

November 13, 2018

Petronet LNG Ltd.

Dahej volume disappoints and margin decline indicating near term challenges

Dahej volumes not performed as per expectations, expansion to improve volume outlook going ahead

Dahej utilization for the quarter stood at 109% in Q2FY19 as compared to 111% in Q1FY19. Regasification service volumes grew by 11.4% y-o-y and de-grew by 9.3% q-o-q to 88 MMTBTU. The company guided for expansion of 2.5 MMTPA to be completed by June 2019. We expect incremental volume growth to be fueled by strong demand and improvement in realization. We factor 99% utilization (Post expansion) and cut our volume growth estimate from 5% earlier to 3% in FY19E & FY20E for regasification charges at Dahej. However, strong demand for LNG might improve the growth going ahead.

Kochi terminal to operate around 50% by FY20E

In Q2FY19, the Kochi terminal operated at mere 9%. Management expects the Kochi Mangalore pipeline to start by December 2018 which will increase the volume offtake by approx. 1 MMTPA and will subsequently improve the utilization of the Kochi terminal going ahead. Strong volume offtake from the fertilizer and power sector will uplift the demand and thereby utilization.

Margins to improve further going forward

We expect the margins of the company to improve going ahead to 12.1% in FY20E as compared to 10.8% in FY18. Margin improvement is attributable to (i) Higher offtake of LNG owing to strong demand from power & fertilizer sector which constitutes 70% of LNG demand (ii) Higher utilization of Kochi terminal (iii) India's LNG demand is expected to double to 45 million tonnes annually in the next 5 years given favorable government policies in this regard. Hence, we believe Petronet LNG will be the major beneficiary of the move.

Valuations

Petronet LNG operates the largest regasification terminal in India situated in Dahej and Kochi with a cumulative installed capacity of 17.5 MMTPA. The company plans to expand the capacity of Dahej terminal by 2.5 MMTPA. Going ahead with strong upliftment of demand from power, fertilizers and upcoming Kochi-Mangalore pipeline, we expect regasification margins to remain robust going ahead. Also, new plans of LNG regasification in Sri Lanka and Bangladesh will uphold the demand scenario and hence, we expect EPS to grow at a CAGR of 21.7% from FY18-20E.

At the CMP of INR 218, the stock is trading at 2.44x FY20E EBITDA and 10.47x FY20E EPS of INR 20.8. We value the company using DCF and arrive at a target price of INR 254, thereby, representing an upside of 16.4% from current valuations.

(INR Millions)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	271,334	246,160	305,986	404,594	417,665
Growth%		-9.3%	24.3%	32.2%	3.2%
EBITDA	15,863	25,923	33,124	41,944	50,742
Growth%		63.4%	27.8%	26.6%	21.0%
PAT	9,278	17,231	21,105	24,912	31,247
Growth%		85.7%	22.5%	18.0%	25.4%
EPS (INR)	6.2	11.5	14.1	16.6	20.8
P/E (x)	20.85	17.58	16.49	13.13	10.47
P/B (x)	1.45	1.85	1.77	1.42	1.19
EV/EBITDA(x)	6.13	6.28	5.21	3.46	2.44

Source: Company, NSPL Research

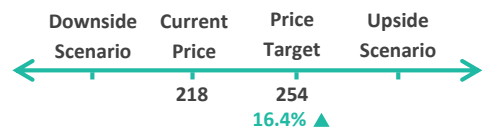
* Read last page for disclaimer & rating rationale

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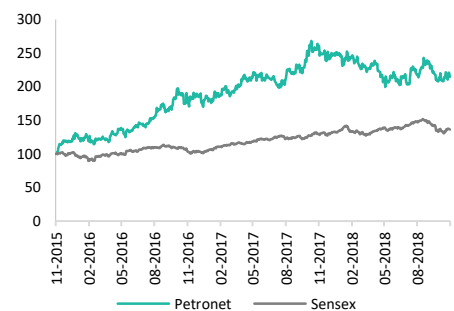
STRONG BUY*



Market Data	
Industry	LNG Regas
Sensex	34790
Nifty	10490
Bloomberg Code	PLNG:IN
Eq. Cap. (INR Millions)	15000
Face Value (INR)	10
52-w H/L	269/202
Market Cap (INR Millions)	327000

Valuation Data	FY18	FY19E	FY20E
P/E (x)	16.49	13.13	10.47
P/B (x)	1.77	1.42	1.19
EV/EBITDA (x)	5.21	3.46	2.44

Petronet LNG Ltd Vs SENSEX



Shareholding Pattern (in %)

	Sept'18	Jun'18	Sept'17
Promoters	50.00	50.00	50.00
FIIs	23.85	23.03	21.83
DIIs	11.53	11.68	12.75
Retail	14.62	15.29	15.42
Total	100.0	100.0	100.0



Q2FY19 Result Analysis

(INR Millions)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Revenue (Net of excise duty)	107453.4	77702.3	91691.5	38.3%	17.2%
COGS	96950.1	67427.3	80843.5	43.8%	19.9%
Employee Expenses	429.5	193.8	224.2	121.6%	91.6%
Other Expenses	1236.6	1093.9	1279.7	13.0%	-3.4%
Total Expenses	98616.2	68715	82347.4	43.5%	19.8%
EBITDA	8837.2	8987.3	9344.1	-1.7%	-5.4%
Depreciation	1037	1038.6	1022.4	-0.2%	1.4%
Other Income	1114.8	1019.3	989.8	9.4%	12.6%
EBIT	8915	8968	9311.5	-0.6%	-4.3%
Finance Cost	248.9	464.5	299.7	-46.4%	-17.0%
PBT (before exceptional item)	8666.1	8503.5	9011.8	1.9%	-3.8%
Share of associates	0	0	0	-	-
Exceptional items	0	0	0	-	-
PBT (after exceptional item)	8666.1	8503.5	9011.8	1.9%	-3.8%
Taxes	3036.6	2615.7	3142.1	16.1%	-3.4%
Net Profit	5629.5	5887.8	5869.7	-4.4%	-4.1%
EPS in INR	3.75	3.93	3.91	-4.6%	-4.1%

Source: Company, NSPL Research

- The company's net sales grew 38.3% y-o-y and 17.2% q-o-q to INR 107453.4 million in Q2FY19.
- EBITDA de-grew by 1.7% y-o-y and 5.4% q-o-q to INR 8837.2 million in Q2FY19. EBITDA Margins stood at 8.2% in Q2FY19 as against 11.6% in Q2FY18 and 10.2% in Q1FY19. Margins remained under pressure owing to sudden rise in raw materials cost.
- Employee expense grew by 121.6% y-o-y and 91.6% q-o-q to INR 429.5 million.
- Finance cost de-grew by 46.4% y-o-y to INR 248.9 million in Q2FY19.
- PBT grew by mere 1.9% y-o-y & de-grew by 3.8% q-o-q to INR 8666.1 million in Q2FY19.
- Reported PAT de-grew by 4.4% y-o-y and 4.1% q-o-q to INR 5629.5 million in Q2FY19. PAT margins stood at 5.8% in Q2FY19 as compared to 8.7% in Q2FY18 and 7.3% in Q1FY19.

Volume breakup of Dahej & Kochi

(In MMTBTU)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Dahej volumes					
Long Term	122	127	112	-3.9%	8.9%
Short Term	7	4	5	75.0%	40.0%
Third Party Regasification	88	79	97	11.4%	-9.3%
Total Volumes	217	210	214	3.3%	1.4%
Kochi volumes					
Long Term	6	7	6	-14.3%	0.0%
Short Term	0	3	0.2		
Third Party Regasification	0	0	0		
Total Volumes	6	10	6.2	-40.0%	-3.2%

Source: Company, NSPL Research

- The company's long term volumes dipped by 3.9% y-o-y and grew by 8.9% q-o-q to 122 MMTBTU in Q2FY19.
- However, dahej short term volumes grew impressively by 75% y-o-y & 40% q-o-q to 7 MMTBTU in Q2FY19.
- Overall dahej volumes were expected to be flat since already the plant is running at 105-108% utilization levels.
- Kochi overall volumes disappointed showing de-growth of 40% y-o-y & 3.2% q-o-q to 6 MMTBTU.

Regas Margins

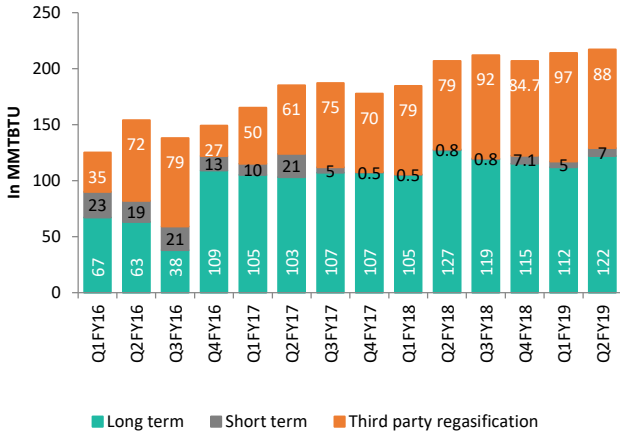
(In INR/MMTBTU)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Blended Regas Margins	48.4	49.2	49.3	-1.6%	-1.8%

Source: Company, NSPL Research

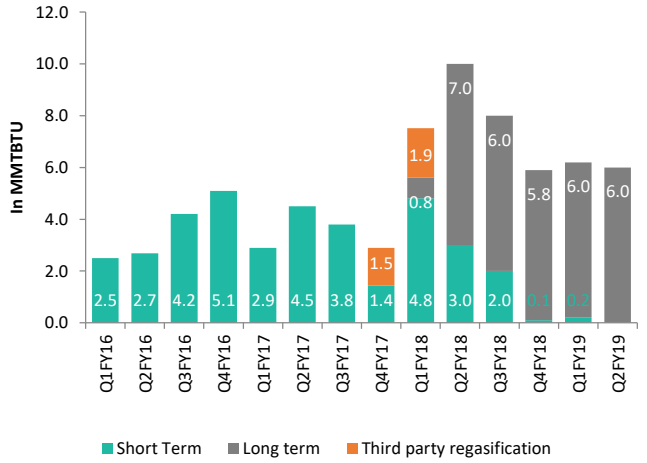
- Blended regas margins witnessed pressure thereby recording de-growth of 1.6% y-o-y & 1.8% q-o-q to INR 48.4 per MMTBTU.



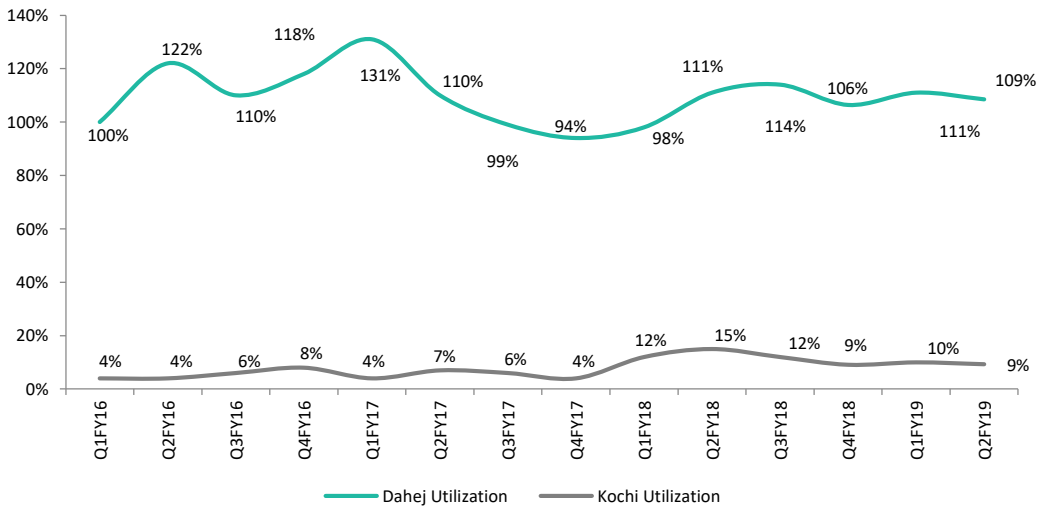
Dahej Sales Volume



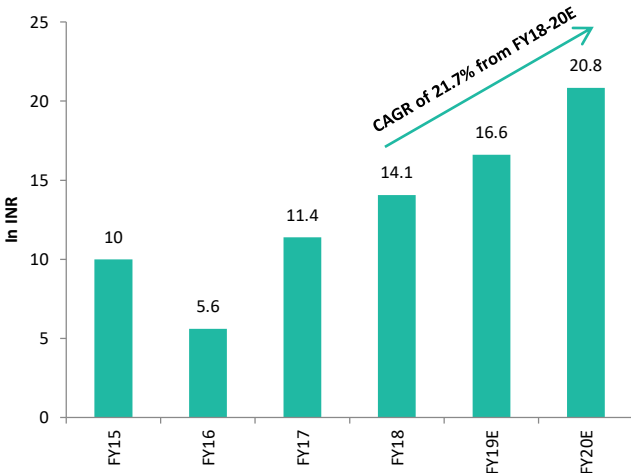
Kochi Sales Volume



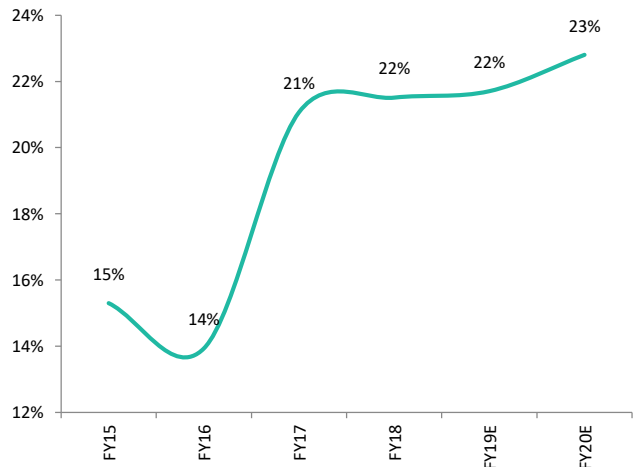
Dahej & Kochi Utilization



EPS growth to remain robust going ahead



ROE to remain stable going ahead



Source: Company, NSPL Research

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Conference Call highlights

- Volumes to the tune of 15.75 MMTPA have been booked out of total 17.5 MMTPA while remaining 1.75 MMTPA remains 'un-booked'. Management guided for additional 2.5 MMTPA by the end of FY19. We believe flexibility and lower cost of Dahej pipelines will be the key driver to volumes going ahead.
- Management expects the Kochi Mangalore pipeline of 94 km stretch to be completed by December 2018. This will effectively increase the volume offtake by incremental 1 MMTPA which will help the Kochi terminal to operate at higher levels.
- As indicated by the management the Bangalore segment will be in operation by Q4FY19, post which volumes should pick up. Also they do not see any downward tariff revision at this end.
- On the demand front management sounded quite optimistic and said China consumption is of 10 million tonnes annually and growing at robust rate. Management sees strong synergies in LNG demand going ahead.
- The company has planned to set up 20 LNG stations across India which will widen the reach and strengthen the existing distribution network.
- The company along with Japanese partners will invest USD 300 million to set up Srilanka's first LNG terminal near Colombo. 2.6-2.7 million tonnes is the capacity of the project. Management guided the progress in this is a bit slow and will take time to commercialize.
- The company for the first time has declared special interim dividend, and we believe this indicates no future capex plans might be there on the pipeline.
- Regasification revenue is INR 393 crore in Q2FY19 compared to INR 436 crore in Q1FY19. Also, employee cost shot up 121% y-o-y & 92% q-o-q due to a one-time payment of pending arrears under the 7th Pay Commission.

LNG Growth drivers

Management believe 5-10 years down the line LNG offtake will increase on the back of:

- 40,000 trucks will enter the Indian system which will increase additional 1 million tonnes of LNG offtake.
- CV vehicles growing at a robust rate of 8-10% will increase the LNG volume offtake.
- Additional 2-3 MMSCMD volume offtake from oil marketing companies like BPCL etc.

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Profit & Loss (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
Net sales	271,334	246,160	305,986	404,594	417,665
COGS	250,757	214,169	266,902	356,075	360,002
Employee Expenses	711	739	912	1,166	1,042
Other Expenses	4,005	5,330	5,049	5,409	5,880
EBITDA	15,863	25,923	33,124	41,944	50,742
D&A	3,216	3,691	4,117	4,328	4,408
Other income	1,733	3,466	3,174	3,201	3,212
EBIT	14,380	25,698	32,181	40,818	49,545
Interest Expense	2,388	2,097	1,630	1,520	1,444
PBT	12,138	23,777	30,877	39,297	48,102
Tax	2,860	6,545	9,773	14,385	16,855
PAT	9,278	17,231	21,105	24,912	31,247
EPS in INR	6.2	11.5	14.1	16.6	20.8

Balance Sheet (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
Share Capital	7,500	7,500	15,000	15,000	15,000
Reserves & Surplus	59,125	74,284	83,113	99,775	122,022
Shareholder's Funds	66,625	81,784	98,113	114,775	137,022
Long term borrowings	22,329	14,500	7,334	5,867	4,694
Long term provisions	56	66	78	78	78
Deferred tax liabilities	5,886	7,302	10,482	13,860	14,307
Other non-current liabilities	14,000	13,858	12,836	16,973	17,521
Total Non-current liabilities	42,271	35,725	30,730	36,778	36,601
Trade payables	7,721	9,446	15,699	18,269	18,470
Other financial liabilities	5,451	8,848	8,314	10,994	11,349
Other current liabilities	2,326	2,676	4,468	5,908	6,098
Short-term provisions	99	95	121	121	121
Current tax liabilities (Net)	253	562	-	-	-
Current liabilities	15,851	21,627	28,602	35,291	36,039
Total Equity and Liabilities	124,746	139,136	157,445	186,844	209,661
Fixed Assets	68,037	84,185	80,272	4,581	86,493
Capital work in progress	15,505	486	2,203	1,886	1,569
Intangible assets	69	45	24	83	96
Investments(Equity method)	1,385	2,489	2,552	4,090	4,223
Loans	187	227	230	250	262
Other Non-curr financial assets	2,723	1,728	1,095	1,906	2,001
Other Non-current assets	983	950	799	1,056	1,091
Total Non-current Assets	88,887	90,110	87,174	93,852	95,735
Inventories	2,461	5,405	4,911	6,552	6,624
Current Investments	-	27,707	39,578	39,578	39,578
Trade receivables	9,885	12,108	16,505	21,824	22,529
Cash and cash equivalents	21,767	3,210	8,553	24,104	44,234
Bank balance	62	64	72	72	72
Other current assets	13	3	11	14	14
Current Tax Assets (net)	1,321	281	93	123	127
Other current assets	350	249	548	724	747
Total Current Assets	35,859	49,026	70,271	92,992	113,926
Total Assets	124,746	139,136	157,445	186,844	209,661

Source: Company, NSPL Research



Cash Flow (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
PBT	12,138	23,777	30,877	39,297	48,102
Operating profit before working capital changes	16,397	27,728	36,624	45,145	53,953
Operating profit after working capital changes	35,737	24,456	30,587	49,552	54,618
Less income tax paid	(1,996.6)	(3,779.7)	(9,773)	(14,385)	(16,855)
Cash Flow from Operating	33,740	20,676	20,814	35,167	37,763
(Incr)/ Decr in Gross PP&E	(9,714)	(5,442)	(182)	(8,695)	(6,333)
Interest recieved	245	199	257	317	317
Cash Flow from Investing	(8,538)	(31,751)	75	(8,379)	(6,016)
(Decr)/Incr in Debt	(2,803)	(3,128)	-7,166	-1,467	-1,173
Dividend Paid	(1,805)	(2,257)	(6,750)	(8,250)	(9,000)
Finance costs	(2,386)	(2,097)	(1,630)	(1,520)	(1,444)
Cash Flow from Financing	(6,994)	(7,482)	(15,546)	(11,237)	(11,617)
Incr/(Decr) in Balance Sheet Cash	18,209	(18,557)	5,343	15,551	20,130
Cash at the Start of the Year	3,558	21,767	3,210	8,553	24,104
Cash at the End of the Year	21,767	3,210	8,553	24,104	44,234

RATIOS	FY16	FY17	FY18	FY19E	FY20E
Profitability					
Return on Assets (%)	7%	12%	13%	13%	15%
Return on Capital (%)	14%	23%	28%	31%	33%
Return on Equity (%)	14%	21%	22%	22%	23%
Margin Trend					
Gross Margin (%)	7.6%	13.0%	12.8%	12.0%	13.8%
EBITDA Margin (%)	5.8%	10.5%	10.8%	10.4%	12.1%
Net Margin (%)	3.4%	7.0%	6.9%	6.2%	7.5%
Liquidity					
Current Ratio	2.3	2.3	2.5	2.6	3.2
Quick Ratio	2.0	0.7	0.9	1.3	1.9
Debtor Days	13	18	20	20	20
Inventory Days	4	9	7	7	7
Creditor Days	11	16	21	19	19
Working Capital Days	6	11	5	8	8
Solvency					
Total Debt / Equity	0	0	0	0	0
Interest Coverage	5	11	18	25	32
Valuation Ratios					
EV/EBITDA	6.13	6.28	5.21	3.46	2.44
P/E	20.85	17.58	16.49	13.13	10.47
P/B	1.45	1.85	1.77	1.42	1.19

Source: Company, NSPL Research

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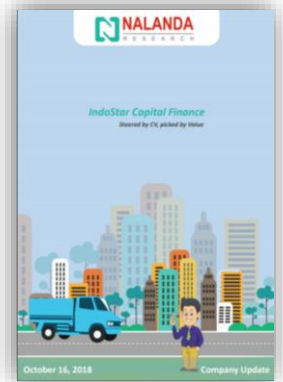
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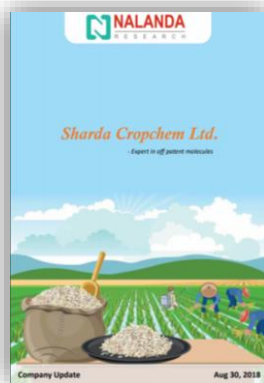
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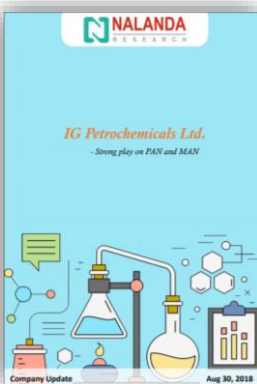
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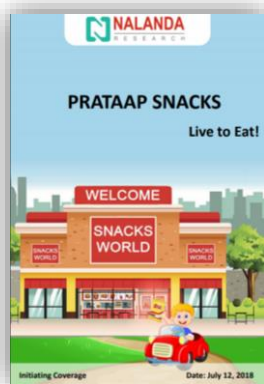
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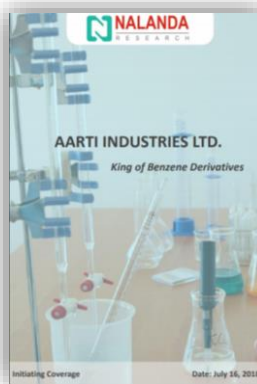
Manappuram Finance



IG Petrochemicals



Prataap Snacks



Aarti Industries



Shriram Transport



Petronet LNG Ltd				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
November 13, 2018	218	254	Strong Buy	Buy	5% - 15%
July 30, 2018	229	281	Strong Buy	Hold	0 – 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

Disclosure of Interest Statement	
Details of Nalanda Securities Pvt. Limited (NSPL)	<ul style="list-style-type: none"> NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI SEBI Registration Number: INH000004617
Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
Research analyst or NSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or NSPL or its relatives'/associates')
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Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document	NO
Research analyst or NSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	NO
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