ASK | RJ
INDIA EQUITY RESEARCH

8 March 2007

Gujarat State Petronet

Rating Upgrade **Rs45; Buy**

Sector: Oil & Gas

Target Price	**Rs60**
Market cap (bn)	Rs24.8/US$0.6
52-week range	58/27
Shares in issue (mn)	542.0
6-mon avg daily vol (no of shares)	961,076
6-mon avg daily vol (mn)	Rs43.9/US$1.0
Bloomberg	GUJS IN
Reuters	GSPT.BO
BSE Sensex	12580
Website	www.gujpetronet.com

Shareholding Pattern (%)

Promoters	39.2
FIIs	10.4
Banks/MFs/FIs	23.5
Others	26.9

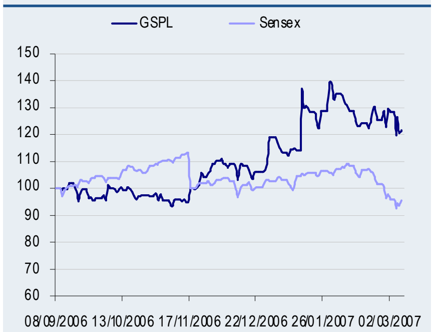
(As of 31 December 2006)

Price Performance (%)

	1M	3M	12M
Absolute	(6.3)	11.2	28.2
Relative*	6.0	18.1	5.9

**To the BSE Sensex*

Relative Performance



(As of 7 March 2007)

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Budget boost

In the recent Union Budget, the government has awarded infrastructure status to companies that lay and operate natural gas pipelines. We believe this to be a key positive for Gujarat State Petronet (GSPL), resulting in tax savings for new pipeline contracts (starting with RIL contract from FY09). In addition to this, Shell has recently announced that it would be landing 24 LNG cargos at its Hazira terminal in FY08, resulting in increased volumes for GSPL. We have accordingly revised our earnings estimates upwards by 39% to Rs3.2 (Rs2.3 earlier) in FY08E and Rs3.6 in FY09E (Rs3.3 earlier), led by 65% growth in volumes in FY08 and tax rate coming down to 25% in FY09. We expect 38.6% CAGR growth in revenues over FY06-09E and 61.8% CAGR growth in PAT (based on our revised estimates) over the same period.

The stock trades at 14x revised FY08E earnings and 12.3x revised FY09E earnings. We have revised our 1-year price target to Rs60 (DCF value at 11.9% WACC and 2% terminal growth rate) from Rs53 earlier. We are accordingly upgrading GSPL from Hold to Buy, citing better then expected outlook on earnings led by infrastructure status and higher volumes led by improved macro dynamics for the gas industry in India.

Highlight

- **Volumes to surge 65% in FY08E:** Based on Shell's recent announcement for procuring 24 LNG cargos that would arrive at its Hazira terminal, we expect higher volumes for GSPL considering its direct pipeline connectivity with this terminal. We now expect 65% growth in volumes in FY08E (42% earlier), conservatively considering that volumes from 18 cargos would flow through its pipeline. These LNG cargos are expected to contribute revenues of Rs819 mn and PAT of Rs488 mn in FY08E. This results in improvement in EPS from earlier Rs2.3 to Rs3.2 for FY08E. We have not assumed any additional cargos from Shell in FY09. However, if Shell continues this trend of procuring increased LNG cargos post FY08, it would be a key volume and earnings trigger for GSPL going forward.

Exhibit 1: Key financials **(Rs mn)**

Y/E March	FY06	FY07E	FY08E	FY09E
Net Sales	2,635	3,521	5,979	7,007
EBITDA	1,942	2,984	5,253	6,162
EBITDA (%)	73.7	84.7	87.9	87.9
PAT	467	988	1,742	1,976
NPM (%)	17.7	28.1	29.1	28.2
CEPS (Rs)	2.3	3.7	6.6	8.4
EPS (Rs)	0.9	1.8	3.2	3.6
ROCE (%)	7.7	9.4	13.1	13.6
RONW (%)	5.1	10.1	15.4	15.4
PER (x)	52.3	24.7	14.0	12.3
EV/EBITDA (x)	14.3	11.6	6.9	5.5

Source: Company, ASK Raymond James. Note: Valuations as of 7 March 2007.

- **Infrastructure status to boost earnings:** In the recent Union Budget, the government has awarded infrastructure status to companies that lay and operate natural gas pipelines. We believe this to be a key positive for GSPL, resulting in tax savings for new pipeline contracts beginning with RIL contract from FY09. GSPL is currently undertaking Rs7 bn capex for laying pipeline from Bharuch to Jamnagar (within Gujarat) for RIL contract. This contract is a part of RIL's mega plan of transmitting gas from its KG Basin field on the East coast to its Jamnagar refinery on the West coast. Assuming this contract is operational for nine months, we have upgraded our earnings expectation to Rs0.8 (22% of FY09E EPS) compared to Rs0.5 earlier as revenues from this contract would attract MAT level tax. This results in the overall tax rate of the company coming down to 25% (30% earlier) and accordingly our EPS estimate for FY09E moves up to Rs3.6 from Rs3.3 earlier.

Exhibit 2: DCF valuation **(Rs mn)**

Particular	Value
PV of FCFF during the explicit forecast period	15,021
PV of terminal value	27,608
Enterprise value	**42,629**
Less: Debt	11,000
Add: Cash	662
Value added to shareholders	32,291
No of shares (mn)	542.0
Value per share (Rs)	**60**

Source: ASK Raymond James.

Exhibit 3: Profit & Loss **(Rs mn)**

Y/E March	FY06	FY07E	FY08E	FY09E
Net Sales	**2,635**	**3,521**	**5,979**	**7,007**
Gas transportation charges	192	110	50	50
Operating and maintenance expenses	139	97	299	350
Employee cost	27	43	54	81
Admin and other expenses	112	146	239	280
Connectivity charges	222	141	84	84
EBITDA	**1,942**	**2,984**	**5,253**	**6,162**
EBITDA (%)	**73.7**	**84.7**	**87.9**	**87.9**
Other income	45	165	150	150
Depreciation	791	1,027	1,862	2,570
EBIT	1,152	1,957	3,391	3,592
Interest	413	502	1,052	1,107
PBT	**784**	**1,620**	**2,489**	**2,635**
Tax	317	632	747	659
Tax rate %	40.5	39.0	30.0	25.0
PAT	**467**	**988**	**1,742**	**1,976**
NPM (%)	**17.7**	**28.1**	**29.1**	**28.2**
Shares (mn)	542.0	542.0	542.0	542.0
EPS (Rs)	**0.9**	**1.8**	**3.2**	**3.6**

Source: Company, ASK Raymond James.

Exhibit 4: Balance Sheet **(Rs mn)**

Y/E March	FY06	FY07E	FY08E	FY09E
Equity share capital	5,422	5,422	5,422	5,422
Share premium account	3,119	3,119	3,119	3,119
Reserves and surplus	534	1,275	2,770	4,313
Networth	**9,075**	**9,816**	**11,311**	**12,854**
Total Debt	**5,786**	**11,000**	**14,500**	**13,500**
Liabilities	1,554	1,747	2,593	2,370
Provisions	217	889	1,024	1,141
Current liabilities	**1,771**	**2,636**	**3,617**	**3,511**
Deferred tax liability	784	710	1,075	929
Total liabilities	**17,416**	**24,162**	**30,504**	**30,794**
Gross Block	9,805	21,856	23,856	30,856
Less:Depreciation	2,205	3,232	5,095	7,665
Net Block	7,600	18,623	18,761	23,191
CWIP	6,051	3,000	6,400	1,000
Deferred tax asset	276	276	276	276
Others	149	150	150	150
Stores and spare parts	362	492	835	979
Sundry Debtors	137	193	344	442
Cash and bank	2,372	662	3,514	4,554
Loans and advances	347	765	223	202
Total current assets	**3,367**	**2,262**	**5,066**	**6,327**
Misc exp	123	-	-	-
Total assets	**17,416**	**24,162**	**30,504**	**30,794**

Source: Company,ASK Raymond James.

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