

# GAIL

26 June 2020

Reuters: GAIL.NS; Bloomberg: GAIL IN

## Healthy beat offsets risk to gas trading margin

GAIL's results were a beat across key segments, driving revenue beat of 25.9% at Rs177.53bn and PAT beat of 255% at Rs29.16bn vs NBIE/street estimates. During the web-analyst meet, management reported normal operations in petchem, LPG and HC and expects a revival in prices/margins. However, the company cautioned about some delay in the gas business returning to pre-COVID levels as the CNG market is down 50% due to the lockdown in key markets – Delhi and Mumbai. The work on ongoing projects, including the JHBDPL gas network has resumed at normal pace, although a few sites are facing labour shortage. The key concern among analysts revolved around the risk to marketing margins on the unhedged LNG volume (30% of the 90 cargoes sourced from the US. Much as the management accepted that gas trading is facing some challenges due to the fall in LNG prices, it could not assuage concerns or quantify the potential impact of some US LNG cargoes being sold at a loss. The delayed completion of the JHBDPL project - now slated for March 2021 - will likely support gas transmission volume growth of about 4mmscmd per year over FY22/FY23 and eventually about 10mmscmd from five gas-based fertilizer units along the pipeline. The management also confirmed that the much delayed Kochi-Mangalore pipeline will be ready to move gas to customers from July 2020. We maintain Buy based on our new SOTP based TP of Rs149 post raised estimates. +VEs are long term growth in gas volume and near term upside in petchem/LPG and HC earnings.

**Key segments support revenue beat:** The beat on revenue was driven by higher than anticipated realisation per unit in natural gas transmission, gas marketing and LPG and other hydrocarbons by 4.32%, 27.24% and 55.04%, respectively.

**Standalone 4QFY20 EBITDA/PAT beat consensus by 30.4%/134%** and our estimates by 39.2%/226% at Rs24.75bn/Rs29.17bn. The beat on EBITDA was largely on account of higher than anticipated segment margin in natural gas transmission, gas marketing and LPG and other hydrocarbons by 5.23%, 144.12% and 78.13%, respectively.

**Capex:** The aggregate capex in the JHBDPL gas network was reported at Rs96bn, with commitments at Rs135bn over FY20. Capex is likely to aggregate Rs90-100bn over the next two years on the existing and new pipelines, petchem expansion, CGD expansion and equity investments.

**Subsidiary GAIL Gas** has started CGD operations in six centres located alongside JHBDPL – Vaaranasi, Patna, Cuttack, Bhuvaneshwar, Ranchi and Jamshedpur. GAIL Gas FY20 revenue came in at Rs51.4bn, PBT at Rs2.03bn and PAT at Rs1.56bn vs Rs810mn a year ago. Gail Gas and GAIL's other JVs run 81 CNG pumps and have 160,000 PNG customers.

**DOT claim overhang abates:** The result release indicates that the court has asked the DOT to review its claim of Rs1830bn towards AGR dues. The company believes that the court order in June removes this risk. On unbundling plans, the management said that a sale is unlikely but the pipeline may be shifted to a subsidiary.

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## BUY

**Sector:** Oil and Gas

**CMP:** Rs103

**Target Price:** Rs149

**Upside:** 44%

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### Key Data

Current Shares O/S (mn)	4,510.1
Mkt Cap (Rsbn/US\$bn)	465/6.1
52 Wk H / L (Rs)	157/65
Daily Vol. (3M NSE Avg.)	18,318,160

### Price Performance (%)

	1-M	6-M	1-Y
GAIL	18.2	(13.9)	(33.4)
Nifty Index	13.8	(15.8)	(12.8)

Source: Bloomberg

Standalone Y/E March (Rsmn)	4QFY19	4QFY20A	Ch YoY %	3QFY20	Ch QoQ %	4QFY20E	Var. (%)
<b>Net sales</b>	<b>1,87,634</b>	<b>1,77,531</b>	<b>-5.38</b>	<b>1,77,673</b>	<b>-0.08</b>	<b>1,40,911</b>	<b>25.99</b>
Cost of goods	1,51,865	1,38,509	-8.79	1,40,440	-1.38	1,03,094	34.35
Contribution	35,769	39,022	9.09	37,233	4.81	37,817	3.19
Employee benefits expenses	3,993	3,256	-18.46	3,472	-6.23	4,392	-25.87
Other expenses	14,936	11,013	-26.26	13,038	-15.53	15,683	-29.78
<b>EBITDA</b>	<b>16,841</b>	<b>24,754</b>	<b>46.99</b>	<b>20,724</b>	<b>19.45</b>	<b>17,742</b>	<b>39.52</b>
<b>EBITDAM (%)</b>	<b>8.98</b>	<b>13.94</b>	<b>496.79</b>	<b>11.66</b>	<b>227.93</b>	<b>12.59</b>	<b>135.20</b>
<b>Depreciation</b>	<b>4,574</b>	<b>5,016</b>	<b>9.67</b>	<b>4,890</b>	<b>2.58</b>	<b>5,574</b>	<b>-10.01</b>
Other income	8,659	5,132	-40.73	3,124	64.30	2,201	133.23
Interest expenses	263	329	25.07	242	36.30	590	-44.22
Exceptional inc/(exp)	20,663	24,541	18.77	18,716	31.12	13,779	78.10
<b>Reported PBT</b>	<b>(3,263)</b>	<b>1,016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Reported Tax	17,399	25,557	46.89	18,716	36.55	13,779	85.48
Associates inc/loss(+/-)	6,177	-4,625	-174.87	6,210	-174.48	4,823	-195.90
Tax excl. prior period adj.	11,222	30,182	168.95	12,507	141.33	8,956	236.99
Consolidated PAT adjusted	<b>14,486</b>	<b>29,166</b>	<b>101.34</b>	<b>12,507</b>	<b>133.20</b>	<b>8,956</b>	<b>225.65</b>
<b>NPM (%)</b>	<b>7.72</b>	<b>16.43</b>	<b>870.84</b>	<b>7.04</b>	<b>938.94</b>	<b>6.36</b>	<b>1007.25</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Rating Rationale

- Demand growth to accelerate at current US\$2-2.5/mmbtu gas price
- Gas cost leverage to boost cyclical chemical earnings and valuations
- JHBDPL project to support gas business earnings from transmission and trading
- Superb risk-reward at current valuation

### Exhibit 1: Earnings revision

(Rs Mn)	Earlier estimate			Revised estimate			% Revision		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Gas transmission mmscmd	108.4	103.1	109.0	108.4	103.1	109.0	0.00	0.00	0.00
Gas marketing mmscmd	96.4	91.2	105.0	96.4	91.2	105.0	0.00	0.00	0.00
Petchem Mn tonne	0.8	0.8	0.8	0.8	0.7	0.8	0.00	-7.06	0.00
LPG transmission mmtpa	3.9	3.9	4.1	3.9	3.9	4.1	0.00	0.00	0.00
LPG and HC mn tonne	1	1	1.32	1	1	1.264	0.00	-2.52	-4.24
<b>Revenue</b>	<b>6,82,089</b>	<b>4,18,711</b>	<b>7,42,705</b>	<b>7,18,710</b>	<b>4,90,891</b>	<b>7,59,644</b>	<b>5.37</b>	<b>17.24</b>	<b>2.28</b>
EBITDA	76,683	69,856	81,251	83,694	76,247	96,556	9.14	9.15	18.84
EBITDA margin (%)	11.24	16.68	10.94	11.65	15.53	12.71			
PAT	44,808	37,873	48,715	65,190	50,814	63,799	45.49	34.17	30.96
<b>EPS</b>	<b>9.93</b>	<b>8.40</b>	<b>10.80</b>	<b>14.45</b>	<b>11.27</b>	<b>14.15</b>	<b>45.5</b>	<b>34.2</b>	<b>31.0</b>
<b>TP</b>		<b>133</b>			<b>149</b>			<b>12.3</b>	

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 2: GAIL SOTP valuation

	Method	EBITDA (Rsmn)	multiple	EV Rs mn	Rs/sh	Net debt (Rsmn)	Equity value (Rs mn)	Rs Per sh
Gas transportation	DCF	na	na	168133	37	15155	152978	34
LPG transportation	DCF	na	na	11044	2	806	10237	2
Gas trading	EV/E	19163	4	76650	17	13316	63334	14
Petrochemicals	EV/E	12308	6	73850	16	7679	66170	15
LPG and Hydrocarbons	EV/E	16238	6	97426	22	754	96672	21
Others segment	EV/E	3427	4	13708	3	1571	12137	3
GAIL core business total		51136		4,40,811		39281	401529	89
Investments								0
GAIL Gas								18
BCPL	EV/E	6609	5	33045	5.1	GAIL's 70% stake	-	5
GAIL's share -JV/Assoc PAT #								50
<b>ONGC plus other holdings ( less cong disc.)</b>								8
Investments total								81
Losses in JVs and Associates -GAIL's share*								-4
GAIL valuation excluding risk								166
Discount -Regulatory and policy risk					10%			17
GAIL TP Rs								149

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: Operating Assumptions**

<b>Volume</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
Natural Gas transmission mmscmd	107.4	108.0	103.1	109.0
Natural Gas marketing mmscmd	96.9	96.0	91.2	105.0
LPG Transmission mn tonnes	4.0	3.9	3.9	4.1
Petrochemicals mn tonnes	0.7	0.7	0.7	0.7
LPG & Hydro Carbons mn tonnes	1.3	1.3	1.3	1.3
<b>Revenue Rs Mn</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
Natural Gas transmission	52,382	60,344	53,292	59,147
LPG Transmission	6,144	6,300	6,259	6,710
Natural Gas Trading	5,72,036	5,99,546	4,14,578	5,80,881
Petrochemicals	67,021	53,700	31,106	68,453
LPG & Other Liquid Hydro Carbons	46,339	38,690	37,905	33,704
Other segment (CGD, POWER, E&P, GAIL TEL)	7,345	10,750	10,750	10,750
Standalone Revenue (net tax)	7,51,263	7,18,710	4,90,891	7,59,644
<b>Realization / unit</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
Natural Gas transmission Rs/scm	1.34	1.53	1.42	1.49
LPG Transmission Rs/tonne	1,548	1,548	1,594	1,642
Natural Gas Trading Rs/scm	16.17	17.11	12.46	15.16
Petrochemicals US\$/tonne	1,304	1,063	786	1,141
Petrochemicals Rs/tonne	91,184	76,000	58,945	85,566
LPG & Other Liquid Hydro Carbons Rs/tonne	35,106	27,500	14,350	26,665
<b>EBITDA / unit</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
Natural Gas transmission Rs/scm	381	328	401	378
LPG Transmission Rs/tonne	903	998	999	1,028
Natural Gas Trading Rs/scm	295	225	193	183
Petrochemicals Rs/tonne	11,085	2,772	7,537	16,452
LPG & Other Liquid Hydro Carbons Rs/tonne	19,928	13,236	9,634	12,846
<b>Segment EBITDA STANDALONE</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
Gas transmission	34714	44720	41376	37918
LPG Transmission	3586	3900	3890	4242
Natural Gas Trading	23956	22700	23596	11498
Petrochemicals	7375	2050	5414	7304
LPG & Other Liquid Hydro Carbons	22443	16730	12178	17176
Other segment (CGD, POWER, E&P, GAIL TEL)	4416	8777	8760	3427
GAIL EBITDA Standalone INC OTHER INC	96491	98877	108382	95733

Source: Company, Nirmal Bang Institutional Equities Research

**Growth drivers:**
**Petchem, LPG businesses are leveraged to margins**

- Gail uses gas feedstock, which hurts margins when prices are down as the gas chain is relatively insulated from the downcycle in naphtha-petchem prices and spreads. So, the input cost does not fall as much as the polymer prices.
- On the upturn, this offers higher operating leverage upside to earnings compared with naphtha crackers since the entire chain of naphtha and polymer prices moves up broadly in tandem, whereas gas prices remain stable. Hence, the spreads get enhanced for GAIL on the upside.
- LPG segment uses APM gas and hence the upside in earnings is even more when the oil and petroleum chain moves up, while APM gas price does not necessarily mirror this upmove.

**Exhibit 4: Asian Ethylene, Aromatics and Polymer spreads**

SPREADS	4/2019	5/2019	6/2019	7/2019	8/2019	9/2019	10/2019	11/2019	12/2019	1/2020	2/2020	3/2020
<b>Ethylene Chain</b>												
Ethylene-Naphtha	347	357	264	247	386	323	170	188	141	222	212	270
LDPE-Naphtha	508	504	506	472	491	430	425	368	322	369	428	508
LLDPE-Naphtha	464	461	461	456	441	356	365	292	241	295	360	440
HDPE-Naphtha	479	482	489	459	460	389	360	288	237	284	345	415
MEG-Naphtha	17	-5	55	21	70	94	50	4	2	34	40	105
PVC-Naphtha	239	287	390	361	399	381	329	284	259	296	372	465
<b>Propylene Chain</b>												
Propylene-Naphtha	264	280	371	369	435	400	378	323	227	309	307	389
<b>Aromatics Chain</b>												
Benzene-Naphtha	41	58	138	163	185	221	152	103	154	168	174	189
Paraxylene-Naphtha	410	314	325	316	314	284	260	231	243	238	230	240

Source: NBIE, BNEF

**Exhibit 5: Sensitivity of GAIL earnings and valuations to petchem and LPG segment**

<b>Petrochemicals</b>		
Impact of change in polymer price/te	FY21E	FY22E
US\$/te	100	100
volume	0.72	0.80
impact on EBITDA Rs mn	5,356	6,000
impact on PAT Rs Mn	4,008	4,490
<b>ch in EPS %</b>	<b>7.89</b>	<b>7.04</b>
<b>Impact on valuation</b>		
EV/E (x)	6.00	6.00
EV upside Rs Mn	32,137	36,000
Valuation upside Rs/sh	7.13	7.98
% upide on valuation		5.35
<b>LPG &amp; Other Liquid Hydro Carbons</b>		
Impact of change LPG price/te	FY21E	FY22E
US\$/te	100	100
volume	0.37	1.26
impact on EBITDA Rs mn	2,745	9,480
impact on PAT Rs Mn	2,054	7,094
<b>ch in EPS %</b>	<b>4.04</b>	<b>11.12</b>
<b>Impact on valuation</b>		
EV/E (x)	6.00	6.00
EV upside Rs Mn	16,472	56,880
Valuation upside Rs/sh	3.65	12.61
% upide on valuation		<b>8.45</b>

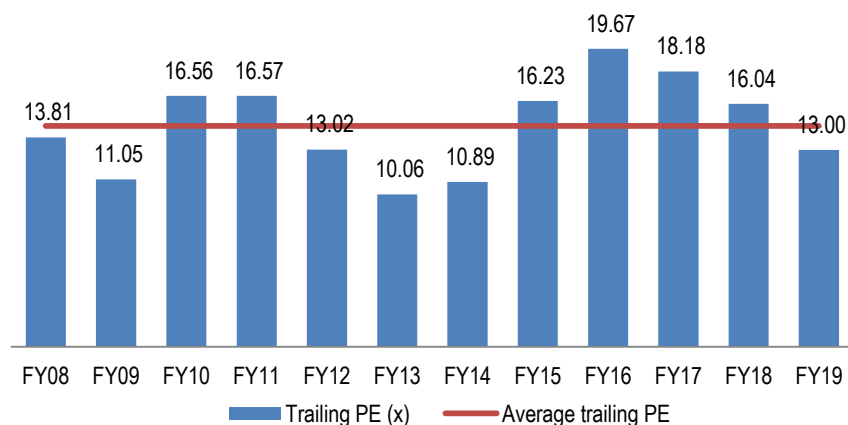
Source: Company, Nirmal Bang Institutional Equities Research

## Valuations and PE band

### Positive risk-reward at current valuation

GAIL trades at a steep 51% discount to the last 12-years' average trailing PE of 14.6x and 29% discount to the trough PE of 10.1x in FY13.

#### Exhibit 6: Trailing PE trend



Source: Nirmal Bang Institutional Equities Research

#### Exhibit 7: Key Financials

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
<b>Revenues</b>	<b>5,36,616</b>	<b>7,51,263</b>	<b>7,18,710</b>	<b>4,90,891</b>	<b>7,59,644</b>
EBITDA	76,339	95,551	83,694	76,247	96,556
Net Profit Adj	45,907	63,520	65,190	50,814	63,799
<b>EPS (Rs)</b>	<b>10.18</b>	<b>14.08</b>	<b>14.45</b>	<b>11.27</b>	<b>14.15</b>
EPS gr (%)	20.8	38.4	2.6	-22.1	25.6
EBITDA Margin (%)	14.2	12.7	11.6	15.5	12.7
<b>P/E</b>	<b>10.1</b>	<b>7.3</b>	<b>7.1</b>	<b>9.1</b>	<b>7.3</b>
EV/EBITDA	6.3	5.0	5.7	6.3	5.0
Dividend Yield (%)	3.77	3.73	3.74	3.74	3.98
<b>FCF yield %</b>	<b>12.7</b>	<b>5.1</b>	<b>0.1</b>	<b>5.0</b>	<b>0.6</b>
Post-tax RoCE (%)	9.3	11.8	11.8	8.9	11.3
<b>RoE (%)</b>	<b>11.7</b>	<b>15.0</b>	<b>14.8</b>	<b>11.1</b>	<b>12.9</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Key highlights from GAIL conference call

### Segment outlook

The management expects Petchem and LPG – HC segments to do well from 2QFY21 with volume at normal levels.

4QFY20 - Petchem prices down Rs16,000/te, LPG and HC prices down Rs4,000/te and LNG prices were at US\$2/mmbtu.

All the segments are back to normal except gas marketing as CGD is at 50% of normal demand and will take two months to achieve normalcy.

Marketing segment earnings still look a bit under a cloud although the management tried to downplay the impact saying that only 30% of US volume (~21mmscmd) is unhedged. They admitted that 1HFY21 could be challenging, but expect the situation to improve with low prices stimulating demand although on the potential for negative spreads, the management remained tightlipped.

LNG imports in FY20 – 120 cargoes (~7.2mn tonnes) including 90 from US 74 sold in India and 46 overseas

**New projects:**

Three new pipelines got approved Srikakulam Angul Dhamra Haldia and one in Mumbai Nagpur Jharsuguda. These will cover 2645 kms, cost Rs93bn and will be executed over 3 years. Also executing the North East gas grid over 1750 kms at a cost of Rs93bn.

	kms	Cost Rsbn	Timeline months
Srikakulam Angul	700	3	36
Mumbai Nagpur Jharsuguda	1705	78	36
Dhamra Haldia	240	12	24-36
North East Grid	1750	93	48

Source: Company, Nirmal Bang Institutional Equities Research

**Ongoing projects/Capex**

Urja Ganga capex of Rs96bn and commitments of Rs135bn in FY20.

The Urja Ganga project for JHBDPL is to be completed by March 21 vs earlier timeline of Dec 20 due to delays in projects amid lockdown. Barauni Guwahati pipeline by Dec 21.

Capex is likely to aggregate Rs90-100bn over the next two years on the existing and new pipelines, petchem expansion, CGD expansion and equity investments. There has been some delay in projects in 1Q, which is now easing, with all projects getting back to near normal levels. Still some projects are facing labour shortage due to workers migrating back to villages.

**Unified tariff**

On unified tariff for the gas transmission segment, the company is awaiting PNGRB's ruling, which may take some time.

**4QFY20 Result Analysis**
**Segment revenue**

- Natural gas marketing/petchem division down by 4.5%/29.1% YoY to Rs136.3bn/Rs12.06bn
- LPG and Hydrocarbons segment up by 5.9% to Rs10.52bn
- Natural gas segment up by 5.3% YoY to Rs13.84bn, whereas LPG transmission segment was down by 2.9% YoY to Rs1.68bn.

**Sales volume**

- Petchem up 2.5% at 0.208mn tonne, natural gas down 0.1% at 108.99 mmscmd, whereas LPG was up 1.7% at 1.04mn tonne.
- Sales volume from the hydrocarbon segment was down by 19.8% YoY at 81,000 tonne.

**Exhibit 8: 4QFY20 Margin Analysis**

Margins%	Q4FY19	Q4FY20	Ch YoY bps	Q3FY20	Ch QoQ bps
Gross	19.1	22.0	291.7	21.0	102.5
EBITDA	9.0	13.9	496.8	11.7	227.9
PAT	7.7	16.4	870.8	7.0	938.9
Tax rate	35.5	(18.1)	(5,359.8)	33.2	(5,127.5)

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: Segment revenue analysis**

Rs mn	Q4FY19	Q4FY20	Ch YoY %	Q3FY20	Ch QoQ %
Natural Gas Transmission	13,140	13,840	5.33	14,000	(1.14)
LPG Transmission	1,730	1,680	(2.89)	1,690	(0.59)
Natural Gas Marketing	1,42,760	1,36,300	(4.53)	1,34,830	1.09
Petrochemicals	17,000	12,060	(29.06)	14,680	(17.85)
LPG & Other Liquid Hydro Carbons	9,930	10,520	5.94	9,600	9.58
Other	2,510	2,690	7.17	2,550	5.49
<b>Total</b>	<b>1,87,070</b>	<b>1,77,090</b>	<b>(5.33)</b>	<b>1,77,350</b>	<b>(0.15)</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: Segment EBITDA analysis**

Rs mn	Q4FY19	Q4FY20	Ch YoY %	Q3FY20	Ch QoQ %
Natural Gas Transmission	10,280	11,640	13.23	12,200	(4.59)
LPG Transmission	1,090	1,100	0.92	1,080	1.85
Gas Marketing	5,880	6,310	7.31	5,240	20.42
Petrochemicals	890	1,850	107.87	1,050	76.19
LPG & Other Liquid Hydro Carbons	4,520	5,540	22.57	3,180	74.21
Unallocated	(420)	4,460	(1,161.9)	1,100	305.45
<b>Total</b>	<b>22,240</b>	<b>30,900</b>	<b>38.94</b>	<b>23,850</b>	<b>29.56</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: Segment volume analysis**

	Q4FY19	Q4FY20	Ch YoY %	Q3FY20	Ch QoQ %
Natural Gas Transmission MMSCMD	109	109	(0.15)	110	(1.19)
LPG Transmission Mn Tonne	1	1	1.66	1	(0.29)
<b>Production</b>					
Petrochemicals Mn Tonne	0.20	0.21	2.46	0.26	(20.31)
LPG Mn Tonne	0.23	0.22	(5.56)	0.25	(9.80)
Other Liquid Hydro Carbons Mn Tonne	0.10	0.08	(19.80)	0.09	(10.99)
<b>Sales</b>					
Natural Gas MMSCMD	98.42	97.76	(0.67)	96.00	1.83
Petrochemicals Mn Tonne	0.21	0.17	(18.31)	0.21	(17.54)
LPG Mn Tonne	0.23	0.22	(5.56)	0.25	(9.80)
Other Liquid Hydro Carbons Mn Tonne	0.10	0.08	(19.80)	0.09	(11.96)

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: Realization and EBITDA per unit**

Segment Realisation per unit	4QFY19	4QFY20	Ch YoY	Q3FY20	Ch QoQ
Gas transmission Rs /scm	1	1	4.32	1	3.96
LPG transmission Rs/t	1,691	1,615	(4.48)	1,486	8.67
<b>Gas Marketing Rs/scm</b>	<b>16</b>	<b>15</b>	<b>(4.94)</b>	<b>17</b>	<b>(10.37)</b>
Petrochemicals Rs/t	79,812	69,310	(13.16)	91,734	(24.44)
LPG & Other Liquid Hydro Carbons Rs/t	29,642	34,834	17.52	40,789	(14.60)
Segment ebitda per unit	Q4FY19	Q4FY20	Ch YoY	Q3FY20	Ch YoY
Gas transmission Rs /scm	1	1	12.15	1	(2.38)
LPG transmission Rs/t	1,065	1,058	(0.73)	1,035	2.15
<b>Gas Marketing Rs./scm</b>	<b>1</b>	<b>1</b>	<b>6.85</b>	<b>1</b>	<b>19.55</b>
Petrochemicals Rs/t	4,178	10,632	154.46	4,976	113.66
LPG & Other Liquid Hydro Carbons Rs/t	13,493	18,344	35.96	9,436	94.40

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 13: Trend in working capital and debt**

Rs Mn	FY15	FY16	FY17	FY18	FY19	FY20
Inventory	19,313	16,094	16,984	19,195	23,219	29,601
Gross Debt	94,871	80,601	50,630	32,818	27,402	36,121
Net Debt	83,454	62,539	37,212	7,524	15,255	28,082

Source: Company, Nirmal Bang Institutional Equities Research

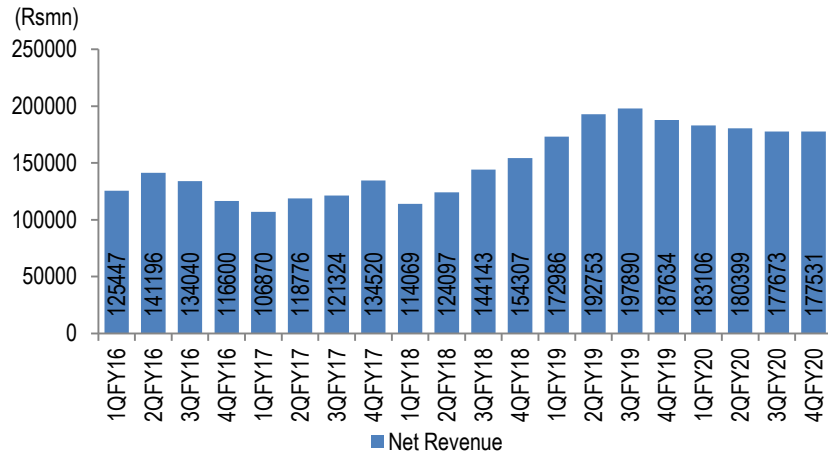
**Exhibit 14: Trend in cashflows and returns**

Rs Mn	FY15	FY16	FY17	FY18	FY19	FY20
Operating Cashflow before Working Capital Ch.	52,558	50,071	71,457	80,978	1,02,810	85,364
Working Capital Ch.	19,567	2,326	1,939	-18,864	3,282	-3,073
Operating Cashflow after Working Capital Ch.	32,992	47,745	69,518	99,842	99,528	88,436
Free Cashflow	14,796	33,997	53,809	60,947	24,397	592
ROCE (%)	5.9	4.7	7.4	9.3	11.8	9.9
ROIC (%)	6.2	4.8	7.7	9.8	12.9	10.8

Source: Company, Nirmal Bang Institutional Equities Research

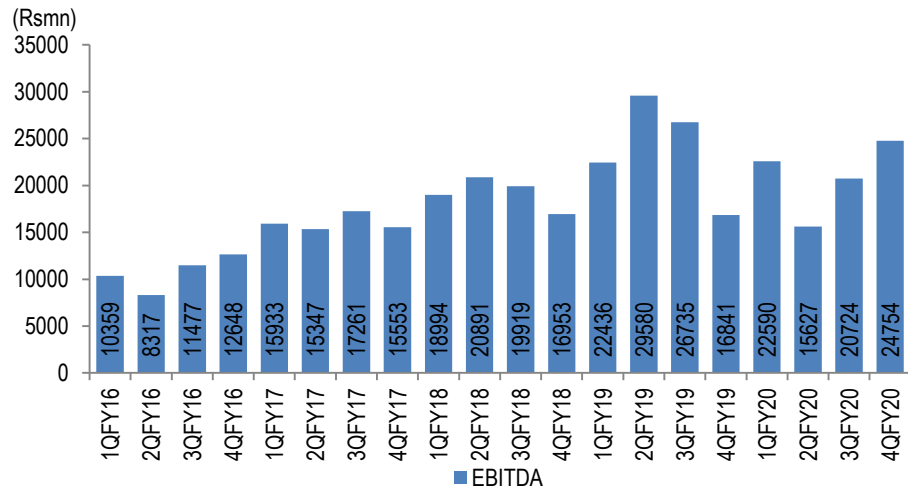


**Exhibit 15: Revenue quarterly trend**



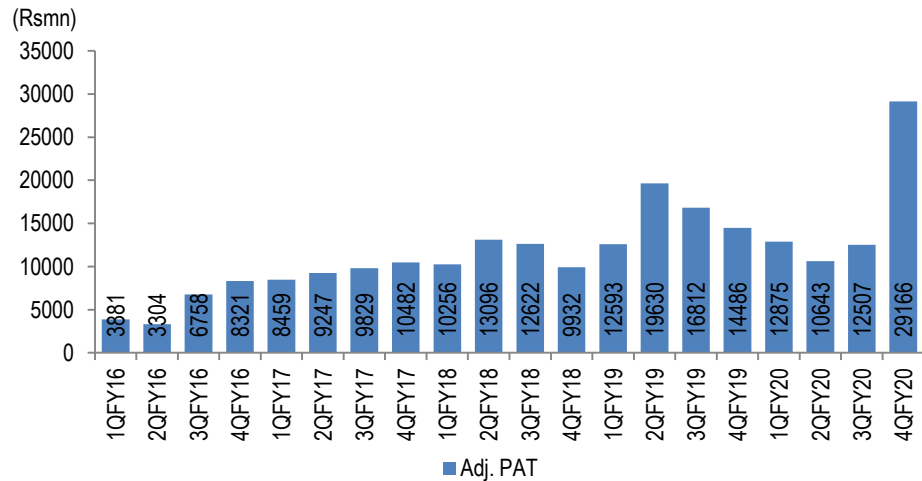
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 16: EBITDA quarterly trend**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 17: PAT quarterly trend**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 18: Standalone – result analysis - 4QFY20 and FY20**

Standalone Rs.Mn	Q4FY19	Q4FY20	Ch YoY %	Q3FY20	Ch QoQ %	FY19	FY20	Ch YoY %
<b>Net Revenues</b>	<b>1,87,634</b>	<b>1,77,531</b>	<b>(5.38)</b>	<b>1,77,673</b>	<b>(0.08)</b>	<b>7,51,263</b>	<b>7,18,710</b>	<b>(4.33)</b>
Raw material consumed	12,352	9,672	(21.70)	10,760	(10.11)	45,843	44,120	(3.76)
Changes in Inventories	3,478	(4,307)	(223.82)	(3,952)	8.99	(3,825)	(5,986)	56.52
Purchases of stock in trade	1,36,034	1,33,144	(2.12)	1,33,632	(0.37)	5,46,623	5,35,472	(2.04)
COGS	1,51,865	1,38,509	(8.79)	1,40,440	(1.38)	5,88,642	5,73,605	(2.55)
<b>GAIL Gross contribution</b>	<b>35,769</b>	<b>39,022</b>	<b>9.09</b>	<b>37,233</b>	<b>4.81</b>	<b>1,62,622</b>	<b>1,45,104</b>	<b>(10.77)</b>
Employee Benefits Expense	3,993	3,256	(18.46)	3,472	(6.23)	17,784	15,193	(14.57)
Other Expenses	14,936	11,013	(26.26)	13,038	(15.53)	49,246	46,218	(6.15)
Total Expenses	1,70,793	1,52,778	(10.55)	1,56,950	(2.66)	6,55,671	6,35,016	(3.15)
<b>EBITDA Total</b>	<b>16,841</b>	<b>24,754</b>	<b>46.99</b>	<b>20,724</b>	<b>19.45</b>	<b>95,592</b>	<b>83,694</b>	<b>(12.45)</b>
Depreciation and Amortisation Expenses	4,574	5,016	9.67	4,890	2.58	15,502	18,360	18.43
EBIT	12,267	19,738	60.90	15,834	24.65	80,089	65,334	(18.42)
Other Income	8,659	5,132	(40.73)	3,124	64.30	15,407	14,168	(8.04)
Finance Costs	263	329	25.07	242	36.30	1,385	1,085	(21.68)
Exceptional Income/(exp.) Y	(3,263)	1,016	-	-	-	(3,263)	1,016	-
<b>PBT X</b>	<b>17,399</b>	<b>25,557</b>	<b>46.89</b>	<b>18,716</b>	<b>36.55</b>	<b>90,848</b>	<b>79,434</b>	<b>(12.56)</b>
Current	5,647	2,080	(63.16)	6,855	(69.65)	24,643	20,772	(15.71)
Deferred	469	(15,881)	-	(472)	3,262.44	4,853	(19,563)	(503.14)
MAT credit	-	-	-	-	-	1,352	3,015	-
Prior Period / Year Tax	61	9,176	-	(173)	-	(256)	9,003	(3,614.09)
<b>total tax -T</b>	<b>6,177</b>	<b>(4,625)</b>	<b>(174.87)</b>	<b>6,210</b>	<b>(174.48)</b>	<b>30,592</b>	<b>13,227</b>	<b>(56.76)</b>
<b>PAT reported-X-T</b>	<b>11,222</b>	<b>30,182</b>	<b>168.95</b>	<b>12,507</b>	<b>141.33</b>	<b>60,257</b>	<b>66,206</b>	<b>9.87</b>
<b>PAT Adjusted-X-T+Y</b>	<b>14,486</b>	<b>29,166</b>	<b>101.34</b>	<b>12,507</b>	<b>133.20</b>	<b>63,520</b>	<b>65,190</b>	<b>2.63</b>

Source: Company, Nirmal Bang Institutional Equities Research

Margins%	Q4FY19	Q4FY20	Ch YoY bps	Q3FY20	Ch QoQ bps	FY19	FY20	Ch YoY bps
Gross	19.1	22.0	291.7	21.0	102.5	21.6	20.2	(145.7)
EBITDA	9.0	13.9	496.8	11.7	227.9	12.7	11.6	(107.9)
PAT	7.7	16.4	870.8	7.0	938.9	8.5	9.1	61.5
Tax rate	35.5	(18.1)	(5,359.8)	33.2	(5,127.5)	33.7	16.7	(1,702.1)

Source: Company, Nirmal Bang Institutional Equities Research

## Standalone Financials

### Exhibit 19: Income statement

Y/E March (Rsmn):	FY18	FY19	FY20	FY21E	FY22E
<b>Net Revenue</b>	<b>5,36,616</b>	<b>7,51,263</b>	<b>7,18,710</b>	<b>4,90,891</b>	<b>7,59,644</b>
y/y	11.45	40.00	-4.33	-31.70	54.75
Raw Material Expenses	<b>4,04,369</b>	<b>5,88,642</b>	<b>5,73,605</b>	<b>3,49,403</b>	<b>6,01,630</b>
RM/Sales %	75.4	78.4	79.8	71.2	79.2
Employee cost	13,407	17,784	15,193	16,712	9,167
Other expenses	42,500	49,287	46,218	48,529	52,291
<b>EBITDA</b>	<b>76,339</b>	<b>95,551</b>	<b>83,694</b>	<b>76,247</b>	<b>96,556</b>
y/y	19.10	25.17	-12.41	-8.90	26.64
Depreciation	14,151	15,502	18,360	19,360	20,427
<b>EBIT</b>	<b>62,188</b>	<b>80,049</b>	<b>65,334</b>	<b>56,887</b>	<b>76,129</b>
Interest Expense	2,751	1,385	1,085	2,150	4,038
Other Income	9,870	15,448	14,168	13,168	13,168
<b>PBT (adjusted)</b>	<b>69,307</b>	<b>94,112</b>	<b>78,417</b>	<b>67,906</b>	<b>85,259</b>
Income Tax Expense	23,400	30,592	13,227	17,092	21,460
<b>PAT</b>	<b>45,907</b>	<b>63,520</b>	<b>65,190</b>	<b>50,814</b>	<b>63,799</b>
<b>EPS (Rs)</b>	<b>10.18</b>	<b>14.08</b>	<b>14.45</b>	<b>11.27</b>	<b>14.15</b>
y/y	20.76	38.37	2.63	-22.05	25.55

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 21: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Total Share Capital	22,551	22,551	45,101	45,101	45,101
Reserves and Surplus	3,80,731	4,18,379	3,94,610	4,28,059	4,73,367
<b>Networth</b>	<b>4,03,281</b>	<b>4,40,929</b>	<b>4,39,711</b>	<b>4,73,161</b>	<b>5,18,468</b>
Long Term Borrowings	9,761	8,706	36,121	34,879	33,936
Grant for JHBDPL	8,454	25,635	35,214	46,594	51,760
Gas pool money	6,548	6,525	-	-	-
Provisions	5,804	6,946	5,297	5,297	5,297
Other long term liab	47,958	61,701	54,053	54,053	54,053
Grant for JHBDPL	65	298	-	-	-
Short Term Borrowings	-	-	17,997	17,997	17,997
Trade Payables	38,816	39,612	41,284	24,208	43,706
Other financial liabilities	47,307	41,183	40,533	40,533	40,533
Other current liabilities	4,349	4,944	5,520	5,827	8,308
Short term provisions	8,479	7,308	7,550	6,139	9,012
Lease liabilities	-	-	2,056	2,056	2,056
<b>Total Capital And Liabilities</b>	<b>5,80,822</b>	<b>6,43,786</b>	<b>6,85,336</b>	<b>7,10,743</b>	<b>7,85,125</b>
Capital Work-In-Progress	55,140	92,025	1,05,819	1,26,543	1,44,490
Total Asset plus WIP	3,43,038	4,02,886	4,38,481	4,62,699	5,24,919
Other financial assets	2,584	1,513	1,618	1,618	1,618
Other non-current assets	1,34,114	1,36,311	1,30,310	1,48,824	1,59,188
Right of use asset	-	-	3,788	3,788	3,788
<b>CURRENT ASSETS</b>					
Inventories	19,195	23,219	29,601	16,139	22,410
Cash and bank	25,294	12,147	8,039	21,401	6,125
Other financial assets	-	-	8,825	8,825	8,825
Trade Receivables	30,546	40,602	45,468	28,243	39,046
Other current assets	26,051	27,108	19,206	19,206	19,206
<b>Total Assets</b>	<b>5,80,822</b>	<b>6,43,786</b>	<b>6,85,336</b>	<b>7,10,743</b>	<b>7,85,125</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 20: Cash flow

Y/E March (Rsmn):	FY18	FY19	FY20	FY21E	FY22E
<b>PBT</b>	<b>69,584</b>	<b>90,848</b>	<b>79,434</b>	<b>67,906</b>	<b>85,259</b>
Add depreciation	14,151	15,502	18,360	19,360	20,427
Other expenses	(2,757)	(3,541)	(12,430)	(11,018)	(9,130)
Change in W/C-inc/(dec)	(18,864)	3,282	(3,073)	(13,555)	(7,778)
Income tax	13,216	20,764	19,555	17,092	21,460
<b>Cashflow from Operations (A)</b>	<b>86,626</b>	<b>78,763</b>	<b>68,881</b>	<b>72,710</b>	<b>82,874</b>
(Capex)	(29,425)	(72,022)	(54,345)	(43,578)	(82,647)
Investments	3,745	17,656	(13,944)	(5,346)	2,804
<b>Free Cash Flow</b>	<b>60,947</b>	<b>24,397</b>	<b>592</b>	<b>23,786</b>	<b>3,031</b>
<b>Cashflow from Investing (B)</b>	<b>(25,680)</b>	<b>(54,366)</b>	<b>(68,289)</b>	<b>(48,924)</b>	<b>(79,843)</b>
Increase/(Decrease) in borrowings	(30,116)	(11,348)	45,196	(1,243)	(943)
Other Liab.	(24,589)	(22,302)	(40,553)	(9,182)	(17,364)
<b>Cashflow from Financing (C)</b>	<b>(54,705)</b>	<b>(33,650)</b>	<b>4,644</b>	<b>(10,424)</b>	<b>(18,307)</b>
Ch in Cash and Cash equiv	6,242	(9,253)	3,976	13,362	(15,276)
opg cash	4,519	10,761	1,508	5,483	18,845
cl osing cash	10,761	1,508	5,483	18,845	3,569

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 22: Key Ratios

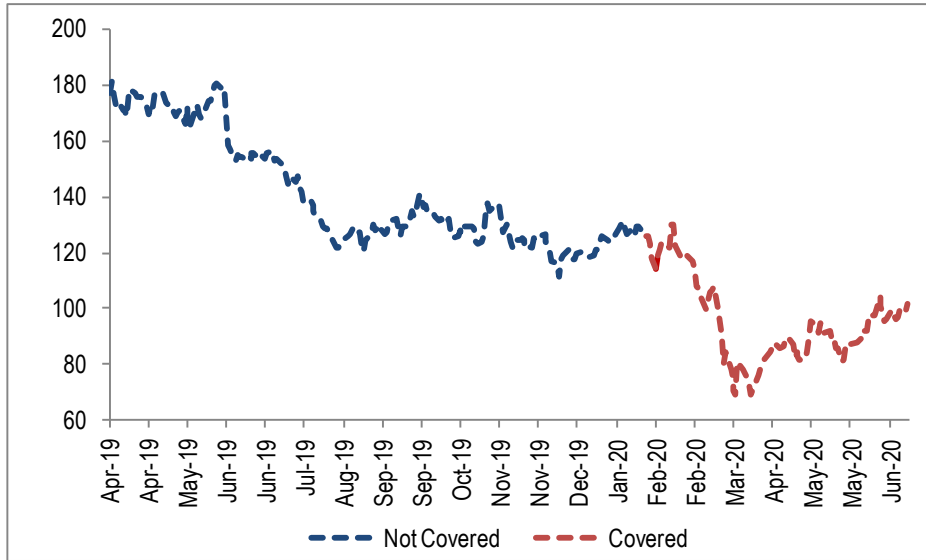
Y/E March	FY18	FY19	FY20	FY21E	FY22E
<b>Profitability &amp; return ratios</b>					
EBITDA margin (%)	14.2	12.7	11.6	15.5	12.7
EBIT margin (%)	11.6	10.7	9.1	11.6	10.0
Net profit margin (%)	8.6	8.0	9.2	10.4	8.4
RoE (%)	11.7	15.0	14.8	11.1	12.9
Post-tax RoCE (%)	9.3	11.8	11.8	8.9	11.3
RoIC (%)	9.8	12.9	12.9	10.1	12.9
<b>Working capital ratios</b>					
Receivables (days)	19.7	17.3	18.0	21.0	18.8
Inventory (days)	12.3	10.3	10.0	12.0	10.8
Payables (days)	22.4	19.1	20.0	18.0	21.0
Cash conversion cycle	9.5	8.5	8.0	15.0	8.5
<b>Leverage ratios</b>					
Net debt (Rsmn)	7,524	15,255	53,885	39,281	53,614
Net Debt (cash)/Equity (X)	0.02	0.03	0.12	0.08	0.10
Net Debt/EBITDA	0.10	0.16	0.64	0.52	0.56
<b>Valuation ratios</b>					
EV/sales (x)	0.89	0.64	0.67	0.98	0.63
EV/EBITDA (x)	6.29	5.02	5.73	6.29	4.97
EV/FCF	7.87	19.67	811.02	20.17	158.28
P/E (x)	10.12	7.31	7.13	9.14	7.28
P/BV (x)	1.15	1.05	1.06	0.98	0.90
FCF Yield (%)	12.70	5.08	0.12	4.96	0.63
Dividend Yield (%)	3.77	3.73	3.74	3.74	3.98
<b>Per share ratios</b>					
EPS	10.18	14.08	14.45	11.27	14.15
Cash EPS	13.21	17.30	18.05	14.97	16.18
BVPS	89.42	97.76	97.49	104.91	114.96
DPS	3.88	3.84	3.85	3.85	4.10

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price	Target price (Rs)
28 <sup>th</sup> January 2020	Buy	127	156
11 <sup>th</sup> February 2020	Buy	122	156
31 <sup>st</sup> March 2020	Buy	70	133
26 <sup>th</sup> June 2020	Buy	103	149

## Rating track graph



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### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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