


GAIL – Pipeline connecting India

GAIL is expanding its capacities aggressively with seven major pipelines under construction (details given in table below). The DVPL-II pipeline, which was earlier slated to start in March 2011, is now expected to start in April 2011. The planned installation of compressors, which will increase the pipeline capacity by 11 mmscmd, will be in phases during October 2010 to March 2011. The company is also investing Rs 1560 cr. in laying down spur pipelines (906 km long) with a capacity of 11-12.5 mmscmd for last mile connectivity.

Pipeline Schedule				
Pipeline	Approved Cost Rs in Cr	Capacity mmscmd	Length Km	COD
DVPL -II	5160	78	610	Q1FY12
Vijaypur Dadri	5670	80	505	Q1FY12
Dadri-Bawana-Nangal	2350	31	646	Q1FY12
Chainsa-Jhajjar-Hissar	1260	35	349	Q1FY12
Jagdishpur-Haldia	7600	32	2050	Q3FY13
Dabhol-Bangalore	5010	16	1389	Q3FY13
Kochi-Mangalore-Bangalore	3260	16	1114	Q2FY12
Total	30310		6,663	

Source: GAIL India Ltd.

Expect better gas flow

GAIL is planning to arrange incremental supplies by importing 2-3 spot LNG cargos (~3mmscmd) every month and regasifying them at Petronet LNG's Dahej terminal or shells LNG terminal. As per management guideline GAIL's plan to import 25 cargoes in this fiscal to meet growing demands of power and fertilizer sectors, another gas flow will come from the marginal fields of ONGC (~15 mmscmd).

Lower subsidy outflow

In Q1FY11 company has shared subsidy of Rs 445.3 cr. In FY11 GAIL's management expects 40% lower subsidy burden of ~Rs800 cr as compared to Rs 1332 cr.in FY10, but we believe GAIL will continue to bear 7% (~Rs 1200cr.) of the total subsidy sharing by upstream companies.

Subsidy break-up of Upstream companies						
Rs in cr.	FY06	FY07	FY08	FY09	FY10	FY11E
ONGC	12000	17000	22000	28200	11500	13600
OIL	1000	2000	2400	2900	1600	2200
GAIL	1100	1500	1300	1800	1300	1200
Total	14100	20500	25700	32900	14400	17000

Source: Arihant Research

Foray into power generation

GAIL is buliding portfolio of power plants with existing stake in GSPC's power plant , RGTIL's 1600 MW power plant, wind energy plant at bhuj and planning to set up small power plant along Dabhol Bangalore pipeline with a capacity of 700MW. New power plants will be located near to the existing gas pipeline infrastructure and gas availability will not be the problem for those upcoming investments.

E&P

Cambay block of GAIL has commenced oil flow and expects to increase its E&P generating blocks to 3 by FY14.

Financial outlook

We believe that gas segment in India is set to grow dramatically over the next few years. We expect that GAIL offers upsides to investors due to its potential growth in gas volumes, leading to increase in earnings. We see increase in LNG supplies as an important source of gas supplies.

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