INDIA RESEARCH

Gujarat Gas

Rs283
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs36bn; US$0.8bn

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Result: **Q1CY10**

Comment: **Strong set of numbers, led by higher volumes and lower operating costs**

Key valuation metrics

Year to Dec 31 (Rs m)	Net sales	yoy chg (%)	Net profit	EPS (Rs)	yoy chg (%)	PER (x)	EV/E (x)
2007	12,446	28.5	1,526	11.9	75.2	23.8	14.5
2008	13,013	4.55	1,605	12.5	5.2	22.6	15.4
2009	14,197	9.1	1,740	13.6	8.4	20.9	12.6
2010E	17,304	21.9	2,178	17.0	25.2	16.7	9.6
2011E	18,238	5.4	2,451	19.1	12.5	14.8	8.5

Highlights of Q1CY10 results

- Revenues increased by 34% yoy to Rs4.1bn; marginally lower than our estimates of Rs4.2bn.
- Volumes sold were higher by 26% yoy at 292 mmscm (3.17 mmscmd) against estimates of 288 mmscm, primarily due to higher LNG procured during the quarter and augmentation of supply from some other domestic supply sources, as the market for spot LNG continued to remain benign globally, allowing easier procurement for players such as GGCL.
- EBITDA margins at 25% for the quarter were 670 bps higher yoy, driven by higher spreads achieved by Gujarat Gas (GGCL). Further, the lower than estimated operating expenditure meant that EBITDA at Rs0.9bn was higher than our estimates of Rs0.8bn.
- Gross spreads for the quarter improved to Rs4.5/scm against Rs3.8/scm in Q1CY09. The number is in line with our estimates.
- Overall, net profit before extra-ordinary items was at Rs0.6bn for the quarter, about 70% higher yoy and 18% above our estimates of Rs0.52bn, primarily driven by operating costs being lower than estimates.

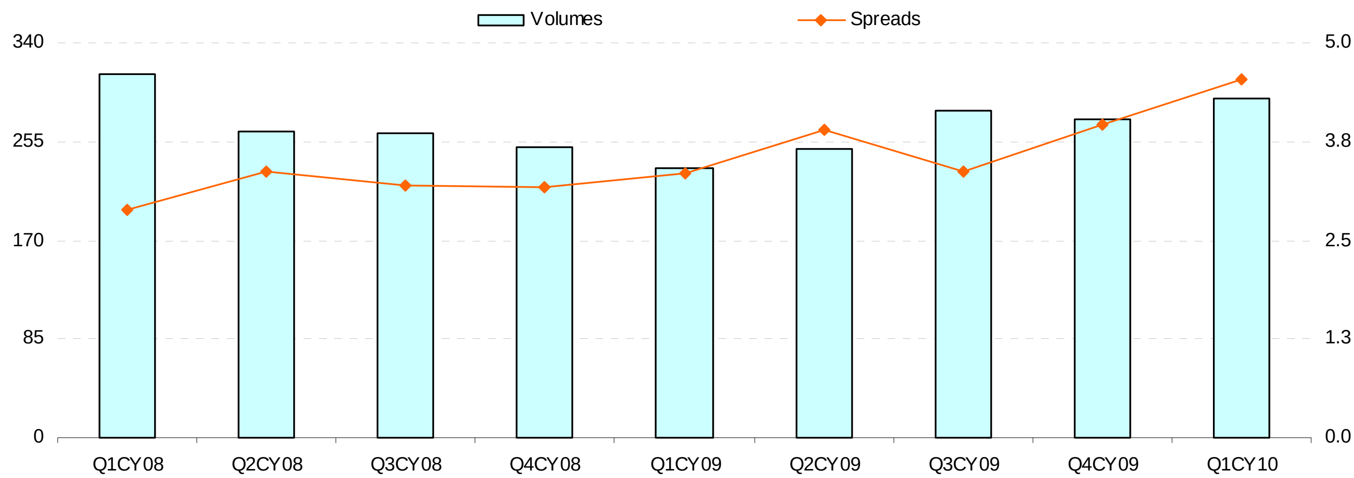
❑ Volumes continue growth trajectory, more strength ahead

GGCL was affected at the start of CY09 due to the curtailment of PMT volumes from the 3.05 mmscmd it was getting earlier, to 2.13 mmscmd. This was due to marketing rights of the gas being transferred from the PMT JV partners (BGEPIL, ONGC and RIL) to GAIL. This meant that volumes sold in Q1CY09 dropped 25% yoy. However, GGCL has since then managed to meet a large part of this deficit by sourcing increasing amounts of spot LNG (0.3-0.4 mmscmd), which has helped the company offset this gap. We expect stronger growth ahead in volumes, with KG gas of 0.6 mmscmd starting to flow from the middle of Q2CY10, while LNG sourcing continues to be steady.

❑ Spreads have improved

The company has managed to improve its spreads (net sales less purchase of gas) on a per scm basis, even in a scenario where the average cost of gas has been increasing due to higher amount of spot LNG in the supply mix. The company is confident of maintaining its margins going forward, as it expects lower priced KG gas to start flowing from the middle of Q2CY10.

GGCL volumes sold vs spreads per scm



Source: IDFC-SSKI Research, Company

❑ Valuations & View

GGCL continues to make good progress on offsetting the gas deficit caused by PMT curtailment, even as volumes for the next quarter would be buoyed even further via KG volumes. The increase in CNG prices, along-with the appreciation in the rupee has helped improve realizations and reduce raw material costs, thus helping grow spreads to reach very high levels of Rs4.5/scm for the quarter. Going forward however, even with KG gas coming in, we expect the spreads to moderate at Rs4.3/scm levels due to the expected up tick in spot LNG prices. This is still higher than our earlier estimates of Rs4.2/scm. Further, we now estimate volumes for CY10 to be higher by 18 mmscm (1215 mmscm against 1197 mmscm earlier) due to steady LNG volumes and slower decline of Cairn volumes to GGCL. The combination of higher volumes and spread implies an upgrade of 4% and 5% respectively to our EPS estimates for CY10E & CY11E. Reiterate Outperformer, with a target price of Rs318, 12% upside from here.

Rs mn	Q1CY09	Q2CY09	Q3CY09	Q4CY09	CY09	Q1CY10	
Net Sales	**3,064**	**3,392**	**3,875**	**3,859**	**14,198**	**4,100**	**Higher volumes, CNG price rise**
RM cons	2,193	2,327	2,835	2,676	10,031	2,774	
Staff	99	111	122	121	455	107	
Other Expenses	211	198	211	294	916	193	
Total Expenses	**2,503**	**2,635**	**3,168**	**3,091**	**11,402**	**3,075**	
EBITDA	**560**	**757**	**707**	**768**	**2,796**	**1,026**	**Volumes, higher gross spread**
OPM (%)	**18.3**	**22.3**	**18.2**	**19.9**	**19.7**	**25.0**	
Other Income	75.6	66.3	60.0	58.0	265.8	39.6	
Interest	0.3	0.3	0.3	0.3	1.4	0.3	
Depreciation	110	116	118	124	474	128	
PBT	**526**	**706**	**649**	**702**	**2,587**	**937**	
Tax	160	231	200	239	836	316	
Tax Rate (%)	30.4	32.7	30.9	34.0	32.3	33.8	
PAT	**366**	**476**	**449**	**463**	**1,751**	**620**	
MI	1.7	2.5	2.1	2.2	8.5	3.1	
Reported PAT	364.1	473.2	446.6	461.2	1,742.3	617.1	
Growth (yoy, %)							
Net Sales	(8.5)	9.1	19.4	16.6	9.8	33.8	
EBITDA	(22.0)	32.4	19.3	63.2	23.1	83.1	
Other Income	54.0	(62.9)	(30.3)	(40.8)	(46.0)	(47.7)	
Interest	(0.3)	13.8	15.8	0.7	22.5	1.4	
Depreciation	5.9	12.8	12.0	16.6	13.4	17.2	
PBT	(20.7)	9.2	13.2	51.9	10.3	78.1	
PAT	(19.5)	8.0	13.3	42.7	8.4	69.6	
Reported PAT	(19.5)	7.8	13.5	43.3	8.4	69.5	

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Explanation of Ratings:

1. Outperformer: More than 5% to Index
2. Neutral: Within 0-5% to Index
3. Underperformer: Less than 5% to Index

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