

February 04, 2019

Petronet LNG Ltd.

Dahej volume disappoints, Incremental capacity addition to drive volume growth

Dahej volumes already running at peak levels, expansion to improve volume outlook going ahead

Dahej utilization for the quarter stood at 103% in Q3FY19 as compared to 114% in Q3FY18. Regasification service volumes de-grew by 7.7% y-o-y and by 4.5% q-o-q to 84 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 101% utilization (Post expansion) and dahej overall volume growth to be ~3% & ~5% in FY19E & FY20E. However, strong demand for LNG might improve the growth going ahead.

Kochi terminal to operate around 50% by FY20E

In Q3FY19, the Kochi terminal operated at 8-10% utilization levels. Management expects the Kochi Mangalore pipeline to start by June 2019 owing to monsoon issues, earlier guidance was December 2018. Post expansion we expect the volume off take of ~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 by FY20E

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 by Q1FY20E. Also, plans are to add additional tank which will increase the capacity by 2.5 MMTPA in the next 3 years. In Q3FY19, demand of LNG was impacted owing to weak power sector and delay in upcoming Kochi-Mangalore pipeline. However, demand is expected to normalize in Q4FY19E. Also, new plans of LNG regasification in Srilanka and Bangladesh will uphold the demand scenario and hence, we expect EPS to grow at a CAGR of 24.8% from FY18-20E.

At the CMP of INR 220, the stock is trading at 2.5x FY20E EBITDA and 10x FY20E EPS. We value the company using DCF and arrive at a target price of INR 275, thereby, representing an upside of 25.2% from current valuations.

(INR Millions)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	2,71,334	2,46,160	3,05,986	3,96,801	4,10,175
Growth%		-9.3%	24.3%	29.7%	3.4%
EBITDA	15,863	25,923	33,124	37,844	49,832
Growth%		63.4%	27.8%	14.3%	31.7%
PAT	9,278	17,231	21,105	23,279	32,883
Growth%		85.7%	22.5%	10.3%	41.3%
EPS (INR)	6.2	11.5	14.1	15.5	21.9
P/E (x)	20.9	17.6	16.5	14.2	10.0
P/B (x)	1.5	1.9	1.8	1.5	1.2
EV/EBITDA(x)	6.1	6.3	5.2	3.9	2.5

Source: Company, NSPL Research

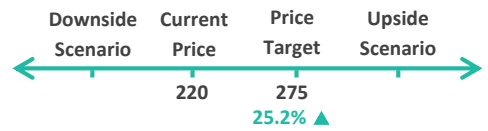
* Read last page for disclaimer & rating rationale

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STRONG BUY*



Market Data	
Industry	LNG Regas
Sensex	36469
Nifty	10893
Bloomberg Code	PLNG:IN
Eq. Cap. (INR Millions)	15000
Face Value (INR)	10
52-w H/L	202/255
Market Cap (INR Millions)	331350

Valuation Data	FY18	FY19E	FY20E
P/E (x)	16.5	14.2	10.0
P/B (x)	1.8	1.5	1.2
EV/EBITDA (x)	5.2	3.9	2.5

Petronet LNG Ltd Vs SENSEX



Shareholding Pattern (in %)

	Dec'18	Sept'18	Dec'17
Promoters	50.00	50.00	50.00
FIIIs	23.40	23.85	25.58
DIIIs	12.08	11.53	9.70
Retail	14.52	14.62	14.72
Total	100.0	100.0	100.0



Q3FY19 Result Analysis

(INR Millions)	Q3FY19	Q2FY19	Q3FY18	Y-o-Y	Q-o-Q
Revenue (Net of excise duty)	100977.4	107453.4	77570.6	30.17%	-6.03%
COGS	90989.3	96950.1	67559.4	34.68%	-6.15%
Employee Expenses	265.4	1037	196.7	34.93%	-74.41%
Other Expenses	1241.9	1236.6	1341	-7.39%	0.43%
Total Expenses	92496.6	99223.7	69097.1	33.86%	-6.78%
EBITDA	8480.8	8229.7	8473.5	0.09%	3.05%
Depreciation	1037	1037	1038.8	-0.17%	0.00%
Other Income	884.4	1114.8	414	113.62%	-20.67%
EBIT	8328.2	8307.5	7848.7	6.11%	0.25%
Finance Cost	215.4	248.9	366.5	-41.23%	-13.46%
PBT	8112.8	8058.6	7482.2	8.43%	0.67%
Taxes	2459.7	3036.6	2194.3	12.09%	-19.00%
Net Profit	5653.1	5022	5287.9	6.91%	12.57%
EPS in INR	3.77	3.75	3.53	6.80%	0.53%

Source: Company, NSPL Research

- The company’s net sales grew 30.2% y-o-y and de-grew by 6.0% q-o-q to INR 100977.4 million in Q3FY19.
- EBITDA grew by 0.1% y-o-y and 3.0% q-o-q to INR 8480.8 million in Q3FY19. EBITDA margins stood at 8.4% in Q3FY19 as against 10.9% in Q3FY18 and 7.7% in Q2FY19. Margins remained under pressure owing to sudden rise in raw materials cost.
- Employee expense grew by 34.9% y-o-y and de-grew by 74.4% q-o-q to INR 265.4 million.
- Finance cost de-grew by 41.2% y-o-y to INR 215.4 million in Q3FY19.
- PBT grew by 8.4% y-o-y & by 0.7% q-o-q to INR 8112.8 million in Q3FY19.
- Reported PAT grew by 6.9% y-o-y and 12.6% q-o-q to INR 5653.1 million in Q3FY19. PAT margins stood at 5.6% in Q3FY19 as compared to 6.8% in Q3FY18 and 4.7% in Q2FY19.

Volume breakup of Dahej & Kochi

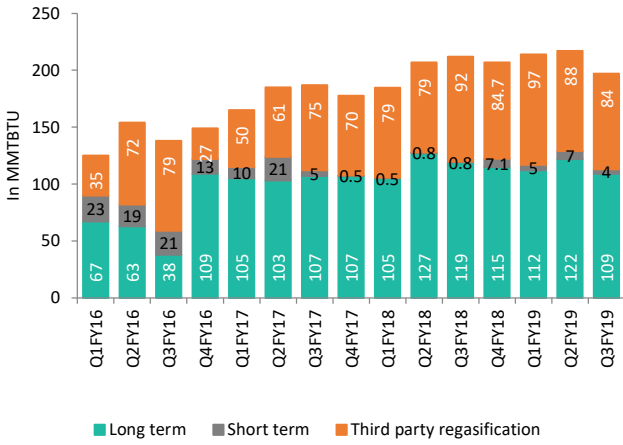
(In MMTBTU)	Q3FY19	Q2FY19	Q3FY18	Y-o-Y	Q-o-Q
Dahej volumes					
Long Term	109	122	119	-8.40%	-10.66%
Short Term	4	7	0.8	-	-42.86%
Third Party Regasification	84	88	91	-7.69%	-4.55%
Total Volumes	197	217	210.8	-6.55%	-9.22%
Kochi volumes					
Long Term	6.5	6	6	8.33%	8.33%
Short Term	0	0	2	-	-
Third Party Regasification	0	0	0	-	-
Total Volumes	6.5	6	8	-18.75%	8.33%

Source: Company, NSPL Research

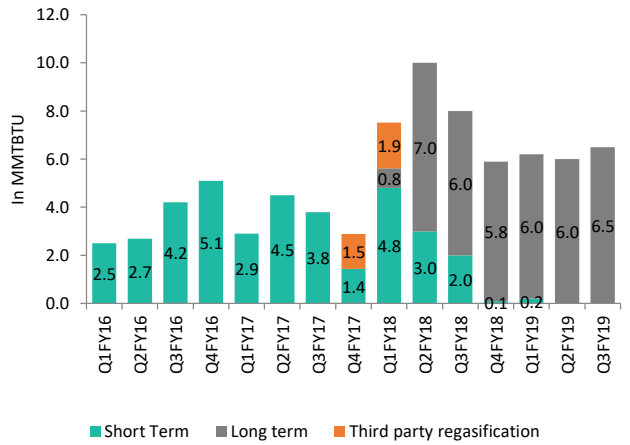
- The company’s long term volumes dipped by 8.4% y-o-y and 10.7% q-o-q to 109 MMTBTU in Q3FY19.
- However, dahej short term volumes stood at 4 MMTBTU in Q3FY19.
- Overall dahej volumes were expected to be flat since already the plant is running at 105-108% utilization levels. The incremental volume growth would be achieved by June 2019 when additional capacity of 2.5 MMTPA will start production.
- Kochi overall volumes recorded growth of 8.3% y-o-y & 8.3% q-o-q to 6.5 MMTBTU.



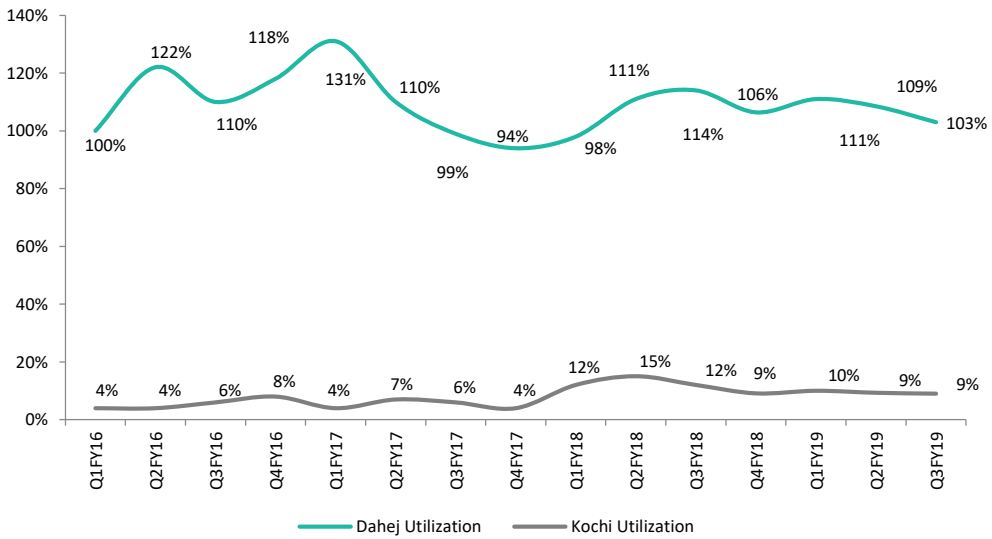
Dahej Sales Volume



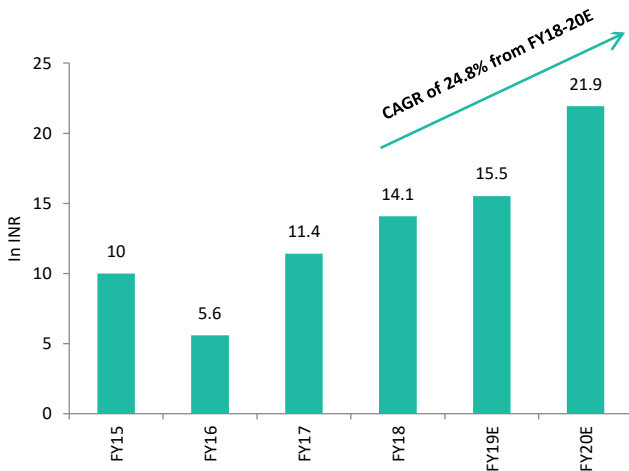
Kochi Sales Volume



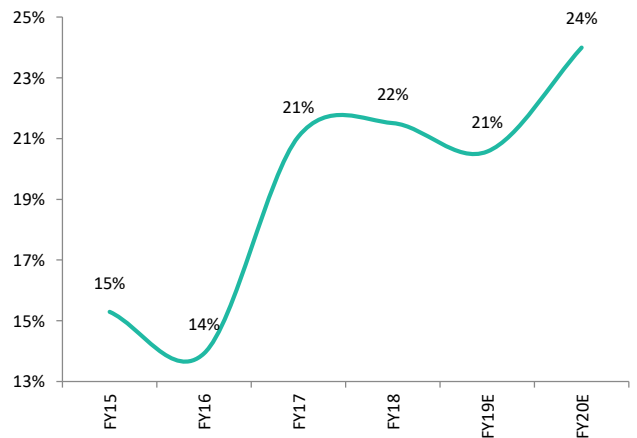
Dahej & Kochi Utilization trends



EPS growth to remain robust going ahead



ROE to inch up going ahead



Source: Company, NSPL Research



Conference Call highlights

- Management expects the 94 km stretch of the Kochi Mangalore pipeline to be completed by June 2019 due to monsoon issues, earlier guidance was December 2018. Post commissioning this will effectively increase the volume offtake by incremental 1 MMTPA which will help the Kochi terminal to operate at higher levels.
- Demand in the power sector has been on downtrend which is impacting the LNG demand. Management expect demand to return from Q4FY19E.
- 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 is also planning to add additional tank in dahej, however, stabilization and commercialization will take ~3 years and this will effectively increase the capacity to 19.5 MMTPA.
- Management guided that they are scouting opportunities in east coast as there is no terminal and this will improve the visibility of the company.
- The company along with Japanese partners will invest USD 300 million to set up Srilanka's first 2.6-2.7 million tonne LNG terminal near Colombo. Management guided the progress in this is a bit slow and will take time to commercialize and if there will be no green shoots visible then might even withdraw the deal.
- The company is planning to participate in the 10th round of bidding by PNGRB to get additional volumes for ramp up of Kochi utilization.

LNG Growth drivers

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

- Additional 40,000 new trucks 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	2,71,334	2,46,160	3,05,986	3,96,801	4,10,175
COGS	2,50,757	2,14,169	2,66,902	3,52,677	3,53,546
Employee Expenses	711	739	912	1,160	1,023
Other Expenses	4,005	5,330	5,049	5,119	5,774
EBITDA	15,863	25,923	33,124	37,844	49,832
D&A	3,216	3,691	4,117	4,328	4,408
Other income	1,733	3,466	3,174	3,199	3,210
EBIT	14,380	25,698	32,181	36,716	48,634
Interest Expense	2,388	2,097	1,630	1,520	1,444
PBT	12,138	23,777	30,877	35,196	47,190
Tax	2,860	6,545	9,773	11,917	14,308
PAT	9,278	17,231	21,105	23,279	32,883
EPS in INR	6.2	11.5	14.1	15.5	21.9

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	98,142	1,22,024
Shareholder's Funds	66,625	81,784	98,113	1,13,142	1,37,024
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	13,593	14,051
Other non-current liabilities	14,000	13,858	12,836	16,646	17,207
Total Non-current liabilities	42,271	35,725	30,730	36,184	36,030
Trade payables	7,721	9,446	15,699	18,095	18,139
Other financial liabilities	5,451	8,848	8,314	10,782	11,145
Other current liabilities	2,326	2,676	4,468	5,794	5,989
Short-term provisions	99	95	121	121	121
Current tax liabilities (Net)	253	562	-	-	-
Current liabilities	15,851	21,627	28,602	34,791	35,395
Total Equity and Liabilities	1,24,746	1,39,136	1,57,445	1,84,117	2,08,449
Fixed Assets	68,037	84,185	80,272	84,581	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	4,012	4,147
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	1,036	1,071
Total Non-current Assets	88,887	90,110	87,174	93,753	95,639
Inventories	2,461	5,405	4,911	6,489	6,505
Current Investments	-	27,707	39,578	39,578	39,578
Trade receivables	9,885	12,108	16,505	21,404	22,125
Cash and cash equivalents	21,767	3,210	8,553	21,975	43,655
Bank balance	62	64	72	72	72
Other current assets	13	3	11	14	14
Current Tax Assets (net)	1,321	281	93	121	125
Other current assets	350	249	548	710	734
Total Current Assets	35,859	49,026	70,271	90,364	1,12,809
Total Assets	1,24,746	1,39,136	1,57,445	1,84,117	2,08,449

Source: Company, NSPL Research

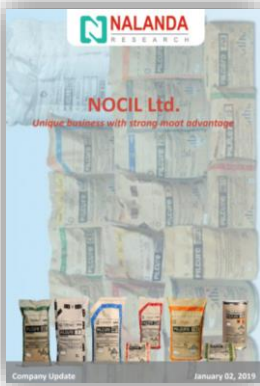


Cash Flow (INR Millions)	FY16	FY17	FY18	FY19E	FY20E
PBT	12,138	23,777	30,877	35,196	47,190
Operating profit before working capital changes	16,397	27,728	36,624	41,044	53,042
Operating profit after working capital changes	35,737	24,456	30,587	44,955	53,621
Less income tax paid	(1,996.6)	(3,779.7)	(9,773)	(11,917)	(14,308)
Cash Flow from Operating	33,740	20,676	20,814	33,038	39,313
(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	13,422	21,680
Cash at the Start of the Year	3,558	21,767	3,210	8,553	21,975
Cash at the End of the Year	21,767	3,210	8,553	21,975	43,655

RATIOS	FY16	FY17	FY18	FY19E	FY20E
Profitability					
Return on Assets (%)	7%	12%	13%	13%	16%
Return on Capital (%)	14%	23%	28%	28%	32%
Return on Equity (%)	14%	21%	22%	21%	24%
Margin Trend					
Gross Margin (%)	7.6%	13.0%	12.8%	11.1%	13.8%
EBITDA Margin (%)	5.8%	10.5%	10.8%	9.5%	12.1%
Net Margin (%)	3.4%	7.0%	6.9%	5.9%	8.0%
Liquidity					
Current Ratio	2.3	2.3	2.5	2.6	3.2
Quick Ratio	2.0	0.7	0.9	1.2	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	22	31
Valuation Ratios					
EV/EBITDA	6.1	6.3	5.2	3.9	2.5
P/E	20.9	17.6	16.5	14.2	10.0
P/B	1.5	1.9	1.8	1.5	1.2

Source: Company, NSPL Research

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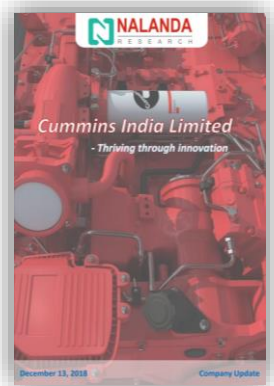
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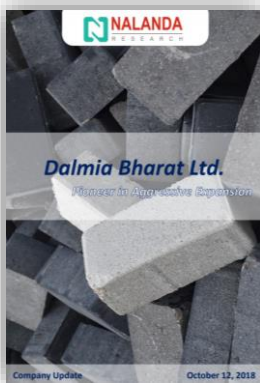
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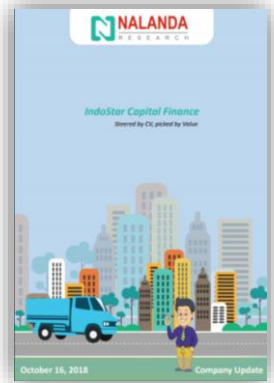
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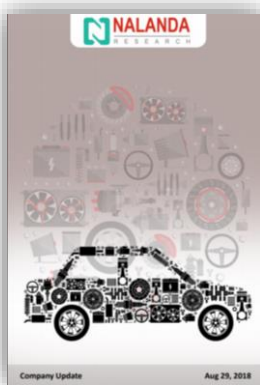
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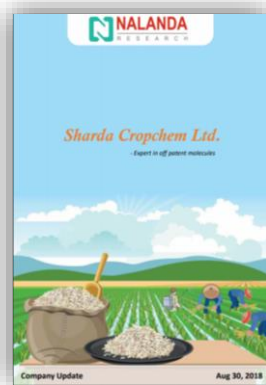
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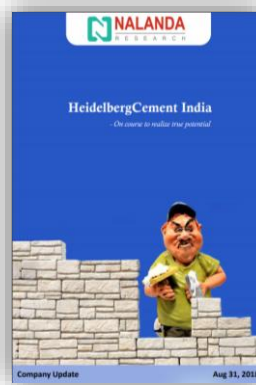
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Petronet LNG Ltd				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
February 04, 2019	220	275	Strong Buy	Buy	5% - 15%
November 13, 2018	218	254	Strong Buy	Hold	0 – 5%
July 30, 2018	229	281	Strong Buy	Reduce	-5% - 0
				Sell	Less than -5%

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Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO

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