

**BSE SENSEX**  
58,215

**S&P CNX**  
17,152



#### Stock Info

Bloomberg	GAIL IN
Equity Shares (m)	6661
M.Cap.(INRb)/(USDb)	693.3 / 8.4
52-Week Range (INR)	116 / 83
1, 6, 12 Rel. Per (%)	13/22/11
12M Avg Val (INR M)	1573
Free float (%)	48.5

#### Financials Snapshot (INR b)

Y/E March	FY23E	FY24E	FY25E
Sales	1,535.7	1,369.5	1,391.8
EBITDA	79.8	133.5	134.2
Adj. PAT	55.1	96.2	97.1
Adj. EPS (INR)	8.3	14.4	14.6
EPS Gr. (%)	-46.5	74.7	0.9
BV/Sh.(INR)	94.7	106.0	117.4

#### Ratios

Net D:E	0.0	0.0	0.0
RoE (%)	9.4	14.6	13.2
RoCE (%)	8.2	12.5	11.5
Payout (%)	21.5	21.5	21.5

#### Valuations

P/E (x)	12.8	7.3	7.2
P/BV (x)	1.1	1.0	0.9
EV/EBITDA (x)	7.1	4.5	4.2
Div. Yield (%)	1.7	2.9	2.9
FCF Yield (%)	4.0	1.6	3.8

#### Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	51.5	51.5	51.5
DII	23.7	21.7	23.0
FII	18.7	20.4	20.2
Others	6.1	6.4	5.3

FII Includes depository receipts

**CMP: INR105**

**TP: INR147 (+39%)**

**Buy**

### PNGRB approves integrated tariff of INR58.6/mmBtu for GAIL

- PNGRB, in its tariff order dated 22<sup>nd</sup> Mar'23, has approved a levelized tariff of INR58.6/mmBtu for GAIL's integrated natural gas pipeline (INGPL), effective 1<sup>st</sup> Apr'23. To give a perspective, GAIL had proposed an integrated tariff of INR68/mmBtu v/s ~INR43/mmBtu realized during 9MFY23.
- As a result of the tariff hike, we increase our EBITDA estimate (excluding other income) for FY24 to INR134b from INR116b previously. Similarly, we raise our FY24 EPS estimate by 16% to INR14.4 from INR12.4 previously.
- LNG prices have plummeted to ~USD12/mmBtu from the peak of USD54/mmBtu. This correction, combined with the recent ramp-up of PATA, should improve the petrochem segment's performance.
- Owing to these positive factors, we reiterate our BUY rating on the stock. We value the stock at 9x adjusted FY25E EPS and add the value of investments to arrive at a TP of INR147, up from INR127 earlier.

### Substantial improvement in transmission EBITDA

- Earlier, during its committee proposal for a unified tariff across entities, PNGRB had proposed a tariff of INR60.9/mmBtu against GAIL's proposal of INR68/mmBtu. The current notification of INR58.6/mmBtu is marginally lesser than that.
- The hike is warranted due to the changes proposed by the PNGRB last year – ramp-up of utilization, allowing recovery of system usage gas and transmission losses.
- Following the hike, we increase our EBITDA estimates for the transmission segment to INR76b/INR79b for FY24/FY25 from INR54b/INR55b previously.

### Stabilization in sight for petrochemical business

- Utilization at GAIL's petrochemical plant has remained subdued at ~40-50% for the last three quarters due to supply disruptions from Gazprom and record-high spot LNG prices.
- However, spot LNG prices have now cooled off to ~USD12/mmBtu, down 77% from the peak of USD54/mmBtu seen in Aug'22, which should improve petrochem segment's performance.
- Additionally, GAIL has recently signed an MOU with Shell Energy India to explore prospects for importing important petrochemical precursors in a bid to diversify feedstock for its petrochemical plant.

### Valuation and recommendation

- The decline in LNG prices is a boon for GAIL. We expect its transmission volume to rise to 117mmscmd in FY24 from 107mmscmd in FY23. We also understand that the petrochemical plant has already been ramped up to full utilization a few days back.
- GAIL is trading at 7.3x FY24E EPS of INR14.4 and 4.5x FY24E EV/EBITDA. We value the company at 9x adjusted FY25E EPS and add the value of investments to arrive at a TP of INR147. We maintain BUY on the stock.
- Key risks would be a rise in LNG prices and/or a poor economic outlook, which would affect natural gas demand.

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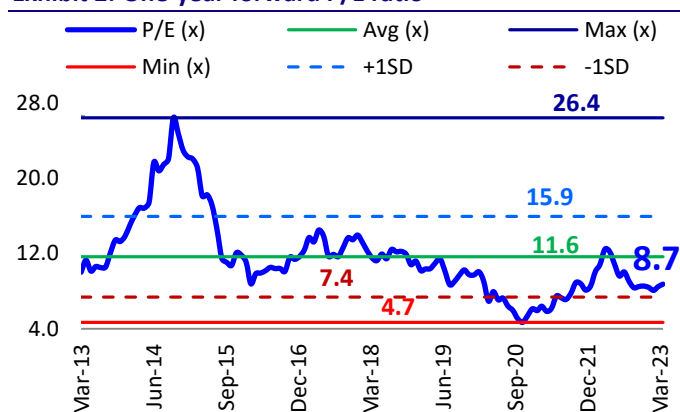
Exhibit 1: Segmental EBITDA (INR b)

	FY24	
	Previous tariff (INR43/mmBtu)	Revised tariff (INR58.6/mmBtu)
NG transmission	57.3	76.4
Gas trading	24.3	24.3
LPG transmission	4.4	4.4
Petrochemicals	17.8	17.8
LPG (pre-subsidy)	21.3	21.3
Others	13.0	13.0
<b>EBITDA*</b>	<b>138.2</b>	<b>157.2</b>
Depreciation	25.2	25.2
Interest	2.1	2.1
PBT	110.8	129.9
Tax	27.9	32.7
<b>PAT</b>	<b>82.9</b>	<b>97.2</b>
Shares o/s (mn)	6,661	6,661
<b>EPS (INR/share)</b>	<b>12.4</b>	<b>14.6</b>
<b>Valuation</b>		
Adj	0.9	0.9
Adj EPS (INR/share)	11.5	13.7
PE (x)	9.0	9.0
Valuation of core	103.9	124.0
Investments	24.0	24.0
<b>Total</b>	<b>127</b>	<b>147</b>

\*includes other income

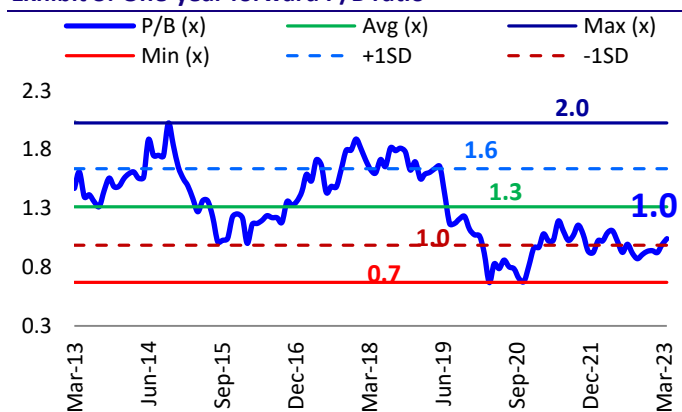
Source: PNGRB, Company, MOSL

Exhibit 2: One-year forward P/E ratio



Source: Company, MOFSL

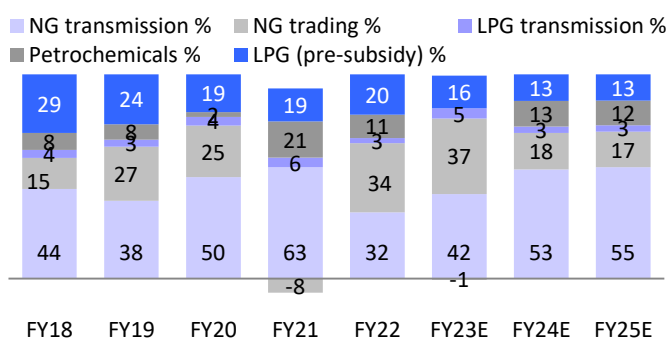
Exhibit 3: One-year forward P/B ratio



Source: Company, MOFSL

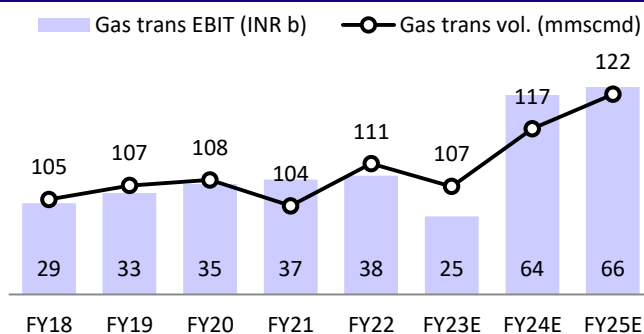
## Story in charts

**Exhibit 4: Transmission to remain major contributor to EBITDA**



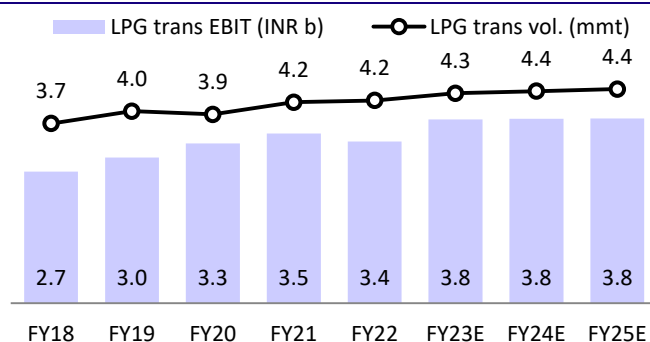
Source: Company, MOFSL

**Exhibit 5: Expect transmission volumes to grow over FY24-25**



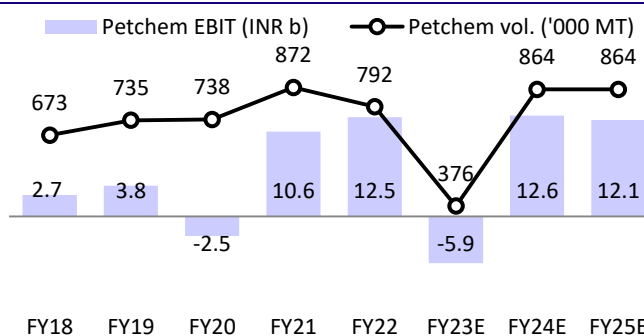
Source: Company, MOFSL

**Exhibit 6: LPG transmission segment EBIT**



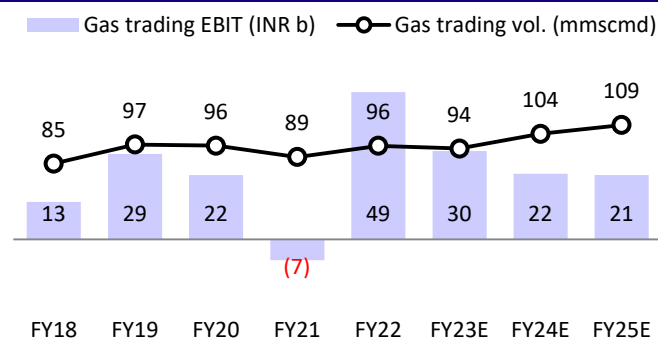
Source: Company, MOFSL

**Exhibit 7: Expect petchem segment EBIT to improve over FY24-25**



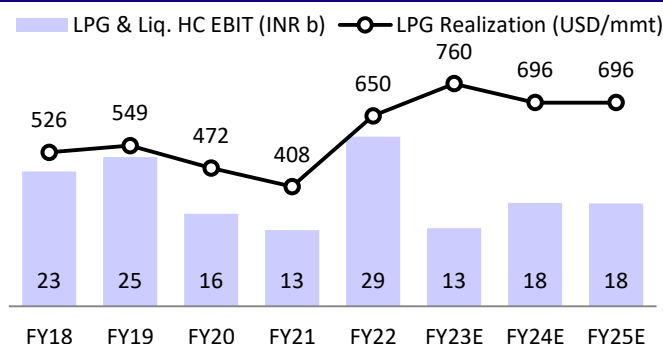
Source: Company, MOFSL

**Exhibit 8: Gas trading segment snapshot**



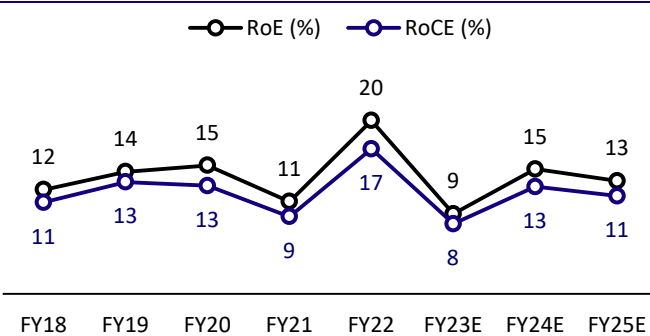
Source: Company, MOFSL

**Exhibit 9: LPG & Liq. HC EBIT expected to improve**



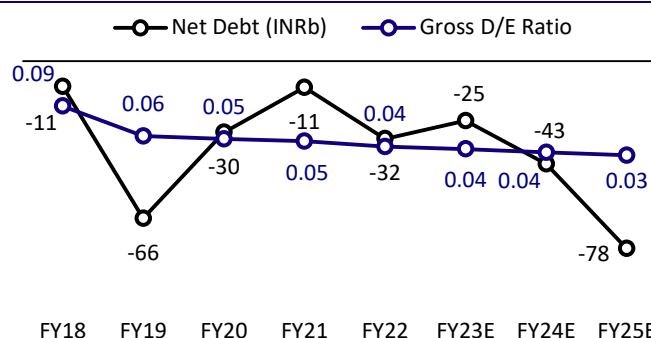
Source: Company, MOFSL

**Exhibit 10: Expect return ratios to recover**



Source: Company, MOFSL

**Exhibit 11: D/E ratio expected to decline**



Source: Company, MOFSL

## Financials and Valuations

Income Statement						(INR b)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Net Sales</b>	<b>538.3</b>	<b>751.3</b>	<b>718.8</b>	<b>567.4</b>	<b>916.5</b>	<b>1,535.7</b>	<b>1,369.5</b>	<b>1,391.8</b>
Change (%)	10.4	39.6	-4.3	-21.1	61.5	67.6	-10.8	1.6
<b>EBITDA</b>	<b>78.0</b>	<b>95.3</b>	<b>83.7</b>	<b>64.5</b>	<b>138.3</b>	<b>79.8</b>	<b>133.5</b>	<b>134.2</b>
% of Net Sales	14.5	12.7	11.6	11.4	15.1	5.2	9.7	9.6
Depreciation	14.2	15.5	18.4	19.1	21.1	24.4	25.4	25.8
Interest	2.8	1.4	1.1	1.6	1.7	3.3	2.1	2.3
Other Income	9.9	15.7	14.2	20.0	20.5	21.5	22.6	23.7
EO Items (net)	0.3	-3.3	1.0	0.0	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>71.2</b>	<b>90.8</b>	<b>79.4</b>	<b>63.9</b>	<b>135.9</b>	<b>73.6</b>	<b>128.6</b>	<b>129.8</b>
Tax	23.4	30.6	13.2	15.0	32.3	18.5	32.4	32.7
Rate (%)	32.9	33.7	16.7	23.4	23.7	25.2	25.2	25.2
<b>Reported PAT</b>	<b>47.8</b>	<b>60.3</b>	<b>66.2</b>	<b>48.9</b>	<b>103.6</b>	<b>55.1</b>	<b>96.2</b>	<b>97.1</b>
<b>Adjusted PAT</b>	<b>47.3</b>	<b>63.3</b>	<b>74.2</b>	<b>49.0</b>	<b>102.9</b>	<b>55.1</b>	<b>96.2</b>	<b>97.1</b>
Change (%)	13.8	26.0	9.9	-26.1	111.9	-46.9	74.7	0.9

Balance Sheet						(INR b)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	22.6	22.6	45.1	44.4	44.4	66.6	66.6	66.6
Reserves	380.7	418.4	394.6	421.7	511.5	554.7	630.2	706.4
<b>Net Worth</b>	<b>403.3</b>	<b>440.9</b>	<b>439.7</b>	<b>466.1</b>	<b>555.9</b>	<b>621.3</b>	<b>696.8</b>	<b>773.0</b>
Loans	9.8	8.7	54.1	59.9	63.5	69.9	76.9	84.6
Deferred Tax	46.3	59.5	45.0	45.0	47.7	47.7	47.7	47.7
<b>Capital Employed</b>	<b>459.4</b>	<b>509.1</b>	<b>538.8</b>	<b>571.0</b>	<b>667.1</b>	<b>738.8</b>	<b>821.3</b>	<b>905.2</b>
Gross Fixed Assets	469.6	508.1	548.3	591.4	638.5	781.6	881.6	981.6
Less: Depreciation	181.7	197.2	215.6	234.7	255.8	280.2	305.6	331.4
<b>Net Fixed Assets</b>	<b>287.9</b>	<b>310.9</b>	<b>332.7</b>	<b>356.7</b>	<b>382.7</b>	<b>501.4</b>	<b>576.0</b>	<b>650.2</b>
Capital WIP	55.1	92.0	105.8	119.0	130.7	87.6	87.6	87.6
Investments	99.5	95.3	78.8	105.5	136.3	136.3	136.3	136.3
<b>Current Assets</b>								
Inventory	19.2	23.2	29.6	26.0	30.2	50.5	45.1	45.8
Debtors	40.5	50.7	55.8	44.9	83.7	140.2	125.0	127.1
Cash & Bank Balance	25.3	12.1	8.0	13.6	20.8	62.6	58.2	69.5
Cash	10.8	1.5	5.5	12.1	13.7	33.2	28.9	40.2
Bank Balance	14.5	10.6	2.6	1.5	7.2	29.4	29.4	29.4
Loans/Adv. & Other Assets	99.6	59.5	74.7	67.3	79.0	79.0	79.0	79.0
<b>Current Liab. &amp; Prov.</b>								
Liabilities	145.7	120.4	133.7	148.5	181.2	303.7	270.8	275.2
Provisions	14.3	14.3	12.8	13.6	15.1	15.1	15.1	15.1
<b>Net Current Assets</b>	<b>24.5</b>	<b>10.9</b>	<b>21.5</b>	<b>-10.2</b>	<b>17.3</b>	<b>13.5</b>	<b>21.4</b>	<b>31.1</b>
<b>Application of Funds</b>	<b>467.1</b>	<b>509.1</b>	<b>538.8</b>	<b>571.0</b>	<b>667.1</b>	<b>738.8</b>	<b>821.3</b>	<b>905.2</b>

## Financials and Valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>7.1</b>	<b>9.5</b>	<b>11.1</b>	<b>7.4</b>	<b>15.4</b>	<b>8.3</b>	<b>14.4</b>	<b>14.6</b>
Cash EPS	9.3	11.4	12.7	10.2	18.7	11.9	18.3	18.4
Book Value	61.3	67.2	72.0	76.0	88.2	94.7	106.0	117.4
DPS	2.6	2.6	4.3	3.4	3.4	1.8	3.1	3.1
Payout (incl. dvd tax)	44.0	34.7	52.0	45.6	21.5	21.5	21.5	21.5
<b>Valuation (x)</b>								
P/E	14.9	11.1	9.5	14.4	6.8	12.8	7.3	7.2
Adj. P/E (for investments)	11.4	8.5	7.3	11.0	5.2	9.8	5.6	5.6
Cash P/E	11.4	9.3	8.3	10.4	5.6	8.9	5.8	5.7
EV / EBITDA	3.2	2.1	5.0	5.9	3.0	7.1	4.5	4.2
EV / Sales	0.5	0.3	0.7	0.9	0.5	0.5	0.5	0.5
Price / Book Value	1.7	1.6	1.5	1.4	1.2	1.1	1.0	0.9
Dividend Yield (%)	2.5	2.5	4.1	3.2	3.2	1.7	2.9	2.9
<b>Profitability Ratios (%)</b>								
RoE	12.2	14.3	15.0	10.8	20.3	9.4	14.6	13.2
RoCE	10.7	13.1	12.6	9.0	17.0	8.2	12.5	11.5
RoIC	14.3	18.0	16.6	10.2	25.1	10.0	16.3	14.1
<b>Turnover Ratios</b>								
Debtors (No. of Days)	27	25	28	29	33	33	33	33
Fixed Asset Turnover (x)	1.2	1.5	1.3	1.0	1.4	2.1	1.7	1.5
<b>Leverage Ratio</b>								
Net Debt / Equity (x)	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0

### Cash Flow Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	69.6	90.8	79.4	63.9	135.9	73.6	128.6	129.8
Depreciation	14.2	15.5	18.4	19.1	21.1	24.4	25.4	25.8
Interest charge	2.8	1.4	1.1	1.6	1.7	3.3	2.1	2.3
Tax paid	-13.2	-20.8	-19.6	-12.8	-32.0	-18.5	-32.4	-32.7
(Inc)/Dec in Wkg. Capital	18.9	-3.3	3.1	22.2	-29.7	45.6	-12.2	1.6
<b>CF from Op. Activity</b>	<b>86.6</b>	<b>78.8</b>	<b>68.9</b>	<b>80.6</b>	<b>89.5</b>	<b>128.3</b>	<b>111.5</b>	<b>126.9</b>
(Inc)/Dec in FA & CWIP	-29.4	-72.0	-54.3	-49.8	-59.2	-100.0	-100.0	-100.0
<b>Free Cash Flow</b>	<b>57.2</b>	<b>6.7</b>	<b>14.5</b>	<b>30.9</b>	<b>30.4</b>	<b>28.3</b>	<b>11.5</b>	<b>26.9</b>
(Pur)/Sale of Investments	-8.0	-2.7	-6.2	-10.7	-4.6	0.0	0.0	0.0
<b>CF from Inv. Activity</b>	<b>-25.7</b>	<b>-54.4</b>	<b>-68.3</b>	<b>-38.6</b>	<b>-46.1</b>	<b>-100.0</b>	<b>-100.0</b>	<b>-100.0</b>
Interest charge	-3.6	-1.4	-1.1	-3.2	-3.2	-3.3	-2.1	-2.3
Inc / (Dec) in Debt	-30.1	-11.3	45.2	4.6	3.6	6.4	7.0	7.7
Dividends Paid	-21.0	-20.9	-39.4	-22.4	-39.9	-11.9	-20.7	-20.9
<b>CF from Fin. Activity</b>	<b>-54.7</b>	<b>-33.6</b>	<b>3.4</b>	<b>-35.4</b>	<b>-41.8</b>	<b>-8.8</b>	<b>-15.9</b>	<b>-15.6</b>
<b>Inc / (Dec) in Cash</b>	<b>6.2</b>	<b>-9.3</b>	<b>4.0</b>	<b>6.6</b>	<b>1.6</b>	<b>19.5</b>	<b>-4.4</b>	<b>11.3</b>
Add: Opening Balance	4.5	10.8	1.5	5.5	12.1	13.7	33.2	28.9
<b>Closing Balance</b>	<b>10.8</b>	<b>1.5</b>	<b>5.5</b>	<b>12.1</b>	<b>13.7</b>	<b>33.2</b>	<b>28.9</b>	<b>40.2</b>

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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