

GAIL (India) Ltd's Q4 FY07 results were below street estimates, primarily on account of lower transmission volumes as well as lower tariffs. Operating profit for the company was down by 14.5% yoy and operating margins slumped by 370bps yoy to 15.5%. APAT was up 66.3% thanks to the Rs3.4bn write back of excess tax provisions. Sans that profit fell by 16.7% yoy to Rs3.4bn. Going ahead, the company has embarked upon an aggressive capacity expansion program of Rs180bn to build the gas grid. However, execution of these projects could be an issue and these projects will be revenue and earnings accretive only from FY10. At CMP of Rs279 the stock trades at 9.8x FY09E earnings of Rs28.5. The stock will continue to underperform the market and the industry.

Financial highlights

(Rs mn)	Q4 FY07	Q4 FY06	Growth (%)	FY07	FY06	Growth (%)	FY08	FY09
Net Sales	38,834	36,598	6.1	160,472	144,594	11.0	180,277	202,731
Operating Profit	6,024	7,044	(14.5)	29,973	34,979	(14.3)	32,846	36,288
PBT	5,461	6,205	(12.0)	28,598	32,766	(12.7)	30,396	33,688
PAT	3,408	4,093	(16.7)	20,468	23,101	(11.4)	21,754	24,110
Extraordinary	3,399	-		3,399	-		-	-
APAT	6,807	4,093	66.3	23,867	23,101	3.3	21,754	24,110
Equity	8,457	8,457		8,457	8,457		8,457	8,457
OPM (%)	15.5	19.2	3.7	18.7	24.2		18.2	17.9
EPS (Rs Annualized)	32.2	19.4		28.2	27.3		25.7	28.5
P/E	8.7			9.9			10.8	9.8

Physical performance

	Q1 FY06	Q2 FY06	Q3 FY06	Q4 FY06	Q1 FY07	Q2 FY07	Q3 FY07	Q4 FY07	Yoy (%)	Qoq (%)
Gas transmission (mcmd)	78.9	76.8	81.4	78.3	79.1	70.1	80.4	79.7	1.8	(0.9)
Gas sales (mcmd)	72.4	77.9	69.2	68.4	70	62.8	69.7	68.9	0.7	(1.1)
LPG and liquid prod ('000 MT)	325	312	344	350	356	304	349	341	(2.6)	(2.3)
Petrochemical sales ('000 MT)	62	61	75	104	81	73	94	99	(4.8)	5.3
LPG transmission ('000 MT)	487	508	543	690	522	582	728	659	(4.5)	9.5)

Disappointing 6.1% yoy growth in sales

During Q4 FY07, net sales grew by 6.1% yoy to Rs38.8bn driven by 16.5% yoy growth in revenues from the gas trading segment, which constitutes 61.6% of the total revenues. Petrochemical segment too reported strong growth of 10.5% driven primarily by 16.1% yoy growth in realizations for the segment. However, 15.5% yoy fall in natural gas transmission and 7.5% yoy drop in LPG and liquid hydrocarbons revenues restricted growth in topline.

Segment Revenues	Q4 FY07	Q4 FY06	Growth yoy %	FY07	FY06	Growth yoy %
Natural Gas Transmission	4,762	5,635	(15.5)	22,144	23,020	(3.8)
LPG Transmission	915	944	(3.1)	3,440	3,082	11.6
Natural Gas Trading	29,701	25,495	16.5	120,208	100,430	19.7
Petrochemicals	7,437	6,729	10.5	25,702	19,415	32.4
LPG and Liquid Hydrocarbons	4,332	4,682	(7.5)	21,219	22,017	(3.6)
Gaitel	69	45	55.3	254	183	38.4
Unallocated	984	740	33.0	5,097	4,082	24.9
Total	48,200	44,270	8.9	198,063	172,229	15.0

Operating margins nosedive 370bps

Operating profit for the company declined by 14.5% yoy to Rs6bn in Q4 FY07 and OPM slumped by 370bps yoy to 15.5%. The fall in margins was on account of the following factors:

- ✓ EBIT margin for the natural gas transmission segment was down by 13.1%. This was on account of lower pipeline tariffs which were adjusted downwards in Q4 FY07 to make up for the higher tariffs charged in Q3 FY07.
- ✓ The LPG and liquid hydrocarbons segment reported a loss on the EBIT level driven by Rs5bn charged as under recoveries in the segment.

India Infoline Result Update

GAIL India Ltd (Q4 FY07)

Rating: Underperformer CMP: Rs279

May 11, 2007

EBIT Margins	Q4 FY07	Q4 FY06	Inc/Dec	FY07	FY06	Inc/Dec
Natural Gas	58.1	71.2	(13.1)	68.4	75.0	(6.5)
LPG	53.2	52.6	0.6	55.4	51.4	4.0
Natural Gas Trading	1.7	(2.4)	4.1	1.6	0.6	1.0
Petrochemicals	40.4	39.3	1.1	37.1	36.8	0.4
LPG and Liquid Hydrocarbons	(16.9)	5.3	(22.2)	4.8	27.5	(22.6)
Gaitlet	7.8	(9.4)	17.2	3.8	(9.7)	13.5

Tax write back spurs bottomline

During Q4 FY07, GAIL wrote back Rs3.4bn on account of excess tax provision which resulted in APAT increasing by 66.3% yoy to Rs6.8bn. Sans the write back net profit was down by 16.7% yoy to Rs3.4bn.

Outlook

GAIL has entered onto a MOU with Reliance Industries Ltd for supply of gas, but it is at a preliminary stage. We believe that RIL will favor its own pipeline infrastructure company for a chunk of its production from the KG – D6 block. Any delay in the huge capital expansion plans will cause cost overrun. We believe that over the next couple of years GAIL can clock a CAGR of 12.4% in sales and 8.5% in profits. At CMP of Rs279 the stock trades at 9.8x FY09 estimated earnings of Rs28.5. We rate the stock as Underperformer with a target price of Rs285.

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