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## CRISIL Research assigns IPO grade 4/5 to Gujarat State Petroleum Corporation

CRISIL Research has assigned a CRISIL IPO grade of "4/5" (pronounced "four on five") to the proposed initial public offer (IPO) of Gujarat State Petroleum Corporation (GSPC). This grade indicates that the fundamentals of the IPO are above average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy / sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The IPO grade assigned to GSPC takes into account the company's presence across the natural gas value chain – exploration and production (E&P), gas trading, gas transmission and city gas distribution (CGD). By virtue of being present in the largest gas consuming market, viz Gujarat, GSPC is uniquely placed to attract a substantial portion of the incremental gas supplies, benefiting its transmission, trading and distribution businesses. In line with GSPC's overall strategy of attaining a well-balanced growth by tapping the potential across gas value chain, it is enhancing its efforts in securing own gas supply sources, development of Deen Dayal West (DDW) field in the Krishna-Godavari (KG) basin is a step in this direction. With this discovery in the KG basin, GSPC has strengthened its position as an oil and gas explorer and producer. Our grading also draws strength from the strong and professional management of the company. The management has successfully spearheaded the company's growth until now and is confident of executing the DDW development on schedule, by June 2012. To ensure timely execution, key project modules have already been awarded, including rig contracts.

The abovementioned grading strengths are partially mitigated by the inherent risks involved in the E&P business. All of GSPC's overseas E&P assets are in the exploration stage and thus, it runs the risk of sinking investments without making any hydrocarbon discovery. Besides, each of the company's business segments are prone to any changes in the prevailing regulations.

### About the company and the issue

The company was incorporated as Gujarat State Petrochemicals Corporation Limited on January 29, 1979 and received certificate of commencement of business on May 8, 1979. To reflect the nature of business, the name of the company was subsequently changed to Gujarat State Petroleum Corporation Limited (GSPC) and a fresh certificate of incorporation was issued on November 10, 1994. GSPC is a state government company and the Government of Gujarat (GoG) holds about 90 per cent equity stake (Pre-IPO shareholding) in the company. The company's registered office is located at Gandhinagar, Gujarat.

GSPC is the flagship company of the GSPC Group and is one of the leading oil and gas exploration, development and production companies in India. GSPC along with its subsidiaries operates across the entire natural gas value chain. The company's E&P business is spread across the globe and its gas trading, transmission and CGD businesses are presently concentrated in Gujarat. GSPC, through its associate company, Gujarat State Energy Generation Ltd (GSEG) operates a 156 MW gas based power plant in Gujarat. GSPC has also commissioned a 52.5 MW wind farm in July 2009.

GSPC's consolidated revenues amounted to Rs 62.0 bn in FY09. For the six months ended September 2009, GSPC's revenues (consolidated) amounted to Rs 26.4 bn, of which the gas trading, CGD, transmission and E&P businesses accounted for 59 per cent, 20 per cent, 15 per cent and 5 per cent, respectively. For the six months ended September 2009, the company's operating margins were higher at 29.5 per cent as compared to 21.5 per cent in FY09. The improvement in operating margins was because of increase in contribution to GSPC's top-line from transmission and CGD businesses which are high margin businesses.

GSPC is a professionally run company promoted by the Government of Gujarat (GoG). While GSPC is a state government undertaking, all critical decisions encompassing growth and capital expenditure plans are directly approved by the GSPC board and are thereon submitted to the Gujarat government for referral. CRISIL Research believes that the management is capable and has been given reasonable autonomy to take business decisions independently.

The IPO proceeds would be utilised by GSPC to part finance the development of its Deen Dayal West field and its exploration costs in various other blocks. Part of the proceeds would also be utilised to prepay an existing loan and finance general corporate expenses.

### About CRISIL IPO Grading

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<i>Media Contact</i>	<i>Analytical Contacts</i>
<p><b>Mitu Samar</b>  <b>Head, Market Development &amp; Communications</b>  <b>CRISIL Limited</b>            Tel: +91-22- 3342 1838            Mobile: +91- 98200 61934            Fax: +91-22- 3342 3001            E-mail: <a href="mailto:msamar@crisil.com">msamar@crisil.com</a></p>	<p><b>Tarun Bhatia</b>  <b>Director, Capital Markets</b>            Tel: +91-22- 3342 3226            E-mail: <a href="mailto:tbhatia@crisil.com">tbhatia@crisil.com</a></p> <p><b>Sudhir Nair</b>  <b>Head, Research</b>            Tel: +91-22- 3342 3526            E-mail: <a href="mailto:snair@crisil.com">snair@crisil.com</a></p> <p><b>Chetan Majithia</b>  <b>Head, Equities</b>            Tel: +91-22- 3342 4148            E-mail: <a href="mailto:chetanmajithia@crisil.com">chetanmajithia@crisil.com</a></p>

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