

12 March 2024

India | Equity Research | Company Update

## Gail India

Oil &amp; Gas

### Visit to Vijaipur Gas processing hub – Prospects continue to improve

We visited GAIL's Vijaipur gas processing hub and interacted with senior management during 6-7<sup>th</sup> Mar'24. Our impression of touring the facilities and the interaction with management were broadly positive. GAIL maintains a largest gas operation at this facility – has three major incoming pipelines and eight major offtake pipelines connected to it, flowing an aggregate of ~75mmscmd of gas through the hub. Separately, a C2-C3 extraction plant processes ~17-18mmscmd of gas for inputs to produce LPG at the Pata plant. GAIL is also setting up to foray into Green Hydrogen (10MW pilot) and small-scale LNG (SSLNG, pilot project of 36mt/d), which they aim to scale post proving commerciality.

### GAIL largest Gas hub, functioning flawlessly for >3 decades

Since the inception of the first leg of the Hazira-Vijaipur pipeline in 1988, to the subsequent expansions via the Dahej-Vijaipur pipeline (I & II), Vijaipur has been a pivotal gas transmission hub in India for >30 years. It is responsible for transporting ~35% of the gas consumed in the country. Capacity available at the hub is more than 110mmscmd, but volume flowing is less due to lower gas availability – higher LNG capacity at Dahej, post the breakwater should boost volumes materially at the hub over the next few years.

### Rich gas availability has been a constraint in recent years

Due largely to a lack of adequate domestic gas supplies, GAIL has seen its C2-C3 extraction plant at Vijaipur and LPG production at the Pata plant slip steadily over the last few years. VAP production is currently at ~290 ktpa at Vijaipur, LPG production overall has thinned to ~690ktpa in recent years – GAIL is trying to extract C2-C3 from any rich source of LNG that the company can get its hands on, but supply of such sources is intermittent at best.

### Forays into Green Hydrogen (GH2) and small-scale LNG

GAIL is setting up a 10MW GH2 facility, based on renewable power – includes ~20MW solar capacity on site and balance to be bought off the grid. Once commerciality is proven, they will scale up in the segment in line with its 'net zero' goal. Further, to connect areas devoid of gas pipelines, GAIL is working on a small-scale LNG project (capacity of 36t/d) that would source gas from hubs to non-network areas.

### Financial Summary

Y/E March (INR mn)	FY24E	FY25E	FY26E	FY27E
Net Revenue	10,31,660	11,40,148	11,89,953	12,06,324
EBITDA	1,25,053	1,46,200	1,57,355	1,72,100
EBITDA %	12.1	12.8	13.2	14.3
Net Profit	1,01,755	1,19,084	1,28,254	1,40,736
EPS (INR)	15.5	18.1	19.5	21.4
EPS % Chg YoY	76.9	17.0	7.7	9.7
P/E (x)	11.8	10.1	9.4	8.6
EV/EBITDA (x)	10.5	8.7	7.8	6.7
RoCE (Pre-tax) (%)	11.6	13.2	13.3	13.6
RoE (%)	14.9	15.7	15.2	15.1

#### Probal Sen

probal.sen@icicisecurities.com  
+91 22 6807 7274

#### Hardik Solanki

solanki.hardik@icicisecurities.com

#### Market Data

Market Cap (INR)	1,205bn
Market Cap (USD)	14,564mn
Bloomberg Code	GAIL IN
Reuters Code	GAIL.BO
52-week Range (INR)	196 /102
Free Float (%)	41.0
ADTV-3M (mn) (USD)	56.8

Price Performance (%)	3m	6m	12m
Absolute	29.9	42.6	65.0
Relative to Sensex	24.7	32.2	43.2

Earnings Revisions (%)	FY24E	FY25E	FY26E
Revenue	0.1%	0.7%	0.5%
EBITDA	1.1%	5.3%	3.9%
EPS	1.1%	4.7%	3.0%

#### Previous Reports

30-01-2024: [Q3FY24 results review](#)

01-11-2023: [Q2FY24 results review](#)

## Growth prospects continue to strengthen

Key points: 1) Nearly 15-18mmscmd of volume addition over FY24-26E. 2) Stronger tariffs. 3) More predictable trading earnings trajectory. 4) Higher volumes prospect from Dabhol LNG (breakwater facility to be ready by FY26E). 5) Stronger utilisation of petrochemical segment. 6) Improving LPG pricing and softer input costs for both petchem and LPG segment imply that consolidated EBITDA will grow at a solid CAGR of 11-12% over FY24-27E, underpinning our positive stance.

## Reiterate BUY: Attractive valuation; steady earnings momentum

We introduce our FY27 EPS estimates of INR 21.4/share with this note and roll over our target price to FY27E EV/EBITDA multiples as well. We factor in higher margins for the trading segment for FY25/26E versus our earlier estimates, with small upgrades to transmission and trading volumes complimenting the same. Valuations of 8.6x FY27E EPS and 6.7x FY27E EV/EBITDA are attractive and we expect continued earnings upgrades and multiple re-ratings over the next 12 months. We reiterate **BUY**.

## Key downside risks

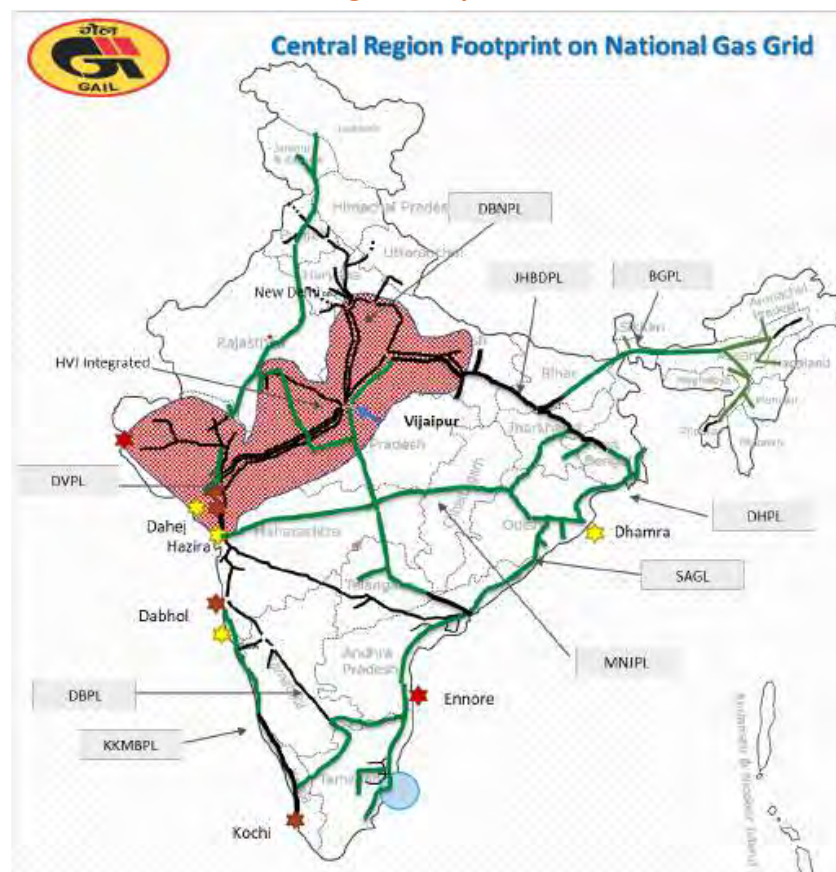
1) Sharply lower gas consumption trends. 2) Higher gas price impact on petchem/LPG segment. 3) Reduction in pricing gap between US LNG and Asian spot LNG prices.

## Exhibit 1: GAIL Vijaipur hub footprint is wide and extensive

Description	Nos.	Remarks
HVJ pipeline system	6,195km	HVJ Integrated Networks - recently commissioned VAPL-36"x352km
Regional pipeline	693km	Regional pipeline network, Vadodara
<b>Total</b>	<b>6,888km</b>	<b>HVJ &amp; Regional Combined</b>
Compressor stations	8.	Hazira, Vaghodia, Jhabua, Khera, Vijaypur, Dibiyapur, Kallaras, Chhainsa
Other work centres/ Maintenance bases	13	-Vadodara, Dahej, Undera, Bharuch, Pithampur -Gadepan, Kota & Chitorgarh, Agra, Firozabad, Malanpur, Jhansi
Major gas sources	~82mmscmd	ONGC Hazira: 25mmscmd PLL Dahej: 45mmscmd PIL Ankot: 3mmscmd Shell Hazira: 4mmscmd CBM Shadol: 0.5mmscmd ONGC Ankleshwar/Gandhar, and other regional sources: 4mmscmd
Major customers	36mmscmd	KRIBHCO-Hazira, NFL Vijaypur, CFCL, DCM, YARA, INDORAMA, IFFCO, KRIBHCO Shyam Fertilizer Ltd., Kanpur Fertilizer and Cement Ltd., IOCL, OPAL, GSFC, GNFC
Gas processing plants	3 GPU 1C2C3	-2 nos. LPG plants at Vijaypur: 15mmscmd -1 nos. LPG plants at Vaghodia: 2.5mmscmd -1 nos. C2C3 recovery at Vijaipur: 22.6mmscmd
Recent CGD connectivity (including in-progress)	34	Rajasthan, Madhya Pradesh and Uttar Pradesh Entities – IOCL, Torrent, Adani, CUGL, GAIL gas, AGL, IOAGL, Think Gas, HPCL, RSGL

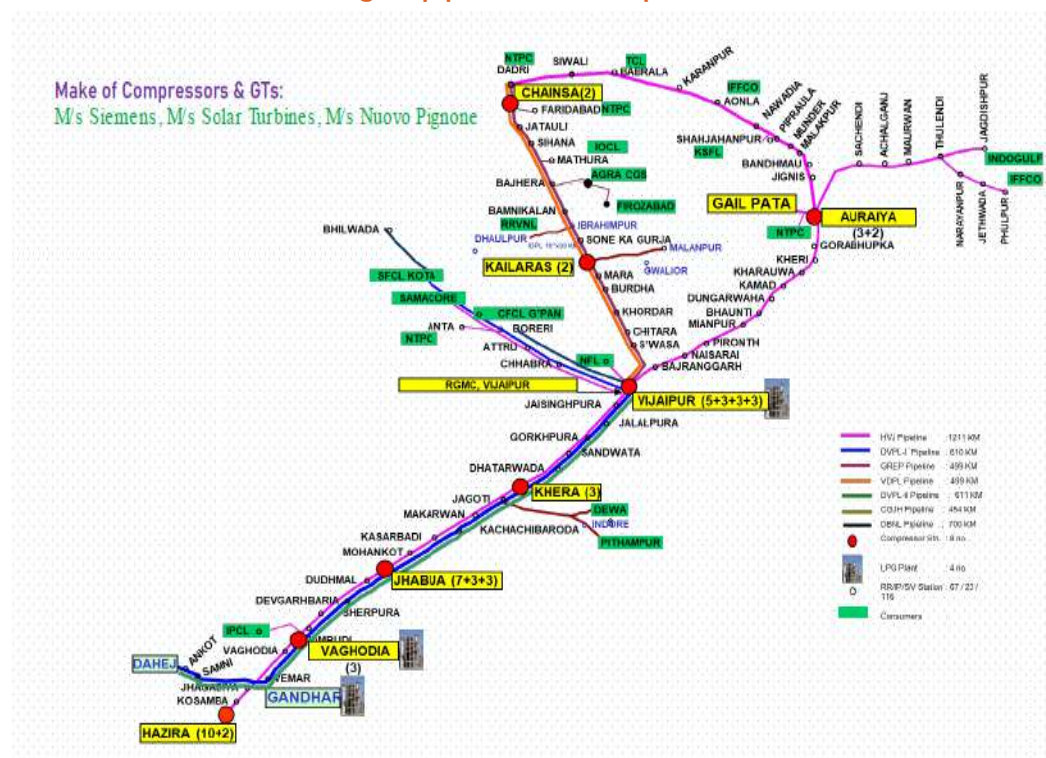
Source: Company data, I-Sec research

Exhibit 2: GAIL – central region footprint on National Gas Grid



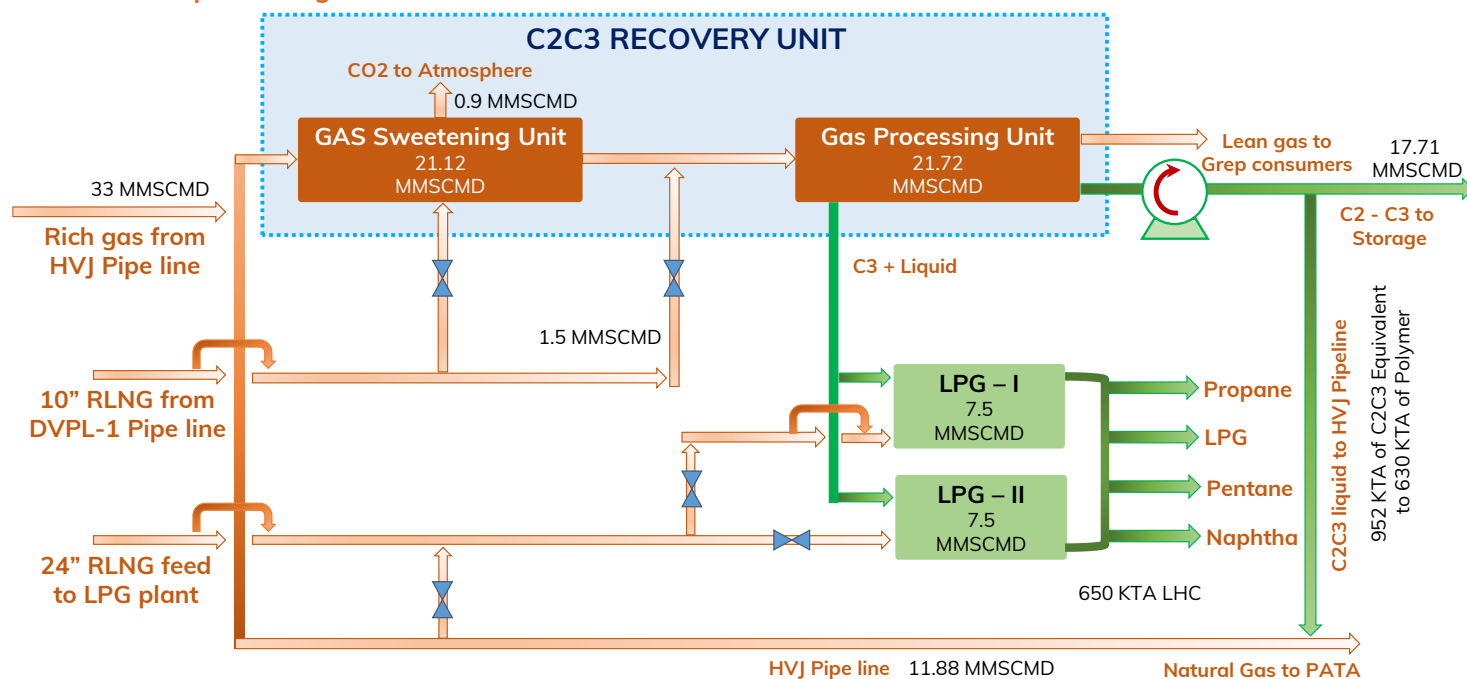
Source: Company data, I-Sec research

Exhibit 3: GAIL's Central Region pipeline route map

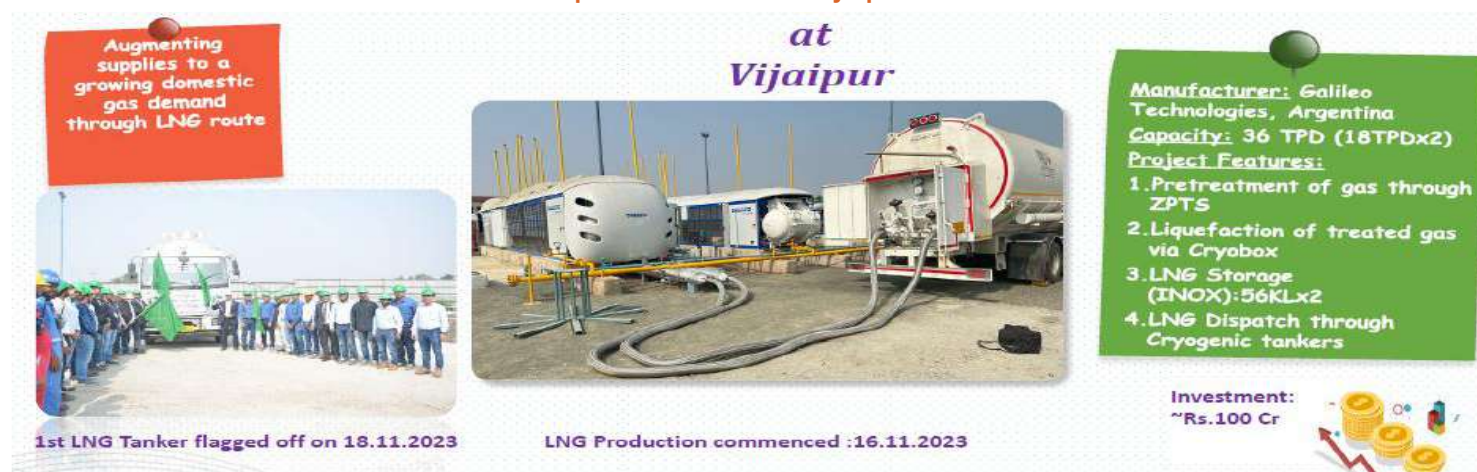


Source: Company data, I-Sec research



**Exhibit 4: Gas processing unit schematic**

Source: Company data, I-Sec research

**Exhibit 5: Commissioned India's first SSLNG production unit at Vijaipur**

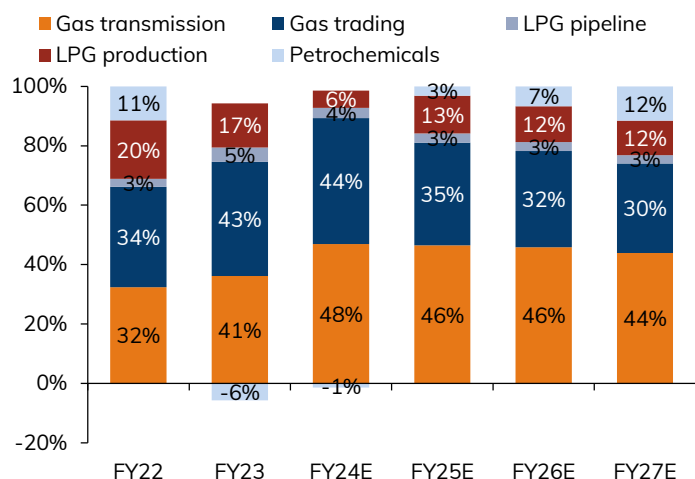
Source: Company data, I-Sec research

**Exhibit 6: India's largest Green Hydrogen plant project – in-progress with 4.3TPD capacity**

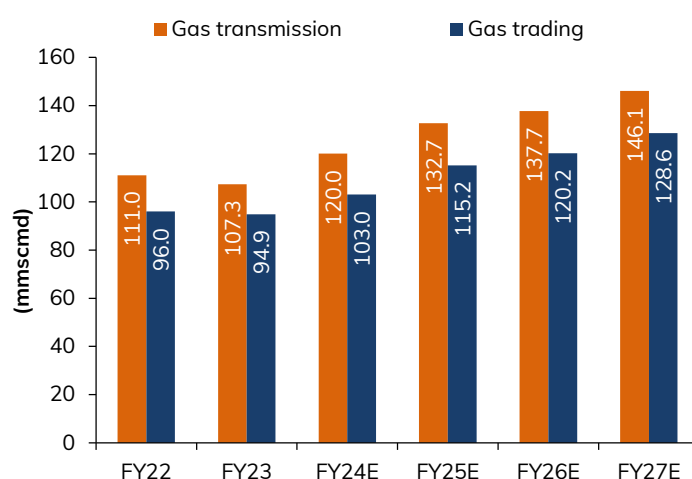
Source: Company data, I-Sec research

**Exhibit 7: At nascent stage of developing floating solar power plant**

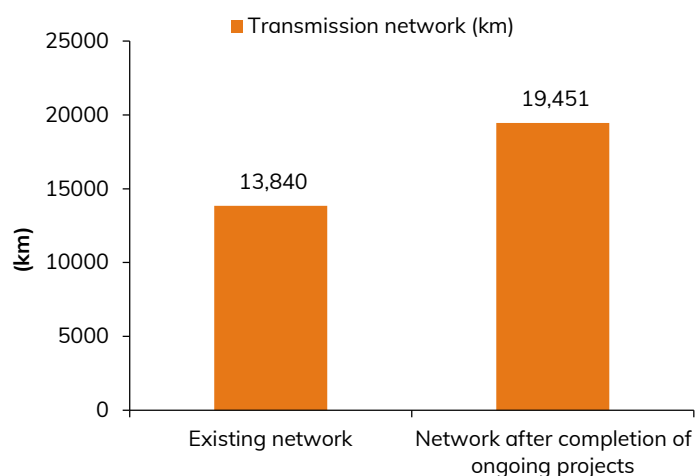
Source: Company data, I-Sec research

**Exhibit 8: EBITDA mix diversified; gas transmission and trading are the largest contributors**

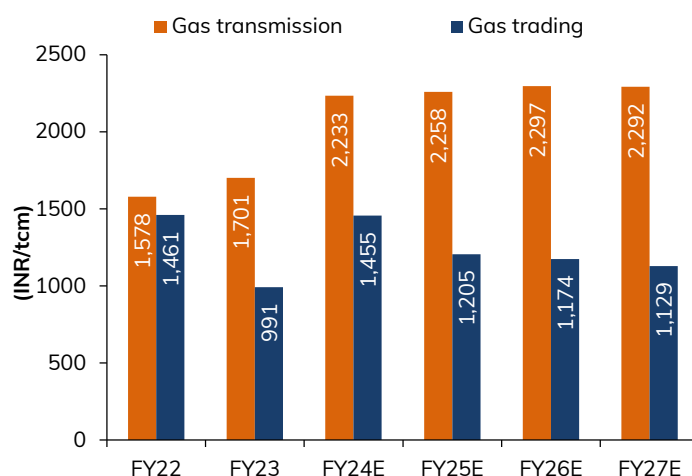
Source: Company data, I-Sec research

**Exhibit 9: Transmission and trading volumes to grow steadily**

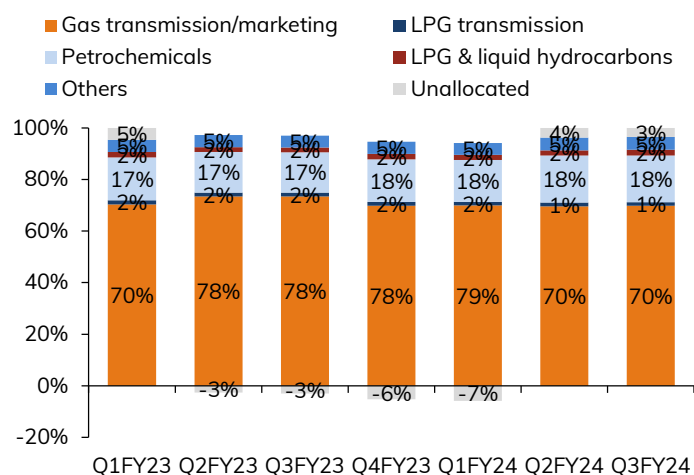
Source: Company data, I-Sec research

**Exhibit 10: Material growth in transmission network**

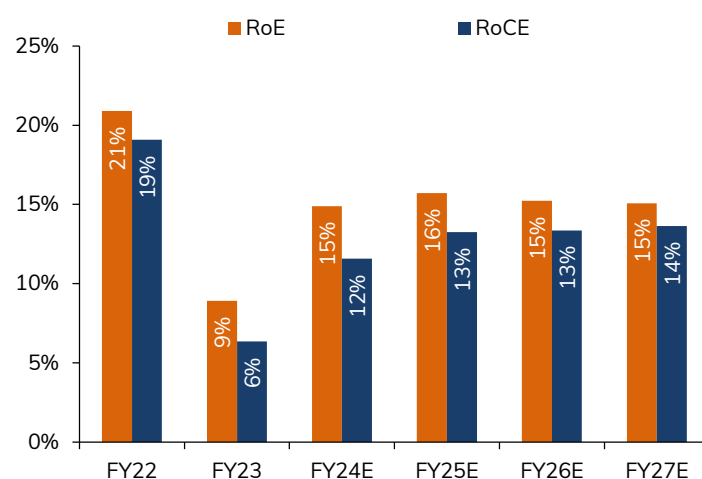
Source: Company data, I-Sec research

**Exhibit 11: Improvement in blended margins for transmission over FY24-FY27E**

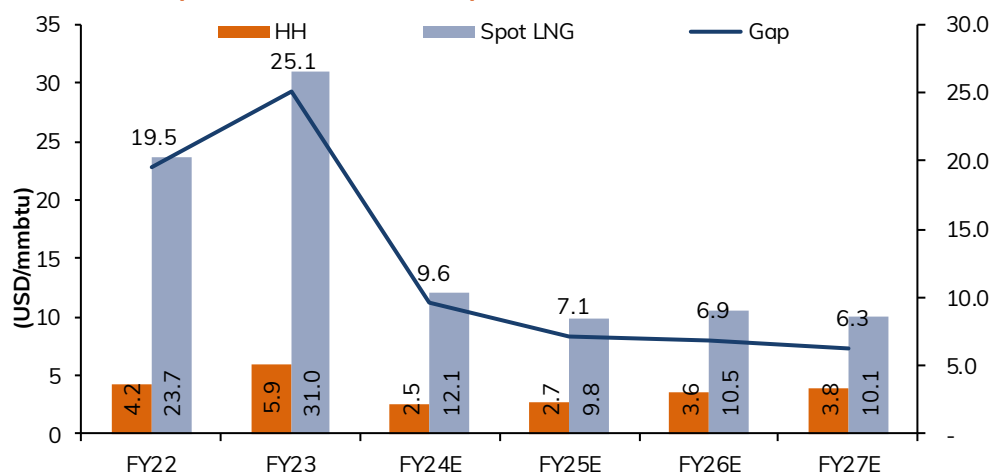
Source: Company data, I-Sec research

**Exhibit 12: Gas transmission remains key component of overall capital employed**

Source: Company data, I-Sec research

**Exhibit 13: Return ratios remain healthy**

Source: Company data, I-Sec research

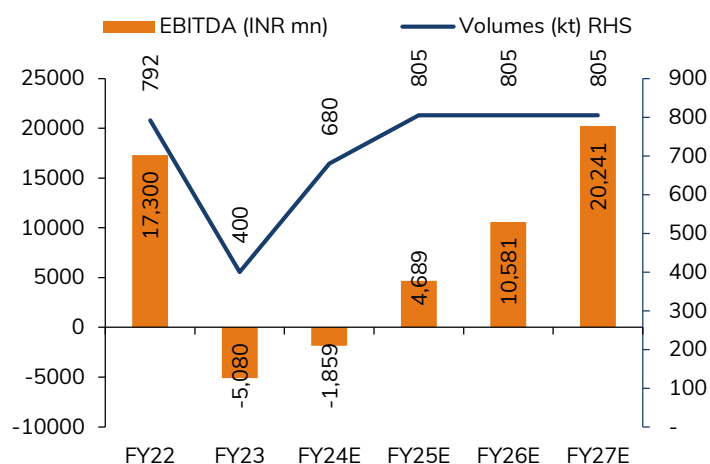
**Exhibit 14: Gap in US HH, term and spot LNG remains material**

Source: Company data, I-Sec research; FY24 onwards are future prices

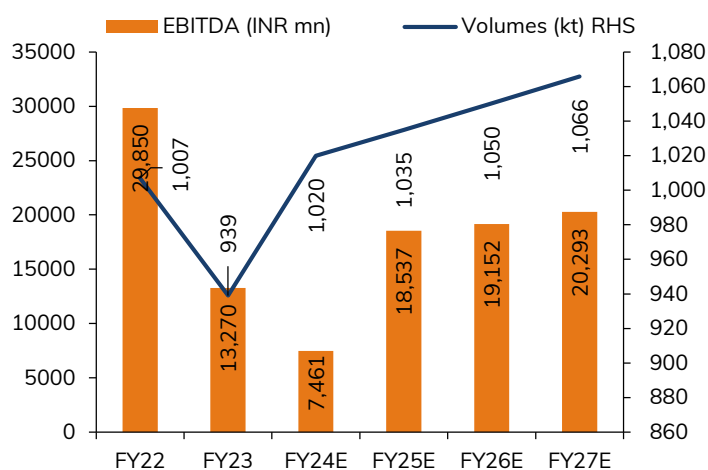
**Exhibit 15: Trading gains sensitivity to differential with term and spot LNG prices**

	Scenario 1		Scenario 2	
	vs Spot LNG	vs Term LNG	vs Spot LNG	vs Term LNG
US HH Price (USD/mmbtu)	2.5	2.5	2.5	2.5
Delivered Price (USD/mmbtu)	7.9	7.9	7.9	7.9
Spot LNG Slope to Brent Crude	14%	13%	14%	13%
Brent (USD/bbl)	85	85	95	95
USD/mmbtu	12.1	11.1	13.5	12.4
Premium/(discount) of Spot to HH Delivered price	4.2	3.2	5.6	4.5
Assumed volumes unhedged (mmt)	1.0	1.0	1.0	1.0
Additional margin potential (INR mn)	18,154	13,740	24,300	19,366

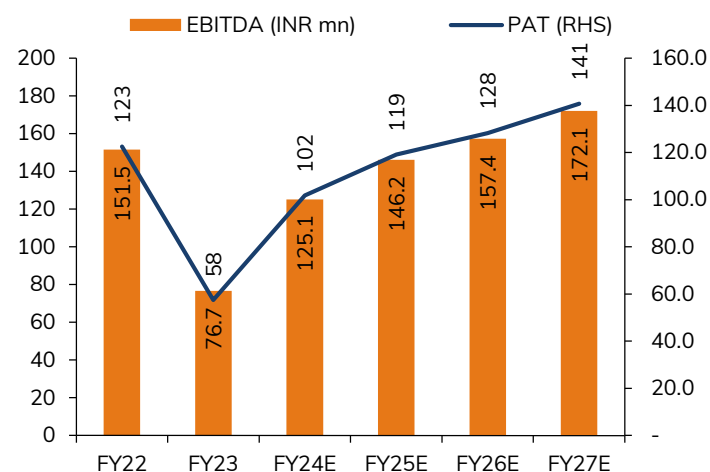
Source: Company data, I-Sec research

**Exhibit 16: Petrochemical EBITDA to improve over FY24-FY27E**


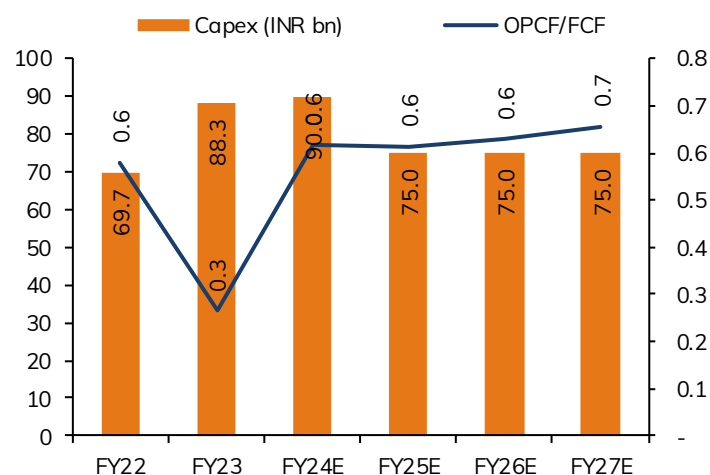
Source: Company data, I-Sec research

**Exhibit 17: LPG production and EBITDA likely to increase over FY24E-FY27E**


Source: Company data, I-Sec research

**Exhibit 18: EBITDA and PAT to grow at ~11% CAGR over FY24-FY27E**


Source: Company data, I-Sec research

**Exhibit 19: Strong cash flow to suffice for capex needs**


Source: Company data, I-Sec research

**Exhibit 20: GAIL's profits from subsidiaries and associates are material now; to grow even more sharply once Dabhol LNG losses minimise**

INR mn	% Shareholding	Investment	PAT (FY23)
GAIL			53,015
<b>Subsidiaries</b>		<b>36,050</b>	<b>-1,280</b>
GAIL GAS	100%	20,340	2,830
GGSPIL	100%	450	30
GGUI	100%	1,860	50
Bengal Gas Company Limited	88%	4,390	-110
Konkan LNG Limited	93%	8,860	-4,480
TNGCL	49%	150	200
Less: Minority Interest	-		200
<b>Associates</b>		<b>28,450</b>	<b>13,520</b>
MGL	33%	320	3,690
PLL	13%	990	2,570
BCPL	70%	9,920	0
IGL	23%	320	0
OPaL*	49%	9,950	890
China Gas	3%	970	4,160
Fayum Gas	19%	80	1,660
Ramagundam Fertilizer	15%	2,700	0
ONGC Tripura Power Company Ltd	26%	3,190	10
LLC Bharat Energy Office	20%	10	540
<b>Joint Ventures (JVs)</b>			
CGD JVs & Others (BGL, CUGL, GGL, MNGL, AGL, VGL, TAPI, IGGI)		11,430	1,710
<b>Adjustments</b>			
Add: Elimination of Dividend			-10,320
Add: Elimination Profit/Loss recognized from investments			60
Less: Others			540
<b>Consolidated</b>			<b>56,165</b>

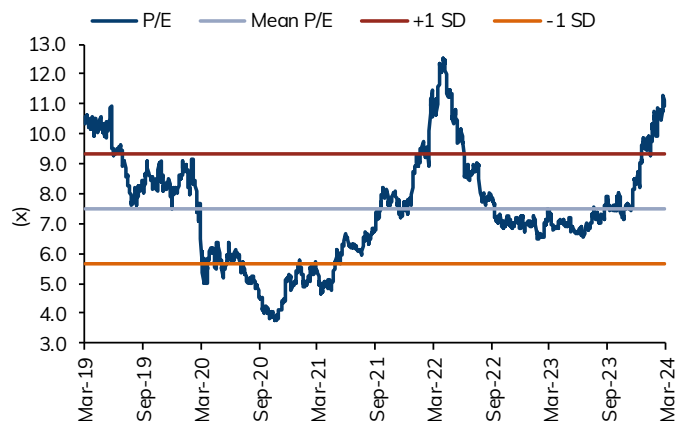
Source: I-Sec research, Company data \*Following the restructuring - ONGC to infuse fund to take control, GAIL and GSPC will collectively retain ~5% stake in OPaL

**Exhibit 21: Valuation summary**

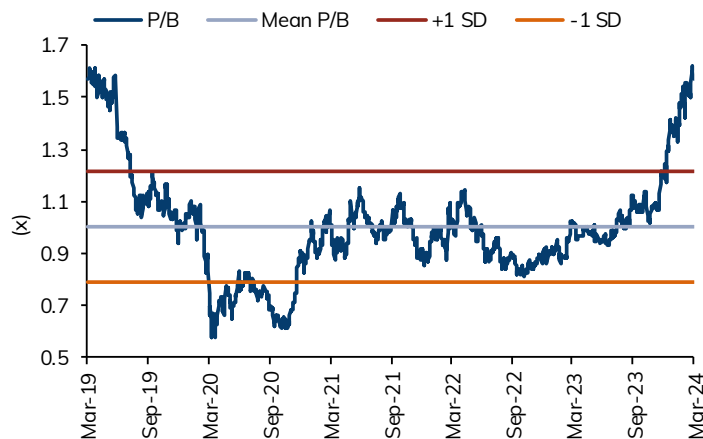
Business		INR bn	INR/share	Break-up
Gas and LPG transmission	DCF	344	52	22%
Gas trading	EV/EBITDA (6.5x FY27E )	121	18	8%
Petrochemicals	EV/EBITDA (6x FY27E )	122	19	8%
LPG and other hydrocarbon production	EV/EBITDA (6x FY27E )	108	16	7%
CGD entities other than IGL/MGL	17x FY27E EPS	244	37	16%
Investments	Market value	344	52	22%
		1,532	233	1,532
Less: net debt		20	3	20
<b>Sum of parts valuation</b>		<b>1,418</b>	<b>230</b>	<b>1,418</b>
<b>CMP</b>			<b>183</b>	
Upside (downside) %			26.0%	

Source: Company data, I-Sec research



**Exhibit 22: GAIL P/E trading above higher band**

Source: Company data, I-Sec research

**Exhibit 23: GAIL P/B trading above higher band**

Source: Company data, I-Sec research

**Exhibit 24: Shareholding pattern**

%	Jun'23	Sep'23	Dec'23
Promoters	51.9	51.9	51.9
Institutional investors	34.2	33.9	33.7
MFs and other	8.3	8.9	10.2
FIs/ Banks	0.0	0.0	0.0
Insurance Cos.	9.7	10.2	9.2
FIIIs	16.2	14.8	14.3
Others	13.9	14.2	14.4

Source: Bloomberg, I-Sec research

**Exhibit 25: Price chart**

Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 26: Profit & Loss

(INR mn, year ending March)

	FY24E	FY25E	FY26E	FY27E
<b>Net Sales</b>	<b>10,31,660</b>	<b>11,40,148</b>	<b>11,89,953</b>	<b>12,06,324</b>
<b>EBITDA</b>	<b>1,25,053</b>	<b>1,46,200</b>	<b>1,57,355</b>	<b>1,72,100</b>
EBITDA Margin (%)	12.1	12.8	13.2	14.3
Depreciation & Amortization	28,251	31,551	34,551	37,551
EBIT	96,802	1,14,649	1,22,805	1,34,549
Interest expenditure	2,715	23	(2,012)	(3,850)
Other Non-operating Income	12,856	13,014	13,871	15,640
<b>PBT</b>	<b>1,06,944</b>	<b>1,27,639</b>	<b>1,38,687</b>	<b>1,54,039</b>
<b>Profit / (Loss) from Associates</b>	<b>21,729</b>	<b>23,572</b>	<b>24,475</b>	<b>25,469</b>
Less: Taxes	26,918	32,127	34,907	38,772
PAT	80,026	95,513	1,03,779	1,15,267
Less: Minority Interest	-	-	-	-
<b>Net Income (Reported)</b>	<b>1,01,755</b>	<b>1,19,084</b>	<b>1,28,254</b>	<b>1,40,736</b>
Extraordinaries (Net)	-	-	-	-
<b>Recurring Net Income</b>	<b>1,01,755</b>	<b>1,19,084</b>	<b>1,28,254</b>	<b>1,40,736</b>

Source Company data, I-Sec research

### Exhibit 27: Balance sheet

(INR mn, year ending March)

	FY24E	FY25E	FY26E	FY27E
<b>Total Current Assets</b>	<b>1,74,180</b>	<b>1,96,963</b>	<b>2,33,546</b>	<b>2,81,078</b>
of which cash & bank	10,905	17,323	45,183	88,093
<b>Total Current Liabilities &amp; Provisions</b>	<b>2,19,556</b>	<b>2,41,155</b>	<b>2,54,383</b>	<b>2,69,654</b>
<b>Net Current Assets</b>	<b>(45,376)</b>	<b>(44,191)</b>	<b>(20,837)</b>	<b>11,425</b>
Other Non Current Assets	-	-	-	-
<b>Net Fixed Assets</b>	<b>5,58,718</b>	<b>6,02,167</b>	<b>6,42,617</b>	<b>6,80,066</b>
Other Fixed Assets	-	-	-	-
Capital Work in Progress	1,66,465	1,66,465	1,66,465	1,66,465
Non Investment	2,09,067	2,09,067	2,09,067	2,09,067
Current Investment	-	-	-	-
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>8,88,874</b>	<b>9,33,508</b>	<b>9,97,312</b>	<b>10,67,023</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>1,24,974</b>	<b>89,974</b>	<b>64,974</b>	<b>39,974</b>
<b>Deferred Tax Liability</b>	<b>43,951</b>	<b>43,951</b>	<b>43,951</b>	<b>43,951</b>
Lease Liability	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	65,751	65,751	65,751	65,751
Reserves & Surplus	6,52,403	7,32,037	8,20,841	9,15,551
<b>Total Net Worth</b>	<b>7,18,154</b>	<b>7,97,788</b>	<b>8,86,592</b>	<b>9,81,302</b>
Minority Interest	1,796	1,796	1,796	1,796
<b>Total Liabilities</b>	<b>8,88,874</b>	<b>9,33,508</b>	<b>9,97,312</b>	<b>10,67,023</b>

Source Company data, I-Sec research

### Exhibit 28: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Sep-23	Dec-23
<b>Net Sales</b>	<b>3,28,432</b>	<b>3,22,121</b>	<b>3,18,068</b>	<b>3,42,365</b>
% growth (YOY)	-7.1%	-1.9%	-1.3%	7.6%
<b>EBITDA</b>	<b>4,872</b>	<b>24,327</b>	<b>34,913</b>	<b>38,226</b>
Margin %	1.5%	7.6%	11.0%	11.2%
Other Income	10,172	2,676	5,609	8,121
Extraordinaries	-	-	-	-
<b>Adjusted Net Profit</b>	<b>7,382</b>	<b>14,120</b>	<b>24,049</b>	<b>28,426</b>

Source Company data, I-Sec research

### Exhibit 29: Cashflow statement

(INR mn, year ending March)

	FY24E	FY25E	FY26E	FY27E
<b>Cash Flow from operation before working Capital</b>	<b>1,25,053</b>	<b>1,46,200</b>	<b>1,57,355</b>	<b>1,72,100</b>
Working Capital Changes	45,932	5,234	4,505	10,649
Tax	(26,918)	(32,127)	(34,907)	(38,772)
<b>Operating Cashflow</b>	<b>1,44,067</b>	<b>1,19,307</b>	<b>1,26,953</b>	<b>1,43,977</b>
Capital Commitments	(90,000)	(75,000)	(75,000)	(75,000)
<b>Free Cashflow</b>	<b>54,067</b>	<b>44,307</b>	<b>51,953</b>	<b>68,977</b>
Others CFI	34,585	36,586	38,346	41,109
<b>Cashflow from Investing Activities</b>	<b>(55,415)</b>	<b>(38,414)</b>	<b>(36,654)</b>	<b>(33,891)</b>
Inc (Dec) in Borrowings	(53,188)	(35,000)	(25,000)	(25,000)
Interest Cost	(2,715)	(23)	2,012	3,850
Others	(32,876)	(39,451)	(39,451)	(46,026)
<b>Cash flow from Financing Activities</b>	<b>(88,778)</b>	<b>(74,474)</b>	<b>(62,439)</b>	<b>(67,176)</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>(125)</b>	<b>6,419</b>	<b>27,860</b>	<b>42,910</b>
Closing cash & balance	10,905	17,323	45,183	88,093

Source Company data, I-Sec research

### Exhibit 30: Key ratios

(Year ending March)

	FY24E	FY25E	FY26E	FY27E
<b>Per Share Data (INR)</b>				
Recurring EPS	15.5	18.1	19.5	21.4
Diluted EPS	15.5	18.1	19.5	21.4
Recurring Cash EPS	19.8	22.9	24.8	27.1
Dividend per share (DPS)	5.0	6.0	6.0	7.0
Book Value per share (BV)	109.2	121.3	134.8	149.2
Dividend Payout (%)	32.3	33.1	30.8	32.7
<b>Growth (%)</b>				
Net Sales	(29.2)	10.5	4.4	1.4
EBITDA	63.1	16.9	7.6	9.4
EPS	76.9	17.0	7.7	9.7
<b>Valuation Ratios (x)</b>				
P/E	11.8	10.1	9.4	8.6
P/CEPS	9.3	8.0	7.4	6.8
P/BV	1.7	1.5	1.4	1.2
EV / EBITDA	10.5	8.7	7.8	6.7
EV / Operating Income	12.0	10.0	9.0	7.7
Dividend Yield (%)	2.7	3.3	3.3	3.8
<b>Operating Ratios</b>				
EBITDA Margins (%)	12.1	12.8	13.2	14.3
Effective Tax Rate (%)	25.2	25.2	25.2	25.2
Net Profit Margins (%)	9.9	10.4	10.8	11.7
NWC / Total Assets (%)	(5.1)	(4.7)	(2.1)	1.1
Fixed Asset Turnover (x)	1.5	1.4	1.4	1.3
Working Capital Days	19.0	24.0	23.4	23.3
Net Debt / Equity %	15.9	9.1	2.2	(4.9)
<b>Profitability Ratios</b>				
RoCE (%)	8.7	9.9	10.0	10.2
RoCE (Pre-tax) (%)	11.6	13.2	13.3	13.6
RoE (%)	14.9	15.7	15.2	15.1

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: [Mr. Prabodh Avadhoot](#) Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

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