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THE COMPASS

Tariff hike likely to remain key trigger for GAIL

Margins for select segments set to fall on lower oil prices

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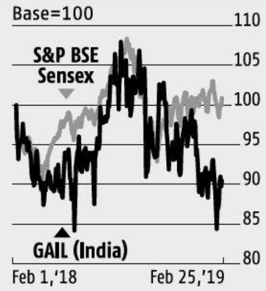
GAIL is trading about 16 per cent lower from its highs in August.

Falling crude oil price has been a dampener and took a toll on the company's profitability; it also raised concerns on the placement of high-priced LNG contracts.

During the previous quarter, the company continued to put up a good show in the natural gas marketing segment but there was disappoint in the petchem segment's profitability.

Analysts believe lower oil prices will impact performance in LPG/liquid hydrocarbons and petchem segments. ICICI Securities has already reduced the petchem segment's profit estimates for FY19 and FY20 to factor in for lower realisations due to a decline in oil prices.

Higher priced "take or pay" US LNG cargoes have for long been looked at with caution due to their impact on profitability.



Compiled by BS Research Bureau

When crude oil prices continued their upward movement, GAIL benefitted as these cargoes have been sold easily in international markets, say analysts. With crude oil prices declining, this has become a concern. The segment's profit has reduced significantly on a sequential basis. The GAIL management has given an assurance that all cargoes for the next couple of quarters have been tied up and expect to keep profitability at the level witnessed in Q3FY19.

Analysts believe that the overhang on profitability outlook may continue.

However, it is natural gas marketing, trading volumes and profitability improvement that remains the mainstay for the company.

The natural gas marketing segment alone contributes three fourths to the overall revenues. While volume growth remains steady, analysts feel that to compensate for softness in other segments, and to grow earnings significantly, tariff hike holds the key. They add that as most negatives now remain priced in, they are awaiting the PNGRB decision on tariff revision for the trunk HVJ-GREP pipeline, which contributes 50 per cent of volumes and will lead to material upside in earnings.

The buzz on tariff hikes has already started and the regulator could issue a final order by March 31 to be implemented from the beginning of April. This would be a positive development. Tariff hikes, thus remain the trigger.