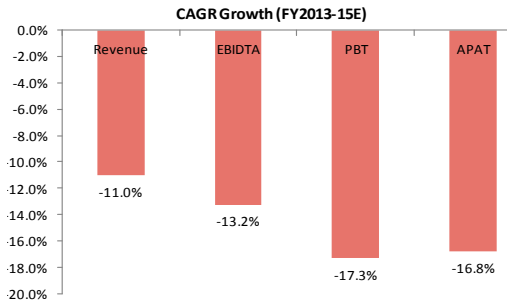


November 18, 2013

Oil & Gas Sector Outlook - Neutral



Stock Recommendation	Hold
CMP (₹)	60
Price Target (₹)	63
Upside (%)	6
52 Week H / L ₹	82/47
BSE 30	20399

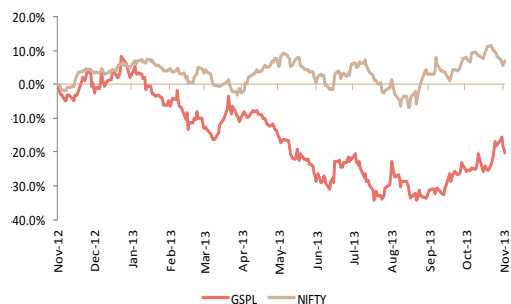
Key Data

No. of Shares, Mn.	562.7
Mcap, ₹ Bn	33.8
Mcap, USD Bn @ ₹60	0.6
2 W Avg Qty (BSE+NSE) Mn	0.6

Share holding, June'13

Promoters	37.7
FII	4.0
DII	33.3
Public & Others	24.9

Performance	1 M	3 M	6 M	12 M
Stock Return %	7.5	3.4	-5.0	-20.0
Relative Return %	8.4	-2.1	-6.0	-26.9



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GSPL's gas transmission volumes once again were impacted albeit marginally during Q2FY14 with 3.4% sequential decline at 1,947mmscm (21.2mmcmd). Average transmission tariffs too declined by 3.2% QoQ at ₹1,365/'000scm. Declining KG D6 volumes along with no additional supplies from LNG has been affecting GSPL's transmission volumes. KG D6 volumes are expected to witness uptick from Q1FY15E onwards with a slower pace which would partially benefit GSPL. The company has been benefitting from take or pay income from earlier contracts which are expected to be renewed from April 1, 2014 onwards thus impacting the average transmission tariffs. We do not foresee any significant trigger for the stock in near to medium term. The stock has moved up by over 15% during last one quarter and hence we downgrade the stock to 'Hold' with a slightly revised price target of ₹63.

Gas transmission volumes decline QoQ: GSPL's gas transmission volumes declined by 3.4% QoQ at 1,947mmscm (21.2mmcmd). This decline was partially attributed to declining KG D6 volumes along with no additional volumes from LNG route. Volumes would remain similar for the next couple of quarters which are expected show some uptick from Q1FY15E when KG D6 volumes would start improving.

Average transmission tariffs still remain high: Take or pay income is still supporting the average transmission tariffs which remained high for Q2FY14 at ₹1,365/'000scm. Sequential decline in volumes as well as average transmission tariffs led to 6.5% QoQ decline in revenues ₹2.7bn during Q2FY14.

PAT at ₹1.1bn: Devoid of any significant capex, depreciation jumped by 2.6% QoQ at ₹470mn. Reduction in long term borrowings led to 3.4% sequential decline in interest costs at ₹367mn. Operating margins stood at 90.6% with operating profit at ₹2.5bn while the company reported PAT of ₹1.1bn.

Volume pick up expected from Q1FY15E onwards but concern on take or pay income: GSPL's gas transmission volumes are likely to remain at similar levels over the next couple of quarters. However, with expected ramp up in KG D6 volumes from Q1FY15E onwards, GSPL's volumes may witness some up tick too. However significant volume jump can be expected only from FY16E onwards when Dahej and Hazira LNG re-gasification capacities would be expanded. Since the company does not disclose the take or payment component separately for its transmission revenues it is difficult to understand the impact for FY15E when these contracts would come for renewal. We have lowered our transmission volumes assumptions for FY14E and FY15E at 21.8mmcmd and 25.5mmcmd respectively. We have raised the average tariff assumption to ₹1,311/'000scm in FY14E and kept it lower at ₹925/'000scm for FY15E to account for cessation of some take or pay contracts. The stock is currently available at 7.4x and 9.5x FY14E and FY15E EPS of ₹8.5 and ₹6.6. We have valued the stock with an average of DCF (cost of equity – 13.6%, WACC – 12.3%) and 8.0x FY15E P/E. We have arrived at value of ₹63 and downgrade the stock to 'Hold'.

Financials	Revenues ₹mn	EBIDTA ₹mn	APAT ₹mn	EPS ₹	P/E x	EV/EBIDTA x	ROAE %
FY11	10,465	9,690	5,064	9.0	6.6	4.5	28.4
FY12	11,233	10,330	5,221	9.3	6.4	3.8	23.3
FY13	11,732	10,720	5,381	9.6	6.2	3.6	19.9
FY14E	11,061	9,929	4,770	8.5	7.0	3.6	15.2
FY15E	9,297	8,071	3,724	6.6	9.0	4.3	10.6

Source: Company, Sunidhi Research



Quarterly snapshot

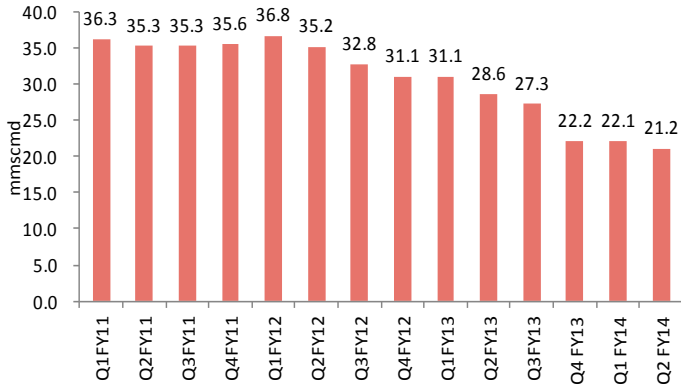
(₹ mn)	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	YoY (%)	QoQ (%)
Revenues	2,876	2,814	2,755	2,788	2,700	2,772	2,661	3,598	2,968	2,774	0.1	(6.5)
<i>Growth in rev. (%)</i>	<i>11.5</i>	<i>(2.2)</i>	<i>(2.1)</i>	<i>1.2</i>	<i>(3.1)</i>	<i>2.7</i>	<i>(4.0)</i>	<i>35.2</i>	<i>(17.5)</i>	<i>(6.5)</i>		
Op. & Maintenance	109	115	114	107	118	102	117	177	154	154	51.4	0.0
<i>% of net sales</i>	<i>3.8</i>	<i>4.1</i>	<i>4.1</i>	<i>3.8</i>	<i>4.4</i>	<i>3.7</i>	<i>4.4</i>	<i>4.9</i>	<i>5.2</i>	<i>5.6</i>		
Employee Costs	56	52	51	44	44	57	91	55	67	52	(9.1)	(23.5)
<i>% of net sales</i>	<i>2.0</i>	<i>1.9</i>	<i>1.8</i>	<i>1.6</i>	<i>1.6</i>	<i>2.0</i>	<i>3.4</i>	<i>1.5</i>	<i>2.3</i>	<i>1.9</i>		
Admin & Others	59	57	56	92	49	53	59	89	48	56	4.6	15.5
<i>% of net sales</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>3.3</i>	<i>1.8</i>	<i>1.9</i>	<i>2.2</i>	<i>2.5</i>	<i>1.6</i>	<i>2.0</i>		
EBITDA	2,652	2,590	2,535	2,544	2,490	2,561	2,394	3,276	2,698	2,513	(1.9)	(6.9)
<i>Q-o-Q growth (%)</i>	<i>14.1</i>	<i>(2.4)</i>	<i>(2.1)</i>	<i>0.4</i>	<i>(2.1)</i>	<i>2.9</i>	<i>(6.5)</i>	<i>36.9</i>	<i>(17.7)</i>	<i>(6.9)</i>		
<i>EBITDA Margin (%)</i>	<i>92.2</i>	<i>92.0</i>	<i>92.0</i>	<i>91.3</i>	<i>92.2</i>	<i>92.4</i>	<i>90.0</i>	<i>91.1</i>	<i>90.9</i>	<i>90.6</i>		
Dep. and amort.	453	440	460	466	439	464	478	480	458	470	1.2	2.6
EBIT	2,200	2,149	2,075	2,078	2,050	2,097	1,916	2,796	2,240	2,043	(2.6)	(8.8)
Interest expenses	324	337	325	316	317	316	314	315	380	367	16.3	(3.4)
Other Income	79	137	158	140	151	185	175	149	132	136	(26.6)	3.4
EBT	1,954	1,949	1,907	1,902	1,884	1,966	1,776	2,630	1,992	1,812	(7.9)	(9.0)
Provision for tax	581	656	646	610	636	638	586	1,015	729	671	(2.8)	0.4
<i>Effective tax rate (%)</i>	<i>29.7</i>	<i>33.7</i>	<i>33.9</i>	<i>32.0</i>	<i>33.7</i>	<i>32.5</i>	<i>33.0</i>	<i>38.6</i>	<i>36.6</i>	<i>37.1</i>		
Net Profit	1,374	1,293	1,261	1,293	1,248	1,328	1,190	1,615	1,263	1,141	(14.1)	(9.7)
<i>Q-o-Q growth (%)</i>	<i>(8.8)</i>	<i>(5.9)</i>	<i>(2.5)</i>	<i>2.5</i>	<i>(3.4)</i>	<i>6.4</i>	<i>(10.4)</i>	<i>35.7</i>	<i>(21.8)</i>	<i>(9.7)</i>		
<i>Adj. PAT margin (%)</i>	<i>46.5</i>	<i>43.8</i>	<i>43.3</i>	<i>44.1</i>	<i>43.8</i>	<i>44.9</i>	<i>42.0</i>	<i>43.1</i>	<i>40.7</i>	<i>39.2</i>		

Operating Metrics	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	YoY (%)	QoQ (%)
Gas trans. (mmscm)	3,345	3,240	3,015	2,830	2,833	2,631	2,508	1,994	2,015	1,947	(26.0)	(3.4)
Avg. Tariff (₹/ '000 scm)	813	835	899	956	903	993	1,043	1,768	1,411	21.2	(26.0)	(4.5)

Source: Company, Sunidhi Research

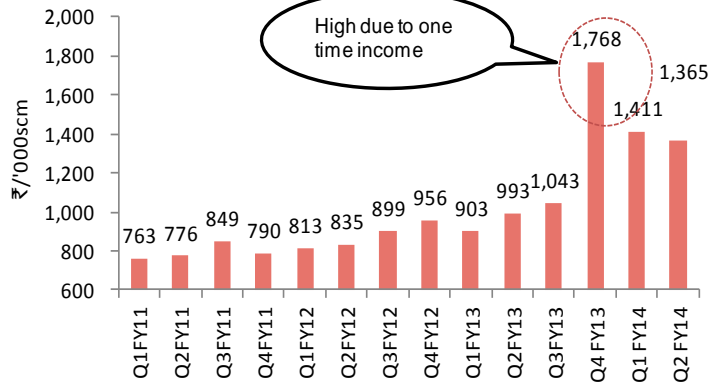


Transmission volumes



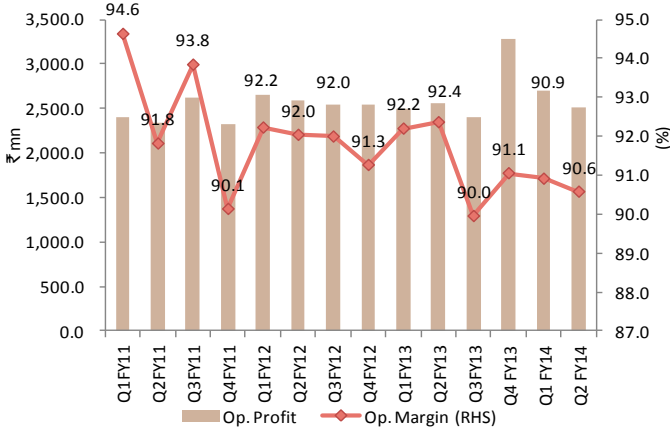
Source: Company, Sunidhi Research

Transmission Tariffs



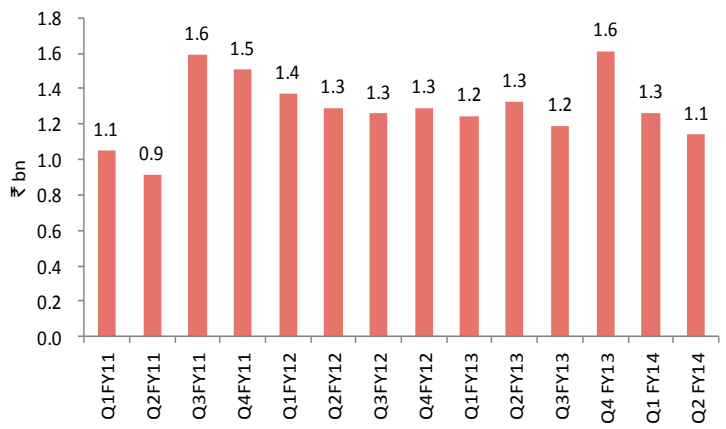
Source: Company, Sunidhi Research

Operating Performance



Source: Company, Sunidhi Research

PAT trend



Source: Company, Sunidhi Research

Change in estimates

We have lowered our transmission volumes assumptions for FY14E and FY15E at 21.8mmscmd and 25.5mmscmd respectively. We have raised the average tariff assumption to ₹1,311/000scm in FY14E and kept it lower at ₹925/000scm for FY15E to account for cessation of some take or pay contracts. Due to higher average tariffs assumptions our earnings for FY14E and FY15E have moved up by 1.3% and 1.6% respectively.

	FY14E			FY15E		
	Previous	Updated	Chg. (%)	Previous	Updated	Chg. (%)
Revenues (₹mn)	10,891	11,061	1.6	8,982	9,297	3.5
EBITDA (₹mn)	9,687	9,929	2.5	7,998	8,071	0.9
PAT (₹mn)	4,710	4,770	1.3	3,631	3,724	2.6
Operating metrics						
Volumes (mmscmd)	23.5	21.8	(7.2)	26.0	25.5	(1.9)
Trans. tariffs(₹/000scm)	1,200	1,311	9.3	900	925	2.7

Source: Company, Sunidhi Research



Valuations Summary

Year End-March	FY11	FY12	FY13	FY14E	FY15E
Per share (₹)					
EPS	9.0	9.3	9.6	8.5	6.6
CEPS	11.3	12.5	12.9	11.9	10.4
BVPS	31.7	39.7	48.0	55.9	62.2
DPS	1.0	1.0	1.0	1.0	1.2
Payout (%)	11.1	10.8	10.5	11.8	18.1
Valuation (x)					
P/E	6.6	6.4	6.2	7.0	9.0
P/BV	1.9	1.5	1.2	1.1	1.0
EV/EBITDA	4.5	3.8	3.6	3.6	4.3
Dividend Yield (%)	1.7	1.7	1.7	1.7	2.0
Return ratio (%)					
EBIDTA Margin	92.6	92.0	91.4	89.8	86.8
PAT Margin	48.4	46.5	45.9	43.1	40.1
ROAE	28.4	23.3	19.9	15.2	10.6
ROACE	26.0	23.1	20.7	16.9	12.0
Leverage Ratios (x)					
Long term D/E	0.6	0.4	0.5	0.3	0.3
Net Debt/Equity	0.5	0.2	0.2	0.1	0.0
Interest Coverage	8.5	6.5	7.0	5.9	6.0
Current ratio	0.8	1.4	2.2	2.1	2.5
Growth Ratios (%)					
Income growth	5.5	7.3	4.4	(5.7)	(15.9)
EBITDA growth	4.3	6.6	3.8	(7.4)	(18.7)
PAT growth	22.4	3.1	3.1	(11.4)	(21.9)
Turnover Ratios					
F.A Turnover x	0.3	0.3	0.2	0.2	0.2
Inventory Days	7.0	10.7	8.3	10.0	10.0
Debtors Days	23.8	27.2	82.0	30.0	30.0
Payable days	8.3	2.3	3.5	8.0	8.0
Income Statement(₹ mn)					
Year End-March	FY11	FY12	FY13	FY14E	FY15E
Revenues	10,465	11,233	11,732	11,061	9,297
Op. Expenses	775	903	1,012	1,132	1,226
EBITDA	9,690	10,330	10,720	9,929	8,071
Other Income	216	513	660	575	675
Depreciation	1,299	1,819	1,861	1,912	2,101
EBIT	8,607	9,024	9,519	8,592	6,645
Interest	991	1,302	1,263	1,365	1,003
Prov., Write offs	3	(32)	1	0	0
PBT	7,613	7,754	8,256	7,227	5,642
Tax	2,556	2,470	2,876	2,457	1,918
PAT	5,057	5,285	5,380	4,770	3,724
Minority	0	0	0	0	0
Prior Period Adj.	0	0	0	0	0
Sh. of Associates	0	0	0	0	0
Ex. ordinary	0	0	0	0	0
Adj. PAT	5,057	5,285	5,380	4,770	3,724

Source: Company, Sunidhi Research

Balance Sheet (₹ mn)

Year End-March	FY11	FY12	FY13	FY14E	FY15E
Equity and Liabilities					
Share Capital	5,626	5,627	5,627	5,627	5,627
Reserves and Surplus	14,440	19,040	23,779	27,895	30,834
Total Shareholders funds	20,066	24,667	29,406	33,522	36,461
Minority Interest	0	0	0	0	0
Non-Current Liability					
Long Term Borrowings	12,182	10,951	13,389	10,693	11,288
Deferred Tax Liabilities (Net)	2,641	3,244	3,867	3,867	3,867
Long Term Liab./ Provisions	84	163	220	220	220
Current Liabilities					
Short Term Borrowings	0	0	0	0	0
Trade Payables	236	70	110	232	191
Other Current Liabilities	5,253	4,933	4,874	4,374	3,874
Short Term Provisions	681	659	669	685	836
Grand Total	41,142	44,686	52,534	53,593	56,737
Assets					
Non Current Assets					
Fixed Assets	35,161	35,584	37,775	40,013	42,063
Deferred Tax Assets	0	0	0	0	0
Non-Current Investments	766	1,164	1,740	1,740	1,740
Long Term Loans & Adv.	932	847	727	727	727
Other non-current assets	20	79	89	89	89
Current Assets					
Current Investments	0	0	0	0	0
Inventories	623	662	772	1,126	1,126
Trade Receivables	677	814	2,541	869	717
Cash and Cash Equivalents	2,390	5,148	8,531	8,668	9,915
Short Term Loans & Adv.	508	260	205	205	205
Other Current Assets	66	129	154	154	154
Grand Total	41,142	44,686	52,534	53,593	56,737
Cash flow Statement					
Year End-March	FY11	FY12	FY13	FY14E	FY15E
PBT	7,620	7,690	8,257	7,227	5,642
Depreciation	1,299	1,819	1,861	1,912	2,101
Interest Exp	991	1,302	1,263	1,365	1,003
Others	(213)	(513)	(660)	(575)	(675)
CF before W.cap	9,697	10,298	10,720	9,929	8,071
Inc/dec. in W.cap	1,853	(419)	(1,759)	955	(238)
Op CF after W.cap	11,550	9,878	8,961	10,884	7,833
Less Taxes	1,321	1,866	2,253	2,457	1,918
Excp. & Prior Period Adj.	0	0	0	0	0
Net CF From Operations	10,229	8,012	6,708	8,427	5,915
Inc/(dec.) in F.A + CWIP	(6,637)	(2,128)	(4,227)	(4,150)	(4,150)
others	116	115	84	575	675
CF from Invst. Activities	(6,521)	(2,013)	(4,143)	(3,575)	(3,475)
Loan Raised/(repaid)	(414)	(1,231)	2,438	(2,695)	594
Equity Raised	18	34	16	0	0
Dividend	(654)	(654)	(658)	(654)	(785)
Others	(2,010)	(1,391)	(978)	(1,365)	(1,003)
CF from Fin Activities	(3,060)	(3,241)	817	(4,714)	(1,193)
Net inc/(dec.) in cash	648	2,758	3,383	137	1,247
Op. bal of cash	1,742	2,390	5,148	8,531	8,668
Cl. balance of cash	2,390	5,148	8,531	8,668	9,915



Sunidhi's Rating Rationale

The price target for a **large cap stock** represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as **Outperform**, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as **Underperform**, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as **Neutral**.

(For Mid & Small cap stocks from 12 months perspective)

BUY	Absolute Return >20%
ACCUMULATE	Absolute Return Between 10-20%
HOLD	Absolute Return Between 0-10%
REDUCE	Absolute Return 0 To Negative 10%
SELL	Absolute Return > Negative 10%

Apart from Absolute returns our rating for a stock would also include subjective factors like macro environment, outlook of the industry in which the company is operating, growth expectations from the company vis a vis its peers, scope for P/E re-rating/de-rating for the broader market and the company in specific.

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