

March 23, 2023

PNGRB revises Gail's integrated pipeline tariff...

The Petroleum and Natural Gas Regulatory Board (PNGRB) has hiked the Integrated Natural Gas Pipeline (INGPL) tariff of Gail to ₹ 58.61/mmbtu (on a GCV basis) with effect from April 1, 2023. This revision is a 45% hike in tariff from current prices. Total 10 pipelines have been considered as a single integrated entity by PNGRB for tariff revision and have been granted an economic life up to 2049. Newer pipelines such as JHBDPL have been provided with 10 years utilisation ramp up period. Thus, INGPL is expected to reach its peak volume of 131.6 mmscmd (75% utilisation of 175.5 mmscmd design capacity by 2034). In spite of this tariff hike, the impact on downstream companies like CGDs is likely to be limited (around ₹ 0.5-0.6/scm).

Tariff hike to improve Gail's transmission revenue

- The tariff submitted by Gail was ₹ 68.55/mmbtu whereas the tariff determined by PNGRB was at ₹ 58.61/mmbtu (in line with PNGRB's earlier proposed tariff of ₹ 60.92/mmbtu)
- Gail submitted the following directly inter-connected pipelines as an Integrated Natural Gas Pipeline for enlistment by the Board and for the purpose of tariff

Sr No	Integrated Natural Gas Pipeline Network
1	Hazira-Vijaipur-Jagdishpur-GREP-Dahej-Vijaipur
2	DVPL-GREP Capacity augmentation
3	Dahej-Uran-Panvel-Dhabol
4	Dabhol-Bangalore
5	Chhainsa-Jhajjar-Hissar
6	Dadri-Bawana-Nangal
7	Jagdishpur-Haldia-Bokaro-Dhamra
8	Baroda Sub Network (Gujarat Natural Gas Pipeline Network)
9	Uran Thal Usar Sub Network (Mumbai Regional Network)
10	Trombay Sub Network (Mumbai Regional Network)

Source: PNGRB, ICICI Direct Research

- For the purpose of determination of this tariff, PNGRB has considered the economic life of INGPL up to March 31, 2049. The applicable capacity utilisation in the first year of operation is 30%, which would be ramped up to 100% from the tenth year onwards
- The year wise capacity of INGPL pipeline for determination of tariff from FY23-24 onwards is as follows:

Year	Capacity (mmscmd)
FY24	159
FY25	161
FY26	162
FY27	163
FY28	165
FY29	167
FY30	170
FY31	172
FY32	174
FY33	175
FY34 onwards	175

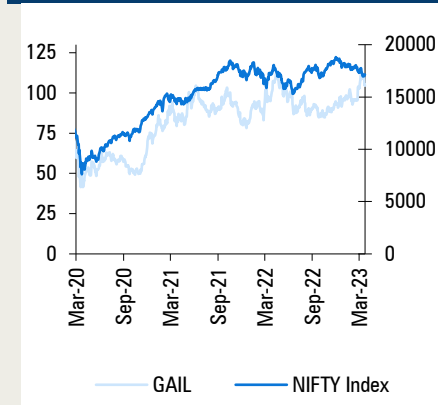
Source: PNGRB, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	68,381.1
Total Debt (FY22) (₹ Crore)	6,598.5
Cash and Investments (FY22)	2,085.0
EV (₹ Crore)	72,894.6
52 week H/L	116/ 83
Equity capital (₹ Crore)	6,575.1
Face value (₹)	10.0

Price Chart



Recent event & key risks

- Key Risk:** (i) Lower than expected volume growth (ii) Increase in gas prices

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Valuation and Outlook

Post this tariff hike, we estimate ~15% increase in FY25 EPS at ₹ 12.3. We maintain our **BUY** rating on the company with a target price of ₹ 120 based on SoTP.

Exhibit 1: Valuation

Segments	Enterprise Value(₹Crore)	₹ share	per % of SOTP	Method
Transmission Business				
Natural Gas Transmission	25257.4		38 32	DCF
LPG Transmission	5214.1		8 7	DCF
Value of transmission busine	30471.5		46 39	
Other Businesses				
Natural Gas Trading	23126.1		35 29	~7x FY25E EV/EBITDA
Petrochemicals	3141.7		5 4	4x FY25E EV/EBITDA
LPG and Liquid Hydrocarbons	10930.4		17 14	~7x FY25E EV/EBITDA
Value of Other Businesses	37198.1		57 47	
Investments				
Quoted	14653.9		22 19	30% discount to CMP
Unquoted	5335.9		8 7	
Value of Investments	19989.8		30 25	
Firm Value	87659.4		133 111	
Less: Net Debt	-8725.7		-13 -11	
Equity Value	78933.7		120.0 100	

Source: Company, ICICI Direct Research

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Revenue	91626.5	147276.4	152820.4	133223.1
Growth (%)	61.5	60.7	3.8	-12.8
(Inc.) / Dec stock in trade	-326.8	-3216.0	0.0	0.0
Raw material Costs	5044.0	6010.1	8025.4	8391.9
Purchase of trading goods	66064.9	128879.3	126980.1	106621.7
Employee Costs	1706.2	1731.4	1817.9	1908.8
Other Expenditure	5309.1	5555.8	5260.5	4829.8
Op. Expenditure	77797.5	138960.6	142083.9	121752.2
EBITDA	13829.0	8315.8	10736.5	11470.9
Growth (%)	114.6	-39.9	29.1	6.8
Depreciation	2111.2	2381.4	2425.0	2425.0
EBIT	11717.9	5934.4	8311.5	9045.9
Interest	174.4	282.2	289.6	289.6
Other Income	2046.9	2297.5	2030.0	2030.0
PBT	13590.3	7949.7	10051.9	10786.4
Growth (%)	112.8	-41.5	26.4	7.3
Tax	3226.3	1788.1	2533.1	2718.2
Reported PAT	10364.0	6161.7	7518.8	8068.2
Growth (%)	111.9	-40.5	22.0	7.3
EPS	23.3	9.4	11.4	12.3

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	10,364.0	6,161.7	7,518.8	8,068.2
Add: Depreciation	2,111.2	2,381.4	2,425.0	2,425.0
Add: Others	265.1	150.0	150.0	150.0
Cash Profit	8,743.8	4,490.9	7,037.7	7,587.0
Increase/(Decrease) in CL	2,880.4	4,601.4	2,808.5	-3,165.9
(Increase)/Decrease in CA	-5,458.9	-3,648.2	-512.0	2,036.6
CF from Operating Activi	10161.7	9646.3	12390.3	9513.8
Purchase of Fixed Assets	6,562.1	8,085.4	8,250.0	7,953.0
(Inc)/Dec in Investments	-2,397.1	-602.9	-500.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activi	-8,959.2	-8,688.3	-8,750.0	-7,953.0
Inc/(Dec) in Loan Funds	909.0	1,500.0	1,150.0	3,300.0
Less: Dividend Paid	3,996.4	4,202.2	3,056.1	3,056.1
Inc/(Dec) in Sh. Cap. & Res.	2,608.0	-57.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activi	-479.4	-2,759.1	-1,906.1	243.9
Change in cash Eq.	723.1	-1,801.1	1,734.2	1,804.7
Op. Cash and cash Eq.	1,361.9	2,085.0	283.9	2,018.1
Cl. Cash and cash Eq.	2,085.0	283.9	2,018.1	3,822.7

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Source of Funds				
Equity Capital	4,440.4	6,575.1	6,575.1	6,575.1
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	51,146.4	50,914.2	55,377.0	60,389.0
Shareholder's Fund	55,586.8	57,489.3	61,952.1	66,964.1
Loan Funds	6,598.5	8,098.5	9,248.5	12,548.5
Deferred Tax Liability	4,767.3	4,917.3	5,067.3	5,217.3
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	66952.6	70505.1	76267.8	84729.9
Application of Funds				
Gross Block	51,129.7	57,479.7	64,729.7	71,979.7
Less: Acc. Depreciation	11,348.7	13,494.7	15,919.6	18,641.6
Net Block	39,781.0	43,985.0	48,810.1	53,338.1
Capital WIP	13,071.3	14,571.3	15,571.3	16,571.3
Total Fixed Assets	52,852.3	58,556.3	64,381.4	69,909.4
Investments	12,120.9	12,723.8	13,223.8	13,223.8
Inventories	3,015.2	4,842.0	5,024.2	4,379.9
Debtor	8,366.0	10,087.4	10,467.1	9,124.9
Cash	2,085.0	283.9	2,018.1	3,822.7
Loan & Advance, Other CA	7901.1	8001.1	7951.1	7901.1
Total Current assets	21367.3	23214.4	25460.6	25228.7
Current Liabilities	17877.7	22192.3	25121.2	21899.7
Provisions	1510.3	1797.1	1676.8	1732.3
Total CL and Provisions	19388.0	23989.4	26797.9	23632.0
Net Working Capital	1979.4	-775.0	-1337.3	1596.7
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	66952.6	70505.1	76267.8	84729.9

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Book Value	125.2	87.4	94.2	101.8
Cash per share	4.7	0.4	3.1	5.8
EPS	23.3	9.4	11.4	12.3
Cash EPS	28.1	13.0	15.1	16.0
DPS	10.0	5.5	4.0	4.0
Profitability & Operating Ratios				
EBITDA Margin (%)	15.1	5.6	7.0	8.6
PAT Margin (%)	11.3	4.2	4.9	6.1
Fixed Asset Turnover (x)	1.7	2.5	2.4	1.9
Inventory Turnover (Days)	12.0	12.0	12.0	12.0
Debtor (Days)	33.3	25.0	25.0	25.0
Current Liabilities (Days)	71.2	55.0	60.0	60.0
Return Ratios (%)				
RoE	18.6	10.7	12.1	12.0
RoCE	18.8	9.0	11.7	11.4
RoC	19.5	9.1	12.0	12.0
Valuation Ratios (x)				
PE	4.5	11.1	9.1	8.5
Price to Book Value	0.8	1.2	1.1	1.0
EV/EBITDA	3.7	9.2	7.0	6.7
EV/Sales	0.6	0.5	0.5	0.6
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.1	0.1	0.2
Interest Coverage (x)	67.2	21.0	28.7	31.2
Debt to EBITDA (x)	0.5	1.0	0.9	1.1
Current Ratio	1.1	1.0	1.0	1.1
Quick ratio	0.9	0.8	0.8	0.9

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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