

Offtake outlook remains muted...

About the stock: Petronet LNG, a JV between leading PSU oil companies, is involved in LNG import and regasification.

- The company operates two LNG terminals at Dahej and Kochi
- Total nameplate capacity of the company is 22.5 MMTPA

Q1FY23 Results: Petronet LNG's Q1FY23 earnings were better than estimates on account of higher blended margin.

- Revenue increased 65.9% YoY to ₹ 14263.8 crore (our estimate: ₹ 13406.4 crore)
- Total volume at 208 tbtu was flat YoY (our estimate: 205.2 tbtu)
- Blended margin was at ₹ 65.5/mmbtu, higher than estimate of ₹ 60/mmbtu. EBITDA was at ₹ 1064.4 crore, up 1% YoY (our estimate: ₹ 1009.8 crore)
- PAT was at ₹ 700.9 crore, up 10.3% YoY (our estimate: ₹ 606.4 crore)

What should investors do? With increase in domestic gas production, emergence of new terminals and higher LNG prices that are impacting Petronet's volume, we expect the stock price to remain range bound in near to medium term.

- We retain our **HOLD** rating on the stock

Target Price and Valuation: We value Petronet at ₹ 215 i.e. 11x P/E on FY24E EPS.

Key triggers for future price performance:

- Petronet LNG is India's leading play in import of LNG in the country and will be a beneficiary of the government's aim to increase the share of natural gas in the energy basket to 15% over the long term
- The 17.5 mmtpa Dahej terminal has been booked for 15.75 mmtpa under long term, thus providing visibility to long term volumes. Increase in Kochi terminal utilisation can support volume pick-up
- LNG price trend to be key monitorable for offtake

Alternate Stock Idea: Besides Petronet, in our oil & gas coverage we also like Gail.

- Gail is India's leading gas transmission company, which is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value
- BUY with target price of ₹ 160



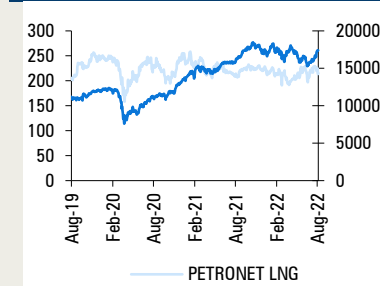
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	32,400.0
Total Debt (FY21) (₹ Crore)	3,386.1
Cash and Investments (FY21)	4,342.3
EV (₹ Crore)	31,443.7
52 week H/L	243 / 190
Equity capital (₹ Crore)	1,500.0
Face value (₹)	10.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	50.0	50.0	50.0	50.0
FII	32.1	34.1	33.6	34.8
DII	4.7	3.2	3.4	2.9
Others	13.2	12.7	13.0	12.2

Price Chart



Recent event & key risks

- **Key Risk:** (i) Faster than expected pick-up in demand, (ii) Increased competition from new terminals, increase in domestic gas output can impact volume

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22E	5 year CAGR (FY17-22E)	FY23E	FY24E	2 year CAGR (FY22E-24E)
Revenues (₹ crore)	38,395.4	35,452.0	26,022.9	43,168.6	11.9	57,041.7	58,751.3	16.7
EBITDA (₹ crore)	3,293.4	3,989.5	4,699.5	5,252.3	15.2	4,302.7	4,659.5	(5.8)
Net Profit (₹ crore)	2,155.4	2,697.6	2,949.4	3,352.4	14.5	2,713.5	2,932.0	(6.5)
EPS (₹)	14.4	18.0	19.7	22.3		18.1	19.5	
P/E (x)	15.0	12.0	11.0	9.7		11.9	11.1	
Price / Book (x)	3.2	3.0	2.8	2.4		2.3	2.2	
EV/EBITDA (x)	9.2	7.9	6.7	5.9		7.0	6.2	
RoCE (%)	26.6	22.3	26.0	27.0		20.3	21.1	
RoE (%)	21.4	24.6	25.3	25.0		19.3	19.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Blended margin above expectations

- Total volume was at 208 tbtu (flattish YoY, up 9.5% QoQ) marginally higher than estimate of 205.2 tbtu. Regas volume at 94 tbtu was higher than our estimate of 88 tbtu while sales volume was 114 tbtu against expectation of 117.2 tbtu
- The blended margin was higher than estimate of ₹ 60/mmbtu and was at ₹ 65.5/mmbtu
- Reported other income of ₹ 141.8 crore was higher than estimated

Q4FY23 Earnings Conference Call highlights

- Expansion plans for the company are as follows: 1) FSRU terminal will have a capacity of 3-4 mmtpa while capex for the same will be ₹ 1500-1700 crore. 2) two tanks (at the cost of ₹ 1250 crore) and one jetty at Dahej (at the cost of ₹ 1700 crore) 3) Extension of Dahej terminal capacity from 17.5 mmtpa to 22.5 mmtpa, with a capex of ₹ 570 crore. 4) Completion of Kochi-Bangalore pipeline, which has a pending stretch of 215 Km from Coimbatore to Bangalore, is expected to take one more year
- Inventory gain of ₹ 110 crore and trading gain of ₹ 104 crore during the quarter. The company also witnessed forex loss of ₹ 124 crore
- Ind-AS impact was ₹ 147 crore
- The company is in talks to extend the Rasgas contract beyond 2028 for which negotiations are expected to be completed by December 2023
- On account of higher spot LNG price, industrial customers in Mangalore area are preferring alternate fuels, which is resulting in lower utilisation at Kochi
- Utilisation for the Dahej terminal was 86-87% and Kochi terminal was 15-20%
- Kochi regas tariff was ₹ 81.03/mmbtu
- The company is looking for better opportunities to tie-up contracted LNG as currently Brent-linked contracts are trading at elevated prices

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
GAIL (India) (GAIL)	133	160	Buy	59,057	23.3	22.2	15.1	5.7	6.0	8.8	4.6	4.5	6.5	18.8	16.3	9.6	18.6	15.7	10.1
Gujarat Gas (GUJGA)	444	500	Hold	30,565	18.9	18.3	21.7	23.5	24.3	20.5	15.0	15.1	12.7	26.9	22.9	23.4	23.2	19.2	19.3
Indraprastha Gas (INDGAS)	366	440	Buy	25,620	18.8	20.6	23.0	19.4	17.7	15.9	12.9	11.1	9.7	22.3	22.0	21.1	19.0	18.1	17.5
Mahanagar Gas (MAHGAS)	779	820	Hold	7,695	60.4	71.3	78.1	12.9	10.9	10.0	7.9	6.7	5.9	20.1	21.4	21.1	16.9	17.9	17.5
Petronet LNG (PETLNG)	216	215	Hold	32,400	22.3	18.1	19.5	9.7	11.9	11.1	5.9	7.0	6.2	27.0	20.3	21.1	25.0	19.3	19.7

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Revenues	14,263.8	13,406.4	8,597.9	65.9	11,160.4	27.8	
Raw materials costs	12,900.6	12,174.2	7,339.6	75.8	9,782.8	31.9	
Employees Cost	45.4	48.0	42.9	5.9	42.8	6.1	
Other Expenses	253.4	174.3	161.2	57.2	165.7	52.9	
Total Expenditure	13,199.4	12,396.5	7,543.6	75.0	9,991.3	32.1	
EBITDA	1,064.4	1,009.8	1,054.3	1.0	1,169.1	-9.0	Better than expected on account of blended margins being above expectations
EBITDA margins (%)	7.5	7.5	12.3	-480 bps	10.5	-301 bps	
Depreciation	191.2	200.9	191.6	-0.2	189.6	0.8	
EBIT	873.1	809.0	862.7	1.2	979.4	-10.9	
Interest	77.9	78.9	80.0	-2.7	80.3	-3.0	
Other Income	141.8	82.8	68.5	106.9	85.2	66.3	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	937.1	812.8	851.2	10.1	984.4	-4.8	
Total Tax	236.2	206.5	215.5	9.6	234.2	0.8	
PAT	700.9	606.4	635.7	10.3	750.1	-6.6	

Key Metrics

Sales volume (tbtu)	114.0	117.2	108.0	5.6	112.0	1.8	
Regasification vol (tbtu)	94.0	88.0	101.0	-6.9	78.0	20.5	
Total Volumes (tbtu)	208.0	205.2	209.0	-0.5	190.0	9.5	Broadly in line with estimates
Blended margin ₹/mmbtu	65.5	60.0	60.2	8.9	72.5	-9.6	Better than estimates

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			
	Old	New	Change	Old	New	Change	
Revenue	55364.7	57041.7	3.0	58061.6	58,751.3	1.2	Revised LNG price and volume estimates taking into account current trend
EBITDA	4,255.2	4,302.7	1.1	4972.5	4,659.5	-6.3	
EBITDA Margin (%)	7.7	7.5	-14 bps	8.6	7.9	-63 bps	
PAT	2,646.2	2,713.5	2.5	3176.6	2,932.0	-7.7	
EPS (₹)	17.6	18.1	2.5	21.2	19.5	-7.7	

Source: ICICI Direct Research

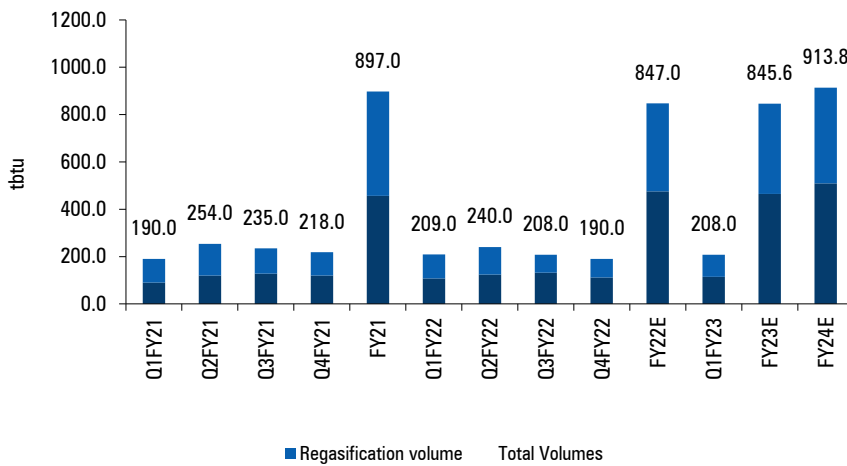
Exhibit 4: Assumptions

	Current				Earlier		
	FY21	FY22E	FY23E	FY24E	FY23E	FY24E	
Sales volume (tbtu)	457.0	475.0	464.6	508.8	496.8	522.8	
Regasification vol (tbtu)	440.0	372.0	381.0	405.0	393.0	456.0	Reduced estimates as we factor in high LNG prices that are likely to impact volume
Total Volumes (tbtu)	897.0	847.0	845.6	913.8	889.8	978.8	
Blended Margin ₹/mmbtu	59.5	71.9	63.3	63.3	59.1	62.2	

Source: ICICI Direct Research

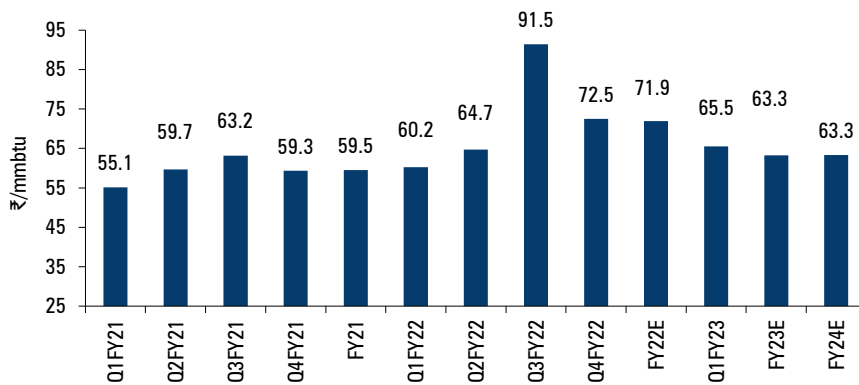
Story in charts

Exhibit 5: Volume trajectory



Source: Company, ICICI Direct Research

Exhibit 6: Margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Booked capacity

Booked capacity (mmtpa)

GAIL	7.00
IOCL	3.75
BPCL	1.75
GSPC	2.25
Torrent Power	1.00
Total	15.75

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Revenue	26022.9	43168.6	57041.7	58751.3
Growth (%)	-26.6	65.9	32.1	3.0
(Inc.) / Dec stock in trade	0.0	0.0	0.0	0.0
Raw material Costs	20681.5	37077.5	51690.9	52967.8
Purchase of trading goods	0.0	0.0	0.0	0.0
Employee Costs	147.1	177.1	195.7	213.3
Other Expenditure	494.8	661.7	852.3	910.6
Op. Expenditure	21323.4	37916.2	52738.9	54091.8
EBITDA	4699.5	5252.3	4302.7	4659.5
Growth (%)	17.8	11.8	-18.1	8.3
Depreciation	784.1	768.5	803.2	856.6
EBIT	3915.5	4483.9	3499.5	3802.9
Interest	336.0	317.3	314.6	315.6
Other Income	388.2	307.3	450.0	443.0
PBT	3967.7	4473.8	3635.0	3930.4
Growth (%)	27.6	12.8	-18.7	8.1
Tax	1018.3	1121.5	921.4	998.3
Reported PAT	2949.4	3352.4	2713.5	2932.0
Growth (%)	9.3	13.7	-19.1	8.1
EPS	19.7	22.3	18.1	19.5

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	2,949.4	3,352.4	2,713.5	2,932.0
Add: Depreciation	784.1	768.5	803.2	856.6
Add: Others	-7.7	-48.2	100.0	100.0
Cash Profit	3,725.8	4,072.6	3,616.8	3,888.6
Increase/(Decrease) in CL	-401.0	862.9	929.5	465.5
(Increase)/Decrease in CA	-1,177.6	-2,788.1	-314.3	-112.4
CF from Operating Activi	2147.2	2147.5	4231.9	4241.7
Purchase of Fixed Assets	-70.1	354.0	967.8	1,100.0
(Inc)/Dec in Investments	0.0	-10.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activi	70.1	-364.0	-967.8	-1,100.0
Inc/(Dec) in Loan Funds	-54.2	-229.9	0.0	0.0
Inc/(Dec) in Sh. Cap. & Res.	-248.4	428.1	0.0	0.0
Less: Dividend Paid	2,004.5	2,004.5	2,091.6	2,091.6
Others	0.0	0.0	0.0	0.0
CF from financing activi	-2,058.6	-2,234.3	-2,091.6	-2,091.6
Change in cash Eq.	-89.7	-22.8	1,172.5	1,050.1
Op. Cash and cash Eq.	4,432.0	4,342.3	4,319.5	5,492.1
Cl. Cash and cash Eq.	4,342.3	4,319.5	5,492.1	6,542.2

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Source of Funds				
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	10,149.5	11,925.5	12,547.5	13,387.9
Shareholder's Fund	11,649.5	13,425.5	14,047.5	14,887.9
Loan Funds	3,386.1	3,156.2	3,156.2	3,156.2
Deferred Tax Liability	880.6	832.4	932.4	1,032.4
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	15916.2	17414.1	18136.0	19076.5
Application of Funds				
Gross Block	13,367.5	13,577.9	14,377.9	15,277.9
Less: Acc. Depreciation	3,054.4	3,846.3	4,662.3	5,518.9
Net Block	10,313.2	9,731.6	9,715.6	9,759.0
Capital WIP	25.5	192.6	373.2	573.2
Total Fixed Assets	10,338.6	9,924.2	10,088.8	10,332.2
Investments	164.4	174.4	174.4	174.4
Inventories	337.2	576.7	937.7	965.8
Debtor	1,874.5	2,684.4	2,813.0	2,897.3
Cash	4,342.3	4,319.5	5,492.1	6,542.2
Loan & Advance, Other CA	1875.6	3614.2	3439.0	3439.0
Total Current assets	8429.6	11194.9	12681.8	13844.3
Current Liabilities	2918.2	3759.1	4688.4	5150.8
Provisions	98.3	120.3	120.5	123.6
Total CL and Provisions	3016.5	3879.4	4808.9	5274.4
Net Working Capital	5413.2	7315.5	7872.9	8569.9
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	15916.2	17414.1	18136.0	19076.5

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
Book Value	77.7	89.5	93.6	99.3
Cash per share	28.9	28.8	36.6	43.6
EPS	19.7	22.3	18.1	19.5
Cash EPS	24.9	27.5	23.4	25.3
DPS	11.5	11.5	12.0	12.0
Profitability & Operating Ratios				
EBITDA Margin (%)	18.1	12.2	7.5	7.9
PAT Margin (%)	11.3	7.8	4.8	5.0
Fixed Asset Turnover (x)	2.5	4.3	5.7	5.7
Inventory Turnover (Days)	4.7	4.9	6.0	6.0
Debtor (Days)	26.3	22.7	18.0	18.0
Current Liabilities (Days)	40.9	30.0	30.0	32.0
Return Ratios (%)				
RoE	25.3	25.0	19.3	19.7
RoCE	26.0	27.0	20.3	21.1
RoIC	36.6	36.6	29.9	33.1
Valuation Ratios (x)				
PE	11.0	9.7	11.9	11.1
Price to Book Value	2.8	2.4	2.3	2.2
EV/EBITDA	6.7	5.9	7.0	6.2
EV/Sales	1.2	0.7	0.5	0.5
Leverage & Solvency Ratios				
Debt to equity (x)	0.3	0.2	0.2	0.2
Interest Coverage (x)	11.7	14.1	11.1	12.0
Debt to EBITDA (x)	0.7	0.6	0.7	0.7
Current Ratio	2.8	2.9	2.6	2.6
Quick ratio	2.7	2.7	2.4	2.4

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	332	360	Hold	70,698	41.6	25.3	44.8	8.0	13.1	7.4	6.3	8.9	5.9	13.9	7.7	13.2	17.8	10.6	17.0
GAIL (India) (GAIL)	133	160	Buy	59,057	23.3	22.2	15.1	5.7	6.0	8.8	4.6	4.5	6.5	18.8	16.3	9.6	18.6	15.7	10.1
Gujarat Gas (GUJGA)	444	500	Hold	30,565	18.9	18.3	21.7	23.5	24.3	20.5	15.0	15.1	12.7	26.9	22.9	23.4	23.2	19.2	19.3
HPCL (HINPET)	231	255	Hold	32,778	44.9	8.0	42.8	5.1	29.0	5.4	7.8	16.4	7.1	7.3	0.8	7.3	16.5	3.0	15.0
Indian Oil Corp (INDOIL)	71	80	Hold	1,00,614	17.1	7.7	13.1	4.2	9.3	5.4	2.3	3.4	2.5	12.9	6.4	9.6	18.4	8.3	13.3
Indraprastha Gas (INDGAS)	366	440	Buy	25,620	18.8	20.6	23.0	19.4	17.7	15.9	12.9	11.1	9.7	22.3	22.0	21.1	19.0	18.1	17.5
Mahanagar Gas (MAHGAS)	779	820	Hold	7,695	60.4	71.3	78.1	12.9	10.9	10.0	7.9	6.7	5.9	20.1	21.4	21.1	16.9	17.9	17.5
Petronet LNG (PETLNG)	216	215	Hold	32,400	22.3	18.1	19.5	9.7	11.9	11.1	5.9	7.0	6.2	27.0	20.3	21.1	25.0	19.3	19.7
Reliance Industries (RELIND)	2,572	2,700	Hold	17,39,958	89.7	104.1	123.7	28.7	24.7	20.8	18.6	13.8	11.5	7.1	9.2	10.4	7.8	8.3	9.1

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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