

BSE SENSEX
38,624

S&P CNX
11,303



Stock Info

Bloomberg	GAIL IN
Equity Shares (m)	4,510
M.Cap.(INRb)/(USDb)	465.7 / 6.1
52-Week Range (INR)	183 / 98
1, 6, 12 Rel. Per (%)	-9/-27/-47
12M Avg Val (INR M)	1470
Free float (%)	48.2

Financial Snapshot (INR b)

Y/E March	2020E	2021E	2022E
Sales	739.2	860.2	927.9
EBITDA	78.1	95.6	110.1
Adj. PAT	46.7	56.7	65.2
Adj. EPS (INR)	10.4	12.6	14.5
EPS Gr. (%)	-26.1	21.4	15.0
BV/Sh.(INR)	100.8	109.0	118.4

Ratios

Net D:E	0.1	0.1	0.1
RoE (%)	10.5	12.1	12.9
RoCE (%)	8.9	10.1	10.8
Payout (%)	81.4	35.0	35.0

Valuations

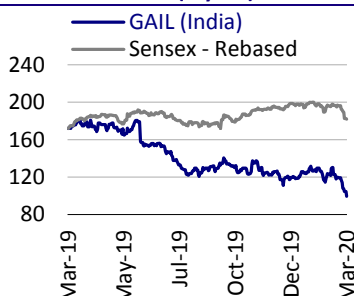
P/E (x)	9.9	8.2	7.1
P/BV (x)	1.0	0.9	0.9
EV/EBITDA (x)	3.1	2.8	2.9
Div. Yield (%)	6.8	3.5	4.1
FCF Yield (%)	1.3	4.6	5.9

Shareholding pattern (%)

As On	Dec-19	Sep-19	Dec-18
Promoter	51.8	52.2	53.1
DII	25.3	24.2	21.7
FII	18.4	19.6	21.4
Others	4.6	4.1	3.8

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR103 TP: INR150 (+45%)

Buy

GAIL: reiterated subsidizing US contract risks

The company organized a visit to its Horizontal Directional Drilling (HDD) Site at Damodar river, Durgapur along with interaction with the senior management. Please find main highlights of the same:

Phase-I of JHBDPL already commissioned; rest on track

- Phase-1 of 753km from Phulpur to Dobhi, connecting Gorakhpur, Patna and Barauni has already been commissioned along with the six Geographical Areas (GAs) on this length.
- Phase-II of 901km connecting Dobhi to Durgapur and Dhamra to Angul is expected to be completed by Dec'20. Phase-III of 1,001km from Bokaro-Angul and Durgapur-Kolkata is also expected to be completed by Dec'20.
- Barauni-Guwahati pipeline of 716km is expected to be completed by Dec'21.

Matix to take ~2.5mmscmd of gas

- Matix was already commissioned but had to stop as it did not receive the minimum quantity of natural gas sufficient to keep the operations running.
- GAIL is in the process of completing the ~1.5km HDD stretch across Damodar river, post which, Matix would be able to receive gas from GAIL.
- GAIL has already executed a firm contract for 1.5mmscmd with Matix. It is expected to take additional 1mmscmd. Matix may also double its capacity going forward, thereby increasing the demand of gas.

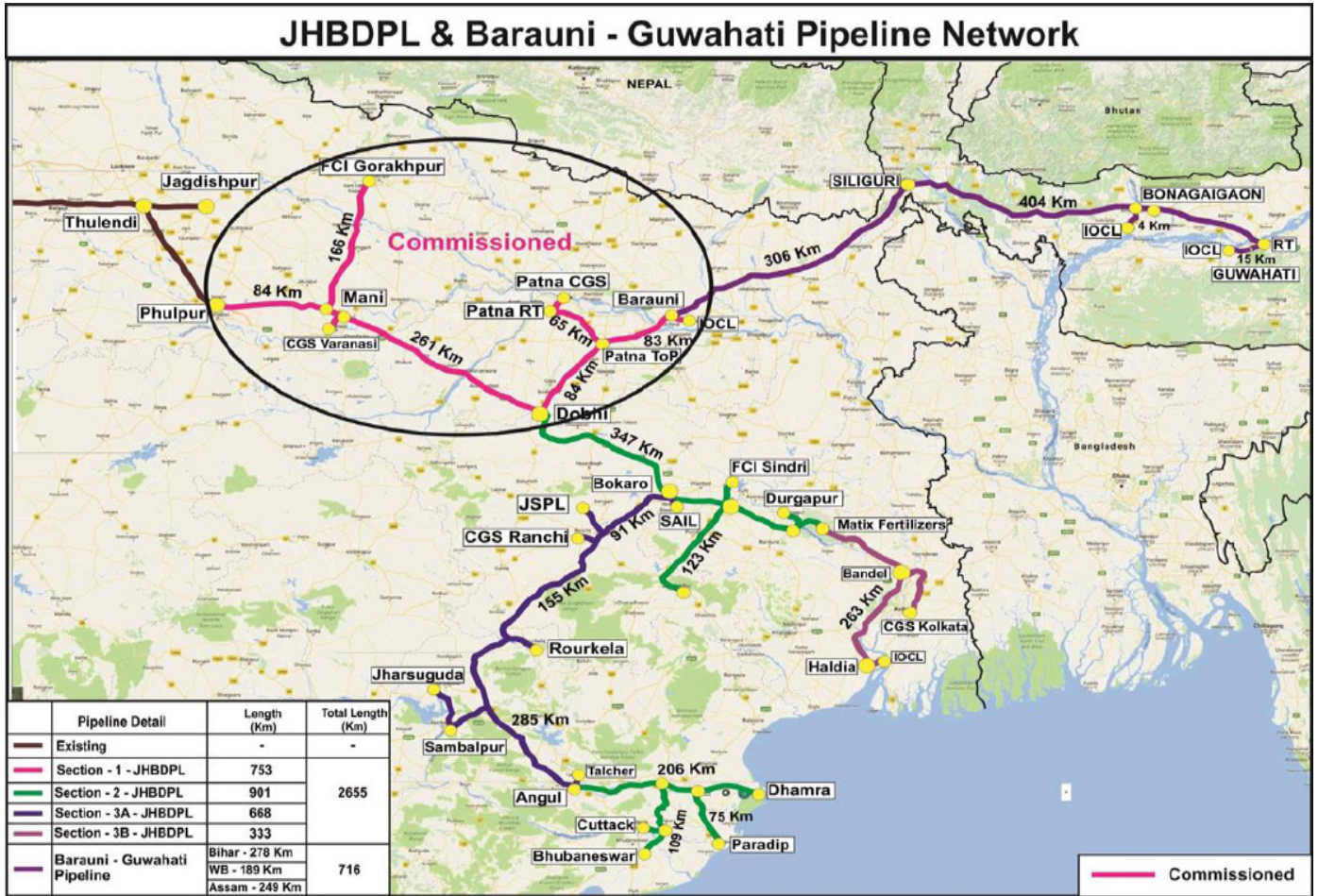
Expect radical changes before commissioning of Phase-II/III

- Consumers on Phase-II/III may face as much as USD2-3/mmBtu of transmission tariff. This would be substantial compared with the domestic APM price of USD3.6/mmBtu as well as spot LNG prices of ~USD3/mmBtu.
- Such high transmission cost may force a radical change in tariff determination bringing back the focus on unified tariffs.
- The company guides that a wholly owned subsidiary may be created for transmission in order to separate transmission and trading segments.

Valuation and recommendation

- As we have highlighted in earlier reports, we expect GAIL to be a key beneficiary of the National Green Tribunal's focus on reducing industrial pollution.
- The main concern on the stock is low spot LNG prices which may result in losses in the US LNG contracts. However, with start of new fertilizer plants on JHBDPL, the company expects all US contracts to be sold in India profitably.
- GAIL is trading at 8.2x FY21 EPS of INR12.6 and 2.8x FY21 EV/EBITDA. It trades at ~40% discount to long term one-year forward PE. We value it at 8x adjusted FY22 EPS and add the value of investments to arrive at a target price of INR150. Reiterate **Buy**.

Exhibit 1: Jagdishpur-Haldia and Barauni-Guwahati pipelines



Source: Company, MOFSL

Exhibit 2: Timelines for Urja Ganga pipeline

Length	<p>Section-1 (753 Km): Phulpur – Dobhi</p> <p>Section-2 (901 Km): Dhamra – Angul & Dobhi – Durgapur</p> <p>Section-3 (1001 Km): Bokaro–Angul & Durgapur–Kolkata</p> <p>Barauni – Guwahati Pipeline (716 Km.)</p>
Completion Schedule	<p>Section-1 : Commissioned</p> <p>Section 2 & 3 : Progressively by Dec 2020</p> <p>Barauni – Guwahati Pipeline : by Dec 2021</p>
Project Cost	JHBDPL - Rs. 12,940 Crore; BGPL - Rs. 3308 crore;
Capacity	16 MMSCMD
State Covered	Uttar Pradesh, Bihar, Jharkhand, West Bengal, Odisha and Assam

Source: Company, MOFSL

Exhibit 3: Actual capex & capital commitment in Major projects (INR cr.)

Name of Projects	Lengths of Pipelines (Km)	Approved Cost	Actual/Expected Completion Date	Capital commitment as on 31.12.2019	Actual capex up to 31.12.2019	Physical Progress (%)
JHBDPL	2,655	12,940	Progressively upto Dec'2020	13054	8799	
Section I	753	3,397	Completed in May'2019	3166	2898	Commissioned
Section II (2A & 2B)	900	4,363	December'2020	3876	2604	75%
Section III (3A & 3B)	1,002	5,180	December'2020	3275	1922	64%
Barauni Guwahati P/L*	721	3,308	Dec'2021	2737	1375	48%
VAPPL	672	4,309	APPL section completed & VAPL section by Dec'2020	2490	1994	
KKMBPL-II	879	4,915	<ul style="list-style-type: none"> Kochi-Mangalore Section (444 Km) : March'2020 Kochi-Bangalore Section (443 Km) : 30 months from availability of hindrance free RoU 	3223	2764	96% 22%

Source: Company, MOFSL

Exhibit 4: Major assumptions

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Brent crude (USD/bbl)	86.0	47.5	49.0	55.6	70.1	64.6	65.0	65.0
Exchange Rate (INR/USD)	61.1	65.5	67.1	64.6	69.9	70.5	71.3	72.3
Subsidy (INRb)	10.0	-	-	-	-	-	-	-
Natural Gas Transmission								
Total (mmscmd)	93	93	100	105	107	109	124	135
Adj. Average Tariff (INR/mscm)	997	1,181	1,257	1,295	1,473	1,503	1,505	1,509
Trading Volume	72	74	81	85	97	96	113	124
EBITDA (INR/mscm)	260	546	513	405	808	623	720	748
LPG Transmission								
Volume ('000 MT)	3,094	2,819	3,363	3,721	3,975	4,015	4,215	4,426
Average Tariff (INR/MT)	1,424	1,724	1,530	1,532	1,570	1,633	1,633	1,633
Petrochemicals								
Sales ('000 MT)	441	334	578	673	735	800	800	800
Realization (USD/MT)	1,801	1,420	1,468	1,362	1,313	1,139	1,209	1,245
LPG & liq. HC								
Sales ('000 MT)	1,279	1,087	1,095	1,275	1,325	1,325	1,400	1,400
LPG realization (USD/MT)	784	468	435	526	549	430	450	468
EPS (INR/sh)	6.6	4.9	8.5	10.1	14.0	10.4	12.6	14.5

Source: Company, MOFSL

Exhibit 5: Valuation table

Valuation	Rs/sh	Basis
Core Business	109	❖ 8.0x FY22E adj. EPS
Listed Investments	35	❖ 20% discount to CMP/target price
Unlisted investments	6	❖ 20% discount to book value
Total	150	

Source: Company, MOFSL

Financials and Valuations

Income Statement						(INR m)	(INR m)	
Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
Net Sales	5,67,420	5,16,143	4,80,743	5,36,612	7,51,268	7,39,187	8,60,188	9,27,920
Change (%)	-0.9	-9.0	-6.9	11.6	40.0	-1.6	16.4	7.9
EBITDA	46,962	38,960	63,152	76,339	95,287	78,063	95,557	1,10,066
% of Net Sales	8.3	7.5	13.1	14.2	12.7	10.6	11.1	11.9
Depreciation	9,743	13,131	13,968	14,151	15,502	18,351	18,586	18,826
Interest	3,613	6,400	4,794	2,751	1,385	1,529	2,375	2,625
Other Income	8,609	11,576	12,705	9,870	15,712	12,569	11,312	10,181
EO Items (net)	629		-2,987	277	-3,263			
PBT	42,844	31,005	54,108	69,584	90,848	70,752	85,908	98,796
Tax	12,452	8,739	19,079	23,400	30,592	24,024	29,170	33,546
Rate (%)	29.1	28.2	35.3	33.6	33.7	34.0	34.0	34.0
Reported PAT	30,392	22,266	35,029	46,183	60,257	46,728	56,738	65,250
Adjusted PAT	29,947	22,266	38,167	45,699	63,264	46,728	56,738	65,250
Change (%)	-30.5	-26.7	57.3	31.8	30.5	-22.5	21.4	15.0
Balance Sheet						(INR m)	(INR m)	
Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2021E
Share Capital	12,685	12,685	16,913	22,551	22,551	22,551	22,551	22,551
Reserves	2,78,510	3,38,261	3,64,581	3,80,731	4,18,379	4,27,055	4,63,961	5,06,404
Net Worth	2,91,195	3,50,946	3,81,494	4,03,281	4,40,929	4,49,605	4,86,511	5,28,954
Loans	80,483	68,457	38,186	17,517	16,157	45,000	50,000	55,000
Deferred Tax	33,087	40,714	46,559	46,309	59,477	59,477	59,477	59,477
Capital Employed	4,04,765	4,60,116	4,66,239	4,67,108	5,16,564	5,54,083	5,95,989	6,43,431
Gross Fixed Assets	4,13,893	4,33,777	4,52,646	4,69,633	5,08,099	5,48,476	6,09,066	6,69,427
Less: Depreciation	2,15,047	1,49,107	1,67,584	1,81,736	1,97,238	2,15,589	2,34,175	2,53,001
Net Fixed Assets	1,98,845	2,84,670	2,85,062	2,87,898	3,10,861	3,32,887	3,74,891	4,16,426
Capital WIP	1,22,352	34,202	38,034	55,140	92,025	1,12,077	1,12,077	1,12,077
Investments	43,224	85,847	95,096	99,531	95,282	95,282	95,282	95,282
Current Assets								
Inventory	20,811	16,094	16,984	19,195	23,219	26,327	30,637	33,049
Debtors	30,945	38,095	38,282	40,515	50,743	58,730	68,344	73,725
Cash & Bank Balance	11,416	17,939	13,419	25,294	12,147	9,084	15,616	25,235
Loans/Adv. & Other Assets	1,01,339	81,127	75,823	99,558	59,510	59,510	59,510	59,510
Current Liab. & Prov.								
Liabilities	1,07,610	86,355	81,327	1,45,740	1,12,969	1,25,561	1,46,114	1,57,619
Provisions	16,558	11,503	15,133	14,283	14,253	14,253	14,253	14,253
Net Current Assets	40,344	55,397	48,047	24,539	18,397	13,837	13,739	19,646
Misc. Expenses								
Application of Funds	4,04,765	4,60,116	4,66,239	4,67,108	5,16,564	5,54,083	5,95,989	6,43,431

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
Basic (INR)								
EPS	6.6	4.9	8.5	10.1	14.0	10.4	12.6	14.5
Cash EPS	8.9	7.8	10.9	13.4	16.8	14.4	16.7	18.6
Book Value	64.6	77.8	84.6	90.2	98.9	100.8	109.0	118.4
DPS	1.7	1.5	3.2	3.9	3.8	7.0	3.6	4.2
Payout (incl. dvd tax)	30.1	37.7	50.1	45.5	34.7	81.4	35.0	35.0
Valuation (x)								
P/E	15.5	20.9	12.2	10.2	7.3	9.9	8.2	7.1
Adj. P/E (for investments)	9.4	12.6	7.4	6.2	4.4	6.0	5.0	4.3
Cash P/E	11.6	13.1	9.5	7.7	6.1	7.1	6.2	5.5
EV / EBITDA	4.5	4.4	3.2	3.3	2.1	3.1	2.8	2.9
EV / Sales	0.4	0.4	0.5	0.5	0.3	0.4	0.4	0.4
Price / Book Value	1.6	1.3	1.2	1.1	1.0	1.0	0.9	0.9
Dividend Yield (%)	1.7	1.5	3.1	3.8	3.7	6.8	3.5	4.1
Profitability Ratios (%)								
RoE	10.8	6.9	9.6	11.8	14.3	10.5	12.1	12.9
RoCE	8.2	6.2	8.7	10.2	12.9	8.9	10.1	10.8
RoIC	11.6	6.7	9.9	13.6	17.5	12.0	14.3	15.4
Turnover Ratios								
Debtors (No. of Days)	20	27	29	28	25	29	29	29
Fixed Asset Turnover (x)	1.4	1.1	1.0	1.1	1.5	1.3	1.4	1.4
Leverage Ratio								
Net Debt / Equity (x)	0.24	0.14	0.06	-0.02	0.01	0.1	0.1	0.1

Cash Flow Statement

(INR m)

Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
OP/(Loss) before Tax	42,844	31,005	54,108	69,584	90,848	70,752	85,908	98,796
Depreciation	9,743	13,131	13,968	14,151	15,502	18,351	18,586	18,826
Misc	0	0	0	0	0	0	0	0
Tax paid	-12,452	-8,739	-19,079	-23,400	-30,592	-24,024	-29,170	-33,546
Change in deferred tax liability	7,423	7,627	5,845	-250	13,168	0	0	0
(Inc)/Dec in Wkg. Capital	-16,864	-8,531	2,830	35,383	-7,004	1,497	6,630	3,711
CF from Op. Activity	30,693	34,493	57,672	95,468	81,922	66,576	81,954	87,787
(Inc)/Dec in FA & CWIP	-18,895	-10,805	-18,192	-34,094	-75,350	-60,430	-60,590	-60,361
Free Cash Flow	11,798	23,688	39,480	61,375	6,573	6,146	21,364	27,426
(Pur)/Sale of Investments	-2,194	-42,624	-9,249	-4,434	4,249	0	0	0
CF from Inv. Activity	-21,089	-53,429	-27,441	-38,528	-71,101	-60,430	-60,590	-60,361
Issue of Shares	0	0	0	0	0	0	0	0
Others	-771	45,883	13,055	-3,361	-1,707	0	0	0
Inc / (Dec) in Debt	-14,778	-12,026	-30,270	-20,669	-1,360	28,843	5,000	5,000
Dividends Paid	-9,148	-8,399	-17,535	-21,035	-20,901	-38,052	-19,832	-22,807
CF from Fin. Activity	-24,698	25,458	-34,751	-45,065	-23,968	-9,209	-14,832	-17,807
Inc / (Dec) in Cash	-15,093	6,522	-4,520	11,875	-13,147	-3,063	6,533	9,619
Add: Opening Balance	26,510	11,416	17,939	13,419	25,294	12,147	9,084	15,616
Closing Balance	11,416	17,939	13,419	25,294	12,147	9,084	15,616	25,235

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
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Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 71934200/ 022-71934263; Website www.motilaloswal.com.CIN no.: L67190MH2005PLC153397. Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad(West), Mumbai-400 064. Tel No: 022 7188 1000.

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