

INDICES

Indices	Previous (day) Close	% chg
Sensex	29332.2	0.6 %
Nifty	9086.3	0.6%

(As on 23rd March, 2017)

From Research Desk

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AIRTEL & IDEA

Offers galore ahead of Jio beginning to charge its customers

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News Updates

Oil & Natural Gas (ONGC)

ONGC betting US\$10bn dollars into deep sea water

ONGC has planned to invest US\$10bn (into deep sea projects) in a region off India's east coast to help boost natural gas and raise crude flow. Company will spend around Rs. 648 bn in deep water projects in the Krishna-Godavari Basin. As per management, the western offshore are in heavy declining trend, east coast would be the future and is expected to contribute heavily for the next couple of decades.

To cut the energy import and help narrow the budget deficit, state-run upstream company is investing heavily to unearth the deposits from the east region where the depth of the water (2900 m) similar to the US-Mexico Gulf. Management expects the area, including its KG-DWN-98/2 block, will add about 40mmscmd gas production within five years which is almost half of India's net gas production of 84mmscmd from April 2016 to February this year. The projected oil output could rise by 77K barrels/day.

Additionally, ONGC is seeking a minimum price of \$4.2 mmbtu (for regulated) and \$5.25 mmbtu (for non-regulated) for natural gas up for its six monthly revisions on 1 April 2017. The government had in October 2014 evolved a new pricing formula using rates prevalent in gas surplus nations like the US, Canada and Russia to determine rates in a net importing country. Prices have halved to \$2.5 per mmbtu since the formula was implemented. The new formula provides for revising rates every six months – on April 1 and October 1, based on one-year average gas price in the surplus nations with a lag of one quarter. ONGC is the country's biggest gas producer, accounting for 60 per cent of the 90 mmscmd current output.

Valuation:

At CMP Rs. 193 ONGC is trading at 10.5 FY19E EPS, we maintain our BUY rating on the stock with a target price of Rs. 256 (based on 12x FY19e earnings + Rs. 29 as investment in GAIL, IOC, MRPL & Petronet LNG).

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Sector Update – Telecom

AIRTEL & IDEA

Offers galore ahead of Jio beginning to charge its customers

On expected lines Jio has provided yet another bypass to its customers from paying Rs. 99 for prime membership by crediting Rs. 50 (via discount voucher) for initially buying membership and Rs. 50 for buying Jio recharges above Rs. 303 via Jio Money wallet. Discount Voucher can be redeemed only on Recharge of 303 or more from 25 March 2017 to 30 June 2017.

Alternatively, Reliance has also floated a slew of offer like “Buy Jio Prime Membership and Get Free Uber Rides” offering a workaround for savvy customers. Post the end of Jio’s Happy New Year offer on Mar 31, 2017, Jio is offering all the earlier benefits to its Jio Prime customers under its Rs. 303 plan (FUP daily data limit of 1GB 4G data post which the speed falls coupled with unlimited calling and zero roaming charges). We believe even this limitation of offer only to Jio Prime customers will get lifted in due course. Another plan with Rs. 499/month allows 2GB data per day at 4G speed.

Jio has sweetened the offer further by launching a “Buy one get one offer”. Under this the customer will get additional 5GB/10GB 4G data for free on Rs. 303/499 top up.

On a like to like basis, all the other three large incumbent have launched plan to ring-fence their customer base. Airtel has a Rs. 345 plan offering 1GB daily data (500 MB during the day and 500 MB past midnight). Idea is offering 500 MB per day 4G data for Rs. 345 with a validity of 28 days. Vodafone is offering 1GB per day 4G data for Rs. 346 with a validity of 28 days.

On the mark of reaching 100 mn users Jio on 21 Feb 2017 announced that it had a total download of over 1000 mn GB, which implies a monthly using of ~3.5 GB/month/user. This also includes the moral hazard factor of customers abusing free data limits in the first three months (Sep-Dec 2016). We believe the current offers by all the incumbent more or less cover the usage pattern seen so far, although the price elasticity of customer remains to be seen.

Outlook

We believe although Jio charging its customers is a positive development for the incumbents, the same is done out of regulatory compulsion (rule allows welcome offer should be withdrawn after 90 days which Jio circumvented by making minor changes and extending the same by another 90 days). Jio may continue to sweeten the deal via alternate channels as was seen in food ordering, e-wallet companies to attract high-value customers. Ring-fencing the migration of high value customer will remain critical going ahead. We have a HOLD on AIRTEL & IDEA with a target price of Rs. 408 and 102 respectively.

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