Indiabulls

GAIL (India) Limited
RESEARCH

EQUITY RESEARCH | April 07, 2008

RESULTS REVIEW

Share Data

Market Cap	Rs. 363.33 bn
Price	Rs. 429.65
BSE Sensex	15,757.08
Reuters	GAIL.BO
Bloomberg	GAIL IN
Avg. Volume (52 Week)	0.32 mn
52-Week High/Low	Rs. 555/272.10
Shares Outstanding	845.65 mn

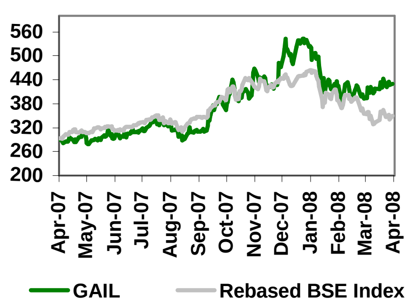
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	29.3	33.6
+/- (%)	(2.8%)	14.8%
PER (x)	14.7x	12.8x
EV/ Sales (x)	2.0x	1.7x
EV/ EBITDA (x)	9.8x	8.3x

Shareholding Pattern (%)

Promoters	57
FIIs	16
Institutions	20
Public & Others	7

Relative Performance



GAIL (India) Limited — Hold

Focusing on pipeline expansion

GAIL (India) Ltd.'s net sales for Q3'08 decreased 1.8% yoy, led by reduced sales volumes across all the business segments. EBITDA margin improved 56 bps to 20.3% on the back of lower raw material costs and reduction in other expenditure. Net profit margin dipped 74 bps yoy to 14.5% led by a higher effective tax rate.

The outlook of GAIL looks positive because of the following factors:

Increasing demand: The demand for gas and petrochemicals is expected to increase in the near future. GAIL, the market leader, is well placed to take advantage of the growing demand.

Rapid pipeline expansion: GAIL plans to enhance its current pipeline network by more than 12,000 kms by 2012. Further, in order to ensure an increased supply of gas to feed its rising requirements, the Company has entered into an agreement with Reliance Gas Transportation Infrastructure Ltd to transmit gas from the KG basin. Moreover, GAIL recently signed a contract to sell gas from the Panna Mukta Tapti fields.

City Gas distribution: GAIL is focused on expanding its city gas distribution project and plans to set up a subsidiary for the same.

In addition, GAIL's petrochemicals business is expected to improve as the expanded capacities at the Pata plant will become operational in Q4'08E. However, the transmission business will remain under pressure until 2009 as most of the pipeline projects are not expected to complete before 2009. In addition, higher subsidies on LPG will put pressure on the Company's profitability. At the current price, the stock trades at a forward P/E of 14.7x for FY08E and 12.8x for FY09E. Based on our valuation and analysis, we believe that the stock is fairly priced at the CMP. Hence, we reiterate Hold.

Key Figures (Standalone)

Quarterly Data	Q3'07	Q2'08	Q3'08	YoY%	QoQ%	9M'07	9M'08	YoY%
(Figures in Rs mn, except per share data)								
Net Sales	43,784	45,289	42,983	(1.8%)	(5.1%)	121,638	130,729	7.5%
EBITDA	8,641	8,783	8,723	0.9%	(0.7%)	23,949	27,893	16.5%
Adj. Net Profit	6,655	5,725	6,213	(6.6%)	8.5%	17,059	18,791	10.1%
Margins(%)								
EBITDA	*19.7%*	*19.4%*	*20.3%*			*19.7%*	*21.3%*	
NPM	*15.2%*	*12.6%*	*14.5%*			*14.0%*	*14.4%*	
Per Share Data (Rs.)								
Normalised EPS	7.9	6.8	7.3	(6.6%)	8.5%	20.2	22.2	10.1%

Result Highlights

For the quarter ended Dec'07, net sales decreased 1.8% yoy to Rs. 43 bn, led by a decline across all the business segments. During the quarter, the Company's physical performance turned negative across all the segments except the transmission of natural gas, which increased 6.2% yoy to 85.33 MMSCMD.

Physical Perfomance	Units	Q3'07	Q3'08	Inc/(Dec)%
Transmission				
Natural Gas	MMSCMD	80.36	85.33	6.2%
LPG	000 MT	728	710	(2.5%)
Production				
Petrochemicals	000 MT	94	77	(18.1%)
LPG	000 MT	269	237	(11.9%)
Other Liquid Hydro Carbons	000 MT	80	70	(12.5%)
Sales				
Natural Gas	MMSCMD	69.69	69.08	(0.9%)
Petrochemicals	000 MT	97	81	(16.5%)
LPG	000 MT	269	237	(11.9%)
Other Liquid Hydro Carbons	000 MT	80	72	(10.0%)

Decline in sales of all segments puts top line under pressure

Despite an increase in volumes of natural gas transmission, net sales from the segment declined 6.1% yoy as a result of a lower average tariff. During the quarter, LPG transmission volumes declined 2.5% yoy, however, net sales from LPG transmission remained flat at Rs. 996 mn.

Segment Revenue (in Rs. mn)	Q3'07	Q3'08	Inc/(Dec)%
A. Transmission services			
I) Natural Gas	6,413	6,022	(6.1%)
II) LPG	994	996	0.2%
B. Natural Gas Trading	31,494	31,120	(1.2%)
C. Petrochemicals	6,239	5,378	(13.8%)
D. LPG & Liquified Hydrocarbons	5,938	5,278	(11.1%)
E. GAILTEL	71	70	(0.6%)
F. Unallocated	1,760	1,571	(10.7%)
Total	52,909	50,435	
Less: Inter segment sales	(7,279)	(5,604)	
Gross sales	**45,630**	**44,832**	**(1.7%)**

Net sales of the Petrochemicals and LPG & Liquefied Hydrocarbons segments fell 13.8% and 11.1% yoy, respectively. The decline in

Petrochemicals segment was a result of lower sales volumes (down 16.5% yoy to 81,000 MT) because of a decrease in production (down 18.1% yoy to 77,000 MT) as a result of a plant shutdown. Whereas, the decrease in LPG & Liquefied Hydrocarbons segment was led by lower production of the products. The Company's LPG business was also hit by the subsidies provided to the oil marketing companies (OMCs), which rose to Rs. 3.7 bn as against Rs. 3.2 bn in Q3'07.

Other expenditures declined on account of reduced dry well expenditures in the E&P business

EBITDA increased marginally by 0.9% yoy to Rs. 8.7 bn and EBITDA margin went up 56 bps yoy to 20.3%. EBITDA margin improved due to lower raw material costs and a decline in other expenditure. However, the improvement in EBITDA margin was contained by a higher purchase cost of traded goods and increase in staff costs. The reduction in other expenditure was led by lower dry well expenditures in the Exploration and Production (E&P) business. EBIT of the Natural Gas Trading and Petrochemicals segments declined 28.6% and 17.5% yoy, respectively. However, EBIT of LPG & Liquefied Hydrocarbons rose to Rs. 1,252 mn as against Rs. 905 mn in Q3'07, as a tight control on costs helped the Company to offset the high subsidy burden.

Segment Results (EBIT)	Q3'07	Q3'08	Inc/(Dec)%
A. Transmission services			
I) Natural Gas	4,548	4,141	(8.9%)
II) LPG	603	565	(6.3%)
B. Natural Gas Trading	563	402	(28.6%)
C. Petrochemicals	2,775	2,288	(17.5%)
D. LPG & Liquified Hydrocarbons	905	1,252	NM
E. GAILTEL	1	8	NM
Total EBIT	**9,394**	**8,656**	**(7.8%)**
Less: Interest	(271)	(196)	
Less: other unallocable expenses net off unallocable income	(345)	528	
PBT	**8,778**	**8,988**	**2.4%**

A higher effective tax rate compressed the bottom line

During the quarter, adj. net profit decreased 6.6% yoy to Rs. 6.2 bn and net profit margin fell 74 bps to 14.5%. The decline in net profit margin was a result of a higher effective tax rate of 30.9% on profit before tax as against 24.2% in the corresponding period last year.

Key Events

- The Company entered into an MoU with Coal India to set up a Rs. 24 bn surface coal gasification project for producing synthesis gas for fertilizer production.
- The BoD of the Company approved the proposed 730 km Dabhol-Bangalore gas pipeline. This pipeline will be designed to carry 16 MMSCD of gas and will involve an outlay of Rs. 25 bn. GAIL is also planning to extend its planned Dabhol-Bangalore gas pipeline to Goa. The Company is planning to spend around Rs. 200 bn to lay eight new pipelines with a total length of around 5,500 km. All these pipelines are expected to be commissioned by 2011-12. Then, the total length of GAIL's pipelines will be over 12,000 km with a capacity of around 300 MMSCMD (up from the current capacity of 148 MMSCMD).
- GAIL is planning to acquire Asian Development Bank(ADB)'s 5.2% stake in India's biggest liquefied natural gas importer Petronet LNG. ADB is likely to offload its stake in Petronet by 2008 end. GAIL currently holds 12.5% stake in the Company and will need to shell out Rs. 15 bn to acquire the additional 5.2% stake.
- The Company is planning to set up petrochemicals projects in Qatar and Russia in association with Reliance Industries Limited.

Key Risks

- Any further increase in subsidy sharing can negatively affect the Company's profitability.
- Delay in project execution can adversely affect ONGC's profitability.
- 100% FDI has been allowed in the pipeline laying business. This is likely to increase competition in the industry and thus negatively affect our estimates.

Outlook

GAIL has signed a contract to market all the PMT gas

The demand for gas and petrochemicals is expected to increase in the near future. GAIL, the market leader, is well poised to take advantage of the growing demand. The Company is aggressively expanding its pipeline network and plans to reach the 12,000 km mark by 2012. In order to ensure an increased supply of natural gas to feed its growing requirements, GAIL has signed an agreement with Reliance Gas Transportation Infrastructure Ltd to transmit gas from the KG basin. Recently GAIL has also signed contracts with the operators of the Panna Mukta Tapti fields to market the entire volume of natural gas from these fields. According to the Company, marketing 17.3 MCMD of gas from the PMT field will increase its marketing margin by Rs. 1 bn p.a., while transportation revenues are expected to go up by Rs. 4.5 bn p.a. GAIL also plans to use 2.8 MCMD of the gas from the PMT fields to extract LPG.

The Company is focusing on city gas distribution projects

The Company's petrochemicals business is also expected to perform well in Q4'08E when production commences from the expanded capacities at the Pata plant. In addition to pipeline expansion, the Company is focusing on the vertical spread in the gas value chain and planning to enter city gas distribution. The integrated gas pipeline network will also enable the development of city gas distribution projects in the country by catering to a large number of cities and towns falling in the catchment area of the existing and future pipeline networks. GAIL should enjoy a distinct edge over other players in this area. City gas distribution has become a major focus area for the Company—it plans to set up a subsidiary company for the same with an initial investment of Rs. 5 bn.

However, the transmission business will remain under pressure until 2009 as most of the pipeline projects are not expected to complete before 2009. In addition, higher subsidies on LPG will put pressure on the Company's profitability.

At the current price, the stock trades at a forward P/E of 14.7x for FY08E and 12.8x for FY09E. Based on our valuation and analysis, we believe that the stock is fairly priced at the CMP. Hence, we reiterate Hold.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)
Net Sales	127,030	148,788	165,423	182,793	215,969	14.3%
EBITDA	25,796	37,221	32,531	37,838	44,922	17.5%
Adj. Net Profit	20,389	24,391	25,453	24,739	28,390	5.6%
Margins(%)						
EBITDA	*20.3%*	*25.0%*	*19.7%*	*20.7%*	*20.8%*	
NPM	*16.1%*	*16.4%*	*15.4%*	*13.5%*	*13.1%*	
Per Share Data (Rs.)						
Normalised EPS	24.1	28.8	30.1	29.3	33.6	5.6%
PER (x)	8.8x	11.0x	8.8x	14.7x	12.8x	

Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.