

RESULTS REVIEW
GAIL (India) Limited
Hold
Share Data

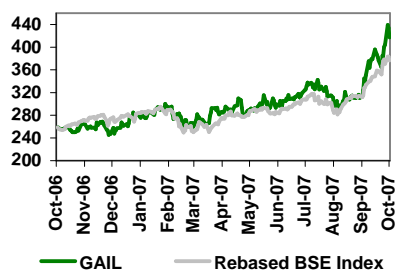
Market Cap	Rs. 352.97 bn
Price	Rs. 417.40
BSE Sensex	18,715.82
Reuters	GAIL.BO
Bloomberg	GAIL IN
Avg. Volume (52 Week)	0.18 mn
52-Week High/Low	Rs. 444.4/243
Shares Outstanding	845.65 mn

Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	26.6	27.9
+/- (%)	(11.6%)	5.0%
PER (x)	15.7x	14.9x
EV/ Sales (x)	1.9x	1.8x
EV/ EBITDA (x)	10.0x	9.6x

Shareholding Pattern (%)

Promoters	57
FII's	17
Institutions	18
Public & Others	7

Relative Performance

Core business on a decline

During Q108, GAIL (India) Ltd. reported 4.1% yoy increase in net sales to Rs. 42,456.8 mn driven by enhanced sales of LPG and petrochemicals partially offset by lower sales of natural gas. In addition, overall EBITDA rose by 10.3% yoy to Rs. 10,387.1 mn and margins improved by 138 bps to 24.5% as a result of higher realisation in LPG and petrochemicals business. GAIL's net profit climbed by Rs. 931.4 mn to Rs. 6,852.2 mn due to higher sales coupled with lower depreciation and tax charges.

With the demand for gas and petrochemicals expected to increase in the future, we estimate the Company's sales to grow at a CAGR of 11.7% for FY07-FY09E. However, the transmission business will remain under pressure until 2009 as most of the pipeline projects are not expected to complete before 2009. In addition, low gas supply as well as delay in sourcing gas from KG basin via RIL, will further affect the profitability of the Company. At the current price, the stock trades at a forward P/E of 15.7x for FY08E and 14.9x for FY09E. Based on our valuation and considering the recent upsurge in the prices, we believe that all the positives have been factored in the current market price. Hence, we maintain **Hold**.

Result Highlights

During the first quarter ended June 30, net sales increased by 4.1% yoy to Rs. 42,456.8 mn driven by higher sales volume of LPG (up 19% yoy) and petrochemicals (up 29% yoy). In Q108, LPG transmission rose to 621 TMT and polymer sales rose to 105 TMT, respectively.

Key Figures (Standalone)

Quarterly Data	1Q'07	4Q'07	1Q'08	YoY%	QoQ%
(Figures in Rs mn, except per share data)					
Net Sales	40,784	38,834	42,457	4.1%	9.3%
EBITDA	9,416	6,024	10,387	10.3%	72.4%
Net Profit	5,921	3,408	6,852	15.7%	101.1%
Margins(%)					
EBITDA	23.1%	15.5%	24.5%		
NPM	14.5%	8.8%	16.1%		
Per Share Data (Rs.)					
EPS	7.0	4.0	8.1	15.7%	101.1%

Higher LPG transmission coupled with increased petrochemical sales contributed to the rise in revenues

However, natural gas transmission sales was affected by the fall in gas transmission volume by 0.5% to 78.7 MMSCMD along with change in pipeline tariffs. Additionally, natural gas trading sales was also affected by lower gas sales of 3% yoy to 68.1 MMSCMD. Moreover, in absolute terms overall sales was also negatively affected by the increased share of subsidy burden to Rs. 2.7 bn in Q108 as compared to Rs. 2.5 bn in Q107.

Segment Revenue (Gross sales)	Q107	Q108	% Inc./Dec.
A. Transmission services			
I) Natural Gas	5,998	5,399	(10.0%)
II) LPG	715	923	29.0%
B. Natural Gas Trading	29,777	29,563	(0.7%)
C. Petrochemicals	5,503	7,784	41.5%
D. LPG & Liquefied Hydrocarbons	6,406	6,752	5.4%
E. GAILTEL	51	67	32.1%
F. Unallocated	742	806	8.6%
Total	49,192	51,293	
Less: Inter segment sales	(6,519)	(6,452)	
Gross sales	42,673	44,841	5.1%

Improvement in EBITDA margin as a result of better realisation in LPG and petrochemicals business

EBITDA rose by 10.3% yoy to Rs. 10,387.1 mn and margins improved by 138 bps to 24.5% as a result of higher margins in the petrochemicals and LPG business, which was partially offset by higher staff cost. In addition, EBIT of petrochemical and LPG segment was up by 69.8% and 48.1% yoy due to improved realization rates in the respective segments.

Segment Results (PBT)	Q107	Q108	% Inc./Dec.
A. Transmission services			
I) Natural Gas	4,544	3,684	(18.9%)
II) LPG	368	545	48.1%
B. Natural Gas Trading	273	247	(9.8%)
C. Petrochemicals	2,021	3,431	69.8%
D. LPG & Liquefied Hydrocarbons	1,394	1,986	42.4%
E. GAILTEL	(0)	5	NM
Total	8,599	9,897	
Less: Interest	(288)	(204)	
Less: other unallocable expenses net off unallocable income	209	(4)	
PBT	8,521	9,689	13.7%

Decline in effective tax rate led to a rise in net profit

In Q108, net profit climbed to Rs. 6,852.2 mn as compared to Rs. 5,920.8 mn in Q107, as a result of increase in sales coupled with lower effective tax rate at 29% as compared to 30.5% in Q107, thus resulting in a lower tax charge.

Expansion of capacity at Pata to 410,000 TPA

Commissioned Dahej-Uran pipeline project and the first phase of Dabhol Panvel pipeline project

GAIL plans to double its pipeline network to 12,000 km by the end of 2011

Key Events

- GAIL expanded the capacity of its petrochemical plant at Pata to 410,000 TPA by setting up HDPE plant (100,000 TPA capacity). Total cost of the project was around Rs. 6,473.8 mn. Simultaneously, the Company is also setting up a plant in Assam with a capacity of 280,000 TPA involving a cost of Rs. 54,606.1 mn.
- The Company has signed MoU with BPCL and HPCL for promoting CNG and city gas projects in various states.
- GAIL has signed a deal with ONGC to set up a JV for transporting, processing and marketing gas from ONGC's KG and Mahanadi basins.
- The Company has formed a JV with China Gas Holdings for tapping opportunities in CNG and Coal Bed Methane (CBM) areas.
- GAIL completed Dahej-Uran pipeline and the first phase of Dabhol Panvel pipeline. Moreover, four other pipeline projects were also completed.

Key Risks

- Increase in subsidy sharing can negatively affect the Company's profitability.
- 100% FDI has been allowed in laying pipelines business, which can increase competition in the industry and thus negatively affect our estimates.

Key Developments

- The Company plans to raise Rs. 70 bn from domestic and foreign markets to expand its pipeline network to 12,000 km by 2011. Total outlay involves Rs. 200 bn and thus, GAIL is planning to sell a part of its stake in ONGC and China Gas holdings to fund the rest of the requirement.
- GAIL plans to set up a mega USD 2.3 bn petrochemical plant in Iran. The Company is likely to have Reliance Industries Ltd (RIL) and Iranian government as its partners.

Expanding global reach

- The Company is expanding its global reach and has bid for setting up CNG stations in Syria. In addition, it is keen on joining USD 13 bn Trans-Saharan gas pipeline to supply gas from Africa to the European markets.
- GAIL is planning to join RIL and HPCL for a mega 1 MMTPA petrochemical complex in Vishakhapatnam.

Outlook

With the demand for gas as well as petrochemicals expected to increase in the near future, and GAIL being the market leader, we estimate the sales to grow at a CAGR of 11.7% for FY07-FY09E. However, the transmission business will remain under pressure until 2009 as most of the pipeline projects are not expected to complete before 2009. Low gas supply as well as delay in sourcing gas from KG basin via RIL, will further affect the profitability of its core business. In addition, higher subsidies on LPG will in turn put pressure on the Company's profitability. Thus, overall we estimate the profits to decline at a CAGR of 3.7% for FY07-FY09E.

At the current price of Rs. 417.4, the stock trades at a forward P/E of 15.7x for FY08E and 14.9x for FY09E. Based on our valuation and considering the recent upsurge in the prices, we believe that all the positives have been factored in the current market price. Hence, we maintain **Hold**.

New Oil & Gas discoveries by the exploration and production business, as well as expansion of its city gas distribution business can provide an upside to our rating.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data) (FY07-09E)						
Net Sales	127,030	148,788	165,423	187,755	206,531	11.7%
EBITDA	25,796	37,221	32,531	36,395	37,917	8.0%
Net Profit	20,389	24,391	25,453	22,489	23,625	(3.7%)
Margins(%)						
EBITDA	20.3%	25.0%	19.7%	19.4%	18.4%	
NPM	16.1%	16.4%	15.4%	12.0%	11.4%	
Per Share Data (Rs.)						
EPS	24.1	28.8	30.1	26.6	27.9	(3.7%)
PER (x)	8.8x	11.0x	13.9x	15.7x	14.9x	

Transmission business to remain under pressure until 2009

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