

Operationally better quarter

CMP:	Rs.346
Target Price:	Rs.381
Recommendation:	Hold

Stock Info

BSE Group	B/BSE 500
BSE Code	532155
NSE Symbol	GAIL
Bloomberg	GAIL IN
Reuters	GAIL.BO
BSE Sensex	20647
NSE Nifty	6120

Market Info

Market Capital	Rs.44713cr
Equity Capital	Rs.1268cr
Avg. Trading Vol.	116705
52 Wk High/ Low	358/273
Face Value	Rs.10

Shareholding Pattern (%) (31st Dec 2013)

Promoters	50.1
Domestic Institutions	21.7
Foreign Institutions	17.0
Non Promoters Corp.	0.9
Public & Others	3.1
Govt. Holdings	7.2

GAIL's 3QFY14 result was above estimates, led by qoq jump in volumes and realisations across main segments. GAIL reported 28% yoy jump in net sales of Rs 16039cr against Rs 12504cr last year. Natural gas transmission volumes inched up qoq and were up by 1.1% to 96mmscmd. LPG transmission volumes increased 17% yoy and qoq to 0.855 mn tonnes. Natural gas sales volumes too jumped 1.3% qoq to 80mmscmd. On realisation front, NG sales realisation jumped 31% yoy, while that of natural gas transmission and LPG transmission rose 34% and 19% yoy respectively. Petchem realisations also grew 23% yoy to Rs 105688/tonne.

Margins of NG transmission business dipped qoq to 57% from 78%. Petchem margins too dipped 560bps qoq and 1070bps yoy to 33%. However, LPG transmission and trading business reported yoy improvement in margins. Overall EBITDA margins for GAIL came in at 14.3% as compared to 10.5% during 2QFY14.

Profit after tax during the quarter jumped 31% yoy and 83% qoq to Rs 1679cr largely on account of profit on sale of long term investments (Rs 345cr).

Valuations:

GAIL reported stable volumes during the quarter in its main operating business i.e NG Transmission, LPG Transmission and NG sales, largely due to marginal improvement in 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 6.5x, its last four year's average 1-year forward multiple, and have arrived at fair value of Rs 381 per share. **We recommend Hold on the stock.**

Financials-(Standalone)

Y/E March, (₹ in Cr)	FY12	FY13	FY14E	FY15E
Net Revenue	40398	47523	54128	55929
EBIDTA	5815	6469	7037	7550
PAT	3654	4022	4451	4249
EPS(Rs/sh)	28.8	31.7	35.1	33.5
EPS Growth (%)	2.6	10.1	10.7	-4.5
RONW (%)	16.9	16.5	16.2	13.9
P/E (X)	12.0	10.9	9.9	10.3
EV/EBITDA(X)	8.2	7.1	6.3	5.8



3QFY14 Results

Rs in Crore	3QFY14	3QFY13	YoY (%)	2QFY14	QoQ (%)
Net Sales	16039	12504	28.3	14002	14.5
Expenditure	13749	10502	30.9	12539	9.6
EBITDA	2290	2002	14.4	1463	56.5
EBITDA Margins (%)	14.3	16.0	-	10.5	-
Other Income	208	154	35.0	222	-6.2
Interest	91.3	55.2	65.4	108.2	-15.7
Depreciation	301	242.4	24.1	288.8	4.1
PBT after exceptional items	2451	1859	31.8	1288	90.2
Tax	771	574	34.4	373	107.0
Tax rate (%)	31%	31%		29%	-
Reported PAT	1679	1285	30.7	916	83.4
Net Profit Margin (%)	10.5	10.3		6.5	
EPS (Rs)	13.2	10.1	30.7	7.2	83.4

Exhibit1: 3QFY14 Sales volumes

	3QFY14	3QFY13	yoy%	2QFY14	qoq%
Natural Gas Transmission (MMSCMD)	96	105	-8.6	95	1.1
LPG Transmission-(000' tonne)	855	733	16.6	729	17.3
Natural Gas Sales (MMSCMD)	80	82	-2.4	79	1.3
Petrochemical Sales (000 tonne)	109	128	-14.8	108	0.9
LPG Sales (000 tonne)	264	261	1.1	266	-0.8
Other Liquid Hydro Carbons (000 tonne)	68	79	-13.9	71	-4.2

Exhibit2: 3QFY14 Segmental Revenues

Rs cr				Share in Revenues (%)				
	3QFY14	3QFY13	yoy%	2QFY14	qoq%	3QFY14	3QFY13	2QFY14
Natural Gas Transmission	1119	916	22.2	996	12	7.0	7.3	7.1
LPG Transmission	114	82	39.0	95	20	0.7	0.7	0.7
Gas Trading	11550	9055	27.6	10614	9	72.3	72.6	76.1
Petrochemical	1152	1101	4.6	1128	2	7.2	8.8	8.1
LPG & other Liquid Hydro Carbons	1934	1277	51.4	1039	86	12.1	10.2	7.5
Unallocated	112	43	160.5	72	56	0.7	0.3	0.5
Total Sales	15981	12474	28.1	13944	14.6	-	-	-

Exhibit3: 3QFY14 Segmental EBIT

Rs cr				Share in EBIT (%)				
	3QFY14	3QFY13	yoy%	2QFY14	qoq%	3QFY14	3QFY13	2QFY14
Natural Gas Transmission	636	775	-18	777	-18	22.4	35.9	46.1
LPG Transmission	71	26	173	55	29	2.5	1.2	3.3
Gas Trading	509	300	70	489	4	17.9	13.9	29.0
Petrochemical	382	483	-21	437	-13	13.4	22.4	25.9
LPG & other Liquid Hydro Carbons	785	613	28	-206	-	27.6	28.4	-12.2
Unallocated	460	-41	-	133	246	16.2	-1.9	7.9
Total EBIT	2843	2156	32	1685	69	-	-	-



Profit & Loss Statement

Y/E March (Rs Cr)	FY12	FY13	FY14E	FY15E
Net Sales	40398	47523	54128	55929
% Chg	24.2	17.6	13.9	3.3
Total Expenditure	34583	41053	47091	48379
% chg	28	19	15	3
EBITDA	5815	6469	7037	7550
EBITDA Margin %	14	14	13	14
Other Income	432	765	704	727
PBDIT	6247	7234	7740	8278
Depreciation	791	981	1189	1647
Interest	116	195	351	382
PBT bfr excep Items	5340	6058	6201	6249
Tax Provisions	1686	2036	2095	2000
Net PAT after MI	3654	4022	4451	4249
Adj PAT Margins (%)	9	8	8	8

Cash Flow Statement

Y/E March (Rs Cr)	FY12	FY13	FY14E	FY15E
Profit before tax	5,340	6,058	6,545	6,249
Oper. Profit Before Work. Cap.	5815	6469	7382	7550
Changes in WC	-593	1110	-1012	-1141
Cash generated frm Operation	5,223	7,579	6,370	6,410
Direct Tax Paid	1,551	2,036	2,095	2,000
Net Cash From Oper. Act	3,672	5,544	4,275	4,410
Net Cash From Investing Act	-7,057	-2,959	-1,796	-1,822
Cash flow from Financing Act	2185	-858	-1505	-1430
Net increase in cash & Equiv	-1,200	1,726	974	1,158
Opening Cash Balance	2,131	931	2,657	3,631
Closing Cash Balance	931	2,657	3,631	4,789

Balance Sheet

Y/E March (Rs Cr)	FY12	FY13	FY14E	FY15E
Shareholders' funds	21624	24364	27532	30499
Share capital	1268	1268	1268	1268
Reserves and surplus	20356	23096	26264	29231
Noncurrent liabilities	7274	7316	6869	6983
Current liabilities	10186	10186	12789	13953
Equity + Liability	39085	44469	48355	51852
Noncurrent assets	29617	32043	33354	34207
Fixed assets	23800	26226	27538	28391
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	15000	17645
Total Assets	39085	44469	48355	51852

Key Ratios

Y/E March (Rs Cr)	FY12	FY13	FY14E	FY15E
Per Share data (Rs)				
EPS	28.8	31.7	35.1	33.5
Cash EPS	35.0	39.4	44.5	46.5
DPS	8.7	8.7	8.7	8.7
Book value	170.5	192.1	217.1	240.4
Operating, Returns Ratio				
Debt/ Equity (X)	0.2	0.2	0.2	0.1
Current Ratio (X)	0.9	1.0	1.1	1.2
RoE (%)	16.9	16.5	16.2	13.9
RoCE (%)	14.0	14.1	14.3	12.8
Dividend Yield (%)	2.5	2.5	2.5	2.5
Valuation Ratio (X)				
P/E	12.0	10.9	9.9	10.3
P/BV	2.0	1.8	1.6	1.4
EV/ Sales	1.2	1.0	0.8	0.8
EV/EBITDA	8.2	7.1	6.3	5.8



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Stock Rating Scale

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

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