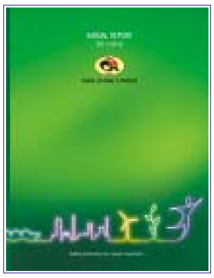
14 September 2012

Annual Report Update | Sector: Oil and Gas

# GAIL India

| BSE SENSEX | S&P CNX |
|---|---|
| 18,021 | 5,435 |



| | |
|---|---|
| Bloomberg | GAIL IN |
| Equity Shares (m) | 1,268.5 |
| 52-Week Range (INR) | 445/303 |
| 1,6,12 Rel. Perf. (%) | -3/-3/-19 |
| M.Cap. (INR b) | 468.1 |
| M.Cap. (USD b) | 8.4 |

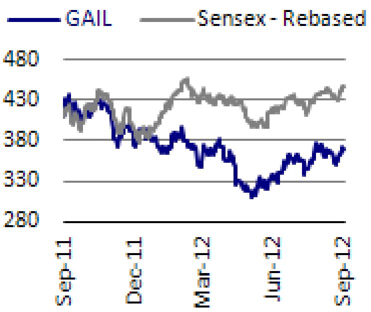
**Valuation summary (INR b)**

| Y/E March | 2012 | 2013E | 2014E |
|---|---|---|---|
| Net Sales | 402.8 | 439.4 | 481.6 |
| EBITDA | 57.0 | 64.0 | 72.0 |
| Net Profit | 36.5 | 38.1 | 40.5 |
| EPS (INR) | 28.8 | 30.0 | 32.0 |
| EPS Gr. (%) | 0.4 | 4.2 | 6.5 |
| BV/Sh. (INR) | 170.5 | 190.0 | 210.7 |
| **P/E (x)** | **10.1** | **9.7** | **9.1** |
| P/BV (x) | 1.7 | 1.5 | 1.4 |
| EV / EBITDA (x) | 6.9 | 7.1 | 6.7 |
| EV / Sales (x) | 1.1 | 1.1 | 1.1 |
| RoE (%) | 17.9 | 16.7 | 16.0 |
| RoCE (%) | 21.0 | 17.5 | 16.1 |

**Shareholding pattern %**

| As on | Jun-12 | Mar-12 | Jun-11 |
|---|---|---|---|
| Promoter | 64.6 | 64.6 | 64.6 |
| Dom. Inst | 17.7 | 17.9 | 18.5 |
| Foreign | 14.6 | 14.2 | 13.8 |
| Others | 3.2 | 3.3 | 3.1 |

**Stock performance (1 year)**




Investors are advised to refer through disclosures made at the end of the Research Report.

## CMP: INR369 | TP: INR386 | Neutral

## In capex mode; one-time gain in RGPPL boosts consolidated EPS

### Gas headwinds put near-term profitability under pressure; Neutral

- **Higher contribution from CGD ventures and one-time gain in RGPPL boosted consolidated PAT for FY12. Adjusted for the one-time gain in RGPPL, consolidated PAT grew 6%.**
- **Limited gas availability will lead to underutilization of its new pipelines in the near term, resulting in pressure on profitability. We expect RoE to decline from 17% in FY12 to 15% in FY14.**
- **While we like the management's strategy to build capacity for the long term, near-term challenges in terms of headwinds for incremental gas availability remain. Maintain Neutral.**

### Consolidated PAT boosted by CGD ventures, one-time gain in RGPPL

The contribution from JVs/subsidiaries increased from 3% in FY05 to 20% in FY12, led by (a) higher contribution from city gas distribution (CGD) JVs and Petronet LNG, and (b) one-time gain in Ratnagiri Gas and Power Private Limited (RGPPL), led by prior period tariff revision. Adjusted for the one-time gain in RGPPL, consolidated PAT grew 6%, while standalone PAT grew 3%. Lower transmission income (due to one-time provisioning for PNGRB tariff revision) was offset by higher trading income (driven by spot sales of LNG cargo).

### Increasing leverage in capex phase; investments in subsidiaries/JVs up 37%

GAIL is in the midst of its capex program, which will increase its gas transmission capacity by 1.5x to 300mmscmd and double its petrochemicals capacity to 900kta. Its standalone net debt/equity ratio will increase from 0.3x to 0.5x by FY14. In FY12, investments increased 37% to INR35b, led by incremental equity investment of INR3.8b in Bharamputra Cracker and Polymer (BCPL) and fresh investment of INR1.8b in GAIL Global (USA).

### Headwinds to gas availability to impact near-term profitability

With limited possibility to increase near-term domestic gas production, GAIL is continually scouting for tie-ups to import LNG. Limited gas availability will lead to underutilization of its new pipelines in the near term, resulting in pressure on profitability. We expect RoE to decline from 17% in FY12 to 15% in FY14.

### Valuation and view

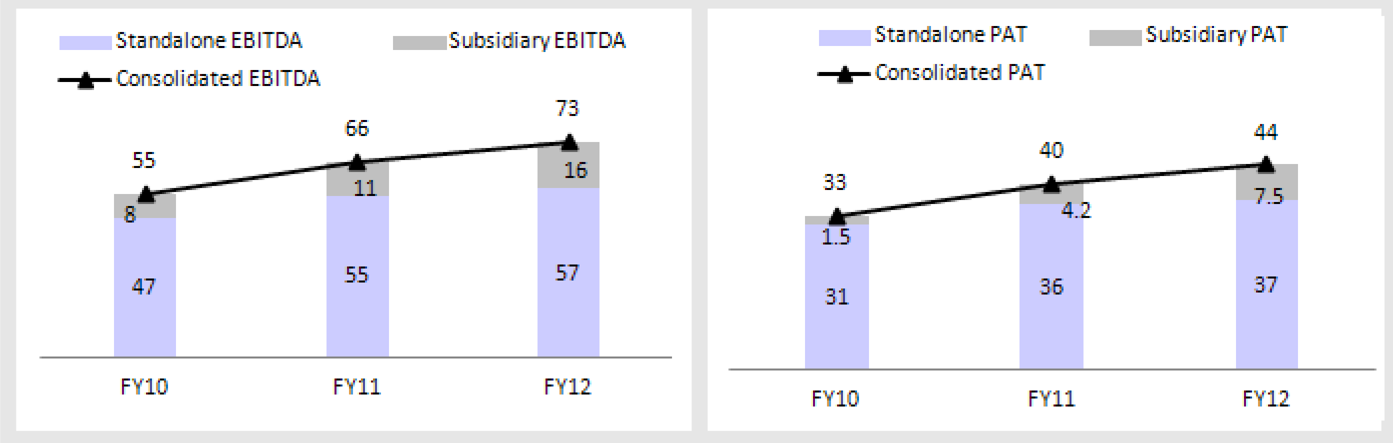
While we like the management's strategy to build capacity for the long term, near-term challenges in terms of headwinds for incremental gas availability remain. Adjusted for investments, the stock trades at 9.1x FY14E EPS of INR32. Our SOTP-based fair value stands at INR386/share. We have a **Neutral** rating due to: (1) low near-term visibility of transmission volume growth, (2) lower return ratios in the near term due to under-utilization of new capitalized pipelines, and (3) ad-hoc subsidy sharing risk.

**Harshad Borawake** (HarshadBorawake@MotilalOswal.com); +91 22 3982 5432

## Cons. PAT boosted by CGD ventures, one-time gain in RGPPL

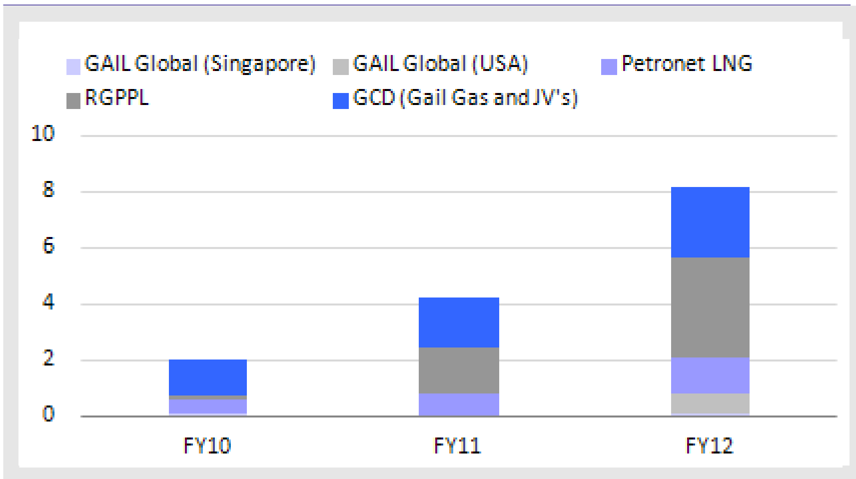
The contribution from JVs/subsidiaries increased from 3% in FY05 to 20% in FY12, led by (a) higher contribution from CGD JVs and Petronet LNG, and (b) one-time gain in Ratnagiri Gas and Power Private Limited (RGPPL), led by prior period tariff revision. Adjusted for the one-time gain in RGPPL, consolidated PAT grew 6%, while standalone PAT grew 3%. Lower transmission income (due to one-time provisioning for PNGRB tariff revision) was offset by higher trading income (driven by spot sales of LNG cargo).

**Higher contribution from CGD ventures, Petronet LNG and RGPPL boosts consolidated PAT (INR b)**




- RGPPL's PAT doubled to INR3.6b in FY12, led by one-time gain of INR2b due to revision in tariffs for FY08 and FY09 by CERC.
- CGD ventures too showed robust growth of around 30%.
- Amid falling domestic gas supply, Petronet LNG's Dahej terminal operated at 111% capacity utilization, which led to 71% growth in PAT.

**CGD and RGPPL contribution up meaningfully in FY12 (INR b)**




Source: Company, MOSL

**Key financials of CGD subsidiaries and JVs (INR m)**

| | | FY12 (Gross basis) | | FY12 (Net basis) | |
|---|---|---|---|---|---|
| **GCD (Gail Gas and JV's)** | | **Revenues** | **PAT** | **Revenues** | **PAT** |
| GAIL Gas (100% subsidiary) | 100.0% | 2,890 | 83 | 2,890 | 83 |
| Avantika Gas | 22.5% | 505 | (2) | 114 | (0) |
| Bhagyanagar Gas | 22.5% | 420 | (9) | 95 | (2) |
| Central UP Gas | 25.0% | 1,150 | 211 | 288 | 53 |
| Green Gas | 22.5% | 1,015 | 232 | 228 | 52 |
| Indraprastha Gas | 22.5% | 25,253 | 3,064 | 5,682 | 689 |
| Mahanagar Gas | 49.8% | 13,280 | 3,086 | 6,607 | 1,535 |
| Maharashtra Natural gas | 22.5% | 769 | 122 | 173 | 28 |
| Tripura Natural Gas | 29.0% | 249 | 35 | 72 | 10 |
| **Total** | | | | **16,148** | **2,448** |

Source: Company, MOSL

## One-time provisions on account of PNGRB tariff orders

- GAIL made one-time provisions on account of tariff cuts as per PNGRB tariff orders.
- It provided INR2.6b for downward revision in natural gas pipeline transmission tariffs
  - INR1.1b for PNGRB orders for Mumbai and Agartala regions
  - INR1.4b for the pipelines where GAIL has submitted the tariff proposal for approval (which include KG Basin network, Cauvery Basin network, Gujarat regional network, Chainsa-Jhajjar-Hissar and Dadri-Bawana-Nangal).
- In the LPG transmission segment, led by tariff reduction by PNGRB, it has derecognized revenue amounting to INR439m, which includes INR143m for downward revision in the Vizag-Secunderabad pipeline tariff order and INR296m for the Jamnagar-Loni LPG pipeline.
- In FY13, GAIL has already received revised tariff orders for Dadri-Bawana-Nangal natural gas and Jamnagar-Loni LPG pipeline.

**PNGRB's tariff orders to impact earnings**

| Pipelines | Unit | Date | GAIL demand* | Fixed by PNGRB | Chg. (%) |
|---|---|---|---|---|---|
| **Natural Gas Pipelines** | | | | | |
| HVJ-DVPL network | INR/mmbtu | Apr-10 | 35 | 25 | -28 |
| DVPL/GREP upgradation | INR/mmbtu | Apr-10 | 62 | 54 | -14 |
| DUPL/DPPL Network | INR/mmbtu | Feb-11 | 40 | 24 | -39 |
| Mumbai Network | INR/mscm | Mar-12 | 166 | 82 | -51 |
| Agartala Network | INR/mscm | May-12 | 367 | 209 | -43 |
| Dadri - Bawana - Nanagal | INR/mmbtu | Jul-12 | 28 | 12 | -57 |
| **LPG Pipelines** | | | | | |
| Vizag-Secunderabad LPG pipeline | INR/MT | 2-Apr-12 | 707 | 594 | -16 |
| Jamnagar - Loni LPG Pipeline | INR/MT | 31-Jul-12 | 1,450 | 1,131 | -22 |

*Tariff demand in most cases was higher than actual charged Source: Company, MOSL

**Transmission EBITDA impacted by one-time provisioning for PNGRB tariff cuts (INR b)**

| | FY08 | FY09 | FY10 | FY11 | FY12 |
|---|---|---|---|---|---|
| Natural Gas Transmission | 18.1 | 18.7 | 25.0 | 29.1 | 26.3 |
| LPG Transmission | 3.0 | 3.0 | 3.5 | 3.6 | 3.2 |
| Natural Gas Trading | 2.1 | 3.5 | 3.7 | 8.0 | 10.9 |
| Petrochemicals | 14.0 | 13.8 | 14.9 | 13.5 | 16.4 |
| LPG & Liquid HC (pre-subsidy) | 22.8 | 27.4 | 20.2 | 26.9 | 38.3 |
| Other | -2.0 | 0.0 | -1.9 | -0.3 | -0.9 |
| **Total** | **57.9** | **66.3** | **65.4** | **80.8** | **94.3** |
| Less: Subsidy | -12.9 | -17.8 | -13.3 | -21.1 | -31.8 |
| **Segmental EBITDA** | **45.1** | **48.5** | **52.1** | **59.7** | **62.5** |
| Less: Other income | 5.6 | 8.0 | 5.4 | 5.2 | 5.5 |
| **Reported EBITDA** | **39.5** | **40.5** | **46.7** | **54.5** | **57.0** |

Source: Company, MOSL

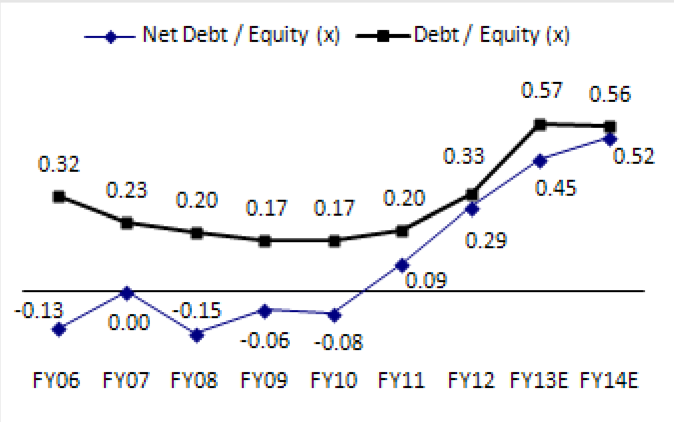
## Increasing leverage in capex phase; investments in subsidiaries/ JVs up 37%

GAIL is in the midst of its capex program, which will increase its gas transmission capacity by 1.5x to 300mmscmd and double its petrochemicals capacity to 900kta. Its standalone net debt/equity ratio will increase from 0.3x to 0.5x by FY14. In FY12, investments increased 37% to INR35b, led by incremental equity investment of INR3.8b in Bharamputra Cracker and Polymer (BCPL) and fresh investment of INR1.8b in GAIL Global (USA).

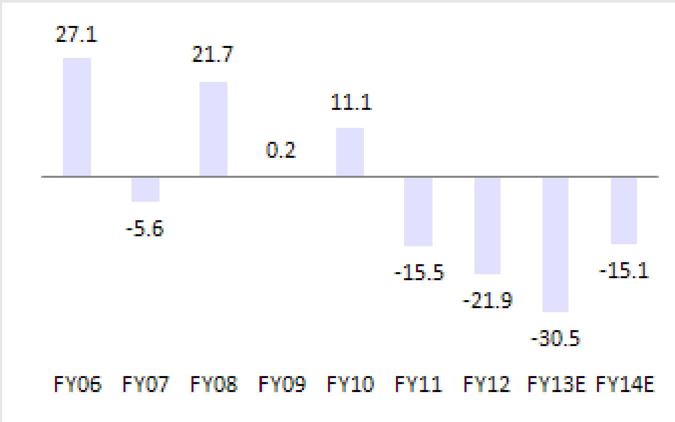
### High capex led to increase in leverage and negative free cash flow

GAIL's free cash flow remained negative for the second consecutive year, as capex increased from INR46b to INR67b while operating cash flow increased from INR31b to INR45b. GAIL turned into a net debt company in FY10 and net debt increased by 3.4x to INR62b in FY12. As the company is still in high capex mode, we expect net-debt-to-equity to increase to 0.52x by FY14.

**Leverage ratios have increased significantly**

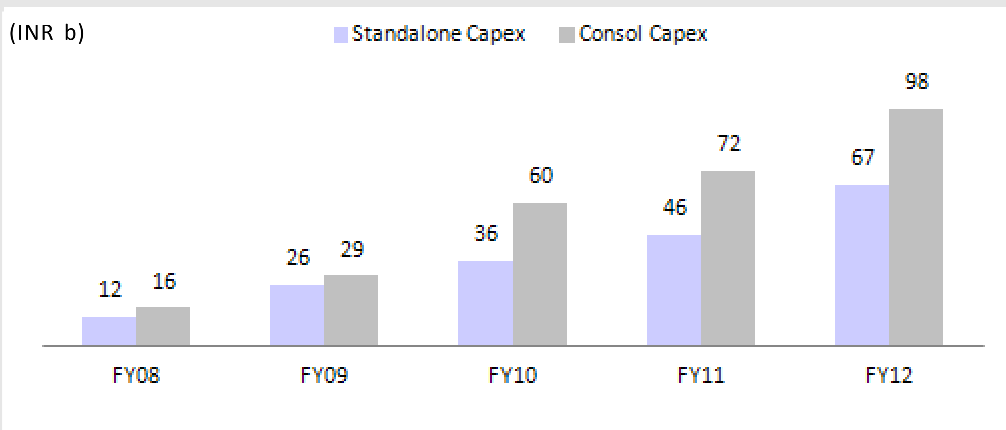



**Negative FCF led by high capex (INR b)**




Source: MOSL, Company

**Higher capex at consolidated level, led by investments in US shale gas and petrochemicals JV**




Source: MOSL, Company

## Commissioned 1,337km of pipelines in FY12

GAIL's current pipeline network is 9,500km, with a natural gas transmission capacity of ~172mmscmd. It commissioned 1,337km of natural gas pipelines, which include (1) the 610km Dahej-Vijaipur II pipeline, (2) compressors at Jhabua and Vijaipur, (3) the Karanpur-Moradabad-Kashipur pipeline, (4) the Agra-Ferozabad expansion, (5) connectivity to Meerut, and (6) Bawana-Nangal pipeline. The Kochi-Mangalore phase-1 and Dabhol-Bangalore pipeline network in South India, are expected to get commissioned in FY13.

### Pipeline Network

| | Capacity (mmscmd) | Length (km) | Capex (INR b) | Remarks |
|---|---|---|---|---|
| **HVJ-DVPL/GREP Pipeline Projects** | | | | |
| Dahej-Vijaipur, Phase-II | 24 to 78 | 610 | 58 | DVPL-II Pipeline and Compressors (2+1: Jhabua; 2: Vijaipur) Commissioned |
| Vijaipur-Dadri | 20 to 80 | 505 | 49 | Commissioned |
| Dadri-Bawana-Nangal | 31 | 646 | 24 | Dadri-Bawana commissioned; Bawana-Nangal to be commissioned in 2012 |
| Chainsa-Jhajjar-Hissar | 35 | 349 | 13 | Partly commissioned |
| **3 Mega Cross-country Pipelines** | | | | |
| Jagdishpur- Haldia | 32 | 2,050 | 76 | To commence work in FY13/14; however could be delayed |
| Dabhol-Bangalore | 16 | 1,389 | 50 | Phase I – Aug-12; Phase II – Mar-13 |
| Kochi-Koottanad-Bangalore-Mangalore | 16 | 1,114 | 33 | Phase I – Commissioned; Phase II – Dec-13 |
| **Total** | **244** | **7,569** | **303** | |

Source: Company, MOSL

### Interest capitalization increased, as GAIL is in the midst of capex (INR b)

| | Standalone | | | Consolidated | | |
|---|---|---|---|---|---|---|
| | FY11 | FY12 | Chg (%) | FY11 | FY12 | Chg (%) |
| Debt | 23.1 | 53.5 | 131 | 69.0 | 115.1 | 67 |
| Gross interest | 1.2 | 3.3 | 179 | 5.0 | 7.8 | 57 |
| Interest capitalized | 0.4 | 2.2 | 501 | 1.2 | 4.1 | 249 |
| **As % of gross interest** | **30.2** | **64.9** | | **23.7** | **52.8** | |
| Interest cost (%) | 6.3 | 8.7 | | 8.0 | 8.4 | |

Source: Company, MOSL

### Balance sheet snapshot (INR b)

| | Standalone | | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|---|
| | FY10 | FY11 | FY12 | Chg (%) | FY10 | FY11 | FY12 | Chg (%) |
| Shareholders Funds | 168 | 193 | 216 | 12 | 178 | 212 | 249 | 17 |
| Total Debt | 15 | 23 | 53 | 131 | 54 | 69 | 115 | 67 |
| Deferred tax Liability | 14 | 16 | 18 | 8 | 15 | 17 | 19 | 9 |
| Minority interest | | | | | 2 | 5 | 10 | 79 |
| **Total Liabilities** | **197** | **232** | **287** | **24** | **249** | **304** | **393** | **29** |
| | | | | | | | | |
| NFA + CWIP | 143 | 182 | 238 | 30 | 202 | 265 | 347 | 31 |
| Investments | 21 | 26 | 35 | 37 | 11 | 12 | 13 | 4 |
| **Net Current Assets** | **33** | **24** | **14** | **-41** | **36** | **26** | **33** | **28** |
| **Total Assets** | **197** | **232** | **287** | **24** | **249** | **304** | **393** | **29** |

Source: Company, MOSL

## Investments up 37%

In FY12, investments increased 37% to INR35b, led by incremental equity investment of INR3.8b in Bharamputra Cracker and Polymer (BCPL) and fresh investment of INR1.8b in GAIL Global (USA). Other major investments include an advance of INR1.2b towards RGPPL. GAIL divested its INR16m investment in Shell CNG Egypt, as it did not meet its strategic objective.

**Major changes in standalone investments (INR b)**

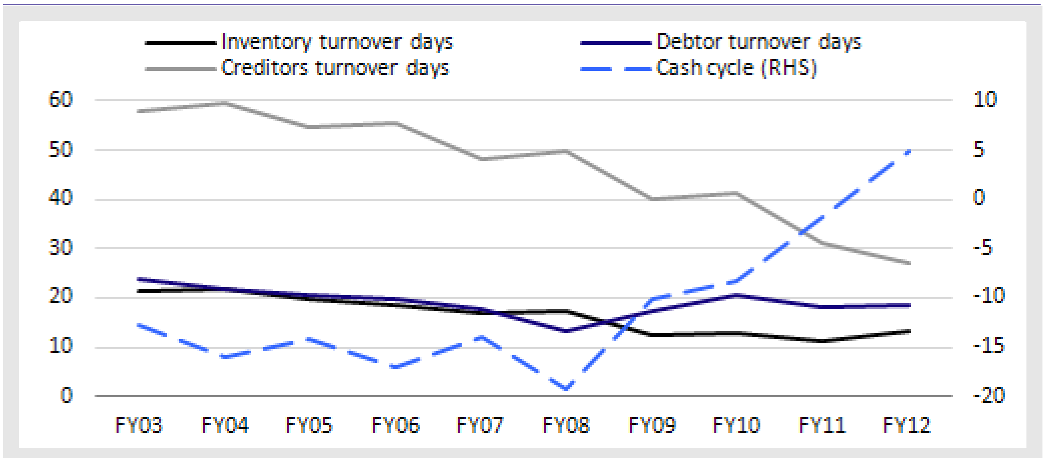
| | FY11 | FY12 | Chg (%) |
|---|---|---|---|
| Ratnagiri Gas Power Project | 6.9 | 7.8 | 12.1 |
| Brahmaputra Cracker | 2.3 | 6.0 | 165.4 |
| GAIL Global USA Inc | - | 1.8 | - |
| **Advances for investments** | | | |
| RGPPL | - | 1.2 | - |
| OPAL | 3.0 | 3.4 | 12.2 |
| BCPL | 1.6 | 1.9 | 18.5 |
| GAIL Gas | 0.2 | 0.5 | 189.4 |
| South East Asia Gas pipeline | 0.4 | 1.0 | 134.8 |
| Others | 11.4 | 11.9 | 4.4 |
| **Total** | **25.8** | **35.5** | **37.4** |

Source: Company, MOSL

## Working capital cycle turns positive

GAIL's cash cycle turned from minus two days in FY11 to five days in FY12. Higher spot volumes/prices of LNG resulted in creditor days declining from 31 in FY11 to 27 in FY12.

**Lower creditor days led to positive cash cycle**




Source: Company, MOSL

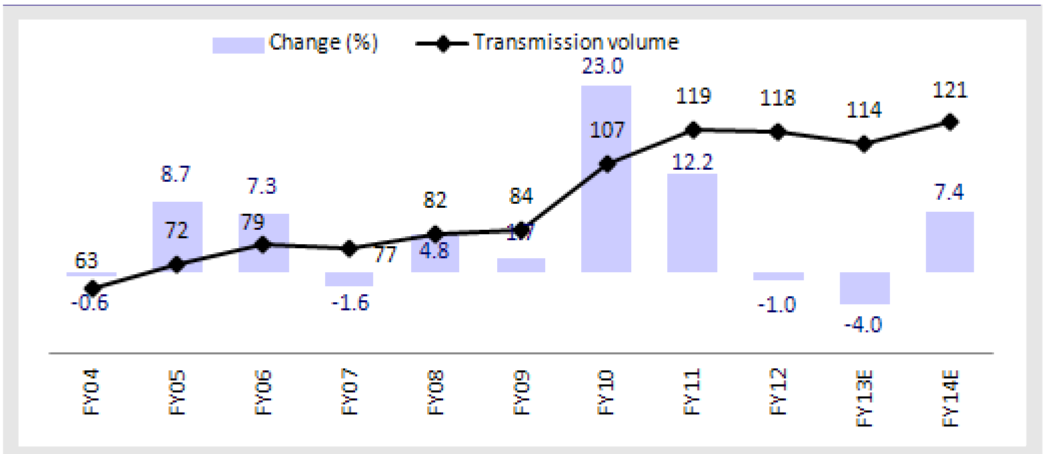
## Headwinds to incremental gas availability to impact near-term profitability

With limited possibility to increase domestic gas production in the near term, GAIL is continually scouting for tie-ups with global LNG suppliers. Limited gas availability will lead to underutilization of its new pipelines in the near term. As its new pipelines get commissioned, interest and depreciation will add up in the income statement. As a result, there would be pressure on profitability. We expect RoE to decline from 17% in FY12 to 15% in FY14.

### Incremental gas supply to remain subdued in near to medium term

- GAIL's transmission volume growth is likely to remain muted at 1.4% CAGR over FY12-14 against 12% in the last three years, led by declining KG-D6 volumes and lack of new meaningful supplies.
- KG-D6 gas production has declined from a peak of 60mmscmd in 4QFY10 to under 28mmscmd. We model KG-D6 volume at 28/22mmscmd in FY13/14 against 56/43mmscmd in FY11/12.
- However, decline in KG-D6 volumes will be partially offset by start of LNG terminals at Dabhol (20mmscmd capacity, but will operate at 10mmscmd due to breakwater issue) and Kochi (20mmscmd capacity). Both the terminals are expected to get commissioned in 3QFY13.
- Despite subdued gas supply, GAIL is set to increase its transmission capacity by ~3,000km in the next three years (assuming delay in Jagdishpur-Haldia pipeline). Earnings are likely to get impacted due to under-utilization of its new pipelines.
- Historically, GAIL's investment cycles have been accompanied by drop in RoCE and dampening of PAT growth. We see this playing out over the next two years.

**Volume growth to slow down over the next two years (mmscmd)**




Source: Company, MOSL

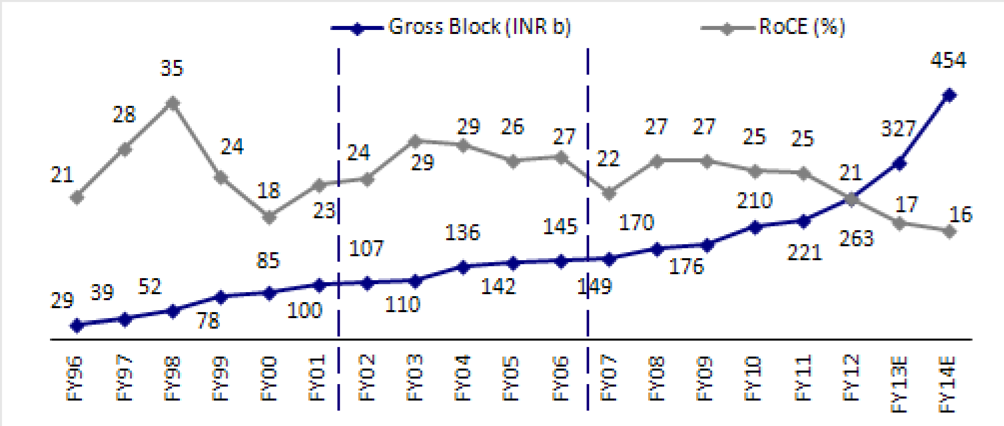
**Share of LNG set to increase in medium term (mmscmd)**

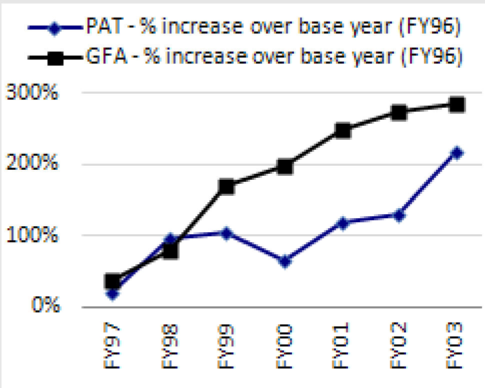
| | FY09 | FY10 | FY11 | FY12 | FY13E | FY14E |
|---|---|---|---|---|---|---|
| Existing (ONGC + Ravva) | 48 | 50 | 50 | 50 | 50 | 50 |
| PMT | 12 | 16 | 14 | 13 | 13 | 13 |
| KG Basin | - | 17 | 28 | 24 | 19 | 15 |
| RLNG | 24 | 24 | 27 | 32 | 32 | 43 |
| **Total** | **84** | **107** | **119** | **118** | **114** | **121** |

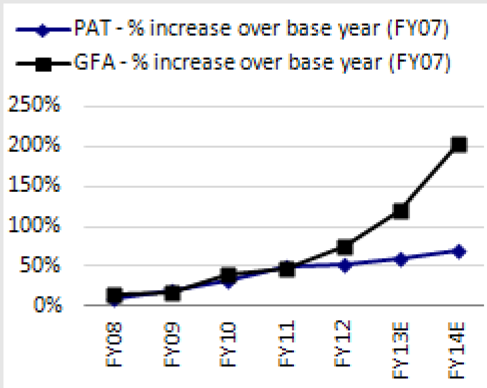
Source: Company, MOSL

**GAIL growth map: Investment cycles are accompanied by drop in RoCE and dampening of PAT growth**

| 1st major investment cycle: Asset base multiplied 3.4 times between FY97-01 | Current investment cycle: Asset base to multiply ~3 times between FY07-14 |
|---|---|
| ■ LPG plants at Usar, Lakwa and Pata<br>■ Pata petrochemicals plant<br>■ Jamnagar-Loni LPG pipeline<br>■ LPG plant at Gandhar | ■ 5 trunk natural gas pipelines and several spurlines (Dabhol-Bangalore, Kochi-Bangalore, DVPL Phase II, Dadri Bawana Nangal);<br>■ Petrochemicals capacity expansion (Pata and BCPL) |



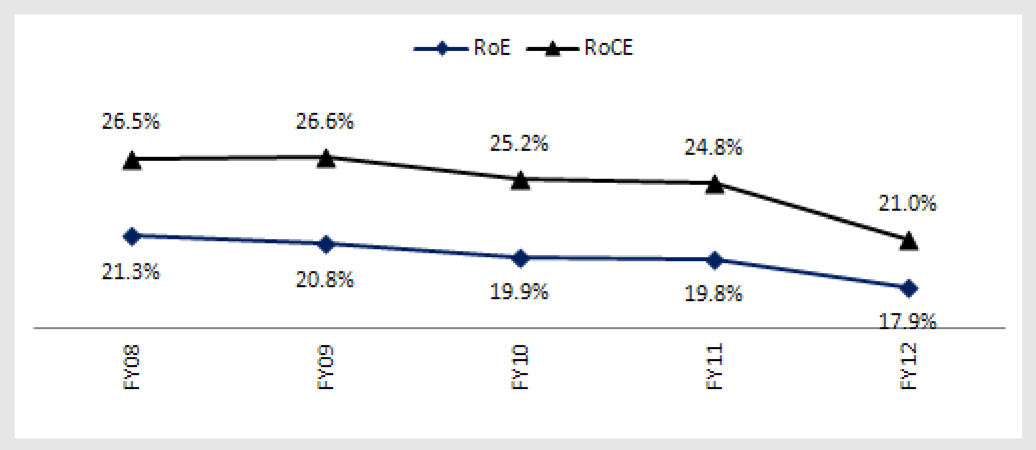

In the first major investment cycle (FY97-01), PAT growth dipped before catching up with asset growth

Current investment cycle (FY07 onwards) is longer, and PAT growth is likely to lag, especially due to slower volume ramp-up

## Return ratios impacted by lower profitability

GAIL's return ratios are impacted by lower profitability. Higher interest and depreciation expenses coupled with non-commensurate increase in revenues have impacted profitability. RoE has declined from as high as 28% in FY03 to a low of 18% in FY12. In FY12, profit margins declined to sub-10% from a high of 16% in FY06. The decline in return ratios is on account of lower profit margins, slightly offset by higher asset turnover and higher leverage.

Lower profitability impacting return ratios




Source: MOSL, Company

Dupont analysis

| Dupont Analysis | FY08 | FY09 | FY10 | FY11 | FY12 | FY13E | FY14E |
|---|---|---|---|---|---|---|---|
| Profit Margin (%) | 10.1 | 10.7 | 12.6 | 11.0 | 9.1 | 8.7 | 8.4 |
| Total Asset turnover | 1.7 | 1.6 | 1.3 | 1.5 | 1.6 | 1.3 | 1.2 |
| Equity multiplier | 1.2 | 1.2 | 1.2 | 1.2 | 1.3 | 1.5 | 1.6 |
| RoE (%) | 21.3 | 20.8 | 19.9 | 19.8 | 17.9 | 16.7 | 16.0 |

Source: MOSL, Company

## Other highlights

### Time and cost overruns at BCPL

The project cost for Bharamputra Cracker and Polymer (BCPL) has been revised from INR54.6b to INR89.2b and completion has been pushed from April 2012 to December 2013. The company has an equity investment of INR12.7b and the project enjoys capital subsidy of 52% (INR47b).

### Update on E&P

GAIL's E&P portfolio has 31 blocks, including two overseas blocks. It has hydrocarbon discoveries in seven blocks, including two overseas; one block in the Cambay Basin is under production. The company had income of INR830m and expenditure of INR2.9b in FY12 compared to income of INR425m and expenditure of INR1.4b in FY11. Expenditure increased primarily due to higher dry well write-offs at INR1.5b against INR524m in FY11. Development activities are in progress at A-1 and A-3 blocks in Myanmar and gas production is expected to start from 2013.

### Ramped-up overseas business activities

To strengthen its gas sourcing base, GAIL ramped-up its overseas business activities. It signed a 20-year deal for the supply of 3.5mmtpa LNG with Sabine Pass, a unit of Cheniere Energy, US. Henry Hub-indexed LNG supply is expected to commence in 2016-17. GAIL signed a 30-year agreement with Turkmengaz for the supply of 38mmsmcd of gas through transnational pipeline, TAPI (Turkmenistan, Afghanistan, Pakistan and India). Further, the company took 20% stake in Carizo's Eagle Ford shale acreage, which it expects to turn cash positive by the end of 2014.

## Valuation and view

While we like the management's strategy to build capacity for the long term, near-term challenges in terms of headwinds for incremental gas availability remain. We model transmission volumes of 114/121mmsmcd in FY13/14. Adjusted for investments, the stock trades at 9.1x FY14E EPS of INR32. Our SOTP-based fair value stands at INR386/share. We have a **Neutral** rating due to: (1) low near-term visibility of transmission volume growth, (2) lower return ratios in the near term due to under-utilization of new capitalized pipelines, and (3) ad-hoc subsidy sharing risk.

**SOTP-based target price at INR386**

| | | Base Case | | |
|---|---|---|---|---|
| **Business** | **INR/sh** | **INR/sh** | **INR/sh** | **Remarks** |
| PE Multiple (x) | 9.0 | 10.0 | 11.0 | |
| FY14E EPS | 31 | 31 | 31 | EPS adj. for dividend income |
| Core Business | 276 | 307 | 337 | Base case: 10x FY14E EPS (adj. for dividend income) |
| E&P | 17 | 17 | 17 | 4 key blocks valued on in-place/contingent resources |
| Listed Investments | 53 | 53 | 53 | 25% discount to CMP/target price |
| Unlisted investments | 8 | 8 | 8 | At Book Value |
| **Target price** | **355** | **386** | **416** | |

Source: MOSL, Company

**Key assumptions**

| | FY09 | FY10 | FY11 | FY12 | FY13E | FY14E |
|---|---|---|---|---|---|---|
| Exchange Rate (INR/USD) | 46.1 | 47.5 | 46.0 | 47.9 | 53.5 | 52.0 |
| Subsidy (INRb) | 17.8 | 13.3 | 21.1 | 31.8 | 32.4 | 24.0 |
| **Natural Gas Transmission** | | | | | | |
| Volume (mmsmd) | 83 | 107 | 118 | 118 | 114 | 121 |
| Average Tariff (INR/mscm) | 860 | 813 | 880 | 894 | 878 | 889 |
| **LPG Transmission** | | | | | | |
| Volume ('000 MT) | 2,744 | 3,160 | 3,337 | 3,362 | 3,362 | 3,362 |
| Average Tariff (INR/MT) | 1,390 | 1,415 | 1,422 | 1,351 | 1,308 | 1,308 |
| **Petrochemicals** | | | | | | |
| Petchem Sales ('000 MT) | 423 | 409 | 420 | 448 | 396 | 464 |
| Realization (INR/kg) | 70 | 70 | 70 | 76 | 85 | 83 |
| EBITDA (INR/kg) | 33 | 36 | 32 | 37 | 40 | 40 |
| EBIT (INR/kg) | 31 | 32 | 28 | 33 | 34 | 28 |
| **LPG & Liq HC** | | | | | | |
| Sales ('000 MT) | 1,405 | 1,444 | 1,363 | 1,439 | 1,412 | 1,439 |
| Realization (USD/MT) | 748 | 606 | 788 | 910 | 865 | 830 |
| EPS (INR) | 22.7 | 24.8 | 28.7 | 28.8 | 30.0 | 32.0 |
| **Segmental EBIT break-up** | | | | | | |
| Natural Gas Transmission | 16.1 | 22.4 | 25.6 | 21.5 | 20.8 | 21.9 |
| LPG Transmission | 2.2 | 2.8 | 3.1 | 2.7 | 2.8 | 2.8 |
| Natural Gas Trading | 3.5 | 3.7 | 7.9 | 10.9 | 13.8 | 12.1 |
| **Gas transmission and trading** | **21.8** | **28.9** | **36.6** | **35.1** | **37.4** | **36.7** |
| As a % of total | 52 | 65 | 70 | 66 | 67 | 62 |
| Petrochemicals | 13.0 | 13.3 | 11.9 | 14.7 | 13.3 | 13.0 |
| LPG & Liquid HC (pre-subsidy) | 26.5 | 19.4 | 26.0 | 37.4 | 37.4 | 33.6 |
| Other | (1.7) | (3.6) | (1.1) | (2.0) | 0.1 | 0.0 |
| **Total** | **59.6** | **58.0** | **73.4** | **85.2** | **88.2** | **83.3** |
| Less: Subsidy | (17.8) | (13.3) | (21.1) | (31.8) | (32.4) | (24.0) |
| **Total EBIT** | **41.8** | **44.7** | **52.3** | **53.4** | **55.8** | **59.3** |

Source: Company, MOSL

## Financials and Valuation

| Income Statement | | | | | (INR Million) |
|---|---|---|---|---|---|
| Y/E March | 2010 | 2011 | 2012 | 2013E | 2014E |
| Net Sales | 249,337 | 324,586 | 402,807 | 439,439 | 481,622 |
| Change (%) | -7.1 | 30.2 | 24.1 | 9.1 | 9.6 |
| Purchases | 154,300 | 220,059 | 286,791 | 270,255 | 298,606 |
| Raw Materials | 21,993 | 21,788 | 24,941 | 27,209 | 29,821 |
| Change in Stocks | -206 | -1,325 | -4,978 | 2,349 | 0 |
| Employee Costs | 6,212 | 7,527 | 6,075 | 6,682 | 7,351 |
| Power&fuel & othe | 20,346 | 21,994 | 32,997 | 68,937 | 73,857 |
| EBITDA | 46,691 | 54,544 | 56,981 | 64,007 | 71,988 |
| % of Net Sales | 18.7 | 16.8 | 14.1 | 14.6 | 14.9 |
| Depreciation | 5,618 | 6,503 | 7,907 | 8,853 | 11,710 |
| Interest | 700 | 829 | 1,165 | 2,439 | 4,968 |
| Other Income | 5,411 | 5,186 | 5,491 | 3,051 | 3,796 |
| Extraordinary Items (net) | | | | | |
| PBT | 45,784 | 52,398 | 53,400 | 55,766 | 59,107 |
| Tax | 14,386 | 16,788 | 16,862 | 17,695 | 18,563 |
| Rate (%) | 31.4 | 32.0 | 31.6 | 31.7 | 31.4 |
| Reported PAT | 31,398 | 35,610 | 36,538 | 38,071 | 40,544 |
| Adjusted PAT | 31,398 | 36,408 | 36,538 | 38,071 | 40,544 |
| Change (%) | 8.9 | 13.4 | 2.6 | 4.2 | 6.5 |

| Balance Sheet | | | | | (INR Million) |
|---|---|---|---|---|---|
| Y/E March | 2010 | 2011 | 2012 | 2013E | 2014E |
| Share Capital | 12,685 | 12,685 | 12,685 | 12,685 | 12,685 |
| Reserves | 155,305 | 179,849 | 203,560 | 228,275 | 254,572 |
| Net Worth | 167,990 | 192,533 | 216,245 | 240,960 | 267,256 |
| Loans | 14,804 | 23,100 | 53,469 | 117,659 | 127,659 |
| Deferred Tax | 13,896 | 16,332 | 17,686 | 19,917 | 22,281 |
| Capital Employed | 196,689 | 231,966 | 287,400 | 378,535 | 417,196 |
| Gross Fixed Assets | 210,377 | 221,444 | 263,066 | 327,137 | 453,542 |
| Less: Depreciation | 91,066 | 97,408 | 104,490 | 113,343 | 125,053 |
| Net Fixed Assets | 119,311 | 124,036 | 158,576 | 213,794 | 328,489 |
| Capital WIP | 23,305 | 58,462 | 79,425 | 99,175 | 42,328 |
| Investments | 20,730 | 25,825 | 35,489 | 35,489 | 35,489 |
| Current Assets | | | | | |
| Inventory | 6,317 | 8,551 | 14,197 | 14,283 | 15,323 |
| Debtors | 12,950 | 19,061 | 21,766 | 23,285 | 25,761 |
| Cash & Bank Balar | 41,715 | 21,314 | 9,313 | 29,627 | 10,293 |
| Loans/Adv. & Othe | 76,144 | 62,867 | 72,080 | 74,247 | 76,550 |
| Current Liab. & Prov. | | | | | |
| Liabilities | 54,483 | 47,544 | 59,852 | 63,934 | 67,979 |
| Provisions | 49,301 | 40,605 | 43,595 | 47,433 | 49,058 |
| Net Current Assets | 33,343 | 23,643 | 13,910 | 30,077 | 10,891 |
| Misc. Expenses | 0 | 0 | 0 | 0 | 0 |
| Application of Funds | 196,689 | 231,966 | 287,400 | 378,535 | 417,196 |

E: MOSL Estimates

| Ratios | | | | | |
|---|---|---|---|---|---|
| Y/E March | 2010 | 2011 | 2012 | 2013E | 2014E |
| Basic (INR) | | | | | |
| EPS | 24.8 | 28.7 | 28.8 | 30.0 | 32.0 |
| Cash EPS | 29.2 | 33.2 | 35.0 | 37.0 | 41.2 |
| Book Value | 132.4 | 151.8 | 170.5 | 190.0 | 210.7 |
| DPS | 7.5 | 7.5 | 8.70 | 9.0 | 10.0 |
| Payout | 30.3 | 26.1 | 30.2 | 30.0 | 31.3 |
| Valuation (x) | | | | | |
| P/E | | | 10.1 | 9.7 | 9.1 |
| Cash P/E | | | 8.3 | 7.9 | 7.1 |
| EV / EBITDA | | | 6.9 | 7.1 | 6.7 |
| EV / Sales | | | 1.1 | 1.1 | 1.1 |
| Price / Book Value | | | 1.7 | 1.5 | 1.4 |
| Dividend Yield (%) | | | 2.4 | 2.4 | 2.7 |
| Profitability Ratios (%) | | | | | |
| RoE | 19.9 | 19.8 | 17.9 | 16.7 | 16.0 |
| RoCE | 25.2 | 24.8 | 21.0 | 17.5 | 16.1 |
| Turnover Ratios | | | | | |
| Debtors (No. of Da | 19 | 21 | 20 | 19 | 20 |
| Fixed Asset Turnov | 1.3 | 1.4 | 1.4 | 1.2 | 1.2 |
| Leverage Ratio | | | | | |
| Debt / Equity (x) | -0.1 | 0.1 | 0.3 | 0.4 | 0.5 |

| Cash Flow Statement | | | | | (INR Million) |
|---|---|---|---|---|---|
| Y/E March | 2010 | 2011 | 2012 | 2013E | 2014E |
| OP/(Loss) before T | 45,784 | 52,400 | 53,400 | 55,766 | 59,107 |
| Depreciation | 5,619 | 6,504 | 7,919 | 8,853 | 11,710 |
| Other op items | -1,397 | -873 | 2,892 | 0 | 0 |
| Direct Taxes Paid | -15,686 | -14,839 | -14,253 | -15,464 | -16,199 |
| (Inc)/Dec in Wkg. ( | 12,454 | -12,420 | -5,081 | 4,146 | -148 |
| CF from Op. Activity | 46,774 | 30,773 | 44,877 | 53,301 | 54,470 |
| (Inc)/Dec in FA & C | -35,510 | -46,290 | -66,182 | -83,822 | -69,558 |
| (Pur)/Sale of Inves | -3,358 | -5,095 | -9,653 | 0 | 0 |
| Inc from Invst | 4,705 | 4,090 | 4,420 | 0 | 0 |
| CF from Inv. Activity | -34,162 | -47,295 | -71,416 | -83,822 | -69,558 |
| Inc / (Dec) in Debt | 1,962 | 7,215 | 27,069 | 64,190 | 10,000 |
| Dividends Paid | -7,420 | -11,094 | -12,531 | -13,356 | -14,247 |
| CF from Fin. Activity | -5,459 | -3,879 | 14,538 | 50,834 | -4,247 |
| Inc / ( Dec) in Cash | 7,154 | -20,402 | -12,000 | 20,313 | -19,334 |
| Add: Opening Bala | 34,562 | 41,715 | 21,314 | 9,313 | 29,627 |
| Closing Balance | 41,715 | 21,314 | 9,313 | 29,627 | 10,293 |

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