

July 31, 2024

RESULT REPORT Q1 FY25 | Sector: Energy

GAIL Ltd

Natural gas transmission and gas trading segment surprise on stronger performance

Our View

GAIL's Q1 FY25 performance was a beat, with EBITDA/PAT at Rs 45.3bn/Rs 27.2bn, up 86.1%/92.9% YoY, EBITDA exceeding expectations by a big margin. The standout performer was Natural Gas transmission on better volumes and gas trading on better margins. Petchem reported weaker numbers versus our expectations while other segments were in line to our expectations. The management guidance on volume growth for NG transmission segment annually at 10-12mmscmd for next 2-3year and gas trading EBITDA over Rs 45bn creates a bullish sentiment but given the stock price rally leads less upside on CMP. We maintain a NEUTRAL rating on GAIL, with a revised 12-mth TP of Rs248 (vs 229 earlier).

Result Highlights

- **Performance:** GAIL's Q1FY25 EBITDA/ PAT were Rs45.3bn/Rs27.2bn, up 86.1%/92.9% YoY and 27.3%/25.1% QoQ (EBITDA/PAT higher than our estimate of Rs36.3/18.8bn on higher NG transmission volumes, margins, and natural gas trading. The overall performance was largely driven by NG transmission and trading offsetting marginal weak Petchem performance.
- **Gas transmission** volumes were higher than our expectation at 131.8mmscmd, up 15.5mmscmd YoY, 8.1mmscmd QoQ, Gas capacity utilisation (pipelines) was ~63%. Revenue was Rs2,389/tscm (down 3% YoY but up 1% QoQ). Opex/unit was lower YoY and to our expectations due to there being no allocated APM gas. The segment gross margins at Rs 1,639/tscm was up 28% YoY and 15% QoQ on higher volumes and unified tariff implementation which resulted in an increase in the tariffs on YoY basis.
- **LPG transmission** volumes were 1,065 ('000 mt), down 1% YoY, 4% QoQ. Revenue/ton was Rs1,688, up 2% YoY and 1% QoQ, while the gross margin/ton was Rs939 (up 5% YoY, 6% QoQ).
- **Gas trading** volumes were 99.5mmscmd, higher YoY by 0.6mmscmd and down 0.4mmscmd QoQ. The margin was stronger at Rs2,524/tscm (Rs1,790 the prior quarter and just Rs1,226 a year ago). The performance was better than our expectations on better contracted basket.
- **Petchem** production was down 1% YoY and 35% QoQ, to 162 ('000 mt). The realisation was down 8% YoY but up 4% QoQ as the gas got cheaper on YoY basis and higher on QoQ basis.
- **LPG and LHC.** Sales volumes were down 12% YoY and 16% QoQ; while the realisation was flat YoY and QoQ.
- **CGD segment.** The CGD revenue/EBIT at Rs bn 32.3/1.9 up 34.3%/41% YoY but down 4.5%/25.4% QoQ.
- **Capex.** As per PPAC, the company has incurred Rs15.1bn and FY25 is targeted at Rs115bn, mainly on pipelines, petrochemicals, equity to JVs, etc.

Valuation

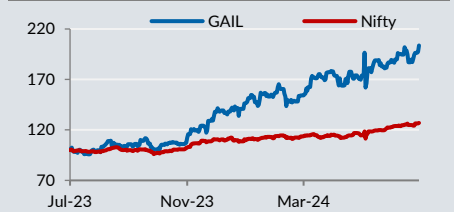
We believe GAIL's EBITDA to record a 13.3% CAGR over FY24-26e led by a 17% CAGR in gas transmission EBITDA. The gas transmission business has bright prospects (currently contributing ~52% to EBITDA in FY26e, expected to increase further) while the commodity business is a little volatile. The stock recent rallied in line with Q1 performance, we maintain our rating of NEUTRAL with a revised TP of Rs248 (vs 229 earlier), valuing it on a sum-of-parts basis (core business at Rs209, 10x EV/EBITDA and investments at Rs39).

Reco	: NEUTRAL
CMP	: Rs 239
Target Price	: Rs 248
Potential Return	: +3.7%

Stock data (as on Jul 31, 2024)

Nifty	24,930
52 Week h/l (Rs)	246 / 112
Market cap (Rs/USD mn)	1524564 / 18213
Outstanding Shares (mn)	6,575
6m Avg t/o (Rs mn):	4,503
Div yield (%):	2.5
Bloomberg code:	GAIL IN
NSE code:	GAIL

Stock performance



	1M	3M	1Y
Absolute return	9.0%	14.5%	101.0%

Shareholding pattern (As of Mar'24 end)

Promoter	51.5%
FII+DII	41.1%
Others	6.7%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	248	229

Δ in estimates

(1-Yr)	FY25e	FY26E
EPS (New)	14.7	15.2
EPS (Old)	13.4	14.3
% Change	10.2	6.3

Financial Summary

(Rs bn)	FY24	FY25E	FY26E
Revenue	1,305.7	1,254.6	1,248.9
YoY Growth	(9.5)	(3.9)	(0.5)
EBIDTA	133.7	149.0	157.3
OPM %	10.2	11.9	12.6
PAT	88.4	96.9	100.0
YoY Growth	66.7	9.6	3.2
ROE	14.7	14.4	13.7
EPS	13.4	14.7	15.2
P/E	17.8	16.2	15.7
BV	97.6	106.6	115.5
EV/EBITDA	13.1	11.9	11.2

HARSHRAJ AGGARWAL

Lead Analyst

harshraj.aggarwal@ysil.in



Exhibit 1: Actual vs estimate

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	336,738	345,427	323,063	-2.52	4.23	Natural gas transmission and trading surprise on stronger performance
EBITDA	45,281	36,314	37,198	24.69	21.73	
EBITDA Margin (%)	13.45	10.51	11.51	293bps	193bps	
Adjusted PAT	27,240	18,835	22,030	44.62	23.65	

Exhibit 2: Earnings snapshot

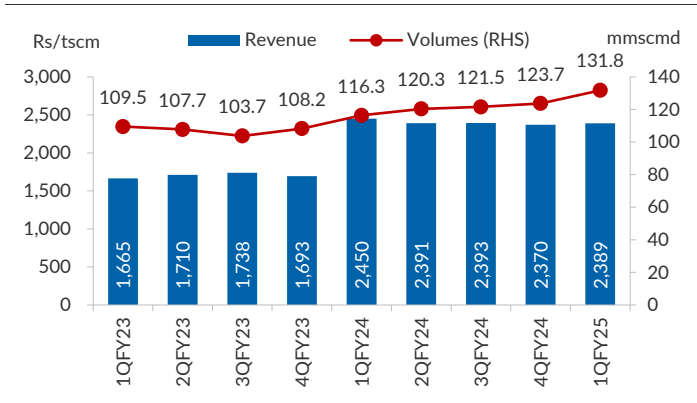
Particulars (Rs mn)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	y/y (%)	q/q (%)	FY23	FY24	y/y (%)
Revenue	322,121	318,068	342,365	323,177	336,738	4.5	4.2	1,442,497	1,305,731	(9.5)
Expenditure	297,794	283,155	304,139	287,599	291,457	(2.1)	1.3	1,375,508	1,172,687	(14.7)
-Raw Material	273,029	260,360	277,664	259,349	269,943	(1.1)	4.1	1,288,759	1,070,402	(16.9)
-Staff Cost	4,900	4,932	4,943	6,227	5,191	5.9	(16.6)	17,738	21,002	18.4
- Other Expenses	19,866	17,863	21,532	22,023	16,323	(17.8)	(25.9)	69,011	81,283	17.8
Operating Profit	24,327	34,913	38,226	35,578	45,281	86.1	27.3	66,989	133,044	98.6
OPM(%)	7.6	11.0	11.2	11.0	13.4	589 bps	244 bps	4.6	10.2	555 bps
Other Income	2,676	5,609	8,121	6,376	3,716	38.9	(41.7)	26,847	22,782	(15.1)
Depreciation	6,358	7,503	7,843	11,605	10,489	65.0	(9.6)	24,881	33,308	33.9
Interest	1,758	1,718	1,564	1,932	2,092	19.0	8.3	3,117	6,972	123.7
Excpnl Loss/(Profit)	-	-	-	-	-	-	-	-	-	n.a.
PBT	18,887	31,301	36,940	28,418	36,416	92.8	28.1	65,838	115,546	75.5
Tax	4,767	7,252	8,514	6,648	9,176	92.5	38.0	12,823	27,181	112.0
PAT	14,120	24,049	28,426	21,770	27,240	92.9	25.1	53,015	88,365	66.7
Adj PAT	14,120	24,049	28,426	21,770	27,240	92.9	25.1	53,015	88,365	66.7

Exhibit 3: Operating highlights

Particulars	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	y/y (%)	q/q (%)	FY23	FY24	y/y (%)
Volumes										
NG Transmission - mmscmd	116.3	120.3	121.5	123.7	131.8	13.3	6.6	107.3	120.5	12.3
LPG Transmission - mmt	1,073.0	1,114.0	1,095.0	1,114.0	1,065.0	(0.7)	(4.4)	4,335.0	4,396.0	1.4
Gas Trading - mmscmd	98.8	97.0	98.1	99.9	99.5	0.6	(0.4)	94.9	98.5	3.7
Petchem - tmt	162.0	168.0	215.0	242.0	169.0	4.3	(30.2)	400.0	787.0	96.8
LPG & LHC -tmt	247.0	242.0	249.0	261.0	218.0	(11.7)	(16.5)	929.0	999.0	7.5
Gross Margin (Rs mn)										
NG Transmission	13,510	16,500	15,610	15,990	19,660	45.5	23.0	31,200	61,610	97.5
LPG Transmission	960	1,040	1,010	990	1,000	4.2	1.0	4,350	4,000	(8.0)
Gas Trading	11,030	19,530	20,730	16,270	22,850	107.2	40.4	34,330	67,560	96.8
Petchem	(1,730)	(380)	2,050	4,260	1,240	(171.7)	(70.9)	(5,080)	4,200	(182.7)
LPG & LHC	2,250	50	2,800	3,610	2,660	18.2	(26.3)	13,270	8,710	(34.4)
Gross margin										
NG Transmission (Rs/tscm)	1,276	1,491	1,396	1,421	1,639	28.5	15.4	797	1,397	75.4
LPG Transmission (Rs/ton)	895	934	922	889	939	4.9	5.7	1,003	910	(9.3)

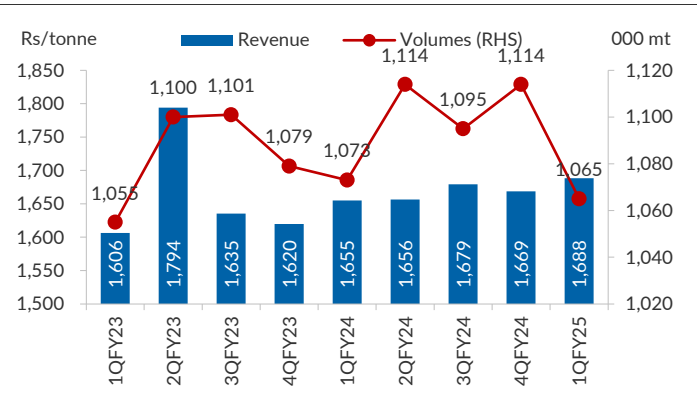
Particulars	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	y/y (%)	q/q (%)	FY23	FY24	y/y (%)
Gas Trading (Rs/tscm)	1,226	2,189	2,296	1,790	2,524	105.9	41.0	991	1,875	89.2
Petchem (Rs/ton)	(10,679)	(2,262)	9,535	17,603	7,337	(168.7)	(58.3)	(12,700)	5,337	(142.0)
LPG & LHC (Rs/ton)	9,109	207	11,245	13,831	12,202	33.9	(11.8)	14,284	8,719	(39.0)
Realisation (Rs/ton)										
Petchem	105,162	103,769	95,356	93,236	96,538	(8.2)	3.5	122,342	99,381	(18.8)
LPG & LHC	53,402	42,749	52,063	54,632	53,695	0.6	(1.7)	60,128	50,712	(15.7)
CGD (Rs mn)										
Revenue	24,038	29,686	33,891	30,902	32,292	34.3	4.5	112,867	118,517	5.0
EBIT	1,336	931	1,837	1,503	1,885	41.0	25.4	4,292	5,607	30.6
Asset	72,743	74,905	77,577	79,306	82,529	13.5	4.1	70,019	79,306	13.3
Liabilities	12,244	11,827	11,490	11,759	12,223	(0.2)	3.9	11,113	11,759	5.8

Exhibit 4: NG Transmission Performance



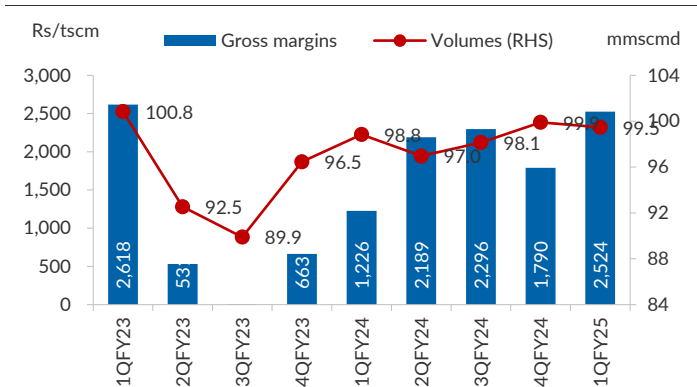
Source: Company, YES Sec

Exhibit 5: LPG Transmission Performance



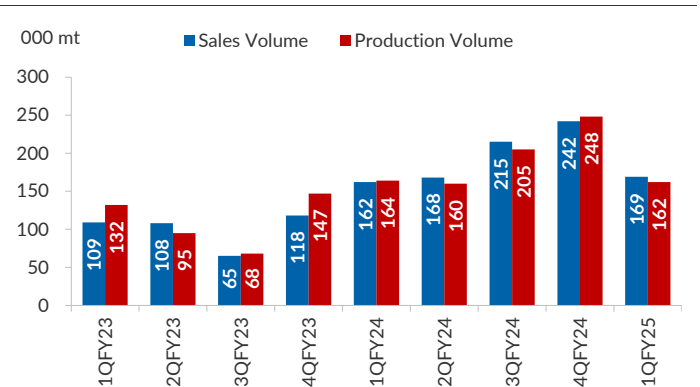
Source: Company, YES Sec

Exhibit 6: Gas Trading Performance



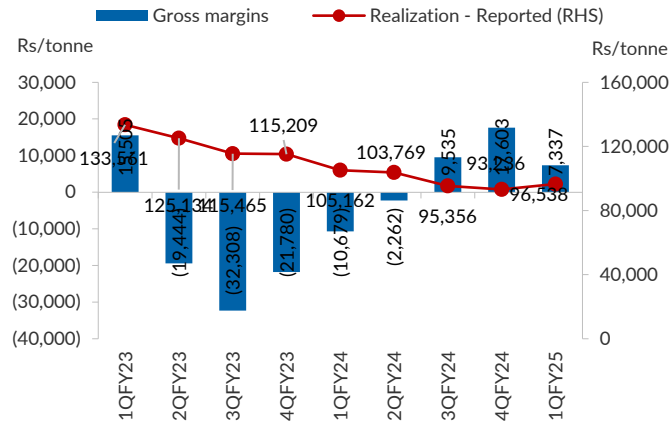
Source: Company, YES Sec

Exhibit 7: Petchem Sales and Production Volume



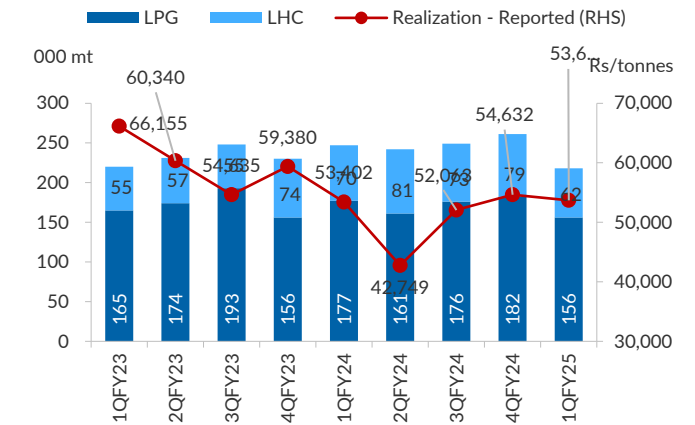
Source: Company, YES Sec

Exhibit 8: Petchem Performance



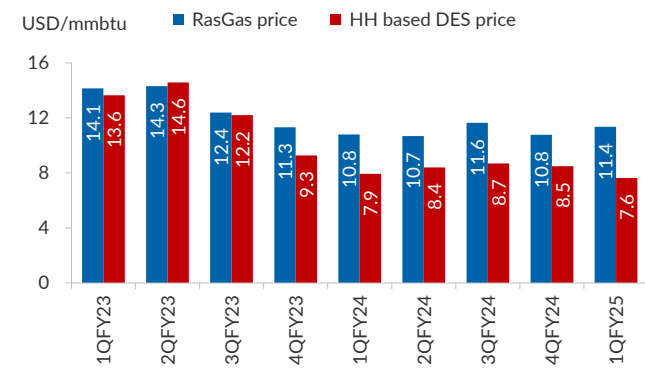
Source: Company, YES Sec

Exhibit 9: LPG and LHC Performance



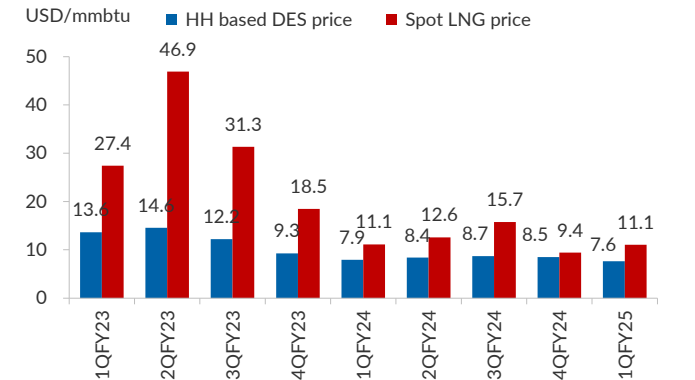
Source: Company, YES Sec

Exhibit 10: RasGas price and HH based DES price



Source: Company, YES Sec

Exhibit 11: HH based DES price and Spot LNG price



Source: Company, YES Sec

CONCALL HIGHLIGHTS

- **Gas Transmission:** Volumes at ~132mmscmd, an increase of 8mmscmd QoQ. The pipeline utilization was at 63%, improved over previous quarter. The QoQ increase in transmission is attributed to increase in power sector volumes ~5mmscmd. For FY25 the volumes would average ~132mmscmd (increase of 12mmscmd), 142 for FY26 and 152 for FY27. There was no allocation of APM gas in NG transmission, it had reduced from Oct'23 and stopped on 15th Dec'23, since then GAIL is sourcing domestic gas or from its LNG portfolio. The volumes are still strong ~131mmscmd, with a fall in power sector volumes, the demand from fertilizers is up which were under shutdown in Q1FY25.
- **Gas Marketing:** Volumes at 99.5mmscmd, which is flat QoQ, from increase in overseas volumes are expected. Revise the EBITDA guidance to over Rs45bn for FY25 on strong visibility, benefit from gas swapping and destination swap. The guidance is a growth of ~5mmscmd to 105mmscmd for FY25 and 110 for FY26. The management highlighted that there was no inventory gain during the quarter.
- **LPG pipeline:** PNGRB recently increased the tariff for LPG transmission. The cost increase is of ~3.4% and there will be an impact of Rs1.2-1.4bn on an annual basis.
- **Pipelines:** Mumbai-Nagpur-Jharsuguda Pipeline of 1,755km is expected to complete in FY25. JHBDPL of 2986km has commissioned out of 3293km, remaining expected to complete by Mar'25, Srikakulam-Angul pipeline of 420km is expected to be completed soon. Gurdaspur-Jammu pipeline of 160km which was recently authorized to be completed by Jul'26. Dhamra-Haldia Pipeline 253km expected to be completed soon.
- **Petchem performance:** During the quarter the polymer volumes were lower as the plant had a shutdown for 1 month, the utilization is back up and above 100% (May-Jul'24 averaged 105%). The management has guided that this segment will be profitable in FY25.
- **Petchem Projects:** The Propane Dehydrogenation & Polypropylene Project (PDH-PP) at Usar (500ktpa capacity, Rs112.56bn) is a major undertaking targeted for Apr'2025 mechanical completion with commercial production by Jun'25 (~69.5% project complete as of today). The Polypropylene Project (PP) at PATA (60ktpa capacity, Rs12.99bn) is nearing its FY25 end completion date.
- **JBF Petchem - GAIL Mangalore Petchem:** GAIL revised the name of JBF petchem which it had bought last year to GAIL Mangalore Petchem. It has a 1,250ktpa capacity and a project is under way with an investment of Rs 42bn, expected to be completed by Jun'25.
- **Dabhol LNG Terminal:** The breakwater facility was not commissioned pre-monsoon this year as there was some issue with the locals. The activities are now fine and is expected to be complete soon before next monsoon.
- **City Gas Distribution (CGD):** holding licenses for 72 out of a total of 307 cities/towns in India. They operate through their subsidiary GAIL Gas Ltd., Bengal Gas, TNGCL, and eight City Gas Distribution Joint Ventures. In Q1FY25, the direct CGD segment CNG stations has reached 189, DPNG customers with 3.4lkh connections. It aims to add 80 new CNG stations and 120,000 DPNG connections in next 2-years. GAIL Gas reported a Q1FY25 volumes of 7.11mmscmd and plans to add 170 new CNG stations and 5lkh D-PNG connections in next 2-years.
- **Capex:** GAIL is gearing up for growth in FY25 with a planned capex of ~Rs115bn, a slight increase from FY24's Rs114.26bn. The focus has shifted towards petrochemicals in FY25, followed by pipelines which will still receive a significant share, but their allocation dips slightly compared to FY24. Planning a capex of Rs 101.3bn of capex for FY26. Q1FY25 capex stood at Rs 16.6bn with pipeline/petchem both at Rs5bn each, Rs0.3bn for CGD and rest for others.

VIEW & VALUATION

NEUTRAL with a TP of Rs 248/sh

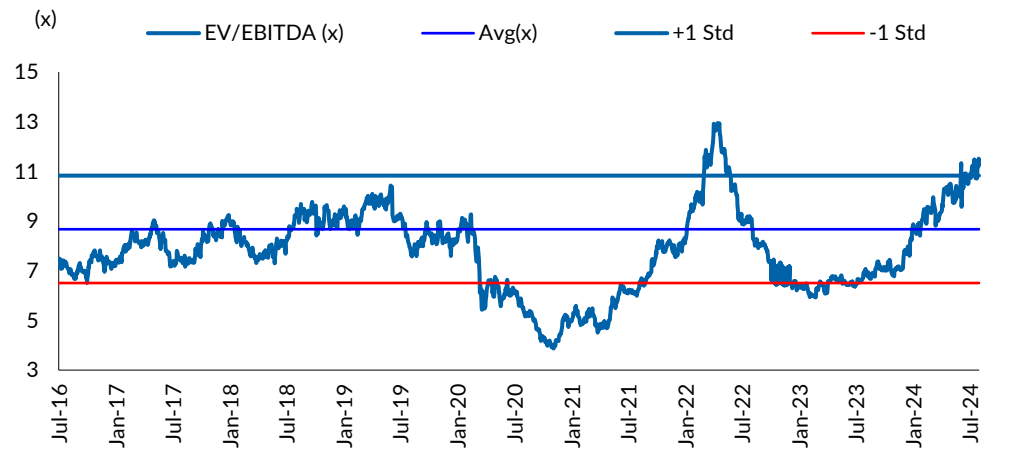
We note that the near-term outlook for gas transmission, trading and petchem has improved following the fall in spot LNG prices. Such lower prices could drive higher gas transmission and trading volumes and lead to lower operating costs.

We believe GAIL's EBITDA to record a 13.3% CAGR over FY24-26e led by a 17% CAGR in gas transmission EBITDA. The gas transmission business has bright prospects (currently contributing ~52% to EBITDA in FY26e, expected to increase further) while the commodity business is a little volatile. The stock recent rallied in line with Q1 performance, we maintain our rating of NEUTRAL with a revised TP of Rs248 (vs 229 earlier), valuing it on a sum-of-parts basis (core business at Rs209, 10x EV/EBITDA and investments at Rs39).

Exhibit 12: SOTP Valuation table

EV/EBITDA Based valuation				
Particulars	FY26E			
	EBITDA	(x)	EV	
Core Value				
Natural gas transmission	80,888	10.5	849,321	129
LPG Transmission	4,201	10.5	44,106	7
Natural gas trading	50,542	9.5	480,146	73
Petchem	12,649	7.5	94,871	14
LPG & LHC	19,052	8.0	152,418	23
Unallocated	(10,000)	5.0	(50,000)	(8)
Standalone	157,332	10.0	1,570,862	239
Net Debt			196,035	30
Total Core value			1,374,827	209
Value of investments				
Listed Investments				
PLNG	69,375	30	48,563	7
ONGC	101,712	30	71,198	11
IGL	86,625	30	60,638	9
China Gas	10,727	30	7,509	1
MGL	60,034	30	42,023	6
Total value of listed investments @ 30% discount	328,472	30	229,930	35
Unlisted Investments				
Brahmaputra Cracker & Polymer Ltd (BCPL)				2
ONGC Petro-Additions Ltd (OPAL)				2
Ramagundam Fertilizers				0
South East Asia Gas Pipeline Company				0
Total value of investments				39
Fair Value				248

Exhibit 13: EV/EBITDA (x) band, one-year-forward



Source: Company, YES Sec

FINANCIALS

Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	916,265	1,442,497	1,305,731	1,254,622	1,248,926
Total Expense	777,975	1,375,508	1,171,983	1,105,648	1,091,594
Operating Profit	138,290	66,989	133,747	148,974	157,332
Other Income	20,469	26,847	22,079	22,962	23,881
Depreciation	21,112	24,881	33,308	37,150	42,225
EBIT	137,647	68,955	122,518	134,786	138,987
Interest	1,744	3,117	6,972	7,062	7,161
Extraordinary Item	-	-	-	-	-
PBT	135,903	65,838	115,546	127,724	131,826
Tax	32,263	12,823	27,181	30,871	31,862
PAT	103,640	53,015	88,365	96,853	99,964
Adj. PAT	103,640	53,015	88,365	96,853	99,964
Eps	15.8	8.1	13.4	14.7	15.2

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY25E
Equity capital	44,404	65,751	65,751	65,751	65,751
Reserves	511,464	490,786	576,043	635,089	693,959
Net worth	555,868	556,537	641,794	700,840	759,710
Debt	76,558	157,295	192,105	197,605	197,605
Deferred tax liab (net)	47,673	46,628	49,558	49,558	49,558
Capital Employed	680,098	760,460	883,456	948,003	1,006,872
Fixed assets	528,523	579,698	648,185	726,035	785,310
Investments	121,209	127,888	175,139	175,139	175,139
Net working capital	30,366	52,874	60,133	46,830	46,424
Inventories	30,152	52,813	52,911	48,122	47,904
Sundry debtors	73,164	103,663	96,091	90,185	89,370
Cash & Bank Balance	20,850	4,020	7,032	2,544	2,875
Other current assets	89,507	93,235	115,926	115,926	115,926
Sundry creditors	54,660	72,992	67,189	65,309	65,013
Other liabilities	128,647	127,864	144,639	144,639	144,639
Application of Funds	680,098	760,460	883,456	948,003	1,006,872

Exhibit 16: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY25E
PBT	135,903	65,838	115,546	127,724	131,826
Depreciation & amortization	21,112	24,881	33,308	37,150	42,225
Interest expense	1,744	3,117	6,972	7,062	7,161
(Inc)/Dec in working capital	(14,723)	(21,437)	(18,828)	-	-
Tax paid	(30,198)	(30,932)	(5,548)	8,815	737
Less: Interest/Dividend Income Received	(31,960)	(15,178)	(27,982)	(30,871)	(31,862)
Other operating Cash Flow	5,662	1,791	15,014	-	-
Cash flow from operating activities	87,540	28,080	118,482	149,880	150,087
Capital expenditure	(59,511)	(74,191)	(70,513)	(115,000)	(101,500)
Inc/(Dec) in investments	12,965	18,047	14,982	-	-
Add: Interest/Dividend Income Received	2,417	(9,390)	(24,493)	-	-
Cash flow from investing activities	(44,130)	(65,533)	(80,024)	(115,000)	(101,500)
Inc/(Dec) in share capital	-	-	-	-	-
Inc/(Dec) in debt	1,570	76,050	13,889	5,500	-
Interest Paid	(3,485)	(6,567)	(12,003)	(7,062)	(7,161)
Dividend Paid	(39,943)	(30,679)	(36,195)	(37,807)	(41,094)
Others	-	(13,289)	-	-	-
Cash flow from financing activities	(41,857)	25,515	(34,310)	(39,369)	(48,255)
Net cash flow	1,553	(11,938)	4,148	(4,489)	332

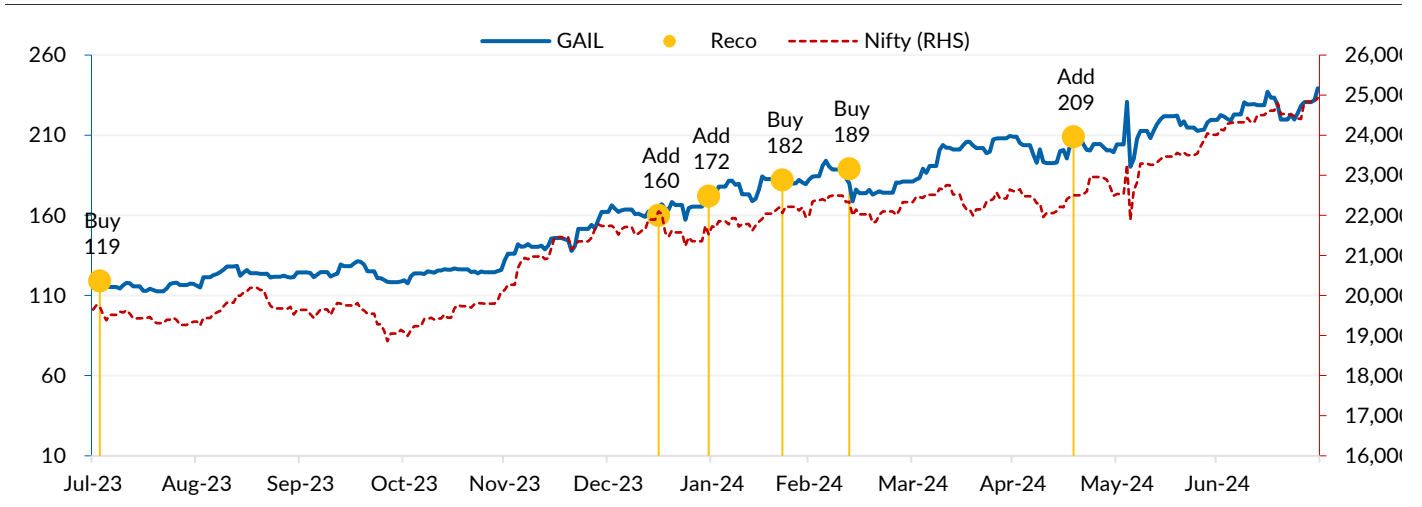
Exhibit 17: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY25E
Tax burden (x)	0.8	0.8	0.8	0.8	0.8
Interest burden (x)	1.0	1.0	0.9	0.9	0.9
EBIT margin (x)	0.2	0.0	0.1	0.1	0.1
Asset turnover (x)	1.1	1.6	1.3	1.1	1.1
Financial leverage (x)	1.6	1.6	1.7	1.7	1.6
RoE (%)	20.3	9.5	14.7	14.4	13.7

Exhibit 18: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY25E
Growth matrix (%)					
Revenue growth	61.5	57.4	(9.5)	(3.9)	(0.5)
Op profit growth	114.6	(51.6)	99.7	11.4	5.6
EBIT growth	110.4	(49.9)	77.7	10.0	3.1
Net profit growth	111.9	(48.8)	66.7	9.6	3.2
Profitability ratios (%)					
OPM	15.1	4.6	10.2	11.9	12.6
EBIT margin	15.0	4.8	9.4	10.7	11.1
Net profit margin	11.3	3.7	6.8	7.7	8.0
RoCE	22.0	9.6	14.9	14.7	14.2
RoE	20.3	9.5	14.7	14.4	13.7
RoA	13.0	5.8	8.6	8.6	8.4
Per share ratios					
EPS	15.8	8.1	13.4	14.7	15.2
Dividend per share	6.1	4.0	5.5	5.8	6.3
Cash EPS	19.0	11.8	18.5	20.4	21.6
Book value per share	84.5	84.6	97.6	106.6	115.5
Valuation ratios					
P/E	6.6	13.0	17.8	16.2	15.7
P/CEPS	5.5	8.9	12.9	11.7	11.1
P/B	1.2	1.2	2.4	2.2	2.1
EV/EBIDTA	5.3	12.6	13.1	11.9	11.2
Payout (%)					
Dividend payout	38.6	49.6	40.9	39.0	41.1
Tax payout	23.7	19.5	23.5	24.2	24.2
Liquidity ratios					
Debtor days	29.1	26.2	26.9	26.2	26.1
Inventory days	14.3	11.0	16.5	16.7	16.1
Creditor days	23.0	16.9	21.8	21.9	21.8

Recommendation Tracker



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