

Sector: Oil & Gas

Sensex:	15,912
CMP (Rs):	344
Target price (Rs):	352
Upside (%):	1.9
52 Week h/l (Rs):	388 / 175
Market cap (Rscr) :	43,661
6m Avg vol ('000Nos):	2,546
No of o/s shares (mn):	1,268
FV (Rs):	10
Bloomberg code:	GAIL IB
Reuters code:	GAIL.BO
BSE code:	532155
NSE code:	GAIL

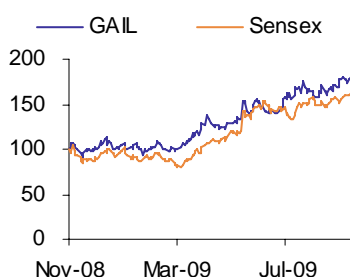
Prices as on 04 Nov, 2009

Shareholding pattern

September '09	(%)
Promoters	57.3
Institutions	38.2
Non promoter corp hold	0.7
Public & others	3.8

Performance rel. to sensx

(%)	1m	3m	1yr
GAIL	0.1	8.2	17.6
ONGC	2.3	(4.2)	(3.3)
GSPL	6.5	15.1	111.9
Guj Gas	5.1	11.4	37.8

Share price trend


GAIL (India) Ltd organized an analyst meet to discuss its H1 FY10 performance and its future plans. The key takeaways from the meet were as follows:

Implementation of PNGRB regulations for tariffs

- ⊕ The management expects about 5-10% increase in tariffs of extant pipelines from the current levels following the implementation of PNGRB regulations (12% post tax ROCE).
- ⊕ The final notification in this regards is expected by December 2009.

Transmission Capital expenditure

- ⊕ GAIL has plans to add about 6,605kms of pipeline to its existing network of 7,220kms by FY13.
- ⊕ Of the projects under implementation, about 443kms will be added in FY10 and 1,609kms is likely to be added in FY11.
- ⊕ The Vijaypur-Delhi pipeline is likely to be completed by December 2009, while pipeline beyond Delhi to Punjab and from Hisur to Haryana are expected to be complete by October – November 2010. The Dahej-Vijaypur pipeline is expected to be mechanically complete by December 2010.
- ⊕ Dabhol-Bangalore, Kochi-Mangalore and Kochi-Bangalore pipelines are expected to be completed by December 2011, with a total capital expenditure of Rs120bn. The commencement is in line with the start-up of Petronet LNG's Kochi LNG terminal.

Gas sourcing

- ⊕ Increasing production from KG-D6 field will increase transmission volumes for GAIL. Of the current production of about 40mmscmd GAIL is transporting 25mmscmd. From the further allocations of 50mmscmd, GAIL expects to transport about 35mmscmd of gas.
- ⊕ From Q4 FY10, when Dabhol LNG terminal and expansion of Petronet LNG's Dahej terminal is completed, GAIL expects incremental supplies of R-LNG.
- ⊕ Production of gas from marginal fields of ONGC such as C-Series term and Focus Energy's Rajasthan field will increase supplies.
- ⊕ While spot LNG will continue to add volumes for GAIL, production from discoveries on the east coast (ONGC and GSPC's fields in KG basin) will drive volumes in the longer term.

Valuation summary

Y/e 31 Mar	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	180,082	237,760	318,507	387,951
yoy growth (%)	12.2	32.0	34.0	21.8
Operating Profit	39,275	40,647	50,861	60,145
OPM (%)	21.8	17.1	16.0	15.5
Reported PAT (Rs m)	26,015	28,037	32,714	37,338
yoy growth (%)	26,232	28,037	32,714	37,338
	9.6	6.9	16.7	14.1
EPS (Rs)				
P/E (x)	30.8	22.1	25.8	29.4
Price/Book (x)	11.2	15.6	13.3	11.7
EV/EBITDA (x)	2.2	3.0	2.6	2.3
Debt/Equity (x)	6.6	10.2	8.7	7.6
RoE (%)	0.1	0.1	0.2	0.2
RoCE (%)	21.3	20.2	20.7	20.6

Source: Company, India Infoline Research

Petrochemical segment

- ✦ With a current capacity of 410,000tons per annum of polymer production, GAIL's capacity utilization is at 105%. With setting up of one more furnace (investment of Rs1.25bn) and through de-bottlenecking GAIL is likely to raise the capacity to 500,000tons per annum by September 2010.
- ✦ GAIL has further plans to increase the capacity to 800,000tons per annum by FY13.
- ✦ Additionally, GAIL is setting up a plant with a capacity of 280,000tons per annum near Assam, which is likely to be operational by April 2012 and will require an investment of Rs54.6bn. The company has achieved financial closure and orders for long lead items have been placed.
- ✦ With 19% equity stake in OPaL, which is setting up a plant with a capacity of 1.1mn tons, the total production capacity of GAIL is expected to be 1.2-1.3mn tons by 2012.
- ✦ The company foresees no problem of feedstock for its entire expansion plans.

CGD business

- ✦ Through its subsidiary GAIL Gas, GAIL is setting up CGD projects in six cities. Further, through JVs it is setting up CGD projects in about 20 cities. It has identified about 200+ cities for implementation of CGD projects.
- ✦ The company is also setting up CNG stations on highways in Panvel, Andhra Pradesh and Mathura. This will enhance inter-state traveling of CNG vehicles.

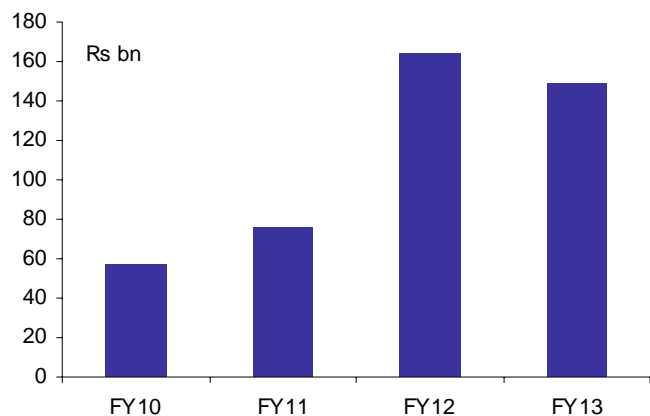
E&P segment

- ✦ 7 to 8 discoveries have been made in the blocks which GAIL has stakes in.
- ✦ Small quantity of hydrocarbon production is on from Cambay basin, while Myanmar is closest to production (2013). At peak production GAIL expects about Rs4-4.5bn revenues from Myanmar fields.
- ✦ Any material information from CBM blocks is expected in 2011.

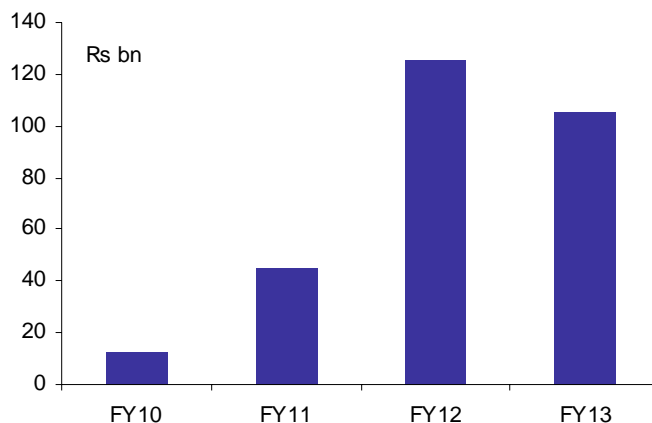
Financial information

- ✦ Over the next four years GAIL plans to invest Rs450bn in various projects and raise about Rs287bn debt to fund the capital expenditure.

Trend in capital expenditure



Trend in debt requirement



Source: Company

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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