

Marginally weak quarter

| | |
|------------------------|-------------------|
| CMP: | Rs.344 |
| Target Price: | Rs.400 |
| Recommendation: | Accumulate |

Stock Info

| | |
|------------|-----------|
| BSE Group | B/BSE 500 |
| BSE Code | 532155 |
| NSE Symbol | GAIL |
| Bloomberg | GAIL IN |
| Reuters | GAIL.BO |
| BSE Sensex | 20684 |
| NSE Nifty | 6145 |

Market Info

| | |
|-------------------|------------|
| Market Capital | Rs.43578cr |
| Equity Capital | Rs.1268cr |
| Avg. Trading Vol. | 116705 |
| 52 Wk High/ Low | 396/273 |
| Face Value | Rs.10 |

Shareholding Pattern (%) (30th Sept 2013)

| | |
|-----------------------|------|
| Promoters | 50.1 |
| Domestic Institutions | 22.0 |
| Foreign Institutions | 16.7 |
| Non Promoters Corp. | 0.9 |
| Public & Others | 3.1 |
| Govt. Holdings | 7.2 |

GAIL's 2QFY14 result was tad below estimates, which was impacted by higher operating costs and decline in volumes. GAIL reported 23% yoy jump in net sales of Rs 14002cr against Rs 11393cr last year. Natural gas transmission volumes continue to decline and has reported fall of 10% yoy and 4% qoq to 95mmscmd. LPG transmission volumes declined 10% yoy to 0.729 mn tonnes. Natural gas sales volumes too dipped 2.1% yoy to 79mmscmd. On realisation front, NG sales realisation jumped 24% yoy, while that of natural transmission rose 21% yoy. Petchem realisations also grew 21% yoy to Rs 104444/tonne.

Margins of NG transmission business dipped qoq to 78% from 80%. Petchem margins too dipped 540bps qoq and 1430bps yoy to 39%. Overall EBITDA margins for GAIL came in at 10.5% as compared to 12.4% during 2QFY13.

Profit after tax during the quarter however jumped 13.3% qoq to Rs 916cr largely on account of higher other income. Other income during the quarter increased 5x qoq to Rs 222cr.

Valuations:

GAIL continues to report decline in volumes in its main operating business i.e NG Transmission, LPG Transmission and NG sales, largely due to falling end user demand. We believe it will take a while before volumes pickup meaningfully as domestic economy continues to reel under sluggish environment. We have valued GAIL based on EV/EBITDA(x) of 7.5x, its last four year's average 1-year forward multiple, and have arrived at fair value of Rs 322 per share for its core business and we have valued investments at Rs 78 per share. Our SOTP based target price comes at Rs 400 per share.

We recommend Accumulate on the stock.

Financials-(Standalone)

| Y/E March, (₹ in Cr) | FY12 | FY13 | FY14E | FY15E |
|----------------------|-------|-------|-------|-------|
| Net Revenue | 40398 | 47523 | 47400 | 49134 |
| EBIDTA | 5815 | 6469 | 6399 | 6633 |
| PAT | 3654 | 4022 | 3701 | 3586 |
| EPS(Rs/sh) | 28.8 | 31.7 | 29.2 | 28.3 |
| EPS Growth (%) | 2.6 | 10.1 | -8.0 | -3.1 |
| RONW (%) | 16.9 | 16.5 | 13.8 | 12.3 |
| P/E (X) | 11.4 | 10.4 | 11.3 | 11.6 |
| EV/EBITDA(X) | 7.8 | 6.8 | 6.7 | 6.1 |

Date: 26-Oct-2013



2QFY14 Results

| Rs in Crore | 2QFY14 | 2QFY13 | YoY (%) | 1QFY14 | QoQ (%) |
|-----------------------------|--------|--------|---------|--------|---------|
| Net Sales | 14002 | 11393 | 22.9 | 12900 | 8.5 |
| Expenditure | 12539 | 9981 | 25.6 | 11391 | 10.1 |
| EBITDA | 1463 | 1412 | 3.6 | 1508 | -3.0 |
| EBITDA Margins (%) | 10.5 | 12.4 | - | 11.7 | - |
| Other Income | 222 | 237 | -6.3 | 58 | 284.7 |
| Interest | 108.2 | 26.1 | 314.2 | 61.2 | 76.9 |
| Depreciation | 289 | 249.1 | 16.0 | 280.8 | 2.9 |
| PBT after exceptional items | 1288 | 1374 | -6.2 | 1224 | 5.2 |
| Tax | 373 | 388 | -4.0 | 416 | -10.4 |
| Tax rate (%) | 29% | 28% | | 34% | - |
| Reported PAT | 916 | 985 | -7.1 | 808 | 13.3 |
| Net Profit Margin (%) | 6.5 | 8.6 | | 6.3 | |
| EPS (Rs) | 7.2 | 7.8 | -7.1 | 6.4 | 13.3 |

Exhibit1: 2QFY14 Sales volumes

| | 2QFY14 | 2QFY13 | yoy% | 1QFY14 | qoq% |
|--|--------|--------|-------|--------|-------|
| Natural Gas Transmission (MMSCMD) | 95 | 106 | -10.1 | 99 | -4.0 |
| LPG Transmission-(000' tonne) | 729 | 813 | -10.3 | 699 | 4.3 |
| Natural Gas Sales (MMSCMD) | 79 | 81 | -2.1 | 82 | -3.7 |
| Petrochemical Sales (000 tonne) | 108 | 101 | 6.9 | 121 | -10.7 |
| LPG Sales (000 tonne) | 266 | 287 | -7.3 | 270 | -1.5 |
| Other Liquid Hydro Carbons (000 tonne) | 71 | 73 | -2.7 | 80 | -11.3 |

Exhibit2: 2QFY14 Segmental Revenues

| Rs cr | | | | Share in Revenues (%) | | | | |
|----------------------------------|--------------|--------------|-------------|-----------------------|------------|--------|--------|--------|
| | 2QFY14 | 2QFY13 | yoy% | 1QFY14 | qoq% | 2QFY14 | 2QFY13 | 1QFY14 |
| Natural Gas Transmission | 996 | 913 | 9.1 | 927 | 7 | 7.1 | 8.0 | 7.2 |
| LPG Transmission | 95 | -5 | -2000.0 | 94 | 1 | 0.7 | 0.0 | 0.7 |
| Gas Trading | 10614 | 8732 | 21.6 | 9682 | 10 | 76.1 | 76.9 | 75.3 |
| Petrochemical | 1128 | 875 | 28.9 | 1097 | 3 | 8.1 | 7.7 | 8.5 |
| LPG & other Liquid Hydro Carbons | 1039 | 770 | 34.9 | 1004 | 3 | 7.5 | 6.8 | 7.8 |
| Unallocated | 72 | 76 | -5.3 | 52 | 38 | 0.5 | 0.7 | 0.4 |
| Total Sales | 13944 | 11361 | 22.7 | 12856 | 8.5 | | | |

Exhibit3: 2QFY14 Segmental EBIT

| Rs cr | | | | Share in EBIT (%) | | | | |
|----------------------------------|-------------|-------------|----------|-------------------|----------|--------------|--------------|--------------|
| | 2QFY14 | 2QFY13 | yoy% | 1QFY14 | qoq% | 2QFY14 | 2QFY13 | 1QFY14 |
| Natural Gas Transmission | 777 | 760 | 2 | 740 | 5 | 46.1 | 46.1 | 47.3 |
| LPG Transmission | 55 | -35 | -257 | 68 | -19 | 3.3 | -2.1 | 4.3 |
| Gas Trading | 489 | 246 | 99 | 303 | 61 | 29.0 | 14.9 | 19.3 |
| Petrochemical | 437 | 464 | -6 | 484 | -10 | 25.9 | 28.1 | 30.9 |
| LPG & other Liquid Hydro Carbons | -206 | 88 | -334 | 11 | -1973 | -12.2 | 5.3 | 0.7 |
| Unallocated | 133 | 126 | 6 | -40 | -433 | 7.9 | 7.6 | -2.6 |
| Total EBIT | 1685 | 1649 | 2 | 1566 | 8 | 100.0 | 100.0 | 100.0 |



Profit & Loss Statement

| Y/E March (Rs Cr) | FY12 | FY13 | FY14E | FY15E |
|---------------------|-------|-------|-------|-------|
| Net Sales | 40398 | 47523 | 47400 | 49134 |
| % Chg | 24.2 | 17.6 | -0.3 | 3.7 |
| Total Expenditure | 34583 | 41053 | 41001 | 42501 |
| % chg | 28 | 19 | 0 | 4 |
| EBITDA | 5815 | 6469 | 6399 | 6633 |
| EBITDA Margin % | 14.4 | 13.6 | 13.5 | 13.5 |
| Other Income | 432 | 765 | 521 | 540 |
| PBDIT | 6247 | 7234 | 6920 | 7174 |
| Depreciation | 791 | 981 | 1324 | 1900 |
| Interest | 116 | 195 | 154 | 150 |
| PBT bfr excep Items | 5340 | 6058 | 5443 | 5274 |
| Tax Provisions | 1686 | 2036 | 1742 | 1688 |
| Net PAT after MI | 3654 | 4022 | 3701 | 3586 |
| Adj PAT Margins (%) | 9 | 8 | 8 | 7 |

Cash Flow Statement

| Y/E March (Rs Cr) | FY12 | FY13 | FY14E | FY15E |
|--------------------------------|--------|--------|--------|--------|
| Profit before tax | 5,340 | 6,058 | 5,443 | 5,274 |
| Oper. Profit Before Work. Cap. | 5815 | 6469 | 6399 | 6633 |
| Changes in WC | -593 | 1110 | -9 | 212 |
| Cash generated frm Operation | 5,223 | 7,579 | 6,390 | 6,845 |
| Direct Tax Paid | 1,551 | 2,036 | 1,742 | 1,688 |
| Net Cash From Oper. Act | 3,672 | 5,544 | 4,648 | 5,157 |
| Net Cash From Investing Act | -7,057 | -2,993 | -2,036 | -2,017 |
| Cash flow from Financing Act | 2185 | -858 | -1942 | -1626 |
| Net increase in cash & Equiv | -1,200 | 1,695 | 673 | 1,511 |
| Opening Cash Balance | 2,131 | 931 | 2,623 | 3,293 |
| Closing Cash Balance | 931 | 2656 | 3386 | 4904 |

Balance Sheet

| Y/E March (Rs Cr) | FY12 | FY13 | FY14E | FY15E |
|-------------------------------|--------------|--------------|--------------|--------------|
| Shareholders' funds | 19253 | 21624 | 24364 | 26783 |
| Share capital | 1268 | 1268 | 1268 | 1268 |
| Reserves and surplus | 17985 | 20356 | 23096 | 25514 |
| Noncurrent liabilities | 3910 | 7274 | 7316 | 6815 |
| Current liabilities | 10186 | 12789 | 12765 | 13232 |
| Equity + Liability | 39085 | 44469 | 46363 | 48647 |
| Noncurrent assets | 29617 | 32043 | 33219 | 33819 |
| Fixed assets | 23800 | 26226 | 27403 | 28003 |
| Non-current Inv | 3549 | 3549 | 3549 | 3549 |
| Long term loans & Adv | 1996 | 1996 | 1996 | 1996 |
| Other noncurrent assets | 272 | 272 | 272 | 272 |
| Current assets | 9468 | 12426 | 13143 | 14828 |
| Current investments | 0 | 0 | 0 | 0 |
| Inventories | 1420 | 1693 | 1688 | 1750 |
| Trade receivables | 1904 | 2864 | 2857 | 2961 |
| Cash | 931 | 2656 | 3386 | 4904 |
| Short term loans & adv | 5211 | 5211 | 5211 | 5211 |
| Other current assets | 1 | 1 | 1 | 1 |
| Total Assets | 39085 | 44469 | 46363 | 48647 |

Key Ratios

| Y/E March (Rs Cr) | FY12 | FY13 | FY14E | FY15E |
|--------------------------|-------|-------|-------|-------|
| Per Share data (Rs) | | | | |
| EPS | 28.8 | 31.7 | 29.2 | 28.3 |
| Cash EPS | 35.0 | 39.4 | 39.6 | 43.2 |
| DPS | 8.7 | 8.7 | 8.7 | 8.7 |
| Book value | 170.5 | 192.1 | 211.1 | 229.3 |
| Operating, Returns Ratio | | | | |
| Debt/ Equity (X) | 0.2 | 0.2 | 0.2 | 0.1 |
| Current Ratio (X) | 0.9 | 1.0 | 1.0 | 1.1 |
| RoE (%) | 16.9 | 16.5 | 13.8 | 12.3 |
| RoCE (%) | 14.0 | 14.1 | 12.1 | 10.8 |
| Dividend Yield (%) | 2.5 | 2.5 | 2.5 | 2.5 |
| Valuation Ratio (X) | | | | |
| P/E | 11.9 | 10.8 | 11.8 | 12.2 |
| P/BV | 2.0 | 1.8 | 1.6 | 1.5 |
| EV/ Sales | 1.2 | 1.0 | 0.9 | 0.9 |
| EV/EBITDA | 8.2 | 7.1 | 7.0 | 6.4 |



Arihant Research Desk

For queries:

E. research@arihantcapital.com

Head Office

3rd Floor, Krishna Bhuvan,
67 Nehru Road, Vile Parle (East),
Mumbai - 400057
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)

Stock Rating Scale

| | Absolute Return | |
|------------|------------------------|--------|
| BUY | : | >20% |
| ACCUMULATE | : | 12-20% |
| HOLD | : | 5-12% |
| NEUTRAL | : | 0-5% |
| REDUCE | : | < 0% |

Disclaimer: Arihant Capital Markets Limited is not soliciting any action based upon it. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. However we do not represent that it is accurate or complete and it should not be relied upon such. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of Arihant is in any way responsible for its contents. The firm or its employees may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based. Before its publication the firm, its owners or its employees may have a position or be otherwise interested in the investment referred to in this document. This is just a suggestion and the firm or its employees will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. No matter contained in this document may be reproduced or copied without the consent of the firm.