

May 28, 2010

Rating	Accumulate
Price	Rs91
Target Price	Rs102
Implied Upside	11.9%
Sensex	16,666

(Prices as on May 27, 2010)

Trading Data

Market Cap. (Rs bn)	51.1
Shares o/s (m)	562.4
Free Float	62.25%
3M Avg. Daily Vol ('000)	2,570.1
3M Avg. Daily Value (Rs m)	235.3

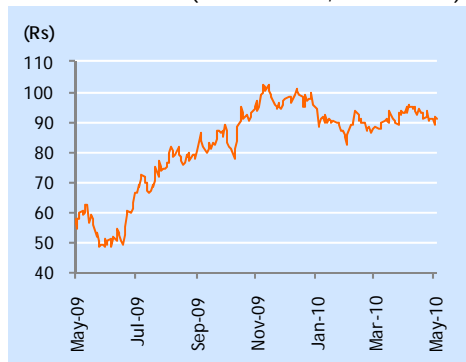
Major Shareholders

Promoters	37.75%
Foreign	12.41%
Domestic Inst.	26.14%
Public & Others	23.70%

Stock Performance

(%)	1M	6M	12M
Absolute	(4.4)	(4.5)	57.1
Relative	1.4	(4.7)	39.0

Price Performance (RIC: GSPT.BO, BB: GUJS IN)



Source: Bloomberg

- **Volumes up marginally, average tariff declines:** Gujarat State Petronet (GSPL) volumes, during Q4FY10, improved marginally by 3.7% QoQ from 35.1mmscmd to 36.4mmscmd. However, the transmission tariffs were disappointing which declined by 5.3% sequentially from Rs831/'000scm to Rs787/'000scm, impacting the overall performance.
- **EBITDA margins stable:** GSPL made a donation of Rs67.5m to an education institute which elevated the expenditure, affecting the EBITDA margins. EBITDA margins, although jumped by 670bps YoY to 92.2% (85.5), declined by 210bps sequentially. Operating profits expanded by 117.9% YoY to Rs2.5bn (Rs1.1bn), while it was down 2.8% sequentially.
- **Lower average tariffs result in sequential PAT decline:** Depreciation went up by 44.1% YoY to Rs632m (Rs439m, Q3FY10-Rs596m) owing to capitalisation of fewer pipelines. Sequentially, there was a marginal increase in the interest costs which went up from Rs218m to Rs225m. Even though volumes jumped sequentially, decline in average tariffs resulted in a decline in the bottom-line by 6.5% QoQ, from Rs1.15bn to Rs1.08bn.
- **Valuations:** GSPL has been the beneficiary of a rise in KG D6 production volumes as part of incremental volumes was transported by GSPL in the state of Gujarat. However, next jump in KG D6 volumes is expected only post October 2010 (from 60mmscmd to 80mmscmd) during which the company will have to rely on incremental spot LNG from Petronet LNG. The stock is currently available at 10.7x FY12E EPS of Rs8.5 and 2.5x P/BV. We maintain 'Accumulate' on the stock.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	4,875	10,009	11,598	12,474
Growth (%)	16.7	105.3	15.9	7.6
EBITDA (Rs m)	4,249	9,414	10,728	11,538
PAT (Rs m)	1,234	4,138	4,563	4,769
EPS (Rs)	2.2	7.4	8.1	8.5
Growth (%)	23.5	235.3	10.3	4.5
Net DPS (Rs)	0.7	1.0	2.0	2.0

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	87.2	94.1	92.5	92.5
RoE (%)	10.5	29.8	26.4	23.1
RoCE (%)	7.7	17.5	16.8	15.9
EV / sales (x)	12.6	6.2	5.5	5.0
EV / EBITDA (x)	14.5	6.6	6.0	5.4
PE (x)	41.4	12.4	11.2	10.7
P / BV (x)	4.4	3.7	3.0	2.5
Net dividend yield (%)	0.8	1.1	2.2	2.2

Source: Company Data; PL Research

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Q4FY10 Result Overview

(Rs m)

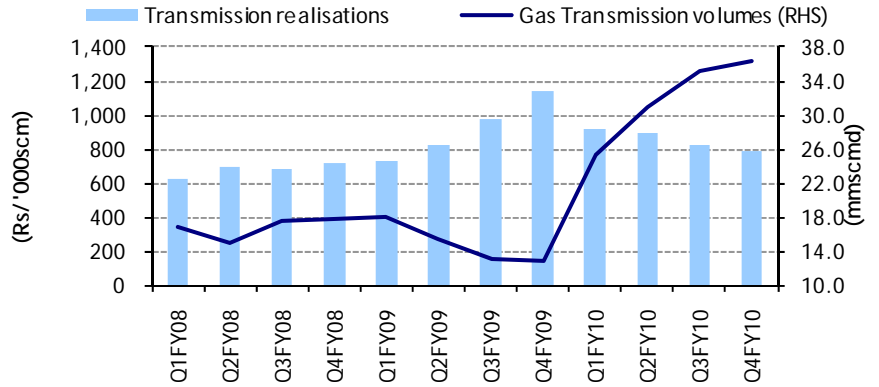
Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Net Sales	2,668	1,320	102.1	2,685	10,009	4,875	105.3
Expenditure							
O & M expenses	84	78	7.3	67	283	210	34.5
<i>% of net sales</i>	<i>3.2</i>	<i>5.9</i>		<i>2.5</i>	<i>2.8</i>	<i>4.3</i>	
Personnel cost	47	47	(0.4)	40	99	109	(9.1)
<i>% of net sales</i>	<i>1.8</i>	<i>3.6</i>		<i>1.5</i>	<i>1.0</i>	<i>2.2</i>	
Other expenses	77	65	18.2	47	213	310	(31.4)
<i>% of net sales</i>	<i>2.9</i>	<i>5.0</i>		<i>1.7</i>	<i>2.1</i>	<i>6.4</i>	
EBITDA	2,460	1,129	117.9	2,531	9,414	4,245	121.7
<i>Margin (%)</i>	<i>92.2</i>	<i>85.5</i>		<i>94.3</i>	<i>94.1</i>	<i>87.1</i>	
Depreciation	632	439	44.1	596	2,365	1,705	38.7
EBIT	1,827	690	164.8	1,935	7,049	2,540	177.5
Interest	225	199	13.0	218	938	870	7.9
Other Income	32	44	(28.2)	33	159	243	(34.8)
PBT	1,634	535	205.2	1,750	6,269	1,914	227.6
Total taxes	555	187	197.6	597	2,131	677	214.9
<i>ETR (%)</i>	<i>34.0</i>	<i>34.9</i>		<i>34.1</i>	<i>34.0</i>	<i>35.4</i>	
FBT	-	1		-	-	3	
Adj. PAT	1,079	348	210.4	1,154	4,138	1,234	235.3

Operating Metrics

Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Gas transmission volumes (mmscmd)	36.4	12.8	183.9	35.1	32.0	14.9	115.0
Avg. realisations (Rs/ '000scm)	786.7	1,143.1	(31.2)	830.8	857.4	898.0	(4.5)

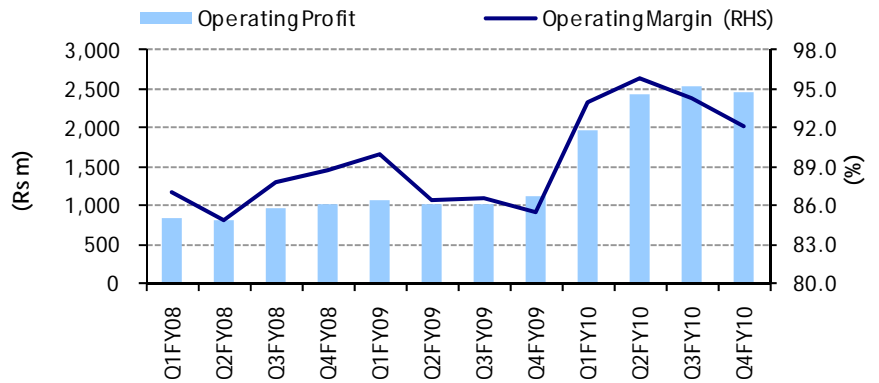
Highlights

Transmission performance



Source: Company Data, PL Research

Operating Performance



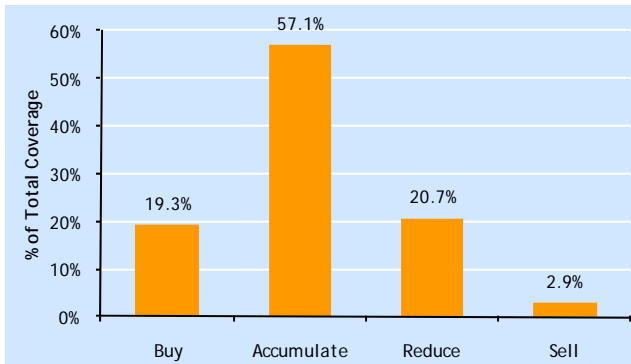
Source: Company Data, PL Research

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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