

Petronet LNG

ACCUMULATE

Growth at Dehej to remain stagnant

Summary

Petronet LNG (PLNG) Q3FY21 profit was a beat to our and consensus estimates owing to higher spot LNG margin (Rs540 mn) and inventory gain of Rs600 mn despite lower than forecasted volume. Total volume was flattish YoY at 235tbtu, 6% below our estimate. Kochi-Mangalore pipeline commissioned in Nov'20 and expects utilization to reach to 30% by end FY22. We believe Q4 is again going to be a challenging quarter on account of significant volatility in spot prices. We raise our FY21E EBITDA/PAT estimates by 11%/13.5% while keep FY22E/FY23E estimates largely unchanged. We expect flattish volume growth at Dahej over the next three years would restrict its growth opportunity. We downgrade the stock to ACCUMULATE from BUY with a revised TP of Rs265 from Rs282 earlier.

Key Highlights and Investment Rationale

Higher Spot LNG margin and other income propelled PAT growth

Company reported an EBITDA of Rs 13.4bn on the back of higher calculated marketing margin on spot cargoes at US\$4.4/mmbtu vs \$1.1/mmbtu in Q3FY20. Dahej operated at 99% utilization and delivered a volume of 222tbtu, down 9% QoQ (113tbtu in long-term, 104tbtu of tolling and 5tbtu on spot basis) while Kochi terminal operated at 20% utilization and processed a volume of 13tbtu, up 18% (8tbtu-long term 3tbtu-tolling and 2tbtu- spot). Other income also grew by 32% YoY to Rs 1.1bn leading to 30% increase in net income during the quarter.

Plans to take Dahej capacity to 22.5mtpa in two phases

The Company plans to expand its Dahej terminal to 22.5mtpa in 2 phases. In 1st phase, it will be expanded to 20mtpa from current 17.5mtpa in next 3 years by adding two storage tanks. Then under phase-2 it will be expanded to 22.5mtpa, which would take another 2-3 years. The company has guided for a capex of Rs5.3bn for FY22 (Rs 1.3bn for storage tanks, Rs 1.3 bn for CGD business, Rs700 mn for new office building and Rs100 mn for routine capex for Dahej and Kochi).

Growth at Dahej remains stagnant for few years; downgrade to HOLD with a TP of Rs265

The company is actively looking to set up 5 LNG stations under phase-1 on Mumbai-Delhi Highway and planning to roll out to pan India with the partnership with Gujarat Gas, IGL, IOC, KSRTC etc. Though, implementation and adaptability to LNG trucks may take some time for meaningful impact to its financials. We believe capacity utilization at Dahej has already reached to its peak in Q2FY21 and expect flattish growth till FY24. We lower down our DCF-based TP to Rs265 from earlier Rs282 and downgrade to ACCUMULATE from earlier BUY.

TP	Rs265
CMP	Rs242
Potential upside / downside	+9%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY21E	FY22E	FY23E
IDBI Capital	19.4	20.3	23.8
Consensus	19.6	21.8	23.9
% difference	(1.1)	(7.0)	(0.4)

Shareholding Pattern (%)

Promoters	50.0
FII	29.5
DII	7.0
Public	13.5

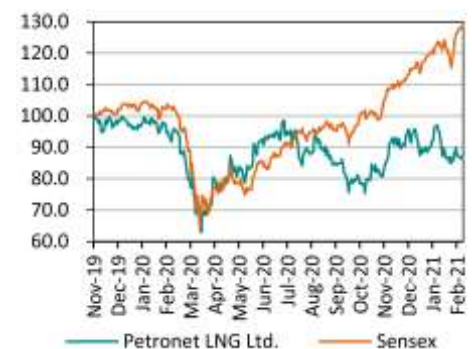
Price Performance (%)

	-1m	-3m	-12m
Absolute	(8.8)	(4.8)	(8.3)
Rel to Sensex	(12.9)	(23.4)	(32.7)

Key Stock Data

Bloomberg / Reuters	PLNG IN /PLNG.BO
Sector	Oil & Gas
Shares o/s (mn)	1,500
Market cap. (Rs mn)	3,63,150
Market cap. (US\$ mn)	4,991
3-m daily avg Trd value (Rs mn)	461.1
52-week high / low	Rs280 / 171
Sensex / Nifty	51,544 / 15,163

Relative to Sensex (%)



Financial snapshot

Year	FY19	FY20	FY21E	FY22E	FY23E
Revenue	3,83,954	3,54,520	2,97,347	3,30,284	3,56,079
EBITDA	34,725	39,895	46,365	47,747	54,247
EBITDA (%)	9.0	11.3	15.6	14.5	15.2
Adj. PAT	22,348	27,601	29,038	30,521	35,714
EPS (Rs)	14.9	18.4	19.4	20.3	23.8
EPS Growth (%)	7.6	23.5	5.2	5.1	17.0
PE (x)	16.3	13.2	12.6	11.9	10.2
Dividend Yield (%)	4.1	5.1	5.6	5.9	6.9
EV/EBITDA (x)	9.6	8.2	6.8	6.5	5.6
RoE (%)	22.6	26.3	26.0	26.2	29.3
RoCE (%)	22.9	21.3	22.7	23.1	26.2

Source: Company; IDBI Capital Research

Concall takeaways:

- **Capacity expansion:** Planning to expand Dahej capacity to 22.5mtpa from current 17.5mtpa under two phases. Under phase-1 it would be expanded to 20mtpa in next 36-40 months by adding 2 new storage tanks and expansion of Jetty. Phase-2 expansion till 22.5mtpa may take another 2-3 years. Technical feasibility beyond 22.5mtpa that has not been checked so far.
- **Q3FY21 one-offs:** Company reported an Inventory gain of Rs600mn and trading gain of Rs540mn on spot cargoes due to extreme volatility of spot LNG price.
- **Q4FY21 outlook:** Spot LNG price reached to over US\$30/mmbtu also which impacted Dahej utilization. Though, spot LNG price is now back to ~US\$6-8/mmbtu and operation has normalized. Long term prices are lower than spot resulting in rise in long term off-take.
- **Kochi Utilisation:** Kochi-Mangalore pipeline commissioned in Nov'20 – 0.4mmscmd by MCFL, 0.35-0.4mmscmd now by OMPL, MRPL to commence in this or next month. In total, the company expects 1-1.5mmscmd of additional volume and 30% utilization to be achieved by FY22 end. Nearly 9-11 CGDs are coming up along this pipeline. Kochi-Bangalore pipeline also expected in 1-2yrs – which would take the utilization to 60-70%; completed the Kerala section, Tamil Nadu section remains to be completed now.
- **Capex:** For 9MFY21, PLNG's total capex was Rs 650mn only. Capex of Rs5.3bn is expected to be Rs5.3 bn. (Rs 1.3bn for storage tanks, Rs 1.3 bn for CGD business, Rs700 mn for new office building and Rs100 mn for routine capex for Dahej and Kochi).
- **New 100% subsidiary:** New subsidiary for GUCD, LNG bunkering & related services put up in Kochi SEZ primarily for INR170-180mn annual tax benefits; minimal investments required.
- **Kochi/Dahej Regas Tariff:** Kochi regas tariff is still under discussion with off-takers and expects final resolution to be over by Q4. Tariff was earlier fixed at Rs79.14/mmbtu in FY19 and subject to 5% appreciation every year. Dahej regas tariff was increased by 5% from Jan '21 to Rs 54.34/mmbtu.
- **On increased KG basin volume:** Incremental domestic gas is mostly from KG-basin would be high priced and looking at the demand growth does not expect any impact to its volume. Dahej has connectivity advantage to larger number of pipelines/consumers and would ensure high utilization despite new LNG terminals.

- **LNG stations:** Company has tied up with Gujarat gas to set-up 5 LNG ROs on Delhi-Mumbai highway. MoU has been signed with IOC to set up another 4 ROs as well. MoU with IGL and few more CGDs & KSRTC is also underway to set-up more ROs. It sees a total opportunity of 7-8mmtpa.
- **Gopalpur LNG terminal:** still under internal discussion; may make the final decision in next 2-3 months; At least 4yrs away from now.
- **Misc:**
 - Regas income for the quarter was Rs6.1 bn
 - Gorgon volume: 11TBTU processed at Dahej
 - India likely to import more than 26mmt LNG in FY21 vs 23mmt in FY20.
 - Kochi currently has one loading bay, company is adding two more. Dahej has four loading bays.

Exhibit 1: Actual vs estimates

(Rs mn)	Actual	Estimated	(%) Variance
Net sales	73,282	71,669	2.3
EBITDA	13,353	12,001	11.3
EBITDA margin (%)	18.2	16.7	148
Adj net income	8,785	7,498	17.2
FDEPS (Rs)	5.9	5.0	17.2

Source: Company; IDBI Capital Research

Exhibit 2: Change in estimates

Key parameters (Rs mn)	FY21E			FY22E			FY23E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Revenue	3,06,442	2,97,347	(3.0)	3,38,147	3,30,284	(2.3)	3,60,683	3,56,079	(1.3)
EBITDA	41,782	46,365	11.0	46,904	47,747	1.8	52,331	54,247	3.7
EBITDA margin (%)	13.6	15.6	196	13.9	14.5	59	14.5	15.2	73
Net profit	25,498	29,038	13.9	29,685	30,521	2.8	34,738	35,714	2.8
FDEPS (Rs)	17.0	19.4	13.9	19.8	20.3	2.8	23.2	23.8	2.8

Source: Company; IDBI Capital Research

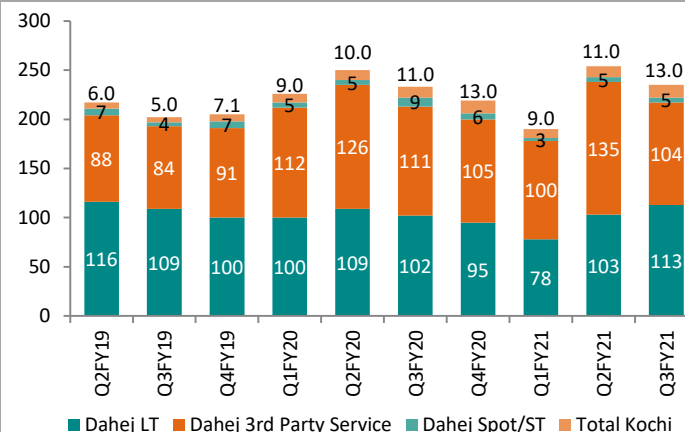
Exhibit 3: Quarterly highlights

(Rs mn)

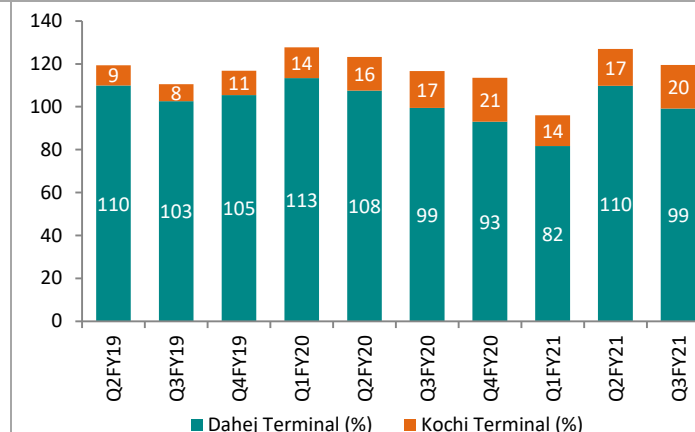
	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	(%) YoY	(%) QoQ
Net sales	82,832	80,442	43,836	55,578	67,212	-19%	21%
Regas service income	6,270	5,230	5,000	6,780	6,070	-3%	-10%
Total revenue	89,102	85,672	48,836	62,358	73,282	-18%	18%
Raw material cost	76,189	74,360	38,365	47,199	58,434	-23%	24%
Employee cost	407	289	360	338	343	-16%	1%
Other expenses	1,431	4,048	1,011	1,188	1,152	-19%	-3%
Total expenditure	78,027	78,696	39,736	48,726	59,929	-23%	23%
EBITDA	11,076	6,975	9,099	13,632	13,353	21%	-2%
<i>EBITDA margin (%)</i>	14.2	8.9	22.9	28.0	22.3	809bps	-570bps
Depreciation	1,960	1,942	1,936	1,952	1,925	-2%	-1%
EBIT	9,116	5,033	7,164	11,680	11,428	25%	-2%
Interest cost	940	1,035	881	850	815	-13%	-4%
Other income	842	865	684	1,596	1,111	32%	-30%
PBT before exceptional items	9,017	4,863	6,966	12,426	11,724	30%	-6%
Exceptional items	-	-	-	-	-	-	-
PBT	9,017	4,863	6,966	12,426	11,724	30%	-6%
Current tax	2,150	1,650	1,880	3,070	2,960	38%	-4%
Deferred tax	115	-378	-116	83	-21	-	-
Total tax	2,265	1,272	1,764	3,153	2,939	30%	-7%
<i>Effective tax rate</i>	25.1	26.2	25.3	25.4	25.1	-	-30.42
Reported PAT	6,752	3,590	5,202	9,273	8,785	30%	-5%
Net profit margin (%)	8%	4%	11%	15%	12%	58%	-19%
Reported EPS (Rs)	4.5	2.4	3.5	6.2	5.9	30%	-5%
Adjusted PAT	6,752	3,590	5,202	9,273	8,785	30%	-5%
Adj. EPS (Rs.)	4.5	2.4	3.5	6.2	5.9	30%	-5%
<i>No of shares</i>	<i>1,500</i>	<i>1,500</i>	<i>1,500</i>	<i>1,500</i>	<i>1,500</i>	<i>0%</i>	<i>0%</i>

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	(%) YoY	(%) QoQ
Dahej Utilisation (%)	99%	93%	82%	110%	99%	-	-
Dahej Volumes (mmt)	4.4	4.1	3.6	4.8	4.4	0%	-9%
Long Term (tbtu)	102	95	78	103	113	11%	10%
Services volume (tbtu)	111	105	100	135	104	-6%	-23%
Spot/short term LNG (tbtu)	9	6	3	5	5	-44%	0%
Kochi Utilisation (%)	17%	21%	14%	17%	20%	-	-
Kochi Volumes (mmt)	0.2	0.3	0.2	0.2	0.3	18%	18%
Long Term (tbtu)	9	11	8	8	8	-11%	0%
Services volume (tbtu)	-	-	-	-	3	N.M.	N.M.
Spot/short term LNG (tbtu)	2	2	1	3	2	0%	-33%
Total Volumes (tbtu)	233	219	190	254	235	1%	-7%
Regas Tariff (Rs./mmbtu)							
Dahej	49.3	51.7	51.7	51.7	51.7	5%	0%
Kochi	79.0	79.1	83.1	83.1	83.1	5%	0%
Services Regas Tariff (Rs./mmbtu)	56.5	49.8	50.0	50.2	56.7	-	-
Cal. MM (USD/mmbtu)	1.1	0.7	2.5	3.7	4.4	287%	19%
EBITDA/mmbtu (Rs.)	47.5	31.9	47.9	53.7	56.8	20%	6%
Avg. realisation (US\$/mmbtu)	9.5	9.7	6.4	6.3	7.1	-25%	13%

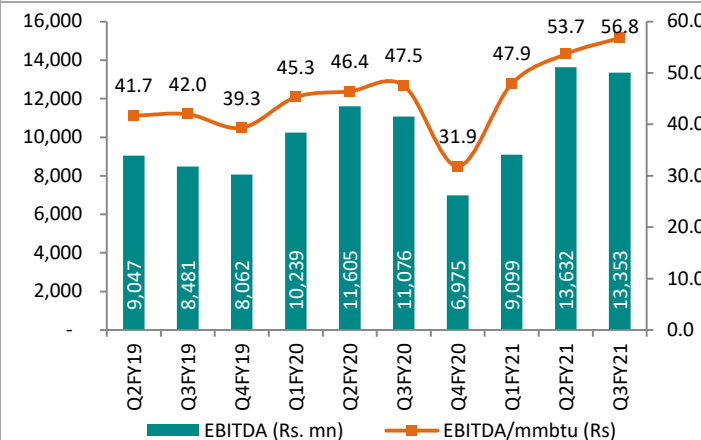
Source: Company; IDBI Capital Research

Exhibit 4: Quarterly volume trend (tbtu)


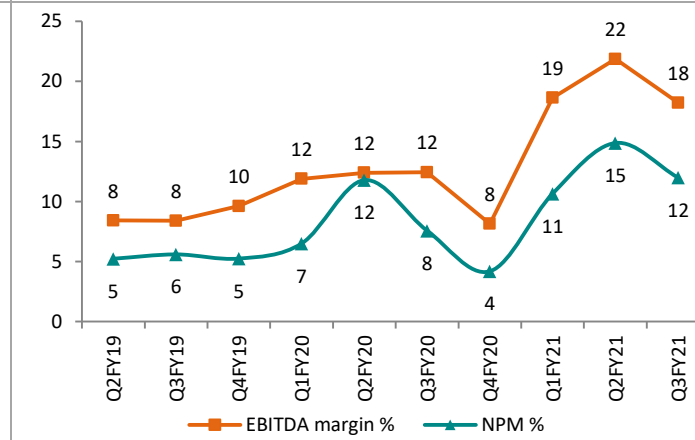
Source: Company; IDBI Capital Research

Exhibit 5: Terminal utilization (%)


Source: Company; IDBI Capital Research

Exhibit 6: EBITDA trend and EBITDA/mmbtu


Source: Company; IDBI Capital Research

Exhibit 7: Margins (%)


Source: Company; IDBI Capital Research

Exhibit 8: Key Assumptions

(Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Dahej - Capacity utilization (%)	105%	105%	106%	102%	97%	102%	103%
Dahej - throughput (mmt)	13.1	15.8	16.0	17.3	17.0	17.8	18.0
Long-term volume	7.8	9.0	8.5	7.9	8.1	8.5	8.5
Short-term/spot volume	0.7	0.3	0.4	0.5	0.5	0.5	0.5
Regas services	4.7	6.5	7.0	8.8	8.4	8.8	9.0
Dahej avg tariff (Rs/mmbtu)	43.1	45.3	47.5	49.9	52.4	55.0	57.8
Kochi - Capacity utilization (%)	6%	12%	9%	17%	20%	28%	43%
Kochi - throughput (mmt)	0.3	0.6	0.5	0.8	1.0	1.4	2.1
Long-term volume	-	0.4	0.5	0.6	0.6	1.0	1.4
Short-term/spot volume	0.3	0.2	0.0	0.1	0.2	0.2	0.3
Regas services	0.0	0.0	-	0.1	0.2	0.2	0.4
Kochi avg tariff (Rs/mmbtu)	87	91	96	79	83	87	92
Total - Capacity utilization (%)	77%	82%	82%	83%	80%	85%	90%
Total - throughput (mmt)	13.4	16.4	16.4	18.1	18.0	19.2	20.2
Total - throughput (tbtu)	724	847	844	928	917	980	1,028
Long-term volume	7.8	9.4	9.0	8.5	8.7	9.5	9.9
Short-term/spot volume	0.9	0.5	0.5	0.6	0.7	0.7	0.8
Regas services	4.7	6.5	7.0	8.9	8.6	9.0	9.4
Gross Profit	31,991	39,084	40,975	49,561	52,373	54,097	60,910
Opex/mmbtu (Rs)	8.4	7.0	7.4	10.4	6.5	6.5	6.5
EBITDA	25,923	33,124	34,725	39,895	46,365	47,747	54,247
<i>Effective tax rate (%)</i>	<i>28%</i>	<i>32%</i>	<i>33%</i>	<i>13%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>
Exchange rate (Rs/US\$)	67.1	64.5	69.9	70.9	74.0	74.0	74.0
Brent crude oil price (US\$/bbl)	49.0	57.6	70.2	60.8	43.0	45.0	50.0

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net sales	3,54,520	2,97,347	3,30,284	3,56,079
<i>growth (%)</i>	<i>(7.7)</i>	<i>(16.1)</i>	<i>11.1</i>	<i>7.8</i>
Operating expenses	(3,14,625)	(2,50,982)	(2,82,537)	(3,01,832)
EBITDA	39,895	46,365	47,747	54,247
<i>growth (%)</i>	<i>14.9</i>	<i>16.2</i>	<i>3.0</i>	<i>13.6</i>
Depreciation	(7,761)	(7,661)	(7,835)	(8,082)
EBIT	32,133	38,704	39,912	46,164
Interest paid	(4,032)	(3,854)	(3,639)	(3,568)
Other income	3,726	3,956	4,515	5,130
Pre-tax profit	31,107	38,806	40,788	47,727
Tax	(4,131)	(9,767)	(10,266)	(12,013)
<i>Effective tax rate (%)</i>	<i>13.3</i>	<i>25.2</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	-	-	-	-
Net profit	26,976	29,038	30,521	35,714
Exceptional items	(625)	-	-	-
Adjusted net profit	27,601	29,038	30,521	35,714
<i>growth (%)</i>	<i>23.5</i>	<i>5.2</i>	<i>5.1</i>	<i>17.0</i>
<i>Shares o/s (mn nos)</i>	<i>1,500</i>	<i>1,500</i>	<i>1,500</i>	<i>1,500</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	31,107	38,806	40,788	47,727
Depreciation	7,761	7,661	7,835	8,082
Tax paid	(9,576)	(9,667)	(10,165)	(11,911)
Chg in working capital	(3,964)	292	(909)	(1,245)
Other operating activities	3,303	(102)	(876)	(1,562)
Cash flow from operations (a)	28,631	36,989	36,673	41,091
Capital expenditure	(408)	(1,949)	(5,353)	(5,356)
Chg in investments	6,996	(18)	(19)	(19)
Other investing activities	10,044	3,956	4,515	5,130
Cash flow from investing (b)	16,633	1,988	(857)	(245)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(6,322)	(4,380)	(2,000)	(2,000)
Dividend (incl. tax)	(18,083)	(24,392)	(25,638)	(30,000)
Chg in minorities	-	-	-	-
Other financing activities	(6,141)	(3,854)	(3,639)	(3,568)
Cash flow from financing (c)	(30,547)	(32,626)	(31,277)	(35,568)
Net chg in cash (a+b+c)	14,717	6,351	4,540	5,279

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net fixed assets	77,014	70,952	68,117	65,035
Investments	1,644	1,644	1,644	1,644
Other non-curr assets	36,538	36,625	37,128	37,603
Current assets	71,795	75,146	82,539	90,366
Inventories	4,809	4,033	4,480	4,830
Sundry Debtors	16,026	13,441	14,930	16,096
Cash and Bank	44,320	50,671	55,211	60,490
Marketable Securities	1,847	1,865	1,884	1,903
Loans and advances	1,708	1,433	1,591	1,716
Total assets	1,86,990	1,84,367	1,89,428	1,94,647
Shareholders' funds	1,09,530	1,14,176	1,19,059	1,24,774
Share capital	15,000	15,000	15,000	15,000
Reserves & surplus	94,530	99,176	1,04,059	1,09,774
Total Debt	7,957	4,077	2,577	1,077
Secured loans	7,957	4,077	2,577	1,077
Unsecured loans	-	-	-	-
Other liabilities	52,580	52,521	52,467	52,418
Curr Liab & prov	16,923	13,593	15,325	16,378
Current liabilities	16,742	13,449	15,163	16,205
Provisions	181	145	163	174
Total liabilities	77,460	70,191	70,369	69,873
Total equity & liabilities	1,86,990	1,84,367	1,89,428	1,94,647
Book Value (Rs)	73	76	79	83

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21E	FY22E	FY23E
Adj. EPS (Rs)	18.4	19.4	20.3	23.8
Adj EPS growth (%)	23.5	5.2	5.1	17.0
EBITDA margin (%)	11.3	15.6	14.5	15.2
Pre-tax margin (%)	8.8	13.1	12.3	13.4
ROE (%)	26.3	26.0	26.2	29.3
ROCE (%)	21.3	22.7	23.1	26.2
Turnover & Leverage ratios (x)				
Asset turnover (x)	2.1	1.6	1.8	1.9
Leverage factor (x)	1.6	1.7	1.6	1.6
Net margin (%)	7.8	9.8	9.2	10.0
Net Debt/Equity (x)	(0.3)	(0.4)	(0.5)	(0.5)
Working Capital & Liquidity ratio				
Inventory days	5	5	5	5
Receivable days	16	16	16	16
Payable days	14	14	14	14

Valuation

Year-end: March	FY20	FY21E	FY22E	FY23E
PER (x)	13.2	12.6	11.9	10.2
Price / Book value (x)	3.3	3.2	3.1	2.9
PCE (x)	10.3	9.9	9.5	8.3
EV / Net sales (x)	0.9	1.1	0.9	0.9
EV / EBITDA (x)	8.2	6.8	6.5	5.6
Dividend Yield (%)	5.1	5.6	5.9	6.9



Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

IDBI Capital Markets & Securities Ltd.

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