Gail (India) (GAIL)

ICICI direct Research

CMP: ₹ 150 | Target: ₹ 180 (20%) | Target Period: 12 months | BUY

November 1, 2021

Result Update

Rebound in gas trading segment drives profitability…

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 13700 km as of end of FY21
- Gail also has a presence in CGD sector directly and via associate companies

Q2FY22 Results: Gail's results were better-than-expected on the profitability front.

- Revenue was up 57.7% YoY to ₹ 21511 crore (our estimate:₹ 21439.2 crore)
- While LPG/LLH performance was weaker than anticipated, all other segments- gas transmission & trading, petchem and LPG reported better than expected profits
- Subsequently, EBITDA was at ₹ 3475.1 crore, up 159.7% YoY (our estimate: ₹ 2882.9 crore). Reported PAT was at ₹ 2862.9 crore, up 130.9% YoY (our estimate: ₹ 2158.2 crore)

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 commissioning of industries/fertiliser plants.

- We maintain our BUY rating on the stock

Target Price and Valuation: We value Gail at ₹ 180/share based on SoTP method

Key triggers for future price performance:

- Gas transmission volume expected to report steady growth, going ahead
- Gas trading is expected to report healthy gains in the near term due to favourable spot LNG price trend
- LPG & petchem to report healthy profitability on account of higher realisation

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

- It offers a play on India's increasing gas demand. Growing CGD sector and domestic output will lead to stable volumes in the near term. It also derives value from growing market value of its listed subsidiary, Gujarat Gas
- BUY with a target price of ₹ 415

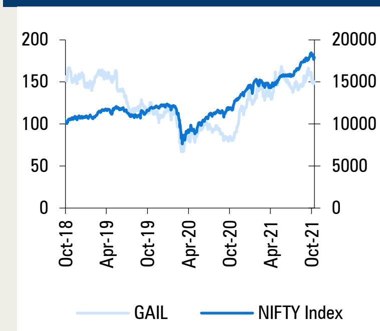
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	66,605.9
Total Debt (FY21) (₹ Crore)	5,689.5
Cash and Investments (FY21)	1,361.9
EV (₹ Crore)	70,933.5
52 week H/L	171 / 82
Equity capital (₹ Crore)	2,255.1
Face value (₹)	10.0

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	52.1	52.1	51.8	51.8	51.9
FII	15.1	15.6	15.6	17.0	18.4
DII	28.4	28.2	27.8	27.3	25.7
Others	4.4	4.1	4.8	3.9	4.1

Price Chart



Recent event & key risks

- **Key Risk:** (i) Slower than expected volume growth, (ii) lower than expected gas trading margins

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ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Revenue (₹ crore)	75,126.3	71,871.0	56,730.2	1.8	86,401.0	97,431.2	31.1
EBITDA (₹ crore)	9,528.7	8,369.4	6,445.1	8.6	12,704.5	11,595.2	34.1
PAT (₹ crore)	6,025.7	6,620.6	4,890.2	16.3	9,122.5	8,080.6	28.5
EPS (₹)	13.4	14.7	11.0		20.5	18.2	
PE (x)	11.2	10.2	13.6		7.3	8.2	
P/Book (x)	1.5	1.5	1.4		1.3	1.1	
EV / EBITDA	7.1	8.5	11.0		5.5	6.3	
ROCE (%)	17.6	13.7	8.7		17.6	13.5	
ROE (%)	13.7	15.1	10.5		17.2	13.9	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results: Better realisation drives revenue; transmission volume higher than estimates

- Revenue was up 23.7% QoQ on account of better realisation across key segments
- Gas transmission volumes increased 7.4% YoY and 6.2% QoQ to 114.3 mmscmd, better than the estimate of 111 mmscmd. Lower-than-expected costs coupled with higher volume led to gas transmission EBIT at ₹ 1040 crore, above our estimates of ₹ 927.7 crore
- On the gas trading front, volumes were at 97.7 mmscmd, up 10.3% YoY, 1.8% QoQ, in line with our estimate of 98 mmscmd. Gas trading EBIT of ₹ 1078.9 crore was well ahead of our estimates
- Petchem segment reported volumes at 221 KT, above our estimate of 205 KT. EBIT was at ₹ 363.3 crore vs. our estimate of ₹ 297.3 crore mainly due to higher volume. LPG, LLH volumes were at 262 KT. Lower than expected realisation as well as volume led to EBIT at ₹ 682.3 crore

Q2FY22 Earnings Conference Call highlights

- Transmission volumes will increase by 6 mmscmd post improved offtake from fertiliser plants
- The management said gas trading profit is expected to remain at current level in coming quarters. Further growth in profitability is possible
- The company has incurred a capex of ₹ 3180 crore in H1 and guided for ₹ 7400 crore capex in FY22E
- The management said petchem margins are to be maintained at current level as LNG is procured from Brent oil-linked long term LNG contracts
- Phase 1 of Urja Ganga pipeline is commissioned and utilisation of the pipeline can reach up to 75% by end of FY23

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
GAIL (India) (GAIL)	150	180	Buy	66,606	11.0	20.5	18.2	13.6	7.3	8.2	11.0	5.5	6.3	8.7	17.6	13.5	10.5	17.2	13.9
Gujarat Gas (GUJGA)	622	645	Hold	42,818	18.5	19.9	23.0	33.6	31.3	27.0	20.8	19.5	16.7	31.7	29.8	30.3	28.5	24.8	23.9
Indraprastha Gas (INDGAS)	477	585	Hold	33,390	14.4	18.0	21.4	33.2	26.5	22.3	21.8	17.5	14.7	20.0	22.5	22.9	17.1	18.6	19.0
Mahanagar Gas (MAHGAS)	997	1120	Hold	9,848	62.7	82.3	101.8	15.9	12.1	9.8	10.1	7.7	5.8	23.1	26.6	28.1	19.2	21.7	22.6
Petronet LNG (PETLNG)	230	245	Hold	34,500	19.7	18.6	21.3	11.7	12.4	10.8	7.1	7.2	6.2	26.0	23.6	24.9	25.3	22.6	23.8

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Total Revenues	21,511.0	21,439.2	13,642.7	57.7	17,383.9	23.7	
Raw materials costs	16,330.0	16,737.3	10,865.4	50.3	13,397.2	21.9	
Employees Cost	410.8	436.8	408.3	0.6	425.7	-3.5	
Other Expenses	1,295.2	1,382.2	1,031.0	25.6	1,149.7	12.6	
Total Expenditure	18,035.9	18,556.4	12,304.6	46.6	14,972.6	20.5	
EBITDA	3,475.1	2,882.9	1,338.1	159.7	2,411.3	44.1	Above estimates mainly on account of better-than expected performance in gas transmission and trading
EBITDA margins (%)	16.2	13.4	9.8	635 bps	13.9	228 bps	
Depreciation	524.4	501.2	484.3	8.3	508.6	3.1	
EBIT	2,950.7	2,381.7	853.8	245.6	1,902.7	55.1	
Interest	42.4	56.3	27.4	54.6	46.6	-8.9	
Other Income	774.0	560.0	723.9	6.9	197.6	291.7	Higher than expected
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	3,682.3	2,885.3	1,550.3	137.5	2,053.7	79.3	
Total Tax	819.4	727.1	310.7	163.7	523.8	56.4	
PAT	2,862.9	2,158.2	1,239.7	130.9	1,529.9	87.1	
Key Metrics							
Exchange rate (₹/$)	74.1	74.1	74.4	-0.4	73.9	0.3	
Transmn vol (mmscmd)	114.3	111.0	106.4	7.4	107.7	6.2	Volume offtake higher than estimates
Transmn realisation (₹/tscm)	1565.2	1575.0	1572.6	-0.5	1514.5	3.4	
Trading Vol (mmscmd)	97.7	98.0	88.6	10.3	96.0	1.8	In line with estimates
Trading realisatn($/mmbtu)	7.4	7.1	4.8	54.9	6.1	21.1	
Petchem Vol (000' tonnes)	221.0	205.0	224.0	-1.3	138.0	60.1	
Petchem realisation(₹/tonne)	103322.6	100320.0	75210.7	37.4	98713.8	4.7	
LPG/OLH vol (000' tonnes)	262.0	295.0	297.0	-11.8	250.0	4.8	
LPG/OLH realisation(₹/tonne)	42415.6	47500.0	27038.4	56.9	40602.0	4.5	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

	FY22E			FY23E			
(? Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenue	77318.8	86,401.0	11.7	79661.4	97,431.2	22.3	
EBITDA	10433.3	12,704.5	21.8	10655.6	11,595.2	8.8	Revised margin estimate upwards in gas trading segment tracking current global oil & gas price trend
EBITDA Margin (%)	13.5	14.7	121 bps	13.4	11.9	-148 bps	
PAT	7161.9	9,122.5	27.4	7407.8	8,080.6	9.1	
EPS (?)	16.1	20.5	27.4	16.7	18.2	9.1	

Source: ICICI Direct Research

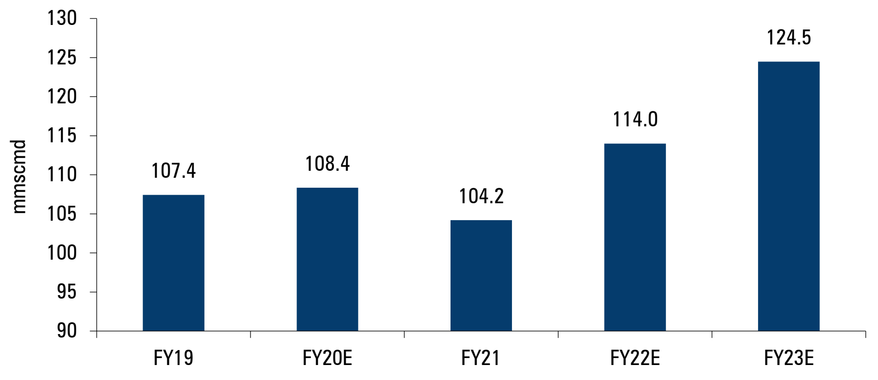
Exhibit 4: Assumptions

			Current		Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Exchange rate (₹/$)	70.9	74.2	74.5	75.0	74.2	74.5	
Transmn vol (mmscmd)	108.4	104.2	114.0	124.5	114.2	124.5	
Transmn realisation (₹/tscm)	1,525.8	1,565.3	1,558.3	1,575.0	1,560.8	1575.0	
Trading Vol (mmscmd)	96.2	89.2	98.2	103.5	98.5	103.5	
Trading realisation($/mmbtu)	6.6	5.0	7.4	7.8	6.4	6.2	Increase in estimate as global gas prices continue to trend at higher level
Petchem Vol (000' tonnes)	747.0	872.0	779.0	840.0	763.0	840.0	
Petchem realisation(₹/tonne)	72,719.3	80,973.5	1,03,345.8	1,04,880.0	98,774.4	98040.0	
LPG/OLH vol (000' tonnes)	1,317.0	1,138.0	1,137.0	1,320.0	1,195.0	1320.0	
LPG/OLH realisation(₹/tonne)	32,146.6	28,944.4	46,185.9	50,000.0	41,977.4	40000.0	Increase in oil prices lead to upward revision in estimates

Source: ICICI Direct Research

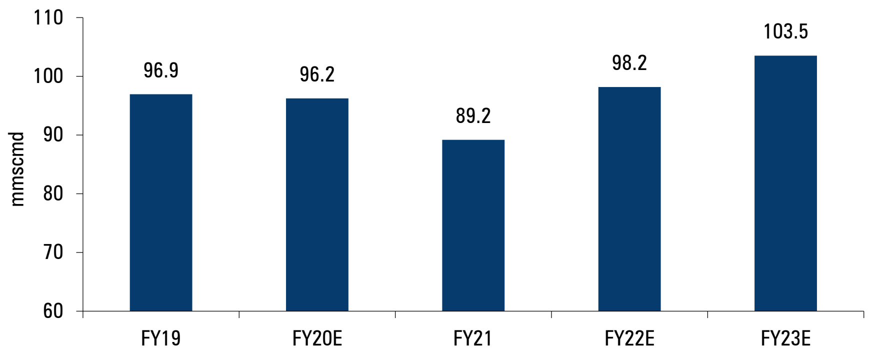
Story in charts

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	3912.7	4028.1
LPG transmission	301.4	330.9	351.4	325.1	295.5
Natural Gas Trading	2859.1	2156.2	-702.3	3676.6	3086.5
Petrochemicals	384.9	-245.5	1064.9	1019.5	894.2
LPG and Liquid Hydrocarbons	2546.5	1580.6	1303.5	3055.3	2481.6
Gailtel	0.0	0.0	0.0	-13.7	-32.3
Others	297.9	537.0	372.0	486.6	633.7
EBIT	**9643.7**	**7899.0**	**6067.4**	**12462.2**	**11387.4**

Source: Company, ICICI Direct Research

Exhibit 8: EBIT (%)

	FY19	FY20	FY21	FY22E	FY23E
Natural Gas	33.7	44.8	60.6	31.4	35.4
LPG	3.1	4.2	5.8	2.6	2.6
Natural Gas Trading	29.6	27.3	-11.6	29.5	27.1
Petrochemicals	4.0	-3.1	17.6	8.2	7.9
LPG and Liquid Hydrocarbons	26.4	20.0	21.5	24.5	21.8
Gailtel	0.0	0.0	0.0	-0.1	-0.3
Others	3.1	6.8	6.1	3.9	5.6
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	27197.6	61	34	DCF
LPG Transmission	4780.7	11	6	DCF
Value of transmission business	**31978.4**	**72**	**40**	
Other Businesses				
Natural Gas Trading	12362.1	28	15	4x FY23E EV/EBITDA
Petrochemicals	7334.5	17	9	5x FY23E EV/EBITDA
LPG and Liquid Hydrocarbons	13199.7	30	17	5x FY23E EV/EBITDA
Value of Other Businesses	**32896.3**	**74**	**41**	
Investments				
Quoted	16177.3	36	20	30% discount to CMP
Unquoted	5558.2	13	7	
Value of Investments	**21735.5**	**49**	**27**	
Firm Value	**86610.2**	**195**	**108**	
Less: Net Debt	-6666.3	-15	-8	
Equity Value	**79943.9**	**180**	**100**	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement (₹ crore)

(Year-end March)	FY20	FY21	FY22E	FY23E
Revenue	**71871.0**	**56730.2**	**86401.0**	**97431.2**
Growth (%)	-4.3	-21.1	52.3	12.8
(Inc.) / Dec stock in trade	-598.6	543.7	-968.9	0.0
Raw material Costs	4412.0	3905.9	4716.3	5503.0
Purchase of trading goods	53547.2	39899.0	62783.4	71233.6
Employee Costs	1519.3	1546.3	1613.7	1694.4
Other Expenditure	4621.8	4390.2	5552.0	7404.9
Op. Expenditure	63501.6	50285.0	73696.5	85836.0
EBITDA	**8369.4**	**6445.1**	**12704.5**	**11595.2**
Growth (%)	-12.2	-23.0	97.1	-8.7
Depreciation	1836.0	1907.9	2035.3	2371.8
EBIT	6533.4	4537.3	10669.1	9223.4
Interest	108.5	155.9	201.7	295.4
Other Income	1416.8	2004.5	1591.6	1875.0
PBT	7943.4	6385.8	12059.1	10803.0
Growth (%)	-12.6	-19.6	88.8	-10.4
Tax	1322.7	1495.6	2936.6	2722.4
Reported PAT	**6620.6**	**4890.2**	**9122.5**	**8080.6**
Growth (%)	9.9	-26.1	86.5	-11.4
EPS	**14.7**	**11.0**	**20.5**	**18.2**

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement (₹ crore)

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	6,620.6	4,890.2	9,122.5	8,080.6
Add: Depreciation	1,836.0	1,907.9	2,035.3	2,371.8
Add: Others	-1,450.5	5.0	150.0	150.0
Cash Profit	3,063.6	4,565.5	8,470.0	7,764.6
Increase/(Decrease) in CL	2,979.1	321.3	611.3	1,900.0
(Increase)/Decrease in CA	-2,657.2	2,181.0	-1,405.6	-648.3
CF from Operating Activities	**7328.1**	**9305.3**	**10513.5**	**11854.1**
Purchase of Fixed Assets	5,774.3	6,082.4	7,030.5	12,000.0
(Inc)/Dec in Investments	2,029.7	-2,225.3	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	**-3,744.6**	**-8,307.7**	**-7,030.5**	**-12,000.0**
Inc/(Dec) in Loan Funds	2,748.3	1,810.4	1,900.0	2,500.0
Less: Dividend Paid	3,942.5	2,237.6	2,837.9	2,837.9
Inc/(Dec) in Sh. Cap. & Res.	-2,800.0	-12.5	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	**-3,994.2**	**-439.7**	**-937.9**	**-337.9**
Change in cash Eq.	-410.7	558.0	2,545.1	-483.7
Op. Cash and cash Eq.	1,214.6	803.9	1,361.9	3,907.0
Cl. Cash and cash Eq.	**803.9**	**1,361.9**	**3,907.0**	**3,423.3**

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet (₹ crore)

(Year-end March)	FY20	FY21	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	42,170.8	48,455.4	53,698.2
Shareholder's Fund	43,971.1	46,611.2	52,895.8	58,138.6
Loan Funds	3,879.1	5,689.5	7,589.5	10,089.5
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**	**56802.9**	**65137.5**	**73030.3**
Application of Funds				
Gross Block	41,333.1	45,826.4	53,826.4	63,826.4
Less: Acc. Depreciation	7,688.1	9,328.5	11,333.3	13,705.1
Net Block	33,645.0	36,497.9	42,493.1	50,121.3
Capital WIP	10,581.9	11,903.4	10,903.4	12,903.4
Total Fixed Assets	44,226.9	48,401.4	53,396.5	63,024.7
Investments	7,498.5	9,723.8	9,723.8	9,723.8
Inventories	2,960.1	2,603.8	2,840.6	3,203.2
Debtor	5,575.9	4,485.8	6,154.6	6,940.3
Cash	803.9	1,361.9	3,907.0	3,423.3
Loan & Advance, Other CA	7468.4	6733.9	6233.9	5733.9
Total Current assets	16808.3	15185.3	19136.0	19300.6
Current Liabilities	14901.6	15147.5	15386.5	17350.8
Provisions	1284.7	1360.0	1732.3	1668.1
Total CL and Provisions	16186.3	16507.5	17118.8	19018.8
Net Working Capital	622.0	-1322.2	2017.2	281.8
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	**52347.4**	**56802.9**	**65137.5**	**73030.3**

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (?)				
Book Value	97.5	105.0	119.1	130.9
Cash per share	1.8	3.1	8.8	7.7
EPS	14.7	11.0	20.5	18.2
Cash EPS	18.8	15.3	25.1	23.5
DPS	6.4	5.0	5.5	5.5
Profitability & Operating Ratios				
EBITDA Margin (%)	11.6	11.4	14.7	11.9
PAT Margin (%)	9.2	8.6	10.6	8.3
Fixed Asset Turnover (x)	1.6	1.2	1.6	1.5
Inventory Turnover (Days)	15.0	16.8	12.0	12.0
Debtor (Days)	28.3	28.9	26.0	26.0
Current Liabilities (Days)	75.7	97.5	65.0	65.0
Return Ratios (%)				
RoE	15.1	10.5	17.2	13.9
RoCE	13.7	8.7	17.6	13.5
RoIC	13.9	8.9	18.9	14.2
Valuation Ratios (x)				
PE	10.2	13.6	7.3	8.2
Price to Book Value	1.5	1.4	1.3	1.1
EV/EBITDA	8.5	11.0	5.5	6.3
EV/Sales	1.0	1.3	0.8	0.8
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.1	0.1	0.2
Interest Coverage (x)	60.2	29.1	52.9	31.2
Debt to EBITDA (x)	0.5	0.9	0.6	0.9
Current Ratio	1.0	0.9	1.1	1.0
Quick ratio	0.9	0.8	1.0	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 (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
BPCL (BHAPET)	447	520	Hold	93,553	13.6	91.0	37.5	32.8	4.9	11.9	20.4	7.0	8.4	3.5	14.8	12.3	8.1	34.9	16.9
GAIL (India) (GAIL)	150	180	Buy	66,606	11.0	20.5	18.2	13.6	7.3	8.2	11.0	5.5	6.3	8.7	17.6	13.5	10.5	17.2	13.9
Gujarat Gas (GUJGA)	622	645	Hold	42,818	18.5	19.9	23.0	33.6	31.3	27.0	20.8	19.5	16.7	31.7	29.8	30.3	28.5	24.8	23.9
HPCL (HINPET)	327	265	Hold	47,494	17.3	70.6	60.2	4.6	5.4	10.7	18.1	5.7	5.4	2.5	15.6	13.3	9.1	29.5	20.8
Indian Oil Corp (INDOIL)	131	120	Buy	1,20,272	23.8	17.4	15.6	5.5	7.5	8.4	3.2	3.4	3.6	13.3	10.8	9.5	19.8	13.3	11.4
Indraprastha Gas (INDGAS)	477	585	Hold	33,390	14.4	18.0	21.4	33.2	26.5	22.3	21.8	17.5	14.7	20.0	22.5	22.9	17.1	18.6	19.0
Mahanagar Gas (MAHGAS)	997	1120	Hold	9,848	62.7	82.3	101.8	15.9	12.1	9.8	10.1	7.7	5.8	23.1	26.6	28.1	19.2	21.7	22.6
ONGC (ONGC)	157	185	Hold	2,01,483	10.4	9.0	21.9	15.1	17.4	7.2	4.4	6.7	3.9	10.2	4.5	13.5	6.7	5.6	12.3
Petronet LNG (PETLNG)	230	245	Hold	34,500	19.7	18.6	21.3	11.7	12.4	10.8	7.1	7.2	6.2	26.0	23.6	24.9	25.3	22.6	23.8
Reliance Industries (RELIND)	2,627	2,900	Hold	16,66,428	76.2	83.1	106.9	34.5	31.6	24.6	24.4	17.6	12.9	5.5	7.6	9.7	7.7	8.1	9.6

Source: Bloomberg, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%

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