

## Accumulate

**Higher inventory valuations and trading margins led to expansion in margins. Efficient operations and demand returning to Pre Covid levels, long-term outlook better as LNG infra is gaining momentum. Maintain Accumulate**

- PLL Q3FY21 numbers were below our estimates on revenue front as some volumes moved from Dahej terminal to Dabhol terminal and results were above estimates on profitability front due to inventory gains, trading margins, higher utilization and operating efficiency.
- Revenue grew 17.5% QoQ and de-grew 17.8% YoY. Operating profit declined 2% QoQ and grew 20.6% YoY, due to inventory gains, cost efficiencies and higher utilization, and net profitability grew on account of higher Other income.
- The overall volumes were 235 TBTU in Q3FY21. Volume at Dahej was 222 tbtu, as demand returned to Pre Covid levels, however sequentially volumes were down as with the opening of Dabhol terminal post monsoon volumes moved from Dahej terminal.
- Given gradual capacity addition and increase in re-gasification margins, PLL is likely to benefit from the gas demand evolution in India. PLL is also poised to benefit from the uptick in gas demand and the setting up of small scale LNG stations which will consume 7-8 MMTPA of LNG.
- However, Q1FY21 was a low volume quarter, which have now recovered in H2FY21 with 100% plus capacity utilization, with industries starting up and higher offtake of gas from CGD, Power and other industries. We believe the stock should be re-rated, after the completion of pipelines for the Kochi terminal in Nov'20. We maintain our Accumulate rating with a DCF-based target price of Rs. 283.

### Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	73,282	89,102	(17.8)	62,358	17.5
Total Expense	59,929	78,027	(23.2)	48,726	23.0
EBITDA	13,353	11,076	20.6	13,632	(2.0)
Depreciation	1,925	1,960	(1.8)	1,952	(1.4)
EBIT	11,428	9,116	25.4	11,680	(2.2)
Other Income	1,111	842	32.0	1,596	(30.4)
Interest	815	940	(13.3)	850	(4.1)
EBT	11,724	9,017	30.0	12,426	(5.7)
Tax	2,939	2,265	29.7	3,153	(6.8)
RPAT	8,785	6,752	30.1	9,273	(5.3)
APAT	8,785	6,752	30.1	9,273	(5.3)
			(bps)		(bps)
Gross Margin (%)	20.3	14.5	577	24.3	(405)
EBITDA Margin (%)	18.2	12.4	579	21.9	(364)
NPM (%)	12.0	7.6	441	14.9	(288)
Tax Rate (%)	25.1	25.1	(5)	25.4	(30)
EBIT Margin (%)	15.6	10.2	536	18.7	(314)

CMP	Rs 242
Target / Upside	Rs 283 / 17%
NIFTY	15,163

### Scrip Details

Equity / FV	Rs 15,000mn / Rs
Market Cap	Rs 363bn
	USD 5bn
52-week High/Low	Rs 281/ 170
Avg. Volume (no)	5,068,770
Bloom Code	PLNG IN

### Price Performance

	1M	3M	12M
Absolute (%)	(10)	(1)	(8)
Rel to NIFTY (%)	(15)	(19)	(32)

### Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	50.0	50.0	50.0
MF/Banks/FIs	10.3	8.4	8.4
FIIIs	27.4	28.5	28.5
Public / Others	12.3	13.1	13.1

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	10.9	9.4	8.1
EV/EBITDA	6.6	5.5	4.4
ROE (%)	28.6	29.4	29.3
RoACE (%)	29.1	29.5	29.5

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	265,365	297,209	332,874
EBITDA	50,977	57,887	66,091
PAT	33,282	38,827	44,592
EPS (Rs.)	22.2	25.9	29.7

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### Dahej – high capacity utilization continues

In Q3FY21, the Dahej terminal processed LNG quantity of 222 tbtu running at a capacity utilization of 100%. However, with enhanced capacity of 2.5 MMTPA, opening up of economy and demand increase from industries, it is expected that Dahej terminal will run at 100% plus capacity utilisation. However, due to surge in Spot LNG prices terminal was operating at 85% capacity utilization in Jan'21 which is expected to move up with spot prices softening in the international markets. PLL has experienced de-growth in volume sequentially after the Dabhol terminal is operational after the monsoon as Dahej volumes have moved to Dabhol. PLL plans to add two storage tanks in Dahej by the end of FY23 with a cost of Rs. 12,500 Mn, which will increase the capacity of the Dahej terminal to 19.5 MMTPA and an additional Jetty at Dahej at a cost of Rs. 13,000 Mn.

### Kochi's low utilization will pick up pace

Kochi terminal with volumes processed around 13 tbtu. With the completion of GAIL's Kochi Mangalore pipeline in Nov'21, volumes are expected to ramp and currently the utilization is 1.5 MMTPA. By next fiscal it is expected to ramp up capacity by 30%. Also Kochi-Bangalore pipeline will further increase utilization levels to 60-70%. The capacity utilization of the Kochi terminal after completion will boost earnings.

### Cash annuity model – looking for new avenues

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 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 7-8 MMTPA on which they can earn marketing margins. 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.

#### Exhibit 1: Actual V/s DART estimates

Particulars (Rs Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	73,282	80,210	(8.6)	Volumes moved to Dabhol post monsoon
EBITDA	13,353	10,460	27.7	Higher inventory valuation, trading margin and higher utilisation
EBITDA Margin (%)	18.2	13.0	518	
PAT	8,785	6,480	35.6	Higher other income

Source: Company, DART

#### Exhibit 2: Change in estimates

Rs Mn	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	2,97,209	3,39,844	(12.5)	3,32,874	3,90,821	(14.8)
EBITDA	57,887	53,680	7.8	66,091	60,547	9.2
EBITDA Margin (%)	19.5	15.8	368.1	19.9	15.5	436.2
PAT	38,827	35,679	8.8	44,592	40,444	10.3
EPS (Rs)	25.9	23.8	8.8	19.9	27.0	(26.4)

Source: Company, DART

## Key Highlights

- Revenue decreased by 17.8% on a YoY basis to Rs. 73.3 bn. On a sequential basis, there was a growth of 17.5%.
- De-Growth in raw material cost was at 23.3% on a YoY basis to Rs. 58.4 bn. On a sequential basis, it was a growth of 23.8%
- There was a de-growth in employee cost of 15.7% on a YoY basis and growth of 1.5% on a sequential basis to Rs. 343 mn.
- Other expenditure decreased by 19.4% on a YoY basis to Rs. 1,152 mn. Sequentially it was down 3%.
- Operating profit was at Rs. 13,353 mn in Q3FY21 as compared to Rs. 11,076 mn in Q3FY20.
- Depreciation was flat sequentially to Rs. 1,925 mn
- Other income was at Rs. 1,111 mn which was a growth of 32% on a YoY basis and de-growth of 30.4% on QoQ basis.
- Net profit was at Rs. 8,875 mn in Q3FY21 as compared to Rs. 6,752 mn in Q3FY20, showing a growth of 30.1% YoY and de-growth of 5.3% sequentially.

## Conference Call Highlights

- In Q3FY21, total LNG processed was 235 tbtu, as against 254 tbtu in Q2FY21 and 233 tbtu in Q3FY20.
- Operating profits increased in the quarter due to higher inventory valuation, trading margins and higher utilization. Bottomline improved due to commercial planning and operating efficiency.
- Inventory gain in Q3FY21 was Rs. 600 mn and trading margin was Rs. 540 mn earned because of spot trading.
- In the quarter demand for long term LNG was higher than Spot as spot prices were higher. It is expected that spot prices will go down as winter subsidies and next quarter prices will be in the range of \$5-\$6/mmbtu (at par or lower than long term volumes)
- Opex is lower for the quarter as certain expenses like promotion were deferred and power cost was lower as Dahej volumes were lower.

### Dahej Terminal:

- Dahej terminal processed LNG of 222 tbtu in Q3FY21 as against 243 tbtu in Q2FY21 and 222 tbtu in Q3FY20.
- Regas tariff at Dahej is Rs. 54.34/mmbtu after escalation, which takes place on Jan 1, every year.
- In the month of Jan '21, Dahej utilization was 85% which has been low due to LNG prices were high in spot market and certain spot cargoes were not procured. Things are now picking up as prices have reduced.
- 6 Gorgon cargoes came to Dahej this quarter.

### Kochi Terminal:

- Kochi terminal processed LNG of 13 tbtu in Q3FY21 as against 11 tbtu in Q2FY21 and 11 tbtu in Q3FY20.

- With the commissioning of GAIL's Kochi- Mangalore pipeline in Nov'20, 0.4 mmscmd volumes are already taken, 0.35-0.4 mmscmd are taken by OMPL, MRPL will start taking volumes next month and will ramp up to 1.5 mmscmd.
- Currently, 1.5 MMTPA of capacity is utilized. They are expecting 30% of capacity utilization by Q3FY22-Q4FY22 as 3 customers are already lined up.
- With the commissioning of another trunkline pipeline of Kochi-Kottanad-Bangalore and 10-11 GA's for CGD along the pipeline 60-70% capacity utilization will happen eventually as industrial belt will also be there.
- Kochi tariff revision happen on April 1 every year where price is escalated by 5%. Currently the tariff is Rs. 79.14/mmbtu and discussions are still on.

#### **Major Ongoing Projects:**

- Plans to add 2 additional tanks at Dahej which will take the capacity to 19.5 MMTPA over next 36-40 month with a capex of Rs. 12,500 mn. Later Phase 2 will be undertaken in another 2-3 years and the capacity will increase to 22.5 MMTPA.
- 3<sup>rd</sup> Jetty at Dahej at a capex of Rs. 13,000 mn, which will take 2-3 years for completion.
- FSRU project at Sri Lanka. The project cost is \$300 mn and will be undertaken after clearance from Sri Lankan Government. There is pending clearance from Sri Lankan government.
- Plans to set up a terminal at East Coast of India at a cost of Rs. 40,000 mn with a capacity of 5 MMTPA. They are looking at demand perception and it will take 4 years time from now.

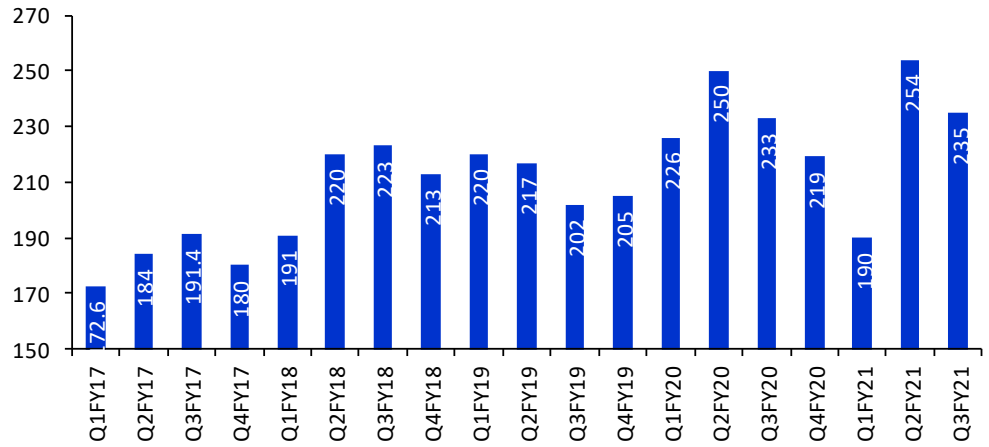
#### **LNG Transportation:**

- Signed an agreement with Gujarat Gas for 5 stations along the Mumbai-Delhi highway. 5 LNG dispensers will be bought soon.
- They have signed a MOU with IOC to set up 4 LNG stations in Southern India.
- They have also signed agreements with IGL, Sabarmati and KSRTC to set up LNG stations.
- LNG has a potential of 7-8 MMTPA and is an untapped business area.

#### **Capex:**

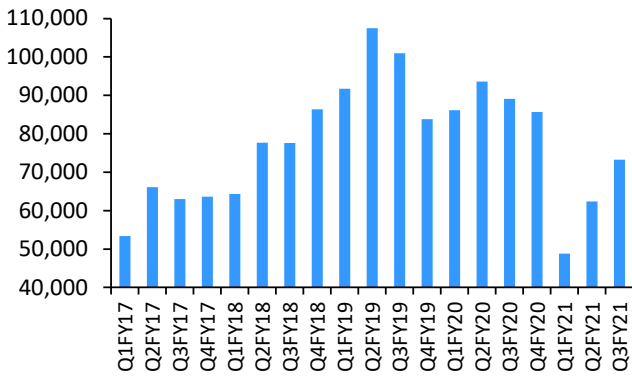
- Capex spent in 9MFY21 is negligible to the tune of Rs. 650 Mn.
- Planned capex for FY21 is 3,480 Mn.
- Capex plans for FY22 is Rs. 5,310 mn.

**Exhibit 3: Volume (tbtu)**



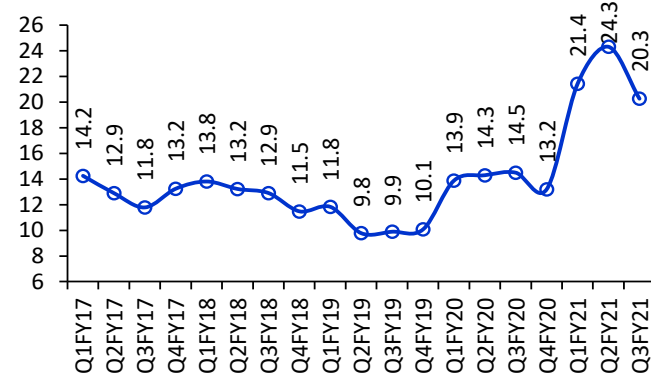
Source: Company, DART

**Exhibit 4: Revenue (Rs Mn)**



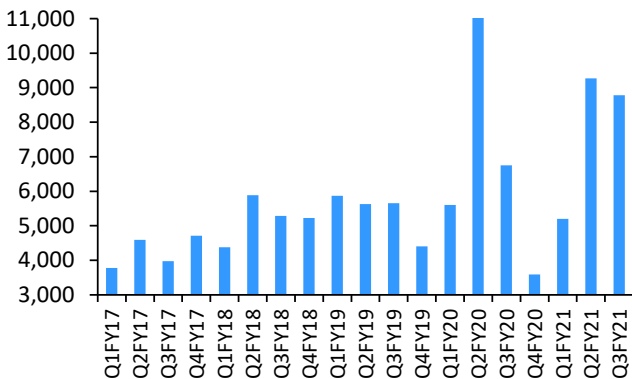
Source: Company, DART

**Exhibit 5: Gross Margin (%)**



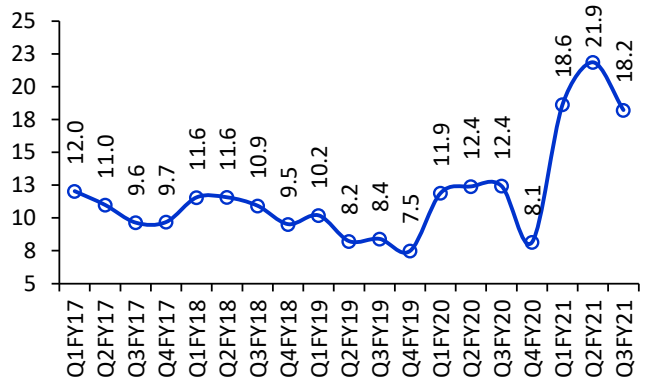
Source: Company, DART

**Exhibit 6: Operating Profit (Rs Mn)**



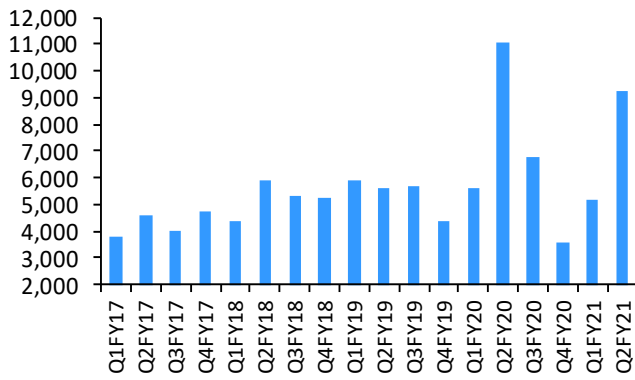
Source: Company, DART

**Exhibit 7: OPM (%)**



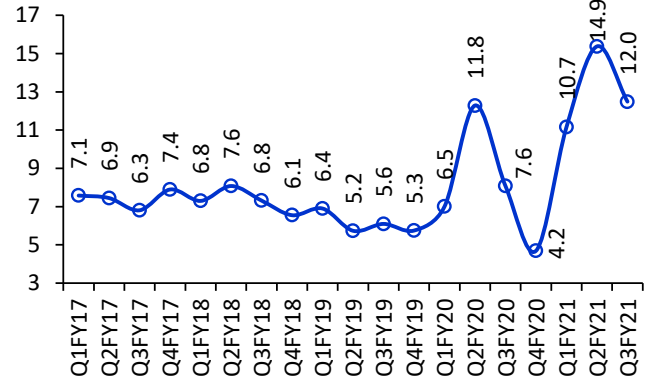
Source: Company, DART

**Exhibit 8: Net Profit (Rs Mn)**



Source: Company, DART

**Exhibit 9: NPM (%)**



Source: Company, DART

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>354,520</b>	<b>265,365</b>	<b>297,209</b>	<b>332,874</b>
<b>Total Expense</b>	<b>314,625</b>	<b>214,388</b>	<b>239,322</b>	<b>266,783</b>
COGS	304,959	204,323	228,842	256,303
Employees Cost	1,258	1,320	1,387	1,387
Other expenses	8,408	8,745	9,094	9,094
<b>EBIDTA</b>	<b>39,895</b>	<b>50,977</b>	<b>57,887</b>	<b>66,091</b>
Depreciation	7,761	7,500	7,500	7,500
<b>EBIT</b>	<b>32,133</b>	<b>43,477</b>	<b>50,387</b>	<b>58,591</b>
Interest	4,032	3,500	3,500	4,000
Other Income	3,726	4,500	5,000	5,000
Exc. / E.O. items	721	0	0	0
<b>EBT</b>	<b>31,107</b>	<b>44,477</b>	<b>51,887</b>	<b>59,591</b>
Tax	4,131	11,195	13,060	14,999
RPAT	26,976	33,282	38,827	44,592
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>26,976</b>	<b>33,282</b>	<b>38,827</b>	<b>44,592</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	15,000	15,000	15,000	15,000
Minority Interest	0	0	0	0
Reserves & Surplus	94,530	108,342	125,749	148,740
<b>Net Worth</b>	<b>109,530</b>	<b>123,342</b>	<b>140,749</b>	<b>163,740</b>
Total Debt	644	700	800	800
Net Deferred Tax Liability	8,883	9,949	11,143	12,480
<b>Total Capital Employed</b>	<b>119,057</b>	<b>133,991</b>	<b>152,691</b>	<b>177,020</b>

**Applications of Funds**

Net Block	<b>111,882</b>	<b>107,382</b>	<b>103,382</b>	<b>100,882</b>
CWIP	47	1,000	1,000	1,000
Investments	3,491	8,000	10,000	10,000
<b>Current Assets, Loans &amp; Advances</b>	<b>71,570</b>	<b>54,526</b>	<b>75,237</b>	<b>102,065</b>
Inventories	4,809	5,089	5,700	6,384
Receivables	16,026	13,087	14,657	16,416
Cash and Bank Balances	44,320	29,806	48,009	72,051
Loans and Advances	6,014	6,134	6,441	6,763
Other Current Assets	402	410	430	452
<b>Less: Current Liabilities &amp; Provisions</b>	<b>67,933</b>	<b>36,917</b>	<b>36,927</b>	<b>36,927</b>
Payables	16,332	17,148	18,520	20,002
Other Current Liabilities	51,601	19,769	18,407	16,925
	<i>sub total</i>			
Net Current Assets	3,637	17,609	38,310	65,138
<b>Total Assets</b>	<b>119,057</b>	<b>133,991</b>	<b>152,691</b>	<b>177,020</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	14.0	23.0	23.0	23.0
EBIDTA Margin	11.3	19.2	19.5	19.9
EBIT Margin	9.1	16.4	17.0	17.6
Tax rate	13.3	25.2	25.2	25.2
Net Profit Margin	7.6	12.5	13.1	13.4
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	86.0	77.0	77.0	77.0
Employee	0.4	0.5	0.5	0.4
Other	2.4	3.3	3.1	2.7
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	8.0	12.4	14.4	14.6
Inventory days	5	7	7	7
Debtors days	16	18	18	18
Average Cost of Debt	487.0	520.9	466.7	500.0
Payable days	17	24	23	22
Working Capital days	4	24	47	71
FA T/O	3.2	2.5	2.9	3.3
<b>(D) Measures of Investment</b>				
AEPS (Rs)	18.0	22.2	25.9	29.7
CEPS (Rs)	23.2	27.2	30.9	34.7
DPS (Rs)	12.5	11.0	12.0	12.0
Dividend Payout (%)	69.5	49.6	46.4	40.4
BVPS (Rs)	73.0	82.2	93.8	109.2
RoANW (%)	25.7	28.6	29.4	29.3
RoACE (%)	27.1	29.1	29.5	29.5
RoAIC (%)	40.1	48.6	48.2	55.9
<b>(E) Valuation Ratios</b>				
CMP (Rs)	242	242	242	242
P/E	13.5	10.9	9.4	8.1
Mcap (Rs Mn)	363,300	363,300	363,300	363,300
Mcap/ Sales	1.0	1.4	1.2	1.1
EV	319,624	334,194	316,091	292,049
EV/Sales	0.9	1.3	1.1	0.9
EV/EBITDA	8.0	6.6	5.5	4.4
P/BV	3.3	2.9	2.6	2.2
Dividend Yield (%)	5.2	4.5	5.0	5.0
<b>(F) Growth Rate (%)</b>				
Revenue	(7.7)	(25.1)	12.0	12.0
EBITDA	21.1	27.8	13.6	14.2
EBIT	11.5	35.3	15.9	16.3
PBT	(3.8)	43.0	16.7	14.8
APAT	25.2	23.4	16.7	14.8
EPS	25.2	23.4	16.7	14.8

**Cash Flow**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	28,631	15,882	48,428	54,547
CFI	9,410	2,078	(5,406)	(4,905)
CFF	(30,547)	2,086	(24,820)	(25,600)
FCFF	28,223	11,929	44,928	49,547
Opening Cash	2,266	9,760	29,806	48,009
Closing Cash	9,760	29,806	48,009	72,051

E – Estimates

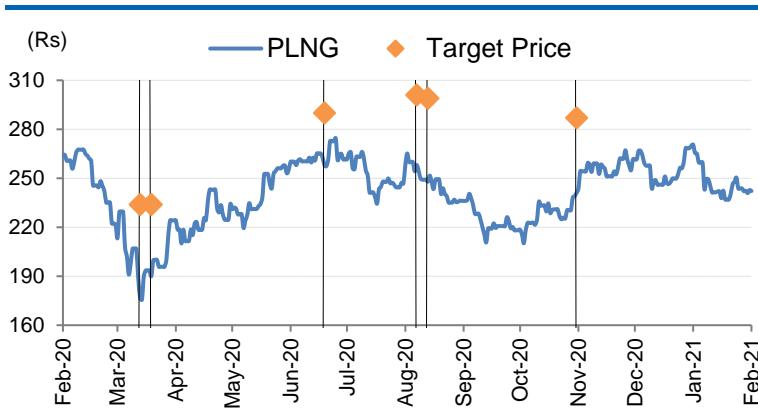


### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Mar-20	Buy	234	177
Mar-20	Buy	234	190
Jun-20	Accumulate	290	258
Aug-20	Accumulate	301	258
Aug-20	Accumulate	299	248
Nov-20	Accumulate	287	241

\*Price as on recommendation date

### DART Team

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**Analyst(s) Certification**

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