

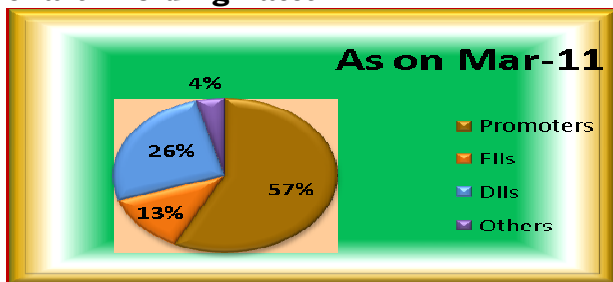
C.M.P: Rs.475.00
Target Price: Rs.542.00
Date: 7th April 2011

BUY

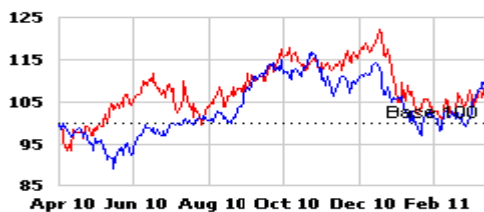
Stock Data:

Sector:	Oil & Gas
Face Value Rs.	Rs.10.00.
52 wk. High/Low (Rs.)	535.85/401.60
Volume (2 wk. Avg.)	213000
BSE Code	532155
Market Cap (Rs.In mn)	602528.00

Share Holding Pattern



1 Year Comparative Graph



Gail (India) Ltd

BSE SENSEX

SYNOPSIS

- GAIL (India) Limited, is India's flagship Natural Gas company, integrating all aspects of the Natural Gas value chain (including Exploration & Production, Processing, Transmission, Distribution and Marketing) and its related services. GAIL is one of the leading public enterprises with a consistently excellent financial track record.
- GAIL Gas Limited and Vadodara Mahanagar Sewa Sadan set up Joint Venture for City Gas Distribution.
- GAIL (India) Ltd has been ranked no.1 Company among gas utilities in Asia in the Platts Global Ranking of Energy Companies.
- GAIL India has placed orders worth Rs 677 crore for laying gas pipeline from Maharashtra to Bangalore for the 1400-km Dabhol-Bangalore Pipeline project. The work will commence by November 2010 and the pipelines are expected to be ready by March 2012.
- Net Sales and PAT of the company are expected to grow at a CAGR of 16% and 16% over 2009 to 2012E respectively.

Years	Net sales	EBITDA	Net Profit	EPS	P/E
FY 10	251032.50	52102.90	31398.40	24.75	19.19
FY 11E	325142.27	62530.06	37842.73	29.83	15.92
FY 12E	373913.61	71511.74	43322.57	34.15	13.91

Peer Group Comparison

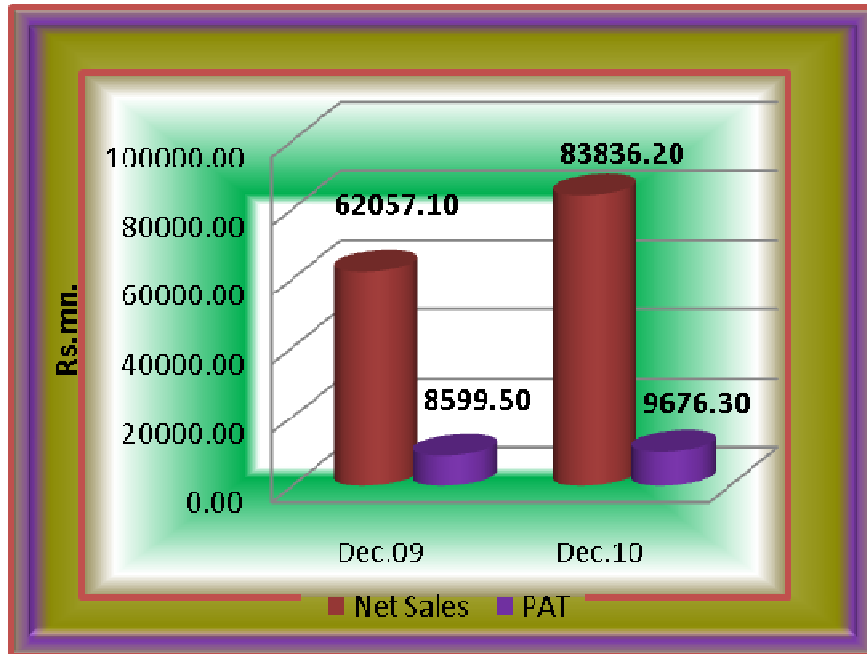
Name of the company	CMP(Rs.)	Market Cap.(Rs.Mn.)	EPS(Rs.)	P/E(x)	P/Bv(x)	Dividend (%)
Gail India	475.00	602528.00	24.75	19.19	3.59	75.00
Petronet Lng	127.10	95325.00	6.81	18.66	4.27	17.50
Gujarat Gas	384.85	49357.00	20.17	19.08	4.95	400.00
Indraprastha Gas	317.40	44436.1	17.29	18.36	5.38	45.00

Investment Highlights

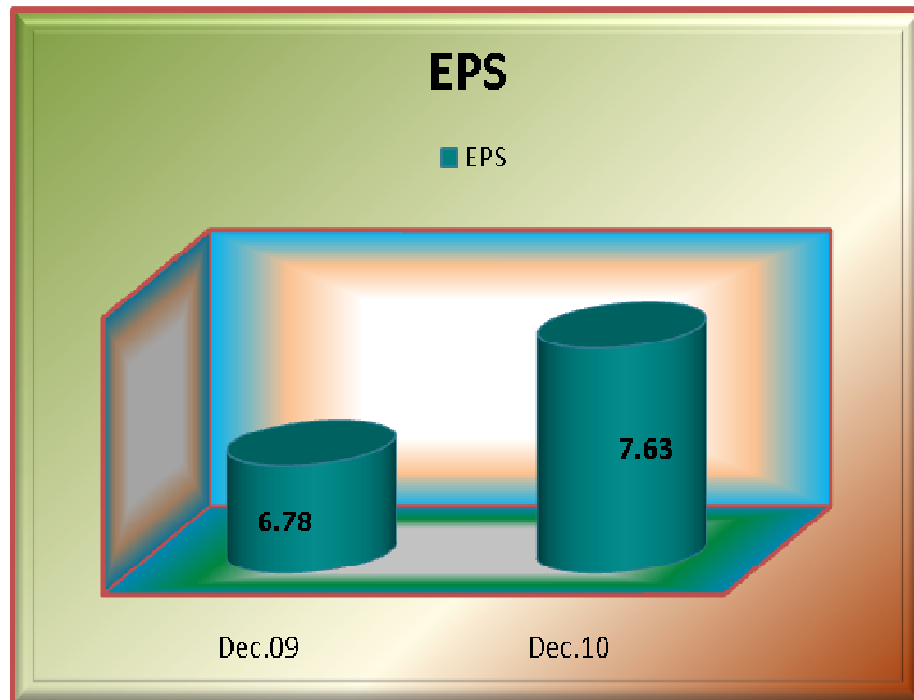
➔ Q3 FY11 Results Update

Gail (India) Ltd disclosed results for the quarter ended December 2010. Net sales for the quarter moved up 35% to Rs.83836.20 million as compared to Rs.62057.10 million during the corresponding quarter last year. During the quarter, the company has reported Net Profit increased to Rs. 9676.30 million from Rs.8599.50 million in previous year same quarter. The Basic EPS of the company stood at Rs.7.63 for the quarter ended December 2010.

Quarterly Results - Standalone (Rs in mn)			
As At	Dec-10	Dec-09	%change
Net sales	83836.20	62057.10	35
PAT	9676.30	8599.50	13
Basic EPS	7.63	6.78	13

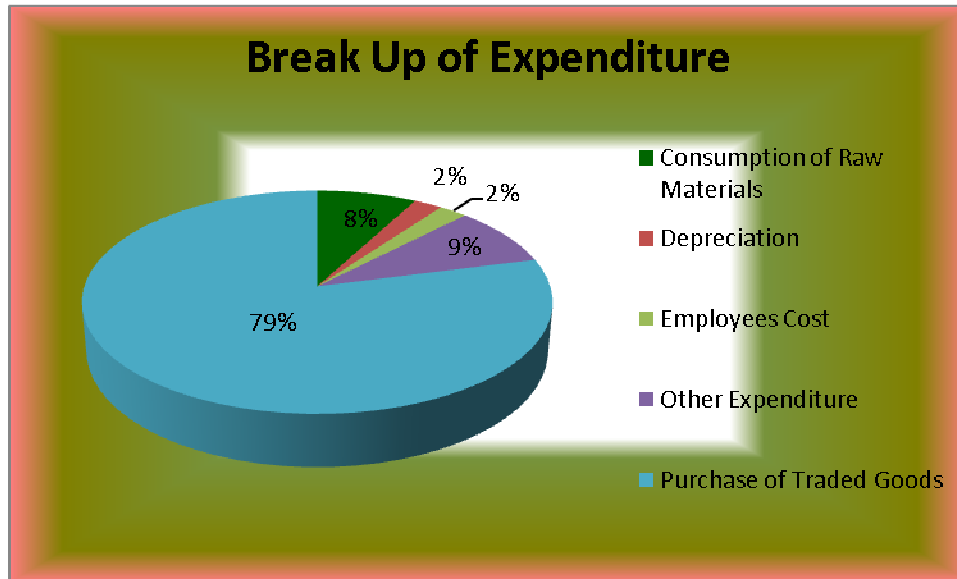


Basic EPS of the company stood at Rs. 7.63

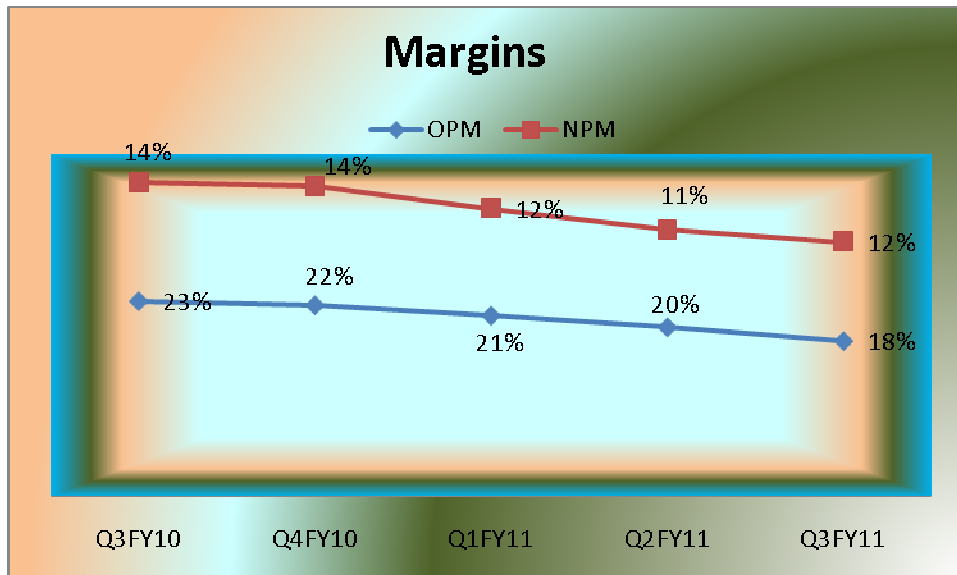


➤ Break up of Expenditure

Expenditure for the quarter stood at Rs.70505.20mn, which is around 43% higher than the corresponding period of the previous year. Purchase of Traded Goods Cost of the company for the quarter accounts for 68% of the sales of the company and stood at Rs.56862.80mn from Rs.37127.60mn of the corresponding period of the previous year. Other Expenditure cost increased 54%YoY to Rs.6212.00mn from Rs.4045.10mn and accounts for 7% of the revenue of the company for the quarter.



OPM and NPM for the quarter stood at 18% and 12% respectively from 23% and 14% respectively of the same period of the last year.



➤ **Set up Joint Venture for City Gas Distribution**

The Joint Venture Company will have an authorized share capital of Rs 100 Crore. GAIL, through its wholly owned subsidiary, GAIL Gas limited will hold 26 per cent equity in the new Company while VMSS will have 24 per cent. The balance 50 percent equity will be held by financial institutions and strategic partners.

Presently, GGAIL has six CNG stations in Vadodara and supplies more than 30000 Kg CNG tp cater to over 4000 vehicles in the city which will be further augmented in a phased manner by the new Joint Venture Company. VMSS has presently laid pipelines to connect about 75000 houses for piped natural gas. Through this joint Venture Company, it is planned to connect another 85000 households in the coming years. The present gas demand of GAIL, GAIL Gas and VMSS of 1.13 MMSCMD is likely to be augmented by another 1.46 MMSCMD in next couple of years.

➤ **Shri R P N Singh launches Asia's First Integrated Gas Management System**

Gail (India) Ltd has informed, Shri R P N Singh launches Asia's First Integrated Gas Management System at GAIL.. Implemented on SAP Platform, at the corporate office of GAIL (India) Limited in New Delhi. This Gas Management System is the third of its kind in the World after Petrobras in Brazil and Pemex in Mexico.

➤ **GAIL targets for over 118 MMSCMD Gas Transmission in FY 2011-12**

GAIL (India) Limited has set a target of transmitting 118.2 MMSCMD of natural gas from domestic sources and through LNG route during FY 2011-12 under the Annual Memorandum of Understanding signed with Ministry of Petroleum & Natural Gas for performance targets for the financial year 2011-2012

For the FY 2011-12 the Excellence in Performance target for Gas Marketing is 85.5 MMSCMD and for production of 422 TMT of Polymers (HDPE & LLDPE) and 1350 TMT of Liquid Hydrocarbons.

➤ **ONGC ties up GAIL for natural gas, petrochem biz**

State-run Oil and Natural Gas Corporation (ONGC) and GAIL India (GAIL) announced that they had reached a landmark agreement to ensure mutual business growth in the areas of natural gas as well as petrochemicals.

As regards understanding reached for gas business, both companies would work together for exclusive sale of natural gas produced by ONGC from its various fields to GAIL, during next 3 years. This joint initiative will serve as a catalyst for effective monetization of gas from future E&P fields of ONGC, with GAIL providing the infrastructure and marketing tie-up for supply to potential customers.

This integrated effort of ONGC and GAIL shall also increase the availability of firm gas sourcing for infrastructure projects. The two companies also reached an understanding in swapping gas available to both the companies so as to optimise the logistics and costs.

As for OPaL, the agreements initialed today signify GAIL formally agreeing to become a co-promoter of 1.1 MMTPA Ethylene Cracker Petro-chemical complex, under implementation in Dahej SEZ area, at a capital investment of Rs 195.35 billion.

➤ **Board approves Interim Dividend**

Gail (India) Ltd has informed BSE that the Board of Directors of the Company at its meeting held on December 23, 2010, inter alia, have approved payment of interim Dividend @ 20% (Rs. 2/- per equity share) on the paid-up equity share capital of the Company for the Financial Year 2010-11.

Company Profile

GAIL (India) Limited, is India's flagship Natural Gas company, integrating all aspects of the Natural Gas value chain (including Exploration & Production, Processing, Transmission, Distribution and Marketing) and its related services. In a rapidly changing scenario, we are spearheading the move to a new era of clean fuel industrialization, creating a quadrilateral of green energy corridors that connect major consumption centres in India with major gas fields, LNG terminals and other cross border gas sourcing points. GAIL is also expanding its business to become a player in the International Market.

In the last two decades, GAIL has created a sizeable natural gas market in the country and presently has a capacity to transport 157 MMSCMD of Natural Gas through its Transmission Network. Currently, GAIL'S market share in gas transmission in the country is 72% with plans to double up the existing transportation capacity in the next two to three years.

Today, GAIL's Business Portfolio includes:

- 7,700 km of Natural Gas high pressure trunk pipeline with a capacity to carry 157 MMSCMD of natural gas across the country
- 7 LPG Gas Processing Units to produce 1.2 MMTPA of LPG and other liquid hydrocarbons
- North India's only gas based integrated Petrochemical complex at Pata with a capacity of producing 4,10,000 TPA of Ploymers
- 1,922 km of LPG Transmission pipeline network with a capacity to transport 3.8 MMTPA of LPG
- 27 oil and gas Exploration blocks and 3 Coal Bed Methane Blocks
- 13,000 km of OFC network offering highly dependable bandwidth for telecom service providers

- ➔ Joint venture companies in Delhi, Mumbai, Hyderabad, Kanpur, Agra, Lucknow, Bhopal, Agartala and Pune, for supplying Piped Natural Gas (PNG) to households and commercial users, and Compressed Natural Gas (CNG) to the transport sector
- ➔ Participating stake in the Dahej LNG Terminal and the upcoming Kochi LNG Terminal in Kerala
- ➔ GAIL has been entrusted with the responsibility of reviving the LNG terminal at Dabhol as well as sourcing LNG
- ➔ GAIL Gas Limited, a wholly owned subsidiary of GAIL (India) Limited, was incorporated on May 27, 2008 for the smooth implementation of City Gas Distribution (CGD) projects. GAIL Gas Limited is a limited company under the Companies Act, 1956.
- ➔ 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.
- ➔ Stake in China Gas Holding to explore opportunities in the CNG sector in mainland China
- ➔ A wholly-owned subsidiary company GAIL Global (Singapore) Pte Ltd in Singapore..

Financial Results

12 Months Ended Profit & Loss Account (Standalone)

Value(Rs.in million)	FY09A	FY10A	FY11E	FY12E
	12m	12m	12m	12m
Net Sales	239608	251032.5	325142.27	373913.61
Other Income	6117.70	4342.50	5864.34	6450.77
Total Income	245725.70	255375.00	331006.61	380364.38
Expenditure	-197216.4	-203272.1	-268476.55	-308852.64
Operating Profit	48509.3	52102.9	62530.06	71511.74
Interest	-870	-700	-660.03	-669.17
Gross Profit	47639.3	51402.9	61870.03	70842.57
Depreciation	-5599.1	-5618.2	-6484.46	-7132.91
Profit before Tax	42040.2	45784.7	55385.57	63709.66
Tax	-14003.2	-14386.3	-17542.84	-20387.09
Profit after Tax	28037	31398.4	37842.73	43322.57
Equity Capital	12684.8	12684.8	12684.8	12684.8
Reserves	135011.5	155305.2	193147.93	236470.5
Face Value(Rs.)	10.00	10.00	10.00	10.00
EPS	22.1	24.75	29.83	34.15

*A=Actual, *E=Estimated

Quarterly Ended Profit & Loss Account (Standalone)

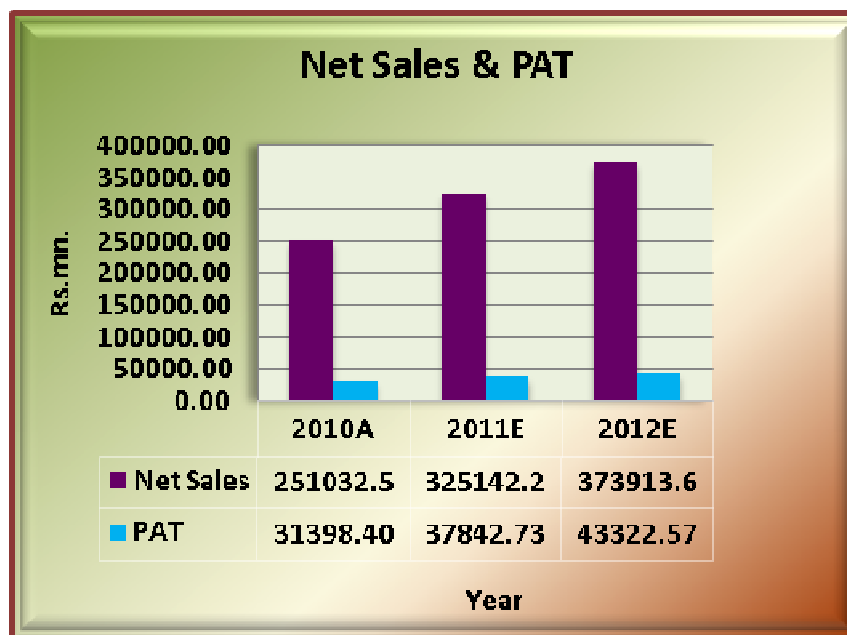
Value(Rs.in million)	30-Jun-10	30-Sep-10	30-Dec-10	31-Mar-11
	3m(A)	3m(A)	3m(A)	3m(E)
Net Sales	71157.5	81282.2	83836.2	88866.37
Other Income	477.5	1498.8	1905.9	1982.14
Total Income	71635	82781	85742.1	90848.51
Expenditure	-56611.6	-66712	-70505.2	-74647.75
Operating Profit	15023.4	16069	15236.9	16200.76
Interest	-205.4	-117.4	-164.5	-172.73
Gross Profit	14818	15951.6	15072.4	16028.03
Depreciation	-1599.6	-1625.9	-1605.4	-1653.56
Profit before Tax	13218.4	14325.7	13467	14374.47
Tax	-4349.6	-5090.2	-3790.7	-4312.34
Profit after Tax	8868.8	9235.5	9676.3	10062.13
Equity Capital	12684.8	12684.8	12684.8	12684.8
Face Value(Rs.)	10.00	10.00	10.00	10.00
EPS	6.99	7.28	7.63	7.93

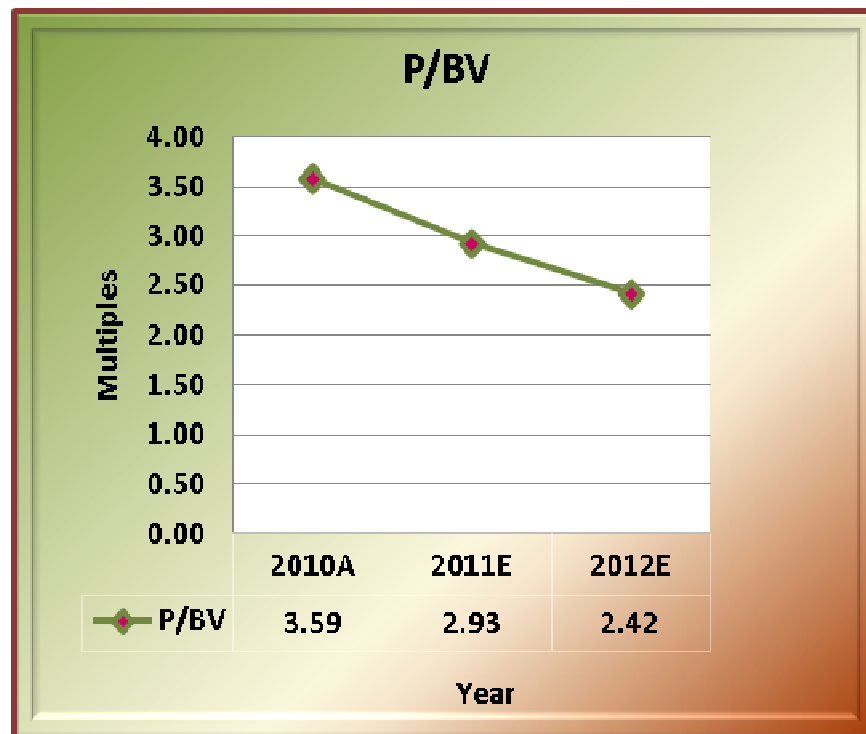
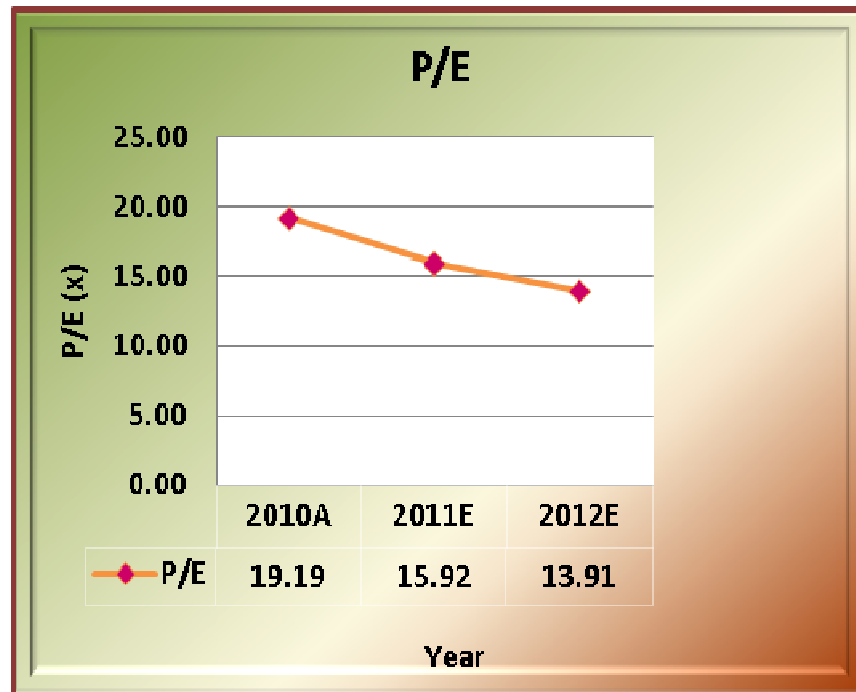
*A=Actual, *E=Estimated

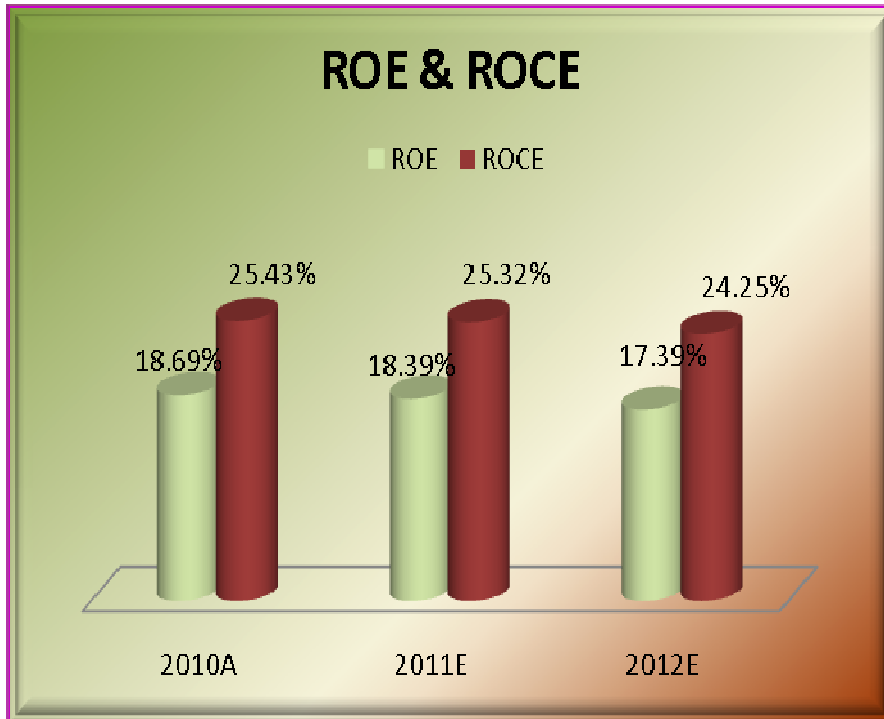
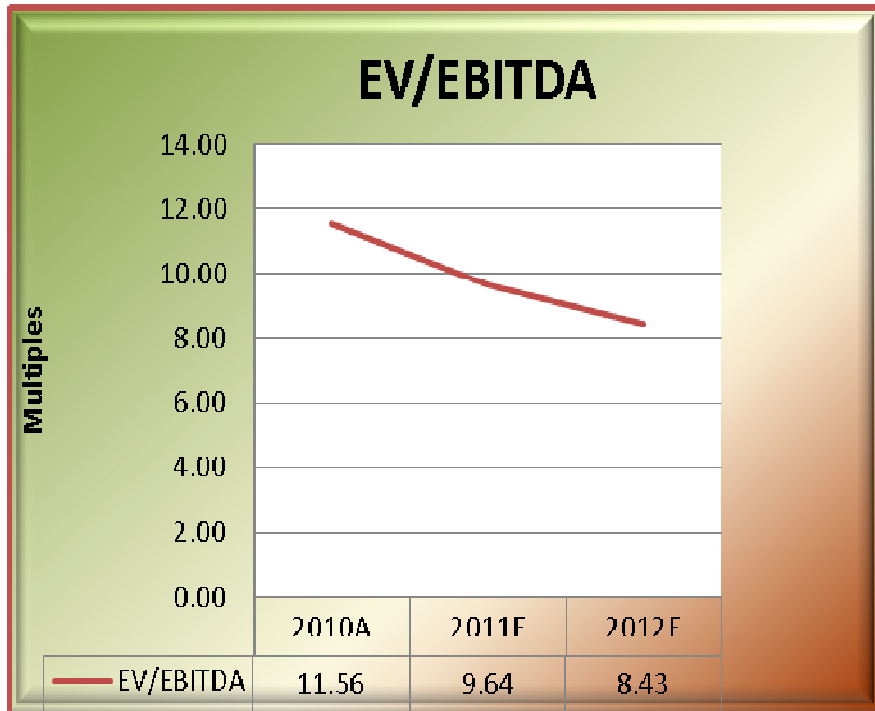
Key Ratio

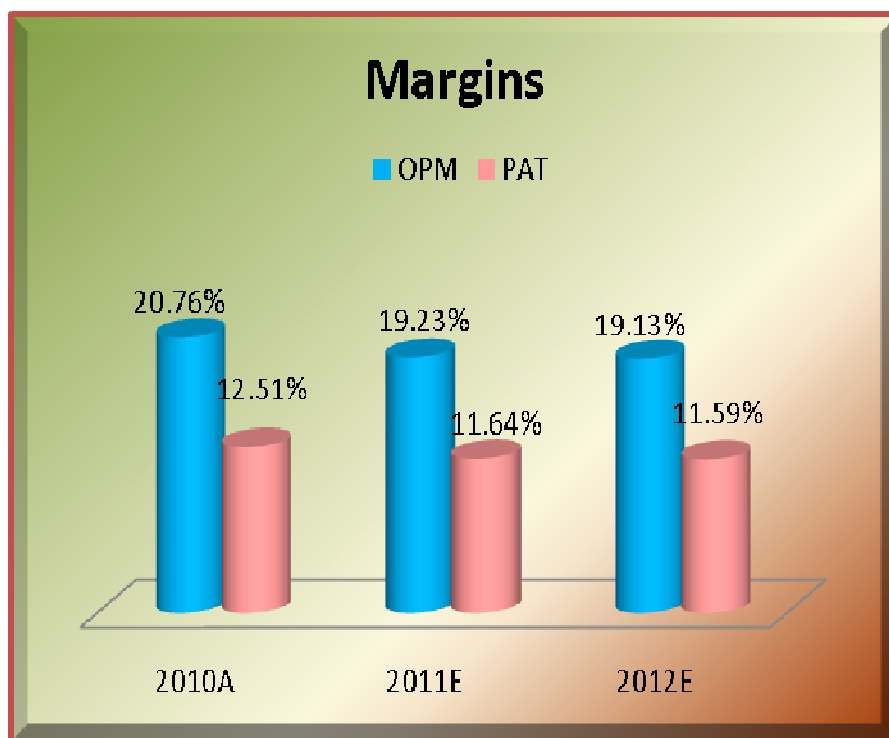
Particulars	FY09	FY10	FY11E	FY12E
EPS (Rs.)	22.1	24.75	29.83	34.15
EBITDA Margin (%)	20.25%	20.76%	19.23%	19.13%
PAT Margin (%)	11.70%	12.51%	11.64%	11.59%
P/E Ratio (x)	19.53	19.19	15.92	13.91
ROE (%)	18.98%	18.69%	18.39%	17.39%
ROCE (%)	26.87%	25.43%	25.32%	24.25%
EV/EBITDA (x)	11.29	11.56	9.64	8.43
Debt-Equity Ratio	0.08	0.09	0.08	0.07
Book Value (Rs.)	116.44	132.43	162.27	196.42
P/BV	3.71	3.59	2.93	2.42

Charts:









Outlook and Conclusion

- At the current market price of Rs.475.00, the stock is trading at 15.92 x FY11E and 13.91 x FY12E respectively.
- Price to Book Value of the stock is expected to be at 2.93 x and 2.42 x respectively for FY11E and FY12E.
- Earning per share (EPS) of the company for the earnings for FY11E and FY12E is seen at Rs.29.83 and Rs.34.15 respectively.
- Net Sales and PAT of the company are expected to grow at a CAGR of 16% and 16% over 2009 to 2012E respectively.
- GAIL Gas Limited and Vadodara Mahanagar Sewa Sadan set up Joint Venture for City Gas Distribution.
- GAIL (India) Ltd has been ranked no.1 Company among gas utilities in Asia in the Platts Global Ranking of Energy Companies.

- ◆ GAIL India has placed orders worth Rs 677 crore for laying gas pipeline from Maharashtra to Bangalore for the 1400-km Dabhol-Bangalore Pipeline project. The work will commence by November 2010 and the pipelines are expected to be ready by March 2012.
- ◆ GAIL targets for over 118 MMSCMD Gas Transmission in FY 2011-12 Signs Annual MoU with MoP&NG.
- ◆ On the basis of EV/EBITDA, the stock trades at 9.64 x for FY11E and 8.43 x for FY12E.
- ◆ We expect that the company will keep its growth story in the coming quarters also. We recommend '**BUY**' in this particular scrip with a target price of Rs.**542.00** for Medium to Long term investment.

Industry Overview

Oil accounts for 31 per cent of India's total energy consumption and there is unlikely to be any significant scaling down of dependence on these fuels in the next five to ten years.

India will account for 10.8 per cent of Asia/Pacific regional oil demand by 2010, while providing 10.2 per cent of supply, as suggested by Business Monitor International in the 'India Oil and Gas Report'. Currently, of the six core industries identified in India, the oil and gas sector has propelled the growth of Indian economy most and the Government is looking for more investors in the sector. India is currently world's fifth biggest energy consumer and the need is continuously growing, according to KPMG's 'Oil and Natural Gas Overview 2010',

To keep up to the rising demand the Government of India has initiated policies that have helped investors in the sector and also facilitated exploration and production of oil and gas in the country.

And even though the Mumbai oil fields are still not exhausted, the Government realised the need to explore more areas and introduced New Exploration Licensing Policy (NELP) to encourage the private sector to invest in exploration of oil. NELP was

introduced in March 1997. Currently, about 58 per cent of the prospective Indian sedimentary basins have been explored and till the ninth round of NELP, there were 34 oil and gas blocks on offer. India naturally has about 138 billion barrels of oil and oil equivalent gas and bulk of this has not been found yet.

India will account for 12.59 per cent of Asia Pacific's regional oil demand by 2014, according to the latest 'India Oil & Gas Report'.

Production

According to the provisional production data released by the Ministry of Petroleum and Natural Gas, dated January 2011

- Crude Oil production from the period April-January 2011 was 31.411 million metric tonne (MMT), as compared to the 28.072 MMT in the past corresponding period.
- Natural Gas production during April-January 2011 was 44030 million cubic metres, as compared to 38490.7 million cubic metres in the corresponding period in 2010.
- From April-January 2011, 136.46 MMT of crude oil was refined, compared to 133.26 MMT in the corresponding period in 2010.

India will account for 12.59 per cent of Asia Pacific's regional oil demand by 2014, while providing 10.13 per cent of supply, according to the Business Monitor International's 'India Oil and Gas Report Q4 2010'. The regional oil production was estimated at 8.82mn barrels per day (b/d) in 2010 compared to 8.35mn b/d in 2001.

The projected production for crude oil in 2010-11 is 37.96 (MMT), which is about 12.67 per cent higher than the actual crude oil production of 33.69 MMT during 2009-10. The projected production for natural gas (including coal bed methane or CBM) for 2010-11 is 53.59 billion cubic metre (BCM), 12.8 per cent higher than the actual production of 47.51 BCM in 2009-10.

Oil & Natural Gas Corporation (ONGC) produced maximum domestic oil in 2010, averaging to 830,000 b/d highlighted the 'India Oil and Gas Report Q4 2010'. The

report predicts that with such effort, the production of oil in India will be as high as 950,000 b/d by 2012.

Consumption

The consumption of petroleum products during 2009-10 were 138.196 MMT (including sales through private imports) an increase of 3.60 per cent over sales of 133.4 MMT during 2008-09, according to the Ministry of Petroleum.

India's current petroleum products consumption rate from April 2010 to February 2011 was 128.827 million tonnes (MT), as per the estimates of the Planning and Analysis Cell (PPAC).

Diesel consumption in the country grew at 4 per cent annual rate to 4.96 MT in October 2010 while petrol sales were up 7.3 per cent at 1.21 MT. Jet fuel consumption was up 10 per cent at 434,100 tonnes. Overall fuel sales in the country were up one per cent at 11.647 MT in October 2010 against 11.538 MT in the same month in the previous year.

Gas consumption is set to rise from an estimated 63 BCM in 2010 to 110 BCM, with domestic supply up from around 45 BCM in 2010 to at least 70 BCM by 2014.

Gas

The gas transmission domain was dominated by Gas Authority of India Ltd (GAIL) till, in April 2009, the first natural gas production started from Krishna Godavari (KG) basin deepwater block by Reliance Gas Transportation Infrastructure Ltd. Currently, the natural gas production from the KG D6 block is about 60 million standard cubic metres per day (MMSCMD). The natural gas production from the block is expected to be in the range of 80-89 MMSCMD till March 2012.

Gas production is expected to rise from an estimated 45BCM in 2010 to a possible 95 BCM by 2019.

Natural gas is expected to play a key role in India's energy mix by 2025. The proportion of natural gas in the total energy mix has increased to 10 per cent in 2009 from 4 per cent in 1999. The same is expected to increase to 20 per cent in 2025.

GAIL (India) Limited has set a target of transmitting 118.2 MMSCMD of natural gas from domestic sources and through liquefied natural gas (LNG) route during 2011-12 under the annual memorandum of understanding (MoU) signed with Ministry of Petroleum & Natural Gas for performance targets for the financial year 2011-12.

For the FY 2011-12, the target for Gas Marketing is 85.5 MMSCMD and for production of 422 TMT of Polymers (HDPE & LLDPE) and 1,350 TMT of Liquid Hydrocarbons.

Natural gas production in India grows at an average annual rate of 4.0 per cent over the projection period, the fastest growth in non-OECD Asia. Most of the growth in India's natural gas production is expected in the near term, averaging 11.7 per cent per year as total production grows from 1.1 trillion cubic feet in 2007 to 2.7 trillion cubic feet in 2015. Natural gas production from the KG-D6 block is ready to flow at its plateau rate of just over 1 trillion cubic feet per year as soon as the government-designated customers are ready to receive it.

In January 2011, ONGC created an exploration landmark when gas flowed out from the Barren Measure shale at a depth of around 1700 m, in its first research and development (R&D) well RNSG-1 near Durgapur at Ichapur, West Bengal. This breakthrough is significant as India is the first Asian country where gas was discovered from shale outside U.S and Canada. The well RNSG-1 drilled down to a depth of 2000 m. The Barren Measure Shale, which is the main target, was encountered from 985 to 1843 m.

Investments

- Essar Oil has started pumping gas trapped in seams of coal in its Raniganj CBM (coal bed methane) acreage in West Bengal. The acreage is expected to produce gas for 15 years and Essar Oil is investing US\$ 300 million for CBM gas production. The company is producing 90,000-100,000 million cubic

metres per day of gas and will touch a peak output of over three million cubic metres.

- Oil & Natural Gas Corporation (ONGC) plans to invest over US\$ 3.82 billion on onshore operations in Gujarat over the next five years. ONGC will also set up a 10 mega watt (MW) solar power project in the state with an investment of US\$ 33.73 million. Under the programme, the company has earmarked over US\$ 1.79 billion for revamping its 90 installations, including 200 km-long pipeline network and 65 tanks in the state. It is also commissioning 850 km of new pipelines at an investment of US\$ 150 million.
- Essar Energy has acquired Shell's Stanlow Refinery for US\$ 350 million in cash. Stanlow Refinery is the second-largest refinery in the UK and will provide Essar a direct access in that market. The complete acquisition is expected to be completed by end of 2011. It is expected that the acquisition will be completed during the second half of 2011.
- International Finance Corporation (IFC) would make an equity investment of US\$ 25 million in Bhagyanagar Gas Ltd (BGL), a company floated by HPCL and GAIL for setting up city gas distribution (CGD) projects in Andhra Pradesh. The proposed investment would support BGL's capital expenditure of US\$276 million to create gas distribution infrastructure in the major cities of the state.
- ONGC and GAIL have agreed for mutual business growth covering natural gas as well as petro-chemicals. This over-arching understanding was documented in the form of various agreements and exchange of letters, which were initialed in the office of GAIL.

Government Initiatives

- The Government of India has implemented NELP, by which 100 Per cent FDI is permitted for small and medium sized oil fields through competitive bidding.
- The refining sector is open to public-private partnerships (PPP) as well as only private investments. In case of an Indian private company, FDI of 100 per cent is permitted.
- 100 per cent FDI is allowed for petroleum products and pipeline sector as well as natural gas/LNG pipeline, for infrastructure related to marketing of petroleum products, market study of formulation and investment financing.

- For trading and marketing, minimum 26 per cent equity is recovered over five years.

In one of the biggest FDI into the oil and gas sector, BP will be paying US\$ 7.2 billion for a 30 per cent stake in 23 oil and gas blocks of Reliance Industries Ltd (RIL). The amount will be paid to RIL, for the interests it would acquire in the 23 production sharing contracts. Future performance payments up to US\$ 1.8 billion could be paid based on exploration success resulting in development of commercial discoveries. The two will also enter into a 50:50 joint venture (JV) for sourcing and marketing of gas. These payments and the combined investment could amount to US\$ 20 billion.

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