

Gujarat State Petronet

Rs88

Revising estimates

- Revise earnings estimates for FY11 to Rs8.9 (up 2.3%) and FY12 to Rs9.3 (down 6%)
- Expansion plans to increase pipeline network to ~1,900km from 1,420km by end of FY11 on schedule
- FY12 onwards, cash flows could be used for new pipelines, wind power, and city gas distribution
- DCF value revised to Rs100 per share from Rs87 per share; Maintain Buy

We met the management of Gujarat State Petronet (GSPL).

Key takeaways:

Revise earnings estimate for FY11, FY12 to factor in wind power operations

The management indicated the wind-mill business would commence in FY11. We have revised our FY11 earnings estimates by 2.3% to Rs8.9 per share from Rs8.7 per share to factor in revenue from wind-mill business. We have revised FY12 earnings estimate downwards by 6.1% to Rs9.3 per share from Rs9.9 per share to factor in higher depreciation from addition to gross block. Our volume and tariff assumptions remain unchanged.

Exhibit 1: Volume and tariff estimates

	FY10E	FY11E	FY12E
Volume (mmscmd)	32.8	41.0	46.1
Tariff (Rs/scm)	900	850	800

Source: Company, BRICS Research

FY11 capex plan on track; further investments in planning stage

Plans to increase pipeline length to ~1,900 km (from 1,420km) with an investment of ~Rs10bn by end of FY11 are on track. The management is evaluating options to invest free cash flows from operations FY12 onwards (see Exhibit 1).

Exhibit 2: Free cash flows through FY13E (Rsmn)

	FY10E	FY11E	FY12E	FY13E
PAT	4,264	4,972	5,202	6,986
Depreciation	2,127	2,957	3,959	4,082
Deferred tax	323	377	394	529
Change in working capital	1,861	1,002	491	937
Capex	-9,575	-7,805	-666	-732
Free cash flow	-1,000	1,502	9,381	11,802

Source: BRICS Research

At present, there are three avenues for deployment of cash surpluses – pipeline network expansion, wind power and city gas distribution (See Exhibit 3 on Page 2). We believe new pipelines, within and outside Gujarat, will account for major part of capital expenditure. We will revisit our estimates after clarity emerges on specific plans.

KEY FINANCIALS (Rs mn)

Y/E 31 March	2008	2009	2010E	2011E	2012E
Revenue	4,179	4,875	10,785	12,855	13,883
EBITDA	3,645	4,245	9,552	11,555	12,510
EBITDA margin (%)	87.2	87.1	88.6	89.9	90.1
PAT	999	1,234	4,264	5,004	5,236
FDEPS (Rs)	1.8	2.2	7.6	8.9	9.3
% growth	8.4	23.5	245.5	17.3	4.6
P/E (x)	49.6	40.2	11.6	9.9	9.5
ROCE (%)	11.2	11.9	27.8	27.0	22.3

Source: BRICS Research, Company Data

BUY

Analyst: Sandeep Randery

Phone : 66360051

sandeep.randery@bricssecurities.com

Associate: Rakesh Shah

Phone: 66360061

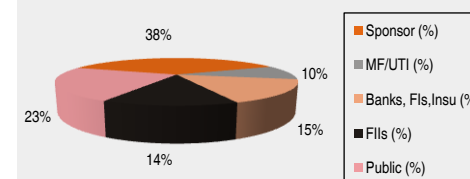
rakesh.shah@bricssecurities.com

KEY DATA

Bloomberg	GUJS@IN
Reuters	GSPT.BO
52-wk H/L(Rs)	104/36.6
6-m avg trd value	US\$7.9mn
Market cap	Rs49.2bn/US\$1.1bn
Shares o/s	562.4mn
Face value	Rs10

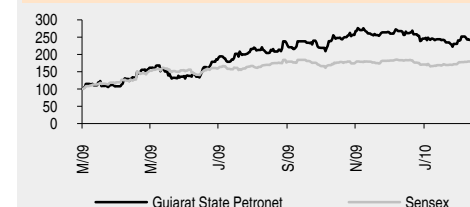
Source: Bloomberg

SHAREHOLDING (%)



Source: CMIE

PRICE PERFORMANCE



Source: Bloomberg

Exhibit 3: Potential investments

Alternatives	View
Company has submitted bids for 4 trunk pipelines totaling 4,670km length	Tariff as well as pipeline capacity is to be determined by competitive bidding. Competition at the time of bidding could result in lower IRR. Utilisation rates will depend on the rate at which off-takers sign up gas supplies
Mallavaram-Bhilwara (~1,400km)	
Mehsana-Bhatinda (~900km)	
Bhatinda-Jammu-Srinagar (~770km)	
Surat-Paradip (~1,600 km)	
Expansion of trunk pipeline network within Gujarat. In FY09 Annual Report, around 1,400 km of pipelines were shown as being taken up for feasibility study (See Exhibit 6 on Page 3)	Laying of these pipelines would commence only after management is confident of demand along the route. So far, no announcement has been made
Wind power	Indicated IRR of 14% is higher than post tax IRR of 12% for gas transportation. Risk lies in actual performance of windmills
Investment in City gas distribution (CGD) companies	Company has ~Rs 781mn investment in CGD companies in Gujarat and Andhra Pradesh. These investments will most likely be minority stakes and will reflect in the balance sheet

Source: Company, BRICS Research

DCF value of Rs100 per share; Maintain Buy

We have revised our DCF value upwards to Rs100/share from Rs87/share as we rollover to FY11 and to factor in lower tax outgo on accelerated depreciation from wind-mill business. We maintain BUY on the stock given high visibility of earnings and attractive valuation as compared to GAIL (see Exhibit 5). An overly aggressive (and successful) bid for any interstate pipeline is biggest risk to our call.

Exhibit 4: Sensitivity of DCF to cost of capital and terminal growth rate (Rs)

Terminal growth rate	Cost of capital		
	10%	12.50%	15%
2%	138	91	64
3%	157	100	69
4%	183	112	75

Source: Company, BRICS Research

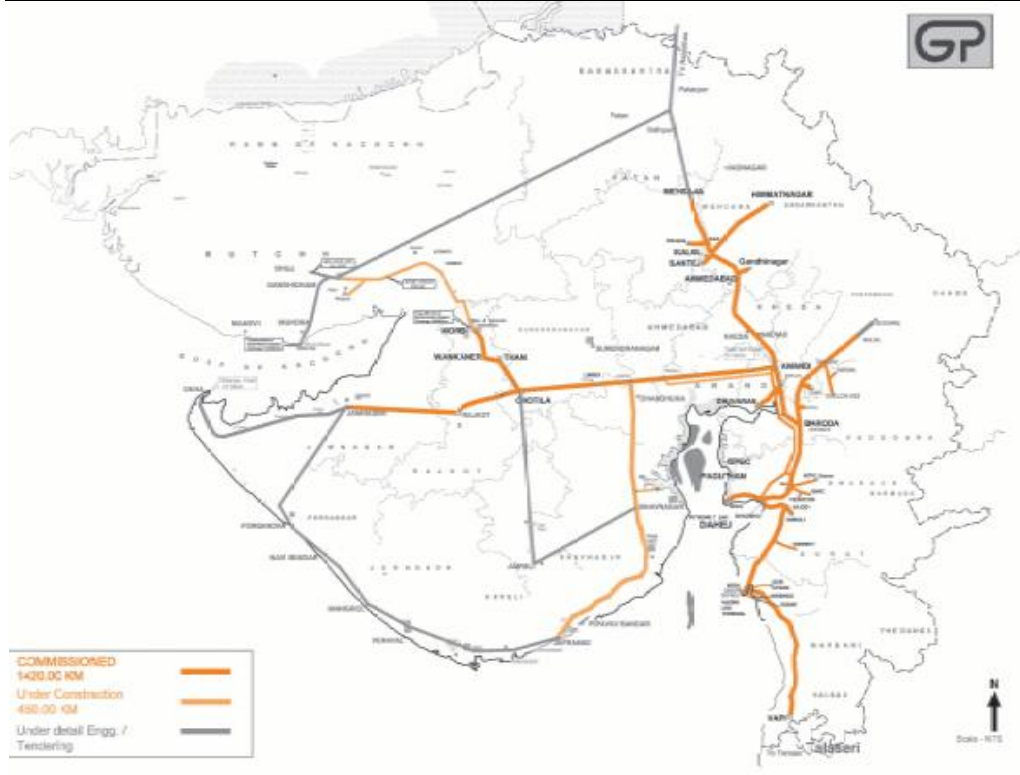
Exhibit 5: Peer Valuations

(Rs mn)

Company	CMP (Rs)	Net Sales		Net Profit		EPS (Rs)		RoE (%)		P/E (x)		EV/EBITDA (x)	
		FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
GAIL India	401	254,421	264,701	30,439	30,985	24.0	24.4	18.1	16.5	16.7	16.4	11.7	10.6
Gujarat State Petronet	88	10,785	12,855	4,264	5,004	7.6	8.9	26.8	24.5	11.5	9.8	6.5	5.4

Source : Company, BRICS Research

Exhibit 6: GSPL pipeline grid



Source: Company

INCOME STATEMENT

	(Rs mn)				
Y/E 31 March	2008	2009	2010E	2011E	2012E
Revenue	4,179	4,875	10,785	12,855	13,883
Operating exp	534	630	1,233	1,301	1,373
EBITDA	3,645	4,245	9,552	11,555	12,510
Depreciation	1,632	1,705	2,127	2,957	3,959
EBIT	2,013	2,540	7,425	8,598	8,551
Other income	294	243	200	250	600
Interest paid	815	870	1,164	1,283	1,235
PBT	1,492	1,914	6,461	7,565	7,916
Tax	492	679	2,197	2,561	2,680
APAT	999	1,234	4,264	5,004	5,236
Minority interest	—	—	—	—	—
EO inc / (exp)	—	—	—	—	—
PAT	999	1,234	4,264	5,004	5,236
Shares o/s (mn nos)	562	562	562	562	562
Revenue growth (%)	25.8	16.7	121.2	19.2	8.0
PAT growth (%)	11.8	23.5	245.5	17.3	4.6
EBITDA margin (%)	87.2	87.1	88.6	89.9	90.1
FDEPS (Rs) recurring	1.8	2.2	7.6	8.9	9.3
FDEPS (Rs) reported	1.8	2.2	7.6	8.9	9.3

CASH FLOW STATEMENT

	(Rs mn)				
Y/E 31 March	2008	2009	2010E	2011E	2012E
Net Profit	999	1,234	4,264	5,004	5,236
Depreciation	1,632	1,705	2,127	2,957	3,959
Amortisation	—	—	—	—	—
Interest paid	815	870	1,164	1,283	1,235
Chg in working capital	2,460	(1,488)	1,861	1,002	491
Other op activities	492	679	2,197	2,561	2,680
Cash flow from op (a)	5,906	2,321	9,416	10,245	13,601
Capital expenditure	(5,821)	(4,579)	(9,417)	(7,805)	(666)
Chg in investments	(356)	—	(644)	(1,648)	(6,511)
Other investing act	—	—	—	—	—
Cash flow from inv. (b)	(6,177)	(4,579)	(10,061)	(9,453)	(7,176)
Free cash flow (a+b)	(271)	(2,258)	(645)	792	6,425
Equity raised/(repaid)	1,080	2	—	—	—
Debt raised/(repaid)	1,022	1,849	1,491	1,000	(2,000)
Interest paid	(815)	(870)	(1,164)	(1,283)	(1,235)
Dividend (incl. tax)	(318)	(476)	(476)	(476)	(476)
Other fin. activities	—	—	—	—	(1,235)
Cash flow from fin. (c)	969	504	(150)	(759)	(4,946)
Net chg in cash (a+b+c)	699	(1,754)	(795)	33	1,479

BALANCE SHEET

	(Rs mn)				
Y/E 31 March	2008	2009	2010E	2011E	2012E
Net fixed assets	21,259	24,132	31,424	36,272	32,978
Investments	356	356	1,000	2,648	9,159
Current assets	5,497	5,615	6,601	7,225	7,535
Inventories	397	926	2,048	2,441	2,636
Sundry debtors	416	544	1,203	1,433	1,548
Cash & bank balance	2,569	975	179	179	179
Loans & advances	1,550	3,018	3,018	3,018	3,018
Total assets	27,112	30,103	39,024	46,145	49,672
Networth	11,346	12,119	15,906	20,402	25,128
Share capital	5,620	5,621	5,621	5,621	5,621
Reserves & surplus	5,726	6,497	10,285	14,781	19,507
Minority interest	—	—	—	—	—
Total debt	9,660	11,509	13,000	14,000	12,000
Secured loans	9,650	11,079	13,000	14,000	12,000
Unsecured loans	10	430	—	—	—
Current liabilities & prov	5,106	5,331	8,974	10,599	11,400
Current liabilities	4,199	3,742	8,278	9,867	10,656
Provisions	907	1,590	696	732	744
Net deferred tax liab	999	1,144	1,144	1,144	1,144
Total liabilities	27,112	30,103	39,024	46,145	49,672

KEY RATIOS

Y/E 31 March	2008	2009	2010E	2011E	2012E
Raw material to sales	0.1	0.1	0.1	0.1	—
SGA to sales	—	—	—	—	—
Effective tax rate	33.0	35.5	34.0	33.9	33.9
Dividend yield (%)	0.5	0.8	0.8	0.8	0.8
ROE (%)	8.8	10.2	26.8	24.5	20.8
ROCE (%)	11.2	11.9	27.8	27.0	22.3
Net debt/Equity (%)	0.6	0.9	0.8	0.7	0.5
PAT margin (%)	23.9	25.3	39.5	38.9	37.7
Inventory (days)	34.7	69.3	69.3	69.3	69.3
Payable (days)	5361.0	3881.2	4886.6	5599.2	5810.6
Receivable (days)	36	41	41	41	41

VALUATIONS

Y/E 31 March	2008	2009	2010	2011E	2012E
EV/op. cash flow (x)	9.6	25.9	6.6	6.2	4.5
PER (x)	49.6	40.2	11.6	9.9	9.5
PCE (x)	18.8	16.9	7.8	6.2	5.4
Price/Book (x)	4.4	4.1	3.1	2.4	2.0
EV/EBITDA (x)	15.6	14.2	6.5	5.5	4.9

HEAD OFFICE

Sadhana House, 1st Floor, 570 P. B. Marg,
Behind Mahindra Tower, Worli,
Mumbai - 400 018
Tel : (91-22) 6636 0000

BANGALORE

Office No. 106, 1st Floor,
The Presidency, 82, St. Marks Road,
Bangalore - 560 001
Tel : (91-80) 4123 9761 / 4132 9172 / 74

DELHI

601, 603 & 604, 6th Floor,
Naurang House, K. G. Marg,
Connaught Place, New Delhi – 110 001
Tel : (91-11) 4353 9900

KOLKATA

Room No. A-16, 3rd Floor,
FMG Fortuna Bldg., 234/3A, A.J.C.,
Bose Road, Kolkata - 700 020
Tel : (91-33) 2281 2216

AHMEDABAD

Office No. 201, 202, 203, 2nd Floor,
Sheetal Varsha Arcade, Off C G Road,
Ahmedabad - 380 009
Tel : (91-79) 3001 5600

CHENNAI

22, 23 & 23L 2nd Floor,
Rainbow Arcade, Sir Thyagaraya Road,
T. Nagar, Chennai - 600 017.
Tel : (91-44) 4390 7200

HYDERABAD

3rd Floor,
Central Plaza, Somajiguda,
Hyderabad - 500 082
Tel : (91-40) 3911 4801

PUNE

102, 1st Floor, Premium Point,
J. M. Road, Shivaji Nagar
Pune - 411 005
Tel : (91-20) 3024 8800

Disclaimer: This document is not for public distribution and has been furnished to you solely for your information and any review, re-transmission, circulation or any other use is strictly prohibited. Persons into whose possession this document may come are required to observe these restrictions. This document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed to and may contain confidential information and/or privileged material. We are not soliciting any action based upon this material. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of BRICS. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. BRICS will not treat recipients as customers by virtue of their receiving this report.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable. It should be noted that the information contained herein is from publicly available data or other sources believed to be reliable. Neither BRICS, nor any person connected with it, accepts any liability arising from the use of this document. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for any investment decision. The investment discussed or views expressed may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions—including those involving futures, options and other derivatives as well as non-investment grade securities- involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. We do not undertake to advise you as to any change of our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, BRICS, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent BRICS and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject BRICS and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

BRICS and its affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall BRICS, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.