Gujarat State Petronet

IPO Fact Sheet

Issue details	
Issue opens:	January 24, 2006
Issue closes:	January 28, 2006
Issue size:	13.8 crore
Offer for sale by promoter:	NIL
Net issue to public:	13.8 crore
Face value:	Rs10.0
Qualified institutional buyers' portion:	Up to 6.90 crore
Non-institutional portion:	Minimum 2.07 crore
Retail portion:	Minimum 4.83 crore
Price band:	Rs23-Rs27

Company background

Gujarat State Petronet Ltd (GSPL) is a natural gas transmission company with presence in the state of Gujarat. It owns and operates a 433-kilometre-long natural gas pipeline between Hazira and Kalol. This pipeline transports more than 13.0 million metric standard cubic metre per day (mmscmd) of natural gas out of the total 34.8mmscmd of natural gas transported by all the pipelines for consumption in Gujarat. GSPL works on an open access principle. This means that its pipeline is made available to any supplier of natural gas for transmission to any customer on a non-discriminatory basis.

Currently GSPL is a 52.52% subsidiary of Gujarat State Petroleum Corporation (GSPC), the upstream oil and gas exploration and production arm of the state government of Gujarat. After the public issue, GSPC's holding in GSPL will come down to 39.15%.

Objectives of issue

GSPL intends to utilise the proceeds of the issue to finance the expansion of its existing gas transmission network by approximately 742 kilometre to cover new areas in Gujarat.

Section	Estimated cost (Rs cr)	Approximate length (km)	Expected completion date
Mora-Vapi	471.4	138.0	April 2006
Kalol-Himatnagar	82.8	63.0	February 2006
Kalol-Mehsana	78.1	47.0	July 2006
Anand-Rajkot	523.7	294.0	July 2006
Spur lines	294.0	200.0	July 2007
Total	**1,450.0**		

The following table gives the details of the various sources of funds for the Rs1,450-crore-expansion exercise.

Sources of fund

From	Rs crore
Equity funding	
GSPC	5.0
GMB	0.4
IDFC	30.0
IDBI	45.0
UTI	25.0
Public issue	317.0-372.0
Debt	875.7
Internal accruals	97.0-152.0
Total	**1,450.0**

Key positives

Gujarat, the largest producer of and a major consumer of gas

Gujarat is one of the largest oil and natural gas producing states in the country. Apart from being the largest producer of gas in the country (it produces nearly 60% of India's total gas output), Gujarat is also the first and the only state in India to have a terminal for receiving imported regassified liquefied natural gas (RLNG). Currently Gujarat houses two RLNG terminals: one at Dahej (owned and operated by Petronet LNG) with a capacity of 5 million tonne per annum

(MTPA) or approximately 18.9mmscmd (currently 9mmscmd is operational); and the other at Hazira (owned and operated by Shell India) with a capacity of 2.5MTPA or 9.3mmscmd (currently supplying only 0.7mmscmd).

Estimated supply of gas in Gujarat

Source	Supply (mmscmd)		CAGR
	2005	2010E	(%)
ONGC	13.0	9.0	-7.1
GSPC	4.5	5.0	2.1
Cairn Energy	3.3	4.0	3.9
Petronet LNG (PLL)	8.5	16.0	13.5
Hazira LNG	0.7	14.0	82.1
Panna-Mukta-Tapti (PMT)	4.8	NA	-
Reliance (KG Basin)	-	10.0	-
Total	**34.8**	**58.0**	**10.8**

Despite the supply in Gujarat growing at a compounded annual growth rate (CAGR) of 10.8%, the demand-supply deficit is expected to widen further as the demand in the state is expected to grow at a faster CAGR of 11.8%. Gujarat is also one of the largest consumers of natural gas in India. Approximately 35% of India's total natural gas is consumed in Gujarat alone.

Estimated demand for gas in Gujarat

Sector	Supply (mmscmd)		CAGR
	2005	2010E	(%)
Power	16.7	41.6	20.0
Fertiliser	9.1	11.6	5.0
Distribution	3.3	5.4	10.4
Steel	5.0	7.0	7.0
Others industries	19.9	29.0	7.8
Total	**54.1**	**94.5**	**11.8**
Supply deficit	**-19.3**	**-36.5**	**13.6**

GSPL has the largest pipeline (length: 433 kilometre) in Gujarat. It sources gas from various gas suppliers and has *take or pay* contracts with its customers. Despite being a subsidiary of GSPC, its dependence on the parent is very less because it has access to diverse sources of gas.

Gas sourcing from...

Source	MSCMD
GSPC-Niko	4.0
RLNG	5.4
Cairn Energy	3.6
Panna-Mukta-Tapti	1.0*
Total	14.0

*To start from Q4FY2006.

Also its key clients belong to various sectors like steel, power, fertilisers and petrochemicals. Moreover the contracts vary in nature, from long-term (ten years) to medium-term (five year) to short-term (three years). The contracts are on a *take or pay* basis which means that a customer has to pay for the gas even if he fails to take the delivery. This is to ensure that the long-term contracts of this nature are duly honoured.

Key clients

Company	Quantity taken (MSCMD)
Essar Steel	3.6
Gujarat Paguthan Energy Corporation	3.0
Essar Power	1.3
Gujarat Gas Company	1.3
Indian Farmers Fertilizer Cooperative	0.9
Gujarat State Energy Generation	0.8
Torrent Power AEC	0.5
Gujarat Alkalies and Chemicals	0.5
Gujarat State Electricity Company	0.5
Gujarat State Fertilizer Corporation	0.5

Expanding to take advantage of volume growth

GSPL is proactively looking at entering the new markets through the extension and expansion of its gas transmission network. Under the expansion plan the current pipeline which runs from Kalol in north Gujarat to Mora in southern Gujarat will be expanded further to the western part of the state to cover Rajkot, and farther to the north and the south to cover Mehasana and Vapi respectively.

In mmscmd	2005	2010E	GSPL's pipeline
Surat	21.0	46.3	Already there
Bharuch	12.6	18.1	Already there
Vadodara	6.4	7.6	Already there
Valsad/Vapi	3.6	6.8	Maro-Vapi
Anand	2.7	3.5	Already there
Ahmedabad	2.4	3.4	Already there
Rajkot	1.3	2.5	Anand-Rajkot
Mehsana	1.6	2.0	Kalol-Mehsana
Gandhinagar	-	1.3	Already there
Himatnagar	0.6	1.1	Kalol-Himmatnagar
Ankaleshwar	0.7	0.8	Already there
	52.9	93.4	

Increased gas supply to come from PMT and PLL

GSPL's pipeline collects natural gas from all the major supply sources in Gujarat near the natural gas fields of Cairn Energy, GSPC and GSPC-Niko, all located in Hazira, and regasified LNG from the Petronet LNG terminal. GSPL is also constructing a spur line that will connect it to the landfall point of gas from PMT fields located in Hazira; the same is expected to be completed by Q4FY2006. GSPL also expects an increase in the supply of RLNG from PLL, which plans to expand the capacity of its RLNG terminal from 5.0MTPA to 10.0MTPA. The expansion exercise of PLL is scheduled for completion by 2010.

Key concerns

Execution risk

The laying of gas transportation pipeline faces some project execution risks as discussed below.

- *GSPL is yet to acquire some of the land required for expansion. Any failure to acquire the same may delay the expansion.*
- *Also customers have to build gas-receiving facilities at their end. Any delay in building these facilities may result in a delay in the delivery of gas.*

Highly regulated sector

The natural gas sector is highly regulated by the government. The ministry of petroleum and natural gas had prepared a Draft Petroleum and Natural Gas Regulatory Board Bill, 2005 (revised as in May 2005), which proposes the establishment of a Regulatory Board that among other things will also regulate the storage, transportation, distribution, marketing and sale of natural gas (excluding the production of crude oil and natural gas) in India. The proposed board will have rights to notify the structure within which the entities in the businesses of natural gas transportation and distribution have to operate.

The regulatory board would also have powers to specify the terms and conditions for determining the transportation tariff for pipelines calculated using various methods. This can pose a risk to GSPL.

Highly competitive environment

GSPL faces strong competition on two fronts. One, it has to compete with alternative primary fuels such as coal, liquefied petroleum gas, naphtha, diesel and fuel oil. Any price advantage to these fuels may hurt the demand for natural gas.

Two, it also has to face competition from the other gas transportation pipelines operated by GAIL (India) and Gujarat Gas Company in the regions of Baroda, Baruch and Surat. GAIL is the largest natural gas transmission company in India, has greater financial resources and a more extensive pipeline network in the country.

Dependence on small customer base

Power and fertiliser sectors collectively accounted for approximately 70.3% of GSPL's operating revenues in the six months ended September 30, 2005. Its five largest customers accounted for approximately 68.4% of its operating revenues in the six months ended September 30, 2005 with its largest customer, Gujarat Paguthan Energy Corporation Private, accounting for approximately 30.1% of its operating revenues.

Any failure on GSPL's part to source gas from the suppliers or any loss of customers to the other players can hurt its revenues and profitability substantially.

Comparative valuations

The stock is available at 28.3x its FY2006 annualised (diluted) earnings per share (EPS) of Rs4.8 and at 8.7x its FY2006 annualised enterprise value/earnings before interest, depreciation, tax and amortisation at the upper band of Rs162. On a cash EPS basis (which is a better valuation method here, as pipeline operators incur huge depreciation costs during the initial years), GSPL is available at 11.2x its FY2007E cash EPS.

FY2006	GAIL India*	Guajrat Gas*	GSPL#	GSPL$
Price (Rs)	280.7	1,449.8	27.0	27.0
EPS (x)	24.0	78.7	1.3	1.0
PER (x)	11.7	18.4	21.1	28.3
EV/EBIDTA (x)	6.3	-	8.7	8.7
Cash EPS	47.4	96.0	3.2	2.4
P/CEPS	5.9	15.1	8.4	11.2

* based on consensus estimates

annualised based H1FY2006 but undiluted

$ annualised based on H1FY2006 but diluted

Financials

Profit and loss account Rs (cr)

	FY2003	FY2004	FY2005	H1FY06
Net revenues	90.7	140.2	203.5	125.1
Total expenditures	36.9	60.1	74.2	33.0
Operating profits	53.8	80.1	129.3	92.1
Other income	0.5	1.9	2.0	0.6
EBIDTA	54.3	82.0	131.3	92.7
Interest	18.1	25.5	36.3	19.2
Depreciation	24.7	39.8	65.6	39.5
Profit before tax	11.5	16.8	29.3	34.1
Tax	-4.3	16.0	13.3	8.2
Profit after tax	15.8	0.8	16.0	25.9
Prior period adjustment	1.8	2.7	-10.7	11.4
Adj. profit after tax	5.1	12.2	16.1	25.9

Balance sheet Rs (cr)

	FY2003	FY2004	FY2005	H1FY06
Liabilities				
Total share capital	210.2	245.2	355.3	354.2
Reserves and surplus	1.2	12.9	47.4	74.1
Shareholders' funds	211.3	258.0	402.7	428.4
Secured loans	133.0	396.2	425.9	496.0
Unsecured loans	61.0	33.7	17.7	17.2
Total debt	194.0	429.9	443.6	513.2
Total liabilities	405.3	687.9	846.3	941.6
Assets				
Net block	272.3	402.0	731.4	722.9
CWIP	130.3	271.6	107.9	235.5
Net current assets	5.9	21.8	26.4	8.2
Net deferred tax	-3.1	-7.5	-19.3	-25.1
Total Assets	405.3	687.9	846.3	941.6

Key ratios (%)

	FY2003	FY2004	FY2005	H1FY06
OPM	59.3	57.2	63.6	73.6
PBT	12.7	12.0	14.4	27.2
NPM	17.4	0.6	7.9	20.7
RoCE	7.3	6.1	7.8	5.7
RoNW	9.2	0.3	4.8	6.2

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