

June 10, 2021

Q4FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		UNDER REVIEW	
Target Price	184		-	
Sales (Rs. m)	745,232	1,037,745	578,738	820,848
% Chng.	28.8	26.4		
EBITDA (Rs. m)	89,723	115,453	73,561	101,982
% Chng.	22.0	13.2		
EPS (Rs.)	14.0	18.2	12.7	17.8
% Chng.	10.8	1.7		

Key Financials - Standalone

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	718,710	567,302	745,232	1,037,745
EBITDA (Rs. m)	83,694	64,451	89,723	115,453
Margin (%)	11.6	11.4	12.0	11.1
PAT (Rs. m)	65,190	47,698	63,304	81,897
EPS (Rs.)	14.5	10.6	14.0	18.2
Gr. (%)	2.6	(26.8)	32.7	29.4
DPS (Rs.)	6.4	4.9	5.6	5.4
Yield (%)	3.9	3.0	3.4	3.3
RoE (%)	14.8	10.5	13.0	15.4
RoCE (%)	13.8	8.9	12.5	15.6
EV/Sales (x)	1.1	1.4	1.0	0.7
EV/EBITDA (x)	9.4	12.0	8.1	6.3
PE (x)	11.3	15.5	11.6	9.0
P/BV (x)	1.7	1.6	1.5	1.3

Key Data

GAIL.BO | GAIL IN

52-W High / Low	Rs.170 / Rs.81
Sensex / Nifty	52,300 / 15,738
Market Cap	Rs.726bn/ \$ 9,937m
Shares Outstanding	4,440m
3M Avg. Daily Value	Rs.5812.37m

Shareholding Pattern (%)

Promoter's	51.82
Foreign	15.63
Domestic Institution	19.32
Public & Others	13.23
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.8	36.2	66.7
Relative	0.1	19.7	9.1

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Improving commodity trend augurs well

Quick Pointers:

- Record petrochemicals profitability plus improving LPG & gas trading segment drive profits.
- Improving commodity price outlook in a post Covid world to drive earnings.

We increase our FY22/23E earnings by 10.8%/1.7% to incorporate higher petrochemicals and LPG realization. Sharp recovery in commodity prices in-line with recovering economy, augurs well for GAIL. Also, commissioning of new pipelines over next one year will augment volumes and profits. We had put the rating under review after a sharp run up in stock prices and now have a BUY rating with a PT of Rs184 based on 7x EV/E FY23E.

- Solid all round performance:** GAIL reported Q4 results in-line with estimates with EBITDA at Rs25.6bn (PLe: Rs26.8bn; +34% QoQ) led by higher LPG realizations and record petrochem profits. PAT was at Rs19.1bn (PLe Rs19.1bn; +28% QoQ). Petrochemicals reported record profits in Q4 on the back of sharp spike in global commodity prices due to logistics disruptions.
- For FY21, EBIDTA/PAT was at Rs64.5bn (-23%YoY) and Rs47.7bn (-27%YoY) due to loss in gas trading business and volume loss in Q1.
- Performance recovery continues:** GAIL's Q4 transmission volumes improved to 110mmscmd (flat QoQ) while gas sales volumes were weak at 91mmscmd (96mmscmd in Q3). Transmission EBIDTA for Q4 was at Rs12.0bn (Q3 Rs12.5bn) with blended tariffs of Rs1,381ctm. LPG EBIDTA improved to Rs4.9bn (+63% QoQ) with realization of USD\$424/ton (\$322/ton in Q3FY21). LPG and liquid hydrocarbon production volumes were lower at 259,000 MT (316,000MT in Q3).
- Gas trading profitability turn around:** US gas economics improved from 9M as gas trading EBIDTA was at Rs3bn (Rs450mn for Q3). Trading loss for FY21 stands at Rs6.0bn vis-à-vis gains of Rs22.7bn in FY20. With improvement in spot and contracted LNG prices, profitability is to improve.
- Record petrochemicals profitability:** GAIL's petrochemicals operating performance improved sharply due to healthy production at 224KT in Q4 vs 233KT in Q3. EBIDTA was at Rs7.2bn vs Rs5.5bn in Q3 as petrochem prices spiked globally given supply chain disruptions. For FY21, petchem EBIDTA was at Rs15.2bn vs Rs2bn in FY20.
- Aggressive capex on horizon:** GAIL increased capex to Rs68bn for FY21 as it expands its pipeline network. GAIL has lined up capex of Rs470bn for pipeline expansion. The company is also increasing the petrochemicals capacity which will be on stream by Sept 23.

Exhibit 1: Q4FY21 Result Overview (Rs mn)

Y/e March	Q4FY21	Q4FY20	YoY gr. (%)	Q3FY21	FY21	FY20	YoY gr. (%)
Net sales	1,55,491	1,77,531	(12.4)	1,54,568	5,67,378	7,18,745	(21.1)
(Inc)/Dec in stock in trade	(2,532)	(4,307)	(41.2)	875	5,437	(5,986)	(190.8)
Raw Material Cons.	1,18,145	1,42,816	(17.3)	1,18,366	4,38,125	5,79,627	(24.4)
Other Expenditure	10,869	11,013	(1.3)	12,090	43,902	46,218	(5.0)
Staff Cost	3,361	3,256	3.2	4,041	15,463	15,193	1.8
Total Expenditure	1,29,843	1,52,778	(15.0)	1,35,373	5,02,927	6,35,051	(20.8)
EBITDA	25,649	24,754	3.6	19,195	64,451	83,694	(23.0)
<i>EBITDA Margin (%)</i>	<i>16.5</i>	<i>13.9</i>		<i>12.4</i>	<i>43.9</i>	<i>46.6</i>	
Other income	5,684	5,132	10.8	4,708	20,045	14,168	41.5
Interest	459	329	39.2	331	1,559	1,085	43.7
Depreciation	4,758	5,016	(5.1)	4,895	19,079	18,360	3.9
PBT	26,116	24,541	6.4	18,677	63,858	78,417	(18.6)
Tax	7,039	(4,625)	(252.2)	3,804	14,956	13,227	13.1
<i>Tax rate (%)</i>	<i>27.0</i>	<i>(18.8)</i>		<i>20.4</i>	<i>95.6</i>	<i>80.0</i>	
Net profit	19,077	29,166	(34.6)	14,873	48,902	65,190	(25.0)

Source: Company, PL

Exhibit 2: GAIL quarterly volumes

Operational parameters	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Gas transmission (mmscmd)	109.2	105.4	108.7	110.3	109.0	90.2	106.4	110.3	109.8
Gas sales (mmscmd)	98.4	96.6	94.7	96.0	97.8	81.2	88.6	95.6	91.4
LPG and liquid prodn ('000 MT)	335.0	298.0	329.0	336.0	302.0	269.0	291.0	316.0	259.0
Petrochemical sales ('000 MT)	213.0	136.0	217.0	211.0	174.0	183.0	224.0	231.0	234.0
LPG transmission ('000 MT)	1,023.0	827.0	999.0	1,043.0	1,040.0	963.0	1,058.0	1,088.0	1,054.0
LPG sales ('000 MT)	234.0	213.0	234.0	245.0	221.0	222.0	217.0	213.0	159.0
Other liquid hydrocarbon sales ('000MT)	101.0	83.0	95.0	92.0	81.0	43.0	80.0	106.0	98.0
EBITDA breakup (Rs m)									
Gas transmission	10,280	10,680	10,200	12,200	11,640	9,530	12,810	12,470	12,040
Gas trading/marketing	5,880	8,610	2,540	5,240	6,310	(5,170)	(3,350)	(450)	2,990
LPG & liquid hydrocarbons	4,520	5,280	2,730	3,180	5,540	2,860	3,020	3,040	4,960
Petrochemicals	890	(1,170)	320	1,050	1,850	(430)	2,890	5,490	7,240
LPG & liquid hydrocarbons	670	700	4,220	2,180	5,560	1,850	5,250	3,360	3,070
Total	22,240	24,100	20,010	23,850	30,900	8,640	20,620	23,910	31,340

Source: Company, PL

Conference Call Highlights

- For FY22/23 GAIL has lined up capex of Rs70/100bn.
- For FY21, company sold 35 cargoes in the overseas markets.
- Urja Ganga gas pipeline volume demand will be 11-12mmscmd over next one year. Management expects transmission volumes to grow at 6-8% CAGR.
- GAIL received capital grants of Rs44.9bn for the Urja Ganga pipeline.
- Gas transmission volumes for Apr-May 21 have been down 10-15% due to lockdown restrictions but has now recovered to Q4 levels.
- Company has already tied in 80% of US cargoes for FY22 and 50% for FY23E.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	718,710	567,302	745,232	1,037,745
YoY gr. (%)	(4.3)	(21.1)	31.4	39.3
Cost of Goods Sold	579,592	438,049	594,720	853,964
Gross Profit	139,118	129,253	150,512	183,781
Margin (%)	19.4	22.8	20.2	17.7
Employee Cost	15,193	15,310	16,228	17,040
Other Expenses	-	-	-	-
EBITDA	83,694	64,451	89,723	115,453
YoY gr. (%)	(12.4)	(23.0)	39.2	28.7
Margin (%)	11.6	11.4	12.0	11.1
Depreciation and Amortization	18,360	19,079	24,104	28,537
EBIT	65,334	45,373	65,619	86,916
Margin (%)	9.1	8.0	8.8	8.4
Net Interest	1,085	1,559	1,135	-
Other Income	14,168	20,045	20,267	22,727
Profit Before Tax	78,417	63,858	84,751	109,643
Margin (%)	10.9	11.3	11.4	10.6
Total Tax	13,227	16,160	21,447	27,746
Effective tax rate (%)	16.9	25.3	25.3	25.3
Profit after tax	65,190	47,698	63,304	81,897
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	65,190	47,698	63,304	81,897
YoY gr. (%)	2.6	(26.8)	32.7	29.4
Margin (%)	9.1	8.4	8.5	7.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	65,190	47,698	63,304	81,897
YoY gr. (%)	2.6	(26.8)	32.7	29.4
Margin (%)	9.1	8.4	8.5	7.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	65,190	47,698	63,304	81,897
Equity Shares O/s (m)	4,510	4,510	4,510	4,510
EPS (Rs)	14.5	10.6	14.0	18.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	390,481	429,371	549,371	609,371
Tangibles	390,481	429,371	549,371	609,371
Intangibles	-	-	-	-
Acc: Dep / Amortization	76,548	95,627	119,731	148,268
Tangibles	76,548	95,627	119,731	148,268
Intangibles	-	-	-	-
Net fixed assets	313,933	333,745	429,640	461,103
Tangibles	313,933	333,745	429,640	461,103
Intangibles	-	-	-	-
Capital Work In Progress	109,606	127,314	75,000	80,000
Goodwill	18,729	22,955	22,955	22,955
Non-Current Investments	117,913	137,865	142,396	152,008
Net Deferred tax assets	(47,077)	(48,265)	(49,388)	(50,778)
Other Non-Current Assets	14,016	14,695	16,165	17,781
Current Assets				
Investments	-	4,685	-	-
Inventories	29,601	26,038	23,033	32,073
Trade receivables	45,468	33,923	46,960	65,392
Cash & Bank Balance	8,039	13,618	26,735	38,200
Other Current Assets	8,457	6,599	7,259	7,985
Total Assets	685,337	733,104	802,977	891,615
Equity				
Equity Share Capital	45,101	44,404	44,404	44,404
Other Equity	394,610	421,708	459,690	517,018
Total Networkth	439,711	466,112	504,094	561,422
Non-Current Liabilities				
Long Term borrowings	36,121	48,271	20,000	30,000
Provisions	5,297	5,477	6,025	6,627
Other non current liabilities	35,214	41,809	45,990	50,589
Current Liabilities				
ST Debt / Current of LT Debt	17,997	7,385	-	-
Trade payables	41,284	43,264	62,096	68,306
Other current liabilities	55,094	59,577	107,825	115,578
Total Equity & Liabilities	685,336	727,030	802,977	891,615

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	78,417	63,858	84,751	109,643
Add. Depreciation	18,360	19,079	24,104	28,537
Add. Interest	1,085	1,559	1,135	-
Less Financial Other Income	14,168	20,045	20,267	22,727
Add. Other	-	-	-	-
Op. profit before WC changes	97,862	84,496	109,990	138,181
Net Changes-WC	(29,216)	36,955	54,372	(14,772)
Direct tax	(29,775)	(15,558)	(20,648)	(26,713)
Net cash from Op. activities	38,871	105,893	143,714	96,695
Capital expenditures	(57,743)	(60,824)	(67,686)	(65,000)
Interest / Dividend Income	-	-	-	-
Others	20,297	(17,569)	-	(4,628)
Net Cash from Inv. activities	(37,446)	(78,392)	(67,686)	(69,628)
Issue of share cap. / premium	(15,062)	302	(799)	(1,033)
Debt changes	45,412	1,538	(35,656)	10,000
Dividend paid	(34,798)	(22,202)	(25,322)	(24,569)
Interest paid	(1,085)	(1,559)	(1,135)	-
Others	-	-	-	-
Net cash from Fin. activities	(5,533)	(21,921)	(62,911)	(15,602)
Net change in cash	(4,108)	5,579	13,117	11,465
Free Cash Flow	(18,873)	45,069	76,028	31,695

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Net Revenue	1,20,875	1,36,445	1,54,568	1,55,491
YoY gr. (%)	(34.0)	(24.4)	(13.0)	(12.4)
Raw Material Expenses	1,00,037	1,08,671	1,19,241	1,15,613
Gross Profit	20,837	27,774	35,327	39,878
Margin (%)	17.2	20.4	22.9	25.6
EBITDA	6,226	13,381	19,195	25,649
YoY gr. (%)	(72.4)	(14.4)	(7.4)	3.6
Margin (%)	5.2	9.8	12.4	16.5
Depreciation / Depletion	4,583	4,843	4,895	4,758
EBIT	1,643	8,538	14,300	20,891
Margin (%)	1.4	6.3	9.3	13.4
Net Interest	495	274	331	459
Other Income	2,413	7,239	4,708	5,684
Profit before Tax	3,562	15,503	18,677	26,116
Margin (%)	2.9	11.4	12.1	16.8
Total Tax	1,007	3,107	3,804	7,039
Effective tax rate (%)	28.3	20.0	20.4	27.0
Profit after Tax	2,555	12,397	14,873	19,077
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,555	12,397	14,873	19,077
YoY gr. (%)	(80.2)	16.5	18.9	(32.2)
Margin (%)	2.1	9.1	9.6	12.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,555	12,397	14,873	19,077
YoY gr. (%)	(80.2)	16.5	18.9	(32.2)
Margin (%)	2.1	9.1	9.6	12.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,555	12,397	14,873	19,077
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

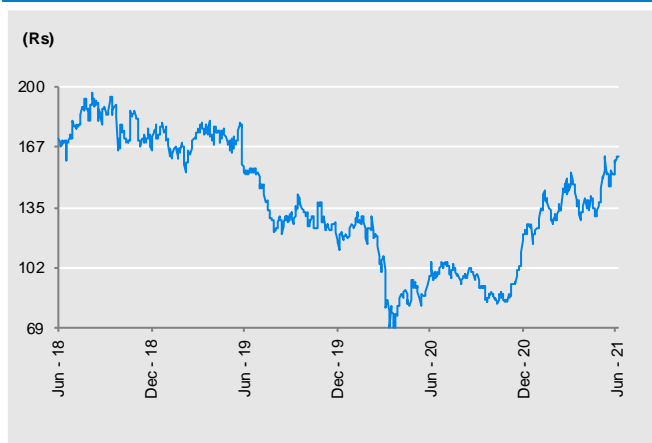
Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	14.5	10.6	14.0	18.2
CEPS	18.5	14.8	19.4	24.5
BVPS	97.5	103.3	111.8	124.5
FCF	(4.2)	10.0	16.9	7.0
DPS	6.4	4.9	5.6	5.4
Return Ratio(%)				
RoCE	13.8	8.9	12.5	15.6
ROIC	9.6	6.3	8.5	10.2
RoE	14.8	10.5	13.0	15.4
Balance Sheet				
Net Debt : Equity (x)	0.1	0.1	0.0	0.0
Net Working Capital (Days)	17	11	4	10
Valuation(x)				
PER	11.3	15.5	11.6	9.0
P/B	1.7	1.6	1.5	1.3
P/CEPS	8.8	11.0	8.4	6.7
EV/EBITDA	9.4	12.0	8.1	6.3
EV/Sales	1.1	1.4	1.0	0.7
Dividend Yield (%)	3.9	3.0	3.4	3.3

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Gas transmission (mmscmd)	108	104	124	152
Petrochem sales (ktpa)	738,034			
Gas sales (mmscmd)	96	80	100	128

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Apr-21	UR	-	135
2	10-Feb-21	Accumulate	139	134
3	08-Jan-21	UR	-	133
4	11-Nov-20	Accumulate	108	90
5	07-Oct-20	Accumulate	108	87
6	13-Aug-20	Accumulate	107	97
7	07-Jul-20	Accumulate	108	103
8	25-Jun-20	Accumulate	108	103

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Hold	1,628	1,666
2	Bharat Petroleum Corporation	BUY	581	472
3	GAIL (India)	UR	-	135
4	Gujarat Gas	BUY	666	540
5	Hindustan Petroleum Corporation	BUY	404	276
6	Indian Oil Corporation	BUY	135	105
7	Indraprastha Gas	BUY	662	505
8	Mahanagar Gas	BUY	1,296	1,139
9	NOCIL	BUY	251	209
10	Oil & Natural Gas Corporation	BUY	114	103
11	Oil India	UR	-	122
12	Petronet LNG	BUY	351	228
13	Reliance Industries	BUY	2,256	1,995

PL's Recommendation Nomenclature (Absolute Performance)

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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