

## Transmission to deliver

GAIL reported a stable 1QFY20 led by improved profitability in gas transmission and trading segments albeit a dismal show by petchem owing to a planned shutdown. Maintain BUY.

### HIGHLIGHTS OF THE QUARTER

- NG transmission:** Revenue was up 12.8% YoY to Rs 14.80bn on the back of 14.6% jump in transmission tariff to Rs 1,543/tscm, offset by 1.5% decrease in volumes to 105mmscmd. EBIT was up 22.3% YoY to Rs 8.59bn as opex reduced by 5% to Rs 392/tscm. Transmission volume will increase in ensuing quarters as (1) Utilisation of PLNG's recently added capacity ramps-up, (2) The Kochi-Mangalore pipeline commissions by the end of 2Q. Moreover, completion of JHBDPL will boost volumes post 2HFY22.
- NG marketing:** EBIT jumped 54.3% YoY to Rs 8.50bn owing to better trading margins (Rs 980/tscm vs Rs 623 in 1QFY19). We believe GAIL will cash in on the benign spot LNG prices and robust RLNG demand of industrial customers for further margin expansion. 76 (~87%) of 87 US LNG cargoes have been swapped in CY19.
- Petchem:** PATA plant was under planned shutdown resulting in 36.2% QoQ fall in sales volumes to 136kt.

### Financial Summary (Standalone)

Year Ending March (Rs bn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY19	FY20E	FY21E	FY22E
Revenues	183.11	172.99	5.9	187.63	(2.4)	751.26	734.44	838.52	889.97
EBITDA	22.59	22.44	0.7	16.84	34.1	95.55	96.75	106.62	114.75
APAT	12.88	12.59	2.2	13.51	(4.7)	62.46	58.53	64.55	69.20
AEPS* (Rs)	2.85	2.79	2.2	3.00	(4.7)	13.8	13.0	14.3	15.3
P/E (x)						9.0	9.6	8.7	8.1
EV/EBITDA (x)						4.8	5.0	4.6	4.2
RoE (%)						14.8	12.7	12.9	12.8

Source: Company, HDFC sec Inst Research

Sequential realisations were flat at Rs 82/kg. Per unit gross profit was up 10.8% QoQ with the use of cheaper spot LNG. However, per unit opex spiked given the shutdown. Hence, the segment reported EBIT of Rs (2.27)bn vs (0.2)bn in 4QFY19. We expect GAIL to capitalise on the low LNG prices to protect margins in a falling petchem price scenario.

- Key monitorable:** Ramp up in NG transmission volume

### STANCE

As the domestic NG ecosystem (CGD network, re-gas terminals, pipeline connectivity, revamp of fertiliser plants) develops, India could derive maximum benefit of LNG prices. Given GAIL's dominant position in India's gas pipeline network, its gas transmission business is likely to remain in a sweet spot. New US liquefaction terminals will not only boost RLNG exports but also keep Henry Hub (HH) prices subdued, enabling GAIL to swap cargoes. Thus, US LNG is not a stress point. Our SOTP target is Rs 201 (7.5x Jun-21E EV/e for the stable Gas and LPG transmission businesses, 5.0x EV/e for the volatile gas marketing business, 6.5x EV/e for the cyclical petchem and LPG/LHC businesses, Rs 36 for investments and Rs 12/sh for CWIP).

INDUSTRY	OIL & GAS
<b>CMP (as on 09 Aug 19)</b>	<b>Rs 124</b>
<b>Target Price</b>	<b>Rs 201</b>
Nifty	11,110
Sensex	37,582

### KEY STOCK DATA

Bloomberg	GAIL IN
No. of Shares (mn)	4,510
MCap (Rs bn) / (\$ mn)	559/7,892
6m avg traded value (Rs mn)	1,529

### STOCK PERFORMANCE (%)

52 Week high / low	Rs 200/120		
	3M	6M	12M
Absolute (%)	(27.2)	(26.4)	(34.0)
Relative (%)	(27.3)	(29.2)	(32.9)

### SHAREHOLDING PATTERN (%)

	Mar-19	Jun-19
Promoters	52.64	52.68
FIs & Local MFs	14.65	14.90
FPIs	20.86	20.34
Public & Others	11.85	12.08
Pledged Shares	0.00	0.00

Source : BSE

### Nilesh Ghuge

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

### Divya Singhal

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

**LPG & LHC revenue was up 6.8% YoY to Rs 11.46bn 13.3% jump in realization to Rs 39/kg offset by 5.7% decline in sales volume. EBIT was at Rs 5.11bn, down 3.6% YoY owing to 20.8% increase in opex**

**Interest cost has gone down by 45.8% YoY as GAIL repaid borrowings to the extent of ~Rs.1.06bn. Now, debt stands at Rs. 8.71bn**

### Quarterly Financials Snapshot

(Rs. bn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
<b>Net Sales</b>	<b>183.11</b>	<b>172.99</b>	<b>5.9</b>	<b>187.63</b>	<b>(2.4)</b>
Raw material and Traded Goods	145.31	135.18	7.5	151.86	(4.3)
Employee Expenses	4.20	3.79	<b>10.6</b>	3.99	<b>5.1</b>
Other Operating Expenses	11.00	11.57	(4.9)	14.94	(26.3)
<b>EBITDA</b>	<b>22.59</b>	<b>22.44</b>	<b>0.7</b>	<b>16.84</b>	<b>34.1</b>
Depreciation	4.06	3.79	7.1	4.57	(11.3)
EBIT	18.53	18.65	<b>(0.6)</b>	12.27	<b>51.1</b>
Other Income	1.51	1.20	26.4	5.40	(72.0)
Interest	0.24	0.44	(45.8)	0.26	(9.2)
<b>PBT</b>	<b>19.81</b>	<b>19.40</b>	<b>2.1</b>	<b>17.40</b>	<b>13.8</b>
Provision for tax	6.93	6.81	1.8	6.18	12.2
RPAT	12.88	12.59	2.2	11.22	14.7
<b>APAT</b>	<b>12.88</b>	<b>12.59</b>	<b>2.2</b>	<b>13.51</b>	<b>(4.7)</b>
REPS (Rs)	2.85	2.79	2.2	2.49	14.7
<b>Adjusted EPS (Rs)</b>	<b>2.85</b>	<b>2.79</b>	<b>2.2</b>	<b>3.00</b>	<b>(4.7)</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis

	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (bps)
Raw material as % of Net Sales	79.4	78.1	122	80.9	(158)
Employee Expenses as % of Net Sales	2.3	2.2	10	2.1	16
Other Operating Expenses as % of Net Sales	6.0	6.7	(68)	8.0	(195)
EBITDA Margin (%)	12.3	13.0	(63)	9.0	336
Net Profit Margin (%)	7.0	7.3	(25)	7.2	(17)
Tax Rate (%)	35.0	35.1	(11)	35.5	(51)

Source: Company, HDFC sec Inst Research

**NG transmission volume down sequentially by 3.4% owing to low off-take from fertiliser as they were under planned shutdown**

**Petchem utilisation was down to 61% owing to shutdown of plant. The plant has resumed operations and production is back to normal in 2Q**

**NG trading margin up 57.2% YoY to Rs 980/tscm due to strong demand for LNG**

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

### Quarterly Operational Performance

	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
<b>NG transmission</b>					
Volumes (mmscmd)	105.41	107.03	(1.5)	109.15	(3.4)
Tariff (Rs/000 scm)	1,543	1,347	14.6	1,493	3.4
<b>LPG transmission</b>					
Volumes (000 MT)	827	901	(8.2)	1,023	(19.2)
Tariff (Rs/kg)	1.6	1.6	4.0	1.7	(5.8)
<b>NG marketing</b>					
Volumes (mmscmd)	96.55	97.16	(0.6)	98.42	(1.9)
Trading margin (Rs/000 scm)	980	623	57.2	664	47.6
<b>Petchem</b>					
Sales volumes (000 tonnes)	136	166	(18.1)	213	(36.2)
Utilisation (%)	61	78	(22.0)	91	(33.5)
Realisation (Rs/kg)	81.8	97.2	(15.8)	80.7	1.4
<b>LPG &amp; LHC</b>					
Sales volumes (000 tonnes)	296	314	(5.7)	335	(11.6)
Realisation (Rs/kg)	38.7	34.2	13.3	33.5	15.6
Realisation (USD/MT)	561	510	10.0	475	18.1

Source: Company, HDFC sec Inst Research

### Segmental Financial Performance

	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
<b>NG transmission</b>					
Revenue (Rs bn)	14.80	13.11	12.8	14.64	1.1
EBITDA (Rs bn)	10.68	9.08	17.6	10.28	3.9
EBIT (Rs bn)	8.59	7.03	22.3	7.73	11.2
EBITDA margin (%)	72.18	69.23		70.21	
EBIT margin (%)	58.08	53.59		52.79	
<b>LPG transmission</b>					
Revenue (Rs bn)	1.35	1.41	(4.5)	1.77	(23.9)
EBITDA (Rs bn)	0.76	0.80	(5.0)	1.09	(30.3)
EBIT (Rs bn)	0.62	0.65	(5.9)	0.94	(34.5)
EBITDA margin (%)	56.47	56.74		61.66	
EBIT margin (%)	45.74	46.38		53.20	

Source: Company, HDFC sec Inst Research

*Petchem plant's utilisation is expected to increase from 75% in FY19 to 100% in FY20*

*The Kochi-Mangalore pipeline commissioning (6% share in the total transmission revenue of ~Rs 4.12bn) is expected to be completed by 2QFY20, at a lag to its earlier target of 4QFY18*

	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
<b>NG marketing</b>					
Revenue (Rs bn)	154.61	140.35	10.2	154.54	0.0
EBITDA (Rs bn)	8.61	5.51	56.3	5.88	46.4
EBIT (Rs bn)	8.50	5.51	54.3	5.88	44.8
EBITDA margin (%)	5.57	3.93		3.80	
EBIT margin (%)	5.50	3.93		3.80	
<b>Petchem</b>					
Revenue (Rs bn)	11.13	16.13	(31.0)	17.19	(35.3)
EBITDA (Rs bn)	(1.17)	3.13	(137.4)	0.89	(231.5)
EBIT (Rs bn)	(2.27)	2.08	(209.3)	(0.20)	1,035.2
EBITDA margin (%)	(10.51)	19.40		5.18	
EBIT margin (%)	(20.40)	12.88		(1.16)	
<b>LPG &amp; LHC</b>					
Revenue (Rs bn)	11.46	10.73	6.8	11.22	2.1
EBITDA (Rs bn)	5.28	5.46	(3.3)	4.52	16.8
EBIT (Rs bn)	5.11	5.30	(3.6)	4.16	22.7
EBITDA margin (%)	46.09	50.91		40.29	
EBIT margin (%)	44.6	49.4		37.1	

Source: Company, HDFC sec Inst Research

### Assumptions

	FY20E	FY21E	FY22E
No of days	366	365	365
Exchange rate (Rs/USD)	68	68	68
Regasification charges at Dahej (Rs/mmbtu)	50	52	55
Gas - Transmission (mmscmd)	110	126	134
Gas - Trading (mmscmd)	100	116	124
Third Party Volumes (mmscmd)	9	10	11
LPG Transmission (MT)	39,16,370	41,32,932	41,53,597
Petchem Sales (MT)	8,03,500	8,90,000	8,90,000
LPG Sales (MT)	9,25,656	9,30,284	9,34,936
Other Liquid HC (MT)	3,86,408	4,06,733	4,08,767
LPG + Liquid HC (MT) - R	<b>13,12,064</b>	<b>13,37,017</b>	<b>13,43,702</b>
Petchem Production (MT)	8,02,500	8,90,000	8,90,000
Inventory change	(1,000)	-	-
Crude oil price (USD/bbl)	65	65	65

Source: Company, HDFC sec Inst Research

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

### Change In Estimates

Rs bn	FY20E			FY21E		
	Old	New	%Ch	Old	New	%Ch
Net Revenue	790.73	734.44	(7.1)	907.20	838.52	(7.6)
EBITDA	101.13	96.75	(4.3)	111.45	106.62	(4.3)
APAT	61.36	58.53	(4.6)	67.58	64.55	(4.5)
Adjusted EPS (Rs/sh)	13.61	12.98	(4.6)	14.98	14.31	(4.5)
Transmission tariff (Rs/'000scm)	1,503	1,508	0.3	1,570	1,573	0.2

Source: Company, HDFC sec Inst Research

### SOTP Valuation (Based on Jun-21E)

Particulars	(Rs bn)	Multiple	EV (Rs bn)	Value/sh	Basis
Gas Transmission	53.18	7.5	398.87	88.4	x Jun-21EV/ EBITDA
LPG Transmission	3.97	7.5	29.79	6.6	x Jun-21EV/ EBITDA
Gas Marketing	26.41	5.0	132.05	29.3	x Jun-21EV/ EBITDA
Petrochemicals	10.59	6.5	68.84	15.3	x Jun-21EV/ EBITDA
LPG & Other Hydrocarbons	21.16	6.5	137.52	30.5	x Jun-21EV/ EBITDA
<b>Standalone wt avg</b>		<b>7.1</b>			
Less : Net Debt	(73.34)		(73.34)	(16.3)	As on Jun-20
<b>Standalone Value</b>				<b>154</b>	
<b>Investments</b>					
ONGC	52.74	0.70	36.92	8.2	30% disc. to CMP
Petronet LNG	45.00	0.70	31.50	7.0	30% disc. to CMP
IGL	48.98	0.70	34.29	7.6	30% disc. to CMP
MGL	25.30	0.70	17.71	3.9	30% disc. to CMP
Gujarat Industries Power Co.Ltd	0.04	0.70	0.03	0.0	30% disc. to CMP
China Gas Holding Company	28.94	0.70	20.26	4.5	30% disc. to CMP
Other investments	41.39	0.50	20.70	4.6	50% disc. to BV
<b>Value of Investments</b>	<b>242.39</b>		<b>161.39</b>	<b>36</b>	
Value of CWIP	106.44	0.50	53.22	11.8	50% disc. to BV
<b>Value per share</b>				<b>201</b>	

Source: Bloomberg, HDFC Sec Inst Research

**Peer Set Comparison**

	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Upside %	EPS (Rs/sh)				P/E (x)				P/BV (x)				ROE (%)			
						FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19P	FY20E	FY21E	FY18	FY19P	FY20E	FY21E
Reliance Industries	7,365.92	1,162	NEU	1,302	12.0	53.0	55.5	60.9	62.6	21.9	20.9	19.1	18.6	2.3	1.8	1.7	1.6	11.1	9.8	9.2	8.7
ONGC	1,648.02	131	BUY	189	44.3	15.9	21.2	20.6	21.1	8.3	6.2	6.4	6.2	0.9	0.8	0.8	0.7	10.5	13.5	12.3	11.8
Indian Oil Corp	1,202.86	131	BUY	190	45.0	22.8	18.4	18.2	21.1	5.7	7.1	7.2	6.2	1.1	1.1	1.0	0.9	19.9	15.4	14.7	15.8
BPCL	682.51	347	BUY	409	17.9	41.6	36.3	33.8	34.3	8.3	9.6	10.3	10.1	2.0	1.9	1.7	1.5	25.6	20.1	17.3	16.0
<b>GAIL</b>	<b>559.26</b>	<b>124</b>	<b>BUY</b>	<b>201</b>	<b>64.9</b>	<b>10.2</b>	<b>13.8</b>	<b>13.0</b>	<b>14.3</b>	<b>12.2</b>	<b>9.0</b>	<b>9.6</b>	<b>8.7</b>	<b>1.4</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>	<b>11.7</b>	<b>14.8</b>	<b>12.7</b>	<b>12.9</b>
HPCL	378.00	248	BUY	381	53.8	41.7	39.9	32.3	34.1	5.9	6.2	7.7	7.3	1.6	1.3	1.2	1.1	28.7	23.3	16.5	15.7
Petronet LNG	358.50	239	BUY	354	48.1	13.9	14.4	15.8	20.5	17.3	16.6	15.1	11.7	3.7	3.6	3.4	3.2	23.3	21.8	23.1	28.2
Indraprastha Gas	217.70	311	BUY	384	23.3	9.6	11.2	13.1	14.1	32.5	27.7	23.8	22.0	6.2	5.3	4.6	4.1	20.9	20.6	20.7	19.6
Oil India	162.66	150	BUY	232	54.6	24.6	33.4	32.2	32.6	6.1	4.5	4.7	4.6	0.6	0.6	0.5	0.5	9.4	13.0	11.8	10.7
Gujarat Gas	128.73	187	BUY	246	31.7	4.2	6.1	11.1	11.7	44.2	30.5	16.9	16.0	6.9	5.9	4.5	3.6	16.5	20.9	30.4	25.3
GSPL	122.39	217	BUY	247	14.0	11.9	14.1	16.1	17.0	18.3	15.4	13.5	12.7	2.4	2.1	1.9	1.7	14.0	14.7	14.9	14.2
Mahanagar Gas	77.54	785	BUY	1,133	44.3	48.4	55.3	58.7	59.2	16.2	14.2	13.4	13.3	3.7	3.2	2.8	2.5	24.3	24.3	22.6	20.1

Source: Company, HDFC sec Inst Research, \* Fair Price

**Standalone Income Statement**

Y/E March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>536.62</b>	<b>751.26</b>	<b>734.44</b>	<b>838.52</b>	<b>889.97</b>
<b>Growth %</b>	<b>11.5</b>	<b>40.0</b>	<b>(2.2)</b>	<b>14.2</b>	<b>6.1</b>
Raw Material	36.78	42.02	53.04	54.14	54.35
Gas Trading	367.59	546.62	525.48	617.59	659.28
Employee Cost	13.01	17.78	16.37	17.02	17.70
Other Expenses	42.89	49.29	42.80	43.14	43.89
<b>Operating Profits</b>	<b>76.34</b>	<b>95.55</b>	<b>96.75</b>	<b>106.62</b>	<b>114.75</b>
<b>Operating Profit Margin (%)</b>	<b>14.2</b>	<b>12.7</b>	<b>13.2</b>	<b>12.7</b>	<b>12.9</b>
<b>EBITDA</b>	<b>76.34</b>	<b>95.55</b>	<b>96.75</b>	<b>106.62</b>	<b>114.75</b>
<b>EBITDA Margin (%)</b>	<b>14.2</b>	<b>12.7</b>	<b>13.2</b>	<b>12.7</b>	<b>12.9</b>
<b>EBITDA Growth (%)</b>	<b>19.9</b>	<b>25.2</b>	<b>1.2</b>	<b>10.2</b>	<b>7.6</b>
Depreciation	14.15	15.50	15.65	16.20	17.00
<b>EBIT</b>	<b>62.19</b>	<b>80.05</b>	<b>81.10</b>	<b>90.42</b>	<b>97.75</b>
Other Income (Including EO Items)	10.15	12.18	9.77	10.16	10.56
Interest Cost	2.75	1.39	2.42	3.50	4.25
<b>PBT</b>	<b>69.58</b>	<b>90.85</b>	<b>88.45</b>	<b>97.07</b>	<b>104.06</b>
Taxes	23.40	30.59	29.93	32.52	34.86
<b>RPAT</b>	<b>46.18</b>	<b>60.26</b>	<b>58.53</b>	<b>64.55</b>	<b>69.20</b>
EO (Loss) / Profit (Net Of Tax)	0.19	(2.20)	-	-	-
<b>APAT</b>	<b>46.00</b>	<b>62.46</b>	<b>58.53</b>	<b>64.55</b>	<b>69.20</b>
<b>APAT Growth %</b>	<b>14.1</b>	<b>35.8</b>	<b>(6.3)</b>	<b>10.3</b>	<b>7.2</b>
<b>AEPS</b>	<b>10.2</b>	<b>13.8</b>	<b>13.0</b>	<b>14.3</b>	<b>15.3</b>
<b>EPS Growth %</b>	<b>14.1</b>	<b>35.8</b>	<b>(6.3)</b>	<b>10.3</b>	<b>7.2</b>

Source: Company, HDFC sec Inst Research

**Standalone Balance Sheet**

Y/E March (Rs bn)	FY18	FY19P	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>					
Share Capital	22.55	22.55	22.55	22.55	22.55
Reserves And Surplus	380.73	418.38	455.80	497.08	541.34
<b>Net Worth</b>	<b>403.28</b>	<b>440.93</b>	<b>478.35</b>	<b>519.63</b>	<b>563.89</b>
Long-term Debt	9.76	8.71	38.71	46.71	56.71
Short-term Debt	-	-	-	-	-
<b>Total Debt</b>	<b>9.76</b>	<b>8.71</b>	<b>38.71</b>	<b>46.71</b>	<b>56.71</b>
Net Deferred Taxes	46.31	59.48	60.67	66.73	68.07
Long-term Provisions & Others	22.45	41.33	41.81	43.66	45.04
<b>Total liabilities</b>	<b>481.81</b>	<b>550.44</b>	<b>619.54</b>	<b>676.74</b>	<b>733.70</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	287.90	310.86	365.42	407.29	448.50
CWIP	55.14	92.02	101.06	105.37	109.67
Investments	99.53	95.28	108.98	115.48	121.98
LT Loans And Advances	5.58	6.68	6.88	7.08	7.30
Other Non-current assets	25.43	25.72	26.50	27.29	28.11
<b>Total Non-current Assets</b>	<b>473.58</b>	<b>530.57</b>	<b>608.84</b>	<b>662.52</b>	<b>715.57</b>
Inventory	19.20	23.22	22.70	25.92	27.51
Debtors	40.52	50.74	49.61	56.64	60.11
Cash And Cash Equivalent	25.29	12.15	3.16	4.27	6.49
Loans And Advances	6.92	8.28	9.47	9.04	9.54
Other Current Assets	15.32	18.82	19.23	19.81	20.51
<b>Total Current Assets</b>	<b>107.24</b>	<b>113.22</b>	<b>104.17</b>	<b>115.67</b>	<b>124.16</b>
Creditors	38.82	39.61	38.93	45.20	48.02
Other Current Liabilities & Provns	60.20	53.73	54.54	56.25	58.00
<b>Total Current Liabilities</b>	<b>99.02</b>	<b>93.34</b>	<b>93.47</b>	<b>101.45</b>	<b>106.03</b>
<b>Net Current Assets</b>	<b>8.23</b>	<b>19.87</b>	<b>10.69</b>	<b>14.22</b>	<b>18.14</b>
<b>Total Assets</b>	<b>481.81</b>	<b>550.44</b>	<b>619.54</b>	<b>676.74</b>	<b>733.70</b>

Source: Company, HDFC sec Inst Research

## Standalone Cash Flow Statement

Y/E March (Rs bn)	FY18	FY19P	FY20E	FY21E	FY22E
Reported PBT	69.58	90.85	88.45	97.07	104.06
Non-operating & EO Items	(9.87)	(15.45)	(9.77)	(10.16)	(10.56)
Interest Expenses	2.75	1.39	2.42	3.50	4.25
Depreciation	14.15	15.50	15.65	16.20	17.00
Working Capital Change	20.54	(24.75)	(0.57)	(2.36)	(1.64)
Tax Paid	(14.32)	(17.42)	(28.74)	(26.45)	(33.53)
<b>OPERATING CASH FLOW (a)</b>	<b>82.84</b>	<b>50.12</b>	<b>67.44</b>	<b>77.81</b>	<b>79.58</b>
Capex	(34.09)	(75.35)	(79.25)	(62.38)	(62.51)
<i>Free Cash Flow (FCF)</i>	<i>48.74</i>	<i>(25.23)</i>	<i>(11.80)</i>	<i>15.43</i>	<i>17.06</i>
Investments	(5.76)	4.25	(13.70)	(6.50)	(6.50)
Non-operating Income	9.87	15.45	9.77	10.16	10.56
Others	2.53	(0.29)	(0.77)	(0.79)	(0.82)
<b>INVESTING CASH FLOW (b)</b>	<b>(27.45)</b>	<b>(55.95)</b>	<b>(83.95)</b>	<b>(59.51)</b>	<b>(59.27)</b>
Debt Issuance/(Repaid)	(20.28)	(1.06)	30.00	8.00	11.11
Interest Expenses	(2.75)	(1.39)	(2.42)	(3.50)	(4.25)
<i>FCFE</i>	<i>(50.49)</i>	<i>(58.39)</i>	<i>(56.36)</i>	<i>(55.02)</i>	<i>(52.41)</i>
Share Capital Issuance	5.64	-	-	-	-
Dividend	(31.10)	(43.47)	(21.10)	(23.27)	(24.95)
Others	4.99	38.59	1.03	1.60	-
<b>FINANCING CASH FLOW (c)</b>	<b>(43.51)</b>	<b>(7.32)</b>	<b>7.52</b>	<b>(17.18)</b>	<b>(18.09)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>11.87</b>	<b>(13.15)</b>	<b>(8.99)</b>	<b>1.12</b>	<b>2.22</b>
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	25.29	12.15	3.16	4.27	6.49

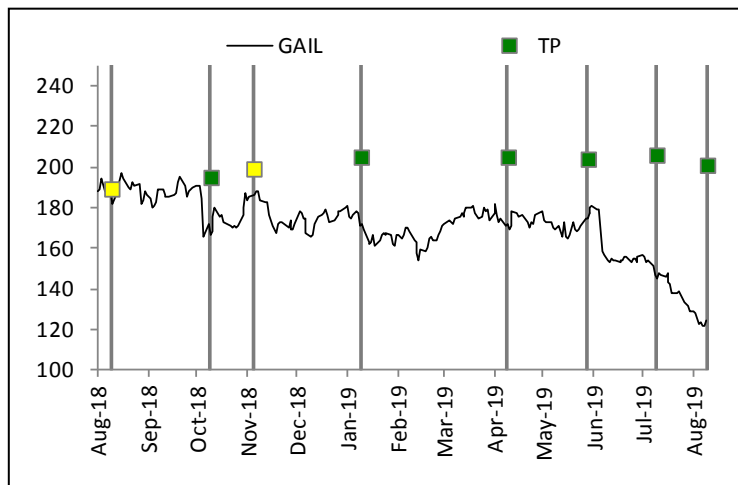
Source: Company, HDFC sec Inst Research

## Standalone Key Ratios

	FY18	FY19P	FY20E	FY21E	FY22E
<b>PROFITABILITY %</b>					
EBITDA Margin	14.2	12.7	13.2	12.7	12.9
EBIT Margin	11.6	10.7	11.0	10.8	11.0
APAT Margin	8.6	8.3	8.0	7.7	7.8
RoE	11.7	14.8	12.7	12.9	12.8
Core RoCE	13.4	16.6	14.4	14.2	13.9
RoCE	10.1	12.3	10.3	10.3	10.2
<b>EFFICIENCY</b>					
Tax Rate %	33.6	33.7	33.8	33.5	33.5
Asset Turnover (x)	1.1	1.5	1.3	1.3	1.3
Inventory (days)	13	11	11	11	11
Debtor (days)	28	25	25	25	25
Other Current Assets (days)	10	9	10	9	8
Payables (days)	31	22	22	23	23
Other Current Liab & Provns (days)	41	26	27	24	24
Cash Conversion Cycle (days)	(21)	(3)	(4)	(2)	(2)
Net Debt/EBITDA (x)	(1.5)	(1.0)	(0.8)	(0.7)	(0.6)
Net D/E	(0.3)	(0.2)	(0.2)	(0.1)	(0.1)
Interest Coverage	22.6	57.8	33.6	25.8	23.0
<b>PER SHARE DATA</b>					
EPS (Rs)	10.2	13.8	13.0	14.3	15.3
CEPS (Rs)	13.34	17.29	16.45	17.91	19.11
DPS (Rs)	5.7	8.0	3.9	4.3	5.5
BV (Rs)	89.4	97.8	106.1	115.2	125.0
<b>VALUATION</b>					
P/E (x)	12.2	9.0	9.6	8.7	8.1
P/Cash EPS (x)	9.3	7.2	7.5	6.9	6.5
P/BV (x)	1.4	1.3	1.2	1.1	1.0
EV/EBITDA (x)	5.8	4.8	5.0	4.6	4.2
EV/Revenue (x)	0.8	0.6	0.7	0.6	0.5
OCF/EV (%)	18.6	10.9	13.9	16.0	16.3
FCFF /EV (%)	11.0	(5.5)	(2.4)	3.2	3.5
FCFE/M CAP (%)	(9.0)	(10.4)	(10.1)	(9.8)	(9.4)
Dividend Yield (%)	4.6	6.5	3.1	3.5	4.5

Source: Company, HDFC sec Inst Research



**RECOMMENDATION HISTORY**


Date	CMP	Reco	Target
13-Aug-18	181	NEU	189
9-Oct-18	171	BUY	195
5-Nov-18	186	NEU	199
9-Jan-19	178	BUY	205
9-Apr-19	172	BUY	205
29-May-19	175	BUY	204
9-Jul-19	147	BUY	206
11-Aug-19	124	BUY	201

**Rating Definitions**

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

## INSTITUTIONAL RESEARCH

**Disclosure:**

We, **Nilesh Ghuge, MMS & Divya Singhal, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

**Any holding in stock –No**

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

**Disclaimer:**

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.