

RESULTS

REVIEW

GAIL (India) Ltd.

Volume surprised negatively

HOLD

Analysts

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Nifty: 5,666; Sensex: 18,636

CMP	Rs361
Target Price	Rs367
Potential Upside/Downside	+2%

Key Stock Data

Sector	Oil and Gas
Bloomberg / Reuters	GAIL IN / GAIL.BO
Shares o/s (mn)	1,268
Market cap. (Rs mn)	457,540
Market cap. (US\$ mn)	8,460
3-m daily average vol.	68,025

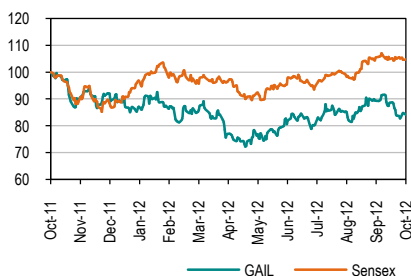
Price Performance

52-week high/low	Rs445/303		
	-1m	-3m	-12m
Absolute (%)	(6)	1	(16)
Rel to Sensex (%)	(5)	(7)	(21)

Shareholding Pattern (%)

Promoters	57.4
FII's/NRIs/OCBs/GDR	16.0
MFs/Banks/FIs	16.5
Govt.	7.2
Non Promoter Corporate	1.0
Public & Others	1.9

Relative to Sensex



Source: Capitaline

Summary

GAIL India's (GAIL) Q2FY13 results came below expectation owing to lower-than-expected volume across segments. The company's revenue increased 17% YoY to Rs114 bn, EBITDA margin contracted 483bps to 12.4% and net profit dipped 10% YoY to Rs9.9 bn. Gross profit increased by a substantial 12% YoY in case of gas transmission business and 4% YoY for petchem segments. However, the same fell by 15% and 77% for gas trading business and LHC segments, respectively. GAIL witnessed YoY volumes de-growth across segments – transmission/trading/petchem/LPG volume declined 11/4/6/5% YoY. Subsidy came in at Rs7.9 bn (Rs5.7 bn in Q2FY12).

The company is likely to start Dabhol LNG terminal from end-CY12 with initial capacity of 1.2mtpa. However, we have not factored the same in our model in FY13 as the terminal has had witnessed technical problems in past as well. Further, commissioning of first phase of Kochi-Bangalore pipeline has also been postponed by one quarter to March 2013. The company invested ~Rs28 bn in H1FY13 (39% in pipeline) and likely to invest Rs45 bn in H2FY13, primarily in pipeline and Petchem. The company is planning to double its Pata petrochemical plant capacity from current 440KT, which is likely to complete by FY14. We expect GAIL's transmission business volume to remain under-pressure over the next couple of years till we see same ramp-up in the domestic production and augmentation in R-LNG capacity. We maintain our estimates and target price at Rs367. Maintain HOLD.

Result Highlights

- Revenue grew 17% YoY; in-line with expectation

The company's revenue increased 17% YoY to Rs114 bn, in line with expectation. Growth was primarily driven by higher gas trading business revenue owing to higher realization. GAIL's revenue increased 17% YoY to Rs111 bn, in line with expectation. The company's lower volume growth across segments was offset by higher transmission tariff and higher gas price. GAIL witnessed YoY volumes de-growth across segments – transmission/trading/petchem/LPG volume declined 11/4/6/5% YoY. Subsidy came at Rs7.9 bn in Q2FY13 against Rs5.7 bn in Q2FY12 and our expectation of Rs7 bn.

- Lower profitability from gas trading and LHC segments disappointed PAT

EBITDA margin contracted significantly (483bps YoY) to 12.4% (IDBLEst 16.2%) due to lower profits from gas trading at LHC segment. The company's EBIT from gas trading business/LHC segments declined 15%/77% YoY to Rs2.5/0.9 bn in Q2FY13. This is mainly driven by lower margins and lower price realization of LPG. However, gross profit increased substantially 12% YoY in gas transmission business and 4% YoY in petchem segments to Rs7.6 bn and Rs4.6 bn respectively. Consequently, net profit decreased 10% YoY to Rs9.9 bn, lower than our expectation.

Financial snapshot

(Rs mn)

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY11	351,067	64,970	18.5	40,210	31.7	11.4	7.1	20.6	16.7
FY12	441,821	72,804	16.5	44,436	35.0	10.3	6.3	19.3	14.8
FY13E	459,810	81,379	17.7	48,695	38.4	9.4	5.6	18.2	13.9
FY14E	508,983	82,252	16.2	48,847	38.5	9.4	5.6	16.0	12.3

Source: Company; IDBI Capital Research

■ **Capex plan of Rs45 bn in H2FY13; Dabhol to start from end-CY12**

The company is likely to start Dabhol LNG terminal from end-CY12 with initial capacity of 1.2mtpa. However, we have not factored the same in our model in FY13 as the terminal has had witnessed technical problems in past as well. Further, commissioning of first phase of Kochi-Bangalore pipeline has also been postponed by one quarter to March 2013. The company invested ~Rs28 bn in H1FY13 (39% in pipeline) and likely to invest Rs45 bn in H2FY13, primarily in pipeline and Petchem. The company is planning to double its Pata petrochemical plant capacity from current 440KT, which is likely to complete by FY14.

■ **Maintain TP at Rs367; Maintain HOLD**

We expect GAIL's transmission business volume to remain under-pressure over the next couple of years till we see ramp-up in domestic production and augmentation in R-LNG capacity. The stock is trading at a P/E multiple of 9.4x and P/BV of 1.4x on FY14E. We maintain our estimates and target price at Rs367. **Maintain HOLD.**

Table: Actual vs. estimates

(Rs mn)

	Actual	Estimated	% change
Net sales	113,929	117,736	(3.2)
EBITDA	14,120	19,059	(25.9)
<i>EBITDA margin (%)</i>	12.4	16.2	(379)
Adj net income	9,854	11,677	(15.6)
FDEPS (Rs)	8.6	10.2	(15.6)

Source: Company; IDBI Capital Research

Table: Quarterly highlights

(Rs mn)

Year-end: March	Q2FY13	Q2FY12	YoY (%)	Q1FY13	QoQ (%)
Net sales	113,929	97,264	17.1	111,120	2.5
Expenditure	99,809	80,509	24.0	91,895	8.6
EBITDA	14,120	16,755	(15.7)	19,225	(26.6)
<i>EBITDA margin (%)</i>	12.4	17.2	(483)	17.3	(491)
Other income	2,368	1,160	104.1	378	526.4
Interest	261	226	15.5	588	(55.6)
Depreciation	2,491	2,008	24.1	2,169	14.8
PBT	13,736	15,682	(12.4)	16,846	(18.5)
Tax	3,882	4,738	(18.0)	5,508	(29.5)
PAT	9,854	10,944	(10.0)	11,338	(13.1)
EPS (Rs)	7.8	8.6	(10.0)	8.9	(13.1)

Source: Company; IDBI Capital Research

Table: Segmental performance

(Rs mn)

Year-end: March	Q2FY13	Q2FY12	YoY (%)	Q1FY13	QoQ (%)
Revenue					
Natural gas transmission	9,130	9,120	0.1	8,560	6.7
LPG transmission	(50)	1,100	(104.5)	1,140	(104.4)
Gas trading	87,320	67,350	29.7	84,280	3.6
Petrochem	8,750	9,280	(5.7)	5,630	55.4
LPG and other hydrocarbons	7,700	9,880	(22.1)	10,720	(28.2)
Realisation					
Natural gas transmission (Rs/tcm)	939	833	12.8	847	10.9
LPG transmission (Rs/tonne)	(62)	1,382	(104.5)	1,349	(104.6)
Gas trading (Rs/scm)	12.0	8.9	35.0	11.3	6.8
Petrochem (US\$/mt)	1,569	1,571	(0.1)	1,577	(0.5)
LPG and other hydrocarbons (US\$/mt)	386	571	(32.3)	615	(37.2)
Sales volume					
Natural gas transmission (mmscmd)	106	119	(11.2)	110	(3.8)
LPG transmission (KT)	813	796	2.1	845	(3.8)
Gas trading (mmscmd)	81	84	(3.9)	83	(2.9)
Petrochem (KT)	101	129	(21.7)	66	53.0
LPG and other hydrocarbons (KT)	361	378	(4.5)	322	12.1

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account (Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Revenues	351,067	441,821	459,810	508,983
Growth (%)	29.9	25.9	4.1	10.7
EBITDA	64,970	72,804	81,379	82,252
Growth (%)	18.7	12.1	11.8	1.1
Depreciation & amortisation	8,880	10,406	10,768	11,807
EBIT	56,090	62,398	70,611	70,445
Growth (%)	20.7	11.2	13.2	(0.2)
Interest	3,779	3,664	5,662	5,806
Other income	5,574	4,819	5,301	5,831
EBT	57,990	63,548	70,245	70,465
Effective tax rate (%)	31.4	30.7	31.4	31.4
Min int / inc from assoc	401	428	473	474
Reported net income	40,210	44,436	48,695	48,847
Adjusted net income	40,210	44,436	48,695	48,847
Growth (%)	20.8	10.5	9.6	0.3
Shares outstanding (mn)	1,268.5	1,268.5	1,268.5	1,268.5
Adjusted EPS (Rs)	31.7	35.0	38.4	38.5
Growth (%)	20.8	10.5	9.6	0.3
DPS (Rs)	7.5	8.7	7.5	7.5

Balance Sheet (Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Cash and cash eq	25,844	14,462	22,320	21,472
Accounts receivable	21,023	25,444	26,669	29,521
Inventories	10,586	17,257	11,495	12,725
Others current assets	65,716	93,684	88,233	97,669
Investments	12,363	12,841	12,841	12,841
Gross fixed assets	263,304	335,304	405,304	475,304
Net fixed assets	157,349	198,461	253,255	307,010
CWIP	106,368	145,081	145,081	145,081
Intangible assets	2,273	3,112	2,861	2,618
Deferred tax assets, net	(17,151)	(18,650)	(20,776)	(20,841)
Total assets	384,369	491,691	541,978	608,096
Accounts payable	31,039	26,843	25,464	28,187
Other current liabilities	24,374	49,668	47,114	52,153
Provisions	42,304	47,696	55,407	61,333
Debt funds	69,041	108,533	117,763	132,763
Other liabilities	5,472	9,820	9,820	9,820
Equity capital	12,685	12,685	12,685	12,685
Reserves & surplus	199,454	236,447	273,725	311,156
Shareholder's funds	212,139	249,132	286,410	323,841
Total liabilities	384,369	491,691	541,978	608,096
BVPS (Rs)	167.2	196.4	225.8	255.3

Cash Flow Statement (Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Net income + Depreciation	48,453	54,998	59,463	60,654
Non-cash adjustments	3,293	7,397	19,978	1,235
Changes in working capital	(5,950)	(14,175)	603	3,680
Cashflow from operations	45,796	48,219	80,044	65,569
Capital expenditure	(72,426)	(97,859)	(70,000)	(70,000)
Change in investments	(1,711)	(478)	-	-
Other investing cashflow	-	-	-	-
Cashflow from investing	(74,137)	(98,337)	(70,000)	(70,000)
Issue of equity	-	-	-	-
Issue/repay debt	14,909	46,015	9,230	15,000
Dividends paid	(11,093)	(12,532)	(11,416)	(11,416)
Other financing cashflow	5,663	6,177	-	-
Change in cash & cash eq	(18,862)	(10,459)	7,858	(848)
Closing cash & cash eq	25,844	14,462	22,320	21,472

Financial Ratios

Year-end: March	FY11	FY12	FY13E	FY14E
Profitability & Return ratios				
EBITDA margin (%)	18.5	16.5	17.7	16.2
EBIT margin (%)	16.0	14.1	15.4	13.8
Net profit margin (%)	11.5	10.1	10.6	9.6
ROE (%)	20.6	19.3	18.2	16.0
ROCE (%)	16.7	14.8	13.9	12.3
Working capital & Liquidity ratios				
Receivables (days)	19	19	21	20
Inventory (days)	14	16	16	12
Payables (days)	41	33	29	27
Current ratio (x)	2.2	2.0	2.0	2.0
Quick ratio (x)	0.8	0.5	0.7	0.6
Turnover & Leverage ratios				
Gross asset turnover (x)	1.4	1.5	1.2	1.2
Total asset turnover (x)	1.0	1.0	0.9	0.9
Interest coverage ratio (x)	14.8	17.0	12.5	12.1
Adjusted debt/equity (x)	0.3	0.4	0.4	0.4
Valuation ratios				
EV/Sales (x)	1.3	1.0	1.0	0.9
EV/EBITDA (x)	7.1	6.3	5.6	5.6
P/E (x)	11.4	10.3	9.4	9.4
P/BV (x)	2.2	1.8	1.6	1.4



Notes

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Key to Ratings**Stocks:**

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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