

# GAIL

## Oil & Gas | Plant Visit Update

**CMP: Rs176 | Target Price (TP): Rs171 Downside: 3.3%**

**ACCUMULATE**

**March 14, 2024**

## Retain ACCUMULATE as Growth priced in

### Key Points:

- GAIL's Director of Finance, Shri Rakesh Jain and the IR team along with the Vijaipur plant site management hosted sell side and buy side analysts for a 2-day visit to GAIL's Vijaipur site.
- During the Q&A on the Vijaipur presentation, the short Q&A session covered questions on feedstock available for LPG, PATA petrochemicals, and plans for Ethane imports.
- All its ongoing pipeline projects are as per schedule. The Dhamra LNG terminal has started receiving LNG, which is being supplied to customers on JHBDPL.
- The **Gas Marketing segment breaks even at HH of US\$3/mmbtu** (cost) and US\$65/bbl Brent crude (Brent linked selling price). Margins in gas sales volume that is not hedged (around 30%), move up or down based on these two cost and selling price benchmarks. The other margin lever is the LNG shipping cost, which is reduced on cargoes delivered under destination swaps.
- **PNGRB is reviewing compensation for** the higher cost of HTHP gas used in Gas Transmission compressor at US\$9.96/mmbtu vs the old price of US\$3.98 used by PNGRB to calculate this cost. This implies increase in GAIL's Gas Transmission tariff by Rs0.15/scm on a retrospective basis. The hearing has been delayed as a result of the unfortunate demise of a PNGRB member.
- We learned that the fears of government or PNGRB capping pricing or returns in the CGD sector are overstated. GAIL on the sidelines shared its view that the legal challenge to PNGRB's legal authority will continue and the CGD sector will not have any regulatory controls on pricing. On infrastructure exclusivity expiring, it is difficult to allow a new CGD pipeline network developer. Also, the incumbents will fight for the permissible extension of another 8-10 years, as per the PNGRB Act, based on the track record.

We have marginally changed estimates post roll-over to FY26E. We maintain our TP and maintain ACCUMULATE on GAIL as the 53.1% YoY surge in the stock has priced in growth catalysts. Marketing EBITDA moves based on Brent crude price as depicted below:

Brent Vs FY26E Gas Marketing EBITDA	Base case	Up Case	Up Case	Up Case	Down Case
Brent crude US\$/bbl	65.0	75.0	70.0	70.5	60.0
Marketing EBITDA Rs bn	51.6	103.2	77.4	80.0	25.8
GAIL STOP value per share Rs	170	230	200	203	141
Upside/(downside) vs CMP %	-3.3%	30.5%	13.6%	15.3%	-20.0%

Est Change	Upward
TP Change	No Change
Rating Change	No change

### Company Data and Valuation Summary

Reuters	GAIL.BO
Bloomberg	GAIL IN Equity
Mkt Cap (Rsbn/US\$bn)	1,109.2 / 13.4
52 Wk H / L (Rs)	196 / 102
ADTV-3M (mn) (Rs/US\$)	4,807.5 / 57.9
Stock performance (%) 1M/6M/1yr	(1.0) / 35.8 / 53.1
Nifty 50 performance (%)1M/6M/1yr	1.0 / 2.5 / 29.1

Shareholding	1QFY24	2QFY24	3QFY24
Promoters	51.9	51.9	51.9
DILs	26.0	27.0	27.3
FILs	16.1	14.8	14.2
Others	6.0	6.3	6.6
Pro pledge	0.0	0.0	0.0

### Financial and Valuation Summary

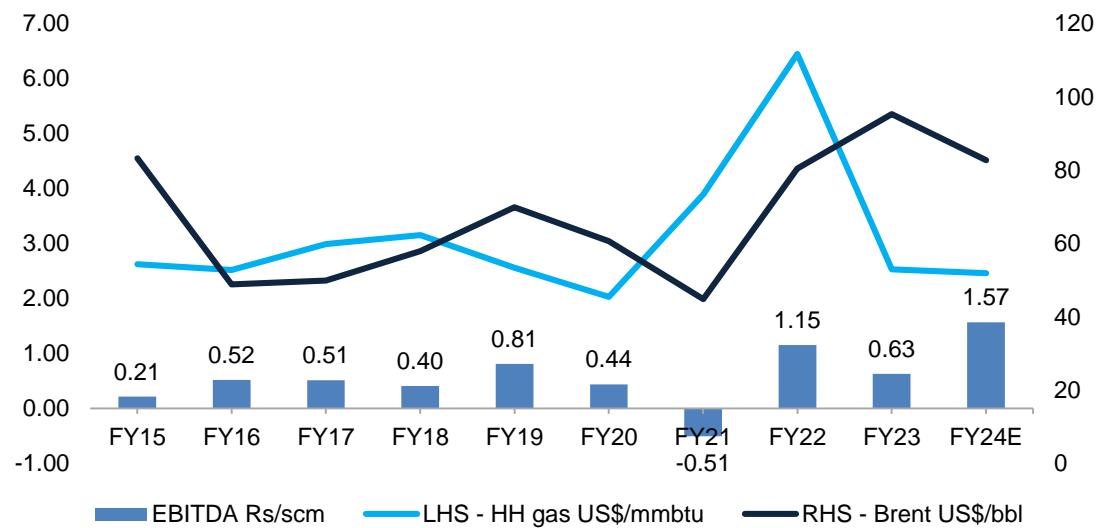
Particulars (Rsmn)	FY23	FY24E	FY25E	FY26E
<b>Revenues</b>	14,42,497	13,24,076	11,03,826	10,69,720
EBITDA	66,989	1,34,654	1,66,114	1,70,747
Net Profit Adj	53,015	1,00,501	1,24,402	1,26,702
<b>EPS (Rs)</b>	<b>8.06</b>	<b>15.29</b>	<b>18.92</b>	<b>19.27</b>
EPS gr (%)	-48.4	89.6	23.8	1.8
EBITDA Margin (%)	4.6	10.2	15.0	16.0
EV/EBITDA	19.8	9.8	8.0	7.8
P/E	21.9	11.5	9.3	9.1
P/BV	2.08	1.89	1.68	1.52
FCF yield/EV %	-2.8	3.3	6.7	5.8
Dividend Yield (%)	2.27	3.69	4.26	4.82
Post-tax RoCE (%)	4.3	10.0	11.8	11.1
<b>RoE (%)</b>	<b>9.5</b>	<b>17.2</b>	<b>19.1</b>	<b>17.5</b>

Source: Company, Nirmal Bang Institutional Equities Research

Street estimate Rs	FY24E	FY25E	FY26E
EPS	14.04	14.63	15.64

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

**Exhibit 1: Gas Marketing EBITDA vs Brent and HH gas cost**


Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

**SSLNG: Project cost Rs1.5bn; capacity 36tpd**

There are two trains of 18tpd each, which operate as per requirement -36 tankers (18 tonnes each) have been dispatched since Nov'23.

**Green Hydrogen project:** Investment of Rs2.31bn has been made. This includes a 10MW solar power project and two electrolyzers of 5MW each - expected to be ready by 1QFY25. This is based on Polymer Exchange Membrane (PEM) process, which offers the highest purity of Hydrogen. This can produce 2,000scm/hr or 180kg/hr of hydrogen ~4.3tpd, this has an associated deionized water unit.

**Positives:** GAIL's growth prospects, are supported by healthy volume growth in Gas Transmission and bright outlook for Gas Marketing. Policy enablers, gas demand CAGR of 5.5-6% and visibility in gas availability/lower gas costs are added catalysts. Potential increase in tariff to compensate increase in the cost of gas used in compressors implies upside in Gas Transmission margin/unit of ~10%.

**Concerns:** Potential volatility in gas cost/supplies and uncertain pricing/margin outlook for Petchem/LPG&HC, especially the likely increase in PP capacity in India/Asia, imply potential pressure on the Petchem segment margins in FY26E when GAIL's PP project is due to start (by 1HFY26). GAIL's PTA plant buyout under its subsidiary could earn sub-par returns over the lead time required to achieve profitable operations - due to the weak fundamentals as well as competition in PTA and GAIL's lack of experience in PTA business. Also, Gas Marketing looks to have hit an interim peak post the surge in YTDFY24.

### Other points from Q&A and discussions during plant visit

**GAIL's Vijaipur site houses the HVJ pipeline hub and LPG & HC plants**, along with other initiatives in Green Hydrogen, Solar Power and small-scale LNG plants (SSLNG). It is the largest among all operating sites of GAIL. **The nearby NFL gas based fertilizer unit in Guna and the Kota unit of Chambal Fertilizers & Chemicals are among the large customers who draw NG (4.3mmscmd/6.3mmscmd each)** along the HVJ pipeline, which is monitored and regulated at this site.

- **The Vijaipur site presentation** was followed by a short Q&A session that covered questions on feedstock available for LPG, PATA petrochemicals and plans for Ethane imports. As the GAIL management was focused on explaining local site operations, there was no discussion about GAIL's business outlook.

#### Gas feedstock for LPG and Petchem

- Rich gas for LPG (C3/C4) is capped at current volumes of APM gas from ONGC. There is no scope to increase LPG and HC production further.
- Petrochemicals feedstock is based on rich gas available from ONGC and some parcels of LNG which also have rich gas.
- The Rich gas composition is C2-6%, C3-2% & C4-0.5% and the rest is Methane.
- The gas becomes lean gas – mostly Methane – once the rich fractions are extracted – C2 for PATA Petchem and C3/C4 for LPG.
- Gas feedstock for Petchem – 14mmscmd of rich gas is supplied to PATA through HVJ; this includes 2mmscmd of 100% C2/CE extracted in the C2/C3 extraction unit at Vijaipur and mixed with 12mmscmd of rich gas. The overall C2/C3 composition of this blended rich gas is 15-17%.
- The source of C2/C3 is ~20-25% and is ONGC's rich gas while the rest is extracted from the portfolio of imported LNG cargoes, as per C2/C3 composition available for Petrochemicals.
- **Gas required for LPG -500scm per tonne of LPG**, in energy value – 50-54mmbtu per tonne of LPG.

#### Ethane sourcing

- The company has plans to import Ethane to enhance Petchem feedstock sourcing at a competitive cost, but the Ethane sourcing plan is still work in progress.

#### **GAIL's exchange filing on (March 07, 2024)**

“GAIL, ONGC and Shell Energy India sign tripartite MoU to explore opportunities for import of ethane and other hydrocarbons”

“GAIL (India) Limited, Oil and Natural Gas Corporation (ONGC) and Shell Energy India (SEI) Private Limited today signed a tripartite Memorandum of Understanding (MoU) to explore opportunities for import of ethane and other hydrocarbons and development of evacuation infrastructure at Shell Energy Terminal, Hazira.”

- **The Dhamra LNG terminal has started receiving LNG**, which is being supplied to customers on JHBDPL.
- All its ongoing pipeline projects are as per schedule.

**Exhibit 2: GAIL standalone performance analysis**

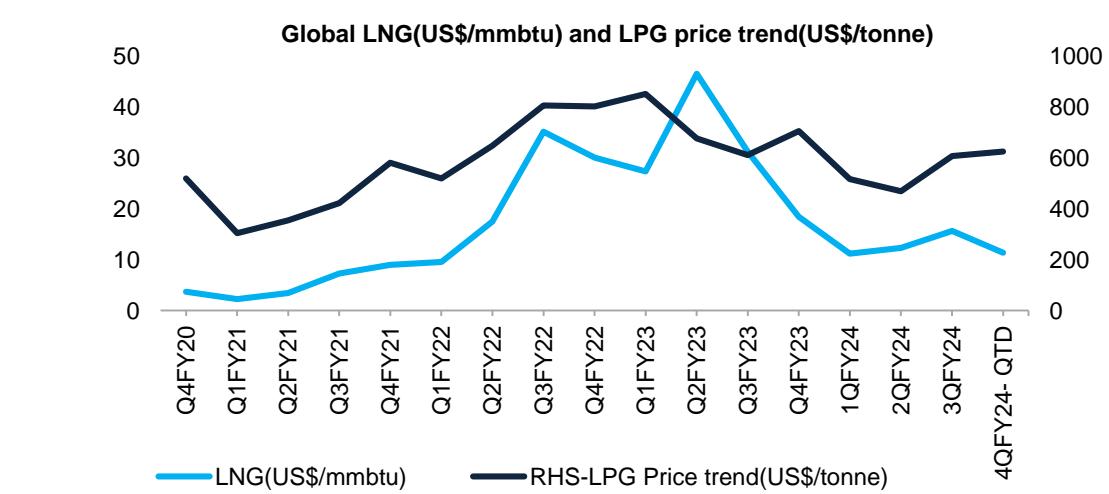
Particulars (Rsmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24E	FY23	FY24E
<b>Net Sales</b>	<b>3,75,625</b>	<b>3,84,786</b>	<b>3,53,654</b>	<b>3,28,432</b>	<b>3,22,121</b>	<b>3,18,068</b>	<b>3,42,365</b>	<b>3,41,523</b>	<b>14,42,497</b>	<b>13,24,076</b>
YoY Change (%)	116.1	78.9	37.2	21.8	-14.2	-17.3	-3.2	4.0	322.4	-8.2
<b>Gross Profit</b>	<b>61,223</b>	<b>36,967</b>	<b>24,676</b>	<b>30,872</b>	<b>49,092</b>	<b>57,708</b>	<b>64,701</b>	<b>67,769</b>	<b>1,53,738</b>	<b>2,39,270</b>
Margin (%)	16.3	9.6	7.0	9.4	15.2	18.1	18.9	19.8	10.7	18.1
<b>EBITDA</b>	<b>43,657</b>	<b>17,647</b>	<b>2,613</b>	<b>3,072</b>	<b>24,327</b>	<b>34,913</b>	<b>38,226</b>	<b>37,189</b>	<b>66,989</b>	<b>1,34,654</b>
YoY Change (%)	81.1	-49.2	-93.8	-91.7	-44.3	97.8	1,362.7	1,110.7	80.1	101.0
Margin (%)	11.6	4.6	0.7	0.9	7.6	11.0	11.2	10.9	4.6	10.2
Depreciation	6,030	6,194	6,226	6,432	6,358	7,503	7,843	-191	24,881	21,512
Interest	481	683	1,050	903	1,758	1,718	1,564	3,741	3,117	8,782
Other income	1,798	7,988	6,889	10,172	2,676	5,609	8,121	10,422	26,873	26,828
Extraordinary Items	-	-	-	-	-	-	-	-	-	-
<b>PBT (bei)</b>	<b>38,944</b>	<b>18,759</b>	<b>2,227</b>	<b>5,909</b>	<b>18,887</b>	<b>31,301</b>	<b>36,940</b>	<b>44,061</b>	<b>65,864</b>	<b>1,31,189</b>
<b>PBT</b>	<b>38,944</b>	<b>18,759</b>	<b>2,227</b>	<b>5,909</b>	<b>18,887</b>	<b>31,301</b>	<b>36,940</b>	<b>44,061</b>	<b>65,864</b>	<b>1,31,189</b>
Tax	9,792	3,388	-231	-127	4,767	7,252	8,514	10,155	12,823	30,688
Rate (%)	25.1	18.1	-10.4	-2.1	25.2	23.2	23.0	23.0	19.5	23.4
Reported PAT	29,152	15,371	2,457	6,035	14,120	24,049	28,426	33,906	53,041	1,00,501
<b>Adj. PAT</b>	<b>29,152</b>	<b>15,371</b>	<b>2,457</b>	<b>6,035</b>	<b>14,120</b>	<b>24,049</b>	<b>28,426</b>	<b>33,906</b>	<b>53,041</b>	<b>1,00,501</b>
YoY Change (%)	90.5	-46.3	-92.5	-77.5	-51.6	56.5	1,056.8	461.8	56.4	89.5
<b>Adj. EPS</b>	<b>4.4</b>	<b>2.3</b>	<b>0.4</b>	<b>0.9</b>	<b>2.1</b>	<b>3.7</b>	<b>4.3</b>	<b>5.2</b>	<b>8.1</b>	<b>15.3</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: India's segment-wise monthly gas consumption trend – mmscmd**

Segment	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep'23	Oct' 23	Nov' 23	Dec' 23	Jan' 24
Fertiliser	56.7	56.5	51.9	54.1	57.4	53.3	53.7	57.4	53.8	53.7	57.3	58.9	61.1	61.0	60.2	61.8
Power	19.5	21.6	21.8	21.2	21.1	21.0	24.4	26.5	27.6	23.3	31.6	27.4	25.3	18.8	20.4	24.4
City gas	30.4	31.9	32.3	32.0	34.4	35.4	34.7	34.6	34.8	35.6	36.1	36.3	40.9	36.4	38.1	37.5
Refinery	8.0	10.0	9.5	9.8	9.9	10.1	11.2	15.3	14.4	15.9	16.7	15.9	15.9	15.5	15.2	15.7
Petchem	3.3	4.4	6.1	5.6	5.5	8.0	8.5	8.0	5.6	7.1	7.3	6.9	7.4	7.0	7.8	7.4
Other+ losses	33.8	32.9	32.2	35.4	32.7	35.9	34.9	34.6	43.3	44.0	49.0	47.2	47.4	48.7	48.3	48.6
<b>Total</b>	<b>151.7</b>	<b>157.3</b>	<b>153.8</b>	<b>158.1</b>	<b>161.0</b>	<b>163.7</b>	<b>167.4</b>	<b>176.4</b>	<b>179.5</b>	<b>179.5</b>	<b>197.9</b>	<b>192.7</b>	<b>198.1</b>	<b>187.4</b>	<b>189.9</b>	<b>195.5</b>

Source: PPAC, Nirmal Bang Institutional Equities Research

**Exhibit 4: Global LNG and LPG price trend**


Source: Bloomberg, Nirmal Bang Institutional Equities Research

## Rating Rationale

Healthy gas demand growth, supported by infrastructure expansion and policy support.

GAIL as a market leader will be a key beneficiary.

- GAIL's new integrated tariff offers upside in Gas Transmission earnings as the unified tariff proposal is positive for long-term volume expansion in the Indian gas market.
- **GAIL is leader in Gas Transmission and Gas Marketing** – GAIL has 74% market share in Gas Transmission and 60% market share in Gas Marketing. Therefore, GAIL is likely to benefit from the resultant growth in Gas Transmission and Gas Trading segments' volume, which could boost earnings from these segments. This is a potential upside in GAIL's earnings.
- **Return ratios from Gas Transmission business are likely to improve in the long term** towards the normal post-tax return of 12%, which the regulator has built into the approved tariff for GAIL's pipelines. This is likely to be driven by transmission capacity utilisation improving from past average of 52-53% to 60% by FY26-end and towards the 75% norm used by the PNGRB to fix tariff.
- Benign gas supply and pricing
  - The stable price for APM gas capped at US\$6.5/mmbtu(GCV).
  - This along with the increase in HTHP gas supply at US\$9.96/mmbtu and the correction in spot LNG prices (YTD JKM LNG price down 59.6%) are also positive for Indian gas consumption growth. YTDFY24 gas consumption is up 19% YoY at 186.5mmscmd.
- YTDFY24 LNG consumption is up 24.9% YoY.
- Gazprom supply revival from 1QFY24 and the correction in LNG prices to under US\$12/mmbtu to spur gas demand growth - positive for Gas Transmission/Gas Marketing.
- FY24E-FY26E volume CAGR – 9.2%/13.1% in Gas Transmission/Gas Marketing; EPS CAGR of 12.3%.
- Positive risk-reward at current valuation on P/BV (FY26E P/BV of 1.52x) vs. potential increase in future RoE - from 9.5% in FY23 to 19.1%/17.5% by FY25E/FY26E.
- SOTP-based TP of Rs170 (based on DCF value for Gas Transmission and Mar'26 EV/E of 6x for Gas Marketing, 5x for Petchem and 5x for LPG & HC & Other segments). The stock trades at 9.14x P/E on March'26E.

### Key risks:

- Potential risk of a reversal in the commodity cycle, which could hurt Gas Marketing, Petchem and LPG & HC segments - combined share at 39% of GAIL's EBITDA (FY23).
- The recent success in its bid for the failed PTA project JBF Petrochem at an aggregate capital commitment of more than Rs40bn. We believe that the PTA business is likely to pose challenges in terms of: (i) Weak fundamentals due to subdued demand for PTA/Polyester, and (ii) GAIL having to develop the market as it has to deal with established competition from market leader RIL (Not Rated), IOC and others – **please see our discussion below on of GAIL Mangalore Petrochemicals Ltd (GMPL)**.
- Regulatory and policy risks in terms of potential downside in regulated tariffs and execution risk in projects.
- Petchem and LPG & HC segments are cyclical and still vulnerable to a fresh slowdown in demand, which can hurt margins. Any short-term or cyclical decline in product prices can also hit Petchem and LPG & HC earnings as gas prices do not move in tandem, especially the cheaper domestic gas allocated for LPG.

- The new PDPP petchem project could start operation in the next two years when we expect a glut in the market. This is due to new supply likely from several new projects underway through PDPP and traditional naphtha - ethylene crackers/oil to chemicals projects integrated with downstream polymers including PP.

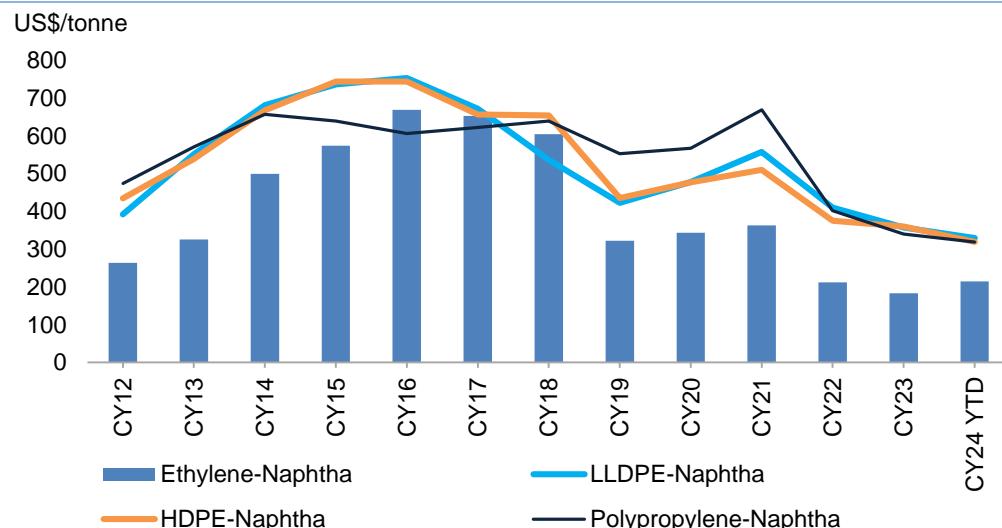
**GAIL Mangalore Petrochemicals Ltd:**

- This is GAIL's new subsidiary that has taken over JBF's 12,50,000TPA PTA plant through the NCLT auction of this sick asset at a cost of Rs21bn.
- GAIL plans to spend another Rs20bn, which is required to renew the plant that has been shut for the last few years. Post this capex, GAIL's total investment on this PTA plant acquisition will be Rs41bn, which could increase further to the extent of any additional promoter funding for core working capital, not financed by banks.
- The management expects to start the PTA plant post renewal by March'25.
- GAIL expects utilisation of ~80-90% in the first year (likely by FY26).

**NBIE first cut view on the PTA plant acquisition:**

- Earnings would depend on PTA - Paraxylene spread, Acetic Acid cost and other consumables and fixed opex, which are a bit cloudy as on date. PTA spreads were under pressure in CY23, due to weak global polyester fundamentals, whose fortunes are intertwined to a great extend with: (a) China's GDP/Polyester demand and (b) Asian and global demand/supply balance – (i) in the feedstock paraxylene and (ii) in the product PTA used in polyester yarn/fibre and PET.
- The paraxylene supply is related to the fungibility of aromatic xylene feed from a refinery between gasoline blending and for xylene extraction, which depends on gasoline spread vs xylene margins. As on date, Paraxylene markets are reported to be tight and PTA market is under pressure due to weaker demand and spreads over paraxylene.

The PTA project will require PTA-PAREX spread of at least US\$325 (INRUSD-88) and utilization of 90% to achieve pre-tax ROCE of at least 12.5%.

**Exhibit 5: Long term trend in Ethylene and Polymer spreads**


Source: Bloomberg, Nirmal Bang Institutional Equities Research

## Earnings and TP revision

We have raised EPS forecast for FY25E/FY26E by 4.5%/1.9% based on revised Revenue and EBITDA estimates. We have cut our SOTP-based TP a tad to Rs170, after rolling over to FY26E, using DCF method for Gas & LPG Transmission and left unchanged EV/E for other segments. The TP implies FY26E P/E of 8.8x.

### Exhibit 6: Revised assumptions and earnings for GAIL

Rs Mn	Earlier estimate			Revised estimate			Revision %		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Gas transmission mm scmd	120.18	132.58	143.34	120.18	132.58	143.34	0.0	0.0	0.0
Gas marketing mm scmd	98.44	112.19	125.94	98.44	112.32	125.64	0.0	0.1	-0.2
Petchem Mn tonne	0.73	0.80	0.80	0.73	0.80	0.80	0.0	0.0	0.0
LPG transmission mm tpa	4.38	4.51	4.64	4.38	4.51	4.64	0.0	0.0	0.0
LPG and HC mn tonne	0.99	1.04	1.09	0.99	0.99	0.99	0.0	-4.8	-9.1
Revenue	<b>13,24,076</b>	<b>10,47,692</b>	<b>10,33,184</b>	<b>13,24,076</b>	<b>11,03,826</b>	<b>10,69,720</b>	<b>0.0</b>	<b>5.4</b>	<b>3.5</b>
EBITDA	<b>1,34,654</b>	<b>1,60,459</b>	<b>1,72,719</b>	<b>1,34,654</b>	<b>1,66,114</b>	<b>1,70,747</b>	<b>0.0</b>	<b>3.5</b>	<b>-1.1</b>
EBITDA margin (%) * PAT	10.2	15.3	16.7	10.2	15.0	16.0	0.0	-26.6	-75.5
EPS	<b>15.33</b>	<b>18.10</b>	<b>18.91</b>	<b>15.29</b>	<b>18.92</b>	<b>19.27</b>	<b>-0.3</b>	<b>4.5</b>	<b>1.9</b>
TP	171			170			-0.4		

Source: Nirmal Bang Institutional Equities Research. Note \*- change in EBITDA margin in bps

### Exhibit 7: Revised segment revenue assumptions for GAIL

Rs Mn	Earlier estimate			Revised estimate			Revision %		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Natural Gas transmission	96,594	1,06,272	1,14,890	96,594	1,06,272	1,14,890	0.0	0.0	0.0
LPG Transmission	7,220	7,425	7,648	7,220	7,425	7,648	0.0	0.0	0.0
Natural Gas Trading	10,85,818	7,93,300	7,61,713	10,85,818	8,30,192	7,80,168	0.0	4.7	2.4
Petrochemicals	71,908	72,206	79,223	71,908	86,099	98,300	0.0	19.2	24.1
LPG & Other Liquid Hydro Carbons	42,849	48,801	50,022	42,849	54,150	49,027	0.0	11.0	-2.0
Other segment (CGD, POWER, E&P, GAIL TEL)	19,687	19,687	19,687	19,687	19,687	19,687	0.0	0.0	0.0

Source: Nirmal Bang Institutional Equities Research

### Exhibit 8: Revised segment EBITDA assumptions for GAIL

Rs Mn	Earlier estimate			Revised estimate			Revision %		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Natural Gas transmission	51,506	69,197	74,808	51,506	69,197	74,808	0.0	0.0	0.0
LPG Transmission	4,020	4,657	4,797	4,020	4,657	4,797	0.0	0.0	0.0
Natural Gas Trading	56,322	49,141	55,162	56,322	50,993	51,599	0.0	3.8	-6.5
Petrochemicals	2,386	9,383	9,300	2,386	7,556	10,955	0.0	-19.5	17.8
LPG & Other Liquid Hydro Carbons	7,376	10,958	11,530	7,376	16,589	11,467	0.0	51.4	-0.5
Other segment (CGD, POWER, E&P, GAIL TEL)	13,045	17,122	17,122	13,045	17,122	17,122	0.0	0.0	0.0

Source: Nirmal Bang Institutional Equities Research

**Exhibit 9: SOTP-based TP revision**

			Revised		Previous	
	method	multiple	EBITDA	EV Rsmn	EBITDA	EV Rsmn
Gas/LPG transportation	DCF	Na	Na	5,40,741	Na	5,07,379
Gas trading	EV/E	6.0	51,599	3,09,591	53,657	3,21,939
Petrochemicals	EV/E	5.0	10,955	54,773	9,321	46,606
LPG and Hydrocarbons	EV/E	5.0	11,467	57,333	11,387	56,934
Others segment	EV/E	5.0	17,122	85,609	17,122	85,609
<b>GAIL core business EV</b>			<b>91,142</b>	<b>10,48,047</b>	<b>91,486</b>	<b>10,18,467</b>
Net debt				1,44,874		1,01,349
<b>Equity value- GAIL core business</b>				<b>9,03,173</b>		<b>9,17,118</b>
Value per share				Rs		Rs
GAIL core business				137		139
GAIL Gas+investments				42		41
<b>GAIL valuation excluding risk</b>				<b>179</b>		<b>180</b>
<i>Discount -Regulatory and policy risk</i>				-9		-9
<b>GAIL TP</b>				<b>170</b>		<b>171</b>

Source: Nirmal Bang Institutional Equities Research

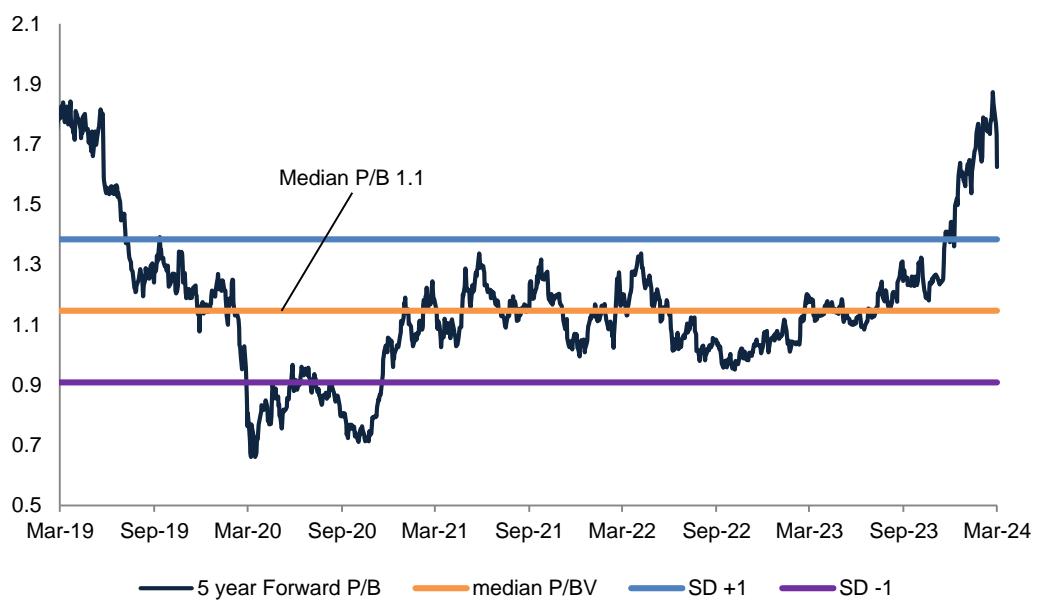
**Exhibit 10: GAIL operating assumptions**

Segment volumes	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Gas transmission mmscmd	108.00	104.18	110.96	107.29	120.18	132.58	143.34
Gas marketing mmscmd	96.00	89.18	96.23	94.93	98.44	112.32	125.64
Petchem mn tonne	0.74	0.87	0.79	0.40	0.73	0.80	0.80
LPG transmission mn tonne	3.91	4.16	4.19	4.34	4.38	4.51	4.64
LPG and HC mn tonne	1.26	1.14	1.00	0.93	0.99	0.99	0.99

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: Long-term P/E chart**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: Long-term P/B chart**


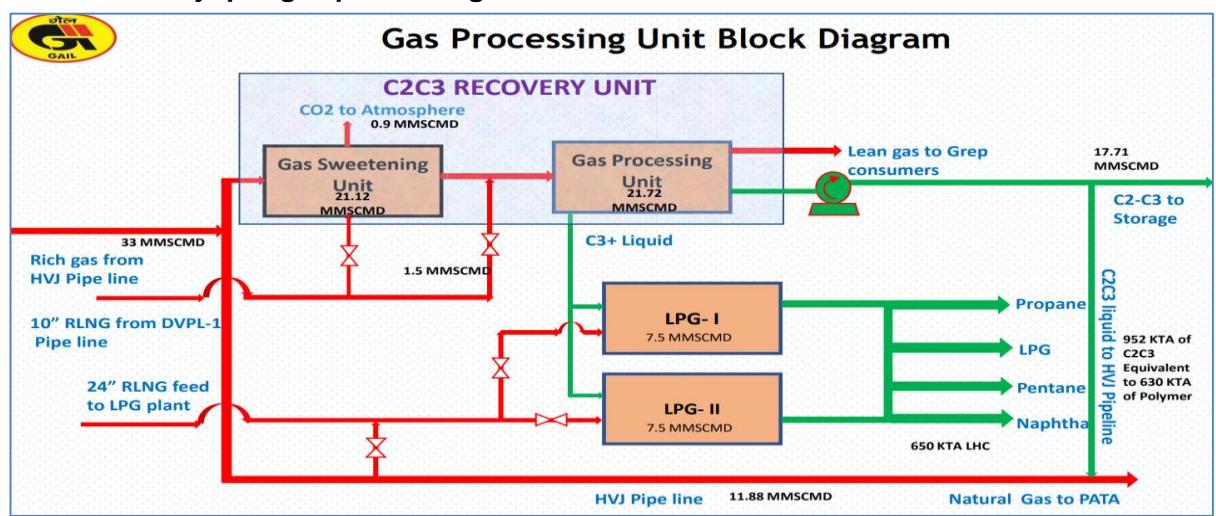
Source: Company, Nirmal Bang Institutional Equities Research

## Annexure 1: GAIL Vijaipur site in numbers

### Vijaipur site share in GAIL's Gas Transmission and gas network

- GAIL contributes more than 74% to the Natural gas transmission share in India.
- **GAIL Vijaipur accounts for ~60% of its overall natural gas transmission network.**
- GAIL operates the largest gas pipeline network of ~16,080KM.
- **GAIL's Central Region operates ~50% (6,888KM) of the company's overall pipeline network.**

### Exhibit 13: Vijaipur gas processing



Source: GAIL site visit PPT, Nirmal Bang Institutional Equities Research

### Exhibit 14: Vijaipur site in numbers

Description	Nos	Remarks
HVJ pipeline system	6,195 km	1. HVJ integrated network 2. Recently commissioned 3. VAPL: 36"**352 km
Regional pipeline	693 km	Regional pipeline network, Vadodara
<b>Total</b>	<b>6,888 km</b>	<b>HVJ &amp; Regional combined</b>
Compressor stations	8	Hazira, Vaghodia, Jhabua, Khera, Vijaipur, Dibiyapur, Kailaras & Chhainsa
Other work centers/maintenance bases	13	Vadodara, Dahej, Undera, Bharuch, Pithampur, Gadepan, Kota & Chittorgarh, Agra, Firozabad, Malanpur and Jhansi
Major gas sources	82mmscmd	1. ONGC: 25 MMSCMD 2. PLL DAHEJ: 45 MMSCMD 3. PIL ANKOT: 3 MMSCMD 4. Shell Hazira: 4 MMSCMD 5. CBM Shadol: 0.5 MMSCMD 6. ONGC Ankleswar/Gandhar and other regional sources: 4 MMSCMD
Major customers	36mmscmd	KRIBHCO: Hazira, NFL Vijaipur, CFCL, DCM, YARA, Indorama, IFFCO, Kribhco Shyam Fertilizers Ltd, Kanpur Fertilizer & Cement Ltd, IOCL, OPAL, GSFC, GNFC
Gas processing plants	3 GPU 1 C2C3	2 LPG plants at Vijaipur: 15 MMSCMD 1 LPG plant at Vaghodia: 2.5 MMSCMD 1 C2C3 Recovery at Vijaipur: 22.6 MMSCMD
Recent CGD activity (including under progress)	34	Rajasthan, MP & UP <b>Entities:</b> IOCL, Torrent, Adani, CUGL, GAIL gas, AGL, IOAGL, Think Gas, Green Gas, HPCL, RSGL

Source: GAIL site visit PPT, Nirmal Bang Institutional Equities Research

**Exhibit 15: Vijaipur gas processing capacity**

Particulars	LPG TR-11	LPG TR-12	C2C3	SSLNG
Established	1991	1992	2015	2023
Capacity	7.5 MMSCMD	7.5 MMSCMD	22.62 MMSCMD	36 MTPD
Products	LPG, Propane, Pentane and Naphtha	LPG, Propane, Pentane and Naphtha	C2C3, LPG, Propane, Pentane and Naphtha	LNG

Source: GAIL site visit PPT, Nirmal Bang Institutional Equities Research

**Exhibit 16: New Green Hydrogen and Solar Power projects in Vijaipur**

Particulars	Description	Capacity	Investment (Rsbn)
Green hydrogen plant	Clean Energy	4.3 TPD	Rs2.3bn
Ground mounted solar project	Reducing Carbon Emissions	10 MW	Rs0.63bn
Floating solar power plant		7.8	Rs0.63bn

Source: GAIL site visit PPT, Nirmal Bang Institutional Equities Research

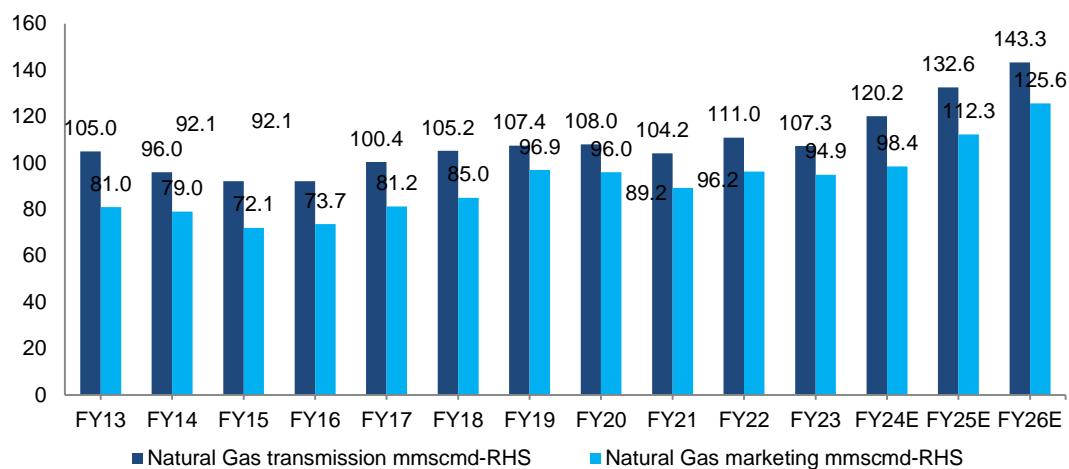
**Exhibit 17: GAIL'S Roadmap to 'net zero' initiatives**

Operational Decarbonization	<ol style="list-style-type: none"> <li>Bringing energy efficiency measures equivalent 20 MMSCM fuel up to 2040.</li> <li>20 % Hydrogen blending and replacing 80 MMSCM natural gas.</li> <li>Conversion of Gas turbines into electric drives equivalent 110 MMSCM fuel up to 2040.</li> <li>Rerouting entire flare and NG venting into fuel.</li> </ol>
Energy Transition	<ol style="list-style-type: none"> <li>Booking of Compressed Bio gas, setting up compressed bio gas plant equivalent 120 MMSCM.</li> <li>Procuring power through long term renewable energy contracts.</li> <li>Replacing entire Gas based Power generation to solar and non-solar renewable energy.</li> </ol>
Carbon capture, Utilization & storage	<ol style="list-style-type: none"> <li>Utilization of direct vented CO2 (approx. 420 TMT) into production of specialty chemicals, production of urea under carbon capture storage and utilization projects.</li> </ol>
Offsetting	<ol style="list-style-type: none"> <li>Maintaining 1 Lacs mature trees and increasing size to 1.2 Lacs trees up to 2040.</li> <li>Exploring carbon credit markets and offsetting 50,000 TCo2e via carbon credit purchase route.</li> </ol>

Source: GAIL site visit PPT, Nirmal Bang Institutional Equities Research

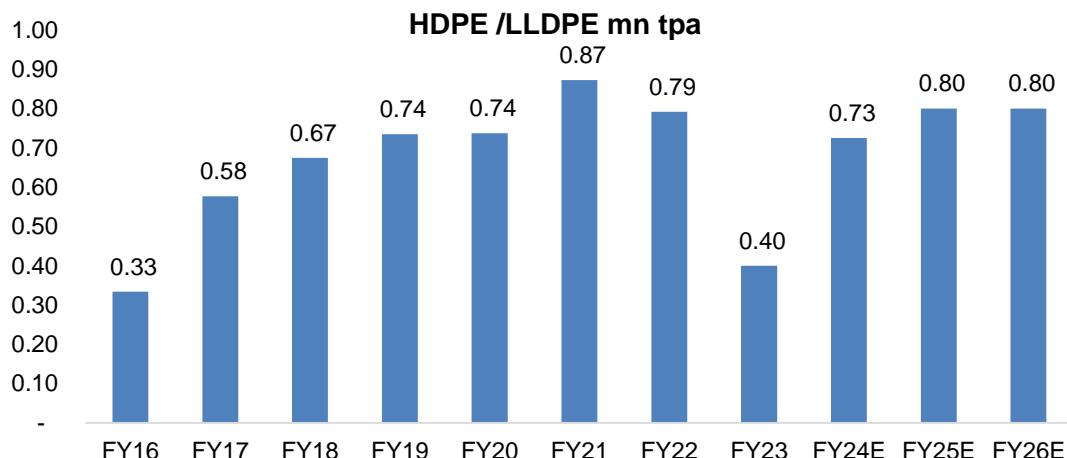
## ANNEXURE II: GAIL in charts

**Exhibit 18: GAIL Gas Transmission and Gas Marketing volume**



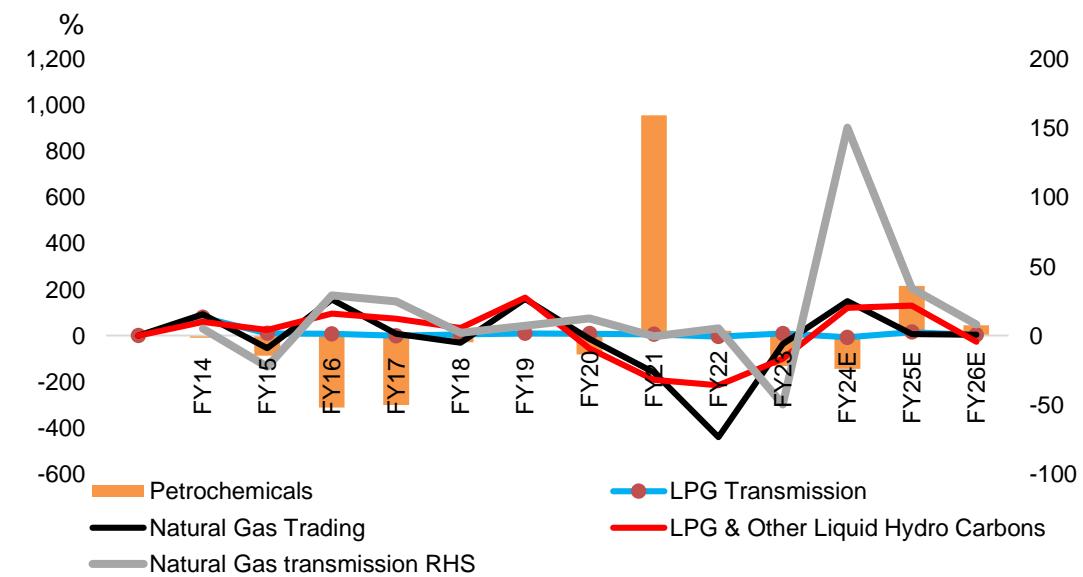
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 19: GAIL Petchem segment sales volume trend**

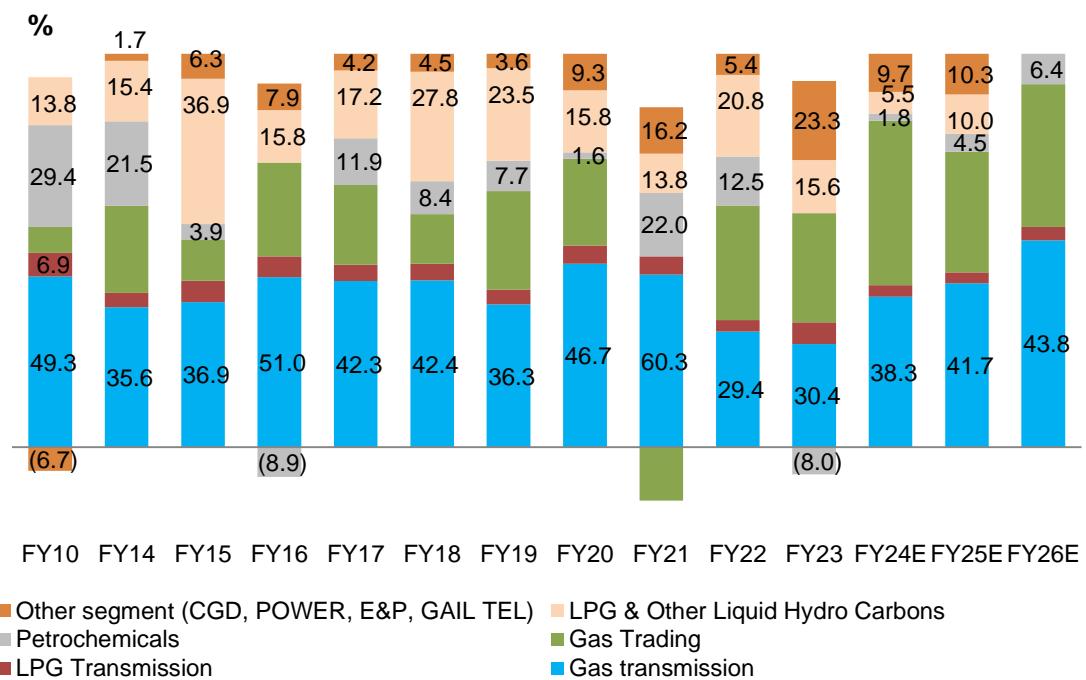


Source: Company, Nirmal Bang Institutional Equities Research

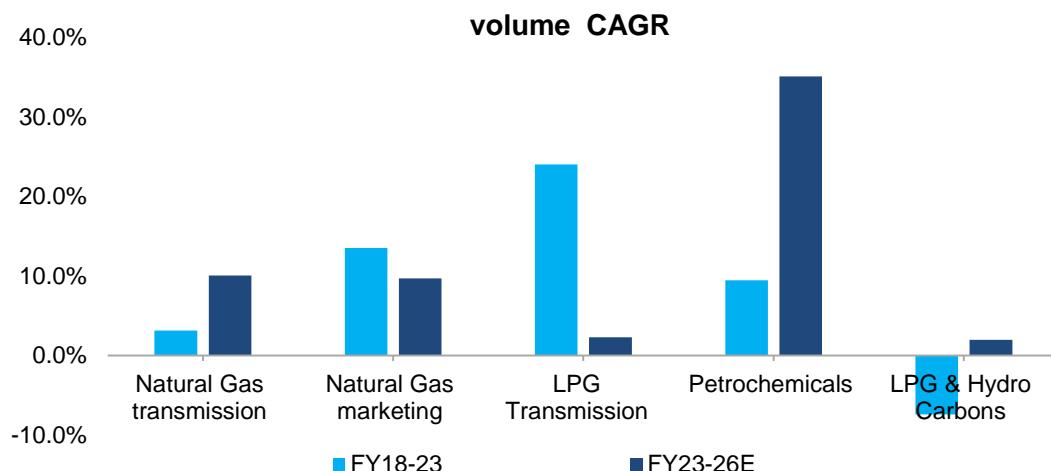
**Exhibit 20: GAIL segment EBITDA growth (%)**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 21: GAIL Gas EBITDA split in percentage**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 22: GAIL segment volume CAGR trend**


Source: Company, Nirmal Bang Institutional Equities Research

## Standalone Financials: GAIL

### Exhibit 23: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Revenue</b>	<b>9,16,265</b>	<b>14,42,497</b>	<b>13,24,076</b>	<b>11,03,826</b>	<b>10,69,720</b>
y/y	61.51	57.43	-8.21	-16.63	-3.09
<b>Raw Material Expenses</b>	<b>7,07,822</b>	<b>12,88,759</b>	<b>10,84,805</b>	<b>8,23,246</b>	<b>7,77,179</b>
<b>RM/Sales %</b>	<b>77.3</b>	<b>89.3</b>	<b>81.9</b>	<b>74.6</b>	<b>72.7</b>
<b>Employee cost</b>	<b>17,062</b>	<b>17,738</b>	<b>19,907</b>	<b>21,238</b>	<b>23,347</b>
<b>Other expenses</b>	<b>53,091</b>	<b>69,011</b>	<b>84,709</b>	<b>93,228</b>	<b>98,448</b>
<b>EBITDA</b>	<b>1,38,290</b>	<b>66,989</b>	<b>1,34,654</b>	<b>1,66,114</b>	<b>1,70,747</b>
y/y	114.57	-51.56	101.01	23.36	2.79
Depreciation	21,112	24,881	21,512	22,598	27,781
<b>EBIT</b>	<b>1,17,179</b>	<b>42,109</b>	<b>1,13,143</b>	<b>1,43,516</b>	<b>1,42,966</b>
Interest Expense	1,744	3,117	8,782	10,456	9,404
Other Income	20,469	26,847	26,828	29,328	31,828
<b>PBT (adjusted)</b>	<b>1,35,903</b>	<b>65,838</b>	<b>1,31,189</b>	<b>1,62,388</b>	<b>1,65,391</b>
Income Tax Expense	32,263	12,823	30,688	37,986	38,688
<b>PAT</b>	<b>1,03,640</b>	<b>53,015</b>	<b>1,00,501</b>	<b>1,24,402</b>	<b>1,26,702</b>
<b>EPS (Rs)</b>	<b>15.63</b>	<b>8.06</b>	<b>15.29</b>	<b>18.92</b>	<b>19.27</b>
y/y	111.93	-48.40	89.57	23.78	1.85

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 24: Cash flow

Y/E March (Rsmn): Consolidated	FY22	FY23	FY24E	FY25E	FY26E
<b>PBT</b>	<b>1,35,903</b>	<b>65,838</b>	<b>1,31,189</b>	<b>1,62,388</b>	<b>1,65,391</b>
Add depreciation	21,112	24,881	21,512	22,598	27,781
Other expenses	(5,768)	(16,529)	(18,046)	(18,872)	(22,424)
Change in W/C-inc/(dec)	29,737	30,932	(17,489)	(19,948)	(10,045)
Income tax	31,960	15,178	30,688	37,986	38,688
<b>Cashflow from Operations (A)</b>	<b>89,550</b>	<b>28,080</b>	<b>1,21,455</b>	<b>1,48,077</b>	<b>1,42,104</b>
(Capex)	(59,184)	(74,191)	(78,000)	(79,000)	(85,500)
Investments	13,036	8,658	(172)	19,328	20,828
<b>Free Cash Flow</b>	<b>43,402</b>	<b>(37,453)</b>	<b>43,283</b>	<b>88,405</b>	<b>77,432</b>
<b>Cashflow from Investing (B)</b>	<b>(46,148)</b>	<b>(65,533)</b>	<b>(78,172)</b>	<b>(59,672)</b>	<b>(64,672)</b>
Increase/(Decrease) in borrowings	3,629	79,560	10,263	(8,040)	(33,040)
Other Liab.	(45,477)	(54,045)	(51,520)	(59,769)	(65,292)
<b>Cashflow from Financing (C)</b>	<b>(41,849)</b>	<b>25,515</b>	<b>(41,257)</b>	<b>(67,810)</b>	<b>(98,333)</b>
Ch in Cash and Cash equiv	1,553	(11,938)	2,026	20,595	(20,901)
opg cash	12,122	13,676	1,738	3,764	24,360
<b>closing cash</b>	<b>13,676</b>	<b>1,738</b>	<b>3,764</b>	<b>24,360</b>	<b>3,458</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 25: Balance sheet

Y/E March (Rsmn): Consolidated	FY22	FY23	FY24E	FY25E	FY26E
Total Share Capital	44,404	65,751	65,751	65,751	65,751
Reserves and Surplus	5,11,464	4,90,786	5,48,549	6,23,638	6,94,452
<b>Net worth</b>	<b>5,55,868</b>	<b>5,56,537</b>	<b>6,14,300</b>	<b>6,89,389</b>	<b>7,60,203</b>
Long Term Borrowings	48,301	78,371	1,08,330	98,290	63,249
Grant for JHBDPL	46,760	45,416	45,416	45,416	45,416
Gas pool money	5,819	5,819	5,819	5,819	5,819
Provisions	6,664	7,993	7,993	7,993	7,993
Other long term liab	64,278	63,486	63,486	63,486	63,486
Short Term Borrowings	4,000	45,020	45,020	47,020	49,020
Short term provisions	8,439	8,934	16,191	13,396	13,079
Trade Payables	54,660	72,992	58,042	60,484	58,615
Deposits - Retention money/	12,218	13,895	13,895	13,895	13,895
Other current liabilities	56,400	62,854	49,714	47,085	46,973
<b>Total Capital and Liabilities</b>	<b>8,63,405</b>	<b>9,61,316</b>	<b>10,28,204</b>	<b>10,92,271</b>	<b>11,27,747</b>
Total Asset plus WIP	5,28,523	5,79,698	6,36,186	6,92,588	7,50,308
Non-Current Investments	1,21,209	1,27,888	1,54,888	1,64,888	1,75,888
Long term loans &advances	31,297	33,171	33,171	33,171	33,171
Other Non-Current Assets	33,688	33,026	33,026	33,026	33,026
Current Investments	-	-	-	-	-
Inventories	30,152	52,813	54,414	45,363	35,169
Trade Receivables	73,164	1,03,663	83,435	69,556	67,407
Cash & Cash Equivalents	13,676	1,738	3,764	24,360	3,458
Bank balances	7,174	2,282	2,282	2,282	2,282
Short term loans & advances	991	677	677	677	677
Other Current Assets	23,531	26,361	26,361	26,361	26,361
<b>Total Assets</b>	<b>8,63,405</b>	<b>9,61,315</b>	<b>10,28,204</b>	<b>10,92,271</b>	<b>11,27,747</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 26: Key ratios

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Profitability &amp; return ratios</b>					
EBITDA margin (%)	15.1	4.6	10.2	15.0	16.0
<b>EBIT margin (%)</b>	<b>12.8</b>	<b>2.9</b>	<b>8.5</b>	<b>13.0</b>	<b>13.4</b>
Net profit margin (%)	11.3	3.7	7.6	11.3	11.8
<b>RoE (%)</b>	<b>20.3</b>	<b>9.5</b>	<b>17.2</b>	<b>19.1</b>	<b>17.5</b>
Post-tax RoCE (%)	12.8	4.3	10.0	11.8	11.1
<b>RoIC (%)</b>	<b>18.4</b>	<b>5.9</b>	<b>14.1</b>	<b>17.1</b>	<b>15.2</b>
<b>Working capital ratios</b>					
Receivables (days)	21.3	22.4	23.0	23.0	23.0
Inventory (days)	11.2	10.5	15.0	15.0	12.0
Payables (days)	19.5	16.2	16.0	20.0	20.0
Cash conversion cycle	13.0	16.7	22.0	18.0	15.0
<b>Leverage ratios</b>					
Net debt (Rsmn)	67,379	1,65,181	1,73,418	1,44,782	1,32,643
Net Debt (cash)/Equity (X)	0.12	0.30	0.28	0.21	0.17
Net Debt/EBITDA	0.49	2.47	1.29	0.87	0.78
<b>Valuation ratios</b>					
EV/sales (x)	1.44	0.92	1.00	1.20	1.24
EV/EBITDA (x)	9.57	19.76	9.83	7.97	7.75
EV/FCF	30.50	-35.34	30.58	14.97	17.10
P/E (x)	11.28	21.85	11.53	9.31	9.14
P/BV (x)	2.10	2.08	1.89	1.68	1.52
FCF Yield (%)	3.28	-2.83	3.27	6.68	5.85
Dividend Yield (%)	3.76	2.27	3.69	4.26	4.82
<b>Per share ratios</b>					
EPS	15.63	8.06	15.29	18.92	19.27
Cash EPS	18.20	10.76	18.31	22.15	22.82
BVPS	83.81	84.64	93.43	104.85	115.62
DPS	6.63	4.00	6.50	7.50	8.50

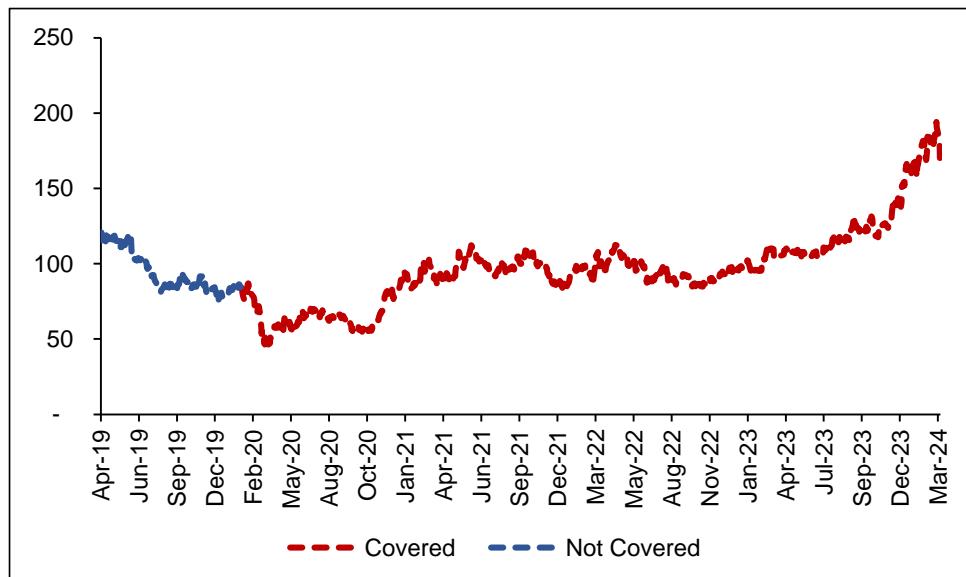
Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price	Target price (Rs)
28 <sup>th</sup> January 2020	Buy	127	156
11 <sup>th</sup> February 2020	Buy	122	156
31 <sup>st</sup> March 2020	Buy	70	133
26 <sup>th</sup> June 2020	Buy	103	149
13 <sup>th</sup> August 2020	Buy	97	120
23 <sup>rd</sup> September 2020	Buy	84	112
11 <sup>th</sup> November 2020	Buy	90	112
5 <sup>th</sup> December 2020	Buy	120	140
9 <sup>th</sup> January 2021	Buy	133	159
11 <sup>th</sup> February 2021	Buy	136	164
11 <sup>th</sup> June 2021	Acc	164	183
6 <sup>th</sup> August 2021	Buy	143	188
23 <sup>rd</sup> September 2021	Buy	150	191
30 <sup>th</sup> October 2021	Buy	149	178
4 <sup>th</sup> February 2022	Buy	147	189
31 <sup>st</sup> May 2022	Buy	144	168
5 <sup>th</sup> August 2022	Buy	140	186
15 <sup>th</sup> September 2022*	Buy	92	122
5 <sup>th</sup> November 2022	Acc	89	90
31 <sup>st</sup> January 2023	Acc	95	101
25 <sup>th</sup> March 2023	Buy	106	126
21 <sup>st</sup> May 2023	Buy	105	126
1 <sup>st</sup> August 2023	Buy	119	139
16 <sup>th</sup> October 2023	Buy	128	147
1 <sup>st</sup> November 2023	Buy	120	151
30 <sup>th</sup> January 2024	Acc	172	171
14 <sup>th</sup> March 2024	Acc	176	170

Note: \*GAIL prices adjusted post bonus in this note

## GAIL rating track graph



## DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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