

Buy (Initiated Coverage on Aug 9, 2012)

CMP: 71.50

Target: 79.50

GUJARAT STATE PETRONET LTD.

Upside: 11.2%

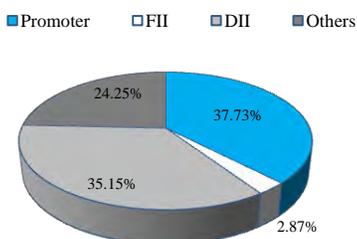
Horizon: 1-3 M

Analyst: Atul Kanwar
 Phone: +91 11 41693000 Ext: 675
 Email: atulkanwar@bajajcapital.com

Key Data (Standalone)

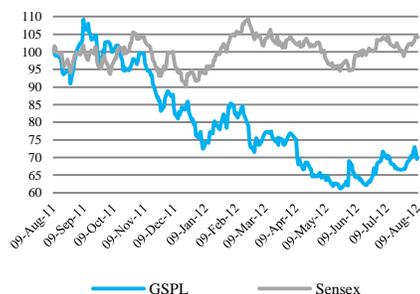
Sector	Oil & Gas
Face value (Rs.)	10.0
52-week high/low (Rs.)	113.3 / 62.1
Market cap (Rs. cr.)	4023.3
Book value (Rs.)	46.1
Price / book value	1.6
PE ratio (TTM)	7.9
Market cap / sales	3.7
Interim Dividend (%)	10.0
Average daily volume (1 Y)	1452330
Beta	0.6
1 year return (%)	-30.0

Shareholding Pattern



Source: BSE. As on June 30, 2012

Stock Performance



About the Company

Gujarat State Petronet Limited (GSPL) is a pipeline company that develops energy transportation infrastructure and connects natural gas supply sources, including liquefied natural gas terminals. The company has two segments: gas transportation, which is engaged in transportation of gas through pipeline, and windmill, which includes generation of electricity through windmill. GSPL has already put in place a pipeline network of about 1960 kms and further extension of this network is going on. The company transports gas to more than 31 customers, including refineries, steel plants, fertilizer plants, petrochemical plants, power plants, glass industries, textiles, chemical and other miscellaneous industries. GSPL has set up 52.50 megawatt wind power project at Maliya Miyana (District-Rajkot) and Gorsar & Adodar (District-Porbandar) in Gujarat. GSPL is a subsidiary of Gujarat State Petroleum Corporation (GSPC). (Source: Reuters, Company)

Investment Rationale

Large potential for natural gas in India

India is a significant consumer of energy resources. The country's economy is growing at a fast pace which in turn has led to the growth in primary energy consumption at a CAGR of over 6.5% from 2006 to 2010 (Source: BP Statistical Review of World Energy, June 2011). Coal, oil, and natural gas are the three primary commercial energy sources in India. India's energy mix has coal as a major contributor (~53%), with power generation being predominantly dependent on coal. The share of oil is 30% in the overall energy mix. The share of natural gas is 11% (Source: BP Statistical Review of World Energy, June 2011) in the overall energy mix of India. With gas becoming the 'preferred fuel' for industries, the latent potential for gas remains very large in the country. Predominantly, India has been a gas-starved nation. In fact, Gujarat alone accounts for almost 1/3rd of the total natural gas consumption in India.

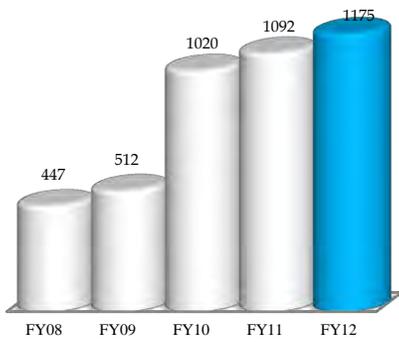
Rs 3000 crore capex plan for Gujarat in next 5-years

GSPL plans to invest nearly Rs 3,000 crore on expanding its network of gas pipelines in Gujarat over the next five years. The company has estimated that the volume of gas supplies in Gujarat would increase from around 35 million metric standard cubic metres per day (mmscmd) in March 2011 to 45 mmscmd in the next couple of years. The company, which has so far laid a 1,960-km-long gas pipeline network across Gujarat, will be extending it up to 2,400 km in the next five years, with a capital expenditure of Rs 600 crore to Rs 700 crore every year.

GSPL led JV for 3 cross-country pipeline projects

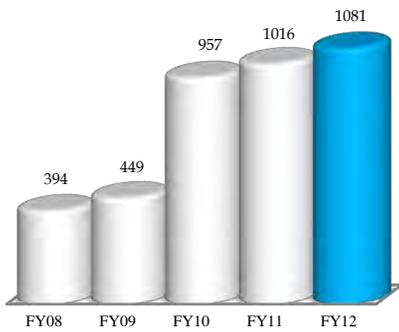
GSPL, IOCL, BPCL and HPCL have executed the joint venture agreements (JVA) on April 30, 2012 for developing three cross country natural gas transmission pipelines. GSPL has 52% stake in the consortium, with Indian Oil Corporation (IOCL) having 26% stake, Bharat Petroleum Corporation (BPCL) with 11% stake and Hindustan Petroleum Corporation (HPCL) having 11% stake in the JV. The consortium partners have been awarded the letters of authorization by Petroleum and Natural Gas Regulatory Board (PNGRB) for developing three cross country natural gas transmission pipelines: Mallavaram-Bhopal-Bhilwara-Vijapur (MBBV) pipeline (1635 kms), Mehsana - Bhatinda pipeline (1670) kms and Bhatinda-Jammu-Srinagar pipeline (740 kms). These inter-state pipelines will carry around 90 mmscmd of gas daily.

Total Income (Rs cr.) - Standalone



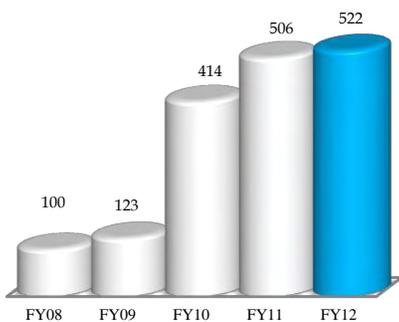
Data Source: Ace Equity

PBIDT (Rs cr.) - Standalone



Data Source: Ace Equity

PAT (Rs cr.) - Standalone



Data Source: Ace Equity

Financial closure achieved for interstate gas pipeline projects

GSPL has achieved financial closure for the Mallavaram-Bhopal-Bhilwara-Vijapur (MBBV) gas pipeline. The total cost of the MBBV pipeline project is Rs7,255 crore, of which Rs 2,175 crore will be raised through equity infusion by JV partners, and the remaining Rs5,080 crore through debt. The GSPL India Transco Ltd (GITL), a joint venture between GSPL and three central oil PSUs, has entered in to an agreement for a syndicated loan of Rs 5,080 crore with a consortium of 14 banks for the project. The JV would pay an average of 11.25% interest for the loans. The financial closure for the pipeline comes close on the heels of a financial tie-up of GSPL India Gasnet Ltd (GIGL), another JV of GSPL and three central PSUs, for the Rs6,449 crore Mehsana-Bhatinda-Jammu-Srinagar pipeline. The cost of these pipeline projects would be around Rs 13,704 crore, of which Rs 4,108 crore would be raised through internal accruals and remaining Rs9,596 crore through debt. Both projects are to be completed by July 2014. The pipelines will carry natural gas from gas fields on the country’s east coast, as well as that imported at various LNG terminals, to the central and northern parts of the country. The pipelines will crisscross through Andhra Pradesh, Maharashtra, MP, Gujarat, Rajasthan, Punjab, Haryana and J&K.

GSPL emerging as a national player in gas transportation

The cross-country pipelines signify the emergence of GSPL as a national firm in gas transportation. The company currently operates about 2,000 km of pipelines in Gujarat. The MBBV and Mehsana-Bhatinda-Srinagar pipelines will eventually be integrated with other pipelines such as the Hazira-Vijaipur-Jagdishpur and Surat-Paradip pipelines as part of the evolution of the long-awaited national gas grid, important for the country’s energy security. Currently, natural gas transmission infrastructure in India is approx. 10000 kms and is restricted only to a few states namely: Gujarat, Maharashtra, Madhya Pradesh, Uttar Pradesh, Haryana, Rajasthan, NCR, Assam, Tamil Nadu, Andhra Pradesh and Tripura.

Financial Highlights

Q1FY13 results

On standalone basis, GSPL’s Q1FY13 results show that its overall net sales fell by -5.9% to Rs.267.6 crore, from Rs 284.3 crore a year ago. The company has reported a fall of -9.1% in its net profit at Rs 124.9 crore for the quarter ended June 30, 2012 as against Rs 137.4 crore in the corresponding period last year.

Peer Analysis

Rs Cr.								
Company Name	Total Income	PBIDT	PAT	PBIDTM (%)	PATM (%)	P/E	P/BV	Mkt. Cap
GSPL	1174.6	1081.1	522.1	96.3	46.5	7.9	1.6	4023.3
GAIL	44704.4	7761.9	4400.8	17.3	9.8	10.5	1.9	46832.2

Total Income, PBIDT, PAT, PBIDTM (%) & PATM (%) statistics are for FY2012. P/E, P/BV & Mkt Cap figures are for Aug 9, 2012.

Key Concerns

Under-utilization of capacities

Thanks to lower production of domestic gas (due to a decline in Reliance Industries Ltd’s KG D6 basin output), gas transmission volumes of GSPL have been impacted in recent quarters. GSPL is expected to see an increase in its transportation capacity as new pipelines become operational. But the gas supply crunch could lead to under-utilization of these capacities.

Regulatory issues

On the regulatory front, there are two major concerns. Firstly, PNGRB is likely to revise the rates of new pipeline networks and, secondly, a cap on marketing margin could be on the cards. GSPL’s stock price is already factoring in a rate of Rs 600 per mscmd. The post-tax return on capital employed is around 14-15%, only slightly above the regulated figure of 12%.

Conclusion

GSPL has a market-cap of Rs 4023.3cr and is trading at a share price of Rs.71.50. The standalone TTM EPS is Rs.9.06. This translates into a TTM PE of 7.9. The P/BV stands at 1.6. The stock is an attractive buy considering the growth prospects of the industry as well as the company.

We recommend a “BUY” on the stock with an investment horizon of 1-3 months and target price of Rs. 79.50.

Financials

Income Statement (Quarterly): Standalone

Rs Cr.

Particulars	Jun-12	Jun-11	Mar-12	Var% (YoY)	Var% (QoQ)
Net Sales	267.6	284.3	276.3	-5.9	-3.2
Other operating income	2.5	3.3	2.4	-25.7	1.7
Total Expenditure	21.1	22.4	24.4	-5.8	-13.5
Other Income	15.1	7.9	14.0	92.6	7.8
PBIDT	264.1	273.1	268.4	-3.3	-1.6
Interest	31.7	32.4	31.6	-2.0	0.4
PBDT	232.4	240.7	236.8	-3.5	-1.9
Depreciation	43.9	45.3	46.6	-3.0	-5.7
PBT	188.4	195.5	190.2	-3.6	-1.0
Tax	63.6	58.1	61.0	9.5	4.3
Net Profit (after Extraordinary Items)	124.9	137.4	129.3	-9.1	-3.4
Adj EPS	2.2	2.4	2.3	-9.0	-3.5
PBIDTM%	97.8	95.0	96.3	284bps	150bps
PATM%	46.2	47.8	46.4	-153bps	-14bps

Source: Ace Equity

Financials (Annual): Standalone

Rs Cr.

Particulars	Mar-12	Mar-11	Mar-10	Mar-09	Mar-08	Mar-07	5-yr CAGR(%)
Total Income	1174.6	1091.9	1019.5	511.8	447.3	335.4	28.5
Total Expenditure	93.5	76.3	62.3	62.9	53.4	49.8	13.4
PBIDT	1081.1	1015.6	957.2	449.0	393.9	285.5	30.5
PBIT	899.2	862.3	720.7	278.5	230.7	182.9	37.5
PBT	769.0	765.0	626.9	191.4	149.1	137.3	41.1
PAT	522.1	506.4	413.8	123.4	99.9	89.4	42.3
Equity Paid Up	562.7	562.6	562.4	562.1	562.0	542.8	
Net Worth		2004.8	1563.5	1211.9	1134.6	956.6	
Total Debt		1483.5	1259.5	1150.9	966.0	863.8	
Cash and Bank balance		239.0	174.2	97.5	256.9	181.1	
Cash Flow from Operations		592.2	886.2	203.8	601.8	161.1	
Cash Flow from Investing activities		-552.3	-761.7	-428.3	-621.8	-440.4	
Cash Flow from Finance activities		24.9	-47.8	65.1	95.8	223.2	
Free Cash flow		40.0	124.5	-224.5	-20.0	-279.3	
Debt to Equity(x)		0.7	0.8	0.9	0.9	0.9	
RONW(%)		28.4	29.8	10.5	9.6	9.7	
PBIDTM(%)	96.3	97.7	96.5	92.1	94.3	89.9	
PATM(%)	46.5	48.7	41.7	25.3	23.9	28.1	
Adjusted EPS	9.3	9.0	7.4	2.2	1.8	1.6	
CEPS		11.7	11.6	5.2	4.7	3.5	
Dividend %	10.0	10.0	10.0	7.5	5.0	5.0	

Source: Ace Equity

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Bajaj Capital Centre for Investment Research
Bajaj Capital Ltd
97, Bajaj House, Nehru Place
New Delhi 110019
Tel 4169 3000, 4169 2900, Ext. 675
Email: bccir@bajajcapital.com