



Between the Lines

Daily Corporate News Analysis

Dec 13th, 2006

GAIL

Q2 FY07 Update

Key Data

CMP	Rs 245.75
Date	Dec 13 th , 2006
Sector	Gas Distribution
Face Value	10/-
BSE Code	532155
52 Week H/L	Rs 325.20 / 210
Market Cap	Rs 20781.84 Cr

Investment Rationale

GAIL has posted 3 per cent increase in net revenue to Rs 3706.99 crore in Q2FY07. However, higher subsidy burden on liquefied petroleum gas and floods in Hazira have taken a toll on the company's profitability, which declined by 42 per cent to 448 crore as against 774 crore in the previous corresponding quarter. The company is gradually diversifying into synergistic operations like gas sourcing, transmission, marketing, processing, petrochemicals and city gas distribution. The primary revenue generation for the company is gas transmission, where the company is expanding its gas grid from 5,600 km to 10,000 km, of which 1450 km of pipelines will be completed in FY07. The company plans to increase its E&P blocks from 16 to more than 20 in a year's time. Similarly, the capacity at Pata petrochemical complex will increase from 310,000 tpa to 440,000 tpa. The other positives like securing more blocks under NELP-VI bidding and proposed Iran-Pakistan-India pipeline and Myanmar-Bangladesh-India pipelines would boost the topline as well as bottomline growth. Recently GAIL acquired 30% stake in Myanmar block. The subsidy sharing formula is under revision and if in the new structure GAIL is not required to share the kerosene subsidy then it could significantly add to the bottomline.

Key Developments

GAIL picks up 30% stake in Myanmar Block

GAIL has acquired 30% stake in the A-7 offshore block in Myanmar. The balance 70% stake is with Silver Wave Energy, an upstream oil and gas company based in Singapore. With this, GAIL has managed to enhance its footprint in Myanmar's hydrocarbon exploration sector. The company already has stakes in A-1 and A-3 blocks in Myanmar. GAIL is exploring various options to bring the natural gas to India.



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Financial Performance

Revenue increased by meager 3 per cent

During Q2FY07, revenue increased by 3 per cent to 3706.99 crore excluding internal consumption. The growth was lower due to variable gas supplies and flood situation in Gujarat. This resulted in a sharp decline in transmission volumes, fall in petrochemicals production, LPG and Hydrocarbon products. Transmission business contributed 79% of the total turnover while natural gas trading business contributed 13 per cent. Contribution from petrochemicals and LPG stood at 15% and 11% respectively. Apart from higher subsidy and lower gas availability at Hazira, revenue would have been higher by approx.23%.

Valuations

At current market price of Rs 245.75, Gail is quoting at a PER of 9.93x. On EV/Sales and on EV/ EBITDA basis it is quoting at 1.11x and 5.25x of its FY06 earnings respectively.



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