



Parsoli Corporation Limited

In Touch with Your Investment Needs

Indian Equities
Oil & Gas

Quarterly Update

Gas Authority of India Ltd.

BUY

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CMP **Rs 399**
Target Price **Rs 464**
Sensex 16,860
Nifty 5,036

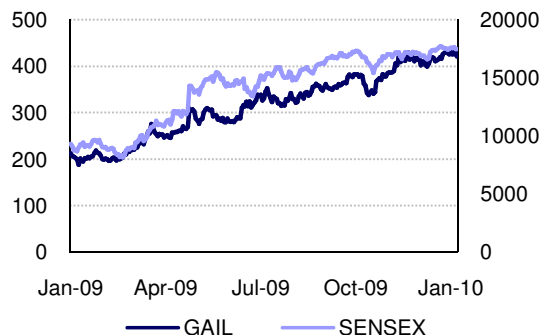
Stock Details

BSE Code	532155
NSE Code	GAIL
Reuters Code	GAIL.BO
Bloomberg Code	GAIL.IN
Market Cap (Rs Cr)	47047.92
Beta	0.62
52 W High / Low (Rs)	449.40 / 186.15
Avg Daily Volume	3,38,495
Face Value (Rs)	10

Shareholding Pattern (%)

Promoters	57.34
MF/Banks/Indian FIs	17.93
FII / NRIs / OCBs	13.47
Government	7.24
Non-Institutions	0.60
Indian Public	3.42

Price Chart



Performance Highlights

Sales up on higher gas transmission volume: During Q3FY2010, natural gas transmission volume of Gas Authority of India Ltd. (GAIL) increased by 29.1% yoy to 109.0mmcmd leading to a 39.9% growth in gas transmission revenue at Rs 852.8cr. The volume increase was due to the incremental volume from RIL's KG-D6 basin. Furthermore, the marginal improvement in volume and better price realization of LPG & Liquid Hydrocarbons boosted the net sales to Rs 6187.8cr during Q3FY2010 compared to Rs 5811.7cr during Q3FY2009.

PAT surges on lower subsidy burden and higher realization: In Q3FY2010, the net profit of the company surged by 239.4% to Rs 860.0cr on account of lower subsidy burden of Rs 455.1cr and increased realization from Petrochemicals and LPG & Liquid Hydrocarbons segments. During the quarter, realization from Petrochemicals increased by 38.1% to Rs 66.1/kg. Also, interest cost declined by 23.2% to Rs 14.2cr which boosted the net profit further.

Valuation: At the current market price of Rs 399, GAIL is trading at P/E of 16.5x FY2010E earnings and 14.6x FY2011E earnings. On EV/EBIDTA basis, the stock is trading at 10.0x FY2010E and 8.5x FY2011E earnings. Higher gas transmission volume due to increase in gas production of KG-D6 basin, higher volume from Dahej terminal and limited subsidy sharing is expected to further improve GAIL's earnings. **Thus, we maintain our BUY recommendation on the stock with a target price of Rs 464.**

Exhibit 1: Quarterly Analysis

The Particulars	Q3FY2010	Q3FY2009	YoY(%)	Q2FY2010	QoQ(%)
Net Sales	6187.8	5811.7	6.5	6202.2	(0.2)
Other Income	143.8	235.2	(38.9)	168.9	(14.9)
Total Income	6331.6	6046.8	4.7	6371.1	(0.6)
Total Expenditure	4918.2	5545.7	(11.3)	5184.9	(5.1)
EBIDTA	1269.6	266.0	377.4	1017.3	24.8
EBIDTA Margin (%)	20.5	4.6	-	16.4	-
Interest	14.2	18.5	(23.2)	17.9	(20.3)
PBDT	1399.2	482.6	189.9	1168.4	19.8
Depreciation	140.9	137.4	2.6	141.6	(0.5)
Profit before Tax	1258.3	345.2	264.5	1026.8	22.5
Tax	398.3	91.9	333.6	313.5	27.0
Profit After Tax	860.0	253.4	239.4	713.2	20.6
PAT Margin (%)	13.9	4.4	-	11.5	-
EPS	6.78	2.0	239.4	5.62	20.6

Source: Company, Parsoli Research



Key Updates

Exhibit 2: Operational Performance

	Unit	Q3FY2010	Q3FY2009	YoY (%)	Q2FY2010	QoQ (%)
Natural Gas Transmission	mmscmd	109.0	84.5	29.1	106.5	2.3
LPG Transmission	tmt	820.0	763.0	7.5	728.0	12.6
Natural Gas Trading	mmscmd	81.2	80.0	1.6	81.1	0.2
Petrochemicals	tmt	120.0	130.0	(7.7)	88.0	36.4
LPG & Liquid Hydrocarbons	tmt	375.0	354.0	5.9	379.0	(1.1)

Source: Company, Parsoli Research

Higher transmission volume and price realization increased revenue by 6.5%

During Q3FY2010, GAIL's revenues increased by 6.5% yoy to Rs 6187.8cr on the back of higher revenue from natural gas transmission and LPG & Liquid Hydrocarbons segments. Transmission volumes increased by 29.1% yoy to 109.0mmscmd on account of increased production from RIL's KG-D6 basin gas. During the quarter, the price realization of Rs 18.9/kg in LPG & Liquid Hydrocarbon led to segmental revenue growth of 113.5% yoy to Rs 710.3cr.

In Q3FY2010, GAIL's topline increased to Rs 6187.8cr due to higher transmission volume

Exhibit 3: Segmental Revenue

	Q3FY2010	Q3FY2009	YoY (%)	Q2FY2010	QoQ (%)
Natural Gas Transmission	852.8	609.7	39.9	843.0	1.2
LPG Transmission	116.1	106.5	9.0	102.9	12.8
Natural Gas Trading	4527.4	4963.4	(8.8)	4969.1	(8.9)
Petrochemicals	792.7	622.1	27.4	615.7	28.8
LPG & Liquid Hydrocarbons	710.3	332.7	113.5	515.1	37.9
Gailtel	2.9	6.3	(55.0)	3.4	(16.7)

Source: Company, Parsoli Research

OPM surged with low operational cost and high price realization

During the quarter, due to decline in dry well expenditure write-off, the other expenditure declined by 13.0% to Rs 404.5cr from Rs 464.9cr which aided the operating performance. The dry well expenditure write-off was lower at Rs 20.2cr as against Rs 109.4cr. Staff cost declined by 21.3% yoy to Rs 253.9cr as last year the company made provisions for pay revision. For Q3FY2010, subsidy sharing was 49.7% lower at Rs 455.1cr as against Rs 905.0cr in Q3FY2009. Along with, the higher price realization of Petrochemical and LPG & Liquid Hydrocarbon segments contributed 1590bps to EBITDA margins which stood at 20.5% and led to 377.4%

Decline in dry well expenditure write-off, improved petrochemical realization and lower subsidy burden, resulted into operating margin of 20.5%



The cost of purchase of finished goods as percentage of sales was 1178bps lower at 60.0%

Although the sales volume of Petrochemicals declined but the higher realization boosted the EBIT margin to 43.1%

yoy growth in operating profit to Rs 1269.6cr. During the quarter, the price realization of Petrochemicals stood at Rs 66.1/kg as against Rs 47.9/kg in Q3FY2009 and for LPG & Liquid Hydrocarbon, the realization stood at Rs 18.9/kg in Q3FY2010 as against Rs 9.4/kg in Q3FY2009.

Exhibit 4: Cost Analysis				% of sales	
	Q3FY2010	Q3FY2009	bps chg	Q2FY2010	bps chg
Raw Materials Consumed	9.0	9.0	(3.7)	9.5	(49.7)
Stock Adjustment	(0.1)	1.1	(121.4)	0.2	(35.6)
Purchase of Goods	60.0	71.8	(1178.1)	64.7	(468.6)
Employee cost	4.1	5.6	(144.8)	2.0	205.7
Other Expenditure	6.5	8.0	(146.2)	7.2	(63.5)
Total Expenditure	79.5	95.4	(1594.1)	83.6	(411.6)

Source: Company, Parsoli Research

Exhibit 5: EBIT Margin				%	
	Q3FY2010	Q3FY2009	bps chg	Q2FY2010	bps chg
Natural Gas Transmission	69.8	57.9	1194.9	73.0	(321.9)
LPG Transmission	55.0	56.7	(165.5)	57.2	(222.8)
Natural Gas Trading	2.6	1.9	71.0	2.2	38.1
Petrochemicals	43.1	20.2	2283.7	44.7	(165.5)
LPG & Liquid Hydrocarbons	17.6	(75.1)	9270.4	(14.2)	3182.0
Gaitech	(138.2)	14.7	(15293.8)	(62.6)	(7567.3)

Source: Company, Parsoli Research

Net profit up by a whopping 239.4% yoy

During Q3FY2010, although, the other income declined by 38.9% to Rs 143.8cr but due to lower interest cost, higher price realization from Petrochemicals and LPG & Liquid Hydrocarbon segments and lower subsidy burden, the net profit of the company jumped up by 239.4% yoy to Rs 860.0cr.



With an expected increase in RIL's KG basin gas to 80mmscmd by March 2010, we anticipate GAIL's transmission volume to improve further

We have valued GAIL using the SOTP valuation

We maintain our BUY recommendation on the stock with a target price of Rs 464

Outlook and Valuation

With the company's capacity expansion plans and an expected increase in RIL's KG basin gas to 80mmscmd by March 2010, we anticipate GAIL's transmission volumes to improve further. Also, the petrochemical prices are improving which is expected to contribute to the overall performance. Thus, we expect GAIL to register growth at a CAGR of 16.1% in revenues and 10.1% in earnings between FY2008 and FY2011E. The company is also investing in the E&P segment to secure gas supply for its LPG and Petrochemical segments. Going forward, there would be concern over subsidy sharing and transmission tariff in medium term. However, due to higher capacity utilization of the company's infrastructure with increase in gas supply across the country, we expect the operating margin to improve.

GAIL is a diversified company with presence in natural gas/LPG transmission, Petrochemicals/Liquid Hydrocarbons production, E&P and investments in various entities. We have valued the stock by using the sum-of-the-parts (SOTP) valuation methodology. At the current market price of Rs 399, GAIL is trading at P/E of 16.5x FY2010E earnings and 14.6x FY2011E earnings. On EV/EBIDTA basis, the stock is trading at 10.0x FY2010E and 8.5x FY2011E earnings.

Exhibit 6: SOTP Valuation	
Particulars	Fair Value (Rs)
Existing Business	417.9
Investments	46.0
Total Value	464.0

Source: Parsoli Research

GAIL's quarterly results were in line with our expectations and, going forward, we expect the company to continue to perform well. With higher gas transmission volume due to increase in production from KG-D6 basin and Dahej terminal as well as the limited subsidy burden, we expect the company's earnings to improve in the long term. **Thus, we maintain our BUY recommendation on the stock with a target price of Rs 464.**



Financial Statement

Exhibit 7: Profit & Loss Statement					Rs cr
Particulars	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	18,008.2	23,776.0	25,058.7	28,145.2	32,897.0
<i>% chg</i>	12.2	32.0	5.4	12.3	16.9
Total Expenditure	14,110.6	19,716.3	20,395.2	22,782.2	26,589.0
<i>% chg</i>	7.4	39.7	3.4	11.7	16.7
EBIDTA	3,927.5	4,064.7	4,614.3	5,363.0	6,308.0
<i>Margin (%)</i>	21.8	17.1	18.4	19.1	19.2
Other Income	556.4	796.6	557.7	626.4	732.2
Depreciation & Amortization	571.0	559.9	566.0	701.1	842.5
Interest	79.6	87.0	67.8	100.4	352.4
PBT	3,855.0	4,204.0	4,538.1	5,187.9	5,845.3
<i>Margin (%)</i>	21.4	17.7	18.1	18.4	17.8
Total Tax	1,253.5	1,400.3	1,460.8	1,712.0	1,929.0
<i>(% of PBT)</i>	32.5	33.3	32.2	33.0	33.0
PAT	2,601.5	2,803.7	3,077.3	3,475.9	3,916.4
<i>% chg</i>	9.0	7.8	9.8	13.0	12.7
<i>Margin (%)</i>	14.4	11.8	12.3	12.3	11.9

Source: Company, Parsoli Research



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