

**Results inline with expectation; Maintain ACCUMULATE**

January 19, 2011

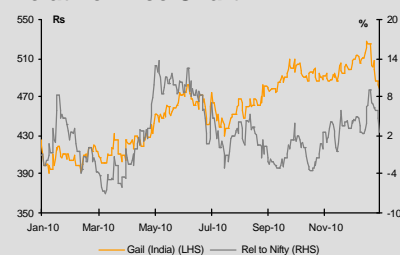
<b>Reco</b>	<b>Previous Reco</b>
Accumulate	NA
<b>CMP</b>	<b>Target Price</b>
Rs.477	Rs.565
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	5,724
Sensex	19,092

**Price Performance**

(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
Absolute	(4)	(5)	7	9
Rel. to Nifty	(0)	1	(0)	0

Source: Bloomberg

**Relative Price Chart**



Source: Bloomberg

**Stock Details**

Sector	Oil & Gas
Bloomberg	GAIL@IN
Equity Capital (Rs mn)	12685
Face Value (Rs)	10
No of shares o/s (mn)	1268
52 Week H/L (Rs)	536/383
Market Cap (Rs bn/USD mn)	606/13,338
Daily Avg Vol (No of shares)	1258835
Daily Avg Turnover (US\$ mn)	13.8

**Shareholding Pattern (%)**

	<b>D'10</b>	<b>S'10</b>	<b>J'10</b>
Promoters	57.4	57.4	57.4
FII/NRI	14.0	13.2	13.3
Institutions	18.5	19.1	19.2
Private Corp	1.0	1.0	0.8
Public	9.3	9.4	9.4

Source: Capitaline

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- **Results were inline with estimate at revenue, EBIDTA and PAT level**
- **Revenue from natural gas transmission, LPG transmission and trading business increased by 17%, 11% and 50% YoY respectively**
- **Subsidy payout for Q3FY11 decline by 8% YoY to Rs.4.2bn (+21%QoQ), however, on full year basis, FY11E subsidy is expected to be higher at Rs.16bn as against Rs13bn in FY10**
- **Accumulate with TP of Rs.565, given its dominant market share in transmission business and expected volume growth. Subsidy sharing remains a key overhang on the stock**

**Highlights of the results**

GAIL reported results which were inline with our estimates at Revenue, EBIDTA and PAT level. Revenue for the quarter was at Rs.83.8bn (against our expectation of Rs.84.9bn), growth of 35% YoY, mainly due to better performance from natural gas & LPG transmission and trading business. EBIDTA during the quarter was at Rs.13.3bn (against our estimate of Rs.14.9bn), growth of 3.5%, YoY. During the quarter the company reported net profit of Rs.9.6bn, (as against our estimate of Rs.9.3bn), growth of 12.5% on YoY basis. Subsidy payout stood at Rs.4.2bn mainly due to higher crude oil prices during the quarter.

**Higher performance from natural gas trading and transmission segment drives the revenue and profitability in Q3FY11**

Revenue has increased by 35% from Rs.62bn in Q3FY10 to Rs.83.8bn in Q3FY11, due to better performance from natural gas & LPG transmission and trading business. Revenue from natural gas transmission has grown by 17% YoY to Rs.10bn, while Natural gas trading revenue jumped 50% YoY to Rs. 67bn. Also LPG transmission segment have shown the growth of 11% to Rs.1.2bn. However, revenue from other segment has disappointed, especially petrochemical.

**Transmission volume to increase further in Q4FY11**

Natural gas transmission volume has increased by 10% YoY to 120.2mmcmd (+5% QoQ). To meet the current demand for gas from power, fertilizer, refining and city-gas distribution sectors, company will buy two spot LNG cargoes in Q4FY11 due to shortfall of 5-7mmcmd from domestic source. It will buy one cargo from Qatar's Ras Laffan Liquefied Natural Gas Co., and the other one from Japan's Marubeni Corp., taking its total spot cargo buys for the current financial year to four. We believe transmission volume for Q4FY11 would be around 122mmcmd.

**Subsidy payout to be higher than previous year**

During the quarter subsidy payout was at Rs.4.2bn, a decline of 8% YoY (+21% QoQ) and for 9mths FY11, company paid Rs.12bn, increase of 21% YoY. We believe subsidy burden is expected to be higher at Rs.16bn (+22% YoY) for the FY11E as against Rs.8-9bn, guided by the management.

**Valuation table**

Rs Mn	Net Sales	EBIDTA	EBIDTA (%)	APAT	AEPS	EPS (% chg)	RoE (%)	P/E	EV/EBIDTA	P/BV
FY10	270353	53728	19.9	33114	26.2	17.7	19.8	18.2	11.2	3.4
FY11E	342281	61056	17.8	35444	28.2	7.6	18.6	16.9	10.3	3.0
FY12E	380790	69720	18.3	39882	31.4	11.4	18.1	15.2	9.5	2.6
FY13E	439199	77912	17.7	41615	32.8	4.3	16.6	14.5	9.1	2.3

Source: Company, Emkay Research

## Financial Snapshot

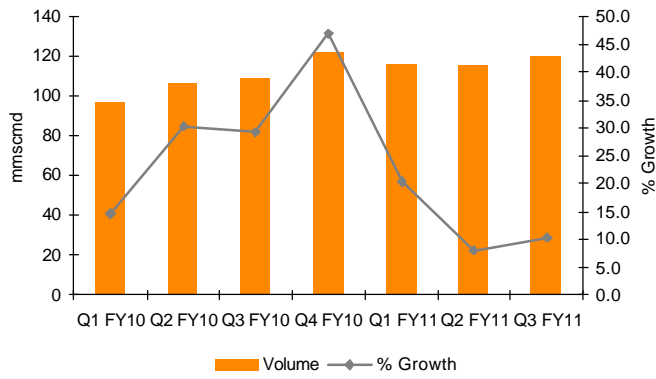
Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'10	YTD'09	YoY (%)
Revenue	62057.1	65690.3	71157.5	81282.2	83836.2	35.1	3.1	236275.9	184713.8	27.9
Expenditure	49182.2	52054.1	56318.3	66712	70505.2	43.4	5.7	193535.5	150589.7	28.5
as % of sales	79.3%	79.2%	79.1%	82.1%	84.1%			81.9%	81.5%	
Consumption of RM	42598.4	43966.3	50176.3	60124.1	62689.2	47.2	4.3	172989.6	132121.6	30.9
as % of sales	68.6%	66.9%	70.5%	74.0%	74.8%			73.2%	71.5%	
Employee Cost	2538.7	1084.7	1634	1537.6	1604.0	-36.8	4.3	4775.6	5127.3	-6.9
as % of sales	4.1%	1.7%	2.3%	1.9%	1.9%			2.0%	2.8%	
Other expenditure	4045.1	7003.1	4508	5050.3	6212.0	53.6	23.0	15770.3	13340.8	18.2
as % of sales	6.5%	10.7%	6.3%	6.2%	7.4%			6.7%	7.2%	
EBITDA	12874.9	13636.2	14839.2	14570.2	13331.0	3.5	-8.5	42740.4	34124.1	25.2
Depreciation	1409.1	1388.8	1599.6	1625.9	1605.4	13.9	-1.3	4830.9	4229.4	14.2
EBIT	11465.8	12247.4	13239.6	12944.3	11725.6	2.3	-9.4	37909.5	29894.7	26.8
Other Income	1259	1016.6	477.5	1498.8	1905.9	51.4	27.2	3882.2	3325.9	16.7
Interest	142.2	200.1	205.4	117.4	164.5	15.7	40.1	487.3	499.9	-2.5
PBT	12582.6	13063.9	13511.7	14325.7	13467.0	7.0	-6.0	41304.4	32720.7	26.2
Total Tax	3983.1	3956.4	4349.0	5090.2	3790.7	-4.8	-25.5	13229.9	10430.0	26.8
Adjusted PAT	8599.5	9107.5	9162.7	9235.5	9676.3	12.5	4.8	28074.5	22290.7	25.9
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
APAT after MI	8599.5	9107.5	9162.7	9235.5	9676.3	12.5	4.8	28074.5	22290.7	25.9
Extra ordinary items	0	0	0	0	0			0	0	
Reported PAT	8599.5	9107.5	9162.7	9235.5	9676.3	12.5	4.8	28074.5	22290.7	25.9
Reported EPS	6.8	7.2	7.2	7.3	7.6	12.5	4.8	22.1	17.6	26.0

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	20.7%	20.8%	20.9%	17.9%	15.9%	-4.8	-2.0	18.1%	18.5%	-0.4
EBIT	18.5%	18.6%	18.6%	15.9%	14.0%	-4.5	-1.9	16.0%	16.2%	-0.1
EBT	20.3%	19.9%	19.0%	17.6%	16.1%	-4.2	-1.6	17.5%	17.7%	-0.2
PAT	13.9%	13.9%	12.9%	11.4%	11.5%	-2.3	0.2	11.9%	12.1%	-0.2
Effective Tax rate	31.7%	30.3%	32.2%	35.5%	28.1%	-3.5	-7.4	32.0%	31.9%	0.2

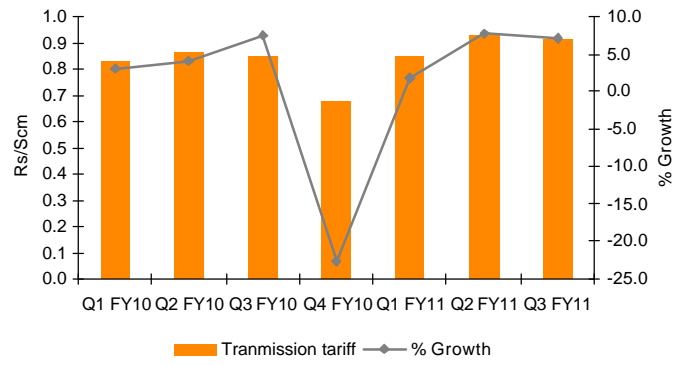
## Outlook and Valuation

GAIL's investments to expand its network over the next four years, will enable it to increase gas transmission volume and thereby revenue and earnings in the long term. We have positive bias on GAIL, given its dominant market share in transmission business, strong track record, expected volume growth and robust business model with no commodity risk. However, subsidy burden remains the key overhang on the stock. Currently, stock trades at 15x FY12E EPS and 2.6x FY12E P/BV, we maintain ACCUMULATE ratings on GAIL with the target price of Rs.565

**Transmission volume & Growth trend**

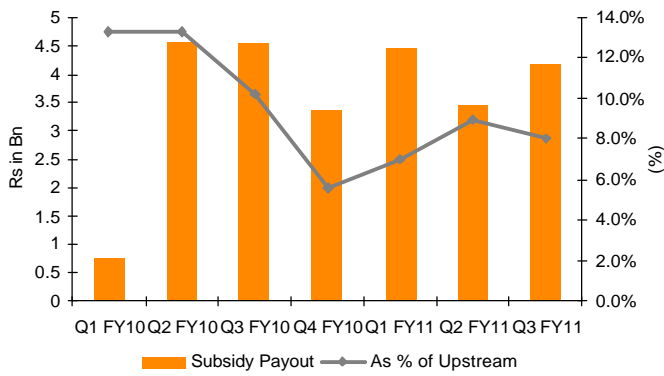


**Transmission Tariff & Growth trend**

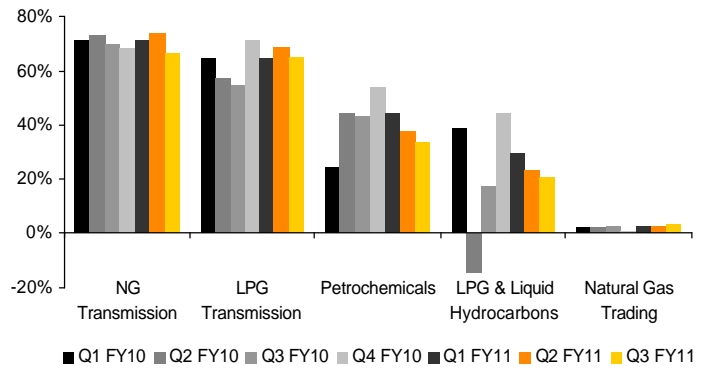


Source: Company, Emkay Research

**Segment wise EBIT as % of revenue**



**Subsidy payout as % of upstream share**



Source: Company, Emkay Research

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
<b>Net Sales</b>	270353.0	342280.7	380790.1	439199.3
<i>Growth (%)</i>	9.6	26.6	11.3	15.3
<b>Expenditure</b>	216625.2	281224.6	311070.0	361287.3
Materials Consumed	169791.7	237276.0	262632.8	308574.7
Employee Cost	6688.8	7530.2	8377.4	9662.4
Other Exp	40144.7	36418.4	40059.8	43050.3
<b>EBITDA</b>	53727.8	61056.1	69720.1	77911.9
<i>Growth (%)</i>	23.3	13.6	14.2	11.7
<b>EBITDA margin (%)</b>	19.9	17.8	18.3	17.7
Depreciation	7443.8	8634.1	10383.3	12465.8
<b>EBIT</b>	46284.0	52422.0	59336.8	65446.2
<b>EBIT margin (%)</b>	19.3	16.7	17.0	16.1
Other Income	5799.6	4899.6	5538.7	5112.6
Interest expenses	3856.4	4419.9	5881.4	8977.8
<b>PBT</b>	48227.2	52901.7	58994.1	61581.0
<b>Tax</b>	15313	17457.6	19468.1	20321.7
<i>Effective tax rate (%)</i>	31.8	33.0	33.0	33.0
<b>Adjusted PAT</b>	33113.7	35444.1	39526.1	41259.2
<i>Growth (%)</i>	18.0	7.7	11.5	4.4
<b>Net Margin (%)</b>	12.2	10.4	10.4	9.4
(Profit)/loss from JVs/Ass/MI	355.4	355.4	355.4	355.4
<b>Adj. PAT After JVs/Ass/MI</b>	33469.1	35799.5	39881.5	41614.6
E/O items	190.6	0	0	0
<b>Reported PAT</b>	33278.5	35799.5	39881.5	41614.6
<b>PAT after MI</b>	33278.5	35799.5	39881.5	41614.6
<i>Growth (%)</i>	17.7	7.6	11.4	4.3

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	48591.3	52901.7	58994.1	61581.0
Depreciation	8292.6	8634.1	10383.3	12465.8
Interest Provided	3853.4	4419.9	5881.4	8977.8
Other Non-Cash items	0.0	0.0	0.0	0.0
Chg in working cap	14632.3	3382.9	2885.5	2637.7
Tax paid	-16568.1	-17457.6	-19468.1	-20321.7
<b>Operating Cashflow</b>	56363.9	51881.0	58676.2	65340.5
Capital expenditure	-59581.1	-65531.0	-75581.0	-90000.0
<b>Free Cash Flow</b>	-3217.2	-13650.0	-16904.8	-24659.5
Other income				
Investments	-394.8	0.0	0.0	0.0
<b>Investing Cashflow</b>	-54947.8	-65531.0	-75581.0	-90000.0
Equity Capital Raised	0.0	0.0	0.0	0.0
Loans Taken / (Repaid)	15889.6	24000.0	45000.0	56000.0
Interest Paid	-4186.5	-4419.9	-5881.4	-8977.8
Dividend paid (incl tax)	-7422.3	-10388.8	-10388.8	-10388.8
Income from investments	0	0	0	0
Others	2214.1	0	0	0
<b>Financing Cashflow</b>	6494.9	9191.3	28729.8	36633.4
<b>Net chg in cash</b>	7911.0	-4458.7	11825.0	11973.9
Opening cash position	37587.1	45240.5	41078.8	53126.8
<b>Closing cash position</b>	45486.5	40781.8	52903.8	65100.7

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	12684.8	12684.8	12684.8	12684.8
Reserves & surplus	165415.0	190838.7	220331.4	251557.2
<b>Net worth</b>	178099.8	203523.5	233016.1	264242.0
<b>Minority Interest</b>	2302.2	2302.2	2302.2	2302.2
Secured Loans	49993.6	72993.6	116993.6	171993.6
Unsecured Loans	4138.1	5138.1	6138.1	7138.1
<b>Loan Funds</b>	54131.7	78131.7	123131.7	179131.7
Net deferred tax lia	14650.4	14650.4	14650.4	14650.4
<b>Total Liabilities</b>	249184.1	298607.8	373100.4	460326.3
Gross Block	251640.3	291640.3	346640.3	426640.3
Less: Depreciation	98336.1	106970.2	117353.5	129819.3
<b>Net block</b>	153304.2	184670.1	229286.8	296821.0
CWIP	48818.5	74349.5	94930.5	104930.5
<b>Investment</b>	10651.3	10651.3	10651.3	10651.3
<b>Current Assets</b>	146145.4	158156.4	184127.7	217157.7
Inventories	8578.4	10322.3	12127.3	14692.3
Sundry debtors	15107.7	20630.6	22951.7	26472.3
Cash & bank balance	45486.5	40781.8	52903.8	65100.7
Loans & advances	76827.5	85570.2	95197.5	109799.8
Other current assets	145.3	851.4	947.2	1092.5
<b>Current lia &amp; Prov</b>	109735.3	129127.7	145766.7	169092.2
Current liabilities	59200.6	71998.8	82376.4	95039.1
Provisions	50534.7	57128.9	63390.3	74053.0
<b>Net current assets</b>	36410.1	29028.7	38361.0	48065.5
Misc. exp	0.0	0.0	0.0	0.0
<b>Total Assets</b>	249184.1	298607.8	373100.4	460326.3

## Key Ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	19.9	17.8	18.3	17.7
Net Margin	12.2	10.4	10.4	9.4
ROCE	22.9	20.9	19.3	16.9
ROE	19.8	18.6	18.1	16.6
RolC	39.3	33.1	30.6	26.5
<b>Per Share Data (Rs)</b>				
EPS	26.2	28.2	31.4	32.8
CEPS	32.7	35.0	39.6	42.6
BVPS	140.4	160.4	183.7	208.3
DPS	7.5	7.0	7.0	7.0
<b>Valuations (x)</b>				
PER	18.2	16.9	15.2	14.5
P/CEPS	14.6	13.6	12.0	11.2
P/BV	3.4	3.0	2.6	2.3
EV / Sales	2.3	1.8	1.7	1.6
EV / EBITDA	11.2	10.3	9.5	9.1
Dividend Yield (%)	1.6	1.5	1.5	1.5
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.0	0.1	0.3	0.4
Net Debt/EBIDTA	0.0	0.4	0.9	1.3
Wrk Cap Cycle (days)	-50.5	-43.8	-45.3	-44.8

**Recommendation History: Gas Authority of India Ltd. – GAIL IN**

Date	Reports	Reco	CMP	Target
22/12/2010	<a href="#">Natural Gas Sector Report</a>			

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
11/01/2011	<a href="#">Indraprastha Gas Q3FY11 Result Update</a>	Accumulate	330	382
15/11/2010	<a href="#">HPCL Q2FY11 Result Update</a>	Buy	454	515
15/11/2010	<a href="#">IOCL Q2FY11 Result Update</a>	Accumulate	403	458
11/11/2010	<a href="#">Bharat Petroleum Corp Q2FY11 Result Update</a>	Accumulate	756	805

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