

In line; Upside once new plant operates without problems

October 21, 2011

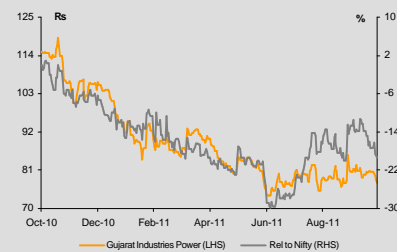
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 77	Rs 115
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,050
Sensex	16,786

Price Performance

(%)	1M	3M	6M	12M
Absolute	(7)	1	(14)	(33)
Rel. to Nifty	(6)	11	0	(19)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Power
Bloomberg	GIP@IN
Equity Capital (Rs mn)	1513
Face Value(Rs)	10
No of shares o/s (mn)	151
52 Week H/L	121/72
Market Cap (Rs bn/USD mn)	12/240
Daily Avg Volume (No of sh)	36779
Daily Avg Turnover (US\$m)	0.1

Shareholding Pattern (%)

	Sep-11	Mar-11	Dec-10
Promoters	58.2	58.2	58.2
FII/NRI	2.4	2.4	2.9
Institutions	19.1	19.1	18.6
Private Corp	1.0	1.1	1.2
Public	19.2	19.2	19.2

Source: Capitaline

Amit Golchha

amit.golchha@emkayglobal.com

+91 22 6624 2408

- **2Q12 PAT of Rs277mn (growth of 326% yoy, adjustment of Rs90mn of tax refund in Q2FY11), marginally above estimates mainly helped by negative tax. Other numbers in line.**
- **Lower PAF at Surat-II (61% vs. 78% in 1Q12) impacted qoq performance - PAT decline of 35%. We estimate the impact of Surat II at Rs150mn (under-recovery) vs. 1Q12**
- **Surat II PAF got impacted due to (1) 6 days forced shut down of one unit (to start by October end – impacting 3Q as well) and (2) lower extraction of lignite due to monsoons.**
- **We have been conservative in our estimates and maintain FY12E/FY13E EPS of Rs9.9 and Rs10.7/share. Stock trading at 0.8x FY12E book with dividend yield of 4.5% in FY12E. Maintain Buy but upside only once new plant runs hassle free**

2Q PAT above estimates - driven by negative tax

GIPCL's 2Q PAT stood at Rs277mn (growth of 326% yoy, we have adjusted Rs90mn of tax refund in Q2FY11) which is above our estimate of Rs231mn. This is mainly due to negative tax (deferred tax recognition) in the qtr. Otherwise, all the other numbers are more or less in line. As expected, QoQ performance has taken a hit due to low PAF (61% vs. 78%) of Surat II (new plant). This was mainly due to (1) 6 days forced shut down of one unit (to start by October end - impacting 3Q as well) and (2) lower extraction of lignite due to monsoons. The shut down is due to some technical problem again in one unit (125MW). Management as of now is guiding for restart of the plant by Oct end – impacting 3Q as well. But we have been conservative in our estimates and as of now retain them. We also highlight that the availability during the qtr was very good across other plants – Vadodara I – 98%, Vadodara II – 99%, Surat I – 78% (maintenance shutdown taken). Therefore in spite of lower PLFs (56% average), there wasn't any under-recovery (except Surat II) as PAFs were well above normal. We also highlight that 2Q is seasonally weak qtr due to lower demand because of monsoons and maintenance planned in this qtr. We maintain our FY12E/FY13E earnings of Rs9.9/share and Rs10.7/share.

Maintain Buy - FY12E dividend yield of 4.5%+ vs. historical average of 3%; but upside only if Surat-II runs problem free

At CMP of Rs77/share, the stock is trading at 7.2x FY13E earnings and 0.75x FY13E Book Value - which we believe is reasonable considering the reported ROE of 11% in FY13E (due to cash and CWIP). Considering average dividend payout of about 35% during past four years and assuming the similar payout in FY12E – the stock is likely to deliver dividend yield of 4.5% in FY12. The historical average is about 3% dividend yield. Considering historical dividend yield for the stock, the fair value is Rs115/Share - we maintain our Buy rating on the stock with TP of Rs115/share (but we highlight that regulated utilities trades at 10-15% below their fair value). However, we believe for any meaningful upside, new plant has to stabilize and run properly for some time.

Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	AEPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	9,393	2,190	23.3	1,068	7.1	24.8	8.9	10.9	10.1	0.9
FY11P	10,780	3,010	27.9	1,268	8.4	18.7	12.6	7.1	7.5	0.9
FY12E	13,690	4,422	32.3	1,502	9.9	18.5	10.7	7.8	5.3	0.8
FY13E	14,101	4,508	32.0	1,622	10.7	8.0	10.9	7.2	4.6	0.8

Quarterly Results

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	FY10	FY11	YoY (%)
Revenue	2,120	3,078	3,093	3,407	2,999	41.5	-12.0	9,393	10,780	14.8
Expenditure	-1,702	-2,259	-1,924	-2,132	-2,086	22.6	-2.2	-7,203	-7,770	7.9
as % of sales	-80.3%	-73.4%	-62.2%	-62.6%	-69.6%			-76.7%	-72.1%	
Consumption of RM	-1,297	-1,872	-1,545	-1,765	-1,644	26.7	-6.9		-6,338	
as % of sales	-61.2%	-60.8%	-49.9%	-51.8%	-54.8%			0.0%	-58.8%	
Power and Fuel	0	0	0	0	0			0	0	
as % of sales	0.0%	0.0%	0.0%	0.0%	0.0%			0.0%	0.0%	
Other Mfg Expenses	0	0	0	0	0			0	0	
as % of sales	0	0	0	0	0			0	0	
Employee Cost	-109	-158	-152	-119	-127	16.5	6.7	-274	-491	79.2
as % of sales	-5.1%	-5.1%	-4.9%	-3.5%	-4.2%			-2.9%	-4.6%	
Other expenditure	-296	-229	-228	-248	-315	6.6	27.0	-820	-941	14.8
as % of sales	-13.9%	-7.4%	-7.4%	-7.3%	-10.5%			-8.7%	-8.7%	
EBITDA	418	819	1,169	1,275	913	118.4	-28.4	2,190	3,010	37.5
Depreciation	-273	-388	-375	-414	-421	54.3	1.7	-880	-1,251	42.1
EBIT	145	431	794	861	492	238.8	-42.9	1,309	1,759	34.3
Other Income	30	2	174	21	39	-49.3	-87.9	138	517	275.4
Interest	-119	-267	-278	-321	-291	145.6	-9.3	-162	-703	333.4
PBT	57	166	690	561	240	321.1	-57.2	1,285	1,573	22.4
Total Tax	8	-12	121	-132	37	362.5	-128.0	-216	57	-126.3
Adjusted PAT	65	154	811	429	277	326.2	-35.4	1068	1630	52.6
Extra ordinary items	90	90	-385	0	0			0	-362	
Reported PAT	155	244	426	429	277	78.7	-35.4	1068	1268	18.7
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0				0	
PAT after MI	155	244	426	429	277	78.7	-35.4	1068	1268	18.7
Reported EPS	0.4	1.0	4.8	2.8	1.8	326.2	-35.4	7.1	8.4	18.7

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	19.7	26.6	37.8	37.4	30.4	1072	-698	23.3	27.9	461	
EBIT	6.8	14.0	25.7	25.3	16.4	956	-887	13.9	16.3	238	
EBT	6.9	8.3	22.3	16.5	8.0	107	-846	13.7	14.6	91	
PAT	3.1	5.0	23.3	12.6	9.2	617	-336	11.4	11.8	39	
Effective Tax rate	-5.4	4.8	-17.6	23.5	-15.4	-997	-3895	16.8	-3.6	-2047	

Generation (Mn Units)	Q111	Q211	Q311	Q411	Q112	Q212
Vadodara-I	302	254	239	222	186	227
Vadodara-II	277	205	251	110	217	136
Surat-I	509	314	474	447	414	367
Surat-II	160	180	220	329	391	257
Total Generation	1088	833	1184	1108	1208	987

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	9,393	10,780	13,957	14,376
Growth (%)	-18.7	14.8	29.5	3.0
Expenditure	7,203	7,770	9,446	9,776
Raw Materials	6,109	6,338	7,640	7,870
Construction Exp	0	0	0	0
Employee Cost	274	491	697	764
Other Exp	820	941	1,109	1,142
EBITDA	2,190	3,010	4,511	4,600
Growth (%)	4.1	37.5	49.9	2.0
EBITDA margin (%)	23.3	27.9	32.3	32.0
Depreciation	880	1,251	1,642	1,667
EBIT	1,309	1,759	2,869	2,933
EBIT margin (%)	13.9	16.3	20.6	20.4
Other Income	138	155	90	170
Interest expenses	162	703	1,103	1,103
PBT	1,285	1,211	1,855	2,000
Tax	216	-57	348	370
Effective tax rate (%)	16.8	-3.6	15.6	15.5
Adjusted PAT	1,068	1,268	1,507	1,630
(Profit)/loss from JV's/Ass/MI	0	0	0	0
Adjusted PAT after MI	1,068	1,268	1,507	1,630
Growth (%)	24.8	18.7	18.9	8.1
Net Margin (%)	11.4	11.8	10.8	11.3
E/O items	0	362	0	0
Reported PAT	1,068	1,630	1,507	1,630
Growth (%)	25.3	52.5	-7.5	8.1

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	1,147	1,418	1,695	1,760
Depreciation	880	1,251	1,642	1,667
Interest Provided	162	703	1,103	1,103
Other Non-Cash items	0	0	0	0
Chg in working cap	649	-892	-271	-188
Tax paid	-216	57	-278	-300
Operating Cashflow	2,622	2,537	3,892	4,042
Capital expenditure	-4,735	-1,732	-3,000	-500
Free Cash Flow	-2,113	805	892	3,542
Other income	138	155	90	170
Investments	0	-634	0	0
Investing Cashflow	-4,597	-2,211	-2,910	-330
Equity Capital Raised	0	15	0	0
Loans Taken / (Repaid)	2,238	495	2,250	0
Interest Paid	-162	-703	-1,103	-1,103
Dividend paid (incl tax)	-450	-349	-414	-448
Income from investments	0	0	0	0
Others	-22	0	0	214
Financing Cashflow	1,604	-541	732	-1,338
Net chg in cash	-371	-215	1,714	2,375
Opening cash position	601	230	15	1,729
Closing cash position	230	14	1,729	4,104

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	1,513	1,513	1,513	1,513
Reserves & surplus	10,948	12,138	13,231	14,413
Net worth	12,461	13,651	14,744	15,926
Minority Interest	0	0	0	0
Secured Loans	10,640	11,136	13,386	13,386
Unsecured Loans	0	0	0	0
Loan Funds	10,640	11,136	13,386	13,386
Net deferred tax liability	764	465	465	465
Total Liabilities	23,865	25,253	28,595	29,777
Gross Block	23,418	38,404	40,604	39,604
Less: Depreciation	12,100	13,305	14,947	16,614
Net block	11,318	25,099	25,657	22,990
Capital work in progress	13,500	200	1,000	2,500
Investment	55	298	298	298
Current Assets	3,130	3,726	6,535	9,054
Inventories	1,036	1,035	1,340	1,380
Sundry debtors	1,373	2,002	2,592	2,670
Cash & bank balance	230	15	1,729	4,104
Loans & advances	491	675	874	900
Other current assets	0	0	0	0
Current lia & Prov	4,265	4,185	5,008	5,179
Current liabilities	4,265	4,185	5,008	5,179
Provisions	0	0	0	0
Net current assets	-1,135	-459	1,526	3,875
Misc. exp & Def. Assets	128	113	113	113
Total Assets	23,865	25,253	28,595	29,777

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	23.3	27.9	32.3	32.0
Net Margin	11.4	11.8	11.0	11.5
ROCE	6.5	7.9	11.1	10.5
ROE	8.9	12.6	10.7	10.9
RoIC	15.5	10.5	11.4	12.2
Per Share Data (Rs)				
EPS	7.1	8.4	9.9	10.7
CEPS	11.9	16.9	19.0	19.9
BVPS	81.5	89.5	95.3	101.7
DPS	3.0	2.9	4.1	4.4
Valuations (x)				
PER	10.9	7.1	7.8	7.2
P/CEPS	6.5	4.6	4.1	3.9
P/BV	0.9	0.9	0.8	0.8
EV / Sales	2.3	2.1	1.7	1.5
EV / EBITDA	10.1	7.5	5.3	4.6
Dividend Yield (%)	3.9	3.8	5.3	5.7
Gearing Ratio (x)				
Net Debt/ Equity	0.9	0.8	0.8	0.0
Net Debt/EBIDTA	4.6	3.6	2.6	0.0
Working Cap Cycle (days)	-53	-16	-5	-6

Recommendation History: Gujarat Industries Power – GIP IN

Date	Reports	Reco	CMP	Target
11/08/2011	GIPCL Q1FY12 Result Update	Buy	81	118
25/05/2011	GIPCL Q4FY11 Result Update	Buy	86	115
16/02/2011	GIPCL Q3FY11 Result Update	Hold	95	101
11/11/2010	GIPCL Q2FY11 Result Update	Accumulate	118	135

Recent Research Reports

Date	Reports	Reco	CMP	Target
21/10/2011	Sintex Industries Q2FY12 Result Update.pdf	Buy	118	150
21/10/2011	Bharat Bijlee Q2FY12 Result Update	Accumulate	736	836
23/08/2011	Voltamp Transformers Q1FY12 Result Update	Hold	495	491
17/08/2011	Lanco Infratech Q1FY12 Result Update	Hold	17	23

Emkay Global Financial Services Ltd.

Corporate Add: B – Ruby Mills Tower, 7th Floor, South East Wing, Senapati Bapat Marg, Dadar (W), Mumbai - 400028 India.

Tel.: +912266121212 Web: www.emkayglobal.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.