	3325.8	3925.8	4625.8
Less Acc Depreciation	652.6	889.0	1222.7	1639.0
Net Block	1768.6	2436.7	2703.0	2986.7
Capital Work in Progress	644.6	600.0	700.0	900.0
Investments	35.6	66.6	66.6	66.6
Inventories	92.6	132.7	162.2	184.2
Sundry Debtors	54.4	75.3	89.7	100.1
Cash and Bank	97.5	105.1	212.8	263.4
Loans and Advances	317.1	380.6	532.8	639.4
Total Current Assets	561.5	693.6	997.5	1187.1
Current Liabilities	374.2	484.8	586.5	660.7
Provisions	159.0	348.6	348.6	348.6
Net Current Assets	28.4	-139.8	62.4	177.8
Misc Exp	3.3	0.3	0.0	0.0
Total Assets	2480.5	2963.5	3532.0	4131.1

Cash Flow Statement

(Rs. Crs)	FY09	FY10E	FY11E	FY12E
Profit Before Tax	191.4	627.0	744.1	825.4
Depreciation	170.5	236.5	333.7	416.3
Interest	87.0	93.8	112.9	133.4
Cash flow from operations	448.9	957.3	1190.8	1375.1
Changes in working capital	148.8	-175.8	94.5	64.8
Taxes paid	68.0	213.0	253.0	280.6
Net Cash from operation	232.1	920.1	843.3	1029.6
Capital Expenditure	-457.8	-860.0	-700.0	-900.0
Change in Investments	0.0	-31.0	0.0	0.0
Net Cash from Investing	-457.8	-891.0	-700.0	-900.0
Increase/decrease in debt	184.9	108.5	246.5	249.0
Dividends	-49.3	-109.2	-138.4	-161.3
Proceeding from equity	-0.1	0.3	0.0	0.0
Interest	-87.0	-93.8	-112.9	-133.4
Others	17.7	72.7	-30.7	-33.4
Net cash from financing	66.2	-21.4	-35.6	-79.0
Net Increase/Decr in Cash	-159.5	7.7	107.7	50.6
Opening Cash Balance	256.9	97.4	105.1	212.8
Closing cash balance	97.4	105.1	212.8	263.4

Ratio Analysis

	FY09	FY10E	FY11E	FY12E
Market price (Rs)	124	124	124	124
EPS - RS.	2.2	7.4	8.1	9.7
EBIDTA %	87.1%	94.1%	93.3%	93.0%
PBT %	39.3%	62.6%	57.5%	56.5%
PAT %	25.3%	41.4%	38.0%	37.3%
EV- Rs. Crores	8023.8	8128.7	8308.0	8491.8
EV/EBIDTA	18.9	8.6	7.4	6.2
EV/Sales	16.5	8.1	6.9	5.8
Book Value's per share	21.6	27.8	33.6	40.4
P/E Ratio	56.5	16.8	15.2	12.8
P/BV	5.7	4.5	3.7	3.1
Face Value	10.0	10.0	10.0	10.0
Dividend %	34%	23%	25%	25%
ROCE %	10.2	23.8	22.5	23.0
ROE %	10.2	26.5	24.2	24.0
BalanceSheet Ratios				
Debt-Equity Ratio	0.9	0.8	0.8	0.8
Current Ratio	1.1	0.8	1.0	1.2
Debtor Days	40.7	27.4	26.0	25.0
Creditor Days	280.1	176.8	170.0	165.0
Interest Cover Ratio	4.9	10.0	9.9	10.2

Sources: - Company, Anagram research

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RATING INTERPRETATION :

BUY Expected to appreciate more than 20% over a 12-month period

Accumulate Expected to appreciate up to 20% over a 12-month period

Neutral Expected to remain in a narrow range

SELL Expected to depreciate more than 10% over a 12-month period

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