

Gas transmission is key

Given GAIL's dominant position in India's gas pipeline network and high share of volume in the upcoming eastern corridor pipeline, its transmission business will drive future earnings. Maintain BUY.

HIGHLIGHTS OF THE QUARTER

- NG transmission:** Revenue was down 4.4% YoY to Rs 14.15bn despite a 3.1% jump in transmission volume to 108.7mmscmd owing to 8.6% fall in transmission tariff to Rs 1,411/tscm. Transmission volume will increase in ensuing quarters as (1) Utilisation of PLNG's recently added capacity ramps-up, (2) Kochi-Mangalore pipeline commissions in Dec-19. Moreover, completion of JHBDPL will boost volumes post 2HFY22. We expect NG transmission volumes to be 110/126/134mmscmd in FY20/21/22E from 108 mmscmd in 1HFY20.
- NG marketing:** Unexpected delays in commissioning of Ramagundam and Matrix fertilizer plants have resulted in ~4-6 mmscmd lower offtake of imported LNG. Therefore, GAIL was forced to sell those LNG cargoes in the spot market at a loss resulting in 77.4/72.2% YoY/QoQ decline in EBIT to Rs 2.37bn. The take-or-pay clause will kick in post Y/E19. Trading margins stood at

Rs 292/tscm vs Rs 980 in 1QFY20. We expect trading margins of Rs 615/tscm over FY21/22. GAIL will garner healthy margins from the benign spot LNG prices and strong demand for RLNG from industrial customers.

- Petchem:** Production was 228kt (+68.8% QoQ) owing to a plant shutdown in 1Q. Sequential realisations were down 8.8% to Rs 75/kg but per unit opex down to Rs 9.2/kg (Rs 28.4/kg in 1Q). Hence, the segment reported EBITDA of Rs 0.32bn vs loss of Rs 1.17bn in 1Q. We expect GAIL to capitalise on the low LNG prices to protect margins in a falling petchem price scenario.

STANCE

As the domestic NG ecosystem (CGD network, RLNG terminals, PLs, revamp of fertiliser plants) develops, India will derive higher benefit from the low LNG prices. New US liquefaction terminals will boost RLNG exports and also keep Henry Hub (HH) prices subdued, enabling GAIL to swap cargoes. Thus, US LNG is not a concern. Our SOTP target is Rs 198 (7.5x Sep-21E EV/e for the stable Gas and LPG transmission busi., 5.0x EV/e for the volatile gas marketing busi., 6.5x EV/e for the cyclical petchem and LPG/LHC busi., Rs 39 for investments and Rs 11 for CWIP).

Financial Summary (Standalone)

| Year Ending March (Rs bn) | 2QFY20 | 2QFY19 | YoY (%) | 1QFY20 | QoQ (%) | FY19 | FY20E | FY21E | FY21E |
|---------------------------|--------|--------|---------|--------|---------|--------|--------|--------|--------|
| Revenues | 180.40 | 191.42 | (5.8) | 183.11 | (1.5) | 751.26 | 727.73 | 828.15 | 879.80 |
| EBITDA | 15.63 | 30.03 | (48.0) | 22.59 | (30.8) | 95.55 | 85.68 | 98.87 | 107.21 |
| APAT | 10.64 | 21.51 | (50.5) | 12.88 | (17.3) | 62.46 | 54.05 | 64.30 | 69.59 |
| AEPS (Rs) | 2.36 | 4.77 | (50.5) | 2.85 | (17.3) | 13.8 | 12.0 | 14.3 | 15.4 |
| P/E (x) | | | | | | 9.2 | 10.6 | 8.9 | 8.2 |
| EV/EBITDA (x) | | | | | | 5.0 | 6.1 | 5.2 | 4.8 |
| RoE (%) | | | | | | 14.8 | 11.8 | 13.0 | 12.9 |

Source: Company, HDFC sec Inst Research

| INDUSTRY | OIL & GAS |
|------------------------------|---------------|
| CMP (as on 08 Nov 19) | Rs 127 |
| Target Price | Rs 198 |
| Nifty | 11,908 |
| Sensex | 40,324 |

KEY STOCK DATA

| | |
|-----------------------------|-----------|
| Bloomberg | GAIL IN |
| No. of Shares (mn) | 4,510 |
| MCap (Rs bn) / (\$ mn) | 573/8,042 |
| 6m avg traded value (Rs mn) | 1,447 |

STOCK PERFORMANCE (%)

| 52 Week high / low | Rs 190/120 | | |
|--------------------|------------|--------|--------|
| | 3M | 6M | 12M |
| Absolute (%) | 4.2 | (24.7) | (32.3) |
| Relative (%) | (3.8) | (31.4) | (46.7) |

SHAREHOLDING PATTERN (%)

| | Jun-19 | Sep-19 |
|-----------------|--------|--------|
| Promoters | 52.68 | 52.66 |
| FIs & Local MFs | 14.90 | 16.27 |
| FPIs | 20.34 | 18.83 |
| Public & Others | 12.08 | 12.24 |
| Pledged Shares | 0.00 | 0.00 |

Source : BSE

Nilesh Ghuge

nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Divya Singhal

divya.singhal@hdfcsec.com
+91-22-6639-3038

LPG & LHC revenue was down 52% QoQ and 68% YoY to Rs 2.456bn owing to 24.6% and 28.3% fall in realization to Rs29/kg (USD 415/MT) while opex was up 18.5% YoY and flat sequentially at USD297/MT

LPG transmission revenue up 19.8% QoQ to Rs 1.61bn owing to 20.8% QoQ jump in volumes to 999kt

Quarterly Financials Snapshot

| (Rs. bn) | 2QFY20 | 2QFY19 | YoY (%) | 1QFY20 | QoQ (%) | 1HFY20 | 1HFY19 | YoY (%) |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 180.40 | 191.42 | (5.8) | 183.11 | (1.5) | 363.51 | 364.41 | (0.2) |
| Raw material and Traded Goods | 149.34 | 145.58 | 2.6 | 145.31 | 2.8 | 294.66 | 280.76 | 4.9 |
| Employee Expenses | 4.27 | 3.79 | 12.6 | 4.20 | 1.7 | 8.47 | 7.59 | 11.6 |
| Other Operating Expenses | 11.16 | 12.03 | (7.2) | 11.00 | 1.4 | 22.17 | 23.60 | (6.1) |
| EBITDA | 15.63 | 30.03 | (48.0) | 22.59 | (30.8) | 38.22 | 52.46 | (27.2) |
| Depreciation | 4.40 | 3.51 | 25.4 | 4.06 | 8.4 | 8.45 | 7.29 | 15.9 |
| EBIT | 11.23 | 26.52 | (57.7) | 18.53 | (39.4) | 29.76 | 45.17 | (34.1) |
| Other Income | 4.40 | 7.07 | (37.7) | 1.51 | 191.1 | 5.91 | 8.26 | (28.4) |
| Interest | 0.28 | 0.45 | (39.5) | 0.24 | 15.0 | 0.51 | 0.90 | (42.6) |
| PBT | 15.36 | 33.13 | (53.7) | 19.81 | (22.5) | 35.16 | 52.53 | (33.1) |
| Provision for tax | 4.71 | 9.34 | (49.6) | 6.93 | (32.0) | 11.64 | 16.15 | (27.9) |
| RPAT | 10.64 | 23.79 | (55.3) | 12.88 | (17.3) | 23.52 | 36.38 | (35.4) |
| APAT | 10.64 | 21.51 | (50.5) | 12.88 | (17.3) | 23.52 | 34.10 | (31.0) |
| REPS (Rs) | 2.36 | 5.27 | (55.3) | 2.85 | (17.3) | 5.21 | 8.07 | (35.4) |
| Adjusted EPS (Rs) | 2.36 | 4.77 | (50.5) | 2.85 | (17.3) | 5.21 | 7.56 | (31.0) |

Source: Company, HDFC sec Inst Research

Margin Analysis

| | 2QFY20 | 2QFY19 | YoY (bps) | 1QFY20 | QoQ (bps) | 1HFY20 | 1HFY19 | YoY (bps) |
|--|--------|--------|-----------|--------|-----------|--------|--------|-----------|
| Raw material as % of Net Sales | 82.8 | 76.1 | 673 | 79.4 | 342 | 81.1 | 77.0 | 401 |
| Employee Expenses as % of Net Sales | 2.4 | 2.0 | 39 | 2.3 | 7 | 2.3 | 2.1 | 25 |
| Other Operating Expenses as % of Net Sales | 6.2 | 6.3 | (9) | 6.0 | 18 | 6.1 | 6.5 | (38) |
| EBITDA Margin (%) | 8.7 | 15.7 | (702) | 12.3 | (367) | 10.5 | 14.4 | (388) |
| Net Profit Margin (%) | 5.9 | 11.2 | (533) | 7.0 | (113) | 6.5 | 9.4 | (289) |
| Tax Rate (%) | 30.7 | 28.2 | 249 | 35.0 | (430) | 33.1 | 30.7 | 237 |

Source: Company, HDFC sec Inst Research

NG transmission volume up 3.1% sequentially despite low off-take from fertiliser as they were under planned shutdown owing to strong demand from power and CGD companies

The petchem plant has resumed operations and production is back to normal in 2Q. Petchem utilisation was up to 102%

Gas Supply and Purchase Agreements (GSPA) with six fertiliser plants and six CGD networks will ensure a healthy utilisation of the upcoming JHBDPL

Quarterly Operational Performance

| | 2QFY20 | 2QFY19 | YoY (%) | 1QFY20 | QoQ (%) | 1HFY20 | 1HFY19 | YoY (%) |
|-----------------------------|--------|--------|---------|--------|---------|--------|--------|---------|
| NG transmission | | | | | | | | |
| Volumes (mmscmd) | 108.70 | 105.90 | 2.6 | 105.41 | 3.1 | 107.06 | 106.47 | 0.6 |
| Tariff (Rs/000 scm) | 1,411 | 1,570 | (10.1) | 1,543 | (8.6) | 1,477 | 1,458 | 1.3 |
| LPG transmission | | | | | | | | |
| Volumes (000 MT) | 999 | 1,015 | (1.6) | 827 | 20.8 | 1,826 | 1,916 | (4.7) |
| Tariff (Rs/kg) | 2 | 2 | 7.5 | 2 | (0.9) | 2 | 2 | 5.7 |
| NG marketing | | | | | | | | |
| Volumes (mmscmd) | 94.70 | 96.20 | (1.6) | 96.55 | (1.9) | 95.63 | 96.68 | (1.1) |
| Trading margin (Rs/000 scm) | 292 | 1,181 | (75.3) | 980 | (70.3) | 636 | 902 | (29.5) |
| Petchem | | | | | | | | |
| Sales volumes (000 tonnes) | 217 | 183 | 18.6 | 136 | 59.6 | 353 | 349 | 1.1 |
| Utilisation (%) | 102 | 88 | 16.9 | 61 | 68.9 | 82 | 83 | (1.4) |
| Realisation (Rs/kg) | 75 | 97 | (22.9) | 82 | (8.8) | 78 | 97 | (19.4) |
| LPG & LHC | | | | | | | | |
| Sales volumes (000 tonnes) | 329 | 338 | (2.7) | 296 | 11.1 | 625 | 652 | (4.1) |
| Realisation (Rs/kg) | 29 | 41 | (28.3) | 39 | (24.6) | 34 | 37 | (9.3) |
| Realisation (USD/MT) | 415 | 582 | (28.6) | 561 | (26.0) | 488 | 546 | (10.6) |

Source: Company, HDFC sec Inst Research

Segmental Financial Performance

| | 2QFY20 | 2QFY19 | YoY (%) | 1QFY20 | QoQ (%) | 1HFY20 | 1HFY19 | YoY (%) |
|-------------------------|--------|--------|---------|--------|---------|--------|--------|---------|
| NG transmission | | | | | | | | |
| Revenue (Rs bn) | 14.15 | 15.31 | (7.6) | 14.80 | (4.4) | 28.95 | 28.42 | 1.8 |
| EBITDA (Rs bn) | 10.20 | 10.81 | (5.6) | 10.68 | (4.5) | 20.88 | 19.89 | 5.0 |
| EBIT (Rs bn) | 8.03 | 8.94 | (10.3) | 8.59 | (6.6) | 16.62 | 15.97 | 4.1 |
| EBITDA margin (%) | 72.1 | 70.6 | | 72.2 | | 72.1 | 69.9 | |
| EBIT margin (%) | 56.7 | 58.4 | | 58.1 | | 57.4 | 56.0 | |
| LPG transmission | | | | | | | | |
| Revenue (Rs bn) | 1.61 | 1.52 | 5.8 | 1.35 | 19.8 | 2.96 | 2.93 | 0.8 |
| EBITDA (Rs bn) | 0.96 | 0.79 | 21.5 | 0.76 | 26.3 | 1.72 | 1.59 | 8.2 |
| EBIT (Rs bn) | 0.81 | 0.65 | 24.6 | 0.62 | 32.2 | 1.43 | 1.31 | 9.4 |
| EBITDA margin (%) | 59.6 | 51.8 | | 56.5 | | 58.0 | 54.3 | |
| EBIT margin (%) | 50.5 | 42.8 | | 45.7 | | 48.1 | 44.6 | |

Source: Company, HDFC sec Inst Research

The Kochi-Mangalore pipeline commissioning is expected to be completed by end of 3QFY20 (earlier target, 2QFY20)

Unexpected delays in commissioning of Ramagundam and Matrix fertilizer plants have resulted in ~4-6 mmscmd lower offtake of imported LNG. Therefore, GAIL was forced to sell those LNG cargoes in the spot market at a loss resulting in 77.4/72.2% YoY/QoQ decline in EBIT to Rs 2.37bn

| | 2QFY20 | 2QFY19 | YoY (%) | 1QFY20 | QoQ (%) | 1HFY20 | 1HFY19 | YoY (%) |
|----------------------|--------|--------|---------|--------|---------|--------|--------|---------|
| NG marketing | | | | | | | | |
| Revenue (Rs bn) | 150.86 | 155.19 | (2.8) | 154.61 | (2.4) | 305.47 | 295.54 | 3.4 |
| EBITDA (Rs bn) | 2.54 | 10.45 | (75.7) | 8.61 | (70.5) | 11.15 | 15.96 | (30.1) |
| EBIT (Rs bn) | 2.37 | 10.45 | (77.4) | 8.50 | (72.2) | 10.87 | 15.96 | (31.9) |
| EBITDA margin (%) | 1.7 | 6.7 | | 5.6 | | 3.6 | 5.3 | |
| EBIT margin (%) | 1.6 | 6.7 | | 5.5 | | 3.5 | 5.3 | |
| Petchem | | | | | | | | |
| Revenue (Rs bn) | 16.19 | 17.72 | (8.6) | 11.13 | 45.5 | 27.32 | 33.86 | (19.3) |
| EBITDA (Rs bn) | 0.32 | 2.75 | (88.4) | (1.17) | (127.4) | (0.85) | 5.88 | (114.5) |
| EBIT (Rs bn) | (0.82) | 1.67 | (149.2) | (2.27) | (63.7) | (3.09) | 3.75 | (182.5) |
| EBITDA margin (%) | 2.0 | 15.5 | | (10.5) | | (4.3) | 17.5 | |
| EBIT margin (%) | (5.1) | 9.4 | | (20.4) | | (12.7) | 11.2 | |
| LPG & LHC | | | | | | | | |
| Revenue (Rs bn) | 9.61 | 13.77 | (30.2) | 11.46 | (16.2) | 21.06 | 24.49 | (14.0) |
| EBITDA (Rs bn) | 2.73 | 7.83 | (65.1) | 5.28 | (48.3) | 8.01 | 13.29 | (39.7) |
| EBIT (Rs bn) | 2.45 | 7.67 | (68.0) | 5.11 | (52.0) | 7.56 | 12.97 | (41.7) |
| EBITDA margin (%) | 28.4 | 56.9 | | 46.1 | | 37.3 | 53.9 | |
| EBIT margin (%) | 25.5 | 55.7 | | 44.6 | | 35.1 | 52.6 | |

Source: Company, HDFC sec Inst Research

Assumptions

| | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
| No of days | 365 | 365 | 365 | 366 | 365 | 365 |
| Exchange rate (Rs/USD) | 67 | 64 | 70 | 69 | 68 | 68 |
| Regasification charges at Dahej (Rs/mmbtu) | 43 | 45 | 48 | 50 | 52 | 55 |
| Gas - Transmission (mmscmd) | 100 | 105 | 107 | 110 | 126 | 134 |
| Gas - Trading (mmscmd) | 81 | 85 | 97 | 100 | 116 | 124 |
| Third Party Volumes (mmscmd) | 20 | 20 | 11 | 10 | 10 | 11 |
| LPG Transmission (MT) | 33,63,000 | 37,21,000 | 39,75,000 | 38,95,295 | 41,11,751 | 41,32,310 |
| Petchem Sales (MT) | 5,78,000 | 6,73,000 | 7,35,000 | 7,98,000 | 8,90,000 | 8,90,000 |
| LPG Sales (MT) | 8,58,000 | 9,89,000 | 9,34,000 | 9,18,744 | 9,23,338 | 9,27,954 |
| Other Liquid HC (MT) | 2,37,000 | 2,87,000 | 3,88,000 | 3,81,616 | 4,01,917 | 4,03,927 |
| LPG + Liquid HC (MT) - R | 10,95,000 | 12,76,000 | 13,22,000 | 13,00,360 | 13,25,255 | 13,31,881 |
| Petchem Production (MT) | 6,00,000 | 6,66,000 | 7,51,000 | 8,08,000 | 8,90,000 | 8,90,000 |
| Inventory change | 22,000 | (7,000) | 16,000 | 10,000 | - | - |
| Crude oil price (USD/bbl) | 50 | 57 | 70 | 66 | 65 | 65 |

Source: Company, HDFC sec Inst Research

We expect positive news flows relating to inclusion of natural gas under GST and upward revision in HVJ pipeline tariff

Given GAIL's dominant position in India's gas pipeline network and the high share of volume in the upcoming eastern corridor gas pipeline, its gas transmission business is likely to be in a sweet spot

Change In Estimates

| | FY20E | | | FY21E | | | FY22E | | |
|----------------------------------|--------|--------|--------|--------|--------|-------|--------|--------|-------|
| | Old | New | %Ch | Old | New | %Ch | Old | New | %Ch |
| Net Revenue | 741.59 | 727.73 | (1.9) | 844.09 | 828.15 | (1.9) | 895.57 | 879.80 | (1.8) |
| EBITDA | 91.74 | 85.68 | (6.6) | 103.65 | 98.87 | (4.6) | 111.94 | 107.21 | (4.2) |
| APAT | 62.41 | 54.05 | (13.4) | 70.39 | 64.30 | (8.6) | 75.74 | 69.59 | (8.1) |
| AEPS | 13.84 | 11.98 | (13.4) | 15.61 | 14.26 | (8.6) | 16.79 | 15.43 | (8.1) |
| Transmission tariff (Rs/'000scm) | 1,509 | 1,448 | (4.0) | 1,573 | 1,503 | (4.5) | 1,639 | 1,574 | (4.0) |

Source: Company, HDFC sec Inst Research

SOTP Valuation (Based on Sep-21E)

| Particulars | (Rs bn) | Multiple | EV (Rs bn) | Value/sh | Basis |
|------------------------------------|---------------|------------|---------------|------------|--------------------|
| Gas Transmission | 53.31 | 7.5 | 399.79 | 88.6 | x Sep-21EV/ EBITDA |
| LPG Transmission | 4.12 | 7.5 | 30.92 | 6.9 | x Sep-21EV/ EBITDA |
| Gas Marketing | 26.41 | 5.0 | 132.05 | 29.3 | x Sep-21EV/ EBITDA |
| Petrochemicals | 2.52 | 6.5 | 16.39 | 3.6 | x Sep-21EV/ EBITDA |
| LPG & Other Hydrocarbons | 21.89 | 6.5 | 142.27 | 31.5 | x Sep-21EV/ EBITDA |
| Standalone weighted average | | 7.1 | | | |
| Less : Net Debt | (54.86) | | (54.86) | (12.2) | As on Sep-20 |
| Standalone Value | | | | 148 | |
| Investments | | | | | |
| ONGC | 43.48 | 0.70 | 30.44 | 6.7 | 30% disc. to CMP |
| Petronet LNG | 52.69 | 0.70 | 36.88 | 8.2 | 30% disc. to CMP |
| IGL | 65.84 | 0.70 | 46.08 | 10.2 | 30% disc. to CMP |
| MGL | 31.69 | 0.70 | 22.18 | 4.9 | 30% disc. to CMP |
| Gujarat Industries Power Ltd | 0.04 | 0.70 | 0.03 | 0.0 | 30% disc. to CMP |
| China Gas Holding Company | 28.94 | 0.70 | 20.26 | 4.5 | 30% disc. to CMP |
| Other investments | 43.44 | 0.50 | 21.72 | 4.8 | 50% disc. to BV |
| Value of Investments | 266.11 | | 177.59 | 39 | |
| Value of CWIP | 99.47 | 0.50 | 49.73 | 11.0 | 50% disc. to BV |
| Value per share | | | | 198 | |

Source: Bloomberg, HDFC Sec Inst Research

Peer Set Comparison

| | MCap (Rs bn) | CMP (Rs) | RECO | TP (Rs) | EPS (Rs/sh) | | | | P/E (x) | | | | P/BV (x) | | | | ROE (%) | | | |
|---------------------|-----------------|-------------|------------|------------|-------------|-------------|-------------|-------------|------------|-------------|------------|------------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|
| | | | | | FY19 | FY20E | FY21E | FY22E | FY19 | FY20E | FY21E | FY22E | FY19 | FY20E | FY21E | FY22E | FY19 | FY20E | FY21E | FY22E |
| Reliance Industries | 9,160 | 1,445 | NEU | 1,527 | 55.5 | 61.2 | 60.6 | 65.4 | 26.0 | 23.6 | 23.8 | 22.1 | 2.3 | 2.1 | 1.9 | 1.8 | 9.8 | 9.2 | 8.4 | 8.5 |
| ONGC | 1,736 | 138 | BUY | 207 | 21.2 | 20.6 | 21.1 | 21.1 | 6.5 | 6.01 | 5.9 | 5.7 | 0.9 | 0.8 | 0.7 | 0.7 | 13.5 | 13.8 | 13.2 | 12.7 |
| Indian Oil Corp | 1,230 | 134 | BUY | 185 | 18.4 | 18.2 | 21.1 | 21.1 | 7.3 | 8.1 | 6.6 | 5.8 | 1.1 | 1.1 | 1.0 | 0.9 | 15.4 | 13.5 | 15.4 | 16.1 |
| BPCL | 987 | 502 | SELL | 451 | 36.3 | 33.8 | 34.3 | 34.3 | 13.8 | 13.4 | 12.7 | 12.9 | 2.7 | 2.4 | 2.2 | 2.0 | 20.1 | 19.0 | 18.1 | 16.3 |
| GAIL | 573 | 127 | BUY | 198 | 13.8 | 12.0 | 14.3 | 15.4 | 9.2 | 10.6 | 8.9 | 8.2 | 1.3 | 1.2 | 1.1 | 1.0 | 14.8 | 11.8 | 13.0 | 12.9 |
| HPCL | 448 | 294 | BUY | 362 | 39.6 | 32.7 | 35.1 | 35.1 | 7.4 | 10.1 | 8.8 | 8.2 | 1.6 | 1.4 | 1.3 | 1.2 | 23.3 | 15.0 | 15.6 | 15.1 |
| Petronet LNG | 425 | 283 | BUY | 390 | 14.4 | 16.3 | 20.9 | 20.9 | 19.7 | 15.7 | 12.9 | 11.9 | 4.2 | 4.0 | 3.8 | 3.7 | 21.8 | 26.2 | 30.5 | 31.8 |
| Indraprastha Gas | 293 | 418 | BUY | 483 | 11.2 | 13.1 | 14.1 | 14.1 | 37.2 | 27.0 | 25.0 | 22.3 | 7.1 | 6.0 | 5.2 | 4.5 | 20.6 | 24.1 | 22.4 | 21.7 |
| Oil India | 180 | 166 | BUY | 225 | 33.4 | 32.2 | 32.6 | 32.6 | 5.0 | 5.4 | 5.2 | 5.1 | 0.6 | 0.6 | 0.5 | 0.5 | 13.0 | 11.4 | 10.5 | 9.8 |
| Gujarat Gas | 135 | 196 | BUY | 261 | 6.3 | 11.1 | 11.7 | 11.7 | 31.1 | 15.6 | 16.1 | 14.1 | 6.1 | 4.2 | 3.5 | 2.8 | 21.3 | 32.1 | 23.7 | 22.2 |
| GSPL | 120 | 213 | BUY | 244 | 14.1 | 16.6 | 20.2 | 21.4 | 13.9 | 11.8 | 9.7 | 9.1 | 1.9 | 1.7 | 1.5 | 1.3 | 14.7 | 15.3 | 16.4 | 15.5 |
| Mahanagar Gas | 96 | 969 | BUY | 1,157 | 55.3 | 56.7 | 58.1 | 58.1 | 17.5 | 16.2 | 16.0 | 15.6 | 4.0 | 3.5 | 3.1 | 2.7 | 24.3 | 23.0 | 20.3 | 18.5 |

Source: Company, HDFC sec Inst Research

Standalone Income Statement

| Y/E March (Rs bn) | FY18 | FY19 | FY20E | FY21E | FY22E |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Revenues | 536.62 | 751.26 | 727.73 | 828.15 | 879.80 |
| Growth % | 11.5 | 40.0 | (3.1) | 13.8 | 6.2 |
| Raw Material | 36.78 | 42.02 | 52.52 | 54.14 | 54.35 |
| Gas Trading | 367.59 | 546.62 | 532.38 | 619.76 | 661.65 |
| Employee Cost | 13.01 | 17.78 | 16.69 | 17.36 | 18.06 |
| Other Expenses | 42.89 | 49.29 | 40.47 | 38.01 | 38.53 |
| Operating Profits | 76.34 | 95.55 | 85.68 | 98.87 | 107.21 |
| Operating Profit Margin (%) | 14.2 | 12.7 | 11.8 | 11.9 | 12.2 |
| EBITDA | 76.34 | 95.55 | 85.68 | 98.87 | 107.21 |
| EBITDA Margin (%) | 14.2 | 12.7 | 11.8 | 11.9 | 12.2 |
| EBITDA Growth (%) | 19.9 | 25.2 | (10.3) | 15.4 | 8.4 |
| Depreciation | 14.15 | 15.50 | 17.72 | 19.43 | 20.38 |
| EBIT | 62.19 | 80.05 | 67.96 | 79.44 | 86.83 |
| Other Income (Including EO Items) | 10.15 | 12.18 | 10.37 | 10.78 | 11.21 |
| Interest Cost | 2.75 | 1.39 | 2.34 | 4.25 | 5.00 |
| PBT | 69.58 | 90.85 | 75.98 | 85.97 | 93.04 |
| Taxes | 23.40 | 30.59 | 21.93 | 21.66 | 23.45 |
| RPAT | 46.18 | 60.26 | 54.05 | 64.30 | 69.59 |
| EO (Loss) / Profit (Net Of Tax) | 0.19 | (2.20) | - | - | - |
| APAT | 46.00 | 62.46 | 54.05 | 64.30 | 69.59 |
| APAT Growth % | 14.1 | 35.8 | (13.5) | 19.0 | 8.2 |
| AEPS | 10.2 | 13.8 | 12.0 | 14.3 | 15.4 |
| EPS Growth % | 14.1 | 35.8 | (13.5) | 19.0 | 8.2 |

Source: Company, HDFC sec Inst Research

Standalone Balance Sheet

| Y/E March (Rs bn) | FY18 | FY19 | FY20E | FY21E | FY22E |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| SOURCES OF FUNDS | | | | | |
| Share Capital | 22.55 | 22.55 | 22.55 | 22.55 | 22.55 |
| Reserves And Surplus | 380.73 | 418.38 | 452.94 | 494.07 | 538.57 |
| Net Worth | 403.28 | 440.93 | 475.50 | 516.62 | 561.12 |
| Long-term Debt | 9.76 | 8.71 | 48.71 | 56.71 | 66.71 |
| Short-term Debt | - | - | - | - | - |
| Total Debt | 9.76 | 8.71 | 48.71 | 56.71 | 66.71 |
| Net Deferred Taxes | 46.31 | 59.48 | 60.67 | 66.73 | 68.07 |
| Long-term Provisions & Others | 22.45 | 41.33 | 41.94 | 43.80 | 45.18 |
| Total liabilities | 481.81 | 550.44 | 626.80 | 683.85 | 741.07 |
| APPLICATION OF FUNDS | | | | | |
| Net Block | 287.90 | 310.86 | 388.50 | 428.71 | 468.20 |
| CWIP | 55.14 | 92.02 | 96.46 | 98.77 | 101.57 |
| Investments | 99.53 | 95.28 | 102.61 | 107.11 | 112.11 |
| LT Loans And Advances | 5.58 | 6.68 | 6.88 | 7.08 | 7.30 |
| Other Non-current assets | 25.43 | 25.72 | 26.50 | 27.29 | 28.11 |
| Total Non-current Assets | 473.58 | 530.57 | 620.94 | 668.96 | 717.29 |
| Inventory | 19.20 | 23.22 | 22.49 | 25.60 | 27.19 |
| Debtors | 40.52 | 50.74 | 49.15 | 55.94 | 59.43 |
| Cash And Cash Equivalent | 25.29 | 12.15 | 0.12 | 6.94 | 14.25 |
| Loans And Advances | 6.92 | 8.28 | 8.92 | 8.38 | 8.77 |
| Other Current Assets | 15.32 | 18.82 | 19.21 | 19.77 | 20.47 |
| Total Current Assets | 107.24 | 113.22 | 99.90 | 116.62 | 130.11 |
| Creditors | 38.82 | 39.61 | 39.36 | 45.35 | 48.18 |
| Other Current Liabilities & Provns | 60.20 | 53.73 | 54.68 | 56.39 | 58.15 |
| Total Current Liabilities | 99.02 | 93.34 | 94.04 | 101.74 | 106.33 |
| Net Current Assets | 8.23 | 19.87 | 5.86 | 14.89 | 23.78 |
| Total Assets | 481.81 | 550.44 | 626.80 | 683.85 | 741.07 |

Source: Company, HDFC sec Inst Research

Standalone Cash Flow Statement

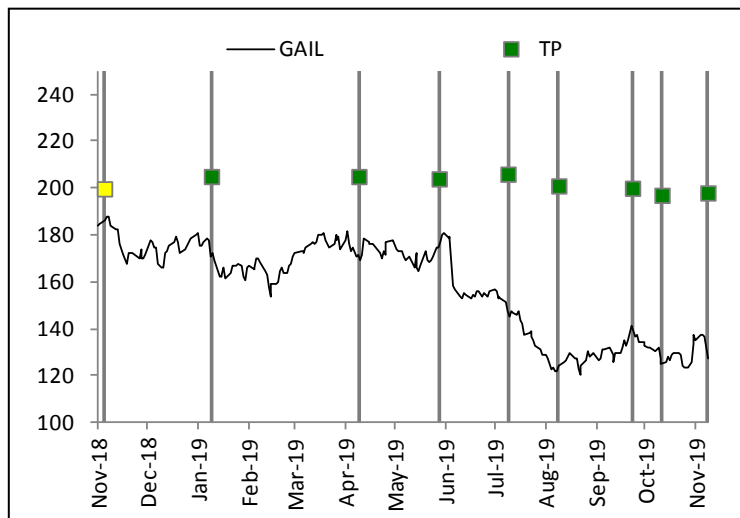
| Y/E March (Rs bn) | FY18 | FY19 | FY20E | FY21E | FY22E |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Reported PBT | 69.58 | 90.85 | 75.98 | 85.97 | 93.04 |
| Non-operating & EO Items | (9.87) | (15.45) | (10.37) | (10.78) | (11.21) |
| Interest Expenses | 2.75 | 1.39 | 2.34 | 4.25 | 5.00 |
| Depreciation | 14.15 | 15.50 | 17.72 | 19.43 | 20.38 |
| Working Capital Change | 20.54 | (24.75) | 1.36 | (2.16) | (1.52) |
| Tax Paid | (14.32) | (17.42) | (20.74) | (15.60) | (22.11) |
| OPERATING CASH FLOW (a) | 82.84 | 50.12 | 66.30 | 81.12 | 83.58 |
| Capex | (34.09) | (75.35) | (99.79) | (61.95) | (62.68) |
| <i>Free Cash Flow (FCF)</i> | <i>48.74</i> | <i>(25.23)</i> | <i>(33.49)</i> | <i>19.17</i> | <i>20.90</i> |
| Investments | (5.76) | 4.25 | (7.33) | (4.50) | (5.00) |
| Non-operating Income | 9.87 | 15.45 | 10.37 | 10.78 | 11.21 |
| Others | 2.53 | (0.29) | (0.77) | (0.79) | (0.82) |
| INVESTING CASH FLOW (b) | (27.45) | (55.95) | (97.53) | (56.47) | (57.29) |
| Debt Issuance/(Repaid) | (20.28) | (1.06) | 40.00 | 8.00 | 11.11 |
| Interest Expenses | (2.75) | (1.39) | (2.34) | (4.25) | (5.00) |
| <i>FCFE</i> | <i>(50.49)</i> | <i>(58.39)</i> | <i>(59.87)</i> | <i>(52.72)</i> | <i>(51.18)</i> |
| Share Capital Issuance | 5.64 | - | - | - | - |
| Dividend | (31.10) | (43.47) | (19.49) | (23.18) | (25.09) |
| Others | 4.99 | 38.59 | 1.03 | 1.60 | - |
| FINANCING CASH FLOW (c) | (43.51) | (7.32) | 19.20 | (17.84) | (18.98) |
| NET CASH FLOW (a+b+c) | 11.88 | (13.15) | (12.02) | 6.82 | 7.31 |
| EO Items, Others | - | - | - | - | - |
| Closing Cash & Equivalents | 25.29 | 12.15 | 0.12 | 6.94 | 14.25 |

Source: Company, HDFC sec Inst Research

Standalone Key Ratios

| | FY18 | FY19 | FY20E | FY21E | FY22E |
|------------------------------------|-------|--------|--------|-------|-------|
| PROFITABILITY % | | | | | |
| EBITDA Margin | 14.2 | 12.7 | 11.8 | 11.9 | 12.2 |
| EBIT Margin | 11.6 | 10.7 | 9.3 | 9.6 | 9.9 |
| APAT Margin | 8.6 | 8.3 | 7.4 | 7.8 | 7.9 |
| RoE | 11.7 | 14.8 | 11.8 | 13.0 | 12.9 |
| Core RoCE | 13.4 | 16.6 | 12.6 | 13.4 | 13.4 |
| RoCE | 10.1 | 12.3 | 9.5 | 10.3 | 10.3 |
| EFFICIENCY | | | | | |
| Tax Rate % | 33.6 | 33.7 | 28.9 | 25.2 | 25.2 |
| Asset Turnover (x) | 1.1 | 1.5 | 1.2 | 1.3 | 1.2 |
| Inventory (days) | 13 | 11 | 11 | 11 | 11 |
| Debtor (days) | 28 | 25 | 25 | 25 | 25 |
| Other Current Assets (days) | 10 | 9 | 10 | 9 | 8 |
| Payables (days) | 31 | 22 | 22 | 23 | 23 |
| Other Current Liab & Provns (days) | 41 | 26 | 27 | 25 | 24 |
| Cash Conversion Cycle (days) | (21) | (3) | (4) | (3) | (2) |
| Net Debt/EBITDA (x) | (1.5) | (1.0) | (0.6) | (0.6) | (0.6) |
| Net D/E | (0.3) | (0.2) | (0.1) | (0.1) | (0.1) |
| Interest Coverage | 22.6 | 57.8 | 29.0 | 18.7 | 17.4 |
| PER SHARE DATA | | | | | |
| EPS (Rs) | 10.2 | 13.8 | 12.0 | 14.3 | 15.4 |
| CEPS (Rs) | 13.34 | 17.29 | 15.91 | 18.57 | 19.95 |
| DPS (Rs) | 5.7 | 8.0 | 3.6 | 4.3 | 5.6 |
| BV (Rs) | 89.4 | 97.8 | 105.4 | 114.5 | 124.4 |
| VALUATION | | | | | |
| P/E (x) | 12.5 | 9.2 | 10.6 | 8.9 | 8.2 |
| P/Cash EPS (x) | 9.5 | 7.3 | 8.0 | 6.8 | 6.4 |
| P/BV (x) | 1.4 | 1.3 | 1.2 | 1.1 | 1.0 |
| EV/EBITDA (x) | 6.0 | 5.0 | 6.1 | 5.2 | 4.8 |
| EV/Revenue (x) | 0.9 | 0.6 | 0.7 | 0.6 | 0.6 |
| OCF/EV (%) | 18.1 | 10.6 | 12.8 | 15.7 | 16.3 |
| FCFF /EV (%) | 10.6 | (5.3) | (6.5) | 3.7 | 4.1 |
| FCFE/M CAP (%) | (8.8) | (10.2) | (10.5) | (9.2) | (8.9) |
| Dividend Yield (%) | 4.5 | 6.3 | 2.8 | 3.4 | 4.4 |

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


| Date | CMP | Reco | Target |
|-----------|-----|------|--------|
| 5-Nov-18 | 186 | NEU | 199 |
| 9-Jan-19 | 178 | BUY | 205 |
| 9-Apr-19 | 172 | BUY | 205 |
| 29-May-19 | 175 | BUY | 204 |
| 9-Jul-19 | 147 | BUY | 206 |
| 11-Aug-19 | 124 | BUY | 201 |
| 22-Sep-19 | 126 | BUY | 200 |
| 11-Oct-19 | 127 | BUY | 197 |
| 11-Nov-19 | 127 | BUY | 198 |

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- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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