Parsoli Corporation Limited

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Indian Equities
Oil & Gas

Quarterly Update

Gujarat Gas Company Ltd.

BUY

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CMP	**Rs 284**
Target Price	**Rs 323**
Sensex	17,691
Nifty	5,308

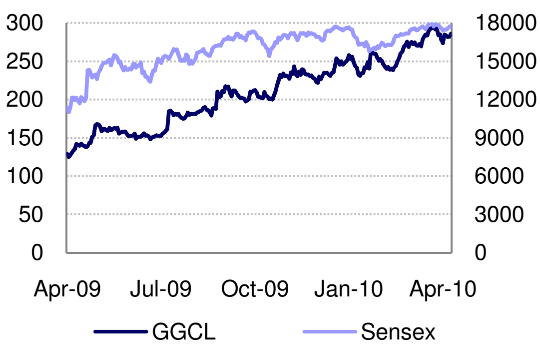
Stock Details

BSE Code	523477
NSE Code	GUJRATGAS
Reuters Code	GGAS.BO
Bloomberg Code	GGAS IN
Market Cap (Rs Cr)	3666.03
Beta	0.23
52 W High / Low (Rs)	298.00 /125.00
Avg Daily Volume	35,534
Face Value (Rs)	2.00

Shareholding Pattern (%)

Promoters	65.12
MF/Banks/Indian FIs	8.9
FII / NRIs / OCBs	14.91
Non-Institutions	1.43
Indian Public	9.64

Price Chart



Performance Highlights

Increased gas volume and higher price realization boosts revenue: In Q1CY2010, Gujarat Gas Company Limited (GGCL) reported a topline growth of 33.8% yoy to Rs 410.0cr. This was on account of increased gas sales volume and higher price realization. During the quarter, the total gas volume sold was at 291mmscm as compared to 232mmscm in Q1CY2009 and 274mmscm in Q4CY2009. Moreover, the average price realization improved by 7.7% yoy to Rs 14.0/scm.

Net profit surges by 69.5% yoy: In Q1CY2010, EBITDA margin increased by 670bps yoy to its all time high at 25.0%. This strong operating performance was mainly on account of higher gas price realization. Moreover, the rupee appreciation during the quarter favored the company's gas sourcing mix, thus, reducing gas sourcing cost. OPM was also supported by decline in operating expenditure. Thus, the healthy operating performance during the quarter led to 69.5% surge in net profit to Rs 62.0cr.

Outlook and Valuation: At the current market price of Rs 284, GGCL is trading at P/E of 17.0xCY2010E and 13.9xCY2011E earnings and EV/EBIDTA of 10.5xCY2010E and 8.7xCY2011E. With the increased domestic gas volumes, RLNG volumes and gas flow from KG-D6 basin, the supply constraints for the company is likely to dampen. Futhermore, we expect the incremental gas volumes to flow to the high margin industrial retail segment, thus, boosting the revenue growth and margins. **We maintain a positive view on the stock and recommend BUY with a target price of Rs 323.**

Exhibit 1: Quarterly Analysis (Rs cr)

Particulars	Q1CY2010	Q1CY2009	*YoY(%)*	Q4CY2009	*QoQ(%)*
Net Sales	410.0	306.4	*33.8*	386.1	*6.2*
Other Income	4.0	7.6	*(47.6)*	6.3	*(37.0)*
Total Income	414.0	313.9	*31.9*	392.4	*5.5*
Total Expenditure	307.5	250.4	*22.8*	309.3	*(0.6)*
EBIDTA	102.5	56.0	*83.1*	76.9	*33.4*
EBIDTA Margin (%)	*25.0*	*18.3*	-	*19.9*	-
Interest	0.0	0.0	*7.7*	0.0	*(27.4)*
Depreciation	12.8	11.0	*17.3*	12.7	*1.2*
Profit before Tax	93.6	52.6	*78.1*	70.4	*33.0*
Tax	31.6	16.0	*97.6*	24.2	*30.9*
Profit After Tax	62.0	36.6	*69.5*	46.2	*34.1*
PAT Margin (%)	*15.1*	*11.9*	-	*12.0*	-
EPS (Rs)	4.8	2.8	-	3.6	-

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

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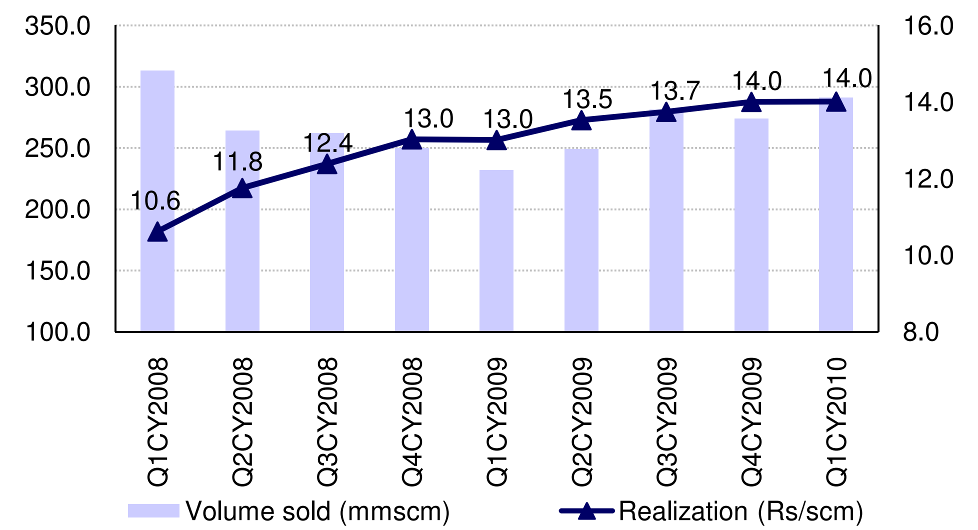
Key Updates

Volume growth and better realization resulted in 33.8% revenue growth

Topline growth of 33.8% was on account of volume growth and higher price realization

In Q1CY2010, GGCL reported a topline growth of 33.8% yoy at Rs 410.0cr against Rs 306.4cr in Q4CY2008. This was due to a volume growth of 59mmscm which stood at 291mmscm and better price realization which increased from Rs 13.0/scm to Rs 14.0/scm. The average price realizations were higher due to the price hike of industrial retail gas implemented by the company in February and May 2009 to reduce the impact of the Rupee depreciation on gas cost and also CNG prices were raised from 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

RLNG off-take decreases on increase in domestic gas supply

With the increased supply from PMT and Cairn, RLNG off-take was lowered to around 0.4mmscmd

During Q1FY2010, GGCL received additional 0.2mmscmd from PMT field and also, the supply from Cairn increased to 0.5mmscmd. This consecutively lowered the off-take of relatively costly RLNG to around 0.4mmscmd from 0.6mmscmd in Q4CY2009. With increase in gas volume, the company's gas distribution volume increased by 25.4% to 291mmscm from 232mmscm in Q1CY2009 as industrial retail volumes increased due to the addition of new customers. Moreover, the number of CNG vehicles catered by the company has now crossed 1,15,000. Two new CNG stations were also added during the quarter.

OPM peaks at 25.0%

Gross gas spread during the quarter touched an all time high of Rs 4.3/scm on the back of hike in CNG price and Rupee appreciation

In Q1Y2010, the gross gas spread of the company touched an all time high of Rs 4.3/scm against Rs 4.0/scm in Q4CY2009 and Rs 3.3/scm in Q1CY2009. This was on account of CNG price hike in December 20, 2009 and 1.6% Rupee appreciation which lowered the gas cost. Thus, during the quarter, the operating profit margin of the company expanded by 670bps yoy and 510bps qoq to 25.0%. OPM was also supported by the decline in operating expenditure with respect to sales. The expansion in OPM resulted in EBIDTA to increase by 83.1% yoy to Rs 102.5cr.

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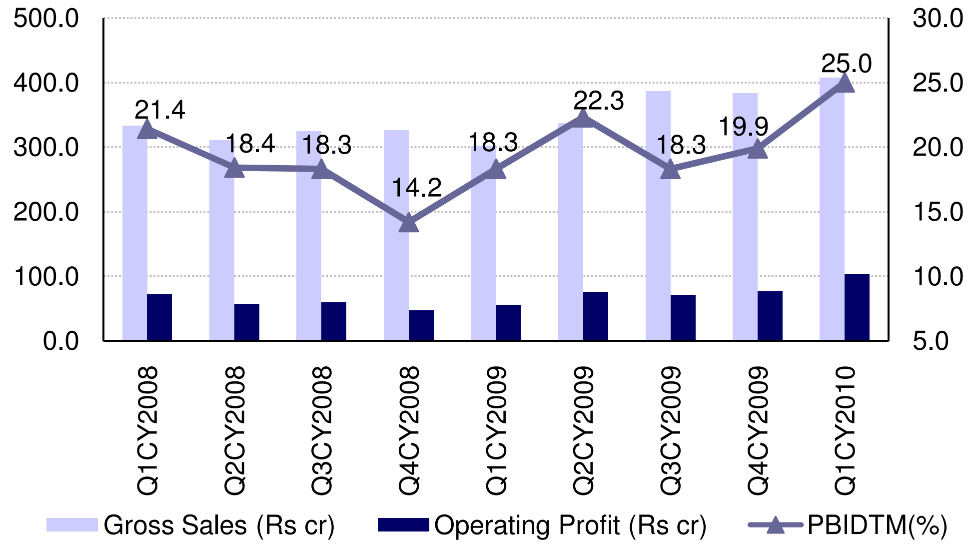
OPM was also supported by the decline in operating expenditure with respect to sales

Exhibit 3: Cost Analysis					**% of sales**
	Q1CY2010	**Q1CY2009**	***bps chg***	**Q4CY2009**	***bps chg***
Raw Materials	68.0	72.7	*(463.7)*	69.7	*(170.4)*
Employee Cost	2.6	3.3	*(65.0)*	3.2	*(53.2)*
Other Expenses	4.7	7.0	*(224.5)*	7.7	*(293.6)*
Total Expenditure	75.4	82.9	*(753.3)*	80.6	*(517.2)*

Source: Company, Parsoli Research

During the quarter, operating profit increased by 83.1% yoy and the OPM expanded by 670bps yoy to 25.0%

Exhibit 4: Operating performance



Source: Company, Parsoli Research

Net profit jumped 69.5% despite decline in other income and higher depreciation

The net profit grew by 69.5% to Rs 62.0cr on back of volume growth and increased gross gas spread

During the quarter, the depreciation was up by 17.2% yoy to Rs 12.8cr 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 47.6% yoy to Rs 4.0cr due to cash being utilized for expansion plans, whereas the effective tax rate grew to 33.8% from 30.4% in Q1CY2009. Despite this, the net profit, supported by volume growth and increased gross gas spread, grew by 69.5% to Rs 62.0cr from Rs 36.6cr in Q1CY2009.

Outlook and Valuation

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

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.

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

In the past, GGCL has been primarily dependent upon RLNG to support its volume growth. RLNG constituted nearly 20% of the total gas volume. However, during Q1CY2010, higher gas volume was supported by higher gas flow from PMT and Cairn, which reduced RLNG off-take to around 10.8% of the total gas volume. Going forward, we expect RLNG prices to remain subdued. The company 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. The KG-D6 gas is expected to start flowing by the end of May 2010.

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

At the current market price of Rs 284, GGCL is trading at P/E of 17.0xCY2010E and 13.9xCY2011E earnings and EV/EBIDTA of 10.5xCY2010E and 8.7xCY2011E. We have valued GGCL using DCF valuation methodology. Using the DCF model, we arrive at a target price of Rs 323. For valuation, we have assumed a risk-free rate of 7.8%.

Using the DCF model, we arrive at a target price of Rs 323

Exhibit 5: DCF Valuation

Particulars	
Risk Free Return (%)	7.8
Beta	0.2
WACC (%)	9.2
Total Enterprise Value (Rs cr)	4,147.4
Net Debt (Rs cr)	0.0
Total Value of Equity (Rs cr)	4,147.4
No. of Shares (cr)	12.8
Fair Value per share (Rs)	**323.4**

Source: Parsoli Research

GGCL's quarterly results were better than our expectations and, going forward, we expect the company to continue to perform well. Considering the company's strong focus towards high margin segments, improvement in gas supply sources and ability to pass on gas price hikes, we believe the company is on a strong growth path. **Thus, we recommend BUY on the stock with a new target price of Rs 323.**

Financial Statements

Exhibit 6: 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
% chg	*28.5*	*4.5*	*9.1*	*17.8*	*21.1*
Total Expenditure	993.3	1,066.0	1,140.2	1,331.2	1,622.3
% chg	*21.2*	*7.3*	*7.0*	*16.8*	*21.9*
EBIDTA	251.3	235.2	279.5	341.2	402.5
Margin (%)	*20.2*	*18.1*	*19.7*	*20.4*	*19.9*
Other Income	17.5	41.2	26.6	26.6	40.9
Depreciation & Amortization	38.4	41.8	47.4	47.5	51.4
PBT	230.2	234.5	258.6	320.1	391.9
Margin (%)	*18.5*	*18.0*	*18.2*	*19.1*	*19.4*
Total Tax	76.6	73.0	83.6	105.6	129.3
(% of PBT)	*33.3*	*31.1*	*32.3*	*33.0*	*33.0*
PAT	153.7	161.5	175.0	214.5	262.5
% chg	*74.3*	*5.1*	*8.4*	*22.6*	*22.4*
Margin (%)	*12.3*	*12.4*	*12.3*	*12.8*	*13.0*

Source: Company, Parsoli Research

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