

Better margins drive profitability...

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

Q2FY23 Results: Petronet LNG's Q2FY23 earnings were better than estimates on all fronts.

- Revenue increased 47.8% YoY to ₹ 15985.7 crore (our estimate: ₹ 13221.3 crore)
- Total volume at 192 tbtu was down 20% YoY (our estimate: 203.2 tbtu)
- Blended margin was at ₹ 74.4/mmbtu, up ₹ 9.7/mmbtu YoY. EBITDA was at ₹ 1173 crore, down 9.6% YoY (our estimate: ₹ 1009.1 crore)
- PAT was at ₹ 744.2 crore, down 9.6% YoY (our estimate: ₹ 618.4 crore)

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

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

Target Price and Valuation: We value Petronet at ₹ 215 i.e. 11x 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
- It operates a natural gas pipeline network of 14500 km as of end of FY22



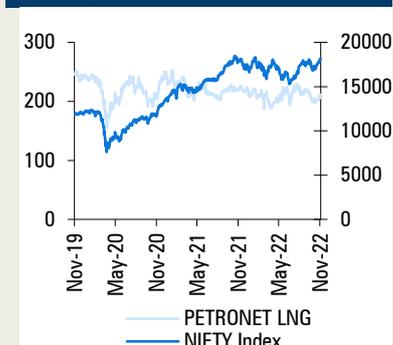
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	31,800.0
Total Debt (FY22) (₹ Crore)	3,156.2
Cash and Investments (FY22)	4,329.6
EV (₹ Crore)	30,626.6
52 week H/L	240 /190
Equity capital (₹ Crore)	1,500.0
Face value (₹)	10.0

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	50.0	50.0	50.0	50.0
FII	34.1	33.6	34.8	34.8
DII	3.2	3.4	2.9	4.1
Others	12.7	13.0	12.2	11.1

Price Chart



Recent event & key risks

- **Key Risk:** (i) Faster than expected pick-up in demand, (ii) Increase in domestic gas output can impact volume

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22	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	55,634.5	57,406.6	15.3
EBITDA (₹ crore)	3,293.4	3,989.5	4,699.5	5,252.3	15.2	4,322.6	4,610.4	(6.3)
Net Profit (₹ crore)	2,155.4	2,697.6	2,949.4	3,352.4	14.5	2,733.7	2,902.6	(7.0)
EPS (₹)	14.4	18.0	19.7	22.3		18.2	19.4	
P/E (x)	14.8	11.8	10.8	9.5		11.6	11.0	
Price / Book (x)	3.2	2.9	2.7	2.4		2.3	2.1	
EV/EBITDA (x)	9.0	7.7	6.6	5.8		6.9	6.2	
RoCE (%)	26.6	22.3	26.0	27.0		20.5	20.9	
RoE (%)	21.4	24.6	25.3	25.0		19.4	19.5	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Blended margin above expectations

- Total volume was at 192 tbtu (down 20% YoY, 7.7% QoQ), lower than estimate of 203.2 tbtu. Regas volume at 77 tbtu was lower than our estimate of 85 tbtu while sales volume was 115 tbtu against expectation of 118.2 tbtu
- The blended margin improved by ₹ 8.8/mmbtu QoQ to ₹ 74.4/mmbtu and higher than our estimate of ₹ 60.9/mmbtu

Q2FY23 Earnings Conference Call highlights

- The Board has given approval for the east coast LNG terminal. Capacity of the terminal would be 4 mmtpa and the capex for the same would be around ₹ 2306 crore
- Capex plans at Dahej are as follows- 1) Two tanks at the cost of ₹ 1246 crore (38-39% progress achieved) and one jetty at the cost of ₹ 1700 crore. 2) Extension of Dahej terminal capacity from 17.5 mmtpa to 22.5 mmtpa, with a capex of ₹ 570 crore
- Inventory gain of ₹ 118 crore and trading gain of ₹ 273 crore during the quarter. The company also witnessed forex loss of ₹ 98 crore
- Utilisation for the Dahej terminal was only 80% due to high spot LNG prices

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
GAIL (India) (GAIL)	88	95	Hold	57,861	23.3	9.9	8.8	3.8	8.9	9.9	3.2	7.1	7.8	18.8	10.3	8.6	18.6	11.1	9.4
Gujarat Gas (GUJGA)	500	480	Hold	34,420	18.9	23.4	20.9	26.4	21.4	23.9	16.4	13.5	14.6	27.0	28.2	21.8	23.1	23.2	17.9
Indraprastha Gas (INDGAS)	381	430	Hold	26,670	18.8	21.7	20.9	20.3	17.6	18.3	13.5	11.5	10.8	22.3	22.5	20.2	19.0	18.8	16.1
Mahanagar Gas (MAHGAS)	845	820	Hold	8,347	60.4	58.9	84.8	14.0	14.3	10.0	8.6	8.6	6.0	19.8	17.7	23.1	16.6	15.0	19.0
Petronet LNG (PETLNG)	212	215	Hold	31,800	22.3	18.2	19.4	9.5	11.6	11.0	5.8	6.9	6.2	27.0	20.5	20.9	25.0	19.4	19.5

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Revenues	15,985.7	13,221.3	10,813.1	47.8	14,263.8	12.1	Highest ever quarterly turnover
Raw materials costs	14,558.0	11,983.1	9,260.2	57.2	12,900.6	12.8	
Employees Cost	43.3	57.2	56.1	-22.8	45.4	-4.7	
Other Expenses	211.5	171.9	200.0	5.8	253.4	-16.5	
Total Expenditure	14,812.8	12,212.2	9,516.2	55.7	13,199.4	12.2	
EBITDA	1,173.0	1,009.1	1,296.9	-9.6	1,064.4	10.2	Better than expected on account of blended margins being above expectations
EBITDA margins (%)	7.3	7.6	12.0	-466 bps	7.5	-12 bps	
Depreciation	192.2	204.0	193.6	-0.7	191.2	0.5	
EBIT	980.7	805.1	1,103.3	-11.1	873.1	12.3	
Interest	81.1	78.9	79.4	2.1	77.9	4.2	
Other Income	94.2	102.8	81.6	15.4	141.8	-33.5	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	993.9	828.9	1,105.5	-10.1	937.1	6.1	
Total Tax	249.6	210.6	282.5	-11.6	236.2	5.7	
PAT	744.2	618.4	823.0	-9.6	700.9	6.2	

Key Metrics

Sales volume (tbtu)	115.0	118.2	123.0	-6.5	114.0	0.9	
Regasification vol (tbtu)	77.0	85.0	117.0	-34.2	94.0	-18.1	
Total Volumes (tbtu)	192.0	203.2	240.0	-20.0	208.0	-7.7	Lower than estimates
Blended margin ₹/mmbtu	74.4	60.9	64.7	14.9	65.5	13.5	Better than estimates

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			
	Old	New	Change	Old	New	Change	
Revenue	52730.6	55634.5	5.5	56382.4	57,406.6	1.8	Revised volume estimates taking into account current trend
EBITDA	4,228.4	4,322.6	2.2	4589.4	4,610.4	0.5	
EBITDA Margin (%)	8.0	7.8	-25 bps	8.1	8.0	-11 bps	
PAT	2,658.1	2,733.7	2.8	2879.7	2,902.6	0.8	
EPS (₹)	17.7	18.2	2.8	19.2	19.4	0.8	

Source: ICICI Direct Research

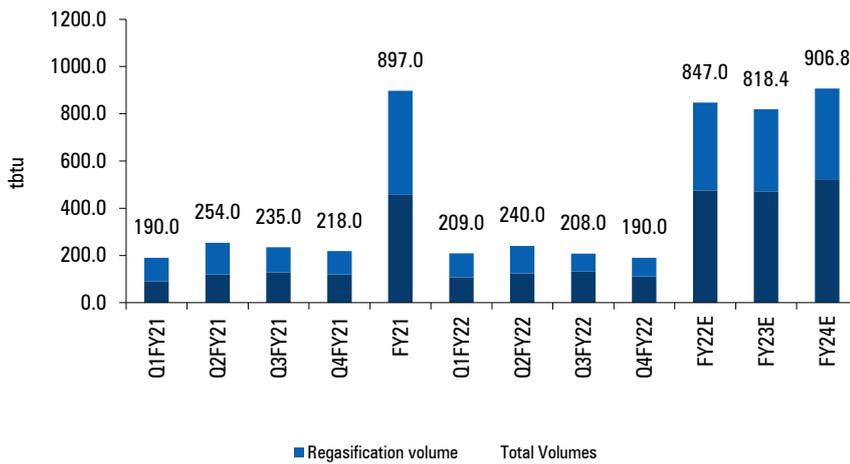
Exhibit 4: Assumptions

	Current				Earlier		
	FY21	FY22E	FY23E	FY24E	FY23E	FY24E	
Sales volume (tbtu)	457.0	475.0	471.4	522.8	478.6	519.8	
Regasification vol (tbtu)	440.0	372.0	347.0	384.0	361.0	385.0	Reduced estimates as we factor in high LNG prices that are likely to impact volume
Total Volumes (tbtu)	897.0	847.0	818.4	906.8	839.6	904.8	
Blended Margin ₹/mmbtu	59.5	71.9	65.0	63.0	61.9	62.7	

Source: ICICI Direct Research

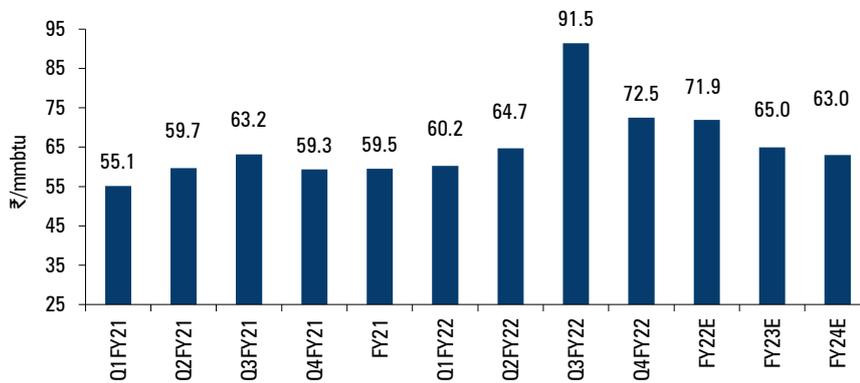
Story in charts

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
Total	15.75

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Revenue	26022.9	43168.6	55634.5	57406.6	
Growth (%)	-26.6	65.9	28.9	3.2	
(Inc.) / Dec stock in trade	0.0	0.0	0.0	0.0	
Raw material Costs	20681.5	37077.5	50315.5	51693.1	
Purchase of trading goods	0.0	0.0	0.0	0.0	
Employee Costs	147.1	177.1	176.2	213.3	
Other Expenditure	494.8	661.7	820.3	889.8	
Op. Expenditure	21323.4	37916.2	51312.0	52796.2	
EBITDA	4699.5	5252.3	4322.6	4610.4	
Growth (%)	17.8	11.8	-17.7	6.7	
Depreciation	784.1	768.5	789.0	847.0	
EBIT	3915.5	4483.9	3533.5	3763.4	
Interest	336.0	317.3	316.8	315.6	
Other Income	388.2	307.3	441.5	443.0	
PBT	3967.7	4473.8	3658.3	3890.8	
Growth (%)	27.6	12.8	-18.2	6.4	
Tax	1018.3	1121.5	924.5	988.3	
Reported PAT	2949.4	3352.4	2733.7	2902.6	
Growth (%)	9.3	13.7	-18.5	6.2	
EPS	19.7	22.3	18.2	19.4	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit after Tax	2,949.4	3,352.4	2,733.7	2,902.6	
Add: Depreciation	784.1	768.5	789.0	847.0	
Add: Others	-7.7	-48.2	100.0	100.0	
Cash Profit	3,725.8	4,072.6	3,622.8	3,849.5	
Increase/(Decrease) in CL	-401.0	688.6	988.3	462.8	
(Increase)/Decrease in CA	-1,177.6	-2,788.0	-221.8	-116.5	
CF from Operating Activi	2147.2	1973.1	4389.3	4195.8	
Purchase of Fixed Assets	-70.1	179.7	1,332.8	1,100.0	
(Inc)/Dec in Investments	0.0	-10.0	0.0	0.0	
Others	0.0	0.0	0.0	0.0	
CF from Investing Activi	70.1	-189.7	-1,332.8	-1,100.0	
Inc/(Dec) in Loan Funds	-54.2	-229.9	0.0	0.0	
Inc/(Dec) in Sh. Cap. & Res.	-248.4	428.1	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	
CF from financing activiti	-2,058.6	-2,234.3	-2,091.6	-2,091.6	
Change in cash Eq.	-89.7	-22.8	964.9	1,004.2	
Op. Cash and cash Eq.	4,432.0	4,342.3	4,319.6	5,284.5	
Cl. Cash and cash Eq.	4,342.3	4,319.6	5,284.5	6,288.6	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
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	10,149.5	11,925.5	12,567.7	13,378.6	
Shareholder's Fund	11,649.5	13,425.5	14,067.7	14,878.6	
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	
Source of Funds	15916.2	17414.1	18156.2	19067.2	
Application of Funds					
Gross Block	13,367.5	13,338.2	14,177.9	15,077.9	
Less: Acc. Depreciation	3,054.4	3,781.0	4,657.5	5,504.5	
Net Block	10,313.2	9,557.2	9,520.4	9,573.4	
Capital WIP	25.5	192.6	773.2	973.2	
Total Fixed Assets	10,338.6	9,749.8	10,293.6	10,546.6	
Investments	164.4	174.4	174.4	174.4	
Inventories	337.2	576.7	914.5	943.7	
Debtor	1,874.5	2,684.4	2,743.6	2,831.0	
Cash	4,342.3	4,319.6	5,284.5	6,288.6	
Loan & Advance, Other CA	1875.6	3614.2	3439.0	3439.0	
Total Current assets	8429.6	11194.9	12381.6	13502.3	
Current Liabilities	2918.2	3584.7	4572.7	5032.9	
Provisions	98.3	120.3	120.6	123.2	
Total CL and Provisions	3016.5	3705.0	4693.3	5156.1	
Net Working Capital	5413.2	7489.9	7688.3	8346.2	
Miscellaneous expense	0.0	0.0	0.0	0.0	
Application of Funds	15916.2	17414.1	18156.2	19067.2	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Book Value	77.7	89.5	93.8	99.2
Cash per share	28.9	28.8	35.2	41.9
EPS	19.7	22.3	18.2	19.4
Cash EPS	24.9	27.5	23.5	25.0
DPS	11.5	11.5	12.0	12.0
Profitability & Operating Ratios				
EBITDA Margin (%)	18.1	12.2	7.8	8.0
PAT Margin (%)	11.3	7.8	4.9	5.1
Fixed Asset Turnover (x)	2.5	4.4	5.4	5.4
Inventory Turnover (Days)	4.7	4.9	6.0	6.0
Debtor (Days)	26.3	22.7	18.0	18.0
Current Liabilities (Days)	40.9	30.0	30.0	32.0
Return Ratios (%)				
RoE	25.3	25.0	19.4	19.5
RoCE	26.0	27.0	20.5	20.9
RoIC	36.6	36.6	29.6	32.1
Valuation Ratios (x)				
PE	10.8	9.5	11.6	11.0
Price to Book Value	2.7	2.4	2.3	2.1
EV/EBITDA	6.6	5.8	6.9	6.2
EV/Sales	1.2	0.7	0.5	0.5
Leverage & Solvency Ratios				
Debt to equity (x)	0.3	0.2	0.2	0.2
Interest Coverage (x)	11.7	14.1	11.2	11.9
Debt to EBITDA (x)	0.7	0.6	0.7	0.7
Current Ratio	2.8	3.0	2.6	2.6
Quick ratio	2.7	2.9	2.4	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 (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	305	350	Hold	64,948	41.3	-19.3	49.9	7.4	-15.8	6.1	6.3	170.6	5.3	13.2	-5.7	14.8	17.7	-9.0	20.5
GAIL (India) (GAIL)	88	95	Hold	57,861	23.3	9.9	8.8	3.8	8.9	9.9	3.2	7.1	7.8	18.8	10.3	8.6	18.6	11.1	9.4
Gujarat Gas (GUJGA)	500	480	Hold	34,420	18.9	23.4	20.9	26.4	21.4	23.9	16.4	13.5	14.6	27.0	28.2	21.8	23.1	23.2	17.9
HPCL (HINPET)	204	220	Hold	28,946	44.9	-39.6	47.8	4.5	-5.2	4.3	7.4	-17.4	6.4	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	68	75	Hold	96,024	17.1	3.4	14.0	4.0	19.9	4.8	2.2	4.9	2.3	12.9	2.9	10.1	18.4	3.8	14.8
Indraprastha Gas (INDGAS)	381	430	Hold	26,670	18.8	21.7	20.9	20.3	17.6	18.3	13.5	11.5	10.8	22.3	22.5	20.2	19.0	18.8	16.1
Mahanagar Gas (MAHGAS)	845	820	Hold	8,347	60.4	58.9	84.8	14.0	14.3	10.0	8.6	8.6	6.0	19.8	17.7	23.1	16.6	15.0	19.0
ONGC (ONGC)	124	135	Hold	1,59,133	8.9	32.0	37.1	13.9	3.9	3.3	5.4	2.8	2.0	4.5	14.8	20.9	5.5	17.0	17.3
Petronet LNG (PETLNG)	212	215	Hold	31,800	22.3	18.2	19.4	9.5	11.6	11.0	5.8	6.9	6.2	27.0	20.5	20.9	25.0	19.4	19.5
Reliance Industries (RELIND)	2,472	2,700	Hold	16,72,274	89.7	94.5	118.0	27.5	26.2	20.9	18.0	13.6	11.2	7.1	8.7	10.3	7.8	7.6	8.7

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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