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Update

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**GAIL**

**Hold**  
**(Medium Risk)**

**Price: - Rs 199.5**

### 2<sup>nd</sup> Quarter Highlights

Rs Cr	Q2FY09	Q2FY08	Var(%)	FY08	FY07	Var(%)
Net Sales	6172.61	4528.9	36%	18008.2	16047.18	12%
PBITDA	1660.34	1058.9	57%	4505.59	3542.24	27%
PAT	1023.45	572.54	79%	2601.46	2386.67	9%
PBITDAM(%)	26.9%	23.4%		25.0%	22.1%	
PATM(%)	16.6%	12.6%		14.4%	14.9%	
Equity	845.65	845.65		845.65	845.65	
EPS	12.10	6.77		30.76	28.22	
CMP	199.5	199.5		199.5	199.5	
PE	16.48	29.47		6.49	7.07	
Div/Share			10.00			
FV	10	10		10	10	

- The company has registered 36% growth in topline to Rs.6172.61 in the latest quarter ending 31<sup>st</sup> Sept., 2008 compared to corresponding quarter previous year.
- During the second quarter of the current financial year, revenues from Natural Gas Transmission business have increased by 9% to Rs. 621 crore as against Rs. 568 crore in the corresponding period of previous year. The revenues from Petrochemicals business have decrease by 2% to Rs. 629 crore as against Rs. 640 crore in the corresponding period of last year. The revenues from LPG and Liquid Hydrocarbons business during the second quarter of the current financial year have increased by 55% to Rs. 1090 crore as against Rs. 703 crore in the corresponding period of last year. The revenues from Natural Gas Trading during the second quarter of the current financial year increased by 40% to Rs. 4495 crore as against Rs. 3209 crore in the corresponding period of the last year. The revenues from LPG transmission during the second quarter of the current financial year have increased by 1% to Rs. 91 crore as against Rs. 90 crore in the corresponding period last year.
- The operating profit increased by 57% to Rs.1660.34 crore and the operating margin improved 350 basis point to 26.9%.
- The Net Profit increased by 79% to Rs. 1023.45 crore and net profit margin improved by 400 basis point to 16.6%.
- The improved result is despite of sharing the Higher LPG subsidy (Provisional) by Rs.141 Cr during quarter ended on 30.09.2008 as compared to previous quarter.

### **Physical Performance**

- During the second quarter of the current financial year, the Natural Gas sales were 79.06 MMSCMD, up 12% from 70.38 MMSCMD during the corresponding period last year.

- The petrochemical production was 104 TMT, up 7% from 97 TMT in the corresponding period last year
- The polymer sales during the second quarter of the current financial year were 76 TMT, decreased by 21 percent from 96 TMT in the corresponding period in the previous year.
- The LPG transmission during the second quarter of the current financial year was 650 TMT, up by 2 percent from 640 TMT during the corresponding period in the previous financial year. The LPG and Other Liquid Hydrocarbon production was 360 TMT, up 2% from 354 TMT in the corresponding period last year. The LPG and Other Liquid Hydrocarbon sales were 361 TMT, up 1% from 357 TMT corresponding period last year.
- The Natural Gas transmission during the second quarter of the current financial year was 81.69 MMSCMD, decrease by 1 percent from 82.21 MMSCMD in the corresponding period last year.

### **Recommendation**

The company's three focus areas are enhancing the transmission and distribution capability, petrochemicals, and city gas and CNG activities. The company has CAGR of 12.7% from past two years, operating margin of 26.2% and net profit of 14.8%. Five new trunk pipelines and two capacity augmentation projects of GAIL are moving forward rapidly for timely completion. This will enable the company to continue and consolidate its dominant position in the gas transmission and marketing segment. Gail enjoys a monopoly status and an inherent pricing power in cross-country natural gas transmission, as it owns India's largest gas pipeline network. Gail has embarked on an ambitious plan to invest over Rs 28,800 crore by '12 to expand capacities in areas such as pipelines, exploration & production (E&P), petrochemicals, city gas projects, LNG etc. This entails doubling the natural gas transmission capacity, covering over 200 cities under CGD, 60% expansion of petrochemicals capacity and expanding LNG terminals. The company will get better profitability from higher output from KGD6, Debottlenecking of petrochemical plant and expansion of city gas distribution.