

Petronet LNG

BSE SENSEX 33,219
S&P CNX 10,303

CMP: INR260

TP: INR312 (+20%)

Buy

Bloomberg	PLNG IN
Equity Shares (m)	750
M.Cap.(INRb)/(USD\$b)	390.2 / 6.0
52-Week Range (INR)	275 / 163
1, 6, 12 Rel. Per (%)	2/9/23
Avg Val, INRm	1098
Free float (%)	50.0

Financials & Valuations (INR b)

Y/E Mar	2018E	2019E	2020E
Sales	277.6	292.7	345.7
EBITDA	33.0	36.6	44.9
Adj. PAT	22.5	25.1	30.5
Adj. EPS (INR)	15.0	16.7	20.3
EPS Gr. (%)	31.7	11.8	21.4
BV/Sh.(INR)	64.7	76.8	91.4
RoE (%)	25.2	23.7	24.2
RoCE (%)	22.3	22.3	24.2
P/E (x)	17.4	15.5	12.8
P/BV (x)	4.0	3.4	2.8
EV/EBITDA (x)	11.8	10.1	7.7
Div. Yield (%)	1.4	1.5	1.9

Estimate change



TP change



Rating change



Robust operating performance; outlook positive

- EBITDA grew 24% YoY and 21% QoQ to INR9b, higher than our estimate of INR7.8b. The outperformance was primarily led by (a) higher utilization of Dahej and Kochi terminals, and (b) lower opex cost. PAT grew 28% YoY and 35% QoQ to INR5.9b, ahead our estimate of INR4.9b due to 11% YoY and 44% QoQ growth in other income to INR1b (our estimate: INR800m).
- Dahej throughput grew 14% YoY and 14% QoQ to a new high at 210tbtu (our estimate: 199tbtu), implying 111% utilization of the 15mmt capacity. This throughput includes (in tbtu) long term: 127 (+23% YoY, +21% QoQ), third-party: 79 (+30% YoY, flat QoQ), and short term: 4 (-81% YoY, +433% QoQ; contributing to marketing margins).
- Kochi throughput grew 122% YoY and 78% QoQ to 10tbtu (our estimate: 9.5tbtu), implying 15% utilization of the 5mmt capacity. This includes 7tbtu long-term (+775% QoQ) and 3tbtu pure short-term (-33% YoY, -38% QoQ).

Dahej capacity to reach 17.5mmt in 4QFY19; raising estimates

- Offtake increased primarily due to coal shortage faced by power plants and seasonally non-operational Dabhol LNG terminal. Going forward, if domestic coal production increases, we could see some demand weaning off.
- Management has guided for the further capacity expansion of Dahej terminal from 15mmt to 17.5mmt by 4QFY19. We have also increased Kochi regas tariff by 5% in CY18 and continue to retain flat henceforth. Adjusting our assumptions for the same results in 11% increase in FY20 estimates.
- GAIL has awarded a tender for the construction of the last leg on the Kochi-Mangalore pipeline. Completion of the ~400km pipeline would give access to anchor consumers like MCF, OMPL and MRPL refinery, all of which are ready to consume gas. Once completed, it will also help in Kochi LNG terminal ramp-up.

Valuation and view: With increased capacity at Dahej and robust utilization, we assume FY19/20 total volumes at 17.3/19.3mmt. We assume terminal growth of 3% beyond FY22. The stock trades at 15.5x FY19E EPS of INR16.7. We value PLNG on DCF (WACC: 11%, TGR: 3%) to arrive at a fair value of INR312. Reiterate **Buy**.

Standalone - Quarterly Earning Model

Y/E March	FY17				FY18				FY17	FY18E	FY18	Var. vs est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	53,373	66,144	62,993	63,651	64,351	77,702	67,326	68,221	246,160	277,600	65,436	19%
YoY Change (%)	-36.3	-12.3	22.4	4.9	20.6	17.5	6.9	7.2	-9.3	12.8	-1.1	
EBITDA	6,425	7,264	6,071	6,163	7,442	8,987	8,052	8,486	25,923	32,967	7,793	15%
Margins (%)	12.0	11.0	9.6	9.7	11.6	11.6	12.0	12.4	10.5	11.9	11.9	
Depreciation	806	860	1,009	1,016	1,027	1,039	1,078	1,078	3,691	4,220	1,078	-4%
Interest	556	554	517	469	465	465	267	267	2,097	1,463	470	-1%
Other Income	494	915	550	1,508	707	1,019	1,143	1,143	3,466	4,012	800	27%
PBT	5,556	6,765	5,095	6,186	6,658	8,504	7,851	8,284	23,602	31,296	7,046	21%
Tax	1,777	2,170	1,121	1,478	2,282	2,616	2,355	2,485	6,545	9,738	2,114	24%
Rate (%)	32	32	22	24	34	31	30	30	28	31	30	
PAT	3,779	4,596	3,975	4,708	4,376	5,888	5,495	5,799	17,057	21,558	4,932	19%
YoY Change (%)	115.8	84.7	122.8	96.8	15.8	28.1	38.3	23.2	102.7	26.4	7.3	
Margins (%)	7.1	6.9	6.3	7.4	6.8	7.6	8.2	8.5	6.9	7.8	7.5	
Key Assumptions												
Regas volume (tbtu)	50.1	60.7	75.3	71.1	80.5	79.0	94.3	94.3	257.1	348.0	94.3	-16%
Sales volume (tbtu)	118.1	128.2	116.1	108.9	111.1	141.0	117.4	117.4	471.2	487.0	114.3	23%

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

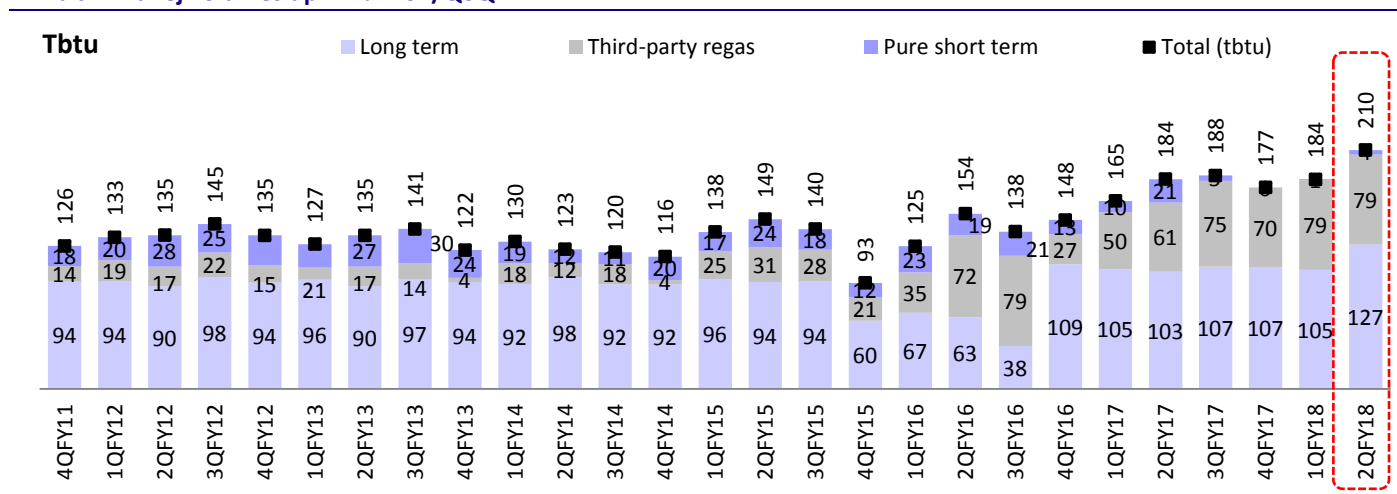
Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: Petronet LNG: Key financial and operating performance metrics

	FY16				FY17				FY18		2QFY18	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	% YoY	% QoQ
Dahej Sales Volume (tbtu)												
Long term	67.1	63.0	37.7	109.4	105.3	103.0	107.5	107.1	104.8	127.0	23%	21%
Third-party regas	35.3	72.1	79.5	26.5	50.1	60.7	75.3	69.6	78.6	79.0	30%	0%
Pure short term	23.1	18.8	21.1	12.5	9.9	20.7	4.8	0.4	0.8	4.0	-81%	433%
Sub-total (Tbtu)	125.4	153.9	138.2	148.5	165.2	184.4	187.6	177.1	184.1	210.0	14%	14%
Kochi Sales Volume (tbtu)												
Long term	-	-	-	-	-	-	-	-	0.8	7.0	na	na
Third-party regas	-	-	-	-	-	-	-	1.5	1.9	-	na	na
Pure short term	2.5	2.7	4.2	5.1	2.9	4.5	3.8	1.4	4.8	3.0	-33%	-38%
Sub-total (Tbtu)	2.5	2.7	4.2	5.1	2.9	4.5	3.8	2.9	7.5	10.0	122%	33%
Total (tbtu)	127.9	156.6	142.4	153.6	168.1	188.9	191.4	180.0	191.7	220.0	16%	15%

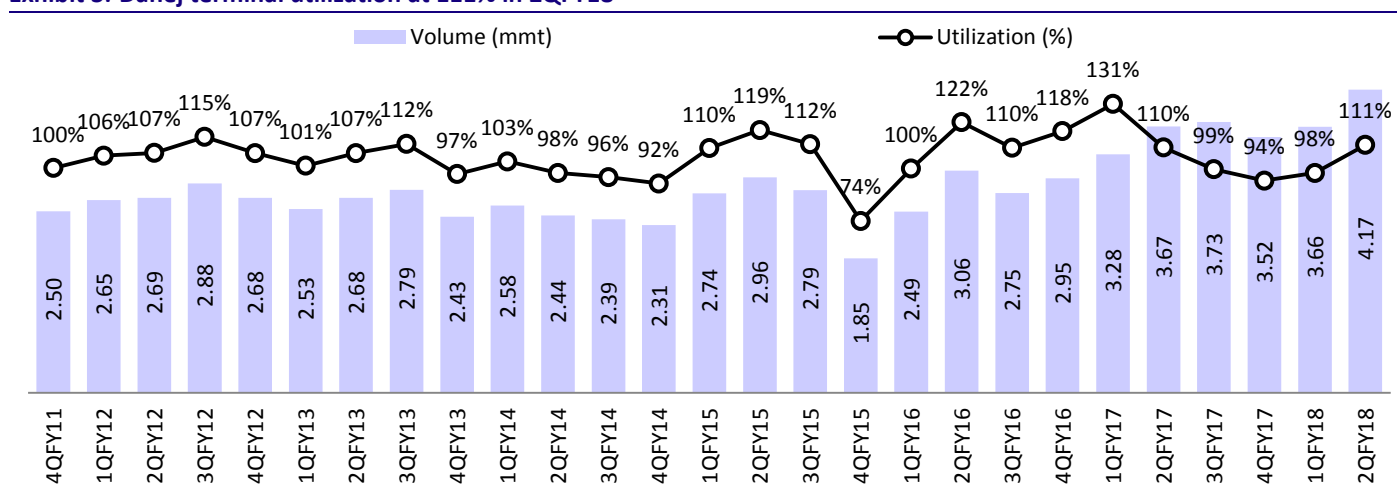
Source: Company, MOSL

Exhibit 2: Dahej volumes up +14% YoY/QoQ



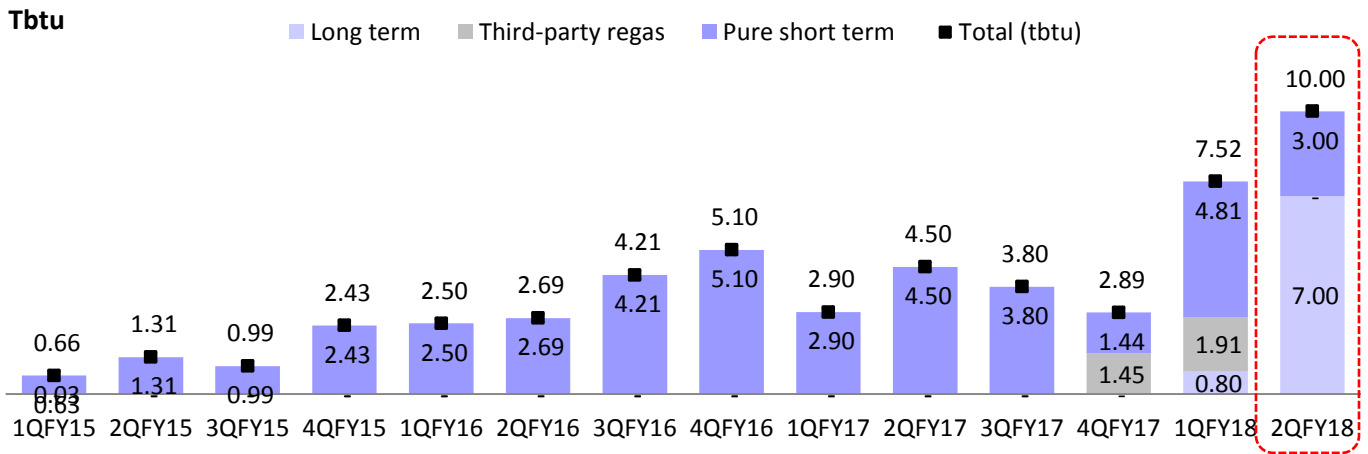
Source: Company, MOSL

Exhibit 3: Dahej terminal utilization at 111% in 2QFY18



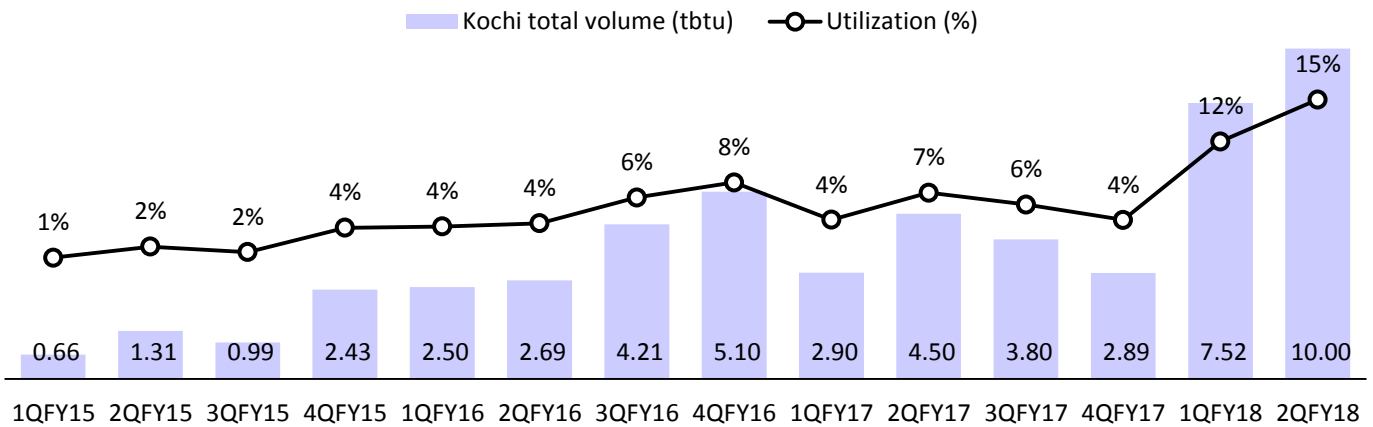
Source: Company, MOSL

Exhibit 4: Kochi volumes up +122% YoY and +33% QoQ



Source: Company, MOSL

Exhibit 5: Kochi terminal utilization at ~15% in 2QFY18



Source: Company, MOSL



Key concall highlights

- Management expect to ramp-up Dahej terminal capacity to 17.5mmt in 4QFY19.
- Gorgon volumes stood at 10-11tbtu in 1QFY18/2QFY18.
- Kochi utilization will gradually increase – should remain 15% in CY18; expect Kochi-Mangalore pipeline to be operational by December 2018.
- Management guides capex of INR2.3b for FY18 and similar amount for FY19.

Valuation and view

- Petronet LNG is a direct play on India's natural gas deficit situation. While incremental gas demand will be a function of liquid v/s gas economics, take-or-pay contracts offer earnings certainty for PLNG.
- Its 10–15mmt Dahej expansion is almost fully utilized, and will be further ramped up to 17.5mmt by 2019. While major capex is behind, scope to increase dividend payout will be a function of its growth plans in adjoining countries.
- **Dahej continues to lead:** As against 15mmt capacity, PLNG has ~16mmt (RasGas: 8.5, new contracts: 7.5) long-term take-or-pay contracts. We do not see much of a problem in utilization of the Dahej facility.
- **Kochi ramp-up provides an upside:** GAIL has awarded a tender for the construction of the last leg on the Kochi-Mangalore pipeline. The completion of the ~400km pipeline would give access to anchor consumers like MCF, OMPL and MRPL refinery, all of which are ready to consume gas. Once completed, this will also help in ramp-up of the Kochi LNG terminal.
- PLNG's medium-term earnings growth visibility is strong led by (a) Dahej expansion from 10 to 15mmtpa, along with 15.75mmtpa take-or-pay contracts. Kochi-Mangalore-Bangalore pipeline will be completed by 2018-end, and will give further boost to utilization of the Kochi LNG terminal.
- With increased capacity of 15mmt at Dahej and robust utilization levels, we assume FY19/20 total volumes at 17.3/19.3mmt. We assume terminal growth of 3% beyond FY22. The stock trades at 15.5x FY19E EPS of INR16.7. We value PLNG on DCF (WACC: 11%, TGR: 3%) to arrive at a fair value of INR312. Reiterate **Buy**.

Exhibit 6: Petronet LNG - Key Earnings model assumptions

	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Capacity (mmt)	10.0	10.0	15.0	15.0	15.0	16.3	20.0	20.6	22.5
Dahej	10.0	10.0	10.0	10.0	10.0	11.3	15.0	15.6	17.5
Kochi			5.0	5.0	5.0	5.0	5.0	5.0	5.0
Throughput (mmt)	10.9	10.4	9.7	10.5	11.2	14.4	16.4	17.3	19.3
Dahej	10.9	10.4	9.7	10.4	10.9	14.1	15.6	16.0	16.8
Kochi			0.0	0.1	0.3	0.3	0.8	1.4	2.5
Utilization rate (%)	109%	104%	65%	70%	75%	88%	82%	84%	86%
Dahej	109%	104%	97%	104%	109%	126%	104%	102%	96%
Kochi			1%	2%	6%	5%	17%	28%	50%

Source: Company, MOSL

Exhibit 7: DCF fair value of INR312 (WACC: 11%, TGR: 3%)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22
PAT incld div/FBT	9,133	17,057	22,459	25,106	30,486	34,882	42,727
Depr	3,216	3,691	4,310	5,760	5,885	6,010	6,135
Change in net working capital	17086.89	-25979	-3753	611.56	697.5	714.99	984.36
Capex	-9,931	-4,796	-5,000	-5,000	-5,000	-5,000	-5,000
FCFF (Rs mn)	19,504	-10,028	18,016	26,478	32,068	36,606	44,846

One year valuation

NPV (Rs mn)	124,205
Terminal growth rate	3.0%
TV (Rs mn)	342,654
Enterprise value (Rs mn)	466,859
Net debt (Rs mn)	-420
Equity value (Rs mn)	467,278
Target price (Rs)	312

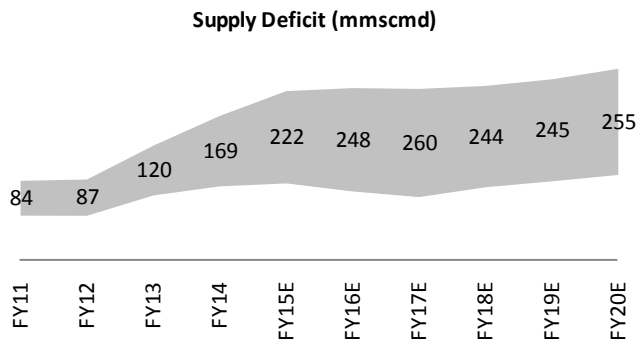
WACC Calculation

Risk free rate	7.0%
Beta	0.826
Rm	14.0%
Re	12.8%
D/E	30.0%
Rd	4.0%
WACC	11.0%

Source: Company, MOSL

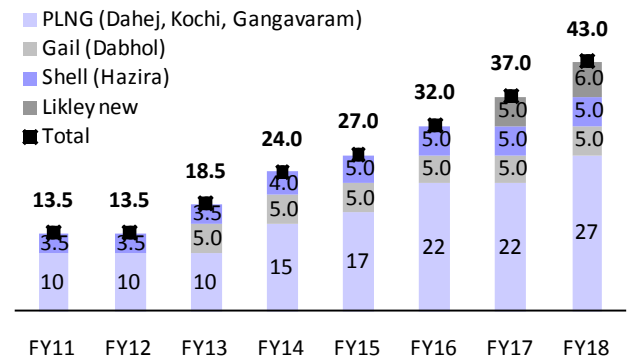
Story in charts

Exhibit 8: India's gas deficit situation expected to continue in the medium term



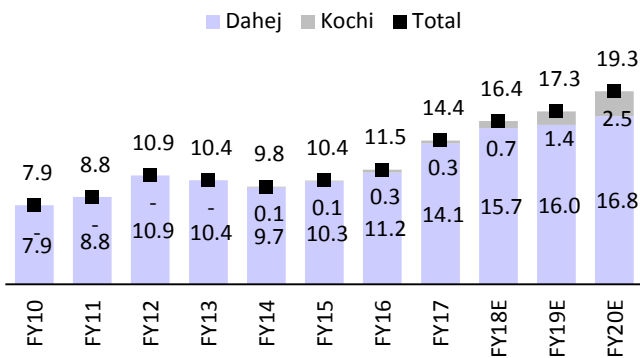
Source: MoPNG, Industry, MOSL

Exhibit 9: PLNG has 63% of India's currently operating LNG import capacity (mmt)



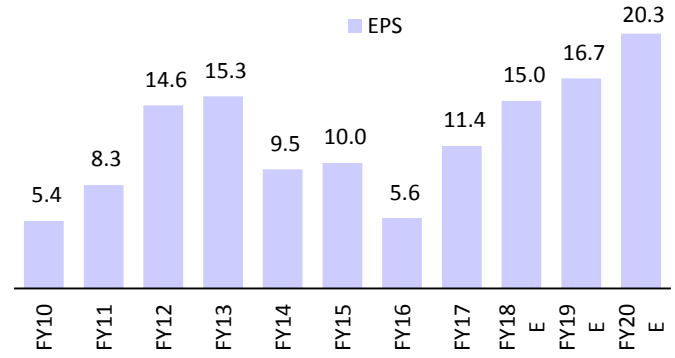
Source: Company, MOSL

Exhibit 10: Expect PLNG to report ~10% volume CAGR through FY20



Source: Company, MOSL

Exhibit 11: Expect PLNG to report ~21% EPS CAGR through FY20



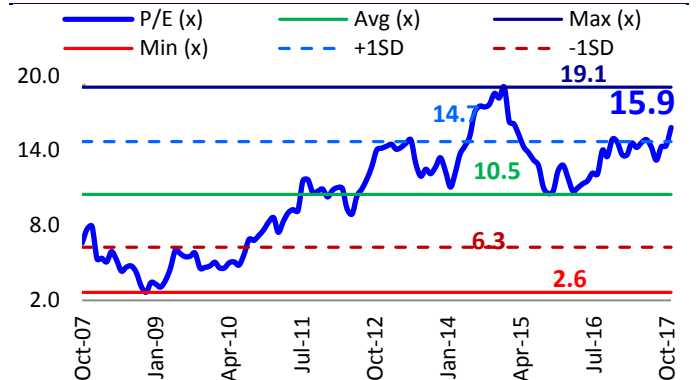
Source: Company, MOSL

Exhibit 12: Expect return ratios to remain robust (%)



Source: Company, MOSL

Exhibit 13: 1Y Fwd Petronet LNG P/E



Source: Company, MOSL

Financials and Valuations

Standalone - Income Statement								(INR m)
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Total Income from Operations	314,672	377,476	395,010	271,334	246,160	277,648	292,741	345,743
Change (%)	38.6	20.0	4.6	-31.3	-9.3	12.8	5.4	18.1
Raw Materials	293,050	358,424	376,109	250,757	214,169	238,812	249,579	292,925
Employees Cost	370	466	571	717	739	912	1,065	1,467
Other Expenses	2,819	3,601	3,940	3,958	5,330	4,909	5,485	6,476
Total Expenditure	296,239	362,491	380,620	255,431	220,238	244,633	256,129	300,868
% of Sales	94.1	96.0	96.4	94.1	89.5	88.1	87.5	87.0
EBITDA	18,433	14,984	14,390	15,903	25,923	33,015	36,611	44,874
Margin (%)	5.9	4.0	3.6	5.9	10.5	11.9	12.5	13.0
Depreciation	1,866	3,081	3,154	3,216	3,691	4,310	5,760	5,885
EBIT	16,567	11,903	11,236	12,687	22,232	28,705	30,851	38,990
Int. and Finance Charges	1,184	2,196	2,935	2,387	2,097	1,068	564	7
Other Income	1,817	838	1,548	1,704	3,466	4,574	5,578	7,201
PBT bef. EO Exp.	17,200	10,545	9,849	12,004	23,602	32,212	35,866	46,183
EO Items	0	0	1,323	724	0	0	0	0
PBT after EO Exp.	17,200	10,545	11,172	12,728	23,602	32,212	35,866	46,183
Total Tax	5,710	3,426	2,347	3,588	6,545	9,753	10,760	15,698
Tax Rate (%)	33.2	32.5	21.0	28.2	27.7	30.3	30.0	34.0
Reported PAT	11,490	7,119	8,825	9,140	17,057	22,459	25,106	30,486
Adjusted PAT	11,490	7,119	7,502	8,416	17,057	22,459	25,106	30,486
Change (%)	4.9	-38.0	5.4	12.2	102.7	31.7	11.8	21.4
Margin (%)	3.7	1.9	1.9	3.1	6.9	8.1	8.6	8.8

Standalone - Balance Sheet								(INR m)
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	7,500	7,500	7,500	7,500	7,500	15,000	15,000	15,000
Total Reserves	36,997	42,361	49,386	58,640	73,439	82,092	100,148	122,074
Net Worth	44,497	49,861	56,886	66,140	80,939	97,092	115,148	137,074
Total Loans	27,182	31,965	32,738	22,329	14,500	16,000	100	100
Deferred Tax Liabilities	3,910	5,530	7,270	5,886	7,302	7,302	7,302	7,302
Capital Employed	75,589	87,356	96,894	94,355	102,741	120,393	122,550	144,476
Gross Block	35,796	77,946	87,869	90,214	110,507	113,946	116,446	118,946
Less: Accum. Deprn.	12,217	15,295	18,443	22,109	26,277	30,587	36,347	42,231
Net Fixed Assets	23,579	62,650	69,426	68,105	84,230	83,359	80,099	76,714
Capital WIP	43,305	8,799	7,469	15,505	486	2,047	4,547	7,047
Total Investments	1,399	1,399	900	4,606	4,322	4,322	4,322	4,322
Curr. Assets, Loans&Adv.	42,546	46,278	33,392	36,046	49,253	66,924	71,302	98,544
Inventory	10,366	9,557	8,826	2,461	5,405	6,702	7,017	8,243
Account Receivables	16,898	20,156	13,428	9,885	12,108	12,171	12,832	15,156
Cash and Bank Balance	12,685	12,327	3,641	21,767	3,210	16,420	19,948	43,456
Loans and Advances	2,596	4,237	7,497	1,932	28,530	31,632	31,505	31,689
Curr. Liability & Prov.	35,239	31,771	14,292	29,907	35,550	36,259	37,720	42,151
Account Payables	32,940	29,042	12,356	29,752	35,390	30,869	31,695	34,835
Provisions	2,299	2,729	1,936	155	160	5,390	6,025	7,316
Net Current Assets	7,306	14,507	19,100	6,139	13,703	30,666	33,582	56,393
Appl. of Funds	75,589	87,355	96,894	94,354	102,741	120,393	122,550	144,476

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)								
EPS	7.7	4.7	5.0	5.6	11.4	15.0	16.7	20.3
Cash EPS	8.9	6.8	7.1	7.8	13.8	17.8	20.6	24.2
BV/Share	29.7	33.2	37.9	44.1	54.0	64.7	76.8	91.4
DPS	2.5	1.0	2.0	2.5	2.5	3.6	4.0	4.9
Payout (%)	38.2	24.7	39.8	48.0	25.7	28.1	28.1	28.1
Valuation (x)								
P/E			52.0	46.4	22.9	17.4	15.5	12.8
Cash P/E			36.6	33.5	18.8	14.6	12.6	10.7
P/BV			6.9	5.9	4.8	4.0	3.4	2.8
EV/Sales			1.1	1.4	1.6	1.4	1.3	1.0
EV/EBITDA			29.1	24.6	15.5	11.8	10.1	7.7
Dividend Yield (%)	1.0	0.4	0.8	1.0	1.0	1.4	1.5	1.9
FCF per share	5.5	-0.3	-1.4	15.4	-5.8	12.0	17.7	21.4
Return Ratios (%)								
RoE	28.8	15.1	14.1	13.7	23.2	25.2	23.7	24.2
RoCE	17.9	11.2	11.8	11.6	20.2	22.3	22.3	24.2
RoIC	51.2	19.4	11.9	13.3	21.8	20.8	22.6	28.1
Working Capital Ratios								
Asset Turnover (x)	4.2	4.3	4.1	2.9	2.4	2.3	2.4	2.4
Inventory (Days)	12	9	8	3	8	9	9	9
Debtor (Days)	20	19	12	13	18	16	16	16
Leverage Ratio (x)								
Net Debt/Equity	0.3	0.4	0.5	-0.1	0.1	0.0	-0.2	-0.3

Standalone - Cash Flow Statement

(INR m)

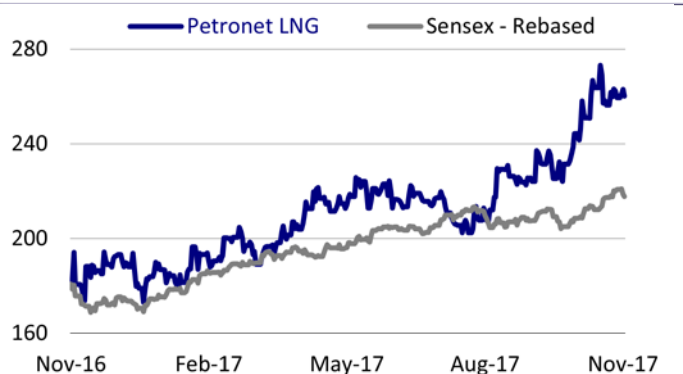
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	17,203	10,545	9,849	11,992	23,602	32,212	35,866	46,183
Depreciation	1,866	3,081	3,154	3,216	3,691	4,310	5,760	5,885
Direct Taxes Paid	-5,710	-3,426	-1,024	-2,860	-6,545	-9,753	-10,760	-15,698
(Inc)/Dec in WC	5,194	-7,559	-13,279	17,087	-25,979	-3,753	612	697
CF from Operations	18,552	2,641	-1,300	29,435	-5,232	23,016	31,478	37,068
Others	280	4,620	7,740	3,616	1,274	0	0	0
CF from Operating incl EO	18,832	7,261	6,440	33,051	-3,958	23,016	31,478	37,068
(Inc)/Dec in FA	-10,635	-7,647	-8,599	-9,931	-4,796	-5,000	-5,000	-5,000
Free Cash Flow	8,197	-386	-2,159	23,120	-8,754	18,016	26,478	32,068
(Pur)/Sale of Investments	0	0	499	-3,706	283	0	0	0
Others	0	0	0	0	0	0	0	0
CF from Investments	-10,635	-7,647	-8,100	-13,637	-4,513	-5,000	-5,000	-5,000
Issue of Shares	2,194	0	1,710	4,508	2,130	0	0	0
Inc/(Dec) in Debt	-3,158	1,782	-5,227	-1,409	-7,829	1,500	-15,900	0
Dividend Paid	-4,387	-1,755	-3,510	-4,387	-4,387	-6,306	-7,050	-8,560
Others	0	0	0	0	0	0	0	0
CF from Fin. Activity	-5,351	28	-7,027	-1,288	-10,086	-4,806	-22,950	-8,560
Inc/Dec of Cash	2,846	-358	-8,686	18,126	-18,557	13,210	3,528	23,508
Opening Balance	9,839	12,685	12,327	3,641	21,767	3,210	16,420	19,948
Closing Balance	12,685	12,327	3,641	21,767	3,210	16,420	19,948	43,456

Corporate profile

Company description

Petronet LNG (PLNG) was formed as a joint venture by the government of India to import LNG and set up LNG terminals in India. Each promoter - GAIL, ONGC, IOCL and BPCL, holds 12.5% stake in PLNG. The company owns India's first LNG receiving and regasification terminal of 10mmtpa at Dahej and 5mmtpa terminal at Kochi commissioned in 2QFY14. It has a tied up long-term off-take contracts of 14.75mmtpa effective from its capacity expansion to 15mmtpa at Dahej in 2016.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Sep-17	Jun-17	Sep-16
Promoter	50.0	50.0	50.0
DII	12.8	12.1	16.0
FII	21.8	22.3	21.7
Others	15.4	15.6	12.3

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
ICICI PRUDENTIAL EQUITY ARBITRAGE FUND	2.3
SBI MAGNUM EQUITY FUND	1.7
SMALLCAP WORLD FUND, INC	1.4
STICHTING DEPOSITARY APG EMERGING MARKETS EQUITY POOL	1.3

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Kapil Dev Tripathi	Chairman
Prabhat Singh	Managing Director & CEO
R K Garg	Director (Finance)
K C Sharma	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Rajender Singh	Arun Kumar Misra
Jyoti Kiran Shukla	Sushil Kumar Gupta
G K Satish	Philip Olivier
T Natarajan	D Rajkumar
Subir Purkayastha	D K Sarraf
Eric Ebelin	

*Independent

Exhibit 6: Auditors

Name	Type
A N Kukreja & Co	Secretarial Audit
K L Jaisingh & Co	Cost Auditor
T R Chadha & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	15.0	13.4	11.9
FY19	16.7	15.5	8.0
FY20	20.3	17.4	16.9

Source: Bloomberg

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