

## In line performance...

Petronet LNG reported Q4FY21 results that were in line with estimates on the operating front. However, profitability was lower-than-expected on account of other income. Total volumes were flattish YoY, down 7.2% QoQ to 218 tbtu. Revenues were down 11.6% YoY to ₹ 7575.3 crore (estimated: ₹ 7920.2 crore). EBITDA was at ₹ 1091.1 crore, up 56.4% YoY (our estimate: ₹ 1107.7 crore). Blended margins were at ₹ 59.3/mmbtu in line with estimates. Other income at ₹ 49.2 crore was lower than expectations of ₹ 97.8 crore. Subsequently, PAT increased 73.6% YoY to ₹ 623.4 crore as profitability was impacted by inventory loss and certain one-offs in the base quarter (I-direct estimate: ₹ 685.1 crore).

## Volumes to remain subdued in near term

Petronet LNG's total volumes were marginally above our estimates. Total sales volumes came in at 218 tbtu compared to 219 tbtu in Q4FY20 (flattish YoY) and 235 tbtu in Q3FY21 (down 7.2% QoQ). While regasification volume at 98 tbtu, better than estimate of 90 tbtu, it declined 8.4% QoQ as higher spot LNG prices led to a dip in demand, mainly from the power sector. The management said that Dahej utilisation is at 88% currently. On account of reduction in demand, we expect regasification volume to remain low in the current quarter. Accordingly, we revise estimates and expect total volume at 931.6 tbtu, 996.8 tbtu for FY22E, FY23E, respectively. In terms of margins, we estimate 57.1/mmbtu, ₹ 60.2/mmbtu in FY22E, FY23E, respectively.

## Kochi utilisation to improve in FY22E

Petronet's Kochi terminal is seeing a gradual increase in capacity utilisation post commissioning of the Kochi-Mangalore pipeline. The management said Kochi utilisation is likely to reach up to 30% in the next six months to one year. The 17.5 mmtpa Dahej terminal has been booked for 7.5 mmtpa under RasGas long term volumes while an additional 8.25 mmtpa has been 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 the government's aim to increase share of natural gas to 15% in energy basket, Petronet LNG will benefit as the primary play on increasing usage of LNG. Ramp-up in domestic gas output from newer fields and additional capacity from other west coast terminals (Mundra, Dabhol) will take away a share of gas consumption and pose a risk to further volume growth. The company is planning an expansion of LNG retailing network on highways with front loaded capex over the next five years. Additionally, capacity expansion at Dahej and other project like setting up storage tanks, etc, will require large investments and all planned projects will take time to achieve desired profits. We maintain our **HOLD** recommendation on the stock. We value Petronet LNG at 11.5x FY23E EPS of ₹ 21.7 to arrive at a target price of ₹ 250 (earlier ₹ 275).

### Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Revenues (₹ crore)	38,395.4	35,452.0	26,022.9	33,070.5	34,827.9	(0.6)
EBITDA (₹ crore)	3,293.4	3,989.5	4,699.5	4,513.0	5,128.0	8.7
Net Profit (₹ crore)	2,155.4	2,697.6	2,949.4	2,802.1	3,253.6	6.4
EPS (₹)	14.4	18.0	19.7	18.7	21.7	
P/E (x)	15.9	12.7	11.6	12.2	10.5	
Price / Book (x)	3.4	3.1	2.8	2.7	2.4	
EV/EBITDA (x)	9.7	8.3	7.0	7.1	6.2	
RoCE (%)	26.6	22.3	25.3	22.8	24.6	
RoE (%)	21.4	24.6	24.4	21.9	23.3	
Source: Company, ICICI Direct Research	21.4	22.8	22.7	27.5	22.0	



### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	34,200.0
Total Debt (FY 20) (₹ Crore)	3,440.2
Cash and Investments (FY 20)	4,432.0
EV (₹ Crore)	33,208.2
52 week H/L	280/207
Equity capital (₹ Crore)	1,500.0
Face value (₹)	10.0

### Key Highlights

- Results in line with estimates on operating front
- Kochi terminal to witness increase in utilisation
- Maintain HOLD with target price of ₹ 250 /share

### Key risks to our call

- Faster pick-up in capacity utilisation at Kochi terminal can improve profitability
- Increased competition from new terminals, increase in domestic gas output and statewide lockdowns, if extended, can impact sales volume

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Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Revenues	7,575.3	7,920.2	8,567.2	-11.6	7,328.2	3.4	
Raw materials costs	6,281.7	6,644.6	7,436.0	-15.5	5,843.4	7.5	
Employees Cost	43.0	33.2	28.9	48.6	34.3	25.1	
Other Expenses	159.6	134.6	404.8	-60.6	115.2	38.5	
Total Expenditure	6,484.2	6,812.5	7,869.6	-17.6	5,992.9	8.2	
EBITDA	1,091.1	1,107.7	697.5	56.4	1,335.3	-18.3	Largely in line with estimates as blended margin was as per expectations
EBITDA margins (%)	14.4	14.0	8.1	626 bps	18.2	-382 bps	
Depreciation	202.8	201.5	194.2	4.4	192.5	5.4	
EBIT	888.3	906.2	503.3	76.5	1,142.8	-22.3	
Interest	81.3	85.6	103.5	-21.5	81.5	-0.3	
Other Income	49.2	97.8	86.5	-43.2	111.1	-55.7	Lower than expected
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	856.1	918.4	486.3	76.1	1,172.4	-27.0	
Total Tax	232.8	233.3	127.2	82.9	293.9	-20.8	
PAT	623.4	685.1	359.0	73.6	878.5	-29.0	

Key Metrics

Sales volume (tbtu)	120.0	126.2	114.0	5.3	128.0	-6.3	
Regasification vol (tbtu)	98.0	90.0	105.0	-6.7	107.0	-8.4	
Total Volumes (tbtu)	218.0	216.2	219.0	-0.5	235.0	-7.2	Marginally better than estimates
Blended margin ₹mmbt	59.3	59.0	51.7	14.9	63.2	-6.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY22E			FY23E			
	Old	New	Change	Old	New	Change	
Revenue	31778.4	33070.5	4.1	33156.0	34,827.9	5.0	
EBITDA	5,015.6	4,513.0	-10.0	5444.8	5,128.0	-5.8	Revised estimates for volume and gas costs that led to change in EBITDA
EBITDA Margin (%)	15.8	13.6	-214 bps	16.4	14.7	-170 bps	
PAT	3,221.2	2,802.1	-13.0	3594.2	3,253.6	-9.5	
EPS (₹)	21.5	18.7	-13.0	24.0	21.7	-9.5	

Source: Company, ICICI Direct Research

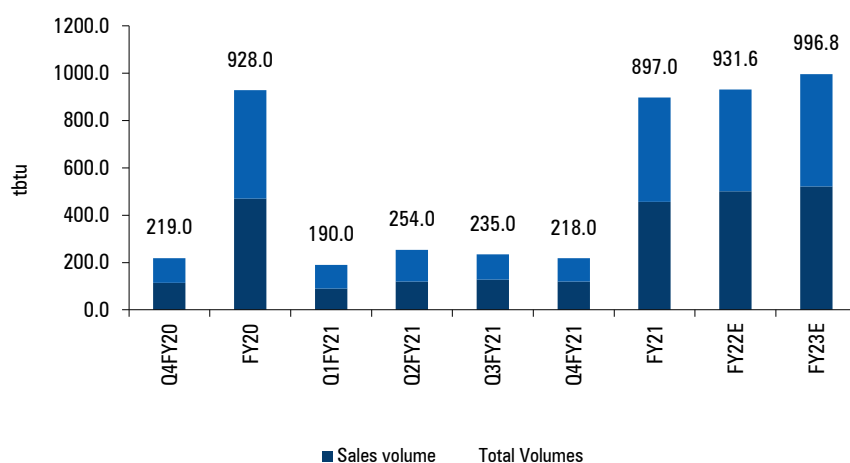
Exhibit 3: Assumptions

	Current				Earlier		
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Sales volume (tbtu)	470.0	457.0	500.6	520.8	507.8	520.8	
Regasification vol (tbtu)	458.0	440.0	431.0	476.0	506.0	521.0	Reduced regas volume estimates downwards on account of second wave of Covid-19
Total Volumes (tbtu)	928.0	897.0	931.6	996.8	1,013.8	1,041.8	
Blended Margin ₹mmbtu	53.4	59.5	57.1	60.2	57.1	60.2	

Source: Company, ICICI Direct Research

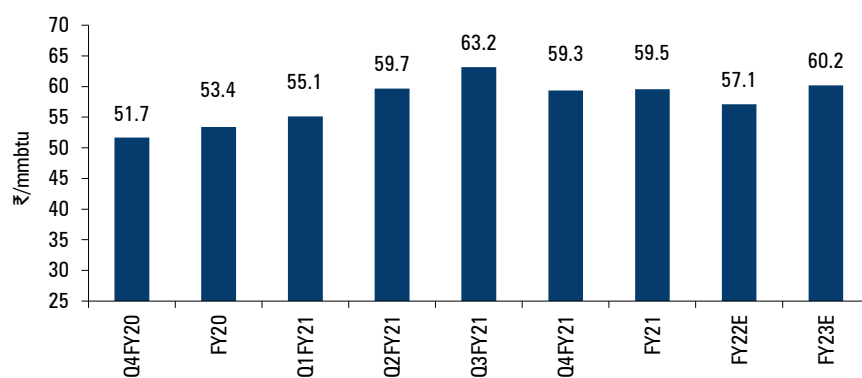
## Story in charts

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
<b>Total</b>	<b>15.75</b>

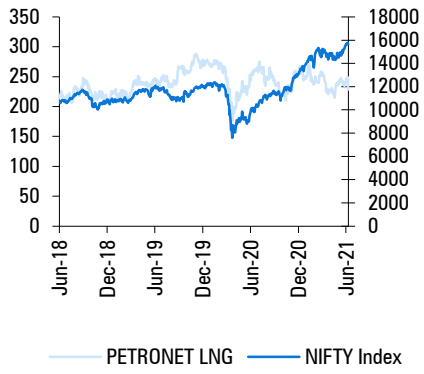
Source: Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	50.0	50.0	50.0	50.0	50.0
FII	29.3	29.2	28.1	29.5	30.5
DII	7.8	7.9	8.4	7.0	6.3
Others	12.9	13.0	13.5	13.5	13.2

Source: Company, ICICI Direct Research

**Exhibit 8: Price Performance**



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>35452.0</b>	<b>26022.9</b>	<b>33070.5</b>	<b>34827.9</b>
Growth (%)	-7.7	-26.6	27.1	5.3
(Inc.) / Dec stock in trade	0.0	0.0	0.0	0.0
Raw material Costs	30495.9	20681.5	27752.6	28826.3
Purchase of trading good:	0.0	0.0	0.0	0.0
Employee Costs	125.8	147.1	176.5	211.8
Other Expenditure	840.8	494.8	628.3	661.7
Op. Expenditure	31462.5	21323.4	28557.5	29699.8
<b>EBITDA</b>	<b>3989.5</b>	<b>4699.5</b>	<b>4513.0</b>	<b>5128.0</b>
Growth (%)	21.1	17.8	-4.0	13.6
Depreciation	776.1	784.1	815.2	845.0
EBIT	3213.4	3915.5	3697.8	4283.0
Interest	403.2	336.0	340.7	340.7
Other Income	300.5	388.2	399.0	419.0
PBT	3110.7	3967.7	3756.2	4361.4
Growth (%)	-3.8	27.6	-5.3	16.1
Tax	413.1	1018.3	954.1	1107.8
<b>Reported PAT</b>	<b>2697.6</b>	<b>2949.4</b>	<b>2802.1</b>	<b>3253.6</b>
Growth (%)	25.2	9.3	-5.0	16.1
<b>EPS</b>	<b>18.0</b>	<b>19.7</b>	<b>18.7</b>	<b>21.7</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Source of Funds</b>				
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	9,453.0	10,597.9	11,308.4	12,470.4
Shareholder's Fund	10,953.0	12,097.9	12,808.4	13,970.4
Loan Funds	3,440.2	3,406.7	3,406.7	3,406.7
Deferred Tax Liability	888.3	880.6	980.6	1,080.6
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>15281.5</b>	<b>16385.2</b>	<b>17195.7</b>	<b>18457.7</b>
<b>Application of Funds</b>				
Gross Block	13,460.6	13,610.6	14,110.6	14,860.6
Less: Acc. Depreciation	2,272.4	3,063.3	3,878.5	4,723.5
Net Block	11,188.2	10,547.3	10,232.0	10,137.1
Capital WIP	4.7	25.5	573.2	1,823.2
Total Fixed Assets	11,192.9	10,572.7	10,805.3	11,960.3
Investments	164.4	164.4	164.4	164.4
Inventories	480.9	337.2	724.8	763.4
Debtor	1,602.6	1,874.5	1,630.9	1,717.5
Cash	4,432.0	4,767.6	5,716.1	5,874.1
Loan & Advance, Other CA	826.2	1,904.1	1,477.7	1,477.7
Total Current assets	7341.7	8883.4	9549.5	9832.7
Current Liabilities	3384.5	3137.0	3171.1	3339.7
Provisions	33.0	98.3	152.3	160.0
Total CL and Provisions	3417.5	3235.3	3323.4	3499.6
Net Working Capital	3924.3	5648.1	6226.1	6333.1
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>15281.5</b>	<b>16385.2</b>	<b>17195.7</b>	<b>18457.7</b>

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	2,697.6	2,949.4	2,802.1	3,253.6
Add: Depreciation	776.1	784.1	815.2	845.0
Add: Others	-447.7	-7.7	100.0	100.0
Cash Profit	3,026.0	3,725.8	3,717.3	4,198.6
Increase/(Decrease) in CL	491.4	-182.1	88.1	176.2
(Increase)/Decrease in CA	1,037.2	-1,206.1	282.4	-125.2
<b>CF from Operating Activities</b>	<b>4554.6</b>	<b>2337.5</b>	<b>4087.8</b>	<b>4249.6</b>
Purchase of Fixed Assets	3,955.7	164.0	1,047.7	2,000.0
(Inc)/Dec in Investments	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activities</b>	<b>-3,955.7</b>	<b>-164.0</b>	<b>-1,047.7</b>	<b>-2,000.0</b>
Inc/(Dec) in Loan Funds	2,683.5	-33.5	0.0	0.0
Inc/(Dec) in Sh. Cap. & Res.	368.0	200.0	0.0	0.0
Less: Dividend Paid	2,178.8	2,004.5	2,091.6	2,091.6
Others	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>504.8</b>	<b>-2,038.0</b>	<b>-2,091.6</b>	<b>-2,091.6</b>
Change in cash Eq.	1,471.7	335.6	948.5	158.0
Op. Cash and cash Eq.	2,960.3	4,432.0	4,767.6	5,716.1
<b>Cl. Cash and cash Eq.</b>	<b>4,432.0</b>	<b>4,767.6</b>	<b>5,716.1</b>	<b>5,874.1</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
Book Value	73.0	80.7	85.4	93.1
Cash per share	29.5	31.8	38.1	39.2
EPS	18.0	19.7	18.7	21.7
Cash EPS	23.2	24.9	24.1	27.3
DPS	12.5	11.5	12.0	12.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	11.3	18.1	13.6	14.7
PAT Margin (%)	7.6	11.3	8.5	9.3
Fixed Asset Turnover (x)	3.2	2.5	3.1	2.9
Inventory Turnover (Days)	5.0	8.0	8.0	8.0
Debtor (Days)	16.5	18.0	18.0	18.0
Current Liabilities (Days)	34.8	44.0	35.0	35.0
<b>Return Ratios (%)</b>				
RoE	24.6	24.4	21.9	23.3
RoCE	22.3	25.3	22.8	24.6
RoIC	32.3	36.5	35.2	37.2
<b>Valuation Ratios (x)</b>				
PE	12.7	11.6	12.2	10.5
Price to Book Value	3.1	2.8	2.7	2.4
EV/EBITDA	8.3	7.0	7.1	6.2
EV/Sales	0.9	1.3	1.0	0.9
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.3	0.3	0.3	0.2
Interest Coverage (x)	8.0	11.7	10.9	12.6
Debt to EBITDA (x)	0.9	0.7	0.8	0.7
Current Ratio	2.1	2.7	2.9	2.8
Quick ratio	2.0	2.6	2.7	2.6

Source: Company, ICICI Direct Research

**Exhibit 13: ICICI Direct Coverage Universe (Oil & Gas)**

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
BPCL (BHAPET)	472	495	Hold	92,837	36.3	13.6	91.0	13.0	34.6	5.2	10.3	21.2	7.5	13.1	3.5	14.7	19.4	8.1	35.6
GAIL (India) (GAIL)	146	150	Hold	65,848	14.7	10.8	14.6	9.9	13.5	10.0	8.2	11.5	7.7	13.7	7.8	12.4	15.1	10.5	13.2
Gujarat Gas (GUJGA)	565	655	Buy	38,895	17.3	18.5	22.6	32.6	30.5	25.0	24.6	18.9	16.0	25.2	33.0	33.8	36.3	29.0	27.6
Indian Oil Corp (INDOIL)	104	115	Hold	95,850	1.4	23.8	11.3	73.0	4.4	9.2	5.1	2.5	3.4	4.8	13.8	7.9	1.4	21.3	9.7
Indraprastha Gas (INDGAS)	502	595	Hold	35,140	16.2	14.6	20.9	30.9	34.3	24.0	21.7	22.4	16.0	25.0	20.8	25.2	22.5	17.7	21.2
Mahanagar Gas (MAHGAS)	1165	1340	Buy	11,508	80.3	62.7	90.1	14.5	18.6	12.9	10.8	11.9	8.4	29.7	22.6	28.4	26.9	18.7	22.9
Petronet LNG (PETLNG)	228	250	Hold	34,200	18.0	19.7	18.7	12.7	11.6	12.2	8.3	7.0	7.1	22.3	25.3	22.8	24.6	24.4	21.9

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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