

Higher volumes due to higher efficiency in operations and expansion of nameplate capacity; long-term outlook better. Maintain Accumulate

PLL Q1FY20 revenues were line with estimates, due to higher off-take from the Dahej terminal. The volume was 217 TBTU for Q1FY20. Volumes at Dahej were higher due to addition of nameplate capacity at Dahej of 2.5 MMTPA and shut down of Dabhol terminal (which will be operational post monsoon). The Dahej terminal's capacity utilization continues to be 112%. The Kochi terminal's utilization remains low and is only expected to improve after the completion of the Kochi-Mangalore pipeline in June 2019.

Given gradual capacity addition and increase in re-gasification margins, PLL will ride the gas demand evolution of India. PLL is poised to benefit from the gas demand. We believe the stock should be re-rated, after the completion of pipelines for the Kochi terminal. We reiterate our Accumulate recommendation, with a target price of ₹ 260.

Dahej – high capacity utilization continues

During Q1FY20, the Dahej Terminal operated at 112% of its nameplate capacity and processed highest ever LNG quantities of 217 TBTU. We expect volumes to rise from Dahej, with the enhancement of additional 2.5MMTPA capacity. PLL can see slight de-growth in volumes sequentially after the Dabhol terminal is operational post monsoons. Currently, PLL's Dahej terminal capacity is fully tied up. PLL plans to add two storage tanks at Dahej and a Jetty in next 3-4 years, which will take the capacity of the Dahej terminal to 19.5 MMTPA.

Kochi's low utilization continues to drag

The Kochi terminal utilization was dismal due to the lack of pipeline connectivity. The Kochi-Mangalore section pipeline is expected to be ready by Oct 2019. The capacity utilization of Kochi terminal after completion should boost earnings. The volume at the Kochi terminal was 9 TBTU. We foresee volumes to pick up in H2FY20E.

Q1FY20 Result (₹ Mn)

Particulars	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Revenue	86,134	91,692	(6.1)	83,832	2.7
Total Expense	75,895	82,347	(7.8)	77,560	(2.1)
EBITDA	10,239	9,344	9.6	6,272	63.2
Depreciation	1,899	1,022	85.7	1,016	86.9
EBIT	8,340	8,322	0.2	5,256	58.7
Other Income	1,044	990	5.5	1,514	(31.0)
Interest	1,005	300	235.4	225	346.4
EBT	8,379	9,012	0.2	6,545	28.0
Tax	2,777	3,142	(11.6)	2,143	29.6
RPAT	5,603	5,870	(4.5)	4,402	27.3
APAT	5,603	5,870	(4.5)	4,402	27.3
			(bps)		(bps)
Gross Margin (%)	13.9	11.8	205	10.1	380
EBITDA Margin (%)	11.9	10.2	170	7.5	441
NPM (%)	6.5	6.4	10	5.3	125
Tax Rate (%)	33.1	34.9	(173)	32.7	39
EBIT Margin (%)	9.7	9.1	61	6.3	341

CMP	₹ 236
Target / Upside	₹ 260 / 11%
BSE Sensex	36,624
NSE Nifty	10,856

Script Details

Equity / FV	₹ 15,000mn / ₹ 10
Market Cap	₹ 353bn
	US\$ 5bn
52-week High/Low	₹ 255/₹ 203
Avg. Volume (no)	27,79,100
NSE Symbol	PETRONET
Bloomberg Code	PLNG IN

Shareholding Pattern Jun'19(%)

Promoters	50.0
MF/Banks/FIs	10.3
FII's	27.4
Public / Others	12.4

Valuation (x)

	FY19A	FY20E	FY21E
P/E	16.4	14.0	12.4
EV/EBITDA	9.9	8.4	7.0
ROE (%)	21.8	24.2	25.1
RoACE (%)	28.1	30.6	30.6

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	3,83,954	3,99,312	4,27,301
EBITDA	32,935	38,292	43,625
PAT	21,554	25,287	28,589
EPS (₹)	14.4	16.9	19.1

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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 is added in June 2019 in the Dahej terminal and completion of the pipeline connectivity in the Kochi terminal will resolve gas evacuation issues. The regasification margins is likely to sustain, and volumes will see an uptrend in the long term. PLL is generating significant cash and is in advance stage of doing investments in Sri Lanka. The risk to our analysis is any dilution in return ratios from this investment.

Valuation

Volume growth at Kochi is impacted in the short term due to lack of pipeline connectivity. We believe volume outlook should improve in the next two quarters. The continuous increase in re-gasification margins every year will enable PLNG to maintain its growth trajectory. The valuations are justified by PLNG's unique business model and lack of an increase in domestic gas supply. With no risk in offtake of volumes, as all capacities are tied up and no risk in gas prices, PLNG will continue to generate significant cash year after year, driven by capacity expansion and an increase in re-gasification margins. We reiterate our Accumulate recommendation, with a target price of ₹260. (DCF Method)

Key highlights

- Revenue decreased by 6.1% on a YoY basis to ₹ 86 bn. On a sequential basis, there was a growth of 2.7%.
- De-Growth in raw material cost was at 8.2% on a YoY basis to ₹ 74 bn. On a sequential basis, it was a de-growth of 2%
- There was a growth in employee cost of 31% on a YoY basis and de-growth of 13.7% on a sequential basis to ₹ 293 mn.
- Other expenditure increased by 11% on a YoY basis to ₹ 1,421 mn. Sequentially it was down by 22.5%.
- Operating profit was at ₹ 10,239 mn in Q1FY20 as compared to ₹ 9,344 mn in Q1FY19.
- Depreciation was up sequentially to ₹ 1,899 mn
- Other income was at ₹ 1,044 mn which was a growth of 5.5% on a YoY basis and de-growth of 31% on QoQ basis.
- Net profit was at ₹ 5,603 mn in Q1FY20 as compared to ₹ 5,870 mn in Q1FY19, showing a de-growth of 4.5% YoY.

Conference Call Key Highlights:

- In Q1FY20, total LNG processed was 226 tbtu, which was the highest ever, as against 205 tbtu in Q1FY19 and 220 tbtu in Q4FY19.
- Higher volumes were clocked in the quarter due higher efficiency in operations and expansion of nameplate capacity at Dahej from 15MMTPA to 17.5 MMTPA.
- Out of the total long term volume of Rasgas (7.5 MMTPA), 91 tbtu of Rasgas was processed at Dahej in Q1FY20 and 92.64 tbtu was processed in Q4FY19. In H1CY19, total of 183 tbtu (50%) of Rasgas is used out of the 376 tbtu (total committed).
- Total resgas service income for Q1FY20 was ₹ 552 cr.
- Each cargo takes 1.2-1.3 days to process.

Dahej Terminal

- Dahej Terminal processed highest ever LNG of 217 tbtu operating at a capacity utilization of 112% in Q1FY20 as against 199 tbtu in Q4FY19 and 214 tbtu in Q1FY19.
- Higher volumes can be attributed to the shutdown of Dabhol terminal, which will be operational after monsoon and the Dahej terminal expansion of additional nameplate capacity was completed by 5th June and was available from 25th June.
- Dahej Capacity (17.5 MMTPA) is fully tied up. PLL's long term volume commitment of 7.50 MMTPA contract with Rasgas (fully committed), 8.25 MMTPA long term contracts to provide long term rasgas services to GAIL, IOC, BPCL, which takes the total capacity to 15.75 MMTPA. In addition, they have long term contract with Exxon for supply of 1.4 MMTPA from Gorgon out of which 0.9 is at Dahej. Hence, the total LT commitment at Dahej is 16.65 MMTPA plus they provide additional spot volumes to downstream customers and additional spots to existing customers.
- Dahej terminal has a long term commitment of 2.25 MMTPA with GSPC.
- Dahej tariff for long term volumes is ₹ 49.29 and other is ₹ 47.

Kochi Terminal

- Kochi terminal processed volumes of 9 tbtu in Q1FY20 as against 6tbtu in Q1FY19 and 6tbtu in Q4FY19.
- At the Kochi terminal 0.5 MMTPA of Gorgon volumes are there and other is spot volumes.
- Kochi tariff is ₹ 104 (after 5% price escalation taken this year)
- GAIL plans to commission their pipeline by October. After the commissioning of pipeline, volume uptick will be witnessed at Kochi.

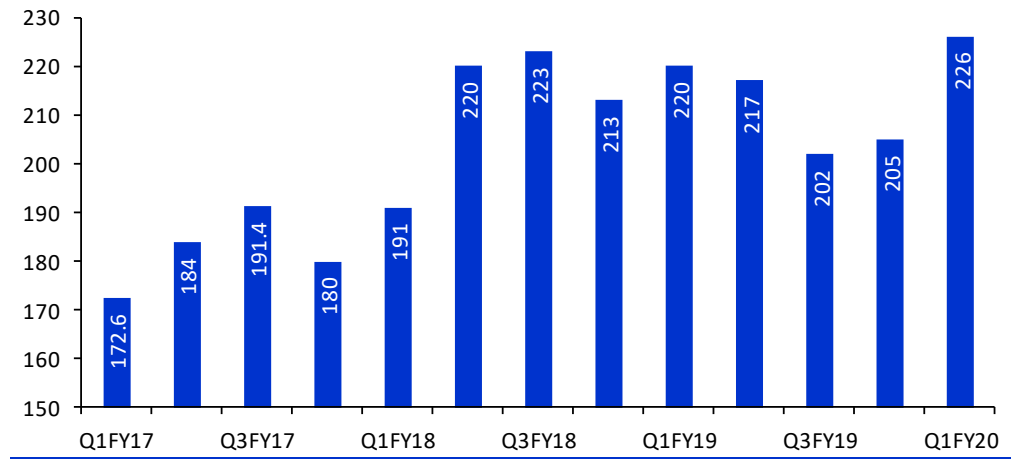
New Proposal- Setting up LNG Dispensing stations

- PLL has tied up with IGL and Gujarat Gas to install LNG dispensing stations in their respective GA's. However, this installation will take some time.
- They are also in process to close the tender with OMC's to set up LNG dispensing stations on the highways.
- They plan to set up 10-20 centers which will require a capex of ₹ 100-120 cr for dispensing stations.

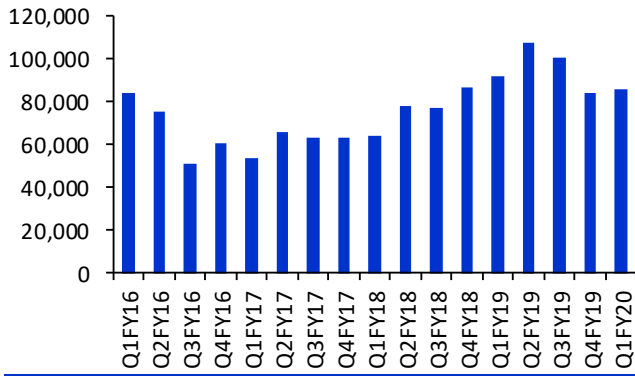
Capex

- PLL plans a capex of ₹ 500 cr for FY20.
- In the next 3 years they plan to add 2 additional tanks at Dahej at a cost of ₹ 1,300 cr and an additional Jetty at a cost of ₹ 1,000 cr. As this is a 3-year plan, capex requirement annually for the next 3 years will be ₹ 700-800 cr.

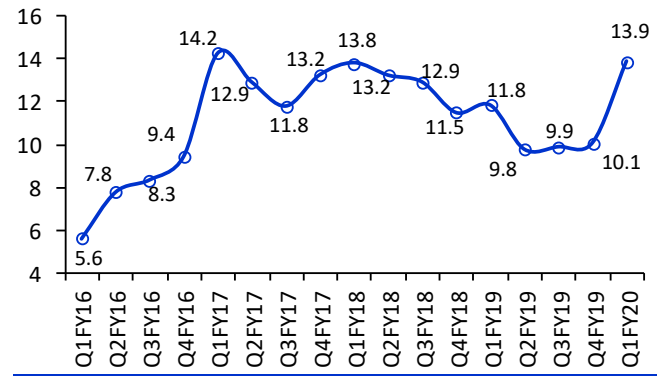
Exhibit 1: Volume (tbtu)



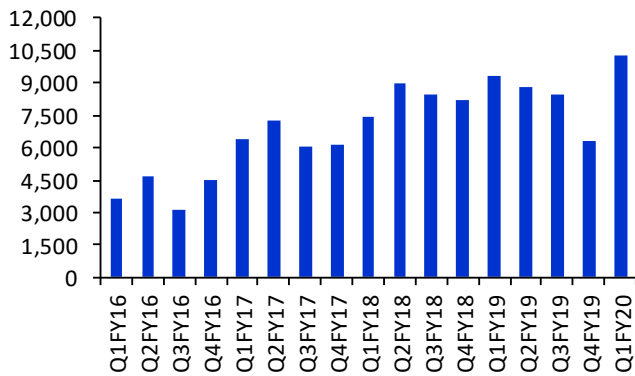
Source: Company, DART

Exhibit 2: Revenue (₹ Mn)


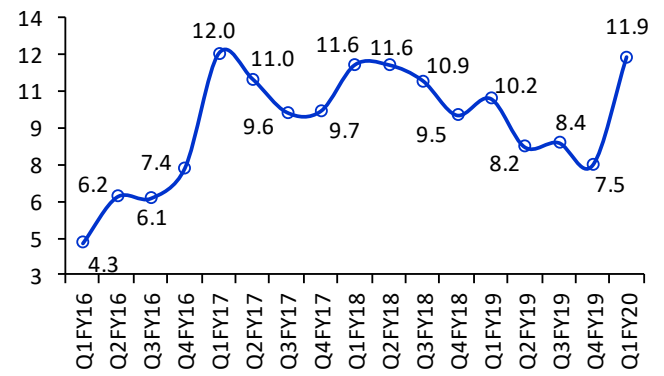
Source: Company, DART

Exhibit 3: Gross Margin (%)


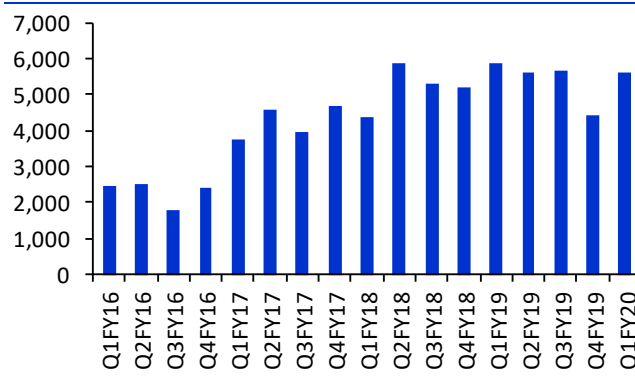
Source: Company, DART

Exhibit 4: Operating Profit (₹ Mn)


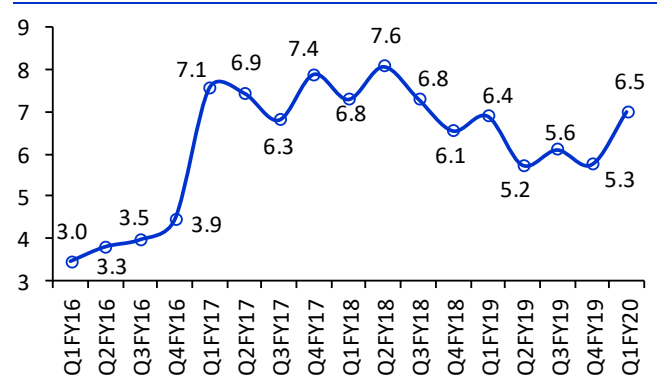
Source: Company, DART

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	FY19A	FY20E	FY21E
Revenue	3,05,986	3,83,954	3,99,312	4,27,301
Total Expense	2,72,863	3,51,020	3,61,019	3,83,676
COGS	2,66,902	3,44,170	3,53,118	3,75,011
Employees Cost	912	1,259	1,359	1,468
Other expenses	5,049	5,592	6,542	7,196
EBIDTA	33,124	32,935	38,292	43,625
Depreciation	4,117	4,112	5,500	6,500
EBIT	29,007	28,822	32,792	37,125
Interest	1,630	989	500	450
Other Income	3,174	4,503	5,450	5,995
Exc. / E.O. items	0	0	0	0
EBT	30,551	32,336	37,742	42,670
Tax	9,773	10,782	12,455	14,081
RPAT	20,779	21,554	25,287	28,589
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	20,779	21,554	25,287	28,589

Balance Sheet

(₹ Mn)	FY18A	FY19A	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	85,661	93,398	1,04,287
Net Worth	97,205	1,00,661	1,08,398	1,19,287
Total Debt	14,531	1,012	11,254	11,255
Net Deferred Tax Liability	10,482	13,360	14,964	16,759
Total Capital Employed	1,22,217	1,15,033	1,34,616	1,47,301

Applications of Funds

Net Block	80,296	76,651	83,053	76,554
CWIP	2,203	3,482	4,021	4,021
Investments	1,645	9,893	1,000	1,000
Current Assets, Loans & Advances	72,393	60,823	83,449	1,02,633
Inventories	4,911	5,694	7,095	8,176
Receivables	16,505	13,825	22,922	25,695
Cash and Bank Balances	8,625	29,603	42,901	59,285
Loans and Advances	2,217	11,190	10,071	9,064
Other Current Assets	557	511	460	414
Less: Current Liabilities & Provisions	34,321	35,815	36,907	36,907
Payables	15,699	15,856	16,332	16,822
Other Current Liabilities	18,622	19,959	20,575	20,085
Net Current Assets	38,073	25,007	46,542	65,726
Total Assets	1,22,217	1,15,033	1,34,616	1,47,301

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	12.8	10.4	11.6	12.2
EBIDTA Margin	10.8	8.6	9.6	10.2
EBIT Margin	9.5	7.5	8.2	8.7
Tax rate	32.0	33.3	33.0	33.0
Net Profit Margin	6.8	5.6	6.3	6.7
(B) As Percentage of Net Sales (%)				
COGS	87.2	89.6	88.4	87.8
Employee	0.3	0.3	0.3	0.3
Other	1.7	1.5	1.6	1.7
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.0	0.1	0.1
Interest Coverage	17.8	29.1	65.6	82.5
Inventory days	6	5	6	7
Debtors days	20	13	21	22
Average Cost of Debt	8.9	12.7	8.2	4.0
Payable days	19	15	15	14
Working Capital days	45	24	43	56
FA T/O	3.8	5.0	4.8	5.6
(D) Measures of Investment				
AEPS (₹)	13.9	14.4	16.9	19.1
CEPS (₹)	16.6	17.1	20.5	23.4
DPS (₹)	4.5	10.0	10.0	10.0
Dividend Payout (%)	32.5	69.6	59.3	52.5
BVPS (₹)	64.8	67.1	72.3	79.5
RoANW (%)	23.3	21.8	24.2	25.1
RoACE (%)	27.7	28.1	30.6	30.6
RoAIC (%)	26.3	29.0	37.0	41.3
(E) Valuation Ratios				
CMP (₹)	236	236	236	236
P/E	17.0	16.4	14.0	12.4
Mcap (₹ Mn)	3,53,325	3,53,325	3,53,325	3,53,325
MCap/ Sales	1.2	0.9	0.9	0.8
EV	3,19,652	3,24,734	3,21,678	3,05,295
EV/Sales	1.0	0.8	0.8	0.7
EV/EBITDA	9.7	9.9	8.4	7.0
P/BV	3.6	3.5	3.3	3.0
Dividend Yield (%)	1.9	4.2	4.2	4.2
(F) Growth Rate (%)				
Revenue	24.3	25.5	4.0	7.0
EBITDA	27.8	(0.6)	16.3	13.9
EBIT	30.5	(0.6)	13.8	13.2
PBT	29.4	5.8	16.7	13.1
APAT	21.8	3.7	17.3	13.1
EPS	21.8	3.7	17.3	13.1
Cash Flow				
(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	29,956	21,459	23,051	34,534
CFI	(12,776)	(760)	25,392	(1)
CFF	(13,347)	(25,476)	(7,808)	(18,149)
FCFF	28,204	19,832	10,610	34,533
Opening Cash	3,210	7,043	2,266	42,901
Closing Cash	7,043	2,266	42,901	59,285

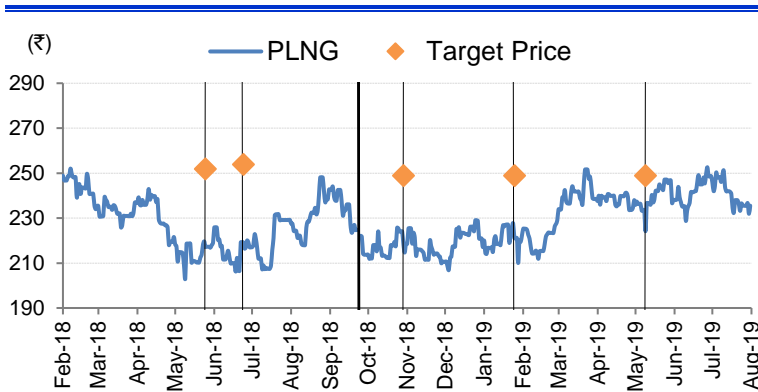
E – Estimates

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 (₹)
Jun-18	Accumulate	252	217
Jul-18	Accumulate	254	219
Nov-18	BUY	249	218
Feb-19	BUY	249	221
May-19	Accumulate	249	224

*Price as on recommendation date

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