Petronet LNG

BSE SENSEX	S&P CNX
37,327	11,032

Bloomberg	PLNG IN
Equity Shares (m)	1,500
M.Cap.(INRb)/(USDb)	358.9 / 5.1
52-Week Range (INR)	255 / 200
1, 6, 12 Rel. Per (%)	3/4/7
12M Avg Val (INR M)	685
Free float (%)	50.0

Financials & Valuations(INR b)

Y/E March	2019	2020E	2021E
Sales	384.0	421.0	510.4
EBITDA	32.9	41.7	48.6
Adj. PAT	21.6	24.0	29.0
Adj. EPS (INR)	14.4	16.0	19.3
EPS Gr. (%)	3.7	11.4	20.8
BV/Sh.(INR)	67.1	71.9	77.7
RoE (%)	21.8	23.0	25.9
RoCE (%)	21.5	21.4	21.6
Payout (%)	68.0	70.0	70.0
Valuation			
P/E (x)	16.7	15.0	12.4
P/BV (x)	3.6	3.3	3.1
EV/EBITDA (x)	10.0	7.7	6.3
Div. Yield (%)	3.8	3.9	4.7

Estimate change	↓
TP change	↔
Rating change	↔

CMP: INR239 TP: INR305 (+27%) Buy

Lower spot LNG prices, summer demand boost volumes

PLNG reported 1QFY20 results based on Ind-AS 116. Reported EBIDTA came in 17% higher than our estimate at INR10.2b (+10% YoY), led by lower other expenditure under the new accounting standards. Depreciation stood at INR1.9b (+86% YoY) and interest cost at INR1.0b (~3-4x). Reported PBT of INR8.4b was in line with our estimate. Adjusting for Ind-AS loss of INR516m, PBT was 3% above our estimate at INR8.9b. PAT was in line with our estimate at INR5.6b (-5% YoY, +27% QoQ).

- **Ind-AS 116:** PLNG adopted Ind-AS 116 from 1st Apr'19, which resulted in total EBITDA impact of INR1,050m, with depreciation impact of INR860m and interest cost impact of INR820m. Other income saw an impact of INR110m. The impact of Ind-AS is expected to be negative until 2024-25, post which it will turn positive for the profit & loss statement. We have adjusted our model for the same, with an EPS cut of ~11/8% for FY20/21.
- **Total volumes for the quarter were ~3% higher than estimate at 226tbtu (+3% YoY).** Throughput volumes were at ~217tbtu at Dahej and ~9tbtu at Kochi. Gail's Dabhol terminal is impacted by the lack of break water facility (during raining season) and its temporary closure has boosted service volumes for Dahej, reducing its dependence on spot volume sales. However, the company expects utilization to come down post 3QFY20, when the Dabhol terminal comes back on stream. Also during the quarter, robust summer power demand, along with lower spot LNG prices, led to an increase in power sector gas consumption.
- **Dahej:** Long-term (LT) contract at Dahej stood at ~100tbtu (v/s 112tbtu in 1QFY19 and flat QoQ), while spot/short-term volumes were flat YoY at 5tbtu. Third-party volumes increased to 112tbtu (+15% YoY, +23% QoQ). Utilization at Dahej stood at 114% (v/s 113% in 1QFY19 and 104% in 4QFY19). Additional capacity of 2.5mmt at Dahej came online from 25th Jun'19.
- **Kochi:** Long-term contract at Kochi increased to 7tbtu (v/s 6tbtu in 1QFY19 and flat QoQ). Utilization at Kochi was up to 14% (v/s 10% in 1QFY19 and 11% in 4QFY19).
- **Re-gas tariff charges** were ~USD0.7/mmbtu at Dahej and ~USD1.5/mmbtu at Kochi, led by a 5% yearly tariff hike taken by the company. However, PLNG expects the Kochi tariff to come down as utilization increases.
- **Annual capex guidance** for the next three years stands ~INR7-8b. PLNG plans to set up two more tanks (capex: INR13b) at Dahej (increasing throughput to ~19.5mtpa) and build a Jetty (capex: INR10b) over the next 2-3 years.

Valuation and view

- Factoring in the aforementioned volume positives, we expect total volume growth of ~7% to 17.8mmtpa in FY20 and ~9% to 19.5mmtpa in FY21 with improved utilization at both Dahej and Kochi.
- We expect EBITDA growth of ~27%/16% in FY20/21. The stock trades at 15.0x FY20E EPS of INR16.0. We value PLNG on DCF (WACC: 12.0%, TGR: 3%) to arrive at a fair value of INR305, implying an upside of 27%. Reiterate **Buy**.

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Standalone - Quarterly earnings model **(INR Million)**

Y/E March	FY19				FY20				FY19	FY20E	FY20	Var. v/s
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			1QE	Est.
Net Sales	**91,692**	**1,07,453**	**1,00,977**	**83,832**	**86,134**	**1,05,536**	**1,07,188**	**1,22,114**	**3,83,954**	**4,20,973**	**1,02,437**	**-16%**
YoY Change (%)	42.5	38.3	30.2	-2.9	-6.1	-1.8	6.2	45.7	25.5	9.6	11.7	
Total Expenditure	82,347	98,616	92,497	77,560	75,895	95,428	96,959	1,10,979	3,51,020	3,79,261	93,699	-19%
EBITDA	**9,344**	**8,837**	**8,481**	**6,272**	**10,239**	**10,108**	**10,230**	**11,135**	**32,935**	**41,713**	**8,738**	**17%**
Margins (%)	10.2	8.2	8.4	7.5	11.9	9.6	9.5	9.1	8.6	9.9	8.5	
Depreciation	1,022	1,037	1,037	1,016	1,899	1,866	1,866	1,768	4,112	7,398	1,059	79%
Interest	300	249	215	225	1,005	959	996	851	989	3,810	83	1114%
Other Income	990	1,115	884	1,514	1,044	1,327	1,369	1,620	4,503	5,360	1,012	3%
PBT before EO expense	**9,012**	**8,666**	**8,113**	**6,545**	**8,379**	**8,611**	**8,737**	**10,137**	**32,336**	**35,864**	**8,607**	**-3%**
PBT	**9,012**	**8,666**	**8,113**	**6,545**	**8,379**	**8,611**	**8,737**	**10,137**	**32,336**	**35,864**	**8,607**	**-3%**
Tax	3,142	3,037	2,460	2,143	2,777	2,842	2,883	3,345	10,782	11,847	2,906	-4%
Rate (%)	34.9	35.0	30.3	32.7	33.1	33.0	33.0	33.0	33.3	33.0	33.8	
Adj PAT	**5,870**	**5,629**	**5,653**	**4,402**	**5,603**	**5,769**	**5,854**	**6,792**	**21,554**	**24,018**	**5,701**	**-2%**
YoY Change (%)	34.1	-4.4	6.9	-15.8	-4.5	2.5	3.6	54.3	3.7	11.4	-2.9	
Margins (%)	6.4	5.2	5.6	5.3	6.5	5.5	5.5	5.6	5.6	5.7	5.6	
Key Assumptions												
Regas volume (Tbtu)	97	88	84	91	113	85	85	83	360	366	86	6%
Sales volume (Tbtu)	123	129	118	114	113	143	144	154	484	554	134	-15%
Total Volumes (Tbtu)	220.2	217.0	202.0	205.1	226.0	228.1	229.4	237.2	844.3	920.6	219.9	3%

E: MOFSL Estimates

Dahej and Kochi by FY21/22

- Dahej continues to enjoy >100% utilization with ~15.75mmt (RasGas: 7.5, LT agreement: 8.25), with around 0.8-0.9mmt of volumes flowing from Kochi to Dahej (out of 1.4mmt Gorgon contract).
- Currently, Dahej has tied up entire 17.5mmt capacity (including additional 2.5mmt which came online from 25 Jun'19), as the remaining 0.5mmt of spot volumes is also utilized by ONGC OPAL plant at Dahej.
- Kochi-Mangalore pipeline is expected to be complete by end of Oct'19, post which we expect ~20%/40% utilization at Kochi in FY21/22.

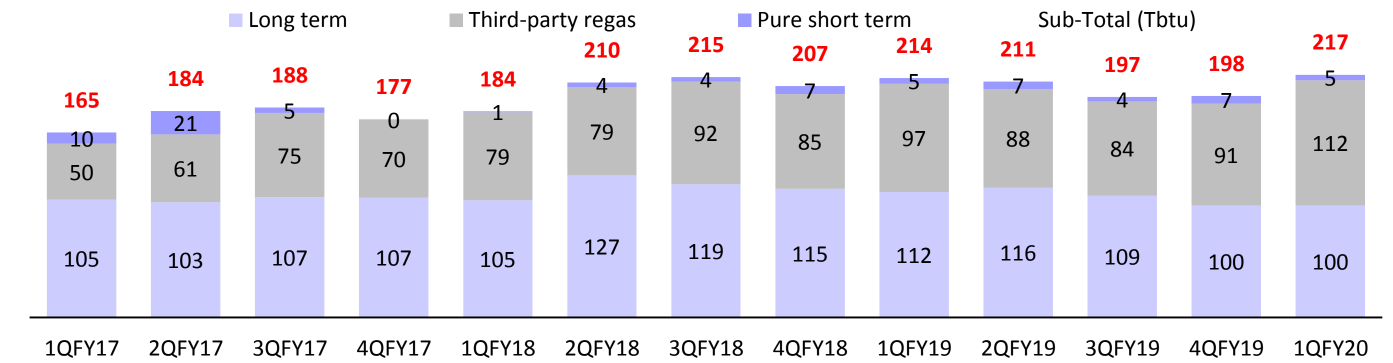
Operational highlights

- PLNG has signed MOUs with GUJGA and IGL to set up LNG gas dispensers in their respective GAs. Also, the company is in talks to set up ~10-20 LNG gas dispensers at OMCs' retail outlets (expected capex of ~INR1-1.2b).
- Management expects demand growth of ~10%, majorly driven by CGD sector as new GAs allotted in recent rounds become operational.
- PLNG is in preliminary talks for US LNG project (maximum capacity up to 3mmt), and expects to look for avenues of down-streaming the volumes too. This may be in participation with other Indian firms.

Competition remains weak

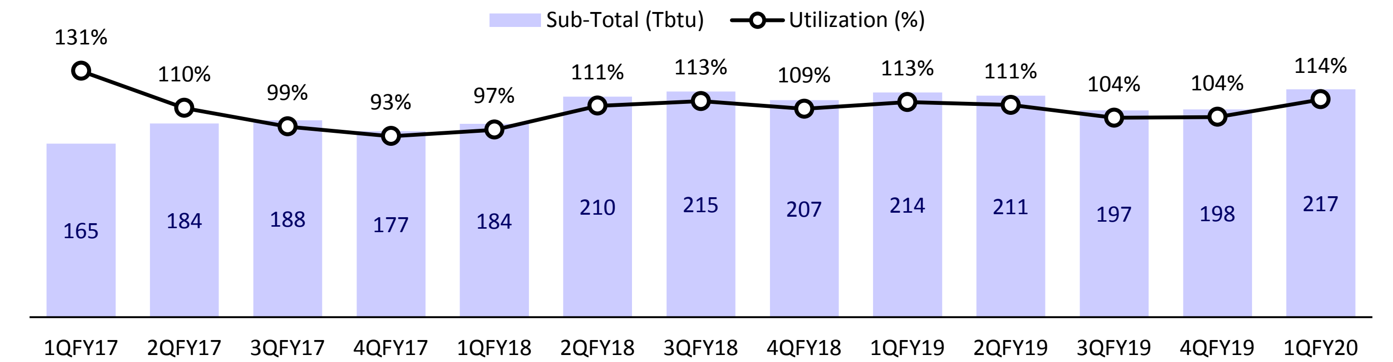
- Competition remains weak for PLNG with continued delays in upcoming 4mmtpa Jaigarh FSRU and lack of volumes at Mundra LNG terminal.
- Company enjoys 2.25mmt of LT contracts with GSPC. Thus, there would be no impact on Dahej volumes due to the Mundra terminal.
- Domestic gas production fails to ramp-up with actual production over the past one year ~7% lower on an average than the estimates submitted to the ministry.
- The company expects the increase in domestic gas production from FY21/22 to be consumed by ~20GW of stranded gas power plant capacity in the east coast of India, and thus, will not impact LNG imports.

Exhibit 1: Dahej total volume at 217 Tbtu, +1% YoY, +10% QoQ



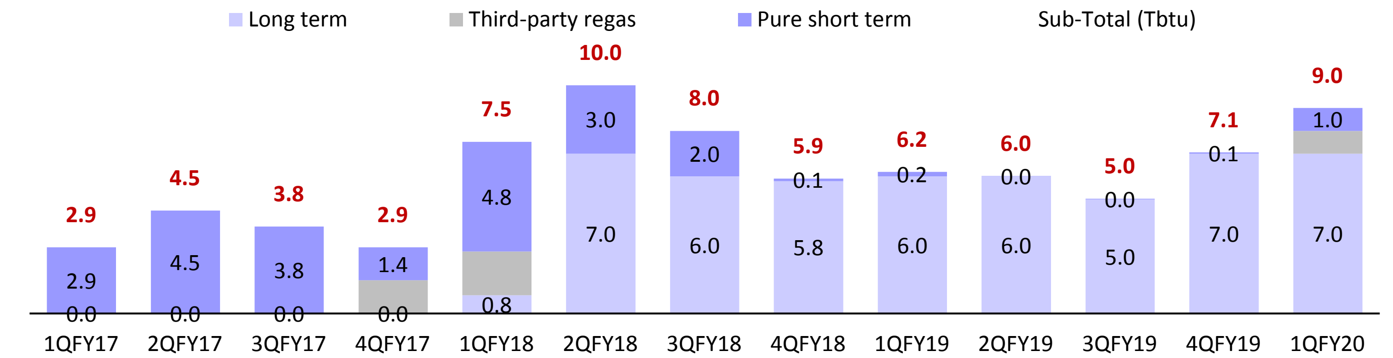
Source: Company, MOFSL

Exhibit 2: Dahej terminal utilization at 114% in 1QFY20



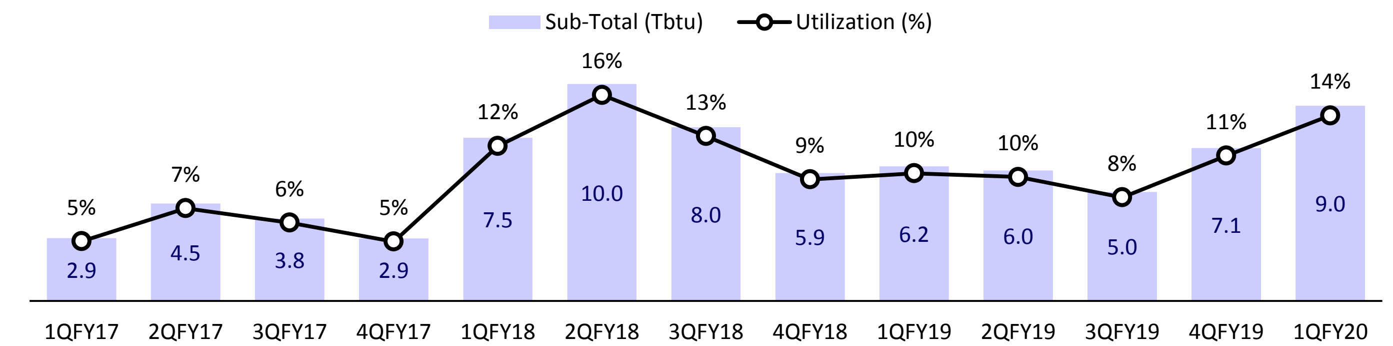
Source: Company, MOFSL

Exhibit 3: Kochi volume at 9.0Tbtu, +45% YoY, +28% QoQ



Source: Company, MOFSL

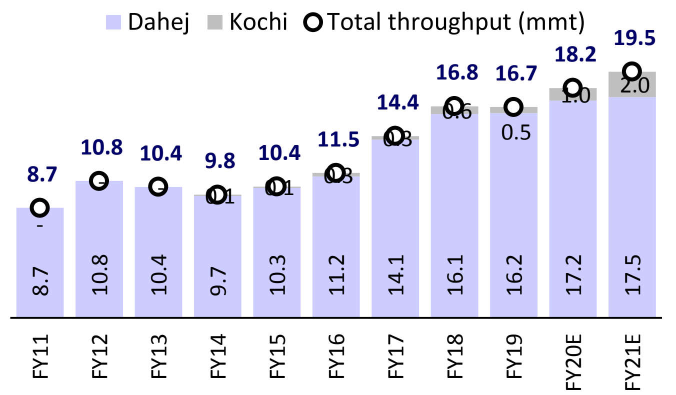
Exhibit 4: Kochi terminal utilization at 14% in 1QFY20



Source: Company, MOFSL

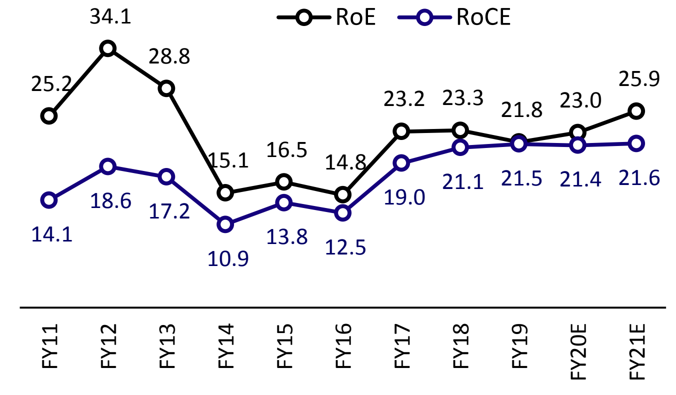
Story in charts

Exhibit 5: Volume growth led by capacity ramp-up



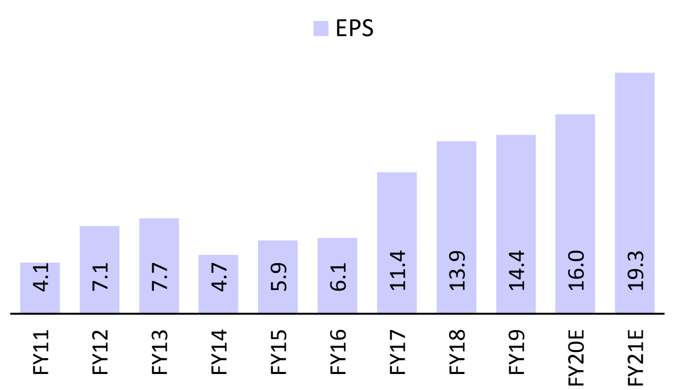
Source: Company, MOFSL

Exhibit 6: Stable return ratios



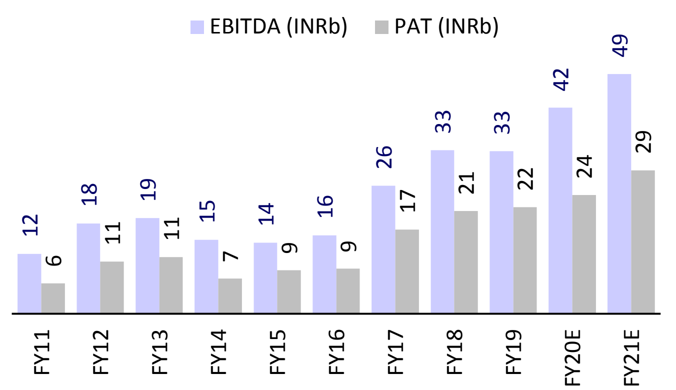
Source: Company, MOFSL

Exhibit 7: Strong EPS growth (INR)



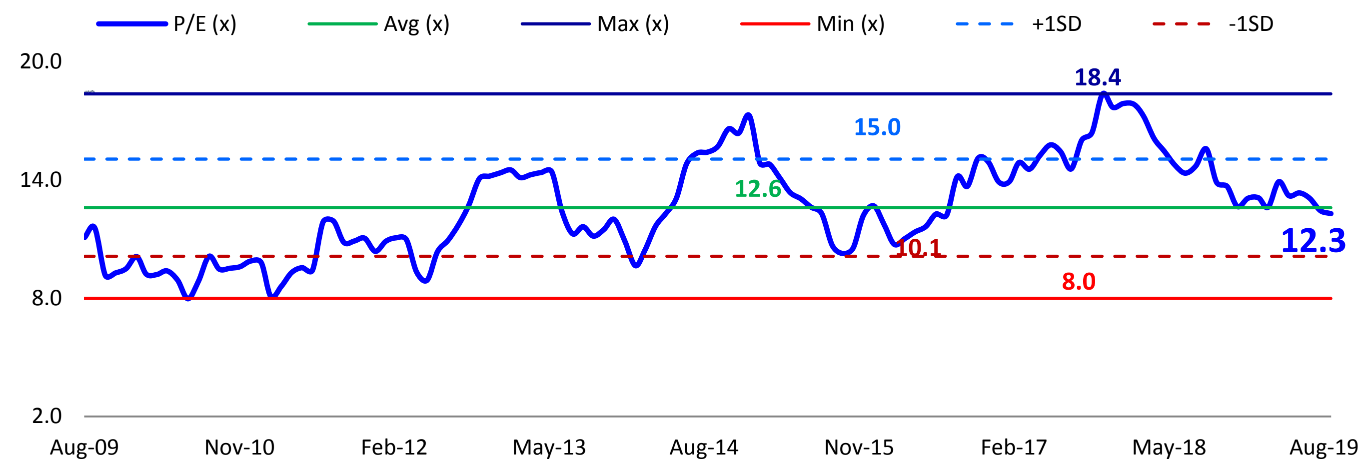
Source: Company, MOFSL

Exhibit 8: EBITDA/PAT to grow



Source: Company, MOFSL

Exhibit 9: One-year forward P/E



Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement (INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Total Income from Operations	**3,77,476**	**3,95,010**	**2,71,334**	**2,46,160**	**3,05,986**	**3,83,954**	**4,20,973**	**5,10,447**
Change (%)	20.0	4.6	-31.3	-9.3	24.3	25.5	9.6	21.3
EBITDA	**14,984**	**14,390**	**15,863**	**25,923**	**33,124**	**32,935**	**41,713**	**48,551**
Margin (%)	4.0	3.6	5.8	10.5	10.8	8.6	9.9	9.5
Depreciation	3,081	3,154	3,216	3,691	4,117	4,112	7,398	7,996
EBIT	**11,903**	**11,236**	**12,647**	**22,232**	**29,007**	**28,822**	**34,314**	**40,554**
Int. and Finance Charges	2,196	2,935	2,388	2,097	1,630	989	3,810	4,223
Other Income	838	1,548	1,733	3,466	3,174	4,503	5,360	7,168
PBT bef. EO Exp.	**10,545**	**9,849**	**11,992**	**23,602**	**30,551**	**32,336**	**35,864**	**43,500**
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	**10,545**	**9,849**	**11,992**	**23,602**	**30,551**	**32,336**	**35,864**	**43,500**
Total Tax	3,426	1,024	2,860	6,545	9,773	10,782	11,847	14,486
Tax Rate (%)	32.5	10.4	23.8	27.7	32.0	33.3	33.0	33.3
Reported PAT	**7,119**	**8,825**	**9,133**	**17,057**	**20,779**	**21,554**	**24,018**	**29,015**
Adjusted PAT	**7,119**	**8,825**	**9,133**	**17,057**	**20,779**	**21,554**	**24,018**	**29,015**
Change (%)	-38.1	24.0	3.5	86.8	21.8	3.7	11.4	20.8
Margin (%)	1.9	2.2	3.4	6.9	6.8	5.6	5.7	5.7

Standalone - Balance Sheet (INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	7,500	7,500	7,500	7,500	15,000	15,000	15,000	15,000
Total Reserves	42,361	49,386	58,640	73,439	82,205	85,661	92,866	1,01,570
Net Worth	**49,861**	**56,886**	**66,140**	**80,939**	**97,205**	**1,00,661**	**1,07,866**	**1,16,570**
Total Loans	32,669	26,541	26,146	22,180	7,334	1,012	39,098	31,278
Deferred Tax Liabilities	5,530	7,270	5,886	7,302	10,482	13,360	13,360	13,360
Capital Employed	**88,061**	**90,697**	**98,171**	**1,10,421**	**1,15,021**	**1,15,033**	**1,60,324**	**1,61,209**
Gross Block	77,946	87,869	71,321	91,134	91,316	91,783	1,35,857	1,10,184
Less: Accum. Deprn.	15,295	18,443	3,216	6,903	11,020	15,132	22,531	30,527
Net Fixed Assets	**62,650**	**69,426**	**68,105**	**84,230**	**80,296**	**76,651**	**1,13,327**	**79,657**
Capital WIP	8,799	7,469	15,505	486	2,203	3,482	-34,592	-4,918
Total Investments	**1,399**	**900**	**900**	**29,351**	**41,223**	**9,893**	**9,893**	**9,893**
Curr. Assets, Loans&Adv.	**46,278**	**33,441**	**39,751**	**24,224**	**32,815**	**60,823**	**1,10,966**	**1,24,193**
Inventory	9,557	8,826	2,461	5,405	4,911	5,694	6,243	7,570
Account Receivables	20,157	13,428	9,885	12,108	16,505	14,335	15,718	19,058
Cash and Bank Balance	12,327	3,621	21,829	3,273	8,625	29,603	76,736	82,688
Loans and Advances	4,237	7,566	5,576	3,438	2,774	11,190	12,269	14,877
Curr. Liability & Prov.	**31,066**	**20,538**	**26,090**	**27,870**	**41,517**	**35,815**	**39,268**	**47,615**
Account Payables	20,482	5,969	8,695	9,952	15,699	12,952	14,201	17,220
Other Current Liabilities	7,855	12,584	17,241	17,758	25,619	22,585	24,762	30,025
Provisions	2,729	1,985	155	160	199	278	305	370
Net Current Assets	**15,212**	**12,903**	**13,661**	**-3,646**	**-8,702**	**25,007**	**71,697**	**76,578**
Appl. of Funds	**88,061**	**90,697**	**98,171**	**1,10,421**	**1,15,021**	**1,15,033**	**1,60,324**	**1,61,209**

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Basic (INR)								
EPS	**4.7**	**5.9**	**6.1**	**11.4**	**13.9**	**14.4**	**16.0**	**19.3**
Cash EPS	6.8	8.0	8.2	13.8	16.6	17.1	20.9	24.7
BV/Share	33.2	37.9	44.1	54.0	64.8	67.1	71.9	77.7
DPS	1.0	1.0	1.3	2.5	4.5	9.0	9.3	11.2
Payout (%)	24.7	20.4	23.9	25.7	38.0	68.0	70.0	70.0
Valuation (x)								
P/E		40.7	39.3	21.1	17.3	16.7	15.0	12.4
Cash P/E		30.0	29.1	17.3	14.4	14.0	11.4	9.7
P/BV		6.3	5.4	4.4	3.7	3.6	3.3	3.1
EV/Sales		1.0	1.3	1.5	1.2	0.9	0.8	0.6
EV/EBITDA		26.6	22.9	14.6	10.8	10.0	7.7	6.3
Dividend Yield (%)	0.4	0.4	0.5	1.0	1.9	3.8	3.9	4.7
FCF per share	-0.6	-0.9	12.3	10.7	24.4	9.4	17.2	22.7
Return Ratios (%)								
RoE	15.1	16.5	14.8	23.2	23.3	21.8	23.0	25.9
RoCE	10.9	13.8	12.5	19.0	21.1	21.5	21.4	21.6
RoIC	18.5	14.0	13.9	23.4	28.1	28.5	25.5	29.8
Working Capital Ratios								
Fixed Asset Turnover (x)	4.8	4.5	3.8	2.7	3.4	4.2	3.1	4.6
Asset Turnover (x)	4.3	4.4	2.8	2.2	2.7	3.3	2.6	3.2
Inventory (Days)	9	8	3	8	6	5	5	5
Debtor (Days)	19	12	13	18	20	14	14	14
Creditor (Days)	20	6	12	15	19	12	12	12
Leverage Ratio (x)								
Current Ratio	1.5	1.6	1.5	0.9	0.8	1.7	2.8	2.6
Interest Cover Ratio	5.4	3.8	5.3	10.6	17.8	29.1	9.0	9.6
Net Debt/Equity	0.4	0.4	0.1	-0.1	-0.4	-0.4	-0.4	-0.5

Standalone - Cash Flow Statement **(INR Million)**

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
OP/(Loss) before Tax	10,545	9,849	11,992	23,602	30,551	32,336	35,864	43,500
Depreciation	3,081	3,154	3,216	3,691	4,117	4,112	7,398	7,996
Deferred tax	1,620	1,740	-1,384	1,416	3,180	2,879	0	0
Direct Taxes Paid	-3,426	-1,024	-2,860	-6,545	-9,773	-10,782	-11,847	-14,486
(Inc)/Dec in Wkg. Capital	-5,104	-6,397	17,450	-1,248	10,407	-12,731	443	1,071
CF from Op. Activity	**6,716**	**7,322**	**28,414**	**20,915**	**38,482**	**15,814**	**31,859**	**38,082**
(Inc)/Dec in FA & CWIP	-7,647	-8,599	-9,931	-4,796	-1,899	-1,746	-6,000	-4,000
Free Cash Flow	**-931**	**-1,277**	**18,483**	**16,119**	**36,583**	**14,068**	**25,859**	**34,082**
(Pur)/Sale of Investments	0	499	0	-28,451	-11,872	31,331	0	0
CF from Inv. Activity	**-7,647**	**-8,100**	**-9,931**	**-33,248**	**-13,772**	**29,584**	**-6,000**	**-4,000**
Issue of Shares	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	2,328	-6,128	-396	-3,966	-14,846	-6,322	38,086	-7,820
Dividends Paid (incl.tax)	-1,755	-1,800	-2,180	-4,388	-7,898	-14,648	-16,812	0
Others	0	0	2,301	2,130	3,385	-3,451	0	-20,310
CF from Fin. Activity	**573**	**-7,928**	**-275**	**-6,223**	**-19,359**	**-24,420**	**21,274**	**-28,130**
Inc / (Dec) in Cash	**-358**	**-8,706**	**18,208**	**-18,556**	**5,352**	**20,978**	**47,133**	**5,952**
Add: Opening Balance	12,685	12,327	3,621	21,829	3,273	8,625	29,603	76,736
Closing Balance	12,327	3,621	21,829	3,273	8,625	29,603	76,736	82,688

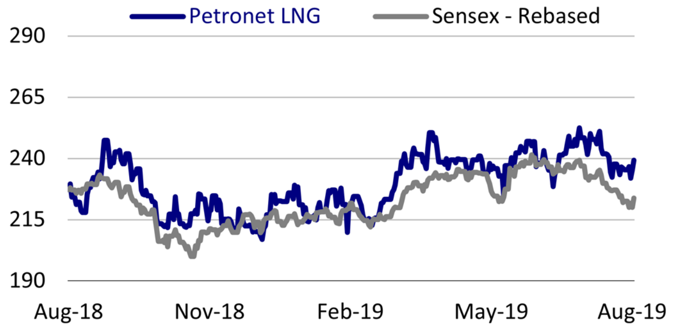
E: MOFSL Estimates

Corporate profile

Company description

Petronet LNG (PLNG) was formed as a joint venture by the government of India to import LNG and set up LNG terminals in India. Each promoter - GAIL, ONGC, IOCL and BPCL, holds 12.5% stake in PLNG. The company owns India's first LNG receiving and regasification terminal of 10mmtpa at Dahej and 5mmtpa terminal at Kochi commissioned in 2QFY14. It has a tied up long-term off-take contracts of 15.75mmtpa effective from its capacity expansion to 15mmtpa at Dahej in 2016.

Exhibit 1: Sensex rebased



Source: MOFSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-19	Mar-19	Jun-18
Promoter	50.0	50.0	50.0
DII	10.3	11.0	11.7
FII	27.0	25.7	23.0
Others	12.7	13.3	15.3

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
KOTAK EQUITY OPPORTUNITIES FUND	2.1
FRANKLIN TEMPLETON MUTUAL FUND A/C FRANKLIN BUILD INDIA FUND (FBIF)	2.0
ADITYA BIRLA SUN LIFE TRUSTEE PRIVATE LIMITED A/C ADITYA BIRLA SUN LIFE EQUITY HYBRID '95 FUND	1.4
GOVERNMENT OF SINGAPORE - E	1.2
GOVERNMENT PENSION FUND GLOBAL	1.2

Source: Capitaline

Exhibit 4: Top management

Name	Designation
M M Kutty	Chairman
Prabhat Singh	Managing Director & CEO
Rajender Singh	Director (Technical)
Rajan Kapur	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Arun Kumar*	B C Tripathi
Jyoti Kiran Shukla*	Shashi Shankar
Siddharth Shekhar Singh*	Sidhartha Pradhan
Sunil Kumar Srivastava*	V K Mishra
D Rajkumar	Sanjiv Singh
	T Natarajan

*Independent

Exhibit 6: Auditors

Name	Type
A N Kukreja & Co	Secretarial Audit
K L Jaisingh & Co	Cost Auditor
T R Chadha & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOFSL forecast v/s consensus

EPS (INR)	MOFSL forecast	Consensus forecast	Variation (%)
FY20	16.0	17.0	-5.8
FY21	19.3	19.5	-0.9

Source: Bloomberg

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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