

CMP: ₹ 88

Target: ₹ 95 (8%)

Target Period: 12 months

HOLD

November 7, 2022

Weak gas trading performance impacts earnings...

About the stock: Gail India is a gas utility company with various business segments such as gas transmission & trading, LPG, LLH and petrochemicals.

- It operates a natural gas pipeline network of 14500 km as of end of FY22
- Gail also has a presence in CGD sector directly and via associate companies

Q2FY23 Results: Results were lower-than-expected on account of weaker profitability in the gas trading segment.

- Revenue was up 78.9% YoY to ₹ 38478.6 crore (I-direct estimate: ₹ 35648.8 crore)
- While LPG/LLH segment performance was higher than anticipated, gas transmission was in line with estimates while gas trading and petchem reported weaker than expected profit
- Subsequently, EBITDA was ₹ 1764.7 crore, down 49.2% YoY, 59.6% QoQ (I-direct estimate: ₹ 3245.1 crore). Reported PAT was at ₹ 1537.1 crore, down 46.3% YoY and 47.3% QoQ (I-direct estimate: ₹ 2544.8 crore)

What should investors do? The gas trading outlook remains uncertain owing to supply disruption. Due to a reduction in internal consumption of its petchem segment, volumes are expected to remain impacted in the near term.

- We revise our rating on the stock from BUY to **HOLD**

Target Price and Valuation: We value Gail at ₹ 95/share based on SoTP method

Key triggers for future price performance:

- Pick-up in gas transmission volume
- Gas trading is expected to remain uncertain due to supply disruption
- Consistent dividend payout

Alternate Stock Idea: Apart from Gail, in our oil & gas coverage we also like IGL.

- Indraprastha Gas (IGL) is one of India's leading CGD companies, which primarily operates in NCT of Delhi and will benefit from stricter environmental regulations in Delhi
- Continued capex, newer areas and CNG conversion of vehicles will support further volume growth



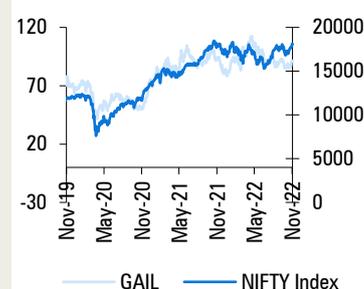
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	58,518.5
Total Debt (FY22) (₹ Crore)	6,598.5
Cash and Investments (FY22)	2,085.0
EV (₹ Crore)	63,031.9
52 week H/L	116/ 83
Equity capital (₹ Crore)	6,575.1
Face value (₹)	10.0

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	51.8	51.8	51.9	51.9
FII	19.7	19.6	19.9	19.8
DII	23.2	23.8	23.3	13.9
Others	5.3	4.8	4.8	14.4

Price Chart



Recent event & key risks

- Key Risk:** (i) Higher than expected volume growth, (ii) Lower than expected gas trading margins

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY21-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenue (₹ crore)	75,126.3	71,871.0	56,730.2	91,626.5	13.4	1,47,347.5	1,45,103.1	25.8
EBITDA (₹ crore)	9,528.7	8,369.4	6,445.1	13,829.0	16.6	9,116.0	8,428.6	(21.9)
PAT (₹ crore)	6,025.7	6,620.6	4,890.2	10,364.0	24.2	6,531.5	5,824.0	(25.0)
EPS (₹)	13.4	14.7	11.0	23.3		9.9	8.9	
PE (x)	6.6	6.0	8.0	3.8		8.9	9.9	
P/Book (x)	0.9	0.9	0.8	0.7		1.0	0.9	
EV / EBITDA	4.2	5.1	6.7	3.2		7.1	7.8	
ROCE (%)	17.6	13.7	8.7	18.8		10.3	8.6	
ROE (%)	13.7	15.1	10.5	18.6		11.1	9.4	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Gas trading and petchem margins weaker than anticipated

- Revenue was up only 2.4% QoQ due to higher natural gas prices, which got offset by a decline in LHP and petchem segment realisation
- Natural gas transmission volumes declined 5.8% YoY, 1.6% QoQ to 107.7 mmscmd against our estimate of 103 mmscmd. Gas transmission EBIT was at ₹ 709.6 crore, in line with our estimates of ₹ 708.3 crore
- On the gas trading front, volumes were at 92.5 mmscmd, down 5.3% YoY and 8.2% QoQ, below our expectations of 94 mmscmd. Gas trading EBIT of ₹ 362.9 crore was below our estimate of ₹ 2337.2 crore amid weaker marketing spread
- Petchem segment reported volumes at 108 KT, in line with our estimate of 106 KT. EBIT loss was at ₹ 346.2 crore against our estimated EBIT loss of ₹ 238.2 crore due to higher-than-expected costs. LPG, LLH volumes were at 231 KT, below our estimate of 245 KT. Lower than expected cost and higher realisation led to EBIT at ₹ 500.2 crore, above our estimate of ₹ 133.8 crore

Q2FY23 Conference call highlights

- The company has not received ~9 mmscmd of gas supplies due to failure of supply by GMTS
- Gail brought down fertiliser supply to take or pay level. The company has reduced its internal consumption for the petchem segment, which is currently operating at 40% capacity
- On the JBF Petrochemicals acquisition, the company said it expects operations to commence in FY25. Investment on the same would be around ₹ 2000 crore
- Capex as of H1FY23 was at ₹ 3967 crore. Planned capex for FY23 was ₹ 7500 crore
- The management said Gail Gas volume was 5.5 mmscmd in Q2FY23

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
GAIL (India) (GAIL)	88	95	Hold	57,861	23.3	9.9	8.8	3.8	8.9	9.9	3.2	7.1	7.8	18.8	10.3	8.6	18.6	11.1	9.4
Gujarat Gas (GUJGA)	500	480	Hold	34,420	18.9	23.4	20.9	26.4	21.4	23.9	16.4	13.5	14.6	27.0	28.2	21.8	23.1	23.2	17.9
Indraprastha Gas (INDGAS)	381	430	Hold	26,670	18.8	21.7	20.9	20.3	17.6	18.3	13.5	11.5	10.8	22.3	22.5	20.2	19.0	18.8	16.1
Mahanagar Gas (MAHGAS)	845	820	Hold	8,347	60.4	58.9	84.8	14.0	14.3	10.0	8.6	8.6	6.0	19.8	17.7	23.1	16.6	15.0	19.0
Petronet LNG (PETLNG)	200	210	Hold	30,000	22.3	17.7	19.2	8.9	11.3	10.4	5.5	6.6	5.8	27.0	20.0	20.8	25.0	19.0	19.5

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Revenues	38,478.6	35,648.8	21,511.0	78.9	37,562.5	2.4	Flat QoQ due to high natural gas prices, which got offset by decline in LHP and petchem realisation
Raw materials costs	34,781.9	31,015.1	16,330.0	113.0	31,440.2	10.6	
Employees Cost	419.4	431.3	410.8	2.1	441.7	-5.0	
Other Expenses	1,512.5	957.3	1,295.2	16.8	1,314.9	15.0	
Total Expenditure	36,713.9	32,403.7	18,035.9	103.6	33,196.8	10.6	
EBITDA	1,764.7	3,245.1	3,475.1	-49.2	4,365.7	-59.6	Lower than estimated due to weak trading segment margins
EBITDA margins (%)	4.6	9.1	16.2	-1157 bps	11.6	-704 bps	
Depreciation	619.4	536.5	524.4	18.1	603.0	2.7	
EBIT	1,145.3	2,708.6	2,950.7	-61.2	3,762.7	-69.6	
Interest	68.3	56.4	42.4	61.0	48.1	41.8	
Other Income	798.8	750.0	774.0	3.2	179.8	344.4	Higher QoQ on account of dividend income
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	1,875.9	3,402.2	3,682.3	-49.1	3,894.4	-51.8	
Total Tax	338.8	857.3	819.4	-58.6	979.2	-65.4	
PAT	1,537.1	2,544.8	2,862.9	-46.3	2,915.2	-47.3	

Key Metrics

Exchange rate (₹/\$)	79.8	79.8	74.1	7.7	77.3	3.3	
Transmn vol (mmscmd)	107.7	103.0	114.3	-5.8	109.5	-1.6	
Transmn realisation (₹/tscm)	1709.9	1650.0	1565.2	9.2	1664.8	2.7	
Trading Vol (mmscmd)	92.5	94.0	97.7	-5.3	100.8	-8.2	Declined due to lower R-LNG sales
Trading realisation (\$/mmbtu)	14.4	13.3	7.4	94.5	13.4	6.9	
Petchem Vol (000' tonnes)	108.0	106.0	221.0	-51.1	109.0	-0.9	
Petchem realisation (₹/tonne)	125134.3	109440.0	103322.6	21.1	133561.5	-6.3	
LPG/OLH vol (000' tonnes)	231.0	245.0	262.0	-11.8	220.0	5.0	
LPG/OLH realisation (₹/tonne)	60340.3	44800.0	42415.6	42.3	66155.5	-8.8	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	Change	Old	New	Change	
Revenue	147561.2	147,347.5	-0.1	146404.0	145,103.1	-0.9	
EBITDA	12564.8	9,116.0	-27.4	8471.2	8,428.6	-0.5	Lower gas trading and petchem profitability led to change in estimates in FY23E.
EBITDA Margin (%)	8.5	6.2	-233 bps	5.8	5.8	2 bps	
PAT	9011.7	6,531.5	-27.5	5855.9	5,818.8	-0.6	
EPS (₹)	13.7	9.9	-27.5	8.9	8.8	-0.6	

Source: ICICI Direct Research

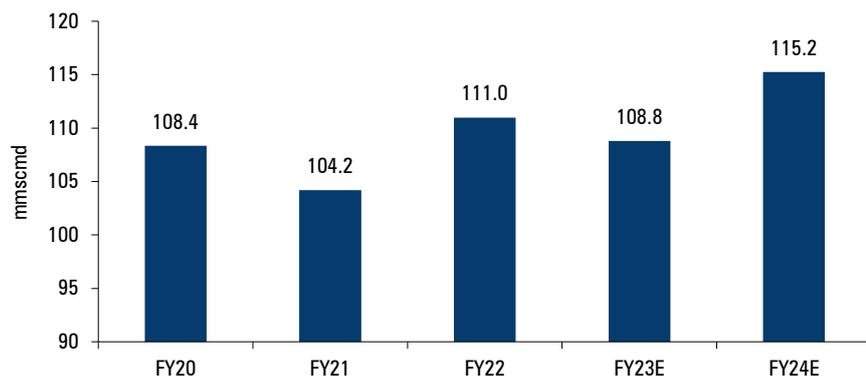
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Exchange rate (₹/\$)	74.2	74.5	78.8	79.0	78.8	79.0	
Transmn vol (mmscmd)	104.2	111.0	108.8	115.2	106.8	115.5	
Transmn realisation (₹/tscm)	1,565.1	1,578.1	1,718.6	1,650.0	1,653.8	1650.0	Realisation estimates revised as per current trend
Trading Vol (mmscmd)	89.2	96.2	96.3	104.0	97.2	105.0	
Trading realisation (\$/mmbtu)	5.0	8.1	13.6	12.2	13.5	12.2	
Petchem Vol (000' tonnes)	872.0	792.0	437.0	750.0	515.0	750.0	Reduced volume estimates due to reduced internal consumption
Petchem realisation (₹/tonne)	80,973.5	107,935.9	123,352.6	103,740.0	119,193.9	103740.0	
LPG/OLH vol (000' tonnes)	1,138.0	1,004.0	991.0	1,150.0	1,005.0	1150.0	
LPG/OLH realisation (₹/tonne)	28,944.4	48,457.8	52,134.5	40,758.5	48,460.4	40758.5	

Source: ICICI Direct Research

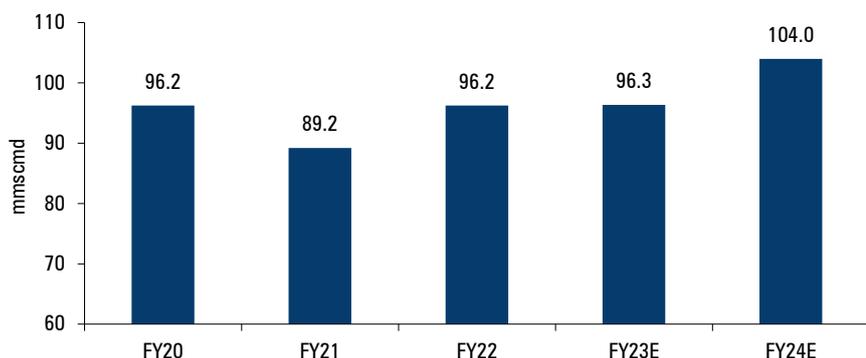
Story in charts

Exhibit 5: Gas transmission volume trend



Source: Company, ICICI Direct Research

Exhibit 6: Gas trading volume trend



Source: Company, ICICI Direct Research

Exhibit 7: EBIT trend

	FY20	FY21	FY22	FY23E	FY24E
Natural Gas transmission	3539.8	3677.9	3805.8	3153.7	3156.8
LPG transmission	330.9	351.4	335.0	345.5	284.5
Natural Gas Trading	2156.2	-702.3	4932.2	3679.0	3267.0
Petrochemicals	-245.5	1064.9	1245.3	-701.4	-52.9
LPG and Liquid Hydrocarbons	1580.6	1303.5	2899.7	1257.9	978.3
Gailtel	0.0	0.0	0.0	-8.4	0.0
Others	537.0	372.0	357.0	565.3	532.6
EBIT	7899.0	6067.4	13574.9	8291.5	8166.3

Source: Company, ICICI Direct Research

Exhibit 8: EBIT (%)

	FY20	FY21	FY22	FY23E	FY24E
Natural Gas	44.8	60.6	28.0	22.3	34.4
LPG	4.2	5.8	2.5	2.4	3.1
Natural Gas Trading	27.3	-11.6	36.3	61.4	35.7
Petrochemicals	-3.1	17.6	9.2	-4.2	-0.6
LPG and Liquid Hydrocarbons	20.0	21.5	21.4	13.9	21.6
Gailtel	0.0	0.0	0.0	0.0	0.0
Others	6.8	6.1	2.6	4.3	5.8
Total	100.0	100.0	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Exhibit 9: Valuation

Segments	Enterprise Value(₹Crore)	₹ share	per % of SOTP	Method
Transmission Business				
Natural Gas Transmission	24853.3		38 40	DCF
LPG Transmission	4665.6		7 7	DCF
Value of transmission busine	29518.8		45 47	
Other Businesses				
Natural Gas Trading	13083.8		20 21	4x FY24E EV/EBITDA
Petrochemicals	2812.8		4 5	5x FY24E EV/EBITDA
LPG and Liquid Hydrocarbons	5476.3		8 9	5x FY24E EV/EBITDA
Value of Other Businesses	21373.0		33 34	
Investments				
Quoted	14325.3		22 23	30% discount to CMP
Unquoted	5335.9		8 9	
Value of Investments	19661.2		30 31	
Firm Value	70553.0		107 113	
Less: Net Debt	-8072.7		-12 -13	
Equity Value	62480.3		95.0 100	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Revenue	56730.2	91626.5	147347.5	145103.1
Growth (%)	-21.1	61.5	60.8	-1.5
(Inc.) / Dec stock in trade	543.7	-326.8	-2354.4	0.0
Raw material Costs	3905.9	5044.0	6864.4	7864.8
Purchase of trading goods	39899.0	66064.9	127098.8	121799.0
Employee Costs	1546.3	1706.2	1774.2	1863.0
Other Expenditure	4390.2	5309.1	4848.5	5147.8
Op. Expenditure	50285.0	77797.5	138231.5	136674.5
EBITDA	6445.1	13829.0	9116.0	8428.6
Growth (%)	-23.0	114.6	-34.1	-7.5
Depreciation	1907.9	2111.2	2295.3	2425.0
EBIT	4537.3	11717.9	6820.7	6003.7
Interest	155.9	174.4	229.2	254.6
Other Income	2004.5	2046.9	1958.6	2030.0
PBT	6385.8	13590.3	8550.0	7779.1
Growth (%)	-19.6	112.8	-37.1	-9.0
Tax	1495.6	3226.3	2018.5	1960.3
Reported PAT	4890.2	10364.0	6531.5	5818.8
Growth (%)	-26.1	111.9	-37.0	-10.9
EPS	11.0	23.3	9.9	8.8

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	4,890.2	10,364.0	6,531.5	5,818.8
Add: Depreciation	1,907.9	2,111.2	2,295.3	2,425.0
Add: Others	5.0	265.1	150.0	150.0
Cash Profit	4,565.5	8,743.8	5,920.7	5,337.6
Increase/(Decrease) in CL	321.3	2,880.4	4,337.5	1,632.1
(Increase)/Decrease in CA	2,181.0	-5,458.9	-3,655.4	277.5
CF from Operating Activi	9305.3	10161.7	9659.0	10303.3
Purchase of Fixed Assets	6,082.4	6,562.1	7,999.4	8,250.0
(Inc)/Dec in Investments	-2,225.3	-2,397.1	-602.9	-500.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activi	-8,307.7	-8,959.2	-8,602.3	-8,750.0
Inc/(Dec) in Loan Funds	1,810.4	909.0	500.0	1,150.0
Less: Dividend Paid	2,237.6	3,996.4	3,056.1	3,056.1
Inc/(Dec) in Sh. Cap. & Res.	-12.5	2,608.0	-57.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activi	-439.7	-479.4	-2,613.1	-1,906.1
Change in cash Eq.	558.0	723.1	-1,556.4	-352.8
Op. Cash and cash Eq.	803.9	1,361.9	2,085.0	528.6
Cl. Cash and cash Eq.	1,361.9	2,085.0	528.6	175.8

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Source of Funds				
Equity Capital	4,440.4	4,440.4	6,575.1	6,575.1
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	42,170.8	51,146.4	52,430.1	55,192.8
Shareholder's Fund	46,611.2	55,586.8	59,005.3	61,767.9
Loan Funds	5,689.5	6,598.5	7,098.5	8,248.5
Deferred Tax Liability	4,502.2	4,767.3	4,917.3	5,067.3
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	56802.9	66952.6	71021.0	75083.7
Application of Funds				
Gross Block	45,826.4	51,129.7	57,479.7	64,729.7
Less: Acc. Depreciation	9,328.5	11,348.7	13,494.7	15,919.6
Net Block	36,497.9	39,781.0	43,985.0	48,810.1
Capital WIP	11,903.4	13,071.3	14,571.3	15,571.3
Total Fixed Assets	48,401.4	52,852.3	58,556.3	64,381.4
Investments	9,723.8	12,120.9	12,723.8	13,223.8
Inventories	2,603.8	3,015.2	4,844.3	4,770.5
Debtor	4,485.8	8,366.0	10,092.3	9,938.6
Cash	1,361.9	2,085.0	528.6	175.8
Loan & Advance, Other CA	6733.9	7901.1	8001.1	7951.1
Total Current assets	15185.3	21367.3	23466.3	22836.0
Current Liabilities	15147.5	17877.7	22203.1	23852.6
Provisions	1360.0	1510.3	1522.4	1504.9
Total CL and Provisions	16507.5	19388.0	23725.4	25357.5
Net Working Capital	-1322.2	1979.4	-259.1	-2521.5
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	56802.9	66952.6	71021.0	75083.6

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios

(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Book Value	105.0	125.2	89.7	93.9
Cash per share	3.1	4.7	0.8	0.3
EPS	11.0	23.3	9.9	8.8
Cash EPS	15.3	28.1	13.4	12.5
DPS	5.0	10.0	4.0	4.0
Profitability & Operating Ratios				
EBITDA Margin (%)	11.4	15.1	6.2	5.8
PAT Margin (%)	8.6	11.3	4.4	4.0
Fixed Asset Turnover (x)	1.2	1.7	2.5	2.3
Inventory Turnover (Days)	16.8	12.0	12.0	12.0
Debtor (Days)	28.9	33.3	25.0	25.0
Current Liabilities (Days)	97.5	71.2	55.0	60.0
Return Ratios (%)				
RoE	10.5	18.6	11.1	9.4
RoCE	8.7	18.8	10.3	8.6
RoIC	8.9	19.5	10.4	8.6
Valuation Ratios (x)				
PE	8.0	3.8	8.9	9.9
Price to Book Value	0.8	0.7	1.0	0.9
EV/EBITDA	6.7	3.2	7.1	7.8
EV/Sales	0.8	0.5	0.4	0.5
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.1	0.1	0.1
Interest Coverage (x)	29.1	67.2	29.8	23.6
Debt to EBITDA (x)	0.9	0.5	0.8	1.0
Current Ratio	0.9	1.1	1.0	0.9
Quick ratio	0.8	0.9	0.8	0.7

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	339	350	Hold	68,840	41.3	-19.3	82.3	8.2	-17.5	4.1	6.4	173.4	3.4	15.1	-2.8	24.4	17.5	-9.0	29.8
GAIL (India) (GAIL)	88	95	Hold	57,861	23.3	9.9	8.8	3.8	8.9	9.9	3.2	7.1	7.8	18.8	10.3	8.6	18.6	11.1	9.4
Gujarat Gas (GUJGA)	500	480	Hold	34,420	18.9	23.4	20.9	26.4	21.4	23.9	16.4	13.5	14.6	27.0	28.2	21.8	23.1	23.2	17.9
HPCL (HINPET)	204	220	Hold	28,946	44.9	-39.6	47.8	4.5	-5.2	4.3	7.4	-17.4	6.4	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	68	75	Hold	96,024	17.1	3.4	14.0	4.0	19.9	4.8	2.2	4.9	2.3	12.9	2.9	10.1	18.4	3.8	14.8
Indraprastha Gas (INDGAS)	381	430	Hold	26,670	18.8	21.7	20.9	20.3	17.6	18.3	13.5	11.5	10.8	22.3	22.5	20.2	19.0	18.8	16.1
Mahanagar Gas (MAHGAS)	845	820	Hold	8,347	60.4	58.9	84.8	14.0	14.3	10.0	8.6	8.6	6.0	19.8	17.7	23.1	16.6	15.0	19.0
ONGC (ONGC)	124	135	Hold	1,59,133	8.9	32.0	37.1	13.9	3.9	3.3	5.4	2.8	2.0	4.5	14.8	20.9	5.5	17.0	17.3
Petronet LNG (PETLNG)	200	210	Hold	30,000	22.3	17.7	19.2	8.9	11.3	10.4	5.5	6.6	5.8	27.0	20.0	20.8	25.0	19.0	19.5
Reliance Industries (RELIND)	2,472	2,700	Hold	16,72,274	89.7	94.5	118.0	27.5	26.2	20.9	18.0	13.6	11.2	7.1	8.7	10.3	7.8	7.6	8.7

Source: Bloomberg, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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