

Gujarat Industries Power Co. Ltd.Q4 FY2008
Result Update**Results Highlights**

For the quarter ended Mar 31, 2008 Gujarat Industries Power Co. Ltd. (GIPCL) has posted 65.7% growth in net sales to Rs. 2,850.3Mn as compared to Rs. 1,719.9Mn for the quarter ended Mar 31, 2007. Power generation has increased during the quarter by 5%, owing to higher PLF contributed by the Surat lignite power plant and Vadodara station-II. Total Income has increased from Rs. 1,755.2Mn for the quarter ended Mar 31, 2007 to Rs. 2,912.8Mn for the quarter ended Mar 31, 2008.

The company has incurred a one-time interest cost on account of arbitration cases decided during the year. There has also been a tax adjustment for the earlier years, amounting to Rs. 71.7Mn as a provision of minimum alternate tax (MAT).

As a percentage of sales raw material cost & other expenses has increased to 70.6% and 4.9% respectively, with the contrarian decrease in staff cost by 2.3%. Thus the EBIDTA margins have declined considerably to 22.2% from 35.5% for the quarter reported. Adj. Net Profit for the company increased by 16% from Rs. 210.6Mn in Q4FY07 to Rs. 244.2Mn in Q4FY08 mainly due to an increase in tariffs as compared to the previous year.

Full Year Results

For FY08 the company's top line performance has beaten our estimates, after a one-time adjustment. It clocked revenues of Rs. 9,355.5Mn from Rs. 7,955.8Mn in FY07 presenting a growth of 17.6%. Fuel Cost for the year has increased by 38.4% to Rs. 6,058.7Mn from Rs. 4,378.2 in FY07. This has been due to increase in gas prices, subsequent rise in tariffs for the gas based plants & excellent operating performance of the power plants. The fuel cost is a pass throw for all its plants, thus helping the company to maintain its profitability.

Adjusted PAT for FY08 stood at Rs. 1,203.7Mn as against Rs. 1,060.5Mn in FY07, which is an increase of about 13.5%. The Adj. EPS for the year works out to be Rs. 1.6/- as compared to Rs. 1.4/- for the last year.

Operational Performance

For FY08 the company had a good operational efficiency with its 3 plants attaining a plant load factor (PLF) of 89.4%, 80.2% & 85.6% in FY08 as compared to 87.4%, 74.5% & 80% in FY07 for Vadodara station-I, Vadodara station-II & SLPP respectively. The Vadodara station-I & the Sural Lignite power plant (SLPP) have recorded their highest ever generation levels in the current year giving an average realisation jump of 38.2% Y-Y to Rs. 2.59/unit. Furthermore the company is well on track with its 250MW plant SLPP-II is on schedule, with an expenditure of Rs. 7,200Mn till date.

Dividend A stable dividend history inspires confidence in the management's intentions of rewarding shareholders. GIPCL has, however, not been a high dividend paying company with its payout ratio averaging 16.5% over the past 2 years. During FY08 the Board of Directors of the company have recommended a dividend of 25% on its equity capital and going forward, we expect that the absolute dividend & pay-out will increase, as the benefits from the new plant starts flowing in.

Company Profile Gujarat State Fertilizers & Chemicals (GSFC), Gujarat Alkalies & Chemicals (GACL), Gujarat Electricity Board (GEB) and Petrofils Co-operatives (PCL) jointly promoted Gujarat Industries Power Company Ltd. (GIPCL). The company was incorporated in June 1985 with the objective of setting up a coal-based power station of 120MW to cater to the captive power needs of its promoter companies. The company has massive expansion plans to increase its current installed capacity of 555 MW increasing to 805 MW by FY 2009 and further to 1305 MW by FY 2012.

Our View Going forward, we expect the profitability of the company to increase on account of improved realizations, capacity expansion plans, which will augment the revenues by higher plant, load factor and reduced interest costs. The top and bottom line of the company is expected to increase at a CAGR of 10.5% and 8.32% respectively, over the next 4 years. We expect the company to post good numbers in the subsequent quarters of the fiscal helped by a higher PLF and lower interest outgo. GEB's improving financials would also help the company in improving its visibility and strengthening the balance sheet.

At CMP of Rs. 87, the scrip trades at P/E of 12.8x FY08, 9.5x FY09E & 7x FY10E earnings of Rs 6.8, Rs 9.1 & Rs 12.4 respectively. On P/BV basis it trades at 1.1x, 1x & 0.9x FY08, FY09E & FY10E respectively. We have recommended a "BUY" based on our average of P/BV and Replacement Cost calculations with a price objective of Rs. 140 (61.6% upside), at which the scrip would trade at 1.5x FY10E P/BV.

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GIPCL : Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q408	Q308	Q-Q(%)	Q308	Y-Y(%)	12M08	12M07	Y-Y(%)
Net Revenues	2,850.3	2,428.5	17.4%	1,719.9	65.7%	9,355.5	7,955.8	17.6%
Cost of Materials	2,012.9	1,556.2	29.3%	1,000.0	101.3%	6,058.7	4,378.2	38.4%
Gross Profit	837.4	872.3	-4.0%	719.9	16.3%	3,296.8	3,577.6	-7.8%
Staff Costs	65.0	65.9	-1.4%	75.0	-13.3%	236.3	207.2	14.0%
Other Expenses	138.8	145.6	-4.7%	33.6	313.1%	527.7	466.2	13.2%
Total Expenditure	203.8	211.5	-3.6%	108.6	87.7%	764.0	673.4	13.5%
Operating Profit	633.6	660.8	-4.1%	611.3	3.6%	2,532.8	2,904.2	-12.8%
OPM (%)	22.23%	27.21%	-18.3%	35.54%	-37.5%	27.07%	36.50%	-25.8%
Other Income	62.5	57.4	8.9%	35.3	77.0%	266.0	321.1	-17.2%
EBITDA	696.1	718.2	-3.1%	646.6	7.7%	2,798.8	3,225.3	-13.2%
Depreciation	220.8	222.4	-0.7%	231.9	-4.8%	883.1	898.5	-1.7%
EBIT	475.3	495.8	-4.1%	414.7	14.6%	1,915.7	2,326.8	-17.7%
Interest	221.6	87.6	153.0%	150.3	47.4%	513.2	511.8	0.3%
PBT	253.7	408.2	-37.8%	264.4	-4.0%	1,402.5	1,815.0	-22.7%
Tax	190.3	37.0	414.3%	(256.8)	-174.1%	379.6	(14.1)	2792.2%
PAT	63.4	371.2	-82.9%	521.2	-87.8%	1,022.9	1,829.1	-44.1%
Adjustments								
Forex Gain / (Loss)	109.1	0.0	0.0%	0.0	0.0%	109.1	0.0	0.0%
Prior Period items / tax	71.7	0.0	0.0%	0.0	0.0%	71.7	0.0	0.0%
Adjusted PAT	244.2	371.2	-34.2%	521.2	-53.1%	1,203.7	1,829.1	-34.2%
Equity Capital	1,512.5	1,512.5	0.0%	1,512.5	0.0%	1,512.5	1,512.5	0.0%
Adjusted EPS	1.6	2.5	-34.2%	3.4	-53.1%	8.0	12.1	-34.2%
Ratio Analysis								
Profitability								
YE March	Q408	Q308	Q-Q(bps)	Q308	Y-Y(bps)	12M08	12M07	Y-Y(bps)
OPM (%)	22.2%	27.2%	(498.1)	35.5%	(1,331.3)	27.1%	36.5%	(943.1)
EBITDA (%)	24.4%	29.6%	(515.2)	37.6%	(1,317.3)	29.9%	40.5%	(1,062.4)
EBIT (%)	16.7%	20.4%	(374.0)	24.1%	(743.6)	20.5%	29.2%	(877.0)
PAT (%)	2.2%	15.3%	(1,306.1)	30.3%	(2,808.0)	10.9%	23.0%	(1,205.7)
Operational Parameters								
YE March	Q408	Q308	Q-Q(bps)	Q308	Y-Y(bps)	12M08	12M07	Y-Y(bps)
RM Consumed	70.6%	64.1%	654.0	58.1%	1,247.8	64.8%	55.0%	972.9
Staff Cost	2.3%	2.7%	(43.3)	4.4%	(208.0)	2.5%	2.6%	(7.9)
Other Expenditure	4.9%	6.0%	(112.6)	2.0%	291.6	5.6%	5.9%	(21.9)
Effective Tax Rate	75.0%	9.1%	6,594.6	-97.1%	17,213.5	27.1%	-0.8%	2,784.3

GIPCL : Financials

Earnings Statement					Balance Sheet				
Particulars	FY05	FY06	FY07	FY08	Particulars	FY05	FY06	FY07	FY08E
Sales of Energy	7,406.9	7,491.2	7,933.8	9,290.9	Equity Capital	1,108.1	1,512.5	1,512.5	1,512.5
- Growth (%)	-0.6%	1.1%	5.9%	17.1%	Preference Shares	0.0	0.0	0.0	0.0
Incentives	39.9	74.7	22.1	64.6	Reserves	4,516.8	7,795.0	9,276.9	10,303.7
Total Revenues	7,446.7	7,565.9	7,955.8	9,355.5	Shareholders Funds	5,624.9	9,307.5	10,789.4	11,816.2
Total Expenditure	4,189.3	4,714.0	5,051.6	6,822.7	Borrowed Funds	7,874.9	6,013.0	5,427.2	10,055.1
Operating Profit	3,257.4	2,852.0	2,904.2	2,532.8	Deferred Tax Liability	1,073.9	1,073.9	749.0	749.0
Other Income	293.7	426.3	321.1	266.0	Total Liabilities	14,573.8	16,394.5	16,965.7	22,620.3
EBITDA	3,551.1	3,278.2	3,225.3	2,798.8					
Depreciation	943.5	913.8	898.5	883.1	Fixed Assets	12,966.6	12,777.3	13,141.1	19,560.5
EBIT	2,607.6	2,364.4	2,326.8	1,915.7	Investments	1,357.2	1,357.2	1,357.2	1,357.2
Interest	949.5	639.5	511.8	513.2	Current Assets				
PBT	1,658.0	1,724.9	1,815.0	1,402.5	Inventory	812.9	860.2	811.3	1,018.2
Tax	621.3	576.8	(14.1)	379.6	Sundry Debtors	1,089.8	1,145.0	1,139.2	1,400.0
Reported PAT	1,036.7	1,148.1	1,829.1	1,022.9	Loans & Advances	386.6	1,726.0	1,164.3	1,145.5
- Growth (%)	54.3%	10.7%	59.3%	-44.1%	Cash & Bank Balance	78.6	1,031.0	1,331.1	261.9
Adjustments	0.0	0.0	0.0	180.8	Current Liabilities				
Adjusted PAT	1,036.7	1,148.1	1,829.1	1,203.7	Sundry Creditors	1,842.5	1,796.8	1,667.5	1,781.8
- Growth (%)	54.3%	10.7%	59.3%	-34.2%	Provisions	275.5	824.5	438.6	468.7
					Net Current Assets	250.0	2,140.8	2,339.8	1,575.0
					Miscellaneous Expenditure	0.0	119.2	127.6	127.6
					Total Assets	14,573.8	16,394.5	16,965.7	22,620.3
Ratio Analysis					Cash Flow				
Particulars	FY05	FY06	FY07	FY08	Particulars	FY05	FY06	FY07	FY08E
OPM (%)	43.7%	37.7%	36.5%	27.1%	Opening Cash & Bank	62.7	78.6	1,031.0	1,331.1
EBITDA (%)	47.7%	43.3%	40.5%	29.9%	Profit After Tax	1,036.7	1,148.1	1,829.1	1,022.9
PBIT (%)	35.0%	31.3%	29.2%	20.5%	Invt Income	(293.7)	(426.3)	(321.1)	(266.0)
Adj. PAT (%)	13.9%	15.2%	23.0%	12.9%	Interest Paid	949.5	639.5	511.8	513.2
Interest Cover (x)	2.7	3.7	4.5	3.7	Miscellaneous Exp W/Off	0.0	(119.2)	(8.5)	0.0
EPS (Rs.)	9.4	7.6	12.1	8.0	Depreciation	943.5	913.8	898.5	883.1
P/E (x)	9.3	11.4	7.2	10.9	Deferred Taxation	506.5	0.0	(324.9)	0.0
P/BV (x)	1.7	1.4	1.2	1.1	Others	1.1	2,778.0	10.2	0.0
BVPS (Rs.)	50.8	60.7	70.5	77.3	Change in Working Cap	1,666.1	(938.4)	101.2	(304.5)
Market Cap (Rs. Mn.)	9,601.7	13,105.9	13,105.9	13,105.9	CF - Operating Activities	4,809.7	3,995.6	2,696.4	1,848.8
M Cap/Sales (x)	1.3	1.7	1.6	1.4	Change in Fixed Assets	(223.9)	(752.4)	(1,272.5)	(7,302.5)
EV (Rs. Mn.)	16,040.8	16,730.8	15,844.8	21,541.9	Change in Investments	1,049.3	0.0	0.0	0.0
EV/EBITDA (x)	4.5	5.1	4.9	7.7	Investment Income	293.7	426.3	321.1	266.0
EV/Sales (x)	2.2	2.2	2.0	2.3	CF - Investing Activities	1,119.1	(326.2)	(951.4)	(7,036.5)
ROCE (%)	19.3%	15.6%	14.5%	8.8%	Increase in Equity	0.0	0.0	0.0	0.0
RONW (%)	18.4%	12.5%	17.2%	8.8%	Change in Preference Cap	(81.5)	0.0	0.0	0.0
Debt/Equity Ratio (x)	1.4	0.7	0.5	0.9	Changes in Borrowings	(4,724.0)	(1,861.9)	(585.8)	4,627.9
Inventory T/o Days	39.8	41.5	37.2	39.7	Interest Paid	(949.5)	(639.5)	(511.8)	(513.2)
Debtors T/o Days	53.4	55.2	52.3	54.6	Dividend Paid	(157.9)	(215.6)	(347.2)	(177.0)
Advances T/o Days	18.9	83.3	53.4	44.7	CF - Financing Activities	(5,912.9)	(2,717.0)	(1,444.8)	3,937.7
Creditors T/o Days	90.3	86.7	76.5	69.5					
Working Cap T/o Days	12.3	103.3	107.3	61.4	Net Change in Cash	15.9	952.4	300.1	(1,250.0)
Fixed Assets T/o (Gross)	0.4	0.4	0.4	0.5	Closing Cash & Bank Bal	78.6	1,031.0	1,331.1	261.9
DPS (Rs.)	1.3	1.3	2.0	1.0					
Dividend Payout (%)	13.4%	16.5%	16.5%	12.6%					
Dividend Yield (%)	1.4%	1.4%	2.3%	1.2%					

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