

Oil & Gas, Chemical & Telecom Sector

Institutional Equity Research

Results Preview | 7 October 2021

On Growth Trajectory

We expect sectoral earnings to be impacted in 2QFY22 due to: (1) a rally in Brent crude prices to US\$72.9/bbl during the quarter (up 71% YoY and up 6% QoQ); (2) a rise in spot LNG price to US\$18.6/mmbtu, with major recovery in Singapore benchmark GRM (US\$3.8/bbl); (3) 4% QoQ increase in sales volume of oil products; and (4) 5% QoQ rise in India's total gas consumption. We expect an increase in the cost of gas per unit basis for City Gas Distribution (CGD) companies due to (1) higher crude-linked LNG prices and (2) higher spot LNG prices. However, CGD players total sales volume is expected to be improved sequentially on a faster rollout of COVID vaccination and reopening of the economy. We expect the gas companies to continue to perform better. GAIL is likely to witness improved gas/LNG marketing margins, with improved price realization of the LPG segment due to higher oil prices, which augur well for the company. BPCL's EBITDA is expected to increase due to a higher refining margin, higher crude throughput, and improved net marketing margin for petrol and diesel.

Gujarat Gas (GUJGA) – Seasonal Jump in LNG Price to Dent Profit

Hurricane Ida, the delay in the commissioning of Nord Stream-2 gas pipelines and China's power crises led to a gas supply shortage, which led to record-high LNG prices in anticipation of a colder-than-expected winter in 2021. In 2QFY22, spot LNG prices jumped by 92% QoQ to US\$18.6/mmbtu. We expect the gas cost per unit to increase by 32% QoQ. This will lead to a 49% sequential decline in EBITDA per scm to Rs4.0 only in 2QFY22E. Despite a month-long production shutdown at Morbi ceramic cluster, a sharp increase in freight rates and container availability issue at Morbi ceramic cluster, we expect the company to post 13% QoQ growth in total volume to 11.4mmscmd in 2QFY22E. Gujarat Gas increased PNG Industrial/CNG price by Rs 4.0 per scm/ Rs2.0 per Kg in Aug'21 respectively, to improve price realization sequentially. We expect the company's net sales to increase by 22% QoQ to Rs36.6bn, while its EBITDA is likely to decline by 42% QoQ to Rs4.2bn in 2QFY22E

Mahanagar Gas (MAHGL) – Sequential Recovery in Total Sales Volume

Total sales volume of Mahanagar Gas (MAHGL) is likely to increase by 16% QoQ in 2QFY22E due to reopening of commercial activities in Mumbai and suburban areas. MAHGL increased CNG price by Rs2.6/kg and Rs0.6/scm in Jul'21, which will lead to an improvement in the overall price realization, while operational cost will be higher due to an upward revision of the Uran-Trombay pipeline tariff.

We expect the company to report ~Rs14.2/scm EBITDA in 2QFY22E (vs. Rs13.9/scm in 1QFY22), while its net profit is seen at Rs2.5bn (up 21% QoQ).

Indraprastha Gas (IGL) - Insufficient APM Gas Allocation to Increase Gas Costs

Total sales volume of Indraprastha Gas (IGL) is likely to rise by 37% QoQ in 2QFY22E due to the reopening of schools, colleges and offices in Delhi and the National Capital Area (NCR). While its CNG sales volume is likely to increase by 41% from 1QFY22 on the basis of higher CNG vehicle conversion rates @ 15k per month (vs. 10k in 1HCY21). In addition, the volume of industrial sales of PNG is likely to increase on a QoQ basis. As higher crude prices are expected to lead to higher LNG prices and a lower allocation of cheap APM gas, this will lead to a 21% increase in gas costs per unit on a QoQ basis. IGL increased PNG Household/CNG price by Rs2.5 per scm/Rs2.5 per Kg in 2QFY22 to improve price realization sequentially. We expect the company's net sales to increase by 45% QoQ to Rs18.3bn, while its EBITDA is likely to rise by 44% QoQ to Rs5.5bn in 2QFY22E.

Petronet LNG (PLNG) – Dahej/Kochi Utilization Seen at 102%/21%

Petronet LNG (PLNG) is likely to report a total re-gas volume of 2371btu (up 13% QoQ and down 7% YoY). According to Bloomberg data, the re-gas volume of the Dahej terminal would be 2241btu (up 15% QoQ and down 8% YoY), mainly due to an improved LNG consumption by fertilizers, CGD and small industries. However, we expect Kochi terminal to post lower utilization on the back of higher spot LNG prices (lack of a long-term LNG contract). We expect PLNG to post EBITDA of Rs14.1bn (up 33% QoQ and up 3% YoY) and Rs9.2bn net profit (up 45% QoQ and down 1% YoY) in 2QFY22E.

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GAIL (GAIL) - Proxy Play on Higher Crude Prices

Gas Transmission: We expect GAIL's gas transmission volume to rise by 5% QoQ in 2QFY22E due to higher gas consumption by CGD players, fertilizers and small industries. **Natural Gas Trading:** Landed US HH LNG at an average price of ~US\$9.8/mmbtu is lower than the average spot LNG price of US\$18.6/mmbtu, and in line with crude-linked average LNG price of US\$9.8/mmbtu. We believe GAIL's US LNG non-contracted (back-to-back) volume would earn a higher trading margin and could continue to increase margin in the scenario of higher crude prices with higher spot LNG prices. We expect GAIL to post US\$0.25/mmbtu gas trading EBITDA (up 37% QoQ). **Petrochemicals:** We expect 100% utilization at production levels. EBITDA is seen at Rs4.9bn (up 94% QoQ) due to higher PE prices. **LPG & OLHC:** Despite rising LPG prices in line with crude prices, GAIL would not reap full benefits, as it faced a rich gas supply problem for LPG production in 2QFY22. We expect GAIL to post EBITDA of Rs29.8bn (up 123% YoY and up 24% QoQ) and net profit of Rs21bn (up 69% YoY and down 37% QoQ) in 2QFY22E.

Gujarat State Petronet (GUJS) – Lower Offtake by Power Plants on Higher Spot LNG

Gujarat State Petronet (GUJS) is likely to have a total gas transmission volume of 36mmscmd (down 9% YoY and down 2% QoQ) in 2QFY22E. The transmission volume sequentially declined to 36mmscmd on the back of a lower offtake of spot LNG by power producers. We estimate the company to post EBITDA of Rs3.6bn (down 7% YoY and down 5% QoQ) and net profit of Rs2.2bn (down 19% YoY and down 5% QoQ) in 2QFY22E.

Bharat Petroleum Corporation (BPCL) - GRM Recovery, Super Normal Net Marketing Margin and Inventory Gain Are Real Drivers

BPCL is expected to post 53% QoQ increase in EBITDA due to 4% QoQ growth in oil products sales volume, 14% QoQ increase in crude refinery throughput, and major recovery in refining margins to US\$4.7/bbl (including inventory gains of US\$0.5/bbl). Moreover, crude prices have inched up from US\$68.7/bbl to ~US\$72.9/bbl, which will lead to an inventory gain of ~US\$0.5/bbl. During the quarter, the company was able to pass on a product price increase to consumers, which led to super normal net marketing margins for diesel/petrol. We expect BPCL's reported GRM at ~US\$4.7/bbl, while its net marketing margin for diesel and petrol is seen at Rs4.4/liter and Rs0.6/liter in 2QFY22E.

Castrol (CSTRL) – Sequential Recovery in Lubricants Volume

According to PPAC data, India's lubricant and grease consumption increased by 16% QoQ in 3QCY21. The price realization is expected to improve on the back of a price hike across segments to cope with higher base oil prices. Castrol's revenue is likely to grow by 19% QoQ, while its EBITDA is expected to increase by 24% QoQ to Rs2.4bn.

Our View: India's gas consumption, which witnessed 2.3% CAGR over FY17-21, is expected to clock 9% CAGR over FY21-24E, largely on account of: (1) upcoming fertilizer capacities (6.5MMTPA), which are expected to consume ~12mmscmd of gas; (2) commencement of CGD in >228 new geographical areas; and (3) new refining and petrochemical capacity. India's gas production is also expected to increase by ~35mmscmd over FY21-24E with the commissioning of new LNG terminals (~20MMTPA) in the next 3 years. We remain constructively positive on CGD business, with Gujarat Gas and IGL being our top picks owing to decent volume growth visibility over the next 3 years.

SRF (SRF) – NTCF Contract Renewal, a Boost to 2Q Earnings

Chip shortages issue in the automotive industry will have very little impact on the HFC segment, as 70%-80% of its market is driven by aftermarkets. Specialty chemical and packaging film business will grow by 25%/26% YoY based on higher capacity utilization and robust demand. Domestic fluorochemicals begin to perform due to higher consumption in the HVAC industry. Capacity expansion in Hungary, the commissioning of Thailand BOPP plant and capacity closure by Chinese companies augur well for the packaging segment. SRF's revenue is likely to grow by 31% YoY, while its EBITDA will increase by 19% YoY to Rs6.9bn. We expect its net profit to increase by 27% YoY to Rs4.1bn in 2QFY22E.

Aarti Industries (ARTO) – Fundamentals Continue to Remain Strong

India's agrochemical markets remained strong, driven by favorable weather conditions and better crop prices. Normal monsoon, better crop prices, and continued government support for agriculture will drive a sustainable industry growth. Thus, we expect its specialty chemical segment to grow by 16% YoY. Moreover, the company's pharmaceutical business is expected to continue its growth trajectory, with a growth of 12% YoY. We expect its EBITDA at Rs3.1bn with an EBITDA margin of 23.2%, which is expected to increase by 22% YoY. ARTO's revenue is expected to rise by 15% YoY to Rs13.4bn, while its PAT is expected to grow by 18% YoY in 2QFY22E to Rs1.7bn.

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Varun Beverages (VBL) – Momentum to Continue

We expect VBL to report a 23% YoY increase in net sales based on: (a) a lower base and (b) the economy's opening. Rising vaccination dosages and lower COVID cases led respective state governments to grant in-principle permission to open restaurants, which would help increase its out-of-home consumption. We expect its new launches "Sting" and "Mountain Dew" to gain higher acceptance in the rural and urban market. The increase in PET prices will not affect the company, as hedging is carried out until 3QCY21. Sugar, one of the most important raw materials, has seen a sustained price increase due to the shortage in key markets in Brazil and Indonesia. We expect VBL's focus to strengthen its distribution chain and a growth in South and West India will lead to an increase in volume. We estimate the company will report PAT of Rs2.3bn in 3QCY21E compared to Rs3.2bn in 2QCY21

Our View: Indian specialty chemicals companies delivered resilient performance in FY21 and the industry is set to grow to US\$40bn by FY25E. "China+1" strategy is the key catalyst for global firms to turn towards India. The situation has changed in the wake of COVID, as several downstream MNCs, which used to import bulk of their chemical requirements from China, are now contemplating to supplement this supply from elsewhere to reduce the dependence on China. This is a positive trigger for the Indian specialty chemicals players. Considering the long-term structural tailwind for the specialty chemicals sector in India, Aarti Industries and SRF remain our top picks.

Indus Tower (BHIN) – Healthy Tower Addition

We expect a healthy tower addition in 2QFY22 due to no major restrictions and a decline in COVID cases. Tenancy addition is expected to gain momentum led by additional spectrum buyout in Mar'21, as well as incremental subscribers addition of 1.9mn by Bharti Airtel in Jul'21. We expect revenue to rise by 2% QoQ and 9% YoY to Rs70.1bn, while EBITDA is seen at ~Rs36.1bn (up 13% YoY and up 1% QoQ). PAT is expected to rise by 25% YoY to ~Rs14.1bn.

Our View: We expect India's telecom tower companies to face headwinds in the next 2 years led by: (1) very minimal capex on the tower side, as public launch of 5G will take more than a year; and (2) likelihood of tower companies becoming mere infrastructure providers, as the incremental capex of the telcos will be incurred towards software upgradation only. Thus, the linear tenancy is unlikely to witness any meaningful upside in the next 2 years. We maintain our SELL rating on Indus Tower.

Our Top Picks: Gujarat Gas, IGL, SRF and Aarti Industries

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Exhibit 1: Quarterly Estimates

(Rs mn)	Sales					EBITDA				
	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)
GAIL	1,88,553	1,36,445	38.2	1,73,866	8.4	29,832	13,381	122.9	24,113	23.7
Petronet LNG	1,14,462	62,358	83.6	85,979	33.1	14,070	13,632	3.2	10,543	33.5
BPCL	9,72,623	6,59,125	47.6	8,96,871	8.4	49,767	38,512	29.2	32,527	53.0
Mahanagar Gas	7,694	5,067	51.8	6,155	25.0	3,573	2,211	61.6	3,040	17.5
IGL	18,263	13,054	39.9	12,574	45.2	5,499	4,071	35.1	3,809	44.4
GUJGA	36,616	25,130	45.7	30,109	21.6	4,180	7,330	(43.0)	7,229	(42.2)
GSPL	5,113	5,774	(11.5)	5,272	(3.0)	3,555	3,807	(6.6)	3,744	(5.0)
Aarti Industries	13,439	11,726	14.6	13,168	2.1	3,113	2,543	22.4	3,138	(0.8)
SRF	27,502	21,008	30.9	26,994	1.9	6,934	5,821	19.1	6,716	3.3
Castrol	10,608	8,831	20.1	8,896	19.2	2,444	2,882	(15.2)	1,975	23.7
Indus Tower	69,459	63,591	9.2	67,970	2.2	36,117	32,412	11.4	32,685	10.5
Varun Beverages	22,172	18,026	23.0	24,498	(9.5)	4,656	3,808	22.3	5,708	(18.4)

	PBT (Rs mn)					PAT (Rs mn)				
	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)
GAIL	28,060	15,503	81.0	20,537	36.6	20,998	12,397	69.4	15,299	37.2
Petronet LNG	12,276	12,426	(1.2)	8,512	44.2	9,186	9,273	(0.9)	6,357	44.5
BPCL	40,883	34,223	19.5	20,732	97.2	30,593	22,478	36.1	15,017	103.7
Mahanagar Gas	3,289	1,950	68.6	2,756	19.3	2,461	1,443	70.5	2,041	20.6
IGL	4,972	3,994	24.5	3,299	50.7	3,720	3,079	20.8	2,443	52.3
GUJGA	3,320	6,343	(47.7)	6,377	(47.9)	2,480	4,748	(47.8)	4,762	(47.9)
GSPL	2,948	3,519	(16.2)	3,161	(6.7)	2,206	2,711	(18.6)	2,333	(5.4)
Aarti Industries	2,095	1,772	18.2	2,070	1.2	1,697	1,435	18.2	1,651	2.8
SRF	5,568	4,321	28.9	5,349	4.1	4,114	3,157	30.3	3,953	4.1
Castrol	2,377	2,775	(14.3)	1,902	25.0	1,783	2,046	(12.9)	1,400	27.3
Indus Tower	18,530	15,168	22.2	18,770	(1.3)	14,072	11,307	24.5	14,153	(0.6)
Varun Beverages	3,121	1,917	62.8	4,196	(25.6)	2,336	1,615	44.7	3,188	(26.7)

Source: RSec Research

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Oil & Gas Prices Trend - Macro-Focused Charts

Exhibit 2: Brent Oil Prices Quarterly Trend

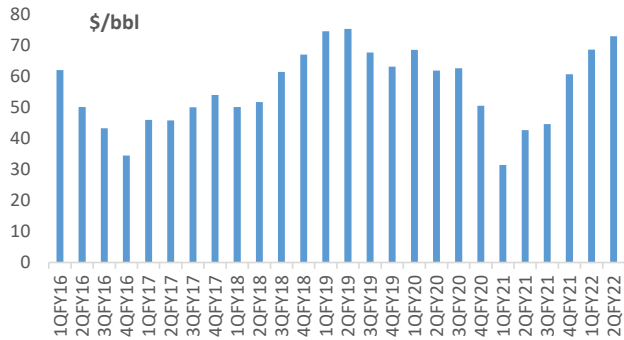


Exhibit 3: WTI Oil Prices Quarterly Trend

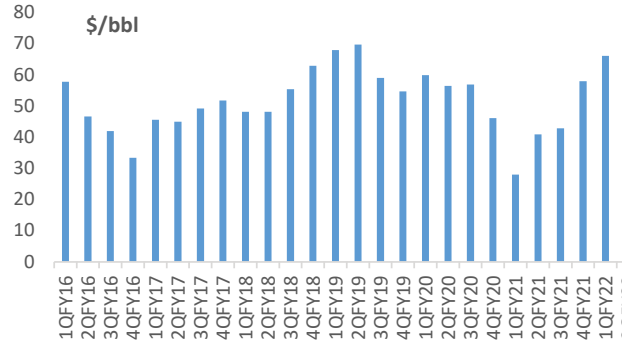
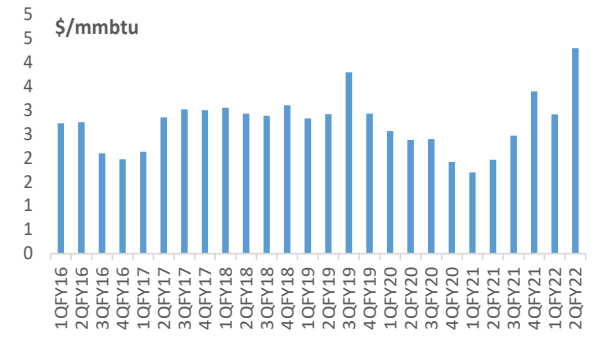


Exhibit 4: Henry Hub Gas Prices Quarterly Trend



Oil Product Crack Trends - Macro-Focused Charts

Exhibit 5: Gasoline (Petrol) cracks Quarterly Trend

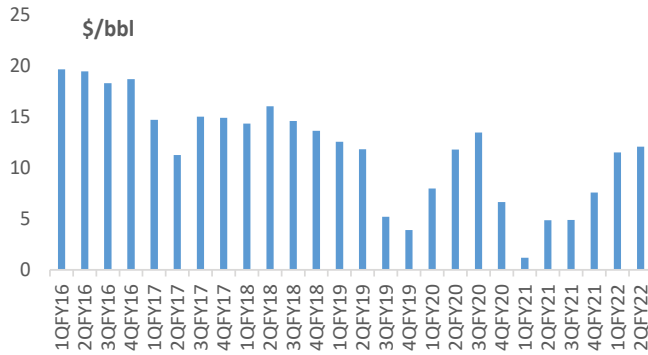


Exhibit 6: Diesel cracks Quarterly Trend

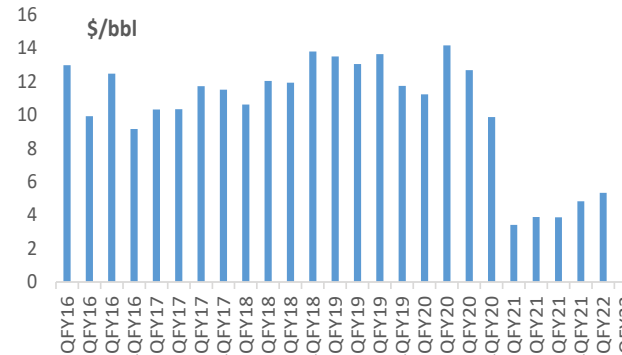
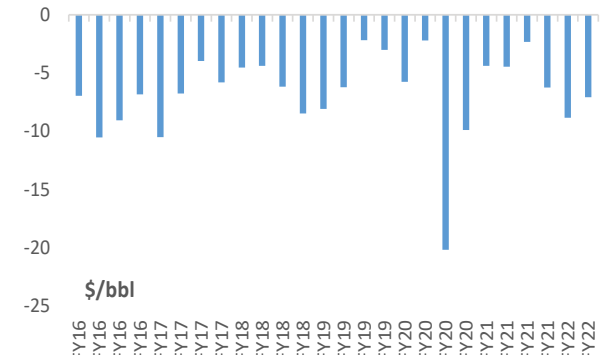


Exhibit 7: Fuel Oil cracks Quarterly Trend



Source: Bloomberg, RSec Research

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Oil Product Crack Trends - Macro-Focus Chart

Exhibit 8: Jet/Kero cracks Quarterly Trend

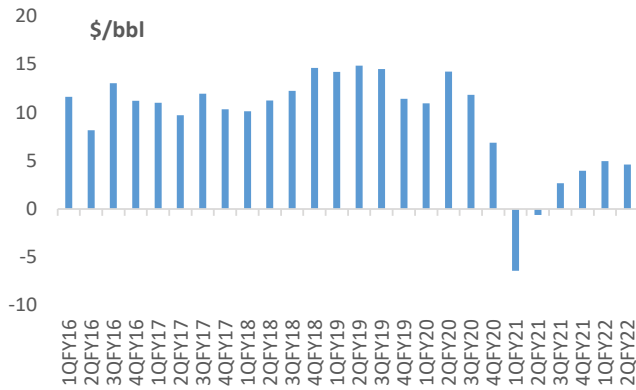


Exhibit 9: Napththa cracks Quarterly Trend

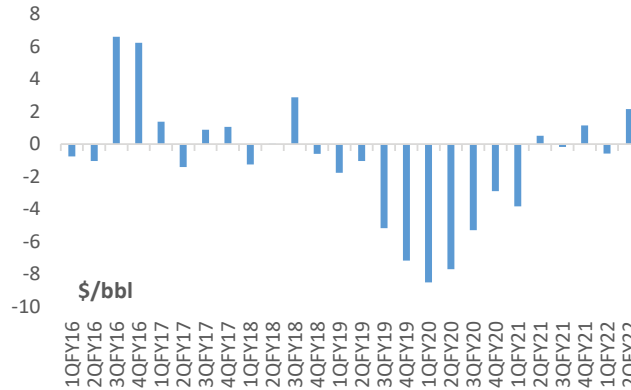
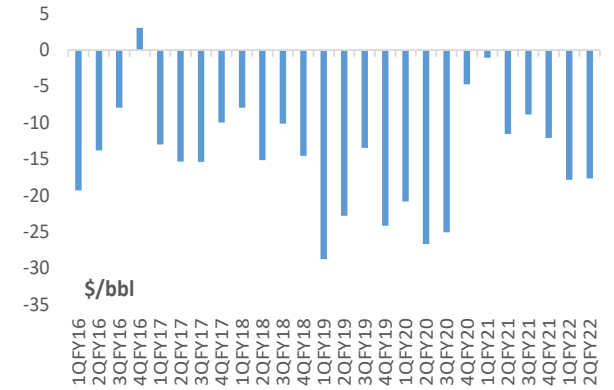


Exhibit 10: LPG cracks Quarterly Trend



Crude Spread - Macro-Focus Chart

Exhibit 11: Brent - Dubai crude price differentials

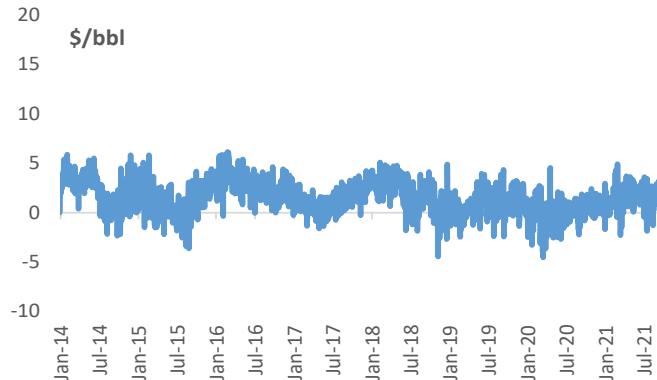


Exhibit 12: Brent - Dubai crude price differentials

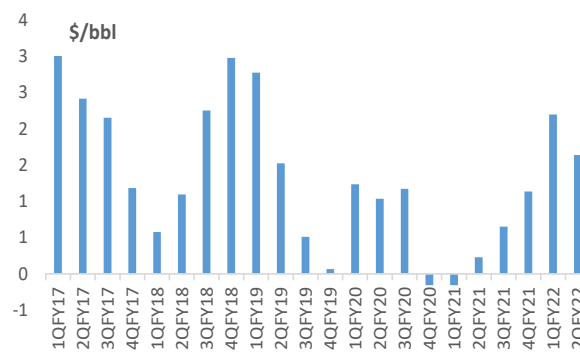
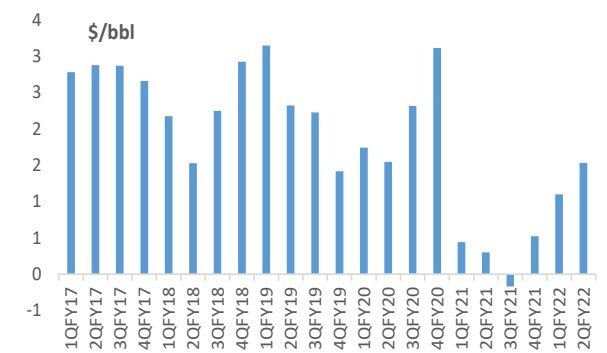


Exhibit 13: Arab Light - Arab Heavy crude price differentials



Source: Bloomberg, Reuters, RSec Research

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Gas Charts

Exhibit 14: India's Domestic Gas consumption

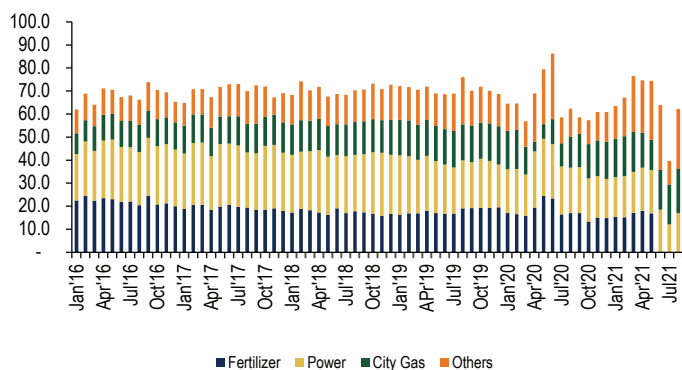


Exhibit 15: India's Imported gas consumption

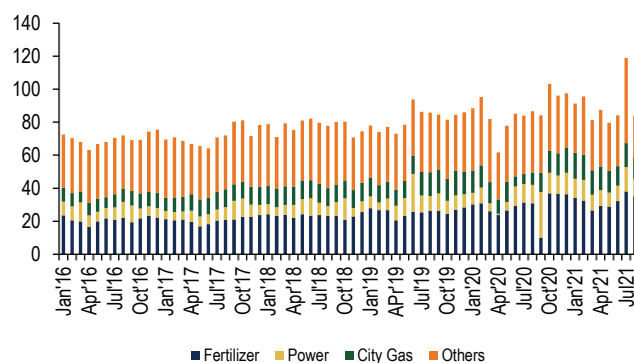


Exhibit 16: Net Marketing Margins of IOCL on Diesel



Margins

Exhibit 17: Net Marketing Margins of IOCL on Petrol

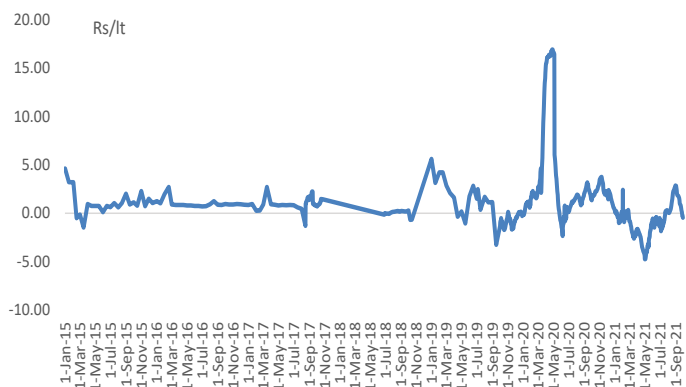


Exhibit 18: LPG - Domestic Gas price spread (\$/toone)

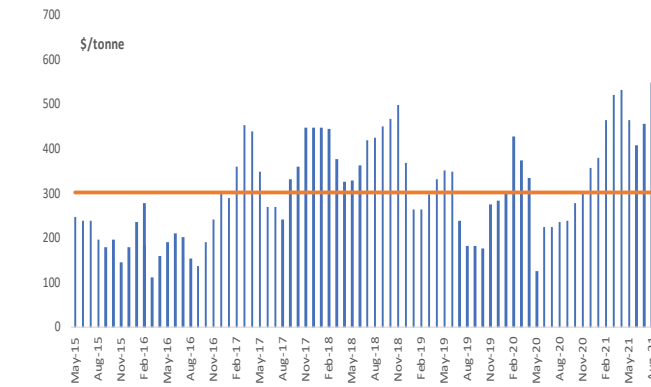
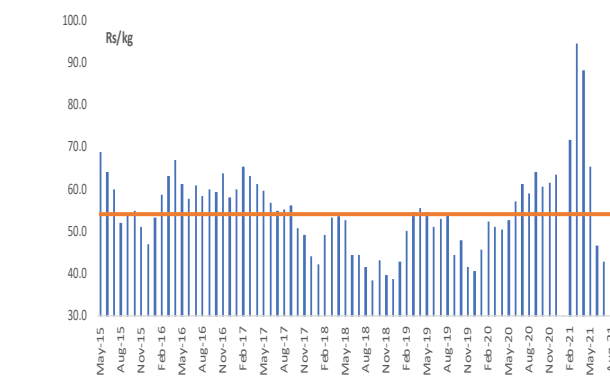


Exhibit 19: GAIL's Petrochemical Indicator (PE - Spot LNG prices in Rs/kg)



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Exhibit 20: Oil & Gas - 2QFY22 Results Preview

Company (Rs mn)	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)	Comments
GAIL						
Revenue	1,88,553	1,36,445	38.2	1,73,866	8.4	GAIL's gas transmission volume to rise by 5% QoQ in 2QFY22E due to higher gas consumption by the CGD players, fertilizers & small industries.
EBITDA	29,832	13,381	122.9	24,113	23.7	Expecting 100% utilization at production levels for Petrochemicals.
PBT	28,060	15,503	81.0	20,537	36.6	
PAT	20,998	12,397	69.4	15,299	37.2	
Petronet LNG						
Revenue	1,14,462	62,358	83.6	85,979	33.1	Likely to report total re-gas volume of 2371btu (-7% YoY & +13% QoQ), Dahej terminal to contribute 95% of total volume
EBITDA	14,070	13,632	3.2	10,543	33.5	Kochi terminal to post lower utilization on the back of higher spot LNG prices
PBT	12,276	12,426	(1.2)	8,512	44.2	
PAT	9,186	9,273	(0.9)	6,357	44.5	
BPCL						
Revenue	9,72,623	6,59,125	47.6	8,96,871	8.4	Higher oil product sales volume, increase in refinery throughput, major recovery in refining margins and inventory gain augurs well for BPCL
EBITDA	49,767	38,512	29.2	32,527	53.0	Higher crude prices, ability to pass on product price increase to lead to higher EBITDA
PBT	40,883	34,223	19.5	20,732	97.2	Reported GRM to be at ~US\$4.7/bbl, while its net marketing margin for diesel and petrol to be at Rs4.4/liter and Rs0.6/liter in 2QFY22E.
PAT	30,593	22,478	36.1	15,017	103.7	
Mahanagar Gas						
Revenue	7,694	5,067	51.8	6,155	25.0	Total sales volume of is likely to increase by 16% QoQ in 2QFY22E, due to reopening of commercial activities in Mumbai and suburban areas.
EBITDA	3,573	2,211	61.6	3,040	17.5	Higher EBITDA is due to increase in CNG price, which lead to improvement in the overall price realization.
PBT	3,289	1,950	68.6	2,756	19.3	
PAT	2,461	1,443	70.5	2,041	20.6	

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Company (Rs mn)	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)	Comments
IGL						
Revenue	18,263	13,054	39.9	12,574	45.2	Sales volume is likely to rise by 37% QoQ due to reopening of school, colleges and office in Delhi. Industrial Volumes to also increase on QoQ basis.
EBITDA	5,499	4,071	35.1	3,809	44.4	Cost of gas expected to increase by 21% QoQ on the back of higher LNG prices.
PBT	4,972	3,994	24.5	3,299	50.7	
PAT	3,720	3,079	20.8	2,443	52.3	
GUJGA						
Revenue	36,616	25,130	45.7	30,109	21.6	Despite higher spot LNG prices, month-long production shutdown in Morbi ceramic cluster, we expect 13% QoQ increase in total volume to ~11.4mmscmd.
EBITDA	4,180	7,330	(43.0)	7,229	(42.2)	Cost of gas to increase by 32% QoQ, leading to a ~49% sequential decline in EBITDA/scm to Rs 4/scm in 2QFY22E.
PBT	3,320	6,343	(47.7)	6,377	(47.9)	
PAT	2,480	4,748	(47.8)	4,762	(47.9)	
GSPL						
Revenue	5,113	5,774	(11.5)	5,272	(3.0)	GUJS is likely to post total gas transmission volume of ~36mmscmd (down 9% YoY and down 2% QoQ) in 2QFY22E
EBITDA	3,555	3,807	(6.6)	3,744	(5.0)	Lower offtake of spot LNG by power producers impacted transmission volume
PBT	2,948	3,519	(16.2)	3,161	(6.7)	
PAT	2,206	2,711	(18.6)	2,333	(5.4)	
Castrol						
Revenue	10,608	8,831	20.1	8,896	19.2	India's lubricant and grease consumption increased by 16% QoQ in 3QCY21
EBITDA	2,444	2,882	(15.2)	1,975	23.7	Price realization is expected to improve on the back of price hike to cope up with increase in the base oil prices.
PBT	2,377	2,775	(14.3)	1,902	25.0	
PAT	1,783	2,046	(12.9)	1,400	27.3	

Continued...

Oil & Gas, Chemical & Telecom Sector

Institutional Equity Research

Results Preview | 7 October 2021

Chemicals - 2QFY22 Results Preview

Company (Rs mn)	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)	Comments
Aarti Industries						
Revenue	13,439	11,726	14.6	13,168	2.1	Favourable weather conditions, better crop prices and continued government support to increase the demand for agrochemicals
EBITDA	3,113	2,543	22.4	3,138	(0.8)	Specialty chemicals to grow by 16% YoY, while its pharma business is expected to grow by 12% YoY
PBT	2,095	1,772	18.2	2,070	1.2	
PAT	1,697	1,435	18.2	1,651	2.8	
SRF						
Revenue	27,502	21,008	30.9	26,994	1.9	Chip shortages to have limited impact on HFC segment, specialty chemicals to continue on its growth trajectory, while capacity expansion to drive volume growth in packaging segment.
EBITDA	6,934	5,821	19.1	6,716	3.3	EBITDA to witness sustained increase on the back of capacity expansion and robust demand.
PBT	5,568	4,321	28.9	5,349	4.1	
PAT	4,114	3,157	30.3	3,953	4.1	
Varun Beverages						
	3QCY21E	3QCY20	YoY (%)	2QCY21	QoQ (%)	
Revenue	22,172	18,026	23.0	24,498	(9.5)	We expect 23% YoY increase in net sales on a lower base and re-opening of economy. Focus to strengthen distribution chain and growth in South and West India will lead to increase in volume
EBITDA	4,656	3,808	22.3	5,708	(18.4)	
PBT	3,121	1,917	62.8	4,196	(25.6)	
PAT	2,336	1,615	44.7	3,188	(26.7)	

Continued...

Oil & Gas, Chemical & Telecom Sector

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Telecom - 2QFY22 Results Preview

Company (Rs mn)	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)	Comments
Indus Tower						
Revenue	69,459	63,591	9.2	67,970	2.2	Expecting healthy tenancy additions due to no major restriction and decline in COVID cases
EBITDA	36,117	32,412	11.4	32,685	10.5	Operating cost to increase due to increase in diesel prices, However EBITDA to see +11% YoY and +11% QoQ
PBT	18,530	15,168	22.2	18,770	(1.3)	
PAT	14,072	11,307	24.5	14,153	(0.6)	

Source: RSec Research

Change in Ratings

We have changed our rating system and included **HOLD** recommendation. We have **BUY, HOLD and SELL** recommendation now.

We have also shifted to **1-Year Target Price** from **2-Year Target Price**.

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