

Petchem and liq. hydrocarbons EBIT turns positive

GAIL's robust Q3 performance was buoyed by continued margin expansion in natural gas marketing coupled with positive EBIT contribution from petrochemicals and liq. hydrocarbons segment. Thus, GAIL reported 17.5% QoQ jump in EBITDA at Rs42.1bn vs Rs35.8bn. Natural gas transmission volumes rose 1.0% QoQ at 121.5mmscmd while natural gas sales rose 1.2% QoQ at 98.1mmscmd. The company operated its petrochemicals plant at 101% capacity utilisation thus turning the performance into positive EBIT contribution from EBIT loss in Q2. Management guided gas transmission exit rate at 123-124mmscmd for FY24E and 12-15mmscmd addition over the next couple of years. Although gas marketing margin is expected to be ~Rs55bn+ in FY24E, management guided for a min. of Rs40bn margin in FY25E with upside potential. Based on 9MFY24 performance and latest guidance, we have raised our FY24E/ FY25E EBITDA estimates by 14.7%/ 0.9% while lowering FY26E EBITDA estimate marginally by 1.7%. The stock has surged ~43% over the past three months. We downgrade the stock from Add to Sell with a SOTP based revised TP to Rs140 (earlier Rs131).

Gas transmission volumes rise QoQ

During Q3FY24, GAIL's natural gas transmission volumes increased 1.0% QoQ and 17.2% YoY at 121.5mmscmd. Natural gas marketing volumes rose 1.2% QoQ at 98.1mmscmd while margins surged further aiding 9.8% QoQ jump in EBIT. 101% petrochemicals capacity utilisation led to 28.0% surge in petchem volumes at 215,000MT and Rs547mn EBIT vs EBIT loss of Rs1.6bn in Q2FY24. LPG & liq. hydrocarbons segment too turned from loss to profit with EBIT of Rs2.6bn vs Rs167mn EBIT loss in Q2FY24.

Transmission and marketing volume growth to continue

GAIL management expects to source 7-8mmtpa LNG over the next few years with a specific target of sourcing 1-2mmtpa LNG p.a. In early January, GAIL signed a long-term LNG supply deal with Vitol for ~1mmtpa LNG for a period of 10 years starting 2026. With robust gas marketing margins in 9MFY24, management guided FY24E margins to exceed Rs55bn. However, conservatively guided at least Rs40bn margins in FY25E and Rs45bn in FY26E.

Businesses coming back to normalcy, downgrade due to sharp surge in stock price

During Q3, GAIL's gas transmission average capacity utilisation stood at 58% and the company doesn't foresee any threat on transmission tariffs for the foreseeable future. Management once again reiterated continued growth in gas transmission volumes. Marketing volumes are also expected inch up owing to focus on signing additional long-term contracts. The company also guided for 5-6% growth in gas marketing volumes. Petrochemicals has turned around and is expected to break-even in FY24E with positive contribution expected from FY25E. GAIL's buyout of JBF Petrochemicals business is expected to be commissioned by Mar-25. We have upped our near-term numbers based on optimistic marketing margins. Nonetheless, the stock has surged materially over the past three months. Based on our revised estimates, the stock is currently trading at 9.4x/ 7.9x/ 6.3x FY24E/ FY25E/ FY26E EV/ EBITDA. We thus downgrade the stock from Add to Sell with a SOTP based revised TP of Rs140 (Rs131).

Risks – Lower than expected gas marketing margins and petrochemicals utilisation

Financial and valuation summary

YE Mar (Rs mn)	3QFY24A	3QFY23A	YoY (%)	2QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	3,46,978	3,58,845	(3.3)	3,29,857	5.2	13,50,265	12,87,969	13,51,178
EBITDA	42,084	4,819	773.3	35,802	17.5	1,34,120	1,60,122	1,76,811
EBITDA margin (%)	12.1	1.3	1080bps	10.9	120bps	9.9	12.4	13.1
Adj. Net profit	31,934	3,976	703.2	24,422	30.8	95,112	1,19,716	1,25,129
Adj. EPS (Rs)	4.9	0.6	703.1	3.7	30.8	14.5	18.2	19.0
EPS growth (%)						76.5	25.9	4.5
PE (x)						11.9	9.4	9.0
EV/EBITDA (x)						9.4	7.9	6.3
PBV (x)						1.6	1.5	1.4
RoE (%)						14.2	16.8	16.0
RoCE (%)						9.8	12.0	11.9

Source: Company, Centrum Broking

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Result Update

India I Oil & Gas

29 January, 2024

SELL

Price: Rs172

Target Price: Rs140

Forecast return: -19%

Institutional Research

Market Data

Bloomberg:	GAIL IN
52 week H/L:	175/91
Market cap:	Rs1129.3bn
Shares Outstanding:	6575.1mn
Free float:	33.6%
Avg. daily vol. 3mth:	2,42,26,330
Source: Bloomberg	

Changes in the report

Rating:	SELL; Changed from ADD
Target price:	Rs140; up 6.9% from Rs131
EPS:	FY24E: Rs14.5, up 15.7% FY25E: Rs18.2, up 1.7% FY26E: Rs19.0, down 1.4%
Source: Centrum Broking	

Shareholding pattern

	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	51.9	51.9	51.9	51.9
FIIIs	14.2	14.8	16.1	16.4
DIIIs	27.3	27.1	26.0	25.9
Public/other	6.6	6.3	6.0	5.8
Source: BSE				

Centrum estimates vs Actual results

YE Mar (Rs bn)	Actual Q3FY24	Centrum Q3FY24	Variance (%)
Revenue	347.0	328.0	5.8
EBITDA	42.1	35.2	19.6
EBITDA margin %	12.1	10.7	140bps
Adj. PAT	31.9	23.9	33.7
Source: Bloomberg, Centrum Broking			



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Oil & Gas

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY25E New	FY25E Old	% chg.	FY26E New	FY26E Old	% chg.
Revenue	12,87,969	12,11,910	6.3	13,51,178	12,75,966	5.9
EBITDA	1,60,122	1,58,736	0.9	1,76,811	1,79,813	(1.7)
EBITDA margin	12.4	13.1	(70bps)	13.1	14.1	(100bps)
Adj. PAT	1,19,716	1,17,783	1.6	1,25,129	1,27,215	(1.7)
Diluted EPS (Rs)	18.2	17.9	1.7	19.0	19.3	(1.4)

Source: Centrum Broking

GAIL versus NIFTY 50

	1m	6m	1 year
GAIL IN	6.0	46.2	73.2
NIFTY 50	1.4	9.9	21.5

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY24E	FY25E	FY26E
Revenue growth	(7.2%)	(4.6%)	4.9%
EBITDA margins	9.9%	12.4%	13.1%
EBITDA growth	84.2%	19.4%	10.4%

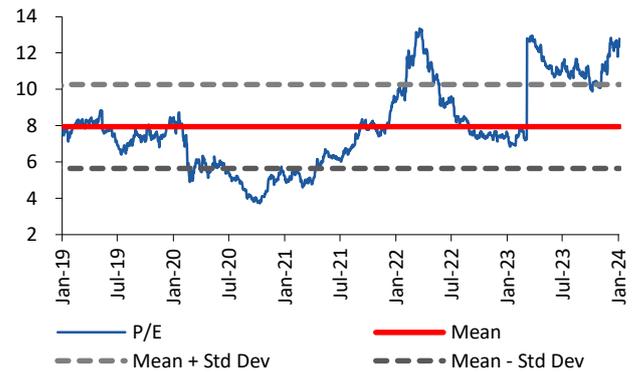
Source: Centrum Broking

Valuations

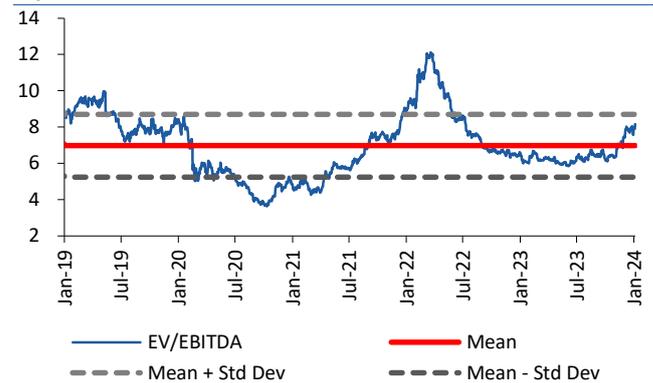
Based on 9MFY24 performance and latest guidance, we have raised our FY24E/ FY25E EBITDA estimates by 14.7%/ 0.9% while lowering FY26E EBITDA estimate by 1.7%. The stock has surged ~43% over the past three months. Based on our revised estimates, the stock is currently trading at 9.4x/ 7.9x/ 6.3x FY24E/ FY25E/ FY26E EV/ EBITDA. We downgrade the stock from Add to Sell with a SOTP based revised TP to Rs140 (earlier Rs131)

Segment	Valuation method	Rs mn	Rs/share
Natural Gas transmission	EV/EBITDA	4,16,478	63
LPG transmission	EV/EBITDA	26,239	4
Natural Gas trading	EV/EBITDA	1,55,745	24
Petchem	EV/EBITDA	1,00,956	15
LPG & OHC	EV/EBITDA	1,10,735	17
City Gas	EV/EBITDA	66,506	10
Others	EV/EBITDA	2,325	0
Aggregate EV		8,78,984	134
Net debt FY24E		(1,36,234)	(21)
Add: MV of investments		1,77,293	27.0
Sum of parts valuation		9,20,043	140

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Q3FY24 Concall Highlights

Operational performance

- Average Natural Gas Transmission volumes – 121.54mmscmd vs 120.31mmscmd in Q2
- Gas marketing volumes – 98.14mmscmd vs 96.96mmscmd in Q2
- LHC sales – 249TMT vs 242 TMT in Q2
- Polymer sales – 215 TMT vs 168 TMT in Q2

Business performance

- Witnessed increase in natural gas prices, better realisations in liquid hydrocarbons
- Reduction in input gas prices for petrochemicals
- Gas transmission average capacity utilisation – 58%
- Petrochemicals capacity utilisation – 101%, specific energy consumption gone down significantly, better fixed cost absorption
- Liquid hydrocarbons capacity utilisation – 69%
- JBF Petrochemicals – Expect to be commissioned by Mar-25, bought at Rs21bn from NCLT, expect to incur Rs20bn for commissioning
- ~10% gas transmission volumes from outside unified network
- Allocation of APM gas was down twice in this quarter once in October and then in mid-December. Post mid-December no APM gas was available for compression

Capex

- FY24-25E – Expect to incur Rs170bn of Capex
- Capex bifurcation – Rs30bn on Pipeline, Rs44bn on Petrochemicals , Rs30bn on Net zero, Rs8bn on operational capex and Rs50bn towards equity contributions in JV and Subsidiaries)

Outlook

- Gas marketing margin – Rs43bn in 9MFY24, to exceed Rs55bn in FY24, FY25E – Rs40bn, FY26E – Rs45bn
- FY24E gas transmission volumes – 120mmscmd in 9MFY24, 123-124mmscmd exit rate
- Gas transmission volumes – Expect 12-15mmscmd volume increase over the next 2-3 years
- FY24E – Expect to break-even in petrochemicals
- Plan to source 1-2mmtpa gas per year, overall to source 7-8mmtpa over the next few years
- Gas marketing volumes – Expect to grow by 5-6%
- Compressor fuels – Use ~1.7mmscmd, try to source from domestic sources else use RLNG
- PDH to be commissioned by Apr-25

Exhibit 1: Quarterly financials (Cons)

Y/E March (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9M FY24	9M FY23	% chg.
Net sales	3,46,978	3,58,845	(3.3)	3,29,857	5.2	10,04,721	11,24,617	(10.7)
Cost of Goods	2,77,616	3,30,064	(15.9)	2,68,592	3.4	8,20,831	9,91,377	(17.2)
% of sales	80.0	92.0		81.4		81.7	88.2	
Other expenditure	27,279	23,962	13.8	25,464	7.1	79,400	63,917	24.2
% of sales	7.9	6.7		7.7		7.9	5.7	
Operating profit	42,083	4,819	773.3	35,801	17.5	1,04,490	69,322	50.7
OPM (%)	12.1	1.3		10.9		10.4	6.2	
Dep. and amor.	8,723	6,987	24.8	8,373	4.2	24,312	20,707	17.4
Interest	1,762	1,199	46.9	1,996	(11.7)	5,611	2,597	116.1
EBIT	31,599	-3,367	(1,038.4)	25,432	24.2	74,566	46,019	62.0
Other income	4,140	4,497	(7.9)	2,053	101.6	7,713	7,819	(1.4)
Excp. Item	0	0		0		0	0	
PBT	35,739	1,130	3,063.6	27,486	30.0	82,279	53,837	52.8
Provision for tax	8,814	2,645	233.3	6,963	26.6	20,672	16,143	28.1
eff. tax rate	24.7	234.1		25.3		25.1	30.0	
PAT	26,925	-1,515	(1,877.1)	20,523	31.2	61,607	37,694	63.4
Share of profit from assoc. and JV	5,010	5,491		3,898		12,677	11,837	
PAT (rep.)	31,934	3,976	703.2	24,421	30.8	74,284	49,532	50.0
NPM (%)	9.1	1.1		7.4		7.3	4.4	
Segment revenues (Rs mn)								
Natural gas transmission	26,752	16,587	61.3	26,443	1.2	79,135	50,116	57.9
LPG transmission	1,839	1,801	2.1	1,845	(0.4)	5,460	5,469	(0.2)
Natural gas marketing	3,24,642	4,04,624	(19.8)	3,14,913	3.1	9,59,102	12,49,685	(23.3)
Petrochemicals	20,502	7,505	173.2	17,433	17.6	54,971	35,578	54.5
LPG & liq. Hydrocarbons	12,964	13,549	(4.3)	10,345	25.3	36,499	42,042	(13.2)
City Gas	33,891	28,278	19.8	29,686	14.2	87,615	85,508	2.5
Others	2,808	3,309	(15.1)	3,008	(6.7)	8,429	9,140	(7.8)
Unallocated	1	4	(84.1)	4	(83.3)	8	16	(48.1)
Intersegmental	75,718	1,16,258	(34.9)	73,182	3.5	2,24,556	3,51,443	(36.1)
Total	3,47,678	3,59,400	(3.3)	3,30,497	5.2	10,06,663	11,26,110	(10.6)
Segment EBIT (Rs mn)								
Natural gas transmission	12,151	4,260	203.0	12,907	(5.9)	35,303	19,361	82.3
LPG transmission	794	917	(10.7)	819	(3.0)	2,415	2,895	(16.6)
Natural gas marketing	18,913	-565	(3,150.7)	17,230	9.8	46,605	25,706	81.3
Petrochemicals	547	-3,489	(53.9)	-1,609	(134.0)	-4,080	-6,599	(38.2)
LPG & liq. Hydrocarbons	2,575	-292	(42.8)	-167	(1,643.0)	4,429	11,059	(59.9)
City Gas	1,837	1,188	(21.7)	931	97.3	4,104	3,403	20.6
Others	1,179	743	91.4	1,421	(17.1)	4,026	3,770	6.8
Total	37,996	2,763	1,041.2	31,531	20.5	92,802	59,594	55.7
Operating performance								
Transmission (mmscmd)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9M FY24	9M FY23	% chg.
Natural gas	121.5	103.7	17.2	120.3	1.0	358.2	320.9	11.6
LPG	1,095.0	1,101.0	(0.5)	1,114.0	(1.7)	3,282.0	3,256.0	0.8
Production								
Petrochemicals ('000MT)	205.0	68.0	201.5	160.0	28.1	529.0	295.0	79.3
LPG('000MT)	177.0	191.0	(7.3)	158.0	12.0	509.0	530.0	(4.0)
LHC ('000MT)	72.0	56.0	28.6	80.0	(10.0)	221.0	171.0	29.2
Sales								
Natural gas (mmscmd)	98.1	89.9	9.2	97.0	1.2	293.9	283.3	3.8
Petrochemicals ('000MT)	215.0	65.0	230.8	168.0	28.0	545.0	282.0	93.3
LPG('000MT)	176.0	193.0	(8.8)	161.0	9.3	514.0	532.0	(3.4)
LHC ('000MT)	73.0	55.0	32.7	81.0	(9.9)	224.0	167.0	34.1

Source: Centrum Broking, Company Data

Exhibit 2: GAIL's SOTP Valuation

Segment	Valuation method	Valuation				EBITDA	
		USD mn	Rs mn	Rs/share	Break-up	1HFY26	Multiple
Natural Gas transmission	EV/EBITDA	5,012	4,16,478	63	47%	69,413	6.0
LPG transmission	EV/EBITDA	316	26,239	4	3%	4,373	6.0
Natural Gas trading	EV/EBITDA	1,874	1,55,745	24	18%	51,915	3.0
Petchem	EV/EBITDA	1,215	1,00,956	15	11%	16,826	6.0
LPG & OHC	EV/EBITDA	1,333	1,10,735	17	13%	18,456	6.0
City Gas	EV/EBITDA	800	66,506	10	8%	8,867	7.5
Others	EV/EBITDA	28	2,325	0	0%	2,325	1.0
Aggregate EV		10,577	8,78,984	134			
Net debt FY24E		(1,639)	(1,36,234)	(21)			
Add: MV of investments		2,133	1,77,293	27.0			
Sum of parts valuation		11,072	9,20,043	140			

Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	9,27,698	14,54,616	13,50,265	12,87,969	13,51,178
Operating Expense	7,01,072	12,88,313	11,17,981	10,24,775	10,66,141
Employee cost	18,156	19,024	19,975	20,974	22,023
Others	56,955	74,466	78,189	82,099	86,203
EBITDA	1,51,516	72,813	1,34,120	1,60,122	1,76,811
Depreciation & Amortisation	24,202	27,016	31,184	32,488	34,535
EBIT	1,27,314	45,797	1,02,935	1,27,634	1,42,276
Interest expenses	2,025	3,666	4,069	4,072	7,645
Other income	9,613	13,285	5,764	5,764	5,500
PBT	1,37,012	55,416	1,05,240	1,35,992	1,40,878
Taxes	31,599	16,605	26,717	34,524	35,764
Effective tax rate (%)	23.1	30.0	25.4	25.4	25.4
PAT	1,05,413	38,811	78,523	1,01,468	1,05,114
Minority/Associates	17,623	15,081	16,589	18,248	20,015
Recurring PAT	1,23,036	53,892	95,112	1,19,716	1,25,129
Reported PAT	1,23,036	53,892	95,112	1,19,716	1,25,129
Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
Revenue	61.7	56.8	(7.2)	(4.6)	4.9
EBITDA	109.2	(51.9)	84.2	19.4	10.4
Adj. EPS	100.3	(56.2)	76.5	25.9	4.5
Margins (%)					
Gross	24.4	11.4	17.2	20.4	21.1
EBITDA	16.3	5.0	9.9	12.4	13.1
EBIT	13.7	3.1	7.6	9.9	10.5
Adjusted PAT	13.3	3.7	7.0	9.3	9.3
Returns (%)					
ROE	21.0	8.4	14.2	16.8	16.0
ROCE	16.2	5.4	9.8	12.0	11.9
ROIC	11.9	3.4	8.1	9.5	11.3
Turnover (days)					
Gross block turnover ratio (x)	2.1	2.9	2.3	2.0	1.9
Debtors	22	23	27	24	18
Inventory	17	13	18	17	15
Creditors	26	18	25	29	27
Net working capital	14	16	13	8	16
Solvency (x)					
Interest coverage ratio	74.8	19.9	33.0	39.3	23.1
Net debt/EBITDA	0.4	2.2	1.0	0.9	(0.1)
Per share (Rs)					
Adjusted EPS	18.7	8.2	14.5	18.2	19.0
BVPS	97.5	98.7	104.7	111.9	125.4
CEPS	22.4	12.3	19.2	23.1	24.3
DPS	6.1	6.9	8.5	11.0	5.6
Dividend payout (%)	32.5	83.9	59.0	60.3	29.3
Valuation (x)					
P/E	9.2	21.0	11.9	9.4	9.0
P/BV	1.8	1.7	1.6	1.5	1.4
EV/EBITDA	7.9	17.7	9.4	7.9	6.3
Dividend yield (%)	3.5	4.0	5.0	6.4	3.2

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	44,404	65,751	65,751	65,751	65,751
Reserves & surplus	5,96,739	5,83,523	6,22,541	6,70,032	7,58,558
Shareholders fund	6,41,143	6,49,274	6,88,292	7,35,783	8,24,309
Minority Interest	1,912	1,796	1,796	1,796	1,796
Total debt	78,303	1,62,749	1,62,899	1,52,899	1,53,049
Non Current Liabilities	74,940	76,880	76,880	76,880	76,880
Def tax liab. (net)	41,992	43,951	43,951	43,951	43,951
Total liabilities	8,38,289	9,34,649	9,73,818	10,11,309	10,99,985
Gross block	4,44,556	4,95,422	5,81,969	6,40,784	6,98,296
Less: acc. Depreciation	(24,202)	(27,016)	(31,184)	(32,488)	(34,535)
Net block	4,20,355	4,68,406	5,50,784	6,08,296	6,63,761
Capital WIP	1,54,904	1,66,465	1,66,465	1,66,465	1,66,465
Net fixed assets	6,00,625	6,63,434	7,17,249	7,74,761	8,30,226
Non Current Assets	37,816	36,584	36,584	36,584	36,584
Investments	1,64,082	1,72,483	1,72,483	1,72,483	1,72,483
Inventories	35,766	59,179	49,979	46,350	38,609
Sundry debtors	74,465	1,06,796	91,595	80,312	55,528
Cash & Cash Equivalents	15,198	2,438	26,665	10,670	1,62,577
Loans & advances	17,790	18,918	18,918	18,918	18,918
Other current assets	19,853	17,976	19,566	19,566	19,566
Trade payables	53,613	71,436	83,298	77,250	80,436
Other current liab.	64,960	62,437	66,638	61,800	1,44,785
Provisions	8,732	9,286	9,286	9,286	9,286
Net current assets	35,767	62,149	47,502	27,480	60,691
Total assets	8,38,289	9,34,649	9,73,818	10,11,309	10,99,985

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	1,54,635	72,564	1,21,828	1,54,239	1,60,950
Depreciation & Amortisation	24,202	27,016	31,184	32,488	34,535
Net Interest	1,766	420	3,666	3,666	3,666
Net Change – WC	(35,485)	(34,294)	40,465	4,026	1,18,696
Direct taxes	(32,842)	(16,138)	(26,717)	(34,524)	(35,764)
Net cash from operations	94,696	32,044	1,70,427	1,59,895	2,82,083
Capital expenditure	(69,713)	(88,306)	(85,000)	(90,000)	(90,000)
Investments	3,046	4,598	0	0	0
Others	10,211	7,307	0	0	0
Net cash from investing	(56,455)	(76,401)	(85,000)	(90,000)	(90,000)
FCF	38,240	(44,356)	85,427	69,895	1,92,083
Increase/(decrease) in debt	6,258	84,446	150	(10,000)	150
Dividend paid	(39,954)	(45,228)	(56,094)	(72,225)	(36,660)
Interest paid	(3,634)	(3,666)	(3,666)	(3,666)	(3,666)
Others	(1,829)	(3,955)	(3,955)	(3,955)	0
Net cash from financing	(39,159)	31,598	(63,564)	(89,845)	(40,176)
Net change in Cash	(919)	(12,759)	21,862	(19,950)	1,51,907

Source: Company, Centrum Broking

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Source: Bloomberg

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