

## Margins above expectations; offtake remains muted...

**About the stock:** Petronet LNG, a JV between leading PSU oil companies, is involved in LNG import and regasification.

- The company operates two LNG terminals at Dahej and Kochi
- Total nameplate capacity of the company is 22.5 MMTPA

**Q4FY22 Results:** Petronet LNG's Q4FY22 earnings were better than estimates on account of higher blended margin.

- Revenue was up 47.3% YoY to ₹ 11160.4 crore (our estimate: ₹ 13096.7 crore). Total volume was 190 tbtu, broadly in line with estimate of 195.5 tbtu
- Blended margin was at ₹ 72.5/mmbtu, higher than estimate of ₹ 61.3/mmbtu. EBITDA was at ₹ 1169.1 crore, up 7.1% YoY (our estimate: ₹ 979.2 crore)
- PAT was at ₹ 750.1 crore, up 20.3% YoY (our estimate: ₹ 592.8 crore)

**What should investors do?** With increase in domestic gas production, emergence of new terminals and higher LNG prices that are impacting Petronet volume, we expect stock price to remain range bound in near to medium term.

- We retain our **HOLD** rating on the stock

**Target Price and Valuation:** We value Petronet LNG at ₹ 210 i.e. 10x P/E on FY24E EPS.

### Key triggers for future price performance:

- Petronet LNG is India's leading play in import of LNG in the country and will be a beneficiary of the government's aim to increase the share of natural gas in the energy basket to 15% over the long term
- The 17.5 mmtpa Dahej terminal has been booked for 15.75 mmtpa under long term, thus providing visibility to long term volumes. Increase in Kochi terminal utilisation can support volume pick-up
- LNG price trend to be key monitorable for offtake

**Alternate Stock Idea:** Besides Petronet, in our oil & gas coverage we also like Gail.

- Gail is India's leading gas transmission company, which is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value
- BUY with target price of ₹ 180



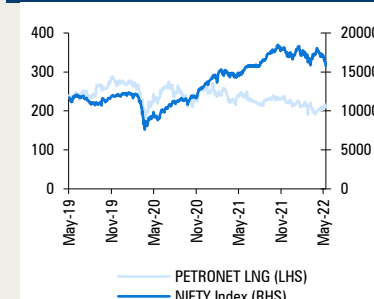
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	30,840.0
Total Debt (FY21) (₹ Crore)	3,386.1
Cash and Investments (FY21)	4,342.3
EV (₹ Crore)	29,883.7
52 week H/L	252 / 190
Equity capital (₹ Crore)	1,500.0
Face value (₹)	10.0

### Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	50.0	50.0	50.0	50.0	50.0
FII	30.5	31.1	32.1	34.1	33.6
DII	6.3	5.1	4.7	3.2	3.4
Others	13.2	13.8	13.2	12.7	13.0

### Price Chart



### Recent event & key risks

- Key Risk:** (i) Faster than expected pick-up in demand, (ii) Increased competition from new terminals, increase in domestic gas output can impact volume.

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### Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22E	5 year CAGR (FY17-22E)	FY23E	FY24E	2 year CAGR (FY22E-24E)
Revenues (₹ crore)	38,395.4	35,452.0	26,022.9	43,168.6	11.9	55,364.7	58,061.6	16.0
EBITDA (₹ crore)	3,293.4	3,989.5	4,699.5	5,252.3	15.2	4,255.2	4,972.5	(2.7)
Net Profit (₹ crore)	2,155.4	2,697.6	2,949.4	3,352.4	14.5	2,646.2	3,176.6	(2.7)
EPS (₹)	14.4	18.0	19.7	22.3		17.6	21.2	
P/E (x)	14.3	11.4	10.5	9.2		11.7	9.7	
Price / Book (x)	3.1	2.8	2.6	2.3		2.2	2.0	
EV/EBITDA (x)	8.7	7.5	6.4	5.7		6.5	5.4	
RoCE (%)	26.6	22.3	26.0	27.0		20.1	22.7	
RoE (%)	21.4	24.6	25.3	25.0		18.9	21.1	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q4FY22 Results: Blended margin above expectations

- Total volume was at 190 tbtu (down 12.8% YoY, 8.7% QoQ). It was broadly in line with estimate of 195.5 tbtu. Regas volume at 78 tbtu was largely in line with estimate while sales volume was 112 tbtu against expectation of 120.5 tbtu
- The blended margin was higher than estimate of ₹ 61.3/mmbtu and stood at ₹ 72.5/mmbtu.
- During the quarter, the company booked use or pay charges of ₹ 83.2 crore (on account of lower capacity utilisation by customers)

### Q4FY22 Earnings Conference Call highlights

- Proposed capital expenditure: i) ₹ 1200 crore for two LNG tanks at Dahej ii) ₹ 1700 crore for jetty construction iii) Dahej capacity expansion to 22.5 MMT in two phases that will require capex of ₹ 600 crore iv) working on the plan for FSRU terminal that may require investment of ₹ 1500-1600 crore
- The management said high LNG prices were impacting offtake. With easing of prices, volume is likely to increase
- The company has revised tariff at Kochi terminal with effect from April 1, 2019. Tariff was revised downwards from ₹ 79.14/mmbtu to ₹ 70/mmbtu. The additional volume committed by customer at Kochi terminal is 0.6 MMTPA and cargoes for additional volume will start coming from 2026
- The company is currently planning to extend Rasgas contract at Dahej terminal

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
GAIL (India) (GAIL)	160	180	Buy	71,046	23.5	17.8	18.2	6.8	9.0	8.8	5.2	6.7	6.6	19.3	13.0	12.2	19.3	13.3	12.6
Gujarat Gas (GUJGA)	537	625	Buy	36,995	18.9	19.7	24.1	28.4	27.3	22.3	18.1	17.2	14.1	26.9	24.2	25.3	23.2	20.3	20.7
Indraprastha Gas (INDGAS)	349	395	Buy	24,430	18.7	15.2	18.2	18.7	22.9	19.2	12.5	14.5	12.0	22.9	16.4	17.7	19.2	14.2	15.1
Mahanagar Gas (MAHGAS)	764	850	Hold	7,547	58.5	71.3	81.4	13.1	10.7	9.4	8.1	6.5	5.6	19.6	21.7	22.2	16.5	18.0	18.2
Petronet LNG (PETLNG)	206	210	Hold	30,840	22.3	17.6	21.2	9.2	11.7	9.7	5.7	6.5	5.4	27.0	20.1	22.7	25.0	18.9	21.1

Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Total Revenues	11,160.4	13,096.7	7,575.3	47.3	12,597.2	-11.4	
Raw materials costs	9,782.8	11,897.8	6,281.7	55.7	10,695.0	-8.5	
Employees Cost	42.8	49.4	43.0	-0.3	35.3	21.3	
Other Expenses	165.7	170.3	159.6	3.8	134.8	22.9	
Total Expenditure	9,991.3	12,117.4	6,484.2	54.1	10,865.1	-8.0	
EBITDA	1,169.1	979.2	1,091.1	7.1	1,732.2	-32.5	Better than expected on account of blended margins being above expectations
EBITDA margins (%)	10.5	7.5	14.4	-393 bps	13.8	-328 bps	
Depreciation	189.6	199.7	202.8	-6.5	193.6	-2.1	
EBIT	979.4	779.5	888.3	10.3	1,538.5	-36.3	
Interest	80.3	84.7	81.3	-1.2	77.6	3.5	
Other Income	85.2	99.8	49.2	73.4	71.9	18.6	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	984.4	794.6	856.1	15.0	1,532.8	-35.8	
Total Tax	234.2	201.8	232.8	0.6	389.3	-39.8	
PAT	750.1	592.8	623.4	20.3	1,143.5	-34.4	

**Key Metrics**

Sales volume (tbtu)	112.0	120.5	120.0	-6.7	132.0	-15.2	
Regasification vol (tbtu)	78.0	75.0	98.0	-20.4	76.0	2.6	
Total Volumes (tbtu)	190.0	195.5	218.0	-12.8	208.0	-8.7	Broadly in line with estimates
Blended margin ₹/mmbtu	72.5	61.3	59.3	22.2	91.5	-20.7	Better than estimates

Source: Company, ICICI Direct Research

**Exhibit 3: Change in estimates**

(₹ Crore)	FY23E			FY24E			
	Old	New	% Change	Old	New	% Change	
Revenue	48229.4	55364.7	14.8	49449.8	58,061.6	17.4	Revised LNG price estimates upwards taking into account current oil & gas price trend
EBITDA	4,695.6	4,255.2	-9.4	5211.5	4,972.5	-4.6	
EBITDA Margin (%)	9.7	7.7	-205 bps	10.5	8.6	-197 bps	
PAT	2,953.6	2,646.2	-10.4	3311.9	3,176.6	-4.1	
EPS (₹)	19.7	17.6	-10.4	22.1	21.2	-4.1	

Source: ICICI Direct Research

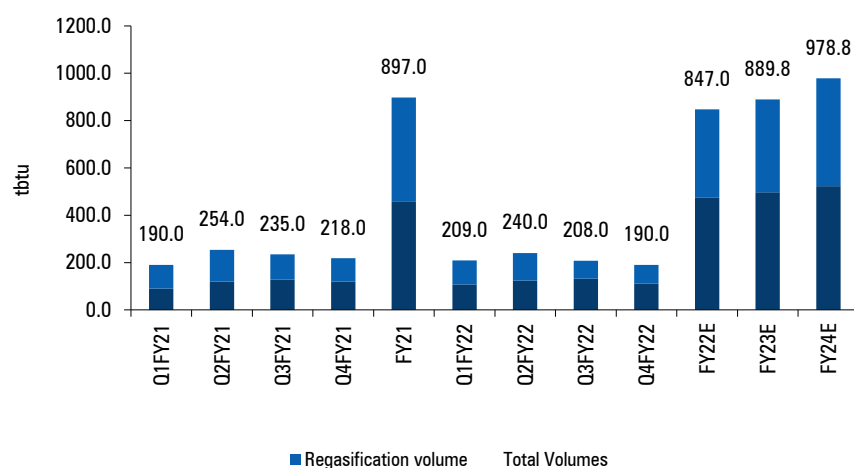
**Exhibit 4: Assumptions**

	Current				Earlier		
	FY21	FY22E	FY23E	FY24E	FY23E	FY24E	
Sales volume (tbtu)	457.0	475.0	496.8	522.8	504.8	512.8	
Regasification vol (tbtu)	440.0	372.0	393.0	456.0	431.0	466.0	Reduced estimates post Q4FY22 results as we factor in high LNG prices that are likely to impact spot volume
Total Volumes (tbtu)	897.0	847.0	889.8	978.8	935.8	978.8	
Blended Margin ₹/mmbtu	59.5	71.9	59.1	62.2	60.6	63.6	

Source: ICICI Direct Research

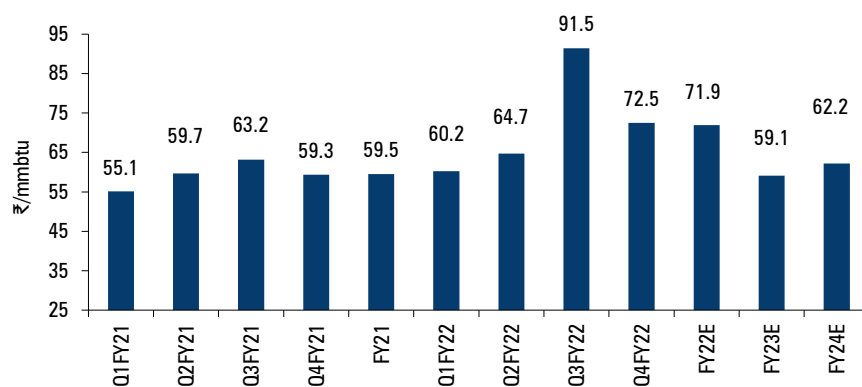
## Story in charts

**Exhibit 5: Volume trajectory**



Source: Company, ICICI Direct Research

**Exhibit 6: Margin trend**



Source: Company, ICICI Direct Research

**Exhibit 7: 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

## Financial Summary

Exhibit 8: Profit and loss statement ₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>26022.9</b>	<b>43168.6</b>	<b>55364.7</b>	<b>58061.6</b>
Growth (%)	-26.6	65.9	28.3	4.9
(Inc.) / Dec stock in trade	0.0	0.0	0.0	0.0
Raw material Costs	20681.5	37077.5	50108.4	51973.0
Purchase of trading goods	0.0	0.0	0.0	0.0
Employee Costs	147.1	177.1	198.3	216.2
Other Expenditure	494.8	661.7	802.8	900.0
Op. Expenditure	21323.4	37916.2	51109.5	53089.2
<b>EBITDA</b>	<b>4699.5</b>	<b>5252.3</b>	<b>4255.2</b>	<b>4972.5</b>
Growth (%)	17.8	11.8	-19.0	16.9
Depreciation	784.1	768.5	803.5	841.7
EBIT	3915.5	4483.9	3451.7	4130.8
Interest	336.0	317.3	315.6	315.6
Other Income	388.2	307.3	411.0	443.0
PBT	3967.7	4473.8	3547.1	4258.2
Growth (%)	27.6	12.8	-20.7	20.0
Tax	1018.3	1121.5	901.0	1081.6
<b>Reported PAT</b>	<b>2949.4</b>	<b>3352.4</b>	<b>2646.2</b>	<b>3176.6</b>
Growth (%)	9.3	13.7	-21.1	20.0
<b>EPS</b>	<b>19.7</b>	<b>22.3</b>	<b>17.6</b>	<b>21.2</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	2,949.4	3,352.4	2,646.2	3,176.6
Add: Depreciation	784.1	768.5	803.5	841.7
Add: Others	-7.7	-48.2	100.0	100.0
Cash Profit	3,725.8	4,072.6	3,549.7	4,118.3
Increase/(Decrease) in CL	-401.0	651.9	1,790.2	267.6
(Increase)/Decrease in CA	-1,177.6	-2,788.3	-507.4	-192.1
<b>CF from Operating Activities</b>	<b>2147.2</b>	<b>1936.3</b>	<b>4832.4</b>	<b>4193.8</b>
Purchase of Fixed Assets	-70.1	148.7	780.6	1,000.0
(Inc)/Dec in Investments	0.0	-10.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activities</b>	<b>70.1</b>	<b>-158.7</b>	<b>-780.6</b>	<b>-1,000.0</b>
Inc/(Dec) in Loan Funds	-54.2	-229.9	0.0	0.0
Inc/(Dec) in Sh. Cap. & Res.	-248.4	425.0	0.0	0.0
Less: Dividend Paid	2,004.5	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>-2,058.6</b>	<b>-2,234.3</b>	<b>-2,091.6</b>	<b>-2,091.6</b>
Change in cash Eq.	-89.7	-31.7	1,960.2	1,102.2
Op. Cash and cash Eq.	4,432.0	4,342.3	4,310.6	6,270.8
<b>Cl. Cash and cash Eq.</b>	<b>4,342.3</b>	<b>4,310.6</b>	<b>6,270.8</b>	<b>7,373.1</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet ₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E
<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	10,149.5	11,922.4	12,477.0	13,562.0
Shareholder's Fund	11,649.5	13,422.4	13,977.0	15,062.0
Loan Funds	3,386.1	3,156.2	3,156.2	3,156.2
Deferred Tax Liability	880.6	832.4	932.4	1,032.4
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>15916.2</b>	<b>17411.0</b>	<b>18065.5</b>	<b>19250.6</b>
<b>Application of Funds</b>				
Gross Block	13,367.5	13,367.5	14,067.5	14,967.5
Less: Acc. Depreciation	3,054.4	3,841.3	4,644.8	5,486.5
Net Block	10,313.2	9,526.2	9,422.7	9,481.0
Capital WIP	25.5	192.6	273.2	373.2
Total Fixed Assets	10,338.6	9,718.8	9,695.9	9,854.3
Investments	164.4	174.4	174.4	174.4
Inventories	337.2	576.7	1,213.5	1,272.6
Debtor	1,874.5	2,684.4	2,730.3	2,863.3
Cash	4,342.3	4,310.6	6,270.8	7,373.1
Loan & Advance, Other CA	1875.6	3614.4	3439.2	3439.2
Total Current assets	8429.6	11186.2	13653.8	14948.2
Current Liabilities	2918.2	3548.1	5308.9	5567.6
Provisions	98.3	120.3	149.6	158.7
Total CL and Provisions	3016.5	3668.4	5458.6	5726.2
Net Working Capital	5413.2	7517.8	8195.2	9221.9
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>15916.2</b>	<b>17411.0</b>	<b>18065.5</b>	<b>19250.6</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
Book Value	77.7	89.5	93.2	100.4
Cash per share	28.9	28.7	41.8	49.2
EPS	19.7	22.3	17.6	21.2
Cash EPS	24.9	27.5	23.0	26.8
DPS	11.5	11.5	12.0	12.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	18.1	12.2	7.7	8.6
PAT Margin (%)	11.3	7.8	4.8	5.5
Fixed Asset Turnover (x)	2.5	4.4	5.7	5.9
Inventory Turnover (Days)	4.7	8.0	8.0	8.0
Debtor (Days)	26.3	18.0	18.0	18.0
Current Liabilities (Days)	40.9	30.0	35.0	35.0
<b>Return Ratios (%)</b>				
RoE	25.3	25.0	18.9	21.1
RoCE	26.0	27.0	20.1	22.7
RoIC	36.6	36.6	31.8	38.1
<b>Valuation Ratios (x)</b>				
PE	10.5	9.2	11.7	9.7
Price to Book Value	2.6	2.3	2.2	2.0
EV/EBITDA	6.4	5.7	6.5	5.4
EV/Sales	1.1	0.7	0.5	0.5
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.3	0.2	0.2	0.2
Interest Coverage (x)	11.7	14.1	10.9	13.1
Debt to EBITDA (x)	0.7	0.6	0.7	0.6
Current Ratio	2.8	3.0	2.5	2.6
Quick ratio	2.7	2.9	2.3	2.4

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 (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	357	450	Buy	74,717	47.8	39.8	44.2	7.5	9.0	8.1	5.7	6.0	5.4	15.8	13.1	13.7	20.6	15.8	16.0
GAIL (India) (GAIL)	160	180	Buy	71,046	23.5	17.8	18.2	6.8	9.0	8.8	5.2	6.7	6.6	19.3	13.0	12.2	19.3	13.3	12.6
Gujarat Gas (GUJGA)	537	625	Buy	36,995	18.9	19.7	24.1	28.4	27.3	22.3	18.1	17.2	14.1	26.9	24.2	25.3	23.2	20.3	20.7
HPCL (HINPET)	268	320	Hold	38,027	40.6	44.2	45.4	6.6	6.1	5.9	7.5	6.0	5.6	8.1	9.3	9.0	14.9	14.8	13.9
Indian Oil Corp (INDOIL)	126	150	Buy	1,15,681	28.6	19.2	21.9	4.4	6.6	5.8	2.5	3.1	2.8	15.5	10.5	11.1	20.1	12.7	13.3
Indraprastha Gas (INDGAS)	349	395	Buy	24,430	18.7	15.2	18.2	18.7	22.9	19.2	12.5	14.5	12.0	22.9	16.4	17.7	19.2	14.2	15.1
Mahanagar Gas (MAHGAS)	764	850	Hold	7,547	58.5	71.3	81.4	13.1	10.7	9.4	8.1	6.5	5.6	19.6	21.7	22.2	16.5	18.0	18.2
Petronet LNG (PETLNG)	206	210	Hold	30,840	22.3	17.6	21.2	9.2	11.7	9.7	5.7	6.5	5.4	27.0	20.1	22.7	25.0	18.9	21.1
Reliance Industries (RELIND)	2,621	3,050	Buy	17,73,208	89.7	128.7	130.9	29.2	20.4	20.0	18.0	11.9	10.9	7.7	11.5	11.4	8.5	11.0	10.4

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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