

Gujarat Gas

REDUCE
High RLNG prices, weak rupee lower gross margin
CMP: Rs443
Target Price: Rs466

GGAS reported 44% yoy increase in net profit to Rs805mn (we expected Rs878mn) for Q3CY11 on 26% yoy increase in gross margins to Rs4.7/scm (our est Rs5/scm) and 3% yoy volume increase to 3.6mmscmd. Our DCF based target price increases 1.3% to Rs366/share on rollover to Q3CY12. Maintain Reduce.

Q3CY11 net profit up 44% on 26% gross margin expansion

Gujarat Gas reported 44% increase in net profit for Q3CY11 to Rs.805mn (our est Rs878mn) on a 26% increase in gross margin to Rs4.7/scm (our est Rs5/scm). Sales volume came in line with our expectation. Volume increase by 26% yoy to 3.58mmscmd (our est 3.59mmscmd). CNG sales volume grew by 16% yoy while PNG volume grew by 9% yoy. An interim dividend of Rs10/share was declared.

Physical performance

Particulars	Q3CY11	Q3CY11E	Diff.	Q3CY10	yoy %	Q2CY11	qoq %
Sales volume (mmscmd)	3.6	3.6	0%	3.5	3%	3.3	8%
Gross margin (Rs/scm)	4.7	5.0	-6%	3.7	26%	5.9	-20%

Source: BRICS Research

Higher RLNG prices lower qoq gross margin

Gross margins came in lower than our estimate due to greater than expected impact of high rupee RLNG prices, which were impacted by rising international prices and weakening rupee. RLNG accounted for ~40% of total volumes for the quarter. We are maintaining our volume and gross margin assumptions for CY12 and beyond.

Gross margin and volume assumption

Particulars	2011E	2012E	2013E	2014E	2015E
Volume (mmscmd)	3.57	3.96	4.20	4.44	4.68
Gross margin (Rs/scm)	4.9	4.5	4.3	4.3	4.4

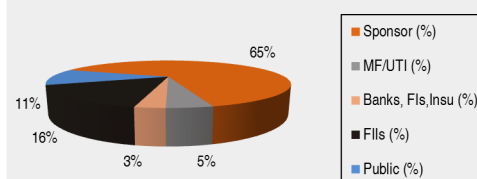
Source: BRICS Research

KEY DATA

Bloomberg	GGAS IN
Reuters	GGAS.BO
52-wk H/L (Rs)	485/301
6-m avg trd value	US\$0.5mn
Market cap	Rs56.3bn/US\$1.1bn
Shares o/s	128.3mn
Face value	Rs2

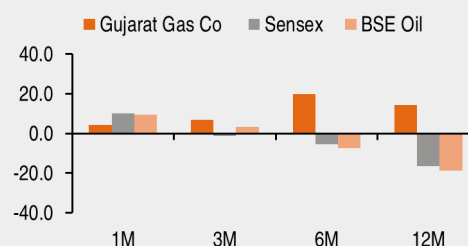
Source: Bloomberg

SHAREHOLDING (%)



Source: CMIE As of 30 September 2011

RELATIVE PRICE PERFORMANCE



Source: Bloomberg

Key financials

	(Rs mn)		
Y/E Dec	CY10	CY11E	FY12E
Sales	18,493	22,160	24,867
EBITDA	4,156	5,111	5,115
EBITDA %	22.5	23.1	20.6
Net profit	2,590	3,355	3,363
FDEPS (Rs)	20.1	26.2	26.2
EPS growth (%)	48.0	30.2	0.3
P/E (x)	21.8	16.8	16.7
RoE (%)	31.7	33.4	28.4

Source: Company, BRICS Research

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Sensitivity of CY12E EPS to change in volume and gross margin from our base case (Rs/sh)

Gross Margin change (Rs/scm)	Volume change (%)			
		-10%	0%	10%
	(1.00)	19	19	19
	-	25	26	28
	1.00	31	34	37

Source: BRICS Research

Increasing 12 month forward target price by 1.3% to Rs366/share; maintain Reduce

We raise our DCF based target price by 1.3% to Rs366/share from Rs361/share on rollover to Q3CY12. We are positive on GGAS' long term prospects given the sound business model and proactive management on supply and customer mix, but current stock price appears to factor in the positives. Maintain Reduce.

Sensitivity of NAV to change in volume, margin from our base case (Rs/sh)

Gross margin change (Rs/scm)	Volume change (%)			
		-10%	0%	10%
	(1.00)	280	280	279
	-	351	366	382
	1.00	421	451	484

Source: BRICS Research

Sensitivity of DCF based NAV to cost of capital, terminal growth rate (Rs/sh)

Terminal growth rate	Cost of capital			
		10.0%	12.5%	15.0%
	2%	384	361	347
	3%	394	366	349
	4%	407	372	353

Source: BRICS Research

September 2011 quarter performance (Rs mn)

Particulars	Q3CY11 actual	Q3CY11E estimate	Difference	Q3CY10	yoy	Q2CY11	qoq
Sales	6,533	6,102	7.1%	5,066	29.0%	5,845	11.8%
EBITDA	1,291	1,408	-8.3%	947	36.4%	1,540	-16.2%
EBITDA %	19.8%	23.1%		18.7%		26.3%	
Depreciation	153	142	7.8%	138	11.3%	147	4.6%
Other income	112	135	-17.0%	48	133.9%	142	-20.9%
PBT	1,137	1,266	-10.2%	809	40.6%	1,393	-18.4%
Tax	328	388	-15.5%	250	31.2%	427	-23.2%
PAT	805	878	-8.3%	557	44.4%	966	-16.7%
EPS (Rs)	6.3	6.8	-8.3%	4.3	44.4%	7.5	-16.7%

Source: Company, BRICS Research

Financial summary

Income statement (Rs mn)					Balance sheet (Rs mn)				
Y/E 31 March	2010	2011E	2012E	2013E	Y/E 31 March	2010	2011E	2012E	2013E
Revenue	18,493	22,160	24,867	26,950	Net fixed assets	7,657	7,844	8,252	8,768
Revenue growth (%)	30.3	19.8	12.2	8.4	Investments	5,488	5,321	5,321	5,321
Operating exp	14,337	17,049	19,752	21,924	Current assets	1,960	2,256	5,493	7,406
EBITDA	4,156	5,111	5,115	5,025	Inventories	189	260	292	316
EBITDA margin (%)	22.5	23.1	20.6	18.6	Sundry debtors	1,484	1,636	1,836	1,989
Depreciation	542	608	669	734	Cash & bank balance	94	190	3,195	4,930
EBIT	3,614	4,503	4,446	4,291	Loans & advances	193	170	170	170
MTM profit / (loss)	—	—	—	—	Other current assets	—	—	—	—
Other income	224	580	650	700	Total assets	15,448	15,762	19,065	21,494
Interest paid	5	—	—	—	Net worth	8,591	10,288	12,391	14,476
PBT	3,833	5,083	5,096	4,991	Share capital	257	257	257	257
Tax	(1,243)	(1,728)	(1,733)	(1,697)	Reserves & surplus	8,335	10,031	12,134	14,219
PAT	2,590	3,355	3,363	3,294	Minority interest	63	68	68	68
Minority interest	13	—	—	—	Total debt	—	—	—	—
EO income	—	—	—	—	Secured loans	—	—	—	—
APAT	2,577	3,355	3,363	3,294	Unsecured loans	—	—	—	—
PAT growth (%)	47.9	29.5	0.3	(2.1)	Current liabilities & prov	4,051	2,292	3,410	3,594
Shares o/s (mn)	128	128	128	128	Current liabilities	2,141	1,961	2,201	2,385
Fully diluted o/s shrs (mn)	128	128	128	128	Provisions	1,909	331	1,209	1,209
FDEPS (Rs) recurring	20.1	26.2	26.2	25.7	Net deferred tax liab	669	687	687	687
					Total liabilities	15,448	15,762	19,065	21,494

Cash flow statement (Rs mn)					Key ratios				
Y/E 31 March	2010	2011E	2012E	2013E	Y/E 31 March	2010	2011E	2012E	2013E
PBT	3,833	5,083	5,096	4,991	Valuation ratios				
Depreciation	542	608	669	734	PE (x)	21.8	16.8	16.7	17.1
Amortisation	—	—	—	—	CEPS (Rs)	23.9	30.9	31.4	31.4
Interest paid	5	—	—	—	PCE (x)	18.4	14.2	14.0	14.0
Tax paid	(1,176)	(1,728)	(1,733)	(1,697)	BVPS (Rs)	67	80	97	113
Chg in working capital	422	(1,959)	887	6	Price/Book (x)	6.5	5.5	4.5	3.9
Int/div in other income	—	—	—	—	EV/EBITDA (x)	13.5	11.0	10.4	10.2
Other operations	110	18	—	—	EV/Revenue (x)	3.0	2.5	2.1	1.9
CF from operations (a)	3,668	2,022	4,919	4,034	Dividend yield (%)	2.7	1.8	1.8	1.8
Capital expenditure	(994)	(766)	(1,076)	(1,250)	Cash flow yield (%)	2.5	2.5	6.8	5.0
Chg in investments	(1,250)	167	—	—	Performance ratios				
Other investing act	(41)	(29)	—	—	Raw material to sales (%)	69.6	69.8	72.6	74.6
Int/div in other income	—	—	—	—	SGA to sales (%)	2.6	2.3	2.1	2.1
CF from investments (b)	(2,285)	(629)	(1,076)	(1,250)	Effective tax rate (%)	(32.4)	(34.0)	(34.0)	(34.0)
Free cash flow (a+b)	1,384	1,393	3,843	2,784	PAT margin (%)	14.0	15.1	13.5	12.2
Equity raised/(repaid)	—	—	—	—	DPS (Rs)	12.0	8.0	8.0	8.0
Debt raised/(repaid)	—	—	—	—	Dividend payout ratio (%)	60	31	31	31
Interest paid	(5)	—	—	—	Return ratios				
Dividend (incl tax)	(1,802)	(1,209)	(1,209)	(1,209)	RoE avg (%)	31.5	35.5	29.7	24.5
Other fin activities	437	(88)	371	160	RoCE avg (%)	31.7	33.4	28.4	24.0
CF from financing (c)	(1,369)	(1,297)	(838)	(1,049)	Fixed asset turnover (x)	—	—	—	—
Net chg in cash (a+b+c)	14	96	3,005	1,735	Working capital ratios				
Opening balance	79	94	190	3,195	Inventory (days)	4	4	4	6
Closing balance	94	190	3,195	4,930	Payable (days)	61	46	45	36
					Receivable (days)	29	27	27	27
					Working capital (days)	(28)	(15)	(13)	(3)
					Leverage ratios				
					Interest cost (%)	—	—	—	—
					Net debt/equity (x)	—	—	(0.3)	(0.3)
					Interest coverage (x)	782.3	—	—	—

BRICS RECOMMENDATION SCALE

BUY:	More than 15% upside
ADD:	Upside up to 15% (between 0% and 15%)
REDUCE:	Downside up to 15% (between 0% and –15%)
SELL:	More than 15% downside

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