

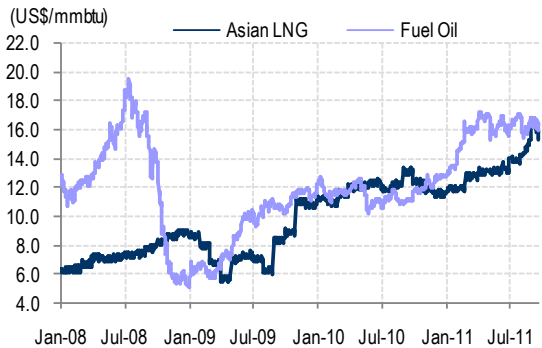


Energy – Gas

Expensive LNG to stymie demand growth

Earnings and stocks downgraded

Asian LNG/ FO prices



Source: Industry, Bloomberg, RCML Research
* FOB price

Turbulent times ahead for India’s gas sector as rising LNG prices and ineffectual government policy thwart market development.

Supply situation worsening

- Domestic gas availability remains scarce even as supply in international markets remains tight, mainly led by offtake from Japan in the wake of the nuclear disaster.

Market for high-cost LNG limited

- Tight demand-supply dynamics are pushing up prices of LNG, putting the fuel beyond the reach of Indian consumers.

Policy decisions lack direction

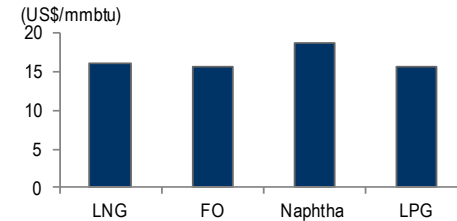
- Delay in monetisation of domestic gas fields and inability to negotiate long-term LNG contracts are key concerns for India.
- India’s policy framework to deal with the requirements of key gas consumers (power and fertiliser sectors) remains ineffective.

Implications for Indian gas stocks

- Lack of demand for spot/short-term LNG clouds the medium-term earnings outlook for gas entities.
- PLNG and GSPL would be the hardest hit; GAIL and IGL will suffer as well – we cut our earnings estimates and TP for all these stocks, while downgrading PLNG, GSPL and IGL to SELL.

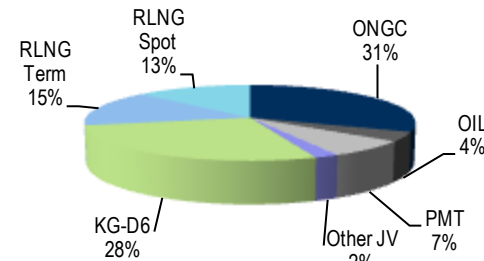
Recommendation	Target Price	Company Name
HOLD	420	GAIL
SELL	135	Petronet LNG
SELL	400	Indraprastha Gas
SELL	90	Gujarat State Petronet

Comparative fuel costs



Source: Industry, Bloomberg, RCML Research

India’s gas supply



Source: Indianpetro, RCML Research

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Executive summary

Few takers for expensive LNG

❖ What has changed in the last three months?

With little visibility on domestic gas supplies, India's dependence on spot/short-term LNG has risen significantly over the last few quarters. Of late, rising spot LNG prices (FOB), north of ~US\$ 15/mmbtu (~US\$ 12/mmbtu in July'11), have discouraged demand. Further, diminishing arbitrage over liquid fuels such as FO has led marginal customers such as refineries and other industries to look at cheaper alternatives.

❖ Why does lower-cost LNG supply look improbable for the next 3-4 years?

Post-the Fukushima nuclear disaster, Japanese LNG imports have increased by ~8-9mmtpa and are expected to rise by a further ~10mmtpa this year. This sudden spike in demand has created a tight demand–supply situation in LNG trade. With more and more countries opting out of nuclear power generation in both Europe and Asia, the situation is only likely to worsen. In such an environment, LNG prices will remain elevated for the next 3-4 years till fresh Australian LNG supplies hit the market.

❖ Is India ready to absorb LNG at higher prices?

India consumes ~5mmtpa of spot/short-term LNG (~13% of domestic gas basket) with a majority of these supplies being absorbed by marginal buyers (refineries and other industries). Demand potential for LNG at the current price of ~US\$ 18/mmbtu (delivered) is limited as refineries can use captive FO for fuel requirements (US\$ 15//mmbtu) while other industries might look at cheaper alternatives (FO, state electricity grid). The power sector could at best use the costlier LNG for peak load season; fertiliser sector demand will be restricted due to the lack of capacity adds.

❖ Is a weak policy framework to blame?

Inordinate delays in FDP approvals post RIL's KG-D6 field development have left domestic gas supplies bereft of any additions. Without cheaper domestic supplies, standalone LNG becomes an expensive proposition. Similarly, a lack of clarity on the pricing mechanism (pooled gas pricing already ruled out) has delayed long-term contracts for LNG and gas through transnational pipelines.



INDIA ENERGY

Executive summary

Few takers for expensive LNG

❖ Supply constraints to restrict gas demand to sub-5% CAGR over FY11-FY16

We expect gas supplies in India to grow from 160mmscmd in FY12 to 204mmscmd in FY16 – about 25% of the incremental supplies are likely to come from domestic discoveries while 75% will come from imported LNG. We see no major headway in bringing gas through transnational pipelines. Pricing of LNG relative to equivalent liquid fuels will determine the demand trend.

❖ Domestic supplies unlikely to improve in the next 3 years; reasonably priced LNG the only way out

Falling additions to existing fields (incl. KG-D6 and PMT) and delayed approvals for new field development will hurt domestic gas supply in the medium term. This has led to a situation where too many contenders are battling for the limited supply of cheap domestic gas. Imported LNG is clearly the only way to satisfy gas demand. However, our interaction with various stakeholders in the gas value chain clearly reflects multiple concerns: (1) high-cost LNG can't compete with coal in the power sector, (2) there are no capacity additions planned in the urea (fertiliser) space other than conversion of a few existing FO/naphtha-based urea plants, (3) marginal players like refineries have no incentive to use LNG when liquid fuels are relatively cheaper.

❖ Poor supply restricting development of gas infrastructure

India is caught in a vicious circle – unless gas is made available at affordable rates, infrastructure development will be delayed, leaving latent demand unexploited. This apart, gas transmission companies are already struggling to improve capacity utilisation on existing network even as new city gas distribution licensing is mired in a regulatory bog.

❖ We downgrade stocks in the gas value chain on a challenging growth outlook (PLNG/IGL/GSPL)

To factor in slower growth, we cut our FY13 earnings estimates for gas stocks by 2-15% and TP by 5-25%. Note that ROEs for these companies will remain under pressure due to inadequate capacity utilisation. In our view, stocks dependent on spot/short-term LNG markets will be worst hit in the near term (PLNG/GSPL). IGL could suffer loss of pricing power on its PNG business in coming years, while GAIL's future growth hinges on multiple factors: (a) higher capacity utilisation for gas pipelines, (b) sourcing of cheaper gas for its petchem business, and (c) oil reforms.



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Negative on gas stocks: Earnings downgraded

GAIL – Pipeline capacity utilisation under pressure: We expect GAIL's transmission volumes to log a paltry 2% CAGR over FY11-FY13 given dwindling KG-D6 gas production and weak demand for high priced spot LNG. Low pipeline utilisation due to the limited gas supply will also tell on ROEs. Further, the company's subsidy burden is unlikely to climb down (we assume a 40% upstream share and 5% for GAIL in the best case), even as demand and margin pressures on the polymer segment are evident. We cut FY12/13 earnings by 4%/10% and revise our TP downward to Rs 420. HOLD.

Petronet LNG – Hardest hit: PLNG would be the worst affected in a tight LNG market as marginal buyers move to curb their spot cargo offtake given the availability of liquid fuels at comparable rates. Though contracted volumes at Dahej (~7.5mtpa) will remain intact, volume growth from incremental spot/short term cargo is under threat. Further, elevated LNG pricing limits the scope to earn marketing margins and hampers terminal utilisation, while higher competition is likely to put pressure on re-gas charges in the medium to long term. We cut FY12/13 earnings by 8%/15%, revise our TP to Rs 135 and downgrade the stock to SELL.

Indraprastha Gas – Losing pricing power: We expect lower CNG and PNG growth for IGL given that the company must now fuel growth using expensive LNG. We also expect pressure on IGL's margins moving into FY13, as the extra allocation (0.3mmscmd) of cheaper APM gas in FY12 is gradually replaced by expensive LNG. While IGL may still be able to maintain margins in CNG, the falling price differential between PNG and alternative liquid fuels will crimp pricing power here. We revise FY12/13 earnings by 2%/(2)%, revise our TP to Rs 400 and downgrade the stock to SELL.

Gujarat State Petronet – In a spot: Given the high LNG prices, we feel that spot volumes consumed by refineries are particularly under threat (20–25% of GSPL's volumes are sold on spot basis). RIL typically consumes ~8-9mmscmd of re-gasified LNG (RLNG), of which 2/3rd is spot-based. Our channel checks reveal that the company has already reduced consumption of such LNG by ~2-3mmscmd. Further, with pipeline tariffs still hanging fire, negative sentiment will continue to dog the stock. We cut FY12/13 earnings by 13%/16%, revise our TP to Rs 90 and downgrade the stock to SELL.

Earnings revision

EPS	FY12			FY13		
	Curr.	Prev.	% chg.	Curr.	Prev.	% chg.
GAIL	28.9	30.2	-4%	31.1	34.5	-10%
PLNG	10.9	11.8	-8%	11	12.9	-15%
IGL	24.2	23.7	2%	26	26.5	-2%
GSPL	8.7	10	-13%	8.7	10.3	-16%
EBITDA						
GAIL	60,210	60,091	0%	67,082	71,012	-5.5%
PLNG	15,688	16,451	-5%	17,175	20,529	-16%
IGL	6,686	6,578	2%	7,199	7,274	-1%
GSPL	9,909	11,073	-11%	10,266	11,623	-12%

Change in recommendation

EPS	Recommendation		Valuation (Rs/Sh)		
	Curr.	Prev.	Curr.	Prev.	Chg%
GAIL	HOLD	HOLD	420	480	-13%
PLNG	SELL	BUY	135	180	-25%
IGL	SELL	HOLD	400	425	-6%
GSPL	SELL	HOLD	90	109	-17%



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Valuation summary

Company	Mkt cap (USD mn)	Period	Net Sales (Rs mn)	EBITDA (Rs mn)	Adj. PAT (Rs mn)	PAT Margins (%)	EBITDA Margins (%)	Rep. EPS (Rs)	ROCE (%)	ROE (%)	PE (X)	EV/ EBITDA (X)	Book value/ share (Rs)	Interest cover (X)
GAIL India Ltd	11,561	FY09	242,923	40,647	28,144	12%	17%	22	28.5	20.3	18.5	12.3	116	40.3
CMP	410	FY10	253,576	46,688	31,395	12%	18%	25	27.1	19.9	16.6	10.6	132	58.7
Target Price :	420	FY11E	329,071	54,718	35,784	11%	17%	28	26.8	19.9	14.5	9.6	152	58.2
TP Upside (%) :	2.40	FY12E	374,305	60,210	36,677	10%	16%	29	24.5	17.9	14.2	8.8	172	35.8
Recommendation - HOLD		FY13E	397,770	67,082	39,435	10%	17%	31	22.3	17.1	13.2	8.1	193	16.5
Petronet LNG Ltd	2,681	FY09	84,287	9,013	5,184	6%	11%	6.9	21.3	25.0	23.3	16.7	30	7.9
CMP	161	FY10	106,491	8,465	4,045	4%	8%	5.4	16.0	16.8	29.8	18.4	34	3.7
Target Price :	135	FY11E	131,973	12,163	6,196	5%	9%	8.3	19.5	22.2	19.5	13.6	40	5.3
TP Upside (%) :	-16.07	FY12E	186,842	15,688	8,169	4%	8%	10.9	20.1	24.6	14.8	11.3	48	7.9
Recommendation - SELL		FY13E	235,735	17,175	8,254	4%	7%	11.0	17.7	21.3	14.6	10.6	55	5.6
Gujarat State Petronet Ltd	1,314	FY09	4,875	4,245	1,234	25%	87%	2.2	12.2	10.1	47.8	16.4	22	2.9
CMP	105	FY10	10,009	9,414	4,138	41%	94%	7.4	27.8	29.8	14.3	7.4	28	7.5
Target Price :	90	FY11E	10,465	9,694	5,064	48%	93%	9.0	27.3	28.4	11.7	7.4	36	8.7
TP Upside (%) :	-14.16	FY12E	10,727	9,909	4,898	46%	92%	8.7	22.5	22.1	12.1	7.7	43	6.3
Recommendation - SELL		FY13E	11,133	10,266	4,892	44%	92%	8.7	19.6	18.5	12.1	7.5	51	5.6
Indraprastha Gas Ltd	1,336	FY09	8,506	2,977	1,701	20%	35%	12.2	40.6	27.7	35.3	20.0	48	n.a.
CMP	430	FY10	10,781	3,807	2,154	20%	35%	15.4	41.2	28.9	27.9	15.7	59	n.a.
Target Price :	400	FY11E	17,441	4,907	2,582	15%	28%	18.4	33.8	28.2	23.3	13.2	72	29
TP Upside (%) :	-6.88	FY12E	24,297	6,686	3,391	14%	28%	24.2	32.1	30.0	17.7	9.8	90	18
Recommendation - SELL		FY13E	35,052	7,199	3,640	10%	21%	26.0	28.6	26.1	16.5	9.0	109	16

Source: RCML Research, Bloomberg



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Peer valuation

Gas transmission

CY12E / FY13E Company Name	Mcap (USD mn)	EV (USD mn)	EBIDTA (USD mn)	EBIDTA Margin (%)	PAT (USD mn)	P/E (x)	EV/ EBIDTA (x)
Centrica PLC	27,615	33,144	6,024	15.2	2,557	10.5	5.5
Gas Natural SDG SA	17,431	42,548	6,997	24.0	2,014	8.6	6.1
Kinder Morgan Energy Partners LP	23,040	35,170	4,023	43.6	741	33.0	8.7
Tokyo Gas Co Ltd	12,040	18,422	3,317	16.9	966	12.7	5.6
GAIL India Ltd	11,561	12,015	1,491	16.9	876	13.2	8.1
Perusahaan Gas Negara PT	10,639	10,968	1,521	55	984	10.4	7.2
Petronas Gas BHD	7,491	6,725	840	71.4	484	15.5	8.0
Korea Gas Corp	2,635	17,194	1,865	8.0	415	6.1	9.2
Average						13.9	7

Gas distribution

CY12E / FY13E Company Name	Mcap (USD mn)	EV (USD mn)	EBIDTA (USD mn)	EBIDTA Margin (%)	PAT (USD mn)	P/E (x)	EV/ EBIDTA (x)
Korea Gas Corp	2,052	17,859	1,657	6.7	335	6.1	10.8
Xinao Gas Holdings Ltd	3,143	4,033	576	17.7	282	11.2	7.0
Dana Gas PJSC	952	1,751	409	60.9	68	6.3	4.3
Towngas China Co Ltd	1,201	1,599	142	17.5	111	10.4	11.3
Gujarat State Petronet Ltd	1,314	1,700	228	92.2	109	12.1	7.5
Gujarat Gas Co Ltd	1,093	1,091	119	20.1	77	14.3	9.1
Indraprastha Gas Ltd	1,336	1,447	160	20.5	81	16.5	9.0
Envestra Ltd	895	2,985	364	71.9	83	11.7	8.2
China Natural Gas Inc	126	130	39	27.9	24	5.3	3.4
Average						11.7	9.0

Source: RCML Research, Bloomberg



INDIA

ENERGY

Peer valuation

Petrochemicals

CY12E / FY13E Company Name	Mcap (USD mn)	EV (USD mn)	EBIDTA (USD mn)	EBIDTA Margin (%)	PAT (USD mn)	P/E (x)	EV/ EBIDTA (x)
SABIC	70,592	98,609	17,542	31.9	8,514	8.3	5.6
Formosa Plastics Corp	15,418	14,289	1,554	20.1	1,938	7.9	9.2
Nan Ya Plastics Corp	16,581	17,528	1,319	15.1	1,895	8.7	13.3
Formosa Chemicals & Fibre Corp	14,389	13,568	1,340	12.5	1,828	7.9	10.1
Sinopec Shanghai Petrochemical Co Ltd	6,204	6,799	845	5.0	418	5.5	8.0
LG Chem Ltd	16,253	17,120	4,403	19.0	2,692	6.4	3.9
Asahi Kasei Corp	8,247	9,911	3,045	13.0	1,089	7.5	3.3
Toray Industries Inc	11,273	16,961	2,951	12.4	1,168	9.6	5.7
Kuraray Co Ltd	5,041	3,949	1,404	24.2	544	8.3	2.8
Teijin Ltd	3,338	6,811	1,524	12.9	461	7.3	4.5
Mitsui Chemicals Inc	3,131	9,256	1,852	8.8	458	6.5	5.0
Honam Petrochemical Corp	6,604	7,152	2,181	16.3	1,317	5.2	3.3
Average						7.4	5.2

Source: RCML Research, Bloomberg



LNG market to remain tight on sudden spike in demand

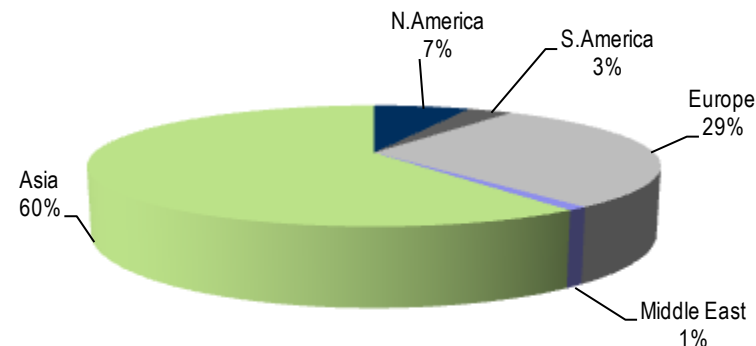
❖ Japan's nuclear calamity led to spike in LNG demand

- Following the Fukushima nuclear disaster, Japan is not only shutting down its old nuclear plants (over 30 years old) but also taking maintenance/inspection shutdowns at new plants. This has led to ~8-9mmtpa of incremental demand from Japan with additional offtake of ~10mmtpa expected over the next year.
- It's not just Japan – several other European nations (like Germany) are revisiting their nuclear power dependence.

❖ LNG demand expected to exceed supply for next 3-4 years

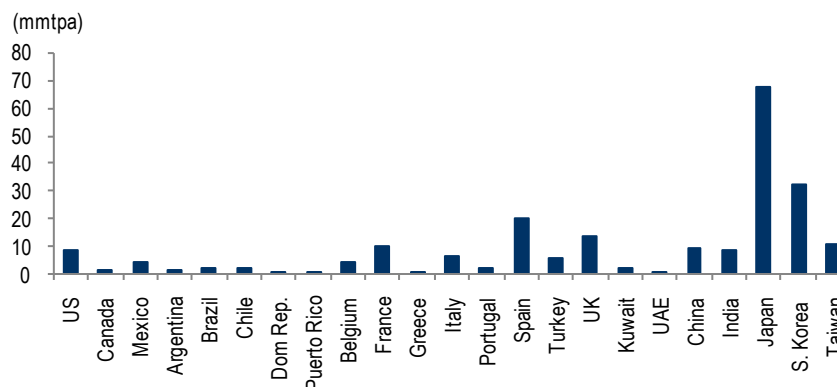
- Asia-Pacific is the centre of global LNG trade (128mmtpa), forming nearly two-thirds of global LNG demand. Demand is expected to nearly double by 2015, driven primarily by China, India and the traditional demand centres of Japan and Korea. Demand is also likely to arise from the emerging economies of Thailand, Singapore, Pakistan and Bangladesh.
- In Japan, natural gas (~99% in the form of LNG) is expected to form 24% of the country's primary energy mix (up from 18% in 2010) and 41% of its power generation mix by 2020. This growth in demand is expected at the expense of nuclear energy.
- China consumed 298mmscmd in 2010 which is ~1.8x India's consumption; however its LNG imports at 9.2mmtpa were at par with India. China's gas demand is expected to increase at a CAGR of 11% through 2020 with a near-term target of raising natural gas consumption to ~10% of the energy mix. Most incremental gas supply is expected through imports.
- With demand emerging from multiple centres for LNG, it won't be easy for India to source incremental supply at competitive prices.

Region wise LNG consumption



Source: BP statistical review, RCML Research

Country wise LNG import



Source : BP statistical review, RCML Research



Limited supply growth for next 3-4 years at least

❖ LNG supply has increased over 2009-11...

- A majority of LNG supplies at 100mtpa (33% of global supplies) are from the Middle East, mainly Qatar. Qatar, the single largest supplier of LNG (77mtpa), is not in a hurry to expand production, lest its reservoir is damaged by reckless production.
- LNG supply would also suffer over the next 3-4 years as exports from Southeast Asia (Indonesia, Malaysia) are expected to decline and technical outages in Algeria coupled with unrest in Libya, Nigeria and Yemen hit output.

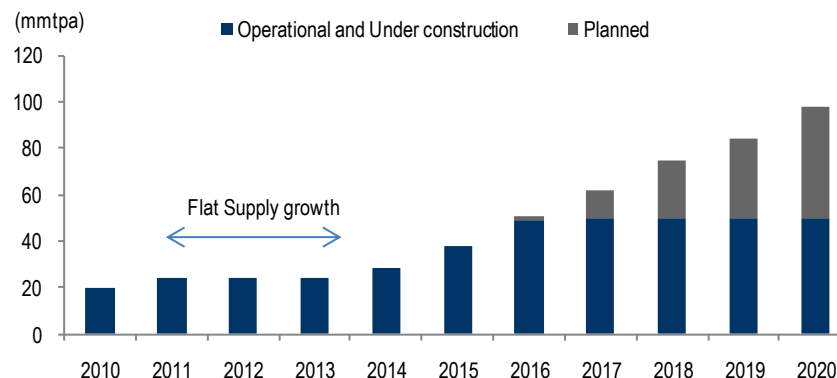
❖ ...Australia to deliver next supply boost, but not before 2015

- Australia is expected to add ~70-80mtpa in next 8-10 years. However, projects are likely to face delays due to a lack of technical/skilled manpower and rising construction costs (currently ~US\$ 1,000/t).

❖ Limited scope for LNG prices to correct in next 3-4 years

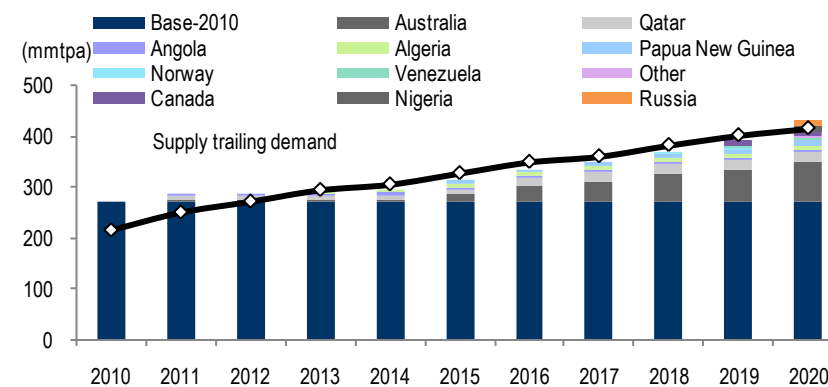
- LNG prices have risen 25-30% in the last couple of months to ~US\$ 15-16/mmbtu (FOB) following the sudden demand from Japan.
- Prices may rise further in the near term as Qatar takes shutdowns at some of its LNG trains in the next 3-4 months (Qatargas Trains 5/6/7 and RasGas Train 7). In the medium term, incremental LNG demand from Japan/China should keep prices firm.
- Even as global LNG supply remains in deficit mode over 2013-18, we see increased competitiveness (and hence lower capacity utilisation) among re-gas terminals. ~72mtpa of additional re-gasification capacity is expected to come online between 2010-15.

Australian LNG production profile



Source: Cedigaz, RCML Research

Global LNG capacity addition



Source: Cedigaz, RCML Research

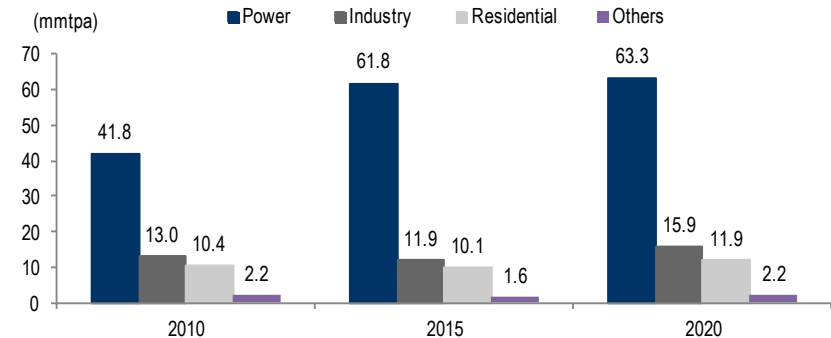


Japan to depend more on LNG post-nuclear disaster

❖ Japan's gas consumption to grow at 12.8% CAGR (2010-20)

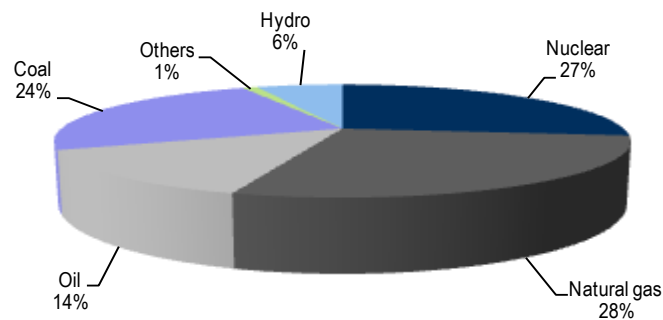
- a) Nuclear power constitutes 25% of Japan's power production. Following the Fukushima disaster, only 19 of Japan's 54 nuclear power plants (utilisation at just ~36%) are operating amidst public protest, with the possibility of further closures.
- b) The fall in nuclear power needs to be compensated for by gas-based power generation. This in turn has increased Japan's 2011 gas demand to ~76mtpa (68mtpa in 2010).
- c) With close to 99% of natural gas being in the form of LNG, any incremental demand has to met by imports. Japan this year is likely to import ~8-9mtpa of LNG and a further ~10mtpa in 2012.

Japan's rising gas consumption



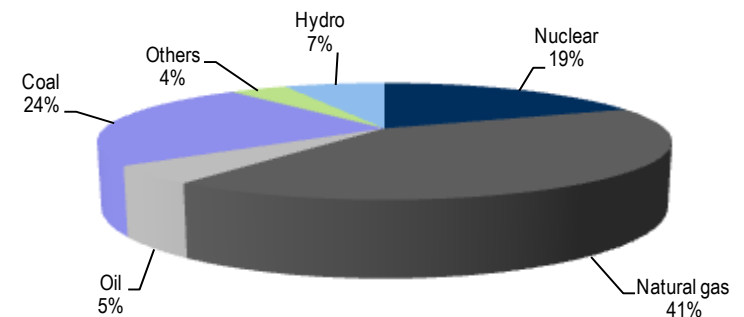
Source: O&G Journal, Industry, RCML Research

Japan's power generation mix -2010



Source: O&G Journal, RCML Research

Japan's power generation mix -2020



Source: O&G Journal, RCML Research



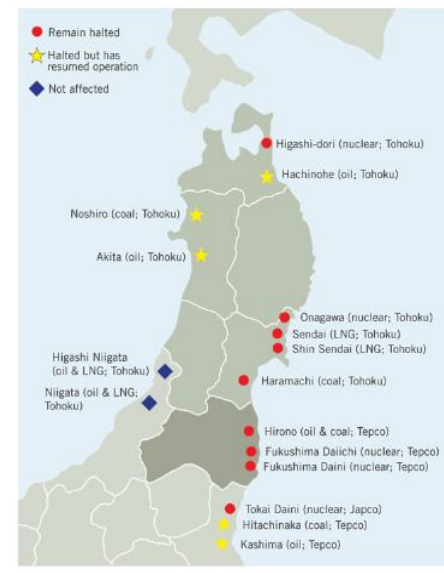
Japan to depend more on LNG post-nuclear disaster

Nuclear facilities halted in Japan

Plant Location	Plant Name- Unit	Capacity (MW)	Status Mar 11	Current Status
Fukushima	Fukushima Daichi-1	460	Operating	Halted
Fukushima	Fukushima Daichi-2	784	Operating	Halted
Fukushima	Fukushima Daichi-3	784	Operating	Halted
Fukushima	Fukushima Daichi-4	784	Regular Inspection	Halted
Fukushima	Fukushima Daichi-5	784	Regular Inspection	Halted
Fukushima	Fukushima Daichi-6	1100	Regular Inspection	Halted
Fukushima	Fukushima Daini-1	1100	Operating	Halted
Fukushima	Fukushima Daini-2	1100	Operating	Halted
Fukushima	Fukushima Daini-3	1100	Operating	Halted
Fukushima	Fukushima Daini-4	1100	Operating	Halted
Miyagi	Onagawa-1	524	Operating	Halted
Miyagi	Onagawa-2	825	Regular Inspection	Halted
Miyagi	Onagawa-3	825	Operating	Halted
Aomori	Higashi Dori-1	1100	Regular Inspection	Halted
Ibaraki	Tokai Daini	1100	Operating	Halted
Fukui	Tsuruga-1	357	Regular Inspection	Regular Inspection
Fukui	Tsuruga-2	1160	Operating	Halted
Total		14987		

Source: O&G Journal, RCML Research

Nuclear power plants



Source: O&G Journal, RCML Research

LNG based power plants



Source: O&G Journal, RCML Research



China aggressive on LNG imports

❖ China gas demand expected to grow at 11% CAGR (2010-20)

- Piped gas is expected to be the major element of China's gas imports in the long term; however, this is dependent on the development of Russian pipelines, which are stalled awaiting agreement on price.
- We expect Chinese imports (from LNG and transnational pipes) to rise at a 22% CAGR to 2020, to total 442mmcmd. LNG should amount to 41% of imports (~45mtpa) and 19% of total supply by 2015.

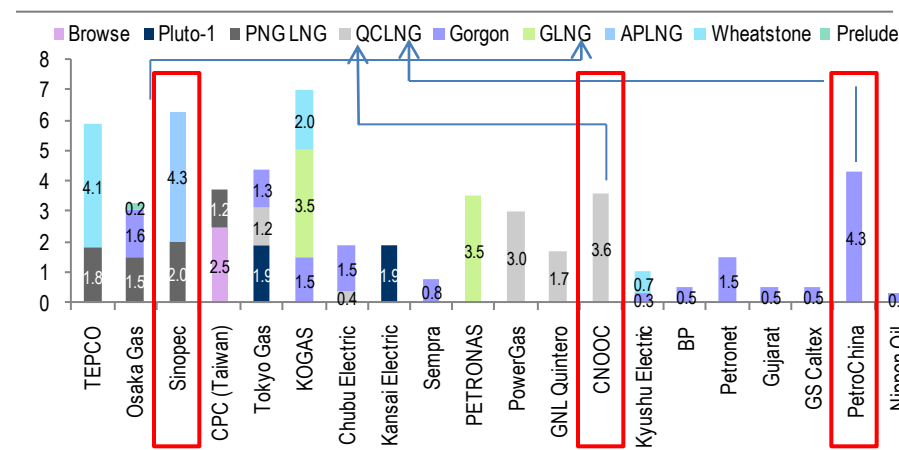
❖ Rapid expansion in LNG infrastructure

- China is almost quadrupling its combined capacity from ~12.5mtpa to 45mtpa over 2010-15. In comparison, in the same time span, India is likely to raise its capacity to ~30mtpa (planned) from ~13mtpa at present.
- Plus China is aggressively expanding its pipeline infrastructure to facilitate the gas distribution.

❖ ~48mtpa of long-term LNG supply contracts inked

- China has recently entered into gas purchase agreements (Curtis Island, Browse LNG) and taken strategic equity stakes (Arrow Energy Ltd.) in key projects in Australia. Most of these contracts have been signed at aggressive pricing of 13-15% Japanese crude cocktail (JCC) showing China's appetite to pay higher prices for energy security.
- At the same time, India is struggling to sign long-term LNG contracts due to the aggressive Chinese pricing.

New contracted Aus. LNG capacity (mtpa by buyer)



Source: EnergyQuest, as published by Origin Energy, May 11

Upcoming LNG terminals-China

Terminal	Location	Capacity	Owner	Commissioning
Zhejiang	Ningbo, Shanghai	3	CNOOC	2012
Quingao LNG	Quingao, Shandong	3	Sinopec	2013
Jinwan, Guangdong	Guangdong	3.5	CNOOC	2013
Caofeidian LNG	Tangshan, Hebei	3.5	Petrochina	2013
Hainan LNG	Hainan Island	2	CNOOC	2014
Quinhuangdao LNG	Beijing Hebei	3.5	CNOOC	N/A
Yuedong	Shenzhen, Guangdong	3.5	CNOOC	N/A
Macau LNG	Huangmao Island	3	Sinopec	N/A

Source: Industry, RCML Research



INDIA

ENERGY

China aggressive on LNG imports

Long term LNG contracted by China

Buyer	Supplier	Country	Volume	Term	Terminal	First gas	Price
			mtpa	(yrs)			(US\$/mmbtu)
CNOOC	N.W. Shelf LNG	Australia	3.3	25	Dapeng, Guangdong	May-06	3.16
	BP Migas	Indonesia	2.6	25	Xiuyu, Fujian	May-09	5.93
	Malaysia LNG Tiga	Malaysia	3	25	Yangshan, Shanghai	Oct-09	5 to 7
	Qatar Gas	Qatar	2	25	Dapeng, Guangdong	Oct-09	Market linked
	Qatar Gas *	Qatar	3 to 5	25	Multidestination	2013	n.a.
	Total Gas	Global	1	15	Dapeng, Guangdong	2010	n.a.
	Qualhat LNG	Oman	n.a.	n.a.	n.a.	n.a.	12
	BG Group #	Australia	3.6	20	Yangshan, Shanghai	2014	10% discount to traditional LNG
Petrochina	Pars LNG	Iran	3	25	Tangshan, Hebei	2011	Indexed to oil price
	Woodside energy**	Australia	2 to 3	15to 20	Rudong, Jiangsu	2014	7 to 9
	Qatar Gas	Qatar	3	25	Dalian, Liaoning	2011	n.a.
	Qatar Gas*	Qatar	2	25	n.a.	2015	n.a.
	Shell eastern LNG	Australia	2	20	Rudong, Jiangsu	2015	10
	Exxon Mobil	Australia	2.5	20	Shenzhen, Guangdong	2015	10
Sinopec	Natiaonal Iranian Oil co. *	Iran	10	25	Multidestination	n.a.	n.a.
	Esso Highlands ##	Papua New Guinea	2	n.a.	Qindao, Shandong	n.a.	9 to 10

Source: Department of Parliamentary Services, Australia, RCML Research

Notes: * Memorandum of Understanding; ** Terms Agreement; # Project Development Agreement; ## Preliminary Agreement



India in a rut – Domestic supplies unlikely to grow...

❖ Production falling at existing fields

- Gas production is falling, not just at ageing ONGC fields but also at KG-D6/PMT.
- While ONGC is making efforts to maintain production at its gas fields, RIL is unable to proffer guidance about future production levels.

❖ Likely delays in new field contribution

- ONGC is expected to ramp up gas production by 10-15mmscmd in the next five years. But a significant part of this increase (~6mmscmd) will feed its Tripura power plant and hence will be unavailable to the open market.
- In the case of RIL, the Directorate General of Hydrocarbons (DGH) has not approved the FDP related to several fields (NEC-25, KG-D6 satellite & R series, CY-D5) due to the CAG's adverse comment on KG-D6 capex (D1/D3 fields) and other technical/regulatory issues.
- Other than this, GSPC's KG-OSN-2001/03 block is the only other major supply source (~5.5mmscmd) expected by 2014.

❖ Too many contenders for cheap domestic gas

- Close to 3,816MW of power capacity is likely to be commissioned in the next few quarters and is awaiting gas allocation. In addition, ~3153MW of gas-based capacities are likely to be added in the 11th five year plan. This apart, several urea plants are ready to take wing once visibility on domestic gas supply improves.
- Thus, the new domestic gas supplies will at best be able to partially meet the requirement of power and fertiliser sectors.

Domestic gas supply scenario

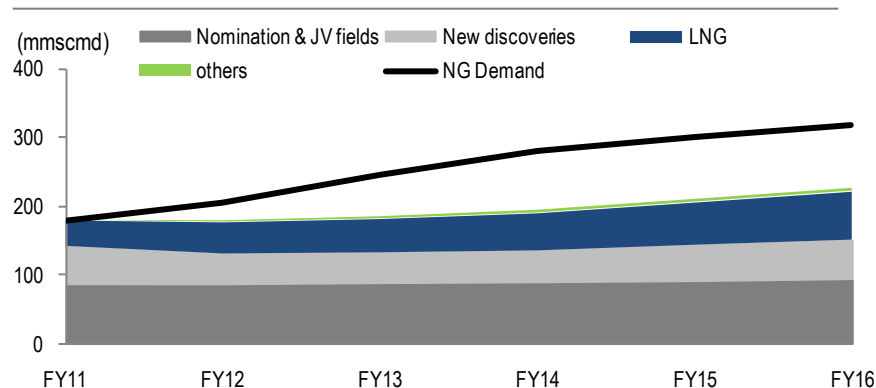
(mmscmd)	FY10	FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Existing Fields	94.3	86.7	87	88	90	91	94
OIL	7	6	7	7	7	8	9
ONGC	63	63	65	67	69	71	73
JVs/Private	24	17	15	14	13	12	12
Supplies from New Discoveries	36.0	56.0	45	45	47	53	58
KG D6-RIL	36	56	45	45	45	50	50
KG Basin-GSPC					2	3	5
NEC 25 - RIL							3
LNG	33	37	46	49	54	62	70
Petronet LNG-Dahej	30	33	40	40	40	42	45
Petronet LNG-Kochi	0	0	0	0	4	8	11
Shell Hazira	2	4	6	7	8	8	9
Dabhol	0	0	0	2	3	4	5
CBM/others			2	3	4	4	4
Total Production	163	180	179	185	194	210	226
Flared	3	3	3	3	3	3	3
as a % of prodn	0	0	0	0	0	0	0
Available Supply	160	177	176	182	191	207	223
Less Internal Consumption	14.05	13	9	9	9	9	9
Less LPG/ C2-C3 extraction	8.12	8	11	11	11	11	11
Total Supply	138	156	156	162	172	187	203

Source: Industry, Indianpetro, RCML Research



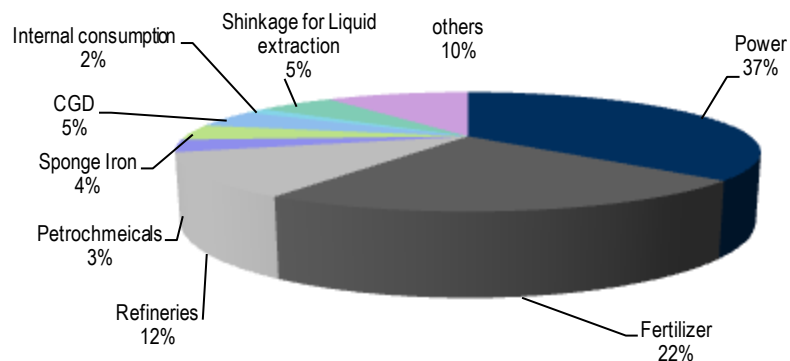
...while demand is dependant on prices

India-demand supply disconnect



Source: Industry, Indianpetro, RCML Research

India- sector wise gas consumption



Source: Industry, Indianpetro, RCML Research

Domestic gas demand outlook but contingent on supplies

(mmscmd)	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E
Power	79	85	99	108	128	149	161
Existing Capacity	79	79	79	79	79	79	79
New Gas-Based Capacity *	-	6	20	29	49	70	82
Fertilizer	40	43	47	53	58	58	58
Existing Gas-Based Plants	40	40	40	40	40	40	40
Plants Switch from Naptha/FO/LSHS*	-	3	7	12	12	12	12
Brownfield Expansion *	-	-	-	-	5	5	5
City Gas	11	13	15	17	19	22	25
Refineries	19	24	27	32	35	35	35
Sponge Iron/ Steel/ Petchem	9	10	11	12	13	15	16
Industrial	10	13	16	20	24	31	38
Total (mmscmd)	168	188	215	241	277	308	332

Source: Industry, Indianpetro, RCML Research

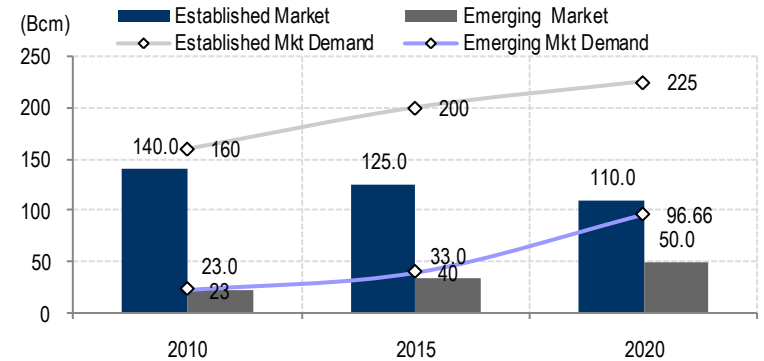


LNG a solution but high competition limits India's prospects

❖ India unable to sign long-term contracts at reasonable prices

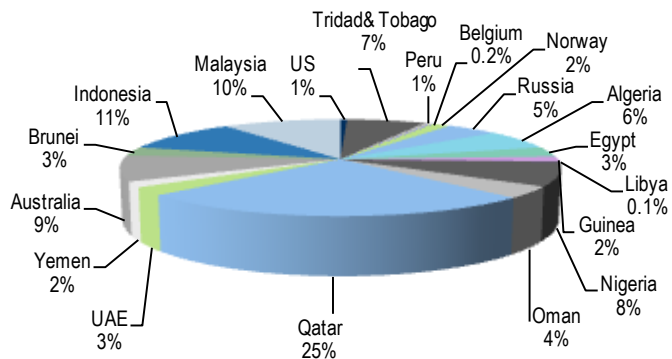
- a) In the face of increased competition from developing Asian economies and Japan, the sourcing of incremental LNG is proving difficult for India. Inability to resolve pricing issues with Qatar over the supply of 5mmtpa of long-term LNG has resulted in a logjam in negotiations since February'10.
- b) Most of the volumes from Australia, which is supposed to be the next single largest source of LNG after Qatar, have already been contracted by Japan, South Korea and China, whereas India has been able to contract only 1.5mmtpa so far.
- c) With rising domestic inflation and recessionary trends in developed economies, high energy costs have overburdened the domestic industrial sector. The challenge for India is not only to source incremental LNG volumes but also to source it at a price viable to domestic consumers.

Disconnect in contracted supply and demand



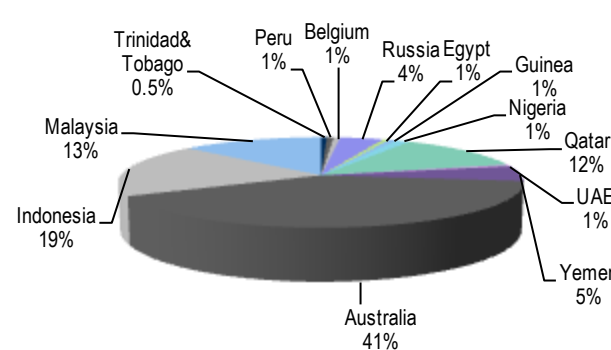
Source: Cedigaz, RCML Research

LNG exporters



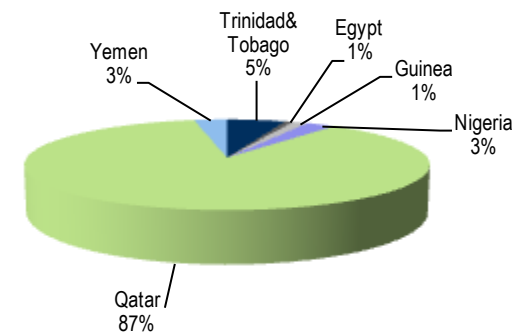
Source: BP Statistical Review, RCM L Research

China- diversified LNG sourcing



Source: BP Statistical Review, RCM L Research

India-LNG sourcing: Qatar dependent



Source: BP Statistical Review, RCM L Research



INDIA ENERGY

Demand exists but a function of availability and price

India: addition to LNG re-gasification capacity

(mmtpa)	2011-12	2015-16	2019-20	Status
Dahej	10	15	17.5	10 mmtpa operational
Hazira	3.5	5	5	3.5 mmtpa operational
Kochi	-	5	7.5	Under construction
Dabhol	-	5	5	Under construction
East Coast		5	5	Proposed
Mundra		5	5	Proposed
Ennore		5	5	Proposed
West Coast		2.5	2.5	Planned
Pipav			5	Planned
Jamnagar			5	Planned
Total	13.5	47.5	62.5	

Source: Reuters, RCML Research

Expected gas demand from fertilizer sector

(mmscmd)	FY12E	FY13E	FY14E	FY15E
Naphtha based existing plants waiting for pipeline connectivity	1.54	8.12	8.12	8.12
FO based plants converting to gas		3.75	3.75	3.75
Revamp Projects	1.89	2.45	2.55	2.55
Green field projects		4.2	4.75	4.75
	3.43	18.52	19.17	19.17

Source: Industry, RCML Research

Expected gas demand from power plants

	Capacity (MW)	@70% PLF (mmscmd)
A) Pending allocation		
Pragati CCGT, Delhi (250x4)	1000	3.72
Lanco Kondapalli ST-III, AP	770	2.87
Kashipur CCGT, Uttarakhand	225	0.84
Vemagiri Expn, GREL, AP	768	2.87
GSEGL Hariza, Gujarat	351	1.31
Pipavav CCGT, Gujarat (351x2)	702	2.62
	3816	14.23
B) Likely to come in next 2-3 years		
Samalkot Exp, Reliance Power, AP	1400	5.22
Dahej SEZ, Torrent, Gujarat	400	1.49
Sugen Phase I, unit 4, Torrent, Gujarat	383	1.42
RCK (Rajamundry), AP	196	0.73
CCGT by M/s Beta Infratech, Uttarakhand	225	0.84
CCGT by M/s Gama Infratech, Uttarakhand	225	0.84
Kashipur CCGT Ph II, Uttarakhand	225	0.84
CCGT by M/s Panduranga Energy Systems, AP	225	0.37
	3279	11.75

Source: Industry, RCML Research

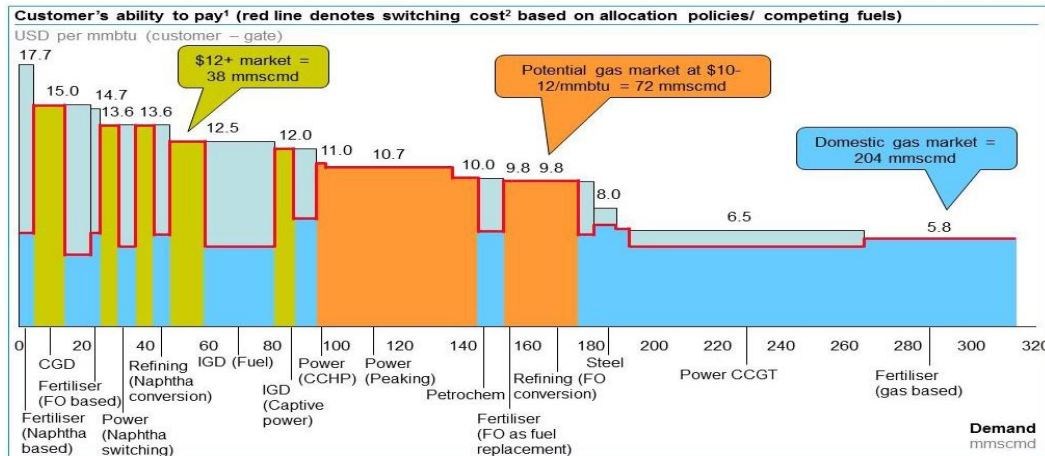


Pooled pricing no longer an option: a poison pill for LNG demand?

❖ Inter-ministerial committee says no to 'pooling' of gas prices

- In its final report, the Inter-ministerial Committee has decided against pooling both at the overall and sectoral level. Instead, the committee recommended that domestic gas be allocated to the power and fertiliser sectors and, to some extent, for CGD. For other industrial sectors where the output has market-driven pricing, gas sourcing will be in the form of LNG priced at market rate.
- The committee also recommended that since domestic allocation falls short of power/fertiliser requirements, LNG allocation to the extent of 25% of their demand should be made. However, we have seen limited LNG usage by these two sectors in FY10 and FY11 (19%/12% and 17%/9% respectively) due to high LNG prices. Further, higher LNG consumption in the power sector looks difficult due to competition from alternative fuels (coal).
- In our report on pooling of gas price (May 19th), we had observed that pooled pricing (where expensive LNG imports will be pooled with lower priced domestic gas) would spur investment in the power sector. However, in light of the above suggestions, only existing power plants with domestic gas allocation can improve their PLFs while new plants dependant only on LNG are not viable in the absence of domestic gas.

Gas demand based on affordability



Source: GAIL, Indianpetro

- As can be seen in the chart alongside, demand for gas above US\$ 12/mmbtu (delivered price) is limited to 38mmscmd. So at LNG prices near US\$ 15/mmbtu FOB (~US\$ 18/mmbtu delivered), demand destruction would be substantial, leaving perhaps only CNG players with adequate pricing power as buyers.



Expensive LNG unviable for Power and Fertiliser sectors

❖ Power demand restricted at high LNG prices

- With gas price pooling no longer an option and domestic gas scarce, a gas plant solely based on LNG (both spot and long term) appears unfeasible.
- Post-2014, the long-term LNG delivered price from Qatar is expected to cost ~US\$ 12/mmbtu and the new contract with Gorgon Australia is priced close to US\$ 14.5 /mmbtu. At such high prices, the cost of power generation works out to more than Rs 5.5/kwh.
- State electricity boards (SEB), already reeling under heavy losses, would find it unviable to purchase power at such high costs, thereby limiting the scope for an LNG-based power plant.
- Existing gas-based plants could use LNG to improve their PLFs, but usage would be limited to 25% of total consumption (as per the committee's recommendation). Beyond this, the per unit power cost increases to over Rs 4/kwh and hence become uncompetitive.

❖ New LNG-based urea capacity not viable

- Barring a few existing FO/naphtha-based fertiliser plants being converted to gas, we do not foresee any new demand from the fertiliser sector.
- New urea plants based on LNG prices at the current FOB of US\$ 15/mmbtu (delivered price ~\$ 18/mmbtu) are unviable looking at high feedstock costs.

Power generation cost on different fuels

	Gas					Other fuels				
	APM gas	Long-term LNG	Spot LNG	PMT JV	KG D6	Naphtha	FO	Imp.coal	Dom. coal	Pithead coal
Gas(\$/mmbtu)/others(\$/t)	4.2	9.4	15.0	5.7	4.2	803.1	562.0	105.0	34.1	
Gas Cost (Rs/tscm) / Other Fuels Cost (Rs/mt)	8714	16322	28623	11858	11263	31427	27451	3825	1500	750
Calorific Value (Kcal/scm)	9500	9000	9000	10330	8500	11330	9800	5200	3500	3500
Heat Rate (Kcal/kwh)	2150	2100	2100	2100	2100	2150	2480	2200	2200	2200
Units (kwh/scm)	4.4	4.3	4.3	4.9	4.0	5.3	4.0	2.4	1.6	1.6
Variable Cost (Rs/kwh)	2.0	3.8	6.7	2.4	2.8	6.0	6.9	1.6	0.9	0.5
Fixed Cost (Rs/kwh)	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.5	1.3	1.3
Total Cost (Rs/kwh)	3.0	4.8	7.7	3.4	3.8	7.1	8.0	3.1	2.2	1.7

Source: Industry, RCML Research

Urea(US\$/MT)at different gas prices*

	Long term		
	APM	LNG	Break even
Spot Urea Price	500	500	500
Max IPP allowed	425	425	425
(Min US\$ 250/MT - Max US\$ 425/MT)			
Avg Gas Cost	6	10	19
Avg cost of Prod.	131	218	414
Marketing cost	11	11	11
Aggregate Cost	142	229	425
EBIT	283	196	0

Source: Industry, RCML Research

* US\$/mmbtu



Limited absorption of high-cost LNG in CGD and refinery sectors

❖ Muted growth expected in City Gas Distribution (CGD)

- CGD consumes ~11mmscmd of gas.
- Growth of CGD companies is dependent on imported LNG due to the lack of cheap domestic gas. However, high LNG prices have reduced the differential between CNG/PNG over liquid fuels/LPG. At the delivered LNG price of US\$ 18/mmbtu, CNG prices are estimated at ~Rs 55/kg (70% higher than the current CNG price of Rs 32/kg charged by IGL in Delhi).
- Also, discussions on new CGD licences are likely to be deferred due to changes in the regulator's (PNGRB) board in the next few months and delays in issuance of new bidding guidelines.

❖ No advantage for refineries at delivered price of US\$ 18/mmbtu

- Refineries consume ~50% of short/spot LNG in the country.
- Refineries have in-house fuel supplies. Only when LNG is cheaper than FO/LPG do they use LNG. At US\$ 15/mmbtu, refineries would see no advantage in using LNG. This is evident from the fact that RIL has cut down its LNG usage by 2-3mmscmd at its Jamnagar refineries.

Cost advantage: CNG vs. Petrol v/s Diesel

Delhi	CNG	Petrol	Diesel	LNG Based-CNG
Price	32	66.6	41.12	55.1
<i>Paise per K cal</i>	0.29	0.76	0.53	0.5
Mileage in Km/unit	20	15.4	16.7	20
<i>Cost per Km</i>	1.6	4.33	2.47	2.76
Non-Delhi				
Price	40.3	71.9	45.3	63.4
<i>Paise per K cal</i>	0.37	0.82	0.59	0.58
Mileage in Km/unit	20	15.4	16.7	20
<i>Cost per Km</i>	2.01	4.67	2.72	3.17

Source: Industry, RCML Research

Cost advantage: PNG vs other/liquid fuels

	Prices	MJ/unit	Paise/Mj	EquPNG price (Rs/scm)
PNG-Dom (Rs/scm)	22	34.0	64.80	-
LPG-Dom (14.2Kg)	395	46.1	60.34	20.5
PNG-Com(Rs/scm)	35	36.3	96.34	-
LPG-Com(19 Kg)	930	46.1	106.17	38.6
PNG-Industrial (Rs/scm)	28	36.3	77.07	-
Naphtha Rs/Kg	50.77	46	110.37	40
FO Rs/Kg	35.82	42.5	84.28	30.6
Coal	4.83	21.7	22.26	8.08

Source: Industry, RCML Research



INDIA

ENERGY

COMPANIES



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GAIL: Pipeline capacity utilisation under pressure

- ❖ **Lack of visibility on transmission volumes:** Falling KG-D6 gas production coupled with lower demand for high priced spot LNG is likely to put pressure on GAIL's gas transmission volumes. We expect transmission volumes to rise at a paltry 2% CAGR over FY11-FY13 with higher probability of downward revision if RIL's KG-D6 production were to fall further.
- ❖ **Demand and margin pressure on polymer segment evident:** Polyethylene demand in India fell by ~1% YoY in Q1FY12. Volumes are likely to remain depressed in the near to medium term due to (1) muted demand, (2) improved domestic supplies post commissioning of IOCL's naphtha cracker unit, and (3) the threat of cheap imports. Polymer margins are also likely to see some pressure due to a fall in gas production at PMT (known for its rich gas), which will need to be replaced by high priced LNG
- ❖ **Absolute subsidy burden unlikely to decline:** OMCs are likely to incur under-recoveries (UR) to the tune of Rs 1,200bn in FY12. Of this, the upstream segment is expected to absorb anywhere between 33-40%. In our estimates, we have assumed a 40% upstream share. So, out of the Rs 400bn borne by the upstream segment, GAIL will absorb 5% in a best case scenario (7% in FY11). Thus, the company's subsidy burden is unlikely to fall in FY12 in absolute terms with some benefit likely to accrue only in FY13 in case of lower URs.
- ❖ **ROEs to fall in coming years:** GAIL will be capitalising close to Rs 120bn-140bn worth of pipeline capacity in the next 2-3 years. At the same time, the utilisation levels for these pipelines is likely to be low due to the limited gas supplies. This in turn will put pressure on ROEs – we expect ROEs to fall from 19.8% in FY11 to 17.0% in FY13.

CMP	TARGET	RATING	RISK
410	420	HOLD	Medium

Financial highlights

Y/E 31 Mar	FY10A	FY11A	FY12E	FY13E
Revenue (Rs mn)	2,49,964	3,24,587	3,70,285	3,93,754
EBITDA (Rs mn)	46,688	54,718	60,210	67,082
Adj. PAT (Rs mn)	31,395	35,612	36,677	39,435
Adj. EPS (Rs)	24.8	28.2	28.9	31.1
Growth (%)	11.6	14	2.5	7.5
DPS (Rs)	7.5	7.5	8	9

Profitability and Return ratios

Y/E 31 Mar	FY10A	FY11A	FY12E	FY13E
EBITDA margin	18.7	16.9	16.3	17
EBIT margin	16.4	14.9	14.4	15
Net profit margin	12.6	11	9.9	10
ROE	19.9	19.8	17.9	17.1
ROCE	16.4	16.5	13.9	12.6

Valuation matrix

Y/E 31 Mar (x)	FY10A	FY11A	FY12E	FY13E
EV/Sales	2.4	1.5	1.4	1.3
EV/EBITDA	12.9	9.1	8.6	7.8
P/E	20.7	14.5	14.2	13.2
P/BV	3.9	2.7	2.4	2.1



INDIA ENERGY

GAIL: Earnings revision and Valuations

- ❖ **Paring earnings for FY12/FY13 by 4%/10%:** We assume marginally lower gas transmission volumes in FY12/FY13 to 119/123mmscmd from 121/125mmscmd. We also lower petchem utilisation in FY12/FY13 to 90% from 100% assumed earlier due to poor demand and higher competition. Part of the impact on margins will be set off against a lower subsidy burden, now assumed at 5% of upstream share against 6% earlier.
- ❖ **Reducing SOTP-based TP by 13% to Rs 420sh:** The lower TP is mainly due to a 10% cut in our FY13 earnings. Other than this, we are cutting our EBITDA multiple for LPG extraction/ petchem to 6x/6x from 7x/7.5x earlier, in line with the peer group valuation. At the current price, the stock is trading at 14.2x/13.2x based on FY12/13E EPS. HOLD.

Target price sensitivity to share in under-recovery

(Rs/Sh)	GAIL's Share in Upstream	Share of upstream in under-recovery				
		30%	35%	40%	45%	50%
4%		462	452	442	431	421
5%		447	434	421	408	396
7%		416	398	380	362	344
8%		401	380	360	339	319
9%		385	362	339	316	293

Source: RCML Research

SOTP - valuation

	Value (USD bn)	Value (Rs/shr)	Valuation Methodology
Pipeline business	6.8	250	
Natural Gas trans. & mktg	6.1	226	7.5x FY13E EBITDA
LPG transmission	0.7	24	7.50x FY13E EBITDA
Commodity Businesses	3.2	117	
LPG extraction	1.4	51	6.0x FY13E EBITDA
Petrochem	1.8	66	6.0x FY13E EBITDA
Invesments (excl cash)	1.8	67	
ONGC, PLL, IGL, China Gas, MGL	1.5	54	At 20% discount to Mkt price
Optional value of Myanmar Gas	0.3	13	7.7 Tcf at USD 5.0/ boe (10% stake)
Net Treasury Book	(0.4)	-13	
Cash & Cash equivalents (FY11)	1.3	49	
Debt (FY11)	(1.7)	-62	
SOTP valn on diluted capital	11.4	421	
Dil. equity cap. (mn shares)		1,268	

Source: RCML Research, Company


INDIA ENERGY

GAIL: Earnings revision and Valuations

Key financial assumptions

	FY09	FY10	FY11	FY12E	FY13E
Natural Gas transmission business					
Gas Transmission volumes (mmscmd)	83.3	106.7	117.9	119.2	123.2
Weighted Average Transmission tariff (Rs/tscm)	817	814	881	915	963
LPG transmission business					
LPG pipelines thruput (TMT)	2,653	3,161	3,337	3,437	3,540
Average LPG pipelines tariff (Rs/MMT)	1,434	1,415	1,422	1,450	1,479
LPG & other hydrocarbons business					
LPG & other hydrocarbons Sales (TMT)	1,448	1,494	1,415	1,424	1,423
Gross realisation (US\$/MMT)	750	627	817	839	839
Net realisation (incl.subsidy loss) (US\$/MMT)	484	440	485	503	560
Petrochemicals business					
Petrochemicals % utilization	103%	100%	103%	90%	90%
Polymers Sales (TMT)	423	410	420	396	396
Average Polymer realisation (Rs/Kg)	70	74	74	78	79
Total Under-recovery (Rs bn)	1060	463.2	780	1172.7	972.6
Upstream share	30%	31%	38.5%	40%	40%
Gail's Share in upstream	6%	9%	7%	5%	5%
Absorbed loss Rsmn	17,812	13,267	21,112	22,035	18,287

Source: RCML Research, Company

Upcoming pipeline projects

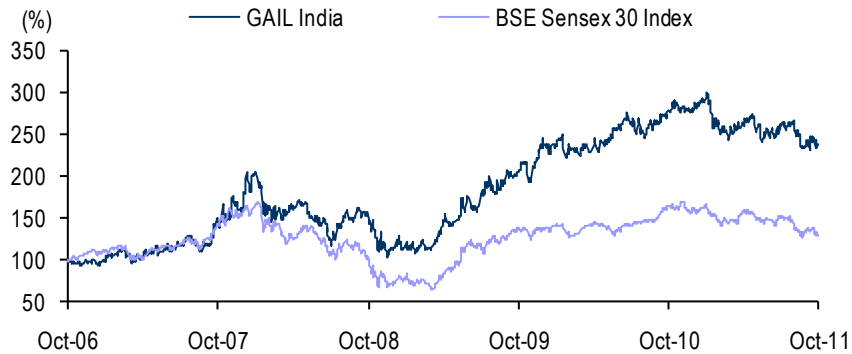
Project	Length	Capacity	Capex	Status
	(km)	(mmscmd)	(Rs bn)	
DVPL-Phase-II pipeline	610	78	58.4	Mainline compressor commissioned at Jabhua and Vijaipur. Standby machine at Jabhua by June 11 and Vijaipur Dec 11
Vijaipur-Dadri pipeline	499	80	49.27	Commissioned in Jan 2011. Compressor at kailaras and chainsa by Dec 11
Dadri-Bawana-Nangal	594	31	23.6	
Dadri-Bawana section				Commissioned Mar 2010
Bawana-Nangal section				commissioning by Dec 11
Chainsa-Jhajjar-Hissar	349	35	13	
Chainsa-Jajjar section				Commissioned upto Sultanpur, Mar 2010
Jhajjar-Hissar section				On Hold
Dhabol-Bengaluru	1414	16	49.9	Phase-I by Aug 12 and Phase-II by Dec12
Kochi-Koottanad-Bengaluru-Mangalore	1126	16	32.6	Phase-I by Aug 12 and Phase-II by Dec12
Jagdishpur-Haldia	2050	32	75.9	Delayed; Being implemented in phased manner FY14 onwards



INDIA ENERGY

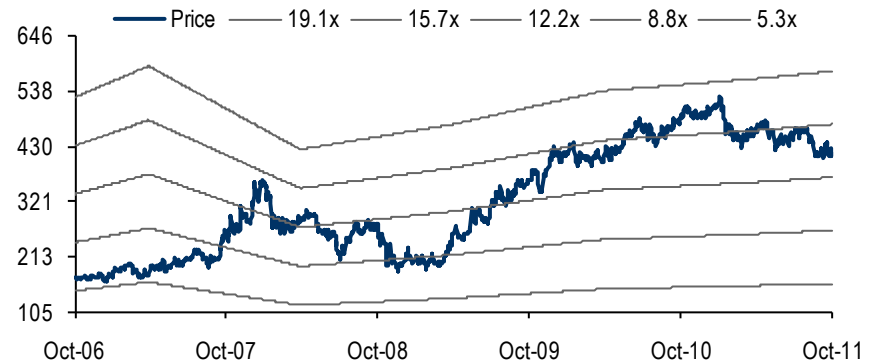
GAIL – Relative price bands

Stock performance



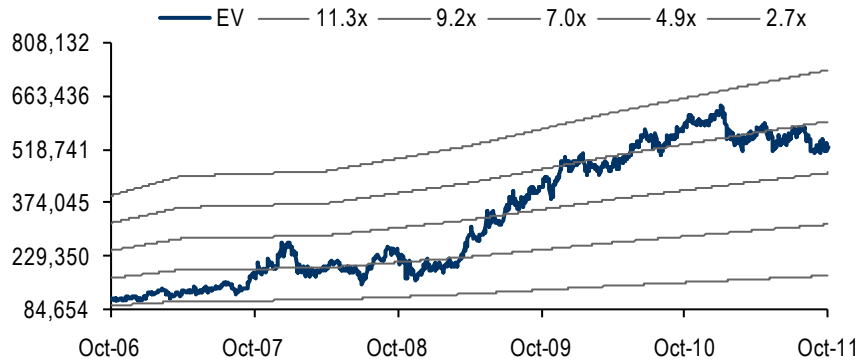
Source: RCML Research

1-yr fwd P/E band



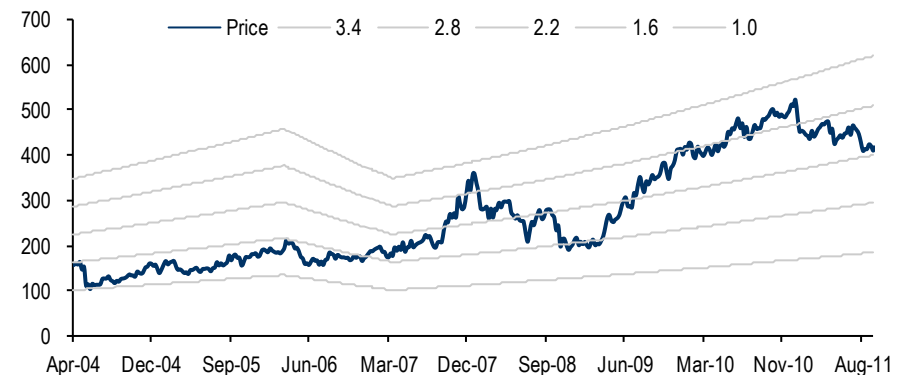
Source: RCML Research

1-yr fwd EV/EBITDA band



Source: RCML Research

1-yr fwd P/BV band



Source: RCML Research



INDIA ENERGY

Financials – GAIL

Profit and Loss statement

Y/E 31 Mar (Rs mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Total revenue	2,37,759	2,49,964	3,24,587	3,70,285	3,93,754
EBITDA	40,647	46,688	54,718	60,210	67,082
EBIT	35,048	41,070	48,215	53,152	58,985
Interest	-870	-700	-829	-1,484	-3,581
Other income/(Expense)	7,969	5,411	5,186	6,211	6,925
Exceptional items	0	0	0	0	0
EBT	42,147	45,781	52,573	57,879	62,329
Income taxes	-14,003	-14,386	-16,789	-21,202	-22,894
Extraordinary items	0	0	0	0	0
Min int./Inc. from associates	0	0	0	0	0
Reported net profit	28,144	31,395	35,784	36,677	39,435
Adjustments	-104	0	-172	0	0
Adjusted net profit	28,040	31,395	35,612	36,677	39,435

Cash flow statement

Y/E 31 Mar (Rs mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Net income + Depreciation	33,743	37,013	42,287	43,734	47,533
Interest expenses	870	700	829	1,484	3,581
Non-cash adjustments	0	0	0	0	0
Changes in working capital	-7,490	14,629	-10,372	-6,513	-1,848
Other operating cash flow	-42	636	2,265	2,680	2,949
Cash flow from operations	27,082	52,978	35,009	41,386	52,214
Capital expenditure	-22,866	-33,468	-46,715	-40,000	-40,000
Change in investments	-2,464	-3,358	-5,095	5,873	-5,000
Other investing cash flow	0	0	0	0	0
Cash flow from investing	-25,330	-36,825	-51,810	-34,127	-45,000
Issue of equity	345	347	-695	-17	0
Issue/repay debt	-657	2,803	8,296	28,000	28,000
Interest expenses	-870	-700	-829	-1,484	-3,581
Dividends paid	-10,388	-11,104	-11,067	-11,474	-12,908
Other financing cash flow	-350	-344	694	0	-1
Cash flow from financing	-11,921	-8,998	-3,600	15,025	11,510
Change in cash & cash eq	-10,169	7,155	-20,402	22,284	18,724
Closing cash & cash eq	34,561	41,716	21,314	43,597	62,322

Balance sheet

Y/E 31 Mar (Rs mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Accounts payable	41,779	54,483	47,544	52,298	57,528
Other current liabilities	0	0	0	0	0
Provisions	39,769	49,301	40,605	38,898	40,671
Debt funds	12,001	14,804	23,100	51,100	79,100
Other liabilities	13,259	13,896	16,332	19,013	21,961
Equity capital	12,685	12,685	12,685	12,685	12,685
Reserves & surplus	1,35,011	1,55,305	1,79,849	2,05,035	2,31,561
Shareholder's funds	1,47,695	1,67,989	1,92,534	2,17,720	2,44,246
Total liabilities	2,54,504	3,00,473	3,20,115	3,79,029	4,43,506
Cash and cash eq	34,562	41,715	21,314	43,598	62,322
Accounts receivable	15,033	12,950	19,059	22,643	24,907
Inventories	6,014	6,317	8,551	9,869	11,410
Other current assets	66,756	76,144	62,538	67,197	72,242
Investments	17,373	20,730	25,825	19,953	24,953
Net fixed assets	90,503	1,19,311	1,24,036	1,66,978	1,98,881
CWIP	24,263	23,305	58,792	48,792	48,792
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	2,54,504	3,00,472	3,20,114	3,79,029	4,43,506

Company data

Market cap (Rs mn / US\$ mn)	5,30,476 / 10,832
Outstanding equity shares (mn)	1,268.5
BVPS (Rs)	152
Free float (%)	42.7
52-week high / low (Rs)	529 / 408
2-month avg. daily vol (mn)/ value (US\$ mn)	1 / 10
ADR/GDR premium (%)	5



PLNG: Hardest hit

- ❖ **High priced LNG to hurt spot volumes in near to medium term:** PLNG's Dahej re-gasification terminal currently processes ~10.5mmtpa of LNG. Of this, ~28% of PLNG's volumes are on short-term/spot basis. We expect spot volumes (~2mmtpa) to witness pressure in the near to medium term as marginal buyers (such as refineries) would likely opt for cheaper liquid fuels (FO/LPG) given that LNG prices are unlikely to correct in the medium term.
- ❖ **Scope for marketing margins limited:** PLNG was able to charge healthy marketing margins in the last few quarters (at US\$ 0.30-0.60/mmbtu). But elevated LNG pricing limits scope for the same. Also, gas marketing companies (GAIL/GSPC) have incrementally begun to source LNG contracts on their own, leaving little room for PLNG to charge marketing margins.
- ❖ **Upcoming competition from new terminals:** India is adding ~18mmtpa of re-gas capacity in the next 4-5 years. While GAIL's Ratnagiri terminal is likely to be commissioned by mid-2012, GSPC and RIL are evaluating the set up of LNG terminals. Higher competition from existing and new terminals is likely to put pressure on re-gas charges in the long term.
- ❖ **Utilisation at new Kochi terminal to remain low in initial years:** The 5mmtpa Kochi terminal is likely to be complete by December'12. However, looking at the tight supply in LNG markets and higher prices, this terminal is expected to operate at lower capacity utilisation in initial years due to (1) high dependence on spot LNG markets, (2) immature gas markets in and around the terminal and (c) the start up of 1.5mmtpa of long-term supply from Gorgon Australia only from 2014.

CMP	TARGET	RATING	RISK
161	135	SELL	HIGH

Financial highlights

Year End: 31 Mar	FY10A	FY11A	FY12E	FY13E
Revenue (Rs mn)	1,06,491	1,31,973	1,86,842	2,35,735
EBITDA (Rs mn)	8,465	12,163	15,688	17,175
Adj. PAT (Rs mn)	4,045	6,196	8,169	8,254
Adj. EPS (Rs)	5.4	8.3	10.9	11
Growth (%)	-22	53.2	31.8	1
DPS (Rs)	1.4	1.8	2.2	2.5

Profitability and Return ratios

Y/E 31 Mar (%)	FY10A	FY11A	FY12E	FY13E
EBITDA margin	7.9	9.2	8.4	7.3
EBIT margin	6.4	7.8	7.3	6.2
Net profit margin	3.8	4.7	4.4	3.5
ROE	16.8	22.2	24.6	21.3
ROCE	9.4	12.5	12.9	11.3

Valuation matrix

Y/E 31 Mar (x)	FY10A	FY11A	FY12E	FY13E
EV/Sales	1.0	1.1	0.8	0.7
EV/EBITDA	13.0	11.5	10.1	9.5
P/E	23.2	19.5	14.8	14.6
P/BV	3.7	4.0	3.3	2.9



PLNG: Earnings revision and Valuation

- ❖ **FY12/FY13 earnings cut by 8%/15%:** We cut earnings on reduced LNG volumes and marketing margins at the Dahej terminal in FY12/FY13. Though ~7.5mmtpa of long-term volumes at Dahej are likely to remain intact, we trim short/spot LNG volumes by 5% in FY13 (to 10.5mmtpa). We also lower marketing margins to US\$ 0.40/mmbtu in FY12 (US\$ 0.60/mmbtu) and US\$ 0.20/mmbtu in FY13 (US\$ 0.40/mmbtu). We further scale back volume assumptions for the Kochi terminal in FY12/FY13 to 0.5/1.5mmtpa (1.2 /2.2mmtpa earlier) as demand for high priced LNG in southern markets will see some resistance in initial years.
- ❖ **TP reduced 26% to Rs 135/sh:** Our DCF valuation is based on a project life of 30 years and cost of capital of 11.5%. The TP revision is mainly on account of reduced earnings between FY12-FY14 to factor in lower spot LNG volumes and lower marketing margins. We assume a 5% p.a. increase in re-gas charges for the Dahej and Kochi terminals till FY23, post-which we keep charges stable to factor in increased competition. At the current price, the stock is trading at 14.8x/14.6x based on FY12/13 EPS. SELL.

DCF valuation

Dahej Terminal	99,953
Kochi Terminal	46,336
Aggregate EV (Rs mn)	1,46,289
Less: Debt	43,532
Taregt M-Cap (Rs mn)	1,02,756
No of Shares (mn)	750
Target Price (Rs)	137

Source: RCML Research, Company

Key assumptions

	FY10	FY11	FY12E	FY13E
Dahej LNG Terminal				
Re-gas volumes (MMT)	7.8	8.8	10.4	10.5
Re-gas charges (Rs/mmbtu)	24.6	32.5	34.1	35.8
Growth in re-gas charge%	-	32%	5%	5%
Kochi LNG Terminal				
Re-gas volumes (MMT)	-	-	-	0.5
Re-gas charges (Rs/mmbtu)	-	-	-	75
Growth in re-gas charge%	-	-	-	-
Exchange Rate	47.5	46	46	46

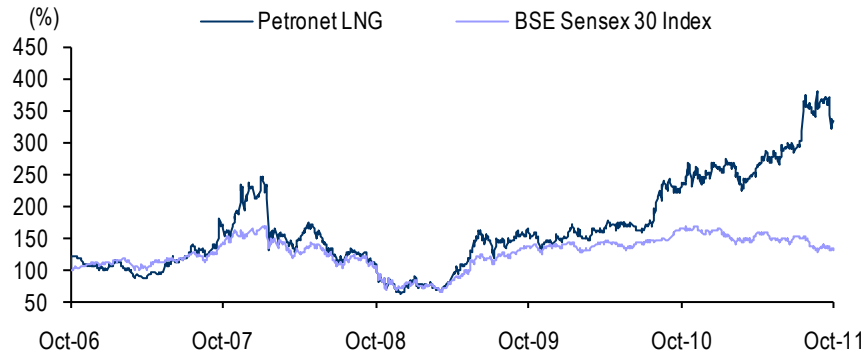
Source: RCML Research, Company



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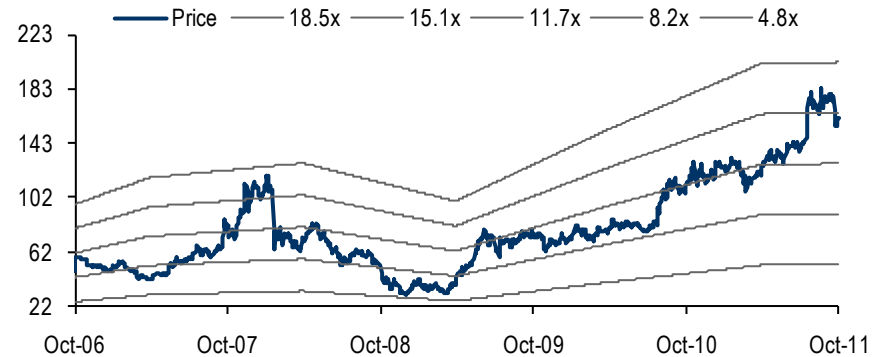
PLNG - Relative price bands

Stock performance



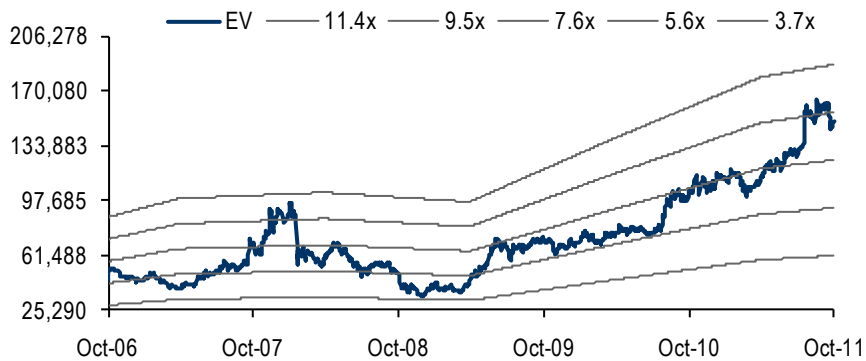
Source: RCML Research

1-yr fwd P/E band



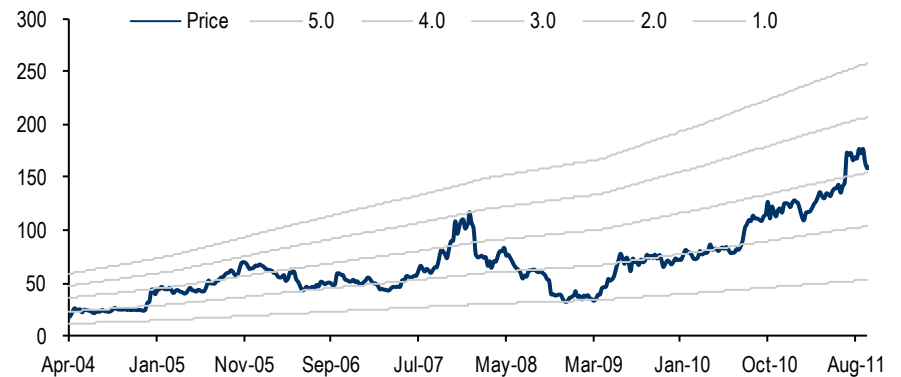
Source: RCML Research

1-yr fwd EV/EBITDA band



Source: RCML Research

1-yr fwd P/BV band



Source: RCML Research



INDIA ENERGY

Financials – PLNG

Profit and Loss statement

Y/E 31 Mar (Rs mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Total revenue	84,287	1,06,491	1,31,973	1,86,842	2,35,735
EBITDA	9,013	8,465	12,163	15,688	17,175
EBIT	7,988	6,856	10,316	13,703	14,634
Interest	(1,012)	(1,839)	(1,931)	(1,738)	(2,604)
Other income/(Expense)	765	978	680	410	473
Exceptional items	0	0	0	0	0
EBT	7,740	5,995	9,064	12,376	12,504
Income taxes	(2,556)	(1,950)	(2,868)	(4,206)	(4,250)
Extraordinary items	0	0	0	0	0
Min int./Inc. from associates	0	0	0	0	0
Reported net profit	5,184	4,045	6,196	8,169	8,254
Adjustments	0	0	0	0	0
Adjusted net profit	5,184	4,045	6,196	8,169	8,254

Cash flow statement

Y/E 31 Mar (Rs mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Net income + Depreciation	6,210	5,654	8,043	10,153	10,794
Interest expenses	1,012	1,839	1,931	1,738	2,604
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(3,295)	2,822	(426)	(3,472)	(1,050)
Other operating cash flow	49	564	473	0	0
Cash flow from operations	3,976	10,879	10,022	8,420	12,348
Capital expenditure	(7,888)	(10,465)	(8,888)	(23,412)	(11,271)
Change in investments	2,431	(2,344)	(6,263)	6,263	0
Other investing cash flow	0	0	0	0	0
Cash flow from investing	(5,457)	(12,808)	(15,150)	(17,150)	(11,271)
Issue of equity	0	0	0	0	0
Issue/repay debt	9,222	0	7,163	10,000	9,000
Interest expenses	(1,012)	(1,839)	(1,931)	(1,738)	(2,604)
Dividends paid	(1,555)	(1,555)	(1,999)	(2,443)	(2,887)
Other financing cash flow	0	0	0	0	0
Cash flow from financing	6,655	(3,394)	3,233	5,819	3,509
Change in cash & cash eq	5,173	(5,323)	(1,895)	(2,911)	4,585
Closing cash & cash eq	8,759	3,436	1,540	(1,371)	3,214

Balance sheet

Y/E 31 Mar (Rs mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Accounts payable	7,365	7,449	10,348	10,238	12,917
Other current liabilities	0	0	0	0	0
Provisions	1,557	1,557	1,786	1,875	1,969
Debt funds	24,998	24,998	32,161	42,161	51,161
Other liabilities	0	0	0	0	0
Equity capital	7,500	7,500	7,500	7,500	7,500
Reserves & surplus	15,056	18,111	22,782	28,508	33,874
Shareholder's funds	22,556	25,611	30,282	36,008	41,374
Total liabilities	56,477	59,614	74,577	90,282	1,07,421
Cash and cash eq	8,759	3,436	1,540	(1,371)	3,214
Accounts receivable	6,712	5,035	8,472	9,214	11,625
Inventories	3,856	2,223	2,480	5,119	6,458
Other current assets	952	1,523	1,383	1,452	1,525
Investments	3,043	5,386	11,649	5,386	5,386
Net fixed assets	14,686	28,829	27,024	27,453	68,183
CWIP	18,470	13,184	22,029	43,029	11,029
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	56,477	59,614	74,576	90,282	1,07,421

Company data

Market cap (Rs mn / US\$ mn)	1,20,525 / 2,461
Outstanding equity shares (mn)	750.0
BVPS (Rs)	40
Free float (%)	50.0
52-week high / low (Rs)	183 / 106
2-month avg. daily vol (mn)/ value (US\$ mn)	3 / 9

Source: RCML Research



IGL: Losing pricing power

- ❖ **CNG volume growth to fall in coming years:** IGL now needs to fuel CNG growth using expensive LNG. Based on our workings, we expect IGL to increase CNG prices by at least Rs 6-7/kg in the next 12-15 months in order to protect margins. In such a situation, we expect demand to come down from 13-14% currently to ~11% by FY12 mainly due to (1) the falling price differential between CNG and diesel, (b) the fact that most public transportation in Delhi is already on CNG, which leaves limited scope for growth, and (c) new areas like Ghaziabad and Noida offering lower growth prospects in initial years.
- ❖ **PNG volume growth dependent on lower priced LNG:** In the case of PNG as well, the falling price differential between PNG and alternative liquid fuels will put pressure on IGL's ability to pass along higher LNG costs to the customer. In our workings, PNG is viable to industrial customers only till Rs 31/scm when compared to the delivered FO price.
- ❖ **Per unit margins to improve in FY12 but then fall from FY13 onwards:** IGL's margins will expand in FY12 (Rs 5.6/scm) due to the allocation of an additional 0.35mmscmd of APM gas, but could fall in FY13 (Rs 5.2/scm) as the cheaper APM gas is replaced by high priced LNG (incremental APM gas is a fallback gas for other markets such as Gurgaon and Faridabad and will be redirected if demand rises in these markets). While IGL may still be able to maintain margins in the CNG segment, the falling price differential between PNG and alternative liquid fuels will reduce pricing power in this segment.

CMP	TARGET	RATING	RISK
430	400	SELL	Medium,

Financial highlights

Year End: 31 Mar	FY10A	FY11A	FY12E	FY13E
Revenue (Rs mn)	10,781	17,441	24,297	35,052
EBITDA (Rs mn)	3,807	4,907	6,686	7,199
Adj. PAT (Rs mn)	2,154	2,582	3,391	3,640
Adj. EPS (Rs)	15.4	18.4	24.2	26
Growth (%)	26.6	19.9	31.3	7.3
DPS (Rs)	4.5	5	5.5	5.5

Profitability and Return ratios

Y/E 31 Mar	FY10A	FY11A	FY12E	FY13E
EBITDA margin	35.3	28.1	27.5	20.5
EBIT margin	28.1	22.2	21.8	16.0
Net profit margin	20.0	14.8	14.0	10.4
ROE	28.9	28.2	30.0	26.1
ROCE	25.6	22.2	21.1	18.7

Valuation matrix

Y/E 31 Mar (x)	FY10A	FY11A	FY12E	FY13E
EV/Sales	4.4	3.7	2.7	1.8
EV/EBITDA	12.4	13.1	9.7	8.9
P/E	22.2	23.3	17.7	16.5
P/BV	5.8	6	4.8	3.9



INDIA ENERGY

IGL: Earnings revision and Valuation

- ❖ **Earnings for FY12/FY13 changed by 2%/(2%):** We assume lower CNG volume growth YoY for FY12/13 at 13%/11% (15%/12% earlier) to factor in lower spot LNG volumes. We also expect pressure on IGL's margins as we move into FY13 (Rs 5.2/scm) after margin expansion in FY12 (Rs 5.6/scm) vis-à-vis FY11 (Rs 5/scm), as the extra allocation of 0.3mmscmd APM gas reduces gradually and the share of expensive LNG rises in FY13.
- ❖ **DCF based TP cut by 6% to Rs 400/sh:** Our DCF-based valuation of the core business (11% WACC and 4% terminal growth rate) has been reduced to Rs 400/sh (Rs 425 earlier) due to lower volume growth in FY12/13, affecting overall volume assumptions in future. The stock is currently trading at 17.7x/16.5x based on FY12/13E EPS. SELL.

DCF valuation

	Rs mn	USD mn
Value of operations (FY13-FY18E)	16,432	365
Terminal Value (FY18E+)	44,268	984
Total Entity Value	60,700	1349
Net Debt (FY12)	(5,099)	-113
BV of investments (FY12)	458	10
Equity value	56,059	1246
Equity value/share	400	

Source: RCML Research, Company

Key assumptions

	FY10	FY11	FY12E	FY13E
CNG				
Sales (mmscmd)	1.86	2.16	2.45	2.73
Blended CNG price (Rs/kg)	20.6	26.8	30.6	38.2
Price increase (%)	8.1	29.7	14.5	24.5
PNG				
Sales(mmscmd)	0.24	0.49	0.74	1.00
Blended PNG Price (Rs/scm)	16.4	18.6	21.9	26.1
Price increase (%)	13%	13.1	17.9	18.9
Total sales (mmscmd)	2.1	2.7	3.2	3.7
EBITDA/scm	4.86	4.97	5.62	5.19

Source: RCML Research, Company

Target price sensitivity to WACC and Terminal growth rate

(Rs/Sh)	Terminal growth (%)	WACC(%)				
		9%	10%	11%	12%	13%
	2%	440	373	321	281	248
	3%	507	420	356	307	268
	4%	604	484	400	339	293
	5%	757	576	462	382	324
	6%	1,032	722	550	440	365

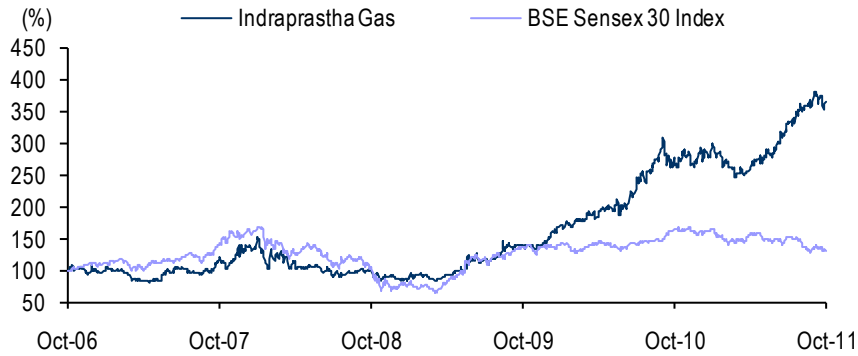
Source: RCML Research



INDIA ENERGY

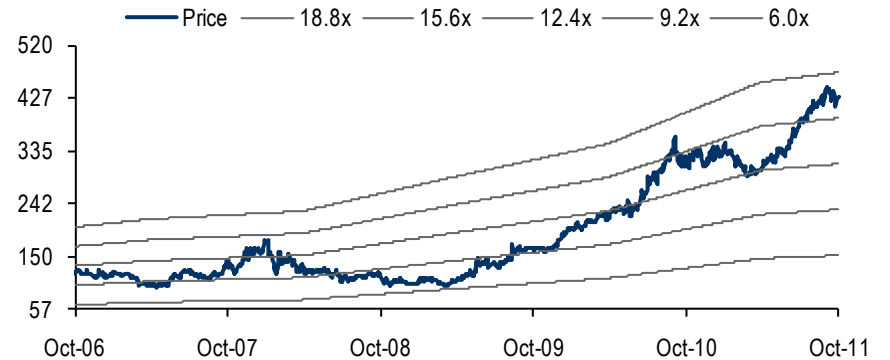
IGL - Relative price bands

Stock performance



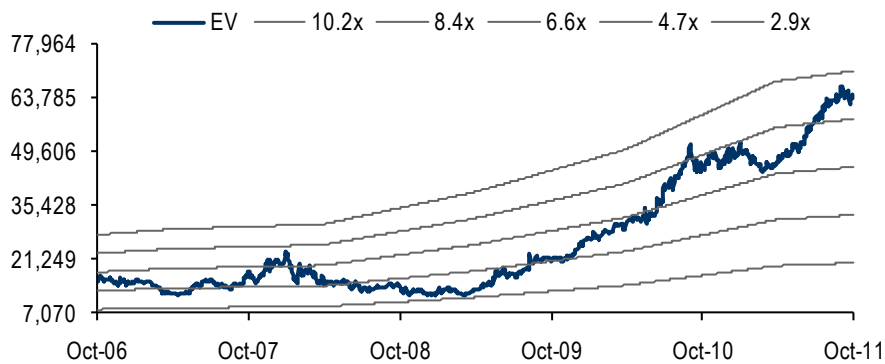
Source: RCML Research

1-yr fwd P/E band



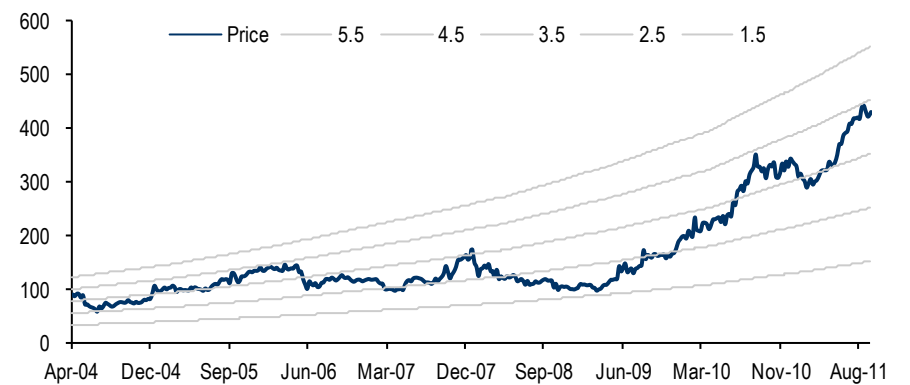
Source: RCML Research

1-yr fwd EV/EBITDA band



Source: RCML Research

1-yr fwd P/BV band



Source: RCML Research



INDIA ENERGY

Financials – IGL

Profit and Loss statement

Y/E 31 Mar (Rs mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Total revenue	8,506	10,781	17,441	24,297	35,052
EBITDA	2,977	3,807	4,907	6,686	7,199
EBIT	2,303	3,032	3,878	5,301	5,612
Interest	0	0	(132)	(301)	(342)
Other income/(Expense)	262	211	95	77	146
Exceptional items	0	0	0	0	0
EBT	2,565	3,243	3,841	5,077	5,416
Income taxes	(864)	(1,089)	(1,259)	(1,686)	(1,777)
Extraordinary items	0	0	0	0	0
Min int./Inc. from associates	0	0	0	0	0
Reported net profit	1,701	2,154	2,582	3,391	3,640
Adjustments	0	0	0	0	0
Adjusted net profit	1,701	2,154	2,582	3,391	3,640

Cash flow statement

Y/E 31 Mar (Rs mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Net income + Depreciation	2,376	2,928	3,611	4,776	5,226
Interest expenses	0	0	132	301	342
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(175)	272	(150)	(3)	(57)
Other operating cash flow	(28)	192	186	0	0
Cash flow from operations	2,172	3,393	3,778	5,074	5,511
Capital expenditure	(1,720)	(3,904)	(7,706)	(4,500)	(3,750)
Change in investments	47	872	(246)	(42)	(46)
Other investing cash flow	0	0	0	0	0
Cash flow from investing	(1,673)	(3,032)	(7,953)	(4,542)	(3,796)
Issue of equity	0	0	0	0	0
Issue/repay debt	197	287	4,081	1,678	(200)
Interest expenses	0	0	(132)	(301)	(342)
Dividends paid	(655)	(735)	(814)	(871)	(871)
Other financing cash flow	0	0	0	0	0
Cash flow from financing	(458)	(448)	3,136	507	(1,412)
Change in cash & cash eq	41	(87)	(1,039)	1,039	302
Closing cash & cash eq	1,299	1,212	173	1,213	1,515

Balance sheet

Y/E 31 Mar (Rs mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Accounts payable	857	1,262	1,729	1,988	2,286
Other current liabilities	0	0	0	0	0
Provisions	679	776	859	906	906
Debt funds	265	552	4,633	6,311	6,111
Other liabilities	209	238	408	408	408
Equity capital	1,400	1,400	1,400	1,400	1,400
Reserves & surplus	5,272	6,854	8,639	11,159	13,928
Shareholder's funds	6,672	8,254	10,039	12,559	15,328
Total liabilities	8,683	11,083	17,667	22,172	25,039
Cash and cash eq	1,299	1,213	173	1,212	1,515
Accounts receivable	319	335	745	857	985
Inventories	237	278	359	413	475
Other current assets	574	747	956	1,099	1,264
Investments	1,042	170	416	458	504
Net fixed assets	4,395	6,514	11,595	17,133	20,047
CWIP	816	1,826	3,423	1,000	250
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	8,683	11,083	17,667	22,172	25,039

Company data

Market cap (Rs mn / US\$ mn)	60,109 / 1,227
Outstanding equity shares (mn)	140.0
BVPS (Rs)	72
Free float (%)	42.7
52-week high / low (Rs)	447 / 289
2-month avg. daily vol (mn)/ value (US\$ mn)	0 / 4

Source: RCML Research



INDIA

ENERGY

GSPL: In a spot!

- ❖ **Gas volumes unlikely to grow due to high reliance on spot LNG:** GSPL's current transmission volumes are ~36mmscmd, of which at least 20-25% is under spot/short-term contract. Given high LNG prices, we feel that spot volumes consumed by refineries and some industrial consumers are particularly under threat. RIL consumes ~8-9mmscmd of RLNG, of which ~6mmscmd is spot while the balance is short term. Our channel checks reveal that RIL has already reduced spot consumption by ~2-3mmscmd with further cuts expected when its short-term contract with Shell Hazira expires.

Though the recent 20-year purchase agreement signed by GSPC with the BG Group for 2.5mmtpa of LNG starting 2014 will provide some relief in the long term, pricing will remain the key demand determinant.

- ❖ **Clarity on transmission tariffs unlikely to emerge in next 6 months:** The current PNGRB chairman is due for retirement, after which a fresh Board will be appointed to take a decision on transmission tariffs. In our view, the new Board will take at least a few months to decide on the matter. Till then, the stock will continue to suffer from the overhang related to final tariffs.
- ❖ **Too early to assign value for new pipelines:** In the absence of any firm gas supply source, we don't see much value in new pipelines. Also, lower tariffs in the initial period for new pipelines are ROE-dilutive in nature.
- ❖ **Fate of 5mmtpa Mundra LNG terminal still undecided:** GSPC has not yet taken a final decision on the Mundra terminal with the Adani Group. The terminal will take at least 36-40 months to set up. We, therefore don't expect commissioning before 2015-16. GSPL also plans to buy capacity in the 5mmtpa expansion of PLNG's Dahej terminal, but the expansion is not expected before 2014-15.

CMP	TARGET	RATING	RISK
105	90	SELL	High

Financial highlights

Year End: 31 Mar	FY10A	FY11A	FY12E	FY13E
Revenue (Rs mn)	10,009	10,465	10,727	11,133
EBITDA (Rs mn)	9,414	9,694	9,909	10,266
Adj. PAT (Rs mn)	4,138	5,064	4,898	4,892
Adj. EPS (Rs)	7.4	9	8.7	8.7
Growth (%)	235.1	22	-3.3	-0.1
DPS (Rs)	0.7	0.7	0.7	0.7

Profitability and Return ratios

Y/E 31 Mar	FY10A	FY11A	FY12E	FY13E
EBITDA margin	94.1	92.6	92.4	92.2
EBIT margin	70.4	80.2	79.4	78.3
Net profit margin	41.3	48.4	45.7	43.9
ROE	29.8	28.4	22.1	18.5
ROCE	17.9	17.6	14.4	12.6

Valuation matrix

Y/E 31 Mar (x)	FY10A	FY11A	FY12E	FY13E
EV/Sales	7.6	6.8	7	6.8
EV/EBITDA	8.1	7.3	7.6	7.4
P/E	16	11.7	12.1	12.1
P/BV	4.2	3	2.4	2.1



GSPL: Earnings revision and Valuation

- ❖ **Trimming earnings for FY12/FY13 by 13%/16%:** We assume lower transmission volumes for FY12/13 at 36.7/38.1mmscmd (from 41.2/45.6mmscmd earlier) to factor in lower spot LNG volumes. A part of these lower volumes will be offset by higher transmission tariffs. We revise tariffs upwards for FY13 onwards to Rs 800/tscm (Rs 750/tscm assumed earlier), in line with current rates as we expect the decision on final tariffs to be delayed.
- ❖ **SOTP-based TP cut 16% to Rs 90/sh:** We lower our DCF-based valuation (11% WACC and 4% terminal growth rate) of the core business due to limited volume growth in FY12/13, affecting overall volume assumptions in future. The GSPC Gas stake is valued at Rs 10/sh. At the current price, the stock is trading at 12.1x/12.1x based on FY12/13E EPS. SELL.

Target price sensitivity to WACC and Terminal growth rate

(Rs/Sh)		WACC(%)				
		9%	10%	11%	12%	13%
Terminal growth (%)	2%	98	82	69	59	51
	3%	114	93	78	66	56
	4%	135	108	88	74	62
	5%	168	128	102	84	70
	6%	222	159	122	97	79

Source: RCML Research

SOTP valuation

	Rs mn	USD mn
Value of operations (FY12-FY18E)	16,467	374
Terminal Value (FY18E+)	44,655	1015
Total Entity Value	61,122	1389
Net Debt (FY11)	(16,869)	-383
GSPC Gas valuation (FY12)	5,505	125
Equity value	49,758	1131
Equity value/share	88	

Source: RCML Research, Company

Key Assumptions

	FY10	FY11	FY12E	FY13E
Gas volumes (mmscmd)	32	35.6	36.7	38.1
Average tariff(Rs/tscm)	857	797	800	800
Exchange Rate	47.5	46	46	46

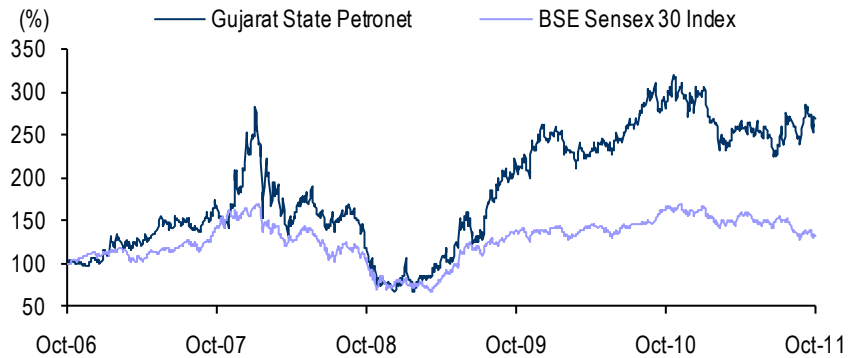
Source: RCML Research, Company



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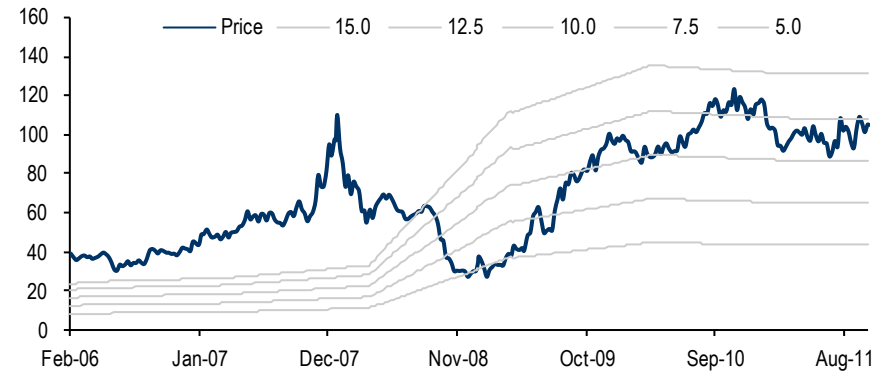
GSPL - Relative price bands

Stock performance



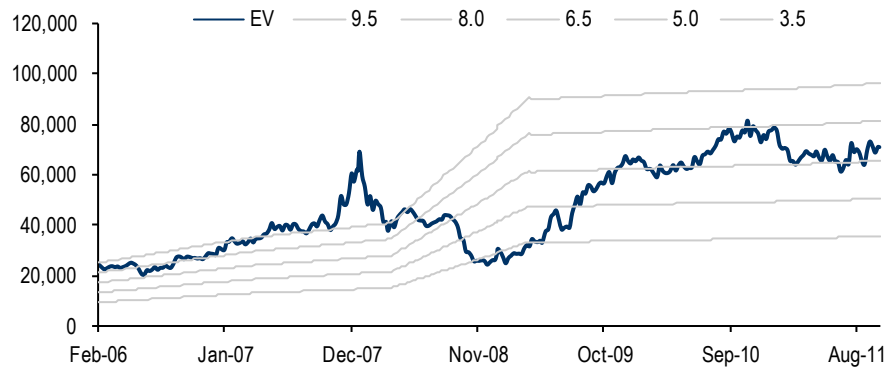
Source: RCML Research

1-yr fwd P/E band



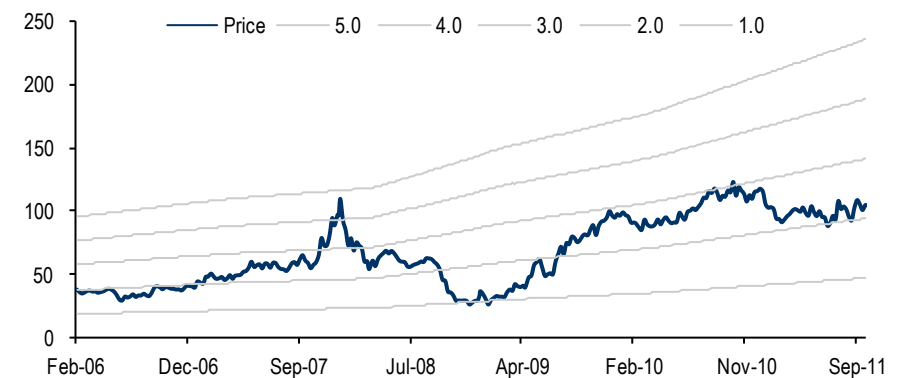
Source: RCML Research

1-yr fwd EV/EBITDA band



Source: RCML Research

1-yr fwd P/BV band



Source: RCML Research



INDIA ENERGY

Financials – GSPL

Profit and Loss statement

Y/E 31 Mar (Rs mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Total revenue	4,875	10,009	10,465	10,727	11,133
EBITDA	4,245	9,414	9,694	9,909	10,266
EBIT	2,540	7,049	8,394	8,512	8,714
Interest	(870)	(938)	(961)	(1,347)	(1,547)
Other income/(Expense)	243	159	216	255	244
Exceptional items	0	0	0	0	0
EBT	1,914	6,269	7,650	7,420	7,411
Income taxes	(679)	(2,131)	(2,586)	(2,522)	(2,519)
Extraordinary items	0	0	0	0	0
Min int./Inc. from associates	0	0	0	0	0
Reported net profit	1,234	4,138	5,064	4,898	4,892
Adjustments	0	0	0	0	0
Adjusted net profit	1,234	4,138	5,064	4,898	4,892

Cash flow statement

Y/E 31 Mar (Rs mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Net income + Depreciation	2,939	6,503	6,363	6,295	6,444
Interest expenses	870	938	961	1,347	1,547
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(377)	2,127	(310)	(3,998)	15
Other operating cash flow	0	(1)	0	0	0
Cash flow from operations	3,432	9,567	7,014	3,644	8,006
Capital expenditure	(4,578)	(7,987)	(6,907)	(6,000)	(6,000)
Change in investments	0	(310)	(100)	(101)	(250)
Other investing cash flow	0	0	0	0	0
Cash flow from investing	(4,578)	(8,297)	(7,007)	(6,101)	(6,250)
Issue of equity	(934)	(33)	(16)	0	0
Issue/repay debt	1,849	1,086	2,239	4,000	1,000
Interest expenses	(870)	(938)	(961)	(1,347)	(1,547)
Dividends paid	(493)	(619)	(621)	(621)	(621)
Other financing cash flow	0	0	0	0	0
Cash flow from financing	(448)	(504)	642	2,033	(1,167)
Change in cash & cash eq	(1,595)	766	649	(424)	588
Closing cash & cash eq	975	1,740	2,389	1,966	2,555

Balance sheet

Y/E 31 Mar (Rs mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Accounts payable	3,742	4,848	2,894	3,039	3,191
Other current liabilities	0	0	0	0	0
Provisions	1,590	3,486	4,692	4,926	5,173
Debt funds	11,509	12,595	14,835	18,835	19,835
Other liabilities	1,143	1,405	2,641	0	0
Equity capital	5,621	5,624	5,642	5,642	5,642
Reserves & surplus	6,531	10,014	14,424	18,702	22,973
Shareholder's funds	12,152	15,638	20,066	24,343	28,614
Total liabilities	30,136	37,973	45,127	51,144	56,813
Cash and cash eq	975	1,741	2,390	1,966	2,555
Accounts receivable	544	753	698	1,176	1,220
Inventories	926	1,327	623	1,616	1,678
Other current assets	3,204	3,732	5,289	5,553	5,831
Investments	356	666	766	867	1,117
Net fixed assets	17,686	24,368	31,817	34,702	38,634
CWIP	6,446	5,387	3,546	5,264	5,779
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	30,136	37,973	45,127	51,144	56,813

Company data

Market cap (Rs mn / US\$ mn)	59,292 / 1,211
Outstanding equity shares (mn)	564.2
BVPS (Rs)	43
Free float (%)	0.6
52-week high / low (Rs)	125 / 87
2-month avg. daily vol (mn)/ value (US\$ mn)	2 / 4
ADR/GDR premium (%)	n.a.



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Recommendation Interpretation

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Hold	Between 15% and -5%
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