

Gains from growing Gas Economy

Higher volumes were clocked in FY20, due to higher efficiency in operations and expansion of nameplate capacity at Dahej. Last few days of March '20, was affected due to nationwide lockdown, however normal volumes have bounced back and the Dahej terminal is running at a capacity utilization of close to 100% with industries starting up and higher usage of gas from Power and other industries as spot LNG prices are low. Capacity Utilization at Kochi is low and is expected to improve after the completion of the Kochi-Mangalore pipeline by end of August'20. The capacity utilization of Kochi terminal after completion will reach around 30-35%, which will further boost earnings. Given the gradual capacity addition and increase in re-gasification margins, PLL is likely to benefit from gas demand evolution in India. PLNG is in advance stages of doing investments in Sri Lanka and the Management has also indicated an interest in expanding outside India by acquiring upstream assets. They are also looking at another terminal in the Eastern Coast as currently it is an underpenetrated region and the connectivity issues there have largely been resolved. Setting up small scale LNG stations will further boost volumes. CapEx spent in FY20 is Rs. 1,000 Mn and is expected to spend Rs. 3,480 Mn in FY21, towards setting up of small scale LNG stations and addition of 2 additional tanks and a jetty at Dahej which will take 3 years.

DART View: We have long-term positive view on the stock, as additional capacity of 2.5 MMTPA was added in June 2019 in the Dahej terminal and the completion of the pipeline connectivity in the Kochi terminal will resolve gas evacuation issues. The continuous increase in re-gasification margins every year will enable PLL to maintain its growth trajectory. The valuations are justified by PLL'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, PLL 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 Rs 299. (DCF Method)

Industry Overview: LNG volumes traded in 2015 was 245.2 MMTPA and rose to 354.7 MMTPA by 2019. Within these 5 years, a total of 109.5 MMTPA of incremental LNG volumes were added to the market and a 40.9 MMTPA increase in LNG trade from 2018 to 2019, which was recorded as the highest increase YoY which has ever taken place in LNG trade. The spot volume trade has also increased in the last 5 years from 68.4 to 119 MMTPA adding another 50.6 MMTPA LNG to flexible supply. This has enhanced liquidity in LNG spot trade and lead to more competition, which is based on demand and supply fundamentals of LNG rather than being solely influenced by oil prices.

MD&A Overview: The regasification margins are likely to sustain, and volumes will see an uptrend in the long term. PLL is generating significant cash and have plans to set up small scale LNG station which will further boost the LNG usage by 8-9 MMTPA on which they can earn marketing margins. After completion of Kochi-Mangalore pipeline, capacity will improve to 30-35%. They also have expansion plans in place over the next few years by investments in Sri Lanka, setting up a terminal in East coast of India and further expansion of Dahej terminal by adding 2 more storage tanks and a jetty. The risk to our analysis is any dilution in return ratios from this investment. LNG to be used as an automotive fuel is the next big thing for India which will further boost earnings.

Financial Snapshot

Net sales de-grew by 7.7% from Rs384 billion in FY19 to Rs354 billion in FY20, driven by volumes lost in last 10-15 days in the month of March'20 due to nationwide lockdown. EBITDA increased for FY20 at Rs40 billion while cost of raw materials decreased by 11.4% to Rs305 billion. The Company achieved a PBT of Rs31.1 billion which de-grew by 3.8% as compared to the previous year. The directors had earlier recommended an interim dividend Rs5.50 per share, which was paid in November'19. The directors also recommended a final dividend of Rs7 per share for FY20. Net worth increased by 8.8% driven by rise in Reserves and Surplus.

CMP	Rs 249
Target / Upside	Rs 299 / 20%
BSE Sensex	38,461
NSE Nifty	11,372

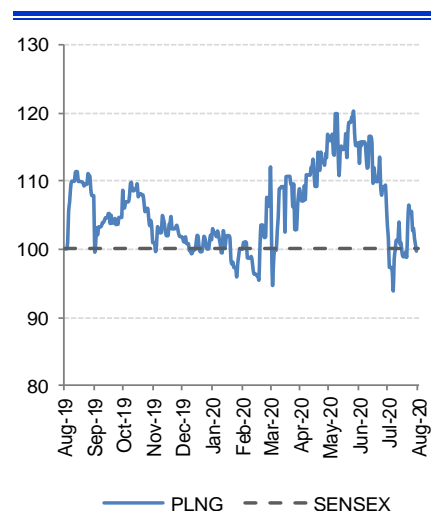
Scrip Details

Equity / FV	Rs 15,000mn / Rs 10
Market Cap	Rs 374bn
	US\$ 5bn
52-week High/Low	Rs 299/Rs 170
Avg. Volume (no)	41,12,150
NSE Symbol	PETRONET
Bloomberg Code	PLNG IN

Shareholding Pattern Jun'20(%)

Promoters	50.0
MF/Banks/FIs	10.3
FIIIs	27.4
Public / Others	12.4

Petronet LNG Relative to Sensex



— PLNG - - - SENSEX

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Annual Report Macro View

Key Management	The key management were: Shri Tarun Kapoor, Chairman Shri Prabhat Singh, Managing Director and CEO Shri V.K. Mishra, Director (Finance) and CFO		
Board of Directors	The following directors were: Shri Shashi Shankar, Director (Nominee- ONGC) Shri Arun Kumar Singh, Director (Nominee- BPCL) Shri Manoj Jain, Director (Nominee- GAIL) Shri S M Vaidya, Director (Nominee- IOCL) Shri Sanjeev Kumar, Director (Nominee- GMB)		
Auditors	M/s T. R. Chadha & Co. continue to be the auditors.		
Pledged Shares	No pledged shares were held during the year.		
Credit Ratings	Ratings	FY2020	FY2019
	Domestic Rating	AAA by ICRA, CRISIL and India Ratings	AAA+ by ICRA, CRISIL and India Ratings
	International Rating	Baa2 by MOODY	Baa2 by MOODY
Insider Holdings	Number of securities acquired/disposed/pledged during the year:		
		FY2020	FY2019
	Acquired	-	-
	Disposed	-	-
	Pledged	-	-
Macroeconomic Factors	Pledge revoked		
	The gas industry underwent a significant transformation since 2010 driven by several factors like the North America shale boom, the rapid growth of LNG industry, and the development of new gas markets in Asia and the Middle East. Multiple benefits offered by gas as a clean, abundant and cheaper fuel, as compared to liquid fuels resulted in this growth.		
Key Holders	Category of Shareholder (%)	FY2020	FY2019
	A) Promoter Holding	50.00	50.00
	B) Public		
	i) Mutual Funds	10.15	10.86
	ii) Banks/FIs	0.15	0.15
	iii) FIIs including FPI	27.40	25.65
	vi) Non-Institutions	12.30	13.34
Total	100.00	100.00	

Source: Company, DART

What's New

LNG as an Automotive Fuel:

- PLL is taking up initiatives to develop the small scale LNG market in the Country and has been promoting the environment friendly LNG as a fuel in Road transportation.
- PLL has commissioned India's first LNG dispenser stations inside Dahej and Kochi LNG terminals and has also commissioned the first commercially approved and registered LNG powered buses of the Country for employee's movement at both places.
- They are developing western and southern highways expeditiously as a pilot project.
- PLL has partnered up with various CGD players and OMCs to jointly develop these LNG/LCNG dispensing stations in their area.

LNG Terminal at Bangladesh Project:

- PLL has submitted an Expression of Interest to the REOI (request for expression of interest) floated by Rupantarita Prakritik Gas Company Limited (RPGCL), a subsidiary of Petrobangla for construction of Land-based LNG Regasification Terminal at Matarbari, Cox's Bazar, Bangladesh on build, own, operate and transfer basis.
- RPGCL is currently in the process of shortlisting the Expression of Interest (s) received from international companies.

LNG Terminal and RLNG Supply in South Andaman:

- PLL has completed pre-project studies for a floating storage & regasification (FSRU) terminal in South Andaman.
- Based on the studies a Detailed Feasibility Report (DFR) was prepared & submitted to Andaman & Nicobar Administration.
- As Ministry of Power has awarded the 50MW RLNG based power plant to NTPC on nomination, PLL is planning to bid for their Gas supply tender (issued in Sept' 2019), bid submission is expected in the next financial year.

LNG Terminal in Sri Lanka:

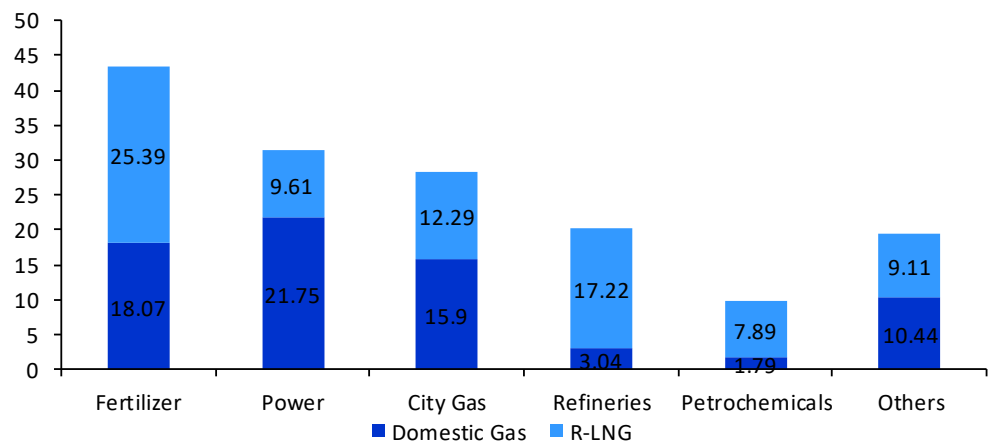
- PLL has completed the Pre-Feed studies along with Japanese Consortium and Sri Lanka Gas Terminal Company Limited for setting up a Floating Storage & Regasification Terminal at Colombo, Sri Lanka.
- They are now conducting the FEED studies.
- The Environmental Clearance for the project is also progressing and public comments are responded. Discussion on definitive agreement such as terminal use agreement, LNG sale and purchase agreement, implementation agreement, etc. regarding the project have started.

Industry

India Gas Demand

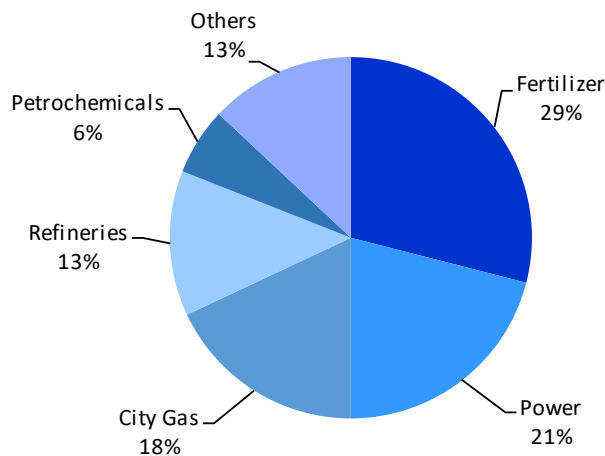
- As domestic production is not increasing in line with gas demand in the country, LNG has played a vital role in filling that supply deficit.
- Though LNG is costly, as compared to domestic gas, most of which is sold at government controlled prices, various sectors in India can absorb LNG as their cost economics makes LNG a viable option.
- In 2019, total gas consumption rose from 148 MMSCMD in 2018 to 152 MMSCMD, which is a marginal increase of about 3%.
- The main reason for this is the lack of pipeline connectivity to end users and the government is making an effort to remedy the issue by developing a National Gas Grid.

Exhibit 1: Domestic Gas and R-LNG Consumption wise-2019 (mmscmd)



Source: Company, DART

Exhibit 2: Total Consumption (Domestic Gas + RLNG) CY2019



Source: Company, DART

Key Takeaways from the MD&A

- While the Dahej Terminal has a nominal capacity of 17.5 MMTPA, the Kochi Terminal has a capacity of 5 MMTPA.
- Petronet's Terminals today account for around 40% gas supplies in the country and handle around 75% of LNG imports in India.
- During FY20, 2,598 LNG Road Tankers were also loaded and dispatched from Dahej Terminal and 290 Trucks from Kochi Terminal.
- Given the strong cash flows of the Company, the expansion of the Dahej project and other capital expenditure was funded entirely with the internal accruals without the need to draw any debt.
- The relationship with the existing lenders continues to be good.

Dahej LNG Terminal

- Dahej Terminal which now has name plate capacity 17.5 MMTPA operated at about 17.25 MMTPA capacity utilization during FY20.
- PLL has added Regasification Capacity of 2.5 MMTPA at Dahej Terminal in the month of June 2019. The additional Regasification unit has been added at an approximate cost of Rs. 4,150 Mn without raising any external debt.
- The terminal handled 263 LNG Cargoes and supplied 885.06 TBtu of RLNG as compared to 241 cargoes during FY19 wherein supplies were 820.15 TBtu.
- PLL is also planning seventh and eighth LNG Tanks at Dahej. Also, feasibility study for a standby third jetty has started, which will enhance reliability of LNG ship receiving.

Kochi LNG Terminal

- The Kochi Terminal of name plate capacity 5 MMTPA operated at average capacity utilization of about 17%.
- BPCL-Kochi Refinery and FACT plant were the only major consumers throughout the FY20. Off-take of RLNG from Kochi Terminal is expected to increase in FY21 in view of RLNG evacuation pipeline connectivity to Mangalore likely to get completed. RLNG evacuation pipeline to Mangalore is almost completed and expected to commission soon.
- 12 Cargoes were handled at the Kochi Terminal during FY20 as compared to 9 Cargoes (including loading) during FY19.
- During FY20, Kochi terminal supplied 42.78 TBtus of RLNG as compared to 24.07 TBtus in FY19.

Force Majeure

- Qatargas and Exxon Mobil objected to the force majeure PLL invoked in March after local demand slumped because of lockdown.
- PLL invoked the force majeure on eight LNG cargoes of Qatar and one from Exxon for loading from March to May.
- PLL is in talks with Qatargas to renegotiate gas pricing under its long-term deals as spot prices have declined.
- PLL has a deal to buy 7.5 MMTPA of LNG from Qatar and 1.44 MMTPA from Exxon's Gorgon project in Australia which are all booked back to back.

- OPAL which take spot volumes is booked except 1-2 cargoes, all the capacity is booked.

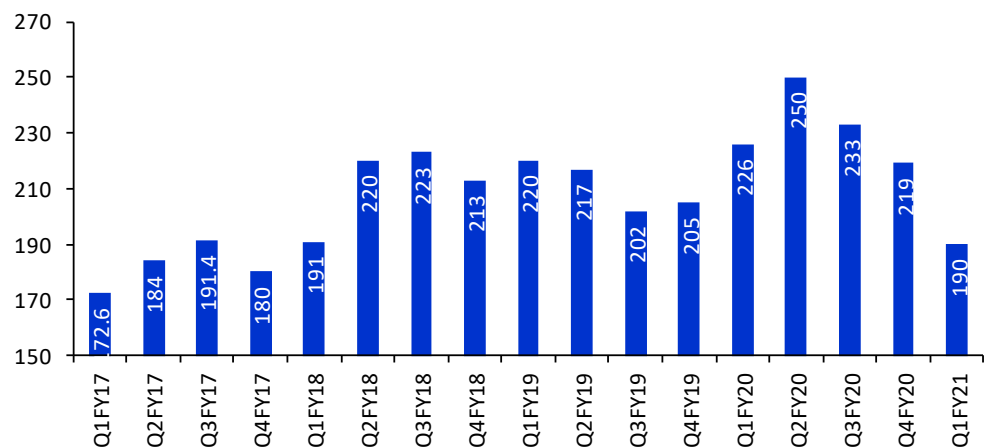
LNG distribution:

- As per the new guidelines anyone anywhere can set up LNG dispensing stations even if they are not authorized in a particular GA. This is a big positive for PLL as they are free to set up LNG stations and there will be no restriction on distribution of LNG.
- PLL is not interested in retail business they want to be in B2B business and gain marketing margins. They will mostly tie up with CGD, OMC's and other players and supply LNG to long haul buses and interstate buses.
- They plan to carry out this activity in 3 phases-
 - Phase 1-** Set up 50 LNG stations on highways in the Western and Sothern corridor in next 2 years.
 - Phase 2-** Set up 300 LNG stations on highways by 2025
 - Phase 3-** Beyond 1,000 LNG station pan India
- PLL has signed an MOU with Gujarat Gas to set up 5 LNG stations along the Delhi-Mumbai highway, tendering process for which is going on. Land of which will belong to Gujarat Gas.
- Additionally, there will be 3 LNG stations set up by IGL on the Delhi-Mumbai Highway.

Future Capex 3-4 years

- Sri Lanka project when taken up will require a capex of \$300 mn.
- Planning to set up a terminal in East coast in next 3-4 years.
- 2 additional tanks at Dahej at a cost of Rs. 12,000-13,000 Mn, tendering process for which is going on.
- Spending more on small scale LNG which can consume 8-9 MMTPA of LNG in future.

Exhibit 3: Volumes (tbtu)



Source: Company, DART

Profit and Loss Analysis

- Net sales de-grew 7.7% YoY to Rs354.5 billion, primarily due to volumes lost in last 10-15 days of March due to lockdown as the gas demand declined.
- There was a decrease in cost of raw materials by 11.4% and increase in other expenses by 50%. Further, employee expenses were flat.
- Net profit margin increased 200bps from 5.6% in FY19 to 7.6% in FY20, on account of adoption of lower tax rate.
- Tax amount decreased by 61.7% over the year to Rs4.1 billion from Rs10.8 billion in FY19.
- Interest coverage ratio decreased from 37.8x to 10.8x due to increase in interest expenses.
- RoANW increased to 25.7% in FY20.
- Other income decreased by 17% to Rs3,726 million from Rs4,503 million.
- There was an increase of 25.2% in EPS from Rs14.4 to Rs18, while the CEPS increased from Rs17.1 to Rs23.2.

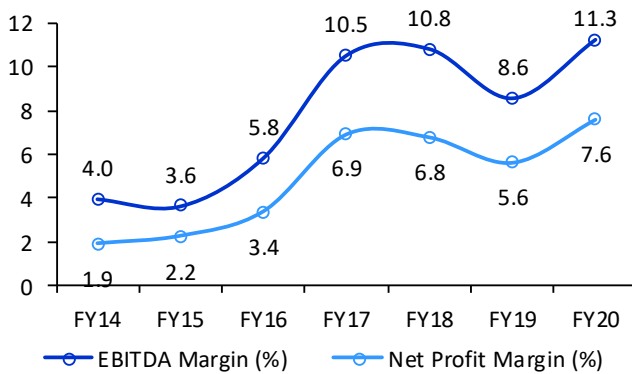
Balance Sheet

- Net Block of Assets increased by 46% due to completed projects. Capital work in progress decreased by 99%.
- Debt decreased by 36.4% from Rs1,012 million to Rs644 billion, due to repayment of long-term borrowings.
- Investments decreased by 65% from Rs9.9 billion to Rs3.5 billion in the current year due to sale of investments.
- Inventories decreased by 15.6% from Rs5.7 billion in FY19 to Rs4.8 billion in FY20.
- Inventory days reduced from 5.4 to 5. Debtor days increased from 13.2 to 16.5 in FY20, due to increase in debtors by 16% as receivables took a hit due to lockdown.
- Cash and bank balance increased to Rs44.3 billion from Rs29.6 billion last year because sale of investments.

Cash Flow Analysis

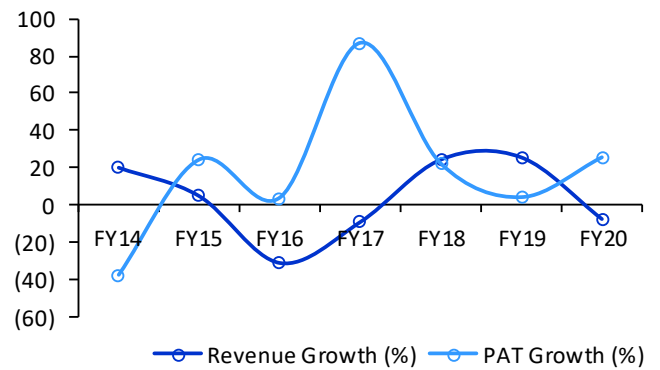
- Free cash flow improved by 42% due to an increase of 33% in cash flow from operations, on account of lower direct taxes.
- The Company reported a net cash outflow from financing activity of Rs30.5 billion compared to Rs25.5 billion in FY19, due to repayment of long-term borrowings, payment of dividend tax and net interest expense.
- The Company reported a net cash inflow from investing activity of Rs9,410 million as compared to outflow Rs760 million in FY19.

Exhibit 4: EBITDA Margin and PAT Margin (%)



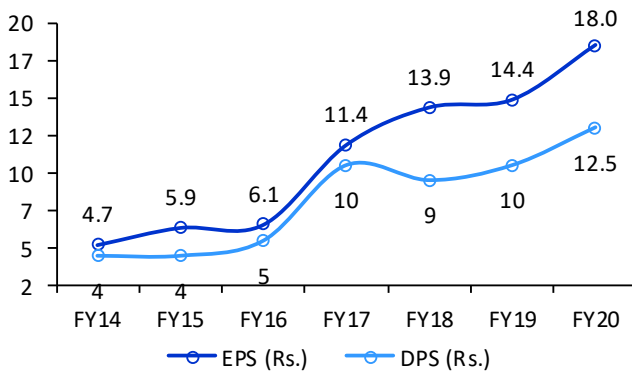
Source: Company, DART

Exhibit 5: Revenue Growth and PAT Growth (%)



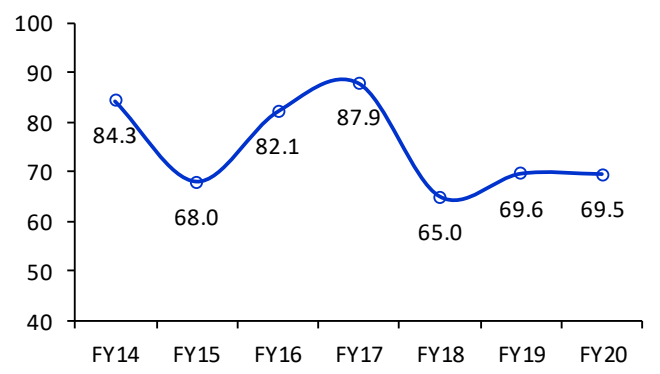
Source: Company, DART

Exhibit 6: EPS and DPS (Rs. Share)



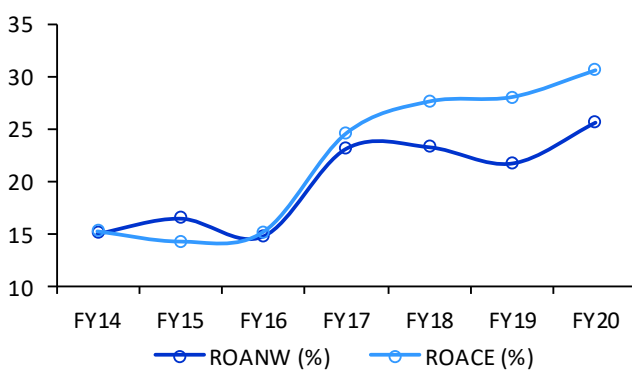
Source: Company, DART

Exhibit 7: Dividend Payout (%)



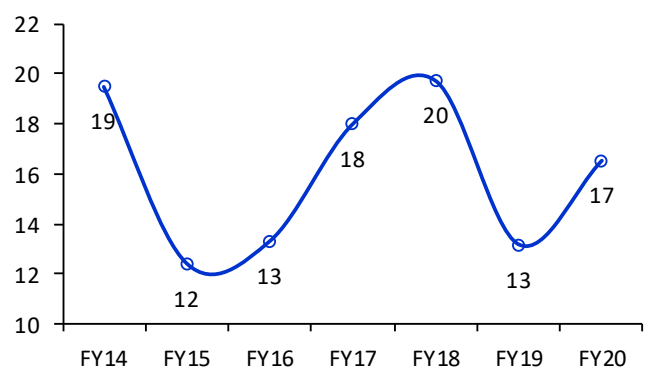
Source: Company, DART

Exhibit 8: ROANW (%) and ROACE (%)



Source: Company, DART

Exhibit 9: Debtor Days



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	3,83,954	3,54,520	3,18,438	3,59,835
Total Expense	3,51,020	3,14,625	2,84,529	3,20,625
COGS	3,44,170	3,04,959	2,74,463	3,10,144
Employees Cost	1,259	1,258	1,320	1,387
Other expenses	5,592	8,408	8,745	9,094
EBIDTA	32,935	39,895	33,910	39,211
Depreciation	4,112	7,761	7,500	7,500
EBIT	28,822	32,133	26,410	31,711
Interest	989	4,032	3,500	3,500
Other Income	4,503	3,726	4,000	6,000
Exc. / E.O. items	0	721	0	0
EBT	32,336	31,107	26,910	34,211
Tax	10,782	4,131	6,773	8,611
RPAT	21,554	26,976	20,136	25,600
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	21,554	26,976	20,136	25,600

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	15,000	15,000	15,000	15,000
Minority Interest	0	0	0	0
Reserves & Surplus	85,661	94,530	95,196	99,376
Net Worth	1,00,661	1,09,530	1,10,196	1,14,376
Total Debt	1,012	644	700	800
Net Deferred Tax Liability	13,360	8,883	9,949	11,143
Total Capital Employed	1,15,033	1,19,057	1,20,845	1,26,319

Applications of Funds

Net Block	76,651	1,11,882	1,07,382	1,03,382
CWIP	3,482	47	1,000	1,000
Investments	9,893	3,491	8,000	10,000
Current Assets, Loans & Advances	60,823	71,570	41,380	48,864
Inventories	5,694	4,809	6,107	6,901
Receivables	13,825	16,026	15,704	17,745
Cash and Bank Balances	29,603	44,320	13,025	17,346
Loans and Advances	11,190	6,014	6,134	6,441
Other Current Assets	511	402	410	430
Less: Current Liabilities & Provisions	35,815	67,933	36,917	36,927
Payables	15,856	16,332	17,148	18,520
Other Current Liabilities	19,959	51,601	19,769	18,407
<i>sub total</i>				
Net Current Assets	25,007	3,637	4,463	11,937
Total Assets	1,15,033	1,19,057	1,20,845	1,26,319

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	10.4	14.0	13.8	13.8
EBIDTA Margin	8.6	11.3	10.6	10.9
EBIT Margin	7.5	9.1	8.3	8.8
Tax rate	33.3	13.3	25.2	25.2
Net Profit Margin	5.6	7.6	6.3	7.1
(B) As Percentage of Net Sales (%)				
COGS	89.6	86.0	86.2	86.2
Employee	0.3	0.4	0.4	0.4
Other	1.5	2.4	2.7	2.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	29.1	8.0	7.5	9.1
Inventory days	5	5	7	7
Debtors days	13	16	18	18
Average Cost of Debt	12.7	487.0	520.9	466.7
Payable days	15	17	20	19
Working Capital days	24	4	5	12
FA T/O	5.0	3.2	3.0	3.5
(D) Measures of Investment				
AEPS (Rs)	14.4	18.0	13.4	17.1
CEPS (Rs)	17.1	23.2	18.4	22.1
DPS (Rs)	10.0	12.5	11.0	12.0
Dividend Payout (%)	69.6	69.5	81.9	70.3
BVPS (Rs)	67.1	73.0	73.5	76.3
RoANW (%)	21.8	25.7	18.3	22.8
RoACE (%)	19.0	27.1	19.7	23.5
RoAIC (%)	29.0	40.1	28.9	29.3
(E) Valuation Ratios				
CMP (Rs)	249	249	249	249
P/E	17.3	13.9	18.6	14.6
Mcap (Rs Mn)	3,73,725	3,73,725	3,73,725	3,73,725
MCap/ Sales	1.0	1.1	1.2	1.0
EV	3,45,134	3,30,049	3,61,400	3,57,179
EV/Sales	0.9	0.9	1.1	1.0
EV/EBITDA	10.5	8.3	10.7	9.1
P/BV	3.7	3.4	3.4	3.3
Dividend Yield (%)	4.0	5.0	4.4	4.8
(F) Growth Rate (%)				
Revenue	25.5	(7.7)	(10.2)	13.0
EBITDA	(0.6)	21.1	(15.0)	15.6
EBIT	(0.6)	11.5	(17.8)	20.1
PBT	5.8	(3.8)	(13.5)	27.1
APAT	3.7	25.2	(25.4)	27.1
EPS	3.7	25.2	(25.4)	27.1
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	21,459	28,631	(899)	34,547
CFI	(760)	9,410	2,078	(5,406)
CFF	(25,476)	(30,547)	2,086	(24,820)
FCFF	19,832	28,223	(4,852)	31,047
Opening Cash	7,043	2,266	9,760	13,025
Closing Cash	2,266	9,760	13,025	17,346

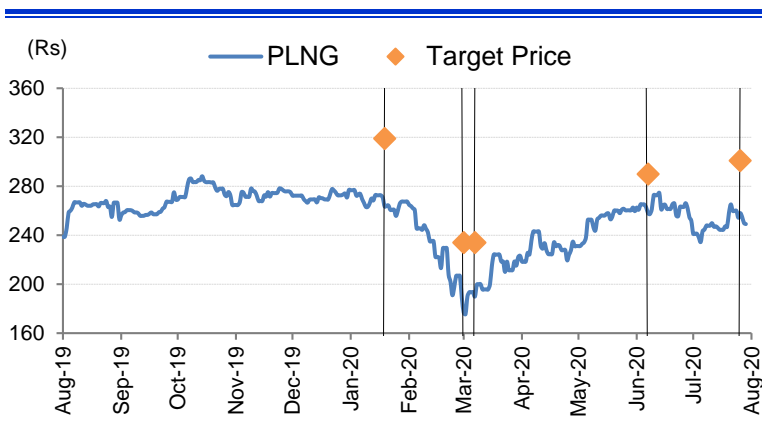
E – Estimates

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 (Rs.)	Price (Rs.)
Feb-20	Accumulate	319	264
Mar-20	Buy	234	177
Mar-20	Buy	234	190
Jun-20	Accumulate	290	258
Aug-20	Accumulate	301	258

**Price as on recommendation date*

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