

## RESULT UPDATE

## Gujarat State Petronet Ltd.

Maintain BUY

Price: Rs. 32

BSE Index: 10042

26<sup>th</sup> June 2006

### Share Data

Bloomberg code GUJS IN

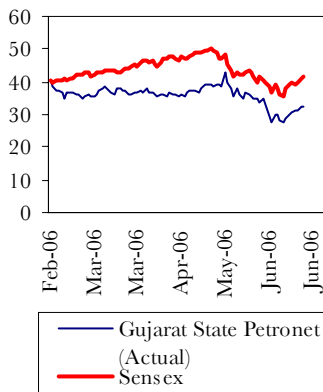
Market cap. (US\$ mn) 385

Performance (%)	1m	3m	12m
Absolute	(14)	(13)	NA
Relative	(11)	(10)	NA

### Major shareholders (%)

Promoters	39
FII's	5
MF's	4
Institutions	19
Public & Others	33

### Relative performance



### 4QFY06 Results

Gujarat State Petronet Ltd. (GSPL) reported revenues of Rs. 675 mn during 4QFY06 with an improvement in EBITDA margins to 73.4%. Its net profit for the quarter was at Rs. 108 mn. The company is on track to expand its pipeline capacity 3 times by June 2007 an increase in gas supplies will result into higher profitability in the long run. We maintain a BUY on the stock.

### Highlights

- Revenues increased to Rs. 675 mn during the quarter as a result of increase in gas transportation volumes. The company currently transports 13 MMSCMD of gas through its pipelines.
- EBITDA margins have increased to 73.4% during the quarter. This is primarily on account of lower gas transportation charges and higher gas transmission volumes. Net profits stands at Rs. 108 mn during the quarter.
- For the full year, the company has reported an increase in revenues by 29% on account of higher gas transmission volumes and slight improvement in tariffs. EBITDA margins for the full year have increased by 980 basis points on account of lower gas transportation charges (it declined by Rs. 261 mn) and higher volumes. Net profits for FY06 have increased by 191% to Rs. 467 mn. There was a one-time expense to the extent of Rs. 50 mn and this has resulted into lower profits. Also, the company pays higher tax on account of deferred tax as a result of new pipelines commissioned.

### Outlook

- GSPL is expanding its pipeline network from current 432 kms to 1,165 kms by June 2007. This expansion will increase its gas transmission capacity from current 14 MMSCMD to 40 MMSCMD, an increase by 3 times. Increase in gas supplies in future will be the key for the company's growth after the expansion is complete.
- Gas supplies are expected to increase by 143% over the next three-five years on account of new domestic discoveries and increasing LNG imports. With gas becoming available for GSPL, it will result into increase in capacity utilisation levels in the long run. Improvement in capacity utilisation levels will result into substantial improvement in profitability. We see the profitability increasing at 25-30% CAGR over the next five-seven years on account of improvement in capacity utilisation in a staggered manner.
- Margins are likely to be better for the new pipelines and this will result into higher revenues for incremental volumes. We have factored in higher transmission tariff rates during FY07 and FY08 by 8% and 12.5% from FY06 levels.
- Key risk involved in the stock is the availability of gas supplies and risk from the proposed regulatory body on its transportation tariff.

## Valuations

At the current market price of Rs. 32, the stock is trading at 25.5x and 14.4x FY07E and FY08E earnings, respectively. On a cash earnings basis, the stock is trading at 7.7x and 5.7x FY07E and FY08E cash earnings multiple. GSPL, after incurring a major capex will have sufficient pipeline capacity to meet the increasing demand in Gujarat. With increasing availability of gas, we believe the company will be in a position to increase its gas pipeline utilisation levels and result into higher growth in earnings in the long run thereby creating value to the current business proposition. We maintain BUY on the stock.

## Concall highlights

**We conducted a concall on GSPL. The key highlights are as follows:**

### Volumes expansion

Post the expansion, GSPL is likely to transmit gas more than double the current volumes. During the next two-three years, immediate gas supply may be a cause of concern. But there are sources which will increase its utilisation levels. The management expects that over the next few years growth will be in line with growth seen over the past two-three years.

### Pipeline expansion status

During FY06, following are the major pipelines commissioned:

- Kalol-Himatnagar.
- Spurline in Himatnagar.
- Mora to NTPC (Kawas).
- Mora to ONGC (PMT, Hazira).

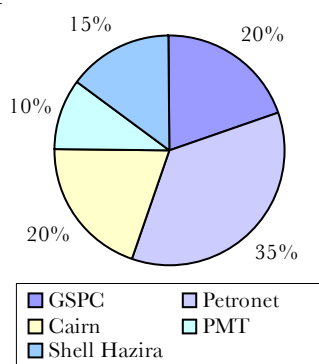
Following major pipeline are expected to get commissioned by September 2006:

- Vapi pipeline.
- Rajkot pipeline.
- Mehsana pipeline.

### Transmission tariff

With the recent transmission tariff by GAIL for DVPL pipeline, GSPL may have an opportunity to increase rates for the new contracts. The management believe that its rates are based on distance and are competitive and negotiated with the end users.

### Gas supply mix



### Gas supply mix

GSPL does not have connectivity to Petronet LNG terminal and hence it pay connectivity charges to GAIL for getting the gas from Petronet LNG. Currently, the company does not have any plans to connect its pipeline to Petronet and will continue to pay connectivity charges. Connectivity charges accounts for 32% of its expenses and ones the company in future connect its pipeline network, this expense will get eliminated improving its margins.

GSPL has recently connected its network to PMT and started utilising PMT gas for supplying it to customers. Volumes in future are expected to increase from this pipeline network.

## Promoters gas finds and plans

If GSPC, promoter of GSPL, brings gas from KG basin to Gujarat, it has an agreement with GSPL to utilise its gas pipeline network. The company along with GSPC is currently working on looking at opportunities to set up pipeline network beyond Gujarat. But this talks are at a very nascent stage and may provide opportunity for growth if it materialises in future.

## Debt profile

GSPL's current debt position stands at Rs. 6.8 bn. Its debt is a mix of fixed and floating interest rates. While the floating accounts for 55% of the total debt, fixed accounts for remaining 45%. The total tenure for the debt is for a period of nine years and most of them are in the repayment stage. It is likely to add more debt during FY07 on account of new pipelines. During initial period, debt has a two years moratorium phase.

## Tax rates

Tax rate for GSPL during last two years have been very high at 45% in FY05 and 40% in FY06. It pays MAT and hence the actual cash outgo is very less on account of tax payments. However, the higher tax rate is on account of higher deferred tax on account of new pipelines. Since the new pipelines will continue to add during FY06, higher tax (on account of higher deferred tax) is likely to continue with a fall in tax rate below corporate tax rate in future.

## Financial highlights

(Rs. mn)	4QFY06	FY05	FY06	Y-o-Y (%)	FY07E	Y-o-Y (%)	FY08E	Y-o-Y (%)
Net Sales	675	2,035	2,635	29.5	4,022	52.6	5,018	24.8
Total Expenses	180	741	692	(6.7)	588	(14.9)	623	5.8
EBITDA	495	1,294	1,943	50.2	3,433	76.7	4,395	28.0
Margin (%)	73.4	63.6	73.7	–	85.4	–	87.6	–
Other Income	28	20	45	122.4	–	(100.0)	–	–
Interest	124	363	413	13.6	835	102.2	755	(9.6)
Depreciation	225	656	791	20.4	1,572	98.9	1,824	16.0
PBT	174	294	784	166.9	1,026	30.8	1,817	77.1
Provision for tax	66	133	317	138.0	349	9.9	618	77.1
Tax as % of PBT	37.9	45	40	–	34	–	34	–
PAT	108	161	467	190.8	677	45.1	1,199	77.1
Margin (%)	16.0	7.9	17.7	–	16.8	–	23.9	–
EPS (Rs.)	0.2	0.3	0.9	–	1.2	–	2.2	–
P/E (x)	–	106.4	36.6	–	25.2	–	14.2	–
P/CEPS (x)	–	20.9	13.6	–	7.6	–	5.7	–

**Income Statement**

Yr. ended 31 Mar. (Rsm)	FY05	FY06	FY07E	FY08E
Net sales	2,053	2,635	4,022	5,018
Growth (%)	46.2	28.2	40.9	24.8
Operating expenses	(742)	(692)	(588)	(623)
Operating profit	1,311	1,943	3,433	4,395
<b>EBITDA</b>	<b>1,311</b>	<b>1,943</b>	<b>3,433</b>	<b>4,395</b>
Growth (%)	63.1	47.9	54.7	28.0
Depreciation	(656)	(791)	(1,572)	(1,824)
Other income	2	45	–	–
<b>EBIT</b>	<b>657</b>	<b>1,197</b>	<b>1,861</b>	<b>2,572</b>
Interest paid	(363)	(413)	(835)	(755)
Pre-tax profit	293	784	1,026	1,817
(before non-recurring items)				
Pre-tax profit	293	784	1,026	1,817
(after non-recurring items)				
Tax (current + deferred)	(133)	(317)	(349)	(618)
<b>Net profit</b>	<b>160</b>	<b>467</b>	<b>677</b>	<b>1,199</b>
Adjusted net profit	160	467	677	1,199
Growth (%)	30.8	190.8	12.2	77.1
<b>Net income</b>	<b>160</b>	<b>467</b>	<b>677</b>	<b>1,199</b>

**Balance Sheet**

Yr. ended 31 Mar. (Rsm)	FY05	FY06P	FY07E	FY08E
Current assets	834	1,228	886	1,244
Net fixed assets	8,392	15,210	19,238	19,114
Other non-current assets	11	–	–	–
<b>Total assets</b>	<b>9,237</b>	<b>16,438</b>	<b>20,123</b>	<b>20,358</b>
Current liabilities	571	279	387	601
Total debt	4,436	7,436	10,436	9,436
Other non-current liabilities	193	240	292	385
<b>Total liabilities</b>	<b>5,200</b>	<b>7,955</b>	<b>11,116</b>	<b>10,422</b>
Share capital	3,500	5,422	5,422	5,422
Reserves & surplus	537	3,061	3,585	4,514
<b>Shareholders' funds</b>	<b>4,037</b>	<b>8,483</b>	<b>9,008</b>	<b>9,936</b>
<b>Total equity &amp; liabilities</b>	<b>9,237</b>	<b>16,438</b>	<b>20,123</b>	<b>20,358</b>

**Cash Flow Statement**

Yr. ended 31 Mar. (Rsm)	FY05	FY06P	FY07E	FY08E
Pre-tax profit	293	914	1,026	1,817
Depreciation	654	900	1,572	1,824
Chg in working capital	245	(461)	65	10
Total tax paid	(0)	(281)	(296)	(525)
Other operating activities	(296)	(54)	–	–
<b>Cash flow from oper. (a)</b>	<b>896</b>	<b>1,019</b>	<b>2,367</b>	<b>3,125</b>
Capital expenditure	(2,341)	(7,718)	(5,600)	(1,700)
<b>Cash flow from inv. (b)</b>	<b>(2,341)</b>	<b>(7,718)</b>	<b>(5,600)</b>	<b>(1,700)</b>
<b>Free cash flow (a+b)</b>	<b>(1,446)</b>	<b>(6,700)</b>	<b>(3,233)</b>	<b>1,425</b>
Equity raised/(repaid)	1,660	4,007	–	–
Debt raised/(repaid)	137	3,000	3,000	(1,000)
Dividend (incl. tax)	–	(80)	(110)	(153)
<b>Cash flow from fin. (c)</b>	<b>1,797</b>	<b>6,927</b>	<b>2,890</b>	<b>(1,153)</b>
<b>Net chg in cash (a+b+c)</b>	<b>352</b>	<b>227</b>	<b>(343)</b>	<b>273</b>

**Key Ratios**

Yr. ended 31 Mar. (%)	FY05	FY06P	FY07E	FY08E
EPS (Rs.)	0.5	0.9	1.2	2.2
EPS growth	(21.4)	89.2	12.2	77.1
EBITDA margin	63.9	73.7	85.4	87.6
EBIT margin	32.0	45.4	46.3	51.2
ROCE	8.4	9.7	10.4	13.0
Net debt/Equity	99.3	83.9	112.4	89.1

**Valuations**

Yr. ended 31 Mar. (x)	FY05E	FY06P	FY07E	FY08E
PER	69.6	36.8	25.5	14.4
PCE	13.6	13.7	7.7	5.7
Price/Book	2.8	2.1	1.9	1.7
Yield (%)	0.6	0.6	0.8	1.4
EV/Net sales	7.4	6.9	5.3	4.0
EV/EBITDA	11.5	9.4	6.2	4.5

**Du Pont Analysis – ROE**

Yr. ended 31 Mar. (x)	FY05	FY06P	FY07E	FY08E
Net margin (%)	7.8	17.8	16.8	23.9
Asset turnover	0.3	0.2	0.2	0.2
Leverage factor	2.5	2.1	2.1	2.1
Return on equity (%)	4.8	7.6	7.7	12.7

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