

Decent performance...

Petronet LNG reported its Q1FY20 results that were marginally below our estimates on profitability front. Topline declined 6.1% YoY to ₹ 8613.4 crore, below our estimate of ₹ 9110.3 crore mainly due to lower volume of long term contracted LNG sales. Total volumes increased 2.6% YoY and 10.2% QoQ to 226 tbtu and came in largely in line with our estimate of 222.5 tbtu. EBITDA and blended margins of Petronet LNG are not comparable to the previous quarter as the company adopted Ind-AS 116. Hence, adjusted EBIT of the company on a like-to-like basis is only comparable. EBIT at ₹ 834 crore came in marginally below our estimate of adjusted EBIT of ₹ 842.4 crore.

Volume meets estimates; to report stable growth ahead

Petronet reported total volumes in line with our estimates, higher QoQ as expected due to higher demand from the power and CGD sector. Total sales volumes in Q1FY20, which include long-term + spot/short-term + tolling, were at 226 tbtu compared to 220.2 tbtu YoY and 205.1 QoQ. The capacity utilisation at Dahej terminal was at 112% with volumes at 217 tbtu of LNG in Q1FY20. Regasification volumes came in above our estimates at 113 tbtu (our estimates: 101 tbtu). The capacity utilisation of the Kochi terminal was at ~13.8% in Q1FY20. We estimate LNG volumes at 923.1 tbtu and 967.8 tbtu for FY20E and FY21E, respectively, on account of volume ramp up from the Dahej terminal and commissioning Kochi pipeline. We estimate blended margins at ₹ 54.3/mmbtu, ₹ 57.6/mmbtu in FY20E, FY21E, respectively.

Ramp up in demand & Kochi utilisation key

Petronet's Kochi terminal is expected to witness an increase in utilisation post the completion of Kochi-Mangalore pipeline. However, due to the delay in execution, pipeline's entire stretch will completed now by October 2019 and could receive additional ~1 mmtpa of gas over a period of time and not immediately. On the capacity expansion front, the company's Dahej terminal's expansion has been completed in June. The Dahej terminal is booked for 7.5 mmtpa under RasGas long term volumes while an additional 8.25 mmtpa is booked as regasification capacity, thus providing visibility to long term volumes.

Valuation & Outlook

Petronet LNG provides comfort on the business model and remains a structural story of India's increasing gas demand. With India continuing to be short of natural gas supply, Petronet LNG will benefit as the primary play on increasing usage of LNG. However, due to anticipated competition on account of upcoming new terminals, we value Petronet LNG at 13x FY21E EPS of ₹ 18 to arrive at a price target of ₹ 235 with a **HOLD** rating.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	34,800.0
Total Debt (FY18) (₹ Crore)	1,496.6
Cash and Investments (FY18) (₹ Crore)	862.5
EV (₹ Crore)	35,434.1
52 week H/L	260/202
Equity capital (₹ Crore)	750.0
Face value (₹)	10.0

Key Highlights

- Petronet LNG's numbers was marginally below our estimates on operational profitability front.
- Volumes to report stable growth on additional volumes from new Dahej capacity and on completion of Kochi-Mangalore pipeline.
- Maintain HOLD on stock with target price of ₹ 235 /share

Research Analyst

Mayur Matani
mayur.matani@icicisecurities.com

Key Financial Summary

(Year-end March)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Revenues (₹ crore)	24,616.0	30,598.6	38,395.4	37,129.6	39,365.9	1.3
EBITDA (₹ crore)	2,592.3	3,312.4	3,293.4	4,296.1	4,815.1	20.9
Net Profit (₹ crore)	1,705.7	2,077.9	2,155.4	2,353.3	2,705.9	12.0
EPS (₹)	11.4	13.9	14.4	15.7	18.0	
P/E (x)	20.4	16.7	16.1	14.8	12.9	
Price / Book (x)	4.3	3.6	3.4	3.3	3.1	
EV/EBITDA (x)	14.2	10.7	10.7	8.8	7.6	
RoCE (%)	21.4	25.9	26.5	24.3	27.2	
RoE (%)	21.1	21.4	21.3	22.3	24.2	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Total Revenues	8,613.4	9,110.3	9,169.2	-6.1	8,383.2	2.7	Decline in revenues YoY on account of lower volumes of long term contracted LNG
Raw materials costs	7,418.2	7,953.2	8,084.4	-8.2	7,538.7	-1.6	
Employees Cost	29.3	26.9	22.4	30.8	34.0	-13.7	
Other Expenses	142.1	127.5	128.0	11.0	183.3	-22.5	
Total Expenditure	7,589.5	8,107.6	8,234.7	-7.8	7,756.0	-2.1	
EBITDA	1,023.9	1,002.6	934.4	9.6	627.2	63.2	Reported EBITDA not comparable on application of Ind-AS 116. Adjusted EBITDA marginally below our estimates
EBITDA margins (%)	11.9	11.0	10.2	170 bps	7.5	441 bps	
Depreciation	189.9	108.5	102.2	85.7	101.6	86.9	Depreciation higher due to change in accounting standards (AS 116)
EBIT	834.0	894.2	832.2	0.2	525.6	58.7	
Interest	100.5	16.6	30.0	235.4	22.5	346.4	Depreciation higher due to change in accounting standards (AS 116)
Other Income	104.4	92.8	99.0	5.5	151.4	-31.0	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	837.9	970.3	901.2	-7.0	654.5	28.0	Application of Ind-AS 116 impacted EBIT by ₹ 51.6 crore
Total Tax	277.7	335.7	314.2	-11.6	214.3	29.6	
PAT	560.3	634.6	587.0	-4.5	440.2	27.3	

Key Metrics

Sales volume (tbtu)	113.0	121.5	123.2	-8.3	114.1	-0.9	
Regasification vol (tbtu)	113.0	101.0	97.0	16.5	91.0	24.2	
Total Volumes (tbtu)	226.0	222.5	220.2	2.6	205.1	10.2	Total volumes in line with estimates. Lower sales volume negated by higher regasification volumes
Blended margin ₹/mmbtu	52.9	52.0	49.3	7.4	41.2	28.4	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			
	Old	New	% Change	Old	New	% Change	
Revenue	39840.2	37,129.6	-6.8	42373.8	39,365.9	-7.1	Lower LNG prices lead to change in estimates
EBITDA	3,982.1	4,296.1	7.9	4423.3	4,815.1	8.9	
EBITDA Margin (%)	10.0	11.6	158 bps	10.4	12.2	179 bps	
PAT	2,527.7	2,353.3	-6.9	2834.3	2,705.9	-4.5	Profitability lowered mainly on account of implementation of Ind-AS 116
EPS (₹)	16.9	15.7	-6.9	18.9	18.0	-4.5	

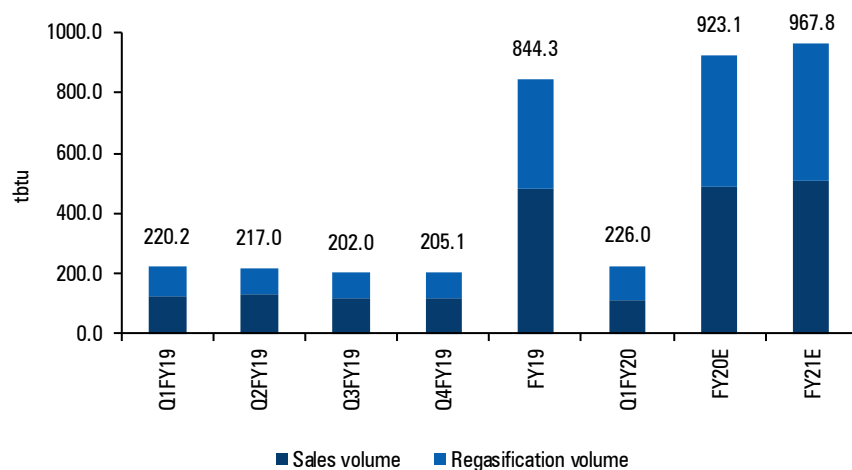
Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

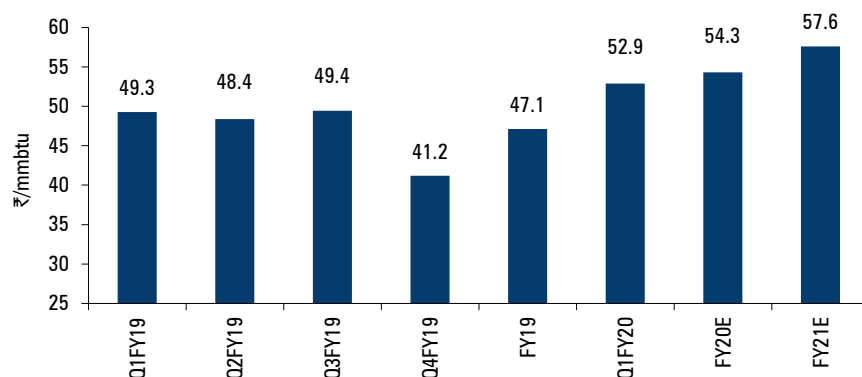
	Current				Earlier		
	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
Sales volume (tbtu)	511.1	484.3	486.6	510.8	485.1	496.8	
Regasification vol (tbtu)	336.2	360.0	436.5	457.0	427.5	465.0	
Total Volumes (tbtu)	847.4	844.3	923.1	967.8	912.6	961.8	Maintain volume growth for both Dahej and Kochi terminal
Blended Margin ₹/mmbtu	46.1	47.1	54.3	57.6	51.0	53.7	Blended margins higher due to change in accounting standard

Source: Company, ICICI Direct Research

Story in charts

Exhibit 4: Volume trajectory


Source: Company, ICICI Direct Research

Exhibit 5: Margin trend


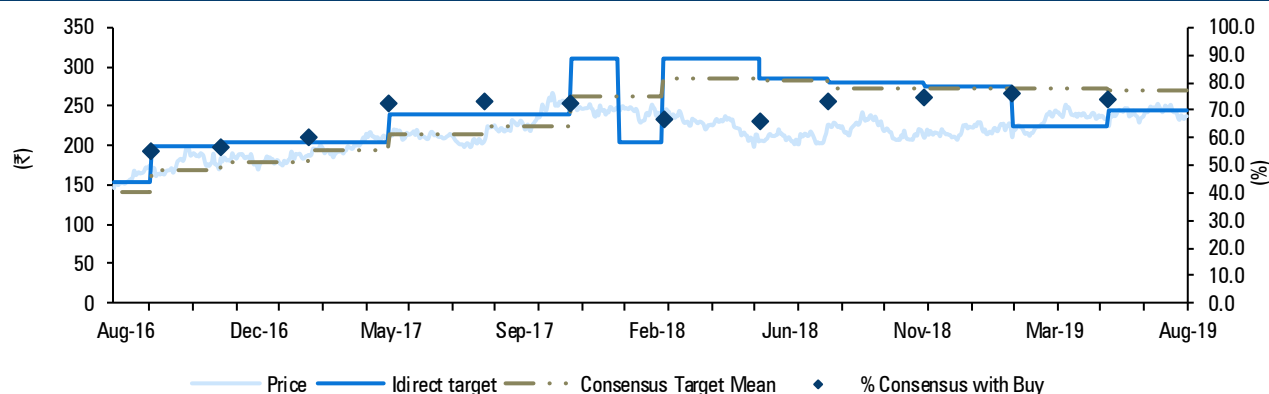
Source: Company, ICICI Direct Research

Exhibit 6: Booked capacity

Booked capacity (mmtpa)	
GAIL	7.00
IOCL	3.75
BPCL	1.75
GSPC	2.25
Torrent Power	1.00
Total	15.75

Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position	Change (m)
1	GAIL (India) Ltd	30-Jun-19	12.5	187.5	0.0
2	Indian Oil Corpn Ltd	30/Jun/19	12.5	187.5	0.0
3	Oil and Natural Gas Corporation Ltd	30-Jun-19	12.5	187.5	0.0
4	Bharat Petroleum Corporation Ltd	30/Jun/19	12.5	187.5	0.0
5	Kotak Mahindra Asset Management Company Ltd.	30-Jun-19	2.1	31.9	3.8
6	Franklin Templeton Asset Management (India) Pvt. L	30/Jun/19	2.0	29.2	1.5
7	BlackRock Institutional Trust Company, N.A.	30-Jun-19	1.4	21.7	-0.2
8	Aditya Birla Sun Life AMC Limited	30/Jun/19	1.4	20.6	-0.8
9	The Vanguard Group, Inc.	30-Jun-19	1.2	18.1	0.0
10	GIC Private Limited	30/Jun/19	1.2	17.3	1.2

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

BUYS			SELLS		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
Kotak Mahindra Asset Management Company Ltd.	13.55	3.81	APG Asset Management N.V.	-26.09	-7.17
Columbia Threadneedle Investments (UK)	11.44	3.22	Motilal Oswal Asset Management Company Ltd.	-8.64	-2.43
Norges Bank Investment Management (NBIM)	7.26	2.04	BlackRock Asset Management North Asia Limited	-6.26	-1.81
Franklin Templeton Asset Management (India) Pvt. L1	5.33	1.50	Schroder Investment Management Ltd. (SIM)	-4.13	-1.14
Union Investment Luxembourg S.A.	5.13	1.41	Tata Asset Management Limited	-3.86	-1.09

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	50.0	50.0	50.0	50.0	50.0
FII	23.0	23.9	23.4	25.7	27.0
DII	11.7	11.5	12.1	11.0	10.3
Others	15.3	14.6	14.5	13.3	12.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Revenue	30598.6	38395.4	37129.6	39365.9
Growth (%)	24.3	25.5	-3.3	6.0
(Inc.) / Dec stock in trade	0.0	0.0	0.0	0.0
Raw material Costs	26690.2	34417.0	32116.3	33790.1
Purchase of trading goods	0.0	0.0	0.0	0.0
Employee Costs	91.2	125.9	147.4	170.2
Other Expenditure	504.9	559.2	569.8	590.5
Op. Expenditure	27286.3	35102.0	32833.5	34550.8
EBITDA	3312.4	3293.4	4296.1	4815.1
Growth (%)	27.8	-0.6	30.4	12.1
Depreciation	411.6	411.2	788.1	795.8
EBIT	2900.7	2882.2	3508.0	4019.3
Interest	163.0	98.9	358.3	334.9
Other Income	317.4	450.3	429.7	453.0
PBT	3055.1	3233.6	3579.5	4137.5
Growth (%)	29.4	5.8	10.7	15.6
Tax	977.3	1078.2	1226.2	1431.6
Reported PAT	2077.9	2155.4	2353.3	2705.9
Growth (%)	21.8	3.7	9.2	15.0
EPS	13.9	14.4	15.7	18.0

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	2,077.9	2,155.4	2,353.3	2,705.9
Add: Depreciation	411.6	411.2	788.1	795.8
Add: Others	318.0	100.0	100.0	100.0
Cash Profit	2,807.5	2,666.7	3,241.3	3,601.7
Increase/(Decrease) in CL	659.7	434.8	-105.3	233.4
(Increase)/Decrease in CA	-1,511.1	-652.4	590.2	340.7
CF from Operating Activities	1956.1	2449.1	3726.2	4175.9
Purchase of Fixed Assets	189.9	414.8	4,538.5	724.0
(Inc)/Dec in Investments	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-189.9	-414.8	-4,538.5	-724.0
Inc/(Dec) in Loan Funds	-780.2	-768.1	3,134.8	-285.3
Inc/(Dec) in Sh. Cap. & Res.	333.0	0.0	0.0	0.0
Less: Dividend Paid	784.4	1,743.0	1,917.3	2,091.6
Others	0.0	0.0	0.0	0.0
CF from financing activities	-1,564.5	-2,511.1	1,217.5	-2,376.9
Change in cash Eq.	534.7	-476.8	405.3	1,075.0
Op. Cash and cash Eq.	327.8	862.5	385.7	790.9
Cl. Cash and cash Eq.	862.5	385.7	790.9	1,865.9

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Source of Funds				
Equity Capital	1,500.0	1,500.0	1,500.0	1,500.0
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	8,220.9	8,633.3	9,069.3	9,683.6
Shareholder's Fund	9,720.9	10,133.3	10,569.3	11,183.6
Loan Funds	1,496.6	728.5	3,863.3	3,578.0
Deferred Tax Liability	1,048.2	1,148.2	1,248.2	1,348.2
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	12265.6	12010.0	15680.7	16109.8
Application of Funds				
Gross Block	9,119.8	9,319.8	13,747.8	13,747.8
Less: Acc. Depreciation	1,090.2	1,486.6	2,264.2	3,036.0
Net Block	8,029.6	7,833.2	11,483.6	10,711.8
Capital WIP	220.3	420.3	520.3	1,220.3
Total Fixed Assets	8,249.9	8,253.5	12,003.9	11,932.1
Investments	164.4	164.4	164.4	164.4
Inventories	491.1	841.5	813.8	862.8
Debtor	1,650.5	1,893.5	1,831.0	1,941.3
Cash	862.5	385.7	790.9	1,865.9
Loan & Advance, Other CA	4235.3	4294.2	3794.2	3294.2
Total Current assets	7239.4	7414.9	7230.0	7964.3
Current Liabilities	3368.1	3681.8	3560.4	3774.8
Provisions	19.9	141.1	157.2	176.2
Total CL and Provisions	3388.0	3822.8	3717.5	3951.0
Net Working Capital	3851.4	3592.1	3512.5	4013.3
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	12265.6	12010.0	15680.7	16109.8

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
Book Value	64.8	67.6	70.5	74.6
Cash per share	5.7	2.6	5.3	12.4
EPS	13.9	14.4	15.7	18.0
Cash EPS	16.6	17.1	20.9	23.3
DPS	4.5	10.0	11.0	12.0
Profitability & Operating Ratios				
EBITDA Margin (%)	10.8	8.6	11.6	12.2
PAT Margin (%)	6.8	5.6	6.3	6.9
Fixed Asset Turnover (x)	3.7	4.7	3.1	3.3
Inventory Turnover (Days)	5.9	8.0	8.0	8.0
Debtor (Days)	19.7	18.0	18.0	18.0
Current Liabilities (Days)	40.2	35.0	35.0	35.0
Return Ratios (%)				
RoE	21.4	21.3	22.3	24.2
RoCE	25.9	26.5	24.3	27.2
RoIC	28.0	27.5	25.7	31.2
Valuation Ratios (x)				
PE	16.7	16.1	14.8	12.9
Price to Book Value	3.6	3.4	3.3	3.1
EV/EBITDA	10.7	10.7	8.8	7.6
EV/Sales	1.2	0.9	1.0	0.9
Leverage & Solvency Ratios				
Debt to equity (x)	0.2	0.1	0.4	0.3
Interest Coverage (x)	17.8	29.1	9.8	12.0
Debt to EBITDA (x)	0.5	0.2	0.9	0.7
Current Ratio	2.1	1.9	1.9	2.0
Quick ratio	2.0	1.7	1.7	1.8

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP	TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)			FY19	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
BPCL (BHAPET)	336	375	Hold	72,886	36.3	32.0	41.0	9.3	10.5	8.2	7.8	8.1	6.5	13.0	11.6	14.8	19.3	16.0	18.8
Castrol India (CASIND)	127	120	Reduce	12,562	7.2	7.2	7.1	17.7	17.7	17.9	11.0	10.8	10.9	88.3	87.6	90.7	61.6	60.9	63.1
GAIL (India) (GAIL)	129	160	Hold	58,179	13.4	11.7	12.2	9.7	11.0	10.6	6.3	7.3	7.8	16.9	13.4	11.8	13.8	11.5	11.4
Gujarat Gas (GUJGA)	174	205	Buy	11,978	6.3	11.2	11.5	27.5	15.6	15.2	13.9	8.2	7.7	16.8	27.9	25.5	19.8	26.7	22.3
Gujarat State Petro (GSPL)	211	210	Hold	11,886	14.1	14.3	13.2	15.0	14.8	16.0	9.6	9.6	9.9	15.7	14.6	13.1	13.9	12.6	10.7
Gulf Oil Lubricants (GULO)	756	810	Hold	3,748	35.8	41.5	45.0	21.1	18.2	16.8	12.9	11.1	10.0	35.8	34.4	32.0	30.7	29.3	26.4
HPCL (HINPET)	258	300	Hold	39,359	39.5	29.3	36.0	6.5	8.8	7.2	5.2	6.9	6.0	16.6	10.2	11.2	22.1	15.5	17.4
Indian Oil Corp (INDOIL)	138	170	Hold	126,699	18.4	17.9	21.1	7.5	7.7	6.6	3.7	3.6	3.4	13.4	14.3	15.3	15.0	13.6	15.0
Indraprastha Gas (INDGAS)	300	350	Hold	21,000	11.2	12.5	13.1	26.7	24.0	22.8	16.5	14.5	13.3	25.6	24.0	22.0	19.2	18.3	16.9
Mahanagar Gas (MAHGAS)	786	1050	Buy	7,764	55.3	61.9	65.6	14.2	12.7	12.0	8.2	7.1	6.3	31.5	30.5	28.4	22.7	22.1	20.6
Mangalore Refinery (MRPL)	53	50	Hold	9,289	1.8	0.5	5.1	29.0	98.9	10.3	8.4	11.0	5.6	5.7	3.0	9.8	2.9	0.8	7.6
ONGC (ONGC)	139	180	Hold	178,383	21.2	20.1	22.6	6.5	6.9	6.1	3.3	3.3	3.0	15.4	14.4	15.2	13.0	11.4	11.9
Petronet LNG (PETLNG)	232	235	Hold	34,800	14.4	15.7	18.0	16.1	14.8	12.9	10.7	8.8	7.6	26.5	24.3	27.2	21.3	22.3	24.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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