

**Gujarat Gas Company Limited**

**Rs 237**

... company update

**Accumulate**

Industry : Gas Distribution	BSE/NSE code : 523477/ GUJRAT GAS
Company P/E : 11x CY'09E	52-Week H/L (Rs) : Rs.371/ Rs. 216
Market Cap. (Rs) : 15,134 mn	Daily Traded Volumes : 18,200/ 26,900
Face Value (Rs) : 2	Dividend (FY'07) : 125%

**Key Highlights**

- The Petroleum Ministry in December 2007 decided to divert all the PMT gas to GAIL, for sale at higher price of \$5.7 per million British thermal unit. GAIL (India) Ltd, has signed a contract to buy and sell the entire quantity of gas produced at the PMT fields.
- The following table shows the impact of the above agreement and the resultant gas supply position after the said agreement with GAIL:

Particulars	Old (MMSCMD units)	New (MMSCMD units)	% change
PMT JV (sold by GAIL now)	3.05	2.13	30%
Niko Resources	0.25	0.25	
Cairn Energy	0.60	0.60	
GAIL	0.15	0.15	
	4.05	3.13	23%

Hence, the total supplies of gas to GGCL which was previously at 4.05 mmscm per day will now stand reduced at 3.13 mmscm per day.

- GGCL, erstwhile, had a supply mix of ~ 1 mmscmd for the bulk customers and balance ~ 3 mmscmd for the retail and CNG segment. We believe, with the reduced supplies of gas, GGCL shall continue to cater to its retail and CNG segment. The balance deficit of ~ 1 mmscmd can be sourced through spot purchases of LNG. However, the pricing of this gas shall be crucial due to huge differential between spot prices of gas and long term contracts fixed by GGCL. The KG basin gas, expected to flow from H2FY09, can also be another option under consideration. We expect the gas volumes to normalize to ~ 4 mmscmd by CY09 with alternative arrangements falling in place for GGCL.
- The increased price for procurement of gas, we believe, shall be a complete pass through to its customers in various segments. However, the topline as well as bottomline shall stand reduced due to decrease in gas volumes by ~23% ( as per table above).
- On the basis of changed gas sales agreements, we have revised our revenue and profit forecasts. We have increased our absolute revenues for the company factoring the increase in the gas sale price pass through to the final customers. However, with the reduction in volumes, the profits for the company have been projected lower by 22% and 17% respectively for 2008E and 2009E.

Year to end Dec (Rs.in Mn.)	07A	08E	09E
Total Income	12621.00	15089.67	16213.14
Operating Profit	2688.35	2507.90	2842.17
Net Profit	1537.22	1202.52	1419.38
EPS (Rs.)	23.97	18.75	22.13
P/E (x)	9.89	12.64	10.71
EBIDTA Margin (%)	21.30	16.62	17.53
PAT Margin (%)	12.18	7.97	8.75
RONW (%)	25.77	16.01	15.39
ROCE (%)	22.13	14.11	13.69

- GGCL reported 46.9% growth in net sales in Q4'07 y-o-y at Rs. 3491.51mn . Also, it posted robust net profit growth of 112.8% to Rs 388 mn in Q4 December 2007.
- With the regulatory changes altering the fundamentals of GGCL negatively, they still remaining the biggest concern for this company. However, based on these changed fundamentals also, we feel the company offers value for investors. We re-iterate our BUY recommendation on the stock, with a revised price target of Rs. 330.