

PNGRB cuts transmission tariff for Jamnagar Loni pipe line

CMP:	Rs.354
Target Price:	Rs.400
Recommendation:	ACCUMULATE

Stock Info

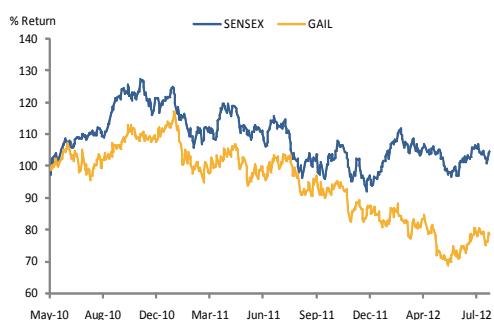
BSE Group	B/BSE 500
BSE Code	532155
NSE Symbol	GAIL
Bloomberg	GAIL IN
Reuters	GAIL.BO
BSE Sensex	17257
NSE Nifty	5241

Market Info

Market Capital	Rs.44891cr
Equity Capital	Rs.1268cr
Avg. Trading Vol.	377324
52 Wk High/ Low	475/303
Face Value	Rs.10

Shareholding Pattern (%) (30th June 2012)

Promoters	50.1
Domestic Institutions	25.2
Foreign Institutions	13.3
Non Promoters Corp.	1.2
Public & Others	3.1
Govt. Holdings	7.2



Petroleum and natural gas regulatory board (PNGRB) in its recent order has cut the LPG transportation tariff for GAIL's Jamnagar-Loni pipe line by 20-27%.

As per the PNGRB guidelines, the board is entrusted with determining petroleum and petroleum products pipeline transportation tariff by benchmarking them against alternate mode of transport i.e rail at level of 75% of except LPG where it will be benchmarked at 100% on train loads basis. Since LPG and Kerosene are highly subsidized fuels the Indian railway charges lower transportation charges as applicable under class 180. However, GAIL has levied the higher transportation charges that fall under class 200, which PNGRB has squashed in its subsequent order and has asked GAIL to levy transportation charges based on class 180 tariffs.

Further, transmission tariff submitted by GAIL included 7% surcharge, 2% additional surcharge and Rs 30 as shunting notional charges. Also, GAIL was charging fixed monthly transportation tariff of Rs 10.3 Lacs to IOCL and Rs 3.75 Lacs to BPCL for the spur pipe lines it had set up to respective bottling plants. GAIL has asked for the continuation of this arrangement and asked to keep spur lines outside the preview of transportation tariff. This was also disallowed by PNGRB board saying that PNGRB regulation on transportation of petroleum products also includes spur lines and branches and thus GAIL's request for continuation of charging fixed monthly transportation tariff cannot be accepted.

Our view

PNGRB's recent order highlights the increased uncertainty surrounding the ability of transporters to levy charges at their discretion. However we believe PNGRB's recent order, retrospective from 27-12-2010, will have marginal impact on overall profitability of GAIL as LPG transportation business contributes just 1% to revenues and 4-5% to overall margins. Further the said order is applicable for the period for two year till 27-12-2012. **Further, railway freight rates for goods falling under class 180 have increased 25% since 27-12-2010 and this makes the case for GAIL to charge higher transportation tariff on the same pipe line.**

Financials-(Consolidated)

Y/E March, (₹ in Cr)	FY11	FY12	FY13E	FY14E
Net Revenue	35107	44182	46450	46553
EBIDTA	6507	7280	7202	6742
PAT	3981	4401	3797	4019
EPS(Rs/sh)	31.4	34.7	30.0	31.7
EPS Growth (%)	21.2	10.5	-13.7	5.9
RONW (%)	18.8	18.3	13.8	15.0
P/E (X)	11.3	10.2	11.8	11.2
EV/EBITDA(X)	7.5	9.3	8.5	6.2



■ **Valuations:**

GAIL has posted good set of number on the back of its ability to pass on cost and lower subsidy burden. However, there lies a fair bit of uncertainty on gas availability front and possible cut in tariff. The PNGRB in its recent directive has proposed to put cap on marketing margin charged by GAIL on gas marketing business. We have valued GAIL based on EV/EBITDA(x) of 7.5x, its last four year 1-forward average 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 maintain Accumulate on the stock.**



Profit & Loss Statement

Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E
Net Sales	35107	44182	46450	46553
% Chg	30	25.8	5.1	-2.0
Total Expenditure	28599	36902	39248	39811
% chg	33	21.9	6.4	-3
EBITDA	6507	7280	7202	6742
EBITDA Margin %	19	16.5	16	14
Other Income	557	482	419	429
PBDIT	7065	6798	7621	7171
Depreciation	888	1000	1045	1071
Interest	378	366	364	347
PBT bfr excep Items	5799	6355	5550	5811
Tax Provisions	1818	1954	1753	1792
Net PAT after MI	3981	4401	3797	4019
Adj PAT Margins (%)	11	10	8	9

Cash Flow Statement

Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E
Profit before tax	5799	6355	6303	5811
Oper. Profit Before Work. Cap.	6132	4997	4720	7171
Changes in WC	-1096	420	1833	785
Cash generated frm Operation	5036	5417	2887	7956
Direct Tax Paid	1818	1954	1753	1792
Net Cash From Oper. Act	3218	3463	1124	6164
Net Cash From Investing Act	-5320	-7131	-6269	-2900
Cash flow from Financing Act	1488	3000	4000	-1480
Net increase in cash & Equiv	-614	-644	-1145	1784
Opening adjustment for JV	0	0	0	0
Opening Cash Balance	4549	3935	3290	2145
Closing Cash Balance	3935	3290	2145	3929

Balance sheet

Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E
Equity Capital	1268	1268	1268	1268
Reserve & Surplus	19945	23645	26723	27538
Total Loans	6904	9904	13904	14000
Minority Interest	547	982	982	982
Deferred tax	1715	1865	1865	1865
Total Liabilities	30380	37664	44742	45653
Gross Block	34845	29105	33105	34068
Less Acc. Depreciation	10722	11642	12687	13758
Net Block	24123	17463	20418	21578
CWP	2476	16000	20500	14348
Investments	1236	1236	1236	1236
Net Current Assets	2545	2965	4798	8491
Total Asset	30380	37664	44742	45653

Key Ratios

Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E
Per Share data (Rs)				
EPS	31.4	34.7	29.9	31.7
Cash EPS	38.7	35.7	38.2	40.1
DPS	7.5	7.5	7.5	7.5
Book value	168.6	191.1	219.1	211.4
Operating, Returns Ratio				
Debt/ Equity (X)	0.4	0.7	0.7	0.0
Current Ratio (X)	1.3	1.8	1.7	1.8
ROE (%)	18.8	18.3	13.8	15.0
ROCE (%)	23.1	16.3	16.3	15.8
Dividend Yield (%)	2.0	2.0	2.0	2.0
Valuation Ratio (X)				
P/E	11.3	10.2	11.8	11.2
P/BV	2.1	1.9	1.6	1.7
EV/ Sales	1.4	1.4	1.2	0.9
EV/EBITDA	7.5	9.3	8.6	6.2



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Stock Rating Scale

Absolute Return

BUY	:	>20%
ACCUMULATE	:	12-20%
HOLD	:	5-12%
REDUCE	:	< 5%

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