

Estimate change



TP change



Rating change



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Bloomberg	GAIL IN
Equity Shares (m)	4,510
M.Cap.(INRb)/(USDb)	614.1 / 7.7
52-Week Range (INR)	173 / 125
1, 6, 12 Rel. Per (%)	-5/-4/-9
12M Avg Val (INR M)	1908

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	916.5	1,839.3	1,300.4
EBITDA	138.3	150.3	118.0
Adj. PAT	102.9	111.2	87.5
Adj. EPS (INR)	22.8	24.7	19.4
EPS Gr. (%)	110.1	8.1	-21.3
BV/Sh.(INR)	129.7	149.0	164.2

Ratios

Net D:E	0.1	-0.1	-0.1
RoE (%)	20.3	18.6	12.9
RoCE (%)	17.1	15.9	11.3
Payout (%)	21.8	21.8	21.8

Valuations

P/E (x)	6.1	5.7	7.2
P/BV (x)	1.1	0.9	0.9
EV/EBITDA (x)	4.0	3.5	4.2
Div. Yield (%)	3.6	3.9	3.0
FCF Yield (%)	4.8	22.0	-0.4

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	51.5	51.5	51.5
DII	23.2	23.7	27.1
FII	20.5	20.2	17.6
Others	4.8	4.7	3.9

FII Includes depository receipts

CMP: INR140
TP: INR176 (+26%)
Buy

Strong showing by the Gas Trading segment; supply from Gazprom remains a concern in 2QFY23

- GAIL reported a 31%/33% beat on EBITDA/PAT in 1QFY23 as strong gains in the Trading business offset other weak segments. Operating performance in the Transmission and Petrochemicals segment decreased on a YoY and QoQ basis.
- Gazprom triggered the *force majeure* clause on ~2.5mmt of volume (~14mmt of its total LNG portfolio), which will ultimately mean higher gas prices. As a few consumers may not be able to afford higher gas prices, it may result in slightly lower offtake till the time the situation persists.
- While Gas Trading volumes remained strong in 1Q (up 5% YoY), this segment will remain soft in 2Q FY23, led by loss of volumes due to supply issues from Gazprom. Commissioning of the new fertilizer plant at Sindri, Barauni, and Gorakhpur will boost demand and aid profitability from CY23.
- Gas Transmission volumes grew 2% each YoY and QoQ to 109mmcmd in 1QFY23. The management expects volumes of ~120mmcmd, once the fertilizer plants run at full utilization. The Transmission business is expected to grow at 8-10% CAGR over the next three years.
- Utilization of their petchem plant fell to 83% in 1QFY23 from 111% in 4QFY22. The management expects utilization to remain muted in 2HCY22 till supply from Gazprom is fulfilled. Petchem margin for PE/PP/PVC fell 4%/9%/31% QoQ in 1QFY23, but is likely to improve in the near term.
- The 10MW hydrogen plant in Madhya Pradesh will be fully commissioned over the next 18 months. The management has guided at a capacity of 35MW by CY30.
- Factoring all of these, we have revised our Gas Trading volumes to 100/120mmcmd and thus increase GAIL'S EBITDA by 15%/4% in FY23/FY24.** We value the core business at 8x FY24E adjusted EPS of INR17.8. Adding the value of listed and unlisted investments of INR32, we arrive at our TP of INR176/share.

Gains in the Trading business offset by other weak businesses

- EBITDA came in 31% ahead of our estimate at INR43.6b (up 81% YoY and 18% QoQ) due to a strong performance by the Gas Trading segment.
- PAT grew 91% YoY and 12% QoQ to INR29.1b (33% ahead of our estimate), translating into an EPS of INR6.5 (est. INR4.9).

Segmental EBIT details for 1QFY23:

- EBIT from the Gas/LPG Transmission business stood at INR8b/INR0.8b, down 13%/3% YoY.
- EBIT for the Trading business grew by ~6x YoY to INR23.1b.
- Petchem EBIT stood at INR0.3b, down 75% YoY and 91% QoQ.
- LPG and HC EBIT was lower than our estimate at INR6.3b (flat YoY, but down 13% QoQ).

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

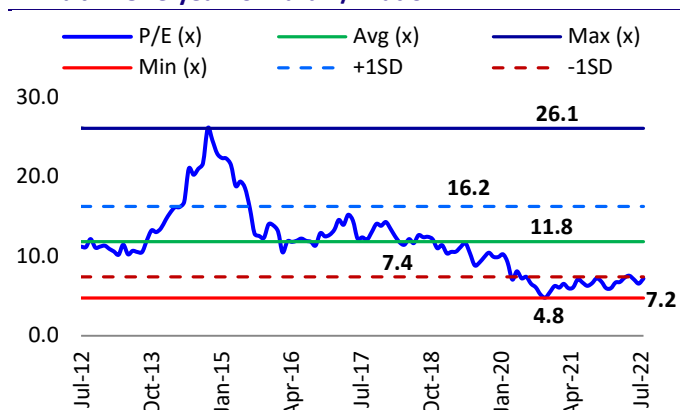
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Valuation and view; Buy

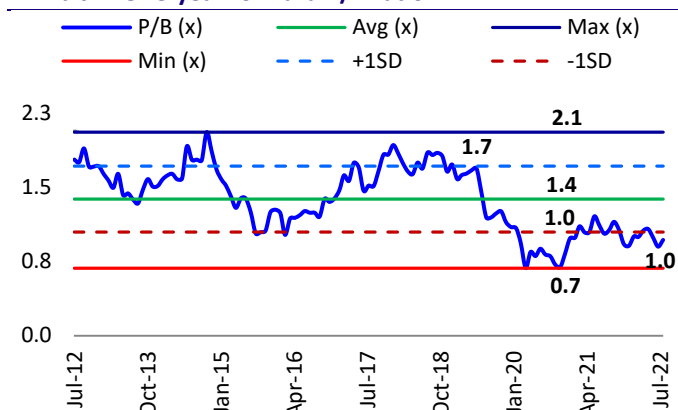
- The management expects higher demand from the commissioning of fertilizer plants, ongoing refinery and petchem expansions, and the development of CGDs.
- It has guided at a capex of ~INR75b in FY23. GAIL is executing various projects worth INR300b, spread over the next three years.
- Utilization from the company's Urja Ganga pipeline will touch 60-75% by the end of FY23. Petchem expansion at the PATA and Usar plants is on schedule (contract and licensing work have already been completed).
- The stock trades at a discount of ~39% to its one-year forward long-term P/E average. Valuing the core business at 8x FY24 adjusted EPS of INR17.8 and adding the value of listed and unlisted investments of INR32, we arrive at our TP of INR176/share. We maintain our Buy rating on the stock. GAIL remains our top pick in the sector.

Quarterly Performance**(INR b)**

Y/E March	FY22				FY23E				FY22	FY23	FY23	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	vs est
Net Sales	173.9	215.2	257.8	269.7	375.7	356.1	422.1	685.4	916.5	1,839.3	294.2	28%
Change (%)	43.8	57.7	66.8	73.4	116.1	65.5	63.8	154.1	61.5	100.7	69.2	
EBITDA	24.1	34.8	42.3	37.1	43.7	34.6	36.5	35.6	138.3	150.3	33.3	31%
% of Net Sales	13.9	16.2	16.4	13.8	11.6	9.7	8.6	5.2	15.1	8.2	11.3	
Depreciation	5.1	5.2	5.3	5.5	6.0	6.0	6.0	3.3	21.1	21.4	5.4	12%
Interest	0.5	0.4	0.4	0.5	0.5	0.4	0.4	0.4	1.7	1.7	0.5	4%
Other Income	2.0	7.7	6.5	4.2	1.8	7.9	6.7	5.1	20.5	21.5	2.0	-11%
PBT	20.5	36.8	43.1	35.5	38.9	36.0	36.7	37.0	135.9	148.7	29.5	32%
Rate (%)	25.5	22.3	23.7	24.3	25.1	25.6	25.6	24.4	23.7	25.2	25.6	
PAT	15.3	28.6	32.9	26.8	29.2	26.8	27.3	28.0	103.6	111.2	22.0	
Change (%)	498.8	130.9	121.1	40.6	90.5	-6.4	-16.9	4.2	111.9	7.3	43.7	
Extraord.: Tax Prov. Write Back	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.8	0.0	0.0	
Adj PAT	15.3	28.6	32.9	26.1	29.2	26.8	27.3	28.0	102.9	111.2	22.0	33%
Change (%)	498.8	130.9	127.3	33.3	90.5	-6.4	-16.9	7.3	110.1	8.1	43.7	
EPS (INR)	3.4	6.3	7.3	5.8	6.5	5.9	6.1	6.2	22.8	24.7	4.9	50%

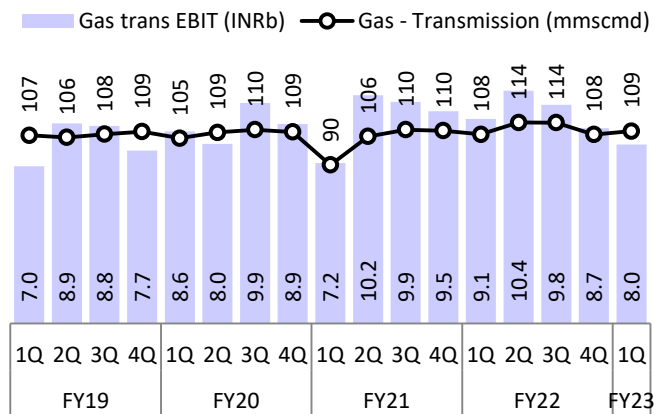
Exhibit 1: One-year forward P/E ratio

Source: Company, MOFSL

Exhibit 2: One-year forward P/B ratio

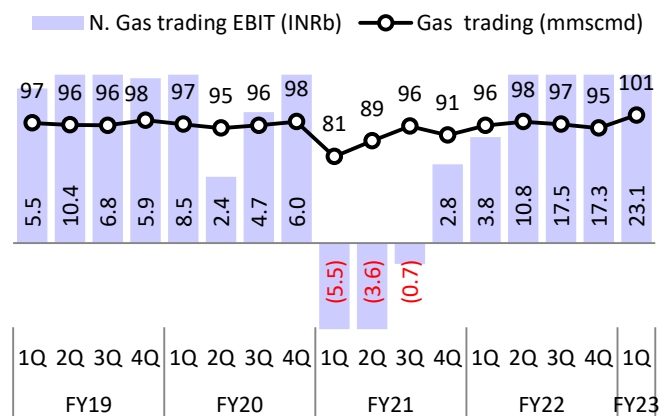
Source: Company, MOFSL

Exhibit 3: Transmission volumes increased 2% each QoQ/YoY



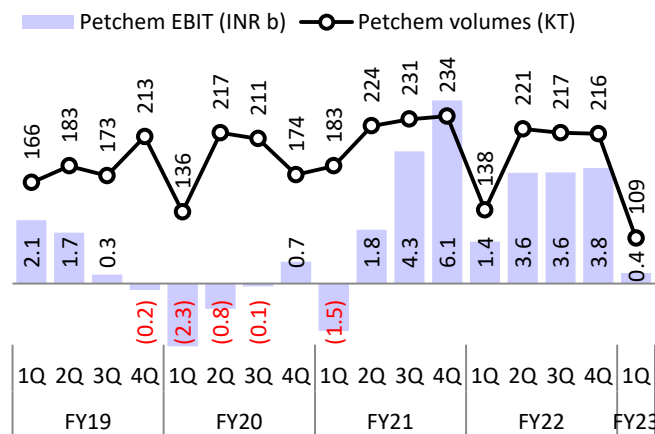
Source: MOFSL, Company

Exhibit 4: Profitability for the Trading segment improved QoQ



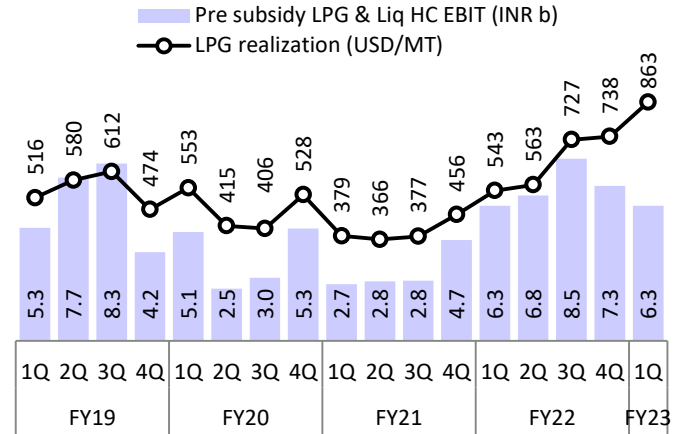
Source: MOFSL, Company

Exhibit 5: Petchem volumes fell 21% YoY and 50% QoQ



Source: MOFSL, Company

Exhibit 6: Realization from LPG and Liquid HC up 59% YoY

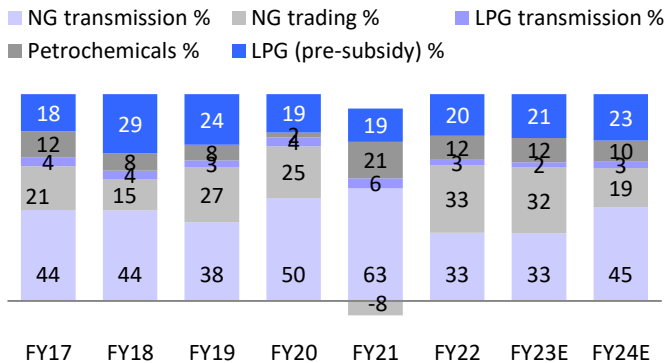
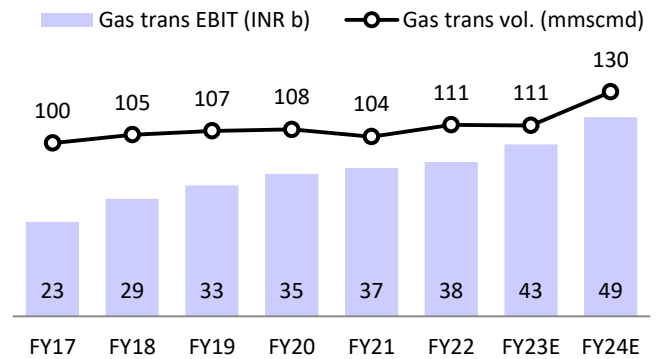
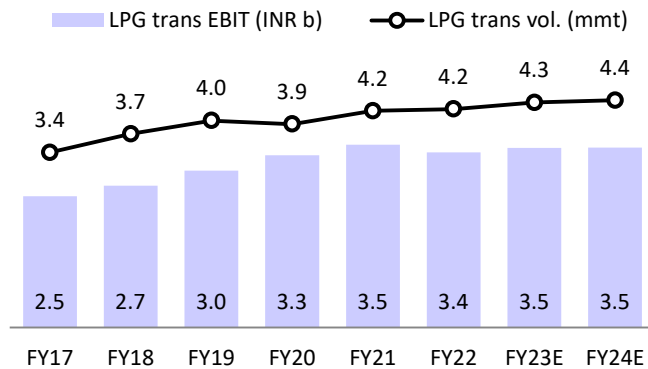
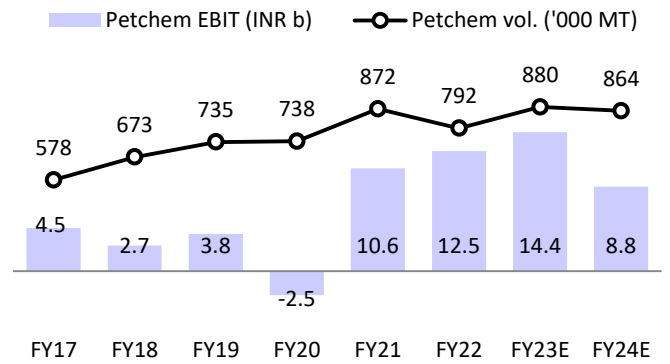
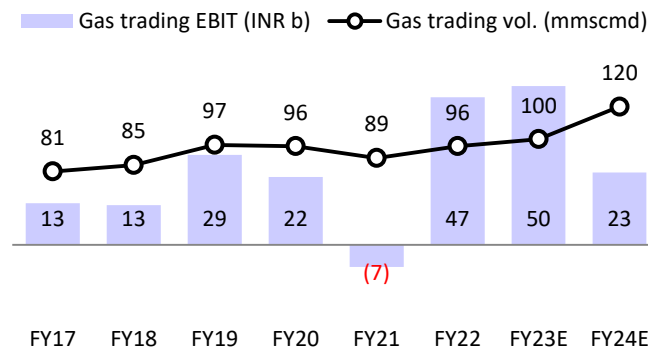
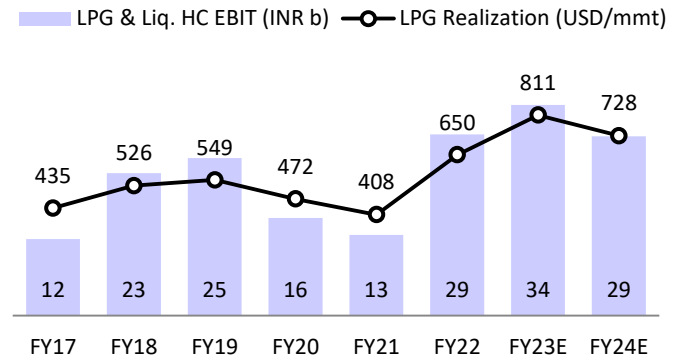
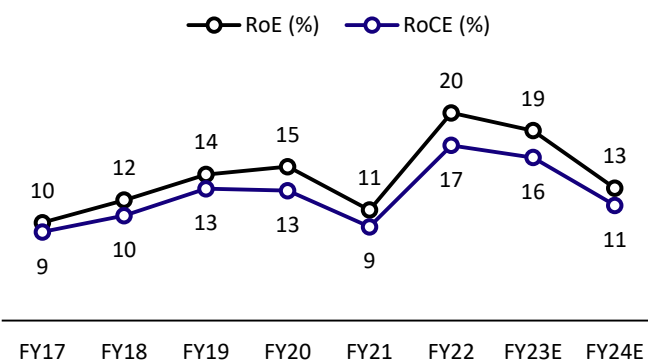
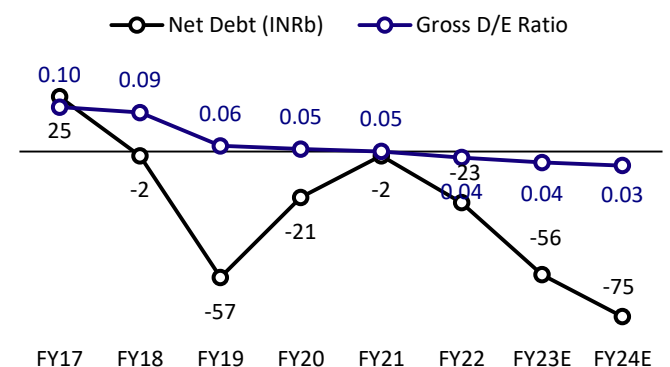


Source: MOFSL, Company

Exhibit 7: Segment-wise performance details (INR m)

	FY21				FY22				FY23	1QFY23 (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	YoY	QoQ
Exchange Rate (INR/USD)	74.4	73.8	72.9	73.8	74.8	75.3	76.7	75.3	76.7	3	2
Gas transmission business											
Volumes (mmscmd)	90	106	110	110	108	114	114	108	109	2	2
Gross Revenues	12,681	15,400	16,135	15,310	14,837	16,462	16,727	15,898	16,584	12	4
Opex	3,151	2,590	3,665	3,270	3,077	3,322	4,167	4,358	5,684	85	30
EBITDA	9,530	12,810	12,470	12,040	11,760	13,140	12,560	11,540	10,900	-7	-6
Depreciation	2,364	2,598	2,564	2,546	2,611	2,740	2,785	2,807	2,895	11	3
EBIT	7,167	10,212	9,907	9,495	9,149	10,400	9,775	8,733	8,005	-13	-8
Average tariff (INR/mscm)	1,545	1,590	1,590	1,516	1,498	1,565	1,591	1,642	1,665	11	1
Opex (INR/mscm)	384	267	361	324	311	316	396	450	571	84	27
EBITDA (INR/mscm)	1,161	1,323	1,229	1,192	1,187	1,249	1,195	1,192	1,094	-8	-8
Depreciation (INR/mscm)	288	268	253	252	264	260	265	290	291	10	0
EBIT (INR/mscm)	873	1,054	976	940	924	989	930	902	804	-13	-11
LPG Transmission Business											
Volumes ('000 MT)	963	1,058	1,088	1,054	1,023	1,054	1,057	1,065	1,055	3	-1
Gross Revenues	1,536	1,695	1,754	1,689	1,637	1,666	1,676	1,707	1,695	4	-1
Opex	576	665	664	649	617	686	716	697	695	13	0
EBITDA	960	1,030	1,090	1,040	1,020	980	960	1,010	1,000	-2	-1
Depreciation	145	148	159	155	153	159	151	158	163	7	3
EBIT	815	882	931	885	867	821	810	852	837	-3	-2
Average tariff (INR/MT)	1,594	1,602	1,612	1,602	1,600	1,581	1,586	1,603	1,606	0	0
Opex	598	628	610	616	603	651	677	654	658	9	1
EBITDA	997	974	1,002	987	997	930	908	948	948	-5	0
Depreciation	151	140	146	147	149	151	142	148	154	3	4
EBIT	846	834	856	840	848	779	766	800	794	-6	-1
Gas Trading Business											
Volumes (mmscmd)	81	89	96	91	96	98	97	95	101	5	6
Revenues	94,437	1,05,067	1,19,034	1,19,918	1,42,883	1,78,765	2,20,918	2,30,694	3,46,047	142	50
EBIT	-5,455	-3,640	-737	2,809	3,776	10,789	17,497	17,259	23,145	513	34
Revenues (INR/mscm)	12,787	13,031	13,534	14,266	16,186	19,884	24,868	27,070	37,710	133	39
EBIT (INR/mscm)	-739	-451	-84	334	428	1,200	1,970	2,025	2,522	490	25
Petrochemicals Business											
Volumes ('000 MT)	183	224	231	234	138	221	217	216	109	-21	-50
Gross Revenues	12,217	16,847	19,366	22,179	13,623	22,834	24,005	25,023	14,558	7	-42
Opex	12,647	13,957	13,876	14,939	11,073	18,014	19,105	19,993	12,868	16	-36
EBITDA	-430	2,890	5,490	7,240	2,550	4,820	4,900	5,030	1,690	-34	-66
Depreciation	1,114	1,127	1,149	1,151	1,167	1,187	1,254	1,240	1,338	15	8
EBIT	-1,544	1,763	4,341	6,089	1,383	3,633	3,646	3,790	352	-75	-91
Realization (USD/MT)	897	1,019	1,150	1,284	1,320	1,372	1,442	1,539	1,741	32	13
Realization (INR/kg)	67	75	84	95	99	103	111	116	134	35	15
Opex (INR/kg)	69	62	60	64	80	82	88	93	118	47	28
EBITDA (INR/kg)	-2	13	24	31	18	22	23	23	16	-16	-33
Depreciation (INR/kg)	6	5	5	5	8	5	6	6	12	45	114
EBIT (INR/kg)	-8	8	19	26	10	16	17	18	3	-68	-82
LPG & Liquid Hydrocarbons Business											
Volumes ('000 MT)	265	297	319	257	250	262	275	217	220	-12	1
Gross Revenues	7,479	8,030	8,779	8,651	10,151	11,113	15,328	12,060	14,554	43	21
Opex	4,619	5,010	5,739	3,691	3,611	4,083	6,578	4,530	7,924	119	75
EBITDA	2,860	3,020	3,040	4,960	6,540	7,030	8,750	7,530	6,630	1	-12
Depreciation	198	219	213	216	199	207	200	247	282	42	14
EBIT	2,662	2,802	2,827	4,744	6,341	6,823	8,550	7,283	6,349	0	-13
EBIT (Post-Subsidy)	2,662	2,802	2,827	4,744	6,341	6,823	8,550	7,283	6,349	0	-13
Realization (USD/MT)	379	366	377	456	543	563	727	738	863	59	17
Realization (INR/MT)	28,223	27,038	27,519	33,660	40,602	42,416	55,738	55,577	66,156	63	19
Opex (INR/MT)	17,431	16,870	17,989	14,360	14,442	15,584	23,920	20,876	36,020	149	73
EBITDA (INR/MT)	10,792	10,168	9,530	19,300	26,160	26,832	31,818	34,700	30,136	15	-13
Depreciation (INR/MT)	747	736	666	842	796	789	728	1,139	1,280	61	12
EBIT (INR/MT)	10,045	9,433	8,863	18,458	25,364	26,043	31,090	33,562	28,857	14	-14
EBIT post Subsidy (INR/MT)	10,045	9,433	8,863	18,458	25,364	26,043	31,090	33,562	28,857	14	-14

Story in charts

Exhibit 8: Transmission to be the major contributor to EBITDA

Exhibit 9: Expect gas transmission volumes to grow over FY22-24

Exhibit 10: LPG transmission segment

Exhibit 11: Expect petchem EBIT to remain soft over FY23-24

Exhibit 12: Expect gas trading volumes to grow over FY22-24

Exhibit 13: EBIT from LPG and Liquid HC

Exhibit 14: Expect return ratios to remain soft

Exhibit 15: Expect D/E ratio to decline


Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	4,80,743	5,36,612	7,51,268	7,18,764	5,67,378	9,16,457	18,39,313	13,00,384
Change (%)	-6.9	11.6	40.0	-4.3	-21.1	61.5	100.7	-29.3
EBITDA	63,152	76,339	95,287	83,694	64,451	1,38,290	1,50,281	1,17,977
% of Net Sales	13.1	14.2	12.7	11.6	11.4	15.1	8.2	9.1
Depreciation	13,968	14,151	15,502	18,360	19,079	21,112	21,378	21,657
Interest	4,794	2,751	1,385	1,085	1,559	1,744	1,737	1,911
Other Income	12,705	9,870	15,712	14,168	20,045	20,469	21,492	22,567
EO Items (net)	-2,987	277	-3,263	1,016	0			
PBT	54,108	69,584	90,848	79,434	63,858	1,35,903	1,48,658	1,16,976
Tax	19,079	23,400	30,592	13,227	14,956	32,263	37,417	29,443
Rate (%)	35.3	33.6	33.7	16.7	23.4	23.7	25.2	25.2
Reported PAT	35,029	46,183	60,257	66,206	48,902	1,03,640	1,11,241	87,533
Adjusted PAT	38,167	45,699	63,264	74,193	48,964	1,02,864	1,11,241	87,533
Change (%)	52.4	31.8	30.5	9.9	-26.1	111.9	7.3	-21.3

Balance Sheet							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	16,913	22,551	22,551	45,101	44,404	44,404	44,404	44,404
Reserves	3,64,581	3,80,731	4,18,379	3,94,610	4,21,708	5,11,464	5,98,500	6,66,987
Net Worth	3,81,494	4,03,281	4,40,929	4,39,711	4,66,112	5,55,868	6,42,904	7,11,391
Loans	38,186	17,517	16,157	43,098	55,142	57,041	62,745	69,019
Deferred Tax	46,559	46,309	59,477	44,972	45,022	47,673	47,673	47,673
Capital Employed	4,66,239	4,67,108	5,16,564	5,27,781	5,66,276	6,60,582	7,53,322	8,28,083
Gross Fixed Assets	4,52,646	4,69,633	5,08,099	5,48,260	5,91,376	6,38,502	7,51,576	8,21,576
Less: Depreciation	1,67,584	1,81,736	1,97,238	2,15,598	2,34,676	2,55,788	2,77,166	2,98,823
Net Fixed Assets	2,85,062	2,87,898	3,10,861	3,32,662	3,56,700	3,82,714	4,74,410	5,22,753
Capital WIP	38,034	55,140	92,025	1,05,819	1,19,034	1,30,713	87,639	87,639
Investments	95,096	99,531	95,282	78,772	1,05,518	1,36,305	1,36,305	1,36,305
Current Assets								
Inventory	16,984	19,195	23,219	29,601	26,038	30,152	60,515	42,784
Debtors	38,282	40,515	50,743	55,759	44,858	83,660	1,67,904	1,18,707
Cash & Bank Balance	13,419	25,294	12,147	8,039	13,618	20,850	1,39,392	1,22,348
Cash	4,519	10,761	1,508	5,483	12,122	13,676	1,32,218	1,15,175
Bank Balance	8,900	14,533	10,639	2,556	1,496	7,174	7,174	7,174
Loans/Adv. & Other Assets	75,823	99,558	59,510	74,684	67,339	79,011	79,011	79,011
Current Liab. & Prov.								
Liabilities	81,327	1,45,740	1,12,969	1,44,709	1,53,228	1,87,721	3,76,752	2,66,362
Provisions	15,133	14,283	14,253	12,847	13,600	15,103	15,103	15,103
Net Current Assets	48,047	24,539	18,397	10,527	-14,976	10,849	54,967	81,386
Application of Funds	4,66,239	4,67,108	5,16,564	5,27,781	5,66,276	6,60,582	7,53,322	8,28,083

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	8.5	10.1	14.0	16.5	10.9	22.8	24.7	19.4
Cash EPS	10.9	13.4	16.8	18.8	15.1	27.7	29.4	24.2
Book Value	84.6	90.2	98.9	105.9	111.7	129.7	149.0	164.2
DPS	3.2	3.9	3.8	6.4	5.0	5.0	5.4	4.2
Payout (incl. dvd tax)	50.1	45.5	34.7	52.5	46.1	21.8	21.8	21.8
Valuation (x)								
P/E	16.5	13.8	10.0	8.5	12.9	6.1	5.7	7.2
Adj. P/E (for investments)	12.8	10.7	7.7	6.6	9.9	4.7	4.4	5.6
Cash P/E	12.9	10.5	8.3	7.5	9.3	5.1	4.8	5.8
EV / EBITDA	4.1	4.3	2.9	6.7	7.8	4.0	3.5	4.2
EV / Sales	0.6	0.7	0.4	0.9	1.2	0.7	0.3	0.5
Price / Book Value	1.7	1.6	1.4	1.3	1.3	1.1	0.9	0.9
Dividend Yield (%)	2.3	2.8	2.7	4.6	3.6	3.6	3.9	3.0
Profitability Ratios (%)								
RoE	9.6	11.8	14.3	15.0	10.8	20.3	18.6	12.9
RoCE	8.7	10.2	12.9	12.7	9.2	17.1	15.9	11.3
RoIC	9.9	13.6	17.5	16.7	10.5	25.5	25.3	16.5
Turnover Ratios								
Debtors (No. of Days)	29	28	25	28	29	33	33	33
Fixed Asset Turnover (x)	1.0	1.1	1.5	1.4	1.0	1.4	2.4	1.6
Leverage Ratio								
Net Debt / Equity (x)	0.1	0.0	0.0	0.1	0.1	0.1	-0.1	-0.1

Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	54,108	69,584	90,848	79,434	63,858	1,35,903	1,48,658	1,16,976
Depreciation	13,968	14,151	15,502	18,360	19,079	21,112	21,378	21,657
Interest charge	4,794	2,751	1,385	1,085	1,559	1,744	1,737	1,911
Tax paid	-11,909	-13,216	-20,764	-19,555	-12,754	-31,960	-37,417	-29,443
(Inc)/Dec in Wkg. Capital	-1,939	18,864	-3,282	3,073	22,210	-29,737	74,425	-43,462
CF from Op. Activity	57,610	86,626	78,763	68,881	80,639	89,550	2,08,780	67,638
(Inc)/Dec in FA & CWIP	-18,184	-29,425	-72,022	-54,345	-49,767	-59,184	-70,000	-70,000
Free Cash Flow	39,425	57,201	6,741	14,536	30,872	30,366	1,38,780	-2,362
(Pur)/Sale of Investments	1,889	-7,999	-2,691	-6,222	-10,719	-4,566	0	0
CF from Inv. Activity	-3,801	-25,679	-54,366	-68,290	-38,609	-46,148	-70,000	-70,000
Interest charge	-5,534	-3,562	-1,416	-1,132	-3,199	-3,194	-1,737	-1,911
Inc / (Dec) in Debt	-29,312	-30,116	-11,348	45,196	4,564	3,629	5,704	6,274
Dividends Paid	-17,537	-21,027	-20,886	-39,421	-22,371	-39,943	-24,205	-19,046
CF from Fin. Activity	-52,383	-54,705	-33,649	3,384	-35,391	-41,849	-20,237	-14,682
Inc / (Dec) in Cash	1,426	6,242	-9,253	3,976	6,639	1,553	1,18,543	-17,044
Add: Opening Balance	3,093	4,518	10,760	1,508	5,483	12,122	13,675	1,32,218
Closing Balance	4,518	10,760	1,508	5,483	12,122	13,675	1,32,218	1,15,174

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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