



BROKER'S CALL.

ICICI Securities

GAIL INDIA (ADD)

Target: ₹195

CMP: ₹175.45

The regulator PNGRB has finally issued the long-awaited revision order for GAIL transmission tariff (link), declaring a new tariff of ₹65.7/MMbtu vs. current ₹58.6/MMbtu, a 12 per cent increase but lower than the ₹78/MMbtu asked for (implied 33 per cent increase) and also lower than the 20 per cent or so being factored in by the Street. Our base case estimate was about 15 per cent increase from FY27, so the lower about 12 per cent or so tariff increase implies a 2.5-4.8 per cent EPS hit for FY27/28E.

While the tariff is lower than expectations, we note that the regulator has left a window for further revisions, by excluding capex/opex adjustments and stating that the adjustments for them will be made in next tariff order wef FY29. The next tariff revision is due to be decided in FY28 and will be applicable from FY29. Hence, there is a reasonable probability of a further revision in tariffs to the guided tariff of ₹70-72/MMbtu by GAIL from FY29, if even a part of the revisions proposed under these heads is considered by the regulator.

We remain optimistic on further tariff revisions, but near-term EPS cuts and cautious growth prospects across segments drive a downgrade to Add (from Buy). We reduce TP to ₹195 (from ₹215) to factor in the same and also lower DCF assumptions on transmission segment, coupled with lower investment value for other listed holdings.

GAIL: Valuations look attractive

LONG-DELAYED TARIFF HIKE OFFERS PARTIAL RELIEF

GAIL INDIA, THE country's largest gas distributor, has secured a long-awaited increase in its unified pipeline tariff, gaining its clearest regulatory visibility in more than a year. The Petroleum and Natural Gas Regulatory Board (PNGRB) approved an interim tariff of ₹65.69 per mmBtu, a 12% jump from ₹58.61, effective January 1. The revision falls short of market expectations of ₹67-₹71, but the move finally removes a major overhang that has kept the stock under pressure for months.

The petroleum regulator framed the hike as a compromise designed to balance consumer affordability with the company's need to earn regulated returns on a large and aging asset base. For GAIL, the decision provides a more predictable earnings path after multiple delays. The brokerage now predicts a 7% boost to FY27 Ebitda and an 8% uplift to FY27 profit, based on updated tariff assumptions. It reiterated its Buy rating, maintaining a sum-of-the-parts target of ₹220 and projecting an 11% compound annual growth in profit after tax for FY26-28.

Return on equity is expected to average around 13% across FY27-FY28, supported by a rebound in free cash flow. After posting a negative ₹4,500 crore in FY23, the company is now projected to generate about ₹17,100 crore in cumulative free cash flow over FY26-FY28. The turnaround strengthens balance-sheet flexibility and improves visibility on dividends, a key attraction for long-term shareholders.

GAIL shares have been among the more volatile in India's energy sector this year. After touching a high in September 2024, the stock slipped as traders braced for regulatory delays and a more muted tariff outcome. The shares last closed near ₹76, valuing the company at 1.1 times forward core price-to-book—close to its long-term average and implying 25% upside to revised target price.

While the interim tariff is now settled, several parameters—operating cost norms, capital cost recovery, system-loss assumptions and revenue-sharing rules—are slated for review again in 2028. For consumers,



Financial snapshot (₹ cr)

Y/E March	FY26E	FY27E	FY28E
Sales	1,30,130	1,37,060	1,44,640
Ebitda	13,950	15,619	16,360
Adj. PAT	9,270	10,590	11,330
Adj. EPS (₹)	14.1	16.1	17.2
EPS Gr. (%)	-1.9	14.2	7.0
BV/Sh. (₹)	123.1	134.0	145.7
Ratios			
Net D:E	0.2	0.1	0.1
RoE (%)	12.6	13.2	12.9
RoCE (%)	10.6	11.2	11.3
Payout (%)	32.0	32.0	32.0
Valuations			
P/E (x)	12.5	10.9	10.2
P/BV (x)	1.4	1.3	1.2
EV/Ebitda (x)	6.7	5.8	5.3
Div. Yield (%)	2.6	2.9	3.1
FCF Yield (%)	2.8	5.7	6.3

Source: MOSPI, CEIC, MOFSL

the approved hike translates to an estimated 30 paise per standard cubic meter of additional cost. The introduction of zonal tariffs, a structural shift intended to simplify the gas-grid pricing, will also take effect in January.

GAIL's earnings base remains diversified, though its key transmission segment has faced headwinds. Flood disruptions, plant outages and subdued demand from power and fertiliser units weighed on FY26 volumes. A meaningful rebound beginning FY27 is expected, with throughput projected to rise to 132 mmscmd in FY28 from 123 mmscmd in FY26.

The petrochemicals business—long held back by weak spreads and commissioning delays—is posi-

tioned for a stronger showing over FY27-FY28 as new units stabilise and global market conditions improve. Management has guided for a "substantial improvement" in profitability, making the segment a major swing factor for the company's multi-year earnings path.

Meanwhile, the gas trading division continues to deliver reliable support, with Ebit expected to exceed ₹4,000 crore in both FY26 and FY27 on the back of steady sourcing contracts and normalised LNG markets.

With regulatory uncertainty easing, cash flows firming and dividend appeal intact, sentiment around GAIL is starting to rebuild. Most of the recent selloff has already played out, leaving limited downside at current levels. —MOTILAL OSWAL

