

Strong margin growth drives profitability...

Petronet LNG reported Q2FY21 results that was better than our estimates on volume and profitability front. Total volumes were up 1.6% YoY, 33.7% QoQ to 254 tbtu on account of higher regas volumes. Revenues were down 33.4% YoY to ₹ 6235.8 crore (our estimate: ₹ 6504.2 crore). EBITDA was at ₹ 1363.2 crore, up 17.5% YoY, 49.8% QoQ (our estimate: ₹ 1133.4 crore). Blended margins were at ₹ 59.7/mmbtu on account of inventory gains and higher margin on spot volumes (our estimate: ₹ 53.9/mmbtu). PAT fell 15.9% YoY to ₹ 927.3 crore (our estimate: ₹ 678.8 crore) as the company had negative tax outgo in Q2FY20. On a QoQ basis, it increased 78.2%.

Demand recovery leads to strong volumes growth QoQ

Petronet LNG's total volumes were above our estimates on account of higher regasification volumes from Dahej terminal. Total sales volumes came in at 254 tbtu vs. 250 tbtu in Q2FY20 (up 1.6% YoY) and 180 tbtu in Q1FY21 (up 33.7% QoQ). Regasification volumes were above estimates at 135 tbtu vs. our estimate of 120 tbtu. The capacity utilisation at Dahej terminal was 109% while for Kochi terminal it was at 17%. We expect regasification volumes to remain strong. Going ahead, we estimate 941.4 tbtu and 1015.8 tbtu for FY21E and FY22E, respectively, taking into account full capacity utilisation of Dahej terminal. In terms of margins, we estimate 57/mmbtu and ₹ 57.8/mmbtu in FY21E and FY22E, respectively.

Kochi utilisation to improve on new pipeline commissioning

Petronet's Kochi terminal is expected to witness increase in utilisation post the completion of Kochi-Mangalore pipeline. The pipeline is expected to be completed in November. This will help increase utilisation, going ahead. We expect the capacity utilisation to improve from 17% currently to 30-35% in FY22E. The 17.5 mmtpa 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. On the new project front, the management indicated the company is planning to set up an import terminal on the east coast. Post relaxations in lockdown, Petronet LNG's volume surpassed pre-Covid levels with the Dahej terminal operating at full capacity. However, additional capacity from new terminals on the west coast (Mundra, Dabhol) and lack of new investment opportunities will limit volume growth from FY22E. We change our recommendation from BUY to **HOLD** on the stock. We value Petronet LNG at 12.5x FY22E EPS of ₹ 21.9 to arrive at a target price of ₹ 275.

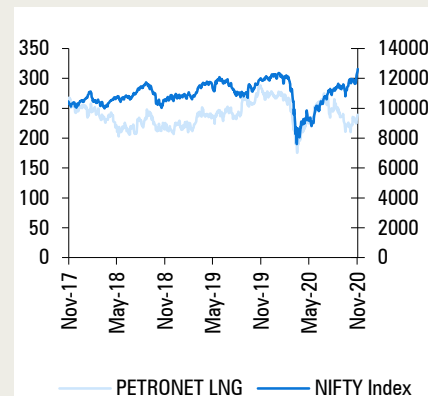
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	37,770.0
Total Debt (FY 20) (₹ Crore)	3,440.2
Cash and Investments (FY 20)	4,432.0
EV (₹ Crore)	36,778.2
52 week H/L	285/171
Equity capital (₹ Crore)	1,500.0
Face value (₹)	10.0

Key Highlights

- Results above estimates on profitability front due to higher blended margins as well as volumes
- Kochi terminal to witness increase in utilisation post completion of Kochi-Mangalore pipeline
- Downgrade to HOLD with revised target price of ₹ 275 /share

Price performance



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Key Financial Summary

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
Revenues (₹ crore)	30,598.6	38,395.4	35,452.0	26,441.0	31,436.6	(6.4)
EBITDA (₹ crore)	3,312.4	3,293.4	3,989.5	4,695.9	5,093.8	15.6
Net Profit (₹ crore)	2,077.9	2,155.4	2,697.6	2,964.9	3,277.9	15.0
EPS (₹)	13.9	14.4	18.0	19.8	21.9	
P/E (x)	18.2	17.5	14.0	12.7	11.5	
Price / Book (x)	3.9	3.8	3.4	3.3	3.1	
EV/EBITDA (x)	11.6	10.8	9.2	7.7	6.9	
RoCE (%)	25.9	26.6	22.3	26.2	29.5	
RoE (%)	21.4	21.4	24.6	25.8	27.0	
RoE (%)	21.4	22.8	22.7	27.5	22.0	

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Total Revenues	6,235.8	6,504.2	9,361.2	-33.4	4,883.6	27.7	
Raw materials costs	4,719.9	5,200.7	8,022.9	-41.2	3,836.5	23.0	
Employees Cost	33.8	33.5	26.8	26.2	36.0	-6.0	
Other Expenses	118.8	136.6	151.0	-21.3	101.1	17.5	
Total Expenditure	4,872.6	5,370.8	8,200.7	-40.6	3,973.6	22.6	
EBITDA	1,363.2	1,133.4	1,160.5	17.5	909.9	49.8	Above estimates due to better than expected blended margin and higher volumes
EBITDA margins (%)	21.9	17.4	12.4	946 bps	18.6	323 bps	
Depreciation	195.2	201.4	196.0	-0.4	193.6	0.8	
EBIT	1,168.0	932.0	964.5	21.1	716.4	63.1	
Interest	85.0	105.0	105.1	-19.1	88.1	-3.5	
Other Income	159.6	92.8	97.5	63.6	68.4	133.3	Increased due to forex gains
Extra Ordinary Item	0.0	0.0	-72.1	NA	0.0	NA	
PBT	1,242.6	919.8	884.8	40.4	696.6	78.4	
Total Tax	315.3	241.0	-218.4	-244.4	176.4	78.8	
PAT	927.3	678.8	1,103.1	-15.9	520.2	78.2	

Key Metrics

Sales volume (tbtu)	119.0	122.0	121.0	-1.7	90.0	32.2	
Regasification vol (tbtu)	135.0	120.0	129.0	4.7	100.0	35.0	
Total Volumes (tbtu)	254.0	242.0	250.0	1.6	190.0	33.7	Better than estimates on account of higher regasification sales
Blended margin ₹mmbt	59.7	53.9	53.5	11.5	55.1	8.3	Higher than estimates

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			
	Old	New	Change	Old	New	Change	
Revenue	27071.2	26441.0	-2.3	32633.5	31,436.6	-3.7	
EBITDA	4,427.9	4,695.9	6.1	4843.4	5,093.8	5.2	Revised our margin and volume estimates for FY 21E
EBITDA Margin (%)	16.4	17.8	140 bps	14.8	16.2	136 bps	
PAT	2,639.2	2,964.9	12.3	2999.2	3,277.9	9.3	Maginal change in interest cost and tax rate
EPS (₹)	17.6	19.8	12.3	20.0	21.9	9.3	

Source: Company, ICICI Direct Research

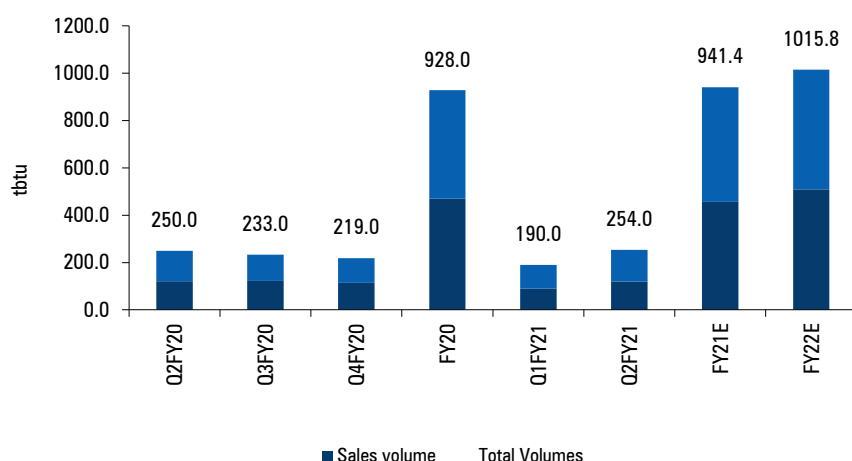
Exhibit 3: Assumptions

	Current				Earlier		
	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Sales volume (tbtu)	484.3	470.0	456.4	509.8	463.4	509.8	
Regasification vol (tbtu)	360.0	458.0	485.0	506.0	460.0	466.0	
Total Volumes (tbtu)	844.3	928.0	941.4	1,015.8	923.4	975.8	Better than expected regasification volume from Dahej terminal during the quarter
Blended Margin ₹mmbt	47.1	53.4	57.0	57.8	55.5	57.8	

Source: Company, ICICI Direct Research

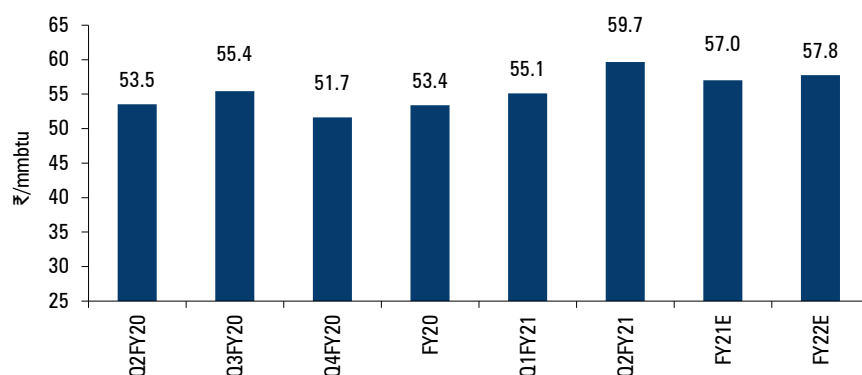
Story in charts

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: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	50.0	50.0	50.0	50.0	50.0
FII	27.2	28.6	29.3	29.2	28.1
DII	10.0	9.2	7.8	7.9	8.4
Others	12.8	12.2	12.9	13.0	13.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Revenue	38395.4	35452.0	26441.0	31436.6
Growth (%)	25.5	-7.7	-25.4	18.9
(Inc.) / Dec stock in trade	0.0	0.0	0.0	0.0
Raw material Costs	34417.0	30495.9	21072.3	25569.8
Purchase of trading good:	0.0	0.0	0.0	0.0
Employee Costs	125.9	125.8	146.4	175.7
Other Expenditure	559.2	840.8	526.3	597.3
Op. Expenditure	35102.0	31462.5	21745.1	26342.8
EBITDA	3293.4	3989.5	4695.9	5093.8
Growth (%)	-0.6	21.1	17.7	8.5
Depreciation	411.2	776.1	791.8	808.3
EBIT	2882.2	3213.4	3904.1	4285.6
Interest	98.9	403.2	344.3	290.7
Other Income	450.3	300.5	413.5	399.0
PBT	3233.6	3110.7	3973.2	4393.9
Growth (%)	5.8	-3.8	27.7	10.6
Tax	1078.2	413.1	1008.3	1116.1
Reported PAT	2155.4	2697.6	2964.9	3277.9
Growth (%)	3.7	25.2	9.9	10.6
EPS	14.4	18.0	19.8	21.9

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20E	FY21E	FY22E
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	8,566.1	9,453.0	9,977.7	10,641.1
Shareholder's Fund	10,066.1	10,953.0	11,477.7	12,141.1
Loan Funds	756.7	3,440.2	3,406.7	2,406.7
Deferred Tax Liability	1,336.0	888.3	988.3	1,088.3
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	12158.8	15281.5	15872.8	15636.1
Application of Funds				
Gross Block	9,164.0	13,460.6	13,610.6	14,610.6
Less: Acc. Depreciation	1,498.9	2,272.4	3,054.4	3,862.6
Net Block	7,665.1	11,188.2	10,556.2	10,747.9
Capital WIP	348.2	4.7	473.2	473.2
Total Fixed Assets	8,013.3	11,192.9	11,029.4	11,221.1
Investments	164.4	164.4	164.4	164.4
Inventories	569.4	480.9	579.5	689.0
Debtor	1,382.5	1,602.6	1,303.9	1,550.3
Cash	2,960.3	4,432.0	5,225.6	5,184.6
Loan & Advance, Other C	1995.0	826.2	277.7	27.7
Total Current assets	6907.2	7341.7	7386.8	7451.6
Current Liabilities	2898.2	3384.5	2535.4	3014.5
Provisions	27.8	33.0	172.4	186.5
Total CL and Provisions	2926.0	3417.5	2707.9	3201.0
Net Working Capital	3981.1	3924.3	4679.0	4250.6
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	12158.8	15281.5	15872.8	15636.1

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after Tax	2,155.4	2,697.6	2,964.9	3,277.9
Add: Depreciation	411.2	776.1	791.8	808.3
Add: Others	287.9	-447.7	100.0	100.0
Cash Profit	2,854.5	3,026.0	3,856.7	4,186.1
Increase/(Decrease) in CL	-462.0	491.4	-709.6	493.1
(Increase)/Decrease in CA	2,430.0	1,037.2	748.5	-105.9
CF from Operating Activities	4822.5	4554.6	3895.6	4573.4
Purchase of Fixed Assets	174.6	3,955.7	628.3	1,000.0
(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	-174.6	-3,955.7	-628.3	-1,000.0
Inc/(Dec) in Loan Funds	-739.9	2,683.5	-33.5	-1,000.0
Inc/(Dec) in Sh. Cap. & Res.	-67.2	368.0	0.0	0.0
Less: Dividend Paid	1,743.0	2,178.8	2,440.2	2,614.5
Others	0.0	0.0	0.0	0.0
CF from financing activities	-2,482.9	504.8	-2,473.7	-3,614.5
Change in cash Eq.	2,097.8	1,471.7	793.6	-41.1
Op. Cash and cash Eq.	862.5	2,960.3	4,432.0	5,225.6
Cl. Cash and cash Eq.	2,960.3	4,432.0	5,225.6	5,184.6

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios ₹ crore				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
Book Value	67.1	73.0	76.5	80.9
Cash per share	19.7	29.5	34.8	34.6
EPS	14.4	18.0	19.8	21.9
Cash EPS	17.1	23.2	25.0	27.2
DPS	10.0	12.5	14.0	15.0
Profitability & Operating Ratios				
EBITDA Margin (%)	8.6	11.3	17.8	16.2
PAT Margin (%)	5.6	7.6	11.2	10.4
Fixed Asset Turnover (x)	4.8	3.2	2.4	2.8
Inventory Turnover (Days)	5.4	5.0	8.0	8.0
Debtor (Days)	13.1	16.5	18.0	18.0
Current Liabilities (Days)	27.6	34.8	35.0	35.0
Return Ratios (%)				
RoE	21.4	24.6	25.8	27.0
RoCE	26.6	22.3	26.2	29.5
RoIC	36.7	32.3	40.4	45.8
Valuation Ratios (x)				
PE	17.5	14.0	12.7	11.5
Price to Book Value	3.8	3.4	3.3	3.1
EV/EBITDA	10.8	9.2	7.7	6.9
EV/Sales	0.9	1.0	1.4	1.1
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.3	0.3	0.2
Interest Coverage (x)	29.1	8.0	11.3	14.7
Debt to EBITDA (x)	0.2	0.9	0.7	0.5
Current Ratio	2.4	2.1	2.7	2.3
Quick ratio	2.2	2.0	2.5	2.1

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
GAIL (India) (GAIL)	93	95	Hold	41,944	14.7	8.1	9.1	6.3	11.4	10.2	5.4	9.7	8.4	13.7	6.1	7.2	15.1	8.2	8.9
Gujarat Gas (GUJGA)	312	360	Buy	21,478	17.3	16.5	19.0	18.0	19.0	16.5	13.9	11.4	9.9	25.2	30.0	29.2	36.3	26.1	23.8
Indian Oil Corp (INDOIL)	78	85	Hold	71,612	1.4	11.9	9.1	54.5	6.6	8.6	3.8	2.7	2.7	4.8	7.6	7.1	1.4	11.1	8.4
Indraprastha Gas (INDGAS)	438	430	Hold	30,660	16.2	13.0	18.2	27.0	33.6	24.1	18.7	22.3	15.9	25.0	17.9	22.4	22.5	16.0	19.3
Mahanagar Gas (MAHGAS)	816	1145	Hold	8,060	80.3	53.4	87.0	10.2	15.3	9.4	7.5	10.3	6.1	29.7	18.8	27.3	26.9	16.3	22.7
ONGC (ONGC)	67	80	Hold	85,983	10.5	5.8	11.5	6.4	11.5	5.8	2.1	3.9	3.0	10.2	2.7	6.2	6.8	3.7	7.0
Petronet LNG (PETLNG)	252	275	Hold	37,770	18.0	19.8	21.9	14.0	12.7	11.5	9.2	7.7	6.9	22.3	26.2	29.5	24.6	25.8	27.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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