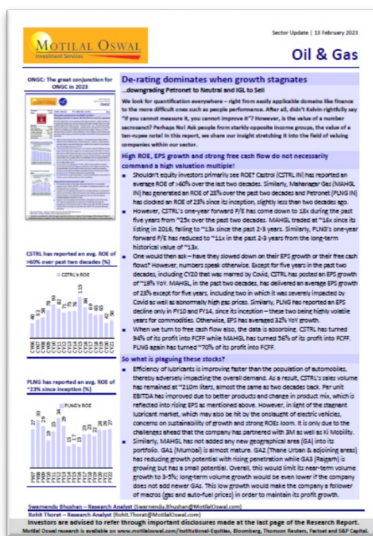


## Our earlier reports



## PNGRB proposes unified tariff across entities

### Positive for GAIL; status quo for GSPL for the time being

- According to the amendments brought in late-2022, the Petroleum and Natural Gas Regulatory Board (PNGRB) set up an Industry Committee for determining unified tariff across entities.
- This proposal builds in INR60.9/mmBtu as integrated tariff for GAIL against its own proposal of INR68/mmBtu; the current implied tariff is at ~INR43/mmBtu (9MFY23).
- The move towards unified tariff is much awaited as it would reduce the tariffs for upcoming pipelines, thus facilitating more capex in pipelines.
- We will not revise our forecasts until the time tariffs are finalized for GAIL & GSPL. However, considering the recent positive developments around GAIL, we raise our TP to INR127. The assumption of INR60.9/mmBtu would raise our EPS for GAIL to INR15.1 from INR12.4 and target price to INR152.

### PNGRB proposes unified tariff across entities

- PNGRB constituted an Industry Committee for determining unified tariff across entities. The committee has proposed tariffs of INR35.3/INR78.5/INR104.6 per mmBtu across Zones 1/2/3, respectively.
- This builds in INR60.9/mmBtu for the integrated network of GAIL. To keep things in perspective, GAIL had proposed an integrated tariff of INR68/mmBtu v/s ~INR43/mmBtu, which it is realizing as of now.
- The hike is warranted due to the changes proposed by PNGRB last year - ramp up of utilization, allowing recovery of system usage gas and transmission losses. The open house for unified tariff is to be held on 23<sup>rd</sup> Mar'23 post which, PNGRB would come out with its final order.

### Positive for GAIL, status quo for GSPL

- If the proposal of the committee is accepted, it would mean ~42% hike in GAIL's tariff. We forecast an EBITDA of INR138b for GAIL in FY24. This includes transmission EBITDA of INR57b. The revised tariffs are supposed to be in effect from 1<sup>st</sup> Apr'23.
- If the proposal is accepted, GAIL's FY24 EBITDA would rise to INR162b from INR138b. Its FY24E EPS would rise to INR15.1 from INR12.4, a jump of 22%.
- The proposal as of now has not assumed any change in GSPL's tariffs and the review of the same is also expected to come soon.

### Valuation and view

- Decline in LNG prices would be a boon for GAIL. We expect its transmission volume to rise to 119mmcmd in FY24 from 107mmcmd in FY23. We understand that the petrochemical plant is also likely to achieve full utilization in a day or two.
- GAIL is trading at 8.5x FY24E EPS of INR12.4 and 5.2x FY24E EV/EBITDA. We value the company at 9x adjusted EPS and add the value of investments to arrive at a target price of INR127. We will not revise our forecasts until the time the tariffs are finalized for GAIL and GSPL. However, if the proposed tariff of INR60.9/mmBtu is accepted, our target price for GAIL would rise to INR152.
- Key risks would be a rise in LNG prices and/or poor economic outlook, thereby adversely impacting natural gas demand.

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**Exhibit 1: Estimated impact on GAIL if the proposed tariff of INR60.9/mmBtu is accepted**

	FY24	
	Base case (INR43/mmBtu)	Considered in unified tariff proposal (INR60.9/mmBtu)
<b>Segmental EBITDA (INR b)</b>		
NG transmission	57.3	81.2
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>162.0</b>
Depreciation	25.2	25.2
Interest	2.1	2.1
PBT	110.8	134.7
Tax	27.9	33.9
<b>PAT</b>	<b>82.9</b>	<b>100.8</b>
Shares o/s (m)	6,660.6	6,660.6
<b>EPS (INR/share)</b>	<b>12.4</b>	<b>15.1</b>
Adj	0.9	0.9
Adj EPS (INR/share)	11.5	14.2
PE (x)	9.0	9.0
Valuation of core	103	128
Investments	24	24
<b>Total</b>	<b>127</b>	<b>152</b>

Source: PNGRB, Company, MOFSL

**Exhibit 2: Valuation Snapshot**

Company	Reco	TP (INR)	EPS (INR)			P/E (x)			P/BV (x)			EV/EBITDA (x)			ROE (%)			Div. Yield FY23E
			FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
GAIL	Buy	127	8.3	12.5	12.5	12.6	8.4	8.4	1.1	1.0	0.9	3.0	7.1	5.2	9.4	12.7	11.6	1.7
GUJS	Buy	339	16.1	18.1	18.8	17.2	15.3	14.7	1.7	1.5	1.4	12.3	10.0	9.2	10.3	10.5	10.0	0.7

**Exhibit 3: GAIL: Financials & Valuation****(INR b)**

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Sales	538.3	751.3	718.8	567.4	916.5	1,540.5	1,376.4	1,430.5
EBITDA	78	95.3	83.7	64.5	138.3	80.5	115.6	115.1
Adj. PAT	47.3	63.3	74.2	49	102.9	55.3	82.9	83
Adj. EPS (INR)	7.1	9.5	11.1	7.4	15.4	8.3	12.4	12.5
EPS Gr. (%)	4.8	33.6	17.3	-34	110.1	-46.3	50	0
BV/Sh.(INR)	61.3	67.2	72	76	88.2	94.7	104.5	114.2
<b>Ratios</b>								
Net D:E	0	0	0.1	0.1	0.1	0	0	0
RoE (%)	12.2	14.3	15	10.8	20.3	9.4	12.7	11.5
RoCE (%)	10.7	13.1	12.6	9	17	8.2	10.9	10
Payout (%)	44	34.7	52	45.6	21.5	21.5	21.5	21.5
<b>Valuations</b>								
P/E (x)	14.8	11.1	9.4	14.3	6.8	12.7	8.5	8.5
P/BV (x)	1.7	1.6	1.5	1.4	1.2	1.1	1	0.9
EV/EBITDA (x)	3.2	2.1	5	5.9	3	7.1	5.2	5
Div. Yield (%)	2.5	2.5	4.1	3.2	3.2	1.7	2.5	2.5
FCF Yield (%)	8.1	1	2.1	4.4	4.3	4.2	-0.3	2.1

Source: Company, MOFSL

**Exhibit 4: GSPL: Financials & Valuation****(INR b)**

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Sales	13.3	18.8	19.4	17.2	16.6	15.2	18.0	19.0
EBITDA	11.5	15.4	15.7	14.7	14.0	12.7	15.2	16.0
PAT	6.7	7.9	11.1	9.3	9.8	9.1	10.2	10.6
EPS (INR)	11.9	14.1	19.7	16.4	17.4	16.1	18.1	18.8
EPS Gr. (%)	34.6	18.9	39.5	-16.5	5.7	-7.2	12.4	3.8
BV/Sh.(INR)	89.8	101.8	119.2	133.8	149.7	163.8	179.9	196.7
<b>Ratios</b>								
Net D:E	0.3	0.2	0.1	0.1	0.0	0.0	-0.1	-0.1
RoE (%)	14.0	14.7	17.8	13.0	12.2	10.3	10.5	10.0
RoCE (%)	11.6	13.6	17.5	12.8	11.9	10.2	10.5	9.9
Payout (%)	16.9	16.1	12.2	14.7	13.9	12.4	11.0	10.6
<b>Valuations</b>								
P/E (x)	23.4	19.7	14.1	16.9	16.0	17.2	15.3	14.7
P/BV (x)	3.1	2.7	2.3	2.1	1.9	1.7	1.5	1.4
EV/EBITDA (x)	14.8	10.9	10.2	11.1	11.2	12.0	9.8	9.0
Div. Yield (%)	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
FCF Yield (%)	4.0	5.5	7.9	7.2	6.3	1.9	2.9	3.4

Source: Company, MOFSL

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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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

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