

Retail Equity Research

GAIL (India) Limited

Gas Utilities

BSE CODE: 532155

NSE CODE: GAIL

Bloomberg CODE: GAIL:IN

SENSEX: 43,953

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 94

TARGET Rs. 108

RETURN 15% ↑

(Closing: 17-11-20)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

QoQ Recovery in Topline; Positive Outlook

GAIL India is a Government of India undertaking. The company processes and distributes natural gas and liquefied petroleum.

- Q2FY21 standalone revenue grew 12.9% QoQ to Rs. 13,644cr primarily due to improved physical performance & increase in petrochemical prices, partially offset by slight reduction in imported gas & LHC prices.
- EBITDA margin expanded 465bps QoQ (110bps YoY) mainly on account of higher price realization. PAT increased to Rs. 1,240cr (vs. Rs. 256cr in Q1FY21).
- Considering that the petrochemicals business is back to optimal levels & improvement in natural gas demand, the outlook remains positive. Hence, we maintain our BUY rating on the stock with a revised price target of Rs.108 based on SOTP valuation.

Demand recovery supported by rise in petrochemical prices

GAIL posted a standalone revenue of Rs. 13,644cr in Q2FY21 (vs Rs. 18,041cr in Q2FY20) as demand recovers across all the segments post lockdown relaxations. Natural Gas Marketing segment improved by 11.3% QoQ (-30.4% YoY). LPG & LHC segment improves by 7.4% QoQ (-16.4% YoY) & Natural gas segment grew by 21.4% QoQ (8.8% YoY). Petrochemicals business increased by 37.9% QoQ (4.0% YoY) on the back of increased prices & improved sales volume (224TMT). Gas transmission recorded 18.0% QoQ increase to 106.4 MMSCMD (vs 90.2 in Q1FY21). Capacity utilization of polymer production & polymer sales increased to 52% & 108% (vs 42% & 66% in Q1FY21) respectively. Also, capacity utilization for LHC sales & LPG transmission improved to 81% & 111% (vs 76% and 101% in Q1FY21) respectively.

Margins improved with effective cost measures

EBITDA improves 114.9% QoQ (-14.4% YoY) to Rs. 1,338cr due to higher price realization & effective control over inventory costs (purchase of stock as a percentage of sales decline 320bps QoQ to 69.9%). Reported PAT rose Rs. 1,240cr (vs Rs. 256cr in Q1FY21) on account of significant increase in other operating income (including Rs. 96cr reversal of provision) and also due to lower taxes.

Key concall highlights

- Capex spends account for Rs. 1,930cr during H1FY21, of which Rs. 1,530cr is in Q2. Also, the company projects full-year capex to be around Rs. 6,500cr and plans to spend around Rs. 6,600cr in FY21.
- During H1FY20, GAIL has procured 41 LNG cargoes from U.S. Out of which, 15 cargoes are sold overseas & 26 cargoes are brought to India.
- Contingent scheme for Kochi-Mangalore pipeline section (which is delayed due to technical difficulties) is in progress & is expected to get completed by November enabling supply to Mangalore Chemical and Fertilizer Ltd.
- Reversal of provisions for Rs. 96cr is made on account of resumption of work in KKBMP project's Tamil Nadu session.

Valuation

As the impact of COVID fades out & operational activities return to normalcy, we expect the business performance to improve further in second half of the fiscal. Improved capacity utilization & timely execution of pipeline projects can further benefit topline growth. Considering these factors, which contribute to growth prospects of the business, we maintain our BUY rating on the stock with a revised price target of Rs. 108 based on SOTP valuation.

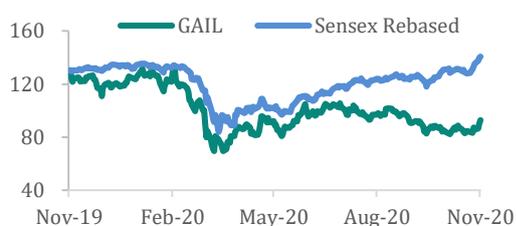
Company Data

Market Cap (cr)	Rs. 42,192
Enterprise Value (cr)	Rs. 47,698
Outstanding Shares (cr)	451.0
Free Float	46.0%
Dividend Yield	6.8%
52 week high	Rs. 133
52 week low	Rs. 66
6m average volume (lac)	9.5
Beta	0.9
Face value	Rs. 10

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	52.1	52.1	52.1
FII's	16.3	15.6	15.1
MFs/Insti	26.6	27.4	28.4
Public	2.8	2.9	3.8
Others	2.3	2.0	0.6
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-4.2%	9.0%	-24.7%
Absolute Sensex	15.5%	37.0%	5.6%
Relative Return*	-19.7%	-27.9%	-30.3%

*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	71,876	52,007	62,980
Growth (%)	(4.3)	(27.6)	21.1
EBITDA	8,369	4,625	7,616
EBITDA Margin (%)	11.6	8.9	12.1
Adj. PAT	6,519	3,013	5,103
Growth (%)	2.6	(53.8)	69.3
Adj. EPS	14.5	6.7	11.3
Growth (%)	2.6	(53.8)	69.3
P/E	5.3	14.0	8.3
P/B	0.8	0.9	0.9
EV/EBITDA	4.7	10.3	6.3
ROE (%)	15.1	6.7	11.1
D/E	0.1	0.1	0.2

Quarterly Financials (Standalone)

Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	13,644	18,041	(24.4)	12,087	12.9	25,732	36,353	(29.2)
EBITDA	1,338	1,563	(14.4)	623	114.9	1,961	3,822	(48.7)
EBITDA margins	9.8	8.7	110bps	5.2	460bps	7.6	10.5	(290bps)
Depreciation	484	440	10.1	458	5.7	943	845	11.5
EBIT	854	1,123	(24.0)	164	419.5	1,018	2,976	(65.8)
Interest	27	28	(0.3)	50	(44.6)	77	51	49.6
Other Income	724	440	64.5	241	200.0	965	591	63.3
Exceptional Items	-	-	n.m.	-	n.m.	-	-	n.m.
PBT	1,550	1,536	1.0	356	335.3	1,907	3,516	(45.8)
Tax	311	471	(34.1)	101	208.6	411	1,164	(64.7)
Share of profit from Associate	-	-	n.m.	-	n.m.	-	-	n.m.
Minority Interest	-	-	n.m.	-	n.m.	-	-	n.m.
Reported PAT	1,240	1,064	16.5	256	385.2	1,495	2,352	(36.4)
Adjustments	-	-	n.m.	-	n.m.	-	-	n.m.
Adj. PAT	1,240	1,064	16.5	256	385.2	1,495	2,352	(36.4)
No. of shares	451.0	451.0	-	451.0	-	451.0	451.0	-
Adj. EPS (Rs.)	2.7	2.4	16.5	0.6	385.2	3.3	5.2	(36.4)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	64,010	71,907	52,007	62,980	(18.8)	(12.4)
EBITDA	7,582	9,272	4,625	7,616	(39)	(17.9)
Margins (%)	11.8	12.9	8.9	12.1	(290bps)	(80bps)
Adj. PAT	4,955	6,036	3,013	5,103	(39.2)	(15.5)
Adj. EPS	11.0	13.4	6.7	11.3	(39.2)	(15.5)

Sum-of-the-Parts Valuation

Particulars	Basis	Multiple	Year	Value (Rs. cr.)	Value/share (Rs.)
GAIL Standalone	P/E	8.5x	FY22E	43,377	96
Joint Venture companies	Book Value		FY22E	792	2
Associate companies	Book Value		FY22E	2,285	5
Other Investments	Book Value		FY22E	5,052	11
Total value				51,505	114
(5% holding discount)				(2,575)	(6)
Target SOTP				48,930	108

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	53,825	75,127	71,876	52,007	62,980
% change	10.1	39.6	(4.3)	(27.6)	21.1
EBITDA	7,634	9,555	8,369	4,625	7,616
% change	20.6	25.4	(11.6)	(42.7)	73.1
Depreciation	1,415	1,550	1,836	2,015	2,189
EBIT	6,219	8,005	6,533	2,609	5,426
Interest	275	139	109	169	368
Other Income	1,015	1,218	1,518	1,559	1,714
PBT	6,958	9,085	7,943	3,999	6,773
% change	28.6	30.6	(12.6)	(49.7)	69.3
Tax	2,340	3,059	1,323	986	1,669
Tax Rate (%)	33.6	33.7	16.7	24.7	24.7
Reported PAT	4,618	6,026	6,621	3,013	5,103
Adj*	(28)	326	(102)	-	-
Adj PAT	4,591	6,352	6,519	3,013	5,103
% change	20.8	38.4	2.6	(53.8)	69.3
No. of shares (cr)	451.0	451.0	451.0	451.0	451.0
Adj EPS (Rs.)	10.2	14.1	14.5	6.7	11.3
% change	81.1	38.4	2.6	(53.8)	69.3
DPS (Rs.)	4.5	4.0	6.4	2.7	4.5
CEPS (Rs.)	13.3	17.5	18.4	11.2	16.2

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	6,033	7,568	8,412	5,029	7,293
Non-cash adj.	743	637	(1,831)	(603)	566
Changes in W.C	1,886	(328)	307	2,111	51
C.F. Operation	8,663	7,876	6,888	6,537	7,910
Capital exp.	(2,942)	(7,202)	(5,435)	(5,721)	(5,983)
Change in inv.	(800)	(269)	(622)	(113)	(47)
Other invest.CF	1,174	2,035	(772)	159	174
C.F - Investment	(2,568)	(5,437)	(6,829)	(5,674)	(5,856)
Issue of equity	-	-	-	-	-
Issue/repay debt	(3,012)	(1,135)	4,394	518	800
Dividends paid	(2,103)	(2,089)	(3,942)	(1,386)	(2,347)
Other finance.CF	(356)	(142)	(113)	(169)	(368)
C.F - Finance	(5,470)	(3,365)	338	(1,037)	(1,916)
Chg. in cash	624	(925)	398	(174)	138
Closing cash	2,529	1,215	804	630	768

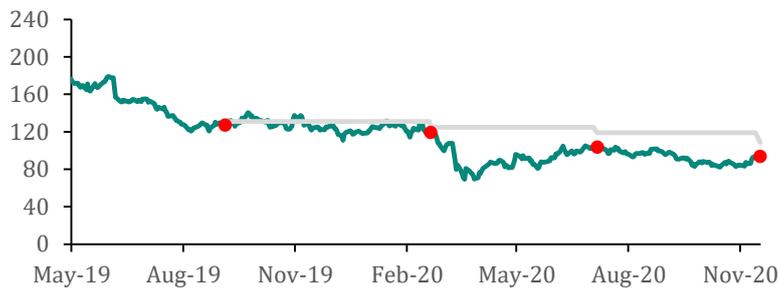
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	2,529	1,215	804	630	768
Accounts Receivable	3,746	4,889	5,622	4,577	5,479
Inventories	1,920	2,322	2,960	2,127	2,469
Other Cur. Assets	1,913	1,882	1,728	2,343	2,481
Investments	9,572	9,528	7,498	7,723	7,337
Gross Fixed Assets	31,791	35,502	40,936	46,657	52,640
Net Fixed Assets	27,739	29,683	31,393	34,164	37,002
CWIP	5,374	9,202	10,582	11,516	12,472
Intangible Assets	1,191	1,403	2,252	2,364	2,412
Def. Tax (Net)	1,353	1,480	661	493	835
Other Assets	2,745	2,774	5,034	5,080	5,111
Total Assets	58,082	64,379	68,534	71,018	76,366
Current Liabilities	9,902	9,334	9,489	10,226	12,277
Provisions	580	695	530	583	644
Debt Funds	976	871	5,617	6,135	6,935
Other Liabilities	6,296	9,386	8,927	9,430	10,430
Equity Capital	2,255	2,255	4,510	4,510	4,510
Reserves & Surplus	38,073	41,838	39,461	40,135	41,569
Shareholder's Fund	40,328	44,093	43,971	44,645	46,080
Minority Interest	-	-	-	-	-
Total Liabilities	58,082	64,379	68,534	71,018	76,366
BVPS (Rs.)	89	98	97	99	102

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	14.2	12.7	11.6	8.9	12.1
EBIT margin (%)	11.6	10.7	9.1	5.0	8.6
Net profit mgn.(%)	8.6	8.0	9.2	5.8	8.1
ROE (%)	11.5	13.7	15.1	6.7	11.1
ROCE (%)	15.1	17.8	13.2	5.1	10.2
W.C & Liquidity					
Receivables (days)	25.4	23.8	28.5	32.1	31.8
Inventory (days)	17.3	14.4	18.8	18.6	18.3
Payables (days)	34.9	24.6	26.3	38.2	41.8
Current ratio (x)	1.0	1.1	1.0	0.8	0.8
Quick ratio (x)	0.7	0.7	0.6	0.5	0.5
Turnover & Leverage					
Gross asset T.O (x)	1.7	2.2	1.9	1.2	1.3
Total asset T.O (x)	0.9	1.2	1.1	0.7	0.9
Int. coverage ratio (x)	22.6	57.8	60.2	15.5	14.7
Adj. debt/equity (x)	0.0	0.0	0.1	0.1	0.2
Valuation					
EV/Sales (x)	1.4	1.0	0.5	0.9	0.8
EV/EBITDA (x)	9.5	8.2	4.7	10.3	6.3
P/E (x)	16.2	12.3	5.3	14.0	8.3
P/BV (x)	1.8	1.8	0.8	0.9	0.9

Recommendation Summary



Dates	Rating	Target
04-Sep-19	HOLD	131
20-Feb-20	HOLD	125
06-Jul-20	BUY	119
18-Nov-20	BUY	108

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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