

BSE Code: 532522

NSE Code: PETRONET

Reuters Code: PLNG.NS

Bloomberg Code: PLNG.IN

**Healthy performance**

Petronet LNG (PLNG) was formed as a joint venture by the government of India to import liquefied natural gas (LNG) and set up LNG terminals in India. While Dahej terminal has a capacity of 15 MMTPA, the Kochi terminal has a capacity of 5 MMTPA.

**Investment Rationale**

➤ **Volumes spurred on the back of enhanced capacity at Dahej**

During Q4FY17, Petronet LNG reported a sales growth of ~5% YoY aided by healthy volume growth of ~17% YoY. While tolling volume increased 168% YoY to 71.1TBtu, Long term LNG volume/ spot cargoes declined 2%/90% YoY to 107.1 TBtu/1.8 TBtu. As a result, total volume increased by 17.2% YoY to 180TBtu. However, on QoQ basis, it reported a muted revenue growth of 1% in Q4FY17 due to drop in Dahej volumes and lower utilisation. While Dahej volumes fell 6% QoQ, utilisation dropped to 91% from 96% in Q3FY17. The company processed 177.1 TBtu of natural gas in Q4 as against 187.6 TBtu in Q3 due to lower regasification volumes (fell 5.6% QoQ) and decline in third-party spot sales volume impacted by sharp increase in LNG prices. Notably, volumes at Kochi terminal during the quarter fell 23% QoQ to 2.9 TBtu with utilisation of 4%. The company's blended tariffs in Q4FY17 rose by 20.6% QoQ to Rs46.8/TBtu as PLNG took a annual 5% hike in long-term tariffs in the month of January. Post hike, Dahej's long-term tariffs stood at Rs44.7/TBtu and Rs75.4/TBtu for Kochi. With ongoing capacity expansion plans, we estimate LNG volumes to increase from 728.3 TBtu in FY17 to 806/901 TBtu in FY18E/FY19E. Hence, we expect revenue to grow at ~18% CAGR over FY17-19E aided by enhanced capacities at Dahej coupled with rising utilisation levels at Kochi LNG terminal.

➤ **Inline operating performance while higher other income boosted PAT**

EBITDA grew by 2% QoQ (up 24% YoY) in Q4FY17 primarily on account of landing of three cargoes from Gorgon Australia, totalling ~8TBtus at Dahej with Kochi tariff. Adj. PAT grew by 92% (YoY) (up by 18% QoQ) mainly driven by higher other income. We expect EBITDA to grow at 14.5% CAGR over FY17-19E owing to better operating leverage.

➤ **Enhanced capacities to drive volumes**

We expect Kochi terminal's performance to improve with throughput of 26 TBtus/59 TBtus in FY18/FY19 as BPCL's Kochi refinery expansion has been completed & Fertilisers and Chemicals Travancore Limited (FACT) resumes its gas offtake. Further, the utilisation (to improve to 10% in FY18) at Kochi terminal will get a boost (incremental volumes) from Kochi-Mangalore-Bangalore pipeline which is expected to be completed by December 2018. Besides, the management highlighted that upcoming Gorgon Australia volumes will go to Kochi terminal. Moreover, capacity expansion at Dahej from 15mmtpa to 17.5mmt is expected to be completed by FY20. In addition, PLNG's board has approved setting up one more storage tank at Dahej terminal at cost of USD100m. Notably, Torrent Power has started accepting ~0.5 mmtpa of volume offtake from April 2017. Consequently, we expect volumes to grow at a CAGR of % over FY17-19E.

**Valuations**

Given PLNG's dominant position in this space, we expect revenue/PAT to grow at a CAGR of ~16%/7% over FY17-19E. We are upbeat on the stock as it is a play on India's rising LNG imports. Hence, we recommend 'BUY' rating on the stock with a TP of Rs247 based on 15.7x FY19E EPS.

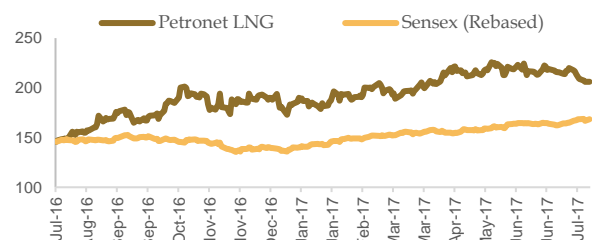
**Market Data**

<b>Rating</b>	<b>BUY</b>
<b>CMP (Rs.)</b>	205
<b>Target (Rs.)</b>	247
<b>Potential Upside</b>	20%
<b>Duration</b>	Long Term
Face Value (Rs.)	10
52 week H/L (Rs.)	229/145
Adj. all time High (Rs.)	-
Decline from 52WH (%)	10
Rise from 52WL (%)	41
Beta	0.8
Mkt. Cap (Rs.Cr)	30,825

**Fiscal Year Ended**

Y/E	FY16	FY17	FY18E	FY19E
Revenue (Rs.Cr)	27,133	24,616	29,416	34,523
Adj. profit (Rs.Cr)	914	1,706	1,912	2,360
Adj. EPS (Rs.)	6.1	11.4	12.7	15.7
P/E (x)	33.7	18.1	16.1	13.1
P/BV (x)	4.8	3.8	3.4	3.0
ROE (%)	15.2	23.6	22.3	24.3

**One year Price Chart**



**Shareholding Pattern**

	Mar-17	Dec-16	Chg.
Promoters	50	50	-
FII's	19.4	21.7	(2.3)
MFs/Insti	17.7	16.3	1.4
Public	9.6	9.6	-
Others	3.3	2.4	0.9

### Petronet LNG Ltd: Business overview

Petronet LNG (PLNG) was formed as a joint venture by the government of India to import liquefied natural gas (LNG) and set up LNG terminals in India. While Dahej terminal has a capacity of 15 MMTPA, the Kochi terminal has a capacity of 5 MMTPA.

#### Volume break-up

Volumes (TBtus)	Q4 FY17	Q4 FY16	YoY Growth %	Q3 FY17	QoQ Growth %	FY16	FY17
Dahej Terminal	177.1	148.5	19%	187.6	(6%)	714	566
Kochi Terminal	2.9	5.1	(42%)	3.8	(24%)	14	14

Source: Company, In-house research

## Volumes spurred on the back of enhanced capacity at Dahej

During Q4FY17, Petronet LNG reported a sales growth of ~5% YoY aided by healthy volume growth of ~17% YoY. While tolling volume increased 168% YoY to 71.1TBtu, Long term LNG volume/ spot cargoes declined 2%/90% YoY to 107.1 TBtu/1.8 TBtu. As a result, total volume increased by 17.2% YoY to 180TBtu. However, on QoQ basis, it reported a muted revenue growth of 1% in Q4FY17 due to drop in Dahej volumes and lower utilisation. While Dahej volumes fell 6% QoQ, utilisation dropped to 91% from 96% in Q3FY17. The company processed 177.1 TBtu of natural gas in Q4 as against 187.6 TBtu in Q3 due to lower regasification volumes (fell 5.6% QoQ) and decline in third-party spot sales volume impacted by sharp increase in LNG prices. Notably, volumes at Kochi terminal during the quarter fell 23% QoQ to 2.9 TBtu with utilisation of 4%. The company's blended tariffs in Q4FY17 rose by 20.6% QoQ to Rs46.8/TBtu as PLNG took a annual 5% hike in long-term tariffs in the month of January. Post hike, Dahej's long-term tariffs stood at Rs44.7/TBtu and Rs75.4/TBtu for Kochi. With ongoing capacity expansion plans, we estimate LNG volumes to increase from 728.3 TBtu in FY17 to 806/901 TBtu in FY18E/FY19E. Hence, we expect revenue to grow at ~18% CAGR over FY17-19E aided by enhanced capacities at Dahej coupled with rising utilisation levels at Kochi LNG terminal.

### Quarterly Financials (Standalone)

(Rs cr)	Q4FY17	Q4FY16	YoY	Q3FY17	QoQ
			Growth		Growth
			%		%
<b>Sales</b>	<b>6365</b>	<b>6065</b>	4.9%	<b>6299</b>	1.0%
<b>EBITDA</b>	<b>616</b>	<b>496</b>	24.1%	<b>607</b>	1.5%
Margin (%)	9.7%	8.2%	18.3%	9.6%	0.5%
Depreciation	102	80	27.0%	101	0.7%
<b>EBIT</b>	<b>515</b>	<b>416</b>	23.6%	<b>506</b>	1.7%
Interest	47	54	-12.3%	52	-9.2%
Other Income	151	-3	-	55	174.0%
Exceptional Items	0	0	-	0	-
<b>PBT</b>	<b>619</b>	<b>360</b>	71.7%	<b>510</b>	21.4%
Tax	148	115	28.5%	112	31.9%
<b>PAT</b>	<b>471</b>	<b>245</b>	91.9%	<b>397</b>	18.4%
Minority Interest/ PL from Associates	0	0	-	0	-
<b>Reported PAT</b>	<b>471</b>	<b>245</b>	91.9%	<b>397</b>	18.4%
Adjustment	0	0	-	0	-
<b>Adj PAT</b>	<b>471</b>	<b>245</b>	91.9%	<b>397</b>	18.4%
No. of shares (cr)	75	75	0.0%	75	0.0%
<b>EPS (Rs)</b>	<b>6.3</b>	<b>3.3</b>	91.9%	<b>5.3</b>	18.4%

Source: Company, In-house research

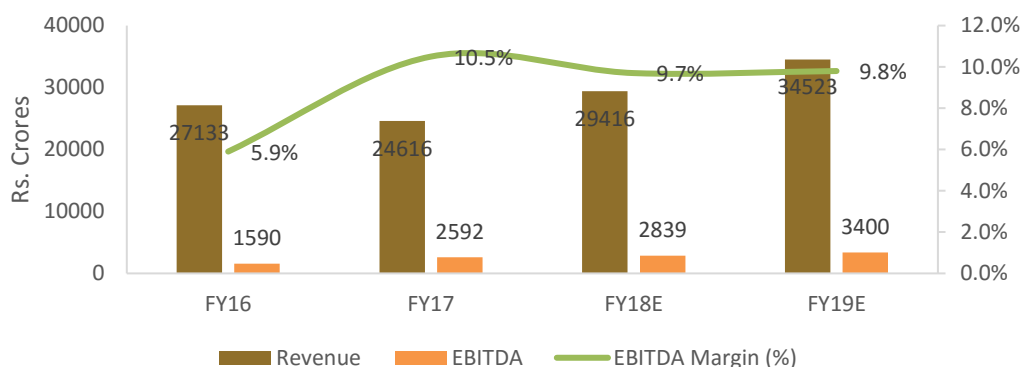
## Inline operating performance while higher other income boosted PAT

EBITDA grew by 2% QoQ (up 24% YoY) in Q4FY17 primarily on account of landing of three cargoes from Gorgon Australia, totalling ~8TBtus at Dahej with Kochi tariff. Adj. PAT grew by 92% (YoY) (up by 18% QoQ) mainly driven by higher other income. We expect EBITDA to grow at 14.5% CAGR over FY17-19E owing to better operating leverage.

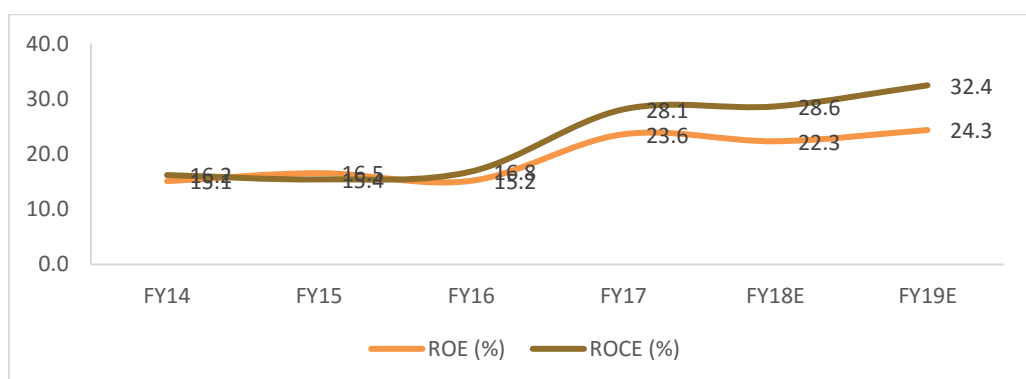
## Enhanced capacities to drive volumes:

We expect Kochi terminal's performance to improve with throughput of 26 TBtus/59 TBtus in FY18/FY19 as BPCL's Kochi refinery expansion has been completed & Fertilisers and Chemicals Travancore Limited (FACT) resumes its gas offtake. Further, the utilisation (to improve to 10% in FY18) at Kochi terminal will get a boost (incremental volumes) from Kochi-Mangalore-Bangalore pipeline which is expected to be completed by December 2018. Besides, the management highlighted that upcoming Gorgon Australia volumes will go to Kochi terminal. Moreover, capacity expansion at Dahej from 15mmtpa to 17.5mmt is expected to be completed by FY20. In addition, PLNG's board has approved setting up one more storage tank at Dahej terminal at cost of USD100m. Notably, Torrent Power has started accepting ~0.5 mmtpa of volume offtake from April 2017. Consequently, we expect volumes to grow at a CAGR of % over FY17-19E.

### EBITDA to grow at 15% CAGR over FY17-19E



### Return ratios trend



Source: Company, In-house research

## Key Risks:

- High gas prices
- Capacity expansion by other regasification terminals may impact Petronet LNG's incremental contracts

### Profit & Loss Account (Standalone)

Y/E (Rs. Cr)	FY16	FY17	FY18E	FY19E
<b>Sales</b>	<b>27,133</b>	<b>24,616</b>	<b>29,416</b>	<b>34,523</b>
% change	-31.3%	-9.3%	19.5%	17.4%
<b>EBITDA</b>	<b>1,590</b>	<b>2,592</b>	<b>2,839</b>	<b>3,400</b>
% change	10.5%	63.0%	9.5%	19.8%
Depreciation	322	369	430	474
<b>EBIT</b>	<b>1,269</b>	<b>2,223</b>	<b>2,409</b>	<b>2,926</b>
Interest	239	210	104	49
Other Income	170	347	388	447
<b>PBT</b>	<b>1,200</b>	<b>2,360</b>	<b>2,692</b>	<b>3,323</b>
% change	21.9%	96.6%	14.1%	23.4%
Tax	286	655	781	964
Tax Rate (%)	23.9%	27.7%	29.0%	29.0%
<b>Reported PAT</b>	<b>914</b>	<b>1,706</b>	<b>1,912</b>	<b>2,360</b>
Adj.	-	-	-	-
<b>Adj PAT</b>	<b>914</b>	<b>1,706</b>	<b>1,912</b>	<b>2,360</b>

### Balance Sheet (Standalone)

Y/E (Rs. Cr)	FY16	FY17	FY18E	FY19E
Paid up capital	750	750	1500	1500
Reserves and Surplus	5626	7344	7540	8847
<b>Net worth</b>	<b>6376</b>	<b>8094</b>	<b>9040</b>	<b>10347</b>
Minority Interest	-	-	-	-
Total Debt	<b>2374</b>	<b>1450</b>	<b>950</b>	<b>450</b>
Deferred Tax Liability	871.0	730.2	730	730
Other non-current liabilities	1405.6	1392.3	1392	1392
<b>Total liabilities</b>	<b>11027</b>	<b>11666</b>	<b>12113</b>	<b>12920</b>
Net fixed assets	<b>6811</b>	<b>8423</b>	<b>8642</b>	<b>9368</b>
Capital WIP	1550	49	400	200
Goodwill	-	-	-	-
Investments	90	2935	2935	3135
Total Net Current Assets	2033	-31	-155	-74
Other non-current assets	543	291	291	291
<b>Total assets</b>	<b>11027</b>	<b>11666</b>	<b>12113</b>	<b>12920</b>

### Cash Flow Statement (Standalone)

Y/E (Rs. Cr)	FY16	FY17	FY18E	FY19E
<b>Pre-tax profit</b>	<b>1,200</b>	<b>2,360</b>	<b>2,692</b>	<b>3,323</b>
Depreciation	322	369	430	474
Changes in W.C	1,932	306	141	68
Others	119	(137)	(283)	(398)
Tax paid	(200)	(513)	(781)	(964)
<b>C.F.O</b>	<b>3,374</b>	<b>2,386</b>	<b>2,199</b>	<b>2,504</b>
Capital exp.	(972)	(480)	(1,000)	(1,000)
Change in inv.	94	(2,845)	-	(200)
Other invest.CF	25	445	388	447
<b>C.F - investing</b>	<b>(854)</b>	<b>(2,880)</b>	<b>(612)</b>	<b>(753)</b>
Issue of equity	-	-	-	-
Issue/repay debt	(280)	(924)	(500)	(500)
Dividends paid	(181)	(900)	(965)	(1,053)
Other finance.CF	(232)	462	(104)	(49)
<b>C.F - Financing</b>	<b>(693)</b>	<b>(1,362)</b>	<b>(1,569)</b>	<b>(1,602)</b>
Chg. in cash	1,827	(1,856)	17	148

### Key Ratios (Standalone)

Y/E	FY16	FY17	FY18E	FY19E
EBITDA margin (%)	5.9	10.5	9.7	9.8
EBIT margin (%)	4.7	9.0	8.2	8.5
Net profit mgn.(%)	3.4	6.9	6.5	6.8
ROE (%)	15.2	23.6	22.3	24.3
ROCE (%)	16.8	28.1	28.6	32.4
<b>W.C &amp; Liquidity</b>				
Receivables (days)	13.3	18.0	18.0	18.0
Inventory (days)	3.5	9.0	7.9	8.1
Payables (days)	11.0	15.7	15.6	15.6
Current ratio (x)	2.4	1.0	0.9	1.0
Quick ratio (x)	2.3	0.7	0.7	0.7
<b>Turnover &amp; Levq.</b>				
Gross asset T.O (x)	3.1	2.5	2.6	2.8
Total asset T.O (x)	2.3	1.9	2.1	2.3
Int. covge. ratio (x)	5.3	10.6	23.1	59.3
Adj. debt/equity (x)	0.4	0.2	0.1	0.0
<b>Valuation ratios</b>				
EV/Sales (x)	1.1	1.3	1.1	0.9
EV/EBITDA (x)	19.5	12.3	11.1	9.1
P/E (x)	33.7	18.1	16.1	13.1
P/BV (x)	4.8	3.8	3.4	3.0

#### Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Upside or downside is less than 10%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than equal to -10%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

\* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

\* Petronet LNG Ltd is a large-cap company.

#### Disclaimer:

The SEBI registration number is INH200000394.

The analyst for this report certifies that all the views expressed in this report accurately reflect his / her personal views about the subject company or companies, and its / their securities. No part of his / her compensation was / is / will be, directly / indirectly related to specific recommendations or views expressed in this report.

This material is for the personal information of the authorized recipient, and no action is solicited on the basis of this. It is not to be construed as an offer to sell, or the solicitation of an offer to buy any security, in any jurisdiction, where such an offer or solicitation would be illegal.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable, though its accuracy or completeness cannot be guaranteed. Neither Wealth India Financial Services Pvt. Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance.

We and our affiliates, officers, directors, and employees worldwide:

1. Do not have any financial interest in the subject company / companies in this report;
2. Do not have any actual / beneficial ownership of one per cent or more in the company / companies mentioned in this document, or in its securities at the end of the month immediately preceding the date of publication of the research report, or the date of public appearance;
3. Do not have any other material conflict of interest at the time of publication of the research report, or at the time of public appearance;
4. Have not received any compensation from the subject company / companies in the past 12 months;
5. Have not managed or co-managed the public offering of securities for the subject company / companies in the past 12 months;
6. Have not received any compensation for investment banking, or merchant banking, or brokerage services from the subject company / companies in the past 12 months;
7. Have not served as an officer, director, or employee of the subject company;
8. Have not been engaged in market making activity for the subject company;

This document is not for public distribution. It has been furnished to you solely for your information, and must not be reproduced or redistributed to any other person.

#### Contact Us:

#### Funds India

Uttam Building, Third Floor |  
No. 38 & 39 | Whites Road |  
Royapettah | Chennai – 600014 |

T: +91 7667 166 166

Email: [contact@fundsindia.com](mailto:contact@fundsindia.com)

## **Dion's Disclosure and Disclaimer**

I, Abhijit Kumar Das, employee of Dion Global Solutions Limited (Dion) is engaged in preparation of this report and hereby certify that all the views expressed in this research report (report) reflect my personal views about any or all of the subject issuer or securities.

### **Disclaimer**

This report has been prepared by Dion and the report & its contents are the exclusive property of the Dion and the client cannot tamper with the report or its contents in any manner and the said report, shall in no case, be further distributed to any third party for commercial use, with or without consideration.

Recipient shall not further distribute the report to a third party for a commercial consideration as this report is being furnished to the recipient solely for the purpose of information.

Dion has taken steps to ensure that facts in this report are based on reliable information but cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this report. It is hereby confirmed that wherever Dion has employed a rating system in this report, the rating system has been clearly defined including the time horizon and benchmarks on which the rating is based.

Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this report is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. Dion has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. This report is not to be relied upon in substitution for the exercise of independent judgment. Opinions or estimates expressed are current opinions as of the original publication date appearing on this report and the information, including the opinions and estimates contained herein, are subject to change without notice. Dion is under no duty to update this report from time to time.

Dion or its associates including employees engaged in preparation of this report and its directors do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of securities, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

The investments or services contained or referred to in this report may not be suitable for all equally and it is recommended that an independent investment advisor be consulted. In addition, nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to individual circumstances or otherwise constitutes a personal recommendation of Dion.

### **REGULATORY DISCLOSURES:**

Dion is engaged in the business of developing software solutions for the global financial services industry across the entire transaction lifecycle and inter-alia provides research and information services essential for business intelligence to global companies and financial institutions. Dion is listed on BSE Limited (BSE) and is also registered under the SEBI (Research Analyst) Regulations, 2014 (SEBI Regulations) as a Research Analyst vide Registration No. INH100002771. Dion's activities were neither suspended nor has it defaulted with requirements under the Listing Agreement and / or SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 with the BSE in the last five years. Dion has not been debarred from doing business by BSE / SEBI or any other authority.

In the context of the SEBI Regulations, we affirm that we are a SEBI registered Research Analyst and in the course of our business, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

#### 1. Disclosures regarding Ownership

Dion *confirms that:*

- (i) Dion/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein at the time of publication of this report.
  
- (ii) It/its associates have no actual / beneficial ownership of 1% or more securities of the subject company (ies) covered herein at the end of the month immediately preceding the date of publication of this report.

*Further, the Research Analyst confirms that:*

- (i) He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company at the time of publication of this report.
  
- (ii) he, his associates and his relatives have no actual/beneficial ownership of 1% or more securities of the subject company (ies) covered herein at the end of the month immediately preceding the date of publication of this report.

#### 2. Disclosures regarding Compensation:

During the past 12 months, Dion or its Associates:

- (a) Have not managed or co-managed public offering of securities for the subject company
- (b) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company
- (c) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject.
- (d) Have not received any compensation or other benefits from the subject company or third party in connection with this report

#### 3. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Abhijit Kumar Das employed as Research Analyst by Dion and engaged in the preparation of this report have not served as an officer, director or employee of the subject company

#### 4. Disclosure regarding Market Making activity:

Neither Dion /its Research Analysts have engaged in market making activities for the subject company.

Copyright in this report vests exclusively with Dion.