



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 ₹ 448
Target Price ₹ 540
Sensex 18,070
Nifty 5,420

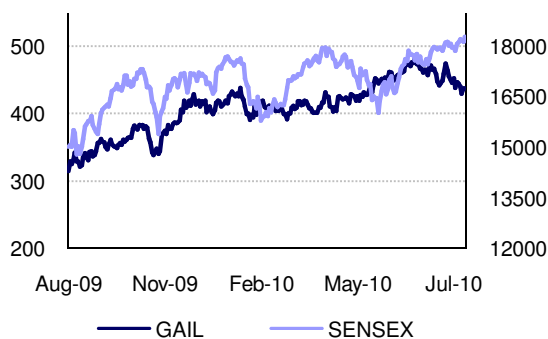
Stock Details

BSE Code 532155
NSE Code GAIL
Reuters Code GAIL.BO
Bloomberg Code GAIL.IN
Market Cap (₹ Cr) 56,872.30
Beta 0.60
52 W High / Low (₹) 516.85 / 320.10
Avg Daily Volume 2,64,570
Face Value (₹) 10

Shareholding Pattern (%)

Promoters 57.34
MF/Banks/Indian FIs 19.16
FII / NRIs / OCBs 13.29
Government 7.24
Non-Institutions 0.82
Indian Public 2.15

Price Chart



Performance Highlights

Increased gas transmission volume boosts revenue growth: During Q1FY2011, natural gas transmission revenue of Gas Authority of India Ltd. (GAIL) increased by 22.7% yoy to ₹ 896.9cr on account of high gas transmission volume. Due to incremental volume from RIL's KG-D6 basin, the gas transmission volume increased by 20.2% yoy to 116.2mmscmd from 96.7mmscmd in Q1FY2010. Furthermore, 10.6% increase in petrochemicals price realization led net sales to increase by 17.8% yoy to ₹ 7,096.0cr.

PAT surges on higher operational profit: In Q1FY2011, operational profit of the company increased by 34.7% yoy to ₹ 1,434.8cr due to increased earnings from natural gas trading and higher gas transmission volume. Also, the effective tax rate was lower at 32.9% in Q1FY2011 than compared to 33.6% in Q1FY2010 resulting in a net profit surge of 35.2% yoy to ₹ 886.9cr.

Valuation: At the current market price of ₹ 448, GAIL is trading at P/E of 16.3x FY2011E earnings and 13.9x FY2012E earnings. On EV/EBIDTA basis, the stock is trading at 9.9x FY2011E and 8.4x FY2012E earnings. We expect the company's earnings to increase due to increased utilization of gas pipelines. Also, the government being positive on implementing Kirit Parikh Committee report recommendations, either fully or partially, would be key triggers for upside in the near to medium term. Moreover, the prices of petrochemicals are expected to remain stable at current level and LPG is anticipated to see better realization along with higher marketing margins in natural gas trading. **Thus, we maintain our BUY recommendation on the stock with a target price of ₹ 540.**

Exhibit 1: Quarterly Analysis

Particulars	Q1FY2011	Q1FY2010	YoY(%)	Q4FY2010	QoQ(%)
Net Sales	7096.0	6021.4	17.8	6522.1	8.8
Other Income	67.6	79.8	(15.4)	148.6	(54.5)
Total Income	7163.5	6101.3	17.4	6670.7	7.4
Total Expenditure	5661.2	4955.9	14.2	5205.4	8.8
EBIDTA	1434.8	1065.5	34.7	1316.8	9.0
EBIDTA Margin (%)	20.2	17.7	-	20.2	-
Interest	20.5	17.9	14.6	20.0	2.6
PBDT	1481.8	1127.4	31.4	1445.3	2.5
Depreciation	160.0	140.4	13.9	138.9	15.2
Profit before Tax	1321.8	987.0	33.9	1306.5	1.2
Tax	435.0	331.2	31.3	395.6	9.9
Profit After Tax	886.9	655.8	35.2	910.8	(2.6)
PAT Margin (%)	12.5	10.9	-	14.0	-
EPS	6.99	5.17	35.2	7.18	(2.6)

Source: Company, Parsoli Research

Key Updates
Increased gas transmission volume boosts revenue growth
Exhibit 2: Operational Performance

	Unit	Q1FY2011	Q1FY2010	YoY (%)	Q4FY2010	QoQ (%)
Natural Gas Transmission	mmscmd	116.2	96.7	20.2	114.8	1.2
LPG Transmission	tmt	788.0	741.0	6.3	871.0	(9.5)
Natural Gas Trading	mmscmd	84.9	79.9	6.2	83.6	1.5
Petrochemicals	tmt	88.0	92.0	(4.3)	109.0	(19.3)
LPG & Liquid Hydrocarbons	tmt	356.0	334.0	6.6	356.0	0.0

Source: Company, Parsoli Research

In Q1FY2011, natural gas transmission volume increased by 20.2% due to increased production of KG-DG gas

During Q1FY2011, natural gas transmission volumes increased by 20.2% yoy and 1.2% qoq to 116.2mmscmd. The increased volume was on account of increased production of 60.0mmscmd on an average from RIL's KG-D6 basin. Thus, gas transmission revenue increased by 22.3% to ₹ 896.9cr. LPG transmission and natural gas trading volume also increased marginally on yoy basis resulting in net revenues to increase by 17.8% yoy to ₹ 7,096.0cr.

Exhibit 3: Segmental Revenue

	Q1FY2011	Q1FY2010	YoY(%)	Q4FY2010	QoQ(%)
Natural Gas Transmission	896.9	733.2	22.3	739.5	21.3
LPG Transmission	113.6	105.7	7.4	122.5	(7.3)
Natural Gas Trading	5451.7	4641.7	17.4	4664.6	16.9
Petrochemicals	637.6	622.6	2.4	822.3	(22.5)
LPG & Liquid Hydrocarbons	781.5	683.9	14.3	919.8	(15.0)
Gailtel	2.1	3.8	(44.2)	2.4	(11.0)

Source: Company, Parsoli Research

Improved petrochemical realization, better LPG & Liquid hydrocarbon and higher transmission volume resulted in higher OPM of 20.2%

Operating profit surges on improved realizations and better margins

During Q1FY2011, GAIL's operating profit jumped by 34.7% yoy to ₹ 1,434.8cr. This was on account of significant jump in natural gas trading realization, increased gas transmission volume and better LPG & Liquid hydrocarbon margins. Along with this, the survey expenses and dry well write-offs for E&P activities decreased to ₹ 20.1cr in Q1FY2011 from ₹ 118.7cr in Q1FY2010 resulting in a decline in other expenditure to ₹ 450.9cr. On qoq basis, the realization of natural gas transmission has improved due to absence of provisions of ₹ 1.4bn during Q4FY2010 as GAIL has moved to regulator determined pipeline tariffs. During Q1FY2011, PNGRB approved the provisional initial unit natural gas pipeline tariff for HVJ-GREP-DVPL and DVPL/GREP upgradation pipeline network. The decline in petrochemicals volume



The cost of raw material as percentage of sales was 104.9bps lower at 7.5% and other expenditure as percentage of sales was 169.7bps lower at 6.4%

EBIT margin of LPG & Liquid hydrocarbons improved significantly from 21.9% in Q1FY2010 to 29.9% in Q1FY2011

MoPNG has allowed GAIL to charge marketing margins on sale of natural gas produced by national oil companies

by 4.3% yoy to 88.0tmt was offset by its improved price realization. In Q1FY2011, the price realization of petrochemicals stood at ₹ 72.5/kg against ₹ 67.7/kg in Q1FY2010. EBIT margins of LPG & Liquid hydrocarbons improved significantly from 21.9% in Q1FY2010 to 29.9% in Q1FY2011. Thus, the operating profit margin of the company improved to 20.2% in Q1FY2011 from 17.7% in Q1FY2010.

Exhibit 4: Cost Analysis					% of sales	
	Q1FY2011	Q1FY2010	bps chg	Q4FY2010	bps chg	
Raw Materials Consumed	7.5	8.6	(104.9)	8.3	(74.7)	
Stock Adjustment	(1.0)	0.6	(164.5)	(1.0)	(2.6)	
Purchase of Goods	64.6	62.8	175.6	60.1	448.6	
Employee cost	2.3	2.2	11.1	1.7	64.0	
Other Expenditure	6.4	8.1	(169.7)	10.7	(438.4)	
Total Expenditure	79.8	82.3	(252.5)	79.8	(3.1)	

Source: Company, Parsoli Research

Exhibit 5: EBIT Margin					%	
	Q1FY2011	Q1FY2010	bps chg	Q4FY2010	bps chg	
Natural Gas Transmission	71.4	71.2	19.3	68.4	297.5	
LPG Transmission	64.6	64.5	5.0	71.2	(656.9)	
Natural Gas Trading	2.9	2.3	60.6	0.8	207.0	
Petrochemicals	44.6	42.5	217.8	54.3	(970.5)	
LPG & Liquid Hydrocarbons	29.9	21.9	792.6	44.2	(1435.7)	
Gaithel	(95.3)	28.6	(12383.2)	(77.2)	(1804.5)	

Source: Company, Parsoli Research

Natural gas trading EBIT surges by 48.6%

During Q1FY2011, natural gas trading EBIT surged by 48.6% yoy to ₹ 157.9cr from ₹ 106.3cr due to increased volume and improved realization. Realization for natural gas trading improved significantly by 10.6% yoy and 15.1% qoq. MoPNG has allowed GAIL to charge marketing margins on sale of natural gas produced by national oil companies with effect from June 1, 2010. This boosted EBIT margins of the natural gas trading segment.

Net profit up by 35.2% yoy to ₹ 886.9cr

During Q1FY2011, although the other income declined by 15.4% to ₹ 67.6cr but due to improved gas transmission volume and higher price realization from Petrochemicals and LPG & Liquid Hydrocarbon segments and lower effective tax rate, the net profit of the company jumped up by 35.2% yoy to ₹ 886.9cr.



With higher capacity utilization of the company's infrastructure with increase in gas supply across the country, operating margin is expected to improve

We have valued GAIL using the SOTP valuation

We maintain BUY recommendation on the stock with a target price of ₹ 540

Outlook and Valuation

We expect GAIL's transmission volumes to improve further on account of ramp up in RIL's KG basin gas to 80mmscmd and commissioning of LNG terminals. Thus, with the higher capacity utilization of the company's infrastructure with increase in gas supply across the country, we expect the operating margin to improve. Also, the petrochemical prices are improving which is expected to contribute to the overall performance. Moreover, GAIL has been allowed to charge marketing margins on sale of natural gas produced by national oil companies, which would increase the average marketing margins in coming quarters. However, subsidy sharing mechanism remains unclear.

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 ₹ 448, GAIL is trading at P/E of 16.3x FY2011E earnings and 13.9x FY2012E earnings. On EV/EBIDTA basis, the stock is trading at 9.9x FY2011E and 8.4x FY2012E earnings.

Exhibit 6: SOTP Valuation	
Particulars	Fair Value (₹)
Existing Business	480.5
Investments	59.3
Total Value	539.8

Source: Parsoli Research

GAIL's quarterly results were in line with our expectations. With higher gas transmission volume, higher marketing margins and stable petrochemical prices 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 ₹ 540.**



Financial Statement

Exhibit 7: Profit & Loss Statement					₹ cr
Particulars	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net Sales	18,008.2	23,898.4	24,996.4	27,856.1	32,441.3
<i>% chg</i>	12.2	32.7	4.6	11.4	16.5
Total Expenditure	14,110.6	19,849.1	20,347.8	22,242.1	26,037.1
<i>% chg</i>	7.4	40.7	2.5	9.3	17.1
EBIDTA	3,927.5	4,054.3	4,669.2	5,614.0	6,404.2
<i>Margin (%)</i>	21.8	17.0	18.7	20.2	19.7
Other Income	556.4	796.6	541.1	603.0	702.3
Depreciation & Amortization	571.0	559.9	561.8	813.6	909.8
Interest	79.6	87.0	70.0	188.0	83.8
PBT	3,855.0	4,204.0	4,578.5	5,215.4	6,112.8
<i>Margin (%)</i>	21.4	17.6	18.3	18.7	18.8
Total Tax	1,253.5	1,400.3	1,438.6	1,721.1	2,017.2
<i>(% of PBT)</i>	32.5	33.3	31.4	33.0	33.0
PAT	2,601.5	2,803.7	3,139.8	3,494.3	4,095.6
<i>% chg</i>	9.0	7.8	12.0	11.3	17.2
<i>Margin (%)</i>	14.4	11.7	12.6	12.5	12.6

Source: Company, Parsoli Research

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