

Weak gas trading & petchem performance...

Gail India reported a weak set of Q1FY21 numbers on account of a weak performance in gas trading, petchem and LPG/LLH segments. Revenues for the quarter fell 34% YoY to ₹ 12086.9 crore, lower than our estimate of ₹ 14464.7 crore mainly due to less-than-expected volumes and realisations in gas trading. EBITDA came in at ₹ 622.6 crore (down 72.4% YoY), below our estimates of ₹ 1383.4 crore. Subsequently, reported PAT was at ₹ 255.5 crore (down 80.2% YoY) and was below our estimate of ₹ 837.3 crore.

Gas trading segment impacts overall performance

Gas transmission segment volumes were down 14.4% YoY at 90.2 mmscmd (our estimate: 97.5 mmscmd) as offtake was lower due to impact of lockdown. Going ahead, we estimate transmission volumes at 109 mmscmd, 127.5 mmscmd for FY21E, FY22E, respectively, due to additional domestic gas from newer fields. The gas transmission EBIT at ₹ 716.7 crore, was down 16.6% YoY but above our estimates due to lower costs. Gas trading volumes declined 15.9% YoY to 81.2 mmscmd. Gas trading reported loss of ₹ 545.5 crore (estimated profit: ₹ 214.9 crore) as the company had to sell high-priced procured LNG at lower price realisation due to fall in global LNG prices. Taking into account a weak Q1FY21 performance, we estimate gas trading EBIT at ₹ 5.5 crore in FY21E and ₹ 853.9 crore in FY22E.

Petchem realisations trend important, going forward

The petchem segment reported volumes at 183 KT, above our estimate of 150 KT. While realisations were better than estimates, higher costs led to EBIT loss of ₹ 154.4 crore vs. estimated EBIT loss of ₹ 41.5 crore. We expect petchem segment profitability to remain lower in FY21E and FY22E as we factor in subdued realisations. LPG, LLH volumes were at 265 KT. Lower realisation led to YoY decline in EBIT, which was at ₹ 266.2 crore. We assume lower realisations for LLH segment taking into account low oil prices. Going ahead, we expect LPG, LLH EBIT at ₹ 1751 crore, ₹ 2219.4 crore for FY21E, FY22E, respectively.

Valuation & Outlook

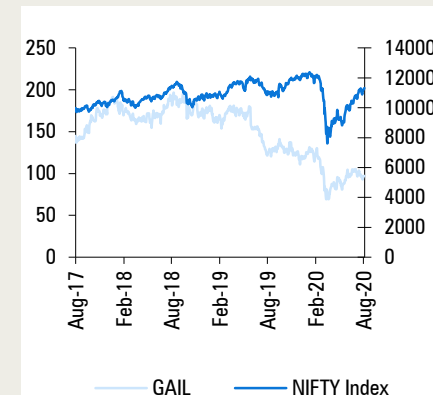
Gail's gas transmission and trading volumes were affected due to lockdown (mainly CGD volumes). In the current quarter (Q2FY21E), volumes have recovered up to 95%. Decline in oil prices leading to lower price realisations also impacted petchem and LPG/LLH performance. Profitability of the gas trading segment, which is highly dependent on global LNG prices, has been a drag on overall performance. It will be important to watch in future. The timeline of bifurcation into transmission and marketing business will be important to watch in the medium term. We value Gail using the SOTP methodology, valuing the core business using DCF and EV/EBITDA multiple for other business segments and change our recommendation from HOLD to **REDUCE** with a revised target price of ₹ 90.

Particulars	
Particular	Amount
Market Capitalization (₹ Cr)	43,297.3
Total Debt (FY 19) (₹ Crore)	1,130.8
Cash and Investments (FY	1,214.7
EV (₹ Crore)	43,213.4
52 week H/L	148/66
Equity capital (₹ Crore)	2,255.1
Face value (₹)	10.0

Key Highlights

- EBIT loss in gas trading and petchem led to lower than expected profitability
- Downgrade to REDUCE rating on stock with target price of ₹ 90 /share

Price Chart



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Key Financial Summary

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Revenue (₹ crore)	53,825.1	75,126.3	71,871.0	61,122.1	69,855.0	(2.4)
EBITDA (₹ crore)	7,633.9	9,528.7	8,369.4	5,291.1	6,859.2	(10.4)
PAT (₹ crore)	4,618.4	6,025.7	6,620.6	3,207.6	4,103.4	(12.0)
EPS (₹)	10.2	13.4	14.7	7.1	9.1	
PE (x)	9.4	7.2	6.5	13.5	10.6	
P/Book (x)	1.1	1.0	0.9	0.9	0.9	
EV / EBITDA	5.6	4.5	5.5	9.8	8.1	
ROCE (%)	14.7	17.6	12.6	5.6	7.2	
ROE (%)	11.5	13.7	14.0	6.7	8.3	
RoE (%)	21.4	22.8	22.7	27.5	22.0	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Total Revenues	12,086.9	14,464.7	18,310.6	-34.0	17,753.1	-31.9	Lower than estimates on account of low gas trading volumes
Raw materials costs	10,003.2	11,820.4	14,531.5	-31.2	13,850.9	-27.8	
Employees Cost	397.8	350.0	419.7	-5.2	325.6	22.2	
Other Expenses	1,063.3	910.9	1,100.5	-3.4	1,101.3	-3.5	
Total Expenditure	11,464.3	13,081.3	16,051.6	-28.6	15,277.8	-25.0	
EBITDA	622.6	1,383.4	2,259.0	-72.4	2,475.4	-74.8	Lower than estimates mainly due to weak performance in gas trading and petchem segments
EBITDA margins (%)	5.2	9.6	12.3	-719 bps	13.9	-879 bps	
Depreciation	458.3	507.3	405.7	13.0	501.6	-8.6	
EBIT	164.4	876.0	1,853.3	-91.1	1,973.8	-91.7	
Interest	49.5	46.6	23.9	107.0	32.9	50.3	
Other Income	241.3	290.0	151.2	59.6	513.2	-53.0	
Extra Ordinary Item	0.0	0.0	0.0	NA	101.6	NA	
PBT	356.2	1,119.4	1,980.5	-82.0	2,555.7	-86.1	
Total Tax	100.7	282.1	693.0	-85.5	-462.5	-121.8	
PAT	255.5	837.3	1,287.5	-80.2	3,018.2	-91.5	

Key Metrics

Exchange rate (₹\$)	75.9	75.9	69.6	9.1	72.5	4.7	
Transmn vol (mmscmd)	90.2	97.5	105.4	-14.4	109.0	-17.2	Below estimates due to lower than expected offtake
Transmn realisatn (₹tscm)	1544.6	1560.0	1542.6	0.1	1584.4	-2.5	
Trading Vol (mmscmd)	81.2	86.0	96.6	-15.9	97.8	-17.0	
Trading realisatn (\$/mmbtu)	4.6	5.6	7.0	-33.4	6.4	-27.1	Lower than estimated realisations due to fall in global LNG prices
Petchem Vol (000' tonnes)	183.0	150.0	145.0	26.2	174.0	5.2	
Petchem realisatn (₹tonne)	66759.0	64125.0	76742.1	-13.0	69964.9	-4.6	
LPG/OLH vol (000' tonnes)	265.0	270.0	349.0	-24.1	302.0	-12.3	
LPG/OLH realisatn (₹tonne)	28223.0	26400.0	32826.6	-14.0	38208.9	-26.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			
(₹ Crore)	Old	New	Change	Old	New	Change	
Revenue	65763.1	61,122.1	-7.1	72264.1	69,855.0	-3.3	
EBITDA	6360.1	5,291.1	-16.8	7017.9	6,859.2	-2.3	Reduced our FY 21E estimate due to low profitability in gas trading segment
EBITDA Margin (%)	9.7	8.7	-101 bps	9.7	9.8	11 bps	
PAT	4019.9	3,207.6	-20.2	4222.2	4,103.4	-2.8	
EPS (₹)	8.9	7.1	-20.2	9.4	9.1	-2.8	

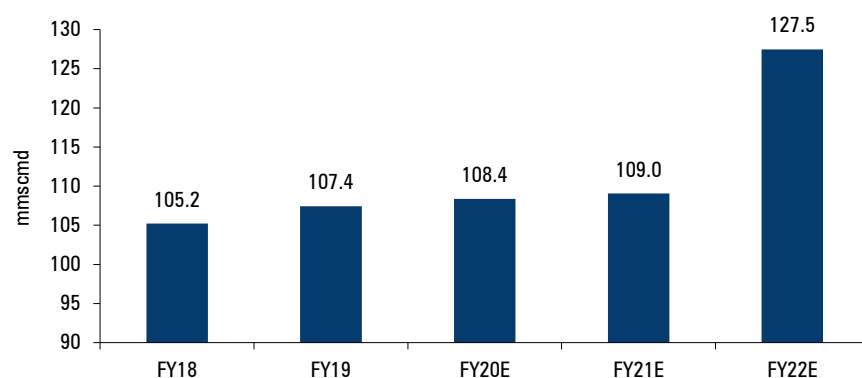
Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

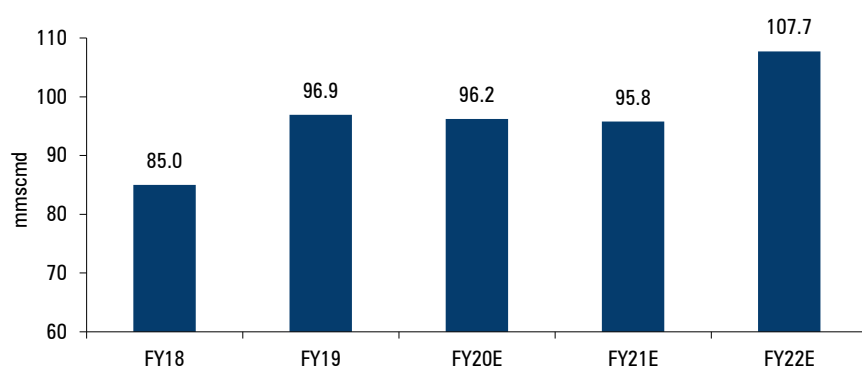
	Current				Earlier		
	FY19	FY20E	FY21E	FY22E	FY21E	FY22E	Comments
Exchange rate (₹\$)	69.9	70.9	75.2	75.0	75.2	75.0	
GAIL subsidy burden (₹cr)	0.0	0.0	0.0	0.0	0.0	0.0	
Transmn vol (mmscmd)	107.4	108.4	109.0	127.5	110.9	127.5	
Transmn realisatn (₹tscm)	1,473.6	1,525.8	1,470.5	1,400.0	1,475.1	1400.0	
Trading Vol (mmscmd)	96.9	96.2	95.8	107.7	97.7	107.7	
Trading realisatn (\$/mmbtu)	6.8	6.6	5.2	5.4	5.6	5.6	
Petchem Vol (000' tonnes)	735.0	747.0	808.0	840.0	775.0	840.0	
Petchem realisatn (₹tonne)	91,210.1	72,719.3	68,028.3	68,400.0	64,814.5	64980.0	
LPG/OLH vol (000' tonnes)	1,331.0	1,317.0	1,225.0	1,300.0	1,235.0	1300.0	
LPG/OLH realisatn (₹tonne)	38,190.4	32,146.6	29,507.4	31,500.0	30,002.4	31500.0	

Source: Company, ICICI Direct Research

Story in charts

Exhibit 4: Gas transmission volumes trend


Source: Company, ICICI Direct Research

Exhibit 5: Gas trading volumes trend


Source: Company, ICICI Direct Research

Exhibit 6: EBIT trend (₹ crore)

	FY18	FY19	FY20E	FY21E	FY22E
Natural Gas transmission	2877.4	3253.9	3539.8	2763.3	2745.1
LPG transmission	271.2	301.4	330.9	295.8	276.3
Natural Gas Trading	1244.4	2859.1	2156.2	5.5	853.9
Petrochemicals	261.2	384.9	-245.5	-141.2	-29.8
LPG and Liquid Hydrocarbons	2304.6	2546.5	1580.6	1751.0	2219.4
Gailtel	0.0	0.0	0.0	-20.8	-32.1
Others	258.4	297.9	537.0	597.1	634.0
EBIT	7217.2	9643.7	7899.0	5250.8	6666.8

Source: Company, ICICI Direct Research

Exhibit 7: EBIT (%)

	FY18	FY19	FY20E	FY21E	FY22E
Natural Gas	39.9	33.7	44.8	52.6	41.2
LPG	3.8	3.1	4.2	5.6	4.1
Natural Gas Trading	17.2	29.6	27.3	0.1	12.8
Petrochemicals	3.6	4.0	-3.1	-2.7	-0.4
LPG and Liquid Hydrocarbons	31.9	26.4	20.0	33.3	33.3
Gailtel	0.0	0.0	0.0	-0.4	-0.5
Others	3.6	3.1	6.8	11.4	9.5
Total	100.0	100.0	100.0	100.0	100.0

Source: Bloomberg, ICICI Direct Research

Exhibit 8: Valuation

Segments	Enterprise Value (₹Crore)	₹ per share	per % of SOTP	Method
Transmission Business				
Natural Gas Transmission	13950.2	30.9	34.5	DCF
LPG Transmission	3868.5	8.6	9.6	DCF
Value of transmission business	17818.7	40	44.0	
Other Businesses				
Natural Gas Trading	3431.7	7.6	8.5	4x FY 22E EV/EBITDA
Petrochemicals	2432.0	5.4	6.0	4.5x FY 22E EV/EBITDA
LPG and Liquid Hydrocarbons	10694.3	23.7	26.4	4.5x FY 22E EV/EBITDA
Value of Other Businesses	16558.1	37	40.9	
Investments				
Quoted	13680.0	30.3	33.8	30% discount to CMP
Unquoted	4458.7	9.9	11.0	
Value of Investments	18138.7	40	44.8	
Firm Value	52515.5	116	129.7	
Less: Net Debt	-12032.2	-27	-29.7	
Equity Value	40483.2	90	100.0	

Source: Company, ICICI Direct Research

Exhibit 9: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	52.7	52.7	52.1	52.1	52.1
FII	20.3	18.8	17.8	16.3	15.6
DII	23.1	24.4	25.5	26.6	27.4
Others	3.9	4.1	4.6	5.0	4.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Revenue	75126.3	71871.0	61122.1	69855.0
Growth (%)	39.6	-4.3	-15.0	14.3
(Inc.) / Dec stock in trade	-382.5	-598.6	400.8	0.0
Raw material Costs	4584.3	4412.0	3869.6	4164.0
Purchase of trading good:	54662.3	53547.2	45198.4	52120.6
Employee Costs	1757.7	1519.3	1552.3	1629.9
Other Expenditure	4975.7	4621.8	4809.9	5081.3
Op. Expenditure	65597.6	63501.6	55830.9	62995.8
EBITDA	9528.7	8369.4	5291.1	6859.2
Growth (%)	24.8	-12.2	-36.8	29.6
Depreciation	1550.2	1836.0	1980.3	2356.4
EBIT	7978.5	6533.4	3310.8	4502.8
Interest	138.5	108.5	279.3	416.9
Other Income	1571.2	1416.8	1271.3	1400.0
PBT	9084.8	7943.4	4302.8	5485.9
Growth (%)	30.6	-12.6	-45.8	27.5
Tax	3059.2	1322.7	1095.2	1382.4
Reported PAT	6025.7	6620.6	3207.6	4103.4
Growth (%)	30.5	9.9	-51.6	27.9
EPS	13.4	14.7	7.1	9.1

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after Tax	6,025.7	6,620.6	3,207.6	4,103.4
Add: Depreciation	1,550.2	1,836.0	1,980.3	2,356.4
Add: Others	1,316.8	222.3	150.0	150.0
Cash Profit	6,802.1	5,324.8	2,717.5	3,727.4
Increase/(Decrease) in CI	2,088.3	-974.2	-1,908.1	1,480.7
(Increase)/Decrease in C/	-2,051.3	163.8	1,198.9	-409.2
CF from Operating Acti	8929.7	7868.5	4628.7	7681.4
Purchase of Fixed Assets	7,459.0	6,861.9	7,950.9	8,200.0
(Inc)/Dec in Investments	425.0	-425.0	0.0	0.0
Others	0.0	1.0	1.0	1.0
CF from Investing Acti	-7,034.0	-7,286.9	-7,950.9	-8,200.0
Inc/(Dec) in Loan Funds	-949.7	3,280.0	6,900.0	2,000.0
Less: Dividend Paid	2,090.6	3,354.1	2,620.4	2,882.4
Inc/(Dec) in Sh. Cap. & Re	-170.2	0.1	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activ	-3,210.5	-74.0	4,279.6	-882.4
Change in cash Eq.	-1,314.7	507.6	957.4	-1,401.1
Op. Cash and cash Eq.	2,529.4	1,214.7	1,722.2	2,679.6
CI. Cash and cash Eq.	1,214.7	1,722.2	2,679.6	1,278.5

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Source of Funds				
Equity Capital	2,255.1	4,510.1	4,510.1	4,510.1
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	41,837.9	42,849.4	43,436.6	44,657.6
Shareholder's Fund	44,093.0	47,359.6	47,946.8	49,167.8
Loan Funds	1,130.8	4,410.8	11,310.8	13,310.8
Deferred Tax Liability	5,947.7	6,170.0	6,320.0	6,470.0
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	51171.5	57940.4	65577.5	68948.6
Application of Funds				
Gross Block	36,960.2	44,960.2	52,960.2	60,960.2
Less: Acc. Depreciation	5,874.1	7,648.2	9,677.6	12,033.9
Net Block	31,086.1	37,312.0	43,282.6	48,926.2
Capital WIP	9,202.5	8,002.5	8,002.5	8,202.5
Total Fixed Assets	40,288.6	45,314.5	51,285.1	57,128.7
Investments	9,528.2	9,953.2	9,953.2	9,953.2
Inventories	2,321.9	2,362.9	2,009.5	2,296.6
Debtor	5,074.3	5,119.6	4,353.9	4,976.0
Cash	1,214.7	1,722.2	2,679.6	1,278.5
Loan & Advance, Other C	5951.0	5701.0	5621.2	5121.2
Total Current assets	14561.9	14905.6	14664.2	13672.3
Current Liabilities	11781.8	10829.9	9210.2	10526.1
Provisions	1425.3	1403.0	1114.7	1279.5
Total CL and Provisions	13207.1	12232.9	10324.9	11805.6
Net Working Capital	1354.7	2672.7	4339.3	1866.7
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	51171.5	57940.4	65577.5	68948.6

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios ₹ crore				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
Book Value	97.8	105.0	106.3	109.0
Cash per share	2.7	3.8	5.9	2.8
EPS	13.4	14.7	7.1	9.1
Cash EPS	16.8	18.8	11.5	14.3
DPS	3.8	6.4	5.0	5.5
Profitability & Operating Ratios				
EBITDA Margin (%)	12.7	11.6	8.7	9.8
PAT Margin (%)	8.0	9.2	5.2	5.9
Fixed Asset Turnover (x)	1.9	1.6	1.2	1.2
Inventory Turnover (Days)	11.3	12.0	12.0	12.0
Debtor (Days)	24.7	26.0	26.0	26.0
Current Liabilities (Days)	57.2	55.0	55.0	55.0
Return Ratios (%)				
RoE	13.7	14.0	6.7	8.3
RoCE	17.6	12.6	5.6	7.2
RoIC	18.1	13.1	5.9	7.4
Valuation Ratios (x)				
PE	7.2	6.5	13.5	10.6
Price to Book Value	1.0	0.9	0.9	0.9
EV/EBITDA	4.5	5.5	9.8	8.1
EV/Sales	0.6	0.6	0.8	0.8
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.1	0.2	0.3
Interest Coverage (x)	57.6	60.2	11.9	10.8
Debt to EBITDA (x)	0.1	0.5	2.1	1.9
Current Ratio	1.1	1.2	1.4	1.2
Quick ratio	0.9	1.0	1.2	1.0

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
GAIL (India) (GAIL)	96	90	Reduce	43,297	14.7	7.1	9.1	6.5	13.5	10.6	5.5	9.8	8.1	12.6	5.6	7.2	14.0	6.7	8.3
Gujarat Gas (GUJGA)	304	350	Buy	20,927	17.3	14.0	18.4	17.5	21.6	16.5	13.4	12.5	9.8	26.7	26.0	30.2	36.4	23.2	24.1
HPCL (HINPET)	215	220	Hold	32,799	17.3	37.2	25.9	12.4	5.8	8.3	13.3	6.6	7.1	2.8	9.4	6.6	9.1	17.5	11.8
Indian Oil Corp (INDOIL)	87	90	Hold	79,875	1.4	9.9	11.7	60.8	8.8	7.5	4.3	3.3	3.0	4.9	7.6	8.8	1.3	8.5	10.1
Indraprastha Gas (INDGAS)	388	440	Hold	27,160	16.2	14.4	18.9	23.9	26.9	20.6	17.6	18.4	13.8	25.2	20.1	23.0	22.6	17.5	19.7
Mahanagar Gas (MAHGAS)	970	1145	Hold	9,581	80.3	54.1	87.4	12.1	17.9	11.1	8.5	11.4	6.8	32.0	20.5	29.2	28.5	17.6	23.9
ONGC (ONGC)	77	80	Hold	98,817	10.5	4.4	10.9	7.3	17.5	7.1	2.5	4.5	3.4	9.2	1.3	5.7	6.3	2.6	6.3
Petronet LNG (PETLNG)	246	295	Buy	36,900	18.0	15.9	19.6	13.7	15.5	12.5	9.2	8.7	7.2	22.2	23.0	29.0	25.5	22.6	27.1

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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