

JUNE 7, 2019

	6-Jun	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	39,530	(1.4)	1.5	8.5
NIFTY Index	11,844	(1.5)	1.1	7.8
NSEBANK Index	30,857	(2.3)	3.0	12.0
NIFTY 500 Index	9,723	(1.6)	1.0	6.0
CNXMcap Index	17,819	(1.7)	2.0	2.6
BSESMCAP Index	14,673	(1.6)	0.9	1.8
World Indices				
Dow Jones	25,721	0.7	(0.9)	1.0
Nasdaq	7,616	0.5	(4.4)	2.6
FTSE	7,260	0.5	(0.0)	1.4
NIKKEI	20,774	(0.0)	(4.8)	(2.7)
Hangseng	26,895	0.5	(8.2)	(6.3)
Shanghai	2,861	(0.0)	(3.4)	(9.0)

Value traded (Rs cr)	6-Jun	% Chg Day
Cash BSE	2,543	1.7
Cash NSE	37,909	20.4
Derivatives	2,474,907	160.9

Net inflows (Rs cr)	4-Jun	MTD	YTD
FII	136	9,826	80,398
Mutual Fund	(58)	5,164	2,502

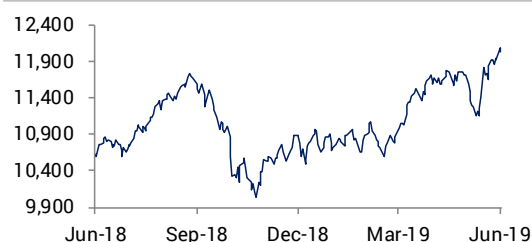
Nifty Gainers & Losers	Price	Chg	Vol
6-Jun	(Rs)	(%)	(mn)
Gainers			
Coal India Ltd	269	2.2	11.2
Titan Co	1,269	1.7	2.4
Hero MotoCorp	2,789	1.3	1.2
Losers			
Gail India	316	(11.7)	28.0
Indiabulls Housing	736	(7.6)	13.8
Indusind Bank	1,523	(7.0)	6.4

Advances / Declines (BSE)						
6-Jun	A	B	T	Total	% total	
Advances	90	207	43	340	100	
Declines	368	758	69	1,195	351	
Unchanged	2	23	16	41	12	

	6-Jun	% Chg		
		1 Day	1 Mth	3 Mths
Commodity				
Crude (US\$/BBL)	62.4	1.2	(10.7)	(5.9)
Gold (US\$/OZ)	1,335.4	0.4	3.8	3.7
Silver (US\$/OZ)	14.9	0.6	(0.1)	(0.8)

Debt / Forex Market	6-Jun	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.9	7.0	7.4	7.4
Re/US\$	69.3	69.3	69.4	70.3

Nifty



Source: Bloomberg

News Highlights

- ▶ The Reserve Bank of India (RBI) cut the benchmark repo rate by 25 basis points (bps) for the third time in a row and changed its policy stance to "accommodative" from "neutral" in an attempt to revive growth in economy that has expanded at the slowest pace in five years. (Livemint)
- ▶ The Reserve Bank of India (RBI) is closely watching developments unfolding in the NBFC sector, which is facing a liquidity crunch, and is committed to see that the sector remains robust and healthy, Governor Shaktikanta Das said during the post monetary policy announcement press conference. (Hindu)
- ▶ Air conditioner sales in India grew 20% in both April and May from the year earlier as a prolonged winter followed by a surge in summer temperatures is fuelling a market recovery after two straight years of tepid sales. (livemint)
- ▶ The **Indiabulls** Group is set to exit the real estate business with the sale of cofounder and chairman Sameer Gehlaut's 39.5% stake for Rs 27 bn to US-based private equity firm Blackstone and its local partner Embassy Group. Indiabulls will turn its focus fully to financial services as it seeks to merge with Lakshmi Vilas Bank
- ▶ From June 16, the premium for mandatory third-party liability insurance for private cars up to 1000 cc will increase by 12% from Rs 1,850 to Rs 2,072, and for those above 1000 cc but less than 1500 cc, the rise will be 12.5% to Rs 3,221. For two-wheelers, the increase will range between 4% to 21%. However, the premium of long-term cover remains unchanged. (FE)
- ▶ The competition commission asked Schneider, which acquired electrical and automation business of **L&T** for Rs 140 bn, to reserve a part of the latter's installed capacity to offer white labelling services to third party companies. The fair trade regulator also asked the acquirer to provide third party firm technology access of white-labelled products for the next five years. (Moneycontrol)
- ▶ Oil refiners **Indian Oil Corp (IOC)** and **Hindustan Petroleum Corp Ltd (HPCL)** said they will contest tax authorities demand for over Rs 40 bn in excise duty on ethanol used for doping petrol, saying the sugarcane extract for mixing in fuel is exempt from tax. (Hindu)
- ▶ Troubled fruit juice maker **Manpasand Beverages'** Chairman and Managing Director Dharendra Singh Thursday said he is willing to step down from the day-to-day operations of the company over an alleged GST fraud and arrests of its top executives. (livemint)

What's Inside

- ▶ **Result Update:** Simplex Infrastructures Ltd
- ▶ **Sector Update:** Natural Gas

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

Result Update

SIMPLEX INFRASTRUCTURE LTD

Stock Details

Market cap (Rs mn)	:	8176
52-wk Hi/Lo (Rs)	:	521 / 130
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	69,582
Shares o/s (mn)	:	57

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Sales	60,415	63,060	65,142
Growth (%)	4.8	4.4	3.3
EBITDA	7,103	7,441	7,687
EBITDA margin (%)	11.8	11.8	11.8
Net profit	1,226	1,305	1,492
EPS (Rs)	27.7	22.4	25.6
Growth (%)	28.3	(19.1)	14.3
Book value (Rs/share)	357.3	381.3	406.4
Dividend per share (Rs)	0.5	0.5	0.5
ROE (%)	8.6	6.1	6.5
ROCE (%)	11.4	11.3	11.5
P/E (x)	5.2	6.5	5.7
EV/EBITDA (x)	6.2	5.6	5.6
P/BV (x)	0.4	0.4	0.4

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	49.3	49.3	49.3
FII	10.2	10.2	9.6
DII	21.4	21.4	20.9
Others	19.1	19.1	20.1

Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Simplex Infra	(7.9)	(22.5)	(31.3)
Nifty	1.1	7.8	9.8

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

PRICE Rs.145

TARGET Rs.128

SELL

Simplex Infrastructure revenues for Q4FY19 were lower than our expectations due to payment related delays, design changes and even external factors such as lower than expected order inflows which impacted overall execution. Order inflow has remained weak during entire FY19 and stood at Rs 31.94 bn for FY19. Continued high working capital remains a concern and receivable recovery is also going at a slower pace and came lower than management's guidance for the full year.

Key highlights

Revenue declined by 4% YoY for the quarter and performance came lower than our estimates and was impacted by delays in commencement of few large projects. Margins witnessed an improvement on YoY basis. Order inflow stood at Rs 31.94 bn for FY19 with closing order book of Rs 160 bn.

Valuation and outlook

At current price of Rs 145, stock is trading at 6.5x P/E and 5.7x on P/E and 5.6x and 5.6x EV/EBITDA on FY20 and FY21 estimates respectively. We revise our estimates to factor in slower execution, lower than expected order inflow as well as continued high working capital. Company's target in the beginning of the year was to achieve 40%/35% growth in revenues for FY19/20 respectively accompanied by reduction in receivables, both of which have belied management's expectation. We reduce our earnings estimates and roll forward our valuations on FY21 and arrive at a revised price target of Rs 128 based on 5x FY20 estimates. We downgrade the stock to SELL on account of lack of comfort on future growth in execution and working capital cycle improvement.

Financial highlights

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Net Sales	15,747	16,482	-4%	14,034	12%
Expenditure	13,913	14,895		12,245	
EBITDA	1,834	1,587	16%	1,789	3%
EBITDA margin	11.6%	9.6%		12.7%	
Depreciation	381	432		407	
EBIT	1,453	1,155	26%	1,382	5%
Interest	1,231	1,253		1,135	
EBT(exc other income)	222	(98)		247	-10%
Other Income	376	498		240	
EBT	598	400	49%	487	23%
Tax	262	106		125	
Tax (%)	43.8%	26.6%		25.6%	
PAT	336	294	14%	362	-7%
Other comp inc	(53)	11		(323)	
Net profit	284	305	-7%	39	623%
NPM (%)	2.1%	1.8%		2.6%	
Equity Capital	115	99		114	
EPS	5.9	5.9	-1%	6.4	-8%

Source: Company

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Revenue growth impacted by lower than expected order inflows and execution

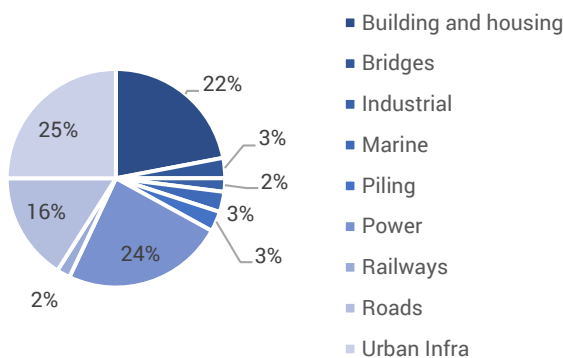
Simplex Infrastructure revenues for Q4FY19 were lower than our expectations due to payment related delays, design changes and even external factors such as lower than expected order inflows which impacted overall execution. Debtor recovery was much lower than expectations and company received debtors of Rs 3.08 bn in FY19. It has further reduced the recovery guidance to Rs 5 bn for FY20 from Rs 10 bn expected to be recovered earlier. Slower recovery also impacted the execution during the quarter as well as for full year.

Order inflow of Rs 31.94 bn for FY19 was also much lower than management’s guidance of Rs 50 bn for FY19 and was impacted by conservative bidding by the company as well as election schedule. Company expects order inflow to ramp up in FY20. We believe that execution ramp up is contingent upon improvement in order inflows, client payment schedule and debtor recovery.

Order inflow of Rs 31.94 bn during FY19 has come largely in power, building and housing segment, urban infra along with piling segment. Going ahead, company expects order inflow to come largely from power, industrial, urban infra, building and housing, railways followed by marine, bridges, port development and piling based on the current bid pipeline. Current order book of Rs 160 bn is diversified across buildings and housing (22%), bridges (3%), industrial (2%), marine (3%), piling (3%), power (24%), railways (2%), roads (16%), and urban infrastructure (25%). Domestic orders form nearly 98% of the order book while remaining is from overseas. Proportion of private sector/government projects in the total order book in FY19 is 18:82%.

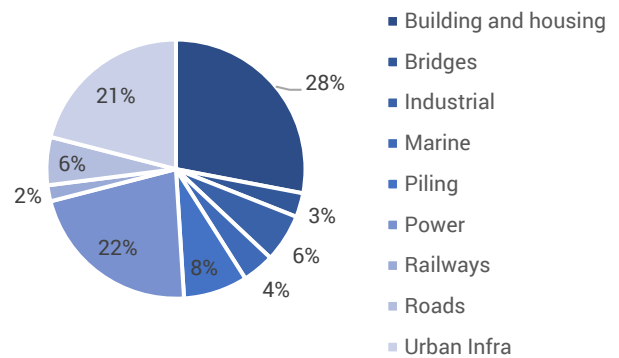
Revenues for FY19 are diversified across buildings and housing (28%), bridges (3%), industrial (6%), marine (4%), piling (8%), power (22%), railways (2%), roads (6%), and urban infrastructure (21%). International revenues contributed 6% of the revenues while domestic revenues contributed around 94% during the quarter.

Order book break up (%)



Source: Company

FY19 Revenue break up



Source: Company

Revenue and order book assumptions

Rs mn	FY16	FY17	FY18	FY19E	FY20E	FY21E
Beginning order book	147240	140110	165200	186200	160200	147140
Order Received	50600	81170	76670	31940	50000	70000
Growth	-	60.4%	-5.5%	-58.3%	56.5%	40.0%
Revenue	57730	56080	57662	60415	63060	65142
Growth	-	-2.9%	2.8%	4.8%	4.4%	3.3%
% Executed	29.2%	25.3%	23.8%	27.7%	30%	30%
Order Book - year end	140110	165200	186200	160200	147140	151998

Source: Company, Kotak Securities – Private Client Research

We revise our estimates downwards to factors in delays in execution and lower than expected order inflow and expect revenues to grow at a CAGR of 3.8% between FY19-21.

Net profit impacted by slower execution

Net profit performance was impacted by slower execution. Debtor recovery was much lower than expectations and company received debtors of Rs 3.08 bn in FY19. Borrowings continue to stay high at Rs 36.5 bn at the end of FY19 but with improvement in debtor collection to Rs 5 bn by FY20 and stake sale in road BOT project (which could yield Rs 3 bn), company expects to reduce borrowings by FY20.

Working capital has continued to remain high even for the new projects as receivables stood high at nearly Rs 63 bn with unbilled revenues contributing nearly Rs 43.8 bn, debtors more than six months at Rs 9.46 bn, debtors less than six months at Rs 4.34 bn, retention money of Rs 5.49 bn. Slow pace of debtor recovery is likely to keep working capital on the higher side as against our initial assumption of reduction in overall working capital cycle. Arbitration claims of the company currently stand around Rs 18 bn with only Rs 5 bn awarded in favor of the company.

We revise our estimates to factor in slower execution and expect net profits to grow at a CAGR of 10.3% between FY19-21.

Valuation and recommendation

At current price of Rs 145, stock is trading at 6.5x P/E and 5.7x on P/E and 5.6x and 5.6x EV/EBITDA on FY20 and FY21 estimates respectively. We revise our estimates to factor in slower execution, lower than expected order inflow as well as continued high working capital. Company's target in the beginning of the year was to achieve 40%/35% growth in revenues for FY19/20 respectively accompanied by reduction in receivables, both of which have belied management's expectation. We reduce our earnings estimates and roll forward our valuations on FY21 and arrive at a revised price target of Rs 128 based on 5x FY20 estimates (Rs 196 earlier). We downgrade the stock to SELL on account of lack of comfort on future growth in execution and working capital cycle improvement.

About the company

Simplex Infrastructures Ltd. is a diversified company established in 1924 and executing projects in several sectors like Piling, industrial, power plant, urban infra, airports, building and housing, marine, railways, bridges and elevated road structures. It has nearly 90 years executing projects with consistent quality assurance, cost control and adherence to milestones in a safe environment as per the customer requirements. The Company has been closely associated with the country's infrastructure building with over 2600 completed projects spanning almost all the gamut of construction industry.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	57,662	60,415	63,060	65,142
% change YoY	2.8	4.8	4.4	3.3
EBITDA	6,689	7,103	7,441	7,687
% change YoY	(2.9)	6.2	4.8	3.3
Other Income	1,363	1,119	1,000	1,000
Depreciation	1,834	1,677	1,788	1,863
EBIT	6,217	6,545	6,653	6,823
% change YoY	7.2	5.3	1.6	2.6
Net interest	4,709	4,708	4,676	4,563
Profit before tax	1,509	1,837	1,977	2,260
% change YoY	12.1	21.7	7.6	14.3
Tax	340	611	672	768
as % of PBT	22.5	33.3	34.0	34.0
Profit after tax	1,169	1,226	1,305	1,492
Other compr income	97	(363)	-	-
Net income	1,072	1,589	1,305	1,492
% change YoY	(4.4)	48.2	(17.9)	14.3
Shares outstanding (m)	49.7	57.4	58.3	58.3
EPS (reported) (Rs)	21.6	27.7	22.4	25.6
CEPS (Rs)	58.5	56.9	53.1	57.6
DPS (Rs)	0.50	0.50	0.50	0.50

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBIT	6,120	6,545	6,653	6,823
Depreciation	1,834	1,677	1,788	1,863
Change in working capital	(3,797)	(3,268)	9	(2,961)
Chg in other net current assets (194)	(649)	(649)	33	(1)
Operating cash flow	3,964	4,304	8,483	5,725
Interest	(4,709)	(4,708)	(4,676)	(4,563)
Tax	(340)	(611)	(672)	(768)
Cash flow from operations	(1,085)	(1,015)	3,135	393
Capex	(1,066)	(861)	(1,000)	(1,500)
(Inc)/decrease in investments	(1)	81	-	-
Cash flow from investments	(1,067)	(780)	(1,000)	(1,500)
Proceeds from issue of equity	-	15	2	-
Increase/(decrease) in debt	2,902	(1,075)	(1,800)	-
Proceeds from share premium	(0)	2,940	448	-
Dividends	(29)	(29)	(33)	(34)
Cash flow from financing	2,873	1,851	(1,383)	(34)
Opening cash	329	1,049	1,106	1,857
Closing cash	1,050	1,106	1,857	716

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	1,049	1,106	1,857	717
Accounts receivable	64,996	67,609	68,761	73,458
Inventories	7,561	7,739	7,985	8,595
Loans and advances & Others	5,854	7,032	6,824	7,300
Current assets	79,461	83,486	85,427	90,070
Other non-current assets	226	212	211	212
LT investments	1,381	1,299	1,299	1,299
Net fixed assets	11,076	10,260	9,471	9,108
Total assets	92,143	95,257	96,409	100,690
Payables	35,034	35,734	36,933	39,755
Others	20	20	20	20
Current liabilities	35,054	35,754	36,953	39,776
Provisions	155	119	151	151
LT debt	39,382	38,306	36,506	36,506
Other liabilities	1,207	584	584	584
Equity	99	115	117	117
Reserves	16,246	20,379	22,098	23,556
Total liabilities	92,143	95,257	96,409	100,690
BVPS (Rs)	329.2	357.3	381.3	406.4

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	11.6	11.8	11.8	11.8
EBIT margin (%)	10.8	10.8	10.5	10.5
Net profit margin (%)	1.9	2.6	2.1	2.3
Receivables (days)	389.8	400.6	398.0	395.0
Inventory (days)	47.6	46.2	46.2	46.2
Sales/assets (x)	5.2	5.9	6.7	7.2
Interest coverage (x)	0.2	0.3	0.3	0.3
Debt/equity ratio(x)	2.4	2.1	1.8	1.6
ROE (%)	6.8	8.6	6.1	6.5
ROCE (%)	11.6	11.4	11.3	11.5
EV/ Sales (x)	0.8	0.7	0.7	0.7
EV/EBITDA(x)	6.6	6.2	5.6	5.6
Price to earnings (P/E)	6.7	5.2	6.5	5.7
Price to book value (P/B)	0.4	0.4	0.4	0.4
Price to Cash Earnings(P/Ceps)	2.5	2.5	2.7	2.5

Source: Company, Kotak Securities – Private Client Research

Sector Update

Sector Details

BSE Oil Ind Mkt cap (Rs bn) :	6,575
52-wk Hi/Lo (Rs) :	15930 / 12040
No.of members :	10
BSE OIL Index Value	15,268
O&G weightage in Nifty	10.50

Source: Bloomberg

Price Performance (%)

	3M	6M	1Y
HPCL	29	45	6
GGAS	45	42	9
IGL	20	38	34
IOCL	7	33	0
BPCL	7	26	2
ONGC	10	26	4
BSEOIL	6	20	10
RIL	5	18	40
NIFTY	7	12	12
PLNG	4	12	13
SENSEX	8	12	12
GSPL	12	4	7
OINL	(2)	4	(13)
MAHGL	(2)	1	10
GAIL	(9)	(8)	(3)
MRPL	(12)	(12)	(29)
CPCL	(16)	(21)	(22)
ABAN	(35)	(35)	(59)

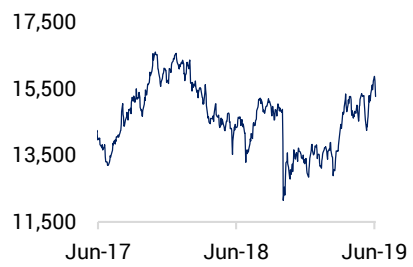
Source: Company, Kotak Securities - PCG

Price Performance (%)

(%)	1M	3M	6M
BSE Oil and Gas Sector	0.0	6.4	20.0
Nifty	1.1	7.4	12.0

Source: Bloomberg

BSE Oil and Gas Index chart



Source: Bloomberg

NATURAL GAS SECTOR UPDATE

India's total gas consumption decreased marginally to 164 mmscmd (-0.6% yoy) in April'19 as jump in domestically produced gas consumption (1.5% yoy) was off-set by lower imported gas consumption (-3.2% yoy).

Attractively priced, domestically produced gas consumption increased 1.5% yoy to 91 mmscmd mainly due to higher gas demand from Fertilizer, CGD and refinery sector. Notably, consumption by city gas distribution sector (contributes 15% of the total gas consumption mix) increased by 16% yoy.

On the other side, RLNG consumption decreased 3.2% yoy in April'19 due to lower gas off-take by Fertilizer, CGD and refinery sector. RLNG's gas consumption mix decreased 120 bps yoy to 44.4% in April'19, along with decline in gas imports.

Monthly readings on natural gas production, availability and consumption in India

- ❑ **India's total gas consumption:** In April'19, India's gas consumption decreased marginally by ~0.6% yoy to 164 mmscmd (million metric standard cubic meter per day) amid lower consumption by Fertilizer (-2% yoy) and Power (-7% yoy) sector.
- ❑ **RLNG consumption:** Notably, RLNG consumption growth decreased. In April'19, RLNG demand decreased 3.2% yoy to 73 mmscmd due to decrease in imported gas demand from fertilizer (-7% yoy), refinery (-2% yoy) and CGD (-12% yoy) sector. However, Petrochemical and Power sector imported gas demand increased by 40% yoy and 13% yoy, respectively.
- ❑ The contribution of RLNG in India's total gas consumption mix decreased by 120 bps to 44.4% in April'19 vs 45.5% in April'18, reflecting lower demand for imported gas. We expect RLNG demand to improve in the medium term due to better cost economics relative to liquid fuel, continuously rising global RLNG supply and rising demand from industrial & commercial segment.
- ❑ **RLNG import:** India's LNG import increased significantly 9.7% yoy in April'19 to 83 mmscmd, after declining for three consecutive months.
- ❑ **Domestic gas supply:** India's gas production decreased marginally by 0.3% yoy to 89 mmscmd in April'19 led by lower gas production by private/JVs E&P companies. However, ONGC's gross gas production increased by 3.3% yoy to 68 mmscmd and OIL India's gross gas production increased by 1.4% yoy to 7 mmscmd.
- ❑ **India's total Gas consumption mix:** Major gas consuming sectors are fertilizer (23%), power (20%), CGD (15%), refinery (12%), petrochemicals (6%) and balance by others.
- ❑ Henry Hub Natural Gas Futures Price corrected ~48% from its peak of US\$4.8/mmbtu. This is positive for GAIL which has tied-up with US based companies for RLNG imports.
- ❑ During the last six months, Nifty has given a return of 12% however, BSE Oil and Gas Index has given a return of 20%. In the oil and gas sector, HPCL has given highest return (45%) during the last six months followed by GGAS 42%, IOCL 33%, BPCL 26%, IGL 38%, ONGC 26%, RIL 18%, PLNG 12%, MGL 1%, etc.

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India's gas story in charts

India's total gas consumption and sectoral mix.

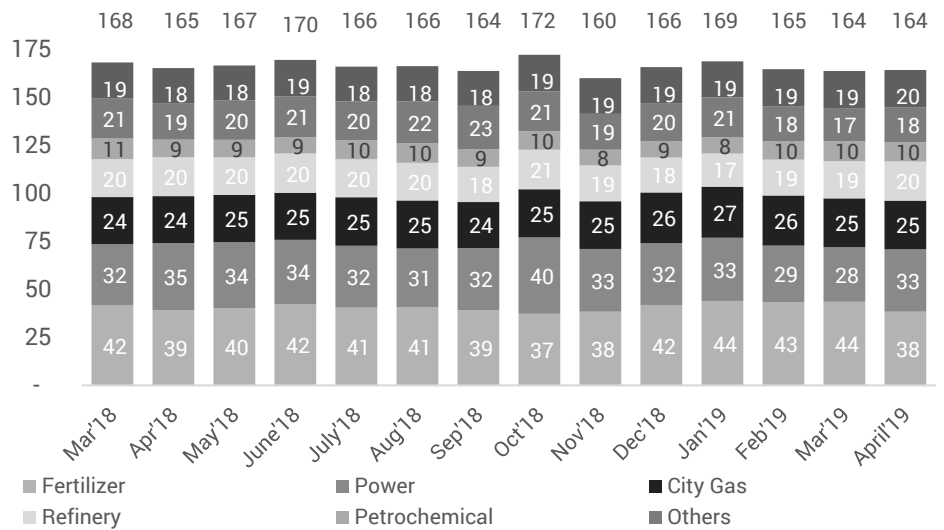
India's total gas consumption decreased for second consecutive month yoy led by struggling Power sector and lower gas consumption by Fertilizer sector in April'19.

GAIL India transmitted 107 mmscmd of gas through its pipeline in FY19.

Domestically produced gas consumption increased by 1.5% yoy in April' 19 supported by higher gas consumption by CGD, fertilizer and refining sector.

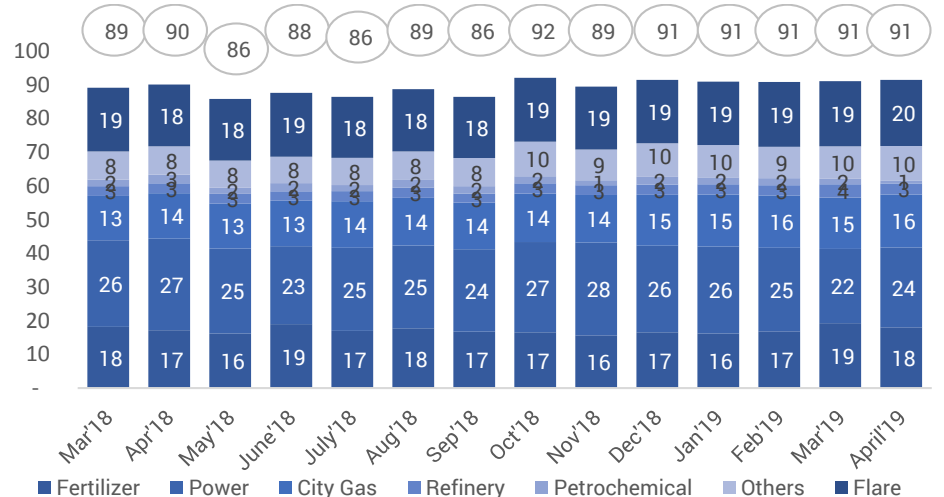
RLNG consumption decreased for second consecutive month due to lower demand from CGD, Fertilizer and refinery sector.

India's total gas consumption – Industry wise (mmscmd)



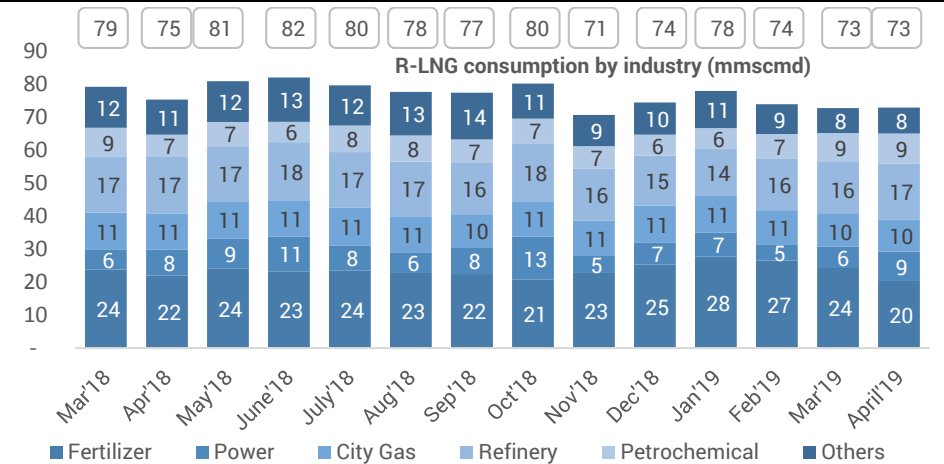
Source: PPAC and Kotak Securities – Private Client Research

India's domestic gas consumption – Industry wise (mmscmd)



Source: PPAC and Kotak Securities – Private Client Research. Note: Upstream companies use some gas as internal consumption while some quantity of gas is flared as a part of technical requirement.

Imported RLNG consumption in India – Industry wise (mmscmd)

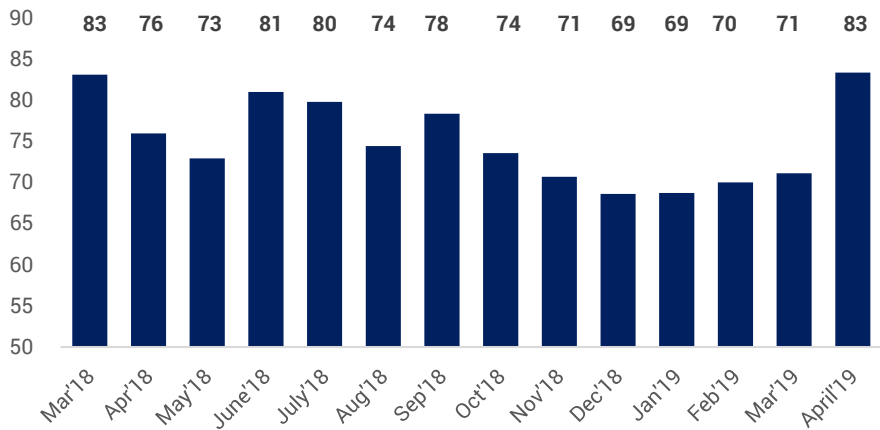


Source: PPAC and Kotak Securities – Private Client Research

India's LNG imports (mmscmd)

India's LNG import increased by 9.7% yoy in April'19 after falling for three consecutive months.

However, India's RLNG demand is expected to remain robust in the medium to long term.



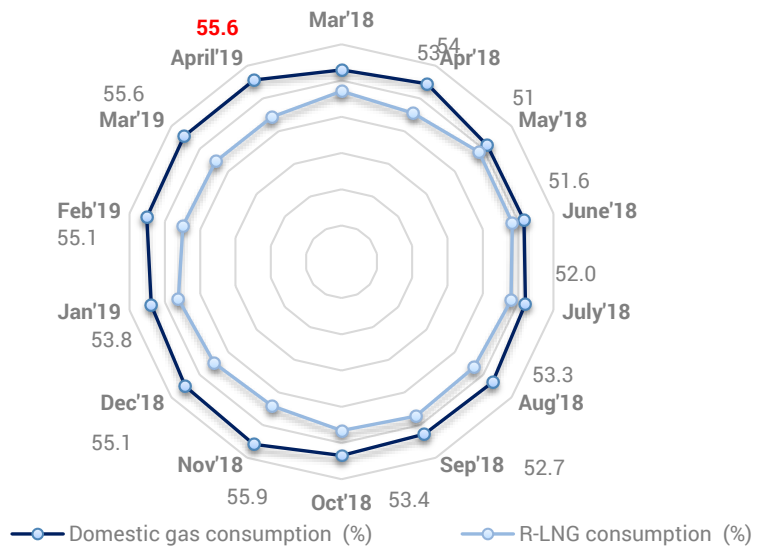
Source: PPAC and Kotak Securities – Private Client Research.

Note: RLNG is imported by PLNG, GAIL, GSPC, RIL, IOCL, Torrent Power & BPCL

Imported vs Domestic natural gas consumption mix (%)

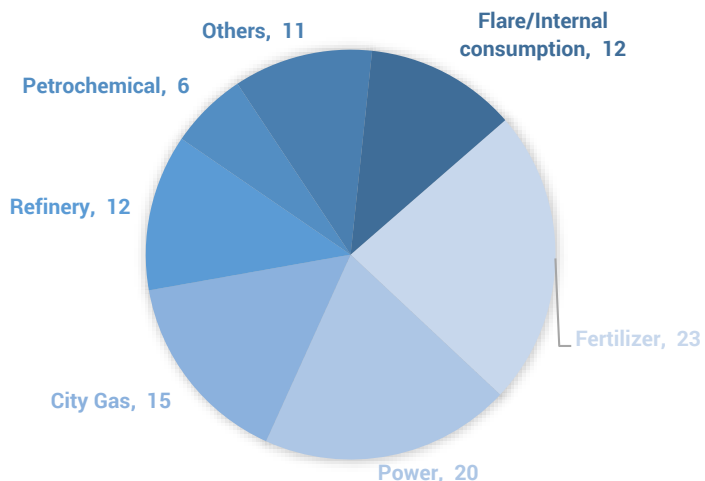
India's RLNG consumption mix stood lower at 44.4% in April'19 v/s 45.5% in April'18.

New regasification capacity is boosting India's consumption of imported gas. In long term, we expect meaningful jump in RLNG consumption in India.



Source: PPAC and Kotak Securities – Private Client Research. Note: Gas flared and internally consumed.

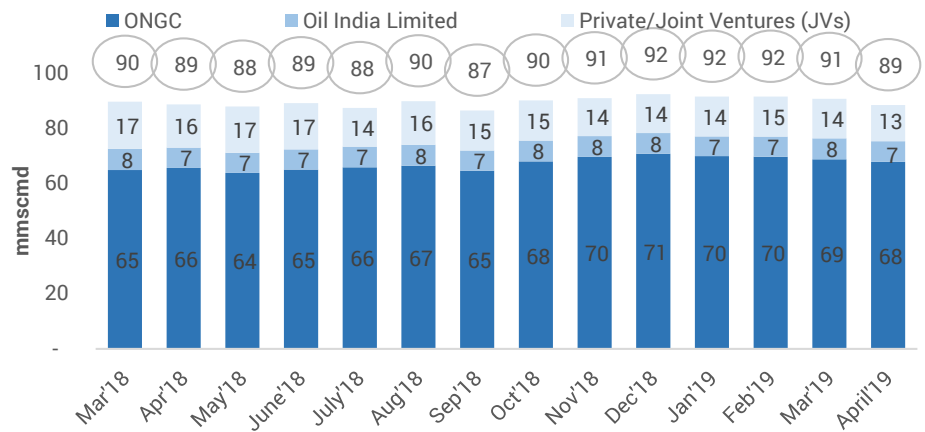
India's total natural gas consumption mix (%)



Source: PPAC and Kotak Securities – Private Client Research

India's total gas production – (mmscmd)

Notably, ONGC and Oil India's gross gas domestic production increased by 3.3% yoy and 1.4% yoy despite 0.3% yoy decline in total gross domestic gas production.

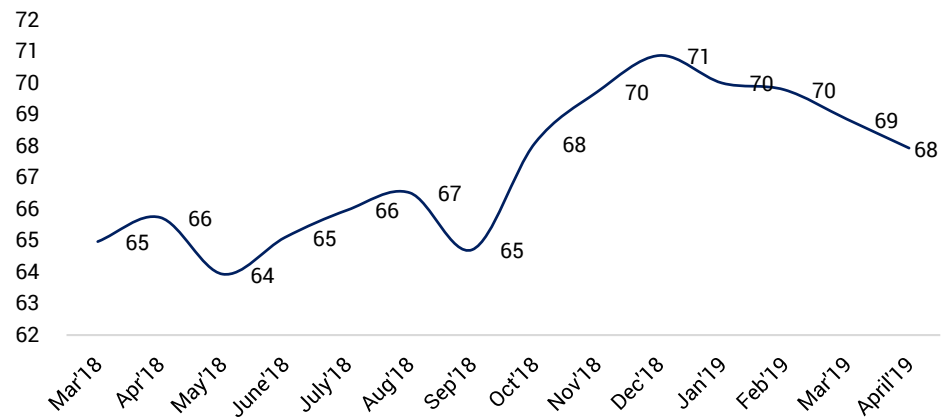


Source: PPAC and Kotak Securities – Private Client Research

ONGC's gas production from domestic fields (mmscmd)

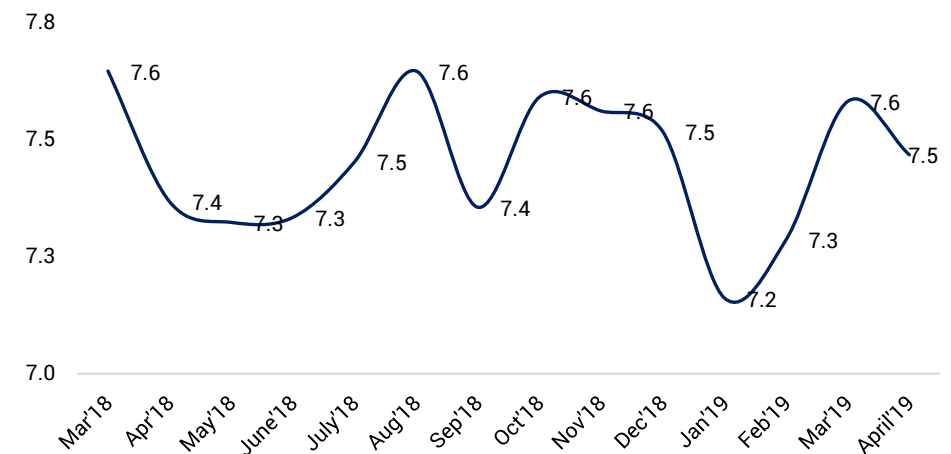
ONGC is the biggest domestic gas producer.

ONGC's gas supply stands higher by 3.3% yoy.



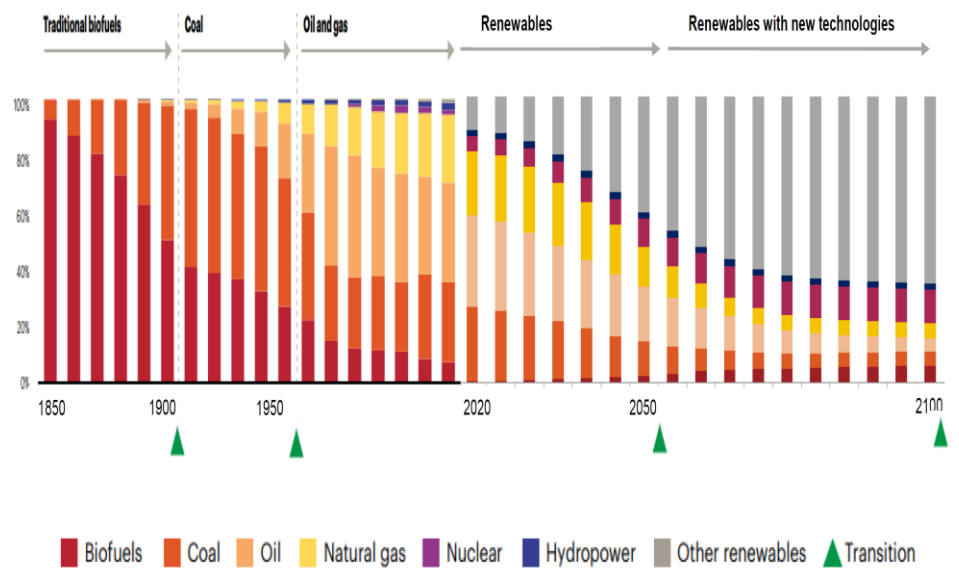
Source: PPAC and Kotak Securities – Private Client Research

Oil India monthly gas production (MMSCMD)



Source: PPAC and Kotak Securities – Private Client Research

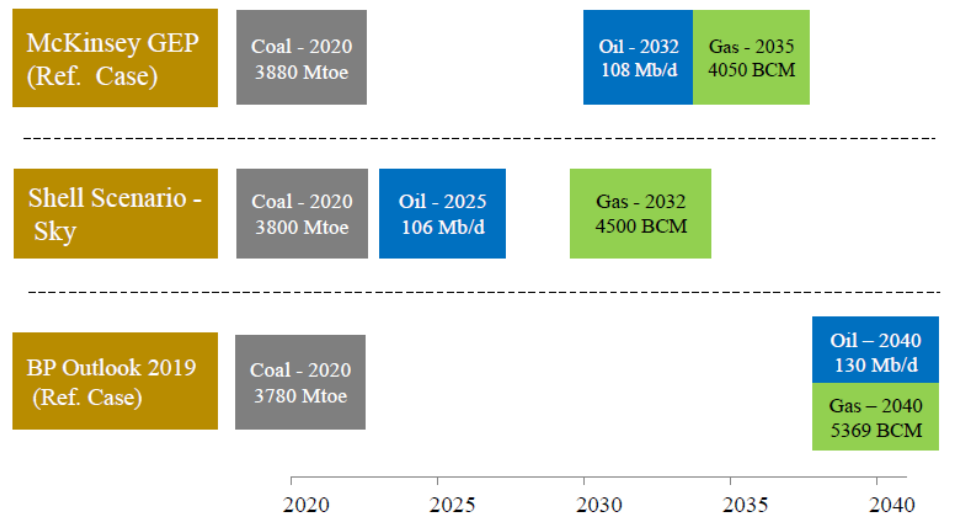
Transition in energy mix over two and half centuries



Source: Shell past data and Shell Scenarios – Sky and GAIL India

Gas to peak last among fossil fuels

- Varied estimates on oil, though oil usage for transport will peak by 2025-2030
- Gas is the last fossil fuel to peak and remains longer than other fossil in all estimates
- Coal unanimously peaks in 2020



Source: McKinsey Global Energy perspectives, BP Energy Outlook 2019, Shell Sky Scenario and GAIL India

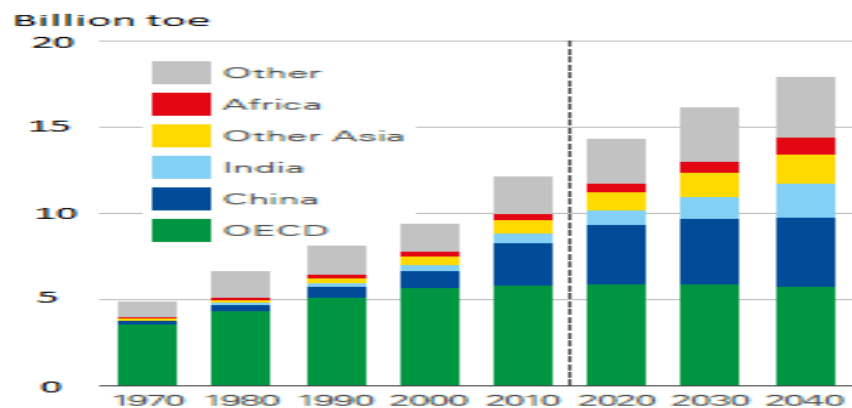
World economy is expected to almost double over the next 20 years, with growth averaging 3.4% p.a. largely driven by increases in productivity (i.e. GDP per person)

The world's population is projected to increase to reach nearly 9 billion people by 2035

Expected growth in the global economy is driven by emerging economies, with China and India accounting for around half of the increase

Energy consumption is expected to grow less quickly (1.3% p.a.) than in the past (2.2% p.a. 1995 to 2015)

Energy Consumption Trend: World



Source: BP Energy Outlook 2019 and GAIL India

Global Primary Energy Basket – A Comparison

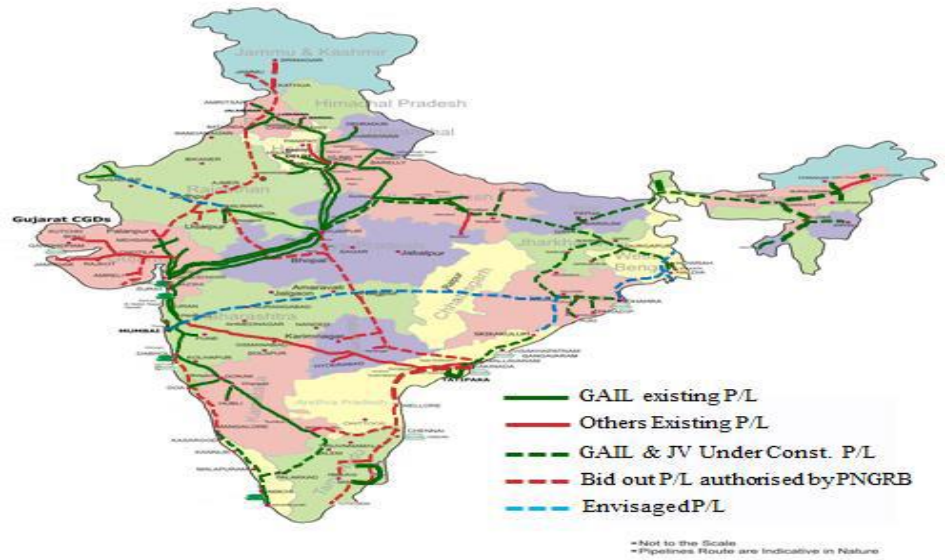
Region	Oil	Natural Gas	Coal	Nuclear Energy	Hydro electric	Renewables	TPE (MTOE)
World	34.2%	23.4%	25.4%	4.4%	6.8%	3.6%	13511.2
OECD	39.4%	25.7%	15.9%	7.9%	5.6%	5.4%	5605
Non- OECD	30.5%	21.7%	35.9%	1.9%	7.6%	2.3%	7906.1
Asia Pacific	28.6%	11.5%	48.4%	1.9%	6.5%	3.0%	5743.6
China	19.4%	6.6%	60.4%	1.8%	8.3%	3.4%	3132.2
India	29.5%	6.2%	56.3%	1.1%	4.1%	2.9%	753.7
Bangladesh	22.7%	69.4%	7.0%	-	0.6%	0.3%	33
Pakistan	36.1%	43.3%	8.8%	2.2%	8.7%	1.0%	80.9

Source: BP Statistical World Energy Review, 2018 and GAIL India

Pipelines	KM	Timeline
GAIL existing Pipelines	11400	Operational
Others existing Pipelines	5500	Operational
Total Existing Pipeline	16900	Operational
Under Construction by GAIL & JV	5681	2021-22
Under Const. - Indradhanush (NE grid)	1656	2022-23
Bid out Pipeline authorized by PNGRB	7756	Beyond 2022
Envisaged Pipelines	3270	Beyond 2022
Total NGG	35263	By 2022- 2023 & beyond

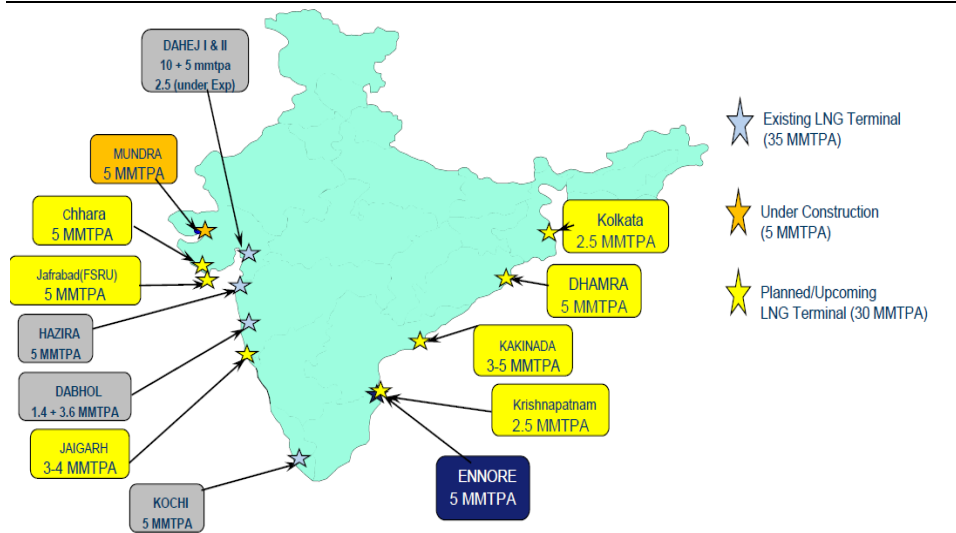
Source: GAIL India

Gas pipeline infrastructure in India



Source: GAIL India

Regasification Terminals in India



Source: GAIL INDIA

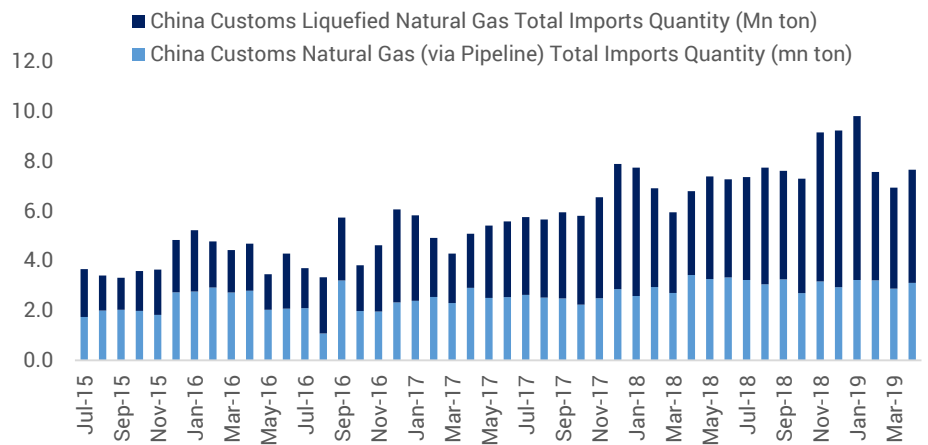
Henry Hub Natural Gas Futures Price (US\$/mmbtu)

Henry Hub Natural Gas Futures Price corrected ~48% from peak.



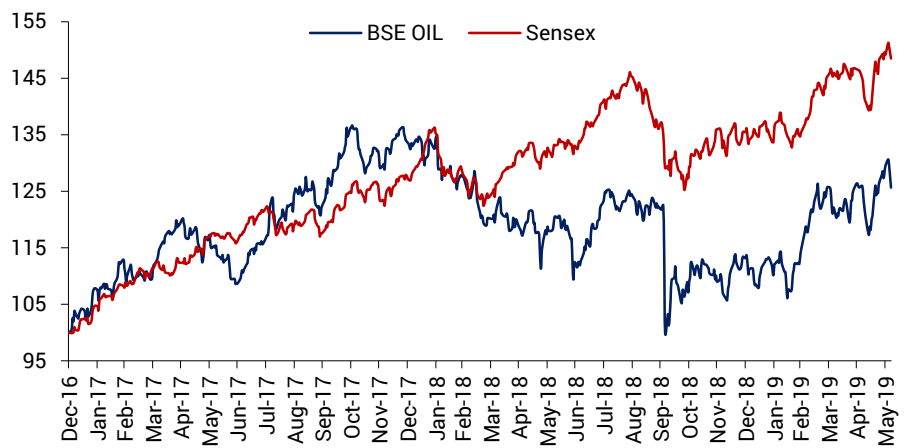
Source: Bloomberg and Kotak Securities – Private Client Research

China LNG imports



Source: Bloomberg and Kotak Securities – Private Client Research

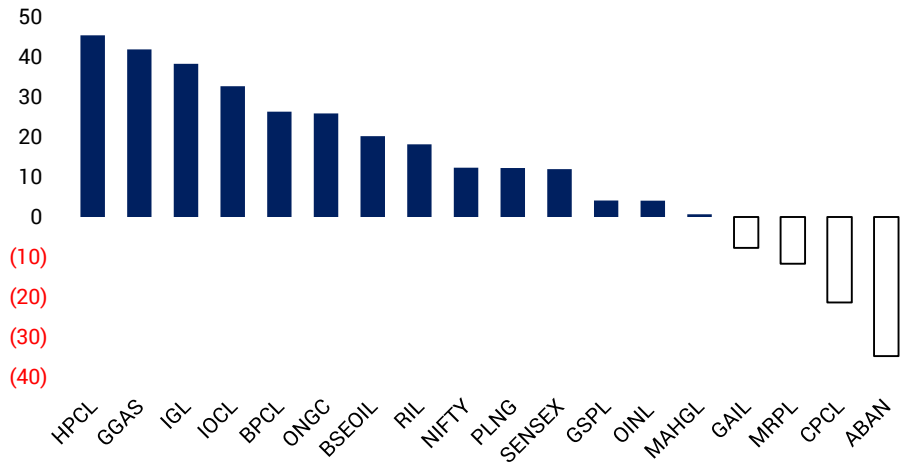
Oil and Gas Index and Sensex performance



Source: Bloomberg

During the last six months, Nifty has given a return of 12% however, BSE Oil and Gas Index has given a return of 20%. In the oil and gas sector, HPCL has given highest return (45%) during the last six months followed by GGAS 42%, IOCL 33%, BPCL 26%, IGL 38%, ONGC 26%, RIL 18%, PLNG 12%, MGL 1%, etc.

6M Price performance of oil and gas companies (%)



Source: Bloomberg

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Definitions of ratings

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.
SUBSCRIBE	–	We advise investor to subscribe to the IPO.
RS	–	Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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