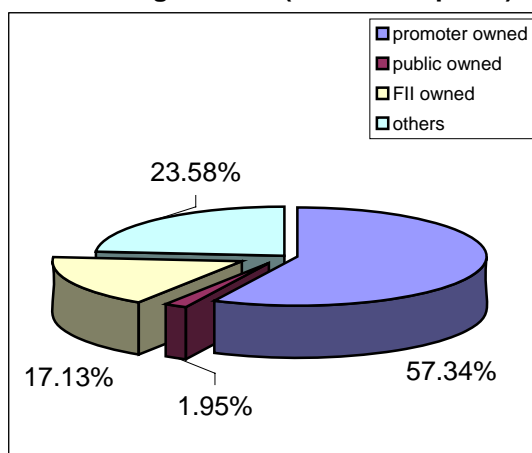


GAIL (India) Ltd.

January 15, 2008

Stock statistics	15 January 2008
Market Cap (Rs Mn)	: 428745.05
52-Week high/low (Rs)	: 555/254
Face value	: 10
BSE Code	: 532155
NSE Code	: GAIL
Industry	: NATURAL GAS
Shares outstanding	: 845,651,600
Avg. daily vol. (30 days)	: 245.5

Shareholding Pattern (as on 30 sept.'07)



Key Statistics (as on 15 January 2008)

CMP	: 507
BV (FY'07)	: 134.72
PE	: 16.46
PB	: 3.76
Beta	: 1.18
Turnover (Rs Mn)	: 144.23
Net worth (Rs Mn)	: 113929.10

BUSINESS BACKGROUND

GAIL India (GAIL), formerly Gas Authority of India, was established in 1984 by the Government of India to create gas sector infrastructure for sustained development of the gas market in the country. The company has expanded into gas processing, petrochemicals, liquefied petroleum gas transmission and telecommunications. It has also extended its presence in power, liquefied natural gas re-gasification, city gas distribution and exploration and production through equity and joint ventures participation. The company has formed a wholly owned overseas subsidiary company GAIL Global (Singapore) with the objective of actively sourcing overseas business. It has stake in China Gas Holding to explore opportunities in the CNG sector in mainland China. It has established presence in the CNG and city gas sectors in Egypt through equity participation in three Egyptian companies, Fayum Gas Company SAE, Shell CNG SAE and National Gas Company SAE. The company has 30 oil and gas exploration blocks and three coal bed methane blocks.

INVESTMENT RATIONALE

- The company is all set to put up an Rs 24 billion surface coal gasification projects for the production of synthesis gas. GAIL has entered into a MoU with Coal India Ltd (CIL) for the same, according to which the gas produced shall be used for the production of fertilizers. The company plans to produce 7.76 MMSCMD of synthesis gas by consuming about 5000 tonnes of coal. This would support production of 3500 tons of urea per day.
- The company has entered into a Memorandum of Understanding (MoU) with Rashtriya Chemicals and Fertilizers (RCF) for a coal gasification project. GAIL will undertake the techno-economic study for setting up a commercial coal gasification plant for production of Synthesis Gas, and RCF will carry out the techno-economic study for setting up a commercial plant to produce fertilizer by utilizing the synthesis gas from the proposed coal gasification plant.
- GAIL is also planning to participate in overseas E&P bidding round and farm in opportunities in Asia Pacific, Middle East, CIS and Africa. The company plans to establish petrochemical business in Iran, Saudi Arab, Egypt and Uzbekistan and have city gas ventures in Libya, Uzbekistan, Indonesia, and Syria. It is also planning to invest Rs 180 million in augmentation and creation of new infrastructure.
- The company is all set to lay a pipeline from Dhabol to Bangalore, covering a distance of about 780 kms at an estimated cost of Rs 12 billion. The company is also planning to lay pipelines covering 6000 kms with an estimated cost of Rs 200 billion. The proposed plan shall be extremely helpful to the company to exploit the present demand supply gap in the natural gas sector.

FINANCIAL STATEMENT ANALYSIS

Rs. mn

Particulars	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Revenues	37069.90	43783.70	38834.10	42456.80	45289.00
Growth (%)	--	18.11	(11.30)	9.33	6.67
Total Expenditure	37691.90	42420.90	32809.90	32069.70	36505.90
Operating Profit	(622.00)	1362.80	6024.20	10387.10	8783.10
Growth (%)	--	(319.10)	342.05	72.42	(15.44)
OPM	(1.68)	3.11	15.51	24.47	19.39
Other Income	8186.80	9124.80	1128.90	912.70	1806.00
EBITDA	7564.80	10487.60	7153.10	11299.80	10589.10
Interest	291.20	270.50	221.10	204.00	200.90
Depreciation	1435.70	1438.70	1471.30	1407.00	1491.60
PBT	5837.90	8778.40	5460.70	9688.80	8896.60
Tax	1353.90	2123.80	1346.60	2836.60	3171.20
Adjusted PAT	4484.00	6654.60	6807.30	6852.20	5725.40
Growth (%)	--	48.41	2.29	0.66	(16.44)
Adjusted NPM	12.10	15.20	17.53	16.14	12.64
Reported PAT	4484.00	6654.60	6807.30	6852.20	5725.40
EPS	5.30	7.87	8.05	8.10	6.77
Equity Capital	8456.50	8456.50	8456.50	8456.50	8456.50

The company has posted good results for the quarter- ended Sep 07. The net revenues for the quarter ended Sep 07 stood at Rs 45289 million against previously posted sales of Rs 37069.90 million in the corresponding period last year. Net sales have posted a growth of 6.67% on QoQ basis whereas the growth on YoY basis remained fuelled up at 22.17%. The operating profit of the company stood at 8783.10 million in Q2FY08 against negative operating profits posted in Q2FY07, showing a tremendous growth. The operating profit margins seem to be under pressure on QoQ basis, but the picture remains quite buoyant on YoY basis with the OPM standing at 19.39% for the quarter ended Sep 07. EBITDA for the quarter ended Sep 07 stood at Rs 10589.10 million versus Rs 7564.80 million posted in the quarter ended Sep 06, showing a whopping growth of 40%. The EBITDA margins for the quarter ended Sep 07 stand at 23.28% much higher than 20.41% posted in the corresponding quarter in the previous year. The bottom line of the company has remained subdued when compared with the previous quarter. The net profit for Q2FY08 stood at 5725.40 million against Rs 4484 million in the corresponding period in the previous year. The net profit margins of the company have shown a marginal increase on YoY basis with the NPM hovering at 12.64% for the quarter ended Sep 07. The earning per share stood at 30.79 (on TTM basis).

VALUATION

GAIL (India) Ltd. has posted good results for the quarter-ended Sep 07. The company is expected to carry on its good work in the future also, especially with the ongoing plans of setting up of synthesis gas projects in joint venture with RCF and CIL are expected to enhance the production to a large extent. The company has also announced implementation of integrity pact in all its major procurements, which shall enhance the level of transparency in the contracts and procurements. This would serve as an excellent corporate governance measure. Another project, which adds another feather in the cap of the company, is the proposed pipeline from Dhabol to Bangalore. The company has a vastly diversified operational range, which also comes up as a viable strength.

The stock is currently trading at Rs 507, which is at about 16.46 times to its earnings and 3.76 times to its book value. The burgeoning Indian economy and the existing demand supply gap in the natural gas sector offers immense opportunities for the company. Therefore, keeping in mind the bright future prospects of the company, we initiate a BUY signal on the stock with a target price of Rs 675, providing a 33% appreciation in medium to long-term investment horizon.

E-Mail : research@hemonline.com

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