

GAIL (India) Limited

Industry Oil & Gas
Bloomberg GAIL IN
BSE CODE 532155

Robust performance in gas marketing business continues

RATING	BUY
CMP	333
Price Target	433
Potential Upside	30%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	399/295
Mkt Capital (Rs Cr)	74721
Free float (%)	46%
Avg. Vol 1M (,000)	5,612
No. of Shares (Cr)	226
Promoters Pledged %	0%

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3QFY19 Result update

- ❑ Company has reported robust revenue growth of 37% YoY to Rs.19,789 Cr. while PAT has grown by 33% to Rs.1681 Cr in Q3 FY19. This growth is mainly led by natural gas marketing LPG business.
- ❑ Revenue from natural gas marketing business has grown by 46% YoY to Rs.16197 Cr led by the good trading opportunities in US LNG. In the last quarter, volume in this segment has grown by almost 9% YoY to 96 MMSCMD and realization has grown by 34% on YoY basis.
- ❑ Revenue from petrochemical business has declined by 9% on QoQ basis due to shut down of PATA plant during the quarter. However the PATA plant has resumed and has launched value added Metallocene film grade polymer in Jan 2019.
- ❑ Revenue from LPG division has grown by 24% YoY to Rs. 1512 Cr where has the volume has grown by 5% YoY to 342 TMT.
- ❑ EBITDA margin of the company in Q3 FY19, has declined marginally by 20bps to 13.5% on YoY basis. This is led by the volatility in the crude oil prices.
- ❑ Capex done in 9 months of FY19 is Rs.5500 Cr.
- ❑ Kochi-Mangalore pipeline is delayed due to the flood in Kerala and now it is expected to be completed by June'2019.

View and Valuation

Gail is gradually shifting from Gorgon volumes to US LNG. The company has received 58 LNG cargoes in 9 months of FY19 out of which it has sold 31 cargoes in international market. Company has gained significant marketing margins in trading US LNG in the last two quarters and management expects margins to be remained at almost same level in Q4 FY19. Company has taken hedges to secure its margins for at least one more quarter. On the volume front, demand of gas is increasing gradually on account of expansion in new geographies by City Gas distribution companies and more fertilizer companies coming to take additional volumes. We expect gas consumption in India to grow by at least 9-10% p.a. for next 3-4 years, giving us gradual volume growth visibility for the Gail in upcoming years.

We are positive on this stock in long run and maintain our BUY rating while maintaining our previous target price of Rs.433/share on SOTP basis.

Key Risks to our rating and target

- ❑ Decline in crude oil prices
- ❑ Price hike in spot LNG
- ❑ Lower demand from City Gas Distribution companies.
- ❑ Decline in price of alternate fuel

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	51529	48055	53662	75119	79846
EBITDA	4280	6409	7634	10377	10110
EBIT	2970	5013	6219	8954	8556
PAT	2226	3503	4618	6500	6259
EPS (Rs)	10	16	20	29	28
EPS growth (%)	-27%	57%	32%	41%	-4%
ROE (%)	6%	9%	11%	15%	14%
ROCE (%)	5%	9%	11%	15%	14%
BV	156	169	179	190	200
P/B (X)	1.3	1.7	1.8	1.9	1.8
P/E (x)	20.3	18.2	16.0	12.6	13.0

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**3Q FY 19
Results In Line**
Strong performance

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY18	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	14414	15431	17299	19275	19789	37.3%	2.7%	48055	53662	11.7%
Other Income	303	276	120	366	220	-27%	-40%	1176	987	-16%
COGS	10786	12150	13518	14558	15602	44.7%	7.2%	36393	40437	11.1%
Gross Margin	25%	21%	22%	24%	21%	-4.0%	-3.3%	24%	25%	0.2%
Employee Cost	400	353	379	587	392	-2.0%	-33.2%	1258	1301	3.5%
Other Expenses	1259	1233	1157	1203	1122	-10.9%	-6.7%	4089	4289	5%
EBITDA	1970	1695	2244	2927	2673	35.7%	-8.7%	6409	7634	19.1%
EBITDA%	14%	11%	13%	15%	14%	-0.2%	-1.7%	13%	14%	0.9%
Depreciation	367	361	379	351	363	-0.9%	3.7%	1397	1415	1.3%
EBIT	1906	1610	1984	2943	2530	32.8%	-14.0%	5013	6219	24.1%
Interest	48	33	44	45	23	-52.7%	-50.2%	479	275	-43%
PBT	1858	1577	1940	2897	2507	35.0%	-13.4%	5710	6931	21.4%
Exceptional	-	(28)	-	-	-			-299	27.69	-109%
Tax	596	583	681	934	826	38.7%	-11.6%	1908	2340	22.6%
PAT	1262	1021	1259	1963	1681	33.2%	-14.3%	3503	4618	31.8%
PAT Margin	9%	7%	7%	10%	8%	-0.3%	-1.7%	7%	9%	1.3%

Volume growth to remain strong ahead

Natural gas marketing volume has improved significantly in the last quarter by 9% YoY to 96 MMSCMD as the company has explored good trading opportunities (buying and selling of gas in international market) in US volumes in the last quarter. The company is set to receive around 86 US LNG cargoes every year. In the nine months of FY19, company has received 58 cargoes. At present, most of the US LNG cargoes received by the company are sold in the international market. The demand of LNG in India is growing at a gradual pace and is expected to grow to the tune of 9-10% p.a. for upcoming years. Gail will gradually bring US LNG to India as the demand grows. We believe that growing traction in this segment will enable GAIL to clock transmission volume growth of 13% in FY19e.

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 Q3 FY19. The company is expecting tariff revision for few more pipelines which is expected to be made in FY20. 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 Q3 FY19. But considering the fluctuations in the prices of the crude oil, these realizations may fluctuate in upcoming quarters.

Management highlights:

- Bounce back in E&P profitability on account of restoration of gas supply to our customers. This supply was disrupted from June 2018, on account of blast in China section of South East Asia gas pipeline. In last quarter this leads to Rs. 75 Cr profitability in this segment.
- Received capital grant of Rs.578 Cr has been received in last quarter and total Rs. 2000 Cr has received till date. With this company has received 40% of total grant approved for Jagdishpur Haldia Bokaro Dhamra pipeline
- GAIL's petrochemical unit at PATA has been first in India to produce the value added Metallocene film grade polymer. In FY20, mgt. is expecting full utilization in this segment in FY20.
- Gas marketing volume has gone up due to start in sale of overseas LNG.
- Guidance for transmission volume growth is 5-7% in upcoming years as more fertilizers customers are coming. Power sector has hardly taken any volume from Gail this year. Even the open Access terminal that the company has given to book our capacity is almost flat at present.
- Mgt. has guided that if crude price has corrected sharply, there wouldn't be any sharp decline in margins in gas trading business, company have taken enough hedges for that purpose.
- Mgt. has guided for the same range of dividend in upcoming year.
- Tariff revision for various pipelines is due and mgt. expects revision in days to come, but no specific timeline.
- Jagdishpur Haldia pipeline has 8 sections and all these sections on time excluding Barauni Guwahati which is expected by Dec 20121.

Exhibit: Gas marketing volume(MMSCMD) trend

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

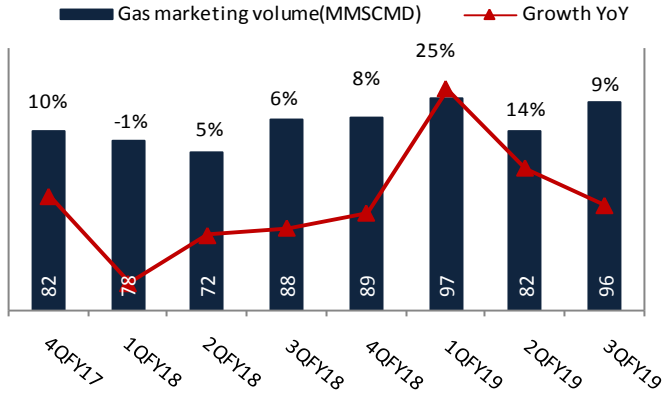


Exhibit: Petrochemicals volume (MMSCMD) trend

Volume has declined on sequential basis due to shut down at PATA plant

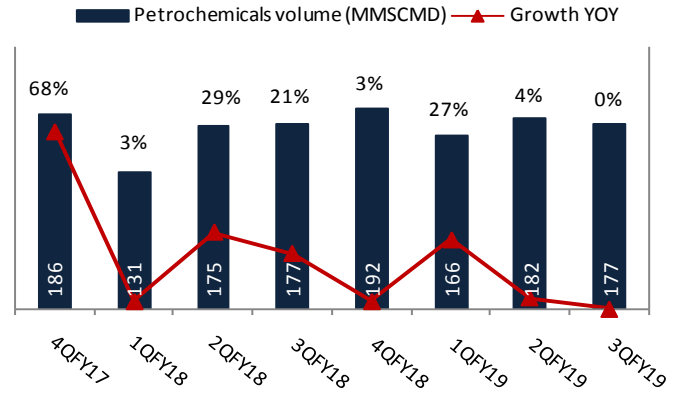


Exhibit: Natural gas Transmission Volume(MMSCMD)

Lower demand from power sector has retrained volume growth in this segment

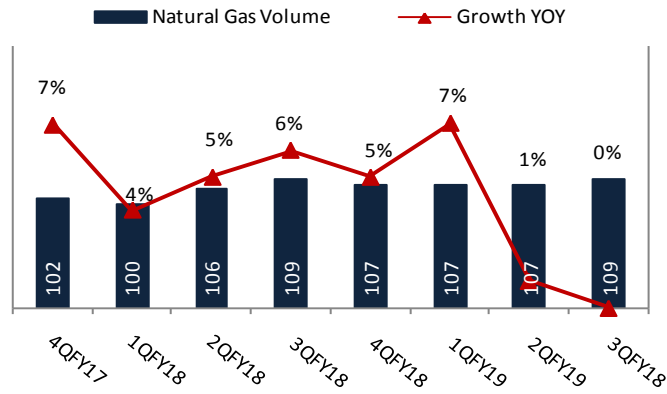


Exhibit: LPG Transmission volume(MMSCMD)

LPG demand is gradually growing in the country due to the implementation of Ujawala scheme

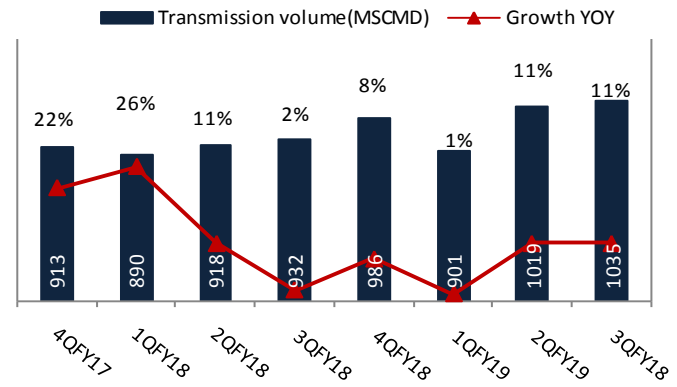


Exhibit: Revenue and Growth YoY

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

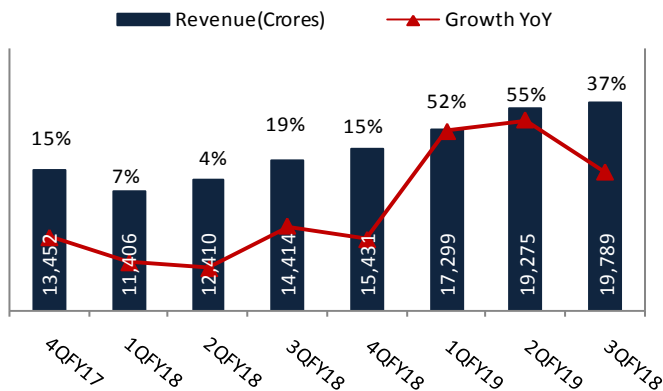
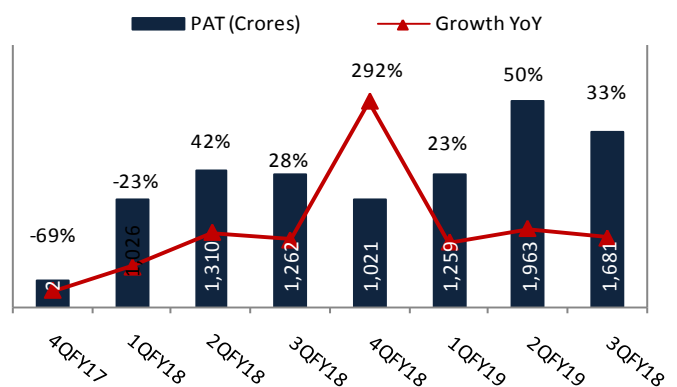


Exhibit: PAT and Growth YoY

PAT has improved due to higher revenue and margins in Q3 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	40562	42959
Networth	24228	27072	29120	35095	38149	40328	42817	45214
Debt	8365	9526	8048	5737	3005	976	954	904
Total Capital Employed	32592	36598	37168	40832	41154	41304	43771	46118
Net Fixed Assets (incl CWIP)	28685	31204	32120	31887	32310	34304	36906	39377
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	50879	53350
Inventory	1535	2255	2081	1609	1698	1920	2687	2856
Debtors	2551	2812	3095	2709	2725	3055	5145	5469
Cash & Bank	2358	2651	1142	1794	1342	2529	1800	1701
Other Current Assets	15	130	766	2594	2570	1446	1127	1198
Current Assets	9054	11110	10595	9408	9145	10109	12271	12934
Creditors	3104	3975	3320	2862	2716	3882	5145	5469
Provisions	1435	1449	1077	532	701	848	1187	1262
Other Current Liabilities	4208	4048	5361	1115	1140	1188	1663	1768
Curr Liabilities	8747	9471	9758	9167	8375	9902	12502	13289
Net Current Assets	307	1639	837	242	770	207	-231	-356
Total Assets	44684	49811	52893	55797	56270	58082	63150	66283

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	75,119	79,846
Change (%)	18%	21%	-1%	-9%	-7%	11%	40%	6%
Other Income	765	899	861	892	1176	987	965	967
EBITDA	6469	6701	4696	4280	6409	7634	10377	10110
Change (%)	16%	4%	-30%	-9%	50%	19%	36%	-3%
Margin (%)	14%	12%	8%	8%	13%	14%	14%	13%
Depr & Amor.	981	1176	974	1310	1397	1415	1423	1554
EBIT	5488	5525	3722	2970	5013	6219	8954	8556
Int. & other fin. Cost	195	366	361	800	479	275	191	181
EBT	6058	6057	4222	3062	5710	6931	9728	9342
Exp Item	-	344.95	62.86	0	-299	28	0	-
Tax	2036	2027	1245	836	1908	2340	3228	3083
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	4022	4375	3039	2226	3503	4618	6500	6259
Adjusted PAT	4022	4146	2995	2226	3702	4600	6500	6259
Change (%)	10%	9%	-31%	-27%	57%	32%	41%	-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%	15%	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	1.2
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	1.9	1.8
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	17.2	17.7
Div Yield	5.4%	4.8%	4.1%	2.7%	2.3%	3.2%	4.1%	3.9%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	6058	6402	4284	3173	5411	6958	9728	9342
(inc)/Dec in Working Capital	-638	-817	-1957	616	-194	1886	-201	26
Non Cash Op Exp	1020	1180	981	1314	1397	1415	1423	1554
Int Paid (+)	195	367	370	640	479	275	191	181
Tax Paid	-1513	-1874	-855	-704	-1191	-1322	-3228	-3083
others	-88	-337	-379	-205	-141	-551	0	0
CF from Op. Activities	5033	4922	2444	4835	5761	8663	7913	8020
(inc)/Dec in FA & CWIP	-5497	-3836	-1639	-1343	-1818	-2942	-4025	-4025
Free Cashflow	-463	1085	805	3492	3943	5720	3888	3995
(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	-50
Int. Paid	-421	-653	-746	-697	-553	-356	-191	-181
Div Paid (inc tax)	-1430	-1499	-1332	-840	-1754	-2103	-4011	-3862
others	0	0	0	0	0	0	0	0
CF from Fin. Activities	1865	-1397	-2989	-3171	-5238	-5470	-4224	-4093
Inc(Dec) in Cash	1427	293	-1509	652	143	624	-730	-98
Add: Opening Balance	931	2358	2651	1142	309	452	2529	1800
Closing Balance	2358	2651	1142	1794	452	1076	1800	1702

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