

Refer to important disclosures at the end of this report

PM Modi commits to bringing gas under GST, but more clarity awaited

- Prime Minister Modi yesterday stated centre trying to eliminate the cascading effect of different taxes on gas across states to reduce cost and increase usage. He further committed to bringing natural gas under the GST regime.
- While the ruling NDA Govt including Petroleum Minister Pradhan have been vocal in supporting gas under GST, there has been significant delays in forming consensus among states in the GST Council. States like Gujarat earns Rs25bn of annual VAT from gas.
- While PM's statement adds credibility, we did not anticipate the sharp up move of gas stocks today. We note that clarity relating to GST rate, estimation of input tax credit among gas players and B2B customers and whether same will be retained or passed is lacking.
- In our coverage universe, we roughly estimate 3-9% EPS impact from potential ITC benefit. Effective taxation in gas centers like Delhi/Maharashtra/Gujarat is 14.4/27.9/29.4% for CNG and 0/13.5/6-15% for piped gas, hence the final rate would determine price action.

GST rate key to price action, Delhi with minimum effective tax to see price hikes:

Currently VAT rate in major gas centers like Delhi/Maharashtra/Gujarat/UP is 0/13.5/15.0/10.0% for piped gas while for CNG union excise of 14.42% is imposed. The GST rate which fixed hence would determine the pricing action, whether hike or cut. Delhi with minimum taxation would see RSP hikes while for others 18-28% range would be neutral to positive on CNG and PNG segments respectively. Overall, due to high autofuel prices, CNG prices can easily be raised. Domestic PNG also being a sticky segment would not be affected. In case of GGL's non Morbi customers, currently FO is 16% cheaper to industrial (non MGO) PNG despite 18% GST vs 6% rebated VAT respectively. Hence, price for the B2B customers would go up, which would however be passed on to retail customers. Any change in prices incl. cuts due to GST has to be passed on as per non profiteering clause.

Our rough cut ITC benefit estimate implies 3-9% EPS impact among companies: The input tax credit (ITC) benefit is a more tangible positive as same has been a burden and with convergence of tax regimes, same can be recovered. For B2B customers, any rate hike can be recovered despite increase in final prices subject to selling product GST collection being sufficient. For industrial customers in Gujarat, hence the 6% rate currently being absorbed can be recovered. In case of gas companies, for CGD and upstream, opex involves GST payments which can be recovered from gas sales under GST regime. In case of GAIL, petchem and LPG segments where feed gas is charged VAT, would now see recovery. For GAIL, it is difficult to compute considering the interstate and point of sale treatment for different types of gas like US LNG, Qatargas LNG and APM. As per our rough cut calculations using opex and COGS for CGD-upstream and GAIL respectively, positive EPS impact from ITC 7% each on IGL/Gujarat Gas (Rs1.5/1.4bn EBITDA impact), while for ONGC/Oil India it is 3%/7% (Rs7.7/1.1bn) and GAIL 9% (Rs6.8bn), though assuming 15% VAT which is not clear as of now. As per company checks, IGL/GGL has indicated Rs1.5bn/600mn annual impact while others have not computed for the lack of clarity.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Oil & Gas \(page 6\)](#)

Financial Snapshot (Standalone)

(Rs mn)	EPS		EV/EBITDA		P/E	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
ONGC	7.1	13.9	6.1	4.2	15.5	7.9
Oil India	4.8	10.5	10.4	7.5	25.6	11.6
GAIL	9.9	12.7	11.2	8.6	14.5	11.3
Indraprastha Gas	14.5	22.0	25.1	16.6	39.2	25.8
Gujarat Gas	17.6	22.6	16.8	13.5	27.1	21.2

Source: Company, Emkay Research

ONGC	BUY
CMP	Target Price
111	130
Oil India	HOLD
CMP	Target Price
122	100
GAIL	BUY
CMP	Target Price
143	160
Indraprastha Gas	HOLD
CMP	Target Price
568	610
Gujarat Gas	BUY
CMP	Target Price
478	475

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

Sabri Hazarika
sabri.hazarika@emkayglobal.com
+91 22 6612 1282

Tanay Gabhawala
tanay.gabhawala@emkayglobal.com
+91 22 6612 1336

Story in Charts

Exhibit 1: Natural gas taxation

CNG Union Excise	14.42%
VAT Rates	
Delhi	0.0%
Maharashtra	13.5%
Gujarat	15.0%
Uttar Pradesh	10.0%
Andhra Pradesh	24.5%
Bihar	20.0%
Dadra & NH	12.5%
Haryana	17.5%
Karnataka	20.0%
Madhya Pradesh	14.0%
Odisha	15.0%
Punjab	3.0%
Rajasthan	5.5%
Tamil Nadu	5.0%
Telangana	14.5%
West Bengal	5.0%

Source: MOPNG, Emkay Research

Exhibit 2: VAT Collection

Rs mn	FY19
Delhi	-
Maharashtra	5,840
Gujarat	25,720
UP	18,420
Others	12,890
Total	62,870

Source: Company, Emkay Research

Exhibit 3: Gujarat industrial PNG vs Fuel Oil pricing

Rs/scm	Unit	Pre Tax	Post Tax
Non MGO IPNG	Rs/scm	37.0	39.2
	Rs/cal	4.4	4.7
MGO IPNG	Rs/scm	33.3	35.3
	Rs/cal	4.0	4.2
FO	Rs/kg	35.0	41.3
	Rs/cal	3.3	3.9
FO Discount vs Non MGO			-16%

Source: Company, Emkay Research

Exhibit 4: ITC impact due to gas under GST

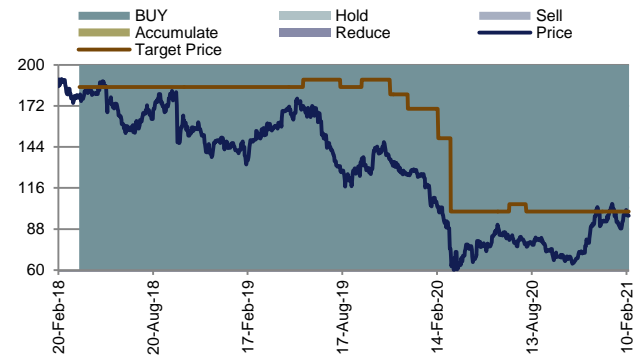
Rs mn	Opex	Stranded ITC	PAT Impact	EPS Impact	FY22E EPS	%	Remarks
IGL	11,346	1,480	1,107	1.6	22.0	7%	Rs1.5bn as per Co. checks
MGL	4,591	599	448	4.5	90.4	5%	Rs0.5-1bn as per Co. checks
GGL	11,056	1,442	1,079	1.6	22.6	7%	Rs0.6bn as per Co. checks
Rs mn	Opex	Gas Opex	Stranded ITC	PAT Impact	EPS Impact	FY22E EPS	%
ONGC	196,915	59,075	7,705	5,163	0.4	13.9	3%
Oil India	16,579	8,290	1,081	809	0.7	10.5	7%
Rs mn	COGS	VAT	PAT Impact	EPS Impact	FY22E EPS	%	
GAIL Petchem	42,410	5,532	4,138	0.9			
GAIL LPG	9,558	1,247	933	0.2			
GAIL Total	51,968	6,778	5,070	1.1	12.7	9%	No recent guidance, Rs3-4bn was stated 4-5years ago

Source: Company, Emkay Research

**ONGC
RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
15-Feb-21	98	130	12m	Buy	Sabri Hazarika
6-Jan-21	97	100	12m	Buy	Sabri Hazarika
26-Nov-20	80	100	12m	Buy	Sabri Hazarika
17-Nov-20	71	100	12m	Buy	Sabri Hazarika
27-Oct-20	67	100	12m	Buy	Sabri Hazarika
28-Sep-20	72	100	12m	Buy	Sabri Hazarika
2-Aug-20	78	100	12m	Buy	Sabri Hazarika
1-Jul-20	80	105	12m	Buy	Sabri Hazarika
6-May-20	79	100	12m	Buy	Sabri Hazarika
11-Mar-20	72	100	12m	Buy	Sabri Hazarika
16-Feb-20	103	150	12m	Buy	Sabri Hazarika
24-Jan-20	118	170	12m	Buy	Sabri Hazarika
20-Dec-19	125	170	12m	Buy	Sabri Hazarika
4-Dec-19	130	180	12m	Buy	Sabri Hazarika
16-Nov-19	136	180	12m	Buy	Sabri Hazarika
25-Oct-19	140	190	12m	Buy	Sabri Hazarika
23-Sep-19	136	190	12m	Buy	Sabri Hazarika
13-Aug-19	128	185	12m	Buy	Sabri Hazarika
10-Jun-19	165	190	12m	Buy	Sabri Hazarika
3-Jun-19	172	190	12m	Buy	Sabri Hazarika
1-Apr-18	178	185	12m	Buy	Sabri Hazarika

Source: Company, Emkay Research

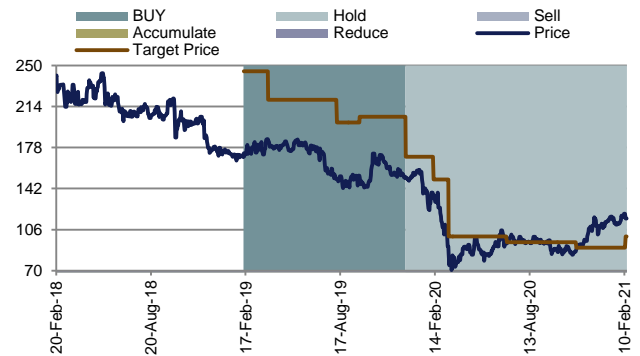
RECOMMENDATION HISTORY CHART


Source: Bloomberg, Company, Emkay Research

**Oil India
RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
12-Feb-21	116	100	12m	Hold	Sabri Hazarika
26-Nov-20	97	90	12m	Hold	Sabri Hazarika
10-Nov-20	89	90	12m	Hold	Sabri Hazarika
27-Oct-20	88	95	12m	Hold	Sabri Hazarika
28-Sep-20	89	95	12m	Hold	Sabri Hazarika
22-Aug-20	100	95	12m	Hold	Sabri Hazarika
30-Jun-20	94	95	12m	Hold	Sabri Hazarika
6-May-20	93	100	12m	Hold	Sabri Hazarika
11-Mar-20	85	100	12m	Hold	Sabri Hazarika
11-Feb-20	134	150	12m	Hold	Sabri Hazarika
24-Jan-20	142	170	12m	Hold	Sabri Hazarika
20-Dec-19	151	170	12m	Hold	Sabri Hazarika
11-Nov-19	164	205	12m	Buy	Sabri Hazarika
25-Oct-19	164	205	12m	Buy	Sabri Hazarika
23-Sep-19	152	205	12m	Buy	Sabri Hazarika
10-Aug-19	150	200	12m	Buy	Sabri Hazarika
10-Jun-19	180	220	12m	Buy	Sabri Hazarika
28-May-19	184	220	12m	Buy	Sabri Hazarika
1-Apr-19	183	220	12m	Buy	Sabri Hazarika
13-Feb-19	173	245	12m	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART


Source: Bloomberg, Company, Emkay Research

GAIL
RECOMMENDATION HISTORY TABLE

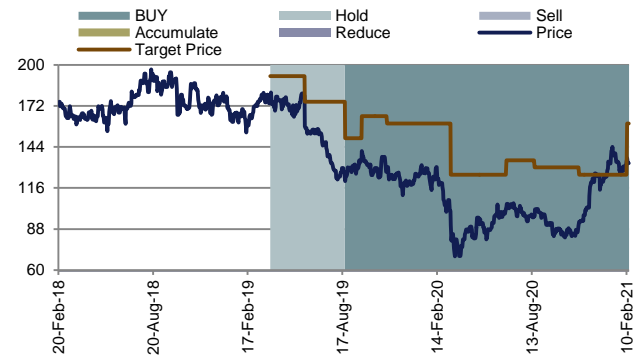
Date	Closing Price	TP	Period (months)	Rating	Analyst
11-Feb-21	136	160	12m	Buy	Sabri Hazarika
6-Jan-21	134	125	12m	Buy	Sabri Hazarika
27-Nov-20	103	125	12m	Buy	Sabri Hazarika
26-Nov-20	103	125	12m	Buy	Sabri Hazarika
11-Nov-20	93	125	12m	Buy	Sabri Hazarika
28-Sep-20	88	130	12m	Buy	Sabri Hazarika
18-Aug-20	97	130	12m	Buy	Sabri Hazarika
25-Jun-20	103	135	12m	Buy	Sabri Hazarika
6-May-20	95	125	12m	Buy	Sabri Hazarika
11-Mar-20	91	125	12m	Buy	Sabri Hazarika
2-Mar-20	100	160	12m	Buy	Sabri Hazarika
11-Feb-20	129	160	12m	Buy	Sabri Hazarika
24-Jan-20	130	160	12m	Buy	Sabri Hazarika
10-Dec-19	111	160	12m	Buy	Sabri Hazarika
4-Dec-19	123	160	12m	Buy	Sabri Hazarika
10-Nov-19	127	160	12m	Buy	Sabri Hazarika
25-Oct-19	123	165	12m	Buy	Sabri Hazarika
23-Sep-19	141	165	12m	Buy	Sabri Hazarika
22-Aug-19	121	150	12m	Buy	Sabri Hazarika
10-Jun-19	154	175	12m	Hold	Sabri Hazarika
6-Jun-19	158	175	12m	Hold	Sabri Hazarika
28-May-19	174	193	12m	Hold	Sabri Hazarika
1-Apr-19	177	193	12m	Hold	Sabri Hazarika

Source: Company, Emkay Research

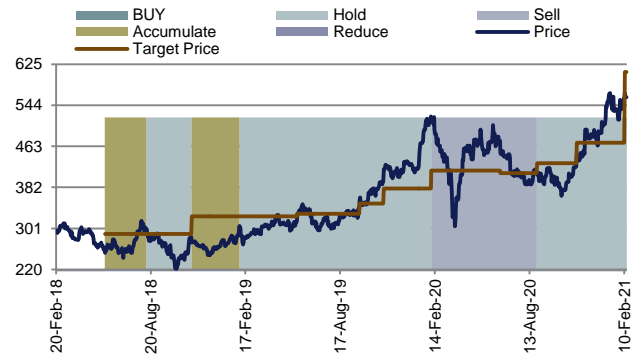
Indraprastha Gas
RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
11-Feb-21	569	610	12m	Hold	Sabri Hazarika
27-Nov-20	496	470	12m	Hold	Sabri Hazarika
11-Nov-20	448	470	12m	Hold	Sabri Hazarika
28-Sep-20	404	430	12m	Hold	Sabri Hazarika
27-Aug-20	407	430	12m	Hold	Sabri Hazarika
18-Jun-20	450	410	12m	Sell	Sabri Hazarika
6-May-20	468	415	12m	Sell	Sabri Hazarika
7-Feb-20	511	415	12m	Sell	Sabri Hazarika
24-Jan-20	496	380	12m	Hold	Sabri Hazarika
4-Dec-19	413	380	12m	Hold	Sabri Hazarika
8-Nov-19	418	380	12m	Hold	Sabri Hazarika
25-Oct-19	377	350	12m	Hold	Sabri Hazarika
23-Sep-19	355	350	12m	Hold	Sabri Hazarika
16-Sep-19	334	330	12m	Hold	Sabri Hazarika
1-Jul-19	305	330	12m	Hold	Sabri Hazarika
10-Jun-19	340	330	12m	Hold	Sabri Hazarika
27-May-19	330	330	12m	Hold	Sabri Hazarika
1-Apr-19	307	325	12m	Hold	Sabri Hazarika
6-Feb-19	300	325	12m	Hold	Sabri Hazarika
28-Jan-19	273	325	12m	Accumulate	Sabri Hazarika
31-Dec-18	267	325	12m	Accumulate	Sabri Hazarika
11-Dec-18	249	325	12m	Accumulate	Sabri Hazarika
6-Nov-18	273	325	12m	Accumulate	Sabri Hazarika
4-Sep-18	283	290	12m	Hold	Sabri Hazarika
11-Aug-18	300	290	12m	Hold	Sabri Hazarika
13-Jul-18	253	290	12m	Accumulate	Sabri Hazarika
8-Jun-18	279	290	12m	Accumulate	Sabri Hazarika
24-May-18	253	290	12m	Accumulate	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART


Source: Bloomberg, Company, Emkay Research

RECOMMENDATION HISTORY CHART


Source: Bloomberg, Company, Emkay Research

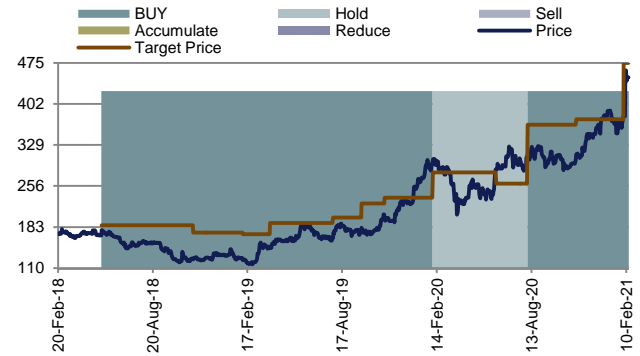
Gujarat Gas

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
5-Feb-21	380	475	12m	Buy	Sabri Hazarika
27-Nov-20	349	375	12m	Buy	Sabri Hazarika
6-Nov-20	313	375	12m	Buy	Sabri Hazarika
28-Sep-20	302	365	12m	Buy	Sabri Hazarika
5-Aug-20	308	365	12m	Buy	Sabri Hazarika
6-Jun-20	286	260	12m	Hold	Sabri Hazarika
6-May-20	235	280	12m	Hold	Sabri Hazarika
6-Feb-20	302	280	12m	Hold	Sabri Hazarika
24-Jan-20	294	235	12m	Buy	Sabri Hazarika
4-Dec-19	217	235	12m	Buy	Sabri Hazarika
6-Nov-19	196	235	12m	Buy	Sabri Hazarika
25-Oct-19	178	225	12m	Buy	Sabri Hazarika
23-Sep-19	182	225	12m	Buy	Sabri Hazarika
30-Jul-19	164	200	12m	Buy	Sabri Hazarika
1-Jul-19	172	190	12m	Buy	Sabri Hazarika
10-Jun-19	186	190	12m	Buy	Sabri Hazarika
6-May-19	160	190	12m	Buy	Sabri Hazarika
1-Apr-19	145	190	12m	Buy	Sabri Hazarika
8-Mar-19	136	170	12m	Buy	Sabri Hazarika
8-Feb-19	124	170	12m	Buy	Sabri Hazarika
28-Jan-19	127	173	12m	Buy	Sabri Hazarika
31-Dec-18	134	173	12m	Buy	Sabri Hazarika
11-Dec-18	125	173	12m	Buy	Sabri Hazarika
5-Nov-18	125	173	12m	Buy	Sabri Hazarika
4-Sep-18	149	186	12m	Buy	Sabri Hazarika
13-Jul-18	152	186	12m	Buy	Sabri Hazarika
8-Jun-18	166	186	12m	Buy	Sabri Hazarika
14-May-18	177	186	12m	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Oil & Gas



Analyst: Sabri Hazarika

Contact Details

sabri.hazarika@emkayglobal.com
+91 22 6612 1282

Sector

Oil & Gas

Analyst bio

Sabri Hazarika holds an MBA and comes with 11 years of research experience. His team currently covers 12 stocks in the Indian Oil & Gas space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Oil & Gas	10.20	10.20	0%	0	100.00
BPCL	0.39	0.43	10%	4	4.20
GAIL	0.29	0.29	1%	0	2.83
Gujarat Gas	0.09	0.08	-7%	-1	0.83
Gujarat State Petronet	0.08	0.08	1%	0	0.81
Gulf Oil Lubricants	0.00	0.05	NA	5	0.52
HPCL	0.21	0.23	10%	2	2.23
Indian Oil	0.28	0.26	-7%	-2	2.58
Indraprastha Gas	0.22	0.23	2%	0	2.24
Petronet LNG	0.21	0.21	-2%	0	2.05
Oil India	0.05	0.03	-42%	-2	0.29
ONGC	0.44	0.49	10%	5	4.76
Reliance Industries	7.94	7.82	-1%	-12	76.66
Cash	0.00	0.01	NA	0	0.02

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	19-Feb-20	19-Aug-20	19-Nov-20	18-Jan-21	17-Feb-21
EAP - Oil & Gas	100.0	100.0	128.2	119.9	124.5	129.8
BSE200 Neutral Weighted Portfolio (ETF)	100.0	100.7	127.4	118.9	123.7	129.0

*Performance measurement base date 1st April 2019

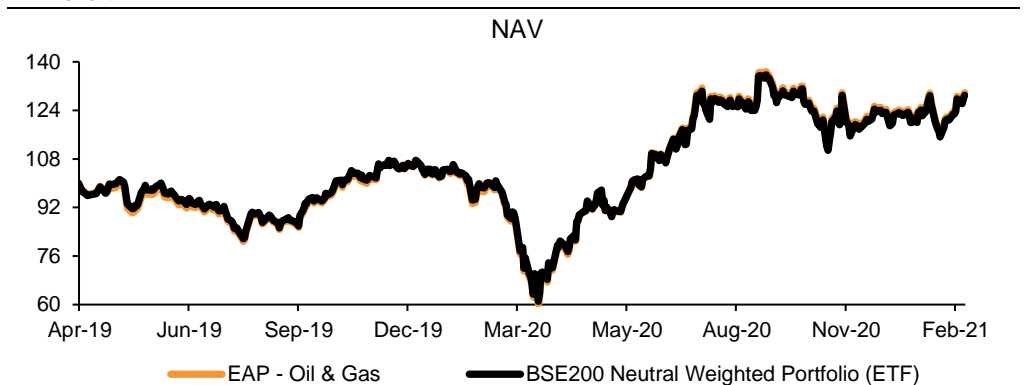
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Oil & Gas	4.3%	8.3%	1.3%	29.8%
BSE200 Neutral Weighted Portfolio (ETF)	4.3%	8.4%	1.3%	28.0%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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Sources for all charts and tables are Emkay Research unless otherwise specified.

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com