

June 16, 2008

# GAIL (India) Ltd

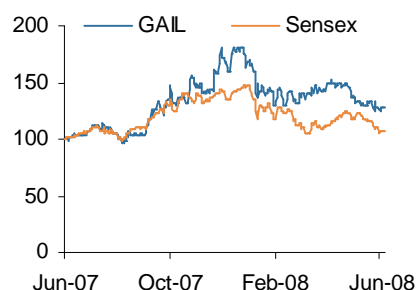
## Sector: Oil and gas

Sensex:	15,190
CMP (Rs):	381
Target price (Rs):	483
Upside (%):	26.8
52 Week h/l (Rs):	555/285
Market cap (Rscr) :	32,211
6m Avg vol ('000Nos):	1,756
No of o/s shares (mn):	846
FV (Rs):	10
Bloomberg code:	GAIL IN
Reuters code:	GAIL.BO
BSE code:	532155
NSE code:	GAIL

## Shareholding pattern

March 2008	(%)
Promoters	57.3
Foreign & institution	35.9
Non promoter corp hold	0.7
Public & others	6.1

## Share price trend



## Forthcoming new regulations expected to favor GAIL

PNGRB is expected to announce tariff notifications for natural gas transmission business, much in line with notification for city gas distribution (CGD) projects. Return on net assets (RONA) is likely to be capped at 14%. With tariffs for GAIL's existing pipeline already in line with stipulated RONA, not much downside to tariffs on these pipelines is expected. For new projects, 10-year tax holiday would enable the companies to earn actual RONA higher than 14%. GAIL, with plans of setting up pipelines with capacity of 136mmscmd, would be a prime beneficiary of the new regulations.

## Transmission business to witness robust growth as gas supplies increase

India is a gas starved nation with demand of 180mmscmd and supply of 85mmscmd. The scenario will improve with commencement of production from Reliance Industries' KG-D6 field (peak production of 80mmscmd). Few other prolific fields in basins of Mahanadi and KG are also expected to commence operations over the next five years. Further, import of LNG will increase as Petronet LNG raises its capacity at Dahej and commences operations at Kochi. With increasing supplies, GAIL's core operations of natural gas transmission will witness robust growth over the foreseeable future.

## E&P and CGD segments to emerge as growth drivers

GAIL has stakes in more than 30 E&P blocks and three coal bed methane blocks. Any announcement of hydrocarbon discoveries will only add value to GAIL. Also, GAIL is emerging as the largest CGD player in the country with projects planned in more than 20 cities over the next five years.

## Valuations attractive; bonus possibilities

With robust growth in gas transmission business, we expect GAIL to witness revenue CAGR of 25.1% during FY08-10E. The only concern is a margin decline on account of petrochemical business and subsidy burden. We believe the stock is attractively valued at FY10E P/E (adjusted for value of listed investments) of 8.1x. We recommend a Trading BUY with a target price of Rs483. In the near term, likelihood of a bonus issue could provide momentum to the stock.

## Valuation summary

Period to (Rs mn)	FY07 (12)	FY08E (12)	FY09E (12)	FY10E (12)
Revenues	160,472	180,082	204,355	266,684
yoy growth (%)	11.0	12.2	13.5	30.5
Operating profit	29,896	39,492	41,737	50,050
OPM (%)	18.6	21.9	20.4	18.8
PAT	20,391	26,015	27,711	32,997
yoy growth (%)	(14.5)	27.6	6.5	19.1
EPS (Rs)	24.1	30.8	32.8	39.0
P/E (x)	15.8	12.4	11.6	9.7
P/BV (x)	2.8	2.5	2.2	1.9
EV/EBITDA (x)	10.3	7.3	6.8	5.6
ROE (%)	17.9	20.3	19.2	20.0
ROCE (%)	23.2	27.0	25.2	26.7

Source: Company, India Infoline Research

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