RATING: BUY

GAIL India: Sustained outperformance

The company targets to boost domestic gas consumption by FY25

THE OUTLOOK FOR GAIL India (GAIL) continues to strengthen, setting the stage for a sustained period of outperformance over the next 2-3 years. Several factors contribute to this. Growing domestic gas supplies, LNG liquefaction capacity and expectations of moderate pricing of the same, normalisation of LPG prices and some improvement in petrochem segment imply earnings from each key segment should steadily improve over the next 2-3 years. However, there are upside risks to our estimates, with high gas supply and favourable price differentials between US Henry Hub prices and spot LNG could provide a tailwind to the company's profitability.

Recent months have witnessed a noteworthy improvement in domestic gas supplies, notably reaching 99 million metric standard cubic meters per day (mmscmd). A significant driver behind this has been RIL, contributing a substantial 9 mmscmd increase in gas output over the past 6 quarters. RIL's guidance indicates an additional 8-10 mmscmd increase by the end of FY24.

Anticipating further enhancements in domestic gas supply dynamics, especially with the upcoming commencement of ONGC's KG basin asset and the potential for more affordable LNG supplies in the coming years, we project a substantial 20 mmscmd improvement in domestic gas consumption by FY25E. This development is poised to have a material impact on GAIL's transmission segment earnings and trading segment volumes.

Recent data suggests that the upward trajectory of LPG (propane) prices observed over the past 2 months is likely to persist in the medium term. This improvement has a material implication on GAIL—every $50/t rise in LPG prices improves Ebitda by ₹4.1 billion, while every $100/t increase in HDPE prices improves petchem Ebitda by ₹5.5 billion or so. For the LPG segment, gas costs are expected to remain relatively stable throughout FY24-25E and increase modestly by $0.5 per million British thermal units (MMBtu) thereafter.

ICICI SECURITIES

FINANCIALS (₹ mn)

Year to March	FY22A	FY23A	FY24E	FY25E
Net Revenue	927,698	1,456,683	1,057,235	1,121,542
Ebitda	151,516	76,680	111,535	130,372
Ebitda %	16.3	5.3	10.5	11.6
Net profit	122,561	57,507	93,338	109,186
EPS (₹)	18.6	8.7	14.2	16.6
EPS % chg y-o-y	102.3	(53.1)	62.3	17.0
P/E (x)	6.9	14.6	9.0	7.7
EV/Ebitda (x)	6.0	13.2	8.7	7.1
RoCE (Pre-tax) (%)	19.1	6.3	10.0	11.6
RoE (%)	20.9	8.9	13.7	14.6

Source: I-Sec research, Reliance Industries Company data