

Gas trading holds key to profitability...

Gail India reported a mixed set of Q4FY21 results. While gas trading & transmission and petchem segments' performance was better than expected, LPG/LLH performance was weaker than anticipated. Revenues for the quarter declined 12.4% YoY to ₹ 15546.2 crore. EBITDA was at ₹ 2564.8 crore, up 3.6% YoY against our estimates of ₹ 2621.3 crore. Gail reported higher-than-expected other income of ₹ 568.4 crore. Subsequently, reported PAT was at ₹ 1907.7 crore, down 36.8% YoY (negative tax outgo in base quarter) against our estimate of ₹ 1883.1 crore.

Gas transmission volumes flat; trading outlook encouraging

Gas transmission segment volumes were flat YoY at 109.8 mmscmd in line with estimate. Transmission volumes are expected to improve driven by industrial/commercial demand post commissioning of pipelines. In the short term, volumes in the current quarter (Q1FY22E-TD) fell 10-15% in April, May and recovered in June. Hence, we revise estimate and expect volume at 112.7 mmscmd, 123.5 mmscmd in FY22E, FY23E, respectively, mainly due to additional domestic gas from newer fields. Gas transmission EBIT at ₹ 949.5 crore was above our estimates. We expect the healthy performance to continue in the long term. On the gas trading front, volumes were at 91.4 mmscmd, down 6.5 YoY, 4.4% QoQ (our estimate: 96 mmscmd). Gas trading saw a rebound and EBIT was ₹ 280.9 crore (estimate: ₹ 228 crore) as Gail benefitted from higher LNG prices. We expect gas trading performance to be healthy due to favourable spot LNG prices. Going forward, we estimate gas trading EBIT at ₹ 1707.9 crore in FY22E and ₹ 1813.2 crore in FY23E.

Petchem, LPG to stay healthy owing to oil prices

The petchem segment reported volumes at 234 KT, above our estimates of 215 KT. Higher volume and realisation led to EBIT of ₹ 608.9 crore vs. our estimate of ₹ 561.4 crore. LPG, LLH volumes were at 257 KT. Lower than expected realisation and volume led to lower-than-expected EBIT at ₹ 474.4 crore. Going forward, on account of an increase in global crude oil prices, we expect realisations for LPG & petchem to remain strong, thereby increasing profitability. We expect petchem & LPG segment EBIT at ₹ 1819 crore and ₹ 2674.4 crore in FY23E, respectively.

Valuation & Outlook

Gail's gas transmission volumes have recovered in June post relaxations and are expected to 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 the overall performance last year. However, with increase in spot LNG prices, we expect strong profit in gas trading segment. Monetisation of pipelines and subsequent valuation will be important in the near term. We value Gail using the SOTP methodology, valuing the core business using DCF and EV/EBITDA multiple for other business segments. We maintain **HOLD** with a revised target price of ₹ 180/share (earlier ₹ 150).

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Revenue (₹ crore)	75,126.3	71,871.0	56,730.2	67,370.8	71,412.7	(0.2)
EBITDA (₹ crore)	9,528.7	8,369.4	6,445.1	10,755.9	11,441.4	11.0
PAT (₹ crore)	6,025.7	6,620.6	4,890.2	7,387.4	7,861.2	5.9
EPS (₹)	13.4	14.7	11.0	16.6	17.7	
PE (x)	12.1	11.0	14.7	9.7	9.2	
P/Book (x)	1.7	1.7	1.6	1.4	1.3	
EV / EBITDA	7.7	9.1	11.9	7.3	7.1	
ROCE (%)	17.6	13.7	8.7	14.7	13.5	
ROE (%)	13.7	15.1	10.6	14.6	14.1	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	71,934.3
Total Debt (FY 20) (₹ Crore)	3,879.1
Cash and Investments (FY 20)	803.9
EV (₹ Crore)	75,009.5
52 week H/L	170 / 81
Equity capital (₹ Crore)	2,255.1
Face value (₹)	10.0

Key Highlights

- EBIT of gas transmission & trading, petchem better than estimates with LPG/LLH EBIT below estimates
- Maintain HOLD rating with revised target price of ₹ 180

Key risks to our call

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

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Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Revenues	15,546.2	16,418.4	17,753.1	-12.4	15,454.3	0.6	
Raw materials costs	11,558.5	12,036.9	13,850.9	-16.6	11,921.6	-3.0	
Employees Cost	336.1	390.7	325.6	3.2	404.1	-16.8	
Other Expenses	1,086.9	1,369.6	1,101.3	-1.3	1,209.0	-10.1	
Total Expenditure	12,981.4	13,797.2	15,277.8	-15.0	13,534.8	-4.1	
EBITDA	2,564.8	2,621.3	2,475.4	3.6	1,919.5	33.6	Slightly below estimates mainly on account of weaker than expected profitability in LPG/LLH segment
EBITDA margins (%)	16.5	16.0	13.9	255 bps	12.4	408 bps	
Depreciation	475.8	492.9	501.6	-5.1	489.5	-2.8	
EBIT	2,089.0	2,128.3	1,973.8	5.8	1,430.0	46.1	
Interest	45.9	40.8	32.9	39.2	33.1	38.4	
Other Income	568.4	430.0	513.2	10.8	470.8	20.7	Higher than expected
Extra Ordinary Item	0.0	0.0	101.6	NA	0.0	NA	
PBT	2,611.6	2,517.5	2,555.7	2.2	1,867.7	39.8	
Total Tax	703.9	634.4	-462.5	-252.2	380.4	85.1	
PAT	1,907.7	1,883.1	3,018.2	-36.8	1,487.3	28.3	

Key Metrics

Exchange rate (₹/\$)	72.9	72.9	72.5	0.6	73.8	-1.2	
Transmn vol (mmscmd)	109.8	110.0	109.0	0.7	110.3	-0.5	Volume offtake in line with estimates
Transmn realisatn (₹/tscm)	1550.0	1575.0	1584.4	-2.2	1590.0	-2.5	
Trading Vol (mmscmd)	91.4	96.0	97.8	-6.5	95.6	-4.4	Lower than estimated
Trading realisatn (\$/mmbtu)	5.5	5.4	6.4	-13.5	5.0	9.0	
Petchem Vol (000' tonnes)	234.0	215.0	174.0	34.5	231.0	1.3	
Petchem realisatn (₹/tonne)	94780.3	100320	69964.9	35.5	83836.4	13.1	
LPG/OLH vol (000' tonnes)	257.0	325.0	302.0	-14.9	319.0	-19.4	
LPG/OLH realisatn (₹/tonne)	33659.9	41000.0	38208.9	-11.9	27519.1	22.3	Lower than expected

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	68610.6	67,370.8	-1.8	70590.2	71,412.7	1.2	
EBITDA	9838.1	10,755.9	9.3	10200.9	11,441.4	12.2	Increase in profitability estimates of gas trading segment mainly led to change in estimates
EBITDA Margin (%)	14.3	16.0	163 bps	14.5	16.0	157 bps	
PAT	6569.2	7,387.4	12.5	6867.1	7,861.2	14.5	
EPS (₹)	14.6	16.6	14.2	15.2	17.7	16.3	

Source: Company, ICICI Direct Research

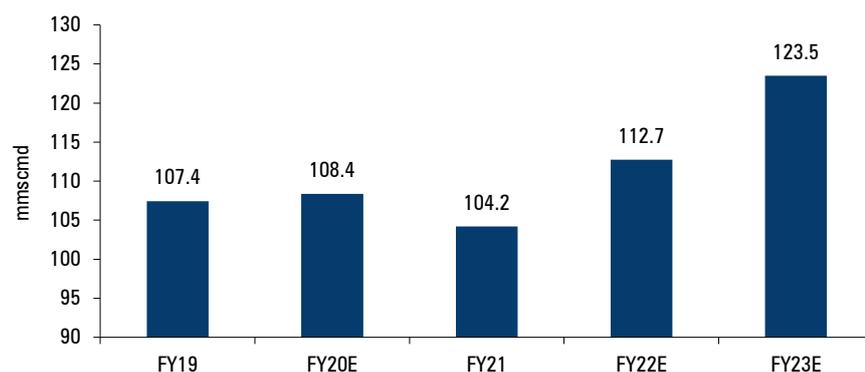
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Exchange rate (₹/\$)	70.9	74.2	73.5	73.5	74.0	74.0	
Transmn vol (mmscmd)	108.4	104.2	112.7	123.5	116.5	123.5	Revised FY 22E estimates on account of reduction in demand in Q1FY 22E
Transmn realisatn (₹/tscm)	1,525.8	1,565.3	1,575.0	1,575.0	1,575.0	1,575.0	
Trading Vol (mmscmd)	96.2	89.2	97.5	103.5	100.5	103.5	
Trading realisatn (\$/mmbtu)	6.6	5.0	5.5	5.5	5.4	5.4	
Petchem Vol (000' tonnes)	747.0	872.0	810.0	840.0	840.0	840.0	
Petchem realisatn (₹/tonne)	72,719.3	80,973.5	96,900.0	96,900.0	96,900.0	96,900.0	
LPG/OLH vol (000' tonnes)	1,317.0	1,138.0	1,240.0	1,320.0	1,300.0	1,300.0	
LPG/OLH realisatn (₹/tonne)	32,146.6	28,944.4	38,034.3	37,500.0	35,000.0	35,000.0	Increase in oil prices led to upwards revision in estimates

Source: Company, ICICI Direct Research

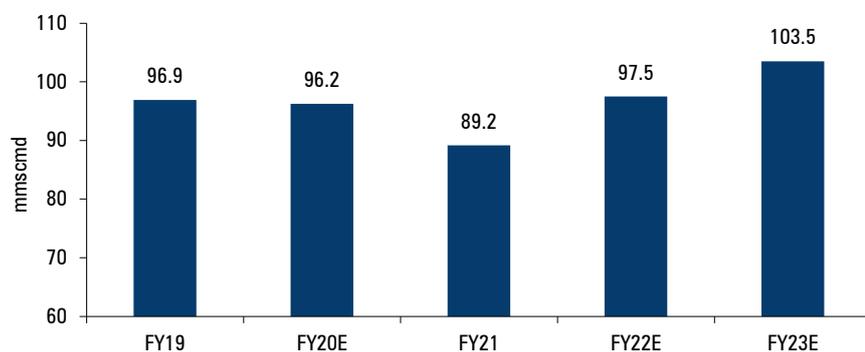
Story in charts

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	FY21	FY22E	FY23E
Natural Gas transmission	3253.9	3539.8	3677.9	3638.2	3906.8
LPG transmission	301.4	330.9	351.4	304.5	289.3
Natural Gas Trading	2859.1	2156.2	-702.3	1707.9	1813.2
Petrochemicals	384.9	-245.5	1064.9	1785.6	1819.0
LPG and Liquid Hydrocarbons	2546.5	1580.6	1303.5	2697.2	2674.4
Gailtel	0.0	0.0	0.0	-29.7	-34.2
Others	297.9	537.0	372.0	637.4	631.1
EBIT	9643.7	7899.0	6067.4	10741.2	11099.6

Source: Company, ICICI Direct Research

Exhibit 7: EBIT (%)

	FY19	FY20	FY21	FY22E	FY23E
Natural Gas	33.7	44.8	60.6	33.9	35.2
LPG	3.1	4.2	5.8	2.8	2.6
Natural Gas Trading	29.6	27.3	-11.6	15.9	16.3
Petrochemicals	4.0	-3.1	17.6	16.6	16.4
LPG and Liquid Hydrocarbons	26.4	20.0	21.5	25.1	24.1
Gaithel	0.0	0.0	0.0	-0.3	-0.3
Others	3.1	6.8	6.1	5.9	5.7
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	26324.0	59.3	32.9	DCF
LPG Transmission	4696.7	10.6	5.9	DCF
Value of transmission business	31020.7	70	38.8	
Other Businesses				
Natural Gas Trading	9086.2	20.5	11.4	5x FY 23E EV/EBITDA
Petrochemicals	12063.6	27.2	15.1	5x FY 23E EV/EBITDA
LPG and Liquid Hydrocarbons	14217.5	32.0	17.8	5x FY 23E EV/EBITDA
Value of Other Businesses	35367.2	80	44.3	
Investments				
Quoted	17023.9	38.3	21.3	30% discount to CMP
Unquoted	6341.1	14.3	7.9	
Value of Investments	23365.0	53	29.2	
Firm Value	89752.9	202	112.3	
Less: Net Debt	-9841.3	-22	-12.3	
Equity Value	79911.6	180	100.0	

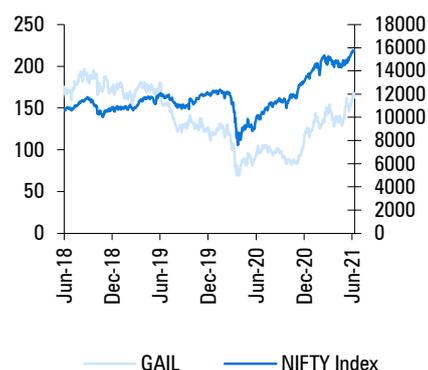
Source: Company, ICICI Direct Research

Exhibit 9: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	52.1	52.1	52.1	52.1	51.8
FII	16.3	15.6	15.1	15.6	15.6
DII	26.6	27.4	28.4	28.2	27.8
Others	5.0	4.9	4.4	4.1	4.8

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	56730.2	67370.8	71412.7
Growth (%)	-4.3	-21.1	18.8	6.0
(Inc.) / Dec stock in trade	-598.6	543.7	0.0	0.0
Raw material Costs	4412.0	3905.9	3897.6	4108.9
Purchase of trading goods	53547.2	39899.0	46029.9	48866.3
Employee Costs	1519.3	1546.3	1623.6	1704.8
Other Expenditure	4621.8	4390.2	5063.7	5291.3
Op. Expenditure	63501.6	50285.0	56614.8	59971.3
EBITDA	8369.4	6445.1	10755.9	11441.4
Growth (%)	-12.2	-23.0	66.9	6.4
Depreciation	1836.0	1907.9	2178.7	2505.7
EBIT	6533.4	4537.3	8577.2	8935.6
Interest	108.5	155.9	231.0	301.0
Other Income	1416.8	2004.5	1530.0	1875.0
PBT	7943.4	6385.8	9876.2	10509.7
Growth (%)	-12.6	-19.6	54.7	6.4
Tax	1322.7	1495.6	2488.8	2648.4
Reported PAT	6620.6	4890.2	7387.4	7861.2
Growth (%)	9.9	-26.1	51.1	6.4
EPS	14.7	11.0	16.6	17.7

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	6,620.6	4,890.2	7,387.4	7,861.2
Add: Depreciation	1,836.0	1,907.9	2,178.7	2,505.7
Add: Others	-1,450.5	5.0	150.0	150.0
Cash Profit	3,063.6	4,223.2	6,878.3	7,679.1
Increase/(Decrease) in CL	2,979.1	390.3	-3,903.9	712.3
(Increase)/Decrease in CA	-2,657.2	2,225.6	575.6	79.2
CF from Operating Activities	7328.1	9419.0	6387.9	11308.5
Purchase of Fixed Assets	5,774.3	6,556.1	7,000.0	12,000.0
(Inc)/Dec in Investments	2,029.7	-1,800.0	1,800.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-3,744.6	-8,356.1	-5,200.0	-12,000.0
Inc/(Dec) in Loan Funds	2,748.3	1,970.6	1,900.0	2,500.0
Less: Dividend Paid	3,942.5	2,579.9	2,837.9	2,837.9
Inc/(Dec) in Sh. Cap. & Res.	-2,800.0	-69.8	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-3,994.2	-679.0	-937.9	-337.9
Change in cash Eq.	-410.7	383.8	250.0	-1,029.4
Op. Cash and cash Eq.	1,214.6	803.9	1,187.7	1,437.7
Cl. Cash and cash Eq.	803.9	1,187.7	1,437.7	408.4

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	4,440.4	4,440.4	4,440.4
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	39,461.0	41,771.3	46,320.8	51,344.2
Shareholder's Fund	43,971.1	46,211.7	50,761.2	55,784.6
Loan Funds	3,879.1	5,849.7	7,749.7	10,249.7
Deferred Tax Liability	4,497.2	4,502.2	4,652.2	4,802.2
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	52347.4	56563.6	63163.1	70836.5
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	8,081.9	12,081.9
Total Fixed Assets	44,226.9	48,875.1	53,696.4	63,190.6
Investments	7,498.5	9,298.5	7,498.5	7,498.5
Inventories	2,960.1	2,603.8	2,214.9	2,347.8
Debtor	5,575.9	4,485.8	4,799.0	5,086.9
Cash	803.9	1,187.7	1,437.7	408.4
Loan & Advance, Other CA	7468.4	6689.2	6189.2	5689.2
Total Current assets	16808.3	14966.5	14640.9	13532.3
Current Liabilities	14901.6	15231.7	11074.6	11739.1
Provisions	1284.7	1344.9	1598.0	1645.9
Total CL and Provisions	16186.3	16576.6	12672.6	13385.0
Net Working Capital	622.0	-1610.0	1968.3	147.4
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	52347.4	56563.6	63163.1	70836.5

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	97.5	104.1	114.3	125.6
Cash per share	1.8	2.7	3.2	0.9
EPS	14.7	11.0	16.6	17.7
Cash EPS	18.8	15.3	21.5	23.3
DPS	6.4	5.0	5.5	5.5
Profitability & Operating Ratios				
EBITDA Margin (%)	11.6	11.4	16.0	16.0
PAT Margin (%)	9.2	8.6	11.0	11.0
Fixed Asset Turnover (x)	1.6	1.2	1.3	1.1
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	98.0	60.0	60.0
Return Ratios (%)				
RoE	15.1	10.6	14.6	14.1
RoCE	13.7	8.7	14.7	13.5
RoIC	13.9	8.9	15.0	13.6
Valuation Ratios (x)				
PE	11.0	14.7	9.7	9.2
Price to Book Value	1.7	1.6	1.4	1.3
EV/EBITDA	9.1	11.9	7.3	7.1
EV/Sales	1.1	1.4	1.2	1.1
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.1	0.2	0.2
Interest Coverage (x)	60.2	29.1	37.1	29.7
Debt to EBITDA (x)	0.5	0.9	0.7	0.9
Current Ratio	1.0	0.9	1.2	1.0
Quick ratio	0.9	0.7	1.0	0.8

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
BPCL (BHAPET)	472	495	Hold	92,837	36.3	13.6	91.0	13.0	34.6	5.2	10.3	21.2	7.5	13.1	3.5	14.7	19.4	8.1	35.6
GAIL (India) (GAIL)	162	180	Hold	71,934	14.7	11.0	16.6	11.0	14.7	9.7	9.1	11.9	7.3	13.7	8.7	14.7	15.1	10.6	14.6
Gujarat Gas (GUJGA)	565	655	Buy	38,895	17.3	18.5	22.6	32.6	30.5	25.0	24.6	18.9	16.0	25.2	33.0	33.8	36.3	29.0	27.6
Indian Oil Corp (INDOIL)	104	115	Hold	95,850	1.4	23.8	11.3	73.0	4.4	9.2	5.1	2.5	3.4	4.8	13.8	7.9	1.4	21.3	9.7
Indraprastha Gas (INDGAS)	502	595	Hold	35,140	16.2	14.6	20.9	30.9	34.3	24.0	21.7	22.4	16.0	25.0	20.8	25.2	22.5	17.7	21.2
Mahanagar Gas (MAHGAS)	1165	1340	Buy	11,508	80.3	62.7	90.1	14.5	18.6	12.9	10.8	11.9	8.4	29.7	22.6	28.4	26.9	18.7	22.9
Petronet LNG (PETLNG)	228	250	Hold	34,200	18.0	19.7	18.7	12.7	11.6	12.2	8.3	7.0	7.1	22.3	25.3	22.8	24.6	24.4	21.9

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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