

BSE SENSEX 39,530
S&P CNX 11,844

CMP: INR316 TP: INR351(+11%) Neutral

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Stock Info

Bloomberg	GAIL IN
Equity Shares (m)	2,255
M.Cap.(INRb)/(USDb)	713.3 / 10.3
52-Week Range (INR)	399 / 296
1, 6, 12 Rel. Per (%)	-11/-16/-18
12M Avg Val (INR M)	1716
Free float (%)	47.8

Financials & Valuations (INR b)

Y/E March	2019	2020E	2021E
Sales	751.3	754.6	806.5
EBITDA	95.3	109.2	110.7
Adj. PAT	63.3	68.3	70.4
Adj. EPS (INR)	28.1	30.3	31.2
EPS Gr. (%)	38.4	7.9	3.1
BV/Sh.(INR)	198.4	217.4	236.9
RoE (%)	14.3	14.8	13.9
RoCE (%)	12.9	12.5	11.7
Payout (%)	39.1	37.3	37.3

Valuations

P/E (x)	11.3	10.4	10.1
P/BV (x)	1.6	1.5	1.3
EV/EBITDA (x)	6.9	6.2	6.0
Div. Yield (%)	2.8	3.0	3.1

The long-awaited final trigger disappoints

- The Petroleum & Natural Gas Regulatory Board (PNGRB) announced an integrated tariff hike for GAIL India's (GAIL) HVJ and HVJ upgradation pipelines to INR41.1/mmbtu (proposed: INR97.0/mmbtu).
- The regulator-approved tariff indicates an increase of only ~4% from the current weighted average margin of INR39.7/mmbtu. This comes in as a big disappointment as the street was expecting a much higher tariff hike of ~25%. We were considering it as the only positive medium-term trigger for the stock.
- Given the aforementioned disappointment, along with [rising concerns](#) on other business segments, we reiterate our Neutral rating with a target price of INR351.

HVJ and HVJ up-gradation

- HVJ and HVJ up-gradation pipelines are key for GAIL in that they account for massive ~62% of its total volumes. In FY19, GAIL carried average volumes of ~33/mmscmd via HVJ and ~33.4/mmscmd via HVJ up-gradation.
- The approved integrated tariff stands at INR41.1/mmbtu, which is ~58% lower than the proposed of INR97.0/mmbtu and not very different from the current weighted average tariff of INR39.7/mmbtu.
- Notably, the revised approved tariff for HVJ at INR43.67/mmbtu was ~75% lower than the proposed 175.2/mmbtu, while that for HVJ up-gradation at INR56.7/mmbtu was ~28.5% lower than the proposed 79.3/mmbtu.
- This is similar to the last revisions in Sept'18, when the approved tariffs were ~60% lower than what was proposed.
- Separately, the economic life of the HVJ pipeline is extended by 10 years till Aug'32 (v/s Aug'22 considered by GAIL).

Jagdish Haldia Bokaro Dharma (JHDBPL)

- JHDBPL pipeline tariff was approved at INR63.5/mmbtu versus the proposed INR150.5/mmbtu.

Mumbai Regional Network

- Approved tariff stands at INR3.49/mmbtu for the Uran-Thal Usar (UTU) pipeline (proposed: INR10.74/mmbtu) and INR1.04/mmbtu for the Trombay RCF (TRCF) pipeline (proposed: INR7.66/mmbtu).

Valuation and view

- The revised tariff comes in as a big disappointment, more so because we were considering it to be the only medium-term trigger for the stock. This apart, GAIL faces challenges on the other business fronts too:
 - (a) LPG – expanding global glut
 - (b) Petrochemicals – upcoming global expansions
 - (c) US long-term contracts – declining spot LNG prices
- The stock trades at 10.4x FY20E EPS and 6.2x FY20E EV/EBITDA. We value GAIL at 9x FY21E EPS adjusted for other income and then add the value of investments. With a target price of INR351 (unchanged), we reiterate our **Neutral** rating on the stock.

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Impact of tariff change on HVJ & HVJ upgradation

	Integrated HVJ tariff
Old Tariff	39.7
Proposed Tariff	97
Approved Tariff	41.1
Volumes (in FY19)	66.4
EBITDA change (INR m)	855
PAT (33% tax rate)	573
% EPS change for FY20	1%

Exhibit 1: HVJ pipeline tariff revision ~75% lower than proposed; HVJ up-gradation tariff ~28.5% lower

c) Integrated HVJ (considering economic life upto 26.03.2035)
(Rs. / MMBTU on GCV basis)

S.No	Particulars	Impact	Tariff
	Tariff Submitted by GAIL		97.04
1	Inflation Rate (Para 6.4.2.5)	-0.22	96.82
2	Unaccounted Gas Loss (Para 6.5)	-8.40	88.42
3	Working Days (Para 6.9)	-6.05	82.37
4	NFA, IDC and Actual Capex (Para 6.3)	-1.83	80.54
5	Actual Opex, Future Opex and SUG Tariff (Para 6.4)	-13.34	67.20
6	Future Capex (Para 6.3)	-6.27	60.93
7	Volume Divisor (Para 6.6) and Calorific Value (Para 6.7)	-19.82	41.11
	Levelised Final Tariff determined by PNGRB		41.11

Source: PNGRB, MOFSL

Exhibit 2: JHDBPL tariff revision ~58% lower than proposed

(Rs./MMBTU on GCV basis)

S. No.	Particulars	Impact	Tariff
	Submitted Tariff		150.46
1	Inflation (4.5% in place of 5.02%)	(1.99)	148.47
2	Unaccounted Gas (Nil in place of 0.3%)	(2.96)	145.51
3	Working Days (355 in place of 345)	(4.14)	141.37
4	Capex & Volume (Phase I Only)	(80.71)	60.66
5	Opex	(0.75)	59.91
6	Date of Commissioning	3.90	63.81
7	Increase in economic Life (from 25 to 30 Year)	(0.35)	63.46
	Tariff after adjustments		63.46

Source: PNGRB, MOFSL

Exhibit 3: Mumbai regional network revised blended tariff stands at INR13.18/mmbtu v/s current tariff of INR2.57/mmbtu

(Rs. / MMBTU on GCV basis)

Pipeline	Proposed Tariff by GAIL	Provisional Tariff determined by PNGRB
Uran-Thal Usar Levelized Provisional Transportation Tariff	10.74	3.49
Trombay RCF Levelized Provisional Transportation Tariff	7.66	1.04

Source: PNGRB, MOFSL

Exhibit 4: HVJ pipeline gets additional 10 years of economic life expansion

Details of economic life considered for determination of final tariff is as under:

Pipeline/System	Considered by GAIL	Considered by PNGRB
HVJ	14.08.2022	14.08.2032
HVJ Upgradation	26.03.2035	26.03.2035
Integrated HVJ	26.03.2035	26.03.2035

Source: PNGRB, MOFSL

Exhibit 5: Key assumptions

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Brent crude (USD/bbl)	107.8	86.0	47.5	49.0	55.6	70.1	70.0	70.0
Exchange Rate (INR/USD)	60.6	61.1	65.5	67.1	64.6	69.9	71.8	73.6
Subsidy (INRb)	19.0	10.0	-	-	-	-	-	-
Avg. Gas Price (USD/mmbtu)	7.9	8.4	7.6	5.8	6.4	6.0	6.0	6.5
Natural Gas Transmission								
Total (mmscmd)	97	93	93	100	105	107	109	117
Adj. Average Tariff (INR/mscm)	1,169	997	1,181	1,257	1,295	1,347	1,492	1,453
LPG Transmission								
Volume ('000 MT)	3,030	3,094	2,819	3,363	3,721	3,975	4,174	4,299
Average Tariff (INR/MT)	1,329	1,424	1,724	1,530	1,532	1,570	1,570	1,570
Petrochemicals								
Capacity ('000 MT)	450	450	800	800	800	800	800	800
Utilization (%)	100%	98%	42%	72%	84%	92%	90%	100%
Sales ('000 MT)	445	441	334	578	673	735	720	800
Realization (USD/MT)	1,703	1,801	1,420	1,468	1,362	1,313	1,548	1,599
LPG & liq. HC								
Sales ('000 MT)	1,308	1,279	1,087	1,095	1,275	1,325	1,250	1,250
LPG realization (USD/MT)	936	784	468	435	526	549	548	548

Source: Company, MOFSL

Exhibit 6: SOTP-based target price stands at INR351/share

Business	INR/sh	Remarks
PE Multiple (x)	9x	
FY21 adj. EPS	29.9	
Core Business	269	
Listed Investments	70	20% discount to CMP/target price
Unlisted investments	11	30% discount to book value
Target price	351	

Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
Net Sales	5,72,451	5,67,420	5,16,143	4,80,743	5,36,612	7,51,268	7,54,640	8,06,479
Change (%)	20.9	-0.9	-9.0	-6.9	11.6	40.0	0.4	6.9
EBITDA	67,012	46,962	38,960	63,152	76,339	95,287	1,09,169	1,10,675
% of Net Sales	11.7	8.3	7.5	13.1	14.2	12.7	14.5	13.7
Depreciation	11,762	9,743	13,131	13,968	14,151	15,502	15,474	15,488
Interest	3,662	3,613	6,400	4,794	2,751	1,385	1,508	1,508
Other Income	8,985	8,609	11,576	12,705	9,870	15,712	11,210	12,891
EO Items (net)	3,450	629		-2,987	277	-3,263		
PBT	64,023	42,844	31,005	54,108	69,584	90,848	1,03,397	1,06,570
Tax	20,271	12,452	8,739	19,079	23,400	30,592	35,109	36,186
Rate (%)	31.7	29.1	28.2	35.3	33.6	33.7	34.0	34.0
Reported PAT	43,753	30,392	22,266	35,029	46,183	60,257	68,288	70,384
Adjusted PAT	41,310	29,947	22,266	38,167	45,699	63,264	68,288	70,384
Change (%)	8.8	-30.5	-26.7	57.3	31.8	30.5	13.3	3.1

Balance Sheet								(INR m)
Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
Share Capital	12,685	12,685	12,685	16,913	22,551	22,551	22,551	22,551
Reserves	2,58,039	2,78,510	3,38,261	3,64,581	3,80,731	4,18,379	4,61,216	5,05,368
Net Worth	2,70,723	2,91,195	3,50,946	3,81,494	4,03,281	4,40,929	4,83,767	5,27,918
Loans	95,261	80,483	68,457	38,186	17,517	16,157	45,000	45,000
Deferred Tax	25,664	33,087	40,714	46,559	46,309	59,477	59,477	59,477
Capital Employed	3,91,648	4,04,765	4,60,116	4,66,239	4,67,108	5,16,564	5,88,244	6,32,395
Gross Fixed Assets	3,40,563	4,13,893	4,33,777	4,52,646	4,69,633	5,08,099	5,16,387	5,45,206
Less: Depreciation	1,25,797	2,15,047	1,49,107	1,67,584	1,81,736	1,97,238	2,12,712	2,28,200
Net Fixed Assets	2,14,766	1,98,845	2,84,670	2,85,062	2,87,898	3,10,861	3,03,675	3,17,006
Capital WIP	97,279	1,22,352	34,202	38,034	55,140	92,025	1,12,077	1,12,077
Investments	41,030	43,224	85,847	95,096	99,531	95,282	95,282	95,282
Current Assets								
Inventory	22,548	20,811	16,094	16,984	19,195	23,219	26,878	28,724
Debtors	28,120	30,945	38,095	38,282	40,515	50,743	59,958	64,076
Cash & Bank Balance	26,510	11,416	17,939	13,419	25,294	12,147	73,304	1,06,965
Loans/Adv. & Other Assets	67,861	1,01,339	81,127	75,823	99,558	59,510	59,510	59,510
Current Liab. & Prov.								
Liabilities	87,935	1,07,610	86,355	81,327	1,45,740	1,12,969	1,28,185	1,36,991
Provisions	18,530	16,558	11,503	15,133	14,283	14,253	14,253	14,253
Net Current Assets	38,573	40,344	55,397	48,047	24,539	18,397	77,210	1,08,030
Misc. Expenses								
Application of Funds	3,91,648	4,04,765	4,60,116	4,66,239	4,67,108	5,16,564	5,88,244	6,32,395

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
Basic (INR)								
EPS	18.3	13.3	9.9	16.9	20.3	28.1	30.3	31.2
Cash EPS	24.6	17.8	15.7	21.7	26.8	33.6	37.1	38.1
Book Value	120.1	129.1	155.6	169.2	182.1	198.4	217.4	236.9
DPS	5.9	3.4	3.1	6.5	6.3	8.7	9.4	9.7
Payout (incl. dvd tax)	35.3	30.1	37.7	50.1	36.9	39.1	37.3	37.3
Valuation (x)								
P/E	17.3	23.8	32.0	18.7	15.6	11.3	10.4	10.1
Adj. P/E (for investments)	12.8	17.7	23.8	13.9	11.6	8.4	7.8	7.5
Cash P/E	12.8	17.8	20.2	14.6	11.8	9.4	8.5	8.3
EV / EBITDA	6.6	9.4	9.7	8.0	8.8	6.9	6.2	6.0
EV / Sales	0.9	0.9	1.0	1.3	1.4	1.0	1.0	0.9
Price / Book Value	2.6	2.4	2.0	1.9	1.7	1.6	1.5	1.3
Dividend Yield (%)	1.9	1.1	1.0	2.1	2.0	2.8	3.0	3.1
Profitability Ratios (%)								
RoE	17.1	10.8	6.9	9.6	11.8	14.3	14.8	13.9
RoCE	11.9	8.2	6.2	8.7	10.2	12.9	12.5	11.7
RoIC	17.8	11.6	6.7	9.9	13.6	17.5	19.8	20.1
Turnover Ratios								
Debtors (No. of Days)	18	20	27	29	28	25	29	29
Fixed Asset Turnover (x)	1.5	1.4	1.1	1.0	1.1	1.5	1.3	1.3
Leverage Ratio								
Net Debt / Equity (x)	0.25	0.24	0.14	0.06	-0.02	0.01	-0.1	-0.1

Cash Flow Statement

(INR m)

Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
OP/(Loss) before Tax	64,023	42,844	31,005	54,108	69,584	90,848	1,03,397	1,06,570
Depreciation	11,762	9,743	13,131	13,968	14,151	15,502	15,474	15,488
Misc	0	0	0	0	0	0	0	0
Tax paid	-20,271	-12,452	-8,739	-19,079	-23,400	-30,592	-35,109	-36,186
Change in deferred tax liability	2,663	7,423	7,627	5,845	-250	13,168	0	0
(Inc)/Dec in Wkg. Capital	-10,762	-16,864	-8,531	2,830	35,383	-7,004	2,344	2,841
CF from Op. Activity	47,416	30,693	34,493	57,672	95,468	81,922	86,106	88,713
(Inc)/Dec in FA & CWIP	-36,954	-18,895	-10,805	-18,192	-34,094	-75,350	-28,341	-28,819
Free Cash Flow	10,462	11,798	23,688	39,480	61,375	6,573	57,765	59,893
(Pur)/Sale of Investments	-3,840	-2,194	-42,624	-9,249	-4,434	4,249	0	0
CF from Inv. Activity	-40,794	-21,089	-53,429	-27,441	-38,528	-71,101	-28,341	-28,819
Issue of Shares	0	0	0	0	0	0	0	0
Others	130	-771	45,883	13,055	-7,364	970	0	0
Inc / (Dec) in Debt	11,616	-14,778	-12,026	-30,270	-20,669	-1,360	28,843	0
Dividends Paid	-15,437	-9,148	-8,399	-17,535	-17,032	-23,578	-25,451	-26,232
CF from Fin. Activity	-3,692	-24,698	25,458	-34,751	-45,065	-23,968	3,392	-26,232
Inc / (Dec) in Cash	2,930	-15,093	6,522	-4,520	11,875	-13,147	61,157	33,661
Add: Opening Balance	23,579	26,510	11,416	17,939	13,419	25,294	12,147	73,304
Closing Balance	26,510	11,416	17,939	13,419	25,294	12,147	73,304	1,06,965

E: MOSL Estimates

NOTES

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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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