



27th July 2009

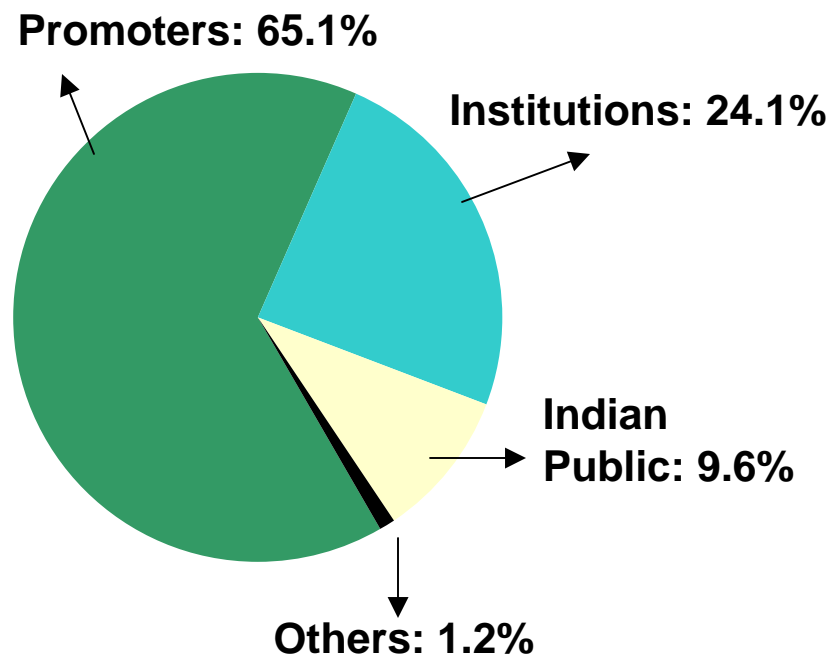
Gujarat Gas Company Limited

CMP Rs. 313.0 | BUY

Gauarat Gas Company Limited

Stock Codes	
Bloomberg	GGAS.IN
Reuters	GGAS.BO
BSE	523477
NSE	GUJARATGAS
BSE Group	B
Face Value	Rs. 2.0
Stock Data	
52W H/L	370.0/170.00
CMP Rs.	Rs. 313.00
Mkt Cap.	Rs. 19,878 Mn
Free Float	22.7 Mn Shares

Shareholding Pattern (June '09)

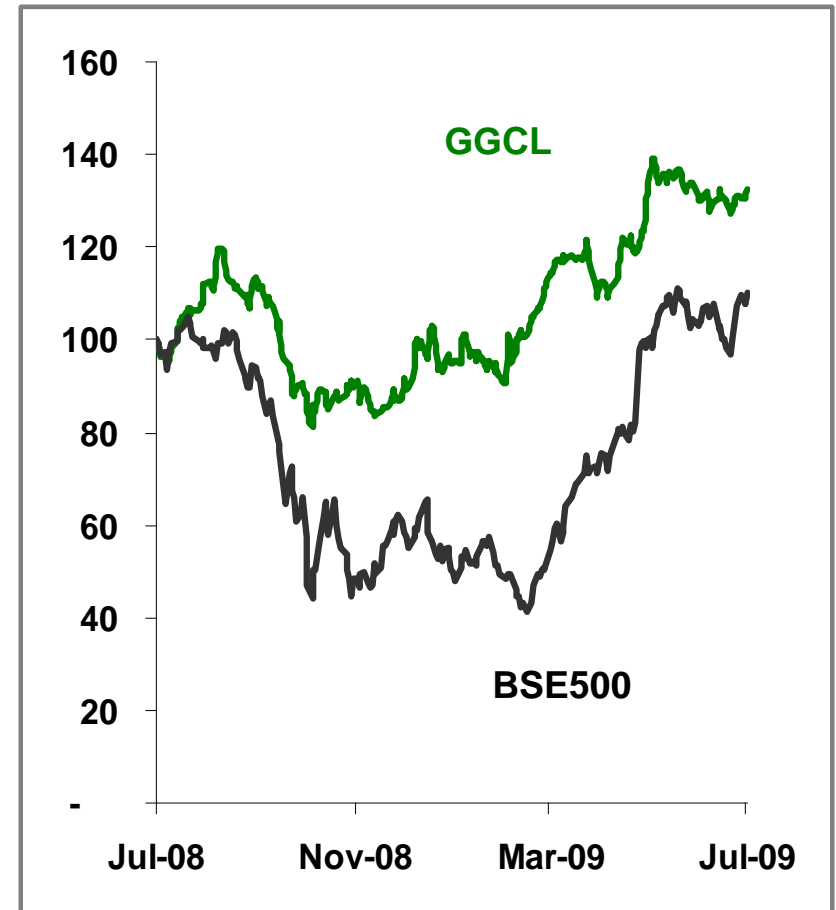


Valuation

Particulars	CY 05	CY 06	CY 07	CY 08	CY 09E	CY 10E
OPM (%)	19.7%	15.4%	20.2%	18.1%	18.3%	18.1%
EPS (Rs.)	76.5	68.2	23.9	25.1	26.6	29.8
P/E (x)	4.1	4.6	13.1	12.5	11.8	10.5
P/BV (x)	1.1	0.9	3.4	2.8	2.3	1.9
EV/Sales (x)	0.6	0.4	1.6	1.5	1.3	1.2
ROCE (%)	35.0%	29.1%	39.3%	32.4%	29.4%	27.6%
RONW (%)	26.5%	19.2%	26.1%	22.2%	19.6%	18.4%
Working Cap T/o Days	(35.4)	(25.8)	(18.1)	(18.5)	(14.5)	(12.1)

Company Profile

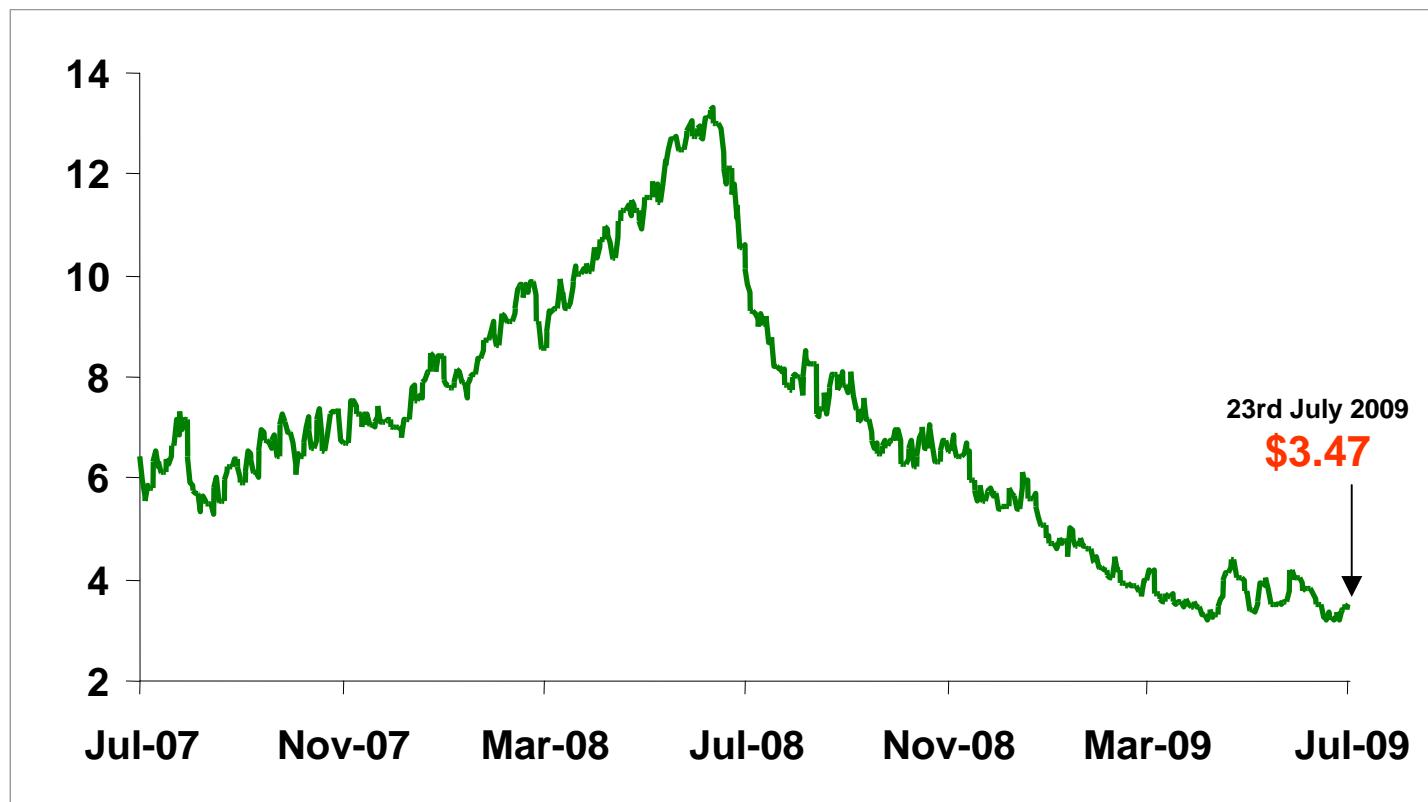
- Operates in the business of gas distribution in the state of Gujarat
- Area of operation – Surat, Ankleshwar, Bharuch, Vapi, Jhagadia
- GGCL promoted by British Gas (BG). BG owns 65.12% in GGCL
- GGCL is the largest private sector gas distribution company in India
- BG has a 30% participating interest in Tapti gas field & Pana/Mukta oils and gas fields each



Investment Argument

- Supply side issues easing out very rapidly
- Supply of gas from KG basin expected very soon
- GGCL has taken a price hike of 15% (Except for CNG Business)
- Spot LNG prices have declined very sharply
- Existing gas supply from PMT to be more consistent
- Volume growth a reality in the quarters with supply side pressures easing off
- GGCL operates in one of the most industrialised state of the country
- Current price hike to take care of slowdown in demand. Last 2 months the company has seen volumes increase

Henry Hub price chart



Source: Bloomberg

Strong infrastructure in place

- Currently operates 29 CNG Gas stations. To add around 6 new stations every year going forward
- Operates 3000 kms of gas pipeline. To lay 300 kms of pipeline every year going forward
- GGCL has applied for a license to operate in Bhavnagar & Kutch
- Company intends to do a capex of Rs.150-200 Crs every year for the next 2-3 years

Gas distribution business dynamics to change

- Ambiguity on the APM gas prices (Price revision may happen)
- APM gas currently charged at \$2.10/mmbtu
 - GGCL gets 0.15 mmscmd gas at APM
- Focus to shift from gas supply constraints to availability of infrastructure
 - GGCL has 3000 Kms Gas Pipeline already in place
- Henry Hub spot natural gas prices at \$3.47/mmbtu
- KG basin gas to be available very soon
- Total quantity of KG basin gas pegged at 90 mmscmd
 - Availability of gas should be no more of a constraint

Some Facts

- GGCL gets 2.13 mmscmd gas from PMT with a firm contract till 2019
- Priority sector business (i.e transport & domestic) accounts for less than 15% of the total sales of GGCL
- Close to 95% of the raw material is on market determined prices
- Demand for natural gas reducing in United States and Europe which is being gobbled up by developing countries

Quarterly Analysis

YE March (Rs. Mn.)	Q109	Q108	Y-Y(%)	Q408	Q-Q(%)
Net Revenues	3063.59	3335.98	-8.17%	3308.89	-7.41%
Cost of Materials	2193.34	2383.04	-7.96%	2423.30	-9.49%
<i>Gross Profit</i>	<i>870.25</i>	<i>952.94</i>	<i>-8.68%</i>	<i>885.60</i>	<i>-1.73%</i>
Staff Costs	99.23	92.57	7.19%	121.47	-18.31%
Other Expenses	210.98	150.27	40.41%	293.60	-28.14%
Total Expenditure	2503.55	2625.88	-4.66%	2838.37	-11.80%
<i>Operating Profit</i>	<i>560.04</i>	<i>710.10</i>	<i>-21.13%</i>	<i>470.53</i>	<i>19.02%</i>
Other Income	75.66	46.32	63.34%	98.01	-22.80%
EBITDA	635.70	663.78	-4.23%	568.54	11.81%
Depreciation	109.52	100.01	9.50%	106.17	3.15%
EBIT	526.19	563.77	-6.67%	462.37	13.80%
Interest	0.30	0.30	-0.34%	0.29	0.68%
PBT	525.89	563.47	-6.67%	462.07	13.81%
Tax	160.21	207.10	-22.64%	137.27	16.72%
PAT	363.97	449.01	-18.94%	321.84	13.09%
Equity Capital	128.25	128.25	128.25	128.25	128.25
EPS	5.68	7.00	-18.94%	5.02	13.09%

Profit & Loss Statement

Particulars (Rs. Mn.)	CY 05	CY 06	CY 07	CY 08	CY 09E	CY 10E
Total Revenues	7468.42	9685.01	12446.23	13012.53	14574.03	16322.92
- Growth (%)		29.68	28.51	4.55	12.00	12.00
Total Expenditure	5993.60	8192.63	9933.36	10660.13	11914.27	13368.47
Operating Profit	1474.82	1492.38	2512.87	2352.40	2659.76	2954.45
Forex Gain/(Loss)	0.00	0.00	0.00	0.00	0.00	0.00
Other Income	283.44	161.22	174.95	412.11	389.08	474.58
EBITDA	1758.26	1653.60	2687.82	2764.50	3048.84	3429.03
Depreciation	273.70	318.72	384.40	417.96	488.44	560.29
EBIT	1484.56	1334.87	2303.43	2346.54	2560.40	2868.74
Interest	29.16	21.98	1.06	1.11	1.00	1.00
PBT	1455.40	1312.90	2302.37	2345.43	2559.40	2867.74
Tax	467.44	431.30	765.67	730.26	844.60	946.35
PAT Before EI	987.96	881.60	1536.69	1615.18	1714.80	1921.38
- Growth (%)		-10.77	74.31	5.11	6.17	12.05
Minority Interest	6.67	6.43	7.23	8.69	9.55	10.51
PAT	981.29	875.17	1529.46	1606.49	1705.24	1910.87

Balance Sheet

Particulars (Rs. Mn.)	CY 05	CY 06	CY 07	CY 08	CY 09E	CY 10E
Total Assets	5430.60	5975.01	7484.65	9062.58	10714.38	12591.27
Fixed Assets	4136.05	5217.61	5732.68	6162.17	7183.61	8123.32
Investments	1950.83	1399.49	2350.19	3545.62	4095.62	4995.62
Current Assets (EXCEP CASH)	718.77	1244.27	1488.86	1807.34	1997.53	2220.33
Cash & Bank Balance	166.57	160.76	175.51	224.68	497.08	680.41
Current Liabilities	1608.71	2089.35	2282.14	2692.28	3074.52	3443.46
Net Current Assets	-723.38	-684.32	-617.77	-660.27	-579.91	-542.72
Others	67.10	42.23	19.56	15.06	15.06	15.06
Total Liabilities	5430.60	5975.01	7484.65	9062.58	10714.38	12591.27
Equity Capital	128.25	128.25	128.25	128.25	128.25	128.25
Stock Options Outstanding Account	0.00	0.00	0.00	2.88	2.88	2.88
Preference Capital		144.00	144.00	144.00	144.00	144.00
Reserves	3639.67	4312.33	5602.84	6971.15	8438.70	10111.88
Shareholders Funds	3767.92	4584.58	5875.09	7246.27	8713.83	10387.01
Minority Interest	26.11	31.16	36.95	44.22	53.78	64.29
Borrowed Funds	530.04	29.40	0.00	0.00	0.00	0.00
Deferred Tax Liability	428.62	464.87	453.35	498.39	549.58	606.93
Deposits	677.92	865.01	1119.26	1273.69	1397.19	1533.04

Ratio Analysis

Particulars	CY 05	CY 06	CY 07	CY 08	CY 09E	CY 10E
OPM (%)	19.7%	15.4%	20.2%	18.1%	18.3%	18.1%
EBITDA (%)	23.5%	17.1%	21.6%	21.2%	20.9%	21.0%
PBIT (%)	19.9%	13.8%	18.5%	18.0%	17.6%	17.6%
PAT (%)	13.1%	9.0%	12.3%	12.3%	11.7%	11.7%
Interest Cover (x)	50.9	60.7	2,173.0	2,110.2	2,560.4	2,868.7
EPS (Rs.)	76.5	68.2	23.9	25.1	26.6	29.8
P/E (x)	4.1	4.6	13.1	12.5	11.8	10.5
P/BV (x)	1.1	0.9	3.4	2.8	2.3	1.9
BVPS (Rs.)	289.3	354.9	91.3	112.9	135.8	161.9
Market Cap (Rs. Mn.)	4,014.2	4,014.2	20,071.1	20,071.1	20,071.1	20,071.1
M Cap/Sales (x)	0.5	0.4	1.6	1.5	1.4	1.2
EV (Rs. Mn.)	4,377.7	3,882.9	19,895.6	19,846.5	19,574.0	19,390.7
EV/EBITDA (x)	2.5	2.3	7.4	7.2	6.4	5.7
EV/Sales (x)	0.6	0.4	1.6	1.5	1.3	1.2
ROCE (%)	35.0%	29.1%	39.3%	32.4%	29.4%	27.6%
RONW (%)	26.5%	19.2%	26.1%	22.2%	19.6%	18.4%
Working Cap T/o Days	(35.4)	(25.8)	(18.1)	(18.5)	(14.5)	(12.1)
Fixed Assets T/o (Gross)	8.0	10.6	9.9	6.9	9.0	9.0
DPS (Rs.)	10.0	12.5	3.0	3.0	3.0	3.0
Dividend Payout (%)	13.1%	18.3%	12.6%	12.0%	11.3%	10.1%
Dividend Yield (%)	3.2%	4.0%	1.0%	1.0%	1.0%	1.0%

Cash Flow

Particulars (Rs. Mn.)	CY 05	CY 06	CY 07	CY 08	CY 09E	CY 10E
Opening Cash & Bank	106.8	166.6	160.8	175.5	224.7	497.1
Profit After Tax	981.3	875.2	1,529.5	1,606.5	1,705.2	1,910.9
Investment Income	(283.4)	(161.2)	(175.0)	(412.1)	(389.1)	(474.6)
Interest Paid	29.2	22.0	1.1	1.1	1.0	1.0
Miscellaneous Exp W/Off	0.0	24.9	13.5	15.0	0.0	0.0
Depreciation	273.7	318.7	384.4	418.0	488.4	560.3
Impairment Loss	0.0	0.0	26.9	(17.1)	(9.9)	0.0
Deferred Taxation	(56.0)	36.3	(13.7)	45.0	51.2	57.4
Others	79.9	(24.6)	(22.2)	(40.2)	0.0	0.0
Change in Working Cap	52.5	(44.9)	(51.8)	91.7	192.0	146.1
CF - Operating Activities	1,077.0	1,046.3	1,692.8	1,707.9	2,039.0	2,201.1
Change in Fixed Assets	(1,592.1)	(1,375.7)	(892.9)	(797.9)	(1,500.0)	(1,500.0)
Change in Investments	(155.2)	551.3	(950.7)	(1,195.4)	(550.0)	(900.0)
Investment Income	283.4	161.2	175.0	412.1	389.1	474.6
CF - Investing Activities	(1,463.8)	(663.2)	(1,668.6)	(1,581.2)	(1,660.9)	(1,925.4)
Increase in Equity	0.0	(4.1)	4.3	(0.0)	0.0	0.0
Changes in Preference Capital	0.0	144.0	0.0	0.0	0.0	0.0
Changes in Borrowings	529.9	(500.6)	(29.4)	0.0	0.0	0.0
Changes in Deposits Accepted	96.4	187.1	254.3	154.4	123.5	135.9
Change in Minority Interest	6.7	5.1	5.8	7.3	9.6	10.5
Interest Paid	(29.2)	(22.0)	(1.1)	(1.1)	(1.0)	(1.0)
Dividend Paid	(157.3)	(198.5)	(243.2)	(238.2)	(237.7)	(237.7)
CF - Financing Activities	446.5	(389.0)	(9.4)	(77.6)	(105.6)	(92.3)
Net Change in Cash	59.7	(5.8)	14.8	49.2	272.4	183.3
Closing Cash & Bank Balance	166.6	160.8	175.5	224.7	497.1	680.4

Disclaimer

Disclosure of Interest Statement	GGCL
1. Analyst Ownership of the scrip	NO
2. PPFAS ownership of the scrip	YES
3. PMS ownership of the scrip	YES

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Parag Parikh Financial Services Ltd. (PPFAS). PPFAS is disseminated and available primarily electronically, and, in some cases, in printed form. Additional information on recommended securities is available on request. PPFAS is a Stock Broker registered with Securities and Exchange Board of India Limited (SEBI) and so it is regulated by SEBI. This report is not and should not be construed as an investment advice to any client to acquire, subscribe, purchase, sell, dispose of, retain any securities or an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment. If 'Buy', 'Sell', or 'Hold' recommendation is made in this report such recommendation or view or opinion expressed on investments in this report is not intended to constitute investment advice and should not be intended or treated as a substitute for necessary review or validation or any professional advice. The views expressed in this report are those of the analyst which are subject to change and do not represent to be an authority on the subject. PPFAS may or may not subscribe to any and/ or all the views expressed herein. PPFAS makes best endeavour to ensure that the analyst(s) use current, reliable, comprehensive information and obtain such information from sources, which the analyst(s) believes to be reliable. However, such information has not been independently verified by PPFAS or the analyst(s). The information, opinions and views contained within this report are based upon publicly available information and rates of taxation at the time of publication, which are subject to change from time to time without any prior notice. reports may be updated anytime without any prior notice to any and/ or all client(s). PPFAS makes no guarantee, representation or warranty, express or implied; and accepts no responsibility or liability as to the accuracy or completeness or currentness of the information in this report.

Please note that past performance is not necessarily a guide to evaluate future performance.

PPFAS and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment).

This report should be read and relied upon at the sole discretion and risk of the client.

The value of any investment made at your discretion based on this report or income therefrom may be affected by changes in economic, financial and/ or political factors and may go down as well as up and you may not get back the full or the expected amount invested. Some securities and/ or investments involve substantial risk and are not suitable for all investors. This report 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 this report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other countries or to any resident thereof. The distribution of this report in other jurisdictions may be strictly restricted and/ or prohibited by law, and persons into whose possession this report comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition. Neither PPFAS nor its affiliates or their directors, employees, agents or representatives, shall be responsible or liable in any manner, directly or indirectly, for views or opinions expressed in this report or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the report or inability to use or access our service or this report or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits or any loss or damage that may arise from or in connection with the use of or reliance on this report or inability to use or access our service or this report.

Now access PPFAS Reports on Bloomberg
<PPFS> <Go>

Ridhim Thapar

Analyst, Investment Research

+91 22 2284 6555 Extn.: 312

Parag Parikh Financial Advisory Services Limited

130/132, Great Western Building, S B S Marg, Near Lion Gate, Fort, Mumbai – 400 001

T: 91 22 2284 6555, F: 91 22 2284 6553 | Email: email@ppfas.com, Website: www.ppfas.com