

Estimate change



TP change



Rating change



Bloomberg	GAIL IN
Equity Shares (m)	6575
M.Cap.(INRb)/(USD\$)	782.4 / 9.5
52-Week Range (INR)	123 / 83
1, 6, 12 Rel. Per (%)	10/13/7
12M Avg Val (INR M)	1421

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	1,443.0	1,366.3	1,419.8
EBITDA	67.0	108.5	129.7
Adj. PAT	53.0	75.3	89.5
Adj. EPS (INR)	8.1	11.5	13.6
EPS Gr. (%)	-48.5	42.0	18.8
BV/Sh.(INR)	93.5	101.6	111.1

Ratios

Net D:E	0.2	0.3	0.3
RoE (%)	9.5	12.9	14.0
RoCE (%)	7.9	10.2	10.9
Payout (%)	49.6	30.0	30.0

Valuations

P/E (x)	14.8	10.4	8.8
P/BV (x)	1.3	1.2	1.1
EV/EBITDA (x)	8.7	6.0	5.1
Div. Yield (%)	3.3	2.8	3.4
FCF Yield (%)	-5.8	0.8	3.3

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	51.5	51.5	51.5
DII	25.8	25.7	23.2
FII	16.7	17.0	20.5
Others	6.0	5.8	4.8

FII Includes depository receipts

CMP: INR119
TP: INR145 (+22%)
Buy
Petrochemical segment woes continue

- GAIL reported EBITDA at INR24.3b in 1QFY24, 11% below our est. of INR27.3b due to a weak performance in petchem segment.
- Petchem segment reported EBIT loss for the fourth consecutive quarter due to a weak pricing environment. The management highlighted that if prices remain at current levels, gas prices need to cool down to USD10-11/mmBtu from USD13/mmBtu in 1QFY24 for petchem segment to breakeven.
- Transmission segment recorded a benefit of INR6.6b in 1QFY24 due to a tariff hike implemented on 1st Apr'23. The benefit is expected increase going ahead as volumes ramp up further. The management expects gas transmission volumes to reach 123mmscmd by the end of FY24 and ~138-140mmscmd over the next 2-3 years from 116mmscmd currently.
- Owing to the underperformance in 1QFY24, we cut our FY24E EBITDA/PAT by 12% while keeping FY25 estimates broadly unchanged.
- We value the core business at 10x FY25E adjusted EPS of INR12. Adding the value of listed and unlisted investments of INR25, we arrive at a TP of INR145/share. Maintain BUY.

Miss due to weak performance in petchem segment

- EBITDA came in 11% lower than our estimate at INR24.3b (-44% YoY, +692% QoQ) primarily due to a weak performance in petchem segment (consensus miss by 13%).
- PAT was 26% lower than our est. at INR14.1b (-26% YoY, +134% QoQ) due to lower-than-estimated other income at INR2.7b (INR10.2b in 4QFY23), missing consensus estimates by 14%.
- As per regulations, the difference between UFT and 'Integrated tariff' needs to be settled between entities and the settlement committee on a fortnightly basis.
- As on 30th Jun'23, GAIL had a deficit of INR837.2m after the settlement.
- On 1st Jun'23 the company completed the acquisition of GAIL Mangalore Petrochemicals Ltd (formerly JBF Petrochemicals Ltd).

Segmental EBIT details for 1QFY24

- Gas transmission business reported EBIT of INR10.2b (est. INR12.7b).
- LPG transmission posted I n-line EBIT at INR802m (-4% YoY, +1% QoQ).
- Trading business reported EBIT of INR10.1b (vs. INR23.1b in 1QFY23 and INR4.9b in 4QFY23).
- Petchem segment reported EBIT loss of INR3b (EBIT of INR352m in 1QFY23 and loss of INR4b in 4QFY23).
- LPG and HC reported EBIT of INR2b (vs. INR6.3b in 1QFY23 and INR1.2b in 4QFY23).

Valuation and view

- GAIL has guided for a capex of ~INR90-100b in FY24, with INR40b being spent on pipelines, INR32b for petrochem segment, INR7 for operations, INR2b for CGDs and the rest for equity investments and other.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

 Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

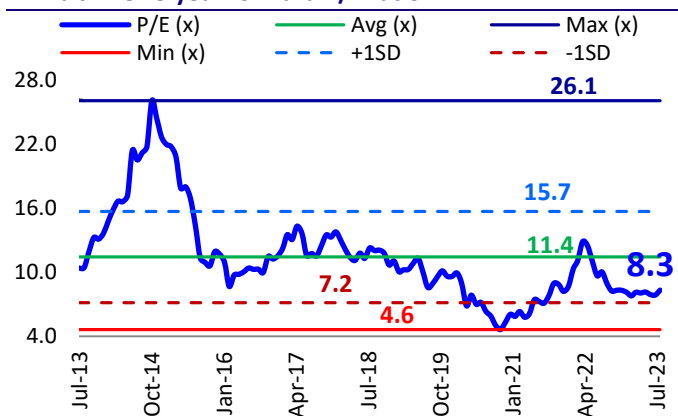
- The remaining portion of the Jagdishpur-Haldia pipeline is expected to be completed by Jun'24. The mechanical completion of the PP plant at PATA and the PDH-PP plant at Usar is expected by Jul'24 and Oct'25, respectively.
- Domestic allocation for internal consumption in the transmission segment has fallen from 1.55mmscmd to 0.4mmscmd currently. The management guides that it has represented for recovery of the one-off actual costs in transmission to the regulatory board.
- The stock trades at a ~9% discount to its one-year forward long-term P/E average. By valuing the core business at 10x FY25E adjusted EPS of INR10 and adding the value of listed and unlisted investments of INR26, we arrive at a TP of INR145/share. We maintain BUY on the stock.

Quarterly Performance

(INR b)

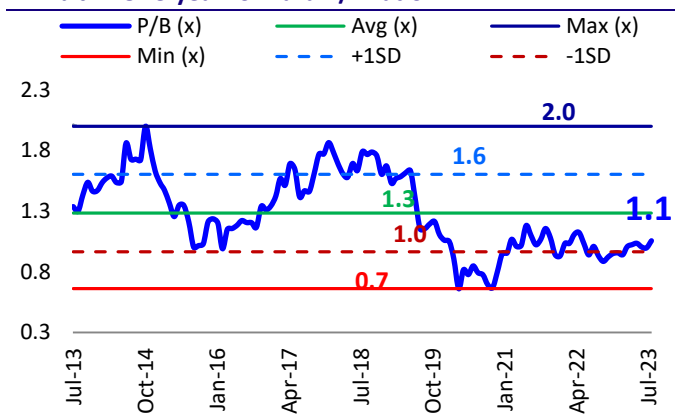
Y/E March	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	vs. est.
Net Sales	375.7	384.9	353.8	328.6	322.3	351.0	360.6	332.4	1,443.0	1,366.3	330.3	-2%
Change (%)	116.1	78.9	37.3	21.8	-14.2	-8.8	1.9	1.2	57.5	-5.3	-12.1	
EBITDA	43.7	17.6	2.6	3.1	24.3	26.0	29.2	29.0	67.0	108.5	27.3	-11%
% of Net Sales	11.6	4.6	0.7	0.9	7.5	7.4	8.1	8.7	4.6	7.9	8.3	
Depreciation	6.0	6.2	6.2	6.4	6.4	6.5	6.6	7.3	24.9	26.7	6.6	
Interest	0.5	0.7	1.0	0.9	1.8	1.5	1.5	1.3	3.1	6.2	1.5	
Other Income	1.8	8.0	6.9	10.2	2.7	6.2	6.0	10.1	26.8	25.0	6.6	
PBT	38.9	18.8	2.2	5.9	18.9	24.2	27.0	30.4	65.8	100.6	25.6	-26%
Rate (%)	25.1	18.1	-10.4	-2.1	25.2	25.6	25.6	24.4	19.5	25.2	25.6	
PAT	29.2	15.4	2.5	6.0	14.1	18.0	20.1	23.0	53.0	75.3	19.1	
Change (%)	90.5	-46.3	-92.5	-77.5	-51.6	17.4	718.9	281.2	-48.8	42.0	-34.5	
Extraord.: Tax Prov. Write Back	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Adj PAT	29.2	15.4	2.5	6.0	14.1	18.0	20.1	23.0	53.0	75.3	19.1	-26%
Change (%)	90.5	-46.3	-92.5	-76.8	-51.6	17.4	718.9	281.2	-48.5	42.0	-34.5	
Key Assumptions												
Gas Trans. volume (mmscmd)	109.5	107.7	103.7	108.2	116.3	118.5	120.9	123.0	107.3	106.6	113.7	2%
Petchem sales ('000MT)	109.0	108.0	65.0	118.0	162.0	202.0	203.0	202.6	400.0	291.0	202.5	-20%

Exhibit 1: One-year forward P/E ratio

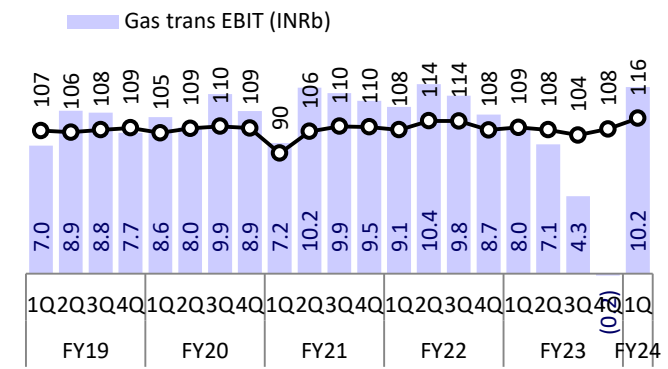


Source: Company, MOFSL

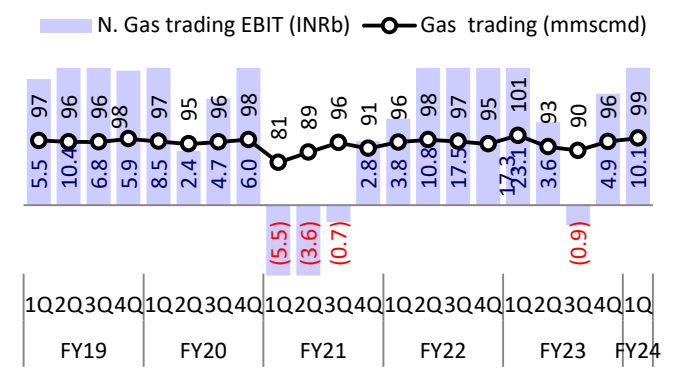
Exhibit 2: One-year forward P/B ratio



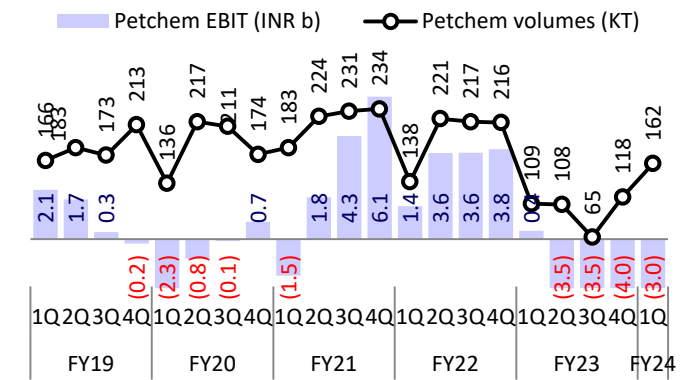
Source: Company, MOFSL

Exhibit 3: Transmission volumes up 6%/7% YoY/QoQ

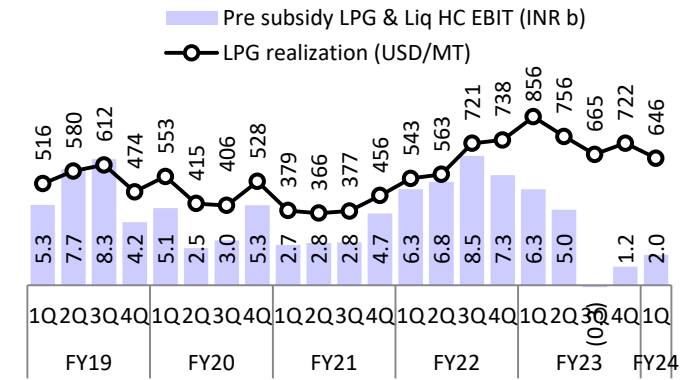
Source: MOFSL, Company

Exhibit 4: Trading volumes down 2% YoY but up 2% QoQ

Source: MOFSL, Company

Exhibit 5: Petchem segment volumes recovered 49%YoY/37% QoQ

Source: MOFSL, Company

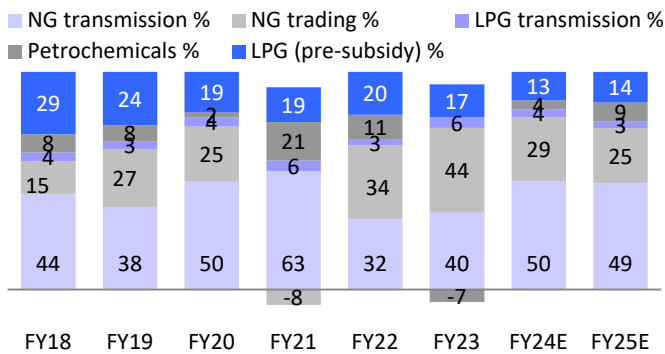
Exhibit 6: Realization from LPG and Liquid HC

Source: MOFSL, Company

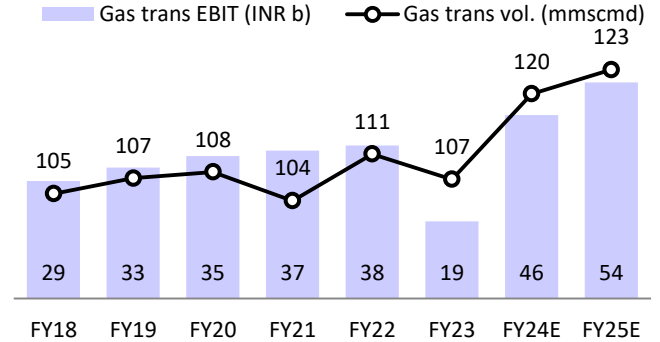
Exhibit 7: Segment-wise performance details (INR m)

Particulars	FY22				FY23				FY24	1QFY24 (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE	YoY	QoQ
Exchange Rate (INR/USD)	74.8	75.3	77.3	75.3	77.3	79.8	82.2	82.3	82.7	7	0
Gas transmission business											
Volumes (mmscmd)	108	114	114	108	109	108	104	108	116	6	7
Gross Revenues	14,837	16,462	16,727	15,898	16,584	16,944	16,587	16,495	25,940	56	57
Opex	3,077	3,322	4,167	4,358	5,684	6,844	9,357	13,525	12,430	119	-8
EBITDA	11,760	13,140	12,560	11,540	10,900	10,100	7,230	2,970	13,510	24	355
Depreciation	2,611	2,740	2,785	2,807	2,895	3,004	2,970	3,134	3,264	13	4
EBIT	9,149	10,400	9,775	8,733	8,005	7,096	4,260	-164	10,246	28	LP
Average tariff (INR/mscm)	1,514	1,565	1,591	1,642	1,665	1,710	1,738	1,657	2,450	47	48
Opex (INR/mscm)	314	316	396	450	571	691	980	1,358	1,174	106	-14
EBITDA (INR/mscm)	1,200	1,249	1,195	1,192	1,094	1,019	758	298	1,276	17	328
Depreciation (INR/mscm)	267	260	265	290	291	303	311	315	308	6	-2
EBIT (INR/mscm)	934	989	930	902	804	716	446	-16	968	20	LP
LPG Transmission Business											
Volumes ('000 MT)	1,023	1,054	1,057	1,065	1,055	1,100	1,101	1,079	1,073	2	-1
Gross Revenues	1,637	1,666	1,676	1,707	1,695	1,973	1,801	1,748	1,776	5	2
Opex	617	686	716	697	695	673	721	778	816	17	5
EBITDA	1,020	980	960	1,010	1,000	1,300	1,080	970	960	-4	-1
Depreciation	153	159	151	158	163	160	163	178	158	-3	-11
EBIT	867	821	810	852	837	1,140	917	792	802	-4	1
Average tariff (INR/MT)	1,600	1,581	1,586	1,603	1,606	1,794	1,635	1,620	1,655	3	2
Opex	603	651	677	654	658	612	654	721	760	15	5
EBITDA	997	930	908	948	948	1,182	981	899	895	-6	0
Depreciation	149	151	142	148	154	145	148	165	147	-4	-11
EBIT	848	779	766	800	794	1,037	833	734	747	-6	2
Gas Trading Business											
Volumes (mmscmd)	96	98	97	95	101	93	90	96	99	-2	2
Revenues	1,42,883	1,78,765	2,20,918	2,30,694	3,46,047	3,54,654	3,36,600	3,15,604	2,83,817	-18	-10
EBIT	3,776	10,789	17,497	17,259	23,145	3,629	-860	4,874	10,136	-56	108
Revenues (INR/mscm)	16,364	19,884	24,868	27,070	37,710	41,657	40,702	35,564	31,555	-16	-11
EBIT (INR/mscm)	432	1,200	1,970	2,025	2,522	426	-104	549	1,127	-55	105
Petrochemicals Business											
Volumes ('000 MT)	138	221	217	216	109	108	65	118	162	49	37
Gross Revenues	13,623	22,834	24,005	25,023	14,558	13,515	7,505	13,595	17,036	17	25
Opex	11,073	18,014	19,105	19,993	12,868	15,615	9,605	16,165	18,766	46	16
EBITDA	2,550	4,820	4,900	5,030	1,690	-2,100	-2,100	-2,570	-1,730	PL	Loss
Depreciation	1,167	1,187	1,254	1,240	1,338	1,362	1,389	1,439	1,279	-4	-11
EBIT	1,383	3,633	3,646	3,790	352	-3,462	-3,489	-4,009	-3,009	PL	Loss
Realization (USD/MT)	1,320	1,372	1,431	1,539	1,728	1,568	1,405	1,400	1,272	-26	-9
Realization (INR/kg)	99	103	111	116	134	125	115	115	105	-21	-9
Opex (INR/kg)	80	82	88	93	118	145	148	137	116	-2	-15
EBITDA (INR/kg)	18	22	23	23	16	-19	-32	-22	-11	PL	Loss
Depreciation (INR/kg)	8	5	6	6	12	13	21	12	8	-36	-35
EBIT (INR/kg)	10	16	17	18	3	-32	-54	-34	-19	PL	Loss
LPG & Liquid Hydrocarbons Business											
Volumes ('000 MT)	250	262	275	217	220	231	248	230	247	12	7
Gross Revenues	10,151	11,113	15,328	12,060	14,554	13,939	13,549	13,658	13,190	-9	-3
Opex	3,611	4,083	6,578	4,530	7,924	8,699	13,609	12,198	10,940	38	-10
EBITDA	6,540	7,030	8,750	7,530	6,630	5,240	-60	1,460	2,250	-66	54
Depreciation	199	207	200	247	282	238	232	235	229	-19	-2
EBIT	6,341	6,823	8,550	7,283	6,349	5,002	-292	1,225	2,021	-68	65
EBIT (Post-Subsidy)	6,341	6,823	8,550	7,283	6,349	5,002	-292	1,225	2,021	-68	65
Realization (USD/MT)	543	563	721	738	856	756	665	722	646	-25	-11
Realization (INR/MT)	40,602	42,416	55,738	55,577	66,155	60,340	54,635	59,380	53,402	-19	-10
Opex (INR/MT)	14,442	15,584	23,920	20,876	36,019	37,656	54,877	53,033	44,292	23	-16
EBITDA (INR/MT)	26,160	26,832	31,818	34,700	30,136	22,684	-242	6,348	9,109	-70	44
Depreciation (INR/MT)	796	789	728	1,139	1,280	1,029	934	1,020	927	-28	-9
EBIT (INR/MT)	25,364	26,043	31,090	33,562	28,857	21,655	-1,176	5,327	8,182	-72	54
EBIT post Subsidy (INR/MT)	25,364	26,043	31,090	33,562	28,857	21,655	-1,176	5,327	8,182	-72	54

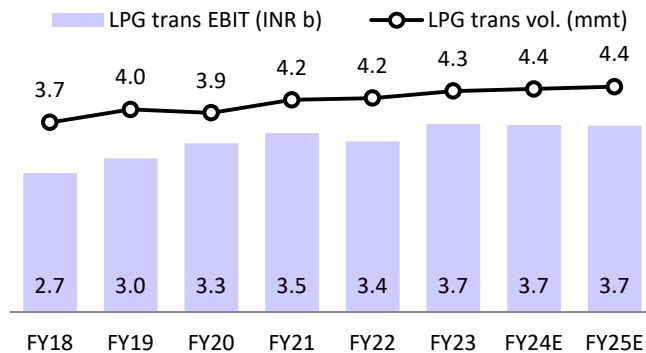
Story in charts

Exhibit 8: Transmission to be the major contributor to EBITDA


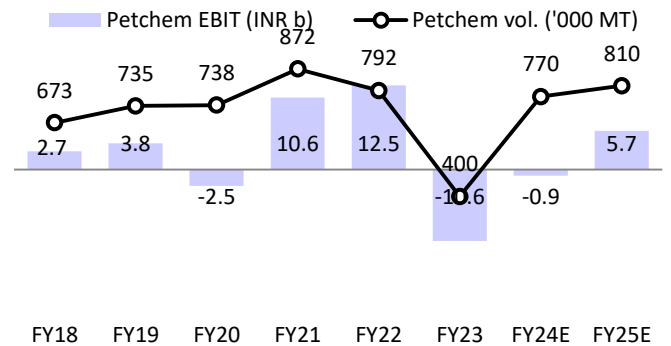
Source: Company, MOFSL

Exhibit 9: Expect gas transmission volumes to grow over FY24-25


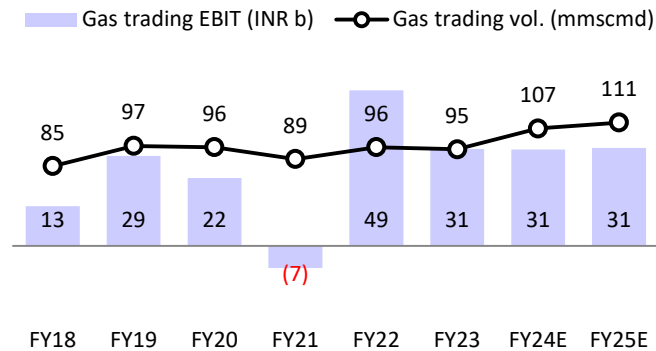
Source: Company, MOFSL

Exhibit 10: LPG transmission segment


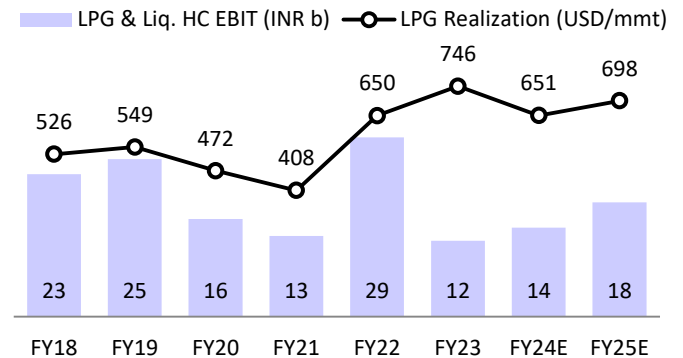
Source: Company, MOFSL

Exhibit 11: Expect petchem EBIT to improve over in FY25


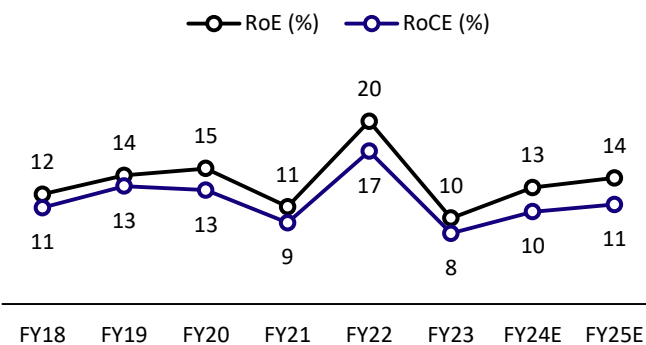
Source: Company, MOFSL

Exhibit 12: Gas trading segment


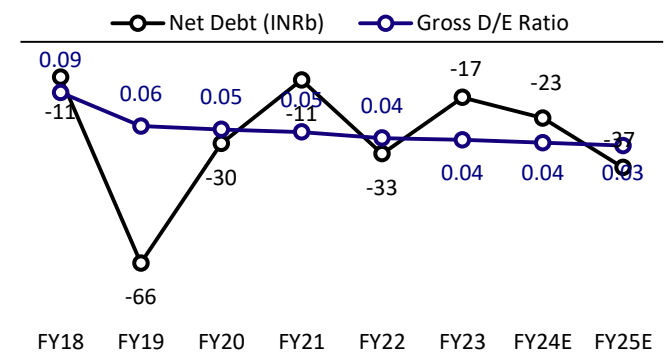
Source: Company, MOFSL

Exhibit 13: EBIT from LPG and Liquid HC


Source: Company, MOFSL

Exhibit 14: Expect return ratios to recover


Source: Company, MOFSL

Exhibit 15: Expect D/E ratio to decline


Source: Company, MOFSL

Financials and valuations

Income Statement							(INR b)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	538.3	751.3	718.8	567.4	916.5	1,443.0	1,366.3	1,419.8
Change (%)	10.4	39.6	-4.3	-21.1	61.5	57.5	-5.3	3.9
EBITDA	78.0	95.3	83.7	64.5	138.3	67.0	108.5	129.7
% of Net Sales	14.5	12.7	11.6	11.4	15.1	4.6	7.9	9.1
Depreciation	14.2	15.5	18.4	19.1	21.1	24.9	26.7	28.9
Interest	2.8	1.4	1.1	1.6	1.7	3.1	6.2	6.2
Other Income	9.9	15.7	14.2	20.0	20.5	26.8	25.0	25.0
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	65.8	100.6	119.6
Tax	23.4	30.6	13.2	15.0	32.3	12.8	25.3	30.1
Rate (%)	32.9	33.7	16.7	23.4	23.7	19.5	25.2	25.2
Reported PAT	47.8	60.3	66.2	48.9	103.6	53.0	75.3	89.5
Adjusted PAT	47.3	63.3	74.2	49.0	102.9	53.0	75.3	89.5
Change (%)	13.8	26.0	9.9	-26.1	111.9	-48.8	42.0	18.8

Balance Sheet							(INR b)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	22.6	22.6	45.1	44.4	44.4	65.8	65.8	65.8
Reserves	380.7	418.4	394.6	421.7	511.5	490.8	543.5	606.1
Net Worth	403.3	440.9	439.7	466.1	555.9	556.5	609.2	671.9
Loans	9.8	8.7	54.1	59.9	63.5	143.1	164.6	181.0
Deferred Tax	46.3	59.5	45.0	45.0	47.7	46.6	46.6	46.6
Capital Employed	459.4	509.1	538.8	571.0	667.1	746.3	820.4	899.5
Gross Fixed Assets	469.6	508.1	548.3	591.4	638.5	703.4	881.6	981.6
Less: Depreciation	181.7	197.2	215.6	234.7	255.8	280.7	307.4	336.3
Net Fixed Assets	287.9	310.9	332.7	356.7	382.7	422.7	574.2	645.3
Capital WIP	55.1	92.0	105.8	119.0	130.7	136.6	58.4	58.4
Investments	99.5	95.3	78.8	105.5	136.3	148.3	148.3	148.3
Current Assets								
Inventory	19.2	23.2	29.6	26.0	30.2	52.8	50.0	52.0
Debtors	40.5	50.7	55.8	44.9	83.7	114.1	108.0	112.3
Cash & Bank Balance	25.3	12.1	8.0	13.6	20.8	4.0	3.3	12.4
Cash	10.8	1.5	5.5	12.1	13.7	1.7	1.0	10.1
Bank Balance	14.5	10.6	2.6	1.5	7.2	2.3	2.3	2.3
Loans/Adv. & Other Assets	45.5	59.5	74.7	67.3	79.0	82.8	82.8	82.8
Current Liab. & Prov.								
Liabilities	99.4	120.4	133.7	148.5	181.2	198.1	187.6	194.9
Provisions	14.3	14.3	12.8	13.6	15.1	16.9	16.9	16.9
Net Current Assets	16.8	10.9	21.5	-10.2	17.3	38.7	39.6	47.5
Application of Funds	459.4	509.1	538.8	571.0	667.1	746.3	820.4	899.5

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	7.2	9.6	11.3	7.4	15.6	8.1	11.5	13.6
Cash EPS	9.4	11.5	12.9	10.3	19.0	11.8	15.5	18.0
Book Value	62.1	68.1	73.0	77.1	89.5	93.5	101.6	111.1
DPS	2.7	2.6	4.3	3.4	3.4	4.0	3.4	4.1
Payout (incl. dvd tax)	44.0	34.7	51.3	45.0	21.3	49.6	30.0	30.0
Valuation (x)								
P/E	16.6	12.4	10.6	16.1	7.6	14.8	10.4	8.8
Adj. P/E (for investments)	13.1	9.8	8.4	12.7	6.0	11.7	8.2	6.9
Cash P/E	12.7	10.4	9.3	11.6	6.3	10.1	7.7	6.6
EV / EBITDA	3.6	2.4	5.6	6.6	3.4	8.7	6.0	5.1
EV / Sales	0.6	0.4	0.8	1.0	0.6	0.6	0.6	0.6
Price / Book Value	1.9	1.8	1.6	1.6	1.3	1.3	1.2	1.1
Dividend Yield (%)	2.3	2.2	3.6	2.8	2.8	3.3	2.8	3.4
Profitability Ratios (%)								
RoE	12.2	14.3	15.0	10.8	20.3	9.5	12.9	14.0
RoCE	10.7	13.1	12.6	9.0	17.0	7.9	10.2	10.9
RoIC	14.3	18.0	16.6	10.2	25.1	8.1	11.5	11.7
Turnover Ratios								
Debtors (No. of Days)	27	25	28	29	33	29	29	29
Fixed Asset Turnover (x)	1.2	1.5	1.3	1.0	1.4	1.9	1.7	1.6
Leverage Ratio								
Net Debt / Equity (x)	0.0	0.0	0.1	0.1	0.1	0.2	0.3	0.3

Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR b)								
OP/(Loss) before Tax	69.6	90.8	79.4	63.9	135.9	65.8	100.6	119.6
Depreciation	14.2	15.5	18.4	19.1	21.1	24.9	26.7	28.9
Interest charge	2.8	1.4	1.1	1.6	1.7	3.1	6.2	6.2
Tax paid	-13.2	-20.8	-19.6	-12.8	-32.0	-15.2	-25.3	-30.1
(Inc)/Dec in Wkg. Capital	18.9	-3.3	3.1	22.2	-29.7	-30.9	-1.7	1.2
CF from Op. Activity	86.6	78.8	68.9	80.6	89.5	28.1	106.5	125.7
(Inc)/Dec in FA & CWIP	-29.4	-72.0	-54.3	-49.8	-59.2	-73.4	-100.0	-100.0
Free Cash Flow	57.2	6.7	14.5	30.9	30.4	-45.3	6.5	25.7
(Pur)/Sale of Investments	-8.0	-2.7	-6.2	-10.7	-4.6	-10.6	0.0	0.0
CF from Inv. Activity	-25.7	-54.4	-68.3	-38.6	-46.1	-65.5	-100.0	-100.0
Interest charge	-3.6	-1.4	-1.1	-3.2	-3.2	-5.8	-6.2	-6.2
Inc / (Dec) in Debt	-30.1	-11.3	45.2	4.6	3.6	79.6	21.5	16.5
Dividends Paid	-21.0	-20.9	-39.4	-22.4	-39.9	-30.7	-22.6	-26.8
CF from Fin. Activity	-54.7	-33.6	3.4	-35.4	-41.8	25.5	-7.3	-16.6
Inc / (Dec) in Cash	6.2	-9.3	4.0	6.6	1.6	-11.9	-0.8	9.1
Add: Opening Balance	4.5	10.8	1.5	5.5	12.1	13.7	1.7	1.0
Closing Balance	10.8	1.5	5.5	12.1	13.7	1.7	1.0	10.1

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NOTES

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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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