



27th July 2009

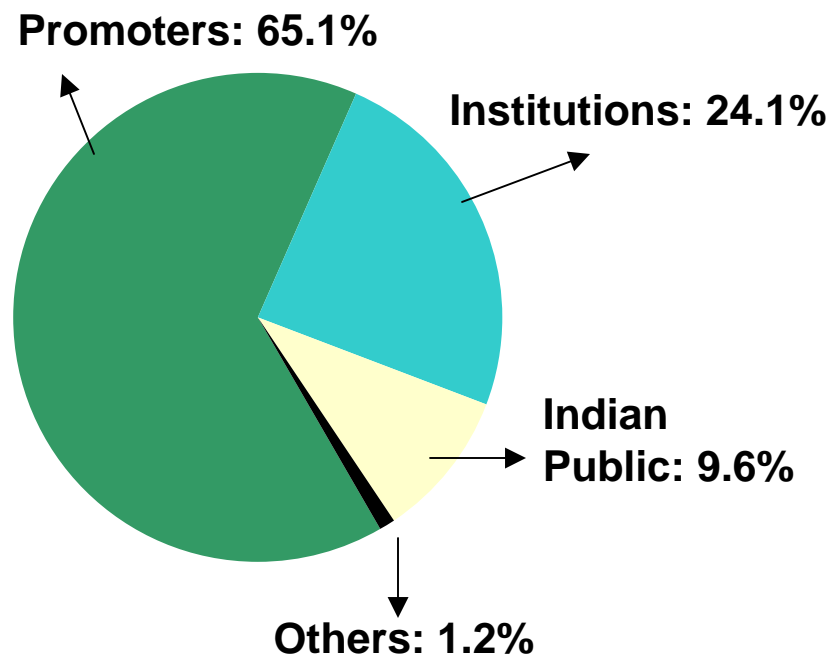
Gujarat Gas Company Limited

CMP Rs. 313.0 | BUY

Gauarat Gas Company Limited

| Stock Codes | |
|-------------|-----------------|
| Bloomberg | GGAS.IN |
| Reuters | GGAS.BO |
| BSE | 523477 |
| NSE | GUJARATGAS |
| BSE Group | B |
| Face Value | Rs. 2.0 |
| Stock Data | |
| 52W H/L | 370.0/170.00 |
| CMP Rs. | Rs. 313.00 |
| Mkt Cap. | Rs. 19,878 Mn |
| Free Float | 2,236 Mn Shares |

Shareholding Pattern (June '09)

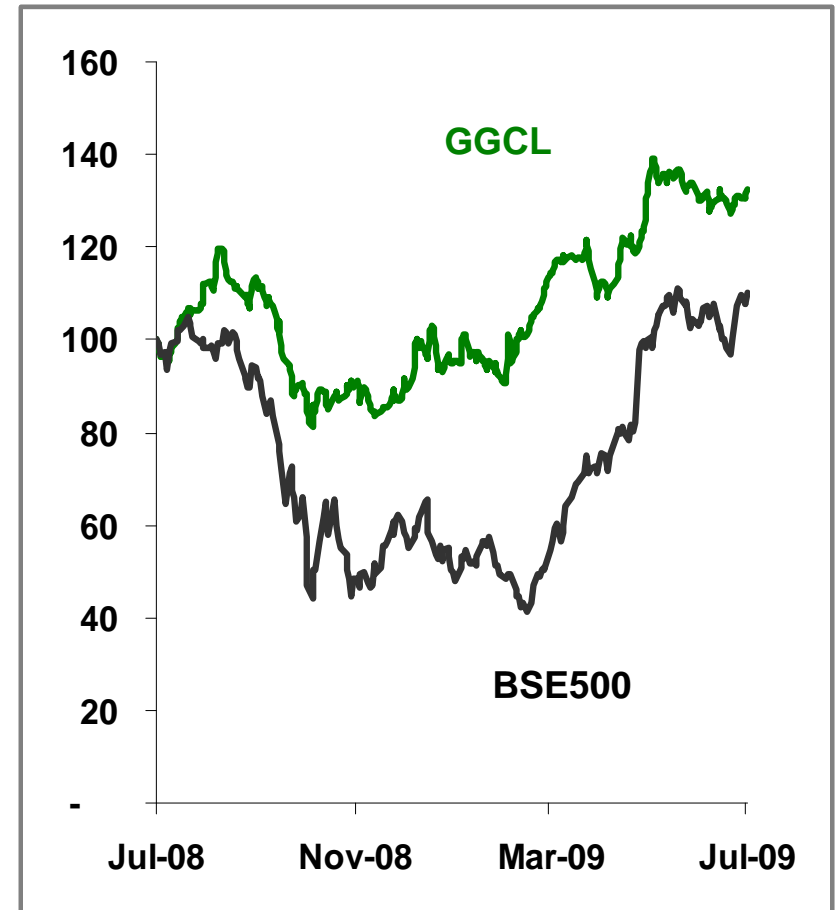


Valuation

| Particulars | CY 05 | CY 06 | CY 07 | CY 08 | CY 09E | CY 10E |
|----------------------|--------|--------|--------|--------|--------|--------|
| OPM (%) | 19.7% | 15.4% | 20.2% | 18.1% | 18.3% | 18.1% |
| EPS (Rs.) | 76.5 | 68.2 | 23.9 | 25.1 | 26.6 | 29.8 |
| P/E (x) | 4.1 | 4.6 | 13.1 | 12.5 | 11.8 | 10.5 |
| P/BV (x) | 1.1 | 0.9 | 3.4 | 2.8 | 2.3 | 1.9 |
| EV/Sales (x) | 0.6 | 0.4 | 1.6 | 1.5 | 1.3 | 1.2 |
| ROCE (%) | 35.0% | 29.1% | 39.3% | 32.4% | 29.4% | 27.6% |
| RONW (%) | 26.5% | 19.2% | 26.1% | 22.2% | 19.6% | 18.4% |
| Working Cap T/o Days | (35.4) | (25.8) | (18.1) | (18.5) | (14.5) | (12.1) |

Company Profile

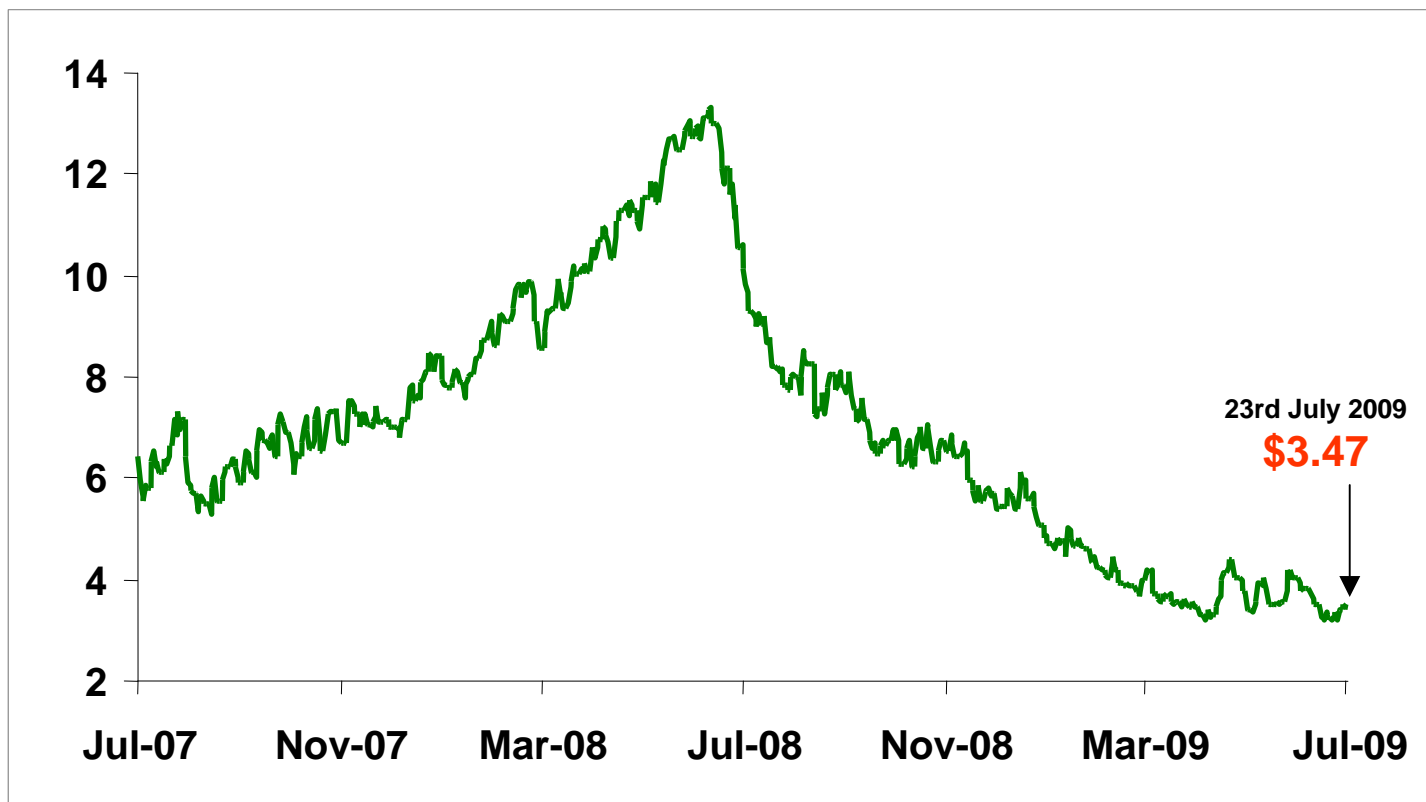
- Operates in the business of gas distribution in the state of Gujarat
- Area of operation – Surat, Ankleshwar, Bharuch, Vapi, Jhagadia
- GGCL promoted by British Gas (BG). BG owns 65.12% in GGCL
- GGCL is the largest private sector gas distribution company in India
- BG has a 30% participating interest in Tapti gas field & Pana/Mukta oils and gas fields each



Investment Argument

- Supply side issues easing out very rapidly
- Supply of gas from KG basin expected very soon
- GGCL has taken a price hike of 15% (Except for CNG Business)
- Spot LNG prices have declined very sharply
- Existing gas supply from PMT to be more consistent
- Volume growth a reality in the quarters with supply side pressures easing off
- GGCL operates in one of the most industrialised state of the country
- Current price hike to take care of slowdown in demand. Last 2 months the company has seen volumes increase

Henry Hub price chart



Source: Bloomberg

Strong infrastructure in place

- Currently operates 29 CNG Gas stations. To add around 6 new stations every year going forward
- Operates 3000 kms of gas pipeline. To lay 300 kms of pipeline every year going forward
- GGCL has applied for a license to operate in Bhavnagar & Kutch
- Company intends to do a capex of Rs.150-200 Crs every year for the next 2-3 years

Gas distribution business dynamics to change

- Ambiguity on the APM gas prices (Price revision may happen)
- APM gas currently charged at \$2.10/mmbtu
 - GGCL gets 0.15 mmscmd gas at APM
- Focus to shift from gas supply constraints to availability of infrastructure
 - GGCL has 3000 Kms Gas Pipeline already in place
- Henry Hub spot natural gas prices at \$3.47/mmbtu
- KG basin gas to be available very soon
- Total quantity of KG basin gas pegged at 90 mmscmd
 - Availability of gas should be no more of a constraint

Some Facts

- GGCL gets 2.13 mmscmd gas from PMT with a firm contract till 2019
- Priority sector business (i.e transport & domestic) accounts for less than 15% of the total sales of GGCL
- Close to 95% of the raw material is on market determined prices
- Demand for natural gas reducing in United States and Europe which is being gobbled up by developing countries

Quarterly Analysis

| YE March (Rs. Mn.) | Q109 | Q108 | Y-Y(%) | Q408 | Q-Q(%) |
|-------------------------|---------------|---------------|----------------|---------------|---------------|
| Net Revenues | 3063.59 | 3335.98 | -8.17% | 3308.89 | -7.41% |
| Cost of Materials | 2193.34 | 2383.04 | -7.96% | 2423.30 | -9.49% |
| <i>Gross Profit</i> | <i>870.25</i> | <i>952.94</i> | <i>-8.68%</i> | <i>885.60</i> | <i>-1.73%</i> |
| Staff Costs | 99.23 | 92.57 | 7.19% | 121.47 | -18.31% |
| Other Expenses | 210.98 | 150.27 | 40.41% | 293.60 | -28.14% |
| Total Expenditure | 2503.55 | 2625.88 | -4.66% | 2838.37 | -11.80% |
| <i>Operating Profit</i> | <i>560.04</i> | <i>710.10</i> | <i>-21.13%</i> | <i>470.53</i> | <i>19.02%</i> |
| Other Income | 75.66 | 46.32 | 63.34% | 98.01 | -22.80% |
| EBITDA | 635.70 | 663.78 | -4.23% | 568.54 | 11.81% |
| Depreciation | 109.52 | 100.01 | 9.50% | 106.17 | 3.15% |
| EBIT | 526.19 | 563.77 | -6.67% | 462.37 | 13.80% |
| Interest | 0.30 | 0.30 | -0.34% | 0.29 | 0.68% |
| PBT | 525.89 | 563.47 | -6.67% | 462.07 | 13.81% |
| Tax | 160.21 | 207.10 | -22.64% | 137.27 | 16.72% |
| PAT | 363.97 | 449.01 | -18.94% | 321.84 | 13.09% |
| Equity Capital | 128.25 | 128.25 | 128.25 | 128.25 | 128.25 |
| EPS | 5.68 | 7.00 | -18.94% | 5.02 | 13.09% |

Profit & Loss Statement

| Particulars (Rs. Mn.) | CY 05 | CY 06 | CY 07 | CY 08 | CY 09E | CY 10E |
|-----------------------|---------|---------|----------|----------|----------|----------|
| Total Revenues | 7468.42 | 9685.01 | 12446.23 | 13012.53 | 14574.03 | 16322.92 |
| - Growth (%) | | 29.68 | 28.51 | 4.55 | 12.00 | 12.00 |
| Total Expenditure | 5993.60 | 8192.63 | 9933.36 | 10660.13 | 11914.27 | 13368.47 |
| Operating Profit | 1474.82 | 1492.38 | 2512.87 | 2352.40 | 2659.76 | 2954.45 |
| Forex Gain/(Loss) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Income | 283.44 | 161.22 | 174.95 | 412.11 | 389.08 | 474.58 |
| EBITDA | 1758.26 | 1653.60 | 2687.82 | 2764.50 | 3048.84 | 3429.03 |
| Depreciation | 273.70 | 318.72 | 384.40 | 417.96 | 488.44 | 560.29 |
| EBIT | 1484.56 | 1334.87 | 2303.43 | 2346.54 | 2560.40 | 2868.74 |
| Interest | 29.16 | 21.98 | 1.06 | 1.11 | 1.00 | 1.00 |
| PBT | 1455.40 | 1312.90 | 2302.37 | 2345.43 | 2559.40 | 2867.74 |
| Tax | 467.44 | 431.30 | 765.67 | 730.26 | 844.60 | 946.35 |
| PAT Before EI | 987.96 | 881.60 | 1536.69 | 1615.18 | 1714.80 | 1921.38 |
| - Growth (%) | | -10.77 | 74.31 | 5.11 | 6.17 | 12.05 |
| Minority Interest | 6.67 | 6.43 | 7.23 | 8.69 | 9.55 | 10.51 |
| PAT | 981.29 | 875.17 | 1529.46 | 1606.49 | 1705.24 | 1910.87 |

Balance Sheet

| Particulars (Rs. Mn.) | CY 05 | CY 06 | CY 07 | CY 08 | CY 09E | CY 10E |
|-----------------------------------|----------------|----------------|----------------|----------------|-----------------|-----------------|
| Total Assets | 5430.60 | 5975.01 | 7484.65 | 9062.58 | 10714.38 | 12591.27 |
| Fixed Assets | 4136.05 | 5217.61 | 5732.68 | 6162.17 | 7183.61 | 8123.32 |
| Investments | 1950.83 | 1399.49 | 2350.19 | 3545.62 | 4095.62 | 4995.62 |
| Current Assets (EXCEP CASH) | 718.77 | 1244.27 | 1488.86 | 1807.34 | 1997.53 | 2220.33 |
| Cash & Bank Balance | 166.57 | 160.76 | 175.51 | 224.68 | 497.08 | 680.41 |
| Current Liabilities | 1608.71 | 2089.35 | 2282.14 | 2692.28 | 3074.52 | 3443.46 |
| Net Current Assets | -723.38 | -684.32 | -617.77 | -660.27 | -579.91 | -542.72 |
| Others | 67.10 | 42.23 | 19.56 | 15.06 | 15.06 | 15.06 |
| Total Liabilities | 5430.60 | 5975.01 | 7484.65 | 9062.58 | 10714.38 | 12591.27 |
| Equity Capital | 128.25 | 128.25 | 128.25 | 128.25 | 128.25 | 128.25 |
| Stock Options Outstanding Account | 0.00 | 0.00 | 0.00 | 2.88 | 2.88 | 2.88 |
| Preference Capital | | 144.00 | 144.00 | 144.00 | 144.00 | 144.00 |
| Reserves | 3639.67 | 4312.33 | 5602.84 | 6971.15 | 8438.70 | 10111.88 |
| Shareholders Funds | 3767.92 | 4584.58 | 5875.09 | 7246.27 | 8713.83 | 10387.01 |
| Minority Interest | 26.11 | 31.16 | 36.95 | 44.22 | 53.78 | 64.29 |
| Borrowed Funds | 530.04 | 29.40 | 0.00 | 0.00 | 0.00 | 0.00 |
| Deferred Tax Liability | 428.62 | 464.87 | 453.35 | 498.39 | 549.58 | 606.93 |
| Deposits | 677.92 | 865.01 | 1119.26 | 1273.69 | 1397.19 | 1533.04 |

Ratio Analysis

| Particulars | CY 05 | CY 06 | CY 07 | CY 08 | CY 09E | CY 10E |
|--------------------------|---------|---------|----------|----------|----------|----------|
| OPM (%) | 19.7% | 15.4% | 20.2% | 18.1% | 18.3% | 18.1% |
| EBITDA (%) | 23.5% | 17.1% | 21.6% | 21.2% | 20.9% | 21.0% |
| PBIT (%) | 19.9% | 13.8% | 18.5% | 18.0% | 17.6% | 17.6% |
| PAT (%) | 13.1% | 9.0% | 12.3% | 12.3% | 11.7% | 11.7% |
| Interest Cover (x) | 50.9 | 60.7 | 2,173.0 | 2,110.2 | 2,560.4 | 2,868.7 |
| EPS (Rs.) | 76.5 | 68.2 | 23.9 | 25.1 | 26.6 | 29.8 |
| P/E (x) | 4.1 | 4.6 | 13.1 | 12.5 | 11.8 | 10.5 |
| P/BV (x) | 1.1 | 0.9 | 3.4 | 2.8 | 2.3 | 1.9 |
| BVPS (Rs.) | 289.3 | 354.9 | 91.3 | 112.9 | 135.8 | 161.9 |
| Market Cap (Rs. Mn.) | 4,014.2 | 4,014.2 | 20,071.1 | 20,071.1 | 20,071.1 | 20,071.1 |
| M Cap/Sales (x) | 0.5 | 0.4 | 1.6 | 1.5 | 1.4 | 1.2 |
| EV (Rs. Mn.) | 4,377.7 | 3,882.9 | 19,895.6 | 19,846.5 | 19,574.0 | 19,390.7 |
| EV/EBITDA (x) | 2.5 | 2.3 | 7.4 | 7.2 | 6.4 | 5.7 |
| EV/Sales (x) | 0.6 | 0.4 | 1.6 | 1.5 | 1.3 | 1.2 |
| ROCE (%) | 35.0% | 29.1% | 39.3% | 32.4% | 29.4% | 27.6% |
| RONW (%) | 26.5% | 19.2% | 26.1% | 22.2% | 19.6% | 18.4% |
| Working Cap T/o Days | (35.4) | (25.8) | (18.1) | (18.5) | (14.5) | (12.1) |
| Fixed Assets T/o (Gross) | 8.0 | 10.6 | 9.9 | 6.9 | 9.0 | 9.0 |
| DPS (Rs.) | 10.0 | 12.5 | 3.0 | 3.0 | 3.0 | 3.0 |
| Dividend Payout (%) | 13.1% | 18.3% | 12.6% | 12.0% | 11.3% | 10.1% |
| Dividend Yield (%) | 3.2% | 4.0% | 1.0% | 1.0% | 1.0% | 1.0% |

Cash Flow

| Particulars (Rs. Mn.) | CY 05 | CY 06 | CY 07 | CY 08 | CY 09E | CY 10E |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Opening Cash & Bank | 106.8 | 166.6 | 160.8 | 175.5 | 224.7 | 497.1 |
| Profit After Tax | 981.3 | 875.2 | 1,529.5 | 1,606.5 | 1,705.2 | 1,910.9 |
| Investment Income | (283.4) | (161.2) | (175.0) | (412.1) | (389.1) | (474.6) |
| Interest Paid | 29.2 | 22.0 | 1.1 | 1.1 | 1.0 | 1.0 |
| Miscellaneous Exp W/Off | 0.0 | 24.9 | 13.5 | 15.0 | 0.0 | 0.0 |
| Depreciation | 273.7 | 318.7 | 384.4 | 418.0 | 488.4 | 560.3 |
| Impairment Loss | 0.0 | 0.0 | 26.9 | (17.1) | (9.9) | 0.0 |
| Deferred Taxation | (56.0) | 36.3 | (13.7) | 45.0 | 51.2 | 57.4 |
| Others | 79.9 | (24.6) | (22.2) | (40.2) | 0.0 | 0.0 |
| Change in Working Cap | 52.5 | (44.9) | (51.8) | 91.7 | 192.0 | 146.1 |
| CF - Operating Activities | 1,077.0 | 1,046.3 | 1,692.8 | 1,707.9 | 2,039.0 | 2,201.1 |
| Change in Fixed Assets | (1,592.1) | (1,375.7) | (892.9) | (797.9) | (1,500.0) | (1,500.0) |
| Change in Investments | (155.2) | 551.3 | (950.7) | (1,195.4) | (550.0) | (900.0) |
| Investment Income | 283.4 | 161.2 | 175.0 | 412.1 | 389.1 | 474.6 |
| CF - Investing Activities | (1,463.8) | (663.2) | (1,668.6) | (1,581.2) | (1,660.9) | (1,925.4) |
| Increase in Equity | 0.0 | (4.1) | 4.3 | (0.0) | 0.0 | 0.0 |
| Changes in Preference Capital | 0.0 | 144.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Changes in Borrowings | 529.9 | (500.6) | (29.4) | 0.0 | 0.0 | 0.0 |
| Changes in Deposits Accepted | 96.4 | 187.1 | 254.3 | 154.4 | 123.5 | 135.9 |
| Change in Minority Interest | 6.7 | 5.1 | 5.8 | 7.3 | 9.6 | 10.5 |
| Interest Paid | (29.2) | (22.0) | (1.1) | (1.1) | (1.0) | (1.0) |
| Dividend Paid | (157.3) | (198.5) | (243.2) | (238.2) | (237.7) | (237.7) |
| CF - Financing Activities | 446.5 | (389.0) | (9.4) | (77.6) | (105.6) | (92.3) |
| Net Change in Cash | 59.7 | (5.8) | 14.8 | 49.2 | 272.4 | 183.3 |
| Closing Cash & Bank Balance | 166.6 | 160.8 | 175.5 | 224.7 | 497.1 | 680.4 |

Disclaimer

| | |
|-----------------------------------|------|
| Disclosure of Interest Statement | GGCL |
| 1. Analyst Ownership of the scrip | NO |
| 2. PPFAS ownership of the scrip | YES |
| 3. PMS ownership of the scrip | YES |

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