

Positive outlook owing to oil, spot LNG prices...

About the stock: Gail India is a gas utility company with various business segments such as gas transmission & trading, LPG, LLH and petrochemicals.

- It operates a gas transmission network of 12426 km as of end of FY20
- Gail also has a presence in CGD sector directly and via associate companies

Q1FY22 Results: Results were marginally better than expected on profitability front.

- Revenue was up 43.8% YoY to ₹ 17383.9 crore
- While gas transmission & LPG performance was better than expected, petchem performance was weaker than anticipated. Gas trading and LPG/LLH performance was in line with estimates
- Subsequently, EBITDA was at ₹ 2411.3 crore, up 287.3% YoY. Reported PAT was at ₹ 1529.9 crore, up 498.8% YoY

What should investors do? Gas trading outlook remains positive taking into account current LNG price trend. Transmission volume is also expected to pick up steadily with relaxation in lockdown and commissioning of industries/fertiliser plants.

- We upgrade our rating on the stock from HOLD to BUY

Target Price and Valuation: We value Gail at ₹ 175/share based on SoTP method

Key triggers for future price performance:

- Gas transmission volume are currently above pre-Covid level and expected to improve gradually
- Gas trading is expected to report healthy gains in the near term due to favourable spot LNG price trend
- LPG to report better profitability compared to FY21 on higher oil prices

Alternate Stock Idea: Apart from Gail, in our oil & gas coverage we also like MGL.

- MGL is a beneficiary of India's increasing gas demand and will continue to grow on account of steady volume growth, better pricing power and a favourable regulatory scenario
- BUY with a target price of ₹ 1,340



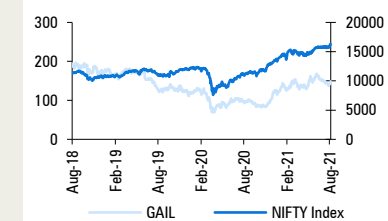
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	65,273.7
Total Debt (FY 20) (₹ Crore)	3,879.1
Cash and Investments (FY 20)	803.9
EV (₹ Crore)	68,348.9
52 week H/L	170 / 81
Equity capital (₹ Crore)	2,255.1
Face value (₹)	10.0

Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	52.1	52.1	52.1	51.8	51.8
FII	15.6	15.1	15.6	15.6	17.0
DII	27.4	28.4	28.2	27.8	27.3
Others	4.9	4.4	4.1	4.8	3.9

Price Chart



Recent event & key risks

- Currently gas transmission volume is ~115 mmscmd
- **Key Risk:** (i) Slower than expected volume growth, (ii) lower than expected gas trading margins

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Key Financial Summary

Key Financials	FY19	FY20	FY21E	5 year CAGR (FY16-21E)	FY22E	FY23E	2 year CAGR (FY21-23E)
Revenue (₹ crore)	75,126.3	71,871.0	56,730.2	1.8	75,101.7	79,661.4	18.5
EBITDA (₹ crore)	9,528.7	8,369.4	6,445.1	8.6	10,249.2	10,655.6	28.6
PAT (₹ crore)	6,025.7	6,620.6	4,890.2	16.3	6,953.4	7,273.5	22.0
EPS (₹)	13.4	14.7	11.0		15.7	16.4	
PE (x)	11.0	10.0	13.3		9.4	9.0	
P/Book (x)	1.5	1.5	1.4		1.3	1.2	
EV / EBITDA	6.9	8.3	10.9		6.9	7.0	
ROCE (%)	17.6	13.7	8.7		14.0	12.5	
ROE (%)	13.7	15.1	10.6		13.8	13.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Better realisation drives revenue; gas volumes higher than estimates

- Revenue was up 11.8% QoQ on account of better realisation across key segments
- Gas transmission volumes were up 19.3% YoY (down 1.9% QoQ) at 107.7 mmscmd, better than the estimate of 103 mmscmd. Lower-than-expected costs coupled with higher volume led to gas transmission EBIT at ₹ 914.9 crore, above our estimates of ₹ 839.5 crore
- On the gas trading front, volumes were at 96 mmscmd, up 18.2% YoY, 5% QoQ, better than our estimate of 87 mmscmd. Gas trading EBIT of ₹ 377.6 crore was in line with estimates
- The petchem segment reported volumes at 138 KT, above our estimates of 120 KT. EBIT was at ₹ 138.3 crore vs. our estimate of ₹ 221.4 crore due to higher costs. LPG, LLH volumes were at 250 KT. Higher than expected realisation while lower-than-expected volume led to EBIT at ₹ 634.1 crore

Q1FY22 Earnings Conference Call highlights

- Transmission volumes recovered post relaxations in lockdown restrictions and are currently at 115 mmscmd
- The management said peak demand of 10-12 mmscmd (currently 2.5 mmscmd) is expected from five fertiliser plants by May 2022
- The company has planned a capex of ₹ 40000 crore for laying 8000 km pipelines in future
- The management said gas trading segment will perform better in near term
- Dabhol terminal is expected to be fully operational by March 2023

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
GAIL (India) (GAIL)	147	175	Buy	65,274	11.0	15.7	16.4	13.3	9.4	9.0	10.9	6.9	7.0	8.7	14.0	12.5	10.6	13.8	13.3
Gujarat Gas (GUJGA)	722	735	Hold	49,702	18.5	24.9	26.3	39.0	29.0	27.5	24.1	18.7	17.4	33.0	36.5	32.8	29.0	29.6	25.4
Indraprastha Gas (INDGAS)	558	595	Hold	39,060	14.4	18.8	21.0	38.8	29.7	26.6	25.6	20.0	17.6	20.7	23.7	22.7	17.4	19.6	18.8
Mahanagar Gas (MAHGAS)	1167	1340	Buy	11,527	62.7	95.6	107.2	18.6	12.2	10.9	11.9	7.9	6.6	22.6	29.7	28.1	18.7	23.9	22.5
Petronet LNG (PETLNG)	218	250	Hold	32,700	19.7	18.8	21.7	11.1	11.6	10.1	6.7	6.7	5.9	25.3	22.9	24.6	24.4	22.0	23.3

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Revenues	17,383.9	14,786.2	12,086.9	43.8	15,546.2	11.8	
Raw materials costs	13,397.2	11,136.6	10,003.2	33.9	11,558.5	15.9	
Employees Cost	425.7	417.7	397.8	7.0	336.1	26.7	
Other Expenses	1,149.7	936.8	1,063.3	8.1	1,086.9	5.8	
Total Expenditure	14,972.6	12,491.2	11,464.3	30.6	12,981.4	15.3	
EBITDA	2,411.3	2,295.0	622.6	287.3	2,564.8	-6.0	Above estimates mainly on account of better-than expected performance in gas transmission and LPG
EBITDA margins (%)	13.9	15.5	5.2	872 bps	16.5	-263 bps	
Depreciation	508.6	544.7	458.3	11.0	475.8	6.9	
EBIT	1,902.7	1,750.3	164.4	1,057.7	2,089.0	-8.9	
Interest	46.6	57.7	49.5	-5.9	45.9	1.5	
Other Income	197.6	310.0	241.3	-18.1	568.4	-65.2	Lower than expected
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	2,053.7	2,002.6	356.2	476.6	2,611.6	-21.4	
Total Tax	523.8	504.7	100.7	420.3	703.9	-25.6	
PAT	1,529.9	1,497.9	255.5	498.8	1,907.7	-19.8	

Key Metrics

Exchange rate (₹/\$)	73.9	73.9	75.9	-2.7	72.9	1.3	
Transmn vol (mmscmd)	107.7	103.0	90.2	19.3	109.8	-1.9	Volume offtake higher than estimates
Transmn realisation (₹/tscm)	1514.5	1575.0	1544.6	-2.0	1550.0	-2.3	
Trading Vol (mmscmd)	96.0	87.0	81.2	18.2	91.4	5.0	Better than estimated
Trading realisation(\$/mmbtu)	6.1	5.4	4.6	31.5	5.5	10.8	
Petchem Vol (000' tonnes)	138.0	120.0	183.0	-24.6	234.0	-41.0	
Petchem realisation(₹/tonne)	98713.8	99750	66759.0	47.9	94780.3	4.2	
LPG/OLH vol (000' tonnes)	250.0	265.0	265.0	-5.7	257.0	-2.7	
LPG/OLH realisation(₹/tonne)	40602.0	39250.0	28223.0	43.9	33659.9	20.6	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	66411.4	75,101.7	13.1	71412.7	79,661.4	11.6	
EBITDA	10602.8	10,249.2	-3.3	11441.4	10,655.6	-6.9	Reduced profitability estimates mainly due to higher cost estimates from H2FY22 onwards in LLH and petchem segments
EBITDA Margin (%)	16.0	13.6	-232 bps	16.0	13.4	-265 bps	
PAT	7272.9	6,953.4	-4.4	7861.2	7,273.5	-7.5	
EPS (₹)	16.4	15.7	-4.4	17.7	16.4	-7.5	

Source: ICICI Direct Research

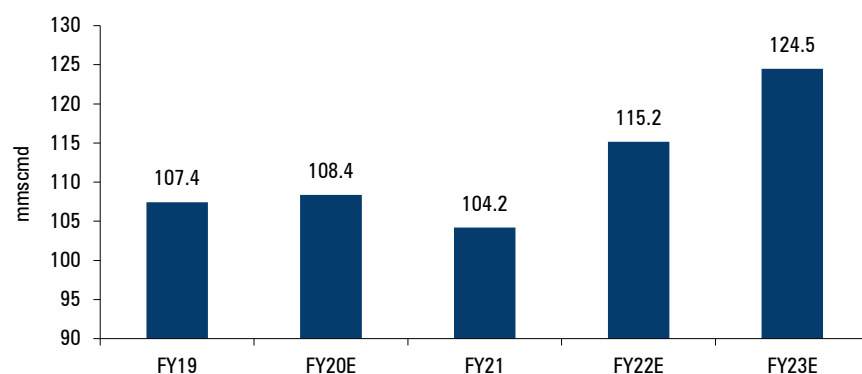
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Exchange rate (₹/\$)	70.9	74.2	74.3	74.5	73.6	73.5	
Transmn vol (mmscmd)	108.4	104.2	115.2	124.5	113.2	123.5	Revised estimates on account of better performance in Q1FY22E
Transmn realisation (₹/tscm)	1,525.8	1,565.3	1,560.9	1,575.0	1,575.0	1575.0	
Trading Vol (mmscmd)	96.2	89.2	98.7	103.5	96.3	103.5	
Trading realisation(\$/mmbtu)	6.6	5.0	6.2	6.2	5.4	5.5	
Petchem Vol (000' tonnes)	747.0	872.0	768.0	840.0	750.0	840.0	
Petchem realisation(₹/tonne)	72,719.3	80,973.5	98,161.1	98,040.0	97,356.0	96900.0	
LPG/OLH vol (000' tonnes)	1,317.0	1,138.0	1,225.0	1,320.0	1,240.0	1320.0	
LPG/OLH realisation(₹/tonne)	32,146.6	28,944.4	40,122.9	40,000.0	37,874.0	37500.0	Increase in oil prices lead to upward revision in estimates

Source: ICICI Direct Research

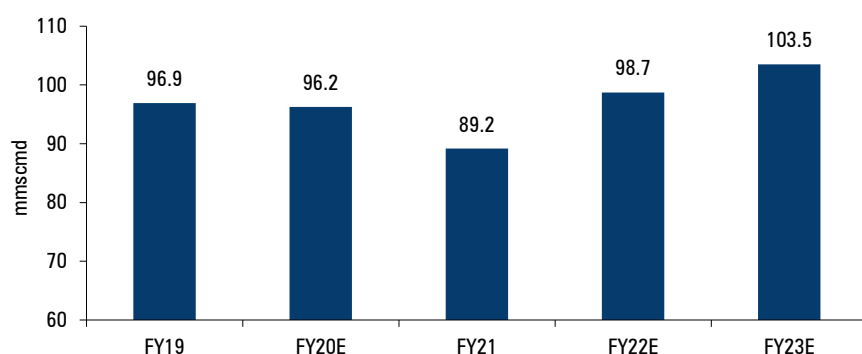
Story in charts

Exhibit 5: Gas transmission volume trend



Source: Company, ICICI Direct Research

Exhibit 6: Gas trading volume trend



Source: Company, ICICI Direct Research

Exhibit 7: EBIT trend

	FY19	FY20	FY21	FY22E	FY23E
Natural Gas transmission	3253.9	3539.8	3677.9	3794.7	3943.2
LPG transmission	301.4	330.9	351.4	315.1	289.3
Natural Gas Trading	2859.1	2156.2	-702.3	1706.1	1838.0
Petrochemicals	384.9	-245.5	1064.9	945.0	1024.2
LPG and Liquid Hydrocarbons	2546.5	1580.6	1303.5	2761.9	2622.3
Gailtel	0.0	0.0	0.0	-22.3	-34.2
Others	297.9	537.0	372.0	546.7	631.1
EBIT	9643.7	7899.0	6067.4	10047.1	10313.9

Source: Company, ICICI Direct Research

Exhibit 8: EBIT (%)

	FY19	FY20	FY21	FY22E	FY23E
Natural Gas	33.7	44.8	60.6	37.8	38.2
LPG	3.1	4.2	5.8	3.1	2.8
Natural Gas Trading	29.6	27.3	-11.6	17.0	17.8
Petrochemicals	4.0	-3.1	17.6	9.4	9.9
LPG and Liquid Hydrocarbons	26.4	20.0	21.5	27.5	25.4
Gaithel	0.0	0.0	0.0	-0.2	-0.3
Others	3.1	6.8	6.1	5.4	6.1
Total	100.0	100.0	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Exhibit 9: Valuation

Segments	Enterprise Value (₹Crore)	₹ per share	% of SOTP		Method
Transmission Business					
Natural Gas Transmission	27577.1	62	35		DCF
LPG Transmission	4806.5	11	6		DCF
Value of transmission business	32383.6	73	42		
Other Businesses					
Natural Gas Trading	9209.8	21	12	5x FY 23E EV/EBITDA	
Petrochemicals	8089.5	18	10	5x FY 23E EV/EBITDA	
LPG and Liquid Hydrocarbons	13956.7	31	18	5x FY 23E EV/EBITDA	
Value of Other Businesses	31256.0	70	40		
Investments					
Quoted	16698.9	38	21	30% discount to CMP	
Unquoted	6818.2	15	9		
Value of Investments	23517.1	53	30		
Firm Value	87156.7	196	112		
Less: Net Debt	-9334.1	-21	-12		
Equity Value	77822.6	175	100		

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenue	71871.0	56730.2	75101.7	79661.4
Growth (%)	-4.3	-21.1	32.4	6.1
(Inc.) / Dec stock in trade	-598.6	543.7	-101.6	0.0
Raw material Costs	4412.0	3905.9	4073.9	4425.1
Purchase of trading good:	53547.2	39899.0	53543.1	56607.0
Employee Costs	1519.3	1546.3	1631.6	1713.2
Other Expenditure	4621.8	4390.2	5705.5	6260.4
Op. Expenditure	63501.6	50285.0	64852.6	69005.8
EBITDA	8369.4	6445.1	10249.2	10655.6
Growth (%)	-12.2	-23.0	59.0	4.0
Depreciation	1836.0	1907.9	2142.6	2505.7
EBIT	6533.4	4537.3	8106.6	8149.9
Interest	108.5	155.9	219.8	301.0
Other Income	1416.8	2004.5	1417.6	1875.0
PBT	7943.4	6385.8	9304.3	9723.9
Growth (%)	-12.6	-19.6	45.7	4.5
Tax	1322.7	1495.6	2351.0	2450.4
Reported PAT	6620.6	4890.2	6953.4	7273.5
Growth (%)	9.9	-26.1	42.2	4.6
EPS	14.7	11.0	15.7	16.4

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	6,620.6	4,890.2	6,953.4	7,273.5
Add: Depreciation	1,836.0	1,907.9	2,142.6	2,505.7
Add: Others	-1,450.5	5.0	150.0	150.0
Cash Profit	3,066.6	4,223.2	6,408.1	7,091.4
Increase/(Decrease) in CL	2,979.1	390.3	-1,645.6	841.8
(Increase)/Decrease in CA	-2,657.2	2,225.6	-229.2	25.3
CF from Operating Activities	7328.1	9419.0	7371.1	10796.3
Purchase of Fixed Assets	5,774.3	6,556.1	6,963.9	12,000.0
(Inc)/Dec in Investments	2,029.7	-1,800.0	1,800.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-3,744.6	-8,356.1	-5,163.9	-12,000.0
Inc/(Dec) in Loan Funds	2,748.3	1,970.6	1,900.0	2,500.0
Less: Dividend Paid	3,942.5	2,579.9	2,837.9	2,837.9
Inc/(Dec) in Sh. Cap. & Res.	-2,800.0	-69.8	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-3,994.2	-679.0	-937.9	-337.9
Change in cash Eq.	-410.7	383.8	1,269.4	-1,541.5
Op. Cash and cash Eq.	1,214.6	803.9	1,187.7	2,457.1
Cl. Cash and cash Eq.	803.9	1,187.7	2,457.1	915.6

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Source of Funds				
Equity Capital	4,510.1	4,440.4	4,440.4	4,440.4
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	39,461.0	41,771.3	45,886.8	50,322.4
Shareholder's Fund	43,971.1	46,211.7	50,327.2	54,762.8
Loan Funds	3,879.1	5,849.7	7,749.7	10,249.7
Deferred Tax Liability	4,497.2	4,502.2	4,652.2	4,802.2
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	52347.4	56563.6	62729.1	69814.7
Application of Funds				
Gross Block	41,333.1	49,333.1	57,333.1	65,333.1
Less: Acc. Depreciation	7,688.1	9,539.8	11,718.6	14,224.3
Net Block	33,645.0	39,793.2	45,614.5	51,108.7
Capital WIP	10,581.9	9,081.9	8,081.9	12,081.9
Total Fixed Assets	44,226.9	48,875.1	53,696.4	63,190.6
Investments	7,498.5	9,298.5	7,498.5	7,498.5
Inventories	2,960.1	2,603.8	2,469.1	2,619.0
Debtor	5,575.9	4,485.8	5,349.7	5,674.5
Cash	803.9	1,187.7	2,457.1	915.6
Loan & Advance, Other C	7468.4	6689.2	6189.2	5689.2
Total Current assets	16808.3	14966.5	16465.1	14898.3
Current Liabilities	14901.6	15231.7	13374.3	14186.3
Provisions	1284.7	1344.9	1556.6	1586.5
Total CL and Provisions	16186.3	16576.6	14930.9	15772.8
Net Working Capital	622.0	-1610.0	1534.2	-874.4
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	52347.4	56563.6	62729.1	69814.7

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	97.5	104.1	113.3	123.3
Cash per share	1.8	2.7	5.5	2.1
EPS	14.7	11.0	15.7	16.4
Cash EPS	18.8	15.3	20.5	22.0
DPS	6.4	5.0	5.5	5.5
Profitability & Operating Ratios				
EBITDA Margin (%)	11.6	11.4	13.6	13.4
PAT Margin (%)	9.2	8.6	9.3	9.1
Fixed Asset Turnover (x)	1.6	1.2	1.4	1.3
Inventory Turnover (Days)	15.0	12.0	12.0	12.0
Debtor (Days)	28.3	26.0	26.0	26.0
Current Liabilities (Days)	75.7	98.0	65.0	65.0
Return Ratios (%)				
RoE	15.1	10.6	13.8	13.3
RoCE	13.7	8.7	14.0	12.5
RoIC	13.9	8.9	14.6	12.7
Valuation Ratios (x)				
PE	10.0	13.3	9.4	9.0
Price to Book Value	1.5	1.4	1.3	1.2
EV/EBITDA	8.3	10.9	6.9	7.0
EV/Sales	1.0	1.2	0.9	0.9
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.1	0.2	0.2
Interest Coverage (x)	60.2	29.1	36.9	27.1
Debt to EBITDA (x)	0.5	0.9	0.8	1.0
Current Ratio	1.0	0.9	1.1	0.9
Quick ratio	0.9	0.7	0.9	0.8

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
BPCL (BHAPET)	446	495	Hold	87,723	91.0	35.2	39.0	4.9	12.7	11.4	7.1	9.0	8.2	14.7	11.3	12.0	35.6	16.6	17.1
GAIL (India) (GAIL)	147	175	Buy	65,274	11.0	15.7	16.4	13.3	9.4	9.0	10.9	6.9	7.0	8.7	14.0	12.5	10.6	13.8	13.3
Gujarat Gas (GUJGA)	722	735	Hold	49,702	18.5	24.9	26.3	39.0	29.0	27.5	24.1	18.7	17.4	33.0	36.5	32.8	29.0	29.6	25.4
HPCL (HINPET)	264	265	Hold	38,344	70.6	34.3	29.0	3.7	7.7	9.1	5.3	7.6	7.4	14.9	7.4	6.1	29.5	13.0	10.6
Indian Oil Corp (INDOIL)	104	120	Buy	95,483	23.8	15.8	15.6	4.4	6.6	6.7	2.5	2.9	2.9	13.3	10.0	9.5	19.8	12.2	11.5
Indraprastha Gas (INDGAS)	558	595	Hold	39,060	14.4	18.8	21.0	38.8	29.7	26.6	25.6	20.0	17.6	20.7	23.7	22.7	17.4	19.6	18.8
Mahanagar Gas (MAHGAS)	1167	1340	Buy	11,527	62.7	95.6	107.2	18.6	12.2	10.9	11.9	7.9	6.6	22.6	29.7	28.1	18.7	23.9	22.5
Petronet LNG (PETLNG)	218	250	Hold	32,700	19.7	18.8	21.7	11.1	11.6	10.1	6.7	6.7	5.9	25.3	22.9	24.6	24.4	22.0	23.3

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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