

July 28, 2011

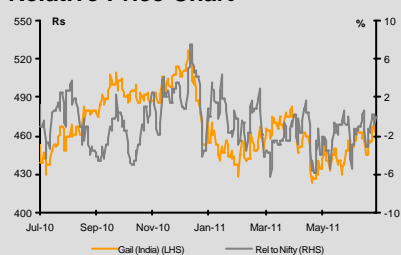
Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs.458	Rs.510
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	5,547
Sensex	18,432

Price Performance

(%)	1M	3M	6M	12M
Absolute	0	(5)	(3)	2
Rel. to Nifty	(0)	0	(1)	(0)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Oil & Gas
Bloomberg	GAIL@IN
Equity Capital (Rs mn)	12685
Face Value (Rs)	10
No of shares o/s (mn)	1268
52 Week H/L (Rs)	536/411
Market Cap (Rs bn/USD mn)	581/13,190
Daily Avg Vol (No of shares)	142282
Daily Avg Turnover (US\$ mn)	1.4

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	57.4	57.4	57.4
FII/NRI	13.8	13.4	14.0
Institutions	18.5	18.8	18.5
Private Corp	1.2	1.2	1.0
Public	9.2	9.3	9.3

Source: Capitaline

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Lower subsidy sharing drives profitability

- Revenue from natural gas transmission and trading business grew by 4.7% to Rs.8.7bn and 32.2% to 64.1bn YoY respectively due higher spot volume during the quarter
- Natural Gas transmission and trading volume declined by 2.8% to 117mmscmd and 2.6% to 82.6mmscmd respectively
- Subsidy payout for Q1FY12 grew by 53% YoY to Rs.6.8bn however, we expect lower subsidy burden for coming quarters due to recent price hike in LPG, Kerosene and reduction in duties
- Accumulate with TP of Rs.510, given its dominant market share in transmission business and expected volume growth. Subsidy sharing remains a key overhang on the stock

Highlights of the results

GAIL reported results which were above our estimates at bottomline. Revenue for the quarter was Rs.88.8bn (against our expectation of Rs.88.3bn), growth of 25% YoY, mainly due to better performance from natural gas and trading business. EBITDA during the quarter was Rs.15.7bn, growth of 8.4%, YoY. During the quarter the company reported net profit of Rs.9.8bn, (as against our estimate of Rs.8.3bn), growth of 11% on YoY basis. Subsidy payout stood at Rs.6.8bn mainly due to higher crude oil prices during the quarter.

Higher performance from natural gas trading and transmission segment drives revenue and profitability in Q1FY12

Revenue has increased by 25% from Rs.71.1bn in Q1FY11 to Rs.88.8bn in Q1 FY12, due to better performance from natural gas transmission and trading business. Revenue from natural gas transmission has grown by 4.7% to Rs.8.7bn YoY. while Natural gas trading revenue jumped 32.2% to Rs.64.1bn YoY. Higher trading revenue was mainly attributable to higher sale of spot volume during the quarter. Moreover EBIT margins has grown from 3.4% to 4.9% in Q1 FY12 because of higher spot volume on which company earns marketing margin. However, revenue from petrochemical & LPG transmission segment disappointed.

Transmission volume declined by 2.8% to 117.1mmscmd due to shutdown in five fertilizer plants

Natural gas transmission volume has declined by 2.8% to 117.1 mmscmd QoQ (+0.8% YoY) mainly from PMT and APM gas due to plan shutdown of 5 Fertiliser plants for ~10-20 days. The cumulative shut down of 5 Fertiliser plant stood at 90 days, which resulted in transmission volume loss of 3.27mmscmd. To meet the current demand for gas from power, fertilizer, refining and city-gas distribution sectors, company bought spot LNG cargoes in the current quarter due to shortfall of 5-7mmscmd from domestic sources. We expect transmission volume to be around 120-122mmscmd for Q2 FY112.

Subsidy payout to be higher than previous year

During the quarter, subsidy payout stood at Rs.6.8bn, growth of 53% YoY. We believe subsidy burden to be lower for subsequent quarters due to recent price hike in LPG, Kerosene and Diesel. Also the full effects of duty reduction will be visible from coming quarters.

Valuation table

Rs Mn	Net Sales	EBIDTA (Mn)	APAT (%)	AEPS	EPS (%chg)	RoE (%)	P/E	EV/EBIDTA	P/BV
FY10	249964.0	46276.2	18.5	31391.5	24.7	12.0	19.9	18.9	11.8
FY11	326690.1	53999.5	16.6	35611.3	28.1	13.4	19.7	16.6	10.9
FY12E	376621.7	63963.9	17.0	39054.3	30.8	9.7	18.8	15.2	9.7
FY13E	432208.9	69733.4	16.1	40711.4	32.1	4.2	17.5	14.5	9.7

Financial Snapshot

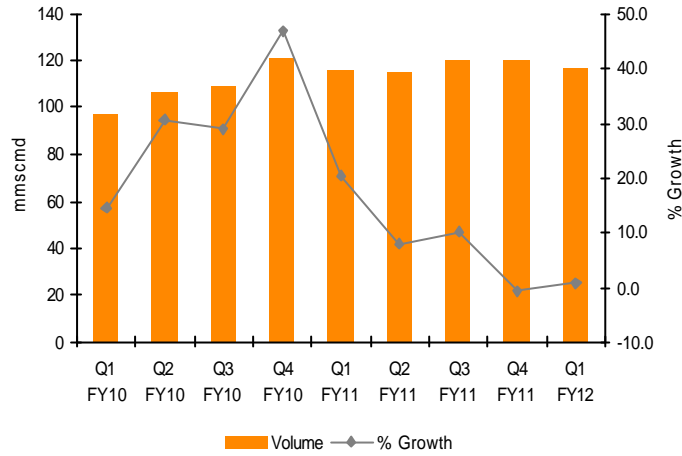
Rs mn	Q1 FY11	Q2 FY11	Q3 FY11	Q4 FY11	Q1 FY12	YoY (%)	QoQ (%)
Revenue	71157.5	81282.2	83836.2	89089.3	88890.0	24.9	-0.2
Expenditure	56610.4	66712	70505.2	76212.0	73117.8	29.2	-4.1
as % of sales	79.6%	82.1%	84.1%	85.5%	82.3%		
Consumption of RM	50468.4	60124.1	62689.2	67240.3	66026.2	30.8	-1.8
as % of sales	70.9%	74.0%	74.8%	75.5%	74.3%		
Employee Cost	1634	1537.6	1604.0	2750.4	1782.2	9.1	-35.2
as % of sales	2.3%	1.9%	1.9%	3.1%	2.0%		
Other expenditure	4508	5050.3	6212.0	6221.3	5309.4	17.8	-14.7
as % of sales	6.3%	6.2%	7.4%	7.0%	6.0%		
EBITDA	14547.1	14570.2	13331.0	12877.3	15772.2	8.4	22.5
Depreciation	1599.6	1625.9	1605.4	1672.0	1781.7	11.4	6.6
EBIT	12947.5	12944.3	11725.6	11205.3	13990.5	8.1	24.9
Other Income	477.5	1498.8	1905.9	524.8	646.5	35.4	23.2
Interest	205.4	117.4	164.5	341.3	207.9	1.2	-39.1
PBT	13219.6	14325.7	13467.0	11388.8	14429.1	9.1	26.7
Total Tax	4349.0	5090.2	3790.7	3558.1	4582.4	5.4	28.8
Adjusted PAT	8870.6	9235.5	9676.3	7830.7	9846.7	11.0	25.7
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0		
APAT after MI	8870.6	9235.5	9676.3	7830.7	9846.7	11.0	25.7
Extra ordinary items	0	0	0	0	0		
Reported PAT	8870.6	9235.5	9676.3	7830.7	9846.7	11.0	25.7
Reported EPS	7.0	7.3	7.6	6.2	7.8	11.0	25.8

Margins (%)						(bps)	(bps)
EBIDTA	20.4	17.9	15.9	14.5	17.7	-270.0	328.9
EBIT	18.2	15.9	14.0	12.6	15.7	-245.6	316.2
EBT	18.6	17.6	16.1	12.8	16.2	-234.5	344.9
PAT	12.5	11.4	11.5	8.8	11.1	-138.9	228.8
Effective Tax rate	32.9	35.5	28.1	31.2	31.8	-114.0	51.6

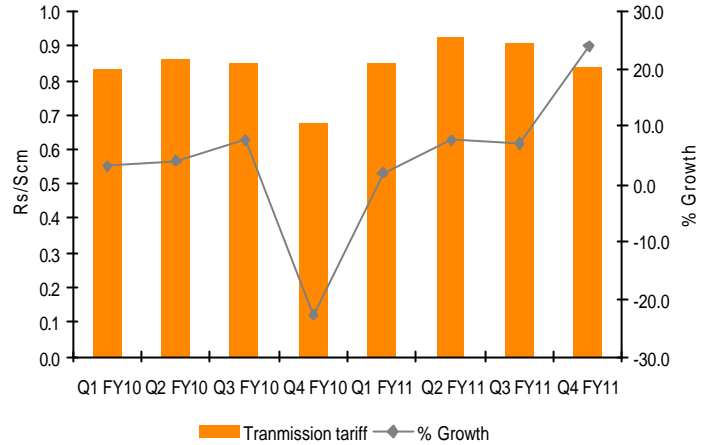
Outlook and Valuation

GAIL's investments to expand its network over the next four years, will enable it to increase gas transmission volume and thereby revenue and earnings in the long term. We have positive bias on GAIL, given its dominant market share in transmission business, strong track record, expected volume growth and robust business model with no commodity risk. However, subsidy burden remains the key overhang on the stock. Currently, stock trades at 14x FY13E EPS and 2.4x FY13E P/BV, we maintain ACCUMULATE ratings on GAIL with the target price of Rs.510.

Transmission volume & Growth trend

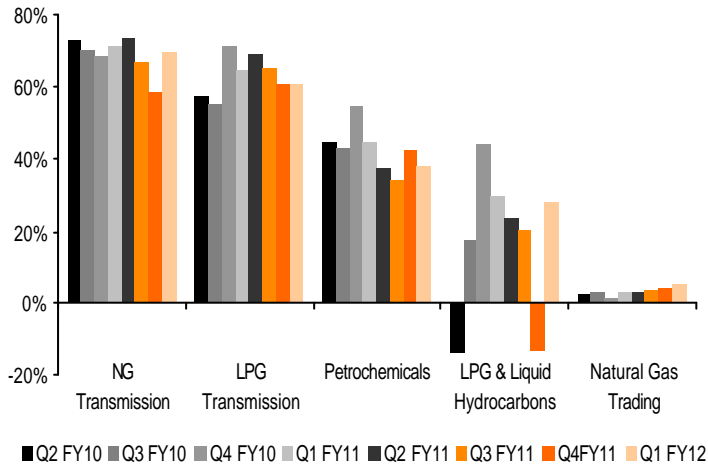


Transmission Tariff & Growth trend

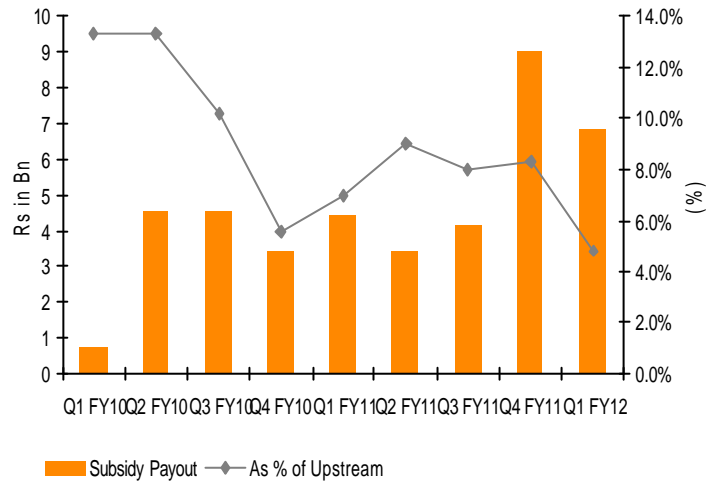


Source: Company, Emkay Research

Segment wise EBIT as % of revenue



Subsidy payout as % of upstream share



Source: Company, Emkay Research

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	249964.0	326690.1	376621.7	432208.9
<i>Growth (%)</i>	5.1	30.2	15.8	14.8
Expenditure	203687.9	271365.7	312657.8	362475.6
Materials Consumed	166611.9	241846.9	281209.9	329152.3
Employee Cost	6212.0	7526.6	7720.7	7823.0
Other Exp	30864.0	21992.2	23727.2	25500.3
EBITDA	46276.2	53999.5	63963.9	69733.4
<i>Growth (%)</i>	14.5	16.7	18.5	9.0
EBITDA margin (%)	18.5	16.6	17.0	16.1
Depreciation	5618.2	6502.9	9203.2	11328.2
EBIT	40658.0	47496.6	54760.7	58405.2
<i>EBIT margin (%)</i>	18.6	16.4	15.7	14.6
Other Income	5411.0	4407.0	4478.0	4619.1
Interest expenses	829.7	828.6	1805.9	3414.6
PBT	45777.8	52399.9	57432.9	59607.6
Tax	14386.3	16788.6	18378.5	18896.3
<i>Effective tax rate (%)</i>	31.4	32.0	32.0	31.7
Adjusted PAT	31391.5	35611.3	39054.3	40711.4
<i>Growth (%)</i>	12.0	13.4	9.7	4.2
Net Margin (%)	12.6	10.9	10.4	9.4
(Profit)/loss from JVs/Ass/MI	0	0	0	0
Adjusted PAT After JVs/Ass/MI	31391.5	35611.3	39054.3	40711.4
E/O items	0	0	0	0
Reported PAT	31391.5	35611.3	39054.3	40711.4
PAT after MI	31391.5	35611.3	39054.3	40711.4
<i>Growth (%)</i>	12.0	13.4	9.7	4.2

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
PBT	45784.7	52399.9	57432.9	59607.6
Depreciation	5619.0	6502.9	9203.2	11328.2
Interest Provided	700.0	828.6	1805.9	3414.6
Other Non-Cash items	-2110.3	0.0	0.0	0.0
Chg in working cap	12453.6	-7372.5	2954.4	3549.2
Tax paid	15685.7	16788.6	18378.5	18896.3
Operating Cashflow	46761.3	35570.3	53017.8	59003.4
Capital expenditure	-35701.7	-65531.0	-75581.0	-89197.0
Free Cash Flow	11059.6	-29960.7	-22563.2	-30193.6
Other income	4896.9	0.0	0.0	0.0
Investments	-3357.6	0.0	0.0	0.0
Investing Cashflow	-34162.4	-65531.0	-75581.0	-89197.0
Equity Capital Raised	0.0	0.0	0.0	0.0
Loans Taken / (Repaid)	2802.5	24000.0	36248.0	41257.0
Interest Paid	-840.8	-828.6	-1805.9	-3414.6
Dividend paid (incl tax)	-7420.3	-10388.8	-10388.8	-19268.1
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-5458.6	12782.6	24053.3	18574.2
Net chg in cash	7140.3	-17178.1	1490.1	-11619.4
Opening cash position	34575.2	41715.5	24537.4	26027.5
Closing cash position	41715.5	24537.4	26027.5	14408.1

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	12684.8	12684.8	12684.8	12684.8
Reserves & surplus	155305.3	180526.6	209190.9	230632.9
Net worth	167990.1	193211.3	221875.7	243317.7
Minority Interest	0.0	0.0	0.0	0.0
Secured Loans	14460.0	37460.0	72708.0	112965.0
Unsecured Loans	343.8	1343.8	2343.8	3343.8
Loan Funds	14803.8	38803.8	75051.8	116308.8
Net deferred tax liability	13895.6	13895.6	13895.6	13895.6
Total Liabilities	196689.5	245910.7	310823.1	373522.1
Gross Block	210376.7	250376.7	305376.7	385376.7
Less: Depreciation	91065.7	97726.9	106930.0	118258.2
Net block	119311.0	152649.8	198446.7	267118.5
Capital work in progress	23305.3	48836.3	69417.3	78614.3
Investment	20730.3	20730.1	20730.1	20730.1
Current Assets	137127.3	142183.0	161742.6	168984.1
Inventories	6317.0	7602.4	8336.3	10361.3
Sundry debtors	12950.4	16268.3	18831.1	19645.9
Cash & bank balance	41715.5	24537.4	26027.5	14408.1
Loans & advances	76061.8	92961.5	107606.2	123488.3
Other current assets	82.6	813.4	941.6	1080.5
Current lia & Prov	103783.7	118645.0	139668.9	162078.9
Current liabilities	54483.1	64206.1	76776.2	88900.9
Provisions	49300.6	54438.9	62892.7	73178.0
Net current assets	33343.6	23538.0	22073.7	6905.1
Misc. exp	0.0	0.0	0.0	0.0
Total Assets	196689.5	245910.7	310823.1	373522.1

Key ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
Profitability (%)				
EBITDA Margin	18.5	16.6	17.0	16.1
Net Margin	12.6	10.9	10.4	9.4
ROCE	25.1	24.1	21.3	18.4
ROE	19.9	19.7	18.8	17.5
RoIC	38.0	35.3	31.1	25.4
Per Share Data (Rs)				
EPS	24.7	28.1	30.8	32.1
CEPS	29.2	33.2	38.0	41.0
BVPS	132.4	152.3	174.9	191.8
DPS	7.5	7.0	7.0	7.0
Valuations (x)				
PER	18.4	16.2	14.8	14.2
P/CEPS	15.6	13.7	12.0	11.1
P/BV	3.4	3.0	2.6	2.4
EV / Sales	2.1	1.8	1.6	1.5
EV / EBITDA	11.5	10.6	9.5	9.5
Dividend Yield (%)	1.6	1.5	1.5	1.5
Gearing Ratio (x)				
Net Debt/ Equity	-0.3	0.0	0.1	0.3
Net Debt/EBITDA	-1.0	-0.1	0.5	1.2
Working Cap Cycle (days)	-51.4	-45.2	-48.1	-49.7

Recommendation History: Gas Authority of India Ltd. – GAIL IN

Date	Reports	Reco	CMP	Target
24/05/2011	GAIL Q4FY11 Result Update	Accumulate	430	510
19/01/2011	GAIL Q3FY11 Result Update	Accumulate	477	565
22/12/2010	Natural Gas Sector Report			

Recent Research Reports

Date	Reports	Reco	CMP	Target
21/07/2011	Petronet LNG Q1FY12 Result Update	Buy	153	170
31/05/2011	IOCL Q4FY11 Result Update	Accumulate	320	381
31/05/2011	BPCL Q4FY11 Result Update	Accumulate	627	684
31/05/2011	Indraprastha Gas Q4FY11 Result Update	Accumulate	330	382

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