

# Petronet LNG

BSE SENSEX

57,654

S&amp;P CNX

16,986

CMP: INR224 TP: INR210 (-6%)

Neutral



## Stock Info

Bloomberg	PLNG IN
Equity Shares (m)	1500
M.Cap.(INRb)/(USD\$b)	335.3 / 4.1
52-Week Range (INR)	240 / 185
1, 6, 12 Rel. Per (%)	4/11/15
12M Avg Val (INR M)	462
Free float (%)	50.0

## Financials Snapshot (INR b)

Y/E March	FY23E	FY24E	FY25E
Sales	564.6	552.2	545.7
EBITDA	48.1	43.1	43.2
Adj. PAT	31.3	28.1	28.6
Adj. EPS (INR)	20.8	18.7	19.1
EPS Gr. (%)	-6.7	-10.1	1.8
BV/Sh.(INR)	99.6	108.7	118.0

## Ratios

Net D:E	-0.3	-0.4	-0.4
RoE (%)	22.0	18.0	16.8
RoCE (%)	23.7	19.2	17.7
Payout (%)	51.5	51.5	51.5

## Valuation

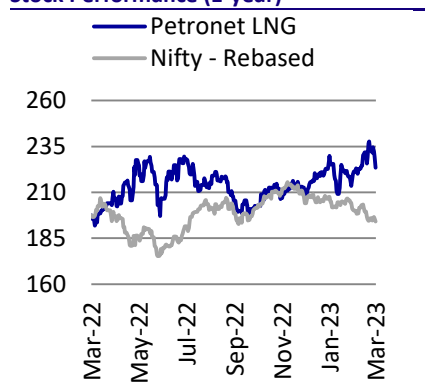
P/E (x)	10.7	11.9	11.7
P/BV (x)	2.2	2.0	1.9
EV/EBITDA (x)	5.9	6.3	6.0
Div. Yield (%)	4.8	4.3	4.4

## Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	50.0	50.0	50.0
DII	4.1	4.1	3.2
FII	34.9	34.8	34.1
Others	11.0	11.1	12.7

FII Includes depository receipts

## Stock Performance (1-year)



## Suffering from classic Dutch Disease

- During 9MFY23, PLNG's throughput declined 14% YoY, due to record-high LNG prices, driven by Russia-Ukraine crisis.
- LNG prices have now cooled off to ~USD12/mmBtu, which should lead to improvement in utilization levels in the near term. However, long-term growth challenges persist, due to 25% increase in domestic gas supply next year and 86% increase in LNG terming capacity over the next few years.
- Additionally, the sustainability of the company's high return ratios is a concern since ROCE for upcoming projects (Dahej expansion, Gopalpur FSRU and PDH-PP plant) is expected to be comparatively lower at 7-18%. Hence, we reiterate our neutral rating on the stock with a TP of INR210.

## Bleak growth prospects for LNG terminalling business

- PLNG's throughput has declined 14% YoY to 567 Tbtu in 9MFY23 from 657 Tbtu in 9MFY22, on account of elevated LNG prices, driven by geopolitical tensions.
- LNG prices cooling off to ~USD12/mmBtu currently from peak of USD54/mmBtu in Aug'22 should improve utilization levels in the near term; however, long-term throughput growth prospects remain bleak, due to the competitive environment.
- Domestic gas supply is set to rise by ~12/10mmscmd from RIL/ONGC, respectively, which could result in India's LNG demand remaining flat YoY at ~75mmscmd in CY23, even after assuming 15% growth in total gas consumption.
- Furthermore, India's LNG terminalling capacity is set to increase by 86% over the next few years from 4.5mmtpa Swan LNG terminal, 5mmtpa Chhara LNG terminal, 5mmtpa Dhamra LNG terminal, debottlenecking of GSPC's 5mmtpa LNG terminal's evacuation pipeline and completion of breakwater facility at 5mmtpa Dabhol LNG terminal.

## Concerns on sustainability of high return ratios

- PLNG has a net cash of INR31b as of 1HFY23. Utilization of cash appears to be a concern with announcements of PDH-PP project. Additionally, capacity expansion amidst rising competitive intensity is expected to dilute return ratios.
- Our estimates suggest that the ROCE for the petrochemical plant could be around 7%, significantly lesser than PLNG's average ROCE of ~20% over the past decade.
- Similarly, the ROCE for the ongoing Dahej expansion and Gopalpur FSRU are expected to be around 15% and 18% respectively, both assuming utilization of 60%, which still looks challenging considering the competitive intensity.

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**Valuation and view**

- PLNG not only suffers from sustainability of its EPS growth but also from a classic Dutch Disease. The net cash of INR31b has become an eye sore for investors as growth opportunities in LNG terminalling have become bleaker and the company is forced to invest in more volatile areas such as gas-based petrochemicals, compressed bio-gas as well as LNG trucking.
- The company currently trades at 11.9x FY25 EPS of INR18.7. We value the company at 11x FY25 EPS of INR19.1 to arrive at our TP of INR210 and reiterate our Neutral rating.

**Exhibit 1: ROCE calculation for PDH-PP plant**

<b>Project details:</b>		
Capex (INRb)	142	
Polypropylene Capacity (mmtpa)	0.5	
Propane required (mmtpa)	0.75	❖ 750mtpa of propane would generate 500mtpa of polypropylene & 250mtpa of Propylene
<b>ROCE for PDH-PP</b>		<b>FY27</b>
Gross margin (USD/0.75mt of P)	410	❖ Average margin since Jan'14
Production (mmtpa)		
PP	0.5	
Propylene	0.25	
Opex (USD/mt)	100	
EBITDA (USD/0.75mt of P)	310	
INR/USD	85	
<b>P&amp;L for PDH-PP (INRmn)</b>		<b>FY27</b>
EBITDA	19,757	
Depreciation	7,100	❖ Assumed 5% annual depreciation
EBIT	12,657	
<b>ROCE for PDH-PP</b>		<b>7</b>

Source: Company, MOFSL

**Exhibit 2: ROCE calculation for capacity expansion at Dahej terminal**

<b>Capex plans at Dahej (INRb)</b>		
Two tanks	12	
Third jetty	17	
Capacity Expansion	6	
<b>Total</b>	<b>35</b>	
<b>ROCE for incremental capacity at Dahej</b>		<b>FY27</b>
Incremental capacity added (mmtpa)	5	❖ Assumed FY27 to be first year of stable operations
Utilization expected (%)	60	❖ Capacity to increase to 22.5mmtpa from 17.5mmtpa
Volume (mmt)	3	
Tariff (INR/mmBtu)	70	❖ 5% annual acceleration on existing tariff of USD60/mmBtu
<b>P&amp;L (INR m)</b>		
Revenues	10,616	
Opex (INR/mmBtu)	12	❖ Actual during recent quarters
EBITDA	8,796	
Depreciation	1,758	❖ Assumed 5% annual depreciation
PBT	7,038	
Tax	1,771	
PAT	5,266	
<b>ROCE (%)</b>		<b>15</b>

Source: Company, MOFSL

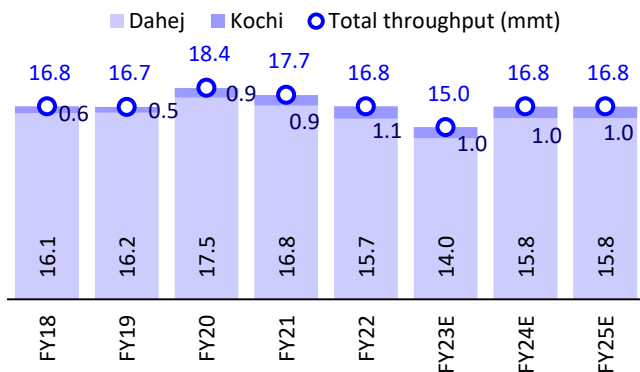
**Exhibit 3: ROCE calculation for Gopalpur FSRU**

<b>Capex outlay for Gopalpur FSRU (INRb)</b>	<b>23</b>	
<b>ROCE for the FSRU</b>	<b>FY27</b>	<b>❖ Assumed FY27 to be first year of stable operations</b>
Capacity (mmtpa)	4	
Utilization assumed (%)	60	
Volume (mmt)	2	
Tariff (INR/mmBtu)	70	❖ 5% annual acceleration on existing tariff of ~USD60/mmBtu at Dahej terminal
<b>P&amp;L (INRmn)</b>		
Revenues	8,492	
Opex (INR/mmBtu)	15	❖ Assumed 25% higher opex compared to Dahej due to cost for arrangement of ship for FSRU
EBITDA	6,673	
Depreciation	1,150	❖ Assumed 5% annual depreciation
PBT	5,523	
Tax	1,390	
PAT	4,133	
<b>ROCE (%)</b>	<b>18</b>	

Source: Company, MOFSL

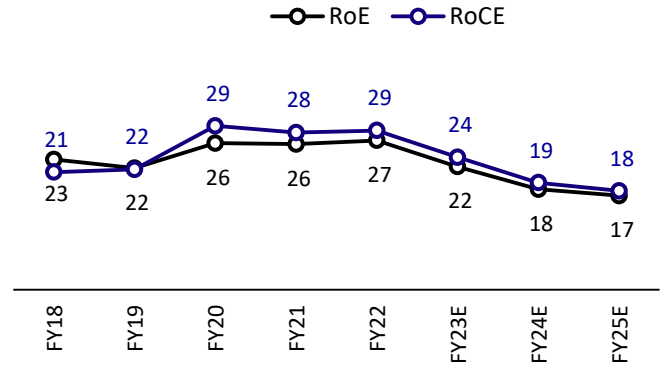
## Story in charts

**Exhibit 4: Volume snapshot for PLNG**



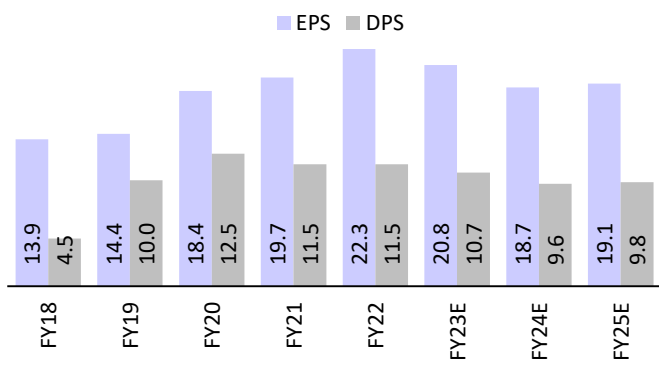
Source: Company, MOFSL

**Exhibit 5: Return ratios profile**



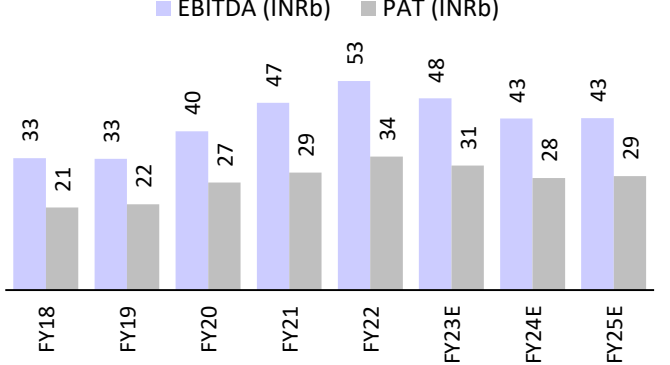
Source: Company, MOFSL

**Exhibit 6: Payout ratios for PLNG**



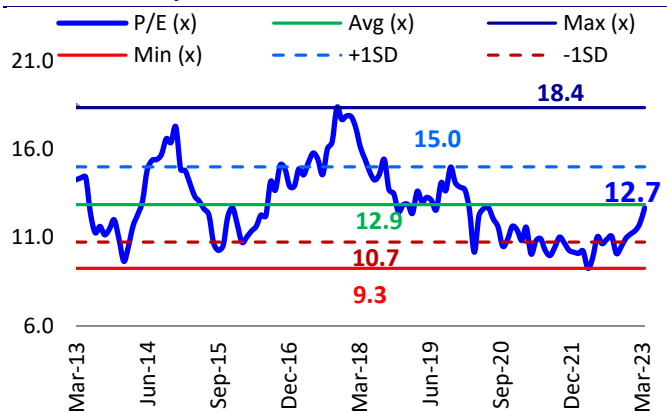
Source: Company, MOFSL

**Exhibit 7: EBITDA/PAT to grow**



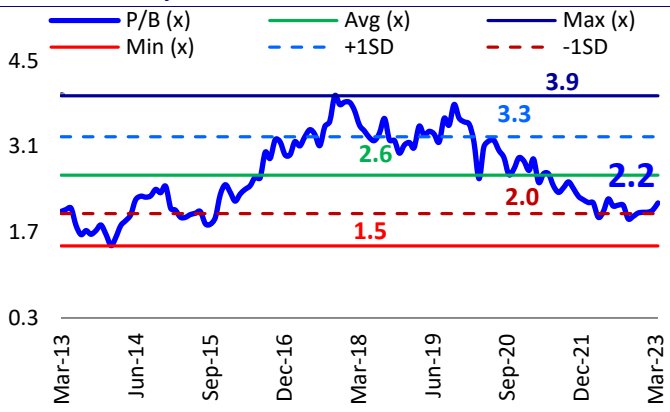
Source: Company, MOFSL

**Exhibit 8: One-year forward P/E - trades at 12.7x**



Source: Company, MOFSL

**Exhibit 9: One-year forward PB - trades at 10.1x**



Source: Company, MOFSL

## Financials and Valuations

### Standalone - Income Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Total Income from Operations</b>	<b>306.0</b>	<b>384.0</b>	<b>354.5</b>	<b>260.2</b>	<b>431.7</b>	<b>564.6</b>	<b>552.2</b>	<b>545.7</b>
Change (%)	24.3	25.5	-7.7	-26.6	65.9	30.8	-2.2	-1.2
<b>EBITDA</b>	<b>33.1</b>	<b>32.9</b>	<b>39.9</b>	<b>47.0</b>	<b>52.5</b>	<b>48.1</b>	<b>43.1</b>	<b>43.2</b>
Margin (%)	10.8	8.6	11.3	18.1	12.2	8.5	7.8	7.9
Depreciation	4.1	4.1	7.8	7.8	7.7	8.0	8.6	9.3
<b>EBIT</b>	<b>29.0</b>	<b>28.8</b>	<b>32.1</b>	<b>39.2</b>	<b>44.8</b>	<b>40.1</b>	<b>34.5</b>	<b>33.9</b>
Int. and Finance Charges	1.6	1.0	4.0	3.4	3.2	3.3	2.5	2.0
Other Income	3.2	4.5	3.7	3.9	3.1	5.0	5.6	6.4
<b>PBT bef. EO Exp.</b>	<b>30.6</b>	<b>32.3</b>	<b>31.8</b>	<b>39.7</b>	<b>44.7</b>	<b>41.9</b>	<b>37.6</b>	<b>38.3</b>
EO Items	0.0	0.0	-0.7	0.0	0.0	0.0	0.0	0.0
<b>PBT after EO Exp.</b>	<b>30.6</b>	<b>32.3</b>	<b>31.1</b>	<b>39.7</b>	<b>44.7</b>	<b>41.9</b>	<b>37.6</b>	<b>38.3</b>
Total Tax	9.8	10.8	4.1	10.2	11.2	10.6	9.5	9.6
Tax Rate (%)	32.0	33.3	13.3	25.7	25.1	25.3	25.2	25.2
<b>Reported PAT</b>	<b>20.8</b>	<b>21.6</b>	<b>27.0</b>	<b>29.5</b>	<b>33.5</b>	<b>31.3</b>	<b>28.1</b>	<b>28.6</b>
<b>Adjusted PAT</b>	<b>20.8</b>	<b>21.6</b>	<b>27.6</b>	<b>29.5</b>	<b>33.5</b>	<b>31.3</b>	<b>28.1</b>	<b>28.6</b>
Change (%)	21.8	3.7	28.1	6.9	13.7	-6.7	-10.1	1.8
Margin (%)	6.8	5.6	7.8	11.3	7.8	5.5	5.1	5.2

### Standalone - Balance Sheet

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Total Reserves	82.2	85.7	94.5	101.5	119.3	134.4	148.1	162.0
<b>Net Worth</b>	<b>97.2</b>	<b>100.7</b>	<b>109.5</b>	<b>116.5</b>	<b>134.3</b>	<b>149.4</b>	<b>163.1</b>	<b>177.0</b>
Total Loans	7.3	1.0	0.6	0.6	0.2	0.2	0.1	0.1
Deferred Tax Liabilities	10.5	13.4	8.9	8.8	8.3	8.3	8.3	8.3
<b>Capital Employed</b>	<b>115.0</b>	<b>115.0</b>	<b>119.1</b>	<b>125.9</b>	<b>142.8</b>	<b>157.9</b>	<b>171.6</b>	<b>185.4</b>
Gross Block	91	92	100	104	107	113	123	133
Less: Accum. Deprn.	11	15	23	31	38	46	55	64
<b>Net Fixed Assets</b>	<b>80</b>	<b>77</b>	<b>77</b>	<b>73</b>	<b>68</b>	<b>67</b>	<b>68</b>	<b>68</b>
Capital WIP	2	3	0	0	2	5	6	6
<b>Total Investments</b>	<b>41</b>	<b>10</b>	<b>38</b>	<b>46</b>	<b>38</b>	<b>38</b>	<b>38</b>	<b>38</b>
Lease Liabilities			36	33	31	31	31	31
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>33</b>	<b>61</b>	<b>72</b>	<b>70</b>	<b>103</b>	<b>128</b>	<b>139</b>	<b>152</b>
Inventory	5	6	5	3	6	8	7	7
Account Receivables	17	14	16	19	27	35	34	34
Cash and Bank Balance	9	30	44	43	43	49	62	76
Cash	7	2	10	8	10	17	29	43
Bank Balance	2	27	35	35	33	33	33	33
Loans and Advances	3	11	6	5	27	36	35	35
<b>Curr. Liability &amp; Prov.</b>	<b>42</b>	<b>36</b>	<b>32</b>	<b>30</b>	<b>37</b>	<b>48</b>	<b>47</b>	<b>47</b>
Account Payables	16	13	12	10	15	20	20	19
Other Current Liabilities	26	23	20	18	21	27	26	26
Provisions	0	0	0	1	1	2	2	2
<b>Net Current Assets</b>	<b>-9</b>	<b>25</b>	<b>40</b>	<b>40</b>	<b>66</b>	<b>79</b>	<b>92</b>	<b>105</b>
<b>Appl. of Funds</b>	<b>115</b>	<b>115</b>	<b>155</b>	<b>159</b>	<b>174</b>	<b>189</b>	<b>203</b>	<b>217</b>

## Financials and Valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>13.9</b>	<b>14.4</b>	<b>18.4</b>	<b>19.7</b>	<b>22.3</b>	<b>20.8</b>	<b>18.7</b>	<b>19.1</b>
Cash EPS	16.6	17.1	23.6	24.9	27.5	26.2	24.5	25.3
BV/Share	64.8	67.1	73.0	77.7	89.5	99.6	108.7	118.0
DPS	4.5	10.0	12.5	11.5	11.5	10.7	9.6	9.8
Payout (%)	38.0	74.9	73.8	58.5	51.5	51.5	51.5	51.5
<b>Valuation (x)</b>								
P/E	16.1	15.5	12.1	11.3	10.0	10.7	11.9	11.7
Cash P/E	13.4	13.0	9.4	8.9	8.1	8.5	9.1	8.8
P/BV	3.4	3.3	3.0	2.9	2.5	2.2	2.0	1.9
EV/Sales	1.1	0.8	0.8	1.1	0.7	0.5	0.5	0.5
EV/EBITDA	10.0	9.3	7.3	6.2	5.5	5.9	6.3	6.0
Dividend Yield (%)	2.0	4.5	5.6	5.2	5.2	4.8	4.3	4.4
FCF per share	18.8	13.2	21.7	23.2	22.7	17.0	19.9	20.2
<b>Return Ratios (%)</b>								
RoE	23.3	21.8	26.3	26.1	26.7	22.0	18.0	16.8
RoCE	21.1	21.5	29.4	28.1	28.5	23.7	19.2	17.7
RoIC	28.1	28.5	51.4	80.0	69.6	47.6	39.3	38.5
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	3.4	4.2	3.6	2.5	4.0	5.0	4.5	4.1
Asset Turnover (x)	2.7	3.3	2.3	1.6	2.5	3.0	2.7	2.5
Inventory (Days)	6	5	5	5	5	5	5	5
Debtor (Days)	20	14	17	26	23	23	23	23
Creditor (Days)	19	12	12	15	13	13	13	13
<b>Leverage Ratio (x)</b>								
Current Ratio	0.8	1.7	2.2	2.4	2.8	2.6	2.9	3.2
Interest Cover Ratio	17.8	29.1	8.0	11.7	14.1	12.3	13.9	17.0
Net Debt/Equity	0.0	-0.3	-0.4	-0.4	-0.3	-0.3	-0.4	-0.4

### Standalone - Cash Flow Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	31	32	31	40	45	42	38	38
Depreciation	4	4	8	8	8	8	9	9
Interest and Finance charges	2	1	4	3	3	3	2	2
Direct Taxes Paid	-7	-8	-5	-10	-13	-11	-9	-10
(Inc)/Dec in Wkg. Capital	3	-5	-4	-2	-6	-7	1	0
Others	-2	-3	-1	-4	-2	-5	-6	-6
<b>CF from Op. Activity</b>	<b>30</b>	<b>21</b>	<b>33</b>	<b>36</b>	<b>35</b>	<b>36</b>	<b>40</b>	<b>40</b>
(Inc)/Dec in FA & CWIP	-2	-2	-1	-1	-1	-10	-10	-10
<b>Free Cash Flow</b>	<b>28</b>	<b>20</b>	<b>33</b>	<b>35</b>	<b>34</b>	<b>26</b>	<b>30</b>	<b>30</b>
(Pur)/Sale of Investments	-10	33	-3	-12	6	0	0	0
Others	-2	-32	1	3	-15	0	0	0
<b>CF from Inv. Activity</b>	<b>-13</b>	<b>-1</b>	<b>-3</b>	<b>-9</b>	<b>-11</b>	<b>-10</b>	<b>-10</b>	<b>-10</b>
Inc / (Dec) in Debt	-7	-6	0	0	0	0	0	0
Interest paid	-2	-1	-2	-3	-3	-3	-2	-2
Dividends Paid (incl.tax)	-5	-18	-8	-22	-16	-16	-14	-15
<b>CF from Fin. Activity</b>	<b>-13</b>	<b>-25</b>	<b>-23</b>	<b>-28</b>	<b>-22</b>	<b>-19</b>	<b>-17</b>	<b>-17</b>
<b>Inc / ( Dec) in Cash</b>	<b>4</b>	<b>-5</b>	<b>7</b>	<b>-1</b>	<b>2</b>	<b>6</b>	<b>13</b>	<b>14</b>
Add: Opening Balance	3	7	2	10	8	10	17	29
<b>Closing Balance</b>	<b>7</b>	<b>2</b>	<b>10</b>	<b>8</b>	<b>10</b>	<b>17</b>	<b>29</b>	<b>43</b>

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 be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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