

Estimate change



TP change



Rating change



Bloomberg	GAIL IN
Equity Shares (m)	6,661
M.Cap.(INRb)/(USDb)	582.2 / 7.1
52-Week Range (INR)	116 / 83
1, 6, 12 Rel. Per (%)	-3/-25/-14
12M Avg Val (INR M)	1643

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	916.5	1,865.5	1,267.5
EBITDA	138.3	107.4	115.8
Adj. PAT	102.9	76.6	83.3
Adj. EPS (INR)	15.4	11.5	12.5
EPS Gr. (%)	110.1	-25.6	8.7
BV/Sh.(INR)	87.9	97.0	106.8

Ratios

Net D:E	0.1	-0.1	-0.1
RoE (%)	20.3	12.8	12.4
RoCE (%)	17.1	11.1	10.8
Payout (%)	21.5	21.5	21.5

Valuations

P/E (x)	5.8	7.7	7.1
P/BV (x)	1.0	0.9	0.8
EV/EBITDA (x)	2.6	4.7	4.2
Div. Yield (%)	3.8	2.8	3.0
FCF Yield (%)	5.1	18.5	-1.3

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	51.5	51.5	51.5
DII	23.2	23.7	27.1
FII	20.5	20.2	17.6
Others	4.8	4.7	3.9

FII Includes depository receipts

CMP: INR89

TP: INR114 (+29%)

Buy

Disruption in LNG supply and higher gas prices hurt margins

- GAIL reported a miss on EBITDA by 9% in 2QFY23 led by higher natural gas prices amid lack of supply from Gazprom, while its PAT was in line with our estimate. Operating performance for transmission and petrochemicals was weak on a YoY basis while it was flat sequentially.
- Gazprom has failed to supply 17 cargoes to date (13 in 2QFY23). GAIL has taken various measures against this shortfall, which includes reduction of supplies to downstream customers as well as curtailing its internal consumption at Pata petrochemical plant by reducing petrochemical production in order to have sustainable operations.
- Capacity utilization for the petrochemical plant stood at 40% in 2QFY23; similar utilization level is expected in 3QFY23 as well. GAIL has also acquired JBF Petrochemicals and expects to invest INR18-20b for making the plant operational, which is likely to come on stream in FY25E.
- **Most of the pipelines are now up for tariff revision that could be a notable trigger for the stock.** However, considering the underperformance in 2QFY23 and management commentary, we have reduced our EPS estimate by 8% for FY23 while keeping our FY24 numbers unchanged for now.
- We value the core business of GAIL at 8x FY24E adjusted EPS of INR12.5. Adding the value of listed and unlisted investments worth INR22, we arrive at our TP of INR114 for GAIL. **Maintain BUY.**

Miss on EBITDA; PAT in line

- GAIL's EBITDA came in 9% lower than our estimate at INR17.6b (our est. of INR19.4b; -49% YoY, -60% QoQ) in 2QFY23 – primarily due to weak performance in Trading/Petrochem businesses.
- PAT stood at INR15.4b (in line with our est. of INR15.5b; -46% YoY, -47% QoQ), translating into an EPS of INR2.3.
- **For 1HFY23**, Revenue was up 96% YoY to INR760b, with EBITDA at INR61b (+4% YoY) and PAT at INR45b (flat YoY).

Segmental details for 2QFY23:

- Gas/LPG transmission business' EBIT stood at INR7.1b/1.1b (-32%/+39% YoY), respectively. Volumes were 107.7mmscmd for Gas transmission and 1, 100tmt for LPG transmission.
- Trading business' EBIT came in at INR3.6b (v/s INR10.8b in 2QFY22 and INR23.1b in 1QFY23). Volumes were 92.5mmscmd in 2QFY23.
- Petchem segment reported an operating loss of INR3.5b (v/s EBIT of INR3.6b in 2QFY22 and INR352m in 1QFY23). Petchem sales volumes stood at 108tmt.
- LPG and HC EBIT stood at INR5b (-27% YoY and -21% QoQ). Sales volumes for the segment were at 231tmt during the quarter.

Valuation and view

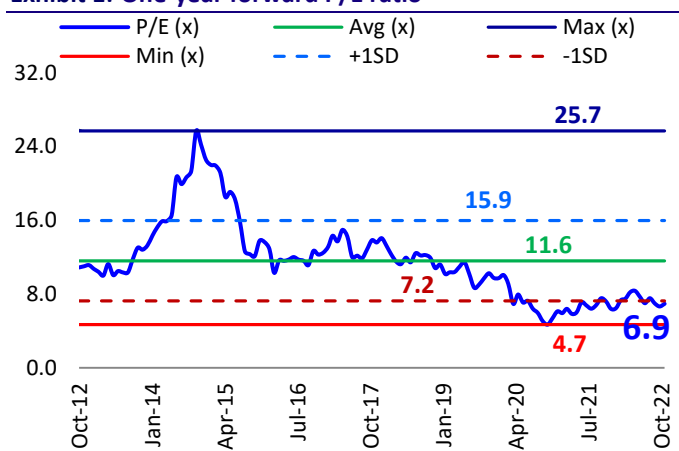
- GAIL expects a ramp up in utilization rates at its plants with cheaper sourcing of gas that would help it expand its margins. It also commissioned the Jamshedpur and Ranchi spur lines during the quarter.

- GAIL has already spent INR40b in 1HFY23 out of its total guided capex of ~INR75b for FY23. It has also acquired JBF Petrochemicals and would look to invest INR18-20b to make it operational by FY25E.
- The stock trades at a discount of ~41% to its one-year forward long-term P/E average. We value the core business of GAIL at 8x FY24E adjusted EPS of INR12.5. Adding the value of listed and unlisted investments worth INR22, we arrive at our TP of INR114 for GAIL. **Maintain BUY.**

Quarterly Performance

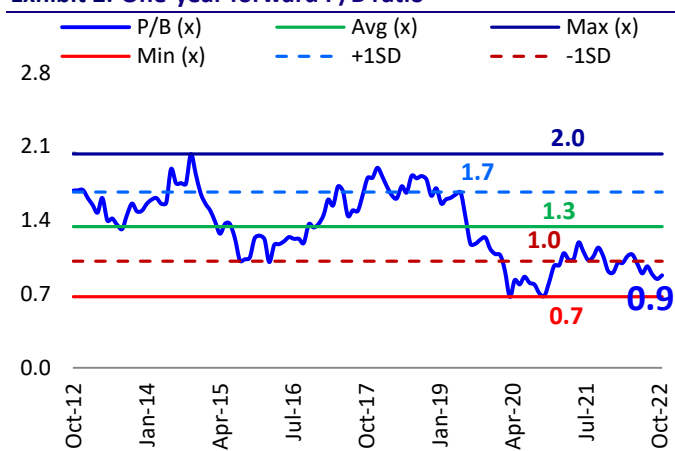
Y/E March	FY22				FY23E				FY22	FY23E	FY23	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		2QE	2QE	Vs. est.
Net Sales	173.9	215.2	257.8	269.7	375.7	384.9	431.9	673.0	916.5	1,865.5	357.0	8%
Change (%)	43.8	57.7	66.8	73.4	116.1	78.9	67.6	149.6	61.5	103.6	65.9	
EBITDA	24.1	34.8	42.3	37.1	43.7	17.6	22.5	23.7	138.3	107.4	19.4	-9%
% of Net Sales	13.9	16.2	16.4	13.8	11.6	4.6	5.2	3.5	15.1	5.8	5.4	
Depreciation	5.1	5.2	5.3	5.5	6.0	6.2	6.4	6.3	21.1	24.9	6.0	
Interest	0.5	0.4	0.4	0.5	0.5	0.7	0.4	0.2	1.7	1.7	0.4	
Other Income	2.0	7.7	6.5	4.2	1.8	8.0	6.7	5.1	20.5	21.5	7.9	
PBT	20.5	36.8	43.1	35.5	38.9	18.8	22.4	22.2	135.9	102.3	20.9	-10%
Rate (%)	25.5	22.3	23.7	24.3	25.1	18.1	25.6	30.8	23.7	25.2	25.6	
PAT	15.3	28.6	32.9	26.8	29.2	15.4	16.7	15.4	103.6	76.6	15.5	
Change (%)	498.8	130.9	121.1	40.6	90.5	-46.3	-49.3	-42.6	111.9	-26.1	40.5	
Extraord.: Tax Prov. Write Back	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.8	0.0	0.0	
Adj PAT	15.3	28.6	32.9	26.1	29.2	15.4	16.7	15.4	102.9	76.6	15.5	-1%
Change (%)	498.8	130.9	127.3	33.3	90.5	-46.3	-49.3	-40.9	110.1	-25.6	-45.7	

Exhibit 1: One-year forward P/E ratio



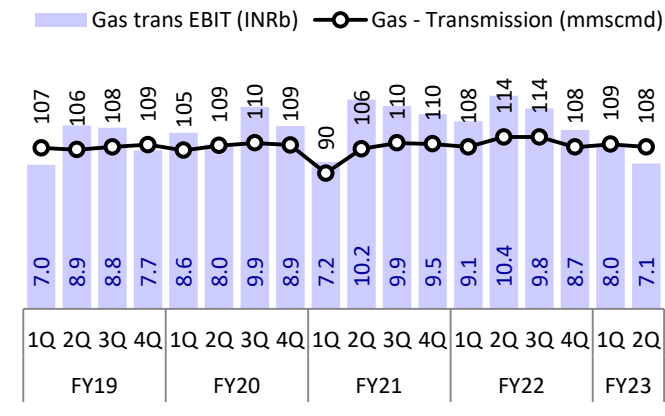
Source: Company, MOFSL

Exhibit 2: One-year forward P/B ratio



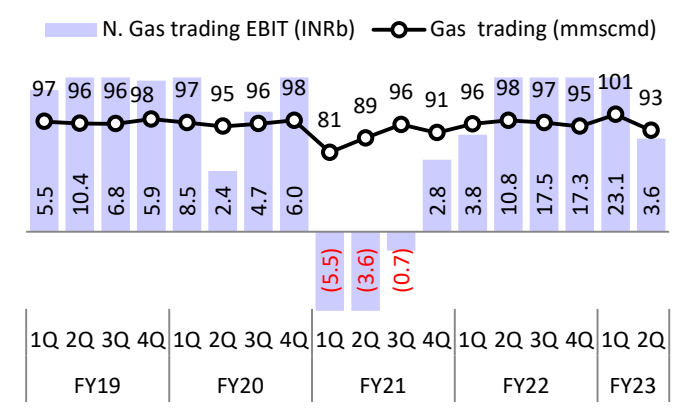
Source: Company, MOFSL

Exhibit 3: Transmission volumes fell 6% YoY/2% QoQ



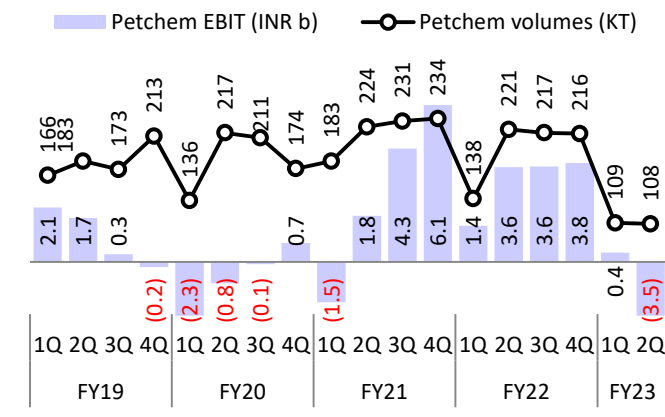
Source: MOFSL, Company

Exhibit 4: Profitability for the Trading segment declined QoQ



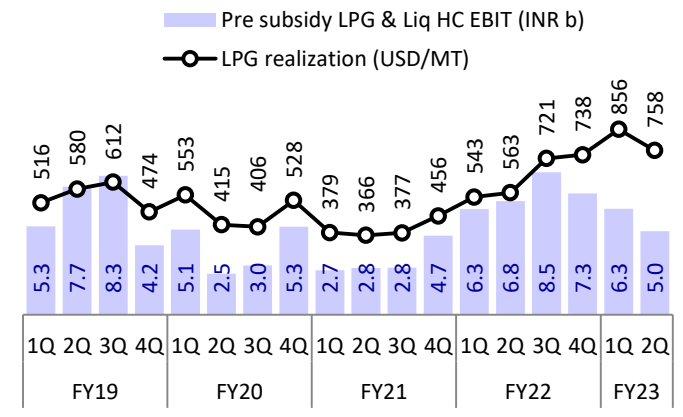
Source: MOFSL, Company

Exhibit 5: Petchem volumes fell 51% YoY and 1% QoQ



Source: MOFSL, Company

Exhibit 6: Realization from LPG and Liquid HC up 35% YoY



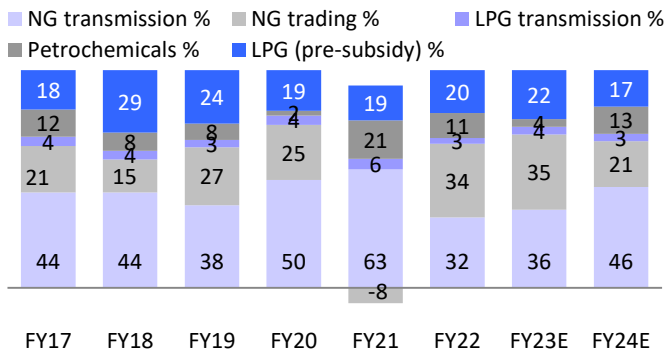
Source: MOFSL, Company

Exhibit 7: Segment-wise performance details (INR m)

Particulars	FY21				FY22				FY23		2QFY23 (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	YoY	QoQ
Exchange Rate (INR/USD)	74.4	73.8	72.9	73.8	74.8	75.3	77.3	75.3	77.3	79.6	6	3
Gas transmission business												
Volumes (mmscmd)	90	106	110	110	108	114	114	108	109	108	-6	-2
Gross Revenues	12,681	15,400	16,135	15,310	14,837	16,462	16,727	15,898	16,584	16,944	3	2
Opex	3,151	2,590	3,665	3,270	3,077	3,322	4,167	4,358	5,684	6,844	106	20
EBITDA	9,530	12,810	12,470	12,040	11,760	13,140	12,560	11,540	10,900	10,100	-23	-7
Depreciation	2,364	2,598	2,564	2,546	2,611	2,740	2,785	2,807	2,895	3,004	10	4
EBIT	7,167	10,212	9,907	9,495	9,149	10,400	9,775	8,733	8,005	7,096	-32	-11
Average tariff (INR/mscm)	1,545	1,573	1,590	1,550	1,514	1,565	1,591	1,642	1,665	1,710	9	3
Opex (INR/mscm)	384	264	361	331	314	316	396	450	571	691	119	21
EBITDA (INR/mscm)	1,161	1,308	1,229	1,219	1,200	1,249	1,195	1,192	1,094	1,019	-18	-7
Depreciation (INR/mscm)	288	265	253	258	267	260	265	290	291	303	16	4
EBIT (INR/mscm)	873	1,043	976	961	934	989	930	902	804	716	-28	-11
LPG Transmission Business												
Volumes ('000 MT)	963	1,058	1,088	1,054	1,023	1,054	1,057	1,065	1,055	1,100	4	4
Gross Revenues	1,536	1,695	1,754	1,689	1,637	1,666	1,676	1,707	1,695	1,973	18	16
Opex	576	665	664	649	617	686	716	697	695	673	-2	-3
EBITDA	960	1,030	1,090	1,040	1,020	980	960	1,010	1,000	1,300	33	30
Depreciation	145	148	159	155	153	159	151	158	163	160	1	-2
EBIT	815	882	931	885	867	821	810	852	837	1,140	39	36
Average tariff (INR/MT)	1,594	1,602	1,612	1,602	1,600	1,581	1,586	1,603	1,606	1,794	13	12
Opex	598	628	610	616	603	651	677	654	658	612	-6	-7
EBITDA	997	974	1,002	987	997	930	908	948	948	1,182	27	25
Depreciation	151	140	146	147	149	151	142	148	154	145	-4	-6
EBIT	846	834	856	840	848	779	766	800	794	1,037	33	31
Gas Trading Business												
Volumes (mmscmd)	81	89	96	91	96	98	97	95	101	93	-5	-8
Revenues	94,437	1,05,067	1,19,034	1,19,918	1,42,883	1,78,765	2,20,918	2,30,694	3,46,047	3,54,654	98	2
EBIT	-5,455	-3,640	-737	2,809	3,776	10,789	17,497	17,259	23,145	3,629	-66	-84
Revenues (INR/mscm)	12,787	12,890	13,534	14,583	16,364	19,884	24,868	27,070	37,710	41,657	109	10
EBIT (INR/mscm)	-739	-447	-84	342	432	1,200	1,970	2,025	2,522	426	-64	-83
Petrochemicals Business												
Volumes ('000 MT)	183	224	231	234	138	221	217	216	109	108	-51	-1
Gross Revenues	12,217	16,847	19,366	22,179	13,623	22,834	24,005	25,023	14,558	13,515	-41	-7
Opex	12,647	13,957	13,876	14,939	11,073	18,014	19,105	19,993	12,868	15,615	-13	21
EBITDA	-430	2,890	5,490	7,240	2,550	4,820	4,900	5,030	1,690	-2,100	PL	PL
Depreciation	1,114	1,127	1,149	1,151	1,167	1,187	1,254	1,240	1,338	1,362	15	2
EBIT	-1,544	1,763	4,341	6,089	1,383	3,633	3,646	3,790	352	-3,462	PL	PL
Realization (USD/MT)	897	1,019	1,150	1,284	1,320	1,372	1,431	1,539	1,727	1,572	15	-9
Realization (INR/kg)	67	75	84	95	99	103	111	116	134	125	21	-6
Opex (INR/kg)	69	62	60	64	80	82	88	93	118	145	77	22
EBITDA (INR/kg)	-2	13	24	31	18	22	23	23	16	-19	PI	PI
Depreciation (INR/kg)	6	5	5	5	8	5	6	6	12	13	135	3
EBIT (INR/kg)	-8	8	19	26	10	16	17	18	3	-32	PL	PL
LPG & Liquid Hydrocarbons Business												
Volumes ('000 MT)	265	297	319	257	250	262	275	217	220	231	-12	5
Gross Revenues	7,479	8,030	8,779	8,651	10,151	11,113	15,328	12,060	14,554	13,939	25	-4
Opex	4,619	5,010	5,739	3,691	3,611	4,083	6,578	4,530	7,924	8,699	113	10
EBITDA	2,860	3,020	3,040	4,960	6,540	7,030	8,750	7,530	6,630	5,240	-25	-21
Depreciation	198	219	213	216	199	207	200	247	282	238	15	-16
EBIT	2,662	2,802	2,827	4,744	6,341	6,823	8,550	7,283	6,349	5,002	-27	-21
EBIT (Post-Subsidy)	2,662	2,802	2,827	4,744	6,341	6,823	8,550	7,283	6,349	5,002	-27	-21
Realization (USD/MT)	379	366	377	456	543	563	721	738	856	758	35	-11
Realization (INR/MT)	28,223	27,038	27,519	33,660	40,602	42,416	55,738	55,577	66,156	60,340	42	-9
Opex (INR/MT)	17,431	16,870	17,989	14,360	14,442	15,584	23,920	20,876	36,020	37,656	142	5
EBITDA (INR/MT)	10,792	10,168	9,530	19,300	26,160	26,832	31,818	34,700	30,136	22,684	-15	-25
Depreciation (INR/MT)	747	736	666	842	796	789	728	1,139	1,280	1,029	30	-20
EBIT (INR/MT)	10,045	9,433	8,863	18,458	25,364	26,043	31,090	33,562	28,857	21,655	-17	-25
EBIT post Subsidy (INR/MT)	10,045	9,433	8,863	18,458	25,364	26,043	31,090	33,562	28,857	21,655	-17	-25

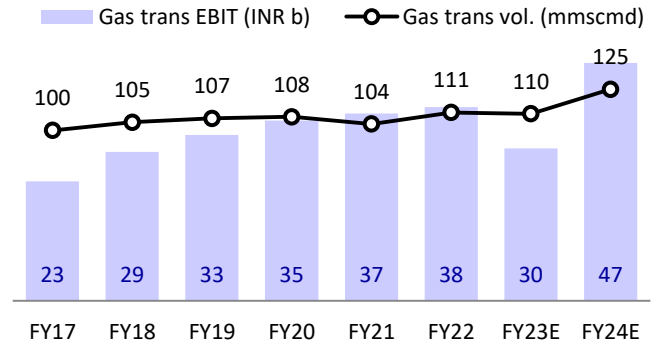
Story in charts

Exhibit 8: Transmission to be the major contributor to EBITDA



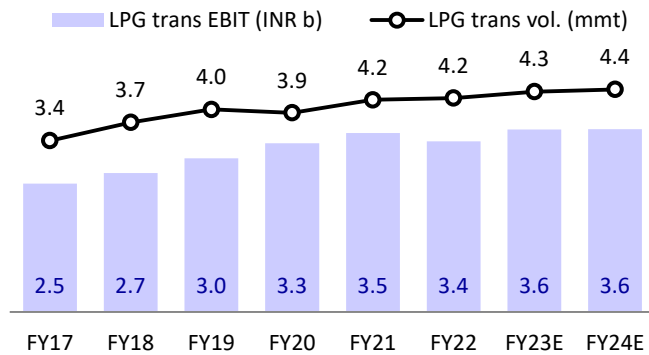
Source: Company, MOFSL

Exhibit 9: Expect gas transmission volumes to grow over FY22-24



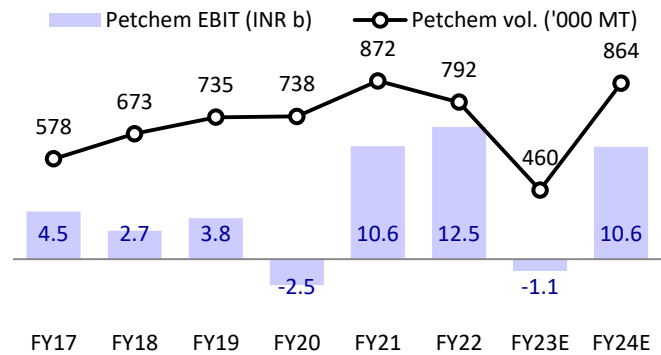
Source: Company, MOFSL

Exhibit 10: LPG transmission segment



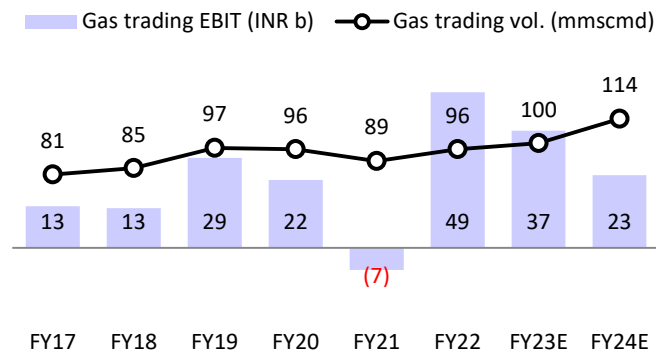
Source: Company, MOFSL

Exhibit 11: Expect petchem EBIT to increase over FY23-24



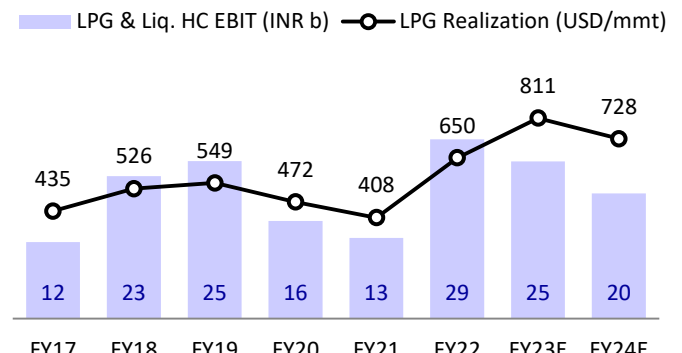
Source: Company, MOFSL

Exhibit 12: Expect gas trading volumes to grow over FY22-24



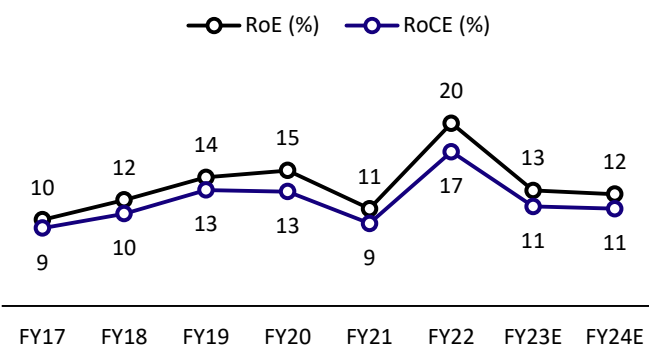
Source: Company, MOFSL

Exhibit 13: EBIT from LPG and Liquid HC



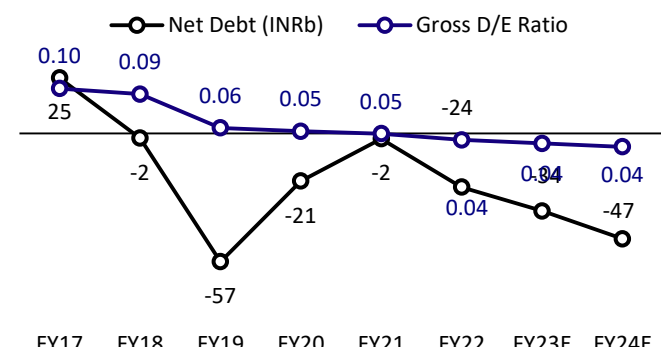
Source: Company, MOFSL

Exhibit 14: Expect return ratios to remain soft



Source: Company, MOFSL

Exhibit 15: Expect D/E ratio to contract



Source: Company, MOFSL

Financials and valuations

Income Statement								(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	480.7	536.6	751.3	718.8	567.4	916.5	1,865.5	1,267.5
Change (%)	-99.9	11.6	40.0	-4.3	-21.1	61.5	103.6	-32.1
EBITDA	63.2	76.3	95.3	83.7	64.5	138.3	107.4	115.8
% of Net Sales	13.1	14.2	12.7	11.6	11.4	15.1	5.8	9.1
Depreciation	14.0	14.2	15.5	18.4	19.1	21.1	24.9	25.2
Interest	4.8	2.8	1.4	1.1	1.6	1.7	1.7	1.9
Other Income	12.7	9.9	15.7	14.2	20.0	20.5	21.5	22.6
EO Items (net)	-3.0	0.3	-3.3	1.0	0.0	0.0	0.0	0.0
PBT	54.1	69.6	90.8	79.4	63.9	135.9	102.3	111.3
Tax	19.1	23.4	30.6	13.2	15.0	32.3	25.8	28.0
Rate (%)	35.3	33.6	33.7	16.7	23.4	23.7	25.2	25.2
Reported PAT	35.0	46.2	60.3	66.2	48.9	103.6	76.6	83.3
Adjusted PAT	38.2	45.7	63.3	74.2	49.0	102.9	76.6	83.3
Change (%)	-99.8	31.8	30.5	9.9	-26.1	111.9	-26.1	8.7

Balance Sheet								(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	16.9	22.6	22.6	45.1	44.4	44.4	66.6	66.6
Reserves	364.6	380.7	418.4	394.6	421.7	511.5	571.6	636.9
Net Worth	381.5	403.3	440.9	439.7	466.1	555.9	638.2	703.5
Loans	38.2	17.5	16.2	43.1	55.1	57.0	62.7	69.0
Deferred Tax	46.6	46.3	59.5	45.0	45.0	47.7	47.7	47.7
Capital Employed	466.2	467.1	516.6	527.8	566.3	660.6	748.6	820.2
Gross Fixed Assets	452.6	469.6	508.1	548.3	591.4	638.5	751.6	821.6
Less: Depreciation	167.6	181.7	197.2	215.6	234.7	255.8	280.7	305.9
Net Fixed Assets	285.1	287.9	310.9	332.7	356.7	382.7	470.9	515.7
Capital WIP	38.0	55.1	92.0	105.8	119.0	130.7	87.6	87.6
Investments	95.1	99.5	95.3	78.8	105.5	136.3	136.3	136.3
Current Assets								
Inventory	17.0	19.2	23.2	29.6	26.0	30.2	61.4	41.7
Debtors	38.3	40.5	50.7	55.8	44.9	83.7	170.3	115.7
Cash & Bank Balance	13.4	25.3	12.1	8.0	13.6	20.8	140.3	118.9
Cash	4.5	10.8	1.5	5.5	12.1	13.7	110.9	89.5
Bank Balance	8.9	14.5	10.6	2.6	1.5	7.2	7.2	7.2
Loans/Adv. & Other Assets	75.8	99.6	59.5	74.7	67.3	79.0	79.0	79.0
Current Liab. & Prov.								
Liabilities	81.3	145.7	113.0	144.7	153.2	187.7	382.1	259.6
Provisions	15.1	14.3	14.3	12.8	13.6	15.1	15.1	15.1
Net Current Assets	48.0	24.5	18.4	10.5	-15.0	10.8	53.7	80.6
Application of Funds	466.2	467.1	516.6	527.8	566.3	660.6	748.6	820.2

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	5.7	6.9	9.5	11.1	7.4	15.4	11.5	12.5
Cash EPS	7.4	9.1	11.4	12.7	10.2	18.7	15.2	16.3
Book Value	57.3	61.1	67.0	71.7	75.7	87.9	97.0	106.8
DPS	2.2	2.6	2.6	4.3	3.4	3.4	2.5	2.7
Payout (incl. dvd tax)	50.1	45.5	34.7	52.0	45.6	21.5	21.5	21.5
Valuation (x)								
P/E	15.5	13.0	9.4	8.0	12.1	5.8	7.7	7.1
Adj. P/E (for investments)	11.7	9.8	7.1	6.0	9.1	4.4	5.8	5.4
Cash P/E	12.1	9.8	7.8	7.0	8.7	4.7	5.8	5.5
EV / EBITDA	2.9	2.9	1.8	4.3	5.1	2.6	4.7	4.2
EV / Sales	0.5	0.5	0.3	0.6	0.8	0.5	0.3	0.5
Price / Book Value	1.6	1.5	1.3	1.2	1.2	1.0	0.9	0.8
Dividend Yield (%)	2.5	2.9	2.9	4.8	3.8	3.8	2.8	3.0
Profitability Ratios (%)								
RoE	0.0	11.8	14.3	15.0	10.8	20.3	12.8	12.4
RoCE	0.0	10.2	12.9	12.7	9.2	17.1	11.1	10.8
RoIC	0.0	13.6	17.5	16.7	10.5	25.5	16.3	15.7
Turnover Ratios								
Debtors (No. of Days)	29	28	25	28	29	33	33	33
Fixed Asset Turnover (x)	1.0	1.1	1.5	1.4	1.0	1.4	2.5	1.5
Leverage Ratio								
Net Debt / Equity (x)	0.1	0.0	0.0	0.1	0.1	0.1	-0.1	-0.1

Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
(INR m)								
OP/(Loss) before Tax	54.1	69.6	90.8	79.4	63.9	135.9	102.3	111.3
Depreciation	14.0	14.2	15.5	18.4	19.1	21.1	24.9	25.2
Interest charge	4.8	2.8	1.4	1.1	1.6	1.7	1.7	1.9
Tax paid	-11.9	-13.2	-20.8	-19.6	-12.8	-32.0	-25.8	-28.0
(Inc)/Dec in Wkg. Capital	-1.9	18.9	-3.3	3.1	22.2	-29.7	76.5	-48.2
CF from Op. Activity	57.6	86.6	78.8	68.9	80.6	89.5	179.7	62.2
(Inc)/Dec in FA & CWIP	-18.2	-29.4	-72.0	-54.3	-49.8	-59.2	-70.0	-70.0
Free Cash Flow	39.4	57.2	6.7	14.5	30.9	30.4	109.7	-7.8
(Pur)/Sale of Investments	1.9	-8.0	-2.7	-6.2	-10.7	-4.6	0.0	0.0
CF from Inv. Activity	-3.8	-25.7	-54.4	-68.3	-38.6	-46.1	-70.0	-70.0
Interest charge	-5.5	-3.6	-1.4	-1.1	-3.2	-3.2	-1.7	-1.9
Inc / (Dec) in Debt	-29.3	-30.1	-11.3	45.2	4.6	3.6	5.7	6.3
Dividends Paid	-17.5	-21.0	-20.9	-39.4	-22.4	-39.9	-16.5	-17.9
CF from Fin. Activity	-52.4	-54.7	-33.6	3.4	-35.4	-41.8	-12.5	-13.6
Inc / (Dec) in Cash	1.4	6.2	-9.3	4.0	6.6	1.6	97.2	-21.4
Add: Opening Balance	3.1	4.5	10.8	1.5	5.5	12.1	13.7	110.9
Closing Balance	4.5	10.8	1.5	5.5	12.1	13.7	110.9	89.5

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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