RESULT UPDATION

Gail India Ltd

Gail reported 17.1% sales growth to Rs.11361 Cr in 2QFY13 below of street expectation. Week performance was due to lower natural gas trading volume, lower LPG sales, lower natural gas transmission volume and more than expected subsidy burden. However the company reported sales growth of 29.7% in natural gas trading business but vol. declined by 3.6% to 81 mmscmd. The company's share in subsidy burden increased by 38.6% YoY to Rs.786 cr.

Natural gas transmission volume was declined by 10.9% YoY to 106 MMSCMD due to lower gas supply from KG basin. Gail's transmission volume is expected to remain muted in next 3-4 years due to lower expected production of gas in KG basin. LPG transmission volume grew by 2.1% YoY to 813 TMT. Petrochemical production volume increased by 1.8% YoY to 113 TMT. Revenue from natural gas transmission segment was flat at Rs. 985 cr while revenue from LPG transmission and petrochemical business were registered negative growth of 104% and 6.2% respectively.

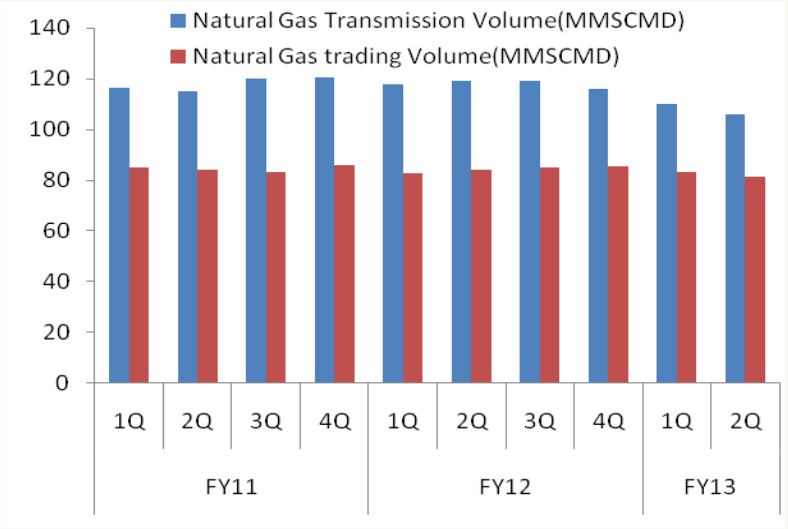
EBITDA was also contracted by 15.7% YoY to Rs.1412 cr on account of margin declined in all major segments. Natural gas and LPG trading business's EBIT declined by 14.6% and 168% to Rs.245 cr and negative of 49 cr. Negative EBIT of LPG was due to revision of transmission tariff as per PNGRB order. EBIT of natural gas transmission and petrochemical business were grown by 8.7% and 3.5% YoY respectively. Consequently EBITDA margin was contracted by 485 bps to 12%.

Other income increased by 104% YoY to Rs.237 Cr due to dividend income received of Rs.194 cr from RGPPL in which company have 31.52% stake. GAIL reported lower interest cost of Rs.26 cr as against Rs 59 cr in 1QFY13. Despite of higher other income and lower interest cost, profit of the company declined by 10% YOY and 13% QoQ to Rs.985 cr.

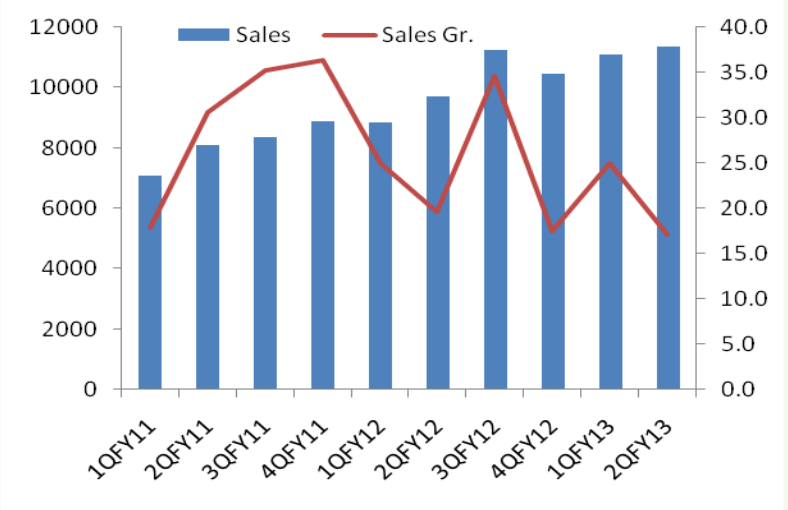
In 1HFY13, the company incurred capex of Rs.27.7 bn and given full year capex guidance of Rs.70 bn. Capitalization in 1HFY13 was Rs.16 bn and management guided capitalization to reach Rs.34 bn in FY13. Management further guided Brahmaputra Cracker and Polymers in which company have 70% stake to be commissioned by FY13E and Pata expansion to be completed by February by 2014.

At present we have neutral view on the stock on the back of lower gas production in KG basin and it is expected to remain under muted in next 3-4 years. Further capitalization of south Indian pipe line will increase depreciation and interest cost which further impact on profitability. Cap on gas marketing margin would overhang the stock in our sense; however cap on marketing margin is under review by Petroleum and Natural Gas Regulatory Board.

At the CMP of Rs.347, stock is trading at 10.8 times of expected earnings of Rs.32 for FY13E. At the end of 1HFY13, company has cash & cash equivalent of Rs.1335 cr which translated 10.5 of cash per share. Adjusted with this, stock is trading at 10.5 times of FY13E earnings. In valuation front stock is trading at reasonable valuation but looking at industry headwind we remain with neutral view on the stock.



(Source: Company/Eastwind)



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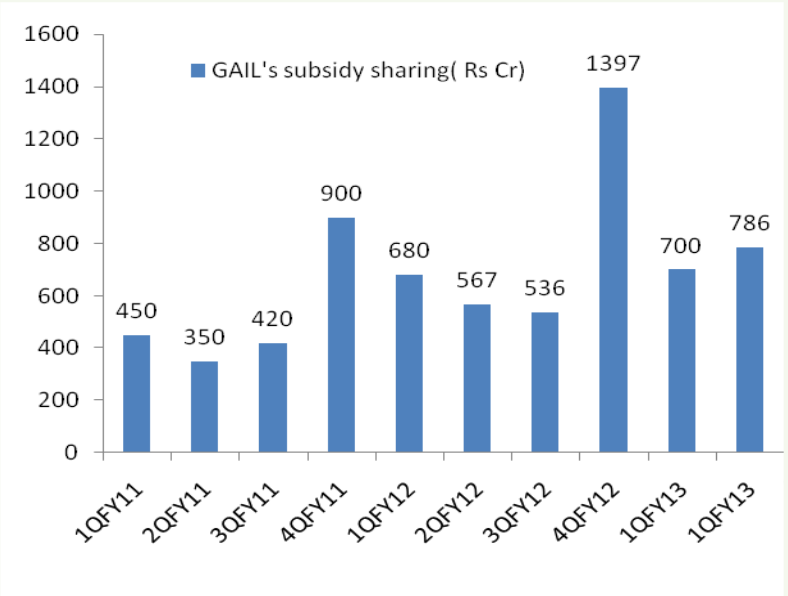

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