

Three-day slide erodes Gujarat Gas valuations

RUTAM VORA
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At a time when British Gas (BG) is in the process of selling its 65 per cent stake in Gujarat Gas Company Ltd (GGCL), a recent volatility in the stock price of the Gujarat-focused gas distribution company has hammered the company's valuations. Considering the current stock price movements, analysts believe a sharp fall in the company's stock in the past three days has significantly eroded its valuation, raising concern about its stake sale plan.

Gujarat Gas stocks ended about 1 per cent down at ₹313.70 on the Bombay Stock Exchange (BSE) today, with market capitalisation of about ₹4,023 crore.

The stock has lost by over 22 per cent since Monday, when the industry regulator Petroleum and Natural Gas Regulatory Board (PNGRB) moved to regulate tariffs charged by gas distribution companies. As a knee-jerk reaction, Gujarat Gas stock tumbled by over 15 per cent on Tuesday amid heavy sell-off in the stocks of gas companies, including Indraprastha Gas Ltd (IGL), Gujarat State Petronet Ltd (GSPL) and GAIL (India) Ltd.

Gujarat Gas scrip touched ₹444.80 in November 2011 and, in the same month, BG announced its plan to sell 65 per cent of its stake in Gujarat Gas.

"The company's book value as of December was about ₹59 a share. This means the share

price of ₹444 was more than 7 times its book value. It was the right decision by BG to exit at such an attractive valuation. But, things have gone negative and now the price is about five times the book value. So, we see a significant value erosion till now," says Pradip Modi of investment advisory firm PKM Advisory.

Since the company announced its stake sale plans, its stock prices have been volatile. Market speculations hinted at several notable energy companies intending to buy BG's stake in Gujarat Gas. However, company officials did not confirm this.

According to market sources, after the deadline to submit bids for BG's stake in Gujarat Gas closed on March 15, only two bid-

ders had put in their binding offers for a controlling stake. These were a consortium of four PSUs — Gujarat state petroleum corporation, ONGC, BPCL and Oil India — and a Spanish gas marketing and distribution player Gas Natural SDG (also known as Gas Natural Fenosa).

Earlier this month, Gujarat Gas stock touched ₹403.05 on BSE, taking the company's valuation to approximately \$1 billion (about ₹5,000 crore). According to calculations, the value of BG's 65 per cent stake in the company turned out to be around \$700 million (about ₹3,600 crore).

According to analysts, a sharp fall in the stock would simultaneously bring down the company's valuation, potentially

hurting its stake sale process. "The company's valuations have come down after a sharp decline in share prices. Also, there is a lack of clarity on the gas pricing policy. The bidders would look at this negatively, and might reconsider their bids. Even as there could be binding bids, a changed business scenario may prompt them to reconsider their plans," said Rajeev Shah, MD, RBSA Valuation Advisors LLP.

An emailed query to the company on the stake sale remained unanswered.

"The sentiment is negative and this would hurt the stake sale process for Gujarat Gas. However, we do not know about the bid details, so, cannot comment. But, when a drastic or par-

adigm change takes place in the government policy, it affects stock prices, which, in turn, has to have an impact on the company valuations, as investors' sentiments are linked with such developments. But, gradually, market itself will identify a new level for the company," said Ritesh Adatiya, associate director, BDO, a global advisory firm.

In its April 9 order, PNGRB had directed IGL to cut tariffs for its Delhi customers. The regulator had asked the company to cut pipeline transportation rates to ₹38.58 per million British thermal units (mBtu), compared to ₹104 per mBtu sought by the company. The compression charge was cut to ₹2.75 per kg, against ₹6.66 per kg IGL asked for. PNGRB made the change in tariff with retrospective effect from April 1, 2008.