

## Gail (India)

### Performance Highlights

Standalone (₹ cr)	2QFY16	2QFY15	yoy%	1QFY16	qoq%
Net sales	14,165	14,130	0.2	14,271	(0.7)
EBITDA	844	2,022	(58.2)	643	31.2
Margin (%)	6.0	14.3	(835)bp	4.5	145bp
<b>Reported PAT</b>	<b>441</b>	<b>1,303</b>	<b>(66.2)</b>	<b>511</b>	<b>(13.8)</b>

Source: Company, Angel Research

Gail reported a weak set of numbers for 2QFY2016 with the EBITDA coming in 18% below our estimate. While overall volumes were in line with our expectations, petchem volumes surprised positively, increasing by 68% qoq. The revenue for the quarter, at ₹14,165cr, is in line with our estimate of ₹14,271cr. Gas trading realisations declined 4% yoy but increased 6% sequentially. In Petchem, increase in volumes were partially offset by 8% dip in realisations. Gas transmission revenues posted a strong growth of 15% qoq led by a 3% qoq\_increase in volumes and 10% qoq\_jump in realisations.

The EBITDA declined 58% yoy to ₹844cr and is 17% below our estimate of ₹1,022cr. The sharp decline was on account of lower profitability across segments excluding the gas transmission business. EBITDA loss in the Petchem segment continued to worsen led by unavailability of low priced gas. Depreciation and interest expenses jumped 36%/79% yoy led by the commissioning of the new facilities at Pata. Other income increased, led by dividend income of ₹163cr. The Net profit declined 66% yoy to ₹441cr, 18% below our estimate of ₹536cr.

### Outlook and valuation

We expect petchem volumes to drive revenues going forward. However, with crude prices to remain weak, we expect Petchem and gas margins to remain under pressure. Negotiations over the RasGas contract are currently adding to the uncertainty. However, any success in those negotiations and resumption of gas supplies would be a positive for the company. **We retain our Neutral view on the stock.**

### Key financials (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>Revenue</b>	<b>47,523</b>	<b>57,508</b>	<b>56,742</b>	<b>61,069</b>	<b>68,206</b>
% chg	17.5	21.0	(1.3)	7.6	11.7
<b>Adj. net profit</b>	<b>4,029</b>	<b>4,143</b>	<b>3,002</b>	<b>2,633</b>	<b>3,173</b>
% chg	10.2	2.8	(27.5)	(12.3)	20.5
<b>Adj. EPS (₹)</b>	<b>31.8</b>	<b>32.7</b>	<b>23.7</b>	<b>20.8</b>	<b>25.0</b>
OPM (%)	13.5	11.6	8.3	7.1	7.6
P/E (x)	9.8	9.0	12.9	14.9	12.4
P/BV (x)	1.6	1.4	1.3	1.3	1.2
RoE (%)	17.5	17.1	10.8	8.8	10.1
RoCE (%)	18.0	15.6	9.8	8.2	9.8
EV/Sales (x)	1.0	0.8	0.8	0.8	0.7
EV/EBITDA	7.2	7.0	10.2	11.2	9.2

Source: Company, Angel Research; Note: CMP as of November 18, 2015

## NEUTRAL

CMP	₹309
Target Price	-

Investment Period	-
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### Stock Info

Sector	Oil & Gas
Market Cap (₹ cr)	39,253
Net Debt (₹ cr)	5,133
Beta	1.0
52 Week High / Low	502 / 260
Avg. Daily Volume	12,94,280
Face Value (₹)	10
BSE Sensex	25,483
Nifty	7,732
Reuters Code	GAIL.BO
Bloomberg Code	GAIL IN

### Shareholding Pattern (%)

Promoters	56.1
MF / Banks / Indian Fls	23.9
FII / NRIs / OCBs	16.4
Indian Public / Others	3.6

Abs. (%)	3m	1yr	3yr
Sensex	(8.4)	(9.5)	39.2
GAIL	(6.3)	(36.8)	(10.7)

### 3-year price chart



Source: Company, Angel Research

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**Exhibit 1: 2QFY2016 performance (Standalone)**

(₹ cr)	2QFY16	2QFY15	yoy%	1QFY16	qoq%	FY2015	FY2014	yoy%
<b>Net sales</b>	<b>14,165</b>	<b>14,130</b>	<b>0.2</b>	<b>14,271</b>	<b>(0.7)</b>	<b>56,742</b>	<b>57,508</b>	<b>(1.3)</b>
Raw material	11,775	10,803	9.0	10,871	8.3	45,394	45,451	(0.1)
% of net sales	83.1	76.5		76		80.0	79.0	
Employee Cost	258	233	10.8	202	27.5	955	905	5.5
% of net sales	1.8	1.6		1		1.7	1.6	
Other expenditure	1,288	1,072	20.2	2,554	(49.6)	5,706	4,463	27.9
% of net sales	9.1	7.6		18		10.1	7.8	
Total expenditure	13,321	12,107	10.0	13,627	(2.3)	52,055	50,819	2.4
% of net sales	94.0	85.7		95		91.7	88.4	
<b>EBITDA</b>	<b>844</b>	<b>2,022</b>	<b>(58.2)</b>	<b>643</b>	<b>31.2</b>	<b>4,687</b>	<b>6,689</b>	<b>(29.9)</b>
Margin (%)	6.0	14.3		5		8.3	11.6	(337bp)
Interest	164	92	78.5	91	78.9	361	366	(1.3)
Depreciation	323	237	36.3	253	27.6	968	1,171	(17.3)
Other income	302	289	4.5	259	16.4	927	1,250	(25.9)
Exceptional items	0	0		0		0	0	
<b>Profit before tax</b>	<b>660</b>	<b>1,983</b>	<b>(66.7)</b>	<b>558</b>	<b>18.2</b>	<b>4,284</b>	<b>6,402</b>	<b>(84.9)</b>
% of net sales	4.7	14.0		4		7.6	11.1	
Tax	219	680	(67.7)	48	359.6	1,245	2,027	(38.6)
% of PBT	33.2	34.3		9		29.1	31.7	
<b>Adj. PAT</b>	<b>441</b>	<b>1,303</b>	<b>(66.2)</b>	<b>511</b>	<b>(13.8)</b>	<b>3,039</b>	<b>4,375</b>	<b>(30.5)</b>

Source: Company, Angel Research

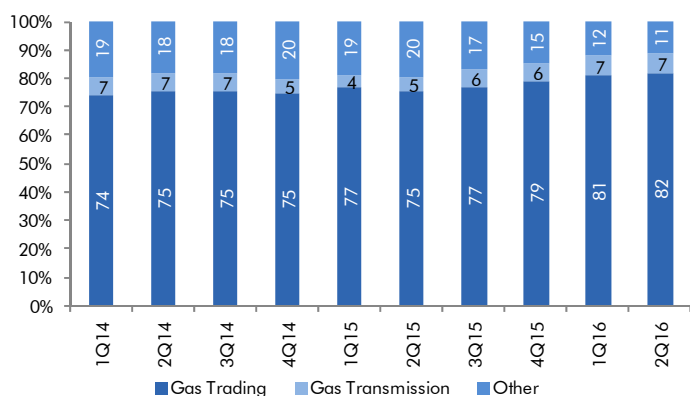
**Exhibit 2: Standalone – 2QFY2016 Actual vs. estimates**

(₹ cr)	Actual	Estimates	Variation (%)
<b>Net sales</b>	<b>14,165</b>	<b>14,271</b>	<b>(0.7)</b>
EBITDA	844	1,022	(17.4)
EBITDA margin (%)	6.0	7.2	(1.2bp)
<b>Net profit</b>	<b>441</b>	<b>536</b>	<b>(17.9)</b>

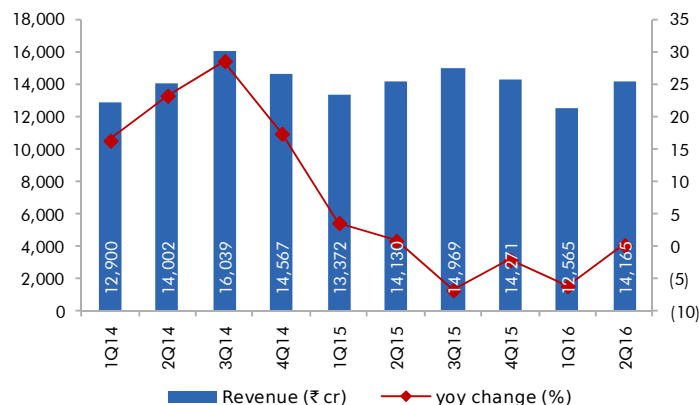
Source: Company, Angel Research

**Result highlights**
**Revenue and volumes in line with estimate; margins hurt**

Gail reported a weak set of numbers for 2QFY2016 with EBITDA coming in 18% below our estimate. While overall volumes were in line with our expectations, petchem volumes surprised positively, increasing by 68% qoq. The revenue, at ₹14,165cr, is in line with our estimate of ₹14,271cr. Gas trading realisations declined 4% yoy but increased 6% sequentially. In Petchem, increase in volumes were partially offset by 8% dip in realisations. Gas transmission revenues posted a strong growth of 15% qoq, led by a 3% qoq increase in volumes and 10% qoq\_jump in realisations.

**Exhibit 3: Volume mix remains stable**


Source: Company, Angel Research

**Exhibit 4: Revenues in line with estimate**


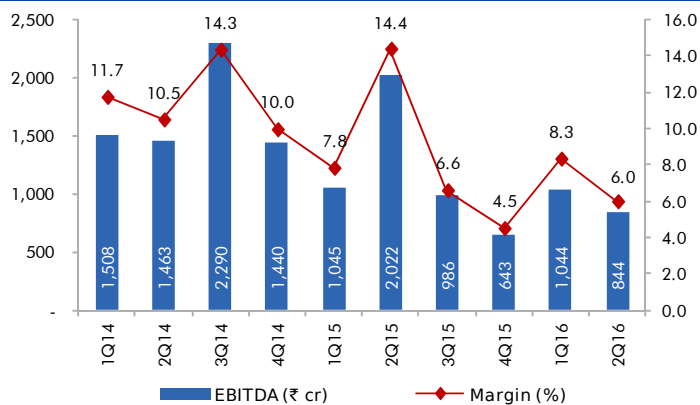
Source: Company, Angel Research

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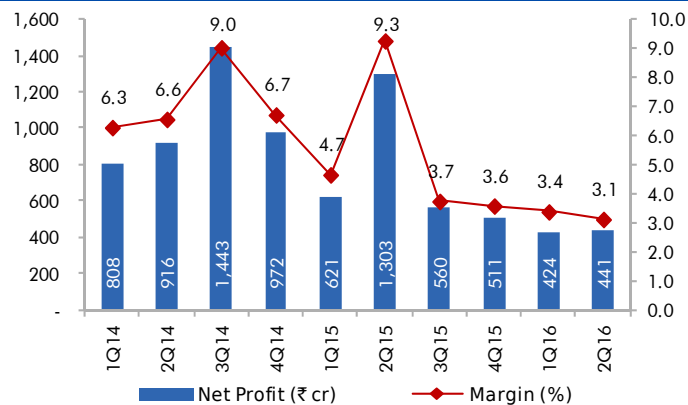
**Exhibit 5: Petchem volumes increased 68% qoq**

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
Gas Transmission (mmscmd)	99	95	96	95	97	91	94	86	87	90
LPG Transmission ('000 MT)	699	729	855	863	832	701	773	788	689	687
Gas trading (mmscmd)	82	79	80	76	77	69	74	69	69	74
Petrochemicals ('000 MT)	121	108	109	107	87	110	112	132	50	84
LPG & Liquid Hydrocarbons ('000 MT)	350	337	332	289	324	322	330	303	278	255

Source: Company, Angel Research

**Exhibit 6: EBITDA margin dips sharply**


Source: Company, Angel Research

**Exhibit 7: Other income boosts net profit**


Source: Company, Angel Research

## **Investment arguments**

### **Petchem capacity expansion to drive revenues**

Gail is expanding its Petchem capacity at Pata from 410TMT to 810TMT by 4QFY2016. This will help the company expand its market share significantly in the Petchem segment going forward. Its subsidiary Brahmaputra Cracker & Polymer (BCPL) is also setting up a 0.28MMTPA HDPE/LLDPE and Polypropylene plant. ONGC Petro Additions Ltd (Gail -15.5% stake) is adding a 1.1MMTPA ethylene and 0.4MMTPA propylene plant. Led by these additions, the company expects to raise its market share to ~30% by FY2018 from ~15% currently. We expect these projects to help the company drive revenues going forward.

### **Well poised to benefit from any increase in gas supplies**

Gail with the largest pipeline network of 11,000km is well poised to benefit from any increase in gas supplies. Demand for gas continues to remain strong and we expect the bottlenecks in the gas supply issues to be cleared in the coming years. Domestic gas production has also fallen resulting in huge under-utilisation of Gail's pipeline network.

## Outlook and valuation

We expect Petchem volumes to drive revenues, going forward. However, with crude prices expected to remain weak, we expect Petchem and Gas margins to remain under pressure. Negotiations over the RasGas contract are currently adding to the uncertainty. However, any success in those negotiations and resumption of gas supplies would be a positive for the company. **We retain our Neutral view on the stock.**

## Company background

GAIL (India) Ltd, a Maharatna company, is engaged in transport through pipeline; manufacture of basic chemicals, fertilizer and nitrogen compounds, plastics and synthetic rubber in primary forms; extraction of crude petroleum; extraction of natural gas and electric power generation, transmission and distribution. The company's segments include Transmission services, Natural Gas Trading, Petrochemicals, LPG and other Liquid Hydrocarbons, and City Gas Distribution. The company markets Gas Processing Unit (GPU) products namely Liquefied Petroleum Gases (LPG), Propane, Pentane, Naphtha and by-products of polymer plant namely MFO, Propylene & Hydrogenated C4 Mix.

**Profit & loss statement (Standalone)**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>Net Sales</b>	<b>47,523</b>	<b>57,508</b>	<b>56,742</b>	<b>61,069</b>	<b>68,206</b>
% chg	17.5	21.0	(1.3)	7.6	11.7
Total Expenditure	41,111	50,819	52,055	56,742	63,042
Raw Materials	36,309	45,451	45,394	48,856	54,565
Power & Fuel Cost	1,243	1,676	1,884	2,027	2,264
Employee Cost	858	905	955	1,028	1,148
Other Expenses	2,701	2,786	3,823	4,832	5,065
<b>EBITDA</b>	<b>6,412</b>	<b>6,689</b>	<b>4,687</b>	<b>4,328</b>	<b>5,164</b>
% chg	15.0	4.3	(29.9)	(7.7)	19.3
(% of Net Sales)	13.5	11.6	8.3	7.1	7.6
Depreciation & Amortisation	981	1,171	968	1,061	1,114
<b>EBIT</b>	<b>5,431</b>	<b>5,519</b>	<b>3,719</b>	<b>3,266</b>	<b>4,050</b>
% chg	13.5	1.6	(32.6)	(12.2)	24.0
(% of Net Sales)	11.4	9.6	6.6	5.3	5.9
Interest & other Charges	195	366	361	365	369
Other Income	822	1,250	927	834	851
<b>Profit before tax</b>	<b>6,058</b>	<b>6,402</b>	<b>4,284</b>	<b>3,735</b>	<b>4,532</b>
% chg	13.4	5.7	(33.1)	(12.8)	21.3
Tax Expense	2,036	2,027	1,245	1,102	1,360
(% of PBT)	33.6	31.7	29.1	29.5	30.0
<b>Reported PAT</b>	<b>4,022</b>	<b>4,375</b>	<b>3,039</b>	<b>2,633</b>	<b>3,173</b>
<b>Adjusted PAT</b>	<b>4,029</b>	<b>4,143</b>	<b>3,002</b>	<b>2,633</b>	<b>3,173</b>
% chg	10.2	2.8	(27.5)	(12.3)	20.5
(% of Net Sales)	8.5	7.2	5.3	4.3	4.7

**Balance sheet (Standalone)**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	1,268	1,268	1,268	1,268	1,268
Reserves & Surplus	22,959	25,804	27,851	29,152	30,993
<b>Shareholders Funds</b>	<b>24,228</b>	<b>27,072</b>	<b>29,120</b>	<b>30,421</b>	<b>32,262</b>
Total Loans	9,064	10,268	9,556	10,556	9,556
Deferred Tax Liability	2,300	2,566	3,309	3,419	3,555
Other Long term liabilities	1,045	1,175	2,658	2,791	2,931
<b>Total Liabilities</b>	<b>36,636</b>	<b>41,082</b>	<b>44,642</b>	<b>47,187</b>	<b>48,303</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	31,149	33,192	40,464	44,510	46,736
Less: Acc. Depreciation	11,442	12,553	13,539	14,600	15,714
<b>Net Block</b>	<b>19,707</b>	<b>20,639</b>	<b>26,925</b>	<b>29,910</b>	<b>31,022</b>
Capital Work-in-Progress	8,978	9,728	4,360	3,924	3,532
Goodwill	0	0	0	0	0
Investments	3,719	4,289	4,322	4,366	4,409
<b>Current Assets</b>	<b>9,037</b>	<b>11,133</b>	<b>10,619</b>	<b>11,695</b>	<b>13,087</b>
Cash	2,358	2,651	1,142	1,170	1,229
Inventories	1,557	2,278	2,105	2,217	2,489
Debtor	2,551	2,812	3,095	3,118	3,572
Other	2,571	3,392	4,278	5,191	5,798
<b>Current liabilities</b>	<b>8,069</b>	<b>8,752</b>	<b>8,275</b>	<b>9,466</b>	<b>10,572</b>
<b>Net Current Assets</b>	<b>967</b>	<b>2,381</b>	<b>2,345</b>	<b>2,230</b>	<b>2,516</b>
Other Assets	3,265	4,046	6,690	6,757	6,825
<b>Total Assets</b>	<b>36,636</b>	<b>41,082</b>	<b>44,642</b>	<b>47,187</b>	<b>48,303</b>

**Cash flow statement (Standalone)**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	6,058	6,402	4,284	3,735	4,532
Depreciation	1,020	1,180	981	1,061	1,114
Change in Working Capital	(638)	(817)	(1,957)	143	(226)
Others	107	30	46	66	72
Direct taxes paid	(1,513)	(1,874)	(855)	(992)	(1,224)
<b>Cash Flow from Operations</b>	<b>5,033</b>	<b>4,922</b>	<b>2,499</b>	<b>4,014</b>	<b>4,268</b>
(Inc.)/ Dec. in Fixed Assets	(5,500)	(3,855)	(1,868)	(3,610)	(1,833)
(Inc.)/ Dec. in Investments	(406)	11	43	(43)	(44)
Others	434	612	805	0	0
<b>Cash Flow from Investing</b>	<b>(5,472)</b>	<b>(3,232)</b>	<b>(1,020)</b>	<b>(3,654)</b>	<b>(1,877)</b>
Issue of Equity	0	0	0	0	0
Inc./(Dec.) in loans	3,717	756	(911)	1,000	(1,000)
Dividend Paid (Incl. Tax)	(1,430)	(1,499)	(1,332)	(1,332)	(1,332)
Others	(421)	(653)	(746)	0	0
<b>Cash Flow from Financing</b>	<b>1,865</b>	<b>(1,397)</b>	<b>(2,989)</b>	<b>(332)</b>	<b>(2,332)</b>
Inc./(Dec.) in Cash	1,427	293	(1,509)	28	60
<b>Opening Cash balances</b>	<b>931</b>	<b>2,358</b>	<b>2,651</b>	<b>1,142</b>	<b>1,170</b>
<b>Closing Cash balances</b>	<b>2,358</b>	<b>2,651</b>	<b>1,142</b>	<b>1,170</b>	<b>1,229</b>



**Key Ratios**

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>Per Share Data (₹)</b>					
Reported EPS	31.7	34.5	24.0	20.8	25.0
Adjusted EPS	31.8	32.7	23.7	20.8	25.0
Cash EPS	39.4	43.7	31.6	29.1	33.8
DPS	9.6	10.4	6.0	6.0	6.0
Book Value	191.0	213.4	229.6	239.8	254.3
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	9.8	9.0	12.9	14.9	12.4
P/CEPS	7.8	7.1	9.8	10.6	9.2
P/BV	1.6	1.4	1.3	1.3	1.2
Dividend yield (%)	3.1	3.4	1.9	1.9	1.9
EV/Sales	1.0	0.8	0.8	0.8	0.7
EV/EBITDA	7.2	7.0	10.2	11.2	9.2
EV/Total Assets	1.3	1.1	1.1	1.0	1.0
<b>Returns (%)</b>					
ROCE	18.0	15.6	9.8	8.2	9.8
ROE	17.5	17.1	10.8	8.8	10.1
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	1.7	1.8	1.5	1.4	1.5
Inventory (days)	11.5	12.2	14.1	12.9	12.6
Receivables (days)	17.1	17.0	19.0	18.6	17.9
Payables (days)	57.2	53.4	54.8	53.0	53.6
WC cycle (ex-cash) (days)	(11.1)	(5.3)	3.0	6.8	6.3
<b>Solvency ratios (x)</b>					
Net debt to equity	0.3	0.3	0.3	0.3	0.3
Net debt to EBITDA	0.7	0.7	0.9	0.9	0.9
Interest Coverage (EBIT / Int.)	27.8	15.1	10.3	9.0	11.0

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Disclosure of Interest Statement	Gail (India) Ltd
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

*Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors*

**Ratings (Based on expected returns over 12 months investment period):**

Buy (> 15%)

Accumulate (5% to 15%)  
Reduce (-5% to -15%)

Neutral (-5 to 5%)  
Sell (< -15)