



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

## GAIL (India)

24 February 2023

## Sharp LNG price fall gives optimism

We cut spot LNG price by USD5/mmbtu to USD20/15 per mmbtu for FY24E/FY25E. Spot LNG price has corrected to below \$15/mmbtu from \$23-25/mmbtu a month while it is expected to remain soft in near term on the back of lower demand from increased supply from US and still demand side concern persists. European gas storage is also at the highest level post winter in last many years. Lower spot LNG price will have a positive impact on 1) opex of transmission business as the company uses spot LNG to fulfil the gap, 2) lower input cost for Petchem division, and 3) revival in transmission volume. However, trading profit may soft owing to reducing gap between spot and contracted price. Further, integrated tariff for its key nine pipeline is expected in March (after 6th march of open house). We have raised tariff to Rs1.9/scm for FY24E/FY25E from earlier Rs1.6/scm while we cut the trading profit on LNG portfolio by 10%. Overall we raise EBITDA estimate by 11%/9% for FY24E/FY25E. However, lower spot LNG price would re-rate the sector. We are upgrading the stock to BUY from earlier HOLD with a revised TP of Rs120 from earlier Rs98.

## Sharp fall in spot LNG price boosts sentiments and earnings both

Spot LNG price has corrected sharply to below USD15/mmbtu and averaged USD17.2/mmbtu in Feb'23TD vs USD24.8/mmbtu in Jan'23 and USD31.3 in Q3FY22. Post winter, Europe gas storage remains at a higher level of 62-65% vs average of 40-45%. Further, start of freeport LNG terminal also easing off supply concern while global demand growth remains a challenge. On the back of this, we cut LNG price assumption to USD20/15/mmbtu for FY24E/FY25E which led to Rs6 bn increase in petrochemical EBITDA. However, lower spot LNG price may impact trading profitability negatively, where we cut segmental EBITDA by Rs5.5 bn.

## GAIL's submission of integrated tariff is 60% higher to current tariff; we raise our tariff assumption by 20%

PNGRB has released public consultation documents for stakeholder's comments where GAIL has filed unified tariff for its key 9 pipelines and has sought an integrated tariff of Rs2.5/scm, ~60% higher than current Rs1.6/scm. This tariff is based on assumptions of i) economic life of 26 years, ii) capex of Rs287 bn and future capex of Rs62 bn, iii) estimated capex of Rs1.5tr over the next 26 years vs Rs181 bn incurred till date etc. PNGRB has sought stakeholder's comments by 15th Feb, GAIL's comment by 2nd Mar and open house by 6th Mar'23. Based on our discussion with market participants, we are modeling 20% increase in tariff for FY24E/FY25E to Rs1.9/scm. Final tariff order could be a key potential driver for the company.

## Upgrade to BUY with a revised TP of Rs120

Overall, we raise EBITDA estimates by 11%/9% for FY24E/FY25E. The stock is trading at below its book value on consolidated level at 0.85x on FY25E. Lower spot LNG price along with expected increase in tariff could further re-rate the stock. We raise our TP to Rs120 from earlier Rs98 on the back of earnings upgrade and higher multiple for transmission business (6x from 5x). We upgrade the stock to BUY from earlier HOLD.

## COMPANY UPDATE

Sector: Natural Gas Rating: BUY

CMP: Rs 98 Target Price: Rs 120

## Stock Info

Sensex/Nifty 59,606/17,511

Bloomberg GAIL IN

Equity shares (mn) 6,575

52-wk High/Low Rs 113/85

Face value Rs 10

M-Cap Rs 671bn/ USD 8.2bn

3-m Avg volume 13.2mn

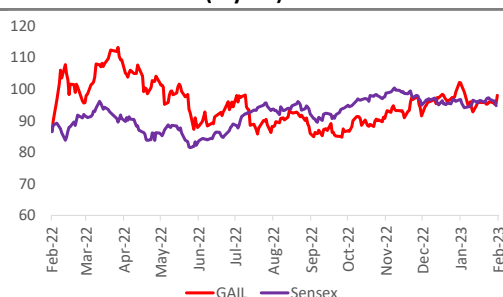
## Financial Snapshot (Rs bn)

Y/E Mar	FY23E	FY24E	FY25E
Sales	1,461	1,359	1,289
EBITDA	82	120	134
PAT	56	85	95
EPS (Rs)	8.4	12.9	14.3
PE (x)	11.6	7.6	6.9
EV/EBITDA (x)	8.4	5.7	5.0
RoE (%)	9.6	13.6	14.0
RoCE (%)	7.4	11.3	11.9
Dividend yield (%)	3.4	5.3	5.8

## Shareholding Pattern (%)

	Dec'22	Sep'22	Jun'22
Promoter	52	52	52
FII	18.0	19.8	19.9
DII	16.0	13.9	15.3
Others	14.0	14.4	12.9

## Stock Performance (1-year)



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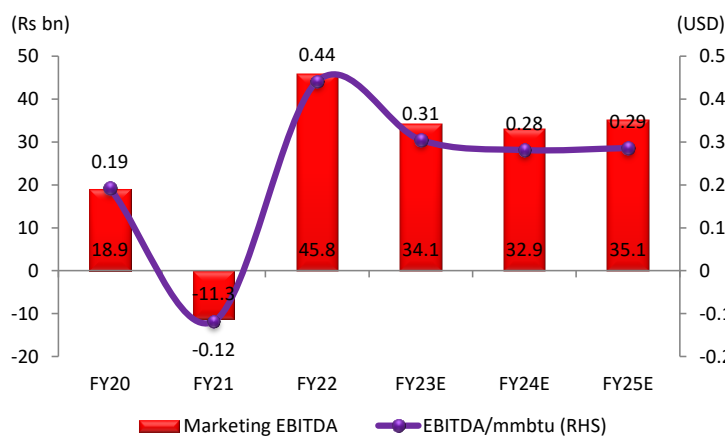
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## Exhibit 1: Change in estimates

Key Parameters (Rs mn)	FY23E			FY24E			FY25E		
	Old	New	%Chg	Old	New	%Chg	Old	New	%Chg
Revenue	14,60,969	14,60,969	-	14,14,536	13,59,240	(3.9)	13,60,228	12,88,508	(5.3)
EBITDA	82,118	82,118	-	1,08,363	1,20,466	11.2	1,23,318	1,34,103	8.7
Net Profit	56,237	56,237	-	76,603	85,833	12.0	86,818	95,043	9.5
EPS (Rs)	8.4	8.4	-	11.5	12.9	12.0	13.0	14.3	9.5

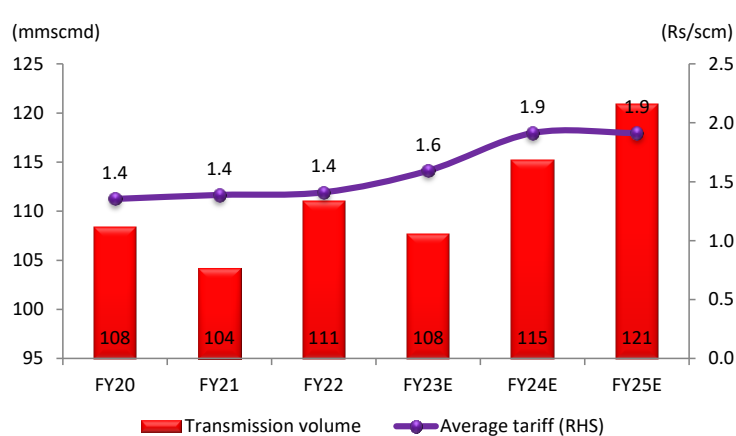
Source: Company, Systematix Institutional Research

## Exhibit 2: Marketing division: Profitability remains volatile



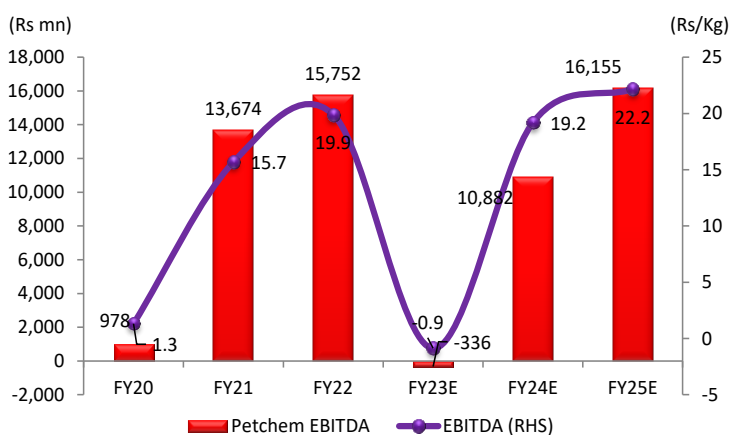
Source: Company, Systematix Institutional Research

## Exhibit 3: Transmission volumes and tariff



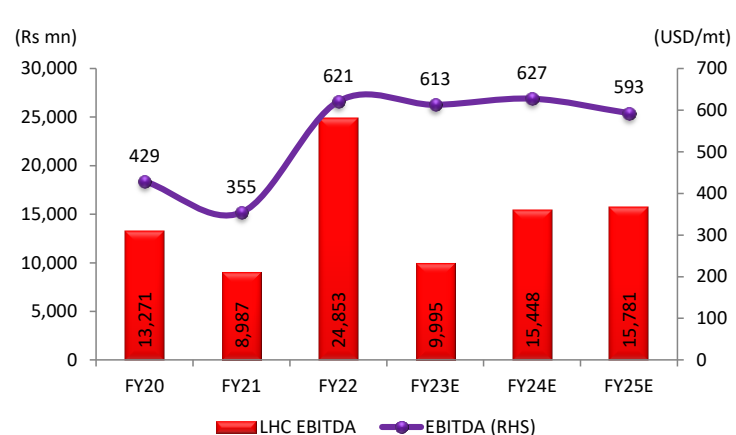
Source: Company, Systematix Institutional Research

## Exhibit 4: FY25E EBITDA to breach all previous levels



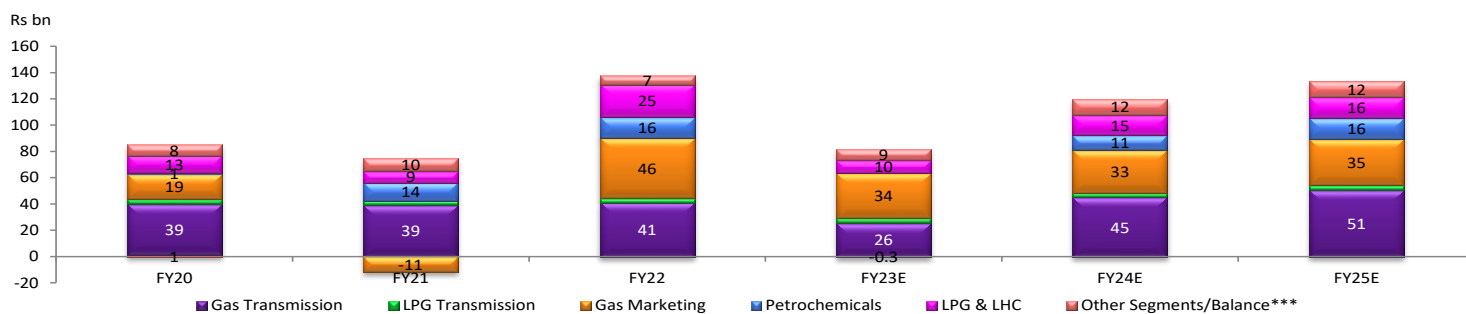
Source: Company, Systematix Institutional Research

## Exhibit 5: LHC EBITDA and realisation



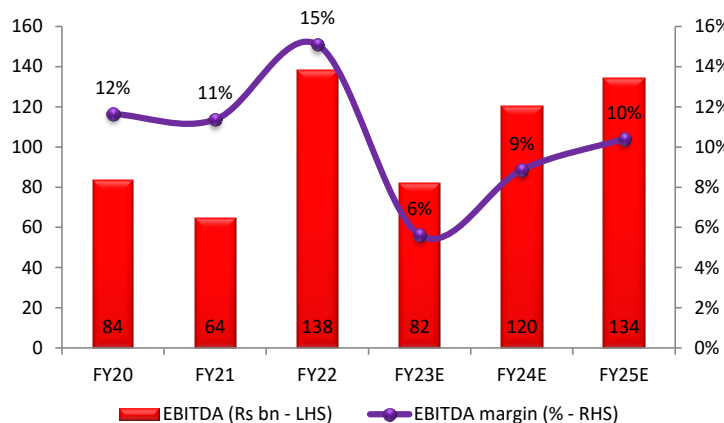
Source: Company, Systematix Institutional Research

## Exhibit 6: Segmental EBITDA split up



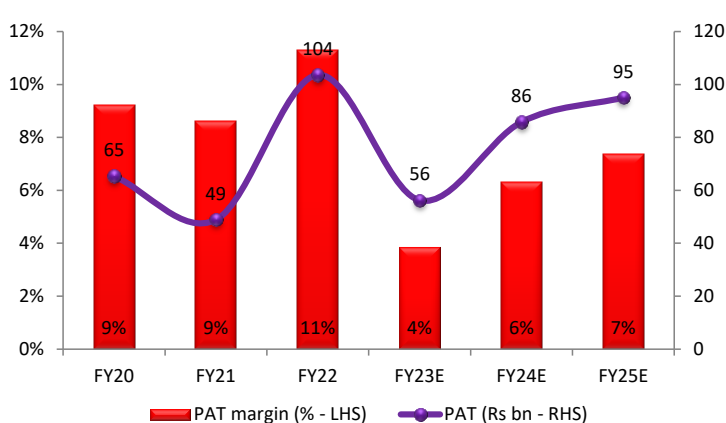
Source: Company, Systematix Institutional Research

Exhibit 7: EBITDA and EBITDA Margin



Source: Company, Systematix Institutional Research

Exhibit 8: Net Profit and PAT Margin



Source: Company, Systematix Institutional Research

Exhibit 9: Key assumptions

(Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>7,51,263</b>	<b>7,18,710</b>	<b>5,67,302</b>	<b>9,16,265</b>	<b>14,60,969</b>	<b>13,59,240</b>	<b>12,88,508</b>
Gas Transmission	51,950	53,730	52,810	57,170	62,664	80,681	84,484
LPG Transmission	6,140	6,300	6,610	6,610	7,149	7,220	7,292
Gas Marketing	5,70,230	5,54,130	3,96,290	7,08,420	12,81,313	11,29,852	10,43,929
Petrochemicals	66,310	53,700	70,010	84,760	45,294	73,834	87,268
LHC & Others	56,633	50,850	41,582	59,305	64,549	67,653	47,461
<b>EBITDA</b>	<b>97,851</b>	<b>83,694</b>	<b>64,451</b>	<b>1,38,290</b>	<b>82,118</b>	<b>1,20,466</b>	<b>1,34,103</b>
Gas Transmission	35,787	40,574	41,860	43,623	25,537	45,405	59,439
LPG Transmission	3,091	3,528	3,682	3,498	3,591	3,553	4,175
Gas Marketing	26,136	21,268	-9,469	47,440	33,940	33,157	41,125
Petrochemicals	6,710	1,264	14,195	16,228	-373	10,960	17,864
LHC & Others	26,126	17,060	14,183	27,502	19,424	27,391	21,295
<b>Pipeline gas volume (mmscmd)</b>	<b>107.4</b>	<b>108.4</b>	<b>104.2</b>	<b>111.0</b>	<b>107.7</b>	<b>115.2</b>	<b>121.0</b>
Average tariff (Rs/scm)	1.3	1.4	1.4	1.4	1.6	1.9	1.9
Pipeline LPG volume (mmt)	4.0	3.9	4.2	4.2	4.3	4.4	4.4
Average realisation (Rs/mt)	1,545	1,611	1,588	1,574	1,653	1,653	1,653
<b>Gas marketing volume (mmscmd)</b>	<b>97</b>	<b>96</b>	<b>89</b>	<b>96</b>	<b>97</b>	<b>100</b>	<b>104</b>
Average EBITDA/Marketing margin (USD/mmbtu)	0.3	0.2	-0.1	0.4	0.3	0.3	0.3
<b>Petrochemicals - Sales volume (mmt)</b>	<b>735</b>	<b>738</b>	<b>872</b>	<b>792</b>	<b>389</b>	<b>567</b>	<b>729</b>
Average realisation (Rs/mt)	90,211	72,691	80,213	1,06,862	1,16,325	1,30,026	1,19,533
<b>LHC - Sales volume (mmt)</b>	<b>1.3</b>	<b>1.3</b>	<b>1.1</b>	<b>1.0</b>	<b>0.9</b>	<b>1.0</b>	<b>1.0</b>
Average realisation (USD/mt)	499	429	355	621	613	627	593

Source: Company, Systematix Institutional Research

**Exhibit 10: SoTP valuation**

(Rs mn)	EBITDA (FY25E)	Multiple (x)	EV
Gas Transmission	50,866	6.0	3,02,650
LPG Transmission	3,422	5.0	17,112
Gas Marketing	35,131	3.5	1,22,958
Petrochemicals	16,155	4.0	64,620
LHC	15,781	5.5	87,425
Others	12,248	5.0	61,731
Total	1,33,603	4.9	6,56,496
Less: Net Debt			41,015
Equity Value			6,15,481
<b>Equity Value (Rs/share)</b>			<b>92</b>

Source: Systematix Institutional Research

**Exhibit 11: Investments**

(Rs mn)	Shares (mn)	CMP (Rs)	Value
China Gas Holding	150	113	16,929
PLNG	188	230	43,125
MGL	32	980	31,458
IGL	158	501	78,908
ONGC	308	150	46,260
GAIL Gas	1127	40	45,080
Total			2,61,760
At 30% Holdco discount			1,83,232
<b>Total Investment Value</b>			<b>28</b>

Source: Systematix Institutional Research

## FINANCIALS (STANDALONE)

### Profit & Loss Statement

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Net revenue</b>	<b>5,67,302</b>	<b>9,16,265</b>	<b>14,60,969</b>	<b>13,59,240</b>	<b>12,88,508</b>
Raw material cost	4,43,486	7,07,822	12,95,681	11,51,940	10,63,276
<b>Gross Profit</b>	<b>1,23,816</b>	<b>2,08,443</b>	<b>1,65,287</b>	<b>2,07,300</b>	<b>2,25,232</b>
Employee Cost	15,310	17,112	18,355	20,418	22,713
other expenses	44,055	53,041	64,814	66,416	68,416
<b>EBITDA</b>	<b>64,451</b>	<b>1,38,290</b>	<b>82,118</b>	<b>1,20,466</b>	<b>1,34,103</b>
Depreciation	19,079	21,112	24,756	27,456	30,156
<b>EBIT</b>	<b>45,373</b>	<b>1,17,179</b>	<b>57,363</b>	<b>93,010</b>	<b>1,03,947</b>
Interest Cost	1,559	1,744	3,176	1,969	1,906
Other Income	20,045	20,469	19,557	21,513	22,588
<b>PBT Before Exceptionals</b>	<b>63,858</b>	<b>1,35,903</b>	<b>73,743</b>	<b>1,12,553</b>	<b>1,24,629</b>
Exceptional Items	0	0	0	0	0
PBT	63,858	1,35,903	73,743	1,12,553	1,24,629
Tax	14,956	32,263	17,507	26,720	29,587
Reported PAT	48,902	1,03,640	56,237	85,833	95,043
<b>Adjusted PAT</b>	<b>48,902</b>	<b>1,03,640</b>	<b>56,237</b>	<b>85,833</b>	<b>95,043</b>
Reported EPS (Rs)	11.0	23.3	8.4	12.9	14.3
<b>Adjusted EPS (Rs)</b>	<b>7.3</b>	<b>15.6</b>	<b>8.4</b>	<b>12.9</b>	<b>14.3</b>

### Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Pre-Tax Profit	63,858	1,35,903	73,743	1,12,553	1,24,629
Depreciation	19,079	21,112	24,756	27,456	30,156
Change in Working Capital	-11,753	-5,768	-16,380	-19,543	-20,682
Tax Paid	22,210	-29,737	7,182	-4,311	-594
Other Operating Activities	-12,754	-31,960	-17,007	-26,220	-29,087
<b>Operating Cash Flow</b>	<b>80,639</b>	<b>89,550</b>	<b>72,294</b>	<b>89,935</b>	<b>1,04,422</b>
Capital Expenditure	-49,767	-59,184	-60,017	-60,029	-60,041
Change in Investments	-4,590	4,870	0	0	0
Other Investing Activities	15,748	8,166	19,557	21,513	22,588
<b>Investing Cash Flow</b>	<b>-38,609</b>	<b>-46,148</b>	<b>-40,460</b>	<b>-38,517</b>	<b>-37,453</b>
Free Cash Flow	42,030	43,402	31,833	51,418	66,969
Equity raised/(repaid)	-12,810	0	0	0	0
Debt raised/(repaid)	4,564	1,288	0	0	-0
Other Financing Activities	-28,205	-37,458	-30,170	-43,169	-47,526
<b>Financing Cash Flow</b>	<b>-36,451</b>	<b>-36,171</b>	<b>-30,170</b>	<b>-43,169</b>	<b>-47,526</b>
Change in Cash	5,579	7,231	1,663	8,249	19,443
Opening Cash Balance	8,039	13,618	20,850	22,513	30,762
<b>Closing Cash Balance</b>	<b>13,618</b>	<b>20,850</b>	<b>22,513</b>	<b>30,762</b>	<b>50,205</b>

Source: Company, Systematix Institutional Research

### Key Assumptions

Y/E Mar	FY21	FY22	FY23E	FY24E	FY25E
Gas trans. vol (mmscmd)	104.2	111.0	107.7	115.2	121.0
LPG transmission vol (mmt)	4.2	4.2	4.3	4.4	4.4
Gas trading volume (mmscmd)	89.2	96.2	96.8	100.1	104.4
Petrochemical sales vol(kt)	872.0	792.0	388.8	567.0	729.0
LHC volume (mmt)	1.1	1.0	0.9	1.0	1.0
Transmission tariff (Rs/scm)	1.4	1.4	1.6	1.9	1.9

Source: Company, Systematix Institutional Research

### Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	44,404	44,404	66,606	66,606	66,606
Reserves & Surplus	4,21,708	5,11,464	5,18,505	5,63,138	6,12,560
<b>Networth</b>	<b>4,66,112</b>	<b>5,55,868</b>	<b>5,85,111</b>	<b>6,29,744</b>	<b>6,79,166</b>
Short + Long Term Debt	55,656	63,528	63,528	63,528	63,528
Deferred Tax Liabilities	45,022	47,673	48,173	48,673	49,173
Other Long Term Liabilities	61,533	75,847	77,564	79,325	81,132
<b>Capital Employed</b>	<b>6,28,323</b>	<b>7,42,916</b>	<b>7,74,375</b>	<b>8,21,270</b>	<b>8,72,999</b>
Gross Block	4,51,184	4,98,310	5,55,807	6,13,292	6,70,764
Accumulated Depreciation	94,484	1,15,596	1,40,351	1,67,807	1,97,963
Net Block	3,56,700	3,82,714	4,15,456	4,45,485	4,72,801
Capital WIP	1,19,034	1,30,713	1,32,020	1,33,340	1,34,674
Total Fixed Assets	4,75,734	5,13,427	5,47,476	5,78,825	6,07,475
Long Term Inv. & Others	1,49,905	1,82,816	1,84,644	1,86,491	1,88,356
<b>Current Assets</b>	<b>1,07,466</b>	<b>1,67,162</b>	<b>2,55,806</b>	<b>2,47,810</b>	<b>2,55,958</b>
Short Term Investments	4,685	0	0	0	0
Inventories	26,038	30,152	48,077	44,730	42,402
Sundry Debtors	44,858	83,660	1,33,394	1,24,106	1,17,648
Cash & Bank Balance	13,618	20,850	22,513	30,762	50,205
Short Term Loans & Adv.	6,847	17,857	28,473	26,491	25,112
Others	11,420	14,643	23,348	21,722	20,591
<b>Current Liab. &amp; Provisions</b>	<b>1,04,782</b>	<b>1,20,490</b>	<b>2,13,551</b>	<b>1,91,857</b>	<b>1,78,790</b>
Creditors	43,264	54,660	96,877	87,035	81,107
Other Current Liabilities	61,518	65,830	1,16,674	1,04,822	97,683
Net Current Assets	2,684	46,672	42,255	55,953	77,168
<b>Total Assets</b>	<b>6,28,323</b>	<b>7,42,916</b>	<b>7,74,375</b>	<b>8,21,270</b>	<b>8,72,999</b>

Source: Company, Systematix Institutional Research

### Ratios (Consolidated)

Y/E Mar	FY21	FY22	FY23E	FY24E	FY25E
<b>Growth</b>					
Revenue growth	-21.1%	61.5%	59.4%	-7.0%	-5.2%
EBITDA growth	-23.0%	114.6%	-40.6%	46.7%	11.3%
Adjusted PAT growth	-25.2%	111.9%	-45.7%	52.6%	10.7%
<b>Margins</b>					
Gross margin	21.8%	22.7%	11.3%	15.3%	17.5%
EBITDA margin	11.4%	15.1%	5.6%	8.9%	10.4%
PBT margin	11.3%	14.8%	5.0%	8.3%	9.7%
Effective Tax rate	23.4%	23.7%	23.7%	23.7%	23.7%
Adjusted PAT margin	9.1%	8.6%	11.3%	3.8%	6.3%
<b>Operating Cycle</b>					
Inventory days	17	12	12	12	12
Debtor days	29	33	33	33	33
Creditor days	31	26	26	26	26
Working Capital Cycle	14	20	20	20	20
<b>Return Ratios</b>					
ROE	10.5%	18.6%	9.6%	13.6%	14.0%
Pre-tax ROCE	7.2%	15.8%	7.4%	11.3%	11.9%
Capex/revenue	9.9%	6.4%	4.0%	4.3%	4.6%
Net debt / Equity	0.1	0.1	0.1	0.1	0.1
<b>Yield Analysis</b>					
CFO Yield	18.5%	20.6%	11.1%	13.8%	16.0%
FCF Yield	3.8%	3.4%	2.0%	4.5%	6.7%
Dividend Yield	5.1%	10.2%	3.4%	5.3%	5.8%
<b>Valuation</b>					
P/E (x)	13.3	6.3	11.6	7.6	6.9
P/B (x)	0.9	0.8	1.1	1.0	1.0
EV/Sales (x)	0.8	0.5	0.5	0.5	0.5
EV/EBITDA (x)	7.3	3.5	8.4	5.7	5.0

Source: Company, Systematix Institutional Research

## Institutional Equities Team

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