

GAIL India

Growth guidance strong

PAT up 295% YoY, led by transmission, marketing and petchem

GAIL (GAIL IN) posted a PAT of INR 21.8bn versus INR 27.0bn estimated. The negative surprise was due to higher depreciation and interest costs and one-off transmission expenses. But Q4 PAT rose 295% YoY on: 1) a 438% YoY rise in gas transmission EBITDA to INR 16.0bn on 14% volume growth and a 39% rise in tariff, 2) gas marketing EBITDA at INR 16.3bn, up 183% YoY, with normalization of Gazprom supply and 4% volume growth, 3) LPG and liquid hydrocarbon (LHC) EBITDA at INR 3.6bn, up 147% YoY, and 4) petchem EBITDA at INR 4.3bn versus INR 2.6bn loss in Q4FY23.

Gas transmission & marketing: Volume growth guidance reiterated

GAIL guided that gas transmission volume may grow 10-12mmscmd in FY25-26 each. It guided that gas marketing volume may increase to 105mmscmd in FY25 (7% YoY). With four pipeline sections expected to be commissioned in FY25, volume growth will be aided by CGD and fertilizer sector growth.

LNG export capacity: Expect massive additions globally

Per management, domestic demand may witness strong growth going forward due to cheaper LNG led by massive LNG export capacity addition wave of ~190mn tonnes in the next six years, which we estimate would be ~50% of the current global LNG trade.

Valuations: reiterate Accumulate; TP raised to INR 227

We up FY26E EPS 3% due to higher gas transmission and marketing volume. Thus, we raise TP to INR 227 (from INR 191). We reiterate **Accumulate** as GAIL has run-up 62% in the past three months, partly factoring in strong gas volume growth outlook, led by accelerating CGD demand and +150mn tonnes LNG export capacity addition globally in CY24-28. We value GAIL on SOTP, assuming 5.5x (from 5.0x) FY26E petrochemical EV/EBITDA, 5.5x (from 5.0x) FY26E LPG & LHC EV/EBITDA, 12.0x (from 9.2x) FY26E EV/EBITDA for transmission and 5.0x (from 4.5x) FY26E gas marketing EBITDA.

YE March (INR mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Q4FY24E	Variance (%)
Revenue	323,177	328,432	(1.6)	342,365	(5.6)	354,346	(8.8)
EBITDA	35,578	3,072	1,058.3	38,226	(6.9)	34,932	1.9
EBITDAM (%)	11.0	0.9		11.2		9.9	
Depreciation	11,605	6,432	80.4	7,843	48.0	7,921	46.5
Interest cost	1,932	903	113.8	1,564	23.5	1,680	15.0
Other income	6,376	10,172	(37.3)	8,121	(21.5)	10,674	(40.3)
Profit before exceptional items	28,418	5,909	380.9	36,940	(23.1)	36,004	(21.1)
PBT	28,418	5,909	380.9	36,940	(23.1)	36,004	(21.1)
Tax	6,648	397	1,573.7	8,514	(21.9)	8,641	(23.1)
PAT	23.4	6.7		23.0		24.0	
Adj PAT	21,770	5,511	295.0	28,426	(23.4)	27,003	(19.4)
Adj EPS (INR)	3.27	0.83	295.0	4.27	(23.4)	4.05	(19.4)

Source: Company, Elara Securities Estimate

Key Financials												
YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)	
March	1,513,965	53.8	66,868	4.4	52,894	(49.0)	7.9	9.5	7.2	25.7	21.3	
FY23	1,380,772	(8.8)	133,291	9.7	87,909	66.2	13.2	14.7	10.7	15.5	10.7	
FY24	1,464,756	6.1	155,577	10.6	103,166	17.4	15.5	15.3	10.9	13.2	9.2	
FY25E	1,549,867	5.8	172,747	11.1	118,047	14.4	17.7	15.7	11.4	11.5	8.3	

Note: Pricing as on 17 May 2024; Source: Company, Elara Securities Estimate

Rating: Accumulate

Target Price: INR 227

Upside: 11%

CMP: INR 204 (as on 17 May 2024)

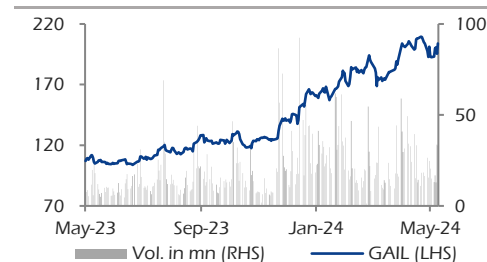
Key data

Bloomberg /Reuters Code	GAIL IN/GAIL.BO
Current /Dil. Shares O/S (mn)	6575/6575
Mkt Cap (INR bn/USD mn)	1,341/16,085
Daily Vol. (3M NSE Avg.)	21,813,219
Face Value (INR)	10

1 USD = INR 83.3

Note: * as on 17 May 2024; Source: Bloomberg

Price & Volume



Source: Bloomberg

Shareholding (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Promoter	51.9	51.9	51.9	51.9
Institutional Investors	34.2	33.9	33.6	33.9
Other Investors	8.9	8.9	9.0	8.7
General Public	5.1	5.3	5.5	5.5

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	1.9	13.9	23.6
GAIL	11.7	61.5	85.4
ONGC	1.0	41.3	65.9
Reliance	(1.7)	21.9	29.2

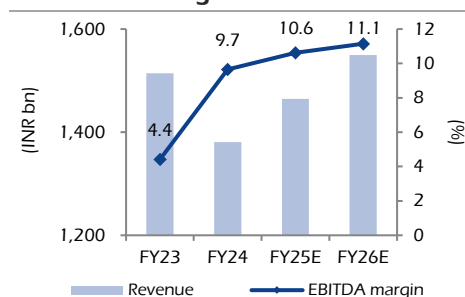
Source: Bloomberg

Financials (YE March)

Income Statement (INR mn)	FY23	FY24	FY25E	FY26E
Revenue	1,513,965	1,380,772	1,464,756	1,549,867
EBITDA	66,868	133,291	155,577	172,747
Depreciation	24,881	33,308	34,885	37,061
EBIT	41,987	99,983	120,692	135,686
Interest cost	3,117	6,972	5,704	4,654
Other income	26,847	22,079	22,774	23,913
PBT	65,717	115,089	137,762	154,945
Less: taxation	12,823	27,181	34,596	36,898
PAT	52,894	87,909	103,166	118,047
Adj PAT	52,894	87,909	103,166	118,047
Balance Sheet (INR mn)	FY23	FY24	FY25E	FY26E
Equity capital	65,751	65,751	65,751	65,751
Reserves	490,786	576,043	644,413	727,828
Total borrowings	201,501	250,434	270,434	260,434
Deferred taxes	46,628	49,558	50,947	52,429
Total liabilities	804,665	941,786	1,031,546	1,106,441
Fixed assets	579,698	648,185	731,750	797,520
Investments	127,888	175,139	175,139	175,139
Inventories	52,813	52,911	51,826	51,420
Debtors	114,106	106,539	106,728	106,624
Cash	1,738	5,886	14,095	28,590
Loans & advances	59,412	73,569	74,057	74,551
Other current assets	25,661	33,056	33,696	34,368
Net current assets	97,080	118,462	124,657	133,782
Total assets	804,665	941,786	1,031,546	1,106,441
Cash Flow Statement (INR mn)	FY23	FY24	FY25E	FY26E
Operating cash flow	28,080	118,482	118,680	138,048
Capex	(74,191)	(70,513)	(118,450)	(102,833)
Free cash flow to firm	(46,111)	47,969	230	35,215
Investing cash flow	8,658	(9,511)	22,774	23,913
Financing cash flow	25,515	(34,310)	(14,795)	(44,633)
Net change in cash	(11,938)	4,148	8,209	14,495
Opening cash	13,676	1,738	5,886	14,095
Closing cash	1,738	5,886	14,095	28,590
Ratio Analysis	FY23	FY24	FY25E	FY26E
Income Statement Ratios (%)				
Revenue growth	53.8	(8.8)	6.1	5.8
EBITDA growth	(51.6)	99.3	16.7	11.0
Adj PAT growth	(49.0)	66.2	17.4	14.4
EBITDAM	4.4	9.7	10.6	11.1
Adj net margin	3.5	6.4	7.0	7.6
Return & Liquidity Ratios				
Interest/PBIT (%)	0.1	0.1	0.0	0.0
Net debt/Equity (x)	0.4	0.5	0.5	0.4
ROE (%)	9.5	14.7	15.3	15.7
ROCE (%)	7.2	10.7	10.9	11.4
Per Share Data & Valuation Ratios				
Diluted Adj EPS (INR)	7.9	13.2	15.5	17.7
Adj EPS growth (%)	(49.0)	66.2	17.4	14.4
BVS (INR)	83.6	96.4	106.6	119.1
DPS (INR)	2.7	3.7	4.3	4.3
P/E (x)	25.7	15.5	13.2	11.5
EV/EBITDA (x)	21.3	10.7	9.2	8.3
Price/Book (x)	2.4	2.1	1.9	1.7
Dividend yield (%)	1.3	1.8	2.1	2.1

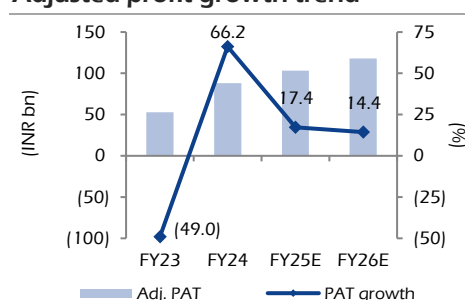
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Revenue & margin trend



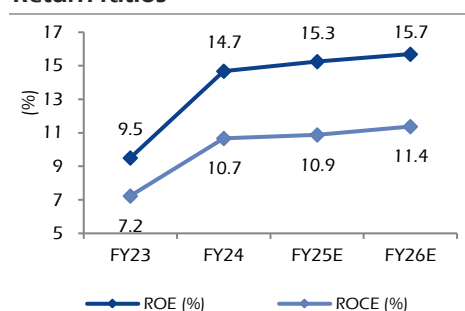
Source: Company, Elara Securities Estimate

Adjusted profit growth trend



Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

Analyst meet – Highlights

Project completion timeline is as follows:

- Mumbai-Nagpur pipeline by June-2024
- Nagpur-Jharsuguda pipeline by October-2024
- Jagdishpur-Haldia pipeline by June-2024
- Srikakulam-Angul pipeline by June-2024
- Gurdaspur-Jammu pipeline by July-2026
- Dhamra-Haldia pipeline by June-2024
- PDHPP Usar petchem plant by April-2025
- PP Pata plant by December-2024
- IPA Usar plant by December-2025
- Gail Mangalore Petchem plant revamp by March-2025

Capex

- FY24 capex was INR 114bn.
- FY25 capex would be INR 115bn, comprising INR 26bn in pipeline, INR 2bn in CGD, INR 52bn in Petchem, INR 2bn in E&P, equity investment of INR 12bn, operational capex and others by INR 21bn.

Outlook

- Transmission: Expect volume growth of 10-12mmscmd per annum each in FY25 and FY26. Growth would primarily come from the CGD sector.
- Marketing: FY25 EBITDA guidance is INR 40-45bn, with 105mmscmd volume.
- Petchem: FY25 would witness EBITDA margin at Q4FY24 level, with annual volume at 810,000tonnes.
- Renewable energy target is 1GW by 2025 and 3GW by 2030.

One-off impact in FY24 at INR 1.1bn

- Marketing: INR 2.3bn positive impact;
- Transmission: INR 3.5bn negative impact;
- Petchem: INR 1.8bn positive impact and
- Others: INR 1.8bn negative impact.

Other highlights

- Globally, 250bcm or ~190mn tonnes LNG export capacity will be added through 2025-2030.
- India per capita plastic consumption is 14kg versus the global average of 39kg and China's 83kg.
- About 8-9% polymer demand CAGR is expected in India, going forward.
- Currently, GAIL is setting up only pilot plants for green hydrogen.
- GAIL is seeking acquisitions in the renewables space.
- GAIL invested INR 2bn in two small-scale LNG plants.
- Domestic gas demand would grow >10% if LNG prices remain <USD 10/mmbtu.
- The Guwahati-Barauni gas pipeline was commissioned with a capacity of 2.5mmscmd and should see good utilization from FY25.
- Dabhol LNG import terminal (all-weather break-water facility) would be completed by December-2024. Then, GAIL will work to double capacity to 10MMT in the next 2-3 years.

Tariff revision

- GAIL has filed an appeal but 6-9 months may be needed to start the tariff review process.
- PNGRB, the gas regulator, considered USD 3.6/mmbtu for fuel gas price, while APM gas is costlier. Also, PNGRB considered higher than the actual capacity in the past tariff order.

Marketing

- GAIL's long-term LNG portfolio is 14mn tonnes – 12mn tonnes signed back-to-back with customers and 2mn tonnes used for trading.

Exhibit 1: Gas transmission volume up 14% YoY

Transmission segment	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
-Natural gas					
Segment-wise revenue (net of excise duty, INR mn)	23,680	14,920	58.7	24,270	(2.4)
EBITDA (INR mn)	15,990	2,970	438.4	15,610	2.4
EBITDA margin (%)	67.5	19.9		64.3	
EBIT (INR mn)	9,798	(164)	NM	12,151	(19.4)
Volume (mmscmd)	124	108	14.2	122	1.7
Transmission tariff (INR/MMBtu)	57.8	41.6	38.9	60.3	(4.1)
-LPG					
Segment-wise revenue (net of excise duty, INR mn)	1,840	1,730	6.4	1,820	1.1
EBITDA (INR mn)	990	970	2.1	1,010	(2.0)
EBITDA margin (%)	53.8	56.1		55.5	
EBIT (INR mn)	756	792	(4.6)	794	(4.8)
Volume (` 000 tonne)	1,114	1,079	3.2	1,095	1.7
Transmission tariff (INR/tonne)	1,652	1,603	3.0	1,662	(0.6)

Source: Company, Elara Securities Research

Exhibit 2: Gas marketing volume up 4% YoY

NG trading	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Segment-wise revenue (net of excise duty) (INR mn)	258,600	281,510	(8.1)	279,700	(7.5)
EBITDA (INR mn)	16,270	5,760	182.5	20,730	(21.5)
Blended margin (INR/mscm)	1,790	649	175.7	2,296	(22.1)
EBITDA margin (%)	6.3	2.0		7.4	
EBIT (INR mn)	13,887	4,874	184.9	18,804	(26.2)
Volume sold (mmscmd)	99.9	96	3.6	98	1.8
Realization (USD/MMBtu)	9.4	10.7	(12.1)	10.3	(8.9)

Source: Company, Elara Securities Research

Exhibit 3: Petrochem sales volume up 105% YoY on lower base

Petrochemicals	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Segment-wise revenue (net of excise duty) (INR mn)	22,340	13,360	67.2	20,300	10.0
EBITDA (INR mn)	4,260	(2,570)	NM	2,050	107.8
EBITDA margin (%)	19.1	(19.2)		10.1	
EBIT (INR mn)	2,623	(4,009)	NM	619	323.5
Volume produced (` 000 tonne)	248	147	68.7	205	21.0
Volume sold (` 000 tonne)	242	118	105.1	215	12.6
Realization (USD/tonne)	1,112	1,376	(19.2)	1,134	(2.0)

Source: Company, Elara Securities Research

Exhibit 4: LPG segment – Volume up 17% YoY

LPG and other HC	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Segment-wise revenue (net of excise duty) (INR mn)	11,950	10,990	8.7	11,280	5.9
EBITDA (INR mn)	3,610	1,460	147.3	2,800	28.9
EBITDA margin (%)	30.2	13.3		24.8	
EBIT (INR mn)	3,266	1,225	166.5	2,575	26.8
Volume produced LPG (` 000 tonne)	185	159	16.4	177	4.5
Volume sold LPG (` 000 tonne)	182	156	16.7	176	3.4
Volume produced-Other liquid HC (` 000 tonne)	80	73	9.6	72	11.1
Volume sold-Other liquid HC (` 000 tonne)	79	74	6.8	73	8.2
Realization (INR/tonne)	65,738	70,523	(6.8)	64,164	2.5

Source: Company, Elara Securities Research

Exhibit 5: Valuations (FY26E)

	(INR bn)	(INR/share)
EV from transmission business	968	147
EV from NG trading business	318	48
EV from LPG business	87	13
EV from petrochemicals business	86	13
Total EV	1,148	222
Total portfolio stake	163	25
E&P Value	1	0
Stakes in city gas distribution projects	124	19
Firm value	1,745	265
Net debt, FY25E	255	39
Target price	1,491	227

Source: Elara Securities Estimate

Exhibit 6: Assumptions

	FY23	FY24	FY25E	FY26E
Performance				
Transmission				
-NG (mmscmd)	107	120	132	144
-LPG ('000 tonne)	4,335	4,396	4,396	4,396
Sales				
NG (mmscmd)	95	98	105	111
Petrochemicals ('000 tonne)	400	787	891	891
LPG ('000 tonne)	546	616	616	616
Other liquid HC ('000 tonne)	383	383	383	383
Realization	929	999	999	999
Blended transmission tariff				
-NG (INR/MMBtu)	43.1	49.3	49.3	49.3
-LPG (INR/tonne)	1,633	1,647	1,647	1,647
NG trading (INR/MMBtu)	28	53	45	44
Petrochem (INR/tonne)	121,100	97,700	94,362	94,362
Brent crude (USD/bbl)	95	83	80	80
Exchange rate (USD-INR)	80	83	83	83

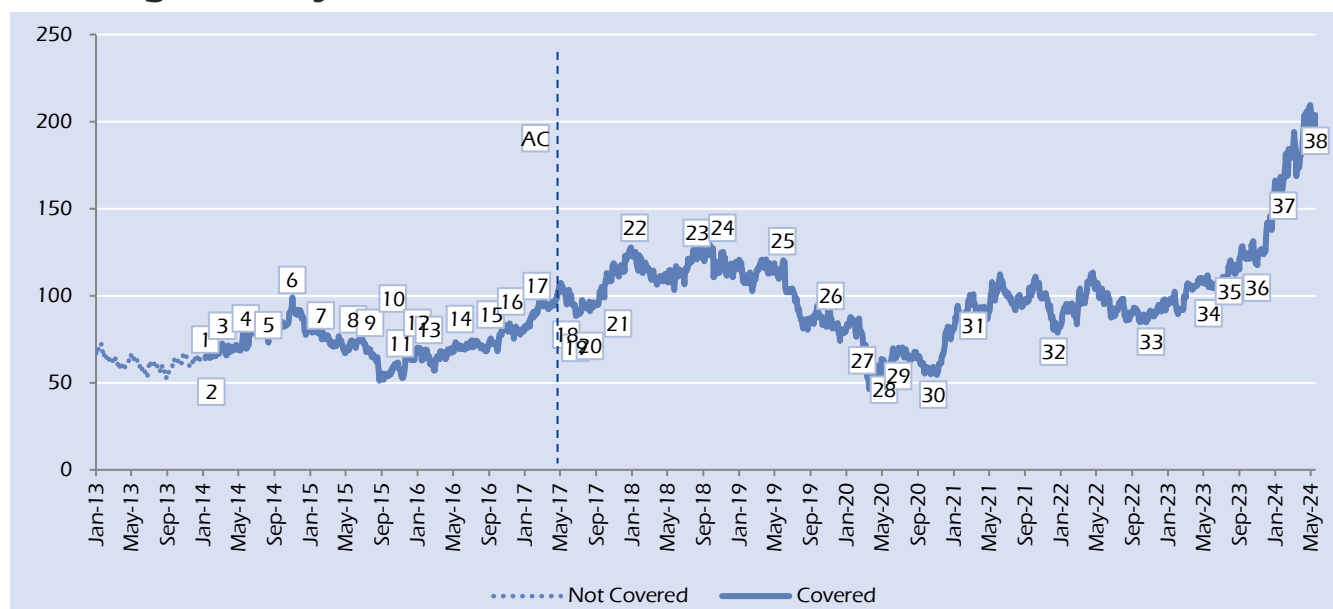
Source: Company, Elara Securities Estimate

Exhibit 7: Change in estimates

(INR mn)	Earlier		Revised		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	1,480	1,463	1,465	1,550	(1.1)	5.9
EBITDA	145	160	156	173	7.0	8.0
Net profit	103	114	103	118	(0.0)	3.2
EPS (INR)	15.5	17.2	15.5	17.7	(0.0)	3.2
Target price (INR)		191		227		18.7

Source: Elara Securities Estimate

Coverage History



AC = Analyst Change

	Date	Rating	Target Price	Closing Price
31	9-Mar-2021	Buy	INR 190	INR 149
32	7-Dec-2021	Buy	INR 197	INR 133
	9/6/2022#	Buy	INR 131	INR 93
33	4-Nov-2022	Buy	INR 124	INR 90
34	19-May-2023	Buy	INR 129	INR 105
35	31-Jul-2023	Buy	INR 148	INR 119
36	31-Oct-2023	Buy	INR 165	INR 120
37	29-Jan-2024	Accumulate	INR 191	INR 172
38	17-May-2024	Accumulate	INR 227	INR 204

#Bonus Issue 2:1

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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