

Gujarat Gas Company Limited (GUJGAS)

Rs 309

WHAT'S CHANGED...

PRICE TARGET	Changed from Rs 286 to Rs 322
EPS (CY10E)	Changed from Rs 19 to Rs 18.1
EPS (CY11E)	Changed from Rs 21.7 to Rs 22.3
RATING.....	Unchanged

In line with expectations...

Gujarat Gas' revenues for Q2CY10 increased 23.4% YoY to Rs 418.7 crore, in line with our estimates. The EBITDA margin remained flat YoY at 22.3% on higher APM gas price and higher proportion of spot LNG purchase by the company. We expect the EBITDA margin to decline marginally in the second half of the year on higher LNG purchases and depreciation of the rupee. However, we believe Gujarat Gas would pass on its higher costs and increase the gas sales prices in CY11E for its industrial retail customers. Net profit for Q2CY10 increased 21.6% YoY to Rs 58 crore on higher gas sales volumes. It has been allocated 0.6 mmscmd gas from Reliance KG-D6 basin on a fallback basis but the company is yet to receive gas as the final gas sales agreement has not been signed. We have factored the supply of KG-D6 gas to the company from Q4CY10. Gujarat Gas has contracted for the supply of 0.6 mmscmd LNG in the current quarter with BG India Pvt Ltd and is also making a concerted effort to secure LNG on long-term contracts to increase its gas sales volumes. Its ability to secure long-term supplies and expand into new areas may offer further upsides in the long run. We recommend an ADD rating on the stock with a price target of Rs 322.

■ Highlights of the quarter

Gujarat Gas reported a 19.3% YoY increase in gas sales volume from 249 mmscm in Q2CY09 to 297 mmscm in Q2CY10. Volume growth for Gujarat Gas was ensured by the procurement of short-term LNG for the current quarter. Realisation increased by 3.6% YoY from Rs 13.6 per scm in Q2CY09 to Rs 14.1 per scm in Q2CY10. The gross margin remained flat at Rs 4.3 per scm in Q2CY10.

Valuation

The allocation of Reliance KG-D6 basin gas has improved the visibility for the next two years. We estimate volumes of 3.45 mmscmd and 3.75 mmscmd in CY10E and CY11E, respectively, on account of higher gas volume from the KG basin and contracted LNG. We have valued the stock based on the DCF methodology (WACC – 11.8%, terminal growth - 3%) to arrive at a target price of Rs 322.

Exhibit 1: Performance Highlights

(Rs Crore)	Q2CY10A	Q2CY10E	Q2CY09	Q1CY10	YoY Gr.(%)	QoQ Gr.(%)
Revenues	418.7	430.3	339.2	410.0	23.4	2.1
EBITDA	93.4	95.8	75.7	102.6	23.4	-8.9
EBITDA Margin (%)	22.3	22.3	22.3	25.0	0 bps	270 bps
Depreciation	13.4	13.0	11.6	12.8	15.1	4.3
Interest	0.3	0.0	0.0	0.0	966.7	966.7
Reported PAT	58.0	60.1	47.6	62.0	21.8	-6.4
EPS (Rs)	4.5	4.6	3.7	4.8	21.6	-6.7

Source: Company, ICICIdirect.com Research

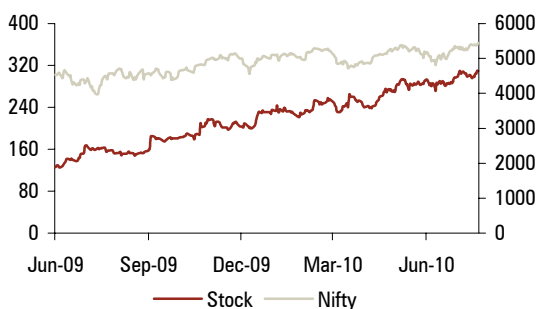
Rating matrix	
Rating	: Add
Target	: Rs 322
Target Period	: 12 months
Potential Upside	: 4%

Key Financials				
(Rs Crore)	CY08	CY09	CY10E	CY11E
Revenues	1301.3	1419.7	1764.8	1963.0
EBITDA	235.2	279.5	378.7	456.1
Net Profit	161.5	175.0	234.0	289.3

Valuation summary				
	CY08	CY09	CY10E	CY11E
EPS (Rs)	24.9	13.5	18.1	22.3
PE (x)	12.4	22.9	17.1	13.8
Target PE (x)	13.0	23.9	17.8	14.4
EV to EBITDA (x)	16.8	14.1	10.3	8.4
Price to book (x)	2.8	5.2	4.2	3.4
RoNW (%)	22.3	22.4	24.4	24.4
RoCE (%)	26.7	29.8	34.0	33.3

Stock data	
Market Cap.	Rs 3962.9 Crore
Debt (CY09)	Rs 0 Crore
Cash + Liq. Invsts (CY09)	Rs 429.7 Crore
EV	Rs 3533.2 Crore
52 week H/L	318 / 152
Equity capital	Rs 25.7 Crore
Face value	Rs 2
MF Holding (%)	8.5
FII Holding (%)	15.3

Price movement

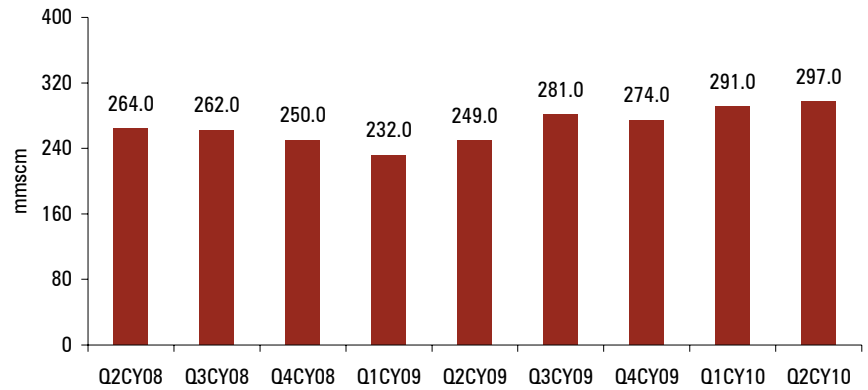


Analyst's name

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Exhibit 2: Gas sales volume

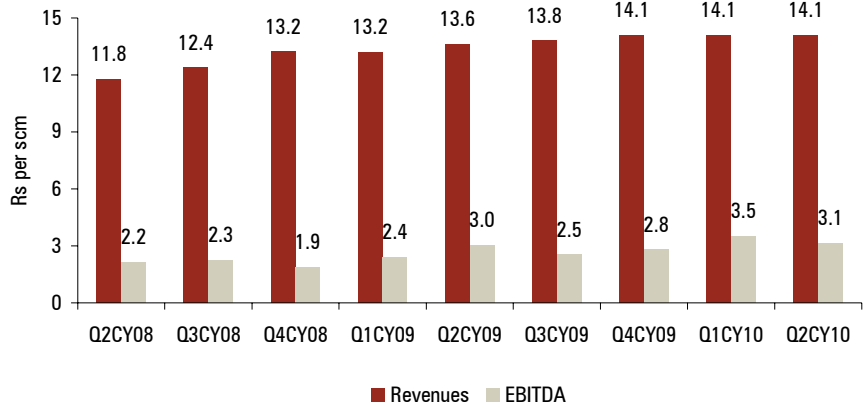
Gas sales volumes increased by 19.3% YoY from 249 mmscm in Q2CY09 to 297 mmscm in Q2CY10 on account of procurement of short-term RLNG



Source: Company, ICICIdirect.com Research

Exhibit 3: Revenue and EBITDA analysis

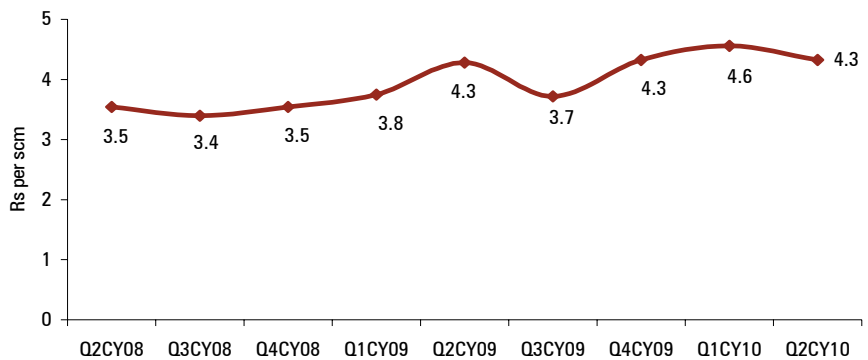
Realisations improved by 3.6% YoY to Rs 14.1 per scm. This can mainly be attributed to the increase in prices for the Industrial retail and CNG segment



Source: Company, ICICIdirect.com Research

Exhibit 4: Gross margin trend

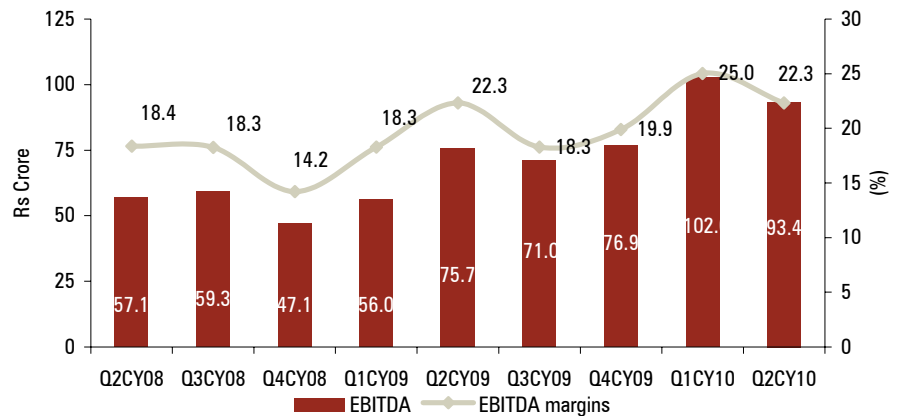
Gross margins remained flat YoY at Rs 4.3 per scm in the current quarter. Raw material costs increased from Rs 9.5 per scm in Q2CY09 to Rs 9.8 per scm in Q2CY10 while the realisation improved by Rs 0.5 per scm to Rs 14.1 per scm in Q2CY10



Source: Company, ICICIdirect.com Research

Exhibit 5: EBITDA, EBITDA margin

The EBITDA increased by 23.4% YoY from Rs 75.7 crore in Q2CY09 to Rs 93.4 crore in Q2CY10. The EBITDA margin remained flat YoY at 22.3%



Source: Company, ICICIdirect.com Research

Exhibit 6: P/L A/c**(Rs Crore)**

	Q2CY10	Percent. (%)	Q2CY09	Percent. (%)
Revenues	418.7	100.0	339.2	100.0
Consumption of raw materials	290.3	69.3	232.7	68.6
Employee Costs	12.0	2.9	11.1	3.3
Other Expenditure	23.0	5.5	19.8	5.8
Total Expenditure	325.3	77.7	263.5	77.7
EBITDA	93.4	22.3	75.7	22.3
Depreciation	13.4	3.2	11.6	3.4
EBIT	80.0	19.1	64.1	18.9
Interest	0.3	0.1	0.0	0.0
Other Inc /Exp /Extra Ordinary Item	5.7	1.4	6.6	2.0
PBT	85.4	20.4	70.7	20.8
Total Tax	27.4	6.6	23.1	6.8
PAT	58.0	13.9	47.6	14.0

Source: Company, ICICIdirect.com Research

Outlook and valuations

The allocation of Reliance KG-D6 basin gas has improved the visibility for the next two years. Gujarat Gas is also making a concerted effort to secure LNG on long-term contracts to increase its gas sales volumes. We estimate volumes of 3.45 mmscmd (1255 mmscm) and 3.75 mmscmd (1369 mmscm) in CY10E and CY11E, respectively, on account of higher gas volume from the KG basin and contracted LNG. We also believe that Gujarat Gas would be able to pass on higher raw material costs and increase gas sales prices in CY11E for its industrial retail customers (Gujarat Gas sales price is more than 30% cheaper compared to Ahmedabad and Mumbai). Gujarat Gas' ability to secure more long-term supplies and expand into new areas like Bhavnagar and Kutch may offer further upsides in the long run. We have valued the stock based on DCF methodology (WACC – 11.8%, terminal growth -3%) to arrive at a target of Rs 322.

Exhibit 7: Valuation Table

Year	Sales (Rs Crore)	Sales Gr. (%)	EPS (Rs)	EPS Gr. (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY08	1301.3	4.6	12.4	5.1	12.4	16.8	22.3	26.7
CY09	1419.7	9.1	13.5	8.5	22.9	14.1	22.4	29.8
CY10E	1764.8	24.3	18.1	33.9	17.1	10.3	24.4	34.0
CY11E	1963.0	11.2	22.3	23.8	13.8	8.4	24.4	33.3

Source: ICICIdirect.com Research

Exhibit 8: DCF based valuation

WACC	11.8%
Present Value of Cash Flows till CY14E	881.5
Terminal Growth Rate	3.0%
Terminal Value	4469.3
Present Value of Terminal Cash Flows	2554.2
Total Present Value of the Firm	3435.7
Less: Net Debt (CY11E)	-692.8
Total Present Value of Equity	4128.4
Number of Outstanding shares (In Crore)	12.8250
DCF - Target Price (Rs per share)	322

Source: ICICIdirect.com Research

Exhibit 9: Sensitivity analysis

		WACC					
		10.0%	10.5%	11.0%	11.5%	12.0%	13.5%
Terminal	1.5%	348	330	314	299	286	254
	2.0%	363	343	326	310	295	260
	2.5%	380	358	338	321	305	267
	3.0%	400	375	353	334	317	275
Growth Rate	3.5%	423	394	370	348	329	284

Source: ICICIdirect.com Research

ICICIdirect.com Coverage Universe

Gujarat Gas			Sales(Rs Cr.)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	GUJGAS CMP	309.0 CY08	1301.3	12.4	12.4	16.8	22.3	26.7
	Target	322.0 CY09	1419.7	13.5	22.9	14.1	22.4	29.8
		CY10E	1764.8	18.1	17.1	10.3	24.4	34.0
MCap	3962.9 Upside (%)	4.2 CY11E	1963.0	22.3	13.8	8.4	24.4	33.3
Guj. State Petronet Ltd			Sales(Rs Cr.)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	GSPL CMP	104.5 FY09	487.5	2.2	47.6	16.5	10.2	10.8
	Target	122.0 FY10E	1000.9	7.4	14.2	7.6	26.5	25.0
MCap	5877.6 Upside (%)	16.7 FY11E	1095.8	7.7	13.6	7.0	22.4	22.6
Indraprastha Gas Ltd			Sales(Rs Cr.)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	INDGAS CMP	286 FY09	857.1	12.3	23.2	12.7	25.2	34.7
	Target	UR FY10E	1083.8	15.4	18.6	10.1	26.1	37.5
		FY11E	1551.3	17.6	16.2	8.6	24.8	35.0
MCap	4004.0 Upside (%)	UR FY12E	1797.7	18.8	15.2	7.8	22.4	31.6
Petronet LNG Ltd			Sales(Rs Cr.)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	PETLNG CMP	84.0 FY09	8428.7	6.9	12.2	8.8	26.1	18.7
	Target	87.0 FY10E	10649.1	5.4	15.6	10.0	18.1	14.5
		FY11E	14056.0	6.2	13.6	9.0	18.4	14.1
		FY12E	18935.0	6.5	13.0	8.8	17.2	13.6
MCap	6300.0 Upside (%)	3.6 FY13E	26171.1	7.3	11.5	6.9	17.5	15.4

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 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

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