

Better performance but outlook still subdued...

Gail India reported Q4FY20 results, which were better than our estimates. The profitability of gas transmission and natural gas trading was above our estimates on an operational basis while petchem and LPG/LLH results were below estimates. Revenues for the quarter fell 5.4% YoY to ₹ 17753.1 crore. EBITDA came in at ₹ 2475.4 crore (up 47% YoY), above our estimate of ₹ 2008.4 crore. Reported PAT at ₹ 3018.2 crore (up 168.9% YoY) was above our estimate of ₹ 1341.7 crore mainly due to tax reversal as the company shifted to lower tax rate.

Gas trading segment performs better...

Gas transmission segment volumes were flattish YoY at 109 mmscmd (our estimate: 104 mmscmd) due to lower than anticipated impact of Covid-19 led lockdown. In Q1FY21E, volumes will be lower due to reduced demand. Going ahead, we estimate transmission volumes at 110.9 mmscmd and 127.5 mmscmd for FY21E and FY22E, respectively, on account of additional domestic gas from newer fields. The gas transmission EBIT at ₹ 892 crore, was up 15.4% YoY, above our estimates. On the gas trading front, the volumes declined marginally YoY to 97.8 mmscmd. Gas trading profitability was above our estimates at ₹ 602.6 crore (our estimate: ₹ 352 crore). Although gas prices declined during the quarter, large proportion of volumes tied up at higher prices led to profitability from trading business. Going forward, we expect it at ₹ 966.4 crore and ₹ 1068.4 crore in FY21E and FY22E, respectively, on account of potential loss on US LNG volumes.

Petchem realisations trend important, going forward

The petchem segment reported volumes at 174 KT, below our estimate of 200 KT. Lower than estimated realisations during the quarter led to EBIT of ₹ 72.4 crore vs. our estimate of EBIT of ₹ 91.4 crore. We expect petchem segment profitability to remain lower in FY21E and FY22E as we factor in subdued realisations. LPG, LLH volumes were at 302 KT. Higher realisation led to YoY increase in EBIT, which was at ₹ 528.1 crore. We assume lower realisations for LLH segment taking into account low oil prices. Going ahead, we expect LPG, LLH EBIT at ₹ 2031.8 crore, ₹ 2219.4 crore for FY21E, FY22E, respectively.

Valuation & Outlook

In Q1FY21E, Gail's gas sales were down up to 30% in April but recovered later and is currently at 90%. The profitability of gas trading, petchem & LPG segment, which is dependent on crude oil prices will be important for overall operational performance. The timeline of bifurcation into transmission and marketing business will be important to watch in the medium term. We value Gail using the SOTP methodology, valuing the core business using DCF and EV/EBITDA multiple for other business segments with a **HOLD** recommendation and a target price of ₹ 100.

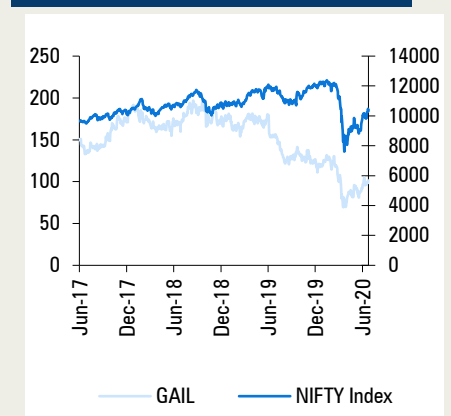
Particulars

Particular	Amount
Market Capitalization (₹ Cr)	46,454.4
Total Debt (FY 19) (₹ Crore)	1,130.8
Cash and Investments (FY	1,214.7
EV (₹ Crore)	46,370.5
52 week H/L	157/66
Equity capital (₹ Crore)	2,255.1
Face value (₹)	10.0

Key Highlights

- Profitability of gas transmission and natural gas trading above our estimates on operational basis with petchem, LPG/LLH results below estimates
- Maintain HOLD on stock with target price of ₹ 100 /share

Price Chart



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Key Financial Summary

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Revenue (₹ crore)	53,825.1	75,126.3	71,871.0	65,564.7	72,264.1	(1.3)
EBITDA (₹ crore)	7,633.9	9,528.7	8,369.4	6,367.6	7,017.9	(9.7)
PAT (₹ crore)	4,618.4	6,025.7	6,620.6	4,003.1	4,222.2	(11.2)
EPS (₹)	10.2	13.4	14.7	8.9	9.4	
PE (x)	10.1	7.7	7.0	11.6	11.0	
P/Book (x)	1.2	1.1	1.0	1.0	0.9	
EV / EBITDA	6.0	4.9	5.9	8.5	8.2	
ROCE (%)	14.7	17.6	12.6	7.2	7.4	
ROE (%)	11.5	13.7	14.0	8.2	8.4	
RoE (%)	21.4	22.8	22.7	27.5	22.0	

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Revenues	17,753.1	15,680.5	18,763.4	-5.4	17,767.3	-0.1	Higher than estimates due to higher volumes
Raw materials costs	13,850.9	12,078.3	15,186.5	-8.8	14,044.0	-1.4	
Employees Cost	325.6	440.1	399.3	-18.5	347.2	-6.2	
Other Expenses	1,101.3	1,153.7	1,493.6	-26.3	1,303.8	-15.5	
Total Expenditure	15,277.8	13,672.1	17,079.3	-10.5	15,695.0	-2.7	
EBITDA	2,475.4	2,008.4	1,684.1	47.0	2,072.4	19.4	Above our estimates on account of better gas transmission and gas trading performance
EBITDA margins (%)	13.9	12.8	9.0	497 bps	11.7	228 bps	
Depreciation	501.6	443.5	457.4	9.7	489.0	2.6	
EBIT	1,973.8	1,564.9	1,226.7	60.9	1,583.4	24.7	
Interest	32.9	31.2	26.3	25.1	24.2	36.3	
Other Income	513.2	260.0	865.9	-40.7	312.4	64.3	
Extra Ordinary Item	101.6	0.0	-326.3	NA	0.0	NA	
PBT	2,555.7	1,793.7	1,739.9	46.9	1,871.6	36.5	
Total Tax	-462.5	452.0	617.7	-174.9	621.0	-174.5	Adoption of lower tax rate
PAT	3,018.2	1,341.7	1,122.2	168.9	1,250.7	141.3	

Key Metrics

Exchange rate (₹\$)	72.5	72.5	70.5	2.8	71.2	1.8	
Transmn vol (mmscmd)	109.0	104.0	109.2	-0.1	110.3	-1.2	Higher than estimates due to lower than anticipated effect of lockdown
Transmn realisatn (₹tsc)	1584.4	1540.0	1490.5	6.3	1562.5	1.4	
Trading Vol (mmscmd)	97.8	93.0	98.4	-0.7	96.0	1.8	
Trading realisatn (\$/mmbt)	6.4	5.7	6.8	-6.6	6.4	-0.8	
Petchem Vol (000' tonne)	174.0	200.0	213.0	-18.3	211.0	-17.5	
Petchem realisatn (₹tonn)	69964.9	70680.0	80702.3	-13.3	70275.8	-0.4	Lower than estimated realisations
LPG/OLH vol (000' tonne)	302.0	325.0	335.0	-9.9	337.0	-10.4	
LPG/OLH realisatn (₹ton)	38208.9	38000.0	33489.3	14.1	28890.8	32.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹Crore)	FY21E			FY22E			Comments
	Old	New	Change	Old	New	Change	
Revenue	66578.4	65,564.7	-1.5	71521.8	72,264.1	1.0	
EBITDA	6556.8	6,367.6	-2.9	6952.3	7,017.9	0.9	Marginal reduction in prices
EBITDA Margin (%)	9.8	9.7	-14 bps	9.7	9.7	-1 bps	
PAT	4092.3	4,003.1	-2.2	4105.8	4,222.2	2.8	Increased other income estimates
EPS (₹)	9.1	8.9	-2.2	9.1	9.4	2.8	

Source: Company, ICICI Direct Research

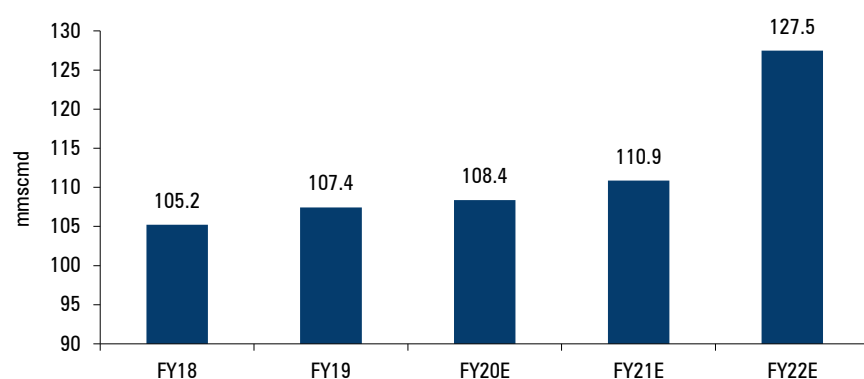
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19	FY20E	FY21E	FY22E	FY21E	FY22E	
Exchange rate (₹\$)	69.9	70.9	75.0	75.0	74.0	74.0	
GAIL subsidy burden (₹cr)	0.0	0.0	0.0	0.0	0.0	0.0	
Transmn vol (mmscmd)	107.4	108.4	110.9	127.5	113.5	127.5	Realign FY 21E estimates due to extended lockdown in Q1FY 21E
Transmn realisatn (₹tscm)	1,473.6	1,525.8	1,475.1	1,400.0	1,400.0	1400.0	
Trading Vol (mmscmd)	96.9	96.2	97.5	107.7	99.8	107.7	Realign FY 21E estimates due to extended lockdown in Q1FY 21E
Trading realisatn (\$/mmbtu)	6.8	6.6	5.6	5.6	5.6	5.6	
Petchem Vol (000' tonnes)	735.0	738.0	775.0	840.0	825.0	840.0	Revise estimates downwards
Petchem realisatn (₹tonne)	91,210.1	73,606.1	64,980.0	64,980.0	64,980.0	64,980.0	
LPG/OLH vol (000' tonnes)	1,331.0	1,317.0	1,265.0	1,300.0	1,300.0	1300.0	
LPG/OLH realisatn (₹tonne)	38,190.4	32,146.6	30,177.9	31,500.0	33,250.0	31500.0	Revise estimates downwards due to low LPG prices

Source: Company, ICICI Direct Research

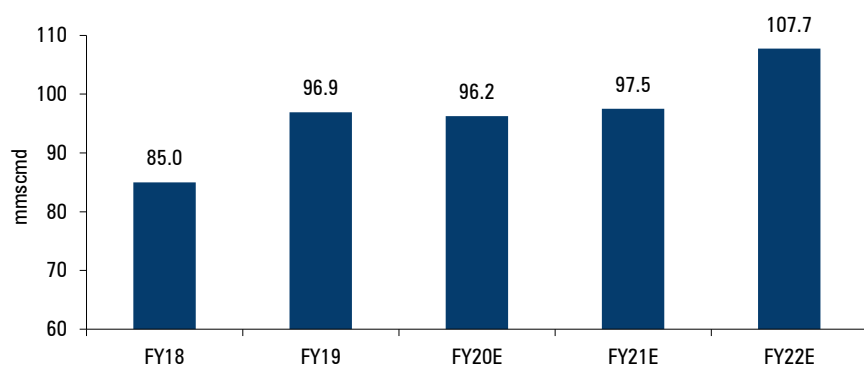
Story in charts

Exhibit 4: Gas transmission volumes trend



Source: Company, ICICI Direct Research

Exhibit 5: Gas trading volumes trend



Source: Company, ICICI Direct Research

Exhibit 6: EBIT trend (₹ crore)

	FY18	FY19	FY20E	FY21E	FY22E
Natural Gas transmission	2877.4	3253.9	3539.8	2676.3	2745.1
LPG transmission	271.2	301.4	330.9	264.6	255.8
Natural Gas Trading	1244.4	2859.1	2156.2	966.4	1068.4
Petrochemicals	261.2	384.9	-245.5	-49.7	-65.1
LPG and Liquid Hydrocarbons	2304.6	2546.5	1580.6	2031.8	2219.4
Gailtel	0.0	0.0	0.0	-27.7	-32.1
Others	258.4	297.9	537.0	640.4	634.0
EBIT	7217.2	9643.7	7899.0	6502.2	6825.5

Source: Company, ICICI Direct Research

Exhibit 7: EBIT (%)

	FY18	FY19	FY20E	FY21E	FY22E
Natural Gas	39.9	33.7	44.8	41.2	40.2
LPG	3.8	3.1	4.2	4.1	3.7
Natural Gas Trading	17.2	29.6	27.3	14.9	15.7
Petrochemicals	3.6	4.0	-3.1	-0.8	-1.0
LPG and Liquid Hydrocarbons	31.9	26.4	20.0	31.2	32.5
Gaitlel	0.0	0.0	0.0	-0.4	-0.5
Others	3.6	3.1	6.8	9.8	9.3
Total	100.0	100.0	100.0	100.0	100.0

Source: Bloomberg, ICICI Direct Research

Exhibit 8: Valuation

Segments	Enterprise Value (₹Crore)	₹ per share	% of SOTP	Method
Transmission Business				
Natural Gas Transmission	14994.7	33.2	33.1	DCF
LPG Transmission	3850.7	8.5	8.5	DCF
Value of transmission busi	18845.4	42	41.6	
Other Businesses				
Natural Gas Trading	4289.7	9.5	9.5	4x FY 22E EV/EBITDA
Petrochemicals	2273.3	5.0	5.0	4.5x FY 22E EV/EBITDA
LPG and Liquid Hydrocarbons	10694.3	23.7	23.6	4.5x FY 22E EV/EBITDA
Value of Other Businesses	17257.2	38	38.1	
Investments				
Quoted	14758.1	32.7	32.6	30% discount to CMP
Unquoted	5458.7	12.1	12.0	
Value of Investments	20216.8	45	44.6	
Firm Value	56319.4	125	124.3	
Less: Net Debt	-10993.8	-24.4	-24.3	
Equity Value	45325.6	100	100.0	

Source: Company, ICICI Direct Research

Exhibit 9: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	52.6	52.7	52.7	52.1	52.1
FII	20.9	20.3	18.8	17.8	16.3
DII	21.8	23.1	24.4	25.5	26.6
Others	4.7	3.9	4.1	4.6	5.0

Source: Company, ICICI Direct Research

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Revenue	75126.3	71871.0	65564.7	72264.1
Growth (%)	39.6	-4.3	-8.8	10.2
(Inc.) / Dec stock in trade	-382.5	-598.6	0.0	0.0
Raw material Costs	4584.3	4412.0	3917.8	4164.0
Purchase of trading good:	54662.3	53547.2	49223.1	54602.6
Employee Costs	1757.7	1519.3	1595.2	1675.0
Other Expenditure	4975.7	4621.8	4461.1	4804.8
Op. Expenditure	65597.6	63501.6	59197.2	65246.3
EBITDA	9528.7	8369.4	6367.6	7017.9
Growth (%)	24.8	-12.2	-23.9	10.2
Depreciation	1550.2	1836.0	2029.4	2356.4
EBIT	7978.5	6533.4	4338.2	4661.5
Interest	138.5	108.5	306.4	416.9
Other Income	1571.2	1416.8	1320.0	1400.0
PBT	9084.8	7943.4	5351.7	5644.6
Growth (%)	30.6	-12.6	-32.6	5.5
Tax	3059.2	1322.7	1348.6	1422.4
Reported PAT	6025.7	6620.6	4003.1	4222.2
Growth (%)	30.5	9.9	-39.5	5.5
EPS	13.4	14.7	8.9	9.4

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Source of Funds				
Equity Capital	2,255.1	4,510.1	4,510.1	4,510.1
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	41,837.9	42,849.4	44,232.1	45,571.9
Shareholder's Fund	44,093.0	47,359.6	48,742.3	50,082.0
Loan Funds	1,130.8	4,410.8	11,310.8	13,310.8
Deferred Tax Liability	5,947.7	6,170.0	6,320.0	6,470.0
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	51171.5	57940.4	66373.1	69862.8
Application of Funds				
Gross Block	36,960.2	44,960.2	52,960.2	60,960.2
Less: Acc. Depreciation	5,874.1	7,648.2	9,677.6	12,033.9
Net Block	31,086.1	37,312.0	43,282.6	48,926.2
Capital WIP	9,202.5	8,002.5	8,002.5	8,202.5
Total Fixed Assets	40,288.6	45,314.5	51,285.1	57,128.7
Investments	9,528.2	9,953.2	9,953.2	9,953.2
Inventories	2,321.9	2,362.9	2,155.6	2,375.8
Debtor	5,074.3	5,119.6	4,670.4	5,147.6
Cash	1,214.7	1,722.2	3,758.1	2,316.9
Loan & Advance, Other C	5951.0	5701.0	5621.2	5121.2
Total Current assets	14561.9	14905.6	16205.1	14961.5
Current Liabilities	11781.8	10829.9	9879.6	10889.1
Provisions	1425.3	1403.0	1190.7	1291.5
Total CL and Provisions	13207.1	12232.9	11070.3	12180.6
Net Working Capital	1354.7	2672.7	5134.8	2780.9
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	51171.5	57940.4	66373.1	69862.8

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after Tax	6,025.7	6,620.6	4,003.1	4,222.2
Add: Depreciation	1,550.2	1,836.0	2,029.4	2,356.4
Add: Others	1,316.8	222.3	150.0	150.0
Cash Profit	6,802.1	5,324.8	3,562.1	3,846.1
Increase/(Decrease) in CI	2,088.3	-974.2	-1,162.6	1,110.3
(Increase)/Decrease in C/	-2,051.3	163.8	736.3	-197.5
CF from Operating Acti	8929.7	7868.5	5756.2	7641.3
Purchase of Fixed Assets	7,459.0	6,861.9	8,000.0	8,200.0
(Inc)/Dec in Investments	425.0	-425.0	0.0	0.0
Others	0.0	1.0	1.0	1.0
CF from Investing Acti	-7,034.0	-7,286.9	-8,000.0	-8,200.0
Inc/(Dec) in Loan Funds	-949.7	3,280.0	6,900.0	2,000.0
Less: Dividend Paid	2,090.6	3,354.1	2,620.4	2,882.4
Inc/(Dec) in Sh. Cap. & Re	-170.2	0.1	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activ	-3,210.5	-74.0	4,279.6	-882.4
Change in cash Eq.	-1,314.7	507.6	2,035.8	-1,441.1
Op. Cash and cash Eq.	2,529.4	1,214.7	1,722.2	3,758.1
Cl. Cash and cash Eq.	1,214.7	1,722.2	3,758.1	2,316.9

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
Book Value	97.8	105.0	108.1	111.0
Cash per share	2.7	3.8	8.3	5.1
EPS	13.4	14.7	8.9	9.4
Cash EPS	16.8	18.8	13.4	14.6
DPS	3.8	6.4	5.0	5.5
Profitability & Operating Ratios				
EBITDA Margin (%)	12.7	11.6	9.7	9.7
PAT Margin (%)	8.0	9.2	6.1	5.8
Fixed Asset Turnover (x)	1.9	1.6	1.3	1.3
Inventory Turnover (Days)	11.3	12.0	12.0	12.0
Debtor (Days)	24.7	26.0	26.0	26.0
Current Liabilities (Days)	57.2	55.0	55.0	55.0
Return Ratios (%)				
RoE	13.7	14.0	8.2	8.4
RoCE	17.6	12.6	7.2	7.4
RoIC	18.1	13.1	7.7	7.6
Valuation Ratios (x)				
PE	7.7	7.0	11.6	11.0
Price to Book Value	1.1	1.0	1.0	0.9
EV/EBITDA	4.9	5.9	8.5	8.2
EV/Sales	0.6	0.7	0.8	0.8
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.1	0.2	0.3
Interest Coverage (x)	57.6	60.2	14.2	11.2
Debt to EBITDA (x)	0.1	0.5	1.8	1.9
Current Ratio	1.1	1.2	1.5	1.2
Quick ratio	0.9	1.0	1.3	1.0

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
BPCL (BHAPET)	357	350	Hold	67,267	13.6	28.4	29.9	26.2	12.6	11.9	15.3	10.4	9.2	4.2	8.2	8.7	7.5	14.7	14.8
GAIL (India) (GAIL)	103	100	Hold	46,454	14.7	8.9	9.4	7.0	11.6	11.0	5.9	8.5	8.2	12.6	7.2	7.4	14.0	8.2	8.4
Gujarat Gas (GUJGA)	289	290	Hold	19,895	17.3	9.2	16.0	16.7	31.6	18.0	12.7	16.5	10.7	26.7	18.5	28.8	36.4	16.5	23.1
HPCL (HINPET)	222	215	Hold	33,867	17.3	24.2	25.9	12.8	9.2	8.6	13.5	9.1	7.5	2.8	6.2	7.0	9.1	12.1	12.5
Indian Oil Corp (INDOIL)	88	85	Hold	80,793	4.5	10.8	11.6	19.6	8.2	7.6	4.5	3.2	3.0	4.9	8.2	8.6	3.9	9.0	9.7
Indraprastha Gas (INDGAS)	450	440	Hold	31,500	16.2	15.7	19.5	27.7	28.6	23.1	20.4	19.5	15.5	25.2	21.9	23.4	22.6	18.8	19.9
Mahanagar Gas (MAHGAS)	1075	1145	Hold	10,619	80.3	58.3	88.0	13.4	18.4	12.2	9.5	11.8	7.6	32.0	22.1	29.0	28.5	18.7	23.8
ONGC (ONGC)	86	65	Reduce	1,10,367	16.2	3.0	11.3	5.3	28.6	7.6	2.6	5.9	3.7	10.8	0.3	5.8	9.4	1.7	6.4
Petronet LNG (PETLNG)	252	245	Buy	37,800	19.4	16.7	19.7	13.0	15.1	12.8	8.9	8.8	7.6	24.2	24.1	29.0	27.7	23.7	26.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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