

### Cash Annuity Continues

Petronet LNG (PLNG) numbers were in line with our estimates on revenue front. Operating and net profitability were significantly above our estimates. Beat on the operating performance is mainly due to high heat wave during Q1FY19 enabling PLNG to consume lower quantity of gas for internal consumption. With operational efficiency and control on other expenses, operating profit beats our estimates significantly (by more than 14%). Kochi terminal utilization remains low and is only expected to improve post completion of Kochi – Mangalore pipeline. With gradual capacity addition and increase in re-gasification margins, PLNG is bound to ride the gas demand evolution of India. We feel that stock should see next round of re-rating post completion of pipelines for Kochi terminal and the margin profile evolution in H2FY19. We reiterate our Accumulate recommendation with a target price of ₹ 254.

### Dahej – High Capacity utilization continues

During Q1FY19, Dahej Terminal operated at 111% of its name plate capacity and processed highest ever LNG quantities of 214 TBTU, which was a growth of 3% sequentially. The overall quantities processed in Q1FY19 was 220 TBTU as compared to 192 TBTU processed in Q1FY18, which was a growth of 14% YoY. Higher utilization limits higher volume offtake from Dahej terminal till new capacity comes on stream.

### Kochi Utilization – wait continues

Kochi terminal utilization has been dismal owing to lack of pipeline connectivity between key demand centers. Kochi – Mangalore section pipeline is expected to be ready by December 2018. Post completion, capacity utilization of Kochi terminal should provide impetus to earnings.

### Cash Annuity Model – looking for new avenues

We have long term positive view on the stock as additional capacity of 2.5 MMTA will be added by June 2019 at the Dahej terminal and completion of pipeline connectivity at Kochi terminal will resolve gas evacuation issues. Regasification margins will sustain, and volumes will see uptrend in the long term.

PLNG is generating significant cash and is contemplating investments in Bangladesh and Sri Lanka. PLNG has also bid for CGD license in 9<sup>th</sup> bidding round of PNGRB.

### Q1FY19 Result (₹ Mn)

Particulars	Q1FY19	Q1FY18	% YoY	Q4FY18	% QoQ
Net Sales	91,692	64,351	42.5	86,362	6.2
Expenditure	82,347	56,909	44.7	78,142	5.4
Other Expenditure	1,280	1,175	9.0	1,439	(11.1)
Operating Profit	9,344	7,442	25.6	8,221	13.7
Other Income	990	707	40.1	1,034	(4.3)
Interest	300	465	(35.5)	335	(10.4)
Depreciation	1,022	1,027	(0.4)	1,013	1.0
PBT	9,012	6,658	35.4	7,908	14.0
Tax	3,142	2,282	37.7	2,681	17.2
Net Profit	5,870	4,376	34.1	5,227	12.3
EPS (in ₹)	3.9	2.9	34.1	3.5	12.3
Gross Margin (%)	11.8	13.8	-	11.5	-
OPM (%)	10.2	11.6	-	9.5	-
NPM (%)	6.4	6.8	-	6.1	-

CMP	₹ 225
Target / Upside	₹ 254/13%
BSE Sensex	37,471
NSE Nifty	11,309

### Script Details

Equity / FV	₹ 15,000 mn/₹10/-
Market Cap	₹ 338bn
	USD 5bn
52-week High/Low	₹275/198
Avg. Volume (no)	37,01,080
NSE Symbol	PETRONET
Bloomberg Code	PLNG IN

### Shareholding Pattern June'18 (%)

Promoters	50.0
MF/Banks/FIs	11.7
FIIIs	23.4
Public / Others	14.9

### Valuation (x)

	FY18E	FY19E	FY20E
P/E	16.2	14.1	12.7
EV/EBITDA	9.4	8.0	7.1
ROE	22.8	22.2	22.0
ROCE	27.3	27.8	27.6

### Estimates (₹ mn)

	FY18	FY19E	FY20E
Net Sales	3,05,986	3,43,355	3,63,967
EBITDA	33,124	37,317	40,172
PAT	20,779	24,004	26,606
EPS (₹)	13.9	16.0	17.7

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### Valuation

Volume growth, along with increase in re-gasification margins in the medium term, will enable PLNG to maintain its growth trajectory. The valuations are justified by PLNG's unique business model and lack of a rise in domestic gas supply. With no risk of gas prices, PLNG will continue to generate significant cash year after year driven by capacity expansion and increase in re-gasification margins. We reiterate our Accumulate recommendation with a target price of ₹ 254.

### Key highlights

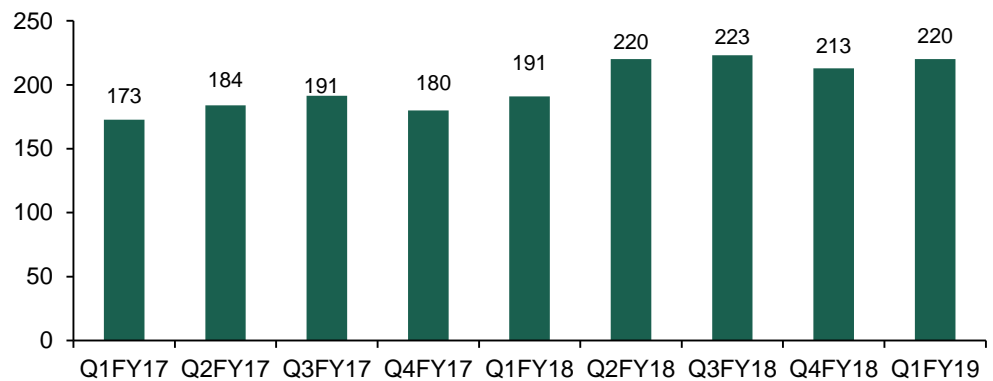
- Revenue increased by 42.5% on a YoY basis to ₹. 91.7 bn. On a sequential basis, there was a growth of 6.2%.
- Growth in raw material cost was at 45.8% on a YoY basis to ₹.80.8 bn. On a sequential basis, it was a growth of 5.7%
- There was a de-growth in employee cost of 16.3% on a YoY basis and 11.6% on a sequential basis to ₹. 224 mn.
- Other expenditure increased by 9% on a YoY basis to ₹. 1,280 mn. Sequentially it was down by 11.1%.
- Operating profit was at ₹. 9,344 mn in Q1FY19 as compared to ₹. 7,442 mn in Q1FY18. This was a growth of 25.6%.
- Depreciation increased by 1% sequentially to ₹. 1,022 mn
- Other income was at ₹. 990 mn which was a growth of 40.1% on a YoY basis and de-growth of 4.3% on QoQ basis.
- Net profit was at ₹. 5,870 mn in Q1FY19 as compared to ₹. 4,376 mn in Q1FY18, showing a growth of 34% YoY.

### Concall KTA's

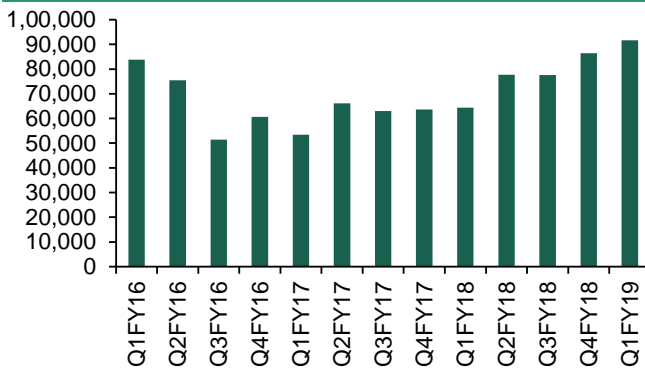
- PLNG's facility at Dahej processed 17% higher gas at 214 tbtu at 111 % of the capacity as compared to a capacity utilisation of 109% in Q4FY18.
- PLNG's Kochi terminal however had a capacity utilization of 10 %.
- PLNG processed 14 % higher gas volumes at 220 TBtus during Q1FY19 as compared to 192 Tbtus in Q1FY18 and growth of 3% QoQ at 213 Tbtus in Q4FY18.
- Kochi-Mangalore pipeline (94 kms stretch) is expected to be completed by Dec'2018. The Bangalore portion is not expected to start soon but will be done in future. There is no timeline mentioned.
- PLNG is planning to set up 20 LNG stations across India. Pre-project activities are going on.
- PLNG is planning to set up 7.5 mmtpa LNG terminal in Bangladesh at a capex of \$1 bn. They have filed the DSR and term sheet. The processing committee has asked for implementation agreement and terminal service agreement so that they can negotiate on that. They are in the process of finalising the project and submitting it to Bangladesh government.
- In Sri Lanka they are planning to set up FSRU terminal. Capex requirement is \$300 mn. It is a consortium of Japanese company and PLNG share is 47.5%. Pre-feasibility studies are going on.
- The cash flows with PLNG will be utilised for expansion of Dahej terminal from 15 mmtpa to 17.5 mmtpa which is expected to be completed by June 2019. They have already spent ₹. 290 cr and plan to further spend ₹. 100 cr and for the bid in the 9<sup>th</sup> Auction by PNGRB for 7 GA's submitted by PLNG. They also plan to pay 30-40% dividends next year.

- If PLNG gets through this bid, then they will be able to utilise their Kochi terminal in an extensive way for CGD project.
- The potential of the 7 GA's will be 1 mmtpa. Investment of ₹. 6,700 cr will be required over a period of 8 years and ₹. 11,280 cr over a period of 25 years.
- Kochi-Mangalore section of the pipeline will connect majorly to three consumers, Mangalore Chemicals and Fertilizers Ltd., MRPL and OMPL. Between these 3 companies put together is a requirement of 0.75-1 mmtpa requirement of LNG p.a.
- Current volume offtake by BPCL is 2 mmcmd and can go up to 2.5-2.6 mmcmd.
- Some portion of Gorgon will move to Kochi from Dahej once Kochi terminal is commissioned.
- Spot volumes demand is going up in the market. PLL has not signed any contracts for their additional 2.5 mn capacity from Dahej.

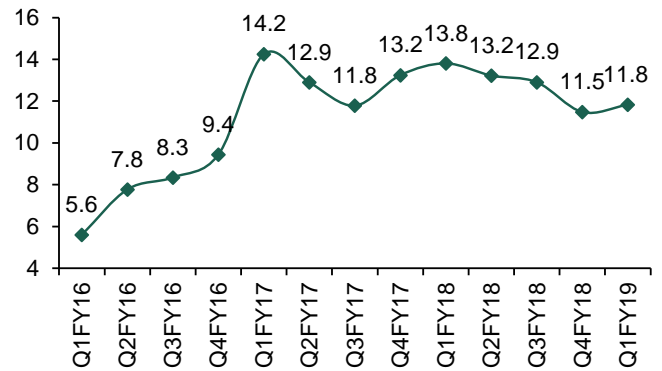
**Exhibit 1: Volumes (tbtu)**



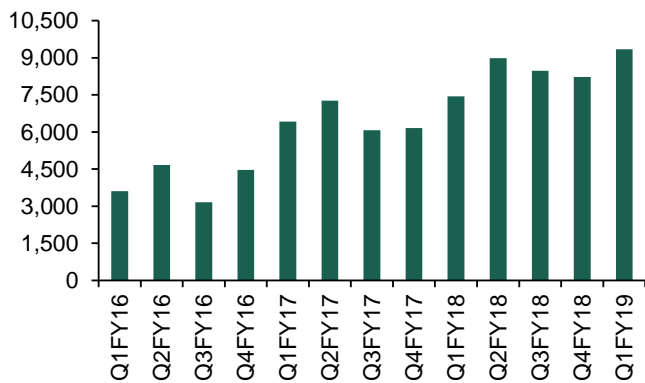
Source: Company, DART

**Exhibit 2: Revenue (₹. Mn)**


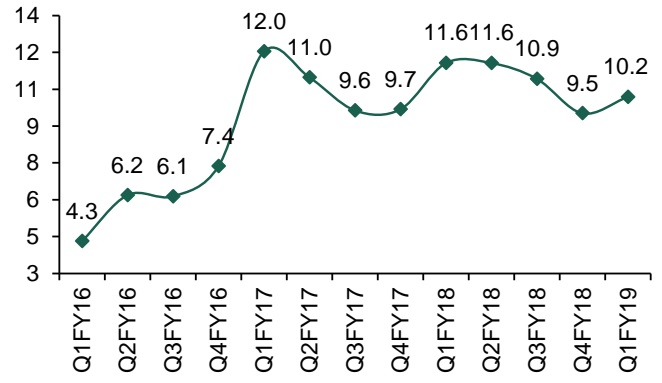
Source: DART, Company

**Exhibit 3: Gross Margin (%)**


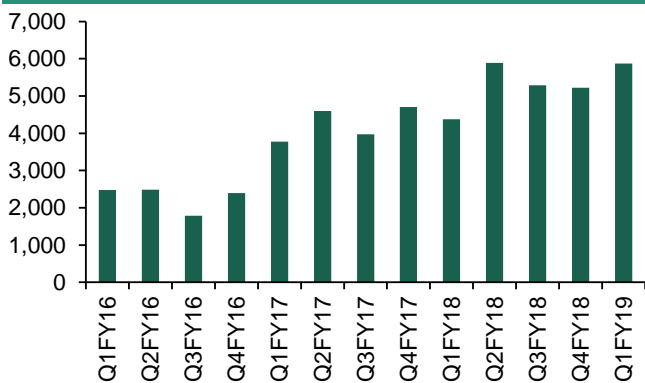
Source: DART, Company

**Exhibit 4: Operating Profit (₹. Mn)**


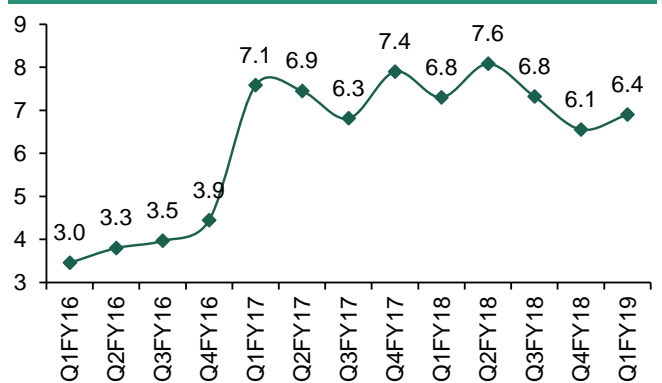
Source: DART, Company

**Exhibit 5: OPM (%)**


Source: DART, Company

**Exhibit 6: Net Profit (₹. Mn)**


Source: DART, Company

**Exhibit 7: NPM (%)**


Source: DART, Company

### Income Statement (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
<b>Net Sales</b>	<b>2,45,508</b>	<b>3,05,986</b>	<b>3,42,705</b>	<b>3,63,267</b>
Other Operational income	653	0	650	700
<b>Total Income</b>	<b>2,46,160</b>	<b>3,05,986</b>	<b>3,43,355</b>	<b>3,63,967</b>
<b>Total Expenditure</b>	<b>2,20,238</b>	<b>2,72,863</b>	<b>3,06,037</b>	<b>3,23,795</b>
Raw Material	2,14,169	2,66,902	2,98,930	3,15,371
Employee Expenses	739	912	1,049	1,154
Other Expenses	5,330	5,049	6,059	7,270
Other Income	3,466	3,174	3,491	3,841
<b>EBIDTA (Excl. OI)</b>	<b>25,923</b>	<b>33,124</b>	<b>37,317</b>	<b>40,172</b>
Interest	2,097	1,630	1,150	854
Depreciation	3,691	4,117	4,358	4,598
<b>Profit Before Tax</b>	<b>23,602</b>	<b>30,551</b>	<b>35,300</b>	<b>38,560</b>
Tax	6,545	9,773	11,296	11,954
<b>Net Profit</b>	<b>17,057</b>	<b>20,779</b>	<b>24,004</b>	<b>26,606</b>

### Balance Sheet (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
<b>Sources of Funds</b>				
Equity Capital	7,500	15,000	15,000	15,000
Other Reserves	71,884	84,765	98,240	1,10,806
<b>Net Worth</b>	<b>80,939</b>	<b>1,01,320</b>	<b>1,14,794</b>	<b>1,27,361</b>
<b>Loan Funds</b>	<b>22,180</b>	<b>15,589</b>	<b>12,958</b>	<b>11,254</b>
Deferred Tax Liability	7,302	8,178	9,159	10,259
<b>Total Capital Employed</b>	<b>1,10,421</b>	<b>1,25,087</b>	<b>1,36,912</b>	<b>1,48,873</b>
<b>Applications of Funds</b>				
Gross Block	91,134	93,256	99,857	1,03,542
Less: Accumulated Dep.	6,903	11,020	15,378	19,976
<b>Net Block</b>	<b>84,230</b>	<b>82,236</b>	<b>84,479</b>	<b>83,566</b>
Capital Work in Progress	486	1,589	2,548	4,021
Investments	29,351	1,000	1,000	1,000
<b>Current Assets, Loans &amp; Advances</b>				
Inventories	5,405	8,383	9,389	9,953
Sundry Debtors	12,108	16,766	18,778	19,905
Cash and Bank Balance	3,273	41,855	50,805	64,830
Loans and Advances	3,186	2,867	2,581	2,323
Other Current Assets	252	226	204	183
<i>sub total</i>	<i>24,224</i>	<i>70,099</i>	<i>81,756</i>	<i>97,193</i>
<b>Less: Current Liabilities &amp; Provisions</b>				
Current Liabilities	27,710	29,587	32,587	36,587
Provisions	160	250	285	320
<i>sub total</i>	<i>27,870</i>	<i>29,837</i>	<i>32,872</i>	<i>36,907</i>
Net Current Assets	(3,646)	40,262	48,884	60,286
<b>Total Assets</b>	<b>1,10,421</b>	<b>1,25,087</b>	<b>1,36,912</b>	<b>1,48,873</b>

E – Estimates

### Cash Flow (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
<b>Profit before tax</b>	<b>23,602</b>	<b>30,551</b>	<b>35,300</b>	<b>38,560</b>
Depreciation & w.o.	3,691	4,117	4,358	4,598
Net Interest Exp	1,191	1,630	1,150	854
Direct taxes paid	(3,780)	(9,773)	(11,296)	(11,954)
Chg. in Working Capital	(3,273)	(5,326)	326	2,623
Other	(756)	876	981	1,099
<b>(A) CF from Opt. Activities</b>	<b>20,676</b>	<b>22,075</b>	<b>30,820</b>	<b>35,781</b>
Capex	(5,460)	(3,226)	(7,560)	(5,158)
<b>Free Cash Flow</b>	<b>15,216</b>	<b>18,849</b>	<b>23,260</b>	<b>30,623</b>
Inc./ (Dec.) in Investments	(26,489)	28,351	0	0
Other	261	0	0	0
<b>(B) CF from Inv. Activities</b>	<b>(31,688)</b>	<b>25,125</b>	<b>(7,560)</b>	<b>(5,158)</b>
Inc./ (Dec.) in Debt	(3,128)	(6,591)	(2,631)	(1,704)
Interest exp net	(2,097)	(1,630)	(1,150)	(854)
Dividend Paid (Incl. Tax)	(2,257)	(7,898)	(10,530)	(14,040)
<b>(C) CF from Financing</b>	<b>(7,482)</b>	<b>(8,618)</b>	<b>(14,311)</b>	<b>(16,598)</b>
Net Change in Cash	(18,494)	38,582	8,949	14,025
Opening Cash & Cash Equ.	21,767	3,273	41,855	50,805
Closing Cash & Cash Equ.	3,273	41,855	50,805	64,830

### Important Ratios

Particulars	Mar17	Mar18E	Mar19E	Mar20E
<b>(A) Measures of Performance (%)</b>				
EBIDTA Margin (excl. O.I.)	10.5	10.8	10.9	11.0
Interest / Sales	0.9	0.5	0.3	0.2
Tax/PBT	27.7	32.0	32.0	31.0
Net Profit Margin	6.9	6.8	7.0	7.3
<b>(B) As Percentage of Net Sales</b>				
Raw Material	87.2	87.2	87.2	86.8
Employee Expenses	0.3	0.3	0.3	0.3
Other Expenses	2.2	1.7	1.8	2.0
<b>(C) Measures of Financial Status</b>				
Debt/Equity (x)	0.3	0.2	0.1	0.1
Interest Coverage (x)	14.0	22.3	35.5	51.5
Average Cost of Debt (%)	8.7	8.6	8.1	7.1
Debtors Period (days)	18.0	20.0	20.0	20.0
Closing stock (days)	8.0	10.0	10.0	10.0
Inventory Turnover Ratio (x)	45.4	36.5	36.5	36.5
Fixed Assets Turnover (x)	2.7	3.3	3.4	3.5
WCTurnover (x)	(67.3)	7.6	7.0	6.0
Non-Cash WC (₹ Mn)	(6,920)	(1,594)	(1,920)	(4,544)
<b>(D) Measures of Investment</b>				
EPS (₹)	11.4	13.9	16.0	17.7
CEPS (₹)	13.8	16.6	18.9	20.8
DPS (₹)	5.0	4.5	6.0	8.0
Dividend Payout (%)	44.0	32.5	37.5	45.1
Profit Ploughback (%)	56.0	67.5	62.5	54.9
Book Value (₹)	54.0	67.5	76.5	84.9
RoANW (%)	23.2	22.8	22.2	22.0
RoACE (%)	24.6	27.3	27.8	27.6
RoAIC (%)	28.0	33.8	43.1	46.3
<b>(E) Valuation Ratios</b>				
CMP (₹)	225	225	225	225
P/E (x)	19.8	16.2	14.1	12.7
Market Cap. (₹ Mn.)	3,37,500	3,37,500	3,37,500	3,37,500
MCap/ Sales (x)	1.4	1.1	1.0	0.9
EV (₹ Mn.)	3,56,407	3,11,234	2,99,653	2,83,924
EV/Sales (x)	1.5	1.0	0.9	0.8
EV/EBDITA (x)	13.7	9.4	8.0	7.1
P/BV (x)	4.2	3.3	2.9	2.6
FCF Yield (%)	4.5	5.6	6.9	9.1
Dividend Yield (%)	2.2	2.0	2.7	3.6

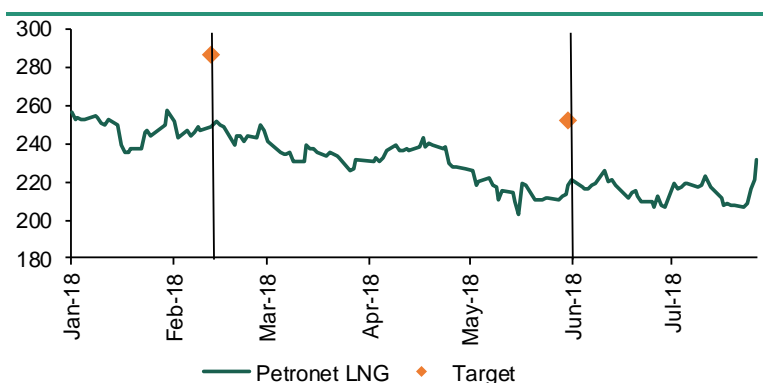
E – Estimates

## DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

## Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Feb-18	Accumulate	286	249
Jun-18	Accumulate	252	219

\* As on Recommendation Date

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Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031 & INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

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