

GAIL India

Performance Highlights

Y/E March (₹ cr)	3QFY2012	3QFY2011	% chg (yoy)	2QFY2012	% chg (qoq)
Net sales	11,260	8,365	34.6	9,699	16.1
EBITDA	1,795	1,333	34.6	1,676	7.1
EBITDA margin (%)	15.9	15.9	0bp	17.3	(133)bp
Adj. PAT	1,091	968	12.8	1,094	(0.3)

Source: Company, Angel Research

For 3QFY2012, GAIL India (GAIL) reported a higher-than-expected performance. The company's net sales, EBITDA and PAT increased by 34.6%, 34.6% and 12.8% yoy, respectively. **We continue to maintain our Buy rating on the stock.**

Robust 3QFY2012 performance: During 3QFY2012, GAIL's top line grew by 34.6% yoy to ₹11,260cr, above our estimate of ₹9,587cr, mainly due to strong growth in the natural gas trading, petrochemical and LPG segments. Gross revenue of the natural gas trading, petrochemical and LPG segments grew by 35.1%, 53.7% and 32.6% yoy to ₹9,150cr, ₹878cr and ₹965cr, respectively. EBIT of the natural gas trading, petrochemical and LPG segments grew by 56.9%, 98.3% and 103.6% yoy to ₹323cr, ₹387cr and ₹305cr, respectively. However, EBIT of the natural gas transmission and LPG transmission segments decreased by 6.7% and 8.2% yoy to ₹621cr and ₹78cr, respectively. Consequently, GAIL's EBITDA increased by 34.6% yoy to ₹1,795cr in 3QFY2012. Tax rate increased to 31.7% in 3QFY2012, compared to 28.1% in 3QFY2011. Consequently, net profit grew by 12.8% yoy to ₹1,091cr, above our estimate of ₹1,018cr.

Outlook and valuation: The substantial capex slated ahead for transmission pipelines could see maximum capitalization on incremental gas production domestically. Also, any major oil/gas discovery could be a key catalyst for the stock. Over the last five years, GAIL has traded at an average one-year forward PE of 16.0x, while currently it is trading at PE of 12.0x FY2012E and 10.5x FY2013E. On P/B basis, the stock trades at 2.1x FY2012E and 1.8x FY2013E, compared to its five-year average P/BV of 2.7x. Further, considering the anticipated volume growth in the next two-three years, **we maintain our Buy rating on the stock with an SOTP target price of ₹440.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net sales	24,996	32,459	42,997	50,472
% chg	5.1	29.9	32.5	17.4
Net profit	3,140	3,561	3,945	4,494
% chg	12.0	13.4	10.8	13.9
OPM (%)	18.7	16.8	15.5	15.2
EPS (₹)	24.8	28.1	31.1	35.4
P/E (x)	15.1	13.3	12.0	10.5
P/BV (x)	2.8	2.5	2.1	1.8
RoE (%)	19.8	19.7	19.0	18.7
RoCE (%)	22.1	22.4	23.0	22.9
EV/Sales (x)	1.7	1.4	1.0	0.8
EV/EBITDA (x)	9.1	8.2	6.2	5.4

Source: Company, Angel Research

BUY

CMP	₹373
Target Price	₹440

Investment Period	12 Months
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Stock Info	
Sector	Oil & Gas
Market Cap (₹ cr)	47,296
Beta	0.5
52 Week High / Low	486/360
Avg. Daily Volume	100975
Face Value (₹)	10
BSE Sensex	17,194
Nifty	5,199
Reuters Code	GAIL.BO
Bloomberg Code	GAIL@IN

Shareholding Pattern (%)	
Promoters	57.3
MF / Banks / Indian Fls	25.2
FII / NRIs / OCBs	13.5
Indian Public / Others	4.0

Abs. (%)	3m	1yr	3yr
Sensex	(2.9)	(6.2)	68.7
GAIL	(11.7)	(20.9)	91.1

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Exhibit 1: 3QFY2012 performance (Standalone)

Y/E March (₹ cr)	3QFY2012	3QFY2011	% chg (yoy)	2QFY2012	% chg (qoq)
Net sales	11,260	8,365	34.6	9,699	16.1
COGS	8,380	6,251	34.1	7,224	16.0
Total operating expenditure	9,465	7,032	34.6	8,023	18.6
EBITDA	1,795	1,333	34.6	1,676	4.2
EBITDA margin (%)	15.9	15.9		17.3	
Other income	21	191	(88.8)	116	(81.6)
Depreciation	198	161	23.0	201	(1.6)
Interest	21	16	26.0	23	(8.4)
PBT	1,598	1,347	18.7	1,568	(1.3)
PBT margin (%)	14.2	16.1		16.2	
Total tax	507	379	33.6	474	6.9
% of PBT	31.7	28.1		30.2	
PAT	1,091	968	12.8	1,094	(4.8)
Exceptional items	-	-		-	
Adj. PAT	1,091	968	12.8	1,094	(4.8)
PAT margin (%)	9.7	11.6		11.3	

Source: Company, Angel Research

Exhibit 2: Segmental performance

Y/E March (₹ cr)	3QFY2012	3QFY2011	% chg (yoy)	2QFY2012	% chg (qoq)
NG trading	9,150	6,773	35.1	7,575	20.8
Petrochemical	878	571	53.7	938	(6.4)
LPG & liquid hydrocarbons	965	728	32.6	989	(2.4)
Transmission – NG	1087	1001	8.6	980	10.9
Transmission – LPG	122	129	(5.9)	110	10.7
Gaitel	-	-	-	-	-
Others	34	15	127.8	26	33.8
Total	12236	9218	32.7	10,617	15.2
Less: Inter segmental	976	853	14.5	918.26	6.3
Sales	11,260	8,365	34.6	9,699	16.1
EBIT					
NG trading	323	206	56.9	287	12.7
%EBIT	28.3	32.9		26.4	
Petrochemical	387	195	98.3	404	(4.1)
%EBIT	44.1	34.2		43.1	
LPG & Liquid hydrocarbons	305	150	103.6	352	(13.2)
%EBIT	31.6	20.6		35.6	
Transmission – NG	621	666	(6.7)	556	11.6
% EBIT	57.1	66.5		56.8	
Transmission – LPG	78	84	(8.2)	72	7.4
% EBIT	63.8	65.3		65.8	
Gaitel	-	-	-	-	-
% EBIT	-	-	-	-	-
Others	(44)	(17)	161	(82)	(46.7)
% EBIT	(126.6)	(110.6)		(318.1)	
Total EBIT	1,671	1,285	30.0	1,589	5.1
% EBIT	14.8	15.4		16.4	
Less: Interest	21	16	26.0	23	(8.4)
Less: Unallocable exp	(52)	78	(166)	(1)	3666.7
Profit before tax	1,598	1,347	18.7	1,568	1.9

Source: Company, Angel Research

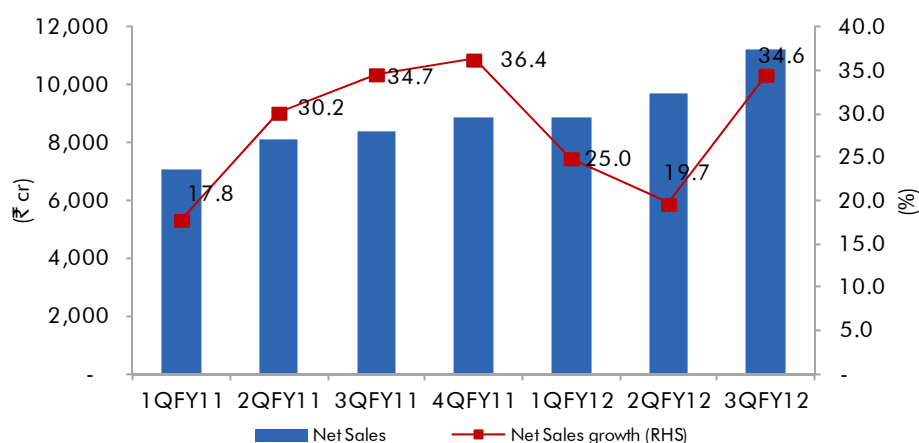
Exhibit 3: 3QFY2012 Actual vs. Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	11,260	9,587	17.4
EBITDA	1,795	1,486	20.8
EBITDA margin (%)	15.9	15.5	44bp
Adj. PAT	1,091	1,018	7.2

Source: Company, Angel Research

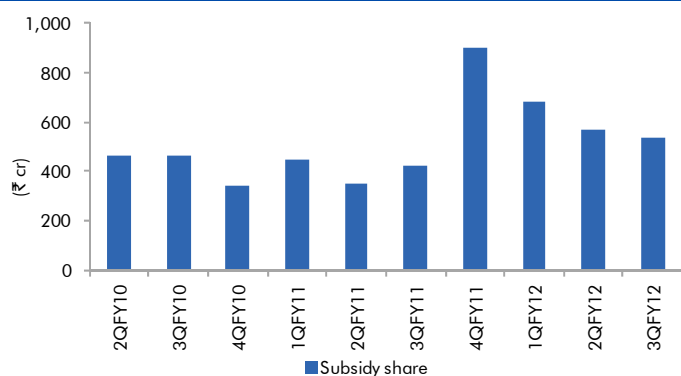
Top line above expectation, up 34.6% yoy: GAIL's top line grew by 34.6% yoy to ₹11,260cr, above our estimate of ₹9,587cr, mainly due to strong growth in the natural gas trading, petrochemical and LPG segments. Gross revenue of the natural gas trading, petrochemical and LPG segments grew by 35.1%, 53.7% and 32.6% yoy to ₹9,150cr, ₹878cr and ₹965cr, respectively. However, gas transmission volumes decreased by 0.8% yoy to 119mmscmd during 3QFY2012. The company's fuel subsidy burden increased by 27.6% yoy to ₹536cr in 3QFY2012.

Exhibit 4: Net sales grew by 34.6% yoy



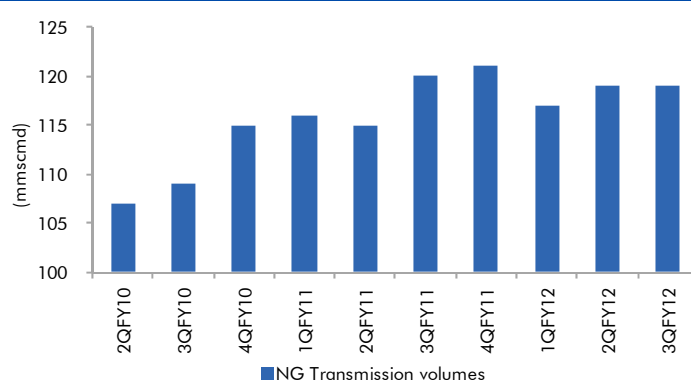
Source: Company, Angel Research

Exhibit 5: GAIL's subsidy share stood at ₹536cr



Source: Company, Angel Research

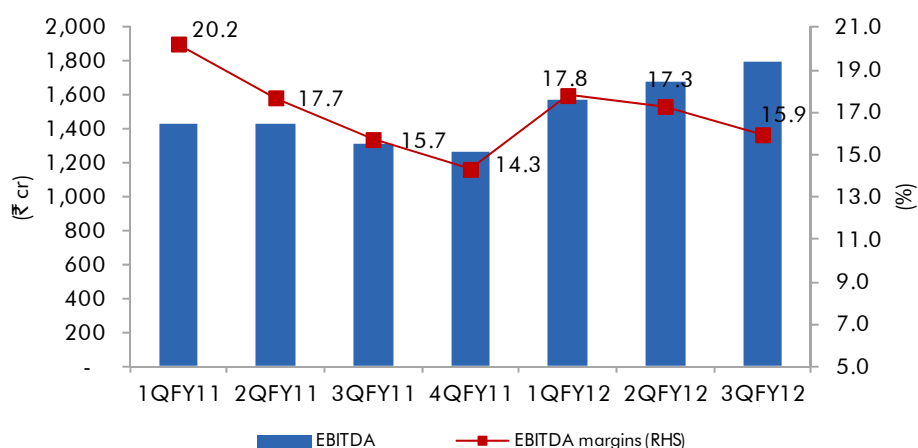
Exhibit 6: Transmission volumes decreased 0.8% yoy



Source: Company, Angel Research

EBITDA up by 34.6% yoy: EBIT of the natural gas trading, petrochemical and LPG segments grew by 56.9%, 98.3% and 103.6% yoy to ₹323cr, ₹387cr and ₹305cr, respectively. However, EBIT of the natural gas transmission and LPG transmission segments decreased by 6.7% and 8.2% yoy to ₹621cr and ₹78cr, respectively. Consequently, GAIL's EBITDA increased by 34.6% yoy to ₹1,795cr in 3QFY2012.

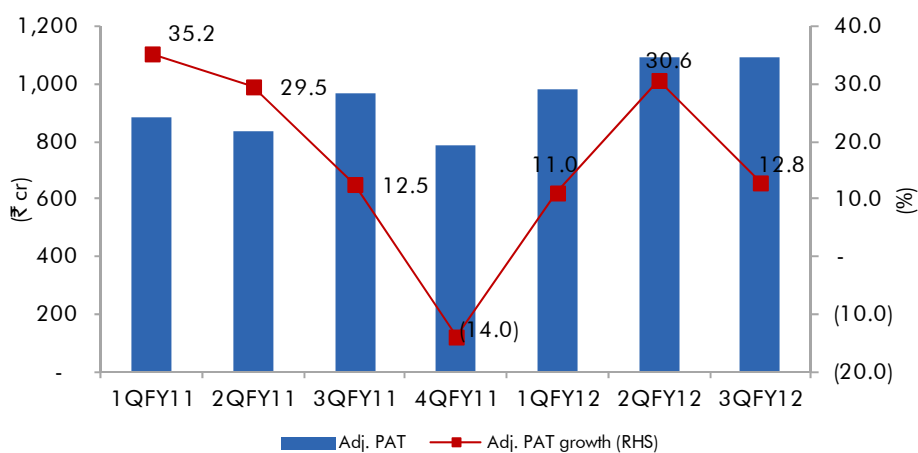
Exhibit 7: EBITDA grows by 34.6% yoy



Source: Company, Angel Research

Higher tax rate mutes bottom-line growth: Tax rate increased to 31.7% in 3QFY2012 compared to 28.1% in 3QFY2011. Consequently, net profit grew by 12.8% yoy to ₹1,091cr, above our estimate of ₹1,018cr. The company capitalized forex loss of ₹105cr in 3QFY2012. Consequently, there was no impact of foreign exchange fluctuations in the income statement.

Exhibit 8: Adjusted PAT grew by 12.8% yoy



Source: Company, Angel Research

Investment arguments

Volume story yet to unfold: GAIL is expanding its transmission capacity from 170mmscmd currently to 300mmscmd in the next two years for a capex of ₹30,000cr. The company expects incremental gas volumes from the KG basin, GSPC, marginal fields and new LNG terminals. Although stagnant production at the KG basin and higher LNG prices are a cause of concern on the volume front in the near term, we believe GAIL's volume growth could be strong (over the medium term) as and when KG-D6 ramps up its production.

Upstream segment could see triggers: GAIL's asset portfolio includes prospective basins such as Myanmar fields and CBM blocks. We view these blocks as a potential upside for the stock. Of the 27 exploratory blocks owned by GAIL, nine blocks have potential hydrocarbon discoveries. Any material success in the form of a major discovery could be a key catalyst for the stock.

Outlook and valuation

The substantial capex slated ahead for transmission pipelines could see maximum capitalization on incremental gas production domestically. Also, any major oil/gas discovery could be a key catalyst for the stock.

Over the last five years, GAIL has traded at an average one-year forward PE of 16.0x, while currently it is trading at a PE of 12.0x FY2012E and 10.5x FY2013E. On a P/B basis, the stock trades at 2.1x FY2012E and 1.8x FY2013E, compared to its five-year average P/BV of 2.7x. Further, considering the anticipated volume growth in the next two-three years, **we maintain our Buy rating on the stock with an SOTP target price of ₹440.**

A cap on gas marketing margin (which is currently under review by PNGRB) could be a key risk to our estimates and target price (in case the cap is significantly lower than the marketing margin charged by GAIL).

Exhibit 9: SOTP valuation (FY2013E)

Business segment (₹ cr)	EV	₹/share
NG transmission (EV/EBITDA 5.0x)	19,810	156
LPG transmission (EV/EBITDA 5.0x)	1,892	15
NG trading (EV/EBITDA 5.0x)	4,488	35
Petrochemicals (EV/EBITDA 5.0x)	10,457	82
LPG and liquid hydrocarbons (EV/EBITDA 5.0x)	7,698	61
E&P upsides (EV/boe 5.0x)	3,430	27
Investments (Book/Market Value X 70%)	4,978	39
Total EV	52,754	416
Net debt	(3,013)	(24)
Equity value (₹)	55,767	440

Source: Company, Angel Research

Exhibit 10: Key assumptions

Particulars	FY2012E	FY2013E
Gas transmission volumes (mmscmd)	119	125
Gas trading volumes (mmscmd)	90	97

Source: Company, Angel Research

Exhibit 11: Angel EPS forecast vs. consensus

(₹)	Angel forecast	Bloomberg consensus	Variation (%)
FY2012E	31.1	32.2	(3.4)
FY2013E	35.4	34.5	2.7

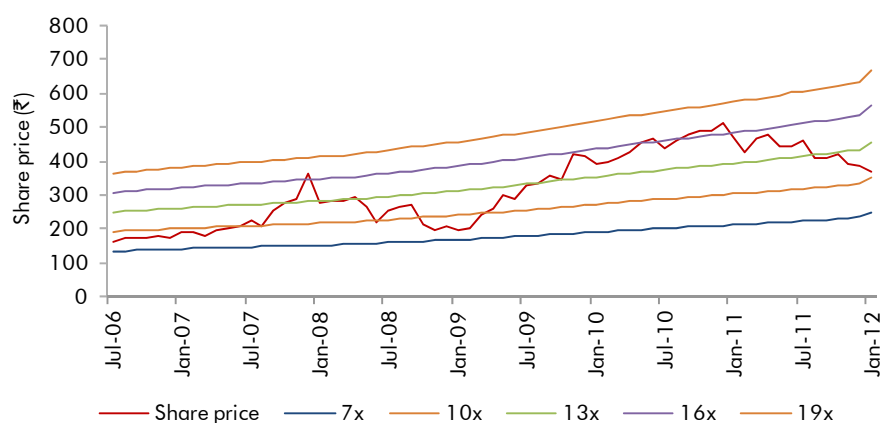
Source: Company, Angel Research

Exhibit 12: Recommendation summary

Company	CMP (₹)	TP (₹)	Reco.	Mcap (₹ cr)	Upside (%)	P/E (x)		P/BV (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)	
						FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
RIL	815	923	Accum.	267,037	13	12.7	11.8	1.4	1.3	7.1	6.7	12.9	12.4	9.6	9.8
ONGC	276	325	Buy	236,003	18	8.8	8.3	1.8	1.5	3.8	3.3	21.5	19.9	20.4	19.1
Cairn India	340	367	Accum.	64,648	8	7.7	6.6	1.3	1.1	5.6	4.0	18.8	18.4	18.9	18.7
GAIL	373	440	Buy	47,296	18	12.0	10.5	2.1	1.8	6.2	5.4	19.0	18.7	23.0	22.9

Source: Angel Research

Exhibit 13: One-year forward P/E



Source: Company, Angel Research

Profit and Loss Statement (Standalone)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Total operating income	18,008	23,776	24,996	32,459	42,997	50,472
% chg	12.2	32.0	5.1	29.9	32.5	17.4
Total Expenditure	14,081	19,711	20,327	27,004	36,336	42,776
Net Raw Materials	11,165	16,452	17,609	22,006	29,611	34,858
Other Mfg costs	728	870	950	2,046	2,753	3,241
Personnel	470	577	621	753	1,013	1,192
Other	1,717	1,813	1,147	2,199	2,959	3,484
EBITDA	3,927	4,065	4,669	5,455	6,661	7,696
% chg	31.4	3.5	14.9	16.8	22.1	15.5
(% of Net Sales)	21.8	17.1	18.7	16.8	15.5	15.2
Depreciation & Amortisation	571	560	562	650	916	1,120
EBIT	3,356	3,505	4,107	4,804	5,746	6,577
% chg	39.0	4.4	17.2	17.0	19.6	14.5
(% of Net Sales)	18.6	14.7	16.4	14.8	13.4	13.0
Interest & other Charges	80	87	70	83	84	113
Other Income	556	797	541	519	144	189
(% of PBT)	14.5	18.9	11.8	9.9	2.5	2.8
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	3,833	4,214	4,578	5,240	5,806	6,653
% chg	34.4	9.9	8.6	14.4	10.8	14.6
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	3,833	4,214	4,578	5,240	5,806	6,653
Tax	1,254	1,400	1,439	1,679	1,861	2,160
(% of PBT)	32.7	33.2	31.4	32.0	32.0	32.5
PAT (reported)	2,580	2,814	3,140	3,561	3,945	4,494
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
Prior period items	(22)	10	-	-	-	-
PAT after MI (reported)	2,601	2,804	3,140	3,561	3,945	4,494
ADJ. PAT	2,601	2,804	3,140	3,561	3,945	4,494
% chg	(4.6)	7.8	12.0	13.4	10.8	13.9
(% of Net Sales)	14.4	11.8	12.6	11.0	9.2	8.9
Basic EPS (₹)	20.5	22.1	24.8	28.1	31.1	35.4
Fully Diluted EPS (₹)	20.5	22.1	24.8	28.1	31.1	35.4
% chg	9.0	7.8	12.0	13.4	10.8	13.9

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
SOURCES OF FUNDS						
Equity Share Capital	846	1,268	1,268	1,268	1,268	1,268
Reserves & Surplus	12,159	13,501	15,655	17,985	20,979	24,458
Shareholders' Funds	13,005	14,770	16,924	19,253	22,247	25,726
Minority Interest	-	-	-	-	-	-
Total Loans	1,266	1,200	1,480	2,310	2,826	3,321
Deferred Tax Liability	1,320	1,326	1,390	1,633	1,633	1,633
Total Liabilities	15,590	17,296	19,794	23,197	26,706	30,680
APPLICATION OF FUNDS						
Gross Block	16,958	17,604	17,904	22,144	28,844	36,344
Less: Acc. Depreciation	8,025	8,554	9,115	9,741	10,656	11,776
Net Block	8,933	9,050	8,789	12,404	18,188	24,569
Capital Work-in-Progress	817	2,426	5,426	5,879	2,380	930
Goodwill	-	-	-	-	-	-
Investments	1,491	1,737	2,073	2,583	2,583	2,583
Current Assets	10,410	12,237	13,884	11,146	15,879	16,387
Cash	4,473	3,456	4,343	2,131	6,389	6,334
Loans & Advances	4,237	6,621	7,606	6,250	6,250	6,250
Other	1,700	2,159	1,935	2,765	3,240	3,803
Current liabilities	6,060	8,155	10,378	8,815	12,323	13,788
Net Current Assets	4,350	4,082	3,506	2,331	3,556	2,599
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	15,590	17,296	19,794	23,197	26,706	30,680

Cash Flow (Standalone)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Profit before tax	3,855	4,204	4,578	5,240	5,806	6,653
Depreciation	571	560	562	650	916	1,120
Change in Working Capital	657	(749)	1,453	(893)	3,033	901
Others	(556)	(797)	(541)	(436)	-	-
Less: Other income	-	-	-	-	(144)	(189)
Direct taxes paid	(1,253)	(1,394)	(1,375)	(1,484)	(1,861)	(2,160)
Cash Flow from Operations	3,274	1,824	4,677	3,077	7,751	6,325
(Inc.)/ Dec. in Fixed Assets	(905)	(2,256)	(3,300)	(4,632)	(3,201)	(6,050)
(Inc.)/ Dec. in Investments	(27)	(246)	(336)	(509)	-	-
Others	556	797	220	412	-	-
Other income	-	-	-	-	144	189
Cash Flow from Investing	(376)	(1,706)	(3,416)	(4,729)	(3,057)	(5,861)
Issue of Equity	-	-	-	-	-	-
Inc./ (Dec.) in loans	(72)	(66)	280	984	516	495
Dividend Paid (Incl. Tax)	(989)	(1,039)	(1,113)	(1,109)	(951)	(1,015)
Others	(25)	(31)	287	(263)	-	-
Cash Flow from Financing	(1,086)	(1,136)	(546)	(388)	(435)	(520)
Inc./ (Dec.) in Cash	1,813	(1,017)	715	(2,040)	4,258	(55)
Opening Cash balances	2,660	4,473	3,456	4,172	2,131	6,389
Closing Cash balances	4,473	3,456	4,172	2,131	6,389	6,334

Key Ratios

Y/E March	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Valuation Ratio (x)						
P/E (on FDEPS)	18.2	16.9	15.1	13.3	12.0	10.5
P/CEPS	14.9	14.1	12.8	11.2	9.7	8.4
P/BV	3.6	3.2	2.8	2.5	2.1	1.8
Dividend yield (%)	1.8	1.9	2.0	2.0	0.0	0.0
EV/Sales	2.4	1.8	1.7	1.4	1.0	0.8
EV/EBITDA	10.8	10.7	9.1	8.2	6.2	5.4
EV/Total Assets	2.7	2.5	2.1	1.9	1.5	1.4
Per Share Data (₹)						
EPS (Basic)	20.5	22.1	24.8	28.1	31.1	35.4
EPS (fully diluted)	20.5	22.1	24.8	28.1	31.1	35.4
Cash EPS	25.0	26.5	29.2	33.2	38.3	44.3
DPS	6.7	7.0	7.5	7.5	7.5	8.0
Book Value	102.5	116.4	133.4	151.8	175.4	202.8
DuPont Analysis (%)						
EBIT margin	18.6	14.7	16.4	14.8	13.4	13.0
Tax retention ratio	67.3	66.8	68.6	68.0	68.0	67.5
Asset turnover (x)	1.6	1.9	1.7	1.8	2.1	2.3
ROIC (Post-tax)	20.1	18.8	19.2	17.9	18.9	19.9
Cost of Debt (Post Tax)	-	-	-	-	-	-
Leverage (x)	-	-	-	-	-	-
Operating ROE	20.1	18.8	19.2	17.9	18.9	19.9
Returns (%)						
ROCE (Pre-tax)	22.6	21.3	22.1	22.4	23.0	22.9
Angel ROIC (Pre-tax)	34.0	32.3	38.3	38.1	34.7	31.8
ROE	21.3	20.2	19.8	19.7	19.0	18.7
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.1	1.4	1.4	1.6	1.7	1.5
Inventory / Sales (days)	11.4	9.0	9.0	8.4	8.1	8.2
Receivables (days)	18.9	19.8	20.4	18.0	17.4	17.2
Payables (days)	77.1	69.8	86.4	69.0	65.4	76.8
WC cycle (ex-cash) (days)	4.2	3.9	(1.5)	(3.6)	(11.2)	(23.7)
Solvency ratios (x)						
Net debt to equity	(0.4)	(0.3)	(0.3)	(0.1)	(0.3)	(0.2)
Net debt to EBITDA	(1.2)	(1.0)	(1.1)	(0.4)	(0.9)	(0.7)
Interest Coverage (EBIT/Interest)	42.2	40.3	58.7	58.0	68.8	58.3

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	GAIL
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	