

November 4, 2022

Q2FY23 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	120		120	
Sales (Rs. m)	10,59,579	11,17,050	10,59,579	11,17,050
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,07,810	84,976	1,07,810	84,976
% Chng.	-	-	-	-
EPS (Rs.)	12.5	10.1	12.5	10.1
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. bn)	916	939	1,060	1,117
EBITDA (Rs. bn)	138	115	108	85
Margin (%)	15.1	12.3	10.2	7.6
PAT (Rs. bn)	104	88	83	67
EPS (Rs.)	23.0	13.2	12.5	10.1
Gr. (%)	111.9	(42.6)	(5.4)	(19.3)
DPS (Rs.)	9.8	7.9	7.5	6.0
Yield (%)	11.1	8.9	8.5	6.8
RoE (%)	20.3	14.8	12.7	9.8
RoCE (%)	20.5	14.1	11.7	7.7
EV/Sales (x)	0.5	0.6	0.5	0.5
EV/EBITDA (x)	3.2	4.6	5.1	6.7
PE (x)	3.9	6.7	7.1	8.8
P/BV (x)	0.7	0.9	0.9	0.8

Key Data

[GAIL.BO](#) | [GAIL IN](#)

52-W High / Low	Rs.116 / Rs.83
Sensex / Nifty	60,950 / 18,117
Market Cap	Rs.582bn/ \$ 7,063m
Shares Outstanding	6,575m
3M Avg. Daily Value	Rs.1452.78m

Shareholding Pattern (%)

Promoter's	51.90
Foreign	19.79
Domestic Institution	13.93
Public & Others	14.38
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.5	(15.7)	(12.3)
Relative	(3.3)	(23.0)	(13.6)

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GAIL (India) (GAIL IN)

Rating: BUY | CMP: Rs89 | TP: Rs120

Muted performance

Quick Pointers:

- GAIL likely to continue sourcing from spot LNG volumes due to non-receipt of Gazprom volumes along with diversion of 0.45mmscmd in Q2.
- Petchem capacity utilization currently stands at 40% due to lower gas availability.

We maintain our earnings. GAIL reported lower than expected results with EBITDA and PAT of Rs17.6bn (-59.6%QoQ; PLe Rs21.4bn) and Rs15.4bn (-47.3%QoQ; PLe Rs14.8bn), due to weak segment businesses. Lower volumes and margins hit Q2 operational performance, however higher other income of Rs8bn supported PAT. Non receipt of Gazprom volumes (~18% of contracted volumes) remains a concern. Drop in US Henry Hub prices to \$4.6/mmbtu vs Q2 levels of \$8/mmbtu will help margins despite drop in spot LNG prices to \$25/mmbtu vs \$40/mmbtu in previous quarter. We believe commissioning of new pipelines over next one year will augment volumes and profits. Reiterate 'BUY' with a TP of Rs120 based on 7x EV/E FY24E.

- Weak results:** GAIL reported lower than expected Q2 results with EBITDA of Rs17.6bn (PLe: Rs21.4bn; 59.6% QoQ), due to lower gas trading along with weak petrochemicals and lower LPG. PAT was at Rs15.4bn (PLe Rs14.8bn; -47.3% QoQ).
- Transmission volume dip due to lower gas supplies:** GAIL's Q2 transmission volumes was lower at 107.7mmscmd, while gas sales volumes were at 92.5mmscmd (100.8mmscmd in Q1). Transmission EBITDA for Q2 was at Rs10.1bn (Q1 Rs10.9bn) with blended tariffs of Rs1,571tcm given increased transmission volumes from higher tariff Jagdishpur-Haldia pipeline.
- LPG EBITDA was lower at Rs5.2bn (-21% QoQ) due to lower realization of USD\$672/ton (\$827/ton in Q1FY23). Sales volumes were higher at 174,000 MT (165,000MT in Q1).
- Gas trading profitability come down sharply:** Q2 gas trading EBITDA was down sharply at Rs4.5bn (Rs24bn for Q1) due to non-receipt of Gazprom gas volumes. Also company had to procure from spot market to meet the volume commitment. We calculate gas trading margins at \$0.19/mmbtu vs Q1 levels of \$0.95/mmbtu.
- Going forward, spot LNG prices remain at elevated levels of ~ USD30/mmbtu; will support trading earnings. However, non-receipt of Gazprom volumes (2.5MTPA contract or ~18% of total contracted volumes) remains a concern. We have factored in gas trading earnings of Rs44.5bn and Rs26.1bn for FY23/24E; H1FY23 Rs28.5bn.

- **Petrochemicals profits come down QoQ:** GAIL's petrochemicals sales volumes were at 108KT in Q2 (flat QoQ) due to lower gas receipt from Gazprom. EBITDA loss was at Rs2.1bn (Q1: Rs1.7bn gain), as petrochemical spread was at -USD244/ton v/s USD201/ton in Q1 due to higher cost and lower spreads.
- **Aggressive capex on horizon:** GAIL lined up capex of Rs470bn for pipeline expansion. The company is also increasing petrochemicals capacity which will be on stream by Sept-23.

Conference Call Highlights:

- Company has contract of 36 cargoes for CY22, but since late May-22 the company has got 13 less cargoes till Q2 end.
- Out of lower Gazprom supplies of 8.5-9mmscmd, GAIL cut volumes of 2.7mmscmd to fertilizer and similar volume from other downstream customers while internal consumption was down by 3mmscmd. Also, company sourced 1-1.5 cargoes from spot LNG market.
- There was diversion of gas transmission volumes of 0.45mmscmd effective 16th August 22 to CGD companies. Current APM gas allocation stands at 1.1mmscmd.
- Q2 petchem production was at 95k MT vs 132k MT in Q1 due to lower gas availability.
- For FY23, company plans to spend Rs75bn while H1 levels was at Rs39bn.
- Q2 GAIL gas sales volumes was at 5.5mmscmd (Q1: 6mmscmd) while PAT was at Rs1bn.

Exhibit 1: Q2FY23 Result Overview (Rs mn)

Y/e March	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	H1FY23	H1FY22	YoY gr. (%)
Net sales	3,84,909	2,15,153	78.9	3,75,721	7,60,630	3,89,019	95.5
(Inc)/Dec in stock in trade	(3,470)	(8,673)	(60.0)	(20,074)	-23,544	(9,689)	143.0
Raw Material Cons.	3,51,413	1,72,016	104.3	3,34,573	6,85,986	3,07,031	123.4
Other Expenditure	15,125	12,952	16.8	13,149	28,274	24,449	15.6
Staff Cost	4,194	4,108	2.1	4,417	8,611	8,365	2.9
Total Expenditure	3,67,262	1,80,402	103.6	3,32,065	6,99,326	3,30,156	111.8
EBITDA	17,647	34,751	(49.2)	43,657	61,304	58,864	4.1
<i>EBITDA Margin (%)</i>	<i>4.6</i>	<i>16.2</i>		<i>11.6</i>	<i>8.1</i>	<i>15.1</i>	
Other income	7,988	7,740	3.2	1,798	9,786	9,716	0.7
Interest	683	424	61.0	481	1,164	890	30.8
Depreciation	6,194	5,244	18.1	6,030	12,223	10,330	18.3
PBT	18,759	36,823	(49.1)	38,944	57,703	57,360	0.6
Tax	3,388	8,194	(58.6)	9,792	13,180	13,432	(1.9)
<i>Tax rate (%)</i>	<i>18.1</i>	<i>22.3</i>		<i>25.1</i>	<i>22.8</i>	<i>23.4</i>	
Net profit	15,371	28,629	(46.3)	29,152	44,523	43,929	1.4

Source: Company, PL

Exhibit 2: GAIL quarterly volumes

Operational parameters	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Gas transmission (mmscmd)	106.4	110.3	109.8	107.7	114.3	114.3	107.6	109.5	107.7
Gas sales (mmscmd)	88.6	95.6	91.4	96.0	97.7	96.6	94.7	100.8	92.5
LPG and liquid prodn ('000 MT)	291.0	316.0	259.0	246.0	264.0	278.0	212.0	227.0	227.0
Petrochemical sales ('000 MT)	224.0	231.0	234.0	138.0	221.0	217.0	216.0	109.0	108.0
LPG transmission ('000 MT)	1,058.0	1,088.0	1,054.0	1,023.0	1,054.0	1,057.0	1,065.0	1,055.0	1,100.0
LPG sales ('000 MT)	217.0	213.0	159.0	190.0	182.0	210.0	155.0	165.0	174.0
Other liquid hydrocarbon sales ('000MT)	80.0	106.0	98.0	60.0	80.0	65.0	62.0	55.0	57.0
EBITDA breakup (Rs m)									
Gas transmission	12,810	12,470	12,040	11,760	13,140	12,560	11,540	10,900	10,100
Gas trading/marketing	-3,350	-450	2,990	4,220	11,240	17,950	17,790	24,020	4,520
LPG & liquid hydrocarbons	3,020	3,040	4,960	6,540	7,030	8,750	7,530	6,630	5,240
Petrochemicals	2,890	5,490	7,240	2,550	4,820	4,900	5,030	1,690	(2,100)
LPG transmission	1,030	1,090	1,040	1,020	980	960	1,010	1,000	1,300
Unallocated	4,220	2,270	3,070		5,280	3,670	(1,520)	1,210	6,580
Total	20,620	23,910	31,340	26,090	42,490	48,790	41,380	45,450	25,640

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	9,16,265	9,39,258	10,59,579	11,17,050
YoY gr. (%)	61.5	2.5	12.8	5.4
Cost of Goods Sold	7,07,823	7,24,684	8,51,168	9,27,413
Gross Profit	2,08,442	2,14,574	2,08,411	1,89,637
Margin (%)	22.7	22.8	19.7	17.0
Employee Cost	17,112	17,967	19,764	21,740
Other Expenses	-	-	-	-
EBITDA	1,38,289	1,15,117	1,07,810	84,976
YoY gr. (%)	114.6	(16.8)	(6.3)	(21.2)
Margin (%)	15.1	12.3	10.2	7.6
Depreciation and Amortization	21,112	23,559	26,363	29,167
EBIT	1,17,178	91,558	81,447	55,809
Margin (%)	12.8	9.7	7.7	5.0
Net Interest	1,744	1,631	1,357	1,357
Other Income	20,469	25,282	28,849	33,514
Profit Before Tax	1,35,902	1,15,208	1,08,939	87,966
Margin (%)	14.8	12.3	10.3	7.9
Total Tax	32,263	27,350	25,862	20,883
Effective tax rate (%)	23.7	23.7	23.7	23.7
Profit after tax	1,03,639	87,858	83,077	67,083
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,03,639	87,858	83,077	67,083
YoY gr. (%)	111.9	(15.2)	(5.4)	(19.3)
Margin (%)	11.3	9.4	7.8	6.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,03,639	87,858	83,077	67,083
YoY gr. (%)	111.9	(15.2)	(5.4)	(19.3)
Margin (%)	11.3	9.4	7.8	6.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,03,639	87,858	83,077	67,083
Equity Shares O/s (m)	4,510	6,661	6,661	6,661
EPS (Rs)	23.0	13.2	12.5	10.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	4,74,106	5,34,106	5,94,106	6,54,106
Tangibles	4,74,106	5,34,106	5,94,106	6,54,106
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,16,738	1,40,297	1,66,661	1,95,828
Tangibles	1,16,738	1,40,297	1,66,661	1,95,828
Intangibles	-	-	-	-
Net fixed assets	3,57,367	3,93,808	4,27,445	4,58,278
Tangibles	3,57,367	3,93,808	4,27,445	4,58,278
Intangibles	-	-	-	-
Capital Work In Progress	1,45,809	1,46,000	1,46,000	1,46,000
Goodwill	25,347	25,347	25,347	25,347
Non-Current Investments	1,63,401	1,73,680	1,84,685	1,96,472
Net Deferred tax assets	(51,970)	(52,870)	(53,788)	(54,667)
Other Non-Current Assets	12,297	13,527	14,880	16,368
Current Assets				
Investments	-	-	-	-
Inventories	30,152	30,909	34,869	36,760
Trade receivables	83,660	97,305	1,09,446	1,15,963
Cash & Bank Balance	20,850	1,05,559	86,768	62,182
Other Current Assets	6,665	7,331	8,064	8,871
Total Assets	8,63,405	10,13,110	10,59,110	10,90,008
Equity				
Equity Share Capital	44,404	66,606	66,606	66,606
Other Equity	5,11,464	5,68,809	6,02,040	6,28,873
Total Network	5,55,868	6,35,415	6,68,646	6,95,479
Non-Current Liabilities				
Long Term borrowings	48,301	30,000	30,000	30,000
Provisions	6,664	7,330	8,063	8,870
Other non current liabilities	46,760	51,435	56,579	62,237
Current Liabilities				
ST Debt / Current of LT Debt	15,227	15,227	15,227	15,227
Trade payables	54,660	68,306	75,136	82,650
Other current liabilities	62,187	1,42,913	1,41,096	1,29,247
Total Equity & Liabilities	8,63,405	10,13,110	10,59,110	10,90,008

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	1,35,902	1,15,208	1,08,939	87,966
Add. Depreciation	21,112	23,559	26,363	29,167
Add. Interest	1,744	1,631	1,357	1,357
Less Financial Other Income	20,469	25,282	28,849	33,514
Add. Other	-	-	-	-
Op. profit before WC changes	1,58,758	1,40,399	1,36,659	1,18,490
Net Changes-WC	(12,980)	66,156	(12,022)	(13,904)
Direct tax	(31,708)	(26,880)	(25,417)	(20,524)
Net cash from Op. activities	1,14,070	1,79,674	99,220	84,062
Capital expenditures	(65,621)	(60,191)	(60,000)	(60,000)
Interest / Dividend Income	-	-	-	-
Others	(28,656)	(6,060)	(6,363)	(6,682)
Net Cash from Invt. activities	(94,277)	(66,251)	(66,363)	(66,682)
Issue of share cap. / premium	29,967	43,933	(445)	(359)
Debt changes	3,621	(18,301)	-	-
Dividend paid	(44,404)	(52,715)	(49,846)	(40,250)
Interest paid	(1,744)	(1,631)	(1,357)	(1,357)
Others	-	-	-	-
Net cash from Fin. activities	(12,561)	(28,714)	(51,648)	(41,966)
Net change in cash	7,232	84,709	(18,792)	(24,585)
Free Cash Flow	48,448	1,19,483	39,220	24,062

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	2,57,756	2,69,682	3,75,721	3,84,909
YoY gr. (%)	66.8	73.4	116.1	78.9
Raw Material Expenses	1,97,725	2,12,947	3,14,499	3,47,942
Gross Profit	60,031	56,735	61,222	36,967
Margin (%)	23.3	21.0	16.3	9.6
EBITDA	42,281	37,145	43,657	17,647
YoY gr. (%)	120.3	44.8	81.1	(49.2)
Margin (%)	16.4	13.8	11.6	4.6
Depreciation / Depletion	5,322	5,461	6,030	6,194
EBIT	36,960	31,685	37,627	11,453
Margin (%)	14.3	11.7	10.0	3.0
Net Interest	394	461	481	683
Other Income	6,518	4,235	1,798	7,988
Profit before Tax	43,084	35,459	38,944	18,759
Margin (%)	16.7	13.1	10.4	4.9
Total Tax	10,204	8,628	9,792	3,388
Effective tax rate (%)	23.7	24.3	25.1	18.1
Profit after Tax	32,880	26,831	29,152	15,371
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	32,880	26,831	29,152	15,371
YoY gr. (%)	121.1	40.6	90.5	(46.3)
Margin (%)	12.8	9.9	7.8	4.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	32,880	26,831	29,152	15,371
YoY gr. (%)	121.1	40.6	90.5	(46.3)
Margin (%)	12.8	9.9	7.8	4.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

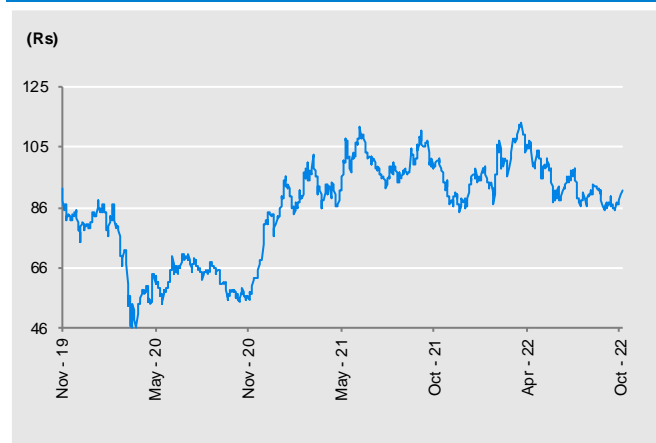
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	23.0	13.2	12.5	10.1
CEPS	27.7	16.7	16.4	14.5
BVPS	123.2	95.4	100.4	104.4
FCF	10.7	17.9	5.9	3.6
DPS	9.8	7.9	7.5	6.0
Return Ratio(%)				
RoCE	20.5	14.1	11.7	7.7
ROIC	13.9	10.1	8.4	5.4
RoE	20.3	14.8	12.7	9.8
Balance Sheet				
Net Debt : Equity (x)	0.1	(0.1)	(0.1)	0.0
Net Working Capital (Days)	24	23	24	23
Valuation(x)				
PER	3.9	6.7	7.1	8.8
P/B	0.7	0.9	0.9	0.8
P/CEPS	3.2	5.3	5.4	6.1
EV/EBITDA	3.2	4.6	5.1	6.7
EV/Sales	0.5	0.6	0.5	0.5
Dividend Yield (%)	11.1	8.9	8.5	6.8

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Gas transmission (mmscmd)	110	127	148	157
Petrochem sales (ktpa)				
Gas sales (mmscmd)	86	103	124	133

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	01-Oct-22	BUY	120	87
2	04-Aug-22	BUY	180	140
3	05-Jul-22	BUY	170	134
4	30-May-22	BUY	170	143
5	23-May-22	BUY	205	156
6	04-Apr-22	BUY	205	162
7	03-Feb-22	BUY	205	147
8	06-Jan-22	BUY	184	136

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	Reduce	240	305
2	Bharti Airtel	BUY	1,058	836
3	GAIL (India)	BUY	120	87
4	Gujarat Gas	Hold	530	503
5	Hindustan Petroleum Corporation	Hold	195	211
6	Indian Oil Corporation	Reduce	50	68
7	Indraprastha Gas	BUY	596	397
8	Mahanagar Gas	BUY	1,103	832
9	Oil & Natural Gas Corporation	BUY	160	127
10	Oil India	BUY	300	175
11	Petronet LNG	BUY	307	200
12	Reliance Industries	BUY	2,892	2,480

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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