

GAIL (India)

Transmission volume growth on track; reiterate BUY

The GAIL stock price has corrected 8% and underperformed the Sensex by 3% in the last three months. Our BUY recommendation for GAIL with a target price of INR 260 is based on (1) an increase in gas transmission volume to 154mmscmd by FY27E (three-year CAGR of 8.6%), supported by higher domestic gas production and softer LNG prices resulting in improved volumes, (2) completion of major pipelines, and (3) improvement in earnings from the petchem segment. At the current price, GAIL is trading at 11.5x Mar-26E EPS, a 4% discount to its five-year average despite the stronger volume growth outlook in its core business of gas transmission. Adjusting for the value of its investments, we estimate that the GAIL stock is trading at an inexpensive 8.1X FY26E earnings. We reiterate our BUY rating on GAIL with a target price of INR 260/sh.

- Rise in gas consumption to sustain transmission volume growth:** The total gas consumption in India during November 2024 was up 9% YoY and stood at 5,877 mmscm (196 mmscmd) as against 5,408 mmscm (180 mmscmd) during the same month last year (Exhibit 1). Consequently, gas consumption run rate for Q3FY25 (Oct and Nov) stands at 195 mmscmd, up 3% YoY and flat QoQ (194 mmscmd in Q2FY25). This growth in gas demand, we believe, should sustain gas transmission volumes for GAIL in the short term. Going ahead, we expect GAIL's gas transmission volumes to improve further to 154 mmscmd by FY27E (8.6% CAGR over FY24-27E), led by government's push towards adoption of cleaner fuel, anticipated rise in import of LNG due to soft prices and commissioning of new pipelines.
- Gas marketing:** Rising Henry Hub gas prices (up by 8% QoQ during Q3FY25) and softer Brent crude price (down by 5.5% QoQ) should adversely impact Gail's gas trading/marketing profitability over the near term. Over the medium term, the strong gas demand growth, moderate Henry hub price, and reasonably strong oil price augur well for Gail's gas marketing segment. This should sustain the strong profitability of the gas trading segment. We expect Gail's gas trading volume to record a CAGR of 9% while maintaining robust trading margins over FY24-27E.
- Petrochem profitability to be impacted in the near term:** While PE prices have declined by up to 0.9% QoQ during Q3FY25, LPG and spot LNG prices have moved up during the quarter by ~7% and ~9% QoQ respectively. With LPG prices trending upwards and APM gas prices remaining unchanged, we believe GAIL's LPG segment should see improved profitability during the quarter. However, given the decline in PE prices, petrochem segment's profitability is expected to be impacted in the near term. Nonetheless, in the longer term, we expect sustained softening of LNG price and improvement in capacity utilisation should drive an increase in profits for GAIL's petrochem segment. We expect GAIL's petrochem EBITDA to increase to INR 11.4bn in FY27E, a CAGR of 40% over FY24 – 27E.
- Valuation:** Our SOTP of INR 260/sh is based on 12x Mar-26E EV/EBITDA for the natural gas, LPG transmission and domestic gas marketing business, 4x EV/EBITDA for non-domestic gas marketing business, 6x EV/e for the petchem and LPG/LHC businesses, and INR 51 for investments. At the current price, we estimate it factors transmission volume of 94 mmscmd for FY26E (as compared to 120 mmscmd reported for FY24). The stock is currently trading at 11.5x Mar-26E EPS and 8.8x EV/EBITDA.

BUY

CMP (as on 19 Dec 2024)	INR 194
Target Price	INR 260
NIFTY	23,952

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 260	INR 260
EPS %	FY25E	FY26E
	-	-

KEY STOCK DATA

Bloomberg code	GAIL IN
No. of Shares (mn)	6,575
MCap (INR bn) / (\$ mn)	1,273/14,964
6m avg traded value (INR mn)	3,683
52 Week high / low	INR 246/135

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(8.2)	(10.5)	34.1
Relative (%)	(3.4)	(12.9)	23.2

SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	51.90	51.90
FIs & Local MFs	27.19	25.76
FPIs	14.17	15.19
Public & Others	6.75	7.51
Pledged Shares	0.0	0.0

Source: BSE

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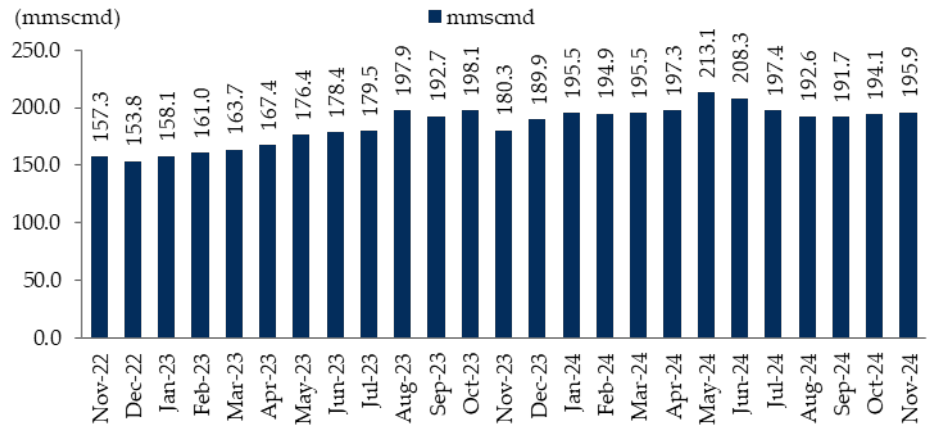
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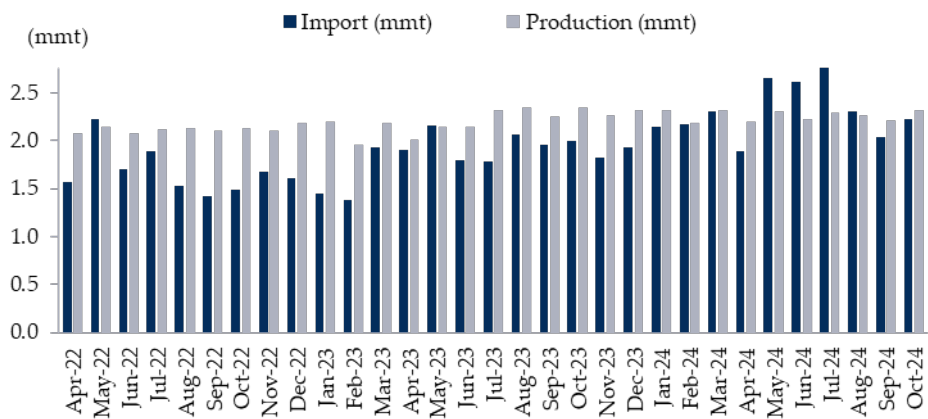
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Exhibit 1: Indian gas consumption continues to be robust in Nov-24



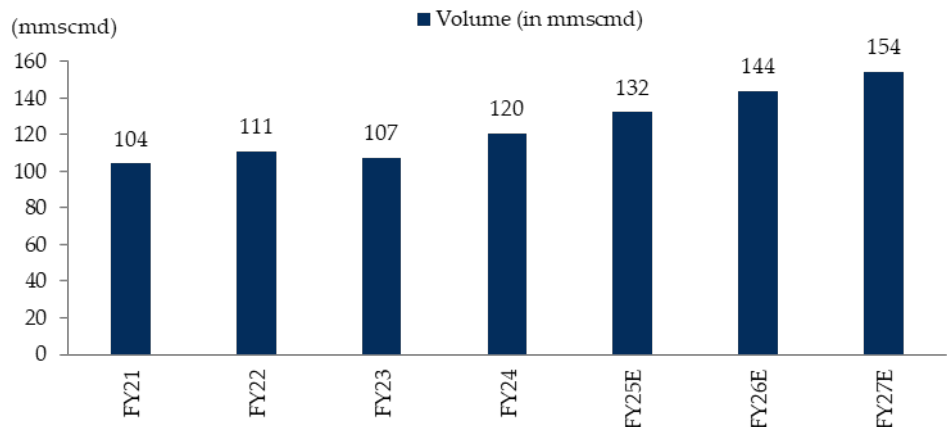
Source: PPAC, HSIE Research

Exhibit 2: Indian LNG imports for Oct-24 are up 11% YoY



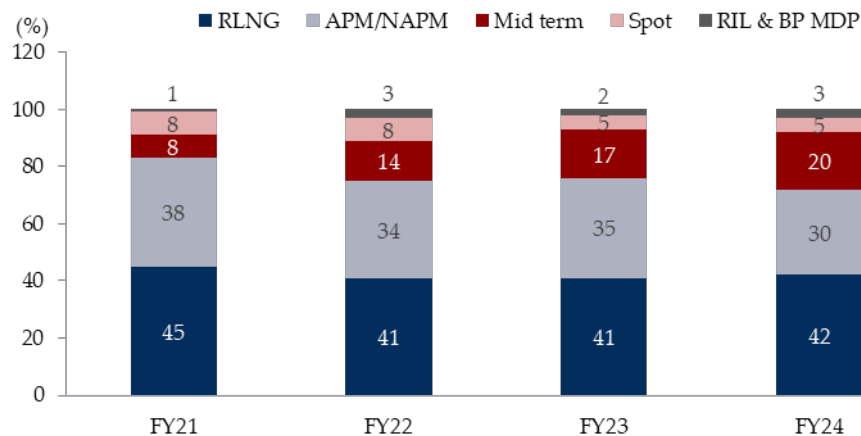
Source: PPAC, HSIE Research

Exhibit 3: GAIL – Gas transmission volume to surge going ahead



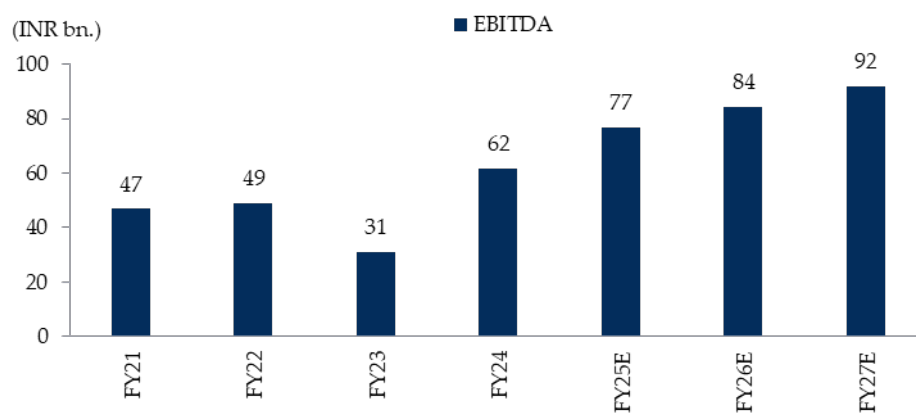
Source: Company, HSIE Research

Exhibit 4: GAIL – Gas transmission mix



Source: Company, HSIE Research

Exhibit 5: GAIL – Gas transmission EBITDA to improve from FY25E onwards



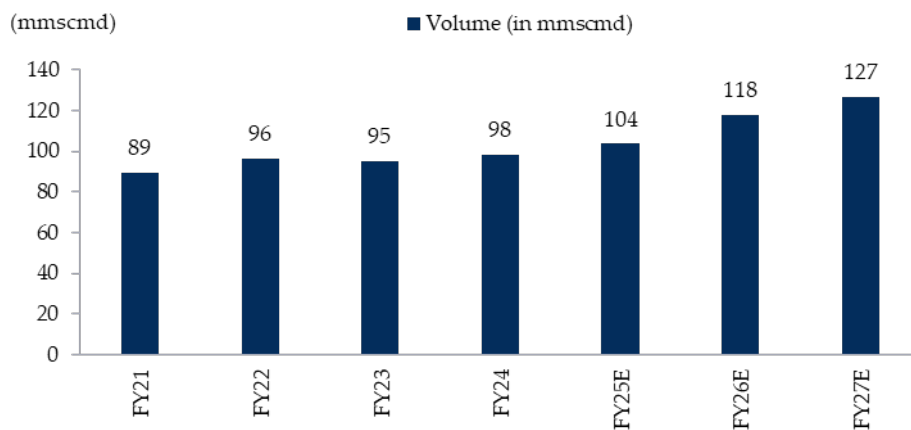
Source: Company, HSIE Research

Exhibit 6: Spot LNG price is up 9% QoQ in Q3FY25

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Current quarter
Gas marketing EBITDA (INR mn.)	11030	19530	20730	16270	22850	15120	
Gas marketing volumes (mmscmd)	98.84	96.96	98.14	99.9	99.47	96.6	
Brent Crude (\$/bbl)	78	86	82.7	81.8	85	78.5	74.1
Spot LNG (\$/mmbtu)	12.7	10.9	14.9	12.1	11.17	12.5	13.6
Henry Hub (\$/mmbtu)	2.2	2.6	2.8	2.2	2.1	2.1	2.3
US LNG (\$/mmbtu) (calculated)	9.3	9.8	10.0	9.3	9.2	9.2	9.4
Crude oil linked LNG (\$/mmbtu) (calculated)	10.5	11.5	11.1	11.0	11.4	10.5	10.0
Pricing differentials (\$/mmbtu)							
Spot LNG over US LNG	3.4	1.1	4.9	2.8	2.0	3.3	4.2
Crude oil linked LNG over US LNG (\$/mmbtu)	1.2	1.7	1.1	1.7	2.2	1.3	0.6

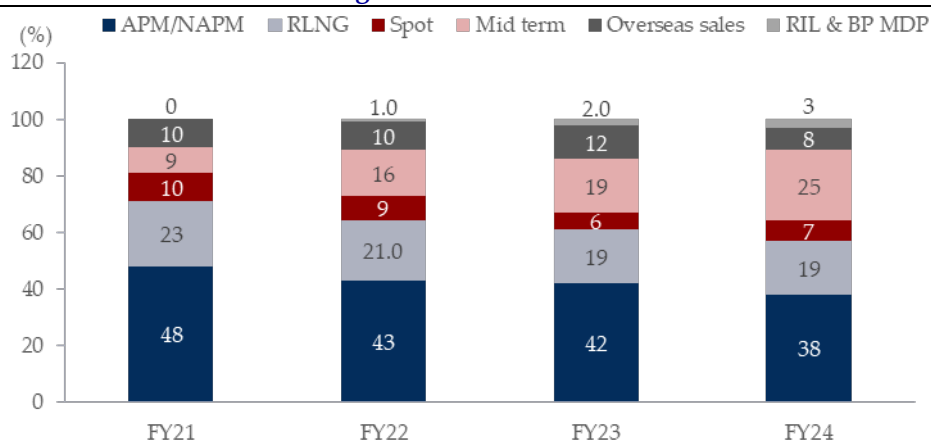
Source: Bloomberg, Reuters, Various media sources, Company, HSIE Research

Exhibit 7: GAIL - Gas marketing volumes to observe healthy growth



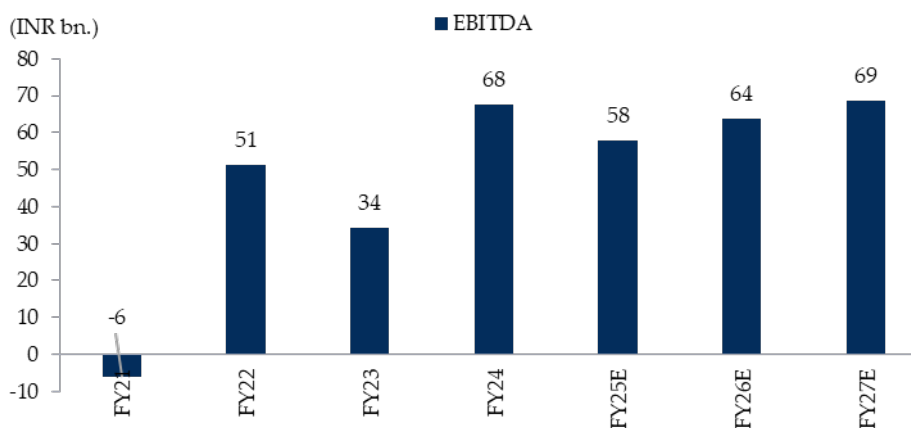
Source: Company, HSIE Research

Exhibit 8: GAIL - Gas marketing mix

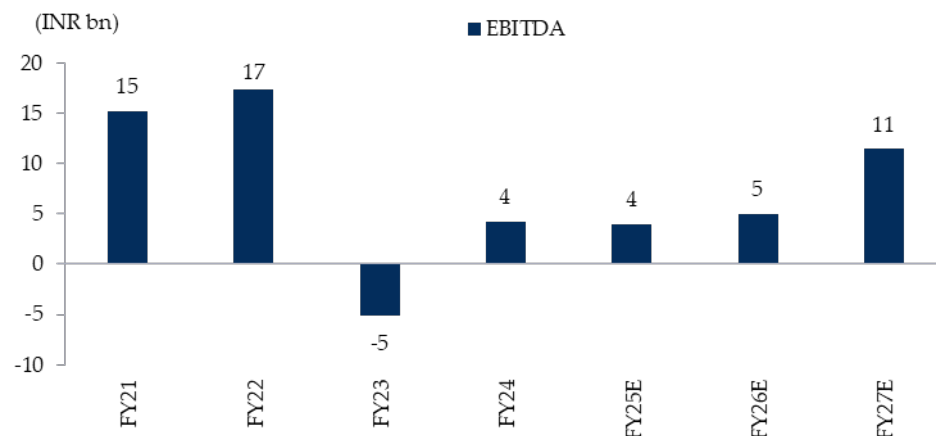


Source: Company, HSIE Research

Exhibit 9: GAIL - Gas marketing EBITDA to remain stable



Source: Company, HSIE Research

Exhibit 10: GAIL – Petchem EBITDA to grow from FY26E onwards


Source: Company, HSIE Research

Exhibit 11: PE prices are down by up to 0.9% QoQ in Q3FY25

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Current quarter
Petchem EBITDA (INR mn.)	-1730	-380	2050	4260	1240	2810	
Petchem volumes (Mt)	162000	168000	215000	242000	169000	226000	
Spot LNG (\$/mmbtu)	12.7	10.9	14.9	12.1	11.17	12.5	13.6
Spot LNG (\$/Mt)	660.4	566.8	774.8	629.2	580.84	650	707.2
LLDPE (\$/Mt)	962.7	963.8	945.4	970.8	989.2	979.2	977.5
HDPE (\$/Mt)	980	987.7	976.2	990	998.1	965.4	957.0

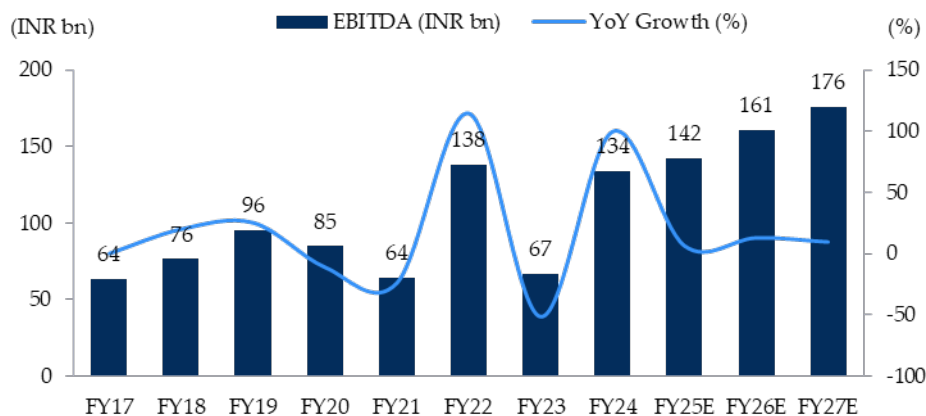
Source: Bloomberg, Reuters, Various media sources, Company, HSIE Research

Exhibit 12: LPG price is up 7% QoQ in Q3FY25

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Current quarter
LPG Transmission EBITDA (INR mn.)	960	1040	1010	990	1000	1050	
LPG volumes (Mt)	1073000	1114000	1095000	1114000	1065000	1124000	
LPG price (\$/Mt)	517	470	611	631	591	586	628
APM gas price (\$/mmbtu)	6.5	6.5	6.5	6.5	6.5	6.5	6.5

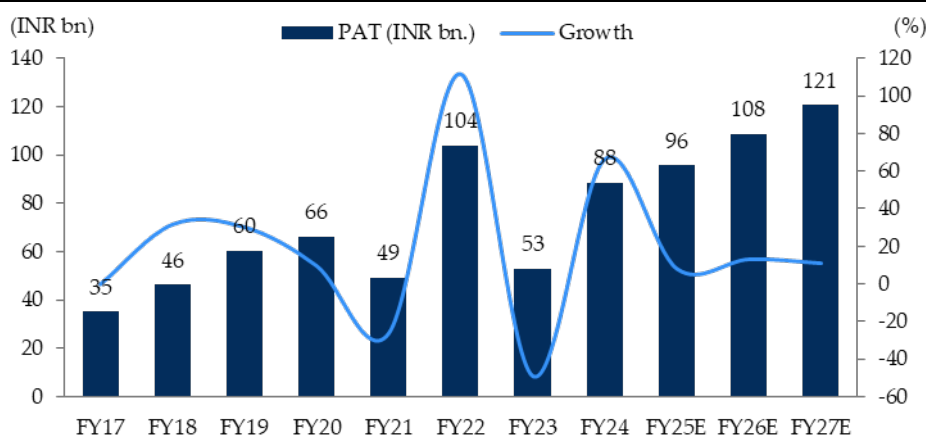
Source: Bloomberg, Company, HSIE Research

Exhibit 13: GAIL – EBITDA to grow at 10% CAGR over FY24-27E



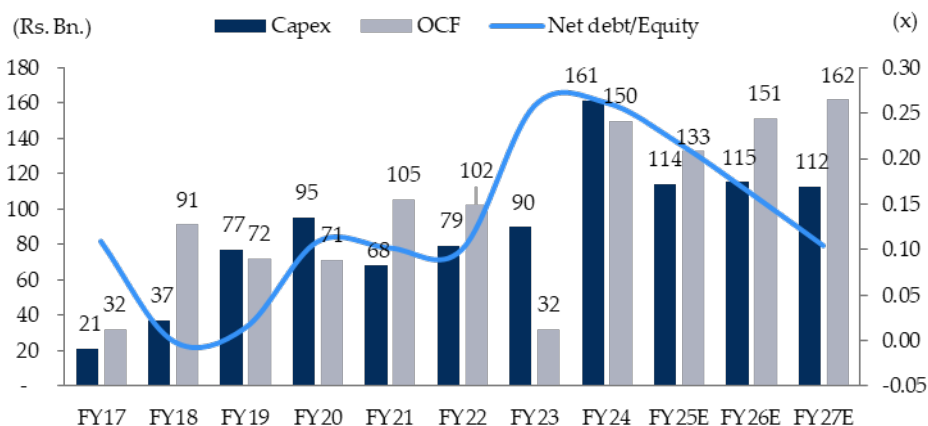
Source: Company, HSIE Research

Exhibit 14: GAIL – PAT to grow at 11% CAGR over FY24-27E



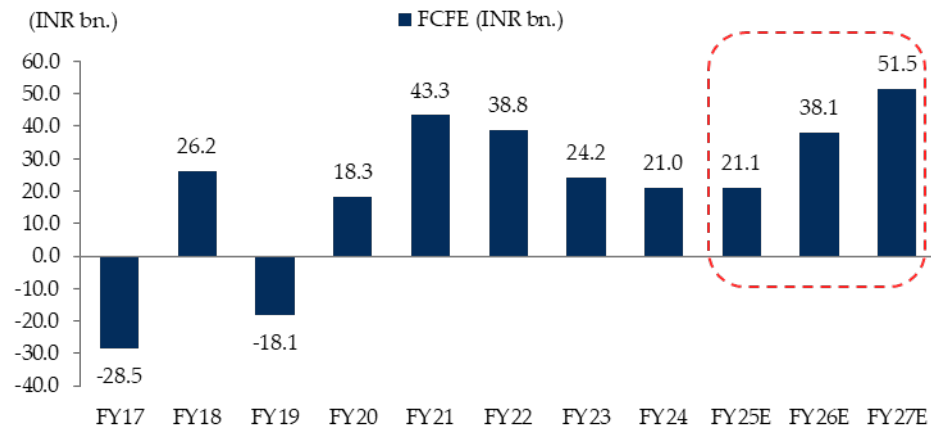
Source: Company, HSIE Research

Exhibit 15: Expect robust growth in OCF and reduction in net debt/equity



Source: Company, HSIE Research

Exhibit 16: FCFE generation to remain healthy despite capex



Source: Company, HSIE Research

Exhibit 17: SOTP valuation table

Particulars	EV (Rs bn)	Value/sh	Comments
Gas Transmission	1,013	154	12x FY26E EV/EBITDA
LPG Transmission	54	8	12x FY26E EV/EBITDA
Gas Marketing	314	48	Domestic business - 12x FY26E EV/EBITDA Non-domestic business - 4x FY26E EV/EBITDA
Petrochemicals	30	5	6x FY26E EV/EBITDA
LPG & Other Hydrocarbons	118	18	6x FY26E EV/EBITDA
Net Debt	-172	-26	
Standalone Value		207	
Investments	335	51	
Value per share		258	

Exhibit 18: HSIE vs. consensus

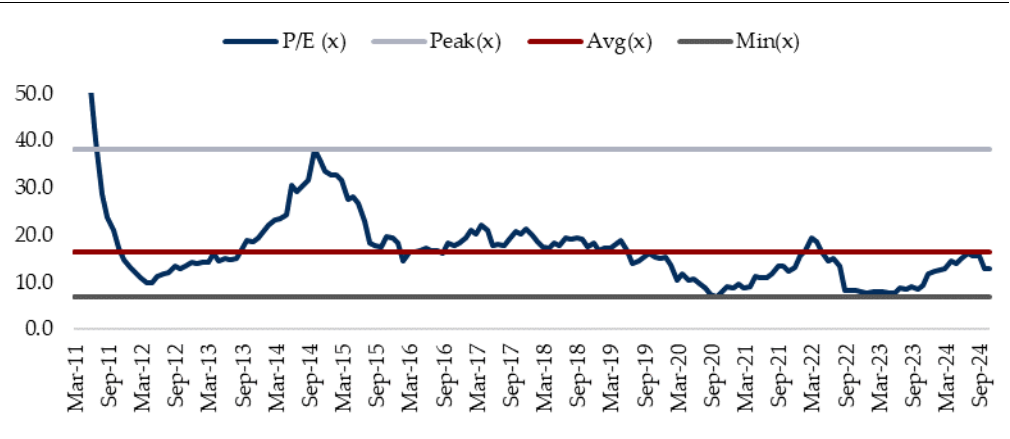
(INR/sh)	HSIE		Consensus		Variance (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
EPS	15.9	18.2	17.4	18.9	9.4%	3.8%

Source: Bloomberg, HSIE Research

Exhibit 19: Gas companies' valuation summary

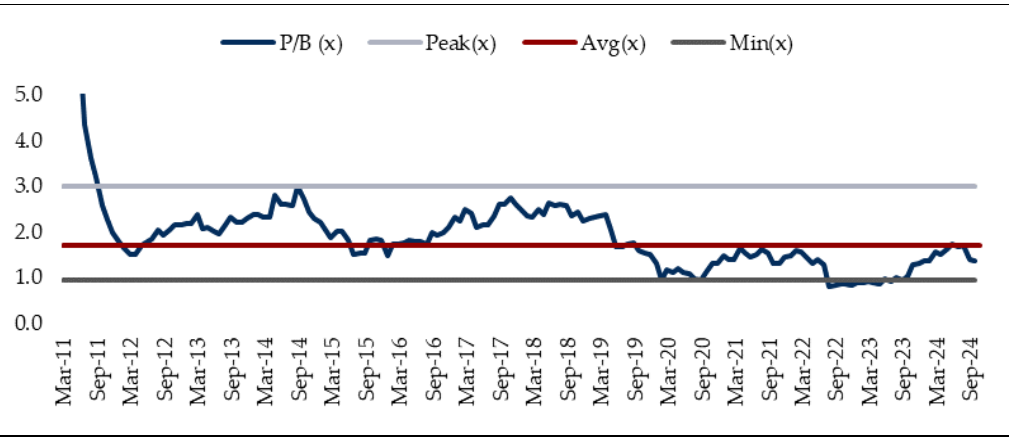
Company	MCap (INR bn)	RECO	CMP (INR)	TP (INR)	P/E (x)		P/BV (x)		ROE (%)		EV/EBITDA (x)	
					FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
GAIL	1,280	BUY	194	260	13.1	11.5	1.6	1.4	12.7	12.8	10.1	8.8
GGL	349	ADD	507	600	23.3	18.0	4.0	3.5	18.3	20.9	14.0	10.7
GSPL	209	ADD	370	385	13.4	11.6	1.7	1.5	13.4	13.6	6.2	5.0
IGL	273	BUY	391	515	17.3	15.7	2.5	2.3	15.5	15.3	13.6	11.8
MGL	125	BUY	1263	2200	11.7	10.0	2.2	1.9	19.5	20.3	7.0	5.7
PLNG	505	REDUCE	337	320	14.0	12.6	2.6	2.5	20	20.4	8.6	8.1
IRM	15	BUY	369	545	14.1	9.6	1.5	1.3	10.9	14.0	8.0	5.5

Exhibit 20: GAIL P/E chart



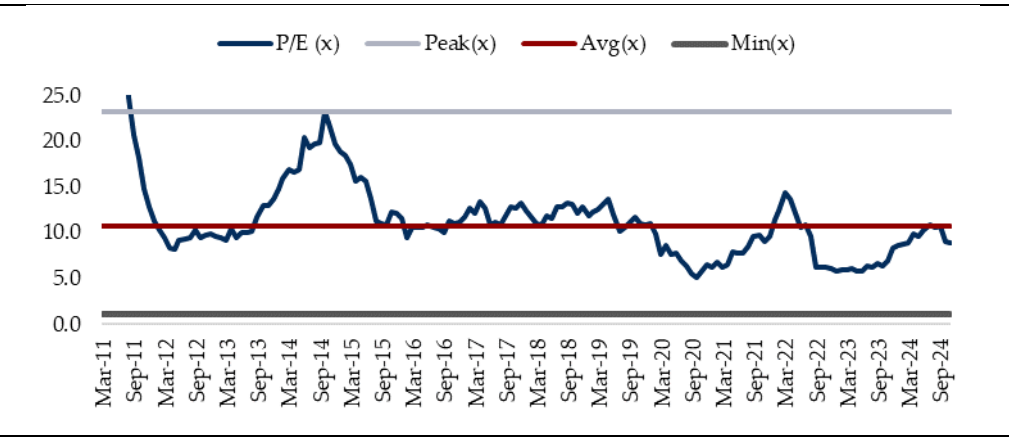
Source: NSE, Company, HSIE Research

Exhibit 21: GAIL P/BV chart



Source: NSE, Company, HSIE Research

Exhibit 22: GAIL EV/EBITDA chart



Source: NSE, Company, HSIE Research

INCOME STATEMENT

(INR bn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	725	574	928	1,457	1,332	1,375	1,496	1,608
Growth %	(4.8)	(20.9)	61.7	57.0	(8.5)	3.2	8.8	7.5
Raw Material	569	437	701	1,288	1,080	1,120	1,221	1,312
Employee Cost	-	-	-	-	-	-	-	-
Other Expenses	16	16	18	19	23	24	25	26
EBITDA	50	48	57	74	87	76	75	79
EBITDA Margin (%)	90	72	152	75	143	155	175	191
EBITDA Growth %	12.5	12.6	16.3	5.1	10.7	11.3	11.7	11.9
Depreciation	(6.6)	(19.8)	109.2	(50.6)	90.9	8.7	12.4	9.4
EBIT	21	22	24	27	37	40	43	45
Other Income	70	51	127	48	106	115	132	146
Interest	15	11	12	13	10	12	13	15
PBT	3	2	2	4	7	9	9	10
Tax	82	60	137	57	109	118	136	152
RPAT	9	16	32	17	27	30	34	38
EO (Loss) / Profit (Net Of Tax)	73	44	105	41	82	88	102	113
APAT	-	-	-	-	-	-	-	-
Minority interest	73	44	105	41	82	88	102	113
Share from JV's/associates	22	17	18	15	17	17	18	18
APAT after minority interest	(1)	(0)	(0)	0	(0)	(0)	(0)	(0)
APAT Growth (%)	94	61	123	56	99	105	120	131
AEPS	44.0	(34.9)	99.7	(54.2)	76.3	5.8	14.1	10.0
AEPS Growth %	14.3	9.3	18.6	8.5	15.1	15.9	18.2	20.0

Source: Company, HSIE Research

BALANCE SHEET

(INR bn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS								
Share Capital	45	44	44	66	66	66	66	66
Reserves And Surplus	448	487	597	584	704	809	928	1,060
Total Equity	493	532	641	649	770	875	994	1,126
Minority interest	1	1	2	2	2	2	2	2
Long-term Debt	39	57	65	100	151	159	167	175
Short-term Debt	27	17	27	78	67	70	73	77
Total Debt	66	74	92	178	218	229	240	252
Deferred Tax Liability	40	41	42	44	41	44	48	52
Other long-term liabilities	52	58	65	66	66	69	71	74
Long-term Provision	652	706	842	939	1,097	1,218	1,355	1,505
TOTAL SOURCES OF FUNDS								
APPLICATION OF FUNDS	382	412	446	497	552	575	598	615
Net Block	117	134	155	166	236	287	337	387
Capital WIP	99	131	164	172	219	230	242	254
Intangible assets	16	15	13	13	14	15	17	19
LT Loans And Advances	19	19	24	23	24	24	24	25
Total Non-current Investments	633	710	803	873	1,044	1,131	1,217	1,299
Inventories	32	30	36	59	60	61	68	77
Debtors	48	35	74	107	96	98	109	123
ST investments	13	20	28	11	17	40	80	135
Cash and Cash Equivalents	7	7	1	1	1	1	1	1
Other Current Assets	17	12	24	28	29	31	32	34
Total Current Assets	117	104	163	205	203	230	290	370
Creditors	39	45	54	71	66	62	66	71
Other Current Liabilities & Provns	58	64	70	67	83	81	86	93
Total Current Liabilities	97	108	123	139	150	143	152	164
Net Current Assets	19	(4)	40	66	53	87	138	206
TOTAL APPLICATION OF FUNDS	652	706	842	939	1,097	1,218	1,355	1,505

Source: Company, HSIE Research

CASH FLOW STATEMENT

(INR bn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	82	60	137	57	109	118	136	152
Non-operating & EO Items	6	6	5	2	7	5	4	3
Interest Expenses	3	2	2	4	7	9	9	10
Depreciation	21	22	24	27	37	40	43	45
Working Capital Change	(7)	31	(36)	(44)	20	(12)	(11)	(13)
Tax Paid	(34)	(15)	(30)	(15)	(30)	(27)	(31)	(34)
OPERATING CASH FLOW (a)	71	105	102	32	150	133	151	162
Capex	(95)	(68)	(79)	(90)	(161)	(114)	(115)	(112)
Free Cash Flow (FCF)	(24)	37	23	(58)	(12)	19	36	49
Investments	8	(32)	(34)	(8)	(47)	(11)	(12)	(12)
Non-operating Income	15	11	12	13	10	12	13	15
Others	7	1	(4)	1	(1)	(2)	(2)	(2)
INVESTING CASH FLOW (b)	(64)	(88)	(105)	(84)	(199)	(115)	(115)	(111)
Debt Issuance/(Repaid)	45	8	18	86	40	11	11	12
Interest Expenses	(3)	(2)	(2)	(4)	(7)	(9)	(9)	(10)
FCFE	18	43	39	24	21	21	38	52
Share Capital Issuance	23	(1)	-	21	-	-	-	-
Dividend	(39)	(15)	(31)	(26)	(36)	(38)	(43)	(48)
Others	(34)	(1)	26	(42)	58	41	46	51
FINANCING CASH FLOW (c)	(9)	(10)	11	35	55	5	5	5
NET CASH FLOW (a+b+c)	(2)	8	8	(17)	6	22	41	56
EO Items, Others								
Closing Cash & Equivalents	13	20	28	11	17	39	80	136

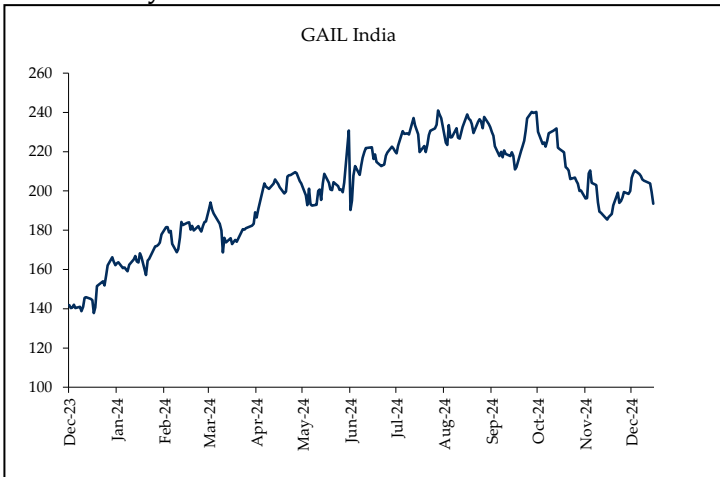
Source: Company, HSIE Research

KEY RATIOS

	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY %								
EBITDA Margin	12.5	12.6	16.3	5.1	10.7	11.3	11.7	11.9
EBIT Margin	9.6	8.8	13.7	3.3	8.0	8.4	8.8	9.1
APAT Margin	13.0	10.7	13.2	3.9	7.4	7.6	8.0	8.2
RoE	19.8	12.0	20.9	8.7	13.9	12.7	12.8	12.4
RoIC	16.7	9.6	18.8	6.4	11.7	11.5	12.5	13.0
RoCE	15.6	9.2	16.0	6.6	10.3	9.6	9.8	9.7
EFFICIENCY								
Tax Rate %	11.2	26.3	23.1	28.9	25.2	25.2	25.2	25.2
Fixed Asset Turnover (x)	1.8	1.2	1.8	2.5	2.0	1.8	1.8	1.8
Inventory (days)	16.0	19.0	14.1	14.8	16.4	16.2	16.5	17.5
Debtors (days)	24.3	22.3	29.3	26.8	26.2	25.9	26.5	28.0
Other Current Assets (days)	12.1	12.0	9.8	7.1	8.2	8.4	8.1	7.9
Payables (days)	118.3	116.4	132.6	147.1	80.8	58.6	55.5	56.8
Other Current Liab & Provns (days)	29.3	40.5	27.5	16.9	22.9	21.5	21.0	21.1
Cash Conversion Cycle (days)	(95.3)	(103.6)	(107.0)	(115.4)	(52.8)	(29.7)	(25.3)	(24.5)
Net Debt/EBITDA (x)	0.6	0.7	0.4	2.2	1.4	1.2	0.9	0.6
Net D/E	0.1	0.1	0.1	0.3	0.3	0.2	0.2	0.1
Interest Coverage	22.5	28.3	62.9	13.1	14.8	12.9	14.1	14.8
PER SHARE DATA (Rs)								
EPS	14.3	9.3	18.6	8.5	15.1	15.9	18.2	20.0
CEPS	14.3	9.3	18.6	8.5	15.1	15.9	18.2	20.0
Dividend	6.0	2.2	4.7	4.0	5.5	5.8	6.6	7.3
Book Value	74.9	80.9	97.5	98.7	117.1	133.0	151.2	171.2
VALUATION								
P/E (x)	14.6	22.4	11.2	24.5	13.9	13.1	11.5	10.5
P/Cash EPS (x)	14.7	22.5	11.3	24.6	14.1	13.3	11.7	10.7
P/BV (x)	2.8	2.6	2.1	2.1	1.8	1.6	1.4	1.2
EV/EBITDA (x)	15.8	19.7	9.5	20.6	11.0	10.1	8.8	7.8
EV/Revenue (x)	2.0	2.5	1.6	1.1	1.2	1.1	1.0	0.9
OCF/EV (%)	5.0	7.4	7.1	2.1	9.5	8.5	9.8	10.8
FCFF/EV (%)	(1.7)	2.6	1.6	(3.8)	(0.7)	1.2	2.3	3.3
FCFE/M Cap (%)	1.3	3.2	2.8	1.8	1.5	1.5	2.8	3.7
Dividend Yield (%)	2.9	1.1	2.3	1.9	2.6	2.8	3.2	3.5

Source: Company, HSIE Research

Price history



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

Disclosure:

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