

EQUITY RESEARCH

Oil & Gas Sector

C.M.P: Rs.87.60
(As on March 24th, 2010)

INDIA

Market Cap
Rs.49259.8mn

BUY

Target Price: Rs.105.00
(Medium to Long Term)



GUJARAT STATE PETRONET LTD

- We initiated the coverage of Gujarat State Petronet Ltd and set a target price of Rs.105.00 for medium to long term gains.
- GSPL, a GSPC Group company is a pioneer in developing energy transportation infrastructure and connecting natural gas supply basins and LNG terminals to growing markets.
- GSPL is first Pipeline Company in India operating on open access basis and is a pure transmission network.
- The transmission network of the company envisages development of systematic and seamless pipeline network across Gujarat connecting various suppliers and users.
- The revenue of the company for the quarter ended on Dec 31th increased 129% YoY while profit increased 317%.
- The topline of the company are expected to grow at a CAGR of 41% over 2008A to 2011E.



GUJARAT STATE P **BSE SENSEX**

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Key Financials	Key Data					
	FY08	FY09	FY10E	FY11E		
Net Sales					Face Value(Rs)	10.00
(Rs.mn)	4179	4875	10186	11816	Shares	
EBIDTA					Outstanding(mn)	562.327
(Rs.mn)	3938	4488	9787	11257	Exchange	BSE
Margin %	94	92	96	95	52 wk. High/	104.00/
PAT					Low(Rs.)	36.05
(Rs.mn)	999	1234	4286	5095	2 wk avg.	
Margin %	24	25	42	43	volume (lakh)	5.48
					BSE Code	532702



Firstcall Research

(KPO Division Of Firstobject Technologies Ltd.)

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Peer Group Comparison

Name of the Company	52 week High/Low(Rs)	C.M.P(Rs)*	EPS(Rs.)	P/E (x)
Gujarat State Petronet Ltd	104.00/36.05	87.60	6.06	14.4
GAIL	449.40/222.75	407.75	22.54	18.08
Indraprastha Gas	247.75/100.10	225.10	14.5	15.4
RNRL	112.25/41.75	62.15	0.45	138.1

*As on 24/03/2010

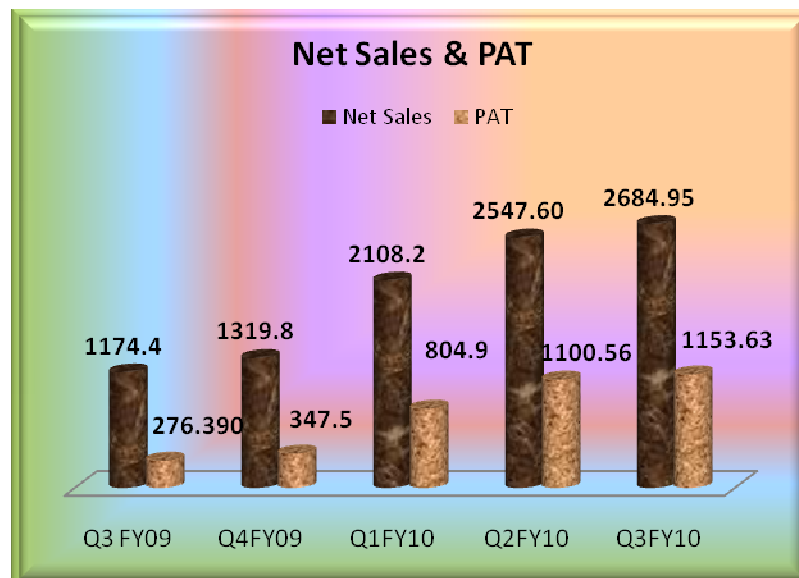
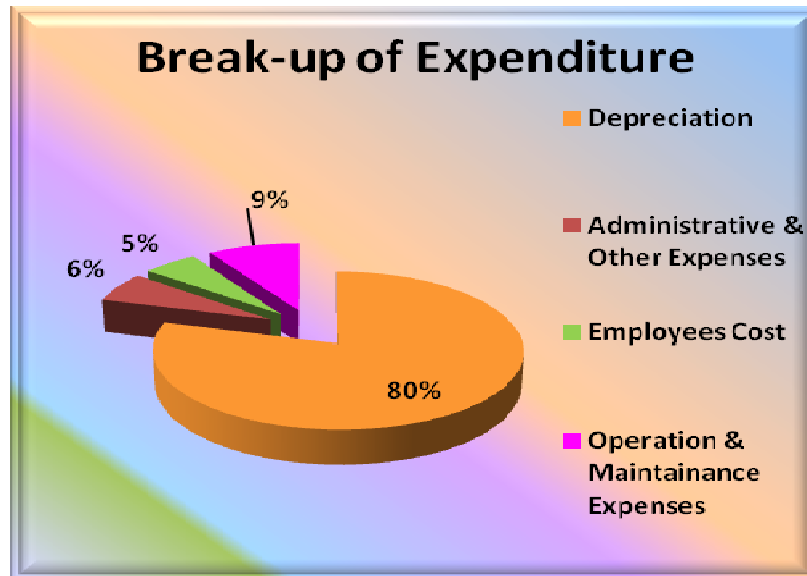
Company Updates

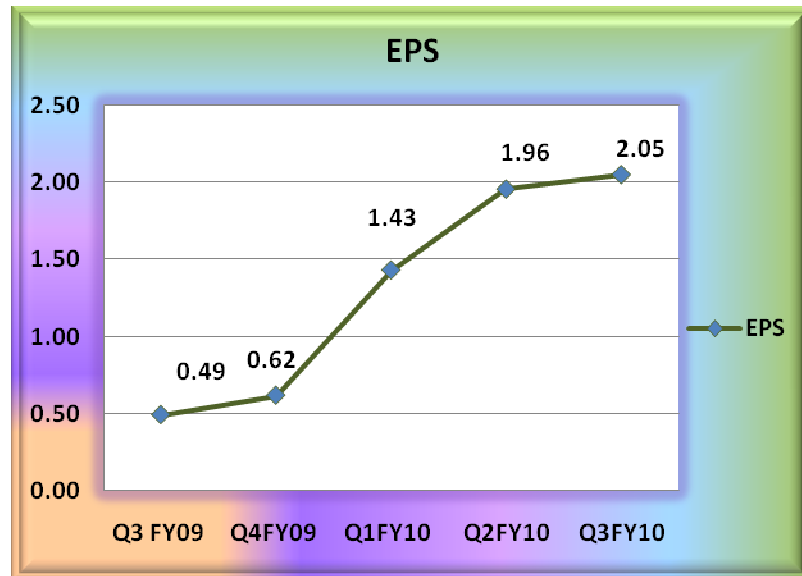
▪ Results Updates (Q3 FY10)

The bottomline of the company for the quarter increased at 317% yoy that is Rs.1153.63mn from Rs.276.39mn of same period of last year. Total revenue for the third quarter stood at Rs.2684.95 mn from Rs.1174.35 which is 129% increase than that of a year ago. EPS for the quarter stood at Rs.2.05 per equity share of Rs.10.00 each.

Expenditure of the company decrease 2% YoY to Rs.154.35mn from Rs.157.97mn of same period of last year. Interest expenses for the quarter stood at Rs.217.74mn. OPM & NPM for the quarter stood at 95% and 43% respectively.

Quarterly Results - Standalone (Rs in mn)			
As at	Dec - 09	Dec - 08	%Change
Net Sales	2684.95	1174.35	129
Net Profit	1153.63	276.39	317
Basic EPS	2.05	0.49	
Equity Capital	5623.27	5620.78	





- **Appointment of Directors**

Gujarat State Petronet Ltd has informed BSE that the Board of Directors of the Company at its meeting held on March 12, 2010, has appointed Shri J. K. Jain and Shri R. Vaidyanathan as Independent Directors of the Company w.e.f. March 12, 2010.

- **Outcome of Board Meeting**

The Board of Directors of the Company at its meeting held on January 25, 2010, inter alia, has approved allotment of 1,21,584 Equity Shares under Employees Stock Options Scheme (ESOP) consequent to which the paid up Share Capital of the Company increased from Rs. 562,32,70,000 to 562,44,85,840.

- The organization intends to expand its grid to 2200kms with an outreach to all the 25 districts of Gujarat thereby enabling industry, households and transportation to drive the benefits of an environment friendly fuel.

- To enhance and upgrade technologies to improve operational efficiencies while maintaining a team and proactive environment.
- Actively enable and facilitate city gas distribution initiatives by public and private players across Gujarat.
- To explore an opportunity to extend and replicate the grid in the neighboring state of Rajasthan.

Company Profile

GSPL, a GSPC Group company is a pioneer in developing energy transportation infrastructure and connecting natural gas supply basins and LNG terminals to growing markets. GSPL is continuously expanding its pipeline network in Gujarat to reach the demand centres by laying gas pipeline network. The company has developed requisite expertise and confidence with proven project management competencies.

GSPL is first Pipeline Company in India operating on open access basis and is a pure transmission network.

The transmission network of the company envisages development of systematic and seamless pipeline network across Gujarat connecting various suppliers and users. The suppliers of natural gas include traders, producers and LNG terminals. The users comprise industries such as power, fertilizer, steel, chemical plants and local distribution companies.

Genesis

Gujarat is one of the highly industrialized states in India. Looking on to the sharp rise in gas availability on account of exploration and development of LNG terminals, a well developed natural gas transportation infrastructure was required to serve various industrial belts of the state.

GSPC identified Gujarat's concern for infrastructure development to support the future hydrocarbon economy and industry. A new company was set up in December 1998, Gujarat State Petronet Limited (GSPL), with a mandate to create a high-pressure pipeline network for natural gas transportation in Gujarat.

GSPL's primary objective is to connect various supply sources and users of natural gas in Gujarat through gas pipeline network.

GSPL commenced transporting natural gas following completion of the first segment of network in November 2000. Currently GSPL operates a medium-to-high pressure natural gas transmission grid comprising approximately 1420 km of pipeline from Hazira-Mehsana / Himmatnagar-Jamnagar / Anjar.

GSPL gives 4 EOIs to PNGRB for extending its Natural Gas Transmission System across the country Grid Length - 5675 Kms.

Highlights of Gas Grid Project

- 1420 kms of gas pipeline in operation from Hazira-Vadodara-Ahmedabad-Kalol-Himmatnagar-Mehsana-Rajkot-Morbi-Anjar-Jamnagar.
- Transports more than 36 MMSCMD of gas currently.
- 450 kms of gas pipeline under execution.
- Advanced engineering practices that provide efficient Natural Gas Transportation.
- GSPL gives 4 EOIs to PNGRB for extending its Natural Gas Transmission System across the country Grid Length - 5675 Kms.

Group Associates

- Gujarat State Petroleum Corporation Limited
- GSPC Gas Company Limited
- Sabarmati Gas Limited
- Gujarat State Energy Generation Limited
- GSPC Pipavav Power Company Limited
- Guj Info Petro Limited
- Pandit Deendayal Petroleum University
- GSPC LNG Limited

Partners

GSPL has strong association with Technical project management, financial and legal consultants having wide experience in India and abroad in energy consultancy for conceptualizing and developing an extensive pipeline network. For execution of projects associates are foremost pipeline contractors of India.

Beginning from design to planning to coordination, GSPL has brought in the best of capabilities and competencies for its energy transportation projects across Gujarat. Some of the companies and consultants working with GSPL are

PMC/Engg. Consultant

- Mott MacDonald
- M/s Dorsch Consult (I) Pvt. Ltd.
- Engineers India Ltd.
- M/s Tractebel Engineering and Constructors Pvt. Ltd.
- M/s Valdel engineers and Constructors
- M/s Wood Group Engg India Pvt. Ltd.
- M/s Mecon Ltd.

GSPL – Contractors Details

- Larson & Toubro Ltd.
- ECL-STG Consortium
- Punj Lloyd Limited
- Zangas- KPTL Consortium
- AFCONS-PETERGAZ Consortium
- MAYTAS-NAFTOGASBUD JOINT VENTURE
- HCC-NOVA JOINT VENTURE
- TEHRAN JONOB-JAIHIND CONSORTIUM

- JSIW Infrastructures Ltd.
- CORRTECH INTERNATIONAL PVT. LTD
- Ace Pipeline Contracts Pvt Ltd.
- Indian Oil Tanking Ltd.
- IVRCL infrastructure and Projects Ltd.
- Kazstroy Engineering India Pvt. Ltd.
- Aban Construction Ltd.
- Naftogaz-NCCL Consortium
- NR Patel & Co. Engineering & Contractors
- Jaihind Projects Ltd.
- Medikonda Construction Pvt. Ltd.
- EIL- Gammon Consortium
- Nafto gas of Ukrain
- Dodsai Pvt-Dodsai Pte Consortium (M/s Dodsai Pvt. Ltd)
- Limak- Aban Consortium M/S Limak Construction Industry & Trade Inc.
- NCC- SICIM Consortium

Third Party Inspection Agency

- Tata Projects Ltd.
- Indian Register of Shipping
- Bax Counsel Inspection Bureau Pvt. Ltd.
- Bureau Veritas
- Germanischer Lloyd
- Velosi Certification Services, Mumbai
- ABS Industrial Verification Ltd., Mumbai

- Certification Engineers International Ltd.
- Dalal Mott MacDonald
- International Certification Systems
- M/s Intertek Testing Services (India) Pvt. Ltd.
- TUV India Pvt. Ltd. (TUV NORD Group)
- Rites Ltd.
- Iteng Engineering
- Del Norske Veritas As
- TUV SUD South Asia Pvt. Ltd.
- SGS

Clients

- Essar Steel Limited
- Essar Power Limited
- Gujarat State Energy Generation Limited
- Gujarat State Electricity Corporation Limited
- The Arvind Mills Limited
- Gujarat Gas Company Limited
- Gujarat Alkalies and Chemicals Limited
- Gujarat Paguthan Energy Corporation Limited
- Gujarat Narmada Valley Fertilizers Co. Limited
- Videocon Narmada Glass Company Limited
- Gujarat Industrial Power Company Limited
- Gujarat State Fertilizer Company Limited
- Torrent Power Limited AEC & SUGEN
- Indian Farmers Fertilizer Cooperative Limited
- Adani Energy(Gujarat) Limited (Ahmedabad & Vadodara Regions)
- Charotar Sahkari Gas Mandali Limited
- GSPC Gas Company Limited
- Gujarat Fluoro Chemicals Limited
- Oracle Granito Limited
- Sabarmati Gas Company Limited

- City Tiles
- Asian Tiles
- Reliance Industries Ltd
- Suzlon Energy Ltd.
- Hindalco Industries Ltd. (Birla Copper)
- National Thermal Power Corporation, Kawas & Jhanor
- Hindustan Petroleum Corporation Limited
- Kribhco, Hazira
- JBF Industries, Vapi
- Raymond Industries, Vapi
- Alok Industries, Vapi

Swot Analysis

Strengths

- The Company owns and operates the second largest natural gas transmission network in India.
- Strong Financials
- Strong business capabilities in terms of integration.

Weakness

- Any delay in the project will may result in significant cost overruns.

Opportunities

- The Company is well poised to take full advantage of the new opportunities arising out of the above developments in the gas industry.
- The Company has managed to achieve fast track growth in a short period of time with a lean manpower strength on account of its well thought out strategy of developing pipeline projects on EPC (Engineering, Procurement and Construction) Model.

Threats

- Highly competitive oil and gas market of the country
- Government's interference in the oil and gas industry

Financials

Results Update

12 Months ended Profit & Loss (Standalone)

Particulars	FY 08 A	FY 09 A	FY 10 E	FY11 E
(Rs.Mn)	12m	12m	12m	12m
Net Sales	4,179.00	4,874.99	10186.84	11816.73
Other Income	293.8	243.08	158.06	150.16
Total Income	4,472.80	5,118.07	10344.90	11966.89
Expenditure	-533.9	-629.8	-557.52	-709.00
Operating Profit	3,938.90	4,488.27	9787.38	11257.89
Interest	-815.1	-869.87	-937.63	-993.89
Gross Profit	3,123.80	3,618.40	8849.74	10264.00
Depreciation	-1,632.20	-1,704.86	-2351.89	-2540.0

Profit before Tax	1,491.60	1,913.54	6497.85	7723.95
Tax	-492.4	-679.42	-2210.90	-2628.1
Net Profit	999.20	1,234.12	4286.95	5095.87
Equity Capital	5,620.10	5,621.15	5,623.27	5,623.27
Reserves	5,789.50	6,530.82	10,817.77	15,913.64
EPS	1.78	2.20	7.62	9.06

Quarter Ended Profit & Loss Account (Standalone)

Particulars	June 09 A	Sep 09 A	Dec 09 A	Mar 10 E
(Rs.Mn)	3m	3m	3m	3m
Net Sales	2,108.24	2,547.60	2,684.95	2846.05
Other Income	35.03	58.8	32.94	31.29
Total Income	2,143.27	2,606.40	2,717.89	2877.34
Expenditure	-128.03	-104.38	-154.35	-170.76
Operating Profit	2,015.24	2,502.02	2,563.54	2706.58
Interest	-245.15	-250.47	-217.74	-224.27
Gross Profit	1,770.09	2,251.55	2,345.80	2482.30

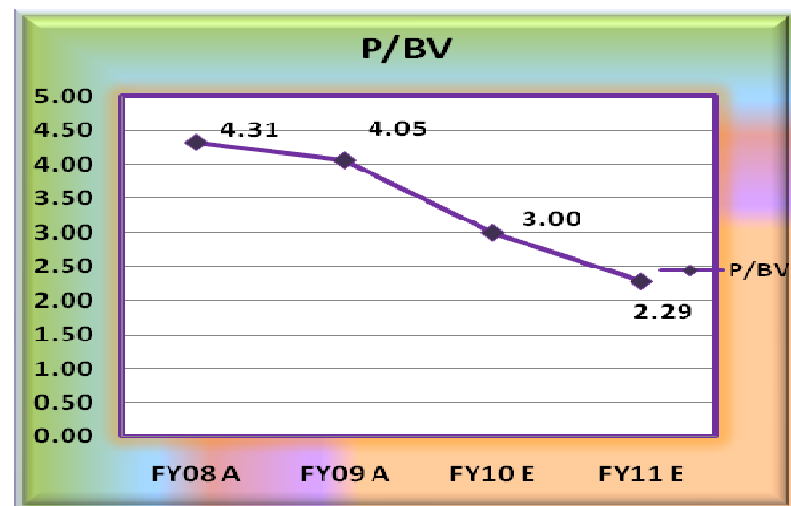
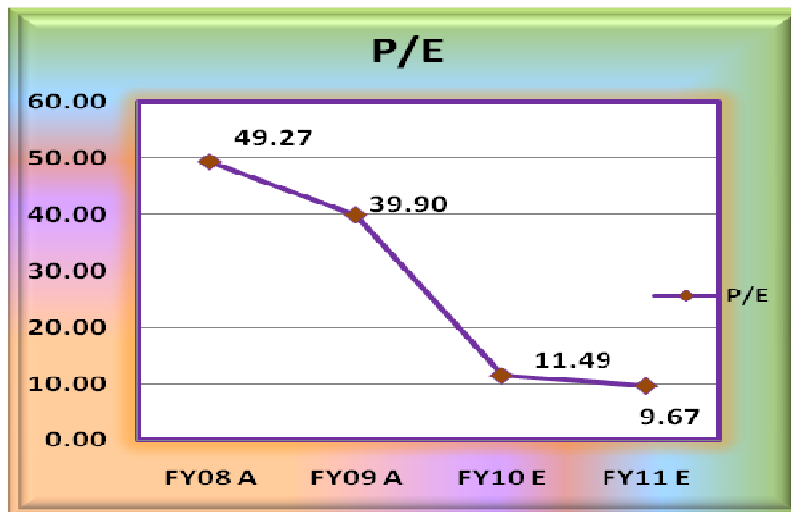
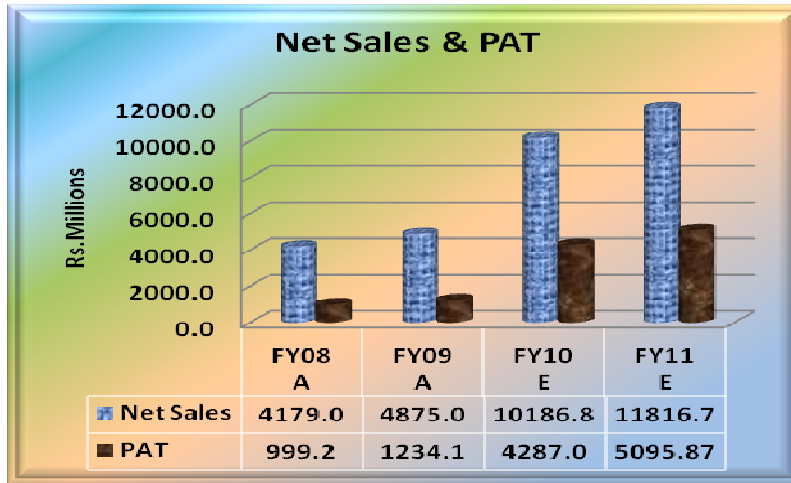
Depreciation	-550.12	-586.77	-595.59	-619.41
Profit before Tax	1,219.97	1,664.78	1,750.21	1862.89
Tax	-415.11	-564.22	-596.58	-634.99
Net Profit	804.86	1,100.56	1,153.63	1227.90
Equity Capital	5,621.15	5,622.18	5,623.27	5623.27
EPS	1.43	1.96	2.05	2.18

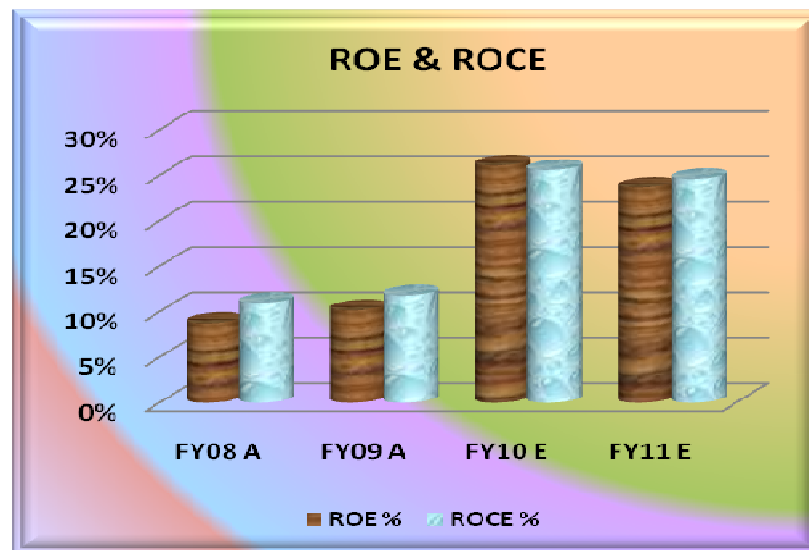
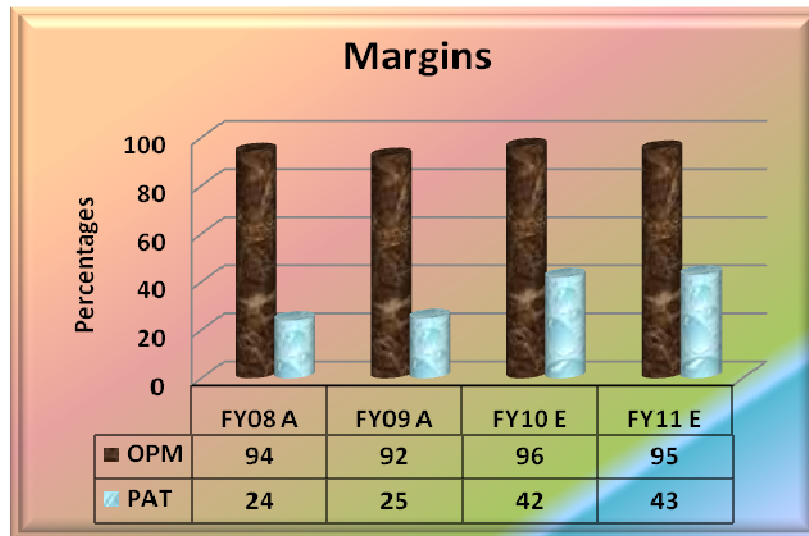
A-Actual, E-Estimated

Key Ratios

Particulars	FY08 A	FY09 A	FY10 E	FY11 E
EBIDTA %	94%	92%	96%	95%
PAT %	24%	25%	42%	43%
P/E ratio (x)	49.27	39.90	11.49	9.67
ROCE - %	11%	12%	26%	25%
ROE - %	9%	10%	26%	24%
Price/Book Value	4.31	4.05	3.00	2.29
Debt Equity Ratio	0.85	0.94	0.77	0.64
Book Value (Rs.)	20.30	21.62	29.24	38.30
EV/EBIDITA (x)	12.50	10.97	5.54	5.25

Charts





Valuation

- At the current market price of Rs.87.60, the stock trades at a P/E of 11.49x and 9.67x for FY10E and FY11E respectively.
- On the basis of EV/EBDITA, the stock trades at 5.54x and 5.25x for FY10E and FY11E respectively.

- Price to Book Value of the stock is expected to be at 3.00 and 2.29 respectively for FY10E and FY11E.
- The Net sales of the company are expected to grow at a CAGR of 41% over 2008 to 2011E.
- Actively enable and facilitate city gas distribution initiatives by public and private players across Gujarat.
- Company intends to explore an opportunity to extend and replicate the grid in the neighboring state of Rajasthan.
- We recommend '**BUY**' in this particular scrip with a target price of Rs.**105.00**. for Medium to Long Term Gains.

Industry Overview

The oil and gas industry has been instrumental in fuelling the rapid growth of the Indian economy. The petroleum and natural gas sector which includes transportation, refining and marketing of petroleum products and gas constitutes over 15 per cent of the GDP.

Petroleum exports have also emerged as the single largest foreign exchange earner, accounting for 17.24 per cent of the total exports in 2007-08. Growth continued in 2008-09 with the export of petroleum products touching US\$ 23.63 billion during April-December 2008.

In November 2008, the Cabinet Committee on Economic Affairs awarded 44 oil and gas exploration blocks under the seventh round of auction of the New Exploration Licensing Policy (NELP-VII). With NELP VIII, the overall number of blocks brought under exploration exceeded 200.

The allocation brought in investments worth US\$ 1.5 billion. The eighth round of auction which ended on October 12, 2009 attracted over US\$1.34 billion in minimum investment.

Production

- Refinery production in terms of crude throughput increased to 160.77 MT in 2008-09 as compared to 156.10 MT in 2007-08.
- The production of natural gas went up to 32.84 billion cubic metres tonnes (BCM) in 2008-09, from 32.40 BCM in 2007-08.

- The projected production of crude oil during the 11th Five-Year Plan (2007-2012) is 206.76 MMT, while that of natural gas is 255.27 BCM.
- Cumulative production of crude oil between April-December 2009, was 25,152 MT, while cumulative production of refinery production during the same period was 119,283 MT. Natural gas production during the same period was 33,846 million cubic metres.
- State-run Indian Oil Corporation Ltd will raise the capacity of its Haldia refinery by 25 per cent to 7.5 million tonnes by end February 2010. It will also expand its 12 million tonnes a year Panipat refinery to 15 million tonnes by August, 2010.

Consumption

India's domestic demand for oil and gas is on the rise. As per the Ministry of Petroleum, demand for oil and gas is likely to increase from 186.54 million tonnes of oil equivalent (mmtoe) in 2009-10 to 233.58 mmtoe in 2011-12.

India's domestic oil product sales in November 2009 grew 3.7 per cent from a year ago, driven by higher demand for auto fuels, according to government data. Oil product sales were 11.32 million tonnes in November, as per official data.

Global Refining Hub

India is emerging as the global hub for oil refining with capital costs lower by 25 to 50 per cent over other Asian countries.

Already, the fifth largest country in the world in terms of refining capacity, with a share of 3 per cent of the global capacity, India is likely to boost its refining capacity by 45 per cent or 65.3 mtpa (million tonne per annum) over the next five years, according to a Deutsche Bank report. Indian companies plan to increase their refining capacity to 242 mtpa by 2011-12 from about 149 mtpa in 2007.

Retail Sector

Increase in automobile sales has led to significant investments being made to develop and expand the petroleum retail market. According to US-based consultancy Keystone, automobile sales are likely to grow to about 20 million a year by 2030 (from the present 1 million), making India the third largest automobile market in the world.

Consequently, state-run fuel retailers Indian Oil Corporation, Bharat Petroleum Corporation and Hindustan Petroleum Corporation together are planning to open 2,263 new petrol pumps in the country during the fiscal year 2010, over an above the 35,068 pumps they already own.

Gas

Gas demand in India is dominated by the power and fertilizer sectors which account for 66 per cent of the current consumption.

According to the Gas Authority of India Ltd (GAIL), gas availability in India is expected to grow at 23 per cent compounded annual growth rate (CAGR) to 312 million standard cubic metres per day (MSCMD) by FY14, buoyed by trebling of domestic production to 254 MSCMD and doubling of regasified liquefied natural gas imports to 58 MSCMD.

To capture the opportunity presented by the impending gas surge in India, GAIL is investing significantly in its pipeline network. Over the next three years, it will invest US\$ 648.77 million- US\$ 756.85 million, expanding its transmission capacity from the current 150 MSCMD to 300 MSCMD.

ONGC has struck oil and gas in three new blocks a gas find at Krishna Godavari (K-G) basin off the Andhra coast, an oil find in Charada-3 offshore block in Cambay basin and an oil and gas find in Matar in Vadodara district, both in Gujarat. Reliance Industries has announced the discovery of an oilfield in Gujarat, which is its second major find after the MA field in the Krishna Godavari basin. The BPCL, Videocon consortium has made a substantial discovery of oil in Brazil during drilling of the Wahoo-2 appraisal-cum-exploration well in the offshore Campos Basin.

Moreover, ONGC Videsh Limited (OVL) has signed an agreement with Systema, the Russian telecom-finance-oil-gas behemoth, to jointly bid for oil and gas assets in Russia and the Commonwealth of Independent States.

Investments and Acquisitions

- Public sector oil companies will spend US\$ 11.33 billion in 2010 on expanding supplies and building new transportation networks for oil and gas.
- IOC is setting up a coker plant in West Bengal at an investment of US\$ 596.53 million.
- ONGC will invest US\$ 696 million for increasing facilities at its oilfields in Assam and Western Offshore to boost output. Moreover, it will spend US\$ 5.62 billion on capital expenditure in the next financial year.

- State-run gas utility GAIL will invest over US\$ 1.54 billion in laying gas pipelines from Dabhol on the Maharashtra coast to Bengaluru, Kochi and Mangalore.
- Essar Exploration and Production Ltd, an arm of Essar Oil, will invest US\$ 400 million in its coal bed methane gas project at Ranigunj in West Bengal by 2012.
- GAIL (India) Limited will pick up a 4 per cent stake, while OVL, the overseas arm of oil and gas major ONGC, will pick up another 8-8.5 per cent in the US\$ 2-billion Myanmar-China gas pipeline project, The total investment of GAIL and OVL is expected to be around US\$ 250 million.
- Reliance Industries has proposed to invest an additional US\$ 1.5 billion in bringing to production four gas discoveries adjoining its prolific gas fields in Krishna-Godavari basin in the country's east coast.

Government Initiatives

The government has been taking many progressive measures to create a conducive policy and regulatory framework for attracting investments.

- Allowing 100 per cent foreign direct investment (FDI) in private refineries through automatic route and 26 per cent in government-owned refineries.
- Implementation of the NELP in 1997.
- Abolition of the administered pricing policy.
- 100 per cent FDI is also allowed in petroleum products, exploration, gas pipelines and marketing/retail through the automatic route.
- Vision-2015 for the oil sector which will focus on providing better services to customers covering four broad areas of LPG (liquefied petroleum gas), kerosene, auto fuels and compressed natural gas/piped natural gas.

Road Ahead

According to a recent CII-KPMG report India's energy sector will provide investment avenues worth US\$ 120 billion-US\$ 150 billion over the next five years.

According to the Investment Commission of India, the total opportunity in the oil and gas sector is expected to reach US\$ 35 billion to US\$ 40 billion by 2012.

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