

Forgettable Q3 being replaced by hopeful Q4...

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

Q3FY23 Results: Dismal volumes, adjusted EBITDA, marred by competitive LNG.

- Revenue increased 25.2% YoY to ₹ 15775.9 crore (I-direct estimate: ₹ 12988.5 crore)
- Total volume at 167 tbtu was down ~20% YoY (I-direct estimate: 211.2 tbtu)
- Blended margin was at ₹ 129.3/mmbtu, up ₹ 37.9/mmbtu YoY. EBITDA was at ₹ 1675.4 crore, down 3.3% YoY (Petronet received use or pay charges of ₹ 848.92 crore on account of lower capacity utilisation by customers)
- Adjusted PAT at ₹ 1180.5 crore, up 3.2% YoY (our estimate: ₹ 791.9 crore)

What should investors do? In Q4-QTD, spot LNG prices have softened substantially (~US\$20-22/mmbtu) from the elevated levels seen in previous quarters (~US\$35/mmbtu level). Further correction in LNG prices would likely warrant a re-rating of the stock.

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

Target Price and Valuation: We value Petronet at ₹ 230 i.e. 11.2x P/E on FY25E EPS.

Key triggers for future price performance:

- The company expects to receive some of the ₹ 416 crore receivables, booked in FY22 under the use or pay contract, in the near 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 Reliance Industries (RIL).

- RIL is one of India's biggest conglomerates with a presence in oil refining & marketing and petrochemicals, oil & gas exploration, retail, digital services, media, etc, making it a well-diversified business entity.
- BUY with a target price of ₹ 3050



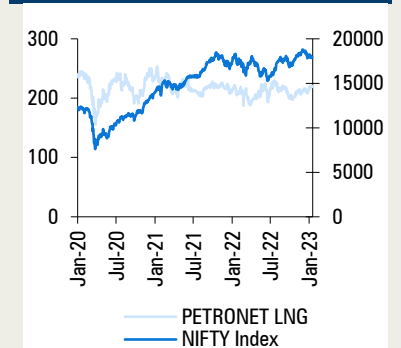
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	33,750.0
Total Debt (FY22) (₹ Crore)	3,156.2
Cash and Investments (FY22)	4,329.6
EV (₹ Crore)	32,576.6
52 week H/L	240 /190
Equity capital (₹ Crore)	1,500.0
Face value (₹)	10.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	50.0	50.0	50.0	50.0
FII	33.6	34.8	34.8	34.9
DII	3.4	2.9	4.1	4.1
Others	13.0	12.2	11.1	11.0

Price Chart



Recent event & key risks

- **Key Risk:** (i) Faster than expected pick-up in demand, (ii) Increase in domestic gas output can impact volume

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Key Financial Summary

(Year-end March)	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22E-25E)
Revenues (₹ crore)	35,452.0	26,022.9	43,168.6	11.9	58,919.7	49,746.4	44,211.3	0.8
EBITDA (₹ crore)	3,989.5	4,699.5	5,252.3	15.2	5,002.8	5,177.7	5,303.3	0.3
Net Profit (₹ crore)	2,697.6	2,949.4	3,352.4	14.5	3,305.4	3,325.8	3,419.5	0.7
EPS (₹)	18.0	19.7	22.3		22.0	22.2	22.8	
P/E (x)	12.5	11.4	10.1		10.2	10.1	9.9	
Price / Book (x)	3.1	2.9	2.5		2.3	2.1	2.0	
EV/EBITDA (x)	8.2	7.0	6.2		6.2	5.8	5.4	
RoCE (%)	22.3	26.0	27.0		23.7	22.8	21.9	
RoE (%)	24.6	25.3	25.0		22.6	21.0	19.9	

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results: Use or Pay charges contract comes into effect

- Total volume was at 167 tbtu (down 9% YoY, up 4.3% QoQ), lower than estimate of 211.2 tbtu. Regas volume at 46 tbtu was lower than our estimate of 90 tbtu while sales volume was 120 tbtu against expectation of 121.2 tbtu
- The blended margin improved by ₹ 55.4/mmbtu QoQ to ₹ 129.3/mmbtu and was higher than our estimate of ₹ 69.2/mmbtu
- The company received use or pay charges to the tune of ₹ 849 crore for CY22 during the quarter. Earlier charges (FY22) of ₹ 416 crore are yet to be received (which includes IOC, BPCL, etc). The management is confident that the payment would be recovered in due course, being a contractual obligation

Q3FY23 Earnings Conference Call highlights

- Capex plans at Dahej are as follows- 1) Two tanks at a cost of ₹ 1246 crore (50% progress achieved) and one jetty at the cost of ₹ 1700 crore, 2) Extension of Dahej terminal capacity from 17.5 mmtpa to 22.5 mmtpa. The company expects to commence 2.5 mmtpa of the additional capacity by the end of 2024 and get entire 5 mmtpa capacity by March 2025, 3) The petrochemical plant in Dahej will require a capex of ₹ 13000 crore, which will happen in a staggered manner over four years, 4) Due diligence for the East Coast FSRU terminal is in process with a capex of ₹ 2306 crore
- Total capex plan for FY23 is ₹ 1200 crore and that for FY24 is ₹ 1800 crore
- The company has a net cash of ₹ 6900 crore as on December 31, 2022
- Drop in regasification volume on account of high spot LNG prices and customers switching to alternate fuels such as propane and availing domestic gas available on IGX
- There was an inventory gain of ₹ 95 crore and trading gain of ₹ 25 crore during the quarter. The company also witnessed forex loss of ₹ 60 crore
- Utilisation levels are currently at 81% vs. 58% in Q3FY23
- Dahej regas tariff was ₹ 59.91/mmbtu with Kochi regas tariff at ₹ 81.04/mmbtu

Petronet LNG- ESG Disclosure Score

Score	FY20	FY21	FY22
Environmental	3.3	3.3	3.3
Social	18.7	21.4	21.4
Governance	78.6	78.6	83.6
Overall ESG Score	33.6	34.5	36.2

Source: Bloomberg, ICICI Direct Research

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
GAIL (India) (GAIL)	93	100	Hold	61,148	23.3	9.9	8.9	4.0	9.4	10.4	3.3	7.4	8.1	18.8	10.3	8.7	18.6	11.1	9.5
Gujarat Gas (GUJGA)	515	550	Hold	35,453	18.9	18.9	26.6	27.2	27.3	19.4	17.3	16.9	12.1	27.3	22.0	26.4	23.3	19.6	22.5
Indraprastha Gas (INDGAS)	381	430	Hold	26,670	18.8	21.7	20.9	20.3	17.6	18.3	13.5	11.5	10.8	22.3	22.5	20.2	19.0	18.8	16.1
Mahanagar Gas (MAHGAS)	897	1,000	Hold	8,860	60.4	50.4	79.6	14.8	17.8	11.3	9.2	10.6	6.9	19.8	15.1	22.2	16.6	13.1	18.4
Petronet LNG (PETLNG)	225	230	Hold	33,750	19.7	22.3	22.0	11.4	10.1	10.2	7.0	6.2	6.2	26.0	27.0	23.7	25.3	25.0	22.6

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Total Revenues	15,775.9	12,988.5	12,597.2	25.2	15,985.7	-1.3	Higher than estimates due to use or pay charges
Raw materials costs	13,856.7	11,526.7	10,695.0	29.6	14,558.0	-4.8	
Employees Cost	44.7	39.5	35.3	26.6	43.3	3.2	
Other Expenses	199.1	181.8	134.8	47.7	211.5	-5.9	
Total Expenditure	14,100.5	11,748.0	10,865.1	29.8	14,812.8	-4.8	
EBITDA	1,675.4	1,240.5	1,732.2	-3.3	1,173.0	42.8	Better-than-expected on account of use or pay charges
EBITDA margins (%)	10.6	9.6	13.8	-313 bps	7.3	328 bps	
Depreciation	192.3	202.8	193.6	-0.7	192.2	0.1	
EBIT	1,483.0	1,037.7	1,538.5	-3.6	980.7	51.2	
Interest	81.4	78.9	77.6	4.9	81.1	0.3	
Other Income	183.9	102.8	71.9	155.9	94.2	95.1	Higher-than-expected on account of an award in an arbitration matter
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	1,585.6	1,061.6	1,532.8	3.4	993.9	59.5	
Total Tax	405.0	269.6	389.3	4.0	249.6	62.2	
PAT	1,180.5	791.9	1,143.5	3.2	744.2	58.6	

Key Metrics

Sales volume (tbtu)	120.0	121.2	132.0	-9.1	115.0	4.3	In line with estimates
Regasification vol (tbtu)	47.0	90.0	76.0	-38.2	77.0	-39.0	Lower than estimates due to high spot LNG prices
Total Volumes (tbtu)	167.0	211.2	208.0	-19.7	192.0	-13.0	
Blended margin ₹/mmbtu	114.9	69.2	91.5	25.7	74.4	54.5	Higher than estimates due to take or pay charges

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E		FY24E		FY25E					
	Old	New ; Change	Old	New ; Change	Old	New ; Change				
Revenue	55727.7	58919.7	5.7	50421.8	49,746.4	-1.3	50971.3	44,211.3	-13.3	Revise volume estimates taking into account current trend
EBITDA	4,582.1	5,002.8	9.2	4769.7	5,177.7	8.6	4817.8	5,303.3	10.1	
EBITDA Margin (%)	8.2	8.5	27 bps	9.5	10.4	95 bps	9.5	12.0	254 bps	
PAT	2,927.4	3,305.4	12.9	3021.4	3,325.8	10.1	3057.3	3,419.5	11.8	
EPS (₹)	19.5	22.0	12.9	20.1	22.2	10.1	20.4	22.8	11.8	

Source: ICICI Direct Research

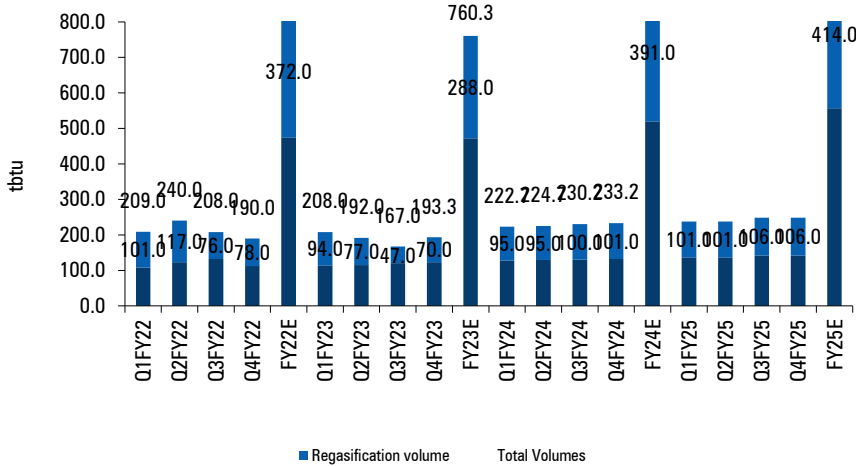
Exhibit 4: Assumptions

	Current					Earlier			
	FY21	FY22E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Sales volume (tbtu)	457.0	475.0	472.3	519.8	556.8	473.4	522.8	528.8	
Regasification vol (tbtu)	440.0	372.0	288.0	391.0	414.0	352.0	384.0	388.0	Revise estimates taking into account spot LNG price trend
Total Volumes (tbtu)	897.0	847.0	760.3	910.8	970.8	825.4	906.8	916.8	
Blended Margin ₹/mmbtu	59.5	71.9	79.3	67.5	63.9	67.6	63.6	63.5	

Source: ICICI Direct Research

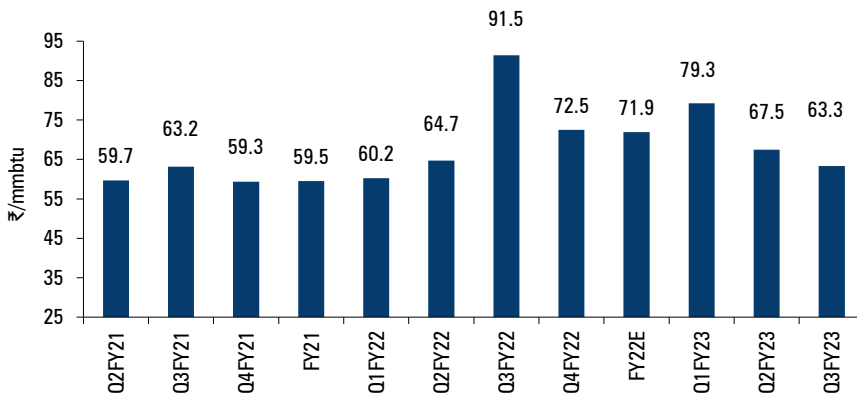
Story in charts

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)	FY22	FY23E	FY24E	FY25E
Revenue	43168.6	58919.7	49746.4	44211.3
Growth (%)	65.9	36.5	-15.6	-11.1
(Inc.) / Dec stock in trade	0.0	0.0	0.0	0.0
Raw material Costs	37077.5	52892.3	43600.8	38006.1
Purchase of trading goods	0.0	0.0	0.0	0.0
Employee Costs	177.1	180.1	196.9	216.6
Other Expenditure	661.7	844.6	771.1	685.3
Op. Expenditure	37916.2	53916.9	44568.8	38908.0
EBITDA	5252.3	5002.8	5177.7	5303.3
Growth (%)	11.8	-4.8	3.5	2.4
Depreciation	768.5	778.6	847.0	847.0
EBIT	4483.9	4224.2	4330.7	4456.4
Interest	317.3	319.2	315.6	315.6
Other Income	307.3	522.6	443.0	443.0
PBT	4473.8	4427.7	4458.1	4583.8
Growth (%)	12.8	-1.0	0.7	2.8
Tax	1121.5	1122.2	1132.4	1164.3
Reported PAT	3352.4	3305.4	3325.8	3419.5
Growth (%)	13.7	-1.4	0.6	2.8
EPS	22.3	22.0	22.2	22.8

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	3,352.4	3,305.4	3,325.8	3,419.5
Add: Depreciation	768.5	778.6	847.0	847.0
Add: Others	-48.2	100.0	100.0	100.0
Cash Profit	4,072.6	4,184.0	4,272.7	4,366.5
Increase/(Decrease) in CL	688.6	1,266.2	-481.0	-484.0
(Increase)/Decrease in CA	-2,788.0	-437.8	603.2	364.0
CF from Operating Activi	1973.1	5012.4	4394.9	4246.4
Purchase of Fixed Assets	179.7	1,322.3	1,100.0	1,057.0
(Inc)/Dec in Investments	-10.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activi	-189.7	-1,322.3	-1,100.0	-1,057.0
Inc/(Dec) in Loan Funds	-229.9	0.0	0.0	0.0
Inc/(Dec) in Sh. Cap. & Res.	428.1	0.0	0.0	0.0
Less: Dividend Paid	2,004.5	2,091.6	2,091.6	2,091.6
Others	0.0	0.0	0.0	0.0
CF from financing activi	-2,234.3	-2,091.6	-2,091.6	-2,091.6
Change in cash Eq.	-22.8	1,598.5	1,203.3	1,097.8
Op. Cash and cash Eq.	4,342.3	4,319.6	5,918.1	7,121.4
Cl. Cash and cash Eq.	4,319.6	5,918.1	7,121.4	8,219.2

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
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	11,925.5	13,139.3	14,373.5	15,701.4
Shareholder's Fund	13,425.5	14,639.3	15,873.5	17,201.4
Loan Funds	3,156.2	3,156.2	3,156.2	3,156.2
Deferred Tax Liability	832.4	932.4	1,032.4	1,132.4
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	17414.1	18727.9	20062.1	21490.0
Application of Funds				
Gross Block	13,338.2	14,177.9	15,077.9	15,977.9
Less: Acc. Depreciation	3,781.0	4,657.5	5,504.5	6,394.4
Net Block	9,557.2	9,520.4	9,573.4	9,583.5
Capital WIP	192.6	773.2	973.2	1,173.2
Total Fixed Assets	9,749.8	10,293.6	10,546.6	10,756.7
Investments	174.4	174.4	174.4	174.4
Inventories	576.7	968.5	817.7	726.8
Debtor	2,684.4	2,905.6	2,453.2	2,180.3
Cash	4,319.6	5,918.1	7,121.4	8,219.2
Loan & Advance, Other CA	3614.2	3439.0	3439.0	3439.0
Total Current assets	11194.9	13231.2	13831.4	14565.2
Current Liabilities	3584.7	4842.7	4361.3	3876.1
Provisions	120.3	128.6	129.0	130.2
Total CL and Provisions	3705.0	4971.3	4490.3	4006.3
Net Working Capital	7489.9	8259.9	9341.1	10558.9
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	17414.1	18727.9	20062.1	21490.0

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Book Value	89.5	97.6	105.8	114.7
Cash per share	28.8	39.5	47.5	54.8
EPS	22.3	22.0	22.2	22.8
Cash EPS	27.5	27.2	27.8	28.4
DPS	11.5	12.0	12.0	12.0
Profitability & Operating Ratios				
EBITDA Margin (%)	12.2	8.5	10.4	12.0
PAT Margin (%)	7.8	5.6	6.7	7.7
Fixed Asset Turnover (x)	4.4	5.7	4.7	4.1
Inventory Turnover (Days)	4.9	6.0	6.0	6.0
Debtor (Days)	22.7	18.0	18.0	18.0
Current Liabilities (Days)	30.0	30.0	32.0	32.0
Return Ratios (%)				
RoE	25.0	22.6	21.0	19.9
RoCE	27.0	23.7	22.8	21.9
RoIC	36.6	35.6	36.4	36.7
Valuation Ratios (x)				
PE	10.1	10.2	10.1	9.9
Price to Book Value	2.5	2.3	2.1	2.0
EV/EBITDA	6.2	6.2	5.8	5.4
EV/Sales	0.8	0.5	0.6	0.6
Leverage & Solvency Ratios				
Debt to equity (x)	0.2	0.2	0.2	0.2
Interest Coverage (x)	14.1	13.2	13.7	14.1
Debt to EBITDA (x)	0.6	0.6	0.6	0.6
Current Ratio	3.0	2.7	3.1	3.6
Quick ratio	2.9	2.5	2.9	3.5

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 (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	335	350	Hold	71,337	42.0	-11.2	55.3	8.0	-29.9	6.1	6.5	30.6	5.0	13.2	-2.2	15.2	17.9	-5.0	21.4
GAIL (India) (GAIL)	93	100	Hold	61,148	23.3	9.9	8.9	4.0	9.4	10.4	3.3	7.4	8.1	18.8	10.3	8.7	18.6	11.1	9.5
Gujarat Gas (GUJGA)	515	550	Hold	35,453	18.9	18.9	26.6	27.2	27.3	19.4	17.3	16.9	12.1	27.3	22.0	26.4	23.3	19.6	22.5
HPCL (HINPET)	232	250	Hold	32,919	44.9	-39.6	47.8	5.2	-5.9	4.9	7.8	-18.2	6.6	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	77	85	Hold	1,08,734	17.1	2.8	14.0	4.5	27.1	5.5	2.5	5.8	2.6	12.9	2.4	10.1	18.4	3.2	14.9
Indraprastha Gas (INDGAS)	381	430	Hold	26,670	18.8	21.7	20.9	20.3	17.6	18.3	13.5	11.5	10.8	22.3	22.5	20.2	19.0	18.8	16.1
Mahanagar Gas (MAHGAS)	897	1,000	Hold	8,860	60.4	50.4	79.6	14.8	17.8	11.3	9.2	10.6	6.9	19.8	15.1	22.2	16.6	13.1	18.4
ONGC (ONGC)	149	155	Hold	1,91,217	10.4	8.9	32.0	14.3	16.7	4.7	4.2	6.4	3.3	10.2	4.5	14.8	6.7	5.5	17.0
Petronet LNG (PETLNG)	225	230	Hold	33,750	19.7	22.3	22.0	11.4	10.1	10.2	7.0	6.2	6.2	26.0	27.0	23.7	25.3	25.0	22.6
Reliance Industries (RELIND)	2,443	3,050	Buy	16,52,690	89.7	89.7	100.6	32.0	27.2	24.3	22.9	17.9	13.1	5.5	7.1	9.2	7.0	7.8	8.1

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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