



Industry	Oil & Gas
Bloomberg	GAIL IN
BSE CODE	532155

Margins improved sequentially with strong volumes

RATING	BUY
CMP	345
Price Target	456
Potential Upside	32%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	399/295
Mkt Capital (Rs Cr)	77675
Free float (%)	46%
Avg. Vol 1M (,000)	5,612
No. of Shares (Cr)	226
Promoters Pledged %	0%

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Key Highlights-

- Revenue has grown by 55% YoY to Rs.19275 Cr. while PAT has grown by 50% to Rs.1963 Cr in Q2 FY19.
- Volumes in the natural gas marketing segment increased by 14% YoY to 82 MMSCMD on account of the good trading opportunities explored in US volumes.
- In the last quarter, LPG Transmission volume has increased by 11% YoY to 1019 MMSCMD and Petrochemicals segment by 4% YoY to 182 MMSCMD.
- Kochi-Mangalore pipeline is expected to be completed by Feb-Mar'2019, delay on account of monsoon and some local issues.

Q2 FY19 result update:

GAIL has posted robust performance in Q2 FY19 with the revenue growth of 55% YoY to Rs. 19,275 Cr and PAT growth of 50% YoY to Rs. 1963 Cr. led by the strong performance in Gas Trading business, revenue up by 67% YoY to Rs. 15,652 Cr. This is led by good trading opportunities (buying and selling of gas in international market) in US volumes and higher gas prices. In transmission business, realization has improved by around 15% on sequential basis on account of transmission tariff revision by the PNGRB in the last week of September. On the margins front, EBITDA margin of the company has improved by 220bps on sequential basis to 15.2% on account of sharp increase in the prices of spot LNG.

View and Valuation

Recent spurt in the LNG prices has benefited GAIL in terms of both revenue and margins. In Q2FY19, company has reported high EBITDA margins of 15.2% due to sharp spurt in LNG prices and good trading opportunities which is not sustainable. Margins are expected to normalize and remain in the range of 13-13.5 (provided LNG price remains at level of around USD 9/MMBTU). On the volume front, the company is expanding its network in 3 newly won geographies and is extensively developing its pipeline network (like Kochi pipeline, Urja Ganga project etc). This gives us visibility for long term growth prospect of the company and we expect volume to grow to the tune of 12-15% in FY19E. Considering above arguments we are optimistic on the stock in the long run.

We maintain our BUY rating and value the stock at 16x FY20e EPS to arrive at target price of Rs. 456

Key Risks to our rating and target

- Decline in the prices of the alternate fuel
- Price hike in spot LNG
- Lower demand from City Gas Distribution companies.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	51529	48055	53662	77060	83761
EBITDA	4280	6409	7634	10637	10334
EBIT	2970	5013	6219	9205	8770
PAT	2226	3503	4618	6674	6430
EPS (Rs)	10	16	20	30	29
EPS growth (%)	-27%	57%	32%	45%	-4%
ROE (%)	6%	9%	11%	16%	14%
ROCE (%)	5%	9%	11%	15%	14%
BV	156	169	179	190	201
P/B (X)	1.3	1.7	1.8	2.0	1.9
P/E (x)	20.3	18.2	16.0	12.7	13.2

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2Q FY 19
Result above expectation
Strong performance

<i>Financials</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY17</i>	<i>FY18</i>	<i>YoY %</i>
Net Sales	12410	14414	15431	17299	19275	55.3%	11.4%	48055	53662	11.7%
Other Income	293	303	276	120	366	25%	206%	1176	987	-16%
COGS	9094	10786	12150	13518	14558	60.1%	7.7%	36393	40437	11.1%
Gross Margin	27%	25%	21%	22%	24%	-2.2%	2.6%	24%	25%	0.2%
Employee Cost	343	400	353	379	587	70.9%	54.7%	1258	1301	3.5%
Other Expenses	903	1259	1233	1157	1203	33.2%	3.9%	4089	4289	5%
EBITDA	2069	1970	1695	2244	2927	41.5%	30.5%	6409	7634	19.1%
EBITDA%	17%	14%	11%	13%	15%	-1.5%	2.2%	13%	14%	0.9%
Depreciation	342	367	361	379	351	2.4%	-7.5%	1397	1415	1.3%
EBIT	2020	1906	1610	1984	2943	45.7%	48.3%	5013	6219	24.1%
Interest	93	48	33	44	45	-50.9%	3.1%	479	275	-43%
PBT	1927	1858	1577	1940	2897	50.3%	49.3%	5710	6931	21.4%
Exceptional	-	-	(28)	-	-			-299	27.69	-109%
Tax	618	596	583	681	934	51.3%	37.2%	1908	2340	22.6%
PAT	1310	1262	1021	1259	1963	49.9%	55.9%	3503	4618	31.8%
PAT Margin	11%	9%	7%	7%	10%	-0.4%	2.9%	7%	9%	1.3%

Volume growth outlook

Natural gas marketing volume has improved significantly in the last quarter by 14% to 82 MMSCMD as the company has explored good trading opportunities (buying and selling of gas in international market) in US volumes. These kind of trading opportunities are un-sustainable for upcoming quarters. But the company is ready to avail any good gas trading opportunity if available in future. Looking at the growing demand of natural gas (by City Gas distribution companies) in India the company imports around 5 MT of US LNG to India. We expect robust demand from city gas distribution companies to roll out in coming years as PNGRB in its 9th round of bidding, has awarded authorization for 86 geographies, and GAIL being major player in transmission of natural gas, is likely to reap benefit out of it. We believe that growing traction in this segment will enable GAIL to clock transmission volume growth of +14% in coming fiscal year.

Realization hike

PNGRB has hiked transmission tariff for both low pressure and high pressure pipelines to the tune of 28%. As a result this, realization of the company in transmission segment has improved significantly in Q2 FY19. In gas marketing segment, following the spurt in the crude oil prices the LNG prices has increased sharply to around USD 9/MMBTU which has improved realization in Q2 FY19. But considering the fluctuations in the prices of the crude oil, these realizations may fluctuate in upcoming quarters.

Rising demand of gas in country-

With the governments' continuous focus on clean energy, custom duty hike on pet coke, economic feasibility of gas over other fuels, demand of gas in the country is expected to increase in coming years. Being a major player in distribution network GAIL is likely to get benefit out of it.

Concall highlights:

- ❑ Management has guided for slow growth rate of gas transmission volume.
- ❑ Management has guided for petrochemicals volume of 7 lakh MT in FY19.
- ❑ Out of the total sales volumes 80% are crude link for which the company takes hedging contracts time to time which are typically of 12 Months in tenure. The last hedging was done in the last week of September.
- ❑ Earlier company was importing 4-5 Gorgon cargoes every month, but now these cargoes are getting replaced with the US LNG.
- ❑ Polymer production has increased last quarter from 182 MMT to 195 MMT on account of better production and efficiency of PATA plant.
- ❑ Kochi-Mangalore pipeline is expected to be completed by Feb-Mar'2019, delayed by two months on account of monsoon and some local issues.
- ❑ Management guided for total 90 cargoes to be imported in FY19.
- ❑ Petrochemicals sales were lower due to plastic ban in Maharashtra. Petrochemicals utilization currently is at around 90%.
- ❑ Capex of Rs.950 Cr done in 2QFY19, full-year guidance at Rs.6500 Cr.

Exhibit: Gas marketing volume(MMSCMD) trend

Volume has grown YoY as company has good opportunities of trading US LNG in interanational markets

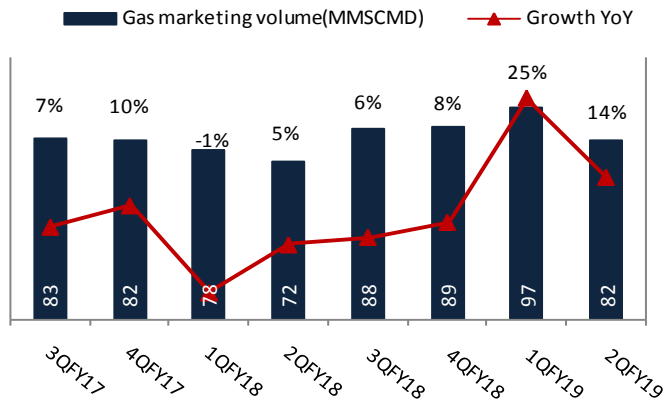


Exhibit: Petrochemicals volume (MMSCMD) trend

Production increased in last quarter on account of better production and efficiency of PATA plant.

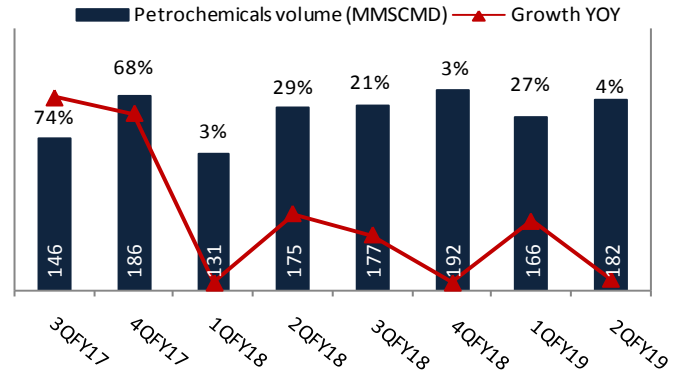


Exhibit: Natural gas Transmission Volume(MMSCMD)

Limited Supplies of domestic natural has retrsained volume growth in this segment

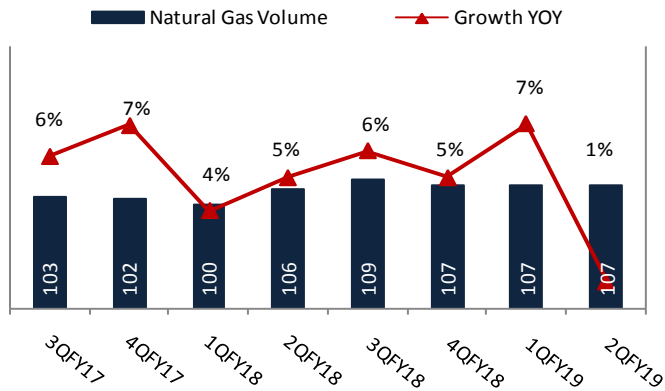


Exhibit: LPG Transmission volume(MMSCMD)

Growing LPG demand is contributing to the gradual growth in the LPG transmission volumes

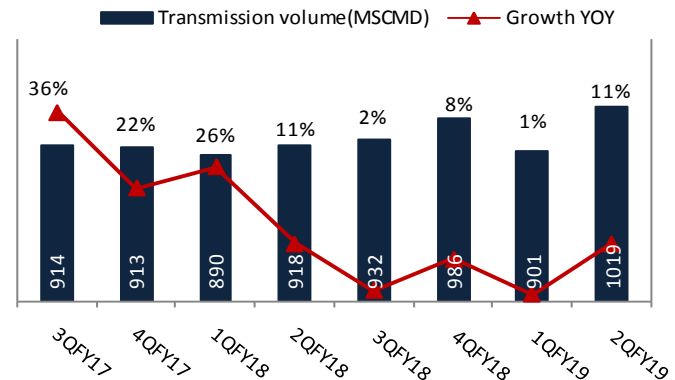


Exhibit: Revenue and Growth YoY

Strong revenue growth is observed in last quarter on account of robust performance of gas trading business

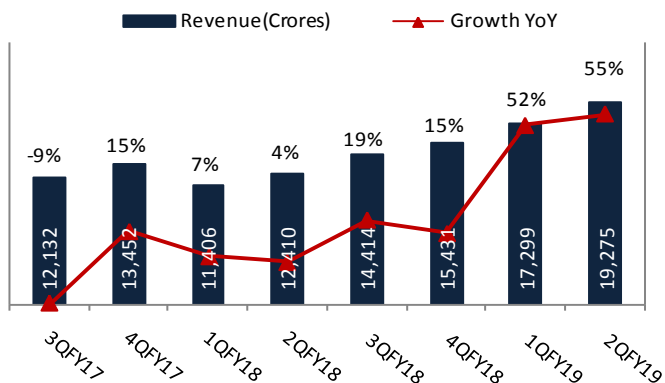
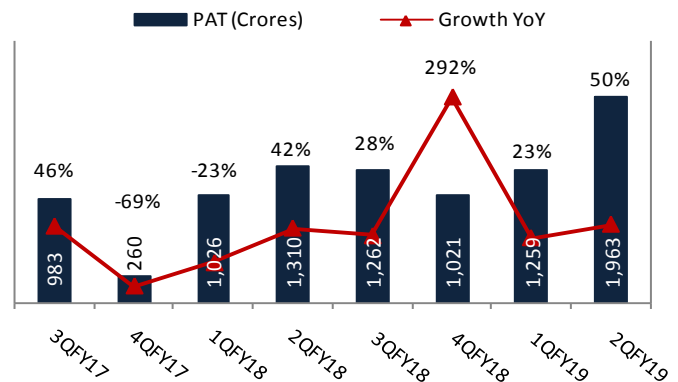


Exhibit: PAT and Growth YoY

PAT has improved due to higher revenue and margins in Q2 FY19



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	1268	1268	1268	1268	1691	2255	2255	2255
Reserves	22959	25804	27851	33826	36458	38073	40629	43091
Networth	24228	27072	29120	35095	38149	40328	42884	45346
Debt	8365	9526	8048	5737	3005	976	954	754
Total Capital Employed	32592	36598	37168	40832	41154	41304	43838	46100
Net Fixed Assets (incl CWIP)	28685	31204	32120	31887	32310	34304	36897	39358
Non Current Investments	3680	4289	4322	8572	9510	9572	9974	9974
Other Non Current Assets	673	718	2410	3915	3577	931	1193	1193
Non Current Assets	35630	38701	42298	46389	47125	47974	50870	53331
Inventory	1535	2255	2081	1609	1698	1920	2757	2996
Debtors	2551	2812	3095	2709	2725	3055	5278	5737
Cash & Bank	2358	2651	1142	1794	1342	2529	1939	1830
Other Current Assets	15	130	766	2594	2570	1446	1156	1256
Current Assets	9054	11110	10595	9408	9145	10109	12670	13586
Creditors	3104	3975	3320	2862	2716	3882	5278	5737
Provisions	1435	1449	1077	532	701	848	1218	1323
Other Current Liabilities	4208	4048	5361	1115	1140	1188	1706	1855
Curr Liabilities	8747	9471	9758	9167	8375	9902	12826	13941
Net Current Assets	307	1639	837	242	770	207	-156	-355
Total Assets	44684	49811	52893	55797	56270	58082	63540	66917

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	47,523	57,508	56,742	51,721	48,149	53,662	77,060	83,761
Change (%)	18%	21%	-1%	-9%	-7%	11%	44%	9%
Other Income	765	899	861	892	1176	987	976	977
EBITDA	6469	6701	4696	4280	6409	7634	10637	10334
Change (%)	16%	4%	-30%	-9%	50%	19%	39%	-3%
Margin (%)	14%	12%	8%	8%	13%	14%	14%	12%
Depr & Amor.	981	1176	974	1310	1397	1415	1432	1564
EBIT	5488	5525	3722	2970	5013	6219	9205	8770
Int. & other fin. Cost	195	366	361	800	479	275	191	151
EBT	6058	6057	4222	3062	5710	6931	9990	9597
Exp Item	-	344.95	62.86	0	-299	28	0	-
Tax	2036	2027	1245	836	1908	2340	3315	3167
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	4022	4375	3039	2226	3503	4618	6674	6430
Adjusted PAT	4022	4146	2995	2226	3702	4600	6674	6430
Change (%)	10%	9%	-31%	-27%	57%	32%	45%	-4%
Margin(%)	8%	8%	5%	4%	7%	9%	9%	8%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	17%	16%	10%	6%	9%	11%	16%	14%
ROCE	12%	12%	8%	5%	9%	11%	15%	14%
Asset Turnover	1.1	1.2	1.1	0.9	0.9	0.9	1.2	1.3
Debtor Days	20	18	20	19	21	21	25	25
Inv Days	12	14	13	11	13	13	13	13
Payable Days	24	25	21	20	21	26	25	25
Int Coverage	0.0	0.1	0.1	0.3	0.1	0.0	0.0	0.0
P/E	10	11	16	20	18	16	13	13
Price / Book Value	1.7	1.8	1.7	1.3	1.7	1.8	2.0	1.9
EV/EBITDA	7	8	12	11	10	9	8	8
FCF per Share	(2.1)	4.8	3.6	15.5	17.5	25.4	18.3	18.7
Div Yield	5.4%	4.8%	4.1%	2.7%	2.3%	3.2%	4.0%	3.9%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	6058	6402	4284	3173	5411	6958	9990	9597
(inc)/Dec in Working Capital	-638	-817	-1957	616	-194	1886	-137	90
Non Cash Op Exp	1020	1180	981	1314	1397	1415	1432	1564
Int Paid (+)	195	367	370	640	479	275	191	151
Tax Paid	-1513	-1874	-855	-704	-1191	-1322	-3315	-3167
others	-88	-337	-379	-205	-141	-551	0	0
CF from Op. Activities	5033	4922	2444	4835	5761	8663	8160	8234
(inc)/Dec in FA & CWIP	-5497	-3836	-1639	-1343	-1818	-2942	-4025	-4025
Free Cashflow	-463	1085	805	3492	3943	5720	4135	4209
(Pur)/Sale of Inv	-406	11	43	-224	189	-800	-403	0
others	431	593	632	556	1249	1174	9	0
CF from Inv. Activities	-5472	-3232	-964	-1011	-380	-2568	-4419	-4025
inc/(dec) in NW								
inc/(dec) in Debt	3717	756	-911	-1634	-2931	-3012	-22	-200
Int. Paid	-421	-653	-746	-697	-553	-356	-191	-151
Div Paid (inc tax)	-1430	-1499	-1332	-840	-1754	-2103	-4118	-3968
others	0	0	0	0	0	0	0	0
CF from Fin. Activities	1865	-1397	-2989	-3171	-5238	-5470	-4331	-4318
Inc(Dec) in Cash	1427	293	-1509	652	143	624	-590	-109
Add: Opening Balance	931	2358	2651	1142	309	452	2529	1939
Closing Balance	2358	2651	1142	1794	452	1076	1939	1830

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