Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

GAIL (India) (GAIL IN)

Rating: ACCUMULATE | CMP: Rs103 | TP: Rs108

June 25, 2020

Q4FY20 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	**ACCUMULATE**		**BUY**	
Target Price	**108**		**115**	
Sales (Rs. m)	5,18,123	5,98,233	5,82,668	6,68,165
% Chng.	*(11.1)*	*(10.5)*		
EBITDA (Rs. m)	69,378	74,889	77,215	71,586
% Chng.	*(10.1)*	*4.6*		
EPS (Rs.)	9.8	11.0	13.0	15.9
% Chng.	*(24.6)*	*(30.6)*		

Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	7,51,263	7,18,710	5,18,123	5,98,233
EBITDA (Rs. m)	95,551	83,694	69,378	74,889
Margin (%)	*12.7*	*11.6*	*13.4*	*12.5*
PAT (Rs. m)	63,520	65,190	44,166	49,697
EPS (Rs.)	14.1	14.5	9.8	11.0
Gr. (%)	*38.4*	*2.6*	*(32.2)*	*12.5*
DPS (Rs.)	3.8	6.4	2.9	3.3
Yield (%)	*3.7*	*6.2*	*2.8*	*3.2*
RoE (%)	*15.0*	*14.8*	*9.7*	*10.2*
RoCE (%)	*18.6*	*13.8*	*9.8*	*9.9*
EV/Sales (x)	0.6	0.7	0.9	0.7
EV/EBITDA (x)	4.8	6.1	6.4	5.8
PE (x)	7.3	7.1	10.5	9.4
P/BV (x)	1.1	1.1	1.0	0.9

Key Data	GAIL.BO | GAIL IN
52-W High / Low	Rs.157 / Rs.65
Sensex / Nifty	34,842 / 10,289
Market Cap	Rs.465bn/ $ 6,145m
Shares Outstanding	4,510m
3M Avg. Daily Value	Rs.3216.72m

Shareholding Pattern (%)

Promoter's	52.06
Foreign	16.30
Domestic Institution	18.31
Public & Others	13.33
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	18.2	(13.9)	(33.4)
Relative	4.1	2.5	(24.6)

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Strong Q4 but challenging times ahead

Quick Pointers:

- Q4 operational profitability supported by improvement in LPG and gas trading business.
- GAIL's 5.8MTPA US LNG contract profitability remains a concern due to worsening economics as it competes with cheaper spot LNG prices.
- Petrochemicals and LPG businesses also face pricing squeeze in line with benign crude oil prices.

We lower our FY21-22E earnings to incorporate lower LPG realization and gas trading earnings. We expect GAIL's capex trajectory to pick up as all businesses ex-pipeline operate at near peak levels. DOWNGRADE to "ACCUMULATE" with revised DCF-based PT of Rs108 (Rs115) on rollover.

- **Strong performance**: GAIL reported better than expected Q4FY20 results- EBITDA Rs24.7bn (PLe: Rs16.9bn; +47% YoY) and PBT at Rs24.5bn (PLe Rs16.7bn; +19% YoY), respectively. EBIDTA also included provision write back of Rs1.38bn towards Konkan LNG impairment, Rs1.79bn for Gail Global USA and Rs1.17 for RGPPL. PAT at Rs 28.1bn got a boost from tax write back as company moved to lower tax regime. For FY20, EBIDTA and PBT of Rs83.6bn (-12%YoY) and Rs78bn (-17%YoY) respectively. PAT at Rs64.1bn got a boost from lower tax rate.
- **Core performance remains strong**: GAIL's Q4 transmission volumes was steady at 109mmscmd (110 in Q3) despite lockdown. Transmission EBIDTA for Q4 was at Rs11.6bn (Q3 Rs12.2bn) with blended tariffs of Rs1,411/tcm. LPG EBIDTA improved to Rs5.5bn (+23% QoQ), due to higher realization of USD$480/ton ($400/ton in Q3). LPG and liquid hydrocarbon production volumes were lower at 302,000 MT (336,000MT in Q3). Gas trading EBIDTA improved to Rs6.3bn (Rs5.2bn for Q3) due to benign gas prices. Gas volumes were also higher at 98mmscmd (96mmscmd in Q3). GAIL's petrochemicals operating performance improved despite lower production at 208KT in Q4 vs 216KT in Q3 due to lower cost. EBIDTA was at Rs1.9bn vs Rs1.0bn in Q3.
- **FY20 transmission biz and provision write back support core**: For FY20, gas transmission EBIDTA was at Rs44.7bn (Rs40.9bn in FY19). Provision write back of Rs4.4bn also supported operating earnings. However, petchem EBIDTA was at Rs2bn vs Rs8.1bn in FY19 due to weak economics.
- **Gas trading and LPG business fortune to worsen**: For FY20, gas trading earnings were at Rs22.7bn (Rs28.6bn in FY19). We expect trade earnings to come down to Rs16.3/18.5bn in FY21/22E as over 30% of US volumes remain unhedged for FY21E. US gas economics has worsened as it competes with cheaper spot and oil indexed gas volumes. LPG business EBIDTA for FY20 was at Rs16.7bn (Rs26.3bn in FY19) due to drop in realization to USD434/ton ($500 in FY19). We have cut realization to USD350/ton for FY21/22E on weak realization.

Exhibit 1: Q4FY20 Result Overview (Rs mn)

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net sales	**1,77,531**	**1,87,639**	***(5.4)***	**1,77,688**	**7,18,745**	**7,51,268**	***(4.3)***
(Inc)/Dec in stock in trade	(4,307)	3,478	*NA*	(3,952)	(5,986)	(3,825)	*NA*
Raw Material Cons.	1,42,816	1,48,386	*(3.8)*	1,44,407	5,79,627	5,92,466	*(2.2)*
Other Expenditure	11,013	14,936	*(26.3)*	13,038	46,218	49,757	*(7.1)*
Staff Cost	3,256	3,993	*(18.5)*	3,472	15,193	17,577	*(13.6)*
Total Expenditure	1,52,778	1,70,793	*(10.5)*	1,56,965	6,35,051	6,55,976	*(3.2)*
EBITDA	**24,754**	**16,845**	***46.9***	**20,724**	**83,694**	**95,292**	***(12.2)***
EBITDA Margin	*13.9*	*9.0*		*11.7*	*11.6*	*12.7*	
Other income	5,132	8,659	*(40.7)*	3,124	14,168	15,712	*(9.8)*
Interest	329	263	*25.1*	242	1,085	1,385	*(21.7)*
Depreciation	5,016	4,574	*9.7*	4,890	18,360	15,502	*18.4*
PBT	**24,541**	**20,667**	***18.7***	**18,716**	**78,417**	**94,116**	***(16.7)***
Tax	(4,625)	6,177	NA	6,210	13,227	30,592	(56.8)
Tax rate (%)	*NA*	*29.9*		*33.2*	*16.9*	*32.5*	
Net profit	**29,166**	**14,490**	***101.3***	**12,507**	**65,190**	**63,525**	***2.6***

Source: Company, PL

Exhibit 2: GAIL quarterly volumes

Operational parameters	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Gas transmission (mmscmd)	107.0	105.9	107.7	109.2	105.4	108.7	110.3	109.0
Gas sales (mmscmd)	97.2	96.2	96.0	98.4	96.6	94.7	96.0	97.8
LPG and liquid prodn ('000 MT)	310.0	340.0	340.0	335.0	298.0	329.0	336.0	302.0
Petrochemical sales ('000 MT)	166.0	183.0	173.0	213.0	136.0	217.0	211.0	174.0
LPG transmission ('000 MT)	901.0	1,015.0	1,036.0	1,023.0	827.0	999.0	1,043.0	1,040.0
LPG sales ('000 MT)	227.0	239.0	246.0	234.0	213.0	234.0	245.0	221.0
Other liquid hydocarbon sales ('000MT)	87.0	99.0	96.0	101.0	83.0	95.0	92.0	81.0
EBITDA breakup (Rs m)								
Gas transmission	9,080	10,810	10,720	10,280	10,680	10,200	12,200	11,640
Gas trading/marketing	5,510	10,450	6,750	5,880	8,610	2,540	5,240	6,310
LPG & liquid hydrocarbons	5,460	7,830	8,490	4,520	5,280	2,730	3,180	5,540
Petrochemicals	3,130	2,750	1,380	890	(1,170)	320	1,050	1,850
LPG & liquid hydrocarbons	450	1,090	1,600	670	700	4,220	2,180	5,560
Total	**23,630**	**32,930**	**28,940**	**22,240**	**24,100**	**20,010**	**23,850**	**30,900**

Source: Company, PL

Conference Call Highlights

- For FY20 GAIL had capex of Rs61bn and has lined up capex of Rs40/90bn for FY21/22E.
- Kochi-Mangalore pipeline will be commissioned by July 20.
- In April, gas transmission was down 30% due to imposition of lockdown, but now except CNG business (operating at 50%), all others are operating at 90%.
- For FY20, out of 120cargoes (90US cargoes), 46 were sold abroad and 74 brought to India. For FY21E, 37 cargoes will be sold abroad from US portfolio of 90. ~90% of US portfolio has already been sold and 70% is hedged.
- Worsening US gas economics remains a challenge for FY21E.
- Some customers have raised force majeure in Q1 but company doesn't expect any claims.

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	**7,51,263**	**7,18,710**	**5,18,123**	**5,98,233**
YoY gr. (%)	*40.0*	*(4.3)*	*(27.9)*	*15.5*
Cost of Goods Sold	5,92,466	5,73,606	3,89,041	4,60,801
Gross Profit	1,58,797	1,45,104	1,29,082	1,37,432
Margin (%)	*21.1*	*20.2*	*24.9*	*23.0*
Employee Cost	17,784	15,193	15,648	16,587
Other Expenses	-	-	-	-
EBITDA	**95,551**	**83,694**	**69,378**	**74,889**
YoY gr. (%)	*25.2*	*(12.4)*	*(17.1)*	*7.9*
Margin (%)	*12.7*	*11.6*	*13.4*	*12.5*
Depreciation and Amortization	15,502	18,360	21,204	24,652
EBIT	**80,049**	**65,334**	**48,174**	**50,237**
Margin (%)	*10.7*	*9.1*	*9.3*	*8.4*
Net Interest	1,385	1,085	1,112	600
Other Income	15,448	14,168	13,028	17,977
Profit Before Tax	**94,112**	**78,417**	**60,090**	**67,615**
Margin (%)	*12.5*	*10.9*	*11.6*	*11.3*
Total Tax	30,592	13,227	15,924	17,918
Effective tax rate (%)	*32.5*	*16.9*	*26.5*	*26.5*
Profit after tax	**63,520**	**65,190**	**44,166**	**49,697**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**63,520**	**65,190**	**44,166**	**49,697**
YoY gr. (%)	*38.4*	*2.6*	*(32.2)*	*12.5*
Margin (%)	*8.5*	*9.1*	*8.5*	*8.3*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**63,520**	**65,190**	**44,166**	**49,697**
YoY gr. (%)	*38.4*	*2.6*	*(32.2)*	*12.5*
Margin (%)	*8.5*	*9.1*	*8.5*	*8.3*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	63,520	65,190	44,166	49,697
Equity Shares O/s (m)	**4,510**	**4,510**	**4,510**	**4,510**
EPS (Rs)	**14.1**	**14.5**	**9.8**	**11.0**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	**3,55,017**	**3,90,481**	**4,70,481**	**5,30,481**
Tangibles	3,55,017	3,90,481	4,70,481	5,30,481
Intangibles	-	-	-	-
Acc: Dep / Amortization	**58,188**	**76,548**	**97,752**	**1,22,403**
Tangibles	58,188	76,548	97,752	1,22,403
Intangibles	-	-	-	-
Net fixed assets	**2,96,829**	**3,13,933**	**3,72,729**	**4,08,078**
Tangibles	2,96,829	3,13,933	3,72,729	4,08,078
Intangibles	-	-	-	-
Capital Work In Progress	92,025	1,09,606	75,000	75,000
Goodwill	14,032	18,729	18,729	18,729
Non-Current Investments	1,13,614	1,17,913	1,25,955	1,30,677
Net Deferred tax assets	(60,774)	(47,077)	(51,193)	(55,820)
Other Non-Current Assets	24,211	14,016	15,417	16,959
Current Assets				
Investments	-	-	-	-
Inventories	23,219	29,601	16,014	18,489
Trade receivables	40,602	45,468	34,996	37,697
Cash & Bank Balance	12,147	8,039	42,067	47,819
Other Current Assets	15,838	8,457	9,303	10,233
Total Assets	**6,43,786**	**6,85,337**	**7,31,741**	**7,87,366**
Equity				
Equity Share Capital	22,551	45,101	45,101	45,101
Other Equity	4,18,379	3,94,610	4,25,526	4,60,314
Total Networth	**4,40,929**	**4,39,711**	**4,70,627**	**5,05,415**
Non-Current Liabilities				
Long Term borrowings	8,706	36,121	20,000	20,000
Provisions	6,946	5,297	5,826	6,409
Other non current liabilities	25,635	35,214	38,735	42,609
Current Liabilities				
ST Debt / Current of LT Debt	-	17,997	-	-
Trade payables	39,612	41,284	56,451	62,096
Other current liabilities	53,733	55,094	80,613	85,893
Total Equity & Liabilities	**6,43,786**	**6,85,336**	**7,31,741**	**7,87,366**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	94,112	78,417	60,090	67,615
Add. Depreciation	15,502	18,360	21,204	24,652
Add. Interest	1,385	1,085	1,112	600
Less Financial Other Income	15,448	14,168	13,028	17,977
Add. Other	-	-	-	-
Op. profit before WC changes	1,10,999	97,862	82,405	92,866
Net Changes-WC	9,674	(29,216)	65,169	6,313
Direct tax	(24,643)	(29,775)	(12,018)	(13,523)
Net cash from Op. activities	**96,030**	**38,871**	**1,35,556**	**85,657**
Capital expenditures	(75,350)	(57,743)	(45,394)	(60,000)
Interest / Dividend Income	-	-	-	-
Others	434	20,297	(3,749)	-
Net Cash from Invt. activities	**(74,916)**	**(37,446)**	**(49,143)**	**(60,000)**
Issue of share cap. / premium	(10,915)	(15,062)	(3,906)	(4,395)
Debt changes	(1,055)	45,412	(34,118)	-
Dividend paid	(20,906)	(34,798)	(13,250)	(14,909)
Interest paid	(1,385)	(1,085)	(1,112)	(600)
Others	-	-	-	-
Net cash from Fin. activities	**(34,262)**	**(5,533)**	**(52,386)**	**(19,904)**
Net change in cash	**(13,147)**	**(4,108)**	**34,028**	**5,753**
Free Cash Flow	20,680	(18,873)	90,163	25,657

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	**1,83,115**	**1,80,411**	**1,77,688**	**1,77,531**
YoY gr. (%)	*5.9*	*(6.4)*	*(10.2)*	*(5.4)*
Raw Material Expenses	1,45,323	1,49,353	1,40,455	1,38,509
Gross Profit	37,792	31,058	37,233	39,022
Margin (%)	*20.6*	*17.2*	*21.0*	*22.0*
EBITDA	**22,590**	**15,627**	**20,724**	**24,754**
YoY gr. (%)	*0.7*	*(46.6)*	*(22.5)*	*46.9*
Margin (%)	*12.3*	*8.7*	*11.7*	*13.9*
Depreciation / Depletion	4,057	4,398	4,890	5,016
EBIT	**18,533**	**11,229**	**15,834**	**19,738**
Margin (%)	*10.1*	*6.2*	*8.9*	*11.1*
Net Interest	239	275	242	329
Other Income	1,512	4,401	3,124	5,132
Profit before Tax	**19,805**	**15,355**	**18,716**	**24,541**
Margin (%)	*10.8*	*8.5*	*10.5*	*13.8*
Total Tax	6,930	4,713	6,210	(4,625)
Effective tax rate (%)	*35.0*	*30.7*	*33.2*	*(18.8)*
Profit after Tax	**12,875**	**10,643**	**12,507**	**29,166**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**12,875**	**10,643**	**12,507**	**28,149**
YoY gr. (%)	*2.2*	*(45.8)*	*(25.6)*	*94.3*
Margin (%)	*7.0*	*5.9*	*7.0*	*15.9*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**12,875**	**10,643**	**12,507**	**28,149**
YoY gr. (%)	*2.2*	*(45.8)*	*(25.6)*	*94.3*
Margin (%)	*7.0*	*5.9*	*7.0*	*15.9*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**12,875**	**10,643**	**12,507**	**28,149**
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	**-**	**-**	**-**	**-**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	14.1	14.5	9.8	11.0
CEPS	17.5	18.5	14.5	16.5
BVPS	97.8	97.5	104.3	112.1
FCF	4.6	(4.2)	20.0	5.7
DPS	3.8	6.4	2.9	3.3
Return Ratio(%)				
RoCE	18.6	13.8	9.8	9.9
ROIC	12.7	9.6	7.0	6.8
RoE	15.0	14.8	9.7	10.2
Balance Sheet				
Net Debt : Equity (x)	0.0	0.1	0.0	(0.1)
Net Working Capital (Days)	12	17	(4)	(4)
Valuation(x)				
PER	7.3	7.1	10.5	9.4
P/B	1.1	1.1	1.0	0.9
P/CEPS	5.9	5.6	7.1	6.3
EV/EBITDA	4.8	6.1	6.4	5.8
EV/Sales	0.6	0.7	0.9	0.7
Dividend Yield (%)	3.7	6.2	2.8	3.2

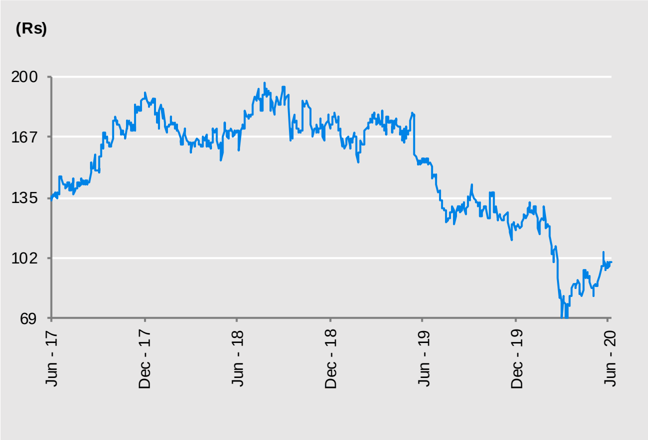
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Gas transmission (mmscmd)	107	108	107	130
Petrochem sales (ktpa)	7,35,051	8,00,000		
Gas sales (mmscmd)	97	87	86	109

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-20	BUY	115	86
2	10-Feb-20	BUY	170	122
3	03-Jan-20	BUY	188	126
4	09-Nov-19	BUY	188	127
5	03-Oct-19	BUY	207	132
6	09-Aug-19	BUY	207	124
7	04-Jul-19	BUY	482	308

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	1,024	869
2	Bharat Petroleum Corporation	BUY	515	357
3	GAIL (India)	BUY	115	86
4	Hindustan Petroleum Corporation	BUY	280	214
5	Indian Oil Corporation	BUY	133	82
6	Indraprastha Gas	BUY	597	474
7	Mahanagar Gas	BUY	1,263	1,036
8	NOCIL	BUY	96	72
9	Oil & Natural Gas Corporation	BUY	115	74
10	Oil India	Accumulate	117	89
11	Petronet LNG	BUY	378	215
12	Reliance Industries	BUY	1,601	1,409

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Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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