

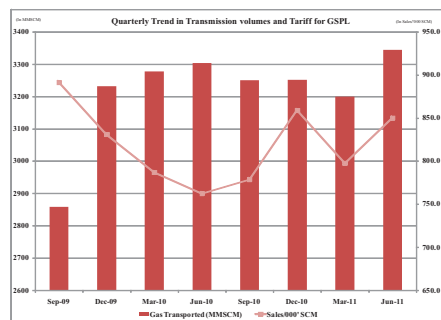


### Increase in Transmission Tariffs drive Sales growth for the quarter

#### Quarterly Operating Income w.r.t. Business Segments

Units: Rs. Crore	Jun 11	% Growth	Jun 10	% Growth	Mar 11
Gas Transportation	272.0	252.2	7.8%	252.7	7.6%
Sale of Electricity	15.9	2.4	565.6%	5.4	192.2%
Total Income	287.8	254.6	13.1%	258.2	11.5%

During the June quarter, GSPL recorded healthy growth in Top-line which moved up by 12.9% YoY and 11.4% QoQ to Rs 284 Crore (Q1, 12). Despite almost flattish growth in volumes, which stood at 3345 MMSCM in June quarter, steady performance on Sales was led by firm growth in tariffs which stepped up to 850/000SCM up by 11.5% YoY and 6.6% QoQ.

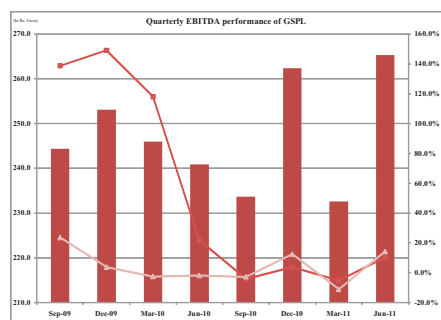


Source: Company Data, JRG Research

With respect to business segments, Sales in the Gas Transportation business enhanced by 7.8% YoY and 7.6% QoQ to Rs252 Crore (Q1, 12) while Sale of Electricity jumped sharply by more than 3X YoY and 6X QoQ to 16 Crore (Q1, 12). Management expects similar performance from the Electricity segment over the coming quarters.

### EBITDA performance follows Sales

EBITDA growth was in-line with Top-line as total operating expenses, on a very low base rose over 63.6% YoY while dipped 12.2% QoQ to Rs 22 Crore. EBITDA margins dropped nearly 240 bps YoY and improved 200 bps QoQ to 92.2% (Q1, 12). Fall in margins on YoY basis was due to the higher Staff costs (up 118.4%), Operating and & Maint Exp (jumped 32.9%) and Admin & Other Exp (shot up 101.4%).



Source: Company Data, JRG Research

### Higher other income & low Depreciation aid Bottom-line growth

On the other side, GSPL's Net profit grew 30.7% YoY while fell 8.8% sequentially to Rs 137.4 Crore (Q1, 12). Bottom-line performance was better-off led by higher other income, less Depreciation and lower Tax

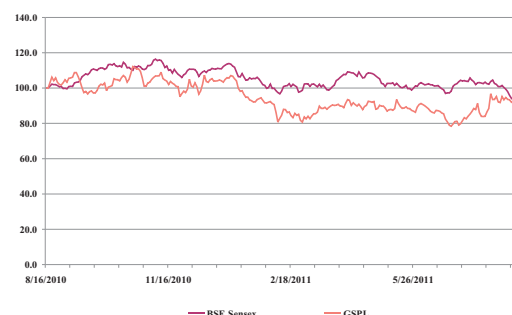


Gujarat State Petronet Ltd.

Industry: Natural Gas Transmission

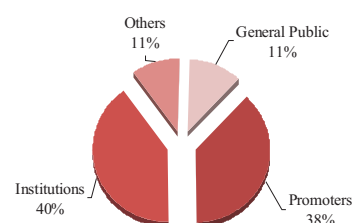
Current Price	100
Target Price	115
Market Cap (Cr.)	5640
52 Week H/L	128/84
FV	10
Book Value/Share	36
BSE Sensex	16731
NSE Nifty	5035
BSE Code	532702
NSE Code	GSPL
Reuters Code	GSP.T.NS
Bloomberg Code	GUJS:IN

#### 1 Yr Stock / Index Performance



Stock/Index Performance %	3 M	6 M	12 M
GSPL	0.5%	4.5%	-9.9%
BSE Sensex	-7.8%	-8.6%	-7.3%
NSE Nifty	-7.4%	-8.1%	-7.0%

#### Share Holding Pattern as on Jun 30, 2011



Particulars (In Rs. Crore)	FY 10	FY 11	FY 12E	FY 13E
Net Sales	992.0	1039.1	1111.6	1210.4
Operating Exp	59.5	77.2	95.7	107.3
EBITDA	941.3	969.4	1023.4	1113.1
Net Profit	413.8	506.4	498.3	528.2
EPS	7.4	9.0	8.8	9.4

Tapan Trivedi

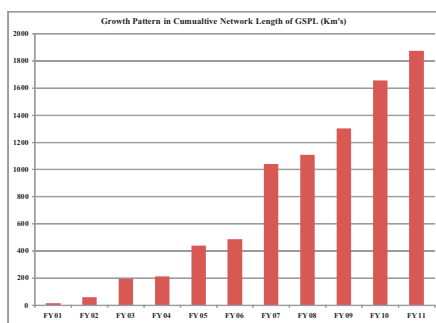
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-outgo. Due to the change in company's depreciation policy and change in rate of depreciation from 4.75% to 3.17% SLM (30 year life), depreciation which was negative in the March quarter further dropped 34.1% YoY to 45.3 Crore (Q1, 12). Net profit was higher despite increase in interest cost which climbed 44.4% YoY and 37.3% QoQ to Rs 32.4 Crore in the current quarter.

### GSPL operates the largest Intra-state gas network in the country

Currently GSPL operates nearly 1900 Km gas transmission network in Gujarat wherein it is undergoing expansion plans to enhance its network to 2500 Km over the next two-three years. At presently, the company transports over 35 MMSCMD of natural gas to more than 30 customers including Refineries, Steel Plants, Fertilizer Plants, Petrochemical Plants, Power Plants, Glass industries, Textiles, Chemical and other miscellaneous industries.



Source: Company Data, JRG Research

The company's expansion plan is anticipated to result into a Capex of around 600-700 Crore p.a. for the next 2-3 years and step-up its gas supply volumes to around 45 MMSCMD as compared to over 35 MMSCMD currently. With this, the company will roll out its network across the 26 districts of Gujarat.

Quarterly Financial Performance - Gujarat State Petronet Ltd.					
Units: Rs. Crore	Jun 11	% Growth	Jun 10	% Growth	Mar 11
Net Sales	284.3	251.8	12.9%	255.1	11.4%
Other Oper Income	3.3	2.7	22.0%	2.9	15.3%
Total Income	287.6	254.5	13.0%	258.0	11.5%
StaffCost	5.6	2.6	118.4%	4.5	25.9%
Oper & Main Exp	10.9	8.2	32.9%	9.0	20.9%
% of Opex	48.5%	59.8%	-	35.3%	-
Admin& Other Exp	5.9	2.9	101.4%	12.0	-51.0%
% of Opex	26.3%	21.4%	-	47.2%	-
Operating Expenses	22.4	13.7	63.6%	25.5	-12.2%
EBITDA	265.2	240.8	10.1%	232.6	14.1%
OPM	92.2%	94.6%	-	90.1%	-
Other Income	7.9	3.0	163.2%	6.8	15.3%
Depreciation	45.3	68.7	-34.1%	-17.3	-361.5%
EBIT	227.8	175.1	30.1%	256.7	-11.2%
Interest	32.4	22.4	44.4%	23.6	37.3%
Profit Before Tax	195.4	152.7	28.0%	233.1	-16.2%
Taxes	58.1	47.6	22.1%	82.5	-29.6%
% of Taxes	29.7%	31.2%	-	35.4%	-
Net Profit	137.4	105.1	30.7%	150.6	-8.8%
NPM	46.5%	40.8%	-	56.9%	-

### Financial Valuations and Projections

With Q1, 12 numbers marginally better than our expectations, we are enhancing our transmission volumes estimates for FY 12E and FY 13E by 1.5% and 3% respectively. We now expect GSPL to record Transmission volumes of 38.9 MMSCMD and 41.8 MMSCMD for FY 12E and FY 13E. Though, GSPL witnessed decent growth in Transmission Tariffs during the quarter, we have kept our tariff estimates unchanged as the company is yet to receive an approval from PNGRB (Petroleum & Natural Gas Regulatory Board) regarding further increase in tariffs.

While Sales are seen higher due to increase in volumes and higher contribution from Sale of Electricity, we have also seen higher operating expenses as compared to our earlier anticipation. Net Sales is seen higher to Rs 1111.6 Crore (up by 4.8%) and Rs 1210.4 Crore (up 5.4%) for FY 12E and FY 13E. With the effect of higher expense, Operating Income is seen moving up to Rs 1023.4 Crore (FY 12E) and Rs 1113.1 Crore (FY 13E).

Gujarat State Petronet Ltd. - Modified Financials for FY 12 and FY 13						
Units: in Rs Crore	FY 12E			FY 13E		
	Old	New	% Change	Old	New	% Change
Net Sales	1061.2	1111.6	4.8%	1148.5	1210.4	5.4%
Operating Expenses	86.8	95.7	10.3%	98.9	107.3	8.5%
EBITDA	984.4	1023.4	4.0%	1059.6	1113.1	5.1%
OPM	91.9%	91.4%	-	91.5%	91.2%	-
Net Profit	481.7	498.3	3.5%	505.7	528.2	4.5%
NPM	44.0%	43.5%	-	42.7%	42.3%	-

### Recommendation

We remain optimistic about the overall growth prospects in the Gas Transmission sector in India and on GSPL owing to its dominant network positioning in Gujarat. At the trailing market price of Rs 100, GSPL is trading at 11.4X and 10.7X its FY 12E and FY 13E earnings. Considering its low valuations compared to peers and following its financial and operating performance in Q1, 12; we maintain our Rating on the stock while upgrade our Target price to Rs 115.

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