

# GAIL (India)

BSE SENSEX  
74,119

S&P CNX  
22,494



## Stock Info

Bloomberg	GAIL IN
Equity Shares (m)	6575
M.Cap.(INRb)/(USDb)	1239.7 / 15
52-Week Range (INR)	196 / 102
1, 6, 12 Rel. Per (%)	3/36/46
12M Avg Val (INR M)	2551
Free float (%)	48.5

## Financials Snapshot (INR b)

Y/E March	FY24E	FY25E	FY26E
Sales	1,331.4	1,438.6	1,535.7
EBITDA	122.3	128.3	157.5
Adj. PAT	85.1	88.7	109.9
Adj. EPS (INR)	12.9	13.5	16.7
EPS Gr. (%)	60.5	4.3	23.9
BV/Sh.(INR)	102.6	112.0	123.7

## Ratios

Net D:E	0.2	0.2	0.2
RoE (%)	14.5	13.7	15.3
RoCE (%)	11.4	10.7	11.8
Payout (%)	30.0	30.0	30.0

## Valuations

P/E (x)	14.6	14.0	11.3
P/BV (x)	1.8	1.7	1.5
EV/EBITDA (x)	8.5	8.0	6.5
Div. Yield (%)	2.1	2.1	2.6
FCF Yield (%)	1.4	2.2	4.0

## Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	51.5	51.5	51.5
DII	27.1	26.8	23.7
FII	14.9	15.4	18.7
Others	6.5	6.0	6.1

FII Includes depository receipts

**CMP: INR189**

**TP: INR215 (+15%)**

**Buy**

## Decarbonization, widening gas penetration remain focus areas

- We visited the Vijaipur plant of GAIL (I) and were joined by senior management from the company, including Shri R K Jain, Director Finance.
- The management highlighted two futuristic projects, which form the cornerstone of the net zero and gas penetration strategies; (a) the first entails a 4.3tpd green hydrogen project, key to achieving decarbonization objectives and marking a significant milestone in the company's pursuit of a long-term target of 20% hydrogen blending in natural gas, (b) GAIL (I) also highlighted the small scale LNG project (SSLNG), which the management believes would be instrumental in improving LNG availability in underpenetrated areas.
- We remain positive on GAIL (I) as the capex cycle unwinds. The company has continued to explore new avenues for investments such as green hydrogen, SSLNG, and even [coal to gas/chemicals](#). At ~11x FY26 P/E and the current dividend yield of ~2%, we believe valuations remain reasonable. We retain a BUY rating on the stock.

## New projects underway

- The management highlighted that it is working on new projects that encompass various initiatives, such as a Green hydrogen plant with a capacity of 4.3tpd, Solar plants totaling 20MW in capacity, and a Small Scale Liquefied Natural Gas (SSLNG) facility with a capacity of 36tpd.
- Hydrogen blending has commenced at a 2% rate in the CGD network at Indore. A green hydrogen initiative with an investment of INR2.3b is currently being implemented and entails, the country's largest Proton Exchange Membrane (PEM)-based capable of producing 180kgs of hydrogen/hour.
- The management has planned for a 20% hydrogen blending, along with the sourcing of green power and the installation of solar panels. Additionally, there's a plan to use an electric turbine instead of a gas turbine.
- The SSLNG project is currently in its pilot phase, but has the potential for scaling up, with the possibility of establishing more plants in the future. This technology proves particularly beneficial in areas lacking a PNG network. Additionally, efforts are underway to develop LNG fuel dispensing stations.
- The green hydrogen project is slated for commissioning in May'24 while the SSLNG project entailing a capex of INR1.5b was recently inaugurated by Mr. Hardeep Singh Puri, Union Minister for Petroleum and Natural Gas.

## Other highlights

- The management is exploring import of ethane for the Pata plant. This potential import would utilize Very Large Ethane Carriers (VLEC) initially, followed by pipeline transportation. However, the plan is still in the preliminary stages, and decisions will be made based on the most favorable commercial terms. Evaluation involves considering import options at Dahej or alternative locations.

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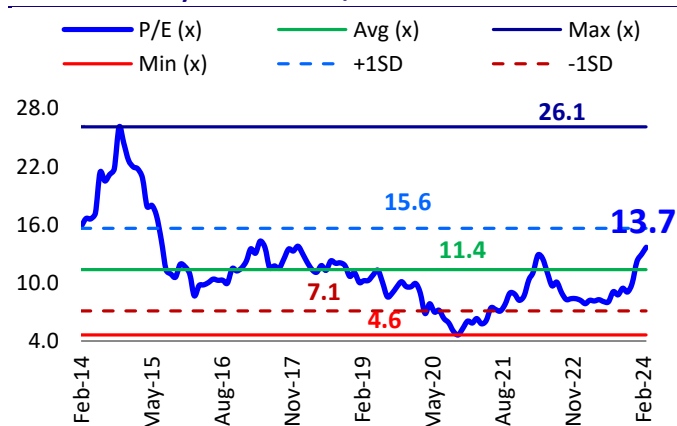
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- Incidentally, GAIL (I), ONGC and Shell Energy India (SEI) on Thursday [signed a tripartite MoU](#) to explore opportunities for import of ethane and other hydrocarbons and development of evacuation infrastructure at Shell Energy Terminal, Hazira. The three companies have joined hands in view of the emergence of ethane requirement in India and proposed development of ethane infrastructure.
- GAIL holds a significant 74% share in natural gas transmission across the country, with Vijaipur contributing 60% to GAIL's transmission network. The Vijaipur-Auraiya pipeline was inaugurated in Oct'23. The completion of the Kochi-Bangalore pipeline is expected within 18 months. The Dabhol breakwater facility is expected to be completed in 1HFY25.
- The LPG plant at Vijaipur was initially established in CY91, with expansions in both CY92 and CY93. The Vijaipur Dadri pipeline (VDPL) project pipeline was commissioned in CY10. Presently, the total LPG processing capacity at Vijaipur stands at 15mmscmd.

### Valuation and View

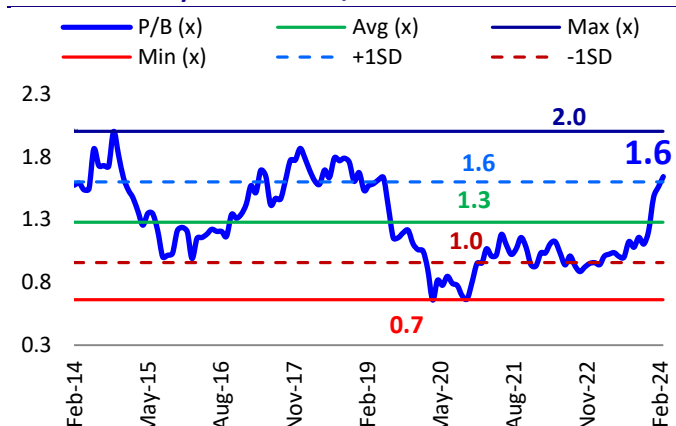
- During FY24-26E, we are modeling EBITDA to report a 14% CAGR, driven by: (1) rising natural gas transmission volumes to 141mmscmd in FY26 from 121mmscmd in FY24; (2) substantial improvement in the profitability of the petchem segment over 2HFY25-FY26, attributable to the commencement of operations of new petchem capacity and heightened demand driven by low global inventories and; (3) the commencement of operations for 3,892km of gas transmission pipelines and 560ktpa of petchem capacity.
- We remain positive on GAIL ([our top pick in CY24](#)), valuing the core business at 12x FY26E adjusted EPS of INR15.1. Adding the value of listed and unlisted investments of INR34, we arrive at our revised TP of INR215. Our TP implies FY26E P/B of 1.7x. The stock is currently trading at an FY26E P/B of 1.5x. Reiterate BUY.

Exhibit 1: One year forward P/E



Source: Company, MOFSL

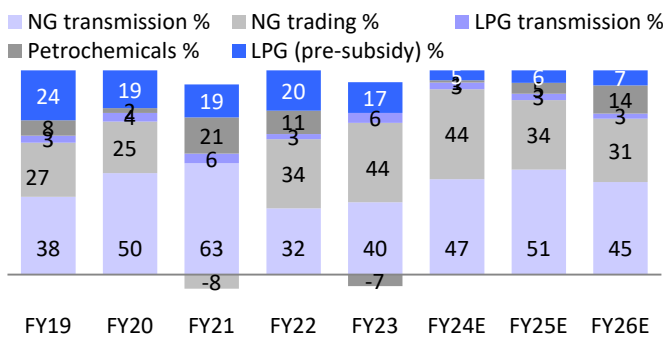
Exhibit 2: One year forward P/B



Source: Company, MOFSL

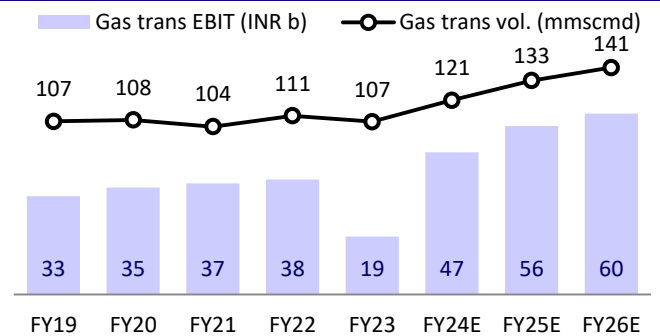
## Story in charts

**Exhibit 3: Transmission to remain major contributor to EBITDA**



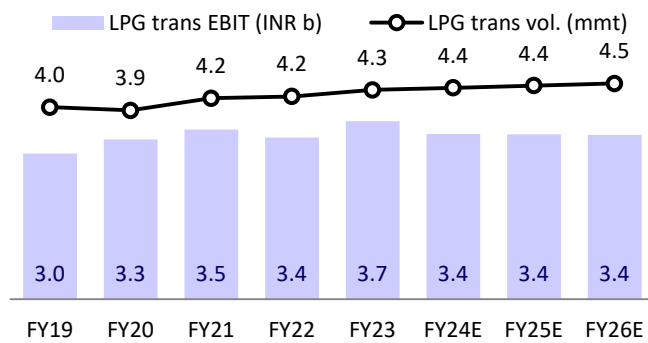
Source: Company, MOFSL

**Exhibit 4: Expect transmission volumes to grow over FY24-26**



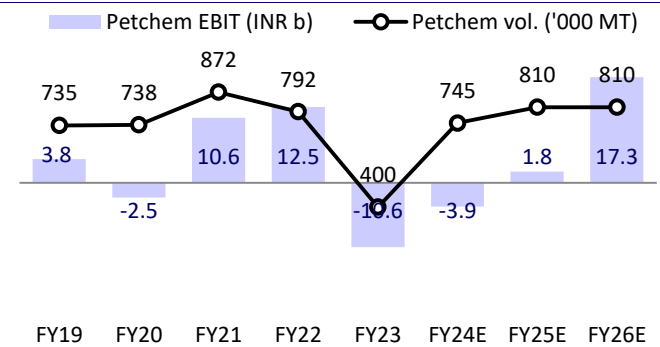
Source: Company, MOFSL

**Exhibit 5: LPG transmission segment EBIT to remain steady**



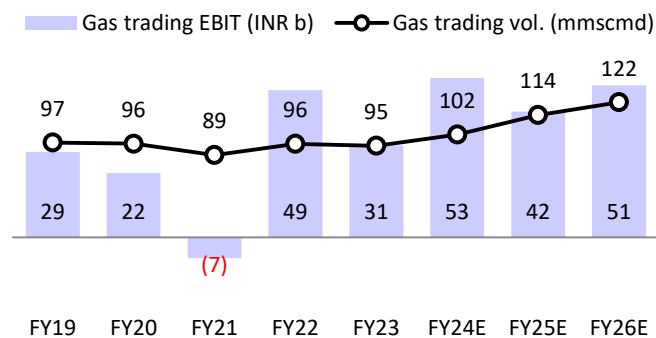
Source: Company, MOFSL

**Exhibit 6: Expect Petchem segment to turn EBIT positive by FY25**



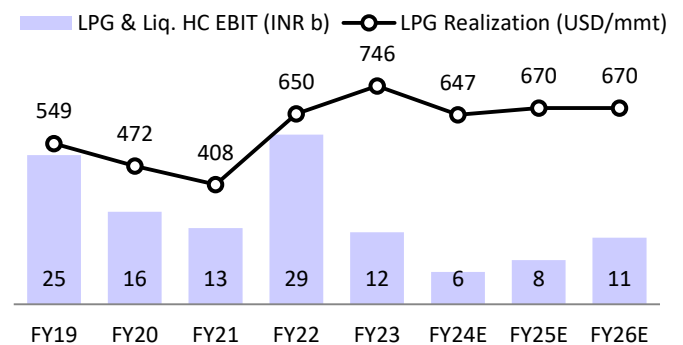
Source: Company, MOFSL

**Exhibit 7: Gas trading volumes set to increase**



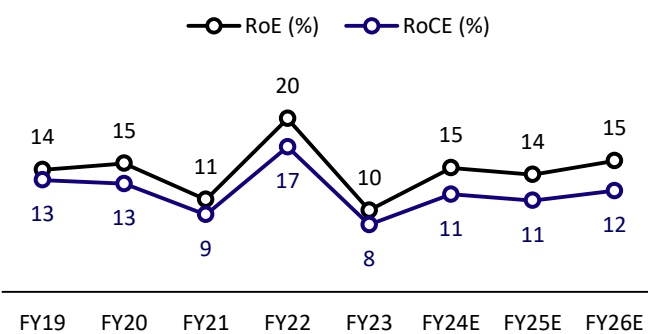
Source: Company, MOFSL

**Exhibit 8: LPG & Liq. HC EBIT snapshot**



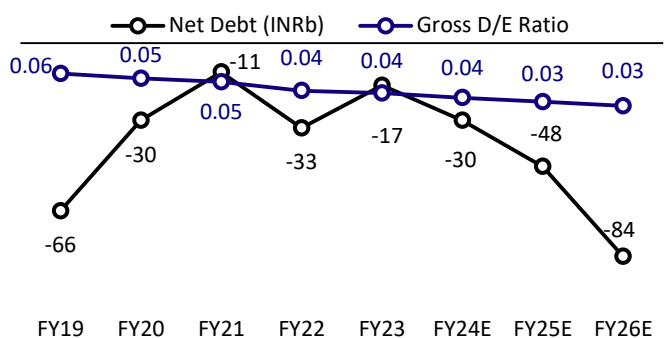
Source: Company, MOFSL

**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	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>751.3</b>	<b>718.8</b>	<b>567.4</b>	<b>916.5</b>	<b>1,443.0</b>	<b>1,331.4</b>	<b>1,438.6</b>	<b>1,535.7</b>
Change (%)	39.6	-4.3	-21.1	61.5	57.5	-7.7	8.0	6.7
<b>EBITDA</b>	<b>95.3</b>	<b>83.7</b>	<b>64.5</b>	<b>138.3</b>	<b>67.0</b>	<b>122.3</b>	<b>128.3</b>	<b>157.5</b>
% of Net Sales	12.7	11.6	11.4	15.1	4.6	9.2	8.9	10.3
Depreciation	15.5	18.4	19.1	21.1	24.9	28.4	30.1	31.9
Interest	1.4	1.1	1.6	1.7	3.1	6.2	6.3	6.4
Other Income	15.7	14.2	20.0	20.5	26.8	25.0	25.7	26.5
EO Items (net)	-3.3	1.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>90.8</b>	<b>79.4</b>	<b>63.9</b>	<b>135.9</b>	<b>65.8</b>	<b>112.7</b>	<b>117.6</b>	<b>145.7</b>
Tax	30.6	13.2	15.0	32.3	12.8	27.7	28.9	35.8
Rate (%)	33.7	16.7	23.4	23.7	19.5	24.6	24.6	24.6
<b>Reported PAT</b>	<b>60.3</b>	<b>66.2</b>	<b>48.9</b>	<b>103.6</b>	<b>53.0</b>	<b>85.1</b>	<b>88.7</b>	<b>109.9</b>
<b>Adjusted PAT</b>	<b>63.3</b>	<b>74.2</b>	<b>49.0</b>	<b>102.9</b>	<b>53.0</b>	<b>85.1</b>	<b>88.7</b>	<b>109.9</b>
Change (%)	26.0	9.9	-26.1	111.9	-48.8	60.5	4.3	23.9

Balance Sheet								(INR b)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	22.6	45.1	44.4	44.4	65.8	65.8	65.8	65.8
Reserves	418.4	394.6	421.7	511.5	490.8	550.3	612.4	689.4
<b>Net Worth</b>	<b>440.9</b>	<b>439.7</b>	<b>466.1</b>	<b>555.9</b>	<b>556.5</b>	<b>616.1</b>	<b>678.2</b>	<b>755.1</b>
Loans	8.7	54.1	59.9	63.5	143.1	164.6	197.5	217.2
Deferred Tax	59.5	45.0	45.0	47.7	46.6	46.6	46.6	46.6
<b>Capital Employed</b>	<b>509.1</b>	<b>538.8</b>	<b>571.0</b>	<b>667.1</b>	<b>746.3</b>	<b>827.3</b>	<b>922.3</b>	<b>1,019.0</b>
Gross Fixed Assets	508.1	548.3	591.4	638.5	703.4	881.6	981.6	1,081.6
Less: Depreciation	197.2	215.6	234.7	255.8	280.7	309.1	339.1	371.0
<b>Net Fixed Assets</b>	<b>310.9</b>	<b>332.7</b>	<b>356.7</b>	<b>382.7</b>	<b>422.7</b>	<b>572.5</b>	<b>642.4</b>	<b>710.5</b>
Capital WIP	92.0	105.8	119.0	130.7	136.6	58.4	58.4	58.4
Investments	95.3	78.8	105.5	136.3	148.3	148.3	148.3	148.3
<b>Current Assets</b>								
Inventory	23.2	29.6	26.0	30.2	52.8	48.7	52.7	56.2
Debtors	50.7	55.8	44.9	83.7	114.1	105.3	113.8	121.4
Cash & Bank Balance	12.1	8.0	13.6	20.8	4.0	11.0	38.4	69.1
Cash	1.5	5.5	12.1	13.7	1.7	8.7	36.1	66.8
Bank Balance	10.6	2.6	1.5	7.2	2.3	2.3	2.3	2.3
Loans/Adv. & Other Assets	59.5	74.7	67.3	79.0	82.8	82.8	82.8	82.8
<b>Current Liab. &amp; Prov.</b>								
Liabilities	120.4	133.7	148.5	181.2	198.1	182.8	197.5	210.9
Provisions	14.3	12.8	13.6	15.1	16.9	16.9	16.9	16.9
<b>Net Current Assets</b>	<b>10.9</b>	<b>21.5</b>	<b>-10.2</b>	<b>17.3</b>	<b>38.7</b>	<b>48.1</b>	<b>73.2</b>	<b>101.7</b>
<b>Application of Funds</b>	<b>509.1</b>	<b>538.8</b>	<b>571.0</b>	<b>667.1</b>	<b>746.3</b>	<b>827.3</b>	<b>922.3</b>	<b>1,019.0</b>

## Financials and Valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>9.6</b>	<b>11.3</b>	<b>7.4</b>	<b>15.6</b>	<b>8.1</b>	<b>12.9</b>	<b>13.5</b>	<b>16.7</b>
Cash EPS	11.5	12.9	10.3	19.0	11.8	17.3	18.1	21.6
Book Value	68.1	73.0	77.1	89.5	93.5	102.6	112.0	123.7
DPS	2.6	4.3	3.4	3.4	4.0	3.9	4.0	5.0
Payout (incl. div. tax)	34.7	51.3	45.0	21.3	49.6	30.0	30.0	30.0
<b>Valuation (x)</b>								
P/E	19.7	16.8	25.4	12.1	23.5	14.6	14.0	11.3
Adj. P/E (for investments)	16.1	13.7	20.8	9.9	19.2	12.0	11.5	9.3
Cash P/E	16.4	14.7	18.3	10.0	16.0	11.0	10.5	8.8
EV / EBITDA	3.8	8.9	10.3	5.4	13.5	8.5	8.0	6.5
EV / Sales	0.6	1.2	1.5	0.9	0.9	0.9	0.9	0.8
Price / Book Value	2.8	2.6	2.5	2.1	2.0	1.8	1.7	1.5
Dividend Yield (%)	1.4	2.3	1.8	1.8	2.1	2.1	2.1	2.6
<b>Profitability Ratios (%)</b>								
RoE	14.3	15.0	10.8	20.3	9.5	14.5	13.7	15.3
RoCE	13.1	12.6	9.0	17.0	7.9	11.4	10.7	11.8
RoIC	18.0	16.6	10.2	25.1	8.1	13.3	11.5	13.3
<b>Turnover Ratios</b>								
Debtors (No. of Days)	25	28	29	33	29	29	29	29
Fixed Asset Turnover (x)	1.5	1.3	1.0	1.4	1.9	1.6	1.6	1.5
<b>Leverage Ratio</b>								
Net Debt / Equity (x)	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2

### Cash Flow Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY22	FY24E	FY25E	FY26E
OP/(Loss) before Tax	90.8	79.4	63.9	135.9	65.8	112.7	117.6	145.7
Depreciation	15.5	18.4	19.1	21.1	24.9	28.4	30.1	31.9
Interest charge	1.4	1.1	1.6	1.7	3.1	6.2	6.3	6.4
Tax paid	-20.8	-19.6	-12.8	-32.0	-15.2	-27.7	-28.9	-35.8
(Inc)/Dec in Wkg. Capital	-3.3	3.1	22.2	-29.7	-30.9	-2.4	2.3	2.1
<b>CF from Op. Activity</b>	<b>78.8</b>	<b>68.9</b>	<b>80.6</b>	<b>89.5</b>	<b>28.1</b>	<b>117.2</b>	<b>127.5</b>	<b>150.3</b>
(Inc)/Dec in FA & CWIP	-72.0	-54.3	-49.8	-59.2	-73.4	-100.0	-100.0	-100.0
<b>Free Cash Flow</b>	<b>6.7</b>	<b>14.5</b>	<b>30.9</b>	<b>30.4</b>	<b>-45.3</b>	<b>17.2</b>	<b>27.5</b>	<b>50.3</b>
(Pur)/Sale of Investments	-2.7	-6.2	-10.7	-4.6	-10.6	0.0	0.0	0.0
<b>CF from Inv. Activity</b>	<b>-54.4</b>	<b>-68.3</b>	<b>-38.6</b>	<b>-46.1</b>	<b>-65.5</b>	<b>-100.0</b>	<b>-100.0</b>	<b>-100.0</b>
Interest charge	-1.4	-1.1	-3.2	-3.2	-5.8	-6.2	-6.3	-6.4
Inc / (Dec) in Debt	-11.3	45.2	4.6	3.6	79.6	21.5	32.9	19.7
Dividends Paid	-20.9	-39.4	-22.4	-39.9	-30.7	-25.5	-26.6	-33.0
<b>CF from Fin. Activity</b>	<b>-33.6</b>	<b>3.4</b>	<b>-35.4</b>	<b>-41.8</b>	<b>25.5</b>	<b>-10.2</b>	<b>0.0</b>	<b>-19.7</b>
<b>Inc / (Dec) in Cash</b>	<b>-9.3</b>	<b>4.0</b>	<b>6.6</b>	<b>1.6</b>	<b>-11.9</b>	<b>7.0</b>	<b>27.4</b>	<b>30.7</b>
Add: Opening Balance	10.8	1.5	5.5	12.1	13.7	1.7	8.7	36.1
<b>Closing Balance</b>	<b>1.5</b>	<b>5.5</b>	<b>12.1</b>	<b>13.7</b>	<b>1.7</b>	<b>8.7</b>	<b>36.1</b>	<b>66.8</b>

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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