



## Economy News

- ▶ Nymex crude price dropped to a low of \$106 per barrel on Tuesday amid global growth worries and lower-than-expected impact of Hurricane Gustav. Crude is currently trading at about \$109 per barrel. (BS)
- ▶ An Indian Oil Corporation (IOC) official has commented that, if crude oil prices stay at \$110 per barrel, the daily under-recoveries of the oil marketing companies will come down to less than Rs.3.5bn v/s Rs.4bn currently. Mr. Murli Deora has ruled out cut in retail prices of fuel despite fall in international crude prices (BS)
- ▶ Direct tax collections grew by over 38% in the first five months (April-August) of the current fiscal to Rs.844bn as against Rs.610bn in the year-ago period. Corporate tax collections grew 43.49% to Rs.484bn in April-August, 2008 as against Rs.338bn in the same period of the last fiscal. Personal income tax, including fringe benefit tax (FBT), securities transaction tax (STT) and banking cash transaction tax (BCTT), grew 31.79% to Rs.358bn. (ET)
- ▶ The government may remove the \$5-million-per-client limit imposed on participants, particularly banks, in currency futures. The proposal is under consideration and a decision could be taken soon. Policymakers are of the view that there shouldn't be such a cap and the futures market should be developed on the lines of over-the-counter market that does not have such a restriction. (ET)
- ▶ Hedge fund operator Ospraie Management LLC notified investors Tuesday that it is closing its flagship fund after it lost almost 40 percent of its value in August on positions in energy, mining and other natural resource-related stocks. It's believed to be the first hedge fund to go bust in this latest commodities boom as prices come crashing down after a historic bull-run earlier this year.

## Corporate News

- ▶ West Bengal Governor Gopal Krishna Gandhi has convened a preliminary agenda-setting meeting between combating sides on the Singur issue on September 4 and a formal meeting at 10 am on September 5 in a bid to work out a solution to the problem of reconciling farmers who refused compensation for land they lost to the Tata Motors' Nano car plant. Yesterday, **Tata Motors** had said it had suspended operations at Singur and was exploring alternative locations after work had been disrupted since August 29 owing to protests near the plant. (BS)
- ▶ Bolstered by the initial success of its bid to acquire UK-based Imperial Energy, **Oil and Natural Gas Corporation Ltd (ONGC)** is planning to list its wholly-owned overseas exploration subsidiary ONGC Videsh Ltd (OVL) sometime in 2009. (BS)
- ▶ **Bharat Heavy Electricals (BHEL)** will set up a greenfield project for manufacturing locomotives. It is already in talks with global majors such as Alstom, Bombardier Transportation GmbH, Siemens AG and General Electric for forming a joint venture. BHEL proposes to offer 49% equity to its partner in the new venture. The project will start with an initial investment of Rs.10bn. (ET)
- ▶ **GHCL** chairman Sanjay Dalmia and his nephew Neelabh Dalmia may face opposition in their bid to get re-elected as directors of the company in its AGM scheduled for September 12. Some shareholders of the company have nominated their candidates to contest the elections against them. (ET)
- ▶ **Kingfisher Airlines** has launched its maiden direct overseas flight from Bangalore to London. (BS)

### Equity

	2 Sep 08	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
BSE Sensex	15,050	3.8	2.7	(5.7)
Nifty	4,504	3.6	2.0	(4.5)
BSE Banking	7,447	6.1	10.7	0.7
BSE IT	4,067	2.9	7.0	(9.9)
BSE Capital Goods	12,303	3.7	1.4	(1.7)
BSE Oil & Gas	10,026	3.5	(0.2)	(3.7)
NSE Midcap	5,834	2.0	3.5	(8.7)
BSE Small-cap	6,982	1.3	0.0	(11.4)
<b>World Indices</b>				
Dow Jones	11,533	0.1	2.2	(6.9)
Nasdaq	2,334	(0.7)	2.1	(6.8)
FTSE	5,500	(2.2)	3.4	(7.9)
Nikkei	12,690	0.6	(2.2)	(12.4)
Hangseng	20,585	(2.2)	(9.2)	(15.2)

### Value traded (Rs cr)

	2 Sep 08	% Chg - Day
Cash BSE	6,293	32.1
Cash NSE	14,181	44.0
Derivatives	58,889	55.2

### Net inflows (Rs cr)

	1 Sep 08	% Chg	MTD	YTD
FII	(172)	(33)	(172)	(29,741)
Mutual Fund	(81)	(120)	(81)	10,120

### FII open interest (Rs cr)

	1 Sep 08	% Chg
FII Index Futures	13,325	2.0
FII Index Options	21,556	5.7
FII Stock Futures	18,569	6.3
FII Stock Options	649	30.5

### Advances / Declines (BSE)

	2 Sep 08	A	B	S	Total	% total
Advances	176	1,081	261	1,518	62	
Declines	29	658	184	871	35	
Unchanged	-	54	14	68	3	

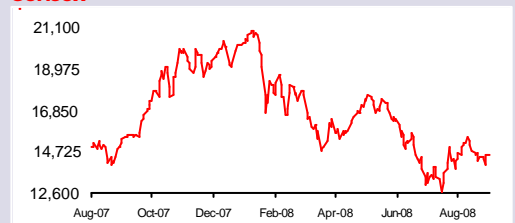
### Commodity

	2 Sep 08	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	109.2	(0.1)	(10.1)	(10.7)
Gold (US\$/OZ)	801.3	(0.5)	(10.2)	(8.8)
Silver (US\$/OZ)	12.9	(1.2)	(23.8)	(23.4)

### Debt / forex market

	2 Sep 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.68	8.68	9.32	8.16
Re/US\$	44.33	44.41	42.37	42.90

### Sensex



**MANAGEMENT MEET UPDATE**

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**GUJARAT STATE PETRONET LTD (GSPL)****PRICE: Rs.64****TARGET PRICE: Rs.90****RECOMMENDATION: BUY****FY09E P/CEPS: 10.2x**

- We recently met the management of GSPL and are very positive about the growth prospects of the company.
- Revise FY09 EPS downwards by 8.7% to Rs.2.6
- We continue to recommend BUY with a revised price target of Rs.90.(Rs.96 earlier)
- 40% upside potential from current levels.

**Summary table**

(Rs mn)	FY07	FY08	FY09E
Sales	3,176	4,179	6,024
Growth (%)	20.5	31.6	44.2
EBITDA	2677	3645	5259
EBITDA margin (%)	84.3	87.2	87.3
Net profit	894	999	1437
Net debt	6,827	5,117	10,093
EPS (Rs)	1.6	1.8	2.6
Growth (%)	91.3	8.2	43.5
CEPS (Rs)	3.5	4.7	6.3
DPS (Rs)	0.5	0.5	0.5
ROE (%)	9.5	9.5	12.2
RoIC (%)	9.7	9.5	13.5
EV/Sales (x)	13.1	9.8	7.6
EV/EBITDA (x)	15.5	11.3	8.8
P/E (x)	38.9	35.9	25.0
P/BV (x)	3.6	3.2	2.9
P/CEPS (x)	18.1	13.6	10.2

Source: Company, Kotak Securities - Private Client Research

**Torrent Power volumes to commence from October 2008**

- We expect the supply of gas to Torrent Power Plant to commence from October 2008. It would initially start with 1.5 MMSCMD for its first turbine. Then we expect it to ramp up to 3 MMSCMD by March 2009 and finally to 4.5 MMSCMD by June 2009.
- Although the contract is delayed from our earlier estimates the company is already enjoying take or pay benefits. It has already booked revenues to the tune of Rs.35 mn in FY08 for this. However it is important to note that the company has not yet received cash for this. We believe it can go for arbitration or some sort of mutual compromise for the actual payment of this take or pay clause.

**Volumes to increase significantly post Reliance gas**

- We expect the gas from KG basin of Reliance to start flowing from November 2008. This would led to next level of growth in the volumes transported as the company has already signed long term gas transmission agreements with Reliance of 11 MMSCMD which is expandable to 20 MMSCMD.
- Even if the gas is delayed the company would start generating income in terms of take or pay contract. The exact terms of the take or pay contract are not known. However, we believe it could be for 50% of the contracted volume at average realization of Rs.500 per TCM. Thus based on our assumptions it would work out to Rs.413 mn in FY09E.

**Aggressive pipeline expansion**

- In line with the heavy demand and expected supply of gas, GSPL has already chalked out its aggressive expansion plans. The company has already expanded its pipeline network from 510 km in March 2006 to 1130 km as of March 2008.
- In FY09 it would commission 250 km pipeline from Rajkot to Jamnagar and Bhadbhut (Bharuch) to Gana (Anand) plus few spur lines thereby taking the total to 1380 km by November 2008. It is also likely to commission 225 km pipeline from Morbi to Mundra by June 2009 thereby taking the total pipeline network to 1605 km.
- Going forward it is also planning to build 225 km pipeline from Limbdi to Pipavav for the power plant of GSPC group. However its construction has not yet commenced and thus we expect it to be operational by April 2010.
- Overall there are plans to ramp up the pipeline network to 4500 km in the next five years.

**Take or Pay Contract Assumptions for RIL**

Volume contracted - MMSCMD	11.0
Take or Pay (%)	50.0
Take or Pay Volume - MMSCMD	5.5
Days in FY09	150
Volume - MMSCM	825
Average Revenues - Rs. / TCM	500
Rs. mn	413

Source: Kotak Securities - Private Client Research

## Waiting for PNGRB nod for expansion into Maharashtra, Rajasthan and Andhra Pradesh

GSPL has already applied to various government authorities of Maharashtra, Rajasthan and Andhra Pradesh for setting up of pipeline network. However there has been no significant development since then as now Petroleum and Natural Gas Regulatory Board (PNGRB) is expected to invite for competitive bids for these projects. Thus as of now there is no clear guideline for expansion into these states. The company has to wait for guidelines from PNGRB.

## Strategic stakes in city gas distribution projects

- GSPL has stakes in two city gas distribution companies of GSPC Gas and Sabarmati Gas Ltd (SGL).
- GSPL has 32% stake in GSPC gas for investing Rs.350 mn. The company does city gas distribution in various cities of Gujarat like Vapi, Rajkot, Morbi, Gandhinagar and Valsad. It is distributing approximately 0.9 MMSCMD of gas.
- SGL is operating city gas distribution in various cities of Gujarat like Kalol, Mehsana and Himmatnagar. It is distributing approximately 0.5 MMSCMD of gas. GSPL has invested Rs.330 mn till date in SGL. However exact stake is not known as SGL is in process of finalizing its corporate structure.
- Going forward both these companies are likely to double their volumes in next 12 to 18 months. This is very positive for the company as it assures steady volumes. Also there could be potential value unlocking in the long-term.

## Lower volumes from Petronet LNG

Due to mechanical failure in one of the high pressure pumps of Petronet LNG the company is currently receiving less volumes of gas than expected. This problem is likely to be solved in couple of months. Also the expansion of Petronet LNG from 5 MMTPA to 10 MMTPA is delayed by couple of months and now it is expected to be operational by February 2008. Thus we expect lower volumes of gas from Petronet LNG which would impact our earning estimates.

## Financials

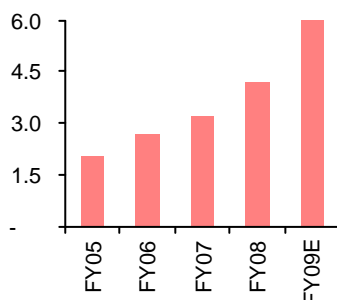
- Based on lower than expected volume of throughput and higher than expected average realizations then our earlier estimates, we have revised our earnings estimates.
- For FY09E we now expect GSPL to transport 26.6 MMSCMD of gas as against our earlier estimate of 30.5 MMSCMD. However we expect the average realizations to be better at Rs.621 per TCM as against our earlier estimate of Rs.611 per TCM.
- For FY09E, we expect GSPL to report revenues of Rs.6.0 bn (down 11.4%), EBIDTA margin of 87.3% and PAT of Rs.1.4 bn (down 8.2%).
- We now expect GSPL to report EPS of Rs.2.6 and CEPS of Rs.6.3 in FY09E as against our earlier estimate of Rs.2.8 and Rs.7.2 respectively.

### Change in Estimates - FY09E

(Rs mn)	Old	Revised
Revenues	6,801	6,024
EBIDTA (%)	87.3	87.3
Profit	1,565	1,437
EPS (Rs.)	2.8	2.6
CEPS (Rs.)	7.2	6.3
<b>Volumes - MMSCMD</b>	<b>FY08</b>	<b>FY09E</b>
Old	19.0	30.5
Revised	16.8	26.6
<b>Average Tariff (Rs/TCM)</b>	<b>FY08</b>	<b>FY09E</b>
Old	650	611
Revised	680	621

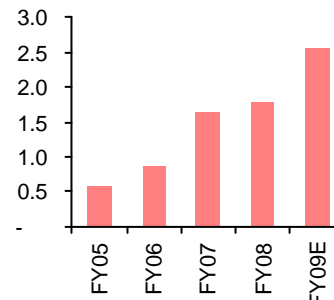
Source: Company, Kotak Securities - Private Client Research

### Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

### EPS (Rs)

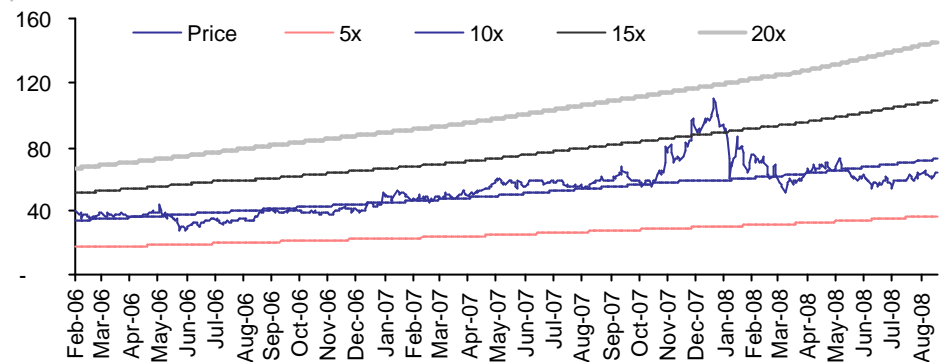


Source: Company, Kotak Securities - Private Client Research

## Valuation & Recommendation

- We feel GSPL is uniquely poised to take advantage of the massive opportunity in transporting gas across India through its pipelines and also participate in the city gas distribution projects. This is expected to lead to a significant increase in revenues and profitability for the company, going forward.
- At Rs.64, the stock trades at 2.9x book value, 25.0x earnings and 10.2x cash earnings based on FY09E.
- We feel that GSPL should be looked on P/CEPS basis rather than P/E basis as GSPL depreciates its pipeline in 12 years as against its economic life of 30 years. Thus we feel that CEPS is more representative of its true earnings per share.

### GSPL one year forward rolling CEPS band



Source: Capitaline, Kotak Securities - Private Client Research

**We recommend BUY on GSPL with a revised price target of Rs.90 (40% upside)**

- We have also done a one year forward rolling band analysis for GSPL, which revealed that currently the stock is trading at lower end of the band of 5x-20x times one-year forward estimates, which makes it attractive at current levels.
- We remain positive and maintain **BUY** on GSPL with revised price target of Rs.90, (Rs.96 earlier) which provides 40% upside potential from current levels.
- We recommend **BUY** on GSPL.

## Bulk Deals

## Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
2-Sep	Aries Agro	Aditya S Shah	B	76,239	147.09
2-Sep	Asian Oilfie	Decent Financial Services Pvt Ltd	S	92,012	125.00
2-Sep	Asian Tea Ex	Enca Finlease Ltd.	S	50,000	48.65
2-Sep	G.S. Auto	Comet Investment Pvt Ltd	B	34,100	83.58
2-Sep	Geekay Finan	Gopala Pillai Vijayakumar	B	85,000	49.50
2-Sep	Gemstone Inv	Bhavesh P Pabari	S	18,250	52.33
2-Sep	Jd Orgochem	Yuvak Share Trading Pvt Ltd	B	131,541	14.50
2-Sep	Jumbo Bag Lt	Harish Tarsem Mittal	B	50,000	42.82
2-Sep	Karuna Cable	Clarus Finance and Securities	B	430,000	1.74
2-Sep	Kennametal	DSP MI Microcap Fund	B	52,000	234.93
2-Sep	Kennametal	Reliance Tax Saver Elss Fund	S	50,000	235.00
2-Sep	Koff Br Pict	Laxmi Cap Broking Pvt Ltd	B	43,606	30.94
2-Sep	Real Strip L	Paraskumar Narenbhai Shah	S	21,826	86.81
2-Sep	Refex Refrig	T Anil Jain	S	102,320	302.72
2-Sep	Rock Hard Pe	Yogesh Pratapraj Shah	B	39,251	9.21
2-Sep	Rock Hard Pe	Moss Traders Pvt Ltd	S	39,800	9.21
2-Sep	Setco Auto	Setco Engineering Pvt Ltd	B	60,000	174.75
2-Sep	Setco Auto	Harish Kiritbhai Sheth	S	60,000	174.75
2-Sep	Shrilakshmi	Karan M Hadvani	B	79,550	107.89

Source: BSE

## Gainers &amp; Losers

## Nifty Gainers &amp; Losers

	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
ONGC	1,102	6.9	25.0	2.7
Reliance Ind	2,215	3.4	17.6	2.5
SBI	1,521	7.5	11.1	3.2
<b>Losers</b>				
Cairn India	235	(5.3)	(4.1)	5.1
Ranbaxy Labs	487	(2.6)	(0.8)	4.5
Tata Motors	429	(2.0)	(0.6)	1.2

Source: Bloomberg

## Forthcoming events

## Company/Market

Date	Event
4-Sep	Austral Coke & Projects listing on BSE & NSE Hiranandani Group & HP India holds meet in real estate Transport Corporation holds press meet for expansion plans

Source: Bloomberg

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