



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

GAIL (India)

23 March 2023

Final tariff order enhances optimism

PNGRB has come out with final integrated tariff order for GAIL at Rs58.61/mmbtu, around 30% higher to the current tariff and 8.8% higher to our current assumption of Rs53.9/mmbtu. New tariff order is effective from 1st April 2023. Further, we attended the interaction meet with the GAIL's top management and key highlights are:

Transmission:

Tariff Revision: PNGRB raised integrated tariff to Rs58.61/mmbtu from an average of Rs45/mmbtu in 9MFY23 which is effective from 1st April 2023. Currently nearly 90% of volume (~96mmscmd) is flowing independently while 10% (~11mmscmd) is flowing through multiple pipeline. Though, the company would study the order and may challenge the assumptions in coming weeks, if needed.

Volume guidance: The company has guided for a volume of 120mmscmd in FY24E with a 5% CAGR over the next few years. The company expects new tariff order to translate into ~Rs18 bn addition to EBITDA at existing volume (~107mmscmd). Incremental demand is expected to come from CGDs (+4mmscmd), power and fertilisers.

Lesser allocation of APM for compressors: Further, they are receiving 0.65mmscmd of APM gas for the compressors, down from 1.55mmscmd within a year which is likely to see an annual impact of Rs5 bn at current pricing scenario. Nonetheless, chances of getting completely out of allocation are also very high in near term which can have further negative impact on profitability.

Timeline for upcoming pipelines:

- 1) Mumbai Jharsuguda (1755kms) – Capex Rs78 bn – to be commissioned by Jun'24
- 2) Srikakulam Angul (690 kms) – to be commissioned by Jul'23
- 3) Dhamra Haldia (240 kms) – to be commissioned by Jun'23
- 4) Kochi-Koottanad-Mangalore-Bangalore (887 kms) – to be commissioned by Nov'24 (Orders awarded for half the length of phase 2 while rest will be awarded soon).
- 5) North-East Pipeline (1650 kms – GAIL 20% stake) – Capex Rs90 bn – To be commissioned by Mar'24.

These are the major pipelines under construction. No major pipeline is in the drawing board. KKMBl pipeline current tariff is Rs43-44/mmbtu which is likely to more than double when final tariff order comes up. Normal course of tariff revision is 3 years.

COMPANY UPDATE

Sector: Natural Gas Rating: BUY

CMP: Rs 105 Target Price: Rs 123

Stock Info

Sensex/Nifty 58,215/17,152

Bloomberg GAIL IN

Equity shares (mn) 6,575

52-wk High/Low Rs 113/85

Face value Rs 10

M-Cap Rs 693bn/ USD 8.4bn

3-m Avg volume 15.3mn

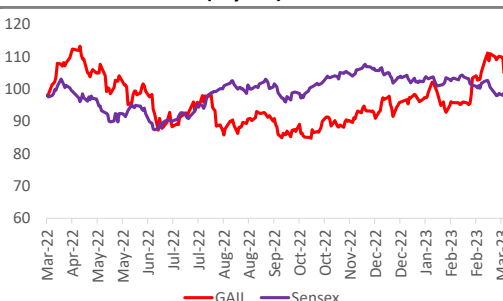
Financial Snapshot (Rs bn)

Y/E Mar	FY23E	FY24E	FY25E
Sales	1,461	1,366	1,383
EBITDA	82	127	136
PAT	56	91	96
EPS (Rs)	8.4	13.7	14.4
PE (x)	11.7	7.2	6.9
EV/EBITDA (x)	8.8	5.6	5.1
RoE (%)	10.0	14.9	14.5
RoCE (%)	7.6	12.4	12.3
Dividend yield (%)	6.0	5.5	5.8

Shareholding Pattern (%)

	Dec'22	Sep'22	Jun'22
Promoter	52.0	52.0	52.0
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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Investors are advised to refer disclosures made at the end of the research report.

Gas Marketing Business:

Guidance: Guided for 100mmscmd of volume in FY24E with 5% CAGR. Expecting Rs35 bn EBITDA from this segment.

Update on Gazprom contract: GAIL would be receiving 2-2 cargoes each in Mar'23 and Apr'23. Clarity on full volume is yet to be emerged. As per earlier contract, GAIL is entitled to receive nearly 4 cargoes every month (2.5mmtpa).

Update on US LNG and contract with Shell: GAIL has signed to sell 0.5mmtpa of US LNG with Shell for 5 years which is nearly 8 cargoes a year. Margins likely to remain strong but no guidance. Out of ~21mmscmd of US gas, GAIL has entered for nearly 11mmscmd while 10mmscmd is still open. Most of the contracts are based on Henry Hub only. All volume from US will be available for India and final sale would depend on demand.

Risk to LNG on higher domestic volume: GAIL doesn't see any risk to LNG volume as most of the volume is under long-term contracts. RIL is expected to come out with auction for 6mmscmd in near term but rest is expected only at end of the year.

Petrochemical segment:

Long term supply to petchem: GAIL is looking to assign a long-term contracted supply of gas to the petrochemical division which would enhance visibility to earnings. Nearly 4.5mmscmd is the current supply. At current price environment, Petrochemical division is likely to report closer to break-even at EBITDA. Utilisation has already ramped up closer to 100%.

Timeline of Petrochemical project:

- 1) **PDH-PP plant at Usar:** GAIL is investing Rs78 bn for 500KTA of Propane Dehydrogenation and Polypropylene plant at Usar, Maharashtra which is likely to commission by mid-CY25. The company is looking to import ethane for the project.
- 2) **Pata upgradation:** GAIL is looking to add 50KTA at Pata with a total investment of Rs13 bn, likely to commission by end-CY25. The company is also looking to import Ethane to change its feedstock from gas. GAIL has signed MoU with Shell.
- 3) **Isopropyl Alcohol (IPA) at Usar:** GAIL is adding 50KTA IPA capacity at Usar at an investment of Rs5 bn, likely to commission by end-CY25.
- 4) **JBF Acquisition:** GAIL would be investing Rs21bn initially with an additional investment of Rs19 bn. The company will have a capacity of 1.2mmtpa which is likely to commission by H1CY25.

LHC Business:

Lower APM gas price is likely to benefit in FY24E while volatility in propane prices would continue to be a challenge. With US\$1/mmbtu decrease in gas price, profitability goes up by Rs4,500/mt. While, with every Rs1000/mt increase in LPG prices, GAIL gets an additional Rs0.9-1.0 bn.

Dabhol Breakwater: Not in FY23 but looks to complete by March 24. Currently utilization stood at 2.9mmtpa and additional 2.1mmtpa would be available post breakwater.

Dhamra LNG Terminal: Dhamra LNG terminal to be commission within couple of months as pipeline is also almost ready. 1.5mmtpa is already booked and expect volume offtake from few fertiliser companies.

GAIL's CGD and GAIL Gas: GAIL's own volume is currently stands at 0.22mmscmd and expect 20% growth while GAIL gas's volume is likely to increase from current 5.5mmscmd to 6.5mmscmd in next two years. The company is looking to add 100/200 new CNG stations over the next couple of years.

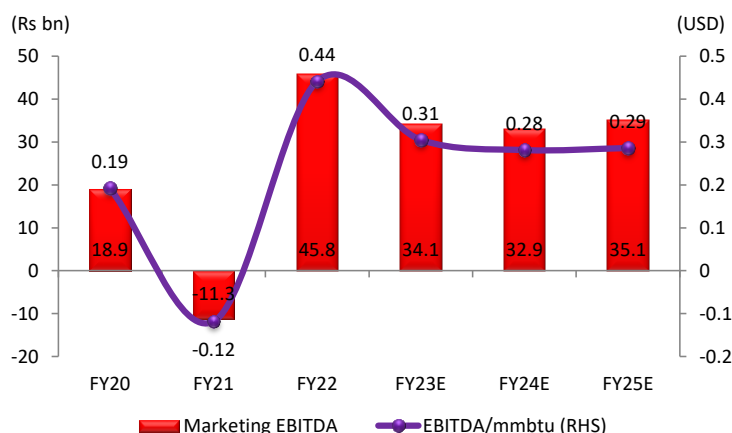
Our View: We revise our tariff assumption from Rs54/mmbtu to Rs58.6/mmbtu based on final tariff order. Therefore, we raise our EBITDA estimates by 5.8% for both FY24E and FY25E. However, we keep our transmission volume estimate conservatively at 115/121mmscmd for FY24E/FY25E which poses upside risk based on the company's guidance. Further, we keep our trading EBITDA estimates unchanged at Rs33/35 bn for FY24E/FY25E. Overall, we change our TP to Rs123 from earlier Rs120 (adjusting to Rs4/share of special dividend). We keep BUY on the stock.

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	-	13,59,240	13,66,195	0.5	13,75,717	13,83,000	0.5
EBITDA	82,118	82,118	-	1,20,466	1,27,421	5.8	1,28,286	1,35,569	5.7
Net Profit	56,237	56,237	-	85,833	91,137	6.2	90,607	96,161	6.1
EPS (Rs)	8.4	8.4	-	12.9	13.7	6.2	13.6	14.4	6.1

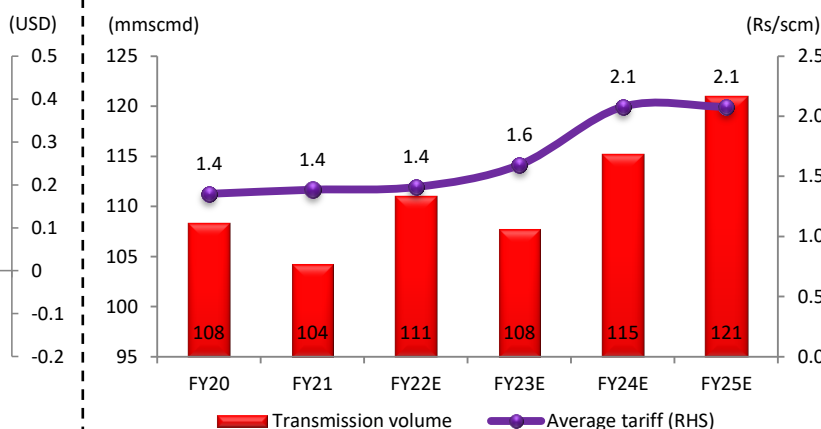
Source: Company, Systematix Institutional Research

Exhibit 2: Marketing division: Profitability remains volatile



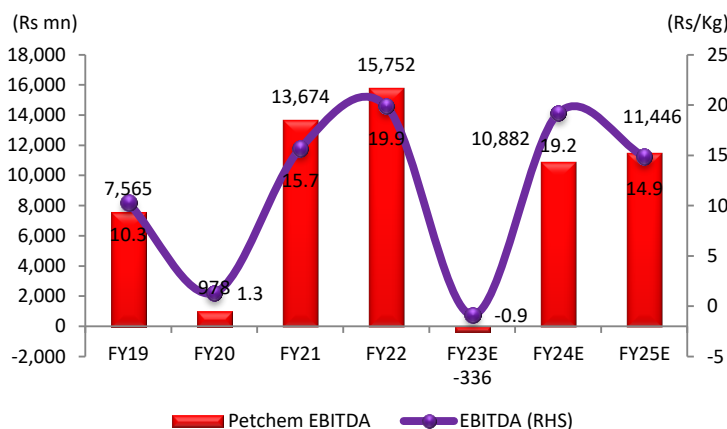
Source: Company, Systematix Institutional Research

Exhibit 3: Transmission volumes and tariff



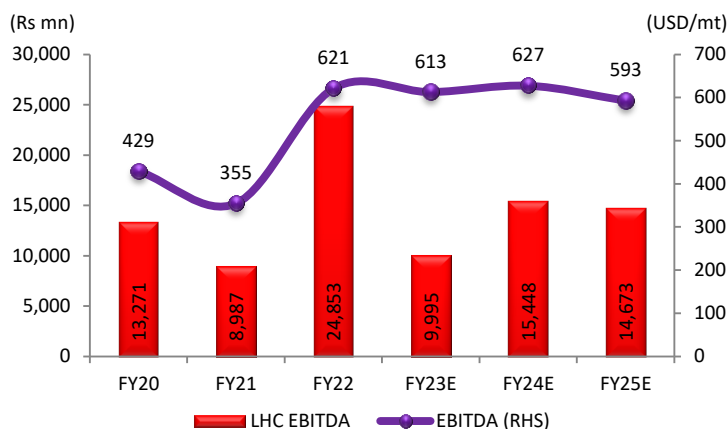
Source: Company, Systematix Institutional Research

Exhibit 4: FY25E EBITDA to breach all previous levels



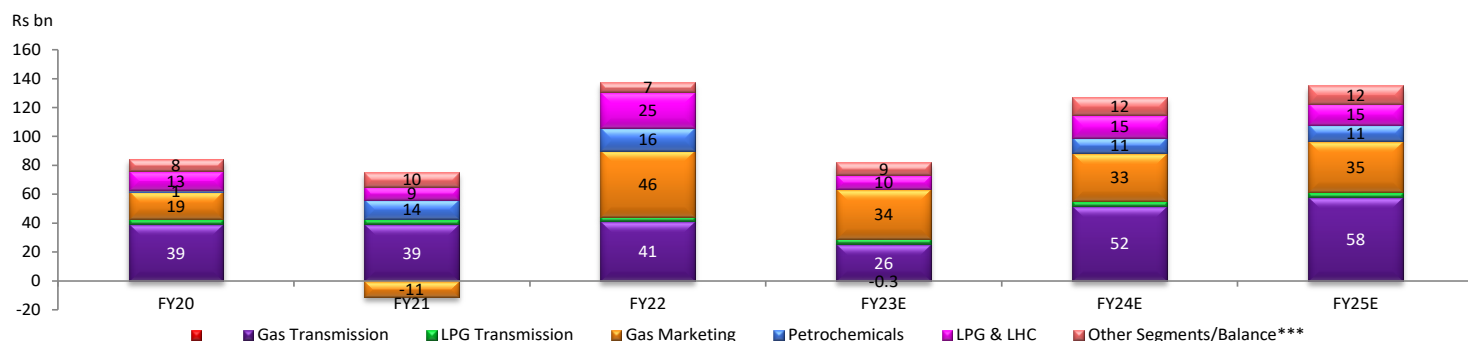
Source: Company, Systematix Institutional Research

Exhibit 5: LHC EBITDA and realisation



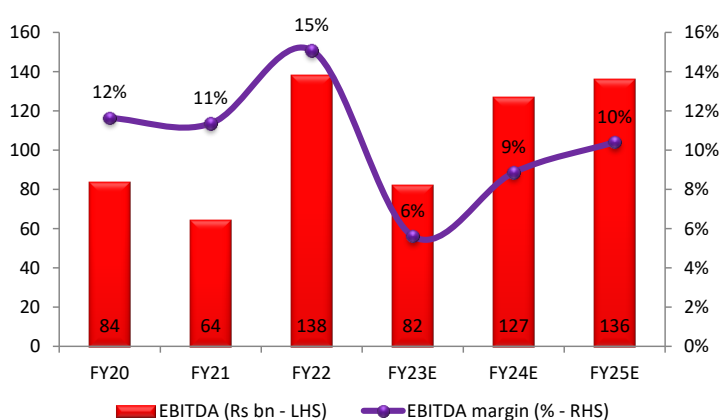
Source: Company, Systematix Institutional Research

Exhibit 6: Segmental EBITDA split up



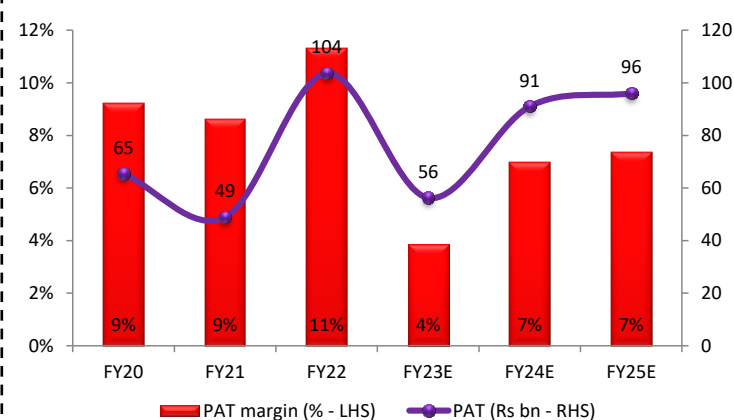
Source: Company, Systematix Institutional Research

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
Revenue	7,51,263	7,18,710	5,67,302	9,16,265	14,60,969	13,66,195	13,81,256
Gas Transmission	51,950	53,730	52,810	57,170	62,664	87,636	91,766
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	11,26,290
Petrochemicals	66,310	53,700	70,010	84,760	45,294	73,834	92,116
LHC & Others	56,633	50,850	41,582	59,305	64,549	67,653	47,461
EBITDA	97,851	83,694	64,451	1,38,290	82,118	1,27,421	1,35,569
Gas Transmission	35,787	40,574	41,860	43,623	25,537	52,360	66,721
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	13,154
LHC & Others	26,126	17,060	14,183	27,502	19,424	27,391	20,187
Pipeline gas volume (mmscmd)	107.4	108.4	104.2	111.0	107.7	115.2	121.0
Average tariff (Rs/scm)	1.3	1.4	1.4	1.4	1.6	2.1	2.1
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
Gas marketing volume (mmscmd)	97	96	89	96	97	100	104
Average EBITDA/Marketing margin (USD/mmbtu)	0.3	0.2	-0.1	0.4	0.3	0.3	0.3
Petrochemicals - Sales volume (mmt)	735	738	872	792	389	567	770
Average realisation (Rs/mt)	90,211	72,691	80,213	1,06,862	1,16,325	1,30,026	1,19,533
LHC - Sales volume (mmt)	1.3	1.3	1.1	1.0	0.9	1.0	1.0
Average realisation (USD/mt)	499	429	355	621	613	627	48,377

Source: Company, Systematix Institutional Research

Exhibit 10: SoTP valuation

(Rs mn)	EBITDA (FY25E)	Multiple (x)	EV
Gas Transmission	58,148	6.0	3,48,889
LPG Transmission	3,422	5.0	17,112
Gas Marketing	35,131	4.0	1,41,929
Petrochemicals	11,446	4.0	45,783
LHC	14,673	5.5	81,291
Others	12,248	5.0	61,731
Total	1,35,069	5.2	6,96,734
Less: Net Debt			61,260
Equity Value			6,35,475
Equity Value (Rs/share)			95

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
Total Investment Value			28

Source: Systematix Institutional Research

FINANCIALS (STANDALONE)

Profit & Loss Statement

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net revenue	5,67,302	9,16,265	14,60,969	13,66,195	13,83,000
Raw material cost	4,43,486	7,07,822	12,95,681	11,51,940	11,56,302
Gross Profit	1,23,816	2,08,443	1,65,287	2,14,255	2,26,698
Employee Cost	15,310	17,112	18,355	20,418	22,713
Other expenses	44,055	53,041	64,814	66,416	68,416
EBITDA	64,451	1,38,290	82,118	1,27,421	1,35,569
Depreciation	19,079	21,112	24,756	27,456	30,156
EBIT	45,373	1,17,179	57,363	99,965	1,05,413
Interest Cost	1,559	1,744	3,176	1,969	1,906
Other Income	20,045	20,469	19,557	21,513	22,588
PBT Before Exceptionals	63,858	1,35,903	73,743	1,19,508	1,26,095
Exceptional Items	0	0	0	0	0
PBT	63,858	1,35,903	73,743	1,19,508	1,26,095
Tax	14,956	32,263	17,507	28,371	29,935
Reported PAT	48,902	1,03,640	56,237	91,137	96,161
Adjusted PAT	48,902	1,03,640	56,237	91,137	96,161
Reported EPS (Rs)	11.0	23.3	8.4	13.7	14.4
Adjusted EPS (Rs)	7.3	15.6	8.4	13.7	14.4

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Pre-Tax Profit	63,858	1,35,903	73,743	1,19,508	1,26,095
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	-5,422	-164
Other Operating Activities	-12,754	-31,960	-17,007	-27,871	-29,435
Operating Cash Flow	80,639	89,550	72,294	94,128	1,05,970
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
Investing Cash Flow	-38,609	-46,148	-40,460	-38,517	-37,453
Free Cash Flow	42,030	43,402	31,833	55,611	68,516
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	-50,415	-45,715	-48,063
Financing Cash Flow	-36,451	-36,171	-50,415	-45,715	-48,063
Change in Cash	5,579	7,231	-18,582	9,896	20,453
Opening Cash Balance	8,039	13,618	20,850	2,268	12,164
Closing Cash Balance	13,618	20,850	2,268	12,164	32,617

Key Assumptions

Y/E Mar	FY21	FY22	FY23E	FY24E	FY25E
Gas trans. vol (mmcmd)	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 (mmcmd)	89.2	96.2	96.8	100.1	104.4
Petrochemical sales vol(kt)	872.0	792.0	388.8	567.0	769.5
LHC volume (mmt)	1.1	1.0	0.9	1.0	1.0
Transmission tariff (Rs/scm)	1.4	1.4	1.6	2.1	2.1

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	4,98,260	5,45,651	5,95,655
Networth	4,66,112	5,55,868	5,64,866	6,12,257	6,62,261
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
Capital Employed	6,28,323	7,42,916	7,54,130	8,03,783	8,56,093
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
Current Assets	1,07,466	1,67,162	2,35,560	2,30,323	2,53,460
Short Term Investments	4,685	0	0	0	0
Inventories	26,038	30,152	48,077	44,959	45,512
Sundry Debtors	44,858	83,660	1,33,394	1,24,741	1,26,275
Cash & Bank Balance	13,618	20,850	2,268	12,164	32,617
Short Term Loans & Adv.	6,847	17,857	28,473	26,626	26,954
Others	11,420	14,643	23,348	21,833	22,102
Current Liabilities & Prov.	1,04,782	1,20,490	2,13,551	1,91,857	1,93,197
Creditors	43,264	54,660	96,877	87,035	87,643
Other Current Liabilities	61,518	65,830	1,16,674	1,04,822	1,05,554
Net Current Assets	2,684	46,672	22,009	38,466	60,262
Total Assets	6,28,323	7,42,916	7,54,130	8,03,783	8,56,093

Ratios (Consolidated)

Y/E Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth					
Revenue growth	-21.1%	61.5%	59.4%	-7.0%	-5.2%
Revenue growth	-21.1%	61.5%	59.4%	-6.5%	1.2%
EBITDA growth	-23.0%	114.6%	-40.6%	55.2%	6.4%
Adjusted PAT growth	-25.2%	111.9%	-45.7%	62.1%	5.5%
Margins					
Gross margin	21.8%	22.7%	11.3%	15.7%	16.4%
EBITDA margin	11.4%	15.1%	5.6%	9.3%	9.8%
PBT margin	11.3%	14.8%	5.0%	8.7%	9.1%
Effective Tax rate	23.4%	23.7%	23.7%	23.7%	23.7%
Adjusted PAT margin	9.1%	8.6%	11.3%	3.8%	6.7%
Operating Cycle					
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
Return Ratios					
ROE	10.5%	18.6%	10.0%	14.9%	14.5%
Pre-tax ROCE	7.2%	15.8%	7.6%	12.4%	12.3%
Capex/revenue	9.9%	6.4%	4.0%	4.3%	4.3%
Net debt / Equity	0.1	0.1	0.1	0.1	0.1
Yield Analysis					
CFO Yield	18.3%	20.4%	11.0%	14.3%	16.1%
FCF Yield	3.8%	3.3%	2.0%	5.0%	6.8%
Dividend Yield	5.1%	10.1%	6.0%	5.5%	5.8%
Valuation					
P/E (x)	13.5	6.4	11.7	7.2	6.9
P/B (x)	0.9	0.8	1.2	1.1	1.0
EV/Sales (x)	0.8	0.5	0.5	0.5	0.5
EV/EBITDA (x)	7.4	3.5	8.8	5.6	5.1

Source: Company, Systematix Institutional Research

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