

BSE SENSEX
57,527

S&P CNX
16,945

CMP: INR104

TP: INR147 (+42%)

Buy



Stock Info

Bloomberg	GAIL IN
Equity Shares (m)	6661
M.Cap.(INRb)/(USDb)	680.5 / 8.3
52-Week Range (INR)	116 / 83
1, 6, 12 Rel. Per (%)	3/23/7
12M Avg Val (INR M)	1581
Free float (%)	48.5

Financials Snapshot (INR b)

Y/E March	FY23E	FY24E	FY25E
Sales	1,535.7	1,369.5	1,391.8
EBITDA	79.8	133.5	134.2
Adj. PAT	55.1	96.2	97.1
Adj. EPS (INR)	8.3	14.4	14.6
EPS Gr. (%)	-46.5	74.7	0.9
BV/Sh.(INR)	94.7	106.0	117.4

Ratios

Net D:E	0.0	0.0	0.0
RoE (%)	9.4	14.6	13.2
RoCE (%)	8.2	12.5	11.5
Payout (%)	21.5	21.5	21.5

Valuations

P/E (x)	12.5	7.2	7.1
P/BV (x)	1.1	1.0	0.9
EV/EBITDA (x)	7.0	4.4	4.1
Div. Yield (%)	1.7	3.0	3.0
FCF Yield (%)	4.1	1.7	3.9

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	51.5	51.5	51.5
DII	23.7	21.7	23.0
FII	18.7	20.4	20.2
Others	6.1	6.4	5.3

FII Includes depository receipts

Better times ahead

We attended GAIL's analyst meet in Delhi on 22nd March, 2023. Below are the key highlights from the meeting:

- Management highlighted that owing to supply disruptions from GMTS and record-high LNG prices, performance was adversely impacted across all segments in FY23. The company's PATA plant was operating at just 50% capacity and had to shut down briefly in Oct'22.
- However, the supply situation now seems to be improving with Sepe (formerly GMTS) nominating two cargos each in March & April. Additionally, GAIL purchased 122mmcmd of gas from IGX (at USD16-17/mmBtu) and will also be bringing eight LNG cargos from the US.
- Recently approved tariff hike, LNG prices cooling off to ~USD12/mmBtu, and improvement in gas supply should improve performance going forward. Hence, we reiterate our BUY rating with a TP of INR147.

Substantial improvement in transmission segment ...

- The management is quite positive on PNGRB's revised tariff of INR58.6/mmBtu, although it was less than GAIL's proposal of INR68/mmBtu. The next tariff review is expected to be after three years, although GAIL could go back to PNGRB for tariff revision before that as well.
- The management expects the tariff hike to offer an incremental revenue of INR18-20b on the current volumes. The management also highlighted that every mmcmd of incremental volume raises revenue by INR8.4b.
- The transmission volume guidance stands at 120mmcmd for FY24 and is expected to record a CAGR of 5% after that.

... to be complemented by other segments

- The PATA plant is now running at full utilization. Additionally, global LNG prices cooling to ~USD12/mmBtu should help register robust financial results, after posting losses for the past couple of quarters. Furthermore, the 500ktpa PDH-PP plant at Usar is also expected to be commissioned by end-1HFY25.
- The management expects the gas marketing segment profits to be at ~INR35b in FY24, driven by 8-9mmcmd increase in volumes from 3QFY23 levels.
- GAIL gas volumes are also set to increase to 6.5mmcmd in FY24 from 5.5mmcmd in 9MFY23, driven by CNG station additions. The company added 19 new CNG stations in 9MFY23.

Valuation and recommendation

- The decline in LNG prices is a boon for GAIL. We expect its transmission volume to rise to 117mmcmd in FY24 from 107mmcmd in FY23. The petrochemical plant is also running at optimum utilization currently.
- GAIL is currently trading at 7.1x FY25E EPS of INR14.6 and 4.1x FY25E EV/EBITDA. We value the company at 9x adjusted FY25E EPS and add the value of investments to arrive at a TP of INR147. We reiterate our BUY rating on the stock.
- Key downside risks to our target price would be a rise in LNG prices and/or a poor economic outlook, which would adversely affect natural gas demand.

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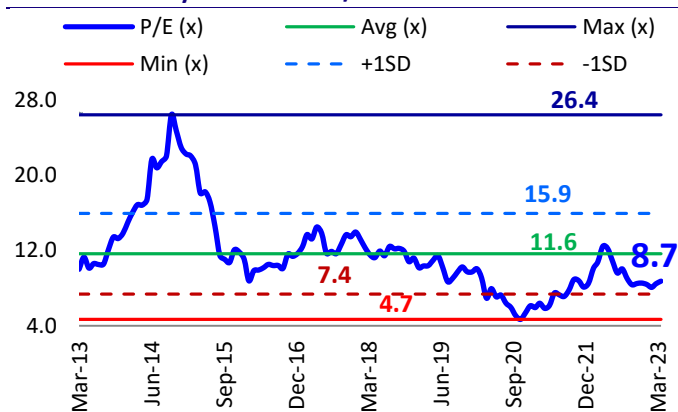
Exhibit 1: Segmental EBITDA (INR b)

	FY24	
	Previous tariff (INR43/mmBtu)	Revised tariff (INR58.6/mmBtu)
NG transmission	57.3	76.4
Gas trading	24.3	24.3
LPG transmission	4.4	4.4
Petrochemicals	17.8	17.8
LPG (pre-subsidy)	21.3	21.3
Others	13.0	13.0
EBITDA*	138.2	157.2
Depreciation	25.2	25.2
Interest	2.1	2.1
PBT	110.8	129.9
Tax	27.9	32.7
PAT	82.9	97.2
Shares o/s (mn)	6,661	6,661
EPS (INR/share)	12.4	14.6
Valuation		
Adj.	0.9	0.9
Adj. EPS (INR/share)	11.5	13.7
PE (x)	9.0	9.0
Valuation of core	103.9	124.0
Investments	24.0	24.0
Total	127	147

*includes other income

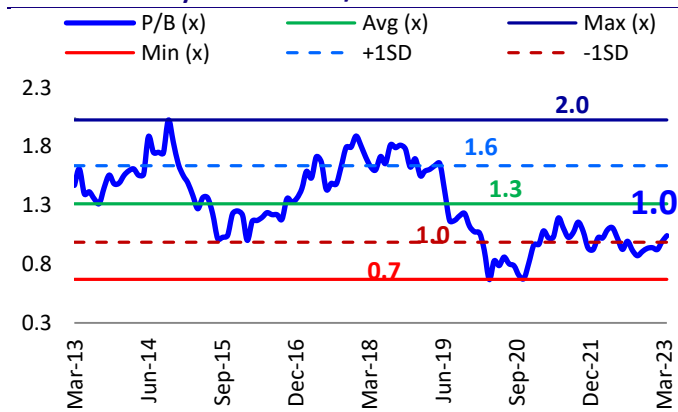
Source: PNGRB, Company, MOFSL

Exhibit 1: One-year forward P/E ratio



Source: Company, MOFSL

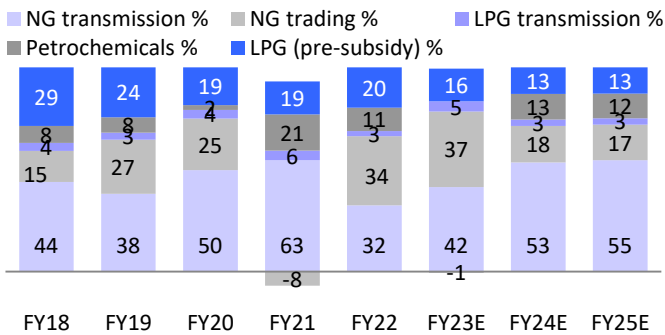
Exhibit 2: One-year forward P/B ratio



Source: Company, MOFSL

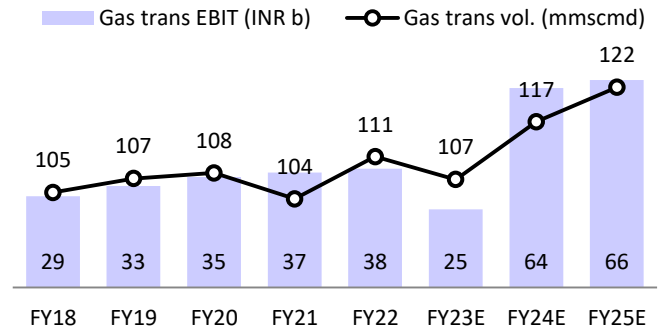
Story in charts

Exhibit 3: Transmission to remain a major contributor to EBITDA



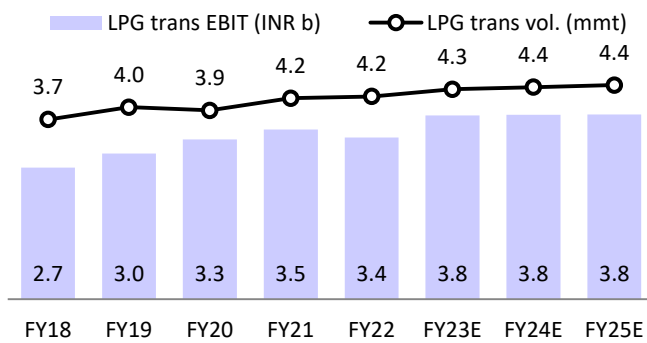
Source: Company, MOFSL

Exhibit 4: Expect transmission volumes to grow over FY24-25



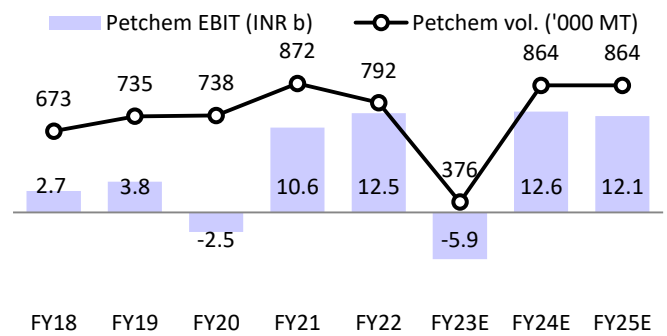
Source: Company, MOFSL

Exhibit 5: LPG transmission segment EBIT



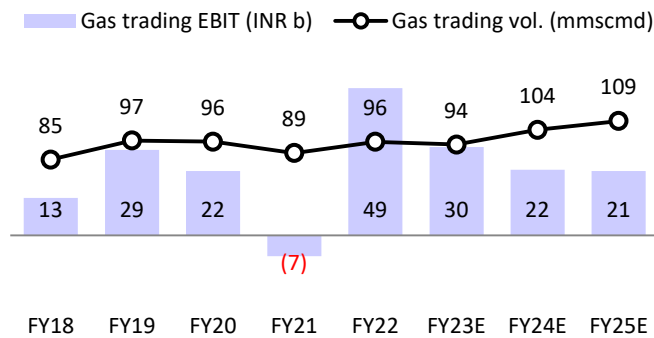
Source: Company, MOFSL

Exhibit 6: Expect Petchem segment EBIT to improve over FY24-25



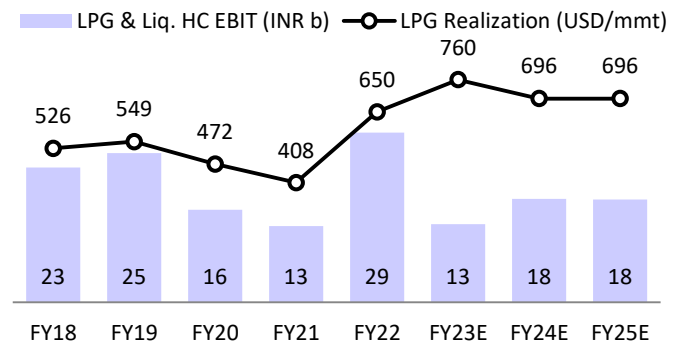
Source: Company, MOFSL

Exhibit 7: Gas trading segment snapshot



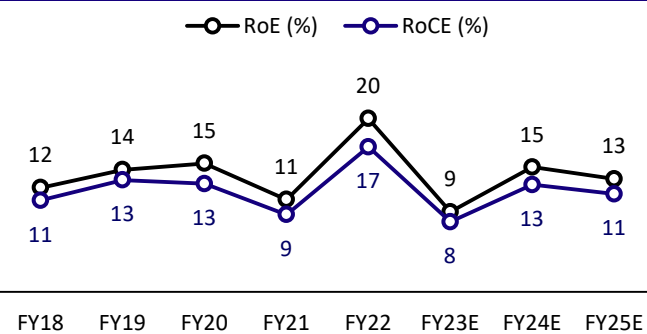
Source: Company, MOFSL

Exhibit 8: LPG & Liq. HC EBIT expected to improve



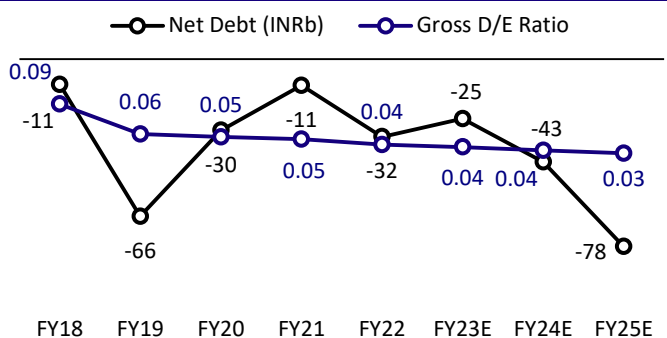
Source: Company, MOFSL

Exhibit 9: Expect return ratios to recover



Source: Company, MOFSL

Exhibit 10: D/E ratio expected to decline



Source: Company, MOFSL

Financials and Valuations

Income Statement						(INR b)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	538.3	751.3	718.8	567.4	916.5	1,535.7	1,369.5	1,391.8
Change (%)	10.4	39.6	-4.3	-21.1	61.5	67.6	-10.8	1.6
EBITDA	78.0	95.3	83.7	64.5	138.3	79.8	133.5	134.2
% of Net Sales	14.5	12.7	11.6	11.4	15.1	5.2	9.7	9.6
Depreciation	14.2	15.5	18.4	19.1	21.1	24.4	25.4	25.8
Interest	2.8	1.4	1.1	1.6	1.7	3.3	2.1	2.3
Other Income	9.9	15.7	14.2	20.0	20.5	21.5	22.6	23.7
EO Items (net)	0.3	-3.3	1.0	0.0	0.0	0.0	0.0	0.0
PBT	71.2	90.8	79.4	63.9	135.9	73.6	128.6	129.8
Tax	23.4	30.6	13.2	15.0	32.3	18.5	32.4	32.7
Rate (%)	32.9	33.7	16.7	23.4	23.7	25.2	25.2	25.2
Reported PAT	47.8	60.3	66.2	48.9	103.6	55.1	96.2	97.1
Adjusted PAT	47.3	63.3	74.2	49.0	102.9	55.1	96.2	97.1
Change (%)	13.8	26.0	9.9	-26.1	111.9	-46.9	74.7	0.9
Balance Sheet						(INR b)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	22.6	22.6	45.1	44.4	44.4	66.6	66.6	66.6
Reserves	380.7	418.4	394.6	421.7	511.5	554.7	630.2	706.4
Net Worth	403.3	440.9	439.7	466.1	555.9	621.3	696.8	773.0
Loans	9.8	8.7	54.1	59.9	63.5	69.9	76.9	84.6
Deferred Tax	46.3	59.5	45.0	45.0	47.7	47.7	47.7	47.7
Capital Employed	459.4	509.1	538.8	571.0	667.1	738.8	821.3	905.2
Gross Fixed Assets	469.6	508.1	548.3	591.4	638.5	781.6	881.6	981.6
Less: Depreciation	181.7	197.2	215.6	234.7	255.8	280.2	305.6	331.4
Net Fixed Assets	287.9	310.9	332.7	356.7	382.7	501.4	576.0	650.2
Capital WIP	55.1	92.0	105.8	119.0	130.7	87.6	87.6	87.6
Investments	99.5	95.3	78.8	105.5	136.3	136.3	136.3	136.3
Current Assets								
Inventory	19.2	23.2	29.6	26.0	30.2	50.5	45.1	45.8
Debtors	40.5	50.7	55.8	44.9	83.7	140.2	125.0	127.1
Cash & Bank Balance	25.3	12.1	8.0	13.6	20.8	62.6	58.2	69.5
Cash	10.8	1.5	5.5	12.1	13.7	33.2	28.9	40.2
Bank Balance	14.5	10.6	2.6	1.5	7.2	29.4	29.4	29.4
Loans/Adv. & Other Assets	99.6	59.5	74.7	67.3	79.0	79.0	79.0	79.0
Current Liab. & Prov.								
Liabilities	145.7	120.4	133.7	148.5	181.2	303.7	270.8	275.2
Provisions	14.3	14.3	12.8	13.6	15.1	15.1	15.1	15.1
Net Current Assets	24.5	10.9	21.5	-10.2	17.3	13.5	21.4	31.1
Application of Funds	467.1	509.1	538.8	571.0	667.1	738.8	821.3	905.2

Financials and Valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS	7.1	9.5	11.1	7.4	15.4	8.3	14.4	14.6
Cash EPS	9.3	11.4	12.7	10.2	18.7	11.9	18.3	18.4
Book Value	61.3	67.2	72.0	76.0	88.2	94.7	106.0	117.4
DPS	2.6	2.6	4.3	3.4	3.4	1.8	3.1	3.1
Payout (incl. dvd tax)	44.0	34.7	52.0	45.6	21.5	21.5	21.5	21.5
Valuation (x)								
P/E	14.5	10.9	9.3	14.1	6.7	12.5	7.2	7.1
Adj. P/E (for investments)	11.1	8.3	7.1	10.7	5.1	9.5	5.4	5.4
Cash P/E	11.1	9.1	8.1	10.1	5.5	8.7	5.7	5.6
EV / EBITDA	3.1	2.0	4.9	5.8	3.0	7.0	4.4	4.1
EV / Sales	0.5	0.3	0.7	0.9	0.5	0.5	0.5	0.5
Price / Book Value	1.7	1.5	1.4	1.4	1.2	1.1	1.0	0.9
Dividend Yield (%)	2.5	2.5	4.2	3.3	3.3	1.7	3.0	3.0
Profitability Ratios (%)								
RoE	12.2	14.3	15.0	10.8	20.3	9.4	14.6	13.2
RoCE	10.7	13.1	12.6	9.0	17.0	8.2	12.5	11.5
RoIC	14.3	18.0	16.6	10.2	25.1	10.0	16.3	14.1
Turnover Ratios								
Debtors (No. of Days)	27	25	28	29	33	33	33	33
Fixed Asset Turnover (x)	1.2	1.5	1.3	1.0	1.4	2.1	1.7	1.5
Leverage Ratio								
Net Debt / Equity (x)	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0

Cash Flow Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	69.6	90.8	79.4	63.9	135.9	73.6	128.6	129.8
Depreciation	14.2	15.5	18.4	19.1	21.1	24.4	25.4	25.8
Interest charge	2.8	1.4	1.1	1.6	1.7	3.3	2.1	2.3
Tax paid	-13.2	-20.8	-19.6	-12.8	-32.0	-18.5	-32.4	-32.7
(Inc)/Dec in Wkg. Capital	18.9	-3.3	3.1	22.2	-29.7	45.6	-12.2	1.6
CF from Op. Activity	86.6	78.8	68.9	80.6	89.5	128.3	111.5	126.9
(Inc)/Dec in FA & CWIP	-29.4	-72.0	-54.3	-49.8	-59.2	-100.0	-100.0	-100.0
Free Cash Flow	57.2	6.7	14.5	30.9	30.4	28.3	11.5	26.9
(Pur)/Sale of Investments	-8.0	-2.7	-6.2	-10.7	-4.6	0.0	0.0	0.0
CF from Inv. Activity	-25.7	-54.4	-68.3	-38.6	-46.1	-100.0	-100.0	-100.0
Interest charge	-3.6	-1.4	-1.1	-3.2	-3.2	-3.3	-2.1	-2.3
Inc / (Dec) in Debt	-30.1	-11.3	45.2	4.6	3.6	6.4	7.0	7.7
Dividends Paid	-21.0	-20.9	-39.4	-22.4	-39.9	-11.9	-20.7	-20.9
CF from Fin. Activity	-54.7	-33.6	3.4	-35.4	-41.8	-8.8	-15.9	-15.6
Inc / (Dec) in Cash	6.2	-9.3	4.0	6.6	1.6	19.5	-4.4	11.3
Add: Opening Balance	4.5	10.8	1.5	5.5	12.1	13.7	33.2	28.9
Closing Balance	10.8	1.5	5.5	12.1	13.7	33.2	28.9	40.2

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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