

Petronet LNG

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR235

TP: INR300 (+28%)

Buy

Turnaround in throughput; full-year outlook intact

Bloomberg	PLNG IN
Equity Shares (m)	1,500
M.Cap.(INRb)/(USD\$b)	352.3 / 4.7
52-Week Range (INR)	275 / 212
1, 6, 12 Rel. Per (%)	3/-25/-41
12M Avg Val (INR M)	1086

Financials & Valuations (INR b)

Y/E March	2022E	2023E	2024E
Sales	393.9	447.9	502.6
EBITDA	46.1	51.3	55.9
Adj. PAT	28.4	33.0	36.5
Adj. EPS (INR)	18.9	22.0	24.3
EPS Gr. (%)	-3.8	16.1	10.7
BV/Sh.(INR)	85.2	94.0	103.7

Ratios

Net D:E	-0.2	-0.3	-0.3
RoE (%)	23.2	24.5	24.6
RoCE (%)	20.2	22.2	22.9
Payout (%)	60.0	60.0	60.0

Valuations

P/E (x)	12.4	10.7	9.7
P/BV (x)	2.8	2.5	2.3
EV/EBITDA (x)	7.1	6.1	5.3
Div. Yield (%)	4.8	5.6	6.2
FCF Yield (%)	10.4	10.0	11.0

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	50.0	50.0	50.0
DII	4.7	5.1	8.4
FII	32.1	31.1	28.1
Others	13.2	13.8	13.5

FII Includes depository receipts

- Petronet LNG (PLNG) reported a beat on our estimates, led by higher-than-estimated throughput (Dahej back at >100% at 102%, after being subdued for the last three quarters, with Kochi utilization robust at ~24%).

- **The company expects spot LNG prices to cool off post the winter season.** Currently, huge demand is seen from China and Japan, with supply constraints resulting in a spike in spot LNG prices.

- **Despite the immediate challenges, the management remains confident about achieving >900tbtu in volumes for FY22** (~96% utilization, i.e., flat YoY – supported by tied up contracts). **Our numbers are in line with the aforementioned guidance, with the full-year volume assumption at 910tbtu.** Company is also looking at extending its long term contract with RasGas beyond 2028.

- Dahej is expected to be expanded to 22.5mmtpa in two phases, while Kochi would see a ramp-up in utilization from newly connected consumers. Factoring in the same, we build in an EBITDA/PAT CAGR of 6–7% over FY21–24E and maintain a Buy rating. **PLNG announced interim dividend of INR7/share (translating to dividend yield of 3% at CMP).**

- Lack of clarity on capital allocation remains the biggest risk to our call.

Beat led by better-than-estimated throughput

- **Total volumes were 9% above our estimate at 240tbtu (+15% QoQ),** despite the spike in spot LNG prices during the quarter.

- **Utilization at Dahej recovered to 102%** (225tbtu), after being subdued for the last three quarters.

- **Utilization at Kochi remains robust at 24%** (15tbtu).

- **EBITDA delivered a beat of 22% on our estimate at INR13b (+23% QoQ).**

- Net adjustments of INR653m (excluding GST) w.r.t. (use or pay charges) revenue booked earlier were recognized as an expense in 2QFY22, as the customer utilized volumes at the Kochi terminal.

- In addition, the management expects to recover the remaining INR1,330m from two customers.

- A lease accounting impact of INR1,470m and inventory gains of INR280m were recorded during the quarter.

- PAT stood at INR8.2b (EPS of INR5.5 v/s our est. of INR4.7).

- **1HFY22 EBITDA stood at INR23.5b (+3% YoY), with PAT at INR14.6b (flat YoY).** Utilization at Dahej stood at 95% (flat YoY), while that at Kochi was up to 24% (from 16% in 1HFY21).

Valuation and view – maintain Buy

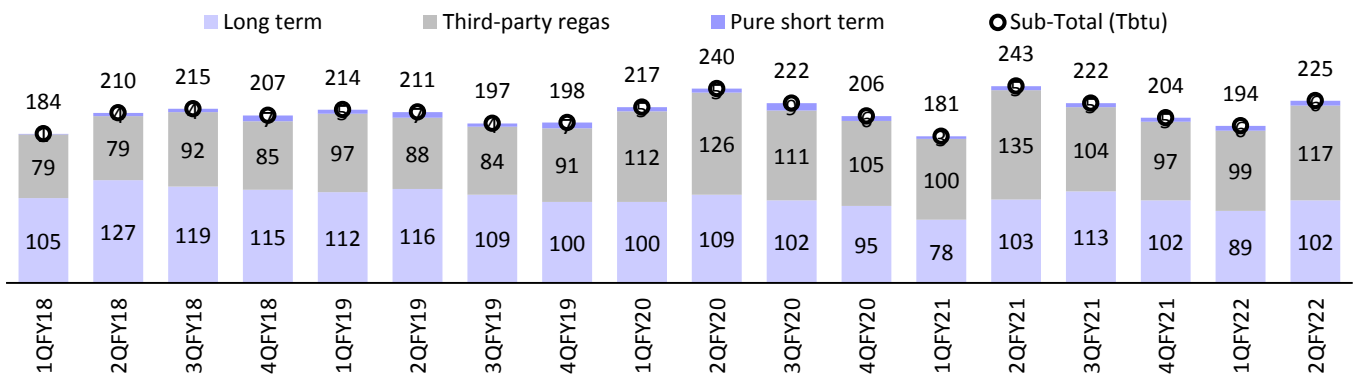
- We remain positive on the gas story in India, which is set to clock a CAGR of 6–8%, as per our gas demand-supply model. This would be supported by the development of new CGDs and increased consumption at fertilizer and refining/petchem plants.

- Currently, ~0.8mmscmd of additional gas (~0.4mmscmd by MCFL and OMPL each) is flowing from the Kochi terminal. MRPL's peak volume offtake could be ~2mmscmd. The management expects the Kochi terminal to achieve utilization of ~50% over the next two years with the completion of the Kochi-Bangalore pipeline (9-11 CGDs; and as other industrial units get connected).
- Of the capex plans announced by the company, LNG retailing would be ramped up only in phases – ~5 LNG retail outlets are likely to be opened up on the highways of southern India currently (each outlet to cost INR80-100m). The East Coast terminal, with capex of INR15b, is still under evaluation.
- The stock trades at 10.7x FY23E EPS and 6.1x FY23E EV/EBITDA. We value PLNG on a DCF basis to arrive at a fair value of INR300. Maintain Buy.

Standalone - Quarterly Earnings Model

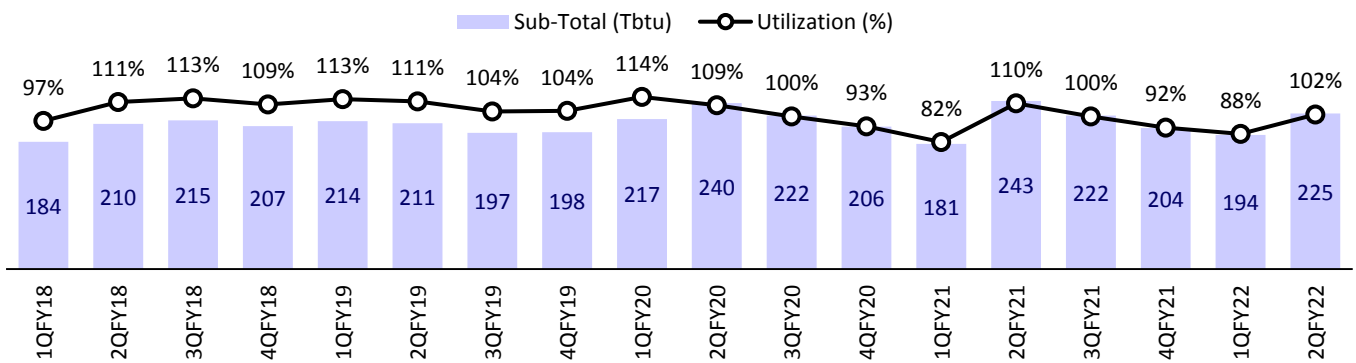
Y/E March	FY21				FY22				FY21	FY22E	FY21	Var. v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		2QE		
Net Sales	48,836	62,358	73,282	75,753	85,979	1,08,131	1,01,722	98,041	2,60,229	3,93,873	86,231	25%
YoY Change (%)	-43.3	-33.4	-17.8	-11.6	76.1	73.4	38.8	29.4	-26.6	51.4	38.3	
EBITDA	9,099	13,632	13,353	10,911	10,543	12,969	10,598	11,942	46,995	46,052	10,621	22%
Margins (%)	18.6	21.9	18.2	14.4	12.3	12.0	10.4	12.2	18.1	11.7	12.3	
Depreciation	1,936	1,952	1,925	2,028	1,916	1,936	2,062	2,173	7,841	8,087	2,022	-4%
Interest	881	850	815	813	800	794	790	776	3,360	3,161	760	4%
Other Income	684	1,596	1,111	492	685	816	1,166	1,093	3,882	3,761	1,660	-51%
PBT	6,966	12,426	11,724	8,561	8,512	11,055	8,912	10,086	39,677	38,565	9,498	16%
Rate (%)	25.3	25.4	25.1	27.2	25.3	25.6	25.2	25.3	25.7	26.4	25.2	
Reported PAT	5,202	9,273	8,785	6,234	6,357	8,230	6,666	7,531	29,494	28,384	7,105	16%
Adj PAT	5,202	9,273	8,785	6,234	6,357	8,230	6,666	7,531	29,494	28,384	7,105	16%
YoY Change (%)	-7.1	-21.1	30.1	73.6	22.2	-11.2	-24.1	20.8	6.5	-3.8	-23.4	
Margins (%)	10.7	14.9	12.0	8.2	7.4	7.6	6.6	7.7	11.3	7.2	8.2	
Key Assumptions												
Total Volumes (Tbtu)	190.0	254.0	235.0	218.0	209.0	240.0	225.1	235.8	897.0	909.9	219.6	9%
Dahej utilization (%)	82%	110%	100%	92%	88%	102%	95%	100%			93%	9%
Kochi utilization (%)	14%	17%	21%	22%	24%	24%	24%	25%			22%	8%

Exhibit 1: Dahej – total volumes at 225tbtu, down 7% YoY, but up 16% QoQ



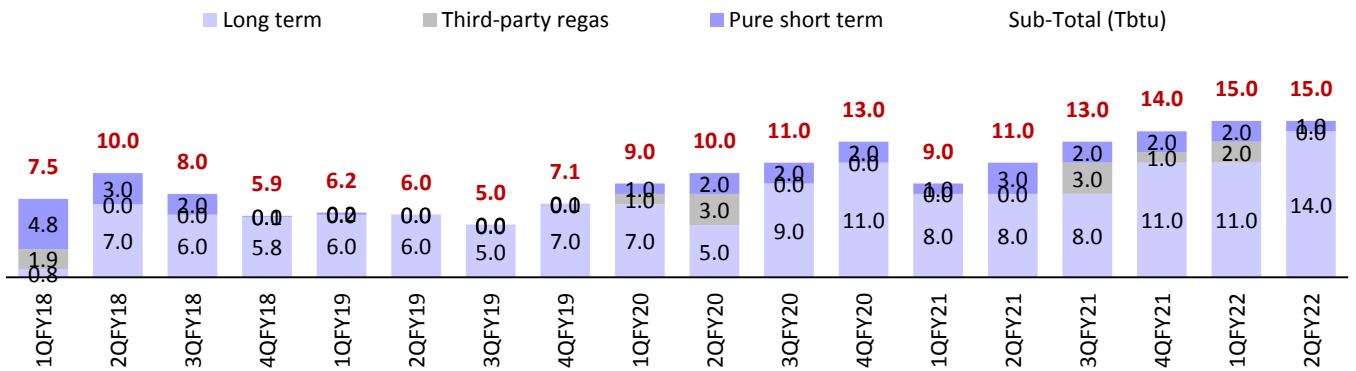
Source: Company, MOFSL

Exhibit 2: Dahej – terminal utilization at 102% in 2QFY22



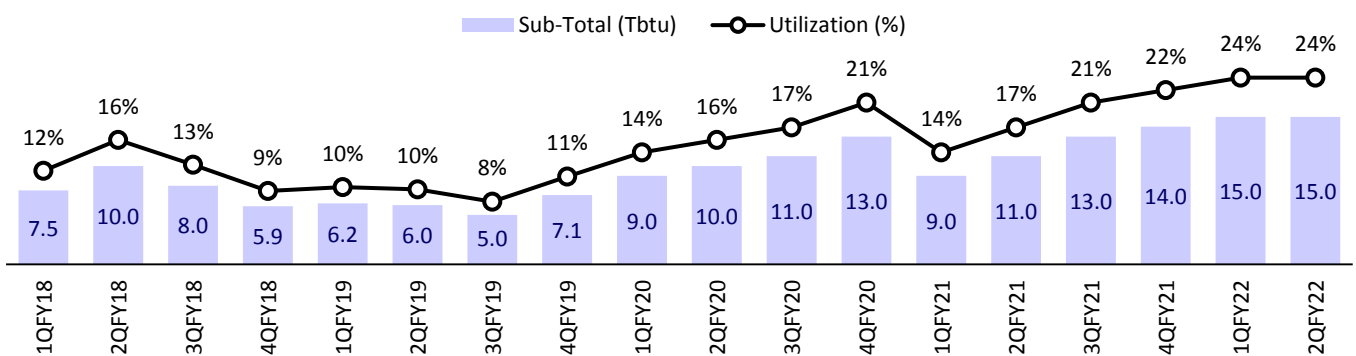
Source: Company, MOFSL

Exhibit 3: Kochi – volumes at 15tbtu, up 36% YoY, but flat QoQ



Source: Company, MOFSL

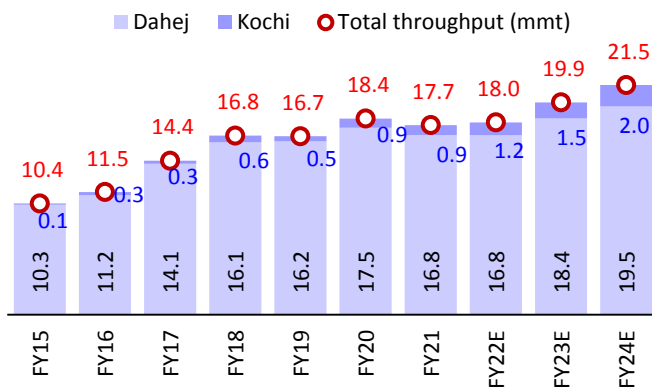
Exhibit 4: Kochi – terminal utilization at 24% in 2QFY22



Source: Company, MOFSL

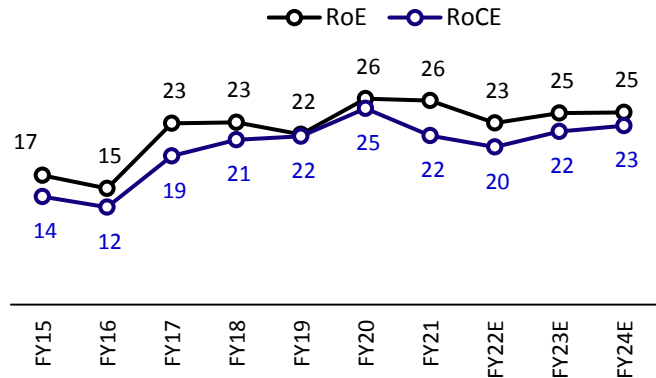
Story in charts

Exhibit 5: Volume growth led by capacity ramp-up



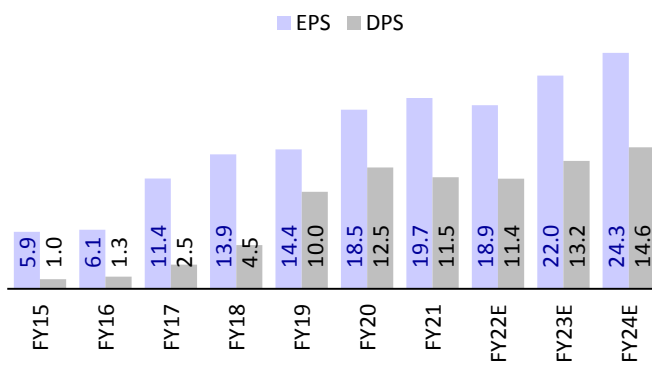
Source: Company, MOFSL

Exhibit 6: Stable return ratios



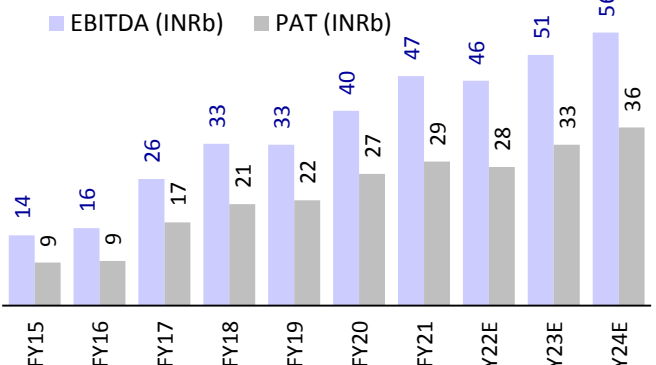
Source: Company, MOFSL

Exhibit 7: Payout to remain strong (FY22–24E at 60%)



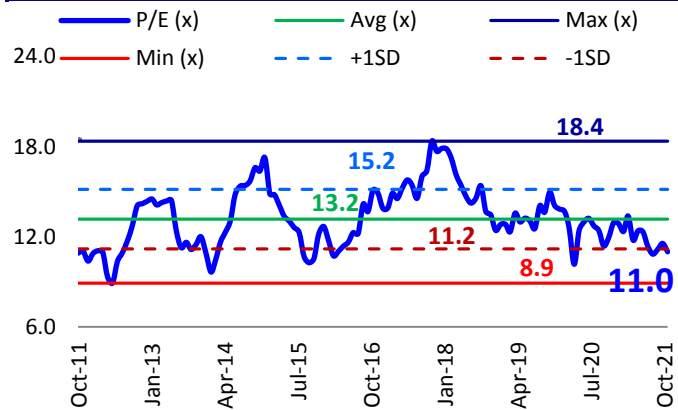
Source: Company, MOFSL

Exhibit 8: EBITDA/PAT CAGR of 6–7% over FY21–24E



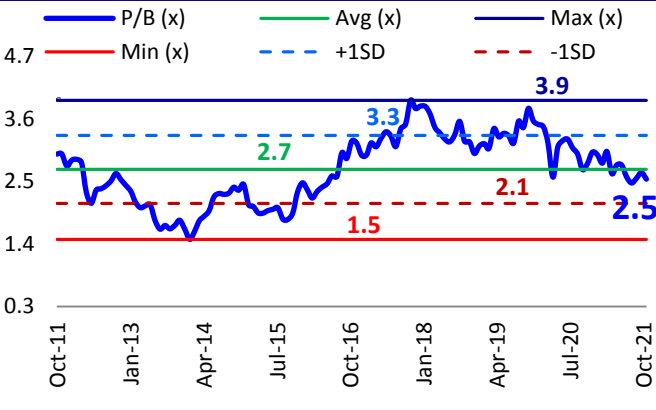
Source: Company, MOFSL

Exhibit 9: One-year forward P/E – trades at 11x



Source: Company, MOFSL

Exhibit 10: One-year forward PB – trades at 2.5x



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	2,46,160	3,05,986	3,83,954	3,54,520	2,60,229	3,93,873	4,47,857	5,02,600
Change (%)	-9.3	24.3	25.5	-7.7	-26.6	51.4	13.7	12.2
EBITDA	25,923	33,124	32,935	39,895	46,995	46,052	51,315	55,917
Margin (%)	10.5	10.8	8.6	11.3	18.1	11.7	11.5	11.1
Depreciation	3,691	4,117	4,112	7,761	7,841	8,087	8,463	9,097
EBIT	22,232	29,007	28,822	32,134	39,155	37,964	42,853	46,820
Int. and Finance Charges	2,097	1,630	989	4,032	3,360	3,161	2,890	2,504
Other Income	3,466	3,174	4,503	3,726	3,882	3,761	4,093	4,437
PBT bef. EO Exp.	23,602	30,551	32,336	31,827	39,677	38,565	44,056	48,753
EO Items	0	0	0	-721	0	0	0	0
PBT after EO Exp.	23,602	30,551	32,336	31,107	39,677	38,565	44,056	48,753
Total Tax	6,545	9,773	10,782	4,131	10,183	10,181	11,102	12,286
Tax Rate (%)	27.7	32.0	33.3	13.3	25.7	26.4	25.2	25.2
Reported PAT	17,057	20,779	21,554	26,976	29,494	28,384	32,954	36,467
Adjusted PAT	17,057	20,779	21,554	27,697	29,494	28,384	32,954	36,467
Change (%)	86.8	21.8	3.7	28.5	6.5	-3.8	16.1	10.7
Margin (%)	6.9	6.8	5.6	7.8	11.3	7.2	7.4	7.3

Standalone - Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	7,500	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Total Reserves	73,439	82,205	85,661	94,530	1,01,495	1,12,849	1,26,030	1,40,617
Net Worth	80,939	97,205	1,00,661	1,09,530	1,16,495	1,27,849	1,41,030	1,55,617
Total Loans	22,180	7,334	1,012	36,529	33,447	26,757	21,406	17,125
Deferred Tax Liabilities	7,302	10,482	13,360	8,883	8,806	8,806	8,806	8,806
Capital Employed	1,10,421	1,15,021	1,15,033	1,54,942	1,58,747	1,63,412	1,71,242	1,81,548
Gross Block	91,134	91,316	91,783	99,860	1,03,544	1,06,248	1,13,289	1,22,697
Less: Accum. Deprn.	6,903	11,020	15,132	22,894	30,734	38,822	47,284	56,381
Net Fixed Assets	84,230	80,296	76,651	76,967	72,810	67,427	66,005	66,316
Capital WIP	486	2,203	3,482	47	255	2,551	5,510	6,102
Total Investments	29,351	41,223	9,893	38,406	45,817	45,817	45,817	45,817
Curr. Assets, Loans&Adv.	24,224	32,815	60,823	71,570	70,445	93,900	1,06,537	1,22,372
Inventory	5,405	4,911	5,694	4,809	3,372	5,103	5,803	6,512
Account Receivables	12,108	16,505	14,335	16,427	19,108	28,921	32,885	36,905
Cash and Bank Balance	3,273	8,625	29,603	44,320	43,423	53,002	60,033	70,184
Cash	3,210	7,043	2,266	9,760	8,483	18,062	25,093	35,244
Bank Balance	64	1,582	27,337	34,560	34,930	34,930	34,930	34,930
Loans and Advances	3,438	2,774	11,190	6,014	4,541	6,874	7,816	8,771
Curr. Liability & Prov.	27,870	41,517	35,815	32,048	30,579	46,283	52,627	59,060
Account Payables	9,952	15,699	12,952	11,661	10,355	15,672	17,820	19,998
Other Current Liabilities	17,758	25,619	22,585	20,057	19,241	29,123	33,115	37,162
Provisions	160	199	278	330	983	1,488	1,692	1,899
Net Current Assets	-3,646	-8,702	25,007	39,522	39,866	47,617	53,910	63,312
Appl. of Funds	1,10,421	1,15,021	1,15,033	1,54,942	1,58,747	1,63,412	1,71,242	1,81,548

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
EPS	11.4	13.9	14.4	18.5	19.7	18.9	22.0	24.3
Cash EPS	13.8	16.6	17.1	23.6	24.9	24.3	27.6	30.4
BV/Share	54.0	64.8	67.1	73.0	77.7	85.2	94.0	103.7
DPS	2.5	4.5	10.0	12.5	11.5	11.4	13.2	14.6
Payout (%)	25.7	38.0	74.9	73.8	58.5	60.0	60.0	60.0
Valuation (x)								
P/E	20.6	17.0	16.3	12.7	11.9	12.4	10.7	9.7
Cash P/E	17.0	14.1	13.7	9.9	9.4	9.7	8.5	7.7
P/BV	4.4	3.6	3.5	3.2	3.0	2.8	2.5	2.3
EV/Sales	1.5	1.1	0.8	1.0	1.3	0.8	0.7	0.6
EV/EBITDA	14.3	10.6	9.8	8.6	7.3	7.1	6.1	5.3
Dividend Yield (%)	1.1	1.9	4.3	5.3	4.9	4.8	5.6	6.2
FCF per share	10.1	18.8	13.2	21.7	23.2	24.3	23.4	25.9
Return Ratios (%)								
RoE	23.2	23.3	21.8	26.4	26.1	23.2	24.5	24.6
RoCE	19.0	21.1	21.5	25.1	21.6	20.2	22.2	22.9
RoIC	23.4	28.1	28.5	38.6	41.2	42.6	52.6	58.7
Working Capital Ratios								
Fixed Asset Turnover (x)	2.7	3.4	4.2	3.6	2.5	3.7	4.0	4.1
Asset Turnover (x)	2.2	2.7	3.3	2.3	1.6	2.4	2.6	2.8
Inventory (Days)	8	6	5	5	5	5	5	5
Debtor (Days)	18	20	14	17	27	27	27	27
Creditor (Days)	15	19	12	12	15	15	15	15
Leverage Ratio (x)								
Current Ratio	0.9	0.8	1.7	2.2	2.3	2.0	2.0	2.1
Interest Cover Ratio	10.6	17.8	29.1	8.0	11.7	12.0	14.8	18.7
Net Debt/Equity	0.2	0.0	-0.3	-0.1	-0.1	-0.2	-0.3	-0.3

Standalone - Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	23,602	30,551	32,336	31,107	39,677	38,565	44,056	48,753
Depreciation	3,691	4,117	4,112	7,761	7,841	8,087	8,463	9,097
Direct Taxes Paid	-3,780	-6,968	-8,133	-4,745	-9,949	-10,181	-11,102	-12,286
(Inc)/Dec in Wkg. Capital	-3,273	2,947	-4,522	-3,964	-1,746	1,827	738	748
Others	-1,661	-2,320	-3,368	-729	-3,590	-3,761	-4,093	-4,437
CF from Op. Activity	20,675	29,956	21,414	33,462	35,592	41,459	45,045	48,817
(Inc)/Dec in FA & CWIP	-5,460	-1,753	-1,628	-889	-728	-5,000	-10,000	-10,000
Free Cash Flow	15,216	28,204	19,787	32,573	34,864	36,459	35,045	38,817
(Pur)/Sale of Investments	-25,745	-9,508	33,167	-3,273	-11,586	0	0	0
Others	-547	-1,515	-32,255	944	3,041	0	0	0
CF from Inv. Activity	-31,751	-12,776	-716	-3,218	-9,273	-5,000	-10,000	-10,000
Inc / (Dec) in Debt	-3,128	-7,052	-6,202	-138	-368	-6,689	-5,351	-4,281
Dividends Paid (incl.tax)	-2,256	-4,513	-18,083	-8,138	-22,452	-17,030	-19,772	-21,880
CF from Fin. Activity	-7,481	-13,347	-25,476	-22,749	-27,596	-26,880	-28,014	-28,666
Inc / (Dec) in Cash	-18,557	3,834	-4,778	7,495	-1,277	9,579	7,031	10,151
Add: Opening Balance	21,767	3,210	7,043	2,266	9,760	8,483	18,062	25,093
Closing Balance	3,210	7,043	2,266	9,760	8,483	18,062	25,093	35,244

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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