# GAIL (India)

## Earnings supported by transmission segment

**BUY**

| | |
|---|---|
| **CMP** *(as on 31 Jul 2023)* | **INR 119** |
| **Target Price** | **INR 137** |
| **NIFTY** | **19,754** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 125 | INR 137 |
| EPS change | **FY24E** | **FY25E** |
| | -2.0% | +8.7% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | GAIL IN |
| No. of Shares (mn) | 6,575 |
| MCap (INR bn) / ($ mn) | 783/9,575 |
| 6m avg traded value (INR mn) | 1,479 |
| 52 Week high / low | INR 123/83 |

**STOCK PERFORMANCE (%)**

| | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 11.0 | 25.2 | 21.9 |
| Relative (%) | 2.1 | 13.5 | 6.3 |

**SHAREHOLDING PATTERN (%)**

| | **Mar-23** | **Jun-23** |
|---|---|---|
| Promoters | 51.91 | 51.91 |
| FIs & Local MFs | 25.86 | 25.99 |
| FPIs | 16.41 | 16.09 |
| Public & Others | 5.83 | 6.01 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

**Our BUY recommendation on GAIL with a target price of INR 137 is based on (1) an increase in gas transmission volume to 127mmscmd by FY25 on the back of an increase in domestic gas production, (2) completion of major pipelines in eastern and southern India, and (3) expectation of improvement in earnings from the petchem segment. Q1FY24 reported EBITDA/PAT at INR 24/14bn, came in below our estimates, impacted by weak earnings from the LPG and Liquid Hydro Carbon (LHC) segment. However, sharp pick-up in natural gas transmission volumes, higher tariff and higher gas marketing volumes supported earnings. Other income came in higher at INR 2.7bn, however was partially offset by higher interest cost of INR 1.8bn (+3.6x YoY, +95% QoQ).**

- **NG marketing:** Q1 marketing volume stood at 98.8mmscmd (-2% YoY, +2% QoQ) and trading margin stood at INR 1.2/tscm (-53% YoY, +85% QoQ). The operating profit came in well above our estimate at INR 11bn, down -54% YoY, however increased 92% QoQ, supported by strong volumes and margins.
- **Petchem:** Revenue was reported at INR 17bn (+17% YoY, +25% QoQ), with improvement in sales volume at 162kT, (+49% YoY, +37% QoQ). Petchem production improved to 164kT (+24% YoY), implying capacity utilisation of 74% owing to a decline in spot LNG prices and allocation of HPHT gas. Revenue improved, owing to improvement in production; however, the realisation of INR 105/kg (-9% QoQ) remained muted, resulting in an operating loss of INR 1.7bn.
- **NG transmission:** Transmission segment volumes at 116.3mmscmd (+6% YoY, +7% QoQ) and transmission tariffs at INR 2,450/tscm (+47% YoY, +45% QoQ), came in above our estimates. EBITDA came in at INR 14bn (+24% YoY, +4.6x QoQ), supported by higher tariff and increase in transmission volume.
- **LPG & Liquid Hydro Carbon:** LPG & LHC segment reported EBITDA at INR 2bn (-66% YoY), came in below our estimates, largely impacted by lower realisations of INR 53.4/kg (-19% YoY, -10% QoQ) and higher costs.
- **Key takeaways**: (1) The company has incurred a Capex of INR ~24bn in Q1FY24; it aims to incur a Capex of ~INR 100bn in FY24. (2) Management has guided gas transmission volume to improve to 123mmscmd by end of FY24. (3) In Q1, transmission pipeline capacity increased to 56% driven by increase in RLNG sales. (4) Management highlighted that petrochemical prices have remained weak which has impacted their profitability; going forward expect the losses to reduce as gas cost reduces H2FY24 onwards. (5) The company has guided that the break-water facility at Dabhol terminal will be available from next year.
- **Change in estimates:** We revise our consolidated FY24/25E EPS by -2/+8.7% to INR 12.5/14.2 to factor the Q1 performance, offset by higher natural gas transmission volumes, tariffs and marketing volumes. We roll forward our target price to Sep-24E, delivering a revised target price of INR 137/sh.
- **Our SOTP, at INR 137/sh, is based on 8x Sep-24E EV/e for the natural gas, LPG transmission and gas marketing business, 5x EV/e for the petchem and LPG/LHC business, INR 46 for investments. The stock is currently trading at 8.9x Sep-24E EPS.**

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**Disclosure:**
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