

BSE SENSEX
71,072

S&P CNX
21,616

CMP: INR169

TP: INR200 (+18%)

Buy



Stock Info

Bloomberg	GAIL IN
Equity Shares (m)	6575
M.Cap.(INRb)/(USDb)	1109.9 / 13.4
52-Week Range (INR)	187 / 93
1, 6, 12 Rel. Per (%)	5/35/55
12M Avg Val (INR M)	2400
Free float (%)	48.5

Financials Snapshot (INR b)

Y/E March	FY24E	FY25E	FY26E
Sales	1,331.4	1,438.6	1,535.7
EBITDA	122.3	129.0	159.0
Adj. PAT	85.1	88.0	109.0
Adj. EPS (INR)	12.9	13.4	16.6
EPS Gr. (%)	60.5	3.4	23.9
BV/Sh.(INR)	102.6	112.0	123.6

Ratios

Net D:E	0.2	0.2	0.2
RoE (%)	14.5	13.6	15.2
RoCE (%)	11.4	10.6	11.7
Payout (%)	30.0	30.0	30.0

Valuations

P/E (x)	13.0	12.6	10.2
P/BV (x)	1.6	1.5	1.4
EV/EBITDA (x)	7.6	7.2	5.8
Div. Yield (%)	2.3	2.4	3.0
FCF Yield (%)	1.6	2.4	4.5

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	51.5	51.5	51.5
DII	27.1	26.8	23.7
FII	14.9	15.4	18.7
Others	6.5	6.0	6.1

FII Includes depository receipts

Coal-to-SNG project building block towards coal-to-chemicals

- The Cabinet Committee on Economic Affairs (CCEA) recently approved equity investment by Coal India (CIL) in Coal-to-SNG (Synthetic Natural Gas) Project at ECL command area through a joint venture of CIL and GAIL (I). For GAIL, we see this as another step towards broadening the earnings base and as a building block towards eventually developing coal to chemical capabilities.
- Arguably, even without the forward integration into chemicals there is a business case for coal to syngas projects given India imports bulk of its methanol / urea requirements. GAIL (I) will have 30% stake in the project.
- While this remains a MoU for now, with cabinet approval coming in, there is increased likelihood of board approval being received for the project.
- We remain positive on GAIL ([our top pick in CY24](#)), valuing the core business at 12x Dec'25E adjusted EPS of INR14.1. Adding the value of listed and unlisted investments of INR31, we arrive at our revised TP of INR200. Our TP implies FY26E P/B of 1.6x. The stock is currently trading at an FY26E P/B of 1.4x.

Why is GAIL likely to explore investment in coal to syngas projects?

- The decision to explore investment in the coal to syngas project could be driven in part by the fact that further investment opportunities in transmission segment remain limited without clear visibility of sustained gas production growth by domestic oil and gas companies in the coming years.
- Consequently, while in FY23, pipeline capex was 53% of total capex, by FY25E this will decline to barely 30%. In contrast, capex allocated towards petrochemicals/ equity investments in various JVs has risen from 15/12% respectively in FY23 to 33%/ 20% in FY25E respectively.

What is driving the need for coal gasification?

- The need arises from the goal to decrease reliance on imported gas and explore value-added opportunities for India's coal reserves as the country moves towards achieving its target of net zero emissions by CY70.
- India aims to achieve 100mmt of coal gasification by the year CY30. Notably, India possesses approximately 300bnmt of coal reserves, ranking as the fourth-largest in the world.

Coal gasification can eventually scale up to petrochemicals

- Gasification produces synthetic gas, which can be utilized to create methanol and subsequently petrochemicals like ethylene, propylene, and acetic acid over time. Methanol is also suitable for blending with gasoline. In India, the fertilizer sector is the largest gas consumer, holding around 33% share in FY23, as reported by GAIL (I). An additional avenue for value addition is the production of ammonia and urea.
- India imported approximately ~93% of its methanol requirements and ~27% of its urea requirements in FY22.

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Incentives provided for coal gasification projects

- The cabinet has approved INR85b for coal gasification projects to promote the initiative. The financial support will be distributed under three categories.
 - Category I: ~INR41b allocated for Government PSUs, supporting up to 3 projects with a lump-sum grant of ~INR14b or 15% of the capital expenditure, whichever is lower
 - Category II: Provisioned ~INR39b for both private sector and Government PSUs. Each project is eligible for a lump-sum grant of either INR10b or 15% of the capital expenditure, whichever is lower. A minimum of one project will undergo a tariff-based bidding process, with criteria designed in consultation with NITI Aayog.
 - Category III: INR6b allocated for demonstration projects (indigenous technology) and small-scale product-based Gasification Plants. Selected entities with a minimum capex of INR1b and a minimum production of 1500Nm³/hr Syn gas are eligible for a lump-sum grant of either INR1b or 15% of capex, whichever is lower.
- The Ministry of Coal has also introduced a policy offering a 50% rebate in revenue share for upcoming commercial coal block auctions, specifically for coal used in gasification. To qualify, the coal quantity utilized for gasification must be a minimum of 10% of total coal production. Additionally, a distinct auction window has been established under the NRS sector to facilitate the procurement of coal for new coal gasification plants.

Coal gasification is an established industry in China

- China's Coal to Chemicals industry consumes ~200mmt of coal. This accounts for about 90% of the country's ammonia and 70% of its methanol production, both generated through coal gasification.
- Coal gasification is effective for coal with low ash content (up to 25%). Indian coal, however, often has higher ash content (40% or more). Therefore, locally developed coal gasification technologies are more suitable than Western models.

CIL strikes a JV with GAIL for the above

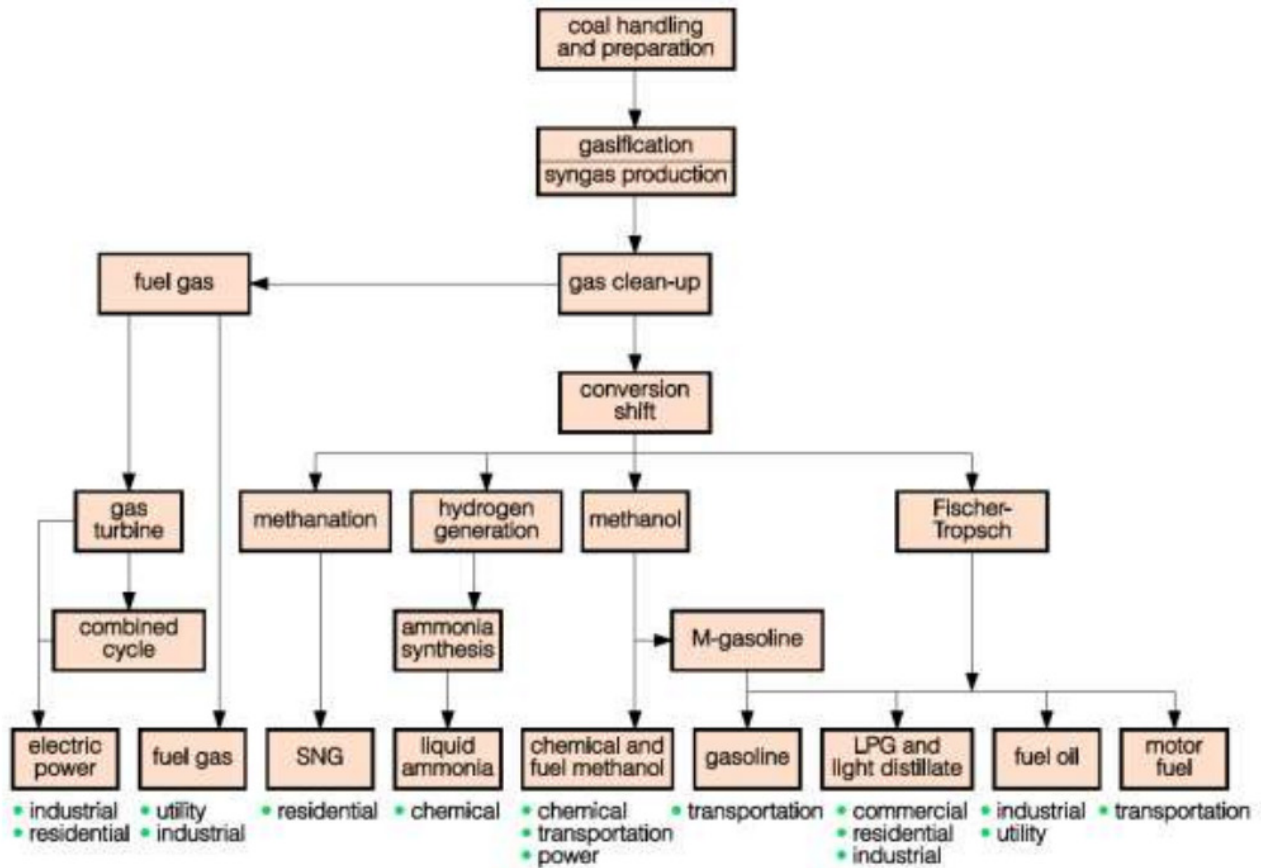
- CIL plans a ~INR20b (±25%) equity investment in the Coal-to-Synthetic Natural Gas (SNG) project at Sonepur Bazari Area of ECL in West Bengal. This investment follows a 70:30 Debt-Equity Ratio, with a 51% equity stake in the JV Company. The estimated project capex is INR130.5b (accuracy of ±25%). The joint venture includes CIL and GAIL (I).
- We estimate a capex of INR100b each year during FY24-26E. This would be an increase of 62% over FY24-26E (vs. avg. for FY19-23) for the company. GAIL is also set to commence operations of 3,892km of gas transmission pipelines and 560ktpa of petchem capacity.

Valuation and View

- During FY23-26E, we are modeling EBITDA to report a 33% CAGR driven by: (1) Rising natural gas transmission volumes to 141mmscmd in FY26 from 107mmscmd in FY23; (2) 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; (3) Commencement of operations of 3,892km of gas transmission pipelines and 560ktpa of petchem capacity.

■ We remain positive on GAIL ([our top pick in CY24](#)), valuing the core business at 12x Dec'25E adjusted EPS of INR14.1. Adding the value of listed and unlisted investments of INR31, we arrive at our revised TP of INR200. Our TP implies FY26E P/B of 1.6x. The stock is currently trading at an FY26E P/B of 1.4x. Reiterate BUY.

Exhibit 1: Coal to Syn Natural Gas value chain



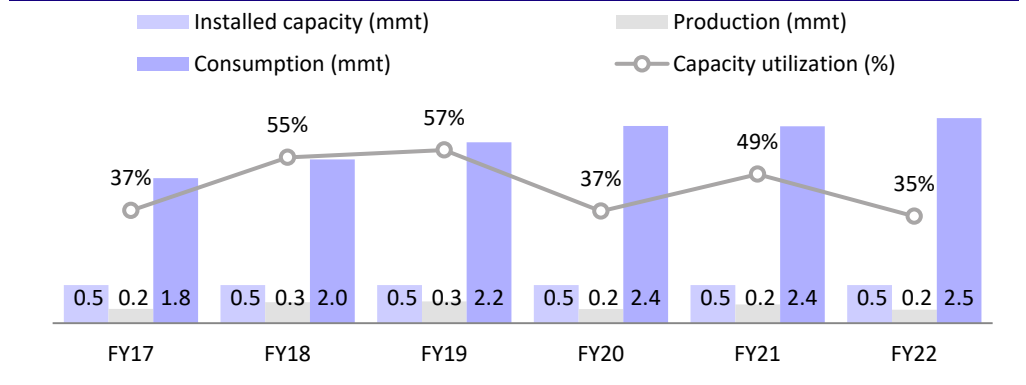
Source: National Coal Gasification Mission document, MOFSL

Exhibit 2: Coal characterization matrix



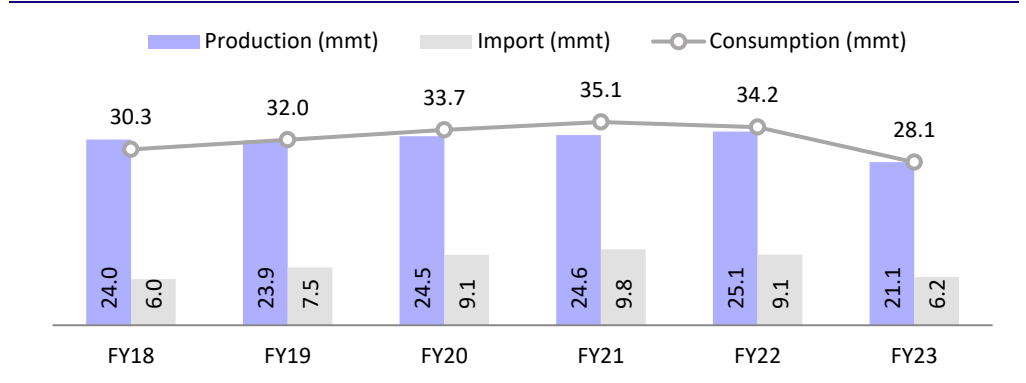
Source: National Coal Gasification Mission document, MOFSL

Exhibit 3: Status of Methanol in India



Source: Chemical and Petrochemical Statistics, MOFSL

Exhibit 4: Status of Urea in India



*FY23 data is till Dec'22

Source: Department of Fertilizer, MOFSL

Story in charts

Exhibit 5: Transmission to remain major contributor to EBITDA

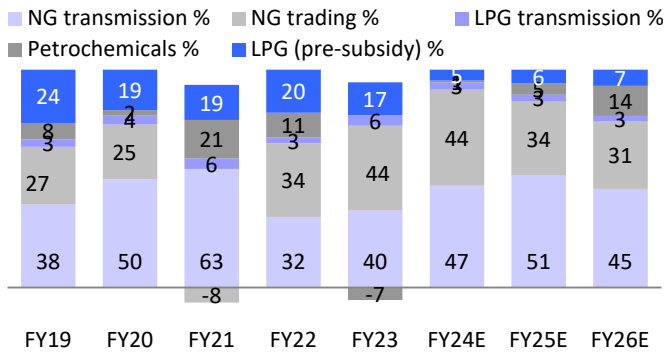


Exhibit 6: Expect transmission volumes to grow over FY24-26

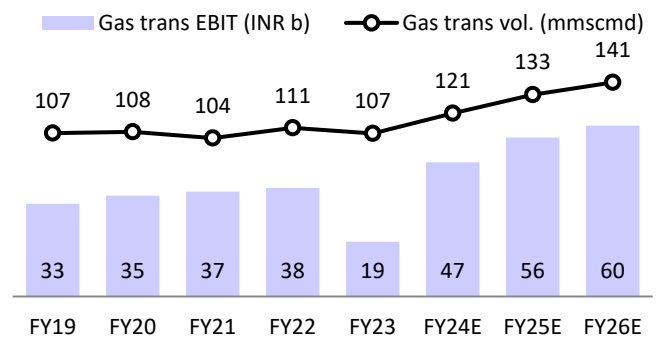


Exhibit 7: LPG transmission segment EBIT to remain steady

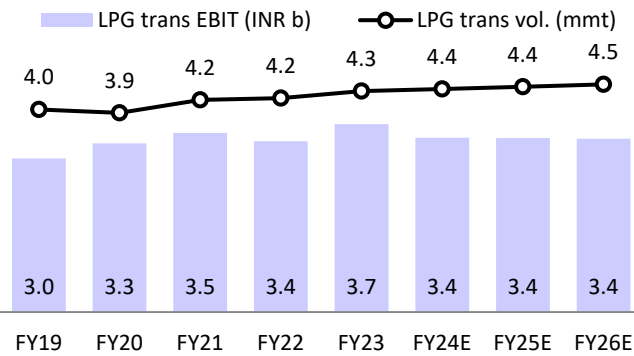


Exhibit 8: Expect Petchem segment to turn EBIT positive by FY25

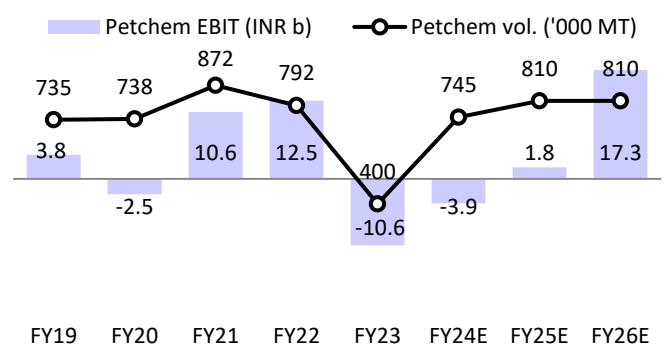


Exhibit 9: Gas trading volumes set to increase

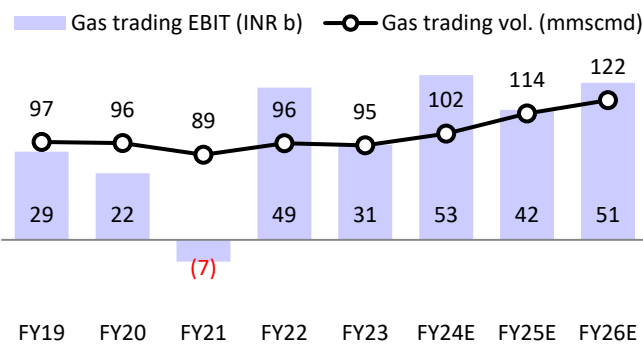


Exhibit 10: LPG & Liq. HC EBIT snapshot

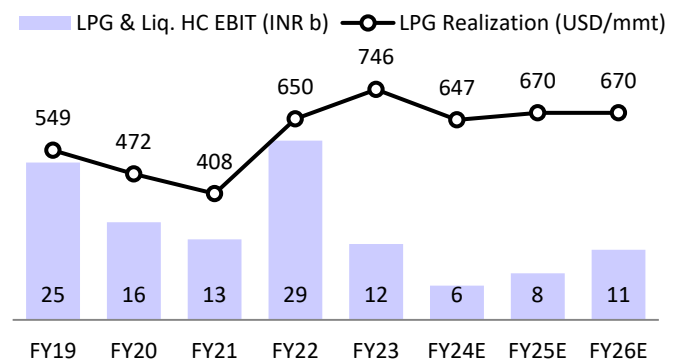


Exhibit 11: Expect return ratios to recover

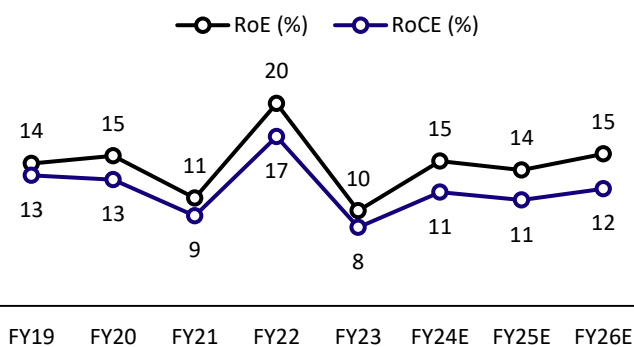
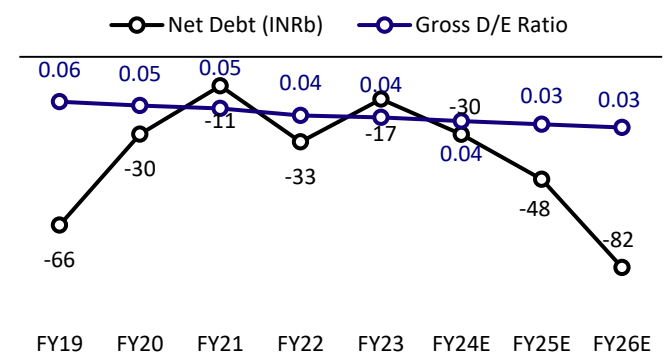


Exhibit 12: D/E ratio expected to decline



Source: Company, MOFSL

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	1,331.4	1,438.6	1,535.7
Change (%)	39.6	-4.3	-21.1	61.5	57.5	-7.7	8.0	6.7
EBITDA	95.3	83.7	64.5	138.3	67.0	122.3	129.0	159.0
% of Net Sales	12.7	11.6	11.4	15.1	4.6	9.2	9.0	10.4
Depreciation	15.5	18.4	19.1	21.1	24.9	28.4	30.1	31.9
Interest	1.4	1.1	1.6	1.7	3.1	6.2	6.3	6.4
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	112.7	117.6	145.7
Tax	30.6	13.2	15.0	32.3	12.8	27.7	29.6	36.7
Rate (%)	33.7	16.7	23.4	23.7	19.5	24.6	25.2	25.2
Reported PAT	60.3	66.2	48.9	103.6	53.0	85.1	88.0	109.0
Adjusted PAT	63.3	74.2	49.0	102.9	53.0	85.1	88.0	109.0
Change (%)	26.0	9.9	-26.1	111.9	-48.8	60.5	3.4	23.9

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	550.3	611.9	688.2
Net Worth	440.9	439.7	466.1	555.9	556.5	616.1	677.7	754.0
Loans	8.7	54.1	59.9	63.5	143.1	164.6	197.5	217.2
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	827.3	921.8	1,017.8
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	371.0
Net Fixed Assets	310.9	332.7	356.7	382.7	422.7	572.5	642.4	710.5
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	52.7	56.2
Debtors	50.7	55.8	44.9	83.7	114.1	105.3	113.8	121.4
Cash & Bank Balance	12.1	8.0	13.6	20.8	4.0	11.0	37.9	68.0
Cash	1.5	5.5	12.1	13.7	1.7	8.7	35.6	65.7
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	182.8	197.5	210.9
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	48.1	72.7	100.6
Application of Funds	509.1	538.8	571.0	667.1	746.3	827.3	921.8	1,017.8

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	12.9	13.4	16.6
Cash EPS	11.5	12.9	10.3	19.0	11.8	17.3	18.0	21.4
Book Value	68.1	73.0	77.1	89.5	93.5	102.6	112.0	123.6
DPS	2.6	4.3	3.4	3.4	4.0	3.9	4.0	5.0
Payout (incl. div. tax)	34.7	51.3	45.0	21.3	49.6	30.0	30.0	30.0
Valuation (x)								
P/E	17.5	14.9	22.6	10.8	20.9	13.0	12.6	10.2
Adj. P/E (for investments)	14.3	12.2	18.5	8.8	17.1	10.6	10.3	8.3
Cash P/E	14.6	13.1	16.3	8.9	14.2	9.8	9.4	7.9
EV / EBITDA	3.4	7.9	9.2	4.8	12.1	7.6	7.2	5.8
EV / Sales	0.5	1.1	1.4	0.8	0.8	0.8	0.8	0.7
Price / Book Value	2.5	2.3	2.2	1.9	1.8	1.6	1.5	1.4
Dividend Yield (%)	1.5	2.6	2.0	2.0	2.4	2.3	2.4	3.0
Profitability Ratios (%)								
RoE	14.3	15.0	10.8	20.3	9.5	14.5	13.6	15.2
RoCE	13.1	12.6	9.0	17.0	7.9	11.4	10.6	11.7
RoIC	18.0	16.6	10.2	25.1	8.1	13.3	11.5	13.4
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	0.2	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	112.7	117.6	145.7
Depreciation	15.5	18.4	19.1	21.1	24.9	28.4	30.1	31.9
Interest charge	1.4	1.1	1.6	1.7	3.1	6.2	6.3	6.4
Tax paid	-20.8	-19.6	-12.8	-32.0	-15.2	-27.7	-29.6	-36.7
(Inc)/Dec in Wkg. Capital	-3.3	3.1	22.2	-29.7	-30.9	-2.4	2.3	2.1
CF from Op. Activity	78.8	68.9	80.6	89.5	28.1	117.2	126.7	149.4
(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	17.2	26.7	49.4
(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	-6.3	-6.4
Inc / (Dec) in Debt	-11.3	45.2	4.6	3.6	79.6	21.5	32.9	19.7
Dividends Paid	-20.9	-39.4	-22.4	-39.9	-30.7	-25.5	-26.4	-32.7
CF from Fin. Activity	-33.6	3.4	-35.4	-41.8	25.5	-10.2	0.2	-19.4
Inc / (Dec) in Cash	-9.3	4.0	6.6	1.6	-11.9	7.0	26.9	30.0
Add: Opening Balance	10.8	1.5	5.5	12.1	13.7	1.7	8.7	35.6
Closing Balance	1.5	5.5	12.1	13.7	1.7	8.7	35.6	65.7

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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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