

Numbers impacted by capitalization at low PLFs

November 11, 2010

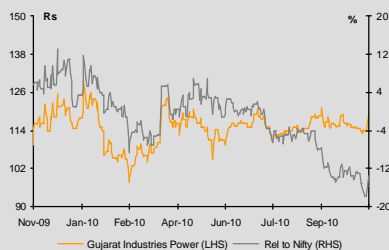
Reco	Previous Reco
Accumulate	Buy
CMP	Target Price
Rs 118	Rs 135
EPS change FY11E/12E (%)	-36.5 / -
Target Price change (%)	NA
Nifty	20,876
Sensex	6,276

Price Performance

(%)	1M	3M	6M	12M
Absolute	0	5	3	15
Rel. to Nifty	(2)	(9)	(15)	(11)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Power
Bloomberg	GIP@IN
Equity Capital (Rs mn)	1513
Face Value(Rs)	10
No of shares o/s (mn)	151
52 Week H/L	131/97
Market Cap (Rs bn/USD mn)	18/406
Daily Avg Volume (No of sh)	113646
Daily Avg Turnover (US\$m)	0.3

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	58.2	58.2	58.2
FII/NRI	2.8	2.9	2.9
Institutions	18.2	17.5	16.7
Private Corp	1.2	1.5	1.4
Public	19.6	20.0	20.8

Source: Capitaline

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- **GIPCL results include the impact of new plant starting September, even though one unit continued to remain idle due to technical problems & 2nd unit ran at low PLF**
- **Depreciation & interest cost of new plant has impacted numbers; Stabilization of new plant still remains overhang; management guiding for Dec 2010**
- **But on the conservative side, we now assume normal functioning from FY12E; FY11E numbers to take significant hit on the fixed cost of new plant; FY12E maintained**
- **Still some value left in stock but depends on the stabilization; valuations at 1.3x FY12E Book; core ROE of 20%; downgrade to Accumulate on quantum of upside; Target Rs135**

New plant capitalization at low PLF hit numbers; old ones in line

The Surat-II was capitalized with effect from September 1st but is still running at low PLFs (60-70% - 4th unit) and 3rd unit still shut down due to technical problems. This resulted in accounting for the fixed cost (depreciation, interest and O&M) starting September, while revenue recognition from new plant remained muted due to low PLFs and shut down. This has impacted Q2FY11 PAT number by ~Rs100mn. The operational plants operated at low PLFs (normally the case in Q2) of 68.5%, in line with estimates. Overall led by new plant capitalizations numbers were below expectations – Revenues Rs2.1bn (exp – Rs2.1bn), EBITDA – Rs418mn (exp – Rs529mn) and PAT Rs155mn (exp – Rs249mn).

Stabilization of Surat-II is key, we assume normal functioning from FY12E; cut FY11E EPS by 36%, FY12E maintained

Just to recap, both the units (III and IV) of Surat-II (250MW) had been commercialized in April 10 (18th April and 28th April). Unit 3 reported failure in operations on September 17th and is still being repaired by BHEL. Unit 4 also operated at low PLFs (~20%) in Q2FY11 due to lignite quality available during rainy season. As per the latest update, the PLF of unit 4 has improved (70% +). The management is guiding for normal functioning of both the units from Dec 2010 onwards but on the conservative side we now factor in normal functioning from FY12E. As a result of this, we cut our FY11E earnings by 36% to Rs6.2/Share but maintain FY12E earnings at Rs12.6/Share. We continue to believe that new plant once stabilized will change the ROE profile of the company. The ROE is likely to increase from 7.4% in FY09 to 14.2% in FY12E.

PT unchanged Rs135; Downgrade to accumulate on quantum of upside

GIPCL earned a core ROE of 19% in FY10 and is likely to earn a sustainable core ROE of 20-21% with the commissioning of Surat-II (assuming tax grossing up by MAT rate). At CMP of Rs119, the stock is trading at 9.5x FY12E earnings and 1.3x FY12E Book Value. Though GIPCL is the cheapest utility stock with comparable ROEs, the stabilization problems are an overhang. We retain our target price of Rs135/Share but downgrade our rating to Accumulate on the quantum of upside.

Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	AEPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY09	11,550	2,103	18.2	856	5.7	(16.2)	7.4	21.1	12.3	1.5
FY10	9,393	2,190	23.3	1,068	7.1	24.8	8.9	16.9	13.0	1.5
FY11E	9,862	2,255	22.9	932	6.2	(12.7)	7.4	19.3	12.8	1.4
FY12E	12,515	4,795	38.3	1,904	12.6	104.2	14.2	9.5	6.2	1.3

Quarterly Results

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenue	2,500	2,008	2,383	2,502	2,489	2,120	5.6	-14.8	4,609	4,508	2.2
Expenditure	-1,908	-1,592	-1,782	-1,921	-1,885	-1,702	6.9	-9.7	-3,587	-3,501	2.5
<i>as % of sales</i>	<i>-76.3%</i>	<i>-79.3%</i>	<i>-74.8%</i>	<i>-76.8%</i>	<i>-75.7%</i>	<i>-80.3%</i>			<i>-77.8%</i>	<i>-77.6%</i>	
Consumption of RM	-1,689	-1,210	-1,548	-1,663	-1,623	-1,297	7.3	-20.1	-2,920	-2,898	0.8
<i>as % of sales</i>	<i>-67.6%</i>	<i>-60.2%</i>	<i>-65.0%</i>	<i>-66.5%</i>	<i>-65.2%</i>	<i>-61.2%</i>			<i>-63.4%</i>	<i>-64.3%</i>	
Power and Fuel	0	0	0	0	0	0			0	0	
<i>as % of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>			<i>0</i>	<i>0</i>	
Other Mfg Expenses	0	0	0	0	0	0			0	0	
<i>as % of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>			<i>0</i>	<i>0</i>	
Employee Cost	-58	-62	-76	-78	-73	-109	75.0	49.3	-182	-120	51.9
<i>as % of sales</i>	<i>-2.3%</i>	<i>-3.1%</i>	<i>-3.2%</i>	<i>-3.1%</i>	<i>-2.9%</i>	<i>-5.1%</i>			<i>-3.9%</i>	<i>-2.7%</i>	
Other expenditure	-162	-320	-158	-180	-189	-296	-7.7	56.3	-485	-482	0.5
<i>as % of sales</i>	<i>-6.5%</i>	<i>-16.0%</i>	<i>-6.6%</i>	<i>-7.2%</i>	<i>-7.6%</i>	<i>-13.9%</i>			<i>-10.5%</i>	<i>-10.7%</i>	
EBITDA	592	416	601	581	604	418	0.5	-30.8	1,022	1,008	1.4
Depreciation	-221	-224	-219	-216	-215	-273	21.9	26.9	-488	-445	9.7
EBIT	371	192	381	365	389	145	-24.4	-62.7	534	563	-5.1
Other Income	41	51	5	41	41	30	-40.5	-26.8	72	92	-22.0
Interest	-55	-40	-35	-33	-41	-119	198.5	192.6	-159	-95	68.1
PBT	357	203	352	373	390	57	-71.9	-85.4	447	560	-20.2
Total Tax	-63	-78	-64	-12	29	98	-225.0	237.9	127	-141	-190.1
Adjusted PAT	294	125	288	361	419	155	24.2	-63.0	574	419	36.9
Extra ordinary items	0	0	0	0	0	0			0	0	
Reported PAT	294	125	288	361	419	155	24.2	-63.0	574	419	36.9
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	0			0	0	
PAT after MI	294	125	288	361	419	155	24.2	-63.0	574	419	36.9
Reported EPS	1.9	0.8	1.9	2.4	2.8	1.0	24.2	-63.0	3.8	2.8	36.9

Margins (%)							(bps)	(bps)			(bps)
EBIDTA	23.7	20.7	25.2	23.2	24.3	19.7	-99	-454	22.2	22.4	-18
EBIT	14.8	9.6	16.0	14.6	15.6	6.8	-271	-878	11.6	12.5	-89
EBT	14.3	10.1	14.8	14.9	15.7	2.7	-743	-1298	9.7	12.4	-273
PAT	11.8	6.2	12.1	14.4	16.8	7.3	110	-952	12.5	9.3	315
Effective Tax rate	17.5	38.6	18.1	3.2	-7.4	-171.9	-21051	-16449	-28.4	25.2	-5357

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	11,550	9,393	9,862	12,515
Growth (%)	23.5	-18.7	5.0	26.9
Expenditure	9,447	7,203	7,607	7,720
Raw Materials	8,487	6,109	6,365	6,119
Construction Exp	0	0	0	0
Employee Cost	232	274	417	560
Other Exp	728	820	825	1,041
EBITDA	2,103	2,190	2,255	4,795
Growth (%)	-14.8	4.1	3.0	112.7
EBITDA margin (%)	18.2	23.3	22.9	38.3
Depreciation	884	880	1,013	1,546
EBIT	1,218	1,309	1,242	3,249
EBIT margin (%)	10.5	13.9	12.6	26.0
Other Income	162	138	522	267
Interest expenses	297	162	683	1,194
PBT	1,084	1,285	1,080	2,323
Tax	227	216	148	418
Effective tax rate (%)	21.0	16.8	10.4	15.5
Adjusted PAT	856	1,068	932	1,904
(Profit)/loss from JV's/Ass/MI	0	0	0	0
Adjusted PAT after MI	856	1,068	932	1,904
Growth (%)	-16.2	24.8	-12.7	104.2
Net Margin (%)	7.4	11.4	9.5	15.2
E/O items	-4	0	0	0
Reported PAT	852	1,068	932	1,904
Growth (%)	-16.7	25.3	-12.7	104.2

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	917	1,147	518	1,986
Depreciation	884	880	1,013	1,546
Interest Provided	297	162	683	1,194
Other Non-Cash items	0	0	0	0
Chg in working cap	754	649	90	-564
Tax paid	-226	-216	-108	-348
Operating Cashflow	2,625	2,622	2,197	3,812
Capital expenditure	-4,731	-4,735	-2,000	-3,000
Free Cash Flow	-2,107	-2,113	197	812
Other income	162	138	522	267
Investments	0	0	0	0
Investing Cashflow	-4,569	-4,597	-1,478	-2,733
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	1,596	2,238	1,500	2,250
Interest Paid	-297	-162	-683	-1,194
Dividend paid (incl tax)	-389	-450	-407	-831
Income from investments	0	0	0	0
Others	15	-22	0	0
Financing Cashflow	926	1,604	410	225
Net chg in cash	-1,019	-371	1,129	1,305
Opening cash position	1,620	601	230	1,358
Closing cash position	601	230	1,358	2,663

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	1,513	1,513	1,513	1,513
Reserves & surplus	10,322	10,948	11,473	12,546
Net worth	11,835	12,461	12,986	14,059
Minority Interest	0	0	0	0
Secured Loans	8,402	10,640	12,141	14,391
Unsecured Loans	0	0	0	0
Loan Funds	8,402	10,640	12,141	14,391
Net deferred tax liability	794	764	764	764
Total Liabilities	21,031	23,865	25,891	29,214
Gross Block	20,425	23,418	37,768	37,418
Less: Depreciation	11,220	12,100	13,113	14,659
Net block	9,206	11,318	24,655	22,759
Capital work in progress	11,758	13,500	1,150	4,500
Investment	55	55	55	55
Current Assets	3,770	3,130	4,403	6,527
Inventories	897	1,036	1,088	1,380
Sundry debtors	1,791	1,373	1,442	1,829
Cash & bank balance	601	230	1,358	2,663
Loans & advances	481	491	516	654
Other current assets	0	0	0	0
Current lia & Prov	3,885	4,265	4,500	4,755
Current liabilities	3,885	4,265	4,500	4,755
Provisions	0	0	0	0
Net current assets	-115	-1,135	-97	1,772
Misc. exp & Def. Assets	128	128	128	128
Total Assets	21,031	23,865	25,891	29,214

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	18.2	23.3	22.9	38.3
Net Margin	7.4	11.4	9.5	15.2
ROCE	6.9	6.5	5.6	12.6
ROE	7.4	8.9	7.4	14.2
RoIC	14.5	15.5	7.9	14.9
Per Share Data (Rs)				
EPS	5.7	7.1	6.2	12.6
CEPS	10.6	11.9	12.2	21.2
BVPS	77.4	81.5	85.0	92.1
DPS	2.6	3.0	2.7	5.5
Valuations (x)				
PER	21.1	16.9	19.3	9.5
P/CEPS	11.2	10.0	9.8	5.6
P/BV	1.5	1.5	1.4	1.3
EV / Sales	2.2	3.0	2.9	2.4
EV / EBITDA	12.3	13.0	12.8	6.2
Dividend Yield (%)	2.2	2.5	2.3	4.6
Gearing Ratio (x)				
Net Debt/ Equity	0.7	0.9	0.9	0.9
Net Debt/EBIDTA	3.8	4.6	4.6	2.4
Working Cap Cycle (days)	-23	-53	-54	-26

Recommendation History: Gujarat Industries Power – GIP IN

Date	Reports	Reco	CMP	Target
05/08/2010	GIPCL Q1FY11 Result Update	Buy	113	135
27/05/2010	GIPCL Q4FY10 Result Update	Buy	113	135
02/02/2010	GIPCL Q3FY10 Result Update	Buy	113	135
11/11/2009	GIPCL Initiating Coverage	Buy	104	135

Recent Research Reports

Date	Reports	Reco	CMP	Target
01/11/2010	Voltamp Q2FY11 Result Update	Hold	862	840
28/10/2010	Bharat Bijlee Q2FY11 Result Update	Buy	1,088	1,350
27/10/2010	NTPC Q2FY11 Result Update	Hold	198	190
26/10/2010	Emco Q2FY11 Result Update	Reduce	64	60

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