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Rating	Accumulate
Price	Rs75
Target Price	Rs87
Implied Upside	16.0%
Sensex	17,853
Nifty	5,390

(Prices as on September 11, 2012)

Trading data

Market Cap. (Rs bn)	42.2
Shares o/s (m)	562.6
3M Avg. Daily value (Rs m)	112.5

Major shareholders

Promoters	37.73%
Foreign	2.87%
Domestic Inst.	35.15%
Public & Other	24.25%

Stock Performance

(%)	1M	6M	12M
Absolute	4.1	(5.2)	(31.3)
Relative	2.4	(7.2)	(37.1)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	8.3	8.3	-0.2
2014	7.5	8.4	-10.6

Price Performance (RIC: GSPT.BO, BB: GUJS IN)



Source: Bloomberg

The PNGRB (Petroleum and Natural Gas Regulatory Board) announced the provisional transmission tariffs for the high-pressure gas transmission network of Gujarat State Petronet (GSPL) at Rs903/tscm (effective 20/11/2008) from the current levels of Rs970/tscm, a cut of 6.9%. However, including the SUG component, GSPL is effectively charging Rs1,032/tscm currently, translating into an decline in tariff of 12.48%. The order removes a long pending overhang on the stock as a fear over a significant tariff cut subsides. If we extrapolate the similar decline in tariff for the lower pressure pipeline, the assumed tariffs of Rs885/tscm would stand reduced to Rs780/tscm. The same would translate earnings downgrade of ~11% for the current fiscal and ~2.5% for FY14 (our earlier blended tariff of Rs800/tscm for FY14). Impact of the retrospective cut in tariff stands at Rs2.7bn (pre-tax) and refund on system use of gas, stands at Rs2.5bn (pre-tax). Thus, on a pre-share basis (post tax), combined impact of the same would be ~Rs6.3/share on the book value. We await more clarity from the management on the current tariff order, tariff order for the low pressure pipeline and volumes composition between high pressure and low pressure pipeline. Thus, we maintain our estimates and target price of Rs87/share.

■ **Outlook:** GSPL's fortunes are highly linked to availability of gas. On account of subdued domestic gas output, GSPL has not been able to deliver volume growth over the last 8-10 quarters. We believe the domestic natural gas production outlook is unlikely to see a material change in the near term, resulting in lack of significant volume growth for GSPL from the domestic sources. However, we expect positive news flows in terms of progress of Mundra terminal, RIL's integrated development plan for KG D6 and increase in capacity of Hazira terminal plus expansion of Dahej terminal. On the proposed new pipelines of GSPL, there is no clarity on the same. We do not ascribe any value to new pipelines bagged by GSPL as there are uncertainties with regards to possible gas source over the same. We maintain over target price on the stock, awaiting management assessment of the order.

Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	10,391	11,233	10,325	9,595
Growth (%)	4.8	8.1	(8.1)	(7.1)
EBITDA (Rs m)	9,617	10,298	9,511	8,841
PAT (Rs m)	5,002	5,221	4,654	4,209
EPS (Rs)	8.9	9.3	8.3	7.5
Growth (%)	20.8	4.4	(10.9)	(9.6)
Net DPS (Rs)	1.5	1.5	1.3	1.7

Profitability & Valuation	2011	2012	2013E	2014E
EBITDA margin (%)	92.6	91.7	92.1	92.1
RoE (%)	28.0	23.5	17.8	14.2
RoCE (%)	17.9	16.5	13.4	11.4
EV / sales (x)	5.3	4.9	5.3	5.7
EV / EBITDA (x)	5.7	5.4	5.7	6.1
PE (x)	8.4	8.1	9.1	10.0
P / BV (x)	2.1	1.7	1.5	1.3
Net dividend yield (%)	2.0	2.0	1.8	2.3

Source: Company Data; PL Research

- Where PNGRB differs from GSPL:** Some of the areas where PNGRB has disputed GSPL's tariff calculations are – 1) GSPL's submission of tariffs, which were made in February 2012 using revised estimates/project costs, was inexplicably rejected. 2) November 2008 has been considered as the cut-off date from which regulated tariffs were applicable even though pipeline authorization was only received in March 2012 (effectively application of retrospective tariffs rather than from date of authorisation). 3) Gradual volume build-up benefit was not provided to GSPL as PNGRB considered full capacity of 30.46mmscmd for the tariff calculation. 4) Common carrier volumes taken at full volumes from the fifth year despite actual volumes being lower. 5) System-use gas and unaccounted gas loss has not been considered by PNGRB in calculation of volumes and regulator has asked GSPL to refund the SUG charges to the customers. 6) Starting net block is based on the calculated book based on high depreciation rate used by GSPL rather than depreciation based on effective life of the pipeline.

Exhibit 1: Retrospective change impact

Particulars	Retrospective application of tariff from 20.11.2008 (pre tax)	System use gas refund	Combined
Impact on Pre - tax Basis	2,743	2,515	5,258
Tax adjustment	905	830	1,735
Post tax refund	1,838	1,685	3,523
Per share	3.3	3.0	6.3

Source: Company Data, PL Research

Exhibit 2: PNGRB tariffs v/s GSPL submission

Particulars	Impact/change	Tariff (Rs/mmbtu)
Proposed by GSPL		39.55
Inflation at 4.5%	0.43	39.12
Disallowance for unaccounted gas	1.6	37.52
Volumes as per relevant regulations	7.79	29.73
Capex considered only for approved pipelines as per PNGRB authorization	3.96	25.77
Pretax IRR considered at 18.18%	(1.34)	27.12
Removal of Future spur lines	0.54	26.58
Considered an additional increase in employee every 11km, salary escalation @ 4.5 pa, removal of training & ESOP cost, removal of 50% increase in manpower in the year 2016 & 2026	1.63	24.95
Days of operation considered at 355 for compressors	0.04	24.91
Future capex considered for other assets considered as per supporting documents	0.16	24.75
Rate of depreciation considered at 8.33%	0.48	24.27
Economic life considered from 11.03.2001	0.02	24.25
Considering SUG as part of Opex	(0.04)	24.29
Recurring capex (including compressor replacement) reduced to 70%	0.28	24.02
Reworking of residual value	0.24	23.78
Considered 50% increase in manpower in year 2016 and 2026 due to salary revision	(0.21)	23.99
Determined by PNGRB after moderation		23.99

Source: Company Data, PL Research

**Exhibit 3: Tariff order details**

	Rs/mmbtu	Rs/tcm
Tariff determined by PNGRB	23.99	903
Current Tariff (excl currently system use gas)	25.76	970
Current Tariff (including system use charged gas)	27.40	1,032
Initial Tariff demanded by GSPL	39.55	1,490

Source: Company Data, PL Research

Income Statement(Rs m)

Y/e March	2011	2012	2013E	2014E
Net Revenue	10,391	11,233	10,325	9,595
Raw Material Expenses	—	—	—	—
Gross Profit	10,391	11,233	10,325	9,595
Employee Cost	153	197	199	184
Other Expenses	621	738	616	570
EBITDA	9,617	10,298	9,511	8,841
Depr. & Amortization	1,533	1,819	1,838	2,028
Net Interest	778	1,031	963	759
Other Income	291	513	443	605
Profit before Tax	7,414	7,690	6,855	6,199
Total Tax	2,416	2,470	2,201	1,991
Profit after Tax	4,998	5,221	4,654	4,209
Ex-Od items / Min. Int.	3	—	—	—
Adj. PAT	5,002	5,221	4,654	4,209
Avg. Shares O/S (m)	562.6	562.6	562.6	562.6
EPS (Rs.)	8.9	9.3	8.3	7.5

Cash Flow Abstract(Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	7,040	7,932	8,542	7,966
C/F from Investing	(6,757)	(6,229)	(5,702)	(5,540)
C/F from Financing	365	(2,283)	(2,235)	(2,599)
Inc. / Dec. in Cash	648	(580)	605	(173)
Opening Cash	1,742	2,390	1,810	2,415
Closing Cash	2,390	1,810	2,415	2,243
FCFF	(3,693)	(2,500)	(640)	332
FCFE	(1,453)	(2,500)	(640)	(168)

Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
Growth				
Revenue (%)	4.8	8.1	(8.1)	(7.1)
EBITDA (%)	3.4	7.1	(7.6)	(7.0)
PAT (%)	20.9	4.4	(10.9)	(9.6)
EPS (%)	20.8	4.4	(10.9)	(9.6)
Profitability				
EBITDA Margin (%)	92.6	91.7	92.1	92.1
PAT Margin (%)	48.1	46.5	45.1	43.9
RoCE (%)	17.9	16.5	13.4	11.4
RoE (%)	28.0	23.5	17.8	14.2
Balance Sheet				
Net Debt : Equity	0.6	0.5	0.4	0.4
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	8.4	8.1	9.1	10.0
P / B (x)	2.1	1.7	1.5	1.3
EV / EBITDA (x)	5.7	5.4	5.7	6.1
EV / Sales (x)	5.3	4.9	5.3	5.7
Earnings Quality				
Eff. Tax Rate	32.6	32.1	32.1	32.1
Other Inc / PBT	3.9	6.7	6.5	9.8
Eff. Depr. Rate (%)	3.7	3.6	3.2	3.2
FCFE / PAT	(29.1)	(47.9)	(13.8)	(4.0)

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	20,063	24,306	27,986	31,314
Total Debt	14,835	14,835	14,835	14,335
Other Liabilities	2,641	3,244	4,212	5,088
Total Liabilities	37,539	42,384	47,033	50,737
Net Fixed Assets	35,363	40,044	44,206	48,177
Goodwill	—	—	—	—
Investments	766	766	766	766
Net Current Assets	1,410	1,575	2,062	1,794
<i>Cash & Equivalents</i>	<i>2,390</i>	<i>1,810</i>	<i>2,415</i>	<i>2,243</i>
<i>Other Current Assets</i>	<i>6,607</i>	<i>6,697</i>	<i>6,579</i>	<i>6,484</i>
<i>Current Liabilities</i>	<i>7,586</i>	<i>6,932</i>	<i>6,932</i>	<i>6,932</i>
Other Assets	—	—	—	—
Total Assets	37,539	42,384	47,033	50,737

Quarterly Financials (Rs m)

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Net Revenue	2,808	2,739	2,763	2,676
EBITDA	2,584	2,518	2,520	2,465
<i>% of revenue</i>	<i>92.0</i>	<i>91.9</i>	<i>91.2</i>	<i>92.1</i>
Depr. & Amortization	440	460	466	439
Net Interest	337	325	316	317
Other Income	143	175	165	176
Profit before Tax	1,949	1,907	1,902	1,884
Total Tax	656	646	610	636
Profit after Tax	1,293	1,261	1,293	1,248
Adj. PAT	1,293	1,261	1,293	1,248

Key Operating Metrics

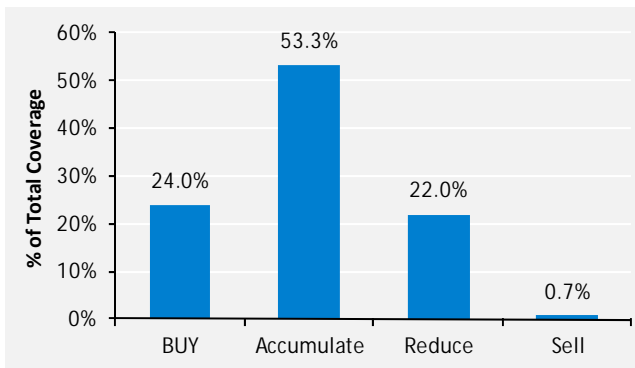
Y/e March	2011	2012	2013E	2014E
Transmission volumes (mmscmd)	36	34	32	32
Avg. Transmission Tariff (Rs/000scm)	786	872	850	800
Operating expenditure (Rs/000scm)	786	872	850	800
EBDITA (Rs/000scm)	737	829	814	769
PAT (Rs/000scm)	383	420	398	366

Source: Company Data, PL Research.



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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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