

# Gujarat State Petronet

Rs81

## On the growth path

BUY

- Gujarat State Petronet (GSPL), which operates a gas pipeline network in Gujarat, reported 387% yoy rise in Q2FY10 earnings on doubling of volumes and 7.5% increase in tariffs
- 18.6% volume CAGR through FY12E; ramp up of RIL's KG basin gas and Petronet LNG terminal to ensure supply
- 30% of current volumes used by power sector; priority allocation of gas to sector to ensure incremental volume growth

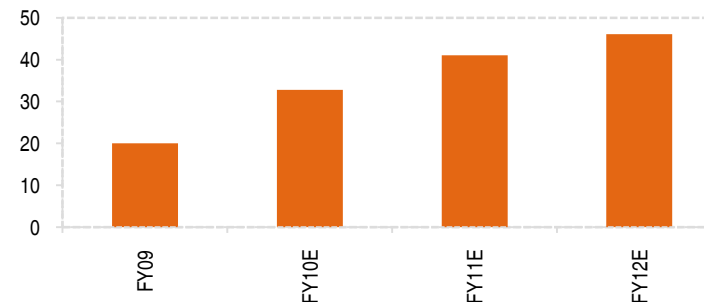
### Earnings up 387% yoy on doubling of volumes and 7.5% increase in tariffs

GSPL reported a 387% increase in earnings for Q2FY10 on a 100% increase in average volumes to 31.8 mmscmd volumes and 7% increase in tariffs to Rs891/tscm. Volume growth was mainly driven by supplies of RIL's KG basin gas to power and fertiliser plants in Gujarat (25 mmscmd) and transportation of liquefied natural gas (LNG) to RIL's Jamnagar refinery. Current volumes of 35 mmscmd indicate that ramp up in volumes is still going strong. Tariff growth indicates the larger average distance being traveled by gas and also the upside from faster ramp up in utilisation rates than that used in Petroleum and Natural Gas Regulatory Board (PNGRB) tariff calculations.

### Volume growth of 18.6% expected through FY12

We expect GSPL's transported volumes to report CAGR of 18.6% over FY10-12 from 32.8mmscmd in FY10E to 46.1mmscmd in FY12E. Incremental gas supplies are expected from RIL's KG basin gas as also from expanded capacity of Petronet LNG's Dahej terminal.

### GSPL projected volume growth



Source: Company, Brics Research

Large off-takes of incremental volumes are expected to come from power sector which currently accounts for 30% of GSPL's total volumes.

KEY FINANCIALS	RS (MN)			
	2007	2008	2009	2010
Revenue	3,322	4,179	4,875	10,785
EBITDA	2,823	3,645	4,245	9,552
EBITDA margin (%)	85.0	87.2	87.1	88.6
PAT	893.8	999.2	1234.1	4108.5
FDEPS (Rs)	1.6	1.8	2.2	7.3
% growth	90.8	8.4	23.5	232.9
P/E (x)	46.2	42.6	34.5	10.4
ROCE (%)	10.6	11.2	11.9	25.6

Source: Brics Research, Company Data

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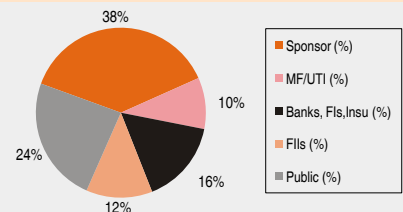
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### KEY DATA

<b>Bloomberg</b>	GUJS@IN
<b>Reuters</b>	GSPT.BO
<b>52-wk H/L(Rs)</b>	91.5/25.25
<b>3-m avg volume</b>	US\$8.5mn
<b>Market cap</b>	Rs43.7bn/US\$0.9bn
<b>Shares os</b>	562.2mn
<b>Face value</b>	Rs10

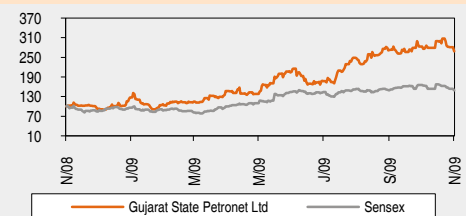
Source: Bloombe

### SHAREHOLDING (%)



Source: CMIE

### PRICE PERFORMANCE

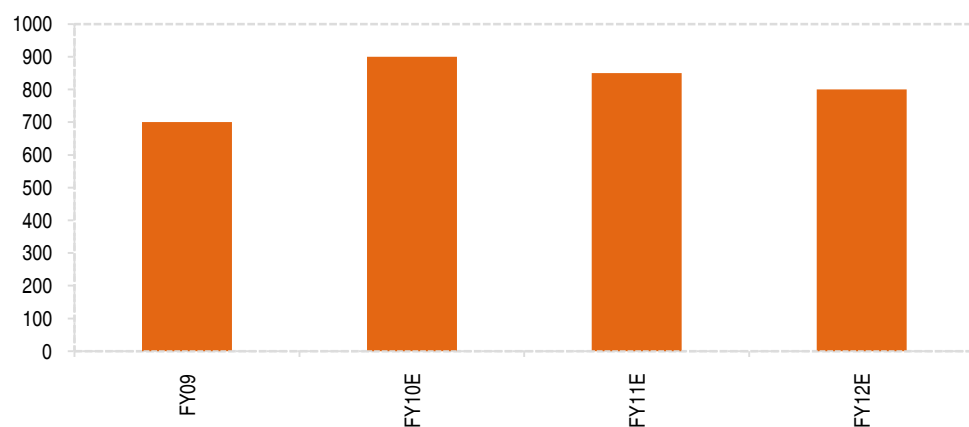


Source: Bloomberg

### We estimate tariffs to fall at a rate of 6.1% through FY12

We estimate that average tariffs for FY10 will come in at Rs900/tscm and fall at a gradual rate of 6.1% through FY12E. We feel that fall in tariffs will happen due to a lower average distance traveled by the gas. GSPL has submitted its tariff proposal to PNGRB which should, subject to approval, be applied from FY11. The company does not expect any material difference in current tariff and the proposal to be approved.

#### GSPL projected tariff



Source: Company, Brics Research

### Discount to NAV, GAIL to narrow; Buy

GSPL trades at 11x FY10E and 9.3x FY11E earnings. We have estimated fair value of GSPL using DCF (assumptions: Cost of capital 12.5%, terminal growth rate 3%), given the utility nature of the business. Our base case NAV is Rs87/share, which is 9% higher

#### Peer valuation

	CMP (Rs)	Net Sales		Net Profit		EPS (Rs)		ROE (%)		P/E (x)		EV/EBITDA (x)	
		FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
GAIL	374.8	248,580	257,852	27,118	26,538	21.4	20.9	17.4	15	17.5	17.9	13.1	12.2
GSPL	80.5	10,785	12,721	4,108	4,904	7.3	8.7	29.5	27.3	11.0	9.3	5.5	4.6
Gujarat Gas	200.1	14,922	16,851	1,569	2,027	12.2	15.8	19.7	21.3	16.4	12.7	9.0	6.9
IGL	157.1	11,797	13,206	2,404	2,791	17.2	19.9	31.5	29.8	9.1	7.9	4.6	4.0
PLNG	64.5	117,764	161,467	4,971	6,343	6.6	8.5	22.9	24.4	9.7	7.6	8.8	7.1

Source : Company, Brics Research

than CMP. On a relative basis, GSPL trades at a discount to GAIL. We feel this discount will narrow as GSPL is expected to grow faster than GAIL and does not have subsidy risk and cyclical non-gas businesses. The premium valuation to city gas distribution companies and Petronet LNG can be justified by higher growth visibility. Given the attractive valuations on both absolute and relative basis and the elimination of risk of expropriation of profits by the state government, we maintain our BUY on GSPL.

#### Sensitivity of FY10E EPS to tariff and throughput

Throughput (in mmscmd)	Tariff (Rs/tscm)		
	800	850	900
30	5.2	5.8	6.3
32.8	6.0	6.7	7.3
36	7.0	7.7	8.4

Source: Company, Brics Research

## INCOME STATEMENT (CONSOLIDATED)

	2007	2008	2009	2010	2011
<b>Revenue</b>	<b>3,322</b>	<b>4,179</b>	<b>4,875</b>	<b>10,785</b>	<b>12,721</b>
Operating Exp	498	534	630	1,233	1,301
EBITDA	2,823	3,645	4,245	9,552	11,420
<b>Depreciation</b>	<b>1,026</b>	<b>1,632</b>	<b>1,705</b>	<b>2,127</b>	<b>2,727</b>
EBIT	1,797	2,013	2,540	7,425	8,693
Other Income	29	294	243	225	400
<b>Interest paid</b>	<b>457</b>	<b>815</b>	<b>870</b>	<b>1,425</b>	<b>1,663</b>
PBT	1,369	1,492	1,914	6,225	7,430
Tax	479	492	679	2,116	2,526
<b>APAT</b>	<b>890</b>	<b>999</b>	<b>1,234</b>	<b>4,108</b>	<b>4,904</b>
Minority Interest	—	—	—	—	—
<b>EO Inc / (Exp)</b>	<b>3</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
PAT	894	999	1,234	4,108	4,904
Shares O/S (mn nos)	—	—	—	—	—
Revenue Growth (%)	24.2	25.8	16.7	121.2	18.0
<b>PAT growth (%)</b>	<b>91.5</b>	<b>11.8</b>	<b>23.5</b>	<b>232.9</b>	<b>19.4</b>
EBITDA margin (%)	85.0	87.2	87.1	88.6	89.8

## BALANCE SHEET (CONSOLIDATED)

	2007	2008	2009	2010	2011
Net fixed assets	17,029	21,259	23,976	31,424	31,302
Investments	—	356	1,343	2,500	5,295
Current assets	3,937	5,497	4,027	5,234	5,611
<b>Inventories</b>	<b>442</b>	<b>397</b>	<b>463</b>	<b>1,025</b>	<b>1,209</b>
Sundry Debtors	349	416	486	1,074	1,267
Cash & Bank Balance	1,811	2,569	964	1,021	1,021
Loans & Advances	1,138	1,550	1,550	1,550	1,550
Total assets	20,966	27,112	29,347	39,159	42,208
<b>Net worth</b>	<b>9,566</b>	<b>11,346</b>	<b>12,104</b>	<b>15,736</b>	<b>20,164</b>
<b>Share capital</b>	<b>5,428</b>	<b>5,620</b>	<b>5,620</b>	<b>5,620</b>	<b>5,620</b>
Reserves & surplus	4,138	5,726	6,484	10,116	14,544
Minority Interest	—	—	—	—	—
<b>Total debt</b>	<b>8,638</b>	<b>9,660</b>	<b>11,500</b>	<b>18,500</b>	<b>16,500</b>
Secured loans	8,638	9,650	11,500	18,500	16,500
Unsecured loans	—	10	—	—	—
<b>Current liabilities &amp; Prov</b>	<b>1,845</b>	<b>5,106</b>	<b>4,743</b>	<b>3,923</b>	<b>4,545</b>
<b>Current liabilities</b>	<b>1,353</b>	<b>4,199</b>	<b>4,199</b>	<b>3,235</b>	<b>3,816</b>
Provisions	492	907	544	688	729
Net Deferred Tax Liab	917	999	999	999	999
<b>Total liabilities</b>	<b>20,966</b>	<b>27,112</b>	<b>29,347</b>	<b>39,159</b>	<b>42,208</b>

## CASH FLOW STATEMENT (CONSOLIDATED)

	2007	2008	2009	2010	2011
Net Profit	894	999	1,234	4,108	4,904
Depreciation	1,026	1,632	1,705	2,127	2,727
Amortisation	—	—	—	—	—
Interest Paid	457	815	870	1,425	1,663
Chg in working capital	(1,058)	2,460	(498)	(1,970)	245
<b>Other op activities</b>	<b>509</b>	<b>492</b>	<b>679</b>	<b>2,116</b>	<b>2,526</b>
Cash flow from op (a)	1,757	5,906	3,311	5,690	9,539
Capital expenditure	(4,401)	(5,821)	(4,422)	(9,575)	(2,605)
Chg in investments	—	(356)	(988)	(1,157)	(2,795)
<b>Other investing act</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Cash flow from inv. (b)</b>	<b>(4,401)</b>	<b>(6,177)</b>	<b>(5,409)</b>	<b>(10,732)</b>	<b>(5,400)</b>
Free cash flow (a+b)	(2,644)	(271)	(2,098)	(5,042)	4,139
Equity raised/(repaid)	8	1,080	—	—	—
Debt raised/(repaid)	2,852	1,022	1,840	7,000	(2,000)
Interest paid	(457)	(815)	(870)	(1,425)	(1,663)
<b>Dividend (incl. tax)</b>	<b>(318)</b>	<b>(318)</b>	<b>(476)</b>	<b>(476)</b>	<b>(476)</b>
<b>Other fin. activities</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

## KEY RATIOS

	2007	2008	2009	2010	2011
Net debt/Equity (%)	0.7	0.6	0.9	1.1	0.8
EBITDA growth (%)	42.4	29.1	16.5	125.0	19.6
Pre-tax margin (%)	41.2	35.7	39.3	57.7	58.4
PAT margin (%)	26.8	23.9	25.3	38.1	38.6
Receivable (days)	38	36	36	36	36
Inventory (days)	513	507	480	605	686
Payable (days)	405	531	504	634	719
Raw material to sales	0.1	0.1	0.1	0.1	0.1

## VALUATIONS

	2007	2008	2009	2010	2011
EV/Op. cash flow (x)	28.1	8.4	16.0	10.6	6.1
PER (x)	46.2	42.6	34.5	10.4	8.7
PCE (x)	21.5	16.2	14.5	6.8	5.6
Price/Book (x)	4.5	3.8	3.5	2.7	2.1
EV/EBITDA (x)	—	—	—	—	—



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