

11 March 2024

GAIL

On a strong footing, maintaining a Hold

Rating: **Hold**

Target Price (12-mth): Rs.195

Share Price: Rs.189

We visited GAIL's Vijapur plant, where operations began four decades ago, for updates on the business. At the company's plant were two LPG GPUs and one C2-C3 recovery unit, which produce LPG and other value-added products. The company is setting up a 10MW green hydrogen plant besides a 36-tpd small-scale LNG plant and a 17.8MW solar plant. The near-term outlook for gas transmission, trading and petchem has improved due to the drop in spot LNG prices to ~\$9/m Btu. We keep our earnings and Hold rating, with an unchanged, Rs195, 12-mth TP.

Vijapur remains the backbone. We visited the company's Vijapur plant for business updates. The plant was started to construct, operate & maintain the Hazira-Vijaypur-Jagdishpur (HVJ) pipeline project. Today, it accounts for ~60% of the company's 16,080km natural gas transmission network and has two LPG GPUs with 15m scm/d capacity and a C2-C3 recovery unit with 22.62m scm/d capacity. The unit receives 33m scm/d rich gas from the HVJ pipeline; the C2-C3 recovery unit processes 21.72m scm/d and extracts molecules for further processing at the Pata petrochemicals plant.

Rich gas availability is hurting LPG production. Low availability of rich gas, with higher-value components other than methane, in domestic markets is hurting liquid hydrocarbon production. The company procures rich gas from ONGC and Rasgas and processes it to produce liquid hydrocarbons (FY23 production: 0.93m tonnes vs. rated capacity of 1.4m). To address the issue, it is trying to procure ethane from other markets.

New initiatives: The company is setting up a 4.3-tpd green H2 plant, India's largest, for 5% blending with PNG at Aavantika Gas. Also, it is setting up a 17.8MW solar plant to meet the energy needed. Besides, a 36-tpd SSLNG plant is on the anvil to connect to markets, where an infrastructure network has yet to be rolled out.

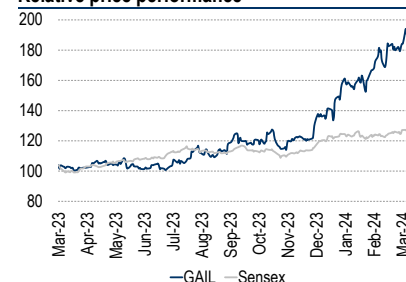
Key financials (YE Mar)	FY22	FY23	FY24e	FY25e	FY26e
Sales (Rs bn)	916	1,442	1,189	1,260	1,390
EBITDA (Rs bn)	138	67	133	126	141
Net profit (Rs bn)	104	53	91	94	103
EPS (Rs)	23.0	8.1	13.8	14.4	15.6
PE (x)	15.6	23.3	13.6	13.1	12.0
EVEBITDA (x)	16.8	18.6	8.7	9.1	8.1
PBV (x)	4.2	2.2	2.0	1.9	1.7
RoE (%)	20.3	9.5	15.6	14.9	15.0
RoCE (%)	15.5	7.4	12.4	12.1	12.1
Dividend yield (%)	5.2	2.1	3.3	3.4	3.7
Net debt / equity (x)	-0.1	0.0	-0.1	-0.1	-0.1

Source: Company, Anand Rathi Research

Key data	GAIL IN / GAIL.BO
52-week high / low	Rs196 / 102
Sensex / Nifty	74119 / 22494
3-m average volume	\$56.7m
Market cap	Rs1207bn / \$14594.1m
Shares outstanding	6575m

Shareholding pattern (%)	Dec'23	Sep'23	Jun'23
Promoters	51.91	51.91	51.91
- of which, Pledged	-	-	-
Free Float	48.09	48.09	48.09
- Foreign institutions	16.09	16.41	16.09
- Domestic institutions	18.06	17.93	18.06
- Public	13.94	13.75	13.94

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs bn)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Net revenues	916.3	1,442.5	1,189.3	1,260.0	1,389.9
Growth (%)	61.5	57.4	-17.6	5.9	10.3
Direct costs	778.0	1,375.5	1,056.4	1,133.5	1,248.4
SG&A	-	-	-	-	-
EBITDA	138	67	133	126	141
EBITDA margins (%)	15.1	4.6	11.2	10.0	10.2
- Depreciation	21.2	24.9	27.2	31.0	34.6
Other income	20.5	26.8	22.0	36.1	36.2
Interest expenses	1.7	3.1	6.3	5.4	5.7
PBT	135.8	65.8	121.5	126.2	137.3
Effective tax rates (%)	23.8	19.5	25.2	25.2	25.2
+ Associates / (Minorities)					
Net income	103.5	53.0	90.9	94.4	102.7
Adjusted income	103.5	53.0	90.9	94.4	102.7
WANS	4.5	6.6	6.6	6.6	6.6
FDEPS (Rs)	23.0	8.1	13.8	14.4	15.6

Fig 3 – Cash-flow statement (Rs bn)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
PBT (Adj. OI and interest)	117	42	106	95	107
+ Non-cash items	21	25	27	31	35
Oper. prof. before WC	138	67	133	126	141
- Incr. / (decr.) in WC	19	-13	-86	-0	2
Others incl. taxes					
Operating cash-flow	119	80	219	127	139
- Capex (tang. + intang.)	62	89	79	80	80
Free cash-flow	58	-9	140	47	59
Acquisitions					
- Div. (incl. buyback & taxes)	44	26	41	42	46
+ Equity raised	-	21	-	-	-
+ Debt raised	15	29	-30	3	29
- Fin investments	42	-5	7	8	8
- Misc. (CFI + CFF)	(49)	24	(16)	(31)	(30)
Net cash-flow	36	-4	78	30	63

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs bn)

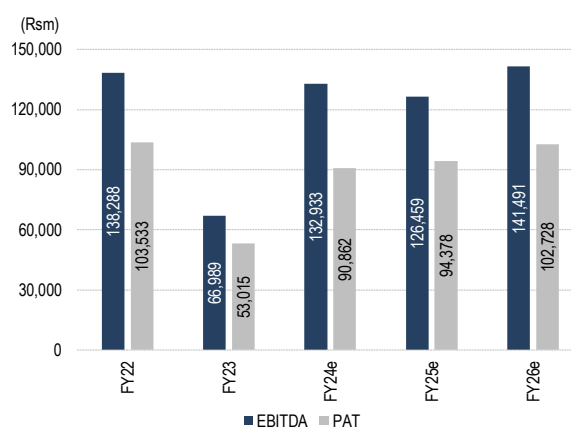
Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Share capital	44	66	66	66	66
Net worth	556	557	607	658	715
Debt	123	153	123	126	155
Minority interest	-	-	-	-	-
DTL / (Assets)	52	52	55	58	62
Capital employed	731	761	785	843	931
Net tangible assets	390	439	502	551	597
Net intangible assets					
Good will	25	29	29	29	29
CWIP (tang. & intang.)	146	157	146	146	146
Investments (strategic)					
Investments (financial)	143	138	146	154	162
Current assets (excl. cash)	138	194	179	191	211
Cash	21	4	55	56	88
Current liabilities	132	200	271	284	301
Working capital	6	-6	-92	-93	-90
Capital deployed	731	761	785	843	931
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	15.6	23.3	13.6	13.1	12.0
EV / EBITDA (x)	16.8	18.6	8.7	9.1	8.1
EV / Sales (x)	2.5	0.9	1.0	0.9	0.8
P/B (x)	4.2	2.2	2.0	1.9	1.7
RoE (%)	20.3	9.5	15.6	14.9	15.0
RoCE (%) - after tax	15.5	7.4	12.4	12.1	12.1
DPS (Rs)					
Dividend yield (%)	9.8	4.0	6.2	6.5	7.0
Dividend payout (%) - incl. DDT	5.2	2.1	3.3	3.4	3.7
Net debt / equity (x)	42.9	49.6	45.0	45.0	45.0
Receivables (days)	-0.1	0.0	-0.1	-0.1	-0.1
Inventory (days)	33	29	32	33	33
Payables (days)	12	13	13	13	13
CFO : PAT (%)	22	19	23	24	24

Source: Company, Anand Rathi Research

Fig 6 – EBITDA and PAT trend

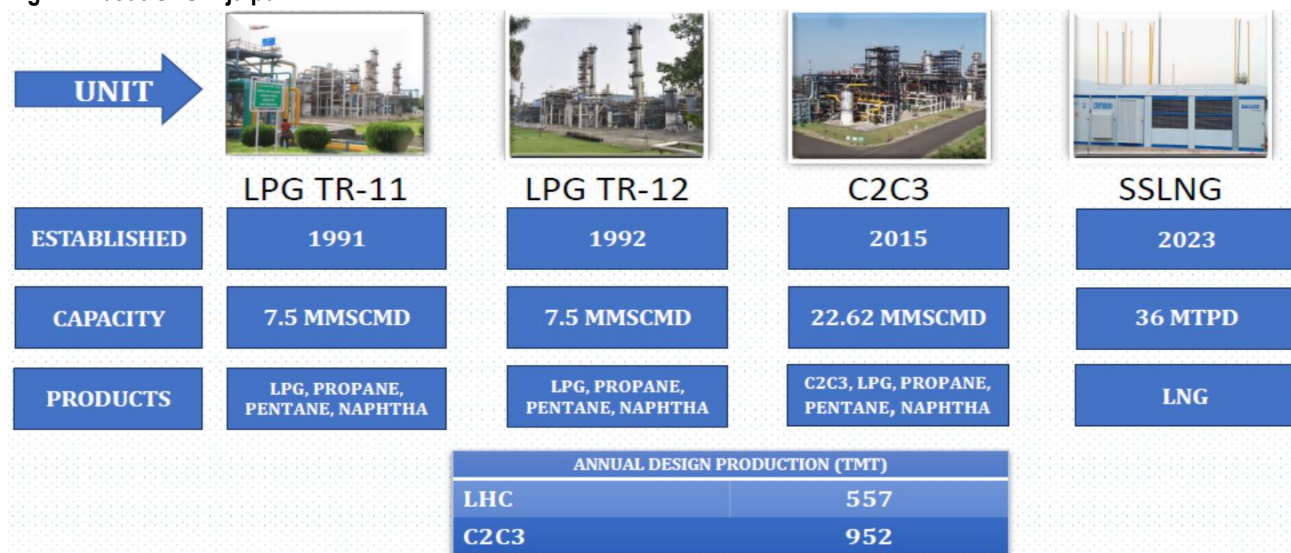


Source: Company

Vijaipur, the backbone of GAIL

The company started its journey four decades back in Vijaipur to construct, operate and manage the Hazira-Vijaypur -Jagdishpur (HVJ) pipeline project. The pipeline network has since expanded from 18m scm/d to 111m now.

Fig 7 – About GPU Vijaipur

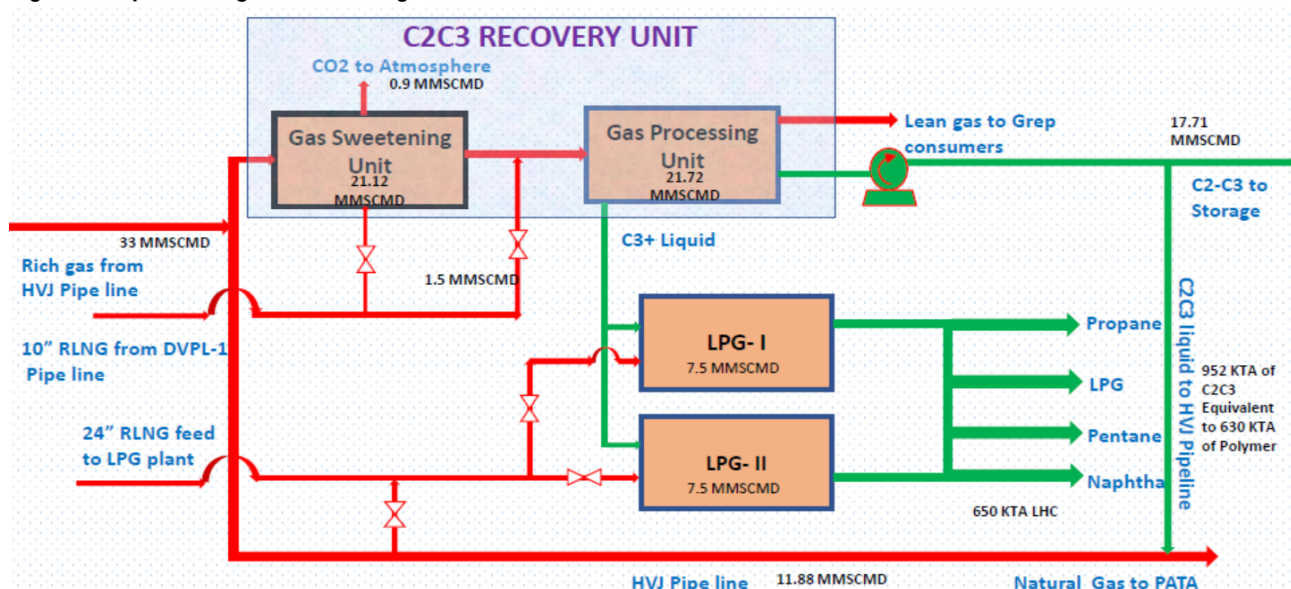


Source: Company

The Vijaipur plant has two LPG GPUs of total 15m scm/d and a C2-C3 recovery unit of 22.62m scm/d.

The unit receives 33m scm/d rich gas from the HVJ pipeline, with the C2-C3 recovery unit processing 21.72m scm/d and extracting molecules for further processing at the Pata petrochemicals plant. Annual design capacity of liquid hydrocarbons is 557,000m tonnes and 952,000m tonnes for the C2-C3 unit.

Fig 8 – Gas processing unit block diagram



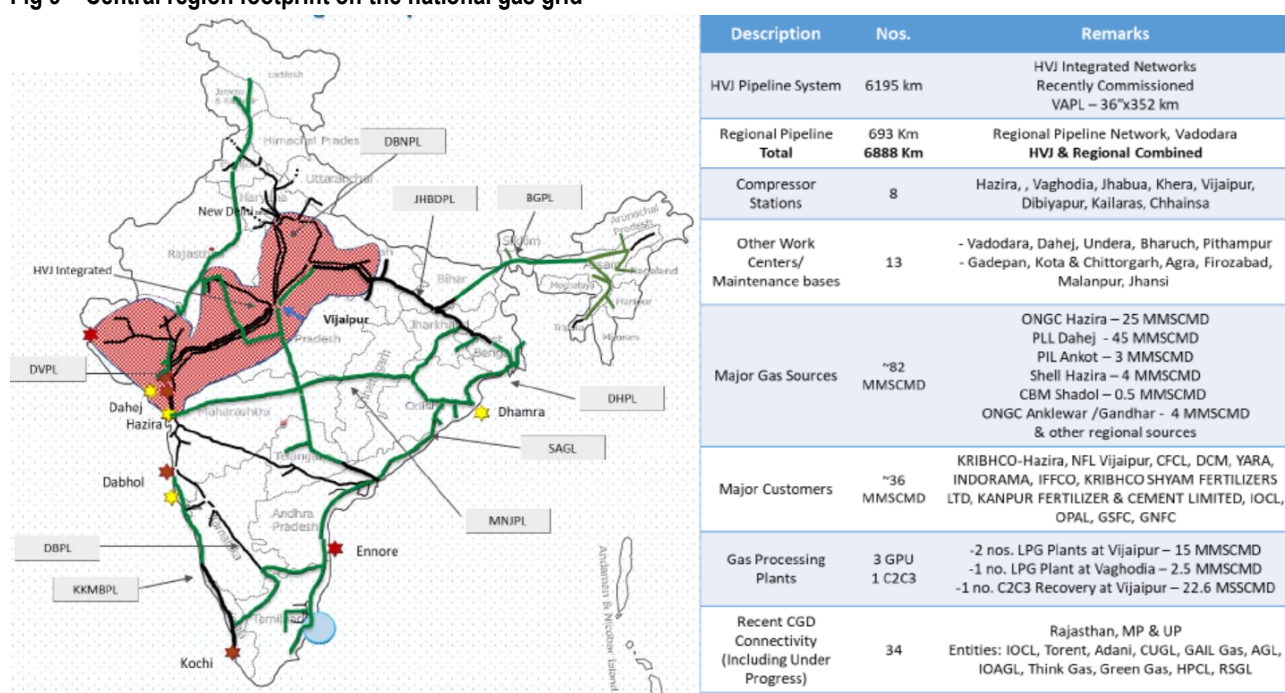
Source: Company

Fresh initiatives

The company is setting up a pilot plant of 4.3-tpd green H₂, India's largest, for 5% blending with PNG at Aavantika Gas; investment likely at Rs2.3bn, to start from Q1 FY25. It has undertaken a study for 5% H₂ blending in the CGD network (details awaited). Besides, for the energy it requires, it is setting up a 17.8MW solar plant, including a 7.8MW floating solar plant; investment to be Rs1.26bn.

Also, a 36-tpd SSLNG plant is being set up to connect to markets where the infrastructure network has yet to be rolled out. This initiative would also help to monetise gas from stranded fields; capex to be Rs1.5bn. For this, the company has procured two liquefaction kits of ~16-18m tpd. The kits are portable (plug & play) and scalable, likely to be commissioned shortly.

Fig 9 – Central region footprint on the national gas grid



Source: Company

Valuations

We believe the company's EBITDA would clock a 25% CAGR over FY23-26, powered by higher gas transmission EBITDA. The gas transmission business has strong prospects but the commodity business (gas trading, LPG, petchem) would be volatile. We reiterate a Hold, with a TP of Rs195 at a target EV/EBIDTA of 7x.

Fig 10 – GAIL valuation

FY25e EBITDA (Rs m)	141,491
EV / EBIDTA (x)	7.0
EV	990,436
Net debt	103,077
Investment	186,137
Equity	1,279,651
Rs/sh	195

Source: Company, Anand Rath Research

Risks

- Changes in government policies.
- Less-than-expected volume growth in natural gas transmission.
- Steep movements in LNG, crude and poly-ethylene prices.
- Slower execution of pipeline-expansion plans.
- Slowdown in demand.
- High capex spends not resulting in good returns.

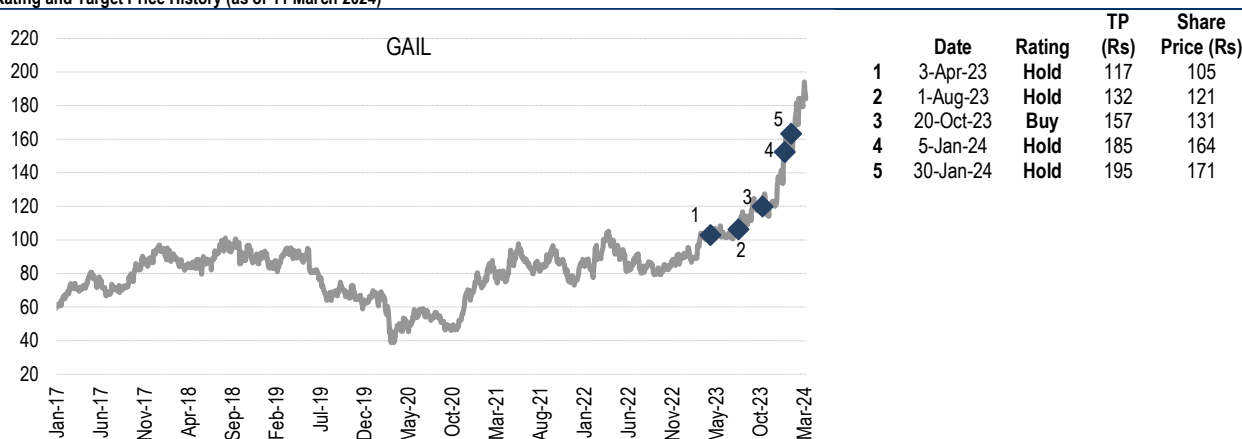
Appendix

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