Company report

GAIL India Ltd.

29th June, 2009

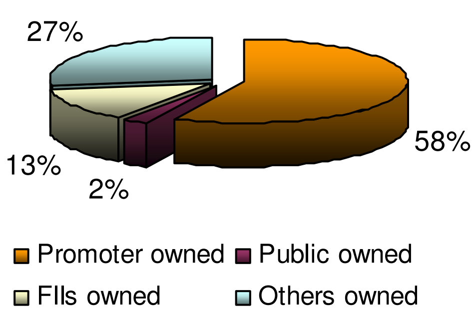
BUY

CMP	**Rs 290.05**
Target Price	**Rs 340.00**

BSE Code	532155
NSE Code	GAIL
Market Cap (Rs Mn)	367921.75
52 Week High/Low	317.00/165.00
Industry	Oil & Gas
Face Value	Rs 10.00
Shares O/S	1,26,84,77,400

EPS	22.28
CEPS	27.94
Book Value	121.41
P/E	13.02
P/B	2.39

Shareholding Pattern



Company Snapshot

Gas Authority of India Ltd. is India's flagship Natural Gas company. India's principal gas transmission and marketing company, was set up by the Government of India in August 1984 to create gas sector infrastructure for sustained development of the natural gas sector in the country. GAIL today has diversified into Petrochemicals, Telecom and Liquid Hydrocarbons besides gas infrastructure. The company has also extended its presence in Power, Liquefied Natural Gas (LNG) re-gasification, City Gas Distribution (CGD) and Exploration & Production (E&P) through equity and joint ventures participations.

Quarterly Financial Highlights

Rs Million

Particulars	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09
Sales	49430.70	57307.10	61726.10	58160.20	62339.50
Expenditures	37753.30	43312.80	46978.60	55456.80	51468.20
Operating Profit	11677.40	13994.30	14747.50	2703.40	10871.30
Net Profit	7223.80	8968.70	10234.50	2533.60	6300.20
OPM%	23.62	24.42	23.89	4.65	17.44
NPM %	14.61	15.65	16.58	4.36	10.11
EPS	8.54	10.61	12.10	2.00	4.97
CEPS	10.23	12.30	13.74	3.08	6.08

GAIL posted decent results for the quarter ended March 2009. There was an increase in the net sales by 26.11% from the corresponding quarter last year standing at Rs.62339.50 million up from Rs.49430.70 million. The operating profits for the company have fallen from Rs.11677.40 million to Rs.10871.30 million from Q4FY08 showing a dip of 6.90% from the same quarter last year. The company's net profit has surged from Rs.2533.60 million in Q3FY09 to Rs.6300.20 million in Q4FY09 and dropped from Rs.7223.80 million in Q4FY08 depicting a fall of 12.79%. This fall can be attributed to lower price realization and exploration & production costs. Both the margins have shown a decline. The Operating Profit Margin fell from 23.62% to 17.44% this fiscal and the Net Profit Margin stood at 10.11% as compared to last financial year's 14.61%. EPS for the quarter ended March 2009 stood at Rs.4.97. as compared to Rs.8.54 last fiscal. The EPS is calculated based on the equity standing in the corresponding quarter.

Business Details

GAIL is primarily engaged in sourcing, transmission and marketing of Natural Gas, production of Petrochemicals, LPG and allied services, telecommunications, power generation, oil exploration and production, LNG import and regassification and transportation and marketing of regassified LNG. They have 7 plants for Liquid Hydrocarbon across India with production capacity of 1.5 MMTPA (Million Metric Tonnes per annum). GAIL is the owner of world's longest exclusive LPG pipeline with seven gas processing facilities. They have North India's only gas based integrated Petrochemical complex at Pata with a capacity of producing 4,10,000 TPA of polymers. GAIL has 27 oil & gas Exploration blocks and 3 Coal Bed Methane blocks. The company has joint ventures in Delhi, Mumbai, Hyderabad, Kanpur, Agra, Lucknow, Bhopal, Agartala and Pune for supplying Piped Natural Gas (PNG) to households and commercial users and Compressed Natural Gas (CNG) to the transport sector. GAIL has constructed LNG terminal connecting Dahej to Vijapur and Kochi LNG terminal in Kerala. GAIL has a stake in China Gas Holding to explore the CNG sector opportunities. They also operate a wholly owned subsidiary called GAIL Global (Singapore) Pte Ltd in Singapore. They have entered the Egyptian market through equity participation in the CNG and City Gas sectors in 3 companies namely, Fayum Gas Company SAE, Shell CNG SAE and National Gas Company SAE. GAIL offers highly dependable bandwidth for telecom service providers with 13,000 kms of OFC network.

Segmental Outlook

The Oil and Gas industry has been playing a major role in the rapid growth of the Indian economy. The natural gas sector alongwith petroleum including their transportation, refining and marketing constitute more than 15% of the GDP. The production of Natural Gas has only increased year on year. The New Exploration Licensing Policy (NELP) designed to address the increasing gap in the demand and supply gap of Gas in India has attracted both domestic and foreign players. Demand for Gas in India is dominated by the power and fertilizer sectors that accounts for 66% of consumption. The demand for oil and gas is likely to increase from 176.40 million tonnes in 2007-2008. The gas sector is set for a major upturn due to the increase in availability of gas as a result of large-scale gas finds in India. The share of natural gas in the overall fuel mix is expected to increase to 20% by 2025. Apart from RIL and GSPL's network in Gujarat, Gail has a monopoly in long distance gas transmission. Reliance industries is planning to invest between US$5.45 billion to US$6.54 billion in the coming three years to lay a 10,000 km pipeline. ONGC also plans to invest US$696 million to increase its facilities at their Assam and Western Offshore oilfields to boost the output.

Investment Rationale

Expansion Plans

The company is in the process of expanding the gas pipeline network from 7000 km currently to 12500 km in next 3-4 years. Three of the major pipelines are Jagdishpura Haldiya, Dabhol Bangalore and Kochi Mangalore. The company is mapping the progress of laying pipelines to ensure that whenever incremental gas supply comes in, the company is ready with the gas transmission infrastructure to transport it to end customers. GAIL will invest over Rs.75,000 million in laying these gas pipelines. Rs.6500 million will be invested in E & P projects, Rs.2850 million will be invested in Petrochemicals, Rs.1300 million will be invested in business development, Rs.2500 million for equity investment in city gas projects, Rs.2,000 million in RGPPL. GAIL is also bidding for development of Nigeria's gas infrastructure alongwith Indian Oil Corporation.

Above Expectation Financials

The company has reported sustained performance in all the key financial parameters in the FY09. The turnover of the company in the year 2008-09 increased from Rs.189259.40 million to Rs.248575.20 million indicating a growth of 31.34% from the previous year. The top line growth is attributed to the increase in the natural gas transmission and natural gas sales and better realizations in Polymers, LPG and other liquid hydrocarbon segments. The profit before tax during the year 2008-09 increased by 4.36% from the last financial year standing at Rs.42809.80 million as compared to last year's Rs.41023.20 million. There was a marginal rise in the consolidated net profit for the year ended March 2009. During FY09, the company reported a profit of Rs.28263.50 million as opposed to previous year's Rs.27829.00 million. The EPS for FY09 stood at Rs.22.28 which has fallen from last year's Rs.32.91. Natural Gas continues to constitute the core business of GAIL.

Strong Segmental Performance

During the year 2008-09, natural gas sales have increased by 14 percent to 79.06 MMSCMD (Million Standard Cubic Metres Per Day) from 69.10 MMSCMD in the previous year. The Gas transmission has increased to 83.29 MMSCMD from 82.10 MMSCMD in the previous year. In 2008-09, total Liquid Hydrocarbon production including LPG was 1.401 million MT as compared to previous year's production of 1.347 million MT. Production of LPG was 1.088 million MT during the year against a production of 1.043 million MT in the last fiscal. The Propane production was 1,52,671 MT against the previous year's production of 155,873 MT. The Pentane production was 58,932 MT during the year 2008-09 as against 73,505 MT produced in the year 2007-08. The LPG and other Liquid Hydrocarbons sales during FY 2008-09 were 1.405 million MT as against 1.343 million MT in the previous year.

Consolidated Financial Matrix

Rs. Million

Particulars	FY06	FY07	FY08	FY09
Net sales	149028.60	166167.80	189259.40	248575.20
Growth%		11.50	13.90	31.75
Expenditure	111056.20	133715.80	144970.00	202608.50
EBITDA	37972.40	32452.00	44289.40	45966.70
Growth%		-14.54	36.48	6.44
EBITDA margin	25.48	19.53	23.40	18.49
Other income	4630.20	5591.00	4854.20	6338.70
Depreciation	6018.80	6216.00	6627.10	7183.50
EBIT	36583.80	31827.00	42516.50	45121.90
EBIT margin	24.55	19.15	22.46	18.15
Interest	1340.50	1217.10	1493.30	2312.10
PBT	35243.30	30609.90	41023.20	42809.80
Tax	10254.20	5435.30	13411.60	14909.30
Adjusted PAT	25142.20	25374.30	27611.50	28263.50
Growth %		0.92	9.67	2.36
Net Profit margins	16.87	15.27	14.70	11.37
Reported PAT	24390.50	25453.20	27829.00	28263.50
Equity Capital	8456.50	8456.50	8456.50	12684.80
Reserves & Surplus	94199.70	109773.50	127069.00	141323.90
Net Worth	102656.20	118230.00	135525.50	154008.70
Equity Shares	845.65	845.65	845.65	1268.48
EPS	29.73	30.01	32.91	22.28
CEPS	36.85	37.36	40.75	27.94

Ratios

Particulars	FY05	FY06	FY07	FY08
Sales to equity	17.62	19.65	22.38	19.60
RONW	24.49	21.46	20.53	18.35
Int Coverage ratio	27.29	26.15	28.47	19.52
Book Value	121.39	139.81	160.26	121.41

Past Price movement of the stock

Valuation

GAIL has come up with promising results for FY09. Petrochemicals contributed 11% in Sales. The petrochemical realizations are expected to be better in the future. Liquid Hydrocarbons added 19% to the Gross margins. GAIL has set a target of transmitting 94.8 MMSCMD of natural gas from domestic sources and through LNG route during FY 2009-10 under the Annual Memorandum of Understanding signed with Ministry of Petroleum and Natural Gas for performance targets for the Financial Year 2009-10. During the FY 2009-10, to achieve the Excellence in performance, the Company has also targeted for Gas Marketing target of around 83.2 MMSCMD. The MoU also provides for an 'Excellent' production target of 400 TMT of Polymers (HDPE & LLDPE - High-Density Polyethylene & Linear Low-Density Polyethylene) and 1,260 TMT of Liquid Hydrocarbons.

Presently, the company is running at a P/E multiple of 13.02x to its FY09 EPS of Rs.22.28.Based on the increase in the Gas sales and LPG transmission, we recommend BUY on the stock with a medium term price target of Rs.340.

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