

JUNE 10, 2019

	7-Jun	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	39,616	0.2	3.5	7.9
NIFTY Index	11,871	0.2	3.2	7.3
NSEBANK Index	31,067	0.7	6.1	11.9
NIFTY 500 Index	9,736	0.1	3.0	5.5
CNXMcap Index	17,782	(0.2)	3.8	2.1
BSESMCAP Index	14,657	(0.1)	2.5	0.8
<b>World Indices</b>				
Dow Jones	25,984	1.0	0.2	2.1
Nasdaq	7,742	1.7	(2.2)	4.5
FTSE	7,332	1.0	1.8	3.2
NIKKEI	20,885	0.5	(1.1)	0.4
Hangseng	26,965	0.3	(6.3)	(4.3)
Shanghai	2,828	(1.2)	(2.7)	(8.3)

<b>Value traded (Rs cr)</b>	7-Jun	% Chg Day
Cash BSE	3,274	28.8
Cash NSE	30,407	(19.8)
Derivatives	943,059	(61.9)

<b>Net inflows (Rs cr)</b>	6-Jun	MTD	YTD
FII	(1,566)	9,826	78,968
Mutual Fund	(403)	5,164	2,502

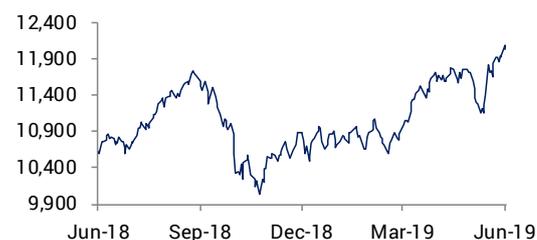
<b>Nifty Gainers &amp; Losers</b>	Price	Chg	Vol
7-Jun	(Rs)	(%)	(mn)
<b>Gainers</b>			
Bharti Infra	280	2.3	3.4
Indusind Bank	1,552	1.9	6.3
Tech Mahindra	751	1.7	1.6
<b>Losers</b>			
Dr. Reddy's Lab	2,581	(2.9)	0.8
Yes Bank	140	(2.4)	66.2
Power Grid Corp	192	(1.9)	4.9

<b>Advances / Declines (BSE)</b>						
7-Jun	A	B	T	Total	% total	
Advances	204	340	48	592	100	
Declines	254	589	70	913	154	
Unchanged	2	30	8	40	7	

	7-Jun	% Chg		
		1 Day	1 Mth	3 Mths
<b>Commodity</b>				
Crude (US\$/BBL)	63.5	0.3	(10.1)	(3.4)
Gold (US\$/OZ)	1,340.8	0.4	3.4	2.4
Silver (US\$/OZ)	15.0	0.8	0.3	(3.4)

<b>Debt / Forex Market</b>	7-Jun	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.0	6.9	7.4	7.4
Re/US\$	69.5	69.3	69.4	70.0

## Nifty



Source: Bloomberg

## News Highlights

- ▶ Delay in admitting cases to the National Company Law Tribunal is prompting banks to opt for one-time settlements for small- and mid-sized companies. Of the 33 cases referred to the NCLT by United Bank of India (UBI), only two have been admitted so far. (BS)
- ▶ The Reserve Bank of India issued the much-anticipated, revised circular on dealing with defaulters that retained the original spirit of its efforts to discipline borrowers and banks but sought to make the rules compliant with the Supreme Court's observations. The central bank put the onus on lenders to act quickly to preserve the value of assets instead of waiting for directions. (ET)
- ▶ FDI equity inflows into India's drugs and pharma industry dropped by 73% to \$266 mn between April 2018 and March 2019, from \$1.010 bn, during the same period a year ago. Industry representatives have attributed policies and USFDA investigations into the practices of certain Indian Pharma companies among the key reasons for the decline. (BS)
- ▶ India could review the GST structure to further prune the number of items in the highest slab of 28% as it attempts to stave off a slump in demand. Some states have favoured a reduction in tax rates, worried that the slowdown may get entrenched, and have communicated their concern to the Centre. (ET)
- ▶ Funds flow from non-banking finance companies (NBFCs) to the real estate sector is expected to dry up further after **DHFL's** recent downgrade, as other NBFCs wait out the latest uncertainty. Not just NBFCs, the funding challenges will hit the real estate sector's recovery and put pressure on property prices, too. (ET)
- ▶ **State Bank of India** began a new era of transparency in consumer loans by linking the pricing of its home-financing products to the central bank policy rate used for setting the broader cost of debt in the economy. (ET)
- ▶ **Dewan Housing Finance Corporation** is confident of honouring its repayment obligations by the close of the seventh working day (June 13). Of the Rs 9.62 bn due on Tuesday (June 11) towards non-convertible debentures, the company has already paid Rs 2.76 bn of its obligations in interest and principal. (BS)
- ▶ **Bharat Forge** announced an investment of €11.35 mn (Rs 889 mn) into a new 50-50 joint venture with Germany's Refu Elektronik GmbH. The new entity will make components for electric and hybrid vehicles. (ET)
- ▶ BP Plc and its partner **Reliance Industries (RIL)** have jointly emerged as the winner of a block in the fresh round of auction under the Open Acreage Licensing Policy (OALP). (BS)
- ▶ **Coal India** plans to hire merchant bankers to carry out financial due diligence for acquiring equity stakes in identified mines and companies in Australia as part of its plan to meet India's growing dry fuel demand. (BS)
- ▶ **Central Bank of India** is planning to raise up to Rs 50 bn in the current fiscal through various means, including rights issue and FPO, to meet Basel III norms by March 2020. (BS)

## What's Inside

- ▶ **Pick of the Week:** GAIL (India) Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI = Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

# GAIL (India) Ltd

Analyst: Tarun Lakhotia and Hemang Khanna (Email: kspcg.research@kotak.com; Contact: +91 22 6218 6427)

CMP (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
315	440	39.7%	399 / 295	711362

## Key Highlights:

- We expect GAIL to benefit from growth in gas volumes, sustainability of marketing profits at reasonable levels, potential turnaround in petchem segment and inclusion of gas under GST.
- GAIL's management has indicated that the entire long-term LNG volumes for CY2019 and ~90% for CY2020 have been placed through well-hedged contracts; excess volumes beyond CY2020 may be off-taken by five new fertilizer plants expected to commission by end-FY2021.
- GAIL also reaffirmed its optimism on rising gas volumes trajectory led by incremental sourcing of supplies from ONGC, Vedanta, RIL and new LNG terminals and inclusion of gas under GST in the near term.
- We expect gradual improvement in operating performance across key segments.
- Gas transportation segment to drive growth in FY20E, FY21E and FY22E.
- Capex increased sharply to Rs.83 bn in FY2019 and is expected to remain high at Rs.70-80 bn over the next few years led by ongoing pipeline and petchem projects.
- We expect gas transmission volume to ramp-up from 107 mmscmd in FY19 to 120 mmscmd in FY21E.
- We cut our standalone EPS estimates to Rs.30.7 (-3%) in FY2020 and Rs.32.9 (-4%) in FY2021 factoring in (1) lower-than-assumed regulated tariffs for HVJ network, (2) higher tariffs for Mumbai regional network and (3) other minor changes.
- We value GAIL stock at Rs.440 per share based on FY2021 estimates.

Financials (Rs mn)*	FY19	FY20E	FY21E
Sales	749,933	749,499	813,286
Growth (%)	39.8	-0.1	8.5
EBITDA	96,038	110,892	120,102
EBITDA margin (%)	12.8	14.8	14.8
PBT	94,862	104,069	111,658
Net profit	62,919	69,281	74,279
Adjusted EPS (Rs)	27.9	30.7	32.9
Growth (%)	36.8	10.0	7.2
P/E (x)	11.3	10.3	9.6
Dividend / share (Rs) ~	7.7	9.5	10.2
ROE (%)	12.7	13.2	13.0
ROCE (%)	12.9	13.0	12.7
Debt/equity (%)	3.2	3.5	2.9

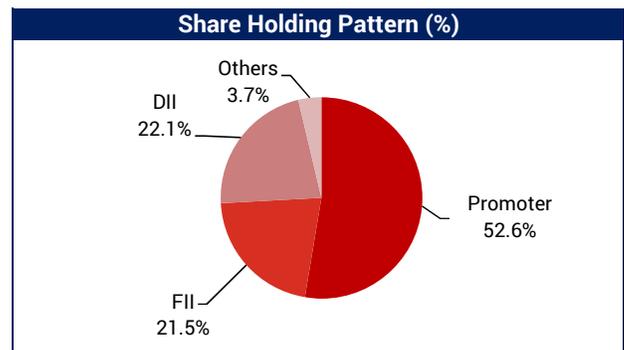
Source: Company; Kotak Securities - Private Client Research \*Consolidated

Financials (Rs mn)*	Q4FY18	Q4FY19	% Chg
Revenues	155,111	187,634	21.0
EBITDA	16,953	16,841	(0.7)
EBITDA Margin (%)	10.9%	9.0%	
PAT	10,209	11,222	9.9
PAT Margin (%)	6.6%	6.0%	
EPS (Rs)	4.4	5.9	34.1

Source: Kotak Securities - Private Client Research; \*Consolidated



Source: Bloomberg



Source: Bloomberg

This one pager on the company is extracted from last KIE update dated May 28 2019 & June 6, 2019 and it does not contain events beyond the last update. We take no obligation to update the KIE recommendations. While source of all other information is taken from Kotak Institutional Equities, the price performance and shareholding pattern chart is inputted by Kotak PCG research team (with source as Bloomberg). It is advisable to read the full KIE report before taking any investment decision on the above company recommendation.

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- BUY** – We expect the stock to deliver more than 15% returns over the next 12 months
- ADD** – We expect the stock to deliver 5% - 15% returns over the next 12 months
- REDUCE** – We expect the stock to deliver -5% - +5% returns over the next 12 months
- SELL** – We expect the stock to deliver < -5% returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
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- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

### FUNDAMENTAL RESEARCH TEAM

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<b>Rusmik Oza</b> Head of Research rusmik.oza@kotak.com +91 22 6218 6441	<b>Arun Agarwal</b> Auto & Auto Ancillary arun.agarwal@kotak.com +91 22 6218 6443	<b>Amit Agarwal</b> Transportation, Paints, FMCG agarwal.amit@kotak.com +91 22 6218 6439	<b>Krishna Nain</b> M&A, Corporate actions krishna.nain@kotak.com +91 22 6218 7907	<b>K. Kathirvelu</b> Support Executive k.kathirvelu@kotak.com +91 22 6218 6427
<b>Sanjeev Zarbade</b> Cap. Goods & Cons. Durables sanjeev.zarbade@kotak.com +91 22 6218 6424	<b>Ruchir Khare</b> Cap. Goods & Cons. Durables ruchir.khare@kotak.com +91 22 6218 6431	<b>Jatin Damania</b> Metals & Mining, Midcap jatin.damania@kotak.com +91 22 6218 6440	<b>Deval Shah</b> Research Associate deval.shah@kotak.com +91 22 6218 6425	
<b>Teena Virmani</b> Construction, Cement, Buildg Mat teena.virmani@kotak.com +91 22 6218 6432	<b>Sumit Pokharna</b> Oil and Gas, Information Tech sumit.pokharna@kotak.com +91 22 6218 6438	<b>Pankaj Kumar</b> Midcap pankajr.kumar@kotak.com +91 22 6218 6434		

### TECHNICAL RESEARCH TEAM

---

<b>Shrikant Chouhan</b> shrikant.chouhan@kotak.com +91 22 6218 5408	<b>Amol Athawale</b> amol.athawale@kotak.com +91 20 6620 3350	<b>Faisal Shaikh, FRM, CFTE</b> Research Associate faisalf.shaikh@kotak.com +91 22 62185499	<b>Siddhesh Jain</b> Research Associate siddhesh.jain@kotak.com +91 22 62185498
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### DERIVATIVES RESEARCH TEAM

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<b>Sahaj Agrawal</b> sahaj.agrawal@kotak.com +91 79 6607 2231	<b>Malay Gandhi</b> malay.gandhi@kotak.com +91 22 6218 6420	<b>Prashanth Lalu</b> prashanth.lalu@kotak.com +91 22 6218 5497	<b>Prasenjit Biswas, CMT, CFTE</b> prasenjit.biswas@kotak.com +91 33 6625 9810
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