

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
34,300	10,540
Bloomberg	GAIL IN
Equity Shares (m)	1,691
M.Cap.(INRb)/(USDb)	786.5 / 12.2
52-Week Range (INR)	518 / 347
1, 6, 12 Rel. Per (%)	-6/16/7
Avg Val, INRm	1734.0
Free float (%)	46.4

**CMP: INR465 TP: INR388 (-17%)**

**Sell**

### In-line EBITDA; LPG/HCs above est.; Trading/Petchem disappoint

3QFY18 EBITDA stood at INR19.7b (in-line; +16% YoY, -5% QoQ), led primarily by higher contribution from LPG and HCs. Other income of INR3b was much higher than our estimate (+1% YoY, +3% QoQ). Effective tax rate of 32.1% was lower than our estimate of 34%, which, combined with higher other income, resulted in PAT of INR12.6b (+28% YoY, -4% QoQ).

### Segmental analysis: Transmission volume at 109mmscmd

- Gas transmission volume stood at 109mmscmd (+6% YoY, +3% QoQ), led by increased offtake from power plants due to the lack of coal supply. Implied tariff stood at INR1,325/mscm (+9% YoY, -2% QoQ) due to increased share of higher tariff zone during the quarter. EBIT stood at INR6.3b (+8% YoY, -21% QoQ).
- While petchem sales stood at 176kmt (+21% YoY, +1% QoQ), realization declined to USD1,265/MT (-11% YoY, -1% QoQ). EBIT stood at INR940m (-30% YoY, +6% QoQ).
- Due to higher availability of rich gas, LPG/liq. HC sales stood at 326tmt (+10% YoY, -2% QoQ). Realization was USD557/mt (+40% YoY, +34% QoQ). EBIT stood at INR6.6b (+76% YoY, +44% QoQ).
- Gas trading EBIT rose 14% YoY (-19% QoQ) to INR3.4b, led by trading volumes of 88mmscmd (+6% YoY, +4% QoQ) and trading margins of INR423/mscm (+7% YoY, -22% QoQ).

**Valuation view:** US volumes are expected to land in India from March. Although most of the volumes for CY18 have been placed through various derivate contracts, we remain concerned on profitable placement of the contracts in light of the long-term nature of the expensive contracts. The stock trades at 14.4x FY19E EPS of INR32.3. We value GAIL using SOTP at INR381/share, implying ~17% downside. The core business is valued at 9x FY20E EPS adjusted for other income. Maintain **Sell**.

### Financials & Valuations (INR b)

Y/E Mar	2018E	2019E	2020E
Net Sales	509.5	575.0	611.5
EBITDA	76.6	90.3	93.9
PAT	44.8	54.7	57.2
EPS (INR)	26.5	32.3	33.8
Gr. (%)	17.4	22.0	4.6
BV/Sh (INR)	242.2	262.5	283.7
RoE (%)	11.3	12.8	12.4
RoCE (%)	9.7	11.0	10.6
P/E (x)	17.6	14.4	13.8
P/BV (x)	1.9	1.8	1.6
EV/EBITDA (x)	9.8	8.4	8.0

Estimate change



TP change



Rating change



### Quarterly Performance

Y/E March	FY17				FY18				(INR m)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	FY17	FY18E
<b>Net Sales</b>	<b>106,866</b>	<b>118,582</b>	<b>121,079</b>	<b>134,217</b>	<b>114,065</b>	<b>124,097</b>	<b>144,143</b>	<b>127,205</b>	<b>480,743</b>	<b>509,509</b>
Change (%)	-14.6	-15.8	-9.5	15.4	6.7	4.7	19.0	-5.2	-6.9	6.0
<b>EBITDA</b>	<b>15,732</b>	<b>15,155</b>	<b>17,015</b>	<b>15,250</b>	<b>18,994</b>	<b>20,694</b>	<b>19,699</b>	<b>19,603</b>	<b>63,152</b>	<b>78,989</b>
% of Net Sales	14.7	12.8	14.1	11.4	16.7	16.7	13.7	15.4	13.1	15.5
Depreciation	3,354	3,563	3,579	3,471	3,451	3,425	3,668	3,724	13,968	14,267
Interest	1,774	1,198	1,601	220	1,014	926	479	1,019	4,794	3,437
Other Income	1,362	3,361	3,002	4,981	1,158	2,929	3,027	1,838	12,705	8,952
Extraordinary item*	4,893	0	0	-7,880	0	0	0	0	-2,987	0
<b>PBT</b>	<b>16,858</b>	<b>13,755</b>	<b>14,836</b>	<b>8,659</b>	<b>15,687</b>	<b>19,273</b>	<b>18,580</b>	<b>16,698</b>	<b>54,108</b>	<b>70,238</b>
Tax	3,506	4,508	5,007	6,058	5,431	6,177	5,957	5,677	19,079	23,242
Rate (%)	20.8	32.8	33.7	70.0	34.6	32.0	32.1	34.0	35.3	33.1
<b>PAT</b>	<b>13,352</b>	<b>9,247</b>	<b>9,829</b>	<b>2,602</b>	<b>10,256</b>	<b>13,096</b>	<b>12,622</b>	<b>11,021</b>	<b>35,029</b>	<b>46,996</b>
<b>Adj PAT</b>	<b>8,459</b>	<b>9,247</b>	<b>9,829</b>	<b>10,482</b>	<b>10,256</b>	<b>13,096</b>	<b>12,622</b>	<b>11,021</b>	<b>38,016</b>	<b>46,996</b>
Change (%)	99.4	109.9	48.0	36.1	21.3	41.6	28.4	5.1	65.4	23.6
<b>EPS (INR)</b>	<b>5.0</b>	<b>5.5</b>	<b>5.8</b>	<b>6.2</b>	<b>6.1</b>	<b>7.7</b>	<b>7.5</b>	<b>6.5</b>	<b>22.5</b>	<b>27.8</b>
<b>Key Assumptions</b>										
Gas Trans. volume (mmscmd)	96	101	103	102	100	106	109	106	100	105
Petchem sales ('000MT)	110	136	146	186	131	175	176	158	578	640

E: MOSL Estimates

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## Exhibit 1: GAIL: Segment-wise performance details (INR m)

	FY16				FY17				FY18			3QFY18 (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY	QoQ
<b>Exchange Rate (INR/USD)</b>	63.7	65.0	66.0	66.9	67.0	67.0	67.4	67.2	64.5	64.3	64.8	-4%	1%
<b>Gas transmission business</b>													
Volumes (mmscmd)	87	90	97	95	96	101	103	102	100	106	109	6%	3%
Gross Revenues	9,248	10,602	9,789	10,283	10,318	11,864	12,140	11,737	11,342	13,123	13,313	10%	1%
Opex	3,488	2,912	3,499	3,803	2,868	3,474	3,820	4,447	2,882	2,723	4,783	25%	76%
<b>EBITDA</b>	<b>5,760</b>	<b>7,690</b>	<b>6,290</b>	<b>6,480</b>	<b>7,450</b>	<b>8,390</b>	<b>8,320</b>	<b>7,290</b>	<b>8,460</b>	<b>10,400</b>	<b>8,530</b>	<b>3%</b>	<b>-18%</b>
Depreciation	1,823	3,735	2,013	1,970	1,896	1,966	2,053	2,078	2,094	1,865	1,792	-13%	-4%
<b>EBIT</b>	<b>3,937</b>	<b>3,955</b>	<b>4,277</b>	<b>4,510</b>	<b>5,554</b>	<b>6,424</b>	<b>6,267</b>	<b>5,212</b>	<b>6,366</b>	<b>8,535</b>	<b>6,739</b>	<b>8%</b>	<b>-21%</b>
Average tariff (INR/mscm)	1,168	1,063	1,096	1,186	1,085	1,085	1,210	1,345	1,187	1,351	1,325	9%	-2%
Opex (INR/mscm)	441	352	392	439	327	374	404	487	317	280	476	18%	70%
<b>EBITDA (INR/mscm)</b>	<b>728</b>	<b>929</b>	<b>704</b>	<b>747</b>	<b>849</b>	<b>904</b>	<b>880</b>	<b>798</b>	<b>931</b>	<b>1,070</b>	<b>849</b>	<b>-4%</b>	<b>-21%</b>
Depreciation (INR/mscm)	230	451	225	227	216	212	217	227	230	192	178	-18%	-7%
<b>EBIT (INR/mscm)</b>	<b>497</b>	<b>478</b>	<b>479</b>	<b>520</b>	<b>633</b>	<b>692</b>	<b>663</b>	<b>571</b>	<b>700</b>	<b>878</b>	<b>671</b>	<b>1%</b>	<b>-24%</b>
<b>LPG Transmission Business</b>													
Volumes ('000 MT)	689	687	692	751	709	827	914	913	890	914	935	2%	2%
Gross Revenues	1,362	1,124	1,127	1,247	1,076	1,266	1,406	1,397	1,366	1,363	1,406	0%	3%
Opex	422	414	457	427	416	416	636	577	466	543	686	8%	26%
<b>EBITDA</b>	<b>940</b>	<b>710</b>	<b>670</b>	<b>820</b>	<b>660</b>	<b>850</b>	<b>770</b>	<b>820</b>	<b>900</b>	<b>820</b>	<b>720</b>	<b>-6%</b>	<b>-12%</b>
Depreciation	118	130	127	127	134	140	145	161	140	127	137	-6%	8%
<b>EBIT</b>	<b>822</b>	<b>580</b>	<b>543</b>	<b>693</b>	<b>526</b>	<b>710</b>	<b>625</b>	<b>659</b>	<b>760</b>	<b>693</b>	<b>583</b>	<b>-7%</b>	<b>-16%</b>
Average tariff (INR/MT)	1,977	1,636	1,629	1,660	1,518	1,531	1,538	1,530	1,535	1,491	1,504	-2%	1%
Opex	613	602	661	568	587	503	696	632	524	594	734	5%	23%
<b>EBITDA</b>	<b>1,364</b>	<b>1,033</b>	<b>968</b>	<b>1,092</b>	<b>931</b>	<b>1,028</b>	<b>842</b>	<b>898</b>	<b>1,011</b>	<b>897</b>	<b>770</b>	<b>-9%</b>	<b>-14%</b>
Depreciation	171	189	184	169	189	169	159	176	158	139	146	-8%	5%
<b>EBIT</b>	<b>1,193</b>	<b>845</b>	<b>785</b>	<b>923</b>	<b>741</b>	<b>859</b>	<b>684</b>	<b>722</b>	<b>853</b>	<b>758</b>	<b>624</b>	<b>-9%</b>	<b>-18%</b>
<b>Gas Trading Business</b>													
Volumes (mmscmd)	69	74	77	74	79	81	83	82	78	85	88	6%	4%
Revenues	105,811	122,180	116,865	92,043	83,286	92,642	94,144	103,706	85,206	93,781	110,691	18%	18%
<b>EBIT</b>	<b>3,424</b>	<b>1,925</b>	<b>4,834</b>	<b>3,766</b>	<b>4,219</b>	<b>3,292</b>	<b>3,005</b>	<b>2,690</b>	<b>3,248</b>	<b>4,197</b>	<b>3,416</b>	<b>14%</b>	<b>-19%</b>
Revenues (INR/mscm)	16,852	17,947	16,471	13,593	11,570	12,507	12,360	13,976	11,938	12,049	13,719	11%	14%
<b>EBIT (INR/mscm)</b>	<b>545</b>	<b>283</b>	<b>681</b>	<b>556</b>	<b>586</b>	<b>444</b>	<b>395</b>	<b>363</b>	<b>455</b>	<b>539</b>	<b>423</b>	<b>7%</b>	<b>-22%</b>
<b>Petrochemicals Business</b>													
Volumes ('000 MT)	50	84	84	116	110	136	146	186	131	175	176	21%	1%
Gross Revenues	5,163	7,981	7,287	13,379	11,330	13,578	14,057	17,664	13,418	14,319	14,432	3%	1%
Opex	7,263	9,411	7,947	13,469	9,320	10,948	11,587	15,854	11,848	12,369	12,422	7%	0%
<b>EBITDA</b>	<b>-2,100</b>	<b>-1,430</b>	<b>-660</b>	<b>-90</b>	<b>2,010</b>	<b>2,630</b>	<b>2,470</b>	<b>1,810</b>	<b>1,570</b>	<b>1,950</b>	<b>2,010</b>	<b>-19%</b>	<b>3%</b>
Depreciation	902	939	946	999	1,080	1,077	1,129	1,138	1,152	1,062	1,070	-5%	1%
<b>EBIT</b>	<b>-3,002</b>	<b>-2,369</b>	<b>-1,606</b>	<b>-1,089</b>	<b>930</b>	<b>1,553</b>	<b>1,341</b>	<b>673</b>	<b>419</b>	<b>888</b>	<b>940</b>	<b>-30%</b>	<b>6%</b>
Realization (USD/MT)	1,621	1,462	1,314	1,724	1,537	1,490	1,428	1,413	1,588	1,273	1,265	-11%	-1%
Realization (INR/kg)	103	95	87	115	103	100	96	95	102	82	82	-15%	0%
Opex (INR/kg)	145	112	95	116	85	81	79	85	90	71	71	-11%	0%
<b>EBITDA (INR/kg)</b>	<b>-42</b>	<b>-17</b>	<b>-8</b>	<b>-1</b>	<b>18</b>	<b>19</b>	<b>17</b>	<b>10</b>	<b>12</b>	<b>11</b>	<b>11</b>	<b>-32%</b>	<b>2%</b>
Depreciation (INR/kg)	18	11	11	9	10	8	8	6	9	6	6	-21%	0%
<b>EBIT (INR/kg)</b>	<b>-60</b>	<b>-28</b>	<b>-19</b>	<b>-9</b>	<b>8</b>	<b>11</b>	<b>9</b>	<b>4</b>	<b>3</b>	<b>5</b>	<b>5</b>	<b>-42%</b>	<b>5%</b>
<b>LPG &amp; Liquid Hydrocarbons Business</b>													
Volumes ('000 MT)	278	255	294	260	244	279	296	276	292	333	326	10%	-2%
Gross Revenues	9,291	7,478	8,276	8,233	6,735	7,065	8,259	9,886	9,879	9,234	12,114	47%	31%
Opex	6,401	6,608	5,816	6,473	4,475	5,475	4,389	4,696	4,449	4,534	5,324	21%	17%
<b>EBITDA</b>	<b>2,890</b>	<b>870</b>	<b>2,460</b>	<b>1,760</b>	<b>2,260</b>	<b>1,590</b>	<b>3,870</b>	<b>5,190</b>	<b>5,430</b>	<b>4,700</b>	<b>6,790</b>	<b>75%</b>	<b>44%</b>
Depreciation	122	149	133	118	116	121	135	169	113	120	212	57%	77%
<b>EBIT</b>	<b>2,768</b>	<b>721</b>	<b>2,328</b>	<b>1,642</b>	<b>2,144</b>	<b>1,469</b>	<b>3,735</b>	<b>5,021</b>	<b>5,317</b>	<b>4,580</b>	<b>6,578</b>	<b>76%</b>	<b>44%</b>
Subsidy	0	0	0	0	0	0	0	0	0	0	0		
<b>EBIT (Post-Subsidy)</b>	<b>2,768</b>	<b>721</b>	<b>2,328</b>	<b>1,642</b>	<b>2,144</b>	<b>1,469</b>	<b>3,735</b>	<b>5,021</b>	<b>5,317</b>	<b>4,580</b>	<b>6,578</b>	<b>76%</b>	<b>44%</b>
Realization (USD/MT)	525	451	427	473	391	360	397	515	506	415	557	40%	34%
Realization (INR/MT)	33,420	29,327	28,150	31,666	27,602	25,323	27,902	35,818	33,831	27,731	37,160	33%	34%
Opex (INR/MT)	23,024	25,915	19,782	24,897	18,340	19,624	14,828	17,014	15,235	13,617	16,332	10%	20%
<b>EBITDA (INR/MT)</b>	<b>10,396</b>	<b>3,412</b>	<b>8,367</b>	<b>6,769</b>	<b>9,262</b>	<b>5,699</b>	<b>13,074</b>	<b>18,804</b>	<b>18,596</b>	<b>14,114</b>	<b>20,828</b>	<b>59%</b>	<b>48%</b>
Depreciation (INR/MT)	440	583	451	454	476	435	456	613	386	359	649	42%	81%
<b>EBIT (INR/MT)</b>	<b>9,956</b>	<b>2,829</b>	<b>7,917</b>	<b>6,315</b>	<b>8,786</b>	<b>5,264</b>	<b>12,619</b>	<b>18,191</b>	<b>18,210</b>	<b>13,755</b>	<b>20,179</b>	<b>60%</b>	<b>47%</b>
Subsidy (INR/MT)	0	0	0	0	0	0	0	0	0	0	0		
<b>EBIT post Subsidy (INR/MT)</b>	<b>9,956</b>	<b>2,829</b>	<b>7,917</b>	<b>6,315</b>	<b>8,786</b>	<b>5,264</b>	<b>12,619</b>	<b>18,191</b>	<b>18,210</b>	<b>13,755</b>	<b>20,179</b>	<b>60%</b>	<b>47%</b>

Source: Company, MOSL

**Exhibit 2: Gail India Financial Summary**

INRm	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY (%)	QoQ (%)
<b>Net sales</b>	<b>106,866</b>	<b>118,582</b>	<b>121,079</b>	<b>134,217</b>	<b>114,065</b>	<b>124,097</b>	<b>144,143</b>	<b>19.0%</b>	<b>16.2%</b>
Inc/dec in stock	(2,065)	(1,833)	762	3,558	(1,940)	1,448	660		
Purchases	75,069	83,826	82,424	90,678	78,684	80,259	97,171	17.9%	21.1%
% of Net Sales	70%	71%	68%	68%	69%	65%	67%		
Raw material cons	6,779	7,767	7,785	9,181	7,334	9,233	10,024	28.8%	8.6%
% of Net Sales	6%	7%	6%	7%	6%	7%	7%		
Staff cost	2,694	2,495	2,665	4,722	2,054	3,434	3,999	50.1%	16.5%
% of Net Sales	3%	2%	2%	4%	2%	3%	3%		
Other expenditure	8,657	11,171	10,427	10,829	8,939	9,028	12,590	20.7%	39.4%
% of Net Sales	8%	9%	9%	8%	8%	7%	9%		
<b>Total Expenditure</b>	<b>(91,134)</b>	<b>(103,426)</b>	<b>(104,064)</b>	<b>(118,967)</b>	<b>(95,071)</b>	<b>(103,402)</b>	<b>(124,445)</b>	<b>19.6%</b>	<b>20.4%</b>
<b>EBITDA</b>	<b>15,732</b>	<b>15,155</b>	<b>17,015</b>	<b>15,250</b>	<b>18,994</b>	<b>20,694</b>	<b>19,699</b>	<b>15.8%</b>	<b>-4.8%</b>
% of Net Sales	15%	13%	14%	11%	17%	17%	14%		
Depreciation	(3,354)	(3,563)	(3,579)	(3,471)	(3,451)	(3,425)	(3,668)	2.5%	7.1%
<b>EBIT</b>	<b>12,377</b>	<b>11,592</b>	<b>13,436</b>	<b>11,779</b>	<b>15,543</b>	<b>17,270</b>	<b>16,031</b>	<b>19.3%</b>	<b>-7.2%</b>
Interest	(1,774)	(1,198)	(1,601)	(220)	(1,014)	(926)	(479)	-70.1%	-48.3%
Other income	1,362	3,361	3,002	4,981	1,158	2,929	3,027	0.9%	3.4%
Extraordinary	4,893	0	0	(7,880)	0	0	0		
<b>Profit before tax</b>	<b>16,858</b>	<b>13,755</b>	<b>14,836</b>	<b>8,659</b>	<b>15,687</b>	<b>19,273</b>	<b>18,580</b>	<b>25.2%</b>	<b>-3.6%</b>
Total tax	(3,506)	(4,508)	(5,007)	(6,058)	(5,431)	(6,177)	(5,957)	19.0%	-3.5%
Tax rate (%)	21%	33%	34%	70%	35%	32%	32%		
<b>Net profit</b>	<b>13,352</b>	<b>9,247</b>	<b>9,829</b>	<b>2,602</b>	<b>10,256</b>	<b>13,096</b>	<b>12,622</b>	<b>28.4%</b>	<b>-3.6%</b>
<b>EPS (INR)</b>	<b>7.9</b>	<b>5.5</b>	<b>5.8</b>	<b>1.5</b>	<b>6.1</b>	<b>7.7</b>	<b>7.5</b>	<b>28.4%</b>	<b>-3.6%</b>

Source: Company, MOSL

**Exhibit 3: Segmental EBITDA break-up (INR m)**

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY (%)	QoQ (%)
<b>Reported EBITDA</b>	<b>15,732</b>	<b>15,155</b>	<b>17,015</b>	<b>15,250</b>	<b>18,994</b>	<b>20,694</b>	<b>19,699</b>	<b>15.8%</b>	<b>-4.8%</b>
Other operating income	1,362	3,361	3,002	4,981	1,158	2,929	3,027	0.9%	3.4%
<b>Segmental EBITDA</b>	<b>17,094</b>	<b>18,516</b>	<b>20,017</b>	<b>20,231</b>	<b>20,152</b>	<b>23,623</b>	<b>22,726</b>	<b>13.5%</b>	<b>-3.8%</b>
Gas transmission	7,450	8,390	8,230	7,290	8,460	10,400	8,530	2.5%	-18.0%
LPG transmission	660	850	770	820	900	820	720	-6.5%	-12.2%
Gas Trading	4,340	3,320	3,050	4,490	3,360	4,200	3,410	11.8%	-18.8%
Petrochemicals	2,010	2,630	2,470	1,810	1,570	1,950	2,010	-18.6%	3.1%
LPG & Liquid HC (pre-subsidy)	2,260	1,590	3,870	5,190	5,430	4,700	6,790	75.5%	44.5%
Unallocated	5,270	1,730	1,630	(7,250)	430	1,550	1,270	-17.5%	-18.1%
<b>Sub-total</b>	<b>21,990</b>	<b>18,510</b>	<b>20,020</b>	<b>12,350</b>	<b>20,150</b>	<b>23,620</b>	<b>22,730</b>	<b>13.5%</b>	<b>-3.8%</b>
Less: Subsidy	0	0	0	0	0	0	0		
<b>Total</b>	<b>21,990</b>	<b>18,510</b>	<b>20,020</b>	<b>12,350</b>	<b>20,150</b>	<b>23,620</b>	<b>22,730</b>	<b>13.5%</b>	<b>-3.8%</b>

Source: Company, MOSL

**Exhibit 4: Operational highlights**

('000MT)	FY17				FY18			3QFY18 (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY	QoQ
A. Gas transmission (mmscmd)	96	101	103	102	100	106	109	6%	3%
B. LPG transmission	709	827	914	913	890	914	935	2%	2%
C. Natural Gas - Trading (mmscmd)	79	81	83	82	78	85	88	6%	4%
D. Petrochemicals	110	136	146	186	131	175	176	21%	1%
E. LPG & Liq. HC (pre-subsidy)	244	279	296	276	292	333	326	10%	-2%

Source: Company, MOSL

**Exhibit 5: Segment-wise revenue break-up (INRb)**

	FY17				FY18			3QFY18 (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY	QoQ
A. Gas Transmission	10.3	11.9	12.1	11.7	11.3	13.1	13.3	10%	1%
B. LPG Transmission	1.1	1.3	1.4	1.4	1.4	1.4	1.4	0%	3%
C. Natural Gas Trading	83.3	92.6	94.1	103.7	85.2	93.8	110.7	18%	18%
D. Petrochemicals	11.3	13.6	14.1	17.7	13.4	14.3	14.4	3%	1%
E. LPG & Liq. HC (pre-subsidy)	6.7	7.1	8.3	9.9	9.9	9.2	12.1	47%	31%
F. GAILTEL & unallocated	1.5	2.0	1.7	1.8	1.6	1.3	2.4	39%	79%
<b>Sub-total</b>	<b>114.2</b>	<b>128.4</b>	<b>131.7</b>	<b>146.2</b>	<b>122.8</b>	<b>133.2</b>	<b>154.4</b>	<b>17%</b>	<b>16%</b>
Less: Subsidy	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Segmental total</b>	<b>114.2</b>	<b>128.4</b>	<b>131.7</b>	<b>146.2</b>	<b>122.8</b>	<b>133.2</b>	<b>154.4</b>	<b>17%</b>	<b>16%</b>
Less: Intersegment	5.9	8.0	8.8	9.7	7.1	9.1	10.2	16%	13%
<b>Net Sales</b>	<b>108.3</b>	<b>120.4</b>	<b>122.9</b>	<b>136.4</b>	<b>115.7</b>	<b>124.1</b>	<b>144.1</b>	<b>17%</b>	<b>16%</b>

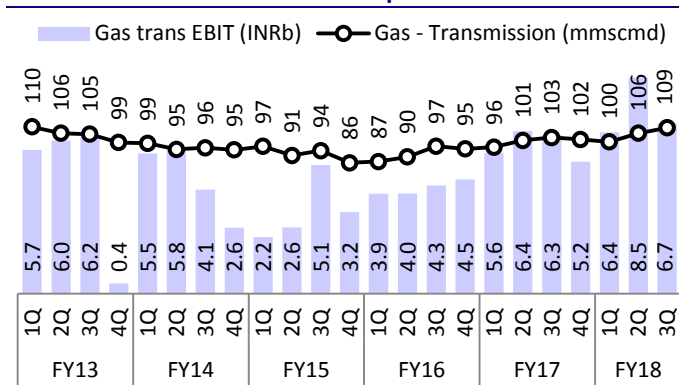
Source: Company, MOSL

**Exhibit 6: Segment-wise EBIT break-up (INR b)**

INRb	FY17				FY18			3QFY18 (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY	QoQ
A. Natural Gas	5.6	6.4	6.3	5.2	6.4	8.5	6.7	8%	-21%
B. LPG	0.5	0.7	0.6	0.7	0.8	0.7	0.6	-7%	-16%
C. Natural Gas Trading	4.2	3.3	3.0	2.7	3.2	4.2	3.4	14%	-19%
D. Petrochemicals	0.9	1.6	1.3	0.7	0.4	0.9	0.9	-30%	6%
E. LPG & Liq. HC (pre-subsidy)	2.1	1.5	3.7	5.0	5.3	4.6	6.6	76%	44%
F. GAILTEL & unallocated	0.6	0.1	0.5	0.8	0.7	0.7	0.4	-14%	-32%
<b>Total</b>	<b>14.0</b>	<b>13.5</b>	<b>15.5</b>	<b>15.1</b>	<b>16.8</b>	<b>19.6</b>	<b>18.7</b>	<b>21%</b>	<b>-4%</b>
G. Less: Subsidy	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Reported EBIT</b>	<b>14.0</b>	<b>13.5</b>	<b>15.5</b>	<b>15.1</b>	<b>16.8</b>	<b>19.6</b>	<b>18.7</b>	<b>21%</b>	<b>-4%</b>

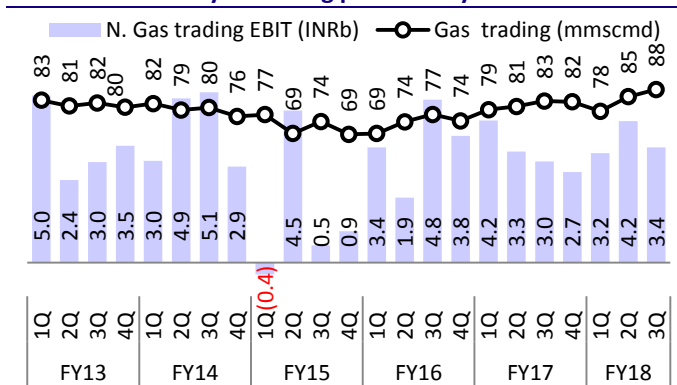
Source: Company, MOSL

**Exhibit 7: Transmission volumes up YoY to 109 mmscmd**



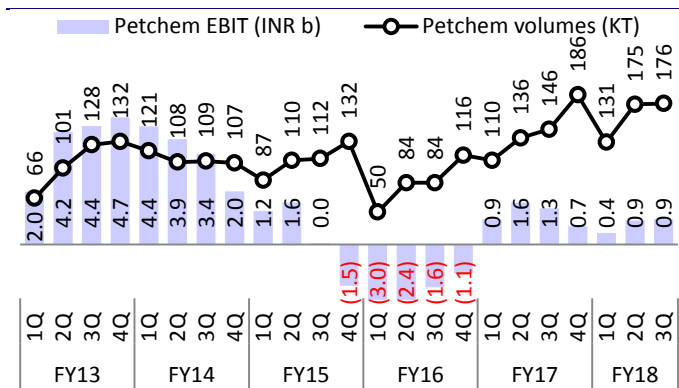
Source: MOSL, Company

**Exhibit 8: Volatility in trading profitability continues**



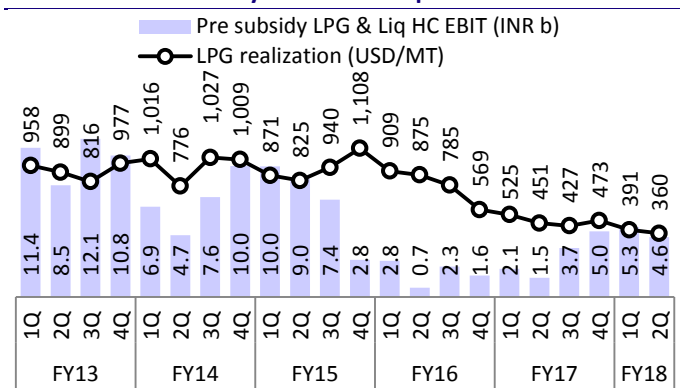
Source: MOSL, Company

**Exhibit 9: Petchem volumes recovered to 176kt**



Source: MOSL, Company

**Exhibit 10: Pre-subsidy realizations up YoY**



Source: MOSL, Company



### Key earnings call highlights

- Provision of INR803.6m for take-or-pay.
- There is a GST-related hit of INR500m in the quarter.
- Most of US volumes placed for CY18; few cargoes to land up in India from March 2018.
- PNGRB has called for discussions on the matter of unified tariff. However, the immediate priority of the regulatory board appears CGDs.
- Petchem plant has been interrupted due to power supply disruption, both PATA-1&2 to clock 100% utilization in FY19.

### Valuation and view

- We build in petchem utilization of 100% for FY19/20. Gas transmission volume is also likely to increase to 112/120mmscmd in FY19E/20, from 105mmscmd in FY18E, due to higher availability of domestic gas and LNG. However, return ratios are expected to remain subdued at 11-13%.
- We remain concerned on placement of US contracts. According to management, volumes for 2018 have been taken care of, but long-term take-or-pay nature continues to be a worry. A hit of USD1/mmBtu wipes out ~22% of FY19E EBITDA. Higher tariff could pose upside risk to our negative call.
- Unified tariff at the level asked for by GAIL would result in ~27% increase in its EPS. However, our own interaction along with the management guidance on the call suggests that there could be further delays in bringing the policy.
- The stock trades at 14.4x FY19E EPS of INR32.3. We value GAIL using SOTP at INR388/share, implying ~17% downside. The core business is valued at 9x FY20E EPS adjusted for other income. Maintain **Sell**.

**Exhibit 11: GAIL India: Key Assumptions**

	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Brent crude (USD/bbl)	114.5	110.0	107.8	86.0	47.5	49.0	56.7	60.0	60.0
Exchange Rate (INR/USD)	47.9	54.5	60.6	61.1	65.5	67.1	64.6	65.5	65.7
Subsidy (INRb)	31.8	26.9	19.0	10.0	-	-	-	-	-
Avg. Gas Price (USD/mmbtu)	5.7	6.7	7.9	8.4	7.6	5.8	6.3	6.6	6.6
<b>Natural Gas Transmission</b>									
Total (mmscmd)	119	105	97	93	93	100	105	112	120
Adj. Average Tariff (INR/mscm)	887	883	1,169	987	1,107	1,257	1,265	1,347	1,399
<b>LPG Transmission</b>									
Volume ('000 MT)	3,362	3,200	3,030	3,094	2,819	3,363	3,666	3,666	3,666
Average Tariff (INR/MT)	1,351	937	1,329	1,424	1,724	1,530	1,530	1,530	1,530
<b>Petrochemicals</b>									
Capacity ('000 MT)	450	450	450	450	800	800	800	800	800
Utilization (%)	100%	95%	100%	98%	42%	72%	80%	100%	100%
Sales ('000 MT)	448	427	445	441	334	578	640	800	800
Realization (USD/MT)	1,589	1,614	1,703	1,801	1,420	1,468	1,442	1,437	1,437
<b>LPG &amp; liq. HC</b>									
Sales ('000 MT)	1,439	1,371	1,308	1,279	1,087	1,095	1,300	1,300	1,300
LPG realization (USD/MT)	910	957	936	784	468	435	493	532	532
<b>EPS (INR/sh)</b>	<b>21.6</b>	<b>23.8</b>	<b>24.4</b>	<b>17.7</b>	<b>13.2</b>	<b>22.6</b>	<b>26.5</b>	<b>32.3</b>	<b>33.8</b>

Source: Company, MOSL

**Exhibit 12: Segmental EBITDA breakdown (INR b)**

Segmental EBITDA (INRb)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
NG transmission	24.7	27.7	21.4	26.2	31.4	35.8	39.8	44.0
Gas trading	13.9	16.0	6.9	14.7	9.7	10.7	11.6	12.4
LPG transmission	1.5	2.6	2.9	3.1	3.1	3.3	3.1	3.0
Petrochemicals	17.1	15.5	2.2	-4.3	8.9	7.9	18.2	17.5
LPG (pre-subsidy)	43.6	30.1	29.8	8.0	12.9	23.2	23.1	22.7
Others	-1.6	6.5	3.0	3.5	1.4	4.8	4.8	4.8
<b>Sub-total</b>	<b>99.2</b>	<b>98.5</b>	<b>66.2</b>	<b>51.3</b>	<b>67.3</b>	<b>85.6</b>	<b>100.4</b>	<b>104.3</b>
Subsidy	(26.9)	(19.0)	(10.0)	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>72.3</b>	<b>79.5</b>	<b>56.2</b>	<b>51.3</b>	<b>67.3</b>	<b>85.6</b>	<b>100.4</b>	<b>104.3</b>

Source: Company, MOSL

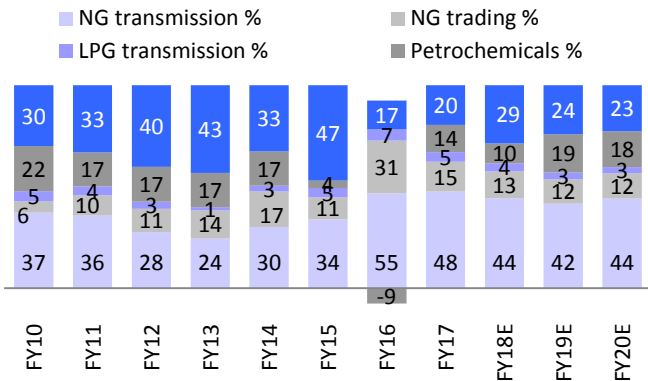
**Exhibit 13: SOTP-based target price stands at INR378/share**

Business	INR/sh	Remarks
PE Multiple (x)	9x	
FY20 adj. EPS	32.0	9.0x FY20E adj. EPS
Core Business	288	
Listed Investments	85	20% discount to CMP/target price
Unlisted investments	15	30% discount to book value
<b>Target price</b>	<b>388</b>	

Source: MOSL

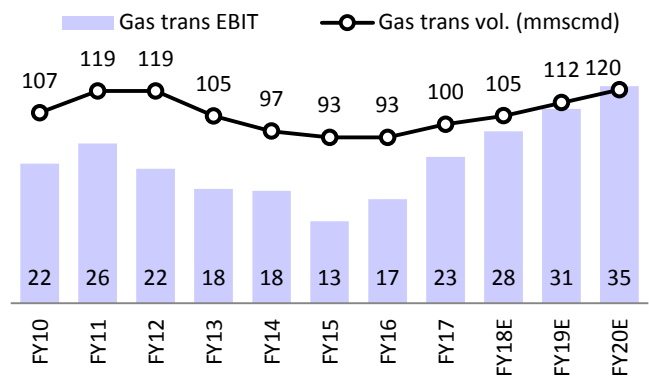
## Story in charts

**Exhibit 14: Transmission segment to remain major contributor to EBITDA**



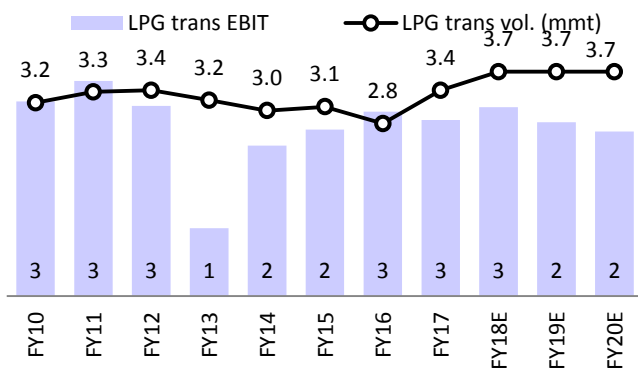
Source: Company, MOSL

**Exhibit 15: Gas transmission volumes to grow by 7% in FY19/20**



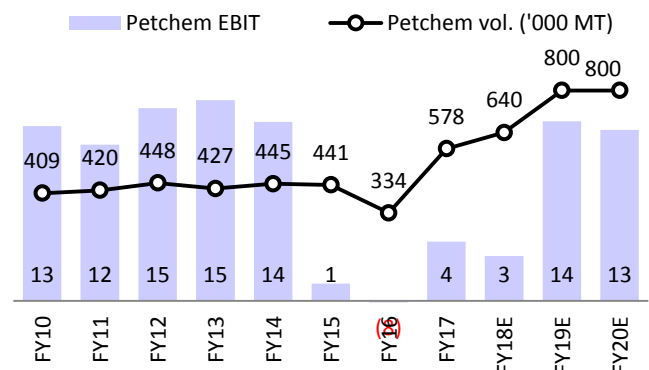
Source: Company, MOSL

**Exhibit 16: LPG transmission volumes to remain flat in FY19/20**



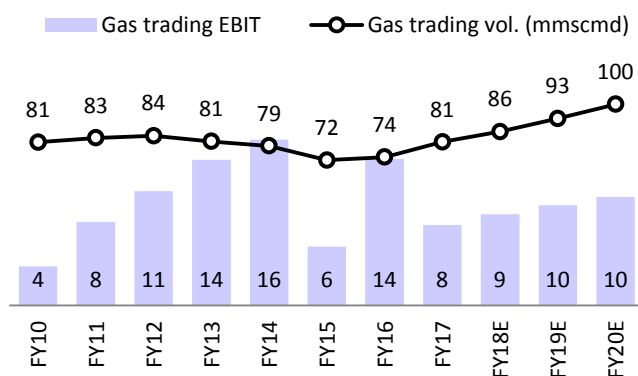
Source: Company, MOSL

**Exhibit 17: Petchem EBIT is expected to increase in-line with volume in FY19/20**



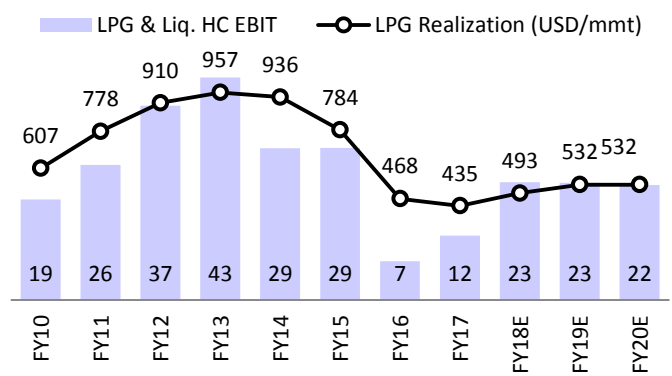
Source: Company, MOSL

**Exhibit 18: Gas trading volume is expected to grow by 8% in FY19/20**



Source: Company, MOSL

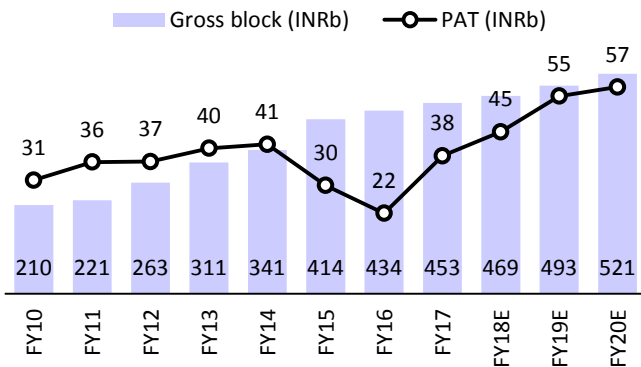
**Exhibit 19: LPG & Liq. HC EBIT expected to increase in-line with realization in FY19/20**



Source: Company, MOSL

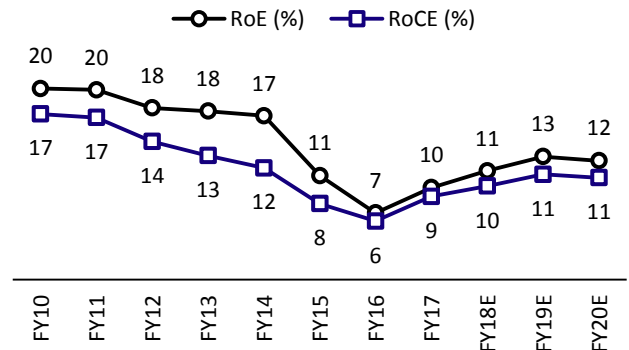
## Story in charts

**Exhibit 20: PAT addition to lead gross block addition**



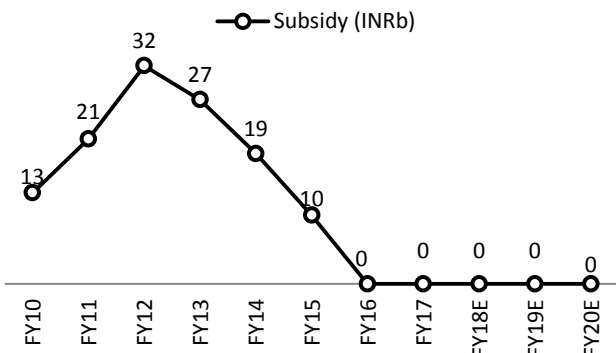
Source: Company, MOSL

**Exhibit 21: Profitability to improve; return ratios to remain subdued**



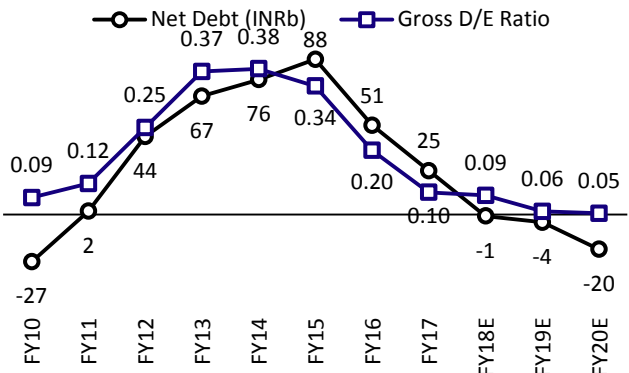
Source: Company, MOSL

**Exhibit 22: Subsidy sharing ad-hoc; model nil in FY19/FY20**



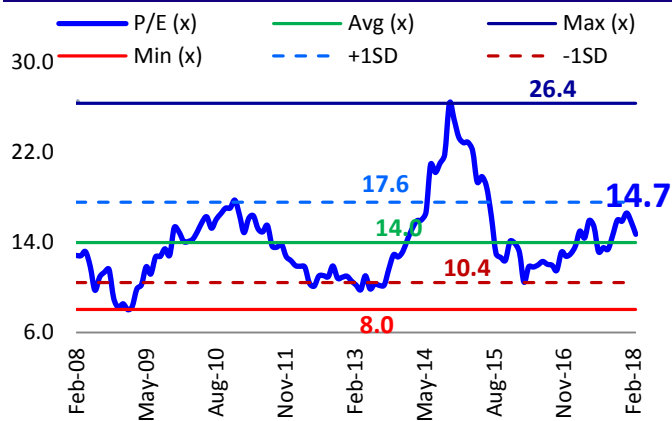
Source: Company, MOSL

**Exhibit 23: D/E ratio is expected to come down**



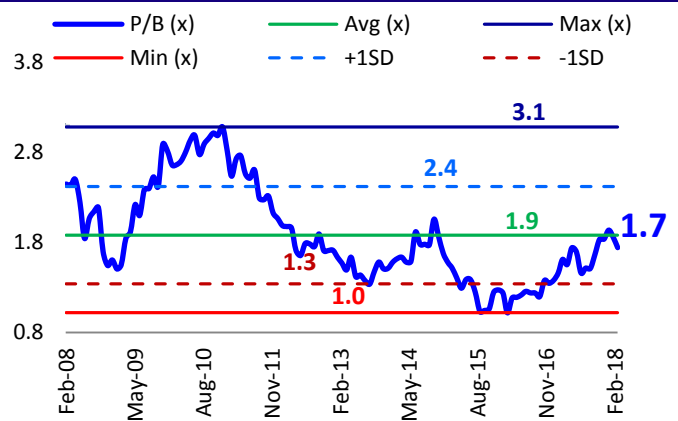
Source: Company, MOSL

**Exhibit 24: 1 year forward P/E**



Source: Company, MOSL

**Exhibit 25: 1 year forward P/B (x)**



Source: Company, MOSL



## Financials and Valuations

Income Statement								(INR m)
Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
<b>Net Sales</b>	<b>473,327</b>	<b>572,451</b>	<b>567,420</b>	<b>516,143</b>	<b>480,743</b>	<b>509,509</b>	<b>574,969</b>	<b>611,453</b>
Change (%)	17.5	20.9	-0.9	-9.0	-6.9	6.0	12.8	6.3
Change in Stocks	570	6,269	-2,322	-4,116	-423	-168	0	0
Purchases	333,969	412,344	403,483	384,480	286,997	303,284	338,624	364,772
Raw Materials	29,687	48,434	48,132	32,539	31,512	45,391	55,015	55,447
Employee Costs	7,855	8,477	9,064	9,961	12,575	15,090	16,599	18,259
Other expenses	38,455	29,915	62,101	54,319	86,930	69,282	74,385	79,118
<b>EBITDA</b>	<b>62,792</b>	<b>67,012</b>	<b>46,962</b>	<b>38,960</b>	<b>63,152</b>	<b>76,629</b>	<b>90,345</b>	<b>93,857</b>
% of Net Sales	13.3	11.7	8.3	7.5	13.1	15.0	15.7	15.3
Depreciation	9,809	11,762	9,743	13,131	13,968	14,267	14,734	15,363
Interest	1,950	3,662	3,613	6,400	4,794	3,437	2,850	2,262
Other Income	9,545	8,985	8,609	11,576	12,705	8,952	10,072	10,407
EO Items (net)		3,450	629		-2,987			
<b>PBT</b>	<b>60,578</b>	<b>64,023</b>	<b>42,844</b>	<b>31,005</b>	<b>54,108</b>	<b>67,877</b>	<b>82,833</b>	<b>86,638</b>
Tax	20,356	20,271	12,452	8,739	19,079	23,078	28,163	29,457
Rate (%)	33.6	31.7	29.1	28.2	35.3	34.0	34.0	34.0
<b>Reported PAT</b>	<b>40,222</b>	<b>43,753</b>	<b>30,392</b>	<b>22,266</b>	<b>35,029</b>	<b>44,799</b>	<b>54,670</b>	<b>57,181</b>
<b>Adjusted PAT</b>	<b>40,222</b>	<b>41,310</b>	<b>29,947</b>	<b>22,266</b>	<b>38,167</b>	<b>44,799</b>	<b>54,670</b>	<b>57,181</b>
Change (%)	10.1	8.8	-30.5	-26.7	57.3	27.9	22.0	4.6

Balance Sheet								(INR m)
Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Share Capital	12,685	12,685	12,685	12,685	16,913	16,913	16,913	16,913
Reserves	229,593	258,039	278,510	338,261	364,581	392,683	426,978	462,847
<b>Net Worth</b>	<b>242,278</b>	<b>270,723</b>	<b>291,195</b>	<b>350,946</b>	<b>381,494</b>	<b>409,596</b>	<b>443,891</b>	<b>479,760</b>
Loans	90,635	102,973	99,361	68,457	38,186	38,187	25,138	25,138
Deferred Tax	23,001	25,664	33,087	40,714	46,559	53,347	61,630	70,294
<b>Capital Employed</b>	<b>355,914</b>	<b>399,360</b>	<b>423,643</b>	<b>460,116</b>	<b>466,239</b>	<b>501,130</b>	<b>530,658</b>	<b>575,192</b>
Gross Fixed Assets	311,490	340,563	413,893	433,777	452,646	468,672	493,046	521,487
Less: Depreciation	114,415	125,797	136,296	149,107	167,584	181,851	196,585	211,948
<b>Net Fixed Assets</b>	<b>197,075</b>	<b>214,766</b>	<b>277,597</b>	<b>284,670</b>	<b>285,062</b>	<b>286,822</b>	<b>296,461</b>	<b>309,538</b>
Capital WIP	89,778	97,279	43,600	34,202	38,034	50,534	78,114	95,534
Investments	37,190	41,030	43,224	85,847	95,096	95,096	95,096	95,096
<b>Current Assets</b>								
Inventory	15,353	22,548	20,811	16,094	16,984	15,534	16,527	17,308
Debtors	25,513	28,120	30,945	38,095	38,282	26,522	29,930	31,829
Cash & Bank Balance	23,579	26,510	11,416	17,939	13,419	42,319	32,720	48,090
Loans/Adv. & Other Assets	58,353	67,861	101,339	81,127	75,823	77,500	79,302	81,241
<b>Current Liab. &amp; Prov.</b>								
Liabilities	72,980	80,224	89,154	86,355	81,327	81,530	86,382	89,888
Provisions	17,949	18,530	16,136	11,503	15,133	11,668	11,110	13,558
<b>Net Current Assets</b>	<b>31,871</b>	<b>46,285</b>	<b>59,222</b>	<b>55,397</b>	<b>48,047</b>	<b>68,677</b>	<b>60,987</b>	<b>75,023</b>
<b>Application of Funds</b>	<b>355,914</b>	<b>399,360</b>	<b>423,643</b>	<b>460,116</b>	<b>466,239</b>	<b>501,129</b>	<b>530,658</b>	<b>575,191</b>

E: MOSL Estimates

## Financials and Valuations

### Ratios

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
<b>Basic (INR)</b>								
EPS	23.8	24.4	17.7	13.2	22.6	26.5	32.3	33.8
Cash EPS	29.6	32.8	23.7	20.9	29.0	34.9	41.0	42.9
Book Value	143.2	160.1	172.2	207.5	225.6	242.2	262.5	283.7
DPS	7.2	7.8	4.5	4.1	8.6	8.2	10.0	10.5
Payout (incl. dvd tax)	35.3	35.3	30.1	37.7	50.1	37.3	37.3	37.3

### Valuation (x)

P/E	19.6	19.0	26.3	35.3	20.6	17.6	14.4	13.8
Adj. P/E (for investments)	15.4	15.0	20.6	27.8	16.2	13.8	11.3	10.8
Cash P/E	15.7	14.2	19.6	22.2	16.1	13.3	11.3	10.8
EV / EBITDA	9.4	9.1	12.8	13.5	11.3	9.8	8.4	8.0
EV / Sales	1.4	1.2	1.3	1.3	1.8	1.6	1.5	1.4
Price / Book Value	3.2	2.9	2.7	2.2	2.1	1.9	1.8	1.6
Dividend Yield (%)	1.5	1.7	1.0	0.9	1.8	1.8	2.2	2.3

### Profitability Ratios (%)

RoE	17.5	17.1	10.8	6.9	9.6	11.3	12.8	12.4
RoCE	12.9	11.6	7.9	6.1	8.7	9.7	11.0	10.6
RoIC	19.1	17.2	9.4	5.7	9.9	13.0	15.6	15.7

### Turnover Ratios

Debtors (No. of Days)	20	18	20	27	29	19	19	19
Fixed Asset Turnover (x)	1.3	1.4	1.3	1.1	1.0	1.0	1.1	1.1

### Leverage Ratio

Net Debt / Equity (x)	0.28	0.28	0.30	0.14	0.06	0.0	0.0	0.0
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### Cash Flow Statement

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
<b>(INR m)</b>								
OP/(Loss) before Tax	60,578	64,023	42,844	31,728	54,108	67,877	82,833	86,638
Depreciation	10,202	11,801	9,807	13,144	13,968	14,267	14,734	15,363
Other op items	1,067	-4,186	460	4,355	0	0	0	0
Direct Taxes Paid	-15,129	-18,738	-8,551	-7,039	-13,345	-16,291	-19,880	-20,793
(Inc)/Dec in Wkg. Capital	-6,384	-8,171	-19,567	6,161	2,830	8,271	-1,909	1,334
<b>CF from Op. Activity</b>	<b>50,334</b>	<b>44,729</b>	<b>24,993</b>	<b>48,349</b>	<b>57,561</b>	<b>74,124</b>	<b>75,779</b>	<b>82,542</b>
(Inc)/Dec in FA & CWIP	-54,968	-38,364	-16,942	-13,433	-22,701	-28,526	-51,953	-45,861
<b>Free Cash Flow</b>	<b>-4,634</b>	<b>6,365</b>	<b>8,051</b>	<b>34,917</b>	<b>34,859</b>	<b>45,598</b>	<b>23,825</b>	<b>36,681</b>
(Pur)/Sale of Investments	-4,062	114	427	-2,243	2,243	0	0	0
Inc from Invst	4,309	5,933	6,319	5,563	3,040	0	0	0
<b>CF from Inv. Activity</b>	<b>-54,722</b>	<b>-32,317</b>	<b>-10,197</b>	<b>-10,113</b>	<b>-17,418</b>	<b>-28,526</b>	<b>-51,953</b>	<b>-45,861</b>
Issue of Shares	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	32,953	5,510	-16,569	-23,314	-27,128	0	-13,049	0
Dividends Paid	-14,299	-14,991	-13,321	-8,400	-17,535	-16,697	-20,375	-21,311
<b>CF from Fin. Activity</b>	<b>18,654</b>	<b>-9,481</b>	<b>-29,890</b>	<b>-31,714</b>	<b>-44,664</b>	<b>-16,697</b>	<b>-33,424</b>	<b>-21,311</b>
<b>Inc / (Dec) in Cash</b>	<b>14,266</b>	<b>2,930</b>	<b>-15,093</b>	<b>6,522</b>	<b>-4,521</b>	<b>28,901</b>	<b>-9,599</b>	<b>15,370</b>
Add: Opening Balance	9,314	23,580	26,510	11,417	17,939	13,418	42,319	32,720
<b>Closing Balance</b>	<b>23,580</b>	<b>26,510</b>	<b>11,417</b>	<b>17,939</b>	<b>13,418</b>	<b>42,319</b>	<b>32,720</b>	<b>48,090</b>

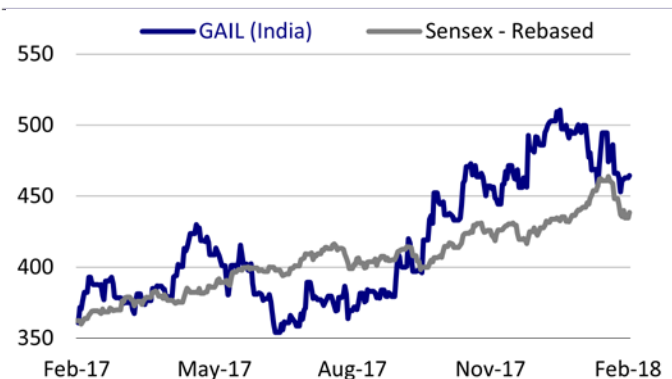
E: MOSL Estimates

## Corporate profile

### Company description

GAIL is a major gas transmission, processing, distribution and marketing company in India, with interests in gas distribution, petrochemicals, LPG, and telecom. It owns ~8,500km of natural gas pipelines, two LPG transmission pipelines of 1,900km, 500KTA petchem capacity, ~1.4mt LPG/other hydrocarbons capacity and over 13,000km of optical fiber cable network. GAIL is also involved in city gas distribution, E&P and power businesses through its joint ventures.

### Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

### Exhibit 2: Shareholding pattern (%)

	Dec-17	Sep-17	Dec-16
Promoter	53.6	54.4	56.1
DII	23.8	24.3	25.3
FII	17.7	16.5	15.7
Others	4.9	4.8	2.9

Note: FII Includes depository receipts

Source: Capitaline

### Exhibit 3: Top holders

Holder Name	% Holding
OIL AND NATURAL GAS CORPORATION LIMITED	4.8
INDIAN OIL CORPORATION LIMITED	2.4
LIFE INSURANCE CORPORATION OF INDIA	2.1
MATTHEWS PACIFIC TIGER FUND	1.3
GOVERNMENT PENSION FUND GLOBAL	1.2

Source: Capitaline

### Exhibit 4: Top management

Name	Designation
B C Tripathi	Chairman & Managing Director
Subir Purkayastha	Director (Finance)
M Ravindran	Director (Human Resources)
A K Jha	Company Secretary

Source: Capitaline

### Exhibit 5: Directors

Name	Name
ASHUTOSH KARNATAK	Anant Kumar Singh
Ashish Chatterjee	Anupam Kulshrestha
S K Srivastava	Sanjay Tandon

\*Independent

### Exhibit 6: Auditors

Name	Type
A C Dutta & Co	Cost Auditor
Agarwal S & Associates	Secretarial Audit
Bandyopadhyaya Bhaumik & Co	Cost Auditor
G S Mathur & Co	Statutory
Musib & Co	Cost Auditor

Source: Capitaline

### Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	26.5	28.2	-6.1
FY19	32.3	32.5	-0.6
FY20	33.8	34.7	-2.7

Source: Bloomberg

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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