

Date: 03<sup>th</sup> June 2010

MF Global Sector – Oil & Gas

# Gujarat State Petronet

**Q4FY10 Result Update: Maintain Buy**

CMP: Rs 99

Target: Rs 126

# As expected GSPL reported buoyant performance in Q4FY10

- Gujarat State Petronet (GSPL) recorded net profit of Rs1,079 mn for Q4FY10, up 210% on a YoY basis, PAT is ~9% better than our expectation that is primarily due to higher than expected volume. The revenue for FY10 comes in at Rs10bn up 105% YoY
- Revenue for Q4FY10 surge ~103% YoY due to ~184% growth in transmission volume at ~36 mmscmd, as compared to ~12.8 mmscmd in Q4FY09, primarily due to production from D6 field being ramped up. The transmission volume for the year ended FY10 stood ~32mmscmd as compared to ~15mmscmd for FY09. We believe that the exploration momentum from D6 and new capacity commission for Petronet LNG will lead to volume growth at a CAGR of ~20% FY12E.
- Higher utilization of pipelines led to improvement in EBITA margin also by ~ 670bps on YOY basis at ~92.2%. EBITA for the Q4FY10 grew by ~118% YoY at ~Rs 2460mn. For the year FY10 GSPL have posted an EBITA of ~Rs.9bn.
- During the year company have done a capex of ~Rs 7800mn which led to ~39%YoY increase in depreciation cost. GSPL has debt of ~Rs 1.25bn ( Debt/ Equity 0.8x) which lead to increase in interest cost by ~8%YoY. During the year company has generated operating cash flow of ~Rs0 .8bn, we believe that the capex done in last 2-3 years will give dividend in the years to come
- Other Income is in line with our expectation, company has not provided for Gujarat government tax as it seems that the same is not applicable & with regard to its future tax planning company is planning to venture into wind power.
- The Implied tariff appears to decline QoQ, For Q1FY10 it was ~Rs 0.91per scm which for Q4FY10 comes to ~Rs 0.79 per scm. Still above what we have model for FY11E & FY12E. We believe that ~Rs0.75 per scm would be on conservative base assumption and gives comfort for revenue growth.

Sensex	17038		
Nifty	5116		
Stock Data			
BSE Code	532702		
NSE Code	GSPL		
Bloomberg	GUJS IN		
Reuters	GSPL.BO		
Share Issued (mn)	562.4		
Market Cap (Rs mn)	53,095		
52 Wk H/L (Rs)	104/46		
Face Value (Rs)	10		
Avg. daily vol. (12M)	1314822		
Return (%)	1m	3m	12m
Absolute	1	10	57
Rel. to Sensex	3	7	42
Key Financials	FY10	FY11E	FY12E
Net sales (Rs mn)	10,009	10,947	12,593
Opm (%)	94.1	91.8	91.7
Adj PAT (Rs mn)	4,138	4,656	5,379
Adj EPS (Rs)	7.4	8.3	9.6
P/E (x)	12.8	11.4	9.8
EV/EBIDTA (x)	6.9	6.6	5.5
RoNW (%)	26.4	23.7	22.1

## Quarterly performance

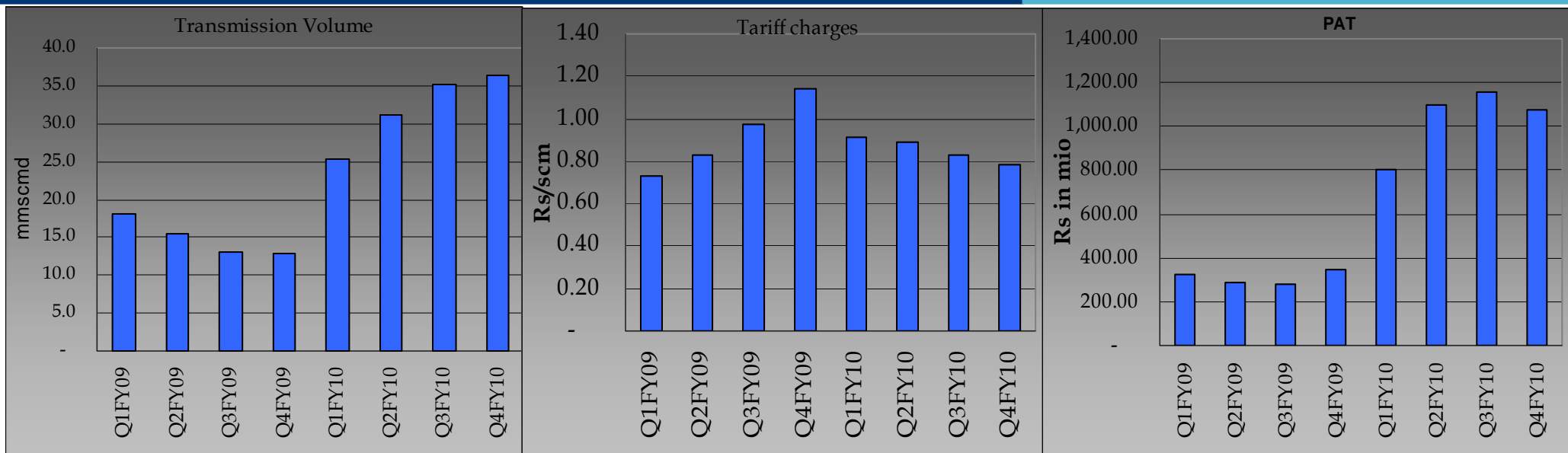
Y/E, 31 <sup>st</sup> March (Rs. mn)	Q4FY10	Q4FY09	YoY (%)	Q3FY10	QoQ (%)	FY10	FY09	YoY (%)
Volume (mmscmd)	36.4	12.8	184	35.1	4	32.1	14.9	115
Tariff Rs per mmbtu	21.6	31.4	(31)	22.9	(6)	23.4	24.7	(5)
<b>Net Sales</b>	<b>2667</b>	<b>1320</b>	<b>102</b>	<b>2685</b>	<b>(1)</b>	<b>10,009</b>	<b>4,875</b>	<b>105</b>
<b>Total expenditure</b>	<b>208</b>	<b>191</b>	<b>9</b>	<b>154</b>	<b>35</b>	<b>595</b>	<b>630</b>	<b>(6)</b>
<b>Operating Profit</b>	<b>2,460</b>	<b>1,129</b>	<b>118</b>	<b>2,531</b>	<b>(3)</b>	<b>9,414</b>	<b>4,245</b>	<b>122</b>
<b>OPM(%)</b>	<b>92</b>	<b>86</b>		<b>94</b>		<b>94</b>	<b>87</b>	
Interest	225	199	13	218	3	938	870	8
<b>PBDT</b>	<b>2235</b>	<b>930</b>	<b>140</b>	<b>2,313</b>	<b>(3)</b>	<b>8,475</b>	<b>3,375</b>	<b>151</b>
Depreciation	632	439	44	596	6	2,365	1,705	39
Other income	32	44	(28)	33	(4)	158	243	(35)
<b>PBT</b>	<b>1,634</b>	<b>535</b>	<b>205</b>	<b>1,750</b>	<b>(7)</b>	<b>6,269</b>	<b>1,913</b>	<b>228</b>
Tax	555	188	196	597	(7)	2,131	679	214
Profit after Tax	<b>1,079</b>	<b>347</b>	<b>210</b>	<b>1,154</b>	<b>(6)</b>	<b>4,138</b>	<b>1,234</b>	<b>235</b>
<b>NPM(%)</b>	<b>40</b>	<b>26</b>		<b>43</b>		<b>41</b>	<b>25</b>	
<b>EPS (Rs.)</b>	<b>1.9</b>	<b>0.6</b>		<b>2.1</b>		<b>7.4</b>	<b>2.2</b>	
Equity	562.4	562.1		562.3		562.4	562.1	

Buoyant  
Transmission  
volume

Higher Volume  
led to EBIT Margin  
Expansion, High  
capitalization  
led to increase in  
depreciation, Flat  
other income

PAT growth in tandem  
with growth in  
Revenue

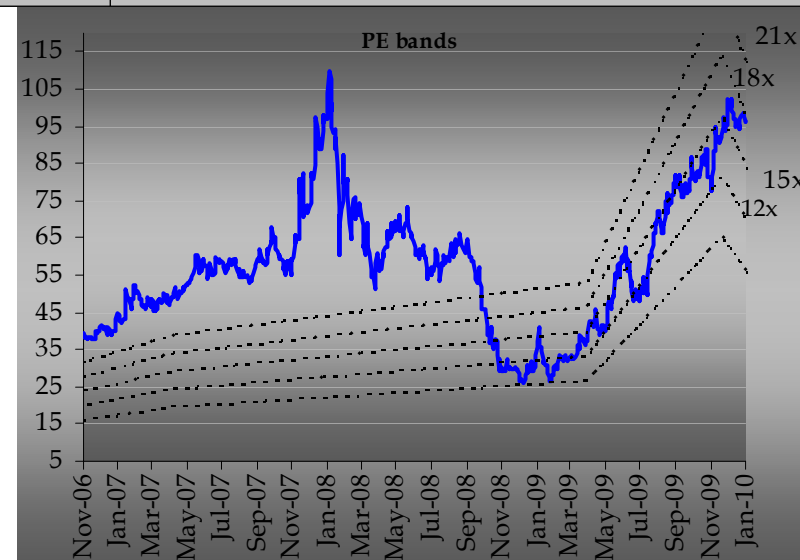
## Result Highlights



Source: MF Global PCG Research, Company

### Valuation:

Higher production from the KG-D6 field and increased capacity at LNG terminal would continue to drive transmission volume growth for GSPL. We expect GSPL to witness average volume of 39 mmscmd & 45 mmscmd in FY11E & FY12E respectively. We still expect that the current level of tariff chargers are not sustainable due to regulation risk so we model tariff at 0.77 & 0.75 Rs/scm for FY11E & FY12E respectively. Based on these assumptions we arrive at the fair value of GSPL at Rs 126, so we maintain our Buy rating as we also believe that with the increase of Gas production & consumption in India GSPL is better placed to benefit from the opportunity.



## Financial Statements ( in Rs mn)

Income Statement	FY08	FY09	FY10E	FY11E	FY12E	Balance Sheet	FY08	FY09	FY10E	FY11E	FY12E
<b>Net Sales</b>	<b>4,179</b>	<b>4,875</b>	<b>10,009</b>	<b>10,947</b>	<b>12,593</b>	<b>Equity capital</b>	<b>5,620</b>	<b>5,621</b>	<b>5,624</b>	<b>5,624</b>	<b>5,624</b>
Employee expenses	76	109	99	172	201	Reserves	5,790	6,550	10,020	14,018	18,739
Admin expenses	172	169	209	315	368	<b>Networth</b>	<b>11,410</b>	<b>12,172</b>	<b>15,645</b>	<b>19,690</b>	<b>24,364</b>
Other Exp	286	352	286	411	480	Total debt	9,660	11,510	12,596	14,696	11,796
<b>Op profit</b>	<b>3,645</b>	<b>4,245</b>	<b>9,414</b>	<b>10,049</b>	<b>11,543</b>	Deferred tax	999	1,144	1,405	1,455	1,505
Opm(%)	87	87	94	92	92	<b>Total liabilities</b>	<b>22,069</b>	<b>24,825</b>	<b>29,646</b>	<b>35,794</b>	<b>37,664</b>
Other income	294	243	158	172	200						
Depreciation	1,632	1,705	2,365	2,993	3,548	<b>Gross fixed assets</b>	<b>20,191</b>	<b>24,212</b>	<b>33,212</b>	<b>40,212</b>	<b>46,705</b>
Interest	815	870	938	1,228	1,192	Less: Cum depreciation	4,819	6,524	8,891	11,885	15,433
<b>PBT</b>	<b>1,492</b>	<b>1,914</b>	<b>6,269</b>	<b>6,000</b>	<b>7,003</b>	Net fixed assets	15,371	17,688	24,320	28,327	31,272
Tax	492	679	2,131	1,344	1,624	Capital WIP	5,888	6,446	5,277	4,302	5,806
<b>PAT</b>	<b>999</b>	<b>1,234</b>	<b>4,138</b>	<b>4,656</b>	<b>5,379</b>	Investments	356	782	782	782	782
<b>Adj PAT</b>	<b>999</b>	<b>1,234</b>	<b>4,138</b>	<b>4,656</b>	<b>5,379</b>	Net current assets	454	(91)	(737)	2,383	(196)
Npm(%)	17	20	40	41	41	<b>Total assets</b>	<b>22,069</b>	<b>24,825</b>	<b>29,525</b>	<b>35,044</b>	<b>37,664</b>

# Financial Statements

Cash flow ( in Rs mn)	FY08	FY09	FY10E	FY11E	FY12E	Ratios	FY08	FY09	FY10E	FY11E	FY12E
						<b>Growth(%)</b>					
PAT & extraord. Items	999	1,234	4,137	4,656	5,378	Net Sales	32	17	105	9	15
Add: Int. depn. & oth. Exp.	1,744	1,879	2,656	3,046	3,598	Adj PAT	(1)	41	301	13	15
<b>Cash flow from op.</b>	<b>2,743</b>	<b>3,114</b>	<b>6,794</b>	<b>7,703</b>	<b>8,977</b>	Adj EPS	(5)	41	301	13	15
Net chg in w/c, tax, int.	2,459	(1,080)	1,429	(1,725)	100	<b>Per share data (Rs.)</b>					
<b>Net cash flow frm op.</b>	<b>5,203</b>	<b>2,034</b>	<b>8,223</b>	<b>5,978</b>	<b>9,077</b>	Adj EPS	1.8	2.2	7.4	8.3	9.6
Capital expenditure	5,863	4,579	7,828	6,025	7,997	Book value	20.3	21.7	27.8	34.9	43.3
Sale/ purchase of inv	(356)	(426)	-	-	-	DPS	0.5	0.8	1.0	1.0	1.0
<b>Net cash from inv.</b>	<b>(6,218)</b>	<b>(5,006)</b>	<b>(7,828)</b>	<b>(6,025)</b>	<b>(7,997)</b>	<b>Valuation(x)</b>					
Issue of eq/loan/warr.	2,102	1,870	1,079	2,100	(2,900)	P/E	52.9	42.8	12.8	11.4	9.8
Dividend paid	(329)	(493)	(658)	(658)	(658)	P/BV	4.6	4.3	3.4	2.7	2.2
<b>Net cash from financing</b>	<b>1,773</b>	<b>1,377</b>	<b>421</b>	<b>1442</b>	<b>(3558)</b>	EV/EBIDTA	17.0	15.0	6.9	6.6	5.5
Net chg in cash	758	(1,595)	815	1,395	(2,478)	<b>Performance(%)</b>					
Op. cash bal	1,811	2,569	974	1,790	3,185	RoCE	9.1	10.2	23.8	19.7	21.2
Cl. Cash bal	2,569	974	1,790	3,185	707	RoNW	8.8	10.1	26.4	23.7	22.1

## Disclosures and Disclaimers

MF Global Sify Securities India Pvt. Ltd. has three independent equity research groups: Institutional Equities, Institutional Equities Derivatives and Private Client Group. This report has been prepared by Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary at times with the views, estimates, rating, target price of the other equity research groups of MF Global Sify Securities India Pvt. Ltd.

This report is issued by MF Global Sify Securities India Pvt. Limited which is regulated by SEBI. MF Global Sify Securities India Pvt. Ltd. is a subsidiary of MF Global Overseas Ltd. References to "MFGSSIPL" or "Firm" in this report shall mean MF Global Sify Securities India Pvt. Limited unless otherwise stated. This report is prepared and distributed by MFGSSIPL for information purposes only and neither the information contained herein nor any opinion expressed should be construed or deemed to be construed as solicitation or as offering advice for the purposes of the purchase or sale of any security, investment or derivatives. The information and opinions contained in the Report were considered by MFGSSIPL to be valid when published. The report also contains information provided to MFGSSIPL by third parties. The source of such information will usually be disclosed in the report. Whilst MFGSSIPL has taken all reasonable steps to ensure that this information is correct, MFGSSIPL does not offer any warranty as to the accuracy or completeness of such information. Any person placing reliance on the report to undertake trading does so entirely at his or her own risk and MFGSSIPL does not accept any liability as a result. Securities and Derivatives markets may be subject to rapid and unexpected price movements and past performance is not necessarily a guide to future performance. This report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors must undertake independent analysis with their own legal, tax and financial advisors and reach their own regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. In no circumstances it be used or considered as an offer to sell or a solicitation of any offer to buy or sell the Securities mentioned in it. The information contained in the research reports may have been taken from trade and statistical services and other sources, which we believe are reliable. MF Global Sify Securities India Pvt. Ltd. or any of its group companies do not guarantee that such information is accurate or complete and it should not be relied upon as such. Any opinions expressed reflect judgments at this date and are subject to change without notice

**Important** These disclosures and disclaimers must be read in conjunction with the research report of which it forms part. Receipt and use of the research report is subject to all aspects of these disclosures and disclaimers. Additional information about the issuers and securities discussed in this research report is available on request.

**Certifications:** The research analyst(s) who prepared this research report hereby certifies that the views expressed in this research report accurately reflect the research analyst's personal views about all of the subject issuers and/or securities, that the analyst have no known conflict of interest and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific views or recommendations contained in this research report. The Research Analyst certifies that he /she or his / her family members does not own the stock(s) covered in this research report.

**Independence:** MF Global Sify Securities India P. Ltd. has not had an investment banking relationship with, and has not received any compensation for investment banking services from, the subject issuers in the past twelve (12) months, and the Firm does not anticipate receiving or intend to seek compensation for investment banking services from the subject issuers in the next three (3) months. The Firm is not a market maker in the securities mentioned in this research report, although it or its affiliates may hold either long or short positions in such securities. The Firm does not hold more than 1 of the shares of the company(ies) covered in this report.

**Suitability and Risks:** This research report is for informational purposes only and is not tailored to the specific investment objectives, financial situation or particular requirements of any individual recipient hereof. Certain securities may give rise to substantial risks and may not be suitable for certain investors. Each investor must make its own determination as to the appropriateness of any securities referred to in this research report based upon the legal, tax and accounting considerations applicable to such investor and its own investment objectives or strategy, its financial situation and its investing experience. The value of any security may be positively or adversely affected by changes in foreign exchange or interest rates, as well as by other financial, economic or political factors. Past performance is not necessarily indicative of future performance or results.

**Sources, Completeness and Accuracy:** The material herein is based upon information obtained from sources that the Firm and the research analyst believe to be reliable, but neither the Firm nor the research analyst represents or guarantees that the information contained herein is accurate or complete and it should not be relied upon as such. Opinions expressed herein are current opinions as of the date appearing on this material and are subject to change without notice.

Furthermore, the Firm is under no obligation to update or keep the information current.

**Copyright:** The copyright in this research report belongs exclusively to the Firm. All rights are reserved. Any unauthorized use or disclosure is prohibited. No reprinting or reproduction, in whole or in part, is permitted without the Firm's prior consent, except that a recipient may reprint it for internal circulation only and only if it is reprinted in its entirety.

**Caution:** Risk of loss in trading in can be substantial. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

MF Global Sify Securities India Pvt. Limited.  
2nd Floor, C-Block, Modern Centre, Mahalaxmi, Mumbai-400 011