



THE COMPASS

GAIL's strong Q3 performance may be priced in

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GAIL (India) reported Ebitda of ₹3,820 crore in the October-December quarter (Q3FY24), driven by stronger-than-expected performances in the gas transmission, LPG, and petchem segments.

This was a huge improvement on Ebitda of ₹260 crore year-on-year (Y-o-Y). The PAT stood at ₹2,840 crore, which was also a beat and around 12x better than ₹250 crore Y-o-Y. For the first nine months (9M) of FY24, GAIL's revenue stood at ₹98,300 crore (down 12 per cent Y-o-Y). Ebitda was at ₹9,750 crore (up 52 per cent Y-o-Y), and PAT stood at ₹6,660 crore (up 42 per cent Y-o-Y).

The management claimed improved realisation was key and higher petrochemical sales, improved marketing margins, and reduced petchem costs

contributed to the good performance. GAIL anticipates robust gas demand, projecting transmission volumes will be 124 mmscmd (million metric standard cubic metres per day) by the end of FY24.

Forecasts indicate annual growth of 10-12 per cent in volumes for FY25 and FY26, with estimates of 133 mmscmd (FY25) and 141 mmscmd (FY26), respectively. The optimal costs for the petrochemical segment is \$8-9 per mmBtu (metric million British thermal unit), and the company is currently procuring plant utilisation level is at 101 per cent.

In segment analysis, gas transmission reported Ebit (earnings before interest and tax) of ₹1,220 crore and LPG transmission Ebit was at ₹79.4 crore (down 13 per cent Y-o-Y). Trading busi-

ness posted an Ebit of ₹1,880 crore (versus loss of ₹86 crore in Q3FY23).

The petchem segment posted an Ebit of ₹62 crore versus loss of ₹349 crore in Q3FY23. The H1FY24 saw Ebit losses of ₹460 crore in the petchem segment but management believes that FY24 will be at break-even as Ebit is expected to surge in Q4FY24.

The LPG and hydrocarbon segment reported an Ebit of ₹258 crore versus loss of ₹29 crore in Q3FY23. There's likely to be a substantial improvement in the petchem segment's profitability over the period September 2024 to FY26 as new capacity of 560,000 tonnes per annum will be operational and low global inventories will drive demand. Around 3,900 km of gas transmission pipelines will also become operational.

Projecting forward, transmission

will continue to be steadily profitable as volumes rise, while the petchem cycle has seen a turnaround. The ROCE (return on capital employed) has risen by around 300 bps Y-o-Y to approximately 11 per cent in the 9MFY24 and the RoE (return on equity) is up by around 500 basis points. Net debt is expected to decline and the debt:equity ratio would be close to 0.03 as free cash generation rises.

Analysts have upgraded the earnings estimates and target valuations accordingly as the results and management commentary were absorbed.

Target valuations range from around ₹145-200 which is a very wide range. However, the stock also surged about 10 per cent to ₹181.4 after Q3 results last Monday, and the upside may be priced in.

