



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 452
Target Price	Rs 518
Sensex	16,666
Nifty	4,988

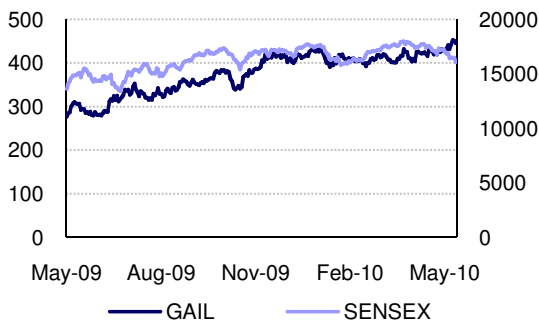
Stock Details

BSE Code	532155
NSE Code	GAIL
Reuters Code	GAIL.BO
Bloomberg Code	GAIL.IN
Market Cap (Rs Cr)	57341.64
Beta	0.62
52 W High / Low (Rs)	459.40 / 272.65
Avg Daily Volume	3,15,967
Face Value (Rs)	10

Shareholding Pattern (%)

Promoters	57.35
MF/Banks/Indian FIs	19.35
FII / NRIs / OCBs	11.94
Government	7.24
Non-Institutions	1.94
Indian Public	2.18

Price Chart



Performance Highlights

Gas transmission and LPG volume continues to grow: During Q4FY2010, natural gas transmission volume of Gas Authority of India Ltd. (GAIL) increased by 39.1% yoy to 114.8mmscmd leading to 13.6% yoy growth in gas transmission revenue to Rs 739.5cr. The volume increase was due to the incremental volume from RIL's KG-D6 basin. Furthermore, 22.0% jump in petrochemicals price realization boosted the net sales to Rs 6,522.1cr during Q4FY2010 compared to Rs 6,128.2cr during Q4FY2009.

PAT surges on lower subsidy and effective tax rate: In Q4FY2010, the net profit of the company surged by 44.6% to Rs 910.8cr on account of lower subsidy burden of Rs 338.4cr and effective tax rate was lower at 30.3%. Also, interest cost declined by 34.5% to Rs 20.0cr which boosted the net profit further.

Valuation: At the current market price of Rs 452, GAIL is trading at P/E of 16.4x FY2011E earnings and 14.0x FY2012E earnings. On EV/EBIDTA basis, the stock is trading at 10.0x FY2011E and 8.5x FY2012E earnings. With the ramp up of KG-D6 basin gas production to its peak of 80mmscmd from October 2010, GAIL is expected to transmit higher gas volume. 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. **Thus, we maintain our BUY recommendation on the stock with a target price of Rs 518.**

Exhibit 1: Quarterly Analysis

Particulars	Rs cr				
	Q4FY2010	Q4FY2009	YoY(%)	Q3FY2010	QoQ(%)
Net Sales	6522.1	6128.2	6.4	6187.8	5.4
Other Income	148.6	217.8	(31.8)	143.8	3.3
Total Income	6670.7	6346.0	5.1	6331.6	5.4
Total Expenditure	5205.4	5170.7	0.7	4918.2	5.8
EBIDTA	1316.8	957.5	37.5	1269.6	3.7
EBIDTA Margin (%)	20.2	15.6	-	20.5	-
Interest	20.0	30.6	(34.5)	14.2	40.7
PBDT	1445.3	1144.7	26.3	1399.2	3.3
Depreciation	138.9	141.0	(1.5)	140.9	(1.4)
Profit before Tax	1306.5	1003.7	30.2	1258.3	3.8
Tax	395.6	373.7	5.9	398.3	(0.7)
Profit After Tax	910.8	630.0	44.6	860.0	5.9
PAT Margin (%)	14.0	10.3	-	13.9	-
EPS	7.18	4.97	44.6	6.78	5.9

Source: Company, Parsoli Research



Key Updates

Exhibit 2: Operational Performance

	Unit	Q4FY2010	Q4FY2009	YoY (%)	Q3FY2010	QoQ (%)
Natural Gas Transmission	mmscmd	114.8	82.5	39.1	109.0	5.3
LPG Transmission	tmt	871.0	715.0	21.8	820.0	6.2
Natural Gas Trading	mmscmd	83.6	77.4	8.0	81.2	3.0
Petrochemicals	tmt	109.0	114.0	(4.4)	120.0	(9.2)
LPG & Liquid Hydrocarbons	tmt	356.0	344.0	3.5	375.0	(5.1)

Source: Company, Parsoli Research

Natural gas and LPG volume continues to grow

In Q4FY2010, natural gas transmission volume surged by 39.1% and that of LPG jumped by 21.8%

During Q4FY2010, natural gas transmission volumes surged by 39.1% yoy and 5.3% qoq to 114.8mmscmd. The increased volume was on the back of increased production of 60.0mmscmd on an average from RIL's KG-D6 basin. Also, LPG transmission volume at 871.0tmt was the highest ever. This was partly offset by the revision in transmission tariff by Petroleum & Natural Gas Regulatory Board (PNGRB). As regards to this provisional tariff given by the PNGRB, there is almost 3.0% drop, in GAIL's tariff. On basis of new transmission tariff, GAIL made a provision of Rs 1.4bn till March 2010. However, gas transmission revenue increased by 13.6% to Rs 739.5cr and LPG transmission revenue surged by 23.4% yoy to Rs 122.5cr.

Exhibit 3: Segmental Revenue

	Q4FY2010	Q4FY2009	YoY (%)	Q3FY2010	QoQ (%)
Natural Gas Transmission	739.5	651.1	13.6	852.8	(13.3)
LPG Transmission	122.5	99.2	23.4	116.1	5.5
Natural Gas Trading	4664.6	4743.0	(1.7)	4527.4	3.0
Petrochemicals	822.3	704.9	16.7	792.7	3.7
LPG & Liquid Hydrocarbons	919.8	767.4	19.9	710.3	29.5
Gailtel	2.4	4.9	(51.7)	2.9	(16.8)

Source: Company, Parsoli Research

OPM surged on lower subsidy

Improved petrochemical realization, lower subsidy burden, better LPG & Liquid Hydrocarbon margins and higher transmission volume resulted in higher OPM of 20.2%

For quarter ended March 2010, GAIL's operating profit jumped by 37.5% yoy to Rs 1,316.8cr. This was on account of significant jump in petrochemical realizations, lower subsidy, better LPG & Liquid hydrocarbon margins and higher gas transmission volumes. The survey expenses and dry well write-offs for E&P activities during the quarter had increased to Rs 180.6cr from Rs 164.2cr in Q4FY2009. Due to this, the other expenditure increased to Rs 700.3cr as against



The cost of raw material as percentage of sales was 81.5bps lower at 8.3% and purchase of finished goods as percentage of sales was 447.3bps lower at 60.1%

Rs 404.5cr in Q3FY2010. For Q4FY2010, subsidy sharing was 25.6% qoq lower at Rs 338.4cr from Rs 455.1cr in Q3FY2010. The operating profit margin of the company stood at 20.2% against 15.6% in Q4FY2009.

Exhibit 4: Cost Analysis				% of sales	
	Q4FY2010	Q4FY2009	bps chg	Q3FY2010	bps chg
Raw Materials Consumed	8.3	9.1	(81.5)	9.0	(70.4)
Stock Adjustment	(1.0)	(0.4)	(61.2)	(0.1)	(84.5)
Purchase of Goods	60.1	64.6	(447.3)	60.0	11.7
Employee cost	1.7	0.8	85.6	4.1	(244.0)
Other Expenditure	10.7	10.3	47.9	6.5	420.0
Total Expenditure	79.8	84.4	(456.5)	79.5	32.9

Source: Company, Parsoli Research

Exhibit 5: EBIT Margin				%	
	Q4FY2010	Q4FY2009	bps chg	Q3FY2010	bps chg
Natural Gas Transmission	68.4	66.7	174.8	69.8	(137.8)
LPG Transmission	71.2	64.4	672.1	55.0	1614.6
Natural Gas Trading	0.8	1.3	(44.6)	2.6	(177.9)
Petrochemicals	54.3	46.5	788.1	43.1	1127.5
LPG & Liquid Hydrocarbons	44.2	29.2	1503.1	17.6	2658.9
Gaitech	(77.2)	(34.4)	(4279.6)	(138.2)	6103.0

Source: Company, Parsoli Research

Higher realization of Petrochemical and LPG & Liquid Hydrocarbon

Although, petrochemical volumes declined by 4.4% yoy to 109.0tmt from 114tmt in Q4FY2009, petrochemicals revenue increased 16.7% yoy to Rs 822.3cr. This increase was on account of higher price realization. During the quarter, petrochemicals price realization increased by 22.0% yoy and stood at Rs 75.4/kg. Moreover, higher price realization of LPG & Liquid Hydrocarbon yielded unexpected higher margin of 44.2%. This was on account of higher price realization of LPG & Liquid Hydrocarbon which stood at Rs 25.8/kg in Q4FY2010 as against Rs 22.3/kg in Q4FY2009.

Net profit up by 44.6% yoy

During Q4FY2010, although, the other income declined by 31.8% to Rs 148.6cr but due to lower interest cost, higher price realization from Petrochemicals and LPG & Liquid Hydrocarbon segments, lower subsidy burden and lower effective tax rate, the net profit of the company jumped up by 44.6% yoy to Rs 910.8cr.

Although the sales volume of Petrochemicals declined but the higher realization boosted the revenue to Rs 822.3cr

Despite decline in other income, net profit surged by 44.6% to Rs 910.8cr



With an expected increase in RIL's KG basin gas to 80mmscmd by October 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 518

Outlook and Valuation

During quarter ended 31st March 2010, GAIL has capitalized Rs 3,106.8cr on account of new pipeline. The new pipelines include Vijaipur - Dadri pipeline, Chainsa - Jhajhar pipeline and Dadri - Babana pipeline. With the company's aggressive capacity expansion plans and an expected increase in RIL's KG basin gas to 80mmscmd by October 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 15.7% in revenues and 10.3% 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. 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.

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 452, GAIL is trading at P/E of 16.4x FY2011E earnings and 14.0x FY2012E earnings. On EV/EBIDTA basis, the stock is trading at 10.0x FY2011E and 8.5x FY2012E earnings.

Exhibit 6: SOTP Valuation	
Particulars	Fair Value (Rs)
Existing Business	465.6
Investments	52.0
Total Value	517.5

Source: Parsoli Research

GAIL's quarterly results were almost 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 as well as the limited subsidy burden 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 Rs 518.



Financial Statement

Exhibit 7: Profit & Loss Statement					Rs 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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