BUSINESS STANDARD SEC-II, Delhi, 10.7.2024
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THE COMPASS

Analysts divided on GAIL's prospects; limited fresh gains in the offing

DEVANGSHU DATTA

While most analysts are expecting poor results from oil marketing companies (OMCs) in the first quarter of 2024-25 (Q1FY25) and even in the first half (H1) of FY25, GAIL (India) could be an outlier.

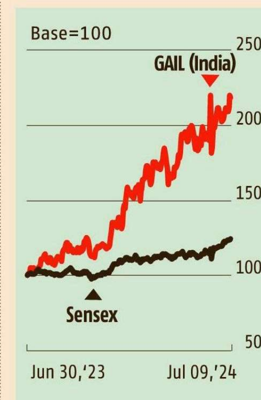
Upstream producers, Oil and Natural Gas Corporation (ONGC) and Oil India (OIL) could do well due to strong crude and gas prices, but refiners are likely to see weak margins and the impact of frozen prices during the election period will also be negative.

GAIL has delivered a return of over 25 per cent since January. It has an improving volume growth outlook with 7 per cent volume CAGR estimated during FY24-26. There is also the potential for significant tariff hikes in the transmission business in the second half (H2) of FY25 and the completion of ₹30,000 crore worth of projects in transmission and petrochemicals, which will boost its return on equity (RoE) and return on capital employed (RoCE).

The end of the investment cycle will mean far better free cash flow for GAIL in FY26. Analysts believe that there could be tariff hikes of 10-12 per cent starting in H2FY25 and continuing through FY26 and this could boost FY26 net profit as well.

The sector regulator, Petroleum and Natural Gas Regulatory Board (PNGRB) has considered a gas price of $12.46 per mmbtu (million British thermal units). Strong offtake in the refining, power, and city gas distribution (CGD) sectors are expected to drive up transmission volumes by around 20 mmscmd (million metric standard cubic meters per day).

Delays in completion of the integrated Jagdishpur-Haldia-Bokaro-Dharma pipeline and Dharma-Haldia pipeline are unlikely to adversely impact volume guidance. In the fourth quarter (Q4) FY24 earnings call, the management guided for a 10-12mmscmd increase in volumes to 130-132mmscmd in FY25 and up to 140-142mmscmd in FY26.



On the capex front, ₹16,300 crore worth of transmission projects and ₹13,100 crore of petchem projects are scheduled for completion in these two fiscals. The end of the capex cycle means no major mega projects on the table at the medium-term. The company may invest in small-scale LNG and CBG projects but these will not be that significant for capex. As a result, FCF (free cash flow) should climb significantly.

GAIL's recent long-term LNG contracts, with Vitol and Adnoc, have been at small discounts to the previous gas contracts. Weakness in spot LNG prices, coupled to the strong outlook for growth in volumes, creates more opportunities to improve the competitiveness of GAIL's portfolio. During FY24-26, PAT could see a 8.2 per cent CAGR driven by a rise in natural gas transmission volumes to at least 137mmscmd in FY26 from 120 mmscmd in FY24 alongside substantial improvement in petrochemical segment's profitability, as new petrochemical capacity becomes operational and low global inventories drives re-stocking demand, improving spreads. The company's RoE could rise to mid-teens in FY26 from 9.5 per cent in FY23, with FCF of ₹4,000 crore in FY26 versus negative FCF of ₹4,530 crore in FY23. However, there's also been a trend for big gas consumers to book contracts directly especially from the KGD Basin, which will reduce trading opportunities for GAIL. There's also the possibility that margins could reduce in the petchem segment even as volumes rise. The slowdown in transmission pipelines could also mean that GAIL cannot adequately service demand. There are conflicting opinions on the above factors though analysts broadly agree on the volume CAGR.

Target valuations and recommendations are mixed with some analysts having 'sell' ratings while others have 'Buy' and 12-month price targets varying from around ₹170 to ₹260.

FREE PRESS JOURNAL, Mumbai, 10.7.2024
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Anant Kumar Singh gets additional charge of CVO, GAIL

Anant Kumar Singh, CVO, IOCL, has been assigned additional charge of CVO, Gas Authority of India Limited (GAIL), Delhi, for a period of six months. He is a 1994 batch IPS officer of MP cadre.

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ONGC unveils ₹2 trn net-zero plan

ACTION PLAN

7 Gw solar and onshore wind projects

25 compressed biogas plants

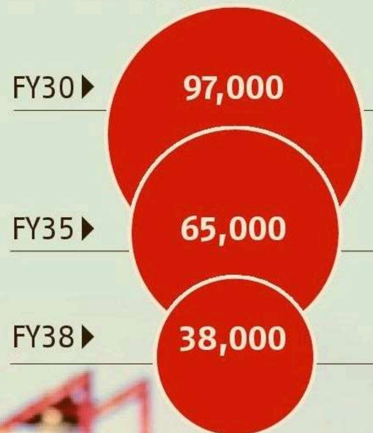
2,000 kilo tonnes per annum carbon capture

360 ktpa green hydrogen

3 Gw pump storage plans

CAPEX PUSH (in ₹Cr)

Investment pipeline by:



SUBHAYAN CHAKRABORTY
New Delhi, 9 July

As part of its net-zero emissions road map, state-owned Oil and Natural Gas Corporation (ONGC) plans to offset 9 million tonnes (mt) of carbon dioxide (CO2) equivalent emissions (tCO2e) by 2038 at a total cost of ₹2 trillion.

India's largest oil and gas producer announced this initiative on Tuesday, making ONGC the first fossil fuel company in India to outline a detailed plan to reduce greenhouse gas (GHG) emissions over a fixed time period. While other major Indian public sector undertakings such as IndianOil, Indian Railways, and Coal India have declared net-zero targets, they have not yet released detailed plans, according to the global Net Zero Tracker portal.

The 200-page 'decarbonisation road map' targets the establishment of 3.89 gigawatt (Gw) of renewable energy capacity across hybrid, offshore wind, and small hydro projects in Maharashtra, Gujarat, Andhra Pradesh, Tamil Nadu, and Assam by 2029-30.

By FY38, 6.03 Gw of renewable capacity is envisioned to replace current captive power generation through natural gas and grid electricity.

The investment pipeline for these projects will amount to ₹97,000 crore by 2030, with an additional ₹65,000 crore and ₹38,000 crore to be spent by 2035 and 2038, respectively.

Green hydrogen production will receive the largest share of the ₹2 trillion projected capital expenditure, at ₹80,000 crore, followed by offshore wind energy projects at ₹49,000 crore, and onshore wind and solar projects at ₹30,000 crore. This plan will enable ONGC to offset 9 million tCO2e, addressing both Scope 1 emissions (direct emissions from sources under the company's control) and Scope 2 emissions (indirect GHG emissions associated with purchased electricity, steam, heat, or cooling).

This plan will enable ONGC to offset 9 million tCO2e, or the emission by 2.1 million petrol-powered passenger vehicles driven for one year. This will address both Scope 1 emissions (direct emissions from sources under the company's control) and Scope 2 emissions (indirect GHG emissions associated with purchased electricity, steam, heat, or cooling).

Offshore assets account for 54 per cent of ONGC's Scope 1 emissions, while onshore assets contribute 63 per cent of Scope 2 emissions. ONGC's additional target of reducing 24.3 million tCO2e of Scope 3 emissions by FY38 depends on partners like GAIL (India) and IndianOil, which handle 91 per cent of such emissions through their processing of ONGC's products.