

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

Q3FY22 Results: Gail's results were better-than-expected on all fronts.

- Revenue was up 66.7% YoY to ₹ 25769.8 crore (estimate: ₹ 23186.5 crore)
- While LPG/LLH performance was weaker than anticipated, all other segments- gas transmission, gas trading and petchem reported better than expected profits
- Subsequently, EBITDA was ₹ 4228.1 crore, up 120.3% YoY (our estimate: ₹ 3590.9 crore). Reported PAT was at ₹ 3288 crore, up 121.1% YoY (our estimate: ₹ 2500.8 crore)

What should investors do? Gas trading outlook remains positive in the near term 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 roll over valuations to FY24E and 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 market value of its listed subsidiary, Gujarat Gas
- BUY with a target price of ₹ 415



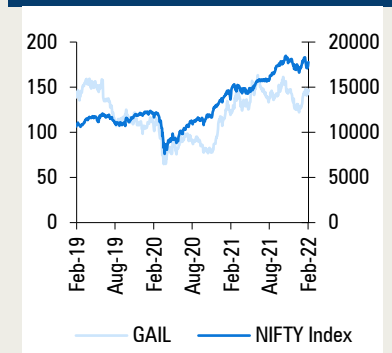
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	65,073.9
Total Debt (FY21) (₹ Crore)	5,689.5
Cash and Investments (FY21)	1,361.9
EV (₹ Crore)	69,401.6
52 week H/L	171 / 125
Equity capital (₹ Crore)	2,255.1
Face value (₹)	10.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	52.1	51.8	51.8	51.9	51.8
FII	15.6	15.6	17.0	18.4	19.7
DII	28.2	27.8	27.3	25.7	23.2
Others	4.1	4.8	3.9	4.1	5.3

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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Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Revenue (₹ crore)	75,126.3	71,871.0	56,730.2	1.8	88,536.4	1,00,246.9	1,03,508.6	22.2
EBITDA (₹ crore)	9,528.7	8,369.4	6,445.1	8.6	13,401.3	11,333.3	11,985.4	23.0
PAT (₹ crore)	6,025.7	6,620.6	4,890.2	16.3	9,954.2	7,906.2	8,096.6	18.3
EPS (₹)	13.4	14.7	11.0		22.4	17.8	18.2	
PE (x)	11.0	10.0	13.3		6.5	8.2	8.0	
P/Book (x)	1.5	1.5	1.4		1.2	1.1	1.0	
EV / EBITDA	6.9	8.3	10.8		5.1	6.2	6.1	
ROCE (%)	17.6	13.7	8.7		18.5	13.1	12.3	
ROE (%)	13.7	15.1	10.5		18.5	13.4	12.7	

Key takeaways of recent quarter & conference call highlights

Q3FY22 Results: Better realisation drives revenue; transmission volume higher than estimates

- Revenue was up 19.8% QoQ on account of better realisation across key segments
- Gas transmission volumes increased 3.6% YoY (flat QoQ) to 114.3 mmscmd, better than the estimate of 110 mmscmd. Higher volume led to gas transmission EBIT at ₹ 977.5 crore, above our estimates of ₹ 912 crore
- On the gas trading front, volumes were at 96.6 mmscmd, up 1% YoY and down 1.2% QoQ, higher than our estimate of 94 mmscmd. Gas trading EBIT of ₹ 1749.7 crore was ahead of our estimate of ₹ 1224.6 crore
- Petchem segment reported volumes at 217 KT, above our estimate of 210 KT. EBIT was at ₹ 364.6 crore vs. our estimate of ₹ 298.2 crore, mainly due to higher-than-expected volume as well as lower-than-expected costs. LPG, LLH volumes were at 275 KT. Lower-than-expected volume and higher costs led to EBIT at ₹ 855 crore, below our estimate of ₹ 964.4 crore

Q3FY22 Earnings Conference Call highlights

- Transmission volumes are expected to increase by 5-6% post improved offtake from fertiliser plants
- The company has guided for ₹ 7500 crore capex in FY22E as well as FY23E
- The company sold lesser volume QoQ in spot market. However, realisation per unit was higher, which benefitted gas trading segment

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Ratir	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)	147	180	Buy	65,074	11.0	22.4	17.8	13.3	6.5	8.2	10.8	5.1	6.2	8.7	18.5	13.1	10.5	18.5	13.4
Gujarat Gas (GUJGA)	681	645	Hold	46,880	18.5	18.5	23.0	36.8	36.8	29.6	22.8	22.7	18.4	31.7	28.1	30.7	28.5	23.4	24.3
Indraprastha Gas (INDGAS)	398	560	Hold	27,860	14.4	18.1	21.4	27.7	22.0	18.6	18.1	14.8	12.1	20.0	22.0	22.8	17.1	18.7	18.9
Mahanagar Gas (MAHGAS)	828	1120	Hold	8,179	62.7	78.6	101.8	13.2	10.5	8.1	8.3	6.7	4.7	23.1	25.6	28.3	19.2	20.9	22.8
Petronet LNG (PETLNG)	215	245	Hold	32,250	19.7	19.3	21.2	10.9	11.2	10.1	6.7	6.4	5.7	26.0	24.3	24.7	25.3	23.2	23.5

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Total Revenues	25,769.8	23,186.5	15,454.3	66.7	21,511.0	19.8	
Raw materials costs	19,766.6	17,573.7	11,921.6	65.8	16,330.0	21.0	
Employees Cost	453.6	424.3	404.1	12.2	410.8	10.4	
Other Expenses	1,321.4	1,597.6	1,209.0	9.3	1,295.2	2.0	
Total Expenditure	21,541.6	19,595.6	13,534.8	59.2	18,035.9	19.4	
EBITDA	4,228.1	3,590.9	1,919.5	120.3	3,475.1	21.7	Above estimates mainly on account of better-than expected performance in gas trading
EBITDA margins (%)	16.4	15.5	12.4	399 bps	16.2	25 bps	
Depreciation	532.2	501.2	489.5	8.7	524.4	1.5	
EBIT	3,696.0	3,089.7	1,430.0	158.5	2,950.7	25.3	
Interest	39.4	56.3	33.1	18.9	42.4	-7.1	
Other Income	651.8	310.0	470.8	38.4	774.0	-15.8	Higher than expected
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	4,308.4	3,343.3	1,867.7	130.7	3,682.3	17.0	
Total Tax	1,020.4	842.5	380.4	168.3	819.4	24.5	
PAT	3,288.0	2,500.8	1,487.3	121.1	2,862.9	14.8	

Key Metrics

Exchange rate (₹/\$)	75.0	75.0	73.8	1.6	74.1	1.2	
Transmn vol (mmscmd)	114.3	110.0	110.4	3.6	114.3	0.0	Volume offtake higher than estimates
Transmn realisation (₹/tscm)	1591.0	1575.0	1589.3	0.1	1565.2	1.6	
Trading Vol (mmscmd)	96.6	94.0	95.6	1.0	97.7	-1.2	Above estimates
Trading realisation(\$/mmbtu)	9.1	8.0	5.0	80.8	7.4	23.6	
Petchem Vol (000' tonnes)	217.0	210.0	231.0	-6.1	221.0	-1.8	
Petchem realisation(₹/tonne)	110622.1	111720.0	83836.4	32.0	103322.6	7.1	
LPG/OLH vol (000' tonnes)	275.0	300.0	319.0	-13.8	262.0	5.0	Lower than estimates
LPG/OLH realisation(₹/tonne)	55738.2	54000.0	27519.1	102.5	42415.6	31.4	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	85736.2	88,536.4	3.3	97431.2	1,00,246.9	2.9	
EBITDA	12876.2	13,401.3	4.1	11595.2	11,333.3	-2.3	Marginally revised estimates post Q3FY22 results
EBITDA Margin (%)	15.0	15.1	12 bps	11.9	11.3	-60 bps	
PAT	9250.9	9,954.2	7.6	8080.6	7,906.2	-2.2	
EPS (₹)	20.8	22.4	7.6	18.2	17.8	-2.2	

Source: ICICI Direct Research

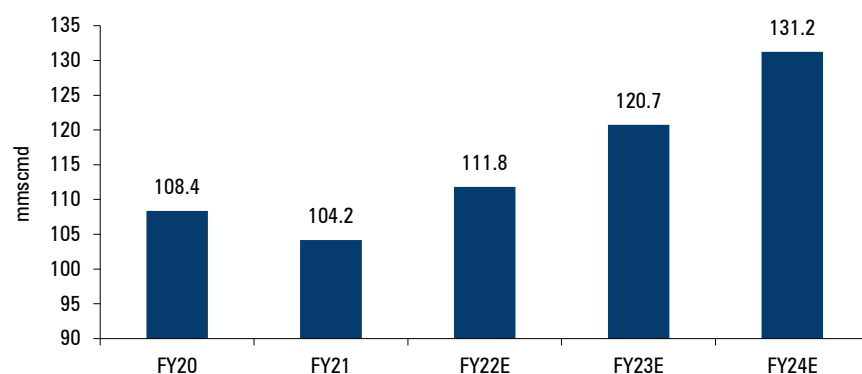
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Exchange rate (₹/\$)	70.9	74.2	74.5	75.0	74.5	75.0	
Transmn vol (mmscmd)	108.4	104.2	111.8	120.7	112.5	124.5	
Transmn realisation (₹/tscm)	1,525.8	1,565.1	1,562.1	1,575.0	1,558.1	1575.0	
Trading Vol (mmscmd)	96.2	89.2	96.6	101.5	96.9	103.5	
Trading realisation(\$/mmbtu)	6.6	5.0	7.8	8.3	7.4	7.8	Revised estimates post Q3FY22 results as gas prices continue to remain at higher level
Petchem Vol (000' tonnes)	747.0	872.0	786.0	840.0	779.0	840.0	
Petchem realisation(₹/tonne)	72,719.3	80,973.5	1,04,944.8	1,04,880.0	1,05,189.7	104880.0	
LPG/OLH vol (000' tonnes)	1,317.0	1,138.0	1,082.0	1,260.0	1,137.0	1320.0	
LPG/OLH realisation(₹/tonne)	32,146.6	28,944.4	47,450.5	50,000.0	47,241.3	50000.0	

Source: ICICI Direct Research

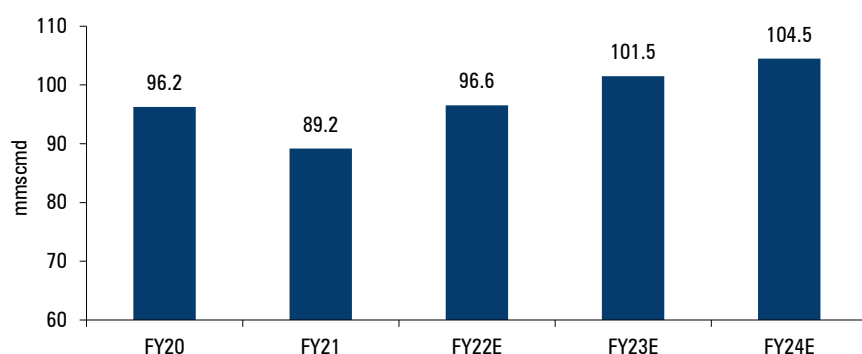
Story in charts

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	FY22E	FY23E	FY24E
Natural Gas transmission	3539.8	3677.9	3823.2	3869.6	4102.0
LPG transmission	330.9	351.4	328.0	296.5	280.5
Natural Gas Trading	2156.2	-702.3	4383.3	3127.6	3116.2
Petrochemicals	-245.5	1064.9	1104.2	897.4	870.5
LPG and Liquid Hydrocarbons	1580.6	1303.5	2960.8	2352.4	2452.2
Gailtel	0.0	0.0	-6.8	-32.1	-37.3
Others	537.0	372.0	451.7	634.1	626.5
EBIT	7899.0	6067.4	13044.2	11145.4	11410.6

Source: Company, ICICI Direct Research

Exhibit 8: EBIT (%)

	FY20	FY21	FY22E	FY23E	FY24E
Natural Gas	44.8	60.6	29.3	34.7	35.9
LPG	4.2	5.8	2.5	2.7	2.5
Natural Gas Trading	27.3	-11.6	33.6	28.1	27.3
Petrochemicals	-3.1	17.6	8.5	8.1	7.6
LPG and Liquid Hydrocarbons	20.0	21.5	22.7	21.1	21.5
Gailtel	0.0	0.0	-0.1	-0.3	-0.3
Others	6.8	6.1	3.5	5.7	5.5
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	29350.1	66	37	DCF
LPG Transmission	4764.0	11	6	DCF
Value of transmission business	34114.1	77	43	
Other Businesses				
Natural Gas Trading	12480.9	28	16	4x FY24E EV/EBITDA
Petrochemicals	7504.3	17	9	5x FY24E EV/EBITDA
LPG and Liquid Hydrocarbons	13199.7	30	17	5x FY24E EV/EBITDA
Value of Other Businesses	33185.0	75	42	
Investments				
Quoted	15424.0	35	19	30% discount to CMP
Unquoted	5558.2	13	7	
Value of Investments	20982.1	47	26	
Firm Value	88281.2	199	111	
Less: Net Debt	-8510.8	-19	-11	
Equity Value	79770.5	180	100	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Revenue	56730.2	88536.4	100246.9	103508.6
Growth (%)	-21.1	56.1	13.2	3.3
(Inc.) / Dec stock in trade	543.7	-516.6	0.0	0.0
Raw material Costs	3905.9	5092.7	5427.4	5590.8
Purchase of trading goods	39899.0	63556.4	74510.4	76690.1
Employee Costs	1546.3	1643.0	1725.1	1811.4
Other Expenditure	4390.2	5359.5	7250.8	7430.9
Op. Expenditure	50285.0	75135.0	88913.6	91523.2
EBITDA	6445.1	13401.3	11333.3	11985.4
Growth (%)	-23.0	107.9	-15.4	5.8
Depreciation	1907.9	2066.3	2351.8	2738.8
EBIT	4537.3	11335.0	8981.4	9246.6
Interest	155.9	184.7	286.6	352.3
Other Income	2004.5	1933.4	1875.0	1930.0
PBT	6385.8	13083.7	10569.8	10824.3
Growth (%)	-19.6	104.9	-19.2	2.4
Tax	1495.6	3129.4	2663.6	2727.7
Reported PAT	4890.2	9954.2	7906.2	8096.6
Growth (%)	-26.1	103.6	-20.6	2.4
EPS	11.0	22.4	17.8	18.2

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	4,890.2	9,954.2	7,906.2	8,096.6
Add: Depreciation	1,907.9	2,066.3	2,351.8	2,738.8
Add: Others	5.0	150.0	150.0	150.0
Cash Profit	4,565.5	9,332.7	7,570.2	7,889.6
Increase/(Decrease) in CL	321.3	1,049.4	1,945.7	677.5
(Increase)/Decrease in CA	2,181.0	-1,627.9	-1,219.2	-89.6
CF from Operating Activities	9305.3	11592.1	11134.5	11573.3
Purchase of Fixed Assets	6,082.4	7,061.5	10,000.0	12,000.0
(Inc)/Dec in Investments	-2,225.3	0.0	-500.0	-150.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-8,307.7	-7,061.5	-10,500.0	-12,150.0
Inc/(Dec) in Loan Funds	1,810.4	1,900.0	2,000.0	1,750.0
Less: Dividend Paid	2,237.6	2,837.9	2,837.9	3,095.8
Inc/(Dec) in Sh. Cap. & Res.	-12.5	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-439.7	-937.9	-837.9	-1,345.8
Change in cash Eq.	558.0	3,592.7	-203.3	-1,922.5
Op. Cash and cash Eq.	803.9	1,361.9	4,954.6	4,751.2
Cl. Cash and cash Eq.	1,361.9	4,954.6	4,751.2	2,828.7

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Source of Funds				
Equity Capital	4,440.4	4,440.4	4,440.4	4,440.4
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	42,170.8	49,287.2	54,355.5	59,356.3
Shareholder's Fund	46,611.2	53,727.6	58,795.9	63,796.7
Loan Funds	5,689.5	7,589.5	9,589.5	11,339.5
Deferred Tax Liability	4,502.2	4,652.2	4,802.2	4,952.2
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	56802.9	65969.3	73187.7	80088.4
Application of Funds				
Gross Block	45,826.4	53,826.4	62,826.4	72,826.4
Less: Acc. Depreciation	9,328.5	11,333.3	13,685.1	16,423.9
Net Block	36,497.9	42,493.1	49,141.3	56,402.5
Capital WIP	11,903.4	10,903.4	11,903.4	13,903.4
Total Fixed Assets	48,401.4	53,396.5	61,044.7	70,305.9
Investments	9,723.8	9,723.8	10,223.8	10,373.8
Inventories	2,603.8	2,910.8	3,295.8	3,403.0
Debtor	4,485.8	6,306.7	7,140.9	7,373.2
Cash	1,361.9	4,954.6	4,751.2	2,828.7
Loan & Advance, Other CA	6733.9	6233.9	6233.9	5983.9
Total Current assets	15185.3	20405.9	21421.8	19588.8
Current Liabilities	15147.5	15766.7	17852.2	18433.0
Provisions	1360.0	1790.2	1650.4	1747.1
Total CL and Provisions	16507.5	17556.9	19502.6	20180.1
Net Working Capital	-1322.2	2849.0	1919.1	-591.3
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	56802.9	65969.3	73187.7	80088.4

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
Book Value	105.0	121.0	132.4	143.7
Cash per share	3.1	11.2	10.7	6.4
EPS	11.0	22.4	17.8	18.2
Cash EPS	15.3	27.1	23.1	24.4
DPS	5.0	5.5	5.5	6.0
Profitability & Operating Ratios				
EBITDA Margin (%)	11.4	15.1	11.3	11.6
PAT Margin (%)	8.6	11.2	7.9	7.8
Fixed Asset Turnover (x)	1.2	1.7	1.6	1.5
Inventory Turnover (Days)	16.8	12.0	12.0	12.0
Debtor (Days)	28.9	26.0	26.0	26.0
Current Liabilities (Days)	97.5	65.0	65.0	65.0
Return Ratios (%)				
RoE	10.5	18.5	13.4	12.7
RoCE	8.7	18.5	13.1	12.3
RoIC	8.9	20.1	14.1	12.8
Valuation Ratios (x)				
PE	13.3	6.5	8.2	8.0
Price to Book Value	1.4	1.2	1.1	1.0
EV/EBITDA	10.8	5.1	6.2	6.1
EV/Sales	1.2	0.8	0.7	0.7
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.1	0.2	0.2
Interest Coverage (x)	29.1	61.4	31.3	26.2
Debt to EBITDA (x)	0.9	0.6	0.8	0.9
Current Ratio	0.9	1.2	1.1	1.0
Quick ratio	0.8	1.0	0.9	0.8

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe

Sector / Company	CMP (₹)	TP (₹)	Ratir	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)	376	450	Buy	78,693	91.0	43.4	39.8	4.1	8.7	9.4	6.2	6.5	6.4	14.8	14.7	13.2	34.9	19.0	16.1
GAIL (India) (GAIL)	147	180	Buy	65,074	11.0	22.4	17.8	13.3	6.5	8.2	10.8	5.1	6.2	8.7	18.5	13.1	10.5	18.5	13.4
Gujarat Gas (GUJGA)	681	645	Hold	46,880	18.5	18.5	23.0	36.8	36.8	29.6	22.8	22.7	18.4	31.7	28.1	30.7	28.5	23.4	24.3
HPCL (HINPET)	285	320	Hold	40,439	70.6	46.4	44.2	4.0	6.1	6.4	5.3	6.9	6.2	15.6	9.6	9.2	29.5	16.7	14.5
Indian Oil Corp (INDOIL)	125	150	Buy	1,14,763	23.8	25.4	19.2	5.3	4.9	6.5	3.0	2.7	3.1	13.3	13.9	10.6	19.8	18.3	12.9
Indraprastha Gas (INDGAS)	398	560	Hold	27,860	14.4	18.1	21.4	27.7	22.0	18.6	18.1	14.8	12.1	20.0	22.0	22.8	17.1	18.7	18.9
Mahanagar Gas (MAHGAS)	828	1120	Hold	8,179	62.7	78.6	101.8	13.2	10.5	8.1	8.3	6.7	4.7	23.1	25.6	28.3	19.2	20.9	22.8
ONGC (ONGC)	170	180	Hold	2,18,167	8.9	30.0	26.6	19.0	5.7	6.4	7.2	4.2	3.3	4.5	12.8	14.4	5.5	16.1	12.8
Petronet LNG (PETLNG)	215	245	Hold	32,250	19.7	19.3	21.2	10.9	11.2	10.1	6.7	6.4	5.7	26.0	24.3	24.7	25.3	23.2	23.5
Reliance Industries (RELIND)	2,478	2,950	Buy	16,75,691	76.2	90.2	106.3	32.5	27.5	23.3	23.2	16.7	12.6	5.5	7.7	9.7	7.7	8.6	9.5

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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