

Q4FY23 result review
and earnings revision

Oil & Gas

Target price: Rs124

Earnings revision

(%)	FY24E	FY25E
Sales	↓ 8.8	↓ 4.1
EBITDA	↓ 10.7	↓ 12.0
EPS	↓ 5.0	↓ 7.2

Target price revision

Rs124 from Rs132

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	51.9	51.9	51.9
Institutional investors	35.2	34.0	34.4
MFs and others	6.8	7.7	8.5
Banks / FIs	0.1	0.1	0.0
Insurance Cos.	7.0	8.2	9.5
FIs	21.3	18.0	16.4
Others	12.9	14.1	13.7

ESG disclosure score

Year	2021	2022	Chg
ESG score	76.1	76.6	0.5
Environment	67.2	68.6	1.4
Social	69.9	69.9	0.0
Governance	91.1	91.1	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA



GAIL India

BUY

Maintain

One-offs and APM gas deallocation drag earnings **Rs105**

GAIL India (GAIL) has delivered a muted Q4FY23, with adjusted EBITDA of Rs4.9bn (-87% YoY, I-Sec est Rs14bn) and recurring PAT of Rs7.4bn (-72% YoY, I-Sec est Rs8.2bn). Reported EBITDA/PAT of Rs3.1bn/6bn was impacted by write-offs related to the potential re-routing of the KMBPL (Rs1.1bn) and legal settlement of an old case (Rs70mn). Also, the deallocation of APM gas, which was being used for System Use Gas (SUG) by another ~0.5mmscmd in Q4 (Q3 saw 0.45mmscmd being withdrawn), had a material ~Rs4bn impact on transmission segment earnings. Petchem earnings were also lower due to high costs. Therefore, FY23 has been a weak year with ~50% YoY dip in standalone EBITDA/47% YoY dip in standalone PAT. Despite the gloom, we remain optimistic. FY24E is likely to see multiple drivers of outperformance: i) The new entity, which has taken over the Gazprom contract, is already supplying the contracted gas, ii) moderate spot LNG prices mean deallocation impact is no longer a factor, iii) stronger demand, completion of Easter Grid and higher domestic supply imply a 10% demand uptick and iv) costs for both petchem and LPG will also be lower. Reiterate BUY with TP of RS124.

- **Volumes jump QoQ:** Gas transmission volumes of 108.2mmscmd, petrochemical sales of 118kt and LPG sales of 230kt were a mixed bag, with steady improvement in transmission but weaker petchem trends. Q1FY24E has already seen a sharp recovery to ~118mmscmd by May'23 and the management expects to maintain this run rate for FY24E. Petrochemical and LPG volumes are also expected to show steady recovery, owing to better input costs and stronger utilisation.
- **Prospects to improve materially over the next 12-18 months:** The combination of new regulatory measures for pipeline tariffs (expected to boost transmission tariffs by ~25%), higher domestic supplies, moderation in spot LNG prices and some traction in sales prices for petrochem and LPG should drive material improvement in earnings over FY24-25E. We remain cautious on petchem and LPG segments in the near term, with material weakness seen in sales realisations across Asia. Nevertheless, despite our EPS reduction of 5/7% for FY24/25E, GAIL is set to report a stellar 22/29% CAGR in EBITDA/PAT for FY23-25E, respectively.
- **Reiterate BUY:** Nearly 12-15mmscmd of volume addition, stronger tariffs, better trading margins and additional delta from petrochemicals (JBF acquisition should also add capacity) imply GAIL can manage the stress of higher input costs for petrochemical and LPG segments over FY24-25E. We do factor lower margins for the two segments for FY24/25E vs our earlier estimates, leading to earnings and target price downgrades. Valuations remain attractive, underpinning our positive stance despite weak Q4FY23. Reiterate **BUY**.
- **Key downside risks:** 1) Sharply lower gas consumption trends, 2) Higher gas price impact on petrochemical / LPG segments, 3) reduction in pricing gap between US LNG and Asian spot LNG prices.

Market Cap	Rs689bn/US\$8.3bn	Year to March	FY22	FY23	FY24E	FY25E
Reuters/Bloomberg	GAIL.BO/GAIL IN	Revenue (Rs mn)	9,27,698	14,56,683	10,99,659	11,40,843
Shares Outstanding (mn)	6,575.1	Net Income (Rs mn)	1,22,561	57,507	85,315	96,382
52-week Range (Rs)	112/85	EPS (Rs)	18.6	8.7	13.0	14.7
Free Float (%)	48.1	% Chg YoY	102%	-53%	48%	13%
FII (%)	16.4	P/E (x)	5.6	12.0	8.1	7.2
Daily Volume (US\$'000)	18,127	CEPS (Rs)	19.6	10.9	13.8	15.9
Absolute Return 3m (%)	13.4	EV/E (x)	5.0	11.2	8.3	6.9
Absolute Return 12m (%)	6.9	Dividend Yield	6%	4%	4%	5%
Sensex Return 3m (%)	1.5	RoCE (%)	19%	6%	9%	10%
Sensex Return 12m (%)	18.5	RoE (%)	21%	9%	13%	13%

Please refer to important disclosures at the end of this report

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Key takeaways from Analyst Meet (on May 19, '23)

- Deallocation of domestic gas priced at priority sector formula by another 0.5mmscmd in Q4FY23 on top of 0.45mmscmd done in Q3. This leaves just 0.6mmscmd of APM gas for SUG for GAIL as of now.
- Additionally, multiple one-offs also impacted FY23 result, with an aggregate Rs24bn negative impact on FY23 result of these factors (refer Chart 1).
- While the management stated it does not expect this allocation to be withdrawn, it also mentioned that in case it does, the price differential between domestic gas and spot LNG is now ~US\$5/mmbtu which is not material and will not cause any meaningful impact on segment costs.
- Transmission volumes have ramped up to 108mmscmd in Q3 and have further reached ~117-118mmscmd in May'23. Exit rate of 120mmscmd is achievable, driven by i) easier supply availability, ii) moderate prices and iii) higher demand from the Eastern gas grid which is already seeing material volumes of ~10mmscmd and should ramp up by another 3-4mmscmd in FY24E.
- Impact of the newly integrated tariff order (covering ~90% of GAIL's current volumes) and higher volumes may drive a material ~25% growth in segment revenue (and likely in profitability to a great extent).
- Also, GAIL has filed a review of the above mentioned tariff, since the approved tariff of Rs58/mmbtu is well below the Rs68.55/mmbtu asked for. If the review is granted, there is an upside risk to our current estimates.
- Polymer (petchem) volumes have suffered due to high costs and technical issues. Both these factors are expected to improve relative to FY23. Breakeven gas prices for this segment are ~US\$13.5/mmbtu and current effective gas costs for the segment are trending at <US\$13/mmbtu, which is a comfortable level.
- For petchem, sales prices for polymers remain a key downside risk. Management expects this segment to return to profitability in FY24E.
- LPG segment is expected to benefit materially from >US\$2/mmbtu reduction in domestic gas prices. However, sales prices for this segment remain weak and are responsible for profitability in FY24E.
- Gas trading is expected to show a turnaround in FY24E, with resumption of ~9mmscmd of Gazprom supplies and softer spot LNG; US HH prices to drive stronger profitability for the segment. Management has guided EBIT of Rs35bn for the segment over FY24E, ~14% higher YoY.
- Aggressive capex plans of Rs100bn for FY24E, with 40/1/17/1/32/9% in pipeline/CGD(equity)/petchem/E&P/equity investment/operations capex and other segments vs Rs91bn capex seen in FY23.
- Leverage has gone up materially in FY23, but remains well below the worrying levels for the management and higher profitability in FY24/25E should lower the leverage.

Chart 1: One-off transactions in FY23 – multiple factors drive reported earnings lower

Particular	Amount (Rs. in crores)
❖ Gas Transmission Segment	
▪ Deallocation of Domestic Gas for Compressor Fuel	800
▪ Refund of Transmission Charges to M/s IPCL	70
▪ Gas Handling Loss & Maintenance Usage Gas	150
▪ Provision for KKMBPL	110
Total Impact in Gas Transmission Segment (A)	1,130
❖ Gas Marketing Segment	
▪ Inventory Loss Booked in Q3 FY23	1,100
▪ Inventory Loss Booked in Q4 FY23	230
Total Impact in Gas Marketing Segment (B)	1,330
❖ Others Segment - : Unallocated	
▪ Provision for TAPI Pipeline	55
Total Impact : Others (C)	55
Total Negative Impact (A+B+C)	2,515
❖ Positive :	
▪ Refund of CST from Gujrat Sales Tax - PLL (Petrochemical)	70
▪ Reversal of provision in E&P Mahar Block A 3	50
Total Positive Impact	120
Net Impact	2,395

Source: Company data, I-Sec research

Chart 2: Actual capex and capital commitment in major projects (Rs crore)

Name of Projects	Lengths of Pipelines (Km)/Capacity	Commissioned length (Km)	Expected Completion Date	Approved Cost	Capital Commitment	Actual Capex up to 31.03.2023
Phulpur Dobhi P/L (JHBDPL 1)	750	750	Commissioned	3,306	3,207	3,109
Dhamra-Angul P/L (JHBDPL 2A)	413	326	30 th Jun'2023	2,106	2,311	2,099
Dobhi-Durgapur P/L (JHBDPL 2B)	482	482	Commissioned	2,433	2,395	2,258
Bokaro-Angul P/L (JHBDPL 3A)	624	538	Commissioned [^]	3,048	2,776	2,552
Durgapur-Haldia P/L (JHBDPL 3B)*	294	-	30 th Jun 2024	1,740	1,861	1,376
Barauni Guwahati P/L (BGPL)	729	282	31 st Oct 2023	3,060	3,876	3,362
Dhamra-Haldia P/L*	253	-	30 th Jun 2024	1,031	859	562
KKBMPL – II P/L*	891	579	30 th Nov'2024	5,909	3,883	3,507
Srikakulam-Angul P/L	744	-	31 st Dec' 2024	2,658	2,065	1,334
Mumbai-Nagpur-Jharsuguda P/L	1,755	-	31 st Oct' 2024	7,844	6,332	4,350
Major PC Projects:						
Propane Dehydrogenation & Polypropylene Project (PDH-PP), Usar	500 KTA	NA	April 2025 (Mech Completion)	7,823	6,566	1,307
Polypropylene Project (PP), PATA	60 KTA	NA	July 2024 (Mech Completion)	1,299	970	358

*Subject to availability of hindrance free RoU

[^] Bokaro Angul Mainline & CGS Ranchi spurline commissioned. Spurlines to be completed in sync with readiness of consumers.

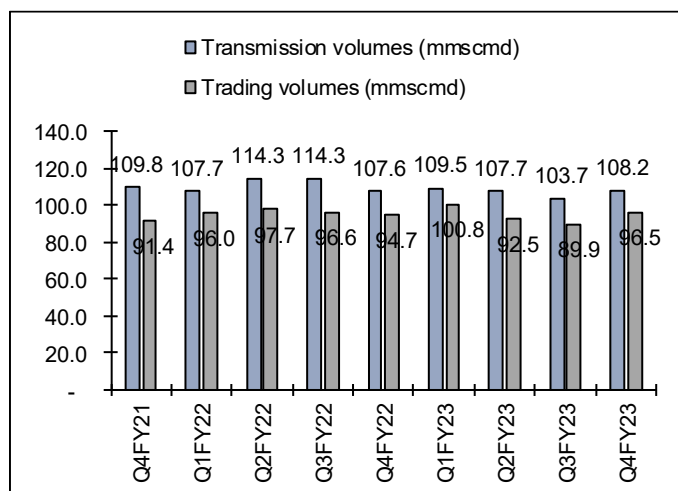
Source: Company data, I-Sec research

Table 1: Q4FY23 snapshot (standalone)

(Rs mn)	Q4FY23	Q4FY22	YoY% Chg	Q3FY23	QoQ% Chg	FY23	FY22	YoY% Chg
Net Sales	3,28,432	2,69,619	21.8	3,53,654	(7.1)	14,42,497	9,16,265	57.4
EBITDA(adj)	4,872	37,145	(86.9)	2,613	86.4	68,789	1,38,290	(50.3)
EBIT	(1,560)	31,685		(3,612)		43,908	1,17,179	(62.5)
Rep. PAT	6,035	26,831	(77.5)	2,457	145.6	53,015	1,03,640	(48.8)
Adj. PAT	7,382	26,831	(72.5)	2,457	200.4	54,362	1,03,640	(47.5)
Adj. EPS (INR)	1.1	4.1	(72.5)	0.4	200.4	8.3	15.8	(47.5)
Volumes								
NG transmission (mmscmd)	108.2	107.6	0.6	103.7	4.3	107.3	111.0	(3.3)
NG sales (mmscmd)	96.5	94.7	1.9	89.9	7.3	94.9	96.2	(1.3)
Petchem sales (kt)	118.0	216.0	(45.4)	65.0	81.5	400.0	792.0	(49.5)
LPG & liquid hydrocarbons (kt)	230.0	217.0	6.0	258.0	(10.9)	939.0	1004.0	(6.5)
Segment EBIT								
Natural Gas transmission(adj)	936	8,733	(89.3)	4,260	(78.0)	20,297	38,058	(46.7)
LPG transmission	792	852	(7.1)	917	(13.6)	3,687	3,350	10.0
Natural Gas Trading	4,874	17,259	(71.8)	(860)		30,788	49,322	(37.6)
Petrochemicals	(4,009)	3,790		(3,489)		(10,609)	12,453	
LPG and Liquid Hydrocarbon	1,225	7,283	(83.2)	(292)		12,284	28,997	(57.6)
Others	1,338	655	104.3	768	74.2	5,069	3,570	42.0
Total	5,156	38,573	(86.6)	1,305	295.1	61,516	1,35,749	(54.7)

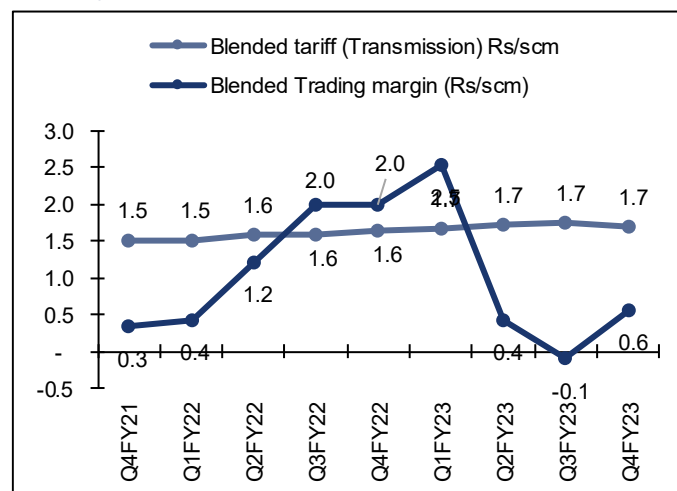
Source: Company data, I-Sec research

Chart 3: Volumes improved in Q4FY23...



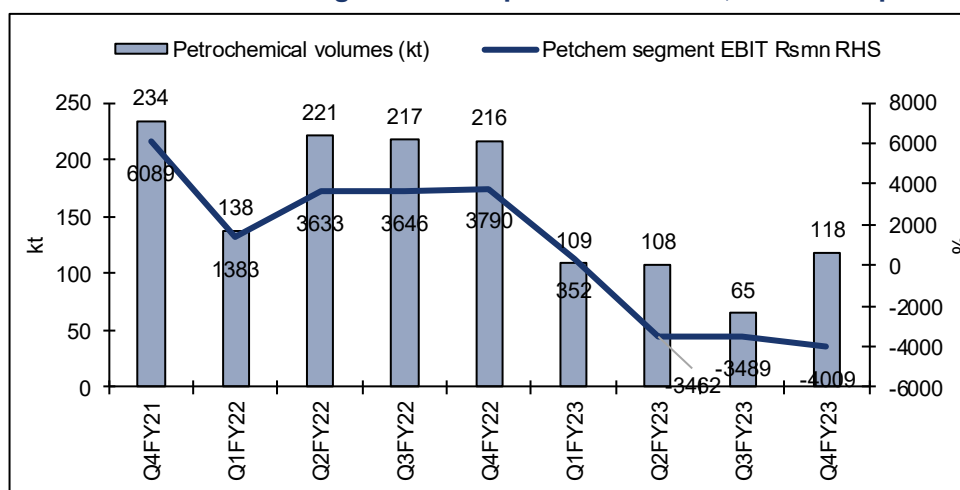
Source: Company data, I-Sec research

Chart 4: ...blended trading margin improved sharply QoQ

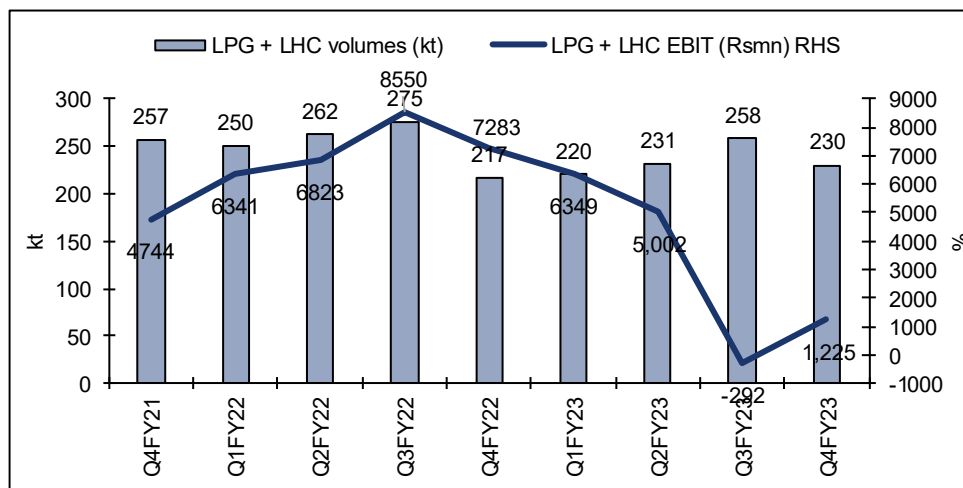


Source: Company data, I-Sec research

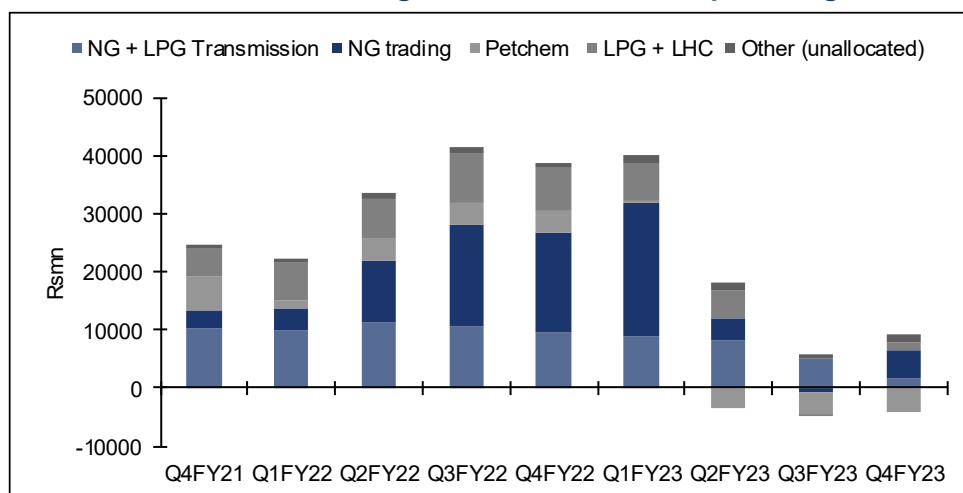
Chart 5: Petrochem margins were impacted QoQ/YoY, volume improved QoQ



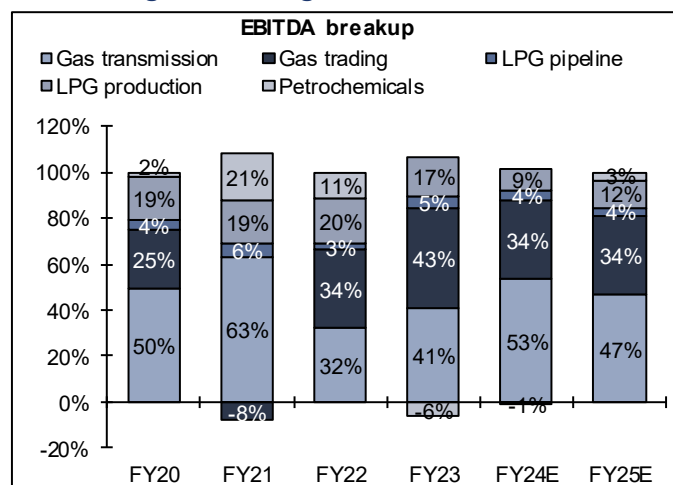
Source: Company data, I-Sec research

Chart 6: LPG segment earnings under pressure due to high gas costs

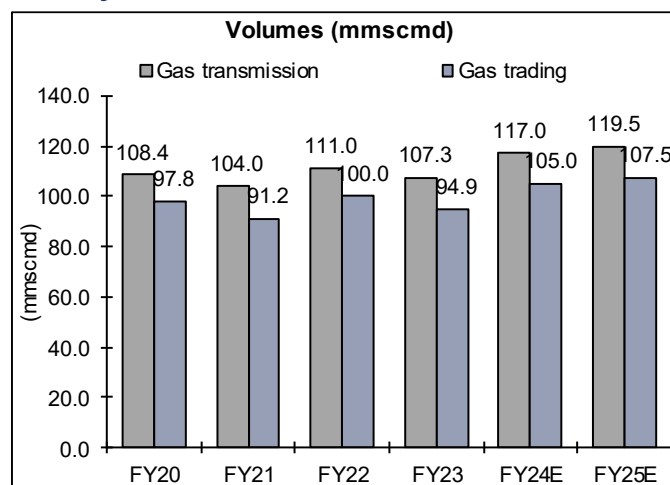
Source: Company data, I-Sec research

Chart 7: Weakness across segments in Q4FY23 except trading

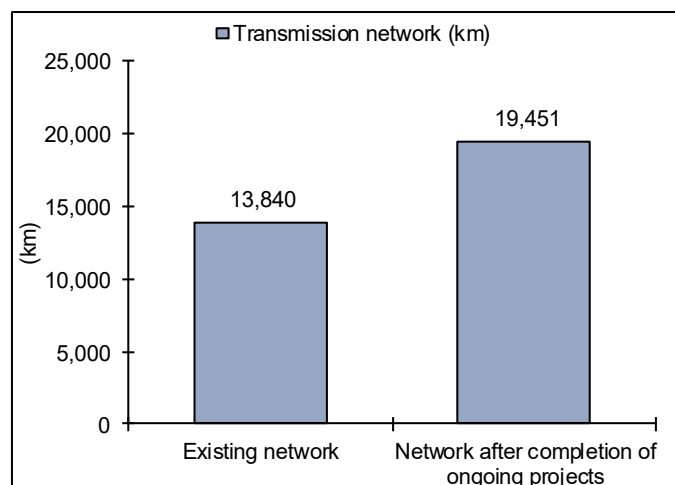
Source: Company data, I-Sec research

Chart 8: EBITDA mix diversified; gas transmission and trading are the largest contributors

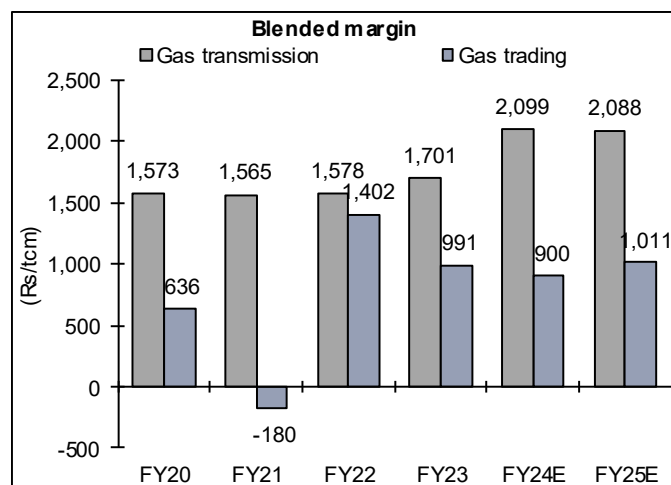
Source: Company data, I-Sec research

Chart 9: Transmission and trading volumes to grow steadily

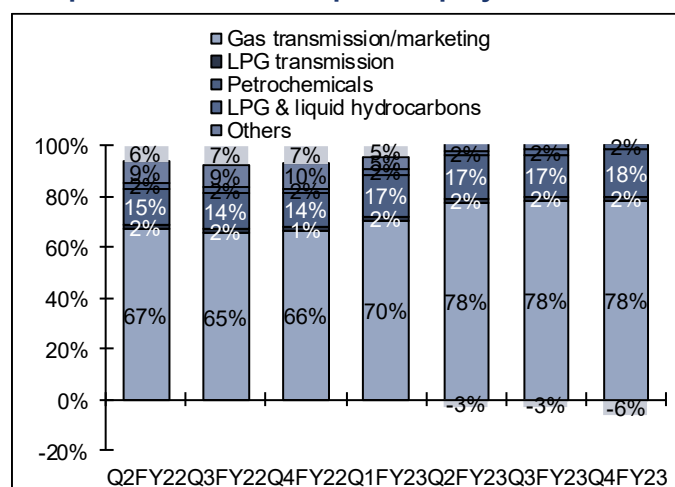
Source: Company data, I-Sec research

Chart 10: Material growth in transmission network

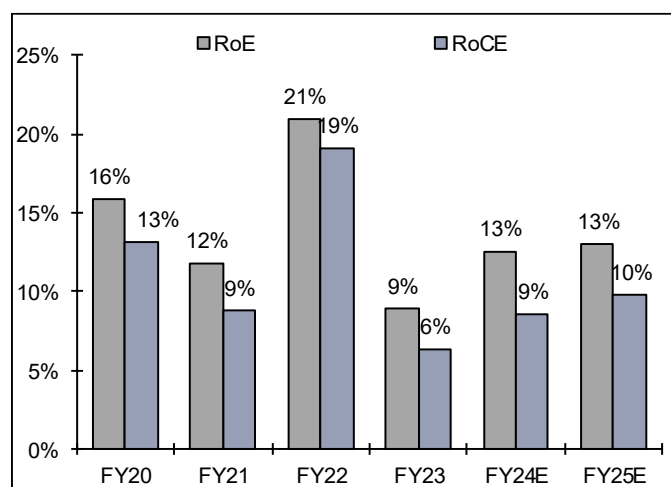
Source: Company data, I-Sec research

Chart 11: Improvement in blended margins for transmission; estimate some moderation in trading

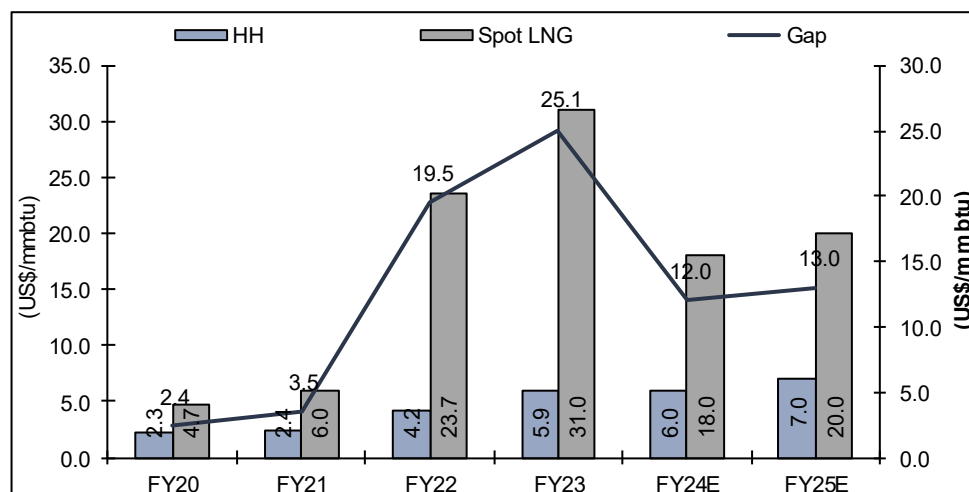
Source: Company data, I-Sec research

Chart 12: Gas transmission remains the key component of overall capital employed

Source: Company data, I-Sec research

Chart 13: Return ratios remain healthy

Source: Company data, I-Sec research

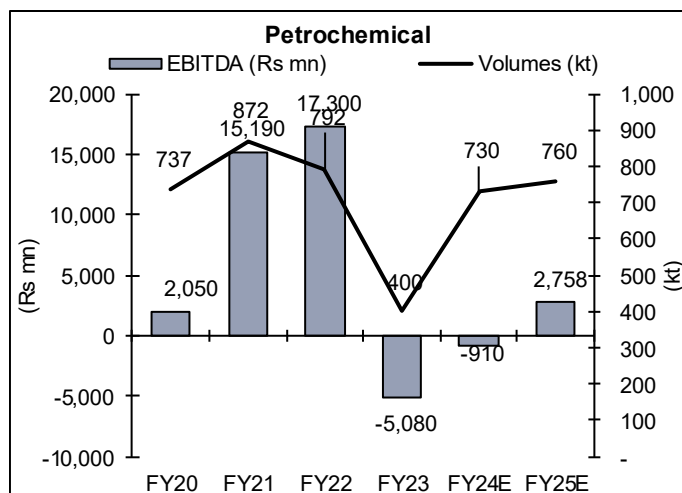
Chart 14: Gap between US HH and term and spot LNG remains material

Source: Company data, I-Sec research

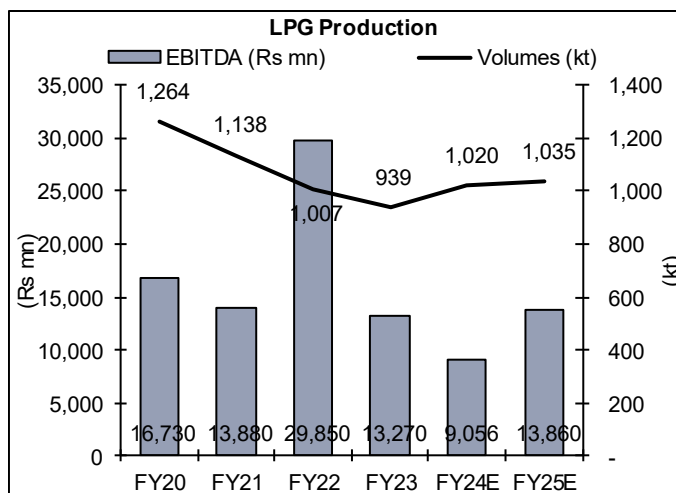
Table 2: Sensitivity of trading gains to differential with term and spot LNG prices

	vs Spot LNG	vs Term LNG	vs Spot LNG	vs Term LNG
Price (US\$/mmbtu)	6.75	6.75	6.75	6.75
Delivered Price (US\$/mmbtu)	12.3	12.3	12.3	12.3
Spot LNG Slope Assumed	35%	15%	30%	15%
Brent (US\$/bbl)	95	95	85	85
US\$/mmbtu	33.3	14.3	25.5	12.8
Difference (US\$/mmbtu)	21.0	2.0	13.2	0.5
Volumes unhedged (mmt)	1.0	1.0	1.0	1.0
Difference (Rs mn)	89732	8498	56597	2084

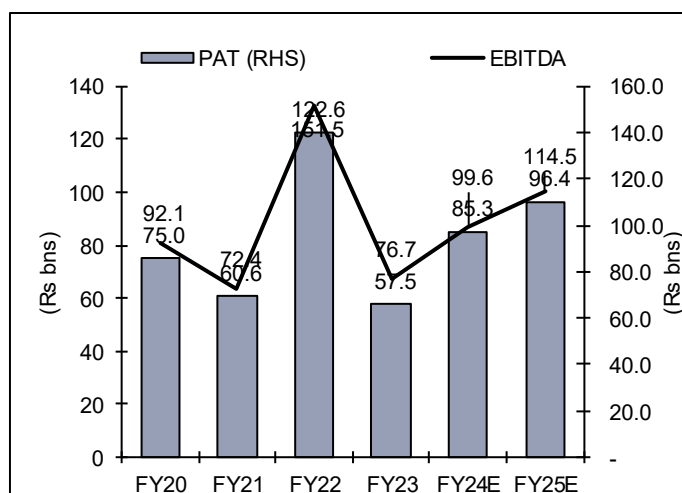
Source: Company data, I-Sec research

Chart 15: Petrochemical EBITDA may improve gradually over FY23-FY25E

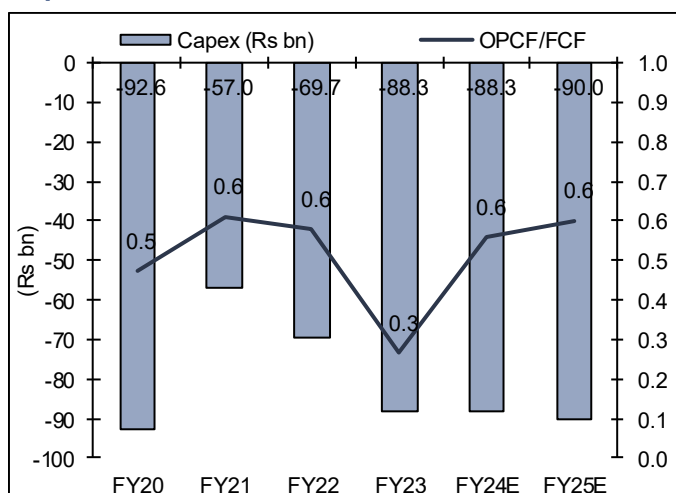
Source: Company data, I-Sec research.

Chart 16: LPG production EBITDA to remain muted over FY23-FY25E

Source: Company data, I-Sec research.

Chart 17: EBITDA and PAT may grow at 22-29% CAGR over FY23-FY25E

Source: Company data, I-Sec research.

Chart 18: Strong cashflow to suffice for capex requirements

Source: Company data, I-Sec research.

Valuations unchallenging; maintain BUY with target price of Rs124/sh

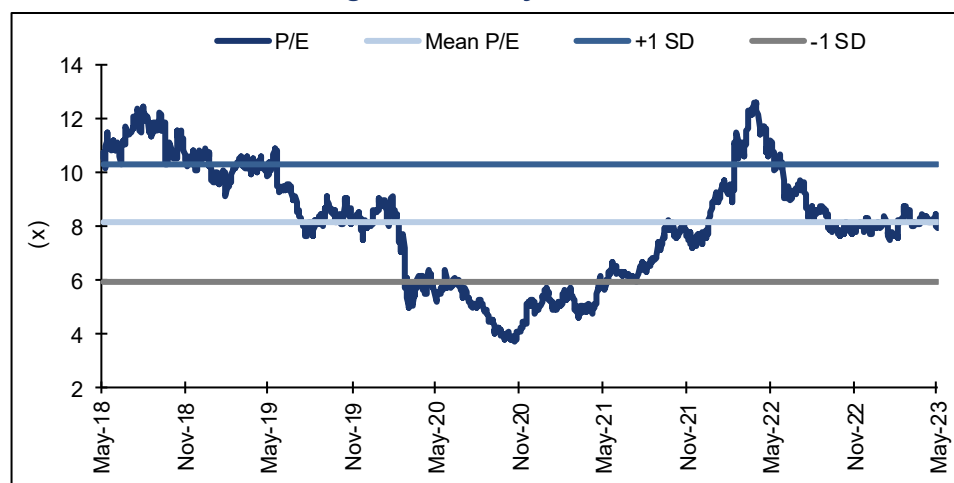
We value GAIL on the basis of FY25E EV/EBITDA multiples of 5x applied to various segments, leading to a target price of Rs124/sh (implying 18% upside). Current valuations of 7.2x FY25E EPS and 6.9x FY25E EV/EBITDA are near 5-year valuation bands. Even at our target price, P/E of 8.4x FY25E EPS, and EV/EBITDA at 5.6x FY25E, are well below peak valuations. Reiterate **BUY**.

Table 3: Valuation summary

Business	Valuation measure used	Valuation		
		Rs bn	Rs/share	Break-up
Gas and LPG Transmission	DCF	308	47	34%
Gas Trading	EV/EBITDA (5x FY25E)	200	30	22%
Petrochemicals	EV/EBITDA (5.5x FY25E)	15	2	2%
LPG & other hydrocarbon production	EV/EBITDA (5.5x FY25E)	76	12	8%
CGD entities other than IGL/MGL	20x FY25E	91	14	10%
Investments	Market value	221	34	24%
Less: Net debt		97	15	
Total		776	124	

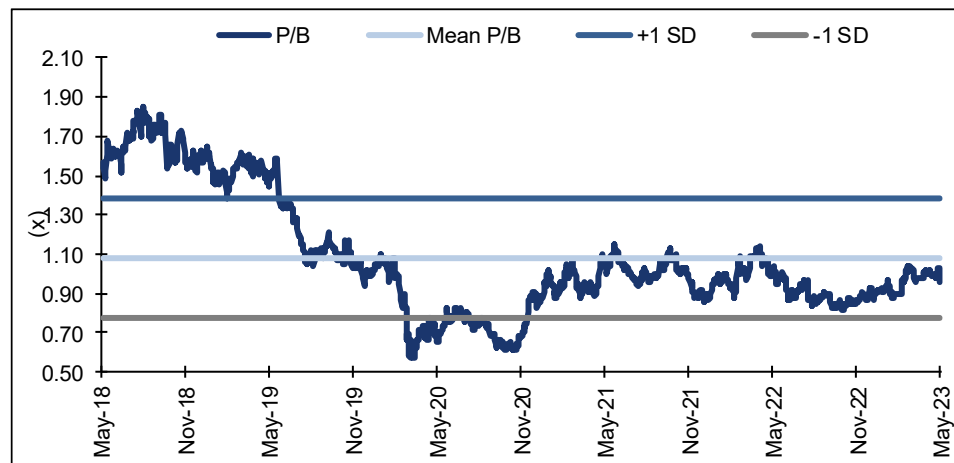
Source: I-Sec research

Chart 19: GAIL P/E trading well near 5-year bands

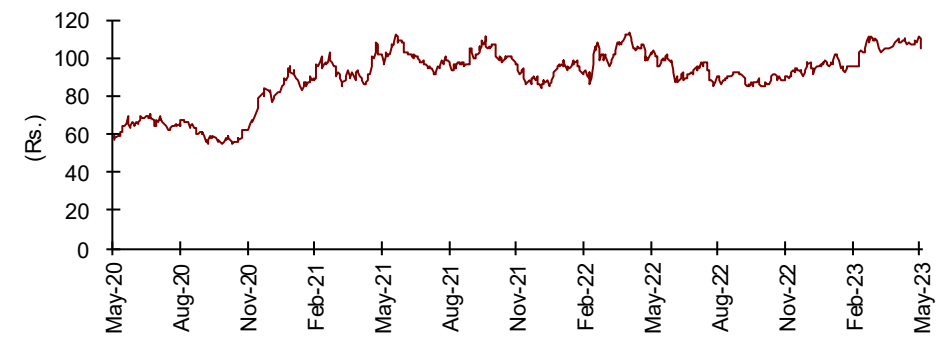


Source: Company data, I-Sec research

Chart 20: GAIL P/B trading well below 5-year bands



Source: Company data, I-Sec research

Price chart

Source: Bloomberg

Financial summary

Table 4: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Operating Income				
(Sales)	9,27,698	14,56,683	10,99,659	11,40,843
Operating Expenses	7,76,182	13,81,803	10,00,025	10,26,326
EBITDA	1,51,516	76,680	99,634	1,14,517
% margins	16%	5%	9%	10%
Depreciation & Amortisation	24,202	27,016	28,265	31,365
Gross Interest	2,025	3,666	142	-2,847
Other Income	11,723	13,285	12,338	11,896
Recurring PBT	1,37,012	57,483	83,565	97,894
Less: Taxes	31,599	16,605	21,033	24,640
Net Income (Reported)	1,22,561	57,507	85,315	96,382
Recurring Net Income	1,22,561	57,507	85,315	96,382

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Assets				
Total Current Assets	1,35,231	1,94,277	1,72,078	1,79,578
Total Current Liabilities & Provisions	1,41,624	2,04,625	2,17,484	2,33,259
Net Current Assets	-6,393	-10,348	-45,406	-53,681
Investments	2,01,898	2,09,067	2,09,067	2,09,067
Net Fixed Assets	6,00,625	6,63,434	7,25,168	7,58,803
Capital Work-in-Progress	1,54,904	1,66,465	1,66,465	1,66,465
Total Assets	8,24,170	8,73,183	8,79,009	9,07,516
Liabilities				
Borrowings	92,157	1,78,162	1,24,974	89,974
Equity Share Capital	44,404	65,751	65,751	65,751
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	5,96,936	5,83,521	6,42,535	7,06,042
Net Worth	6,41,343	6,49,274	7,08,289	7,71,796
Total Liabilities	8,24,170	8,73,183	8,79,009	9,07,516

Source: Company data, I-Sec research

Table 8: Quarterly trend

(Rs mn, year ending March 31)

	Jun-22	Sept-22	Dec-22	Mar-23
Net sales	3,75,625	3,84,786	3,53,654	3,28,432
% growth (YoY)	39.3%	2.4%	-8.1%	-7.1%
Adj EBITDA	43,657	17,647	2,613	4,872
EBITDA Margin (%)	11.6%	4.6%	0.7%	1.5%
Other income	1,798	7,988	6,889	10,172
Add: Extraordinaries				
Adj Net profit	29,152	15,371	2,457	7,382

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Operating Cashflow before working capital changes	1,64,613	82,475	99,634	1,14,517
Working Capital Changes	(35,485)	(34,291)	35,058	8,275
Operating Cashflow	96,286	32,047	1,13,659	98,152
Capital Commitments	(69,713)	(88,306)	(90,000)	(65,000)
Cashflow from Investing Activities	(49,333)	(80,652)	(54,879)	(29,976)
Inc (Dec) in Borrowings	6,258	81,317	(53,188)	(35,000)
Dividend paid	(39,954)	(30,693)	(26,300)	(32,875)
Cashflow from Financing Activities	(39,159)	29,721	(79,630)	(65,028)
Chg. in Cash & Bank balances	7,794	(18,884)	(20,849)	3,147

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Per Share Data (Rs)				
EPS(Basic Recurring)	18.6	8.7	13.0	14.7
Recurring Cash flow per share	22.3	12.9	17.3	19.4
Dividend per share (DPS)	6.1	4.0	4.0	5.0
Book Value per share (BV)	97.5	98.7	107.7	117.4
Growth Ratios (%)				
Operating Income	62%	57%	-25%	4%
EBITDA	109%	-49%	30%	15%
Recurring Net Income	102%	-53%	48%	13%
Diluted Recurring EPS	102%	-53%	48%	13%
Valuation Ratios (x)				
P/E	5.6	12.0	8.1	7.2
P/CFPS	5.4	9.7	7.6	6.6
P/BV	1.1	1.1	1.0	0.9
EV / EBITDA	5.0	11.2	8.3	6.9
EV/FCF	4.6	7.2	3.8	4.4

Operating Ratios

Other Income / PBT (%)	9%	23%	15%	12%
Effective Tax Rate (%)	23%	29%	25%	25%
D/E Ratio (%)	-21%	-6%	-10%	-15%

Return/Profitability Ratios (%)

Recurring Net Income Margins	11%	3%	6%	6%
RoCE	19%	6%	9%	10%
RoNW	21%	9%	13%	13%
Dividend Payout Ratio	33%	32%	21%	23%
Dividend Yield	6%	4%	4%	5%
EBITDA Margins	16%	5%	9%	10%

Source: Company data, I-Sec research

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