



GAIL: Good long-term prospects

Buoyant prospects of gas transmission, entry into newer businesses and policy support to drive growth.

The natural gas company missed estimates in the June 2023 quarter due to higher gas costs and continuing weak performance of its petrochemicals segment. The EBITDA and PAT fell by 44% and 53%, respectively, on a y-o-y basis, but grew 690% and 134%, respectively, on a q-o-q basis. The sequential performance was supported by its gas transmission, gas marketing and LPG-LHC segments. The gas transmission segment was driven by the hike in integrated tariffs by PNGRB and improved volumes. A favourable pricing environment and better spreads helped the gas marketing segment. The capping of domestic APM (administered price mechanism) price boosted the LPG-LHC segment. Despite the company's sub-par performance in June quarter, most analysts remain confident about its long-term prospects.

First, the company will benefit from growing gas demand, strengthening infrastructure and preference for clean and affordable energy. Moreover, the government is taking several initiatives to boost natural gas in the energy mix to 15% by 2030. Some such initiatives include the amendment of natural gas pipeline tariffs, a new natural gas pricing regime based on the Kirit Parikh panel recommendations, and the development of natural gas infrastructure and city gas distribution (CGD) across the country.

Second, GAIL will benefit from the growth prospects of gas transmission and gas marketing segments as it enjoys leadership in these segments. The management has guided gas transmission volumes of 138-140 mmscmd at the end of 2024-25 (116 mmscmd in June quarter). Commissioning of new pipelines and increased demand from new fertiliser units, CGDs, gas power plants, Indian Oil's refinery units and GAIL's own pet-

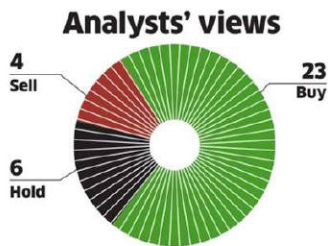
rochemical plant will be the key volume drivers.

The company has also challenged PNGRB's decision on new integrated tariffs on account of higher gas costs (due to procurement of costly spot LNG gas amid de-allocation of APM gas from GAIL to priority sectors). It expects a further increase in tariffs, which will help improve realisation in the gas transmission segment. The gas marketing segment will be driven by easing LNG availability, expectations of an increase

in domestic gas production and a favorable pricing environment.

Third, the company is leveraging capabilities to venture into gas sourcing and marketing, expansion of LNG portfolio and petrochemicals portfolio, and investment in CGDs and speciality chemicals. It has also sharpened its net zero strategy by foraying into wind, solar, ethanol blending, CBG, and green hydrogen. The stock significantly outperformed the market benchmark in the past year by delivering 32.3% returns against BSE Sensex index's 11.6%. It trades at a 12-month forward PE of 8.3 times, which is over a 25% discount to natural gas sector median forward PE.

Selection methodology: We pick the stock that has shown the maximum increase in 'consensus analyst rating' during the past month. The consensus rating is arrived at by averaging all analyst recommendations after attributing weights to each of them (5 for strong buy, 4 for buy, 3 for hold, 2 for sell and 1 for strong sell). An improvement in consensus analyst rating indicates that the analysts are getting bullish on the stock. Only stocks with at least 10 analysts covering them are considered. You can see similar consensus analyst rating changes during the past week in ETW 50 table. —Sameer Bhardwaj



Most analysts are confident about GAIL's growth prospects due to rising domestic gas demand, strengthening infrastructure and preference for clean and affordable energy.

Fundamentals

	ACTUAL		CONSENSUS ESTIMATE	
	2021-22	2022-23	2023-24	2024-25
Revenue (₹ cr)	92,532.05	1,45,668.30	1,19,572.42	1,24,205.53
EBITDA (₹ cr)	15,163.66	7,509.33	11,075.89	13,178.77
Net profit/loss (₹ cr)	12,412.70	5,545.71	9,007.74	10,343.15
EPS (₹)	18.64	8.43	13.55	15.14

Valuations

	PBV	PE	DIVIDEND YIELD (%)
GAIL (India)	1.19	18.61	4.25
Oil & Natural Gas Corp.	0.87	6.34	6.30
Indian Oil Corp.	0.95	5.40	3.12
Bharat Petroleum Corp.	1.47	4.16	1.08
Adani Total Gas	24.20	127.36	0.04

Brokerage calls

RECO DATE	RESEARCH HOUSE	ADVICE	TARGET PRICE (₹)
2 Aug 2023	HDFC Research	Buy	137
1 Aug 2023	ICICI Securities	Buy	149
1 Aug 2023	Emkay	Hold	115
1 Aug 2023	Antique Stock Broking	Buy	130
1 Aug 2023	Elara Capital	Buy	148

Relative performance



GAIL (India) is compared with ET OIL & GAS. Stock price and index values normalised to a base of 100. Source: ETIG and Bloomberg.