

28 March 2025

India | Equity Research | Company Update

GAIL India

Oil & Gas

Poised for steady improvement

GAIL's Q3FY25 result disappointed the street, with multiple one-offs dragging trading segment earnings and reigniting the long-held apprehension on the unpredictability of trading segment. The stock has reacted negatively, with ~23% decline over the last 6 months. However, we believe earnings may improve steadily over the next 12 months, driven by: i) One-offs impacting trading have resolved somewhat in Q4-TD and should have limited impact over FY26 led by: ii) Sustained volume growth for transmission/trading as gas demand grows over FY26-27E, iii) gas costs for petchem may remain flat and realisation should somewhat improve, iv) tariff order gets closer, with release of PCD on tariff norms (see [here](#)) and v) valuation remains attractive. Reiterate **BUY**, with TP of INR 245.

One-offs seen in Q3 should not recur, supporting prospects

Q3FY25 result for GAIL was impacted by one-offs, with mismatch of crude-based contract tenures (9-month linkage for purchase, 3 months for sale), unhedged HH-based volumes and procuring spot cargoes on short notice to meet unplanned rise in demand. We believe most of this impact is being mitigated, with i) ~2.25 incremental volumes tied up (to flow gradually over the next 12 months), ii) narrowing gap between 9 month and 3-month crude prices for 2.85mt volumes tied up on that basis and iii) 90-95% of trading volumes already tied up for the segment in back-to-back contracts. Our revised estimates factor in quarterly run rate at ~INR 15bn for FY26-27E.

Overall gas demand to grow sustainably

Indian gas demand is set to grow steadily over the next couple of years, with overall demand seeing growth via fertiliser and CGD (city gas distribution) segments and from industrial sector. Overall gas demand has grown by ~40mmscmd (~25% vs FY23 levels) for 10MFY25, with further growth ahead, led by i) rising CGD, ii) additional fertiliser plant commissioning/demand along the Eastern gas grid, iii) growth in industrial demand and iv) forecasts implying strong growth in power demand in the country, which may drive better utilisation of gas fired power plants. Driven by this along with completion of multiple expansion plans by GAIL, we expect steady 9-10mmscmd growth in transmission/trading volumes for GAIL over the next 3-5 years.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	13,32,285	10,34,435	10,57,564	11,32,810
EBITDA	1,42,963	1,51,312	1,69,549	1,77,019
EBITDA %	10.7	14.6	16.0	15.6
Net Profit	99,028	1,09,843	1,25,142	1,31,227
EPS (INR)	15.1	16.7	19.0	20.0
EPS % Chg YoY	72.2	10.9	13.9	4.9
P/E (x)	12.1	10.9	9.5	9.1
EV/EBITDA (x)	9.8	9.0	7.8	7.2
RoCE (Pre-tax) (%)	11.7	11.1	12.2	11.8
RoE (%)	14.0	13.6	14.2	13.5

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Market Data

Market Cap (INR)	1,194bn
Market Cap (USD)	13,920mn
Bloomberg Code	GAIL IN
Reuters Code	GAIL.BO
52-week Range (INR)	246 /151
Free Float (%)	41.0
ADTV-3M (mn) (USD)	28.9

Price Performance (%)	3m	6m	12m
Absolute	(5.7)	(23.4)	0.7
Relative to Sensex	(4.3)	(14.1)	(5.6)

ESG Score	2023	2024	Change
ESG score	73.3	67.3	(6.0)
Environment	64.9	64.7	(0.2)
Social	74.8	73.1	(1.7)
Governance	74.4	65.7	(8.7)

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY26E	FY27E
Revenue	(2.9)	(2.4)
EBITDA	0.6	(1.5)
EPS	0.6	(1.4)

Previous Reports

31-01-2025: [Q3FY25 results review](#)

07-11-2024: [Q2FY25 results review](#)

Petrochemical and LPG segments: differing prospects

We believe unlike earlier where compulsorily the highest cost gas was being allocated to petrochemical segments, now term LNG is being allocated to this segment, which is a material positive for the segment. The multi-year slump in realisation for this segment also seems to be bottoming out, with some respite likely from strong domestic demand and marginal improvement in pricing over FY26-27E.

For LPG, de-allocation of priority gas from the segment has put a dampener on volumes in near term, as GAIL figures out the sourcing strategy to recover this shortfall. However, in the meantime, it has undertaken operational efficiency activity – Vaghodia and Gandhar plants (in Gujarat), which were running at lower utilisation, have been stopped and more volumes are produced at Vijaipur plant (in Madhya Pradesh). GAIL may take a hit in overall LPG output, but this could be offset by stronger pricing likely in Asian LPG prices over the period, minimising the impact on overall earnings over FY26-27E.

Long pending tariff order closer to fruition

The PNGRB (Petroleum and Natural Gas Regulatory Board) recently put out a public consultation document regarding the fees and other terms for tariff. While this does not have any direct impact on the long pending tariff review of GAIL (to review terms of previous order with respect to gas cost assumption and other cost items), forward progress on orders after a hiatus suggests that tariff notifications will also follow shortly, increasing the likelihood of a tariff upside over FY26 (10% uptick in blended tariffs may raise FY26E EPS by ~8%). Additionally, an amendment proposed (see below) to fuel cost regulations also suggests that GAIL's submission to raise gas cost from USD3.6/MMbtu to more realistic levels, in line with available gas sources is likely to be heard positively in the review (Schedule A Clause 5 (2) (b) proposed amendment see <https://shorturl.at/ycW6B>)

Reiterate BUY: Attractive valuation; strong prospects

Nearly 18–20mmscmd of volume addition over FY25–27E, stronger tariffs, steady trading margins and additional delta from petrochemicals (JBF acquisition should also add capacity) imply GAIL could see steady earnings growth over FY25–27E, despite the record earnings seen in FY24. Valuations of 9.1x FY27E EPS and 7.2x FY27E EV/EBITDA are attractive and our revised TP of INR 245 (earlier TP: INR 255) implies ~35% upside from CMP. FY26/27E EPS has been tweaked marginally to factor in lower LPG volumes offset by higher trading margins while we assign a marginally lower multiple to trading business, driving a revised TP of INR 245/sh (earlier INR 255). Maintain **BUY**.

Key downside risks

1) Sharply lower gas consumption trends. 2) Higher gas price impact on petrochemical/LPG segment. 3) Reduction in pricing gap between US LNG and Asian spot LNG prices.

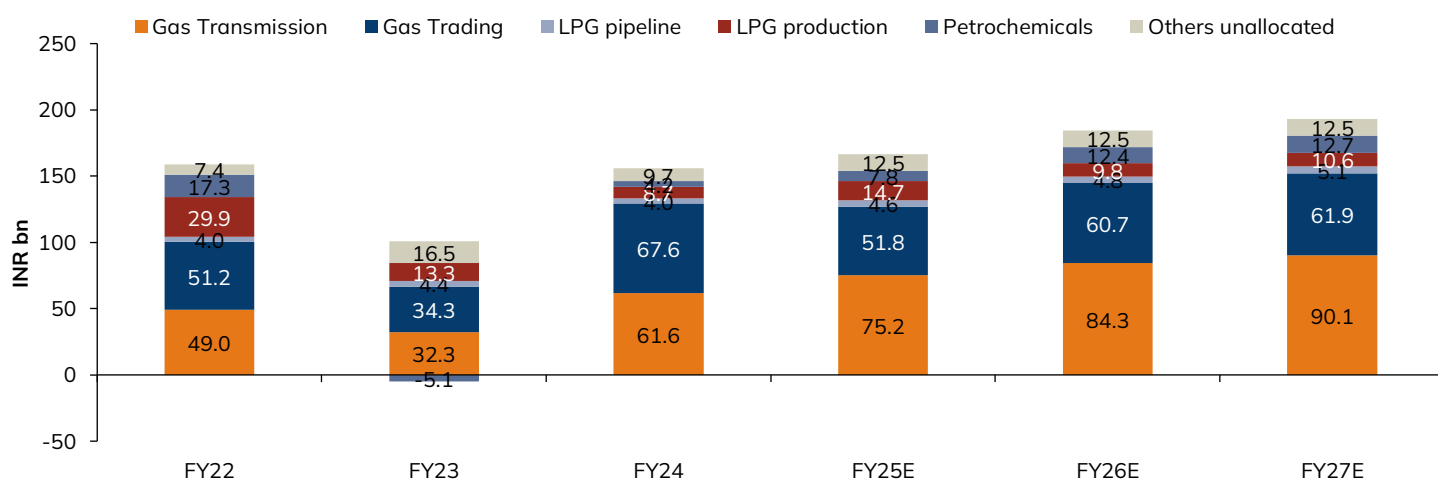
Key upside risks

1) Higher gas demand. 2) Higher-than-expected moderation in gas costs. 3) Successful upward revision in tariffs by regulator to factor in GAIL's submissions on cost of internal usage of gas.

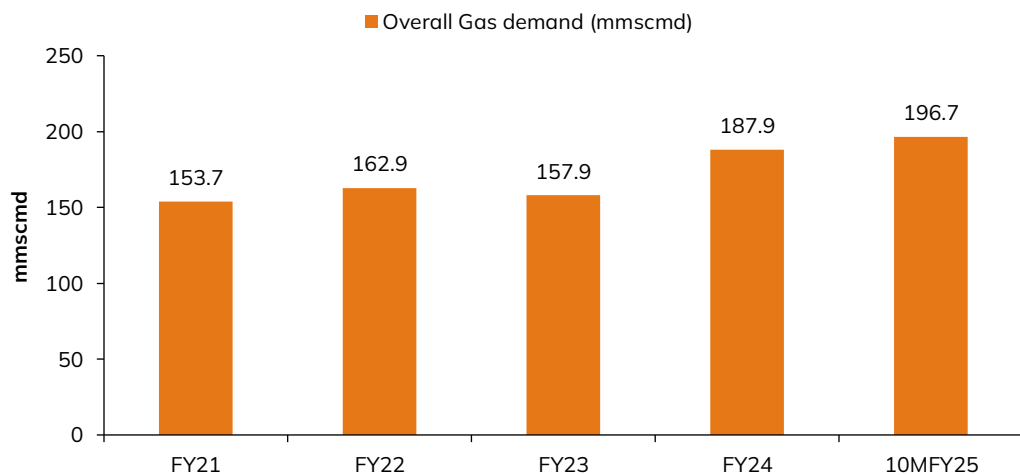
Exhibit 1: Q3FY25 saw a sharp dip in earnings, driven by one-offs in trading segment

INR mn	Q3FY25	Q3FY24	YoY% Chg	Q2FY25	QoQ% Chg	9MFY25	9MFY24	YoY % Chg
Net Sales	3,49,371	3,42,365	2.0	3,29,117	6.2	10,15,226	9,82,553	3.3
EBITDA	28,378	38,226	(25.8)	37,450	(24.2)	1,11,108	97,466	14.0
EBIT	20,056	30,383	(34.0)	29,297	(31.5)	84,145	75,762	11.1
Rep. PAT	38,674	28,426	36.0	26,719	44.7	92,633	66,595	39.1
Adj. PAT	20,415	28,426	(28.2)	26,719	(23.6)	74,374	66,595	11.7
Adj. EPS (INR)	3.1	4.3	(28.2)	4.1	(23.6)	11.3	10.1	11.7
Volumes								
NG transmission (mmscmd)	125.9	121.5	3.6	130.6	(3.6)	129.5	119.4	8.4
NG sales (mmscmd)	103.5	98.1	5.4	96.6	7.1	99.8	98.0	1.9
Petchem sales (kt)	221.0	215.0	2.8	226.0	(2.2)	616.0	545.0	13.0
LPG & liquid hydrocarbons (kt)	282.0	249.0	13.3	253.0	11.5	753.0	738.0	2.0
Segment EBIT								
Natural Gas transmission (Adj)	13,703	12,151	12.8	14,028	(2.3)	42,200	35,303	19.5
LPG transmission	1,400	794	76.3	855	63.7	3,062	2,415	26.8
Natural Gas Trading	4,410	18,804	(76.6)	13,288	(66.8)	38,026	46,786	(18.7)
Petrochemicals	47	619	(92.4)	1,575	(97.0)	1,208	(3,990)	(130.3)
LPG and Liquid Hydrocarbon	3,785	2,575	47.0	2,489	52.0	8,573	4,429	93.5
Others	864	1,294	(33.3)	1,460	(40.8)	3,998	4,411	(9.4)
Total	24,207	36,238	(33.2)	33,695	(28.2)	97,066	89,354	8.6

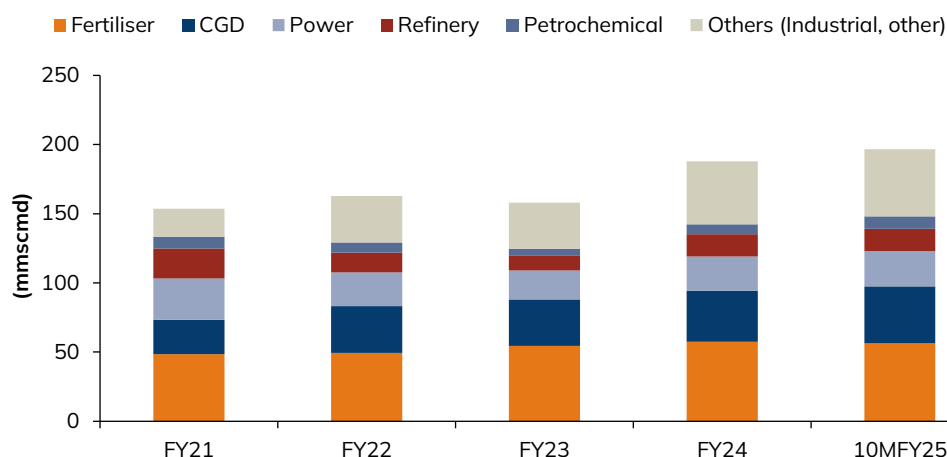
Source: Company data, I-Sec research

Exhibit 2: Earnings growth to recover, led by transmission segment and some recovery in trading margins


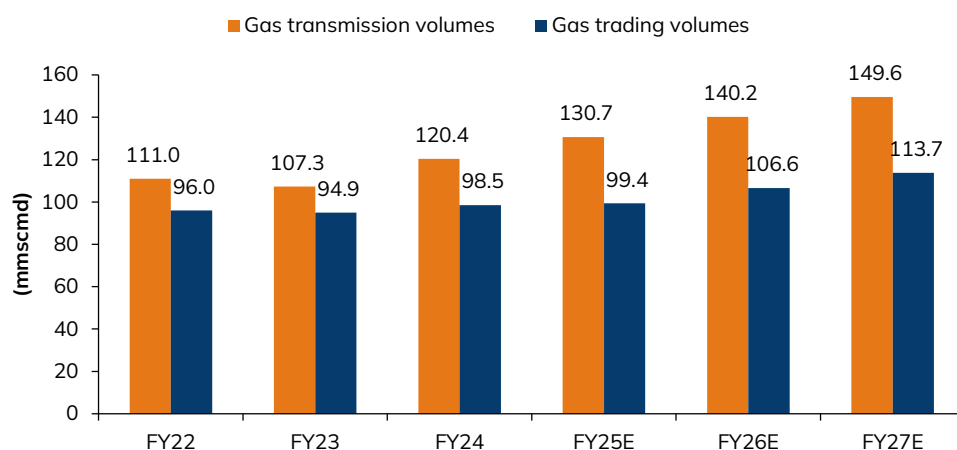
Source: Company data, I-Sec research

Exhibit 3: Indian gas demand has picked up in the last 20 months


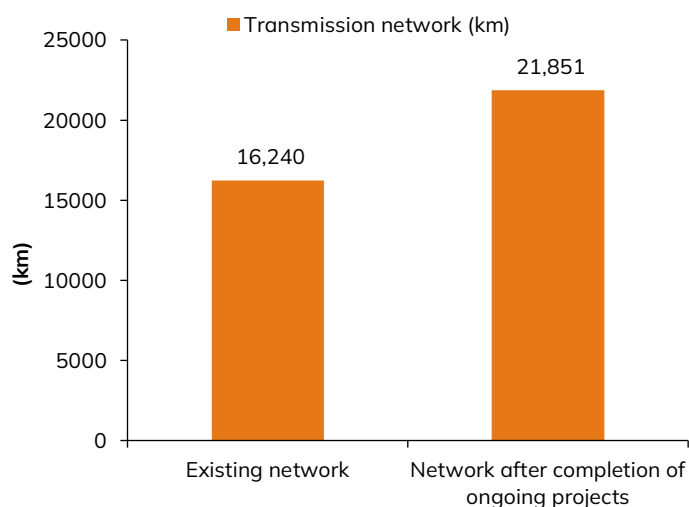
Source: Company data, PPAC, I-Sec research

Exhibit 4: CGD, fertiliser drive demand growth

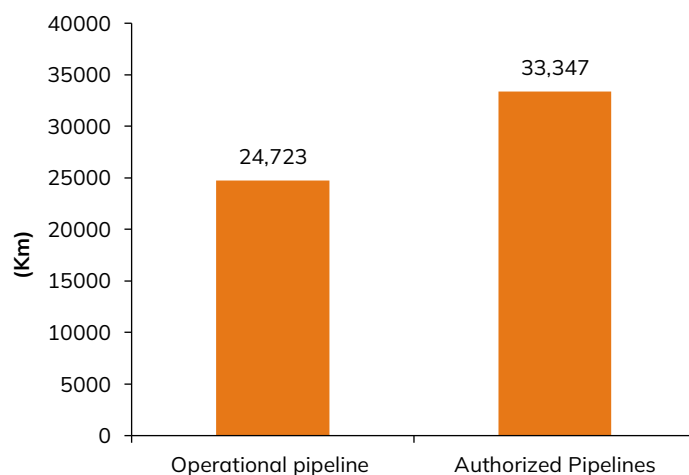
Source: I-Sec research, Company data

Exhibit 5: Sustained growth in volumes in store

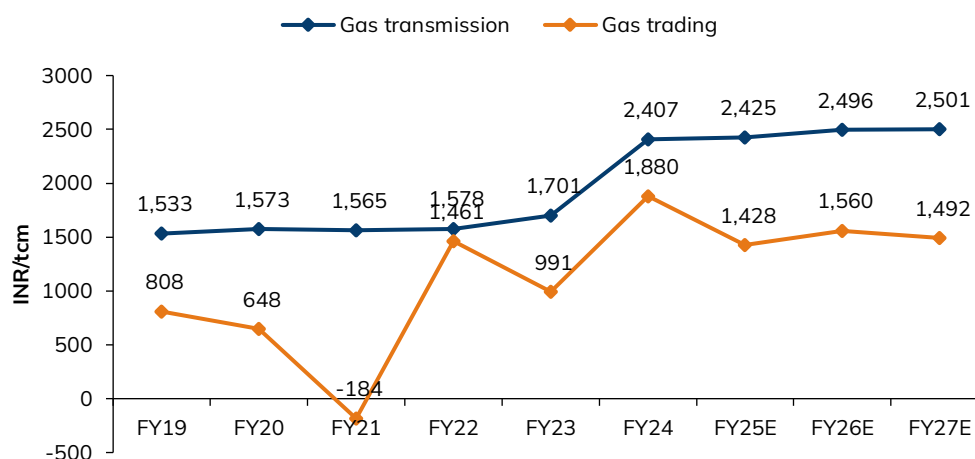
Source: I-Sec research, Company data

Exhibit 6: GAIL network to grow steadily

Source: I-Sec research, Company data, PNGRB

Exhibit 7: Indian transmission network to grow materially

Source: I-Sec research, Company data, PNGRB

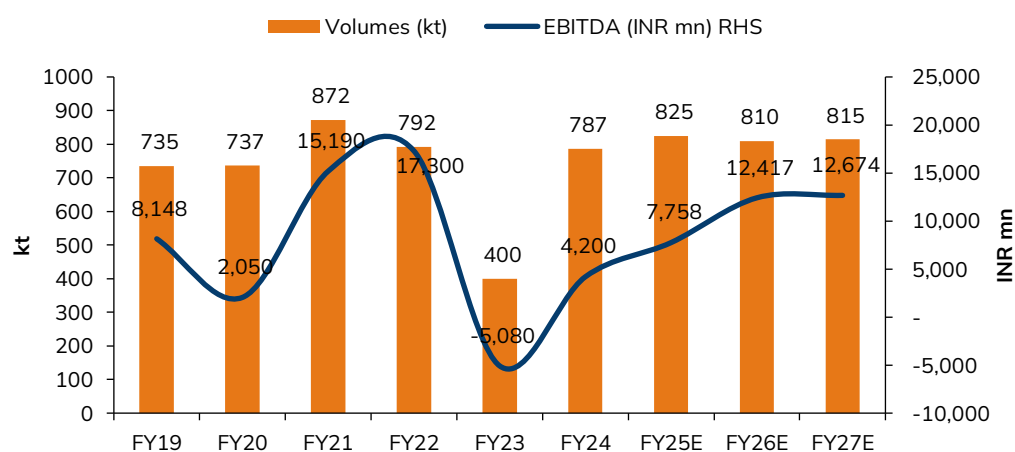
Exhibit 8: We do not factor in transmission tariff upside in base case estimates


Source: I-Sec research, Company data

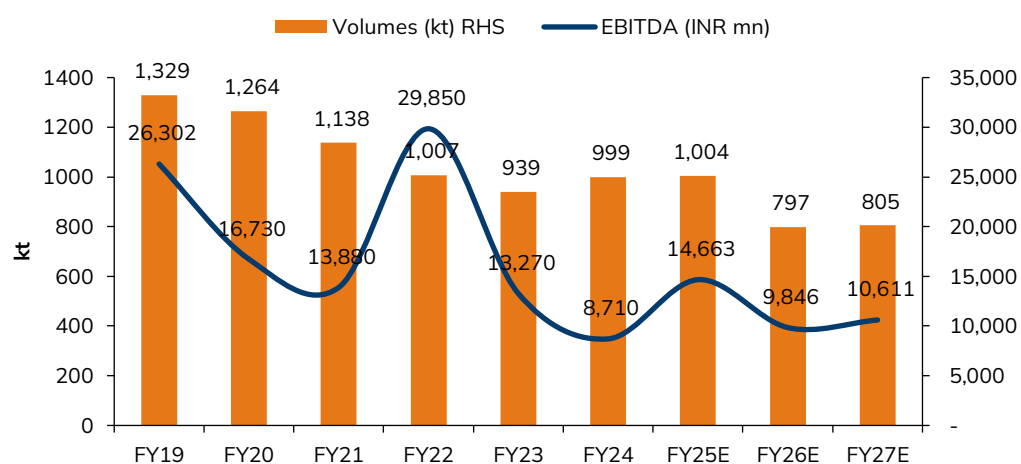
Exhibit 9: Sensitivity of trading gains to differential with term and spot LNG prices

	vs Spot LNG	vs Term LNG	vs Spot LNG	vs Term LNG
Price (USD/mmbtu)	3.8	3.8	3.8	3.8
Delivered Price (USD/mmbtu)	9.4	9.4	9.4	9.4
Spot LNG Slope Assumed	16%	13%	17%	13%
Brent (USD/bbl)	75	75	80	80
USD/mmbtu	14.3	10.1	14.3	10.1
Premium/(discount) of Spot to HH Delivered price	4.9	0.7	4.9	0.7
Assumed volumes unhedged (mmt)	1.0	1.0	1.0	1.0
Additional margin potential (INR mn)	21,335	2,943	21,249	3,073

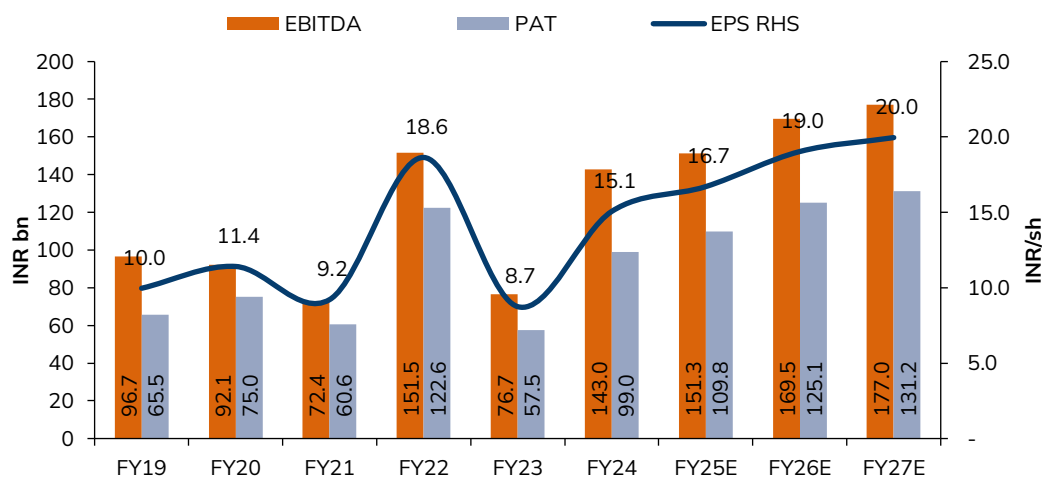
Source: Company data, Bloomberg, I-Sec research

Exhibit 10: We see marginal recovery in petrochemical segment


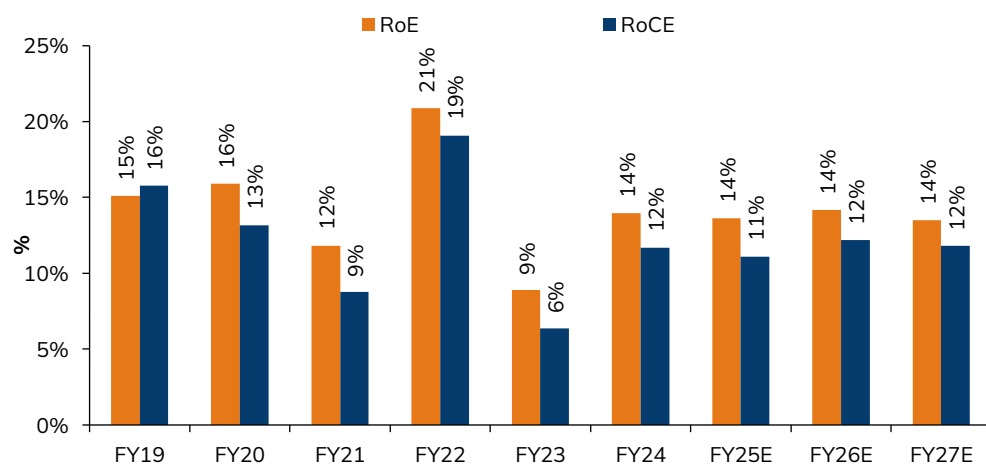
Source: I-Sec research, Company data

Exhibit 11: LPG volumes to dip, due to de-allocation of priority gas

Source: I-Sec research, Company data

Exhibit 12: EPS CAGR of 9.3% over FY25-27E

Source: I-Sec research, Company data

Exhibit 13: Return ratios stay flattish

Source: I-Sec research

Exhibit 14: GAIL's sum of part valuation (FY27E)

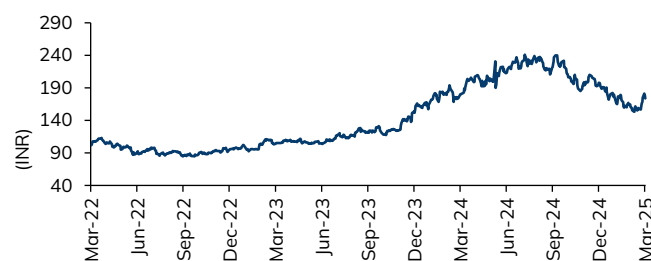
Rs/share	Valuation measure used	Valuation	
		INR-bn	INR/share
Business			
Gas and LPG transmission	DCF	801	122
Gas trading	EV/EBITDA (6.5x FY27E)	402	61
Petrochemicals	EV/EBITDA (7x FY27E)	89	13
LPG and other hydrocarbon production	EV/EBITDA (6.5x FY27E)	69	10
CGD entities other than IGL/MGL	17x FY27E EPS	125	19
Investments	Market value	252	38
		1,738	264
Less: net debt		129	20
Sum of parts valuation		1,537	245
CMP			182
Upside (downside) %			34.7%

Source: I-Sec research, Company data

Exhibit 15: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	51.9	51.9	51.9
Institutional investors	32.6	32.2	32.6
MFs and other	9.3	9.1	10.1
FIs/ Banks	0.2	1.1	0.0
Insurance Cos.	7.9	6.8	6.5
FIIIs	15.2	15.2	16.1
Others	15.5	15.9	15.5

Source: Bloomberg, I-Sec research

Exhibit 16: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 17: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	13,32,285	10,34,435	10,57,564	11,32,810
EBITDA	1,42,963	1,51,312	1,69,549	1,77,019
EBITDA Margin (%)	10.7	14.6	16.0	15.6
Depreciation & Amortization	36,720	40,478	43,278	47,078
EBIT	1,06,243	1,10,835	1,26,271	1,29,941
Interest expenditure	7,192	6,708	3,936	2,101
Other Non-operating Income	10,078	15,190	15,009	15,909
PBT	1,09,129	1,19,317	1,37,344	1,43,750
Profit / (Loss) from Associates	16,821	20,558	22,367	23,659
Less: Taxes	26,922	30,032	34,570	36,182
PAT	82,207	89,285	1,02,775	1,07,568
Less: Minority Interest	-	-	-	-
Net Income (Reported)	99,028	1,09,843	1,25,142	1,31,227
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	99,028	1,09,843	1,25,142	1,31,227

Source Company data, I-Sec research

Exhibit 18: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	2,02,718	1,60,131	1,81,211	2,13,834
of which cash & bank	17,121	(5,789)	9,880	30,223
Total Current Liabilities & Provisions	2,15,920	2,09,027	2,21,138	2,34,906
Net Current Assets	(13,202)	(48,895)	(39,927)	(21,072)
Other Non Current Assets	-	-	-	-
Net Fixed Assets	5,51,885	6,06,407	6,58,129	7,06,052
Other Fixed Assets	-	-	-	-
Capital Work in Progress	2,36,268	2,36,268	2,36,268	2,36,268
Non Investment	2,56,301	2,56,301	2,56,301	2,56,301
Current Investment	-	-	-	-
Deferred Tax Assets	-	-	-	-
Total Assets	10,31,253	10,50,081	11,10,772	11,77,548
Liabilities				
Borrowings	2,17,938	1,66,374	1,41,374	1,16,374
Deferred Tax Liability	41,357	41,357	41,357	41,357
Lease Liability	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	65,751	65,751	65,751	65,751
Reserves & Surplus*	7,04,221	7,74,613	8,60,304	9,52,081
Total Net Worth	7,69,972	8,40,364	9,26,055	10,17,832
Minority Interest	1,986	1,986	1,986	1,986
Total Liabilities	10,31,253	10,50,081	11,10,772	11,77,548

Source Company data, I-Sec research

Exhibit 19: Quarterly trend

(INR mn, year ending March)

	Mar-24	Jun-24	Sep-24	Dec-24
Net Sales	323	337	329	349
% growth (YOY)	-1.6%	4.5%	3.5%	2.0%
EBITDA	35.6	45.3	37.4	28.4
Margin %	11.0%	13.4%	11.4%	8.1%
Other Income	6.4	3.7	7.1	7.5
Extraordinaries	0.0	0.0	0.0	24.4
Adjusted Net Profit	21.8	27.2	26.7	20.4

Source Company data, I-Sec research

Exhibit 20: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Cash Flow from operation before working Capital	1,46,911	1,51,312	1,69,549	1,77,019
Working Capital Changes	11,687	12,784	6,700	1,489
Tax	(32,741)	(30,032)	(34,570)	(36,182)
Operating Cashflow	1,25,857	1,34,064	1,41,679	1,42,326
Capital Commitments	(1,25,012)	(95,000)	(95,000)	(95,000)
Free Cashflow	846	39,064	46,679	47,326
Others CFI	39,820	35,748	37,376	39,568
Cashflow from Investing Activities	(85,192)	(59,252)	(57,624)	(55,432)
Inc (Dec) in Borrowings	15,449	(51,564)	(25,000)	(25,000)
Interest Cost	(13,982)	(6,708)	(3,936)	(2,101)
Others	(36,042)	(39,451)	(39,451)	(39,451)
Cash flow from Financing Activities	(34,574)	(97,722)	(68,386)	(66,551)
Chg. in Cash & Bank balance	6,092	(22,910)	15,669	20,343
Closing cash & balance	17,121	(5,789)	9,880	30,223

Source Company data, I-Sec research

Exhibit 21: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Recurring EPS	15.1	16.7	19.0	20.0
Diluted EPS	15.1	16.7	19.0	20.0
Recurring Cash EPS	20.6	22.9	25.6	27.1
Dividend per share (DPS)	5.5	6.0	6.0	6.0
Book Value per share (BV)	117.1	127.8	140.8	154.8
Dividend Payout (%)	36.5	35.9	31.5	30.1
Growth (%)				
Net Sales	(8.5)	(22.4)	2.2	7.1
EBITDA	86.4	5.8	12.1	4.4
EPS	72.2	10.9	13.9	4.9
Valuation Ratios (x)				
P/E	12.1	10.9	9.5	9.1
P/CEPS	8.8	7.9	7.1	6.7
P/BV	1.6	1.4	1.3	1.2
EV / EBITDA	9.8	9.0	7.8	7.2
EV / Operating Income	12.0	10.8	9.4	8.8
Dividend Yield (%)	3.0	3.3	3.3	3.3
Operating Ratios				
EBITDA Margins (%)	10.7	14.6	16.0	15.6
Effective Tax Rate (%)	24.7	25.2	25.2	25.2
Net Profit Margins (%)	7.4	10.6	11.8	11.6
NWC / Total Assets (%)	(1.3)	(4.7)	(3.6)	(1.8)
Fixed Asset Turnover (x)	1.9	1.3	1.2	1.1
Working Capital Days	23.2	20.4	23.3	23.5
Net Debt / Equity %	26.1	20.5	14.2	8.5
Profitability Ratios				
RoCE (%)	8.8	8.3	9.1	8.8
RoCE (Pre-tax) (%)	11.7	11.1	12.2	11.8
RoE (%)	14.0	13.6	14.2	13.5

Source Company data, I-Sec research

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