

August 13, 2018

## GAIL Ltd.

### Strong volume and improvement in margins drive earnings in Q1FY19

#### The company is well poised for strong growth going ahead

The company has seen sharp earnings revival in petrochemicals and gas transmission businesses in Q1FY19. Going ahead benign domestic gas prices and higher volumes will support LPG earnings and thereby drive growth. Also, strong earnings from petrochemicals segment to sustain going ahead.

#### High crude prices boosted petrochemicals segment

The company reported strong growth in petrochemical segment owing to higher crude prices in Q1FY19. EBIT from petrochemical business grew by 339% y-o-y & 468% q-o-q to INR 2078 million. We expect strong performance from petrochemicals segment to continue on account of higher capacity utilization and benefit of benign spot LNG prices.

#### EBITDA margins improved strongly in Q1FY19

The company reported EBITDA margin of 13% in Q1FY19 despite sharp increase in employee expense & other expense. Strong volumes from petrochemical business lifted margins. We expect margins to remain in the range of 12-13% in FY19E & FY20E.

#### Volume growth outlook remains robust going ahead

We expect LPG production to remain strong going ahead as increase in gas production from ONGC's Daman field would lead to increased availability of rich gas. Also, the company has outlined huge capex plans of INR 7,700 crore in FY19 which will be largely utilized in laying pipelines. Hence, the volume outlook is quite robust going ahead.

#### Valuations

We expect Revenue/EBITDA/PAT to grow at a CAGR of 14%/9%/10% over FY18-20E driven by higher utilization levels in petrochemicals segment coupled with strong transmission volumes. Further, concerns over the expensive long-term US LNG contracts is expected to ease with growth in domestic LNG demand especially from the fertilizer sector coupled with company's focus to sell more US LNG volumes to European and other consumers on long term basis and swap deals. The management expects a potential demand of approx. 3mmtpa from the commissioning of five fertilizer plants by end of CY20.

At the CMP of INR 362 the stock trades at 7.6x FY20E EBITDA of INR 92160 million. We assign a forward multiple of INR 10.4x and arrive at a target price of INR 408 per share.

#### Financial Snapshot

(INR Millions)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	520,525	485,720	544,964	688,919	710,580
<b>Growth%</b>		<b>-7%</b>	<b>12%</b>	<b>26%</b>	<b>3%</b>
EBITDA	45,144	65,942	77,790	89,351	92,160
<b>Growth%</b>		<b>46%</b>	<b>18%</b>	<b>15%</b>	<b>3%</b>
PAT	18,744	33,739	48,003	54,748	58,059
<b>Growth%</b>		<b>80%</b>	<b>42%</b>	<b>14%</b>	<b>6%</b>
EPS (INR)	11.05	19.91	28.38	32.37	34.33
P/E (x)	17.6	14.3	12.8	11.2	10.5
P/B (x)	0.7	1.2	2.0	1.8	1.6
EV/EBITDA(x)	6.5	7.7	10.4	8.3	7.6

Source: NSPL Research

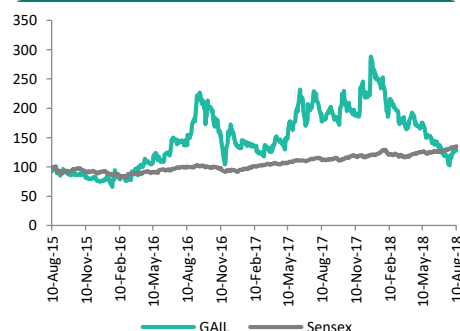
\* Read last page for disclaimer &amp; rating rationale



Stock Details	
Industry	Oil & Gas
Sensex	37869
Nifty	11430
Bloomberg Code	GAIL:IN
Eq. Cap. (INR. Mn.)	22551
Face Value (INR.)	10
52-w H/L	392/266
Market Cap (INR. Mn.)	818199.7

	Valuation Data		
	FY18	FY19E	FY20E
P/E (x)	12.8	11.2	10.5
P/B (x)	2.0	1.8	1.6
EV/EBITDA(x)	10.4	8.3	7.6

#### GAIL Ltd Vs SENSEX



#### Shareholding Pattern (in %)

	Jun'18	Mar'18	Jun'17
Promoters	53.02	53.59	54.44
FII's	17.92	18.03	16.08
DII's	16.53	16.13	17.6
Retail	4.23	4.87	4.56
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

#### ANALYST

Vaibhav Chowdhry, [vaibhav.chowdhry@nalandasecurities.com](mailto:vaibhav.chowdhry@nalandasecurities.com), +91-22-6281-9649

#### ASSOCIATE

Aditya Khetan, [aditya.khetan@nalandasecurities.com](mailto:aditya.khetan@nalandasecurities.com), +91-22-6281-9647

#### NALANDA SECURITIES PRIVATE LIMITED

310-311 Hubtown Solaris, NS Phadke Marg, Opp Teli Gali, Andheri East, Mumbai 69  
+91-22-6281-9600 | [research@nalandasecurities.com](mailto:research@nalandasecurities.com) | [www.nalandasecurities.com](http://www.nalandasecurities.com)



## Q1FY19 Result Analysis

(INR Millions)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
<b>Revenue</b>	<b>172986</b>	<b>114069</b>	<b>154307</b>	<b>51.6%</b>	<b>12.1%</b>
COGS	135180	84074	121495	60.8%	11.3%
Employee Expenses	3795	2054	3527	84.8%	7.6%
Other Expenses	11575	8943	12331	29.4%	-6.1%
<b>Total Expenses</b>	<b>150550</b>	<b>95071</b>	<b>137354</b>	<b>58.4%</b>	<b>9.6%</b>
<b>EBITDA</b>	<b>22436</b>	<b>18998</b>	<b>16953</b>	<b>18.1%</b>	<b>32.3%</b>
Depreciation	3789	3451	3608	9.8%	5.0%
Other Income	1196	1158	2756	3.3%	-56.6%
<b>EBIT</b>	<b>19844</b>	<b>16705</b>	<b>16101</b>	<b>18.8%</b>	<b>23.3%</b>
Finance Cost	441	1014	333	-56.3%	32.4%
<b>PBT</b>	<b>19403</b>	<b>15692</b>	<b>15768</b>	<b>23.6%</b>	<b>23.1%</b>
Taxes	6810	5431	5834	25.4%	16.7%
Exceptional items	0	0	-277	-	-
<b>Net Profit</b>	<b>12593</b>	<b>10261</b>	<b>10211</b>	<b>22.7%</b>	<b>23.4%</b>
<b>EPS in INR</b>	<b>5.58</b>	<b>4.55</b>	<b>4.53</b>	<b>23.2%</b>	<b>22.6%</b>

- The company's revenue recorded growth of 51.6% y-o-y & 12.1% q-o-q to INR 172986 million in Q1FY19.
- EBITDA recorded growth of 18.1% y-o-y & 32.3% q-o-q to INR 22436 million. EBITDA margins stood at 13.0% in Q1FY19 as compared to 16.7% in Q1FY18 and 11% in Q4FY18. Contraction in EBITDA margins was due to increase in raw material cost to INR 135180 million in Q1FY19 as compared to INR 84074 million in Q1FY18.
- Employee expense too recorded growth of 84.8% y-o-y & 7.6% q-o-q to INR 3795 million.
- Other expenses recorded growth of 29.4% y-o-y & declined by 6.1% q-o-q to INR 11575 million.
- Finance cost declined by 56.3% y-o-y & grew by 32.4% q-o-q to INR 441 million.
- PAT recorded growth of 22.7% y-o-y & 23.4% q-o-q to INR 12593 million. PAT margins stood at 7.3% in Q1FY19 as compared to 9.0% in Q1FY18 and 6.6% in Q4FY18.

## Revenue & EBIT performance

Revenue breakup (INR Million)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Natural Gas Transmission	13115	11427	11879	14.8%	10.4%
LPG transmission	1410	1364	1515	3.4%	-6.9%
Natural Gas Marketing	140347	82506	121280	70.1%	15.7%
Petrochemicals	16134	13418	16385	20.2%	-1.5%
LPG & Liquid Hydrocarbon	10725	9881	12069	8.5%	-11.1%
Other segment	1920	1543	2173	24.5%	-11.6%
<b>Total</b>	<b>183651</b>	<b>120139</b>	<b>165300</b>	<b>52.9%</b>	<b>11.1%</b>

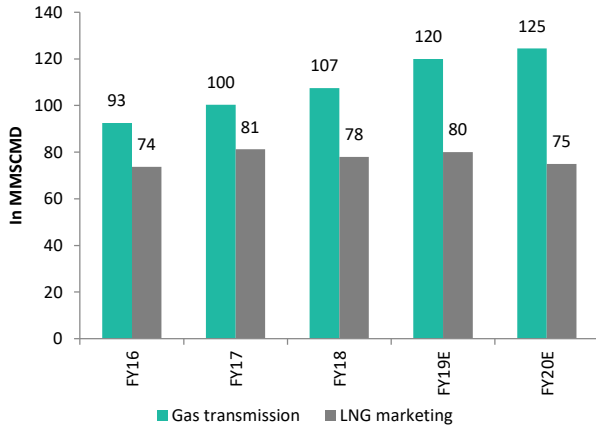
EBIT breakup (INR Million)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Natural Gas Transmission	7028	6797	7135	3.4%	-1.5%
LPG transmission	654	774	676	-15.5%	-3.3%
Natural Gas Marketing	5513	3365	1583	63.9%	248.3%
Petrochemicals	2078	473	366	339.4%	467.7%
LPG & Liquid Hydrocarbon	5301	5314	6570	-0.2%	-19.3%
Other segment	847	723	795	17.2%	6.6%
<b>Total</b>	<b>21421</b>	<b>17125</b>	<b>17445</b>	<b>22.8%</b>	<b>25.1%</b>

Source: Company, NSPL Research

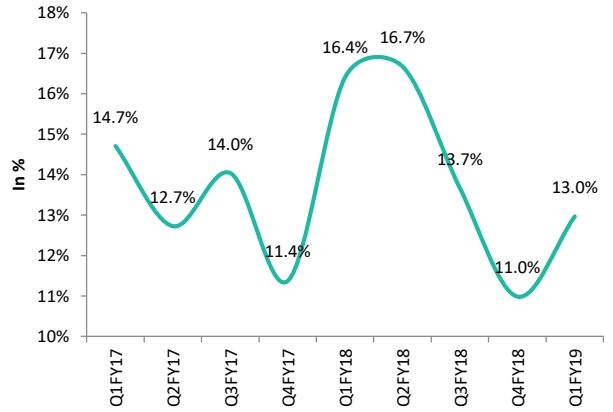
- The petrochemicals segment reported strong EBIT growth of 339.4% y-o-y & 467.7% q-o-q to INR 2078 million in Q1FY19.
- Also, the natural gas marketing business reported strong EBIT growth of 63.9% y-o-y & 248.3% q-o-q to INR 5513 million in Q1FY19.
- LPG transmission business de-grew at the bottom-line by 15.5% y-o-y & 3.3% q-o-q to INR 654 million.
- Natural gas transmission business at the topline grew in double digits, however, at the EBIT level growth was not that strong.



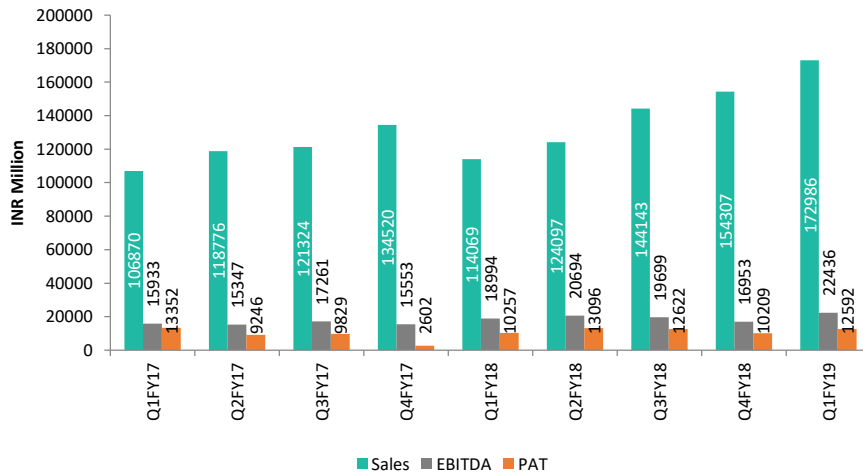
Volume trajectory to improve going ahead



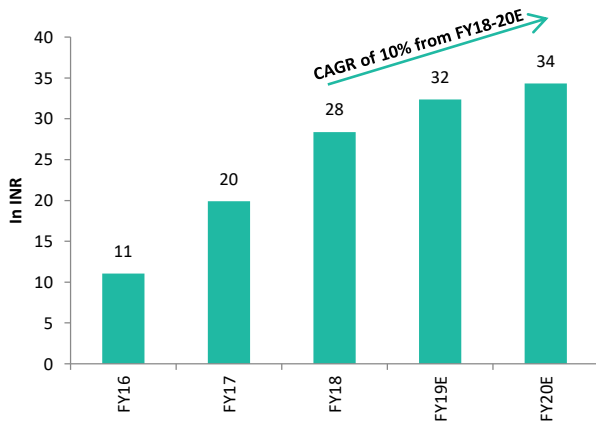
EBITDA margins improved sequentially



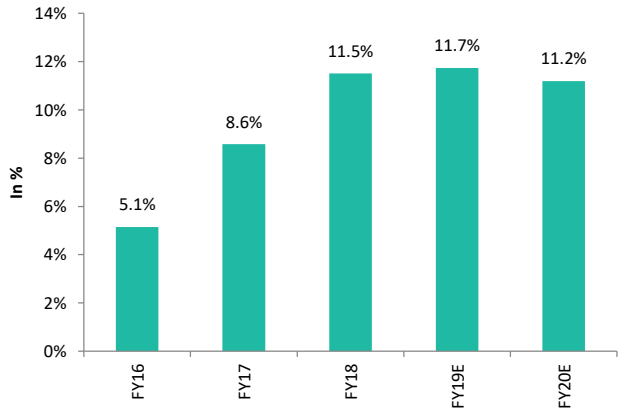
Strong revenue performance seen in Q1FY19



Double digit EPS growth expected going ahead



Return on equity to be stable going ahead



Source: NSPL Research



Profit & Loss (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
Net sales	520,525	485,720	544,964	688,919	710,580
COGS	421,700	364,843	408,280	538,357	555,284
Employee Expenses	9,877	12,867	13,456	15,114	15,589
Other Expenses	43,804	42,069	45,437	46,098	47,547
<b>EBITDA</b>	<b>45,144</b>	<b>65,942</b>	<b>77,790</b>	<b>89,351</b>	<b>92,160</b>
D&A	14,956	15,430	15,269	15,089	15,563
Other income	7,519	10,065	8,127	10,410	12,690
<b>EBIT</b>	<b>37,707</b>	<b>60,576</b>	<b>70,649</b>	<b>84,672</b>	<b>89,287</b>
Interest Expense	8,218	5,110	2,949	1,756	1,812
<b>PBT</b>	<b>29,489</b>	<b>55,467</b>	<b>67,699</b>	<b>82,916</b>	<b>87,476</b>
Tax	10,913	18,094	21,229	28,168	29,416
<b>PAT</b>	<b>18,744</b>	<b>33,739</b>	<b>48,003</b>	<b>54,748</b>	<b>58,059</b>
<b>EPS in INR</b>	<b>11.05</b>	<b>19.91</b>	<b>28.38</b>	<b>32.37</b>	<b>34.33</b>
Balance Sheet (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
<b>Share Capital</b>	<b>12,685</b>	<b>16,913</b>	<b>22,551</b>	<b>22,551</b>	<b>22,551</b>
Reserves & Surplus	351,349	376,136	394,235	443,508	495,761
Non controlling interest	272	330	389	389	389
<b>Shareholder's Funds</b>	<b>364,307</b>	<b>393,379</b>	<b>417,175</b>	<b>466,448</b>	<b>518,701</b>
Long term borrowings	58,649	31,798	11,186	10,068	9,061
Other financial liabilities	11,086	8,143	7,756	7,476	7,625
Long term provisions	6,252	8,205	5,891	7,420	7,653
Deferred tax liabilities	48,248	43,451	50,391	63,472	65,467
Other non-current liabilities	164	4,744	9,079	11,436	11,795
<b>Total Non-current liabilities</b>	<b>124,398</b>	<b>96,341</b>	<b>84,304</b>	<b>99,871</b>	<b>101,602</b>
Short term borrowings	8,117	7,292	9,777	9,288	8,823
Trade payables	29,092	27,407	39,039	36,201	37,339
Other financial liabilities	47,684	39,405	41,871	43,964	46,163
Other current liabilities	11,211	11,501	12,526	15,777	16,273
Short-term provisions	5,568	7,387	8,651	10,896	11,239
<b>Current liabilities</b>	<b>101,671</b>	<b>92,991</b>	<b>111,863</b>	<b>116,126</b>	<b>119,837</b>
<b>Total Equity and Liabilities</b>	<b>590,376</b>	<b>582,711</b>	<b>613,341</b>	<b>682,445</b>	<b>740,141</b>
<b>Fixed Assets</b>	<b>292,061</b>	<b>293,341</b>	<b>294,168</b>	<b>295,710</b>	<b>297,609</b>
Capital work in progress	34,021	39,079	57,983	35,322	37,088
Intangible assets	7,404	7,578	10,635	11,168	11,726
Intangible assets develop	2,859	2,182	1,401	1,471	1,545
Other financial assets	183	225	431	259	298
Investments	98,444	101,251	100,704	100,704	100,704
Trade Receivables	11,006	11,037	9,969	12,557	12,952
Loans	6,992	7,614	6,618	6,750	6,885
Non current tax assets	2,191	14,150	13,556	17,075	17,612
Other non current assets	39,168	12,639	9,423	11,869	12,242
<b>Total Non-current Assets</b>	<b>494,252</b>	<b>488,870</b>	<b>504,457</b>	<b>492,627</b>	<b>498,364</b>
Inventories	16,183	17,081	19,325	23,391	24,127
Current Investments	-	-	3,815	3,815	3,815
Trade receivables	27,235	27,507	34,296	43,198	44,556
Cash and cash equivalents	1,049	5,197	13,772	70,781	113,647
Other bank balance	17,409	9,013	14,813	14,813	14,813
Loans	5,848	7,573	6,936	7,283	10,924
Other financial assets	469	1,106	859	1,082	1,116
Other current assets	27,932	26,364	15,069	18,980	19,577
<b>Total Current Assets</b>	<b>96,124</b>	<b>93,841</b>	<b>108,884</b>	<b>174,722</b>	<b>227,381</b>
<b>Total Assets</b>	<b>590,376</b>	<b>582,711</b>	<b>613,341</b>	<b>660,893</b>	<b>717,534</b>

Source: NSPL Research



Cash Flow (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
PBT	29,657	51,833	69,232	82,916	87,476
Operating profit before working capital changes	50,631	72,150	87,450	99,761	104,851
Operating profit after working capital changes	46,802	72,878	114,000	95,544	107,734
Less income tax paid	(7,198)	(12,089)	(21,229)	(28,168)	(29,416)
<b>Cash Flow from Operating</b>	<b>39,604</b>	<b>60,789</b>	<b>92,771</b>	<b>67,376</b>	<b>78,318</b>
(Incr)/ Decr in Gross PP&E	(14,512)	(20,417)	(37,277)	5,426	(19,860)
Loans & advances to related parties	(700)	711	1,633	(479)	(3,776)
<b>Cash Flow from Investing</b>	<b>(9,037)</b>	<b>(8,337)</b>	<b>(31,283)</b>	<b>4,947</b>	<b>(23,637)</b>
(Decr)/Incr in Debt	8,489	8,105	(18,127)	(1,607)	(1,471)
Dividend paid	(8,400)	(17,634)	(3,247)	(5,475)	(5,806)
Increase in share capital			(5,638)	-	-
Finance costs	(7,338)	(5,377)	(2,949)	(1,756)	(1,812)
<b>Cash Flow from Financing</b>	<b>(30,276)</b>	<b>(48,303)</b>	<b>(29,961)</b>	<b>(8,839)</b>	<b>(9,089)</b>
<b>Incr/(Decr) in Balance Sheet Cash</b>	<b>290</b>	<b>4,148</b>	<b>31,527</b>	<b>63,484</b>	<b>45,593</b>
Cash at the Start of the Year	758	1,049	5,197	13,772	70,781
<b>Cash at the End of the Year</b>	<b>1,049</b>	<b>5,197</b>	<b>36,724</b>	<b>70,781</b>	<b>113,647</b>

RATIOS	FY16	FY17	FY18	FY19E	FY20E
<b>Profitability</b>					
Return on Assets(%)	3.2%	5.8%	7.8%	7.1%	7.0%
Return on Capital (%)	7.0%	11.7%	14.3%	15.3%	14.3%
Return on Equity (%)	5.1%	8.6%	11.5%	11.7%	11.2%
<b>Margin Trend</b>					
Gross Margin (%)	18.8%	24.5%	25.0%	21.9%	21.9%
EBITDA Margin (%)	8.6%	13.4%	14.2%	13.0%	13.0%
Net profit Margin (%)	3.6%	6.8%	8.8%	7.9%	8.2%
<b>Liquidity</b>					
Current ratio	0.9	1.0	1.0	1.6	2.0
Quick ratio	0.4	0.4	0.6	1.2	1.5
Debtor days	19	20	23	23	23
Inventory days	175	193	170	223	223
Creditor days	314	310	344	345	345
Working capital days	-120	-96	-151	-99	-99
<b>Solvency</b>					
Total Debt / Equity	0.2	0.1	0.1	0.0	0.0
Interest coverage	3.7	9.9	21.2	42.3	42.3
<b>Valuation Ratios</b>					
EV/EBITDA	6.5	7.7	10.4	8.3	7.6
P/E	17.6	14.3	12.8	11.2	10.5
P/B	0.7	1.2	2.0	1.8	1.6

Source: NSPL Research



GAIL Ltd				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
August 13, 2018	362	408	Buy	Buy	5% - 15%
				Hold	0 – 5%
				Reduce	-5% - 0
				Sell	Less than -5%

**Disclaimer:**

This report has been prepared by Nalanda Securities Pvt. Ltd ("NSPL") and published in accordance with the provisions of Regulation 18 of the Securities and Exchange Board of India (Research Analysts) Regulations, 2014, for use by the recipient as information only and is not for circulation or public distribution. NSPL includes subsidiaries, group and associate companies, promoters, directors, employees and affiliates. This report is not to be altered, transmitted, reproduced, copied, redistributed, uploaded, published or made available to others, in any form, in whole or in part, for any purpose without prior written permission from NSPL. The projections and the forecasts described in this report are based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections are forecasts were based will not materialize or will vary significantly from actual results and such variations will likely increase over the period of time. All the projections and forecasts described in this report have been prepared solely by authors of this report independently. None of the forecasts were prepared with a view towards compliance with published guidelines or generally accepted accounting principles.

This report should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this report nor anything contained therein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. It does not constitute a personal recommendation or take into account the particular investment objective, financial situation or needs of individual clients. The research analysts of NSPL have adhered to the code of conduct under Regulation 24 (2) of the Securities and Exchange Board of India (Research Analysts) Regulations, 2014. The recipients of this report must make their own investment decisions, based on their own investment objectives, financial situation or needs and other factors. The recipients should consider and independently evaluate whether it is suitable for its/ his/ her/their particular circumstances and if necessary, seek professional / financial advice as there is substantial risk of loss. NSPL does not take any responsibility thereof. Any such recipient shall be responsible for conducting his/her/its/their own investigation and analysis of the information contained or referred to in this report and of evaluating the merits and risks involved in securities forming the subject matter of this report. The price and value of the investment referred to in this report and income from them may go up as well as down, and investors may realize profit/loss on their investments. Past performance is not a guide for future performance. Actual results may differ materially from those set forth in the projection.

Except for the historical information contained herein, statements in this report, which contain words such as 'will', 'would', etc., and similar expressions or variations of such words may constitute 'forward-looking statements'. These forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements are not predictions and may be subject to change without notice. NSPL undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date thereof. NSPL accepts no liabilities for any loss or damage of any kind arising out of use of this report.

This report has been prepared by NSPL based upon the information available in the public domain and other public sources believed to be reliable. Though utmost care has been taken to ensure its accuracy and completeness, no representation or warranty, express or implied is made by NSPL that such information is accurate or complete and/or is independently verified. The contents of this report represent the assumptions and projections of NSPL and NSPL does not guarantee the accuracy or reliability of any projection, assurances or advice made herein. Nothing in this report constitutes investment, legal, accounting and/or tax advice or a representation that any investment or strategy is suitable or appropriate to recipients' specific circumstances. This report is based / focused on fundamentals of the Company and forward-looking statements as such, may not match with a report on a company's technical analysis report. This report may not be followed by any specific event update/ follow-up.

Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

Disclosure of Interest Statement	
Details of Nalanda Securities Pvt. Limited (NSPL)	<ul style="list-style-type: none"> <li>NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F &amp; O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI</li> <li><b>SEBI Registration Number: INH000004617</b></li> </ul>
Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
Research analyst or NSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or NSPL or its relatives'/associates')
Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document	NO
Research analyst or NSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	NO
Has research analyst or NSPL or its associates received any compensation from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates managed or co-managed public offering of securities for the subject company in the past 12 month	NO
Has research analyst or NSPL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation or other benefits from the subject company or third party in connection with the document.	NO
Has research analyst served as an officer, director or employee of the subject company	NO
Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO