

May 27, 2011

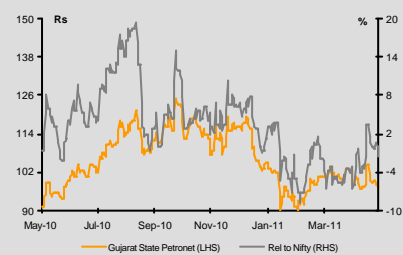
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs. 97	Rs. 120
EPS change FY12E/13E (%)	NA
Target Price change (%)	-11
Nifty	5,412
Sensex	18,045

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(5)	3	(10)	6
Rel. to Nifty	2	3	(3)	(4)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Oil & Gas
Bloomberg	GUJS@IN
Equity Capital (Rs mn)	5626
Face Value(Rs)	10
No of shares o/s (mn)	563
52 Week H/L	128/88
Market Cap (Rs bn/USD mn)	54/1,192
Daily Avg Volume (No of sh)	385639
Daily Avg Turnover (US\$m)	0.8

### Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	37.7	37.7	37.7
FII/NRI	14.1	14.9	15.9
Institutions	19.0	18.2	17.0
Private Corp	5.5	5.4	5.5
Public	23.7	23.8	23.9

Source: Capitaline

### Dhaval Joshi

dhaval.joshi@emkayglobal.com

+91 22 6612 1282

- Transmission tariff declined by 4.1% YoY & 9.2% QoQ and volume declined marginally by 2.4% YoY to 35.5mmscmd
- EBIDTA at Rs.2.3bn, against Rs.2.5bn, declined by 4% YoY mainly due to lower realisation and higher other expenditure
- Profitability jumped by 39.7% to Rs.1.5bn YoY, due to change in depreciation rate from 8.33% to 3.17%
- Valuations look attractive at 9.3x FY13E EPS and 1.8x P/Bv, maintain BUY rating on the GSPL with the revised TP of Rs.120

### Highlights of the results

GSPL reported results which were below our estimates at Revenue and EBIDTA level due to lower volumes and lower realisation. However PAT of Rs.1.5bn was significantly ahead of our estimate of Rs.1.3bn, on account of depreciation write back of Rs.172mn during the quarter.

Revenue for the quarter was at Rs. 2.5bn (against our expectation of Rs.2.8bn), declined by 3.3% YoY, mainly on account of lower transmission volume and transmission tariff. EBIDTA during the quarter was at Rs.2.3bn, declined by 5.4% YoY, due to higher other expenditure which has grown by 29.9% to Rs.209.8mn. During the quarter depreciation cost has significantly declined by 127.4% to Rs.-173mn, mainly on account of change in depreciation rate to 3.17% and same has been reflected as revision in the depreciation amount, which resulting in a higher profitability for the quarter at Rs.1.5bn, growth of 39.7% YoY.

### Transmission tariff declined by 4.2% YoY & 9.2% QoQ, but volume remains flat at 35.5mmscmd

Transmission tariff for Q4 FY11 has decline by 4.2% YoY and 9.2% QoQ, mainly on account of lower volumes during the quarter. But transmission volume for the quarter stood at 3200mmscm (35.5mmscmd) flat on YoY and QoQ basis.

### Depreciation writeback boosts profitability in Q4 FY11

During the quarter depreciation cost has significantly declined to Rs.-173mn, mainly due to change in depreciation rate by the company from 8.33% to 3.17%, resulting in a higher profitability for the quarter at Rs.1.5bn, growth of 39.7% YoY. New depreciation rate will be applicable with effect from 1<sup>st</sup> April 2010, and it obtained the approval for the same from Ministry of Corporate Affairs.

### Expects transmission volume at 40mmscmd in FY12E and 45mmscmd in FY13E

GSPL expects transmission volume at 40mmscmd and 45mmscmd by FY12E and FY13E respectively backed by new demand from the gas based power plant, located at Hazira and Pipava (351 MW each) and from other industries. However we expect supply deficit to continue in the future also and this can only be met by imported RLNG at the reasonable price.

### Valuation table

Rs Mn	Net Sales	EBIDTA Core	EBIDTA (%)	APAT	AEPS	EPS % chg	RoE (%)	P/E	EV/EBIDTA	P/BV
FY10	10008.5	9413.4	94.1	4137.4	7.4	235.4	29.8	13.2	6.9	3.5
FY11	10465.2	9693.8	92.6	5064.2	9.0	22.4	28.4	10.8	7.1	2.7
FY12E	11319.7	10595.2	93.6	5452.8	9.7	7.7	24.3	10.0	6.5	2.2
FY13E	12341.8	11527.2	93.4	5865.3	10.4	7.6	21.4	9.3	5.8	1.8

Source: Company, Emkay Research

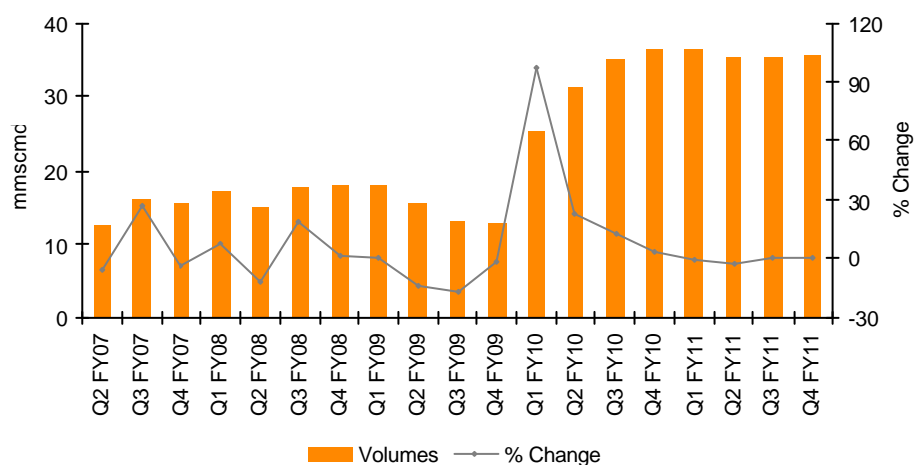
## Financial Snapshot

Rs Mn

Rs mn	Q4 FY10	Q1 FY11	Q2 FY11	Q3 FY11	Q4 FY11	YoY (%)	QoQ (%)	FY11	FY10	YoY (%)
<b>Revenue</b>	<b>2667.9</b>	<b>2545</b>	<b>2544.7</b>	<b>2795.2</b>	<b>2580.2</b>	-3.3	-7.7	10,465.1	10,008.7	4.6
<b>Expenditure</b>	208.32	136.5	208.3	172.2	254.42	22.1	47.7	771.4	595.1	29.6
<i>as % of sales</i>	7.8	5.4	8.2	6.2	9.9					
Consumption of RM	0	0	0	0.0	0.0			0.0	0.0	
<i>as % of sales</i>	0.0	0.0	0.0	0.0	0.0					
Employee Cost	46.8	25.7	41.9	40.6	44.61	-4.7	9.9	152.8	99.4	53.7
<i>as % of sales</i>	1.8	1.0	1.6	1.5	1.7					
Other expenditure	161.5	110.8	166.4	131.6	209.81	29.9	59.4	618.6	495.7	24.8
<i>as % of sales</i>	6.1	4.4	6.5	4.7	8.1					
<b>EBITDA</b>	2459.6	2408.5	2336.4	2623.0	2325.8	-5.4	-11.3	9,693.7	9,413.6	3.0
Depreciation	632.4	687.1	759.78	25.4	-173.1	-127.4	-781.5	1,299.2	2,364.9	-45.1
<b>EBIT</b>	1827.2	1721.4	1576.7	2597.6	2498.9	36.8	-3.8	8,394.5	7,048.7	19.1
Other Income	31.74	29.8	68.1	50.4	68.06	114.4	35.0	216.4	158.5	36.5
Interest	224.97	224.3	241.67	258.7	235.9	4.9	-8.8	960.6	938.3	2.4
<b>PBT</b>	1634.0	1526.9	1403.1	2389.3	2331.0	42.7	-2.4	7,650.3	6,268.9	22.0
Total Tax	555.29	475.792	487.92	797.9	824.55	48.5	3.3	2,586.2	2,131.2	21.3
<b>Adjusted PAT</b>	1078.7	1051.1	915.2	1591.4	1506.5	39.7	-5.3	5,064.2	4,137.7	22.4
(Profit)/loss from JV's/Ass/MI	0	0	0	0.0	0.0					
<b>APAT after MI</b>	1078.7	1051.1	915.2	1591.4	1506.5	39.7	-5.3	5,064.2	4,137.7	22.4
<b>Extra ordinary items</b>	0	0	0	0.0	0.0					
<b>Reported PAT</b>	1078.7	1051.1	915.2	1591.4	1506.5	39.7	-5.3	5,064.2	4,137.7	22.4
<b>Reported EPS</b>	1.92	1.87	1.63	2.83	2.68	39.7	-5.3	9.0	7.4	22.3

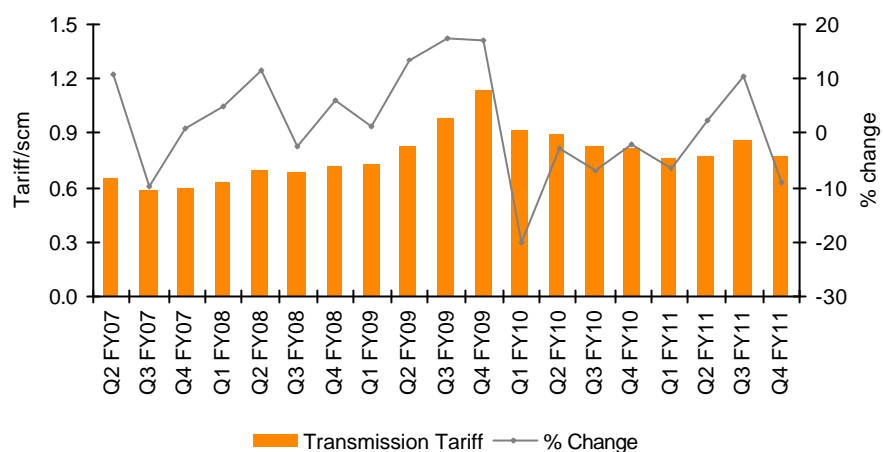
Margins (%)						(bps)	(bps)					
EBIDTA	92.2	94.6	91.8	93.8	90.1	-205.2	-370.0	92.6	94.1	-142.5		
EBIT	68.5	67.6	62.0	92.9	96.8	2,836.1	391.8	80.2	70.4	978.9		
EBT	61.2	60.0	55.1	85.5	90.3	2,909.8	486.5	73.1	62.6	1046.9		
PAT	40.4	41.3	36.0	56.9	58.4	1,795.5	145.3	48.4	41.3	705.0		
Effective Tax rate	34.0	31.2	34.8	33.4	35.4	138.9	197.8	33.8	34.0	-19.2		

## Transmission volume trend



Source: Company, Emkay Research

## Transmission tariff trend



Source: Company, Emkay Research

### Valuations

We have reduced our target price to Rs.120 (Rs.135 earlier) due to lack of clarity on future volume growth for the company. The current volume growth for FY12E and FY13E is already priced in but due to expected reduction in KG D6 gas from current level of 50mmscmd would raise the concern on the future volume growth of the company. At CMP of Rs.97 stock trades at 9.3x FY13E EPS and 1.8x FY13E P/Bv, we maintain our BUY rating on the GSPL with the revised target price of Rs.120.

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	10008.5	10465.2	11319.7	12341.8
<i>Growth (%)</i>	105.3	4.6	6.4	9.0
<b>Expenditure</b>	595.1	771.4	724.5	814.6
Materials Consumed	0	0	0	0
Employee Cost	99.4	152.8	169.8	197.5
Other Exp	495.7	618.6	554.7	617.1
<b>EBITDA</b>	9413.4	9693.8	10595.2	11527.2
<i>Growth (%)</i>	121.8	3.0	6.6	8.8
<b>EBITDA margin (%)</b>	94.1	92.6	93.6	93.4
Depreciation	2364.9	1299.2	1309.0	1449.9
<b>EBIT</b>	7048.5	8394.6	9286.2	10077.4
<b>EBIT margin (%)</b>	70.4	80.2	82.0	81.7
Other Income	158.5	216.3	213.0	215.7
Interest expenses	938.3	960.6	1237.4	1406.2
<b>PBT</b>	6268.6	7650.3	8261.9	8886.9
<b>Tax</b>	2131.2	2586.1	2809.0	3021.5
<i>Effective tax rate (%)</i>	34.0	33.8	34.0	34.0
<b>Adjusted PAT</b>	4137.4	5064.2	5452.8	5865.3
<i>Growth (%)</i>	235.4	22.4	13.6	7.6
<b>Net Margin (%)</b>	41.3	48.4	48.2	47.5
(Profit)/loss from JVs/Ass/MI	0	0	0	0
<b>Adjusted PAT After JVs/Ass/MI</b>	4137.4	5064.2	5452.8	5865.3
E/O items	0.0	0.0	0.0	0.0
<b>Reported PAT</b>	4137.4	5064.2	5452.8	5865.3
<b>PAT after MI</b>	4137.4	5064.2	5452.8	5865.3
<i>Growth (%)</i>	235.4	22.4	13.6	7.6

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	6268.6	7650.3	8261.9	8886.9
Depreciation	2364.9	1299.2	1309.0	1449.9
Interest Provided	938.3	960.6	1237.4	1406.2
Other Non-Cash items	0.0	0.0	0.0	0.0
Chg in working cap	1419.4	-2678.0	192.7	687.6
Tax paid	1958.2	2408.1	2809.0	3021.5
<b>Operating Cashflow</b>	8862.6	4607.6	7978.9	9194.3
Capital expenditure	-7776.7	-7000.0	-7000.0	-5000.0
<b>Free Cash Flow</b>	1085.9	-2392.4	978.9	4194.3
Other income	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0
<b>Investing Cashflow</b>	-7617.4	-7000.0	-7000.0	-5000.0
Equity Capital Raised	0.0	0.0	0.0	0.0
Loans Taken / (Repaid)	1085.9	3000.0	700.8	-427.8
Interest Paid	-1075.0	-1006.5	-1237.4	-1406.2
Dividend paid (incl tax)	-493.4	-657.9	-657.9	-657.9
Income from investments	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>Financing Cashflow</b>	-477.8	1551.9	-981.4	-2276.1
<b>Net chg in cash</b>	767.3	-840.5	-2.5	1918.2
Opening cash position	974.6	1741.9	901.4	898.9
<b>Closing cash position</b>	1741.9	901.4	898.9	2817.1

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	5624.4	5624.4	5624.4	5624.4
Reserves & surplus	10014.9	14421.2	19216.1	24423.6
<b>Net worth</b>	15639.3	20045.6	24840.5	30048.0
<b>Minority Interest</b>	0.0	0.0	0.0	0.0
Secured Loans	12144.5	15144.5	15845.3	15417.5
Unsecured Loans	450.0	450.0	450.0	450.0
<b>Loan Funds</b>	12594.5	15594.5	16295.3	15867.5
Net deferred tax liability	1405.3	1405.3	1405.3	1405.3
<b>Total Liabilities</b>	29639.1	37045.4	42541.1	47320.8
Gross Block	33254.8	38254.8	44254.8	47254.8
Less: Depreciation	8886.2	10812.7	12121.7	13571.6
<b>Net block</b>	24368.7	27442.1	32133.1	33683.2
Capital work in progress	5386.7	7386.7	8386.7	10386.7
<b>Investment</b>	665.7	665.7	665.7	665.7
<b>Current Assets</b>	<b>7549.3</b>	<b>6654.3</b>	<b>7211.9</b>	<b>9727.2</b>
Inventories	1326.5	1251.4	1443.9	1601.4
Sundry debtors	752.7	1060.9	1147.5	1251.1
Cash & bank balance	1741.9	901.4	898.9	2817.1
Loans & advances	3599.6	2580.5	2791.2	3043.2
Other current assets	128.6	860.2	930.4	1014.4
<b>Current lia &amp; Prov</b>	8334.2	5598.6	6351.3	7636.1
Current liabilities	4848.4	4559.4	5174.3	6303.7
Provisions	3485.8	1039.2	1177.1	1332.4
<b>Net current assets</b>	-784.9	1055.8	860.5	2091.1
Misc. exp	3.1	0.0	0.0	0.0
<b>Total Assets</b>	29639.1	37045.4	42541.1	47320.8

## Key ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	94.1	92.6	93.6	93.4
Net Margin	41.3	48.4	48.2	47.5
ROCE	26.5	25.8	23.9	22.9
ROE	29.8	28.4	24.3	21.4
RoIC	37.1	34.5	31.3	31.2
<b>Per Share Data (Rs)</b>				
EPS	7.4	9.0	9.7	10.4
CEPS	11.6	11.3	12.0	13.0
BVPS	27.8	35.6	44.2	53.4
DPS	1.0	1.0	1.0	1.0
<b>Valuations (x)</b>				
PER	13.2	10.8	10.0	9.3
P/CEPS	8.4	8.6	8.1	7.5
P/BV	3.5	2.7	2.2	1.8
EV / Sales	6.5	6.6	6.1	5.4
EV / EBITDA	6.9	7.1	6.5	5.8
Dividend Yield (%)	1.0	1.0	1.0	1.0
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.7	0.7	0.6	0.4
Net Debt/EBITDA	1.1	1.4	1.4	1.1
Working Cap Cycle (days)	-101.0	-78.4	-83.3	-102.1

**Recommendation History: Gujarat State Petronet – GUJS IN**

Date	Reports	Reco	CMP	Target
14/02/2011	<a href="#">GSPL Q3FY11 Result Update</a>	Buy	94	135
22/12/2010	<a href="#">Natural Gas Sector Report</a>			

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
24/05/2011	<a href="#">GAIL Q4FY11 Result Update</a>	Accumulate	430	510
29/04/2011	<a href="#">Gujarat Gas Company Q1CY11 Result Update</a>	Buy	375	481
27/04/2011	<a href="#">Petronet LNG Q4FY11 Result Update</a>	Buy	137	164
25/03/2011	<a href="#">Gujarat Gas Analyst Meet Update</a>	Buy	378	481

**Emkay Global Financial Services Ltd.**

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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