

Gujarat Gas Company Limited	CMP Rs. 203.5 HOLD	Result Update Q3CY09
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Gujarat Gas Company LTD (GGCL) reported decent set of numbers for the third quarter ended 30th September 2009. The company reported Net Revenues of Rs. 3,806 Million for Q3CY09 as compared to Rs. 3,191 Million in the corresponding quarter of the previous year, representing a jump of 19.51%. The profit after tax (PAT) was Rs. 446 Million compared to Rs 396 Million in the corresponding quarter of the previous year. This represents a PAT growth of 12.87%. EPS for the quarter ended September 2009 stood at Rs. 3.46.

The consolidated net sales for the 9 months ended 30th September 2009 were Rs. 10,090 Million, compared to Rs. 9,535 Million in the corresponding period of the previous year. This shows an increase of 5.8% for the nine months of operation. The PAT was Rs. 1,288 Million compared to Rs. 1,290 Million in the corresponding period in the previous year. The previous year PAT included a non recurring income of Rs. 105 Million, thus showing a PAT growth of 8.9% on a like to like basis.

Key results highlights for the quarter

- The company has achieved the distribution of 3.2 mmscmd of natural gas. This represents the company's capability to leverage on its existing infrastructure to generate more business
- The company has been procuring RLNG from the spot market for the past few months due to the sharp dip in the global natural gas prices. Going forward the company intends to get into medium term contracts with its suppliers not exceeding more than six months. This will give the company both the stability in its supplies as well as the flexibility depending on the global gas price situation
- Supply of PMT gas by GAIL was affected by a Force Majeure event for 13 days. This has affected the business of the company marginally. All though these events cannot be ruled out in the future as well but as one gets more experienced in the business the probably of such shocks can be negated
- The CNG segment grew by 11% over the corresponding quarter of the last year, as the number of Natural Gas Vehicles plying in the company's markets crossed 100,000
- The Retail volumes grew by 18%, driven mainly by the industrial and CNG segments, while overall volume growth was 7%
- The Public consultation process of the company's application for authorization to operate city gas distribution networks in Surat, Bharuch and adjoining areas and to operate the Hapi transmission line was concluded by the Petroleum and Natural Gas Regulatory Borad (PNGRB). The company now awaits the completion of the remaining process by the PNGRB for the grant of authorization.

Our View

For the 9 months period the company has done an EPS of Rs. 9.99. This in our view is in line with the estimates for the company to achieve a full year EPF of Rs. 13.5 for CY09 and Rs.14.9 for CV10. At the CMP of Rs. 203.5 the stock is trading 13.66x based on CY10 estimates. This in our view is not an exaggerated valuation for the company. In our view the business that the company operates in has got a huge potential going forward and with the passage of time the company will benefit as it starts to leverage its infrastructural advantage in the future. Maintain a HOLD.

Q3CY09 Quarterly Analysis

Earnings Statement								
YE March (Rs. Mn.)	Q309	Q308	Y-Y(%)	Q209	Q-Q(%)	9Months	9Months	Y-Y(%)
Net Revenues	3,879.4	3,246.0	19.51%	3,392.5	14.35%	10,089.5	9,534.9	5.82%
Cost of Materials	2,834.9	2,356.2	20.32%	2,326.8	21.84%	7,355.0	6,913.3	6.39%
Gross Profit	1,044.5	889.8	17.39%	1,065.7	-1.99%	2,734.5	2,621.6	4.30%
Staff Costs	122.8	103.1	19.16%	111.1	10.58%	333.1	295.6	12.69%
Other Expenses	212.2	193.8	9.50%	197.6	7.37%	620.8	612.9	1.30%
Total Expenditure	3,169.9	2,653.0	19.48%	2,635.5	20.28%	8,309.0	7,821.8	6.23%
Operating Profit	709.5	592.9	19.65%	757.0	-6.28%	1,780.5	1,713.2	3.93%
Other Income	61.4	86.0	-28.59%	66.4	-7.40%	203.5	314.1	-35.22%
EBITDA	770.9	679.0	13.54%	823.3	-6.37%	1,984.0	2,027.3	-2.13%
Depreciation	121.1	105.3	14.97%	116.3	4.07%	346.9	311.8	11.27%
EBIT	649.8	573.7	13.28%	707.0	-8.08%	1,637.1	1,715.5	-4.57%
Interest	0.3	0.3	20.08%	0.3	-0.32%	0.9	0.8	12.35%
PBT	649.5	573.4	13.27%	706.7	-8.09%	1,636.2	1,714.7	-4.58%
Tax	203.4	177.7	14.46%	230.7	-11.84%	594.3	593.0	0.22%
PAT	444.0	393.4	12.87%	473.5	-6.23%	1,281.5	1,284.6	-0.24%
Equity Capital	256.5	256.5		256.5		256.5	256.5	
EPS	3.5	3.1	12.87%	3.7	-6.23%	10.0	10.0	-0.24%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q309	Q308	Y-Y bps	Q209	Q-Q bps	9Months	9Months	Y-Y bps
OPM (%)	18.29%	18.27%	2.13	22.31%	(402.51)	17.65%	17.97%	(32.00)
EBITDA (%)	19.87%	20.92%	(104.57)	24.27%	(439.72)	19.66%	21.26%	(159.75)
EBIT (%)	16.75%	17.67%	(92.25)	20.84%	(408.88)	16.23%	17.99%	(176.59)
PAT (%)	11.45%	12.12%	(67.38)	13.96%	(251.20)	12.70%	13.47%	(77.16)
Operational Parameters								
YE March (Rs. Mn.)	Q309	Q308	Y-Y bps	Q209	Q-Q bps	9Months	9Months	Y-Y bps
RM Consumed	73.08%	72.59%	48.82	68.59%	448.88	72.90%	72.50%	39.28
Staff Cost	3.17%	3.18%	(0.93)	3.27%	(10.81)	3.30%	3.10%	20.14
Other Expenditure	5.47%	5.97%	(50.02)	5.83%	(35.55)	6.15%	6.43%	(27.43)
Effective Tax Rate	31.31%	30.99%	32.58	32.64%	(133.16)	36.32%	34.58%	173.78

Financials

Earnings 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

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)	4.8	5.4	15.4	14.7	13.8	12.3
P/BV (x)	1.3	1.0	4.0	3.3	2.7	2.3
BVPS (Rs.)	289.3	354.9	91.3	112.9	135.8	161.9
Market Cap (Rs. Mn.)	4,719.6	4,719.6	23,598.0	23,598.0	23,598.0	23,598.0
M Cap/Sales (x)	0.6	0.5	1.9	1.8	1.6	1.4
EV (Rs. Mn.)	5,083.1	4,588.2	23,422.5	23,373.3	23,100.9	22,917.6
EV/EBITDA (x)	2.9	2.8	8.7	8.5	7.6	6.7
EV/Sales (x)	0.7	0.5	1.9	1.8	1.6	1.4
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%
Debt/Equity Ratio (x)	0.1	0.0	0.0	0.0	0.0	0.0
Inventory T/o Days	4.8	5.2	5.2	5.0	5.5	5.5
Debtors T/o Days	21.9	31.0	25.7	34.8	32.0	32.0
Advances T/o Days	8.0	10.6	9.9	6.9	9.0	9.0
Creditors T/o Days	21.9	31.0	25.7	34.8	32.0	32.0
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 (%)	2.7%	3.4%	0.8%	0.8%	0.8%	0.8%

Financials

Balance Sheet						
Particulars (Rs. Mn.)	CY 05	CY 06	CY 07	CY 08	CY 09E	CY 10E
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
Total Liabilities	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
Amount Recoverable from ESOP Trust	0.00	0.00	0.00	10.50	10.50	10.50
Assets held for Disposal	9.13	9.13	0.00	0.00	0.00	0.00
Current Assets	885.34	1405.03	1664.37	2032.01	2494.61	2900.74
Inventory	97.63	137.80	176.99	179.25	219.61	245.96
Stock on Hire	0.07	0.00	0.00	0.00	0.00	0.00
Lease Receivable	8.16	0.01	98.19	139.24	139.24	139.24
Sundry Debtors	448.91	823.51	875.56	1241.09	1277.72	1431.05
Other Current Assets	0.85	0.77	0.63	1.60	1.60	1.60
Loans & Advances	163.15	282.19	337.49	246.16	359.36	402.48
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
Sundry Creditors	1372.32	1801.29	1963.39	2357.83	2675.23	2996.26
Provisions	236.40	288.06	318.75	334.46	399.29	447.20
Net Current Assets	-723.38	-684.32	-617.77	-660.27	-579.91	-542.72
Miscellaneous Expenditure	57.97	33.10	19.56	4.56	4.56	4.56
Total Assets	5430.60	5975.01	7484.65	9062.58	10714.38	12591.27

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

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Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

Gujarat Gas

- NO
YES
YES

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