

October 31, 2023

Q2FY24 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

| | Current | | Previous | |
|----------------|---------|-------|----------|-------|
| | FY24E | FY25E | FY24E | FY25E |
| Rating | HOLD | | BUY | |
| Target Price | 208 | | 225 | |
| Sales (Rs.bn) | 558 | 548 | 558 | 548 |
| % Chng. | - | - | - | - |
| EBITDA (Rs.bn) | 44 | 44 | 44 | 44 |
| % Chng. | - | - | - | - |
| EPS (Rs.) | 19.0 | 19.0 | 18.9 | 18.8 |
| % Chng. | 0.4 | 1.0 | - | - |

Key Financials - Standalone

| Y/e Mar | FY23 | FY24E | FY25E | FY26E |
|-----------------|-------|--------|-------|-------|
| Sales (Rs. bn) | 599 | 558 | 548 | 561 |
| EBITDA (Rs. bn) | 49 | 44 | 44 | 45 |
| Margin (%) | 8.1 | 7.9 | 8.1 | 8.0 |
| PAT (Rs. bn) | 32 | 28 | 28 | 29 |
| EPS (Rs.) | 21.6 | 19.0 | 19.0 | 19.2 |
| Gr. (%) | (3.4) | (12.0) | (0.1) | 1.0 |
| DPS (Rs.) | 10.0 | 8.8 | 8.8 | 8.9 |
| Yield (%) | 5.0 | 4.4 | 4.4 | 4.4 |
| RoE (%) | 22.8 | 18.2 | 16.5 | 15.3 |
| RoCE (%) | 28.8 | 22.8 | 20.2 | 18.5 |
| EV/Sales (x) | 0.4 | 0.4 | 0.4 | 0.4 |
| EV/EBITDA (x) | 5.1 | 5.3 | 5.1 | 4.7 |
| PE (x) | 9.3 | 10.6 | 10.6 | 10.5 |
| P/BV (x) | 2.0 | 1.8 | 1.7 | 1.5 |

Key Data

PLNG.BO | PLNG IN

| | | |
|---------------------|---------------------|--|
| 52-W High / Low | Rs.254 / Rs.197 | |
| Sensex / Nifty | 64,113 / 19,141 | |
| Market Cap | Rs.303bn/ \$ 3,634m | |
| Shares Outstanding | 1,500m | |
| 3M Avg. Daily Value | Rs.662.51m | |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoter's | 50.00 |
| Foreign | 33.31 |
| Domestic Institution | 5.93 |
| Public & Others | 10.76 |
| Promoter Pledge (Rs bn) | - |

Stock Performance (%)

| | 1M | 6M | 12M |
|----------|--------|--------|-------|
| Absolute | (15.9) | (14.9) | (0.2) |
| Relative | (13.7) | (18.8) | (6.6) |

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Petronet LNG (PLNG IN)

Rating: HOLD | CMP: Rs202 | TP: Rs208

Volume growth to remain weak

Quick Pointers:

- The Board has approved a Rs 206.9 bn PDH-PP petchem plant at Dahej.
- Utilization level at Dahej stood at 93% in Q2FY24.

Petronet LNG reported an EBITDA of Rs 12.1bn (up 3% QoQ, PLe: Rs 10.5bn) while PAT came in at Rs 8.2 bn (up 4% QoQ, Ple: Rs 6.7 bn). Total volumes at 223 Tbtu were down 3% QoQ but up 15% YoY. Although volumes increased on a YoY basis, long term volume growth prospects remain weak as the company will face competition post commissioning of upcoming LNG terminals and increase in domestic gas supply. The company has cash of Rs 18.2 bn and bank balance of Rs 60.1 bn, and has announced a capex of Rs 206.9 bn on a PDH-PP petrochemical plant. We believe this will stress the company's balance sheet, and likely reduce its ROCE. Owing to these reasons we change our rating from 'Buy' to 'Hold' with a TP of Rs 208 based on 11x FY26 P/E

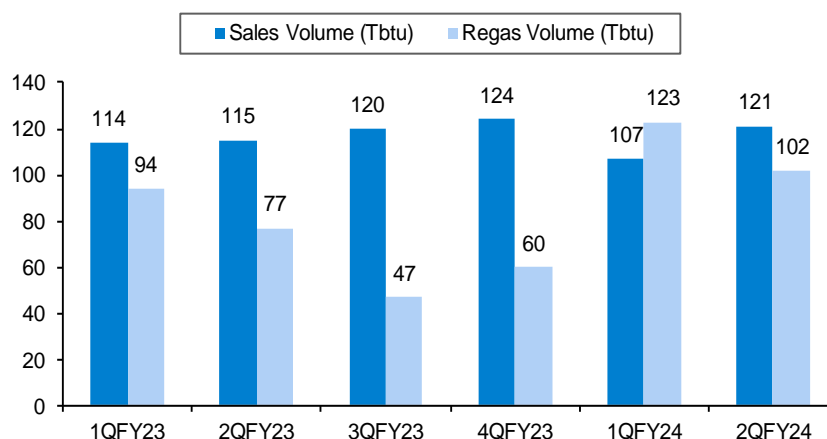
- Operating profit improves YoY:** Petronet LNG's EBITDA at Rs 12.1 bn was up 4% YoY. Other income increased 66% YoY to Rs 1.6 bn while PAT at Rs 8.2 bn grew 10% YoY. For H1FY24, EBITDA came in at Rs 24bn, up 7.1% YoY. Similarly, PAT stood at Rs 16.1 bn, up 11% YoY.
- Total volume declines sequentially:** Total volume stood at 223 Tbtu, down 3% QoQ due to a 17% fall in regas volumes to 102 Tbtu. However, sales volume at 121 Tbtu were up 13% QoQ. Regas tariff for Dahej is Rs 59.91/mmBtu and Rs 85.09/mmBtu for Kochi. Regas revenue came in at Rs 5.9 bn. Trading gain stood at Rs 0.2 bn while inventory gain for the quarter was Rs 1.2 bn. The company is likely to face intense competition from upcoming LNG terminals and availability of incremental domestic gas from KG Basin. Going ahead we anticipate a 3% CAGR in volume growth over FY24-26E with total volumes at 864/864/915 Tbtu for FY24/25/26E.
- Conference Call Highlights:** **1)** The company is going to set up a petrochemicals project of 750 KTPA of PDH & 500 KTPA of PP plant including propane and ethane handling facility at Dahej at an estimated cost of Rs 206.9 bn. The project will be commissioned after 4 years. **2)** The Board has approved the offtake of 250 KTPA of Propylene and 11 KTPA of Hydrogen from Petronet Petrochemical Project at Dahej for a period of 15 years from the date of first supply of propylene and hydrogen by PLNG to Deepak Phenolics. From the year it will start operating at 100% capacity, the generation of profit will be to the range of Rs 20 bn. **3)** The company plans to renew the Qatar gas contract by December 2023. **4)** Expansion of Dahej terminal from 17.5 mmtpa to 22.5 mmtpa will be completed by March 2025.

Exhibit 1: Quarterly and Half Yearly Income Statement

| (Rs bn) | Q2FY24 | Q1FY24 | QoQ gr. | Q2FY23 | YoY gr. | H1FY24 | H1FY23 | YoY gr. |
|---------------------|--------------|--------------|-------------|--------------|---------------|--------------|--------------|--------------|
| Net Sales | 125.3 | 116.6 | 7.5% | 159.9 | -21.6% | 241.9 | 302.5 | -20% |
| YoY Change (%) | -21.6 | -18.3 | | 47.8 | | | | |
| Total Expenditure | 113.2 | 104.7 | 8.0% | 148.1 | -23.6% | 217.9 | 280.1 | -22.2% |
| EBITDA | 12.1 | 11.8 | 2.8% | 11.7 | 3.6% | 24.0 | 22.4 | 7.1% |
| Margins (%) | 9.7 | 10.1 | | 7.3 | | 9.9 | 7.4 | |
| Depreciation | 1.9 | 1.9 | 1.5% | 1.9 | 1.4% | 3.9 | 3.8 | 0.8% |
| Interest | 0.7 | 0.7 | 0.2% | 0.8 | -7.9% | 1.5 | 1.6 | -6.1% |
| Other Income | 1.6 | 1.5 | 6.8% | 0.9 | 66.3% | 3.0 | 2.4 | 28.6% |
| PBT | 11.0 | 10.6 | 3.8% | 9.9 | 10.9% | 21.6 | 19.3 | 12.1% |
| Tax | 2.8 | 2.7 | 4.3% | 2.5 | 13.7% | 5.6 | 4.9 | 14.5% |
| Rate (%) | 25.8 | 25.6 | | 25.1 | | 25.7 | 25.2 | |
| Reported PAT | 8.2 | 7.9 | 3.6% | 7.4 | 9.9% | 16.1 | 14.5 | 11.3% |
| Adj PAT | 8.2 | 7.9 | 3.6% | 7.4 | 9.9% | 16.1 | 14.5 | 11.3% |
| YoY Change (%) | 9.9 | 12.7 | | -9.6 | | | | |
| Margins (%) | 6.5 | 6.8 | | 4.7 | | | | |

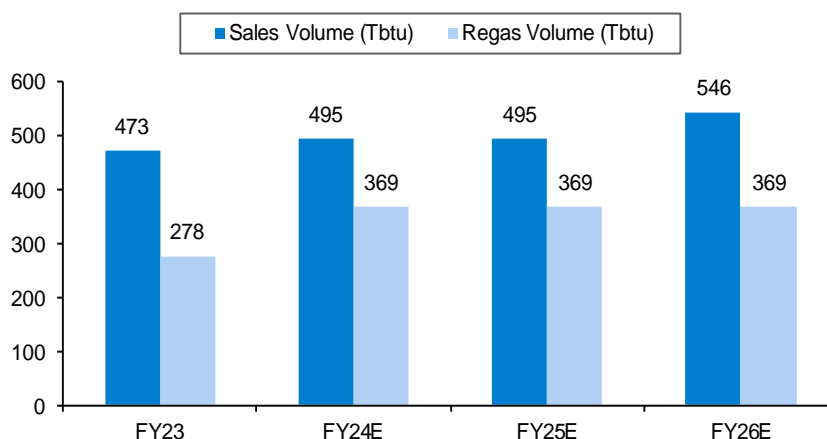
Source: Company, PL

Exhibit 2: Regas volume declines 17% QoQ



Source: Company, PL

Exhibit 3: Total volume expected to reach 915 Tbtu by FY26E



Source: Company, PL

Financials

Income Statement (Rs bn)

| Y/e Mar | FY23 | FY24E | FY25E | FY26E |
|-------------------------------|-------------|-------------|-------------|-------------|
| Net Revenues | 599 | 558 | 548 | 561 |
| YoY gr. (%) | 38.8 | (6.9) | (1.8) | 2.4 |
| Cost of Goods Sold | 540 | 501 | 491 | 503 |
| Gross Profit | 59 | 57 | 57 | 58 |
| Margin (%) | 9.9 | 10.2 | 10.4 | 10.3 |
| Employee Cost | 2 | 2 | 2 | 2 |
| Other Expenses | 9 | 11 | 11 | 11 |
| EBITDA | 49 | 44 | 44 | 45 |
| YoY gr. (%) | (7.6) | (9.3) | 0.3 | 2.0 |
| Margin (%) | 8.1 | 7.9 | 8.1 | 8.0 |
| Depreciation and Amortization | 8 | 8 | 9 | 10 |
| EBIT | 41 | 36 | 35 | 35 |
| Margin (%) | 6.8 | 6.4 | 6.4 | 6.2 |
| Net Interest | 3 | 3 | 3 | 3 |
| Other Income | 6 | 6 | 6 | 7 |
| Profit Before Tax | 43 | 38 | 38 | 38 |
| Margin (%) | 7.2 | 6.8 | 6.9 | 6.9 |
| Total Tax | 11 | 10 | 10 | 10 |
| Effective tax rate (%) | 25.3 | 25.2 | 25.2 | 25.2 |
| Profit after tax | 32 | 28 | 28 | 29 |
| Minority interest | - | - | - | - |
| Share Profit from Associate | - | - | - | - |
| Adjusted PAT | 32 | 28 | 28 | 29 |
| YoY gr. (%) | (3.4) | (12.0) | (0.1) | 1.0 |
| Margin (%) | 5.4 | 5.1 | 5.2 | 5.1 |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 32 | 28 | 28 | 29 |
| YoY gr. (%) | (3.4) | (12.0) | (0.1) | 1.0 |
| Margin (%) | 5.4 | 5.1 | 5.2 | 5.1 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 32 | 28 | 28 | 29 |
| Equity Shares O/s (m) | 2 | 2 | 2 | 2 |
| EPS (Rs) | 21.6 | 19.0 | 19.0 | 19.2 |

Source: Company Data, PL Research

Balance Sheet Abstract (Rs bn)

| Y/e Mar | FY23 | FY24E | FY25E | FY26E |
|---------------------------------------|------------|------------|------------|------------|
| Non-Current Assets | | | | |
| Gross Block | 111 | 126 | 141 | 156 |
| Tangibles | 111 | 126 | 141 | 156 |
| Intangibles | - | - | - | - |
| Acc: Dep / Amortization | 46 | 54 | 64 | 74 |
| Tangibles | 46 | 54 | 64 | 74 |
| Intangibles | - | - | - | - |
| Net fixed assets | 65 | 72 | 77 | 82 |
| Tangibles | 65 | 72 | 77 | 82 |
| Intangibles | - | - | - | - |
| Capital Work In Progress | 11 | 9 | 9 | 9 |
| Goodwill | - | - | - | - |
| Non-Current Investments | 34 | 34 | 34 | 34 |
| Net Deferred tax assets | (7) | (7) | (7) | (7) |
| Other Non-Current Assets | - | - | - | - |
| Current Assets | | | | |
| Investments | - | - | - | - |
| Inventories | 12 | 10 | 11 | 11 |
| Trade receivables | 38 | 34 | 35 | 36 |
| Cash & Bank Balance | 57 | 69 | 78 | 89 |
| Other Current Assets | - | - | - | - |
| Total Assets | 224 | 235 | 252 | 268 |
| Equity | | | | |
| Equity Share Capital | 15 | 15 | 15 | 15 |
| Other Equity | 134 | 150 | 165 | 180 |
| Total Network | 149 | 165 | 180 | 195 |
| Non-Current Liabilities | | | | |
| Long Term borrowings | - | - | - | - |
| Provisions | - | - | - | - |
| Other non current liabilities | - | - | - | - |
| Current Liabilities | | | | |
| ST Debt / Current of LT Debt | - | - | - | - |
| Trade payables | 16 | 14 | 15 | 15 |
| Other current liabilities | 51 | 49 | 50 | 50 |
| Total Equity & Liabilities | 224 | 235 | 252 | 268 |

Source: Company Data, PL Research



Cash Flow (Rs bn)

| Y/e Mar | FY23 | FY24E | FY25E | FY26E |
|---------------------------------------|-------------|-------------|-------------|-------------|
| PBT | 43 | 38 | 38 | 38 |
| Add. Depreciation | 8 | 8 | 9 | 10 |
| Add. Interest | 3 | 3 | 3 | 3 |
| Less Financial Other Income | 6 | 6 | 6 | 7 |
| Add. Other | (1) | (6) | (6) | (7) |
| Op. profit before WC changes | 54 | 44 | 44 | 45 |
| Net Changes-WC | (16) | 2 | (1) | 0 |
| Direct tax | (12) | (10) | (10) | (10) |
| Net cash from Op. activities | 25 | 37 | 34 | 35 |
| Capital expenditures | (11) | (14) | (15) | (15) |
| Interest / Dividend Income | - | - | - | - |
| Others | (1) | - | - | - |
| Net Cash from Invt. activities | (11) | (14) | (15) | (15) |
| Issue of share cap. / premium | - | - | - | - |
| Debt changes | 0 | - | - | - |
| Dividend paid | (17) | (13) | (13) | (13) |
| Interest paid | 0 | (3) | (3) | (3) |
| Others | (6) | - | - | - |
| Net cash from Fin. activities | (24) | (16) | (16) | (16) |
| Net change in cash | (10) | 7 | 3 | 4 |
| Free Cash Flow | 15 | 23 | 19 | 20 |

Source: Company Data, PL Research

Key Financial Metrics

| Y/e Mar | FY23 | FY24E | FY25E | FY26E |
|----------------------------|-------|-------|-------|-------|
| Per Share(Rs) | | | | |
| EPS | 21.6 | 19.0 | 19.0 | 19.2 |
| CEPS | 26.7 | 24.5 | 25.2 | 26.1 |
| BVPS | 99.6 | 109.8 | 120.0 | 130.3 |
| FCF | 9.7 | 15.6 | 12.6 | 13.3 |
| DPS | 10.0 | 8.8 | 8.8 | 8.9 |
| Return Ratio(%) | | | | |
| RoCE | 28.8 | 22.8 | 20.2 | 18.5 |
| ROIC | 24.4 | 21.6 | 20.1 | 19.3 |
| RoE | 22.8 | 18.2 | 16.5 | 15.3 |
| Balance Sheet | | | | |
| Net Debt : Equity (x) | (0.4) | (0.4) | (0.4) | (0.5) |
| Net Working Capital (Days) | 2 | 0 | 1 | 1 |
| Valuation(x) | | | | |
| PER | 9.3 | 10.6 | 10.6 | 10.5 |
| P/B | 2.0 | 1.8 | 1.7 | 1.5 |
| P/CEPS | 26.7 | 24.5 | 25.2 | 26.1 |
| EV/EBITDA | 5.1 | 5.3 | 5.1 | 4.7 |
| EV/Sales | 0.4 | 0.4 | 0.4 | 0.4 |
| Dividend Yield (%) | 5.0 | 4.4 | 4.4 | 4.4 |

Source: Company Data, PL Research

Quarterly Financials (Rs bn)

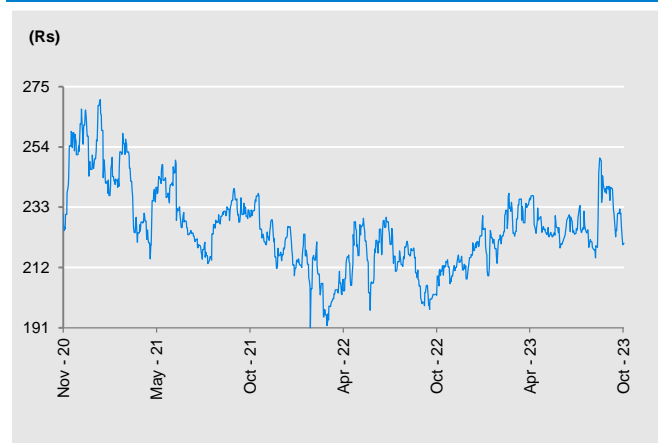
| Y/e Mar | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 |
|-----------------------------------|------------|------------|------------|------------|
| Net Revenue | 158 | 139 | 117 | 125 |
| YoY gr. (%) | 25.2 | 24.3 | (18.3) | (21.6) |
| Raw Material Expenses | 139 | 126 | 103 | 111 |
| Gross Profit | 19 | 12 | 14 | 14 |
| Margin (%) | 12.2 | 8.9 | 11.6 | 11.4 |
| EBITDA | 17 | 9 | 12 | 12 |
| YoY gr. (%) | (3.3) | (19.3) | 11.0 | 3.6 |
| Margin (%) | 10.6 | 6.8 | 10.1 | 9.7 |
| Depreciation / Depletion | 2 | 2 | 2 | 2 |
| EBIT | 15 | 8 | 10 | 10 |
| Margin (%) | 9.4 | 5.4 | 8.5 | 8.1 |
| Net Interest | 1 | 1 | 1 | 1 |
| Other Income | 2 | 2 | 1 | 2 |
| Profit before Tax | 16 | 8 | 11 | 11 |
| Margin (%) | 10.1 | 5.9 | 9.1 | 8.8 |
| Total Tax | 4 | 2 | 3 | 3 |
| Effective tax rate (%) | 25.5 | 24.9 | 25.6 | 25.8 |
| Profit after Tax | 12 | 6 | 8 | 8 |
| Minority interest | - | - | - | - |
| Share Profit from Associates | - | - | - | - |
| Adjusted PAT | 12 | 6 | 8 | 8 |
| YoY gr. (%) | 3.2 | (18.1) | 12.7 | 9.9 |
| Margin (%) | 7.5 | 4.4 | 6.8 | 6.5 |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 12 | 6 | 8 | 8 |
| YoY gr. (%) | 3.2 | (18.1) | 12.7 | 9.9 |
| Margin (%) | 7.5 | 4.4 | 6.8 | 6.5 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 12 | 6 | 8 | 8 |
| Avg. Shares O/s (m) | 2 | 2 | 2 | 2 |
| EPS (Rs) | 7.9 | 4.1 | 5.3 | 5.5 |

Source: Company Data, PL Research

Key Operating Metrics

| Y/e Mar | FY23 | FY24E | FY25E | FY26E |
|---------------------|-------|-------|-------|-------|
| Sales Volume (Tbtu) | 473.0 | 495.4 | 495.4 | 545.9 |
| Regas Volume (Tbtu) | 278.0 | 369.0 | 369.0 | 369.0 |

Source: Company Data, PL Research

Price Chart
Recommendation History


| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|-----|-----------|--------|----------|-------------------|
| 1 | 06-Oct-23 | BUY | 225 | 230 |
| 2 | 04-Jul-23 | BUY | 322 | 223 |
| 3 | 03-May-23 | BUY | 326 | 237 |
| 4 | 06-Apr-23 | BUY | 326 | 236 |
| 5 | 21-Jan-23 | BUY | 326 | 223 |
| 6 | 03-Jan-23 | BUY | 325 | 215 |
| 7 | 10-Nov-22 | BUY | 325 | 209 |

Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---------|------------------------------------|------------|---------|------------------|
| 1 | Aarti Industries | Hold | 472 | 489 |
| 2 | Bayer Cropscience | Accumulate | 4,720 | 5,270 |
| 3 | Bharat Petroleum Corporation | Hold | 353 | 347 |
| 4 | Bharti Airtel | Accumulate | 936 | 926 |
| 5 | Clean Science and Technology | Hold | 1,418 | 1,410 |
| 6 | Deepak Nitrite | Reduce | 1,854 | 2,125 |
| 7 | Dhanuka Agritech | BUY | 950 | 854 |
| 8 | Fine Organic Industries | Hold | 4,710 | 4,921 |
| 9 | GAIL (India) | BUY | 136 | 125 |
| 10 | Godrej Agrovet | Hold | 420 | 515 |
| 11 | Gujarat Fluorochemicals | Accumulate | 3,230 | 2,846 |
| 12 | Gujarat Gas | Accumulate | 480 | 425 |
| 13 | Gujarat State Petronet | BUY | 327 | 290 |
| 14 | Hindustan Petroleum Corporation | Hold | 263 | 258 |
| 15 | Indian Oil Corporation | Hold | 97 | 90 |
| 16 | Indraprastha Gas | Hold | 539 | 460 |
| 17 | Insecticides India | Accumulate | 550 | 514 |
| 18 | Jubilant Ingrevia | Hold | 462 | 484 |
| 19 | Laxmi Organic Industries | Reduce | 220 | 254 |
| 20 | Mahanagar Gas | Hold | 1,056 | 1,114 |
| 21 | Manglore Refinery & Petrochemicals | Hold | 94 | 96 |
| 22 | Navin Fluorine International | Accumulate | 4,128 | 3,719 |
| 23 | NOCIL | Hold | 228 | 226 |
| 24 | Oil & Natural Gas Corporation | BUY | 202 | 181 |
| 25 | Oil India | BUY | 341 | 296 |
| 26 | P.I. Industries | BUY | 4,850 | 3,421 |
| 27 | Petronet LNG | BUY | 225 | 230 |
| 28 | Rallis India | Reduce | 190 | 217 |
| 29 | Reliance Industries | BUY | 2,618 | 2,266 |

PL's Recommendation Nomenclature (Absolute Performance)

| | |
|--------------------------|-----------------------------------|
| Buy | : > 15% |
| Accumulate | : 5% to 15% |
| Hold | : +5% to -5% |
| Reduce | : -5% to -15% |
| Sell | : < -15% |
| Not Rated (NR) | : No specific call on the stock |
| Under Review (UR) | : Rating likely to change shortly |

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