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**GAIL CMD B C Tripathi addressing the *GAIL Utkarsh Super 100* programme, a corporate social responsibility initiative of GAIL, which was launched by Uttarakhand Chief Minister Trivendra Singh Rawat in the presence of Minister of State for Higher Education (I/C) Dhan Singh Rawat**

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THE COMPASS

# GAIL: Q3 a miss, but prospects are firm

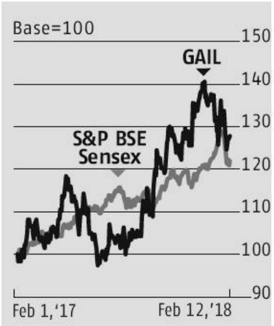
## LPG, gas transmission segments witness strong traction

UJJVAL JAUHARI

GAIL's December 2017 quarter operating performance may have disappointed, but strong revenue growth and net profits being marginally lower than expectations, coupled with good prospects, offer some comfort.

Led by strong volume growth across segments, net sales grew 19 per cent year-on-year (y-o-y) to ₹144.14 billion, and were ahead of Bloomberg's consensus estimates of ₹137.5 billion.

Most segments, including gas transmission, marketing, LPG, and hydrocarbons, registered robust volume growth. The gas marketing segment, which contributes about 70 per cent to GAIL's revenue, grew 18 per cent, and drove its overall performance.



Compiled by BS Research Bureau

Operating profit grew 15.8 per cent y-o-y to ₹19.6 billion, but was lower than analysts' estimates of ₹21.43 billion. This was mainly due to softness in petrochemical margins led by lower realisations. Petchem sales volumes grew 21 per cent y-o-y, but realisations at $1,265 a tonne were down 11 per cent y-o-y.

Petchem realisations for GAIL have been soft, as global prices could not keep pace with the oil rally. Besides, there was pressure from new domestic capacities of Oil and Natural Gas Corporation and Reliance Industries, said analysts. Thus, the operating profit of the petchem business declined 33 per cent y-o-y to ₹940 million; though a 5 per cent sequential increase is encouraging.

Most other businesses witnessed margin improvement, led by strong realisation. Growth in LPG and other hydrocarbon segments (where the operating profit surged 75 per cent y-o-y to ₹6.8 billion) was well supported by gas marketing business (up 12 per cent y-o-y), among others.

This helped GAIL report a net profit of ₹12.62 billion, an increase of 28.4 per cent y-o-y, but marginally lower than the ₹12.93 billion estimated.

Despite the miss, analysts remain bullish, given GAIL's firm prospects, led by the natural gas transmission segment, which is benefiting from robust gas domestic demand and realisation.

The LPG and other hydrocarbon segments' operating performance is also expected to remain healthy, supported by firm oil prices. GAIL's LPG prices have improved from ₹28 per kg in the September quarter to around ₹40 per kg now. Even after accounting for a modest increase in gas cost from October (from $2.5 per million British Thermal Units, or mmBtu, to $2.9 mmBtu), the segment's profitability should remain robust.

The other trigger for GAIL is the unified tariff. The company has requested for a unified tariff of about ₹57 per mmBtu to improve its lower capacity utilisation, enhance return on equity, and to ensure lower tariffs for new pipelines like the Jagdishpur-Haldia-Bokaro-Dhamra pipeline.

Analysts estimate that such a move could increase GAIL's operating profit by ₹21.5 billion, or an upside of 25 per cent to its FY19 earnings per share.

The earlier concerns on commencement of higher-priced US contracts are also being addressed. GAIL has contracted a significant part of its volume for 2018 and that provides comfort, according to analysts. But, since supplies are for a longer period, the Street is awaiting renegotiation of the US contract or long-term supply contracts with customers.

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# 'IOC-GAIL combine will have synergies'

**SAURABH KUMAR**
New Delhi, February 13

**AMID REPORTS THAT** GAIL (India) may be split into marketing and gas pipeline verticals, Indian Oil (IOC)—which has shown interest in acquiring the gas utility—reckons that either divisions or the total business of GAIL offers synergies for the oil marketing company (OMC).

"Whatever plans GAIL has in future in terms of expanding infrastructure, we can do that and there is a possibility of integration to execute the plans faster. That is the advantage when it comes to infrastructure as we have the strongest petroleum pipeline in the country. In terms of marketing, we are already sourcing and supplying gas, and our refineries themselves are large consumers of gas. So even when it comes to marketing we have synergies," said IOC chairman Sanjiv Singh.

Petroleum minister Dharmendra Pradhan last month had said GAIL should concentrate on creating gas infrastructure in the country as marketing can be done by other companies as well. Meanwhile, Pradhan informed Parliament last week that IOC and Bharat Petroleum Corporation have shown interest in acquiring GAIL.

Singh, however, clarified that any company, apart from GAIL, which is in the pipeline infrastructure and gas business makes sense for IOC. "We can have common ROUs (right of use) with gas pipelines as we are a known company of pipelines. If we look at retail business, we are basically a marketing company. We have the customer base," he said.

IOC chairman Sanjiv Singh reckons that either divisions or the total business of GAIL offers synergies for the oil marketing company. He, however, clarifies any company which is in the pipeline infrastructure and gas business makes sense for IOC

IOC has around 13,000 km of pipelines across the country and is the largest retailer of petroleum products.

Finance minister Arun Jaitley had last year in his Budget speech had said that the government will be creating 'oil major' in the country which will have the wherewithal across the petroleum value chain. Following the announcement, national oil explorer ONGC acquired Hindustan Petroleum Corporation last month and the combined entity will have presence in both upstream as well as downstream businesses.

According to Singh, any OMC will have synergy with GAIL. "Looking at capabilities of IOC, it is probably the best match for any marriage of this kind. But this is not to deny other companies do not offer value for a deal with GAIL," said Singh, adding that joining hands with GAIL will enable the entity to offer better services for customers.

Talking about a possibility of a similar deal with Oil India, Singh said while the explorer also offers synergies given IOC has some limited upstream aspirations and it wants to have some crude and gas production coming from within, GAIL makes better sense because its basket is very wide.

"Also, say if oil get a little disrupted in the future, gas and other form of energies are the possible game-changers. We have more aspirations with gas and the business offers more opportunities in the future," Singh added.