India Equity Analytics

Results Preview Q3FY19- Oil & Gas

Narnolia™

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Aegis Logistics Limited

AEGIS IN

Oil & Gas

CMP	**204**
Target	**250**
Upside	**23%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
ROE%	14%	16%	18%	19%
ROCE%	20%	18%	22%	24%
PE	27.2	42.9	27.3	21.9
PB	3.9	7.0	4.8	4.1
EV/EBITDA	17.1	32.6	18.6	15.2

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Volume							
LPG sourcing	1,043	1,177	1,069	1,250	306	270	283
LPG Logistics	1,365	1,744	2,416	2,778	521	663	625
Segment Sales(Cr)							
Liquid	154	168	189	242	40	44	47
Gas	3,778	4,623	5,369	6,485	1,402	1,381	1,468
Financials							
Sales	**3,930**	**4,791**	**5,559**	**6,728**	**1,442**	**1,426**	**1,515**
Sales Gr	*78%*	*22%*	*16%*	*21%*	*16%*	*15%*	*5%*
Ebdita	**204**	**266**	**378**	**460**	**72**	**89**	**96**
Ebdita Gr	*10%*	*31%*	*42%*	*22%*	*19%*	*31%*	*34%*
Net Profits	**119**	**198**	**251**	**313**	**54**	**58**	**63**
Profit Gr%	*5%*	*66%*	*27%*	*25%*	*43%*	*10%*	*18%*
EbditaM%	**5.2%**	**5.6%**	**6.8%**	**6.8%**	**5.0%**	**6.2%**	**6.4%**
Net Mgn%	**3.0%**	**4.1%**	**4.5%**	**4.7%**	**3.7%**	**4.0%**	**4.2%**

Conso/ Fig in Rs Cr

- In LPG logistics business, as major capacities came on stream and existing clients are taking additional volumes. Volume growth of 15-20% YoY is expected in Q3 FY19.
- LPG sourcing volumes are expected to decline by 9% in FY19 and 7% in Q3 FY19 as BPCL has not came up with new tender in 2018 resulting in lower off take in Q2 FY19. Company is the process of negotiation with its existing clients for additional volume off take.
- In liquid division, volumes growth expected as Kandla 100,000 KL and Haldia liquid terminal has commissioned. The total liquid capacity reached to 689,310 KL (including Mangalore terminal) and volume from this division is expected to grow by 8-10% YoY in Q3 FY19.
- Construction work at HPCL's Uran- Chakkan LPG pipeline may get be delayed by few months. Earlier it was expected to be completed by Dec, 2018.
- EBITDA margins are likely to improve on sequential basis as new capacities have commissioned in the last quarter and full lease cost reflected in the books but full revenue has not reflected.
- Management has guided for lower interest cost in coming quarters.
- Planned capex for FY19 around Rs. 150 Cr is required.

Key Trackable this Quarter

- Incremental volumes at Haldia and Manglore terminal
- Update on completion of Uran pipeline

We value the stock at 18x FY20e EV/EBITDA. BUY

Bharat Petroleum Corporation Ltd

Oil & Gas

BPCL IN

CMP	**351**
Target	**407**
Upside	**16%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
ROE%	27%	23%	16%	17%
ROCE%	21%	18%	14%	15%
PE	11.7	11.7	12.1	10.4
PB	3.2	2.7	2.0	1.7
EV/EBITDA	10.6	9.9	9.2	7.9

	FY17	FY18	FY19E	FY 20E	3QFY18	2QFY19	3QFY19E
Volume(MMT)							
Crude throughput	25.4	28.5	30.9	31.8	7.3	7.9	7.7
Market sales	37.7	41.2	43.1	44.4	10.7	10.7	11.0
Export sales	2.5	2.0	1.8	1.8	0.6	0.3	0.3
Financials							
Sales	*202,211*	*236,313*	*323,477*	*337,370*	*70,195*	*82,885*	*77,912*
Sales Gr	*7%*	*17%*	*37%*	*4%*	*31%*	*29%*	*11%*
Ebdita	**10,829**	**11,669**	**10,676**	**12,228**	**3,188**	**2,419**	**2,119**
Ebdita Gr	*-2%*	*8%*	*-9%*	*15%*	*-4%*	*-31%*	*-34%*
Net Profits	**8,039**	**7,919**	**6,271**	**7,332**	**2,144**	**1,219**	**1,332**
Profit Gr%	*21%*	*-3%*	*-21%*	*17%*	*-6%*	*-48%*	*-38%*
EbditaM%	**5.4%**	**4.9%**	**3.3%**	**3.6%**	**4.5%**	**2.9%**	**2.7%**
Net Mgn%	**4.0%**	**3.4%**	**1.9%**	**2.2%**	**3.1%**	**1.5%**	**1.7%**

Std/ Fig in Rs Cr

❑In Q3 FY19, crude price has declined by around 19% on sequential basis which could result in higher inventory loss in December quarter. Marketing margins of the company is expected to come under pressure on the back of sharp decline in crude oil prices and oil marketing companies continues to absorb Re.1 /Lts. price on gasoline and diesel under pricing mechanism announced by the government

❑Kochi refinery is now processing high sulfur crude and management expects this refinery to improve its margins.

❑Mozambique LNG supply agreements are expected to be signed by first half of 2019. The project will consist of two trains of 6MT each with the buyers could be from China, India and Korea.

❑Planned capex for FY19 is Rs.7800 Cr and the company is on track to upgrade all refineries to BS-6 norms. Further BPCL management has approved Rs 11,130 Cr Kochi petrochemical project.

❑Bina refinery expansion from 6 MMT to 7.8 MMT at the cost of Rs.3000 Cr is expected to be completed in 2019.

❑With the current capex plans BPCL does not require any significant debt .

Key Trackable this Quarter

❑Operating efficiency in terms of margins of Kochi refinery

❑Status of Bina refinery expansion

❑Status of LNG production from Mozambique fields

We value the stock at 2x FY20e P/B. BUY

Deep Industries Limited

Oil & Gas

DEEPI IN

CMP	**125**
Target	**124**
Upside	**-1%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
ROE%	18%	17%	12%	12%
ROCE%	25%	25%	25%	26%
PE	15.0	6.0	6.5	6.0
PB	2.7	1.0	0.8	0.7
EV/EBITDA	7.8	3.6	3.5	3.2

	FY17	FY18	FY19E	FY 20E	3QFY18	2QFY19	3QFY19E
Order book(Cr)	780	610	500	550	604	486	500
Financials							
Sales	**277**	**313**	**247**	**255**	**75**	**55**	**59**
Sales Gr	*64%*	*13%*	*-21%*	*3%*	*6%*	*-26%*	*-21%*
Ebdita	**156**	**162**	**136**	**142**	**38**	**30**	**33**
Ebdita Gr	*62%*	*4%*	*-16%*	*4%*	*-9%*	*-23%*	*-13%*
Net Profits	**70**	**77**	**62**	**66**	**18**	**13**	**15**
Profit Gr%	*72%*	*10%*	*-20%*	*7%*	*4%*	*-28%*	*-18%*
EbditaM%	**56.2%**	**51.8%**	**55.0%**	**55.8%**	**50.4%**	**55.2%**	**55.1%**
Net Mgn%	**25.4%**	**24.8%**	**25.0%**	**26.1%**	**24.6%**	**23.8%**	**25.5%**

Conso/ Fig in Rs Cr

❑Current order book stands at Rs. 636 Cr.(including terminated order from ONGC of about Rs. 150 Cr). The company has stopped working on terminated contract in June 2018, and has not received any payment from ONGC. Outstanding is about Rs. 38-39 Cr. which is reflected in receivables in Q2 FY19.

❑In Q2 FY19, company has submitted 12 new bids in Gas compression and Riggs business. These bids are under evaluation and expected to be announced within couple of months.

❑In November, company has received a new contract from ONGC for Work over Rigs for a period of 1 year for Cambay Asset. The order size of the contract is Rs 3.12 Cr. This is the first time company has received any contract from ONGC after dispute.

❑Revenue is expected to decline in Q3 FY19 on the back of stoppage of work on terminated contracts.

❑The company is expanding its business in overseas through its subsidiary Deep International DMCC. This subsidy is currently executing one order which is expected to be completed in Q4 FY19 worth USD 7Mn. DMCC is expecting two new orders soon each could be of USD 4-5mn

❑The company is diversifying its business in CBM blocks and total 5 wells are already drilled and further 36 wells to be drilled in FY19.

❑Company is considering demerging E&P and integrated business as a separate listed entity.

❑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 core is expected to come under pressure. Hence we do not expect any significant revenue growth for the company in upcoming fiscal and remain cautious on this stock.

Key Trackable this Quarter

❑ Gas production from CBM blocks

❑Revenue guidance from overseas business.

❑Status of 12 new bids placed by company with different PSU's

We value the stock at 6x FY20e EPS. NEUTRAL

GAIL (India) Limited

GAIL IN

Oil & Gas

CMP	**362**
Target	**433**
Upside	**20%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
ROE%	9%	11%	15%	14%
ROCE%	9%	11%	15%	13%
PE	18.2	16.0	12.5	13.1
PB	1.7	1.8	1.9	1.8
EV/EBITDA	10.2	9.5	7.8	8.0

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Volume(mmscmd)							
Nat. gas Trans	402	422	437	453	109	107	112
LPG Trans.	3,363	3,726	3,877	4,070	932	1,019	951
Nat. gas market	313	327	367	388	88	82	93
Petrochemicals	*595*	*675*	*737*	*768*	177	182	187
Financials							
Sales	*48,055*	*53,662*	*75,345*	*79,380*	*14,414*	*19,275*	*19,827*
Sales Gr	*-7%*	*11%*	*40%*	*5%*	*19%*	*55%*	*38%*
Ebdita	**6,409**	**7,634**	**10,405**	**10,051**	**1,970**	**2,927**	**2,677**
Ebdita Gr	*13%*	*14%*	*14%*	*13%*	*14%*	*41%*	*36%*
Net Profits	**3,503**	**4,618**	**6,512**	**6,213**	**1,262**	**1,963**	**1,685**
Profit Gr%	*57%*	*32%*	*41%*	*-5%*	*28%*	*50%*	*33%*
EbditaM%	**13.3%**	**14.2%**	**13.8%**	**12.7%**	**13.7%**	**15.2%**	**13.5%**
Net Mgn%	**7.3%**	**8.6%**	**8.6%**	**7.8%**	**8.8%**	**10.2%**	**8.5%**

Std/ Fig in Rs Cr

❑Volume in natural gas marketing segment(Contributes ~80% of revenue) is expected to grow to the tune of 6-8% in Q3 FY19 on the back of increasing demand by gas distribution companies, and rising import of US LNG. Further management has guided for total 90 cargoes of US LNG to be imported in FY19.

❑Earlier company was importing 4-5 Gorgon cargoes every month, but now these cargoes are getting replaced with the US LNG due to favorable US LNG economics.

❑Of the total sales volumes 80% are crude link for which the company takes hedging contracts time to time which are typically of 12 Months in tenure. With this margins of the company are expected to remain almost stable in Q3 FY19 despite wide fluctuations in crude prices.

❑Volume of petrochemical segment is expected to grow in the range of 6-7% in Q3 FY19 as PATA plant is already operating at higher capacities utilization level which leaves less room for further volume growth. Management has guided for petchem volume of 7 lakh MT in FY19.

❑Kochi-Mangalore pipeline is expected to be completed by Feb-Mar'2019, delay on account of monsoon and some local issues.

❑Capex guidance for FY19 is Rs.6500 Cr. Capex of Rs. 3900 Cr in 1HFY19 has already done..

❑GAIL has won 3 bids for City Gas Distribution authorization for Giridihi & Dhanbad Districts in Jharkhand, Sundargarh & Jharsuguda Districts and Ganjam, Nayagarh & Puri Districts in Odisha.

Key Trackable this Quarter

❑Off take of Natural gas by City Gas Distribution companies.

❑Number of UN LNG cargoes imported

❑Status of Kochi-Mangalore pipeline project

We value the stock at 13x FY20e EPS and subsidiaries at Rs. 75. BUY

Gujarat State Petronet Ltd

GSPL IN

Oil & Gas

CMP	**170**
Target	**219**
Upside	**29%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
ROE%	11%	13%	17%	16%
ROCE%	21%	20%	26%	27%
PE	22.0	16.8	9.8	9.1
PB	2.4	2.2	1.6	1.4
EV/EBITDA	12.0	11.0	6.3	5.9

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Gas volume (MSCM)	9,071.1	11,536.2	13,185.7	14,240.5	3,082.0	3,185.0	3,328.6
Growth YoY	*1%*	*27%*	*14%*	*8%*	*28%*	*10%*	*8%*
Tarrif (Cr .INR/SCM)	111%	113%	147%	147%	112%	114%	147%
Financials							
Sales	**1,028**	**1,332**	**2,033**	**2,239**	**352**	**598**	**497**
Sales Gr	*4%*	*30%*	*53%*	*10%*	*24%*	*72%*	*41%*
Ebdita	**888**	**1,148**	**1,733**	**1,911**	**299**	**516**	**422**
Ebdita Gr	*3%*	*29%*	*51%*	*10%*	*22%*	*73%*	*41%*
Net Profits	**497**	**668**	**976**	**1,054**	**182**	**323**	**244**
Profit Gr%	*12%*	*35%*	*46%*	*8%*	*53%*	*83%*	*35%*
EbditaM%	**86.4%**	**86.2%**	**85.2%**	**85.4%**	**84.9%**	**86.3%**	**84.9%**
Net Mgn%	**48.3%**	**50.2%**	**48.0%**	**47.1%**	**51.6%**	**54.0%**	**49.2%**

Std/ Fig in Rs Cr

❑PNGRB has revised transmission tariff for both low pressure and high pressure gas pipeline to the tune of 28% in the month of October, 2018. This hike in tariff is applicable from 1 April 2018, as a result of which company is likely to report revenue growth of 41% YoY and PAT growth of 34% YoY in Q3 FY19.

❑Company has taken substantial debt in order to fund the acquisition of Gujarat gas which results in higher interest cost in the last two quarters.

❑Volume growth of 8-10% p.a. is expected on the back of strong demand from city gas distribution (CGD), power and fertilizer companies. With the expansion of city gas distribution network by Gujarat gas and Adani gas, GSPL is likely to be benefitted in up-coming quarters.

❑Demand of gas is expected to grow over next three-five years as GSPL has exclusive access to three of the six terminals in Gujarat and is major off-taker for both Mundra and Dahej terminal.

❑Badmer- Palanpur pipeline is expected to commission in March 2019, with this GSPL will be able to reach new markets outside Gujarat.

❑With the commissioning of Reliance pet coke gasifier volume off-take by GSPL is expected to drop but this is likely to be fully offset by the strong demand coming from city gas distribution companies.

Key Trackable this Quarter

❑Status of Badmer- Palanpur pipeline

❑Timeline of commissioning of PLNG Dahej terminal and Reliance pet coke gasifier

We value the stock at 8x FY20e Std EPS and Rs 70 for Subsidiaries to arrive at SOTP Value of Rs. 219. BUY

Hindustan Petroleum Corp. Ltd

Oil & Gas

HPL IN

CMP	**253**
Target	**244**
Upside	**-4%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
ROE%	21%	31%	27%	15%
ROCE%	19%	30%	24%	12%
PE	8.6	8.2	9.6	9.7
PB	2.6	2.2	1.4	1.2
EV/EBITDA	6.7	6.6	7.1	7.1

	FY17	FY18	FY19E	FY 20E	3QFY18	2QFY19	3QFY19E
Volume							
Refinery Thr.	17.8	18.3	18.7	19.3	4.5	4.8	4.7
Marketing							
>Domestic	35.2	36.2	37.6	38.8	9.2	8.8	9.5
>Exports	0.2	0.7	0.7	0.7	0.2	0.3	0.2
Pipeline throughput	17.9	20.1	21.5	22.1	5.2	5.3	5.3
Financials							
Sales	**187,023**	**219,330**	**276,767**	**279,200**	**63,076**	**73,376**	**64,571**
Sales Gr	*5%*	*17%*	*26%*	*1%*	*14%*	*35%*	*2%*
Ebdita	**10,577**	**10,672**	**7,546**	**7,261**	**3,159**	**2,122**	**1,432**
Ebdita Gr	*33%*	*1%*	*-29%*	*-4%*	*13%*	*-27%*	*-55%*
Net Profits	**6,208**	**6,357**	**4,035**	**3,965**	**1,950**	**1,092**	**829**
Profit Gr%	*67%*	*2%*	*-37%*	*-2%*	*23%*	*-37%*	*-57%*
EbditaM%	**5.7%**	**4.9%**	**2.7%**	**2.6%**	**5.0%**	**2.9%**	**2.2%**
Net Mgn%	**3.3%**	**2.9%**	**1.5%**	**1.4%**	**3.1%**	**1.5%**	**1.3%**

Std/ Fig in Rs Cr

- ❑Marketing margins of the company is expected to come under pressure on the back of sharp decline in crude oil prices and oil marketing companies continues to absorb Re.1 /Lts. price on gasoline and diesel under pricing mechanism announced by the government

- ❑Refining margins of the company is expected to improve from Q4 FY19 (Provided crude price remains at current level) as full impact of the inventory loss is likely to reflect in books in Q3 FY19.

- ❑Interest cost of the company has increased in the last two quarters due to increase in working capital requirement and debt.

- ❑Company's expansion plans at Viasakh, Vijayawada and Sikandrabad pipeline project with the cost of Rs. 26277 Cr. with the terminal at Dharampuri is running on track and is expected to complete by 2020. Process line up and designing work has been completed and major contracts have been awarded.

- ❑Recently government allows OMCs to open over 56,000 new fuel pumps to existing network of 55,000 oil pumps.

Key Trackable this Quarter

- ❑Status of 9MT Barmer refining project
- ❑Refining margins of the company
- ❑Inventory loss

We value the stock at 1.2x FY20e P/B. NEUTRAL

Indraprastha Gas Limited

IGL IN

CMP	**271**
Target	**345**
Upside	**27%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
ROE%	20%	19%	17%	17%
ROCE%	27%	27%	23%	22%
PE	25.2	30.6	30.1	26.0
PB	4.9	5.8	5.1	4.4
EV/EBITDA	14.8	18.2	18.2	16.3

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Volume(MSCM)							
CNG volume	1,131	1,413	1,549	1,689	358	407	387
Growth YoY	8%	25%	10%	9%	26%	13%	8%
PNG volume	406	479	542	589	126	136	137
Growth YoY	19%	18%	13%	9%	21%	13%	9%
Network							
CNG stations(Nos)	*421*	*446*	*457*	*468*	425	450	455
PNG Dom. Conn.('000)	742	892	1,049	1,199	838	974	1,012
PNG Comm. Conn(Nos)	2,870	3,429	4,049	4,297	3,234	3,930	3,989
Financials							
Sales	**4,223**	**5,072**	**6,196**	**7,165**	**1,308**	**1,569**	**1,594**
Sales Gr	*4%*	*20%*	*22%*	*16%*	*25%*	*26%*	*22%*
Ebdita	**964**	**1,113**	**1,118**	**1,249**	**263**	**308**	**264**
Ebdita Gr	*24%*	*16%*	*0%*	*12%*	*7%*	*9%*	*0%*
Net Profits	**571**	**671**	**696**	**804**	**166**	**187**	**170**
Profit Gr%	*36%*	*17%*	*4%*	*16%*	*15%*	*11%*	*3%*
EbditaM%	**22.8%**	**22.0%**	**18.0%**	**17.4%**	**20.1%**	**19.6%**	**16.6%**
Net Mgn%	**13.5%**	**13.2%**	**11.2%**	**11.2%**	**12.7%**	**11.9%**	**10.7%**

Std/ Fig in Rs Cr

❑Volume growth of both CNG and PNG are likely to remain robust in Q3 on the back of economic feasibility of gas over liquid fuels, expansion in new geographies and rising concern about the environment. Further the management has guided for 8-10% volume growth for the next two-three years.

❑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.

❑During the quarter, Company takes over supply of natural gas in Gurugram district over Haryana Gas. Revenue is likely to reflect from Q4 FY19.

❑EBITDA margins of the company is likely to remain under pressure because domestic gas price has increased by 10% to 3.36 USD/MMBTU where as the company has taken price hike of 5% and 8% in CNG and PNG segment respectively on sequential basis during Q3 FY19 in Delhi. Generally company pass on the hike in gas cost on its customers with a time lag of one quarter.

❑IGL to takeover supply of natural gas in Gurugram district over Haryana Gas in mid 2019.

❑Capex guidance for FY19 is Rs.250 Cr (Excluding capex in Rewari district).

Key Trackable this Quarter

❑Industrial/Commercial PNG volume

❑Expansion plans in Karnal district

We value the stock at 30x FY20e EPS. BUY

Indian Oil Corporation Ltd

Oil & Gas

IOCL IN

CMP	**137**
Target	**151**
Upside	**10%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
ROE%	19%	19%	14%	12%
ROCE%	16%	17%	12%	10%
PE	9.8	8.0	8.1	8.9
PB	1.9	1.6	1.1	1.0
EV/EBITDA	7.5	5.7	6.1	6.5

	FY17	FY18	FY19E	FY 20E	3QFY18	2QFY19	3QFY19E
Volume(MMT)							
Refinery Thru.	65.1	69.0	71.9	74.1	18.2	17.8	18.8
Pipeline Thru.	82.5	85.7	90.5	93.3	22.4	21.4	23.1
Marketing Vol.	79.9	88.8	91.2	93.9	22.8	21.6	23.5
Financials							
Sales	*359,873*	*424,039*	*490,630*	*519,006*	*110,667*	*132,035*	*116,191*
Sales Gr	*4%*	*18%*	*16%*	*6%*	*19%*	*46%*	*5%*
Ebdita	**31,781**	**39,673**	**30,544**	**28,851**	**13,269**	**6,762**	**5,759**
Ebdita Gr	*51%*	*25%*	*-23%*	*-6%*	*67%*	*-8%*	*-57%*
Net Profits	**19,106**	**21,346**	**15,814**	**14,437**	**7,883**	**3,247**	**2,974**
Profit Gr%	*75%*	*12%*	*-26%*	*-9%*	*97%*	*-12%*	*-62%*
EbditaM%	**8.8%**	**9.4%**	**6.2%**	**5.6%**	**12.0%**	**5.1%**	**5.0%**
Net Mgn%	**5.3%**	**5.0%**	**3.2%**	**2.8%**	**7.1%**	**2.5%**	**2.6%**

Std/ Fig in Rs Cr

- Both refining and marketing margins of the company may come under pressure on the back of sharp decline in crude oil price and oil marketing company continues to absorb Re.1 /Lts. price on gasoline and diesel under pricing mechanism announced by the government in month of October.
- IOC continues to import Iran oil and hopes to meet 9 MT of import target for the financial year 2019 and payment for Iran oil will be rupees via the UCO Bank.
- IOC is likely to commission Ennore LNG terminal in Jan 2018. This is the first LNG import terminal IOC has built on its own at a cost of Rs. 5151 Cr.
- Management expects Paradip refinery and Haldia Coker to have +ve impact on GRM in coming quarter.
- Planned capex for FY19e is Rs. 22800 Cr. and company is likely to invest another Rs 20,000 Cr. in city gas projects in upcoming 5-8 years.
- Recently government allowed OMCs to open over 56,000 new fuel pumps to existing network of 55,000 oil pumps and IOC plans to expand its number of fuel retail outlets to 52000 in three years.

Key Trackable this Quarter

- Status of commissioning of polypropylene facility at Paradip
- Update on commissioning of Haldia coker
- Timeline of developing CGD network in 18 GA’s
- Status of ongoing ramp up at Paradip refinery

We value the stock at 1.2x FY20e P/B. ACCUMULATE

Mahanagar Gas Limited

MGL IN

Oil & Gas

CMP	**912**
Target	**1073**
Upside	**18%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
ROE%	21%	23%	23%	23%
ROCE%	30%	32%	33%	33%
PE	22.4	16.5	17.0	15.3
PB	4.8	3.8	3.9	3.6
EV/EBITDA	13.5	9.9	10.0	8.8

	FY17	FY18	FY19E	FY 20E	3QFY18	2QFY19	3QFY19E
Volume(MSCM)							
CNG	693	724	787	842	185	200	196
Growth YoY	5%	4%	9%	7%	7%	9%	6%
PNG	244	262	286	312	68	72	73
Growth YoY	6%	7%	9%	9%	8%	10%	9%
Network							
CNG stations	203	220	224	227	212	221	222
PNG conn.('000)	545	600	686	758	590	650	668
Financials							
Sales	**2,239**	**2,453**	**3,063**	**3,519**	**638**	**763**	**801**
Sales Gr	*-2%*	*10%*	*24%*	*15%*	*15%*	*30%*	*26%*
Ebdita	**644**	**780**	**877**	**969**	**201**	**221**	**220**
Ebdita Gr	*26%*	*21%*	*12%*	*10%*	*20%*	*11%*	*10%*
Net Profits	**393**	**478**	**530**	**589**	**124**	**136**	**131**
Profit Gr%	*27%*	*21%*	*11%*	*11%*	*25%*	*9%*	*6%*
EbditaM%	**28.8%**	**31.8%**	**28.7%**	**27.5%**	**31.5%**	**29.0%**	**27.5%**
Net Mgn%	**17.6%**	**19.5%**	**17.3%**	**16.7%**	**19.4%**	**17.9%**	**16.4%**

Std/ Fig in Rs Cr

❑.Volume growth of 6-8% is expected on back of economic feasibility, ease in regulatory framework, government emphasis on natural gas and increasing number of customers in both CNG and PNG segment. Further management has maintained its volume growth guidance of 6% plus for FY19e.

❑On supply side, company plans to upgrade 20 existing CNG stations in Mumbai and 3-4 new CNG stations in Raigad district in FY19.

❑On Demand side, in CNG, Vehicle conversion rate in CNG is 6000 per month to existing 6 lakh CNG run vehicles in authorized areas of MGL. In PNG segment company plans to add 1.5lakh PNG connections every year and in Raigad, company plans to add 7000-8000 PNG connections which gives us confidence of volume growth of 7-8% in FY19.

❑EBITDA margin of the company is likely to remain under pressure because domestic gas price has increased by 10% to 3.36 USD/MMBTU where as the company has taken price hike of 7% and 8% in CNG and PNG segment respectively on sequential basis during Q3 FY19 in Mumbai. Generally company pass on the hike in gas cost on its customers with a time lag of one quarter.

❑Capex guidance for FY19 is Rs. 300 Cr. out of which Rs. 150 Cr capex is already done.

Key Trackable this Quarter

❑ Progress on new geographical areas bid in 9th round

❑ Mgt commentary on price hike of CNG and PNG

We value the stock at 18x EPS. BUY

Oil India Limited

OIL IN

Oil & Gas

CMP	**175**
Target	**195**
Upside	**11%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
ROE%	5%	10%	11%	12%
ROCE%	4%	8%	10%	11%
PE	17.3	9.5	6.1	5.2
PB	0.9	0.9	0.7	0.7
EV/EBITDA	9.4	7.5	3.9	3.7

	FY17	FY18	FY19E	FY 20E	3QFY18	2QFY19	3QFY19E
Volume							
Crude (MMT)	3.3	3.4	3.4	3.5	0.9	0.8	0.9
Gas (BCM)	2.6	2.5	2.6	2.7	0.7	0.6	0.8
LPG(MT)	37.1	35.7	39.4	40.9	10.3	9.7	10.5
Financials							
Sales	*9,510*	*10,656*	*14,070*	*14,188*	*2,853*	*3,744*	*3,581*
Sales Gr	*-3%*	*12%*	*32%*	*1%*	*17%*	*51%*	*26%*
Ebdita	**3,105**	**3,911**	**5,423**	**5,760**	**1,224**	**1,475**	**1,323**
Ebdita Gr	*-13%*	*26%*	*39%*	*6%*	*84%*	*46%*	*8%*
Net Profits	**1,549**	**2,668**	**3,272**	**3,786**	**705**	**862**	**929**
Profit Gr%	*-33%*	*72%*	*23%*	*16%*	*55%*	*33%*	*32%*
EbditaM%	**32.6%**	**36.7%**	**38.5%**	**40.6%**	**42.9%**	**39.4%**	**36.9%**
Net Mgn%	**16.3%**	**25.0%**	**23.3%**	**26.7%**	**24.7%**	**23.0%**	**25.9%**

Std/ Fig in Rs Cr

❑Crude volume is expected to grow marginally by 3 % YoY to 0.88 MMT in Q3 FY19, as major oil fields (like Ningru field, Baghjan field) are under development phase and expected to be completed by 2020.Company has planned crude production of 3.36MMT and natural gas production of 3020 MMSCM in FY19.

❑PAT is likely to grow by 31% YoY in Q3 FY19 led by the higher other income due to dividend of Rs.328 Cr received from IOC.

❑Tax rate is likely to be higher in the range of around 32-35% in coming quarters as company was availing MAT credit in FY18.

❑Oil India is developing Ningru PML gas field and production form this field is expected to increase to about 800 BOPD of crude oil and 0.2 MMSCMD of gas. Further company has planned for Baghjan field to produce oil & gas from the reservoirs below Dibru - Saikhowa National Park (DSNP). These fields are expected to produce gas by 2022.

❑Company has reduced debt substantially by Rs. 2800 Cr in H1 FY19, and is expected to repay further.

❑Planned capex for FY19 is Rs.4300 Cr (Rs.1249 Cr in overseas investment)

Key Trackable this Quarter

❑Progress on Ningru oil fields after deal signed with Arunachal State government.

❑Update on Baghjan field where company plans to drill seven ERD wells to extract oil by 2020

We value the stock at 8x Adj FY20e EPS , FV of Investments at Rs 80 and valuation of Mozambique at (-)Rs 50 to arrive at SOTP value of Rs 195. ACCUMULATE

Oil & Natural Gas Corpn Ltd

ONGC IN

Oil & Gas

CMP	**147**
Target	**181**
Upside	**23%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
ROE%	10%	10%	12%	11%
ROCE%	10%	10%	12%	11%
PE	13.3	10.7	7.2	7.7
PB	1.3	1.1	0.9	0.8
EV/EBITDA	7.3	5.8	3.6	3.7

	FY17	FY18	FY19E	FY 20E	3QFY18	2QFY19	3QFY19E
Volume							
Crude Volume(MMT)	20.9	20.8	20.2	21.1	5.2	4.9	5.2
Gas Volume(BCM)	17.9	19.5	19.9	20.2	5.0	5.1	5.1
LPG Volume(MMT)	1,352	1,221	1,129	1,152	302	277	279
Crude realiz.(Rs./BBL)	*3,267*	*3,527*	*4,406*	*3,993*	3,694	4,920	3,993
Financials							
Sales	*77,908*	*85,004*	*107,847*	*107,099*	*22,996*	*27,989*	*26,710*
Sales Gr	*0%*	*9%*	*27%*	*-1%*	*15%*	*48%*	*16%*
Ebdita	**31,079**	**36,988**	**52,000**	**50,972**	**10,919**	**14,471**	**13,174**
Ebdita Gr	*-4%*	*19%*	*41%*	*-2%*	*21%*	*58%*	*21%*
Net Profits	**17,900**	**19,945**	**26,225**	**24,554**	**5,015**	**8,265**	**6,679**
Profit Gr%	*11%*	*11%*	*31%*	*-6%*	*15%*	*61%*	*33%*
EbditaM%	**39.9%**	**43.5%**	**48.2%**	**47.6%**	**47.5%**	**51.7%**	**49.3%**
Net Mgn%	**23.0%**	**23.5%**	**24.3%**	**22.9%**	**21.8%**	**29.5%**	**25.0%**

Std/ Fig in Rs Cr

❑ Volume growth in crude and natural gas is expected to grow marginally where as the volume in LPG is likely to fall marginally on YoY basis due to slow demand of LPG in the month of November, 2018. Further the management has guided for Standalone production of oil 22.75MMT, gas 24.41BCM and JVs - oil 3.18MMT, gas 1.1BCM in FY19e.

❑EBITDA Margin is expected to improve by 180bps YoY to 49.3% in Q3 FY19 on the back of better realization, operational efficiencies and decline in cost of work-over rigs by around 30%. These cost efficiencies are expected to sustain in future.

❑ONGC has kick-started its USD 5.07 billion KG oil and gas project by beginning the drilling of first of the 34 wells, targeting first gas by end of 2019. KDG-A is one of the 34 wells planned under this mega project. These wells are expected to produce around 5,000 barrels of oil per day (BOPD) when commercialized.

❑Ramp-up in oil production from the redevelopment projects in the Mumbai offshore area (North & South), oil fields in Daman and Vasai (East) is expected to improve oil volume of ONGC in Jan 2019.

❑Debt (Std.) level has reduced from Rs.25000 Cr to Rs.13985 Cr in H1 FY19.

❑Planned capex for FY19 is Rs. 32000 Cr. (standalone).

Key Trackable this Quarter

❑Status of gas production from its first well at KG-D6 site

❑Update on ramp-up of Mumbai offshore, Daman and Vasai oil fields

❑Oil production of OVL

We value the stock at 8x FY20e EPS(Std.) & Subsidiary at Rs 28 per Share. BUY

Petronet LNG Limited

PLNG IN

Oil & Gas

CMP	**229**
Target	**282**
Upside	**23%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
ROE%	21%	21%	22%	22%
ROCE%	23%	28%	29%	29%
PE	17.7	17.5	15.5	14.4
PB	3.7	3.7	3.4	3.1
EV/EBITDA	12.1	11.0	9.6	8.9

	FY17	FY18	FY19E	FY 20E	3QFY18	2QFY19	3QFY19E
Volume(TBUT)							
Dahej terminal	714	816	876	938	215	211	230
Cap. Utiliz.(%)	*112%*	*106%*	*106%*	*105%*	*112%*	*110%*	*103%*
kochi terminal	15	32	35	64	4.21	4.13	4.50
Cap. Utiliz.(%)	*6%*	*12%*	*14%*	*25%*	13%	9%	10%
Financials							
Sales	*24,616*	*30,599*	*40,848*	*42,971*	*7,757*	*10,745*	*10,919*
Sales Gr	*-9%*	*24%*	*33%*	*5%*	*23%*	*38%*	*41%*
Ebdita	**2,592**	**3,312**	**3,588**	**3,788**	**847**	**884**	**925**
Ebdita Gr	*63%*	*28%*	*8%*	*6%*	*40%*	*-2%*	*9%*
Net Profits	**1,706**	**2,078**	**2,211**	**2,379**	**529**	**563**	**547**
Profit Gr%	*87%*	*22%*	*6%*	*8%*	*33%*	*-4%*	*3%*
EbditaM%	**10.5%**	**10.8%**	**8.8%**	**8.8%**	**10.9%**	**8.2%**	**8.5%**
Net Mgn%	**6.9%**	**6.8%**	**5.4%**	**5.5%**	**6.8%**	**5.2%**	**5.0%**

Std/ Fig in Rs Cr

❑In Q3 FY19, spot LNG prices has increased by around 10% on YoY basis despite declining 8% on sequential basis. Decline in spot LNG prices is likely to impact marketing margins of the company on sequential basis. The company is likely to report muted PAT growth of 2% on YoY basis in Q3 FY19.

❑Kochi-Mangalore pipeline is expected to be completed by Jan-February 2019 following which ramp up of Kochi terminal is expected. Management expects that any additional supply will be fully off taken by BPCL going ahead once this pipeline will commissioned.

❑Dahej 15 MTPA capacity is already operating at high utilization levels and expansion of this terminal to 17.5 MT is underway. This terminal is expected to come on stream by June 2019.

❑Petronet LNG is expanding its operations in Bangladesh and Sri Lanka. In Bangladesh, company is in the process of finalizing implementation and terminal service agreements where as in Sri Lanka pre-FEED studies are underway.

❑Management guides Capex of Rs. 230 for FY19.

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

❑Competitive intensity is expected to rise on the back of two new upcoming LNG terminals (Mundra and Ennore) in first half of 2019.

Key Trackable this Quarter

❑Status of Kochi-Mangalore pipeline

❑Update on Dahej expansion to 17.5 MT which is likely to be completed by June 2019.

❑Status on overseas expansion in Bangladesh and Sri Lanka

We value the stock at 11x FY20e EV/EBITDA. BUY

Reliance Industries Limited

RIL IN

Oil & Gas

CMP	**1121**
Target	**1293**
Upside	**15%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
ROE%	11%	12%	12%	12%
ROCE%	8%	11%	12%	12%
PE	13.2	16.8	18.2	16.2
PB	1.5	2.1	2.2	2.0
EV/EBITDA	11.8	11.6	10.8	9.3

	FY17	FY18	FY19E	FY 20E	3QFY18	2QFY19	3QFY19E
Volume(MMT)							
Crude refined vol	70.2	70.0	71.0	71.0	17.7	17.7	17.8
Crude oil vol	7.2	6.1	4.3	4.0	1.5	1.1	1.0
Natural Gas vol	164	130	92	85	31	22	21
Org. stores(Nos)	*3,616*	*3,837*	*4,361*	*4,641*	3,751	4,141	4,291
Petchem vol	24.9	30.8	38.3	44.1	8.0	9.4	9.6
Financials							
Sales	*305,382*	*391,677*	*531,917*	*621,125*	*99,810*	*143,323*	*124,573*
Sales Gr	*11%*	*28%*	*36%*	*17%*	*26%*	*57%*	*25%*
Ebdita	**46,194**	**64,176**	**81,824**	**95,659**	**17,588**	**21,108**	**18,935**
Ebdita Gr	*11%*	*39%*	*27%*	*17%*	*52%*	*36%*	*8%*
Net Profits	**29,833**	**36,080**	**39,002**	**43,812**	**9,445**	**9,516**	**8,908**
Profit Gr%	*0%*	*21%*	*8%*	*12%*	*26%*	*18%*	*-6%*
EbditaM%	**15.1%**	**16.4%**	**15.4%**	**15.4%**	**17.6%**	**14.7%**	**15.2%**
Net Mgn%	**9.8%**	**9.2%**	**7.3%**	**7.1%**	**9.5%**	**6.6%**	**7.2%**

Conso/ Fig in Rs Cr

❑Revenue is expected to increase by 25% on YoY basis on the back of robust performance by petrochemical and retail segment. However PAT is expected is expected to fall by 6% YoY in Q3 FY19e due to lower refining margins and inventory losses in reefing segment due to sharp decline in crude oil prices.

❑Refining margins are expected to come under pressure and company likely is expected to report GRM of 8 USD/bbl in the last quarter. However refining margins of the company are expected to improve from Q4 FY19 led by lower crude oil prices.

❑Petrochemicals segment is expected perform better in terms of volume growth, on the back of ramp up of pet coke gasification projects in Jamnagar, however realization and margins is expected to come slightly under pressure due to fall in crude oil prices.

❑Reliance retail is aggressively expanding its footprint by adding around 400 new stores every year. We believe that this segment will continue to outperform in coming quarters and expects revenue in this to grow by around 67% YoY to Rs.115,849 Cr in FY19e.

❑Till September, 2018 Jio has reached subscriber base of 250 mn and this growth momentum is expected to continue for next couple of quarters but stiff competition restricts ARPU of Jio to around Rs 132. Jio is now rolling out JioGiga Fiber in 1,100 cities in India and is targeting 5 Cr JioGiga Homes in the first phase.

Key Trackable this Quarter

❑Status of commissioning of R-cluster projects

❑Interest cost and depreciation

We value the stock at 11x FY20e EV/EBITDA. BUY

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Analyst's ownership of the stocks mentioned in the Report	NIL

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

*The name of the Company has been changed from "Microsec Capital Limited" to "Narnolia Financial Advisors Limited" pursuant to change of control. The change in name has been duly effected in the records of the Registrar of Companies (ROC). The application for fresh registration in the new name of "Narnolia Financial Advisors Limited" pursuant to change of control is under process with SEBI.

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