

GAIL

05 December 2020

Reuters: GAIL.NS; Bloomberg: GAIL IN

Raise TP on unified tariff, petchem gains; retain BUY

Event update: The unified tariff regulation notified by the PNGRB last week is designed to be revenue neutral for existing pipelines of natural gas transportation as explained in the new regulation. And this view has been echoed by industry executives during our channel checks. We agree with the regulations' primary rationale to help deliver gas at a uniform tariff across India and expand the gas market. And the proposal to notify rules for the gas exchange (and a grid management system) will support gas to gas competition. In a nutshell, the unified tariff, if taken to its logical conclusion and supported by a natural gas exchange, availability of 'green' fuel at a competitive price and a gas grid management system will support long term growth in Indian gas demand.

Positive impact for gas transmission companies: This is positive for enhanced volumes and utilisation in existing as well as new pipelines, which would support gas transmission assets earning returns closer to the 12% normative return allowed by the PNGRB (post tax Return on Capital Employed). We have revised our long-term gas volumes beyond FY25 (from nil to 5%) for GAIL's gas transmission DCF valuation besides revising our FY22E/23E 15.8%/17.5% based on an increase in petchem/LPG price and margin assumptions. As a result, we have raised our SOTP-based TP from Rs112 to Rs140 and maintained BUY on GAIL, notwithstanding the recent rally.

GAIL to enjoy better transmission earnings and RoCE: We believe this development would be particularly positive for GAIL's gas transmission business in terms of upside in segment EBIT and ROCE, which has been coming below the regulated return - as a result of capacity utilisation being less than the normative capacity utilisation of 75% built into the PNGRB's tariff. We have added 5% growth in gas demand from FY26 in our DCF model for GAIL's transmission business. This has increased GAIL's gas transmission segment value from Rs37/share to Rs54/share.

Revising GAIL's petchem EBITDA by 11.3%/459.8%/30.1.7% over FY21-23E: The large increase in petchem earnings is due to the rebound expected from trough level to near normal industry margins. We have also raised our LPG & HC segment EBITDA by 14.34%/16.38% over FY22-23E. This is based on the recent upswing in petchem/LPG prices due to improved demand and rise in naphtha feedstock price for petchem crackers. GAIL is likely to get enhanced benefits when Petchem and LPG prices enter an upcycle, based on its gas based petchem and LPG production. GAIL enjoys a higher leverage to LPG prices as it gets cheap domestic (APM) gas for LPG.

Retain Buy with revised TP of Rs140: Based on these changes, we are raising GAIL's valuation (before adjusting risk) from Rs125 to Rs155. We are revising our TP from Rs112 to Rs140 after adjusting our unchanged risk factor of 10% towards policy and execution concerns.

Key catalysts: Unified tariff is positive for long term volume expansion in the Indian gas market. The return ratios from the gas transmission business are likely to expand as GAIL's transmission volume increases and the capacity utilisation improves. The recent increase in petchem/LPG prices will support higher earnings from petchem and LPG & HC segments. Stock trades at an attractive valuation - PE of 10.1x/9.5x on FY22/FY23E and P/BV 1.1x/1.0x on FY22E/FY23E. Our revised TP (after reducing 10% for policy, execution risk) offers 16.4% upside from the CMP.

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	7,51,263	7,18,710	5,19,271	7,17,949	7,90,883
EBITDA	95,551	83,694	59,579	81,372	92,845
Net Profit Adj	63,520	65,190	40,450	53,334	56,902
EPS (Rs)	14.08	14.45	8.97	11.83	12.62
EPS gr (%)	38.4	2.6	-38.0	31.9	6.7
EBITDA Margin (%)	12.7	11.6	11.5	11.3	11.7
EV/EBITDA	6.3	7.2	10.1	7.4	6.5
P/E	8.5	8.3	13.4	10.1	9.5
P/BV	1.23	1.23	1.16	1.08	1.00
Dividend Yield (%)	4.1	0.1	1.0	-0.8	1.5
FCF yield %	3.20	3.21	2.50	3.33	3.75
Post-tax RoCE (%)	11.8	11.8	6.3	9.0	8.1
RoE (%)	15.0	14.8	8.9	11.0	10.9

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Oil & Gas

CMP: Rs120

Target Price: Rs140

Upside: 16.4%

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Key Data

Current Shares O/S (mn)	4,510.1
Mkt Cap (Rsbn/US\$bn)	540.3/7.3
52 Wk H / L (Rs)	133/65
Daily Vol. (3M NSE Avg.)	19,321,980

Price Performance (%)

	1 M	6 M	1 Yr
GAIL	37.0	22.4	(1.2)
Nifty Index	8.1	30.7	11.2

Source: Bloomberg

Street Standalone EPS Estimates for GAIL

EPS Rs	FY21E	FY22E	FY23E
Consensus	10.73	14.05	14.86

Source: Bloomberg

Long term cyclical upswing to boost petchem/LPG earnings: GAIL's LPG business is based on low-priced domestic gas (APM gas). A revival in oil prices and refining can boost LPG prices, which will enhance margins manifold - a US\$10/bbl rally in oil implies US\$80-100/te hike in LPG prices. Similarly, a cyclical upturn in petchem can boost GAIL's margin above that of peers based on naphtha crackers as gas cost does not move in tandem with the oil-naphtha-ethylene chain. A US\$100/te increase in petchem prices implies 8.5% rise in GAIL's EPS and at least 5.5% upside to our base case TP.

Risks: Gas trading losses are a cause for concern although the management believes that the segment is likely to improve in future. Regulatory and policy risks from the potential downside in regulated tariffs and execution risk in projects. Petchem and LPG & HC segments are cyclical and still vulnerable to fresh lockdown and slowdown in demand, which can hurt margins. However, GAIL's management has denied that there is any downside risk to its tariff. The management sees transmission volume (that affects capacity utilisation) as the key risk for segment earnings.

Rating rationale

- Demand growth to accelerate at stable gas prices of under US\$4-5/mmbtu
- Gas cost leverage to boost cyclical chemical earnings and valuations
- JHBDPL project to support gas business earnings from transmission and trading
- Positive risk-reward at current valuation on P/BV vs. potential increase in future RoE

Earnings and TP revision

We have raised earnings by 1.4%/15.8%/17.5% over FY21E-23E based on revised price and margins for petchem and LPH & HC segments. **Based on revised earnings, we have changed our SOTP-based TP from Rs112 to Rs140, which is after reducing 10% due to policy and execution risk.**

Exhibit 1: Revised assumptions and earnings for GAIL

Rs Mn	Earlier estimates			Revised estimates			% Revision		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY20E	FY21E	FY23E
Gas transmission mmscmd	102.89	108.77	112.77	102.89	108.77	112.77	0.00	0.00	0.00
Gas marketing mmscmd	87.24	105.00	113.00	87.24	105.00	113.00	0.00	0.00	0.00
Petchem Mn tonne	0.79	0.80	0.80	0.79	0.80	0.80	0.00	0.00	0.00
LPG transmission mmpa	4.10	4.31	4.52	4.10	4.31	4.52	0.00	0.00	0.00
LPG and HC mn tonne	1.20	1.26	1.26	1.20	1.26	1.26	0.00	0.00	0.00
Revenue	5,19,271	6,88,072	7,58,018	5,19,271	7,17,949	7,90,883	0.00	4.34	4.34
EBITDA	58,855	71,676	81,522	59,579	81,372	92,845	1.23	13.53	14
EBITDA margin (%)*	11.3	10.4	10.8	11.5	11.3	11.7	13.9	91.7	98.5
PAT	39,909	46,079	48,429	40,450	53,334	56,902	1.36	15.75	17.50
EPS	8.85	10.22	10.74	8.97	11.83	12.62	1.36	15.75	17.50
TP	112			140			24.9		

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

Exhibit 2: Petchem and LPG&HC segment revision

Rs mn	Earlier estimates			Revised estimates			% Revision		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Petchem									
Revenue	55506	59609	68042	55506	66332	75438	0.00	11.28	10.87
EBITDA	6404	1867	3119	7128	10450	12529	11.30	459.81	301.66
LPG & HC									
Revenue	39322	27576	30334	39322	50729	55802	0.00	83.96	83.96
EBITDA	9734	12300	13652	9734	14064	15888	0.00	14.34	16.38

Source: Nirmal Bang Institutional Equities Research; Note: Segment EBITDA excludes other income; company segment reporting includes other income

Exhibit 3: GAIL SOTP Valuation and TP revision

	method	multiple	Revised		Previous	
			EBITDA	EV Rs mn	EBITDA	EV Rs mn
Gas/LPG transportation	DCF	na	na	2,78,565	na	197259
Gas trading	EV/E	6.0	12009	72,051	12009	72051
Petrochemicals	EV/E	6.0	11490	68,937	3716	22295
LPG and Hydrocarbons	EV/E	6.0	14976	89,857	12976	77856
Others segment	EV/E	6.0	2063	12,375	3778	22665
GAIL core business EV			40537	5,21,785	32478	392126
Net debt				59,771		70599
Equity value- GAIL core business				462014		321527
Value per share				Rs		Rs
GAIL core business				102		71
#GAIL Gas+investments				53		54
GAIL valuation excluding risk				155		125
<i>Discount -Regulatory and policy risk</i>				-16		12
GAIL TP				140		112

Source: Nirmal Bang Institutional Equities Research

Exhibit 4: Gas transmission – DCF Valuation Summary

Gas transmission			Rs mn
Rf	6.00%	Gas volume gr FY22-25	6.7%
Beta	0.9	Gas volume gr From FY26	5%
Risk premium	5%	PV of FCFF (FY22-FY35)	2,65,479
Ke	10.50%	EV Gas transmission	2,65,479
Kd	9%	Net Debt	23,060
Kd*(1-t)	6.8%	Equity value	2,42,419
WACC	9.6%	Equity value Rs Per share	54

Source: Nirmal Bang Institutional Equities Research

Notes: Gas transmission tariff assumption for DCF valuation

- FY22-25: Rs 1.4-1.8 per scm, (Rs40.5- 50/mmbtu)
- FY26-FY35: Rs1.9-2.3 per scm (Rs52-63 per mmbtu)

The concept of unified tariff

The revenue for all transporters together on a weighted average basis will be matched by the value of the tariff charged and collected from all customers on weighted avg basis across the entire grid. The actual cashflow reconciliation will require a pool system to be managed by an authorised entity - like GAIL or new entity appointed by PNGRB. These operational details are awaited by GAIL. The Unified tariff will be reviewed on an annual basis vs the draft proposal based on fortnightly reverse. Further in situations when gas injection starts in a new line between Oct and March, the review will be after 18 months. The only question for an investor is how the blended cashflows from existing and new pipelines will actually move on annual basis and its impact on P&L and BS. To explain this - the regulation envisages two zones 1- within 300 kms from sourcing point of gas, and 2 beyond this 300 km. Zone 2 will charge customers unified tariff (Ut) (around Rs57/ mmbtu) zone 1 tariff will be capped at 40% of the Ut and the collection will be on the gas volume purchased by customer. The transporter will be paid approved tariff for each pipeline on actual volume transported. And the customer will pay only on incremental volume on each pipeline linked to various other pipelines in the grid - meaning gas purchased by any customer passing through different pipelines from source to the point of consumption will a) be subject to only one tariff for first pipeline where gas is injected, and not entail cascading tariffs for downstream pipelines as is the system today (to avoid double counting of volumes).

Tariffs and returns on transmission business

GAIL had said in 2QFY21 concall that it will not accept unified tariff unless this helps maintain its existing blended tariff and return. The segment RoE at 7-8% being less than regulated RoE of 12% is due to the volumes being less than the normative volumes used by PNGRB, the volume risk is with transporter. GAIL does not see any downside risk to tariffs itself.

Key catalyst for Buy call on GAIL

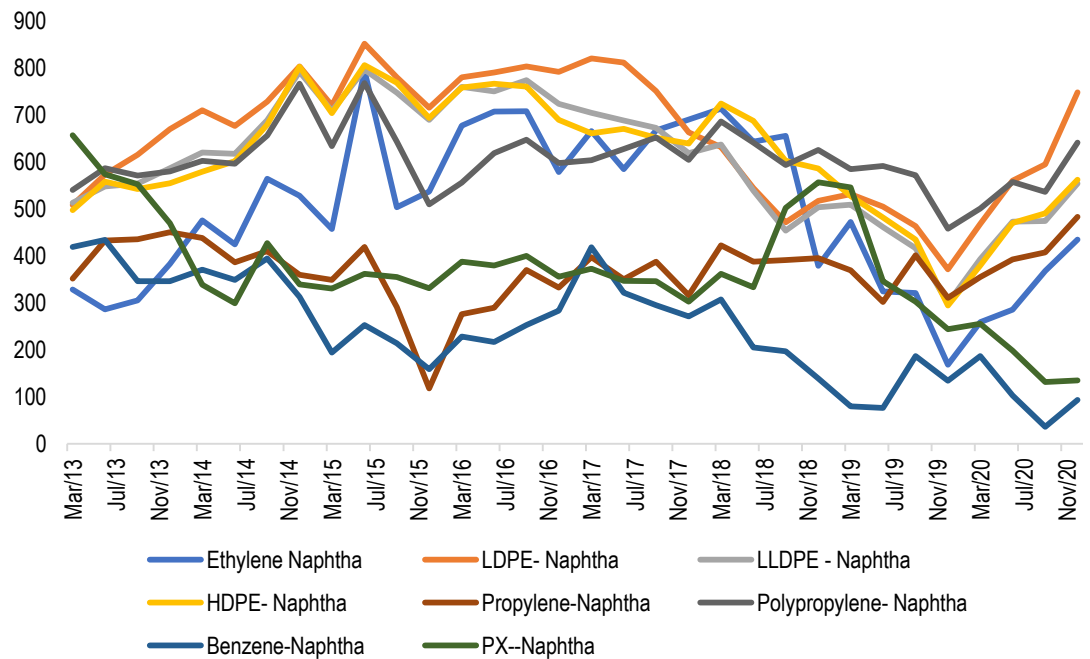
- Unified tariff is positive for long term volume expansion in the Indian gas market.
- As a leader in gas marketing and transportation, GAIL is likely to benefit from the resultant growth in transmission and gas trading segment volumes that will likely improve the segment EBITA. This is a potential upside in GAIL's earnings.
- The return ratios from the gas transmission business are likely to improve and catch up with the 12% normative post tax return that the regulator builds into the approved tariff for GAIL's pipelines. This offers potential rerating in GAIL's PE and P/BV.
- The petchem business, which has been a drag for some time, has historically been a key driver for GAIL's earnings and valuations. The gas-based petchem business tends to suffer when the cycle is down and the pain is more as gas cost does not move in tandem with naphtha (the dominant feedstock for the global petchem industry)

Exhibit 5: Asian Ethylene, Aromatics and Polymer spreads

Spreads US\$/te	Dec-20	Sep-20	Jun-20	Mar-20	Dec-19	Sep-19	Jun-19	Mar-19	Dec-18	Sep-18	Jun-18	Mar-18	Dec-17	Sep-17	Jun-17	Mar-17	Dec-16	Sep-16	Jun-16	Mar-16
Ethylene Chain																				
Ethylene-Naphtha	435	368	286	259	168	321	325	472	379	656	643	714	690	668	585	666	579	708	708	678
LDPE-Naphtha	748	595	560	469	372	464	505	532	517	472	545	632	663	751	812	821	792	804	790	781
LLDPE-Naphtha	554	474	473	393	299	417	461	510	504	454	539	637	619	673	688	705	724	775	751	760
HDPE-Naphtha	563	491	471	380	295	435	482	528	586	603	688	725	639	652	671	661	690	761	767	759
Propylene Chain																				
Propylene-Naphtha	483	408	393	355	311	401	302	369	396	391	388	422	316	388	351	398	332	370	290	276
Aromatics Chain																				
Benzene-Naphtha	93	36	103	187	134	187	76	80	139	197	205	308	271	295	322	418	283	253	217	228
Paraxylene-Naphtha	135	132	199	256	244	303	346	546	557	503	333	362	303	347	347	373	356	401	380	388

Source: BNEF, Nirmal Bang Institutional Equities Research

- In an upcycle, this situation will reverse for the better as GAIL stands to benefit from the higher petchem and gas prices, which don't mirror the naphtha prices. Hence, the upside in spreads and segment earnings tends to be higher for GAIL vs naphtha-based petchem business.
- We note that petchem prices and margins have been on an uptrend in the last six months and seem to have bottomed out. We expect this trend to sustain and hence we see GAIL reporting better segment earnings from the petchem business in 2HFY21. Further, we believe that this trend is likely to support improved petchem earnings in FY22/FY23.
- As a result, we are revising the petchem segment business to build in higher revenue and EBITDA margins/EBITDA.
- LPG segment also looks set to show a healthy performance based on the very low price fixed for the APM gas (which is used as feedstock) in 2HFY21. We see the segment performance healthy based on our rising oil price assumption that will result in increasing LPG and propane prices for the LPG & HC segment. We maintain our estimates in this segment.
- **Valuation:** GAIL looks cheap at 1x P/BV and 9.5x PE on FY23E. The stock trades at 9.8x PE on Sept 22E EPS of Rs12.23, and at 1.04x on P/BV This implies a steep 29.3% discount to the last 13-year avg trailing PE of 13.9x, and 25.6% discount to 5 year median forward P/BV

Exhibit 6: Asian Petchem spreads


Source: BNEF, Nirmal Bang Institutional Equities Research

Exhibit 7: Sensitivity of GAIL earnings and valuations to Petchem and LPG segment

Petrochemicals		
Impact of change in polymer price	FY22E	FY23E
Change in polymer US\$/te	100	100
Volume mn te	0.80	0.87
Impact on EBITDA Rs mn	6,000	6,495
Impact on PAT Rs Mn	4,490	4,860
Upside in EPS %	8.42	8.54
Impact on valuation		
EV/E (x)	6.00	6.00
EV upside Rs Mn	36,000	38,970
Valuation upside Rs/sh	7.98	8.64
Upside on valuation %	5.72	5.57
LPG & Other Liquid Hydro Carbons		
Impact of change LPG price	FY22E	FY23E
Change in LPG price US\$/te	100	100
Volume mn te	1.26	1.26
Impact on EBITDA Rs mn	9,480	9,480
Impact on PAT Rs Mn	7,094	7,094
Upside in EPS %	13.30	12.47
Impact on valuation		
EV/E (x)	6.00	6.00
EV upside Rs Mn	56,880	56,880
Valuation upside Rs/sh	12.61	12.61
Upside on valuation %	9.03	8.13

Source: Company, Nirmal Bang Institutional Equities Research

Gas cost leverage to boost cyclical chemical earnings and valuations

For every US\$100 increase in petchem/LPG segments, we see 8.4%/13.3% increase in earnings and 5.7%/9.03% upside in valuation, respectively for FY22E. Please refer Exhibit “**Sensitivity of GAIL earnings and valuations to petchem and LPG segments**”.

JHBDPL project to support gas business earnings from transmission and trading

GAIL is executing the 3376km JHBDPL gas pipeline, which is likely to start generating growth in its gas transmission and marketing segments from FY23 on full scale. This is likely to boost volumes from the four anchor fertilizer projects being commissioned along the pipeline by 2-2.5mmscmd each over FY21-FY24, aggregating to 10mmscmd.

- Section-1 (753 Km): Phulpur – Dobhi
- Section-2 (901 Km): Dhamra – Angul & Dobhi – Durgapur
- Section-3 (1001 Km): Bokaro–Angul & Durgapur–Kolkata
- Barauni – Guwahati Pipeline (716 Km.)

Further, this will also generate growth based on gas supplied by this network to the various CGD projects being developed in seven areas in UP, Bihar, West Bengal, Jharkhand and Odisha.

New projects:

Three new pipelines to be taken up for execution with tenders already invited.

These are Srikakulam–Angul, Dhamra-Haldia and Mumbai-Nagpur-Jharsuguda and will cover 2645kms, cost Rs127bn and will be executed over 3 years.

Also, the company is executing the North East gas grid over 1750kms at a cost of Rs93bn (through SPV in which GAIL is a partner – other partners will also share the cost).

The aggregate capex, including the NE grid is Rs220bn.

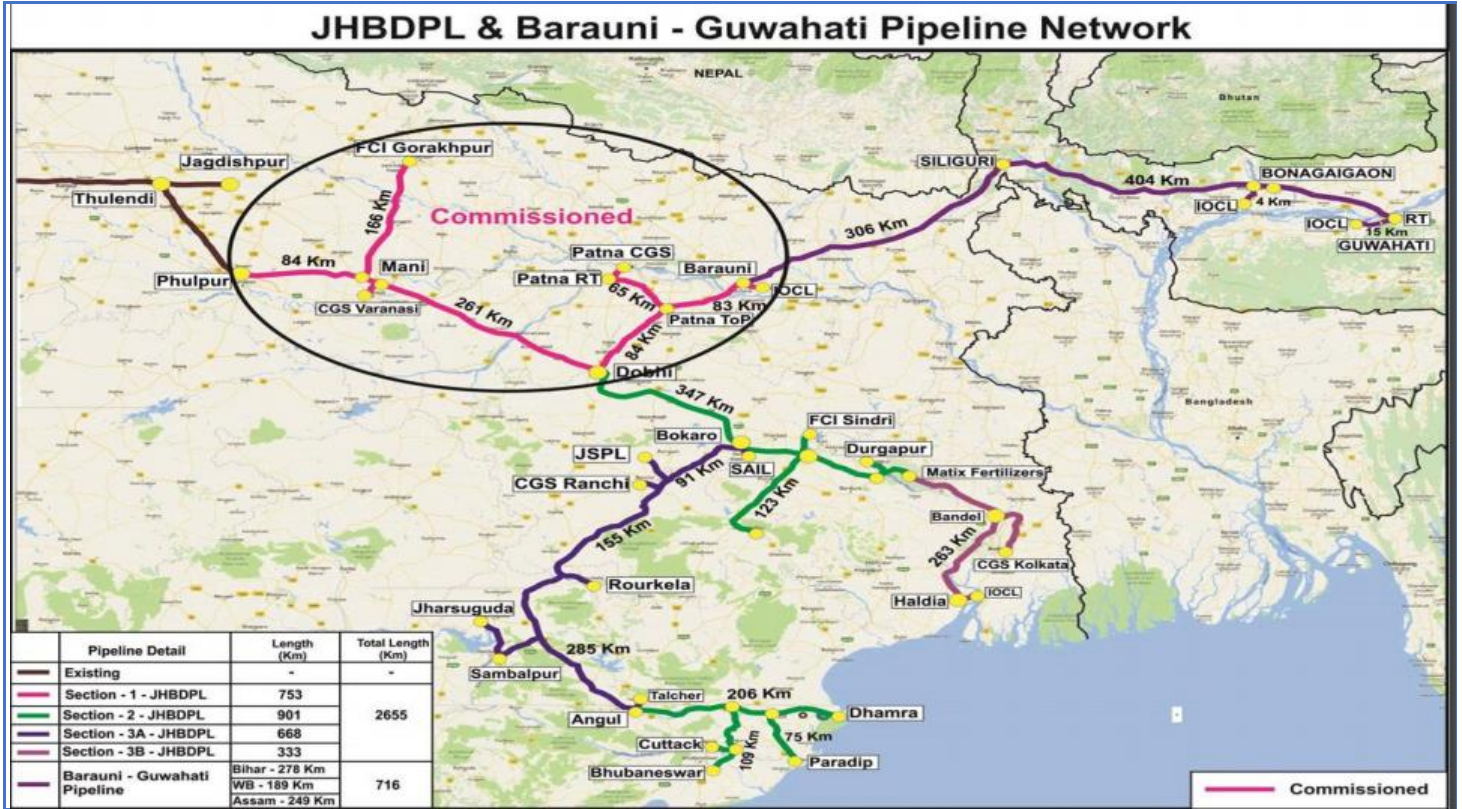
Exhibit 8: Proposed new pipelines

	kms	Cost Rsbn	Timeline months
Srikakulam Angul	700	37	36
Mumbai Nagpur Jharsuguda	1705	78	36/Mar 23
Dhamra Haldia	240	12	24-36/Nov 22
North East Grid	1750	93	48

Source: Company, Nirmal Bang Institutional Equities Research

Konkan LNG terminal Dhabo: Breakwater project contract has been awarded to L&T – the work is in progress and set for start up by the end of FY22 or 1HFY23. This could boost LNG imports from the current 1-1.5mn tonnes per annum vs its capacity of 5mn tpa.

MAP OF JHBDPL



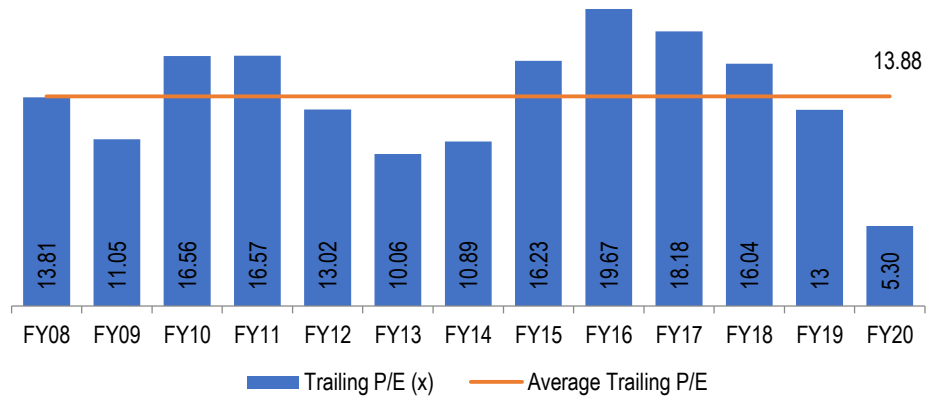
Source: Company, Nirmal Bang Institutional Equities Research

Valuations and PE band

Positive risk-reward at current valuation

GAIL trades at 9.8x PE on Sept 22E EPS of Rs12.23, and at 1.04x on P/BV This implies a steep 29.3% discount to the last 13-year avg trailing PE of 13.9x, and 25.6% discount to 5 year median forward P/BV.

Exhibit 9: Trailing PE trend



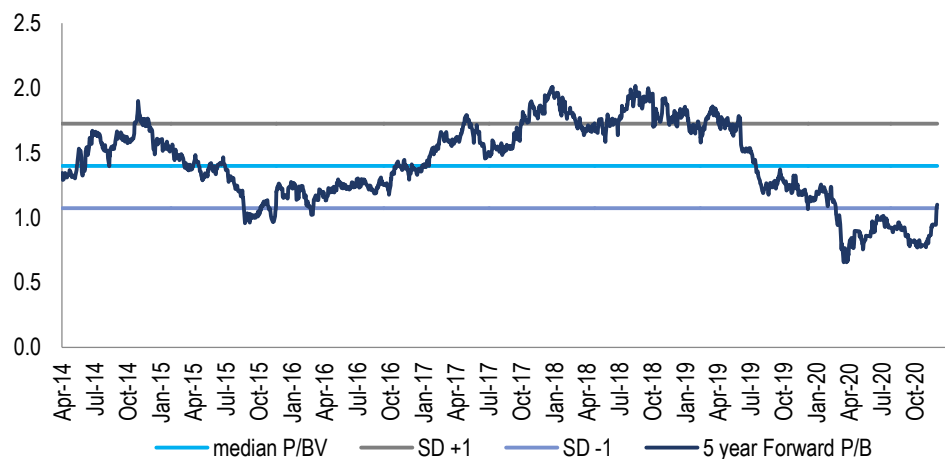
Source: Nirmal Bang Institutional Equities Research

Exhibit 10: 10 year trend in 1-year forward P/E trend



Source: Nirmal Bang Institutional Equities Research

Exhibit 11: 5 year trend in 1-year forward P/BV



Source: Nirmal Bang Institutional Equities Research

GAIL financials in charts
Exhibit 12: Operating Assumptions

Volume	FY19	FY20	FY21E	FY22E	FY23E
Natural Gas transmission mmscmd	107.4	108.0	102.9	108.8	112.8
Natural Gas marketing mmscmd	96.9	96.0	87.2	105.0	113.0
LPG Transmission mn tonnes	4.0	3.9	4.1	4.3	4.5
Petrochemicals mn tonnes	0.74	0.83	0.78	0.75	0.75
LPG & Hydro Carbons mn tonnes	1.32	1.26	1.26	1.26	1.26
Revenue Rs Mn	FY19	FY20	FY21E	FY22E	FY23E
Natural Gas transmission	52,382	54,234	52,214	57,958	61,892
LPG Transmission	6,144	6,300	6,508	7,076	7,652
Natural Gas Trading	5,72,036	5,54,266	3,97,802	5,25,104	5,79,348
Petrochemicals	67,021	53,700	55,506	66,332	75,438
LPG & Other Liquid Hydro Carbons	46,339	38,690	39,322	50,729	55,802
Other segment (CGD, POWER, E&P, GAIL TEL)	7,345	10,750	10,750	10,750	10,750
Standalone Revenue (net)	7,51,263	7,18,710	5,19,271	7,17,949	7,90,883
Realization / unit	FY19	FY20	FY21E	FY22E	FY23E
Natural Gas transmission Rs/scm	1.34	1.38	1.39	1.46	1.50
LPG Transmission Rs/tonne	1,548	1,548	1,594	1,642	1,691
Natural Gas Trading Rs/scm	16.17	15.82	12.49	13.70	14.05
Petrochemicals US\$/tonne	1,304	1,063	947	1,106	1,166
Petrochemicals Rs/tonne	91,184	76,000	70,083	82,916	87,457
LPG & Other Liquid Hydro Carbons Rs/tonne	35,106	30,609	31,109	40,134	44,147
EBITDA / unit	FY19	FY20	FY21E	FY22E	FY23E
Natural Gas transmission Rs/scm	323	362	384	378	379
LPG Transmission Rs/tonne	904	998	1,016	1,028	1,077
Natural Gas Trading Rs/scm	247	192	(95)	91	128
Petrochemicals Rs/tonne	10,038	1,612	9,081	13,969	15,389
LPG & Other Liquid Hydro Carbons Rs/tonne	16,998	10,433	7,701	11,127	12,570
Segment EBITDA STANDALONE	FY19	FY20	FY21E	FY22E	FY23E
Natural Gas transmission	34,711	39,053	39,483	41,134	42,705
LPG Transmission	3,590	3,900	4,170	4,430	4,874
Natural Gas Trading	23,956	18,449	(8,246)	9,581	14,436
Petrochemicals	7,378	1,342	7,128	10,450	12,529
LPG & Other Liquid Hydro Carbons	22,438	13,188	9,734	14,064	15,888
Other segment (CGD, POWER, E&P, GAIL TEL)	3,479	7,762	7,310	1,712	2,413
Total (EXCL other income)	95,551	83,694	59,579	81,372	92,845

Source: Company, Nirmal Bang Institutional Equities Research;

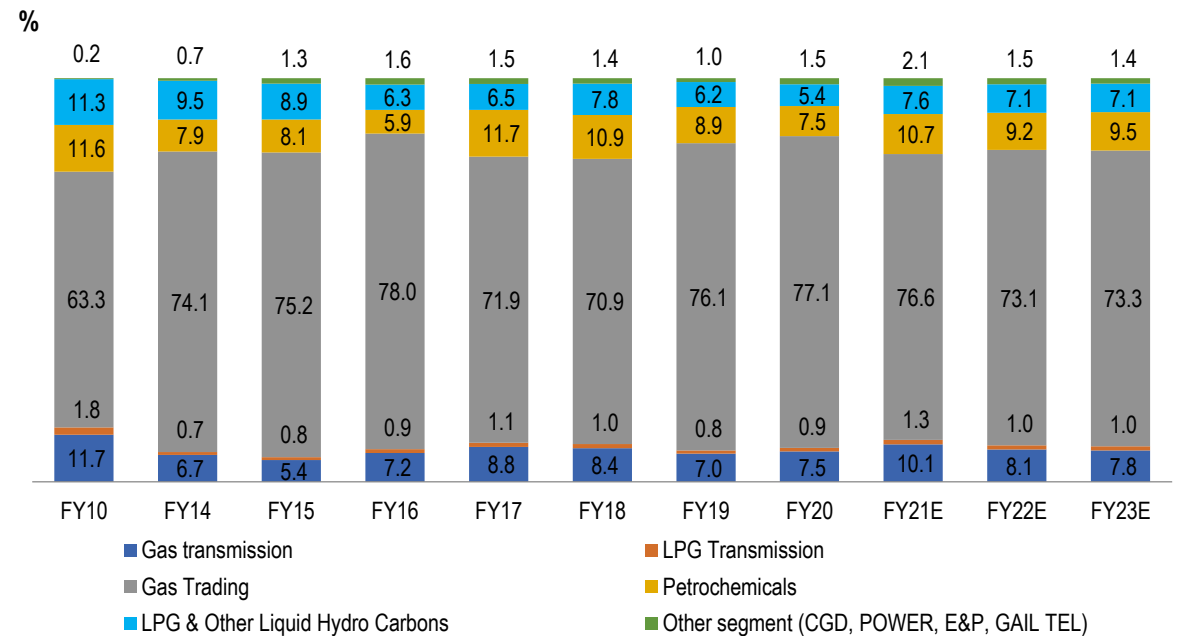
Note: Segment EBITDA excludes other income; company segment reporting includes other income

Exhibit 13: Quarterly trend

RsMn	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	1QFY21	2QFY21E	3QFY21E	4QFY21E
Revenue RsMn	1,72,986	1,92,753	1,97,890	1,87,634	1,83,106	1,80,399	1,77,673	1,77,531	1,20,869	1,36,427	1,32,966	1,29,008
EBITDA RsMn	22,436	29,580	26,735	16,841	22,590	15,627	20,724	24,754	6,226	13,381	20,932	19,039
PAT RsMn	12,593	19,630	16,812	14,486	12,875	10,643	12,507	29,166	2,555	12,397	13,131	12,368
EBITDA Margin %	12.97	15.35	13.51	8.98	12.34	8.66	11.66	13.94	5.15	9.81	15.74	14.76
Gas transmission mmscmd	107.03	105.90	107.70	109.15	105.41	108.70	110.30	108.99	90.22	106.44	106.44	108.44
Gas marketing sales mmscmd	97.16	96.20	96.00	98.42	96.55	94.70	96.00	97.76	81.16	88.60	88.60	90.60

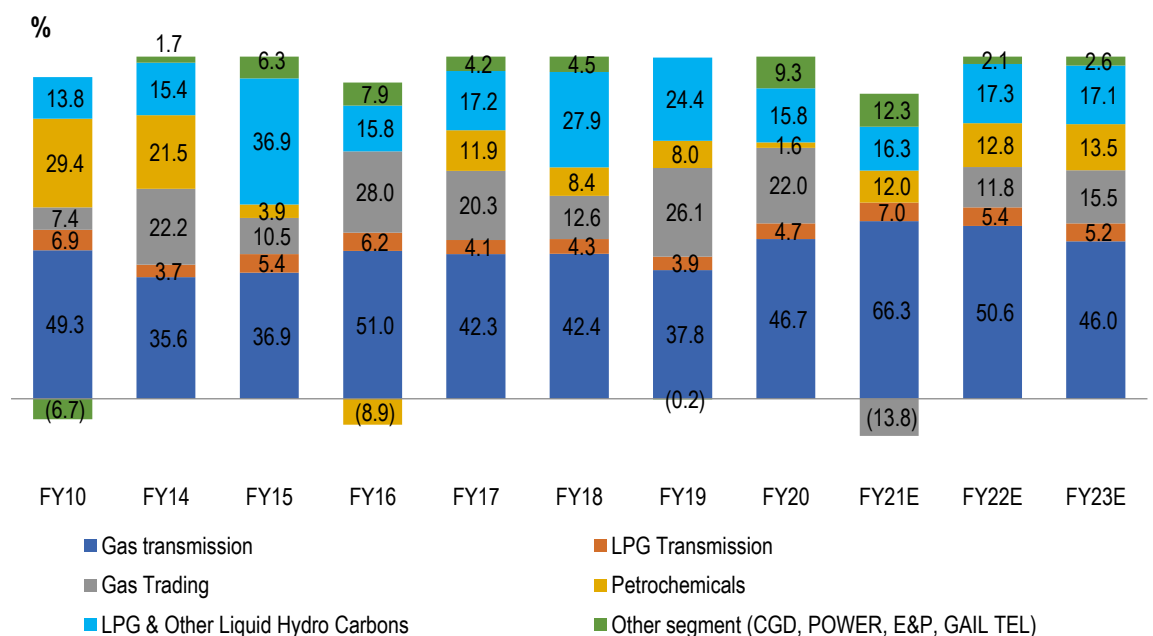
Source: Nirmal Bang Institutional Equities Research, Company

Exhibit 14: Gas trading dominates GAIL revenue mix



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Gas transmission & Gas trading have lion's share of EBITDA pie



Source: Company, Nirmal Bang Institutional Equities Research; Note: Historical segment EBITDA for FY10-FY17 includes other income as reported by the company. From FY18 Segment EBITDA is adjusted excluding other income

Exhibit 16: GAIL Peer comparison

	Code	CMP	Market Cap (mn)	EPS FY22E	EPS FY23E	PE FY22E	PE FY23E
Indian		Rs					
Petronet LNG	PLNG IN Equity	262	3,93,075	18.08	20.35	14.49	12.88
GSPL	GUJS IN Equity	221	1,24,832	21.99	25.09	10.06	8.82
GAIL	GAIL IN Equity	120	5,40,315	11.83	12.62	10.13	9.50
Average						11.56	10.40
Global (consensus estimates)		Local					
Shenzhen Gas Corp Ltd	601139 ch Equity	CNY 8	22,496	0.53	0.58	14.70	13.51
SNAM SPA	SRG IM Equity	EUR 5	15,312	0.35	0.35	13.05	13.02
ITALGAS SPA	IG IM Equity	EUR 5	4,280	0.44	0.44	12.05	11.97
ENAGAS SA	ENG SM EQUITY	EUR 20	5,187	1.66	1.60	11.92	12.39
Average						12.93	12.72

Source: Bloomberg, Nirmal Bang Institutional Equities Research; Note: PLNG, GSPL and GAIL are NBIE estimates
 Note: Global peers on CY21 and CY22 estimates.

GAIL Financials - Standalone

Exhibit 17: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenue	7,51,263	7,18,710	5,19,271	7,17,949	7,90,883
y/y	40.00	-4.33	-27.75	38.26	10.16
Raw Material Expenses	5,88,642	5,73,605	3,98,036	5,58,436	6,15,177
RM/Sales %	78.4	79.8	76.7	77.8	77.8
Employee cost	17,784	15,193	15,461	27,219	30,179
Other expenses	49,287	46,218	46,196	50,923	52,682
EBITDA	95,551	83,694	59,579	81,372	92,845
y/y	25.17	-12.41	-28.81	36.58	14.10
Depreciation	15,502	18,360	20,331	19,468	25,227
EBIT	80,049	65,334	39,247	61,904	67,618
Interest Expense	1,385	1,085	1,318	5,840	7,787
Other Income	15,448	14,168	15,211	15,211	16,211
PBT (adjusted)	94,112	78,417	53,141	71,274	76,042
Income Tax Expense	30,592	13,227	12,690	17,940	19,140
PAT	63,520	65,190	40,450	53,334	56,902
EPS (Rs)	14.08	14.45	8.97	11.83	12.62
y/y	38.37	2.63	-37.95	31.85	6.69

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Balance sheet

Y/E March (Rsmn):	FY19	FY20	FY21E	FY22E	FY23E
Total Share Capital	22,551	45,101	45,101	45,101	45,101
Reserves and Surplus	4,18,379	3,94,610	4,21,529	4,56,823	4,93,430
Networth	4,40,929	4,39,711	4,66,631	5,01,925	5,38,531
Long Term Borrowings	8,706	36,121	45,099	75,200	1,00,725
Grant for JHBDPL	25,635	35,214	46,594	51,760	51,760
Gas pool money	6,525	5,819	5,819	5,819	5,819
LT Provisions	6,946	5,297	5,297	5,297	5,297
Other long term liab	61,701	48,799	48,799	48,799	48,799
Short term borrowings	-	17,997	17,997	17,997	17,997
Short term provisions	7,308	7,550	6,494	8,517	9,740
Trade Payables	39,612	41,284	25,608	41,307	45,503
Deposits - Retention money	10,866	9,183	9,183	9,183	9,183
Other current liabilities	35,559	38,361	37,973	39,661	41,711
Total Capital & Liabilities	6,43,786	6,85,336	7,15,493	8,05,465	8,75,065
Total Asset plus WIP	4,02,886	4,42,269	4,73,122	5,36,300	5,82,881
Non-Current Investments	95,282	74,985	93,499	1,03,863	1,14,727
Long term loans& advances	6,678	31,019	31,019	31,019	31,019
Other Non-Current Assets	35,865	25,925	25,925	25,925	25,925
Inventories	23,219	29,601	17,072	19,670	21,668
Trade Receivables	40,602	45,468	29,876	37,373	41,169
Cash & cash equivalents	1,508	5,483	14,394	20,729	27,090
Bank balances	10,639	2,556	2,556	2,556	2,556
Short term loans & advances	19,805	10,749	10,749	10,749	10,749
Other Current Assets	7,303	17,282	17,282	17,282	17,282
Total Assets	6,43,786	6,85,336	7,15,493	8,05,465	8,75,065

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Cash flow

Y/E March (Rsmn): Consolidated	FY19	FY20	FY21E	FY22E	FY23E
PBT	90,848	79,434	53,141	71,274	76,042
Add depreciation	15,502	18,360	20,331	19,468	25,227
Other expenses	(3,541)	(12,430)	(13,893)	(9,371)	(8,424)
Change in W/C-inc/(dec)	3,282	(3,073)	(13,498)	(9,316)	(1,675)
Income tax	20,764	19,555	12,690	17,940	19,140
Cashflow from Operations (A)	78,763	68,881	60,386	72,748	75,380
(Capex)	(72,022)	(54,345)	(51,184)	(82,647)	(71,808)
Investments	17,656	(13,944)	(3,303)	4,847	5,347
Free Cash Flow	24,397	592	5,899	(5,052)	8,919
Cashflow from Investing (B)	(54,366)	(68,289)	(54,487)	(77,800)	(66,461)
Increase/(Decrease) in borrowings	(11,348)	45,196	7,528	30,101	25,524
Other Liab.	(22,302)	(41,812)	(4,516)	(18,715)	(28,083)
Cashflow from Financing (C)	(33,650)	3,384	3,012	11,386	(2,558)
Ch in Cash and Cash equiv	(9,253)	3,976	8,911	6,334	6,361
opg cash	10,761	1,508	5,483	14,394	20,729
closing cash	1,508	5,483	14,394	20,729	27,090

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Key ratios

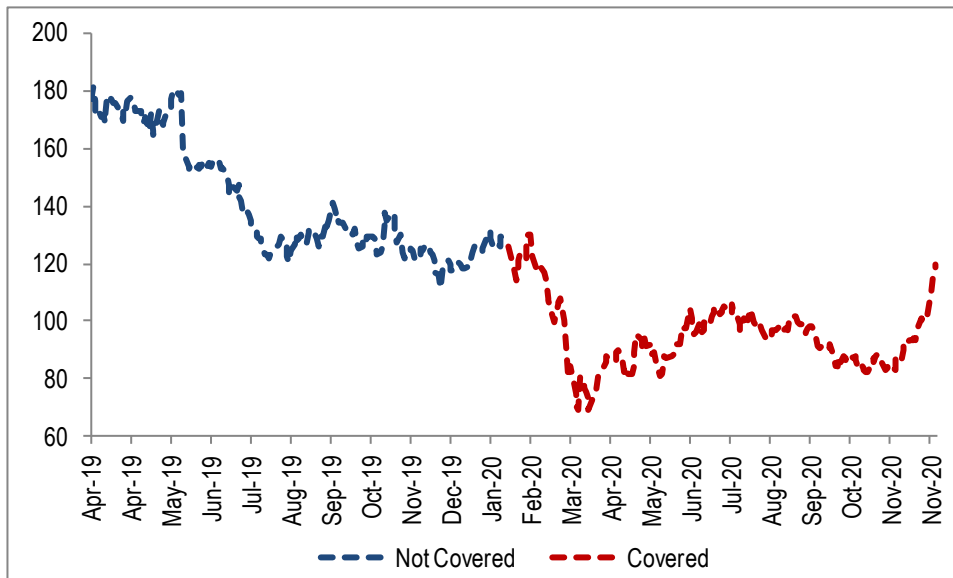
Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Profitability & return ratios					
EBITDA margin (%)	12.7	11.6	11.5	11.3	11.7
EBIT margin (%)	10.7	9.1	7.6	8.6	8.5
Net profit margin (%)	8.0	9.2	7.8	7.4	7.2
RoE (%)	15.0	14.8	8.9	11.0	10.9
Post-tax RoCE (%)	11.8	11.8	6.3	9.0	8.1
RoIC (%)	12.9	13.0	7.1	10.4	9.3
Working capital ratios					
Receivables (days)	17.3	21.9	21.0	19.0	19.0
Inventory (days)	10.3	13.4	12.0	10.0	10.0
Payables (days)	19.1	20.5	18.0	21.0	21.0
Cash conversion cycle	8.5	14.7	15.0	8.0	8.0
Leverage ratios					
Net debt (Rsmn)	10,602	61,154	59,771	83,538	1,02,701
Net Debt (cash)/Equity (X)	0.02	0.14	0.13	0.17	0.19
Net Debt/EBITDA	0.11	0.73	1.00	1.03	1.11
Valuation ratios					
EV/sales (x)	0.80	0.84	1.16	0.84	0.76
EV/EBITDA (x)	6.30	7.20	10.11	7.40	6.49
EV/FCF	24.69	1018.21	102.11	-119.24	67.53
P/E (x)	8.52	8.30	13.38	10.15	9.51
P/BV (x)	1.23	1.23	1.16	1.08	1.00
FCF Yield (%)	4.05	0.10	0.98	-0.84	1.48
Dividend Yield (%)	3.20	3.21	2.50	3.33	3.75
Per share ratios					
EPS	14.08	14.45	8.97	11.83	12.62
Cash EPS	17.30	18.05	12.40	17.86	19.31
BVPS	97.76	97.49	103.46	111.29	119.40
DPS	3.84	3.85	3.00	4.00	4.50

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price	Target price (Rs)
28 th January 2020	Buy	127	156
11 th February 2020	Buy	122	156
31 st March 2020	Buy	70	133
26 th June 2020	Buy	103	149
13 th August 2020	Buy	97	120
23 rd September 2020	Buy	84	112
11 th November 2020	Buy	90	112
5 December 2020	Buy	120	140

Rating track graph



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ACCUMULATE -5% to 15%

SELL < -5%

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