

Outlook improves owing to higher oil prices...

Gail India reported a mixed set of Q3FY21 results. While gas transmission and petchem segments' performance was better than expected, gas trading and LPG/LLH performance was weaker than anticipated. Revenues for the quarter declined 13% YoY to ₹ 15454.3 crore. EBITDA was at ₹ 1919.5 crore, down 7.4% YoY against our estimates of ₹ 1956.8 crore. Gail reported higher than expected other income of ₹ 470.8 crore. Subsequently, the reported PAT at ₹ 1487.3 crore, up 18.9% YoY (profitability aided by lower tax rate) was above our estimate of ₹ 1275.4 crore.

Gas transmission remains healthy; gas trading drags

Gas transmission segment volumes were flat YoY at 110.3 mmscmd (our estimate: 111 mmscmd). Transmission volumes are expected to improve further driven by industrial/commercial demand post commissioning of pipelines. We expect volume at 104.7 mmscmd for FY21E. Going ahead, we estimate 116.5 mmscmd, 123.5 mmscmd for FY22E, FY23E, respectively, due to additional domestic gas from newer fields and increased LNG imports. Gas transmission EBIT at ₹ 990.7 crore was above our estimates and we expect healthy performance to continue. On the gas trading front, volumes were at 95.6 mmscmd, flattish YoY, up 7.9% QoQ (our estimate: 95 mmscmd). Gas trading loss came in at ₹ 73.7 crore (estimated profit: ₹ 139.7 crore) as the company must have sold its high-priced procured LNG during the beginning of the quarter when spot LNG prices were lower, in our opinion. We expect gas trading EBIT loss of ₹ 749.3 crore in FY21E. Going forward, we estimate gas trading EBIT at ₹ 983 crore in FY22E and ₹ 1012.4 crore in FY23E taking into account current LNG price trend.

Petchem, LPG segment to lift earnings

The petchem segment reported volumes at 231 KT above our estimates of 210 KT. Higher volume and lower than expected costs led to EBIT of ₹ 434.1 crore vs. our estimate of ₹ 250.1 crore. LPG, LLH volumes were at 319 KT. Lower realisation and higher than expected costs led to lower than expected EBIT at ₹ 282.7 crore. Going forward, on account of an increase in global crude oil prices, we expect realisations for LPG & petchem to improve, thereby increase in profitability. We expect petchem & LPG segment EBIT at ₹ 1796.9 crore and ₹ 2499 crore in FY23E, respectively.

Valuation & Outlook

Gail's gas transmission, trading volumes have reached pre-Covid levels and will increase further post commissioning of new pipelines and fertiliser plants. Profitability of the gas trading segment, which is highly dependent on global LNG prices, has been a drag on overall performance. It will provide some relief in future due to rise in spot LNG prices. Monetisation of pipelines and subsequent valuation will be important in near term. We value Gail using SOTP methodology, valuing the core business using DCF and EV/EBITDA multiple for other business segments. We roll over valuations to FY23E and maintain **HOLD** with a revised TP of ₹ 150/share (earlier: ₹ 105).

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Revenue (₹ crore)	75,126.3	71,871.0	57,615.8	68,610.6	70,590.2	(0.6)
EBITDA (₹ crore)	9,528.7	8,369.4	6,256.1	9,838.1	10,200.9	6.8
PAT (₹ crore)	6,025.7	6,620.6	4,571.3	6,569.2	6,867.1	1.2
EPS (₹)	13.4	14.7	10.1	14.6	15.2	
PE (x)	10.2	9.3	13.4	9.3	8.9	
P/Book (x)	1.4	1.4	1.3	1.2	1.1	
EV / EBITDA	6.4	7.7	11.3	7.2	7.1	
ROCE (%)	17.6	13.7	7.5	12.5	11.9	
ROE (%)	13.7	15.1	10.0	13.2	12.8	
RoE (%)	21.4	22.8	22.7	27.5	22.0	

Source: Company, ICICI Direct Research

Particulars

Particular	Amount
Market Capitalization (₹ Crore)	61,337.9
Total Debt (FY 20) (₹ Crore)	3,879.1
Cash and Investments (FY 20)	803.9
EV (₹ Crore)	64,413.1
52 week H/L	146/66
Equity capital (₹ Crore)	2,255.1
Face value (₹)	10.0

Key Highlights

- EBIT of gas transmission, petchem better than estimates with gas trading EBIT below estimates
- Maintain our HOLD recommendation with a revised target price of ₹ 150/share

Key risks to our call

- Increase in crude oil prices leading to higher realisation
- Slower than expected increase in gas transmission volumes

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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Total Revenues	15,454.3	17,525.7	17,767.3	-13.0	13,642.7	13.3	
Raw materials costs	11,921.6	13,910.3	14,044.0	-15.1	10,865.4	9.7	
Employees Cost	404.1	364.5	347.2	16.4	408.3	-1.0	
Other Expenses	1,209.0	1,294.1	1,303.8	-7.3	1,031.0	17.3	
Total Expenditure	13,534.8	15,568.9	15,695.0	-13.8	12,304.6	10.0	
EBITDA	1,919.5	1,956.8	2,072.4	-7.4	1,338.1	43.4	Slightly below estimates as mainly profitability in trading segment was weaker than expected
EBITDA margins (%)	12.4	11.2	11.7	76 bps	9.8	261 bps	
Depreciation	489.5	462.9	489.0	0.1	484.3	1.1	
EBIT	1,430.0	1,493.9	1,583.4	-9.7	853.8	67.5	
Interest	33.1	78.8	24.2	37.1	27.4	20.7	
Other Income	470.8	290.0	312.4	50.7	723.9	-35.0	Higher than expected
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	1,867.7	1,705.1	1,871.6	-0.2	1,550.3	20.5	
Total Tax	380.4	429.7	621.0	-38.7	310.7	22.4	
PAT	1,487.3	1,275.4	1,250.7	18.9	1,239.7	20.0	

Key Metrics

Exchange rate (₹\$)	73.8	73.8	71.2	3.6	74.4	-0.8	
Transmn vol (mmscmd)	110.3	111.0	110.3	0.0	106.4	3.6	Volume offtake largely in line with estimates
Transmn realisatn (₹tscm)	1590.0	1550.0	1562.5	1.8	1572.6	1.1	
Trading Vol (mmscmd)	95.6	95.0	96.0	-0.4	88.6	7.9	
Trading realisatn (\$/mmbtu)	5.0	6.0	6.4	-21.3	4.8	5.9	Lower than estimated realisations
Petchem Vol (000' tonnes)	231.0	210.0	211.0	9.5	224.0	3.1	
Petchem realisatn (₹tonne)	83836.4	84075.0	70275.8	19.3	75210.7	11.5	
LPG/OLH vol (000' tonnes)	319.0	330.0	337.0	-5.3	297.0	7.4	
LPG/OLH realisatn (₹tonne)	27519.1	31000.0	28890.8	-4.7	27038.4	1.8	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(\$ Crore)	FY21E			FY22E			Comments
	Old	New	Change	Old	New	Change	
Revenue	59067.1	57,615.8	-2.5	66632.8	68,610.6	3.0	
EBITDA	5770.2	6,256.1	8.4	7706.7	9,838.1	27.7	Increase in profitability of petchem and LPG segments mainly led to change in estimates
EBITDA Margin (%)	9.8	10.9	109 bps	11.6	14.3	277 bps	
PAT	3968.0	4,571.3	15.2	4929.1	6,569.2	33.3	
EPS (₹)	8.8	10.1	15.2	10.9	14.6	33.3	

Source: Company, ICICI Direct Research

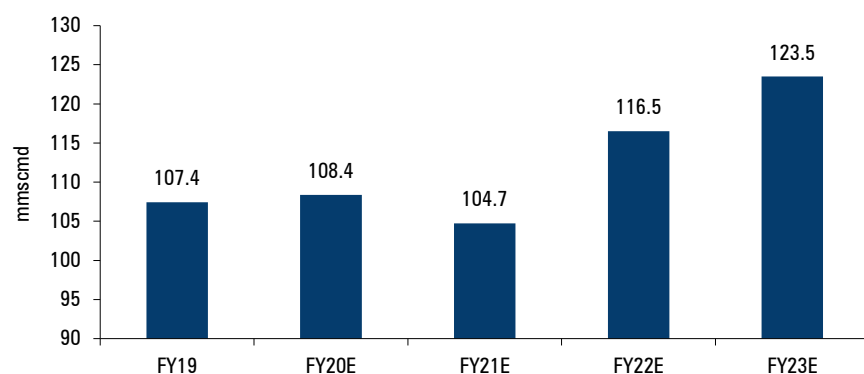
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	
Exchange rate (₹\$)	70.9	74.5	74.0	74.0	74.8	75.0	
Transmn vol (mmscmd)	108.4	104.7	116.5	123.5	105.7	118.5	On account of increase in domestic production and additional import of US LNG volumes
Transmn realisatn (₹tscm)	1,525.8	1,571.8	1,575.0	1,575.0	1,554.6	1550.0	
Trading Vol (mmscmd)	96.2	90.6	100.5	103.5	90.2	100.5	
Trading realisatn (\$/mmbtu)	6.6	5.0	5.4	5.4	5.2	5.4	
Petchem Vol (000' tonnes)	747.0	848.0	840.0	840.0	827.0	840.0	
Petchem realisatn (₹tonne)	72,719.3	81,107.7	96,900.0	96,900.0	74,730.4	71820.0	Increase in oil prices led to change in realisation estimates
LPG/OLH vol (000' tonnes)	1,317.0	1,206.0	1,300.0	1,300.0	1,217.0	1300.0	
LPG/OLH realisatn (₹tonne)	32,146.6	29,571.4	35,000.0	35,000.0	29,428.5	31000.0	Increase in oil prices led to upwards revision in estimates

Source: Company, ICICI Direct Research

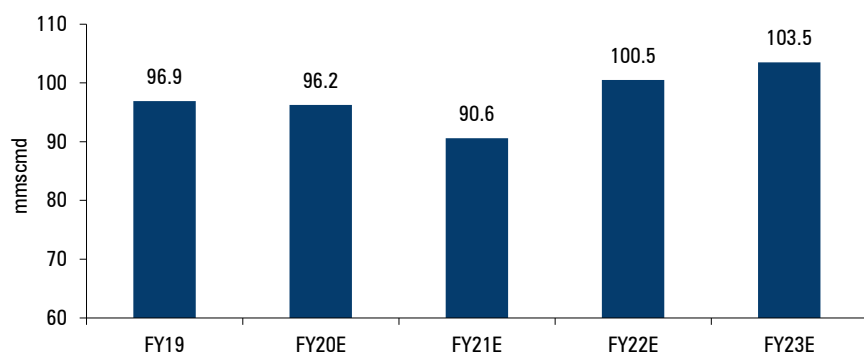
Story in charts

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)

	FY19	FY20E	FY21E	FY22E	FY23E
Natural Gas transmission	3253.9	3539.8	3601.1	3554.7	3664.6
LPG transmission	301.4	330.9	342.8	304.5	289.3
Natural Gas Trading	2859.1	2156.2	-749.3	983.0	1012.4
Petrochemicals	384.9	-245.5	930.9	1848.3	1796.9
LPG and Liquid Hydrocarbons	2546.5	1580.6	1467.0	2525.3	2499.0
Gailtel	0.0	0.0	-6.3	-29.7	-34.2
Others	297.9	537.0	470.8	637.4	631.1
EBIT	9643.7	7899.0	6057.0	9823.4	9859.2

Source: Company, ICICI Direct Research

Exhibit 7: EBIT (%)

	FY19	FY20E	FY21E	FY22E	FY23E
Natural Gas	33.7	44.8	59.5	36.2	37.2
LPG	3.1	4.2	5.7	3.1	2.9
Natural Gas Trading	29.6	27.3	-12.4	10.0	10.3
Petrochemicals	4.0	-3.1	15.4	18.8	18.2
LPG and Liquid Hydrocarbons	26.4	20.0	24.2	25.7	25.3
Gaithel	0.0	0.0	-0.1	-0.3	-0.3
Others	3.1	6.8	7.8	6.5	6.4
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	% of SOTP	Method
Transmission Business				
Natural Gas Transmission	23081.8	51.2	34.1	DCF
LPG Transmission	4458.6	9.9	6.6	DCF
Value of transmission business	27540.4	61	40.6	
Other Businesses				
Natural Gas Trading	4065.8	9.0	6.0	4x FY 23E EV/EBITDA
Petrochemicals	10757.8	23.9	15.9	4.5x FY 23E EV/EBITDA
LPG and Liquid Hydrocarbons	12006.4	26.6	17.7	4.5x FY 23E EV/EBITDA
Value of Other Businesses	26830.0	59	39.6	
Investments				
Quoted	16123.9	35.8	23.8	30% discount to CMP
Unquoted	8152.8	18.1	12.0	
Value of Investments	24276.7	54	35.8	
Firm Value	78647.1	174	116.1	
Less: Net Debt	-10886.7	-24	-16.1	
Equity Value	67760.5	150	100.0	

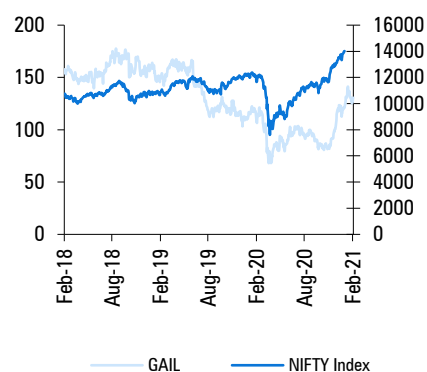
Source: Company, ICICI Direct Research

Exhibit 9: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	52.1	52.1	52.1	52.1	52.1
FII	17.8	16.3	15.6	15.1	15.6
DII	25.5	26.6	27.4	28.4	28.2
Others	4.6	5.0	4.9	4.4	4.1

Source: Company, ICICI Direct Research

Exhibit 10: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenue	71871.0	57615.8	68610.6	70590.2
Growth (%)	-4.3	-19.8	19.1	2.9
(Inc.) / Dec stock in trade	-598.6	796.9	0.0	0.0
Raw material Costs	4412.0	3901.2	4108.5	4108.5
Purchase of trading good:	53547.2	40419.3	47689.5	49237.7
Employee Costs	1519.3	1552.0	1629.6	1711.1
Other Expenditure	4621.8	4690.3	5344.9	5332.1
Op. Expenditure	63501.6	51359.7	58772.5	60389.3
EBITDA	8369.4	6256.1	9838.1	10200.9
Growth (%)	-12.2	-25.3	57.3	3.7
Depreciation	1836.0	1895.0	2178.7	2505.7
EBIT	6533.4	4361.1	7659.4	7695.2
Interest	108.5	188.8	407.0	389.5
Other Income	1416.8	1726.1	1530.0	1875.0
PBT	7943.4	5898.3	8782.4	9180.6
Growth (%)	-12.6	-25.7	48.9	4.5
Tax	1322.7	1327.0	2213.2	2313.5
Reported PAT	6620.6	4571.3	6569.2	6867.1
Growth (%)	9.9	-31.0	43.7	4.5
EPS	14.7	10.1	14.6	15.2

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	6,620.6	4,571.3	6,569.2	6,867.1
Add: Depreciation	1,836.0	1,895.0	2,178.7	2,505.7
Add: Others	-1,450.5	150.0	150.0	150.0
Cash Profit	3,063.6	3,995.9	6,015.5	6,640.4
Increase/(Decrease) in CL	2,979.1	-5,531.0	2,151.8	355.5
(Increase)/Decrease in CA	-2,657.2	1,854.3	-644.7	293.9
CF from Operating Activities	7328.1	2939.6	10405.1	10172.3
Purchase of Fixed Assets	5,774.3	6,543.3	8,200.0	8,200.0
(Inc)/Dec in Investments	2,029.7	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-3,744.6	-6,543.3	-8,200.0	-8,200.0
Inc/(Dec) in Loan Funds	2,748.3	8,400.0	-500.0	-500.0
Less: Dividend Paid	3,942.5	2,620.4	2,882.4	2,882.4
Inc/(Dec) in Sh. Cap. & Res.	-2,800.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-3,994.2	5,779.6	-3,382.4	-3,382.4
Change in cash Eq.	-410.7	2,176.0	-1,177.3	-1,410.1
Op. Cash and cash Eq.	1,214.6	803.9	2,979.9	1,802.6
Cl. Cash and cash Eq.	803.9	2,979.9	1,802.6	392.4

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Source of Funds				
Equity Capital	4,510.1	4,510.1	4,510.1	4,510.1
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	39,461.0	41,411.9	45,098.7	49,083.4
Shareholder's Fund	43,971.1	45,922.0	49,608.8	53,593.5
Loan Funds	3,879.1	12,279.1	11,779.1	11,279.1
Deferred Tax Liability	4,497.2	4,647.2	4,797.2	4,947.2
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	52347.4	62848.3	66185.1	69819.8
Application of Funds				
Gross Block	41,333.1	49,333.1	57,333.1	65,333.1
Less: Acc. Depreciation	7,688.1	9,539.8	11,718.6	14,224.3
Net Block	33,645.0	39,793.2	45,614.5	51,108.7
Capital WIP	10,581.9	9,081.9	9,281.9	9,481.9
Total Fixed Assets	44,226.9	48,875.1	54,896.4	60,590.6
Investments	7,498.5	7,498.5	7,498.5	7,498.5
Inventories	2,960.1	1,894.2	2,255.7	2,320.8
Debtor	5,575.9	4,104.1	4,887.3	5,028.3
Cash	803.9	2,979.9	1,802.6	392.4
Loan & Advance, Other C	7468.4	8151.8	7651.8	7151.8
Total Current assets	16808.3	17130.0	16597.4	14893.3
Current Liabilities	14901.6	9471.1	11278.5	11603.9
Provisions	1284.7	1184.2	1528.7	1558.8
Total CL and Provisions	16186.3	10655.3	12807.1	13162.7
Net Working Capital	622.0	6474.7	3790.2	1730.7
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	52347.4	62848.3	66185.1	69819.8

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	97.5	101.8	110.0	118.8
Cash per share	1.8	6.6	4.0	0.9
EPS	14.7	10.1	14.6	15.2
Cash EPS	18.8	14.3	19.4	20.8
DPS	6.4	5.0	5.5	5.5
Profitability & Operating Ratios				
EBITDA Margin (%)	11.6	10.9	14.3	14.5
PAT Margin (%)	9.2	7.9	9.6	9.7
Fixed Asset Turnover (x)	1.6	1.2	1.2	1.2
Inventory Turnover (Days)	15.0	12.0	12.0	12.0
Debtor (Days)	28.3	26.0	26.0	26.0
Current Liabilities (Days)	75.7	60.0	60.0	60.0
Return Ratios (%)				
RoE	15.1	10.0	13.2	12.8
RoCE	13.7	7.5	12.5	11.9
RoIC	13.9	7.9	12.9	11.9
Valuation Ratios (x)				
PE	9.3	13.4	9.3	8.9
Price to Book Value	1.4	1.3	1.2	1.1
EV/EBITDA	7.7	11.3	7.2	7.1
EV/Sales	0.9	1.2	1.0	1.0
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.3	0.2	0.2
Interest Coverage (x)	60.2	23.1	18.8	19.8
Debt to EBITDA (x)	0.5	2.0	1.2	1.1
Current Ratio	1.0	1.6	1.3	1.1
Quick ratio	0.9	1.4	1.1	1.0

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
GAIL (India) (GAIL)	136	150	Hold	61,338	14.7	10.1	14.6	9.3	13.4	9.3	7.7	11.3	7.2	13.7	7.5	12.5	15.1	10.0	13.2
Gujarat Gas (GUJGA)	435	505	Buy	29,945	17.3	17.9	21.2	25.1	24.3	20.5	19.1	14.8	12.5	25.2	32.1	31.8	36.3	28.2	25.8
Indian Oil Corp (INDOIL)	99	105	Hold	90,892	1.4	16.7	11.3	69.2	5.9	8.8	4.8	2.9	3.2	4.8	10.7	8.1	1.4	15.0	9.7
Indraprastha Gas (INDGAS)	567	595	Hold	39,690	16.2	14.3	20.9	34.9	39.6	27.1	24.7	26.2	18.2	25.0	20.2	25.3	22.5	17.4	21.3
Mahanagar Gas (MAHGAS)	1164	1340	Buy	11,495	80.3	63.4	96.6	14.5	18.4	12.0	10.7	12.2	7.9	29.7	22.5	29.4	26.9	18.8	24.0
Petronet LNG (PETLNG)	246	275	Hold	36,900	18.0	20.3	21.9	13.7	12.1	11.3	9.0	7.3	6.7	22.3	26.8	29.3	24.6	26.3	26.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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