



BSE Code: 532155 **NSE Code:** GAIL **Reuters Code:** GAIL.BO **Bloomberg Code:** GAIL:IN

GAIL (India) Ltd is a major integrated gas company with presence across the natural gas value chain and more than 70% market share in both gas transmission and marketing. It transmits more than 160 mmscmd of gas through its large pipeline network, accounting for about three-fourth of the natural gas transmitted in India. With a market capitalization of over ₹580 billion, GAIL aims to be a ₹1,000 billion turnover company by 2016-17.

Investor's Rationale

Despite of paying 28% higher fuel subsidy at ₹5.36 billion in Q3FY'12, GAIL India Ltd., (GAIL) has posted 12.8% yoy rise in Q3 FY'12 net profit at ₹10.91 billion, mainly on account of higher revenues from natural gas trading business, higher volumes and price realisation from LPG as well as better price realisation from petrochemicals business. However, turnover was up 34.6% at ₹112.60 billion in the Q3FY'12 mainly due to better performance from Petrochemical, Transmission and trading segment.

Under its strategic plan to reach a turnover of about ₹1,000 billion by 2016-17, GAIL is well on its road to establish pan-India presence by expanding its gas transmission network to over 14,500 km and has outlined a mega capex plan of ₹286.41 billion for the next 3 years from FY'12E to FY'14E, of which 39% will be dedicated towards expanding its pipeline infrastructure.

During Q3 FY'12, the petrochemical production went up by 16% on yoy basis to 118TMT from 102TMT due to a shutdown on account of fire at a petrochemical plant at Pata, UP. While, LPG and natural gas transmission plunged by 3% and 1% to 870TMT and 119.06 MMSCMD respectively on year basis. The gas production fell mainly due to decline in output at Reliance Industries Ltd.'s D6 block in the Krishna Godavari basin, off India's east coast. The Natural Gas sales were 84.94 mmscmd, up 2%yoy from 83.36 mmscmd during Q3FY'11.

GAIL's subsidy burden during Q3FY'12 increased by ~28% On YoY basis to stood at ₹5.36 billion against ₹4.18 billion in Q3FY'11. The surge in subsidy burden was mainly due to higher crude oil prices compared to previous year. However, the subsidy burden dropped by ~5% QoQ from ₹5.67 billion in Q2FY'12.

After marking its first stake purchase in a US shale gas asset in Q2 FY'12, GAIL is planning to buy further stakes in other shale gas assets in the US during the coming six months, as it intends to consolidate its presence in shale gas assets in the US and gain expertise for the exploration of an increasingly important fuel source ahead of India's plans to auction shale gas blocks.

Market Data

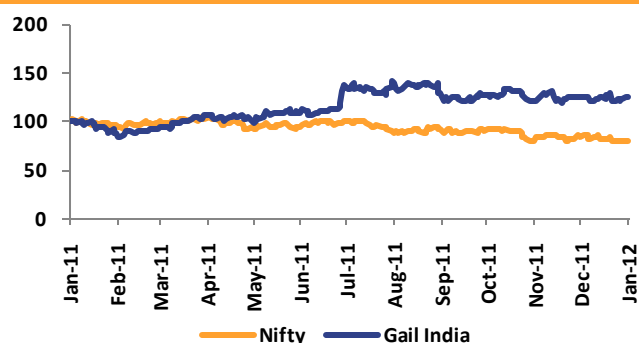
Recommendation	BUY
CMP (₹)	373
Target Price	431
Stop Loss	410
Duration	Mid-term
52-week High-Low (₹)	489/360
Rise from 52WL (%)	1.7
Correction from 52WH (%)	25.1
Beta	0.5
1 year Average Volume (mn)	1.0
Stock Return (%)	3M- (13.6)
	6M- (21.2)
	9M- (22.4)
Market Cap (₹bn)	464.3
Enterprise Value (₹bn)	531.8

Shareholding Pattern

	Sep11	Jun'11	Chg
Promoters (%)	57	57	-
FII (%)	14	13	(1.0)
DII (%)	25	25	-
Public & Others (%)	4	5	1.0

(₹ bn)	FY10	FY11	FY12E	FY13E
Revenue (₹bn)	270.3	352.2	405.0	437.4
Net Profit (₹bn)	32.9	39.8	41.1	47.2
Share Capital	12.7	12.7	12.7	12.7
EPS (₹)	26.0	31.4	32.4	37.2
PE (x)	16.3	13.5	13.0	11.3
P/BV (x)	3.0	2.5	2.1	1.8
EV/EBIDTA(x)	10.8	9.1	9.5	8.6

One Year Price Chart





Balance Sheet (Consolidated)

(₹million)	FY10A	FY11A	FY12E
Share Capital	12,684.8	12,684.8	12,684.8
Reserve and surplus	165,414.7	199,453.9	238,793.4
Net Worth	178,099.5	212,138.7	251,478.2
Minority Interest	2,302.2	5,471.9	5,471.9
Loan funds	54,007.5	69,041.0	124,292.6
Deferred Tax Liability	14,650.0	17,151.0	17,151.0
Capital Employed	249,059.2	303,802.6	398,393.7
Gross fixed assets	251,640.3	266,051.4	323,425.3
Less: acc. depreciation	98,336.1	106,429.4	115,393.2
Net Fixed assets	153,304.2	159,622.0	208,032.1
Capital WIP	48,818.4	106,367.9	151,187.4
Total Fixed Assets	202,122.6	265,989.9	359,219.5
Investment	10,651.3	12,362.5	12,500.0
Net Current Assets	36,285.3	25,450.4	26,674.2
Capital Deployed	249,059.2	303,802.8	398,393.7

Key Ratios

	FY10A	FY11A	FY12E
EBITDA Margin (%)	20.2	18.8	17.0
EBIT Margin (%)	17.1	16.3	14.8
NPM (%)	12.2	11.3	10.1
ROCE (%)	18.6	18.9	15.0
ROE (%)	18.5	18.8	16.3
EPS (₹)	26.0	31.4	32.4
CEPS(₹)	32.5	38.4	39.5
P/E (x)	14.1	11.7	11.3
BVPS (₹)	140.4	167.2	198.3
P/BVPS (x)	2.6	2.2	1.8
EV/Operating Income (x)	1.9	1.5	1.4

Profit & Loss Account (Consolidated)

(₹million)	FY10A	FY11A	FY12E
Operating Income	270,305.5	352,190.0	405,018.5
Operating Expenses	215,775.5	285,990.0	336,165.4
EBITDA	54,530.0	66,200.0	68,853.1
EBITDA Margin (%)	20.2	18.8	17.0
Depreciation	8,234.3	8,879.8	8,963.8
EBIT	46295.7	57320.2	59889.3
EBIT Margins (%)	17.1	16.3	14.8
Interest	3,850.0	3,778.6	6,750.0
Other Income	5,800.0	4,450.0	5,550.0
PBT	48,245.7	57,991.6	58,689.3
Tax	15,310.0	18,181.0	17,606.8
Net Profit	32,935.7	39,810.6	41,082.5
Net Profit Margin (%)	12.2	11.3	10.1

Valuation

GAIL has a long term strategy to capitalize on the prevailing strong and steady demand for Oil & Gas in India. The company's strategy to aggressively expand its assets based, enhanced visibility over transmission volumes, tied with apt management would augurs well for the company in ensuring days. Besides, the company has plans to spend around ₹90 billion on capital expenditure in 2012-13

GAIL is attractively placed at P/E of ~ 11.3x FY12E despite concerns regarding subsidy share. Considering the above aspects, we rate the stock as 'BUY' at the current market price of ₹373; the stock is expected to attract 'Premium' over other players.



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