PIONEER, Delhi, 12.3.2020

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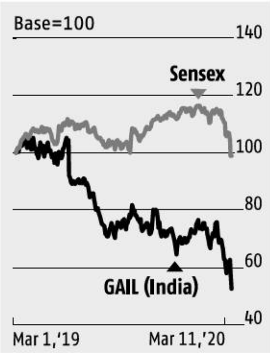
Inspired by Prime Minister's initiative #SheInspiresUs and as a tribute to its women employees, GAIL (India) Ltd celebrated Women's Day with its *What's Your Avatar* initiative within the organisation. Under this, the employees had an option to choose specially designed "Avatars," physically as well as on a digital platform from six different categories namely Passionate, Team Player, Risk Taker, Empathetic, Intellectual and Multitasker, and gift it to their women colleagues, as a token of appreciation for their skills, efforts and qualities. The event saw a high turnout and digital engagement, where employees enthusiastically participated to gift "Avatar" badges to their colleagues and write their names on the billboard besides their corresponding qualities. GAIL aims to treasure its employees and believes in building a diversified workforce.

BUSINESS STANDARD (SMART INVESTOR), Delhi,
Page No. 1, Size:(21.14)cms X (9.74)cms.

Oil price crash not good news for GAIL

Disparity between procurement and selling price of gas will hurt profitability



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Following the crash in crude oil prices, the stock of GAIL (India) has shed 16 per cent in just two trading sessions, falling to four-year lows. This is also a sharp underperformance versus the 5 per cent fall in BSE Sensex during this period. Worries over the impact of lower crude oil on GAIL's profitability have made investors jittery.

According to analysts at Emkay Research, lower oil prices would lead to direct reduction in the earnings of GAIL; it would mean likely margin pressure for the company's natural gas trading/marketing and liquefied petroleum gas (LPG) segments. The sharper fall in crude oil prices (Brent is down 47 per cent year-on-year, or YoY) in recent times vis-à-vis natural gas prices (34 per cent YoY at Henry Hub, on March 10) would significantly hurt profitability of its natural gas marketing business. The latter accounts for 74 per cent of GAIL's top line and 28 per cent of its operating profit. The reason? GAIL imports over a third of its liquefied natural gas (LNG) requirements — a part of which comes from the US.

The procurement price of LNG from the US under long-term contracts is linked to Henry Hub natural gas prices, while its selling price is based on crude oil prices. Although GAIL's back-to-back gas contracts with customers and start of new fertiliser plants offer comfort in terms of volumes, margins will likely get impacted. According to Varatharajan Sivasankaran, analyst at Systematix Group, "The start of five new fertiliser plants over the next 15 months would bring down GAIL's US gas contract open position down to zero. However, the disparity between Henry Hub-based gas price and crude oil-linked selling price of the gas would hurt (its) profitability." In fact, the overall realisation of GAIL's gas marketing segment would come down amid lower crude oil and natural gas prices. The impact could be visible from June 2020 quarter onwards, as the selling price is typically linked to three-month average crude oil prices.

Further profitability pressure would stem from the LPG segment, prices of which are also linked to crude oil. For petrochemicals, however, the negative margin impact would get mitigated to a large extent, with the lower cost of key inputs like naphtha. Also, a likely increase in gas transmission volume and inclusion of gas under goods and services tax should support GAIL's performance. But, with more pressure points than positives at this juncture, GAIL's stock (₹90.40) is unlikely to see a sharp uptick despite attractive valuation, unless crude oil prices rebound. At 6x its FY21 estimated earnings, GAIL is trading at 49 per cent discount to its long-term one-year forward valuation.