SELL
TP: Rs 166 | ∀ 9%

GAIL | Oil & Gas | 01 November 2025

Result above expectation; outlook looks challenging

- **Q2 revenue performance was above expectations due to better-than-expected gas marketing business performance**
- **Gas transmission volumes remain subdued due to the low offtake from the power and fertiliser sectors**
- **Assuming coverage with SELL and TP of Rs166, based on SoTP-based EV/EBITDA of 5.5-6.0x for business segments on Sept'27**

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Results above expectation: Revenue came in at Rs355bn (+4.9%YoY, +0.6%QoQ) and was 10% above consensus estimates. EBITDA came in at Rs34bn (-12.1%YoY, -5.7%QoQ) and was 14% above consensus estimates, due to a better-than-expected gas marketing segment performance. Gas marketing business reported volume growth of 10%YoY, which led to revenue growth on YoY basis.

Gas transmission performance: Volume performance was weak with decline of 6%YoY. Management attributed it to a delay in pipeline connectivity, low offtake by refineries, power and fertiliser sectors, as some of them shifted to alternative fuels due to relative price benefits. Management remains positive on the improvement in offtake and guided volumes of 123-124mmscmd for FY26E and 133-134mmscmd for FY27E.

Petchem business continues to report loss: Volumes showed a decline of 8%YoY to 595Kt vs 177Kt in Q2FY25. However, Petchem business reported EBIT loss of Rs3.5bn in Q2FY26 vs loss of Rs2.9bn in the previous quarter. The end product prices of polypropylene remain weak, which impacted profitability.

Outlook challenging: GAIL management is positive on the gas consumption demand, due to a likely uptick from refineries, power and fertilizer sectors. Volume growth is likely to be 8-9% for FY27E and FY28E. We expect this guidance to be challenging.

Capex: It incurred a capex of Rs16,620mn in Q2FY26 and guided a capex of Rs107bn for FY26E. Net debt increased to Rs157bn from Rs136bn on March 2025, with Net Debt/Equity of 0.2x.

Coverage with SELL: Business performance will likely remain a challenge for the gas transmission business. Petchem business is likely to stay weak in near term. We are assuming coverage with SELL and TP of Rs166, based on SoTP-based EV/EBITDA of 5.5-6.5x for business segments on Sept'27.

Key changes

Target	Rating
▲	▼

Ticker/Price	GAIL IN/Rs 183
Market cap	US$ 13.5bn
Free float	48%
3M ADV	US$ 18.0mn
52wk high/low	Rs 216/Rs 151
Promoter/FPI/DII	52%/15%/19%

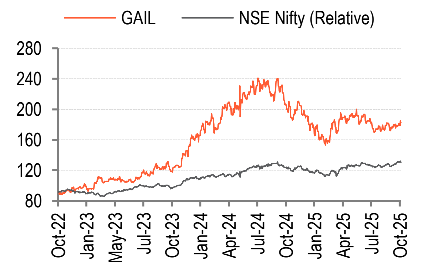
Source: NSE | Price as of 31 Oct 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	1,419,035	1,468,191	1,595,137
EBITDA (Rs mn)	154,318	149,543	177,420
Adj. net profit (Rs mn)	124,498	102,115	117,724
Adj. EPS (Rs)	18.9	15.5	17.9
Consensus EPS (Rs)	18.9	15.5	17.9
Adj. ROAE (%)	15.4	11.7	12.7
Adj. P/E (x)	9.7	11.8	10.2
EV/EBITDA (x)	8.8	8.9	7.4
Adj. EPS growth (%)	76.3	25.8	(18.0)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Fig 1 – Quarterly performance

Rs mn	Q2FY26	Q1FY26	QoQ (%)	Q2FY25	YOY (%)	H1FY26	H1FY25	YOY (%)
Revenue	355,371	353,107	0.6	338,889	4.9	708478.1	686266.7	3.2
EBITDA	34,603	36,688	(5.7)	39,372	(12.1)	71,291	87,273	(18.3)
EBITDA margin (%)	9.74	10.39		11.62		10.06	12.72	
Depreciation	11,769	9,927	18.5	9,220	27.6	21,696	20,742	4.6
Interest	2,337	2,129	9.8	1,882	24.2	4,466	3,969	12.5
Other income	2,365	1,441	64.1	2,767	(14.5)	3,807	4,972	(23.4)
PBT	22,863	26,073	(12.3)	31,037	(26.3)	48,935	67,534	(27.5)
Tax	5,767	6,466	(10.8)	7,800	(26.1)	12,233	17,105	(28.5)
Reported PAT	19,887	23,823	(16.5)	26,897	(26.1)	43,710	58,731	(25.6)
Exceptional item	0	0	NA	0	NA	0	0	NA
Adjusted PAT	19,887	23,823	(16.5)	26,897	(26.1)	43,710	58,731	(25.6)
Adj. PATM (%)	5.60	6.75		7.94		6.17	8.56	
EPS (Rs)	3.02	3.62	(16.5)	4.09	(26.1)	6.65	8.93	(25.6)

Source: Company

Fig 2 – Q2FY26 Actual v/s consensus

Particulars	Q2 Actual	Consensus	VAR (%)
Revenue (Rs mn)	355,371	324,193	9.6
EBITDA (Rs mn)	34,603	30,415	13.8
EBITDA margin (%)	0.0	9.4	-
PAT (Rs mn)	19,887	20,380	(2.4)
EPS (Rs)	3.0	3.1	(2.4)

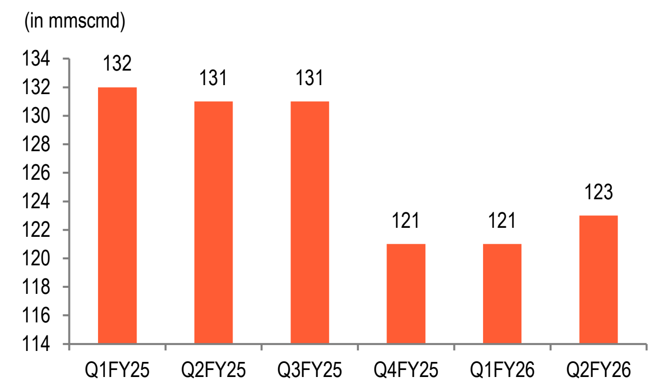
Source: Company, Bloomberg

Fig 3 – Business performance

Particulars	Q2FY26	Q1FY26	QoQ (%)	Q2FY25	YoY (%)	H1FY26	H1FY25	YoY (%)
Natural gas transmission (mmscmd)	123.0	121.0	1.7	131.0	(6.1)	244.0	263.0	(7.2)
LPG transmission(kt)	3,465.0	1,131.0	206.4	1,124.0	208.3	4,596.0	2,189.0	110.0
Natural gas marketing (mmscmd)	105.0	105.0	0.0	96.0	9.4	210.0	196.0	7.1
Polymer sales (Kt)	209.0	177.0	18.1	226.0	7.5	386.0	395.0	(2.3)

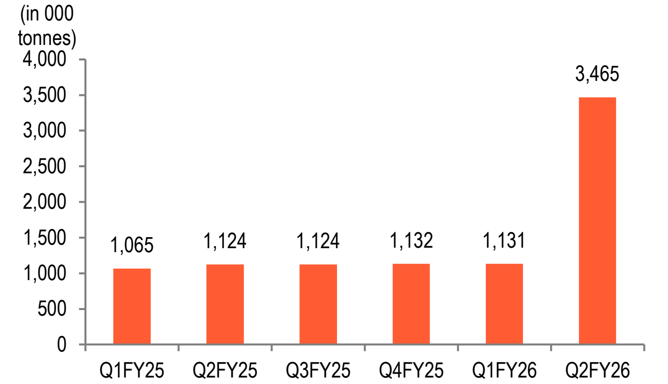
Source: Company

Fig 4 – Natural gas transmission



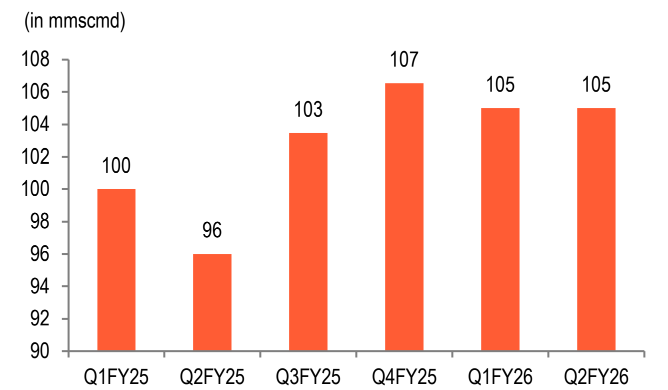
Source: Company

Fig 5 – LPG transmission



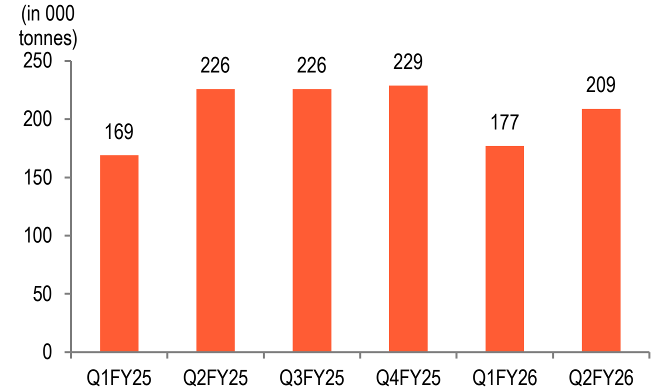
Source: Company

Fig 6 – Natural gas marketing



Source: Company

Fig 7 – Polymer sales



Source: Company

Call Highlights

- **Gas transmission business:** Volumes were subdued at 124mmscmd vs 121mmscmd in Q1FY26 due to delay in pipeline connectivity, and low offtake from power and fertiliser sectors. Some of the power and fertiliser consumers shifted to alternate fuels on better price dynamics. Going forward, management is positive about improvement in demand and expects volumes of 123-124mmscmd for FY26E as also an increase of 10mmscmd to 133-134mmscmd for FY27E.
- **Gas marketing business:** PBT for this business was Rs12,270mn and H1FY26 was Rs22,210mn. GAIL guided PBT of Rs40,000mn -45,000mn for FY26E.
- **Petchem business:** Reported EBIT loss due to increased gas input cost. Management expects performance to be at similar level for H2FY26E. Going forward management expect prices to soften in FY27E. Thus, the segment should see improvement in FY27E onwards. 60KTPA polypropylene plant is likely to be commissioned by end FY26E.
- **Capex:** GAIL incurred a capex of Rs17bn in Q2FY26, which includes Rs8bn on pipelines business, Rs5bn on petrochemicals, RS2bn as operational expenses and balance on CGD/other businesses.
- **Pipeline projects:** During the quarter, Srikakulam-Angul pipeline 422km was commissioned. Ongoing projects are 1) Mumbai-Jharsuguda pipeline with 97% completion 2) Got authorisation to lay Vijaypur- Bina pipeline 105km 3) Gurdaspur-Jammu pipeline is likely to be commissioned in FY27E.
- **GAIL gas business:** GAIL gas has 6 GA under the CGD business. It has 213 CNG stations and 4.5lakh DPNG connections. Volume is 0.5mmscmd. GAIL targets to add 85 new CNG stations in the next 2 years. It reported revenue of Rs32bn and PAT of Rs1bn in Q2FY26.
- **LNG terminal:** GAIL's Dabhol LNG terminal of 5mmtpa still faces constraint in terms of absence of heating system. Therefore, it expects to operate at 50% of capacity. Management expects to get availability of heating system sometime in FY27E.

Business Overview

- Gas Authority of India (GAIL) is in the business of gas utility and operates in the following business segments:
  - Natural Gas transmission
  - LPG transmission
  - Natural gas trading
  - Petchem business
  - LPG and Liquid hydrocarbon trading
  - Others – (GAILTel, E&P, CGD and Power generation)
- It is the largest natural gas transmission and marketing company in India with over 16,421km of gas pipeline network
- GAIL has its own LNG terminal at Dabhol with 5.0mntpa capacity and through strategic stakes (12.5%) in Petronet LNG, which operates LNG terminals at Dahej and Kochi.

Gas transmission business:

- GAIL has over 16,421km of gas pipeline network, which supplies gas to various sectors – CGD, Fertilizers and Power.
- The company has been consistent in adding pipelines over the years. During FY25, it commissioned 277km and undertook lowering works over 717km of pipeline length.
- Transmission volumes are dependent on gas demand by various sectors – the outlook for which depends on pricing dynamics vs alternate fuels. Eg: In FY25- gas volumes performance for the company was challenging as volume offtake was lower from the power sector, owing to their switch to alternate fuels.

Petchem business:

- GAIL has Petchem capacity of 810KT at Pata plant in UP. However, the business has seen subdued EBIT performance as end product polymer prices are weak globally at Rs88,000/t and input gas cost remains at elevated level around USD10-12/mmbtu.
- It is further expanding the capacity of its Pata unit by 7.4% with a 60KTPA PP unit to be commissioned by FY26E.

Valuation Methodology

Environment has been challenging in terms of gas transmission volume performance and petchem business profitability.

Based on the assumptions:

- We estimate growth in volumes to be 6.5% in FY27E and 5% In FY28E. Volumes estimated at 123mmscmd for FY26E, 131mmscmd for FY27E and 138mmscmd for FY28E.

Fig 8 – Key assumptions

	FY24	FY25	FY26E	FY27E	FY28E
Transmission and Trading					
Transmission volumes (mmscmd)	120.0	127.3	123.0	131.0	138.0
Transmission tariff (Rs/scm)	2.3	2.4	2.6	2.8	2.8
% growth	37.1	2.1	8.0	8.0	1.0
Gas Trading					
Blended realization (USD/mmbtu)	14.0	12.0	12.0	12.5	12.5
Margin (Rs/'000scm)	850	800	900	1,040	1,075
Petrochemicals					
Utilization (%)	85.0	90.0	90.0	95.0	95.0
Volumes (mn MT)	0.7	0.8	0.8	0.8	0.8
HDPE price (USD/MT)	1,200	1,200	1,200	1,200	1,225
Spot LNG price (USD/mmbtu)	12.5	12.5	12.5	12.5	12.5
LPG/OLHC					
LPG price (USD/MT)	710	710	710	710	720
Gas cost (USD/mmbtu)	7.5	7.5	7.5	7.5	7.5
USD-INR	82.8	87.0	87.0	87.0	87.0

Source: BOBCAPS Research

EV/EBITDA-based valuation rationale

We are assuming coverage with SELL and TP of Rs166, based on SoTP based EV/EBITDA of 5.5-6.5x for business segments in Sept'27.

- Multiple of 6.5x for Gas and LPG transmission business – in line with commodity cycle
- Multiple of 6x for Petchem business
- Multiple of 5.5x for LPG business

Fig 9 – Valuation summary

Business	EBITDA (Rs mn)	Multiple (x)	Holding co. discount (%)	Rs cr	Value (Rs/share)
Pipeline (Gas + LPG transmission)	101,754	6.5	NA	661,400	101
Natural Gas Trading	23,473	6.5	NA	152,572	23
Petchem	1,850	6.0	NA	11,103	2
LPG	69,114	5.5	NA	380,128	58
Sub-total	196,191			1,205,203	183
CGD investments	2xBV/25% Holding co discount		25	10,776	2
Investment in other PSUs	40% discount to CMP		40	7,407	1
Investment in Konkan LNG	1.5xBV, 20% discount		20	882	0
Other investments	BV/CMP at discount		25	682	0
Total EV				1,224,951	186
Less - Net Debt				135,869	21
Target price (Rs)				1,089,082	166

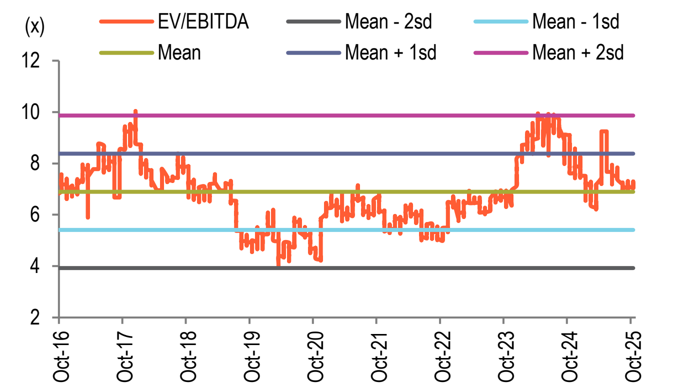
Source: BOBCAPS Research

Key Risks

Key risks to our estimates:

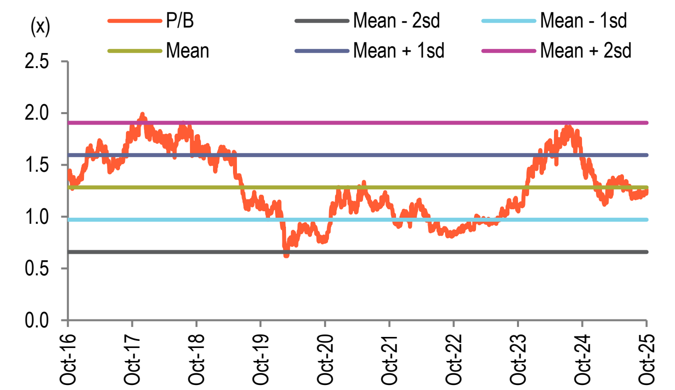
- **Petchem business performance relies on LNG pricing and improvement in the end product prices:** GAIL has been using imported LNG as a feedstock for Petchem plant. In FY23, its cost moved up due to elevated LNG price. This makes its EBITDA performance volatile since then. In the last 4 quarters, the business continues to report EBIT loss. We expect this risk to increase. GAIL is looking at the option to use Ethane as a feedstock where price volatility is relatively less and thus, would bring in stability in the petchem business EBITDA.
- **Low offtake in gas transmission business:** Volume offtake depends on favourable pricing vs alternate fuels. Therefore, if pricing of LNG gets favourable, we may see a faster offtake from various sectors. This would increase revenue and EBITDA growth of GAIL.

Fig 10 – EV/EBITDA 2YF



Source: Bloomberg

Fig 11 – P/B 1YF



Source: Bloomberg

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Total revenue	**1,332,285**	**1,419,035**	**1,468,191**	**1,595,137**	**1,669,142**
EBITDA	142,963	154,318	149,543	177,420	200,783
Depreciation	(36,720)	(37,992)	(39,163)	(47,479)	(60,662)
EBIT	116,321	129,002	123,310	143,130	153,574
Net interest inc./(exp.)	(7,192)	(7,480)	(7,338)	(6,708)	(4,706)
Other inc./(exp.)	10,078	12,676	12,930	13,189	13,452
Exceptional items	0	0	0	0	0
EBT	109,129	145,923	115,972	136,421	148,868
Income taxes	(26,922)	(36,326)	(29,190)	(34,337)	(37,470)
Extraordinary items	0	24,400	0	0	0
Min. int./Inc. from assoc.	16,785	14,902	15,333	15,640	15,953
Reported net profit	**98,992**	**124,498**	**102,115**	**117,724**	**127,350**
Adjustments	0	0	0	0	0
Adjusted net profit	**98,992**	**124,498**	**102,115**	**117,724**	**127,350**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	66,397	77,599	81,292	89,414	94,705
Other current liabilities	81,228	76,337	76,337	76,337	76,337
Provisions	10,761	9,797	9,797	9,797	9,797
Debt funds	186,080	163,074	163,074	149,074	99,074
Other liabilities	130,749	152,277	152,277	152,277	152,277
Equity capital	65,751	65,751	65,751	65,751	65,751
Reserves & surplus	704,221	784,225	833,738	895,574	963,748
Shareholders' fund	769,972	849,976	899,489	961,325	1,029,499
Total liab. and equities	**1,247,172**	**1,331,487**	**1,384,695**	**1,440,652**	**1,464,117**
Cash and cash eq.	17,121	27,205	34,142	43,545	49,492
Accounts receivables	95,803	94,364	97,633	106,075	110,996
Inventories	59,700	62,499	64,664	70,255	73,515
Other current assets	29,368	30,204	30,204	30,204	30,204
Investments	219,100	227,646	227,646	227,646	227,646
Net fixed assets	479,567	493,529	534,366	566,887	576,225
CWIP	236,268	274,211	274,211	274,211	274,211
Intangible assets	72,318	94,826	94,826	94,826	94,826
Deferred tax assets, net	0	0	0	0	0
Other assets	84,348	181,889	213,067	221,384	244,566
Total assets	**1,247,172**	**1,331,487**	**1,384,695**	**1,440,652**	**1,464,117**

Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operations	**148,516**	**159,733**	**131,543**	**150,360**	**173,876**
Capital expenditures	(161,439)	(112,405)	(80,000)	(80,000)	(70,000)
Change in investments	(46,617)	(8,546)	0	0	0
Other investing cash flows	(371)	11,174	0	0	0
Cash flow from investing	**(208,427)**	**(109,777)**	**(80,000)**	**(80,000)**	**(70,000)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	23,331	(23,006)	0	(14,000)	(50,000)
Interest expenses	(7,192)	(7,480)	(7,338)	(6,708)	(4,706)
Dividends paid	(33,095)	(49,313)	(52,601)	(55,888)	(59,176)
Other financing cash flows	65,084	82,958	39,927	15,333	15,640
Cash flow from financing	**66,003**	**(39,872)**	**(44,606)**	**(60,957)**	**(97,929)**
Chg in cash & cash eq.	**6,092**	**10,084**	**6,937**	**9,403**	**5,947**
Closing cash & cash eq.	**17,121**	**27,205**	**34,142**	**43,545**	**49,492**

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	15.1	18.9	15.5	17.9	19.4
Adjusted EPS	15.1	18.9	15.5	17.9	19.4
Dividend per share	5.0	7.5	8.0	8.5	9.0
Book value per share	117.1	129.3	136.8	146.2	156.6

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	1.0	1.0	0.9	0.8	0.8
EV/EBITDA	9.5	8.8	8.9	7.4	6.4
Adjusted P/E	12.1	9.7	11.8	10.2	9.4
P/BV	1.6	1.4	1.3	1.3	1.2

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Tax burden (Net profit/PBT)	75.3	75.1	74.8	74.8	74.8
Interest burden (PBT/EBIT)	0.9	0.9	0.9	1.0	1.0
EBIT margin (EBIT/Revenue)	8.7	9.1	8.4	9.0	9.2
Asset turnover (Rev./Avg TA)	1.1	1.1	1.1	1.1	1.1
Leverage (Avg TA/Avg Equity)	0.0	0.0	0.0	0.0	0.0
Adjusted ROAE	14.0	15.4	11.7	12.7	12.8

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Revenue	40.8	(8.5)	6.5	3.5	8.6
EBITDA	(64.9)	91.0	7.9	(3.1)	18.6
Adjusted EPS	(72.0)	76.3	25.8	(18.0)	15.3
Profitability & Return ratios (%)					
EBITDA margin	10.7	10.9	10.2	11.1	12.0
EBIT margin	8.7	9.1	8.4	9.0	9.2
Adjusted profit margin	7.4	8.8	7.0	7.4	7.6
Adjusted ROAE	14.0	15.4	11.7	12.7	12.8
ROCE	11.5	11.4	10.3	11.5	12.1
Working capital days (days)					
Receivables	26	24	24	24	24
Inventory	16	16	16	16	16
Payables	20	22	23	23	24
Ratios (x)					
Gross asset turnover	1.1	1.1	1.1	1.1	1.1
Current ratio	0.9	1.0	1.0	1.1	1.1
Net interest coverage ratio	16.2	17.2	16.8	21.3	32.6
Adjusted debt/equity	0.2	0.2	0.1	0.1	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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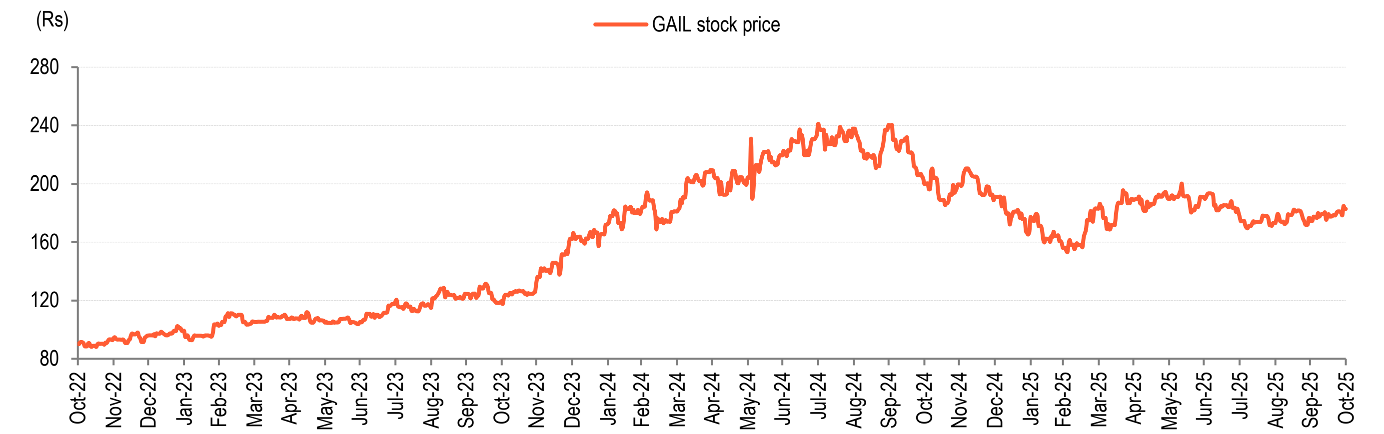
Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): GAIL (GAIL IN)



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