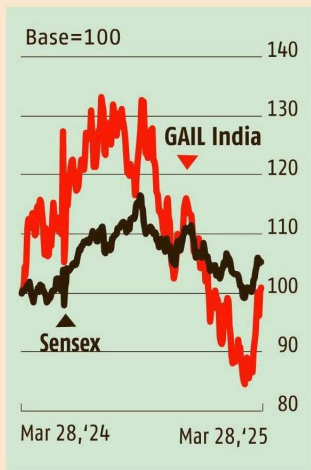




THE COMPASS

# Transmission volumes, petchem gains ahead for Gail



DEVANGSHU DATTA

The Gail (India) share price has seen a correction of 22 per cent in the last six months. The third quarter (Q3FY25) results were also disappointing, and analysts have cut earnings expectations for FY25. However, prospects could improve over the next 12-15 months since there is the likelihood of volume growth for transmission/trading. Capex is also easing off, which will lead to much-improved cash flows. Gas costs for petchem may remain flat, aiding realisations in the petchem segment where capacity will more than double.

There should be around 7 per cent annual growth in transmission /marketing volumes over FY24-27 as the International Energy Agency (IEA) estimates India's natural gas consumption will rise 60 per cent by

2030 from 65 billion cubic metres or bcm in 2023. IEA also estimates Liquefied Natural Gas or LNG consumption to grow at 11 per cent per annum, driven by city gas distribution (CGD), power, and industrial sectors.

Gail is a key player in this growth trajectory.

In FY26, Gail will see the start of operations in 3,115 kilometres of new pipelines and potential tariff hikes in Q1FY26 with positive net profit impact. The petrochemical capacity will rise from 810 kilotons per annum currently to 2.7 million metric tonnes per annum by FY27 as projects commence operations. The petchem product mix is also set to diversify, as will feedstock sources. This de-risks the petchem segment. The dividend yield is likely to be at 4 per cent or better, post-corrections.

Even with conservative

assumptions for lower petchem margins and any potential delays in commissioning of petchem facilities, and moderate transmission volume assumptions, the stock could be attractive as valuations are now quite low.

Management guidance is transmission volumes of 129 million metric standard cubic meters per day or mmscmd in FY25, rising to 140 mmscmd in FY26 and 150 mmscmd in FY27. The transmission business has generated an average return on capital employed or RoCE of 10 per cent in FY24 and prior fiscals, and as volumes rise, it is expected to generate 12 per cent RoCE in FY25.

CGD is a key sector for offtake with the expansion of CNG infrastructure and the cost advantage of gas over liquid fuels for micro, small, and medium enterprises. Demand from

heavy industrial and manufacturing sectors, including iron and steel production, will contribute 15 bcm per year by 2030, and gas consumption in oil refining is projected to rise by over 4 bcm per year as more refineries increase their capacity and also connect to the gas grid.

After 2028, the gap between currently secured LNG contracts and projected demand may widen a lot, leaving India vulnerable to fluctuations in spot LNG markets unless additional contracts are negotiated by then. There could also be a tight spot LNG market in H1CY25. But in H2CY25, new global LNG capacity will become operational to meet LNG demand, and spot prices will moderate.

There's a high probability of gas price-related tariff hikes. The regulator considered a gas price of \$12.46/mmbtu for Gujarat State Petronet recently. Gail

could benefit from a projected 10-12 per cent tariff increase.

Gail has a cumulative capex of ₹15,300 crore for transmission projects and ₹17,300 crore for petchem projects scheduled for completion in FY26. As earnings contribution from these begins, return on equity or RoE could climb by 400-500 basis points from 9.5 per cent in FY23. Free cash flow will also rise substantially as the capex is completed.

Petchem capacity expansions and diversification of product portfolio and feedstock sources will reduce risk and should establish a pattern of stable profits in the petchem segment. In the Q3FY25 conference call, management guided that current average petchem realisations are likely at the bottom of the cycle. Stock price corrections across the energy sector have also affected Gail's substantial investments in other companies in oil & gas, and if the valuation cycle is near bottoming out, there could be an upside in its portfolio and joint ventures.



# GAIL's gas tariff set for a hike, profits to surge ₹3,400 cr

**Press Trust of India**

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**NEW DELHI:** GAIL (India) Ltd is likely to get up to a 35% rise in the integrated tariff for transporting natural gas through its pipeline network, potentially boosting the state-owned company's pre-tax earnings by as much as ₹3,400 crore annually, the company chairman Sandeep Kumar Gupta said.

The levelised tariff of the integrated pipeline network, which carries about 90% of volume as of date, is ₹58.61 per million British thermal units.

The revision in integrated tariff - the one the power plants, fer-

tiliser units and city gas operators pay for receiving gas through GAIL's 10 pipelines is primarily driven by the need for GAIL to cover increasing operational and maintenance costs while also incentivising further investment in the pipeline infrastructure. "As requisitioned by the regulator, we have submitted requisite details for review of tariff in August 2024. The revised tariff filed is ₹78 per mmBtu," he said, adding that as per regulations the public consultation will be held shortly and a revised tariff order will be issued by the regulator.

The tariff review process is expected to conclude by the first

quarter of the 2025-26 fiscal (April 2025 to March 2026 financial year).

"On an annualised basis, this would increase our profit before tax by up to ₹3,400 crore," Gupta said. The government is keen on raising the share of natural gas in the country's energy basket to 15% by 2030 from the current 6.2% as part of its energy transition goals. Towards this, GAIL is connecting newer areas with pipeline networks to take less polluting fuel to unconnected areas.

As more areas are connected to the pipeline network, GAIL may see a gradual increase in demand for transportation servi-

ces. This increased demand, combined with infrastructure upgrades, may lead to the revision of tariffs.

The Petroleum and Natural Gas Regulatory Board (PNGRB) is likely to approve the revised tariff shortly, Gupta said.

PNGRB, while fixing the tariff in 2023, considered a price of government-controlled domestically produced gas, known as APM gas, at \$3.61 per mmBtu for internal consumption in the running of the pipeline. This rate is no longer applicable after the APM gas was diverted to meet CNG needs.

There is an annual under-recovery of about ₹1,200 crore on

this account.

Also, the regulator has got volume determination done by EIL, which is on the lower side.

"Considering these two factors only, we are expecting an increase of ₹10-12 per mmBtu," he said. PNGRB is expected to balance the need for higher tariffs to cover GAIL's rising costs and the government's commitment to keeping natural gas affordable for consumers.

The increase in tariffs will help GAIL maintain and expand its network, boosting its earnings while aligning with broader government policies aimed at increasing natural gas usage across the country.



# GAIL to get pipeline tariff boost, margins to rise by ₹3,400 crore

**PTI**

NEW DELHI

GAIL (India) Ltd is likely to get up to a 35 per cent rise in the integrated tariff for transporting natural gas through its pipeline network, potentially boosting the state-owned company's pre-tax earnings by as much as Rs 3,400 crore annually, the company chairman Sandeep Kumar Gupta said.

The levelised tariff of the integrated pipeline network, which carries about 90 per cent of volume as of date, is Rs 58.61 per million British thermal units.

The revision in integrated tariff - the one the power plants, fertiliser units and city gas operators pay for receiv-



ing gas through GAIL's 10 pipelines - is primarily driven by the need for GAIL to cover increasing operational and maintenance costs while also incentivising further investment in the pipeline infrastructure.

"As requisitioned by the regulator, we have submitted requisite details for review of tariff in August 2024. The revised tariff filed is Rs 78 per mmBtu," he said, adding that as per regulations the public

consultation will be held shortly and a revised tariff order will be issued by the regulator.

The tariff review process is expected to conclude by the first quarter of the 2025-26 fiscal (April 2025 to March 2026 financial year).

"On an annualised basis, this would increase our profit before tax by up to Rs 3,400 crore," Gupta said.

The government is keen on raising the share of natural gas in the country's energy basket to 15 per cent by 2030 from the current 6.2 per cent as part of its energy transition goals. Towards this, GAIL is connecting newer areas with pipeline networks to take less polluting fuel to unconnected areas.

## गेल इंडिया को पाइपलाइन शुल्क वृद्धि से मार्जिन में 3,400 करोड़ बढ़ोतरी की उम्मीद

नई दिल्ली, (भाषा)। सार्वजनिक क्षेत्र की गेल (इंडिया) लिमिटेड को अपने पाइपलाइन नेटवर्क के जरिये प्राकृतिक गैस परिवहन के लिए मिलने वाले एकीकृत शुल्क में 35 प्रतिशत तक बढ़ोतरी के अनुमान से कर-पूर्व आय सालाना 3,400 करोड़ रुपये तक बढ़ सकती है। कंपनी के चेयरमैन संदीप कुमार गुप्ता ने यह संभावना जताई। वर्तमान में लगभग 90 प्रतिशत गैस का परिवहन करने वाले गेल के एकीकृत पाइपलाइन नेटवर्क का शुल्क 58.61 रुपये प्रति 10 लाख बीटीयू (ब्रिटिश थर्मल यूनिट) है। एकीकृत शुल्क में संशोधन मुख्य रूप से गेल की बढ़ती परिचालन और रखरखाव लागतों को समाहित करने की जरूरत से प्रेरित है। इसके साथ ही यह पाइपलाइन बुनियादी ढांचे में अधिक निवेश को भी प्रोत्साहित करता है। गुप्ता ने कहा, 'हमने नियामक को अगस्त, 2024 में शुल्क दरों की समीक्षा के लिए

अपेक्षित विवरण प्रस्तुत कर दिए थे। दायर संशोधित शुल्क 78 रुपये प्रति 10 लाख बीटीयू का है। उन्होंने कहा कि नियमों के अनुरूप जल्द ही सार्वजनिक परामर्श आयोजित किया जाएगा और नियामक द्वारा संशोधित शुल्क आदेश जारी किया जाएगा। शुल्क समीक्षा प्रक्रिया वित्त वर्ष 2025-26 की पहली तिमाही तक समाप्त होने की उम्मीद है। गुप्ता ने कहा, 'वार्षिक आधार पर, इस शुल्क वृद्धि से हमारे कर-पूर्व आय में 3,400 करोड़ रुपये तक की वृद्धि होगी। सरकार अपने ऊर्जा बदलाव लक्ष्यों के तहत देश की ऊर्जा टोकरी में प्राकृतिक गैस की हिस्सेदारी को मौजूदा 6.2 प्रतिशत से बढ़ाकर वर्ष 2030 तक 15 प्रतिशत करने की इच्छुक है। गुप्ता ने कहा कि पेट्रोलियम और प्राकृतिक गैस नियामक बोर्ड (पीएनजीआरबी) जल्द ही संशोधित शुल्क दर को मंजूरी दे सकता है।