



# GSPL GUJS IN

INDIA / GAS UTILITIES

**TARGET** INR144.00  
**PRIOR TP** INR144.00  
**CLOSE** INR100.25  
**UP/DOWNSIDE** +43.6%

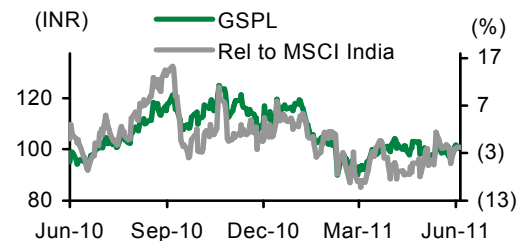
**BUY**  
**UNCHANGED**

## HOW WE DIFFER FROM THE STREET

	BNP	Consensus	% Diff
Target Price (INR)	144.00	118	22.0
EPS 2011 (INR)	7.35	7.29	0.8
EPS 2012 (INR)	8.33	9.37	(11.1)
	Positive	Neutral	Negative
Market Recs.	31	4	1

## KEY STOCK DATA

YE Mar (INR m)	2011E	2012E	2013E
Revenue	10,528	11,994	13,073
Rec. net profit	4,133	4,687	5,139
Recurring EPS (INR)	7.35	8.33	9.14
Prior rec. EPS (INR)	7.35	8.33	9.14
Chg. In EPS est. (%)	0.0	0.0	0.0
EPS growth (%)	0.9	13.4	9.7
Recurring P/E (x)	13.6	12.0	11.0
Dividend yield (%)	1.8	2.3	2.0
EV/EBITDA (x)	6.6	5.6	5.1
Price/book (x)	3.0	2.5	2.2
Net debt/Equity	37.3	32.6	19.6
ROE (%)	24.0	22.9	21.3



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	0.2	7.1	1.4
Relative to country (%)	1.0	9.4	(3.3)

Next results	July 2011
Mkt cap (USD m)	1,258
3m avg daily turnover (USD m)	2.5
Free float (%)	51
Major shareholder	Gujarat State Petroleum Corp. Ltd (38%)
12m high/low (INR)	125.00/89.90
3m historic vol. (%)	31.4
ADR ticker	-
ADR closing price (USD)	-

Sources : Bloomberg consensus; BNP Paribas estimates

## RECENT COMPANY & SECTOR RESEARCH

Regulatory issues continue .....	13 Jan 2011
In-line quarter .....	28 Oct 2010
Tough 2010, gloomy 2011 .....	9 Mar 2011
China Power .....	28 Oct 2010

## INDUSTRY OUTLOOK ↑

# Low capex is baffling

- Guidance of 15%+ equity IRR on new pipelines
- Low capex guidance on new pipelines baffling
- Gujarat network volumes set to double in five years
- EV-EBITDA based TP of INR144

### Low capex baffling

GSPL held an analyst meeting on Friday (3 June 2011), for the first time since we began covering the stock in January 2009. Management provided details on three new pipelines for which it recently won bids; these are Mallavaram-Bhilwara, Mehsana-Bhatinda and Bhatinda-Jammu pipelines. For these three pipelines, GSPL guided to equity IRR of 15%+ and significantly higher capacities than it initially indicated. We are baffled by the significantly lower capex the company has projected to build these pipelines. Based on the normative capex assumption of INR1.4m/km/mmcmd by the Petroleum and Natural Gas Regulatory Board (PNGRB), the three pipelines ought to cost INR249.7b (USD5.6b) to build. However, GSPL indicated capex of only INR122b (USD2.7b). We find GSPL's capex assumption unrealistic and will seek clarity from management. Roadblocks to execution of these pipelines persist, as GAIL (GAIL IN) has objected to the award claiming the bid process was flawed.



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### Management reiterates no downside to tariff

GSPL has submitted its tariff petition to the PNGRB for approval. The proposed tariff is higher than INR750/tcm and management reiterated its confidence that tariffs would not go below INR750/tcm. The company indicated that gas transmission volumes in its Gujarat network would grow to 45-50mmcmd in two years, from ~36mmcmd currently, adding that it aimed to double the gas transmission volume in its Gujarat network in five years.

### Valuation

We have a BUY rating on GSPL. We believe its tariffs will not fall below INR750/tcm, and so we find the stock undervalued trading at FY12E EV-EBITDA of 5.6x – a significant discount to its global peers at 10x based on Bloomberg consensus data. We have valued GSPL at 8x our FY12 EBITDA estimate to arrive at our TP of INR144.00. Key risks to our TP include lower-than-expected regulated tariffs or lower-than-expected gas transmission volumes.

# RISK EXPERTS

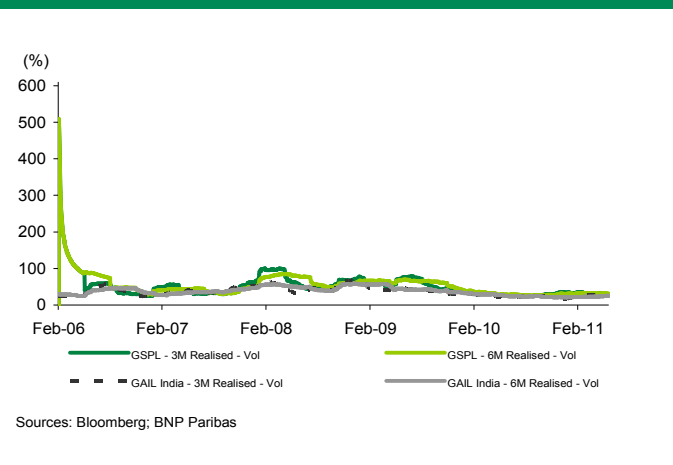
FY12E	Base FY12E	Best FY12E	Worst FY12E
Tariff (INR/tcm)	750	800	609
EPS (INR)	8.33	9.23	5.80
Change (%)		11	(30)
Tariff (INR/tcm)	43.4	48	36.3
EPS (INR)	8.33	9.67	6.04
Change (%)		16	(27)

Sources: BNP Paribas estimates

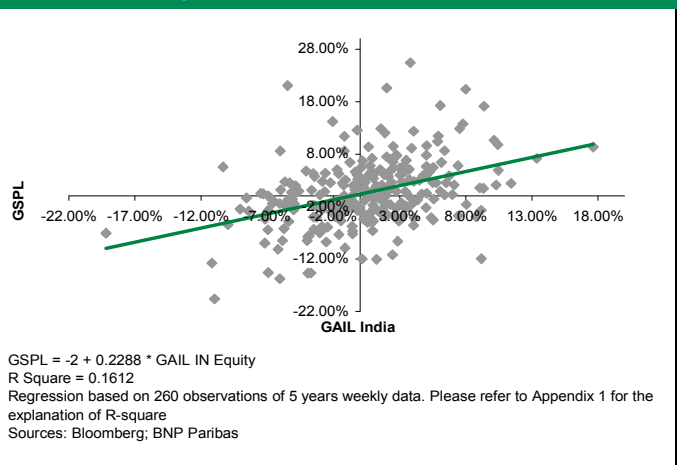
## Key Earnings Drivers & Sensitivity

- Tariffs – A 10% change in average tariff earned would impact our FY12 EPS forecast by 10%.
- Volumes – A 10% change in gas transmission volumes would impact our FY12 EPS forecast by 10%.

## GSPL and GAIL India (3M and 6M realised-vol)



## Regression – GSPL to GAIL India

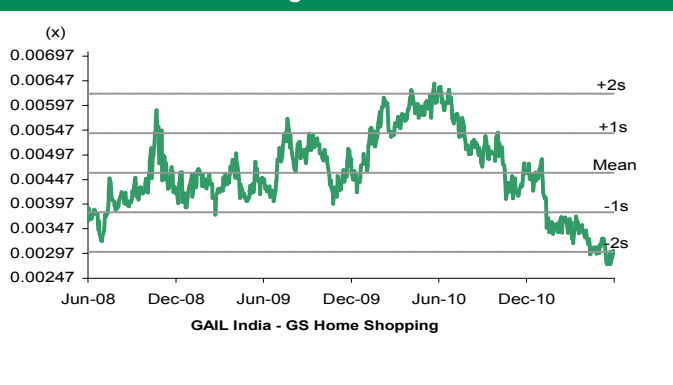


## India sector correlation matrix at 31 March 2011

	Autos	Banks	Engineering & Construction	Metals & Mining	Oil & Gas	IT Services	Telecom	Utilities	Property
<b>Autos</b>	1.00	0.68	0.71	0.72	0.61	0.49	0.54	0.65	0.65
<b>Banks</b>		1.00	0.80	0.71	0.68	0.51	0.58	0.69	0.72
<b>Engineering &amp; Construction</b>			1.00	0.75	0.70	0.49	0.62	0.74	0.78
<b>Metals &amp; Mining</b>				1.00	0.73	0.50	0.55	0.73	0.77
<b>Oil &amp; Gas</b>					1.00	0.53	0.53	0.69	0.66
<b>IT Services</b>						1.00	0.40	0.47	0.37
<b>Telecom</b>							1.00	0.62	0.60
<b>Utilities</b>								1.00	0.73
<b>Property</b>									1.00

Source: BNP Paribas Sector Strategy

## Long/short chart



## The risk experts

### The Risk Experts

- Our starting point for this page is a recognition of the macro factors that can have a significant impact on stock-price performance, sometimes independently of bottom-up factors.
- With our Risk Expert page, we identify the key macro risks that can impact stock performance.
- This analysis enhances the fundamental work laid out in the rest of this report, giving investors yet another resource to use in their decision-making process.

## Analyst meet takeaways

### Reiterates no downside to tariff

GSPL has submitted its tariff petition to PNGRB for its Gujarat pipeline network and we estimate that PNGRB will fix tariffs in the next three months. The company indicated that it applied for a tariff that is higher than the current tariff of INR750/tcm and was confident that there would be no downside to current tariffs.

### Guidance – Volumes to double in five years in Gujarat network

GSPL guided that gas transmission volumes in its existing network in Gujarat would rise from ~36mmscmd currently to 45-50mmscmd in two years. Management expects volumes in the Gujarat network to double in five years. The company is expanding its Gujarat network from 1,900km to 2,400km by FY12 and has earmarked INR6b-7b per annum as pipeline capex in the state for the next three years.

### PNGRB formally awards three pipelines to GSPL on competitive bidding

Recall that GSPL, in consortium with IOC (IOC IN, not rated), BPCL (BPCL IN) and HPCL (HPCL IN), had won bids to lay three cross-country pipelines costing USD2.7b – these include the 1,688km Mallavaram Bhilwara pipeline (52mmscmd capacity), the 1,611km Mehsana Bhatinda pipeline (42mmscmd) and the 740km Bhatinda Jammu pipeline (31mmscmd). The PNGRB was not allowed to formally award these pipelines to GSPL pending litigation. The Supreme Court recently allowed PNGRB to award the bids, and the PNGRB has formally awarded these pipelines to GSPL. GSPL has to complete all three pipelines within the next 36 months, which means the pipelines should start operations in mid-2014 (FY15). On completion of these pipelines, GSPL's pipeline network will grow 3.4x from 1,900km currently to 6,439km, and it will transform the company from a regional player to a pan-India player.

### GAIL opposes pipeline bids, says bid process was flawed

GAIL has contested the award of the bid to GSPL saying that the bid process was flawed as it felt that the regulator (PNGRB) did not make a realistic assessment of gas demand and supply and that the tariffs quoted were too low. Regarding this concern, GSPL management was of the view that the monopoly would always create roadblocks and it was confident of overcoming the roadblocks. "Better sense will prevail" and customers will eventually get reasonable gas transmission tariffs.

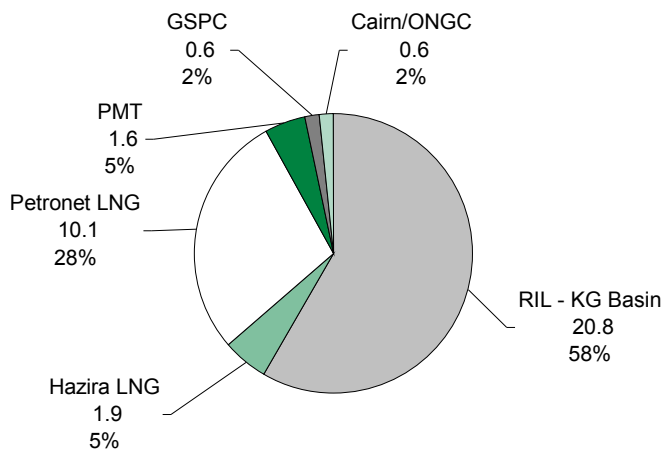
### Guides to 15%+ equity IRRs on pipelines under bid

Management indicated that it would make equity IRR of more than 15% on the three pipelines it has won. Levelized tariffs for the pipelines: INR29.92/mmbtu for Mallavaram-Bhilwara; INR32.64/mmbtu for the Mehsana Bhatinda pipeline; and INR8.95/mmbtu for the Bhatinda-Jammu stretch. The IRRs assume pipeline capacity utilization of 40-50% in the first 2-3 years.

### Management believes gas demand is not a concern

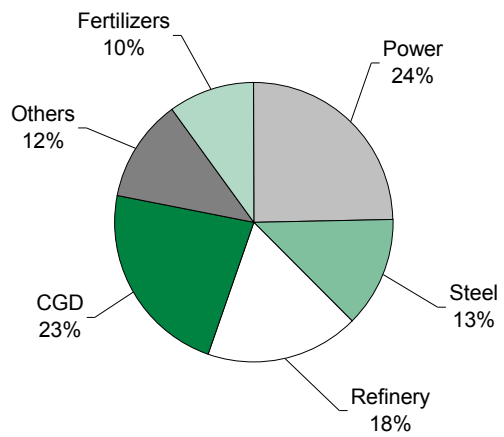
Regarding concerns about gas demand for the new pipelines, management said a company had the following options: 1) Wait for the gas to arrive and then start building infrastructure; or 2) Build infrastructure, which would enable gas sourcing. In Gujarat, the company rolled out pipeline infrastructure aggressively and demand followed. Today Gujarat is the largest consumer accounting for 1/3rd of India's total gas consumption. Specifically, management indicated some customers for gas along its planned pipelines, viz, Bina and Bhatinda refineries, NFL's fertilizer plants at Vijaipur and Bhatinda, Fertilizer Corp of India's Ramagundam fertilizer plant, City Gas Distribution (CGD) projects in cities through which the pipelines will pass, and projects that are part of the upcoming Delhi Mumbai Industrial corridor (DMIC). The company said that as pipelines bring access to gas, gas-based combined Heat and Power solutions would become popular among industries, where coal-fired captive power plants are reeling under coal shortages as well as rising prices of imported coal. Tighter pollution norms would also force industries to shift to gas. Management indicated that supply sources for the pipelines would be: 1) gas from GSPC's Deen Dayal gas field in KG Basin; 2) LNG from the planned Mundra and Pipavav LNG terminals and expanded capacities of Petronet LNG's Dahej terminal as well as that of Shell's Hazira LNG terminal.

**Exhibit 1: FY11 – Sources of gas**



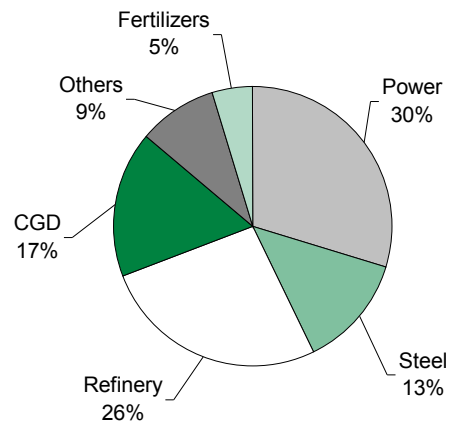
Sources: GSPL; BNP Paribas

**Exhibit 2: FY11 revenue by customers**

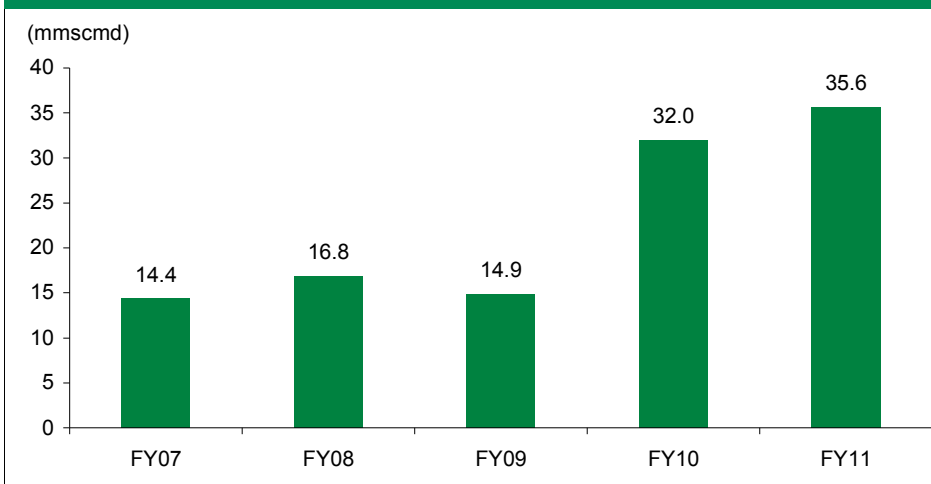


Sources: GSPL; BNP Paribas

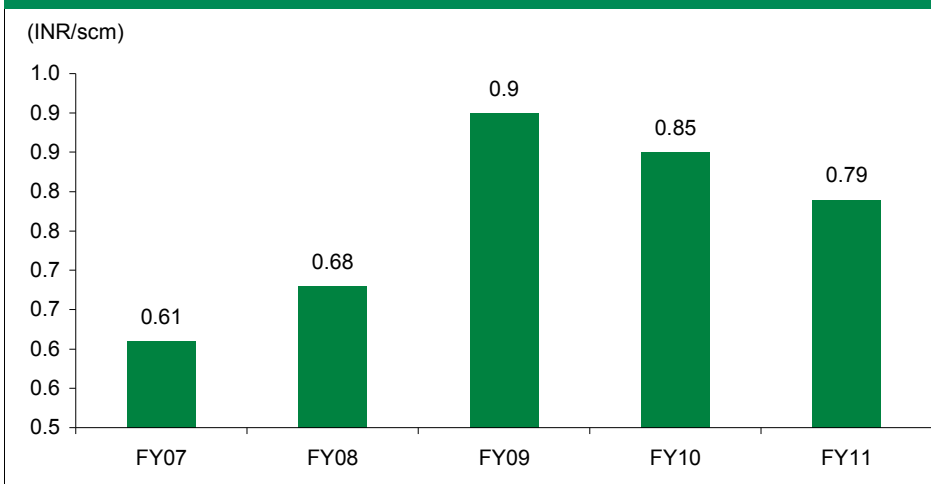
**Exhibit 3: FY11 volumes by customers**



Sources: GSPL; BNP Paribas

**Exhibit 4: Gas transmission volume**

Sources: GSPL; BNP Paribas

**Exhibit 5: Average gas transmission tariffs**

Sources: GSPL; BNP Paribas

## FINANCIAL STATEMENTS

## GSPL

Profit and Loss (INR m) Year Ending Mar	2009A	2010A	2011E	2012E	2013E
Revenue	4,875	9,920	10,528	11,994	13,073
Cost of sales ex depreciation	0	(4)	0	0	0
<b>Gross profit ex depreciation</b>	<b>4,875</b>	<b>9,916</b>	<b>10,528</b>	<b>11,994</b>	<b>13,073</b>
Other operating income	0	0	0	0	0
Operating costs	(483)	(619)	(634)	(732)	(817)
<b>Operating EBITDA</b>	<b>4,392</b>	<b>9,297</b>	<b>9,894</b>	<b>11,262</b>	<b>12,256</b>
Depreciation	(1,705)	(2,365)	(2,820)	(3,260)	(3,740)
Goodwill amortisation	0	0	0	0	0
<b>Operating EBIT</b>	<b>2,687</b>	<b>6,933</b>	<b>7,074</b>	<b>8,001</b>	<b>8,516</b>
Net financing costs	(627)	(691)	(878)	(900)	(730)
Associates	0	0	0	0	0
Recurring non operating income	0	0	0	0	0
Non recurring items	(147)	28	0	0	0
<b>Profit before tax</b>	<b>1,914</b>	<b>6,270</b>	<b>6,196</b>	<b>7,101</b>	<b>7,786</b>
Tax	(679)	(2,139)	(2,063)	(2,414)	(2,646)
<b>Profit after tax</b>	<b>1,234</b>	<b>4,130</b>	<b>4,133</b>	<b>4,687</b>	<b>5,139</b>
Minority interests	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
<b>Reported net profit</b>	<b>1,234</b>	<b>4,130</b>	<b>4,133</b>	<b>4,687</b>	<b>5,139</b>
Non recurring items & goodwill (net)	95	(36)	0	0	0
<b>Recurring net profit</b>	<b>1,329</b>	<b>4,094</b>	<b>4,133</b>	<b>4,687</b>	<b>5,139</b>

Gas transmission revenue doubled on start of gas supplies from RIL's KG Basin

**Per share (INR)**

Recurring EPS *	2.36	7.28	7.35	8.33	9.14
Reported EPS	2.20	7.35	7.35	8.33	9.14
DPS	0.58	0.88	1.76	2.34	2.05

**Growth**

Revenue (%)	16.7	103.5	6.1	13.9	9.0
Operating EBITDA (%)	20.0	111.7	6.4	13.8	8.8
Operating EBIT (%)	32.6	158.0	2.0	13.1	6.4
Recurring EPS (%)	29.5	208.0	0.9	13.4	9.7
Reported EPS (%)	21.3	234.5	0.0	13.4	9.7

**Operating performance**

Gross margin inc depreciation (%)	-	76.1	-	-	-
Operating EBITDA margin (%)	90.1	93.7	94.0	93.9	93.8
Operating EBIT margin (%)	55.1	69.9	67.2	66.7	65.1
Net margin (%)	27.3	41.3	39.3	39.1	39.3
Effective tax rate (%)	35.5	34.1	33.3	34.0	34.0
Dividend payout on recurring profit (%)	24.7	12.0	23.9	28.1	22.4
Interest cover (x)	4.3	10.0	8.1	8.9	11.7
Inventory days	-	0.0	-	-	-
Debtor days	35.9	23.8	33.5	38.5	39.3
Creditor days	-	0.0	-	-	-
Operating ROIC (%)	7.7	16.4	15.3	16.2	15.8
Operating ROIC – WACC (%)	(4.7)	4.0	2.8	3.8	-
ROIC (%)	7.6	16.1	14.9	15.9	15.5
ROIC – WACC (%)	(4.9)	3.7	2.5	3.5	-
ROE (%)	11.3	29.5	24.0	22.9	21.3
ROA (%)	6.0	13.4	11.1	11.2	11.6

\* Pre exceptional, pre-goodwill and fully diluted

Sources: GSPL; BNP Paribas estimates

**GSPL**

<b>Cash Flow (INR m)</b>					
<b>Year Ending Mar</b>	<b>2009A</b>	<b>2010A</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
Recurring net profit	1,329	4,094	4,133	4,687	5,139
Depreciation	1,705	2,365	2,820	3,260	3,740
Associates & minorities	0	0	0	0	0
Other non-cash items	0	(18)	0	0	0
<b>Recurring cash flow</b>	<b>3,034</b>	<b>6,441</b>	<b>6,953</b>	<b>7,947</b>	<b>8,880</b>
Change in working capital	(1,752)	1,420	2,881	(2,125)	(937)
Capex - maintenance	0	0	0	0	0
Capex – new investment	(4,579)	(7,774)	(5,000)	(5,000)	(5,000)
<b>Free cash flow to equity</b>	<b>(3,298)</b>	<b>87</b>	<b>4,834</b>	<b>822</b>	<b>2,943</b>
Net acquisitions & disposals	0	0	0	0	1
Dividends paid	(329)	(493)	(987)	(1,316)	(1,152)
Non recurring cash flows	297	157	0	0	1
<b>Net cash flow</b>	<b>(3,330)</b>	<b>(250)</b>	<b>3,847</b>	<b>(494)</b>	<b>1,793</b>
Equity finance	2	5	0	0	1
Debt finance	1,849	1,486	2,642	(1,495)	(2,078)
<b>Movement in cash</b>	<b>(1,479)</b>	<b>1,241</b>	<b>6,488</b>	<b>(1,989)</b>	<b>(284)</b>

**Per share (INR)**

Recurring cash flow per share	5.40	11.45	12.36	14.13	15.79
FCF to equity per share	(5.87)	0.15	8.59	1.46	5.23

**Balance Sheet (INR m)**

<b>Year Ending Mar</b>	<b>2009A</b>	<b>2010A</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
Working capital assets	4,641	5,808	5,815	6,592	7,351
Working capital liabilities	(3,742)	(4,848)	(7,320)	(5,650)	(5,598)
<b>Net working capital</b>	<b>899</b>	<b>959</b>	<b>(1,506)</b>	<b>942</b>	<b>1,753</b>
Tangible fixed assets	24,132	29,755	31,934	33,674	34,934
<b>Operating invested capital</b>	<b>25,031</b>	<b>30,714</b>	<b>30,429</b>	<b>34,616</b>	<b>36,687</b>
Goodwill	0	0	0	0	0
Other intangible assets	33	3	3	3	3
Investments	356	666	666	666	667
Other assets	0	0	0	0	1
<b>Invested capital</b>	<b>25,420</b>	<b>31,383</b>	<b>31,098</b>	<b>35,285</b>	<b>37,358</b>
Cash & equivalents	(975)	(1,742)	(8,230)	(6,528)	(6,553)
Short term debt	0	0	0	0	1
Long term debt *	11,509	12,595	15,237	13,742	11,663
<b>Net debt</b>	<b>10,535</b>	<b>10,854</b>	<b>7,007</b>	<b>7,214</b>	<b>5,112</b>
Deferred tax	1,144	1,405	1,405	1,693	2,008
Other liabilities	0	0	0	0	1
Total equity	12,152	15,638	18,784	22,154	26,140
Minority interests	0	0	0	0	0
<b>Invested capital</b>	<b>25,420</b>	<b>31,383</b>	<b>31,098</b>	<b>35,285</b>	<b>37,357</b>

\* includes convertibles and preferred stock which is being treated as debt

**Per share (INR)**

Book value per share	21.62	27.80	33.40	39.39	46.48
Tangible book value per share	21.56	27.80	33.39	39.38	46.47

**Financial strength**

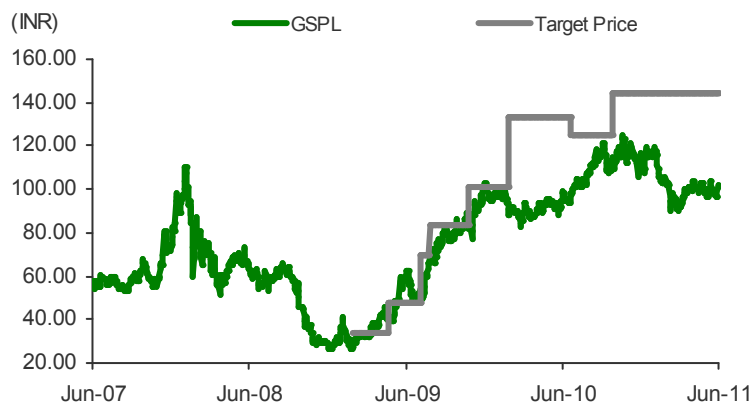
Net debt/equity (%)	86.7	69.4	37.3	32.6	19.6
Net debt/total assets (%)	35.0	28.6	15.0	15.2	10.3
Current ratio (x)	1.5	1.6	1.9	2.3	2.5
CF interest cover (x)	3.0	12.4	12.2	7.5	11.9

<b>Valuation</b>	<b>2009A</b>	<b>2010A</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
Recurring P/E (x) *	42.4	13.8	13.6	12.0	11.0
Recurring P/E @ target price (x) *	60.9	19.8	19.6	17.3	15.8
Reported P/E (x)	45.7	13.6	13.6	12.0	11.0
Dividend yield (%)	0.6	0.9	1.8	2.3	2.0
P/CF (x)	18.6	8.8	8.1	7.1	6.4
P/FCF (x)	(17.1)	649.6	11.7	68.6	19.2
Price/book (x)	4.6	3.6	3.0	2.5	2.2
Price/tangible book (x)	4.7	3.6	3.0	2.5	2.2
EV/EBITDA (x) **	14.8	7.2	6.6	5.6	5.1
EV/EBITDA @ target price (x) **	20.4	9.9	9.1	7.8	7.1
EV/invested capital (x)	2.6	2.1	2.0	1.8	1.6

\* Pre exceptional, pre-goodwill and fully diluted

\*\* EBITDA includes associate income and recurring non-operating income

Sources: GSPL; BNP Paribas estimates

**HISTORY OF CHANGE IN INVESTMENT RATING AND/OR TARGET PRICE**
**Gujarat State Petronet (GUJS IN)**


Date	Reco	TP
30-Jan-09	BUY	34.00
11-May-09	HOLD	48.00
7-Jul-09	BUY	70.00

Girish Nair started covering this stock from 30 January 2009  
Price and TP are in local currency

**Valuation and risks:** Our TP is based on EV-EBITDA. Key risks to our TP include lower-than-expected regulated tariffs or lower-than-expected gas transmission volumes.

Sources: Bloomberg, BNP Paribas



**DISCLAIMERS & DISCLOSURES****ANALYST(S) CERTIFICATION**

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Company	Disclosure (as applicable)
GSPL	NA

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All share prices are as at market close on 3 June 2011 unless otherwise stated.

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### Stock Ratings

Stock ratings are based on absolute upside or downside, which we define as (target price\* - current price) / current price.

BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

### Industry Recommendations

Improving (↑): The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

Neutral (↔): The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

Deteriorating (↓): The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

### Country (Strategy) Recommendations

Overweight (O). Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral (N). Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight (U). Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

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Total BNP Paribas coverage universe	569	Investment Banking Relationship	(%)
Buy	375	Buy	4.00
Hold	139	Hold	4.32
Reduce	55	Reduce	1.92

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