

### Improvement in physical and financial performance sequentially coupled with higher price realisations in petchem segment. Maintain Accumulate.

- GAIL's Q3FY21 results were above our estimates on revenue and profitability front.
- Natural gas transmission segment revenues increased 1.8% YoY and by 4.8% QoQ as the CGD sector saw revival with industrial units running at Pre Covid levels. Volumes improved 3.6% QoQ and was flat YoY.
- Gas marketing segment revenues were down 18.8% YoY and improved 13.3% QoQ. EBIT loss has narrowed down QoQ, however there was a decline due to reduction in the gas marketing spread due to reduction in gas demand.
- Petchem business has seen a major turnaround. Profitability improved on account of better physical performance and price realisations. EBIT increased due to higher production, decrease in input cost and increase in prices. Petchem plant is now operating at capacity utilization of 100% plus. LPG was fairly stable and demand for LHC products were improved. Profitability of LHC segment improved.
- We believe that most of the negatives are priced in the stock. However, the profitability can see a decline due to shut down in first 2 months of FY21, which has started picking up and is expected to return to normalcy in H2FY21. However, it is expected that considering the slump in demand in Q1FY21 GAIL may end up cutting down on spot volumes. The risk to our call remains a significant decline in profitability in the gas marketing segment. We maintain Accumulate, with a TP of Rs 157. (11x FY23E).

#### Transmission volumes at Pre Covid levels

GAIL's transmission revenue was flat YoY and improved by 3.6% sequentially due to improvement in volumes to 110.3 mmsmcd as demand from CGD sector has improved with industrial units running at full capacity and CNG demand returning to 95% of Pre-Covid levels. However, fertilisers and power plants were stable. With the commissioning to major pipelines this segment will grow. Most of the capex spend is done on the pipeline segment. Transmission volumes are expected to grow due to good demand and commissioning of Kochi-Mangalore and JHDBPL pipelines.

#### Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	154,543	177,673	(13.0)	136,427	13.3
Total Expense	135,348	156,950	(13.8)	123,046	10.0
EBITDA	19,195	20,724	(7.4)	13,381	43.4
Depreciation	4,895	4,890	0.1	4,843	1.1
EBIT	14,300	15,834	(9.7)	8,539	67.5
Other Income	4,708	3,124	50.7	7,239	(35.0)
Interest	331	242	37.1	274	20.7
EBT	18,677	18,716	(0.2)	15,503	20.5
Tax	3,804	6,210	(38.7)	3,107	22.4
RPAT	14,873	12,507	18.9	12,397	20.0
APAT	14,873	12,507	18.9	12,397	20.0
			(bps)		(bps)
Gross Margin (%)	22.9	21.0	190	20.4	250
EBITDA Margin (%)	12.4	11.7	76	9.8	261
NPM (%)	9.6	7.0	259	9.1	54
Tax Rate (%)	20.4	33.2	(1281)	20.0	33
EBIT Margin (%)	9.3	8.9	34	6.3	299

CMP	Rs 134
Target / Upside	Rs 157 / 18%
NIFTY	15,173

#### Scrip Details

Equity / FV	Rs 45,101mn / Rs
Market Cap	Rs 603bn
	USD 8bn
52-week High/Low	Rs 146/ 65
Avg. Volume (no)	25,932,400
Bloom Code	GAIL IN

Price Performance	1M	3M	12M
Absolute (%)	(2)	44	3
Rel to NIFTY (%)	(6)	26	(22)

#### Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	52.2	51.8	51.8
MF/Banks/FIs	14.8	19.9	19.9
FIIIs	21.2	15.8	15.8
Public / Others	11.9	12.5	12.5

#### Valuation (x)

	FY21E	FY22E	FY23E
P/E	14.4	10.6	9.4
EV/EBITDA	10.7	7.7	6.6
ROE (%)	9.5	12.5	13.5
RoACE (%)	7.9	10.3	11.1

#### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	624,000	686,400	741,312
EBITDA	60,057	83,081	95,057
PAT	41,798	56,931	64,396
EPS (Rs.)	9.3	12.6	14.3

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### Gas marketing segment reported losses:

Gas marketing volumes at 95.6 mmscmd (+7.9% QoQ and -0.4%YoY). Margins were negative due to inventory losses reported due to decline in demand due to which GAIL had to realign their prices. However, the losses in segment has narrowed down QoQ, Lower profitability in gas marketing segment was because cargoes had to be sold at a lower price in the domestic and international market.

Petrochemicals and LHC were running at optimal utilization. Petrochemical business has seen a turnaround and operated at 100% capacity utilization and a production jump of 8% YoY. Price realization improved in Petchem segment with a price increase of Rs. 800/MT.

Transmission volumes are expected to grow in H2FY21 and significant change will happen only in FY22 after commissioning of new pipelines. However, GAIL has not changed their capex plans for FY21 but they fear that some projects may take longer to complete due to the pandemic, resulting in rollover of some expenditures to the next year.

### US LNG Cargoes

In Q3FY21, GAIL received 23 cargoes of which 11 were sold overseas and 12 were brought to India. FY23, all the cargoes are hedged or consumer tied up and no pricing is open. Only 1-2% is loose.

### Valuation

We see limited increase in volumes in the transmission business, the US LNG cargo issue and overhang of the petchem business till it does not show constant revenues in coming quarters, appears to be factored in the stock price, at least for the next couple of quarters till the recovery in the economy from the pandemic is not stabilized. The stock price seems to be factoring in most of the negatives. We maintain Accumulate, with a target price of Rs 157 (11x FY23E).

#### Exhibit 1: Actual V/s DART estimates

Particulars (Rs Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	154,543	148,530	4.0	Gas marketing segment not revived fully.
EBITDA	19,195	17,030	12.7	Better physical performance and higher price realisation
EBITDA Margin (%)	12.4	11.5	95	
PAT	14,873	11,097	34.0	Higher Other income YoY

Source: Company, DART

#### Exhibit 2: Change in estimates

Rs Mn	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	686,400	686,400	0.0	741,312	741,312	0.0
EBITDA	83,081	78,227	6.2	95,057	89,719	6.0
EBITDA Margin (%)	12.1	11.4	70.7	12.8	12.1	72.0
PAT	56,931	53,299	6.8	64,396	60,402	6.6
EPS (Rs)	12.6	11.8	6.8	14.3	13.4	6.6

Source: Company, DART

## Key Highlights

- Revenue increased by 13.3% sequentially and declined by 13% on a YoY basis to Rs. 1,54,543 mn.
- Raw Material cost increased by 9.7% on a sequential basis and declined by 15.1% on a YoY basis to Rs. 1,19,216 mn.
- Employee cost was flat on a sequential basis and a growth of 16.4% on a YoY basis to Rs. 4,041 mn.
- Other expenditure increased by 17.3% on a sequential basis and decreased by 7.3% on a YoY basis to Rs. 12,090 mn.
- GAIL made an operating profit Rs. 19,195 mn in Q3FY21 as compared to an operating profit of Rs. 20,724 mn in Q3FY20.
- Depreciation was flat on a sequential basis and on a YoY basis to Rs. 4,895 mn.
- Other income decreased sequentially to Rs. 4,708 mn.
- GAIL made a net profit of Rs 14,873 mn in Q3FY21 as compared to a net profit of Rs. 12,507 mn in Q3FY20.

## Concall Key Highlights

- Both physical as well as financial performance of the company improved further across all major segments in Q3 as compared to Q2 FY21.
- The Physical Performance improved by 4% in Natural Gas Transmission, 8% in Gas Marketing, 3% in LPG Transmission, 3% in Petrochemical Sales and 8% in Liquid Hydrocarbon Sales.
- Sales increased due to increase in price of RLNG and Petchem price increase of Rs. 8,000/MT. Operating profits were better due to better physical performance and higher price realisation. Net profit had an uptick due to petrochemical margin which more than neutralised losses on gas marketing.
- The Ramagundam fertiliser plant in southern India is expected to reach full capacity by March, requiring 0.75 mtpa of LNG.
- Fertiliser plants at Durgapur in eastern India and at Gorakhpur in the north, requiring about 1.25 mtpa and 0.75 mtpa LNG respectively, will be commissioned later this year.
- Two more plants at Sindri and Barauni in eastern India will come on line next year, each requiring 0.75 mtpa of LNG.
- Urja Ganga pipeline tariff is Rs. 64/mmbtu upto Phase 1.

## Natural Gas Transmission

- Physical Performance improved by 3.6% QoQ from 106.44 mmscmd to 110.3 mmscmd and was flat YoY.
- Capacity utilisation was 54% as against 52% QoQ.
- NG transmission revenue improved

## Natural Gas Marketing

- Physical Performance improved by 8% QoQ to 95.6 TMT from 88.6 TMT and a de-growth of 0.4% YoY.

- NG trading loss narrowed on better price realisation, increase in crude in spot market and better margins.
- In Q3, 23 Us cargoes were there as compared to 8 cargoes QoQ. Out of this 7 were from Sabine Pass.
- Out of the 23 cargoes, 11 cargoes were sold overseas and 12 cargoes were brought to India.
- Total cargoes in 9MFY21 were 64. 26 cargoes sold outside India upto 9MFY21.
- FY23 almost all volumes are fully tied up, they are sold or being brought to India. Hardly 1-2% will be loose.

### **Petrochemical**

- Physical Performance improved by 5.4% QoQ from 221 TMT to 233 TMT and by 7.9% YoY.
- Polymer capacity utilisation was 114% as against 108% QoQ.
- PATA Petrochemical plant is fully stabilised.
- Polymer sales improved by 3.1% QoQ and 9.5% YoY from 224 TMT to 231 TMT.
- There was a price increase of Rs. 8,000/MT
- PBT increased.

### **LHC segment**

- Physical Performance improved by 7.4% QoQ from 297 TMT to 319 TMT.
- Capacity utilisation was 88% as against 81% QoQ.
- PBT improved.

### **LPG Transmission**

- Physical Performance improved by 3% to 1,088 TMT from 1,058 TMT.
- Capacity utilisation was 114% as against 111% QoQ.

### **Capex**

- Spent Rs. 1,739 cr in Q3FY21 as against Rs. 1,530 cr= in Q2FY21.
- Total spent of Rs. 3,670 cr till 9MFY21.
- Capex spent in FY21 will be Rs. 6,600 cr.

### **Project Status**

- Ramagundam fertilizer plant gas supply has started and commissioning is started. Sale of 1 mmscmd and is expected to go up to 2 mmscmd.
- Urja Ganga Project- Total commitment as on date is Rs. 14,500 cr and actual capex till date is Rs. 10,700 cr. Till date received capital grant of Rs. 4,800 cr as against total grant of Rs. 5,176 cr.

### **Construction Progress**

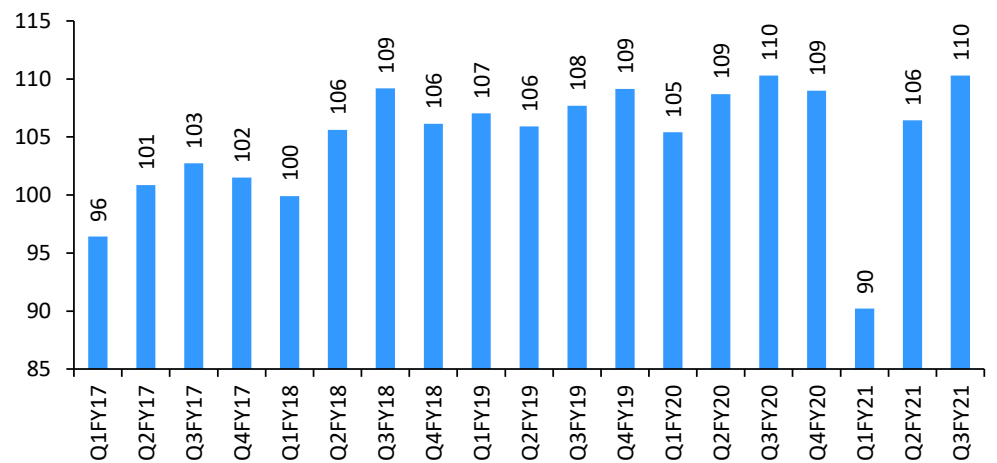
- Dhamra-Angul by Dec '21
- Bokaro-Angul mainline is expected to commission by Dec '20 and spur-line by June '21.

- Durgapur-Haldia pipeline is expected to be commissioned by Dec'21;
- Vijapur-Auraiya is expected to be commissioned by March '21.
- Barauni-Guwahati- Dec'21
- Sultanpur pipeline by April-May'21

**Major new pipeline projects undertaken by GAIL:**

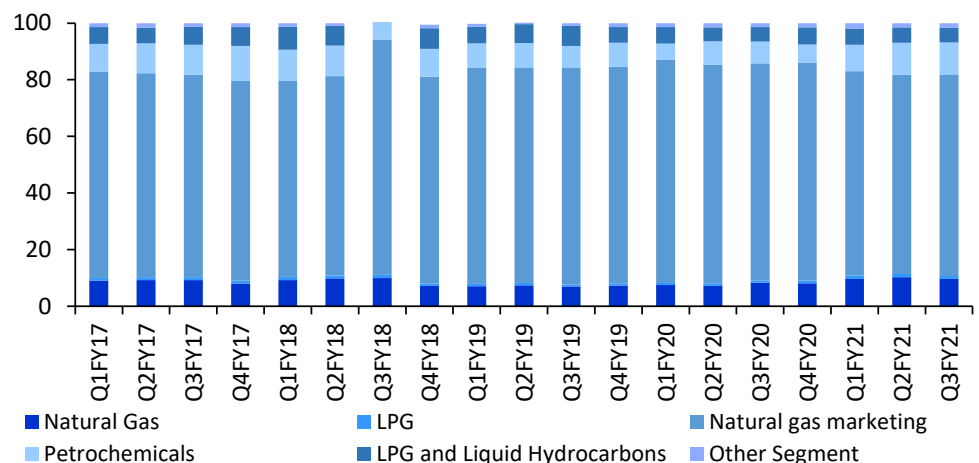
- Total pipelines of GAIL are 12,800 kms. 5,000 km will be added in next 3-4 years. Which will take the total to 18,000-19,000 kms.
- Srikakulam-Angul pipeline, 700 kms investment of Rs. 30,000 Mn- 36 months by July'22.
- Mumbai-Jharsuguda pipeline, 1,705 kms, investment of Rs. 78,000 Mn, completion by May '23
- Dhamra-Haldia pipeline, 240 km, investment of Rs. 12,000 Mn, completion by Nov'22
- Gas pipeline infrastructure in Northeast states of over 1,650 kms cost of Rs 93,000 Mn is on track.

**Exhibit 3: Gas Transmission Volumes (mmscmd)**



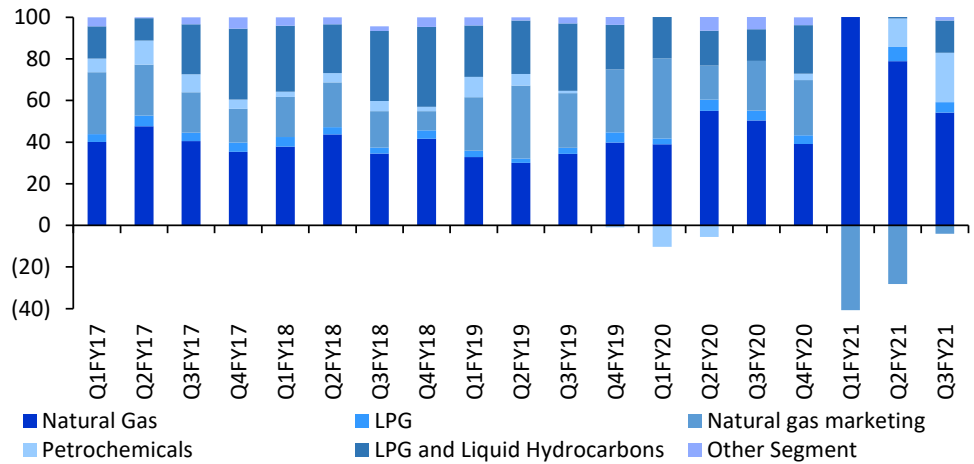
Source: Company, DART

**Exhibit 4: Segment wise % of Total revenue**



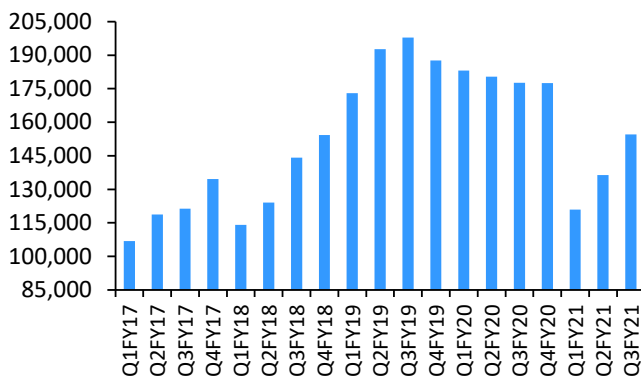
Source: Company, DART

**Exhibit 5: Segment wise % of Total Segmental Profit**



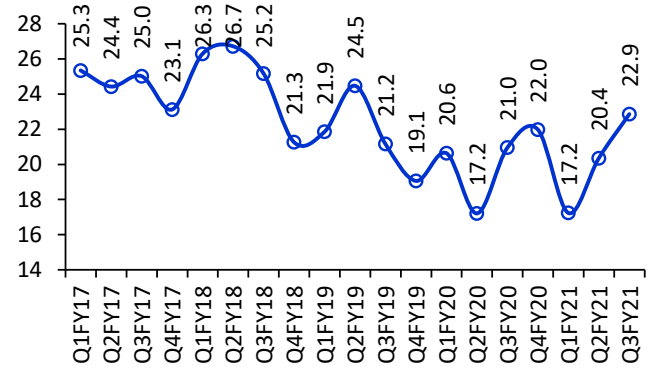
Source: Company, DART

**Exhibit 6: Revenue (Rs Mn)**



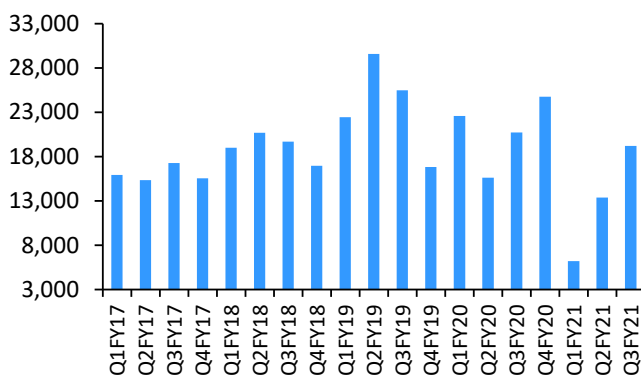
Source: Company, DART

**Exhibit 7: Gross Margin (%)**



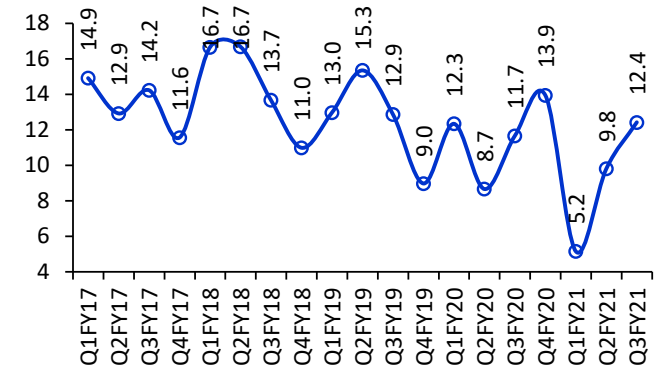
Source: Company, DART

**Exhibit 8: Operating Profit**



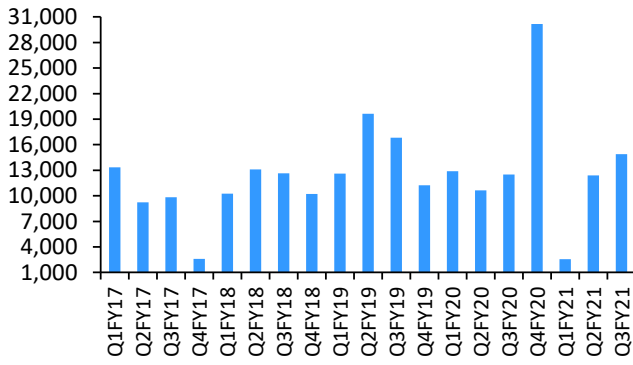
Source: Company, DART

**Exhibit 9: OPM (%)**



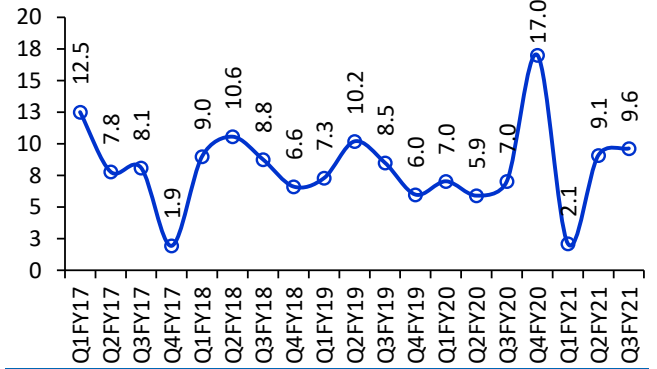
Source: Company, DART

**Exhibit 10: Net Profit**



Source: Company, DART

**Exhibit 11: NPM (%)**



Source: Company, DART

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>718,710</b>	<b>624,000</b>	<b>686,400</b>	<b>741,312</b>
<b>Total Expense</b>	<b>635,016</b>	<b>563,943</b>	<b>603,320</b>	<b>646,255</b>
COGS	573,605	501,767	538,500	577,862
Employees Cost	15,193	15,496	15,806	16,439
Other expenses	46,218	46,680	49,014	51,955
<b>EBIDTA</b>	<b>83,694</b>	<b>60,057</b>	<b>83,081</b>	<b>95,057</b>
Depreciation	18,360	18,000	18,000	18,000
<b>EBIT</b>	<b>65,334</b>	<b>42,057</b>	<b>65,081</b>	<b>77,057</b>
Interest	1,085	1,200	1,000	1,000
Other Income	14,168	15,000	12,000	10,000
Exc. / E.O. items	(1,016)	0	0	0
<b>EBT</b>	<b>77,401</b>	<b>55,857</b>	<b>76,081</b>	<b>86,057</b>
Tax	13,227	14,059	19,149	21,661
RPAT	64,174	41,798	56,931	64,396
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>64,174</b>	<b>41,798</b>	<b>56,931</b>	<b>64,396</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	45,101	45,101	45,101	45,101
Minority Interest	0	0	0	0
Reserves & Surplus	394,610	399,476	418,416	444,823
<b>Net Worth</b>	<b>439,711</b>	<b>444,577</b>	<b>463,518</b>	<b>489,924</b>
Total Debt	55,568	55,253	54,865	54,721
Net Deferred Tax Liability	44,972	49,469	54,416	59,858
<b>Total Capital Employed</b>	<b>540,251</b>	<b>549,299</b>	<b>572,799</b>	<b>604,503</b>

**Applications of Funds**

Net Block	336,450	333,450	330,450	327,450
CWIP	105,819	126,983	152,379	182,855
Investments	74,985	76,000	70,000	70,000
<b>Current Assets, Loans &amp; Advances</b>	<b>168,083</b>	<b>169,559</b>	<b>189,197</b>	<b>206,964</b>
Inventories	29,601	27,353	30,089	32,496
Receivables	55,759	44,449	48,894	52,806
Cash and Bank Balances	8,039	16,468	21,705	25,254
Loans and Advances	57,401	63,142	69,456	76,401
Other Current Assets	17,282	18,147	19,054	20,007
<b>Less: Current Liabilities &amp; Provisions</b>	<b>145,085</b>	<b>156,692</b>	<b>169,228</b>	<b>182,766</b>
Payables	41,284	65,007	76,402	88,709
Other Current Liabilities	103,801	91,383	92,493	93,692
<i>sub total</i>				
Net Current Assets	22,998	12,869	19,970	24,198
<b>Total Assets</b>	<b>540,251</b>	<b>549,299</b>	<b>572,799</b>	<b>604,503</b>

E – Estimates



**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	20.2	19.6	21.5	22.0
EBIDTA Margin	11.6	9.6	12.1	12.8
EBIT Margin	9.1	6.7	9.5	10.4
Tax rate	17.1	25.2	25.2	25.2
Net Profit Margin	8.9	6.7	8.3	8.7
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	79.8	80.4	78.5	78.0
Employee	2.1	2.5	2.3	2.2
Other	6.4	7.5	7.1	7.0
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	60.2	35.0	65.1	77.1
Inventory days	15	16	16	16
Debtors days	28	26	26	26
Average Cost of Debt	3.3	2.2	1.8	1.8
Payable days	21	38	41	44
Working Capital days	12	8	11	12
FA T/O	2.1	1.9	2.1	2.3
<b>(D) Measures of Investment</b>				
AEPS (Rs)	14.2	9.3	12.6	14.3
CEPS (Rs)	18.3	13.3	16.6	18.3
DPS (Rs)	6.4	7.0	7.2	7.2
Dividend Payout (%)	45.0	75.5	57.0	50.4
BVPS (Rs)	97.5	98.6	102.8	108.6
RoANW (%)	14.6	9.5	12.5	13.5
RoACE (%)	12.6	7.9	10.3	11.1
RoAIC (%)	12.7	7.9	12.0	13.6
<b>(E) Valuation Ratios</b>				
CMP (Rs)	134	134	134	134
P/E	9.4	14.4	10.6	9.4
Mcap (Rs Mn)	602,555	602,555	602,555	602,555
MCap/ Sales	0.8	1.0	0.9	0.8
EV	650,084	641,340	635,715	632,021
EV/Sales	0.9	1.0	0.9	0.9
EV/EBITDA	7.8	10.7	7.7	6.6
P/BV	1.4	1.4	1.3	1.2
Dividend Yield (%)	4.8	5.2	5.4	5.4
<b>(F) Growth Rate (%)</b>				
Revenue	(4.3)	(13.2)	10.0	8.0
EBITDA	(12.4)	(28.2)	38.3	14.4
EBIT	(18.4)	(35.6)	54.7	18.4
PBT	(14.8)	(27.8)	36.2	13.1
APAT	6.5	(34.9)	36.2	13.1
EPS	6.5	(34.9)	36.2	13.1
<b>Cash Flow</b>				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	68,881	82,763	78,309	87,456
CFI	(68,289)	(33,328)	(33,695)	(44,773)
CFF	3,384	(38,450)	(39,377)	(39,133)
FCFF	14,536	46,599	37,912	41,980
Opening Cash	1,508	5,483	16,468	21,705
Closing Cash	5,483	16,468	21,705	25,254

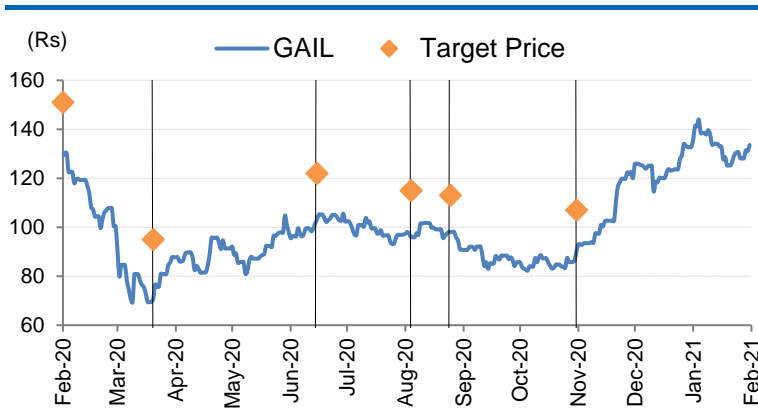
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-20	Accumulate	151	129
Mar-20	Buy	95	71
Jun-20	Accumulate	122	103
Aug-20	Accumulate	115	96
Sep-20	Accumulate	113	98
Nov-20	Accumulate	107	90

\*Price as on recommendation date

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**Analyst(s) Certification**

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