

Gujarat State Petronet Ltd.

Raising estimates; Maintain Overweight

- Adjusting PT, earnings; maintain OW:** We raise our estimates for GSPL on rising transmission volumes and higher transportation tariffs. We expect an earnings CAGR of ~50% over FY09-12, with gas volumes rising 116%. We raise our price target to Rs110, as a result of rolling forward our timeframe to Mar-11 and removing state directive impact on earnings, valuations.
- Transmission volumes, tariffs ahead of expectations:** GSPL gas volumes averaged 36mmscmd for 3Q, up 13% sequentially. Current transmission volumes are 37-40mmscmd. We raise our transportation tariff assumptions based on higher-than-expected transportation tariffs of > Rs800/scm in FY10TD.
- KG gas ramp-up to continue to boost revenues:** GSPL is currently transmitting 36mmscmd (with 23.5mmscmd of KG gas). With the completion of pipeline infrastructure, we expect higher volumes of KG gas to flow through GSPL's network. We expect gas volumes for FY10 to average 38.5mmscmd, increasing to 47.5mmscmd for FY11. Customer off-take is likely to reach contracted volumes in the coming quarters, leaving further upside to volumes.
- State government directive:** Previously, GSPL had been directed to contribute 30% of PBT to social causes, under a state government initiative. Given the lack of notification on this issue, we have stopped factoring this contribution in our estimates.
- Revising PT, earnings; maintain Overweight:** Our new Mar-11 price target of Rs110 is based on DCF, using a WACC of 11.6%, risk-free rate of 8%, and a 3% long-term growth rate. We maintain our Overweight rating. Key risks include reintroduction of the 30% social initiative contribution and high spot LNG prices impacting LT demand.

Overweight

GSPT.BO, GUJS IN

Price: Rs87.65

▲ **Price Target: Rs110.00**
Previous: Rs58.00

India

Natural Gas Pipeline and Distribution

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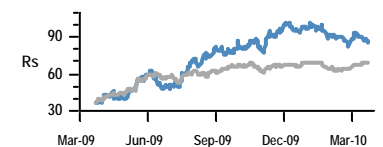
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J.P. Morgan India Private Limited

Price Performance



	YTD	1m	3m	12m
Abs	-11.2%	3.0%	-10.0%	135.3%
Rel	-10.6%	-4.2%	-11.3%	50.1%

Gujarat State Petronet Ltd. (Reuters: GSPT.BO, Bloomberg: GUJS IN)

Rs in mn, year-end Mar	FY07A	FY08A	FY09A	FY10E	FY11E	FY12E		
Revenue	3,176	4,179	4,875	10,184	11,817	11,817	Shares O/S (mn)	562
EBITDA	2,681	3,645	4,249	9,454	10,888	10,844	Market Cap (Rs mn)	49,299
Net Profit	894	999	1,238	4,015	3,149	4,190	Market Cap (\$ mn)	1,081
EPS (Rs)	1.65	1.81	2.20	7.14	5.60	7.45	Price (Rs)	87.65
DPS (Rs)	0.50	0.51	0.66	2.14	2.07	2.24	Date Of Price	23 Mar 10
Revenue growth (%)	20.5%	31.6%	16.7%	108.9%	16.0%	0.0%	Free float (%)	61.0%
EPS growth (%)	58.4%	9.8%	21.8%	224.2%	-21.6%	33.1%	3-mth trading value (Rs mn)	77.14
ROCE	10.0%	10.2%	11.4%	24.5%	16.9%	20.7%	3-mth trading value (\$ mn)	1.69
ROE	9.5%	9.5%	10.5%	29.8%	20.1%	23.4%	3-mth trading volume (mn)	0.68
P/E	53.2	48.5	39.8	12.3	15.6	11.8	BSE30	17,451
P/BV	4.9	4.3	4.1	3.3	3.0	2.6	Exchange Rate	45.60
EV/EBITDA	20.9	15.5	14.1	6.5	5.8	5.2	Fiscal Year End	Mar
Dividend Yield	0.6%	0.6%	0.8%	2.4%	2.4%	2.6%		

Source: Company data, Bloomberg, J.P. Morgan estimates.

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

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Company Description

GSPL owns and operates a 1,130km gas pipeline network in the western Indian state of Gujarat. It is the second-largest gas transmission network in India. It currently carries 37mmscmd of gas through its network. RIL's KG basin gas supplies into Gujarat would be the key earnings driver.

P&L sensitivity metrics (FY11)

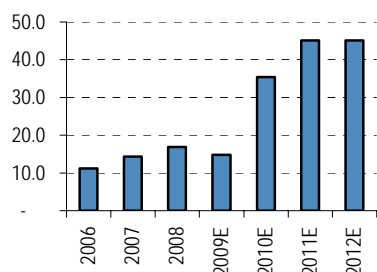
	EBITDA impact (%)	EPS impact (%)
Transmission Volume		
Impact of each 5% lower volumes	-3%	-6%
State Charity contribution		
Impact	0%	30%
Tariffs 10% lower		
Impact	-11%	-28%

Source: J.P.Morgan estimates

Price target and valuation analysis

Our Mar-11 PT is at Rs 110/share based on DCF fair value estimate. The DCF estimate assumes 3% terminal growth. We assume a risk-free rate of 8.0%, market risk premium of 6.0%, and cost of debt of 9.5% to arrive at a WACC of 11.6%

GSPL transmission volumes (mmscmd)



Source: Company, J.P.Morgan estimates

EPS: J.P. Morgan vs consensus

	J. P. Morgan	Consensus
FY10E	7.1	6.9
FY11E	5.6	7.7
FY12E	7.5	8.5

Source: Bloomberg, J.P.Morgan estimates

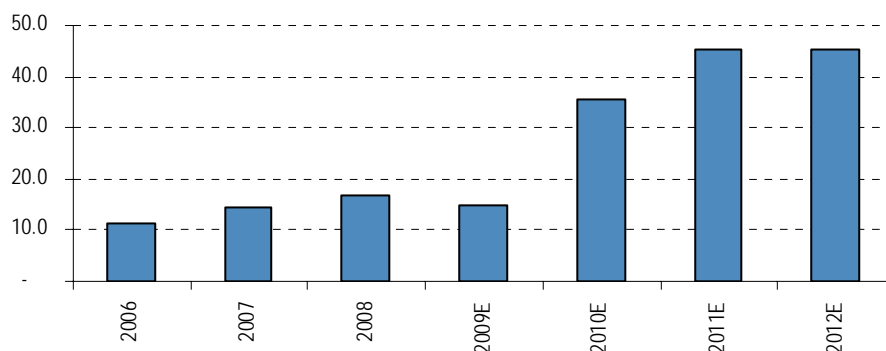
Risk free rate:	8.0%
Market risk premium:	6.0%
Beta:	1.2
Debt/equity:	40%
Cost of debt:	9.5%
Terminal "g":	3%

We expect rising gas transmission volumes (~45% CAGR with increasing flows from KG-D6), along with strong transportation tariffs to lead to a ~50% earnings CAGR over FY09-12E. Given the lack of notification on the state government directive, we remove the impact of the same from our estimates. Key risks to our call include a reintroduction of the state government contribution initiative and high spot LNG prices impacting LT demand

KG gas boosts volumes

GSPL's transmission volumes have received a boost with ramp-up of production from Reliance's KG-D6 gas fields. KG gas now accounts for ~65% of total volumes. With utilization rates rising, we expect a ~45% CAGR for volumes over FY09-12E. GSPL is currently transporting ~36mmscmd of gas (~6-7mmscmd of spot). With various customers (such as RIL refinery, which will ramp up to 11mmscmd) expected to increase their off-take, volumes are expected to increase in the near-term. GSPL also continues to expand network to reach to new demand centers. GSPL added 150km of pipeline in 9M FY10 – and will be commissioning a further ~200-220km in FY10.

Figure 1: Gas volumes



Source: Company data, J.P. Morgan estimates.

Tariffs

Transportation tariffs in FY10TD have held above Rs800/tcm, ahead of our expectations. We are revising our FY10 average tariff assumption to Rs790/tcm. Our FY11/12 tariff assumptions are also higher by 25-28% at Rs717/tcm.

Table 1: Sensitivity to tariffs

	2010E	2011E	2012E
Base Net Profit (Rs mn)	4,015	3,149	4,190
New Tariff (Rs/tcm)	788	717	717
Tariff 10% lower	-17%	-28%	-24%
Tariff -15% lower	-26%	-41%	-33%
Tariff -20% lower	-35%	-55%	-40%

Source: J.P. Morgan estimates.

State government directive

Management has indicated that it has yet to receive any notification regarding the social cause contribution. Also, given that minority shareholders at two Gujarat government enterprises refused to accept the proposal, we are removing the impact of these contributions in our estimates. The removal of the impact of the state government directive is a significant contributor to our PT change (50% of our PT increase).

Valuation

Our Mar-11 price target of Rs110 (DCF based) uses a WACC of 11.6%, risk-free rate of 8% and a 3% long-term growth rate. We maintain our Overweight rating. Key risks include a re-introduction of the 30% social initiative contribution by the state government, and high spot LNG prices impacting LT volume growth.

Table 2: Valuation

Rs MM, year-end March	FY09	FY10	FY11	FY12	FY13	FY14	Terminal cashflow
EBITDA	4,249.3	9,454.0	10,887.8	10,844.5	10,797.7	11,121.6	
Cash Tax Payable	(763.3)	(2,260.2)	(1,865.2)	(2,337.6)	(2,294.8)	(2,363.7)	
Working Capital changes	(1,487.8)	(115.0)	(38.1)	55.8	(301.3)	0.0	
Capex	(4,579.4)	(7,054.0)	(8,700.0)	(1,000.0)	(1,000.0)	(1,500.0)	
Free Cash Flow	(2,581.3)	24.7	284.5	7,562.6	7,201.5	7,258.0	7,475.7
Terminal growth rate	3.0%						
WACC	11.6%						
DCF Valuation							
NPV of explicit cashflows	17,777.2						
NPV of Terminal Value	56,076.9						
Enterprise Value	73,854.1						
Less: Net Debt	11,969.1						
Equity Value	61,885.0						
Per Share Equity Value	110						

Source: Company data, J.P. Morgan estimates.

GSPL: Summary of financials

Profit and Loss statement						Cash flow statement					
Rs in millions, year-end Dec	FY08	FY09E	FY10E	FY11E	FY12E		FY08	FY09E	FY10E	FY11E	FY12E
Revenues	4,179	4,875	10,184	11,817	11,817	EBIT	2,013	2,544	6,849	5,669	7,105
% change YY	32%	17%	109%	16%	0%	Depreciation & amortisation	1,632	1,705	2,605	5,219	3,739
EBITDA	3,645	4,249	9,454	10,888	10,844	Change in working capital	2,460	(1,488)	(115)	(38)	56
% change YY	36%	17%	122%	15%	0%	Taxes	(410)	(535)	(1,483)	(1,158)	(1,541)
EBITDA Margin (%)	87%	87%	93%	92%	92%	Others	324	269	280	397	456
EBIT	2,013	2,544	6,849	5,669	7,105	Cash flow from operations	6,018	2,496	8,136	10,089	9,815
% change YY	22%	26%	169%	-17%	25%	Capex	(5,821)	(4,579)	(7,054)	(8,700)	(1,000)
EBIT Margin (%)	48%	52%	67%	48%	60%	Change in investments	356	-	-	-	-
Net financial income	(521)	(627)	(857)	(977)	(860)	Interest	(815)	(870)	(1,107)	(1,372)	(1,314)
Earnings before tax	1,491	1,918	5,992	4,693	6,245	Free cash flow	(262)	(2,953)	(25)	17	7,501
% change YY	9%	29%	212%	-22%	33%	Equity raised/ (repaid)	192	1	-	-	-
State govt. Levy	-	-	-	-	-	Debt raised/ (repaid)	1,022	1,849	5,921	1,000	(4,000)
Tax	(492)	(679)	(1,978)	(1,544)	(2,055)	Dividends paid	(329)	(433)	(1,409)	(1,363)	(1,471)
as % of EBT	33%	35%	33%	33%	33%	Beginning cash	1,811	2,569	975	5,461	5,115
Net Income (adjusted)	999	1,238	4,015	3,149	4,190	Ending cash	2,569	975	5,461	5,115	7,145
% change YY	12%	24%	224%	-22%	33%						
Shares Outstanding	562	562	562	562	562						
EPS (adjusted)	1.8	2.2	7.1	5.6	7.5						
% change YY	8%	24%	224%	-22%	33%						
Balance sheet						Ratio Analysis					
	FY08	FY09E	FY10E	FY11E	FY12E	% , year-end Mar	FY08	FY09E	FY10E	FY11E	FY12E
Cash and cash equivalents	2,569	975	5,461	5,115	7,145	EBITDA margin	87%	87%	93%	92%	92%
Accounts receivable	416	544	1,136	615	615	EBIT margin	48%	52%	67%	48%	60%
Inventories	397	926	1,934	2,244	2,244	Net profit margin	24%	25%	39%	27%	35%
Others	2,114	3,171	3,538	3,874	4,252	Sales growth	32%	17%	109%	16%	0%
Current assets	5,497	5,615	12,068	11,848	14,256	Net profit growth	12%	24%	224%	-22%	33%
Total Investments	356	356	356	356	356	Interest coverage (x)	4.5	4.9	8.5	7.9	8.3
Net fixed assets	21,259	24,132	28,582	32,063	29,324	Net debt to total capital	0.3	0.4	0.4	0.4	0.2
Liabilities	4,136	3,708	4,282	4,955	4,956	Net debt to equity	0.6	0.9	0.8	0.8	0.4
Provisions	907	1,590	2,898	2,315	2,748	Sales/assets	0.2	0.2	0.3	0.3	0.3
Total current liabilities	5,043	5,298	7,180	7,269	7,704	Assets/equity	1.9	2.0	2.3	2.2	1.9
Total assets	21,713	24,450	33,470	36,642	35,875	ROE	9%	11%	30%	20%	23%
Total debt	9,660	11,509	17,430	18,430	14,430	ROCE	11%	12%	24%	17%	21%
Other liabilities	643	788	1,283	1,669	2,182						
Total liabilities	10,304	12,298	18,713	20,099	16,612						
Shareholders' equity	11,410	12,152	14,758	16,543	19,263						
BVPS	20.3	21.6	26.3	29.4	34.3						

Source: Company data, J.P. Morgan estimates.

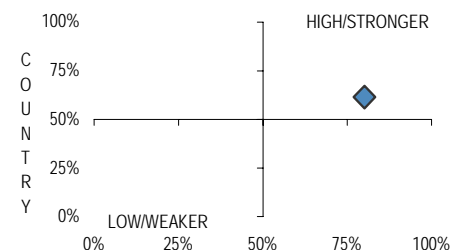
All Data As Of 23-Mar-10

Q-Snapshot: Gujarat State Petronet Ltd.

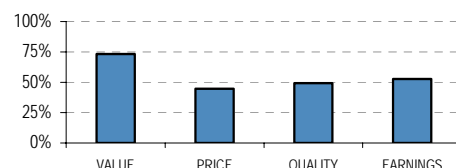
Quant Return Drivers (a Score >50% indicates company ranks 'above average')

Score 0% (worst) to 100% (best)	vs Country	vs Industry	Raw Value
Value			
P/E Vs Market (12mth fwd EPS)	68%	84%	0.7x
P/E Vs Sector (12mth fwd EPS)	59%	82%	0.8x
EPS Growth (forecast)	68%	58%	33.1%
Value Score	73%	84%	
Price Momentum			
12 Month Price Momentum	38%	77%	132.9%
1 Month Price Reversion	71%	69%	1.4%
Momentum Score	45%	79%	
Quality			
Return On Equity (forecast)	63%	65%	20.6%
Earnings Risk (Variation in Consensus)	40%	58%	0.15
Quality Score	49%	64%	
Earnings & Sentiment			
Earnings Momentum 3mth (risk adjusted)	62%	74%	32.2
1 Mth Change in Avg Recom.	48%	72%	0.00
Net Revisions FY2 EPS	63%	58%	0%
Earnings & Sentiment Score	53%	61%	
COMPOSITE Q-SCORE* (0% To 100%)	61%	80%	

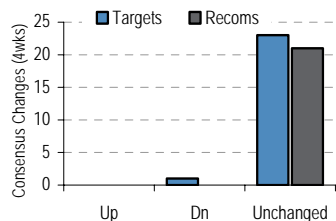
J.P. Morgan Composite Q-Score



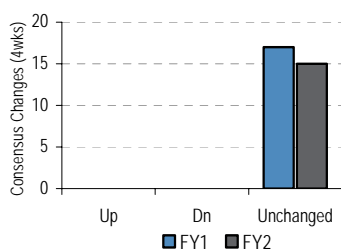
INDUSTRY
 Quant Return Drivers Summary (vs Country)



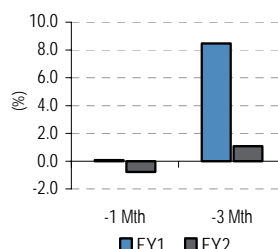
Targets & Recommendations**



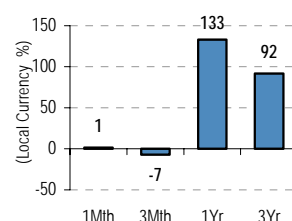
EPS Revisions**



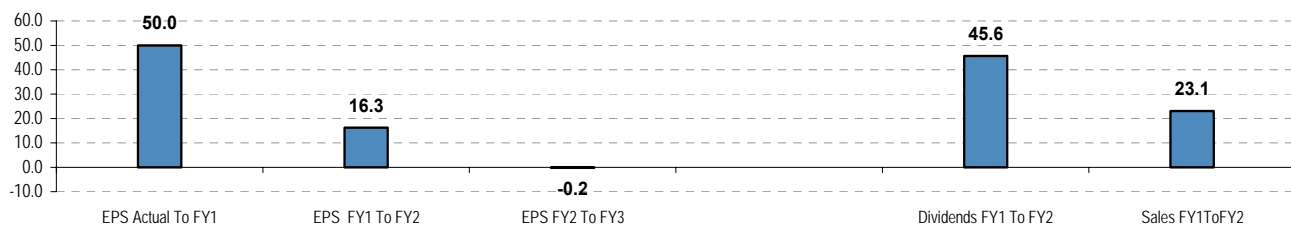
EPS Momentum (%)



Historical Total Return (%)



Consensus Growth Outlook (%)



Closest in Country by Size (Consensus. ADV = average daily value traded in US\$m over the last 3 mths)

Code	Name	Industry	USD MCAP	ADV	PE FY1	Q-Score*
532843-IN	Fortis Healthcare Ltd.	Hospital/Nursing Management	1,240	4.32	79.3	39%
523204-IN	Aban Offshore Ltd.	Contract Drilling	1,169	44.36	11.9	78%
532670-IN	Shree Renuka Sugars Ltd.	Agricultural Commodities/Milling	1,147	20.99	5.1	83%
530019-IN	Jubilant Organosys Ltd.	Pharmaceuticals: Other	1,131	2.26	13.4	42%
524804-IN	Aurobindo Pharma Ltd.	Pharmaceuticals: Other	1,115	3.64	12.4	86%
532702-IN	Gujarat State Petronet Ltd.	Oil & Gas Production	1,092	5.47	12.7	61%
500084-IN	Cesc Ltd.	Electric Utilities	1,090	1.70	11.4	82%
532418-IN	Andhra Bank	Regional Banks	1,072	2.56	5.0	93%
500040-IN	Century Textiles & Industries Ltd.	Construction Materials	1,069	8.88	10.9	70%
517334-IN	Motherson Sumi Systems Ltd.	Auto Parts: OEM	1,066	0.58	27.9	68%
532388-IN	Indian Overseas Bank	Regional Banks	1,063	2.46	6.2	19%

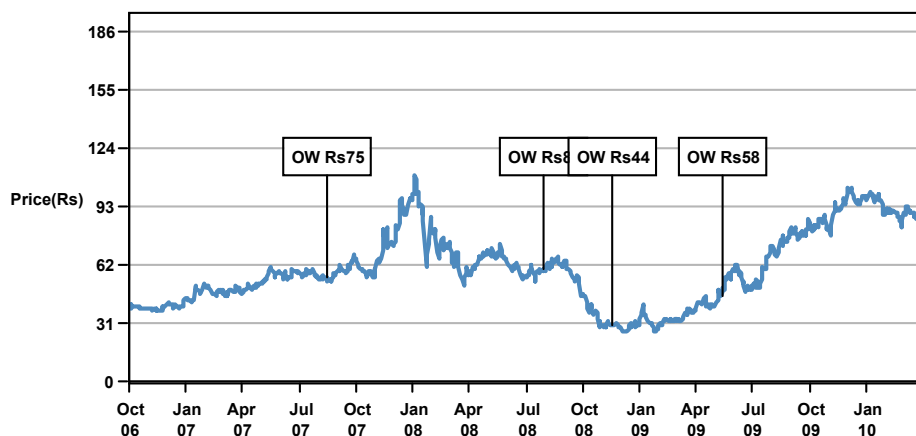
Source: Factset, Thomson and J.P. Morgan Quantitative Research. For an explanation of the Q-Snapshot, please visit <http://jpmorgan.hk.acrobat.com/qsnapshot/>. Q-Snapshots are a product of J.P. Morgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.' Q-Snapshots are based on consensus data and should not be considered as having a direct relationship with the J.P. Morgan analysts' recommendation. * The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe. ** The number of up, down and unchanged target prices, recommendations or EPS forecasts that make up consensus.

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Important Disclosures

Gujarat State Petronet Ltd. (GSPT.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
16-Aug-07	OW	55.20	75.00
29-Jul-08	OW	59.65	83.00
16-Nov-08	OW	29.75	44.00
12-May-09	OW	45.65	58.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Aug 16, 2007. This chart shows J.P. Morgan’s continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
 J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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	Overweight (buy)	Neutral (hold)	Underweight (sell)
JPM Global Equity Research Coverage	42%	44%	14%
IB clients*	58%	57%	42%
JPMSI Equity Research Coverage	41%	49%	10%
IB clients*	78%	73%	57%

*Percentage of investment banking clients in each rating category.

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