

Higher realisations make up for declining volumes

CMP:	Rs.339
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	19468
NSE Nifty	5887

Market Info

Market Capital	Rs.42703cr
Equity Capital	Rs.1268cr
Avg. Trading Vol.	116705
52 Wk High/ Low	401/303
Face Value	Rs.10

Shareholding Pattern (%) (31st Dec 2012)

Promoters	50.1
Domestic Institutions	16.5
Foreign Institutions	15.1
Non Promoters Corp.	0.9
Public & Others	10.2
Govt. Holdings	7.2



GAIL's 3QFY13 result was in line with estimates. GAIL reported 11% yoy jump in net sales of Rs 12,504cr against Rs 11,294cr last year. Natural gas transmission volumes continue to fell and have declined by 12% yoy and 0.6% qoq to 105mmcmd due to lower output levels at RIL's KGD6 fields and lower demand from end users. Natural gas sales volumes dipped 3.5% yoy to 82mmcmd. On realisation front, NG transmission realisation grew 1% qoq and 3.7% yoy, while that of NG sales rose 13.5% yoy. Petchem realisations also grew 12% yoy to Rs 86016/tonne.

Margins of NG transmission business grew both on qoq and yoy basis to 85% from 74% in 3QFY12 and 83% during 2QFY13. Petchem margins dipped 570bps yoy and 920bps qoq to 44%. Overall EBITDA margins for GAIL came in at 16% compared to 12.4% during 2QFY13. The company reported Rs 700cr subsidy burden during the quarter compared to Rs 785.7 cr during 2QFY13.

Profit after tax during the quarter grown 18% yoy to Rs 1285cr. Other income during the quarter jumped 7x yoy to Rs 154cr, while depreciation and interest cost jumped 23% and 166% yoy respectively.

Valuations:

GAIL's performance during the quarters was impacted by gas availability, higher raw material cost and lower off-take from end users. We expect it to continue facing cost and off-take issues for some more time owing to declining gas sourcing from KGD6 basin, increased dependence on imported cargos and lower demand. 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.**

Financials-(Standalone)

Y/E March, (₹ in Cr)	FY11	FY12	FY13E	FY14E
Net Revenue	32537	40398	45524	47400
EBIDTA	5532	5815	6146	6399
PAT	3561	3654	3673	3701
EPS(Rs/sh)	28.1	28.8	29.0	29.2
EPS Growth (%)	8.2	2.6	0.5	0.8
RONW (%)	18.5	16.9	15.3	14.0
P/E (X)	12.1	11.2	11.7	11.6
EV/EBITDA(X)	8.5	8.0	7.4	6.9

Date: 18-Feb-2013



3QFY13 Results

Rs in Crore	3QFY13	3QFY12	YoY (%)	2QFY13	QoQ (%)
Net Sales	12504	11294	10.7	11393	9.8
Expenditure	10502	9499	10.6	9981	5.2
EBITDA	2002	1795	11.5	1412	41.8
EBITDA Margins (%)	16	16	-	12	-
Other Income	154	21	622.2	237	-34.9
Interest	55.2	20.7	166.2	26.1	111.3
Depreciation	242	197.5	22.7	249.1	-2.7
PBT after exceptional items	1859	1598	16.3	1374	35.3
Tax	574	507	13.3	388	47.8
Tax rate (%)	31%	32%		28%	-
Reported PAT	1285	1091	17.7	985	30.4
Net Profit Margin (%)	10.3	9.7		8.6	
EPS (Rs)	10.1	8.6	17.7	7.8	30.4

Exhibit1: 3QFY13 Sales volumes

	3QFY13	3QFY12	yoy%	2QFY13	qoq%
Natural Gas Transmission (MMSCMD)	105	119	-11.8	106	-0.6
LPG Transmission-(000' tonne)	733	870	-15.7	813	-9.8
Natural Gas Sales (MMSCMD)	82	85	-3.5	81	1.6
Petrochemical Sales (000 tonne)	128	113	13.3	101	26.7
LPG Sales (000 tonne)	261	283	-7.8	287	-9.1
Other Liquid Hydro Carbons (000 tonne)	79	78	1.3	73	8.2

Exhibit2: 3QFY13 Segmental Revenues

Rs cr						Share in Revenues (%)		
	3QFY13	3QFY12	yoy%	2QFY13	qoq%	3QFY13	3QFY12	2QFY13
Natural Gas Transmission	916	1001	-8.5	913	0	7.3	8.9	8.0
LPG Transmission	82	122	-32.8	-5	-1740	0.7	1.1	0.0
Gas Trading	9055	8269	9.5	8732	4	72.6	73.4	76.9
Petrochemical	1101	868	26.8	875	26	8.8	7.7	7.7
LPG & other Liquid Hydro Carbons	1277	966	32.2	770	66	10.2	8.6	6.8
Unallocated	43	34	26.5	76	-43	0.3	0.3	0.7
Total Sales	12474	11260	10.8	11361	9.8			

Exhibit3: 3QFY13 Segmental EBIT

Rs cr						Share in EBIT (%)		
	3QFY13	3QFY12	yoy%	2QFY13	qoq%	3QFY13	3QFY12	2QFY13
Natural Gas Transmission	775	738	5	760	2	35.9	40.6	46.1
LPG Transmission	26	90	-71	-35	-174	1.2	5.0	-2.1
Gas Trading	300	324	-7	246	22	13.9	17.8	14.9
Petrochemical	483	430	12	464	4	22.4	23.7	28.1
LPG & other Liquid Hydro Carbons	613	328	87	88	597	28.4	18.1	5.3
Unallocated	-41	-93	-56	126	-133	-1.9	-5.1	7.6
Total EBIT	2156	1817	19	1649	31	-	-	-



Profit & Loss Statement

Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E
Net Sales	32537	40398	45524	47400
% Chg	20.3	24.2	12.7	4.1
Total Expenditure	27004	34583	39379	41001
% chg	25	28	14	4
EBITDA	5532	5815	6146	6399
EBITDA Margin %	17	14	14	14
Other Income	441	432	501	521
PBDIT	5973	6247	6647	6920
Depreciation	650	791	1074	1324
Interest	83	116	171	154
PBT bfr excep Items	5240	5340	5402	5443
Tax Provisions	1679	1686	1729	1742
Net PAT after MI	3561	3654	3673	3701
Adj PAT Margins (%)	11	9	8	8

Cash Flow Statement

Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E
Profit before tax	5,240	5,340	5,402	5,443
Oper. Profit Before Work. Cap.	5803	5815	6146	6399
Changes in WC	-1,242	-593	871	229
Cash generated frm Operation	4,561	5,223	7,017	6,628
Direct Tax Paid	1,484	1,551	1,729	1,742
Net Cash From Oper. Act	3,077	3,672	5,289	4,886
Net Cash From Investing Act	-4,729	-7,057	-3,257	-2,036
Cash flow from Financing Act	-388	2185	-1009	-1767
Net increase in cash & Equiv	-2,040	-1,200	1,023	1,083
Opening Cash Balance	4,172	2,131	931	1,954
Closing Cash Balance	2,131	931	1,954	3,037

Balance Sheet

Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E
Shareholders' funds	19253	21624	24015	26434
Share capital	1268	1268	1268	1268
Reserves and surplus	17985	20356	22747	25165
Noncurrent liabilities	3910	7274	7300	6815
Current liabilities	8848	10186	12260	12765
Equity + Liability	32011	39085	43575	46014
Noncurrent assets	22591	29617	32043	33219
Fixed assets	18250	23800	26226	27403
Non-current Inv	2581	3549	3549	3549
Long term loans & Adv	1687	1996	1996	1996
Other noncurrent assets	73	272	272	272
Current assets	9420	9468	11532	12794
Current investments	1	0	0	0
Inventories	855	1420	1621	1688
Trade receivables	1833	1904	2744	2857
Cash	2131	931	1954	3037
Short term loans & adv	4596	5211	5211	5211
Other current assets	4	1	1	1
Total Assets	32011	39085	43575	46014

Key Ratios

Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E
Per Share data (Rs)				
EPS	28.1	28.8	29.0	29.2
Cash EPS	33.2	35.0	37.4	39.6
DPS	7.5	8.7	8.7	8.7
Book value	151.8	170.5	189.3	208.4
Operating, Returns Ratio				
Debt/ Equity (X)	0.1	0.2	0.2	0.2
Current Ratio (X)	1.1	0.9	0.9	1.0
RoE (%)	18.5	16.9	15.3	14.0
RoCE (%)	16.6	14.0	12.8	12.2
Dividend Yield (%)	2.1	2.4	2.4	2.4
Valuation Ratio (X)				
P/E	12.1	11.2	11.7	11.6
P/BV	2.4	2.1	1.9	1.8
EV/ Sales	1.4	1.2	1.1	1.0
EV/EBITDA	8.5	8.0	7.4	6.9



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%

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