

BSE SENSEX  
34,134

S&P CNX  
10,245

**CMP: INR342 TP: INR385 (+13%)**

**Neutral**



**Stock Info**

Bloomberg	GAIL IN
Equity Shares (m)	2,255
M.Cap.(INRb)/(USDb)	771.5 / 10.5
52-Week Range (INR)	399 / 296
1, 6, 12 Rel. Per (%)	-5/3/0
12M Avg Val (INR M)	1742
Free float (%)	46.9

**Financials Snapshot (INR b)**

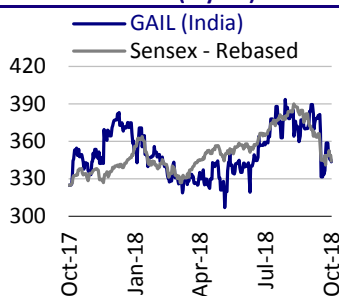
Y/E Mar	2018	2019E	2020E
Net Sales	536.6	712.0	847.2
EBITDA	76.3	107.2	107.2
PAT	46.0	67.6	79.2
EPS (INR)	20.4	30.0	35.1
Gr. (%)	20.5	47.0	17.1
BV/Sh (INR)	182.1	200.9	222.9
RoE (%)	11.8	15.9	16.8
RoCE (%)	10.2	13.8	14.4
P/E (x)	16.8	11.5	9.8
P/BV (x)	1.9	1.7	1.5
EV/EBITDA (x)	9.5	6.9	6.7

**Shareholding pattern (%)**

As On	Sep-18	Jun-18	Sep-17
Promoter	53.1	53.0	54.4
DII	23.7	24.8	24.3
FII	19.3	17.9	16.5
Others	4.0	4.3	4.8

FII Includes depository receipts

**Stock Performance (1-year)**



**More tariff hikes in the offing?**

**GAIL proposes higher tariffs for HVJ, HVJ upgradation**

- In September 2018, the Petroleum and Natural Gas Regulatory Board (PNGRB) approved the final initial tariffs for three pipeline networks of GAIL (including sub-networks) and two pipelines of GSPL, with effect from FY19.
- GAIL has submitted final initial tariff proposals for the Hazira-Vijaipur-Jagdishpur (HVJ) pipeline and for HVJ upgradation, which account for 62% of total transmission.
- GAIL's EPS should increase by 68% in FY20 if PNGRB approves GAIL's proposals.

**HVJ and HVJ upgradation account for maximum gas transmission**

- In FY18, actual transmission volume for GAIL stood at 105mmscmd. Of this, HVJ accounted for 29.5mmscmd and HVJ upgradation accounted for 35.9mmscmd, both accounting for 62% of total transmission.
- GAIL charges levelized tariff of INR25.46/mmBtu on HVJ and INR53.65/mmBtu on HVJ upgradation. It has proposed increasing both tariffs to INR175.2/mmBtu and INR88.09/mmBtu, respectively.
- Our estimate suggests that if both tariffs are approved, then it would increase the GAIL's EPS by 68% in FY20. But, revisions in September 2018 show that PNGRB's approved tariffs are ~60% lower than those proposed by companies.

**Tariff for Jagdishpur-Haldia-Bokaro-Dhamra also under consideration**

- For its upcoming Jagdishpur-Haldia-Bokaro-Dhamra (JHBPD) pipeline, GAIL has proposed an initial tariff of INR150.46/mmBtu.
- With the complexities involved, the discussion on unified tariff appears to have taken a back seat.

**Valuation and recommendation**

- We remain concerned due to numerous reasons—these include (a) possible restructuring to separate transmission and marketing segments, (b) possibility of government's stake sale to another oil major for divestment, (c) fate of long-term US LNG contracts, (d) possibility of subsidy sharing with oil marketing companies as in the past, and (e) sustained low ROCE due to long gestation pipeline projects.
- The stock is trading at 9.8x FY20 EPS and 6.7x FY20 EV/EBITDA. We value it at 9x FY20 EPS adjusted for other income and then add the value of investments. With a target price of INR385 (unchanged), we reiterate our Neutral call on the stock.
- The biggest single risk to our recommendation is the upcoming tariff hike and its impact, which is mentioned earlier in the report.

**Exhibit 1: Actual flows through major pipelines of GAIL**

Pipeline name	Flow FY18 (mmscmd)
Hazira-Vijaipur-Jagdishpur pipeline/Dahej-Vijaipur pipeline & spur /Vijaipur-Dadri Pipeline	29.52
DVPL-GREP upgradation (DVPL-II & VDPL)	35.92
Chhainsa-Jhajjar-Hissar pipeline (CJPL)	1.01
Dahej-Uran-Panvel pipeline (DUPL/ DPPL)	13.94
Dadri- Bawana-Nangal pipeline (DBPL)	5.49
Dabhol-Bengaluru pipeline	1.27
Kochi-Koottanad-Bengaluru-Mangalore	2.29
Tripura (Agartala)	1.3
Gujarat	4.37
Rajasthan (Focus Energy)	1.35
Mumbai (Uran-Thal-Usar & Trombay-RCF)	6.43
KG Basin (including RLNG+RIL)	5.4
Cauvery Basin	3.25

Source: PPAC, MOSL

**Exhibit 2: Recent PNGRB orders for GAIL in September 2018**

Pipeline	Transmission volume (mmscmd)	Tariff (INR/mmBtu)		
		Existing	GAIL's proposal	Approved by PNGRB
DUPL-DPPL	15.4	24.49	69.25	37.78
Agartala Regional network	1.2	5.80	76.40	45.89
DMPL		6.13	82.23	46.37
Gujarat network	4.3			
Baroda	2.6	7.81	98.07	27.59
Motwan	0.003	0.78	18.81	2.77
Kadi-Kalol	0.06	1.84	117.54	61.61
Kalol-Ramol		6.86	38.66	1.90
Mehsana	0.057	1.86	49.45	14.82
Paliyad	0.01	0.58	9.66	4.56
ex-Hazira	0.0322	0.42	5.14	1.10

Source: PNGRB, PPAC, MOSL

**Exhibit 3: Impact of tariff change in HVJ & HVJ upgradation**

Pipeline	Transmission vol (mmscmd)	Tariff (INR/mmBtu)		Increase in EBITDA (INRm)/EPS (INR)			
		Existing	GAIL's proposal	% increase in tariff			
				As per GAIL's proposal	10%	20%	40%
HVJ	29.52	25.46	175.2	64,025	1,089	2,177	4,354
HVJ-Upgradation	35.92	53.65	88.09	17,918	2,791	5,582	11,165
<b>Total change in EBITDA</b>				<b>81,943</b>	<b>3,880</b>	<b>7,760</b>	<b>15,519</b>
Change in PAT				54,082	2,561	5,121	10,243
Change in EPS				24.0	1.1	2.3	4.5
Base case FY20 EPS				35.1	35.1	35.1	35.1
<b>Change (%)</b>				<b>68.3</b>	<b>3.2</b>	<b>6.5</b>	<b>12.9</b>

Source: PNGRB, Company, MOSL

**Exhibit 4: Key assumptions**

	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
Brent crude (USD/bbl)	114.5	110.0	107.8	86.0	47.5	49.0	55.6	75.0	70.0
Exchange Rate (INR/USD)	47.9	54.5	60.6	61.1	65.5	67.1	64.6	70.7	73.4
Subsidy (INRb)	31.8	26.9	19.0	10.0	-	-	-	-	-
Avg. Gas Price (USD/mmbtu)	5.7	6.7	7.9	8.4	7.6	5.8	6.4	7.4	7.5
<b>Natural Gas Transmission</b>									
Total (mmscmd)	119	105	97	93	93	100	105	109	125
Adj. Average Tariff (INR/mscm)	887	883	1,169	997	1,181	1,257	1,295	1,451	1,483
<b>LPG Transmission</b>									
Volume ('000 MT)	3,362	3,200	3,030	3,094	2,819	3,363	3,721	3,721	3,721
Average Tariff (INR/MT)	1,351	937	1,329	1,424	1,724	1,530	1,532	1,532	1,532
<b>Petrochemicals</b>									
Capacity ('000 MT)	450	450	450	450	800	800	800	800	800
Utilization (%)	100%	95%	100%	98%	42%	72%	84%	100%	100%
Sales ('000 MT)	448	427	445	441	334	578	673	800	800
Realization (USD/MT)	1,589	1,614	1,703	1,801	1,420	1,468	1,362	1,548	1,511
<b>LPG &amp; liq. HC</b>									
Sales ('000 MT)	1,439	1,371	1,308	1,279	1,087	1,095	1,275	1,300	1,300
LPG realization (USD/MT)	910	957	936	784	468	435	526	709	662
<b>EPS (INR/sh)</b>	<b>16.2</b>	<b>17.8</b>	<b>18.3</b>	<b>13.3</b>	<b>9.9</b>	<b>16.9</b>	<b>20.4</b>	<b>30.0</b>	<b>35.1</b>

Source: Company, MOSL

**Exhibit 5: SOTP-based target price stands at INR385/share**

<b>Business</b>	<b>INR/sh</b>	<b>Remarks</b>
PE Multiple (x)	9x	
FY20 adj. EPS	33.8	
Core Business	304	
Listed Investments	69	20% discount to CMP/target price
Unlisted investments	11	
<b>Target price</b>	<b>385</b>	

Source: MOSL, Company

## Financials and Valuations

Income Statement								(INR m)
Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
<b>Net Sales</b>	<b>473,327</b>	<b>572,451</b>	<b>567,420</b>	<b>516,143</b>	<b>480,743</b>	<b>536,612</b>	<b>712,007</b>	<b>847,216</b>
Change (%)	17.5	20.9	-0.9	-9.0	-6.9	11.6	32.7	19.0
Change in Stocks	570	6,269	-2,322	-4,116	-423	341	0	0
Purchases	333,969	412,344	403,483	384,480	286,997	322,586	481,393	602,946
Raw Materials	29,687	48,434	48,132	32,539	31,512	37,124	66,074	69,564
Employee Costs	7,855	8,477	9,064	9,961	12,575	13,015	14,316	15,748
Other expenses	38,455	29,915	62,101	54,319	86,930	87,206	43,056	51,725
<b>EBITDA</b>	<b>62,792</b>	<b>67,012</b>	<b>46,962</b>	<b>38,960</b>	<b>63,152</b>	<b>76,339</b>	<b>107,168</b>	<b>107,233</b>
% of Net Sales	13.3	11.7	8.3	7.5	13.1	14.2	15.1	12.7
Depreciation	9,809	11,762	9,743	13,131	13,968	14,151	14,291	0
Interest	1,950	3,662	3,613	6,400	4,794	2,751	2,850	2,262
Other Income	9,545	8,985	8,609	11,576	12,705	9,870	11,463	13,183
EO Items (net)		3,450	629		-2,987	277		
<b>PBT</b>	<b>60,578</b>	<b>64,023</b>	<b>42,844</b>	<b>31,005</b>	<b>54,108</b>	<b>69,584</b>	<b>101,489</b>	<b>118,153</b>
Tax	20,356	20,271	12,452	8,739	19,079	23,400	33,899	38,990
Rate (%)	33.6	31.7	29.1	28.2	35.3	33.6	33.4	33.0
<b>Reported PAT</b>	<b>40,222</b>	<b>43,753</b>	<b>30,392</b>	<b>22,266</b>	<b>35,029</b>	<b>46,183</b>	<b>67,591</b>	<b>79,162</b>
<b>Adjusted PAT</b>	<b>40,222</b>	<b>41,310</b>	<b>29,947</b>	<b>22,266</b>	<b>38,167</b>	<b>45,976</b>	<b>67,591</b>	<b>79,162</b>
Change (%)	10.1	8.8	-30.5	-26.7	57.3	31.8	46.4	17.1

Balance Sheet								(INR m)
Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Share Capital	12,685	12,685	12,685	12,685	16,913	22,551	22,551	22,551
Reserves	229,593	258,039	278,510	338,261	364,581	380,731	423,130	472,789
<b>Net Worth</b>	<b>242,278</b>	<b>270,723</b>	<b>291,195</b>	<b>350,946</b>	<b>381,494</b>	<b>403,281</b>	<b>445,681</b>	<b>495,339</b>
Loans	83,645	95,261	80,483	68,457	38,186	17,517	45,000	45,000
Deferred Tax	23,001	25,664	33,087	40,714	46,559	46,309	46,309	46,309
<b>Capital Employed</b>	<b>348,924</b>	<b>391,648</b>	<b>404,765</b>	<b>460,116</b>	<b>466,239</b>	<b>467,108</b>	<b>536,990</b>	<b>586,649</b>
Gross Fixed Assets	311,490	340,563	413,893	433,777	452,646	469,633	493,046	521,487
Less: Depreciation	114,415	125,797	215,047	149,107	167,584	181,736	196,027	196,027
<b>Net Fixed Assets</b>	<b>197,075</b>	<b>214,766</b>	<b>198,845</b>	<b>284,670</b>	<b>285,062</b>	<b>287,898</b>	<b>297,019</b>	<b>325,460</b>
Capital WIP	89,778	97,279	122,352	34,202	38,034	55,140	56,101	56,101
Investments	37,190	41,030	43,224	85,847	95,096	99,531	99,531	99,531
<b>Current Assets</b>								
Inventory	15,353	22,548	20,811	16,094	16,984	19,195	25,359	30,175
Debtors	25,513	28,120	30,945	38,095	38,282	40,515	56,570	67,313
Cash & Bank Balance	23,579	26,510	11,416	17,939	13,419	25,294	38,078	66,705
Loans/Adv. & Other Assets	58,353	67,861	101,339	81,127	75,823	99,558	99,558	99,558
<b>Current Liab. &amp; Prov.</b>								
Liabilities	79,970	87,935	107,610	86,355	81,327	145,740	120,944	143,911
Provisions	17,949	18,530	16,558	11,503	15,133	14,283	14,283	14,283
<b>Net Current Assets</b>	<b>24,881</b>	<b>38,573</b>	<b>40,344</b>	<b>55,397</b>	<b>48,047</b>	<b>24,539</b>	<b>84,339</b>	<b>105,557</b>
Misc. Expenses								
<b>Application of Funds</b>	<b>348,924</b>	<b>391,648</b>	<b>404,765</b>	<b>460,116</b>	<b>466,239</b>	<b>467,108</b>	<b>536,990</b>	<b>586,649</b>

E: MOSL Estimates

## Financials and Valuations

### Ratios

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>17.8</b>	<b>18.3</b>	<b>13.3</b>	<b>9.9</b>	<b>16.9</b>	<b>20.4</b>	<b>30.0</b>	<b>35.1</b>
Cash EPS	22.2	24.6	17.8	15.7	21.7	26.8	36.3	35.1
Book Value	107.4	120.1	129.1	155.6	169.2	182.1	200.9	222.9
DPS	5.4	5.9	3.4	3.1	6.5	6.3	9.3	10.9
Payout (incl. dvd tax)	35.3	35.3	30.1	37.7	50.1	37.1	37.3	37.3
<b>Valuation (x)</b>								
P/E	19.2	18.7	25.8	34.6	20.2	16.8	11.5	9.8
Adj. P/E (for investments)	14.7	14.3	19.7	26.5	15.4	12.8	8.8	7.5
Cash P/E	15.4	13.9	19.2	21.8	15.7	12.8	9.5	9.8
EV / EBITDA	7.2	7.1	10.0	10.4	8.6	9.5	6.9	6.7
EV / Sales	1.1	0.9	1.0	1.0	1.4	1.5	1.2	1.0
Price / Book Value	3.2	2.8	2.6	2.2	2.0	1.9	1.7	1.5
Dividend Yield (%)	1.6	1.7	1.0	0.9	1.9	1.8	2.7	3.2
<b>Profitability Ratios (%)</b>								
RoE	17.5	17.1	10.8	6.9	9.6	11.8	15.9	16.8
RoCE	13.1	11.9	8.2	6.2	8.7	10.2	13.8	14.4
RoIC	19.7	17.8	11.6	6.7	9.9	13.6	19.6	20.3
<b>Turnover Ratios</b>								
Debtors (No. of Days)	20	18	20	27	29	28	29	29
Fixed Asset Turnover (x)	1.4	1.5	1.4	1.1	1.0	1.1	1.3	1.4
<b>Leverage Ratio</b>								
Net Debt / Equity (x)	0.25	0.25	0.24	0.14	0.06	-0.02	0.0	0.0

### Cash Flow Statement

(INR m)

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
OP/(Loss) before Tax	60,578	64,023	42,844	31,005	54,108	69,584	101,489	118,153
Depreciation	9,809	11,762	9,743	13,131	13,968	14,151	14,291	0
Misc	0	0	0	0	0	0	0	0
Tax paid	-20,356	-20,271	-12,452	-8,739	-19,079	-23,400	-33,899	-38,990
Change in deferred tax liability	5,314	2,663	7,423	7,627	5,845	-250	0	0
(Inc)/Dec in Wkg. Capital	-1,280	-10,762	-16,864	-8,531	2,830	35,383	-47,016	7,409
<b>CF from Op. Activity</b>	<b>54,065</b>	<b>47,416</b>	<b>30,693</b>	<b>34,493</b>	<b>57,672</b>	<b>95,468</b>	<b>34,866</b>	<b>86,571</b>
(Inc)/Dec in FA & CWIP	-58,661	-36,954	-18,895	-10,805	-10,000	-16,026	-24,373	-28,441
<b>Free Cash Flow</b>	<b>-4,596</b>	<b>10,462</b>	<b>11,798</b>	<b>23,688</b>	<b>47,672</b>	<b>79,442</b>	<b>10,492</b>	<b>58,130</b>
(Pur)/Sale of Investments	-1,701	-3,840	-2,194	-42,624	-9,249	-4,434	0	0
<b>CF from Inv. Activity</b>	<b>-60,362</b>	<b>-40,794</b>	<b>-21,089</b>	<b>-53,429</b>	<b>-19,249</b>	<b>-20,461</b>	<b>-24,373</b>	<b>-28,441</b>
Issue of Shares	0	0	0	0	0	0	0	0
Others	22	130	-771	45,883	4,862	-25,327	0	0
Inc / (Dec) in Debt	34,752	11,616	-14,778	-12,026	-30,270	-20,669	27,483	0
Dividends Paid	-14,211	-15,437	-9,148	-8,399	-17,535	-17,135	-25,191	-29,504
<b>CF from Fin. Activity</b>	<b>20,563</b>	<b>-3,692</b>	<b>-24,698</b>	<b>25,458</b>	<b>-42,943</b>	<b>-63,132</b>	<b>2,292</b>	<b>-29,504</b>
<b>Inc / ( Dec) in Cash</b>	<b>14,266</b>	<b>2,930</b>	<b>-15,093</b>	<b>6,522</b>	<b>-4,520</b>	<b>11,875</b>	<b>12,784</b>	<b>28,626</b>
Add: Opening Balance	9,313	23,579	26,510	11,416	17,939	13,419	25,294	38,078
<b>Closing Balance</b>	<b>23,579</b>	<b>26,510</b>	<b>11,416</b>	<b>17,939</b>	<b>13,419</b>	<b>25,294</b>	<b>38,078</b>	<b>66,705</b>

E: MOSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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