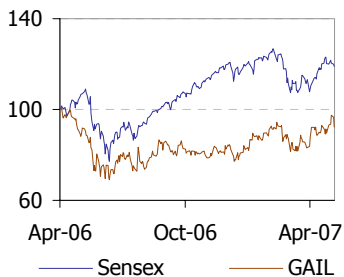


GAIL

 Relative to sector: **Neutral**

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Relative Performance


Source: Bloomberg, ENAM Research

Stock data

 No. of shares : 846mn
 Market cap : Rs 238bn
 52 week high/low : Rs 340/ Rs 210
 Avg. daily vol. (6mth) : 806,400 shares
 Bloomberg code : GAIL IN
 Reuters code : GAIL.BO

Shareholding (%) Mar-07 QoQ chg

Promoters	: 57.3	0.0
FIIIs	: 16.2	0.6
MFs / UTI	: 1.6	(0.7)
Banks / FIs	: 11.9	(4.2)
Others	: 13.0	4.2

Q4 IMPACTED BY SUBSIDY BURDEN...

GAIL has reported a PAT of Rs 6.86bn for Q4FY07 (incl. tax w/b of Rs 3.3bn), v/s Rs 4.09bn in Q4FY06 and Rs 6.65bn in Q3FY07. The decline in profits YoY is due to write offs (E&P operations) and higher gas costs, while lower QoQ profits are mainly due to an almost 60% jump in subsidy burden.

NG Transmission volumes flat, LPG marginally lower

During the quarter, transmission volumes remained flat YoY as well as QoQ. Consequently, the pipeline EBIT was flat YoY. On a QoQ basis, the EBIT was lower, as GAIL passed on the volume benefits (of Q3) to the customers in Q4. Nevertheless, on a full year basis, inline with volumes, the EBIT remained flat. Lower LPG availability impacted LPG transportation EBIT.

Petchem – Strong volume growth

During Q4FY07, petchem production was flat YoY as well as QoQ. As petchem prices remained firm, (up 11% YoY and flat QoQ) GAIL's petchem EBIT increased ~14% YoY and 5% QoQ. Going ahead, petchem prices as well as delta are expected to remain strong given the tightness in supply.

Subsidy burden up 60% QoQ

During the quarter, GAIL extended a subsidy of Rs 5.02bn, almost flat YoY and up 60% QoQ. The LPG extraction business experienced massive erosion in profits on a YoY basis, as GAIL had to bear the same quantum of subsidy, despite higher input prices.

Maintain sector Neutral rating, price target

GAIL's current valuations do not build in any upside from the announced pipeline projects and reflect pessimism on the execution front. These concerns seem overdone at CMP given the imminent investments in projects and thereby offer a favorable risk reward scenario. We maintain the price target and sector **Neutral** rating on GAIL.

Financial summary

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2006	144,594	23,852	-	28.2	22	-	22.5	27.7	-	10.0
2007	160,472	20,466	-	24.2	(14)	-	17.1	21.3	-	10.0
2008E	177,633	22,379	27.4	26.5	9	10.6	16.7	20.8	6.3	10.0
2009E	235,978	26,121	28.8	30.9	17	9.1	17.7	22.1	5.1	11.0

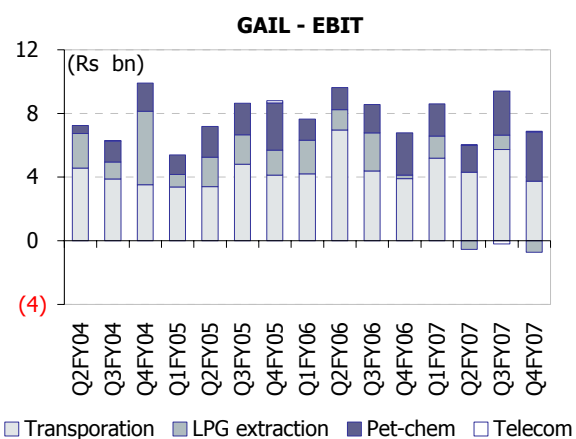
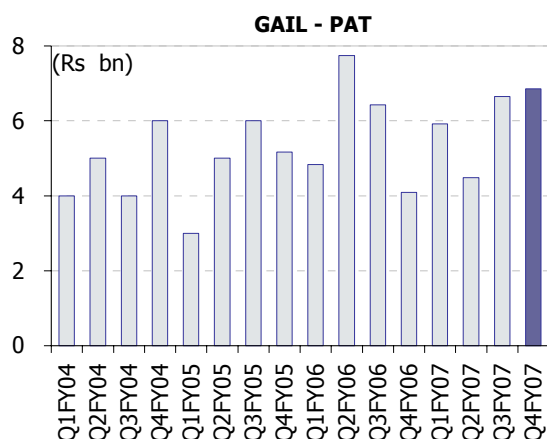
Source: *Consensus broker estimates, Company, ENAM estimates

Results update

(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	38,834	36,598	6.1	43,784	(11.3)	177,633	160,472	10.7
EBIDTA	6,024	7,044	(14.5)	1,363	342.0	34,008	30,405	11.9
Other income	1,129	844	33.7	9,124	(87.6)	4,641	5,017	(7.5)
PBIDT	7,153	7,888	(9.3)	10,487	(31.8)	38,649	35,421	9.1
Depreciation	1,471	1,391	5.8	1,439	2.3	6,842	5,754	18.9
Interest	221	292	(24.4)	271	(18.3)	1,150	1,071	7.4
PBT	5,461	6,205	(12.0)	8,778	(37.8)	30,657	28,597	7.2
Tax	2,000	2,112	(5.3)	2,124	(5.8)	8,277	8,130	1.8
Adjusted PAT	3,461	4,093	(15.4)	6,654	(48.0)	22,379	20,466	9.3
Extra ordinary income/ (exp.)	3,399	-	-	-	-	-	3,399	-
Reported PAT	6,860	4,093	67.6	6,654	3.1	22,379	23,866	(6.2)
No. of shares (mn)	846	846	-	846	-	846	846	-
EBIDTA margins (%)	15.5	19.2	-	3.1	-	19.1	18.9	-
PBIDT margins (%)	18.4	21.6	-	24.0	-	21.8	22.1	-
EPS - annualized (Rs.)	16.4	19.4	(15.4)	31.5	(48.0)	26.5	24.2	9.3

Source: Company, ENAM Research

GAIL – Quarterly trends



Source: Company reports, ENAM Research

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