



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: +91-22-4091 2786

CMP	Rs 268
Target Price	Rs 286
Sensex	17,098
Nifty	5,116

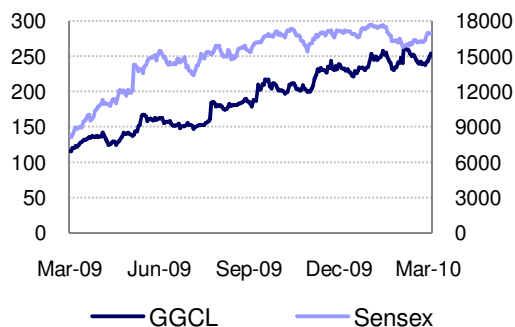
Stock Details

BSE Code	523477
NSE Code	GUJRATGAS
Reuters Code	GGAS.BO
Bloomberg Code	GGAS IN
Market Cap (Rs Cr)	2981.81
Beta	0.24
52 W High / Low (Rs)	277.70 / 112.00
Avg Daily Volume	30,253
Face Value (Rs)	2.00

Shareholding Pattern (%)

Promoters	65.12
MF/Banks/Indian FIs	9.25
FII / NRIs / OCBs	14.71
Non-Institutions	1.21
Indian Public	9.71

Price Chart



Performance Highlights

Increased gas volume and Improved price realization boosts revenue: In Q4CY2009, Gujarat Gas Company Limited (GGCL) reported a topline growth of 16.7% yoy to Rs 386.1cr. This was on an account of increased volume and higher price realization. During the quarter, the total gas volume sold was at 274mmscm as compared to 250mmscm in Q4CY2008 and 281mmscm in Q3CY2009. Moreover, the average price realization improved by 7.6% yoy and 1.9% qoq to Rs 14.0/scm.

Net profit surges up 42.4% yoy: In Q4CY2009, EBITDA margin increased by 570bps yoy to 19.9%. This strong operating performance was mainly due to higher pricing for spot LNG than the long-term supplies. The healthy operating performance during the quarter led to 42.4% surge in net profit to Rs 56.2cr.

Valuation

At the current market price of Rs 268, GGCL is trading at P/E of 16.9xCY2010E and 13.5xCY2011E earnings and EV/EBIDTA of 10.4xCY2010E and 8.4xCY2011E. Considering the increasing industrial demand for gas as a fuel, we expect the company to report revenue growth of 16.1% CAGR over CY2009-12E. **We maintain a positive view on the stock and recommend HOLD with a target price of Rs 286.**

Exhibit 1: Quarterly Analysis

Particulars	Q4CY2009	Q4CY2008	YoY(%)	Q3CY2009	QoQ(%)
Net Sales	386.1	330.9	16.7	387.9	(0.5)
Other Income	6.3	9.8	(35.8)	6.1	2.4
Total Income	392.4	340.7	15.2	394.1	(0.4)
Total Expenditure	309.3	283.8	9.0	317.0	(2.4)
EBIDTA	76.9	47.1	63.4	71.0	8.3
EBIDTA Margin (%)	19.9	14.2	-	18.3	-
Interest	0.0	0.0	48.3	0.0	48.3
Depreciation	12.7	10.6	19.5	12.1	4.8
Profit before Tax	70.4	46.2	52.4	65.0	8.4
Tax	24.2	13.7	76.2	20.3	18.9
Profit After Tax	46.2	32.5	42.4	44.6	3.6
PAT Margin (%)	12.0	9.8	-	11.5	-
EPS (Rs)	3.6	2.5	-	3.5	-

Source: Company, Parsoli Research;
Note: CY - Financial year ending December



Topline growth of 16.7% was on account of volume growth and higher price realization

During the quarter, operating profit increased by 42.4% and the OPM expanded by 570bps to 19.9%

Key Updates

Volume growth and better realization resulted in 16.7% revenue growth

In Q4CY2009, GGCL reported a topline growth of 16.7% yoy at Rs 386.1cr against Rs 330.9cr in Q4CY2008. This was due to a volume growth of 24mmscm which stood at 274mmscm and better price realization which increased from Rs 13.0/scm to Rs 14.0/scm. About 55mmscm of short term R-LNG was procured during the quarter. R-LNG constitutes about 20.0% of the company's sourcing portfolio for the quarter and enabled the overall growth in volumes. The increase in realization for this quarter was mainly due to increase in industrial retail gas price and higher pricing for spot LNG. The number of CNG vehicles catered by the company crossed 1,09,000. The CNG and industrial segment were the main growth drivers of gas volumes.

Operating profit increased by a whopping 63.4% to Rs 76.9cr

During Q4CY2009, raw material cost increased by 10.4% yoy to Rs 267.6cr and employee cost remained flat at Rs 12.2cr. The increase in cost was mainly due to the purchase of spot LNG to ensure regular supply to the consumers as the supply of gas from PMT was affected below the contracted levels. This was offset by increased sales volume and improved price realization and resulted in 63.4% growth in operating profit to Rs 76.9cr. The operating margin improved by 570bps yoy to 19.9% from 14.2% in Q4CY2008.

Exhibit 2: Cost Analysis

			%		of sales
	Q4CY2009	Q4CY2008	bps chg	Q3CY2009	bps chg
Raw Materials	69.7	74.4	(468.8)	73.4	(365.7)
Employee Cost	3.2	3.7	(56.3)	3.2	(1.1)
Other Expenses	7.7	9.0	(133.5)	5.5	218.8
Total Expenditure	80.6	87.2	(658.6)	82.1	(148.0)

Source: Company, Parsoli Research

Net profit jumped 42.4% despite decline in other income and higher depreciation

In Q4CY2009, other income declined by 35.8% to Rs 6.3cr due to cash being utilized for expansion plans. Also, depreciation in this quarter increased by 19.5% yoy to Rs 12.7cr from Rs 10.6cr in Q4CY2008 due to investments in the pipeline network and CNG infrastructure development during the year. During CY2009, the company invested Rs 155.3cr in network extension and infrastructure up-gradation. The company uses internal cash accruals to meet its working capital requirement and fund the expansion plans. Hence, the interest costs are negligible. Despite higher depreciation and decline in other income, the net profit, supported by volume growth and increase in realization, grew by 42.4% yoy to Rs 42.4cr from Rs 32.5cr in Q4CY2008.

Impressive earnings growth during the year aided the company's smooth investment of Rs 155.3cr in network extension and infrastructure up-gradation



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 286

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, GGCL has also planned for geographical expansion in concurrent areas. The working capital required for the expansion would be funded through internal accruals only. GGCL has filed for authorization to MoPNG and the Government of India, for its areas of operations in the cities of Bharuch, Ankleswar and Surat. It has also filed an Expression of Interest application to operate in certain areas of Kutch and Bhavnagar. Over the past few years, the volume of the company was impacted due to gas supply constraint. However, with improvement in the spot LNG availability, any disruptions from the regular suppliers could be addressed on an immediate basis. Also, GGCL has applied for KG-D6 gas supply which would enable the long term growth of the company. Moreover, the company's focus towards the industrial retail segment and CNG distribution, which have higher gross margin, would result in margin expansion. We expect GGCL to report revenue growth at a CAGR of 16.1% over CY2009-12E.

At the current market price of Rs 268, GGCL is trading at P/E of 16.9xCY2010E and 13.5xCY2011E earnings and EV/EBIDTA 10.4xCY2010E and 8.4xCY2011E. We have valued GGCL using DCF valuation methodology. Using the DCF model, we arrive at a target price of Rs 286. For valuation, we have assumed a risk-free rate of 7.8%.

Exhibit 3: DCF Valuation	
Particulars	
Risk Free Return (%)	7.8
Beta	0.2
WACC (%)	9.9
Total Enterprise Value (Rs cr)	3,665.9
Net Debt (Rs cr)	0.0
Total Value of Equity (Rs cr)	3,665.9
No. of Shares (cr)	12.8
Fair Value per share (Rs)	285.8

Source: Parsoli Research

GGCL's quarterly results were in line with our expectations and, going forward, we expect the company to continue to perform well. Considering the company's strong focus towards high margin segments including industrial retailing and CNG distribution along with the improvement in gas supply sources, we believe the company is on a strong growth path. Thus, we recommend HOLD on the stock with a target price of Rs 286.



Financial Statements

Exhibit 4: Profit & Loss Statement					Rs cr
Particulars	CY2007	CY2008	CY2009	CY2010E	CY2011E
Net Sales	1,244.6	1,301.3	1,419.7	1,672.4	2,024.9
<i>% chg</i>	28.5	4.5	9.1	17.8	21.1
Total Expenditure	993.3	1,066.0	1,140.2	1,346.8	1,631.6
<i>% chg</i>	21.2	7.3	7.0	18.1	21.1
EBIDTA	251.3	235.2	279.5	325.5	393.3
<i>Margin (%)</i>	20.2	18.1	19.7	19.5	19.4
Other Income	17.5	41.2	26.6	26.6	40.9
Depreciation & Amortization	38.4	41.8	47.4	48.2	52.3
PBT	230.2	234.5	258.6	303.8	381.7
<i>Margin (%)</i>	18.5	18.0	18.2	18.2	18.9
Total Tax	76.6	73.0	83.6	100.3	126.0
<i>(% of PBT)</i>	33.3	31.1	32.3	33.0	33.0
PAT	153.7	161.5	175.0	203.6	255.8
<i>% chg</i>	74.3	5.1	8.4	16.3	25.6
<i>Margin (%)</i>	12.3	12.4	12.3	12.2	12.6

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.