

GAIL (India)

Rs281
NEUTRAL

RESULT NOTE

Mkt Cap: Rs237bn; US\$5.8bn

Analyst: Varatharajan S (91-22-6638 3240; varatharajan@sski.co.in)
Avishek Datta (91-22-6638 3217; avishek@sski.co.in)

Result: Q4FY07 and FY07

Comment: Lower transmission revenues and higher under recovery sharing provision depress profitability

Last report: 30 October 2006 (Price Rs262; Recommendation: Neutral)

Key valuation metrics

Year to March 31 (Rs m)	Net sales	yoy change (%)	Net profit	EPS (Rs)	yoy chg (%)	EV/E (x)	PER (x)
2005	138,523	11.6	19,468	23.0	3.6	5.6	12.2
2006	166,124	19.9	21,758	27.3	18.7	5.9	10.3
2007	160,472	(3.4)	23,867	28.2	9.7	6.9	10.0
2008E	169,715	4.5	24,353	28.8	2.1	6.5	9.8

GAIL's Q4FY07 performance (operating profits fall of 14.5%yoy to Rs 6bn) was below our expectations due to lower gas transmission revenues on account of tariff adjustment for volume fluctuation, about Rs300mn fall on account of KG basin tariff downgrade and some prior period adjustments along with higher under recovery sharing provision of Rs 5 bn. We maintain our FY08 earnings estimates at Rs28.8. Stock remains unexciting, with limited transmission volume growth over the next three years, while risks relating to possible gas price increase and availability of C2C3 fractions are overhangs. Stock is trading at P/E of 9.8x and EV/E of 6.5x FY08E. Maintain Neutral.

KEY HIGHLIGHTS

- Gas transmission volumes remained flat sequentially at 79.7mscmd, but up 1.7% yoy. However, gas transmission EBITDA fell 33.7% qoq and 24% yoy to Rs 3.4bn due to tariff adjustment for volume fluctuation, about Rs300mn attributable to KG basin tariff cut and some prior period adjustments.
- Gas trading EBITDA continued to display volatility and was down 35.7%qoq and 1.6%yoy to Rs 360 m from Rs560m in Q3FY07.
- Petrochemical EBITDA was up 7.6% qoq and 12.3%yoy to Rs3.4bn in Q4FY07. While qoq growth was primarily on account of sales volumes growth of 5.3% to 99,000MT, yoy increase was on account of improvement margins.
- LPG EBITDA fell to Rs (510) mn due to higher LPG and SKO under recovery contribution of Rs 5bn as against Rs 3.15bn in Q3FY07. We believe, the higher provision would get adjusted in 1QFY08.
- Depreciation charges went up 5.8% yoy to Rs 1471m.
- The company's other income improved 33.7% yoy at Rs 1.13bn.
- Write-back of Rs3.4bn of excess tax provision during previous years boosted net profits.

Operational & financial performance

	Q4FY05	Q1FY06	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07
Gas transmission (mscmd)	77.7	78.9	76.8	81.4	78.3	79.1	70.1	80.4	79.7
Gas sales (mscmd)	73.5	72.4	77.9	69.2	68.4	70.0	62.8	69.7	68.9
LPG and liquid prodn ('000 MT)	334	325	312	344	350	356	304	349	341
Petrochemical sales ('000 MT)	111	62	61	75	104	81	73	94	99
LPG transmission ('000 MT)	570	487	508	543	690	522	582	728	659
EBITDA breakup (Rs mn)									
Gas transmission	4,000	4,930	4,960	5,210	4,530	5,170	3,940	5,190	3440
Gas trading/marketing	1,400	520	1,340	(650)	(600)	270	620	560	360
LPG & liquid hydrocarbons	1,700	2,360	1,490	2,620	470	540	(330)	1,130	(510)
Petrochemicals	3,170	1,680	1,710	2,130	3,000	2,380	2,090	3,130	3370
LPG pipeline/Gailtel/unallocated	570	490	540	1,320	490	1,860	1,240	480	500
Total	10,840	9,980	10,040	10,630	7,890	10,220	7,560	10,490	7160

Note: EBITDA in the above table includes other income classified in the respective segments

❑ Limited upside from current levels, reiterate Neutral

GAIL is trading at a PER of 9.8x and EV/E of 6.5x FY2008E. We maintain our FY08 earnings estimates at Rs28.8. Stock looks unexciting with limited growth of just about 20% in EBITDA over the next 3 year period. Reiterate Neutral.

Earnings model

Year to March 31 (Rs mn)	Q4FY2006	FY2006	Q1FY2007	Q2FY2007	Q3FY2007	Q4FY2007
Net sales	36,598	163,513	40,784	37,070	43,784	38,834
yoy change (%)	1.4	18.0	12.5	(9.0)	(1.5)	(7.7)
Operating profit	7,044	34,979	9,416	5,891	8,641	6,024
yoy change (%)	(31.9)	(5.5)	(0.7)	(37.0)	(5.2)	(14.5)
Other income	844	4,555	801	1,674	1,846	1,129
Interest	292	1,173	288	291	271	221
Depreciation	1,391	5,595	1,408	1,436	1,439	1,471
PBT	6,205	32,766	8,521	5,838	8,778	5,461
Tax rate (%)	34.0	29.5	30.5	23.2	24.2	(24.7)
Tax	2,112	9,666	2,600	1,354	2,124	(1,347)
Net profit	4,093	23,101	5,921	4,484	6,655	6,807
yoy change (%)	(20.8)	18.7	22.5	(42.1)	3.5	66.3
Operating parameters						
OPM (%)	16.7	21.4	23.1	15.9	19.7	15.5
NPM (%)	9.7	14.1	14.5	12.1	15.2	17.5
Other income/PBT (%)	13.6	13.9	9.4	28.7	21.0	20.7
Valuation						
Outstanding shares (m)	846	846	846	846	846	846
EPS (Rs)	4.8	27.3	7.0	5.3	7.9	8.0
Cash EPS (Rs)	6.5	33.9	8.7	7.0	9.6	9.8

Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6638 3300
Pathik Gandotra	Head of Research; Banking, Strategy	pathik@sski.co.in	91-22-6638 3304
Shirish Rane	Cement, Construction, Power, Real Estate	shirish@sski.co.in	91-22-6638 3313
Nikhil Vora	FMCG, Media, Retailing, Mid Caps	nikhilvora@sski.co.in	91-22-6638 3308
Ramnath S	Automobiles, Auto ancillaries	ramnaths@sski.co.in	91-22-6638 3380
Nitin Agarwal	Pharmaceuticals	nitinagarwal@sski.co.in	91-22-6638 3395
Ganesh Duvvuri	IT Services, Telecom	ganesh@sski.co.in	91-22-6638 3358
Varatharajan S	Oil & Gas, Engineering	varatharajan@sski.co.in	91-22-6638 3240
Chirag Shah	Textiles, Metals, Real Estate	chiragshah@sski.co.in	91-22-6638 3306
Bhoomika Nair	Construction, Power, Logistics	bhoomika@sski.co.in	91-22-6638 3337
Avishek Datta	Oil & Gas, Engineering	avishek@sski.co.in	91-22-6638 3217
Bhushan Gajaria	FMCG, Retailing, Media	bhushangajaria@sski.co.in	91-22-6638 3367
Shreyash Devalkar	IT Services, Telecom	shreyashdevalkar@sski.co.in	91-22-6638 3311
Nilesh Parikh, CFA	Banking	nilesh@sski.co.in	91-22-6638 3325
Veekesh Gandhi	Banking	veekesh@sski.co.in	91-22-6638 3231
Ashish Shah	Automobiles, Auto ancillaries	ashishshah@sski.co.in	91-22-6638 3371
Salil Desai	Cement, Infrastructure	salil@sski.co.in	91-22-6638 3373
Rahul Narayan	FMCG, Retailing, Media	rahulnarayan@sski.co.in	91-22-6638 3238
Suchit Sehgal	Mid Caps	suchitsehgal@sski.co.in	91-22-6638 3307
Nityam Shah	Automobiles, Auto ancillaries	nityam@sski.co.in	91-22-6638 3327
Uday Joshi	Technical Analyst	udayjoshi@sski.co.in	91-22-6638 3392
Dharmendra Sahu	Database Manager	dharmendra@sski.co.in	91-22-6638 3382
Equity Sales/Dealing	Designation	E-mail	Tel. +91-22-6638 3300
Naishadh Paleja	CEO	naishadh@sski.co.in	91-22-6638 3211
GV Alankara	Head of Dealing	alankara@sski.co.in	91-22-6638 3201-210
Vishal Purohit	VP - Sales	vishalp@sski.co.in	91-22-6638 3212
Nikhil Gholani	VP - Sales	nikhilgholani@sski.co.in	91-22-6638 3363
Sanjay Panicker	VP - Sales	sanjaypanicker@sski.co.in	91-22-6638 3368
V Navin Roy	AVP - Sales	navin@sski.co.in	91-22-6638 3370
Rohan Soares	AVP - Sales	rohan@sski.co.in	91-22-6638 3310
Rishi Kohli	VP - Derivatives	rishikohli@sski.co.in	91-22-6638 3321/403
Pawan Sharma	AVP - Derivatives	pawansharma@sski.co.in	91-22-6638 3403
Dipesh Shah	AVP - Derivatives	dipeshshah@sski.co.in	91-22-6638 3403
Manohar Wadhwa	AVP - Derivatives	manohar@sski.co.in	91-22-6638 3403

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