# Gujarat State Petronet Ltd.

- Net Sales for Q4FY08 stood at Rs116 cr up by 40% yoy & for FY08 sales stood at Rs418 cr up by 32% yoy. Sales numbers were in line with our expectation. Total volumes for FY08 increased by 17.3% to 16.9 mmscmd and tariffs stood at Rs 679 per tscm up by 12% as compared to last year. Rise in volumes was basically due to commissioning of new pipelines and better utilizations & higher tariffs were due to change in distance mix – i.e. more of long distance supply then short distance.

- Operating margins for the quarter stood at 88.71%, up by 322 bps mainly due to decline in other expenses by 3% as % of sales. As the gas transportation volumes increase (increase in the capacity utilization), the EBIDTA margins would improve, since the operating cost in the transmission business is not variable and is largely fixed. In case of GSPL, it doesn't have compression station, which could be significant part of operating cost for a transmission company coupled with new assets, which means lower maintenance.

- Net Profit for Q4 FY08 stood at Rs 40.57 cr up by 110% yoy mainly due to higher realisations and better volumes. For the full year, Net profit was up by 11% yoy to Rs100 cr better then our expectation. Quarterly annualised EPS for Q4FY08 stood at Rs2.89 and for FY08 EPS was Rs1.81.

## Valuations & Recommendation

We expect supply side to ease once gas from KG Basin starts flowing, which is expected in H2CY08. RIL has signed a 11 mmscmd contract with GSPL for 15 years. We expect average 7 mmscmd of volumes in FY09 and 11 mmscmd of gas to be transmitted from next year onwards through GSPL pipeline. Currently, tariffs are on the higher side at Rs 680/tcm, which is expected to decline over next two years as Reliance contract is at a lower price. We expect long-term tariffs to stabilize at Rs 610/tcm in FY10. More availability of gas will in turn result into higher utilizations of assets. On the demand front, Gujarat is one of the largest hub for textiles, ceramics, pharmaceuticals and chemicals. Once expansion gets over, GSPL will have presence across entire Gujarat. Total volumes are expected to increase to 43 mmscmd in FY11 from current 17 mmscmd. EBIDTA margins are expected to improve by 400 bps to 90% in FY10 mainly as transmission business is not variable and is largely fixed. GSPL assets are new, which will need lower maintenance and have leaner organization, which will drive margins going forward. At CMP of Rs 56, the stock is trading at 15x its FY10E EPS of Rs 3.8 and 12x its FY11E EPS of Rs 4.5, and EV/EBIDTA of 7x in 2010 and 5x in 2011. According to the draft proposal, the regulator (PGNRB) proposed ROCE post tax is fixed at 12%. GSPL's current ROCE is way below 10%, which gives room for the company to increase the tariff in short- to medium-term to achieve allowed rate of return. The regulator has also proposed not to allow laying of another parallel pipeline. This protects the home turf of GSPL, where it has already created the infrastructure in the state, which has the largest consumption of gas. It can very advantageously move into neighbouring states of Rajasthan and Madhya Pradesh, leveraging it's existing pipeline in Gujarat as a feeder. Going forward City Gas Distribution (CGD) business can also be a big business for the company in the future.  We have **"BUY"** rating on the stock.

### Financial Highlights

| Period to | Q4FY07 | Q4FY06 | Growth | Q3FY06 | Growth | FY 08 | FY 07 | Change |
|---|---|---|---|---|---|---|---|---|
| **(Rs Cr)** | **(3)** | **(3)** | **(%)** | **(3)** | **(%)** | | | **(%)** |
| Sales | 116.1 | 83.1 | 39.6 | 110.6 | 4.9 | 417.9 | 317.6 | 31.6 |
| Expenditure | 13.1 | 12.1 | 8.7 | 13.4 | (2.6) | 53.4 | 49.5 | 7.9 |
| Operating profit | 102.9 | 71.0 | 44.9 | 97.1 | 6.0 | 364.5 | 268.1 | 36.0 |
| Other income | 8.7 | 5.0 | 75.8 | 9.6 | (8.7) | 29.4 | 17.5 | 68.4 |
| Interest | 20.2 | 16.4 | 23.4 | 20.8 | (2.6) | 81.5 | 45.7 | 78.6 |
| Depreciation | 41.3 | 34.4 | 19.9 | 41.3 | (0.1) | 163.2 | 102.6 | 59.1 |
| PBT | 50.2 | 25.1 | 99.2 | 44.6 | 12.5 | 149.2 | 137.3 | 8.6 |
| Tax | 9.6 | (5.9) | | 19.4 | (50.4) | 49.2 | 47.9 | 2.8 |
| PAT | 40.6 | 19.2 | 110.5 | 25.2 | 60.9 | 99.9 | 89.4 | 11.7 |
| OPM (%) | 88.71 | 85.40 | 3.2 | 87.80 | 0.88 | 87.2 | 84.4 | 2.8 |
| Equity | 562.01 | | | | | 562.01 | | |
| Qtr Eps | 0.72 | | | | | | | |
| **EPS (Rs)** | **2.89** | | | | | **1.78** | | |
| **P/E** | **19.05** | | | | | **30.94** | | |
| **CMP** | **55.00** | | | | | **55.00** | | |

| As % of net sales | Q4FY07 | Q4FY06 | Change | Q3FY06 | Change | FY 08 | FY 07 | Change |
|---|---|---|---|---|---|---|---|---|
| | **(3)** | **(3)** | | **(3)** | | | | |
| Employee Expenses | 2.89 | 1.47 | 1.43 | 1.32 | 1.57 | 1.83 | 1.25 | 0.58 |
| Selling & Administrative exp. | 3.26 | 4.80 | (1.54) | 5.04 | (1.78) | 4.11 | 4.43 | (0.32) |
| Other expenses | 5.13 | 8.24 | (3.11) | 5.81 | (0.68) | 6.84 | 9.90 | (3.06) |

### Other Financials

| | | FY 08 | | |
|---|---|---|---|---|
| | Q IV | Q III | Q II | Q I |
| **Volumes (in mmscm)** | 1613.94 | 1632.07 | 1372.41 | 1535.50 |
| **Sales ( Rs cr)** | 116.1 | 110.6 | 95.4 | 95.8 |

| | | FY 07 | | |
|---|---|---|---|---|
| | Q IV | Q III | Q II | Q I |
| **Volumes (in mmscm)** | 1397.64 | 1477.1 | 1159.89 | 1211.83 |
| **Sales ( Rs cr)** | 83.1 | 87.1 | 75.8 | 71.5 |

| Particulars | FY 08 | FY 07 | Change (%) |
|---|---|---|---|
| **Total Volume (in mmscm)** | 6153.9 | 5246.5 | |
| **Volume mmscmd** | 16.9 | 14.4 | 17.30 |
| **Total Sales (Rs cr)** | **417.9** | **317.6** | 31.59 |
| **Tarrifs (tscm)** | 679 | 605 | 12.19 |

**RATING INTERPRETATION**
**Buy** Expected to appreciate more than 20% over a 12-month period
**Accumulate** Expected to appreciate up to 20% over a 12-month period
**Hold** Expected to remain in a narrow range
**Avoid** Expected to depreciate up to 10% over a 12-month period
**Exit** Expected to depreciate more than 10% over a 12-month period



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