

ICICI Securities Limited  
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Company update and  
earnings revision

## Oil & Gas and Petrochemicals

Target price: Rs184

### Earnings revision

(%)	FY21E	FY22E
Sales	-	↑ 1.3
EBITDA	-	↑ 8.3
EPS	-	↑ 7.6

### Target price revision

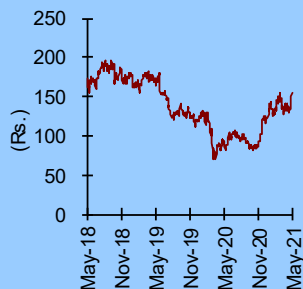
Rs184 from Rs164

### Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	52.1	52.1	51.8
Institutional investors	35.2	35.5	34.9
MFs and others	10.6	9.9	8.3
FIs/ Banks	0.3	0.0	0.2
Insurance	9.2	10.0	10.5
FII	15.1	15.6	15.9
Others	12.7	12.4	13.2

Source: www.nseindia.com

### Price chart



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INDIA

## GAIL India

**ICICI Securities**

**BUY**

**Maintain**

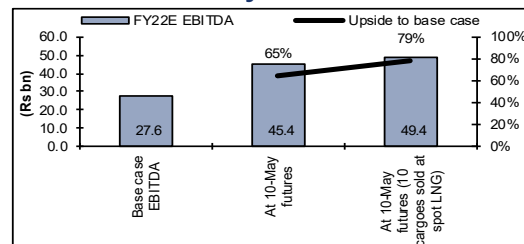
**Rs155**

### Firing on all cylinders

JKM spot LNG price is up 72% from low of US\$5.6/mmbtu in early-Mar'21 to US\$9.65/mmbtu as severe winter depleted gas inventories in North Asia and Europe leading to competition for LNG supplies ([see report](#)). Brent is up 84% from lows in end-Oct'20 to US\$68/bbl as OPEC+ capped supplies. Steeper rise in oil and spot LNG vs in Henry Hub (HH) gas price has meant GAIL can sell its HH linked US LNG at higher spot LNG/oil linked prices, thereby, improving its gas marketing outlook. Supply disruptions in the US have boosted polyethylene margins and outlook. We have raised FY22E EPS by 8% and target price to Rs184 mainly on assumption of higher petrochemical EBITDA. Further upside in gas transmission, marketing and petrochemicals is not ruled out. Reiterate BUY.

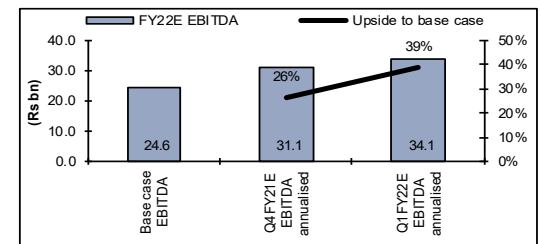
- **Brent & spot LNG surge may mean 65-79% upside to FY22E gas marketing EBITDA:** Brent for FY22E based on FY22-TD price and futures for rest of FY22 works out to US\$66/bbl. JKM spot LNG on similar basis works out to US\$10/mmbtu. We estimate GAIL's FY22 gas marketing EBITDA at Rs27.6bn assuming all US LNG sold is at oil linked price with Brent at US\$60/bbl. At latest Brent futures, FY22E gas marketing EBITDA is estimated at Rs45.4bn and at Rs49.4bn if 10 cargoes are assumed to be sold at spot LNG prices. **Actual gas marketing EBITDA would depend on futures prevailing when volumes were tied up.**
- **Raise FY22E petrochemical EBITDA by 52%:** GAIL's Q3FY21 petrochemical EBITDA was at Rs5.5bn. We estimate Q4 EBITDA at Rs7.8bn and that for Q1FY22E based on QTD margins at Rs8.5bn. To factor strength in margins we have raised FY22E EBITDA by 52% to Rs24.6bn. Further upside to EBITDA would be 26-39% at Rs31-34bn if it is at annualised Q4FY21-Q1FY22E EBITDA level.

### 65-79% upside to FY22E marketing EBITDA on 10-May'21 oil/LNG futures



Source: CME, I-Sec research

### 26-39% upside to FY22E petrochemical EBITDA if 4x Q4FY21-Q1FY22 EBITDA



Source: I-Sec research

- **Raise FY22E EPS & target price by 8-12%; further upside possible:** Upgrade in petrochemical EBITDA led to an upgrade in FY22E EPS by 8% and target price (gas marketing and LPG production EV at 4-6x EBITDA vs 3-5x earlier) by 12% to Rs184 (18% upside). If FY22E gas marketing EBITDA is higher than base case at Rs45.4-49.4bn and petrochemical EBITDA at Rs31-34bn, **upside to fair value (lower multiple of 3-4x) would be 3-6% at Rs190-195 and to FY22E EPS 20-26%.**

Market Cap	Rs687bn/US\$9.3bn	Year to March	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	GAIL.BO/GAIL IN	Revenue (Rs mn)	7,62,342	7,27,537	5,82,198	6,33,918
Shares Outstanding (mn)	4,510.1	Net Income (Rs mn)	65,457	75,033	55,622	89,010
52-week Range (Rs)	158/81	EPS (Rs)	14.5	16.6	12.3	19.7
Free Float (%)	48.2	% Chg YoY	36%	15%	-26%	60%
FII (%)	15.9	P/E (x)	10.7	9.3	12.5	7.8
Daily Volume (US\$'000)	46,502	CFPS (Rs)	16.5	22.1	13.6	21.3
Absolute Return 3m (%)	15.7	EV/E (x)	7.8	8.1	12.4	6.8
Absolute Return 12m (%)	69.18	Dividend Yield	3%	5%	3%	4%
Sensex Return 3m (%)	(3.4)	RoCE (%)	10%	13%	6%	10%
Sensex Return 12m (%)	56.2	RoE (%)	13%	13%	8%	14%

Please refer to important disclosures at the end of this report

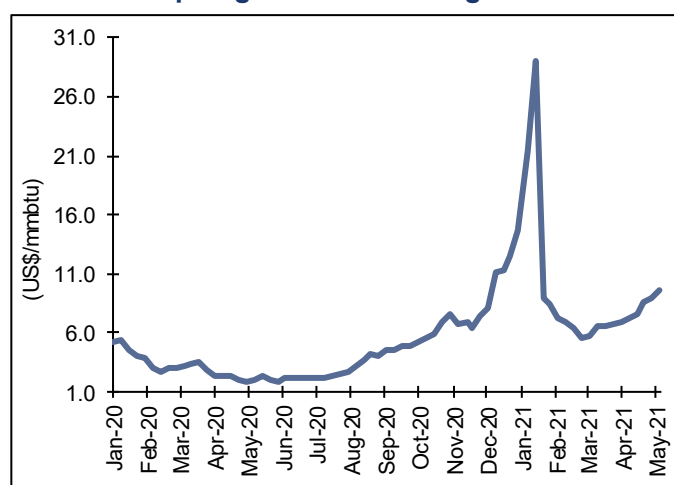
## Firing on all cylinders

### Oil & spot LNG rise may mean record FY22E marketing EBITDA

#### Spot LNG up 72% from lows as Asia & Europe compete for supplies

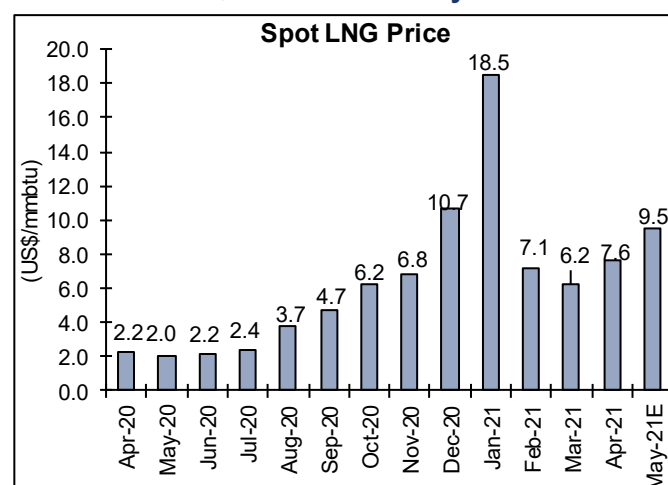
JKM spot LNG price, which had surged to an all-time high of US\$32.5/mmbtu on 12-Jan'21 and averaged US\$18.5/mmbtu in Jan'21 due to severe winter in North Asia, corrected to US\$5.6/mmbtu in the first week of Mar'21 due to warmer weather and increased supplies. However, spot LNG price has now rebounded from the Mar'21 lows by 72% to US\$9.65/mmbtu. This is the highest spot LNG price for this time of the year since 2014 (7-year high). Severe winter that led to depletion of gas inventories in North Asia and Europe in Q1CY21 is at the root of the current spot LNG rebound as it has led to the two competing for LNG supplies ([see report](#)).

**Chart 1: Spot LNG prices up 72% from lows in Mar'21 after plunge from Jan'21 highs**



Source: Reuters, I-Sec research

**Chart 2: Spot LNG prices up from US\$6.2/mmbtu in Mar'21 to US\$9.5/mmbtu in May'21E**



Source: Reuters, I-Sec research

#### Brent up 84% from end-Oct'20 lows as OPEC+ capped supplies

Brent is up 84% from lows in end-Oct'20 to US\$68/bbl driven by

- Announcements of high-efficacy vaccines against covid in Nov'20 and gradual rollout of vaccination programmes globally thereafter. Over 1.08bn vaccines have been administered globally with high proportion of population being vaccinated in Israel, US and UK.
- OPEC+ capped supplies to ensure supply deficit in response to surge covid in US and Europe causing reversal of demand recovery.

#### Gas marketing EBITDA in red in 9M, hit by low oil & spot LNG prices

GAIL's 9MFY21 consolidated EPS was down 15% YoY, hit by gas marketing EBITDA in the red at minus Rs10.2bn vs Rs16.4bn in 9MFY20. Lockdowns due to covid globally hit oil and gas demand and led to plunge in oil and spot LNG prices. Sale of Henry Hub linked US LNG at low spot LNG prices and oil-linked prices pushed gas marketing EBITDA in the red. We estimate loss on sale of Henry Hub linked US LNG:

- At spot LNG prices at US\$4/mmbtu in Q1, US\$2.8/mmbtu in Q2FY21 and US\$0.64/mmbtu in Q3FY21.

- At oil price linked prices at US\$0.8/mmbtu in Q1, US\$1.1/mmbtu in Q2 and US\$1.0/mmbtu in Q3FY21.

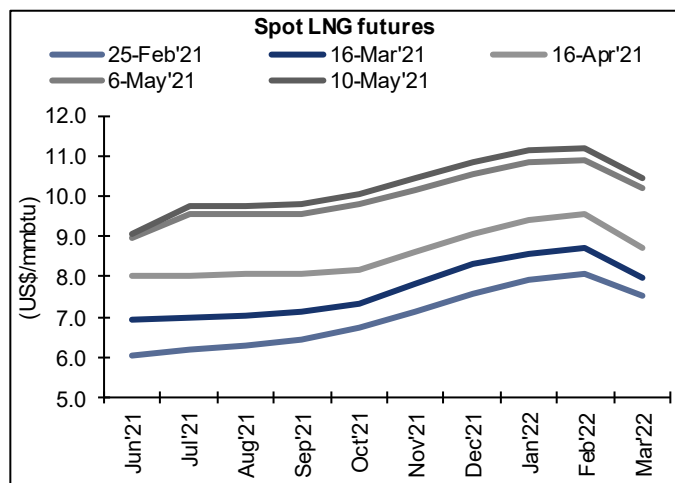
**Q4 gas marketing EBITDA at Rs8.8bn; spot LNG of US\$10/mmbtu**

We estimate Q4FY21E gas marketing EBITDA to be in the black at Rs8.8bn assuming:

- 31% of contracted LNG volumes were sold at spot LNG price of US\$10/mmbtu. A trading profit of US\$3/mmbtu is estimated by selling HH-linked US LNG costing US\$7.8/mmbtu assuming delivered price of US\$10.8/mmbtu.
- 43% of contracted LNG volumes were sold at oil-linked price of US\$7.3/mmbtu. A trading loss of US\$0.5/mmbtu is estimated by selling HH-linked US LNG costing US\$7.8/mmbtu assuming delivered price of US\$7.3/mmbtu

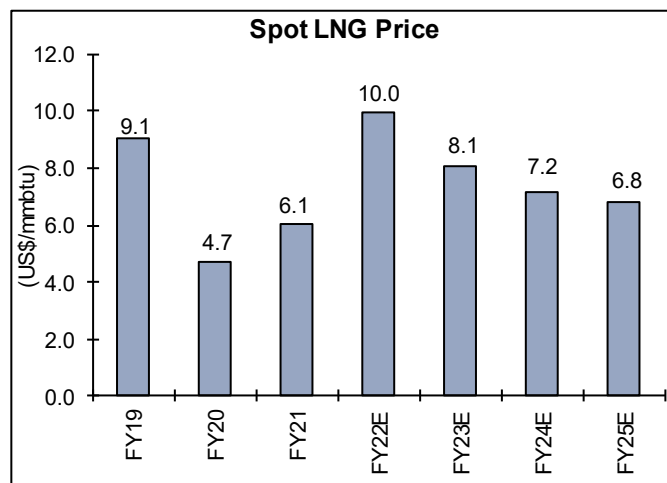
FY21E gas marketing EBITDA loss of Rs1.4bn is estimated.

**Chart 3: JKM spot LNG futures have surged in line with spot LNG price from early-Mar’21**



Source: CME, I-Sec research

**Chart 4: Spot LNG at US\$10-6.8/mmbtu in FY22E-FY25E higher than the US\$4.7/mmbtu in FY20**



Source: Reuters, CME, I-Sec research

**Oil & spot LNG surge dramatically improved gas marketing outlook**

GAIL sells most of HH linked US LNG at oil linked prices and some US LNG cargoes (~10-12%), which it does not tie up, at spot LNG price mainly in H2 of the financial year. **GAIL’s gas marketing EBITDA outlook is mainly driven by whether the oil linked or the spot LNG price linked price it realises is higher or lower than its HH linked US LNG cost.** Surge in oil and spot LNG price vs HH gas prices being stable has drastically improved GAIL’s gas marketing EBITDA outlook as follows:

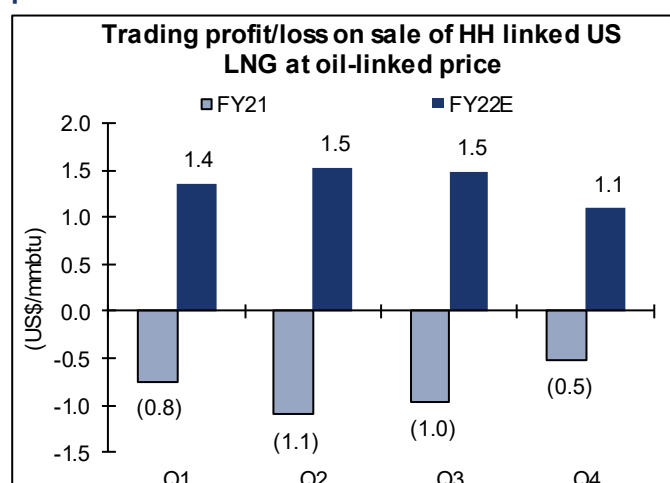
- Brent price/futures in Q1-Q4CY22E are up 35-81% (US\$17-30/bbl) YoY while HH prices/futures are up 19-58% (US\$0.5-1.1/mmbtu) YoY. This has meant that trading profit from sale of HH linked US LNG at oil linked price is estimated at US\$1.1-1.5/mmbtu in Q1-Q4FY22E vs loss of US\$0.5-1.1/mmbtu in Q1-Q4FY21.

**Table 1: Brent price/futures in Q1-Q4FY22E up US\$17-30/bbl YoY vs HH up US\$0.5-1.1/mmbtu**

	YoY change in price/futures	
	Brent (US\$/bbl)	Henry Hub (US\$/mmbtu)
Q1FY22E	25	1.0
Q2FY22E	30	1.1
Q3FY22E	26	0.7
Q4FY22E	17	0.5

Source: Bloomberg, CNBC, CME, I-Sec research

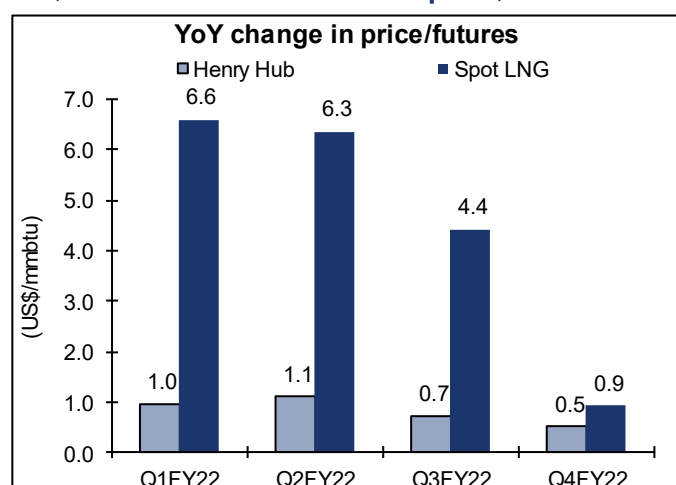
**Chart 5: Sale of US LNG at oil linked price to be profitable in Q1-Q4FY22E vs loss in Q1-Q4FY21E**



Source: Bloomberg, CNBC, CME, I-Sec research

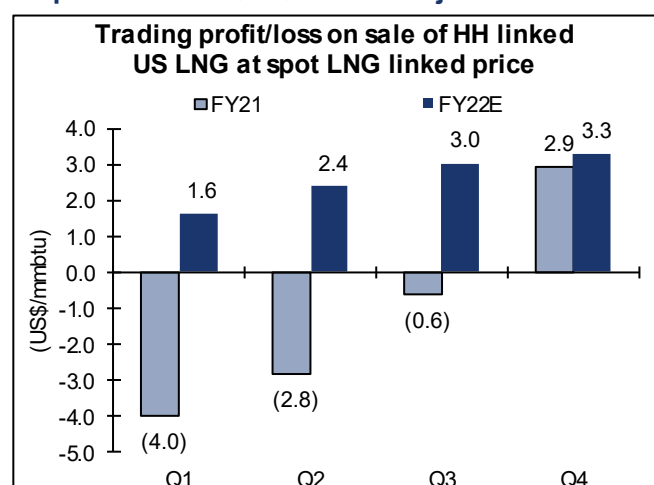
- Spot LNG price/futures in Q1-Q4FY22E are up US\$0.9-6.6/mmbtu YoY while HH prices/futures are up US\$0.5-1.1/mmbtu YoY. This has meant that trading profit from sale of HH linked US LNG at spot LNG linked price is estimated at US\$1.6-3.3/mmbtu in Q1-Q4FY22E vs loss of US\$0.6-4.0/mmbtu in Q1-Q3FY21 and profit of US\$2.9/mmbtu in Q4FY21E.

**Chart 6: Spot LNG price/futures in Q1-Q4FY22E up US\$0.9-6.6/mmbtu YoY vs HH up US\$0.5-1.1/mmbtu**



Source: Reuters, CNBC, CME, I-Sec research

**Chart 7: Sale of US LNG at spot LNG linked price to be profitable in Q1-Q4FY22E vs just in Q4 in FY21E**



Source: Reuters, CNBC, CME, I-Sec research

Thus, rise in oil and spot LNG has meant GAIL can sell its HH linked US LNG at higher spot LNG/oil linked prices and make a trading profit in FY22E vs a loss in Q1-Q3FY21.

**Gas marketing EBITDA at Rs45.4bn at FY22E futures as of 10-May'21**

Our FY22E gas marketing EBITDA estimate assumes entire US LNG volumes are sold at oil linked prices. At FY22E Brent futures of US\$66.3/bbl and HH futures of US\$3/mmbtu as of 10-May'21, we estimate GAIL's:

- Profit on sale of US LNG at oil linked prices at US\$1.1-1.5/mmbtu in Q1-Q4 FY22E and US\$1.4/mmbtu in FY22E.

- Profit on sale of US LNG at oil linked prices at Rs5.3-7.5bn in Q1-Q4 FY22E and at Rs26.7bn in FY22E.
- Marketing margin and trading profit on sale of domestic gas, RasGas, Gorgon and Gazprom LNG at Rs4.7bn in Q1-Q4FY22E and Rs18.7bn in FY22E.
- Total gas marketing EBITDA at Rs10-12.2bn in Q1-Q4FY22E and Rs45.4bn in FY22E.

**US LNG sale at spot LNG price more profitable than at oil linked price**

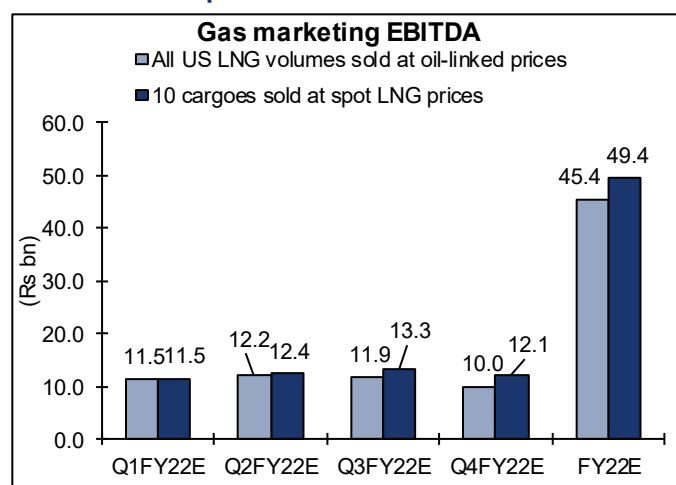
In all months of FY22E except Apr’21, sale of US LNG at spot LNG linked price is more profitable than at oil linked price as follows:

- Trading profit from sale of HH linked US LNG as spot LNG linked price is estimated at US\$1.8-3.6/mmbtu May’21-Mar’22.
- Trading profit from sale of HH linked US LNG as oil linked price is estimated at US\$1.0-1.6/mmbtu May’21-Mar’22.
- Trading profit on sale at spot LNG price is higher than that at oil-linked price by US\$0.2-2.5/mmbtu May’21-Mar’22.
- In Apr’21 trading profit on sale at spot LNG prices is estimated at US\$0.64/mmbtu vs US\$1.08/mmbtu if sold at oil-linked prices implying US\$0.44/mmbtu lower profit.

**9% upside to FY22E marketing EBITDA if 12% sales at spot LNG price**

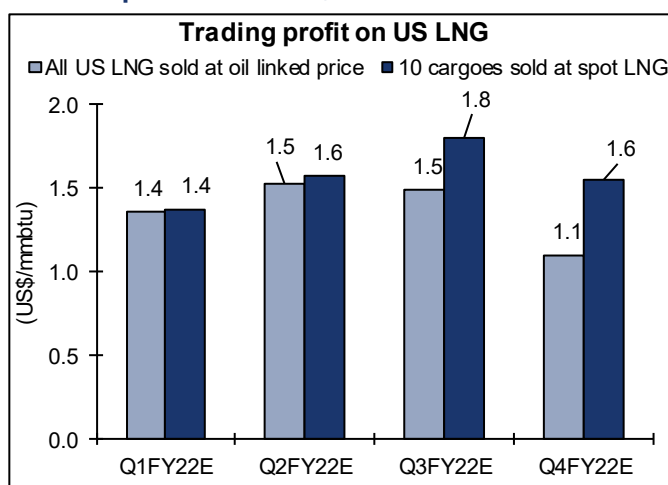
As discussed, GAIL does not tie up some of its US LNG cargoes and sells these cargoes at spot LNG price mainly in H2 of the financial year when spot LNG prices tend to be strong during the northern hemisphere winter. Selling 11.6% of its US LNG cargoes in FY22E at spot LNG price most of them in H2 is estimated to boost GAIL’s FY22E gas marketing EBITDA by Rs4bn (9%) to Rs49.4bn vs Rs45.4bn if all cargoes are sold at oil linked price.

**Chart 8: Q1-Q4 marketing EBITDA Rs11.5-13.3bn if some sold at spot LNG vs Rs10-12.2bn if none**



Source: Company data, CME, I-Sec research

**Chart 9: Q1-Q4 trading profit US\$1.4-1.8/mmbtu if sold at spot LNG vs US\$1.1-1.5/mmbtu if none**



Source: Company data, CME, I-Sec research

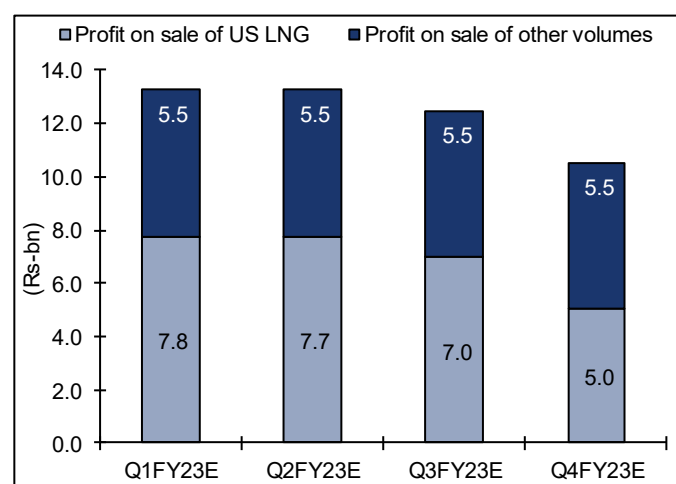
**Our FY23-FY24E gas marketing EBITDA estimate also assumes entire US LNG volumes are sold at oil linked prices.**

### FY23E gas marketing EBITDA Rs49.5bn at futures as of 10-May'21

At FY23E Brent futures of US\$64.1/bbl and HH futures of US\$2.7/mmbtu as of 10-May'21, we estimate GAIL's:

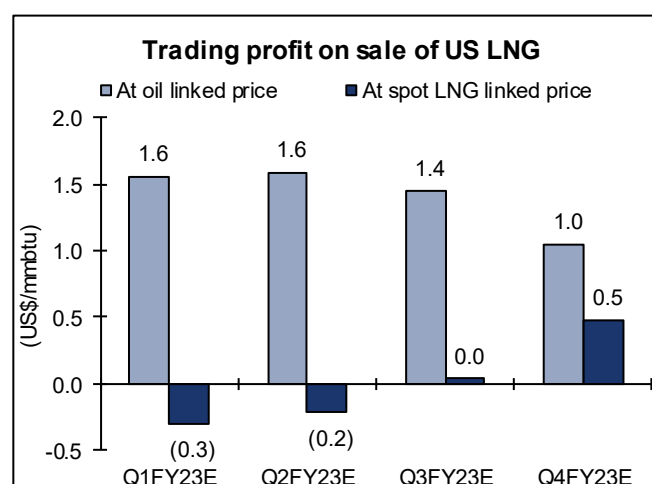
- Profit on sale of US LNG at oil linked prices at US\$1.0-1.6/mmbtu in Q1-Q4 and US\$1.4/mmbtu in FY23E.
- Profit on sale of US LNG at oil linked prices at Rs5.0-7.8bn in Q1-Q4 and at Rs27.5bn in FY23E.
- Marketing margin and trading profit on sale of domestic gas, RasGas, Gorgon and Gazprom LNG at Rs5.5bn in Q1-Q4 and Rs22bn in FY23E.
- Total gas marketing EBITDA at Rs10.5-13.3bn in Q1-Q4 and Rs49.5bn in FY23E.

**Chart 10: Profit on sale of US LNG at oil linked price at Rs5-7.8bn in Q1-Q4; Rs5.5bn on other volumes**



Source: Company data, CME, I-Sec research

**Chart 11: Profit on sale of US LNG at oil linked price at US\$1.0-1.6/mmbtu in Q1-Q4FY23E**



Source: Company data, CME, I-Sec research

### Sale of US LNG at spot prices would drag down marketing EBITDA

At prevailing spot LNG futures, sale of US LNG at spot LNG linked prices is estimated to result in trading loss of US\$0.1-0.5/mmbtu in eight months and profit of US\$0.2-0.7/mmbtu in four months of FY23E. Assuming cargoes, which are not tied up and end up being sold at spot prices, are mainly in H2, we estimate profit on six cargoes, loss on four cargoes and **overall profit of US\$0.3/mmbtu on the ten cargoes. However, if sold at oil linked price, trading profit on these cargoes is estimated at US\$1.3/mmbtu** implying that sales at spot prices would drag down marketing EBITDA.

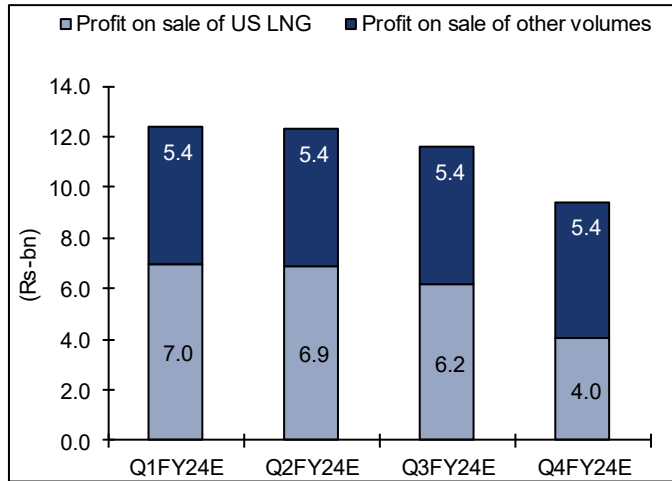
### FY24E gas marketing EBITDA at Rs45.7bn at futures as of 10-May'21

At FY24E Brent futures of US\$61.6/bbl and HH futures of US\$2.6/mmbtu as of 10-May'21, we estimate GAIL's:

- Profit on sale of US LNG at oil linked prices at US\$0.8-1.4/mmbtu in Q1-Q4 and US\$1.2/mmbtu in FY24E.
- Profit on sale of US LNG at oil linked prices at Rs4.0-7.0bn in Q1-Q4 and at Rs24.2bn in FY24E.

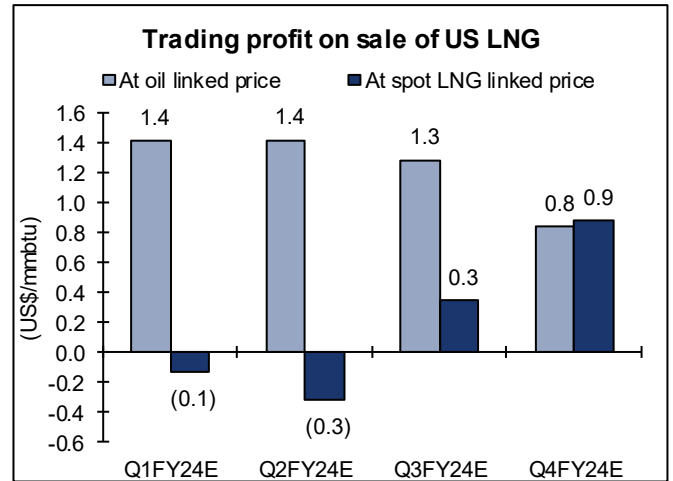
- Marketing margin and trading profit on sale of domestic gas, RasGas, Gorgon and Gazprom LNG at Rs5.4bn in Q1-Q4 and Rs21.5bn in FY23E.
- Total gas marketing EBITDA at Rs9.4-12.4bn in Q1-Q4 and Rs45.7bn in FY23E.

**Chart 12: Profit on sale of US LNG at oil linked price at Rs4-7bn in Q1-Q4; Rs5.4bn on other volumes**



Source: Company data, CME, I-Sec research

**Chart 13: Profit on sale of US LNG at oil linked prices at US\$0.8-1.4/mmbtu in Q1-Q4FY24E**

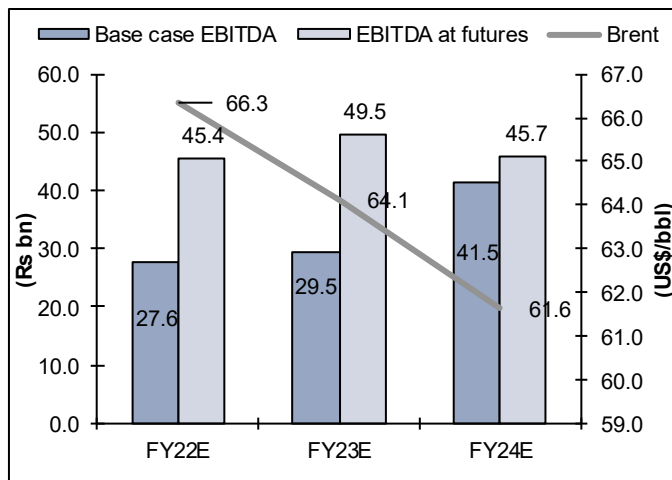


Source: Company data, CME, I-Sec research

**Sale of US LNG at spot prices would drag down marketing EBITDA**

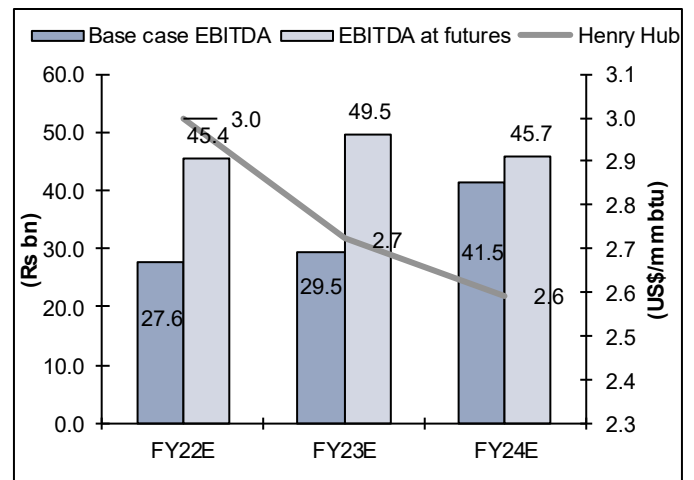
At prevailing spot LNG futures, sale of US LNG at spot LNG linked prices is estimated to result in trading loss of US\$0.01-0.4/mmbtu in seven months and profit of US\$0.3-1.1/mmbtu in five months of FY24E. Assuming cargoes, which are not tied up and end up being sold at spot prices, are mainly in H2, we estimate profit on seven cargoes, loss on three cargoes and **overall profit of US\$0.5/mmbtu on the ten cargoes. However, if sold at oil linked price, trading profit on these cargoes is estimated at US\$1.1/mmbtu** implying that sales at spot prices would drag down marketing EBITDA.

**Chart 14: GAIL’s FY22-FY24E gas marketing EBITDA higher than base case on surge in Brent**



Source: Company data, CME, I-Sec research

**Chart 15: GAIL’s FY22-FY24E gas marketing EBITDA higher than base case despite higher HH**



Source: Company data, CME, I-Sec research

**10-68% upside to FY22-24E gas marketing EBITDA on 10-May futures**

GAIL's gas marketing EBITDA based on Brent and HH futures as of 10-May'21 at:

- Rs45.4bn is 65% higher than our FY22E base case estimate of Rs27.6bn
- Rs49.5bn is 68% higher than our FY23E base case estimate of Rs29.5
- Rs45.7bn is 10% higher than our FY24E base case estimate of Rs41.5bn

**Raise FY22E petrochemical EBITDA by 52%; more upside****Petrochemical EBITDA up 5.2x YoY in Q3FY21; better in Q4 & Q1FY22**

Supply disruptions in the form of hurricane Laura in Aug'20 and snowstorm Uri in Feb'21 in US led to shut down of large petrochemical capacity in the US gulf coast and boosted polyethylene (PE) margins in Q3-Q4FY21 and Q1FY22-TD. It has also improved PE margins outlook for most of the rest of FY22E. GAIL's petrochemical EBITDA:

- Was up 5.2x YoY at Rs5.5bn in Q3FY21.
- Is estimated to be up 4.2x YoY at Rs7.8bn in Q4FY21
- May be up 9% QoQ at Rs8.5bn in Q1FY22E given that its petrochemical margins are up 3% QoQ in Q1FY22-TD.

**Raise GAIL's FY22E petrochemical EBITDA by 52%; 26-39% upside**

To factor strength in PE margins in Q3-Q4FY21 and in Q1FY22-TD, we have raised GAIL's FY22E petrochemical EBITDA by 52% to Rs24.6bn vs Rs16.2bn earlier. Further upside to its FY22E petrochemical EBITDA would be:

- 26% at Rs31bn if it is at annualised Q4FY21E EBITDA level
- 39% at Rs34bn if it is at annualised Q1FY22E EBITDA level.

**Upside to gas transmission EBITDA appears imminent****Upside to FY21-FY22E gas transmission EBITDA likely**

GAIL's gas transmission EBITDA was at Rs34.8bn in 9MFY21 and at Rs12.8-12.5bn in Q2-Q3FY21 (Rs9.5bn in Q1). We are estimating gas transmission EBITDA at Rs43.8bn in FY21E implying EBITDA at Rs9.0bn in Q4FY21E. Given the trend in 9MFY21, upside to our FY21E gas transmission EBITDA estimate of Rs3-4bn to Rs47-48bn appears imminent. Upside to FY22E gas transmission EBITDA of Rs46.4bn also appears imminent given:

- Trend in 9MFY21 and likelihood of FY21E gas transmission EBITDA being higher than our estimate of Rs43.8bn at Rs47-48bn.
- Commissioning of Kochi-Bangalore pipeline and segments of Jagdishpur-Haldia-Bokaro-Dhamra pipeline (JHBDPL) in Q4FY21 and some more segments of JHBDPL scheduled to be commissioned in FY22E.



## Raise FY22 EPS & target price; further upside possible

### Upgrade FY22E EPS by 8% on 52% upgrade in petrochemical EBITDA

As discussed we have raised GAIL's FY22E petrochemical EBITDA by 52% to Rs24.6bn. This has meant upgrade in its FY22E EPS by 8%.

**Table 2: Raise GAIL's FY22 EPS estimate by 8% and target price by 12%**

	FY22E EPS	Target price
Revised	19.7	184
Old	18.3	164
<b>Change</b>	<b>8%</b>	<b>12%</b>

Source: Company data, I-Sec research

### Raise target price by 12% to Rs184/share; reiterate BUY

We have raised GAIL's target price by 12% from Rs164/share earlier to Rs184/share mainly due to:

- Upgrade in FY22E petrochemical EBITDA by 52% to Rs24.6bn. Petrochemical business EV is valued at 5x FY22E EBITDA.
- Valuing gas marketing EV at 4x FY22E EBITDA vs 3x earlier.
- Valuing LPG production EV at 6x FY22E EBITDA vs 5x earlier.

### 5-26% upside to FY22 EPS if gas marketing & petrochemicals higher

Upside to GAIL's FY22E EPS may be as follows:

- **15-18% upside to FY22E EPS if gas marketing EBITDA 65-79% higher than base case:** FY22E gas marketing EBITDA may be 65% higher than base case at Rs45.4bn if US LNG cargoes are sold at oil linked prices based on FY22E Brent futures as of 10-May'21. Marketing EBITDA could be 79% higher than base case at Rs49.4bn if 11.6% of US LNG volumes are sold at spot LNG linked prices and balance at Brent futures as of 10-May'21. **Extent of upside to gas marketing EBITDA, if any, would depend on futures prevailing when volumes were tied-up. It is highly likely that volumes were tied up when oil futures were much lower than current levels.**
- **5-8% upside to FY22E EPS if petrochemical EBITDA 26-39% higher than base case:** FY22E petrochemical EBITDA may be 26-39% higher than base case at Rs31-34bn vs Rs24.6bn in the base case if it is at annualised Q4FY21E or Q1FY22E level.

**If both upsides play out, upside to FY22E EPS would be 20-26%. As discussed upside to gas transmission EBITDA is also likely.**

**2-6% upside to FV based on higher EBITDA but lower multiple**

Upside to GAIL's fair value would be:

- 2% at Rs187/share if GAIL's FY22E petrochemical EBITDA is at Rs34.1bn vs Rs24.6bn in the base case but petrochemical EV is calculated at 4x FY22E EBITDA vs 5x in the base case
- 3% at Rs189/share if GAIL's FY22E gas marketing EBITDA is at Rs45.4bn vs Rs27.6bn in the base case but gas marketing EV is calculated at 3x FY22E EBITDA vs 4x in the base case
- 3% at Rs190/share if GAIL's FY22E petrochemical and gas marketing EBITDA are at Rs31.1-45.4bn vs Rs24.6-27.6bn in the base case but petrochemical and gas marketing EV are calculated at 3-4x FY22E EBITDA vs 4-5x in the base case
- 5% at Rs192/share if GAIL's FY22E gas marketing EBITDA is at Rs49.4bn vs Rs27.6bn in the base case but gas marketing EV is calculated at 3x FY22E EBITDA vs 4x in the base case
- 6% at Rs195/share if GAIL's FY22E petrochemical and gas marketing EBITDA are at Rs34.1-49.4bn vs Rs24.6-27.6bn in the base case but petrochemical and gas marketing EV are calculated at 3-4x FY22E EBITDA vs 4-5x in the base case

**Table 3: Higher than estimated gas marketing and/or petrochemical EBITDA would mean 5-26% upside to FY22E EPS and 2-6% to GAIL's fair value**

	Upside to FY22E EPS	Fair value (Rs)	Upside to FV
A. Gas marketing EBITDA at Rs45.4bn	15%	189	3%
B. Gas marketing EBITDA at Rs49.4bn	18%	192	5%
C. Petrochemical EBITDA at Rs31.1bn	5%	184	0%
D. Petrochemical EBITDA at Rs34.1bn	8%	187	2%
A+C	20%	190	3%
B+D	26%	195	6%

Source: Company data, I-Sec research

**Risks to recommendation**

Downside risks to our recommendation are:

- Gas marketing EBITDA is lower than estimate
- Lower than estimated gas transmission volumes & EBITDA.
- Lower than estimated petrochemical EBITDA
- Lower than estimated LPG EBITDA

## Financial summary

Table 4: Profit and Loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Income (Sales)</b>	<b>7,62,342</b>	<b>7,27,537</b>	<b>5,82,198</b>	<b>6,33,918</b>
<b>Operating Expenses</b>	<b>6,65,666</b>	<b>6,35,427</b>	<b>5,21,798</b>	<b>5,24,774</b>
<b>EBITDA</b>	<b>96,676</b>	<b>92,110</b>	<b>60,399</b>	<b>1,09,144</b>
% margins	13%	13%	10%	17%
Depreciation & Amortisation	16,666	20,802	22,090	23,341
Gross Interest	1,592	3,089	1,600	19
Other Income	12,143	15,464	14,274	10,674
<b>Recurring PBT</b>	<b>90,560</b>	<b>1,02,871</b>	<b>51,944</b>	<b>96,458</b>
Less: Taxes	32,784	24,049	13,074	24,115
<b>Net Income (Reported)</b>	<b>65,457</b>	<b>75,033</b>	<b>55,622</b>	<b>89,010</b>
<b>Recurring Net Income</b>	<b>65,457</b>	<b>75,033</b>	<b>55,622</b>	<b>89,010</b>

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Assets</b>				
Total Current Assets	96,235	1,07,398	61,016	67,611
Total Current Liabilities & Provisions	58,277	99,120	75,750	92,793
<b>Net Current Assets</b>	<b>37,959</b>	<b>8,278</b>	<b>-14,734</b>	<b>-25,182</b>
<b>Investments</b>	<b>1,49,210</b>	<b>1,30,292</b>	<b>1,30,292</b>	<b>1,30,292</b>
<b>Net Fixed Assets</b>	<b>4,24,378</b>	<b>4,98,995</b>	<b>5,41,905</b>	<b>5,84,564</b>
Capital Work-in-Progress	97,375	1,16,663	1,11,663	1,07,663
<b>Total Assets</b>	<b>6,25,797</b>	<b>6,50,067</b>	<b>6,71,696</b>	<b>7,14,144</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>75,656</b>	<b>63,376</b>	<b>66,000</b>	<b>66,000</b>
Equity Share Capital	22,551	45,101	45,101	45,101
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	4,29,435	4,47,578	4,66,383	5,08,630
<b>Net Worth</b>	<b>4,51,989</b>	<b>4,92,683</b>	<b>5,11,487</b>	<b>5,53,735</b>
<b>Total Liabilities</b>	<b>6,25,797</b>	<b>6,50,067</b>	<b>6,71,696</b>	<b>7,14,144</b>

\*excluding revaluation reserves

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Mar'20	Jun'20	Sep'20	Dec'20
Net sales	1,77,550	1,20,875	1,36,445	1,54,568
% growth (YoY)	-5%	-34%	-25%	-13%
EBITDA	24,754	6,226	13,381	19,195
Margin (%)	13.9%	5.2%	9.8%	12.4%
Other income	5,132	2,413	6,471	4,708
Add: Extraordinaries	(7,722)	-	(768)	-
Net profit	22,461	2,555	11,629	14,873

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Cashflow before working capital change</b>	<b>74,442</b>	<b>99,623</b>	<b>61,160</b>	<b>95,885</b>
Working Capital Changes	(21,690)	29,680	23,012	10,448
<b>Operating cash flow</b>	<b>52,752</b>	<b>1,29,304</b>	<b>84,172</b>	<b>1,06,332</b>
Capital Commitments	76,857	95,419	65,000	66,000
<b>Cashflow from Investing Activities</b>	<b>(81,982)</b>	<b>(76,501)</b>	<b>(65,000)</b>	<b>(66,000)</b>
Inc (Dec) in Borrowings	(5,066)	12,280	(2,624)	-
Dividend paid	20,115	35,113	20,065	30,097
<b>Cashflow from Financing Activities</b>	<b>(15,049)</b>	<b>(69,944)</b>	<b>(17,441)</b>	<b>(30,098)</b>
<b>Chg. in Cash &amp; Bank balances</b>	<b>(44,279)</b>	<b>27,960</b>	<b>1,731</b>	<b>10,236</b>

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Per Share Data (Rs)</b>				
EPS(Basic Recurring)	14.5	16.6	12.3	19.7
Recurring Cash EPS	18.2	21.2	17.2	24.9
Dividend per share (DPS)	4.0	7.0	4.0	6.0
Book Value per share (BV)	100.2	109.2	113.4	122.8
<b>Growth Ratios (%)</b>				
Operating Income	39%	-5%	-20%	9%
EBITDA	24%	-5%	-34%	81%
Recurring Net Income	36%	15%	-26%	60%
Recurring EPS	36%	15%	-26%	60%
Recurring CFPS	30%	17%	-19%	45%
<b>Valuation Ratios (x)</b>				
P/E	10.7	9.3	12.5	7.8
P/CFPS	9.4	7.0	11.4	7.3
P/BV	1.5	1.4	1.36	1.26
EV / EBITDA	7.8	8.1	12.4	6.8
EV / FCF	34.5	(24.3)	(26.5)	38.4

**Operating Ratios**

Other Income / PBT (%)	13%	15%	27%	11%
Effective Tax Rate (%)	31%	25%	25%	25%
D/E Ratio (%)	17%	13%	13%	12%

**Return/Profitability Ratios (%)**

Recurring Net Income Margins	8%	11%	7%	11%
RoCE	10%	13%	6%	10%
RoNW	13%	13%	8%	14%
Dividend Payout Ratio	28%	34%	32%	30%
Dividend Yield	3%	5%	3%	4%
EBITDA Margins	13%	13%	10%	17%

Source: Company data, I-Sec research

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