MORNING INSIGHT

PRIVATE CLIENT RESEARCH

MAY 26, 2017

Economy News

- The National Democratic Alliance (NDA) government is preparing to overhaul the environmental regulations which protect the 7,500-km coastal belt from overdevelopment and exploitation. In a bonanza, particularly for the tourism and real estate sectors, the draft proposes easing several key provisions to allow development activity on the coasts. (BS)
- Drug pricing regulator National Pharmaceutical Pricing Authority (NPPA) has fixed the ceiling price of 30 more formulations, including those used for the treatment of hepatitis, heart conditions, infections, fever and pain. The NPPA said while the ceiling price of 19 formulations of different essential drugs has been fixed, that of 11 is revised. (BS)
- India's top bankers have warned the government that failure in the debt-bruised telecom sector could result in defaults in the industry whose total borrowings amount to a whopping Rs. 8 Tn. This happens to be more than double the direct exposure banks have made to this sector as disclosed in the Reserve Bank of India's data. (BS)

Corporate News

- **Dr Reddy's Laboratories** said the US health regulator USFDA has issued no observations after inspecting its formulations plant in Andhra Pradesh. (ET)
- Tata Sons and some of its group companies have received the Competition Commission of India's approval to buy NTT Docomo's 21.5% stake in **Tata Teleservices.** Besides Tata Sons, the companies involved in the deal are **Tata Steel**, Tata Industries, **Tata Communications** and **Tata Power**. (ET)
- Buoyed by resilient LME (London Metal Exchange) prices and declining cost of alumina, **Vedanta** aims to ramp up its aluminium output to 1.6 million tonnes (mt) this financial year. (BS)
- Thyssenkrupp AG and **Tata Steel Ltd** expect a merger of their European steel businesses to yield annual savings of Rs. 400 to 600 mn ($448-673 mn), a German magazine reported. (Mint)
- **National Aluminium Company Ltd (Nalco)** has signed a memorandum of understanding (MoU) with the Union ministry of mines, setting higher targets in production, productivity, turnover and Capex for 2017-18. According to the pact, the target for revenue from operations has been fixed at Rs81 bn (net of excise) which is Rs7 bn more than the previous year. (BS)
- **Cipla** has decided to give up its plan to produce biosimilar for a $1 per day, a long cherished idea of patriarch Yusuf K Hamied. The company will not manufacture biosimilar from its own facilities either, as it plans to outsource the production of these drugs. (ET)
- The government is believed to be moving swiftly to sell a 3% stake in **Indian Oil Corporation,** via the offer for sale (OFS) route. (ET)
- **L&T, Punj Lloyd** plan to tap Rs 2 trn defence orders. (BS)
- **DLF,** plans a major entry into the co-work space business. It aims to lease 100,000 sq ft of prime commercial space, initially in the Delhi region and Chennai, to start-ups in the co-working sector over the next couple of years. And, is in talks with New York-based WeWork and other US and Europe-based co-work service entities. (BS)
- **Idea Cellular** raised $215 mn (Rs13.87 bn) in debt from Export Development Canada (EDC) to be used to restructure its long-term loans and lower finance costs at a time when the 3 telecom operator is looking to expand its 4G operations to counter intense competition from Reliance Jio Infocomm. (ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

Equity

	25 May 17	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
SENSEX Index	30,750	1.5	2.0	6.4
NIFTY Index	9,510	1.6	1.7	6.4
BANKEX Index	26,291	2.8	4.3	10.3
SPBSITIP Index	10,369	2.3	7.6	(0.1)
BSETCG INDEX	17,637	3.5	(1.3)	15.0
BSEOIL INDEX	13,913	1.3	(3.5)	2.1
CNXMcap Index	17,345	1.3	(3.8)	6.0
SPBSSIP Index	14,849	2.0	(2.8)	9.3
World Indices				
Dow Jones	21,083	0.3	0.5	1.3
Nasdaq	6,205	0.7	3.0	6.2
FTSE	7,518	0.0	3.1	3.8
NIKKEI	19,813	0.4	2.6	2.6
HANGSENG	25,631	0.8	4.5	7.2

Value traded (Rs cr)

	25 May 17	% Chg - Day
Cash BSE	3,229	(11.6)
Cash NSE	35,128	28.3
Derivatives	-	-

Net inflows (Rs cr)

	23 May 17	% Chg	MTD	YTD
FII	359	(198.0)	9,583	51,594
Mutual Fund	663	59.5	6,725	27,408

FII open interest (Rs cr)

	23 May 17	% Chg
FII Index Futures	18,203	(17.1)
FII Index Options	46,632	(39.6)
FII Stock Futures	65,740	(18.5)
FII Stock Options	98	(98.8)

Advances / Declines (BSE)

25 May 17	A	B	T	Total	% total
Advances	243	854	77	430	24.8
Declines	55	253	74	1135	65.4
Unchanged	1	7	11	170	9.80

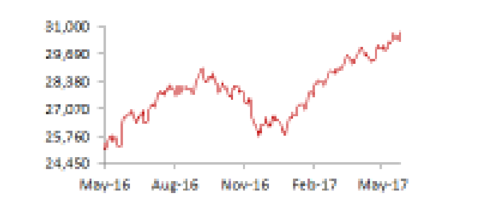
Commodity

	25 May 17	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (US$/BBL)	48.8	(0.2)	(1.7)	(9.6)
Gold (US$/OZ)	1,256.6	0.4	(0.5)	0.0
Silver (US$/OZ)	17.2	0.5	(1.4)	(6.5)

Debt / forex market

	25 May 17	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.7	6.7	7.0	6.9
Re/US$	64.6	64.7	64.3	66.7

Sensex



RESULT UPDATE

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VOLTAS LTD

PRICE: RS. 476 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS. 506 **FY19 22.8x,**

Voltas delivered all-round good set of quarterly numbers led by strong rebound in UCP revenues. Headline numbers were higher than our estimates due to improved performance of the UCP segment. Improvement in order book and sustained uptick in order intake is a positive for the MEP business.

Voltas is valued at 25.6x and 22.8x FY18 and FY19 earnings respectively. The Voltas stock has rallied strongly in last five months. We remain positive on the long term growth potential of the room AC industry. Voltas is the market leader and has a strong brand and distribution network in the industry. It is well positioned to ride the growth in the industry. Post the strong fourth quarter numbers, we are raising our earnings for FY18 and also our target price.

However, in view of modest upside, we maintain our Accumulate rating on the stock with a revised target price of Rs 506.

Risks include - Execution delays in ongoing MEP projects and benign weather conditions during the summer which is the peak season for the room AC segment.

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	60,328	74,464	79,985
Growth (%)	3.0	23.4	7.4
EBITDA	5,791	6,633	7,241
EBITDA margin (%)	9.6	8.9	9.1
PBT	7,395	8,531	9,595
Net profit	5079	6142	6908
EPS (Rs)	15.4	18.6	20.9
Growth (%)	47.3	20.9	12.5
CEPS (Rs)	16.1	19.4	21.7
Book value (Rs/share)	83.3	97.7	114.4
Dividend per share (Rs)	3.5	3.5	3.5
ROE (%)	19.6	20.3	19.5
ROCE (%)	18.1	19.0	18.9
Net cash (debt)	1421	3420	8162
NWC (Days)	42.4	45.0	41.8
EV/Sales (x)	2.4	2.1	1.9
EV/EBITDA (x)	25.2	23.2	20.6
P/E (x)	31.0	25.6	22.8
P/Cash Earnings	29.6	24.6	21.9
P/BV (x)	5.7	4.9	4.2

Source: Company, Kotak Securities - Private Client Research

Rs. Mn	Q4 FY17	Q4 FY16	YoY (%)
Gross Revenue	20215	18494	9.3
Excise Duty	232	80	190.0
Net Revenue	19983	18414	8.5
Operating other income	368	140	163.4
Expenditure	18131	16745	8.3
Raw Material costs	11213	10493	6.9
Purchase of stock in trade	3639	2915	24.8
Staff costs	1485	1740	-14.7
Other expenditure	1795	1597	12.4
Operating profit	2219	1808	22.7
Depreciation	56	75	-25.3
Other income	386	393	-1.7
EBIT	2549	2126	19.9
Interest	58	54	6.3
PBT	2491	2072	20.3
Tax	496	671	-26.1
Minority interest	-14	-48	-70.5
Share in profit/(loss) of associates cos	7	-26	-128.2
PAT before extraordinary income/(expense)	1989	1327	49.9
Exceptional items	2	279	-99.4
Reported PAT	1991	1607	23.9
EPS	6.0	4.0	
EBITDA excl other op income (%)	9.2%	9.0%	
EBITDA incl other op income (%)	11.0%	9.8%	
Raw material to sales (%)	55.5%	56.7%	
Purchase of traded goods to sales (%)	18.0%	15.8%	
Other expenditure to sales (%)	8.9%	8.6%	
Employee costs to sales (%)	7.3%	9.4%	
Tax rate (%)	19.9%	32.4%	

Source: Company

Rs mn	Reported	Estimated	Remarks
Revenue	20215	18000	Resilient room AC demand led to higher than expected revenues
EBITDA %	11.0%	9.5%	Margins gains led by UCP segment
Recurring PAT	1989	1471	Lower tax outgo aided strong profit beat

Source: Company

Segment Revenues (Rs.mn)	Q4 FY17	Q4 FY16	YoY (%)
Electromechanical projects (MEP)	8290	9063	-9%
Engg products and services	1068	929	15%
Unitary cooling Products	10860	8504	28%

Source: Company

Segment Margins (%)	Q4FY17	Q4FY16
Electromechanical projects (MEP)	5.7%	3.2%
Engg products and services	24.2%	32.5%
Unitary cooling Products	16.4%	16.4%

Source: Company

Electromechanical Projects (MEP) Segment - significant decline in revenues on y-o-y basis

- The MEP segment reported 9% decline in revenue on a y-o-y basis mainly due to slower than expected progress on certain new orders and an environment led sluggish pace of execution.
- Segment margins rose on a y-o-y as well as sequential basis, reflecting the benefit from closure of couple of legacy orders.
- While construction activities were slowly looking up in the United Arab Emirates (Dubai Expo 2020) and Qatar (FIFA 2022), continued low oil prices and lower government spending impacted investment sentiment, the management noted.
- Further, barring a couple of arbitrations, the company has diligently ensured closure of several legacy projects.
- Profitability in this segment is dependent on pace of execution of existing orders, risk assessment of projects and proportion of legacy projects in overall order book. The management is rightly focusing on these factors and expects to close all its legacy projects by the end of this fiscal.

Engineering Products and Services Business - Reported healthy revenue growth

- Quarterly segment revenue reported healthy growth of 15% on a y-o-y basis. However, on full year basis, this segment reported 10% decline in revenue.
- This segment includes commission income on sale of textile machinery for LMW and sale and services of mining equipment.
- The demand from the Textiles and Mining equipment businesses continued to remain weak due to muted global demand and continued impact of demonetization. Profitability of spinning mills was also under pressure due to subdued prices for yarn and a steep increase in raw cotton prices. Apart from this, the company also faced some temporary supply chain issues impacting overall sales, which have now been addressed.

- In Mining and Construction Equipment, Mozambique operations continue to drive the performance. On the domestic front, the year was challenging with slowdown in mining related activity. However, a gradual recovery appears to be on the horizon and the Company has re-prioritized the India business. The Govt. impetus on road for development has been encouraging and the company has begun to see material orders esp. in the Crushing & Screening equipment sector.

Unitary Cooling Products (UCP - largely room AC) Business - Solid rebound in growth

- Revenue in the UCP segment rose 28% y-o-y during the quarter, led by good demand for room ACs and aided by company's better quality cum range of products, wider distribution, appropriately timed advertisements, promotions and sensible pricing.
- The company retained its No 1 position in the market with a share of 21.4% in volume terms. On a full year basis, this segment reported 21% growth in revenue. During the year, the company crossed the one million mark in room AC volume, a milestone for the industry.
- The company sold 170000 units of Air Coolers during the fiscal.
- Segment margins remained stable at 16.4% on a y-o-y basis, which the management attributed to higher absorption of fixed costs (Advertising and Promotions) on a larger base of revenues. The management indicated that the sustainable margins are in the range of 11-12% (on a full year basis), even factoring any disruption due to GST related issues and predatory pricing by competitors.

Order intake driven by domestic orders in Water treatment and Rural Electrification segments

- During the fiscal, the company booked orders of Rs 27.9 bn, largely aided by domestic orders arising from government spending on water treatment and rural electrification.
- At the end of Q4FY17, Voltas had a carry forward order book position of Rs 43.2 bn (overseas Rs 17.6 bn and domestic Rs 25.6 bn), representing a growth of 11% y-o-y.

In the domestic market, the company has seen increase in enquiry levels and order finalization during the quarter mainly on account of public sector spending. Sectors like water treatment, rural electrification and smart cities are seeing improved order finalisations.

Enters Kitchen appliances segment through JV with Arcelik A.S

- Voltas has entered into a Joint Venture arrangement with a leading European home appliance company, Arcelik A.S. to form an equal partnership for entering the wider consumer durables market in India.
- The proposed entity will launch refrigerators, washing machines, microwaves and other white goods / domestic appliances in a phased manner.
- The main brand of Arcelik is Beko and the company has a market leadership in Turkey, UK and Poland in kitchen appliances.
- The White goods market in India is valued at Rs 350 bn and is growing at 15% pa. Voltas is targeting to reach 10% market share in the medium term.
- The JV plans to set up a manufacturing plant in due course of time.

Earnings Revision	FY18	
Rs mn	Earlier	Revised
Revenue	64,854	74,464
EBITDA %	8.7	8.9
EPS	16.2	18.6
% change		14.7%

Source: Company

Valuation and Target Price - Maintain Accumulate with a revised target price of Rs 506

- Voltas is valued at 25.6x and 22.8x FY18 and FY19 earnings respectively. Valuations are at a premium to historical trend but are at a discount to sector peers (Symphony, Whirlpool, IFB, Havells etc).
- Voltas is the market leader and has a strong brand and distribution network in the industry. It is well positioned to ride the growth in the industry. Post the strong fourth quarter numbers, we are raising our earnings for FY18 and also our target price.
- However, in view of modest upside, we maintain our Accumulate rating on the stock with a revised target price of Rs 506.

Sum of the parts FY18 EPS (proportionate to EBIT	UCP	Engg Comm	MEP	Total
share)	14	3.3	3.8	21.0
Target (x)	27.0	18.0	20	24.3
Target Price	373.0	59.8	76.3	509.1

Source: Company,

Peer Valuation (x)	FY19 PE
Voltas	23
Blue Star	25
Havells	26
Symphony	35
Whirlpool	23

Source: Kotak PCG and Industry estimates

RESULT UPDATE

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PRAJ INDUSTRIES

PRICE: RS. 78 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS. 81 **FY19 PE 19.2x**

Praj reported weak fourth quarter performance (largely expected), which missed our estimates on revenue and profit front.

The management indicated that the business outlook is weak in the near-term, though it is positive on the medium term on back of investment in refineries, fuel upgradation, specialty chemicals and 2G ethanol.

The stock is trading at 25.7x and 19.2x, based on FY18 and FY19 earnings respectively, which in our view is fair given the stock's weak earnings and business outlook.

Further, we note that there is reasonable chance of the company missing on our projected earnings. Given this, we continue to maintain our cautious stance on the company and maintain "Reduce".

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	9551.6	9339.0	10500.0
Growth %	-6.0	-2.2	12.4
EBITDA	686.7	762.7	940.9
EBITDA margin %	7.2	8.2	9.0
PBT	675.2	707.7	950.9
PAT	446.0	537.8	722.7
EPS (Rs)	2.5	3.0	4.1
Growth %	-37.7	20.6	34.4
CEPS	3.8	4.4	5.5
Book value (Rs/share)	37.9	38.6	40.3
Dividend per share (Rs)	1.6	2.0	2.0
ROE %	6.7	7.9	10.3
ROCE %	6.7	8.0	10.4
Net cash (debt)	1992.2	2018.2	2929.6
NWC (Days)	73.9	58.1	45.0
EV/Sales (x)	1.2	1.3	1.0
EV/EBITDA (x)	17.3	15.5	11.6
P/E (x)	31.0	25.7	19.2
P/Cash Earnings	20.7	17.7	14.3
P/BV (x)	2.1	2.0	1.9

Source: Company, Kotak Securities - Private Client Research

Rs mn	Q4FY17	Q4FY16	YoY (%)
Gross Sales	**3117**	**3459**	**-10**
Excise	101	151	-33
Net Sales	**3016**	**3308**	**-9**
Raw material cost	1632	1615	1
Staff costs	333	375	-11
Other expenditure	668	847	-21
Excise duty on sales	0	151	-100
Forex loss/(gain)	0	-14	-102
Total Expenditure	2632	3001	-12
PBIDT	384	307	25
Depreciation	54	62	-13
Other Income	40	64	-37
EBIT	370	309	20
Interest	2	3	-31
PBT	368	306	20
Tax	140	74	90
Prior period expenses	0	0	
PAT	228	233	-2
EPS	1.2	1.3	
PBDIT %	12.3	8.9	
Raw matl cost to sales %	52.4	46.7	
Excise duty to sales (%)	3.2	4.4	
Staff cost to sales %	10.7	10.8	
Other expenditure to sales %	21.4	24.5	
Tax rate %	38.0	24.1	

Source: Company

Rs mn	Reported	Estimated	Comments
Revenue	3016	3222	lower than forecast revenue
EBITDA %	12.3	10.4	EBITDA margins came higher due to lower other expenditure
PAT	228	255	Leading to profit miss

Source: Company

Weak operating performance

- Consolidated revenue for Q4FY17 stood at Rs 3.1 bn (lower by 10% on Y-o-Y basis) due to a combination of sedate order book, suspension of fabrication work for clients and stalling of a major order (Petrobras).
- Gross margins for the quarter contracted 567 bps y-o-y to 47.6%. The outsized contraction in gross margins was partly due to the suspension of some orders midway.
- Employee costs declined to Rs 333 mn vs Rs 375 mn, which was mainly due to capitalization of some employee costs related to the construction of 2G ethanol demonstration plant.
- Other expenditure declined to Rs 668 mn vs Rs 847 mn in the corresponding quarter of the previous fiscal.
- The company reported minor forex loss in Q4FY17. The management clarified that it typically hedges ~ 60% of its exports revenue while for the balance it has a natural hedge.
- PAT declined 2% y-o-y to Rs 228 mn vs Rs 233 mn in the corresponding quarter of the previous fiscal.

Tepid order book

- Order intake rose 22% y-o-y at Rs 2.2 bn, due to lower fixed asset capital formation activity in India and overseas geographies. On an YTD basis, order intake declined 2% to Rs 9.9 bn.
- We also note that some of the traditional business drivers have slackened in recent times. Breweries business has suffered due to alcohol ban by some states and consolidation among global players (merger of SAB miller and Inbev).
- In FY17, order intake has weakened from the exports, ethanol and breweries market and only the emerging business segment has shown some traction during the period.
- On account of the muted order intake in FY17, order book is down 3% yoy at Rs 9.35 bn, providing revenue visibility of 12 months based on trailing four quarter revenues.
- Order book includes a major project order from Petrobras, which has been a non-starter since it was annouced. Adjusted for this order, the revenue visibility comes down to 8.5 months of trailing four quarter revenues- this we highlight is a key risk to our revenue projections.
- On Petrobras order, the management indicated that the new EPC contractor has gone for retendering of this order and hence the order would continue to form part of order till September 2017.
- The management indicated that the business outlook is weak in the near-term, though it is positive on the medium term on back of investment in refineries, fuel upgradation, specialty chemicals and 2G ethanol.

Key industry developments - Major opportunity in 2G ethanol

- In furtherance to the understanding in Aug, 2016 to set up multiple 2G ethanol plants in India, Indian Oil Corporation Limited (IOCL) and Praj entered into another MOU on 7th Dec, 2016. Panipat, Haryana and Dahej, Gujarat identified as project Locations
- Additionally, BPCL has also selected Praj as technology partner for setting up 2G ethanol project in Odisha.
- Each of the 2G ethanol unit has a project value of Rs 5.5-6.0 bn and Praj's scope of work is to the extent of Rs 2.0-4.0 bn. Given the size of the opportunity, if these planned projects do get converted into firm orders, it can potentially double the order book of the company.

- The management indicated that for the Panipat project, the site has been selected and discussions on process and equipment for the project is being finalized. The order for this project is expected to be placed in the first half of the current fiscal.
- However, issues remain. Foremost among them would be the pricing of the ethanol, possibility of viability gap funding given low IRRs and successful operation of the project (2G ethanol plants in Europe have had stabilization problems).
- Depending on the timing of the placement of the 2G orders, the company expects to complete these projects by 2019 and then take its offering into overseas market.

Strong cash flow led by reduction in receivables position.

- The company had witnessed some elongation in receivables cycle in the fourth quarter of previous fiscal, which has now been largely corrected.
- Consequently, the cash and equivalents position has also risen to Rs 2.3 bn from ~ Rs 2.03 bn at the end of FY16. The company remains debt-free.

Earnings Revision	**FY18**	
Rs mn	**Earlier**	**Revised**
Revenue	10500	9339
EBITDA %	9.0	8.2
EPS	4.0	3.0
% change		-24.2%

Source: Company

Stock outlook - We maintain our cautious stance on the stock.

- The stock is trading at 25.7x and 19.2x, based on FY18 and FY19 earnings respectively, which in our view is fair given the stock's weak earnings and business outlook.
- Further, we note that there is reasonable chance of the company missing on our projected earnings. Given this, we continue to maintain our cautious stance on the company and maintain "Reduce".
- We roll over our target price to Rs 81 (unchanged), based on 20x FY19 earnings (earlier 20x FY18 earnings).
- Our stance would turn further positive if 1) sustained order intake in FY18 improves the revenue visibility for FY18 2) commencement of the Petrobras order which has been dormant 3) Progress on 2G ethanol.

RESULT UPDATE

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GUJARAT STATE PETRONET LTD (GSPL)

PRICE: RS. 174 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS. 182 **FY19E P/E: 13.6X**

GSPL's Q4FY17 result is marginally higher than our estimates. GSPL reported PAT of Rs.1.27 bn (as against our estimate of Rs.1.2 bn), higher 7% qoq and 28% yoy mainly on account of higher other income and lower tax paid. However, Gas transmission volume has decreased by 11% qoq and 4% yoy to 23.38 mmsmcd due to lower gas availability from Rasgas for a few days. Gas transmission tariffs have increased by 9.3% qoq and 16% yoy to Rs.1.197/mmscmd (includes other income). For FY17, GSPL has declared a final dividend of Rs.1.5/share.

Going forward, we expect the company to benefit on account of both 1). Higher gas transmission volumes and 2). Expected upward revision in tariffs. Higher gas transmission volumes will be supported by 1) lower LNG prices, and 2) RLNG demand from the power sector. Additionally, rising city gas distribution growth opportunities, potential shift to natural gas due to environmental/pollution norms (industrial / CNG) and volumes from Mundra LNG terminal (FY18 onwards) provides support to long term volumes. We are introducing FY19E earnings. From Q2FY18, gas demand is expected to go up with the startup of RIL's ROGC, an incremental volume of 4-5 mmscmd. We expect GSPL to report an EPS of Rs.11.4 (earlier Rs 11.1) and cash EPS of Rs.14.7 for FY18E and an EPS of Rs.12.7 and cash EPS of Rs.16.2 for FY19E. We maintain Accumulate (BUY on dips) on GSPL with a DCF based price target of Rs.182/Share (earlier Rs.175).

Summary table

Rs mn	FY17	FY18E	FY19E
Sales	10,276	11,452	12,484
Growth (%)	3.6	11.4	9.0
EBIDTA	8,883	9,936	10,844
EBIDTA margin (%)	86.4	86.8	86.9
PBT	7,284	8,557	9,658
Net profit	4,713	5,733	6,471
EPS (Rs)	9.6	11.4	12.7
Growth (%)	16.0	18.9	11.5
CEPS (Rs)	12.7	14.7	16.2
BV (Rs/Share)	78.9	86.9	96.3
DPS (Rs)	1.5	1.7	1.8
ROE (%)	12.6	13.5	13.7
ROCE (%)	11.6	13.8	14.3
NWC (Days)	78	76	71
EV/Sales (x)	9.2	7.8	6.8
EV/EBIDTA (x)	10.6	9.0	7.8
P/E (x)	18.1	15.2	13.6
P/BV (x)	2.2	2.0	1.8
P/CEPS (X)	13.6	11.8	10.7

Source: Company, Kotak Securities - Private Client Research

Quarterly Table

GSPL (Rs.mn)	Q4FY17	Q4FY16	YoY (%)	QoQ (%)
Gross Revenue	**2,587**	**2,341**	**11**	**(3)**
Less: Discount, etc	141	21.4	560	179
Discount (%)	5.45	0.91	4.5	3.6
Net Sales/Income from ops	**2,446**	**2,319**	**5**	**(7)**
Total Expenditure	433	273	59	10
EBIDTA	**2,013**	**2,047**	**(2)**	**(10)**
Depreciation	460	471	(2)	(1)
EBIT	**1,553**	**1,575**	**(1)**	**(12)**
Other income	273	135	103	25
Interest-net	116	175	(34)	(30)
PBT	**1,710**	**1,535**	**11**	**(6)**
Tax	**441**	**541**	**(18)**	**(31)**
PAT	**1,270**	**995**	**28**	**7**
Basic EPS (Rs)	**2.25**	**1.76**	**28**	**7**
Cash EPS (Rs.)	3.07	2.60	18	5

Source: Company

Performance Analysis

GSPL (Rs.mn)	Q4FY17	Q4FY16	YoY (%)	QoQ (%)
Gas Transported: Volume				
Gas Transported (MMSCMD)	23.38	24.41	(4.2)	(10.9)
Gas Transported in each Quarter	2,104	2,222	(5.3)	(12.8)
Implied Tariff				
Rs per 1000 SCM	1,197	1,028	16.4	9.3

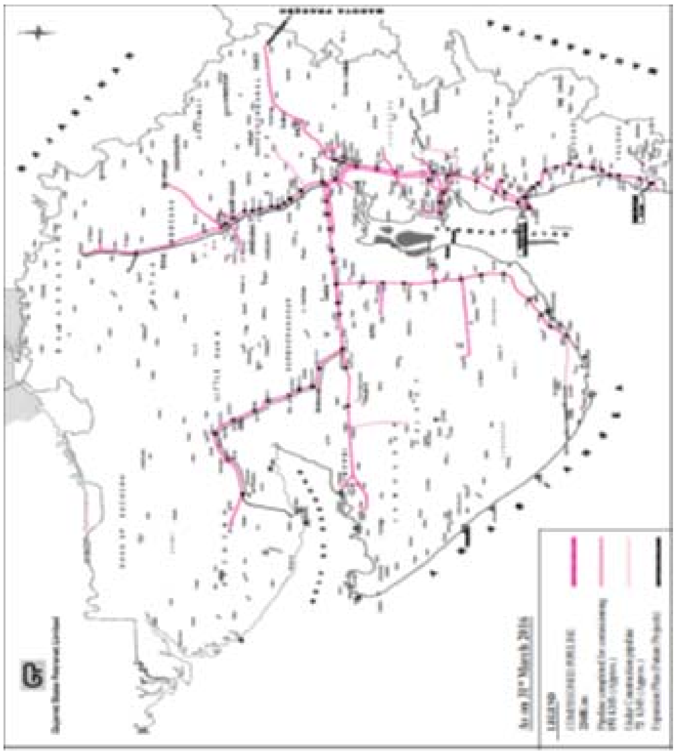
Source: Company

Key developments

- In the short to medium term, we expect earnings will be supported by incremental power sector gas demand/higher tariffs and in the long term, we expect commissioning of the 5 mtpa Mundra terminal (as well as Dahej and Hazia terminal) would provide meaningful upside to gas transmission volumes, improving pipeline utilization rates. In short, the Company's long term growth prospects looks strong.

Venturin India's second largest gas transmission company (by length (2348 kms) and transmission volumes), is spreading its wings and is in process of implementing city gas distribution (CGD) network in Amritsar district (Punjab) awarded by PNGRB in May 2015. Further, PNGRB has granted authorization to GSPL for developing city gas distribution (CGD) network in the geographical area Bhatinda district (Punjab) in May, 2016.

- GSPL has two subsidiary companies 1) GSPL India Gasnet Limited (GIGL) for development of Mehsana - Bhatinda (~1670 Kms) and Bhatinda - Jammu - Srinagar (~740 Kms) pipeline projects and 2) GSPL India Transco Limited (GITL) for development of Mallavaram - Bhopal - Bhilwara - Vijaipur (~1881 Kms) pipeline project awarded by PNGRB.
- These two subsidiaries have received all major statutory approvals for development of the pipeline. GIGL & GITL have initiated process for implementing the projects. However, construction activities are yet to commence.



Potential upward revision in tariffs for GSPL's high and low pressure natural gas pipeline networks

- **Added shine:** GSPL has indicated that PNGRB is in the process of re-determining the levelized tariff for GSPL's high pressure and low pressure natural gas pipeline networks pursuant to APTEL decision on the appeal filed by GSPL.

- **Brief background:** APTEL quashed PNGRB's previous order on GSPL's pipeline tariffs. On 25th Nov'14, APTEL has asked PNGRB to a). Include the latest available data for tariff computations, (b) Revisit key parameters which have adversely impacted the tariffs, and (c) Ensure a reasonable return of 12% post-tax RoCE for gas transmission pipelines over the life of the asset, as required by the regulations for tariff calculations. Hence, we expect a potential upward revision in pipeline tariffs by PNGRB.
- We await PNGRB's final decision on gas pipeline tariffs and expect upward tariff revision.

APTEL quashed PNGRB's previous order on GSPL's pipeline tariffs

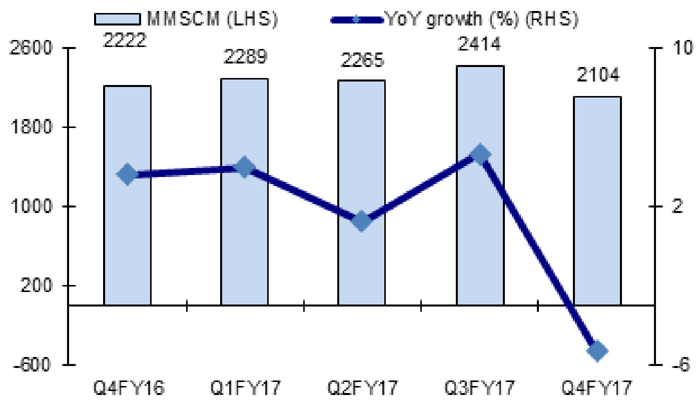
Rs/mmbtu	High-pressure gas grid network
Pipeline tariff computation by PNGRB (11th Sep'12)	
Levelized tariffs proposed by GSPL	**39.55**
Total moderations/reductions by PNGRB	**(15.56)**
Levelized tariff computed by PNGRB (Gross calorific value basis) -20 Nov'08 till 11th Mar 2026	23.99
Change in date of applicability (From date of authorization of pipeline instead of date of notification of the tariff regulation)	2.59
Revised levelized tariff computed by PNGRB (27th July'2012 till 11th March 2026)	**26.58**

Source: PNGRB and Company

Result Analysis:

- **Revenue:** Despite 9% qoq increase in pipeline tariff, GSPL's net revenue for Q4FY17 decreased 7% qoq to Rs.2.45 bn (+5% yoy) mainly on account of decline in gas transportation volume. Implied tariff increased 9% qoq and 16% yoy to Rs.1.197/mmscmd. However, natural gas transmission volumes decreased 13% qoq to 2104 mmscm (-5% yoy).

GSPL's quarterly gas volumes transport details



- The Company's operating margin decreased to 82% in Q4FY17, down by 300 bps qoq and 600 bps yoy. Decrease in margin is mainly on account of significant increase in operating & maintenance charges and lower volumes.

Margins (%)	Q4FY17	Q4FY16	YoY (%)	QoQ (%)
EBITDA Margin	**82**	**88**	**(6)**	**(3)**
EBIT Margin	**63**	**68**	**(4)**	**(4)**
Adj PAT Margin	52	43	9	7
Other Income/PBT	16	9	7	4
Tax/PBT	26	35	(9)	(9)

Source: Company

Expenses (Rs. Mn	Q4FY17	Q4FY16	YoY (%)	QoQ (%)
Staff costs	89	79	12	(38)
other Expenses	344	193	78	38
Total	**433**	**273**	**59**	**10**
Expenses Ratio (%)	**Q4FY17**	**Q4FY16**	**YoY (%)**	**QoQ (%)**
Staff cost to Sales	3.64	3.42	0	(2)
Operation and Man To Sales	14.1	8.3	6	5

Source: Company

- Operational profits declined 10% qoq and 2% yoy to Rs. 2.0 bn. Lower operating profit is on account of higher operation & maintenance charges, and lower income from operations.
- Depreciation cost decreased 1% qoq and 2% yoy to Rs. 460 mn. Total capital employed decreased 2% qoq to Rs.58 bn (flat yoy) as on 31st Mar'17.
- Other income increased 25% qoq (base effect) to Rs.273 mn (+103% yoy). Other income mainly consist of dividend and interest income.
- Interest cost decreased by 30% qoq and 34% yoy to Rs.116 mn due to decline in total debt to Rs. 5 bn as on 31st March'17 v/s Rs.10.6 bn as on 31st March'16.
- GSPL's PBT decreased 6% qoq to Rs.1.7 bn (+11% yoy) on account of lower volume and higher operating expenses. Higher other income has restricted the decline.
- PAT for Q4FY17 was at Rs.1.27 bn higher 7% qoq and 28% yoy basis resulting in quarterly EPS of Rs.2.25 and CEPS Rs.3.07.

Key triggers for stocks:

1). Clarity about tariff

2). Commissioning of the gas transmission pipeline

3). Ramp-up in gas supply and

4). Rupee appreciation

Valuation & Recommendation

Going forward, we expect the company to benefit on account of both 1). Higher gas transmission volumes and 2). Expected upward revision in tariffs. Higher gas transmission volumes will be supported by 1) lower LNG prices, and 2) RLNG demand from the power sector. Additionally, rising city gas distribution growth opportunities, potential shift to natural gas due to environmental/pollution norms (industrial / CNG) and volumes from Mundra LNG terminal (FY18 onwards) provides support to long term volumes. We are introducing FY19E earnings. From Q2FY18, gas demand is expected to go up with the startup of RIL's ROGC, an incremental volume of 4-5 mmscmd. We expect GSPL to report an EPS of Rs.11.4 (earlier Rs 11.1) and cash EPS of Rs.14.7 for FY18E and an EPS of Rs.12.7 and cash EPS of Rs.16.2 for FY19E. We maintain Accumulate (BUY on dips) on GSPL with a DCF based price target of Rs.182/Share (earlier Rs.175).

Key risk remains

- Project execution risk
- Lower than expected gas off-take by consumers
- Delay in expected tariff hike by PNGRB
- Going forward the major growth in GSPL is expected to come from interstate pipelines across Gujarat, Rajasthan, Maharashtra and Andhra Pradesh. Thus its returns are expected to be capped in the near term.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
30-Dec	ABIRLANUVO	Turquoise Investments & Finance	B	1,500,000	1,360.6
30-Dec	ABIRLANUVO	Igh Holdings Pvt Ltd	B	4,200,000	1,358.7
30-Dec	ABIRLANUVO	Reliance Tax Saver Elss Fund	S	724,000	1,366.0
30-Dec	ABIRLANUVO	Reliance Regular Saving Fund Eqt Optn	S	700,000	1,366.0
30-Dec	ABIRLANUVO	Reliance Growth Fund	S	1,659,200	1,366.0
30-Dec	ACIASIA	Abjayoni Trading Pvt Ltd	S	11,018,400	0.1
30-Dec	ARNAVCORP	Bulltext Reality Pvt Ltd	S	1,123,829	2.5
30-Dec	DUNE	Kunal Bawa	S	30,157	6.4
30-Dec	DUNE	Kamleshkumar Deoraj Jain	B	29,635	6.4
30-Dec	GUJAUTO	Venu Gupta	S	10,000	176.8
30-Dec	JUNCTION	Sahil Gupta	B	16,000	24.0
30-Dec	JUNCTION	Hem Sec Ltd	S	16,000	23.5
30-Dec	MACINTR	Makesworth Projects & Developers	B	21,000	22.3
30-Dec	MARG	Sapna Bagamar	B	200,000	10.5
30-Dec	RELICAB	Aryaman Broking Limited	B	30,000	25.7
30-Dec	RIBATEX	Rapid Credit & Holdings Pvt Ltd	S	60,000	43.3
30-Dec	RIBATEX	Indra Pratap Singh (Huf)	B	60,300	42.9
30-Dec	SECHE	Shriram Credit Company Ltd	S	763,073	1.9
30-Dec	SHAHFOOD	Vijay Kantilal Sheth	S	4,707	80.4
30-Dec	SHAHFOOD	Karan Pradip Shah	B	6,100	80.4
30-Dec	VAL	Aryaman Broking Ltd	B	44,000	26.8
30-Dec	VAL	Daisy Distributors Pvt Ltd	S	44,000	26.8
30-Dec	VISHAL	Lts Investment Fund Ltd	B	78,000	375.0

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
LT	1,765.00	4.78	NA	3.6
BANKBARODA	181.6	3.33	NA	8.6
ICICIBANK	316.85	3.31	NA	38.0
Losers				
LUPIN	1,140.00	-7.2	NA	8.4
DRREDDY	2,423.00	-3.73	NA	0.8
CIPLA	504.7	-2.88	NA	4.4

Source: Bloomberg

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 9 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 9 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 9 months
SELL	–	We expect the stock to deliver negative returns over the next 9 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.
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 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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