

Margins pressure raises concern**Company Name**

AEGISCHEM

BPCL

DEEPIIND

GAIL

GSPL

GUJGAS

IGL

IOC

MGL

MRPL

OIL

ONGC

PETRONET

RELIANCE

Rising crude oil prices and depreciation of rupee against dollar is exerting pressure on the Oil Marketing Companies but it is beneficial for the domestic oil producers. In Q2 FY19, crude prices has surged by 55% YoY and 6% QoQ to ~Rs. 4987/bbl. For OMC's high crude oil prices could lead to inventory gain in Q2 FY19 which is likely to be offset by the higher forex losses. Following crude oil prices, natural gas prices has also surged significantly in the first week of October by 9% to USD 3.36/MMBTU. This could lead to better realization for domestic oil producers but could lead to short term margin pressure on the Gas distribution companies.

Oil exploring companies:**Higher crude oil and gas prices will lead to realization improvement**

In dollar terms crude oil prices has surged by 42% YoY to USD 71/bbl (Average from July to Sep month) where as the gas prices has surged by 23% YoY to 3.06/bbl in Q2 FY19. In absence of any subsidy sharing with the OMC's full benefit of higher prices will be flown to oil producers like ONGC and Oil India. Amid general elections, state elections (like Madhya Pradesh and Rajasthan) and rising protest against rising petrol and diesel prices may trigger the subsidy sharing with the OMC's (which mandated oil producers to bear burden of rising crude prices if price exceeds USD 60/bbl) but till date government has not clarified its stance. Recently government has reduced excise on petrol/diesel by Rs1.5/ltr. But continuing upward trend in fuel prices remained a major cause of concern for the government as well the oil companies.

Oil Marketing Companies:**Rising crude prices could mount pressure on Oil marketing companies**

US Sanctions on Iran will come into play from November 4, 2018 which may act as dampener for crude oil supply globally. Upcoming sanctions may result into sharp curtailment of Iran's exports which may further lead higher uncertainty in crude prices. However Indian Refiners like IOCL does not see any impact from U.S. sanctions and has planned to buy 180,000 bpd Iranian oil, including 40,000 bpd for Chennai Petroleum. Further, considering the sharp jump in the fuel prices, government in the first week of October, has asked OMC's to bear burden of Rs.1/Lt which could lead to significant downgrade in their EPS by around 15% in FY19e. Although, recently government has clarified that it will not extend any further burden on OMC's.

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Gas Distribution Companies:

Rising prices of alternate fuels is triggering volumes

Gas distribution companies like (Gail, GSPL, Gujarat Gas, IGL and MGL) are benefiting from the rise in demand from Power companies as the prices of the alternate fuel like pet coke and coal (fuel used by power plants) has surged significantly by around 11% and 18% respectively in the last few months. However the recent hike in the prices of the natural gas has extended pressure on the margins of the company which is likely to be eased out once the natural gas prices stabilizes. Generally gas distribution companies take two quarters to pass the cost hike on its customers. City Gas distribution companies (like IGL,MGL) are gaining volume in CNG segment on the back of better affordability of CNG over petrol, ease availability and increasing awareness towards environment. Volume growth of 9-11% YoY is expected for the gas distribution companies for the next couple of quarters.

Sector View:

Earnings of the domestic oil producers (like ONGC and Oil India) are expected to remain robust in upcoming quarters on the back of higher realization and lack of subsidy sharing with OMC's. In this space ONGC remains our preferred pick. On the other hand, considering ongoing margin pressure in OMC's, we maintain our NEUTRAL rating in Oil Marketing companies like IOCL, BPCL and MRPL.

In gas distribution space, we are optimistic on long term volume growth of these companies led by the growing attractiveness of gas as alternate fuel, despite short term margin pressure. GSPL, MGL, AEGISCHEM remains our preferred picks.

Company	Cur. MCap	Sales growth			EBITDA Growth			PAT Growth			EBITDA Margin		
	In Cr.	Q2 FY18	Q1 FY19	Q2 FY19E	Q2 FY18	Q1 FY19	Q2 FY19E	Q2 FY18	Q1 FY19	Q2 FY19E	Q2 FY18	Q1 FY19	Q2 FY19E
AEGISCHEM	6,237	83%	19%	-5%	43%	53%	29%	93%	46%	7%	5%	8%	7%
BPCL	62,615	19%	25%	37%	155%	29%	-8%	81%	208%	-7%	7%	6%	4%
DEEPIND	304	9%	-7%	9%	-3%	-7%	9%	7%	-14%	21%	53%	54%	58%
GAIL	80,878	4%	52%	20%	35%	18%	15%	42%	23%	21%	17%	13%	16%
GSPL	9,625	26%	26%	16%	23%	18%	16%	36%	-5%	4%	86%	88%	86%
GUJGAS	8,480	12%	19%	25%	-5%	-8%	2%	-15%	16%	-20%	15%	14%	12%
HEIDELBERG	3,195	10%	22%	17%	45%	78%	-5%	102%	219%	8%	22%	22%	18%
IGL	16,929	16%	22%	16%	15%	6%	1%	17%	9%	7%	23%	21%	20%
IOC	129,749	13%	23%	39%	28%	57%	11%	18%	50%	14%	8%	10%	7%
JKCEM	4,826	20%	7%	15%	30%	-24%	4%	127%	-38%	9%	19%	13%	17%
MGL	8,152	2%	16%	22%	24%	4%	12%	22%	3%	12%	34%	31%	31%
MRPL	14,555	-9%	32%	72%	16%	40%	2%	15%	55%	6%	10%	6%	6%
OIL	22,958	6%	45%	47%	35%	61%	63%	11%	56%	151%	41%	42%	46%
ONGC	201,738	3%	43%	46%	0%	54%	46%	3%	58%	47%	48%	50%	48%
PETRONET	32,595	17%	42%	8%	24%	26%	8%	28%	34%	12%	12%	10%	12%
RELIANCE	713,965	16%	47%	52%	39%	65%	52%	12%	4%	47%	16%	16%	16%
ULTRACEMCO	104,256	20%	31%	12%	17%	4%	0%	-28%	-33%	11%	21%	19%	18%

Company	Reco.	ROE			ROCE			P/E			P/B		
		FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E
AEGISCHEM	BUY	16%	18%	19%	18%	23%	25%	32.9	29.6	22.5	5.4	5.2	4.4
BPCL	NEUTRAL	29%	23%	21%	14%	12%	11%	7.8	8.0	7.5	2.1	1.2	1.1
DEEPIND	NEUTRAL	17%	16%	14%	25%	28%	30%	6.0	3.6	3.5	1.0	0.6	0.5
GAIL	BUY	11%	14%	14%	11%	13%	13%	16.0	14.5	13.4	1.8	2.0	1.8
GSPL	BUY	13%	14%	15%	20%	24%	25%	16.8	13.7	11.0	2.2	1.9	1.7
GUJGAS	NEUTRAL	16%	17%	16%	7%	9%	9%	37.3	22.6	21.2	5.9	3.9	3.4
HEIDELBERG	NEUTRAL	13%	17%	18%	9%	13%	15%	24.2	7.6	6.5	3.1	1.3	1.2
IGL	BUY	19%	18%	18%	27%	23%	23%	30.6	28.2	23.7	5.8	5.0	4.2
IOC	NEUTRAL	19%	18%	18%	17%	16%	16%	8.0	9.2	8.5	1.6	1.3	1.2
JKCEM	NEUTRAL	16%	10%	10%	8%	4%	5%	20.7	29.4	27.4	3.3	3.0	2.8
MGL	BUY	23%	23%	23%	32%	32%	32%	16.5	15.8	14.5	3.8	3.6	3.3
MRPL	NEUTRAL	20%	17%	17%	29%	23%	22%	8.6	5.6	4.6	1.7	0.9	0.8
OIL	NEUTRAL	10%	14%	14%	8%	12%	13%	9.5	5.7	5.4	0.9	0.8	0.8
ONGC	BUY	10%	12%	11%	10%	12%	11%	10.7	8.8	8.4	1.1	1.0	1.0
PETRONET	BUY	21%	21%	19%	28%	27%	25%	17.5	13.6	12.5	3.7	2.8	2.4
RELIANCE	BUY	12%	13%	13%	11%	12%	13%	17.2	18.5	16.6	2.1	2.4	2.2
ULTRACEMCO	NEUTRAL	9%	9%	11%	6%	6%	8%	48.6	41.6	31.9	4.2	3.8	3.4

#For valuation, CMP of 03rd October 2018 has been considered.

CMP **191**
Target **252**
Upside **32%**
Rating **BUY**

	FY17	FY18	FY19E	FY20E
ROE%	14%	16%	18%	19%
ROCE%	20%	18%	23%	25%
PE	27.2	32.9	29.6	22.5
PB	3.9	5.4	5.2	4.4
EV/EBITDA	17.1	25.2	20.1	15.6

	FY17	FY18	FY19E	FY20E	2QFY18	1QFY19	Q2FY19E
Volume('000 MT)							
<i>LPG sourcing</i>	1,043.1	1,176.6	1,026.2	1,239.5	352.9	215.8	241.8
<i>LPG Logistics</i>	1,365.3	1,743.5	2,432.9	2,797.8	441.5	576.5	706.5
<i>Auto Gas</i>	22.3	24.2	27.4	31.1	6.3	6.9	7.3
<i>Bulk LPG</i>	23.5	40.2	67.2	115.7	7.8	11.0	11.6
<i>Commercial LPG</i>	12.5	13.5	15.6	18.1	3.4	3.9	3.5
Financials							
Sales	3,930	4,791	4,999	6,332	1,241	1,017	1,174
<i>Sales Gr</i>	78%	22%	4%	27%	83%	19%	-5%
Ebdita	204	266	382	480	68	86	87
<i>Ebdita Gr</i>	10%	31%	44%	26%	43%	53%	29%
Net Profits	119	198	252	331	52	59	55
<i>Profit Gr%</i>	5%	66%	27%	31%	93%	46%	7%
EbditaM%	5.2%	5.6%	7.6%	7.6%	5.5%	8.5%	7.4%
Net Mgn%	3.0%	4.1%	5.0%	5.2%	4.2%	5.8%	4.7%

Cons./ Fig in Rs Cr

❑ In gas division, strong volume growth is expected in LPG terminal segment on the back of stabilization at Haldia terminal. This Haldia terminal was commissioned only in Q3 of FY 2018 and expected to ramp up in FY19.

❑ Aegis Logistics has commercialized major capex plans in both liquid and gas division. The company has already bagged several contracts from existing clients and few contracts are at negotiation stage and are yet to be finalized. The company is gradually ramping up its capacities in order to boost up their volumes which have started reflecting in the books from last two quarters.

❑ In liquid division several projects like Kandla: 100,000KL , Mangalore: 25,000 KL, Haldia: 35,000 KL are commissioned in Q1 FY19 and expects revenue to start coming from Q3 FY19.

❑ In Mumbai, HPCL is constructing Uran pipeline connection, which is on track and is expected to be completed by end of calendar year 2018.

❑Planned capex for FY19 around Rs. 150 Cr is required.

❑Management has guided for lower interest cost in coming quarters.

❑Adani port has started construction at Mudra terminal. As per the management they have not entered any agreement with OMC's to offtake volume. And thus management does not see any immediate competition arising from this port.

Key Trackable this Quarter

❑ Sourcing and logistics volume in LPG.

❑ LPG distribution volume.

❑ Tax rate

We value the stock at 26x EPS. Recommend BUY

CMP 273
Target 260
Upside -5%
Rating NEUTRAL

	FY17	FY18	FY19E	FY20E
ROE%	32%	29%	23%	21%
ROCE%	16%	14%	12%	11%
PE	8.0	7.8	8.0	7.5
PB	2.5	2.1	1.2	1.1
EV/EBITDA	7.7	7.4	5.4	4.5

	FY17	FY18	FY19E	FY20E	2QFY18	1QFY19	Q2FY19E
Volume(MMT)							
<i>Refinery Thr.</i>	25	28	29	29	7	8	7
<i>Marketing thr.</i>	38	41	43	44	10	11	10
Financials							
Sales	202,211	236,313	284,873	298,818	53,325	71,697	73,240
<i>Sales Gr</i>	7%	17%	21%	5%	19%	25%	37%
Ebdita	10,829	11,669	12,980	13,800	3,528	4,580	3,250
<i>Ebdita Gr</i>	-2%	8%	11%	6%	155%	29%	-8%
Net Profits	8,039	7,919	8,103	8,505	2,358	2,293	2,190
<i>Profit Gr%</i>	21%	-3%	2%	5%	81%	208%	-7%
EbditaM%	5.4%	4.9%	4.6%	4.6%	6.6%	6.4%	4.4%
Net Mgn%	4.0%	3.4%	2.8%	2.8%	4.4%	3.2%	3.0%

Cons/ Fig in Rs Cr

❑ Recently government has asked OMC's to forgo Rs.1 /Lt which is likely to have significant impact on the profitability of the company, EPS is expected to impact by 15% to 44.3 in FY20e.

❑ BPCL's Bina refinery (capable of high sulphur crude) is now under process of stablization. This 120,000 bpd Bina refinery in central India has remain shut down for about 45 days from mid-August for maintenance. This refinery has strongly performed in the last quarter and is expected to improve refining margins further in upcoming quarters.

❑ Kochi refinery is operating at almost 100% utilization implying cap on strong volume growth going ahead. Management has planned a Kochi refinery shut down in Oct-Nov 2018 for optimization. This refinery is also capable of processing high Sulphur crude which improves margins for the refinery. Post maintenance at Kochi refinery, refining margins is expected to expand to the extent of ~ USD 2/bbl over the next few quarters.

❑ BPCL is planning to relocate LPG facility from the Mumbai refinery complex to Rasayani (which is around 60 km off the eastern waterfront) in next two years and build a petchem facility within next five years at an estimated cost of Rs. 36,000-38,000 Cr.

❑ Planned capex plans for the current fiscal is Rs.7400 Cr. out of which Rs 5,300 Cr. will be managed through internal accruals and the rest will be funded by debt guidance. This excludes big plans like Mozambique which may come up.

Key Trackable this Quarter

- ❑ Gross Refining Margins
- ❑ Performance of Kochi terminal
- ❑ Ramp-up at Bina refinery

We value the stock at 1.1x FY20e Book Value. Maintain Neutral

DEEPI IN

CMP 92
Target 94
Upside 2%
Rating NEUTRAL

	FY17	FY18	FY19E	FY20E
ROE%	18%	17%	16%	14%
ROCE%	25%	25%	28%	30%
PE	15.0	6.0	3.6	3.5
PB	2.7	1.0	0.6	0.5
EV/EBITDA	7.8	3.6	2.2	1.9

	FY17	FY18	FY19E	FY20E	2QFY18	1QFY19	Q2FY19E
Order book(Cr.)	780	610	500	550	650	600	590
<i>Financials</i>							
Sales	277	313	295	292	74	74	74
<i>Sales Gr</i>	64%	13%	-6%	-1%	9%	-7%	9%
Ebdita	156	162	168	171	39	40	43
<i>Ebdita Gr</i>	62%	4%	4%	2%	-3%	-7%	9%
Net Profits	70	77	83	86	18	18	22
<i>Profit Gr%</i>	72%	10%	7%	4%	7%	-14%	21%
EbditaM%	56.2%	51.8%	57.0%	58.4%	53.3%	53.7%	58.0%
Net Mgn%	25.4%	24.8%	28.2%	29.5%	24.5%	24.5%	29.4%

Cons/ Fig in Rs Cr

❑ Order book as on 30 June 2018 was Rs. 600 Cr.(Including order of Rs. 150Cr from ONGC which stands cancelled). The dispute is pending with court and no hearing came till date.

❑ PSU's has started awarding contracts from last quarter but Deep Industries has not awarded any new contracts till date. All bids placed by the company are under evaluation by PSU's including ONGC.

❑ Management does not expect any drop in the revenue in FY19 and expects revenue to remain in line with FY18.

❑ In CM blocks total 5 wells are already drilled and further 36 wells to be drilled in FY19.

❑ Deep industry has incorporated a new subsidiary DMCC in Dubai for exploration. Recruitment of manpower has already started and company is now contacting major vendors in middle-east countries.

❑ In Q1 FY19, Deep Industries has successfully executes a US\$4 million maiden project in Middle East. and few more projects are under evaluation. With this, the company is smartly diversifying its portfolio in various assets in order to offset the cancellation of orders by ONGC.

❑ Planned capex in FY19 is around Rs. 100 Cr.(maintenance capex)

❑ We remain watchful on the contract awarded in the core business of the company (Gas dehydration, gas compression and drilling) from ONGC and other PSU. If absence of any new contract, revenue from the core is expected to come under pressure. Hence we do not expect any significant revenue growth for the company in coming fiscal and remain cautious on this stock.

Key Trackable this Quarter

- ❑ Gas production from CBM blocks.
- ❑ Revenue guidance from overseas business.

We value the stock at 3.5x FY20e EPS. Maintain NEUTRAL

CMP 380
Target 446
Upside 17%
Rating BUY

	FY17	FY18	FY19E	FY20E
ROE%	9%	11%	14%	14%
ROCE%	9%	11%	13%	13%
PE	18.2	16.0	14.5	13.4
PB	1.7	1.8	2.0	1.8
EV/EBITDA	10.2	9.5	9.0	8.2

	FY17	FY18	FY19E	FY20E	2QFY18	1QFY19	Q2FY19E
Volume							
Nat. gas(MMSCMD)	402	422	448	475	106	107	112
LPG (MMSCMD)	3,363	3,726	3,794	3,870	918	901	936
NG Mkt.(MMSCMD)	313	327	366	395	72	97	78
Petchem('000 MT)	595	675	706	810	175	166	180
Liquid hydro.('000 MT)	1,097	1,269	1,311	1,337	329	314	335
Financials							
Sales	48,055	53,662	67,392	73,044	12,410	17,299	14,854
Sales Gr	-7%	11%	26%	8%	4%	52%	20%
Ebdita	6,409	7,634	8,971	9,719	2,069	2,244	2,370
Ebdita Gr	50%	19%	18%	8%	35%	18%	15%
Net Profits	3,503	4,618	5,820	6,311	1,310	1,259	1,583
Profit Gr%	57%	32%	26%	8%	42%	23%	21%
EbditaM%	13.3%	14.2%	13.3%	13.3%	16.7%	13.0%	16.0%
Net Mgn%	7.3%	8.6%	8.6%	8.6%	10.6%	7.3%	10.7%

Cons/ Fig in Rs Cr

- ❑ Recently PNGRB has revised transmission tariff for the GAIL pipelines which is likely to improve revenue in gas transmission business (which contributes about 10% of total revenues).
- ❑ GAIL has won 3 bids for City Gas Distribution authorization for Giridihi & Dhanbad Districts in Jharkhand, Sundargarh & Jharsuguda Districts in Odisha and Ganjam, Nayagarh & Puri Districts in Odisha.
- ❑ Company is now focusing on city gas distribution by its own subsidiary Gail gas which gives us volume growth visibility of 10-12% p.a. over FY19-22.
- ❑ Increasing demand of LPG due to implementation of "Ujjawala" scheme may increase the volume going ahead. Volume growth of 8-10% is expected in coming years.
- ❑ Kochi-Mangalore pipeline commissioning is delayed by two months and is now expected to be operational by March 2019.
- ❑ Management has guided for petchem volume of 7 lakh MT in FY19.
- ❑ Capex guidance for FY19 is Rs.6500 Cr.
- ❑ There is a planned shutdown at PATA II which leads in lower LPG production in the last quarter.

Key Trackable this Quarter

- ❑ Trading realisations.
- ❑ Volume growth in Natural gas transmission segment.
- ❑ Offtake of Natural gas by City Gas Distribution companies.

We value the stock at 19x FY20e EPS. Recommend BUY

CMP **181**
Target **221**
Upside **22%**
Rating **BUY**

	FY17	FY18	FY19E	FY20E
ROE%	11%	13%	14%	15%
ROCE%	21%	20%	24%	25%
PE	22.0	16.8	13.7	11.0
PB	2.4	2.2	1.9	1.7
EV/EBITDA	12.0	11.0	7.9	6.6

	FY17	FY18	FY19E	FY20E	2QFY18	1QFY19	Q2FY19E
Gas volume (MSCM)	9,071	11,536	13,147	13,331	2,904	3,321	3,300
Tariff (INR/SCM)	1.11	1.13	1.12	1.12	1.11	1.14	1.14
<i>Financials</i>							
Sales	1,028	1,332	1,744	1,950	348	391	404
Sales Gr	-1%	30%	31%	12%	26%	26%	16%
Ebdita	888	1,148	1,485	1,663	299	344	347
Ebdita Gr	-2%	29%	29%	12%	23%	18%	16%
Net Profits	496	669	799	1,002	177	145	184
Profit Gr%	12%	35%	20%	25%	36%	-5%	4%
EbditaM%	86.4%	86.2%	85.1%	85.3%	85.8%	87.9%	85.8%
Net Mgn%	48.3%	50.2%	45.8%	51.4%	50.7%	37.1%	45.6%

Cons/ Fig in Rs Cr

❑ Recently Petroleum and Natural Gas Regulatory Board (PNGRB) revised tariffs for key gas transportation pipelines. GSPL is the key beneficiary of this move and it is expected that this will improve the blended tariffs by around 26% in upcoming quarters.

❑ In the current financial year FY19, spot natural gas price has surged by ~10% where as the crude prices has been surged by almost 16% and coal prices by ~15%, petcoke price by 11% in the same period, which increases the attractiveness of natural gas over alternative fuel. This gives us visibility for higher volume demand arising from power and fertilizer plants and volume grow in the range of 13-15% YoY in Q2 FY19e is expected.

❑ Further PNGRB has awarded City Gas Distribution rights in new geographies in state of Gujarat. This will gradually enhance demand of natural gas in the state but for now we are waiting for major project work to start by IOC, GGL and Adani Gas. We expect distribution in new geographies to start in next 3 years.

❑ Gujarat Gas Ltd. has started to expand its City gas distribution network in 11 geographies which is expected to add ~450-550 MSCM volume in next 2-3 years, so we have assumed that this volume will gradually reflect in coming quarters.

❑ In FY18, company has raised substantial debt of Rs. 1200 Cr. in order to buy additional stake in Gujarat Gas Ltd.

Key Trackable this Quarter

- ❑ Hike in realization
- ❑ Volume growth

We value the stock at 13x FY20e EPS. Recommend BUY.

CMP **620**
Target **643**
Upside **4%**
Rating **NEUTRAL**

	FY17	FY18	FY19E	FY20E
ROE%	13%	16%	17%	16%
ROCE%	6%	7%	9%	9%
PE	48.7	37.3	22.6	21.2
PB	6.5	5.9	3.9	3.4
EV/EBITDA	17.4	14.5	10.8	10.0

	FY17	FY18	FY19E	FY20E	2QFY18	1QFY19	Q2FY19E
Volume(MSCM)							
<i>CNG</i>	4.7	5.3	5.7	6.0	1.3	1.4	1.4
<i>PNG(Households)</i>	1.9	2.1	2.2	2.2	0.5	0.4	0.5
<i>PNG (Industrial/Comme.</i>	15.1	17.6	18.9	20.4	4.0	4.6	4.3
Total	21.7	25.0	26.7	28.6	5.8	6.4	6.2
Financials							
Sales	5,093	6,174	7,383	7,916	1,391	1,765	1,736
<i>Sales Gr</i>	-17%	21%	20%	7%	12%	19%	25%
Ebdita	743	895	978	1,050	203	249	207
<i>Ebdita Gr</i>	2%	20%	9%	7%	-5%	-8%	2%
Net Profits	221	291	378	402	61	121	49
<i>Profit Gr%</i>	16%	32%	30%	6%	-15%	16%	-20%
EbditaM%	14.6%	14.5%	13.2%	13.3%	14.6%	14.1%	11.9%
Net Mgn%	4.3%	4.7%	5.1%	5.1%	4.4%	6.9%	2.8%

Std./ Fig in Rs Cr

❑ CNG continues to offer better economies as it is currently priced at Rs. 50.28/kg vs petrol priced at Rs. 82/Lt. gives an opportunity to Gujarat Gas to clock higher volume growth in coming quarters.

❑ Similarly, natural gas provides economies when compared to coal and petcoke whose prices have also increased in the last few months.

❑ In the last quarter, company has taken price hike across categories in order to pass on the cost hike on its customers and but still some sort of margin pressure is expected in Q2 FY19.

❑ Recently prices of the natural gas increased from 3.06 USD/MMBTU to 3.36 USD/MMBTU which is likely to be applicable from Q3 FY19, and hence margin pressure is expected in Q3.

❑ Company has set up 44 CNG stations during FY18 and is aiming to add 200+ CNG stations in coming years to tap the opportunity of robust CNG vehicle conversion rates (~50000/annum currently).

❑ Gujarat Gas has been rapidly expanding its footprint in Gujarat by way of securing licences to expand its CGD network across five new areas, total count reaches to 19 districts of Gujarat, Dadra and Nagar Haveli, Thane and Palghar in Maharashtra.

❑ Company has increased its debt level in the last five years to Rs.2213 Cr. till FY18 in order to fund its capex plans.

Key Trackable this Quarter

- ❑ Volume growth
- ❑ EBITDA margins

We value the stock at 22x EPS. Recommend NEUTRAL

CMP **243**
Target **314**
Upside **29%**
Rating **BUY**

	FY17	FY18	FY19E	FY20E
ROE%	20%	19%	18%	18%
ROCE%	27%	27%	23%	23%
PE	25.2	30.6	28.2	23.7
PB	4.9	5.8	5.0	4.2
EV/EBITDA	14.8	18.2	17.6	15.3

	FY17	FY18	FY19E	FY20E	2QFY18	1QFY19	2QFY19E
CNG							
CNG Stations (Nos.)	421	446	435	440	425	447	430
CNG vol(MSCM)	1,269	1,413	1,523	1,633	360	376	381
PNG Voulme							
Connections(mn)	0.74	0.89	1.04	1.19	0.80	0.92	0.96
Ind/Comm (MSCM)	174	203	229	245	51	58	56
Domestic (MSCM)	94	109	127	147	26	27	31
Natural gas (MSCM)	138	167	191	207	43	44	48
Total PNG Vol	406	479	547	599	120	129	136
Financials							
Sales	4,223	5,072	5,875	6,388	1,245	1,422	1,450
Sales Gr	4%	20%	16%	9%	16%	22%	16%
Ebdita	964	1,113	1,159	1,337	282	295	285
Ebdita Gr	24%	16%	4%	15%	15%	6%	1%
Net Profits	571	671	743	883	169	176	181
Profit Gr%	36%	17%	11%	19%	17%	9%	7%
EbditaM%	22.8%	22.0%	19.7%	20.9%	22.6%	20.7%	19.7%
Net Mgn%	13.5%	13.2%	12.6%	13.8%	13.6%	12.3%	12.5%

Cons/ Fig in Rs Cr

□ Considering spurt in crude oil prices in the last two months, natural gas prices has revised from USD 3.06/MMBTU to USD 3.36/MMBTU which is likely to impact the margins of the company for the short term in Q3 FY18 if the company doesn't raise prices of CNG and PNG.

□ In the Q2, company has raised prices in both CNG and PNG segment to the extent of 4.5% on sequential basis in order to pass on the rising gas cost. Margins are likely to be healthy in Q2 quarter.

□ On the volume front, both CNG and PNG volumes are likely to remain robust in Q2 as well as Q3 on the back of major spurt in the prices of the alternate fuel. Further the management has guided for the double digit volume growth for the next two-three years on the back of expansion in new geographies and better economies of natural gas over alternate fuels.

□ Nearly 3,000-4,000 private cars and 1,000 taxis are getting converted into CNG per month which gives us confidence of steady volume growth of 7-8% p.a. (Ex- Gurugram) for next 2-3 years.

Key Trackable this Quarter

- EBITDA Margin
- Industrial/Commercial PNG volume

We value the stock at 25x FY20e EPS. Maintain BUY

CMP 120
Target 115
Upside -4%
Rating NEUTRAL

	FY17	FY18	FY19E	FY20E
ROE%	19%	19%	18%	18%
ROCE%	16%	17%	16%	16%
PE	9.8	8.0	9.2	8.5
PB	1.9	1.6	1.3	1.2
EV/EBITDA	9.8	8.0	7.8	7.6

	FY17	FY18	FY19E	FY20E	2QFY18	1QFY19	Q2FY19E
Volume(MMT)							
<i>Refinery Thr.</i>	65	69	71	72	16	18	18
<i>Marketing thr.</i>	80	89	88	89	21	23	22
Financials							
Sales	359,873	424,039	464,437	537,077	90,567	129,475	125,630
<i>Sales Gr</i>	4%	18%	10%	16%	13%	23%	39%
Ebdita	31,781	39,673	38,880	38,530	7,373	12,576	8,209
<i>Ebdita Gr</i>	51%	25%	-2%	-1%	28%	57%	11%
Net Profits	19,106	21,346	20,780	21,100	3,696	6,831	4,195
<i>Profit Gr%</i>	75%	12%	-3%	2%	18%	50%	14%
EbditaM%	8.8%	9.4%	8.4%	7.2%	8.1%	9.7%	6.5%
Net Mgn%	5.3%	5.0%	4.5%	3.9%	4.1%	5.3%	3.3%

Stand/ Fin in Rs Cr

❑ Government has asked OMC's to bear Rs.1/Lt burden which is likely to impact the profitability of the company and EPS is expected to be impact by almost 15% to 21.7 in FY20e.

❑ IOC's Paradip refinery ramp up is on cards and poised to boost profitability in coming quarters while other refineries are operating at optimum levels.

❑ In City Gas Distribution segment, company has participated in 9th round of bidding and has placed bid for 57 GA's out of which the company has won in 18 GA's (including 9 in JV with Adani Gas and 2 in JV with Green Gas).

❑ Management expects Paradip refinery and Haldia Coker which is likely to commission in Nov. 2018 to have +ve impact on GRM in coming quarter. It will be a key traceable for upcoming quarter.

❑ Iran sanctions are likely to impact Crude oil import by IOC. IOC has contract for 9MMTPA importing on pro-rata basis and this PPU is expected to be completed by December 2018 but till date there is no specific communication on stoppage of imports. But this may remain concern for IOC in Nov. 2018.

❑ Several ongoing projects with refinery upgrades are expected to be completed in 2020. While the polypropylene project at Paradip will be commissioned by Dec'18

❑ Total capex of Rs. 22800 Cr. in FY19.

❑ IOC will invest Rs 20,000 Cr. in city gas projects in 5-8 years.

❑ IOC has placed CGD bids for 57GA's, out of which 53 are opened and 18 are won by IOC

Key Trackable this Quarter

❑ Gross Refining Margins

❑ Progress on CGD network expansion

❑ Ramp up of Paradip refinery

We value the stock at 1.0x FY20e book value. Maintain Neutral

CMP 813
Target 1026
Upside 26%
Rating BUY

	FY17	FY18	FY19E	FY20E
ROE%	21%	23%	23%	23%
ROCE%	30%	32%	32%	32%
PE	22.4	16.5	15.8	14.5
PB	4.8	3.8	3.6	3.3
EV/EBITDA	13.5	9.9	9.2	8.3

	FY17	FY18	FY19E	FY20E	2QFY18	1QFY19	2QFY19E
PNG							
Connections(mn)	1.0	1.0	1.1	1.3	1.0	1.1	1.1
Domestic (vol)	244	262	285	311	65	68.34	71
Ind/Com vol(MSCM)	134	137	148	158	35	35.45	38
Total PNG sales	378	399	433	469	100	104	108
CNG							
CNG stations	203	223	238	253	207	223	228
CNG vol(MSCM)	693	724	821	911	184	193	209
Financials							
Sales	2,239	2,453	2,855	3,130	588	676	719
Sales Gr	-2%	10%	16%	10%	2%	16%	22%
Ebdita	644	780	869	946	200	211	225
Ebdita Gr	26%	21%	11%	9%	24%	4%	12%
Net Profits	393	478	529	579	125	128	140
Profit Gr%	27%	21%	11%	9%	22%	3%	12%
EbditaM%	28.8%	31.8%	30.5%	30.2%	34.1%	31.2%	31.3%
Net Mgn%	17.6%	19.5%	18.5%	18.5%	21.2%	19.0%	19.5%

Cons/ Fig in Rs Cr

❑ MGL has not taken any hike in prices of both CNG and PNG segment in the last 3 months. The natural gas prices has increased by 11% to USD 3.06/MMBTU in the month of April, 2018 which is almost factored in the prices of CNG and PNG in the June 2018. So it is least likely to impact Q2 FY19 margins.

❑ Considering spurt in crude oil prices in the last two months, natural gas prices has revised from USD 3.06/MMBTU to USD 3.36/MMBTU which is likely to impact the margins of the company for the short term in Q3 FY18 if the company doesn't raise prices of CNG and PNG.

❑ MGL has placed bid for three geographies in the 9th CGD round and has won one for Sindhudurg district, Maharashtra only.

❑ Volume in PNG industrial and commercial sector is expected to grow on the back of higher petcoke prices and ban of petcoke in certain industries gives us confidence of CNG growth rate of 7-8% in FY19.

❑ Planned capex for FY19 is Rs. 300 Cr

Key Trackable this Quarter

❑ Progress on new Geographical areas bid in 9th round

❑ Volume growth in both CNG and PNG

❑ Mgt commentary on price hike of CNG and PNG

We value the stock at 18x FY20E EPS. Recommend BUY.

MRPL

MRPL IN

Oil & Gas

CMP 72
Target 74
Upside 3%
Rating NEUTRAL

	FY17	FY18	FY19E	FY20E
ROE%	36%	20%	17%	17%
ROCE%	27%	29%	23%	22%
PE	5.1	8.6	5.6	4.6
PB	1.9	1.7	0.9	0.8
EV/EBITDA	4.5	4.6	2.4	1.5

	FY17	FY18	FY19E	FY20E	2QFY18	1QFY19	Q2FY19E
Volume(Mn Ton)							
Crude Thru.	16.3	16.3	16.4	18.1	3.5	3.9	4.1
Financials							
Sales	43,208	48,451	58,788	62,970	9,097	13,558	15,684
Sales Gr	9%	12%	21%	7%	-9%	32%	72%
Ebdita	4,706	4,284	3,891	4,488	908	813	924
Ebdita Gr	164%	-9%	-9%	15%	16%	40%	2%
Net Profits	3,644	2,224	2,216	2,744	478	363	507
Profit Gr%	218%	-39%	0%	24%	15%	55%	6%
EbditaM%	10.9%	8.8%	6.6%	7.1%	10.0%	6.0%	5.9%
Net Mgn%	8.4%	4.6%	3.8%	4.4%	5.3%	2.7%	3.2%

Std./ Fig in Rs Cr

❑ ONGC owned HPCL plans to merge its subsidiary MRPL with itself. HPCL currently owns 17% stake in MRPL while its parent ONGC holds a majority 71.63% stake in the company. This deal will integrate facilities and create lots of synergies for both companies.

❑ Company's marketing margins are expected to remain under pressure in Q2 FY19 as petrol and diesel final prices to customers have not increased to the extent of rise in international fuel prices. Further amid election year and protest against sharp rise in prices of petrol and diesel may bring price regulation mechanism into play.

❑ We expect better refinery throughput performance with crude volume of 16 MMT for both FY19e.

❑ MRPL's has inaugurated new Retail Outlet at Panambur(Mangalore). Company has also drawn up plans for opening over 100 retail outlet which is likely to improve its overall margins.

❑ Company is actively carrying on forward integration- Polypropylene plant which may improve its margins in coming years.

❑ MRPL is planning to set up company is planning to expand its refining and petrochemical capacity to boost its margins at investment of Rs.11000 Cr. by 2022.

❑ Planned capex of Rs. 1810 Cr will be done to upgrade refinery to Euro VI standard over FY18-20. Other Mangalore refinery up-gradation plans are under consideration.

Key Trackable this Quarter

❑ Gross Refining Margins

❑ Refinery throughput

We value the stock at 0.8x FY20e P/BV. Maintain NEUTRAL

CMP **221**
Target **230**
Upside **4%**
Rating **NEUTRAL**

	FY17	FY18	FY19E	FY20E
ROE%	5%	10%	14%	14%
ROCE%	4%	8%	12%	13%
PE	17.3	9.5	5.7	5.4
PB	0.9	0.9	0.8	0.8
EV/EBITDA	9.4	7.5	4.5	4.0

	FY17	FY18	FY19E	FY20E	2QFY18	1QFY19	Q2FY19E
Volume							
<i>Crude (MMT)</i>	3.28	3.39	3.41	3.75	0.85	0.81	0.86
<i>Gas (BCM)</i>	2.63	2.55	2.61	2.67	0.64	0.60	0.65
<i>LPG(MT)</i>	37.13	35.75	40.32	42.33	10.16	8.33	10.67
Financials							
Sales	9,510	10,656	14,471	16,230	2,474	3,390	3,624
<i>Sales Gr</i>	-3%	12%	36%	12%	6%	45%	47%
Ebdita	3,105	3,911	6,123	6,789	1,012	1,408	1,655
<i>Ebdita Gr</i>	-13%	26%	57%	11%	35%	61%	63%
Net Profits	1,549	2,668	4,066	4,379	646	703	1,620
<i>Profit Gr%</i>	-33%	72%	52%	8%	11%	56%	151%
EbditaM%	32.6%	36.7%	42.3%	41.8%	40.9%	41.5%	45.7%
Net Mgn%	16.3%	25.0%	28.1%	27.0%	26.1%	20.7%	44.7%

Std./ Fig in Rs Cr

❑ Price of natural gas has increased from 3.06 USD/MMBTU to 3.36 USD/MMBTU. It may improve EPS from 38.1 to 38.6 in FY20e.

❑ In the current financial year, Crude price has surged by 16% to Rs. 5275/bbl which will improve the realization of the company in FY19e. Further, till date government has not given its stance on subsidy sharing with OMC's(if crude goes above USD 60/bbl) gives additional benefits to Oil Exploration companies.

❑Crude volume growth of 1-1.5% YoY to 0.86 MMT in Q2 FY19 is expected, as major oil fields(like Ningru field, Baghjan field) are under development phase and expected to be completed by 2020.

❑Expanding network of City gas distribution and sequential rise in the prices of pet coke in the last 4 months may led to increase in demand of natural gas, demand of natural gas is expected to grow at CAGR of 8-9% for next couple of years.

❑Natural gas production is expected to remain in the range of 2.7-2.8 MMBTU in FY20e from 2.55 MMBTU in FY18 as the demand remains strong ramp up but the production ramp-up at major fields may take few more quarters.

❑Tax rate is likely to be higher at around 35% in coming quarters as company was availing MAT credit in FY18.

Key Trackable this Quarter

❑ Subsidy sharing with the OMC's.

❑ Volume growth

❑ EBITDA Margins

We value the stock at 0.9x FY20e P/BV. Recommend NEUTRAL

CMP **180**
Target **210**
Upside **17%**
Rating **BUY**

	FY17	FY18	FY19E	FY20E
ROE%	10%	10%	12%	11%
ROCE%	10%	10%	12%	11%
PE	13.3	10.7	8.8	8.4
PB	1.3	1.1	1.0	1.0
EV/EBITDA	7.3	5.8	3.9	3.7

	FY17	FY18	FY19E	FY20E	2QFY18	1QFY19	Q2FY19E
Crude Volume(MMT)	21	21	20	21	5.3	5.0	5.0
Gas Volume(BCM)	18	19	20	21	4.9	4.9	4.9
Gas Realiz.(INR/BCM)	796	716	872	913	669	831	831
LPG Volume(MMT)	1,352	1,187	1,103	1,125	300	288	279
Financials							
Sales	77,908	85,004	113,215	119,422	18,965	27,213	27,595
Sales Gr	0%	9%	33%	5%	3%	43%	46%
Ebdita	31,079	36,988	54,012	56,032	9,136	13,593	13,296
Ebdita Gr	-4%	19%	46%	4%	0%	54%	46%
Net Profits	17,900	19,945	24,377	25,499	5,131	6,144	7,536
Profit Gr%	11%	11%	22%	5%	3%	58%	47%
EbditaM%	39.9%	43.5%	47.7%	46.9%	48.2%	49.9%	48.2%
Net Mgn%	23.0%	23.5%	21.5%	21.4%	27.1%	22.6%	27.3%

Stand./ Fig in Rs Cr

❑ Price of natural gas has increased from 3.06 USD/MMBTU to 3.36 USD/MMBTU. It may improve EPS from 19.4 to 19.9 in FY20e.

❑ Management has guided for total (Domestic + JV) oil production at 26.9MMT and gas production at 29.53 BCM in FY19e.

❑ ONGC has kick-started its USD 5.07 billion KG oil and gas project by spudding the first of the 34 wells, targeting first gas by end of 2019.

❑ In the current financial year, Crude price has surged by 16% to Rs. 5275/bbl which will improve the realization of the company in FY19e. Further, till date government has not given any clarity on subsidy sharing with OMC's (if crude goes above USD 60/bbl). In absence of subsidy sharing whole benefit goes to Oil Exploration companies.

❑ Ramp-up in oil production from the redevelopment projects in the Mumbai offshore area (North & South), associated oil from Daman and Vasai (East) is expected to improve oil volume of ONGC from end of 2018. For Q2 FY19, volume is expected to grow by 1.5-2% YoY to 5MMT on the back of slight delay in ramp-up at major fields.

❑ Debt(Std.) level has reduced from Rs.25000 Cr to Rs.21000 Cr and further debt repayment guidance of Rs.4000 Cr in FY19E.

❑ There is decline of 40% in the workover cost at Rigs and this reduction in cost is sustainable.

❑ Planned capex for FY19 is Rs. 32000 Cr. (standalone). Capex may be funded by debt.

Key Trackable this Quarter

❑ Subsidy sharing with the OMC's

❑ Volume growth

We value the stock at 10x FY20e EPS. Recommend BUY

PLNG

CMP **227**
Target **286**
Upside **26%**
Rating **BUY**

	FY17	FY18	FY19E	FY20E
ROE%	21%	21%	21%	19%
ROCE%	23%	28%	27%	25%
PE	17.7	17.5	13.6	12.5
PB	3.7	3.7	2.8	2.4
EV/EBITDA	12.1	11.0	8.7	7.9

	FY17	FY18	FY19E	FY20E	2QFY18	1QFY19	Q2FY19E
Dahej sales(TBTU)	714	816	874	938	210	214	221
Utilization	112%	106%	101%	105%	110%	112%	99%
kochi sales(TBTU)	15	32	45	77	10	6	10
Utilization	6%	12%	17%	30%	16%	10%	15%
<i>Financials</i>							
Sales	24,616	30,599	34,209	35,708	7,770	9,169	8,371
Sales Gr	-9%	24%	12%	4%	17%	42%	8%
Ebdita	2,592	3,312	3,609	3,776	899	934	968
Ebdita Gr	63%	28%	9%	5%	24%	26%	8%
Net Profits	1,706	2,078	2,371	2,587	589	587	659
Profit Gr%	87%	22%	14%	9%	28%	34%	12%
EbditaM%	10.5%	10.8%	10.6%	10.6%	11.6%	10.2%	11.6%
Net Mgn%	6.9%	6.8%	6.9%	7.2%	7.6%	6.4%	7.9%

Stand./ Fig in Rs Cr

❑ In the last few months, international spot natural gas price has almost remain unchanged, however depreciation of rupee against dollar may impact the cost of import for the PLNG in coming quarters.

❑ PLNG has taken hike in realization taken in Jan 2018, to offset the cost hike, regas tariff, better cost efficiency have helped company to improve its margins from Q1 FY19 and we expect margins at current levels going forward.

❑ We expect volume growth of approx 11% in FY19. Increasing demand from the fertilizer and power plants, ban of petcoke in certain areas of our country, expanding network of city gas distribution companies.

❑ BPCL's Kochi refinery expansion has been completed and has started off-taking volumes from PLNG but Fertilisers and Chemicals Travancore Limited (FACT) has lowered its off take from PLNG which capped utilization level at Kochi terminal to 10% in Q1 FY19. Kochi terminal is expected to clock throughput of 45 TBTU in FY19e implying 17% utilization level.

❑ Dahej capacity expansion to 17.5MMT is on track and is expected to come on stream in the month of June 2019.

❑ Mundra terminal is expected to be commissioned in next few months

❑ Management guides Capex of Rs. 230 for FY19.

❑ Guidance for Tax rate is 30-34%. Now the company is out of MAT.

Key Trackable this Quarter

❑ Realization and regas tariff has improved in the last quarter.

We value the stock at 16x FY20e EPS. Recommend BUY

RIL IN

CMP 1229
Target 1434
Upside 17%
Rating BUY

	FY17	FY18	FY19E	FY20E
ROE%	11%	12%	13%	13%
ROCE%	8%	11%	12%	13%
PE	13.5	17.2	18.5	16.6
PB	1.5	2.1	2.4	2.2
EV/EBITDA	12.0	11.9	10.3	9.0

	FY17	FY18	FY19E	FY20E	2QFY18	1QFY19	Q2FY19E
Volume(MMT)							
Crude refined vol	70.2	70.0	71.0	71.0	18.1	16.6	17.6
Crude oil vol	7.2	6.1	5.0	5.0	1.6	1.3	1.3
Natural Gas vol	164	130	108	108	35	27	27
Org. stores(Nos)	3,616	3,837	4,213	4,493	3,679	4,003	4,073
Petchem vol	24.9	30.8	40.8	44.9	7.5	9.2	9.8
Financials							
Sales	305,382	391,677	566,626	649,346	95,085	133,069	144,697
Sales Gr	-27%	11%	28%	45%	16%	47%	52%
Ebdita	46,194	64,176	91,203	104,474	15,565	20,661	23,686
Ebdita Gr	11%	39%	42%	15%	39%	65%	52%
Net Profits	29,833	36,080	43,154	47,980	8,097	9,485	25,644
Profit Gr%	0%	21%	20%	11%	12%	4%	47%
EbditaM%	15.1%	16.4%	16.1%	16.1%	16.4%	15.5%	16.4%
Net Mgn%	9.8%	9.2%	7.6%	7.4%	8.5%	7.1%	17.7%

Cons/ Fig in Rs Cr

❑ Company is aggressively expanding its network in organised retail segment and ramp up major capacities in petrochemicals segment has started contributing significantly in the last few quarters and is expected to report good set of numbers in Q2 FY19.

❑ Petrochemicals segment is expected perform better in terms of revenue in Q2, on the back of volume growth due to ramp up of pet coke gasification projects in Jamnagar, and increased realization in the last few months led by the higher crude oil prices.

❑ Recent underlying weakness in refining and petchem margins due to sharp upsurge in crude prices poses risks to RIL's earnings in the near term.

❑ Reliance retail is aggressively expanding its footprint in retail and has opened 4,000 new stores within the Reliance Retail this year. We believe that this segment will continue to outperform in coming quarters and expects revenue to grow by around 51% YoY to Rs.104,000 Cr in FY19e.

❑ Reliance Jio has recently launched Jio Gigafiber which provides 3 months free trial period and till last quarter Jio subscriber count has reached to 215 million. Jio is aggressively capturing market share which gives us confidence for the long term growth prospect of the company.

❑ Planned capex for FY19 is around Rs. 40,000 Cr.

Key Trackable this Quarter

- ❑ Subscribers growth and ARPU of Jio.
- ❑ Refining and petchem margins of the company.
- ❑ Interest cost and depreciation

We value the stock at 16x FY20e EPS. Recommend BUY.

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