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**Investors' delight: GAIL (India) Ltd. – "Accumulate"**

**Sep. 18, 2019**

### GAIL (India) Ltd. price chart



Source: Moneycontrol website

### GAIL (India) Ltd. (GAIL)

**CMP: Rs. 134.85, Face value: Rs. 10, Market Cap: Rs. 60,841 crores, Target price: Rs. 156, Upside: 16%**

GAIL (India) Ltd, incorporated in August 1984, is a Maharatna company, (Govt. of India undertaking) under the administrative control of Ministry of Petroleum & Natural Gas (MoP&NG). GAIL, after having started as a natural gas transmission company during the late eighties, has grown organically by building large network of Natural Gas Pipelines, LPG Pipelines; gas processing plants for production of LPG and other Liquid Hydrocarbons, City Gas Distribution, Petrochemicals etc.

The Company is present in the following business verticals

#### Natural Gas

- 1) Over 12,200 km of pipeline network and adding 9,000 km further more
- 2) Over 70 percent share in Natural Gas Transmission market in India,
- 3) Contributes 60% of Natural Gas sold in India
- 4) Supplies gas for about 3/4 of India's fertilizer produced

#### Gas Sourcing and Upstream

- 1) Among Top 10 Global LNG Portfolio marketers
- 2) LNG portfolio of around 14 MMTPA from USA, Qatar, Australia
- 3) Regas capacity in PLL Regas Terminal at Dahej, India
- 4) LNG Terminal at Dabhol, India
- 5) LNG Sourcing from Sabine Pass, USA



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- 6) LNG Tolling Agreement with Dominion Cover project USA and corresponding gas supply agreement with WGL Midstream Inc. USA
- 7) GSPA with Gazprom
- 8) Participating interest in 11 E&P Blocks, including 2 in Myanmar

### City Gas Distribution

- 1) Serving over 2.1 million vehicles & 3.1 million households
- 2) Operates more than 65% CNG Stations through alliances in India
- 3) Sectoral gas sales of around 60% in CGD
- 4) Authorized to operate in 62 Geographical Areas through-out India including metro cities of Delhi, Mumbai, Hyderabad, Bengaluru, Kolkata
- 5) Supplies natural gas to around 60% of country's PNG connections

### Petrochemicals

- 1) Domestic market Share of 15%
- 2) 1st ever producer of Metallocene catalyst based LLDPE Film grade polymer in India - This move of GAIL would not just provide domestic consumers of a reliable and indigenous supply source but shall help potential forex savings of over US\$ 100 million annually for India, as per initial estimates.
- 3) Combined production share of 21.4% of the High Density and Liner Low Density Polyethylene market in the country
- 4) Petrochemical Plant of Pata, Uttar Pradesh and BCPL plant at Lepetkata, Assam with capacity of 0.81 MMTPA & 0.28 MMTPA respectively
- 5) Exporting petrochemicals to markets of neighboring countries South East Asia China
- 6) Setting up 500 KTA Propane Dehydrogenation Polypropylene Plant (PHDPP) at Usar and 60 KTA PP unit at Pata

**Liquid Hydrocarbons** (5 Gas processing units producing LPG, Propane, Pentane, Naptha etc. LPG Transport Capacity - 3.8 MMTPA (2,038 km)

### Overseas Presence

- 1) Set-up wholly-owned subsidiaries - GAIL Global (USA) Inc. and GAIL Global (Singapore) Pte. Ltd.
- 2) Acquired 20% interest in Carrizo's Eagle Food Shale acreage in USA
- 3) Participation in Myanmar China gas pipeline
- 4) Investment in 2 city Gas Distribution companies in Egypt and 1 City Gas Distribution company in China

The Company's Board has approved revival of existing LPG plant at Usar, Maharashtra by converting it into 500 KTA Polypropylene (PP) complex at an investment of around Rs. 8,800 crore. This is first of its kind project in India which would be using Propane Dehydrogenation technology for production of Propylene integrated with the downstream Polypropylene (PP) unit. Further, GAIL Board has also approved setting up of 60 KTA PP unit at existing Petrochemical complex at Pata. Addition of above PP capacities will augment and complement GAIL's current polymer portfolio which is presently dominated by Polyethylene (PE). In coming few years, the Company shall be making investment of around Rs.45,000 crore in major cross country pipeline projects, such as, Urja Ganga Project, Kochi Kootanad Banglaore Mangalore Pipeline, Indradhanush Gas Grid (North East Grid in joint venture mode) and other pipelines connecting crucial supply and demand centers for completion of the envisaged National Gas Grid (NGG). As part of this endeavor, the company has recently been authorized by PNGRB to lay Srikakulam Angul natural gas Pipeline of length 690 KM including spur lines through recently concluded bidding process. This pipeline will extend the reach of natural gas in the Eastern coast and will act as an important connecting limb with other pipelines of National Gas Grid (NGG).

At present the Company is expanding the Natural Gas pipeline network by executing more than 5,700 km of major pipeline projects, out of which around 1,050 km of pipeline projects has been completed during the FY



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2018-19. The completed pipeline project consists of 475 Km section from Varanasi-Dobhi-Patna/Barauni of prestigious Jagdishpur Haldia & Bokaro Dhamra Pipeline project popularly known as 'Pradhan Mantri Urja Ganga', 315 km of Auraiya-Phulpur pipeline and other last mile consumer connectivities. Supply of Natural Gas also commenced in Patna City by commissioning of 2 CNG station and PNG. Further, supply of gas to CGD Cuttack & Bhubaneswar were started from new LCNG (Liquefied CNG) satellite terminal (First of its kind in India) commissioned in Bhubaneswar City. Supply of gas to these CGDs were earlier started last year through cascade mode.

During FY19, the company registered substantial growth in its business verticals. Natural Gas which is the core area of the company had sales increasing from 85.01 MMSCMD last year to 96.93 MMSCMD including international LNG sales. Growth in natural gas transmission has been over 2% with average transmission of 107.43 MMSCMD. Petrochemical sales increased to 735 KT from 674 KT in 2017-18. Consequently, gross revenue of the company from Petrochemicals in FY 18-19 increased by 15%. In the LPG Transmission segment, throughput of Jamnagar-Loni and the Vizag-Secunderabad pipeline networks improved to an overall of 3.97 MMTPA from 3.7 MMTPA as compared to previous year. Total liquid hydrocarbon production was about 1.32 Million Tonnes, of which, almost 90% constituted LPG and Propane. In the Exploration and Production segment, Revenue of Rs. 639 Crores has been generated from sale of hydrocarbons from 4 producing blocks during the year 2018-19. The total volume sold to City Gas Distribution sector continued to show positive growth. GAIL is currently supplying domestic gas to the tune of 13.19 MMSCMD to the City Gas Distribution (CGD) sector.

In Q1FY20, GAIL (India) Limited witnessed a growth of 15% in PAT on qoq basis mainly due to better financial performance by Gas Marketing, Gas Transmission Segments and Liquid Hydrocarbon segment. The Company's PAT for the quarter ending 30th June 2019 stood at Rs. 1,288 crore as compared to Rs. 1,122 crore in Q4 FY 2018-19. On year on year basis, GAIL's PAT of Rs 1,288 crore in Q1 FY 2019-20 registered a growth of 2% against Profit of Rs 1,259 crore in corresponding quarter of FY 2018-19. Gross Sales of Rs. 18,276 crore in Q1 FY 2019-20 has increased by 6% from Rs. 17,262 crore in Q1 FY 2018-19. Gross Margin (EBITDA) has seen growth of 2% from Rs. 2,363 crore in Q1 FY19 to Rs. 2,410 crore in Q1 FY 20. PBT of Rs. 1,981 crore in Q1 FY20 is up by 2% from Rs. 1,940 crore in Q1 FY-19. However, in Q1FY20 Petrochemicals segment remained under tremendous pressure due to a planned shutdown.

Dr. Ashutosh Karnatak, Chairman & Managing Director, GAIL said the increase in net profit in Q1 FY20 was supported by better financial performance in Natural Gas Marketing and Transmission segments which outshone a muted performance in Petrochemicals. On consolidated basis, Gross Sales of Rs. 18,445 crore in Q1 FY20 has increased by 5% from Rs. 17,536 crore in Q1 FY19. PAT of Rs. 1,504 crore in Q1FY20 is up by 4% from Rs. 1,443 crore in Q1 FY 2018-19.

The Company will be a major beneficiary of increase in usage of natural gas in the country and stringent pollution control norms. The stock has corrected by more than 30 percent during last one year. The dividend yield at CMP is ~5%.

At CMP of Rs. 134.85, the stock trades at a P/E of 10x on FY19 EPS of Rs. 14 (adjusted for bonus issue). We recommend a "Accumulate" with a target price of Rs. 156 (10x at estimated FY21 EPS of Rs. 15.6) for investors with a horizon of 9-12 months.



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**Accumulate** – Absolute return between 15% and above

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