EQUITY RESEARCH & VALUATION

GAIL (India) Ltd Business Analysis

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Introduction

Incorporated in 1984, GAIL (India) Ltd is a Government of India undertaking and the country's largest integrated natural gas company. It owns around 11,500 km of natural gas pipelines and over 2,300 km of LPG pipelines, operates six LPG gas-processing units and a petrochemicals facility, and holds joint-venture interests in Petronet LNG Ltd, Ratnagiri Gas and Power Pvt Ltd, and City Gas Distribution (CGD) businesses across several cities. Wholly owned subsidiaries in Singapore and the U.S. extend its presence into LNG, petrochemical trading, and shale gas.

GAIL, along with its group companies, is the largest CGD operator in India, authorized in 72 of 307 geographic areas, serving approximately 8.34 million PNG customers through a network of around 2,770 CNG stations.

Business Analysis & Market Share

Diversified Business Portfolio

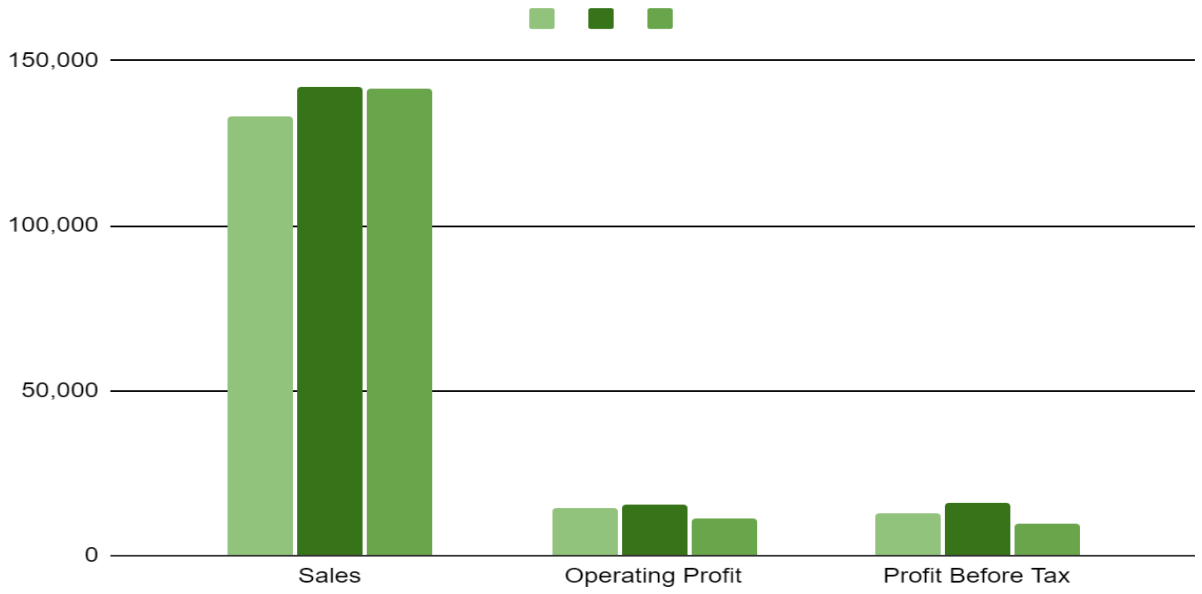
- Sourcing and trading of natural gases
- Production of LPG, liquid hydrocarbons, and petrochemicals
- Transmission of natural gas and LPG through pipelines
- Interests in domestic and international oil and gas blocks
- Renewable energy, City Gas Distribution (CGD), and Compressed Biogas (CBG)
- Emerging green hydrogen initiatives in India and overseas

Market Position

- Contributes 48% of natural gas sold in India and operates 65% of the country's total natural gas transmission pipelines
- Manages 42% of India's CNG stations
- Owns 5 LNG carriers; onboarded the LNG vessel GAIL Urja in FY24 under a 14-year time charter
- In November 2024, it signed a long-term charter with Kawasaki Kisen Kaisha for a 174,000 cbm LNG carrier.
- A Maharatna PSU, 51.9% owned by the Government of India
- FY26: Revenue ₹1.42 lakh crore, PAT ₹7,582 crore, Market cap ₹1.15 lakh crore
- Key opportunity: India's gas demand is forecast to grow 60% by 2030

Financial Statement Analysis

Particulars	Mar-24	Mar-25	Mar-26
Sales	133,228	141,902	141,598
Operating Profit	14,314	15,412	11,502
Profit Before Tax	12,595	16,096	9,725
Net Profit	9,899	12,450	7,582
EPS (₹)	15.06	18.93	11.53
OPM (%)	10.74%	10.86%	8.12%
Dividend Payout	36.5%	39.6%	47.7%



Profit & Loss (₹ crore)

Strengths:

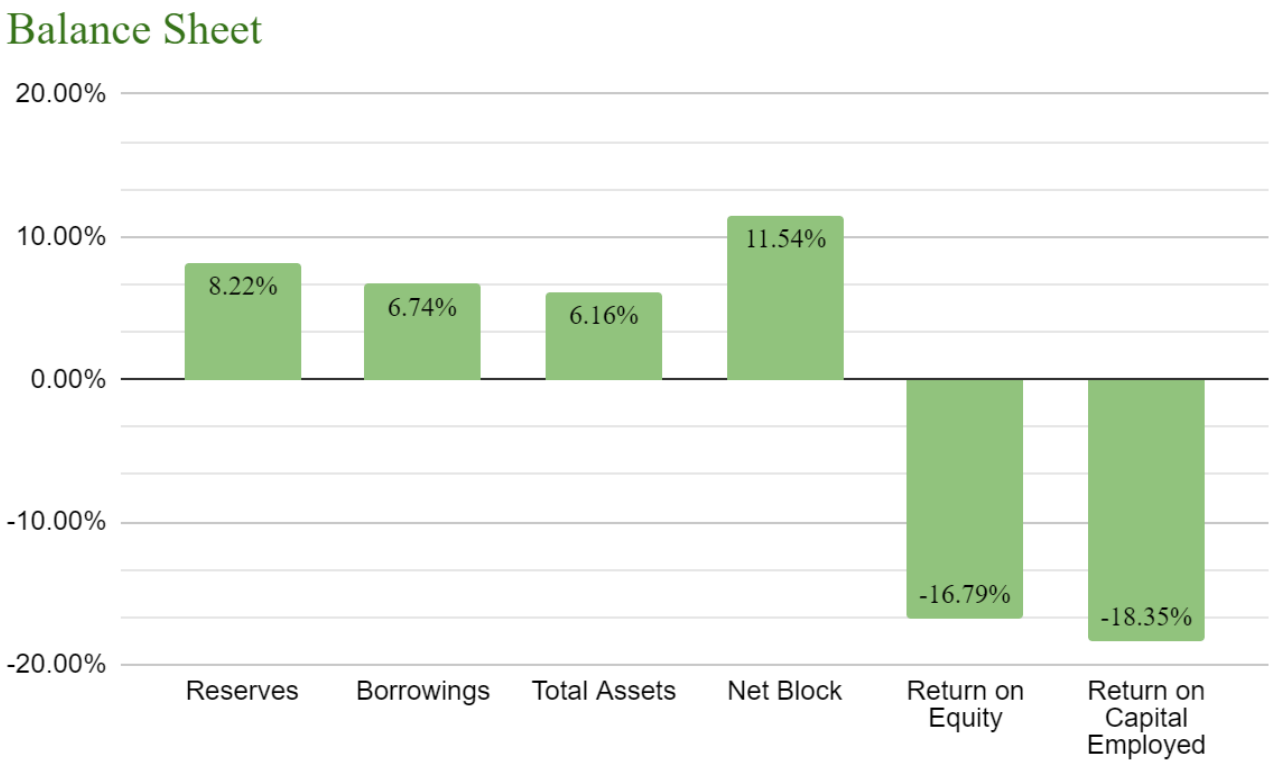
- Stable revenue: sales up from FY24 - FY26 (though sales peaked in FY25).
- Low debt stress: Interest costs are well covered by a PBT of ₹9,725 Cr.
- Attractive valuation: P/E of 11–12x, reasonable for a stable PSU
- Strong dividends: payout ratio up from 36.5% to 47.7%

Weaknesses:

- Margin pressure: OPM fell from 10.86% to 8.12% (270 bps drop)
- Profit decline: net profit down from ₹12,449 Cr to ₹7,582 Cr despite flat sales
- Weaker other income and rising interest costs squeezed profitability
- EPS dropped from 18.93 to 11.53, pressuring shareholder returns
- Payout sustainability risk: higher payout ratio despite falling profits

Balance Sheet (₹ crore)

Particulars	Mar-24	Mar-25	Mar-26	Average Change
Reserves	70,422	78,422	82,475	8.22%
Borrowings	21,794	21,595	24,831	6.74%
Total Assets	124,735	133,176	140,569	6.16%
Net Block	55,189	58,836	68,667	11.54%
Return on Equity	13%	15%	9%	-16.79%
Return on Capital Employed	15%	16%	10%	-18.35%



Strengths: steady reserve growth, low leverage, expanding asset base, and improved inventory turnover and debtor days

Weaknesses: widening negative working capital, and falling ROE/ROCE as borrowings rise, while capital efficiency declines

Cash Flow (₹ crore)

Particulars	Mar-24	Mar-25	Mar-26
Cash from Operations	12,586	15,727	11,249
Cash from Investing	-8,226	-6,615	-8,857
Cash from Financing	-3,457	-8,941	-2,750
Net Cash Flow	902	171	-358

Positive operating cash flow across all three years, with sustained growth in capex on the pipeline and LPG transmission capacity

First negative net cash flow in FY26 (-₹358 Cr): dividends exceeded free cash flow, requiring fresh borrowing to bridge the gap, a sustainability risk if FY27 earnings do not recover

Ratio Analysis

Ratio	Mar-24	Mar-25	Mar-26	Percent Change	Impact
Debtor Days	26	27	22	-8.01%	Favorable
Inventory Days	20	20	16	-10.56%	Favorable
Cash Conversion Cycle	24	22	19	-11.02%	Favorable
ROCE (%)	15%	14%	10%	-18.35%	Unfavorable

1. Working Capital efficiency improved, indicating they are receiving their borrowed funds faster and have leaner inventory.
   There was a fall in ROCE from 15% to 10%, driven by a margin collapse in marketing.

2. Widening petrochemical losses from ₹41 Cr to ₹1,410 Cr amid global headwinds, the Russian-Ukrainian conflicts, West Asian tension, and Qatar LNG disruption

DuPont Analysis

Component	Mar-24	Mar-25	Mar-26
Net Profit Margin	7.43%	8.77%	5.35%
Asset Turnover	1.07x	1.07x	1.01x
Equity Multiplier	1.62x	1.57x	1.58x
ROE (calculated)	13%	15%	9%

The ROE decline from 13% to 9% is driven almost entirely by a margin collapse: net profit margin fell 340 bps, rather than by asset efficiency or leverage, both of which stayed nearly flat. GAIL has not over-levered to sustain returns (equity multiplier stable at 1.6x), consistent with a low debt-to-equity ratio of 0.22x.

Industry Overview

Indian Natural Gas / CGD Sector

- India's gas consumption is forecast to grow 60% by 2030 (to 103 BCM/yr)
- Government target: Increase natural gas's share in the primary energy mix from 6.3% to 15% by 2030.
- Only 15% of eligible households currently have PNG connections, a large untapped market.
- CGD players hold 25-year monopoly licenses per geographic area, a regulated, annuity-like business
- Key peers: Indraprastha Gas, Mahanagar Gas, Gujarat Gas, GAIL Gas, Adani Total Gas

GAIL vs. Industry Peers

- GAIL is India's largest gas transmission utility, with a 16,000+ km pipeline network
- Peers (IGL, MGL) are regional pure-plays with near-zero debt (D/E 0.01) and steadier ROE (13–14%)
- GAIL is more diversified in transmission, marketing, LPG, and petrochemicals, but is more commodity-exposed
- Sector average P/E is 15x; GAIL trades below peers, seen as attractively valued

SWOT Analysis

Strengths

- Largest gas pipeline network in India (16,000+ km), an infrastructure moat
- Diversified across transmission, marketing, LPG, petrochemicals, and city gas
- Strong balance sheet with low leverage (D/E 0.22x)
- PSU status provides policy support and access to capital

Weaknesses

- High exposure to volatile petrochemical and gas-marketing spreads
- Falling ROE/ROCE versus steadier regulated peers (IGL, MGL)
- Dependence on global LNG supply chains creates geopolitical vulnerability
- Mixed operational trend: transmission volumes fell while marketing volumes rose

Opportunities

- 60% growth in India's gas demand forecast by 2030
- The government pushes to raise gas's share in the energy mix to 15%
- Only 15% PNG household penetration is a large untapped market
- Diversification into renewables (solar, wind, CBG)

Threats

- Rising EV adoption may slow long-term CNG demand
- LNG price volatility can quickly compress margins
- Geopolitical disruptions (Russia-Ukraine conflict, the Middle East) directly affect gas supply.
- Growing competition from private CGD players

Valuation: Discounted Cash Flow

Free Cash Flow to the Firm (FCFF) is used as the valuation basis for the cash the whole business generates after taxes, pipeline maintenance, and working capital needs. For a capital-intensive utility like GAIL, this is the right measure, since reported profit says nothing about how much cash the capex program absorbs. FCFF = EBIT × (1 − tax) + Depreciation − Capital Expenditure − Increase in Working Capital.

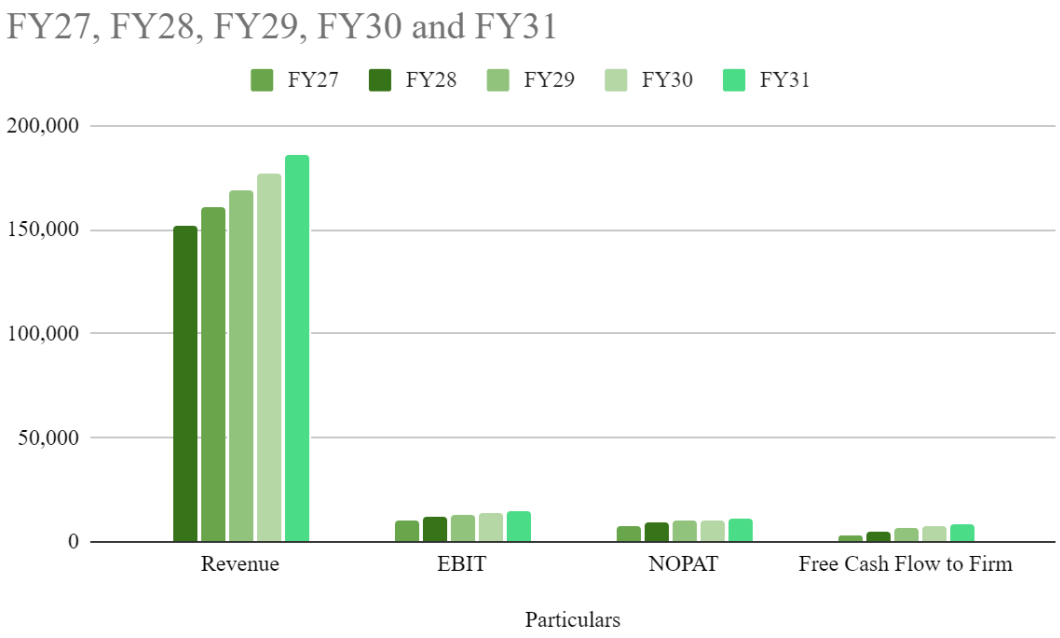
Key Assumptions (FY27–FY31)

Assumption	FY27	FY28	FY29	FY30	FY31
Revenue growth	7.0%	6.0%	5.0%	5.0%	5.0%
EBIT margin	7.0%	7.5%	7.8%	8.0%	8.0%
Capex (% of sales)	6.0%	5.5%	5.0%	4.8%	4.5%

Revenue growth of 7% in FY27 reflects the 17% rise already delivered in Q1 FY27, easing towards 5%. EBIT margin is assumed to recover from the 5.4% trough of FY26 towards the 8% earned in FY24 and FY25. Capex tapers from 6% to 4.5% of sales as the current pipeline program completes the model's single most important assumption.

Free Cash Flow Forecast (₹ crore)

Particulars	FY27	FY28	FY29	FY30	FY31
Revenue	151,510	160,600	168,630	177,062	185,915
EBIT	10,606	12,045	13,153	14,165	14,873
NOPAT	7,954	9,034	9,865	10,624	11,155
Free Cash Flow to Firm	3,403	4,970	6,396	7,335	8,260



Cost of Capital

Input	Value	Source
Risk-free rate	6.95%	India 10-yr G-Sec yield, Sep 2026
Market return	12.00%	Long-run Indian equity return assumption
Beta (central estimate)	0.85	Published betas range 0.51–1.14
Cost of equity (CAPM)	11.24%	-
After-tax cost of debt	5.25%	PSU borrowing rate
WACC	10.18%	Used to discount every forecast year

Beta measures how far the share moves relative to the market. Because GAIL's earnings are cyclical and move with gas spreads, petrochemical prices, and the wider economy, a beta near 1 is expected by theory. A central estimate of 0.85 is used, which is a conservative choice: a lower beta would raise the valuation, so this choice works against the final answer rather than for it. At a beta of 0.51, the valuation rises to ₹217; at 1.14, it falls to ₹138.

Valuation Summary

Item	₹ crore
Present value of 5-year forecast	22,031
Terminal value (g = 4%)	139,065
Terminal value, discounted	85,657
Enterprise value	107,688
Less: borrowings	(24,831)
Add: investments (book value)	26,233
Value of equity	109,090
Value per share (₹)	166
Market price, 3 Sep 2026 (₹)	175
Valuation vs. market price	-5.2%

Terminal value makes up 80% of the total, which is normal for a long-lived utility. Still, it makes the 4% terminal growth assumption the most important number in the model, deliberately kept below the 60% rise forecast in Indian gas demand by 2030 for conservatism. The valuation is far more sensitive to capex intensity than to growth: if capex stays at 6% of sales rather than tapering, fair value falls to ₹114; if the program completes as assumed, it is ₹166.

Conclusion: Valuation Against Market Price

My valuation: ₹166 | Market price: ₹175 | Verdict: Fairly priced

GAIL trades close to its cash flows. On these assumptions, the shares sit about 5% above the estimated fair value for a valuation of this kind, which reads as fairly priced rather than cheap or expensive.

Shareholders

- At ₹175, the market implies a terminal growth rate of about 4.4%, against the 4.0% assumed here, a small gap.
- The valuation is far more sensitive to capex than to growth. The real question for GAIL is whether the pipeline-building phase ends, and cash starts returning to shareholders's

View as a Portfolio Manager

- Rating: Hold. GAIL is fairly priced, pays a 3.15% dividend yield, and FY26 appears to be a cyclical trough rather than a permanent decline. Q1 FY27 operating profit nearly doubled YoY
- Risks are real: petrochemical losses widened to ₹1,410 Cr, ROCE fell to 10%, and the FY26 dividend was partly funded by fresh borrowing.
- Entry point: would consider buying on weakness below ₹150, where the capex risk is more fully priced in