

In line quarter; gas trading 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

Q4FY22 Results: Gail's results were broadly in line with expectations.

- Revenue was up 73.4% YoY to ₹ 26961.9 crore (estimate: ₹ 24391.5 crore)
- While LPG/LLH performance was weaker than anticipated, other segments-gas trading and petchem reported better than expected profits
- Subsequently, EBITDA was ₹ 3714.5 crore, up 44.8% YoY (our estimate: ₹ 3869.5 crore). Reported PAT was at ₹ 2683.1 crore, up 40.6% YoY (our estimate: ₹ 2761.6 crore)

What should investors do? The 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 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 prices
- LPG & petchem to report stable profitability on account of higher realisation that will be partially offset by higher gas costs

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

- Reliance Industries (RIL) is a diversified business entity with a presence in energy, retail, digital services and media segments. Consumer business will be a growth driver for RIL while stable cash flow is expected from refining segment that will enable expansion in new energy verticals
- BUY with a target price of ₹ 3050



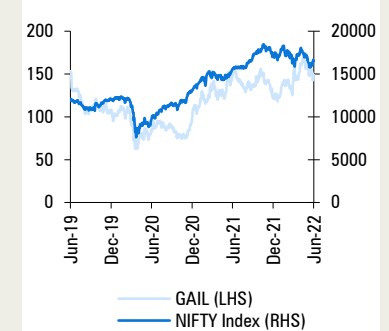
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	66,161.8
Total Debt (FY21) (₹ Crore)	5,689.5
Cash and Investments (FY21)	1,361.9
EV (₹ Crore)	70,489.5
52 week H/L	173/125
Equity capital (₹ Crore)	2,255.1
Face value (₹)	10.0

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	51.8	51.8	51.9	51.8	51.8
FII	15.6	17.0	18.4	19.7	19.6
DII	27.8	27.3	25.7	23.2	23.8
Others	4.8	3.9	4.1	5.3	4.8

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	FY22E	5 year CAGR (FY217-22E)	FY23E	FY24E	3 year CAGR (FY2E-24E)
Revenue (₹ crore)	75,126.3	71,871.0	56,730.2	91,626.5	13.4	1,24,402.5	1,30,862.4	19.5
EBITDA (₹ crore)	9,528.7	8,369.4	6,445.1	13,829.0	16.6	12,245.7	11,969.0	(7.0)
PAT (₹ crore)	6,025.7	6,620.6	4,890.2	10,286.4	24.0	8,882.8	8,336.3	(10.0)
EPS (₹)	13.4	14.7	11.0	23.2		20.0	18.8	
PE (x)	11.2	10.2	13.5	6.4		7.4	7.9	
P/Book (x)	1.5	1.5	1.4	1.2		1.1	1.0	
EV / EBITDA	7.0	8.4	10.9	5.1		5.8	6.1	
ROCE (%)	17.6	13.7	8.7	19.0		14.5	12.4	
ROE (%)	13.7	15.1	10.5	18.5		14.5	12.5	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Better realisation drives revenue; transmission volume lower than estimates

- Revenue was up 4.6% QoQ on account of marginally better realisation across key segments
- Gas transmission volumes declined 2% YoY, 5.9% QoQ to 107.6 mmscmd, lower than the estimate of 110 mmscmd. Lower volume led to gas transmission EBIT at ₹ 873.3 crore, slightly below our estimate of ₹ 902.2 crore
- On the gas trading front, volumes were at 94.7 mmscmd, up 3.6% YoY and down 1.9% QoQ, in line with estimate. Gas trading EBIT of ₹ 1725.9 crore was ahead of our estimate of ₹ 1485.3 crore
- Petchem segment reported volumes at 216 KT, in line with estimate. EBIT was at ₹ 379 crore vs. our estimate of ₹ 325.4 crore, mainly due to lower-than-expected costs. LPG, LLH volumes were at 217 KT. Lower-than-expected volume led to EBIT at ₹ 728.3 crore, below our estimate of ₹ 864.9 crore

Q4FY22 Analyst meet highlights

- Transmission volumes are expected to grow at 8-10% CAGR while gas trading volumes are expected to increase 5-6%. Transmission volume growth is expected to be driven by fertiliser, CGD and refineries
- Capex in FY22 was ₹ 7700 crore. The company has guided for ₹ 30000 crore capex in the next three years
- The management said that out of 13 mmscmd import from the US, 9-9.5 mmscmd volume is already tied up
- Regarding pooled gas for CGD sector, the management said that pricing will be on a monthly basis and the company is trying to source R-LNG and HPHT gas for pooled gas mix
- The company will set up 1 GW of renewable capacity in the next three years. It is also setting up a 5 tonne CBG plant

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)	149	180	Buy	66,162	23.2	20.0	18.8	6.4	7.4	7.9	5.1	5.8	6.1	19.0	14.5	12.4	18.5	14.5	12.5
Gujarat Gas (GUJGA)	537	625	Buy	36,995	18.9	19.7	24.1	28.4	27.3	22.3	18.1	17.2	14.1	26.9	24.2	25.3	23.2	20.3	20.7
Indraprastha Gas (INDGAS)	349	395	Buy	24,430	18.7	15.2	18.2	18.7	22.9	19.2	12.5	14.5	12.0	22.9	16.4	17.7	19.2	14.2	15.1
Mahanagar Gas (MAHGAS)	745	820	Hold	7,359	60.4	71.3	78.1	12.3	10.4	9.5	7.6	6.3	5.6	20.1	21.4	21.1	16.9	17.9	17.5
Petronet LNG (PETLNG)	206	210	Hold	30,840	22.3	17.6	21.2	9.2	11.7	9.7	5.7	6.5	5.4	27.0	20.1	22.7	25.0	18.9	21.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Total Revenues	26,961.9	24,391.5	15,546.2	73.4	25,769.8	4.6	
Raw materials costs	21,288.4	18,700.4	11,558.5	84.2	19,766.6	7.7	
Employees Cost	416.1	425.0	336.1	23.8	453.6	-8.3	
Other Expenses	1,542.9	1,396.6	1,086.9	42.0	1,321.4	16.8	
Total Expenditure	23,247.3	20,522.0	12,981.4	79.1	21,541.6	7.9	
EBITDA	3,714.5	3,869.5	2,564.8	44.8	4,228.1	-12.1	Broadly in line with estimates as profitability from gas trading and petrochemicals segment was better than expected while profits from LPG/LLH segment were lower than expected
EBITDA margins (%)	13.8	15.9	16.5	-272 bps	16.4	-263 bps	
Depreciation	546.1	501.2	475.8	14.8	532.2	2.6	
EBIT	3,168.5	3,368.3	2,089.0	51.7	3,696.0	-14.3	
Interest	46.1	56.3	45.9	0.5	39.4	17.0	
Other Income	423.5	380.0	568.4	-25.5	651.8	-35.0	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	3,545.9	3,692.0	2,611.6	35.8	4,308.4	-17.7	
Total Tax	862.8	930.4	703.9	22.6	1,020.4	-15.4	
PAT	2,683.1	2,761.6	1,907.7	40.6	3,288.0	-18.4	

Key Metrics

Exchange rate (₹/\$)	75.2	75.2	72.9	3.2	75.0	0.4	
Transmn vol (mmscmd)	107.6	110.0	109.8	-2.0	114.3	-5.9	Volume offtake lower than estimates
Transmn realisation (₹/tscom)	1642.3	1575.0	1550.0	6.0	1591.0	3.2	
Trading Vol (mmscmd)	94.7	95.0	91.4	3.6	96.6	-1.9	Above estimates
Trading realisation(\$/mmbtu)	9.9	8.7	5.5	79.9	9.1	8.5	
Petchem Vol (000' tonnes)	216.0	215.0	234.0	-7.7	217.0	-0.5	
Petchem realisation(₹/tonne)	115849.1	114000.0	94780.3	22.2	110622.1	4.7	
LPG/OLH vol (000' tonnes)	217.0	285.0	257.0	-15.6	275.0	-21.1	Volume lower than expectations
LPG/OLH realisation(₹/tonne)	55577.0	55000.0	33659.9	65.1	55738.2	-0.3	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	100246.9	1,24,402.5	24.1	103508.6	1,30,862.4	26.4	
EBITDA	11333.3	12,245.7	8.1	11985.4	11,969.0	-0.1	Revised margin estimate upwards in FY23E in gas trading segment tracking current global oil & gas price trend
EBITDA Margin (%)	11.3	9.8	-146 bps	11.6	9.1	-243 bps	
PAT	7906.2	8,882.8	12.4	8096.6	8,336.3	3.0	
EPS (₹)	17.8	20.0	12.4	18.2	18.8	3.0	

Source: ICICI Direct Research

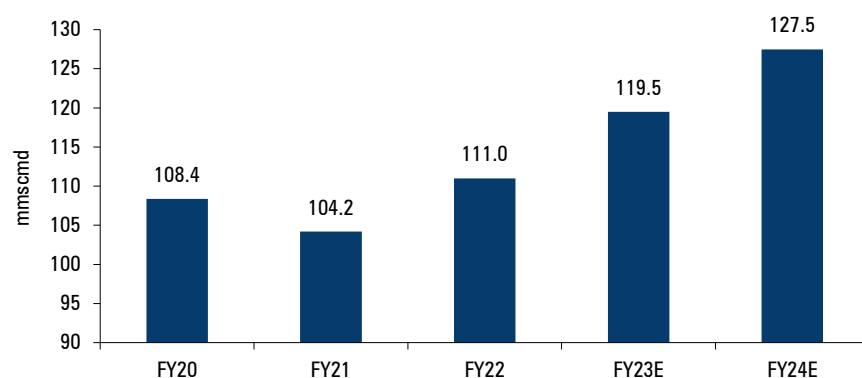
Exhibit 4: Assumptions

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	100246.9	124,402.5	24.1	103508.6	130,862.4	26.4	
EBITDA	11333.3	12,245.7	8.1	11985.4	11,969.0	-0.1	Revise margin estimate upwards in FY23E in gas trading segment tracking current global oil & gas price trend
EBITDA Margin (%)	11.3	9.8	-146 bps	11.6	9.1	-243 bps	
PAT	7906.2	8,882.8	12.4	8096.6	8,336.3	3.0	
EPS (₹)	17.8	20.0	12.4	18.2	18.8	3.0	

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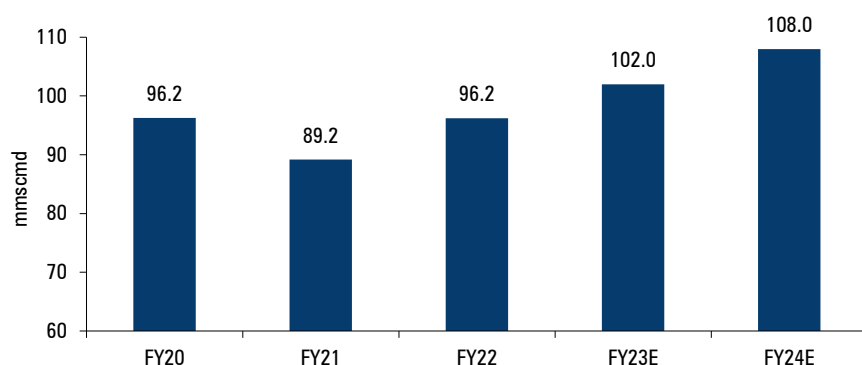
Story in charts

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	3931.4	4065.8
LPG transmission	330.9	351.4	335.0	298.3	284.2
Natural Gas Trading	2156.2	-702.3	4932.2	3620.1	3175.6
Petrochemicals	-245.5	1064.9	1245.3	762.7	738.8
LPG and Liquid Hydrocarbons	1580.6	1303.5	2899.7	2569.8	2705.7
Gaitel	0.0	0.0	0.0	-30.3	-35.0
Others	537.0	372.0	357.0	636.6	629.8
EBIT	7899.0	6067.4	13574.9	11788.6	11564.9

Source: Company, ICICI Direct Research

Exhibit 8: EBIT (%)

	FY20	FY21	FY22	FY23E	FY24E
Natural Gas	44.8	60.6	28.0	33.3	35.2
LPG	4.2	5.8	2.5	2.5	2.5
Natural Gas Trading	27.3	-11.6	36.3	30.7	27.5
Petrochemicals	-3.1	17.6	9.2	6.5	6.4
LPG and Liquid Hydrocarbons	20.0	21.5	21.4	21.8	23.4
Gaitel	0.0	0.0	0.0	-0.3	-0.3
Others	6.8	6.1	2.6	5.4	5.4
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	29183.3	66	36	DCF
LPG Transmission	4706.7	11	6	DCF
Value of transmission business	33890.1	76	42	
Other Businesses				
Natural Gas Trading	12718.5	29	16	4x FY24E EV/EBITDA
Petrochemicals	6711.4	15	8	5x FY24E EV/EBITDA
LPG and Liquid Hydrocarbons	14398.9	32	18	5x FY24E EV/EBITDA
Value of Other Businesses	33828.9	76	42	
Investments				
Quoted	13791.0	31	17	30% discount to CMP
Unquoted	5558.2	13	7	
Value of Investments	19349.2	44	24	
Firm Value	87068.1	196	109	
Less: Net Debt	-7089.0	-16	-9	
Equity Value	79979.1	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	91626.5	124402.5	130862.4
Growth (%)	-21.1	61.5	35.8	5.2
(Inc.) / Dec stock in trade	543.7	-326.8	0.0	0.0
Raw material Costs	3905.9	5044.0	7458.6	7696.8
Purchase of trading goods	39899.0	66064.9	96089.7	101925.6
Employee Costs	1546.3	1706.2	1791.5	1881.0
Other Expenditure	4390.2	5309.1	6817.1	7390.0
Op. Expenditure	50285.0	77797.5	112156.9	118893.4
EBITDA	6445.1	13829.0	12245.7	11969.0
Growth (%)	-23.0	114.6	-11.4	-2.3
Depreciation	1907.9	2111.2	2221.1	2568.1
EBIT	4537.3	11717.9	10024.6	9400.9
Interest	155.9	174.4	229.2	286.1
Other Income	2004.5	2046.9	2080.0	2030.0
PBT	6385.8	13590.3	11875.4	11144.8
Growth (%)	-19.6	112.8	-12.6	-6.2
Tax	1495.6	3303.9	2992.6	2808.5
Reported PAT	4890.2	10286.4	8882.8	8336.3
Growth (%)	-26.1	110.3	-13.6	-6.2
EPS	11.0	23.2	20.0	18.8

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	4,890.2	10,286.4	8,882.8	8,336.3
Add: Depreciation	1,907.9	2,111.2	2,221.1	2,568.1
Add: Others	5.0	265.1	150.0	150.0
Cash Profit	4,565.5	7,502.9	8,158.0	7,958.6
Increase/(Decrease) in CL	321.3	3,280.4	4,192.4	1,095.2
(Increase)/Decrease in CA	2,181.0	-5,458.9	-3,033.6	-693.3
CF from Operating Activities	9305.3	10484.1	12412.7	11456.2
Purchase of Fixed Assets	6,082.4	6,561.6	9,500.0	10,000.0
(Inc)/Dec in Investments	-2,225.3	-2,397.1	-602.9	-550.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-8,307.7	-8,958.7	-10,102.9	-10,550.0
Inc/(Dec) in Loan Funds	1,810.4	508.9	1,500.0	1,750.0
Less: Dividend Paid	2,237.6	5,159.7	3,095.8	3,095.8
Inc/(Dec) in Sh. Cap. & Res.	-12.5	3,848.6	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-439.7	-802.2	-1,595.8	-1,345.8
Change in cash Eq.	558.0	723.2	714.0	-439.6
Op. Cash and cash Eq.	803.9	1,361.9	2,085.1	2,799.1
Cl. Cash and cash Eq.	1,361.9	2,085.1	2,799.1	2,359.5

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	51,146.0	56,933.0	62,173.4
Shareholder's Fund	46,611.2	55,586.4	61,373.4	66,613.8
Loan Funds	5,689.5	6,198.4	7,698.4	9,448.4
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	66552.1	73989.1	81129.6
Application of Funds				
Gross Block	45,826.4	51,058.4	59,058.4	68,058.4
Less: Acc. Depreciation	9,328.5	11,277.9	13,499.0	16,067.1
Net Block	36,497.9	39,780.5	45,559.4	51,991.3
Capital WIP	11,903.4	13,071.3	14,571.3	15,571.3
Total Fixed Assets	48,401.4	52,851.8	60,130.7	67,562.6
Investments	9,723.8	12,120.9	12,723.8	13,273.8
Inventories	2,603.8	3,015.2	4,089.9	4,302.3
Debtor	4,485.8	8,366.0	10,224.9	10,755.8
Cash	1,361.9	2,085.1	2,799.1	2,359.5
Loan & Advance, Other CA	6733.9	7901.1	8001.1	7951.1
Total Current assets	15185.3	21367.4	25115.0	25368.7
Current Liabilities	15147.5	18277.7	22153.9	23304.3
Provisions	1360.0	1510.3	1826.5	1771.3
Total CL and Provisions	16507.5	19788.0	23980.4	25075.6
Net Working Capital	-1322.2	1579.5	1134.6	293.2
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	56802.9	66552.1	73989.1	81129.5

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
Book Value	105.0	125.2	138.2	150.0
Cash per share	3.1	4.7	6.3	5.3
EPS	11.0	23.2	20.0	18.8
Cash EPS	15.3	27.9	25.0	24.6
DPS	5.0	10.0	6.0	6.0
Profitability & Operating Ratios				
EBITDA Margin (%)	11.4	15.1	9.8	9.1
PAT Margin (%)	8.6	11.2	7.1	6.4
Fixed Asset Turnover (x)	1.2	1.7	2.1	1.9
Inventory Turnover (Days)	16.8	12.0	12.0	12.0
Debtor (Days)	28.9	33.3	30.0	30.0
Current Liabilities (Days)	97.5	72.8	65.0	65.0
Return Ratios (%)				
RoE	10.5	18.5	14.5	12.5
RoCE	8.7	19.0	14.5	12.4
RoIC	8.9	19.6	15.1	12.8
Valuation Ratios (x)				
PE	13.5	6.4	7.4	7.9
Price to Book Value	1.4	1.2	1.1	1.0
EV/EBITDA	10.9	5.1	5.8	6.1
EV/Sales	1.2	0.8	0.6	0.6
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.1	0.1	0.1
Interest Coverage (x)	29.1	67.2	43.7	32.9
Debt to EBITDA (x)	0.9	0.4	0.6	0.8
Current Ratio	0.9	1.1	1.0	1.0
Quick ratio	0.8	0.9	0.9	0.8

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)	322	360	Hold	68,643	41.6	25.3	44.8	7.7	12.7	7.2	6.2	8.7	5.7	13.9	7.7	13.2	17.8	10.6	17.0
GAIL (India) (GAIL)	149	180	Buy	66,162	23.2	20.0	18.8	6.4	7.4	7.9	5.1	5.8	6.1	19.0	14.5	12.4	18.5	14.5	12.5
Gujarat Gas (GUJGA)	537	625	Buy	36,995	18.9	19.7	24.1	28.4	27.3	22.3	18.1	17.2	14.1	26.9	24.2	25.3	23.2	20.3	20.7
HPCL (HINPET)	230	255	Hold	32,607	44.9	10.5	42.8	5.1	21.8	5.4	7.8	15.0	7.1	7.3	1.3	7.3	16.5	4.0	14.8
Indian Oil Corp (INDOIL)	118	130	Hold	1,08,336	26.3	18.0	19.6	4.5	6.5	6.0	2.5	3.0	2.7	12.9	8.9	9.2	18.4	12.1	12.5
Indraprastha Gas (INDGAS)	349	395	Buy	24,430	18.7	15.2	18.2	18.7	22.9	19.2	12.5	14.5	12.0	22.9	16.4	17.7	19.2	14.2	15.1
Mahanagar Gas (MAHGAS)	745	820	Hold	7,359	60.4	71.3	78.1	12.3	10.4	9.5	7.6	6.3	5.6	20.1	21.4	21.1	16.9	17.9	17.5
Petronet LNG (PETLNG)	206	210	Hold	30,840	22.3	17.6	21.2	9.2	11.7	9.7	5.7	6.5	5.4	27.0	20.1	22.7	25.0	18.9	21.1
Reliance Industries (RELIND)	2,621	3,050	Buy	17,73,208	89.7	128.7	130.9	29.2	20.4	20.0	18.0	11.9	10.9	7.7	11.5	11.4	8.5	11.0	10.4

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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