

GAIL-High Petchem margins boosts profitability

CMP: Rs.425

Target Price: Rs.518

Recommendation: Buy

Stock Info

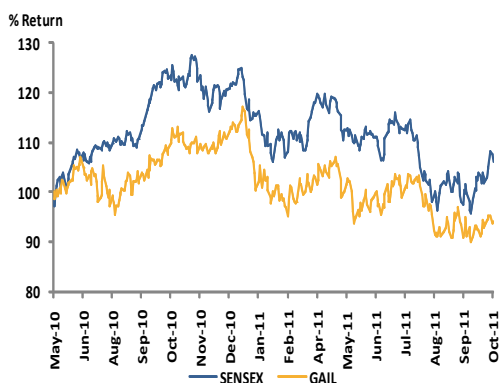
BSE Group	B/BSE 500
BSE Code	532155
NSE Symbol	GAIL
Bloomberg	GAIL IN
Reuters	GAIL.BO
BSE Sensex	17481
NSE Nifty	5258

Market Info

Market Capital	Rs.54163cr
Equity Capital	Rs.1268cr
Avg. Trading Vol.	164137
52 Wk High/ Low	536/401
Face Value	Rs.10

Shareholding Pattern (%) (30th June 2011)

Promoters	57.3
Domestic Institutions	26.1
Foreign Institutions	12.5
Non Promoters Corp.	1.2
Public & Others	2.9
Govt. Holdings	-



Key Investment Positives

Revenues up 19.7% on higher Petchem and LPG revenues

GAIL reported 19.7% jump in 2QFY12 topline to Rs 9726cr largely on account of higher Pet-chem sales volumes and realisation. Petchem volumes during the quarter jumped 20.6% yoy and 46.6% qoq and realisation grew 7% yoy and 1% qoq. Consequently, Pet-chem revenues grew 29% yoy and 10% qoq to Rs 928cr. Similarly, LPG and Gas trading business reported good performance as revenues grew 34% and 20% yoy to Rs 988cr and Rs 6735cr respectively. Natural Gas and LPG transmission business, however, reported subdued performance as their revenues declined -1.1% and 2.7% yoy respectively. GAIL's subsidy burden during the quarter stood at Rs 567cr against Rs 347cr in 2QFY11 and Rs 682cr in 1QFY12.

EBITDA margins decline marginally

GAIL reported marginal 70bps yoy and 50bps qoq drop in operating margin to 17.2%. EBIT margins of NG transmission business dropped 1300bps yoy to 74% (88%) and that of LPG transmission business dropped 600bps to 76% (82%). Improvement in margins of gas trading (up 140bps) and Pet-chem (up 470bps) business has arrested significant drop in operating profit.

Net Profit up 18.5% yoy

GAIL reported 2QFY12 net income of Rs 1094cr against Rs 924cr last year, posting growth of 18.5% yoy. Effective tax rate during the quarter was at 30% compared to 36% last year.

Valuations:

GAIL has a diversified businesses, hence we have valued it on SoTP basis and arrived at a valuation of Rs 517/share of which Rs 249/share is contributed by core transmission & natural gas trading business and Rs 172/share by Petchem, LPG & OLHS business. We value investments at Rs 82/share and Myanmar E&P block at Rs 17/share. At CMP of Rs 425, the stock is trading at 14x and 11x of FY12E & FY13E earnings. We recommend Buy on the stock with a Price Objective (PO) of Rs 517 (intrinsic value) representing a potential upside of 20% over a period of 12 months.

Financials-(Consolidated)

Y/E March, (₹ in Cr)	FY10	FY11	FY12E	FY13E
Net Revenue	27035	35107	36654	42413
EBIDTA	5453	6507	6308	8983
PAT	3292	3981	3806	4772
EPS(Rs/sh)	26.2	31.6	29.7	37.9
EPS Growth (%)	65.6	20.9	(6.0)	48.7
RONW (%)	18.5	19.9	15.5	16.8
P/E (X)	16.3	13.5	14.4	10.7
EV/EBITDA(X)	10.0	8.9	12.4	9.7



2QFY12 Results

Rs in Crore	2QFY12	2QFY11	YoY (%)	1QFY12	QoQ (%)
Net Sales	9726	7116	19.7	8867	14.2
Expenditure	8051	6671	20.7	7312	17.8
EBITDA	1676	1457	15.0	1577	0.2
EBITDA Margins (%)	17.2	17.9		17.7	
Other Income	116	150	(22.6)	65	213.9
Interest	22.6	11.7	92.7	20.8	(42.8)
Depreciation	201	163	23.5	178	1.6
Exceptional Items (Loss)	-	-	-	-	-
PBT after exceptional items	1568	1433	9.5	1443	8.4
Tax	474	509	(6.9)	458	17.0
Tax rate (%)	30	36	-	32	-
Minority Interest	-	-	-	-	-
PAT after extraordinary items	1094	924	18.5	985	4.1
Net Profit Margin (%)	11.3	11.4	-	11.1	
EPS (Rs)	8.6	7.3	18.5	7.8	4.1

Exhibit1: 2QFY12 Sales volumes

	2QFY12	2QFY11	yoy%	1QFY12	qoq%
<i>Natural Gas Transmission (MMSCMD)</i>	119	115	3.5	116	2.4
<i>LPG Transmission-(000' tonne)</i>	796	799	-0.4	788	1.0
<i>Natural Gas Sales (MMSCMD)</i>	84	79	6.3	85	-1.0
<i>Petrochemical Sales (000 tonne)</i>	129	107	20.6	88	46.6
<i>LPG Sales (000 tonne)</i>	298	274	8.8	274	8.8
<i>Other Liquid Hydro Carbons (000 tonne)</i>	81	69	17.4	82	-1.2

Exhibit2: 2QFY12 Segmental Revenues

Rs cr	Exhibit2: 2QFY12 Segmental Revenues			Share in Revenues (%)		
	2QFY12	2QFY11	yoy%	2QFY12	2QFY11	1QFY12
Natural Gas Transmission	912	922	-1.1	9.4	11.4	9.9
LPG Transmission	110	113	-2.7	1.1	1.4	1.3
Gas Trading	6735	5597	20.3	69.4	69.1	72.3
Petrochemical	928	720	28.9	9.6	8.9	7.1
LPG & other Liquid Hydro Carbons	988	737	34.1	10.2	9.1	9.2
Unallocated	26	15	73.3	0.3	0.2	0.2
	9699	8104	19.7			

Exhibit3: 2QFY12 EBIT

Rs cr	Exhibit3: 2QFY12 EBIT			Share in Margin (%)		
	2QFY12	2QFY11	yoy%	2QFY12	2QFY11	1QFY12
Natural Gas Transmission	679	808	-16.0	37.9	50.3	46.0
LPG Transmission	84	93	-9.7	4.7	5.8	4.9
Gas Trading	288	161	78.9	16.1	10.0	19.1
Petrochemical	447	313	42.8	25.0	19.5	17.4
LPG & other Liquid Hydro Carbons	375	198	89.4	20.9	12.3	15.3
Unallocated			-341.2	-4.6	2.1	-2.7
Total EBIT	1791	1607	11.4			



Profit & Loss Statement (Consolidated)				
Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Net Sales	27035	35107	36654	42413
% Chg	10	30	2	18
Total Expenditure	21583	28599	30345	33430
% chg	7	33	5	11
EBDITA	5453	6507	6308	8983
EBDITA Margin %	20	19	17	21
Other Income	580	557	584	579
PBDIT	6032	7065	6892	9563
Depreciation	823	888	950	1346
Interest	385	378	761	1401
PBT bfr excep Items	4824	5799	5181	6817
Tax Provisions	1531	1818	1375	2045
Adjusted PAT	3292	3981	3806	4772
Adj PAT Margins (%)	12	11	10	11

Cash Flow Statement (Consolidated)				
Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Profit before tax	4859	5799	5181	6817
Oper. Profit Before Work. Cap.	5830	6132	3682	5325
Changes in WC	1463	-1096	391	1050
Cash generated frm Operation	7293	7228	3291	4275
Direct Tax Paid	1657	1818	1375	2045
Net Cash From Oper. Act	5637	5410	1916	2230
Net Cash From Investing Act	-5495	-6696	-8565	-12234
Cash flow from Financing Act	649	672	5620	9116
Net increase in cash & Equiv	791	-614	-1028	-888
Opening adjustment for JV	-24	0	0	0
Opening Cash Balance	3781	4549	3935	2906
Closing Cash Balance	4549	3935	2906	2018

Balance sheet (Consolidated)				
Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Equity Capital	1268	1268	1268	1268
Reserve & Surplus	16542	19945	22772	26012
Total Loans	5416	6904	11708	20008
Minority Interest	228	547	547	547
Deferred tax	1465	1715	1715	1715
Total Liabilities	24920	30380	38011	49551
Gross Block	25164	34845	41876	54110
Less Acc. Depreciation	9834	10722	11672	13018
Net Block	15331	24123	30204	41092
CWP	4882	2476	3298	3986
Investments	1065	1236	1236	1025
Net Current Assets	3641	2545	2936	3986
Total Asset	24919	30380	38011	49511

Key Ratios (Consolidated)				
Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Per Share data (Rs)				
EPS	26.2	31.6	29.7	37.1
Cash EPS	32.7	38.7	37.2	47.8
DPS	7.5	7.5	7.5	7.5
Book value	141.6	168.6	191.1	221.0
Operating, Returns Ratio				
Debt/ Equity (X)	0.3	0.4	1.3	1.4
Current Ratio (X)	1.3	1.3	1.5	1.5
ROE (%)	18.5	18.8	15.5	16.8
ROCE (%)	23.5	23.1	12.0	13.3
Dividend Yield (%)	1.6	1.6	1.6	1.6
Valuation Ratio (X)				
P/E	16.3	13.5	14.4	11.5
P/BV	3.0	2.5	2.2	1.9
EV/ Sales	2.0	1.7	2.1	2.1
EV/EBITDA	10.0	8.9	12.4	10.3



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Stock Rating Scale

Absolute Return

BUY	:	>20%
ACCUMULATE	:	12-20%
HOLD	:	5-12%
REDUCE	:	< 5%

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