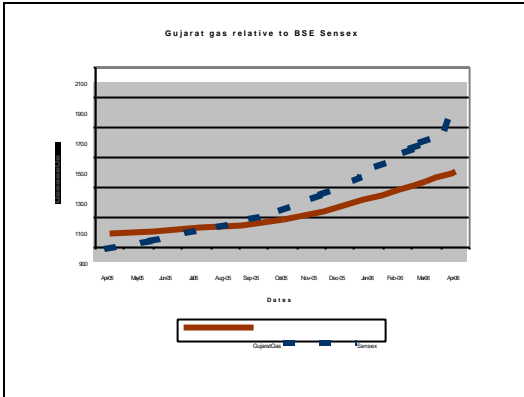
	<b>Report Date</b>		April 25, 2006					
	<b>Company Name</b>		<b>Gujarat Gas Company - Result Update</b>					
	<b>Price / Recommendation</b>		Rs. 1352.70	<b>HOLD</b>				
	Original Recommendation Price & Date		Rs. 680/-	February 02, 2005				
Sector	Gas Distribution	<b>Q1 CY 2006 Consolidated Result Overview</b>						
One Year Target Price	Rs 1,600/-	<ul style="list-style-type: none"> <li>➤ Net sales were up by 29.1% to Rs. 230.8 crore</li> <li>➤ OPM% dwindled to 17.2% (24.6%)</li> <li>➤ PBT (before extra ordinary items) declined by 13% to Rs. 36 crore (Rs. 41.3 crore)</li> <li>➤ PAT (after minority interest) dropped by 21.2% to Rs. 26.56 crore (Rs. 33.55 crore)</li> </ul>						
Market Capitalization	Rs 1734.8 crore							
52-week range	Rs 796-1530							
Shares in issue (mio.)	12.83							
BSE Ticker	523477							
NSE Ticker	GUJARATGAS							
BSE Sensex	11,915.24							
<b>Shareholding Pattern on Mar. 2006</b>		<b>Future Prospects</b> <ul style="list-style-type: none"> <li>➤ GGCL's gas distribution volumes are expected to sustain CAGR of ~ 20% for next couple of years due to focus on retail business and ramp up in CNG volumes.</li> <li>➤ Company has bought BG's co-generation business in India thereby establishing gas to power linkage. After setting up the plant (1-5 mw), the same would be leased to customers.</li> <li>➤ Company has already invested 160 crore in CY 2005 in gas distribution infrastructure covering city gas in Surat, Kim Karanj, and CNG Network in Surat. Still has robust capex plans to further enhance gas infrastructure to areas like Jhagadia, Vapi and co-gen plants.</li> <li>➤ Gas Supply constraints are almost resolved with multiple sources as well as improved availability of natural gas from Panna / Mukta &amp; Tapti Gas fields.</li> <li>➤ Thus, GGCL has created platform for sustainable double-digit volume growth.</li> </ul>						
						%		
Promoters	65.12%							
FII's	13.96%							
MFs / UTI	5.56%							
Banks / FIs	4.60%							
Others	10.76%							
<b>Price Performance (%)</b>		<b>Valuation</b> <ul style="list-style-type: none"> <li>➤ At CMP, stock is trading at 14.6 times CY 2006 E consolidated earnings of Rs 92.8 and 11.7 times CY 2007 expected EPS of Rs. 115.5.</li> <li>➤ Considering bright future prospects, we recommend to "HOLD" the stock.</li> </ul>						
						1M	6M	12M
Absolute	6%					29%	41%	
Relative to BSE Sensex	-4%					-21%	-46%	
<b>Relative Performance (Chart)</b>								

<b>Consolidated Financial Summary</b>		<b>Rs. crore</b>				
<b>For year ending December</b>	<b>Q1 2006</b>	<b>Q1 2005</b>	<b>2005 A</b>	<b>2006 E</b>	<b>2007 E</b>	
Net Sales	230.8	178.8	746.8	1,022.5	1,179.3	
<i>% Change</i>	<b>29%</b>			<b>37%</b>	<b>15%</b>	
EBITDA	44.1	47.2	171.3	213.0	248.7	
<i>% Change</i>	<b>-7%</b>			<b>24%</b>	<b>17%</b>	
<b>EBITDA (%)</b>	<b>17.2%</b>	<b>24.6%</b>	<b>20.8%</b>	<b>19.0%</b>	<b>19.5%</b>	
Interest Expenses / (Income)	0.8	0.1	2.9	2.7	(2.3)	
Depreciation	7.4	5.8	27.4	34.9	37.9	
P.B.T.	36.0	41.3	141.0	175.5	213.2	
Net Profit	26.4	33.5	98.1	122.2	148.1	
<i>% Change</i>	<b>-21%</b>			<b>24%</b>	<b>21%</b>	
Annualised Consolidated EPS (Rs)			74.1	92.8	115.5	
Equity Capital (Rs. 10/- paid up)			12.8	12.8	12.8	
Book Value (Rs)			293.5	373.0	468.2	
RONW (%)			28.4%	27.9%	27.5%	
ROCE (%)			47.1%	45.4%	48.7%	
P/E (x)			18.25	14.57	11.71	



### Q1 CY 2006 Result Analysis

- Net sales were up by 29.1% to Rs. 230.8 crore (Rs. 178.8 crore) due to 31.8% increase in volume of gas sold to 257 mmscm (195 mmscm). However, there was **NO** (226 mmscm) **transportation volume** during the quarter under review. Consequently, Transmission income fell to Rs. 2 crore (Rs. 10.16 crore).
- **OPM% dwindled to 17.2%** (24.6%) mainly due to 51% increase in staff cost to Rs. 6.6 crore (Rs. 4.4 crore) and 85% spurt in other expenses to Rs. 14.20 crore (Rs. 7.67 crore).
- Following sharp decline in profitability margins coupled with 27.8% increase in depreciation of Rs. 7.4 crore (Rs. 5.8 crore) PBT (before extra ordinary items) dipped by 13% to Rs. 36 crore (Rs. 41.3 crore).
- Lower extra ordinary income of Rs. 4.56 crore (transmission revenues related to previous year) as against Rs. 12.67 crore (due to resolution of dispute with one of the suppliers) resulted in **PAT** (after minority interest) **dropping by 21.2% to Rs. 26.37 crore** (Rs. 33.46 crore).

### Future Prospects

- GGCL's gas distribution volumes are expected to sustain CAGR of ~ 20% for next couple of years due to focus on retail business and ramp up in CNG volumes.  
  
During Q1 CY 2006, company established a new CNG station in Surat taking total to 13. Consequently, sale of CNG has touched 120,000 scmd mark, accounting for ~ 4% of total volume. W.e.f. January 1, 2006, CNG has been made mandatory in Surat for autorickshaws. There are more than 32,000 vehicles running on CNG in its area of operation. This coupled with aggressive efforts are expected to boost CNG volumes rapidly. Since CNG enjoys higher margins than even industrial segment, focus on CNG will improve profitability going forward.
- GGCL has decided to buy BG's (Parent) cogeneration (cogen) business in India thereby establishing gas to power linkage. Its target customer group would be those requiring 1-5 mw. Company will be setting up such and then leased it out to various customers. A typical cogen plant costs ~ Rs. 2.5-3 crore for 1 mw. Company already has 18 mw of contract signed, expected to commission in CY 2006. Company is planning to add 25-30 mw of power every year to its cogen capacity.
- Company has already invested 160 crore in CY 2005 in gas distribution infrastructure covering city gas in Surat, Kim Karanj, and CNG Network in Surat. GGCL still has robust capex plans worth to further enhance gas infrastructure to areas like Jhagadia (~Rs. 15 crore), Vapi (Rs. 31 crore), ramp up in CNG Network (~Rs. 60 crore) and cogen plants (Rs. 12 crore).
- Gas Supply constraints are almost resolved with multiple sources as well as improved availability of natural gas from Panna / Mukta & Tapti Gas fields.
- Thus, GGCL has created platform for sustainable double-digit volume growth.

### Recommendation

- At CMP, stock is trading at 14.6 times CY 2006 E consolidated earnings of Rs 92.8 and 11.7 times CY 2007 expected EPS of Rs. 115.5. Considering bright future prospects, we recommend to "HOLD" the stock.

### Disclosures

The author may have held / hold the above-mentioned securities in their personal accounts or on behalf of the clients. The information contained has been obtained from sources believed to be reliable. While taking utmost care in making the report, the authors or the company does not take responsibility for the consequences of the report. All investment, information and opinion are subject to change without notice. The investment recommendations may not be suitable to all the investors.