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OIL & GAS/CHEMICALS

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EQUITY RESEARCH

Concerns overdone

Low near-term volume visibility, but in the price; key play for L-T gas growth; reiterate BUY

August 25, 2011

Rating Remains	**Buy**
Target price Reduced from INR600	INR 565
Closing price August 24, 2011	INR 412
Potential upside	+37.1%

Action: Pause now but getting ready for next wave of growth

After sharp 45% growth over the past two years, to 120mmscmd at end FY11, gas volume growth will likely stagnate (we assume an average of 120/125mmscmd in FY12/13)—domestic gas production has disappointed and the next wave of LNG is nearly two years away. In the interim, GAIL is laying new pipelines for the next phase of growth. Petchem capacity is set to double by FY14F. We believe near-term gas volume concerns were known and factored in, and think GAIL's one-month share-price correction of 12% (21% since its January 2011 peak) is excessive. Reiterate BUY.

Catalyst: Easing subsidy concern

Though the ad-hoc subsidy mechanism is a concern, GAIL is least impacted, as its subsidy burden is only on under-recoveries on cooking-fuels (~14% of one-third upstream share) and not auto-fuels. The recent increases in cooking fuels prices reduce this burden. The government is contemplating limiting the number of subsidised LPG cylinders per household. We believe such a move would be difficult to administer and might not lead to large benefits as it could encourage black-marketeering. However, effective implementation would reduce the subsidy burden.

Valuations: Favourable risk-reward; reiterate BUY

We believe our new volume assumption of 120/125mmscmd for FY12/13 (earlier 130/140) are conservative. We have also marginally adjusted our assumptions for tariff, petchem volumes/price, subsidy and other income. Our FY12/13F EPS falls by 6-9%. GAIL trades at an attractive 8x FY13F EV/EBITDA. Our new TP of INR565 (earlier INR600) implies 37% upside.

31 Mar	FY11		FY12F		FY13F		FY14F
Currency (INR)	Actual	Old	New	Old	New	Old	New
Revenue (bn)	325	388	381	427	412		487
Reported net profit (bn)	36	44	42	49	45		48
Normalised net profit (bn)	36	44	42	49	45		48
Normalised EPS	28.07	35.00	32.77	38.85	35.36		37.55
Norm. EPS growth (%)	13.4	20.0	16.7	11.0	7.9		6.2
Norm. P/E (x)	14.7	N/A	12.6	N/A	11.6	N/A	11.0
EV/EBITDA (x)	9.6	8.0	8.3	7.2	7.9		7.3
Price/book (x)	2.7	N/A	2.4	N/A	2.1	N/A	1.9
Dividend yield (%)	1.8	N/A	2.4	N/A	2.6	N/A	2.7
ROE (%)	19.8	21.5	20.2	20.8	19.2		18.0
Net debt/equity (%)	0.9	10.1	8.8	12.6	13.8		12.1

Key company data: *See page 2 for company data and detailed price/index chart.*
Rating: *See report end for details of Nomura's rating system.*

Anchor themes

We continue to like GAIL as a key play on long-term gas growth in India.

Nomura vs consensus

Our FY12/13F earnings estimates are ~4% lower than Bloomberg consensus estimates. However,our TP is ~12% ahead of the Street as we are more positive on the long-term gas story in India.

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Key data on GAIL

Income statement (INRbn)

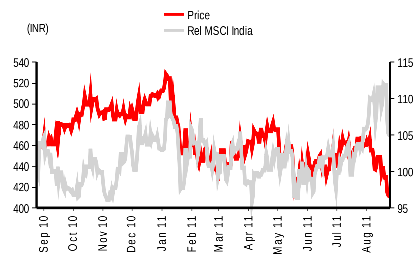
Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Revenue	**250**	**325**	**381**	**412**	**487**
Cost of goods sold	-191	-258	-306	-333	-398
Gross profit	**59**	**67**	**74**	**79**	**90**
SG&A	-18	-18	-17	-18	-25
Employee share expense	0	0	0	0	0
Operating profit	**41**	**48**	**58**	**61**	**65**
EBITDA	**47**	**55**	**65**	**71**	**76**
Depreciation	-6	-7	-8	-9	-11
Amortisation	0	0	0	0	0
EBIT	41	48	58	61	65
Net interest expense	-1	-1	-1	-1	-2
Associates & JCEs	0	0	0	0	0
Other income	5	5	5	6	7
Earnings before tax	**46**	**52**	**61**	**66**	**70**
Income tax	-14	-17	-20	-21	-22
Net profit after tax	**31**	**36**	**42**	**45**	**48**
Minority interests	0	0	0	0	0
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	**31**	**36**	**42**	**45**	**48**
Extraordinary items	0	0	0	0	0
Reported NPAT	**31**	**36**	**42**	**45**	**48**
Dividends	-11	-11	-15	-16	-17
Transfer to reserves	**20**	**25**	**27**	**29**	**31**
Valuation and ratio analysis					
FD normalised P/E (x)	16.6	14.7	12.6	11.6	11.0
FD normalised P/E at price target (x)	22.8	20.1	17.2	16.0	15.0
Reported P/E (x)	16.6	14.7	12.6	11.6	11.0
Dividend yield (%)	1.8	1.8	2.4	2.6	2.7
Price/cashflow (x)	11.2	17.0	10.6	9.9	8.8
Price/book (x)	3.1	2.7	2.4	2.1	1.9
EV/EBITDA (x)	10.6	9.6	8.3	7.9	7.3
EV/EBIT (x)	12.1	10.9	9.4	9.1	8.5
Gross margin (%)	23.6	20.5	19.5	19.2	18.4
EBITDA margin (%)	18.7	16.8	17.1	17.1	15.6
EBIT margin (%)	16.4	14.8	15.1	14.9	13.3
Net margin (%)	12.6	11.0	10.9	10.9	9.8
Effective tax rate (%)	31.4	32.0	32.2	32.0	32.0
Dividend payout (%)	35.4	31.1	34.9	34.9	34.9
Capex to sales (%)	14.3	14.3	13.1	12.1	8.2
Capex to depreciation (x)	6.4	7.1	6.6	5.4	3.7
ROE (%)	19.9	19.8	20.2	19.2	18.0
ROA (pretax %)	17.2	17.2	17.7	16.4	15.5
Growth (%)					
Revenue	5.1	29.9	17.3	8.4	18.1
EBITDA	15.2	16.8	19.6	8.3	7.4
EBIT	17.5	17.0	19.9	6.7	5.8
Normalised EPS	12.0	13.4	16.7	7.9	6.2
Normalised FDEPS	12.0	13.4	16.7	7.9	6.2
Per share					
Reported EPS (INR)	24.75	28.07	32.77	35.36	37.55
Norm EPS (INR)	24.75	28.07	32.77	35.36	37.55
Fully diluted norm EPS (INR)	24.75	28.07	32.77	35.36	37.55
Book value per share (INR)	132.43	151.78	173.12	196.14	220.59
DPS (INR)	7.50	7.50	9.83	10.61	11.27

Source: Nomura estimates

Notes

Despite near flat gas volumes, we estimate 17% earnings growth in FY12F

Price and price relative chart (one year)



(%)	1M	3M	12M
Absolute (INR)	-11.8	-4.3	-9.6
Absolute (USD)	-14.9	-6.0	-7.8
Relative to index	1.1	5.6	3.7
Market cap (USDmn)	11,347.2		
Estimated free float (%)	42.7		
52-week range (INR)	537.75/407.85		
3-mth avg daily turnover (USDmn)	9.66		
Major shareholders (%)			
Government of India	57.3		
LIC	7.6		

Cashflow (INRbn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
EBITDA	47	55	65	71	76
Change in working capital	15	-10	3	2	5
Other operating cashflow	-15	-13	-19	-20	-21
Cashflow from operations	**47**	**31**	**49**	**53**	**60**
Capital expenditure	-36	-46	-50	-50	-40
Free cashflow	**11**	**-16**	**-1**	**3**	**20**
Reduction in investments	-3	-5	-5	-5	-5
Net acquisitions	0	0	0	0	0
Reduction in other LT assets	0	0	0	0	0
Addition in other LT liabilities	1	2	0	0	0
Adjustments	4	2	5	5	5
Cashflow after investing acts	**13**	**-17**	**-1**	**3**	**20**
Cash dividends	-7	-11	-15	-16	-17
Equity issue	0	0	0	0	0
Debt issue	3	8	10	10	8
Convertible debt issue	0	0	0	0	0
Others	-1	-1	-2	-2	-3
Cashflow from financial acts	**-5**	**-4**	**-6**	**-8**	**-11**
Net cashflow	**7**	**-20**	**-8**	**-5**	**9**
Beginning cash	35	42	21	14	9
Ending cash	42	21	14	9	17
Ending net debt	-27	2	19	34	34

Source: Nomura estimates

Notes

We estimate capex of INR50bn each in FY12/13F

Balance sheet (INRbn)

As at 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Cash & equivalents	42	21	14	9	17
Marketable securities	0	0	0	0	0
Accounts receivable	13	19	22	24	27
Inventories	6	9	9	10	11
Other current assets	76	63	63	63	64
Total current assets	**137**	**112**	**108**	**106**	**120**
LT investments	21	26	31	36	41
Fixed assets	143	183	226	267	297
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other LT assets	0	0	0	0	0
Total assets	**300**	**320**	**365**	**409**	**458**
Short-term debt	0	0	0	0	0
Accounts payable	20	25	35	37	45
Other current liabilities	83	63	61	63	66
Total current liabilities	**104**	**88**	**96**	**101**	**111**
Long-term debt	15	23	33	43	51
Convertible debt	0	0	0	0	0
Other LT liabilities	14	16	16	16	16
Total liabilities	**132**	**128**	**145**	**160**	**178**
Minority interest	0	0	0	0	0
Preferred stock	0	0	0	0	0
Common stock	13	13	13	13	13
Retained earnings	153	178	205	234	265
Proposed dividends	0	0	0	0	0
Other equity and reserves	2	2	2	2	2
Total shareholders' equity	**168**	**193**	**220**	**249**	**280**
Total equity & liabilities	**300**	**320**	**365**	**409**	**458**
Liquidity (x)					
Current ratio	1.32	1.27	1.13	1.05	1.08
Interest cover	58.7	58.0	52.6	41.4	32.9
Leverage					
Net debt/EBITDA (x)	net cash	0.03	0.30	0.49	0.45
Net debt/equity (%)	net cash	0.9	8.8	13.8	12.1
Activity (days)					
Days receivable	20.4	18.0	19.7	20.2	19.2
Days inventory	11.8	10.5	10.7	10.8	9.9
Days payable	38.3	32.4	35.8	39.4	37.8
Cash cycle	-6.0	-3.8	-5.4	-8.4	-8.7

Source: Nomura estimates

Notes

Debt levels have been increasing but B/S remains strong

Gas volumes: Slow growth near term

GAIL's transmission volumes saw sharp increases in FY10, driven by KG-D6

GAIL, the key long-distance gas transmission company, has been the key beneficiary of a sharp ramp-up in gas production at the KG-D6 block since the start of production in April 2009.

As KG-D6 production saw a ramp-up to 60mmscmd by end 2009, GAIL's gas transmission volume also increased sharply, from ~83mmscmd at the end of FY09 to 115mmscmd by end FY10 (an increase of ~32mmscmd). To put these numbers in perspective, over the previous nine years, from FY00 to FY09, GAIL's volume had increased by only ~23mmscmd, a CAGR of 3.7%.

Despite a decline in KG-D6 volumes, higher LNG imports sustained growth in FY11

Even as KG-D6 volumes started to fizzle in FY11, GAIL's transmission volumes continued to increase (although at a slower pace) to ~120mmscmd due to higher LNG imports. Overall, gas transmission volumes for GAIL have grown by a sharp 45% over the past two years to 120mmscmd in end FY11.

With low visibility of domestic growth and LNG re-gas capacity reaching full utilisation, near-term growth will likely be muted

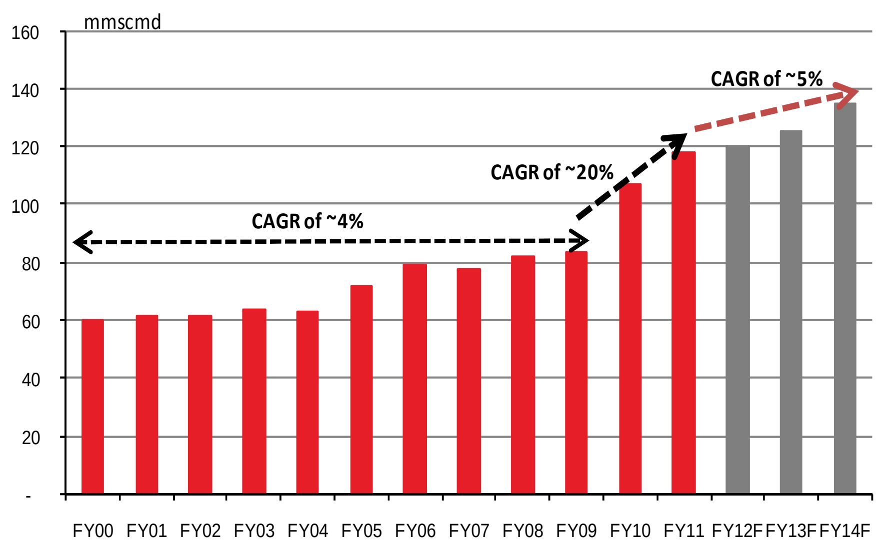
We think that GAIL's gas volume growth is likely to slow in the near term. Domestic gas production is likely to disappoint (production decline continues at KG-D6 block) and after the sharp increase of last year, the next wave of new LNG supply is nearly two years away. Any meaningful ramp-up in KG-D6 production is at least two to three years away (we assume 48/45/45mmscmd for FY12/13 /14F) and near-term visibility on production ramp-up in other domestic blocks is also limited, in our view.

Also, even as we continue to believe that LNG would be the key source of gas growth in the medium term, we note that after a sharp increase in LNG import volumes over the past year (in 1QFY12 Petronet LNG's volumes were up 40% y-y and Dahej terminal operated at 105% utilisation), there may not be any further significant growth in LNG volumes in the near term. The new incremental LNG capacity of ~15mmt (or ~54mmscmd) would come only in a staggered way over the next two years, starting with ~1.5 – 2.0mmt of capacity at Dabhol early next year and followed by ~5mmt of capacity at Kochi in 2HFY13F.

Thus, we conservatively assume that gas transmission volumes for rest of FY12 would remain at their current levels of ~120mmscmd. We also reduce our FY13F estimate of gas transmission volume to 125mmscmd (from 140mmscmd earlier) and think that gas transmission volume would see a meaningful ramp-up only in FY14 (est. avg. FY14 volume at 135mmscmd) with the commissioning of incremental LNG capacity.

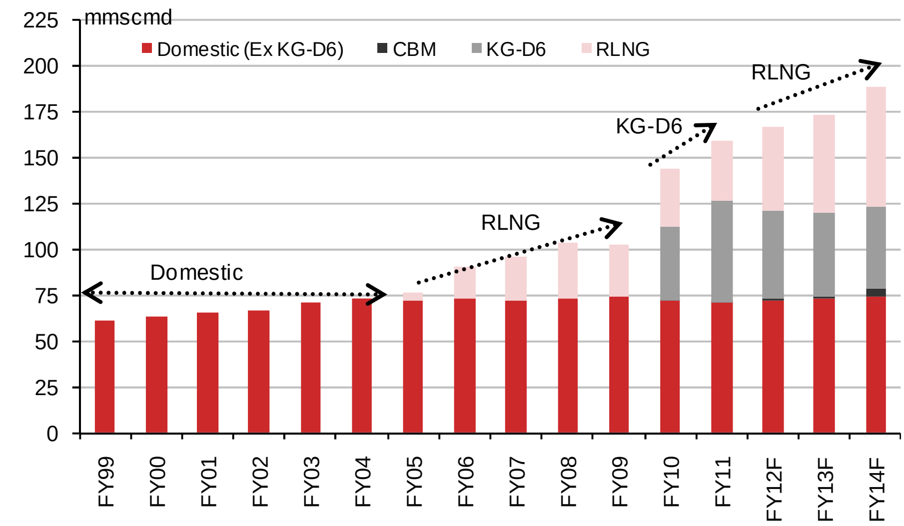
After a sharp 20% CAGR volume growth over the past two years, we estimate volume growth would be much more moderate, at a CAGR of ~5% over the next three years

Fig. 1: GAIL's gas transmission volume ramp-up



Source: Company data, Nomura estimates

Fig. 2: Incremental RLNG supply to drive next leg of volume growth for GAIL



Source: PPAC, Nomura estimates

As expected incremental LNG capacities of ~15mmt (54mmscmd) would come only in stages over next two years, any meaningful volume growth for GAIL would be visible only in FY14 and beyond

Fig. 3: Status of key pipelines in work-in-progress stage

	Length (km)	Approved Cost (INRbn)	Capacity (mmscmd)	Likely completion Date
DVPL GREP Upgradation Project				
- Dahej-Vijaipur Phase II (48")	610	58.4	24-78	Mainline compressor at Jabhua / Vijaipur commissioned. Standby machine at Jhabua - June11, and Vijaipur - Dec11.
- Vijaipur - Dadri Pipeline (48")	499	49.3	20-80	Vijaipur Dadri Pipeline commissioned Compressors at Kailaras/Chainsa - Dec -11
Dadri - Bawana - Nangal	594	23.6	31	Phase I - up to Bawana - March 2010 Phase II - up to Nangal - Dec 11
Chainsa - Jhajjar - Hissar	349	13.2	35	Phase I - Upto Sultanpur - Mar 2010 Chainsa - Sultanpur - Neemrana - April 2011 Phase II - Upto Hissar - FY12
Jagdishpur - Haldia	2,050	76.0	32	Implementation in phased manner - FY14 onwards
Dabhol - Bagalore	1,414	49.9	16	Phase I - Aug 2012 Phase II - Dec 2012
Kochi - Koottanad - Mangalore - Bangalore	1,126	32.6	16	Phase I - Aug 2012 Phase II - Dec 2012
	6,642	**302.9**		

Source: Company data, Nomura research

Surprise likely on tariffs/marketing margins

Even as we reduce our near-term gas transmission volume assumptions for GAIL and expect gas volumes to remain largely flat, we think that the increasing share of LNG in the overall gas supply portfolio would provide some respite to GAIL in the form of higher tariff and marketing gains.

We also highlight that most of GAIL's existing contracts have 'ship or pay' provisions, and typically if volumes drop below 90-95% daily contracted quantities (DCQ), the contracts require customers to keep paying the capacity charges. This means that typically GAIL's revenue decline is lower than the actual volume decline.

As GAIL transmits incremental gas volumes of LNG through its new HVJ pipeline (where the tariff is more than double the tariff approved for the old HVJ pipeline), its average realised tariff keeps on increasing.

The 'ship or pay provisions' on existing contracts, and higher LNG imports fetching higher tariffs, have meant that despite cuts in tariffs by the regulator, GAIL's average realized tariffs have kept on increasing over the past few years, with an average annual increase of ~5% since FY08. With most of the additional gas likely to flow on the expansion HVJ/GREP network, the trend of higher tariffs is likely to continue, in our view.

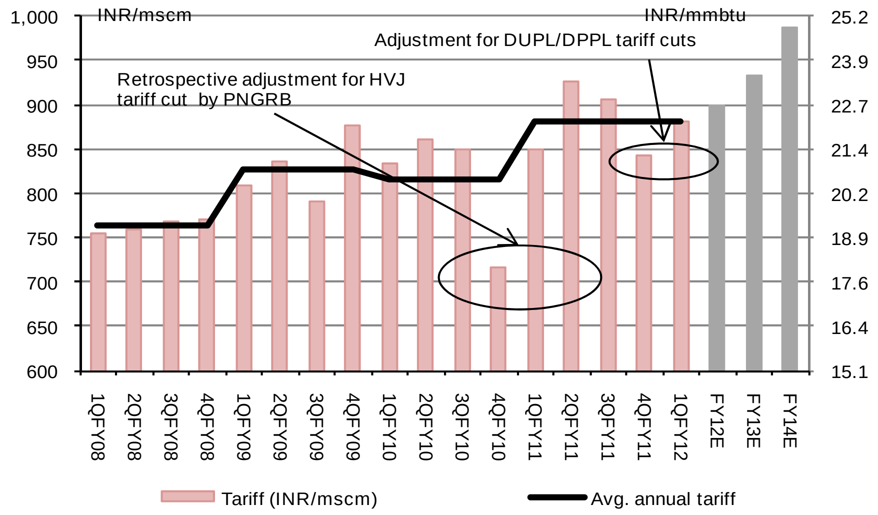
Fig. 4: GAIL' overall headline tariffs were cut by the regulator

Pipeline Network	Order Date	Applied from	Old Tariff	New tariff	Change
HVJ - GREP - DVPL	April-10	November-08	28.5	25.5	-11%
DVPL / GREP upgradation	April-10	April-10	NA	53.7	
DUPL / DPPL	February-11	November-08	26.1	24.5	-6%

Source: PNGRB, Nomura research

Fig. 5: Nonetheless, average tariffs realised have kept on increasing . . .

. . . and are likely to move up further

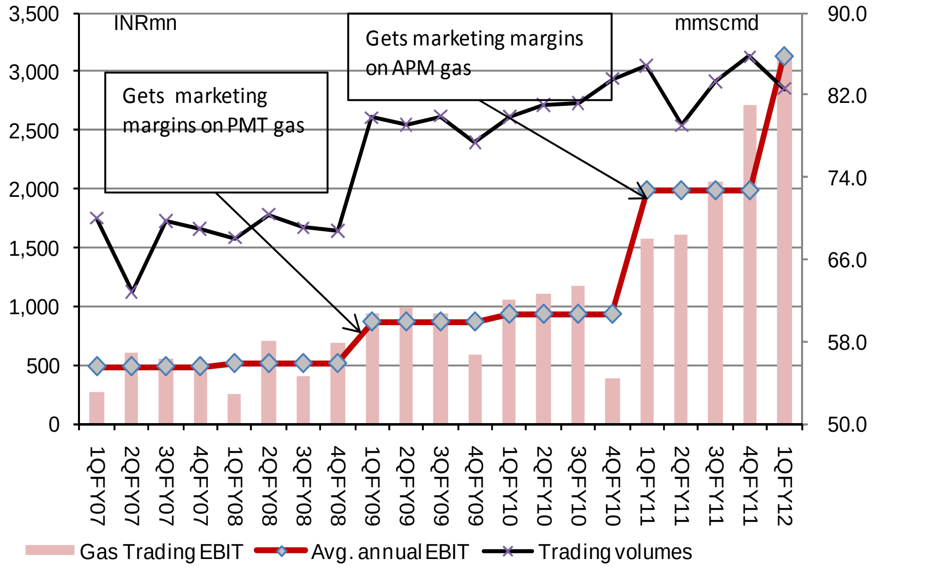


Source: Company data, Nomura estimates

Marketing margins also keep surprising

Apart from higher tariffs, GAIL also charges marketing gains on gas that it markets. From June 2010, the government has allowed GAIL to charge marketing margins on INR200/scm (~11cents/mmbtu), which has significantly boosted marketing earnings for GAIL. As the demand for RLNG has been very strong in recent few quarters due to a drop in domestic gas production, GAIL has been making high marketing gains on incremental LNG volumes.

Fig. 6: Marketing EBIT have sharply increased over the past two years



Source: Company data, Nomura estimates

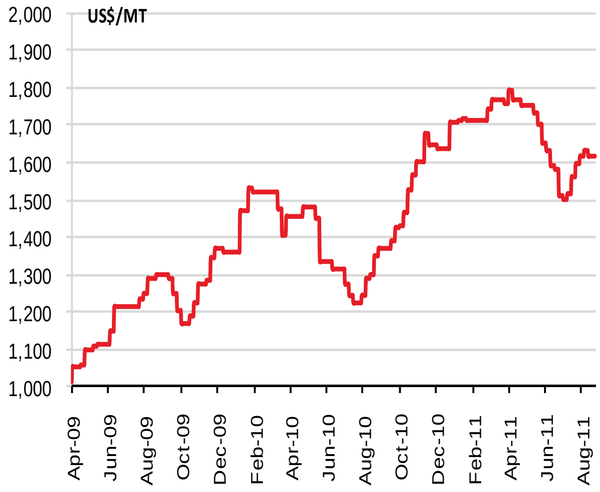
PE margins resilient; doubling capacity

Even after the recent corrections from peak levels, polymer prices have remained strong. As GAIL commissioned its sixth furnace to raise the capacity of its PATA petrochemical plant to 450kta (from 410kta) only in 1Q2011, the full benefit of the increased capacity would accrue only in FY12.

After flat volumes of ~420kta over the past three years, we estimate that polymer production will increase by ~8% to 450kta in FY12F. As GAIL further de-bottlenecks capacity, petchem production is likely to increase further, although marginally in FY13/14F (we estimate 460/470kta).

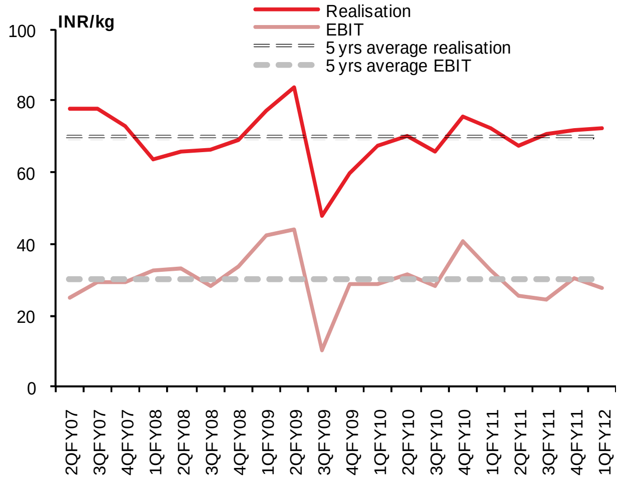
The capacity at GAIL's Pata complex is set to double by FY14. Work is currently ongoing for this expansion and the company is installing a 450kta gas-cracker unit and a 400kta downstream polymer unit.

Fig. 7: Polymer price trend – remains resilient



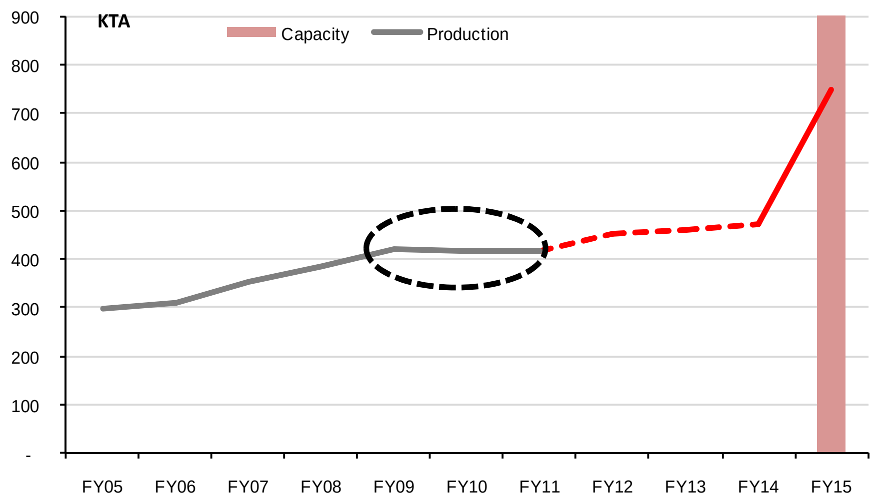
Source: Datastream

Fig. 8: Despite sharp increase in gas costs over past years, polymer's profitability also remains resilient



Source: Company data, Nomura research

Fig. 9: Petchem volume ramp-up



Source: Company data, Nomura estimates

Any meaningful increase in its polymer production would be visible as GAIL completes the doubling of capacity at its PATA plant, likely in 2014

Easing subsidy concerns

Even though the subsidy sharing mechanism has been ad-hoc and non-transparent and is a concern, the one redeeming factor has been that GAIL is sharing under-recoveries only on cooking fuels losses (~14% of the 1/3rd upstream share). As the price of oil rises, the bulk of incremental under-recoveries are due to diesel, which GAIL does not share.

Recent increases in the retail prices of domestic LPG and kerosene have also reduced subsidy outgoings. The government is contemplating limiting the number of subsidised LPG cylinders per household. We believe such a decision would be difficult to implement administratively and might not lead to large benefits as, over the longer term, price arbitrage could encourage black-marketeering. However, effective implementation is likely to reduce subsidy outgoings, in our view. In our current numbers, we have not included any potential gains from lower subsidy outgoings.

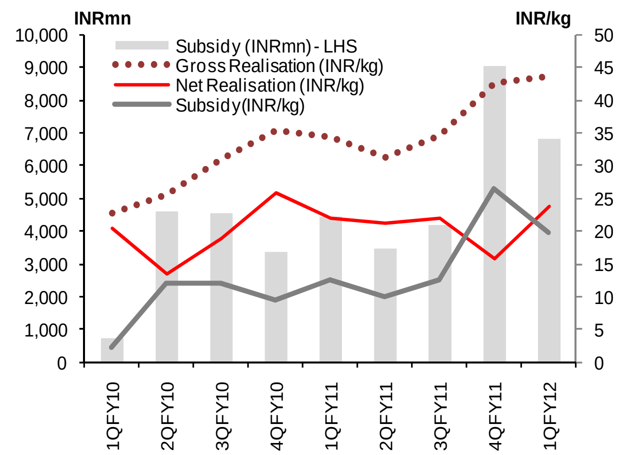
Fig. 10: Subsidy-sharing mechanism for GAIL

Reported Profit INRbn	FY07	FY08	FY09	FY10	FY11	Avg (FY07-09)	Avg (FY08-10)	Avg (FY09-11)
Upstream companies	172	185	184	194	218	180	187	198
GAIL	24	26	28	31	36	26	28	32
	196	**211**	**212**	**225**	**254**	**206**	**216**	**230**

Ratio for sharing of cooking fuel losses		FY10	FY11	FY12
Upstream companies		87.4%	86.8%	86.3%
GAIL		12.6%	13.2%	13.7%
		FY10	**FY11**	**1QFY12**
GAIL's share	A	12.6%	13.2%	13.7%
Under-recoveries				
Auto fuels	B	144	366	286
Cooking fuels	C	316	416	149
Total	**D=B+C**	**461**	**782**	**435**
Upstream share %	E	33.3%	38.7%	33.3%
Upstream share	F=C*E	105	161	50
GAIL's share	G=A*F	13.3	21.1	6.8

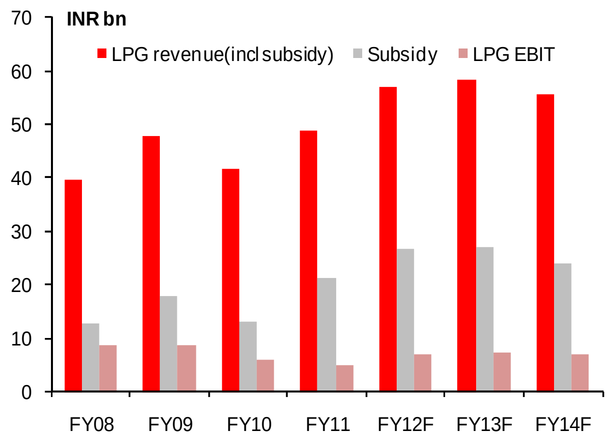
Source: PPAC, Company data, Nomura estimates

Fig. 11: Despite the volatile subsidy burden, GAIL's net LPG realisation (ex subsidy) remains resilient



Source: Company data, Nomura estimates

Fig. 12: Higher LPG prices offset incremental subsidy burden and LPG EBIT remains largely un-impacted



Source: Company data, Nomura estimates

Earnings revision

We reduce our FY12/13F EPS estimate by 6-9%. Key changes in assumptions are:

- Lower gas transmission volume at 120/125mmscmd in FY12/13F (130/140mmscmd earlier).
- Marginally adjust average transmission tariff due to lower volumes.
- Raise marketing margins on RLNG in line with recent quarterly trends.
- Fine-tune our assumptions for petchem volumes/realisation, LPG prices and subsidy burden, and other income.

Fig. 13: Key changes in our assumptions

	FY10	FY11	FY12F		FY13F		FY14F
Gas Transmission			New	Old	New	Old	
Volume (mmscmd)	107	118	120	130	125	140	135
Avg Tariff (INR/mscm)	813	880	900	920	933	953	986
Petrochemicals							
Polymers production (KT)	417	416	450	475	460	480	470
Avg. realisation (INR/kg)	71	70	70	72	74	77	74
LPG & Other liquid HC							
LPG sales (KT)	1,101	1,073	1,079	1,157	1,100	1,180	1,122
Other HC sales (KT)	343	300	315	320	323	328	331
LPG prices (US$/MT)	610	784	932	905	944	899	883
Subsidy (INR mn)	13,267	21,112	26,610	25,207	27,100	23,317	24,040

Source: Company data, Nomura estimates

Fig. 14: EBIT break-down by segment

Gas business contributing ~2/3rd of EBIT

	FY09	FY10	FY11	FY12F	FY13F	FY14F
EBIT Break-down (INR bn)						
Transmission & Trading	21.7	28.9	36.6	41.7	43.4	47.8
Petrochemicals	12.1	13.3	11.9	12.2	13.9	13.8
LPG & Liquid HC	8.6	6.1	4.9	7.1	7.3	7.0
EBIT Break-down (%)						
Transmission & Trading	51%	60%	69%	68%	67%	70%
Petrochemicals	29%	28%	22%	20%	22%	20%
LPG & Liquid HC	20%	13%	9%	12%	11%	10%

Source: Company data, Nomura estimates

Fig. 15: EPS sensitivity to key variables

	FY12F		FY13F	
Base case EPS (INR/share)	32.8		35.4	
EPS Change	**INR/Share**	**%**	**INR/Share**	**%**
Gas transmission volume				
Base volumes (mmscmd)	120		125	
+10 mmscmd	1.2	3.7%	1.3	3.6%
Gas transmission tariffs				
Base avg tariff (Rs/'000 SCM)	900		933	
5% higher tariff	1.1	3.2%	1.1	3.2%
Polymer prices				
Base case ($/MT)	1600		1700	
10% higher prices	1.7	5.2%	1.8	5.1%
Subsidy burden				
Base (INRbn)	26.6		27.1	
10% higher subsidy	-1.4	-4.3%	-1.5	-4.1%

Source: Nomura estimates

Risk-reward favourable; re-iterate BUY

We believe that near-term gas volume concerns are known and factored in, and we think that GAIL's share-price correction of 12% over the past month (and 21% since its peak in January 2011) is excessive.

Compared with multiples of 7-13x 2012F EV/EBITDA for regional gas and utilities stocks, and multiples of 11.6x FY13F EV/EBITDA for Indian PSU power utilities, GAIL currently trades at a multiple of 8x FY13F EV/EBITDA.

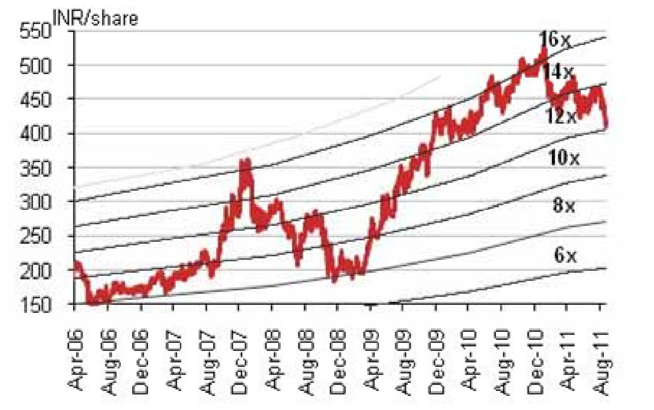
Our revised TP of INR565 (earlier INR600) implies 37% upside potential. Reiterate BUY.

Fig. 16: SOTP valuation for GAIL

	(INRbn)	(US$bn)	INR / Share	INR /Share (Old)	Comments
Gas transmission	499	11.4	393	411	10x FY13F EBITDA
Petrochemicals	110	2.5	87	100	7x FY13F EBITDA
LPG & liquid HC	50	1.1	39	49	6x FY13F EBITDA
E&P upside	18	0.4	14	15	
Investments	62	1.4	49	46	
Enterprise value	**738**	**16.9**	**582**	621	
Less: net debt	19	0.4	15	18	FY12F
Equity value	**719**	**16.4**	**567**	603	
Price target			**565**	600	

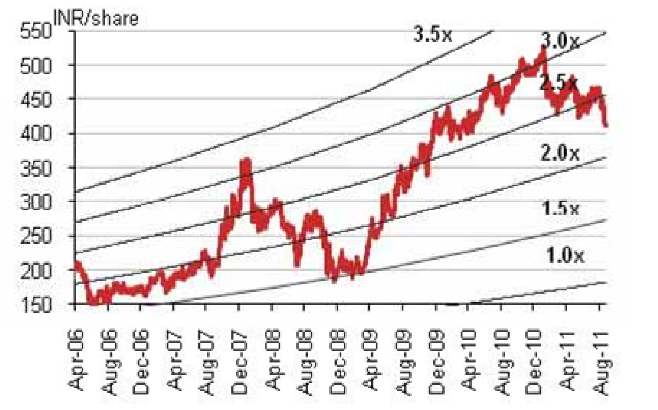
Source: Nomura estimates

Fig. 17: 1-yr fwd P/E multiple



Source: Bloomberg, Nomura estimates

Fig. 18: 1-yr fwd P/B multiple



Source: Bloomberg, Nomura estimates

Fig. 19: Comparative valuation matrix of Indian and Regional gas and power utilities

Company	Ticker	Rating	Price (LC)	M Cap (US$bn)	P/E 2010	P/E 2011F	P/E 2012F	EV/EBITDA 2010	EV/EBITDA 2011F	EV/EBITDA 2012F
India Power Utilities										
NTPC	NTPC IN	BUY	171.4	31.0	20.6	19.2	17.4	15.1	14.3	12.5
Power Grid	PWGR IN	BUY	101.2	10.3	19.9	17.4	15.6	13.3	12.3	10.7
Average					20.3	18.3	16.5	14.2	13.3	11.6
China Gas Utilities										
ENN Energy	2688 HK	BUY	24.6	4.0	22.4	16.2	12.0	10.1	6.9	5.6
Towngas China	1083 HK	Neutral	4.2	1.3	21.0	18.9	15.0	14.3	11.1	9.3
China Resources Gas	1193 HK	BUY	11.0	2.6	21.6	18.0	15.7	11.6	7.5	6.3
China Gas	384 HK	Neutral	2.5	1.4	12.2	20.6	12.4	12.4	7.0	5.2
Beijing Enterprises	392 HK	BUY	35.9	5.2	16.2	14.3	12.2	6.9	6.5	6.0
Average					18.7	17.6	13.4	11.1	7.8	6.5
HK Utilities										
Power Assets Holdings Ltd	6 HK	BUY	61.4	16.8	17.9	15.3	14.8	15.8	13.2	12.6
CLP Holdings	2 HK	Neutral	70.7	21.8	16.9	17.6	16.4	11.1	10.2	9.6
Hong Kong & China Gas	3 HK	Reduce	17.9	18.2	26.6	24.3	22.5	17.5	16.5	15.4
CKI	1038 HK	Neutral	47.1	14.1	21.0	14.2	13.6	21.7	14.8	14.4
Average					20.6	17.9	16.8	16.5	13.7	13.0

Note - Prices as of 23th August

Source: Bloomberg, Nomura estimates

Appendix A-1

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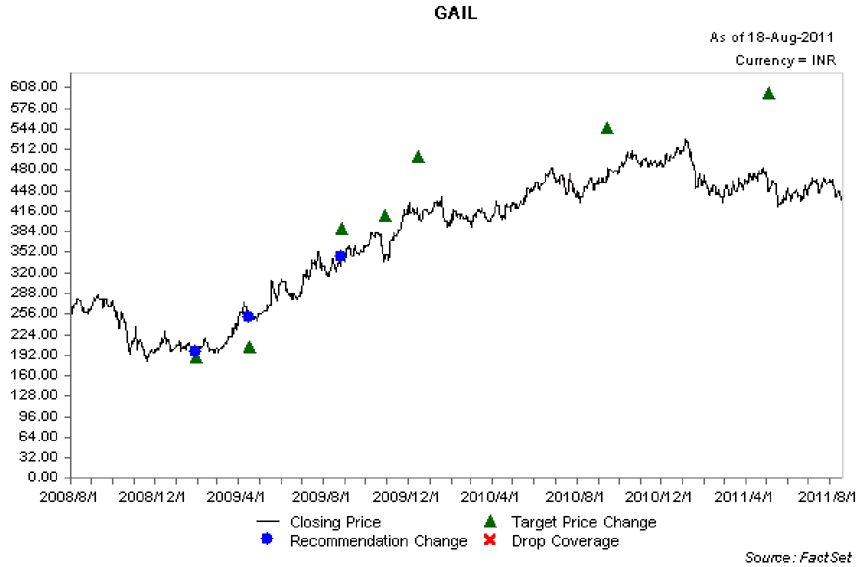
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
GAIL	GAIL IN	INR 412	24-Aug-2011	Buy	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
GAIL	Reduce	27-Aug-2009

GAIL (GAIL IN) **INR 412 (24-Aug-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
05-May-2011		600.00	449.95
15-Sep-2010		545.00	483.30
16-Dec-2009		500.00	409.30
29-Oct-2009		410.00	343.05
27-Aug-2009		390.00	343.15
27-Aug-2009	Buy		343.15
16-Apr-2009		205.00	249.35
16-Apr-2009	Reduce		249.35
29-Jan-2009		190.00	196.80
29-Jan-2009	Neutral		196.80

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We have used sum-of-the-parts as our primary tool to value GAIL's diversified business. We have valued its gas transmission business (including gas trading) at 10x its FY13F EBITDA. We have assigned a multiple of 7x FY13F EBITDA for petrochemical and 6x FY12F estimated EBITDA for the LPG business. We also value E&P upside at a conservative INR14/share. Our target price is INR565.

Risks that may impede the achievement of the target price Key downside risks: lower transmission volume growth, a sharp cut in overall tariffs by the regulator (we do not assume any cut), a sharper decline in polymer prices and higher subsidy burden than our assumption.

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