

Sales volume dips; margins drive profitability...

Petronet LNG reported a mixed set of Q3FY21 numbers. While sales volume was below estimates, blended margins were ahead of expectations. Total volumes were flattish YoY and down 7.5% QoQ to 235 tbtu due to lower regas volumes. Revenues were down 17.8% YoY to ₹ 7328.2 crore (I-direct estimate: ₹ 7591 crore). EBITDA was ₹ 1335.3 crore, up 20.6% YoY, down 2% QoQ (our estimate: ₹ 1215.4 crore). Blended margins were at ₹ 63.2/mmbtu on account of inventory gains and higher margin on spot volumes (our estimate: ₹ 54.8/mmbtu). PAT increased 30.1% YoY to ₹ 878.5 crore (our estimate: ₹ 761.7 crore). On a QoQ basis, it dipped 5.3%.

Higher spot LNG prices lead to dip in regas volumes QoQ

Petronet LNG's total volumes were below our estimates on account of lower regasification volumes from Dahej terminal. Total sales volumes came in at 235 tbtu, compared to 233 tbtu in Q3FY20 (up 0.9% YoY) and 254 tbtu in Q2FY21 (down 7.5% QoQ). Regasification volumes were below estimates at 107 tbtu vs. our estimate of 135 tbtu. On account of a sharp rise in spot LNG prices, we expect regasification volumes to remain low in the current quarter. Going ahead, we estimate 1013.8 tbtu, 1041.8 tbtu for FY22E, FY23E, respectively. In terms of margins, we estimate 57.1/mmbtu and ₹ 60.2/mmbtu in FY22E and FY23E, respectively.

Kochi utilisation to improve on new pipeline commissioning

Petronet's Kochi terminal is witnessing a gradual increase in capacity utilisation post commissioning of Kochi-Mangalore pipeline. As refining and petchem units get connected to the network, utilisation is expected to improve up to 30%. Accordingly, we revise our estimates. 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 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. On the new project front, the management said the company is exploring opportunity to set up an import terminal on the east coast of India and a FSRU in Sri Lanka. At Dahej terminal, capex up to 22.5 MMT is planned in a phase wise manner over next four to five years. However, in the medium term, additional capacity from new terminals on the west coast (Mundra, Dabhol) poses risk to further volume growth. Additional domestic gas from newer fields will also take a share of gas consumption in next one to two years. We roll over valuations to FY23E and maintain **HOLD** rating on the stock. We value the stock at 11.5x FY23E EPS of ₹ 24 to arrive at a TP of ₹ 275 (earlier: ₹ 275).

Particulars	
Particular	Amount
Market Capitalization (₹ Crore)	36,315.0
Total Debt (FY 20) (₹ Crore)	3,440.2
Cash and Investments (FY 20)	4,432.0
EV (₹ Crore)	35,323.2
52 week H/L	285/171
Equity capital (₹ Crore)	1,500.0
Face value (₹)	10.0

Key Highlights

- Results were a mixed bag as blended margins were ahead of estimates while regas volume were lower than expected
- Kochi terminal to witness increase in utilisation
- Maintain HOLD with target price of ₹ 275 /share

Key risks to our call

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

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Revenues (₹ crore)	38,395.4	35,452.0	26,427.9	31,778.4	33,156.0	(2.2)
EBITDA (₹ crore)	3,293.4	3,989.5	4,696.5	5,017.3	5,446.9	10.9
Net Profit (₹ crore)	2,155.4	2,697.6	2,988.3	3,222.5	3,595.8	10.1
EPS (₹)	14.4	18.0	19.9	21.5	24.0	
P/E (x)	16.8	13.5	12.2	11.3	10.1	
Price / Book (x)	3.6	3.3	3.2	3.0	2.8	
EV/EBITDA (x)	10.4	8.9	7.3	6.6	5.9	
RoCE (%)	26.6	22.3	26.2	29.0	31.8	
RoE (%)	21.4	24.6	26.0	26.6	27.5	
Source: Company, ICICI Direct Research						
RoE (%)	21.4	22.8	22.7	27.5	22.0	

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Total Revenues	7,328.2	7,591.0	8,910.2	-17.8	6,235.8	17.5	
Raw materials costs	5,843.4	6,181.0	7,618.9	-23.3	4,719.9	23.8	
Employees Cost	34.3	42.8	40.7	-15.7	33.8	1.5	
Other Expenses	115.2	151.8	143.1	-19.4	118.8	-3.0	
Total Expenditure	5,992.9	6,375.6	7,802.7	-23.2	4,872.6	23.0	
EBITDA	1,335.3	1,215.4	1,107.6	20.6	1,363.2	-2.0	Above estimates due to better than expected blended margin
EBITDA margins (%)	18.2	16.0	12.4	579 bps	21.9	-364 bps	
Depreciation	192.5	201.5	196.0	-1.8	195.2	-1.4	
EBIT	1,142.8	1,013.9	911.6	25.4	1,168.0	-2.2	
Interest	81.5	85.6	94.0	-13.3	85.0	-4.1	
Other Income	111.1	92.8	84.2	32.0	159.6	-30.4	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	1,172.4	1,021.1	901.7	30.0	1,242.6	-5.7	
Total Tax	293.9	259.4	226.5	29.7	315.3	-6.8	
PAT	878.5	761.7	675.2	30.1	927.3	-5.3	

Key Metrics

Sales volume (tbtu)	128.0	122.2	122.0	4.9	119.0	7.6	
Regasification vol (tbtu)	107.0	135.0	111.0	-3.6	135.0	-20.7	
Total Volumes (tbtu)	235.0	257.2	233.0	0.9	254.0	-7.5	Better than estimates on account of lesser regasification sales
Blended margin ₹mmbt	63.2	54.8	55.4	14.0	59.7	5.9	Higher than estimates

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			
	Old	New	Change	Old	New	Change	
Revenue	26545.5	26427.9	-0.4	31436.6	31,778.4	1.1	
EBITDA	4,800.9	4,696.5	-2.2	5096.3	5,017.3	-1.5	Revised our margin and volume estimates post Q3 performance
EBITDA Margin (%)	18.1	17.8	-31 bps	16.2	15.8	-42 bps	
PAT	3,043.3	2,988.3	-1.8	3279.7	3,222.5	-1.7	
EPS (₹)	20.3	19.9	-1.8	21.9	21.5	-1.7	

Source: Company, ICICI Direct Research

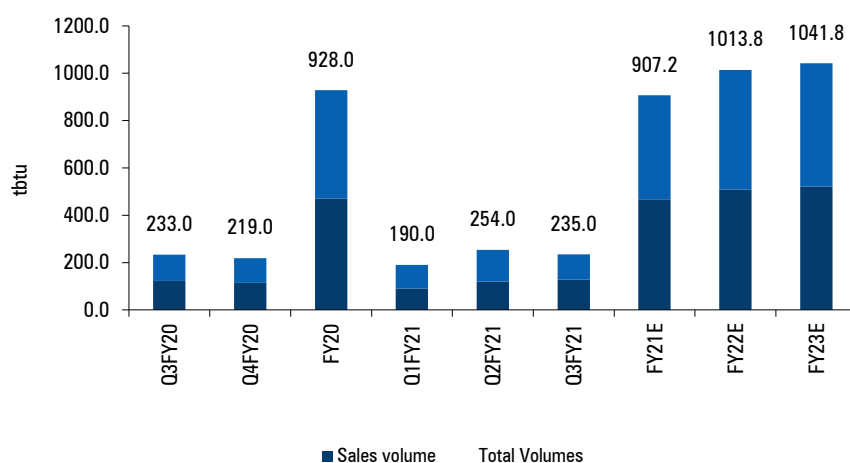
Exhibit 3: Assumptions

	Current				Earlier		
	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	
Sales volume (tbtu)	470.0	467.2	507.8	520.8	456.4	509.8	
Regasification vol (tbtu)	458.0	440.0	506.0	521.0	505.0	506.0	
Total Volumes (tbtu)	928.0	907.2	1,013.8	1,041.8	961.4	1,015.8	Lower than expected regasification volume from Dahej terminal during the quarter led to change in estimate for FY 21E
Blended Margin ₹mmbtu	53.4	58.7	57.1	60.2	56.9	57.8	

Source: Company, ICICI Direct Research

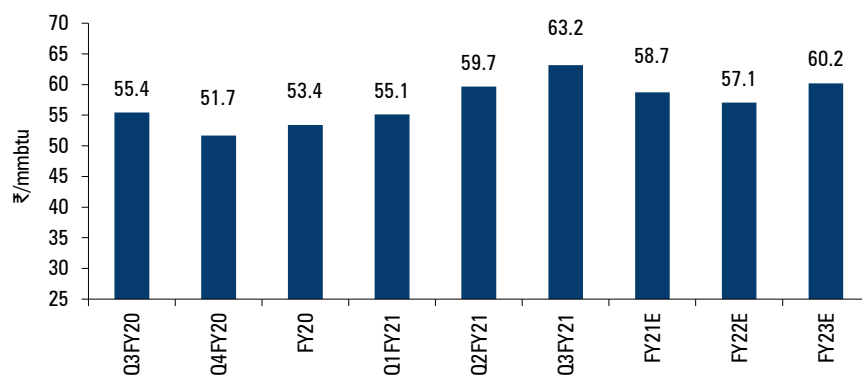
Story in charts

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

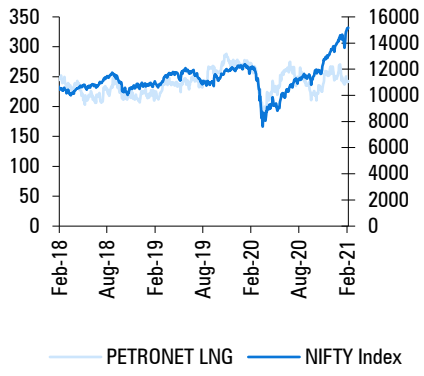
Source: Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	50.0	50.0	50.0	50.0	50.0
FII	28.6	29.3	29.2	28.1	29.5
DII	9.2	7.8	7.9	8.4	7.0
Others	12.2	12.9	13.0	13.5	13.5

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
Revenue	35452.0	26427.9	31778.4	33156.0
Growth (%)	-7.7	-25.5	20.2	4.3
(Inc.) / Dec stock in trade	0.0	0.0	0.0	0.0
Raw material Costs	30495.9	21100.6	25994.1	26883.3
Purchase of trading good:	0.0	0.0	0.0	0.0
Employee Costs	125.8	136.0	163.2	195.8
Other Expenditure	840.8	494.7	603.8	630.0
Op. Expenditure	31462.5	21731.3	26761.1	27709.1
EBITDA	3989.5	4696.5	5017.3	5446.9
Growth (%)	21.1	17.7	6.8	8.6
Depreciation	776.1	788.8	806.0	835.2
EBIT	3213.4	3907.8	4211.3	4611.7
Interest	403.2	340.2	290.7	190.7
Other Income	300.5	431.8	399.0	399.0
PBT	3110.7	3999.3	4319.7	4820.1
Growth (%)	-3.8	28.6	8.0	11.6
Tax	413.1	1011.0	1097.2	1224.3
Reported PAT	2697.6	2988.3	3222.5	3595.8
Growth (%)	25.2	10.8	7.8	11.6
EPS	18.0	19.9	21.5	24.0

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
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	9,453.0	10,001.0	10,609.0	11,590.3
Shareholder's Fund	10,953.0	11,501.0	12,109.0	13,090.3
Loan Funds	3,440.2	3,406.7	2,406.7	1,406.7
Deferred Tax Liability	888.3	988.3	1,088.3	1,188.3
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	15281.5	15896.1	15604.1	15685.4
Application of Funds				
Gross Block	13,460.6	13,610.6	14,110.6	14,860.6
Less: Acc. Depreciation	2,272.4	3,063.3	3,869.3	4,704.4
Net Block	11,188.2	10,547.3	10,241.3	10,156.1
Capital WIP	4.7	473.2	573.2	823.2
Total Fixed Assets	11,192.9	11,020.5	10,814.5	10,979.3
Investments	164.4	164.4	164.4	164.4
Inventories	480.9	579.2	696.5	726.7
Debtor	1,602.6	1,303.3	1,567.2	1,635.1
Cash	4,432.0	5,257.7	5,566.7	5,523.4
Loan & Advance, Other C	826.2	277.7	27.7	27.7
Total Current assets	7341.7	7418.0	7858.0	7912.9
Current Liabilities	3384.5	2534.2	3047.2	3179.3
Provisions	33.0	172.6	185.6	191.9
Total CL and Provisions	3417.5	2706.7	3232.8	3371.3
Net Working Capital	3924.3	4711.2	4625.2	4541.7
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	15281.5	15896.1	15604.1	15685.4

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	2,697.6	2,988.3	3,222.5	3,595.8
Add: Depreciation	776.1	788.8	806.0	835.2
Add: Others	-447.7	100.0	100.0	100.0
Cash Profit	3,026.0	3,877.0	4,128.5	4,531.0
Increase/(Decrease) in CI	491.4	-710.7	526.1	138.5
(Increase)/Decrease in C/	1,037.2	749.4	-131.1	-98.1
CF from Operating Acti	4554.6	3915.8	4523.4	4571.3
Purchase of Fixed Assets	3,955.7	616.4	600.0	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 Acti	-3,955.7	-616.4	-600.0	-1,000.0
Inc/(Dec) in Loan Funds	2,683.5	-33.5	-1,000.0	-1,000.0
Inc/(Dec) in Sh. Cap. & Re	368.0	0.0	0.0	0.0
Less: Dividend Paid	2,178.8	2,440.2	2,614.5	2,614.5
Others	0.0	0.0	0.0	0.0
CF from financing activ	504.8	-2,473.7	-3,614.5	-3,614.5
Change in cash Eq.	1,471.7	825.7	308.9	-43.2
Op. Cash and cash Eq.	2,960.3	4,432.0	5,257.7	5,566.7
Cl. Cash and cash Eq.	4,432.0	5,257.7	5,566.7	5,523.4

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	73.0	76.7	80.7	87.3
Cash per share	29.5	35.1	37.1	36.8
EPS	18.0	19.9	21.5	24.0
Cash EPS	23.2	25.2	26.9	29.5
DPS	12.5	14.0	15.0	15.0
Profitability & Operating Ratios				
EBITDA Margin (%)	11.3	17.8	15.8	16.4
PAT Margin (%)	7.6	11.3	10.1	10.8
Fixed Asset Turnover (x)	3.2	2.4	2.9	3.0
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	35.0	35.0	35.0
Return Ratios (%)				
RoE	24.6	26.0	26.6	27.5
RoCE	22.3	26.2	29.0	31.8
RoIC	32.3	40.5	47.1	51.4
Valuation Ratios (x)				
PE	13.5	12.2	11.3	10.1
Price to Book Value	3.3	3.2	3.0	2.8
EV/EBITDA	8.9	7.3	6.6	5.9
EV/Sales	1.0	1.3	1.0	1.0
Leverage & Solvency Ratios				
Debt to equity (x)	0.3	0.3	0.2	0.1
Interest Coverage (x)	8.0	11.5	14.5	24.2
Debt to EBITDA (x)	0.9	0.7	0.5	0.3
Current Ratio	2.1	2.7	2.4	2.3
Quick ratio	2.0	2.5	2.2	2.1

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
GAIL (India) (GAIL)	136	150	Hold	61,338	14.7	10.1	14.6	9.3	13.4	9.3	7.7	11.3	7.2	13.7	7.5	12.5	15.1	10.0	13.2
Gujarat Gas (GUJGA)	435	505	Buy	29,945	17.3	17.9	21.2	25.1	24.3	20.5	19.1	14.8	12.5	25.2	32.1	31.8	36.3	28.2	25.8
Indian Oil Corp (INDOIL)	99	105	Hold	90,892	1.4	16.7	11.3	69.2	5.9	8.8	4.8	2.9	3.2	4.8	10.7	8.1	1.4	15.0	9.7
Indraprastha Gas (INDGAS)	567	595	Hold	39,690	16.2	14.3	20.9	34.9	39.6	27.1	24.7	26.2	18.2	25.0	20.2	25.3	22.5	17.4	21.3
Mahanagar Gas (MAHGAS)	1164	1340	Buy	11,495	80.3	63.4	96.6	14.5	18.4	12.0	10.7	12.2	7.9	29.7	22.5	29.4	26.9	18.8	24.0
Petronet LNG (PETLNG)	242	275	Hold	36,315	18.0	19.9	21.5	13.5	12.2	11.3	8.9	7.3	6.6	22.3	26.2	29.0	24.6	26.0	26.6

Source: Company, ICICI Direct Research

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Sell: <-15%



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