

October 24, 2009

Rating	Accumulate
Price	Rs89
Target Price	Rs100
Implied Upside	13.0%
Sensex	16,811

(Prices as on October 23, 2009)

### Trading Data

Market Cap. (Rs bn)	50.0
Shares o/s (m)	562.1
Free Float	62.2%
3M Avg. Daily Vol ('000)	1,808.1
3M Avg. Daily Value (Rs m)	138.4

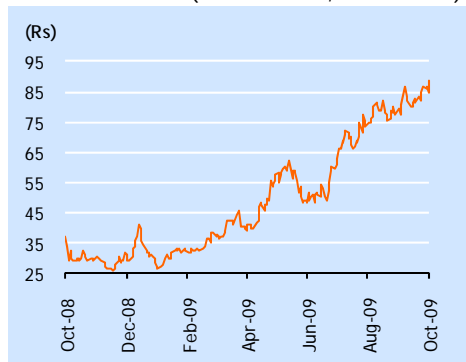
### Major Shareholders

Promoters	37.8%
Foreign	12.6%
Domestic Inst.	25.7%
Public & Others	23.9%

### Stock Performance

(%)	1M	6M	12M
Absolute	14.5	115.1	164.7
Relative	13.8	66.7	71.5

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



Source: Bloomberg

- **Transmission volumes on an uptrend:** Higher KG basin gas transmission, coupled with RLNG, aided Gujarat State Petronet's (GSPL's) transmission volume growth. Transmission volumes surged by 22.7% sequentially from 25.3mmscmd to 31.1mmscmd, a tad higher than our expectation of 30.0mmscmd. Transmission tariffs also remained buoyant at Rs891/'000scm (Q1FY10-Rs915/'000scm) which was higher than our expectation of Rs825/'000scm.
- **EBITDA margin scale higher:** Gas transportation and connectivity charges became zero this quarter as indicated by the management. GSPL wrote back Rs16m excess provision made earlier due to sixth pay revision on staff expenses. EBITDA margins, thus, expanded to 95.9% (Q1FY10-93.9%).
- **PAT zooms up:** Depreciation increased sequentially from Rs550m to Rs587 in Q2FY10 on account of capitalisation of new pipelines. Interest costs, however, increased marginally from Rs245m to Rs250m sequentially. Other income scaled up from Rs35m to Rs59m owing to income from investments. Thus, PAT zoomed up by 36.7% sequentially from Rs805m to Rs1,101m.
- **Valuations:** We believe that the contribution towards Gujarat Socio-Economic Development Society (GSEDS) is likely to be shelved off by the Gujarat government. However, since there isn't any clarity, we have still factored it in our estimates. We believe that GSPL is likely to be a beneficiary of the expected rise in KG basin gas production (from 40mmscmd to 80mmscmd). The stock is currently available at 16.4x FY11E EPS of Rs5.4 and 3.2x P/BV. We remain positive on the growth prospects of the company and upgrade the stock to 'Accumulate'.

Key financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	4,179	4,875	10,112	12,083
Growth (%)	31.6	16.7	107.4	19.5
EBITDA (Rs m)	3,645	4,245	9,320	11,111
PAT (Rs m)	999	1,234	2,646	3,053
EPS (Rs)	1.8	2.2	4.7	5.4
Growth (%)	11.8	23.5	114.4	15.4
Net DPS (Rs)	0.5	0.8	0.4	0.7

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	87.2	87.1	92.2	92.0
RoE (%)	9.6	10.5	19.9	19.3
RoCE (%)	7.5	7.6	12.3	11.5
EV / sales (x)	13.7	12.5	6.3	5.2
EV / EBITDA (x)	15.7	14.3	6.8	5.7
PE (x)	50.0	40.5	18.9	16.4
P / BV (x)	4.8	4.3	3.8	3.2
Net dividend yield (%)	0.6	0.8	0.4	0.7

Source: Company Data; PL Research

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Q2FY10 Result Overview

(Rs m)

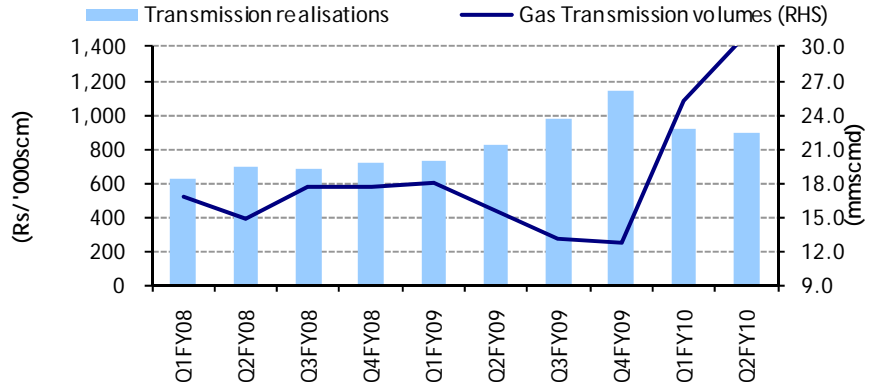
Y/e March	Q2FY10	Q2FY09	YoY gr. (%)	Q1FY10	H1FY10	H1FY09	YoY gr. (%)
Net Sales	2,548	1,186	114.8	2,108	4,656	2,381	95.6
<b>Expenditure</b>							
O & M expenses	71	39	84.4	60	132	71	85.5
<i>% of net sales</i>	2.8	3.3		2.9	2.8	3.0	
Personnel cost	(16)	20	(178.8)	28	12	39	(68.6)
<i>% of net sales</i>	(0.6)	1.7		1.3	0.3	1.6	
Other expenses	49	103	(52.9)	40	89	171	(48.3)
<i>% of net sales</i>	1.9	8.7		1.9	1.9	7.2	
<b>EBITDA</b>	2,443	1,024	138.5	1,980	4,423	2,100	110.7
<i>Margin (%)</i>	95.9	86.4		93.9	95.0	88.2	
Depreciation	587	423	38.8	550	1,137	837	35.8
<b>EBIT</b>	1,856	602	208.6	1,430	3,287	1,263	160.3
Interest	250	231	8.5	245	496	449	10.4
Other Income	59	72	(18.8)	35	94	140	(33.2)
<b>PBT</b>	1,665	443	275.7	1,220	2,885	954	202.4
Total taxes	564	159	255.7	415	979	342	186.1
<i>ETR (%)</i>	33.9	35.8		34.0	33.9	35.9	
<b>PAT</b>	1,101	284	287.8	805	1,905	610	212.3

Operating Metrics

Y/e March	Q2FY10	Q2FY09	YoY gr. (%)	Q1FY10	H1FY10	H1FY09	YoY gr. (%)
Gas transmission volumes (mmscmd)	31.1	15.6	99.8	25.3	28.2	16.8	68.2
Avg. realisations (Rs/ '000scm)	891.2	828.8	7.5	914.9	901.8	775.7	16.3

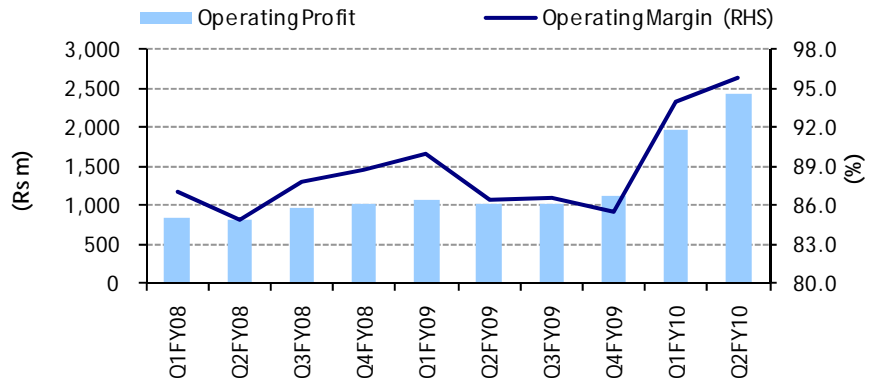
## Highlights

### Transmission performance



Source: Company Data, PL Research

### Operating Performance



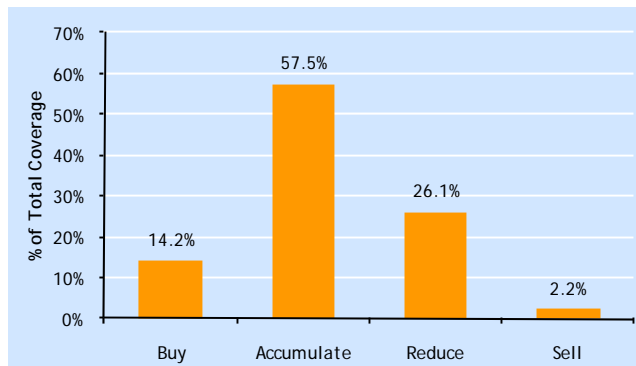
Source: Company Data, PL Research

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### Rating Distribution of Research Coverage



### PL's Recommendation Nomenclature

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

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