

GAIL (India)

Capacity utilisations meet normalcy

Our BUY recommendation on GAIL with a price target of INR 153 is based on 14% CAGR expansion in gas transmission volume over FY21-23E to 137mmcmd on the back of (1) increase in domestic gas production, (2) increase in demand of RLNG, and (3) completion of major pipelines in the eastern and southern part of India. 3QFY21 EBITDA/APAT was 29/59% above our estimates owing to 29% rise in revenue, higher-than-expected other income and lower-than-expected finance cost.

- **NG transmission:** 3Q revenue grew 5/2% QoQ/YoY to INR 16bn, owing to increased demand post un-lock. Transmission volumes came to 110.3mmcmd +4/0% QoQ/YoY and tariff to INR 1,631/tscm up 1/6% QoQ/YoY.
- **Petchem:** Revenue in 3Q grew 15/31% QoQ/YoY to INR 19bn, led by an increase in sales volumes by 3/10% QoQ/YoY to 231kT and increase in realisations by 12/19% QoQ/YoY to INR 84/kg. On account of better physical performance and price realisation, the operating profit of the segment has reached INR 5.5bn. The plant utilisation for the quarter was above 100%.
- **Call takeaways: Capacity utilisation** in 3Q met normalcy: natural gas transmission 54%, LPG transmission 114%, polymers 114%, and liquid hydrocarbon 88%. Capex of INR 17/37bn was spent in 3Q/9MFY21, and the target for FY21/22 is of INR 66/66bn. The Board approved **Buyback** of not exceeding 69.76mn fully paid-up equity shares of FV INR 10/sh at a price of INR 150/sh. **Interim dividend** was declared at 25% i. e. INR 2.5/sh.
- **Change in estimates:** We raise our FY21/22E EPS estimate by 26.1/31.5% each to INR 11.9/16.4 to factor in the overall performance in 9MFY21, faster-than-anticipated increase in petchem plant utilisation and better realisation for petchem products.
- **Our target price is INR 153/sh (6.0x Dec-22E EV/e for the stable Gas, LPG transmission and gas marketing business, 4.0x EV/e for the cyclical petchem and LPG/LHC business, INR 37 for investments). The stock is currently trading at 8.2x FY22E EPS.**

Standalone financial summary

YE March (INR bn)	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19*	FY20*	FY21E*	FY22E*	FY23E*
Revenues	155	136	13.3	178	(13.0)	762	725	564	676	759
EBITDA	19	13	43.4	21	(7.4)	97	90	71	99	101
APAT	15	12	20.0	13	18.9	65	94	54	74	75
AEPS (INR)	3.3	2.7	20.0	2.8	18.9	14.5	20.9	11.9	16.4	16.6
P/E (x)						9.2	6.4	11.2	8.2	8.1
EV/EBITDA (x)						6.3	7.3	8.8	6.2	5.6
RoE (%)						14.9	19.8	10.4	12.7	11.4

Source: Company, HSIE Research | *Consolidated

Change in estimates (Consolidated)

YE Mar	FY21E Old	FY21E New	% Ch	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR bn)	56	71	26.7	75	99	31.6	84	101	20.7
AEPS (INR/sh)	9.5	11.9	26.1	12.5	16.4	31.5	13.7	16.6	20.9

Source: Company, HSIE Research

BUY

CMP (as on 10 Feb 2021)	INR 134
Target Price	INR 153
NIFTY	15,107

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 129	INR 153
EPS %	FY21E +26.1%	FY22E +31.5%

KEY STOCK DATA

Bloomberg code	GAIL IN
No. of Shares (mn)	4,510
MCap (Rs bn) / (\$ mn)	603/8,273
6m avg traded value (Rs mn)	2,286
52 Week high / low	Rs 146/65

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	48.1	37.7	9.7
Relative (%)	29.6	3.3	(15.5)

SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	52.11	52.12
FIs & Local MFs	28.38	28.21
FPIs	15.09	15.62
Public & Others	4.42	4.05
Pledged Shares	0.00	0.00

Source: BSE

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Disclosure:

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