

March 30, 2009

Rating	Reduce
Price	Rs272
Target Price	Rs250
Implied Upside	-8.0%
Sensex	10,048

(Prices as on March 27, 2009)

Trading Data

Market Cap. (Rs bn)	17.4
Shares o/s (m)	64.1
Free Float	34.9%
3M Avg. Daily Vol ('000)	2.8
3M Avg. Daily Value (Rs m)	0.7

Major Shareholders

Promoters	65.1%
Foreign	14.1%
Domestic Inst.	10.6%
Public & Others	10.2%

Stock Performance

(%)	1M	6M	12M
Absolute	23.8	4.1	12.5
Relative	15.6	29.3	53.8

Price Performance (RIC: GGAS.BO, BB: GGAS IN)



Source: Bloomberg

- Volume CAGR of 18-20% over the next 3-5 years:** The management is confident of clocking over 18-20% CAGR over the next 3-5 years owing to the up-ticking demand from the industrial retail segment. Gujarat Gas (GujGas) has been delivering over 18-20% YoY volume growth in its industrial retail segment over the past 4-5 years. However, the growth remained flattish during CY08, owing to constrained gas supplies.
- Existing infrastructure can distribute about 4.5mmscmd:** GujGas has invested over Rs5bn over the past four years to augment its infrastructure network and CNG stations. Hence, the existing infrastructure can easily distribute over 4.5mmscmd of gas. Furthermore, the company has earmarked about Rs1.5bn p.a. for expansion over the next couple of years.
- Regulations not to impact the earnings:** The Petroleum and Natural Gas Regulatory board (PNGRB) regulator has capped CGD infrastructure network RoCE at 14.0% post tax levels (21.2% on pre-tax for 34% tax paying company). Although the network RoCE is capped, the company is free to charge marketing margin, which elevates the blended RoCEs above the cap. Hence, capped RoCE will not impact OPMs of GujGas and the company will be able to maintain its OPMs between 18-20%.
- Supply worries still haunt:** GujGas's growth has been stalled since past 2-3 quarters due to constrained gas supplies. The company will have to rely on KG D6 allocation, without which it will not be able to demonstrate any growth in volumes. We believe the stock is fairly priced at current levels. Hence, we downgrade the stock to 'Reduce'.

Key financials (Y/e Dec)	CY07	CY08E	CY09E	CY10E
Revenues (Rs m)	12,446	13,013	14,625	16,013
Growth (%)	28.5	4.5	12.4	9.5
EBITDA (Rs m)	2,537	2,352	2,769	3,108
PAT (Rs m)	1,529	1,606	1,651	1,796
EPS (Rs)	23.7	24.9	25.5	27.8
Growth (%)	74.9	5.1	2.8	8.8
Net DPS (Rs)	3.0	3.0	3.5	4.0

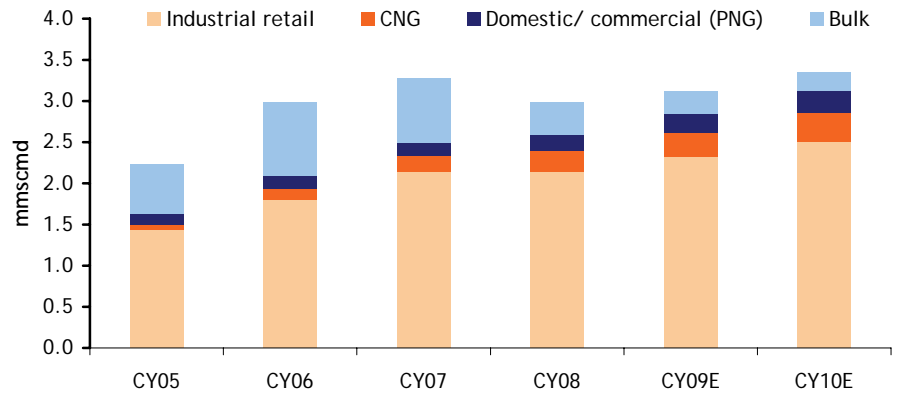
Source: Company Data; PL Research

Profitability & valuation	CY07	CY08E	CY09E	CY10E
EBITDA margin (%)	20.4	18.1	18.9	19.4
RoE (%)	30.2	25.1	21.3	19.5
RoCE (%)	32.1	23.7	23.9	23.3
EV / sales (x)	1.4	1.3	1.1	0.9
EV / EBITDA (x)	6.8	6.9	5.6	4.7
PE (x)	11.5	10.9	10.7	9.8
P / BV (x)	3.0	2.5	2.1	1.8
Net dividend yield (%)	1.1	1.1	1.3	1.5

Source: Company Data; PL Research

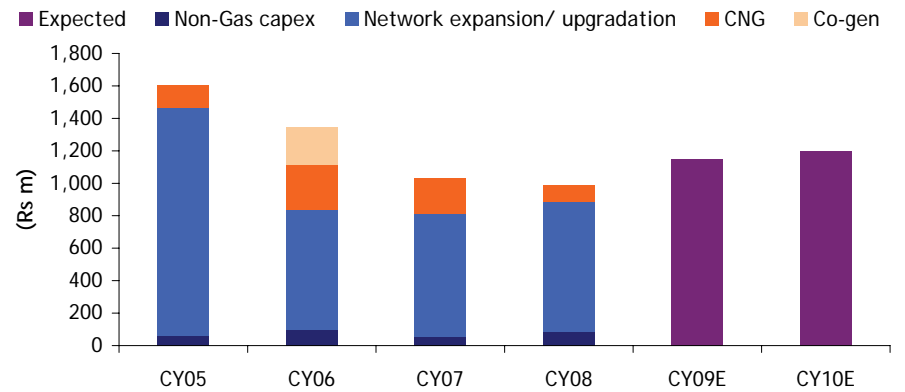
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Gas sales volumes



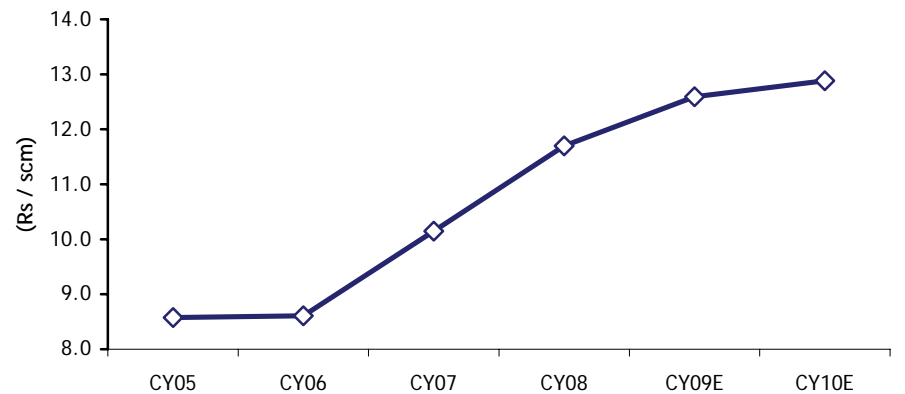
Source: Company Data, PL Research

Capex plans



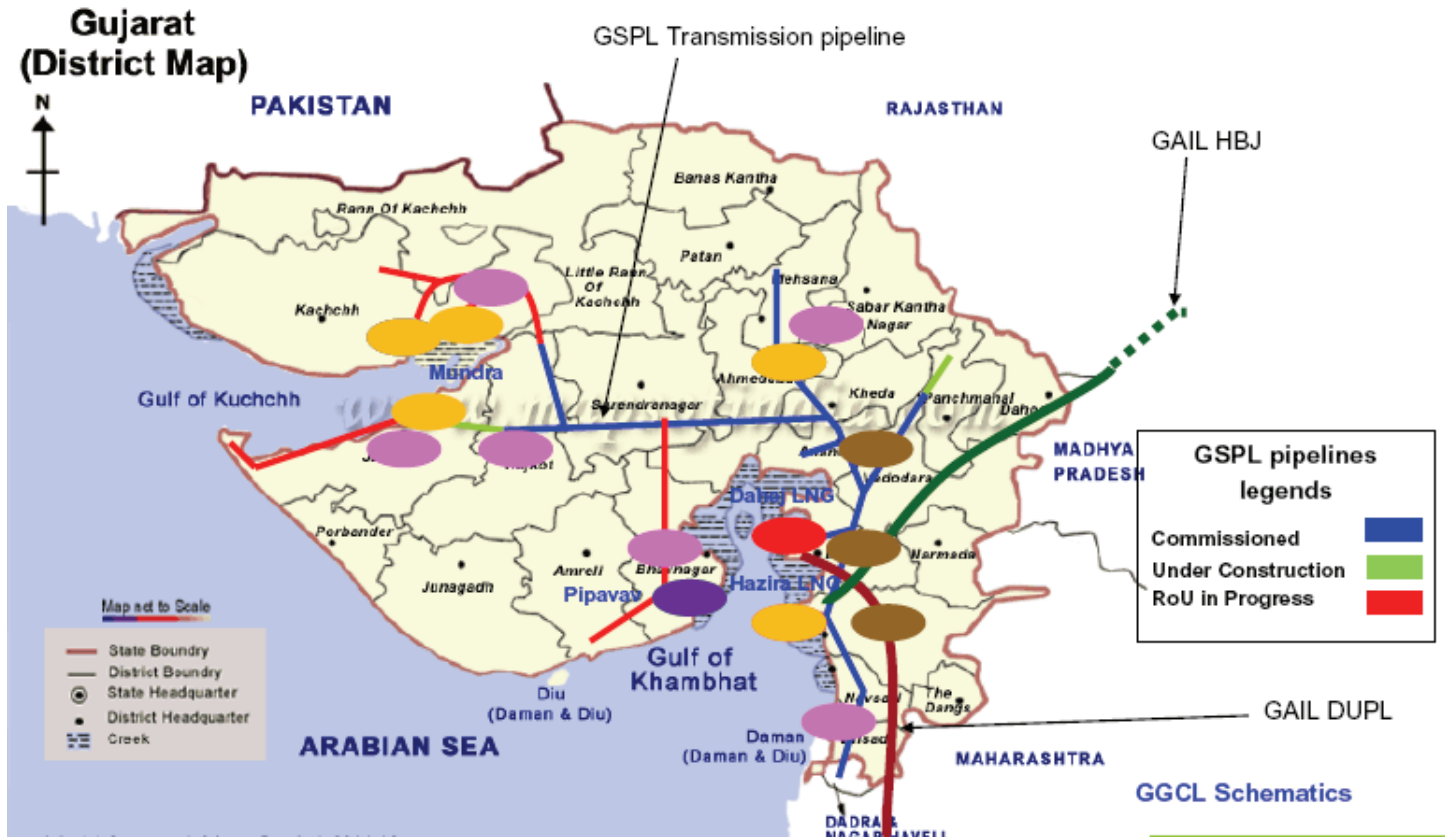
Source: Company Data, PL Research

Blended distribution rate



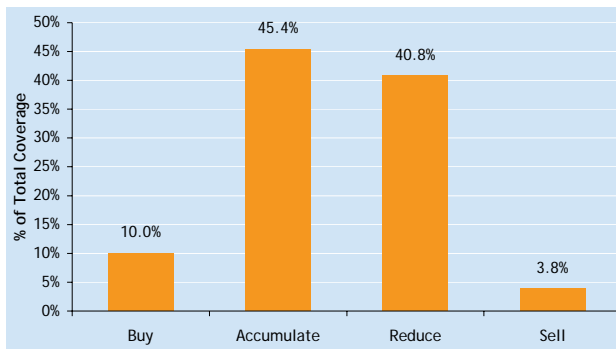
Source: Company Data, PL Research

Gujarat - potential for natural gas



Source: Company Data

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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