

## Inventory losses impact profit

Petronet LNG reported its Q4FY19 results, which were below our estimates on the profit front, mainly due to inventory losses of ~₹ 119 crore on spot volumes. The topline declined 2.9% YoY to ₹ 8,383.2 crore mainly on account of lower realisations. Volumes declined 3.6% YoY and came in largely in line with our estimates at 205.1 tbtu (our estimate: 203.2 tbtu). EBITDA at ₹ 627.2 crore came in below our estimate of ₹ 832.8 crore mainly on account of inventory losses. As a result, blended margins of ₹ 41.2/mmbtu were below our estimate of ₹ 48.5/mmbtu. On the profitability front, PAT during the quarter declined 15.8% YoY to ₹ 440.2 crore, below our estimate of ₹ 561.7 crore.

## Volume meets estimates; to report stable growth ahead

Petronet's reported volumes were in line with our estimates and lower YoY as expected due to lower demand from the power and fertiliser sector. Total sales volumes in Q4FY19, which include long-term + spot/short-term + tolling, were at 205.1 tbtu compared to 212.7 tbtu YoY. Capacity utilisation at the Dahej terminal was at 104% with volumes at 198 tbtu of LNG in Q4FY19. Regasification volumes were above our estimates at 91 tbtu (our estimate: 87 tbtu). The Kochi terminal's capacity utilisation was at ~13.6% in Q3FY19. We estimate total LNG volumes of 908.3 tbtu and 961.8 tbtu for FY20E and FY21E, respectively, on account of lower volume ramp-up from the Dahej terminal and delay in Kochi pipeline. We estimate blended margins at ₹ 50.2/mmbtu, ₹ 53.7/mmbtu in FY20E and FY21E, respectively.

## Ramp up in demand & Kochi utilisation key

Petronet's Kochi terminal is expected to witness increase in utilisation post the completion of Kochi-Mangalore pipeline. However, due to the delay in execution, entire stretch of pipeline will be complete by June 2019 and could receive additional ~1 mmtpa of gas over a period of time and not immediately. On the capacity expansion front, the company expects Dahej terminal expansion to be complete by June. However, full utilisation of new capacity will take some time while volume ramp-up will be slow. The existing Dahej terminal is booked for 7.5 mmtpa under RasGas long term volumes while an additional 8.25 mmtpa booked as regasification capacity, taking the count to more than the current nameplate capacity of 15 MMT.

## Valuation & Outlook

Petronet LNG provides comfort on the business model and remains a structural story of India's increasing gas demand. With India continuing to be short of natural gas supply, Petronet LNG will benefit as the primary play on increasing usage of LNG in the long term. However, in the near term, on account of lower ramp-up in volumes, we value Petronet LNG at 13x FY21E EPS of ₹ 18.9 to arrive at a price target of ₹ 245 with a **HOLD** rating.



### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	33,000.0
Total Debt (FY18) (₹ Crore)	1,496.6
Cash and Investments (FY18) (₹ Crore)	862.5
EV (₹ Crore)	33,634.1
52 week H/L	260/202
Equity capital (₹ Crore)	750.0
Face value (₹)	10.0

### Key Highlights

- Petronet LNG's numbers were below our estimates on profit front, mainly due to inventory losses of ~₹ 119 crore on spot volumes
- Volumes to report stable growth on commissioning of new Dahej capacity and on completion of Kochi-Mangalore pipeline. However, volume ramp-up will be bit slower
- Maintain HOLD on stock with target price of ₹ 245 /share

### Research Analyst

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### Key Financial Summary

(Year-end March)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Revenues (₹ crore)	24,616.0	30,598.6	38,395.4	40,578.2	42,373.8	5.1
EBITDA (₹ crore)	2,592.3	3,312.4	3,293.4	3,888.4	4,423.3	15.9
Net Profit (₹ crore)	1,705.7	2,077.9	2,155.4	2,466.5	2,834.3	14.7
EPS (₹)	11.4	13.9	14.4	16.4	18.9	
P/E (x)	19.3	15.9	15.3	13.4	11.6	
Price / Book (x)	4.1	3.4	3.3	3.1	2.9	
EV/EBITDA (x)	13.5	10.2	10.1	8.3	7.0	
RoCE (%)	21.4	25.9	26.5	32.2	34.8	
RoE (%)	21.1	21.4	21.3	23.1	24.8	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Total Revenues	8,383.2	9,613.7	8,636.2	-2.9	10,097.7	-17.0	Lower than estimated revenues on account of lower gas sales realisations
Raw materials costs	7,538.7	8,628.4	7,644.9	-1.4	9,098.9	-17.1	
Employees Cost	34.0	27.4	25.4	33.9	26.5	28.0	
Other Expenses	183.3	125.0	143.9	27.4	124.2	47.6	
Total Expenditure	7,756.0	8,780.8	7,814.2	-0.7	9,249.7	-16.1	
EBITDA	627.2	832.8	822.1	-23.7	848.1	-26.0	Inventory losses of ₹ 119 crore mainly contributed to lower EBITDA
EBITDA margins (%)	7.5	8.7	9.5	-204 bps	8.4	-92 bps	
Depreciation	101.6	105.3	101.3	0.3	103.7	-2.0	
EBIT	525.6	727.5	720.8	-27.1	744.4	-29.4	
Interest	22.5	23.4	33.5	-32.7	21.5	4.5	
Other Income	151.4	84.8	103.4	46.4	88.4	71.2	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	654.5	788.9	790.8	-17.2	811.3	-19.3	
Total Tax	214.3	272.2	268.1	-20.1	246.0	-12.9	
PAT	440.2	516.7	522.7	-15.8	565.3	-22.1	

**Key Metrics**

Sales volume (tbtu)	114.1	116.2	128.0	-10.9	118.0	-3.4	Lower demand from power and fertiliser sector mainly contributed to lower volumes QoQ
Regasification vol (tbtu)	91.0	87.0	84.7	7.4	84.0	8.3	
Total Volumes (tbtu)	205.1	203.2	212.7	-3.6	202.0	1.5	
Blended margin ₹/mmbtu	41.2	48.5	46.6	-11.6	49.4	-16.7	Margins lower than estimates as we have adjusted inventory losses in margins

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY20E			FY21E			
	Old	New	% Change	Old	New	% Change	
Revenue	41644.0	40,578.2	-2.6	NA	42,373.8	NA	
EBITDA	3,914.0	3,888.4	-0.7	NA	4,423.3	NA	Marginally reduce estimates on account of marginal reduction in blended margins
EBITDA Margin (%)	9.4	9.6	18 bps	NA	10.4	NA	
PAT	2,485.5	2,466.5	-0.8	NA	2,834.3	NA	
EPS (₹)	16.6	16.4	-0.8	NA	18.9	NA	

Source: Company, ICICI Direct Research

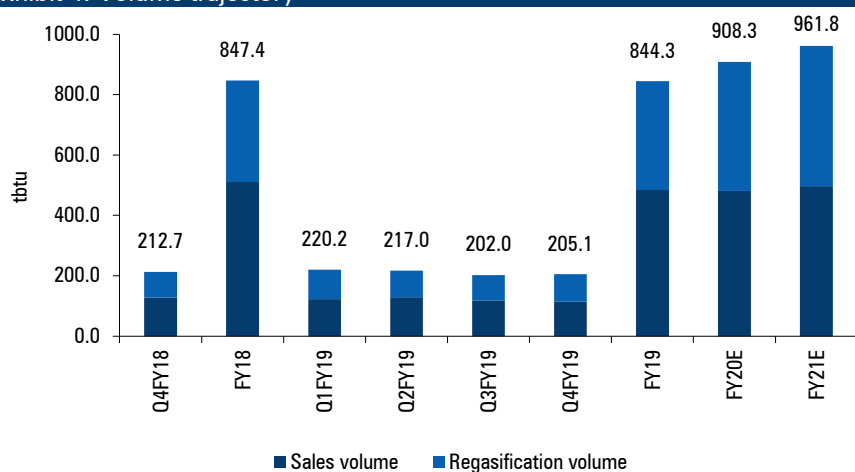
**Exhibit 3: Assumptions**

	Current				Earlier		
	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
Sales volume (tbtu)	511.1	484.3	480.8	496.8	495.6	NA	
Regasification vol (tbtu)	336.2	360.0	427.5	465.0	411.5	NA	
Total Volumes (tbtu)	847.4	844.3	908.3	961.8	907.3	NA	Lower volumes marginally for Kochi terminal and increase spot volumes for Dahej terminal in FY20E
Blended Margin ₹/mmbtu	46.1	47.1	50.2	53.7	50.6	NA	

Source: Company, ICICI Direct Research

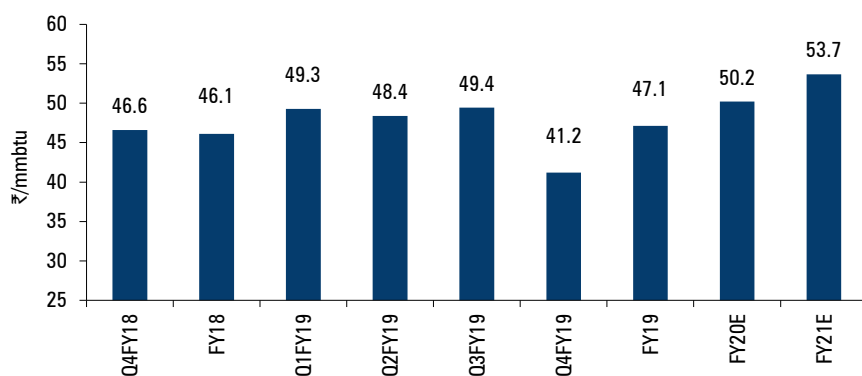
## Story in charts

Exhibit 4: Volume trajectory



Source: Company, ICICI Direct Research

Exhibit 5: Margin trend



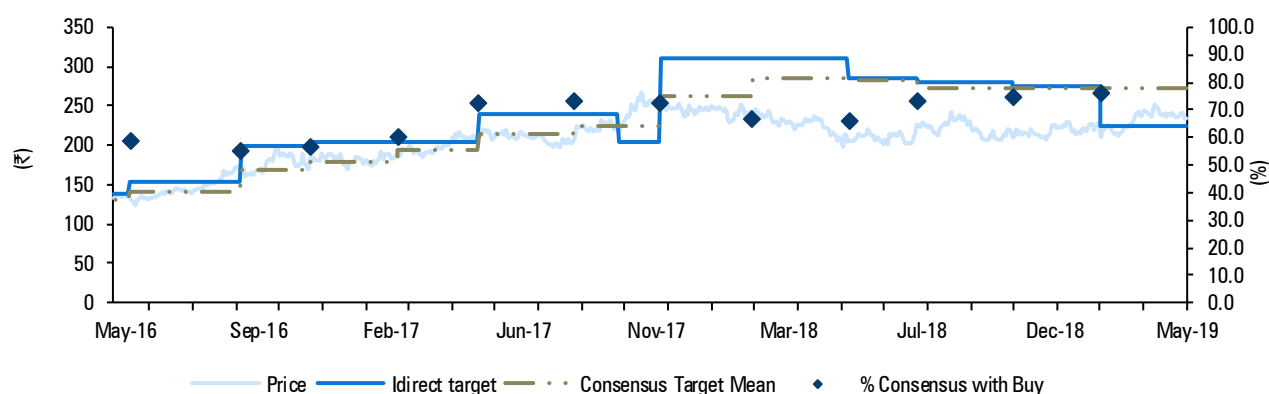
Source: Company, ICICI Direct Research

Exhibit 6: Booked capacity

Booked capacity (mmtpa)	
GAIL	7.00
IOCL	3.75
BPCL	1.75
GSPC	2.25
Torrent Power	1.00
<b>Total</b>	<b>15.75</b>

Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position	Change (m)
1	GAIL (India) Ltd	31-Mar-19	12.5	187.5	0.0
2	Indian Oil Corpn Ltd	31/Mar/19	12.5	187.5	0.0
3	Oil and Natural Gas Corporation Ltd	31-Mar-19	12.5	187.5	0.0
4	Bharat Petroleum Corporation Ltd	31/Mar/19	12.5	187.5	0.0
5	Kotak Mahindra Asset Management Company Ltd.	31-Dec-18	1.9	28.1	5.6
6	Franklin Templeton Asset Management (India) Pvt. L	31/Mar/19	1.9	27.7	5.1
7	Aditya Birla Sun Life AMC Limited	31-Mar-19	1.5	22.6	0.7
8	BlackRock Institutional Trust Company, N.A.	31/Mar/19	1.5	22.2	0.1
9	The Vanguard Group, Inc.	31-Mar-19	1.2	18.0	2.8
10	Motilal Oswal Asset Management Company Ltd.	31/Mar/19	1.2	17.5	-3.0

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

BUYS				SELLS			
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)		
GIC Private Limited	58.64	16.13	Motilal Oswal Asset Management Company Ltd.	-11.05	-3.04		
Kotak Mahindra Asset Management Company Ltd.	18.06	5.60	HDFC Asset Management Co., Ltd.	-10.62	-2.92		
Franklin Templeton Asset Management (India) Pvt. L1	18.38	5.05	Reliance Nippon Life Asset Management Limited	-9.46	-2.60		
The Vanguard Group, Inc.	10.04	2.76	ICICI Prudential Asset Management Co. Ltd.	-7.37	-2.03		
AllianceBernstein L.P.	6.85	1.88	Canara Robeco Asset Management Company Ltd.	-5.29	-1.45		

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	50.0	50.0	50.0	50.0	50.0
FII	25.1	23.0	23.9	23.4	25.7
DII	9.8	11.7	11.5	12.1	11.0
Others	15.1	15.3	14.6	14.5	13.3

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Revenue</b>	<b>30598.6</b>	<b>38395.4</b>	<b>40578.2</b>	<b>42373.8</b>
Growth (%)	24.3	25.5	5.7	4.4
(Inc.) / Dec stock in trade	0.0	0.0	0.0	0.0
Raw material Costs	26690.2	34417.0	36017.3	37211.1
Purchase of trading goods	0.0	0.0	0.0	0.0
Employee Costs	91.2	125.9	145.0	167.3
Other Expenditure	504.9	559.2	527.5	572.0
Op. Expenditure	27286.3	35102.0	36689.8	37950.5
<b>EBITDA</b>	<b>3312.4</b>	<b>3293.4</b>	<b>3888.4</b>	<b>4423.3</b>
Growth (%)	27.8	-0.6	18.1	13.8
Depreciation	411.6	411.2	433.9	450.9
EBIT	2900.7	2882.2	3454.6	3972.4
Interest	163.0	98.9	56.3	31.7
Other Income	317.4	450.3	373.0	393.0
PBT	3055.1	3233.6	3771.3	4333.8
Growth (%)	29.4	5.8	16.6	14.9
Tax	977.3	1078.2	1304.9	1499.5
<b>Reported PAT</b>	<b>2077.9</b>	<b>2155.4</b>	<b>2466.5</b>	<b>2834.3</b>
Growth (%)	21.8	3.7	14.4	14.9
<b>EPS</b>	<b>13.9</b>	<b>14.4</b>	<b>16.4</b>	<b>18.9</b>

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	2,077.9	2,155.4	2,466.5	2,834.3
Add: Depreciation	411.6	411.2	433.9	450.9
Add: Others	318.0	100.0	100.0	100.0
Cash Profit	2,807.5	2,666.7	3,000.3	3,385.2
Increase/(Decrease) in CL	659.7	434.8	229.4	190.6
(Increase)/Decrease in CA	-1,511.1	-652.4	344.5	372.1
<b>CF from Operating Activities</b>	<b>1956.1</b>	<b>2449.1</b>	<b>3574.2</b>	<b>3947.9</b>
Purchase of Fixed Assets	189.9	414.8	620.0	624.0
(Inc)/Dec in Investments	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activities</b>	<b>-189.9</b>	<b>-414.8</b>	<b>-620.0</b>	<b>-624.0</b>
Inc/(Dec) in Loan Funds	-780.2	-768.1	-693.2	-35.3
Inc/(Dec) in Sh. Cap. & Res.	333.0	0.0	0.0	0.0
Less: Dividend Paid	784.4	1,743.0	1,917.3	2,091.6
Others	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-1,564.5</b>	<b>-2,511.1</b>	<b>-2,610.5</b>	<b>-2,126.9</b>
Change in cash Eq.	534.7	-476.8	343.7	1,197.0
Op. Cash and cash Eq.	327.8	862.5	385.7	729.4
<b>Cl. Cash and cash Eq.</b>	<b>862.5</b>	<b>385.7</b>	<b>729.4</b>	<b>1,926.4</b>

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Source of Funds</b>				
Equity Capital	1,500.0	1,500.0	1,500.0	1,500.0
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	8,220.9	8,633.3	9,182.5	9,925.2
Shareholder's Fund	9,720.9	10,133.3	10,682.5	11,425.2
Loan Funds	1,496.6	728.5	35.3	0.0
Deferred Tax Liability	1,048.2	1,148.2	1,248.2	1,348.2
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>12265.6</b>	<b>12010.0</b>	<b>11966.0</b>	<b>12773.4</b>
<b>Application of Funds</b>				
Group Block	9,119.8	9,319.8	9,919.8	9,919.8
Less: Acc. Depreciation	1,090.2	1,486.6	1,900.5	2,327.4
Net Block	8,029.6	7,833.2	8,019.3	7,592.4
Capital WIP	220.3	420.3	420.3	1,020.3
Total Fixed Assets	8,249.9	8,253.5	8,439.6	8,612.7
Investments	164.4	164.4	164.4	164.4
Inventories	491.1	841.5	889.4	928.7
Debtor	1,650.5	1,893.5	2,001.1	2,089.7
Cash	862.5	385.7	729.4	1,926.4
Loan & Advance, Other CA	4235.3	4294.2	3794.2	3294.2
Total Current assets	7239.4	7414.9	7414.1	8239.1
Current Liabilities	3368.1	3681.8	3891.1	4063.2
Provisions	19.9	141.1	161.1	179.6
Total CL and Provisions	3388.0	3822.8	4052.2	4242.8
Net Working Capital	3851.4	3592.1	3362.0	3996.3
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>12265.6</b>	<b>12010.0</b>	<b>11966.0</b>	<b>12773.4</b>

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Per share data (₹)</b>				
Book Value	64.8	67.6	71.2	76.2
Cash per share	5.7	2.6	4.9	12.8
EPS	13.9	14.4	16.4	18.9
Cash EPS	16.6	17.1	19.3	21.9
DPS	4.5	10.0	11.0	12.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	10.8	8.6	9.6	10.4
<b>PAT Margin (%)</b>	<b>6.8</b>	<b>5.6</b>	<b>6.1</b>	<b>6.7</b>
Fixed Asset Turnover (x)	3.7	4.7	4.8	4.9
<b>Inventory Turnover (Days)</b>	<b>5.9</b>	<b>8.0</b>	<b>8.0</b>	<b>8.0</b>
Debtor (Days)	19.7	18.0	18.0	18.0
Current Liabilities (Days)	40.2	35.0	35.0	35.0
<b>Return Ratios (%)</b>				
RoE	21.4	21.3	23.1	24.8
RoCE	25.9	26.5	32.2	34.8
RoIC	28.0	27.5	34.6	41.8
<b>Valuation Ratios (x)</b>				
PE	15.9	15.3	13.4	11.6
Price to Book Value	3.4	3.3	3.1	2.9
EV/EBITDA	10.2	10.1	8.3	7.0
EV/Sales	1.1	0.9	0.8	0.7
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.2	0.1	0.0	0.0
Interest Coverage (x)	17.8	29.1	61.4	125.4
Debt to EBITDA (x)	0.5	0.2	0.0	0.0
Current Ratio	2.1	1.9	1.8	1.9
<b>Quick ratio</b>	<b>2.0</b>	<b>1.7</b>	<b>1.6</b>	<b>1.7</b>

Source: Company, ICICI Direct Research

**Exhibit 15: ICICI Direct Coverage Universe (Oil & Gas)**

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
BPCL (BHAPET)	378	320	Hold	81,997	40.3	33.1	34.5	9.4	11.4	10.9	8.4	8.6	7.7	15.7	13.0	13.1	23.2	18.6	18.3
Castrol India (CASIND)	152	140	Reduce	15,035	7.2	7.9	7.4	21.2	19.3	20.5	13.4	11.8	12.6	88.3	91.0	86.1	61.6	63.1	60.3
GAIL (India) (GAIL)	342	390	Buy	77,121	13.6	15.5	20.5	25.2	22.0	16.7	15.0	12.6	10.0	6.8	11.7	14.7	6.6	9.2	11.5
Gujarat Gas (GUJGA)	164	190	Buy	11,290	3.2	4.2	6.3	50.6	38.7	26.0	18.1	14.9	13.2	12.3	15.3	16.8	13.6	15.8	19.8
Gujarat State Petro (GSPL)	176	180	Hold	9,915	8.8	11.9	14.1	20.0	14.8	12.5	11.9	11.5	8.4	13.8	11.6	15.7	11.0	13.2	13.9
Gulf Oil Lubricants (GULO)	827	850	Hold	4,100	23.7	31.9	37.0	34.9	25.9	22.3	22.1	17.1	13.6	32.5	31.5	37.2	34.2	33.9	31.6
HPCL (HINPET)	285	225	Hold	43,478	13.6	13.9	11.1	7.0	6.8	8.6	6.1	6.0	6.7	19.3	17.5	13.8	30.5	26.5	19.3
Indraprastha Gas (INDGAS)	303	300	Hold	21,210	8.2	9.6	10.8	37.1	31.6	28.1	21.4	18.5	16.5	27.2	26.5	25.6	19.5	19.1	18.6
Mahanagar Gas (MAHGAS)	895	1050	Buy	8,841	39.8	48.4	55.3	22.5	18.5	16.2	13.5	11.2	9.4	29.8	31.9	31.5	21.4	22.8	22.7
Mangalore Refinery (MRPL)	63	70	Hold	11,042	12.8	1.8	5.7	4.9	34.4	11.0	3.5	9.5	5.7	23.2	5.7	10.5	20.4	2.9	8.5
ONGC (ONGC)	171	153	Hold	219,450	16.9	24.8	22.5	10.1	6.9	7.6	5.8	3.9	4.0	7.9	13.6	12.2	9.4	12.4	10.7
Petronet LNG (PETLNG)	220	245	Hold	33,000	13.9	14.4	16.4	15.9	15.3	13.4	10.2	10.1	8.3	25.9	26.5	32.2	21.4	21.3	23.1

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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