

August 4, 2022

Q1FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	180		170	
Sales (Rs. m)	9,45,851	10,61,604	9,28,704	10,61,604
% Chng.	1.8	-		
EBITDA (Rs. m)	1,21,567	1,09,835	1,04,420	1,09,835
% Chng.	16.4	-		
EPS (Rs.)	21.4	18.8	17.3	18.8
% Chng.	23.9	0.2		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	5,67,302	9,16,265	9,45,851	10,61,604
EBITDA (Rs. m)	64,451	1,38,289	1,21,567	1,09,835
Margin (%)	11.4	15.1	12.9	10.3
PAT (Rs. m)	48,902	1,03,639	96,392	84,829
EPS (Rs.)	10.8	23.0	21.4	18.8
Gr. (%)	(25.0)	111.9	(7.0)	(12.0)
DPS (Rs.)	4.9	9.8	8.5	7.5
Yield (%)	3.5	7.0	6.1	5.4
RoE (%)	10.8	20.3	16.5	13.3
RoCE (%)	8.9	20.5	15.3	12.2
EV/Sales (x)	1.2	0.7	0.6	0.6
EV/EBITDA (x)	10.4	4.9	5.0	5.6
PE (x)	12.9	6.1	6.6	7.4
P/BV (x)	1.4	1.1	1.0	1.0

Key Data

GAIL.BO | GAIL IN

52-W High / Low	Rs.174 / Rs.125
Sensex / Nifty	58,299 / 17,382
Market Cap	Rs.614bn/ \$ 7,727m
Shares Outstanding	4,383m
3M Avg. Daily Value	Rs.1363.11m

Shareholding Pattern (%)

Promoter's	51.89
Foreign	19.92
Domestic Institution	15.30
Public & Others	12.90
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.9	(4.4)	(1.6)
Relative	(4.2)	(3.8)	(8.2)

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Gas trading leads the earnings beat

Quick Pointers:

- Lower Russian gas supplies to hit transmission and marketing volumes in Q2.
- GAIL's trading gains to remain resilient, given rising spot LNG prices arising from geopolitical tensions.

We increase our FY23E earnings by 24% to factor higher gas trading profits. GAIL reported higher than expected results with EBIDTA and PAT of Rs43.6bn (+18%QoQ; PLe Rs37.9bn) and Rs29.1bn (+9%QoQ; PLe Rs31.0bn), due to sharp higher gas trading. We believe recovery in commodity prices in-line with recovering economy augur well for GAIL. Also, commissioning of new pipelines over next one year will augment volumes and profits. While, sharp rise in US Henry Hub (HH) gas prices to USD7.2/mmbtu for Q2FY23 YTD from USD4.1/mmbtu for FY22 is a concern, but high spot LNG prices of over USD40/mmbtu will support GAIL's trading earnings. Reiterate 'BUY' with a TP of Rs180 (Rs170 earlier) based on 7x EV/E FY24E (FY23 earlier).

- Healthy beat on earnings:** GAIL reported strong Q1 results higher than our estimates. EBITDA was at Rs43.6bn (PLe: Rs37.9bn;+18% QoQ), due to record gas trading profits which made up for weak petrochemicals and lower LPG. PAT was at Rs29.1bn (PLe Rs27.6bn; +9% QoQ).
- Transmission volume improve with recovery in downstream demand:** GAIL's Q1 transmission volumes were higher at 109.5mmscmd, while gas sales volumes were at 101mmscmd (95mmscmd in Q4). Transmission EBITDA for Q1 was at Rs10.9bn (Q4 Rs11.5bn) with blended tariffs of Rs1,494tcm.
- LPG EBITDA was lower at Rs6.6bn (-12% QoQ) with realization of USD\$827/ton (\$704/ton in Q4FY22), due to higher domestic gas of USD6.1/mmbtu vs USD2.9/mmbtu in Q4. Sales volumes were higher at 165,000 MT (155,000MT in Q4).
- Gas trading profitability was at record levels:** US gas economics improved, as gas trading EBITDA was at Rs24.0bn (Rs17.8bn for Q4). Gas trading was the key earnings driver, due to sharp rise in spot LNG prices coming from geopolitical tensions.
- Going forward, sharp rise in US gas price to USD7.2/mmbtu in Q2 from USD4.1/mmbtu in FY22 will be compensated by recovery in spot LNG prices to over \$40/mmbtu from FY22 average of USD30/mmbtu; will support trading earnings. We increase our trading gains assumptions for FY23E to Rs44bn (Rs27bn earlier), while we leave margins unchanged for FY24E.
- Petrochemicals profits come down QoQ:** GAIL's petrochemicals sales volumes were at 109KT in Q1 (-50% QoQ) due to plant maintenance shutdown. EBITDA was at Rs1.7bn (-66% QoQ), as petrochemical spread was at USD201/ton v/s USD310/ton in Q4 due to lower volumes and higher cost.

- **Aggressive capex on horizon:** GAIL lined up capex of Rs470bn for pipeline expansion. The company is also increasing petrochemicals capacity which will be on stream by Sept-23.

Conference Call Highlights:

- Company has contract of 36 cargoes for CY22, but since late May-22 the company has got 8 less cargoes.
- To mitigate take or pay contract situation for downstream users, the company is supplying gas only at take or pay level, bringing forward some of uncontracted US cargoes for CY23.
- Lower gas supplies from Russia will likely impact transmission & marketing volumes and profitability.
- Company will likely lower supplies to petrochemicals, given lower gas availability.
- For FY23, company plans to spend Rs75bn.

Exhibit 1: Q1FY23 Result Overview (Rs mn)

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	FY23E	FY22	YoY gr. (%)
Net sales	3,75,721	1,73,866	116.1	2,69,682	9,45,567	9,16,457	3.2
(Inc)/Dec in stock in trade	(20,074)	(1,016)	1876.4	1,898	50,878	(3,268)	(1657.0)
Raw Material Cons.	3,34,573	1,35,015	147.8	2,11,049	7,24,827	7,11,282	1.9
Other Expenditure	13,149	11,497	14.4	15,429	30,612	53,074	(42.3)
Staff Cost	4,417	4,257	3.7	4,161	17,967	17,078	5.2
Total Expenditure	3,32,065	1,49,754	121.7	2,32,537	8,24,284	7,78,167	5.9
EBITDA	43,657	24,113	81.1	37,145	1,04,420	1,38,290	(24.5)
<i>EBITDA Margin (%)</i>	<i>11.6</i>	<i>13.9</i>		<i>13.8</i>	<i>11.0</i>	<i>15.1</i>	
Other income	1,798	1,976	(9.0)	4,235	22,792	20,469	11.4
Interest	481	466	3.4	461	1,631	1,744	(6.5)
Depreciation	6,030	5,086	18.6	5,461	23,559	21,112	11.6
PBT	38,944	20,537	89.6	35,459	1,02,022	1,35,903	(24.9)
Tax	9,792	5,238	86.9	8,628	23,220	32,263	(28.0)
<i>Tax rate (%)</i>	<i>25.1</i>	<i>25.5</i>		<i>24.3</i>	<i>22.8</i>	<i>23.7</i>	
Net profit	29,152	15,299	90.5	26,831	77,802	1,03,640	(24.9)

Source: Company, PL

Exhibit 2: GAIL quarterly volumes

Operational parameters	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Gas transmission (mmscmd)	90.2	106.4	110.3	109.8	107.7	114.3	114.3	107.6	109.5
Gas sales (mmscmd)	81.2	88.6	95.6	91.4	96.0	97.7	96.6	94.7	100.8
LPG and liquid prodn ('000 MT)	269.0	291.0	316.0	259.0	246.0	264.0	278.0	212.0	227.0
Petrochemical sales ('000 MT)	183.0	224.0	231.0	234.0	138.0	221.0	217.0	216.0	109.0
LPG transmission ('000 MT)	963.0	1,058.0	1,088.0	1,054.0	1,023.0	1,054.0	1,057.0	1,065.0	1,055.0
LPG sales ('000 MT)	222.0	217.0	213.0	159.0	190.0	182.0	210.0	155.0	165.0
Other liquid hydrocarbon sales ('000MT)	43.0	80.0	106.0	98.0	60.0	80.0	65.0	62.0	55.0
EBITDA breakup (Rs m)									
Gas transmission	9,530	12,810	12,470	12,040	11,760	13,140	12,560	11,540	10,900
Gas trading/marketing	-5,170	-3,350	-450	2,990	4,220	11,240	17,950	17,790	24,020
LPG & liquid hydrocarbons	2,860	3,020	3,040	4,960	6,540	7,030	8,750	7,530	6,630
Petrochemicals	-430	2,890	5,490	7,240	2,550	4,820	4,900	5,030	1,690
LPG transmission	960	1,030	1,090	1,040	1,020	980	960	1,010	1,000
Unallocated	890	4,220	2,270	3,070		5,280	3,670	(1,520)	1,210
Total	8,640	20,620	23,910	31,340	26,090	42,490	48,790	41,380	45,450

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	5,67,302	9,16,265	9,45,851	10,61,604
YoY gr. (%)	(21.1)	61.5	3.2	12.2
Cost of Goods Sold	4,38,049	7,07,823	7,24,827	8,51,168
Gross Profit	1,29,253	2,08,442	2,21,024	2,10,436
Margin (%)	22.8	22.7	23.4	19.8
Employee Cost	15,310	17,112	17,967	19,764
Other Expenses	-	-	-	-
EBITDA	64,451	1,38,289	1,21,567	1,09,835
YoY gr. (%)	(23.0)	114.6	(12.1)	(9.7)
Margin (%)	11.4	15.1	12.9	10.3
Depreciation and Amortization	19,079	21,112	23,559	26,363
EBIT	45,372	1,17,178	98,008	83,472
Margin (%)	8.0	12.8	10.4	7.9
Net Interest	1,559	1,744	1,631	1,357
Other Income	20,045	20,469	30,022	29,122
Profit Before Tax	63,858	1,35,902	1,26,399	1,11,237
Margin (%)	11.3	14.8	13.4	10.5
Total Tax	14,956	32,263	30,007	26,408
Effective tax rate (%)	23.4	23.7	23.7	23.7
Profit after tax	48,902	1,03,639	96,392	84,829
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	48,902	1,03,639	96,392	84,829
YoY gr. (%)	(25.0)	111.9	(7.0)	(12.0)
Margin (%)	8.6	11.3	10.2	8.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	48,902	1,03,639	96,392	84,829
YoY gr. (%)	(25.0)	111.9	(7.0)	(12.0)
Margin (%)	8.6	11.3	10.2	8.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	48,902	1,03,639	96,392	84,829
Equity Shares O/s (m)	4,510	4,510	4,510	4,510
EPS (Rs)	10.8	23.0	21.4	18.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	4,29,371	4,74,106	5,34,106	5,94,106
Tangibles	4,29,371	4,74,106	5,34,106	5,94,106
Intangibles	-	-	-	-
Acc: Dep / Amortization	95,627	1,16,738	1,40,297	1,66,661
Tangibles	95,627	1,16,738	1,40,297	1,66,661
Intangibles	-	-	-	-
Net fixed assets	3,33,745	3,57,367	3,93,808	4,27,445
Tangibles	3,33,745	3,57,367	3,93,808	4,27,445
Intangibles	-	-	-	-
Capital Work In Progress	1,27,314	1,45,809	1,46,000	1,46,000
Goodwill	22,955	25,347	25,347	25,347
Non-Current Investments	1,37,865	1,73,897	1,85,226	1,97,385
Net Deferred tax assets	(48,265)	(51,970)	(52,916)	(53,843)
Other Non-Current Assets	10,945	12,297	13,527	14,880
Current Assets				
Investments	4,685	-	-	-
Inventories	26,038	30,152	31,126	34,935
Trade receivables	33,923	73,164	86,361	96,930
Cash & Bank Balance	13,618	20,850	71,527	67,147
Other Current Assets	6,599	6,665	7,331	8,064
Total Assets	7,29,354	8,63,405	9,79,896	10,39,741
Equity				
Equity Share Capital	44,404	44,404	44,404	44,404
Other Equity	4,21,708	5,11,464	5,69,299	6,20,197
Total Networkth	4,66,112	5,55,868	6,13,703	6,64,600
Non-Current Liabilities				
Long Term borrowings	48,271	48,301	30,000	30,000
Provisions	5,477	6,664	7,330	8,063
Other non current liabilities	41,809	46,760	51,435	56,579
Current Liabilities				
ST Debt / Current of LT Debt	11,636	15,227	15,227	15,227
Trade payables	43,264	54,660	68,306	75,136
Other current liabilities	51,575	62,187	1,31,366	1,25,718
Total Equity & Liabilities	7,23,280	8,50,375	9,79,896	10,39,741

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	63,858	1,35,902	1,26,399	1,11,237
Add. Depreciation	19,079	21,112	23,559	26,363
Add. Interest	1,559	1,744	1,631	1,357
Less Financial Other Income	20,045	20,469	30,022	29,122
Add. Other	-	-	-	-
Op. profit before WC changes	84,496	1,58,758	1,51,589	1,38,957
Net Changes-WC	32,704	(12,980)	53,835	(15,276)
Direct tax	(15,558)	(31,708)	(29,491)	(25,953)
Net cash from Op. activities	1,01,641	1,14,070	1,75,933	97,727
Capital expenditures	(60,824)	(65,621)	(60,191)	(60,000)
Interest / Dividend Income	-	-	-	-
Others	(17,569)	(28,656)	(6,060)	(6,363)
Net Cash from Inv. activities	(78,392)	(94,277)	(66,251)	(66,363)
Issue of share cap. / premium	303	29,967	(516)	(454)
Debt changes	5,789	3,621	(18,301)	-
Dividend paid	(22,202)	(44,404)	(38,557)	(33,932)
Interest paid	(1,559)	(1,744)	(1,631)	(1,357)
Others	-	-	-	-
Net cash from Fin. activities	(17,670)	(12,561)	(59,005)	(35,743)
Net change in cash	5,579	7,232	50,677	(4,379)
Free Cash Flow	40,818	48,448	1,15,742	37,727

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	2,15,153	2,57,756	2,69,682	3,75,721
YoY gr. (%)	57.7	66.8	73.4	116.1
Raw Material Expenses	1,63,343	1,97,725	2,12,947	3,14,499
Gross Profit	51,810	60,031	56,735	61,222
Margin (%)	24.1	23.3	21.0	16.3
EBITDA	34,751	42,281	37,145	43,657
YoY gr. (%)	159.7	120.3	44.8	81.1
Margin (%)	16.2	16.4	13.8	11.6
Depreciation / Depletion	5,244	5,322	5,461	6,030
EBIT	29,507	36,960	31,685	37,627
Margin (%)	13.7	14.3	11.7	10.0
Net Interest	424	394	461	481
Other Income	7,740	6,518	4,235	1,798
Profit before Tax	36,823	43,084	35,459	38,944
Margin (%)	17.1	16.7	13.1	10.4
Total Tax	8,194	10,204	8,628	9,792
Effective tax rate (%)	22.3	23.7	24.3	25.1
Profit after Tax	28,629	32,880	26,831	29,152
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	28,629	32,880	26,831	29,152
YoY gr. (%)	130.9	121.1	40.6	90.5
Margin (%)	13.3	12.8	9.9	7.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	28,629	32,880	26,831	29,152
YoY gr. (%)	130.9	121.1	40.6	90.5
Margin (%)	13.3	12.8	9.9	7.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

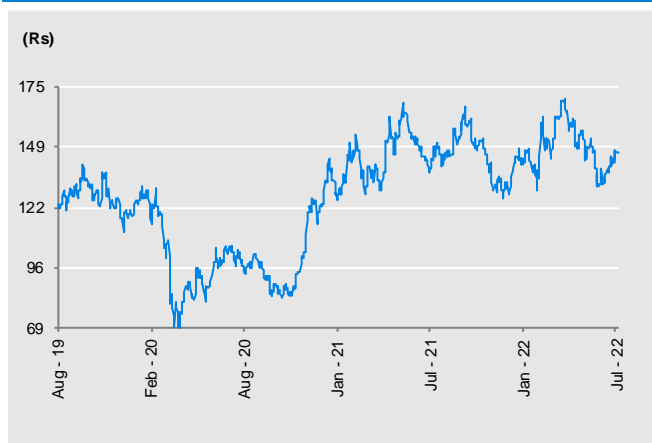
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	10.8	23.0	21.4	18.8
CEPS	15.1	27.7	26.6	24.7
BVPS	103.3	123.2	136.1	147.4
FCF	9.1	10.7	25.7	8.4
DPS	4.9	9.8	8.5	7.5
Return Ratio(%)				
RoCE	8.9	20.5	15.3	12.2
ROIC	6.4	13.9	10.8	8.6
RoE	10.8	20.3	16.5	13.3
Balance Sheet				
Net Debt : Equity (x)	0.1	0.1	0.0	0.0
Net Working Capital (Days)	11	19	19	20
Valuation(x)				
PER	12.9	6.1	6.6	7.4
P/B	1.4	1.1	1.0	1.0
P/CEPS	9.3	5.1	5.3	5.7
EV/EBITDA	10.4	4.9	5.0	5.6
EV/Sales	1.2	0.7	0.6	0.6
Dividend Yield (%)	3.5	7.0	6.1	5.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Gas transmission (mmscmd)	104	110	127	148
Gas sales (mmscmd)	80	86	103	124

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jul-22	BUY	170	134
2	30-May-22	BUY	170	143
3	23-May-22	BUY	205	156
4	04-Apr-22	BUY	205	162
5	03-Feb-22	BUY	205	147
6	06-Jan-22	BUY	184	136
7	29-Oct-21	BUY	184	149
8	05-Oct-21	BUY	184	162
9	05-Aug-21	BUY	184	143

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	416	313
2	GAIL (India)	BUY	170	134
3	Gujarat Gas	BUY	553	463
4	Hindustan Petroleum Corporation	BUY	368	226
5	Indian Oil Corporation	Hold	81	73
6	Indraprastha Gas	BUY	589	361
7	Mahanagar Gas	BUY	1,103	767
8	Oil & Natural Gas Corporation	BUY	160	127
9	Oil India	BUY	300	191
10	Petronet LNG	BUY	315	217
11	Reliance Industries	BUY	3,165	2,503

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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