

Muted Quarter. Outlook gets better. Maintain Accumulate

PLL Q3FY19 results were below estimates on revenue and operating profitability front due to lower off-take from the Dahej terminal. Results were in line with estimates on net profitability front aided by higher other income. Volumes were at 202 TBTU for Q3FY19. Volumes were lower due to high gas prices. High gas prices are expected to cool-off from March 2019 onwards. Dahej terminal continues to operate at 103% capacity utilization. Kochi terminal utilization remains low and is only expected to improve post completion of Kochi – Mangalore pipeline in June 2019. 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. We reiterate our Accumulate recommendation with a target price of ₹ 249

Dahej – High Capacity utilization continues

During Q3FY19, Dahej Terminal operated at 103% of its name plate capacity and processed LNG quantities of 197 TBTU. Lower off-take was due to lower demand for industrial volumes because of higher prices as well as low demand. Higher prices were due to severe winter across the globe and hence the spot prices were on the higher side. We expect the situation to subside from March onwards and a gradual pick up of volumes will follow the price decline. Higher utilization limits higher volume offtake from Dahej terminal till new capacity comes on stream. PLL plans to add a storage tank at Dahej and a Jetty in 3-4 years, which will take the capacity of Dahej terminal to 19.5 MMTA

Kochi - drag of low utilization 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 June 2019. Post completion, capacity utilization of Kochi terminal should provide impetus to earnings. Volumes at Kochi terminal were at 5 TBTU, which is a capacity utilization of 8%. We do not foresee any major change in the utilization before H2FY20.

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	100,977	77,571	30.2	107,453	(6.0)
Total Expense	92,497	69,097	33.9	98,616	(6.2)
EBITDA	8,481	8,474	0.1	8,837	(4.0)
Depreciation	1,037	1,039	(0.2)	1,037	0.0
EBIT	7,444	7,435	0.1	7,800	(4.6)
Other Income	884	414	113.6	1,115	(20.7)
Interest	215	367	(41.2)	249	(13.5)
EBT	8,113	7,482	0.1	8,666	(6.4)
Tax	2,460	2,194	12.1	3,037	(19.0)
RPAT	5,653	5,288	6.9	5,629	0.4
APAT	5,653	5,288	6.9	5,629	0.4
			(bps)		(bps)
Gross Margin (%)	9.9	12.9	(301)	9.8	12
EBITDA Margin (%)	8.4	10.9	(252)	8.2	17
NPM (%)	5.6	6.8	(122)	5.2	36
Tax Rate (%)	30.3	29.3	99	35.0	(472)
EBIT Margin (%)	7.4	9.6	(221)	7.3	11

CMP	₹ 221
Target / Upside	₹ 249 / 13%
BSE Sensex	36,257
NSE Nifty	10,831

Scrip Details

Equity / FV	₹ 15,000mn / ₹ 10
Market Cap	₹ 332bn
	US\$ 5bn
52-week High/Low	₹ 255/₹ 202
Avg. Volume (no)	2,849,180
NSE Symbol	PETRONET
Bloomberg Code	PLNG IN

Shareholding Pattern Dec'18(%)

Promoters	50.0
MF/Banks/FIs	11.5
FIIIs	24.3
Public / Others	14.2

Valuation (x)

	FY19E	FY20E	FY21E
P/E	14.4	12.5	11.2
EV/EBITDA	8.2	7.0	6.1
ROE (%)	22.2	22.9	23.1
RoACE (%)	27.2	28.0	28.5

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	382,416	428,278	462,484
EBITDA	35,778	40,192	44,328
PAT	22,958	26,551	29,534
EPS (₹)	15.3	17.7	19.7

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Cash Annuity Model – looking for new avenues

We have long term positive view on the stock as additional capacity of 2.5 MMTPA 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 in advance stage of doing investments in Sri Lanka. Risk to our call is any dilution in return ratios from this investment.

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 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 ₹ 249

Key highlights

- Revenue increased by 30% on a YoY basis to ₹ 101 bn. On a sequential basis, there was a de-growth of 6%.
- Growth in raw material cost was at 34.7% on a YoY basis to ₹ 91 bn. On a sequential basis, it was a de-growth of 6.1%
- There was a growth in employee cost of 34.9% on a YoY basis and de-growth of 38.2% on a sequential basis to ₹ 265 mn.
- Other expenditure decreased by 7.4% on a YoY basis to ₹ 1,242 mn. Sequentially it was marginally up.
- Operating profit was at ₹ 8,481 mn in Q3FY19 as compared to ₹ 8,474 mn in Q3FY18.
- Depreciation was flat sequentially to ₹ 1,037 mn
- Other income was at ₹ 884 mn which was a growth of 113.6% on a YoY basis and decline of 20.7% on QoQ basis.
- Net profit was at ₹ 5,653 mn in Q3FY19 as compared to ₹ 5,288 mn in Q3FY18, showing a growth of 6.9% YoY.

Concall KTA's

Overall volumes processed in Q3FY19 was 202 tbtu as against 217 tbtu in Q2FY19 and 223 tbtu in Q3FY18.

Dahej Terminal

- Dahej terminal operated at a capacity utilization of 103% as against 110% in Q2FY19 and 113% in Q3FY18.
- Processed volumes of 197 tbtu as against 211 tbtu in Q2FY19.
- 2-3 cargoes were less in Q3FY19, so in Nov-Dec there was lower consumption of LNG.
- Additional capacity of 2.5 MMTPA will be commissioned by June 2019.
- Dahej annual re-gasification tariff increase was effective from 1st Jan, 2019.
- There are plans to have an additional tank at Dahej which will take the capacity to 19.5 MMTPA. But this project will take 3 years.
- PLL also plans a Jetty at the terminal in next 3-4 years, to have more flexibility in operations.

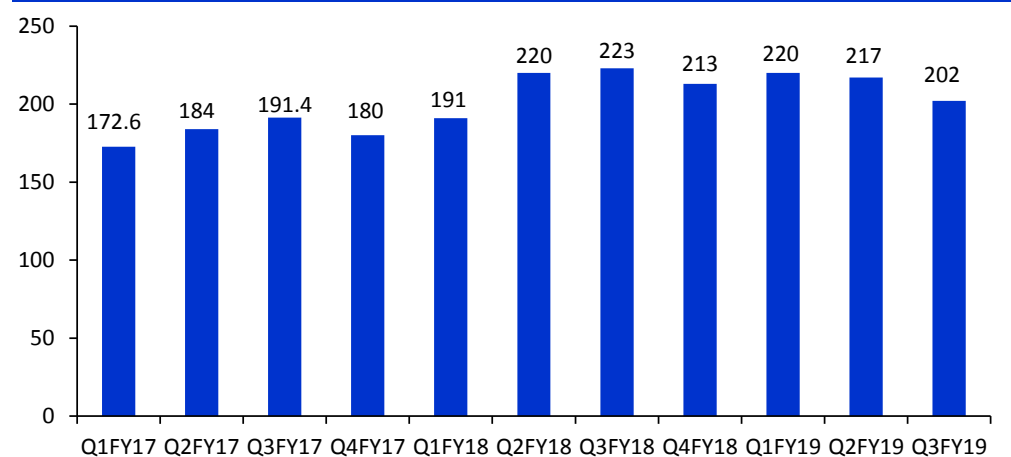
Kochi Terminal

- Processed volumes of 5 tbtu as against 6 tbtu in Q2FY19.
- Timeline given by GAIL for the completion of pipeline is May-June 2019. Once the pipeline will be completed, PLL will enhance capacity at Kochi.
- Currently Kochi terminal is 8% - 10% utilized with volumes of 0.5 MMTPA.
- Volumes are estimated to reach 1-1.2 MMTPA by FY20. Many CGD nearby Kochi will also consume LNG after the latest bidding round by PNGRB, which can take volumes to 1.5 MMTPA by FY21.
- Main customers for offtake from Kochi terminal are
 - Mangalore Chemical and Fertilizer- their facility is ready to offtake LNG and will consume 0.7mmscmd.
 - MRPL and OMPL- not sure about their state of readiness but will consume around 1.5 mmscmd.
 - BPCL will be ready by year end and will offtake 2-2.5 mmscmd of LNG.

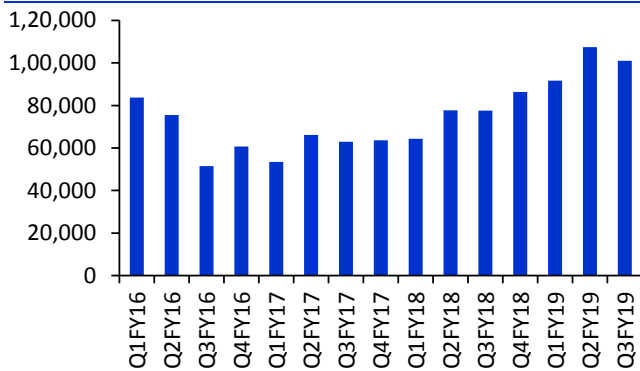
Sri Lanka and Bangladesh Terminal

- Sri Lanka- Financial and pre study has been completed and further studies are going on. This is an FSRU terminal
- Bangladesh- There are issues in the project since there is a change of place of setting up a land based terminal and PLL will have to go through the bidding process again. They will also have to conduct a feasibility study of the new area which will come at a cost.

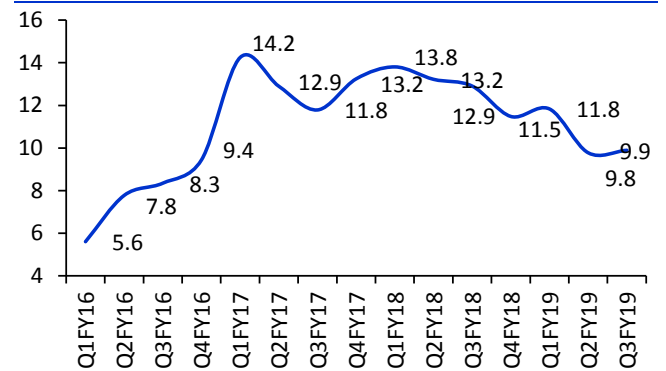
Exhibit 1: Volumes (tbtu)



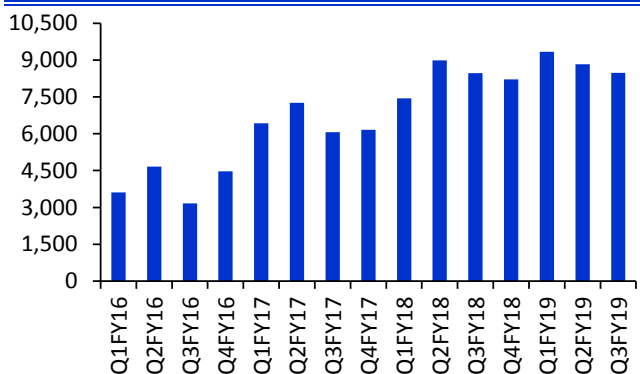
Source: Company, DART

Exhibit 2: Revenue (₹ Mn)


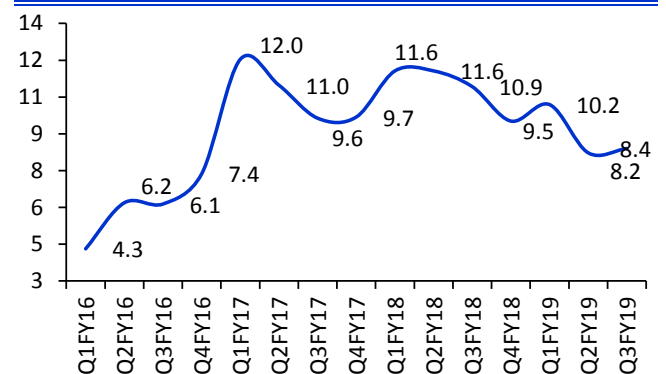
Source: Company, DART

Exhibit 3: Gross Margin (%)


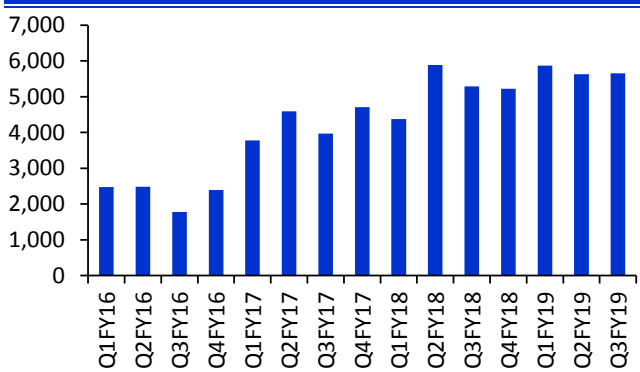
Source: Company, DART

Exhibit 4: Operating Profit (₹ Mn)


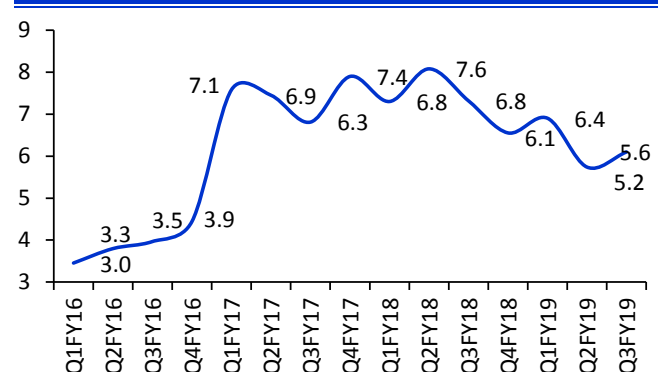
Source: Company, DART

Exhibit 5: OPM (%)


Source: Company, DART

Exhibit 6: Net Profit (₹ Mn)


Source: Company, DART

Exhibit 7: NPM (%)


Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	305,986	382,416	428,278	462,484
Total Expense	272,863	346,638	388,086	418,156
COGS	266,902	339,232	379,940	409,196
Employees Cost	912	1,094	1,204	1,324
Other expenses	5,049	6,311	6,942	7,636
EBIDTA	33,124	35,778	40,192	44,328
Depreciation	4,117	4,358	4,699	4,895
EBIT	29,007	31,420	35,493	39,433
Interest	1,630	1,150	854	855
Other Income	3,174	3,491	3,841	4,225
Exc. / E.O. items	0	0	0	0
EBT	30,551	33,762	38,479	42,803
Tax	9,773	10,804	11,929	13,269
RPAT	20,779	22,958	26,551	29,534
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	20,779	22,958	26,551	29,534

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	15,000	15,000	15,000	15,000
Minority Interest	0	0	0	0
Reserves & Surplus	82,205	94,633	107,144	118,977
Net Worth	97,205	109,633	122,144	133,977
Total Debt	14,531	12,958	11,254	11,255
Net Deferred Tax Liability	10,482	11,740	13,148	14,726
Total Capital Employed	122,217	134,330	146,546	159,959

Applications of Funds

Net Block	80,296	84,597	83,583	78,689
CWIP	2,203	2,548	4,021	4,021
Investments	41,224	1,000	1,000	1,000
Current Assets, Loans & Advances	32,815	79,057	94,849	113,155
Inventories	4,911	6,276	7,614	8,856
Receivables	16,505	20,919	24,600	27,834
Cash and Bank Balances	8,625	49,366	60,387	74,443
Loans and Advances	2,217	1,995	1,795	1,616
Other Current Assets	557	501	451	406
Less: Current Liabilities & Provisions	34,321	32,872	36,907	36,907
Payables	15,699	15,856	16,332	16,822
Other Current Liabilities	18,622	17,016	20,575	20,085
Net Current Assets	(1,506)	46,185	57,942	76,248
Total Assets	122,217	134,330	146,546	159,959

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	12.8	11.3	11.3	11.5
EBIDTA Margin	10.8	9.4	9.4	9.6
EBIT Margin	9.5	8.2	8.3	8.5
Tax rate	32.0	32.0	31.0	31.0
Net Profit Margin	6.8	6.0	6.2	6.4
(B) As Percentage of Net Sales (%)				
COGS	87.2	88.7	88.7	88.5
Employee	0.3	0.3	0.3	0.3
Other	1.7	1.7	1.6	1.7
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	22.3	34.1	51.6	56.8
Inventory days	6	6	6	7
Debtors days	20	20	21	22
Average Cost of Debt	8.9	8.4	7.1	7.6
Payable days	19	15	14	13
Working Capital days	45	44	49	60
FA T/O	3.8	4.5	5.1	5.9
(D) Measures of Investment				
AEPS (₹)	13.9	15.3	17.7	19.7
CEPS (₹)	16.6	18.2	20.8	23.0
DPS (₹)	4.5	6.0	8.0	10.0
Dividend Payout (%)	32.5	39.2	45.2	50.8
BVPS (₹)	64.8	73.1	81.4	89.3
RoANW (%)	23.3	22.2	22.9	23.1
RoACE (%)	27.7	27.2	28.0	28.5
RoAIC (%)	29.2	35.2	46.0	50.9
(E) Valuation Ratios				
CMP (₹)	221	221	221	221
P/E	16.0	14.4	12.5	11.2
Mcap (₹ Mn)	331,500	331,500	331,500	331,500
MCap/ Sales	1.1	0.9	0.8	0.7
EV	297,827	295,092	282,367	268,312
EV/Sales	1.0	0.8	0.7	0.6
EV/EBITDA	9.0	8.2	7.0	6.1
P/BV	3.4	3.0	2.7	2.5
Dividend Yield (%)	2.0	2.7	3.6	4.5
(F) Growth Rate (%)				
Revenue	24.3	25.0	12.0	8.0
EBITDA	27.8	8.0	12.3	10.3
EBIT	30.5	8.3	13.0	11.1
PBT	29.4	10.5	14.0	11.2
APAT	21.8	10.5	15.6	11.2
EPS	21.8	10.5	15.6	11.2

Cash Flow

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	29,956	22,847	32,777	32,611
CFI	(11,266)	31,219	(5,158)	(1)
CFF	(13,347)	(13,253)	(16,598)	(18,554)
FCFF	28,204	13,842	27,619	32,610
Opening Cash	3,210	8,553	49,366	60,387
Closing Cash	8,553	49,366	60,387	74,443

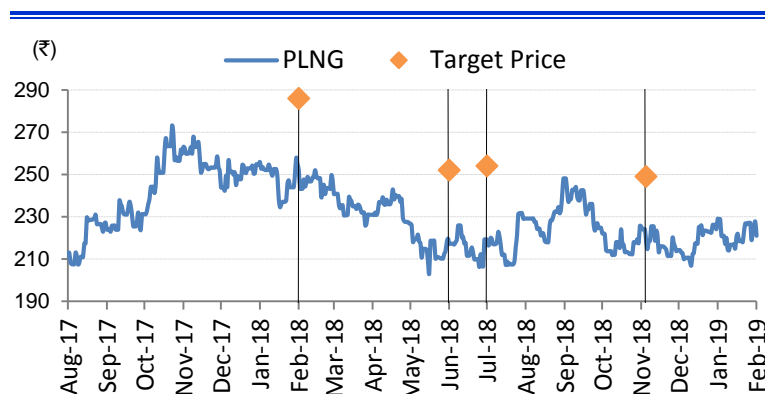
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Feb-18	Accumulate	286	252
Jun-18	Accumulate	252	217
Jul-18	Accumulate	254	219
Nov-18	BUY	249	218

*Price as on recommendation date

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