

Gas trading segment continues to drive earnings

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 natural gas pipeline network of 14500 km as of end of FY22
- Gail also has a presence in CGD sector directly and via associate companies

Q1FY23 Results: Results were better-than-expected on account of higher profitability in the gas trading segment.

- Revenue was up 116.1% YoY to ₹ 37562.5 crore due to higher realisation
- While gas transmission and petchem segment performance was weaker than anticipated, other segments- gas trading and LPG/LLH reported better than expected profit
- Subsequently, EBITDA was ₹ 4365.7 crore, up 81.1% YoY (our estimate: ₹ 3009.2 crore). Reported PAT was at ₹ 2915.2 crore, up 90.5% YoY (our estimate: ₹ 2017.1 crore)

What should investors do? The gas trading outlook remains positive in the near term taking into account current LNG price trend that will offset weakness in transmission/trading and petchem volume trend.

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value Gail at ₹ 160/share based on SoTP method

Key triggers for future price performance:

- Pick-up in gas transmission volume
- Gas trading is expected to report healthy gains in the near term due to favourable spot LNG prices
- Consistent dividend payout

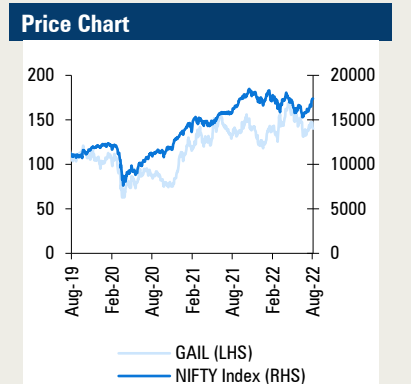
Alternate Stock Idea: Apart from Gail, in our oil & gas coverage we also like IGL.

- Indraprastha Gas (IGL) is one of India's leading CGD companies, which primarily operates in NCT of Delhi and will benefit from stricter environmental regulations in Delhi. Continued capex, newer areas and CNG conversion of vehicles will support further volume growth
- BUY with a target price of ₹ 440



Particulars	
Particular	Amount
Market Capitalization (₹ Crore)	59,057.2
Total Debt (FY21) (₹ Crore)	5,689.5
Cash and Investments (FY21)	1,361.9
EV (₹ Crore)	63,384.8
52 week H/L	173/125
Equity capital (₹ Crore)	4,383.4
Face value (₹)	10.0

Shareholding pattern				
(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	51.9	51.8	51.8	51.9
FII	18.4	19.7	19.6	19.9
DII	25.7	23.2	23.8	23.3
Others	4.1	5.3	4.8	4.8



Recent event & key risks

- **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	FY21	FY22	5 year CAGR (FY217-22)	FY23E	FY24E	3 year CAGR (FY22-24E)
Revenue (₹ crore)	75,126.3	71,871.0	56,730.2	91,626.5	13.4	1,48,314.6	1,47,471.8	26.9
EBITDA (₹ crore)	9,528.7	8,369.4	6,445.1	13,829.0	16.6	13,544.0	9,509.8	(17.1)
PAT (₹ crore)	6,025.7	6,620.6	4,890.2	10,364.0	24.2	9,744.1	6,632.7	(20.0)
EPS (₹)	13.4	14.7	11.0	23.3		22.2	15.1	
PE (x)	10.0	9.1	12.1	5.7		6.0	8.8	
P/Book (x)	1.4	1.4	1.3	1.1		0.9	0.9	
EV / EBITDA	6.3	7.5	9.8	4.6		4.5	6.5	
ROCE (%)	17.6	13.7	8.7	18.8		16.3	9.6	
ROE (%)	13.7	15.1	10.5	18.6		15.7	10.1	

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Better realisation drives revenue

- Revenue was up 39.3% QoQ on account of better realisation
- Gas transmission volumes increased 1.7% YoY, 1.8% QoQ to 109.5 mmscmd against our estimate of 111 mmscmd. Gas transmission EBIT at ₹ 800.5 crore, below our estimate of ₹ 903.7 crore due to higher-than-expected costs
- On the gas trading front, volumes were at 100.8 mmscmd, up 5.1% YoY and 6.5% QoQ, above our estimate of 97 mmscmd. Gas trading EBIT of ₹ 2314.5 crore was sharply higher than our estimate of ₹ 990.8 crore amid better marketing spread
- Petchem segment reported volumes at 109 KT, below our estimate of 160 KT. EBIT was at ₹ 35.2 crore lower than our estimate of ₹ 241.4 crore due to higher-than-expected costs and lower-than-expected volumes. LPG, LLH volumes were at 220 KT, below our estimate of 240 KT. Lower than expected cost and higher realisation led to EBIT at ₹ 634.9 crore, above our estimate of ₹ 532.9 crore

Q1FY23 Conference call highlights

- The management said that of the 14 MMTPA LNG contract, 2.5 MMTPA comes from Gazprom. However, supply disruption was seen from May onwards. This is affecting transmission and trading volume
- Gail is supplying gas to its customers at take or pay level. Currently, transmission volume is reduced by -7.5 mmscmd while trading volume is lower by 5-6 mmscmd. The company has reduced its internal consumption for petchem segment while petchem segment is currently operating at 50% capacity
- Capex during the quarter was ₹ 1975 crore. Planned capex for FY23 is ₹ 7500 crore
- The management said that Gail Gas volume was 6 mmscmd in Q1FY23
- The company is exploring options for new gas contracts. The management said that short-term gas contracts are not available at the desired price

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
GAIL (India) (GAIL)	133	160	Buy	59,057	23.3	22.2	15.1	5.7	6.0	8.8	4.6	4.5	6.5	18.8	16.3	9.6	18.6	15.7	10.1
Gujarat Gas (GUJGA)	444	500	Hold	30,565	18.9	18.3	21.7	23.5	24.3	20.5	15.0	15.1	12.7	26.9	22.9	23.4	23.2	19.2	19.3
Indraprastha Gas (INDGAS)	366	440	Buy	25,620	18.8	20.6	23.0	19.4	17.7	15.9	12.9	11.1	9.7	22.3	22.0	21.1	19.0	18.1	17.5
Mahanagar Gas (MAHGAS)	779	820	Hold	7,695	60.4	71.3	78.1	12.9	10.9	10.0	7.9	6.7	5.9	20.1	21.4	21.1	16.9	17.9	17.5
Petronet LNG (PETLNG)	216	215	Hold	32,400	22.3	18.1	19.5	9.7	11.9	11.1	5.9	7.0	6.2	27.0	20.3	21.1	25.0	19.3	19.7

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Revenues	37,562.5	29,545.3	17,383.9	116.1	26,961.9	39.3	
Raw materials costs	31,440.2	24,673.4	13,397.2	134.7	21,288.4	47.7	
Employees Cost	441.7	447.0	425.7	3.7	416.1	6.1	
Other Expenses	1,314.9	1,415.8	1,149.7	14.4	1,542.9	-14.8	
Total Expenditure	33,196.8	26,536.1	14,972.6	121.7	23,247.3	42.8	
EBITDA	4,365.7	3,009.2	2,411.3	81.1	3,714.5	17.5	Better than estimates as profitability from gas trading segment ahead of expectations
EBITDA margins (%)	11.6	10.2	13.9	-225 bps	13.8	-215 bps	
Depreciation	603.0	555.3	508.6	18.6	546.1	10.4	
EBIT	3,762.7	2,453.9	1,902.7	97.8	3,168.5	18.8	
Interest	48.1	57.3	46.6	3.4	46.1	4.4	
Other Income	179.8	300.0	197.6	-9.0	423.5	-57.6	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	3,894.4	2,696.6	2,053.7	89.6	3,545.9	9.8	
Total Tax	979.2	679.5	523.8	86.9	862.8	13.5	
PAT	2,915.2	2,017.1	1,529.9	90.5	2,683.1	8.6	

Key Metrics

Exchange rate (₹/\$)	77.3	77.3	73.9	4.6	75.2	2.7	
Transmn vol (mmscmd)	109.5	111.0	107.7	1.7	107.6	1.8	
Transmn realisation (₹/tscm)	1664.8	1575.0	1514.5	9.9	1642.3	1.4	
Trading Vol (mmscmd)	100.8	97.0	96.0	5.1	94.7	6.5	Above estimates
Trading realisation(\$/mmbtu)	13.4	10.3	6.1	120.3	9.9	35.7	
Petchem Vol (000' tonnes)	109.0	160.0	138.0	-21.0	216.0	-49.5	Lower than expected due to plant shutdown
Petchem realisation(₹/tonne)	133561.5	129504.0	98713.8	35.3	115849.1	15.3	
LPG/OLH vol (000' tonnes)	220.0	240.0	250.0	-12.0	217.0	1.4	Volume lower than expectations
LPG/OLH realisation(₹/tonne)	66155.5	60000.0	40602.0	62.9	55577.0	19.0	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	124402.5	1,48,314.6	19.2	130862.4	1,47,471.8	12.7	
EBITDA	12245.7	13,544.0	10.6	11969.0	9,509.8	-20.5	Higher gas trading profitability estimates led to change in estimates in FY23E. FY24E estimates are revised downwards as we build in higher gas costs
EBITDA Margin (%)	9.8	9.1	-71 bps	9.1	6.4	-270 bps	
PAT	8882.8	9,744.1	9.7	8336.3	6,632.7	-20.4	
EPS (₹)	20.0	22.2	11.1	18.8	15.1	-19.4	

Source: ICICI Direct Research

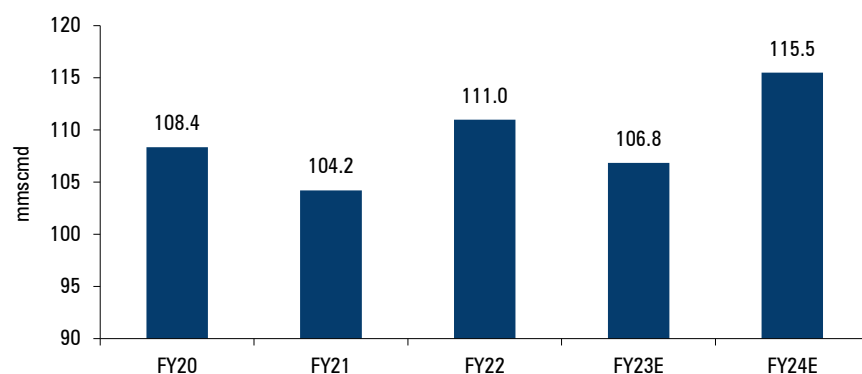
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22E	FY23E	FY24E	FY23E	FY24E	
Exchange rate (₹/\$)	74.2	74.5	78.6	79.0	76.5	76.5	
Transmn vol (mmscmd)	104.2	111.0	106.8	115.5	119.5	127.5	Reduced volume estimates owing to supply disruption
Transmn realisation (₹/tscm)	1,565.1	1,578.1	1,653.8	1,650.0	1,575.0	1575.0	
Trading Vol (mmscmd)	89.2	96.2	97.2	105.0	102.0	108.0	
Trading realisation(\$/mmbtu)	5.0	8.1	13.5	12.2	10.4	10.3	Increase in estimate as global gas prices continue to trend at higher level
Petchem Vol (000' tonnes)	872.0	792.0	534.0	750.0	830.0	850.0	
Petchem realisation(₹/tonne)	80,973.5	1,07,935.9	1,20,714.8	1,03,740.0	1,25,400.0	125400.0	
LPG/OLH vol (000' tonnes)	1,138.0	1,004.0	985.0	1,100.0	1,080.0	1140.0	
LPG/OLH realisation(₹/tonne)	28,944.4	48,457.8	57,491.6	50,000.0	63,000.0	63000.0	Change in oil price estimates lead to revision in estimates

Source: ICICI Direct Research

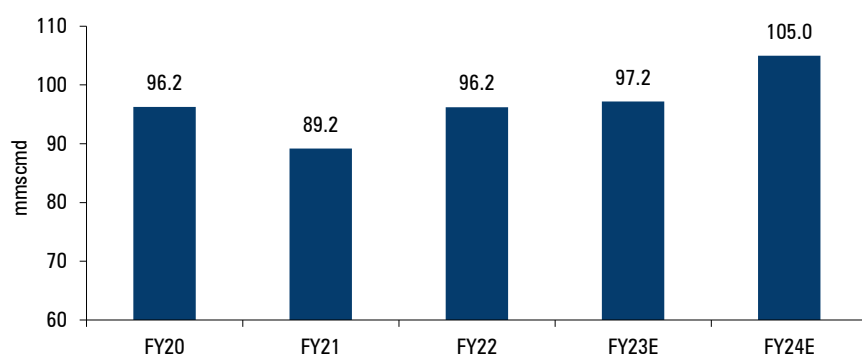
Story in charts

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

	FY20	FY21	FY22	FY23E	FY24E
Natural Gas transmission	3539.8	3677.9	3805.8	2876.2	3185.3
LPG transmission	330.9	351.4	335.0	305.4	284.5
Natural Gas Trading	2156.2	-702.3	4932.2	7922.1	3298.3
Petrochemicals	-245.5	1064.9	1245.3	-546.5	-52.9
LPG and Liquid Hydrocarbons	1580.6	1303.5	2899.7	1799.7	1999.7
Gaitel	0.0	0.0	0.0	0.0	0.0
Others	537.0	372.0	357.0	556.1	532.6
EBIT	7899.0	6067.4	13574.9	12912.9	9247.5

Source: Company, ICICI Direct Research

Exhibit 8: EBIT (%)

	FY20	FY21	FY22	FY23E	FY24E
Natural Gas	44.8	60.6	28.0	22.3	34.4
LPG	4.2	5.8	2.5	2.4	3.1
Natural Gas Trading	27.3	-11.6	36.3	61.4	35.7
Petrochemicals	-3.1	17.6	9.2	-4.2	-0.6
LPG and Liquid Hydrocarbons	20.0	21.5	21.4	13.9	21.6
Gaitel	0.0	0.0	0.0	0.0	0.0
Others	6.8	6.1	2.6	4.3	5.8
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	24731.2	56	35	DCF
LPG Transmission	4638.5	10	7	DCF
Value of transmission business	29369.7	66	41	
Other Businesses				
Natural Gas Trading	13209.3	30	19	4x FY24E EV/EBITDA
Petrochemicals	2812.8	6	4	5x FY24E EV/EBITDA
LPG and Liquid Hydrocarbons	10811.4	24	15	5x FY24E EV/EBITDA
Value of Other Businesses	26833.5	60	38	
Investments				
Quoted	13191.8	30	19	30% discount to CMP
Unquoted	5335.9	12	8	
Value of Investments	18527.7	42	26	
Firm Value	74730.9	168	105	
Less: Net Debt	-3814.6	-9	-5	
Equity Value	70916.4	160	100	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Revenue	56730.2	91626.5	148314.6	147471.8
Growth (%)	-21.1	61.5	61.9	-0.6
(Inc.) / Dec stock in trade	543.7	-326.8	-2007.4	0.0
Raw material Costs	3905.9	5044.0	7983.2	7713.0
Purchase of trading goods	39899.0	66064.9	122497.1	123291.5
Employee Costs	1546.3	1706.2	1786.1	1875.4
Other Expenditure	4390.2	5309.1	4511.6	5082.1
Op. Expenditure	50285.0	77797.5	134770.6	137962.0
EBITDA	6445.1	13829.0	13544.0	9509.8
Growth (%)	-23.0	114.6	-2.1	-29.8
Depreciation	1907.9	2111.2	2212.4	2425.0
EBIT	4537.3	11717.9	11331.6	7084.9
Interest	155.9	174.4	217.4	247.6
Other Income	2004.5	2046.9	1909.8	2030.0
PBT	6385.8	13590.3	13024.0	8867.3
Growth (%)	-19.6	112.8	-4.2	-31.9
Tax	1495.6	3226.3	3279.8	2234.6
Reported PAT	4890.2	10364.0	9744.1	6632.7
Growth (%)	-26.1	111.9	-6.0	-31.9
EPS	11.0	23.3	22.2	15.1

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	4,890.2	10,364.0	9,744.1	6,632.7
Add: Depreciation	1,907.9	2,111.2	2,212.4	2,425.0
Add: Others	5.0	265.1	150.0	150.0
Cash Profit	4,565.5	8,743.8	9,050.5	6,151.6
Increase/(Decrease) in CL	321.3	2,880.4	4,861.6	1,579.6
(Increase)/Decrease in CA	2,181.0	-5,458.9	-3,753.4	135.4
CF from Operating Activities	9305.3	10161.7	13214.8	10922.7
Purchase of Fixed Assets	6,082.4	6,562.1	7,916.5	8,250.0
(Inc)/Dec in Investments	-2,225.3	-2,397.1	-602.9	-500.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-8,307.7	-8,959.2	-8,519.4	-8,750.0
Inc/(Dec) in Loan Funds	1,810.4	909.0	500.0	750.0
Less: Dividend Paid	2,237.6	3,996.4	3,056.1	3,056.1
Inc/(Dec) in Sh. Cap. & Res.	-12.5	2,608.0	-57.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-439.7	-479.4	-2,613.1	-2,306.1
Change in cash Eq.	558.0	723.1	2,082.3	-133.4
Op. Cash and cash Eq.	803.9	1,361.9	2,085.0	4,167.3
Cl. Cash and cash Eq.	1,361.9	2,085.0	4,167.3	4,033.9

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Source of Funds				
Equity Capital	4,440.4	4,440.4	4,383.4	4,383.4
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	42,170.8	51,146.4	57,834.5	61,411.1
Shareholder's Fund	46,611.2	55,586.8	62,217.9	65,794.5
Loan Funds	5,689.5	6,598.5	7,098.5	7,848.5
Deferred Tax Liability	4,502.2	4,767.3	4,917.3	5,067.3
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	56802.9	66952.6	74233.6	78710.3
Application of Funds				
Gross Block	45,826.4	51,129.7	57,479.7	64,729.7
Less: Acc. Depreciation	9,328.5	11,348.7	13,494.7	15,919.6
Net Block	36,497.9	39,781.0	43,985.0	48,810.1
Capital WIP	11,903.4	13,071.3	14,571.3	15,571.3
Total Fixed Assets	48,401.4	52,852.3	58,556.3	64,381.4
Investments	9,723.8	12,120.9	12,723.8	13,223.8
Inventories	2,603.8	3,015.2	4,876.1	4,848.4
Debtor	4,485.8	8,366.0	10,158.5	10,100.8
Cash	1,361.9	2,085.0	4,167.3	4,033.9
Loan & Advance, Other CA	6733.9	7901.1	8001.1	7951.1
Total Current assets	15185.3	21367.3	27203.1	26934.2
Current Liabilities	15147.5	17877.7	22348.8	24241.9
Provisions	1360.0	1510.3	1900.8	1587.2
Total CL and Provisions	16507.5	19388.0	24249.6	25829.1
Net Working Capital	-1322.2	1979.4	2953.5	1105.1
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	56802.9	66952.6	74233.6	78710.2

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Book Value	105.0	125.2	141.9	150.1
Cash per share	3.1	4.7	9.5	9.2
EPS	11.0	23.3	22.2	15.1
Cash EPS	15.3	28.1	27.3	20.7
DPS	5.0	10.0	6.0	6.0
Profitability & Operating Ratios				
EBITDA Margin (%)	11.4	15.1	9.1	6.4
PAT Margin (%)	8.6	11.3	6.6	4.5
Fixed Asset Turnover (x)	1.2	1.7	2.5	2.3
Inventory Turnover (Days)	16.8	12.0	12.0	12.0
Debtor (Days)	28.9	33.3	25.0	25.0
Current Liabilities (Days)	97.5	71.2	55.0	60.0
Return Ratios (%)				
RoE	10.5	18.6	15.7	10.1
RoCE	8.7	18.8	16.3	9.6
RoIC	8.9	19.5	17.4	10.2
Valuation Ratios (x)				
PE	12.1	5.7	6.0	8.8
Price to Book Value	1.3	1.1	0.9	0.9
EV/EBITDA	9.8	4.6	4.5	6.5
EV/Sales	1.1	0.7	0.4	0.4
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.1	0.1	0.1
Interest Coverage (x)	29.1	67.2	52.1	28.6
Debt to EBITDA (x)	0.9	0.5	0.5	0.8
Current Ratio	0.9	1.1	1.1	1.0
Quick ratio	0.8	0.9	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	332	360	Hold	70,698	41.6	25.3	44.8	8.0	13.1	7.4	6.3	8.9	5.9	13.9	7.7	13.2	17.8	10.6	17.0
GAIL (India) (GAIL)	133	160	Buy	59,057	23.3	22.2	15.1	5.7	6.0	8.8	4.6	4.5	6.5	18.8	16.3	9.6	18.6	15.7	10.1
Gujarat Gas (GUJGA)	444	500	Hold	30,565	18.9	18.3	21.7	23.5	24.3	20.5	15.0	15.1	12.7	26.9	22.9	23.4	23.2	19.2	19.3
HPCL (HINPET)	231	255	Hold	32,778	44.9	8.0	42.8	5.1	29.0	5.4	7.8	16.4	7.1	7.3	0.8	7.3	16.5	3.0	15.0
Indian Oil Corp (INDOIL)	71	80	Hold	1,00,614	17.1	7.7	13.1	4.2	9.3	5.4	2.3	3.4	2.5	12.9	6.4	9.6	18.4	8.3	13.3
Indraprastha Gas (INDGAS)	366	440	Buy	25,620	18.8	20.6	23.0	19.4	17.7	15.9	12.9	11.1	9.7	22.3	22.0	21.1	19.0	18.1	17.5
Mahanagar Gas (MAHGAS)	779	820	Hold	7,695	60.4	71.3	78.1	12.9	10.9	10.0	7.9	6.7	5.9	20.1	21.4	21.1	16.9	17.9	17.5
Petronet LNG (PETLNG)	216	215	Hold	32,400	22.3	18.1	19.5	9.7	11.9	11.1	5.9	7.0	6.2	27.0	20.3	21.1	25.0	19.3	19.7
Reliance Industries (RELIND)	2,572	2,700	Hold	17,39,958	89.7	104.1	123.7	28.7	24.7	20.8	18.6	13.8	11.5	7.1	9.2	10.4	7.8	8.3	9.1

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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