

Gas Trading remains the key monitorable

GAIL reported EBITDA/PAT at Rs13.4/Rs12.4bn (-23/+4% yoy), vs CenE Rs18.8/Rs12.6bn and consensus estimates Rs16/Rs11bn. The operational miss was driven almost entirely by a second successive qtr of losses from Gas trading even as Gas transmission, Petchem came above our estimates for the quarter and other income also surprised positively, rising 65% yoy. H1FY21 EBITDA/PAT of Rs19.6/15bn is therefore down 51/40% yoy. Operationally however, metrics improved qoq, with a 16 mmscmd increase in transmission volumes, 87 kt increase in Petchem and 7.4 mmscmd increase in gas trading volumes. While H1 has been weak, H2 may throw up some positive surprises from transmission/Petchem. Reiterate ADD

Volumes show marked improvement qoq

Post an abysmal Q1 in terms of operational metrics, GAIL has seen some element of normalization across business segments, with Gas transmission volumes jumping 16mmscmd qoq to 106mmscmd, Petchem volumes back to 220kt and LPG volumes also back to 1.06mt. Gas trading volumes also improved 7mmscmd qoq, but that improvement did not show up too much in numbers due to continued losses from US LNG portfolio.

Segment EBIT dragged down by weak gas trading

Gas transmission EBIT of Rs10.2bn (+42% qoq, +3% yoy) was helped by the jump in volumes and also lower opex, with costs dipping 54% yoy to Rs0.3/scm. Petchem EBIT also turned positive after a loss of Rs1.56bn to Rs1.7bn while LPG+LHC EBIT of Rs2.8bn was up 14% yoy and 5% qoq. All this improvement is more than offset by the continued weakness in the Gas trading segment, which reported a second successive quarter of EBIT loss of Rs3.6bn (Rs5.4bn loss in Q1). While the impact of higher spot LNG prices will be reflected in better trading metrics over H2, uncertainty on the direction in gas trading remains a key monitorable

Gas Trading remains the albatross for earnings growth

While management has emphasized hedging of >70% of the US portfolio for CY21 already but a potential loss of >US\$2/mmbtu on even 30% can materially impact FY21E earnings. While we were already factoring a gradual loss of US\$1.5/mmbtu for ~1.5mt volume in our estimates, given the sharp loss in H1 along with an inventory loss, we now factor higher loss of Rs25bn for FY21e in trading

Limited triggers in medium term, ADD

Given the weak H1 performance, we have moderated margins for the petchem/trading segment and lowered the trading volumes from earlier estimates resulting in revision of EPS downwards by 2/0.5% for FY21/22E. While current valuations of 6.6x FY21E EPS are not challenging, we do not see any rerating triggers in the next 12Mth for GAIL with continued uncertain prospects for Gas trading and only a slow ramp up in overall Gas demand to keep EPS growth muted. Reiterate ADD

Financial and valuation summary

YE Mar (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	FY20	FY21E	FY22E
Revenue	136,427	180,399	-24.4%	120,869	12.9%	720,570	740,940	761,091
EBITDA	13,381	17,487	-23.5%	6,226	114.9%	85,554	68,455	91,744
EBITDA margin(%)	9.8%	9.7%		5.2%	11.9%	9.2%	12.1%	
EBIT	8,538	13,089	-34.8%	1,644	419.5%	67,194	49,607	71,391
EBIT margin (%)	6.3%	7.3%		1.4%	9.3%	6.7%	9.4%	
Adj. PAT	12,397	11,889	4.3%	2,555	385.2%	59,320	45,794	61,833
Diluted EPS	2.7	2.6	4.3%	0.6	385.2%	13.2	10.2	13.7
PER						6.9	8.9	6.6
EV/EBITDA						5.9	7.2	5.5
P/BV						0.9	0.9	0.8

Source: Company, Centrum Broking

Result Update

India I Oil & Gas

10 November, 2020

ADD

Price: Rs91

Target Price: Rs105

Forecast return: 16%

Institutional Research

Market Data

Bloomberg:	GAIL IN
52 week H/L:	133/65
Market cap:	Rs406.8bn
Shares Outstanding:	4510.1mn
Free float:	22.5%
Avg. daily vol. 3mth:	1,40,52,350
Source: Bloomberg	

Changes in the report

Rating:	No Change
Target price:	-4%
EPS:	FY21e -2.4%, FY22e -0.5%
Source: Centrum Broking	

Shareholding pattern

	Sep-20	Jun-20	Mar-20	Dec-19
Promoter	52.1	52.1	52.1	52.1
FIIs	15.1	15.6	16.3	17.8
DIIIs	10.9	12.4	12.1	11.0
Public/other	21.9	19.9	19.5	19.1
Source: BSE				

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q2FY21	Actual Q2FY21	Variance (%)
Revenue	177.9	136.4	(23.3)
EBITDA	18.8	13.4	(28.8)
EBITDA margin	10.6	9.8	
Other Income	3.2	7.2	126.2
Interest	0.4	0.3	(21.6)
Depreciation	4.8	4.8	0.9
PBT	16.8	15.5	(8.0)
Tax	4.2	3.1	(26.7)
Rep. PAT	12.6	12.4	(1.6)
Adj. PAT	12.6	12.4	(1.6)
Source: Bloomberg, Centrum Broking			



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Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY21E New	FY21E Old	% chg	FY22E New	FY22E Old	% chg
Revenue	7,40,940	7,34,217	0.9%	7,61,091	7,62,724	-0.2%
EBITDA	68,455	70,396	-2.8%	91,744	92,556	-0.9%
EBITDA margin	9.2%	9.6%		12.1%	12.1%	
Adj. PAT	45,794	46,943	-2.4%	61,833	62,053	-0.4%
Diluted EPS (Rs)	10.2	10.4	-2.4%	13.7	13.8	-0.4%

Source: Centrum Broking

GAIL versus NIFTY Midcap 100

	1m	6m	1 year
GAIL IN	5.3	(1.3)	(29.0)
NIFTY 50	6.0	36.5	6.1

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY21E	FY22E
Brent (US\$/bbl)	40.5	50.0
INR/USD	74.2	73.5
Natural Gas Transmission		
Volumes (mmscmd)	103.6	110.0
Tariff (Rs/mcm)	1,550	1,550
LPG Transmission		
Volumes ('000 mt)	4,021	4,061
Tariff (Rs/mt)	1,644	1,661
Natural Gas Trading		
Volumes (mmscmd)	87.9	93.4
EBIT margin/mcm	(236)	500
Petrochemicals		
Sales Volumes ('000 mt)	777	797
Realisation (Rs/mt)	65,072	69,346
LPG and LHC		
Volumes (kt)	1,120	1,210
Realisation (Rs/mt)	29,965	29,672

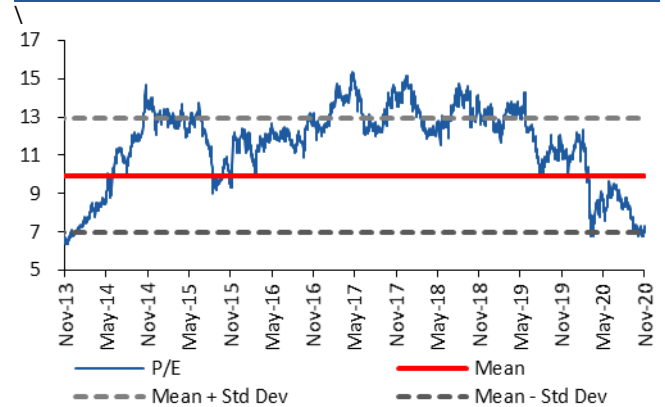
Source: Centrum Broking

Valuations

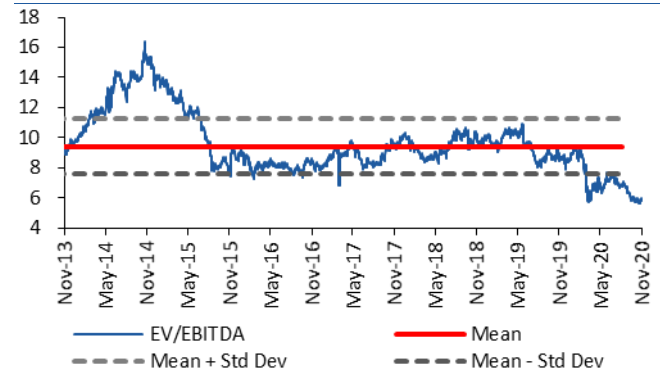
We value GAIL on EV/EBITDA (FY22e), Putting EV/E multiples of 5-5.5x for various business segments

Valuations	Rs/share
Transmission (NG+LPG) @ 5x FY22e EV/E	55
NG Trading (5.5x FY22e EV/E)	20
Petchem 5x FY22e EV/E	4
LPG +LHC (5x FY22e EV/E)	13
Other	(15)
Total EV	78
Net Debt	(0)
Core Business Equity Value	78
Listed Investements (@40% discount to CMP)	27
Target valuation	105
Upside (downside) from CMP (%)	16%

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap	CAGR (FY20-22E)			P/E (x)			EV/EBITDA (x)			FY20		
	(Rs mn)	Sales	EBITDA	EPS	FY20	FY21E	FY22E	FY20	FY21E	FY22E	RoE (%)	ROCE (%)	Div. Yield
GAIL	409,521	2.8	3.6	2.1	6.9	8.9	6.6	5.9	7.2	5.5	13.5	12.5	7.0
PLNG	358,500	(9.7)	3.5	12.5	14.7	12.6	11.6	7.8	7.8	7.2	24.6	28.5	6.1
GSPL	104,520	2.6	1.9	4.1	12.3	11.8	11.3	11.8	9.4	8.7	14.2	15.6	0.9
IGL	297,500	5.6	7.6	3.8	26.2	34.7	24.3	18.3	22.0	15.7	22.5	23.7	0.7
MGL	84,457	4.5	2.6	0.9	11.3	19.4	11.1	6.6	10.7	6.3	25.0	28.6	4.2
GGL	212,716	4.7	14.5	18.3	23.2	21.2	16.6	14.2	13.1	10.3	27.8	21.9	0.5

Source: Company, Centrum Broking

Exhibit 1: Quarterly Summary

Particulars (Rs bn)	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Sales	1,97,890	1,87,634	1,83,106	1,82,259	1,77,673	1,77,531	1,20,869	1,36,427
Total Income	1,97,890	1,87,634	1,83,106	1,84,119	1,77,673	1,77,531	1,20,869	1,36,427
Accretion to Stocks in trade & work in progress	(213)	3,478	2,856	(584)	(3,952)	(4,307)	4,008	3,086
Raw Material Consumed	12,039	12,352	9,983	13,705	10,760	9,672	7,706	10,199
Purchase of Semi/finished goods/traded goods	1,44,190	1,36,034	1,32,476	1,36,220	1,33,632	1,33,144	88,318	95,369
Employee Expenses	3,920	3,993	4,197	4,268	3,472	3,256	3,978	4,083
Other Exp	11,220	14,936	11,005	13,023	13,038	11,013	10,633	10,310
Operating Profit (Core EBITDA)	26,735	16,841	22,590	17,487	20,724	24,754	6,226	13,381
Depreciation	3,634	4,574	4,057	4,398	4,890	5,016	4,583	4,843
EBIT	23,101	12,267	18,533	13,089	15,834	19,738	1,644	8,538
Interest	227	263	239	275	242	329	495	274
Other Revenue/Income	2,201	8,659	1,512	4,401	3,124	5,132	2,413	7,239
Profit Before Tax	25,075	17,399	19,805	15,355	18,716	25,557	3,562	15,503
Tax	8,262	6,177	6,930	4,713	6,210	(4,625)	1,007	3,107
Tax rate (%)	33.0%	35.5%	35.0%	30.7%	33.2%	-18.1%	28.3%	20.0%
Profit After Tax	16,812	11,222	12,875	10,643	12,507	30,182	2,555	12,397
PAT attributable to Consolidated Group	16,812	11,222	12,875	10,643	12,507	30,182	2,555	12,397
Adjusted PAT for the group	16,812	13,409	12,875	11,889	12,507	22,049	2,555	12,397
Growth (%)								
Net Sales	37.3%	21.6%	5.9%	-4.3%	-10.2%	-5.4%	-34.0%	-25.1%
EBITDA	23.9%	-0.7%	-0.5%	-35.2%	-22.5%	47.0%	-72.4%	-23.5%
Adj. PAT (stdnle)	22.4%	33.8%	2.2%	-34.3%	-25.6%	64.4%	-80.2%	4.3%
Margin (%)								
EBITDA	13.5%	9.0%	12.3%	9.6%	11.7%	13.9%	5.2%	9.8%
EBIT	11.7%	6.5%	10.1%	7.2%	8.9%	11.1%	1.4%	6.3%
PAT (reported bef minority interest)	8.5%	6.0%	7.0%	5.8%	7.0%	17.0%	2.1%	9.1%
Key Drivers								
Brent (US\$/bbl)	67.6	64.0	68.5	61.9	62.4	50.0	32.0	42.7
INR/USD	72.1	70.5	69.6	70.4	71.2	72.6	75.5	74.4
Natural Gas Transmission								
Volumes (mmscmd)	107.7	109.2	105.4	108.7	110.3	109.0	90.2	106.4
Tariff (Rs/mcm)	1,486	1,490	1,543	1,601	1,562	1,567	1,545	1,573
Natural Gas Trading								
Volumes (mmscmd)	96.0	98.4	96.6	94.7	96.0	97.8	81.2	88.6
EBIT margin/mcm	764.8	663.3	968.0	271.6	528.2	677.4	(738.5)	(451.4)
Petrochemicals								
Volumes ('000 mt)	173.0	213.0	136.0	217.0	211.0	174.0	183.0	224.0
Realisation (Rs/mt)	92,451	80,702	81,821	74,616	70,276	69,965	66,759	75,211
LPG and LHC								
Volumes ('000 mt)	342	335	296	329	337	302	265	297
Realisation (Rs/mt)	44,215	33,489	38,704	29,195	28,891	38,209	28,223	27,038

Source: Centrum Broking, Company Data

Exhibit 2: Management commentary takeaways

	Q1FY21	Q2FY21	Comments
Transmission volumes	Volumes were significantly impacted in the month of Apr'20 and May'20 which dragged the overall Q1 volumes down. A sharp decline was seen from the CGD sector with CNG volumes the most impacted. However, the management has highlighted that the volumes have sharply recovered and currently trending at 109.5mmscmd	Volumes have recovered sharply by 16mmscmd back to 106mmscmd levels and management expects full normalisation over Q3	We factor 112/118 mmscmd average volumes in our estimates
Trading volumes	Trading segment reported an EBIT loss of Rs5.5bn in Q1 driven by very weak volumes impacted due to lockdown coupled with higher than estimated loss due to pricing differential between US LNG and spot LNG prices. Management indicated that the volumes have again recovered as demand has picked up post the relaxation in lockdown.	Trading segment losses reduced by Rs2bn or so for the quarter and Management expects a much stronger H2 for the segment	We now factor a loss of Rs7bn (EBIT loss) for the segment for FY21e before reverting to positive EBIT of Rs16.8bn in FY22e
Pipeline tariffs	PNGRB is still working on the unified tariff proposal. Post the open house, all the stakeholders have already submitted their comments and are awaiting reply from the regulator	No further update	Limited impact seen as the unified tariff is likely to be fixed at a revenue neutral level
Capex Guidance	GAIL has guided capex of Rs50-60bn for FY21E and Rs80-90bn for FY22E. In Q1, capex incurred was lower at Rs4bn due to lockdown, however management expects to accelerate their capex spends over the next 9M	Guidance lowered for FY22e to Rs66bn, maintained at Rs60bn for FY21e	No change in our estimates
Update on JHBDPL	Project work is on track and is scheduled to be completed at the given timelines	On track – No change in timelines	
Update on Kochi – Mangalore	Work is ongoing, however with partial workforce	Work has picked up, expected to be completed by Nov. More importantly, work has finally started on the TN leg of the Kochi-Bangalore pipeline as well	3mmscmd of incremental volumes expected over FY22e from this pipeline
Petchem outlook	Petchem volumes were impacted due to lockdown resulting in EBIT loss of Rs1.5bn in Q1. Management expects volumes to improve going forward which will reduce the costs and improve margins.	Improving realisations and >90kt higher qoq volumes drove Rs1.7bn of EBIT vs a loss in Q1	We have upgraded FY21e EBIT estimates to Rs3.3bn (3bn earlier)

Source: Centrum Broking, Company Data

Exhibit 3: We see limited triggers from here

GAIL SoTP VALUATION	FY22E	Multiple	EV
GAIL segmental EBITDA	Rsm	x	Rsm
Natural gas transmission	45,144	5.0	225,720
LPG transmission	4,099	5.0	20,494
NG and LPG transmission	49,243	5.0	246,214
NG Trading	16,807	5.5	92,439
Petchem	3,912	5.0	19,562
LPG and Liquid Hydrocarbons	11,718	5.0	58,592
Other unallocated	(13,225)	5.0	(66,127)
EBITDA	68,455	5.0	350,679
Net debt			(2,136)
Total Equity Value			352,815
# of shares			4,510
Equity value/ share			78
Listed Investments			27
Total Equity Value			105
CMP			91
Upside (downside) %			16.0%

Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenues	5,36,616	7,48,983	7,20,570	7,40,940	7,61,091
Operating Expense	4,04,369	5,88,642	5,73,605	5,89,821	6,05,862
Employee cost	13,407	17,784	15,193	16,256	17,394
Others	42,500	49,287	46,218	66,408	46,090
EBITDA	76,339	93,271	85,554	68,455	91,744
Depreciation & Amortisation	14,151	15,502	18,360	18,848	20,353
EBIT	62,188	77,769	67,194	49,607	71,391
Interest expenses	2,751	1,385	1,085	3,277	3,842
Other income	9,870	15,448	14,168	14,867	15,083
PBT	69,584	90,848	79,434	61,197	82,632
Taxes	23,400	30,592	13,227	15,403	20,798
Effective tax rate (%)	33.6	33.7	16.7	25.2	25.2
PAT	46,184	60,257	66,206	45,794	61,833
Minority/Associates	0	0	0	0	0
Recurring PAT	45,999	60,916	59,320	45,794	61,833
Extraordinary items	186	(659)	6,887	0	0
Reported PAT	46,184	60,257	66,206	45,794	61,833
Ratios					
YE Mar	FY18A	FY19A	FY20A	FY21E	FY22E
Growth (%)					
Revenue	11.4	39.6	(3.8)	2.8	2.7
EBITDA	19.1	22.2	(8.3)	(20.0)	34.0
Adj. EPS	19.6	32.4	(2.6)	(22.8)	35.0
Margins (%)					
Gross	24.6	21.4	20.4	20.4	20.4
EBITDA	14.2	12.5	11.9	9.2	12.1
EBIT	11.6	10.4	9.3	6.7	9.4
Adjusted PAT	8.6	8.1	8.2	6.2	8.1
Returns (%)					
ROE	11.7	14.4	13.5	10.1	12.7
ROCE	11.2	14.1	14.4	9.4	11.6
ROIC	8.9	10.4	10.1	6.3	8.2
Turnover (days)					
Gross block turnover ratio (x)	1.6	2.0	1.7	1.7	1.6
Debtors	27	22	27	28	28
Inventory	16	13	17	19	19
Creditors	30	24	26	26	26
Net working capital	22	17	29	38	36
Solvency (x)					
Net debt-equity	0.0	0.0	0.1	0.1	0.1
Interest coverage ratio	27.7	67.3	78.9	20.9	23.9
Net debt/EBITDA	(0.1)	0.0	0.5	0.6	0.6
Per share (Rs)					
Adjusted EPS	10.2	13.5	13.2	10.2	13.7
BVPS	89.4	97.8	97.5	103.5	111.6
CEPS	13.3	16.9	17.2	14.3	18.2
DPS	3.9	3.8	6.4	3.6	4.8
Dividend payout (%)	37.9	28.8	43.6	35.0	35.0
Valuation (x)					
P/E	8.9	6.7	6.9	8.9	6.6
P/BV	1.0	0.9	0.9	0.9	0.8
EV/EBITDA	5.3	4.4	5.3	6.5	5.0
Dividend yield (%)	4.3	4.2	7.0	3.9	5.3

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Equity share capital	22,551	22,551	45,101	45,101	45,101
Reserves & surplus	3,80,730	4,18,379	3,94,610	4,21,713	4,58,310
Shareholders fund	4,03,281	4,40,930	4,39,711	4,66,815	5,03,412
Minority Interest	0	0	0	0	0
Total debt	20,805	10,011	54,118	66,627	77,130
Non Current Liabilities	16,650	34,384	44,860	46,206	47,592
Def tax liab. (net)	46,309	59,477	44,972	44,972	44,972
Total liabilities	4,87,045	5,44,801	5,83,661	6,24,619	6,73,106
Gross block	3,28,757	3,69,602	4,13,331	4,38,331	4,73,331
Less: acc. Depreciation	(40,859)	(58,741)	(76,881)	(95,729)	(1,16,082)
Net block	2,87,898	3,10,861	3,36,450	3,42,602	3,57,248
Capital WIP	55,140	92,025	1,05,819	1,20,819	1,55,819
Net fixed assets	3,43,038	4,02,886	4,42,269	4,63,420	5,13,067
Non Current Assets	0	0	0	0	0
Investments	1,11,427	1,06,204	84,013	84,013	84,013
Inventories	19,195	23,219	29,601	30,438	31,265
Sundry debtors	40,515	50,743	55,759	57,336	58,895
Cash & Cash Equivalents	25,294	12,147	8,039	28,756	25,220
Loans & advances	41,353	48,587	65,655	65,655	65,655
Other current assets	0	0	0	0	0
Trade payables	38,816	39,612	41,284	43,720	43,516
Other current liab.	40,678	45,120	47,544	47,827	47,917
Provisions	14,283	14,253	12,847	13,452	13,578
Net current assets	32,581	35,711	57,379	77,186	76,025
Total assets	4,87,045	5,44,801	5,83,661	6,24,619	6,73,106

Cashflow					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Profit Before Tax	69,584	90,848	79,434	61,197	82,632
Depreciation & Amortisation	14,151	15,502	18,360	18,848	20,353
Net Interest	(527)	(3,066)	(2,027)	(1,778)	(1,213)
Net Change – WC	18,864	(3,282)	3,073	751	(2,538)
Direct taxes	(13,216)	(20,764)	(19,555)	(15,403)	(20,798)
Net cash from operations	86,626	78,763	68,881	58,115	72,935
Capital expenditure	(29,425)	(72,022)	(54,345)	(40,000)	(70,000)
Acquisitions, net	0	0	0	0	0
Investments	0	0	0	0	0
Others	3,745	17,656	(13,944)	10,714	10,719
Net cash from investing	(25,680)	(54,366)	(68,289)	(29,286)	(59,281)
FCF	57,201	6,741	14,536	18,115	2,935
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	(30,116)	(11,348)	45,196	12,509	10,503
Dividend paid	(21,027)	(20,886)	(39,421)	(18,690)	(25,236)
Interest paid	(3,562)	(1,417)	(1,132)	(3,277)	(3,842)
Others	5,634	(3,894)	(9,344)	1,346	1,386
Net cash from financing	(49,071)	(37,544)	(4,700)	(8,112)	(17,189)
Net change in Cash	11,876	(13,147)	(4,109)	20,717	(3,535)

Source: Company, Centrum Broking

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Source: Bloomberg

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