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'₹1.7 L Cr AGR Relief Could Help Boost GAIL Stock This Year'

Stock has fallen 17% in past one year due to concerns over results, business recast plans

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Mumbai: Shares of GAIL, currently trading at a 38% discount to its long-term price-to-earnings average, could give a good return in 2020 if it gets relief from ₹1.7 lakh crore of payment related to adjusted gross revenue (AGR) demanded by the department of telecommunications (DoT), analysts said.

The state-run natural gas marketer would be the biggest beneficiary of the increasing domestic gas and LNG production in the country, they said. But the stock has declined 17% in the past one year, mainly due to concerns over possible restructuring of business segments, lower-than-expected results and the recent AGR-related demand.

DoT has raised the demand after the Supreme Court expanded the definition of AGR, based on which telecom licence holders need to pay their licence fee to the government. The AGR now includes revenue from businesses unrelated to telecom as well, and that is a concern for non-telecom companies such as GAIL and Power Grid Corp that hold the licences.

"The current weakness in the GAIL stock seems to be a reaction to DoT-AGR issues and we believe the AGR demand is not tenable," Emkay Global analyst Sabri Hazarika said. "The stock trades at an attractive valuation and we reiterate our 'buy' rating with a target price of ₹160."

At current market price — it closed at ₹125.7 on the BSE Friday — the stock trades at six times its FY21 estimated Ebitda, which is at a 19% discount to the five-year average of 7.4x. On price-to-earnings terms, it is currently trading at a one-year forward PE of 8.7 times, which is a 38% discount to its 10-year long-term average of 14x. The company has maintained a strong dividend payout of 35% in FY19, yielding 3.2% per share.

"We believe that GAIL would be a key beneficiary of the increasing domestic gas and LNG production in the country," said Siddhartha Khemka, the head of research at Motilal Oswal Financial Services. "Tightening norms on industrial pollution should also help the transmission segment in the longer run."

"Failure to seek relief from payment related to AGR demanded by DoT can adversely impact financials," he added.

Analysts expect an Ebidta CAGR of 14% over FY2020-22, with FY22 EV/Ebitda of 5.4x. The transmission segment should remain a major contributor to Ebidta, with volumes growing to 135 million standard cubic meters per day in FY2022.

GAIL (India)

CMP (₹)	125.65
6M Return (%)	-17.67
1Y Forward PE	9.18
5Y Avg PE	18.84
Target Price (₹)*	168.21
Dividend Yield (%)	3.19
Revenue 5Y CAGR (%)	4.24
EBIT 5Y CAGR (%)	4.70

* Bloomberg Consensus Estimate