

GAIL (INDIA) LTD.

BUY

22-Feb-18

INDUSTRY - Oil & Gas

Bloomberg Code: GAIL IN

BSE Code- 532155

NSE Code- GAIL

NIFTY - 10375

Company Data

CMP	467
Target Price	542
Upside	16%
Previous target price	542
52wk Range H/L	519/346
Mkt Capital (Rs Cr)	78983
Av. Volume (,000)	114

Share Holding Pattern %

	3QFY18	2QFY18	1QFY18
Promoters	54.0	54.9	54.9
Public	46.1	45.1	45.1
Others	-	-	-
Total:	100.0	100.0	100.0

Key Highlights of the report

- ✓ Higher volume and realization growth in natural gas marketing segment kicked sales and PAT growth of 18% and 28% respectively in Q3 FY18.
- ✓ In Q3, company has witnessed higher demand from power companies and in Dec 2017, offtake from new fertilizer plants has started, which we expect to be continue in upcoming quarter.
- ✓ GAIL expects total 80 cargoes of US LNG in the FY18E.
- ✓ GAIL has started working to develop City gas distribution network for seven major cities including Varanasi, Patna, Jamshedpur, Kolkata, Ranchi, Bhubaneshwar and Katak, falling on the pipeline route of Urja Ganga project.
- ✓ **Going forward, we expect ROE to 11.6%, 243 bps improvement, with stable margins and revise our rating from ACCUMULATE to BUY with the target price of Rs. 542.**

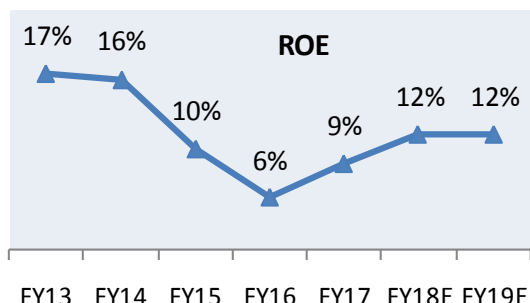
Financials/Valuation

	FY15	FY16	FY17	FY18E	FY19E
Net Sales	56,742	51,529	48,055	51,935	55,561
EBITDA	4,696	4,280	6,409	7,527	8,060
EBIT	3,722	2,970	5,013	6,122	6,525
PAT	3,039	2,226	3,503	4,575	4,791
EPS (Rs)	18	13	21	27	28
EPS growth (%)	-31%	-27%	57%	31%	5%
ROE (%)	10%	6%	9%	12%	12%
ROCE (%)	8%	5%	9%	11%	11%
BV per share	172	208	226	235	244
P/B (X)	1.7	1.3	1.7	2.0	1.9
P/E (x)	16.2	20.3	18.2	17.2	16.4

Concall Highlights:

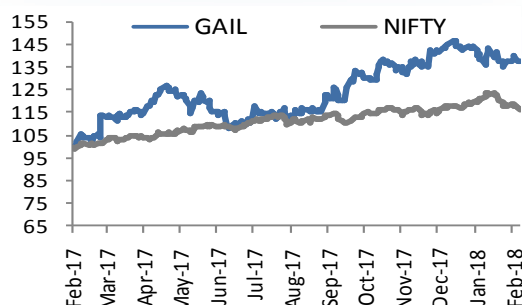
- ✓ Contracts for most of the US LNG cargoes are placed for 2018; few cargoes to land up in India from March 2018.
- ✓ On the demand front the company expects a ramp-up in volumes from Jan'18 onwards, led by the fertilizer sector and the City Gas Distribution sector. GAIL expects an offtake of 6-7MT of gas from the five fertilizer plants coming up over the next few years.
- ✓ On Kochi pipeline, all contracts have been awarded and project is expected to complete much before expectation ie Dec 2018.
- ✓ GAIL India Ltd will import about 5 million tonnes (MT) of LNG from the US next fiscal, replacing the volumes the state-owned utility buys from the spot market.
- ✓ Gas demand in the country will further rise when three new fertiliser plants begin operating in 2020/21 and that would help absorb some of the U.S. LNG

Expect to maintain ROE at 11.6%



Stock Performance %

	1Mn	3Mn	1Yr
Absolute	(0.6)	1.6	40.9
Rel.to Nifty	3.6	1.0	23.0



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Quarterly Performance

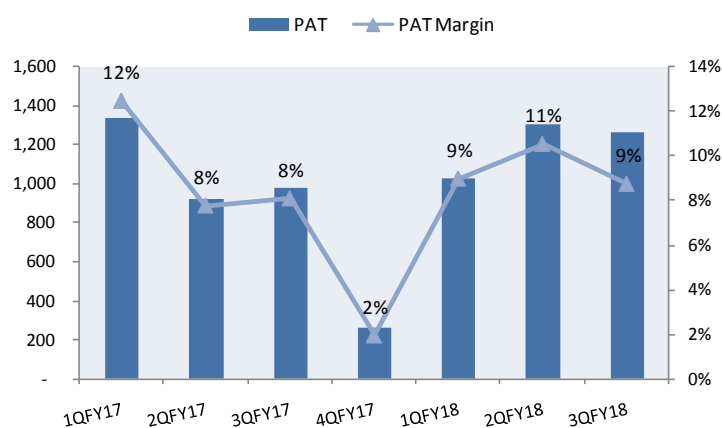
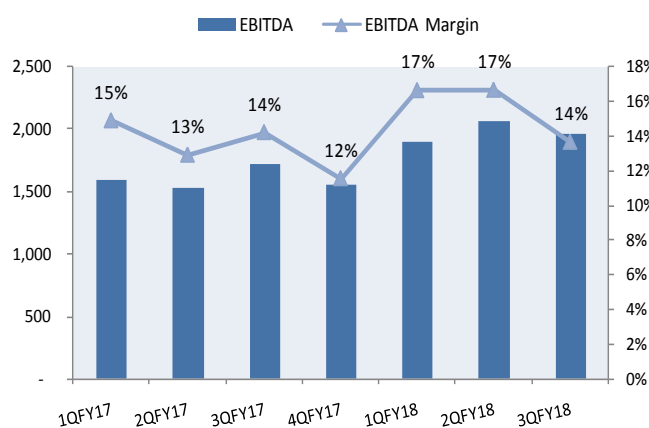
Financials	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Gas Transmission	103	102	100	106	109	6%	3%	369	402	9%
LPG Transmission	914	913	890	918	932	2%	2%	2,799	3,363	20%
Natural gas market. vol	83	82	78	72	88	6%	21%	295	313	6%
Petrochemicals vol	146	186	131	175	177	21%	1%	329	595	81%
LPG and liquid hydrocarbon	296	276	292	329	326	10%	-1%	1,087	1,097	1%
Net Sales	12,132	13,452	11,406	12,410	14,414	19%	16%	51,529	48,055	-7%
Other Income	276	468	116	293	303	10%	3%	892	1,176	32%
Employee Cost	267	472	205	343	400	50%	16%	958	1,258	31%
Other Expenses	1,043	1,083	894	903	1,259	21%	39%	4,275	4,089	-4%
EBITDA	1,726	1,555	1,899	2,069	1,970	14%	-5%	4,280	6,409	50%
Depreciation	358	347	345	342	367	2%	7%	1,310	1,397	7%
Interest	160	22	101	93	48	-70%	-48%	800	479	-40%
PBT	1,484	1,654	1,569	1,927	1,858	25%	-4%	3,062	5,710	86%
Tax	501	606	543	618	596	19%	-4%	836	1,908	128%
PAT	983	260	1,026	1,310	1,262	28%	-4%	2,226	3,503	57%

Higher revenue led by volume and realization growth in Natural gas marketing

- ✓ Gas transmission volume stood at 109mmscmd, growth of 6% YoY and 2% QoQ, led by increased offtake from power plants due to the lack of coal supply and new fertilizer plants started taking volumes.
- ✓ Petrochemicals volume has increased by 21% YoY due to higher utilisation at expanded PATA plant and ramp up of BPCL refinery , management has guided for optimum capacity utilisation going ahead.
- ✓ LPG and liquid hydrocarbons segment has reported growth of 10% YoY to 326 MMT in Q3 FY18. LPG volumes are gradually picking up on account of implementation of 'Ujjawala' scheme.
- ✓ Reported higher revenue on account of higher offtake from power and fertilizer plants whereas PAT has improved due to lower domestic gas cost.

Margins trend

- ✓ Gross margin has improved by 20bps to 25.2% on account of lower domestic gas cost.
- ✓ PAT margin has improved by 66bps to 8.76% due to lower interest cost during Q3 FY18.

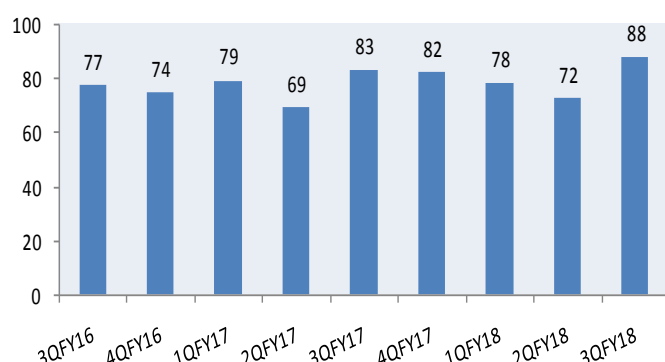


Investment Arguments:

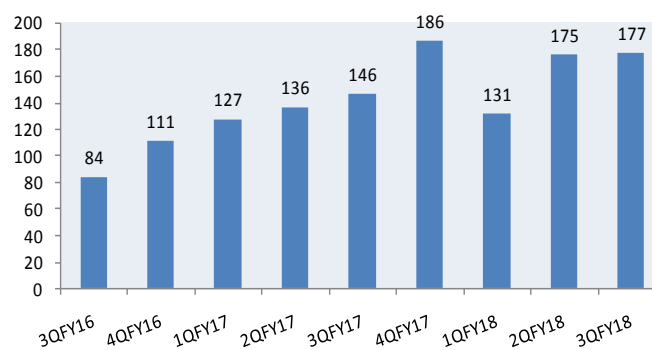
- ✓ **US LNG contract-** GAIL has signed LNG contracts to secure natural gas from US companies. GAIL India Ltd will import about 5 million tonnes (MT) of LNG from the US in next fiscal. This will ensure the un-interrupted supply of natural gas in the country.
- ✓ **Strong LPG volume growth-** LPG production will continue to increase and reach to 1.25mnt in FY19 on the back of higher availability of domestic gas from ONGC's Daman field.
- ✓ **Upcoming demand from new fertilizer plants-** Gas demand in the country will further rise as fertiliser plants states like UP, Rajasthan and Delhi will shift of petcoke to natural gas.
- ✓ **Kerala pipeline project update-** Project work on Kerala pipeline is on track. There was some protest in the Kerala for the construction of the pipeline but the state government is helping to sort out the issue. Management has maintained the timeline of Dec 2018 for the completion of the project. Upon completion of this project, natural gas transmission volume would improve going ahead.
- ✓ **Expanding city gas distribution network-** GAIL is authorised to develop infrastructure for City Gas Distribution in cities Varanasi, Ranchi, Patna, Jamshedpur, Bhuvneshwar, Cuttack. Kolkata city gas distribution is also done by GAIL in JV with Greater Calcutta gas supply corporation. This will open new doors for GAIL to expand its footprint in new geographies.

Volume trend-

Natural gas marketing volume(mmscmd)



Petrochemicals volume(mmscmd)



View & Valuation:-

Gail has posted numbers better than our expectations for Q3 FY18. Sales and PAT grew by 19% and 28% YoY respectively in the last quarter. Higher revenue attributed to 6% volume growth in both natural gas marketing and gas transmission segment. The company is focusing on expansion through city gas distribution network by 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 company to grow the gas transmission volume to the extent of 12-15% in FY19E. Further, management has guided for growth in LPG gas volume on the back of "Ujjwala scheme" which targeted to add 5 Cr new LPG connections in domestic market in next 3 years to the existing 20.7 Cr connections. On the tariff front, GAIL has proposed unified tariff plan with 60% hike, regarding this PNGRB has circulated consultation document, post which decision will be taken by the board. This is expected to take few months to resolve. Looking at the historical trends, we don't expect any sharp upsurge in tariffs but conservatively we model 18-20% in our estimates.

Going forward, we expect ROE to become 11.6%, 243 bps improvement, with stable margins and hence we maintain our estimates and target price of Rs. 542 which gives us potential upside of 16% after recent correction in the stock price and we revise our rating from ACCUMULATE to BUY.

Financials Snap Shot

Income Statement				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	51,721	48,149	51,966	55,647
Change (%)	-9%	-7%	8%	7%
Other Income	892	1,176	888	904
EBITDA	4,280	6,409	7,527	8,060
Change (%)	-9%	50%	17%	7%
Margin (%)	8%	13%	14%	14%
Depr & Amor.	1,310	1,397	1,404	1,535
EBIT	2,970	5,013	6,122	6,525
Int. & other fin. Cost	800	479	134	230
EBT	3,062	5,710	6,876	7,199
Exp Item	-	(299)	-	-
Tax	836	1,908	2,298	2,406
Minority Int & P/L share of Ass.	-	-	-	-
Reported PAT	2,226	3,503	4,579	4,794
Adjusted PAT	2,226	3,702	4,579	4,794
Change (%)	-27%	57%	31%	5%
Margin(%)	4%	7%	9%	9%

Balance Sheet				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	1,268	1,691	1,691	1,691
Reserves	33,826	36,458	37,977	39,567
Networth	35,095	38,149	39,668	41,258
Debt	5,737	3,005	1,405	2,405
Other Non Current Liab	1	459	459	459
Total Capital Employed	40,832	41,154	41,073	43,663
Net Fixed Assets (incl CWIP)	31,887	32,310	34,930	37,420
Non Current Investments	8,572	9,510	7,000	7,200
Other Non Current Assets	3,915	3,577	3,577	3,577
Non Current Assets	46,389	47,125	47,236	49,926
Inventory	1,609	1,698	1,833	1,963
Debtors	2,709	2,725	2,941	3,149
Cash & Bank	1,794	1,342	1,195	1,139
Other Current Assets	2,594	2,570	2,773	2,970
Current Assets	9,408	9,145	9,616	10,157
Creditors	2,862	2,716	2,931	3,139
Provisions	532	701	756	810
Other Current Liabilities	1,115	1,140	1,230	1,317
Curr Liabilities	9,167	8,375	9,039	9,679
Net Current Assets	242	770	578	478
Total Assets	55,797	56,270	56,853	60,083

Key Ratios				
Y/E March	FY16	FY17	FY18E	FY19E
ROE	6%	9%	12%	12%
ROCE	5%	9%	11%	11%
Asset Turnover	0.9	0.9	0.9	0.9
Debtor Days	19	21	21	21
Inventory Days	11	13	13	13
Payable Days	20	21	21	21
Interest Coverage	27%	10%	2%	4%
P/E	20	18	17	16
Price / Book Value	1.3	1.7	2.0	1.9
EV/EBITDA	11	10	10	10
FCF per Share	21	11	27	14
Dividend Yield	2.1%	3.1%	3.2%	3.4%

Volume

Y/E March	FY16	FY17	FY18E	FY19E
Gas Transmission volume	369	402	423	448
LPG Transmission volume	2,799	3,363	3,672	3,745
Natural gas marketing volume	295	313	320	330
Petrochemicals volume	329	595	641	720
LPG and liquid hydrocarbon vol	1,087	1,097	1,228	1,252

Cash Flow Statement				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
PBT	3,173	5,710	6,876	7,199
(inc)/Dec in Working Capital	4,923	7,586	8,415	8,964
Non Cash Op Exp	1,314	1,397	1,404	1,535
Interest Paid (+)	640	479	134	230
Tax Paid	704	1,908	2,298	2,406
others	616	(250)	(135)	(130)
CF from Op. Activities	4,835	4,686	6,163	6,602
(inc)/Dec in FA & CWIP	(1,343)	(2,756)	(1,515)	(4,225)
Free Cashflow	3,492	1,929	4,647	2,377
(Pur)/Sale of Investment	-	-	-	-
others	332	-	-	-
CF from Inv. Activities	(1,011)	(2,756)	(1,515)	(4,225)
inc/(dec) in NW				
inc/(dec) in Debt	(1,634)	(2,733)	(1,600)	1,000
Interest Paid	(697)	(479)	(134)	(230)
Dividend Paid (inc tax)	(840)	(2,341)	(3,060)	(3,204)
others				
CF from Fin. Activities	(3,171)	(5,553)	(4,794)	(2,433)
Inc(Dec) in Cash	652	(3,624)	(147)	(56)
Add: Opening Balance	1,142	1,794	1,342	1,195
Closing Balance	1,794	1,830	1,195	1,139



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