

GIPCL

Performance Highlights

Y/E March (₹ cr)	3QFY2011	2QFY2011	% chg qoq	3QFY2010	% chg yoy
Net Revenue	308	214	43.8	238	29.2
Operating Profit	82	44	87.0	60	36.3
OPM (%)	26.6	20.5	614bp	25.2	138bp
Net Profit	24	15	59	29	(15.4)

Source: Company, Angel Research

For 3QFY2011, GIPCL posted a 15.4% yoy decline in net profit to ₹24cr, primarily due to higher interest and depreciation costs. On the operating front too, the company posted low PLF's owing to low availability of gas and plant shutdown for maintenance, affecting top-line growth. Going ahead, we expect the newly commissioned 250MW Surat Lignite Power Plant (SLPP) units 3&4 to record higher PLF's, which would result in generation volumes spurting. **We maintain a Buy on the stock.**

Top-line up by a moderate 4.6%: Top-line grew 29.1% yoy to ₹308cr during the quarter due to higher fuel costs, which is a pass-on. The company lost substantial generation from SLPP 125MW Unit 3 as it was under repair during the first two months for rectifying certain faults in the boiler and economizer hopper. The PLF's were down on account of low gas availability and plant shutdown, which affected top-line growth. OPM increased by 138bp yoy to 26.6%. However, bottom-line declined by 15.4% yoy to ₹24cr due to higher interest (₹26.7cr, up 668% yoy) and depreciation (₹38.8cr, up 76.9% yoy) costs. The interest and depreciation costs increased due to commissioning of Surat 3&4 units, which have yet to fully stabilise.

Outlook and Valuation: We expect the company's top-line and bottom-line to log CAGR of 22.5% and 20.0% over FY2010-12, respectively. RoE is expected to improve from 8.8% in FY2010 to 11.2% in FY2012 following commissioning of the new plants. At the CMP of ₹93, the stock is trading at 1.0x P/BV and EV/MW of ₹2.8cr on FY2012 estimates, which we believe is attractive compared to peers. We maintain a Buy on the stock, with a Target Price of ₹135.

Key Financials

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	1,155	939	1,102	1,411
% chg	23.5	(18.7)	17.3	28.0
Net Profit	85.8	106.8	102.9	153.9
% chg	(16.1)	24.4	(3.6)	49.6
OPM (%)	18.2	23.3	25.8	25.4
EPS (₹)	5.7	7.1	6.8	10.2
P/E (x)	16.4	13.2	13.7	9.1
P/BV (x)	1.2	1.1	1.1	1.0
RoE (%)	7.4	8.8	8.0	11.2
RoCE (%)	6.1	5.8	6.4	9.5
EV/Sales (x)	1.9	2.6	2.2	1.6
EV/EBITDA (x)	10.6	11.3	8.6	6.3

Source: Company, Angel Research

BUY

CMP	₹93
Target Price	₹135

Investment Period	12 Months
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Stock Info	
Sector	Power
Market Cap (₹ cr)	1,408
Beta	0.6
52 Week High / Low	127/81
Avg. Daily Volume	34462
Face Value (₹)	10
BSE Sensex	18,202
Nifty	5,456
Reuters Code	GJIP.BO
Bloomberg Code	GIP@IN

Shareholding Pattern (%)	
Promoters	58.2
MF / Banks / Indian Fls	27.6
FII / NRIs / OCBs	2.9
Indian Public / Others	11.3

Abs. (%)	3m	1yr	3yr
Sensex	(9.7)	12.7	2.5
GIPCL	(18.2)	(12.4)	4.6

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Exhibit 1: 3QFY2011 performance

Y/E March (₹ cr)	3QFY11	2QFY11	% chg qoq	3QFY10	% chg yoy	9MFY11	9MFY10	% chg
Net Sales	308	214	43.8	238	29.2	774	696	11.3
Fuel Cost	187	130	44.3	155	21.0	479	445	7.8
(% of Sales)	60.8	60.6		65.0		61.9	63.9	
Staff Costs	16	11	44.5	8	106.4	34	20	73.2
(% of Sales)	5.1	5.1		3.2		4.4	2.8	
Other Expenses	23	30	(22.5)	16	45.2	71	64	11.4
(% of Sales)	7.4	13.8		6.6		9.2	9.2	
Total Expenditure	226	170	32.7	178	26.8	585	528	10.7
Operating Profit	82	44	87.0	60	36.3	190	168	13.2
OPM (%)	26.6	20.5	614bp	25.2	138bp	24.5	24.1	36bp
Interest	27	12	124.9	3	668.0	43	13	229.3
Depreciation	39	27	42.2	22	76.9	88	66	31.8
Other Income	0	1	(81.1)	0	(59.2)	2	3	(42.2)
PBT	17	6	191.7	35	(52.8)	61	91	(32.8)
(% of Sales)	5.4	2.7		14.8		7.9	13.1	
Provision for Taxation	(8)	(10)	(19.5)	6	(222.2)	(21)	20	
(% of PBT)	(46.7)	(169.4)		18.1		(33.5)	22.4	
Reported PAT	24	15	58.9	29	(15.4)	82	71	15.7
PATM (%)	7.9	7.2		12.1		10.6	10.2	
Equity share cap (₹ cr)	151	151		151		151	151	
EPS (₹)	2	1	58.9	2	(15.4)	5	5	15.7

Source: Company, Angel Research

Exhibit 2: Actual v/s Angel estimates (3QFY2011)

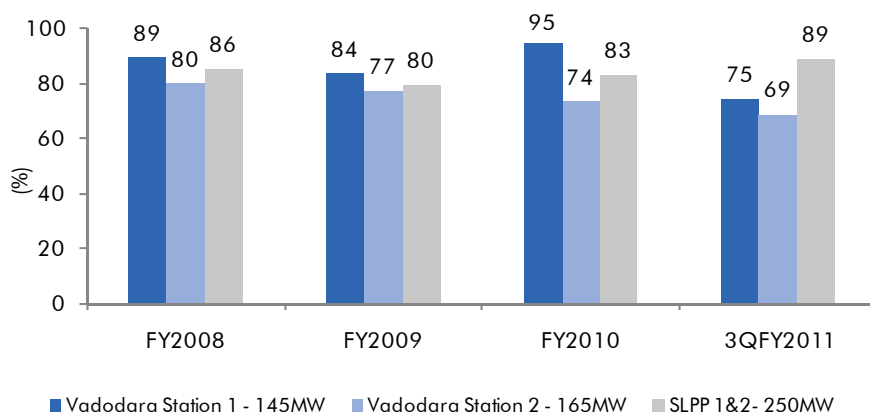
(₹ cr)	Actual	Estimates	Variation (%)
Net Sales	308	257	19.7
Operating Profit	82	80	1.8
OPM (%)	27	31	(428)bp
Net Profit	24	33	(26.5)

Source: Company, Angel Research

Operational Highlights

For 3QFY2011, GIPCL's total power generation (excluding the SLPP 3&4 units) stood at 965MU, down 8.3% yoy. Power generation at the Vadodara station 1 and 2 stood at 239MU and 252MU, respectively. The 250MW SLPP 1&2 units generated 475MU during the quarter. PLF of the 145MW Vadodara 1 facility fell substantially by 2,471bp to 74.6% (98.7%), while PLF of the 165MW Vadodara 2 unit declined by 774bp to 69.0% (76.8%). However, PLF of the 250MW SLPP 1&2 rose by 326bp yoy to 89.0% (82.7%) during the quarter.

Exhibit 3: PLF of plants



Source: Company, Angel Research

Investment Arguments

Capacity addition to drive growth

The SLPP (125MW*2) units 3&4 were set up at a cost of ₹1,630cr. Lignite for the plant will be procured from the company's captive mines in Surat, developed exclusively for the project. The units, which were declared commercial during 1QFY2011 are stabilising. This expansion is expected to boost the company's profitability and significantly improve cash flows going ahead. Also, post commissioning of the units, the company's RoE is also expected to improve substantially going ahead.

Currently, the company is in the midst of examining feasibility of developing a new 600MW lignite-based power plant in Surat. With this, the company intends to make the best use of the coal mine in its possession, which has adequate lignite to support 1,000MW of power generation for 35 years.

Exhibit 4: Snapshot of projects

Plant	Capacity (MW)	Fuel Type	Off-take arrangement	Guaranteed RoE (%)
Vadodara-I	145	Gas/RLNG	Supplied to promoter companies namely GACL, GUVNL, GSFC	Not applicable
Vadodara-II	160	Gas/RLNG	Supplied to GUVNL under PPA	13.0
SLPP – 1&2	250	lignite	Supplied to GUVNL under PPA	13.0
SLPP – 3&4	250	lignite	Supplied to GUVNL under PPA	15.5

Source: Company, Angel Research

Gas availability has improved

Currently, 310MW out of the company's overall capacity is based on natural gas. Improved availability of gas from KG-D6 has provided more fuel security to the company.

Assured off-take

A major portion of the power generated by GIPCL is sold to the Gujarat Electricity Board (GEB). In the last seven years, there has been significant improvement in GEB's financial performance, which augurs well for GIPCL going ahead

Outlook and Valuation

In the last few years, there has been significant improvement in GEB's financial position. This will benefit GIPCL, as it sells around 80% of its power to GEB, which is its single largest customer. We expect the company's top-line and bottom-line to log CAGR of 22.5% and 20.0% over FY2010-12, respectively. RoE is expected to improve from 8.8% in FY2010 to 11.2% in FY2012 following commissioning of new plants. At the CMP of ₹93, the stock is trading at 1.0x P/BV and EV/MW of ₹2.8cr on FY2012E estimates, which we believe is attractive compared to peers.

We maintain a Buy on the stock, with a Target Price of ₹135.

Exhibit 5: Change in estimates

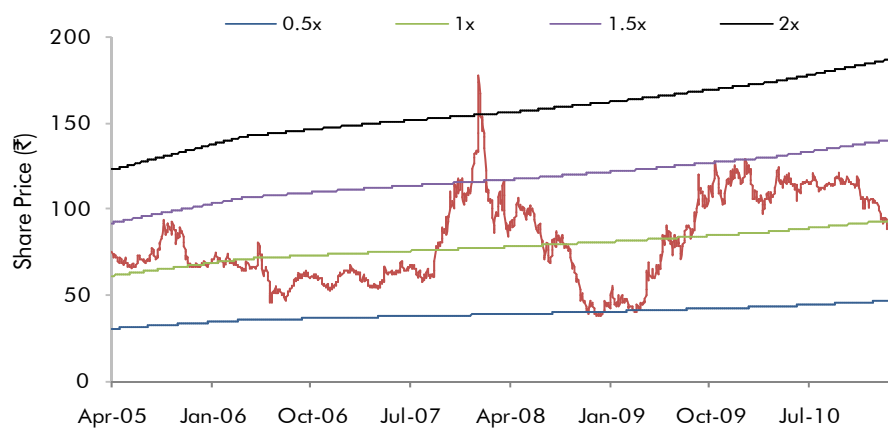
(₹ cr)	FY2011			FY2012		
	Earlier	Revised	Variation (%)	Earlier	Revised	Variation (%)
Net Sales	1,102	1,102	0.0	1,411	1,411	0.0
Operating Exp	818	818	0.0	1,052	1,052	0.0
Operating Profit	284	284	0.0	359	359	0.0
Depreciation	111	128	15.3	111	124	11.7
Interest	30	66	120.0	26	56	115.4
PBT	157	104	(33.8)	236	193	(18.2)
Tax	25	1	(96.0)	42	39	(7.1)
PAT	132	103	(22.0)	194	154	(20.6)

Source: Company, Angel Research

Exhibit 6: Key assumptions

	FY2011E		FY2012E	
	Earlier	Revised	Earlier	Revised
PLF (%)				
Vadodara Station I	70	70	72	72
Vadodara Station II	72	72	73	73
SLPP – (I-IV)	49	49	67	67
Units sold (MU)				
Vadodara Station I	889	889	915	915
Vadodara Station II	1,009	1,009	1,023	1,023
SLPP – (I-IV)	2,146	2,146	2,935	2,935

Source: Company, Angel Research

Exhibit 7: One-year forward P/BV


Source: Company, Angel Research

Exhibit 8: Recommendation summary

Company	Reco	CMP (₹)	Tgt Price (₹)	Upside (%)	FY2012E P/BV (x)	FY2012E P/E (x)	FY2010-12E EPS CAGR (%)	FY2012E RoCE (%)	FY2012E RoE (%)
CESC	Buy	301	468	55.7	0.8	6.8	13.5	9.2	12.1
GIPCL	Buy	93	135	45.0	1.0	9.1	20.2	9.5	11.2
NTPC	Buy	178	230	29.1	2.0	15.6	3.2	10.2	13.0

Source: Company, Angel Research

Profit and loss statement

Y/E March (₹ cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY12E
Total operating income	796	936	1,155	939	1,102	1,411
% chg	5.2	17.6	23.5	(18.7)	17.3	28.0
Total Expenditure	560	683	944	720	818	1,052
Net Raw Materials	427	596	849	611	727	934
Other Mfg costs	64	63	73	82	68	90
Personnel	35	24	23	27	22	28
Others	34	-	-	-	-	-
EBITDA	236	253	211	219	284	359
% chg	(14.2)	7.2	(16.7)	3.9	29.9	26.2
(% of Net Sales)	29.7	27.0	18.2	23.3	25.8	25.4
Depreciation & Amort.	90	88	88	88	128	124
EBIT	146	165	122	131	157	235
% chg	(20.5)	12.6	(25.7)	6.9	19.7	49.8
(% of Net Sales)	18.4	17.6	10.6	13.9	14.2	16.6
Interest & other Charges	52	51	30	16	66	56
Other Income	87	27	16	14	14	14
(% of PBT)	48	19	15	11	13	7
Recurring PBT	182	140	109	128	104	193
% chg	5.2	(22.7)	(22.3)	17.8	(18.9)	85.0
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	182	140	109	128	104	193
Tax	(1)	38	23	22	1	39
(% of PBT)	(0.8)	27.1	21.2	16.8	1.2	20.1
PAT (reported)	183	102	86	107	103	154
% chg	59.3	(44.1)	(16.1)	24.4	(3.6)	49.6
(% of Net Sales)	23.0	10.9	7.4	11.4	9.3	10.9
Basic EPS (₹)	12	7	6	7.1	6.8	10.2
Fully Diluted EPS (₹)	12	7	6	7.1	6.8	10.2
% chg	59.3	(44.1)	(16.1)	24.4	(3.6)	49.6

Balance sheet

Y/E March (₹ cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
SOURCES OF FUNDS						
Equity Share Capital	151	151	151	151	151	151
Reserves & Surplus	928	986	1,032	1,095	1,169	1,279
Shareholders Funds	1,079	1,137	1,183	1,246	1,320	1,430
Total Loans	543	681	840	1,064	1,104	929
Deferred Tax Liability	75	78	80	76	78	78
Total Liabilities	1,697	1,896	2,103	2,387	2,502	2,437
APPLICATION OF FUNDS						
Gross Block	1,903	1,913	1,928	2,900	3,650	3,650
Less: Acc. Depreciation	946	1,034	1,122	1,210	1,337	1,462
Net Block	958	879	806	1,690	2,313	2,188
Capital Work-in-Progress	356	833	1,290	725	183	256
Goodwill	-	-	-	-	-	-
Investments	261	141	62	27	27	27
Current Assets	320	330	320	198	427	520
Cash	68	27	3	2	77	71
Loans & Advances	64	53	48	85	99	127
Other	188	251	269	112	252	322
Current liabilities	211	300	388	267	438	573
Net Current Assets	109	31	(68)	(68)	(33)	(46)
Mis. Exp. not written off	13	13	13	13	13	13
Total Assets	1,697	1,896	2,103	2,387	2,502	2,437

Cash flow statement

Y/E March (₹ cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Profit before tax	182	140	109	128	104	193
Depreciation	90	88	88	88	128	124
Change in Working Capital	90	82	102	68	19	37
Less: Other income	87	27	16	14	14	14
Direct taxes paid	(1)	38	23	22	1	39
Cash Flow from Operations	275	246	260	249	235	301
(Inc)/ Decin Fixed Assets	(127)	(486)	(473)	(473)	(141)	(73)
(Inc)/ Dec in Investments	(125)	120	78	35	-	-
(Inc)/ Dec in loans and adv.	-	-	-	-	-	-
Other income	87	27	16	14	14	14
Cash Flow from Investing	(165)	(339)	(379)	(424)	(127)	(59)
Issue of Equity	-	-	-	-	-	-
Inc./ (Dec.) in loans	(59)	138	160	224	40	(175)
Dividend Paid (Incl. Tax)	35	35	35	35	7	17
Others	52	51	30	16	66	55
Cash Flow from Financing	(145)	52	95	173	(33)	(248)
Inc./ (Dec.) in Cash	(35)	(41)	(24)	(2)	75	(6)
Opening Cash balances	103	68	27	3	2	77
Closing Cash balances	68	27	3	2	77	71

Key ratios

Y/E March	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Valuation Ratio (x)						
P/E (on FDEPS)	9.3	16.7	19.9	16.0	13.7	9.1
P/CEPS	6.3	9.0	9.8	8.8	6.1	5.1
P/BV	1.6	1.5	1.4	1.4	1.1	1.0
Dividend yield (%)	2.0	2.0	2.0	2.0	0.5	1.2
EV/Sales	2.7	2.5	2.2	2.9	2.2	1.6
EV/EBITDA	9.2	9.3	12.1	12.7	8.6	6.3
EV / Total Assets	1.3	1.2	1.2	1.2	1.0	0.9
Per Share Data (₹)						
EPS (Basic)	12.1	6.8	5.7	7.1	6.8	10.2
EPS (fully diluted)	12.1	6.8	5.7	7.1	6.8	10.2
Cash EPS	18.0	12.6	11.5	12.9	15.3	18.4
DPS	2.3	2.3	2.3	2.3	0.5	1.2
Book Value	71.3	75.2	78.2	82.4	87.3	94.6
Dupont Analysis (%)						
EBIT margin	18.4	17.6	10.6	13.9	14.2	16.6
Tax retention ratio	100.8	72.9	78.8	83.2	98.8	79.9
Asset turnover (x)	0.5	0.5	0.6	0.4	0.5	0.6
ROIC (Post-tax)	9.3	6.9	4.9	4.9	6.4	7.8
Cost of Debt (Post Tax)	9.14	6.12	3.06	1.42	6.04	4.38
Leverage (x)	0.5	0.5	0.6	0.8	0.8	0.7
Operating ROE	9.4	7.3	6.0	7.5	6.8	10.2
Returns (%)						
ROCE (Pre-tax)	8.8	9.2	6.1	5.8	6.4	9.5
Angel ROIC (Pre-tax)	11.4	14.3	13.3	10.6	10.9	10.8
ROE	18.2	9.2	7.4	8.8	8.0	11.2
Turnover ratios (x)						
Asset Turnover (Gross Block)	0.4	0.5	0.6	0.4	0.4	0.4
Inventory / Sales (days)	38	32	27	33	32	27
Receivables (days)	50	53	55	62	49	47
Payables (days)	154	137	133	166	193	175
WC cycle (ex-cash) (days)	35	9	(11)	(28)	(41)	(29)
Solvency ratios (x)						
Net debt to equity	0.4	0.6	0.7	0.8	0.8	0.6
Net debt to EBITDA	2.0	2.6	3.9	4.8	3.6	2.4
Interest Coverage (EBIT / Int.)	2.8	3.2	4.1	8.1	2.4	4.2

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Disclosure of Interest Statement

	GIPCL
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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