

GAIL India

Performance Highlights

Quarterly highlights (Standalone)

Y/E March (₹ cr)	2QFY2013	2QFY2012	% chg (yoy)	1QFY2013	% chg (qoq)
Net sales	11,361	9,699	17.1	11,089	2.5
EBITDA	1,380	1,676	(17.6)	1,899	(27.3)
EBITDA margin (%)	12.1	17.3	(513)bp	17.1	(498)bp
Adj. PAT	985	1,094	(10.0)	1,134	(13.1)

Source: Company, Angel Research

For 2QFY2013, GAIL India (GAIL) reported a lower-than-expected profit due to lower-than-expected profit from natural gas trading and LPG segments. **We maintain our Neutral rating on the stock.**

Top-line grew by 17.1% yoy: GAIL's top-line grew by 17.1% yoy to ₹11,361cr below our estimate of ₹12,196cr, mainly due to weak performance in the natural gas trading segment and the LPG segment. The revenues from the natural gas trading business grew by 28.0% yoy to ₹9,697cr. However, gas transmission volumes decreased by 10.9% yoy to 106mmscmd during 2QFY2013. The company's share of fuel subsidy burden increased by 38.6% yoy to ₹786cr in 2QFY2013.

EBITDA declines by 17.6% yoy: The EBIT of the natural gas trading and LPG segments decreased by 14.6% and 81.1% yoy to ₹245cr and ₹66cr, respectively. Consequently, GAIL's EBITDA decreased by 17.6% yoy to ₹1,380cr; the EBITDA margin also contracted by 513bp yoy to 12.1% in 2QFY2013.

Higher other income mutes bottom-line decline: Other income increased by 104.1% yoy to ₹237cr whereas the interest costs increased by 15.5% yoy to ₹26cr. Consequently, the net profit decreased by 10.0% yoy to ₹985cr, much below of our estimate of ₹1,129cr.

Outlook and valuation: Over the past one year, gas production from the KG basin has declined significantly. Further, we do not expect any meaningful increase in the production at KG D6 over the coming two years. Hence, we expect utilization levels for GAIL's pipelines to remain low during FY2013-14. Moreover, a cap on the gas marketing margin (which is currently under review by the Petroleum and Natural Gas Regulatory Board [PNGRB]) would remain an overhang on the stock. Hence, **we maintain our Neutral rating on the stock.**

Key financials - Standalone

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net sales	32,459	40,398	46,652	54,142
% chg	29.9	24.5	15.5	16.1
Net profit	3,561	3,654	4,314	4,472
% chg	13.4	2.6	18.1	3.7
OPM (%)	16.8	14.4	15.7	15.7
EPS (₹)	28.1	28.8	34.0	35.3
P/E (x)	12.9	12.6	10.7	10.3
P/BV (x)	2.4	2.1	1.8	1.6
RoE (%)	19.7	17.9	18.5	16.8
RoCE (%)	22.4	19.3	19.8	18.1
EV/Sales (x)	1.3	1.1	0.9	0.7
EV/EBITDA (x)	7.9	8.0	5.8	4.7

Source: Company, Angel Research

NEUTRAL

CMP	₹363
Target Price	-
Investment Period	-

Stock Info

Sector	Oil & Gas
Market Cap (₹ cr)	46,103
Net debt (₹ cr)	0.7
Beta	3,958
52 Week High / Low	432/303
Avg. Daily Volume	69,628
Face Value (₹)	10
BSE Sensex	18,625
Nifty	5,664
Reuters Code	GAIL.BO
Bloomberg Code	GAIL@IN

Shareholding Pattern (%)

Promoters	57.3
MF / Banks / Indian FIs	16.5
FII / NRIs / OCBs	15.2
Indian Public / Others	11.0

Abs. (%)	3m	1yr	3yr
Sensex	11.9	7.7	11.3
GAIL	5.7	(15.2)	1.6

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Exhibit 1: 2QFY2013 performance (Standalone)

Y/E March (₹ cr)	2QFY2013	2QFY2012	% (yoy)	1QFY2013	% (qoq)	1HFY2013	1HFY2012	% (yoy)
Net sales	11,361	9,699	17.1	11,089	2.5	22,450	18,566	20.9
COGS	9,163	7,224	26.8	8,085	13.3	17,248	14,014	23.1
Total operating expenditure	9,981	8,023	24.4	9,190	8.6	19,170	15,314	25.2
EBITDA	1,380	1,676	(17.6)	1,899	(27.3)	3,279	3,253	0.8
EBITDA margin (%)	12.1	17.3		17.1		14.6	17.5	
Other income	237	116	104.1	38	526.4	275	181	52.0
Depreciation	249	201	24.1	217	14.8	466	379	23.0
Interest	26	23	15.5	59	(55.6)	85	43	95.6
PBT	1,374	1,568	(12.4)	1,685	(18.5)	3,058	3,011	1.6
PBT margin (%)	12.1	16.2		15.2		13.6	16.2	
Total tax	388	474	(18.1)	551	(29.5)	939	932	0.8
% of PBT	28.3	30.2		32.7		30.7	31.0	
PAT	985	1,094	(10.0)	1,134	(13.1)	2,119	2,079	1.9
Exceptional items	-	-		-		-	-	
Adj. PAT	985	1,094	(10.0)	1,134	(13.1)	2,119	2,079	1.9
PAT margin (%)	8.7	11.3		10.2		9.4	11.2	

Source: Company, Angel Research

Exhibit 2: Segmental performance (Standalone)

Y/E March (₹ cr)	2QFY2013	2QFY2012	% (yoy)	1QFY2013	% (qoq)	1HFY2013	1HFY2012	% (yoy)
NG trading	9,697	7,575	28.0	9,242	4.9	18,939	14,781	28.1
Petrochemical	880	938	(6.2)	574	53.2	1,454	1,575	(7.7)
LPG & liquid hydrocarbons	769	989	(22.2)	1072	(28.2)	1842	1803	2.2
Transmission – NG	985	980	0.5	915	7.6	1900	1919	(1.0)
Transmission – LPG	(4)	110	(103.6)	114	(103.4)	110	224	(51.0)
Gaitel	-	-	-	-	-	-	-	-
Others	76	26	194.7	56	35.3	132	48	176.5
Total	12,403	10,617	16.8	11,973	3.6	24,376	20,349	19.8
Less: Inter segmental	1041	918	13.4	885	17.7	1926	1782	8.1
Sales	11,361	9,699	17.1	11,089	2.5	22,450	18,566	20.9
EBIT								
NG trading	245	287	(14.6)	496	(50.6)	740	600	23.5
%EBIT	39.6	26.4	-	18.6	-	25.6	24.6	-
Petrochemical	418	404	3.5	196	113.6	614	647	(5.2)
%EBIT	47.5	43.1	-	34.1	-	42.2	-	-
LPG & Liquid hydrocarbons	66	352	(81.1)	437	(84.8)	504	581	(13.2)
%EBIT	8.6	35.6	-	40.8	-	27.4	-	-
Transmission – NG	605	556	8.7	567	6.6	1,172	1,208	(3.0)
% EBIT	61.4	56.8	-	62.0	-	61.7	-	-
Transmission – LPG	(49)	72	(167.7)	71	(169.0)	22	141	(84.4)
% EBIT	1254.4	65.8	-	62.4	-	20.1	-	-
Gaitel	-	-	-	-	-	-	-	-
% EBIT	-	-	-	-	-	-	-	-
Others	7	(82)	(108)	8	(14.2)	15	(115)	(113)
% EBIT	-	-	-	-	-	-	-	-
Total EBIT	1,292	1,589	(18.7)	1,775	(27.2)	3,067	3,062	0.2
% EBIT	11.4	16.4	-	16.0	-	13.7	-	-
Less: Interest	26	23	15.5	59	(55.6)	85	43	95.6
Less: Unallocable exp	108	(1)	-	(32)	-	76	7	-
Profit before tax	1,374	1,568	(12.4)	1,685	(18.5)	3,058	3,011	1.6

Source: Company, Angel Research

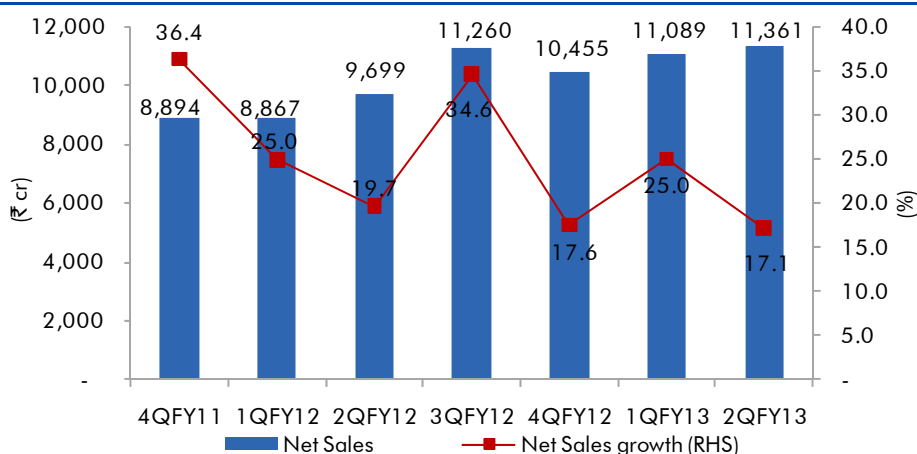
Exhibit 3: 2QFY2013 Actual vs Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	11,361	12,196	(6.8)
EBITDA	1,380	1,915	(27.9)
EBITDA margin (%)	12.1	15.7	(355)bp
Adj. PAT	985	1,129	(12.7)

Source: Company, Angel Research

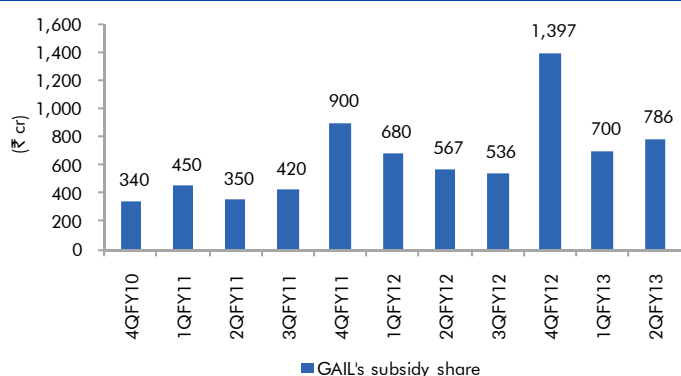
Top-line grew by 17.1% yoy: GAIL's top-line grew by 17.1% yoy to ₹11,361cr below our estimate of ₹12,196cr, mainly due to weak performance in the natural gas trading segment and LPG segment. The revenues from the natural gas trading business grew by 28.0% yoy to ₹9,697cr. However, gas transmission volumes decreased by 10.9% yoy to 106mmscmd during 2QFY2013. The company's share of fuel subsidy burden increased by 38.6% yoy to ₹786cr in 2QFY2013.

Exhibit 4: Net sales grew by 17.1% yoy



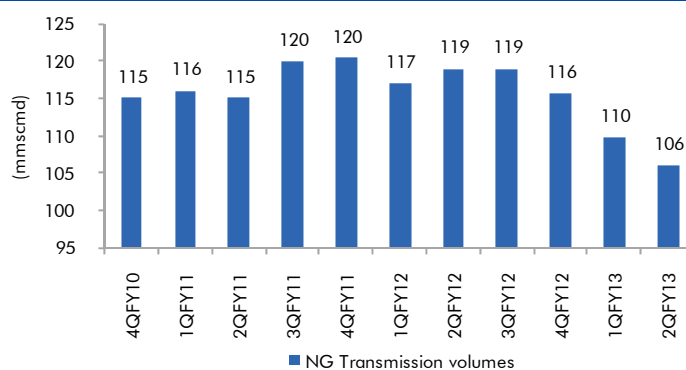
Source: Company, Angel Research

Exhibit 5: GAIL's subsidy share stood at ₹786cr



Source: Company, Angel Research

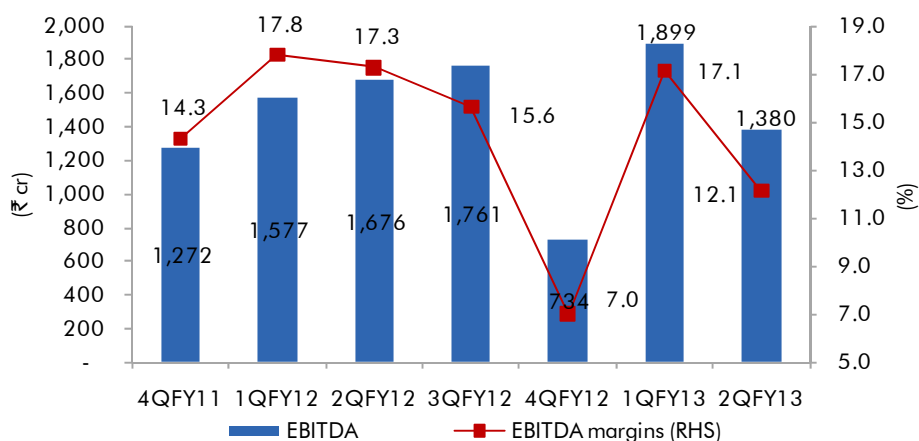
Exhibit 6: Transmission volumes continue to decline



Source: Company, Angel Research

EBITDA declines by 17.6% yoy: The EBIT of the natural gas trading and LPG segments decreased by 14.6% and 81.1% yoy to ₹245cr and ₹66cr, respectively. Consequently, GAIL's EBITDA decreased by 17.6% yoy to ₹1,380cr; the EBITDA margin also contracted by 513bp yoy to 12.1% in 2QFY2013.

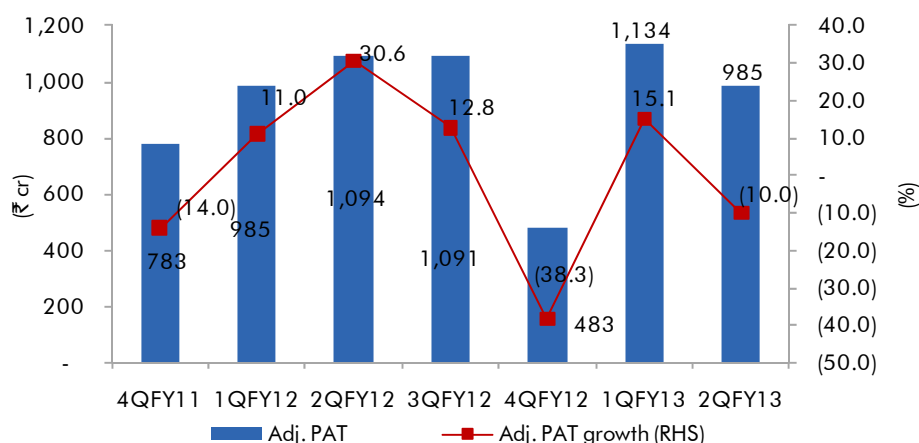
Exhibit 7: EBITDA stood at ₹1,380cr



Source: Company, Angel Research

Higher other income mutes bottom-line decline: Other income increased by 104.1% yoy to ₹237cr whereas the interest costs increased by 15.5% yoy to ₹26cr. Consequently, the net profit decreased by 10.0% yoy to ₹985cr, below our estimate of ₹1,129cr.

Exhibit 8: Adjusted PAT declined by 10.0% yoy



Source: Company, Angel Research

Investment arguments

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.

Falling domestic gas production remains a concern: GAIL is expanding its transmission capacity from 170mmscmd currently to 300mmscmd in the next two years. However, gas production from the KG basin has declined significantly over the past one year. Looking ahead, we do not expect any meaningful increase in production in the production at KG D6 in the coming two years. Hence, we expect utilization levels for GAIL's pipelines to remain low during FY2013-14.

Outlook and valuation

Over the past one year, gas production from the KG basin has declined significantly. Further, we do not expect any meaningful increase in KG D6 production over the coming two years. Hence, we expect utilization levels for GAIL's pipelines to remain low during FY2013-14. Further, a cap on gas marketing margin (which is currently under review by PNGRB) would remain an overhang on the stock. Hence, **we maintain our Neutral rating on the stock.**

Exhibit 9: SOTP valuation (FY2014E)

Business segment (₹ cr)	EV	₹/share
NG transmission (EV/EBITDA 4.0x)	16,111	127
LPG transmission (EV/EBITDA 4.0x)	1,469	12
NG trading (EV/EBITDA 4.0x)	2,527	20
Petrochemicals (EV/EBITDA 4.0x)	9,021	71
LPG and liquid hydrocarbons (EV/EBITDA 4.0x)	6,419	51
E&P upsides (EV/boe 4.0x)	1,829	14
Investments (Book/Market Value X 80%)	4,478	35
Total EV	41,854	330
Net debt	(2,743)	(22)
Equity value (₹)	44,597	352

Source: Company, Angel Research

Exhibit 10: Key assumptions

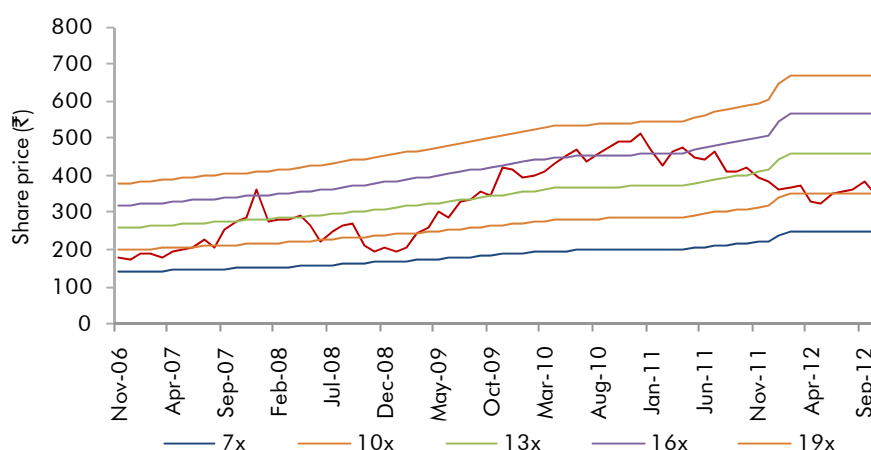
Particulars	FY2013E	FY2014E
Gas transmission volumes (mmscmd)	110	115
Gas trading volumes (mmscmd)	84	89

Source: Company, Angel Research

Exhibit 11: Angel EPS forecast vs consensus

(₹)	Angel forecast	Bloomberg consensus	Variation (%)
FY2013E	34.0	34.4	(1.1)
FY2014E	35.3	36.8	(4.2)

Source: Company, Angel Research

Exhibit 12: One-year forward P/E


Source: Company, Angel Research

Exhibit 13: Recommendation summary

Company	CMP (₹)	TP (₹)	Reco.	Mcap (₹ cr)	Upside (%)	P/E (x)		P/BV (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)	
						FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
RIL	799	-	Neutral	263,048	-	13.3	12.6	1.3	1.2	8.4	7.6	11.0	10.6	7.4	7.7
ONGC	275	312	Accum.	235,361	13	9.1	8.7	1.6	1.4	4.0	3.7	18.3	17.2	19.3	18.4
Cairn India	335	382	Accum.	64,047	14	5.5	5.9	1.1	1.0	3.7	3.3	22.0	17.5	21.4	17.1
GAIL	363	-	Neutral	46,103	-	10.7	10.3	1.8	1.6	5.8	4.7	18.5	16.8	19.8	18.1

Source: Angel Research

Company background

Incorporated in August 1984, GAIL is India's flagship transmission and distribution natural gas company engaged in the businesses of natural gas, LPG, liquid hydrocarbons and petrochemicals. The company's segments include natural gas marketing, natural gas transmission, liquefied petroleum gas (LPG) transmission projects and other hydrocarbon production. Currently, GAIL operates a natural gas transmission network of ~8,000km, with a capacity of 170mmscmd. The company also has 27 oil and gas exploration blocks and three coal bed methane blocks. The company has also diversified into exploration and production and city gas distribution (CGD).

Profit and Loss Statement (Standalone)

Y/E March (₹ cr)	FY09	FY10	FY11	FY12	FY13E	FY14E
Gross sales	24,292	25,376	32,953	40,843	47,363	54,967
Less: Excise duty	516	379	494	562	710	824
Net Sales	23,776	24,996	32,459	40,281	46,652	54,142
Other operating income	-	-	-	117	-	-
Total operating income	23,776	24,996	32,459	40,398	46,652	54,142
% chg	32.0	5.1	29.9	24.5	15.5	16.1
Total Expenditure	19,711	20,327	27,004	34,583	39,349	45,637
Net Raw Materials	16,452	17,609	22,006	30,437	34,631	39,404
Other Mfg costs	870	950	2,046	1,168	1,444	1,786
Personnel	577	621	753	607	691	786
Other	1,813	1,147	2,199	2,371	2,837	3,394
EBITDA	4,065	4,669	5,455	5,815	7,304	8,505
% chg	3.5	14.9	16.8	6.6	25.6	16.4
(% of Net Sales)	17.1	18.7	16.8	14.4	15.7	15.7
Depreciation & Amortization	560	562	650	791	996	1,840
EBIT	3,505	4,107	4,804	5,025	6,308	6,665
% chg	4.4	17.2	17.0	4.6	25.5	5.7
(% of Net Sales)	14.7	16.4	14.8	12.4	13.5	12.3
Interest & other Charges	87	70	83	116	206	226
Other Income	797	541	519	432	359	215
(% of PBT)	18.9	11.8	9.9	8.1	5.6	3.2
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	4,214	4,578	5,240	5,340	6,461	6,654
% chg	9.9	8.6	14.4	1.9	21.0	3.0
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	4,214	4,578	5,240	5,340	6,461	6,654
Tax	1,400	1,439	1,679	1,686	2,147	2,183
(% of PBT)	33.2	31.4	32.0	31.6	33.2	32.8
PAT (reported)	2,814	3,140	3,561	3,654	4,314	4,472
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
Prior period items	10	-	-	-	-	-
PAT after MI (reported)	2,804	3,140	3,561	3,654	4,314	4,472
ADJ. PAT	2,804	3,140	3,561	3,654	4,314	4,472
% chg	7.8	12.0	13.4	2.6	18.1	3.7
(% of Net Sales)	11.8	12.6	11.0	9.0	9.2	8.3
Basic EPS (₹)	22.1	24.8	28.1	28.8	34.0	35.3
Fully Diluted EPS (₹)	22.1	24.8	28.1	28.8	34.0	35.3
% chg	7.8	12.0	13.4	2.6	18.1	3.7

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY09	FY10	FY11	FY12	FY13E	FY14E
SOURCES OF FUNDS						
Equity Share Capital	1,268	1,268	1,268	1,268	1,268	1,268
Reserves & Surplus	13,501	15,655	17,985	20,356	23,655	27,112
Shareholders' Funds	14,770	16,924	19,253	21,624	24,923	28,380
Minority Interest	-	-	-	-	-	-
Total Loans	1,200	1,480	1,973	4,889	7,389	8,389
Deferred Tax Liability	1,326	1,390	1,633	1,769	1,769	1,769
Other Long Term Liabilities	-	-	15	278	278	278
Long Term Provisions	-	-	289	338	338	338
Total Liabilities	17,296	19,794	23,164	28,898	34,697	39,153
APPLICATION OF FUNDS						
Gross Block	17,604	17,904	22,144	26,307	28,807	33,307
Less: Acc. Depreciation	8,554	9,115	9,741	10,449	11,445	13,284
Net Block	9,050	8,789	12,404	15,858	17,362	20,022
Capital Work-in-Progress	2,426	5,426	5,846	7,942	8,530	7,330
Goodwill	-	-	-	-	-	-
Investments	1,737	2,073	2,583	3,549	3,549	3,549
Long Term Loans and advances	-	-	1,687	1,996	1,996	1,996
Other non-current assets	-	-	73	272	272	272
Current Assets	12,237	13,884	9,420	9,468	15,996	20,423
Cash	3,456	4,343	2,131	931	7,270	11,132
Loans & Advances	6,621	7,606	4,596	5,211	5,211	5,211
Other	2,159	1,935	2,692	3,325	3,515	4,079
Current liabilities	8,155	10,378	8,848	10,186	13,008	14,438
Net Current Assets	4,082	3,506	572	(719)	2,988	5,985
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	17,296	19,794	23,164	28,898	34,697	39,153

Cash Flow (Standalone)

Y/E March (₹ cr)	FY09	FY10	FY11	FY12	FY13E	FY14E
Profit before tax	4,204	4,578	5,240	5,340	6,461	6,654
Depreciation	560	562	650	792	996	1,840
Change in Working Capital	(749)	1,453	722	91	2,632	866
Others	(797)	(541)	(2,051)	(310)	(359)	(215)
Less: Other income	-	-	-	-	-	-
Direct taxes paid	(1,394)	(1,375)	(1,484)	(1,425)	(2,147)	(2,183)
Cash Flow from Operations	1,824	4,677	3,077	4,488	7,583	6,962
(Inc.)/ Dec. in Fixed Assets	(2,256)	(3,300)	(4,632)	(6,618)	(3,088)	(3,300)
(Inc.)/ Dec. in Investments	(246)	(336)	(509)	(965)	-	-
Others	797	220	412	442	-	-
Other income	-	-	-	-	359	215
Cash Flow from Investing	(1,706)	(3,416)	(4,729)	(7,142)	(2,729)	(3,085)
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	(66)	280	830	3,037	2,500	1,000
Dividend Paid (Incl. Tax)	(1,039)	(1,113)	(1,109)	(1,253)	(1,015)	(1,015)
Others	(31)	287	(108)	(330)	-	-
Cash Flow from Financing	(1,136)	(546)	(388)	1,454	1,485	(15)
Inc./(Dec.) in Cash	(1,017)	715	(2,040)	(1,200)	6,339	3,862
Opening Cash balances	4,473	3,456	4,172	2,131	931	7,270
Closing Cash balances	3,456	4,172	2,131	931	7,270	11,132

Key Ratios

Y/E March	FY09	FY10	FY11	FY12	FY13E	FY14E
Valuation Ratio (x)						
P/E (on FDEPS)	16.4	14.7	12.9	12.6	10.7	10.3
P/CEPS	13.7	12.4	10.9	10.4	8.7	7.3
P/BV	3.1	2.7	2.4	2.1	1.8	1.6
Dividend yield (%)	1.9	2.1	2.1	2.7	2.2	2.2
EV/Sales	1.8	1.6	1.3	1.1	0.9	0.7
EV/EBITDA	10.3	8.8	7.9	8.0	5.8	4.7
EV/Total Assets	2.4	2.1	1.9	1.6	1.2	1.0
Per Share Data (₹)						
EPS (Basic)	22.1	24.8	28.1	28.8	34.0	35.3
EPS (fully diluted)	22.1	24.8	28.1	28.8	34.0	35.3
Cash EPS	26.5	29.2	33.2	35.0	41.9	49.8
DPS	7.0	7.5	7.5	9.9	8.0	8.0
Book Value	116.4	133.4	151.8	170.5	196.5	223.7
DuPont Analysis (%)						
EBIT margin	14.7	16.4	14.8	12.4	13.5	12.3
Tax retention ratio	66.8	68.6	68.0	68.4	66.8	67.2
Asset turnover (x)	1.9	1.7	1.8	1.6	1.7	2.0
ROIC (Post-tax)	18.8	19.2	17.9	14.0	15.2	16.2
Cost of Debt (Post Tax)	-	-	-	-	-	-
Leverage (x)	-	-	-	-	-	-
Operating ROE	18.8	19.2	17.9	14.0	15.2	16.2
Returns (%)						
ROCE (Pre-tax)	21.3	22.1	22.4	19.3	19.8	18.1
Angel ROIC (Pre-tax)	32.3	38.3	38.1	28.5	32.4	33.7
ROE	20.2	19.8	19.7	17.9	18.5	16.8
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.4	1.4	1.6	1.7	1.7	1.7
Inventory / Sales (days)	9.0	9.0	8.4	8.3	8.3	8.3
Receivables (days)	20	20	18	18	17	17
Payables (days)	70	86	69	67	78	77
WC cycle (ex-cash) (days)	4	(2)	(13)	(14)	(23)	(32)
Solvency ratios (x)						
Net debt to equity	(0.3)	(0.3)	(0.1)	0.0	(0.1)	(0.2)
Net debt to EBITDA	(1.0)	(1.1)	(0.5)	0.1	(0.5)	(0.7)
Interest Coverage (EBIT/Int.)	40.3	58.7	58.0	43.1	30.7	29.4

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Disclosure of Interest Statement

	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%)	