

January 27, 2010

Rating	Accumulate
Price	Rs94
Target Price	Rs107
Implied Upside	14.1%
Sensex	16,780

(Prices as on January 25, 2010)

Trading Data

Market Cap. (Rs bn)	52.9
Shares o/s (m)	562.3
Free Float	62.2%
3M Avg. Daily Vol ('000)	5,668.7
3M Avg. Daily Value (Rs m)	534.5

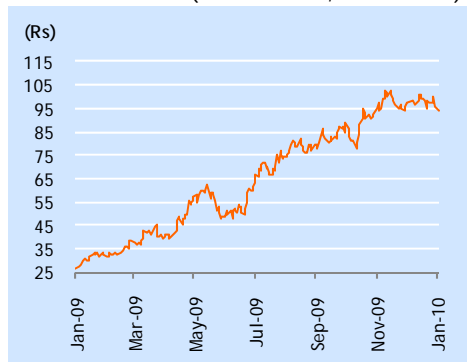
Major Shareholders

Promoters	37.8%
Foreign	13.7%
Domestic Inst.	25.5%
Public & Others	23.0%

Stock Performance

(%)	1M	6M	12M
Absolute	(3.9)	41.7	254.9
Relative	(0.5)	32.6	161.5

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



Source: Bloomberg

Gujarat State Petronet

Transmission volumes continue to grow

- Volumes up, average tariffs down:** With incremental output from RIL KG D6, Gujarat State Petronet's (GSPL's) volumes continued the uptrend and surged by 13.1% sequentially from 31.1mmscmd to 35.1mmscmd. However, disappointment came in from transmission tariffs which declined by 6.8% sequentially from Rs891/'000scm to Rs831/'000scm, affecting the overall performance.
- EBITDA margins intact:** Gas transportation and connectivity charges continue to remain zero as indicated by the management. Total expenditure jumped by 19.2% YoY on account of increased scale of operations. Also, EBITDA margins expanded by 770bps YoY to 94.3% (86.5%). However, it remained more or less stable on a sequential basis.
- Volume jump aids bottom-line:** Sequentially, depreciation went up marginally from Rs587m to Rs596m owing to capitalisation of fewer pipelines. The interest costs reduced from Rs250m to Rs218m, primarily due to higher capitalisation of interest during the quarter. Even though the average tariffs declined sequentially, volume jump aided the bottom-line which rose by 4.8% to Rs1.15bn from Rs1.10bn.
- Valuations:** We believe that GSPL is likely to be a beneficiary of the expected rise in KG basin gas production (further from 60mmscmd to 80mmscmd). We believe that GSPL is the best growth story in India's gas space which has gained momentum in the recent past. The stock is currently available at 11.4x FY11E EPS of Rs8.3 and 3.1x P/BV. We maintain 'Accumulate' on the stock.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	4,875	10,142	11,883	12,613
Growth (%)	16.7	108.0	17.2	6.1
EBITDA (Rs m)	4,249	9,577	10,991	11,667
PAT (Rs m)	1,234	4,232	4,642	4,753
EPS (Rs)	2.2	7.5	8.3	8.5
Growth (%)	23.5	242.9	9.7	2.4
Net DPS (Rs)	0.7	1.6	1.8	2.0

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	87.2	94.4	92.5	92.5
RoE (%)	10.5	30.9	27.2	23.2
RoCE (%)	7.7	17.3	16.4	15.2
EV / sales (x)	13.0	6.3	5.4	4.9
EV / EBITDA (x)	14.9	6.7	5.9	5.3
PE (x)	42.9	12.5	11.4	11.1
P / BV (x)	4.5	3.9	3.1	2.6
Net dividend yield (%)	0.8	1.7	1.9	2.1

Source: Company Data; PL Research

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Q3FY10 Result Overview

(Rs m)

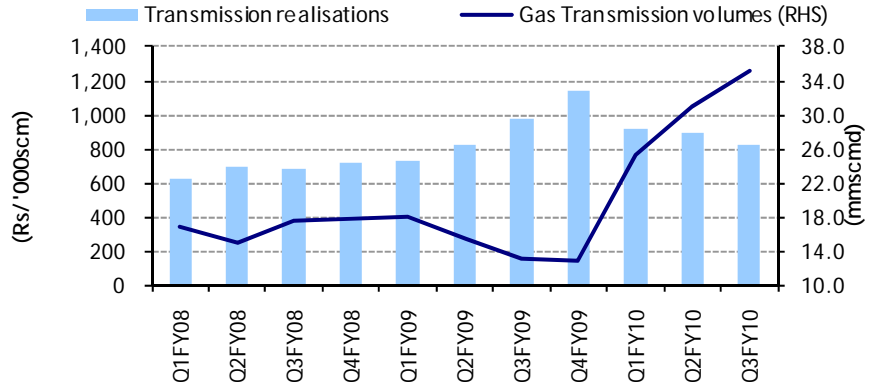
Y/e March	Q3FY10	Q3FY09	YoY gr. (%)	Q2FY10	9MFY10	9MFY09	YoY gr. (%)
Net Sales	2,685	1,174	128.6	2,548	7,341	3,555	106.5
Expenditure							
O & M expenses	67	61	10.0	71	199	132	50.6
<i>% of net sales</i>	2.5	5.2		2.8	2.7	3.7	
Personnel cost	40	24	69.9	(16)	53	62	(15.7)
<i>% of net sales</i>	1.5	2.0		(0.6)	0.7	1.8	
Other expenses	47	73	(36.1)	49	135	245	(44.6)
<i>% of net sales</i>	1.7	6.2		1.9	1.8	6.9	
EBITDA	2,531	1,016	149.0	2,443	6,954	3,116	123.2
<i>Margin (%)</i>	94.3	86.5		95.9	94.7	87.7	
Depreciation	596	429	38.9	587	1,732	1,266	36.8
EBIT	1,935	588	229.3	1,856	5,222	1,850	182.2
Interest	218	222	(1.9)	250	713	671	6.3
Other Income	33	58	(43.7)	59	127	199	(36.3)
PBT	1,750	424	312.5	1,665	4,635	1,378	236.3
Total taxes	597	148	303.5	564	1,576	490	221.5
<i>ETR (%)</i>	34.1	34.9		33.9	34.0	35.6	
Rep. PAT	1,154	276	317.4	1,101	3,059	887	245.0

Operating Metrics

Y/e March	Q3FY10	Q3FY09	YoY gr. (%)	Q2FY10	9MFY10	9MFY09	YoY gr. (%)
Gas transmission volumes (mmscmd)	35.1	13.1	168.3	31.1	30.5	15.5	96.4
Avg. realisations (Rs/ '000scm)	830.8	974.9	(14.8)	891.2	874.5	831.8	5.1

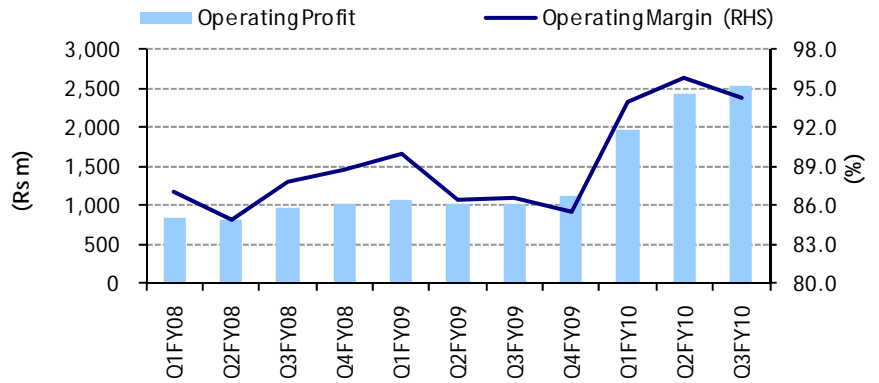
Highlights

Transmission performance



Source: Company Data, PL Research

Operating Performance



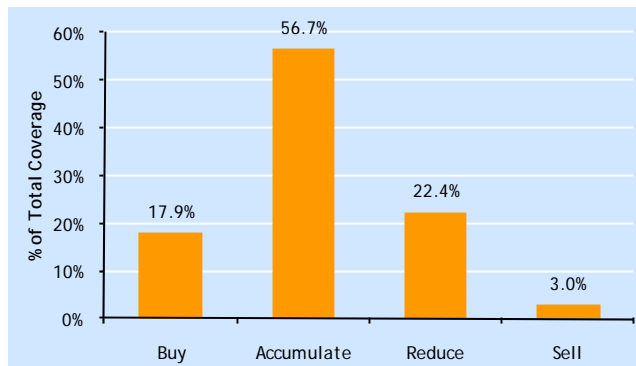
Source: Company Data, PL Research

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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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