

BSE SENSEX

72,410

S&P CNX

21,779



Stock Info

Bloomberg	GAIL IN
Equity Shares (m)	6575
M.Cap.(INRb)/(USD\$b)	1032.9 / 12.4
52-Week Range (INR)	159 / 91
1, 6, 12 Rel. Per (%)	16/37/44
12M Avg Val (INR M)	1858
Free float (%)	48.5

Financials Snapshot (INR b)

Y/E March	FY24E	FY25E	FY26E
Sales	1,330.8	1,428.3	1,478.2
EBITDA	109.6	128.2	155.1
Adj. PAT	74.8	87.3	105.8
Adj. EPS (INR)	11.4	13.3	16.1
EPS Gr. (%)	41.2	16.7	21.2
BV/Sh.(INR)	101.5	110.8	122.1

Ratios

Net D:E	0.3	0.2	0.2
RoE (%)	12.8	13.7	15.0
RoCE (%)	10.1	10.7	11.8
Payout (%)	30.0	30.0	30.0

Valuations

P/E (x)	13.8	11.8	9.8
P/BV (x)	1.5	1.4	1.3
EV/EBITDA (x)	7.8	6.8	5.6
Div. Yield (%)	2.2	2.5	3.1
FCF Yield (%)	0.7	2.5	4.4

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	51.5	51.5	51.5
DII	26.8	25.8	21.7
FII	15.4	16.7	20.4
Others	6.3	6.0	6.4

FII Includes depository receipts

CMP: INR157
TP: INR195 (+24%)
Buy

Re-rating on the cards...

...driven by a sharp improvement in ROE and FCF | Core earnings strong

- Fueled by rising transmission volumes and a turnaround in petrochemicals, we are forecasting GAIL's ROE to improve to ~15% by FY26 from a low of 9.5% in FY23. A combination of the upcoming gas price-related tariff hikes, an EBITDA CAGR of 32% over FY23-26E, and onset of new projects can drive a re-rating in our opinion.
- Despite capex mounting 64% over FY24-26E (vs. avg. for FY19-23), we estimate that the company will report a free cash flow of INR45.6b in FY26. Further, we highlight optionality from GAIL Gas, which can provide value unlocking up to INR14.3/share for the parent (GAIL).
- We value the core business at 12x Dec'25E adjusted EPS of INR13.7, as we roll-forward our valuations to Dec'25. Adding the value of listed and unlisted investments of INR30, we arrive at our revised TP of INR195. Our TP implies FY26E P/B of 1.6x. The stock is currently trading at an FY26E P/B of 1.3x. Reiterate BUY.

Earnings visibility higher as transmission contribution improves

- We introduce our FY26 estimates and project that transmission volumes would grow to 140mmcmd, clocking a 9% CAGR during FY23-26. The volume growth would be fueled by an increase in domestic gas output from Reliance Industries, ONGC, and Oil India.
- Gas consumption in India will also be aided by a notable rise in LNG regasification capacity over the next few years, as five new LNG terminals ramp up operations.
- Lastly, we expect a sizeable new liquefaction capacity coming online during CY24-26, especially in the US and Qatar, which should keep spot LNG prices in check.
- Owing to the aforementioned factors, we anticipate that transmission EBITDA would account for 46% of total EBITDA in FY26, up from 40% in FY23. This should improve the earnings stability.

Improving demand, lower capacity additions to drive petchem turnaround

- We expect the petrochemical segment to become profitable at the EBIT level by FY26, driven by:
 - Improvement in PE prices as CY23 was the peak year for new ethylene capacity additions;
 - Petrochemical demand, which should start to pick up from 2HFY25E amid low inventories globally and improving macroeconomic conditions; - and
 - Softer spot LNG prices, which should aid GAIL to move toward the USD10/mmBtu breakeven level in the petchem segment.
- Lastly, start-up of the new 500ktpa PDH-PP plant at Usar in FY26E at full utilization can add up to 9% to the standalone FY25E EBITDA.

Valuation and view

- **We reiterate our BUY rating on GAIL** and raise our TP to INR195 as we roll-forward our valuations to Dec'25. During FY23-26E, we are modeling EBITDA to report a 32% CAGR driven by:
 - Rising natural gas transmission volumes to 140mmscmd in FY26 from 107mmscmd in FY23;
 - Substantial improvement in petchem segment's profitability over 2HFY25-FY26 as new petchem capacity will be operational and low inventories globally will drive re-stocking demand; and
 - Commencement of operations of 3,892km of gas transmission pipelines and 560ktpa of petchem capacity.
- We expect GAIL's ROE to improve to 15% in FY26 from 9.5% in FY23 with healthy FCF generation of INR45.6b in FY26 (vs. -INR45.3b in FY23), which we believe can drive a re-rating for the stock. **Reiterate BUY.**

Exhibit 1: Price/OCF trend for GAIL

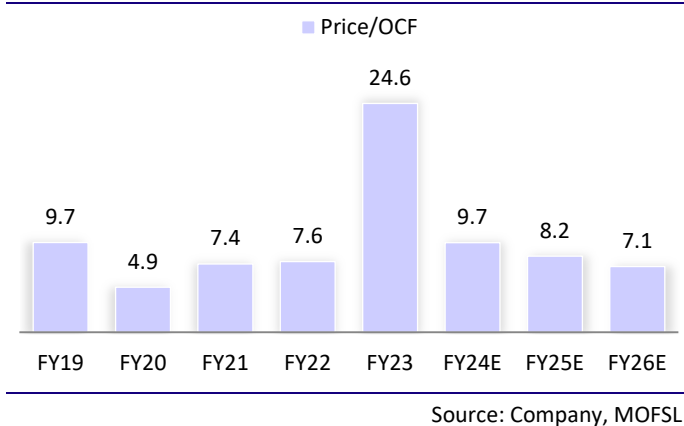


Exhibit 2: ROE profile with and without trading profit

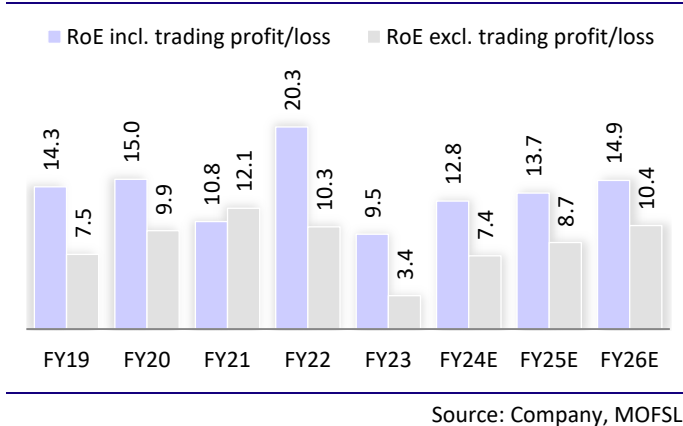


Exhibit 3: One-year forward P/E ratio

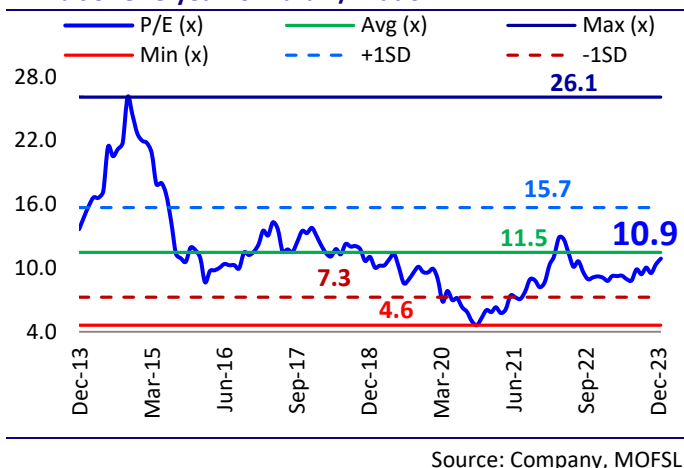
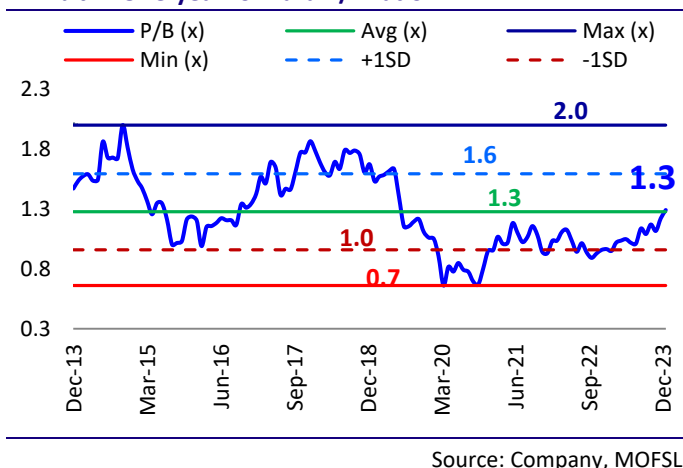


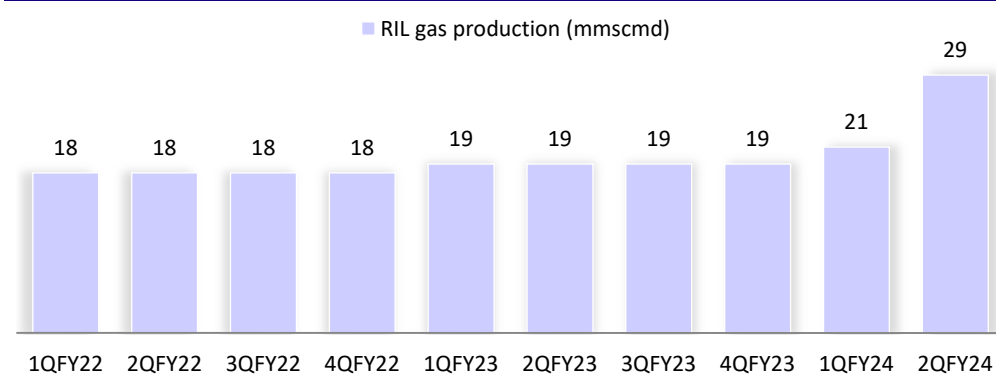
Exhibit 4: One-year forward P/B ratio



Transmission volume boom on the horizon

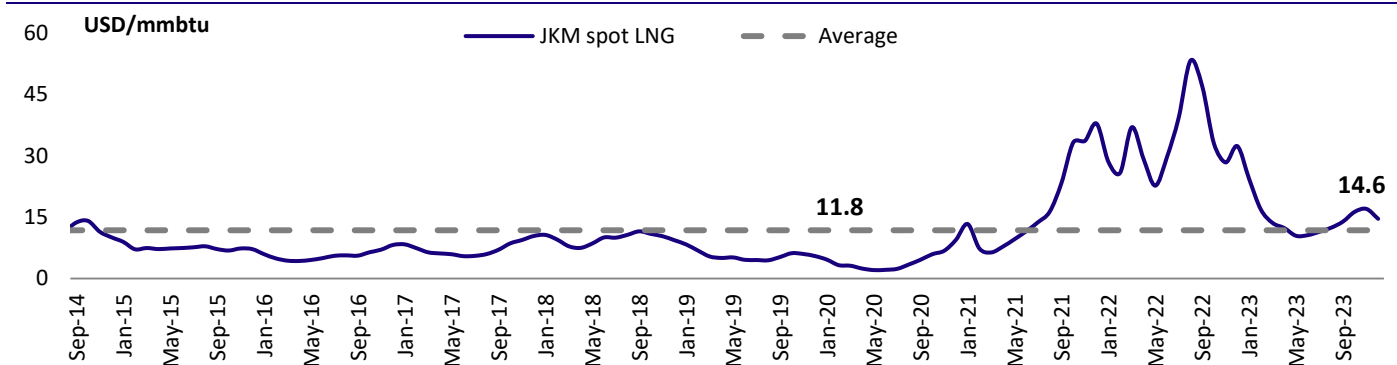
- We introduce our FY26 estimates and project that transmission volumes would grow to 140mmscmd, clocking a 9% CAGR during FY23-26. The volume growth would be fueled by an increase in domestic gas output as RIL ramps up production from KG-D6 to 30mmscmd, while ONGC will also increase gas production from KG-DWN-98/2 by 7-8mmscmd in FY25E. Additionally, Oil India also expects its gas production to jump 20% YoY in FY26 led by the completion of the Indradhanush Gas Grid by Mar'24 ([link to our note](#)).
- Gas consumption in India will also be aided by a substantial rise in LNG regasification capacity over the next few years from: a) 5mmtpa Swan LNG terminal, b) 5mmtpa Chhara LNG terminal, c) debottlenecking of GSPC's 5mmtpa LNG terminal's evacuation pipeline, d) completion of breakwater facility at 5mmtpa Dabhol LNG terminal, and e) ramping up of Dharma LNG terminal.
- Lastly, we anticipate a sizeable new liquefaction capacity coming online over CY24-26, especially in the US and Qatar, which should keep spot LNG prices in check.
- Owing to the aforementioned factors, we anticipate that transmission EBITDA would account for 46% of total EBITDA in FY26, up from 40% in FY23. This should improve the earnings stability.

Exhibit 5: RIL's gas production has ramped up to ~29mmscmd



Source: Company, MOFSL

Exhibit 6: Spot LNG price trend



Source: Reuters, MOFSL

Exhibit 7: Upcoming LNG capacity of Qatar

Project name	Owners	Nameplate capacity (bcf/year)	In-service date
QatarGas North Field East Expansion Project, Trains 1–4	❖ QatarEnergy 75%; ExxonMobil 6.3%; TotalEnergies 6.3%; Shell 6.3%; Eni 3.1%; ConocoPhillips 3.1%	1,537.0	2025
QatarGas North Field South Expansion Project, Trains 1–2	❖ QatarEnergy 75%; TotalEnergies 9.4%; Shell 9.4%; ConocoPhillips 6.3%	768.0	2027

Source: EIA, MOFSL

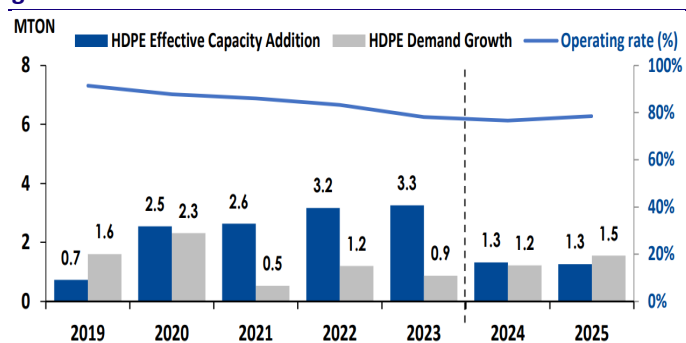
Exhibit 8: Upcoming LNG capacity of the US

Project name	Train	Baseload nameplate capacity (mmtpa)	Peak nameplate capacity (mmtpa)	In-service date
Golden Pass	Train 1	5.2	6.0	2QCY24
Golden Pass	Train 2	5.2	6.0	4QCY24
Golden Pass	Train 3	5.2	6.0	1QCY25
Plaquemines LNG Phase 1	Trains 1-18	9.9	12.0	3QCY24
Plaquemines LNG Phase 2	Trains 19-36	9.9	12.0	CY25
Corpus Christi Liquefaction Stage III	Trains 1-14	10.0	11.5	CY25
Total		45.4	53.6	

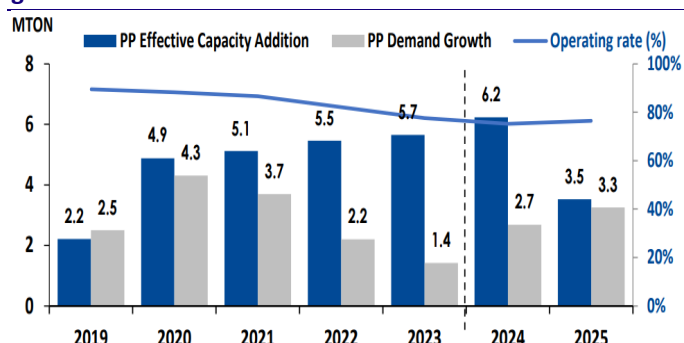
Source: EIA, MOFSL

Potential revival in sight for the petrochemical segment

- We expect the petrochemical segment to become profitable at the EBIT level by FY26, driven by:
 - Improvement in petrochemical spread as new ethylene supply decreases to 4.7mmtpa in CY24 from a peak addition of 9.7mmtpa in CY23. The South East Asian and Korean petrochemical players, in their 3QCY23 earnings commentaries, have highlighted that going forward demand growth should exceed capacity additions globally for PE/PP.
 - Improvement in petrochemical demand from 2HFY25E amid low inventories globally for PE and PP. For PP especially, while car sales picked up globally in 2023, they still remain below 2018 levels. Given China's stimulus for electric car purchase, PP demand should see a recovery in the coming quarters. Polyester demand should witness support from low textile inventories globally and some demand improvement from the seasonal winter months.
 - Lastly, start-up of the new 500ktpa PDH-PP plant at Usar in FY26E at full utilization can add up to 9% to the standalone FY25E EBITDA, if operated at full utilization.
- Additionally, GAIL's petchem earnings base is set to diversify across products as new PP and PTA capacities commence operations, thus making the earnings trajectory less volatile and giving it exposure to various product segments. Even with respect to the feedstock, GAIL will now be dependent on both natural gas and propane and as such, sharp swings in prices for one of these gases will not derail the entire product segment's profitability.

Exhibit 9: AP/ME HDPE's capacity additions vs. demand growth


Source: CMA (Fall 24), Thai Oil, MOFSL

Exhibit 10: AP/ME PP's capacity additions vs. demand growth


Source: CMA (Fall 24), Thai Oil, MOFSL

Exhibit 11: Major HDPE plant start-ups during 2023-2025

Country	Company	Capacity (ktpa)	Start-up
China	PetroChina	800	Jan'23
China	Shangdong Jinghai	400	Apr'23
China	Sinopec Hainan	300	Apr'23
China	Ningxia Baofeng	300	Jun'23
Philippines	JG Summit	250	Aug'23
Vietnam	Longson	500	Nov'23-Jan'24
China	Sinopec Tianjin	500	Jun'24
China	Shangdong Yulong	1,250	4QCY24
China	Inner Mongolia	275	May'25

Source: CMA (Fall 24), Thai Oil, MOFSL

Exhibit 12: Major PP plant start-ups during 2023-2025

Country	Company	Capacity (ktpa)	Start-up
China	Quanzhou Grand Pacific	450	Jun'23
China	Zhongjing 3	600	Nov'23
Vietnam	Longson	400	Nov'23-Jan'24
China	Oriental Energy	1,000	Jan'24
India	Nayara Energy	450	Jan'24
China	ExxonMobil (Huizhou)	955	Jan'24
China	China Energy Baotou Coal	410	Mar'24
China	Shangdon Yulong	1,600	4QFY24
China	Inner Mongolia	500	May'25
India	Indian Oil Corporation	500	Jun'25
Indonesia	Lotte	250	Jun'25

Source: CMA (Fall 24), Thai Oil, MOFSL

Exhibit 13: GAIL's ongoing petrochemical projects

	Capacity (ktpa)	Expected Completion	Estimated Cost (INR b)
PDH-PP project, Usar	500	Apr'25	112.6
PP Project, PATA	60	Jul'24	13.0
JBF Petrochemicals	1,250	Mar'25	42.0

Source: Company, MOFSL

Exhibit 14: GAIL's product slate post-completion of the ongoing projects

Product	Capacity (ktpa)
LLDPE	200
HDPE	610
PP	560
PTA (at JBF petrochemicals)	1,250

Source: Company, MOFSL

GAIL Gas can unlock INR14.3/share in value

- Historically, an earnings boost driven by strong trading profits did not beget high valuations given the volatile nature of trading segment earnings.
- However, the share of trading profits in EBITDA mix could decline to below 30% by FY27 from the high of 44% in FY23. The Street values trading profits at 3x EV/EBITDA while petrochemicals and transmission are generally valued at 6-7x. As such, rising earnings contribution from core earnings supports valuations, in our opinion.
- We believe GAIL's stake in GAIL Gas provides optionality and can unlock up to INR14.3/share in value for GAIL's shareholders. In FY23, GUJGA clocked a volume of 8.4mmscmd and is currently trading at an EV of ~INR310b, translating into an EV/scm of INR100. We estimate that the Street values GAIL Gas at 1x FY23 Equity (or INR3.1/share in GAIL's TP) at present. If GAIL Gas is instead valued at INR100 EV/scm, it can unlock INR14.3/share in value for GAIL's shareholders according to our estimate.

Exhibit 15: GAIL Gas can unlock INR14.3/share in value for GAIL's shareholders

GAIL Gas' FY23 Volume (mmscm)	2,077.0
EV at 100x EV/scm (INR b)	207.7
Net Debt (INR b)	93.2
Equity Value (INR b)	114.5
Value/share (INR)	17.4
Current value of GAIL Gas in GAIL's TP (at 1x P/BV)	3.1
Value unlocking	14.3

Source: Company, MOFSL

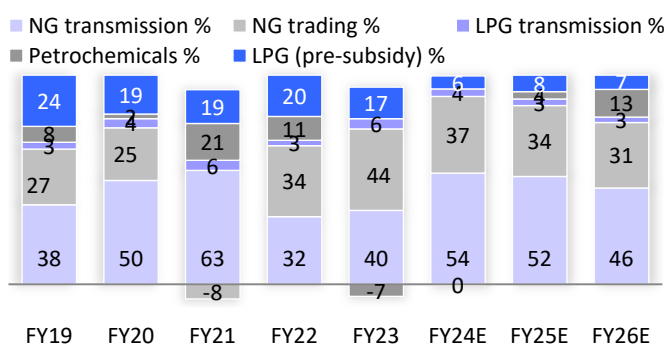
Valuation and view

- During FY23-26E, we are modeling 32% CAGR for GAIL's EBITDA driven by transmission volume CAGR of 9%, improvement in petchem margins as low global inventories drive re-stocking demand, and commencement of 3,892km of gas transmission pipeline and 560ktpa of petchem capacity at standalone level.
- We expect GAIL's ROE to improve to 15% in FY26 from 9.5% in FY23 with healthy FCF generation of INR45.6b in FY26 (vs. -INR45.3b in FY23), which we believe can drive a re-rating for the stock.
- We value the core business at 12x Dec'25E adjusted EPS of INR13.7, as we roll-forward our valuations to Dec'25. Adding the value of listed and unlisted investments of INR30, we arrive at our revised TP of INR195. Our TP implies FY26E P/B of 1.6x. The stock is currently trading at an FY26E P/B of 1.3x.

Reiterate BUY.

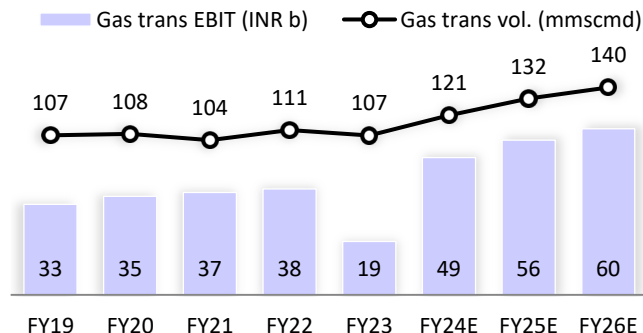
Story in charts

Exhibit 16: Transmission to remain a major contributor to EBITDA...



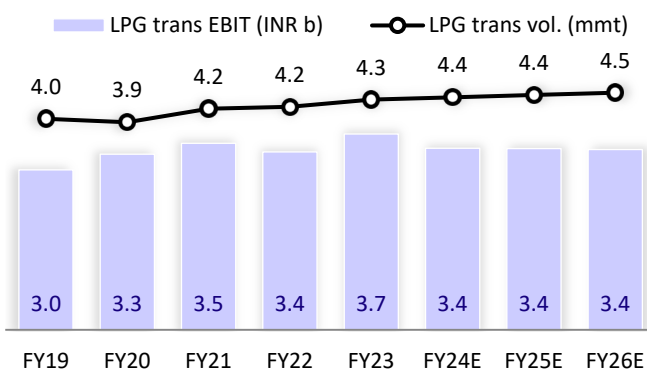
Source: Company, MOFSL

Exhibit 17: ...with transmission volumes to grow to 140mmscmd by FY26



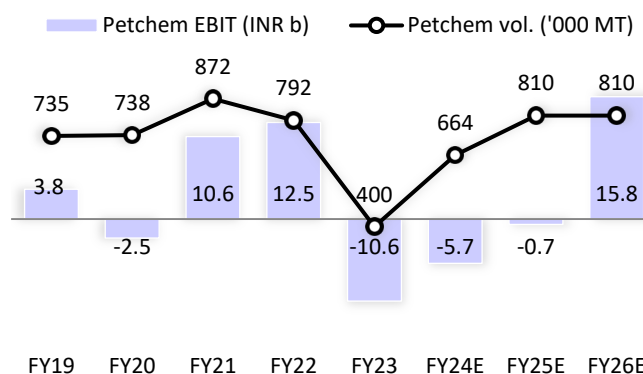
Source: Company, MOFSL

Exhibit 18: LPG transmission segment's EBIT



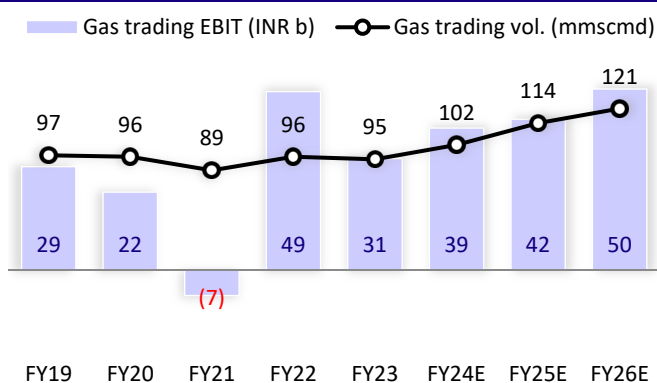
Source: Company, MOFSL

Exhibit 19: Petchem segment's EBIT to rise over FY24-26E



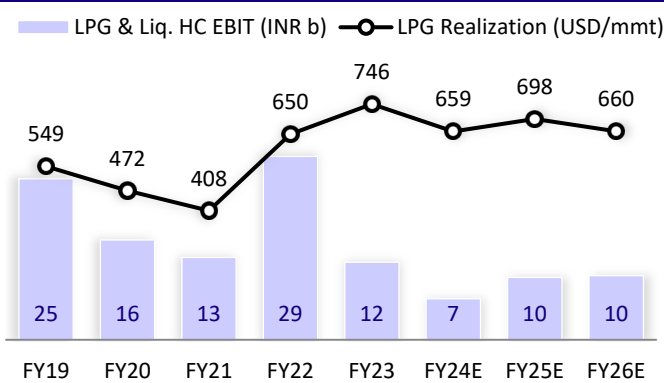
Source: Company, MOFSL

Exhibit 20: Gas trading segment – snapshot



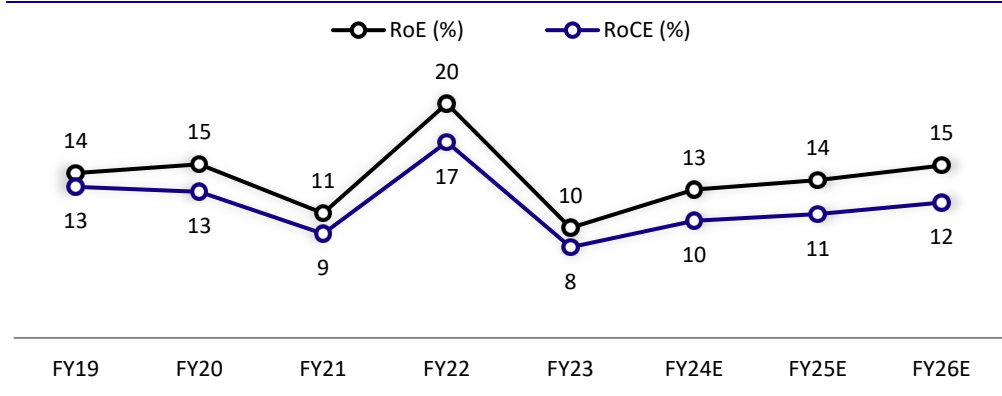
Source: Company, MOFSL

Exhibit 21: LPG & Liq. HC's EBIT likely to improve



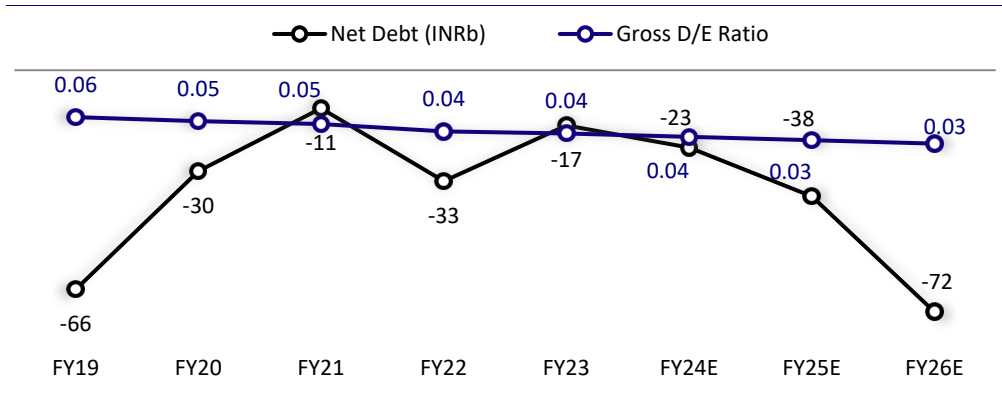
Source: Company, MOFSL

Exhibit 22: Expect return ratios to recover



Source: Company, MOFSL

Exhibit 23: D/E ratio likely to decline



Source: Company, MOFSL

Financials and valuations

Income Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	751.3	718.8	567.4	916.5	1,443.0	1,330.8	1,428.3	1,478.2
Change (%)	39.6	-4.3	-21.1	61.5	57.5	-7.8	7.3	3.5
EBITDA	95.3	83.7	64.5	138.3	67.0	109.6	128.2	155.1
% of Net Sales	12.7	11.6	11.4	15.1	4.6	8.2	9.0	10.5
Depreciation	15.5	18.4	19.1	21.1	24.9	28.4	30.1	31.7
Interest	1.4	1.1	1.6	1.7	3.1	6.2	6.4	6.8
Other Income	15.7	14.2	20.0	20.5	26.8	25.0	25.0	25.0
EO Items (net)	-3.3	1.0	0.0	0.0	0.0	0.0	0.0	0.0
PBT	90.8	79.4	63.9	135.9	65.8	100.0	116.7	141.4
Tax	30.6	13.2	15.0	32.3	12.8	25.2	29.4	35.6
Rate (%)	33.7	16.7	23.4	23.7	19.5	25.2	25.2	25.2
Reported PAT	60.3	66.2	48.9	103.6	53.0	74.8	87.3	105.8
Adjusted PAT	63.3	74.2	49.0	102.9	53.0	74.8	87.3	105.8
Change (%)	26.0	9.9	-26.1	111.9	-48.8	41.2	16.7	21.2

Balance Sheet

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	22.6	45.1	44.4	44.4	65.8	65.8	65.8	65.8
Reserves	418.4	394.6	421.7	511.5	490.8	543.2	604.3	678.4
Net Worth	440.9	439.7	466.1	555.9	556.5	608.9	670.1	744.1
Loans	8.7	54.1	59.9	63.5	143.1	164.6	181.0	199.1
Deferred Tax	59.5	45.0	45.0	47.7	46.6	46.6	46.6	46.6
Capital Employed	509.1	538.8	571.0	667.1	746.3	820.1	897.7	989.9
Gross Fixed Assets	508.1	548.3	591.4	638.5	703.4	881.6	981.6	1,081.6
Less: Depreciation	197.2	215.6	234.7	255.8	280.7	309.1	339.1	370.9
Net Fixed Assets	310.9	332.7	356.7	382.7	422.7	572.5	642.4	710.7
Capital WIP	92.0	105.8	119.0	130.7	136.6	58.4	58.4	58.4
Investments	95.3	78.8	105.5	136.3	148.3	148.3	148.3	148.3
Current Assets								
Inventory	23.2	29.6	26.0	30.2	52.8	48.7	52.3	54.1
Debtors	50.7	55.8	44.9	83.7	114.1	105.2	112.9	116.9
Cash & Bank Balance	12.1	8.0	13.6	20.8	4.0	3.8	13.6	38.6
Cash	1.5	5.5	12.1	13.7	1.7	1.6	11.3	36.4
Bank Balance	10.6	2.6	1.5	7.2	2.3	2.3	2.3	2.3
Loans/Adv. & Other Assets	59.5	74.7	67.3	79.0	82.8	82.8	82.8	82.8
Current Liab. & Prov.								
Liabilities	120.4	133.7	148.5	181.2	198.1	182.7	196.1	203.0
Provisions	14.3	12.8	13.6	15.1	16.9	16.9	16.9	16.9
Net Current Assets	10.9	21.5	-10.2	17.3	38.7	40.9	48.6	72.5
Application of Funds	509.1	538.8	571.0	667.1	746.3	820.1	897.7	989.9

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	9.6	11.3	7.4	15.6	8.1	11.4	13.3	16.1
Cash EPS	11.5	12.9	10.3	19.0	11.8	15.7	17.9	20.9
Book Value	68.1	73.0	77.1	89.5	93.5	101.5	110.8	122.1
DPS	2.6	4.3	3.4	3.4	4.0	3.4	4.0	4.8
Payout (incl. dividend tax)	34.7	51.3	45.0	21.3	49.6	30.0	30.0	30.0
Valuation (x)								
P/E	16.3	13.9	21.1	10.0	19.5	13.8	11.8	9.8
Adj. P/E (for investments)	13.2	11.3	17.1	8.1	15.8	11.2	9.6	7.9
Cash P/E	13.6	12.2	15.2	8.3	13.3	10.0	8.8	7.5
EV / EBITDA	3.1	7.4	8.6	4.4	11.3	7.8	6.8	5.6
EV / Sales	0.5	1.0	1.3	0.8	0.7	0.8	0.7	0.7
Price / Book Value	2.3	2.2	2.0	1.8	1.7	1.5	1.4	1.3
Dividend Yield (%)	1.7	2.7	2.2	2.2	2.5	2.2	2.5	3.1
Profitability Ratios (%)								
RoE	14.3	15.0	10.8	20.3	9.5	12.8	13.7	15.0
RoCE	13.1	12.6	9.0	17.0	7.9	10.1	10.7	11.8
RoIC	18.0	16.6	10.2	25.1	8.1	11.4	11.4	13.0
Turnover Ratios								
Debtors (No. of Days)	25	28	29	33	29	29	29	29
Fixed Asset Turnover (x)	1.5	1.3	1.0	1.4	1.9	1.6	1.6	1.5
Leverage Ratio								
Net Debt / Equity (x)	0.0	0.1	0.1	0.1	0.2	0.3	0.2	0.2

Cash Flow Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY22	FY24E	FY25E	FY26E
OP/(Loss) before Tax	90.8	79.4	63.9	135.9	65.8	100.0	116.7	141.4
Depreciation	15.5	18.4	19.1	21.1	24.9	28.4	30.1	31.7
Interest charge	1.4	1.1	1.6	1.7	3.1	6.2	6.4	6.8
Tax paid	-20.8	-19.6	-12.8	-32.0	-15.2	-25.2	-29.4	-35.6
(Inc)/Dec in Wkg. Capital	-3.3	3.1	22.2	-29.7	-30.9	-2.4	2.1	1.1
CF from Op. Activity	78.8	68.9	80.6	89.5	28.1	107.0	125.9	145.5
(Inc)/Dec in FA & CWIP	-72.0	-54.3	-49.8	-59.2	-73.4	-100.0	-100.0	-100.0
Free Cash Flow	6.7	14.5	30.9	30.4	-45.3	7.0	25.9	45.5
(Pur)/Sale of Investments	-2.7	-6.2	-10.7	-4.6	-10.6	0.0	0.0	0.0
CF from Inv. Activity	-54.4	-68.3	-38.6	-46.1	-65.5	-100.0	-100.0	-100.0
Interest charge	-1.4	-1.1	-3.2	-3.2	-5.8	-6.2	-6.4	-6.8
Inc / (Dec) in Debt	-11.3	45.2	4.6	3.6	79.6	21.5	16.5	18.1
Dividends Paid	-20.9	-39.4	-22.4	-39.9	-30.7	-22.5	-26.2	-31.8
CF from Fin. Activity	-33.6	3.4	-35.4	-41.8	25.5	-7.1	-16.1	-20.5
Inc / (Dec) in Cash	-9.3	4.0	6.6	1.6	-11.9	-0.2	9.8	25.0
Add: Opening Balance	10.8	1.5	5.5	12.1	13.7	1.7	1.6	11.3
Closing Balance	1.5	5.5	12.1	13.7	1.7	1.6	11.3	36.4

Investment in securities market is subject to market risks. Read all the related documents carefully before investing

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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