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THE COMPASS

GAIL stock yet to fire up, despite strong Q3, outlook

Most analysts are positive about Q3 results and guidance, with target prices ranging between ₹200 and ₹250

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The gas transmission and marketing major GAIL (India) has delivered strong third-quarter (Q3) results, mainly on the basis of better profitability in the gas trading segment. The liquefied petroleum gas (LPG) and liquid hydrocarbon segments also delivered improved performances.

Late in Q3, the petrochemical (petchem) margins improved for the petchem plant and capacity expansion is on schedule. The management thinks these margins are sustainable in the medium term.

The management guidance is that it expects gas trading volumes to increase 5-6 million metric standard cubic metres per day in 2022-23 (FY23). The commissioning and capacity expansion at its fertiliser plants are also expected in the first half of FY23.

Gas demand has strengthened in India, which means more of the gas cargoes GAIL imports are being sold domestically. As the fertiliser division gets going, more cargoes will be absorbed domestically. GAIL has invested ₹12,800 crore in the Urja Ganga pipeline and expects utilisation to reach 60–75 per cent by 2023.

In Q3 of 2021-22 (FY22), revenue hit ₹25,769 crore, up 67 per cent year-on-year (YoY) over ₹15,454 crore, and up 20 per cent sequentially over ₹21,511 crore in the second quarter (Q2) of FY22.

Earnings before interest, tax, depreciation, and amortisation hit ₹4,280 crore, which was up 120 per cent YoY, and up 22 per cent quarter-on-quarter (QoQ).

Profit after tax was at ₹3,280 crore (up 121 per cent YoY and up 15 per cent QoQ).

The gas transmission volumes were flat, but are expected to increase 5-6 per cent next financial year as the fertiliser plants go into operation.

In Q3, GAIL imported 22 gas cargoes and sold only six outside India – it expects to sell all of next year's cargoes domestically. The trading margins improved to \$0.76 per metric million British thermal unit (mmBtu) from Q2 margin of \$0.47 per mmBtu and the first-quarter margin of \$0.17 per mmBtu.

Segment profitability in LPG and liquid hydrocarbons stood at ₹850 crore, higher by 25 per cent QoQ, and 202 per cent YoY, on higher sales volume and better LPG realisations. Profit trebled to ₹9 crore from Q2's ₹3 crore in the city gas distribution segment. The management expects to sustain the LPG and hydrocarbon margins, even though gas prices (input costs) have risen.

The gas sector has seen geopolitical turmoil due to the Ukraine tensions. There is usually a seasonal upswing in gas prices every winter due to heating demands in Europe and North America. This upward price pressure has been exaggerated this year due to fears of supply disruptions. But assuming the Russia-Ukraine situation normalises, India will see steadily rising gas demand through the medium term to long term and GAIL is strongly placed across most of the related segments.