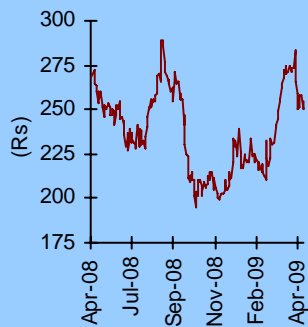


Shareholding pattern

	Sep '08	Dec '08	Mar '09
Promoters	65.1	65.1	65.1
Institutional investors	24.5	24.7	24.7
MFs and UTI	5.7	6.6	6.6
FIs, Ins Cos.	4.1	4.0	4.0
FIIIs	14.7	14.1	14.1
Others	10.4	10.2	10.2

Source: NSE

Price chart



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Gujarat Gas Company

BUY
Maintained
Rs255

Lower PMT volumes hurt earnings

Reasons for report: Q1CY09 results review

Gujarat Gas Company's (GGCL) Q1CY09 net income increased 13.1% QoQ to Rs364mn (I-Sec: Rs374mn) on account of lower other expenses and gas price hike, despite 7.2% QoQ dip in gas sales volumes. Gross margin increased 5.9% QoQ to Rs3.8/scm also due to the gas price hike. Concerns about gas supply are likely to reduce post commencement of gas production at KG-D6 by Reliance Industries (RIL) as the Gas Allocation Policy includes city gas distribution (CGD) as one of the priority sectors. But, the extent of gas availability for GGCL is yet to be decided by the Government and is expected to be announced soon. We maintain BUY on GGCL, with fair value of Rs352/share.

- ▶ **Net sales decrease 7.4% QoQ to Rs3.1bn** on account of 7.2% decline in gas sales volumes, owing to lower Panna-Mukta-Tapti (PMT) gas availability of 1.96mmcmd from GAIL. PMT gas availability was affected due to the strike by oil PSU officials in January '09.
- ▶ **EBITDA improves 19% QoQ** to Rs560mn due to higher gas prices as well as lower personnel & other expenses, despite decline in gas sales volumes. GGCL increased gas prices in a major segment February '09 onwards to offset the impact of rupee depreciation (which resulted in higher gas cost).
- ▶ **Recurring net income jumps 13.1% QoQ to Rs364mn** on the back of higher gas prices as well as lower personnel & other expenses.
- ▶ **Improved gas supply from RIL and favourable Gas Allocation Policy to spur GGCL's valuations.** We expect GGCL to receive additional gas supplies from RIL's KG basin, once production is ramped up to 40mmcmd in H2CY09E. But, the extent of gas availability has not yet been decided by the Government, thereby leading to ambiguity on the company's growth prospects.
- ▶ **Subdued global LNG prices could help secure long-term contracts.** We expect LNG prices to remain subdued globally on account of significant LNG liquefaction capacity addition as well as decline in demand (especially from Japan). This is likely to help GGCL secure long-term LNG contracts at lower prices. Currently, GGCL procures some LNG (~0.1mmcmd) on spot basis to meet peak demand.
- ▶ **Cheap valuations due to supply overhang.** GGCL is trading at a steep discount of 28% to our revised fair value of Rs352/share. Current stock price largely factors-in concerns about gas supply and we expect limited downside from these levels. We believe that GGCL's valuations will rise once the company procures additional gas from RIL's KG basin, thereby providing better visibility to the company's expansion plans besides its existing coverage in Surat, Ankleshwar and Jhagadia.

Market Cap	Rs16.3bn/US\$326mn
Reuters/Bloomberg	GGAS.BO/GGAS IN
Shares Outstanding (mn)	64.1
52-week Range (Rs)	289/195
Free Float (%)	34.9
FII (%)	14.1
Daily Volume (US\$/'000)	60
Absolute Return 3m (%)	9.6
Absolute Return 12m (%)	(4.0)
Sensex Return 3m (%)	21.0
Sensex Return 12m (%)	(34.0)

Year to Dec	CY07	CY08P	CY09E	CY10E
Revenue (Rs mn)	12,446	13,012	14,271	17,364
Net Income (Rs mn)	1,517	1,525	1,841	2,051
EPS (Rs)	23.7	23.8	28.7	32.0
% Chg YoY	75.5	0.5	20.7	11.4
P/E (x)	10.8	10.7	8.9	8.0
CEPS (Rs)	29.7	30.3	36.5	41.3
EV/E (x)	5.9	6.3	5.0	4.2
Dividend Yield (%)	1.2	1.7	1.9	2.2
RoCE (%)	20.3	17.7	18.2	17.4
RoE (%)	25.9	21.6	21.5	20.1

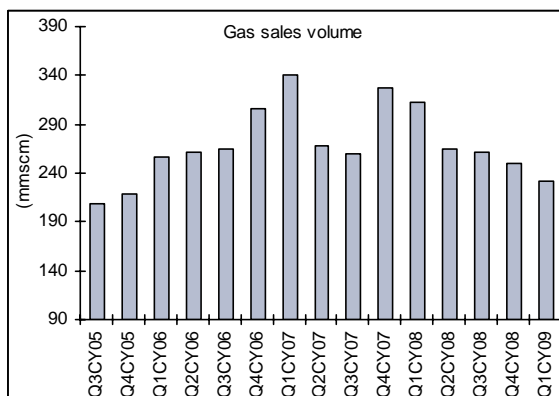
Table 1: Q1CY09 results review*(Rs mn, year ending December 31)*

	Q1CY09	Q1CY08	% chg YoY	% chg QoQ	YTD CY09	YTD CY08	% chg
Net sales	3,064	3,347	(8.5)	(7.4)	3,064	3,347	(8.5)
Raw material	2,193	2,383	(7.9)	(9.5)	2,193	2,383	(7.9)
Personnel costs	99	93	6.3	(18.3)	99	93	6.3
Other expenses	211	154	37.1	(28.1)	211	154	37.1
Total expenses	2,504	2,630	(4.8)	(11.8)	2,504	2,630	(4.8)
EBITDA	560	717	(21.9)	19.0	560	717	(21.9)
Interest	0	0	(1.3)	0.7	0	0	(1.3)
Depreciation	110	103	5.9	3.1	110	103	5.9
Other Income	76	49	54.2	(22.8)	76	49	54.2
Recurring pre-tax income	526	663	(20.6)	13.8	526	663	(20.6)
Extraordinary income/(expense) (post tax)	0	0			0	0	
Taxation							
Current	148	207	(28.8)	7.6	148	207	(28.8)
Deferred	13	1	770.8	NM	13	1	770.8
Reported net income before minority interest	366	454	(19.4)	12.6	366	454	(19.4)
Recurring net income before minority interest	366	454	(19.4)	12.6	366	454	(19.4)
Less: Minority interest	2	2	(6.8)	(42.3)	2	2	(6.8)
Recurring net income after minority interest	364	452	(19.5)	13.1	364	452	(19.5)
Ratios (%)			bps	bps			bps
EBITDA margin	18.3	21.4	(315)	406	18.3	21.4	(315)
Net profit margin	11.9	13.5	(162)	215	11.9	13.5	(162)
Operating details							
Gas sales volumes (mmscm)	232.0	313	(25.9)	(7.2)	232.0	313	(25.9)
Sales (Rs/scm)	13.2	10.69	23.5	(0.2)	13.2	10.69	23.5
Gross margins (Rs/scm)	3.8	3.08	21.7	5.9	3.8	3.08	21.7
EBITDA (Rs/scm)	2.4	2.29	5.3	28.3	2.4	2.29	5.3

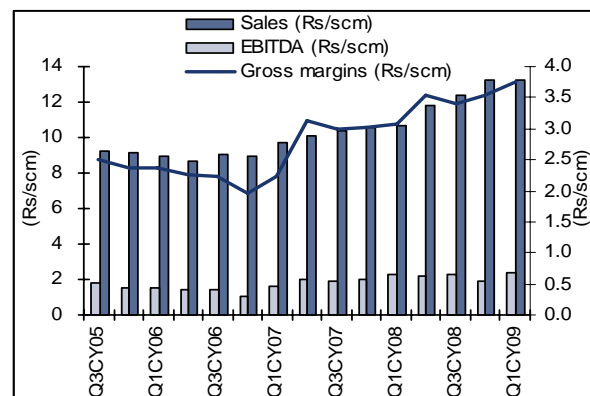
Source: Company data, I-Sec Research

Chart 1: Sales volumes and gross margins

Gross margins saw 5.9% QoQ growth to Rs3.8/scm on account of gas price hike



Source: Company data, I-Sec Research



Risks

Gas supplies. Any disruption in supply will hamper GGCL's sales volumes and earnings prospects. Moreover, lower-than-expected gas supply to GGCL from KG-D6 would be a key risk to our valuations.

Currency impact on dollar-denominated gas supplies. Some of GGCL's gas supplies are US dollar denominated. This could hurt bottomline if the rupee continues to weaken against the US dollar as the selling price of gas cannot be reset in the short term to pass-on the currency impact.

Intensifying competition from central & state PSUs and private entrants is a concern. However, GGCL's domain knowledge, customer base & gas sourcing and market development skills would give it a competitive edge.

Key triggers for the stock

Higher-than-expected KG-D6 gas allocation would be a key trigger for the stock as it would not only provide the much-needed gas for expansions, but also more reliability as regards price fluctuations.

Possibility of securing long-term LNG contracts at lower prices on the back of subdued LNG prices globally could broaden the supply base.

PNGRB's approval for GGCL's expansion to new geographies would offer new prospects.

Financial Summary

Table 2: Profit & Loss statement

(Rs mn, year ending December 31)

	CY07	CY08P	CY09E	CY10E
Operating Income (Sales)	12,446	13,012	14,271	17,364
Operating Expenses	9,933	10,660	11,403	14,113
EBITDA	2,513	2,352	2,868	3,251
% margins	20.2	18.1	20.1	18.7
Depreciation & Amortisation	384	418	498	600
Gross Interest	1	-	-	-
Other Income	175	310	334	361
Recurring PBT	2,302	2,243	2,705	3,012
Add: Extraordinaries	-	69	-	-
Less: Taxes	-	-	-	-
- Current tax	777	653	787	876
- Deferred tax	(12)	45	54	60
Less: Minority Interest	7	9	10	12
Net Income (Reported)	1,529	1,607	1,853	2,063
Recurring Net Income	1,517	1,525	1,841	2,051

Source: Company data, I-Sec Research

Table 3: Balance sheet

(Rs mn, year ending December 31)

	CY07	CY08P	CY09E	CY10E
Assets				
Total Current Assets	2,173	2,507	3,198	3,881
of which cash & cash eqv.	176	306	888	1,471
Total Current Liabilities & Provisions	2,311	2,421	2,560	3,133
Net Current Assets	(138)	85	637	748
Investments	2,350	2,350	2,350	2,350
of which				
Strategic/Group	-	-	-	-
Other Marketable	2,350	2,350	2,350	2,350
Net Fixed Assets	5,253	6,160	7,103	8,658
of which				
Capital Work-in-Progress	604	599	624	737
Total Assets	7,465	8,596	10,091	11,756
Liabilities				
Borrowings	1,119	1,119	1,119	1,119
Deferred Tax Liability	453	359	362	364
Minority Interest	37	46	56	68
Equity Share Capital	128	128	128	128
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus*	5,603	6,819	8,301	9,952
Less: Misc. Exp. #	20	20	20	20
Net Worth	5,856	7,071	8,554	10,205
Total Liabilities	7,465	8,596	10,091	11,756

Source: Company data, I-Sec Research

*excluding revaluation reserves; # = not written off

Table 6: Quarterly trends

(Rs mn, year ending December 31)

	Jun-08	Sep-08	Dec-08	Mar-09
Net sales	3,110	3,246	3,309	3,064
% growth (YoY)	15.3	20.8	(4.3)	(8.5)
EBITDA	571.3	592.9	470.5	560.0
Margin (%)	18.4	18.3	14.2	18.3
Other income	77	86	98	76
Add: Extraordinaries	69	0	0	0
Net profit	370	393	322	364

Source: Company data, I-Sec Research

Table 4: Cashflow statement

(Rs mn, year ending December 31)

	CY07	CY08P	CY09E	CY10E
Operating Cash flow	1,701	1,491	2,029	2,317
Working Capital Changes	(150)	(93)	30	472
Capital Commitments	(753)	(1,325)	(1,441)	(2,154)
Free Cash Flow	798	73	618	635
Cash flow from Investing	(776)	310	334	361
Activities				
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	219	-	-	-
Dividend paid	(205)	(321)	(371)	(413)
Extraordinary Items	-	69	-	-
Chg. in Cash & Bank balance	15	131	582	583

Source: Company data, I-Sec Research

Table 5: Key ratios

(Year ending December 31)

	CY07	CY08P	CY09E	CY10E
Per Share Data (Rs)				
EPS(Basic Recurring)	23.7	23.8	28.7	32.0
Diluted Recurring EPS	23.7	23.8	28.7	32.0
Recurring Cash EPS	29.7	30.3	36.5	41.3
Dividend per share (DPS)	3.0	4.3	4.9	5.5
Book Value per share (BV)	89.1	108.0	131.2	156.9
Growth Ratios (%)				
Operating Income	28.5	4.5	9.7	21.7
EBITDA	68.8	(6.4)	22.0	13.3
Recurring Net Income	75.5	0.5	20.7	11.4
Diluted Recurring EPS	75.5	0.5	20.7	11.4
Diluted Recurring CEPS	60.7	2.2	20.4	13.4
Valuation Ratios (x)				
P/E	10.8	10.7	8.9	8.0
P/CEPS	8.6	8.4	7.0	6.2
P/BV	2.9	2.4	1.9	1.6
EV / EBITDA	5.9	6.3	5.0	4.2
EV / Operating Income	1.2	1.1	1.0	0.8
EV / Operating FCF	8.8	9.9	7.0	5.9
Operating Ratio				
Raw Material/Sales (%)	70.7	71.2	69.4	72.0
SG&A/Sales (%)	5.0	5.2	5.0	4.3
Other Income / PBT (%)	7.6	13.8	12.4	12.0
Effective Tax Rate (%)	33.3	31.1	31.1	31.1
NWC / Total Assets (%)	(4.2)	(2.6)	(2.5)	(6.1)
Inventory Turnover (days)	14.9	14.2	16.3	22.1
Receivables (days)	25.1	25.3	24.3	21.0
Payables (days)	77.9	78.0	77.4	71.2
D/E Ratio (x)	26.9	20.9	17.3	14.5
Return/Profitability Ratio (%)				
Recurring Net Income Margins	12.0	11.4	12.6	11.6
RoCE	20.3	17.7	18.2	17.4
RoNW	25.9	21.6	21.5	20.1
Dividend Payout Ratio	12.7	17.2	17.2	17.2
Dividend Yield	1.2	1.7	1.9	2.2
EBITDA Margins	20.2	18.1	20.1	18.7

Source: Company data, I-Sec Research

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