



# Parsoli Corporation Limited

In Touch with Your Investment Needs

Indian Equities  
Oil & Gas

Quarterly Update

**Gujarat Gas Company Ltd.**

**HOLD**

Gunjan Poddar

Email: gunjan@parsoli.com

Tel: +91-22-4344 3786

**CMP** **Rs 302**  
**Target Price** **Rs 336**  
Sensex 17,957  
Nifty 5,398

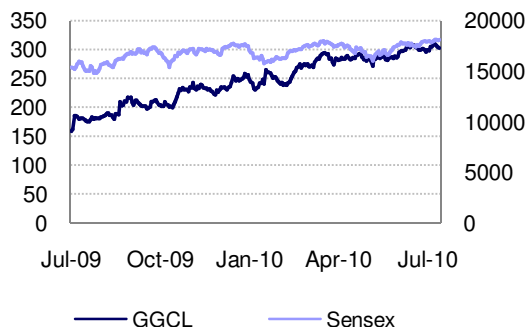
### Stock Details

BSE Code 523477  
NSE Code GUJRATGAS  
Reuters Code GGAS.BO  
Bloomberg Code GGAS IN  
Market Cap (Rs Cr) 3,878.28  
Beta 0.52  
52 W High / Low (Rs) 318.50 /158.38  
Avg Daily Volume 37,249  
Face Value (Rs) 2.00

### Shareholding Pattern (%)

Promoters 65.12  
MF/Banks/Indian FIs 8.45  
FII / NRIs / OCBs 15.31  
Non-Institutions 1.49  
Indian Public 9.63

### Price Chart



### Performance Highlights

**Increased gas volume and improved realization drives topline growth:** In Q2CY2010, Gujarat Gas Company Limited (GGCL) reported a revenue growth of 23.4% yoy to Rs 418.7cr. This was on account of increased gas sales volume and higher price realization. During the quarter, the total gas volume sold was at 297mmscm as compared to 249mmscm in Q2CY2009 and 291mmscm in Q1CY2010. Moreover, the average price realization improved marginally to Rs 13.8/scm from Rs 13.3/scm in Q2CY2009.

**Net profit up 21.8% yoy:** In Q2CY2010, EBITDA margin decreased by 270bps qoq to 22.3% from its all time high of 25.0% due to fall in gross gas spread to Rs 4.0/scm from Rs 4.3/scm in Q1CY2010. The decline in gas spread was on account of the increase in APM gas price and higher cost of LNG during the quarter, thus offsetting the marginal rupee appreciation. The net profit of the company increased 21.8% to Rs 58.0cr in Q2FY2010 on the back of volume growth.

**Outlook and Valuation:** At the current market price of Rs 302, GGCL is trading at P/E of 18.3xCY2010E and 15.1xCY2011E earnings and EV/EBIDTA of 11.4xCY2010E and 9.5xCY2011E. With the increased domestic gas volumes, RLNG volumes and gas flow from KG-D6 basin, the supply constraints for the company are likely to dampen. Furthermore, we expect the incremental gas volumes to flow to the high margin industrial retail segment, thus, boosting the revenue growth and margins. **However, the current market price limits the potential upside to 11.2%. We therefore recommend HOLD on the stock with a target price of Rs 336.**

### Exhibit 1: Quarterly Analysis

Particulars	Rs cr				
	Q2CY2010	Q2CY2009	YoY(%)	Q1CY2010	QoQ(%)
Net Sales	418.7	339.3	23.4	410.0	2.1
Other Income	5.7	6.6	(13.6)	4.0	44.7
Total Income	424.4	345.9	22.7	414.0	2.5
Total Expenditure	325.3	263.6	23.4	307.5	5.8
EBIDTA	93.4	75.7	23.4	102.5	(8.9)
EBIDTA Margin (%)	22.3	22.3	-	25.0	-
Interest	0.3	0.0	966.7	0.0	890.7
Depreciation	13.4	11.6	15.1	12.8	4.3
Profit before Tax	85.4	70.7	20.9	93.6	(8.8)
Tax	27.4	23.1	18.9	31.6	(13.3)
Profit After Tax	58.0	47.6	21.8	62.0	(6.4)
PAT Margin (%)	13.9	14.0	-	15.1	-
EPS (Rs)	4.5	3.7	-	4.8	-

Source: Company, Parsoli Research;

Note: CY - Financial year ending December



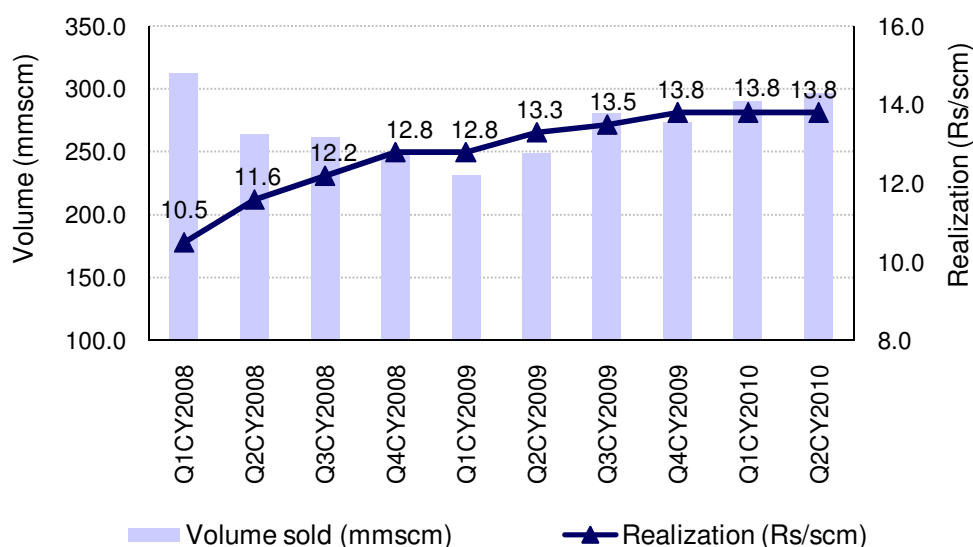
Topline growth of 23.4% was on account of volume growth and higher price realization

Key Updates

Higher volume and better realization resulted in 23.4% topline growth

In Q2CY2010, GGCL reported a revenue growth of 23.4% yoy at Rs 418.7cr against Rs 339.3cr in Q2CY2009. This was due to a volume growth of 48mmscm which stood at 297mmscm and better price realization which increased from Rs 13.3/scm to Rs 13.8/scm. The average price realizations were higher due to price hike in industrial retail gas implemented by the company in May 2009 to reduce the impact of depreciation in Rupee. Also, CNG prices were raised w.e.f. December 20, 2009, which helped GGCL to earn higher CNG realizations during the quarter. The CNG and industrial segment were the main growth drivers of gas volumes.

Exhibit 2: Gas distribution volumes and price realization



Source: Company, Parsoli Research

Volume increased on higher domestic gas supply and RLNG off-take

During Q2FY2010, GGCL received additional 0.2mmscmd from PMT field and the supply from Cairn also increased to 0.5mmscmd. This additional supply was similar to that in Q1CY2010. Moreover, RLNG volume off-take also increased yoy to 0.4mmscmd. With increase in gas volume, the company's gas distribution volume increased by 19.3% to 297mmscm from 249mmscm in Q2CY2009 as industrial retail volumes increased due to the addition of new customers. During the quarter, sales increased by 20.0% in industrial segment. Moreover, more than 5,500 vehicles were converted to CNG, increasing the number of CNG vehicles catered by the company to over 1,19,000. Two new CNG stations were also added during the quarter.

OPM remains flat at 22.3%

In Q2Y2010, the gross gas spread of the company declined to Rs 4.0/scm from its all time high of Rs 4.3/scm in Q1CY2010. This was on account of the increase in APM gas price and higher cost of RLNG during the quarter. Thus, during the quarter, the operating profit margin (OPM) of the company declined by 270bps qoq to 22.3% and remained flat on yoy basis. OPM was also affected by higher

The company's gas distribution volume increased by 19.3% to 297mmscm from 249mmscm in Q2CY2009

Gross gas spread during the quarter declined to Rs 4.0/scm from its all time high of Rs 4.3/scm due to increase in APM gas price and higher RLNG cost



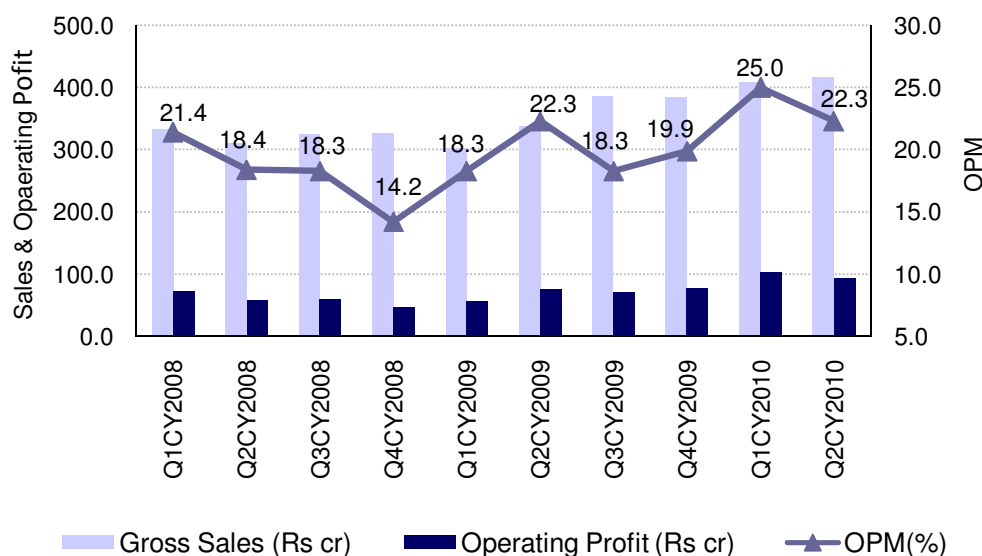
operating expenditure. Operating expenditure increased 23.4% yoy and 5.8% qoq to Rs 325.3cr, limiting EBIDTA increase to Rs 93.4cr.

<b>Exhibit 3: Cost Analysis</b>				<b>% of sales</b>	
	<b>Q2CY2010</b>	<b>Q2CY2009</b>	<b>bps chg</b>	<b>Q1CY2010</b>	<b>bps chg</b>
Raw Materials	69.7	69.1	63.2	68.0	168.4
Employee Cost	2.9	3.3	(40.9)	2.6	25.3
Other Expenses	5.5	5.9	(34.2)	4.7	77.9
Total Expenditure	78.1	78.3	(11.9)	75.4	271.5

Source: Company, Parsoli Research

During the quarter, operating profit increased by 23.4% yoy and the OPM remained flat at 22.3% on yoy basis

**Exhibit 4: Operating performance**



Source: Company, Parsoli Research

**Net profit jumped 21.8% yoy**

The net profit grew by 21.8% to Rs 58.0cr on the back of higher gas distribution volume

During the quarter, depreciation was up by 15.1% yoy to Rs 13.4cr due to investments in the pipeline network, CNG and other infrastructure during the year. The company uses internal cash accruals to meet its working capital requirement and fund the expansion plans. Hence, the interest costs are negligible. Other income declined by 13.6% yoy to Rs 5.7cr due to cash being utilized for expansion plans limiting the interest income. The effective tax rate declined marginally to 32.1% from 32.6% in Q2CY2009. Despite decline in other income and higher depreciation, the net profit, supported by higher gas distribution volume, grew by 21.8% yoy to Rs 58.0cr from Rs 47.6cr in Q2CY2009.



GGCL expects to receive authorization from PNGRB for Bharuch, Ankleswar and Surat operations shortly

GGCL's focus on industrial retail and CNG segments is expected to result in margin expansion

Using the DCF model, we arrive at a target price of Rs 336

Outlook and Valuation

GGCL is India's largest gas distribution company in terms of sales volume. During CY2009, the company invested Rs 155.3cr in network extension and infrastructure up-gradation. Going forward, it has also planned geographical expansion in concurrent areas. The working capital required for the expansion would be funded through internal accruals only. GGCL is waiting for authorization from PNGRB for its areas of operations in Bharuch, Ankleswar and Surat. However, with the notification of section 16 by MoPNG w.e.f. July 15, 2010, the company expects to receive authorization from PNGRB for these areas shortly. GGCL has also filed an Expression of Interest application to operate in certain areas of Kutch and Bhavnagar.

In the past, GGCL has been primarily dependent upon RLNG to support its volume growth. RLNG constituted nearly 20.0% of the total gas volume in CY2009. However, during Q2CY2010, higher gas volume was supported by higher gas flow from PMT and Cairn, which reduced RLNG off-take to around 12.0% of the total gas volume. Going forward, we expect RLNG prices to remain subdued. GGCL is also planning to enter into a term contract for procurement of RLNG. Furthermore, the government has also allocated 0.6mmscmd of KG-D6 basin to GGCL on fall back basis. The company is in process for finalization of a sales purchase agreement with RIL.

Going forward, we expect increased domestic gas volumes, RLNG volumes and gas flow from KG-D6 basin to drive growth. Also, the company's focus towards the industrial retail segment and CNG distribution, which are higher gross margin segments, would result in further margin expansion. Moreover, the potential appreciation in Rupee would also boost margins.

At the current market price of Rs 302, GGCL is trading at P/E of 18.3xCY2010E and 15.1xCY2011E earnings and EV/EBIDTA of 11.4xCY2010E and 9.5xCY2011E. We have valued GGCL using DCF valuation methodology. We arrive at a target price of Rs 336. For valuation, we have assumed a risk-free rate of 7.7%.

Exhibit 5: DCF Assumptions	
Particulars	
Risk Free Return (%)	7.7
WACC (%)	9.4
Total Enterprise Value (Rs cr)	4,190.6
Total Value of Equity (Rs cr)	4,311.5
No. of Shares (cr)	12.8
<b>Fair Value per share (Rs)</b>	<b>336.2</b>

Source: Parsoli Research

GGCL's quarterly results were in-line with our expectations. Going forward, we believe that the increase in domestic gas volume and RLNG volume would be future growth driver for the company by reducing the supply constraint. Also, we expect the incremental gas volume to flow to high margin industrial retail and CNG segments which would boost the company's margins further. **However, the current market price limits the potential upside to 11.2%. We therefore recommend HOLD on the stock with a target price of Rs 336.**



## Gujarat Gas

HOLD

## Financial Statements

Exhibit 6: Profit & Loss Statement					Rs cr
Particulars	CY2007	CY2008	CY2009	CY2010E	CY2011E
<b>Net Sales</b>	1,244.6	1,301.3	1,419.7	1,650.0	1,988.6
<i>% chg</i>	28.5	4.5	9.1	16.2	20.5
Total Expenditure	993.3	1,066.0	1,140.2	1,313.4	1,593.2
<i>% chg</i>	21.2	7.3	7.0	15.2	21.3
<b>EBIDTA</b>	251.3	235.2	279.5	336.6	395.3
<i>Margin (%)</i>	20.2	18.1	19.7	20.4	19.9
Other Income	17.5	41.2	26.6	26.6	40.1
Depreciation & Amortization	38.4	41.8	47.4	47.5	51.4
<b>PBT</b>	230.2	234.5	258.6	315.6	383.9
<i>Margin (%)</i>	18.5	18.0	18.2	19.1	19.3
Total Tax	76.6	73.0	83.6	104.1	126.7
<i>(% of PBT)</i>	33.3	31.1	32.3	33.0	33.0
<b>PAT</b>	153.7	161.5	175.0	211.4	257.2
<i>% chg</i>	74.3	5.1	8.4	20.8	21.6
<i>Margin (%)</i>	12.3	12.4	12.3	12.8	12.9

Source: Company, Parsoli Research

**Disclaimer**

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors.

Parsoli Corporation Limited has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval or notification. Parsoli Corporation Limited, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as separate, distinct and independent of each other. The recipient should take this into account before interpreting the document.

This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of Parsoli Corporation Limited. The views expressed are those of the analyst and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose.

Neither the Company, nor its directors, employees, agents nor representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.