

## Below expectation

<b>CMP:</b>	Rs.379
<b>Target Price:</b>	Rs.424
<b>Recommendation:</b>	<b>Accumulate</b>

### Stock Info

BSE Group	B/BSE 500
BSE Code	532155
NSE Symbol	GAIL
Bloomberg	GAIL IN
Reuters	GAIL.BO
BSE Sensex	24550
NSE Nifty	7318

### Market Info

Market Capital	Rs.48082cr
Equity Capital	Rs.1268cr
Avg. Trading Vol.	116705
52 Wk High/ Low	439/273
Face Value	Rs.10

### Shareholding Pattern (%) (31st Mar 2014)

Promoters	56.1
Domestic Institutions	22.7
Foreign Institutions	17.4
Non Promoters Corp.	0.5
Public & Others	3.3

GAIL's 4QFY14 result was below estimates, volumes and realisations across main segments were down on qoq basis. GAIL reported 9.5% qoq decline in net sales to Rs 14464cr against Rs 15981cr last year. Natural gas transmission volumes were down qoq by 1.4% to 95mmscmd. LPG transmission volumes increased marginally by 0.9% qoq to 0.863 mn tonnes. Natural gas sales volumes declined by 4.7% qoq to 76mmscmd. On realisation front, NG sales realisation were down 2.1% qoq, while that of natural gas transmission and LPG transmission declined by 28.7% and 0.1% qoq respectively. Petchem realisations grew by 2.6% qoq to Rs 108411/tonne.

Margins of NG transmission business increased on qoq basis to 79% from 57%. Petchem margins dipped to 21% from 33% on qoq basis. LPG transmission and trading business too reported qoq deterioration in margins. Overall EBITDA margins for GAIL came in at 12.8% as compared to 17.8% during 3QFY14.

Profit after tax during the quarter declined 42.1% qoq to Rs 972cr largely on account of lower volumes.

#### Valuations:

GAIL reported lower volumes during the quarter in its main operating business i.e NG Transmission, LPG Transmission and NG sales, largely due to sluggish 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 424 per share. **We recommend Accumulate on the stock.**

#### Financials-(Standalone)

Y/E March, (₹ in Cr)	FY12	FY13	FY14	FY15E
Net Revenue	40398	47523	57245	59929
EBIDTA	5815	6469	6701	8090
PAT	3654	4022	4375	4652
EPS(Rs/sh)	28.8	31.7	34.5	36.7
EPS Growth (%)	2.6	10.1	8.8	6.3
RONW (%)	16.9	16.5	15.9	15.1
P/E (X)	13.2	12.0	11.0	10.3
EV/EBITDA(X)	8.9	7.8	7.2	5.8

Date: 28-May-2014



**4QFY14 Results**

Rs in Crore	4QFY14	4QFY13	YoY (%)	3QFY14	QoQ (%)
Net Sales	14567	12471	16.8	16039	-9.2
Expenditure	13127	11272	16.5	13749	-4.5
EBITDA	1440	1199	20.1	2290	-37.1
EBITDA Margins (%)	9.9	9.6	-	14.3	-
Other Income	411	270	52.4	208	97.3
Interest	105.6	54.9	92.2	91.3	15.7
Depreciation	306	272.6	12.2	300.8	1.6
PBT after exceptional items	1439	1141	26.2	2451	-41.3
Tax	467	523	-10.6	771	-39.4
Tax rate (%)	32%	46%	-	31%	-
Reported PAT	972	618	57.3	1679	-42.1
PAT%	6.7	5.0	-	10.5	-
EPS (Rs)	7.7	4.9	57.3	13.2	-42.1

**Exhibit1: 4QFY14 Sales volumes**

	4QFY14	4QFY13	yoy%	3QFY14	qoq%
Natural Gas Transmission (MMSCMD)	95	99	-4.9	96	-1.4
LPG Transmission-(000' tonne)	863	745	15.8	855	0.9
Natural Gas Sales (MMSCMD)	76	80	-4.8	80	-4.7
Petrochemical Sales (000 tonne)	107	132	-18.9	109	-1.8
LPG Sales (000 tonne)	231	272	-15.1	264	-12.5
Other Liquid Hydro Carbons (000 tonne)	58	76	-23.7	68	-14.7

**Exhibit2: 4QFY14 Segmental Revenues**

Rs cr						Share in Revenues (%)		
	4QFY14	4QFY13	yoy%	3QFY14	qoq%	4QFY14	4QFY13	3QFY14
Natural Gas Transmission	787	381	106.6	1119	-30	5.4	3.1	7.0
LPG Transmission	115	103	11.7	114	1	0.8	0.8	0.7
Gas Trading	10776	9381	14.9	11550	-7	74.5	75.6	72.3
Petrochemical	1160	1205	-3.7	1152	1	8.0	9.7	7.2
LPG & other Liquid Hydro Carbons	1486	1315	13.0	1934	-23	10.3	10.6	12.1
Unallocated	140	24	483.3	112	25	1.0	0.2	0.7
<b>Total Sales</b>	<b>14464</b>	<b>12409</b>	<b>16.6</b>	<b>15981</b>	<b>-9.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Exhibit3: 4QFY14 Segmental EBIT**

Rs cr						Share in EBIT (%)		
	4QFY14	4QFY13	yoy%	3QFY14	qoq%	4QFY14	4QFY13	2QFY14
Natural Gas Transmission	621	242	157	636	-2	33.5	16.5	22.4
LPG Transmission	70	74	-5	71	-1	3.8	5.0	2.5
Gas Trading	297	349	-15	509	-42	16.0	23.8	17.9
Petrochemical	243	519	-53	382	-36	13.1	35.3	13.4
LPG & other Liquid Hydro Carbons	522	515	1	785	-34	28.2	35.1	27.6
Unallocated	98	-230	-143	460	-79	5.3	-15.7	16.2
<b>Total Sales</b>	<b>1851</b>	<b>1469</b>	<b>26</b>	<b>2843</b>	<b>-35</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>



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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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